



# SIR Royalty Income Fund

Investor Presentation – January 2020



## 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).



# Overview



## SIR Royalty Income Fund (TSX: SRV.UN)

- SIR is a leading Canadian operator of casual and fine dining restaurants
- Founded in 1990 by Fowler family
- Employees: ~ 5,500
- Fiscal 2019 Revenue: \$299.3 million

- IPO: October 2004
- Market Cap: ~ \$71 million
- Recent close: \$8.49 (January 10, 2020)
- Units outstanding: ~ 8.4 million
- Annualized distribution per unit: \$1.05
- Effective current distribution yield: 12.4%



SCADDABUSH

RED

CANYON

DUKE'S

BAR



SERVICE INSPIRED  
RESTAURANTS



SCADDABUSH

RED

CANYON

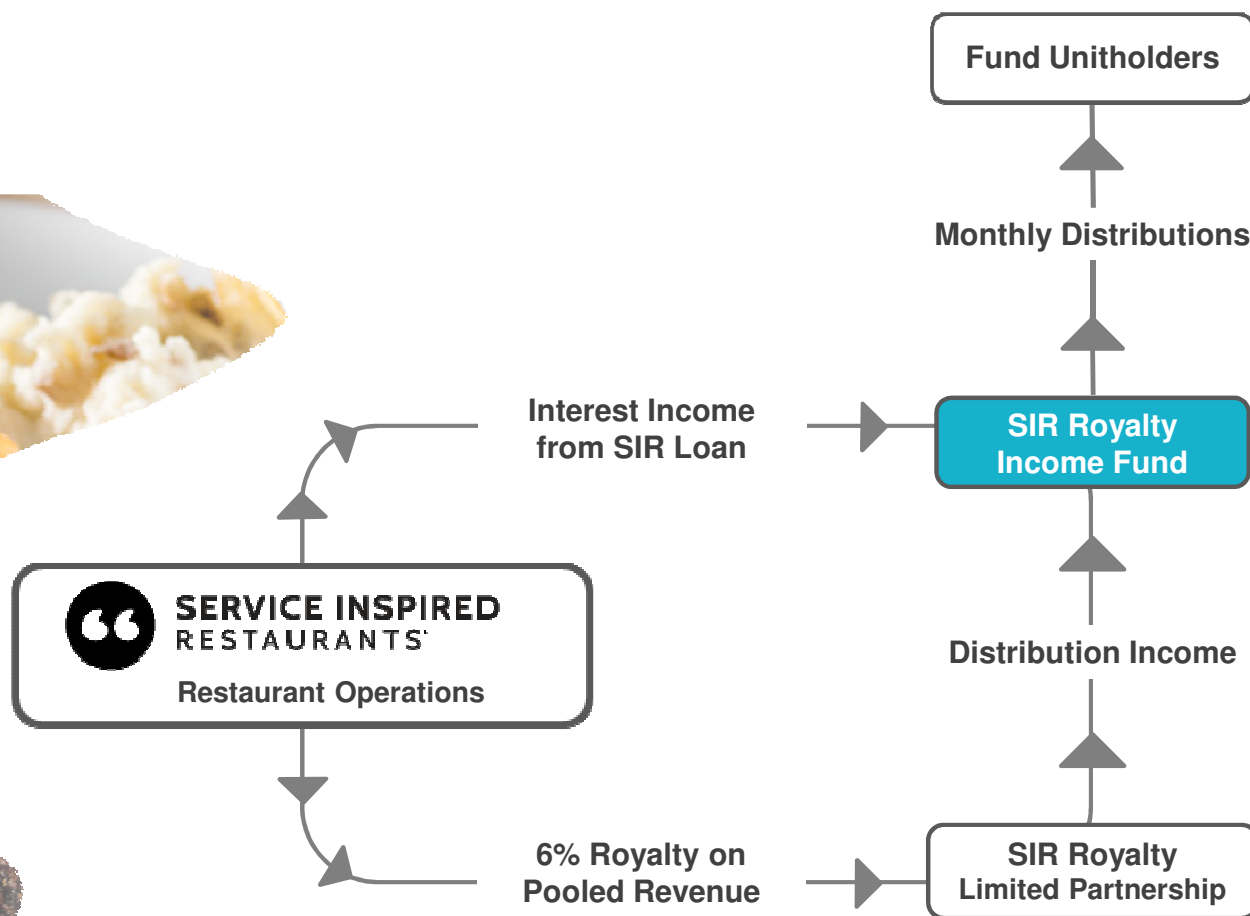
DUKE'S

BAR



SERVICE INSPIRED  
RESTAURANTS

## Fund Structure

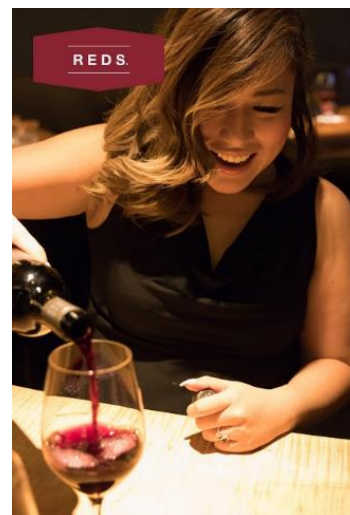


The above illustration is for descriptive purposes only and is qualified in its entirety by the description in the actual agreements and by the Fund's prospectus on SEDAR. As at August 25, 2019 SIR Corp. held a 20.91% retained interest in SIR Royalty Limited Partnership.



