

Recipe Unlimited Reports Q3 2021 Results

VAUGHAN, ON, Nov. 3, 2021 /CNW/- Recipe Unlimited Corporation (TSX: RECP) reported financial results today for the 13 and 39 weeks ended September 26, 2021.

- **Q3 Total System Sales of \$834.2 million, increased by 23.3% compared to Q3 2020 and 48.5% compared to Q2 2021, driven by the enthusiastic return of Guests to our dining rooms**
- **Operating EBITDA of \$50.3 million compared to \$42.5 million in Q3 2020 and \$49.5 million in Q3 2019, despite the ongoing effects of the COVID-19 pandemic and significant reductions in government subsidies**
- **Long term debt repayments of \$50.0 million for the quarter as a result of strong financial performance in the third quarter and prudent cash management**
- **Net Earnings of \$13.2 million compared to \$5.2 million in Q3 2020**
- **Our ability to pivot during the COVID-19 pandemic was recognized by the food service and hospitality industry and in 2021, Recipe was named the recipient of the prestigious Pinnacle Award as Company of the Year**

"We are encouraged by our third-quarter results and the enthusiastic return of Guests to our restaurants. Despite dining room closures at the start of the third quarter which impacted 30.8% of our operating weeks in the quarter, our business generated \$50.3 million of EBITDA.

During the past 20 months, we have taken significant steps to strengthen our overall business. Some of the initiatives include streamlining menus, improving our digital platform, testing higher efficiency kitchen equipment and more importantly, investing in our people and our franchisees. We have also made strategic changes to our brand portfolio mix, closed underperforming restaurants and opened 46 new restaurants since the start of the pandemic. In addition, we have restructured many of our joint venture restaurants to either full corporate or franchise ownership and we divested certain non-strategic investments; all of which enables us to control the growth and operation of these brands or locations. All of these steps have placed us in a strong position to thrive and compete as we emerge from the pandemic."

-Frank Hennessey, CEO

Highlights for the 13 weeks ended September 26, 2021:

- Total System Sales⁽¹⁾ for the 13 weeks ended September 26, 2021 was \$834.2 million, compared to \$676.4 million in 2020 and \$869.1 million in 2019, representing an increase from 2020 of 23.3% and a decrease from 2019 of 4.0%. The increase from 2020 reflects the easing of government mandated restrictions and the return of our Guests into our dining rooms. The decrease from 2019 reflects the continuing impact of the remaining government mandated restrictions in certain parts of our restaurants network, which affected 30.8% of the Company's total operating weeks in the third quarter of 2021.
- E-Commerce System Sales for the 13 weeks ended September 26, 2021 was \$134.1 million, compared to \$114.7 million in 2020 and \$73.5 million in 2019, representing increases from 2020 and 2019 of 16.9% and 82.5% respectively. Consumer demand through e-commerce channels remained strong as dining rooms reopened in the third quarter of 2021. The Company continues to build on its omni-channel business model 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 September 26, 2021 was \$93.4 million compared to \$86.3 million in 2020 and \$76.9 million in 2019, representing increases from 2020 and 2019 of 8.2% and 21.5% respectively. The increases were driven by increased sales to retail grocery customers and the sales recovery of the catering segment in the third quarter of 2021.
- Operating EBITDA⁽¹⁾ for the 13 weeks ended September 26, 2021 was \$50.3 million, compared to \$42.5 million in 2020, representing an increase of 18.4%. Operating EBITDA Margin on System Sales⁽¹⁾ for the 13 weeks ended September 26, 2021 was 6.0% compared to 6.3% in 2020. The Operating EBITDA increase in the quarter was primarily driven by increased System Sales, partially offset by lower government subsidies and an increase in food costs.
- The Company completed the sale of substantially all of the assets of its Milestones restaurant brand on September 26, 2021. This transaction is part of the Company's strategy for its restaurant portfolio, which may include divesting of certain under-performing brands that no longer fit the portfolio strategy. This transaction will enable the Company to adjust its restaurant portfolio to focus on large brands that generate significant free cash flow, as well as young brands that offer new restaurant growth opportunities.
- Net earnings was \$13.2 million for the 13 weeks ended September 26, 2021 compared to \$5.2 million in 2020, representing an increase of \$8.0 million from 2020. The \$8.0 million increase was primarily driven by an increase in Operating EBITDA of \$7.8 million and an increase in the fair value of Exchangeable Partnership and KRIF units of \$10.0 million, partially offset by an increase in impairment charges of \$9.1 million.
- Adjusted Basic EPS⁽¹⁾ for the 13 weeks ended September 26, 2021 was \$0.48 compared to \$0.29 in 2020, representing an increase of \$0.19 from 2020. Adjusted Diluted EPS⁽¹⁾ for the 13 weeks ended September 26, 2021 was \$0.47 compared to \$0.28 in 2020, representing an increase of \$0.19 from 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 September 26, 2021 was \$36.9 million compared to \$33.4 million in 2020 and \$36.1 million in 2019.
- Free Cash Flow⁽¹⁾ per share before growth capex, dividends, and NCIB on a diluted basis was \$0.63 for the 13 weeks ended September 26, 2021, compared to \$0.59 in 2020 and \$0.58 in 2019.

