

Meritage Hospitality Group Inc.

**Consolidated Financial Report
March 30, 2025 and March 31, 2024**

Meritage Hospitality Group Inc.

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Meritage Hospitality Group Inc.

Consolidated Balance Sheets (in thousands)		
	(unaudited) March 30, 2025	December 29, 2024
Assets		
Current Assets		
Cash	\$ 22,985	\$ 20,849
Receivables	4,119	4,111
Inventories	4,590	5,304
Prepaid expenses and other current assets	8,533	6,702
Total Current Assets	40,227	36,966
Property and Equipment - Net	148,288	156,534
Goodwill	205,239	205,239
Intangible Assets - Net	7,472	7,391
Operating Lease Right-of-Use Assets - Net	391,933	388,748
Other Assets	13,812	15,287
Total Assets *	\$ 806,971	\$ 810,165
Liabilities and Equity		
Current Liabilities		
Trade accounts payable	\$ 24,984	\$ 26,878
Lines of credit	34,755	37,181
Current portion of long-term debt	21,643	21,523
Current portion of operating lease obligations payable	27,780	27,175
Accrued liabilities	23,762	23,853
Total Current Liabilities	132,924	136,610
Unearned Vendor Allowances	10,703	2,226
Operating Lease Obligations Payable - Net of current portion	370,274	367,647
Other Long-term Liabilities	14,098	14,283
Long-term Debt - Net of current portion and financing costs	140,938	145,005
Deferred Income Taxes	14,653	15,580
Total Liabilities *	\$ 683,590	\$ 681,351
Equity	123,381	128,814
Total Liabilities and Equity	\$ 806,971	\$ 810,165

See notes to consolidated financial statements.

* Total assets of the Variable Interest Entity were \$26,398 and \$26,586 as of March 30, 2025 and December 29, 2024, respectively. Total liabilities were \$23,213 and \$23,333 as of March 30, 2025 and December 29, 2024, respectively. See Note 4 for balance sheet information about the Variable Interest Entity.

Meritage Hospitality Group Inc.

Consolidated Statements of Operations and Comprehensive (Loss) Income

(in thousands, except per share data)

	Three Months Ended (unaudited)	
	March 30, 2025	March 31, 2024
Food and Beverage Revenue	\$ 154,530	\$ 162,850
Expenses		
Food and beverage	40,980	41,836
Labor and related	53,054	52,626
Occupancy	22,728	22,864
Advertising	6,211	6,535
Franchise fees	5,969	6,244
Other operating	16,063	15,712
Total Operating Expenses	145,005	145,817
General and administrative	7,417	7,783
Preopening, acquisition and closing	1,117	621
Depreciation and amortization	4,665	4,777
Total Expenses	158,204	158,998
(Loss) Income from Operations	(3,674)	3,852
Other Expense (Income)		
Interest	2,982	3,293
Other - Net	(884)	(942)
Total Other Expense	2,098	2,351
(Loss) Income Before Income Taxes	(5,772)	1,501
Income Tax Benefit	(1,475)	(80)
Net (Loss) Income	<u><u>\$ (4,297)</u></u>	<u><u>\$ 1,581</u></u>
Net (Loss) Income Attributable to Noncontrolling Interest in Variable Interest Entity	(42)	267
Net (Loss) Income Attributable to Controlling Interest	<u><u>\$ (4,255)</u></u>	<u><u>\$ 1,314</u></u>
Other Comprehensive (Loss) Income - Net of Tax		
Change in interest rate swap valuation	(1,072)	422
Comprehensive (Loss) Income	<u><u>\$ (5,327)</u></u>	<u><u>\$ 1,736</u></u>
Earnings per share		
Basic	\$ (0.73)	\$ 0.11
Diluted	\$ (0.73)	\$ 0.11
Basic Weighted Average Shares Outstanding	6,650	6,551
Diluted Weighted Average Shares Outstanding	6,701	8,241

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.
Consolidated Statements of Equity
(in thousands)

