Carrols Restaurant Group, Inc. (TAST)

Q2 2020 Earnings Call

August 2020

Safe Harbor Statement

CARROLS

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

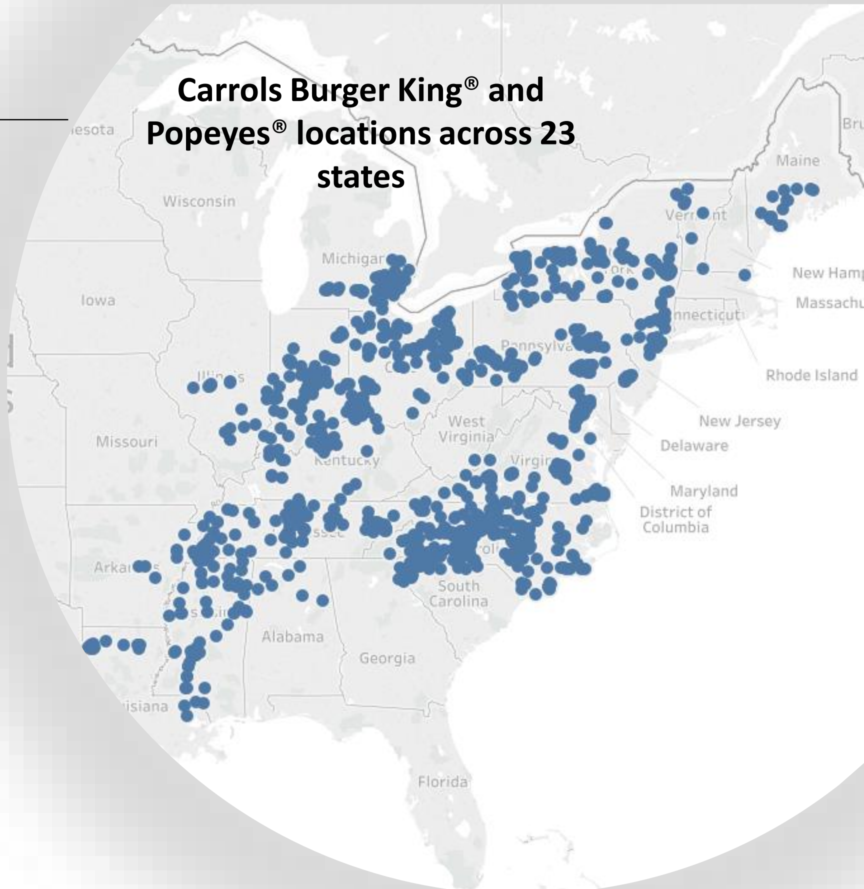
- EBITDA, Adjusted EBITDA, Adjusted Restaurant-Level EBITDA and Adjusted net income (loss) are non-GAAP financial measures. We are presenting these financial measures because we believe they provide a more meaningful comparison of our core business operating results, as well as to those of other similar 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 1,092 restaurants across the Burger King® and Popeyes® brands
- With 1,027 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
- In 2019, Carrols added one of the fastest growing QSR's in the U.S. to our portfolio, now operating 65 Popeyes® restaurants
- Carrols' two largest shareholders 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



