

A&W Revenue Royalties Income Fund and A&W Food Services of Canada Announce Strategic Combination

TRADING SYMBOL: TSX: AW.UN

VANCOUVER, BC, July 22, 2024 3:30 a.m. Pacific Time (6:30 a.m. Eastern Time).

- Combining to become a leading Canadian publicly traded Quick-Service Restaurant (“QSR”) company
- Each Fund unit to be exchanged for one share of the combined company or \$37.00 in cash (subject to proration)
- Shareholders of the combined company to gain full benefit to A&W’s attractive EBITDA growth profile and the financial flexibility of a more typical capital structure
- Distributions to unitholders to be maintained

A&W Revenue Royalties Income Fund (TSX: AW.UN) (the “Fund”) and A&W Food Services of Canada Inc. (“A&W Food Services”) today announced that they have agreed to a strategic combination (the “Transaction”) that will create a leading publicly traded growth-focused QSR franchisor (“A&W Food Services NewCo”). Following closing, A&W Food Services NewCo will provide converting unitholders with full and direct access to significantly greater growth and capital appreciation potential and expects to pay attractive quarterly dividends at the same annualized rate as the current monthly distributions paid to the Fund’s unitholders (currently equal to \$1.92 per unit).

“I’m very excited about combining the two halves of A&W” said Susan Senecal, President and Chief Executive Officer of A&W Food Services. “A&W has tremendous growth opportunities, and this new combined entity structure allows us to fully take advantage of these opportunities for the benefit of unitholders, franchisees, employees and our guests, enabling everyone to win and grow, together.”

Benefits to Unitholders: Full Participation in A&W’s Growth and Valuation Upside while Maintaining Existing Distribution Level in the Form of Dividends

Under the current structure, unitholders’ participation in A&W’s growth and performance is largely limited to the same store sales growth (“SSSG”) of existing restaurants in the royalty pool, with minimal initial accretion benefit from the addition of new restaurants to the royalty pool. In the current structure, the Fund receives its income from A&W Food Services in the form of royalties based on the reported sales of A&W restaurants in the royalty pool. After deduction of certain expenses, the Fund pays these royalties out to unitholders in the form of monthly distributions.

The Transaction will combine A&W Food Services with the Fund to create a new company with a simplified traditional corporate structure that is directly comparable to other global publicly listed QSR franchisors, providing numerous benefits to unitholders as compared to the current structure:

- **Full participation in the growth and performance of the entire A&W business** – including upside from new restaurant openings, margin expansion due to operating leverage and economies of scale, new concepts like Pret A Manger, and the retail root beer business, among other value-enhancing opportunities, all while being expected to maintain current distributions in the form of an attractive quarterly dividend.
- **Attractive share price upside potential** – based on A&W Food Services’ track record of strong operating performance relative to its global peer set, and the significant value creation potential implied by current public trading valuations of global QSR peers.
- **Potential for enhanced liquidity and profile** – with a simplified corporate structure and growth mandate, A&W Food Services NewCo has the potential for greater liquidity and is more likely to attract institutional investor interest and research analyst coverage.
- **Greater financial flexibility** – A&W Food Services NewCo will have greater financial flexibility to invest in growth opportunities and strategic initiatives, while allowing for balance sheet optimization to typical leverage levels observed in publicly-traded QSR peers.

“This combination provides an excellent opportunity for unitholders to realize compelling value through participation in the upside potential that exists in the A&W business, or through a significant cash premium to the current trading price of the units,” said Kevin Mahoney, Chair of the Fund’s Board of Trustees. “The Transaction preserves an

ongoing income stream through an attractive quarterly dividend and gives continuing and new shareholders the ability to participate in the full range of value catalysts in the A&W business. The Trustees unanimously recommend that unitholders vote in favour of the Transaction at the forthcoming special meeting of unitholders.”

Unitholder Offer Details

Under the terms of the Transaction, unitholders of the Fund (other than A&W Food Services and its affiliates) can elect to receive in exchange for each Fund unit:

- \$37.00 in cash – representing a premium of 30% to the Fund’s closing trading price on the TSX on July 19, 2024; or
- one common share in A&W Food Services NewCo.

