SECOND CUP COFFEE CO.™

Second Cup Reports Improved Profitability and Significantly Strengthened Capital Structure

MISSISSAUGA, ON, August 4, 2017 /CNW/ - The Second Cup Ltd. (TSX: SCU) today reported continued improvement of financial results for the second quarter ended July 1, 2017.

Highlights:

- EBITDA was $517,000, adjusted for one-time transition costs, compared with EBITDA loss of $128,000 in the same quarter last year.
- Q2 same store sales of +0.7% or +1.9% excluding Alberta.
- Net Loss reduced to $315,000 or $0.02 per share for the second quarter compared with a year ago Net Loss of $441,000 or $0.03 per share.
- Company will be debt-free, pending completion of debt exchange transaction.

Second Quarter 2017

Same store sales were +0.7% in the quarter, the first positive quarter since Q4 2015. Excluding Alberta same store sales rose 1.9% in the quarter.

EBITDA of $517,000 (adjusted for one-time transition costs of $287,000) represents the fourth consecutive quarter of positive EBITDA results. The Q2 Net Loss of $315,000 is an improvement of $126,000 over Q2 2016.

Garry Macdonald, appointed interim CEO in the quarter said, “I am pleased with our continued improvement in profitability. Our recently launched premium Flash Cold Brew and Better For You products were strong contributors to our sales this quarter.” Mr. Macdonald added, “We are focused on driving our same store sales momentum with further innovation including the introduction of Pinkberry frozen yogurt currently being tested in cafes.

"We have designated one of our downtown Toronto cafés as an innovation centre for testing new ideas. In recent weeks, sales at this café have increased more than 20% with even greater increases in profitability. While this is only one café, I am very encouraged by consumer response to our new ideas. We plan to rapidly introduce successful initiatives into additional cafés."

Pinkberry

Pinkberry premium frozen yogurt is currently being tested in four Second Cup cafés. Launched in California in 2005, Pinkberry has developed a cult-like following. The brand is owned by the Serruya family. Due to very encouraging test results, a phased roll-out into additional cafés is planned.

Company to be debt-free

As announced earlier this week, Second Cup has reached an agreement to convert the $8 million debt into equity at $1.90 per share. Following this transaction, the Company will be debt-free with approximately $3 million cash. Annual interest and other cost savings will be approximately $960,000 per year. As a result of this transaction, the Company's financial strength will be significantly bolstered to support future growth.

The Company continues to reduce the number of corporate stores through franchising to strong operators. The corporate café count has now been further reduced to 14, compared to 19 at the end of the quarter and 22 at the end of 2016.

About Second Cup Coffee Co.™

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating over 290 franchised and company owned cafes in Canada. The company's vision is to be the coffee brand most passionately committed to quality and innovation. For more information, please visit www.secondcup.com or find the company on Facebook and Twitter.

SOURCE The Second Cup Ltd.

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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 Unaudited Condensed Interim Financial Statements of the Company for the 13 and 26 weeks ended July 1, 2017 and June 25, 2016.

	13 weeks ended		**26 weeks ended**	
(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	**July 1, 2017**	**June 25, 2016**	**July 1, 2017**	**June 25, 2016**
System sales of cafés[1]	$37,898	$40,207	$75,813	$79,277
Same café sales[1]	0.7%	(1.3%)	0.2%	(1.2%)
Number of cafés - end of period	291	304	291	304
Total revenue	$6,237	$7,761	$12,212	$15,195
Operating costs and expenses	$6,375	$8,289	$12,665	$16,456
Operating income (loss) [1]	($138)	($528)	($453)	($1,261)
EBITDA[1]	$230	($128)	$290	($460)
Net income (loss) and comprehensive income (loss)	($315)	($441)	($790)	($1,047)
Basic and diluted earnings (loss) per share as reported	($0.02)	($0.03)	($0.06)	($0.08)
Total assets - end of period	$43,294	$43,021	$43,294	$43,021
Number of weighted average common shares issued and outstanding	12,830,945	12,830,945	12,830,945	12,830,945

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

SELECTED BALANCE SHEET DATA

	July 1, 2017	December 31, 2016
Cash and cash equivalents	$ 2,910	$ 3,004
Restricted cash	2,060	1,947
Total assets	43,294	45,314
Long-term debt	7,264	7,181
Total liabilities	20,849	22,038
Shareholders' Equity	22,445	23,276

Café network

	13 weeks ended		26 weeks ended	
	July 1, 2017	June 25, 2016	July 1, 2017	June 25, 2016
Number of cafés - beginning of period	293	307	294	310
Cafés opened	1	1	1	2
Cafés closed	(3)	(4)	(4)	(8)
Number of cafés - end of period	291	304	291	304

The Company ended the Quarter with 19 (June 25, 2016 – 29) 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.

