



Pet Valu Reports Fourth Quarter and Fiscal Year 2023 Results

Grows Q4 Revenue by 8% and Adjusted EBITDA⁽¹⁾ by 20%

Raises Quarterly Dividend and Issues 2024 Outlook

Markham, Ontario, March 5, 2024 - Pet Valu Holdings Ltd. ("Pet Valu" or the "Company") (TSX: PET), the leading Canadian specialty retailer of pet food and pet-related supplies, today announced its financial results for the fourth quarter and fiscal year ended December 30, 2023.

Fourth Quarter Highlights

- System-wide sales⁽²⁾ were \$379.0 million, an increase of 5.1% versus the prior year. Same-store sales growth⁽²⁾ was 1.9%, driven by same-store average spend per transaction growth⁽²⁾.
- Revenue was \$286.9 million, up 7.8% versus the prior year, similar to system-wide sales growth.
- Adjusted EBITDA was \$71.3 million, up 20.2% versus the prior year, representing 24.8% of revenue. Operating income was \$48.3 million, up 13.8% versus the prior year.
- Net income was \$28.8 million, up from \$25.9 million in the prior year.
- Adjusted Net Income⁽¹⁾ was \$39.1 million or \$0.54 per diluted share, both up 25.6% versus the prior year.
- Opened 17 new stores and ended the quarter with 783 stores across the network.
- The Board of Directors of the Company declared a dividend of \$0.11 per common share.

Fiscal Year Highlights

- System-wide sales were \$1,419.7 million, an increase of 10.0% versus the prior year. Same-store sales growth was 5.2%, primarily driven by same-store average spend per transaction growth.
- Revenue was \$1,055.9 million, up 10.9% versus last year, similar to system-wide sales growth.
- Adjusted EBITDA was \$231.0 million, up 7.5% versus the prior year, representing 21.9% of revenue. Operating income was \$160.7 million, up 0.3% versus the prior year.
- Net income was \$89.5 million, down from \$100.8 million in the prior year.
- Adjusted Net Income was \$116.5 million or \$1.61 per diluted share, up 1.7% and 1.3%, respectively, versus the prior year.

2024 Outlook

- The Company expects revenue between \$1.11 and \$1.14 billion, supported by same-store sales growth between 2% and 5% and 40-50 new store openings, Adjusted EBITDA between \$248 and \$254 million, and Adjusted Net Income per Diluted Share⁽³⁾ between \$1.57 and \$1.63.

"Our merchandising, marketing and in-store teams successfully navigated shifting consumer demand, to deliver revenue and profit growth in-line with our expectations for the fourth quarter and full year 2023," said Richard Maltsbarger, President and Chief Executive Officer of Pet Valu.

"Looking into 2024, we plan to deliver another year of growth, further strengthening our leadership in the Canadian pet industry," continued Mr. Maltsbarger. "We have a full agenda of exciting initiatives such as launching Performatrin Culinary, upgrading our digital platform and completing the majority of our supply chain transformation, helping drive an inflection in our free cash flow growth as we approach 2025."

Financial Results for the Fourth Quarter Fiscal 2023

All comparative figures below are for the 13-week period ended December 30, 2023, compared to the 13-week period ended December 31, 2022.

Revenue was \$286.9 million in Q4 2023, an increase of \$20.9 million, or 7.8%, compared to \$266.0 million in Q4 2022. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues.

Same-store sales growth was 1.9% in Q4 2023 primarily driven by a 3.0% increase in same-store average spend per transaction and partially offset by a 1.1% decrease in same-store transactions. This is compared to same-store sales growth of 11.8% in Q4 2022, which primarily consisted of a 4.6% increase in same-store transactions and a 6.9% increase in same-store average spend per transaction.

Gross profit increased by \$2.2 million, or 2.3%, to \$98.5 million in Q4 2023, compared to \$96.3 million in Q4 2022. Gross profit margin was 34.3% in Q4 2023, compared to 36.2% in Q4 2022. Excluding costs related to the supply chain transformation of 2.2%, the gross profit margin was 36.5% and increased by 0.3%. The increase was primarily driven by: (i) favourable product margins including lower inbound freight costs; (ii) higher franchise fees; and partially offset by (iii) vendor recoveries in Q4 2022 associated with supply chain disruptions; (iv) increased discounts related to planned promotional activity; and (v) the unfavourable impact of the weaker Canadian dollar on non-domestic sourced products primarily denominated in U.S. dollars.