## Investment Highlights

- Experienced SIR management team with strong alignment of interests with Fund unitholders
- Corporate ownership model provides greater control and flexibility for performance-enhancement initiatives
- Diversified portfolio of well-known restaurant brands – enables SIR to locate multiple restaurants at high-traffic locations
- Consistent track record of investment in new and existing restaurants to generate long-term Royalty Pool Revenue growth
- Monthly cash distributions of \$0.0875 per unit, representing \$1.05 per unit on an annualized basis



# 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*)



## Benefits of SIR Corporate Ownership Model



### 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

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

### Consistency

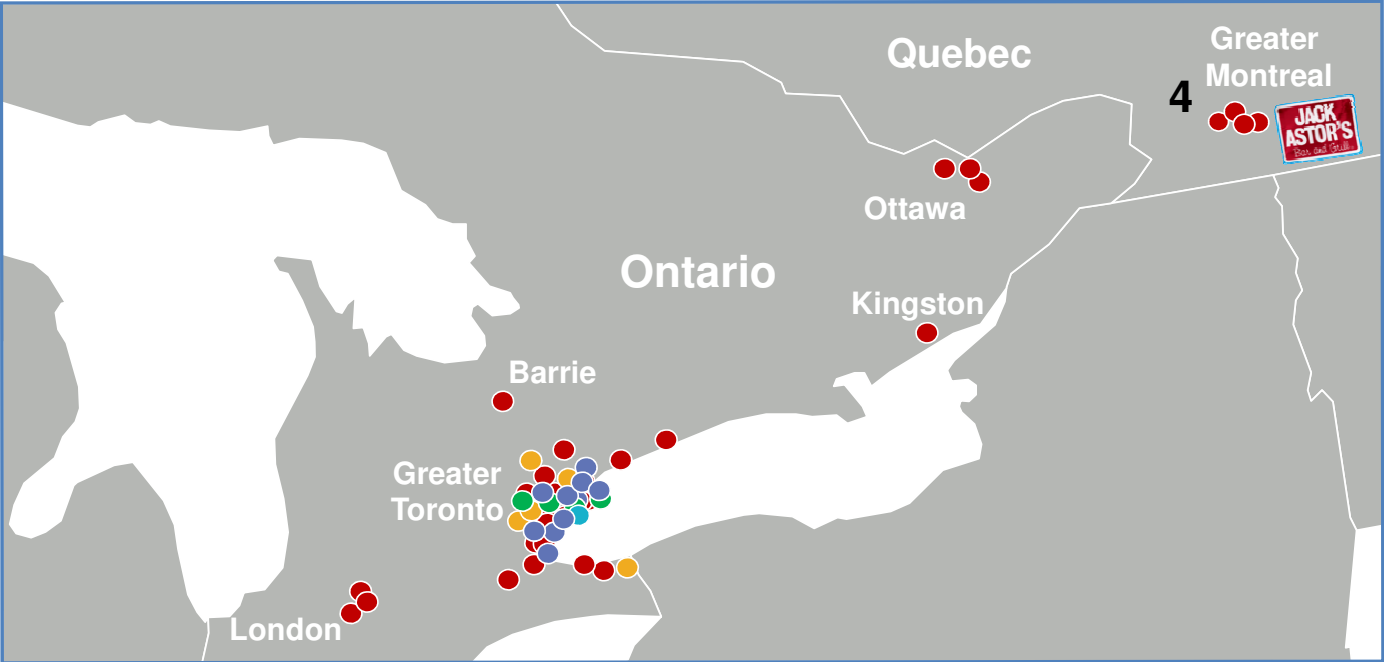
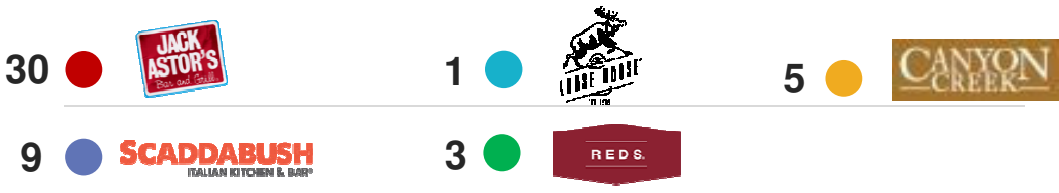
- Consistent customer experience at all restaurant locations creates superior brand value

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



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

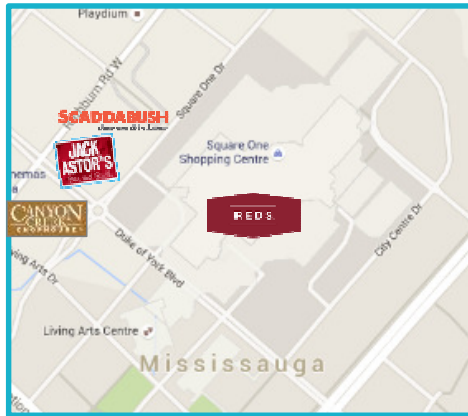
Locations in Ontario:



