

Recipe Unlimited Reports 2020 Fourth Quarter and Full Year Results

VAUGHAN, ON, March 4, 2021 /CNW/ - Recipe Unlimited Corporation reported financial results today for the 13 and 52 weeks ended December 27, 2020.

- **Off-premise System Sales surpassed \$500 million for the year, an increase of 44.6% compared to 2019**
- **EBITDA Contribution from the Retail and Catering division of \$48.4 million for the year, an increase of 32.6% compared to 2019**
- **Positive Operating EBITDA of \$35.0 million for Q4 and \$113.8 million for the year**
- **Successfully amended lending covenants to provide additional covenant flexibility through to the end of Q1 2022**

"Despite 94% of our operating weeks in Q4 being impacted by mandated full closures or severely restricted capacity constraints due to COVID-19, the company generated \$35 million in operating EBITDA and positive cash flow of \$17.5 million. This is a testament to both the resilience of our people, our brands and the diversification of our portfolio.

Our attention is fully focused on inviting our guests back into our dining rooms and providing a best in class experience that reminds them of what they have missed. We understand that in the near term, consumers will be cautious returning into dining rooms as restrictions ease, which is why we launched our Social Safely campaign. This national campaign highlights the strict standard and enhanced safety protocols that we have put in place to give our guests peace of mind while dining at a Recipe restaurant. The TV media component of this campaign will begin on March 15, 2021 and will complement our ongoing digital messaging.

For 138 years, we have been committed to delivering exceptional service while also operating safe and clean restaurants. The safety of our customers and our teammates will always remain our top priority."

– Frank Hennessey, CEO

Highlights for the 13 and 52 weeks ended December 27, 2020:

- System Sales⁽¹⁾ for the 13 weeks ended December 27, 2020 decreased by 31.8% to \$611.3 million, driven by a 43% reduction in operating weeks caused by complete and partial restaurant closures during the fourth quarter. System Sales⁽¹⁾ for the 52 weeks ended December 27, 2020 decreased \$1,062.2 million to \$2,424.7 million compared to \$3,486.9 million in 2019, representing a decrease of 30.5%. Decreases in restaurant system sales were partially offset by sales increases in the Retail and Catering segment.
- Off-premise System Sales surpassed \$0.5 billion for the 52 weeks ended December 27, 2020, representing an increase of 44.6% from 2019. Off-premise System Sales for the 13 weeks ended December 27, 2020 was \$150.4 million compared to \$90.3 million in 2019, representing an increase of 66.6%. This change in consumer behaviour is expected to continue post-COVID and the Company is well-positioned with most brands to build on its off-premise channels because of its established IT platforms and multiple options for delivery.
- Contribution from Retail and Catering for the 13 and 52 weeks ended December 27, 2020 were \$13.1 million and \$48.4 million, compared to \$13.1 million and \$36.5 million in 2019, respectively. This represents an increase of 32.6% for the fiscal year, which was driven by increased sales to retail grocery customers at higher gross margin rates after the benefit of government wage subsidies.
- Operating EBITDA⁽¹⁾ for the 13 weeks ended December 27, 2020 was \$35.0 million compared to \$60.5 million in 2019, a decrease of \$25.5 million or 42.1% for the quarter. Operating EBITDA⁽¹⁾ for the 52 weeks ended December 27, 2020 decreased to \$113.8 million compared to \$216.0 million in 2019, a reduction of \$102.2 million or 47.3%. The decrease was driven by the impact of COVID-19, which caused the decline in system sales, partially offset by lower SG&A costs, government wage subsidies, and various cost savings measures implemented by the Company.
- Operating EBITDA Margin on System Sales⁽¹⁾ before The Keg royalty expense was 5.9% for the quarter compared to 7.1% in 2019. Operating EBITDA Margin on System Sales⁽¹⁾ before The Keg royalty expense for the 52 weeks ended December 27, 2020 was 4.9% compared to 6.6% in 2019. Operating EBITDA Margin on System Sales after The Keg royalty expense for the 13 and 52 weeks ended December 27, 2020 was 5.7% and 4.7% compared to 6.8% and 6.2% in 2019, respectively.
- The Company opened two Ultimate Kitchens locations in Toronto during 2020. Ultimate Kitchens is a delivery and take-out 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. Ultimate Kitchens represents a significant opportunity for future growth and expansion for Recipe. It is in-point with the shift in consumer behaviour, and is a viable option for us to serve markets where it may otherwise be cost prohibitive to build a traditional restaurant. The Company intends to open two additional Ultimate Kitchens locations in Montreal and Hamilton during the first and second quarters of 2021.

