Cara Operations Unlimited

# Recipe Unlimited Reports Q3 2020 Results

VAUGHAN, ON, Nov. 5, 2020 /CNW/ - Recipe Unlimited Corporation reported financial results today for the 13 and 39 weeks ended September 27, 2020.

- **Operating EBITDA of $42.5 million compared to $49.5 million in Q3 2019; Operating EBITDA on System Sales was 6.3%, compared to 5.7% in Q3 2019**
- **Operating Income of $28.9 million, an increase of 41.7% from Q3 2019**
- **Total System Sales of $676.4 million compared to $869.1 million in Q3 2019, with Off-premise System Sales increasing by 40.8% compared to Q3 2019**
- **Contribution from Retail and Catering division of $12.6 million, an increase of 57.5% compared to Q3 2019**
- **Positive cash flows of $40.4 million before long term debt repayments of $223.0 million in the quarter**

"We are very proud of our entire team, especially our front line staff, restaurant managers and franchisees. Their commitment to the safety of their guests while still providing exceptional service is inspiring. The resilience of our brands, especially our brands that have a well-balanced, omni-channel offering, was clearly on display during the third quarter. Also, we want to thank all members of our retail division, including our food production workers, sales teams and marketing groups. Their response to meeting the needs of heightened demand, while operating with more stringent conditions, has enabled the division to increase sales by 34.4%.

The restaurant industry has been unfairly targeted throughout this crisis. The public data that is now emerging, proves what we have known all along, that our in-door dining restaurants are a safe environment for both guests and teammates. We want to thank our guests for their loyalty and continued support across our brands, no matter how they chose to dine with us, in our dining rooms, on our patios, through our take-out or delivery channels. When we voluntarily closed our restaurants in March and made significant investments in additional protective equipment, we demonstrated that we place the safety of our guests and teammates first. We will never violate that trust and we are fully committed to continuing to provide great experiences which allows our guests to feel confident that they can be social, safely.

- Frank Hennessey, CEO

**Third Quarter Results**

- System Sales(1) for the 13 weeks ended September 27, 2020 decreased $192.7 million to $676.4 million compared to the same period in 2019. While system sales decreased by 22.2% year over year, the Company reported a steady system sales increase from the previous quarter as our corporate and franchise restaurants gradually reopened. The Company closed the third quarter with a 40.5% increase in system sales from the second quarter, which reflects the strength and resilience of our brands and the effectiveness of our recovery efforts during the quarter
- Gross revenues for the 13 weeks ended September 27, 2020 was $243.3 million compared to $309.0 million, a decrease of $65.7 million or 21.3%. The decrease was primarily related to Corporate restaurant revenue decreases, particularly in urban city centers that were most impacted by the COVID-19 pandemic.
- Off-premise System Sales for the 13 weeks ended September 27, 2020 increased 40.8% to $105.9 million compared to $75.2 million in 2019. The number of off-premise orders for the quarter increased by 23.9% to 3,495,255. The increase in off-premise orders reflects a change in consumer behaviour during the COVID-19 disruption period and is expected to continue post-COVID. The Company is well positioned with most brands to build on its off-premise channels because of its established IT platforms.
- Contribution from Retail and Catering for the 13 weeks ended September 27, 2020 was $12.6 million compared to $8.0 million in 2019, an increase of $4.6 million or 57.5%. 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 September 27, 2020 decreased by 14.1% to $42.5 million

from $49.5 million in 2019, compared to a year over year decrease of 22.2% in system sales for the quarter, which reflects the success of the Company's Retail and Catering segment, off-premise sales growth, cost management efforts and government wage subsidies realized in the quarter.

- Operating EBITDA Margin on System Sales[(1)] for the 13 weeks ended September 27, 2020 increased to 6.3% from 5.7% in 2019, which reflects the strength of our retail and catering division, the various cost saving measures implemented by the Company, as well as the overall success of our COVID-19 recovery efforts.

- Net Earnings for the 13 weeks ended September 27, 2020 was $5.2 million, compared to $6.7 million in 2019, a decrease of $1.5 million. The decrease driven from the change in fair value of Keg Royalty Fund exchangeable partnership units and increased interest expense, offset by the change in operating income. Operating Income or (Loss) for the 13 weeks ended September 27, 2020 was $28.9 million, compared to $20.4 million in 2019 and ($46.5) million in the prior quarter, representing an increase of $8.5 million from 2019 and increase of $75.4 million from the second quarter. The increase in operating income in the quarter reflects the strength and resilience of our brands, the success of our recovery efforts in the third quarter, as well as the effects of various cost reduction measures.

- Adjusted Basic EPS for the 13 weeks ended September 27, 2020 was $0.29 compared to $0.32 in 2019, a decrease of $0.04 or 11.2%. Adjusted Diluted EPS for the 13 weeks ended September 27, 2020 was $0.28 compared to $0.31 in 2019, a decrease of $0.03 or 9.1%.

