

To Our Shareholders

On November 8, 2019, we reported results for the second quarter of our 2020 fiscal year that ended September 29, 2019.

For the fiscal quarter ended September 29, 2019:

- Revenues were \$29,726,000, as compared to \$29,330,000 during the thirteen weeks ended September 23, 2018;
- Income from operations was \$7,366,000, as compared to \$8,480,000 during the thirteen weeks ended September 23, 2018;
- Adjusted EBITDA^a, a non-GAAP financial measure, was \$8,123,000, as compared to \$9,153,000 for the thirteen weeks ended September 23, 2018;
- Income before provision for income taxes was \$5,103,000, as compared to \$6,463,000 for the thirteen weeks ended September 23, 2018;
- Net income was \$3,658,000, as compared to \$4,484,000 for the thirteen weeks ended September 23, 2018; and
- Earnings per diluted share was \$0.87 per share, as compared to \$1.06 per share for the thirteen weeks ended September 23, 2018.

For the twenty-six weeks ended September 29, 2019:

- Revenues were \$60,244,000, as compared to \$59,498,000 during the twenty-six weeks ended September 23, 2018;
- Income from operations was \$16,814,000, as compared to \$17,567,000 during the twenty-six weeks ended September 23, 2018;
- Adjusted EBITDA¹, a non-GAAP financial measure, was \$18,296,000, as compared to \$18,748,000 for the twenty-six weeks ended September 23, 2018;
- Income before provision for income taxes was \$12,288,000, as compared to \$12,982,000 for the twenty-six weeks ended September 23, 2018;
- Net income was \$9,027,000, as compared to \$9,279,000 for the twenty-six weeks ended September 23, 2018; and
- Earnings per diluted share was \$2.14 per share, as compared to \$2.19 per share for the twenty-six weeks ended September 23, 2018.

License royalties increased to \$14,147,000 during the twenty-six weeks ended September 29, 2019, (“fiscal 2020 period”), as compared to \$13,844,000 during the twenty-six weeks ended September 23, 2018. During the fiscal 2020 period, royalties earned under the retail agreement, including the foodservice program, from John Morrell & Co., increased 2.3% to \$13,092,000, as compared to \$12,795,000 of royalties earned during the twenty-six weeks ended September 23, 2018.

In the Branded Product Program, which features the sale of Nathan’s hot dogs to the foodservice industry, income from operations declined by approximately \$934,000 to \$4,327,000 during the fiscal 2020 period, as compared to \$5,261,000 for the twenty-six weeks ended September 23, 2018. Sales were \$32,295,000 during the fiscal 2020 period, compared to sales of \$31,855,000 during the twenty-six weeks ended September 23, 2018, while the volume of hot dogs sold by the Company increased 2.2%. However, the sales and volume results were partially related to winding down the new re-distributor’s temporary service to certain of our regular distributor customers. Our average selling price, which is partially correlated to the

^a EBITDA and Adjusted EBITDA are non-GAAP financial measures. Please see the definitions of EBITDA and Adjusted EBITDA on page 2 of this letter and the reconciliation of EBITDA and Adjusted EBITDA to net income in the table at the end of this letter.

beef markets, decreased by approximately 0.4% during the fiscal 2020 period compared to the twenty-six weeks ended September 23, 2018.

Sales from Company-operated restaurants were \$10,048,000 during the fiscal 2020 period compared to \$10,189,000 during the twenty-six weeks ended September 23, 2018. Sales at the four comparable Company-owned restaurants increased by \$633,000 or 6.7% during the fiscal 2020 period. Sales were positively affected, especially at our two Coney Island locations, by favorable weather conditions during the fiscal 2020 period in addition to higher sales at our other traditional Company-owned restaurants.

Revenues from franchise operations were \$2,575,000 during the fiscal 2020 period, compared to \$2,343,000 during the twenty-six weeks ended September 23, 2018. Total royalties were \$2,027,000 during the fiscal 2020 period as compared to \$2,101,000 during the twenty-six weeks ended September 23, 2018. Total franchise fee income was \$548,000 during the fiscal 2020 period compared to \$242,000 during the twenty-six weeks ended September 23, 2018. Thirteen new franchised outlets opened during the fiscal 2020 period.