1. One additional Scaddabush restaurant to be added to Royalty Pool in January 2020



## Strategic Advantage Brand Diversification



Square One, Mississauga



Scarborough Town Centre



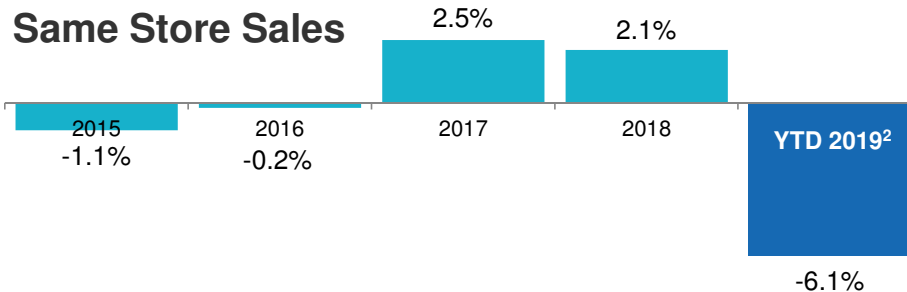
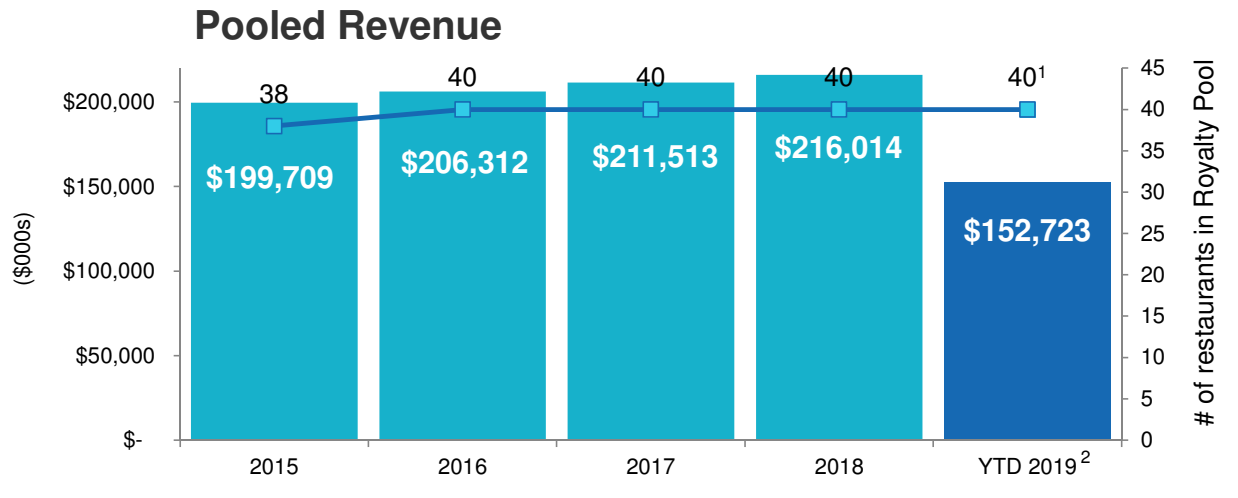
Front Street, Toronto

*Diverse portfolio of restaurant brands enables SIR to locate multiple restaurants at prime, high-traffic locations*





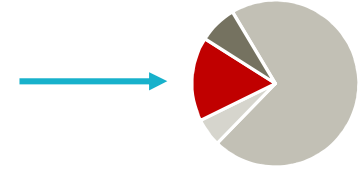
# 70.9% of Royalty Pooled Revenue in Q3 2019



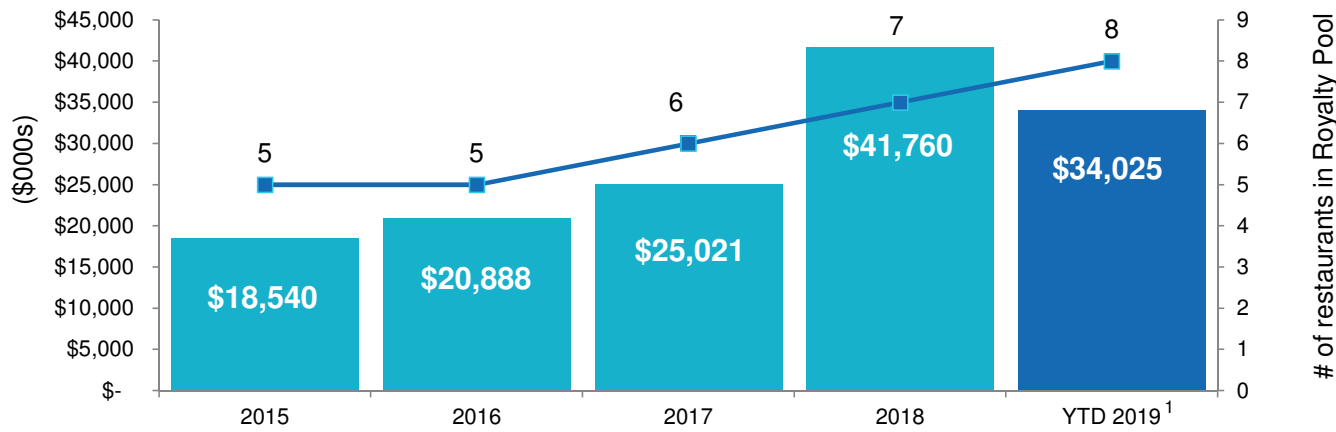
1. Includes 38 operating restaurants and two closed restaurants. SIR Corp. is obligated to indirectly pay Make-Whole payments to the Fund for these closed restaurants until December 31, 2019.
2. Nine months ended September 30, 2019



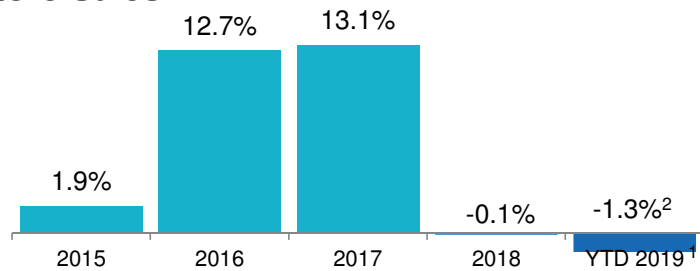
# 16.3% of Royalty Pooled Revenue in Q3 2019



## Pooled Revenue



## Same Store Sales



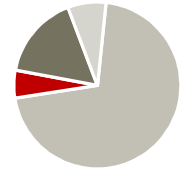
1. Nine months ended September 30, 2019

2. Scaddabush same store sales performance for YTD 2019 includes seven Scaddabush locations, excluding the location at the CF Sherway Gardens shopping centre in Etobicoke, Ontario and the recently opened location in the Mimico neighbourhood of Etobicoke