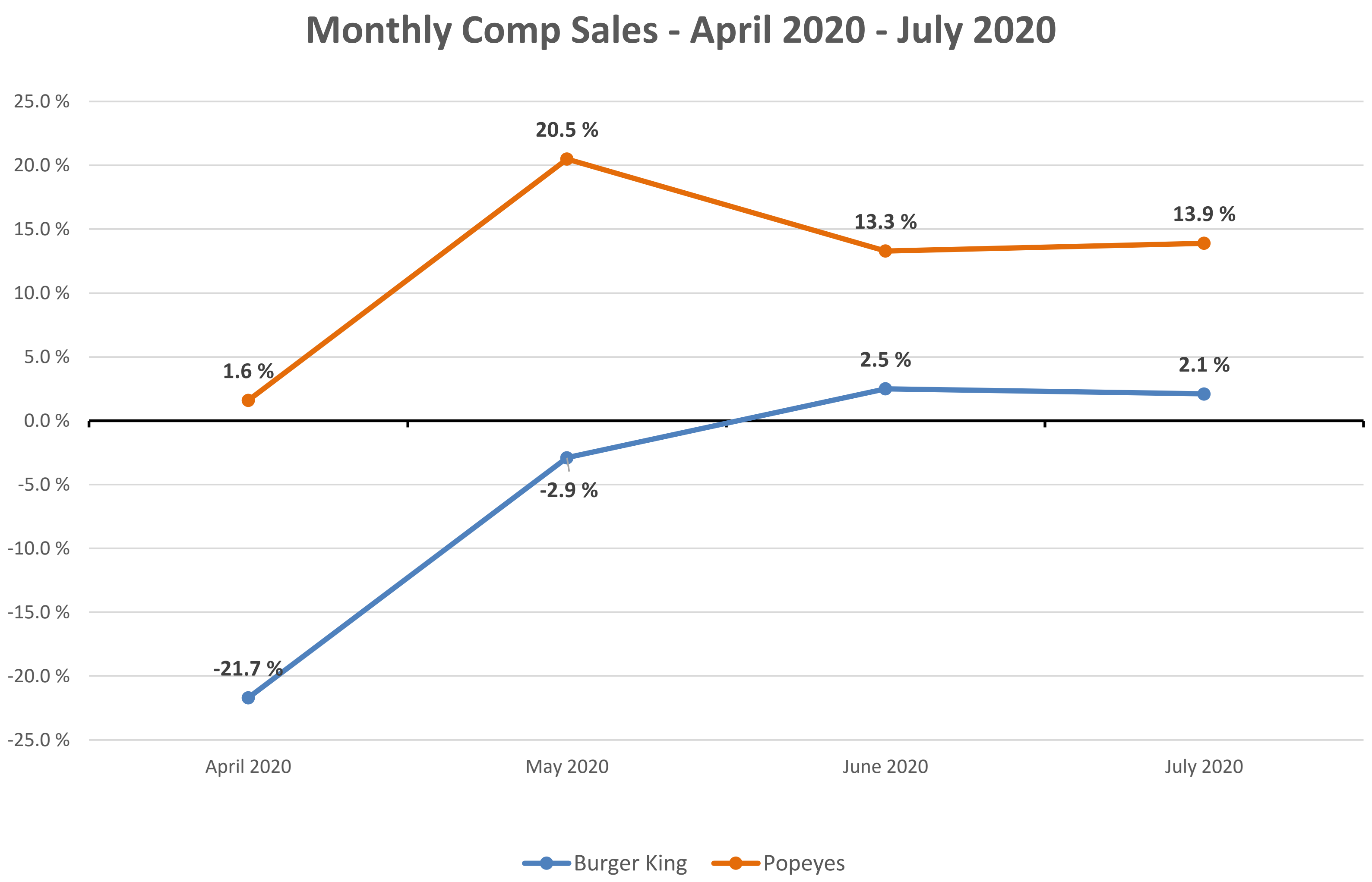
Please note store count is as of June 28, 2020

Carrols Restaurant Group Q2 2020 Highlights

- Our drive-through model has proven to be resilient in the face of COVID-19
- We rolled out delivery to 800 of our restaurants; now represents ≈ 3.0% of restaurant sales
- Re-opened 35 of 46 temporarily closed restaurants
- Adjusted EBITDA was $38.0 million reflecting a margin improvement of 380 basis points compared to the year ago period, mostly due to labor and cost of sales efficiencies (a)
- Generated $48.6 million of Free Cash Flow in the second quarter and $22.9 million of Free Cash Flow year to date(b)
- Ended quarter with more than $180 million of liquidity (cash plus revolver capacity)
- Plan in place to target $40 million to $50 million of annual capital expenditures for 2021 through 2023
- Acquisition activity on pause until adjusted leverage ratio is below four times

(a) Please see Appendix for Reconciliation of EBITDA and Adjusted EBITDA.
(b) Please see Appendix for Reconciliation of Free Cash Flow.

Recent Same Store Sales Trend



Q2 2020 Financial Summary

Q2 2020		
Total Restaurant Sales:	$368.4 million	Compared to $365.7 million Q2 2019
Adjusted Restaurant-Level EBITDA (a):	$54.1 million	Total adjusted restaurant EBITDA increased 31.6% from $41.1 million in Q2 2019
Adjusted EBITDA (a):	$38.0 million	Compared to $24.1 million in Q2 2019
Net Income (Loss):	$7.8 million	Compared to a net loss of $(3.7) million in Q2 2019
Earnings (Loss) Per Share:	$0.13 per diluted share	$(0.09) per diluted share in Q2 2019
Adjusted Net Income (a):	$9.6 million	Compared to $4.6 million in Q2 2019
Adjusted Earnings Per Share (a):	$0.16 per diluted share	$0.08 per diluted share in Q2 2019

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

Q2 2020 Adjusted EBITDA

($ in millions)	Three Months Ended	
(unaudited)	**June 28, 2020**	**June 30, 2019**
Restaurant Revenue	$ 368.4	$ 365.7
Other Revenue	-	2.9
Total Revenue	**368.4**	**368.6**
Cost of Sales	104.7	109.2
Cost of Sales %	*28.4%*	*29.6%*
Restaurant Labor	111.9	121.1
Restaurant Labor %	*30.4%*	*32.9%*
Advertising & Royalties	30.3	30.2
Other Operating Expenses	38.4	40.3
Rent	29.0	26.7
Adjusted Restaurant-Level EBITDA (a)	**54.1**	**41.1**
Adjusted Restaurant-Level EBITDA margin	*14.7%*	*11.2%*
G&A Expense (excl stock comp)	17.5	19.3
Less: Integration, acq., abandoned sites, litigation costs and other non-recurring expenses	(1.4)	(2.3)
Adjusted G&A Expense	16.1	17.0
Adjusted EBITDA (a)	**$ 38.0**	**$ 24.1**
Adjusted EBITDA margin	*10.3%*	*6.5%*

