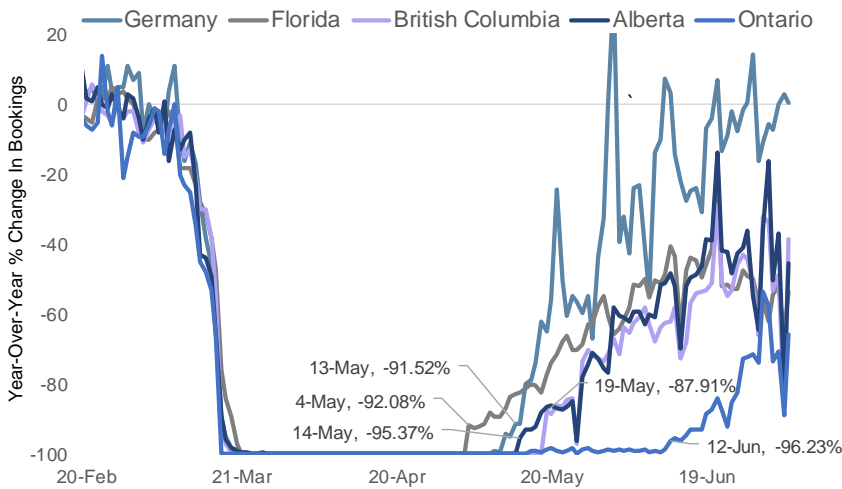


The Restaurant Rebound



Welcome to the Restaurant Rebound, a bi-weekly report on the industry's recovery, providing an analysis of recent OpenTable booking data, the latest news, and first-hand perspectives on the sector. In this issue, we speak with a Private Equity investor about his interest in the restaurant space, and where he sees the opportunities and challenges ahead. We also share a link to a recent webinar with Mark McEwan, David Smydo and Origin's Perry Caicco in conversation about the future of food services and fine wine.

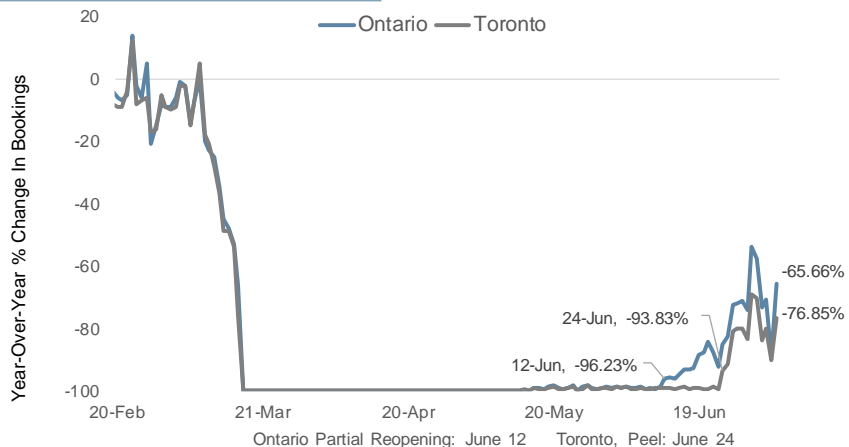


All

- For the first time, we have added Ontario to our charts. The province opened partially on June 12, with the GTA and Peel region opening on June 24, and has seen a steady increase in bookings since reopening
- Across Canadian jurisdictions, there were spikes around Canada Day, with booking levels resuming their prior trajectory in following days
- July 4 saw bookings drop across all North American jurisdictions, attributable to the year over year comparison (the equivalent Saturday of 2019 did not fall on July 4)
- Germany has continued its sustained, strong recovery, with bookings exceeding last year's levels on multiple days over the past two weeks

Ontario

- Ontario, excluding the GTA, Peel and Windsor/Essex, opened on June 12. The GTA and Peel restaurants were given the green light to reopen on June 24, and Windsor/Essex (excluding Leamington) on June 25
- While limited to outdoor dining only, both the province and the City of Toronto have seen steady increases in bookings since reopening. Unless indoor dining becomes an option, however, the possibility for future recovery will be curtailed

