



Aegis Brands Reports First Quarter Results

MISSISSAUGA, ON, June 19, 2020 /CNW/ - The Second Cup Ltd. (“Aegis Brands” or the “Company”) (TSX: SCU) today reported financial results for the first quarter ended March 28, 2020.

Highlights

- EBITDA loss, after adjusting for asset impairment charges, was \$1,473,000 in the quarter compared with adjusted EBITDA of \$349,000 last year.
- Net loss, after adjusting for non-cash write-down of assets, was \$1,991,000 or \$0.09 per share compared with \$403,000 or \$0.02 in 2019.
- Same store sales were -8.6% compared with -0.9% in Q1 2019.
- Completed the acquisition of Bridgehead Coffee on January 9, 2020.
- Granted Cannabis Retail Operator Licence by the Alcohol and Gaming Commission of Ontario on April 1, 2020.

First Quarter 2020

Same store sales were up 3.2% for Bridgehead and down 9.7% for Second Cup in the quarter. Unadjusted net loss was \$2,897,000 or \$0.13 per share compared with net income of \$642,000 or \$0.03 per share in the same period last year. In addition to the non-cash charges and asset write-downs, operating results were also negatively impacted by provisions for expected credit losses on future lease payments from franchise cafés and for deferred royalties and advertising fund contributions.

COVID-19: Impact and Recovery

Like all companies in the foodservice sector, the Company’s financial results in Q1 2020 were severely impacted by the COVID-19 pandemic. All 19 Bridgehead coffeehouses in Ottawa and 130 of the 244 Second Cup cafés across Canada closed in mid-March, and re-openings are just getting underway. Locations that remained in operation have experienced a dramatic reduction in both traffic and revenue.

By the end of June 2020, the Company expects to have all 19 Bridgehead coffeehouses and 185 Second Cup cafés open across the country. Locations in Eastern and Western Canada have been leading in reopenings, as restrictions ease in areas including Alberta, BC, and the Atlantic provinces. While Ontario and Quebec reopenings continue to lag, the majority of locations that remain closed are in malls, Universities, recreation facilities and office towers – locations the Company is expecting to have significantly slower return

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to normal sales level. For the four weeks ending June 13, same-store sales across the Second Cup system were 51% of last year's results.

"We are seeing stronger-than-expected results as provinces reopen, with cafés in Alberta and the Eastern provinces delivering year-over-year same-store sales results of approximately 75%, despite the fact that significant distancing regulations remain in place surpassing our post-COVID expectations," said Steven Pelton, President and CEO of Second Cup and Aegis Brands. "We are optimistic that this trend will continue in Ontario and Quebec as those markets continue to relax restrictions."

The Company has taken significant actions to support its franchisee network in the face of these unique business challenges, including:

- Halting the collection of all royalty and advertising fund payments for the period from February 23, 2020 to May 16, 2020.
- Reducing salaries for Coffee Central staff by 28%, and for the senior leadership team by up to 50%, and temporarily eliminating all compensation for the Company's Board of Directors.
- Eliminating Coffee Central positions where possible, through both temporary and permanent layoffs.
- Working closely with franchisees to help them understand, and take advantage of, any and all government programs available to them.
- Leading discussions with landlords to secure adjusted rents obligations that match the sales volumes from April forward.

The Company had no external debt and \$2.6 million in unrestricted cash at the end of Q1. In addition, the Company is engaging in discussions on various options to enhance liquidity.

"Ensuring the ongoing survival of small businesses and franchisees during this crisis can't be done by any company in isolation. We are grateful for the support of all levels of government, and many of our landlords across Canada. We urge those landlords who haven't been able to show flexibility to reconsider how they can support our hardworking franchisees," said Pelton. "I'm incredibly proud of our franchise network and the teams in each brand. The response to these unprecedented business challenges and the sacrifices made are truly inspiring. As Aegis Brands, Second Cup and Bridgehead emerge from this experience, I am confident we will be stronger than ever before."

