Cara Operations Unlimited

Recipe Unlimited Reports Q2 2020 Results

VAUGHAN, ON, Aug. 6, 2020 /CNW/ - Recipe Unlimited Corporation reported financial results today for the 13 and 26 weeks ended June 28, 2020.

Statement from Frank Hennessey, CEO:

"From the beginning of this crisis, we have focused on the long term financial health of our franchisees and we are confident that the actions taken throughout this event (including the introduction of Recipe's rent certainty program, royalty subsidy and franchisee payment deferrals), will build and protect the long term health of our brands and our franchisees. Further, this support enabled our franchisees to make necessary investments required to be able to reopen our restaurants safely and provide our guests with the great experiences they have been missing. Our previous investments in both technology and operational enhancements in our take-out and delivery channels, combined with our expansion in retail grocery (including St. Hubert, The Keg, Swiss Chalet, and Montana's), enabled us to quickly respond to support the tremendous demand that was placed upon those channels in the second quarter.

I want to thank all of our "front-line" staff and franchise partners who have been preparing meals and serving guests, while taking all necessary safety precautions. The true character of our teammates is coming through and we are extremely proud of all of them. Restaurants and in particular, full-service restaurants, play a vital role in the fabric of our communities. We believe that Recipe is well positioned to increase our market share by focusing on our four pillars of high quality food, high quality of service, value for the experience and providing an ambience that demonstrates to guests what they have missed."

Impact of COVID-19

The Company was deeply impacted by the COVID-19 pandemic and the corresponding restaurant closures. In the second quarter, system sales decreased to $389.8 million or 55.3% from 2019. While restaurants were closed or partially closed during the second quarter, we experienced a dramatic increase in demand in our off-premise and retail channels. Off-premise revenues increased by 55.1% from 2019, while the number of off-premise orders increased to 6.8 million orders, representing a 42.6% increase from prior year. Total contribution from our Retail and Catering segment was $14.8 million in the second quarter, representing an increase of 105.6% from 2019.

From the onset of the crisis, the Company has been focused on the long term financial health of our franchise partners and has introduced a number of initiatives to provide direct support to our franchisees through to the end of 2020, including:

- The Recipe rent certainty program to assist its franchise partners with direct rent support (estimated to cost Recipe approximately $35 million in 2020);
- A temporary royalty reduction program, which reduced royalty rates by 1%; and
- Working with each franchisee to arrange lender accommodations and expanded credit facilities

In addition, Recipe has taken substantial measures to strengthen the Company's financial flexibility during the COVID-19 disruption period, including:

- In March 2020, the Company drew $300.0 million on its revolving credit facility to provide liquidity during the COVID-19 period;
- In May 2020, the Company amended its lending covenants with its banking syndicate and private noteholders. These actions are expected to provide additional liquidity and covenant flexibility during the COVID-19 shutdown and recovery periods;
- The Company suspended its NCIB share buyback program and dividend payments for the balance of 2020;
- The Company suspended many central, new store development and corporate store renovation plans;
- The Company implemented various cost reduction measures, including temporary salary reductions and suspension of board fees, resulting in cost savings of $2.1 million;
- The Company restructured certain head office positions, which is expected to generate annual cost savings of approximately $2.6 million;
- For all corporate and franchise restaurants and central leases, the Company is continuing to negotiate rent deferral or reductions for the COVID-19 disruption period and is applying for CECRA rent subsidies with landlords where applicable; and
- The Company is participating in the CEWS wage subsidy program where applicable.

As of June 28, 2020, many of the Company's corporate and franchise restaurants have gradually re-opened according to the staged approach as set out by the Canadian government. At the end of the second quarter, 90.7% of restaurant locations (or 1,228 locations) have safely re-opened or partially re-opened for off-premise sales and/or patio dining, and 9.3% of our Canadian corporate and franchise restaurants (or 126 locations) remained completely closed. During the second quarter, the Company also funded $0.8 million for the purchase of personal protective equipment for both corporate and franchise locations, to ensure the health and safety of our staff and customers. As the Company moves into the recovery phase of the COVID-19 disruption period, we will continue to make the necessary investments to ensure that our corporate and franchise restaurants can operate safely.

