# GOOD FOOD MAKES GREAT RESULTS

## A&W REVENUE ROYALTIES INCOME FUND

**AUGUST 2019**

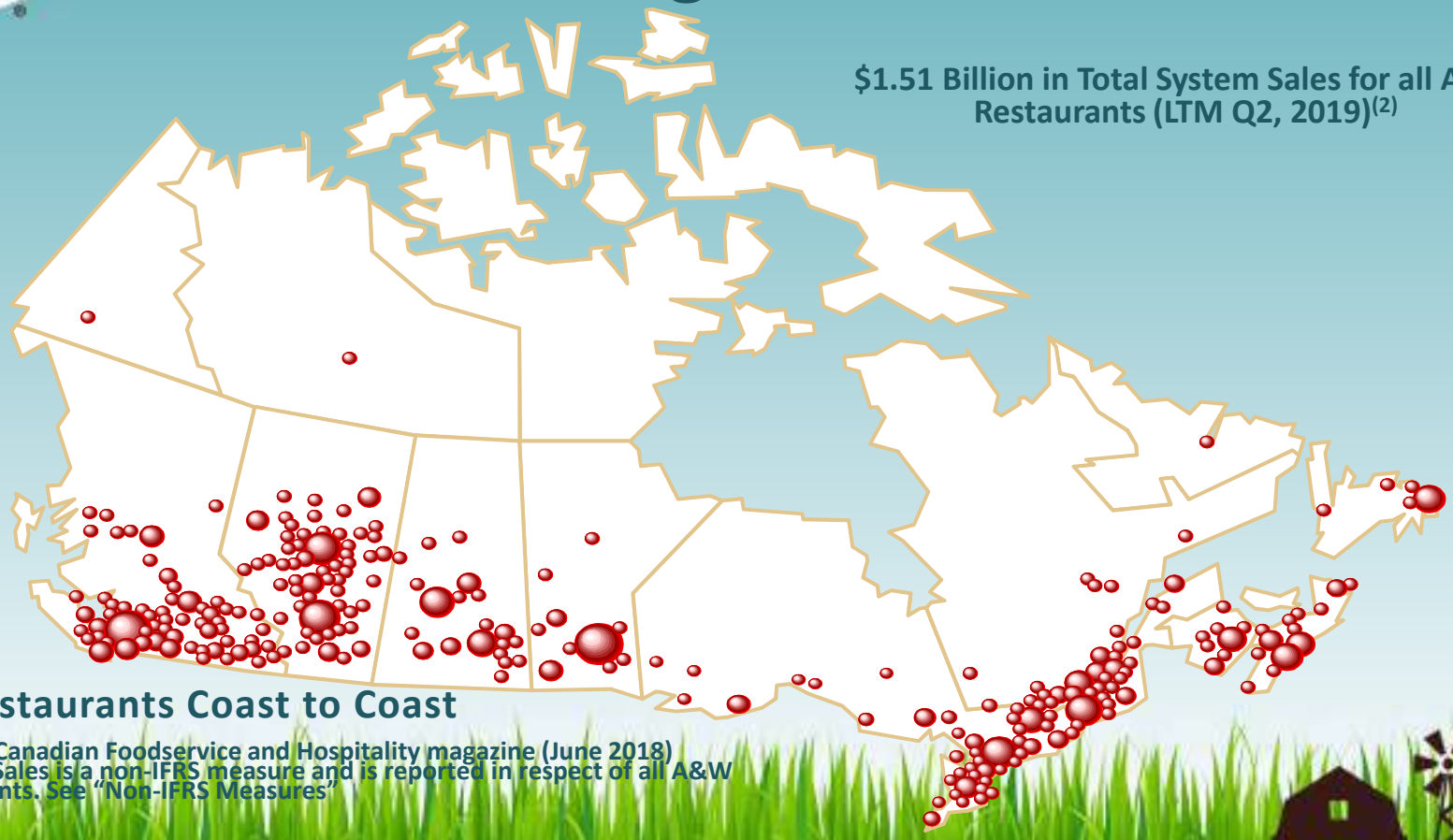
# Agenda

- Overview/Introduction
- Strategy
- Climate
- Results

# Constant Evolution

# Canada's Fifth Largest Restaurant Brand[1]

**$1.51 Billion in Total System Sales for all A&W Restaurants (LTM Q2, 2019)[2]**



**960+ restaurants Coast to Coast**

(1) Source: Canadian Foodservice and Hospitality magazine (June 2018)
(2) System Sales is a non-IFRS measure and is reported in respect of all A&W restaurants. See "Non-IFRS Measures"

