SECOND CUP COFFEE CO.™

Second Cup Fiscal Year Adjusted EBITDA Grows 383%

MISSISSAUGA, ON, February 26, 2018 /CNW/ - The Second Cup Ltd. (TSX: SCU) today reported significantly improved financial results for the fourth quarter ended December 30, 2017.

Highlights:

- Fiscal year Adjusted EBITDA was $2,721,000 compared with $563,000 one year ago.
- 2017 Adjusted Net Income was $110,000 or $0.01 per share compared with a loss of $975,000 or -$0.08 per share in 2016.
- Q4 Adjusted EBITDA was $1,339,000 compared with $667,000 last year.
- Adjusted Net Income was $655,000 or $0.04 per share for the fourth quarter compared with $147,000 or $0.01 per share in the prior year.
- Garry Macdonald appointed President & CEO.

Fourth Quarter 2017

Same store sales were -1.1% in Q4 and -0.2% for the full year. Q4 Adjusted EBITDA of $1,339,000 is more than doubled from one year ago.

Adjusted Net Income for Q4 was $655,000 compared with $147,000 in the same quarter last year, an improvement of $508,000. The full year Adjusted Net Income of $110,000 is a significant improvement compared with a loss of $975,000 in 2016.

Garry Macdonald, Second Cup President & CEO said, “I am pleased with the continued improvement in profitability. We remain focused on driving same store sales with innovation including the roll out of Pinkberry frozen yogurt across our network. As well, we are upgrading and expanding Second Cup in traditional and non-traditional formats while quickly restoring our asset light business model. We ended the year with 12 corporately-owned cafés, which is down from a peak of 47 stores in 2015."

Second Cup Chairman Michael Bregman said, "Garry has been able to implement meaningful improvements in the business in his short time with Second Cup and the Board is delighted that he has agreed to continue on in the role of CEO to further build value."

New Developments

Second Cup continues to rollout Pinkberry premium frozen yogurt which is now in 30 cafés across the country. Response to this complimentary, premium offering has been very favourable with new customers attracted to the cafés, driving incremental sales. Pinkberry will be introduced to more cafés across the network in time for the peak frozen yogurt season.

In January, Second Cup led the Canadian coffee market with a move to Clean Label beverages which now represent over 70% of the beverage menu. Clean Label products contain no artificial colours, flavours, preservatives or high fructose corn syrup.

About Second Cup Coffee Co.™

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating franchised and company owned cafes across Canada. The company's vision is to be the Canadian specialty coffee brand of choice across Canada, committed to superior quality, innovation and profitable growth. For more information, please visit www.secondcup.com or find the company on Facebook and Twitter.

FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-GAAP financial measures of the Company and should be read in conjunction with the Audited Financial Statements of the Company for the 52 weeks ended December 30, 2017.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	13 weeks ended December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
System sales of cafés[1]	$41,326	$46,743	$154,153	$163,738
Same café sales[1]	(1.1%)	(1.0%)	(0.2%)	(1.1%)
Number of cafés - end of period	286	294	286	294
Total revenue	$6,085	$7,500	$23,636	$30,351
Operating costs and expenses	$5,092	$7,199	$22,660	$31,336
Operating income (loss) [1]	$993	$302	$976	($985)
EBITDA[1]	$1,339	$667	$2,434	$563
Adjusted EBITDA[1]	$1,339	$667	$2,721	$563
Net income (loss) and comprehensive income (loss)	$655	$147	($3,097)	($975)
Adjusted net income (loss) and comprehensive income (loss) [1]	$655	$147	$110	($975)
Basic and diluted earnings (loss) per share as reported	$0.04	$0.01	($0.21)	($0.08)
Adjusted basic and diluted earnings (loss) per share[1]	$0.04	$0.01	$0.01	($0.08)
Total assets – end of period	$44,700	$45,314	$44,700	$45,314
Number of weighted average common shares issued and outstanding	17,041,473	12,830,945	14,485,081	12,830,945

[1]See the section "Definitions and Discussion on Certain non-GAAP Financial Measures" for further analysis.