Highlights for the 13 weeks ended June 28, 2020:

- System Sales(1) for the 13 weeks ended June 28, 2020 decreased $481.5 million to $389.8 million compared to $871.3 million in 2019, representing a decrease of 55.3%. The decrease in System Sales is primarily related to a decline in restaurant sales as a result of the government mandated restaurant closures during the quarter, 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 June 28, 2020 was $140.4 million compared to $311.9 million, a decrease of $171.5 million or 55.0%. 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.

- Off-premise System Sales for the 13 weeks ended June 28, 2020 was $123.7 million compared to $79.7 million, an increase of $44.0 million or 55.1%. The number of off-premise orders for the 13 weeks ended June 28, 2020 was 6,819,853, compared to 4,781,548 , an increase of 2,038,305 orders or 42.6%. The increase in off-premise orders reflects a change in consumer behaviour during the COVID-19 disruption period. This change in consumer behaviour is expected to continue and the Company is well positioned with certain brands to build on its off-premise channels because of its established IT platforms.

- Contribution from Retail and Catering for the 13 weeks ended June 28, 2020 was $14.8 million compared to $7.2 million in 2019, an increase of $7.6 million or 105.6%. The increase was driven by increased sales to retail grocery customers at higher gross margin rates after the benefit and wage subsidies.

- Operating EBITDA(1) for the 13 weeks ended June 28, 2020 decreased to $15.6 million compared to $56.0 million in 2019, a decrease of $40.4 million or 72.1%. The decrease for the quarter was primarily driven by the impact of COVID-19, which reflects the decline in System Sales as a result of mandatory restaurant closures. The net decrease in operating EBITDA was partially offset by lower SG&A costs as a result of mandatory restaurant closures, government wage subsidies, and various cost saving measures (including temporary suspension of new store development and renovation plans, temporary salary reductions, acceleration of planned closures of underperforming restaurants, and permanent headcount reductions) implemented by the Company.

- Operating EBITDA Margin on System Sales(1) for the 13 weeks ended June 28, 2020 was 4.0% compared to 6.4% in 2019. The change in margin rate was primarily driven by System Sales declines as a result of COVID-19.

- The Company continues to execute the planned closures of restaurants that no longer fit its long-term strategic plan. For the 13 weeks ended June 28, 2020, the Company successfully closed and exited 10 more restaurants, resulting in 28 restaurants being closed in 2020, including 7 corporate, 20 franchise and 1 joint venture locations.

- Net earnings (loss) was ($40.6) million for the 13 weeks ended June 28, 2020 compared to $16.6 million in 2019, representing a decrease of $57.2 million. The $57.2 million decrease was primarily driven by the decrease in Operating EBITDA of $40.4 million, impairment charges of $47.4 million (primarily from the introduction of the Company's $35 million rent certainty program), partially offset by an increase in fair value of Exchangeable Keg Partnership units of $4.1 million and a decrease in net income tax expense of $19.3 million.

- Adjusted Basic EPS for the 13 weeks ended June 28, 2020 was $0.11 compared to $0.38 in 2019, a decrease of $0.27 or 71.1%. Adjusted Diluted EPS for the 13 weeks ended June 28, 2020 was $0.11 compared to $0.37 in 2019, a decrease of $0.26 or 70.2%.

- 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 June 28, 2020 was $3.6 million compared to $40.0 million in 2019.

- Free Cash Flow[1] per share before growth capex, dividends, and NCIB on a diluted basis was $0.06 for the 13 weeks ended June 28, 2020, compared to $0.63 in 2019.