# Signature Products

# Over 535 Freestanding Restaurants

Cornwall, ON

# Over 135 Convenience Locations

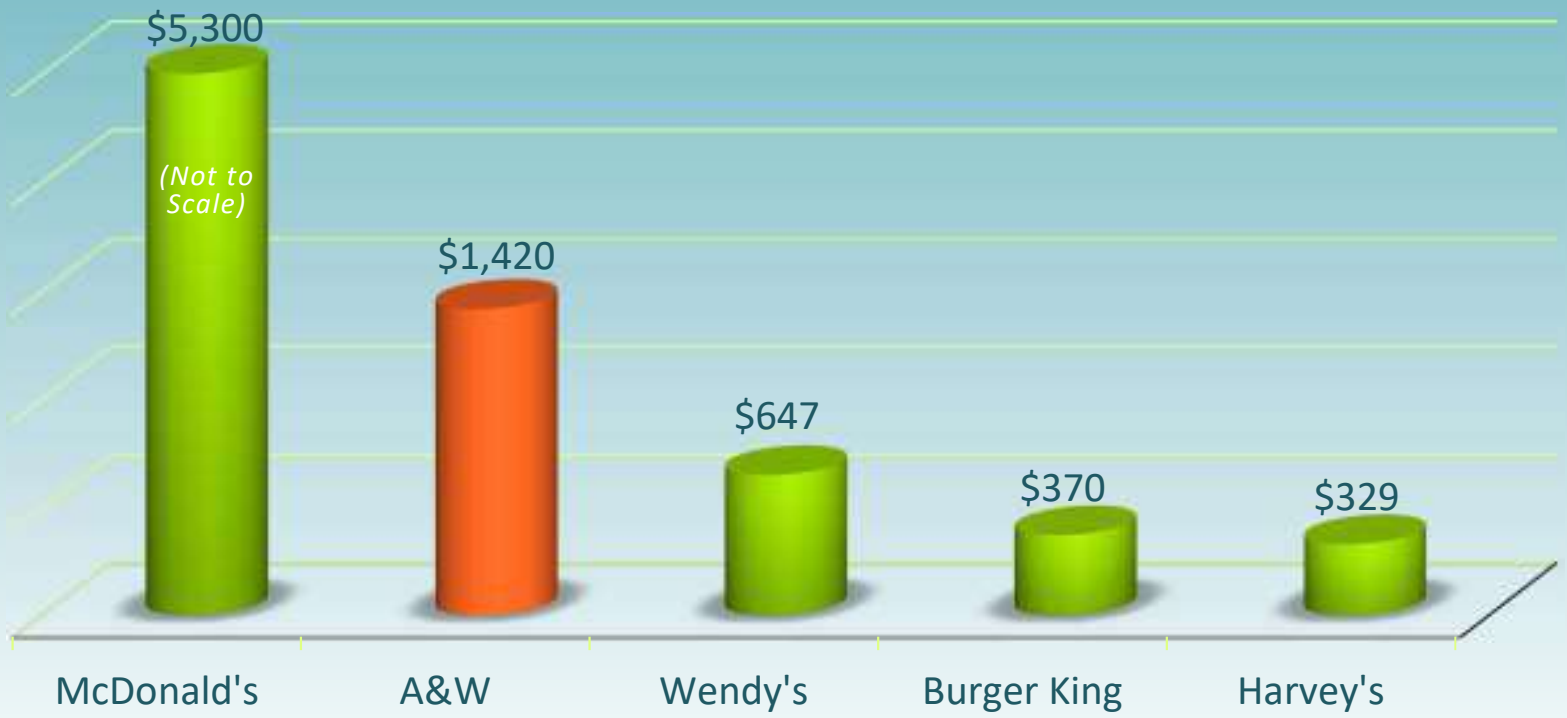
Exeter, ON

# Market Leader for Burger Restaurants in Malls

# 70+ Urban Locations

# #1 Root Beer in 2018

# A&W – Strong #2 Burger Chain




**2018 Canadian Burger Industry Sales Results**

**Source: Canadian Foodservice and Hospitality magazine (June 2019)**

**(all figures are in millions of dollars)**

# A&W Strengths

- Leadership Experience
  - *(23+ years average experience)*
- Strategy
  - *(A unique strength – 40+ years)*
- Climate