Selling, general and administrative ("SG&A") expenses were \$50.2 million in Q4 2023, a decrease of \$3.7 million, or 6.8%, compared to \$53.9 million in Q4 2022. SG&A expenses represented 17.5% and 20.3% of total revenue for Q4 2023 and Q4 2022, respectively. The decrease of \$3.7 million in SG&A expenses was primarily due to: (i) lower technology expenditures mostly from project-based implementation costs associated with new information technology systems; (ii) decreased compensation costs due to lower variable compensation expenses; and (iii) lower professional fees.

Adjusted EBITDA increased by \$12.0 million, or 20.2%, to \$71.3 million in Q4 2023, compared to \$59.3 million in Q4 2022. Adjusted EBITDA excludes \$0.9 million of higher costs from business transformation, share-based compensation, information technology transformation, other professional fees, investment in associate, asset impairment, and gain in foreign exchange. Adjusted EBITDA also increased due to higher EBITDA⁽¹⁾ of \$11.1 million in Q4 2023 compared to Q4 2022. Adjusted EBITDA as a percentage of revenue⁽³⁾ was 24.8% and 22.3% in Q4 2023 and Q4 2022, respectively.

Net interest expense was \$8.5 million in Q4 2023, an increase of \$2.0 million, or 31.5%, compared to \$6.4 million in Q4 2022. The increase was primarily driven by higher interest expense on lease liabilities resulting from the new Greater Toronto Area ("GTA") distribution centre and the new Metro Vancouver Region ("MVR") distribution centre.

Income taxes were \$11.3 million in Q4 2023 compared to \$9.8 million in Q4 2022, an increase of \$1.5 million year over year. The increase in income taxes was primarily the result of higher taxable earnings in Q4 2023. The effective income tax rate was 28.2% in Q4 2023 compared to 27.4% in Q4 2022. The Q4 2023 and Q4 2022 effective tax rate was higher than the blended statutory rate of 26.5% primarily due to non-deductible expenses.

Net income increased by \$2.9 million to \$28.8 million in Q4 2023, compared to \$25.9 million in Q4 2022 mainly from the factors described above and a net change of \$0.4 million from foreign exchange.

Adjusted Net Income increased by \$8.0 million to \$39.1 million in Q4 2023, compared to \$31.1 million in Q4 2022. Adjusted Net Income as a percentage of revenue⁽³⁾ was 13.6% in Q4 2023 and 11.7% in Q4 2022, respectively. The 1.9% year over year increase results from the factors described above.

Adjusted Net Income per Diluted Share increased by \$0.11 to \$0.54 in Q4 2023, compared to \$0.43 in Q4 2022. The 25.6% year over year increase results primarily from the factors described above.

Cash at the end of the fourth quarter totaled \$28.4 million.

Free Cash Flow⁽¹⁾ amounted to \$34.3 million in Q4 2023 compared to \$25.0 million in Q4 2022, an increase of \$9.3 million primarily driven by a decrease in cash used for investing activities primarily due to lower Net Capital Expenditures⁽¹⁾ and an increase in cash from operating activities, partially offset by an increase in payments of principal and interest on lease liabilities due to the timing of payments, the new GTA distribution centre and store network expansion.

Inventory at the end of Q4 2023 was \$122.1 million compared to \$118.4 million at the end of Q4 2022, an increase of \$3.7 million primarily due to growth in revenue, improved vendor fill rates and timing of receipts resulting from global supply chain improvements.

Financial Results for Fiscal 2023

All comparative figures below are for the 52-week period ended December 30, 2023, compared to the 52-week period ended December 31, 2022.

Revenue was \$1,055.9 million in Fiscal 2023, an increase of \$104.2 million, or 10.9%, compared to \$951.7 million in Fiscal 2022. The increase in revenue was driven by growth in retail sales, as well as franchise and other revenues.

Same-store sales growth was 5.2% in Fiscal 2023 primarily driven by a 4.4% increase in same-store average spend per transaction and a 0.7% increase in same-store transactions. Same-store sales growth in Fiscal 2023 included a negative impact of approximately 0.3%, due to the timing of New Year's day. This is compared to same-store sales growth of 17.1% in Fiscal 2022 which primarily consisted of an 11.8% increase in same-store transactions and a 4.8% increase in same-store average spend per transaction.

