



Freshii Inc. Announces Second Quarter 2020 Results

8/13/2020

Generates positive free cash flow in Q2 and maintains strong, stable cash position into Q3

Over 90% of North American traditional locations (and over 80% globally) now open

Month on month same-store sales recovery in Q2 continuing in Q3 to date

Advancement of strategic agenda with anticipated app rollout in Q4

Announces \$1M investment to accelerate restaurant sales recovery

Expansion of full CPG offering to 23 ONroute travel hubs

TORONTO, Aug. 13, 2020 (GLOBE NEWSWIRE) -- Health and wellness brand Freshii Inc. (TSX: FRII) ("Freshii" or, the "Company") today announced financial results for the second quarter ended June 28, 2020 ("Q2 2020").

"While recognizing the challenges that the COVID-19 pandemic continues to present to our franchisees, employees and the broader restaurant industry, we are encouraged by the improving sales and reopening trends we are now seeing each week in our restaurants," said Matthew Corrin, Chairman and Chief Executive Officer of Freshii. "We remain focused on executing against our strategic agenda and making sound investments to support our franchisees, all while taking prudent steps to actively manage our strong cash position. We continue to be excited about our omnichannel growth, particularly with the recent addition of ONroute travel hubs to our retail distribution network, the continued progress and excitement around the development of Freshii's dinner daypart, and the upcoming roll out of our new ordering and delivery app."

Business Update and Key Metrics

- Through the latter part of Q2 2020 and Q3 to date, Freshii restaurants have been reopening at an encouraging rate and have seen their same-store sales improve on a week-over-week basis. Specifically,

° Same-store sales trends have continued to improve, with approximately 70% of last year's sales recovered across our network as of the two-week period ended August 9, 2020;

° 168 Freshii stores have remained fully or partially open throughout the pandemic period and to date. Having not closed, these locations are comparatively the furthest along in their sales recovery process and have regained, on average, more than 80% of last year's sales as of the two-week period ended August 9, 2020. Stores that did close temporarily before reopening are also improving from their initial reopening sales levels;

° More than 80% of Freshii's global restaurants, including more than 90% of its North American stores, were open fully or for take-out/delivery during the week ended August 9, 2020. The stores that remain closed are primarily non-traditional locations in airports and on university campuses, traditional North American stores in urban business districts and malls and locations outside of North America facing stricter government restrictions.

- Freshii remains committed to maintaining financial flexibility, including with regard to its cash balance, which was \$30.7 million (C\$41 million) as of August 11, 2020 and has remained stable through the first five months of the COVID-19 pandemic.
- In consultation with relevant franchise partners, Freshii closed 40 underperforming locations in Q2 2020. The majority of these store closures were of locations with sales levels in 2019 that were significantly below Freshii's 2019 System Wide Average Unit Volume that both Freshii and the relevant franchise partner agreed were not well-positioned to succeed in the pandemic or post-pandemic environment.
- Marc Kielburger has resigned as a director of the Company for personal reasons. The resignation will be effective on August 14, 2020. The Company thanks Marc for his contributions and perspectives shared during his time on the Company's board of directors, and wishes him well in his future endeavours.

2020 Strategic Pillars

The Company has outlined 3 strategic pillars for 2020 to accelerate short-term recovery and position the brand for long-term growth:

Focus on Core Business

Digital and Delivery Acceleration

Develop Dinner as a Second Daypart

Focus on Core Business

Significant steps have been made in Q2 2020 and into the third quarter, including the completion of a Canada-wide rollout of our new elevated chicken, the most popular protein offering with our guests, after strong test results in Ontario drove higher average cheque.

We are continuing to develop a data-driven, customer centric innovation pipeline of new menu items that we will test through our stage-gate approach in the coming quarters.

Digital and Delivery Acceleration

Customer habits are changing quickly, and the impact of COVID-19 has accelerated pre-existing shifts to digital ordering and delivery channels. Freshii has taken important steps in Q2 to be better positioned to meet customer's needs with respect to how and where they want to interact with our brand. Throughout Q2, the Company made critical progress in this area, including completing the rollout of both UberEats and Doordash partnerships across 90% of serviceable locations across North America. We believe a meaningful portion of Freshii's delivery sales are incremental sales and continue to partner with third party delivery aggregators to offer convenience and value to Freshii customers.

