Aritzia Reports Second Quarter Fiscal 2023 Financial Results

Q2 net revenue increased by 50.1% to $525.5 million
Q2 net income increased by 16.1% to $46.3 million
Q2 Adjusted EBITDA[1] increased by 13.3% to $82.6 million

VANCOUVER, October 12, 2022 – Aritzia Inc. (TSX: ATZ, "Aritzia" or the "Company"), a vertically integrated, innovative design house offering Everyday Luxury online and in its boutiques, today announced its financial results for second quarter fiscal 2023 ended August 28, 2022.

“Our exceptional sales momentum extended through the second quarter of fiscal 2023, delivering net revenue growth of 50%. Better than anticipated results were driven by an outstanding client response to our beautiful product assortment, as our Everyday Luxury experience continues to resonate across all geographies and all channels,” said Jennifer Wong, Chief Executive Officer. “Our performance in the United States continued to surge, with revenue growth of 80%, as our existing and new boutiques once again outperformed expectations, underscoring our growing brand awareness. Our eCommerce business in USA and Canada grew at 33%, further fueling our multi-channel business.”

“Our strong performance has continued through the start of the third quarter, with robust client demand across all product categories. Looking forward, we believe that we remain well positioned for long-term success, as we strategically invest in the infrastructure that will allow us to capitalize on our growth strategies. I am extremely grateful for our loyal and growing client base and our world-class teams' dedication to excellence, which are enabling us to exceed our goals,” concluded Ms. Wong.

Second Quarter Highlights

- **Net revenue** increased 50.1% to $525.5 million from Q2 2022, achieving comparable sales growth[1] of 28.3% compared to Q2 2022
- **USA revenue** increased 79.8% to $263.2 million from Q2 2022, comprising 50.1% of net revenue in Q2 2023
- **Retail revenue** increased 60.1% to $351.6 million from Q2 2022
- **eCommerce revenue** increased 33.3% to $173.9 million from Q2 2022, comprising 33.1% of net revenue in Q2 2023
- **Gross profit margin**[1] decreased 270 bps to 41.9% from 44.6% in Q2 2022
- **Net income** increased 16.1% to $46.3 million from Q2 2022
- **Adjusted EBITDA**[1] increased 13.3% to $82.6 million from Q2 2022
- **Adjusted Net Income**[1] of $0.44 per diluted share, compared to $0.39 per diluted share in Q2 2022

(1) Unless otherwise indicated, all amounts are expressed in Canadian dollars. Certain metrics, including those expressed on an adjusted or comparable basis, are non-IFRS measures or supplementary measures. See "Non-IFRS Measures including Retail Industry Metrics" and "Selected Consolidated Financial Information".

Second Quarter Results Compared to Q2 2022

(Unaudited, in thousands of Canadian dollars, unless otherwise noted)	Q2 2023 13 weeks			Q2 2022 13 weeks			Variance	
							%	*% pts*
Retail revenue	$	351,630	66.9 %	$	219,639	62.7 %	60.1%	
eCommerce revenue		173,893	33.1 %		130,430	37.3 %	33.3%	
Net revenue	$	525,523	100.0 %	$	350,069	100.0 %	50.1%	
Gross profit	$	220,273	41.9 %	$	156,196	44.6 %	41.0%	(2.7)%
SG&A	$	147,154	28.0 %	$	92,115	26.3 %	59.8%	1.7 %
Net income	$	46,261	8.8 %	$	39,848	11.4 %	16.1%	(2.6)%
Net income per diluted share	$	0.40		$	0.35		14.3%	
Adjusted EBITDA(2)	$	82,563	15.7 %	$	72,891	20.8 %	13.3%	(5.1)%
Adjusted Net Income(2) **per diluted share**	$	0.44		$	0.39		12.8%	

Net revenue increased by 50.1% to $525.5 million, compared to $350.1 million in Q2 2022. The Company continues to see an unprecedented acceleration of sales in the United States, where net revenues increased by 79.8% to C$263.2 million, compared to C$146.4 million in Q2 2022.