Second Quarter

System sales of cafés
System sales of cafés for the 13 weeks ended July 1, 2017 were $37,898 compared to $40,207 for the 13 weeks ended June 25, 2016 representing a decrease of $2,309 or 5.7%. The decrease is primarily driven by the reduction in store count.

Same café sales
During the Quarter, same café sales growth was 0.7%, compared to a decline of 1.3% in the same Quarter of 2016. The timing of Canada Day had a positive impact of approximately 0.3%. The success of the Company's Better For You Menu, launched in January and Flash Cold Brew launched in April have contributed to the improvement in same café sales.

Analysis of revenue
Total revenue for the Quarter was $6,237 (June 25, 2016 - $7,761) consisting of Company-owned café and product sales, royalty revenue, franchise fees and other revenue.

Company-owned cafés and product sales for the Quarter were $2,566 (June 25, 2016 - $3,895). The decrease in revenue of $1,329 is attributable to the reduced Company-owned cafés count from 29 last year to 19 this year and lower Company-branded consumer product sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $3,671 for the Quarter (June 25, 2016 - $3,866). The decrease in franchise revenue of $195 in the Quarter is primarily due to a 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 Quarter were $6,375 (June 25, 2016 - $8,289), a decrease of $1,914.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Quarter were $2,733 (June 25, 2016 - $4,052), a decrease of $1,319. This decrease in costs is attributable to a lower number of Company-owned cafés and lower product sales as compared to the same Quarter in 2016.

Franchise

The Company incurred franchise related expenses of $1,356 in the Quarter (June 25, 2016 - $2,191), a decrease of $835. The decrease in expenses is primarily driven by a focus on operational efficiencies.

General and administrative

General and administrative expenses were $1,842 for the Quarter (June 25, 2016 - $1,492), an increase of $350, primarily due to one-time transition costs.

Gain and loss on disposal of assets

A loss on disposal of $76 was recognized in the Quarter (June 25, 2016 – loss of $154). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization

Depreciation and amortization expense was $368 (June 25, 2016 - $400).

EBITDA

EBITDA for the Quarter was $230 compared to a loss of $128 in the same Quarter of 2016. The increase of $358 is primarily due to higher earnings from franchising.

Net income (loss)

The Company's net loss for the Quarter was $315 or $0.02 per share, compared to a net loss of $441 or $0.03 per share in 2016.

A reconciliation of net income (loss) to Adjusted EBITDA is provided in the section "Definitions and Discussion of Certain non-GAAP Financial Measures".

Year to date

System sales of cafés

System sales of cafés for the 26 weeks ended July 1, 2017 were $75,813 compared to $79,277 for the 26 weeks ended June 25, 2016 representing a decrease of $3,464 or 4.4%. The decrease is primarily driven by the reduction in store count.

Same café sales

Year to date same café sales growth was 0.2%, compared to a decline of 1.2% in the same period of 2016. The timing of Canada Day had a positive impact of approximately 0.1%. The success of the Company's Better For You Menu, launched in January and Flash Cold Brew launched in April have contributed to the improvement in same café sales.

Analysis of revenue

Year to date total revenue was $12,212 (June 25, 2016 - $15,195) consisting of Company-owned café and product sales, royalty revenue, franchise fees and other revenue.

Year to date Company-owned cafés and product sales were $5,157 (June 25, 2016 - $7,824). The decrease in revenue of $2,667 is primarily due to the reduction in Company-owned cafés this year and lower Company-branded consumer product sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Year to date franchise revenue was $7,055 (June 25, 2016 - $7,371). The decrease in franchise revenue of $316 is primarily due to a lower café count, partially offset by a slightly better blended royalty rate on higher average franchise café sales.

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. Year to date total operating costs and expenses were $12,665 (June 25, 2016 - $16,456), a decrease of $3,791.