Gross profit increased by \$12.8 million, or 3.6%, to \$365.1 million in Fiscal 2023, compared to \$352.3 million in Fiscal 2022. Gross profit margin was 34.6% of revenue in Fiscal 2023 compared to 37.0% in Fiscal 2022. Excluding the costs related to the supply chain transformation of 1.1%, the gross profit margin was 35.7% and decreased by 1.3%. The gross profit margin decrease was primarily driven by: (i) the unfavourable impact of the weaker Canadian dollar on non-domestic sourced products primarily denominated in U.S. dollars; (ii) duty and vendor recoveries in Fiscal 2022 associated with COVID relief measures and supply chain disruptions; (iii) higher discounts related to planned promotional activity; and (iv) higher wholesale merchandise sales due to increased franchise penetration and improved fill rates to franchisees partially offset by (v) favourable product margins including lower inbound freight costs.

Selling, general and administrative expenses were \$204.4 million in Fiscal 2023, an increase of \$12.3 million, or 6.4%, compared to \$192.1 million in Fiscal 2022. SG&A expenses represented 19.4% and 20.2% of total revenue for Fiscal 2023 and Fiscal 2022, respectively. The increase of \$12.3 million in SG&A expenses was mostly due to: (i) increased compensation costs as a result of headcount and salary investments partially offset by lower variable compensation; (ii) higher depreciation and amortization on

property, equipment, and software from store growth and information technology investments; (iii) higher advertising expenses; and partially offset by (iv) lower professional fees.

Adjusted EBITDA increased by \$16.2 million, or 7.5%, to \$231.0 million in Fiscal 2023, compared to \$214.8 million in Fiscal 2022. Adjusted EBITDA excludes \$6.9 million of higher costs from business transformation, investment in associate, share-based compensation, information technology transformation, other professional fees, asset impairment, and loss on foreign exchange. Adjusted EBITDA also increased due to higher EBITDA of \$9.3 million in Fiscal 2023 compared to Fiscal 2022. Adjusted EBITDA as a percentage of revenue was 21.9% and 22.6% in Fiscal 2023 and Fiscal 2022, respectively.

Net interest expense was \$30.6 million in Fiscal 2023, an increase of \$10.2 million, or 49.7%, compared to \$20.5 million in Fiscal 2022. The increase was primarily driven by higher interest expense on the 2021 Term Facility (as defined in the Company's management's discussion and analysis ("MD&A") for the fiscal year ended December 30, 2023) resulting from higher interest rates compared to Fiscal 2022.

Income taxes were \$35.6 million in Fiscal 2023 compared to \$37.9 million in Fiscal 2022, a decrease of \$2.3 million year over year. The decrease in income taxes was primarily the result of lower taxable earnings in Fiscal 2023. The effective income tax rate was 28.5% in Fiscal 2023 compared to 27.3% in Fiscal 2022. The Fiscal 2023 effective tax rate was higher than the blended statutory rate of 26.5% primarily because of the loss on the derecognition of the call option and impairment related to an investment in associate and non-deductible expenses. The Fiscal 2022 effective tax rate was higher than the blended statutory rate of 26.5% primarily because of non-deductible expenses.

Net income decreased by \$11.2 million to \$89.5 million in Fiscal 2023, compared to \$100.8 million in Fiscal 2022. In addition to the factors described above, the change in net income is also explained by the impairment and loss on the derecognition of the call option related to an investment in associate and a decrease in loss on foreign exchange of \$0.9 million in Fiscal 2023.

Adjusted Net Income increased by \$2.0 million to \$116.5 million in Fiscal 2023, compared to \$114.6 million in Fiscal 2022. Adjusted Net Income as a percentage of revenue was 11.0% in Fiscal 2023 and 12.0% in Fiscal 2022. The 1.0% year over year decrease results from the factors described above.

Adjusted Net Income per Diluted Share increased by \$0.02 to \$1.61 in Fiscal 2023, compared to \$1.59 in Fiscal 2022. The 1.3% year over year increase results primarily from the factors described above.

Free Cash Flow amounted to \$48.7 million in Fiscal 2023 compared to \$50.2 million in Fiscal 2022, a decrease of \$1.5 million primarily driven by an increase in repayment of principal and interest on lease liabilities due to the new GTA distribution centre, store network expansion, and renewal of existing leases, partially offset by an increase in cash from operating activities and a decrease in cash used for investing activities.

