



## From our President & CEO

Fellow Shareholders:

Like many of our customers, I grew up with Roots. When I joined the Company in early 2016, I saw an amazing opportunity to become part of a business and iconic brand with significant upside potential. With the right team and strategy in place, and the support of our shareholders, we could unlock the full power of the brand and deliver accelerated growth. In Fiscal 2017, we started to do just that. As a result, we recorded the strongest year in Roots 44-year history.

### FISCAL 2017 PERFORMANCE

Comparable, or same store, Sales Growth was 12.1% and 20.4% on a two-year stacked basis, which far outpaced industry averages. Reflecting our sales success in-store and online, as well as the expansion of our Canadian and international retail footprint, total sales for the year increased 15.7% year-over-year to \$326.1 million. In addition, with an Adjusted Direct-to-Consumer Gross Margin of 59.4%, we delivered a 206-basis point improvement over Fiscal 2016, which is helping fuel our investments in the growth of the brand and the business.

On account of our top line improvements and expanding margins, we delivered record profitability. Adjusted EBITDA grew 26.6% to \$52.6 million. Benefitting further from a decrease in our effective tax rate and reduction in interest expense, our Adjusted Net Income increased a particularly impressive 35.7% over Fiscal 2016 to \$29.1 million, or \$0.69 per share. We also reduced our total bank debt by approximately 20 percent, which drove our net debt ratio down to 1.57 times compared to 2.51 times at the end of Fiscal 2016.

### TRANSFORMING THE BUSINESS AND MODERNIZING THE BRAND

During the year, we made meaningful progress against our three-year plan to transform the business and modernize the brand. We bolstered our senior management team, adding key new roles. We also professionalized our approach to how we analyze, set strategy and operate the business. Our senior management team shares a deep passion for Roots and brings a track record of proven experience. We are well-positioned to lead the multiple workstreams that will drive efficiencies and unlock the potential of our people and our business.

### OPERATIONS

In Fiscal 2017, we saw an increase in store traffic, conversion rates and average selling price. e-Commerce gained momentum, and it was the fastest growing part of our business. With our overhaul of the consumer-facing www.Roots.com, we are confident we are marching swiftly toward our stated target of e-commerce representing 20 to 22% of our Direct-to-Consumer business by the end of Fiscal 2019.

We executed many unique marketing programs throughout the year, including our Nice campaign and our first-ever digital fashion show, Northern Light. In addition, with our focus on building a consumer-focused global brand range, we delivered double-digits sales growth and margin improvements with a reduced SKU base. Editing out slow sellers and amplifying stronger performing products is proving to be the right approach to driving long-term sustainable success.

### RETAIL FOOTPRINT

Canada remains a very important market for us, in-store and online. In fact, we believe that we can double our Canadian business over the long-term. As such, we continued to optimize our retail store portfolio during the Fiscal year. We ended the year with 116 stores in Canada. In August of 2017, we unveiled our “Enhanced Experience” Store in Yorkdale Mall.

The new store design reinterprets the consumers’ experience and establishes a deeper connection with the Roots brand and our products. Consumers and the retail industry are applauding our leather customization experience, elevated visual merchandising, enhanced change rooms and proven omni-channel capabilities. In Fiscal 2018, with our plans to open four to five new corporate retail locations in Canada and further enhance our existing store portfolio, we will apply learnings from the important investments we made in this new store format.

Outside of Canada, we solidified plans to build on our portfolio of three legacy stores in the United States. We are opening two new stores in the greater Boston area in June 2018, two in the Washington D.C. area in August 2018, and we have announced plans to expand into Chicago in 2019. We are well-positioned to achieve our target of adding 10 to 14 U.S. stores by the end of Fiscal 2019. Long-term, we believe the U.S. represents a minimum 100-store opportunity for us. Through www.Roots.com, we already have reach across the entire country, as we ship to all 50 states.

Our longstanding international partner added 13 net new stores in Asia, including their first “Enhanced Experience” store in the Taiwan epicenter, Taipei 101. We expect to see strong store openings by our partner in China and Taiwan through Fiscal 2018, and we remain on-track to achieve our target of adding 20 to 25 new stores from the date of our final prospectus through to the end of Fiscal 2019. In Fiscal 2018, we will accelerate our plans to expand into new international markets, working with our existing partner, while also forging relationships with potential new partners.

### STAYING TRUE TO OUR ROOTS

Throughout Fiscal 2017, Roots underwent considerable change. The key to our success was that we never lost sight of servicing our customers and building our brand’s unique and cherished culture. This speaks to the strength of the overall organization. Our ability to effectively communicate across the Company and unite together has enabled us to remain nimble and move quickly in transforming the business, delivering on our corporate goals and transitioning into a performance-driven culture.

### OUTLOOK

Looking back at Fiscal 2017, we accomplished what we set out to do. We ended the year stronger than we began in every way. I am looking forward to a successful Fiscal 2018 that will progress us closer to our Fiscal 2019 targets of sales of \$410 million to \$450 million; Adjusted EBITDA of \$61 million to \$68 million; and Adjusted Net Income of \$35 million to \$40 million. While we expect two-thirds of our growth through to Fiscal 2019 to come from Canada, I am confident in our ability to execute on all five growth initiatives that we set out at the time of our IPO. Through these efforts, we will continue to propel Roots forward as a legendary global brand and build further shareholder value.

### IN APPRECIATION

2017 was a milestone year for Canada as we helped Canadians coast-to-coast celebrate the sesquicentennial. 2017 was also significant in Roots history as we moved from a private company to a performance-driven public company. All that we accomplished during the year is because of our team of incredible professionals. Thanks to the passion and dedication of our more than 2,200 employees, Roots achieved record results in 2017 and laid the foundation for accelerated growth in the years to come. In addition to the unwavering support of our employees, I would also like to thank our Board of Directors and two Roots founders, Michael Budman and Don Green, for their guidance and support as we deliver on our commitments to you, our valued shareholders.

**Jim Gabel**  
PRESIDENT & CEO

**The Banff Bag:** Handcrafted in Canada since 1988, our Banff Bag is a Roots classic. The perfect weekender bag, it is designed to be a versatile essential for wherever you’re headed next.