During the fiscal 2020 period, we recorded Advertising Fund revenue of \$1,179,000 and expense of \$1,549,000.

During the fiscal 2020 period, the Board of Directors declared two quarterly cash dividends of \$0.35 per share totaling \$2,958,000.

Effective November 8, 2019, the Board of Directors declared its quarterly cash dividend of \$0.35 per share payable on December 6, 2019 to shareholders of record at the close of business on November 25, 2019.

Certain Non-GAAP Financial Information:

In addition to disclosing results that are determined in accordance with Generally Accepted Accounting Principles in the United States of America ("US GAAP"), the Company is disclosing EBITDA, a non-GAAP financial measure which is defined as net income, excluding (i) interest expense; (ii) provision for income taxes and (iii) depreciation and amortization expense. The Company is also disclosing Adjusted EBITDA, a non-GAAP financial measure which is defined as EBITDA, excluding (i) share-based compensation and (ii) (gain) loss on disposal of property and equipment that the Company believes will impact the comparability of its results of operations.

The Company believes that EBITDA and Adjusted EBITDA are useful to investors to assist in assessing and understanding the Company's operating performance and underlying trends in the Company's business because EBITDA and Adjusted EBITDA are (i) among the measures used by management in evaluating performance and (ii) are frequently used by securities analysts, investors and other interested parties as a common performance measure.

EBITDA and Adjusted EBITDA are not recognized terms under US GAAP and should not be viewed as alternatives to net income or other measures of financial performance or liquidity in conformity with US GAAP. Additionally, our definitions of EBITDA and Adjusted EBITDA may differ from other companies. Analysis of results and outlook on a non-US GAAP basis should be used as a complement to, and in conjunction with, data presented in accordance with US GAAP. Please see the table at the end of this press release for a reconciliation of EBITDA and Adjusted EBITDA to net income.

About Nathan's Famous

Nathan's is a Russell 2000 Company that currently distributes its products in 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and fourteen foreign countries through its restaurant system, foodservice sales programs and product licensing activities. Last year, over 700 million Nathan's Famous hot dogs were sold. Nathan's was ranked #22 on the Forbes 2014 list of the Best Small Companies in America and was listed as the Best Small Company in New York State in October 2013. For additional information about Nathan's, please visit our website at www.nathansfamous.com.

Sincerely,

Eric Gatoff
Chief Executive Officer

Nathan's Famous, Inc.
(unaudited)

	<u>Thirteen weeks ended</u>		<u>Twenty-six weeks ended</u>	
	<u>Sept. 29, 2019</u>	<u>Sept. 23, 2018</u>	<u>Sept. 29, 2019</u>	<u>Sept. 23, 2018</u>
<u>Financial Highlights</u>				
Total revenues	<u>\$ 29,726,000</u>	<u>\$ 29,330,000</u>	<u>\$ 60,244,000</u>	<u>\$ 59,498,000</u>
Income from operations (a)	<u>\$ 7,366,000</u>	<u>\$ 8,480,000</u>	<u>\$ 16,814,000</u>	<u>\$ 17,567,000</u>
Net income	<u>\$ 3,658,000</u>	<u>\$ 4,484,000</u>	<u>\$ 9,027,000</u>	<u>\$ 9,279,000</u>
Income per share:				
Basic	<u>\$ 0.87</u>	<u>\$ 1.07</u>	<u>\$ 2.14</u>	<u>\$ 2.22</u>
Diluted	<u>\$ 0.87</u>	<u>\$ 1.06</u>	<u>\$ 2.14</u>	<u>\$ 2.19</u>
Weighted-average shares used in computing income per share:				
Basic	<u>4,227,000</u>	<u>4,188,000</u>	<u>4,216,000</u>	<u>4,187,000</u>
Diluted	<u>4,227,000</u>	<u>4,231,000</u>	<u>4,216,000</u>	<u>4,229,000</u>

Select Segment Information

Revenues

Branded product program	\$16,182,000	\$15,410,000	\$32,295,000	\$31,855,000
Product licensing	5,425,000	5,746,000	14,147,000	13,844,000
Restaurant operations	7,422,000	7,402,000	12,623,000	12,532,000
Corporate (b)	<u>697,000</u>	<u>772,000</u>	<u>1,179,000</u>	<u>1,267,000</u>
Total Revenues	<u>\$29,726,000</u>	<u>\$29,330,000</u>	<u>\$60,244,000</u>	<u>\$59,498,000</u>