The elections of Fund unitholders to receive cash or share consideration will be subject to proration in the event that unitholders elect, in the aggregate, to receive more or less than \$175.6 million in cash consideration, such that in all cases, a total of 4,746,582 units will be purchased for cash at \$37.00 per unit, representing approximately 32.5% of the outstanding units (other than units held by A&W Food Services) as of July 19, 2024. Following closing of the Transaction, A&W Food Services NewCo will have approximately 24.0 million shares outstanding.

The Fund will continue to pay its monthly cash distribution to unitholders prior to closing of the Transaction. Following closing, A&W Food Services NewCo expects to initially pay a quarterly dividend at the same annualized rate as current distributions of the Fund (currently equal to \$1.92 per unit).

Existing shareholders of A&W Food Services, which include TorQuest Partners, three principal shareholders (two of whom are former CEOs of A&W Food Services), and current management, are eager to participate in the future of the combined company and are rolling their entire ownership stakes into A&W Food Services NewCo.

A&W is a true Canadian success story

Established in 1956, over the past decade A&W has been Canada’s fastest growing large scale QSR burger brand.¹ It is #2 in the \$12.5 billion Canadian QSR burger market.² A&W’s ability to innovate and powerfully connect with Canadian burger lovers has contributed to superior operating performance that exceeds its global QSR peers across key metrics like annual average system sales growth, average annual same store sales growth and net unit (restaurant) growth.³

As a strategically driven company, A&W is pursuing a disciplined strategic plan to further drive growth, just as it has done for the past 70 years. The first strategic thrust is to continue an industry leading pace of new restaurant openings. With the current potential for approximately 400 more A&Ws across Canada, including in the underserved markets of Ontario and Quebec, restaurant growth will be driven largely by the existing base of highly successful expansion-oriented franchisees. Petro Canada, one of the largest franchisees, has agreed to open over 90 new A&W restaurants in the next few years. Growing customer traffic and sales through menu innovation, including the A&W Brew Bar beverage lineup, is a key growth strategy for A&W. In addition, enhancing the guest experience and building greater loyalty through mobile and digital ordering offers exciting growth potential. Finally, the opportunity to expand into the sizable QSR Sandwich segment through A&W’s exclusive Canadian rights to the internationally acclaimed Pret A Manger brand is an important area of potential. The first stand alone restaurant opened in Toronto in early 2024 and other locations are being actively pursued.

Following completion of the Transaction, A&W Food Services NewCo will continue to be led by Ms. Senecal, the experienced President and Chief Executive Officer of both A&W Food Services and the Fund, along with her proven management team. Additionally, it will be governed by an experienced and majority independent Board of Directors, consisting of the three existing independent trustees of the Fund, four independent directors (three of whom are currently on the board of A&W Food Services), and Ms. Senecal.

¹ Based on A&W Food Services’ average annual systems sales growth (excluding 2020 and 2021 due to COVID pandemic) relative to global sales growth of peers.

² Based on 2023 annual system sales and total restaurant units.

³ Average annual growth figures from 2014 to 2023 excluding 2020 and 2021 (due to the COVID pandemic) for systems sales growth and same store sales growth. These are not standardized measure under IFRS and might not be comparable to other measures disclosed by peers and other issuers.

Trustee Recommendation

The Transaction is the product of extensive arm's length negotiations between the Trustees of the Fund and A&W Food Services. Throughout the negotiations, the Trustees were advised by independent and highly qualified legal and financial advisors.

In connection with its review of the Transaction, the Trustees retained TD Securities Inc. ("TD Securities") as an independent valuator to prepare a formal valuation of the Fund units and the common shares of A&W Food Services NewCo as required under Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("MI 61-101"). TD Securities delivered an oral opinion (the "Formal Valuation") to the Trustees that, as of July 21, 2024, and subject to certain assumptions, limitations and qualifications to be set forth in the written formal valuation that will be included in the management information circular (the "Circular") that will be sent to the unitholders of the Fund in connection with the a special meeting of unitholders to be called to approve the Transaction (the "Special Meeting"), the fair market value of the units of the Fund is in the range of \$31.50 to \$37.50 per unit, and the fair market value of the common shares of A&W Food Services NewCo is in the range of \$32.00 to \$38.00 per share. TD Securities has also delivered an oral fairness opinion (the "TD Securities Fairness Opinion") to the Trustees that, as of July 21, 2024, and subject to the assumptions, limitations and qualifications to be set forth in TD Securities written fairness opinion that will be included in the Circular, the consideration to be received by the unitholders (other than A&W Food Services and its affiliates) pursuant to the Transaction is fair, from a financial point of view, to the unitholders (other than A&W Food Services and its affiliates).

