

KITS

NEWS RELEASE

KITS Delivers Record Q4 and 2020 Results as Revenue Grows 60% in Q4 and 51% in 2020

2021-03-15

VANCOUVER, BC, March 15, 2021 /CNW/ - Kits Eyecare, Ltd. (TSX: **KITS**), a rapidly growing, vertically integrated, digitally native eyecare platform, has released its financial results for the fourth quarter and fiscal year 2020 ended December 31, 2020.

- Operating cash flow was \$4,182,000 in fiscal year 2020, demonstrating the strength of our asset light and cash generating approach
- Free Cash Flow increased 25% to \$3,957,000 in Fiscal 2020 compared to Fiscal 2019
- Gross profit increased 57% to \$21,388,000 in Fiscal 2020 from \$13,665,000 in Fiscal 2019
- Common shares outstanding were 31 million following the closing of our IPO on January 19, 2021, with 23.5 million shares (or 75% of total shares outstanding) currently held by management or related parties, aligning investors with management

Fourth Quarter 2020 Highlights

- KITS achieved quarterly revenue of \$20,283,000, representing organic growth of 60% compared to revenue of \$12,673,000 in the same quarter of 2019
- KITS achieved record active customers of over 700,000 at quarter end, up from over 500,000 active customers in the fourth quarter of 2019
- KITS achieved record eyeglasses shipped of 21,000 in the fourth quarter, a 25x increase compared to the fourth quarter of 2019, and grew more than 100% quarter over quarter during 2020
- KITS achieved early success with the "Autoship" subscription program with 20% of contact lens orders on subscription
- KITS shipped orders hit an all-time peak in the fourth quarter, up 70% compared to the fourth quarter of

2019, as our offers resonated well with customers

Full Year 2020 Highlights

- KITS achieved record revenue of \$75,217,000, representing organic growth of 51% compared to revenue of \$49,946,000 in fiscal 2019
- KITS achieved record active customer growth to over 700,000 active customers, up over 200,000 from a year ago
- KITS revenue from recurring customers was 65%
- KITS shipped over 39,000 KITS and designer eyeglasses, compounding at more than 100% quarter over quarter in 2020
- Net loss of \$6.6 million, which includes one-time non-cash non-recurring IPO-related finance costs of \$4.8 million, one-time IPO related costs of \$0.9 million, and share-based compensation expense of \$0.8 million
- KITS achieved positive Adjusted EBITDA of \$3,548,000

"When we started KITS two years ago, we had a vision to deliver the beauty of Vancouver's Kits Beach to the world through eyewear. Kits beach is a remarkable place where the ocean meets the snow-covered mountains. It is from this iconic, cosmopolitan intersection of people and lifestyles that we have taken our inspiration to build a beautiful eyecare brand that can inspire eyes everywhere. We are here to serve inclusively and conveniently; to deliver wonderful experiences to our customers. It was a busy quarter and year at KITS as we achieved record results in 2020 and strong fourth quarter results, with organic revenue growth of 60% and full year growth of 51% boosted by the success of our eyeglasses and Autoship subscription businesses," said Roger Hardy, CEO of KITS. "Further, we are pleased to have completed our upsized and oversubscribed initial public offering in January 2021. While conducting the IPO across two fiscal periods has resulted in some one-time, non-recurring, non-cash finance charges and expenses as well as cash transaction costs that are not expected to recur, we remain delighted with this year's growth and our successful IPO. This capital will enable us to fully execute our strategic plans to become the leading vertically integrated, asset light model in eyecare. I couldn't be more excited for our team at KITS to execute on this important mission."

KITS COO Joseph Thompson added, "Our KITS glasses and Autoship subscription offerings continue to drive record growth. These introductory offerings combined with industry-wide temporary holiday and COVID-related logistics issues caused some compression in fourth quarter gross profit margin; however, we have already seen our gross margins recover in 2021. We continue to believe these programs have tremendous potential and we will continue to improve the value, selection, and convenience to meet the high bar our customers expect and deserve. Thank you to our customers for allowing us to serve you, to our incredibly dedicated and hardworking team committed to meeting the at-home needs of our customers, and to our shareholders for their continuing support."

"KITS is investing to build the most capital efficient direct-to-consumer business in eyecare. A key development in 2020 was the establishment of our own design, distribution, and manufacturing lab designed to improve speed and quality of service for our customers. We intend to continue expanding our optical lab and product offerings, including recently added progressive eyeglasses," said Sabrina Liak, CFO of KITS.