- The Company opened its first "Fresh Since 1999" joint venture location in the fourth quarter of 2020. Fresh is a modern plant-based brand that offers healthy vegan menu options made from whole and natural ingredients. The Fresh brand represents a significant opportunity for future growth and is on-point to meet the increasing consumer demand for plant-based restaurants.
- The Company successfully amended its lending covenants with its banking syndicate and private noteholders on February 18, 2021. The amendments will provide additional covenant flexibility during the COVID-19 disruption period. The covenant amendments are effective through to the end of the first quarter of 2022.
- The Company continues to execute the planned closures of restaurants that no longer fit its long-term strategic plan. For the 52 weeks ended December 27, 2020, the Company successfully closed and exited 64 restaurants, including 18 corporate, 43 franchise and 3 joint venture locations.
- Net earnings were \$23.6 million for the 13 weeks ended December 27, 2020 compared to a net loss of \$1.9 million in 2019, an increase of \$25.5 million for the quarter. The \$25.5 million increase in the quarter was primarily driven by a decrease in asset impairment charges in the quarter of \$42.5 million, partially offset by a decrease in Operating EBITDA of \$25.5 million.
- Net losses were \$53.0 million for the 52 weeks ended December 27, 2020 compared to net earnings of \$43.9 million in 2019, representing a decrease of \$96.9 million. The \$96.9 million decrease for the year was primarily driven by a decrease in Operating EBITDA due to the effects of COVID-19.
- Adjusted Basic Earnings per Share⁽¹⁾ ("EPS") for the 13 weeks ended December 27, 2020 was \$0.29 compared to \$0.79 in 2019, a decrease of \$0.51 or 64.6%. Adjusted Diluted EPS for the 13 weeks ended December 27, 2020 was \$0.28 compared to \$0.77 in 2019, a decrease of \$0.49 or 63.6%.
- Adjusted Basic Earnings per Share⁽¹⁾ for the 52 weeks ended December 27, 2020 was \$0.82 compared to \$1.76 in 2019, a decrease of \$0.94 or 53.4%. Adjusted Diluted EPS for the 52 weeks ended December 27, 2020 was \$0.82 compared to \$1.71 in 2019, a decrease of \$0.89 or 52.0%.
- Free Cash Flow before growth capex, for the 13 weeks ended December 27, 2020 was \$17.5 million, compared to \$44.3 million in 2019. Free Cash Flow before growth capex, dividends and share repurchases under the Company's normal course issuer bid ("NCIB")⁽²⁾ for the 52 weeks ended December 27, 2020 was \$50.5 million, compared to \$155.9 million in 2019. Positive Free Cash Flow for the quarter and year reflects the success of our cost management efforts, the benefit of government subsidies, while providing financial support to franchisees.
- Free Cash Flow per share before growth capex on a diluted basis for the 13 weeks ended December 27, 2020 was \$0.31, compared to \$0.76 in 2019. Free Cash Flow per share before growth capex, dividends and share repurchases under the Company's NCIB⁽²⁾, for the 52 weeks ended December 27, 2020 was \$0.90, compared to \$2.52 in 2019.

⁽¹⁾ See "Non-IFRS Measures" section of the Company's press release for definitions of System Sales, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, Adjusted Basic EPS and Adjusted Diluted EPS.

