



Carrols Restaurant Group, Inc. (TAST)

Q3 2020 Earnings Call

November 2020

Safe Harbor Statement



Under the Private Securities Litigation Reform Act of 1995

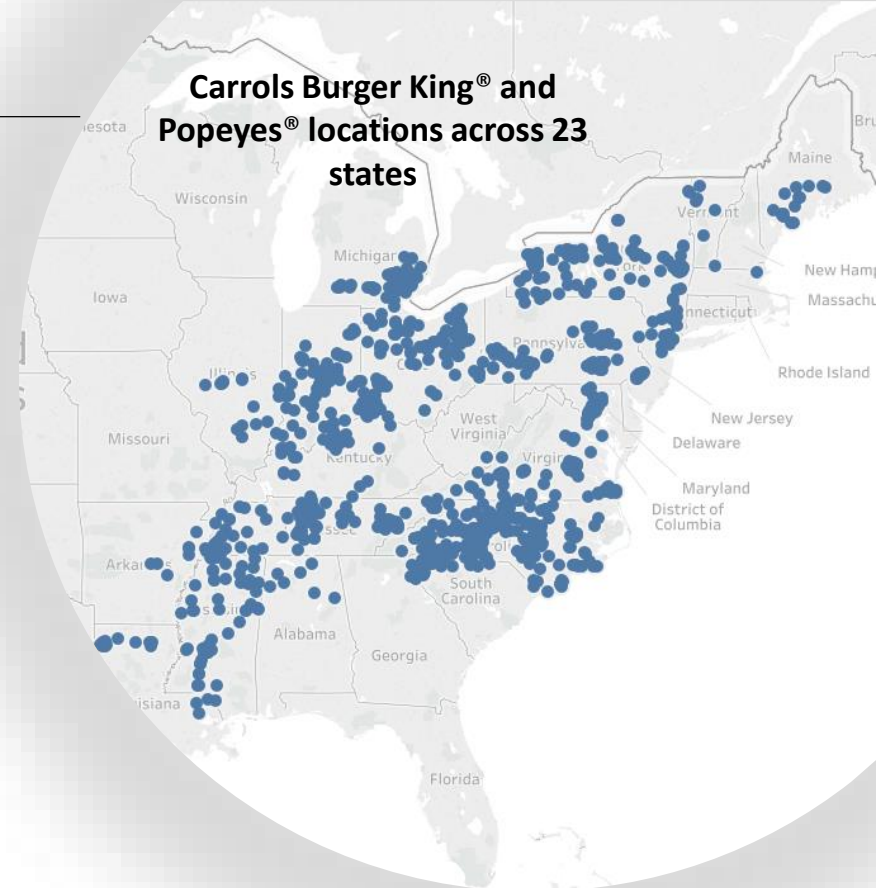
- Our presentation includes, and our response to various questions may include, forward-looking statements. Forward-looking statements, written, oral or otherwise made, represent the Company's expectation or belief concerning future events. Without limiting the foregoing, these statements are often identified by the words "may", "might", "believes", "thinks", "anticipates", "plans", "expects", "intends" or similar expressions. In addition, expressions of our strategies, intentions or plans, are also forward-looking statements. Such 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 as 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 referred to the full discussion of risks and uncertainties, including the impact of COVID-19 on our business, 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 and Adjusted Net Income (Loss) are non-GAAP financial measures. We are presenting these financial measures because we believe they provide a more meaningful comparison of our core business operating results, as well as to those of other similar companies. We believe that these measures, when viewed with our results of operations in accordance with GAAP, provide useful information about our operating performance and 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. These are not measures of financial performance or liquidity under GAAP and, accordingly, should not be considered as alternatives to net income (loss) or cash flow from operating activities as indicators of operating performance or liquidity. We direct you to the Appendix to this presentation and to our filings with the SEC for a reconciliation of these non-GAAP measures to the appropriate GAAP measures.
- 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, provide 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 statement 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 measures to the appropriate GAAP measures.