Additionally, RBC Capital Markets, financial advisor to the Fund, provided an oral fairness opinion to the Trustees stating that, as of July 21, 2024, and subject to certain assumptions, limitations and qualifications to be set forth in RBC Capital Markets' written fairness opinion that will be included in the Circular, the consideration to be received by unitholders (other than A&W Food Services and its affiliates) pursuant to the Transaction is fair, from a financial point of view, to the unitholders (other than A&W Food Services and its affiliates) (together with the TD Securities Fairness Opinion, the "Fairness Opinions").

The Trustees of the Fund, after receiving legal and financial advice, the Fairness Opinions and the Formal Valuation, have unanimously determined that the Transaction is in the best interests of the Fund and fair to the unitholders (other than A&W Food Services and its affiliates) and unanimously recommend that the unitholders vote in favour of the Transaction.

Copies of the Formal Valuation and the Fairness Opinions, as well as additional details regarding the terms and conditions of the Transaction and the rationale for the recommendation made by the Trustees of the Fund will be contained in the Circular, which will be filed with applicable Canadian securities regulators, made available on the SEDAR+ profile of the Fund at www.sedarplus.ca and mailed to Fund unitholders in connection with the Special Meeting.

Transaction Structure and Details

The Transaction is structured as a statutory plan of arrangement under the *Canada Business Corporations Act*, pursuant to which A&W Food Services will be amalgamated with certain of its holding companies and acquire all the Fund units not already owned by it for shares or cash, as the case may be.

The Transaction is expected to close in October of this year and is subject to customary closing conditions, including court approval, the approval of the Fund unitholders (as further described below), approval of the TSX and regulatory approval under the *Competition Act* (Canada).

Completion of the Transaction will be subject to the approval of at least (i) two-thirds (66 2/3%) of the votes cast by unitholders present in person or represented by proxy at the Special Meeting and (ii) the majority of the votes cast by unitholders present in person or represented by proxy at the Special Meeting, excluding the votes of A&W Food Services and any other unitholders whose votes are required to be excluded for the purposes of "minority approval" under MI 61-101. Further details regarding the applicable voting requirements will be contained in the Circular, which will be filed with applicable Canadian securities regulators, made available on the SEDAR+ profile of the Fund at www.sedarplus.ca, and mailed to Fund unitholders in connection with the Special Meeting.

A&W Food Services currently owns approximately 29.4% of the Fund on a fully-diluted basis, including exchangeable securities of the Fund's subsidiaries. Upon completion of the Transaction, approximately 41% of the common shares in A&W Food Services NewCo will be owned by existing Fund unitholders (other than A&W Food Services). Funds managed by TorQuest Partners will own approximately 19.4% and other current A&W Food Services shareholders will hold, as individual beneficial owners, an aggregate of approximately 39.6% of the common shares.

The Trustees and certain shareholders of A&W Food Services have entered into support and voting agreements agreeing to, among other things, vote their Fund units in favour of the resolution approving the Transaction and take certain other actions required to implement the Transaction. Upon completion of the Transaction, key A&W Food Services shareholders, who will own approximately 54% of the common shares of A&W Food Services NewCo, will enter into an investor rights agreement with A&W Food Services NewCo, pursuant to which they will agree to a 180-day lock-up and a customary 24-month standstill following closing of the Transaction, and will receive customary nomination, information and registration rights.

A&W Food Services has obtained commitments from Canadian Imperial Bank of Commerce ("CIBC") and Royal Bank of Canada ("RBC") to provide a \$325 million revolving credit facility, which will be used to fund the cash portion of the Transaction and repay existing indebtedness of the Fund and A&W Food Services. Following closing of the Transaction, pro forma net debt to 2023 combined adjusted EBITDA will be approximately 3.0x.