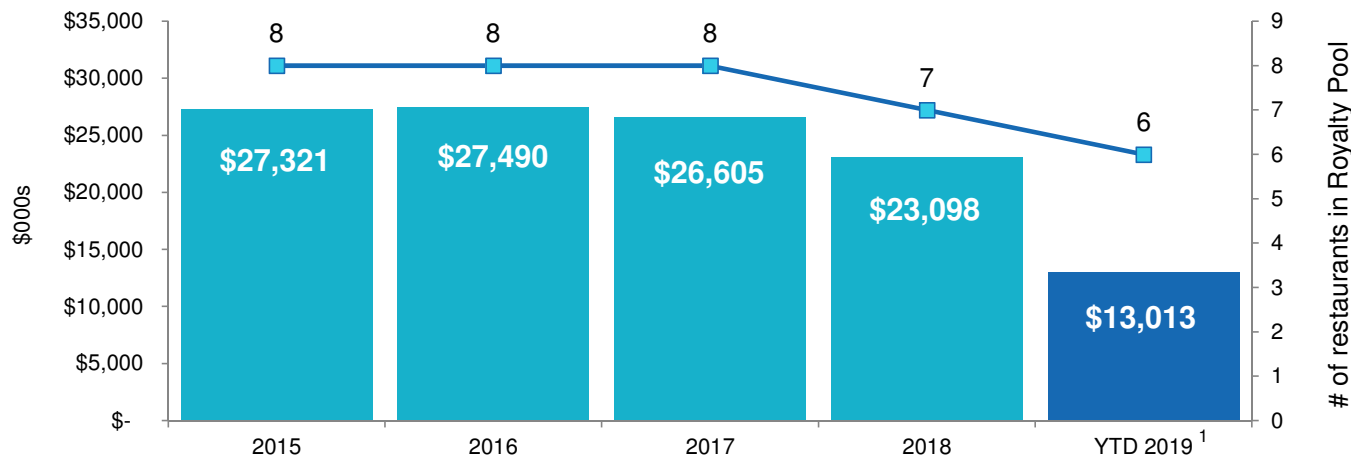




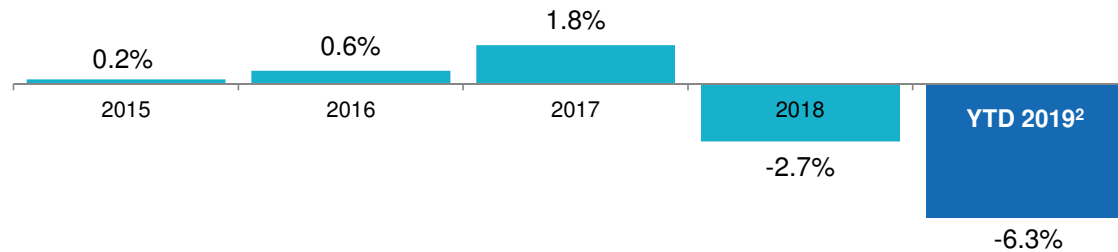
## 5.4% of Royalty Pooled Revenue in Q3 2019



### Pooled Revenue



### Same Store Sales



1. Nine months ended September 30, 2019

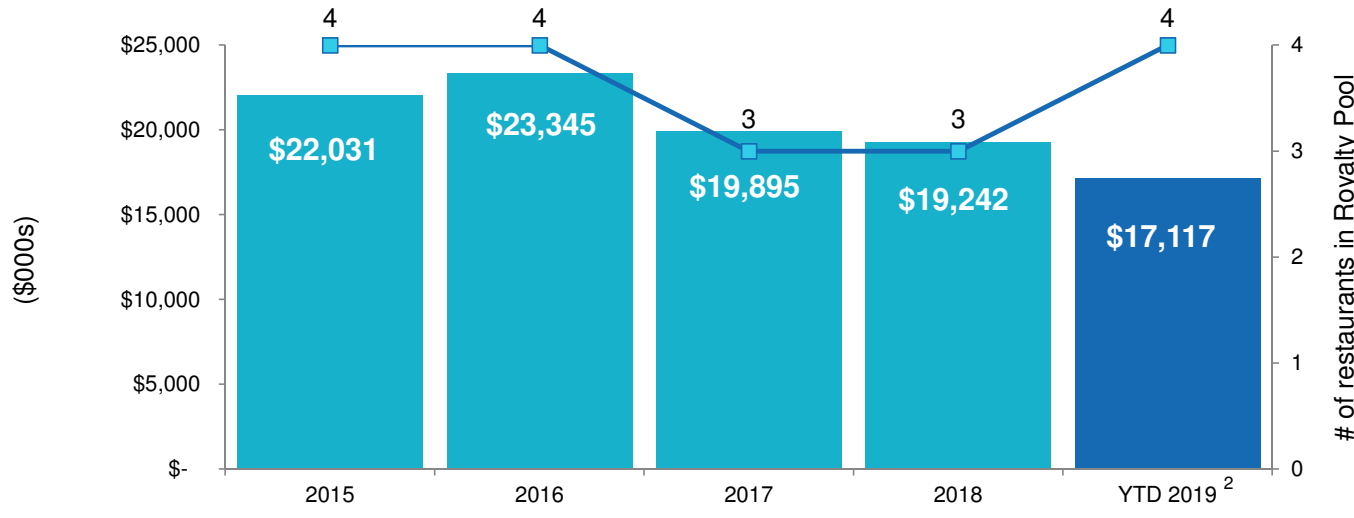




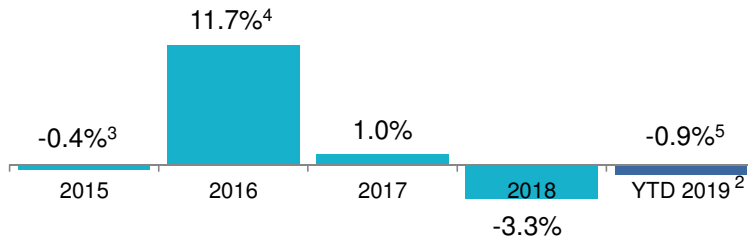
# 7.4% of Royalty Pooled Revenue in Q3 2019