- **Retail revenue** increased by 60.1% to $351.6 million, compared to $219.6 in Q2 2022. The increase was led by outstanding performance of our existing and new boutiques in the United States, strong double digit comparable sales growth in Canada, as well as boutique revenue from 34 of our boutiques which were closed for approximately one-third of Q2 2022. Boutique count at the end of Q2 totaled 112 compared to 104 boutiques at the end of Q2 2022.
- **eCommerce revenue** increased by 33.3% to $173.9 million, compared to $130.4 million in Q2 2022, driven by exceptional performance in the United States and double digit growth in Canada.

Gross profit increased by 41.0% to $220.3 million, compared to $156.2 million in Q2 2022. Gross profit margin was 41.9%, compared to 44.6% in Q2 2022. The 270 bps decrease in gross profit margin was primarily driven by discontinued COVID relief subsidies and higher freight costs and distribution centre costs, as well as normalized markdowns from Q2 2022 due to low inventory levels last year. These impacts were partially offset by leverage on occupancy and depreciation costs.

Selling, general and administrative ("SG&A") expenses increased by 59.8% to $147.2 million, compared to $92.1 million in Q2 2022. SG&A expenses were 28.0% of net revenue, compared to 26.3% in Q2 2022. The increase in SG&A expenses was primarily due to variable selling costs associated with the increase in revenue. The Company made additional investments in talent, technology, and marketing initiatives to fuel its accelerated momentum and to ensure its future growth.

Net income was $46.3 million, an increase of 16.1% compared to $39.8 million in Q2 2022.

Net income per diluted share was $0.40, an increase of 14.3% compared to $0.35 in Q2 2022.

Adjusted EBITDA(2) was $82.6 million or 15.7% of net revenue, an increase of 13.3% compared to $72.9 million or 20.8% of net revenue in Q2 2022.

Adjusted Net Income(2) was $50.6 million, an increase of 14.0% compared to $44.4 million in Q2 2022.

Adjusted Net Income(2) **per diluted share** was $0.44, an increase of 12.8% compared to $0.39 in Q2 2022.

Cash and cash equivalents at the end of Q2 2023 totaled $65.4 million compared to $131.8 million at the end of Q2 2022.

Inventory at the end of Q2 2023 was $455.1 million, an increase of 150% compared to $181.9 million at the end of Q2 2022. This season's inventory was planned at an 83% increase from the extremely low levels last year in order to meet sales targets. Inventory was booked earlier in order to mitigate the risk of supply chain disruptions. On top of that as an extra precautionary measure, the Company pulled forward the purchase of selective product for Spring. The Company is comfortable with its inventory position to meet client demand and for the season, expects normalized markdowns to be no greater than pre-pandemic levels.

Capital cash expenditures (net of proceeds from lease incentives)(2) were $22.8 million in Q2 2023, compared to $9.3 million in Q2 2022.

YTD 2023 Compared to YTD 2022

(in thousands of Canadian dollars, unless otherwise noted)	**YTD 2023 26 weeks**		**YTD 2022 26 weeks**		**Variance**	
					%	*% pts*
Retail revenue	$ 639,454	68.5 %	$ 362,591	60.7 %	76.4 %	
eCommerce revenue	293,979	31.5 %	234,394	39.3 %	25.4 %	
Net revenue	$ 933,433	100.0 %	$ 596,985	100.0 %	56.4 %	
Gross profit	$ 401,169	43.0 %	$ 265,304	44.4 %	51.2 %	(1.4)%
SG&A	$ 267,433	28.7 %	$ 162,497	27.2 %	64.6 %	1.5 %
Net income	$ 79,522	8.5 %	$ 57,751	9.7 %	37.7 %	(1.2)%
Net income per diluted share	$ 0.69		$ 0.50		38.0 %	
Adjusted EBITDA(2)	$ 152,209	16.3 %	$ 113,793	19.1 %	33.8 %	(2.8)%
Adjusted Net Income (2) **per diluted share**	$ 0.79		$ 0.57		38.6 %	

