

Recipe Unlimited Reports Q1 2021 Results

VAUGHAN, ON, May 6, 2021 /CNW/ - Recipe Unlimited Corporation reported financial results today for the 13 weeks ended March 28, 2021.

- **E-Commerce System Sales increased by 75.0% compared to 2020 and 79.6% compared to 2019**
- **Retail and Catering Sales increased by 15.4% compared to 2020 and 20.8% compared to 2019**
- **Positive Operating EBITDA of \$24.0 million and positive Net Earnings of \$13.0 million for Q1**
- **Successfully amended lending covenants to provide additional covenant flexibility through to the end of Q1 2022**

"During Q1 2021, the mandated closures and severe restrictions imposed on restaurants impacted 89% of our total operating weeks. This was the most restricted time period since the first few weeks of this crisis in March 2020. However, despite those restrictions, the Company generated \$24 million in operating EBITDA and reported positive net earnings in Q1 2021. This is a tribute to the resiliency of our brands, our franchisees and all of our support teams who continue to efficiently adapt their operations to meet the needs of a constantly changing environment.

From the beginning of this pandemic, Recipe has taken action to support both its frontline teammates and franchise partners. When the crisis began, we offered a "Thank You Pay" premium to our hourly staff. In 2020, Recipe announced a \$35 million subsidy program to our franchisees along with additional economic support through the first quarter of 2021. We have invested over \$2 million in PPE for all of our restaurants and in November 2020, Recipe announced its new "Social Safely" program. Social Safely provides a transparent view for customers of the protocols, procedures and practices implemented at Recipe restaurants to help keep teammates and guests safe. As a further commitment to Social Safely, Recipe recently announced that we will begin offering antigen rapid tests across restaurants in Ontario for all of our frontline teammates at participating locations. Recipe also announced a \$500,000 support package for our Ontario Corporate frontline workers to help them manage through the latest extended closures.

We have stated from the very beginning of this crisis, that our focus will be on the health and safety of our guests, our franchise partners and our frontline teammates. This also includes the financial and mental health of our frontline teammates. The Social Safely program along with Recipe's support programs echoes that commitment."

- Frank Hennessey, CEO

Highlights for the 13 weeks ended March 28, 2021:

- System Sales⁽¹⁾ for the 13 weeks ended March 28, 2021 was \$537.6 million, compared to \$747.2 million in 2020 and \$850.7 million in 2019, representing decreases from 2020 and 2019 of 28.1% and 36.8%, respectively. The decreases were driven by the government mandated restaurant closures and restrictions, which impacted 88.7% of the Company's operating weeks in the first quarter of 2021. Decreases in restaurant system sales were partially offset by sales increases in the Retail and Catering segment.
- E-Commerce System Sales for the 13 weeks ended March 28, 2021 was \$149.8 million, compared to \$85.6 million in 2020 and \$83.4 million in 2019, representing increases from 2020 and 2019 of 75.0% and 79.6%, respectively. The Company continues to build on its off-premise channels through its established IT platform infrastructure, which makes it convenient for guests to enjoy their experience in whatever manner they choose.
- Retail and Catering System Sales for the 13 weeks ended March 28, 2021 was \$87.6 million, compared to \$75.9 million in 2020 and \$72.5 million in 2019, representing increases from 2020 and 2019 of 15.4% and 20.8%, respectively. The increases were driven by increased sales to retail grocery customers, partially offset by declines in the catering segment due to the impact of COVID-19.
- Operating EBITDA⁽¹⁾ for the 13 weeks ended March 28, 2021 increased to \$24.0 million compared to \$20.5 million in 2020, representing an increase of 17.1%. Operating EBITDA Margin on System Sales⁽¹⁾ for the 13 weeks ended March 28, 2021 was 4.5% compared to 2.7% in 2020. The increases were driven by government subsidies and various cost saving measures implemented by the Company.
- The Company opened its third Ultimate Kitchens location in Montreal in April 2021. 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.
- The Company continues to execute the planned closures of restaurants that no longer fit its long-term

strategic plan. For the 13 weeks ended March 28, 2021, the Company successfully closed and exited 16 restaurants, including 1 corporate and 15 franchise locations.

- Net Earnings were \$13.0 million for the 13 weeks ended March 28, 2021 compared to a net loss of \$41.2 million in 2020, representing an increase of \$54.2 million. The increase was driven by an increase in Operating EBITDA of \$3.5 million, an increase in the fair value of Exchangeable Keg Partnership units of \$43.9 million, a decrease in depreciation and amortization of \$3.0 million and a decrease in impairment charges of \$16.3 million, partially offset by an increase in net interest expense of \$1.1 million and an increase in deferred taxes of \$9.6 million.
- Basic and Diluted EPS for the 13 weeks ended March 28, 2021 was \$0.23 and \$0.22, respectively, compared to Basic and Diluted EPS of \$(0.73) in 2020.
- Adjusted Basic and Diluted EPS⁽¹⁾ for the 13 weeks ended March 28, 2021 was \$0.06 compared to \$0.13 in 2020.
- Cash flow from operating activities for the 13 weeks ended March 28, 2021 was \$23.1 million, compared to \$6.5 million in 2020.
- 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 28, 2021 was \$8.8 million compared to \$(4.3) million in 2020 and \$35.5 million in 2019.
- Free Cash Flow⁽¹⁾ per share before growth capex, dividends, and NCIB on a diluted basis was \$0.15 for the 13 weeks ended March 28, 2021, compared to \$(0.08) in 2020 and \$0.55 in 2019.