## 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. Nine months ended September 30, 2019
3. 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%
4. Same store sales performance for 2016 does not include contribution from Far Niente/FOUR/Petit Four
5. Same store sales performance for YTD 2019 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





## Investing in New & Existing Restaurants



System-wide



renovation program

**21** locations renovated since program was initiated in 2016



## Investing in New & Existing restaurants

**SCADDABUSH**  
ITALIAN KITCHEN & BAR®



**+1** **SCADDABUSH**  
ITALIAN KITCHEN & BAR®  
Etobicoke, ON

*Added to Royalty Pool on Jan.1, 2019*

**+1** **SCADDABUSH**  
ITALIAN KITCHEN & BAR®  
Mimico, ON

*Ninth location to be added to Royalty Pool in January 2020*

**+1** **SCADDABUSH**  
ITALIAN KITCHEN & BAR®  
Burlington, ON

*Tenth location to be added to Royalty Pool in January 2021*

**9**  
locations  
now  
Royalty  
Pool

*Recently completed system-wide rollout of enhanced pizza and pasta program  
and introduction of specialized take-out kiosk at Oakville location*





# Investing in New & Existing restaurants

## Celebrating 30 years at the Loose Moose

- Major renovation completed in Q1 2019
- New “*Epic Burger Menu*” inspired by the best recipes in North America
- Liquor collection spanning **280** preferred brands
- **70** varieties of draught on tap



# Investing in New & Existing restaurants



+1



*Added to Royalty Pool on Jan.1, 2019*

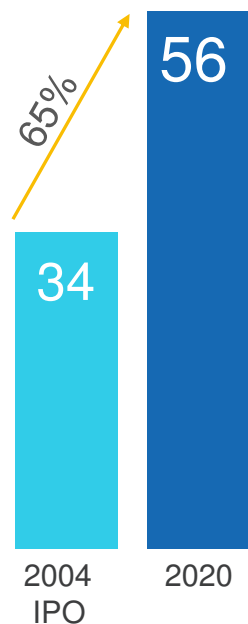
**3** REDS  
locations  
now in  
Royalty  
Pool



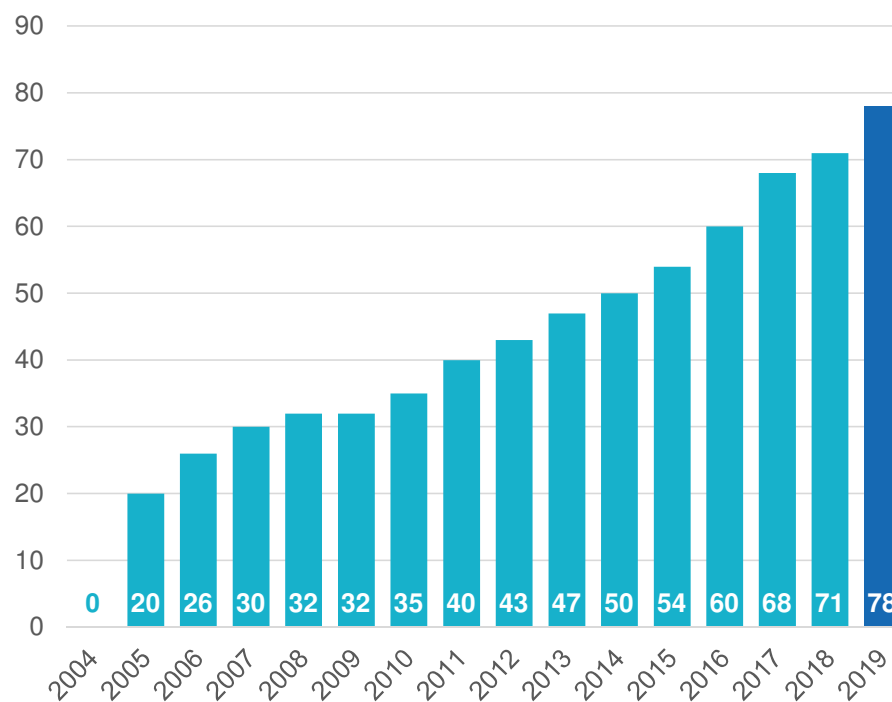
# Investing in New & Existing restaurants



