Muscle Maker Grill, Inc. (Nasdaq: GRIL)

2019 Earnings Conference Call

Company Participants

Michael Roper - Chief Executive Officer

Ferdinand Groenwald, CPA - Chief Financial Officer

Good afternoon! and welcome to the Muscle Maker Grill Annual 2019 Results Conference Call. On the call today is myself, Michael Roper, the Chief Executive Officer and Ferdinand Groenewald, our Chief Financial Officer. All participants will be in a listen-only mode. We will not be taking live questions on today's call but will be addressing several frequently asked questions at the end of the presentation. Please note, this event is being recorded.

I would like to now turn the conference call over to Ferdinand Groenewald our Chief Financial Officer.

Thanks Mike. Hello everyone and welcome to our annual 2019 earnings call, this is our first call as a public company and we are excited to have everyone on the call today. By now, you should have access to our earnings press release. If not, it may be found on our Investor Relations website at musclemakergrill.com/investor-relations.

I will begin by reminding you that certain statements and projections made in this presentation about our future business and financial results constitute forward-looking statements. These statements are based on management's current business and market expectations, and our actual results could differ materially from those projected in the forward-looking statements.

Please see the risk factors contained in our annual report on Form 10-K and in our Form 10-Qs for a discussion of risks that may cause our actual results to vary from these forward-looking statements.

We will start today's call with prepared remarks from Michael Roper, Chief Executive Officer; after which we will address several frequently asked questions.

And with that, I'd like to turn the call back over to Michael.

Thanks, Ferdi, and good afternoon everyone. We hope everyone is doing well, staying safe and remaining diligent in the fight against COVID-19. Given our recent restructuring and subsequent IPO, we'll discuss 2019's financial results and what to expect in the coming year in a few minutes, but I want to start by saying how proud and grateful I am to all our employees for their positive attitude in providing their best efforts in the fight against COVID-19.

I also want to thank our supply chain partners who have been dedicated to delivering our food ingredients and sanitizing supplies in a healthy and safe way helping to keep our employees, food and customers as safe as possible.

Let me start by updating everyone on our response to COVID-19 and the initiatives we are taking as a company.

As cases of coronavirus started to grow in the U.S., we set up daily and weekly calls to stay current with market trends, regulations and mandates on COVID-19 based on feedback from the CDC, FDA, state and local agencies. This communication allowed us to formulate a plan to address the safety and sanitation needs of our business. We instituted multiple safety and sanitizing techniques. Some of these changes included: we eliminated eat-in dining, implemented social distancing protocols, increased sanitization of high-touch high-traffic areas and are providing masks and hand sanitizer for employees, adjusted our app so customers can leave instructions requesting curbside pickup or carryout while also adding or expanding our delivery platforms, random employee temperature checks and new employee sick leave policies.

In addition to these changes, we are also researching and pilot testing a proprietary and patented technology that shows exciting promise and we hope to share with you in more detail soon. The process has industry wide potential, but our primary and immediate concern is to pursue every opportunity to provide as safe an environment as possible to our employees and customers. We will continue to follow recommended guidelines from various state and local governments to allow the safe execution of reopening or expanding services for our restaurants.

All of these initiatives give our employees and customers confidence that Muscle Maker Grill remains committed to keeping them safe.

Lastly, I'd like to address the necessary steps our company has taken to help keep as much of our workforce employed as possible during the COVID-19 pandemic. We have worked with various vendors to reduce monthly expenses, received deferred payment options, canceled services where possible and basically have left no stone unturned in reducing costs. In addition, the Executive team has taken deferrals on their salaries to help lessen the monthly cost basis. Finally, we filed for the SBA's PPP loan program and received our funding on May 16th in the amount of $866,300. These funds are intended to be used for payroll, rent, healthcare and utilities. Most importantly, these funds will allow us to continue to keep as many people employed as possible. We anticipate our payroll to increase in the near future as we open new locations such as the 2

Chicago ghost kitchens, re-open temporarily closed locations and increase available hours to employees as anticipated sales levels improve as the country begins to re-open the economy.

While nearly everyone has been impacted in some way from the recent COVID-19 pandemic, we see opportunity within the recent economic dislocation. Our strategy focuses on a non-traditional location growth model. We are not encumbered by a traditional 4-wall location footprint and instead are able to swiftly capitalize on new opportunities in the non-traditional location arena, as the restaurant industry adapts to a new normal.

Non-traditional locations include military base food courts, universities, office buildings, airports and new venues such as delivery-only ghost kitchens. While we will continue to look at traditional locations through our franchising efforts, the corporate growth strategy focuses on a non-traditional location model.