SELECTED BALANCE SHEET DATA

	December 30, 2017	December 31, 2016
Cash and cash equivalents	$ 4,573	$ 3,004
Restricted cash	1,359	1,947
Total assets	44,700	45,314
Long-term debt	-	7,181
Total liabilities	16,438	24,426
Shareholders' equity	28,262	20,888

OPERATIONAL REVIEW

Seasonality of System sales of cafés

The following table shows the percentage of annual system sales of cafés achieved, on average, in each fiscal reporting quarter over the last three years:

% of annual system sales of cafés	2015	2016	2017	Average
First Quarter	24.7	23.9	24.6	24.4
Second Quarter	25.0	24.6	24.6	24.7
Third Quarter	23.5	23.0	24.0	23.5
Fourth Quarter	26.8	28.5	26.8	27.4
	100.0	100.0	100.0	100.0

Historically, system sales of cafés have been higher in the fourth quarter, which includes the holiday sales periods of November and December. In 2016, Fourth Quarter contains one extra week, for a total of 14 weeks. The Company's comparative results take into account the inclusion of the additional selling week in 2016.

Café network

	13 weeks ended	14 weeks ended	52 weeks ended	53 weeks ended
	December 30, 2017	**December 31, 2016**	**December 30, 2017**	**December 31, 2016**
Number of cafés - beginning of period	289	298	294	310
Cafés opened	2	2	4	4
Cafés closed	(5)	(6)	(12)	(20)
Number of cafés - end of period	286	294	286	294

The Company ended the Year with 12 (2016 - 22) Company-owned cafés. Café closures are mainly attributable to leases that are not renewed on expiration, under-performing locations and landlord re-development of specific sites.

Fourth Quarter

Inclusion of an additional week in 2016 has a direct impact on the following analysis of the Fourth Quarter results.

System sales of cafés

System sales of cafés for the 13 weeks ended December 30, 2017 were $41,326 compared to $46,743 for the 14 weeks ended December 31, 2016 representing a decrease of $5,417 or 11.6%. The decrease in system sales of cafés is primarily due to the reduction in café count.

Same café sales

During the Quarter, same café sales declined 1.1%, compared to a decline of 1.0% in the comparable Quarter of 2016. The decline is primarily due to reduced transactions.

Analysis of revenue

Total revenue for the Quarter was $6,085 (2016 - $7,500), a decrease of $1,415, consisting of Company-owned café and product sales, royalty revenue, fees and other revenue.

Company-owned cafés and product sales were $1,713 (2016 - $3,210), a decrease of $1,497. The decrease in revenue is primarily due to the reduced Company-owned café count from 22 last year to 12 this Quarter. Reducing Company-owned is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $4,372 for the Quarter (2016 - $4,290), an increase of $82. The increase in franchise revenue in the Quarter is primarily driven by an increase in franchising fees, partially offset by a decrease in royalties and coordination fees.

Operating costs and expenses

Operating costs and expenses include the costs of Company-owned cafés and product sales, franchise-related expenses, general and administrative expenses, loss/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were $5,092 (2016 - $7,199), a decrease of $2,107.

Company-owned cafés and product sales related expenses for the Quarter were $1,772 (2016 - $3,410), a decrease of $1,638. The decrease in costs is due to the reduction in store count of Company-owned cafés and lower product sales as compared to the Quarter in 2016.

Franchise related expenses for the Quarter were $1,670 (2016 - $2,006), a decrease of $336. The decrease in franchise related expenses is primarily due to a lower provision for café leases and enhanced operating efficiencies.

General and administrative expenses were $1,206 for the Quarter (2016 - $1,502), a decrease of $296. This decrease in expenses is primarily due to a reduction in remunerations and directors' fees.

A loss on disposal of $98 was recognized in the Quarter (2016 - gain of $84). Gain and loss on disposal of assets are related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was $346 (2016 - $365), a decrease of $19.