In April 2020, Second Cup launched its first-ever ecommerce platform, offering home delivery of its products. Following the closure of its coffeeshouses due to COVID-19, Bridgehead has seen 10x growth in its online sales, and Bridgehead products have launched at both Farm Boy and Whole Foods locations in Ottawa.

In addition, work has continued on Aegis Brands' commitment to innovation in cannabis

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retail. Six former Second Cup locations and one additional location are in the process of conversion to cannabis retail outlets. The first two stores are expected to open in July 2020, and more details will be announced in the coming weeks.

About The Second Cup Ltd.

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating franchised and company-owned cafes across Canada. In November 2019, the Company announced its intention to implement a new operating structure in support of its new strategy. Subject to TSX and shareholder approval, the existing public company will change its name to Aegis Brands Inc., which will own and operate the existing Second Cup Coffee Co. specialty coffee business as part of a portfolio of brands that also includes Bridgehead and Hemisphere Cannabis Co. 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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CONSOLIDATED FINANCIAL HIGHLIGHTS

The following table sets out selected IFRS and certain non-IFRS 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 28, 2020 and March 30, 2019.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	13 weeks ended March 28, 2020 ²	13 weeks ended March 30, 2019 ³
System sales of cafés ¹	\$30,889	\$34,312
Same café sales ^{1,4}	(8.6%)	(0.9%)
Number of cafés - end of period	261	256
Total revenue	\$8,793	\$6,239
Operating costs and expenses	\$11,990	\$6,728
Operating income (loss) ¹	(\$3,197)	(\$489)
EBITDA ¹	(\$2,260)	\$350
Adjusted EBITDA ¹	(\$1,473)	\$350
Net income (loss) and comprehensive income (loss)	(\$2,897)	\$642
Adjusted net loss and comprehensive loss ¹	(\$1,991)	(\$403)
Basic and diluted earnings (loss) per share as reported	(\$0.13)	\$0.03
Adjusted basic and diluted loss per share ¹	(\$0.09)	(\$0.02)
Total assets - end of period	\$122,869	\$127,076
Number of weighted average common shares issued and outstanding	22,656,636	19,900,942

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

²Financial results in fiscal 2020 reflect the adoption of IFRS 16 specific to the Bridgehead brand, as a result of its acquisition by the Company on January 9, 2020. See the section "Changes in Accounting Policies" for further analysis.

³The Company's first quarter results in fiscal 2020 reflect the consolidated financial statements of its operating brands including Second Cup and Bridgehead, as a result of the acquisition of Bridgehead on January 9 of this fiscal year. The Company's comparative, prior year results reflect the consolidated financial results of its Second Cup brand.

⁴Same café sales represent the percentage change, on average, in sales at cafés operating system-wide that have been open for more than 12 months. For fiscal 2020, this includes same café sales for the Second Cup and Bridgehead brands.

ACQUISITION OF BRIDGEHEAD

On December 5, 2019, the Company announced the acquisition of Ottawa-based Bridgehead Coffee ("Bridgehead"), the Company's first acquisition since it announced its new operating structure and strategy in November. This acquisition closed on January 9, 2020. Bridgehead has 19 coffeehouses in Ottawa, Ontario, including its flagship roastery, all of which continue to operate under the Bridgehead brand.

The base purchase price consisted of cash consideration of \$6.0 million, stock consideration of \$3.3 million, which represents the fair value of the stock as at the valuation date of January 8, 2020, and additional earn out payments of up to \$1.5 million based on the profitability of Bridgehead's existing coffeehouses over the next two years.

The Company's first quarter results in fiscal 2020 reflect the consolidated financial statements of its operating brands including Second Cup and Bridgehead, as a result of the acquisition of Bridgehead on January 9, 2020. The Company's comparative, prior year results reflect the consolidated financial results of its Second Cup brand.