	Convertible Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest	Total
Balance - December 31, 2023	<u>\$ 15</u>	<u>\$ 65</u>	<u>\$ 33,577</u>	<u>\$ 6,342</u>	<u>\$ 81,144</u>	<u>\$ 897</u>	<u>\$ 122,040</u>
Net income	-	-	-	-	7,801	218	8,019
Issuance of common stock	-	1	121	-	-	-	122
Repurchase of common stock	-	-	(319)	-	-	-	(319)
Common stock dividends	-	-	-	-	(396)	-	(396)
Preferred stock dividends	-	-	-	-	(1,898)	-	(1,898)
Interest rate swap - net of tax	-	-	-	(1,307)	-	-	(1,307)
Company-owned stock	-	-	1,331	-	-	-	1,331
Stock option expense	-	-	1,196	-	-	-	1,196
Contributions	-	-	-	-	-	26	26
Balance - December 29, 2024	<u>\$ 15</u>	<u>\$ 66</u>	<u>\$ 35,906</u>	<u>\$ 5,035</u>	<u>\$ 86,651</u>	<u>\$ 1,141</u>	<u>\$ 128,814</u>
Net loss	-	-	-	-	(4,255)	(42)	(4,297)
Issuance of common stock	-	-	24	-	-	-	24
Preferred stock dividends	-	-	-	-	(475)	-	(475)
Interest rate swap - net of tax	-	-	-	(1,072)	-	-	(1,072)
Company-owned stock	-	-	181	-	-	-	181
Stock option expense	-	-	324	-	-	-	324
Distributions	-	-	-	-	-	(118)	(118)
Balance - March 30, 2025 (unaudited)	<u>\$ 15</u>	<u>\$ 66</u>	<u>\$ 36,435</u>	<u>\$ 3,963</u>	<u>\$ 81,921</u>	<u>\$ 981</u>	<u>\$ 123,381</u>

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Consolidated Statements of Cash Flows (in thousands)

	Three Months Ended (unaudited)	
	March 30, 2025	March 31, 2024
Cash Flows from Operating Activities		
Net (loss) income	\$ (4,297)	\$ 1,581
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	4,665	4,777
Amortization of financing costs	177	164
Deferred income taxes	(642)	(277)
Loss on disposal of fixed assets	209	33
(Gain) loss on sale and leaseback transactions (Note 3)	(953)	1,457
Change in company-owned stock	181	(285)
Stock option expense	324	343
Gain on loan forgiveness	-	(286)
Changes in operating assets and liabilities which provided (used) cash, net of acquisitions:		
Receivables	(8)	(2,425)
Inventories	714	581
Prepaid expenses and other current assets	(1,831)	(267)
Other assets	116	(408)
Trade accounts payable	(3,525)	(6,762)
Accrued liabilities	(44)	(1,493)
Unearned vendor allowances	8,477	6,967
Other long-term liabilities	(185)	749
Net cash provided by operating activities	<u>3,378</u>	<u>4,449</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(6,320)	(4,582)
Purchase of intangible assets	(240)	(40)
Proceeds from sale of asset	<u>2,635</u>	<u>713</u>
Net cash used in investing activities	<u>(3,925)</u>	<u>(3,909)</u>

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Consolidated Statements of Cash Flows (in thousands)

	Three Months Ended (unaudited)	
	March 30, 2025	March 31, 2024
Cash Flows from Financing Activities		
Principal payments on long-term debt	(4,124)	(5,914)
Proceeds from lines of credit	8,747	7,814
Payments on lines of credit	(3,299)	(382)
Proceeds from sale and leaseback transactions (Note 3)	9,802	4,430
Payments on lines of credit related to sale and leaseback transactions (Note 3)	(7,874)	(4,926)
Repurchase of common stock	-	(286)
Proceeds from issuance of common stock	24	44
Preferred stock dividends paid	(475)	(475)
Contributions from noncontrolling interest	-	26
Distributions to noncontrolling interest	(118)	-
Net cash provided by financing activities	2,683	331
Net Increase in Cash	2,136	871
Cash - Beginning of period	20,849	19,434
Cash - End of period	<u>\$ 22,985</u>	<u>\$ 20,305</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for:		
Interest	\$ 2,785	\$ 3,153
Income taxes	\$ 16	\$ 52
Significant non-cash investing and financing activities:		
Non-cash purchases of property	\$ 1,631	\$ 693
Change in fair value of swap - net of tax	\$ (1,072)	\$ 422

See notes to consolidated financial statements.

