

## **The Second Cup Ltd. Reports Results for the First Quarter 2016 and Surpasses 200,000 Rewards Members**

MISSISSAUGA, ON, May 6, 2016 /CNW/ - The Second Cup Ltd. (TSX: SCU) reported financial results today for the first quarter ended March 26, 2016.

### **Highlights:**

- Same store sales of -1.1%, +0.4% excluding Alberta.
- Loss of \$606,000 or \$0.05 per share for the quarter compared with a loss of \$76,000 or \$0.01 per share in the first quarter of 2015. This is a reflection of the ongoing restructuring of corporate stores to an asset light model.
- Second Cup Coffee Co. Rewards program surpassed 200,000 member mark in April
- 14 new concept cafés now open with strong early results

“The first quarter was negatively impacted by the larger than planned number of corporate stores but is reflective of our commitment to building a stronger foundation” says Ms. Alix Box, President and CEO, The Second Cup Ltd. “We are moving toward an asset light model and remain focused on executing our strategic initiatives.”

### **First Quarter 2016**

Same store sales were -1.1% in Q1 which compares to +0.2% in Q4 2015. Alberta is the second largest market for Second Cup and its ongoing economic downturn impacted overall same store sales by approximately -1.5% in the quarter. Without Alberta, same store sales were +0.4%.

The Net Loss of \$606,000 for the quarter was negatively impacted by the large number of corporate stores. 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 company has reduced the number of corporate cafes to 28 from a high of 47 last year.

**New developments**

The Second Cup Coffee Co. Rewards program continues to grow and achieved a key milestone in the transformation surpassing the 200,000 member mark ahead of the program's first anniversary. The loyalty program now accounts for 23% of sales.

As the leading Canadian owned specialty coffee company, bringing the best coffees in the world to customers is at the core of the brand and fundamental to redefining Second Cup as the coffee brand most passionately committed to quality and innovation. The company has taken its coffee to even higher levels of excellence by examining and improving every step of the coffee process from farm to cup, engaging the passion and talents of some of the world's most knowledgeable coffee aficionados. The enhanced coffees have started to roll out to cafés including a new and unique blend called Batch49, perfect hot or cold for summer.

Food innovation continues as Second Cup prepares to launch a new premium quality breakfast program including 5 new breakfast sandwiches. The phased roll out begins this month.

**About Second Cup Coffee Co.™**

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating over 305 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.seconcup.com](http://www.seconcup.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 weeks ended March 26, 2016.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	<b>13 weeks ended March 26, 2016</b>	<b>13 weeks ended March 28, 2015</b>
System sales of cafés <sup>1</sup>	\$39,071	\$43,174
Same café sales <sup>1</sup>	(1.1%)	(1.1%)
Number of cafés - end of period	307	344
Total revenue	\$7,434	\$9,014
Operating costs and expenses	\$8,167	\$8,946
Operating income (loss) <sup>1</sup>	(\$733)	\$68
EBITDA <sup>1</sup>	(\$327)	\$419
Net income (loss) and comprehensive income (loss)	(\$606)	(\$76)
Basic and diluted earnings (loss) per share as reported <sup>2</sup>	(\$0.05)	(\$0.01)
Total assets - end of period	\$43,547	\$51,179
Number of weighted average common shares issued and outstanding	12,830,945	12,830,945

<sup>1</sup>See the section “Definitions and discussion on certain non-GAAP measures” for further analysis.

<sup>2</sup>Earnings per share is calculated using the weighted average number of common shares outstanding

**Balance Sheet Data**

	March 26th, 2016	December 26th, 2015
Cash and cash equivalents	1,598	3,080
Restricted cash	665	840
Total assets	43,547	46,485
Total debts	5,984	5,977
Total liabilities	20,211	22,558
Total shareholders' equity	23,336	23,927

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### **Café network**

	December 26, 2016	December 26, 2015
Number of cafés - beginning of period	310	347
Cafés opened	1	3
Cafés closed	(4)	(40)
	<hr/>	<hr/>
Number of cafés - end of period	307	310

The Company ended the Quarter with 32 (March 28, 2015 – 41) Company-operated cafés.

### **First Quarter**

#### **System sales of cafés**

System sales of cafés for the 13 weeks ended March 26, 2016 were \$39,071 compared to \$43,174 for the 13 weeks ended March 28, 2015 representing a decrease of \$4,103 or 9.5%. The decrease is attributable to the reduced store count.

#### **Same café sales**

During the Quarter, same café sales decreased by 1.1%, compared to a similar decline of 1.1% in the comparable Quarter of 2015.

#### **Analysis of revenue**

Total revenue for the Quarter was \$7,434 (March 28, 2015 - \$9,014) 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 \$3,929 (March 28, 2015 - \$5,239). The decrease in revenue of \$1,310 is attributable to the mix of Company-owned cafés and “every day” retail price changes on our wholesale business.

Franchise revenue was \$3,505 for the Quarter (March 28, 2015 - \$3,775). The decrease in franchise revenue of \$270 is primarily driven by 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, the loss/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were \$8,167 (March 28, 2015 - \$8,946), a decrease of \$779.

