Recipe Unlimited Reports Q1 2020 Results

VAUGHAN, ON, May 7, 2020 /CNW/ - Recipe Unlimited Corporation reported financial results today for the 13 weeks ended March 29, 2020.

"I want to thank all of our "front-line" staff and franchisees who have been preparing meals and serving guests since the mid-March shutdown of dining rooms. It is heartwarming to see the countless acts of charitable giving that our franchisees and fellow associates have undertaken by donating their time, money and/or food back to their communities. The true character of our teammates is coming through and we are extremely proud of all of them," commented Frank Hennessey, CEO of Recipe Unlimited.

"Our previous investments in both technology and operational enhancements to improve the Guest experience through our off-premise channels, has allowed us to quickly respond to the dramatic change in channel sales. We have developed a "blueprint" for reopening and have been working with both industry and government on the best ways to restart our dining rooms to once again allow Canadians to be social while also being safe. For 137 years we have built trust with Canadians through our iconic brands. While this event continues to cause uncertain economic times for our industry, we are confident that the actions we have taken throughout this event to keep our associates and our Guests safe, while still delivering great food and service, will build upon that foundation of trust and propel us to a brighter future," added Frank Hennessey.

Impact of COVID-19

In the first quarter of 2020 the Company was impacted by the COVID-19 pandemic and the corresponding government mandated closures of non-essential services. As a consequence, 42% of our Canadian corporate and franchise restaurants were completely closed in mid-March and 58% of restaurant locations remained partially open for off-premise (take out and delivery) sales. In addition, the Company's Retail and Catering divisions remained open as an essential service continuing to supply branded and private label products to grocery customers.

In response to the COVID-19 disruption, the Company closed its central office locations and implemented remote work from home protocols, focused on off-premise sales and delivery channels with revised menus, e-commerce platform enhancements and opened a new "Ultimate Kitchen" to offer multi-brand off-premise choices for delivery to customers from a single kitchen. In conjunction with government wage subsidy programs available to the Company and to laid off employees, the Company laid off most restaurant level associates and adjusted the work and compensation arrangements for all central associates. For all corporate and franchise restaurants and central leases, the Company is negotiating rent deferral or reductions for the COVID-19 disruption period. In addition, the Company has suspended the payment of dividends for the balance of 2020, suspended share buybacks, and has implemented cost reductions and/or deferrals, including salary reductions for management and the suspension of board fees.

Regarding the Company's franchise network, effective mid-March 2020 the Company suspended collections of all fees from franchisees including April 1st rent. The Company is working with each franchisee to arrange lender accommodations and expanded credit facilities and the Company is working with each franchise landlord to arrange rent deferrals or reductions for the COVID-19 disruption period.

On March 17, 2020 the Company drew $300.0 million on it's revolving credit facility to provide liquidity during the COVID-19 period. In addition, the Company has amended its lending covenants with both its syndicated lenders and private note holders. The covenant amendments are effective through Q3 2021 and are expected to be responsive to the financial impacts from continued dining room closures and gradual System Sales recoveries as guests return to restaurants. While the actions taken to provide liquidity and to amend debt covenants are considered sufficient for the foreseeable future, the future effect of COVID-19 on the economy and businesses, in general, remains uncertain.

The medium and long term impact to the Company from COVID-19 will depend on the length of time restaurants are closed, the financial solutions achieved with government, lenders, franchisees, and landlords, post COVID-19 consumer dining behaviours, and the macro impact on the overall economy, in particular household debt and levels of disposable income. Potential financial solutions which may be required include, but are not limited to, obtaining sufficient financial support from government(s) for the Company and its franchisees, lenders, and obtaining rent relief from landlords.

