Freshii Inc. Announces Third Quarter Fiscal 2018 Results; Decides to Withdraw Outlook Through Fiscal 2019; and Announces TSX Acceptance of Normal Course Issuer Bid

TORONTO, Nov. 07, 2018 (GLOBE NEWSWIRE) -- Fast-growing health and wellness brand Freshii Inc. (TSX: FRII) (the "Company") today announced financial results for the third quarter ended September 30, 2018 ("Q3 2018"). Unless otherwise indicated, all amounts are expressed in U.S. dollars. Certain metrics, including those expressed on an adjusted basis, are non-IFRS measures. See "Non-IFRS Measures and Industry Metrics" below.

Beginning on January 1, 2018, the Company adopted IFRS 15, a new revenue recognition standard that affects the manner in which the Company records revenue on upfront franchise fees. IFRS 15 has no effect on the cash flows of the business, or the manner in which the Company collects these fees, which is at the time of execution of each franchise agreement. All figures for Q3 2018, the 13-week period ended September 24, 2017 ("Q3 2017"), and the 39-week periods ended September 30, 2018 and September 24, 2017, below are presented as if IFRS 15 was adopted at the beginning of fiscal 2017 for comparability purposes.

Highlights for the Third Quarter Fiscal 2018:

- The Company's system-wide sales grew to $45.8 million in Q3 2018, an increase of 26% compared to Q3 2017;
- The Company opened 10 net new stores in Q3 2018, comprised of 18 openings and 8 closures, resulting in year-over-year net new store growth of 25%;
- Royalty revenue and coordination fees, the Company's most predictable and stable recurring revenue streams, totaled $4.2 million for Q3 2018, an increase of 27% over Q3 2017;
- Same-store sales growth for Q3 2018 was (0.8%), compared to same-store sales growth of 5.1% for Q3 2017;
- Net income (loss) was ($0.4) million for Q3 2018 compared to ($0.5) million in Q3 2017;
- Adjusted EBITDA was $1.4 million for Q3 2018 compared to $1.5 million in Q3 2017; and
- The Company has withdrawn its outlook for all measures effective immediately.

Matthew Corrin, Chairman and Chief Executive Officer of Freshii, commented,

"In the third quarter, we continued to make progress towards driving our mission of building a global omni-channel health and wellness brand. We are pleased with the results from our partnership with Air Canada, and we have opened up phase one of our Shell partnership. We are also in later stage negotiations with several other potential non-traditional partners. In addition, in the third quarter of 2018, we opened 10 net new restaurants around the world, representing 25% year-over-year net new store growth, and our recurring royalty revenue streams continue to grow in excess of 25% year-over-year, which underscores the asset-lite, cash generative nature of our business model."

Commenting on the Company's decision to withdraw its outlook through fiscal 2019, Mr. Corrin continued, "Although we are withdrawing our outlook effective immediately, we remain excited about our business and its prospects in the future. We believe that our share price does not currently fully reflect that value, and that is one of the key reasons we have determined to commence a normal course issuer bid at this time. We look forward to continuing to work with our franchise partners to build value for the Company and its franchise partners, shareholders and other stakeholders over the long-term."

Outlook:

For the reasons described below, and in connection with the Company's work towards its mission of building a global omni-channel health and wellness brand (complementing its "traditional" franchise business) through its use of "non-traditional" third-party partnerships such as those with Air Canada, Shell and others, management has determined to withdraw its outlook for system wide store count of 730 to 760 stores by the end of fiscal 2019 effective immediately. Since the Company's outlook for system-wide sales growing to between $275 million and $285 million by the end of fiscal 2019, selling, general and administrative expenses as a percentage of system-wide sales of between 5.0% and 6.0% for the period fiscal 2018 through fiscal 2019 and Pro Forma Adjusted EBITDA between a range of $12 million to $14 million are all currently directly related to the Company's outlook for system-wide store count, management has similarly determined to withdraw the Company's outlook for these measures, also effective immediately. Management has further determined to withdraw its outlook for same store sales growth of between 3.0% and 4.0% for the period fiscal 2018 through fiscal 2019, as described below.

System-wide Store Count and Related Measures

Management anticipates that the Company will continue to grow its system-wide store count. However, though the company continues to add to its committed new location count and move these new stores through the 'active opening' process, the Company also continues to experience challenges in progressing franchise partners who are opening new stores through that process on the timelines anticipated by management.