# 2018 and 2019 Highlights

- Same Store Sales Growth[(1)]
  - Q2 YTD 2019 +10.2%
  - 2018 +9.8%
- Royalty growth +14.7% in 2018 and 15.3% in Q2 YTD 2019
- Distributable cash per unit[(2)] up 12.9% in 2018 and 8.6% in Q2 YTD 2019
- 46 New restaurants (less 8 closures) added to the Royalty Pool on January 5, 2019 (35 net in 2018)

(1) Same Store Sales Growth is a non-IFRS measure. See “Non-IFRS Measures”.

(2) Distributable Cash per unit is a non-IFRS measure. See “Non-IFRS Measures”.

# Same Store Sales Growth Trend[(1)]

(1) Same Store Sales Growth is a non-IFRS measure. See "Non-IFRS Measures".

# A&W's Mission

To be loved for our
NATURAL INGREDIENTS,
GREAT TASTE, CONVENIENCE,
and for doing what's right,
MAKING A&W THE
#1 CHOICE
FOR MILLENNIAL BURGER
LOVERS.
A&W

# Strategic Thrusts

1. Harnessing the power of natural ingredients
2. Dramatically improve operating standards
3. Capture guest visits and grow restaurant profit
4. Become more and more convenient
5. Strengthen and extend our Climate
6. Be most loved

# 1 Harness the power of natural ingredients

**Position A&W as the leader in providing natural food.**

# Our Ingredient Guarantees

# 2 Dramatically improve operating standards

- Guest Connect

| | | |
|---|---|---|
| Service<br>Was the service **friendly?** | 63 | 1 |
| Speed<br>Was the service **fast?** | 63 | 1 |
| Cleanliness<br>Was the restaurant **clean?** | 64 | 0 |
| Food<br>Was your food **hot?** | 64 | 0 |

