



**SCADDABUSH**  
ITALIAN KITCHEN & BAR



**CANYON  
CREEK**



# SIR Royalty Income Fund

Investor Presentation – April 2019



## Forward-Looking Information / Non-IFRS Measures

Statements in this presentation, including the information set forth as to the future financial or operating performance of the Fund or SIR, that are not current or historical factual statements may constitute “**forward-looking**” information within the meaning of securities laws. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund, the Trust, the Partnership, SIR, the SIR Restaurants, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this presentation, such statements may include, among other language, such words as “may”, “will”, “should”, “would”, “expect”, “believe”, “plan”, “anticipate”, “intend”, “estimate” and other similar terminology. These statements reflect Management’s current expectations, estimates and projections regarding future events and operating performance and speak only as of the date of this presentation. Readers are cautioned that forward-looking statements are not guarantees of future performance, and should not place undue reliance on them. The Fund and SIR expressly disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statements contained herein to reflect any change in expectations, estimates and projections with regard thereto or any changes in events, conditions or circumstances on which any statement is based, except as expressly required by law.

In formulating the forward-looking statements contained herein, Management has assumed that business conditions affecting SIR’s restaurants and the Fund will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, general levels of economic activity (including in downtown Toronto), regulations (including those regarding employees, food safety, tobacco, cannabis and alcohol), weather, taxes, foreign exchange rates and interest rates, that there will be no pandemics or other material outbreaks of disease or safety issues affecting humans or animals or food products, and that there will be no unplanned material changes in its facilities, equipment, customer and employee relations, or credit arrangements. Recent changes in employment law, including announced increases in minimum wages, are factored into management’s assumptions. These assumptions, although considered reasonable by Management at the time of preparation, may prove to be incorrect. The Fund includes in publicly available documents filed from time to time with securities commissions and The Toronto Stock Exchange, a discussion of the risk factors that can cause anticipated outcomes to differ from actual outcomes. For more information concerning the Fund’s risks and uncertainties, please refer to the March 12, 2019 Annual Information Form which is available under the Fund’s profile at [www.sedar.com](http://www.sedar.com).

This presentation makes reference to certain **non-IFRS measures**. Adjusted Net Earnings (Loss), distributable cash, payout ratio, same store sales and same store sales growth are non-GAAP financial measures and do not have standardized meanings prescribed by IFRS. However, the Fund believes that distributable cash, payout ratio, same store sales and same store sales growth are useful measures as they are key performance indicators, helping investors assess cash available for distribution. The Fund’s method of calculating these measures may vary from that of other issuers and, accordingly, these measures may not be comparable to measures used by other issuers. Investors are cautioned that distributable cash and the payout ratio should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows of the Fund. For more information, please refer to the Fund’s most recent Management Discussion & Analysis available on SEDAR and at [www.sircorp.com](http://www.sircorp.com).



## Investment Highlights

- Diversified portfolio of well-known restaurant brands
- Experienced management team with strong alignment of interests with unitholders
- Corporate ownership model provides greater control and flexibility for performance-enhancement initiatives
- Consistent track record of investment in new and existing restaurants
- Proven ability to generate long-term growth in Royalty Pool revenue
- Reliable monthly cash distributions of \$0.105 per unit, representing \$1.26 per unit on an annualized basis
- Monthly distributions increased by 10.5% during 2018



# Overview

## SIR Corp.

- SIR: *'Service Inspired Restaurants'*
- A leading Canadian operator of casual and fine dining restaurants
- Founded in 1990 by Fowler family
- Employees: ~ 5,500
- Fiscal 2018 Revenue: \$310.8 million