In particular, the Company's recent acceleration in the growth of its new store count across the diverse new geographies in which it operates has resulted in the Company experiencing greater and ongoing variability in the timelines for completing the new store opening process than management had anticipated based on the Company's previous experience with new store openings. As a result, net new store openings for the Company since June 30, 2018 have been lower than anticipated, which in turn had a direct impact on system-wide sales and selling, general and administrative expenses as a percentage of system-wide sales and Pro Forma Adjusted EBITDA for this period.

Consequently, given this ongoing variability and the system-wide store count achieved to date, management has now determined that certain of its assumptions relating to its outlook for system-wide store count, system-wide sales, selling, general and administrative expenses as a percentage of system-wide sales and Adjusted Pro Forma EBITDA are no longer valid and that it cannot maintain the Company's outlook in respect of these measures. Management has also determined not to provide an updated outlook on these measures at this time.

The Company's outlook on these measures was made based a number of assumptions that management considered to be reasonable in the circumstances. However, a number of factors affecting the timeline for new store openings have progressed differently than had been assumed by the Company and the discrepancies in these timelines have affected the validity of certain management's assumptions, resulted in actual results differing from the results anticipated and, consequently, management's current ability, in light of the Company's rate of growth and other factors, to predict the timeline for new store openings in the manner anticipated. These factors, a number of which are outside the direct control of the Company, include:

- the time required in order to obtain the necessary permits, finalize leases and obtain the other agreements and approvals necessary to operate a Freshii restaurant in the various markets in which the Company now operates have varied materially from the Company's assumptions based on previous experience with new store openings, and the variability in this regard has increased as the Company has entered additional international markets;
- site selection processes in Canada and elsewhere for new stores have become longer and less predictable than anticipated; and,
- increased delays in real estate possession and turnover dates from landlords have affected the duration of the 'active opening process' for affected locations.

Management has previously taken steps to address delays in the development process, including expanding the Company's development and design team, the consolidation of its Canadian general contractor group and its engagement of a global project management firm to oversee and manage store buildouts. However, though these actions have improved aspects of the Company's 'active opening' process, and in particular those aspects of the process over which the Company has direct control, management has now determined that these actions have not accelerated the opening process to the extent anticipated by management for the reasons outlined above, including as a result of certain factors which are outside the direct control of the Company.

Given the decision to withdraw outlook for system-wide stores for the reasons described above, and because the outlook for system-wide sales, selling, general and administrative expenses as a percentage of system-wide sales and Pro Forma Adjusted EBITDA are premised on the previously provided system-wide store outlook, management has determined to withdraw the outlook for these additional measures as well.

Annual Same Store Sales Growth

The Company's outlook for annual same store sales growth was based on a number of assumptions that management considered to be reasonable in the circumstances. These assumptions included assumptions regarding the continuation of trends seen in same store sales leading into Q3 2018 and regarding the anticipated positive impact to same store sales resulting from certain marketing and sales initiatives that were to be implemented by the Company in Q3 2018. However, these initiatives, while showing signs of positive impact, have not matured on the timeline anticipated and did not have the anticipated effect on same store sales performance through Q3 2018. Additionally, the general positive same store sales trends leading into the quarter did not continue and did not have the anticipated impact in Q3 2018. Accordingly, management has determined that certain of its assumptions relating to its same store sales outlook, including those described above, are no longer valid and that it cannot maintain the Company's outlook in respect to this measure. The Company has also determined not to provide an updated same store sales outlook at this time.

Acceptance of Normal Course Issuer Bid Program by TSX

The Company also announced that the Toronto Stock Exchange (the “TSX”) has accepted the notice filed by the Company to establish a normal course issuer bid (“NCIB”) program.

The NCIB program commences on November 12, 2018 and will terminate on November 11, 2019, or on such earlier date as the Company may complete its purchases pursuant to a Notice of Intention filed with the TSX. Under the NCIB program, the Company is authorized to purchase up to 2,556,790 of its Class A subordinate voting shares (out of the 25,567,909 Class A subordinate voting shares in the public float of such shares as at October 31, 2018) representing approximately 10% of the public float of its Class A subordinate voting shares as at October 31, 2018, by way of normal course purchases effected through the facilities of the TSX and/or alternative Canadian trading systems. As of October 31, 2018, there were 25,894,981 Class A subordinate voting shares issued and outstanding. The average daily trading volume for the six months ended October 31, 2018 was 52,016 Class A subordinate voting shares. Class A subordinate voting shares purchased by the Company will be cancelled.