IFRS 16 was adopted for the acquiree, Bridgehead, from the date of its acquisition by The Second Cup Ltd. on January 9, 2020. All leases were recognized on the balance sheet at the acquisition date as identified lease assets acquired and lease liabilities assumed and measured using the model in IFRS 16 as if they were new leases on the acquisition date in accordance with IFRS 3.

First Quarter – The Second Cup Ltd

System sales of cafés

System sales of cafés for the 13 weeks ended March 28, 2020 were \$30,889 compared to \$34,312 for the 13 weeks ended March 30, 2019 representing a decrease of \$3,423 or 10%. The decrease in system sales of cafés is primarily due to the temporary closures of franchised and corporately owned cafés and scaled down nature of operations of open cafés (i.e. closure of dining room space; operations limited to take out, delivery, and drive-thru) as a direct impact of the COVID-19 pandemic.

Same café sales

During the Quarter, same café sales decreased by 8.6%, compared to a decline of 0.9% in the same Quarter of 2019. The decline in same café sales is driven by the economic consequences of COVID-19, including the significantly scaled down operations of open cafés to take out, delivery and drive thru.

Analysis of revenue

Total revenue for the Quarter was \$8,793 (2019 - \$6,239), an increase of \$2,554, consisting of Company-owned café and product sales inclusive of the Second Cup and Bridgehead operating brands in fiscal 2020, royalty revenue, advertising fund contributions, fees and other revenue.

Company-owned cafés and product sales for the Quarter were \$5,761 (2019 - \$2,462), an increase of \$3,299. The increase is due to a higher corporate café count of 53 this year, mainly due to the inclusion of the Bridgehead brand in fiscal 2020, as compared to 29 last year in the same quarter. Revenues and business performance from company owned cafés were significantly impacted by the economic consequences of COVID-19, especially in the last two weeks leading up to the end of the Company's first fiscal quarter in 2020.

Franchise revenue was \$3,032 for the Quarter (2019 - \$3,777), a decrease of \$745. As per preceding discussions, franchise revenues were impacted by the temporary closures of cafés and scaled down nature of operations of open cafés as a direct impact of the ongoing COVID-19 pandemic. Revenues are also lower due to a decrease in the café count of 208 this Quarter, as compared to 227 last year.

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. The Company's operating expenses for company owned cafes, franchise related expenses and general and administrative expenses are partially offset against the wage subsidy that the company applied for and received, in connection with the Canada Emergency Wage Subsidy (CEWS) announced by the Federal Government of Canada.

Total operating costs and expenses for the Quarter were \$11,990 (2019 - \$6,728), an increase of \$5,262.

Company-owned cafés and product related expenses for the Quarter were \$5,282 (2019 - \$2,505), an increase of \$2,777. The change is due to the increase in the store count of Company-owned cafés, as a result of the inclusion of Bridgehead locations this year, as compared to last year. This is partially offset against the impact of the wage subsidy.

Franchise related expenses for the Quarter were \$3,491 in the Quarter (2019 - \$2,016), an increase of \$1,475. The increase in franchise related expenses is primarily driven by \$822 of expected credit losses, in accordance with IFRS 9, recognized during the Quarter for leases receivable on the balance sheet due to the application of IFRS 16. This allowance is a non-cash adjustment recorded in the Quarter, and considers forward-looking factors, including the economic impact of the ongoing COVID-19 pandemic. The Company recorded bad debts expense of \$600 as a result of the Company's decision, in-light of COVID-19, to defer the collection from franchisees of the accrued royalties and cooperative advertising fund contributions for the periods of February 23 to March 28. The details and extension of this deferral are included in the Highlights of Significant Events.

General and administrative expenses were \$1,570 for the Quarter (2019 - \$1,368), an increase of \$202, which includes the impact of the wage subsidy.