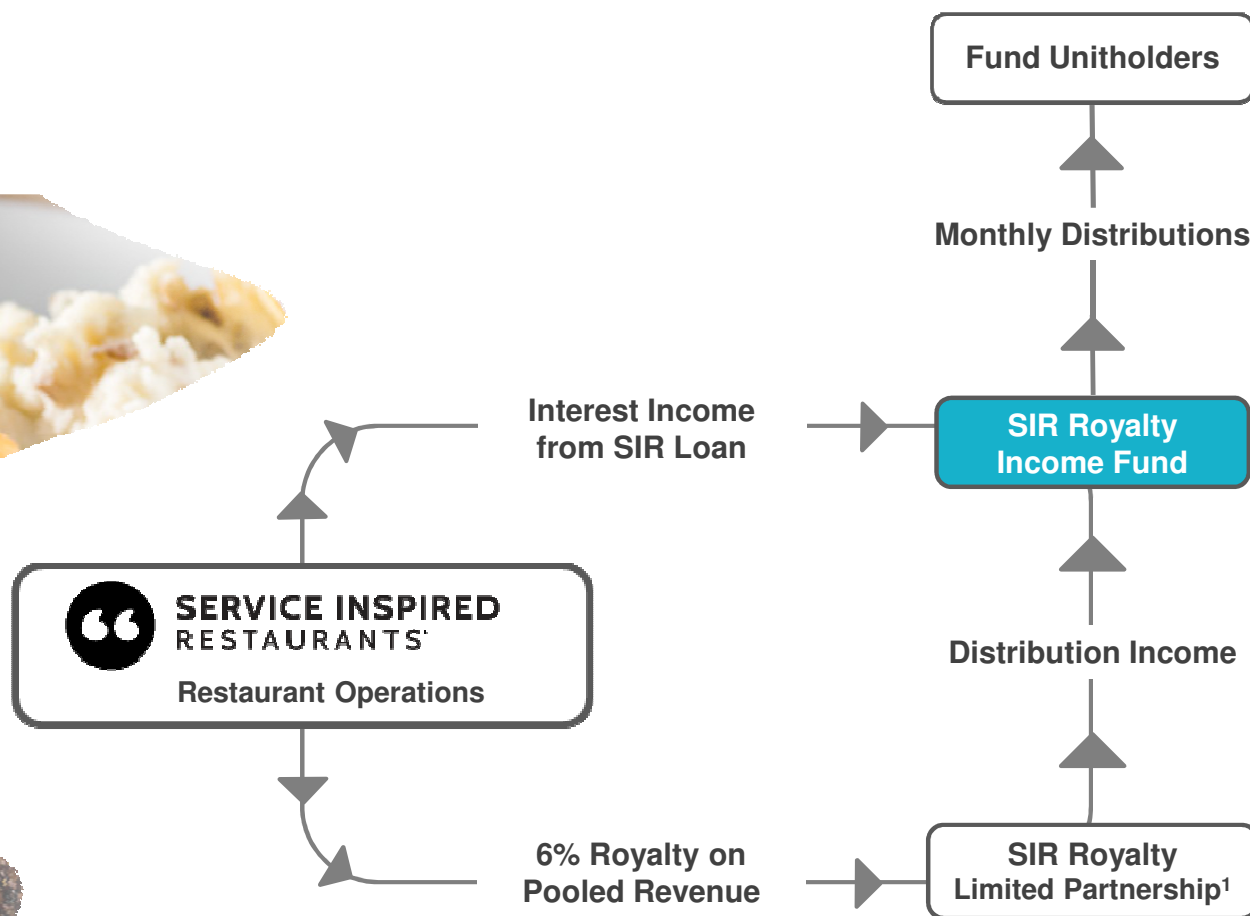
## SIR Royalty Income Fund

- IPO: October 2004 (TSX: SRV.UN)
- Market Cap: ~ \$135 million
- Recent close: \$16.12 (March 28, 2019)
- Units outstanding: ~ 8.4 million
- Annualized distribution per unit: \$1.26
- Effective current distribution yield: ~ 7.8%

## SRV.UN 3-Year Unit Price Performance



## Fund Structure



The above illustration is for descriptive purposes only and is qualified in its entirety by the description in the actual agreements and by the Fund's prospectus on SEDAR. As at February 10, 2019 SIR Corp. held a 20.9% retained interest in SIR Royalty Limited Partnership.

## SIR Corporate Ownership Model



**SERVICE INSPIRED**  
RESTAURANTS

### Control

- Ability to implement consistent, best practices across restaurant network
- Coordination of roll-out of new restaurant locations and food & beverage offerings
- Leverage supplier relationships and delivery logistics

### Flexibility

- Ability to change restaurant design with minimal lead time
- Allows for constant menu innovation
- Unlike franchises, business change can be affected without lengthy approvals or negotiations

### Consistency

- Consistent customer experience at all restaurant locations creates superior brand value

*Greater control enables rapid implementation of operational and growth initiatives in response to consumer trends and competitive activity*





# Experienced Management Team with Strong Alignment of Interests

## Management Team



### Peter Fowler, CEO

- Director of SIR Corp. since 1992
- CEO since 2004 and the largest shareholder of SIR Corp.
  - Helped create SIR Concepts and continues to focus on Concepts
- CEO of SIR GP Inc. and a Trustee of SIR Royalty Income Fund since 2004



### Paul Bognar, President & COO

- Joined SIR Corp. in 2012
- Head of Marketing, Human Resources, Finance, IT and Purchasing Departments
  - Previous: President of Simmons Canada; various senior positions with Maytag Canada



### Jeff Good, CFO

- Joined SIR Corp. in 2000
- Helped launch SIR Royalty Income Fund
  - 20 + years experience in finance and accounting in the restaurant industry
  - CFO of SIR GP Inc.
  - Previous: VP Finance, Oliver Bonacini Hospitality



### Bruce Elliott, VP, Business Development

- Joined SIR Corp. in 2011 as COO and EVP
- Appointed President of Jack Astor's (Mar. 2012)
- Appointed VP, Business Development (Jan. 2014)
  - Previous: partner at Level 5 Strategic Brand Advisors; President of Labatt Breweries; and senior management positions at Second Cup

## Board of Trustees

**Peter Fowler:** CEO and Director of SIR Corp., President of SIR GP Inc.

**Kim van Nieuwkoop:** Senior VP of Human Resources and General Counsel, SIR Corp.

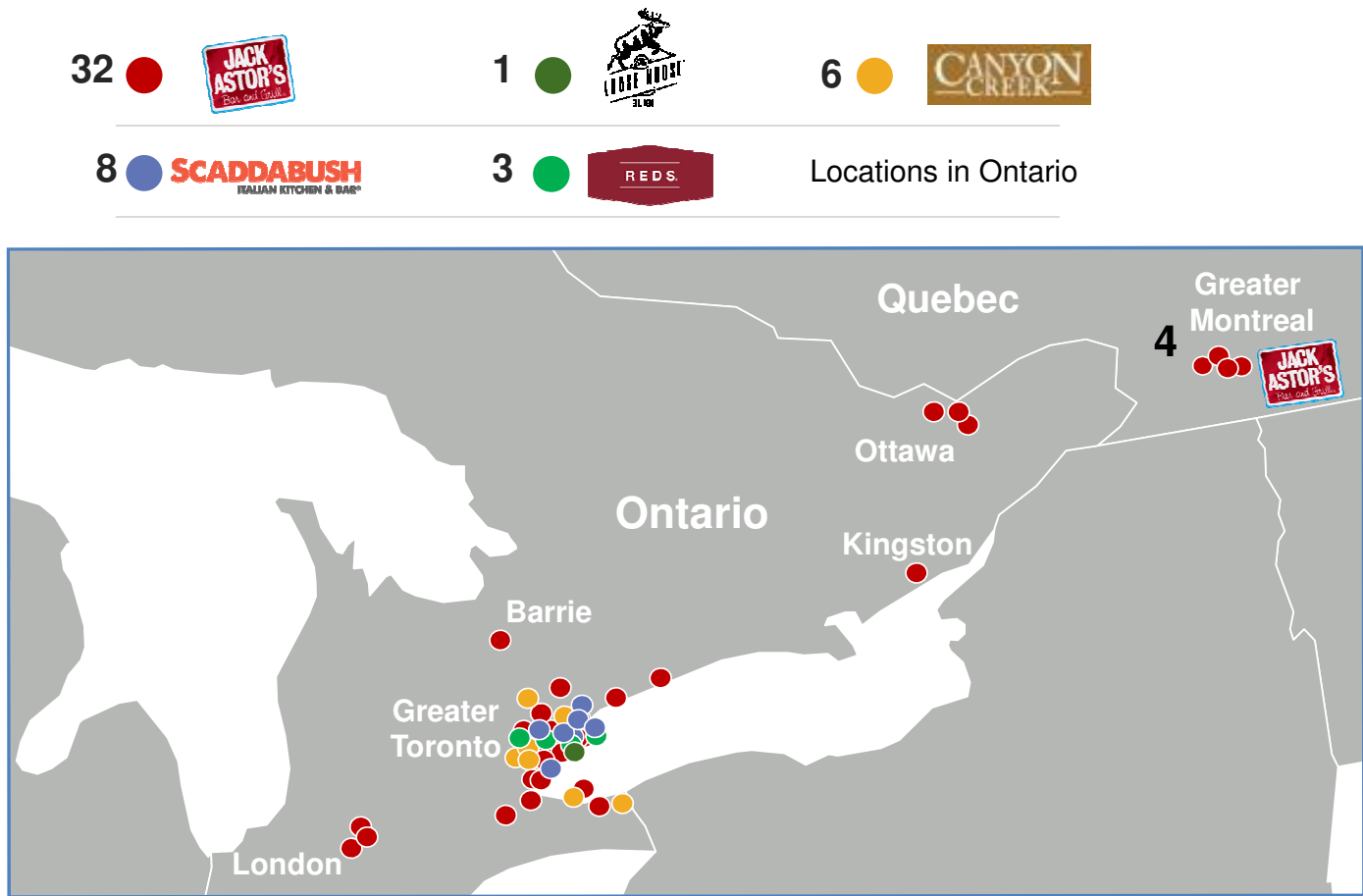
**Peter Luit:** Managing Director, CXO Advisory Services Inc.; Chair of Audit Committee (*Independent Trustee*)