EBITDA

EBITDA for the Quarter was $1,339 (2016 - $667), an increase of $672. The increase is primarily driven by the reduction in franchise related expenses and the increase in franchise revenue, as described.

Interest and financing costs

Interest and financing income for the Quarter was $5 compared to interest and financing costs of $96 in the same Quarter of 2016. The Company became debt-free in the third quarter this year.

Net income (loss)

The Company's net income for the Quarter was $655 or $0.04 per share, compared to a net income of $147 or $0.01 per share in 2016.

Reconciliations of net income (loss) to EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provide in the section "Definitions and Discussion of Certain non-GAAP Financial Measures".

Year

Inclusion of an additional week in 2016 has a direct impact on the following analysis of the Year.

System sales of cafés

System sales of cafés for the Year were $154,153 (2016 - $163,738), a decrease of $9,585 or 5.9%. The decrease is primarily due to the reduction in café count.

Same café sales

For the Year, same café sales declined by 0.2% compared to a decline of 1.1% in 2016. The decline in the Year was primarily due to the decline in the fourth quarter same café sales as described above.

Analysis of revenue

Total revenue for the Year was $23,636 (2016 - $30,351), a decrease of $6,715, consisting of Company-owned café and product sales, royalty revenue, fees and other revenue.

Company-owned cafés and product sales were $8,562 (2016 - $14,663), a decrease of $6,101. The decrease is due to the reduction of Company-owned café count from 22 to 12 this Year. Reducing Company-owned cafés count is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $15,074 for the Year (2016 - $15,688), a decrease of $614. The decrease in franchise revenue is primarily due to lower royalties and coordination fees as a result of lower café count.

Operating costs and expenses

Operating costs and expenses include the costs of Company-owned cafés and product sales, franchise-related expenses, general and administrative expenses, loss/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Year were $22,660 (2016 - $31,336), a decrease of $8,676.

Company-owned cafés and product related expenses were $9,303 for the Year (2016 - $15,681), a decrease of $6,378. The decrease in costs is attributable to the reduction of Company-owned café count and lower product sales as compared to 2016.

Franchise related expenses were $5,693 for the Year (2016 - $8,103), a decrease of $2,410. This decrease in expenses is primarily due to a reduction in remuneration, an improvement in operational effectiveness and moving from a national franchisee convention format to regional meetings with franchisees this year.

General and administrative expenses were $6,009 for the Year (2016 - $5,779), an increase of $230. This increase is driven by higher professional fees related to legal matters and one-time transition costs, partially offset by a reduction in general and administrative remuneration.

A loss on disposal of assets of $197 was recognized for the Year (2016 - $225 loss). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was $1,458 (2016 - $1,548), a decrease of $90.

EBITDA

EBITDA was $2,434 for the Year (2016 - $563), an increase of $1,871. Adjusted for one-time transition costs of $287 incurred in the second quarter of 2017, adjusted EBITDA was $2,721 compared to an adjusted EBITDA of $563 in 2016. The increase of $2,158 is primarily driven by the reduction in franchise related expenses, lower corporate café operating loss, and lower provision for café leases, partially offset by the decrease in franchise revenue.

Interest and financing costs

Interest and financing costs was $3,897 for the Year (2016 - $255), an increase of $3,642. The increase is primarily driven by one-time, non-cash financing charges of $3,290. These charges consist of the difference between the share price of $2.60 on the Issuance Date and the agreed-to share price of $1.90, and the write-off of the unamortized portion of deferred transaction costs related to the debt.

Net income (loss)

The Company's net loss for the Year was $3,097 or $0.21 loss per share, compared to a net loss of $975 or $0.08 loss per share in 2016. Adjusted for the after-tax expense on fair market value difference on issuance of shares of $3,207 ($0.22 per share), adjusted net income was $110 or $0.01 per share compared to an adjusted net loss of $975 or $0.08 loss per share in 2016.

Reconciliations of net income (loss) to EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provide in the section "Definitions and Discussion of Certain non-GAAP Financial Measures".