A&W Food Services NewCo has applied to have its common shares listed on the Toronto Stock Exchange ("TSX"). Listing is subject to the approval of the TSX in accordance with its original listing requirements. The TSX has not conditionally approved A&W Food Services NewCo's listing application and there is no assurance that the TSX will do so.

Conference Call and Webcast

The Fund and Food Services will host a conference call and webcast to discuss the Transaction and the Fund's second quarter financial results on Monday, July 22, 2024 at 7:30 a.m. Pacific Time (10:30 a.m. Eastern Time).

The call will be webcast live and may be accessed at <https://events.q4inc.com/attendee/905085111>. Participants who wish to ask questions or are unable to join via webcast may dial-in by calling toll-free 1-800-225-9448 or 1-203-518-9708 and by quoting the conference ID "AWRRIF" when prompted by the operator. For those unable to participate in the live call, a replay will be made available for one year at <https://events.q4inc.com/attendee/905085111>.

Additional Information; Financial Outlook

Copies of the Combination Agreement entered into by the Fund and A&W Food Services in connection with the Transaction (the "Combination Agreement") and the Circular for the Special Meeting will be filed with applicable Canadian securities regulators, made available on the SEDAR+ profile of the Fund at www.sedarplus.ca and mailed to Fund unitholders in connection with the Special Meeting.

In addition, two presentations regarding the Transaction (including the presentation for the conference call and webcast described above) have been made available on the Fund's website at <https://www.awincomefund.ca/investors/>. These presentations contain important information, including guidance for key financial and performance metrics for A&W Food Services NewCo for one-year and three-year periods and additional details as to the historical performance of A&W Food Services and other investment highlights.

All persons desiring details regarding the Transaction are urged to read those and other relevant materials when they become available.

Advisors

RBC Capital Markets and Davies Ward Phillips & Vineberg LLP are serving as financial advisor and legal advisor, respectively, to the Fund, and CIBC Capital Markets and Stikeman Elliott LLP are serving as financial advisor and legal advisor, respectively, to A&W Food Services. TD Securities is serving as independent valuator to the Fund.

About A&W Revenue Royalties Income Fund

A&W Revenue Royalties Income Fund is a limited purpose trust established to invest in Trade Marks, which through its interest in the A&W Trade Marks Limited Partnership (the "Partnership"), owns the A&W trade-marks used in the A&W QSR business in Canada. The A&W trade-marks comprise some of the best-known brand names in the Canadian foodservice industry. In return for licensing A&W Food Services to use its trade-marks, Trade Marks (through the Partnership) is entitled to royalties equal to 3% of the gross sales reported by A&W restaurants in the Royalty Pool.

The Royalty Pool is adjusted annually to reflect gross sales from new A&W restaurants added to the Royalty Pool, net of the gross sales of any A&W restaurants in the Royalty Pool that have permanently closed. Additional LP units are

issued to A&W Food Services to reflect the annual adjustment. A&W Food Services' additional LP units are exchanged for additional common shares of Trade Marks which are exchangeable for Trust Units. The 22nd annual adjustment to the Royalty Pool took place on January 5, 2024 at which time the number of restaurants in the Royalty Pool increased from 1,037 to 1,047.

Trade Marks' dividends to A&W Food Services and the Fund and the Fund's distributions to unitholders are based on 3% of top-line revenues of the A&W restaurants in the Royalty Pool, less cash expenses including interest, general and administrative expenses and current income taxes of Trade Marks.

About A&W Food Services

A&W is the second largest burger QSR chain in Canada. Operating coast-to-coast, A&W restaurants feature famous trade-marked menu items such as The Burger Family®, Chubby Chicken® and A&W Root Beer®.

® trademark of A&W Trade Marks Limited Partnership, used under license.