(1) This is a non-IFRS financial measure. Non-IFRS financial measures are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Refer to "Non-IFRS and Other Financial Measures" and "Selected Consolidated Financial Information" below, including for a reconciliation of the non-IFRS measures used in this release to the most comparable IFRS measures. Also refer to the sections entitled "How We Assess the Performance of our Business", "Non-IFRS and Other Financial Measures" and "Selected Consolidated Financial Information and Industry Metrics" in the MD&A for the fiscal year ended December 30, 2023, incorporated by reference herein, for further details concerning EBITDA, Adjusted EBITDA, Adjusted Net Income, Free Cash Flow, and Net Capital Expenditures including definitions and reconciliations to the relevant reported IFRS measure.

(2) This is a supplementary financial measure. Refer to "Non-IFRS and Other Financial Measures" below and to the section entitled "How We Assess the Performance of our Business" in the MD&A for the fiscal year ended December 30, 2023 for the definitions of supplementary financial measures.

⁽³⁾ This is a non-IFRS ratio. Non-IFRS ratios are not recognized measures under IFRS and do not have standardized meanings prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Refer to "Non-IFRS and Other Financial Measures" below and to the section entitled "How We Assess the Performance of our Business" in the MD&A for the fiscal year ended December 30, 2023 for the definitions of non-IFRS ratios and each non-IFRS measure that is used as a component of such non-IFRS ratios.

Dividends

On March 4, 2024, the Board of Directors of the Company declared a dividend of \$0.11 per common share payable on April 15, 2024 to holders of common shares of record as at the close of business on March 28, 2024.

Outlook

For the full year 2024, the Company expects:

- Revenue between \$1.11 and \$1.14 billion, supported by same-store sales growth of between 2% and 5%, 40 to 50 new store openings and higher wholesale merchandise sales penetration with Chico franchisees;
- Adjusted EBITDA between \$248 and \$254 million, supported by operating expense leverage, partially offset by pricing investment;
- Adjusted Net Income per Diluted Share between \$1.57 and \$1.63, which incorporates approximately \$20 million pre-tax, or \$0.20 per diluted share, of incremental depreciation and lease liability interest expense associated with the new GTA and MVR distribution centres;
- Business transformation costs of approximately \$17 million pre-tax, information technology costs of approximately \$7 million pre-tax, and share-based compensation of approximately \$8 million pre-tax, all of which are excluded from Adjusted EBITDA and Adjusted Net Income per Diluted Share; and
- Net Capital Expenditures of approximately \$55 million, roughly half of which is attributable to investments in the Company's supply chain transformation.

Conference Call Details

A conference call to discuss the Company's fourth quarter results is scheduled for March 5, 2024, at 8:30 a.m. ET. To access Pet Valu's conference call, please dial 1-833-950-0062 (ID: 762645). A live webcast of the call will also be available through the Events & Presentations section of the Company's website at <https://investors.petvalu.com/>.

For those unable to participate, a playback will be available shortly after the conclusion of the call by dialing 1-866-813-9403 (ID: 319248) and will be accessible until March 12, 2024. The webcast will also be archived and available through the Events & Presentations section of the Company's website at <https://investors.petvalu.com/>.

About Pet Valu

Pet Valu is Canada's leading retailer of pet food and pet-related supplies with over 700 corporate-owned or franchised locations across the country. For more than 40 years, Pet Valu has earned the trust and loyalty of pet parents by offering knowledgeable customer service, a premium product offering and engaging in-store services. Pet Valu's neighbourhood stores offer more than 7,000 competitively-priced

products, including a broad assortment of premium, super premium, holistic and award-winning proprietary brands. To learn more, please visit: www.petvalu.com.

Non-IFRS and Other Financial Measures

This press release makes reference to certain non-IFRS measures and non-IFRS ratios. These measures and ratios are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. Pet Valu uses non-IFRS measures, including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Free Cash Flow" and "Net Capital Expenditures", and non-IFRS ratios, including "Adjusted EBITDA as a percentage of revenue", "Adjusted Net Income as a percentage of revenue", and "Adjusted Net Income per Diluted Share". This press release also makes reference to certain supplementary financial measures that are commonly used in the retail industry, including "System-wide sales", "Same-store sales", "Same-store sales growth", and "Same-store average spend per transaction growth". These non-IFRS measures, non-IFRS ratios and supplementary financial measures are used to provide investors with supplemental measures of Pet Valu's operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non-IFRS measures, non-IFRS ratios and these supplementary financial measures in the evaluation of issuers. Management uses non-IFRS measures, non-IFRS ratios and supplementary financial measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Refer to the MD&A for the fiscal year ended December 30, 2023 for further information on non-IFRS measures, non-IFRS ratios (including each non-IFRS measure that is used as a component of such non-IFRS ratios) and supplementary measures, including for their definition and, for non-IFRS measures, a reconciliation to the most comparable IFRS measure.