The first quarter financial impact of COVID-19 is summarized as follows:

	Q1 - 2020			Q1 - 2019
(C$ millions unless otherwise stated)	**13 weeks ended March 29 2020**	**Impact of COVID-19**	**Q1 excluding the impact of COVID-19**	**13 weeks ended March 31 2019**
System Sales [2]	**$ 747.2**	**$ 109.5**	**$ 856.7**	**$ 850.7**
Sales	$ 229.8	$ 33.2	$ 263.0	$ 259.5
Franchise revenues	40.2	4.3	44.5	45.2
Total gross revenue[1]	**$ 269.9**	**$ 37.5**	**$ 307.5**	**$ 304.6**
Cost of inventories sold	(103.0)	0.9	(102.1)	(108.5)
Selling, general and administrative expenses [1]	(162.6)	9.6	(153.0)	(164.9)
Impairment of assets, net of reversals	(16.3)	16.3	—	—
Restructuring and other	1.1	—	1.1	0.2
Operating income (loss) [1]	**$ (10.7)**	**$ 64.2**	**$ 53.5**	**$ 31.5**
Net interest expense and other financing charges	(6.4)	—	(6.4)	(4.5)
Share of gain (loss) from investment in joint ventures	0.1	—	0.1	(0.6)
Earnings (loss) before change in fair value and income taxes [1]	**$ (17.0)**	**$ 64.2**	**$ 47.2**	**$ 26.5**
Change in fair value of exchangeable Partnership units and Keg Royalty Income Fund units	(33.1)	33.1	—	4.8
Earnings (loss) before income taxes [1]	**$ (50.1)**	**$ 97.3**	**$ 47.2**	**$ 31.3**
Income taxes	8.8	(25.8)	(17.0)	(1.5)
Net earnings (loss)[1]	**$ (41.2)**	**$ 71.5**	**$ 30.2**	**$ 22.7**
Operating EBITDA [1]	**$ 20.5**	**$ 27.0**	**$ 47.5**	**$ 50.1**

(1) Figures may not total due to rounding.
(2) See "Non-IFRS Measures" on page 29 of the Company's MD&A for definitions of Free Cash Flow, System Sales, SRS, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, and Adjusted EPS. See pages 8 and 29 for a reconciliation of Net Earnings to these Non-IFRS measures.

Highlights for the 13 weeks ended March 29, 2020:

- System Sales[1] for the 13 weeks ended March 29, 2020 decreased $103.5 million to $747.2 million compared to $850.7 million in 2019, representing a decrease of 12.2%. The decrease in System Sales is primarily related to slow down in restaurant sales in the first half of March leading up to the government mandated restaurant closures during the second half of March, partially offset by sales increases in the Retail and Catering segment. Management will not be reporting and commenting on Same Restaurant Sales ("SRS")[1] because the Company's definition of SRS and method that it is calculated does not represent a true reflection of actual performance. Total System Sales changes will be more relevant in this and subsequent quarters.

- Gross revenues for the 13 weeks ended March 29, 2020 was $269.9 million compared to $304.6 million, a decrease of $34.7 million or 12.9%. During the mandatory COVID-19 shutdown, the Company continues to generate revenues from its Retail and Catering segment selling product to grocery customers; sales from corporately owned restaurants and its catering segment with its off premise takeout and delivery options; royalties at reduced rates from franchised restaurants also open with off premise options; plus fees from the Company's off-premise call centre business.

- Operating EBITDA[1] for the 13 weeks ended March 29, 2020 decreased to $20.5 million compared to $50.1 million in 2019, a decrease of $29.6 million or 59.1%. The decrease for the quarter was primarily driven by the $27.0 million impact of COVID-19 from the decline in System Sales, and the corresponding gross revenue decrease of $37.5 million, restaurant closure costs including food spoilage and employee termination costs at corporate restaurants of $10.5 million, partially offset by sales increases in the Retail and Catering segment. Cost saving measures, including salary reductions, rent and other overhead cost reductions, government programs such as the wage subsidies will be realized in the second quarter to offset the decreases in gross revenues.

- Operating EBITDA Margin on System Sales[1] for the 13 weeks ended March 29, 2020 was 2.7% compared to 5.9% in 2019. The change in margin rate was primarily driven by System Sales declines in the month of March and restaurant closure costs as a result of COVID-19.

