SECOND CUP COFFEE CO.™

The Second Cup Ltd. Reports First Quarter Results

MISSISSAUGA, ON, May 11, 2018 /CNW/ - The Second Cup Ltd. ("Second Cup" or the "Company") (TSX: SCU) today reported continued improvement in financial results for the first quarter ended March 31, 2018.

Highlights:

- EBITDA of $174,000 compared with $60,000 in Q1 2017, an improvement of 190%.
- Net Loss of $138,000 or $0.01 per share for the quarter compared with a Net Loss of $475,000 or $0.04 per share in Q1 of 2017.
- Q1 same store sales of -2.2%.
- Continued roll out of Pinkberry frozen yogurt in Second Cup cafes across the country.
- Second Cup launched Clean Label beverages.
- The Company closed $10,000,170 bought deal offering on May 8, 2018.

First Quarter 2018

EBITDA of $174,000 represents a continuing trend of positive EBITDA results for Second Cup. The Q1 net loss of $138,000 is a significant improvement of $337,000 over Q1 2017.

Same store sales were -2.2 % in Q1, partially impacted by the shift in Easter in 2018. Same store sales in Ontario, Second Cup's largest region, were -0.6%. The expansion of Pinkberry in Second Cup cafes across the country is on track as planned with many more underway. Pinkberry continues to be a strong contributor to overall sales and transaction growth.

In January, Second Cup launched Clean Label beverages, with a commitment to eliminate artificial colours and flavours, preservatives and high fructose corn syrup from all beverages on the menu. Clean Label beverages now comprise 85% of the menu.

Garry Macdonald, Second Cup President & CEO said, "As we continue to deliver improvements in profitability, we remain focused on driving same store sales growth with product innovation such as the accelerated roll out of Pinkberry, the introduction of Clean Label beverages and the expansion of our growth categories including Better For You smoothies and Flash Cold Brew. In addition, we continue to focus on updating the existing café network and expanding the Second Cup footprint in traditional and non-traditional locations."

New Developments

On April 12, 2018 Second Cup and National Access Cannabis announced a strategic alliance that provides the potential to convert select Second Cup cafés to NAC-branded recreational cannabis dispensaries initially across Western Canada, expanding to include additional provinces where legally permissible. This strategic alliance is an opportunity for Second Cup to leverage its select real estate assets to drive value for shareholders and franchisees.

This week Second Cup also announced that it has closed its short form prospectus offering, on a bought deal basis. A total of 2,898,600 common shares of the Company were sold at a price of $3.45 per Share, for aggregate gross proceeds of $10,000,170. Clarus Securities Inc. acted as sole underwriter and bookrunner.

In April, Second Cup introduced new on trend flavours to its Flash Cold Brew program introduced last year – Salted Butterscotch and Almond Milk Mocca. Flash Cold Brew is leading the growth of the cold coffee segment for the brand representing over 20% of cold beverage sales in season.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, a new comprehensive model for entities to use accounting for revenue arising from contracts with customers ("IFRS 15"). On December 31, 2017, ("Transition Date") the Company applied IFRS 15 using the modified retrospective transition method. The financial statements reflect the application of IFRS 15 beginning in 2018, while the financial statements for previous periods were prepared under the guidance of the previous standard. The details and quantitative impact of the changes are disclosed below.

Franchise revenue consists of royalties, as well as initial and renewal of franchise fees, and other fees. Our performance obligation under franchise agreements include a franchise license as well as pre-opening services including training. These obligations are highly interrelated and as required under the new guidance, the Company defers the initial franchise and licensing fees and recognizes revenue over the term of the related agreement. Previously, the Company recognized initial franchise fees when all material obligations and services have been performed, which generally occurred when the franchised café opened. On the Transition Date, the Company recognized an increase of $2,684 to deferred revenue, a decrease to deferred income taxes of $717 and a decrease to the retained earnings (deficit) of $1,967. For the 13 weeks ended March 31, 2018, an increase in franchise revenue of $93 was recognized compared to the previous standards.

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 weeks ended March 31, 2018 and April 1, 2017.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	**13 weeks ended March 31, 2018[2]**	**13 weeks ended April 1 , 2017**
System sales of cafés[1]	$35,920	$37,915
Same café sales[1]	(2.2%)	(0.2%)
Number of cafés - end of period	279	293
Total revenue	$4,897	$5,975
Operating costs and expenses	$5,072	$6,290
Operating income (loss)[1]	($175)	($315)
EBITDA[1]	$174	$60
Net income (loss) and comprehensive income (loss)	($138)	($475)
Basic and diluted earnings (loss) per share as reported	($0.01)	($0.04)
Total assets - end of period	$43,040	$43,790
Number of weighted average common shares issued and outstanding	17,041,473	12,830,945

[1]See the section "Definitions and Discussion on Certain non-GAAP Financial Measures" for further analysis.
[2]Adoption of new standard on a modified retrospective basis – Financial statements for 2018 are prepared under the new standard whereas the previous periods are on the old standard. See the section "Changes in Accounting Policies" for further analysis.

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.

Café network

	13 weeks ended March 31, 2018	13 weeks ended April 1, 2017
Number of cafés - beginning of period	286	294
Cafés opened	-	-
Cafés closed	(7)	(1)
Number of cafés - end of period	279	293

The Company ended the Quarter with 15 (April 1, 2017 – 24) 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.

First Quarter

System sales of cafés
System sales of cafés for the 13 weeks ended March 31, 2018 were $35,920 compared to $37,915 for the 13 weeks ended April 1, 2017 representing a decrease of $1,995 or 5.3%. 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 decreased by 2.2%, compared to a decline of 0.2% in the same Quarter of 2017. The decline is primarily due to reduced transactions. In addition, the timing of Good Friday this year had a negative impact of approximately 0.4%.