# of Royalty Pool Restaurants

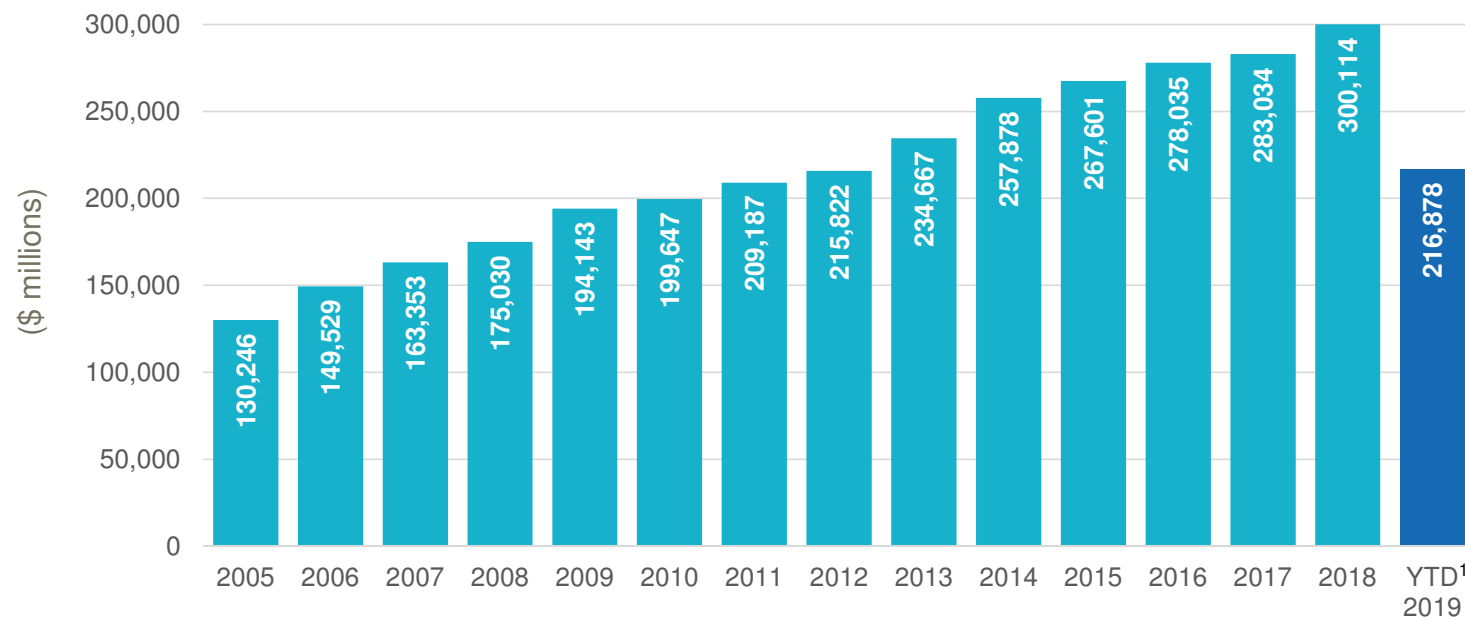


Cumulative Renovations & Enhancements Completed





# Historical Pooled Revenue Growth

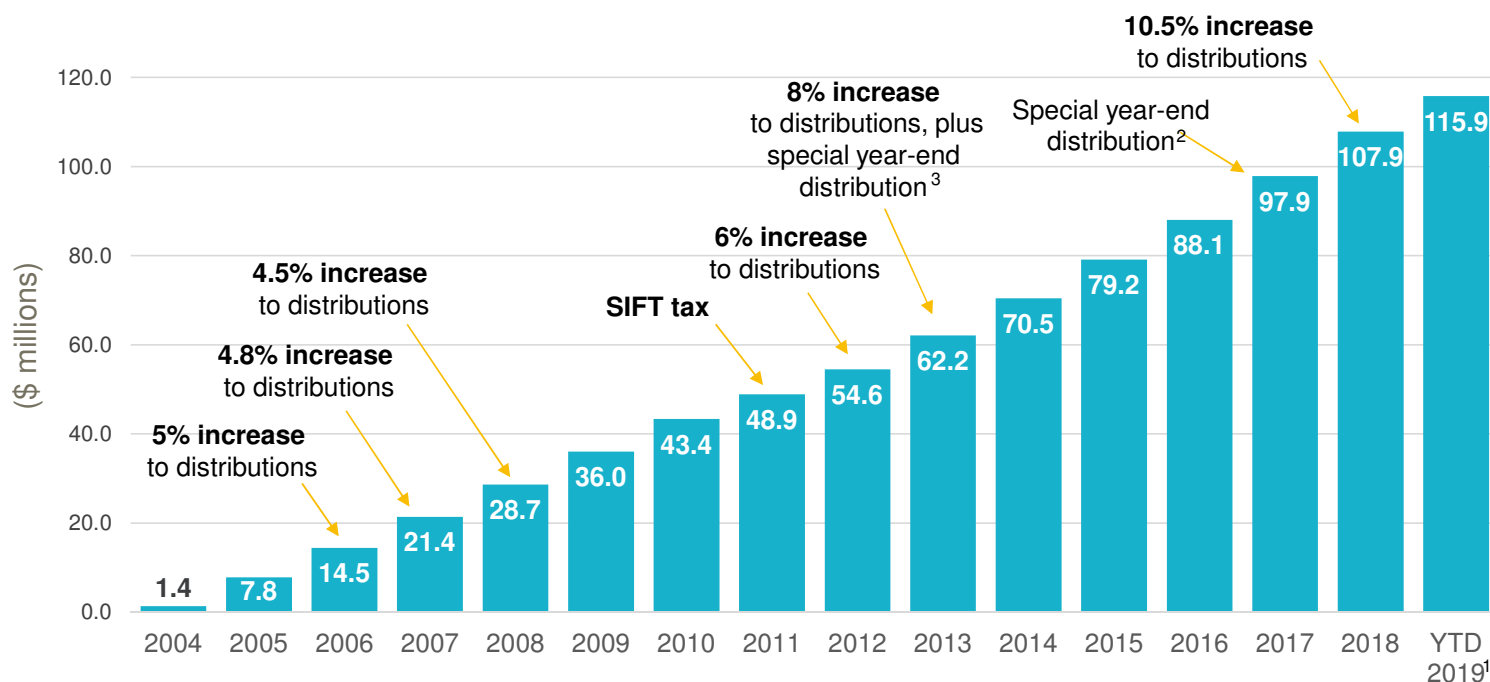


1. Nine months ended September 30, 2019

*Proven track record of driving long-term growth in Royalty Pooled Revenue by investing in new and existing restaurants*



