Company Note

Interims

30 July 2020

Corporate

Current price	92.5p
Sector	General Retailers
Code	FRAN.L
AIM	AIM

Share Performance

	1m	3m	12m
FRAN.L	-11%	-11%	+9%

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m)		88.5
Shares in issue (m)		95.7
52 weeks	High	Low
	151.5p	81.0p
Financial year end		December

Source: Company Data, Allenby Capital

Key Shareholders

Nigel Wray (NED)	23.37%
Stephen Hemsley (Chair)	23.14%
Cannacord Genuity	7.03%
David Poutney (NED)	3.81%
Gresham House AM	3.50%
BGF IM	2.89%

Source: Company Data, Allenby Capital

Ian Jermin

0203 328 5664

i.jermin@allenbycapital.com

www.allenbycapital.com

Franchise Brands plc (FRAN.L)

Forecasts reintroduced following resilient H1

Franchise Brands' results for the half year paint a picture of a resilient performance against the headwinds and challenges provided by the COVID-19 pandemic. With most of the Group's largest businesses deemed to be essential services, management was able to limit the Group revenue reduction to just 10% before the addition of a maiden contribution from Willow Pumps. Tight cost controls also mitigated the impact and the Group's overall performance in testing conditions is a testament to the strength of management and the investments made in the businesses over the past two years A strengthened balance sheet courtesy of the April fundraise puts Franchise Brands in a strong position to grow organically and through complementary earnings enhancing acquisitions.

- **Group revenues increased by 21% to £24.2m** with fees and direct labour income (the key KPI) increasing by 39% to £14.7m while the gross margin improved from 37.1% to 39.6%. Adjusted EBITDA was £2.8m (2018: £2.5m) and adjusted basic EPS decreased from 2.07p to 1.84p reflecting the increase in the number of shares in issue. Following a successful £14m (gross) fund raise in April, adjusted net cash stood at £4.2m against adjusted net debt of £9.2m at the end of December 2019.

- **After a strong start to the year**, trading progressively became impacted by COVI-19. Management moved quickly to right-size the business furloughing 118 of its 290 employees in April while other cost saving initiatives helped to protect the bottom line. Metro Rod and Willow Pumps were deemed to be delivering essential services and continued trading, albeit at much lower levels, while the B2C activities, after a good Q1, effectively closed in Q2.

- **Recovery is now underway** as the lockdown has eased and currently, Metro Rod and Willow are both trading at activity levels close to those achieved in 2019 and we anticipate this improving trend continuing through H2. In the B2C division, ChipsAway and Ovenclean resumed trading in June with a particularly strong recovery at ChipsAway.

- **Forecasts have been reintroduced** after the April withdrawal and although we are anticipating stronger trading through the remainder of H2, the Group will not catch up the trading lost in Q2. Effectively the business is three to four months behind where it should have been at this stage and hence our forecasts for FY 2020 and 2021 have been revised to levels commensurate with this temporary slowdown. Nevertheless, management, strategy and systems are unchanged and we look forward to a resumption of growth from here, both organically and where appropriate, through complementary earnings enhancing acquisitions.

Year End: December				
£m	**2018A**	**2019A**	**2020E**	**2021E**
REVENUE	35.5	44.0	50.0	57.6
ADJUSTED EBITDA	4.0	5.2	6.2	7.7
ADJUSTED PBT	3.2	4.1	4.4	5.8
ADJUSTED EPS (p)	3.4	4.3	3.9	4.8
DIVIDEND (p)	0.67	0.95	0.95	1.40
ADJ NET (DEBT)/CASH	-5.0	-9.2	2.5	6.4
PER (x)	37.3	28.9	23.1	18.8

Source: Franchise Brands plc, Allenby Capital

Please refer to the last page of this communication for all required disclosures and risk warnings.

Operational Review

B2B division

The B2B division comprises the franchise operations of Metro Rod and Metro Plumb, together with the DLO activities of Willow Pumps and Kemac, providing a "Water In. Waste Out" range of national drainage, plumbing and pumps services.

The majority of activities in the division were designated by the government as essential to ensure the smooth running of the health service, public utilities and other key businesses during the lockdown. As most of the work is reactive, there has been continuing demand, and the businesses have continued to operate effectively, albeit at considerably lower volumes.

B2B Franchise activities

Metro Rod
Metro Rod is a leading provider of commercial drain clearance and maintenance services delivered on a largely reactive basis. These services are provided from 43 franchise territories with geographical coverage across the whole of the UK. The business was acquired by Franchise Brands in April 2017.

The year for Metro Rod started very encouragingly with system sales in the first three months ahead by 16% yoy compared to CAGR of c.12% over the roughly three years (pre-COVID) since acquisition.

