



## **The Second Cup Ltd. Reports Results for the Second Quarter 2016**

MISSISSAUGA, ON, July 29, 2016 /CNW/ - The Second Cup Ltd. (TSX: SCU) reported financial results today for the second quarter ended June 25, 2016.

### **Highlights:**

- Q2 same store sales of -1.3% compared to -1.1% in Q1. For the first 4 weeks of Q3 same store sales improved to +1.3%.
- Loss of \$441,000 or \$0.03 per share for the quarter compared with a loss of \$72,000 or \$0.01 per share in the second quarter of 2015. Net loss year to date is \$1,047,000 or \$0.08 per share compared to a loss of \$148,000 or \$0.01 per share in 2015.
- Continued progress towards asset light model with 29 corporate cafes compared with a peak of 47.

“We remain focused on re-franchising corporate cafes to dynamic operators for the long term success of the business” says Ms. Alix Box, President and CEO, The Second Cup Ltd. “I’m encouraged by the positive response to our newest breakfast sandwiches, FroChos and flavoured Frappes.”

### **Second Quarter 2016**

Same store sales were -1.3% in Q2 and -1.2% year to date. Alberta’s ongoing economic downturn continued to negatively impact overall same store sales by approximately 1.1% in the quarter. Recent same store sales have improved to +1.3% for the first 4 weeks of Q3.

## **Second Cup Q2 2016 Release (cont'd)Page 2**

The Net Loss of \$441,000 for the quarter was negatively impacted by the large number of corporate stores. The company continues to work aggressively to reduce the number of corporate stores through franchising to strong operators and returning to an asset light model. In spite of the negative impact on short term profitability, Second Cup believes this is the right approach to create long term value.

The company's current debt facility is due in January 2017. Accordingly, the company is actively pursuing options to refinance this debt including alternative debt financing, issuance of equity or other strategic alternatives.

Second Cup's strategic focus on premium quality food and beverage innovation advanced this quarter with the introduction of the new breakfast program now in approximately 50% of cafes, the new and unique Batch49 coffee blend, available hot or cold and flavour extensions on FroChos, its signature frozen hot chocolate. Second Cup Toronto franchisee Eduardo Eed says, "In my cafes I'm seeing strong growth with the new breakfast sandwiches, the fresh local bakery program and innovative beverages like FroChos and Batch49". The incredible response to Batch49 from franchisees and customers has resulted in the company's decision to offer Batch49 daily in all stores. Comments on the company's Facebook page include "Batch49 from Second Cup is amazing! Wow!", "My new favourite".

### **About Second Cup Coffee Co.™**

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating over 300 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.**

**Barbara Mallon, Chief Financial Officer, (905) 362-1824 or**  
[investor@seconcup.com](mailto:investor@seconcup.com)

**For media inquiries: Adriana Lurz, Strategic Objectives, (647) 294-0293**

**[alurz@strategicobjectives.com](mailto:alurz@strategicobjectives.com)**

## **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 June 25, 2016 and June 27, 2015.

(in thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	13 weeks ended		26 weeks ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
System sales of cafés <sup>1</sup>	\$40,207	\$43,715	\$79,277	\$86,890
Same café sales <sup>1</sup>	(1.3%)	(3.2%)	(1.2%)	(2.2%)
Number of cafés - end of period	304	338	304	338
Total revenue	\$7,761	\$9,420	\$15,195	\$18,434
Operating costs and expenses	\$8,289	\$9,427	\$16,456	\$18,372
Operating income (loss) <sup>1</sup>	(\$528)	(\$7)	(\$1,261)	\$62
EBITDA <sup>1</sup>	(\$128)	\$334	(\$460)	\$753
Net loss and comprehensive loss	(\$441)	(\$72)	(\$1,047)	(\$148)
Basic and diluted loss per share as reported	(\$0.03)	(\$0.01)	(\$0.08)	(\$0.01)
Total assets - end of period	\$43,021	\$50,457	\$43,021	\$50,457
Number of common shares issued and outstanding - end of period	12,830,945	12,830,945	12,830,945	12,830,945

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

**OPERATIONAL REVIEW**

	June 25th, 2016	December 26th, 2015
Cash and cash equivalents	1,776	3,080
Restricted cash	1,071	840
Total assets	43,021	46,485
Total debts	5,990	5,977
Total liabilities	20,109	22,558
Total shareholders' equity	22,912	23,927

**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	2013	2014	2015	Average
First Quarter	24.5	24.0	24.7	24.4
Second Quarter	24.9	25.1	25.0	25.0
Third Quarter	23.5	23.9	23.5	23.6
Fourth Quarter	27.1	27.0	26.8	27.0
	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.

***Café network***

	13 weeks ended		26 weeks ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Number of cafés - beginning of period	307	344	310	347
Cafés opened	1	-	2	2
Cafés closed	(4)	(6)	(8)	(11)
Number of cafés - end of period	304	338	304	338

The Company ended the Quarter with 29 (June 27, 2015 - 47) Company-operated cafés.

**Second Quarter**

***System sales of cafés***

System sales of cafés for the 13 weeks ended June 25, 2016 were \$40,207 compared to \$43,715 for the 13 weeks ended June 27, 2015, representing a decrease of \$3,508 or 8.0%. The decrease is attributable to the reduced store network.

***Same café sales***

During the quarter, same café sales declined by 1.3%, compared to a decline of 3.2% in the comparable quarter of 2015.

***Analysis of revenue***

Total revenue for the Quarter was \$7,761 (2015 - \$9,420), consisting of Company-owned café and product sales, royalty revenue, and franchise fees and other revenue.

Company-owned cafés and product sales for the Quarter were \$3,895 (2015 - \$5,634). The decrease in revenue of \$1,739 is attributable to the reduced Company-owned café count.