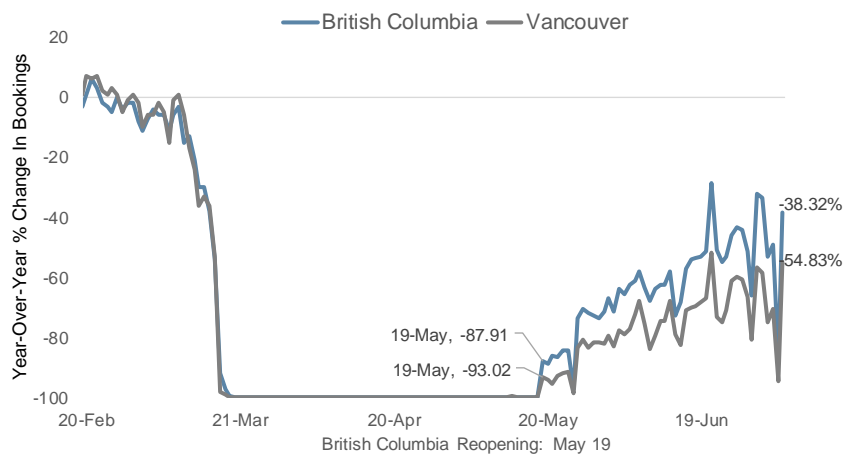


Ontario Partial Reopening: June 12 Toronto, Peel: June 24

The Restaurant Rebound

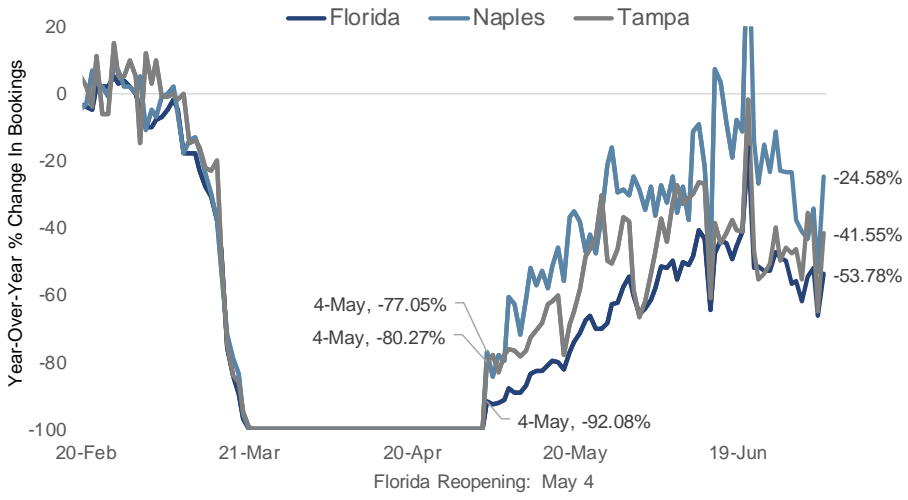
British Columbia

- Excepting July 4 outlier data, BC continues a steady recovery, with bookings recovered to approximately 60% of last year's as of July 5
- While Vancouver continues to lag provincial results, its recovery is picking up steam. Over the past 2 weeks, bookings increased from 27% of last year's levels to 45% as of July 5



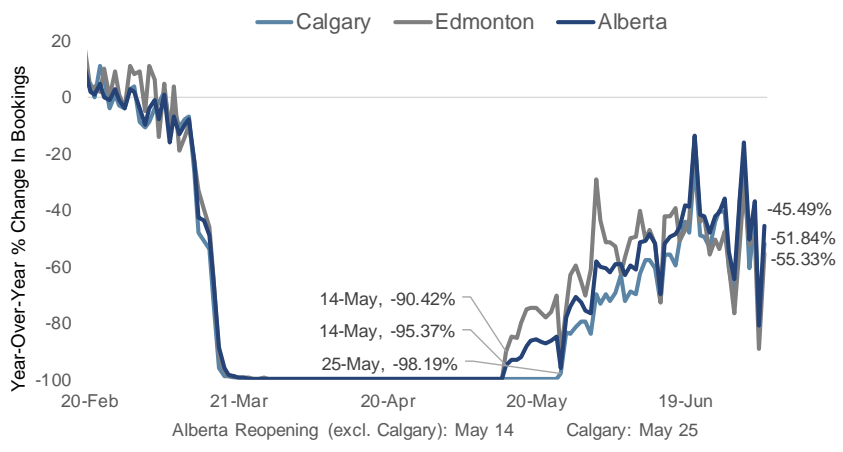
Florida

- As one of the current virus hotspots, it's no surprise that Florida has experienced a decline in bookings since our last report. As case counts continue to mount, this trend is likely to be sustained
- While Naples' bookings are well ahead of the state-wide numbers, the days of 90%+ recovery (relative to last year's bookings) are paused for now, with bookings at 65-75% over the past 2 weeks. Tampa, which had not enjoyed Naples' robust recovery, is seeing a gentler downward trend



Alberta

- Since our last report on June 24, and excepting a couple of outlier days, Alberta bookings remain at 45-60% relative to 2019 levels
- Calgary and Edmonton recoveries are consistent with the province-wide trend





Perspective on the Restaurant Sector: Views from a Private Equity Investor

While our interviewee's name and firm are confidential, we expect his perspectives will be interesting and relevant for the many industry operators in the Restaurant Rebound audience.

OMP: Can you tell us about your interest in the restaurant sector?

PE: At my prior firm, our portfolio included one of the largest restaurant franchisees in the US. Because of that positive experience, since forming our new firm I've always been open to the restaurant sector. While we have no current investments in the space, we're taking time to understand the challenges and opportunities.

OMP: How are you thinking about the uncertainty of the current crisis?

PE: We're big believers that this current crisis will pass, and things will eventually get back to normal. The question, of course, is when, and no one knows that answer. Our fund has a long-term horizon; we are a 15 year fund, as compared to the more typical 10 year. As a result, we can take a 7-10 year perspective in our investment theses, which gives us more confidence to go into sectors that have been more heavily impacted by COVID. With any restaurant banners we invest in, our focus will be whether they are well-positioned for the long term.