Forward-Looking Information

Some of the information contained in this press release is forward-looking information. Forward-looking information is provided as at the date of this press release and is based on management's opinions, estimates and assumptions in light of its experience and perception of historical trends, current trends, current conditions and expected future developments, as well as other factors that management believes appropriate and reasonable in the circumstances. Such forward-looking information is intended to provide information about management's current expectations and plans, and may not be appropriate for other purposes. Pet Valu does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable Canadian securities laws. Actual results and the timing of events may differ materially from those anticipated in the forward-looking information as a result of various factors. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities, including the information under the headings "2024 Outlook" and "Outlook" in this press release, is "future-oriented financial information" or a "financial outlook" within the meaning of applicable securities legislation, which is based on the factors and assumptions, and subject to the risks, as set out herein and in the Company's annual information form dated March 4, 2024 ("AIF"). In some cases, forward-looking information can be identified by the use of forward-looking terminology such as "plans", "targets", "expects" or "does not expect", "is expected", "an opportunity exists", "budget", "scheduled", "estimates", "outlook", "forecasts", "projection", "prospects", "strategy", "intends", "anticipates", "does not anticipate", "believes", "continue", or variations of such words and phrases or statements that certain actions, events or results "may", "could",

“would”, “should”, “might”, “will”, “will be taken”, “occur” or “be achieved”. In addition, any statements that refer to expectations, intentions, projections or other characterizations of future events or circumstances contain forward-looking information.

Many factors could cause our actual results, level of activity, performance or achievements, future events or developments, or outlook to differ materially from those expressed or implied by the forward-looking information, including, without limitation, the factors discussed in the "Risk Factors" section of the AIF. A copy of the AIF and the Company's other publicly filed documents can be accessed under the Company's profile on SEDAR+ at www.sedarplus.ca.

The Company cautions that the list of risk factors and uncertainties described in the AIF is not exhaustive and other factors could also adversely affect its results. Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating forward-looking information and are cautioned not to place undue reliance on such information.

For more information:

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

Consolidated Statements of Income and Comprehensive Income

(Unaudited, expressed in thousands of Canadian dollars, except per share amounts)

	Quarters Ended		Fiscal Years Ended	
	December 30, 2023	December 31, 2022	December 30, 2023	December 31, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Revenue:				
Retail sales	\$ 110,089	\$ 109,289	\$ 421,828	\$ 402,586
Franchise and other revenues	176,819	156,755	634,039	549,111
Total revenue	286,908	266,044	1,055,867	951,697
Cost of sales	188,407	169,740	690,730	599,400
Gross profit	98,501	96,304	365,137	352,297
Selling, general and administrative expenses	50,236	53,893	204,411	192,105
Total operating income	48,265	42,411	160,726	160,192
Interest expenses, net	8,456	6,429	30,646	20,478
(Gain) Loss on foreign exchange	(256)	180	188	1,111
Other loss (income)	—	139	4,718	(68)
Income before income taxes	40,065	35,663	125,174	138,671
Income tax expense	11,300	9,782	35,626	37,905
Net income	28,765	25,881	89,548	100,766
Other comprehensive income, net of tax:				
Currency translation adjustments that may be reclassified to net income, net of tax	—	(5)	18	20
Comprehensive income for the period attributable to the shareholders of the Company	\$ 28,765	\$ 25,876	\$ 89,566	\$ 100,786
Basic net income per share attributable to the common shareholders	\$ 0.40	\$ 0.37	\$ 1.26	\$ 1.43
Diluted net income per share attributable to the common shareholders	\$ 0.40	\$ 0.36	\$ 1.24	\$ 1.40

Reconciliation of Net Income to EBITDA and Adjusted EBITDA

(Unaudited, in thousands of Canadian dollars unless otherwise noted)