Net revenue increased by 56.4% to $933.4 million, compared to $597.0 million in YTD 2022. The Company has seen an unprecedented acceleration of sales in the United States, where net revenues increased by 80.3% to C$470.0 million, compared to C$260.6 million in YTD 2022. The Company also saw meaningful growth in Canada where net revenue increased by 37.8% to $463.5 million, compared to $336.4 million in YTD 2022.

- **Retail revenue** increased by 76.4% to $639.5 million, compared to $362.6 million in YTD 2022. The increase in revenue was led by outstanding performance of our existing and new boutiques in the United States, strong double digit comparable sales growth in Canada, as well as boutique revenue from 34 of our boutiques which were closed for approximately two-thirds of Q1 2022 and one-third of Q2 2022.
- **eCommerce revenue** increased by 25.4% to $294.0 million, compared to $234.4 million in YTD 2022. Overall eCommerce revenue growth was moderated by the channel shift to retail in Eastern Canada where 34 of our boutiques were closed for approximately two-thirds of Q1 2022 and one-third of Q2 2022.

Gross profit increased by 51.2% to $401.2 million, compared to $265.3 million in YTD 2022. Gross profit margin was 43.0% compared to 44.4% in YTD 2022. The 140 bps decrease in gross profit margin was primarily due to higher freight costs, partially offset by leverage on occupancy and depreciation costs.

SG&A expenses increased by 64.6% to $267.4 million, compared to $162.5 million in YTD 2022. SG&A expenses were 28.7% of net revenue compared to 27.2% in YTD 2022.The increase in SG&A expenses was primarily due to variable selling costs associated with the increase in revenue and continued investment in talent, technology, and marketing initiatives.

Net income was $79.5 million, an increase of 37.7% compared to $57.8 million in YTD 2022.

Net income per diluted share was $0.69, an increase of 38.0%, compared to $0.50 in YTD 2022.

Adjusted EBITDA(2) was $152.2 million, or 16.3% of net revenue, an increase of 33.8%, compared to $113.8 million, or 19.1% of net revenue in YTD 2022.

Adjusted Net Income(2) was $91.5 million, an increase of 38.5%, compared to $66.1 million in YTD 2022.

Adjusted Net Income(2) **per diluted share** was $0.79, an increase of 38.6%, compared to $0.57 in YTD 2022.

Capital cash expenditures (net of proceeds from lease incentives)(1) were $47.2 million, compared to $15.9 million in YTD 2022.

(2) See "Non-IFRS Measures including Retail Industry Metrics" 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. See also sections entitled "How We Assess the Performance of our Business", "Non-IFRS Measures including Retail Industry Metrics" and "Selected Consolidated Financial Information" in the Management's Discussion and Analysis for further details concerning Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per diluted share, capital cash expenditures (net of proceeds from lease incentives) and free cash flow including definitions and reconciliations to the relevant reported IFRS measure.

Outlook

The Company’s strong momentum continued into the third quarter of fiscal 2023. Aritzia is on track to deliver net revenue in the range of $565 million to $590 million in Q3 2023, representing an increase of approximately 25% to 30% from last year. This reflects continued strength in the United States across both its retail and eCommerce channels, as well as strong recovery of the Company’s business in Canada.