In deciding to establish the NCIB, the Company believes that the market price of the Class A subordinate voting shares may not, from time to time, fully reflect their value and accordingly the purchase of the Class A subordinate voting shares would be in the best interest of the Company and an attractive and appropriate use of available funds.

Purchases will be made by the Company in accordance with the requirements of the TSX and the price which the Company will pay for any such Class A subordinate voting shares will be the market price of any such Class A subordinate voting shares at the time of acquisition, or such other price as may be permitted by the TSX. For purposes of the TSX rules, a maximum of 13,004 Class A subordinate voting shares may be purchased by the Company on any one day under the bid, except where purchases are made in accordance with the “block purchase exception” of the TSX rules.

The Company has not currently entered into an automatic share purchase plan with its broker. However, the Company may in the future enter into such a plan with its broker to allow for the purchase of shares at times when the Company ordinarily would not be active in the market due to its own internal trading blackout periods, insider trading rules or otherwise, provided that the Company does not possess material non-public information about itself or its securities at the time that it enters into such agreement.

Earnings Conference Call and Audio Webcast:

A conference call to discuss third quarter financial results is scheduled for November 8, 2018, at 8:30 a.m. Eastern Time. The conference call can be accessed live over the phone by dialing 1-855-327-6837 (U.S. and Canada), or 1-631-891-4304 (International). An audio replay will be available from 11:30 a.m. Eastern Time on Thursday, November 8, 2018 through Thursday, November 15, 2018. To access the replay, please call 1-844-512-2921 (U.S. & Canada) or 1-412-317-6671 (International) and enter confirmation code 10005702. The call will also be webcast live from Freshii's investor relations website at http://ir.freshii.com. Following completion of the call, a recorded replay of the webcast will be available on the website.

About Freshii

Eat. Energize. That's the Freshii mantra. Freshii is a health and wellness brand on a mission to help citizens of the world live better by making healthy eating convenient and affordable. With a diverse and completely customizable menu of breakfast, soups, salads, wraps, bowls, burritos, frozen yogurt, juices, and smoothies served in an eco-friendly environment, Freshii caters to every taste and dietary preference.

Since it was founded in 2005, Freshii has opened over 430 restaurants in more than 17 countries around the world. Now, guests can energize with Freshii's menu anywhere from cosmopolitan cities and fitness clubs to sports arenas and airplanes.

Inquire about how to join the Freshii family: https://freshii.com/us/franchising.
Learn more about investing in Freshii: http://ir.freshii.com.
Learn about the Freshii brand: https://vimeo.com/195658178.
Find your nearest Freshii: http://www.freshii.com.
Follow Freshii on Twitter and Instagram: @freshii

Non-IFRS Measures and Industry Metrics

This news release makes reference to certain non-IFRS measures including key performance indicators used by management and typically used by our competitors in the restaurant industry. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS. We use non-IFRS measures including "EBITDA", "Adjusted EBITDA", "Pro Forma Adjusted EBITDA", "free cash flow", "free cash flow conversion", "Adjusted Net Income" and "Pro Forma Adjusted Net Income". This news release also makes reference to "system-wide sales", "system-wide stores", and "same-store sales growth" which are commonly used operating metrics in the restaurant industry but may be calculated differently by other companies in the restaurant industry. These non-IFRS measures and restaurant industry metrics are used to provide investors with supplemental measures of our operating performance and liquidity and thus highlight trends in our business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors and other interested parties frequently use non-IFRS measures, including restaurant industry metrics in the evaluation of companies in the restaurant industry. Our management also uses non-IFRS measures and restaurant industry metrics, in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of executive compensation. For a: (i) detailed definition of each of the non-IFRS measures and industry metrics referred to; and (ii) reconciliation of these non-IFRS measures refer to the Company's Management's Discussion and Analysis dated November 7, 2018, which is available on SEDAR at www.sedar.com.