**John McLaughlin:** President, Treasury Technologies International; Chair of Board (*Independent Trustee*)

**William Rogers:** President, The Commercial Capital Corporation; Chair of Corporate Governance Committee (*Independent Trustee*)



# 58 Royalty Pooled Restaurants<sup>1</sup>

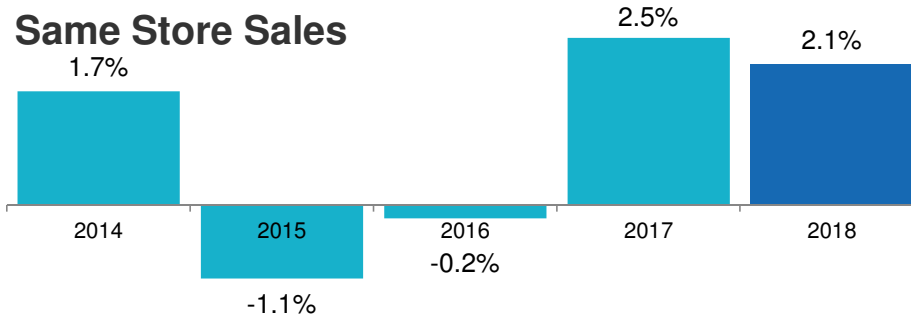
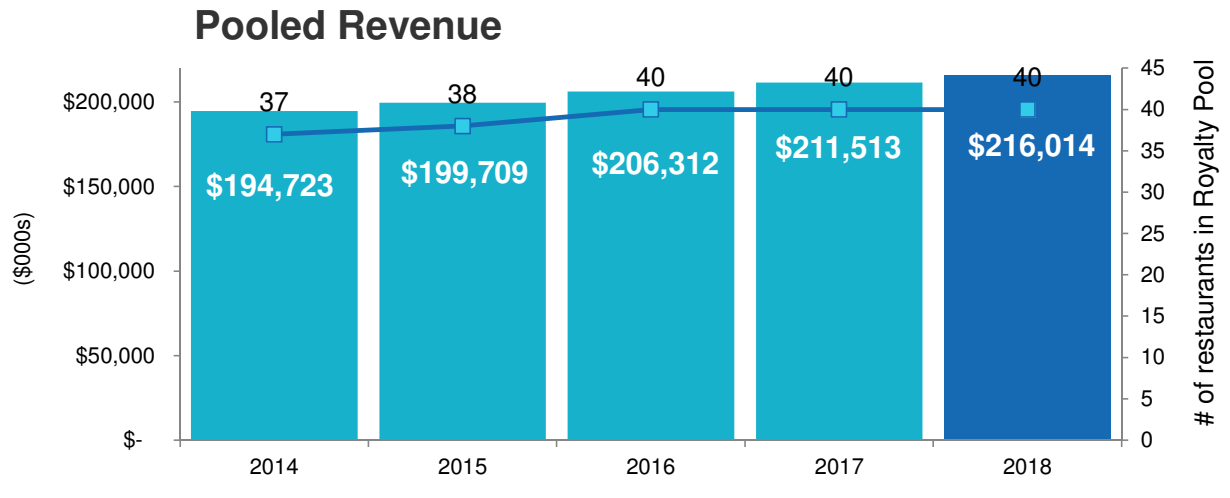
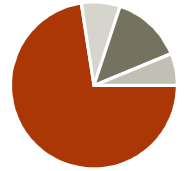


1. Includes 57 operating restaurants and one closed restaurant. SIR Corp. is obligated to indirectly pay a Make-Whole payment to the Fund for this closed restaurant





