



Carrols Restaurant Group, Inc. (TAST)

First Quarter Earnings Call

May 2023



Safe Harbor Statement

Under the Private Securities Litigation Reform Act of 1995

- Our presentation includes, and our response to various questions may include, forward-looking statements. Statements that are predictive in nature or that depend upon or refer to future events or conditions are forward-looking statements. These statements are often identified by the words “may”, “might”, “will”, “should”, “anticipate”, “believe”, “expect”, “intend”, “estimate”, “hope”, “plan” or similar expressions. In addition, expressions of our strategies, intentions or plans are also forward looking statements. These statements reflect management’s current views with respect to future events and are subject to risks and uncertainties, both known and unknown. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. Investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected or implied in the forward-looking statements. We have identified significant factors that could cause actual results to differ materially from those stated or implied in the forward-looking statements. Such factors include the impact of health concerns such as the COVID-19 pandemic or reports of cases of food borne illnesses such as “mad cows” disease, and the possibility that consumers could lose confidence in the safety and quality of certain food products as well as negative publicity regarding food quality, illness, injury or other health concerns, effectiveness of the Burger King and Popeyes advertising programs and the overall success of the Burger King and Popeyes brands, increases in food costs and other commodity costs, our ability to hire and retain employees at current or increased wage rates, competitive conditions, including pricing pressures, discounting, aggressive marketing, the potential impact of competitors’ new unit openings and promotions on sales of our restaurants, and competition impacting the cost and availability of labor, regulatory factors, environmental conditions and regulations, general economic conditions, particularly in the retail sector, weather conditions, fuel prices, significant disruptions in service or supply by any of our suppliers or distributors, changes in consumer perception of dietary health and food safety, labor and employment benefit costs, including the effects of minimum wage increases, healthcare reform and changes in the Fair Labor Standards Act, the outcome of pending or future legal claims or proceedings, our ability to manage our growth and successfully implement our business strategy, our inability to service our indebtedness, our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors, the availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties, and factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, liability if our products cause injury, ingredient disclosure and labeling laws and regulations. Investors are referred to the full discussion of risks and uncertainties, as included in Carrols Restaurant Group, Inc.’s filings with the Securities and Exchange Commission (SEC) including, without limitation, its Annual Report on Form 10-K.