About the Company

- Carrols is one of the largest restaurant franchisees in the United States, operating 1,088 restaurants across the Burger King® and Popeyes® brands
- With 1,023 Burger King® restaurants, Carrols is the largest Burger King® Franchisee, operating 14% of the U.S. Burger Kings®. Carrols consistently outperforms the same store sales in the U.S. Burger King® restaurant base
- Carrols added one of the fastest growing QSR's in the U.S. to our portfolio in 2019, and is now operating 65 Popeyes® restaurants
- Carrols' two largest shareholders are invested in long-term success:
 - RBI, 15% fully diluted – franchisor partner
 - Cambridge Franchise Holdings, 24% fully diluted – affiliate of Garnett Station Partners, engaged board member, strong record of generating returns



Carrols Restaurant Group Q3 2020 Highlights



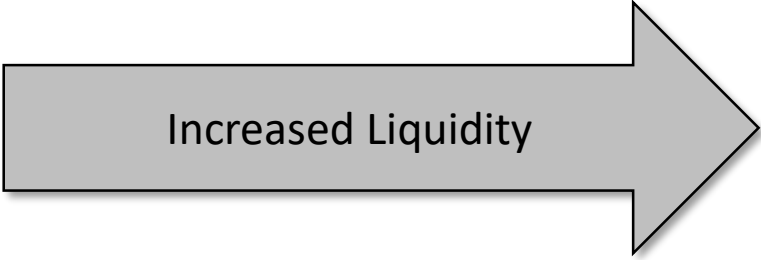
\$34.1M of Adjusted EBITDA

Adjusted EBITDA was \$34.1M, reflecting a margin improvement of 200bps compared to the year ago period, mostly due to labor and other operating expense efficiencies (a)



Generated Free Cash Flow

Generated \$23.3M of Free Cash Flow in the third quarter and \$46.7M year to date (b)