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Depreciation and amortization expense were \$937 (2019 - \$838), an increase of \$99. Total amortization of right-of-use assets was \$484 in the Quarter under IFRS 16, and \$453 relates to the amortization on fixed and intangible assets.

Impairment indicators include when an individual Company-operated café experiences poor performance directly impacting cash flows. In the first quarter of fiscal 2020, the Company's cafés have experienced poor performance as a direct impact of the economic consequences of the COVID-19 pandemic. As a result of this, the underlying assets for each of the Company's corporate cafés, including fixed and right-of-use assets recorded in accordance with IFRS 16, have been assessed for impairment. The Company has recorded non-cash asset impairment charges of \$787 for the period ended March 28, 2020 to its right-of-use assets.

EBITDA

EBITDA for the Quarter was a loss \$2,260 (2019 – income of \$350), a decrease of \$2,610, driven primarily by the temporary closures of cafés and scaled down operations of open cafés due to the COVID-19 pandemic, higher bad debts expense as a result of the deferral of collection of accrued royalties and cooperative advertising contributions, a decision made by the Company to stand by and support its network of franchisees during a difficult economic situation, and the recording of non-cash expected credit losses in accordance with IFRS 9 and non-cash asset impairment charges.

Adjusted for asset impairment charges, EBITDA for the quarter was a loss of \$1,473.

Other loss

Other loss for the Quarter was \$450, composed of a decrease in the fair value of NAC warrants based on the Black-Scholes pricing model.

Interest and Financing Costs

The Company reported net interest and financing costs of \$304, as compared to \$63 in the same Quarter last year, primarily driven by non-cash net interest recorded on the Company's lease obligations and lease receivables, recorded in accordance with IFRS 16.

Net income (loss)

The Company reported a net loss for the Quarter of \$2,897 or \$0.13 per share, as compared to net income in the same Quarter last year of \$642 or \$0.03 per share.

Adjusted for impairment and other loss on NAC warrants, net loss for the Quarter was \$1,991 or \$0.09 per share, as compared to adjusted net loss last year in the Quarter of \$403 or \$0.02.

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-IFRS Financial Measures".

DEFINITIONS AND DISCUSSION ON CERTAIN NON-IFRS FINANCIAL MEASURES

In this MD&A, the Company reports certain non- IFRS 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- IFRS 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 by franchisees of the Company's 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.

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Reconciliations of net income (loss) to operating income (loss) and EBITDA, adjusted net income (loss) and adjusted net income (loss) per share are provided below:

	13 weeks ended March 28, 2020¹	13 weeks ended March 30, 2019
Net income (loss)	\$ (2,897)	\$ 642
Income taxes (recovery)	(1,054)	232
Interest and financing expense	304	63
Other loss (income)	450	(1,426)
Operating loss	<u>\$ (3,197)</u>	<u>\$ (489)</u>

	13 weeks ended March 28, 2020¹	13 weeks ended March 30, 2019
Net income (loss)	\$ (2,897)	\$ 642
Income taxes (recovery)	(1,054)	232
Interest and financing expenses	304	63
Other loss (income)	450	(1,426)
Depreciation of property and equipment	352	158
Amortization of intangible assets	100	135
Amortization of right-of-use asset	485	545
EBITDA	<u>(2,260)</u>	<u>349</u>
Add impact of the following:		
Asset impairment charges	787	-
Adjusted EBITDA	<u>\$ (1,473)</u>	<u>\$ 349</u>

	13 weeks ended March 28, 2020¹	13 weeks ended March 30, 2019
Net income (loss)	\$ (2,897)	\$ 642
Add (deduct) impact of the following:		
After-tax other loss (income)	329	(1,045)
After-tax asset impairment	577	-
Adjusted net loss	<u>\$ (1,991)</u>	<u>\$ (403)</u>

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	13 weeks ended March 28, 2020 ¹	13 weeks ended March 30, 2019
Net income (loss) per share	\$ (0.13)	\$ 0.03
Add (deduct) impact of the following:		
After-tax other loss (income) per share	0.01	(0.05)
After-tax asset impairment	0.03	-
Adjusted net loss per share	<u>\$ (0.09)</u>	<u>\$ (0.02)</u>

¹ The Company's first quarter results in fiscal 2020 reflect the consolidated financial statements of its operating brands including Second Cup and Bridgehead, as a result of the acquisition of Bridgehead on January 9 of this fiscal year. The Company's comparative, prior year results reflect the consolidated financial results of its Second Cup brand.