Forward-looking Information

Certain statements in this press release contain forward-looking information within the meaning of applicable securities laws in Canada. The forward-looking information in this press release includes, but is not limited to: expectations relating to the timing and completion of the Transaction; the listing of the common shares of A&W Food Services NewCo on the TSX; the anticipated benefits of the Transaction, including, without limitation, expectations with respect to A&W Food Services NewCo's potential for growth and capital appreciation, share price upside, value creation and enhanced liquidity and profile in the capital markets; the strategic direction and growth opportunities of the A&W Food Services NewCo including opportunities and commitments to add new A&W restaurants (units) in Canada and the continued growth of the burger segment of the Canadian QSR market; expectations that distributions will be maintained in the form of dividends by A&W Food Services NewCo and the annualized rate of those future dividends; and expectations relating to the future operating and financial performance of the A&W Food Services NewCo, including its ability to expand margins, grow sales, guest counts and earnings and generate free cash flow. The words "expects", "plans", "will", and similar expressions are often intended to identify forward-looking information, although not all forward-looking information contains these identifying words.

This forward-looking information is based on a number of assumptions that, while considered reasonable as of the date such statements are made, are subject to known and unknown risks, uncertainties and other factors that may cause the actual results to be materially different from those expressed or implied by such forward-looking information. Such assumptions include, but are not limited to: the Fund's ability to obtain unitholder approval and consummate the Transaction on the terms and conditions and timing currently contemplated; that A&W Food Services NewCo will be successful in executing its business strategies and pursuing its growth opportunities, and that, coupled with its simplified corporate structure and growth mandate, will attract significantly more institutional investor interest and research coverage; there are no material changes in competition; the continued availability of experienced management and other key personnel and hourly employees; and that there are no material changes in the QSR burger market, including as a result of changes in consumer taste or health concerns, a disease outbreak or economic conditions (including inflation, interest rates and unemployment levels).

Inherent in forward-looking information are risks and uncertainties beyond management's or the Fund's or A&W Food Services' ability to predict or control that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking information. The forward-looking information in this press release is subject to, among others, the risks related to A&W Food Services' business (including those generally impacting the QSR industry) identified in the Fund's Annual Information Form dated February 27, 2024 (the "AIF") which is available under the Fund's profile on SEDAR+ at www.sedarplus.ca. However, those risks are expressed in the AIF from the perspective of the Fund and, consequently, their impact on the royalty and A&W Food Services ability to pay such royalties to the Fund. Following completion of the Transaction, the A&W Food Services NewCo will continue on as A&W Food Services of Canada Inc. and, as a result, the shareholders of A&W Food Services NewCo will be directly exposed to each of the risks related to A&W Food Services' business. Those risks could materially and adversely impact the results, financial condition, performance or prospects of A&W Food Services' business and, consequently, cause the market price or value of the shares of A&W Food Services NewCo to decline or reduce the amount of any dividend paid on those shares.

This forward-looking information is also subject to specific risks and uncertainties relating to the Transaction and the shares of A&W Food Services NewCo and include the following material risks:

- the completion of the Transaction may not occur on the anticipated terms and timing or at all;
- failure to complete the Transaction could negatively impact market price of the units of the Fund;
- the Formal Valuation and Fairness Opinions will not reflect changes in circumstances that may have occurred or that may occur between the date of the Combination Agreement and the completion of the Transaction;
- there could be unknown or undisclosed risks or liabilities of Food Services, a private company, that could materially and adversely affect A&W Food Services' business, financial condition or results of operations and for which the Fund would not be permitted to terminate the Combination Agreement and would not be indemnified by the existing shareholders of A&W Food Services' following closing;
- tax consequences of the Transaction may differ from anticipated treatment;
- the anticipated benefits of the Transaction, including the potential for improved liquidity, increased institutional ownership and research coverage, and a market valuation that is more comparable to other publicly traded QSRs, may not occur on a timely basis or at all;
- market conditions may cause the market price of the shares of A&W Food Services NewCo to fluctuate substantially;
- an active, liquid and orderly trading market for the shares of A&W Food Services NewCo may not develop;
- the change in the investment profile from income to total return following completion of the Transaction may put selling pressure on the shares of A&W Food Services NewCo that adversely affects their market price and liquidity;
- payment of future cash dividends on the shares of A&W Food Services NewCo will be subject to the discretion of the Board of Directors of A&W Food Services NewCo and may vary from time to time or be suspended entirely depending on, among other things, the performance of A&W Food Services NewCo and, as a result, the rate and amount of any such dividend is not guaranteed;
- the significant ownership of the shares of A&W Food Services NewCo by the existing shareholders of A&W Food Services' may adversely affect the market price and liquidity of the shares of A&W Food Services NewCo due to their ability to exercise substantial influence over A&W Food Services NewCo and a relatively smaller public float of A&W Food Services NewCo shares;
- actual or expected sales of a significant number of the shares of A&W Food Services NewCo by the existing shareholders of A&W Food Services could cause their market price to decline; and
- covenants contained in A&W Food Services NewCo's credit agreement will affect and, in some cases, significantly limit the manner in which A&W Food Services NewCo will operate its business, including with respect to the timing and amount of dividends.