In late March, the lockdown restricted business activity to the servicing of critical establishments such as hospitals and supermarkets. Consequently, system sales in April and May were 30% down on those of the comparative period. More latterly, following the easing of lockdown restrictions at many customer businesses, system sales have begun to recover in June to 84% of 2019 levels.

In our opinion, system sales were surprisingly robust given the potential disruption and much of this resilience was due to the continued support of franchisees from the Support Centre staff where previous investment in cloud-based IT systems and the automation of repetitive labour-intensive processes allowed staff to work from home very effectively.

The support and guidance given to franchisees over the period has resulted in 28 of the 43 Metro Rod franchisees achieving yoy growth in sales in the first half in spite of the COVID-19 crisis and have been effective in attracting new customers where the competition has not been capable of providing an effective service.

This investment has continued with the completion of the new works management system "Vision" which has to date been rolled out to around 42% of the franchise system. Management remains confident that the target of full roll-out will be achieved by the end of 2020 providing improvements in efficiency and productivity that will begin to benefit the businesses during the second half of the year and more fully into H1 2021.

Under Vision 2023, it was recognised that not all franchisees would wish to or would be capable of making the transition to a more entrepreneurial culture and consequently four businesses changed hands during 2019. And a new franchise territory was opened in the Isle of Wight

Since 2019, the Group had operated two Metro Rod territories as DLOs but following the acquisition of Willow Pumps (a Kent based company), responsibility for the Kent & Sussex territory was transferred to the Willow field service team, both to improve the local management of the business and give Willow Pumps direct hands-on experience of a Metro Rod territory.

This transfer of the business has been very effective and resulted in a significant turnaround in the business during the first half and it is now the intention to expand this operation and to establish a joint Metro Rod/Willow Pumps depot in the South West.

Metro Plumb

Metro Plumb traded satisfactorily throughout the first half as the resilience of its principal activity of emergency plumbing work allowed the business to avoid the worst of the lockdown effects.

To date, Metro Plumb's franchised territories have been operated by Metro Rod franchisees or as DLOs under the Kemac banner. Management is now beginning to recruit more independent franchisees while at the same time offering any Metro Rod franchisee the opportunity to exit the Metro Plumb business and to sell it to new franchisees. This should result in a new cadre of entrepreneurial franchisees who are dedicated to building their business and with the aid of the Group's Central Support functions, offer a broader range of plumbing services.

B2B DLO activities

Willow Pumps

Willow Pumps, a leading pump supply, installation and servicing business with an above and below-ground capability, was acquired in October 2019 and has thus contributed its first full six-month as a Group subsidiary company, generating £6.2m (or around 25%) of the Group's total revenue of £24.2m.

Operating as a DLO rather than a franchise business, Willow offers the Metro Rod franchisees an opportunity to enlarge the scope of the services offered to their commercial customers by including the capability to add pump supply and servicing to their existing draining expertise.

At the start of lockdown, Willow management took immediate action to reduce costs and right-size the business resulting in 36% of the staff being furloughed. Two of its key customer segments are the hotel and construction industries and although these were effectively closed during lockdown, activities including pump service and repair work for essential service providers such as supermarkets remained resilient.

We note that a number of Metro Rod engineers have since been trained in the basic skills required to work safely on pump maintenance and would guess that the resumption of this training, effectively halted during lockdown, will resume later in the current year.

During the period, the business established a new in-house capability for the design of adoptable and non-adoptable pump stations, a service which had previously been sub-contracted to third parties. This provides Willow with a valuable competitive advantage and is expected to make a contribution to Group profits in the second half of the year.

Kemac

Kemac operates six Metro Plumb territories and also provides specialist plumbing services to a number of water utilities.

Results in the comparative period last year benefitted from a significant one-off emergency contract with a water utility which was absent in these results. Nevertheless, the business traded well in the period even though profits overall declined. Underlying trading showed an improvement due to management reorganisation providing the business with more operational focus and efficiencies. Management is confident that this will form the foundation for Kemac's longer-term growth.

B2C Division

The B2C division comprises ChipsAway, Ovenclean and Barking Mad. To facilitate future acquisitions and improve operational efficiency, they were formed into an integrated division of the Group during 2019. Thus, the division is now set up to be able to facilitate the addition of complimentary new B2C brands through acquisition where a meaningful element of the overhead can be absorbed by the Group's central support function.

Whereas significant elements of the B2B division were able to continue trading to various degrees throughout the lockdown period, the B2C division was heavily impacted with no trading being undertaken during the period from end March as the activities were not deemed to represent essential services.