## 72.0% of Royalty Pooled Revenue in 2018



## Investing in Existing Restaurants



***21 locations renovated since start of program in 2016***

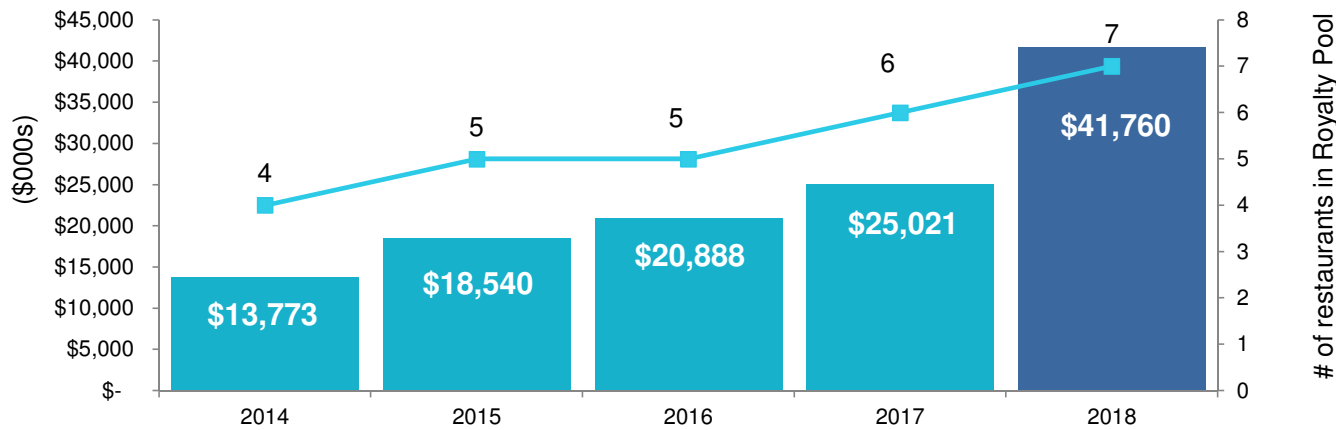
***The initial  “Evolution” generated average same store sales increases of more than 10% in year one after completion***



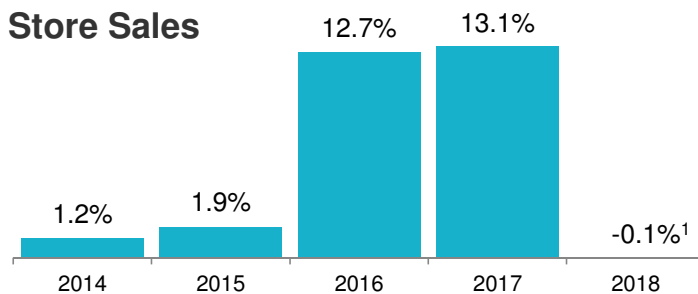
# 13.9% of Royalty Pooled Revenue in 2018



## Pooled Revenue



## Same Store Sales



1. Scaddabush same store sales performance for 2018 includes four Scaddabush locations (Richmond Hill, Mississauga, and Scarborough, Ontario and Yonge and Gerrard in downtown Toronto). The new Scaddabush locations in Oakville, Vaughan, and Etobicoke, Ontario and on Front Street in downtown Toronto are excluded as they were not open and included in Pooled Revenue for the entire comparable periods in 2018 and 2017. The 0.1% same store sales decline in 2018 follows exceptional same store sales growth of 13.1% 2017



# Investing in Existing Restaurants

**SCADDABUSH**  
ITALIAN KITCHEN & BAR®



**+3** *added to Royalty Pool on January 1, 2018*

Front St., Toronto | Oakville, ON | Vaughan, ON

**SCADDABUSH**  
ITALIAN KITCHEN & BAR®

**+1** *added to Royalty Pool on January 1, 2019*

Etobicoke, ON

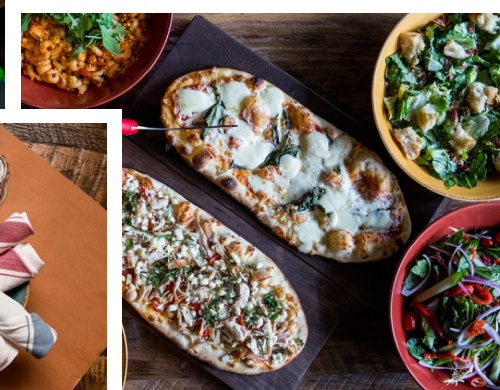
**SCADDABUSH**  
ITALIAN KITCHEN & BAR®



# Conversions and New Locations



Project	Location	Completion
Conversion	Mississauga	Opened (July 2013)
Conversion	Richmond Hill	Opened (Sept. 2015)
New restaurant	Downtown Toronto (Yonge & Gerrard)	Opened (Feb. 2014)
New restaurant	Scarborough	Opened (July 2016) Added to Royalty Pool in Jan 2017
New restaurant	Downtown Toronto (Front St.)	Opened (Nov. 2016) Added to Royalty Pool in Jan 2018
Conversion	Oakville	Opened (April 2017) Added to Royalty Pool in Jan 2018
Conversion	Vaughan	Opened (July 2017) Added to Royalty Pool in Jan 2018
Conversion	Etobicoke	Opened (Nov. 2017) Added to Royalty Pool in Jan 2019
New restaurant	Mimico (Etobicoke)	Under Construction

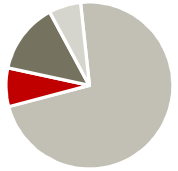


*Alice Fazooli's concept now successfully transitioned to*

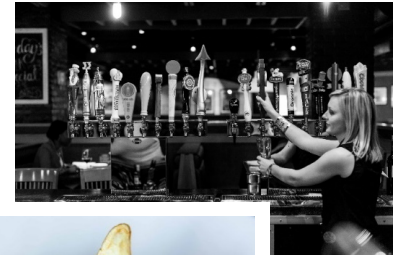
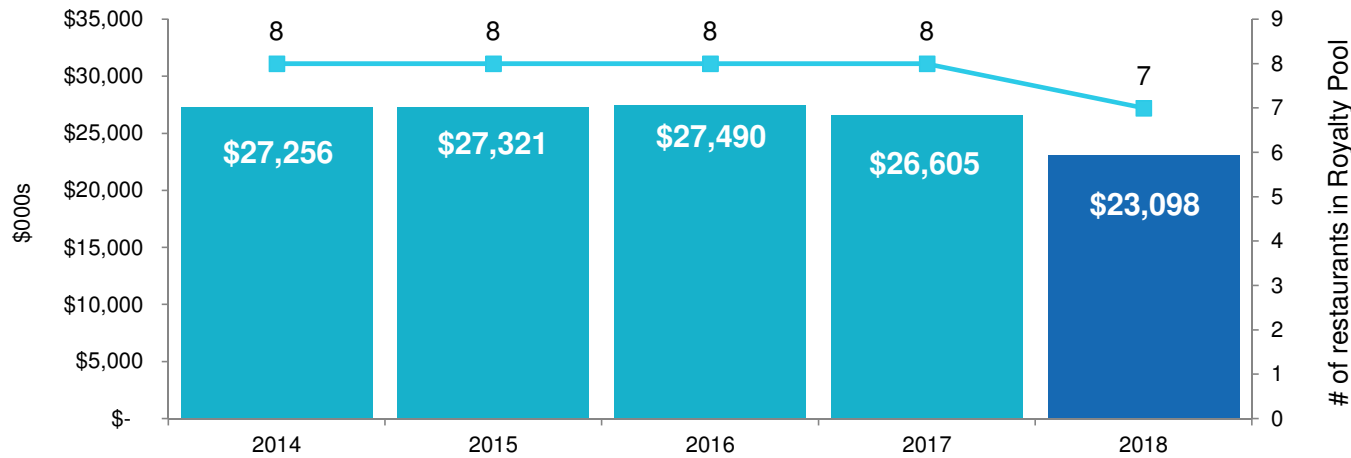