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except Number of cafés, Same café sales, and per share amounts)	Q4 2017[2]	Q3 2017	Q2 2017	Q1 2017
System sales of cafés[1]	$41,326	$37,014	$37,898	$37,915
Same café sales[1]	(1.1%)	0.0%	0.7%	(0.2%)
Number of cafés - end of period	286	289	291	293
Total revenue	$6,085	$5,339	$6,237	$5,975
Operating income (loss)[1]	$993	$436	($138)	($315)
EBITDA[1]	$1,339	$805	$230	$60
Adjusted EBITDA[1]	$1,339	$805	$517	$60
Net income (loss) for the period	$655	($2,962)	($315)	($475)
Adjusted net income (loss) for the period[1]	$655	$245	($315)	($475)
Basic and diluted earnings (loss) per share	$0.04	($0.19)	($0.02)	($0.04)
Adjusted basic diluted earnings (loss) per share[1]	$0.04	$0.02	($0.02)	($0.04)

	Q4 2016[2]	Q3 2016	Q2 2016	Q1 2016
System sales of cafés[1]	$46,743	$37,717	$40,207	$39,071
Same café sales[1]	(1.0%)	(1.2%)	(1.3%)	(1.1%)
Number of cafés - end of period	294	298	304	307
Total revenue	$7,500	$7,656	$7,761	$7,434
Operating income (loss)[1]	$302	($25)	($528)	($733)
EBITDA[1]	$667	$357	($128)	($332)
Adjusted EBITDA[1]	$667	$357	($128)	($332)
Net income (loss) for the period	$147	($75)	($441)	($606)
Adjusted net income (loss) for the period[1]	$147	($75)	($441)	($606)
Basic and diluted earnings (loss) per share	$0.01	($0.01)	($0.03)	($0.05)
Adjusted basic diluted earnings (loss) per share[1]	$0.01	($0.01)	($0.03)	($0.05)

1 See the section "Definitions and Discussion on Certain non-GAAP Financial Measures" for further analysis.

2 The Company's fourth quarter System sales of cafés are higher than other quarters due to the seasonality of the business (see "Seasonality of system sales of cafés" above).

The system sales decreases quarter over quarter are primarily related to the reduction in total network café count and to a lesser extent to the changes in the same café sales.

Seasonal factors and the timing of holidays cause the Company's revenue to fluctuate from quarter to quarter. Revenue decreases quarter over quarter are primarily related to the reduction of Company-owned cafés count and reduction in café count.

OUTLOOK

This section is qualified by the section "Caution Regarding Forward-Looking Statements" at the beginning of the Company's 2017 Management's Discussion and Analysis.

Second Cup continues to rollout Pinkberry premium frozen yogurt which is now in 30 cafés across the country. Response to this complimentary, premium offering has been very favourable with new customers attracted to the cafés, driving incremental sales. Pinkberry will be introduced to more cafés across the network in time for the peak frozen yogurt season.

In January, Second Cup led the Canadian coffee market with a move to Clean Label beverages which now represent over 70% of the beverage menu. Clean Label products contain no artificial colours, flavours, preservatives or high fructose corn syrup.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

In this MD&A, the Company reports certain non-GAAP financial measures such as system sales of cafés, same café sales, operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share. Non-GAAP measures are not defined under IFRS and are not necessarily comparable to similarly titled measures reported by other issuers.

System sales of cafés

System sales of cafés comprise the net revenue reported to Second Cup by franchisees of Second Cup cafés and by Company-owned cafés. This measure is useful in assessing the operating performance of the entire Company network, such as capturing the net change of the overall café network.

Changes in system sales of cafés result from the number of cafés and same café sales (as described below). The primary factors influencing the number of cafés within the network include the availability of quality locations and the availability of qualified franchisees.

Same café sales

Same café sales represent the percentage change, on average, in sales at cafés operating system-wide that have been open for more than 12 months. It is one of the key metrics the Company uses to assess its performance as an indicator of appeal to customers. Two principal factors that affect same café sales are changes in customer count and changes in average transaction size.