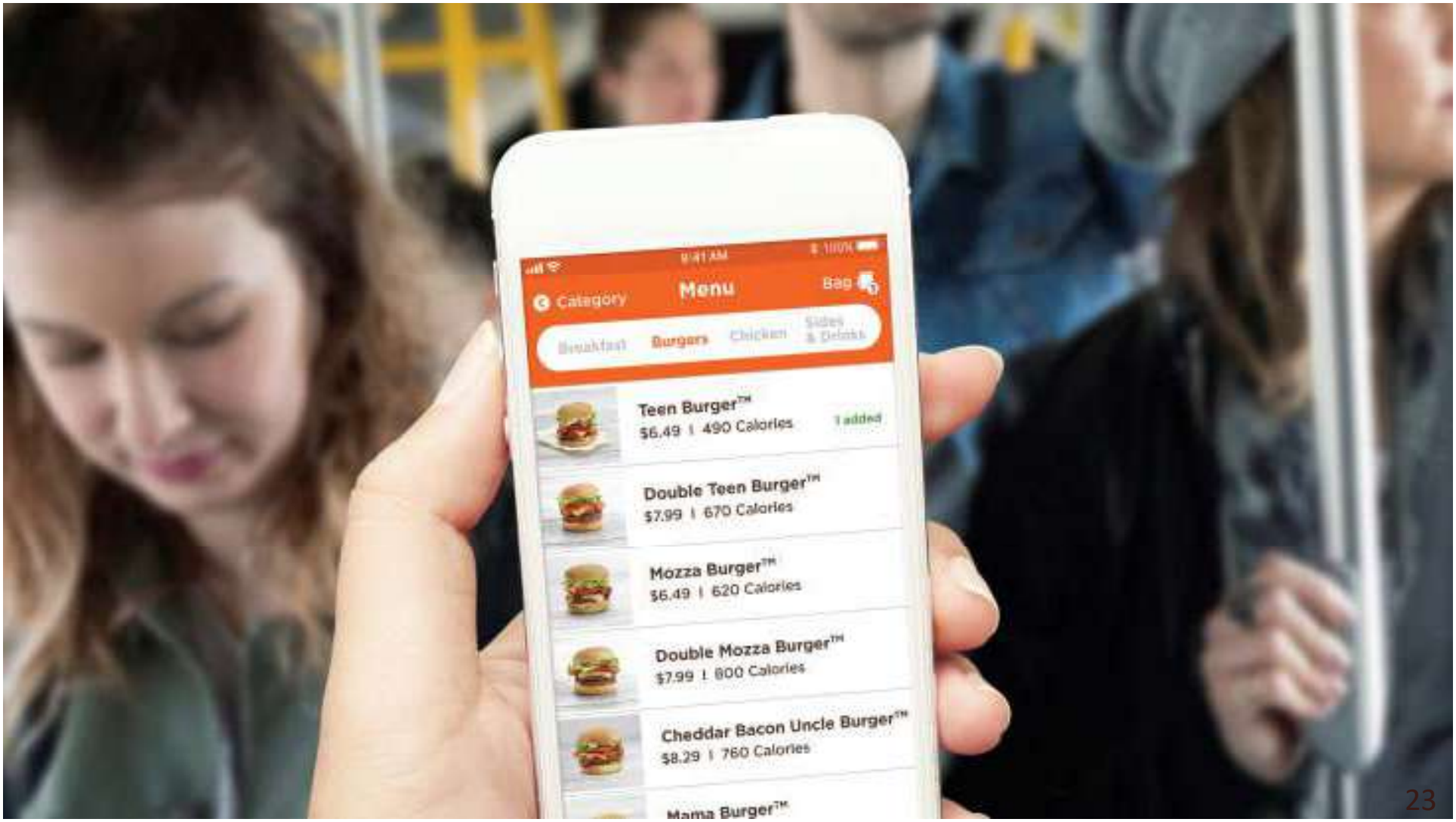
## 3 Capture guest visits and grow restaurant profit

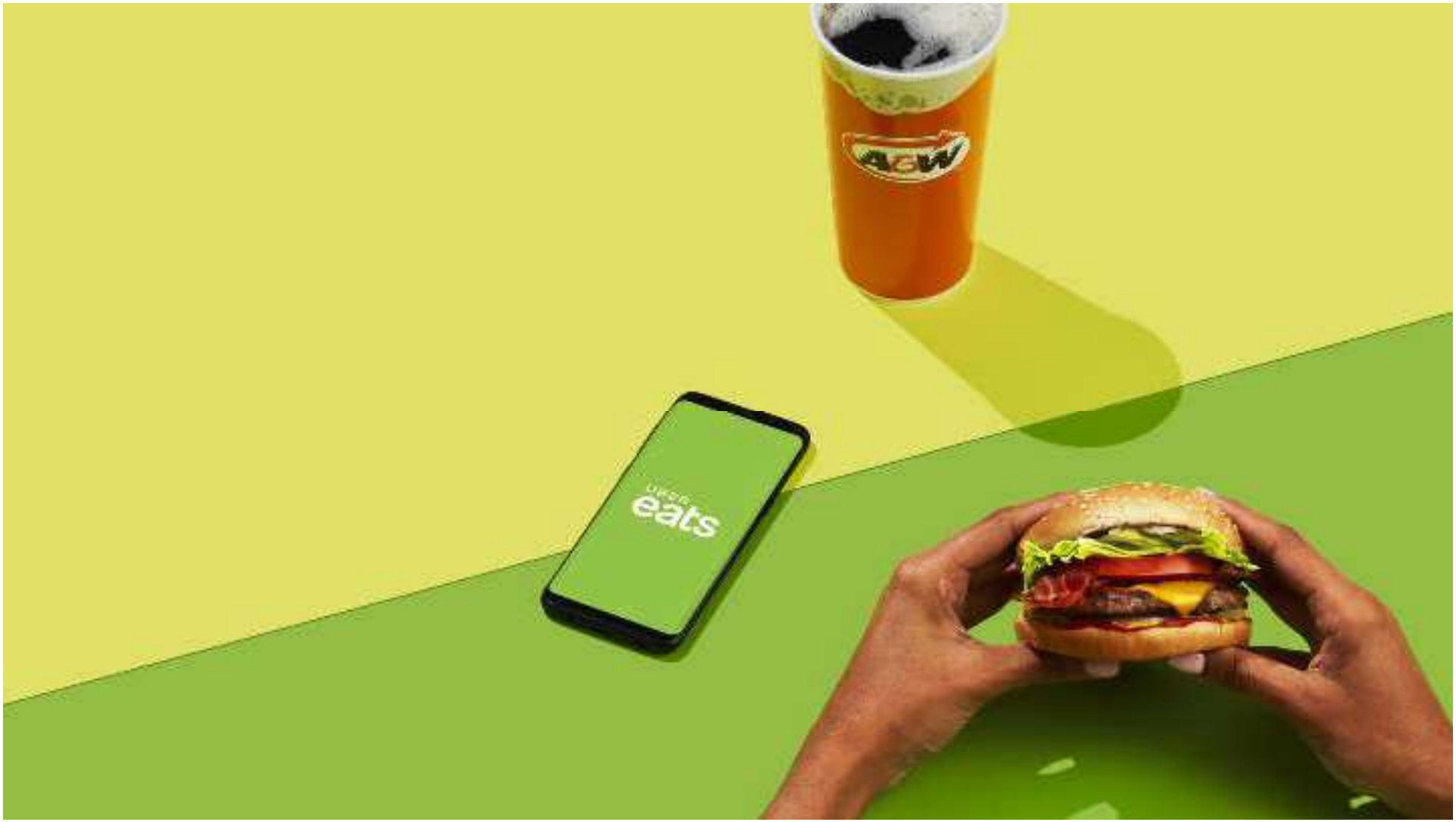
- Guest experience
- Innovate with our menu
- Leverage technology
- Improve skills in managing labour and cost of sales