We have also made critical progress on our technology and digital app roadmap, with over 90% of North American traditional restaurants fully completing the point of sale system upgrades, creating a consistent restaurant platform to integrate future technology enhancements.

We have also reached several significant milestones with our new mobile app, with development substantially complete and testing having begun in select locations. We are excited about introducing this new 'frictionless' experience for our customers, as well as point of sale integration that will create efficiencies for our franchisees and restaurant team members. Our new app remains on track for phase 1 launch in Q4 of 2020.

Develop Dinner as a Second Daypart

Freshii continues to see an increase in the dinner daypart as a percentage of sales as compared to pre-COVID-19 periods. Freshii launched its first market test of the Company's new dinner plates platform in Vancouver, Canada, complete with family meal options and sides and available for dine in, takeout or delivery.

Early test results demonstrated strong guest trial and garnered positive franchisee feedback. During the test, dinner plates drove up average cheque, which we believe was a result of their premium positioning, protein inclusive pricing and higher beverage attachment rates. We remain excited about dinner as a second daypart opportunity, and we are pleased to see strong early guest trial of our dinner platform.

Franchisee Incremental Investment Program

This week, we announced to our franchise partners an investment program that Freshii will be funding over the next 12 months to help accelerate the sales recovery of our restaurants. We intend to invest to support our

restaurant network in the following areas:

- the launch and adoption of Freshii's new mobile app;
- incremental marketing and loyalty investments;
- the implementation of an enhanced customer experience program; and
- direct support for restaurants that have been more significantly impacted by COVID-19 by reducing their supply chain delivery costs.

This \$1 million investment is to be partially funded by the Company's cost management initiatives, described further below.

Freshii CPG Launches with ONroute

In addition to continuing to work with its current retail partners, including Walmart Canada, Shell, Air Canada and others, in late-July, Freshii launched its full CPG offering in 23 highway-side ONroute locations in Ontario. Early results of the new partnership have been encouraging, as drivers appreciate the availability of a healthy and wholesome options while on the road.

Cost Base Management and Liquidity

Driving cost discipline and maintaining sufficient liquidity is a top focus both for our franchisees and at a corporate level. For our franchised restaurants, in consultation with our franchise council, we have supported in the implementation of cost reduction initiatives and extended payment terms designed to improve profitability while ensuring restaurants remain well prepared to meet growing guest counts as sales continue to improve.

In addition, Freshii is testing a new operating model in a select number of restaurants in Ontario. The new operating model includes a simplified menu, improved ingredient line flow, more efficient product build sequencing and new menu price point architecture. Early results from this test are positive and we are optimistic that we will be able to leverage learnings to date to scale the streamlined model to restaurants across a wide range of sales levels.

We also continue to support our franchisees in accessing government support programs and in their negotiations with landlords, as rent continues to be the single largest fixed cost for our small business owner-operator franchisees.

At a corporate level, in early August the Company undertook a re-organization that resulted in a decrease in headquarters employee head count. Having evolved our ways of working through the pandemic period to date, we believe that we can operate with this leaner team while improving the velocity of our execution and maintaining our

high standard of franchise partner support. This reorganization also contributes to our ability to invest in the franchise system when and as needed.

We have maintained a strong stable cash position through the pandemic to date, with \$30.7 million (C\$41 million) in cash as at August 11, 2020. We are committed to maintaining adequate liquidity and financial flexibility throughout the pandemic, while also investing in strategic priorities across both our restaurant and CPG divisions. We strongly believe that, if the recovery and re-opening of economies in the markets in which we operate continues as we anticipate, we can continue to generally maintain our strong cash position in the coming quarters while continuing to reinvest for growth in our restaurant and CPG divisions.

Financial Highlights for the Second Quarter

- Same-store sales growth of (46.5%) for Q2 2020 for stores that were open throughout Q2 2020, with sequential improvement each month of the quarter as average sales per store per week in June more than doubled vs April. Inclusive of stores that had temporarily closed and then re-opened during the quarter, same-store sales growth for Q2 2020 was (51.4%);
- Net closures of 37 locations during Q2 2020, comprised of 40 closures and 3 openings;
- System-wide sales were \$16.0 million in Q2 2020, compared to \$49.6 million for the 13 week period ended June 30, 2019 (“Q2 2019”), representing a decrease of \$33.6 million or 68%;
- Royalty revenue and coordination fees totaled \$1.8 million for Q2 2020, a decrease of \$3.0 million or 62% compared to Q2 2019;
- Net loss was \$0.5 million for Q2 2020, compared to net income of \$0.4 million in Q2 2019;
- Adjusted EBITDA was \$0.6 million for Q2 2020, compared to \$1.8 million for Q2 2019; and,
- Free cash flow was \$0.6 million for Q2 2020, compared to \$1.5 million for Q2 2019.