#### **Company-owned cafés and product sales**

Company-owned cafés and product related expenses for the Quarter were \$4,357 (March 28, 2015 - \$5,230). The \$873 decrease is primarily attributable to the change in mix of corporate cafés.

#### **Franchise**

The Company incurred franchise related expenses of \$2,018 (March 28, 2015 - \$1,931). The increase of \$87 is due to favorable lease exit costs that occurred in the first quarter of 2015, but did not repeat this year.

#### **General and administrative**

General and administrative expenses were \$1,382 for the Quarter (March 28, 2015 - \$1,434). The \$52 decrease is due to reduced labour expenses.

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### **Gain and loss on disposal of assets**

A loss on disposal of \$4 was recognized in the Quarter (March 28, 2015 - Nil).

### **Depreciation and amortization**

Depreciation and amortization expense was \$406 (March 28, 2015 - \$351). The increase of \$55 is due to a total of 3 corporate cafés renovated to the new concept versus 1 last year.

### **EBITDA**

EBITDA for the quarter was a loss of \$327, compared to a gain of \$419 last year.

### **Net income (loss)**

The Company's net loss for the Quarter was \$606 or \$0.05 per share, compared to a net loss of \$76 or \$0.01 loss per share in the first Quarter of 2015. The increase in net loss of \$530 or \$0.04 per share was mainly due to Company-owned cafés. 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)	<b>Q1 2016</b>	<b>Q4 2015<sup>2</sup></b>	<b>Q3 2015</b>	<b>Q2 2015</b>
System sales of cafés <sup>1</sup>	\$39,071	\$46,900	\$41,087	\$43,715
Same café sales <sup>1</sup>	(1.1%)	0.2%	(2.9%)	(3.2%)
Number of cafés - end of period	307	310	327	339
Total revenue	\$7,434	\$9,636	\$9,270	\$9,421
Operating income (loss) <sup>1</sup>	(\$733)	\$167	(\$1,310)	(\$6)
EBITDA <sup>1</sup>	(\$327)	\$554	(\$924)	\$334
Net income (loss) for the period	(\$606)	\$94	(\$1,099)	(\$72)
Basic and diluted earnings (loss) per share	(\$0.05)	\$0.01	(\$0.09)	(\$0.01)
Dividends declared per share	-	-	-	-
	<b>Q1 2015</b>	<b>Q4 2014<sup>2</sup></b>	<b>Q3 2014</b>	<b>Q2 2014</b>
System sales of cafés <sup>1</sup>	\$43,174	\$49,427	\$43,596	\$45,829
Same café sales <sup>1</sup>	(1.1%)	(3.9%)	(3.3%)	(5.0%)
Number of cafés - end of period	344	347	349	357
Total revenue	\$9,014	\$8,427	\$6,686	\$6,435
Operating (loss) income <sup>1</sup>	\$68	(\$521)	(\$30,214)	(\$388)
EBITDA <sup>1</sup>	\$419	(\$139)	(\$26,866)	(\$113)
Net (loss) income for the period	(\$76)	(\$469)	(\$26,230)	(\$390)
Basic and diluted (loss) earnings per share	(\$0.01)	(\$0.04)	(\$2.65)	(\$0.04)
Dividends declared per share	-	-	-	-

<sup>1</sup>See the section “Definitions and discussion on certain non-GAAP financial measures” for further analysis.

<sup>2</sup>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.

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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.

As the Canadian specialty coffee company, bringing the best coffees in the world to customers is at the core of the brand and fundamental to redefining Second Cup as the coffee brand most passionately committed to quality and innovation. The company has taken its coffee to even higher levels of excellence by improving every step of the coffee process from farm to cup. Cafés have started to serve the enhanced coffees and beginning May 17th, Canadians can enjoy a new and unique blend called Batch49, perfect hot or cold for summer.

Food innovation continues as Second Cup prepares to launch a new premium quality breakfast program including 5 new breakfast sandwiches. The phased roll out begins in May.

The Company is aggressively working to reduce the number of corporate stores through franchising to strong operators and return to an asset light model. As of the date of this report the corporate café count has been reduced to 28.

The company is in compliance with the bank covenants as at March 26<sup>th</sup> 2016. While management believes the company will be able to comply with all of the financial covenants for the foreseeable future, there is no assurance covenants in the future will be met. Non-compliance with covenants in the future could impact the company's ability to further amend covenants or renew its facility.

### **DEFINITIONS AND DISCUSSION ON 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), and 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. 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**

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 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.

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A reconciliation of net income (loss) to EBITDA is provided below:

	<b>13 weeks ended March 26, 2016</b>	<b>13 weeks ended March 28, 2015</b>
Net income (loss)	\$ (606)	\$ (76)
Interest and financing	27	176
Income taxes (recovery)	(154)	(32)
Depreciation of property and equipment	303	273
Amortization of intangible assets	103	78
EBITDA	<u>(327)</u>	<u>419</u>