Franchise revenue was \$3,866 for the Quarter (2015 - \$3,786). The increase in franchise revenue of \$80 was due to the decrease in Company-owned cafés.

***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 \$8,289 (2015 - \$9,427), a decrease of \$1,138.

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

Company-owned cafés and product related expenses for the Quarter were \$4,052 (2015 - \$5,622), a decrease of \$1,570. The decrease in costs is related to the reduced Company-owned café count.

***Franchise***

The Company incurred franchise related expenses of \$2,191 (2015 - \$1,968). This represents an increase of \$223.

***General and administrative***

General and administrative expenses were \$1,492 for the Quarter (2015 - \$1,584). The decrease of \$92 is mainly due to reduced head count at Coffee Central.

***Gain and loss on disposal***

A loss on disposal of \$154 was recognized in the Quarter (2015 - \$88 gain). The loss related to the resale of Company-owned cafés.

***Depreciation and amortization***

Depreciation and amortization expense was \$400 (2015 - \$341).

***EBITDA***

EBITDA for the Quarter was a loss of \$128, compared to a gain of \$334 last year.

***Net loss***

The Company's net loss for the Quarter was \$441 or \$0.03 per share, compared to net loss of \$72 or \$0.01 per share in 2015. A reconciliation of net income 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 26 weeks ended June 25, 2016 were \$79,277 compared to \$86,890 for the 26 weeks ended June 27, 2015, representing a decrease of \$7,613 or 9.0%. The decrease is mainly attributable to the smaller store network.

***Same café sales***

Same café sales declined by 1.2% for the 26 weeks ended June 25, 2016, compared to a decline of 2.2% for the 26 weeks ended June 27, 2015.

***Analysis of revenue***

Total revenue for the year to date was \$15,195 (2015 - \$18,434).

Company-owned cafés and product sales were \$7,824 (2015 - \$10,873). The decrease of \$3,049 is mainly attributable to reduced Company-owned cafés.

Franchise revenue was \$7,371 for the year to date (2015 - \$7,561). The decrease in revenue of \$190 is primarily a result of the decreased café count.

***Operating costs and expenses***

Operating expenses include the costs outlined above in the quarterly comments. Total operating expenses for the year to date were \$16,456 (2015 - \$18,372), a decrease of \$1,916.

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

Company-owned cafés and product related expenses for the year to date were \$8,415 (2015 - \$10,845), a decrease of \$2,430. The decrease in costs is related to fewer Company-owned cafés.

***Franchise***

Franchise related expenses of \$4,209 were incurred year to date (2015 - \$3,905), representing an increase of \$304.

***General and administrative***

General and administrative expenses were \$2,873 for the year to date (2015 - \$3,019). The decrease of \$146 is due to the reduced head count at Coffee Central.

***Gain and loss on disposal***

A loss on disposal of \$158 was recognized for the year to date (2015 - \$88 gain). The loss related to the resale of Company-owned cafés.

***Depreciation and amortization***

Depreciation and amortization expense was \$801 (2015 - \$691).

***EBITDA***

EBITDA for the year to date was a loss of \$460, compared to a gain of \$753 last year.

***Net income***

The Company's net loss for the year to date is \$1,047 or \$0.08 per share, compared to a net loss of \$148 or \$0.01 per share in 2015.

**SELECTED QUARTERLY INFORMATION**

(in thousands of Canadian dollars, except Number of cafés, Same café sales and per share amounts)	<b>Q2 2016</b>	<b>Q1 2016</b>	<b>Q4 2015<sup>2</sup></b>	<b>Q3 2015</b>
System sales of cafés <sup>1</sup>	\$40,207	\$39,071	\$46,900	\$41,087
Same café sales <sup>1</sup>	(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) <sup>1</sup>	(\$528)	(\$733)	\$167	(\$1,310)
EBITDA <sup>1</sup>	(\$128)	(\$327)	\$554	(\$924)
Net income (loss) for the period	(\$441)	(\$606)	\$94	(\$1,099)
Basic and diluted earnings (loss) per share	(\$0.03)	(\$0.05)	\$0.01	(\$0.09)
	<b>Q2 2015</b>	<b>Q1 2015</b>	<b>Q4 2014<sup>2</sup></b>	<b>Q3 2014</b>
System sales of cafés <sup>1</sup>	\$43,715	\$43,174	\$49,427	\$43,596
Same café sales <sup>1</sup>	(3.2%)	(1.1%)	(3.9%)	(3.3%)
Number of cafés - end of period	339	344	347	349
Total revenue	\$9,421	\$9,014	\$8,427	\$6,686
Operating income (loss) <sup>1</sup>	(\$6)	\$68	(\$521)	(\$30,214)
EBITDA <sup>1</sup>	\$334	\$419	(\$139)	(\$26,866)
Net loss for the period	(\$72)	(\$76)	(\$469)	(\$26,230)
Basic and diluted loss per share	(\$0.01)	(\$0.01)	(\$0.04)	(\$2.65)

<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.

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.

The company continues to work aggressively to reduce the number of corporate stores through franchising to strong operators and returning to an asset light model. This is part of our strategy. In spite of the negative impact on short term profitability, we believe this is the right approach to create long term value.

**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.

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

	13 weeks ended		26 weeks ended	
	June 25, 2016	June 27, 2015	June 25, 2016	June 27, 2015
Net loss	\$ (441)	\$ (72)	\$ (1,047)	\$ (148)
Interest and financing	70	71	97	248
Income taxes (recovery)	(157)	(6)	(311)	(38)
Depreciation of property and equipment	298	267	596	540
Amortization of intangible assets	102	74	205	151
EBITDA	<u>\$ (128)</u>	<u>\$ 334</u>	<u>\$ (460)</u>	<u>\$ 753</u>