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

Note 1 – Nature of Business and Consolidation

Meritage Hospitality Group Inc., Subsidiaries and Affiliate, hereafter referred to as the “Company”, conducts its business in the quick-service and casual dining restaurant industries across 15 states. As of March 30, 2025, the Company operated 376 Wendy’s quick-service restaurants under franchise agreements with its franchisor, Quality Is Our Recipe, LLC, hereafter referred to as “The Wendy’s Company” or “Wendy’s,” and five independent concept restaurants.

The Company operated seven Taco John’s quick-service restaurants under franchise agreements with franchisor, Taco John’s International, Inc., hereafter referred to as “Taco John’s”, until September 2024 when the Company permanently closed its locations and exited the franchise system effective November 2024 when all development and franchise agreements with Taco John’s were terminated.

The consolidated financial statements and related disclosures include evaluation of events up through and including May 13, 2025, the date the consolidated financial statements were issued.

Principles of Consolidation - The consolidated financial statements include the accounts of Meritage Hospitality Group Inc., its wholly owned subsidiaries, and its affiliate variable interest entity (“VIE”), Restaurant Holdings, LLC (“Restaurant Holdings”), for which the Company is the primary beneficiary. The VIE is consolidated because the Company has the power to direct activities that impact the VIE’s economic performance, as well as the right to receive benefits or the obligation to absorb losses from the VIE.

Earnings from Restaurant Holdings are reported as a noncontrolling interest in the accompanying consolidated statements of operations. All intercompany transactions and balances between the Company, its subsidiaries and Restaurant Holdings have been eliminated in consolidation.

Fiscal Period – The Company operates on a 52/53-week fiscal year ending on the Sunday closest to December 31 of each year. The three-month periods ended March 30, 2025 and March 31, 2024 both include 13 weeks.

Note 2 - Leases

The Company has operating lease agreements for unowned restaurants, the corporate office, and certain equipment. Land and building leases used in operations have remaining lease terms ranging from one to 20 years, some of which include options to renew for up to 50 years.

On the consolidated balance sheets, operating leases are included in operating lease right-of-use (“ROU”) assets, operating lease obligations payable, and current portion of operating lease obligations payable.

Upon commencement date, operating lease ROU assets and operating lease liabilities are recognized based on the present value of future minimum lease payments over the

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

lease term. The Company's lease terms may include options to extend or terminate the lease. The present value of future minimum lease payments includes these options only when it is reasonably certain such options will be exercised.

The Company's leases do not provide an implicit rate. In determining present value of future minimum lease payments, the Company utilized an incremental borrowing rate congruent with its primary lending agreement, which is the rate for a fully collateralized, amortizing loan with the same term as the lease. The weighted average effective discount rates were 5.2% and 5.0% as of March 30, 2025 and March 31, 2024, respectively.

Base rent expense includes non-lease components such as taxes, insurance, and maintenance when required under the lease agreements and is classified as occupancy expense in the consolidated statements of operations. The Company elected the practical expedient to not separate non-lease components from the lease components to which they relate. For certain equipment leases, the Company applies a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Variable rent expense components are expensed as incurred and represent rent escalators of which the majority are contingent upon changes in the Consumer Price Index. Variable rent expense also includes percentage rentals which represent additional rent due under certain leases for which the Company is required to pay a percentage of sales in excess of minimum prescribed amounts.

Rent expense from operating leases was recognized as follows:

	Three Months Ended	
	March 30, 2025	March 31, 2024
Operating lease costs:		
Fixed base lease expense - real estate	\$ 11,286	\$ 11,332
Fixed base lease expense - equipment	548	537
Variable lease expense	405	369
Total	<u>\$ 12,239</u>	<u>\$ 12,238</u>

Supplemental cash flow information related to operating leases was as follows:

	Three Months Ended	
	March 30, 2025	March 31, 2024
Cash paid for amounts included in the measurement of lease liabilities	\$ 11,795	\$ 11,799
Right-of-use assets obtained in exchange for lease obligations	\$ 13,108	\$ 3,159

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

There were no significant changes to future payments due under operating leases as of March 30, 2025 when compared to December 29, 2024, and the weighted-average remaining lease terms for operating leases were approximately 14 years as of both March 30, 2025 and March 31, 2024, respectively.

Note 3 – Sale and Leasebacks

The Company completed four sale and leaseback transactions for the three months ended March 30, 2025, and two sale and leaseback transactions for the three months ended March 31, 2024. Through these transactions, the Company netted proceeds of \$9,802 and \$4,430, paid down indebtedness of \$7,874 and \$4,926, and recorded a net gain of \$953 and a net loss of \$1,457 for the three months ended March 30, 2025 and March 31, 2024, respectively. Resulting gains and losses were recorded in other income on the consolidated statements of operations.