Increased Liquidity

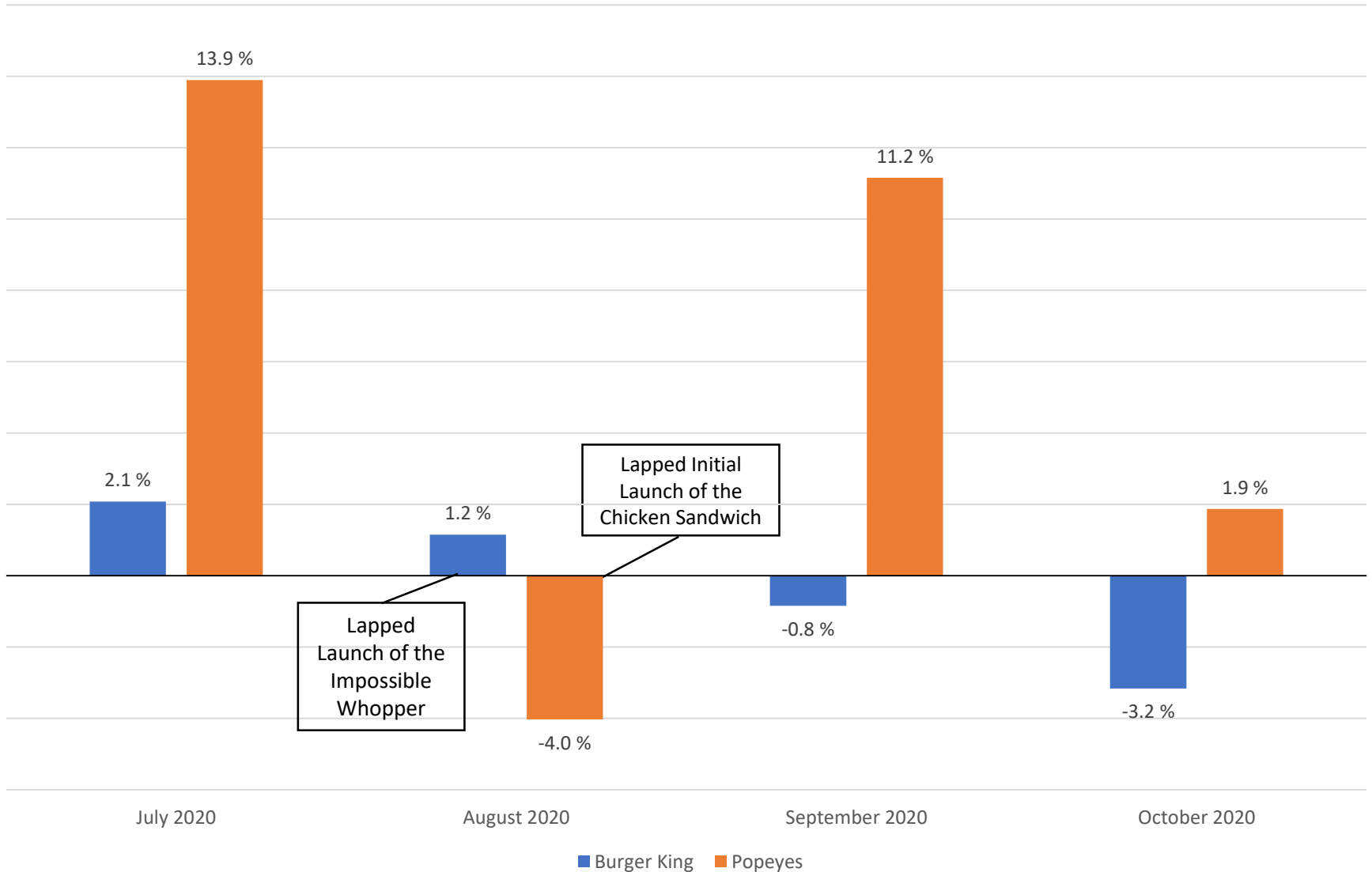
Ended the quarter with more than \$200M of liquidity (c)

(a) Please see Appendix for Reconciliation of EBITDA and Adjusted EBITDA.

(b) Please see Appendix for Reconciliation of Free Cash Flow.

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

Monthly Same Store Sales Trends



Q3 2020 Financial Summary



Q3 2020		
Total Restaurant Sales:	\$407.0 million	Compared to \$398.4 million Q3 2019
Adjusted Restaurant-Level EBITDA (a):	\$52.8 million	Compared to \$43.0 million Q3 2019
Adjusted EBITDA (a):	\$34.1 million	Compared to \$25.7 million in Q3 2019
Income (Loss) from Operations:	\$10.2 million	Compared to \$(1.1) million in Q3 2019
Net Income (Loss):	\$3.5 million	Compared to a net loss of \$(6.8) million in Q3 2019
Income (Loss) Per Share:	\$0.06 per diluted share	\$(0.15) per diluted share in Q3 2019
Adjusted Net Income (Loss) (a):	\$5.7 million	Compared to a net loss of \$(3.9) million in Q3 2019
Adjusted Diluted Income (Loss) Per Share (a):	\$0.09 per diluted share	\$(0.08) per diluted share in Q3 2019

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

Q3 2020 Adjusted EBITDA



(\$ in millions) (unaudited)	Three Months Ended	
	Sept 27, 2020	Sept 29, 2019
Restaurant Revenue	\$ 407.0	\$ 398.4
Other Revenue	-	3.9
Total Revenue	407.0	402.3
Cost of Sales	121.2	121.3
<i>Cost of Sales %</i>	29.8%	30.1%
Restaurant Labor	126.0	131.1
<i>Restaurant Labor %</i>	31.0%	32.6%
Advertising & Royalties	33.8	33.1
Other Operating Expenses	42.7	44.5
Rent	30.5	29.3
Adjusted Restaurant-Level EBITDA (a)	52.8	43.0
<i>Adjusted Restaurant-Level EBITDA margin</i>	13.0%	10.7%
G&A Expense (excl stock comp)	19.1	19.7
Less: Integration, acq., abandoned sites, litigation costs and other non-recurring expenses	(0.5)	(2.4)
Adjusted G&A Expense	18.7	17.3
Adjusted EBITDA (a)	\$ 34.1	\$ 25.7
<i>Adjusted EBITDA margin</i>	8.4%	6.4%