- Contribution from Retail and Catering for the 13 weeks ended March 29, 2020 was $7.6 million compared to $8.2 million in 2019, a decrease of $0.6 million or 7.3%. The decrease was driven primarily by reduced sales to restaurants in the month of March partially offset by increased sales to retail grocery customers at lower gross margin rates prior to the COVID-19 disruption.

- At the end of the first quarter, the Company opened its first "Ultimate Kitchen" concept in Toronto. The Ultimate Kitchen is a delivery only concept offering customers greater choice from the ability to order from multiple brands on the same order or to simply order from a specific brand. The Ultimate Kitchen represents a significant opportunity for future growth and expansion for Recipe. It is on-point with the shift in consumer behaviour; it is a viable option for us to serve markets where it may otherwise be cost prohibitive to build a traditional restaurant and its focus on a single channel will enable us to better serve our Guests while being profitable. The Company intends to open up to 4 Ultimate Kitchens in 2020.

- Net earnings (loss) were $(41.2) million for the 13 weeks ended March 29, 2020 compared to $22.7 million in 2019, representing a decrease of $63.9 million. The $63.9 million decrease was primarily driven by the decrease in Operating EBITDA of $29.6 million ($27.0 million due to COVID-19), decrease in fair value of Exchangeable Keg Partnership units of $37.9 million due to COVID-19, a non-cash impairment charge of $16.3 million (due to COVID-19), partially offset by a decrease in net income tax expense of $17.4 million.

- Adjusted Basic EPS for the 13 weeks ended March 29, 2020 was $0.13 compared to $0.30 in 2019, a decrease of $0.17 or 56.1%. Adjusted Diluted EPS for the 13 weeks ended March 29, 2020 was $0.13 compared to $0.29 in 2019, a decrease of $0.16 or 54.6%.

- Free Cash Flow[1] per share before growth capex, dividends, and NCIB on a diluted basis was $(0.08) for the 13 weeks ended March 29, 2020, compared to $0.56 in 2019.

- Free Cash Flow[1] before growth capex, dividends, and share repurchases under the Company's normal course issuer bid ("NCIB") for the 13 weeks ended March 29, 2020 was $(4.3) million compared to $35.5 million in 2019.

	For the 13 weeks ended	
(C$ millions unless otherwise stated)	**March 29, 2020**	**March 31, 2019**
	(unaudited)	(unaudited)
Total System Sales	$ 747.2	$ 850.7
System Sales Growth [1]	(12.2)%	12.5%
Total number of restaurants (at period end)	1,363	1,373
Operating EBITDA [1]	**$ 20.5**	**$ 50.1**
Operating EBITDA on System Sales	2.7%	5.9%
Corporate restaurant sales	$ 158.1	$ 192.6
Number of corporate restaurants (at period end)	203	202
Contribution from Corporate segment	**$ (0.4)**	**$ 18.5**
Contribution as a % of corporate sales	(0.3)%	9.6%
Franchise restaurant System Sales	$ 508.6	$ 581.3
Number of franchised & JV restaurants	1,160	1,171
Contribution from Franchise segment	**$ 21.9**	**$ 25.5**
Contribution as a % of Franchise sales	4.3%	4.4%
Retail and Catering sales	$ 75.9	$ 72.5
Contribution from Retail and Catering	**$ 7.6**	**$ 8.2**
Contribution as a % of Retail & Catering sales	10.1%	11.3%
Contribution from Central segment (excluding net royalty expense)	**$ (5.7)**	**$ 1.8**
Contribution as a % of total System Sales	(0.8)%	0.2%
Total gross revenue	$ 269.9	$ 304.6
Operating EBITDA Margin on gross revenue	7.6%	16.4%
Earnings (loss) before income taxes	**$ (50.1)**	**$ 31.3**
Net earnings (loss)	$ (41.2)	$ 22.7
Adjusted Net Earnings [1]	**$ 7.3**	**$ 18.3**
EPS attributable to common shareholders of the Company (in dollars)		
Basic EPS (in dollars)	$ (0.73)	$ 0.36

