Freshii Inc. Announces First Quarter Fiscal 2018 Results

TORONTO, May 09, 2018 (GLOBE NEWSWIRE) -- Fast-growing health and wellness brand Freshii Inc. (TSX:FRII) (the "Company") today announced financial results for the first quarter ended April 1, 2018 ("Q1 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 with Q1 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. While this new accounting standard has resulted in a revision of the Company's 2019 Proforma Adjusted EBITDA outlook as described below, it 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. The Company has restated its 2017 financials for the retrospective adoption of IFRS 15, and all figures for Q1 2018 and the 13-week period ended March 26, 2017 ("Q1 2017") below are presented as if IFRS 15 was adopted in Q1 2017 for comparability purposes.

Highlights for the First Quarter Fiscal 2018:

- The Company's system-wide sales grew to $39.0 million in Q1 2018, an increase of 34%, compared to Q1 2017;
- The Company opened 26 net new stores in Q1 2018, comprised of 27 openings and 1 closure, resulting in year-over-year net new store growth of 32%;
- Royalty revenue and coordination fees, the Company's most predictable and stable recurring revenue streams, totaled $3.6 million for Q1 2018, an increase of 38% over Q1 2017;
- Same-store sales growth for Q1 2018 was 1.6%, building on same-store sales growth of 6.4% for Q1 2017. The Company estimates that the timing of the Easter weekend had a negative impact of 1.2% on same-store sales growth in Q1 2018. Additionally, the Company estimates that unfavorable weather had a negative impact of approximately 1% on same-store sales growth in Q1 2018;
- Adjusted EBITDA was $1.5 million for Q1 2018, representing an increase of 50% as compared to Q1 2017;
- Proforma Adjusted EBITDA was $1.5 million for Q1 2018, representing an increase of 36% as compared to Q1 2017; and
- Net income (loss) was $0.4 million for Q1 2018 compared to ($1.1) million in Q1 2017.

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

"So far this year, we have made progress towards driving our mission of building a global omni-channel health and wellness brand. We just announced a new partnership with Shell to bring innovative, healthy and convenient offerings to almost 30 Shell sites across Ontario, through both an elevated grab and go model as well as our full-serve flagship locations. This is phase one of what we believe can be a long-term partnership between Shell and Freshii to make healthy food convenient and affordable for citizens of the world. Our partnerships with both Air Canada and now Shell, as well as many other global opportunities we are negotiating, are great examples of partnering with brands to drive our mutual missions, and we're just scratching the surface on how significant this opportunity can be for Freshii in the years to come. In addition, in the first quarter of 2018, we opened 26 net new restaurants around the world, representing 32% year-over-year unit growth. Our positive same-store sales of 1.6% was impacted by both the shift of Easter into Q1 2018 this year as well as some unusually harsh weather in many of our largest markets, which typically favours less healthy categories like pizza and wings, but we believe weather tends to even out over the long-term; and importantly, our recurring royalty revenue streams continue to grow in excess of 30% year-over-year, which underscores the asset-lite, cash generative nature of our business model."

Outlook:

The Company reiterates its outlook for the period through the end of fiscal 2019 that was issued on September 25, 2017, with the exception of the outlook related to Proforma Adjusted EBITDA, which is being revised solely as a result of the adoption of IFRS 15. Specifically, the Company reiterates the following:

- System-wide store count of between 730 and 760 stores by the end of fiscal 2019 (there are no e-stores included in this fiscal 2019 outlook);
- Annual same store sales growth outlook of between 3.0% and 4.0% for the period fiscal 2018 through fiscal 2019;
- System-wide sales growing to between $275 million and $285 million by the end of fiscal 2019; and
- 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.

The Company revises its outlook for the period through the end of fiscal 2019 as follows:

- Solely as a result of the adoption of IFRS 15, a non-cash accounting pronouncement that impacts the way our industry recognizes upfront franchise fee revenue, the Company revises its 2019 Proforma Adjusted EBITDA outlook from a range of $15 million to $17 million to a range of $12 million to $14 million.

Prior to the adoption of IFRS 15, the Company's outlook assumed average franchise fee revenue of approximately $30,000 per store in local currency (except for our international franchise partners, who are required to pay this amount in U.S. Dollars) would be recognized at the time of a new store opening. With the required adoption of IFRS 15, our Proforma Adjusted EBITDA outlook now assumes approximately half of the upfront franchise fee per store in local currency will be recognized at the time of a new store opening, with the remaining half deferred and amortized over the life of the franchise agreement, which is typically 10 years. There is no impact to cash flows, as we will continue to collect the franchise fee at the time of execution of the franchise agreement.