For fiscal 2023, Aritzia currently expects the following:

- Net revenue in the range of $2.0 billion to $2.05 billion, representing an increase of approximately 34% to 37% from fiscal 2022, up from the Company's previous outlook of $1.875 billion to $1.9 billion. This is led by continued out performance in the United States across both channels, ongoing growth in Canada driven by eCommerce as well as the recovery in its boutiques, and contribution from retail expansion including:
  - Eight new boutiques with all but one in the United States, including five boutiques in the United States and one in Canada already opened; and
  - Five boutique expansions or repositions, including four locations in Canada and one in the United States.
- Gross profit margin to decrease by approximately 100 bps to 150 bps compared to last year, reflecting ongoing impacts from global supply chain disruptions, inflationary pressure, and discontinued COVID relief subsidies.
- SG&A as a percent of net revenue to increase approximately 50 bps to 100 bps compared to last year, reflecting ongoing investments to fuel our future growth;
- Net capital expenditures in the range of $110 million to $120 million, comprised of:
  - Boutique network growth,
  - New distribution centre in the Greater Toronto area, and
  - Ongoing investments in technology and infrastructure to enhance the Company’s eCommerce capabilities and omni-channel experience, as well as support office expansion.

The foregoing outlook is based on management’s current strategies and may be considered forward-looking information under applicable securities laws. Such outlook is based on estimates and assumptions made by management regarding, among other things, general economic and geopolitical conditions and the competitive environment as well as further COVID-19 resurgences. Readers are cautioned that actual results may vary. See also the “Forward-Looking Information” section of this earnings release and “Risk Factors” section of our MD&A and AIF.

Normal Course Issuer Bid

On January 12, 2022, the Company announced the commencement of a normal course issuer bid (the "NCIB") to repurchase and cancel up to 3,732,725 of its subordinate voting shares, representing approximately 5% of the public float of 74,654,507, over the 12-month period commencing January 17, 2022 and ending January 16, 2023.

On May 18, 2022, the Company entered into an automatic share purchase plan (the "ASPP") with a designated broker for the purpose of permitting the Company to purchase its subordinate voting shares under the NCIB during self-imposed blackout periods.

Between January 17, 2022 and October 11, 2022, the Company repurchased a total of 1,783,780 subordinate voting shares for cancellation at an average price of $38.77 per subordinate voting share for total cash consideration of $69.2 million.

Conference Call Details

A conference call to discuss the Company's second quarter results is scheduled for Wednesday, October 12, 2022, at 1:30 p.m. PT / 4:30 p.m. ET. To participate, please dial 1-800-319-4610 (North America toll-free) or 1-416-915-3239 (Toronto and overseas long-distance). The call is also accessible via webcast at http://investors.aritzia.com/events-and-presentations/. A recording will be available shortly after the conclusion of the call. To access the replay, please dial 1-855-669-9658 and the access code 9414. An archive of the webcast will be available on Aritzia's website.

About Aritzia

Aritzia is a vertically integrated design house with an innovative global platform, home to an extensive portfolio of exclusive brands for every function and individual aesthetic. We're about good design, quality materials and timeless style that endures and inspires — all with the well-being of our People and Planet in mind. We call this Everyday Luxury.

Founded in 1984, in Vancouver, Canada, we create and curate products that are both beautiful and beautifully made, cultivate aspirational environments, offer engaging service that delights, and connect through captivating communications. We pride ourselves on providing immersive and highly personal shopping experiences at aritzia.com and in our 100+ boutiques throughout North America to everyone, everywhere.

Everyday Luxury. To Elevate Your World.™

Comparable Sales Growth

Comparable sales growth is a retail industry metric used to assess the performance of the Company's business to explain our total combined revenue growth in eCommerce and established boutiques. Due to temporary boutique closures from COVID-19 in fiscal 2022 which resulted in boutiques being removed from our comparable store base, we believe total comparable sales growth was not representative of our business and therefore we have not reported figures on this metric for Q2 2022 or YTD 2022 in this press release.

