SECOND CUP COFFEE CO.™

The Second Cup Ltd. Reports Third Consecutive Quarter of Positive EBITDA

MISSISSAUGA, ON, May 12, 2017 /CNW/ - The Second Cup Ltd. (TSX: SCU) today reported improved financial results for the first quarter ended April 1, 2017.

Highlights:

- EBITDA of $60,000 compared with -$332,000 in Q1 2016, an improvement of $392,000.
- Net Loss of $475,000 or $0.04 per share for the quarter compared with a Net Loss of $606,000 or $0.05 per share in Q1 of 2016.
- Q1 same store sales of -0.2% or +0.9% excluding Alberta.
- Garry Macdonald appointed interim CEO.

First Quarter 2017

Same store sales were -0.2 % in Q1. Excluding Alberta same store sales rose 0.9% in the quarter. Ontario, Second Cup's largest region, recorded positive same store sales in Q1 of 1.6%. After a soft January, same store sales were positive in February and March.

EBITDA of $60,000 represents the third consecutive quarter of positive EBITDA results. The Q1 net loss of $475,000 is an improvement of $131,000 over Q1 2016.

Second Cup launched a number of new products in the first quarter including a "Better For You" menu to meet the growing customer demand for healthier options. A line of smoothies is at the core of the program and based on strong customer adoption a third vegan, dairy and gluten free option was recently added. "The Better For You program has opened the door to a whole new group of customers for our cafes," says Tamara Bellamy, Second Cup franchisee and member of the franchisee Advisory Council. "I am proud of our new products that have had great reception to this innovative line."

New Developments

In April, Second Cup launched Flash Cold Brew, its latest innovation in the fastest growing segment in the coffee market. The unique brewing method produces superior taste for full flavour and incredible smoothness, available in Classic Black, Vanilla Bean and Mocca. To drive awareness and trial this summer, an aggressive grassroots marketing program includes sampling events and coffee bike street teams.

Second Cup continues to innovate and market test Better for You products and fresh lunch innovation to meet growing customer demand and has seen encouraging results for sales growth.

On May 10th, 2017, Second Cup announced a management change with the appointment of Garry Macdonald as interim CEO. "I am excited about the new product and sales initiatives currently underway and working with our team I have identified additional growth opportunities to further increase store level sales and profitability", says Mr. Macdonald.

Ms. Barbara Mallon, CFO, has made the decision to leave Second Cup on June 30th. Mr. Ba Linh Le, CPA, CGA will be Second Cup's new Chief Financial Officer effective that date. Mr. Le joined Second Cup as Finance Director in January and a smooth transition is anticipated. "We thank Ms. Mallon for her leadership and contributions over the past 2 years," says Michael Bregman, Chairman of the Board.

About Second Cup Coffee Co.™

Founded in 1975, The Second Cup Ltd. is a Canadian specialty coffee retailer operating over 290 franchised and company owned cafes in Canada. 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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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 April 1, 2017 and March 26, 2016.

(In thousands of Canadian dollars, except same café sales, number of cafés, per share amounts, and number of common shares.)	13 weeks ended April 1, 2017	13 weeks ended March 26, 2016
System sales of cafés[1]	$37,915	$39,071
Same café sales[1]	(0.2%)	(1.1%)
Number of cafés - end of period	293	307
Total revenue	$5,975	$7,434
Operating costs and expenses	$6,290	$8,167
Operating income (loss)[1]	($315)	($733)
EBITDA[1]	$60	($332)
Net income (loss) and comprehensive income (loss)	($475)	($606)
Basic and diluted earnings (loss) per share as reported	($0.04)	($0.05)
Total assets - end of period	$43,790	$43,547
Number of weighted average common shares issued and outstanding	12,830,945	12,830,945

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

Selected Balance Sheet Data

	April 1, 2017	December 31, 2016
Cash and Cash Equivalents	2,348	3,004
Restricted Cash	1,901	1,947
Total Assets	43,790	45,314
Total Debts	7,210	7,181
Total Liabilities	20,981	22,038
Total Shareholders' Equity	22,809	23,276

Café Network

	13 weeks ended April 1, 2017	13 weeks ended March 26, 2016
Number of cafés - beginning of period	294	310
Cafés opened	-	1
Cafés closed	(1)	(4)
Number of cafés - end of period	293	307

The Company ended the Quarter with 24 (March 26, 2016 – 32) 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 April 1, 2017 were $37,915 compared to $39,071 for the 13 weeks ended March 26, 2016 representing a decrease of $1,156 or 3.0%. The decrease is attributable mainly to the reduced store count.

Same café sales
During the Quarter, same café sales decreased by 0.2%, compared to a decrease of 1.1% in the same Quarter of 2016. Alberta's ongoing economic downturn continued to negatively impact overall same café sales by approximately 1.1% in the Quarter. Same café sales in Ontario, the Company's largest region, increased by 1.6% during the Quarter. The success of the Company's Better For You menu, launched in late January to meet growing customer demand for healthier options, has contributed to the improvement in same café sales.

