

Recipe Unlimited Reports Third Quarter Positive Same Restaurant Sales Growth of 1.8% and EBITDA growth of 9.2%

VAUGHAN, ON, Nov. 8, 2018 /CNW/ - Recipe Unlimited Corporation (formerly Cara Operations) reported financial results today for the 13 and 39 weeks ending September 30, 2018.

"Our franchisees, brand and shared service teams delivered another successful Quarter. I want to thank them for their hard work and commitment to focus on continual improvement on our Four Pillars of Food, Service, Value and Ambiance. Their efforts helped increase Same Restaurant Sales by 1.8% for the Quarter," commented Frank Hennessey, Chief Executive Officer.

Highlights for the 13 and 39 weeks ended September 30, 2018:

- System Sales grew \$195.1 million to \$879.8 million for the 13 weeks ended September 30, 2018 compared to 2017, representing an increase of 28.5%. For the 39 weeks ended September 30, 2018, System Sales grew \$505.4 million to \$2,510.0 million compared to the same period in 2017, representing an increase of 25.2%. The increase in System Sales is primarily related to same restaurant sales increases, the additions of Pickle Barrel in December 2017 and The Keg in February 2018.
- Same Restaurant Sales ("SRS") Growth for the 13 and 39 weeks ended September 30, 2018 was an increase of 1.8% and 1.9% compared to the same 13 and 39 weeks in 2017. This SRS increase represents the fifth consecutive positive SRS quarter. While management is pleased with the positive trend, management continues to focus on long-term profitable SRS growth with both short and long term strategies to improve SRS with focus on 4 Pillars - Quality of Food, Quality of Service, Value for Experience, and Ambience. At the end of Q3 on September 28, 2018, the Company experienced a malware incident resulting in the disruption of service impacting sales at certain restaurants. The Company estimates that the SRS impact from the incident was a decrease of approximately 0.3% for the quarter. Additional information on the malware incident can be found on page 7 of the company's MD&A.
- Operating EBITDA increased to \$52.4 million for the 13 weeks ended September 30, 2018 compared to \$48.0 million in 2017, an improvement of \$4.4 million or 9.2% for the quarter. Year to date, Operating EBITDA was \$155.0 million compared to \$132.5 million in 2017, an improvement of \$22.5 million or 17.0%. The increases have been driven by the same restaurant sales increases, improved contribution from the corporate and franchise segments, improved contribution from Original Joe's, and the addition of The Keg in February 2018, partially offset by The Keg royalty expense paid to the Keg Royalty Income Fund, higher net overhead costs from the addition of The Keg, and a third quarter shift in overhead bonus accrual expenses. Bonus expense excluding the Keg for the 13 weeks ended September 30, 2018 was \$2.8 million higher than Q3 2017.
- Operating EBITDA Margin on System Sales was 6.0% for the third quarter as compared to 7.0% in 2017. The decrease is primarily related to The Keg royalty expense and the shift in bonus accrual expenses. Excluding the Keg royalty expense and the impact from the shift in bonus accrual expenses, Operating EBITDA Margin on System Sales was 6.7% for the quarter. Year to date, Operating EBITDA Margin on System Sales was 6.2% compared to 6.6% in 2017. The decrease is primarily related to The Keg royalty expense. Year to date, Operating EBITDA Margin on System Sales excluding The Keg royalty was 6.5% compared to 6.6% in 2017. While The Keg will add EBITDA dollars, because of higher net central overhead costs and the royalty payments to the Keg Royalty Income Fund in the medium term, The Keg merger will reduce Recipe's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.
- Earnings before change in fair value of non-controlling interest liability, change in fair value of Exchangeable Keg Partnership units, and income taxes was \$32.0 million for the 13 weeks ended September 30, 2018 compared to \$30.4 million in 2017, an increase of \$1.6 million for the quarter. The increase in the quarter is primarily related to same restaurant sales increases, improved contribution from the corporate and franchise segments, and the addition of The Keg. Year to date, Earnings before changes in fair value of certain financial instruments and income taxes was \$91.2 million for the 39 weeks ended September 30, 2018 compared to \$79.5 million in 2017, an increase of \$11.7 million or 14.7% year-to-date. The increase was primarily related to the same restaurant sales increases, improved contribution from the corporate and franchise segments, improved contribution from Original Joe's, and the addition of The Keg in February 2018, partially offset by The Keg royalty expense paid to the Keg Royalty Income Fund.
- During the 13 and 39 weeks ended September 30, 2018, the Company approved a plan to take-back certain underperforming Swiss Chalet restaurants in western Canada with the intention to re-franchise locations to stronger franchisee partners and to permanently close locations that do not meet the Company's long-term strategic portfolio of restaurants. Total restructuring costs under this plan were estimated to be approximately \$1.9 million comprised of expected lease exit costs.
- Adjusted Basic Earnings per Share ("EPS") for the 13 and 39 weeks ended September 30, 2018 was \$0.51 and \$1.43 compared to \$0.48 and \$1.35 in 2017, an increase of \$0.03 per share and \$0.08 per share, respectively. Adjusted Diluted EPS for the 13 and 39 weeks ended September 30, 2018 was \$0.50 and \$1.38 compared to \$0.46 and \$1.30 in 2017, also an increase of \$0.04 per share and \$0.08 per share, respectively.
- During the 13 and 39 weeks ended September 30, 2018, the Company purchased and cancelled 27,700 and 66,237 Subordinate Voting Shares for \$0.7 million and \$1.7 million, respectively under the Company's normal course issuer bid ("NCIB").
- On November 8, 2018, the Company's Board of Directors declared a dividend of \$0.1068 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on December 14, 2018 to shareholders of record at the close of business on November 30, 2018. With the Company's strong balance sheet and growing cash flows, management will continue to pursue strategic acquisitions and will explore alternatives to return more capital to its shareholders including continuation of its NCIB and increases to the Company's dividend rate.