Since our mid-February IPO we've announced continued expansion on the military front, with the opening of our first Marine base at Camp Elmore in Virginia and the lease and construction start for our location at Fort Bragg North Carolina. Our growing presence as a healthy food provider to military bases will continue. With the two recent announcements our military footprint will now increase to 7 locations.

Recently, we announced a 10-location agreement for delivery-only "Ghost Kitchens". The delivery-only model, which is a capital-light, company-owned expansion opportunity by which we can significantly increase our footprint, geographic reach and brand awareness begins with the first 5 locations covering the Chicago market. Construction has started and management has been hired on the first 2 locations and we project the first restaurant to be open in June and the second location to be open and operating in July. We anticipate that we will begin construction on two additional ghost kitchen sites in the Chicago market in the next 30 days with an anticipated opening in early Q3. We feel the delivery-only ghost kitchen model fits both the current environment and the future of the quick service restaurant segment.

Additionally, within the non-traditional niche, we have previously expressed interest in pursuing the university opportunity; which fits our strategic targeting, representing large captive audiences with less economic sensitivity.

I would like to take this moment to make a new and exciting announcement. The Company is announcing it has signed a new 4 location agreement with the Northern Virginia Community College system. We are working hard in pursuing our goal to have these locations ready to be opened for the fall semester. This new 4 location agreement continues to expand our presence in non-traditional locations and is the beginning of ongoing efforts to bring our "healthier for you" food to universities and colleges. The agreement also allows for concession sales and potentially alcohol sales across the college system. We are very excited about this opportunity and look forward to continued expansion in the non-traditional university and college area.

We continue to pursue the in-hand opportunities, some of which we have previously announced and some that you should be hearing more about soon. We continue to see our pipeline of attractive non-traditional opportunities grow. We will continue to focus on this non-traditional niche because we feel that it uniquely positions us in specific areas that are less economically sensitive in normal times, and the high barriers to entry provide attractive competitive positioning.

Now, I want to get into the 2019 results, but I think its important to note that our IPO occurred about half way into Q1 of 2020, so these 2019 results reflect the last full quarter as a private company and the execution of the final stages of the restructuring and turnaround plan. Also, during Q4, and in preparation for the IPO, we experienced an increase in operating expenses related to professional services required to complete the IPO. In Q4 of 2019 we also converted a significant portion of our debt into equity, resulting in a restructured balance sheet, but causing the company to recognize in excess of $23mm in one-time, non-cash accounting charges. This conversion strengthened our balance sheet and positioned the company to successfully complete its Q1 IPO, but it certainly skewed the results for the year as they accounted for roughly 83% of all of the reported annual losses.

On an operating basis the Company generated $4.96mm in revenue, with $3.47mm coming from restaurant sales of Company owned locations and $1.35mm from franchise royalties and fees. On these revenues we reported a loss from operations of $3.65mm.

I think its important to note that these numbers are indicative of why I was brought into Muscle Maker and why I brought my team with me. This Company had a good core concept and presence in the healthy niche, but was in need of a turn around, and the efforts in 2019, to re-position the company for the planned growth in 2020 are not reflected in the backwards looking operating results.

Given that these numbers are nearly six months stale at this point and that so much has changed, both in the Company and the world, I want to pivot now to talk more forward looking.

As evidenced in the earlier announcement regarding the 4 college locations that we are beginning to build out, we have seen tremendous demand for our healthier for you offering, across both our Muscle Maker and Healthy Joe's concepts. We will continue to focus on these company-owned, non-traditional opportunities like the current endeavors in the military and university channels, as well as the expansion into the ghost kitchen markets with the first two Chicago locations.

Now that we are beginning to see the reopening efforts coming to fruition across most sectors and geographies, we will begin to execute on our existing pipeline of opportunities, with a higher level of confidence that we are allocating capital to locations that we expect to generate incremental revenue for us in the near future. At this point we believe we are positioned to execute on our pipeline and we are in an enviable position of being able to choose how we allocate capital based on targeted returns as there is far more demand for our locations than we can currently service. We want to take a measured approach to building a footprint that leads to operating profitability and self-funded growth.

Due to the delayed filing of this 10k due to the current environment and because we will likely have our Q1 results, and hopefully some additional items to discuss in the near term, I’m going to end this here, and we will address some frequently asked questions that I think can be more productive than an interactive Q&A as we get our hands around being an early stage public company.

Before that I would like to again extend my personal appreciation to all of our employees, franchise owners and customers for continuing to support our Company during these trying times and we wish everyone and their family’s safety and good health.

With that, let me review some frequently asked questions.