Consequently, around 85% of the team were furloughed while franchisee fees and charges, other than those necessary to maintain skeleton operations, were reduced or suspended. Due to the prompt actions taken and in spite of the significant drop in income, the division traded at breakeven during the lockdown.

27 new franchisees (1H 2019: 34) were recruited in this division during H1, 18 occurring in Q1 and a further 9 in June, following the lifting of lockdown. 23 of these were for ChipsAway, a 21% improvement year-on-year.

Understandably, due to the crisis, the Group has seen a higher level of leavers from the B2C brands than in previous years with 42 franchisees leaving (H1 2019: 27), resulting in a 3% reduction in the total number of B2C franchisees from 404 to 389. Income from the sale of products to franchisees fell 30% as ChipsAway and Ovenclean franchisees temporarily ceased trading during the lockdown.

The three brands are entering the post-lockdown period at various rates of recovery. ChipsAway, the largest network which generated 83% of the divisional income in 2019, recommenced trading in June and evidenced a strong recovery, both in trading and franchisee recruitment.

Ovenclean is taking more time to recover as consumers are still hesitant in allowing non-essential tradesmen to enter their homes. Therefore, activity levels for this business are still running below normal levels. Barking Mad, the smallest of the three networks is still trading well below pre-COVID-19 levels reflecting the significant reduction in foreign holiday travel, on which much of its business relies.

Management has restructured the business, integrating all of its operations into the B2C overhead at Kidderminster, which should allow it to continue to make a positive contribution to group profitability in the future.

Interim results highlights

As a predominantly franchise business, the Group's headline focus is on fee income rather than revenue, as the latter reflects the level of system sales relating to the individual brands as well as revenue from the direct labour organisations. Fee income (excluding payments to franchisees) and DLO income are analysed as follows.

EXHIBIT 1: FEE & DIRECT LABOUR INCOME

	H1 2020 £m	*% of total*	H1 2019 £m	% of total	*yoy change*
Management Service Fee income	5.32	*36%*	5.40	*51%*	*-1.4%*
Area sales	0.72	*5%*	0.91	*9%*	*-20.4%*
Product sales	0.32	*2%*	0.46	*4%*	*-29.6%*
Direct labour	7.97	*54%*	3.20	*30%*	*148.8%*
National Advertising Funds	0.38	*3%*	0.62	*6%*	*-38.1%*
Fee & direct labour income	**14.72**		**10.59**		*39.0%*

Source: Franchise Brands

Management Service Fee (MSF) - Income derived from the MSF is generated either from fixed monthly fees charged to the franchisees or from income based on a percentage of their sales.

Area sales – Represents income from the sale of new franchise areas or a percentage of the resale value of existing areas to new franchisees.

Product sales – Income derived from the sale to franchisees of products supplied to them from the Group's Central Support function.

Direct Labour Organisations – Income generated from DLOs within the Group, (i.e. non-franchise operations) namely Willow Pumps, Kemac and the Metro Rod/Metro Plumb corporate businesses.

National Advertising Funds – Income generated through deductions from franchisees to fund and support national and regional brand advertising.

While revenue increased to £24.2m, underlying organic growth (excluding Willow Pumps) turned negative during the period with a yoy reduction of 10% which, all things considered, we deem to have been a very acceptable outturn.

It is worth making the point that all sources of income were variously impacted by the COVID-19 related lockdown in Q2 and the associated decline in business activity. The year-on-year increase in DLO income noted above, reflected a full six-month contribution from Willow Pumps (H1 2019: zero), acquired in October 2019.

The six-month period was truly one of two halves with a very strong first quarter followed by the reduction in activity caused by the COVID-19 lockdown. Tight cost controls were initiated which reduced the impact at the bottom line.

During the period the Group's finances were strengthened by the gross proceeds of a £14m placing to new and existing shareholders (including directors and management) which was concluded in April 2020.

Costs were strictly controlled through use of the furlough scheme which was utilised for 118 of the Group's 290 employees allowing the Group to trade profitably through the period. In June, the number of staff furloughed reduced to 89 and is expected to be down to 16 by the end of July. The Group hopes to bring back all staff by the end of August.