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

Capitalization Overview



(\$ in millions)	As of:	Sept 27, 2020	June 28, 2020	March 29, 2020	December 29, 2019
Cash & Cash Equivalents		\$ 67.8	\$ 46.0	\$ 41.3	\$ 3.0
Revolver due 2024 ^(a)		\$ -	\$ -	\$ 111.8	\$ 45.8
Term Loan B due 2026 ^(b)		419.7	420.8	421.8	422.9
Term Loan B-1 due 2026 ^{(c) (d)}		75.0	75.0	-	-
Finance Lease Liabilities		1.1	1.4	2.0	2.5
Total Debt		\$ 495.7	\$ 497.1	\$ 535.5	\$ 471.1
Total Funded Net Debt (per Credit Agreement)		\$ 428.0	\$ 451.2	\$ 494.3	\$ 468.2
TTM Covenant EBITDA (per Credit Agreement)		105.3	107.8	98.8	114.0
Total Net Leverage Ratio		4.06x	4.18x	5.00x	4.11x
Total Liquidity Available ^(e)		\$ 204.0	\$ 182.2	\$ 50.2	\$ 60.6

- (a) The Second Amendment to Credit Agreement dated March 25, 2020 increased the total Revolver capacity \$15.4M to \$130.4M. The Third Amendment to Credit Agreement dated April 8, 2020 increased the total Revolver capacity \$15.4M to \$145.8M.
- (b) Term Loan B has an interest rate of LIBOR plus 3.25% and a maturity date of April 30, 2026.
- (c) Term Loan B-1 has an interest rate of LIBOR (with 1.00% floor) plus 6.25% and a maturity date of April 30, 2026.
- (d) On June 23, 2020, the Fifth Amendment to our Senior Credit Facilities increased Term Loan B-1 borrowings in the aggregate principal amount of \$75 million, net proceeds from which were used to pay down the balance of the Revolver.
- (e) Liquidity equals borrowing availability under our Revolving Credit Facility plus cash and cash equivalents. As of Sept 27, 2020, June 28, 2020 and March 29, 2020, there were \$9.7 million of letters of credit issued under the Revolving Credit Facility. As of December 29, 2019, there were \$11.6 million of letters of credit issued under the Revolving Credit Facility. Issued letters of credit is a reduction in the calculation of availability under our Revolving Credit Facility in the respective periods presented.



Appendix

Consolidated Statements of Operations



(\$ in thousands, except per share amounts) (unaudited)	Three Months Ended (a)	
	Sept 27, 2020	Sept 29, 2019
Revenue:		
Restaurant Sales	\$ 407,036	\$ 398,414
Other Revenue	-	3,931
Total Revenue	407,036	402,345
Costs and Expenses:		
Cost of Sales	121,228	121,283
Restaurant wages and related expenses	126,040	131,070
Restaurant rent expense	30,536	29,300
Other restaurant operating expenses	60,486	62,710
Advertising expense	15,989	16,052
General and administrative expenses (b) (c)	20,440	21,365
Depreciation and amortization	19,620	21,200
Impairment and other lease charges	1,954	500
Other expense (income), net (d)	515	(20)
Total Costs and Expenses	396,808	403,460
Income from operations	10,228	(1,115)
Interest expense	6,649	7,578
Income (loss) before income taxes	3,579	(8,693)
Provision (benefit) for income taxes	48	(1,881)
Net income (loss)	\$ 3,531	\$ (6,812)
Basic and diluted net income (loss) per share (e) (f)	\$ 0.06	\$ (0.15)
Basic weighted average common shares outstanding	50,924	45,947
Diluted weighted average common shares outstanding	60,543	45,947

(a) The Company uses a 52 or 53 week fiscal year that ends on the Sunday closest to December 31. The three months ended September 27, 2020 and September 29, 2019 each included thirteen weeks.