## 4 Become more and more convenient

- Open new restaurants, bringing A&W closer to more Canadians and creating excitement and awareness
- Create a new pick-up and go and delivery business
- Respond to emerging consumer convenience needs and technology ongoing

# New Restaurant Growth


Category
Menu
Bag
Breakfast
Burgers
Chicken
Sides & Drinks
Teen Burger™
$6.49 | 490 Calories
1 added
Double Teen Burger™
$7.99 | 670 Calories
Mozza Burger™
$6.49 | 620 Calories
Double Mozza Burger™
$7.99 | 800 Calories
Cheddar Bacon Uncle Burger™
$8.29 | 760 Calories


A&W
Uber
eats

## 5 Strengthen and extend our Climate

- Demonstrate doing what's right
- Build a powerful connection of trust with our guests
- Harness the energy and passion of our partners

I care for our **GUESTS FIRST**, before anything else.

We earn the trust of our guests by always **DOING THE RIGHT THING.**

We work **TOGETHER AS PARTNERS** pursuing common goals and shared success.

We **LISTEN TO UNDERSTAND** each other.

I invite, share and act on **FEEDBACK** to continuously learn and improve.

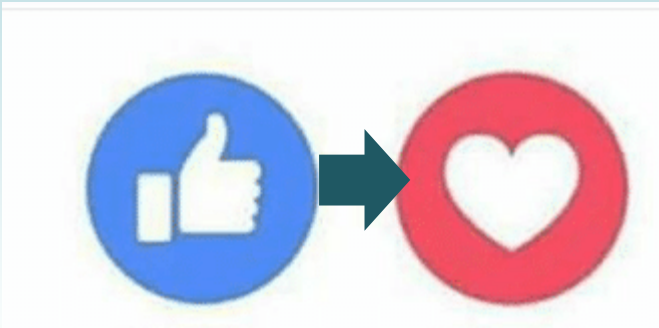
I recognize, **CELEBRATE** and take pride in our big and small wins.

We relentlessly pursue **BEING THE BEST.** "Good enough" is never good enough.