Non-IFRS Measures including Retail Industry Metrics

This press release makes reference to certain non-IFRS measures including certain retail industry metrics. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "EBITDA", "Adjusted EBITDA", "Adjusted Net Income", "Adjusted Net Income per Diluted Share", "capital cash expenditures (net of proceeds from lease incentives)" and "free cash flow." This press release also makes reference to "gross profit margin" as well as "comparable sales growth", which are commonly used operating metrics in the retail industry but may be calculated differently compared to other retailers. Gross profit margin and comparable sales growth are considered supplementary measures under applicable securities laws. These non-IFRS measures including retail industry metrics are used to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures including retail industry metrics in the evaluation of issuers. Our management also uses non-IFRS measures including retail industry metrics in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. Definitions and reconciliations of non-IFRS measures to the relevant reported measures can be found in our MD&A. Such reconciliations can also be found in this press release under the heading "Selected Consolidated Financial Information".

Forward-Looking Information

Certain statements made in this press release may constitute forward-looking information under applicable securities laws. Forward-looking statements are based on information currently available to management and on estimates and assumptions made by management regarding, among other things, general economic and geopolitical conditions and the competitive environment within the retail industry, in light of its experience and perceptions of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate and reasonable in the circumstances. These statements may relate to our future financial outlook, our plans relating to our new distribution facility, investments in our digital infrastructure and the anticipated results therefrom, our continued focus on driving digital innovation and eCommerce and Omni capabilities, our investment in talent and technology, our ability to maintain momentum in our business and advance our strategic growth drivers, our approach to boutique growth, the Company’s response to supply chain disruptions, geopolitical risks, inflationary pressures and labour shortages, our outlook for: (i) net revenue in the second quarter of fiscal 2023, (ii) net revenue in fiscal 2023, (iii) gross profit margin in fiscal 2023, (iv) SG&A as a percent of net revenue in fiscal 2023, (v) net capital expenditure in fiscal 2023 and (vi) new boutiques and expansion or repositioning of existing boutiques in fiscal 2023. Particularly, information regarding our expectations of future results, targets, performance achievements, prospects or opportunities is forward-looking information. As the context requires, this may include certain targets as disclosed in the prospectus for our initial public offering, which are based on the factors and assumptions, and subject to the risks, as set out therein and herein. Often but not always, forward-looking statements 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”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “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. Statements containing forward-looking information are not historical facts but instead represent our expectations, estimates and projections regarding future events or circumstances.

Implicit in forward-looking statements in respect of the Company's expectations for: (i) net revenue in the range of $565 million to $590 million for the third quarter of fiscal 2023, representing an increase of approximately 25% to 30% from last year, (ii) net revenue in the range of $2.0 billion to $2.05 billion in fiscal 2023, representing an increase of approximately 34% to 37% from fiscal 2022, (iii) gross profit margin to decrease by approximately 100 bps to 150 bps compared to last year, (iv) SG&A as a percent of net revenue to increase approximately 50 bps to 100 bps compared to last year and (v) net capital expenditures in the range of $110 million to $120 million, are certain current assumptions including the continued strength in the United States across both its retail and eCommerce channels, as well as strong recovery of the Company’s business in Canada. The Company’s forward-looking information is also based upon assumptions regarding the overall retail environment, inflationary pressures, the COVID-19 pandemic and related health and safety protocols and currency exchange rates for fiscal 2023. Specifically, we have assumed the following exchange rates for fiscal 2023: USD:CAD = 1:1.33.

Given this unprecedented period of uncertainty, there can be no assurances regarding: (a) the limitations or restrictions that may be placed on servicing our clients in reopened boutiques or potential re-closing of boutiques or the duration of any such limitations or restrictions; (b) the COVID-19-related impacts on Aritzia's business, operations, labour force, supply chain performance and growth strategies, (c) Aritzia's ability to mitigate such impacts, including ongoing measures to enhance short-term liquidity, contain costs and safeguard the business; (d) general economic conditions related to COVID-19 and impacts to consumer discretionary spending and shopping habits; (e) credit, market, currency, commodity market, inflation, interest rates, global supply chains, operational, and liquidity risks generally; (f) geopolitical events; and (g) other risks inherent to Aritzia's business and/or factors beyond its control which could have a material adverse effect on the Company.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the factors discussed in the "Risk Factors" section of the Company's annual information form dated May 5, 2022 for the fiscal year ended February 27, 2022 (the "AIF"). A copy of the AIF and the Company's other publicly filed documents can be accessed under the Company's profile on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