(b) General and administrative expenses include acquisition and integration costs of \$2.2 million for the three months ended September 29, 2019.

(c) General and administrative expenses include stock-based compensation expense of \$1.3 million and \$1.7 million for the three months ended September 27, 2020 and September 29, 2019, respectively.

(d) Other expense net, for the three months ended September 27, 2020, included a net gain of \$0.2 million related to adjustments to insurance recoveries from previous property damage at its restaurants, a loss on one sale-leaseback transaction of \$0.4 million and a loss on disposal of assets of \$0.3 million.

(e) Basic net income (loss) per share was computed excluding income (loss) attributable to preferred stock and non-vested restricted shares unless the effect would have been anti-dilutive for the periods presented.

(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



(\$ in thousands) (unaudited)	Three Months Ended	
	Sept 27, 2020	Sept 29, 2019
Reconciliation of EBITDA and Adjusted EBITDA: (a)		
Net Income (loss)	\$ 3,531	\$ (6,812)
Provision (benefit) for income taxes	48	(1,881)
Interest expense	6,649	7,578
Depreciation and amortization	19,620	21,200
EBITDA	29,848	20,085
Impairment and other lease charges	1,954	500
Acquisition and integration costs (b)	18	2,754
Abandoned development costs (c)	189	82
Pre-opening costs (d)	5	478
Litigation costs (e)	265	144
Other expense (income), net (f)	515	(20)
Stock-based compensation expense	1,303	1,707
Adjusted EBITDA	\$ 34,097	\$ 25,730

Please see slide 14 for footnotes

Reconciliation of Adjusted Restaurant-Level EBITDA



(\$ in thousands) (unaudited)	Three Months Ended	
	Sept 27, 2020	Sept 29, 2019
Reconciliation of Adjusted Restaurant-Level EBITDA: (a)		
Income (loss) from operations	\$ 10,228	\$ (1,115)
Add:		
General and administrative expenses	20,440	21,365
Restaurant integration costs (b)	—	596
Pre-opening costs (d)	5	478
Depreciation and amortization	19,620	21,200
Impairment and other lease charges	1,954	500
Other expense (income), net (f)	515	(20)
Adjusted Restaurant-Level EBITDA	\$ 52,762	\$ 43,004

Reconciliation of Adjusted Net Income (loss)

(\$ in thousands, except per share amounts) (unaudited)	Three Months Ended	
	Sept 27, 2020	Sept 29, 2019
Reconciliation of Adjusted net income (loss): (a)		
Net Income (loss)	\$ 3,531	\$ (6,812)
Add:		
Impairment and other lease charges	1,954	500
Acquisition and integration costs (b)	18	2,754
Abandoned development costs (c)	189	82
Pre-opening costs (d)	5	478
Litigation costs (e)	265	144
Other expense (income), net (f)	515	(20)
Income tax effect on above adjustments (g)	(737)	(985)
Adjusted Net Income (Loss)	5,740	(3,859)
Adjusted diluted net income (loss) per share (h)	\$ 0.09	\$ (0.08)
Adjusted diluted weighted average common shares outstanding	60,543	45,947

Footnotes



(a) Within our 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, acquisition and integration costs, stock-based compensation expense, loss on extinguishment of debt, abandoned site development, restaurant pre-opening costs, non-recurring litigation costs and other non-recurring income or expense. Adjusted Restaurant-Level EBITDA represents income (loss) from operations as adjusted to exclude general and administrative expenses, depreciation and amortization, impairment and other lease charges, restaurant-level integration costs, pre-opening costs, and other non-recurring income or expense. Adjusted Net Income (Loss) represents net income (loss) as adjusted, net of tax, to exclude impairment and other lease charges, acquisition costs and integration costs, abandoned development costs, pre-opening costs, non-recurring litigation costs, loss on extinguishment of debt and other non-recurring income or expense.