Impact of COVID-19

The actions taken by the Company throughout the COVID-19 disruption period have allowed the Company to generate meaningful levels of system sales, positive EBITDA and free cash flow, and maintain a stable net debt position, despite the significant impact of the COVID-19 pandemic.

The following table summarizes the impact of the COVID-19 pandemic and compares the Company's quarterly results to the pre-pandemic results of operations in the third quarter of 2019:

(C\$ millions unless otherwise stated)	Q3 – 2021 Sep 26, 2021	Q2 – 2021 Jun 27, 2021	Q1 – 2021 Mar 28, 2021	Q4 – 2020 Dec 27, 2020	Q3 – 2019 Sep 29, 2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
% of Operating Weeks impacted by COVID-19 related restrictions	30.8 %	96.5 %	88.7 %	42.2 %	— %
Total System Sales	\$ 834.2	\$ 561.8	\$ 537.6	\$ 611.3	\$ 869.1
E-Commerce System Sales	\$ 134.1	\$ 167.1	\$ 149.8	\$ 143.8	\$ 73.5
Operating EBITDA	\$ 50.3	\$ 30.4	\$ 24.0	\$ 35.0	\$ 49.5
Net debt	\$ 424.3	\$ 472.1	\$ 457.7	\$ 451.3	\$ 487.4
Number of restaurants (at period end) ¹	1,284	1,327	1,330	1,341	1,375
Free Cash Flow before growth capex, dividends, and NCIB	\$ 36.9	\$ 17.2	\$ 8.8	\$ 17.5	\$ 36.1
Free Cash Flow per share - basic (in dollars)	\$ 0.65	\$ 0.30	\$ 0.16	\$ 0.31	\$ 0.59
Free Cash Flow per share - diluted (in dollars)	\$ 0.63	\$ 0.29	\$ 0.15	\$ 0.31	\$ 0.58

¹ Number of restaurants at the period ended Q3 2021 excludes 41 Milestones locations that were divested on September 26, 2021.

Financial Summary

(C\$ millions unless otherwise stated)	For the 13 weeks ended		
	September 26, 2021	September 27, 2020	September 29, 2019
	(unaudited)	(unaudited)	(unaudited)
Total System Sales	\$ 834.2	\$ 676.4	\$ 869.1
System Sales Growth ⁽¹⁾⁽²⁾	23.3 %	(22.2) %	(1.2) %
Total number of restaurants (at period end)	1,284	1,355	1,375
Operating EBITDA ⁽¹⁾	\$ 50.3	\$ 42.5	\$ 49.5
Operating EBITDA on System Sales	6.0 %	6.3 %	5.7 %
Corporate restaurant sales	\$ 166.4	\$ 123.8	\$ 191.3
Number of corporate restaurants (at period end)	211	216	208
Contribution from Corporate segment	\$ 16.1	\$ 12.8	\$ 16.8
Contribution as a % of corporate sales	9.7 %	10.3 %	8.8 %
Franchise restaurant System Sales	\$ 574.4	\$ 462.6	\$ 597.1
Number of franchised & JV restaurants	1,073	1,139	1,167
Contribution from Franchise segment	\$ 26.6	\$ 17.1	\$ 26.1
Contribution as a % of Franchise sales	4.6 %	3.7 %	4.4 %
Retail and Catering sales	\$ 93.4	\$ 86.3	\$ 76.9
Contribution from Retail and Catering	\$ 8.2	\$ 12.6	\$ 8.0
Contribution as a % of Retail & Catering sales	8.8 %	14.6 %	10.4 %
Contribution from Central segment (excluding net royalty expense)	\$ 2.5	\$ 2.0	\$ 1.9
Contribution as a % of total System Sales	0.3 %	0.3 %	0.2 %