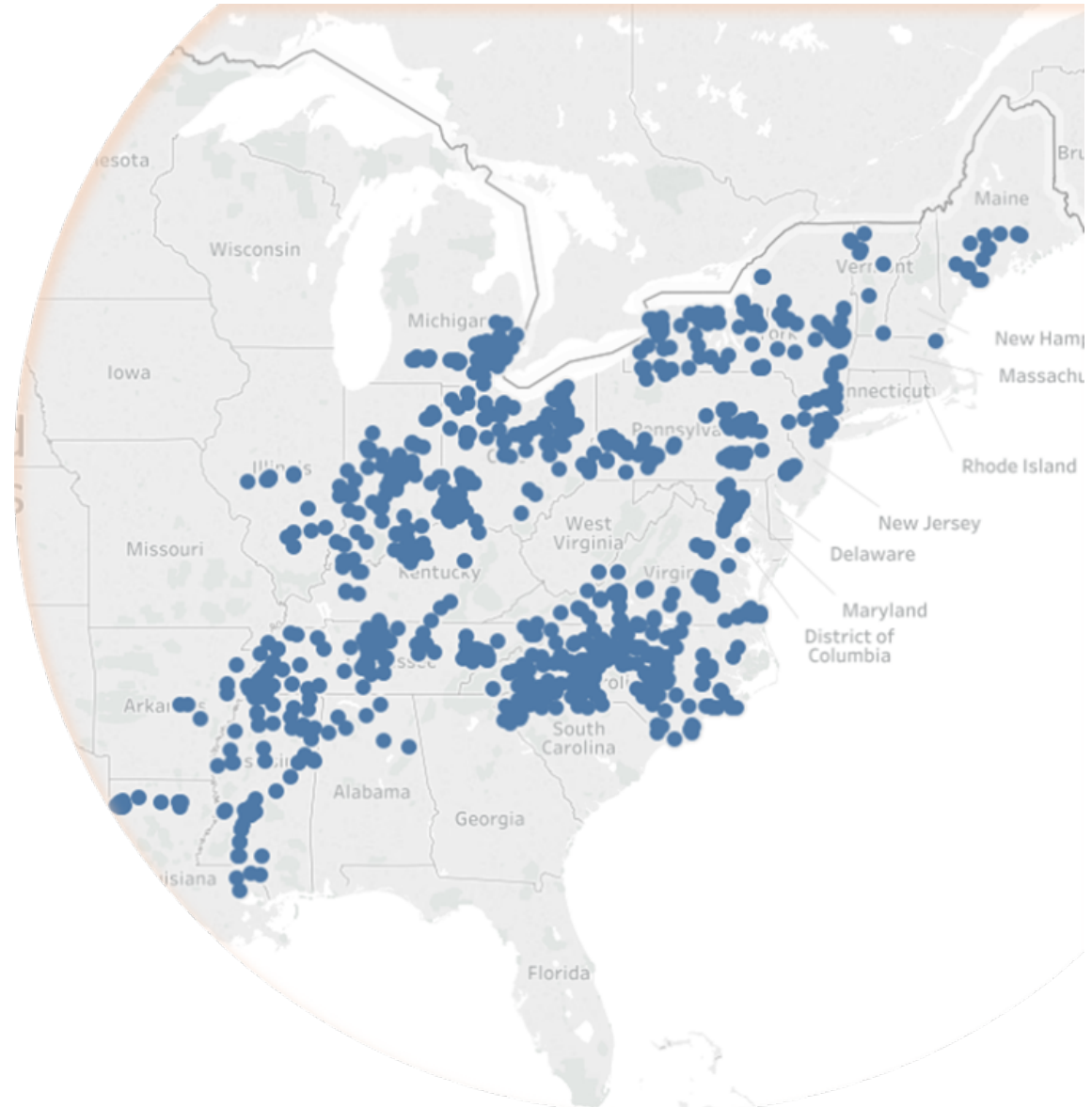
Non-GAAP Financial Measures

- EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA, Adjusted Net Income (Loss), Adjusted EBITDA Margin, and Adjusted Restaurant-Level EBITDA Margin are non-GAAP financial measures. We are presenting these financial measures because we believe that they provide a more meaningful comparison of our core business operating results, as well as with those of other similar companies. Additionally, we present Adjusted Restaurant-Level EBITDA because it excludes restaurant integration costs, restaurant pre-opening costs, other income and expense, and the impact of general and administrative expenses such as salaries and expenses associated with corporate and administrative functions that support the development and operations of our restaurants, legal, auditing and other professional fees. Management believes that Adjusted EBITDA and Adjusted Restaurant-Level EBITDA, when viewed with our results of operations in accordance with GAAP and the accompanying reconciliations within the appendix and our filings with the SEC, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of our core business without regard to potential distortions. Additionally, management believes that Adjusted EBITDA and Adjusted Restaurant-Level EBITDA permit investors to gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced. However, EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income, income from operations or cash flow from operating activities as indicators of operating performance or liquidity. Also, these measures may not be comparable to similarly titled captions of other companies. For the reconciliation between Net Income (Loss) to EBITDA, Adjusted EBITDA and Adjusted Net Loss and the reconciliation of income (loss) from operations to Adjusted Restaurant-Level EBITDA, see the appendix and our filings with the SEC.
- Free Cash Flow is a non GAAP financial measure and may not necessarily be comparable to other similarly titled captions of other companies due to differences in methods of calculation. We believe that Free Cash Flow, when viewed with the Company's results of operations in accordance with GAAP and the accompanying reconciliation set forth in the Appendix, provides useful information about the Company's cash flow for liquidity purposes and to service the Company's debt. However, Free Cash Flow is not a measure of liquidity under GAAP and, accordingly, should not be considered as an alternative to the Company's consolidated statements of cash flows and net cash provided by operating activities, net cash used for investing activities and net cash provided by financing activities as indicators of liquidity or cash flow.
- We direct you to the Appendix to this presentation and to our filings with the SEC for a reconciliation of these non-GAAP financial measures to the appropriate GAAP financial measures.