We challenge each other to **THINK BIG.**

# 6 Be most loved

- Fully engage employees:  proud to work at A&W
- “Share our soul” because it matters to our guests
- Be the most trusted QSR brand, doing what’s right for our guests, our environment, and one another



# Top-Line Income Fund Structure

- Royalties are based on Gross Sales reported by restaurants in the Royalty Pool

# Fund Revenue, Expenses and Distributable Cash

| $k | 2017 | 2018 | Q2 2018 | Q2 2019 |
|---|---|---|---|---|
| SSSG[1] | 2.0% | 9.8% | +6.0% | 10.2% |
| Gross Sales[2] | 1,188,818 | 1,362,996 | 572,820 | 660,668 |
| Royalty Income | 35,665 | 40,890 | 17,185 | 19,820 |
| Admin. Expense | 654 | 713 | 397 | 398 |
| Interest | 2,583 | 2,568 | 1,186 | 1,149 |
| Current tax | 5,985 | 6,346 | 2,863 | 3,702 |
| Distributable Cash[3] | 26,279 | 31,262 | 12,739 | 14,571 |

(1) SSSG or Same Store Sales Growth is a non-IFRS measure. See “Non-IFRS Measures”.

(2) Gross Sales in this table is presented solely in respect of the A&W restaurants included in the Royalty Pool.

(3) Distributable Cash is a non-IFRS measure. See “Non-IFRS Measures”.

# Fund Taxes, Distributions, Surplus Cash

| $k | 2017 | 2018 | Q2 2018 | Q2 2019 |
|---|---|---|---|---|
| Distributable Cash[(1)] | 26,279 | 31,262 | 12,739 | 14,571 |
| Refundable tax | 371 | 1,284 | 398 | (510) |
| Dist. to Unitholders | (19,968) | (20,933) | (9,497) | (10,337) |
| Dividends to Food Services | (5,736) | (7,316) | (3,232) | (4,140) |
| Surplus (Deficit) | 946 | 4,297 | 408 | (416) |
| Surplus – beg of period | 2,417 | 3,363 | 3,363 | 7,660 |
| Surplus – end of period | 3,363 | 7,660 | 3,771 | 7,244 |

(1) Distributable Cash is a non-IFRS measure. See “Non-IFRS Measures”.

# Fund Distributions and Payout

| | 2017 | 2018 | Q2 2018 | Q2 2019 |
|---|---|---|---|---|
| Distributable cash per unit[1] | $1.641 | $1.853 | 0.416 | 0.445 |
| Refundable tax (paid) recovered | 0.023 | 0.076 | 0.017 | (0.005) |
| Cash generated after refundable tax | 1.664 | 1.929 | 0.433 | 0.440 |
| Payout ratio[2] | 97.8% | 90.3% | 92.1% | 94.4% |

(1) Distributable Cash per unit is a non-IFRS measure. See “Non-IFRS Measures”.

(2) Payout ratio is a non-IFRS measure. See “Non-IFRS Measures”.

# Distribution Increases

- Distribution rate increased three times for a total of 5.1% during 2018
  - Annual distribution rate at the end of 2018 was $1.716 per unit
- Total distributions in 2018 were $1.674 per unit
  - A 4.3% increase over 2017 distributions
- Distribution rate increased 2.8% effective for the February distribution paid March 29, 2019 and increased a further 4.8% effective for the April distribution payable May 31, 2019
- Distribution rate increased 3.3% effective for the July distribution to be paid August 30, 2019. Annualized rate now $1.908

# Annual Payout Ratio[1]

(1) Payout Ratio is a non-IFRS measure. See “Non-IFRS Measures”.

# Royalty Pool Gross Sales

# Number of Restaurants in Royalty Pool

# Forward Looking Information

Certain statements in this document contain forward-looking information within the meaning of applicable securities laws in Canada ("forward-looking information"). The words "anticipates", "believes", "budgets", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "schedule", "should", "will", "would" and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words. The forward-looking information in this document includes, but is not limited to: the strategic thrusts of A&W Food Services of Canada Inc. ("Food Services"), including, harnessing the power of natural ingredients, dramatically improving operating standards, capturing guest visits and growing restaurant profit, becoming more and more convenient, strengthening and extending Food Services' climate and being the most loved quick service restaurant brand.