(\$ millions unless otherwise stated) ¹	13 weeks		39 weeks	
	September 30, 2018	September 24, 2017	September 30, 2018	September 24, 2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total System Sales from continuing operations	\$879.8	\$684.7	\$2,510.0	\$2,004.6
Total System Sales Growth ²	28.5%	36.9%	25.2%	43.1%
SRS Growth ³	1.8%	0.9%	1.9%	0.0%
Number of restaurants (at period end)	1370	1,249	1370	1,249
Corporate restaurant sales	\$199	\$111.2	\$548.8	\$313.3
Number of corporate and joint venture restaurants	253	211	253	211
Contribution from Corporate segment	\$21.6	\$11.8	\$59.0	\$30.2
Contribution as a % of corporate sales	10.8%	10.6%	10.8%	9.6%
Franchise restaurant sales	\$607.2	\$515.7	\$1,747.1	\$1,521.3
Number of franchised restaurants	1,117	1,038	1,117	1038
Contribution from Franchise segment	\$25.7	\$20.0	\$72.8	\$60.3
Contribution as a % of Franchise sales	4.2%	3.9%	4.2%	4.0%
Contribution from Food Processing and Distribution	\$4.4	\$3.4	\$9.8	\$8.7
Contribution from Central segment	\$5.2	\$16.2	\$23.3	\$42.0
Contribution as a % of Total System Sales	0.6%	2.4%	0.9%	2.1%
Contribution from Central segment (excluding net royalty expense)	\$8.8	\$16.2	\$31.8	\$42.0
Contribution as a % of Total System Sales	1.0%	2.4%	1.3%	2.1%
Total gross revenue	\$312.4	\$205.9	\$871.3	\$598.8
Operating EBITDA before Keg royalty	\$56.0	\$48.0	\$163.6	\$132.5
Operating EBITDA Margin on Total System Sales before Keg royalty	6.4%	7.0%	6.5%	6.6%

Operating EBITDA	\$52.4	\$48.0	\$155.0	\$132.5
Operating EBITDA Margin on System Sales	6.0%	7.0%	6.2%	6.6%
Operating EBITDA Margin	16.8%	23.3%	17.8%	22.1%
Earnings before income taxes	\$31.4	\$30.4	\$89.2	\$79.5
Net earnings	\$23.8	\$21.2	\$64.8	\$82.5
Adjusted net earnings	\$32.1	\$28.4	\$88.3	\$80.5
Earnings per share from continuing operations attributable to common shareholders (in dollars)				
Basic EPS	\$0.38	\$0.35	\$1.05	\$1.38
Diluted EPS	\$0.37	\$0.34	\$1.01	\$1.33
Adjusted Basic EPS	\$0.51	\$0.48	\$1.43	\$1.35
Adjusted Diluted EPS	\$0.50	\$0.46	\$1.38	\$1.30

(1) See "Non-IFRS Measures" for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Adjusted Net Earnings, Adjusted Basic EPS and Adjusted Diluted EPS

(2) East Side Mario restaurants in the United States are excluded from System Sales totals

(3) Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States, Casey's restaurants are excluded from SRS Growth

The Company's unaudited interim unaudited consolidated financial statements for the 13 and 39 weeks ended September 30, 2018 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at www.sedar.com.