About the Company

- Carrols is one of the largest restaurant franchisees in the United States, operating 1,084 restaurants across the Burger King® and Popeyes® brands
- With 1,019 Burger King restaurants, Carrols is the largest Burger King franchisee in the country, operating approximately 15% of all U.S. Burger Kings
- Carrols has a history of outperforming the U.S. Burger King system in same-store-sales
- Carrols added 65 Popeyes restaurants to its portfolio in 2019, one of the fastest growing QSR brands in the U.S.
- Carrols' two largest shareholders are invested in our long-term success:
 - Burger King Corporation, 14.8% fully diluted – franchisor/partner
 - Cambridge Franchise Holdings, 23.3% fully diluted – affiliate of Garnett Station Partners, engaged board members, strong record of generating returns





Carrols Restaurant Group Q1 2023 Highlights

11.4% Revenue Increase

- Total Restaurant Sales increased 11.4% to \$445.2M compared to \$399.5M in Q1-22
- BK Q1 SSS ↑ 11.7% compared to 6.2% in Q4-22, 4.9% in Q3-22, 2.8% in Q2-22 and 1.6% in Q1-22
- Popeyes Q1 SSS ↑ 9.5%

Avg Check ↑ 13.0% Year-over-Year

- BK average check increase of 13.0% year-over-year mainly due to menu price increases, inclusive of actions taken late in 2022 and 2023, and lower promotional and discounting activity
- Partially offset by a reduction in BK restaurant traffic of 1.1%

\$30.7M of Adjusted EBITDA

- Adjusted EBITDA^(a) was \$30.7M compared to \$4.3M in the prior year quarter
- Adjusted EBITDA Margin^(b) increased to 6.9% of restaurant sales from 1.1% in the prior year quarter and improved sequentially from 5.7% in the fourth quarter of 2022

Adjusted Restaurant-Level EBITDA Progress

- Adjusted Restaurant-Level EBITDA^(a) was \$54.5M, ↑ \$32.0M year-over-year
- Adjusted Restaurant-Level EBITDA Margin^(b) of 12.2% in Q1-23, an increase of 660bps
- Inflation continuing to moderate with commodity inflation down to 8% from 12% in Q4 and base rate labor inflation down to 5.6% from 6.3% in Q4

Strong Balance Sheet

- Generated \$1.1M in Free Cash Flow^(a) in Q1 2023
- Repaid revolver balance of \$12.5M
- Reduced total net debt leverage ratio approximately two turns to 5.2x at first quarter end 2023 compared to year-end 2022
- Ended Q1 2023 with \$209.4M of liquidity^(c)

(a) Please see Appendix for Reconciliation of EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Free Cash Flow.

(b) Both Adjusted EBITDA margin and Adjusted Restaurant-Level EBITDA margin are calculated as a percentage of restaurant sales.

(c) Liquidity equals borrowing availability under our Revolving Credit Facility plus cash and cash equivalents.



Q1 2023 Financial Summary

Q1 2023		
Total Restaurant Sales	\$445.2 million	Up 11.4% compared to \$399.5 million in Q1 2022
Adjusted Restaurant-Level EBITDA^(a)	\$54.5 million	Compared to \$22.5 million in Q1 2022
Adjusted EBITDA^(a)	\$30.7 million	Compared to \$4.3 million in Q1 2022
Income (loss) from operations	\$10.2 million	Compared to \$(19.8) million in Q1 2022
Net income (loss)	\$864 thousand	Compared to \$(21.3) million in Q1 2022
Net income (loss) per share	\$0.01 per diluted share	vs. \$(0.42) per diluted share in Q1 2022
Adjusted Net income (loss)^(a)	\$7 thousand	Compared to \$(17.1) million in Q1 2022
Adjusted Diluted Net Loss Per Share^(a)	\$0.00 per diluted share	vs. \$(0.34) per diluted share in Q1 2022

(a) Please see appendix for Reconciliation of Adjusted Restaurant-Level EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss) and Adjusted Diluted Net Loss Per Share.



Q1 2023 Adjusted EBITDA

(in millions) (unaudited)	Three Months Ended (a)	
	April 2, 2023	April 3, 2022
Restaurant Revenue	\$ 445.2	\$ 399.5
Food, Beverage and Packaging Costs	125.4	123.1
<i>Food, Beverage and Packaging Costs %</i>	28.2 %	30.8 %
Restaurant Labor	146.3	141.6
<i>Restaurant Labor %</i>	32.9 %	35.5 %
Advertising & Royalties	37.7	33.7
Other Operating Expenses	49.3	47.7
Rent	31.8	31.0
Adjusted Restaurant-Level EBITDA ^(a)	54.5	22.5
<i>% increase (decrease) from prior year</i>	142.2 %	
<i>Adjusted Restaurant-Level EBITDA Margin^(b)</i>	12.2 %	5.6 %
G&A Expense (excluding stock comp)	24.6	20.1
Less: Executive transition, litigation and other professional expenses	(0.8)	(1.9)
Adjusted G&A Expense	23.8	18.2
Adjusted EBITDA ^(a)	30.7	4.3
<i>% increase (decrease) from prior year</i>	613.7 %	
<i>Adjusted EBITDA Margin^(b)</i>	6.9 %	1.1 %

(a) Please see Appendix for Reconciliations of Adjusted Restaurant-Level EBITDA and Adjusted EBITDA.