	Quarters Ended		Fiscal Years Ended	
	December 30, 2023	December 31, 2022	December 30, 2023	December 31, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Reconciliation of net income to Adjusted EBITDA:				
Net income	\$ 28,765	\$ 25,881	\$ 89,548	\$ 100,766
Depreciation and amortization	14,999	10,332	50,718	38,073
Interest expenses, net	8,456	6,429	30,646	20,478
Income tax expense	11,300	9,782	35,626	37,905
EBITDA	63,520	52,424	206,538	197,222
Adjustments to EBITDA:				
Information technology transformation costs ⁽¹⁾	864	1,984	3,309	5,313
Business transformation costs ⁽²⁾	4,037	1,482	9,689	2,697
Other professional fees ⁽³⁾	225	714	741	1,873
Share-based compensation ⁽⁴⁾	2,866	1,930	5,855	6,248
Asset impairments ⁽⁵⁾	—	448	—	448
(Gain) loss on foreign exchange ⁽⁶⁾	(256)	180	188	1,111
Investment in associate ⁽⁷⁾	—	139	4,718	(68)
Adjusted EBITDA	\$ 71,256	\$ 59,301	\$ 231,038	\$ 214,844
Adjusted EBITDA as a percentage of revenue	24.8%	22.3%	21.9%	22.6%

Notes:

- (1) Represents discrete, project-based implementation costs associated with new information technology systems and discrete Software-as-a-Service ("SaaS") arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (2) Represents expenses associated with supply chain transformation initiatives such as duplicative warehousing and distribution costs, implementation costs associated with new information technology systems and other transition costs incurred during the transition to a new distribution centre. The expenses included in cost of sales in Q4 2023 and Fiscal 2023 were \$2.4 million and \$5.0 million, respectively (Q4 2022 and Fiscal 2022 – \$nil). The expenses included in selling, general, and administrative expenses were \$0.8 million and \$3.9 million in Q4 2023 and Fiscal 2023, respectively (Q4 2022 and Fiscal 2022 – \$1.5 million and \$2.7 million, respectively). Additionally, business transformation costs include \$0.8M of severance related expenses associated with restructuring activities in certain business support functions in Q4 2023 and Fiscal 2023 (Q4 2022 and Fiscal 2022 – \$nil).
- (3) Professional fees primarily incurred with respect to: (i) the Canada Revenue Agency's ("CRA") examination of the Company's Canadian tax filings for the 2016 fiscal year and in Fiscal 2023 for the 2018 fiscal year; (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022; and (iii) professional fees incurred with respect to the secondary offering of the Company's common shares completed on November 17, 2022 ("the "2022 Secondary Offering") and June 1, 2023 (the "2023 Secondary Offering").
- (4) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (5) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (6) Represents foreign exchange gains and losses.
- (7) Represents the Company's share of loss from associate of \$nil and \$3.4 million for Q4 2023 and Fiscal 2023, respectively (Q4 2022 and Fiscal 2022 – \$0.2 million and \$0.5 million, respectively) and loss or (gain) on the fair value of the related call option for Q4 2023 and Fiscal 2023 of \$nil and \$1.3 million, respectively (Q4 2022 and Fiscal 2022 – \$(0.1) million and \$(0.6) million, respectively).

Reconciliation of Net Income to Adjusted Net Income

(Unaudited, in thousands of Canadian dollars unless otherwise noted)

	Quarters Ended		Fiscal Years Ended	
	December 30, 2023	December 31, 2022	December 30, 2023	December 31, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Reconciliation of net income to Adjusted Net Income:				
Net income	\$ 28,765	\$ 25,881	\$ 89,548	\$ 100,766
Adjustments to net income:				
Information technology transformation costs ⁽¹⁾	864	1,984	3,309	5,313
Business transformation costs ⁽²⁾	9,558	1,482	18,790	2,697
Other professional fees ⁽³⁾	225	714	741	1,873
Share-based compensation ⁽⁴⁾	2,866	1,930	5,855	6,248
Asset impairments ⁽⁵⁾	—	448	—	448
(Gain) loss on foreign exchange ⁽⁶⁾	(256)	180	188	1,111
Investment in associate ⁽⁷⁾	—	139	4,718	(68)
Tax effect of adjustments to net income	(2,926)	(1,631)	(6,611)	(3,817)
Adjusted Net Income	\$ 39,096	\$ 31,127	\$ 116,538	\$ 114,571
Adjusted Net Income as a percentage of revenue	13.6%	11.7%	11.0%	12.0%
Adjusted Net Income per Diluted Share	\$ 0.54	\$ 0.43	\$ 1.61	\$ 1.59