We are presenting Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted Net Income (Loss) because we believe that they provide a more meaningful comparison than EBITDA and net income (loss) of the Company's core business operating results, as well as with those of other similar companies. Additionally, we present Adjusted Restaurant-Level EBITDA because it excludes 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, acquisition costs, restaurant pre-opening costs and stock-based compensation expense. Although these costs are not directly related to restaurant-level operations, these expenses are necessary for the profitability of our restaurants. Additionally, this financial measure may not be comparable to a similarly titled caption for other companies. 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 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 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.

(b) Acquisition costs for the three months ended September 27, 2020 mostly include legal and professional fees incurred in connection with the acquisition of 165 Burger King and 55 Popeyes restaurants from Cambridge Franchise Holdings, LLC, which were included in general and administrative expense. Acquisition and integration costs for the three ended September 29, 2019 of \$2.8 million include certain legal and professional fees; corporate payroll, and other costs related to the integration of the Cambridge merger and one-time repair costs which are included in Restaurant-Level EBITDA.

(c) Abandoned development costs for the three months ended September 27, 2020 and September 29, 2019 represents the write-off of capitalized costs due to the abandoned development of future restaurant locations.

(d) Pre-opening costs for the three months ended September 27, 2020 and September 29, 2019 include training, labor and occupancy costs incurred during the construction of new restaurants.

(e) Legal costs for the three months ended September 27, 2020 and September 29, 2019 include litigation expenses pertaining to an ongoing lawsuit with one of the Company's former vendors as well as other non-recurring professional service expenses.

(f) Other expense, net for the three months ended September 27, 2020 included a net gain related to adjustments to insurance recoveries from previous property damage at restaurants of \$0.2 million, a loss on one sale-leaseback transaction of \$0.4 million and a loss on disposal of assets of \$0.3 million.

(g) The income tax effect related to the adjustments to Adjusted Net Income (Loss) during the periods presented was calculated using an incremental income tax rate of 25% for the three months ended September 27, 2020 and September 29, 2019.

(h) Adjusted diluted net income (loss) per share is calculated based on Adjusted net income (loss) and the dilutive weighted average common shares outstanding for the respective periods, where applicable.

Reconciliation of Free Cash Flow



<i>(\$ in thousands) (unaudited)</i>	Three Months Ended		Nine Months Ended	
Reconciliation of Free Cash Flow: (a)	Sept 27, 2020		Sept 27, 2020	
Net cash provided by operating activities (b)	\$	32,386	\$	80,778
Net cash used for investing activities		(9,039)		(34,045)
Add: cash paid for acquisitions		-		-
Total Free Cash Flow	\$	23,347	\$	46,733

- (a) 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 cash paid for acquisitions. Management believes that Free Cash Flow, when viewed with the Company's results of operations in accordance with 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 GAAP, and, accordingly should not be considered as an alternative to the Company's consolidated statement 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 September 27, 2020 is derived from the Company's consolidated statement of cash flows for the respective nine month periods to be presented in the Company's Interim Condensed Consolidated Financial Statements in its Form 10-Q for the period ended September 27, 2020 and the Company's consolidated statement of cash flows for the previously reported three month periods ended June 28, 2020 contained in the Company's Form 10-Q for the period ended June 28, 2020.
- (b) Working capital changes in the three and nine months ended September 27, 2020 include \$7.2 million and \$14.3 million, respectively, related to deferred payments of the employer portion of social security taxes, which will be repaid half at the end of 2021 and the remainder at the end of 2022.