SECOND CUP COFFEE CO.™

The Second Cup Ltd. Announces Third Quarter Results and Positive Same Store Sales Trend

MISSISSAUGA, ON, November 2, 2015 /CNW/ - The Second Cup Ltd. (TSX: SCU) reported financial results today for the third quarter ended September 26th, 2015.

Highlights:

- Third quarter same store sales declined 2.9% compared with minus 3.1% in Q2 and improved to positive 1.0% for the most recent 5 weeks.
- Quarterly net loss of $1,099,000 ($0.09 per share), compared with year ago net loss of $26,230,000 ($2.65 per share) or $463,000 ($0.05) per share adjusted for impairment charges.
- Café of the future roll out continues with three new concept cafes opened in the quarter.
- Reduced number of corporate stores from 47 to 42 with further reductions expected.
- Renewed partnership with Air Canada as the exclusive, premium coffee provider on board all Air Canada flights.

"There are strong indicators that our transformation strategy is taking hold, in particular the positive same store sales trend in October which is the first positive sales month in three and a half years", says Ms. Alix Box, President and CEO, The Second Cup Ltd. "We are excited about the roll out of our new café concept and the momentum we are gaining in refranchising cafes to high caliber franchisees. We are seeing progress and there is much more to do. We remain focused on our strategies to strengthen our network and drive same store sales growth."

…/more

Third Quarter 2015

Same store sales were -2.9% in Q3 compared to -3.1% in Q2. The company is very encouraged by the positive same store sales trend over the last 5 weeks.

Net loss of $1,099,000 includes a provision of $863,000 for the closure of 6 underperforming stores. The high number of corporate stores is negatively impacting short term profitability but we expect to make a significant reduction by mid-2016 as we progress toward the asset light business model.

The company has been working aggressively to reduce the number of corporate stores through franchising to strong operators and returning to an asset light model. The number of corporate stores was reduced to 42 in Q3 from 47 in Q2.

We have renewed our agreement with Air Canada and value our longstanding relationship. Andrew Yiu, Director of Product Design for Air Canada said "We are thrilled to continue our relationship with Second Cup and deliver an unparalleled, truly Canadian travel experience. This partnership thrives because both Second Cup and Air Canada are committed to best-in-class products and we are excited to offer passengers a unique taste of home."

The balance sheet remains strong with cash on hand of $9,161,000 and net debt of $1,997,000.

New Developments

Second Cup will continue rolling out the café of the future concept with 5 new and renovated cafes underway and scheduled to open by year end. The roll out of the new concept is an integral component of the company's transformation strategy.

About Second Cup Coffee Co.™

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating over 325 franchised and company owned cafes. 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.

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 39 weeks ended September 26, 2015 and September 27, 2014.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	13 weeks ended		39 weeks ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
System sales of cafés[1]	$41,087	$43,596	$127,966	$133,355
Same café sales[1]	(2.9%)	(3.3%)	(2.3%)	(5.1%)
Number of cafés - end of period	327	349	327	349
Total revenue	$9,270	$6,686	$27,705	$19,745
Operating costs and expenses	$10,580	$36,900	$28,953	$50,121
Operating income (loss) [1]	($1,310)	($30,214)	($1,248)	($30,376)
EBITDA[1]	($924)	($29,865)	($171)	($29,486)
Net loss and comprehensive loss	($1,099)	($26,230)	($1,247)	($26,564)
Basic and diluted loss per share as reported	($0.09)	($2.65)	($0.10)	($2.68)
Total assets - end of period	$50,417	$44,578	$50,417	$44,578
Number of common shares issued and outstanding - end of period	12,830,945	9,903,045	12,830,945	9,903,045

[1]See the section "Definitions and discussion on certain non-GAAP financial measures" for further analysis.

Balance Sheet Data

	September 26, 2015	December 27, 2014
Cash and cash equivalents	$9,161	$10,918
Restricted cash	651	-
Total assets	50,417	53,449
Total debts	11,189	11,119
Total liabilities	26,611	28,456
Total shareholders' equity	$23,806	$24,993

Café network

	13 weeks ended September 26, 2015	13 weeks ended September 27, 2014	39 weeks ended September 26, 2015	39 weeks ended September 27, 2014
Number of cafés - beginning of period	339	357	347	356
Cafés opened	-	1	2	8
Cafés closed	(12)	(9)	(22)	(15)
Number of cafés - end of period	327	349	327	349

The Company ended the quarter with forty-two (2014 - seventeen) Company-operated cafés. Seven Company-owned cafés have been sold in the quarter and 11 have been sold YTD.