(b) Both Adjusted EBITDA margin and Adjusted Restaurant-Level EBITDA margin are calculated as a percentage of restaurant sales.



Capitalization Overview

(\$ in millions)	As of	April 2, 2023	January 1, 2023	January 2, 2022
Cash & Cash Equivalents	\$	4.9	\$ 18.4	\$ 29.2
Revolver due 2026 ^(a)		—	12.5	—
Term B Loans due 2026 ^(b)		166.6	167.6	171.9
Senior Notes Due 2029 ^(c)		300.0	300.0	300.0
Finance Lease Liabilities		12.1	12.8	6.3
Total Debt	\$	478.7	\$ 493.0	\$ 478.2
Total Funded Net Debt (per Credit Agreement)	\$	473.8	\$ 474.6	\$ 449.0
TTM Covenant EBITDA (per Credit Agreement)	\$	91.7	\$ 66.5	\$ 89.4
Total Net Leverage Ratio		5.17x	7.14x	5.02x
Senior Secured Net Leverage Ratio		1.90x	2.63x	1.67x
Total Liquidity Available^(d)	\$	209.4	\$ 211.2	\$ 235.1

(a) The current Revolver capacity is \$215.0M after the Eighth Amendment dated September 30, 2021. The Revolver has an interest rate of SOFR plus 3.25% and a maturity date of January 29, 2026.

(b) Term B loans have an interest rate of SOFR plus 3.25% and a maturity date of April 30, 2026. This rate is fixed for up to \$120.0M of borrowings under our senior credit facility through February 2025.

(c) On June 28, 2021, the Company issued \$300.0M principal amount of 5.875% Senior Unsecured Notes due 2029 in a private placement.

(d) Liquidity equals borrowing availability under our Revolving Credit Facility plus cash and cash equivalents. As of Apr 2, 2023, there were \$10.5M of letters of credit issued under the Revolving Credit Facility.



Appendix



Consolidated Statement of Operations

(in thousands, except per share amounts) (unaudited)	Three Months Ended (a)	
	April 2, 2023	April 3, 2022
Restaurant sales	\$ 445,162	\$ 399,476
Costs and expenses:		
Food, beverage and packaging costs	125,443	123,057
Restaurant wages and related expenses	146,324	141,620
Restaurant rent expense	31,834	31,013
Other restaurant operating expenses	69,132	65,407
Advertising expense	17,898	15,964
General and administrative expenses ^{(b)(c)}	25,740	22,017
Depreciation and amortization	18,718	19,542
Impairment and other lease charges	1,340	496
Other (income) expense, net ^(d)	(1,506)	202
Total costs and expenses	434,923	419,318
Income (loss) from operations	10,239	(19,842)
Interest expense	8,233	7,436
Income (loss) before income taxes	2,006	(27,278)
Provision (benefit) from income taxes	1,142	(6,009)
Net income (loss)	\$ 864	\$ (21,269)
Basic and diluted net income (loss) per share ^{(e)(f)}	\$ 0.01	\$ (0.42)
Basic weighted average common shares outstanding	51,422	50,460
Diluted weighted average common shares outstanding	61,420	50,460

(a) The Company uses a 52 or 53 week fiscal year that ends on the Sunday closest to December 31. The three months ended April 2, 2023 and April 3, 2022 both included thirteen weeks.

(b) General and administrative expenses include certain executive transition, litigation and other professional expenses of \$0.8 million and \$1.9 million for the three months ended April 2, 2023 and April 3, 2022, respectively.

(c) General and administrative expenses include stock-based compensation expense of \$1.1 million and \$1.9 million for the three months ended April 2, 2023 and April 3, 2022, respectively.