- Free Cash Flow[(1)] before growth capex for the 13 weeks ended September 27, 2020 was $33.4 million compared to $36.1 million in 2019.

- Free Cash Flow[(1)] per share before growth capex on a diluted basis was $0.59 for the 13 weeks ended September 27, 2020, compared to $0.58 in 2019.

**Outlook**

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 Recipe 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). The third quarter of 2020 has proven that our brands and franchisees are strong and resilient, and we can recover from the effects of the pandemic when our restaurants are open and allowed to operate.

Subsequent to the third quarter, a number of our corporate and franchise locations in the provinces of Quebec, Ontario and Manitoba were mandated to close its dining rooms once again, as a result of the resurgence of regionalized COVID-19 cases. During these regionalized closures and while following new operational guidelines, we will continue to deliver safe dining experiences and focus on our off-premise channels, which include plans to open 3 additional "Ultimate Kitchen" locations by the end of the first quarter of 2021. Our retail division will continue to supply branded and private label products to grocery customers across Canada. Management believes that its brands and franchisees will successfully manage through the pandemic, despite new government mandated closures and evolving restrictive measures, because of our healthy balance sheet, our Recipe rent, royalty 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.

During the short and medium term, our focus will include:

- Continue to practice "Social Safely" safety protocols across all of our corporate and franchise locations to protect the health of our guests, associates and franchise partners;

- 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 for franchisees to access 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 loan 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 the end of 2019;

- 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, pre-order and pay, as well as other payment convenience options. The Company is also focused on the expansion of our multiple brands delivery and take-out only concept and expects to open 3 additional Ultimate Kitchen locations in Ontario by the end of the first quarter of 2021, with our next Ultimate Kitchen location to be opened in the Greater Toronto Area by the end of November 2020; 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 and government rent assistance 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. Subject to government approvals and execution of landlord agreements, the Company also expects to receive CECRA rent assistance benefits in the fourth quarter as savings to the direct rent support provided to franchisees through the rent certainty 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.

**Financial Highlights**

| | For the 13 weeks ended | |
|---|---|---|
| (C$ millions unless otherwise stated) | **September 27, 2020** | **September 29, 2019** |
| | (unaudited) | (unaudited) |
| Total System Sales | $ 676.4 | $ 869.1 |
| System Sales Growth [1][2] | (22.2) % | (1.2) % |
| Total number of restaurants (at period end) | 1,355 | 1,375 |
| **Operating EBITDA** [1] | **$ 42.5** | **$ 49.5** |
| Operating EBITDA on System Sales | 6.3 % | 5.7 % |
| Corporate restaurant sales | $ 123.8 | $ 191.3 |
| Number of corporate restaurants (at period end) | 216 | 208 |
| **Contribution from Corporate segment** | **$ 12.8** | **$ 16.8** |
| Contribution as a % of corporate sales | 10.3 % | 8.8 % |
| Franchise restaurant System Sales | $ 462.6 | $ 597.1 |
| Number of franchised & JV restaurants | 1,139 | 1,167 |
| **Contribution from Franchise segment** | **$ 17.1** | **$ 26.1** |
| Contribution as a % of Franchise sales | 3.7 % | 4.4 % |
| Retail and Catering sales | $ 86.3 | $ 76.9 |
| **Contribution from Retail and Catering** | **$ 12.6** | **$ 8.0** |
| Contribution as a % of Retail & Catering sales | 14.6 % | 10.4 % |
| **Contribution from Central segment (excluding net royalty expense)** | **$ 2.0** | **$ 1.9** |
| Contribution as a % of total System Sales | 0.3 % | 0.2 % |
| Total gross revenue | $ 243.3 | $ 309.0 |
| Operating EBITDA Margin on gross revenue | 17.5 % | 16.0 % |
| **Operating Income** | **$ 28.9** | **$ 20.4** |

| | | |
|---|---|---|
| **Earnings before income taxes** | **$ 9.7** | **$ 11.9** |
| Net earnings | $ 5.2 | $ 6.7 |
| **Adjusted Net Earnings [1]** | **$ 16.1** | **$ 19.5** |
| EPS attributable to common shareholders of the Company (in dollars) | | |
| Basic EPS (in dollars) | $ 0.09 | $ 0.11 |
| Diluted EPS (in dollars) | $ 0.09 | $ 0.11 |
| **Adjusted Basic EPS [1] (in dollars)** | **$ 0.29** | **$ 0.32** |
| **Adjusted Diluted EPS [1] (in dollars)** | **$ 0.28** | **$ 0.31** |
| Free Cash Flow before growth capex, dividends and NCIB [1] | $ 33.4 | $ 36.1 |
| Free cash flow Per Share - Basic (in dollars) | $ 0.59 | $ 0.59 |
| Free cash flow Per Share - Diluted (in dollars) | $ 0.59 | $ 0.58 |

(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

**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 39 weeks ended September 27, 2020 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at [www.sedar.com](http://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 September 27, 2020, Recipe had 24 brands and 1,355 restaurants, 84% 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

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