Third Quarter

System sales of cafés
System sales of cafés for the 13 weeks ended September 26, 2015 were $41,087 compared to $43,596 for the 13 weeks ended September 27, 2014, representing a decrease of $2,509 or 5.8%. The decrease is attributable to decreased same café sales and to the reduced store network.

Same café sales
During the Quarter, same café sales declined by 2.9%, compared to a decline of 3.3% in the comparable quarter of 2014.

Analysis of revenue
Total revenue for the Quarter was $9,270 (2014 - $6,686), 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 $5,703 (2014 - $2,666). The increase in revenue of $3,037 is attributable to additional Company-owned cafés.

Franchise revenue was $3,567 for the Quarter (2014 - $4,020). The decrease in franchise revenue of $453 is primarily driven by a lower café count, the increase in Company-owned cafés, and the new royalty incentive introduced in August 2014.

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, the loss/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were $10,580 (2014 - $30,214), a decrease of $19,634.

Company-owned cafés and product sales

Company-owned cafés and product related expenses for the Quarter were $5,841 (2014 - $2,637), an increase of $3,204. This increase in costs is caused by additional Company-owned cafés.

Franchise

The Company incurred franchise related expenses of $3,104 (2014 - $2,735). The increase of $369 is driven by the 2014 strategic decision to reduce co-op fees and absorb marketing headcount in Coffee Central; leading to an increase in franchisee profitability.

General and administrative

General and administrative expenses were $1,203 for the Quarter (2014 - $1,475). The $272 decrease is due to reduced labour expenses.

Gain and loss on disposal of assets

A loss on disposal of $45 was recognized in the Quarter (2014 - $2 gain). The loss related to the resale of seven Company-owned cafés.

Depreciation and amortization

Depreciation and amortization expense was $387 (2014 - $347).

EBITDA

EBITDA for the quarter was a loss of $924, compared to a loss of $29,486 last year.

Net loss

The Company's net loss for the Quarter was $1,099 or $0.09 per share, compared to net loss of $26,230 or $2.65 per share in 2014. The improvement in net income of $25,131 or $2.56 per share was mainly the result of savings due to the FY14 impairment charge, partially offset by increased provisions related to additional Company-owned cafés. A reconciliation of net loss to EBITDA is provided in the section "Definitions and discussion on certain non-GAAP financial measures."

Year to date

System sales of cafés

System sales of cafés for the 39 weeks ended September 26, 2015 were $127,966 compared to $133,355 for the 39 weeks ended September 27, 2014, representing a decrease of $5,389 or 4.0%. The decrease is attributable to decreased same café sales and to the smaller store network.

Same café sales

Same café sales declined by 2.3% for the 39 weeks ended September 26, 2015, compared to a decline of 5.1% for the 39 weeks ended September 27, 2014.

Analysis of revenue
Total revenue for the year to date was $27,705 (2014 - $19,745).

Company-owned cafés and product sales were $16,576 (2014 - $6,479). The increase of $10,097 is attributable to additional Company-owned cafés.

Franchise revenue was $11,129 for the year to date (2014 - $13,266). The decrease in revenue of $2,137 is primarily driven by a lower café count, the increase in Company-owned cafés, and the new royalty incentive introduced in August 2014.

Operating costs and expenses
Total operating expenses for the year to date were $28,953 (2014 - $50,121), a decrease of $21,168. The decrease is primarily due to the impairment charge recorded in Q3 2014 and offset by the increase in Company-owned cafés.

Company-owned cafés and product sales
Company-owned cafés and product related expenses for the year to date were $16,687 (2014 - $7,040), an increase of $9,647. This increase in costs is caused by additional Company-owned cafés.

Franchise
Franchise related expenses of $7,009 were incurred year to date (2014 - $5,887). The increase of $1,122 is driven by the Company's decision to increase franchisee profitability by absorbing marketing headcount at Coffee Central and the costs of launching the Second Cup Coffee Co.™ Rewards loyalty program.

General and administrative
General and administrative expenses were $4,222 for the year to date (2014 - $6,686). The decrease is due to labour savings realized as a result of prior years' restructuring.

Gain and loss on disposal of assets
A gain on disposal of $43 was recognized for the year to date (2014 - $90 gain). The gain related to the resale of eleven Company-owned cafés.

Depreciation and amortization
Depreciation and amortization expense was $1,078 (2014 - $890). The increase is due to amortization of our Loyalty program and completed renovations at our Company-owned cafés.

EBITDA
EBITDA for the year to date was a loss of $171, compared to a loss of $29,486 last year.

Net loss
The Company's net loss for the year to date is $1,247 or $0.10 per share, compared to net loss of $26,564 or $2.68 per share in 2014. The decrease in net loss of $25,317 or

$2.58 per share was mainly due to the impairment charge in Q3 2014, offset partially by an increase in costs relating to Company-owned cafés.