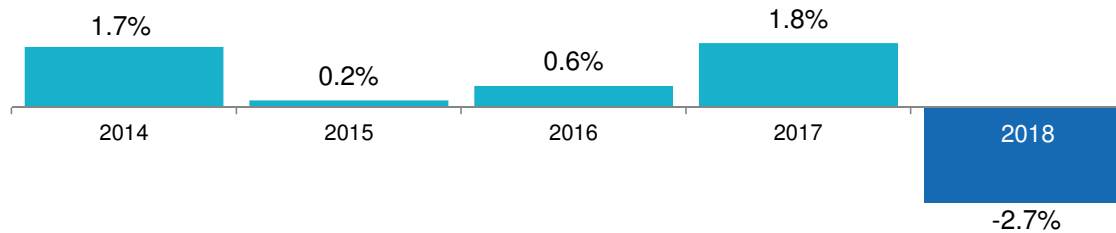
## 7.7% of Royalty Pooled Revenue in 2018



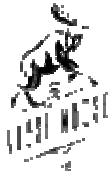
### Pooled Revenue



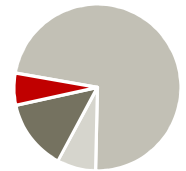
### Same Store Sales



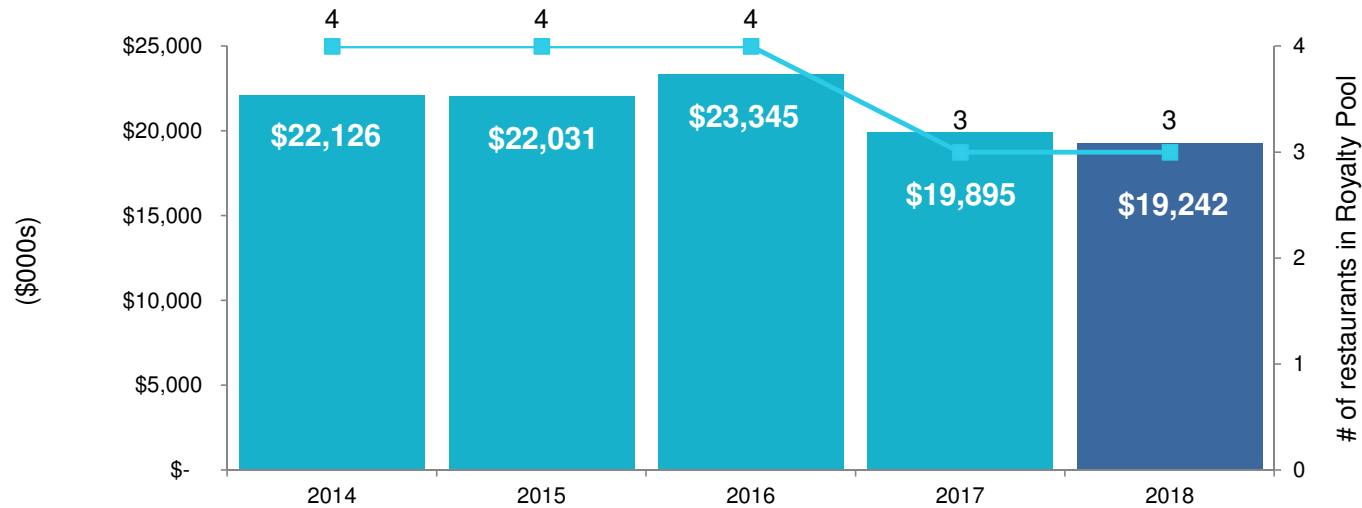




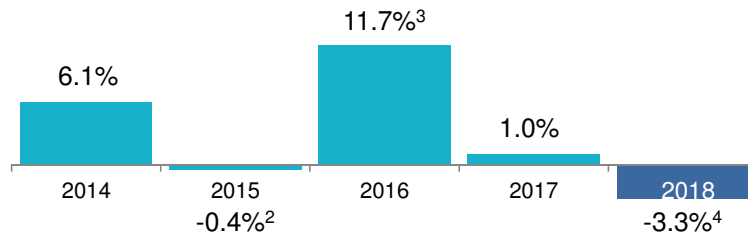
## 6.4% of Royalty Pooled Revenue in 2018



### Pooled Revenue<sup>1</sup>



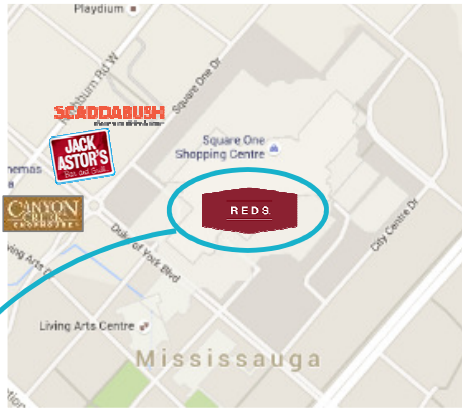
### Same Store Sales



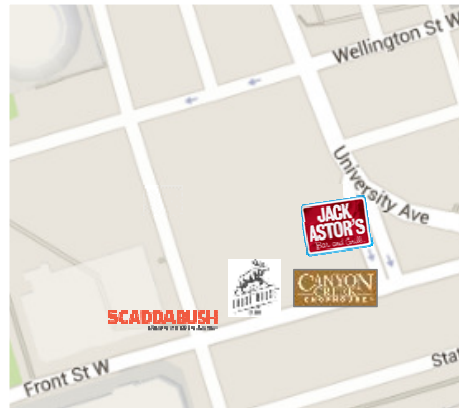
1. Pooled revenue includes contributions from Far Niente/FOUR/Petit Four up to the effective date of closure on Oct. 15, 2016
2. Far Niente was closed for 40 days to complete restoration work following a burst pipe on the premises, resulting in a same store sales decline of 18.8%
3. Same store sales performance for 2016 does not include contribution from Far Niente/FOUR/Petit Four
4. Same store sales performance for 2018 does not include the new Reds restaurant at the Square One shopping centre in Mississauga, Ontario which opened on December 11, 2017 and was added to the Royalty Pool on January 1, 2019