⁽²⁾ The Company's normal course issuer bid expired on June 23, 2020 without being renewed.

	For the 13 weeks ended		For the 52 weeks ended	
	December 27, 2020	December 29, 2019	December 27, 2020	December 29, 2019
(C\$ millions unless otherwise stated)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total System Sales	\$ 611.3	\$ 895.8	\$ 2,424.7	\$ 3,486.9
System Sales Growth ⁽¹⁾	(31.8) %	(1.1) %	(30.5) %	2.1 %
Total number of restaurants (at period end)	1,341	1,373	1,341	1,373
Operating EBITDA, excluding The Keg royalty	\$ 36.1	\$ 64.0	\$ 119.3	\$ 230.3
Operating EBITDA Margin on Total System Sales before Keg royalty ⁽¹⁾	5.9 %	7.1 %	4.9 %	6.6 %
Operating EBITDA⁽¹⁾	\$ 35.0	\$ 60.5	\$ 113.8	\$ 216.0
Operating EBITDA on System Sales	5.7 %	6.8 %	4.7 %	6.2 %
Corporate restaurant sales	\$ 89.0	\$ 192.6	\$ 408.7	\$ 772.7
Number of corporate restaurants (at period end)	210	202	210	202
Contribution from Corporate segment	\$ 1.5	\$ 19.3	\$ 0.4	\$ 75.0
Contribution as a % of corporate sales	1.7 %	10.0 %	0.1 %	9.7 %

Franchise restaurant System Sales	\$ 425.7	\$ 606.1	\$ 1,663.0	\$ 2,380.5
Number of franchised & JV restaurants	1,131	1,171	1,131	1,171
Contribution from Franchise segment	\$ 16.7	\$ 26.6	\$ 64.8	\$ 105.1
Contribution as a % of Franchise sales	3.9 %	4.4 %	3.9 %	4.4 %
Retail and Catering sales	\$ 92.6	\$ 92.3	\$ 337.9	\$ 316.4
Contribution from Retail and Catering	\$ 13.1	\$ 13.1	\$ 48.4	\$ 36.5
Contribution as a % of Retail & Catering sales	14.2 %	14.2 %	14.3 %	11.5 %
Contribution from Central segment (excluding net royalty expense)	\$ 4.8	\$ 5.0	\$ 5.8	\$ 13.7
Contribution as a % of total System Sales	0.8 %	0.6 %	0.2 %	0.4 %
Total gross revenue	\$ 210.9	\$ 327.0	\$ 864.6	\$ 1,252.5
Operating EBITDA Margin on gross revenue	16.6 %	18.5 %	13.2 %	17.2 %
Earnings (loss) before income taxes	\$ 23.9	\$ (6.0)	\$ (69.2)	\$ 60.8
Net earnings (loss)	\$ 23.6	\$ (1.9)	\$ (53.0)	\$ 43.9
Adjusted Net Earnings ⁽¹⁾	\$ 16.1	\$ 44.8	\$ 46.1	\$ 105.7
EPS attributable to common shareholders of the Company (in dollars)				
Basic EPS (in dollars)	\$ 0.43	\$ (0.03)	\$ (0.92)	\$ 0.74
Diluted EPS (in dollars)	\$ 0.42	\$ (0.03)	\$ (0.92)	\$ 0.72
Adjusted Basic EPS ⁽¹⁾ (in dollars)	\$ 0.29	\$ 0.79	\$ 0.82	\$ 1.76
Adjusted Diluted EPS ⁽¹⁾ (in dollars)	\$ 0.28	\$ 0.77	\$ 0.82	\$ 1.71
Free Cash Flow before growth capex, dividends and NCIB ⁽¹⁾	\$ 17.5	\$ 44.3	\$ 50.5	\$ 155.9
Free cash flow Per Share - Basic (in dollars)	\$ 0.31	\$ 0.79	\$ 0.90	\$ 2.60
Free cash flow Per Share - Diluted (in dollars)	\$ 0.31	\$ 0.76	\$ 0.90	\$ 2.52

(*) Results from East Side Mario's restaurants in the United States are excluded in the System Sales totals and number of restaurants. See "Non-IFRS Measures" section of the Company's press release for definitions of System Sales Growth, Adjusted Net Earnings, Operating EBITDA, Operating EBITDA Margin on System Sales, Adjusted Basic EPS and Adjusted Diluted EPS.