Note 4 – Information About Variable Interest Entity

Restaurant Holdings was formed to provide a source of capital to fund and facilitate real estate transactions where the Company has potential economic benefits in future sale and leaseback transactions. Upon acquisition of real estate, Restaurant Holdings leases such real estate to the Company and utilizes rent revenue to pay the interest expense on its bank debt. This variable interest entity ("VIE") is owned by related parties and not directly by the Company.

Restaurant Holdings leverages a revolving credit facility with a bank other than the Company's senior lender that allows for borrowings up to \$35,000 less the outstanding balance on the entity's term note payable of \$1,813. The facility is secured by its interest in the associated real estate, personal guarantees of owners, and a commercial guarantee of the Company for certain properties through December 31, 2025.

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

Included in the consolidated balance sheets as of March 30, 2025 and December 29, 2024 are the following amounts related to Restaurant Holdings, before eliminating entries:

	(unaudited) March 30, 2025	December 29, 2024
Assets:		
Current assets	\$ 1,033	\$ 1,296
Property and equipment - net	19,281	19,206
Other assets	798	798
Investment in MHGI preferred stock	5,000	5,000
Investment in MHGI common stock	286	286
Total Assets	<u>\$ 26,398</u>	<u>\$ 26,586</u>
Liabilities:		
Current liabilities	\$ 5,144	\$ 5,165
Current portion of long-term debt	1,813	1,875
Revolving line of credit	15,655	15,692
Long-term debt	601	601
Total Liabilities	<u>23,213</u>	<u>23,333</u>
Equity - Noncontrolling interest	<u>3,185</u>	<u>3,253</u>
Total Liabilities and Equity	<u>\$ 26,398</u>	<u>\$ 26,586</u>

Note 5 - Commitments and Contingencies

The Company is involved in certain legal proceedings which the Company believes will be incidental to its business. Any potential liability of the Company with respect to these legal actions or an individual claim, in the aggregate, is not expected to be material to the consolidated financial statements. The Company maintains various types of insurance standard to the industry that would cover most liabilities incurred by actions brought against the Company.

As part of the Company's ongoing franchise relationship with The Wendy's Company, the Company entered into agreements which contain certain restaurant reimagining and development requirements, as well as agreed-upon improvements to acquired facilities. Through these agreements, the Company committed to develop 52 new restaurants by November 30, 2025 and to reimage 100% of its portfolio by December 31, 2028. Pursuant to these agreements, the Company is entitled to receive significant economic incentives which include discounted royalty and national marketing fees. As of March 30, 2025, the Company has reimaged approximately 75% of its portfolio and has completed 42 of the new restaurant development commitments. Based on current costs, the Company estimates it will invest approximately \$104,000 to fulfill the remaining commitments.

Meritage Hospitality Group Inc.

Notes to Consolidated Financial Statements (unaudited) (in thousands, except share data)

Note 6 - Equity

The Company has 5,000,000 authorized shares of \$0.01 par value preferred stock. As of March 30, 2025 and December 29, 2024, preferred stock was designated as follows:

	March 30, 2025	December 29, 2024
Preferred B:		
Authorized:	1,350,000	1,350,000
Outstanding:	805,400	805,400
Treasury:	3,467	3,467
Preferred C:		
Authorized:	200,000	200,000
Outstanding:	160,360	160,360
Preferred D:		
Authorized:	600,000	600,000
Outstanding:	310,293	310,293
Preferred E:		
Authorized:	800,000	800,000
Outstanding:	128,744	128,744
Preferred F:		
Authorized:	1,000,000	1,000,000
Outstanding:	130,606	130,606

The Company's preferred stock ranks senior to the Company's common stock with respect to payment of dividends and distributions upon liquidation or dissolution.

The Company has 30,000,000 authorized shares of \$0.01 par value common stock, with 6,637,640 and 6,627,989 shares issued and outstanding as of March 30, 2025 and December 29, 2024, respectively. There were 605,250 treasury shares as of March 30, 2025 and December 29, 2024. The common shares of the Company are quoted on the OTC Markets under the symbol "MHGU."

Meritage Hospitality Group Inc.