Forward-Looking Information

Certain information in this news release contains forward-looking information and forward-looking statements which reflect the current view of management with respect to the Company's objectives, plans, goals, strategies, outlook, results of operations, financial and operating performance, prospects and opportunities, including statements relating to store count, same-store sales growth, negotiations with certain non-traditional partners, the commencement of the Company's NCIB program, the Company's belief that the price of its Class A subordinate voting shares does not reflect their value and the potential for the Company to enter into an automatic share purchase plan. Wherever used, the words "may", "will", "anticipate", "intend", "estimate", "expect", "plan", "believe" and similar expressions identify forward-looking information and forward-looking statements. Forward-looking information and forward-looking statements should not be read as guarantees of future events, performance or results, and will not necessarily be accurate indications of whether, or the times at which, such events, performance or results will be achieved. All of the information in this news release containing forward-looking information or forward-looking statements is qualified by these cautionary statements.

Forward-looking information and forward-looking statements are based on information available to management at the time they are made, underlying estimates, opinions and assumptions made by management and management's current belief with respect to future strategies, prospects, events, performance and results and including assumptions that negotiations with certain non-traditional partners will proceed on the timelines anticipated and that agreements will be entered into with such non-traditional partners, that the NCIB will be commenced on the timelines anticipated and in respect of the number and price at which the Company will acquire Class A subordinate voting shares in the market, and are subject to inherent risks and uncertainties surrounding future expectations generally. Such risks and uncertainties include, but are not limited to, those described in "Forward-Looking Statements" which are described in the Company's Management's Discussion and Analysis dated November 7, 2018 and in the Company's other filings, which are available on SEDAR at www.sedar.com.

Readers are urged to consider the risks, uncertainties and assumptions carefully in evaluating the forward-looking information and forward-looking statements and are cautioned not to place undue reliance on such information and statements. The Company does not undertake to update any such forward-looking information or forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable laws.

Selected Quarterly Consolidated Information

The following tables summarize our results of operations for the 13 and 39 week periods ended September 30, 2018 and the 13 and 39 week periods ended September 24, 2017 (in thousands).

	For the 13 weeks ended			
	September 30, 2018		September 24, 2017	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue				
Franchise revenue	$ 4,752	85 %	$ 3,711	84 %
Company-owned store revenue	850	15	687	16
Total revenue	**5,602**	**100**	**4,398**	**100**
Costs and expenses				
Cost of sales	719	13	583	13
Selling, general and administrative	3,463	62	2,148	49
Depreciation and amortization	566	10	171	4
Share based compensation expense	889	16	1,777	40
Total costs and expenses	**5,637**	**101**	**4,679**	**106**
Loss before interest costs, foreign exchange and income taxes	**(35)**	**-**	**(281)**	**(6)**
Interest expense, net	(125)	(2)	(135)	(3)
Foreign exchange loss	33	1	197	4
Income (loss) before income tax expense	**57**	**1**	**(343)**	**(7)**
Income tax expense	503	9	151	4
Net loss	**$ (446)**	**(8) %**	**$ (494)**	**(11) %**

	For the 39 weeks ended			
	September 30, 2018		September 24, 2017	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue				
Franchise revenue	$ 13,794	86 %	$ 10,498	84
Company-owned store revenue	2,205	14	1,947	16
Total revenue	**15,999**	**100**	**12,445**	**100**
Costs and expenses				
Cost of sales	1,909	12	1,632	13
Selling, general and administrative	9,774	61	7,709	62
Depreciation and amortization	988	6	296	2
Share based compensation expense	2,598	16	5,646	45
Total costs and expenses	**15,269**	**95**	**15,283**	**122**
Income (loss) before interest costs, foreign exchange and income taxes	**730**	**5**	**(2,838)**	**(22)**
Interest income, net	(341)	(2)	(105)	(1)
Foreign exchange gain	(73)	-	(257)	(1)
Income (loss) before income tax expense	**1,144**	**7**	**(2,476)**	**(20)**
Income tax expense (recovery)	861	5	(480)	(4)
Net income (loss)	**$ 283**	**2 %**	**$ (1,996)**	**(16)**

The following table summarizes our Consolidated Statement of Balance Sheet Information as at September 30, 2018 and December 31, 2017:

	As at September 30, 2018	As at December 31, 2017
	(in thousands)	