The statements that make up the forward-looking information are based on assumptions which include, but are not limited to: that the general risks that affect the restaurant industry will not arise, including that there are no changes in the availability of experienced management and hourly employees and no material changes in government regulations relating to menu labelling and disclosure and drive-thru restrictions, franchise legislation or sales taxes; no publicity from any food borne illness; no material changes in competition; no material changes in the quick service restaurant hamburger market, including as a result of changes in consumer taste or health concerns or changes in economic conditions or unemployment or a disease outbreak; no material impact on sales from closures of "anchor" stores in shopping centres; no material increases in food and labour costs; the continued availability of quality raw materials; continued additional franchise sales and maintenance of franchise operations; Food Services is able to grow same store sales; Food Services is able to maintain and grow the current system of franchises; Food Services is able to locate new retail sites in prime locations; Food Services is able to obtain qualified operators to become A&W franchisees; no closures of A&W restaurants that materially affect the amount of the royalty paid indirectly to the Fund; no material changes in traffic patterns at shopping centres; no supply disruptions; franchisees duly pay franchise fees and other amounts; no material impact from new or increased sales tax upon gross sales; continued availability of key personnel; no material litigation from guests at A&W restaurants; continued ability to preserve intellectual property; Food Services continues to pay the royalty; A&W Trade Marks Inc. (the "Company") continues to pay dividends on its securities and the A&W Trade Marks Limited Partnership (the "Partnership") continues to pay distributions on its units in amounts sufficient to allow the Fund to continue to pay distributions on its Units at current levels; the Company can continue to comply with its obligations under its credit arrangements; and, the Company's performance does not fluctuate such that cash distributions are affected.

The forward-looking information is subject to risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated by the forward-looking information. The factors which could cause results to differ from current expectations include, but are not limited to: general risks that affect the restaurant industry and the quick service segment in particular, including changes in the availability of experienced management and hourly employees, changes in government regulations concerning menu labelling and disclosure, drive-thru restrictions and competition with other well-capitalized franchisors and operators of quick service restaurants; risks related to changes in consumer preferences that adversely affect the consumption of quick service restaurant hamburgers, chicken, fries, breakfast items or soft drinks; risks related to negative publicity, litigation or complaints from perceived or actual food safety events or other events involving the foodservice industry in general or A&W restaurants in particular; risks related to changes in the availability and quality of raw materials, including A&W's "better ingredients"; risks related to changes in climate or increases in environmental regulation; risks related to changes in Food Services' ability to continue to grow same store sales, locate new retail sites in prime locations and obtain qualified operators to become A&W franchisees; risks related to increases in closures of A&W restaurants adversely affecting the royalty; risks related to decreases in traffic at shopping centers; risks related to changes in Food Services' ability to pay the royalty due to changes in A&W franchisees' ability to generate sales and pay franchise fees and other amounts to Food Services; risks related to changes in government regulation that affects the restaurant industry in general or the quick service restaurant industry in particular, including franchise legislation and sales tax legislation; risks related to changes in the availability of key personnel, including qualified franchise operators; risks related to changes in the ability to enforce or maintain intellectual property; risks related to technological breakdowns and cybersecurity breaches; risks related to the amplificatory effects of media and social media; risks related to increases in catastrophic events; risks related to dependence of the Fund on the Company, the Partnership and Food Services; risks related to dependence of the Partnership on Food Services; risks related to leverage and restrictive covenants; the risk that cash distributions are not guaranteed and will fluctuate with the Partnership's performance and may be suspended at any time; risks related to the nature of units of the Fund; risks related to the distribution of securities on redemption or termination of the Fund; risks related to the Fund issuing additional units of the Fund diluting existing Fund unitholders' interests; and risks related to income tax matters. More information about the risks and uncertainties affecting the Fund and Food Services' business can be found in the "Risk Factors" section of the Fund's Annual Information Form dated March 25, 2019, which is available under the Fund's profile on SEDAR at www.sedar.com

All forward-looking information in this document is qualified in its entirety by this cautionary statement and, except as required by law, the Fund undertakes no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

# Non-IFRS Measures

The Fund believes that disclosing certain non-IFRS financial measures provides readers with important information regarding the Fund's financial performance and its ability to pay distributions. By considering these measures in combination with the most closely comparable IFRS measure, the Fund believes that investors are provided with additional and more useful information about the Fund than investors would have if they simply considered IFRS measures alone.