Incorporated in Michigan
45 Ottawa Ave SW, Suite 600
Grand Rapids, MI 49503

Telephone: 616.776.2600
Corporate Website: www.meritagehospitality.com
Company Email: rschermer@mhgi.net

SIC Code: 5812

Quarterly Report

For the period ending March 30, 2025
(the "Reporting Period")

The number of shares outstanding of our Common Stock is 6,637,640 as of March 30, 2025.

The number of shares outstanding of our Common Stock was 6,627,989 as of December 29, 2024.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a Change in Control⁴ of the company has occurred over this reporting period:

Yes: ☐ No: ☒

⁴ "Change in Control" shall mean any events resulting in:

(i) Any "person" (as such term is used in Sections 13(d) and 14(d) of the Exchange Act) becoming the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the total voting power represented by the Company's then outstanding voting securities;

(ii) The consummation of the sale or disposition by the Company of all or substantially all of the Company's assets;

(iii) A change in the composition of the Board occurring within a two (2)-year period, as a result of which fewer than a majority of the directors are directors immediately prior to such change; or

(iv) The consummation of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or its parent) at least fifty percent (50%) of the total voting power represented by the voting securities of the Company or such surviving entity or its parent outstanding immediately after such merger or consolidation.

Item 1 Exact name of the issuer and the address of its principal executive offices.

Name of the Company or Issuer:

Meritage Hospitality Group Inc. (the “Company” or “Meritage”).

Address of Principal Office:

45 Ottawa Ave SW, Suite 600

Grand Rapids, MI 49503

Telephone: 616.776.2600

Facsimile: 616.328.6925

Web: www.meritagehospitality.com

Item 2 Shares outstanding.

<u>Common Shares</u>	<u>03/30/25</u>	<u>12/29/24</u>	<u>12/31/23</u>
Authorized:	30,000,000 shares	30,000,000 shares	30,000,000 shares
Outstanding:	6,637,640 shares	6,627,989 shares	6,517,965 shares
Freely Tradable (public float):	approx. 3,000,000 shs.	approx. 3,000,000 shs.	approx. 3,000,000 shs.
Number of beneficial holders owning at least 100 shares:	approx. 620	approx. 625	approx. 655
Number of record holders:	approx. 59	approx. 60	approx. 56
 <u>Preferred B</u>			
Authorized:	1,350,000 shares	1,350,000 shares	1,350,000 shares
Outstanding:	805,400 shares	805,400 shares	805,400 shares
Freely Tradable (public float):	300,000 shares	300,000 shares	300,000 shares
Number of record holders:	17 holders	18 holders	18 holders
 <u>Preferred C</u>			
Authorized:	200,000 shares	200,000 shares	200,000 shares
Outstanding:	160,360 shares	160,360 shares	160,360 shares
Number of record holders:	7 holders	7 holders	7 holders
 <u>Preferred D</u>			
Authorized:	600,000 shares	600,000 shares	600,000 shares
Outstanding:	310,293 shares	310,293 shares	310,293 shares
Number of record holders:	24 holders	24 holders	24 holders
 <u>Preferred E</u>			
Authorized:	800,000 shares	800,000 shares	800,000 shares
Outstanding:	128,744 shares	128,744 shares	128,744 shares
Number of record holders:	13 holders	13 holders	13 holders
 <u>Preferred F</u>			
Authorized:	1,000,000 shares	1,000,000 shares	1,000,000 shares
Outstanding:	130,606 shares	130,606 shares	130,606 shares
Number of record holders:	7 holders	7 holders	7 holders

Item 3 Interim financial statements.

See the unaudited consolidated financial report for the quarter ended March 30, 2025 attached to this report. The unaudited consolidated financial statements include the following reports:

- (1) balance sheets;
- (2) statements of operations and comprehensive (loss) income;
- (3) statements of equity;
- (4) statements of cash flows; and
- (5) notes to consolidated financial statements.

Item 4 Management's discussion and analysis or plan of operation.

Overview

Meritage operated a total of 381 quick-service and casual dining restaurants as of March 30, 2025. The Company has experienced significant growth through acquisitions, newly built locations, reimagining campaigns, and investment in independent concept restaurants.