FORWARD LOOKING STATEMENTS

This press release may contain forward-looking information that represents internal expectations, estimates or beliefs concerning, among other things, future activities or future operating results and various components thereof. The use of any of the words “anticipate”, “continue”, “expect”, “may”, “will”, “project”, “should”, “believe”, and similar expressions suggesting future outcomes or events are intended to identify forward-looking information. Forward-looking statements include the Company’s expectations with respect to the execution of the Company’s strategy, the change of the Company’s name, the anticipated timing of the Company’s annual shareholder meeting, the number of Second Cup cafes offering modified or suspended services and the fluctuation of this number over time, the conversion of certain Second Cup cafés to retail cannabis stores and the expansion into the retail cannabis market, the imposition (or relaxation) of government restrictions and other factors (including the duration and terms of such restrictions), the extent of the expected impact of the COVID-19 pandemic and associated government regulation, expected consumer and commercial behavior and other related matters on the Company’s business, operations and financial performance, and the timing of any further updates. Statements regarding such forward-looking information reflect management’s current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on management’s estimates and assumptions that are subject to inherent risks and uncertainties, some of which are beyond the Company’s control, which could cause the Company’s actual performance and financial results in future periods to differ materially from the forward-looking information contained in this press release. The dynamic nature of the COVID-19 pandemic and the events and circumstances resulting from or associated with the pandemic mean that management can offer no assurance that forward-looking information or forward-looking statements will occur or be accurate in the circumstances. This is further discussed under the heading “Risk Factors” in the Company’s annual information form available at www.sedar.com.

Management’s estimates and assumptions include: the ability to manage the risks (economic, operational, financial, and other risks) associated with the COVID-19 pandemic, the ability to receive required shareholder and stock exchange approvals, the ability to continue integration activities relating to its acquisition, and the ability to expand into the retail cannabis market. Risks and uncertainties include: the ability to achieve anticipated benefits of the corporate reorganization; receipt of shareholder and stock exchange approvals; risks relating to the integration of acquisitions; risks relating to the new holding company structure following the reorganization; the risks associated with the COVID-19 pandemic; the risks associated with the expansion into the retail cannabis market. Although the forward-looking information contained in this press release is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Readers, therefore, should not place undue reliance on any such forward-looking statements.

The risks associated with the COVID-19 pandemic include: the ultimate extent, duration and severity of the pandemic itself and the associated government restrictions; effects on consumer and commercial behavior and other factors associated with or resulting from such pandemic, including that the outbreak of the COVID-19 pandemic could result in additional cafes temporarily suspending operations, decrease the willingness of guests to patronize the Company’s cafes, shortages of employees to staff the Company’s cafes, interruption of supplies from third parties upon which the Company relies, governmental regulations adversely impacting the Company’s business; the availability of the CECRA program; landlord willingness to consider franchisees’ requests for deferrals of rent or loan repayments and/or the Company’s requests to amend or terminate certain café leases; that franchisees may request that the Company take certain steps to support its franchisees (whether financially or otherwise); and that the pandemic and the consumer, governmental and commercial response to it could materially impact economic activity in general and otherwise have a material adverse effect on the Company’s business, financial condition and results of

operations. Such adverse effects could be rapid and unexpected.

All forward-looking information in this press release is qualified by these cautionary statements. Forward-looking information in this press release is presented only as of the date made. Except as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking statements to reflect subsequent events or circumstances.