Highlights

- KITS recorded over 700,000 active customers, indicating both increasing engagement of existing customers and growth of new customers
- 65% of revenue was from repeat customers, serving as a testament to the exceptional value delivered to customers through our integrated online eyecare platform
- KITS launched two growth drivers in 2020; our "Autoship" subscription program for contact lenses and our KITS branded eyeglasses
- Subscription "Autoship" ramped up to 20% of contact lens orders in the fourth quarter of 2020, increasing customer retention and recurring revenue
- Glasses shipped totaled 39,000 in 2020, compounding at more than 100% quarter over quarter in 2020
- We established our own fulfillment facility and optical lab designed to improve the speed and quality of service for our customers, a key development to building the most capital efficient direct-to-consumer business in eyecare
- Continued expansion of our product offerings, including recently added progressive eyeglasses, which allow us to broaden our customer reach
- Recent launch of our marketing and brand awareness campaign with our "Open Your Eyes" commercial, showcased during the Super Bowl and the Bachelor

Conference Call and Webcast Information

Roger Hardy, Chief Executive Officer, Joseph Thompson, Chief Operating Officer, and Sabrina Liak, Chief Financial Officer will host a conference call at 7:00 a.m. Pacific Time on March 16, 2021 to discuss KITS' financial results and outlook. To attend the call, participants may dial: (416) 764-8659 or (888) 664-6392 Conference Id: 87684389 or join our webcast: https://produceredition.webcasts.com/starthere.jsp?ei=1442122&tp_key=f3e4ebd770

A telephonic replay will be available through March 23, 2021, at 1-888-390-0541 (playback 684389 #).

About KITS

KITS is a rapidly growing, vertically integrated, digitally native eyecare platform for eyes everywhere. We offer customers access to a vast selection of contact lenses and eyeglasses, including our own exclusive KITS designed

products, as well as a robust suite of online vision tools. Our efficient digital platform, backed by our industry-leading manufacturing and designs, removes intermediaries and enables us to offer great prices and deliver made to order personalized products with incredible care and accuracy. We are creating disruption in the industry by constantly pursuing cutting-edge technologies to enable the best customer experience, including online eyewear fitting tools, virtual try-on for glasses, and an integrated online vision test. We strive to delight our customers with our competitive prices, a convenient digital shopping experience, fast and reliable delivery options and an unrelenting focus on earning our customers' lifelong trust. For more information on KITS, visit: www.KITS.com.

Financial Highlights

The following selected financial information is qualified in its entirety by and should be read in conjunction with our audited consolidated financial statements for the fiscal year ended December 31, 2020 and accompanying notes and Management's Discussion and Analysis ("MD&A") which may be viewed on SEDAR at www.sedar.com.

CAD \$000s, unless otherwise noted	Three Months ended December 31, 2020	Three Months ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2019 (a)	Unaudited Pro Forma Combined Year ended December 31, 2019 (b)
Revenue	\$ 20,283	\$ 12,673	\$ 75,217	\$ 36,897	\$ 49,946
Gross Profit	\$ 4,736	\$ 3,941	\$ 21,388	\$ 10,812	\$ 13,665
Finance costs, net (d)	\$ 1,433	\$ 630	\$ 3,090	\$ 1,845	\$ 2,433
IPO related fair value accrual for Class A and Class C preferred shares (e)	\$ 3,375	\$ (21)	\$ 3,773	\$ (24)	\$ -
Net income (loss) (c)	\$ (6,216)	\$ (79)	\$ (6,583)	\$ 53	\$ (31)
Non-IFRS Measures (f):					
EBITDA	\$ (1,964)	\$ 1,020	\$ 1,788	\$ 3,238	\$ 4,188
Adjusted EBITDA	\$ (1,220)	\$ 1,156	\$ 3,548	\$ 3,643	\$ 4,326
Adjusted EBITDA Margin %	-6.0%	9.1%	4.7%	9.9%	8.7%

Reconciliation of Non-IFRS Measures

Net income / (loss) for the period	\$ (6,216)	\$ (79)	\$ (6,583)	\$ 53	\$ (131)
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Add back:

Income taxes	(1,065)	13	(505)	37	100
Finance costs -net (d)	1,433	630	3,090	1,845	2,433
IPO related fair value accrual for Preferred Class A and Class C (e)	3,375	(21)	3,773	(24)	-
Depreciation and amortization	509	477	2,013	1,327	1,786
EBITDA	(1,964)	1,020	1,788	3,238	4,188
Add back:					
Share-based compensation (g)	307	130	811	130	130
One-time costs (h)	437	6	949	275	8
Adjusted EBITDA	\$ (1,220)	\$ 1,156	\$ 3,548	\$ 3,643	\$ 4,326
Adjusted EBITDA Margin % (i)	-6.0%	9.1%	4.7%	9.9%	8.7%

Notes:

- (a) Prior to April 5, 2019, KITS had no operations and beginning April 5, 2019, KITS consolidated the operations of Kits.com Technologies, Inc. ("KCTI").
- (b) The pro forma adjustments made give effect to the acquisition of KCTI (the "Acquisition") as if it had occurred on January 1, 2019. This includes \$125 in wages, \$449 in amortization of intangibles, \$624 of finance expense and deducts \$479 in transaction related costs and \$155 of estimated tax effects associated with these adjustments.
- (c) Net loss for the year ended December 31, 2020 includes a non-cash one-time fair value accrual for Class A and Class C preferred shares of \$3,773, a non-cash one-time accrued fee payable to BDC Capital Inc. of \$1,056 and one-time Acquisition and IPO fees of \$949.
- (d) Finance costs – net for the year ended December 31, 2020 includes a non-cash one-time accrued fee payable to BDC of \$1,056.
- (e) IPO related fair value accrual for Class A and Class C preferred shares for the year ended December 31, 2020 is a non-cash one-time expense. Subsequent to the year end, these Class A and Class C preferred shares were converted into common shares and are no longer outstanding. Refer to "Subsequent Events" section in the audited consolidated financial statements filed on www.sedar.com.
- (f) Refer to "Non-IFRS Measures and Industry Metrics" section of the MD&A filed on www.sedar.com.
- (g) Represents non-cash share-based compensation expense associated with RSUs and options recognized in the period.
- (h) In connection with the Acquisition and IPO, the Company incurred expenses related to professional fees, consulting, legal, and accounting that would otherwise not have been incurred and were directly related to these two matters. These fees are not indicative of the Company's ongoing costs and we expect they will discontinue following the completion of the IPO.
- (i) Represents Adjusted EBITDA divided by revenue from the same period.
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	Three Months ended December 31, 2020	Three Months ended December 31, 2019	Year ended December 31, 2020	Year ended December 31, 2019 (a)
Net cash provided by operating activities	\$ 1,523	\$ 2,537	\$ 4,182	\$ 4,146
Deduct				
Capital expenditures, net of proceeds from disposal	(63)	(231)	(225)	(993)
Free Cash Flow	\$ 1,460	\$ 2,306	\$ 3,957	\$ 3,153

Non-IFRS Financial Measures and Industry Metrics

This press release includes references to certain non-IFRS financial measures such as EBITDA, Adjusted EBITDA, and Free Cash Flow and industry metrics such as Active Customers. These financial measures and industry metrics are employed by the company to measure its operating and economic performance and to assist in business decision-making, as well as providing key performance information to senior management. The company believes that, in addition to conventional measures prepared in accordance with IFRS, certain investors and analysts use this information to evaluate the company's operating and financial performance. These financial measures are not defined under IFRS nor do they replace or supersede any standardized measure under IFRS. Other companies in our industry may calculate these measures differently than we do, limiting their usefulness as comparative measures. Definitions and reconciliations of non-IFRS measures to the nearest IFRS measure and Industry Metrics can be found in our Management's Discussion and Analysis. Such non-IFRS reconciliations can also be found in this press release under "Financial Highlights".

As of the last date of each reporting period, we determine our number of "Active Customers" by counting the total number of individual customers who have ordered, and for whom an order has shipped, at least once during the preceding four year period. The change in active customers in a reporting period captures both the inflow of new customers as well as the outflow of customers who have not made a purchase in the last four years.

Forward-Looking Statements

This press release contains forward-looking statements, including statements relating to the execution of our proposed strategy, our operating performance and prospects on the business. These forward-looking statements generally can be identified by the use of words such as "intend," "believe," "could," "continue," "expect," "estimate," "forecast," "may," "potential," "project," "plan," "would," "will," and other words of similar meaning. Each forward-looking statement contained in this press release is subject to risks and uncertainties that could cause actual results

to differ materially from those expressed or implied by such statement. Our business is subject to substantial risks and uncertainties. This forward-looking information and other forward-looking information are based on our opinions, estimates and assumptions in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we currently believe are appropriate and reasonable in the circumstances. Despite a careful process to prepare and review the forward-looking information, there can be no assurance that the underlying opinions, estimates and assumptions will prove to be correct. Certain assumptions in respect of the expansion and enhancement of our optical laboratory for glasses and warehouse facilities; the growth of our business and launch of new technologies; our ability to drive sales growth; our ability to maintain, enhance, and grow within our addressable market; our ability to drive ongoing development and innovation of our exclusive brands and product categories; our ability to continue directly sourcing from third party suppliers and manufacturers; our ability to retain key personnel; our ability to maintain and expand distribution capabilities; our ability to continue investing in infrastructure to support our growth; our ability to obtain and maintain existing financing on acceptable terms; currency exchange and interest rates; the impact of competition; the changes and trends in our industry or the global economy; and the changes in laws, rules, regulations, and global standards are material factors made in preparing forward-looking information and management's expectations. KITS' risks and uncertainties are discussed in detail in the company's Annual Information Form, which will be filed on SEDAR prior to March 31, 2021. Investors, potential investors, and others should give careful consideration to these risks and uncertainties. We caution investors not to rely on the forward-looking statements contained in this press release when making an investment decision in our securities. The forward-looking statements in this press release speak only as of the date of this release, and we undertake no obligation to update or revise any of these statements, except as required under applicable securities laws. If we do update certain forward-looking information, no inference should be made that we will further update such or other forward-looking information.

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