Company-owned cafés and product sales

Year to date, Company-owned cafés and product related expenses were $5,629 (June 25, 2016 - $8,415), a decrease of $2,786. This decrease in costs is attributable to a lower number of Company-owned cafés and lower product sales as compared to the same period in 2016.

Franchise

The Company incurred franchise related expenses year to date of $2,892 (June 25, 2016 - $4,209), a decrease of $1,317. The decrease in expenses is primarily driven by moving from a national franchisee convention format to regional meetings with franchisees this year, a focus on improving overall operational efficiencies.

General and administrative

General and administrative expenses were $3,299 year to date (June 25, 2016 - $2,873), an increase of $426.

Gain and loss on disposal of assets

Year to date, a loss on disposal of $102 was recognized (June 25, 2016 – loss of $158). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization

Depreciation and amortization expense was $743 (June 25, 2016 - $801).

EBITDA

EBITDA for the year to date was $290 compared to a loss of $460 in the same period of 2016. The increase of $750 is primarily due to higher earnings from franchising.

Net income (loss)

The Company's net loss year to date was $790 or $0.06 per share, compared to a net loss of $1,047 or $0.08 per share in 2016.

A reconciliation of net income (loss) to EBITDA is provided 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)	Q2 2017	Q1 2017	Q4 2016[2]	Q3 2016
System sales of cafés[1]	$37,898	$37,915	$46,743	$37,717
Same café sales[1]	0.7%	(0.2%)	(1.0%)	(1.2%)
Number of cafés - end of period	291	293	294	298
Total revenue	$6,237	$5,975	$7,500	$7,656
Operating income (loss)[1]	($138)	($315)	$301	($25)
EBITDA[1]	$230	$60	$667	$357
Net income (loss) for the period	($315)	($475)	$147	($75)
Basic and diluted earnings (loss) per share	($0.02)	($0.04)	$0.01	($0.01)

	Q2 2016	Q1 2016	Q4 2015[2]	Q3 2015
System sales of cafés[1]	$40,207	$39,071	$46,900	$41,087
Same café sales[1]	(1.3%)	(1.1%)	0.2%	(2.9%)
Number of cafés - end of period	304	307	310	327
Total revenue	$7,761	$7,434	$9,636	$9,270
Operating income (loss)[1]	($528)	($733)	$167	($1,310)
EBITDA[1]	($128)	($332)	$554	($924)
Net (loss) income for the period	($441)	($606)	$94	($1,099)
Basic and diluted (loss) earnings per share	($0.03)	($0.05)	$0.01	($0.09)

[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" in the Company's Q2 2017 Management's Discussion and Analysis).

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 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" of the Company's Q2 2017 Management's Discussion and Analysis.

Second Cup has designated one of its downtown Toronto cafés as an innovation centre for testing new ideas. In recent weeks, sales at this café have increased more than 20% with even greater increases in profitability. Successful initiatives will be rapidly introduced into additional cafés.

Pinkberry premium frozen yogurt is being tested in four Second Cup cafés. Due to very encouraging test results, a phased roll out into additional cafés is planned.

Following the completion of the debt exchange transaction, as described in the "Subsequent Event" section above, annual interest and other cost savings will be approximately $960 per year. Upon closing the transaction, the Company's financial strength will be significantly bolstered to support growth.

DEFINITIONS AND DISCUSSION ON CERTAIN NON-GAAP FINANCIAL MEASURES

In this Press Release, the Company reports certain non-GAAP financial measures such as System sales of cafés, Same café sales, operating income (loss), EBITDA and Adjusted EBITDA. 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.

A reconciliation of net income (loss) to Operating income (loss), EBITDA and Adjusted EBITDA is provided below:

	13 weeks ended		26 weeks ended	
	July 1, 2017	**June 25, 2016**	**July 1, 2017**	**June 25, 2016**
Net income (loss)	$ (315)	$ (441)	$ (790)	$ (1,047)
Interest and financing	250	70	508	97
Income taxes (recovery)	(73)	(157)	(171)	(311)
Operating income (loss)	(138)	(528)	(453)	(1,261)
Depreciation of property and equipment	248	298	519	596
Amortization of intangible assets	120	102	224	205
EBITDA	230	(128)	290	(460)
One-time transition costs	287	-	287	-
Adjusted EBITDA	$ 517	$ (128)	$ 577	$ (460)