Our outlook is based on management’s current strategies and its assessment of its business and the restaurant industry as a whole and is considered to be forward-looking information for purposes of applicable Canadian securities laws. Readers are cautioned that actual results may vary. See “Forward-Looking Information” below for a description of the risks and uncertainties that impact Freshii’s business and that could cause actual results to vary. Further information on the Company’s outlook can be found in the ‘outlook’ section of Freshii’s Q1 2018 Management’s Discussion and Analysis, available at www.sedar.com.

Earnings Conference Call and Audio Webcast:

A conference call to discuss second quarter financial results is scheduled for May 10, 2018, at 9:30 a.m. ET. The conference call can be accessed live over the phone by dialing 1-877-425-9470 (U.S. and Canada), or 1-201-389-0878 (International). An audio replay will be available from 12:30 p.m. Eastern Time on Thursday, May 10, 2018 through Thursday, May 17, 2018 at 11:59 p.m. Eastern Time. To access the replay, please call 1-844-512-2921 (U.S. & Canada) or 1-412-317-6671 (International) and enter confirmation code 13679042. 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 390 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 May 9, 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 and same-store sales growth. 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 good faith belief with respect to future strategies, prospects, events, performance and results, 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 May 9, 2018, which is 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 week periods ended April 1, 2018 and March 26, 2017 (in thousands).

	For the 13 weeks ended			
	April 1, 2018		March 26, 2017	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue				
Franchise revenue	$ 4,355	90 %	$ 3,023	84 %
Company-owned store revenue	479	10	584	16
Total revenue	**4,834**	**100**	**3,607**	**100**
Costs and expenses				
Cost of sales	420	9	502	14
Selling, general and administrative	2,943	61	3,672	102
Depreciation and amortization	213	4	60	2
Share based compensation expense	783	16	1,441	39
Total costs and expenses	**4,359**	**90**	**5,675**	**157**
Income (loss) before interest costs, foreign exchange and income taxes	**475**	**10**	**(2,068)**	**(57)**
Interest expense, net	(110)	(2)	78	2
Foreign exchange loss (gain)	(58)	(1)	(463)	(12)
Income (loss) before income tax expense	**643**	**13**	**(1,683)**	**(47)**
Income tax expense (recovery)	212	4	(564)	(16)
Net income (loss)	**$ 431**	**9 %**	**$ (1,119)**	**(31) %**

The following table summarizes our Consolidated Statement of Balance Sheet Information as at April 1, 2018 and December 31, 2017:

	As at April 1, 2018	As at December 31, 2017
	(in thousands)	
Cash	$ 28,311	$ 28,584
Total assets	43,122	42,541
Non-current financial liabilities	—	—
Total debt	—	—
Equity (deficit)	32,004	31,792

The following table shows our cash flows information for the 13 week periods ended April 1, 2018 and March 26, 2017:

	For the 13 weeks ended	
	April 1, 2018	March 26, 2017
	(in thousands)	
Net cash provided by (used in) operations	982	(3,077)
Net cash provided by (used in) investing	(749)	87
Net cash provided by (used in) financing	(8)	26,374
Net increase (decrease) in cash	$ 225	$ 23,384

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 (in thousands)	
	April 1, 2018	March 26, 2017
Net income (loss)	$ 431	$ (1,119)
Interest expense, net	(110)	78

Income tax expense (recovery)		212		(564)
Depreciation and amortization		213		60
EBITDA	$	**746**	$	**(1,545)**
Adjustments:				
Share-based compensation expense[1]		783		1,441
Foreign exchange gain[2]		—		(481)
Transaction and other costs[3]		—		1,608
Adjusted EBITDA	$	**1,529**	$	**1,023**
Chicago master agreement commission costs[4]		—		125
Pro Forma Adjusted EBITDA	$	1,529	$	1,148
Pro Forma Adjusted EBITDA C$[6]	C$	1,940	C$	1,457
Less capital expenditures	$	449	$	43
Free cash flow	**$**	**1,080**	**$**	**1,105**
Free cash flow conversion		**70.6%**		**96.3%**
Net income (loss)		431		(1,119)
Adjustments:				
Share-based compensation expense[1]		783		1,441
Foreign exchange gain[2]		—		(481)
Transaction and other costs[3]		—		1,608
Related tax effects[5]		(204)		(793)
Adjusted Net Income	$	**1,010**	$	**656**
Adjustments:				
Chicago master agreement commission costs[4]		—		125
Related tax effects[5]		—		(44)
Pro Forma Adjusted Net Income (loss)	**$**	**1,010**	**$**	**737**

Notes:

(1) In the 13 weeks ended April 1, 2018 and March 26, 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 13weeks ended April 1, 2018 and March 26, 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 week period ended April 1, 2018 and Management’s Discussion and Analysis are available under the Company’s profile on SEDAR at www.sedar.com.

Source: Freshii Inc.

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