The forward-looking information contained in this press release are based on expectations at the date hereof and are subject to change after such date. All forward-looking information in this press release is qualified in its entirety by this cautionary statement and, except as required by law, the Fund and A&W Food Services undertake no obligation to revise or update any forward-looking information as a result of new information, future events or otherwise after the date hereof.

Market and Industry Data

This press release includes market information and industry data obtained from independent industry publications, market research and other publicly available sources. Although management believes these sources to be generally reliable, the accuracy and completeness of this information and data are not guaranteed. The parties have not independently verified any of the data from third party sources referred to in this press release nor ascertained the underlying assumptions relied upon by such sources.

Not an Offer or Solicitation of Securities or Proxies

This press release is for information purposes and does not constitute or form part of an offer to sell or the solicitation of an offer to purchase any securities in any jurisdiction. This press release is also not intended as, and does not constitute a solicitation of proxies or votes in connection with the requisite unitholder approval of the Transaction. Further information about the Transaction will be contained in the Circular, which will be filed with applicable Canadian securities regulators, made available on the SEDAR+ profile of the Fund at www.sedarplus.ca and mailed to Fund unitholders in connection with the Special Meeting. Unitholders are encouraged to read the Circular carefully once it becomes available. This press release should not be construed, under any circumstances, as investment, tax or legal advice.

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Early Warning Disclosure

As of the date hereof, A&W Food Services has ownership and control over an aggregate of 1,507,020 limited voting units of the Fund ("LVUs"), and common shares of a subsidiary of the Fund ("Exchangeable Securities") which are exchangeable for an aggregate of 4,562,957 LVUs. Assuming the exchange of the Exchangeable Securities into LVUs, as of the date hereof, A&W Food Services has ownership and control over an aggregate of 6,069,977 LVUs, representing approximately 29.4% of the outstanding voting securities of the Fund.

As part of the Transaction, A&W Food Services has agreed to amalgamate with Buddy Holdings Inc., A&W Holdings I Inc., A&W Holdings II Inc., A&W of Canada Inc. and AWFS Holdings Inc. in connection with the closing to form A&W Food Services NewCo. Upon completion of the Transaction, A&W Food Services NewCo will own 100% of the issued and outstanding voting securities of the Fund, and intends to cause the trust units of the Fund to cease to be listed on the Toronto Stock Exchange, and cause the Fund to submit an application to cease to be a reporting issuer under applicable Canadian securities laws and to otherwise terminate the Fund's public reporting requirements.

In connection with the Transaction, A&W Food Services has entered into support and voting agreements with certain of its indirect shareholders and the trustees of the Fund who collectively own an aggregate of 576,059 units of the Fund, pursuant to which such persons have, among other things, agreed to vote their units of the Fund in favour of the Transaction.

A&W Food Services has also agreed with the Fund not to transfer any of its LVUs or Exchangeable Securities, and to vote all of its LVUs and Exchangeable Securities in favour of the Transaction.

Both the Fund's and A&W Food Services' head office is located at Suite 300, 171 West Esplanade, North Vancouver, British Columbia V7M 3K9.

An early warning report will be filed by A&W Food Services on its behalf and on behalf of certain of its affiliates with applicable Canadian securities regulatory authorities. To obtain copies of the early warning report, please contact investorrelations@aw.ca.