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 grown to operate 430 restaurants in 14 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://www.freshii.com/ca/en-ca/franchise>.

Learn more about investing in Freshii: <http://www.freshii.inc>.

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", "Adjusted EBITDA on a constant currency basis", "free cash flow", "free cash flow conversion" and "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 August 13, 2020, 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, the recovery of the Company's franchise system, that healthy eating trends will continue, the effectiveness of the Company's realignment of its 2020 strategic pillars, the timelines for and effectiveness of new menu rollouts (including our elevated chicken items), the development of the

Company's new app, the Company's plans with respect to its Franchisee Incremental Investment Program, the ability of the Company to scale its new operating model and take advantage of the cost savings that have resulted from the re-organization, the ability of the Company to generally maintain its existing cash position and to reinvest, the growth of the dinner daypart and the extent of the expected impact of the COVID-19 pandemic and associated government regulation on Freshii's business, operations and financial performance. Wherever used, the words "may", "will", "anticipate", "intend", "estimate", "expect", "plan", "believe", "lead", "continue", "plan", "design", "likely" 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. In particular, the Company notes that the dynamic nature of the COVID-19 pandemic and the events and circumstances resulting from or associated with that pandemic mean that management can offer no assurance such forward-looking information or forward-looking statements will occur or be accurate in the circumstances.

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. These estimates, opinions and assumptions include that the COVID-19 pandemic and associated government regulation, expected consumer behaviour and other matters will not have a materially different impact on the business, operations or financial performance than currently anticipated by management, the continued availability of food commodities used by Freshii locations at stable prices, the availability and timely receipt of funds expected by management to be received in connection with applicable government relief programs, that Freshii will be able to continue to effectively assist its franchise partners (including that its further \$1 million investment will generate the benefits on the timelines anticipated or at all), that the recovery and re-opening of the economies (including the dates upon which various regions are permitting restaurants to reopen for dine-in service) in Canada and the United States and elsewhere will occur in the manner and on the timelines anticipated by management, the continued access by the Company and its franchise partners to a pool of suitable workers at reasonable wage levels, that the foreign exchange rates may continue to fluctuate (in particular, that the value of the Canadian dollar will continue to fluctuate against the US dollar and other currencies), that the recovery of Freshii's franchise system occurs on the timelines and in the manner anticipated, that healthy eating trends continue in the manner anticipated, that the re-alignment of the Company's 2020 strategic pillars, the timelines for new menu rollouts, the development of the Company's new app, the implementation of the Company's Franchisee Incremental Investment Program, the anticipated growth in the dinner daypart and the development of strategies to drive down costs with franchise partners and cost control activities at the corporate level will each have the anticipated effect on the

Company's business, operations and financial performance and will proceed on the timelines and in the manner currently anticipated by management, and are subject to inherent risks and uncertainties surrounding future expectations generally, including that such estimates, opinions and assumptions may not be accurate, particularly given the dynamic nature of the COVID-19 pandemic and the events and circumstances resulting from or associated with that pandemic. 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 August 13, 2020 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 table summarizes our results of operations for the 13 and 26 week periods ended June 28, 2020 and June 30, 2019, respectively:

(in thousands)	For the 13 weeks ended			
	June 28, 2020		June 30, 2019	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue				
Franchise revenue	\$ 2,443	95 %	\$ 5,113	88 %
Company-owned store revenue	141	5	666	12
Total revenue	2,584	100	5,779	100
Costs and expenses				
Cost of sales	146	6	577	10
Selling, general and administrative	1,832	71	3,395	60
Depreciation and amortization	489	19	511	9
Share based compensation expense	430	17	511	9
Total costs and expenses	2,897	113	4,994	88
Income before interest, foreign exchange & income taxes	(313)	(13)	785	12
Interest income, net	14	1	(39)	(1)
Foreign exchange loss (gain)	208	8	114	2
Income before income tax expense	(535)	(22)	710	11
Income tax expense	(10)	-	277	5
Net loss	(525)	(20)	433	6
Currency translation adjustment	837	32	638	11
Comprehensive income (loss)	\$ 312	12 %	\$ 1,071	19 %