Analysis of revenue
Total revenue for the Quarter was $4,897 (2017 - $5,975), a decrease of $1,078, consisting of Company-owned café and product sales, royalty revenue, advertising revenue, fees and other revenue.

Company-owned cafés and product sales for the Quarter were $1,291 (2017 - $2,591), a decrease of $1,300. The decrease in revenue is primarily due to the reduced Company-owned café count from 24 last year to 15 this Quarter. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $3,606 for the Quarter (2017 - $3,384), an increase of $222. The increase in franchise revenue in the Quarter is primarily driven by higher fees including the recognition of deferred revenue, a net amount of $93, as required by IFRS 15.

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 on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were $5,072 (2017 - $6,290), a decrease of $1,218.

Company-owned cafés and product related expenses for the Quarter were $1,508 (2017 - $2,896), a decrease of $1,388. The decrease in costs is due to the reduction in store count of Company-owned cafés.

Franchise related expenses for the Quarter were $1,768 in the Quarter (2017 - $1,536), an increase of $232. The increase in franchise related expenses in the Quarter is primarily driven by an increase in provisions for incentives of $155 and bad debts of $78.

General and administrative expenses were $1,447 for the Quarter (2017 - $1,457), a decrease of $10. This decrease in expense is primarily due to a reduction in professional fees offset by a revaluation to market price of deferred share units plan.

The Company did not incur a loss on disposal of assets in the Quarter (2017 - loss of $26). Gain and loss on disposal of assets are related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization expense was $349 (2017 - $375), a decrease of $26.

EBITDA

EBITDA for the Quarter was $174 (2017 - $60), an increase of $114, mainly as a result of lower loss attributed to Company-owned cafés.

Interest and financing costs

Interest and financing income for the Quarter was $5 compared to interest and financing costs of $258 in the same Quarter of 2017. The Company became debt-free in the third quarter of 2017.

Net income (loss)

The Company's net loss for the Quarter was $138 or $0.01 per share, compared to a net loss of $475 or $0.04 per share in 2017.

Reconciliations of net income (loss) to EBITDA, adjusted EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are 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)	Q1 2018[3]	Q4 2017[2]	Q3 2017	Q2 2017
System sales of cafés[1]	$35,920	$41,326	$37,014	$37,898
Same café sales[1]	(2.2%)	(1.1%)	0.0%	0.7%
Number of cafés - end of period	279	286	289	291
Total revenue	$4,897	$6,085	$5,339	$6,237
Operating income (loss)[1]	($175)	$993	$436	($138)
EBITDA[1]	$174	$1,339	$805	$230
Adjusted EBITDA[1]	$174	$1,339	$805	$517
Net income (loss) for the period	($138)	$655	($2,962)	($315)
Adjusted net income (loss) for the period[1]	($138)	$655	$245	($315)
Basic and diluted earnings (loss) per share	($0.01)	$0.04	($0.19)	($0.02)
Adjusted basic and diluted earnings (loss) per share[1]	($0.01)	$0.04	$0.02	($0.02)
	Q1 2017	**Q4 2016[2]**	**Q3 2016**	**Q2 2016**
System sales of cafés[1]	$37,915	$46,743	$37,717	$40,207
Same café sales[1]	(0.2%)	(1.0%)	(1.2%)	(1.3%)
Number of cafés - end of period	293	294	298	304
Total revenue	$5,975	$7,500	$7,656	$7,761
Operating income (loss)[1]	($315)	$302	($25)	($528)
EBITDA[1]	$60	$667	$357	($128)
Adjusted EBITDA[1]	$60	$667	$357	($128)
Net (loss) income for the period	($475)	$147	($75)	($441)
Adjusted net income (loss) for the period[1]	($475)	$147	($75)	($441)
Basic and diluted (loss) earnings per share	($0.04)	$0.01	($0.01)	($0.03)
Adjusted basic and diluted earnings (loss) per share[1]	($0.04)	$0.01	($0.01)	($0.03)

[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).
[3]Adoption of new standard on a modified retrospective basis – Financial statements for 2018 are prepared under the new standard whereas the previous periods are on the old standard. See the section "Changes in Accounting Policies" for further analysis.

OUTLOOK

This section is qualified by the section "Forward-Looking Information" at the end of this press release.

In April, Second Cup introduced new on trend flavours to its Flash Cold Brew program introduced last year – Salted Butterscotch and Almond Milk Mocca. Flash Cold Brew is leading the growth of the cold coffee segment for the brand representing over 20% of cold beverage sales in season.

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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) and EBITDA are provided below:

		13 weeks ended March 31, 2018[1]		13 weeks ended April 1, 2017
Net income (loss)	$	(138)	$	(475)
Income taxes (recovery)		(32)		(98)
Interest and financing (income) costs		(5)		258
Operating income (loss)	$	(175)	$	(315)

		13 weeks ended March 31, 2018[1]		13 weeks ended April 1, 2017
Net income (loss)	$	(138)	$	(475)
Income taxes (recovery)		(32)		(98)
Interest and financing (income) costs		(5)		258
Depreciation of property and equipment		223		266
Amortization of intangible assets		126		109
EBITDA	$	174	$	60

[1]Adoption of new standard on a modified retrospective basis – Financial statements for 2018 are prepared under the new standard whereas the previous periods are on the old standard. See the section "Changes in Accounting Policies" for further analysis.

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.

SOURCE The Second Cup Ltd.

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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 and include, without limitation, statements regarding the benefits of the debt exchange and the impact of the debt exchange on the Company's strategic plan and transformation. 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.