EXHIBIT 2: SUMMARY INCOME STATEMENT

	H1 2020	H1 2019	*change*
	£m	£m	
Statutory revenue	24.21	20.08	*20.5%*
Franchisee payments	-9.49	-9.49	*-0.1%*
Fee income	**14.72**	**10.59**	*39.0%*
margin	*60.8%*	*52.7%*	*15.3%*
Gross profit	**9.58**	**7.44**	*28.6%*
margin as a % of fee income	*65.0%*	*70.3%*	*-7.4%*
Adjusted EBITDA	**2.78**	**2.46**	***13.1%***
margin as a % of fee income	*18.9%*	*23.2%*	*-18.6%*
Adjusted PBT	**1.85**	**1.98**	***-6.6%***
Adjusted EPS (p)	**1.84**	**2.06**	***-10.7%***
Adjusted net cash/(debt)	**2.56**	**-11.08**	**-**

Source: Franchise Brands

During the period, the Group received £0.5m of funding through the furlough scheme. In addition, the Group also agreed temporary pay-cuts which resulted in savings of £0.2m. Remuneration began to return to normal levels in June, and all employees, including the Board, will be back onto their contracted salaries by the end of August.

EXHIBIT 3: ANALYSIS OF ADJUSTED EBITDA

	H1 2020	H1 2019	*change*
	£m	£m	
B2B division:			
Franchisor	1.45	1.38	*5.3%*
DLO	0.89	0.35	*157.4%*
B2C division	0.89	1.23	*-27.1%*
Group overheads	-0.45	-0.49	*-7.8%*
Adjusted EBITDA	**2.78**	**2.46**	*13.1%*

Source: Franchise Brands

Adjusted EBITDA (stated before share-based payments and COVID-19 related costs) grew by 13% yoy, the growth attained by virtue of the inclusion of a maiden contribution from Willow Pumps. Management has further analysed EBITDA into two divisions: B2B and B2C, the former being further broken down into Franchisor (Metro Rod and Metro Plumb) and DLO activities (Willow, Kemac and corporate-run Metro Rod/Plumb areas).

EXHIBIT 4: RECONCILIATION OF ADJUSTED AND STATUTORY FINANCIALS

	H1 2020	H1 2019	*change*
	£m	£m	
Adjusted EBITDA	**2.78**	**2.46**	*13.1%*
D&A	-0.67	-0.32	*110.1%*
Finance	-0.26	-0.16	*64.8%*
Adjusted PBT	**1.85**	**1.98**	*-6.6%*
Amortisation of acquired intangibles	-0.20	-0.11	*81.5%*
Share based charges	-0.10	-0.10	*2.0%*
COVID-19 related costs	-0.62	0.00	
Other gains and losses	-0.05	0.00	
Statutory PBT	**0.88**	**1.78**	*-50.3%*

Source: Franchise Brands

COVID-19 charge

During the period, the Group took a £0.6m charge related to the COVID-19 crisis.

Given the likely impact of the crisis on certain customers, management believed it prudent to expect that a number would fail as government support schemes began to unwind. Therefore, a detailed internal analysis of debtors was undertaken on a risk-weighted basis according to the business sectors they operate in and their financial position.

At the time of the Placing in April management stated that it would take a COVID-19 related charge of £1.3m to provide for these potential credit losses. Since then, the absolute level of debtors has fallen due both to customer payments and lower system sales at Metro Rod, and the level of credit losses experienced to date has been only £30,000.

As a result, the Group has been able to reduce the provision in respect of expected credit losses to £0.5m for the period. Management has also taken a charge of £0.1m in relation to the closure of its Barking Mad office and Group redundancy costs.

Cash and debt

Cash conversion as a percentage of adjusted EBITDA fell to 38% (H1 2019: 75%) due to the impact of COVID-19. Year-end adjusted net cash was £4.2m versus adjusted net debt of £9.2m, the reversal courtesy of the successful placing in April 2020 and internal cash generation.

Due to the introduction of IFRS16 the Group has recognised obligations in relation to operating leases. However, it notes that as its banking arrangements determine its interest rate margin and covenant compliance, it uses adjusted net debt as its KPI, as shown in the table below.

EXHIBIT 5: ANALYSIS OF NET CASH/(DEBT)

	H1 2020	**H1 2019**	***change***
	£m	**£m**	
Cash	11.82	1.68	*602.7%*
Term loan	-6.14	-6.40	*-4.1%*
RCF	0.00	-3.00	
Loan fee	0.10	0.13	*-20.2%*
Hire purchase debt	-1.55	-1.59	*-2.1%*
Adjusted net cash/(debt)	**4.23**	**-9.18**	
Other lease debt	-1.68	-1.89	*-10.9%*
Net cash/(debt)	**2.55**	**-11.07**	

Source: Franchise Brands

Following the placing in April, in order to maximise the Group’s immediately available liquidity, a decision was taken not to repay the Term Loan (£6.1m) although it did repay the revolving credit facility in full.