Total gross revenue	\$ 308.1	\$ 243.3	\$ 309.0
Operating EBITDA Margin on gross revenue	16.3 %	17.5 %	16.0 %
Earnings before income taxes	\$ 17.7	\$ 9.7	\$ 11.9
Net earnings	\$ 13.2	\$ 5.2	\$ 6.7
Adjusted Net Earnings⁽¹⁾	\$ 27.6	\$ 16.1	\$ 19.5
EPS attributable to common shareholders of the Company (in dollars)			
Basic EPS (in dollars)	\$ 0.23	\$ 0.09	\$ 0.11
Diluted EPS (in dollars)	\$ 0.23	\$ 0.09	\$ 0.11
Adjusted Basic EPS⁽¹⁾ (in dollars)	\$ 0.48	\$ 0.29	\$ 0.32
Adjusted Diluted EPS⁽¹⁾ (in dollars)	\$ 0.47	\$ 0.28	\$ 0.31
Free Cash Flow before growth capex, dividends and NCIB ⁽¹⁾	\$ 36.9	\$ 33.4	\$ 36.1
Free cash flow Per Share - Basic (in dollars)	\$ 0.65	\$ 0.59	\$ 0.59
Free cash flow Per Share - Diluted (in dollars)	\$ 0.63	\$ 0.59	\$ 0.58

- (1) See "Non-IFRS Measures" section of the Company's press release for definitions of System Sales, System Sales 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 restaurant and food services industry continues to experience disruptions as a result of the COVID-19 pandemic. Near the end of the third quarter of 2021, the government-mandated presentation of a vaccine passport or proof of vaccination for indoor dining Guests was introduced in some provinces, which negatively impacted sales trends, particularly in smaller communities. This public health measure was introduced in response to a resurgence of COVID-19 cases due to the fourth wave of the pandemic and is expected to continue to impact sales trends in the fourth quarter of 2021.

As economies reopen, the global recovery from the economic impacts of COVID-19 is disrupting supply chains around the world. Multiple economic sectors reopening simultaneously is creating a temporary but significant labour shortage throughout North America. Management expects that this labour shortage may lead to short term higher labour costs due to increased overtime hours, retention pay programs and higher training costs as new employees are brought onboard. The recovery is also negatively impacting commodity food prices as supply and demand dynamics normalize. While management is responding with cost saving initiatives, some sectors such as retail, may experience temporary margin impacts until price adjustments can be properly administered.

The Company has proven that its brands and franchisees are strong and resilient. The Company's restaurants are predominantly situated in non-urban locations and its recovery is not dependent on the recovery in urban city-center areas where the effects of the COVID-19 pandemic were the most significant due to offices being closed and the reduction in business travel. The actions we have taken to strengthen our overall business during the COVID-19 pandemic (including streamlining menus, improving our digital platform, testing and introducing higher efficiency kitchen equipment, investing in our people and franchisees, as well as the strategic changes made to our brand portfolio mix and restaurant network) will also allow us to recover swiftly from the effects of the pandemic. Management believes that Recipe is well positioned to increase its market share through its omni-channel customer relationships, the continuation of its off-premise sales growth, expanded and enhanced patios (including many that will operate for three seasons) and the continuation of Recipe's Social Safely program to offer safe and comfortable dining experiences for our Guests and staff.

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, while focusing on being an employer of choice in Canada;
- 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;
- Continue to execute on our plans to support the expansion of our multi-channel offerings for post-COVID success. This includes the introduction of new restaurant layouts and designs with separate entrances to facilitate delivery, takeout and curb-side pick-up orders, tailored menus for dine-in and off-premise experiences, as well as the investments in our restaurants to comfortably extend outdoor patio season to three seasons;

- Actively negotiate early exit and permanent closure of under-performing restaurants that were identified at the end of 2019 to strengthen each brand portfolio and improve the long term Operating EBITDA contribution rates of both the Corporate and Franchise restaurant segments;
- 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; and
- 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 Ultimate Kitchens, our multiple brands delivery and take-out only concept.

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", "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.

The Company's unaudited condensed consolidated interim financial statements for the 13 and 39 weeks ended September 26, 2021 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 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, Montana's, Kelseys, East Side Mario's, New York Fries, Fionn MacCool's, Bier Markt, The Landing Group of Restaurants, Original Joe's, State & Main, Elephant & Castle, The Burger's Priest, The Pickle Barrel, Marigolds & Onions, Blanco Catina, Añejo, Fresh Since 1999 and Ultimate Kitchens.

RECIPE's iconic brands have established the organization as a nationally recognized franchisor of choice. As at September 26, 2021, Recipe had 21 brands and 1,284 restaurants, 84% of which are operated by franchisees and joint venture partners, operating in several countries (Canada, USA, 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/2021-11-03-Recipe-Unlimited-Reports-Q3-2021-Results>