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 the forward-looking information and are cautioned not to place undue reliance on such information. The forward-looking information contained in this press release represents our expectations as of the date of this press release (or as the date they are otherwise stated to be made), and are subject to change after such date. However, we disclaim any intention or obligation or undertaking to update or revise any forward-looking information whether as a result of new information, future events or otherwise, except as required under applicable securities laws.

For more information

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Selected Consolidated Financial Information

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited, in thousands of Canadian dollars, unless otherwise noted)	Q2 2023 13 Weeks		Q2 2022 13 Weeks		YTD 2023 26 Weeks		YTD 2022 26 Weeks	
Net revenue	$ 525,523	100.0%	$ 350,069	100.0%	$ 933,433	100.0%	$ 596,985	100.0%
Cost of goods sold	305,250	58.1%	193,873	55.4%	532,264	57.0%	331,681	55.6%
Gross profit	220,273	41.9%	156,196	44.6%	401,169	43.0%	265,304	44.4%
Operating expenses								
Selling, general and administrative	147,154	28.0%	92,115	26.3%	267,433	28.7%	162,497	27.2%
Stock-based compensation expense	8,981	1.7%	8,262	2.4%	9,654	1.0%	11,297	1.9%
Income from operations	64,138	12.2%	55,819	15.9%	124,082	13.3%	91,510	15.3%
Finance expense	6,658	1.3%	6,516	1.9%	12,706	1.4%	12,950	2.2%
Other expense (income)	(6,496)	(1.2)%	(7,161)	(2.0)%	26	0.0%	(3,305)	(0.6)%
Income before income taxes	63,976	12.2%	56,464	16.1%	111,350	11.9%	81,865	13.7%
Income tax expense	17,715	3.4%	16,616	4.7%	31,828	3.4%	24,114	4.0%
Net income	$ 46,261	8.8%	$ 39,848	11.4%	$ 79,522	8.5%	$ 57,751	9.7%
Other Performance Measures:								
Year-over-year net revenue growth	50.1%		74.9%		56.4%		91.6%	
Comparable sales growth(1)(2)	28.3%		n/a		29.0%		n/a	
Capital cash expenditures (net of proceeds from lease incentives)(2)	$ (22,830)		$ (9,333)		$ (47,185)		$ (15,855)	
Free cash flow(2)	$ (84,514)		$ 76,742		$(138,760)		$ 88,675	
Number of boutiques, end of period	112		104		112		104	

Note:
(1) Please see the “Comparable Sales Growth” section above for more details.
(2) Please see the "Non-IFRS Measures including Retail Industry Metrics" section above for more details.

NET REVENUE BY GEOGRAPHIC LOCATION

(in thousands of Canadian dollars)	Q2 2023 13 Weeks	Q2 2022 13 Weeks	YTD 2023 26 Weeks	YTD 2022 26 Weeks
Canada	$ 262,335	$ 203,711	$ 463,461	$ 336,376
United States	263,188	146,358	469,972	260,609
Net revenue	$ 525,523	$ 350,069	$ 933,433	$ 596,985

CONSOLIDATED CASH FLOWS

(in thousands of Canadian dollars)	Q2 2023 13 Weeks	Q2 2022[3] 13 Weeks	YTD 2023 26 Weeks	YTD 2022[3] 26 Weeks
Net cash (used in) generated from operating activities	$ (40,685)	$ 103,790	$ (50,003)	$ 129,562
Net cash used in financing activities	(47,636)	(87,107)	(92,412)	(90,793)
Cash used in investing activities	(26,320)	(46,101)	(57,572)	(56,506)
Effect of exchange rate changes on cash and cash equivalents	707	3,336	166	386
Change in cash and cash equivalents	$ (113,934)	$ (26,082)	$ (199,821)	$ (17,351)

(3) Certain prior period amounts have been reclassified for consistency with current period presentation. These reclassifications have no effect on the reported results of operations. A reclassification has been made for proceeds from lease incentives from cash generated from operating activities to net cash used in financing activities.