SELECTED QUARTERLY INFORMATION

(in thousands of Canadian dollars, except number of cafés, Same café sales, and per share amounts)	Q3 2015	Q2 2015	Q1 2015[2]	Q4 2014[2]
System sales of cafés[1]	$41,087	$43,715	$43,174	$49,427
Same café sales[1]	(2.9%)	(3.2%)	(1.1%)	(3.9%)
Number of cafés - end of period	327	339	344	347
Total revenue	$9,270	$9,420	$9,014	$8,427
Operating income (loss)[1]	($1,310)	($6)	$68	($521)
EBITDA[1]	($924)	$334	$419	($139)
Net loss for the period	($1,099)	($77)	($76)	($469)
Basic and diluted loss per share	($0.09)	($0.01)	($0.01)	($0.04)
Dividends declared per share	-	-	-	-
	Q3 2014	Q2 2014	Q1 2014	Q4 2013[2]
System sales of cafés[1]	$43,596	$45,829	$43,930	$51,898
Same café sales[1]	(3.3%)	(5.0%)	(6.9%)	(4.3%)
Number of cafés - end of period	349	357	357	356
Total revenue	$6,686	$6,435	$6,623	$8,038
Operating (loss) income[1]	($30,214)	($389)	$226	$1,891
EBITDA[1]	($26,865)	($113)	$493	$2,239
Net (loss) income for the period	($26,230)	($390)	$56	$1,177
Basic and diluted (loss) earnings per share	($2.65)	($0.04)	$0.01	$0.12
Dividends declared per share	-	-	$0.085	$0.085

[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).

OUTLOOK

This section is qualified by the section "Caution Regarding Forward Looking Statements" at the beginning of this MD&A.

The Company believes its renewed dedication to providing the ultimate coffee experience positions it well for creating long-term growth and value creation for its shareholders.

Much more remains to be accomplished, but there are strong indicators that the transformation strategy is taking hold, in particular the positive same store sales trend of 1% in October, the first positive sales month in three and a half years.

The Company is aggressively working to reduce the number of corporate stores through franchising to strong operators and return to an asset light model. A significant reduction in corporate stores is expected by mid-2016.

The roll out of the new concept is an integral component of the Company's transformation strategy. Five new cafes and renovations are underway and scheduled to open by year end.

DEFINITIONS AND DISCUSSION OF CERTAIN NON-GAAP FINANCIAL MEASURES

In this MD&A, the Company reports certain non-IFRS measures such as System sales of cafés, same café sales, operating income (loss), EBITDA.

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-operated 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, including cafés closed temporarily for renovations/remodelling. The inclusion of cafés temporarily closed is a change in methodology. Since the impact of this revision is inconsequential, the Company will not restate same café sales results for previously reported years. It is one of the key metrics the Company uses to assess its performance as an indicator of appeal to customers. Same café sales provide a useful comparison between periods while also encompassing other matters such as seasonality. The two principal factors that affect same café sales are changes in customer traffic 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, taxes, depreciation, and amortization. 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 indicators 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.

Impairment charges, if incurred, are a reconciling item in the calculation of adjusted EBITDA as its nature is non-cash and management interprets this measure to be similar in substance to depreciation and amortization.

A reconciliation of net loss to EBITDA is provided below:

	13 weeks ended		39 weeks ended	
	September 26, 2015	September 27, 2014	September 26, 2015	September 27, 2014
Net loss	$ (1,099)	$ (26,230)	$ (1,247)	$ (26,564)
Interest and financing	137	116	385	372
Recovery of income taxes	(348)	(4,100)	(386)	(4,184)
Depreciation of property and equipment	267	255	807	646
Amortization of intangible assets	119	94	270	244
EBITDA	(924)	(29,865)	(171)	(29,486)
Asset impairment charge	-	29,708	-	29,708
Adjusted EBITDA	$ (924)	$ (157)	$ (171)	$ 222

A reconciliation of net loss to adjusted basic and diluted earnings per share is provided below:

	13 weeks ended		26 weeks ended	
	September 26, 2015	**September 27, 2014**	**September 26, 2015**	**September 27, 2014**
Net income (loss)	$ (1,099)	$ (26,230)	$ (1,247)	$ (26,564)
Impairment charges	-	29,708	-	29,708
Tax effect of impairment charges	-	(3,941)	-	(3,941)
Adjusted earnings	(1,099)	(463)	(1,247)	(797)
Weighted average number of shares issued and outstanding (unrounded)	12,830,945	9,903,045	12,830,945	9,903,045
Adjusted basic and diluted earnings per share	$ (0.09)	$ (0.05)	$ (0.10)	$ (0.08)

SOURCE The Second Cup Ltd.

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