As of March 30, 2025, the Company operated 376 Wendy's quick-service restaurants under franchise agreements with The Wendy's Company. Of the Wendy's restaurants, eight are located in Arkansas, 32 in Connecticut, 58 in Florida, 50 in Georgia, 13 in Indiana, 13 in Massachusetts, 58 in Michigan, eight in Mississippi, four in Missouri, 22 in North Carolina, 15 in Ohio, 29 in Oklahoma, 34 in Tennessee, 17 in Texas, and 15 in Virginia.

The Company has committed significant capital resources to the Wendy's brand initiatives, including a commitment to build 52 new restaurants by November 30, 2025 under a development agreement with Wendy's. As of March 30, 2025, the Company has completed 42 of the new restaurant commitments. Additionally, since 2009, the Company has acquired 295 Wendy's restaurants through 28 separate transactions making it one of the largest franchisees in the Wendy's system. The Company continues to evaluate acquisition, development, and other growth opportunities in the restaurant industry.

The Company additionally operated five independent restaurants under its three concepts, Morning Belle, Stan's Tacos, and Blue Porch Bar & Grill. All five restaurants are located in Michigan. Subsequent to the first quarter of 2025, the Company closed its Stan's Tacos restaurant and is rebranding the location to a Morning Belle. The newly rebranded location is expected to open in the second quarter of 2025.

The Company operated seven Taco John's quick-service restaurants under franchise agreements with Taco John's International, Inc. until September 2024 when the Company closed all seven of its locations and exited the Taco John's system. Effective November 2024, all development and franchise agreements with Taco John's were terminated.

A schedule of Company restaurants is as follows:

	<u>Wendy's</u>	<u>Taco John's</u>	<u>Independent Concepts</u>	<u>Total Restaurants</u>
Restaurants as of December 31, 2023	376	6	6	388
Newly opened restaurants	5	1	-	6
Closed restaurants	(4)	(7)	(1)	(12)
Sold restaurants	(3)	-	-	(3)
Restaurants as of December 29, 2024	374	-	5	379
Newly opened restaurants	3	-	-	3
Closed restaurants	(1)	-	-	(1)
Restaurants as of March 30, 2025	376	-	5	381

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Results of Operations

Results of operations are summarized as follows:

	Three Months Ended (in thousands)			
	03/30/25		03/31/24	
Food and Beverage Revenue	\$ 154,530	100.0%	\$ 162,850	100.0%
Expenses				
Food and beverage	40,980	26.5%	41,836	25.7%
Labor and related	53,054	34.3%	52,626	32.3%
Occupancy	22,728	14.7%	22,864	14.0%
Advertising	6,211	4.0%	6,535	4.0%
Franchise fees	5,969	3.9%	6,244	3.8%
Other operating	16,063	10.4%	15,712	9.6%
Total Operating Expenses	145,005	93.8%	145,817	89.4%
General and administrative	7,417	4.8%	7,783	4.8%
Preopening, acquisition and closing	1,117	0.7%	621	0.4%
Depreciation and amortization	4,665	3.0%	4,777	2.9%
Total Expenses	158,204	102.3%	158,998	97.5%
(Loss) Income from Operations	(3,674)	(2.3%)	3,852	2.5%
Other Expense (Income)				
Interest	2,982	1.9%	3,293	2.0%
Other - Net	(884)	(0.6%)	(942)	(0.6%)
Total Other Expense	2,098	1.3%	2,351	1.4%
(Loss) Income Before Income Taxes	(5,772)	(3.6%)	1,501	1.1%
Income Tax Benefit	(1,475)	(1.0%)	(80)	0.0%
Net (Loss) Income	\$ (4,297)	(2.6%)	\$ 1,581	1.1%
Net (Loss) Income Attributable to Noncontrolling				
Interest in Variable Interest Entity	(42)	(0.0%)	267	0.2%
Net (Loss) Income Attributable to Controlling Interest	\$ (4,255)	(2.6%)	\$ 1,314	0.9%
Other Comprehensive (Loss) Income - Net of Tax				
Change in interest rate swap valuation	(1,072)	(0.7%)	422	0.3%
Comprehensive (Loss) Income	\$ (5,327)	(3.3%)	\$ 1,736	1.2%

Food and Beverage Revenue

The Company reported revenue of \$154.5 million for the three months ended March 30, 2025, representing a decrease of 5.1% over prior year's sales of \$162.9 million for the three months ended March 31, 2024. Total Company "same store sales" (i.e., food and beverage revenue for stores in full operation on a per period basis for both fiscal years) decreased 4.6% for the three months ended March 30, 2025, when compared to the same period in the prior year.