(in thousands)	For the 26 weeks ended			
	June 28, 2020		June 30, 2019	
	Amount	Percent of Total Revenue	Amount	Percent of Total Revenue
Revenue				
Franchise revenue	\$ 6,524	91 %	\$ 9,648	88 %
Company-owned store revenue	619	9	1,273	12
Total revenue	7,143	100	10,921	100
Costs and expenses				
Cost of sales	539	8	1,144	10
Selling, general and administrative	7,180	101	7,174	67
Depreciation and amortization	2,213	31	939	9
Share based compensation expense	1,129	16	659	6
Total costs and expenses	11,061	156	9,916	92
Income before interest, foreign exchange & income taxes	(3,918)	(56)	1,005	8
Interest income, net	(40)	(1)	(84)	(1)
Foreign exchange loss (gain)	(327)	(5)	226	2
Income before income tax expense	(3,551)	(50)	863	7
Income tax expense	(540)	(8)	327	3
Net loss	(3,011)	(42)	536	4
Currency translation adjustment	(1,511)	(21)	1,273	12
Comprehensive income (loss)	\$ (4,522)	(63 %)	\$ 1,809	17 %

The following table summarizes our Consolidated Statement of Balance Sheet Information as at June 28, 2020 and December 29, 2019:

(in thousands)	As at June 28, 2020	As at December 29, 2019
Cash	\$ 29,986	\$ 31,615
Total assets	48,865	53,046
Equity	30,547	33,921

The following table shows our cash flows information for the 26 week periods ended June 28, 2020 and June 30, 2019, respectively:

(in thousands)	For the 26 weeks ended	
	June 28, 2020	June 30, 2019
Net cash provided by operations	\$ (83)	\$ 2,588
Net cash used in investing	(338)	(367)

Net cash used in financing		(164)		(239)
Net increase (decrease) in cash	\$	(585)	\$	1,982

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

(in thousands)	For the 13 weeks ended		For the 26 weeks ended	
	June 28, 2020	June 30, 2019	June 28, 2020	June 30, 2019
Net loss	\$ (525)	433	(3,011)	536
Interest income, net	14	(39)	(40)	(84)
Income tax expense	(10)	277	(540)	327
Depreciation and amortization	489	511	2,213	939
EBITDA	\$ (32)	1,182	(1,378)	1,718
Adjustments:				
Share-based compensation expense(1)	430	511	1,129	659
Foreign exchange (gain) loss	208	114	(327)	226
Other costs(2)	-	-	1,577	412
Adjusted EBITDA	606	1,807	1,001	3,015
Constant currency remeasurement	-	(27)	-	(30)
Adjusted EBITDA on a constant currency basis	606	1,780	1,001	2,985
Less capital expenditures	48	278	338	367
Free cash flow	558	1,529	663	2,648
Free cash flow conversion	92.1 %	84.6 %	66.2 %	87.8 %
Net loss	(525)	433	(3,011)	536
Adjustments:				
Share-based compensation expense(1)	430	511	1,129	659
Foreign exchange (gain) loss	208	114	(327)	226
Other costs(2)	-	-	1,577	412
Related tax effects(3)	(169)	(166)	(630)	(344)
Adjusted Net Income (Loss)	(56)	892	(1,262)	1,489

Notes:

(1) In the 26 week periods ended June 28, 2020 and June 30, 2019, the Company granted RSUs to executive officers, management, employees, and non-management directors of the Company in conjunction with an annual employee grant.

(2) For the 26 week period ended June 28, 2020, represents an accrual for accounting purposes of certain professional fees associated with one-time investments in the Company's growth strategy. See also "Selling, General and Administrative" in "Results of Operations" section in the Company's related Management Discussion and Analysis, available on www.sedar.com. For the 26 week period ended June 30, 2019, represents expenses related to severance costs to employees previously employed by the Company.

(3) Related tax effects are calculated at statutory rates in Canada or U.S. depending on adjustment.

The Company's condensed consolidated interim financial statements for the 13 and 26 week periods ended June 28, 2020 and the relevant Management's Discussion and Analysis documents, are available under the Company's

profile on SEDAR at www.sedar.com.

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Source: Freshii Inc.

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