(C$ millions unless otherwise stated)	For the 13 weeks ended June 28, 2020 (unaudited)	For the 13 weeks ended June 30, 2019 (unaudited)
Total System Sales	$ 389.8	$ 871.3
System Sales Growth [1][2]	(55.3) %	(0.3) %
Total number of restaurants (at period end)	1,354	1,384
Operating EBITDA [1]	**$ 15.6**	**$ 56.0**
Operating EBITDA on System Sales	4.0 %	6.4 %
Corporate restaurant sales	$ 37.7	$ 196.2
Number of corporate restaurants (at period end)	206	209
Contribution from Corporate segment	**$ (13.5)**	**$ 20.5**
Contribution as a % of corporate sales	(35.8) %	10.5 %
Franchise restaurant System Sales	$ 266.2	$ 595.9
Number of franchised & JV restaurants	1,148	1,175
Contribution from Franchise segment	**$ 9.1**	**$ 26.9**
Contribution as a % of Franchise sales	3.8 %	4.6 %
Retail and Catering sales	$ 83.0	$ 74.8
Contribution from Retail and Catering	**$ 14.8**	**$ 7.2**
Contribution as a % of Retail & Catering sales	17.8 %	9.6 %
Contribution from Central segment (excluding net royalty expense)	**$ 4.7**	**$ 4.8**
Contribution as a % of total System Sales	1.2 %	0.6 %
Total gross revenue	$ 140.4	$ 311.9
Operating EBITDA Margin on gross revenue	11.1 %	18.0 %
Earnings (loss) before income taxes	**$ (52.7)**	**$ 23.8**
Net earnings (loss)	$ (40.6)	$ 16.6
Adjusted Net Earnings [1]	**$ 6.2**	**$ 23.4**
EPS attributable to common shareholders of the Company (in dollars)		
Basic EPS (in dollars)	$ (0.72)	$ 0.27
Diluted EPS (in dollars)	$ (0.72)	$ 0.26
Adjusted Basic EPS [1] (in dollars)	**$ 0.11**	**$ 0.38**
Adjusted Diluted EPS [1] (in dollars)	**$ 0.11**	**$ 0.37**
Free Cash Flow before growth capex, dividends and NCIB [1]	$ 3.6	$ 40.0
Free cash flow Per Share - Basic (in dollars)	$ 0.06	$ 0.65
Free cash flow Per Share - Diluted (in dollars)	$ 0.06	$ 0.63

(1) See "Non-IFRS Measures" section of the Company's press release for definitions of System Sales, System Sales Growth, SRS Growth, Operating EBITDA, Operating EBITDA Margin, and Operating EBITDA on System Sales.

(2) Results from East Side Mario restaurants in the United States are excluded in the System Sales totals and number of restaurants.

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 Management's actions taken to provide liquidity during the COVID-19 shut down and recovery periods are considered to be 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 or are partially closed, if restaurants are forced to close again after they open, the capacity at which restaurants can operate once dining rooms are reopened, 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, obtaining rent relief from landlords and getting additional lender support if current lending accommodations are not sufficient.

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 and relationships with grocery chains). Management also believes that its brands and franchisees will manage through 2020 because of Recipe rent certainty, royalty reduction and cash flow assistance programs provided to franchisees, existing lender accommodations to Recipe and franchisees, wage subsidies from the Federal Government and continued focus on off-premise sales channels in addition to dining room offerings. Consequently, Recipe brands and franchisees should enter 2021 well positioned to compete without lingering hardships from COVID-19.

Management will be redefining its key initiatives and priorities for the balance of fiscal 2020 and 2021, 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.

Focus on the short to medium term will include:

- Expanding dining room sales by maximizing seating capacity and table turns through strategic seating plans, table separations and/ or safety shields between tables and reservation systems, while still maintaining social distancing protocols with focus on keeping our associates and guests safe;

- Reducing menu size and complexity to deliver on the 4-Pillar strategy of exceeding customer expectations for food quality, service, value and ambiance, while improving profitability flow through;

- Manage and improve the long-term health of its network & restaurant profitability by providing tools and guidance to government assistance programs (in particular the CEWS program), providing rent assistance through the Recipe Rent Certainty Program, 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;

- Continue to expand the Company's off premise business for all brands with digital and mobile order applications and brand appropriate features including curb-side pick-up, preorder and pay, other payment convenience options and multi-brand offerings like Ultimate Kitchens; and

- Reduce and adjust overhead cost structure in response to slower growth and revenue reductions, including rent and overhead cost reductions, and taking advantage of government initiatives like the wage subsidies to help offset the reduction in revenues. The Company expects it will continue to qualify for the government wage subsidy program (CEWS) for the balance of 2020 and will report the recoveries earned in future quarters.

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" in the Company's MD&A 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.

"**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.

The Company's unaudited condensed consolidated interim financial statements for the 13 and 26 weeks ended June 28, 2020 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at www.sedar.com.

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 June 28, 2020, Recipe had 24 brands and 1,354 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.

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

---