Income from operations (c)

Branded product program	\$2,124,000	\$2,730,000	\$4,327,000	\$5,261,000
Product licensing	5,380,000	5,700,000	14,056,000	13,753,000
Restaurant operations	2,103,000	2,095,000	2,853,000	2,845,000
Corporate (d)	<u>(2,241,000)</u>	<u>(2,045,000)</u>	<u>(4,422,000)</u>	<u>(4,292,000)</u>
Income from operations (c)	<u>\$7,366,000</u>	<u>\$8,480,000</u>	<u>\$16,814,000</u>	<u>\$17,567,000</u>

- (a) Excludes interest expense, interest income, gain (loss) on disposal of property and equipment and other income, net.
- (b) Represents Advertising Fund revenue.
- (c) Excludes interest expense, interest income, gain (loss) on disposal of property and equipment and other income, net which are managed centrally at the corporate level, and, accordingly, such items are not presented by segment since they are excluded from the measure of profitability reviewed by the Chief Operating Decision Maker.
- (d) Consists principally of administrative expenses not allocated to the operating segments such as executive management, finance, information technology, legal, insurance, corporate office costs, incentive compensation, compliance costs and the operating results of the advertising fund.

Nathan's Famous, Inc. and Subsidiaries
Reconciliation of Net Income to EBITDA and Adjusted EBITDA

	<u>Thirteen weeks ended</u>		<u>Twenty-six weeks ended</u>	
	<u>Sept. 29, 2019</u>	<u>Sept. 23, 2018</u>	<u>Sept. 29, 2019</u>	<u>Sept. 23, 2018</u>
	(unaudited)		(unaudited)	
EBITDA				
Net Income	\$ 3,658,000	\$ 4,484,000	\$ 9,027,000	\$ 9,279,000
Interest Expense	2,651,000	2,651,000	5,301,000	5,301,000
Provision for income taxes	1,445,000	1,979,000	3,261,000	3,703,000
Depreciation and amortization	<u>337,000</u>	<u>339,000</u>	<u>647,000</u>	<u>684,000</u>
EBITDA	<u>\$ 8,091,000</u>	<u>\$ 9,453,000</u>	<u>\$ 18,236,000</u>	<u>\$ 18,967,000</u>
<u>Adjusted EBITDA</u>				
EBITDA	\$ 8,091,000	\$ 9,453,000	\$ 18,236,000	\$ 18,967,000
Loss (gain) on disposal of property & equipment	2,000	(323,000)	2,000	(323,000)
Share-based compensation	<u>30,000</u>	<u>23,000</u>	<u>58,000</u>	<u>104,000</u>
Adjusted EBITDA	<u>\$ 8,123,000</u>	<u>\$ 9,153,000</u>	<u>\$ 18,296,000</u>	<u>\$ 18,748,000</u>

Nathan's Famous, Inc. and Subsidiaries
Summary Balance Sheet Data

	<u>Sept. 29, 2019</u>	<u>March 31, 2019</u>
	<u>Unaudited</u>	
Assets		
Current assets	\$ 92,851,000	\$ 87,161,000
Property and equipment, net of accumulated depreciation	4,450,000	4,889,000
Operating lease assets	7,520,000	-
Intangible assets, net	1,420,000	1,448,000
Deferred income taxes	359,000	343,000
Other assets	<u>460,000</u>	<u>465,000</u>
Total assets	<u>\$107,060,000</u>	<u>\$ 94,306,000</u>
Liabilities and Stockholders' (Deficit)		
Current liabilities	\$ 13,973,000	\$ 14,924,000
Long-term debt, net of unamortized debt issuance costs	145,795,000	145,449,000
Long-term operating lease liabilities	7,251,000	-
Other liabilities	773,000	1,390,000
Deferred franchise fees	2,215,000	2,687,000
Stockholders' (deficit)	<u>(62,947,000)</u>	<u>(70,144,000)</u>
Total liabilities and stockholders' (deficit)	<u>\$ 107,060,000</u>	<u>\$ 94,306,000</u>