(d) The three months ended April 2, 2023 included other income, net, of \$1.5 million, which was comprised of net gains from insurance recoveries of \$0.9 million, a gain of \$0.8 million from the derecognition of a lease financing obligation associated with a prior sale leaseback transaction and a loss on disposal of assets of \$0.2 million. The three months ended April 3, 2022 included other expense, net, of \$0.2 million, which was comprised of a loss on disposal of assets of \$0.3 million and net gains on previous sale-leaseback transactions of \$0.1 million.

(e) Basic net income (loss) per share was computed without attributing any loss to preferred stock and non-vested restricted shares in periods presented with a loss as losses are not allocated to participating securities under the two-class method.

(f) Diluted net income (loss) per share was computed including shares issuable for convertible preferred stock and non-vested restricted shares unless their effect would have been anti-dilutive for the periods presented.



Reconciliation of EBITDA and Adjusted EBITDA (b)

(in thousands) (unaudited)	Three Months Ended (a)	
	April 2, 2023	April 3, 2022
Net income (loss)	\$ 864	\$ (21,269)
Provision (benefit) from income taxes	1,142	(6,009)
Interest expense	8,233	7,436
Depreciation and amortization	18,718	19,542
EBITDA	28,957	(300)
Impairment and other lease charges	1,340	496
Stock-based compensation expense	1,097	1,941
Pre-opening costs ^(c)	—	45
Executive transition, litigation and other professional expenses ^(d)	798	1,918
Other (income) expense, net ^{(e)(f)}	(1,506)	202
Adjusted EBITDA	\$ 30,686	\$ 4,302

Please see slide 12 for footnotes



Reconciliation of Adjusted Restaurant-Level EBITDA (b)

(in thousands) (unaudited)	Three Months Ended (a)	
	April 2, 2023	April 3, 2022
Income (loss) from operations	\$ 10,239	\$ (19,842)
Add:		
General and administrative expenses	25,740	22,017
Pre-opening costs ^(c)	—	45
Depreciation and amortization	18,718	19,542
Impairment and other lease charges	1,340	496
Other (income) expense, net ^{(e)(f)}	(1,506)	202
Adjusted Restaurant-Level EBITDA	\$ 54,531	\$ 22,460

Please see slide 12 for footnotes



Reconciliation of Adjusted Net Income (Loss)

(b)

(in thousands) (unaudited)	Three Months Ended (a)	
	April 2, 2023	April 3, 2022
Net income (loss)	\$ 864	\$ (21,269)
Add:		
Impairment and other lease charges	1,340	496
Pre-opening costs ^(c)	—	45
Executive transition, litigation and other professional expenses ^(d)	798	1,918
Other (income) expense, net ^{(e)(f)}	(1,506)	202
Income tax effect on above adjustments ^(g)	(158)	(665)
Change in valuation allowance for deferred taxes ^(h)	(1,331)	2,207
Adjusted Net Income (Loss)	\$ 7	\$ (17,066)
Adjusted diluted net loss per share ⁽ⁱ⁾	\$ —	\$ (0.34)
Diluted weighted average common shares outstanding	61,420	50,460