References to "**Gross Sales**" or "**System Sales**" in this document are calculated in respect of all A&W restaurants in Canada as reported by Food Services, as the amount of gross sales reported to Food Services by franchisees of such A&W restaurants without audit, verification or other form of independent assurance and after deducting amounts for discounts for coupons and other promotional offerings and applicable sales taxes, and the gross sales of such A&W restaurants owned and operated by Food Services. Gross Sales and System Sales are non-IFRS financial measures and do not have standardized meanings prescribed by IFRS. However, Food Services believes Gross Sales or System Sales of its franchisees and stores owned and operated by Food Services is a key performance indicator for Food Services as it provides investors with an indication of the sales figures on which Food Services' franchise revenues are based. Food Services' method of calculating Gross Sales or System Sales may differ from those of other issuers or companies and, accordingly, Gross Sales or System Sales may not be comparable to similar measures used by other issuers or companies. Note that the Fund also reports Gross Sales of A&W restaurants in the Royalty Pool in its annual and interim financial statements. The Fund calculates "Gross Sales" on the same basis as Food Services, with the distinction that the Fund only calculates Gross Sales in respect of the A&W restaurants in the Royalty Pool in the given period. Accordingly, the difference in the Gross Sales reported by the Fund and Food Services is on account of the additional Gross Sales from A&W restaurants which are not in the Royalty Pool, which are included in the Gross Sales and System Sales figures reported by Food Services and not in the Gross Sales figures reported by the Fund.

References to "**same store sales growth**" in this document is calculated as the change in Gross Sales of A&W restaurants in the royalty pool that operated during the entire 26 four-week periods. Same store sales growth is a non-IFRS financial measure and does not have a standardized meaning prescribed by IFRS. However, the Fund believes same store sales growth is a key performance indicator for the Fund as it provides investors with an indication of the change in year-over-year sales of A&W restaurants in the royalty pool. The Fund's method of calculating same store sales growth may differ from those of other issuers or companies and, accordingly, same store sales growth may not be comparable to similar measures used by other issuers or companies.

References to "**distributable cash**" in this document are calculated as the operating cash flows of the Fund, adjusted for net changes in items of working capital. Changes in items of working capital are excluded as the Fund's working capital requirements are not permanent and are primarily due to the timing of payments between related parties. No deduction is made for capital expenditures as the Fund has no capital expenditures. Distributable cash is not a recognized financial measure under IFRS. However, the Fund believes that distributable cash is a useful measure as it identifies the amount of actual cash generated to pay distributions to unitholders and dividends to Food Services. The Fund's method of calculating distributable cash may differ from that of other issuers and companies and, accordingly, distributable cash may not be comparable to similar measures used by other issuers or companies. References to "**distributable cash per unit**" in this document are calculated as distributable cash divided by the weighted average number of units of the Fund outstanding during the relevant period.

References to "**payout ratio**" in this document are calculated by dividing the total of (i) distributions declared per unit plus (ii) accrued distributions per unit to the last day of the quarter or year, as applicable, by the distributable cash per unit generated in that period. Payout ratio is not a recognized measure under IFRS. However, the Fund believes that payout ratio is a useful measure as it provides supplemental information regarding the extent to which the Fund distributes cash as distributions when compared to its cash flow capacity. The Fund's method of calculating its payout ratio may differ from that of other issuers and companies and, accordingly, the payout ratio may not be comparable to similar measures used by other issuers or companies.

For a reconciliation of distributable cash to the nearest IFRS measure, see the Fund's management discussion and analysis for the first quarter period ended March 24, 2019 and for the year ended December 31, 2018, each filed under the Fund's profile on SEDAR at www.sedar.com.

# Third Party Information

This document includes market information, industry data and forecasts obtained from independent industry publications, market research, surveys and other publicly available sources. Although the Fund's management believes these sources to be generally reliable, market and industry data is subject to interpretation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy and completeness of this information and data are not guaranteed. The Fund and Food Services have not independently verified any of the data from third party sources referred to in this document nor ascertained the underlying assumptions relied upon by such sources.

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