Outlook

Management is pleased with the third quarter results and continued growth in all segments, Operating EBITDA and SRS. In the third quarter, Total Systems Sales grew \$195.1 million or 28.5% to \$879.8 million, Operating EBITDA before the net royalty expense increased 9.3% to \$52.4 million with a contribution margin of 6.0% as a percentage of Total System Sales, and Adjusted Net Earnings increased to \$32.1 million.

With the full year impact of The Keg merger, the Company will add approximately \$612.0 million in System Sales, taking the Company to approximately \$3.4 billion in 2018 compared to the initial 2015 IPO target range for 2020-2022 of \$2.5 billion to \$3.0 billion, and the updated target range provided in 2016 after the St-Hubert acquisition of \$2.9 billion to \$3.7 billion. For a full year on a pro forma basis using prior year results, The Keg merger will add approximately \$23.5 million of Operating EBITDA resulting in combined proforma Operating EBITDA of approximately \$211.0 million, also within Recipe's updated target EBITDA range of \$203.0 million to \$296.0 million (based on 7% to 8% of System Sales). However, while The Keg will add EBITDA dollars, because of net central overhead costs and royalty payments to the Keg Royalty Income Fund in the medium term, The Keg merger will reduce Recipe's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

Management provides the following comments regarding its strategies and initiatives:

- **System Sales and SRS Growth** — Management is pleased with total System Sales growth of 28.5% for the quarter and with SRS of 1.8% for the quarter, which is after the estimated impact of 0.3% from the malware incident.

Management continues to focus on long-term profitable SRS growth with both short and long term strategies to improve SRS with focus on 4 Pillars - Quality of Food, Quality of Service, Value for Experience, and Ambience. Sales growth initiatives also include new and improved e-commerce applications that will be expanded to most brands over the next 2 years, effective use of technology to enhance Guest experiences and efficiencies, and brand specific digital-social media marketing.

- **Total Operating EBITDA** — The combined contributions from Corporate, Franchise, Food Processing and Distribution, and Central segments resulted in Total Operating EBITDA margin of 6.0% for the quarter compared to 7.0% in 2017. Excluding the impact from the shift in overhead bonus accrual expenses and the net royalty to the Keg Royalties Income Fund, total Operating EBITDA margin was 6.7% for the quarter. While The Keg will add EBITDA dollars, because of net central overhead costs and royalty payments to the Keg Royalty Income Fund in the medium term, The Keg merger will reduce Recipe's Operating EBITDA margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

- **Corporate restaurant profitability** — Corporate restaurant profitability was 10.8% for the quarter compared to 10.6% in 2017. The improvement during the quarter was mostly from the addition of The Keg which operates within our target range. Management believes there is significant opportunity for improved contribution in the future from Original Joe's and Pickle Barrel as Management realizes operating synergies from lower food and beverage costs and better labour management tools. Contribution will also improve as renovated restaurants re-open at higher sales levels and from the sale of certain corporate restaurants in franchise banners.

Management will continue to pursue the sale of certain corporate restaurants in its franchise banners to franchisees and will pursue the sale of its share in joint venture locations to the Company's joint venture partners to convert joint venture locations to franchise to improve the corporate-franchise portfolio mix. During the 39 weeks ended September 30, 2018, 15 corporate restaurants were sold and re-franchised and 8 joint venture restaurants were franchised.