# Strategic Advantage Brand Diversification



Square One, Mississauga



Front Street, Toronto



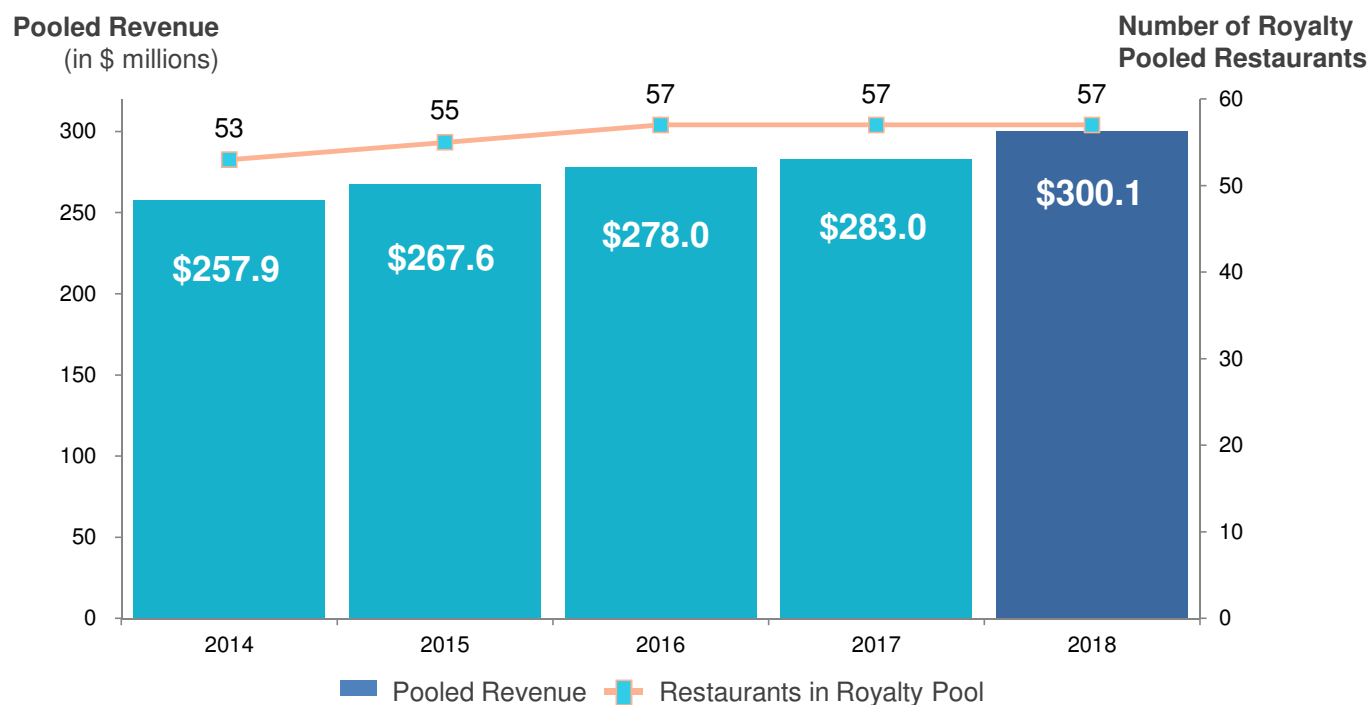
Scarborough Town Centre

**+1**  *Opened Dec. 2017 | Added to Royalty Pool on Jan. 1, 2019*

***Diverse portfolio of restaurant brands enables SIR to position more than one restaurant brand at prime, high-traffic locations***



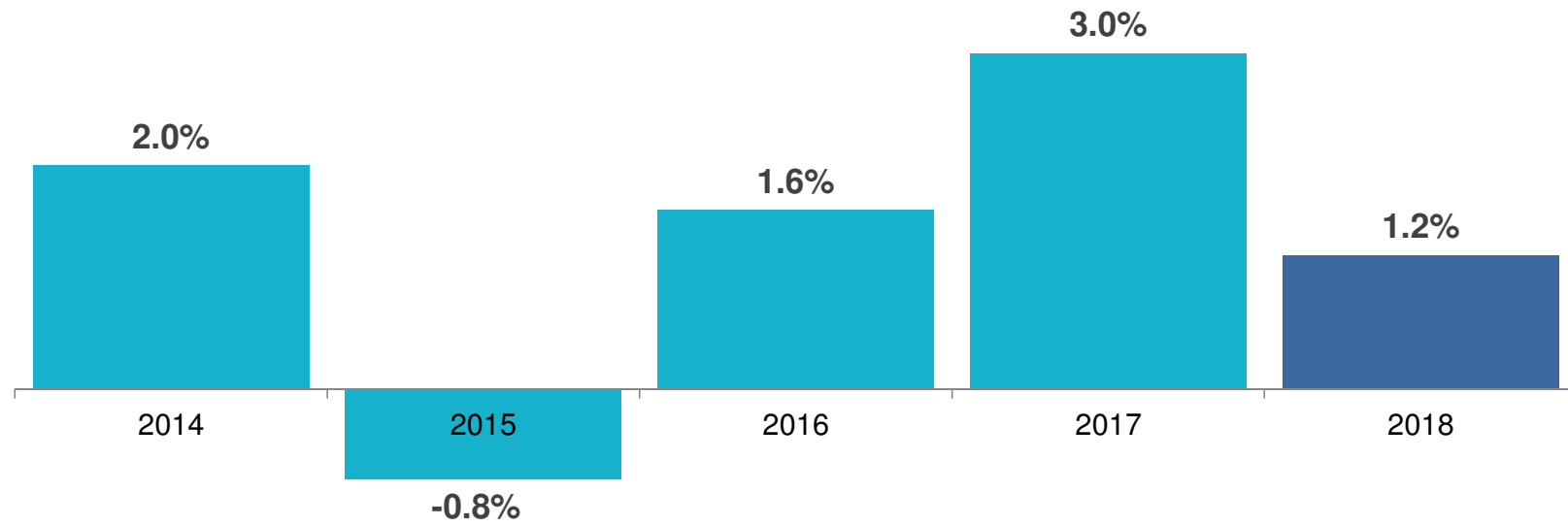
## Royalty Pooled Restaurants - Steady Revenue Growth