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 year 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.

Due to a resurgence of COVID-19 cases, the Provincial governments of Ontario, Quebec and Manitoba announced province-wide shutdowns at the end of the fourth quarter, which resulted in dining room closures for all of our corporate and franchise locations in those regions. Restaurants in other regions of Canada continue to operate at a reduced capacity to adhere to social distancing guidelines and company-wide health and safety protocols. During this COVID-19 disruption period, we will continue to deliver safe dining experiences and focus on our off-premise channels, which include plans to open 2 additional "Ultimate Kitchens" 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 government mandated closures and evolving restrictive measures, because of our healthy balance sheet, our various financial assistance programs provided to franchisees, existing lender accommodations to Recipe and franchisees, rent and wage subsidies from the Canadian Federal and Provincial governments, as well as continued focus on off-premise sales channels.

In February 2021, the Company began to gradually re-open many of its Canadian restaurants in the provinces of Ontario, Quebec and Manitoba, at a reduced capacity. The Company is closely monitoring the global situation surrounding COVID-19 and will continue to execute industry leading safety measures to protect its teammates and franchise partners, as its restaurants gradually reopen.

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, teammates and franchise partners;

- Expanding dining room sales, where possible, 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 a 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 our network and restaurant profitability by providing tools and guidance for franchisees to access government assistance programs (in particular the CEWS and CERS programs), providing direct assistance through the Recipe COVID Support 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, preorder 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 2 additional Ultimate Kitchens locations in Ontario by the end of the first quarter of 2021; 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) and Canada Emergency Rent Subsidy program (CERS) in 2021 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 and may be considered to be forward-looking information for purposes of applicable Canadian securities legislation. Readers are cautioned that actual results may vary. A description of the risks and uncertainties that impact the Company's business are discussed in detail under the heading "Risk Factors" in the Company's Annual Information Form dated March 25, 2021, available on SEDAR. See "Forward Looking Information".

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", "EBITDA", "Operating EBITDA", "Operating EBITDA Margin", "Operating EBITDA Margin on System Sales", "System Sales Growth", "Adjusted Net Earnings", "Adjusted Basic EPS", "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; (v) dividends paid; (vi) shares repurchased under the NCIB; and (viii) 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, locations of competing restaurants and public health issues. 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 audited consolidated financial statements for the 52 weeks ended December 27, 2020 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at www.sedar.com.

Related Communications

Frank Hennessey, Chief Executive Officer and Ken Grondin, Chief Financial Officer, will hold a teleconference with the investment community to discuss 2020 fourth quarter and year end results at 9:00 am Eastern Time on Friday March 5, 2021.

To access the webcast, please visit https://produceredition.webcasts.com/starthere.jsp?ei=1439461&tp_key=164d270de2. A replay will be available via the same URL until midnight on March 4, 2022.

To dial in by telephone, please call (647) 427-7450 or 1-888-231-8191, five to ten minutes prior to the start time. The Conference ID is 7139926. A telephone replay of the call will be available until midnight on March 26, 2021. To access the replay, please dial (416) 849-0833 or 1-855-859-2056 and enter passcode 7139926.

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, Kelseys, 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, 1909 Taverne Moderne, Fresh and Ultimate Kitchens.

RECIPE's iconic brands have established the organization as a nationally recognized franchisor of choice. As at December 27, 2020, Recipe had 25 brands and 1,341 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, investorrelations@recipeunlimited.com

<https://recipeunlimited.investorroom.com/2021-03-04-Recipe-Unlimited-Reports-2020-Fourth-Quarter-and-Full-Year-Results>