Notes:

- (1) Represents discrete, project-based implementation costs associated with new information technology systems and discrete SaaS arrangements for transformational initiatives supporting merchandise planning, inventory and order management, e-commerce and omni-channel capabilities, customer relationship management and other key processes.
- (2) Represents expenses associated with supply chain transformation initiatives such as duplicative warehousing and distribution costs, implementation costs associated with new information technology systems, and other transition costs incurred during the transition to a new distribution centre. This also includes duplicative depreciation expense on property and equipment and right-of-use assets, and interest expense on lease liabilities. The expenses included in cost of sales in Q4 2023 and Fiscal 2023 were \$6.3 million and \$11.4 million, respectively (Q4 2022 and Fiscal 2022 – \$nil). The expenses included in selling, general, and administrative expenses were \$0.8 million and \$3.9 million in Q4 2023 and Fiscal 2023, respectively (Q4 2022 and Fiscal 2022 – \$1.5 million and \$2.7 million, respectively). The interest expense on the lease liability in Q4 2023 and Fiscal 2023 were \$1.7 million and \$2.7 million, respectively (Q4 2022 and Fiscal 2022 – \$nil). Additionally, business transformation costs include \$0.8M of severance related expenses associated with restructuring activities in certain business support functions in Q4 2023 and Fiscal 2023, respectively (Q4 2022 and Fiscal 2022 – \$nil).
- (3) Professional fees primarily incurred with respect to: (i) the CRA's examination of the Company's Canadian tax filings for the 2016 fiscal year and in Fiscal 2023 for the 2018 fiscal year; (ii) acquisition and integration costs incurred in relation to Chico in Fiscal 2022; and (iii) professional fees incurred with respect to the 2022 Secondary Offering and 2023 Secondary Offering.
- (4) Represents share-based compensation in respect of our amended and restated share option plan, long-term incentive plan, and deferred share unit plan.
- (5) Non-cash impairment charge taken against certain right-of-use assets for closed or relocated corporate-owned stores.
- (6) Represents foreign exchange gains and losses.
- (7) Represents the Company's share of loss from associate of \$nil and \$3.4 million for Q4 2023 and Fiscal 2023, respectively (Q4 2022 and Fiscal 2022 – \$0.2 million and \$0.5 million, respectively) and loss or (gain) on the fair value of the related call option for Q4 2023 and Fiscal 2023 of \$nil and \$1.3 million, respectively (Q4 2022 and Fiscal 2022 – \$(0.1) million and \$(0.6) million, respectively).

Consolidated Statements of Cash Flows

(Unaudited, in thousands of Canadian dollars)

	Quarters Ended		Fiscal Years Ended	
	December 30, 2023	December 31, 2022	December 30, 2023	December 31, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 28,765	\$ 25,881	\$ 89,548	\$ 100,766
Adjustments for items not affecting cash:				
Depreciation and amortization	14,999	10,332	50,718	38,073
Impairment of right-of-use assets	—	448	—	448
Deferred franchise fees	196	354	333	420
Gain on disposal of property and equipment	(1,837)	(1,242)	(3,158)	(1,561)
Loss on sale of right-of-use assets	417	333	1,106	793
(Gain) loss on foreign exchange	(256)	180	188	1,111
(Gain) loss on financial instruments	—	(52)	1,302	(551)
Share-based compensation expense	2,866	1,930	5,855	6,248
Share of loss from associate	—	191	3,416	483
Interest expenses, net	8,456	6,429	30,646	20,478
Income tax expense	11,300	9,782	35,626	37,905
Income taxes paid	(13,321)	(5,550)	(56,451)	(36,673)
Security deposits paid	—	—	—	(5,073)
Changes in non-cash operating working capital:				
Accounts receivable	(3,209)	(1,228)	(4,949)	(6,834)
Inventories	12,978	17,614	(3,563)	(26,133)
Prepaid expenses	1,637	(4,979)	(2,952)	(8,194)
Accounts payable and accrued liabilities	(7,777)	(13,483)	(12,321)	1,818
Net cash provided by operating activities	55,214	46,940	135,344	123,524
Financing activities:				
Proceeds from exercise of share options	—	3,368	4,349	8,062
Dividends paid on common shares	(7,146)	(4,251)	(28,536)	(16,927)
Repayment of 2021 Term Facility	(4,438)	(2,219)	(45,750)	(8,875)
Interest paid on long-term debt	(5,862)	(5,987)	(13,526)	(18,626)
Repayment of principal on lease liabilities	(13,876)	(7,371)	(52,944)	(43,212)
Interest paid on lease liabilities	(5,347)	(3,065)	(16,498)	(11,853)
Standby letter of credit commitment fees	—	(745)	(872)	(1,373)
Net cash used in financing activities	(36,669)	(20,270)	(153,777)	(92,804)
Investing activities:				
Business acquisition, net of cash acquired	—	—	(3,000)	(12,538)
Purchases of property and equipment	(15,029)	(22,140)	(57,291)	(38,833)
Purchase of intangible assets	(568)	(738)	(3,257)	(3,424)
Proceeds on disposal of property and equipment	3,709	2,261	6,579	3,643
Right-of-use asset initial direct costs	(1,173)	(939)	(2,627)	(2,157)
Tenant allowances	450	787	1,635	1,459
Notes receivable	38	55	1,088	950
Lease receivables	8,075	7,033	30,344	27,050
Interest received on lease receivables and other	2,822	2,651	10,887	8,703
Investment in associate	—	(399)	—	(2,178)
Repurchase of franchises	—	—	(512)	—
Net cash used in investing activities	(1,676)	(11,429)	(16,154)	(17,325)
Effect of exchange rate on cash	234	11	(3)	(429)
Net increase (decrease) in cash	17,103	15,252	(34,590)	12,966
Cash, beginning of period	11,341	47,782	63,034	50,068
Cash, end of period	\$ 28,444	\$ 63,034	\$ 28,444	\$ 63,034