Question-and-Answer Session

Question 1: In the face of COVID-19 and its impact on the restaurant industry specifically, has the overall business plan changed as well as your growth plans?

- Answer 1: I think this is a common question and concern we get from investor relations, so let me start to answer this by saying, despite the pandemic, in the Company's view, our overall strategy has not changed. We are continuing to focus on non-traditional location growth opportunities with a primary focus on military bases, universities and delivery-only ghost kitchens. That hasn't changed. The original plan was to open 14 to 18 locations in 2020 but that has obviously been delayed due to COVID-19 to a certain extent. However, as indicated earlier, we are still opening locations such as Camp Elmore, started construction on Fort Bragg, and anticipate having our first 2 ghost kitchen locations opening in Chicago and just announced the signing of our 4-location agreement with the Northern Virginia Community College System. We obviously are continuing to move forward with our overall plan. We really think of COVID-19 as a temporary gap in the plan but the overall plan remains the same.

We also believe COVID-19 will provide unique opportunities for our company as we are able to adjust quickly and accordingly to market conditions due to the fact that a portion of our operating sites are not encumbered to existing 4-wall locations.

Question 2: Are you experiencing any supply issues due to COVID-19?

- Answer 2: As of today, we are seeing small disruptions but have been able to manage around any issues. For example, our tortilla supplier recently informed us they were only going to manufacture two flavors of tortilla. We simply made a quick recipe change to accommodate the temporary shortfall. The biggest issue so far has been items like masks and hand sanitizer. We have been supplying our locations with these products from various sources to ensure they remain in our locations for employees to use.
- Our biggest concern is proteins…. such as chicken and beef as some manufacturers have been having production disruptions in their processing plants due to COVID-19. We have identified alternate suppliers if needed as well as alternate recipes in the event a shortage materializes but at this time do not anticipate any issues.

Question 3: How is your cash position?

- Answer 3: As of today, we have roughly $3.4 million in working capital. We believe this is an adequate amount of cash to execute against our growth plans and sustain operations over the near term. While we cannot anticipate how long it will take to fully recover from the Pandemic, we are starting to see sales slowly increase in our open locations while also starting to re-open temporarily closed locations.
- Many of our new locations require less capital than a typical restaurant allowing us to expand while also managing cash on hand. Since coming public we have received a number of potential financing opportunities. I think our concept and our team, while still very new to the public arena, has been well received. As we mentioned in the statement before, the inbound interest we are receiving is significant. I feel fortunate that we are in the position to pick and choose where, and with whom, we grow at this point. Our focus will continue to be on developing an operating model that grows value for our shareholders. Along those lines we are looking at some non-dilutive growth capital options although there is no guarantee that these opportunities will come to fruition.

Question 4: How are your Franchisees performing during COVID-19?

- Answer: As you would imagine, all franchisees are experiencing some form of distress due to COVID-19 and depending on their location. While delivery is a large part of our business, we are not a drive through oriented fast food model. Drive thru seems to be one of the only bastions of strength as consumers are still limited in their options. Roughly a quarter of all locations have temporarily closed. We do believe many locations will begin re-opening over the coming weeks as the country opens up the economy in a safe manner, but this depends on the location of the business and the franchise owner's safety concerns.
- To help in franchisee cash flow, the Company launched a royalty deferral program in April. The program allowed franchisees to defer a portion of their royalty payments. This program is reviewed every 30 days to allow expansion if the current economic environment requires such an expansion. Finally, The majority of franchisees applied for the PPP funding program as well.

Question 5: How should we think about your trends for the balance of 2020

- Answer 5: While there is no question that this pandemic has disrupted our growth path, we believe it is just that, a disruption or a delay. Thankfully we were fortunate to have completed our IPO just prior to all of this happening, so we were not only well capitalized to endure a slowdown, but because that happened so close to our IPO, we had not committed capex dollars to projects that would remain shuttered.
- Going forward, I'm operating under a base assumption that we will return to normal, not likely an overnight scenario, but more of an upward slope. As such, we are judiciously allocating capital based on what our partners are telling us regarding their own intents. Using the colleges as an example, our partners have told us that their intent is to have full matriculation for the fall semester. Assuming this is accurate, then these are locations with existing four wall operating history that offer an attractive potential ROI. Campus environments create opportunities with limited identifiable competition, and the sort of recession resistant, captive audiences with discretionary spending capability that we continue to believe offer excellent opportunities. I am very hopeful that based on our robust non-traditional pipeline, the balance of 2020 involves a number of announced growth initiatives similar to the ones I have shared with you today.

This concludes our call for today. Thank you.