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

Capitalization Overview

($ in millions) *As of:*	**June 28, 2020**	**March 29, 2020**	**December 29, 2019**
Cash & Cash Equivalents	$ 46.0	$ 41.3	$ 3.0
Revolver due 2024 (a)	$ -	$ 111.8	$ 45.8
Term Loan B due 2026 (b)	420.8	421.8	422.9
Term Loan B-1 due 2026 (c) (d)	75.0	-	-
Finance Lease Liabilities	1.4	2.0	2.5
Total Debt	$ 497.1	$ 535.5	$ 471.1
Total Funded Net Debt ***(per Credit Agreement)***	***$ 451.2***	***$ 494.3***	***$ 468.2***
TTM Covenant EBITDA ***(per Credit Agreement)***	***107.8***	***98.8***	***114.0***
Total Net Leverage Ratio	***4.18x***	***5.00x***	***4.11x***
Total Liquidity Available (e)	$ 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 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)	Three Months Ended (a)	
(unaudited)	June 28, 2020	June 30, 2019
Revenue:		
Restaurant Sales	$ 368,418	$ 365,674
Other Revenue	-	2,885
Total Revenue	**368,418**	**368,559**
Costs and Expenses:		
Cost of Sales	104,703	109,157
Restaurant wages and related expenses	111,888	121,140
Restaurant rent expense	28,984	26,690
Other restaurant operating expenses	54,310	56,308
Advertising expense	14,416	14,677
General and administrative expenses (b) (c)	18,581	20,620
Depreciation and amortization	20,296	17,121
Impairment and other lease charges	2,941	367
Other expense (income), net (d)	(2,003)	376
Total Costs and Expenses	**354,116**	**366,456**
Income from operations	14,302	2,103
Interest expense	6,370	6,900
Loss on extinguishment of debt	-	7,443
Income (loss) before income taxes	7,932	(12,240)
Provision (benefit) for income taxes	90.0	(8,508)
Net income (loss)	$ 7,842	$ (3,732)
Basic and diluted net income (loss) per share (e) (f)	$ 0.13	$ (0.09)
Basic weighted average common shares outstanding	50,917	41,051
Diluted weighted average common shares outstanding	60,332	41,051

(a) The Company uses a 52 or 53 week fiscal year that ends on the Sunday closest to December 31. The three and six months ended June 28, 2020 and June 30, 2019 each included thirteen and twenty-six weeks, respectively.

(b) General and administrative expenses include acquisition and integration costs of $0.3 million and $1.4 million for the three months ended June 28, 2020 and June 30, 2019 respectively and of $0.4 million and $4.0 million for the six months ended June 28, 2020 and June 30, 2019, respectively.

(c) General and administrative expenses include stock-based compensation expense of $1.1 million and $1.3 million for the three months ended June 28, 2020 and June 30, 2019, respectively and $2.2 million and $2.8 million for the six months ended June 28, 2020 and June 30, 2019, respectively.

(d) Other expense (income), net, for the three months ended June 28, 2020, included a gain of $1.3 million due to property damage of the Company's restaurants, a gain on three sale-leaseback transactions of $0.8 million and a loss on disposal of assets of $0.1 million. Other expense (income), net, for the six months ended June 28, 2020, included a gain of $1.6 million due to property damage at four of the Company's restaurants, a net gain on ten sale-leaseback transactions of $0.6 million, and loss on disposal of assets of $0.2 million. Other expense (income), net, for the six months ended June 30, 2019 included a $1.9 million gain related to a settlement with Burger King Corporation for the approval of new restaurant development by other franchisees which unfavorably impacted our restaurants.