RECONCILIATION OF NET INCOME TO EBITDA, ADJUSTED EBITDA AND ADJUSTED NET INCOME

(in thousands of Canadian dollars, unless otherwise noted)	**Q2 2023 13 Weeks**	**Q2 2022 13 Weeks**	**YTD 2023 26 Weeks**	**YTD 2022 26 Weeks**
Reconciliation of Net Income to EBITDA and Adjusted EBITDA:				
Net income	$ 46,261	$ 39,848	$ 79,522	$ 57,751
Depreciation and amortization	12,504	10,780	24,804	21,221
Depreciation on right-of-use assets	18,908	16,686	36,679	33,004
Finance expense	6,658	6,516	12,706	12,950
Income tax expense	17,715	16,616	31,828	24,114
EBITDA	102,046	90,446	185,539	149,040
Adjustments to EBITDA:				
Stock-based compensation	8,981	8,262	9,654	11,297
Rent impact from IFRS 16, Leases[i]	(24,687)	(22,302)	(47,734)	(44,247)
Unrealized loss (gain) on equity derivatives contracts	(3,777)	(5,342)	4,750	(5,236)
Acquisition costs of CYC	—	1,747	—	2,409
Secondary offering transaction costs	—	80	—	530
Adjusted EBITDA	$ 82,563	$ 72,891	$ 152,209	$ 113,793
Adjusted EBITDA as a percentage of net revenue	15.7%	20.8%	16.3%	19.1%
Reconciliation of Net Income to Adjusted Net Income:				
Net income	$ 46,261	$ 39,848	$ 79,522	$ 57,751
Adjustments to net income:				
Stock-based compensation	8,981	8,262	9,654	11,297
Unrealized loss (gain) on equity derivatives contracts	(3,777)	(5,342)	4,750	(5,236)
Acquisition costs of CYC	—	1,747	—	2,409
Secondary offering transaction costs	—	80	—	530
Related tax effects	(846)	(184)	(2,436)	(689)
Adjusted Net Income	$ 50,619	$ 44,411	$ 91,490	$ 66,062
Adjusted Net Income as a percentage of net revenue	9.6%	12.7%	9.8%	11.1%
Weighted average number of diluted shares outstanding (thousands)	114,457	115,265	115,284	115,008
Adjusted Net Income per diluted share	$ 0.44	$ 0.39	$ 0.79	$ 0.57

Note:

(i) Rent Impact from IFRS 16, Leases

(in thousands of Canadian dollars)	**Q2 2023 13 Weeks**	**Q2 2022 13 Weeks**	**YTD 2023 26 Weeks**	**YTD 2022 26 Weeks**
Depreciation of right-of-use assets, excluding fair value adjustments	$ (18,775)	$ (16,686)	$ (36,413)	$ (33,004)
Interest expense on lease liabilities	(5,912)	(5,616)	(11,321)	(11,243)
Rent impact from IFRS 16, Leases	$ (24,687)	$ (22,302)	$ (47,734)	$ (44,247)

CAPITAL CASH EXPENDITURES (NET OF PROCEEDS FROM LEASE INCENTIVES)