(C\$ millions unless otherwise stated)	For the 13 weeks ended					
	March 28, 2021		March 29, 2020		March 31, 2019	
	(unaudited)		(unaudited)		(unaudited)	
Total System Sales	\$ 537.6		\$ 747.2		\$ 850.7	
System Sales Growth ⁽¹⁾	(28.1)	%	(12.2)	%	12.5	%
Total number of restaurants (at period end)	1,330		1,363		1,382	
Operating EBITDA ⁽¹⁾	\$ 24.0		\$ 20.5		\$ 50.1	
Operating EBITDA on System Sales	4.5	%	2.7	%	5.9	%
Corporate restaurant sales	\$ 79.6		\$ 158.1		\$ 192.6	
Number of corporate restaurants (at period end)	215		203		211	
Contribution from Corporate segment	\$ 3.9		\$ (0.4)		\$ 18.5	
Contribution as a % of corporate sales	4.8	%	(0.3)	%	9.6	%
Franchise restaurant System Sales	\$ 367.0		\$ 508.6		\$ 581.3	
Number of franchised & JV restaurants	1,115		1,160		1,171	
Contribution from Franchise segment	\$ 16.0		\$ 21.9		\$ 25.5	
Contribution as a % of Franchise sales	4.4	%	4.3	%	4.4	%
Retail and Catering sales	\$ 87.6		\$ 75.9		\$ 72.5	
Contribution from Retail and Catering	\$ 8.0		\$ 7.6		\$ 8.2	
Contribution as a % of Retail & Catering sales	9.2	%	10.1	%	11.3	%
Contribution from Central segment (excluding net royalty expense)	\$ (3.1)		\$ (5.7)		\$ 1.7	
Contribution as a % of total System Sales	(0.6)	%	(0.8)	%	0.6	%
Total gross revenue	\$ 194.1		\$ 269.9		\$ 304.6	
Operating EBITDA Margin on gross revenue	12.4	%	7.6	%	16.4	%
Earnings (loss) before income taxes	\$ 13.8		\$ (50.1)		\$ 31.3	
Net earnings (loss)	\$ 13.0		\$ (41.2)		\$ 22.7	
Adjusted Net Earnings ⁽¹⁾	\$ 3.2		\$ 7.3		\$ 18.3	
EPS attributable to common shareholders of the Company (in dollars)						
Basic EPS (in dollars)	\$ 0.23		\$ (0.73)		\$ 0.36	
Diluted EPS (in dollars)	\$ 0.22		\$ (0.73)		\$ 0.35	
Adjusted Basic EPS ⁽¹⁾ (in dollars)	\$ 0.06		\$ 0.13		\$ 0.30	

Adjusted Diluted EPS ⁽¹⁾ (in dollars)	\$ 0.06	\$ 0.13	\$ 0.29
Free Cash Flow before growth capex, dividends and NCIB			
(1)	\$ 8.8	\$ (4.3)	\$ 35.1
Free cash flow Per Share - Basic (in dollars)	\$ 0.16	\$ (0.08)	\$ 0.57
Free cash flow Per Share - Diluted (in dollars)	\$ 0.15	\$ (0.08)	\$ 0.55

(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, System Sales Growth, Operating EBITDA, Operating EBITDA Margin on System Sales, Adjusted Net Earnings, Adjusted Basic EPS, Adjusted Diluted EPS and Free Cash Flow before growth capex, dividends and NCIB.

The Company's unaudited condensed consolidated interim financial statements for the 13 weeks ended March 28, 2021 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at www.sedar.com

Outlook

Management expects that post COVID-19, there will be fewer restaurant seats in the market from competitors that will not re-open and from changes in consumer behaviour. Management believes that 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 decisions taken to support our franchisees and carefully managing our working capital will allow the Company to quickly recover from the effects of the pandemic once our restaurants are allowed to operate fully and without restrictions.

The restaurant and food services industry continues to experience significant disruptions as a result of the COVID-19 pandemic. During the first quarter of 2021, 88.7% of the Company's operating weeks were impacted by full or partial closures and other restrictive measures. At the beginning of the second quarter of 2021, further mandated shutdowns and restrictions were announced across Canada, including for the first time, the closure of patios in all of Ontario, as a result of a resurgence of COVID-19 cases. Locations that are permitted to open will continue to operate at a reduced capacity to adhere to social distancing guidelines and company-wide health and safety protocols. During the COVID-19 disruption period, we will continue to deliver safe dining experiences and focus on our off-premise channels, which include plans to open our fourth "Ultimate Kitchens" location in the second 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, the steps we have taken to support our franchisees, rent and wage subsidies from the Canadian Federal and Provincial governments, as well as our continued focus on off-premise sales channels.

Focus on the short to medium term will include:

- Reopening restaurants that have been temporarily closed as a result of the COVID-19 pandemic and providing exceptional service, food, ambience and value that reinforces to customers what they have been missing;
- Continue to practice amplified "Social Safely" safety protocols across all of our corporate and franchise locations to protect the health of our guests, teammates and franchise partners. This includes comprehensive protocols related to food safety, strict standard operating procedures, independent third party audits and our rigorous safety training programs;
- 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 to our franchise partners, reducing and/or deferring non-essential restaurant costs, 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 negotiate early exit and permanent closure of under-performing restaurants that were identified at the end of 2019;
- Prepare Recipe's portfolio of brands for post-COVID success including identifying the brands for accelerated growth, possible brand acquisition and rationalizing under-performing brands;

- 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 our fourth Ultimate Kitchens location during the second 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 the Canada Emergency Rent Subsidy program (CERS) in the second quarter of 2021.

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.

"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 (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, 1909 Taverne Moderne, Fresh and Ultimate Kitchens.

RECIPE's iconic brands have established the organization as a nationally recognized franchisor of choice. As at March 28, 2021, Recipe had 25 brands and 1,330 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.

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<https://recipeunlimited.investorroom.com/2021-05-06-Recipe-Unlimited-Reports-Q1-2021-Results>