## Cumulative Cash Distributions & Adjustments Since Inception to Q3 2019



**99.7%**  
cumulative  
payout ratio  
since inception

1. Nine months ended September 30, 2019

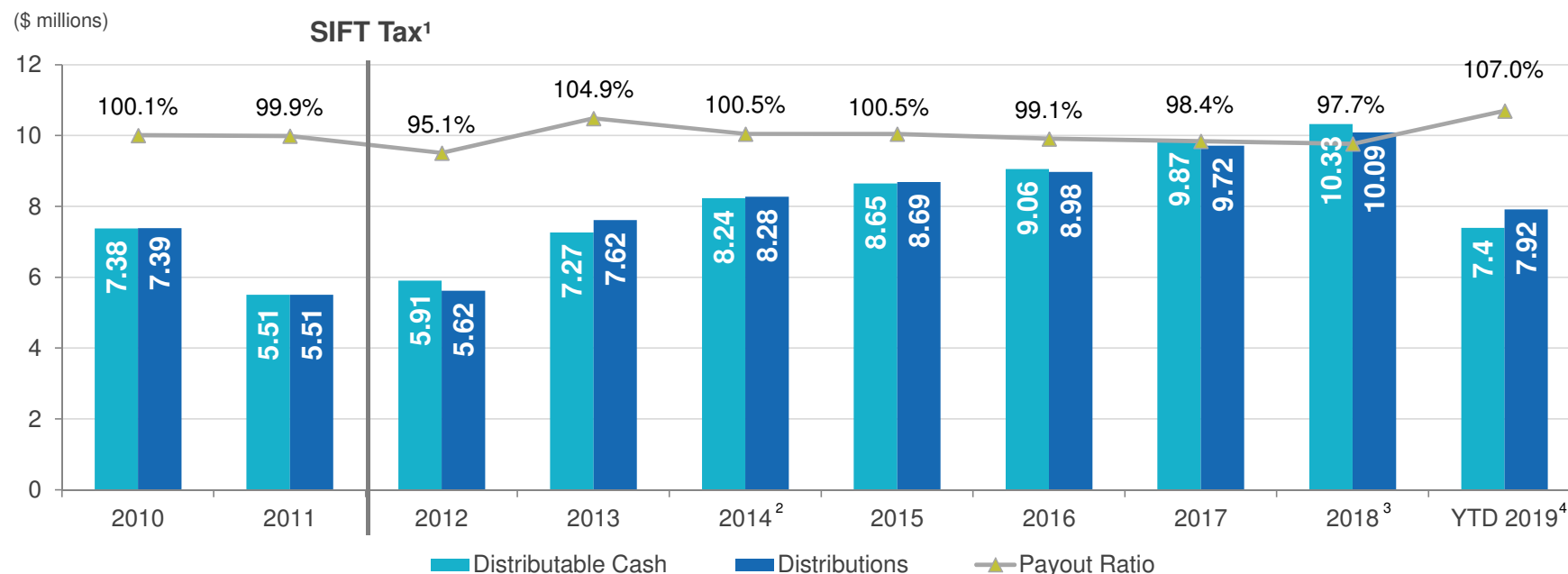
2. Cash distributed to unitholders in 2013 also includes the special year-end distribution of \$0.05 per unit that was declared in December 2012 and paid on January 11, 2013.

3. Cash distributed to unitholders in 2017 also includes the special year-end distribution of \$0.02 per unit that was declared and paid in December 2017

*The Fund has consistently aligned cash distributions with Royalty Pooled Revenue to reach targeted payout ratio of 100%*



# Cash Distributions & Payout Ratio



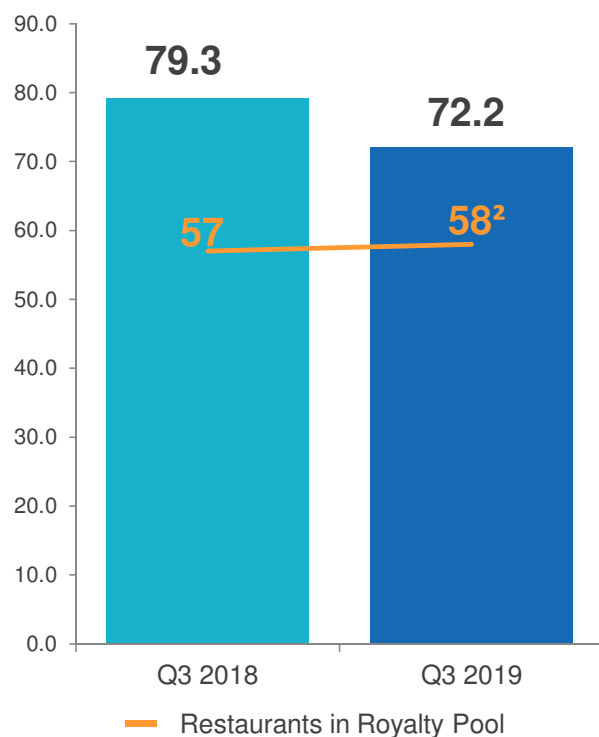
1. The reduction in distributions beginning in 2011 was equal to the estimated SIFT tax payable on the Fund's 2011 income
2. Cash distributed to unitholders in 2013 includes the special year-end distribution of \$0.05 per unit that was declared in December 2012 and paid on January 11, 2013. The Fund 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
4. Nine months ended September 30, 2019

*The Fund's payout ratio is intended to average 100% per annum over the long term*