Diluted EPS (in dollars)	$ (0.73)	$ 0.35
Adjusted Basic EPS [1] (in dollars)	**$ 0.13**	**$ 0.30**
Adjusted Diluted EPS [1] (in dollars)	**$ 0.13**	**$ 0.29**
Free Cash Flow before growth capex, dividends and NCIB [1]	$ (4.3)	$ 35.5
Free cash flow Per Share - Basic (in dollars)	$ (0.08)	$ 0.58
Free cash flow Per Share - Diluted (in dollars)	$ (0.08)	$ 0.56

(1) Results from East Side Mario restaurants in the United States are excluded in the System Sales totals and number of restaurants. See "Non-IFRS Measures" on page 29 of the Company's MD&A for definition of System Sales.
(2) 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. See "Non-IFRS Measures" on page 29 of the Company's MD&A for definition of SRS Growth.
(3) See "Non-IFRS Measures" on page 29 of the Company's MD&A for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA on System Sales.

The Company's unaudited condensed consolidated interim financial statements for the 13 weeks ended March 29, 2020 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at www.sedar.com

Outlook

The effects of COVID-19 on many businesses, especially restaurants, have been unexpected, sudden and unprecedented. Early estimates from industry data indicates food service sales in Canada have fallen by over 60%. The future effect of COVID -19 on the economy and businesses, in general, remains uncertain. The path that governments will follow in easing restrictions on business operations, and in particular restaurants, is yet to be determined and could last many months. It is also unclear how quickly consumer demand will resume or what capacity restraints may be enforced by various government authorities. Various levels of government have announced a number of important programs which are expected to be helpful to the success of individual restaurant businesses, including the Company's franchisees.

While the actions taken to provide liquidity during the COVID-19 period are considered sufficient for the foreseeable future, the future effect of COVID-19 on the economy and businesses, in general, remains uncertain. The medium and long term impact to the Company from COVID-19 will depend on the length of time restaurants are closed, the financial solutions achieved with government, lenders, franchisees, and landlords and post COVID-19 consumer dining behaviours. Potential financial solutions which may be required include, but are not limited to, obtaining sufficient financial support from government(s) for the Company and its franchisees, and obtaining rent relief from landlords.

Management expects that post COVID-19, the restaurant industry will be very different. There will be less restaurant seats in the market from competitors that will not re-open and from changes in consumer behaviour. Management believes it is well positioned with certain brands to build on its off-premise (takeout and delivery) and retail channels because of its established business platforms (IT investments in digital apps for online ordering, relationships with grocery chains).

Management will be redefining its key initiatives and priorities for the balance of fiscal 2020, as it evaluates the impact of COVID-19 on its business and the changes the Company will need to implement in response to the expected changes in consumer behaviour. During the mandatory COVID-19 shutdown, the Company continues to generate revenues from its Retail segment selling product to grocery customers; sales from corporately owned restaurants and its catering segment with its off premise takeout and delivery options; royalties at reduced rates from franchised restaurants also open with off premise options; and earn fees from the Company's off-premise call centre business.

Focus on the short to medium term will include:

- Working with government and industry on a blueprint for reopening dining rooms while still maintaining social distancing protocols with focus on keeping our associates and guests safe;

- Manage and improve the long-term health of its network & restaurant profitability such as providing tools and guidance to government assistance programs, reducing lease costs with landlords, reducing and/or deferring non-essential restaurant costs, and working with our franchise lending partners to defer franchisee rent payments and to ensure our franchisees have full access to the emergency loan programs that the government has introduced in response to COVID-19;

- Actively negotiating early exit and permanent closure of under-performing restaurants that were identified at year end;

- Expand the Company's off premise business and retail business into brands other than Swiss Chalet, St-Hubert and East Side Mario's;

- Reduce and adjust overhead cost structure in response to slower growth and revenue reductions, including salary reductions, rent and overhead cost reductions, and taking advantage of government initiatives like the wage subsidy to help offset the reduction in revenues. The Company will quality for the government wage subsidy and the landlord rent subsidy that were announced in April, recoveries which will be reported in the second quarter results.