- **Franchise segment** — Franchise contribution as a percentage of franchise sales has improved to 4.2% in the third quarter of 2018 compared to 3.9% in 2017. The increase is primarily related to the addition of The Keg which collects average royalties over 5%.
- **Food processing and distribution** — Contribution dollars from food processing and distribution was \$4.4 million and \$9.8 million for the 13 and 39 weeks ended September 30, 2018, compared to \$3.4 million in and \$8.7 million in 2017. A new pie production line was added in the third quarter which will increase capacity and enable the Company to meet the increased demand for its St-Hubert and Swiss Chalet frozen pie products with less reliance on higher cost third party producers.
- **Central segment** — The addition of The Keg has added net central overhead costs, including the royalty payments to the Keg Royalty Income Fund, thus reducing central contribution as a percentage of System Sales. Management will work towards realizing synergy opportunities with the companies acquired, expand our off premise business, including catering with the addition of Pickle Barrel, and we will continue to improve on our model for growing sales faster than head office expenses, and realizing earnings efficiency on higher system sales.
- **Restaurant Count** — In the 39 weeks ended September 30, 2018, excluding the acquisitions, the Company opened 39 new restaurant locations as compared to 35 in 2017. Year to date the Company closed 46 restaurants (excluding Casey's closures) compared to 35 closures in 2017. Included in the closures were underperforming locations where the closure will benefit the overall system performance and the Company's profitability going forward. Closures also included locations that no longer fit the long term strategy of certain brands. Management will continue to review its portfolio of restaurants and will opportunistically close underperforming or non-strategic locations that will benefit the Company long term. Management expects to achieve positive net new restaurants openings in the fourth quarter and for the full year ended 2018.
- **The Keg merger initiatives** — Management is focused on realizing synergy opportunities from The Keg merger to improve our combined earnings and earnings efficiency. Management is also excited to add the influence of David Aisenstat to the Milestones, Bier Markt and Landing premium brands.
- **Retail opportunities** — Since the acquisition of St-Hubert in 2017, the Company has successfully launched a number of products, including Swiss Chalet ribs and pot pies, across the country in grocery chains. During the third quarter, the Company completed the addition of a pie manufacturing line which will increase production of frozen pot pies and reduce third party costs to meet sales demand. Management is pursuing the launch of several more Recipe branded retail products to expand its retail presence in national grocery chains.
- **Growth and acquisitions** — The Company currently has a debt to EBITDA ratio of approximately 1.94x. At this debt level, and with strong cash flow from operations, the Company has the ability to consider more growth opportunities while continuing to reduce its debt, and by opportunistically repurchasing its subordinate voting shares for cancellation under the NCIB. During the 13 and 39 weeks ended September 30, 2018, the Company purchased and cancelled 27,700 and 66,237 Subordinate Voting Shares for \$0.7 million and \$1.7 million, respectively, under the Company's NCIB program.

The foregoing description of Recipe's outlook is based on management's current strategies and its assessment of the outlook for the business and the Canadian Restaurant Industry as a whole, may be considered to be forward-looking information for purposes of applicable Canadian securities legislation. Readers are cautioned that actual results may vary. See "Forward-Looking Information" and "Risk & Uncertainties" for a description of the risks and uncertainties that impact the Company's business and that could cause actual results to vary.

Non-IFRS Measures

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 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. The Company uses non IFRS measures including "System Sales", "SRS Growth", "Operating EBITDA", "Operating EBITDA Margin", "Operating EBITDA Margin on System Sales", "Adjusted Earnings before income tax", "Adjusted Earnings", "Adjusted Basic EPS", and "Adjusted Diluted EPS", to provide investors with supplemental measures of its 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 in the evaluation of issuers. The Company's management also uses non IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets, and to determine components of management compensation.

"System Sales" represents top line sales from restaurant guests at both corporate and franchise restaurants including take out and delivery customer orders. System Sales includes sales from both established restaurants as well as new restaurants. System sales also includes sales received from its food processing and distribution division. Management believes System Sales provides meaningful information to investors regarding the size of Recipe's restaurant network, the total market share of the Company's brands sold in restaurant and grocery and the overall financial performance of its brands and restaurant owner base, which ultimately impacts Recipe's consolidated financial performance.

"System Sales Growth" is a metric used in the restaurant industry to compare System Sales over a certain period of time, such as a fiscal quarter, for the current period against System Sales in the same period in the previous year.

"SRS Growth" is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period against sales in the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Recipe defines SRS Growth as the percentage increase or decrease in sales during a period of restaurants open for at least 24 complete fiscal months relative to the sales of those restaurants during the same period in the prior year. Recipe's SRS Growth results excludes Casey's restaurants as the Company is in the process of winding down its operations; and sales from international operations from 44 New York Fries and 3 US East Side Mario's.