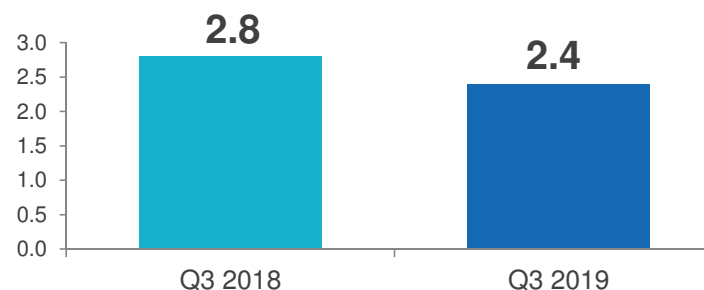


# Q3 2019 Financial Review

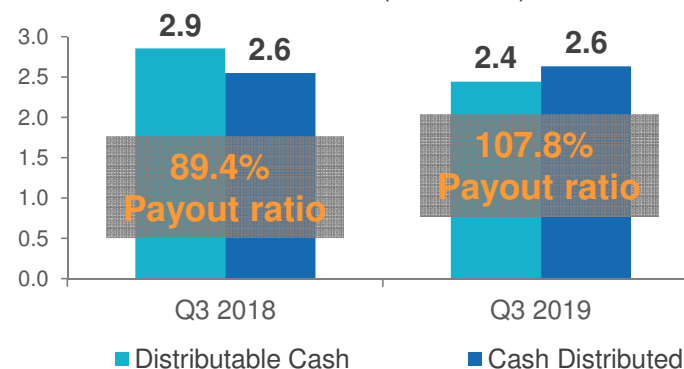
**Pooled Revenue (\$ millions)**



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



**Cash Distributions (\$ millions)**

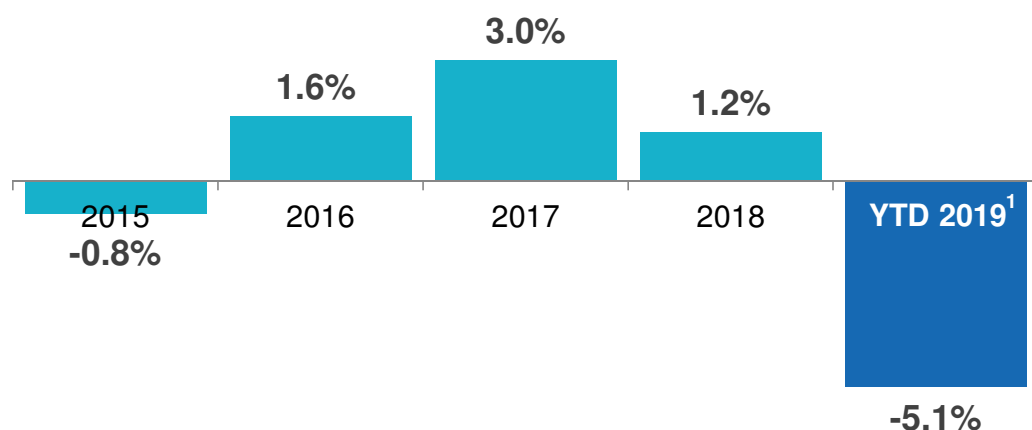


- Adjusted Net Earnings is calculated by replacing the change in estimated value of the SIR Loan as reported in the statement of earnings with the interest received on the SIR Loan during the period and the corresponding deferred tax expense or recovery from the net earnings for the period
- Includes 56 operating restaurants and two closed restaurants. SIR is required to make a Make-Whole payment to the Fund via the SIR Royalty Limited Partnership for the two closed restaurants from the date of their closures to December 31, 2019.

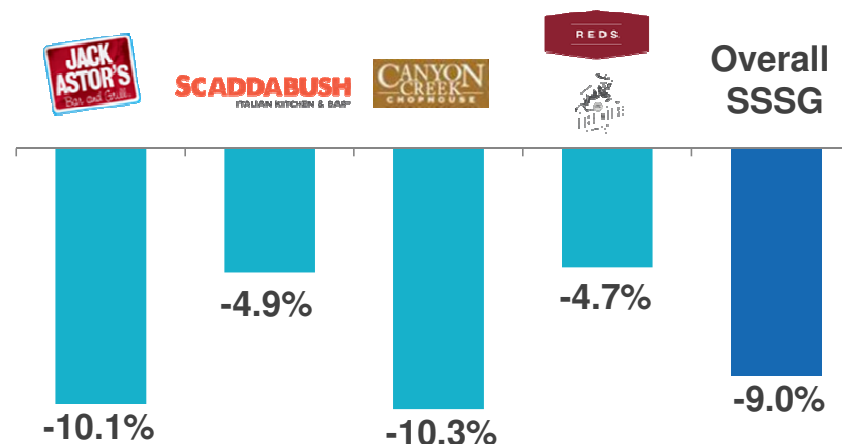


## Royalty Pooled Restaurants – Same Store Sales Performance (“SSS”)

Overall SSS Performance – 2015 to YTD 2019



Q3 2019 Same Store Sales



1. Nine months ended September 30, 2019

**Monthly distribution reduced from \$0.105 per unit to \$0.0875 per unit in November 2019 to align with Royalty Pooled Revenue**





## Factors Impacting Full-Service Restaurant Sales



Consumer spending at full-service restaurants in Ontario, where the majority of SIR's restaurants are located, has been restrained by a number of factors, including:

- The impact of 2018 minimum wage increase on menu pricing,
- Increasing number of consumers choosing to order through meal delivery services as an alternative to in-restaurant dining, which has also impacted beverage sales,
- Changes to impaired driving legislation impacting beverage sales, and
- Rising cost of living / higher consumer debt levels (particularly in GTA).

*Full-service restaurant industry has been impacted by changing consumer behaviour*



## Growth Strategy



- Continue system-wide Jack Astor's renovation program
- Optimize Canyon Creek portfolio
- Introduce new and healthier food options across brand portfolio
- Improve everyday value and implement promotional pricing during off-peak periods
- Increase market share in the take-out and delivery segment
- Further leverage system-wide usage of mobile tablets for all servers & hosts to enhance sales performance and in-store operating efficiencies, and enhance guest experience
- Rollout of "Service-Inspired Rewards" – a new loyalty / mobile application



# Outlook

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

- Renovations to 21 locations completed since start of program in 2016

Recent rollout of **major menu innovation** with the introduction of 11 new, globally inspired bowls & salads

Significant further food enhancements planned for 2020



New **Scaddabush** opened in Mimico to be **added to the Royalty Pool** in January 2020

Completed system-wide rollout of **refined pizza & pasta** program to drive sales growth

New **Scaddabush** opened at the former Canyon Creek location in Burlington, expected to be **added to the Royalty Pool** on January 1, 2021



New management of **REDs** driving improved performance

**Loose Moose** well positioned for growth with major renovation completed in 2019



Actively considering options to enhance the performance of **Canyon Creek** properties