Cash	$ 29,586	$ 28,584
Total assets	45,090	42,605
Non-current financial liabilities	—	—
Total debt	—	—
Equity	33,161	31,594

The following table shows our cash flows information for the 39 week period ended September 30, 2018 and September 24, 2017:

	For the 39 weeks ended	
	September 30, 2018	**September 24, 2017**
	(in thousands)	
Net cash provided by (used in) operations	4,491	(1,380)
Net cash provided by (used in) investing	(2747)	(4,155)
Net cash provided by (used in) financing	(21)	26,012
Net increase in cash	$ 1,723	$ 20,477

The following table reconciles EBITDA, Adjusted EBITDA, Pro Forma Adjusted EBITDA, free cash flow, free cash flow conversion, Adjusted Net Income and Pro Forma Adjusted Net Income to the most directly comparable IFRS financial performance measure.

	For the 13 weeks ended		**For the 39 weeks ended**	
	(in thousands)			
	September 30, 2018	**September 24, 2017**	**September 30, 2018**	**September 24, 2017**
Net income (loss)	$ (446)	$ (494)	$ 283	$ (1,996)
Interest income, net	(125)	(135)	(341)	(105)
Income tax expense (recovery)	503	151	861	(480)
Depreciation and amortization	566	171	988	296
EBITDA	**$ 498**	**$ (307)**	**$ 1,791**	**$ (2,285)**
Adjustments:				
Share-based compensation expense(1)	889	1,777	2,598	5,646
Foreign exchange gain(2)	—	—	—	(481)
Transaction and other costs(3)	—	—	—	1,470
Adjusted EBITDA	**$ 1,387**	**$ 1,470**	**$ 4,389**	**$ 4,350**
Chicago master agreement commission costs(4)	—	—	—	290
Pro Forma Adjusted EBITDA	**$ 1,387**	**$ 1,470**	**$ 4,389**	**$ 4,640**
Pro Forma Adjusted EBITDA C$(6)	**C$ 1,813**	**C$ 1,849**	**C$ 5,653**	**C$ 6,074**
Less capital expenditures	$ 1,988	$ 12	$ 2,747	$ 189
Free cash flow	**$ (601)**	**$ 1,458**	**$ 1,642**	**$ 4,451**
Free cash flow conversion	**(43.3%)**	**99.2%**	**37.4%**	**95.9%**
Net income (loss)	(446)	(494)	283	(1,996)
Adjustments:				
Share-based compensation expense(1)	889	1,777	2,598	5,646
Foreign exchange gain(2)	—	—	—	(481)
Transaction and other costs(3)	—	—	—	1,470
Related tax effects(5)	(231)	(462)	(675)	(1,850)
Adjusted Net Income	**$ 212**	**$ 821**	**$ 2,206**	**$ 2,789**
Adjustments:				
Chicago master agreement commission costs(4)	—	—	—	290
Related tax effects(5)	—	(58)		(102)
Pro Forma Adjusted Net Income (loss)	**$ 212**	**$ 763**	**$ 2,206**	**$ 2,977**

Notes:
(1) In the 26 weeks ended July 1, 2018 and June 25, 2017, the Company granted RSUs to executive officers, management, employees, and non-management directors of the Company in conjunction with an annual employee grant and the Offering, respectively. In the 13 and 26 weeks ended July 1, 2018 and June 25, 2017, this amount includes non-cash, share-based compensation.
(2) Represents non-recurring foreign exchange gain on the Credit Facility. The Credit Facility was repaid during the 13 week period ended March 26, 2017.
(3) Represents expenses relating to the Offering (that relate to the selling shareholders) and other expenses such as Reorganization and restructuring costs.
(4) Represents commission costs paid under the Chicago master franchise agreement for which the Company bought back the Master

Franchise Agreement as part of the acquisition of 100% of the membership interests in MHD, LLC, completed during the 13 week period ended June 25, 2017.
(5) Related tax effects are calculated at statutory rates in Canada or U.S. depending on adjustment.
(6) Represents the Canadian dollar Pro Forma Adjusted EBITDA converted at the average exchange rates for each respective period.

The Company's unaudited consolidated financial statements for the 13 and 39 week periods ended September 30, 2018 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at www.sedar.com.

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Source: Freshii Inc.