*Strong track record of growing Royalty Pooled Revenue through restaurant additions and enhancements*



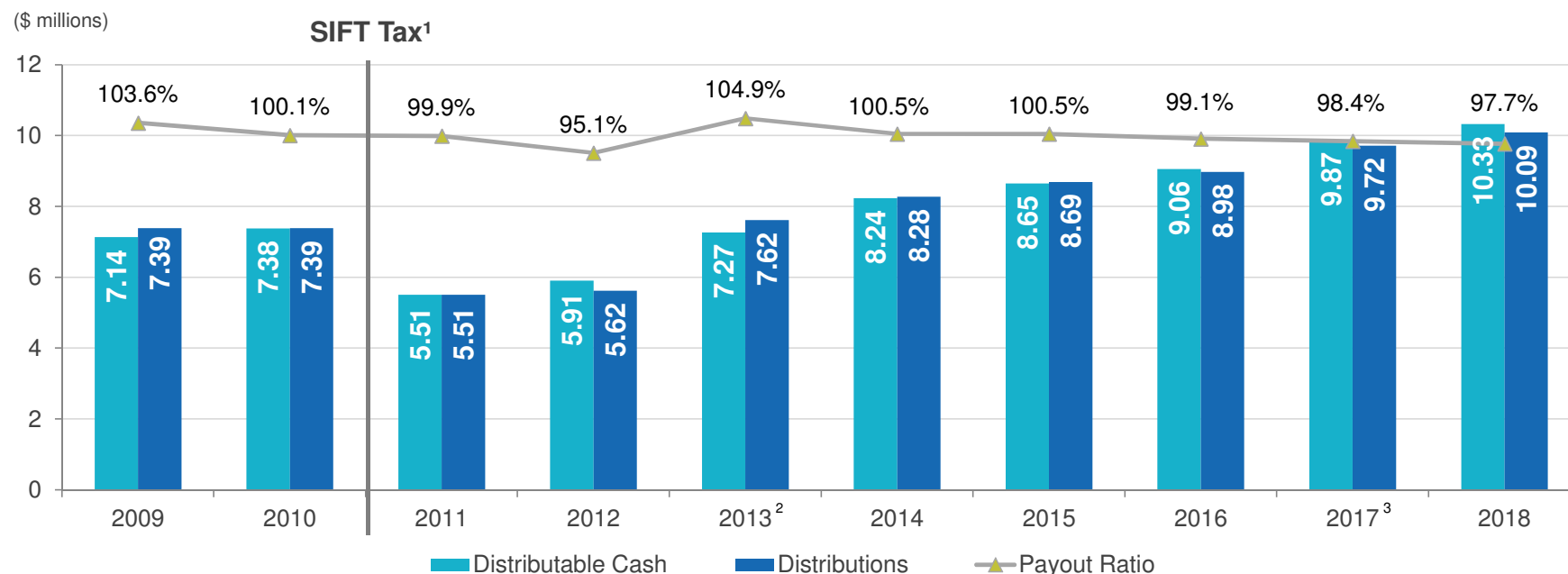
## Royalty Pooled Restaurants – Same Store Sales Growth



*Improved sales performance resulting from Jack Astor's renovation program drove same store sales growth in 2018*



# Historical Cash Distributions & Payout Ratio



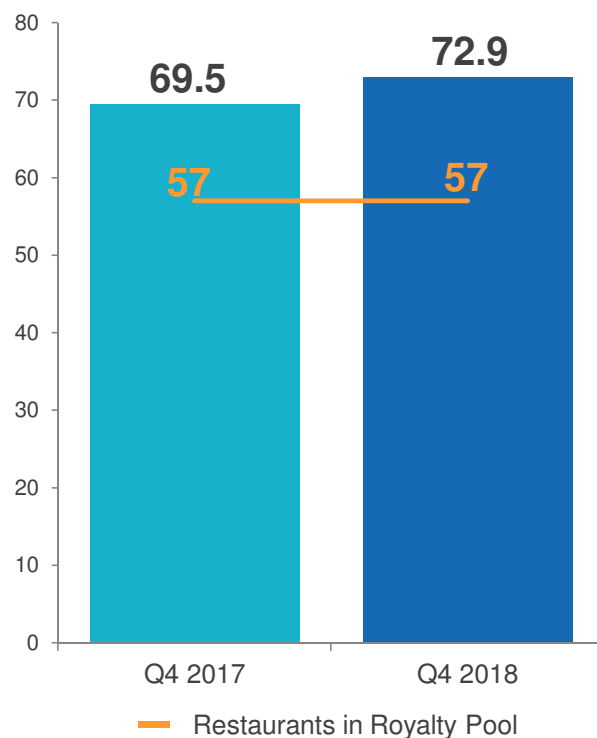
***The Fund's payout ratio is intended to average 100% per annum over the long term. The Fund's payout ratio from inception in 2004 through to December 31, 2018 is 99.2%***

1. The reduction in distributions beginning in 2011 was equal to the estimated SIFT tax payable on the Fund's 2011 income
2. Cash distributed to unitholders in 2013 includes the special year-end distribution of \$0.05 per unit that was declared in December 2012 and paid on January 11, 2013. The Fund also increased monthly distributions to \$0.095 / unit effective for the June 2013 distribution. The payout ratio was significantly affected by these items
3. Cash distributed to unitholders in 2017 includes the special year-end distribution of \$0.02 per unit that was declared and paid in December 2017