Please see slide 12 for footnotes



Footnotes

- (a) The Company uses a 52 or 53 week fiscal year that ends the Sunday closest to December 31. The three months ended April 2, 2023 and April 3, 2022 both included thirteen weeks.
- (b) Within this presentation, we make reference to EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) which are non-GAAP financial measures. EBITDA represents net income (loss) before income taxes, interest expense and depreciation and amortization. Adjusted EBITDA represents EBITDA as adjusted to exclude impairment and other lease charges, stock-based compensation expense, restaurant pre-opening costs, executive transition, non-recurring litigation and other professional expenses, and other (income) expense, net. Adjusted Restaurant-Level EBITDA represents income (loss) from operations as adjusted to exclude general and administrative expenses, pre-opening costs, depreciation and amortization, impairment and other lease charges and other (income) expense, net. Adjusted Net Income (Loss) represents net income (loss) as adjusted, net of tax, to exclude impairment and other lease charges, restaurant pre-opening costs, executive transition, non-recurring litigation and other professional expenses, other (income) expense, net, and deferred tax valuation allowance changes.
- Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) are presented because the Company believes that they provide a more meaningful comparison than EBITDA and net income (loss) of its core business operating results, as well as with those of other similar companies. Additionally, Adjusted Restaurant-Level EBITDA is presented because it excludes restaurant pre-opening costs, other (income) expense, net, and the impact of general and administrative expenses such as salaries and expenses associated with corporate and administrative functions that support the development and operations of our restaurants, legal, auditing and other professional fees. Although these costs are not directly related to restaurant-level operations, these expenses are necessary for the profitability of our restaurants. Management believes that Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss), when viewed with the Company's results of operations in accordance with U.S. GAAP and the accompanying reconciliations in the table above, provide useful information about operating performance and period-over-period growth, and provide additional information that is useful for evaluating the operating performance of the Company's core business without regard to potential distortions. Additionally, management believes that Adjusted EBITDA and Adjusted Restaurant-Level EBITDA permit investors to gain an understanding of the factors and trends affecting our ongoing cash earnings, from which capital investments are made and debt is serviced.
- However, EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) are not measures of financial performance or liquidity under U.S. GAAP and, accordingly, should not be considered as alternatives to net income (loss) from operations or cash flow from operating activities as indicators of operating performance or liquidity. Also, these measures may not be comparable to similarly titled captions of other companies. The tables above provide reconciliations between net income (loss) and EBITDA, Adjusted EBITDA and Adjusted Net Income (Loss) and between income (loss) from operations and Adjusted Restaurant-Level EBITDA.
- (c) Pre-opening costs for the three months ended April 3, 2022 include training, labor and occupancy costs incurred during the construction of new restaurants.
- (d) Executive transition, litigation and other professional expenses for the three months ended April 2, 2023 include executive recruiting and transition costs and other non-recurring professional expenses. Executive transition, litigation and other professional expenses for the three months ended April 3, 2022 include executive recruiting and severance costs, costs pertaining to an ongoing lawsuit with one of the Company's former vendors and other non-recurring professional service expenses.
- (e) The three months ended April 2, 2023 included other income, net, of \$1.5 million, which was comprised of net gains from insurance recoveries of \$0.9 million, a gain of \$0.8 million from the derecognition of a lease financing obligation associated with a prior sale leaseback transaction and a loss on disposal of other assets of \$0.2 million.
- (f) The three months ended April 3, 2022 included other expense, net, of \$0.2 million, which was comprised of a loss on disposal of assets of \$0.3 million and net gains on previous sale-leaseback transactions of \$0.1 million.
- (g) The income tax effect related to the adjustments to Adjusted Net Income (Loss) was calculated using an incremental income tax rate of 25% for the three months ended April 2, 2023 and April 3, 2022.
- (h) Reflects the change in the valuation allowance on all our net deferred taxes for the three months ended April 2, 2023 and April 3, 2022.
- (i) Adjusted diluted net income (loss) per share is calculated based on Adjusted Net Loss and the dilutive weighted average common shares outstanding for the respective periods, where applicable.



Reconciliation of Free Cash Flow

<i>(in thousands)</i> <i>(unaudited)</i>	Three Months Ended (a)	
	April 2, 2023	April 3, 2022
Reconciliation of Free Cash Flow: (b)		
Net cash provided by (used for) operating activities	\$ 7,993	\$ (26,569)
Net cash used for investing activities	(6,863)	(12,554)
Total Free Cash Flow	\$ 1,130	\$ (39,123)

^(a) The Company uses a 52 or 53 week fiscal year that ends the Sunday closest to December 31. The three months ended April 2, 2023 and April 3, 2022 both included thirteen weeks.

^(b) Free Cash Flow is a non-GAAP financial measure and may not necessarily be comparable to other similarly titled captions of other companies due to differences in methods of calculation. Free Cash Flow is defined as cash provided by operating activities less cash used for investing activities, adjusted to add back net cash paid for acquisitions excluding proceeds from acquisition-related sale-leaseback transactions. Management believes that Free Cash Flow, when viewed with the Company's results of operations in accordance with U.S. GAAP and the accompanying reconciliations in the table above, provides useful information about the Company's cash flow for liquidity purposes and to service the Company's debt. However, Free Cash Flow is not a measure of liquidity under U.S. GAAP, and, accordingly should not be considered as an alternative to the Company's consolidated statements of cash flows and net cash provided by operating activities, net cash used for investing activities and net cash provided by financing activities as indicators of liquidity or cash flow. Free Cash Flow for the three months ended April 2, 2023 and April 3, 2022 is derived from the Company's consolidated statements of cash flows for the respective three month periods to be presented in the Company's Interim Condensed Consolidated Financial Statements in its Form 10-Q for the period ended April 2, 2023.