(Unaudited, in thousands of Canadian dollars)	Q2 2023 13 Weeks	Q2 2022 13 Weeks	YTD 2023 26 Weeks	YTD 2022 26 Weeks
Cash used in investing activities	$ (26,320)	$ (46,101)	$ (57,572)	$ (56,506)
Acquisition of CYC Design Corporation, net of cash acquired	—	32,555	—	32,555
Contingent consideration payout, net relating to the acquisition of CYC Design Corporation	—	—	5,625	—
Proceeds from lease incentives	3,490	4,213	4,762	8,096
Capital cash expenditures (net of proceeds from lease incentives)	$ (22,830)	$ (9,333)	$ (47,185)	$ (15,855)

FREE CASH FLOW

(Unaudited, in thousands of Canadian dollars)	Q2 2023 13 Weeks	Q2 2022(3) 13 Weeks	YTD 2023 26 Weeks	YTD 2022(3) 26 Weeks
Net cash (used in) generated from operating activities	$ (40,685)	$ 103,790	$ (50,003)	$ 129,562
Interest paid on credit facilities	745	578	1,384	1,353
Proceeds from lease incentives	3,490	4,213	4,762	8,096
Repayments of principal on lease liabilities	(21,744)	(18,293)	(42,956)	(26,385)
Purchase of property, equipment and intangible assets	(26,320)	(13,546)	(51,947)	(23,951)
Free cash flow	$ (84,514)	$ 76,742	$ (138,760)	$ 88,675

(3) Certain prior period amounts have been reclassified for consistency with current period presentation. These reclassifications have no effect on the reported results of operations. A reclassification has been made for proceeds from lease incentives from cash generated from operating activities to net cash used in financing activities. This change in classification does not affect previously reported free cash flows.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(interim period unaudited, in thousands of Canadian dollars)	As at August 28, 2022	As at February 27, 2022	As at August 29, 2021
Assets			
Cash and cash equivalents	$ 65,424	$ 265,245	$ 131,796
Accounts receivable	10,123	8,147	7,835
Income taxes recoverable	11,687	6,455	3,307
Inventory	455,109	208,125	181,929
Prepaid expenses and other current assets	33,086	33,564	28,700
Total current assets	575,429	521,536	353,567
Property and equipment	255,813	223,190	201,527
Intangible assets	86,303	87,398	88,287
Goodwill	198,846	198,846	198,322
Right-of-use assets	377,719	362,887	381,134
Other assets	4,319	4,271	4,860
Deferred tax assets	15,944	26,458	17,200
Total assets	$ 1,514,373	$ 1,424,586	$ 1,244,897
Liabilities			
Accounts payable and accrued liabilities	$ 295,595	$ 179,344	$ 147,219
Income taxes payable	—	58,917	15,889
Current portion of contingent consideration	6,619	6,619	6,619
Current portion of lease liabilities	90,381	86,724	85,519
Deferred revenue	57,256	55,721	40,667
Total current liabilities	449,851	387,325	295,913
Lease liabilities	428,704	417,067	439,508
Other non-current liabilities	19,661	22,359	16,935
Contingent consideration	—	6,618	6,618
Non-controlling interest in exchangeable shares liability	35,500	35,500	33,500
Deferred tax liabilities	24,438	24,906	26,669
Total liabilities	958,154	893,775	819,143
Shareholders’ equity			
Share capital	249,319	251,291	234,730
Contributed surplus	63,269	56,342	58,123
Retained earnings	245,185	223,553	132,967
Accumulated other comprehensive loss	(1,554)	(375)	(66)
Total shareholders’ equity	556,219	530,811	425,754
Total liabilities and shareholders’ equity	$ 1,514,373	$ 1,424,586	$ 1,244,897

BOUTIQUE COUNT SUMMARY

	Q2 2023 13 Weeks	Q2 2022 13 Weeks	YTD 2023 26 Weeks	YTD 2022 26 Weeks
Number of boutiques, beginning of period	109	102	106	101
New boutiques	3	2	6	3
Number of boutiques, end of period	112	104	112	104
Boutiques expanded or repositioned	—	1	—	1

Note: CYC had four boutiques as at August 28, 2022 which are excluded from the boutique count.