"EBITDA" is defined as net earnings (loss) before: (i) net interest expense and other financing charges; (ii) income taxes; (iii) depreciation of property, plant and equipment; (iv) amortization of other assets and deferred gain.

"Operating EBITDA" is defined as net earnings (loss) before: (i) net interest expense and other financing charges; (ii) income taxes; (iii) depreciation of property, plant and equipment; (iv) amortization of other assets and deferred gain; (v) impairment of assets, net of reversals; (vi) losses on early buyout / cancellation of equipment rental contracts; (vii) restructuring and other; (viii) conversion fees; (ix) net (gain) / loss on disposal of property, plant and equipment; * stock based compensation and costs related to its restricted share units; (xi) changes in onerous contract provision; (xii) expense impact from fair value inventory adjustment resulting from the St-Hubert purchase relating to inventory sold during the period; (xiii) acquisition related transaction costs; (xiv) change in fair value of non-controlling interest liability; (xv) change in fair value of Exchangeable Partnership units; (xvi) the Company's proportionate share of equity accounted investment in joint ventures; and (xvii) interest income from the Partnership units.

"Operating EBITDA Margin" is defined as Operating EBITDA divided by total gross revenue.

"Operating EBITDA Margin on System Sales" is defined as Operating EBITDA divided by System Sales.

"Adjusted Net Earnings" is defined as net earnings plus (i) deferred income tax expense (reversal); (ii) non-cash amortization of inventory fair value increases related to inventory sold during the period resulting from the St-Hubert purchase determined at acquisition date; (iii) change in fair value of non-controlling interest liability; (iv) change in fair value of Exchangeable Partnership units; (v) one-time transaction costs; (vi) non-cash impairment charges; and (vii) restructuring and other.

"Adjusted Basic EPS" is defined as Adjusted Net Earnings divided by the weighted average number of shares outstanding.

"Adjusted Diluted EPS" is defined as Adjusted Net Earnings divided by the weighted average number of shares outstanding plus the dilutive effect of stock options and warrants issued.

Forward-Looking Information

Certain statements in this press release may constitute "forward-looking" statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this press release, such statements use words such as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this news release. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company's ability to maintain profitability and manage its growth including SRS Growth, System Sales Growth, increases in net income, Operating EBITDA and Operating EBITDA Margin on System Sales, and Adjusted net earnings (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading "Risk Factors" in the Company's Annual Information Form dated March 29, 2018. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this press release are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this press release.

Related Communications

Frank Hennessey, Chief Executive Officer and Ken Grondin, Chief Financial Officer, will hold an investor conference call to discuss 2018 third quarter results at 9:00 am Eastern Time on Friday November 9, 2018.

To access the call, please call (647) 427-7450 or 1-888-231-8191, five to ten minutes prior to the start time. The conference ID is 5817279. A telephone replay of the call will be available until midnight on December 7, 2018. To access the replay, please dial (416) 849-0833 or 1-855-859-2056 and enter passcode 5817279.

About Recipe

Founded in 1883, Recipe Unlimited Corporation (formerly Cara Operations) is Canada's oldest and largest full-service restaurant company. The Company franchises and/or operates some of the most recognized brands in the country including Swiss Chalet, Harvey's, St-Hubert, The Keg, Milestones, Montana's, Kelsey's, East Side Mario's, New York Fries, Prime Pubs, Bier Markt, Landing, Original Joe's, State & Main, Elephant & Castle, The Burger's Priest, The Pickle Barrel and 1909 Taverne Moderne.

Recipe's iconic brands have established the organization as a nationally recognized franchisor of choice. As at September 30, 2018, Recipe had 1,370 restaurants, 1,311 of which were located in Canada and the remaining 59 locations were located internationally. 85% of Recipe's restaurants are operated by franchisees and joint venture partners. Recipe's shares trade on the Toronto Stock Exchange under the ticker symbol RECP. More information about the Company is available at www.recipeunlimited.com.

SOURCE Recipe Unlimited Corp.

For further information: Investor Relations: Recipe Unlimited Corporation, Ken Grondin, (905) 760-2244, Chief Financial Officer, Email: kgrondin@recipeunlimited.com or investorrelations@recipeunlimited.com