Analysis of revenue
Total revenue for the Quarter was $5,975 (March 26, 2016 - $7,434) 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 $2,591 (March 26, 2016 - $3,929). The decrease in revenue of $1,338 is attributable to the reduced Company-owned cafés count from 32 last year to 24 this year and lower Company-branded consumer product sales. Reducing Company-owned cafés is consistent with the Company's strategy of returning to an asset light business model.

Franchise revenue was $3,384 for the Quarter (March 26, 2016 - $3,505). The decrease in franchise revenue of $121 in the Quarter is primarily due to a lower café count, offset by a slightly better blended royalty rate on higher average franchise café sales.

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/gain on disposal of assets, and depreciation and amortization. Total operating costs and expenses for the Quarter were $6,290 (March 26, 2016 - $8,167), a decrease of $1,877.

Company-owned cafés and product sales
Company-owned cafés and product related expenses for the Quarter were $2,896 (March 26, 2016 - $4,362), a decrease of $1,466. This decrease in costs is attributable to a lower number of Company-owned cafés and lower product sales as compared to the same Quarter in 2016.

Franchise

The Company incurred franchise related expenses of $1,536 in the Quarter (March 26, 2016 - $2,018), a decrease of $482. The decrease in expenses is attributable to moving from a national franchisee convention format to regional meetings with franchisees this year, plus other operational savings.

General and administrative

General and administrative expenses were $1,457 for the Quarter (March 26, 2016 - $1,382), an increase of $75.

Gain and loss on disposal of assets

A loss on disposal of $26 was recognized in the Quarter (March 26, 2016 – loss of $4). Gain and loss on disposal of assets are primarily related to the franchising of Company-owned cafés to franchise partners.

Depreciation and amortization

Depreciation and amortization expense was $375 (March 26, 2016 - $401).

EBITDA

EBITDA for the Quarter was $60 compared to a loss of $332 in the same Quarter of 2016. The increase of $392 is primarily due to higher earnings in the franchise segment.

Net income (loss)

The Company's net loss for the Quarter was $475 or $0.04 per share, compared to a net loss of $606 or $0.05 per share in 2016.

A reconciliation of net income (loss) to Adjusted 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)	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)	$301	($25)	($528)
EBITDA[1]	$60	$667	$357	($128)
Net income (loss) for the period	($475)	$147	($75)	($441)
Basic and diluted earnings (loss) per share	($0.04)	$0.01	($0.01)	($0.03)

	Q1 2016	Q4 2015[2]	Q3 2015	Q2 2015
System sales of cafés[1]	$39,071	$46,900	$41,087	$43,715
Same café sales[1]	(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 (loss) income[1]	($733)	$167	($1,310)	($6)
EBITDA[1]	($332)	$554	($924)	$334
Net (loss) income for the period	($606)	$94	($1,099)	($72)
Basic and diluted (loss) earnings per share	($0.05)	$0.01	($0.09)	($0.01)

[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).

The System Sales decreases quarter over quarter are primarily related to the reduction in total network café count and to a lesser extent to the changes in same café sales.

Seasonal factors and the timing of holidays cause the Company's revenue to fluctuate from quarter to quarter. Revenue decreases quarter over quarter are primarily related to the reduction of Company-owned cafés count and reduction in café count.

OUTLOOK

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

The Company launched Flash Cold Brew, its latest innovation in the fastest growing segment in the coffee market. The unique brewing method produces superior taste for full flavour and incredible smoothness, available in Classic Black, Vanilla Bean and Mocca. To drive awareness and trial this summer, an aggressive grassroots marketing program includes sampling events and coffee bike street teams.

The Company continues to innovate and market test Better For You products and fresh lunch innovation to meet growing customer demand and has seen encouraging results for sales growth.

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, free cash flows, net debt, loyalty sales, operating income (loss), EBITDA, adjusted EBITDA and adjusted earnings 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.

Free cash flow

Free cash flow is calculated as operating cash flow minus capital expenditures. Free cash flow represents the cash that a company is able to generate after spending the money required to maintain or expand its asset base. Free cash flow is important because it allows the Company to pursue opportunities that enhance shareholder value.

Net Debt

Net debt refers to the total debt of the Company minus cash and cash equivalents. It does not include cash classified as restricted. Net debt is discussed at times as management believes it is a useful indicator of the Company's ability to meet debt service and evaluate liquidity.

Loyalty Sales

Loyalty sales refers to system sales that are transacted in café through or in association with the Company's loyalty program. Loyalty sales are defined as sales transactions through the Company's loyalty app or sales transactions that are accompanied by the Company's loyalty card. Management views this as useful indicator of its loyal customer base.

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 April 1, 2017	13 weeks ended March 26, 2016
Net income (loss)	$ (475)	$ (606)
Interest and financing	258	27
Income taxes (recovery)	(98)	(154)
Depreciation of property and equipment	266	298
Amortization of intangible assets	109	103
EBITDA	$ 60	$ (332)