(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	
Reconciliation of EBITDA and Adjusted EBITDA: (a)	**June 28, 2020**	**June 30, 2019**
Net Income (loss)	$ 7,842	$ (3,732)
Provision (benefit) for income taxes	90	(8,508)
Interest expense	6,370	6,900
Depreciation and amortization	20,296	17,121
EBITDA	**34,598**	**11,781**
Impairment and other lease charges	2,941	367
Acquisition and integration costs (b)	274	2,573
Abandoned development costs (c)	869	54
Pre-opening costs (d)	10	121
Litigation costs (e)	219	136
Other expense (income), net (f)(g)	(2,003)	376
Stock-based compensation expense	1,109	1,282
Loss on extinguishment of debt	—	7,443
Adjusted EBITDA	**$ 38,017**	**$ 24,133**

Please see slide 14 for footnotes

Reconciliation of Adjusted Restaurant-Level EBITDA

($ in thousands) (unaudited)	**Three Months Ended**	
Reconciliation of Adjusted Restaurant-Level EBITDA: (a)	**June 28, 2020**	**June 30, 2019**
Income (loss) from operations	**$ 14,302**	**$ 2,103**
Add:		
General and administrative expenses	18,581	20,620
Restaurant integration costs (b)	—	406
Pre-opening costs (d)	10	121
Depreciation and amortization	20,296	17,121
Impairment and other lease charges	2,941	367
Other expense (income), net (f)(g)	(2,003)	376
Adjusted Restaurant-Level EBITDA	**$ 54,127**	**$ 41,114**

Please see slide 14 for footnotes

Reconciliation of Adjusted Net Income (loss)

($ in thousands, except per share amounts) (unaudited)	Three Months Ended	
Reconciliation of Adjusted net income (loss): (a)	**June 28, 2020**	**June 30, 2019**
Net Income (loss)	**$ 7,842**	**$ (3,732)**
Add:		
Impairment and other lease charges	2,941	367
Acquisition and integration costs (b)	274	2,573
Abandoned development costs (c)	869	54
Pre-opening costs (d)	10	121
Litigation costs (e)	219	136
Other expense (income), net (f)(g)	(2,003)	376
Loss on extinguishment of debt	—	7,443
Income tax effect on above adjustments (h)	(578)	(2,768)
Adjusted Net Income	**9,574**	**4,570**
Adjusted diluted net income (loss) per share	$ 0.16	$ 0.08
Adjusted diluted weighted average common shares outstanding	60,332	58,208

Please see slide 14 for footnotes

Footnotes

(a) 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, acquisition and integration costs, stock-based compensation expense, loss on extinguishment of debt, restaurant pre-opening costs, nonrecurring 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, loss on extinguishment of debt, 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, gain on bargain purchase, pre-opening costs, non-recurring litigation costs 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 and six months ended June 28, 2020 and June 30, 2019 mostly includes 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. Integration costs were $1.2 million in the three and six months ended June 30, 2019 and included certain professional fees, corporate payroll, and other costs related to the integration of this acquisition, of which $0.4 million of one-time repairs and maintenance costs were restaurant-level expenses and $0.8 million were recorded in general and administrative expense.

(c) Abandoned development costs for the three and six months ended June 28, 2020 and June 30, 2019 represents the write-off of capitalized costs due to the abandoned development of future restaurant locations.

(d) Pre-opening costs for the three and six months ended June 28, 2020 and June 30, 2019 include training, labor and occupancy costs incurred during the construction of new restaurants.

(e) Legal costs for the three and six months ended June 28, 2020 and June 30, 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 income, net for the three months ended June 28, 2020 included gains related to insurance recoveries from property damage at four of its restaurants of $1.3 million, a net gain on three sale-leaseback transactions of $0.8 million and a loss on disposal of assets of $0.1 million. For the six months ended June 28, 2020 other income, net included gains related to insurance recoveries from property damage at four of its restaurants of $1.6 million, net gain on ten sale-leaseback transactions of $0.6 million and a loss on disposal of assets of $0.2 million.

(g) Other expense, net for the three months ended June 30, 2019 included a loss on disposal of assets of $0.5 million and a gain on one sale-leaseback transaction of $0.1 million. Other income, net for the six months ended June 30, 2019 included a $1.9 million gain related to a settlement with Burger King Corporation for the approval of new restaurant development by other franchisees which unfavorably impacted our restaurants, a gain on two sale-leaseback transactions of $0.1 million, and a gain related to an insurance recovery from property damage at one of our restaurants of $0.1 million.

(h) 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 and six months ended June 28, 2020 and June 30, 2019, respectively.

Reconciliation of Free Cash Flow

($ in thousands) (unaudited)	Three Months Ended		Six Months Ended	
Reconciliation of Free Cash Flow: (a)	**June 28, 2020**		**June 28, 2020**	
Net cash provided by operating activities	$	51,682	$	47,892
Net cash used for investing activities		(3,038)		(25,006)
Add: cash paid for acquisitions				-
Total Free Cash Flow	**$**	**48,644**	**$**	**22,886**

(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 operation 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 June 28, 2020 and June 30, 2019 is derived from the Company's consolidated statement of cash flows for the respective six month periods to be presented in the Company’s Interim Condensed Consolidated Financial Statements in its Form 10-Q for the period ended June 28, 2020 and the Company's consolidated statement of cash flows for the previously reported three month periods ended March 29, 2020 and March 31, 2019, respectively, contained in the Company’s Form 10-Q for the period ended March 29, 2020.