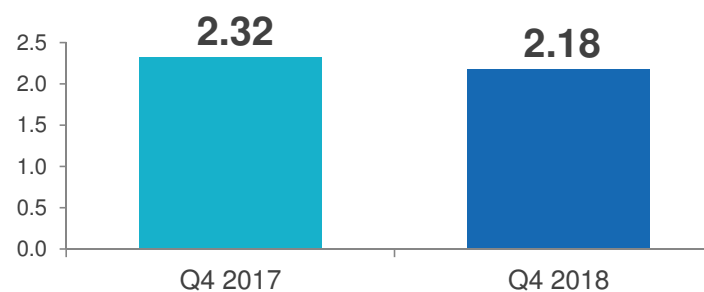


# Q4 2018 Financial Review

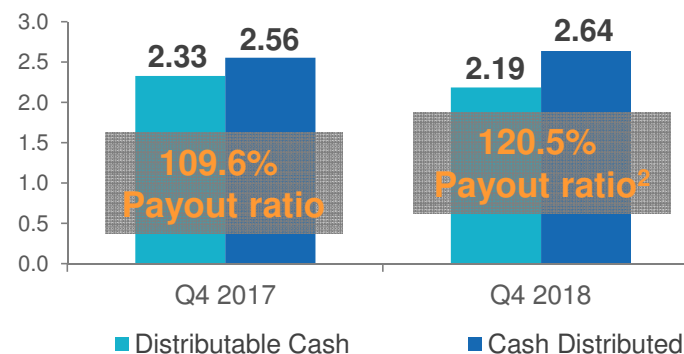
**Pooled Revenue (\$ millions)**



**Adjusted Net Earnings (\$ millions)<sup>1</sup>**



**Cash Distributions (\$ millions)**



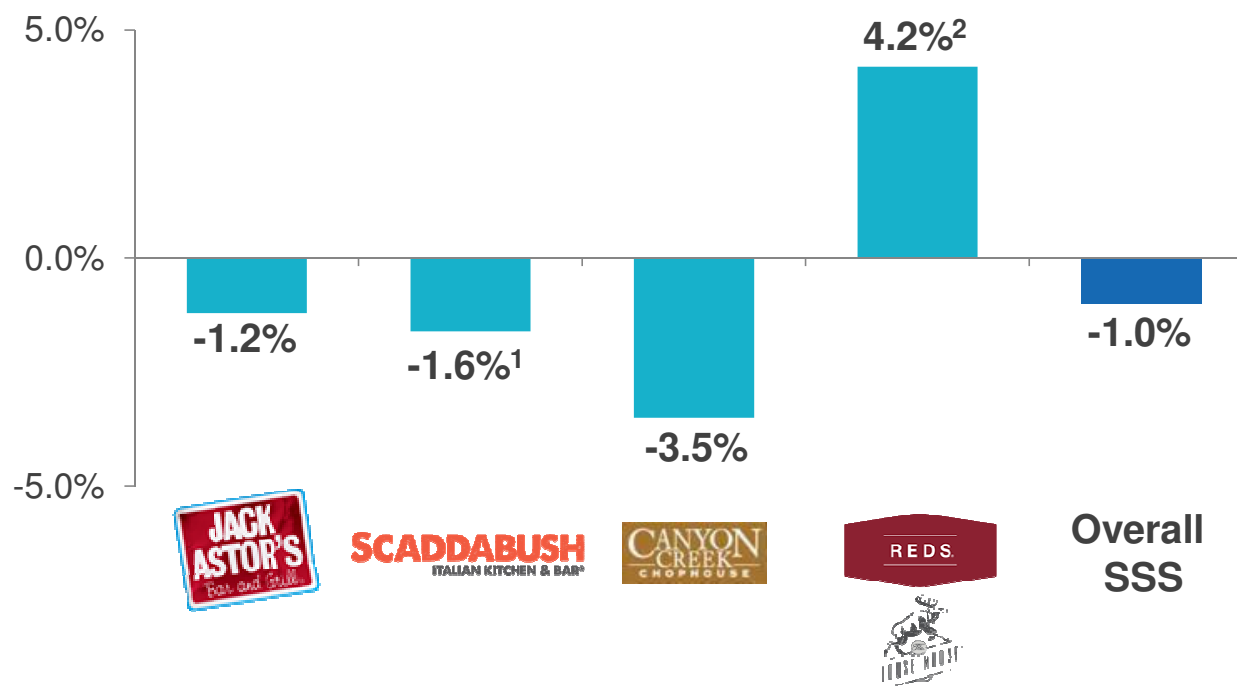
- Adjusted Net Earnings is calculated by replacing the gain or loss on the SIR Loan as reported in the statement of earnings with the interest received on the SIR Loan during the period and the corresponding deferred tax expense or recovery from the net earnings for the period. Q4 2018 Adjusted Net Earnings were impacted by a deferred tax recovery of approximately \$1.1 million
- The payout ratio for Q4 2018 was impacted by an increase in income taxes paid and an increase in cash distributions paid compared to Q4 2017





# Q4 2018 Same Store Sales

(3-month period ended December 31, 2018)



1. Scaddabush same store sales for Q4 2018 includes four Scaddabush locations (Richmond Hill, Mississauga, and Scarborough, Ontario and Yonge and Gerrard in downtown Toronto). The new Scaddabush locations in Oakville, Vaughan, and Etobicoke, Ontario and on Front Street in downtown Toronto are excluded as they were not open and included in Pooled Revenue for the entire comparable periods in 2018 and 2017. The 1.6% same store sales decline in Q4 2018 follows exceptional same store sales growth of 10.6% in the comparable period in 2017
2. Q4 2018 same store sales performance does not include the new Reds restaurant at the Square One shopping centre in Mississauga, Ontario which opened on December 11, 2017 and was added to the Royalty Pool on January 1, 2019



# Outlook



Ongoing **Jack Astor's renovation program** to drive same store sales growth

- Renovations of 21 locations completed since start of program in 2016
- Evaluating future options for site of closed Jack Astor's location near St. Lawrence Market in downtown Toronto

**New Scaddabush** opened at Sherway Gardens, Etobicoke **added to Royalty Pool** on January 1, 2019

Building a **new Scaddabush restaurant** at a leased property in the Mimico neighbourhood of Etobicoke



Actively considering options to **update the Canyon Creek portfolio to improve performance**

**Third Reds location opened** at Square One Mall, Mississauga **added to Royalty Pool** on January 1, 2019