Operating income (loss)

Operating income (loss) represents revenue, less cost of goods sold, less operating expenses, and less impairment charges. This measure is not defined under IFRS, although the measure is derived from input figures in accordance with IFRS. Management views this as an indicator of financial performance that excludes costs pertaining to interest and financing, and income taxes.

EBITDA and adjusted EBITDA

EBITDA represents earnings before interest and financing, income taxes, and depreciation and amortization. Adjustments to EBITDA are for items that are not necessarily reflective of the Company's underlying operating performance. As there is no generally accepted method of calculating EBITDA, this measure is not necessarily comparable to similarly titled measures reported by other issuers. EBITDA is presented as management believes it is a useful indicator of the Company's ability to meet debt service and capital expenditure requirements, and evaluate liquidity. Management interprets trends in EBITDA as an indicator of relative financial performance. EBITDA should not be considered by an investor as an alternative to net income or cash flows as determined in accordance with IFRS.

Adjusted net income (loss) and adjusted net income (loss) per share

Adjustments to net earnings (loss) and net earnings (loss) per share are for items that are not necessarily reflective of the Company's underlying operating performance. These measures are not defined under IFRS, although the measures are derived from input figures in accordance with IFRS. Management views these as indicators of financial performance.

Reconciliations of net income (loss) to operating income (loss), EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided below:

	13 weeks ended December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
Net income (loss)	$ 655	$ 147	$ (3,097)	$ (975)
Income taxes (recovery)	343	59	176	(265)
Interest and financing costs	(5)	96	3,897	255
Operating income (loss)	$ 993	$ 302	$ 976	$ (985)

	13 weeks ended December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
Net income (loss)	$ 655	$ 147	$ (3,097)	$ (975)
Income taxes (recovery)	343	59	176	(265)
Interest and financing costs	(5)	96	3,897	255
Depreciation of property and equipment	228	291	1,002	1,168
Amortization of intangible assets	118	74	456	380
EBITDA	1,339	667	2,434	563
Add (deduct) impact of the following:				
One-time transition costs	-	-	287	-
Adjusted EBITDA	$ 1,339	$ 667	$ 2,721	$ 563

	13 weeks ended December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
Net income (loss)	$ 655	$ 147	$ (3,097)	$ (975)
Add impact of the following:				
After-tax fair value difference on shares issued and other costs	-	-	3,207	-
Adjusted net income (loss)	$ 655	$ 147	$ 110	$ (975)

	13 weeks ended December 30, 2017	14 weeks ended December 31, 2016	52 weeks ended December 30, 2017	53 weeks ended December 31, 2016
Net income (loss) per share	$ 0.04	$ 0.01	$ (0.21)	$ (0.08)
Add impact of the following:				
After-tax fair value difference on shares issued and other costs	-	-	0.22	-
Adjusted net income (loss) per share	$ 0.04	$ 0.01	$ 0.01	$ (0.08)

SOURCE The Second Cup Ltd.

Ba Linh Le, Chief Financial Officer, (905) 362-1827 or investor@secondcup.com

Vanda Provato, Vice President Marketing & Category, (905) 362-1831 or marketing@secondcup.com

Forward-looking information

This news release may contain forward-looking statements (within the meaning of applicable securities laws) relating to the business of the Company and the environment in which it operates. Forward-looking statements are identified by words such as "believe", "anticipate", "expect," "intend", "plan", "will", "may" and other similar expressions. These statements are based on the Company's expectations, estimates, forecasts and projections. The forward-looking statements in this news release are based on certain assumptions, including that the Company will be able to execute its plan, including store growth in traditional and non-traditional channels. They are not guarantees of future performance and involve risks and uncertainties that are difficult to control or predict. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under the heading "Risk Factors" in the Company's annual information form available at www.sedar.com. There can be no assurance that forward-looking statements will prove to be accurate as actual outcomes and results may differ materially from those expressed in these forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made. The Company undertakes no obligation to publicly update any such statement or to reflect new information or the occurrence of future events or circumstances.