The Company's Wendy's restaurants reported sales of \$152.9 million for the three months ended March 30, 2025, a decrease of 4.6% over the prior year's sales of \$160.3 million for the three months ended March 31, 2024. The Company's Wendy's restaurants experienced a "same store sales" decrease of 4.7% for the three months ended March 30, 2025 when compared to the same period in the prior year. The decrease in "same store sales" primarily represents the impact of adverse weather conditions across all the Company's markets in the first quarter of 2025, as well as a general decline in transactions, reflecting weaker consumer sentiment throughout the Wendy's system and QSR industry.

The Company's independent concept restaurants reported sales of \$1.6 million for the three months ended March 30, 2025, representing an increase of 47.8% from prior year sales of \$1.1 million for the three months ended March 31, 2024. Independent concept restaurants experienced a "same store sales" increase of 15.2% for the three months ended March 30, 2025 when compared to the same period in the prior year.

In September 2024, the Company closed all seven of its Taco John's locations. The Company exited the franchise system effective November 2024, when all development and franchise agreements with Taco John's were terminated. The Company's Taco John's restaurants reported sales of \$1.5 million for the three months ended March 31, 2024.

Cost of Food and Beverage

As a percent of revenue, the cost of food and beverage increased to 26.5% for the three months ended March 30, 2025 from 25.7% for the three months ended March 31, 2024. The increase in food cost as a percent of revenue represents the impact of decreased margin from price adjustments associated with certain Wendy's national promotions.

Labor and Related Expenses

Labor and related expenses increased to 34.3% of revenue for the three months ended March 30, 2025 from 32.3% of revenue for the three months ended March 31, 2024. The increase primarily represents the impact of adverse weather and maintaining minimum staffing levels during periods of reduced transactions.

Occupancy Expenses

Occupancy expenses increased to 14.7% of revenue for the three months ended March 30, 2025 from 14.0% of revenue for the three months ended March 31, 2024. The increase as a percent of sales reflects the impact of certain fixed costs, such as rent and property taxes, on reduced sales when compared to the prior year.

Other Operating Expenses

Other operating expenses increased to 10.4% of revenue for the three months ended March 30, 2025 from 9.6% of revenue for the three months ended March 31, 2024. The increase primarily represents the negative impact of coupons associated with certain Wendy's national promotions, such as "\$3 Son of a Baconator", and various digital based promotions.

General and Administrative Expenses

General and administrative expenses as a percent of revenue remained consistent when compared to the prior year.

Preopening, Acquisition and Closing Expenses

Preopening and acquisition expenses generally represent costs associated with opening new locations, concepts, or product lines in addition to restaurant reimagining and acquisitions.

Closing expenses generally represent actual and estimated costs related to the closure of a small number of under-performing restaurants which are subject to standard approvals by the franchisor, the Wendy's Company. These strategic closures are expected to be ongoing in a continued effort to position the Company's portfolio for stronger earnings growth going forward. Closing expenses in the current year also include disposition costs related to the permanent closure of the Company's seven Taco John's locations. The Company anticipates any ongoing disposition costs incurred to be immaterial.

Depreciation and Amortization

Depreciation and amortization as a percent of revenue remained similar when compared to the prior year.

Interest Expense

The decrease in interest expense reflects the impact of a decline in the Company's effective interest rate on its variable debt over the prior year, as well as the favorable impact of the Company's current swap agreements, which were entered into to proactively mitigate the financial impact of interest rate fluctuations.

Other Income

Other income generally represents the gain or loss on real estate transactions completed throughout the year as well as stock option expense. The Company's current year real estate transactions resulted in improved profitability when compared to the prior year. This improvement was diluted by rebate income included in and exclusive to the prior year.

Income Tax (Benefit) Expense

Income tax (benefit) expense is summarized as follows:

	Three Months Ended (in thousands)	
	03/30/25	03/31/24
Federal income tax (benefit) expense	\$ (779)	\$ 126
State and local income tax (benefit) expense	(54)	71
Change in deferred income taxes	(642)	(277)
Income tax (benefit)	<u>\$ (1,475)</u>	<u>\$ (80)</u>

Financial Condition

While recent trends exhibit a general decline in transactions across the QSR industry as consumers grapple with economic uncertainty, management believes this current cycle will improve over time. The Company is encouraged by Wendy's current strategic operating plan which includes a focus on marketing, menu innovation and collaborations estimated to drive revenue and consumer traffic in the second half of the year. Loan covenants of the Company's various loan agreements include requirements for the maintenance of certain financial ratios. As of the date of this report, the Company was in compliance with these covenants.

Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements as of March 30, 2025.

Item 5 Legal proceedings.

The Company is involved in certain legal proceedings which the Company believes will be incidental to its business. Any potential liabilities of the Company with respect to these legal actions or an individual claim, in the aggregate, are not expected to be material to the consolidated financial statements. The Company maintains various types of insurance standard to the industry that would cover most liabilities incurred by actions brought against the Company.

Item 6 Defaults upon senior securities.

None.

Item 7 Other information.

None.

Item 8 Exhibits.

None.

Item 9 Certifications.

I, Robert E. Schermer, Jr., Chief Executive Officer, certify that:

1. I have reviewed this quarterly disclosure statement of Meritage Hospitality Group Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 13, 2025



Robert E. Schermer, Jr.
Chief Executive Officer

I, Tracey A. Smith, Chief Financial Officer, certify that:

1. I have reviewed this quarterly disclosure statement of Meritage Hospitality Group Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 13, 2025



Tracey A. Smith
Chief Financial Officer

FORWARD-LOOKING STATEMENTS

Certain statements contained in the reports we submit to the OTC, including this report, that are not historical facts constitute forward-looking statements. These statements may be identified by words such as “estimates,” “anticipates,” “hopes,” “projects,” “plans,” “expects,” “believes,” “should,” “would,” and similar expressions (including the negative versions), and by the context in which they are used. Such statements are based only upon Meritage’s current expectations. Any forward-looking statement speaks only as of the date made. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors which may cause actual results, performance, or achievements to differ materially from those expressed or implied. Meritage undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which they are made.

Statements concerning expected financial performance, business strategies and actions which Meritage intends to pursue to achieve its strategic objectives, constitute forward-looking statements. Implementation of strategies and achievement of financial performance are subject to numerous conditions, uncertainties, and risk factors, which could cause actual performance to differ materially from the forward-looking statements. These include, without limitation: competition; changes in the national or local economy; trends involving a general decline in transactions across the QSR industry; changes in consumer preferences, tastes and eating habits; concerns about the nutritional quality of our restaurant menu items; concerns about the nutritional quality of our restaurant menu items; economic recessions, disruptions to or reductions in business operations, liquidity, prospects or supply chains due to pandemics, epidemics, widespread health emergencies, or outbreaks of infectious diseases, its variants and developments related to these types of events; concerns about the consumption of beef or other menu items due to diseases or other food safety issues, including, without limitation, E. coli bacteria; promotions and price discounting by competitors; atypical or severe weather and natural disasters including, without limitation, tropical storms, hurricanes, or tornadoes; changes in travel patterns; road construction; demographic trends; failure to manage social media trends; inflation, including related increases in the cost of food, labor and energy; supply chain interruptions; the availability and cost of suitable restaurant sites; the ability to finance expansion; interest rates; insurance costs; the availability of adequate managers and hourly-paid employees; risks associated with leasing real property; directives issued by the franchisor regarding operations, menu pricing, advertised pricing, national marketing, advertising, digital programs, and capital commitments; the general reputation of Meritage’s and its franchisors’ restaurants; the relationships between Meritage and its franchisors; legal claims and proceedings, including claims that may result in judgments against the Company requiring the payment of damages or other financial obligations; security, including cyber security and information technology security; credit card fraud; Meritage’s ability to consummate acquisitions or, if consummated, to successfully integrate acquired businesses into Meritage’s operations; Meritage’s execution of growth initiatives; the recurring need for restaurant renovation and capital improvements; government regulations relating to, among other things, zoning, public health, sanitation, alcoholic beverage control, environment, food preparation, minimum and overtime wages and tips, employment of minors, citizenship requirements, working conditions, other labor and employment matters, and the operation of its restaurants; economic changes in the state and local economies where our restaurants are located including, without limitation, Arkansas, Connecticut, Florida, Georgia, Indiana, Massachusetts, Michigan, Mississippi, Missouri, North Carolina, Ohio, Oklahoma, Tennessee, Texas and Virginia.