Free Cash Flows

(Unaudited, expressed in thousands of Canadian dollars)

	Quarters Ended		Fiscal Years Ended	
	December 30, 2023	December 31, 2022	December 30, 2023	December 31, 2022
	13 weeks	13 weeks	52 weeks	52 weeks
Cash provided by operating activities	\$ 55,214	\$ 46,940	\$ 135,344	\$ 123,524
Cash used in investing activities	(1,676)	(11,429)	(16,154)	(17,325)
Repayment of principal on lease liabilities	(13,876)	(7,371)	(52,944)	(43,212)
Interest paid on lease liabilities	(5,347)	(3,065)	(16,498)	(11,853)
Notes receivable	(38)	(55)	(1,088)	(950)
Free Cash Flow	\$ 34,277	\$ 25,020	\$ 48,660	\$ 50,184

Consolidated Statements of Financial Position

(Audited, expressed in thousands of Canadian dollars)

	As at December 30, 2023	As at December 31, 2022
Assets		
Current assets:		
Cash	\$ 28,444	\$ 63,034
Accounts and other receivables	27,875	22,965
Inventories, net	122,069	118,410
Income taxes recoverable	6,012	—
Prepaid expenses and other assets	19,403	22,262
Current portion of lease receivables	34,332	29,827
Total current assets	238,135	256,498
Non-current assets:		
Long-term lease receivables	159,101	141,187
Right-of-use assets, net	237,941	82,242
Property and equipment, net	120,493	91,774
Intangible assets, net	52,205	52,280
Goodwill	97,562	97,574
Deferred tax assets	7,230	6,652
Investment in associate	—	4,708
Other assets	4,240	7,261
Total non-current assets	678,772	483,678
Total assets	\$ 916,907	\$ 740,176
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 88,416	\$ 103,782
Provisions	669	—
Income taxes payable	—	15,141
Current portion of deferred franchise fees	1,344	1,197
Current portion of lease liabilities	64,068	51,335
Current portion of long-term debt	17,750	17,750
Total current liabilities	172,247	189,205
Non-current liabilities:		
Long-term deferred franchise fees	4,166	4,017
Long-term lease liabilities	379,833	215,966
Long-term debt	275,474	320,063
Deferred tax liabilities	8,864	8,250
Other liabilities	3,977	2,299
Provisions	2,626	—
Total non-current liabilities	674,940	550,595
Total liabilities	847,187	739,800
Shareholders' equity:		
Common shares	321,752	316,208
Contributed surplus	6,877	4,107
Deficit	(258,768)	(319,780)
Currency translation reserve	(141)	(159)
Total shareholders' equity	69,720	376
Total liabilities and shareholders' equity	\$ 916,907	\$ 740,176