OMP: During the shutdown, and even as restrictions are lifting, we've seen restaurants embrace ancillary businesses to supplement revenue. Do you think these are here to stay?

PE: There has definitely been an acceleration of new, hybrid models, for good reason. Many of the QSR's that have added drive-through and delivery options are actually doing quite well. And across the sector, we're seeing a number of banners build out their own delivery and curbside pickup options, to continue serving their customers while side-stepping the costs associated with third-party services. The hybrid model brings benefit to restaurants and consumers, and with consumers embracing the expanded offerings, we do believe these ancillary businesses are here to stay.



Perspective on the Restaurant Sector: Views from a Private Equity Investor

OMP: With the range of operating models in the sector, where does your interest lie?

PE: We are interested in looking at QSRs and full-service restaurants. While the full-service model currently faces greater challenges, we believe that over the long term, those will be healthy and successful businesses; it's just a matter of navigating through this period of uncertainty. More generally, we are interested in backing an existing operator to do some consolidation, and want to work with a team that has a credible operating track record and has ideally done M&A in the past.

OMP: What is your investment approach?

PE: Whatever the sector, we're set up to partner with founders and families, help them grow their businesses, and provide capital and expertise. We will do significant minority stake investments – we call it “co-control” – which is very well suited to founder/family situation. The “co-control” investment is structured so that we and the founder/family have equal say in governance, with a chair serving as tie-breaker in the event of a dispute.

OMP: As a final question, we'd like to ask about a burning issue for many restaurant operators: potential loss of the wage subsidy program (CEWS). Some operators are quite concerned about going through the 70% threshold and becoming ineligible, as it will be very difficult for them to operate at or within a range above that threshold without the wage subsidy. Do you have any views or suggestions you'd like to share?

PE: The current program feels too binary. Perhaps a better approach would be to scale the subsidy so that it's not all or nothing at the 70% level, but rather, to scale it back as certain thresholds are hit. It just doesn't make sense to say: “If you're down 25% versus 30%, then business is suddenly good”. Margins in this business are thin, and there are now additional costs related to reopening and operating that will squeeze margins even further. The original wage subsidy program made sense as a quick fix at the outset of the shutdown, but at this point, there should be a rethink with a view to making the program more nuanced.

Food Services Quarterly Results: Q1 2020



SIR Corp

- Q1 2020 Revenue was \$50.3 million, a 25% decline from Q1 2019, reflecting the impact of the shutdown of dine-in operations on March 16, 2020, and the permanent closure of 3 locations in 2019.
- Jack Astor's, which accounts for approximately 68% of Revenue, suffered a decline in same restaurant sales ("SRS") of 24.9%, while Scaddabush SRS declined 15.9% in Q1 2020. All operations at Canyon Creek and Toronto Signature Restaurants were ceased on March 16, 2020.



Boston Pizza International, Inc. (BPI)

- Q1 System-Wide Gross Sales declined 15.3% to \$223.8 million year over year, and SRS declined 15.8%. From January 1 to March 10, 2020, SRS was down 1.1%. In stark contrast, from March 11 to March 31, 2020 SRS declined 60.3%.
- \$10 million of additional capital was invested into the company by Jim Treiving, a significant shareholder. In addition, BPI received a \$6.25 million credit facility under the EDC's business credit availability program to enhance liquidity and cash flow.



Freshii

- System-Wide Sales were \$37.2 million in Q1 2020, a decrease of 14% over Q1 2019, reflecting a decline in Q1 SRS of 14.3%. Sales were hit hard in the last two weeks of March, with SRS down 77.7%.
- The outlook for recovery is more positive, however. With 69% of restaurants re-opened during the week of June 21, for the two-week period ending on June 21, Freshii recovered 60% of last year's sales.

Food Services in the News

- The Ontario government is issuing a new emergency order allowing municipalities to quickly pass temporary bylaws for the creation and extension of restaurant patios, and to allow covered outdoor dining areas to serve restaurant customers.
- According to a new survey of restaurant operators by Restaurants Canada, when asked how many months they expect it will take their business to return to profitability:
 - 13 per cent said six months or less
 - 31 per cent said between seven months to a year
 - 36 per cent said between a year and 18 months
 - 20 per cent said more than 18 months
- Uber will acquire Postmates for US\$2.65 Billion in stock, making it the second largest food delivery service in the US.
- The nation's largest Pizza Hut and Wendy's franchisee, NPC, filed for bankruptcy and will put its burger restaurants up for sale after failing to reach a deal with Pizza Hut parent Yum Brands.
- McDonald's is pausing the reopening of dine-in service in the U.S. as coronavirus cases continue to spread across states.

On July 3, expert panelists, Mark McEwan, David Smydo, and Origin's Perry Caicco shared their views in a fascinating conversation about the future of food, wine and fine dining. You can watch the full webinar recording [here](#).

Forthlane
FRIDAYS

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