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", "EBITDA", "Operating EBITDA", "Operating EBITDA Margin", "Operating EBITDA Margin on System Sales", "Adjusted Net Earnings", "Adjusted Basic EPS", and "Adjusted Diluted EPS", and "Free Cash Flow" 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 37 New York Fries and 3 East Side Mario's.

"**EBITDA**" is defined as net earnings 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 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, costs related to its restricted share units, and one-time cash payments related to the exercise and settlement of stock options; (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; (xvii) interest income from the Partnership units; and the rent expense impact related to the implementation of IFRS 16, "Leases".

"**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.

"**Free Cash Flow before capex, dividends and NCIB**" is defined as Operating EBITDA less (i) cash interest paid; (ii) maintenance capex; and (iii) cash taxes paid.

"**Free Cash Flow after capex, dividends and NCIB**" is defined as Operating EBITDA less (i) cash interest paid; (ii) maintenance capex; (iii) cash taxes paid; (iv) growth capex; (vi) dividends paid; (vi) shares repurchased under the NCIB; and (vii) proceeds from sale of assets.

"**Adjusted Net Earnings**" is defined as net earnings plus (i) change in fair value of non-controlling interest liability; (ii) change in fair value of Exchangeable Partnership units; (iii) one-time transaction costs; (iv) non-cash impairment charges; (v) restructuring and other; (vi) amortization of unearned conversion fees income; (vii) losses on early buyout/cancellation of equipment rental contracts; (viii) net gain on disposal of property, plant and equipment and other assets; and (ix) write-off of deferred financing fees.

"**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 RSUs.

Forward-Looking Information

The financial performance of the Company is subject to a number of factors that affect the commercial food service industry generally and the full-service restaurant and limited-service restaurant segments of this industry in particular. The Canadian restaurant industry is intensely competitive with respect to price, value proposition, service, location and food quality. There are many well-established competitors, including those with greater financial and other resources than the Company. Competitors include national and regional chains, as well as numerous individually owned restaurants. Recently, competition has increased in the mid-price, full-service, casual dining segment of this industry in which many of the Company's restaurants operate. Some of the Company's competitors may have restaurant brands with longer operating histories or may be better established in markets where the Company's restaurants are located or may be located. If the Company is unable to successfully compete in the segments of the Canadian Restaurant industry in which it operates, the financial condition and results of operations of the Company may be adversely affected.

The Canadian restaurant industry business is also affected by changes in demographic trends, traffic patterns, and the type, number and locations of competing restaurants. In addition, factors such as inflation, increased food, labour and benefit costs, and the availability of experienced management and hourly employees may adversely affect the restaurant industry in general and the Company in particular. Changing consumer preferences and discretionary spending patterns and factors affecting the availability of certain foodstuffs could force the Company to modify its restaurant content and menu and could result in a reduction of revenue. Even if the Company is able to successfully compete with other restaurant companies, it may be forced to make changes in one or more of its concepts in order to respond to changes in consumer tastes or dining patterns. If the Company changes a restaurant concept, it may lose additional customers who do not prefer the new concept and menu, and it may not be able to attract a sufficient new customer base to produce the revenue needed to make the restaurant profitable. Similarly, the Company may have different or additional competitors for its intended customers as a result of such a concept change and may not be able to successfully compete against such competitors. The Company's success also depends on numerous other factors affecting discretionary consumer spending, including general economic conditions, disposable consumer income, consumer confidence and consumer concerns over food safety, the genetic origin of food products, public health issues and related matters. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could reduce revenue and operating income, which would adversely affect the Company.

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About Recipe

Founded in 1883, RECIPE Unlimited Corporation 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, Marigolds & Onions, and 1909 Taverne Moderne.

RECIPE's iconic brands have established the organization as a nationally recognized franchisor of choice. As at March 29, 2020, Recipe had 24 brands and 1,363 restaurants, 85% of which are operated by franchisees and joint venture partners, operating in 11 countries (Canada, USA, Bahrain, China, India, Macao, Oman, Panama, Qatar, Saudi Arabia and the UAE. 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.

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