At the end of the period, the Group had cash of £11.8m and undrawn bank facilities of £11m giving it £22.8m of cash and available facilities. Having undertaken a range of potential scenarios, management believes that this should provide more than sufficient liquidity to trade through all outcomes, even those significantly worse than anticipated by the directors, as well as to review potential acquisition opportunities as they arise.

Dividends

An interim dividend of 0.30p per share has been declared (interim 2019: 0.03p per share), 2.0 times covered by profit after tax (interim 2019: 6.1x).

Forecasts and conclusion

Reintroduction of forecasts

Forecasts were withdrawn in April 2020 due to the uncertainty surrounding the impact of COVID-19 on the Group and its customers.

The overall situation, while not totally resolved, is of sufficient clarity for us to be able to reintroduce forecasts, adjusted of course for the negative impact of the pandemic on the Group's activities, not least those of the B2C division.

Currently, activity levels within Metro Rod and Willow Pumps, the Group's principal income generators, are recovering well and moving ever closer to 2019 levels and the B2C division is also beginning to regain some traction.

Our detailed forecasts are shown overleaf in Exhibits 7-9 and differ from those issued pre-lockdown as follows:

EXHIBIT 6: CHANGES IN FORECASTS: CURRENT AND PRE-COVID

	2020E	*% change*	2021E	*% change*	2020E	2021E
	NEW	*versus OLD*	NEW	*versus OLD*	OLD	OLD
	£m		£m		£m	£m
Fee & direct labour income	27.3	*-11.7%*	31.8	*-8.7%*	30.9	34.8
Gross profit	19.7	*-12.9%*	22.3	*-10.6%*	22.6	24.9
Adjusted EBITDA	6.2	*-17.0%*	7.7	*-13.5%*	7.5	8.9
Adjusted PBT	4.4	*-25.3%*	5.8	*-18.1%*	5.8	7.1
Adjusted EPS (p)	3.9	*-34.5%*	4.8	*-34.1%*	6.0	7.3
Dividend (p)	0.95	*-21.5%*	1.40	*-13.0%*	1.21	1.61

Source: Allenby Capital

The Group remains in good shape to resume strong growth and now has the added benefit of a strengthened balance sheet with substantial unutilised facilities to both grow the business internally and to help fund the cost of any future acquisitions.

The shares are currently trading at 91p, some 40% below their February peak of 151p and are selling on a PER of 23.1x earnings, falling to 18.8x for 2021, offering good value in a fast growth and dynamic company with quality management and a track record of delivering strong earnings growth.

The strength of the balance sheet, with over £22m of available financing in the form of cash and agreed facilities, leaves the Group well placed to take advantage of opportunities to grow the business organically and through earnings enhancing acquisitions in the post-pandemic recovery.

Income Statement & Forecasts

	£m	£m	£m	£m
Y/E December	**2018A**	**2019A**	**2020E**	**2021E**
ADJUSTED				
Revenue	35.5	44.0	50.0	57.6
Franchisee payments	-17.3	-19.6	-22.8	-25.8
Fee income	18.1	24.4	27.3	31.8
Fee income margin	51.1%	55.4%	54.5%	55.2%
Other cost of sales	-5.0	-8.0	-7.6	-9.6
Gross profit	13.1	16.4	19.7	22.3
Gross profit margin	37.0%	37.2%	39.4%	38.6%
Administrative expense (before D&A, share based charges, exceptionals)	-9.1	-11.2	-13.5	-14.5
as a % of revenue	25.7%	25.4%	27.0%	25.2%
Adjusted EBITDA	**4.0**	**5.2**	**6.2**	**7.8**
margin	11.3%	11.8%	12.4%	13.5%
Depreciation	-0.4	-0.6	-1.2	-1.5
Amortisation of software	-0.0	-0.1	-0.2	-0.2
Adjusted operating profit	3.6	4.4	4.8	6.1
Operating margin	19.6%	18.1%	17.6%	19.1%
Finance expense	-0.3	-0.4	-0.4	-0.3
Adjusted profit before tax	**3.2**	**4.1**	**4.4**	**5.8**
Tax	-0.6	-0.7	-0.8	-1.2
Tax rate	18.8%	16.9%	18.8%	20.7%
Adjusted post tax profit	**2.6**	**3.4**	**3.5**	**4.6**
STATUTORY				
Adjusted operating profit	**3.6**	**4.4**	**4.8**	**6.1**
Share based charges	-0.1	-0.2	-0.2	-0.2
Acquisition of acquired intangibles	-0.2	-0.3	-0.4	-0.4
Cost of acquisition	0.0	-0.3	0.0	0.0
Exceptional items	0.0	0.0	-0.7	-0.1
Statutory operating profit	3.2	3.6	3.5	5.4
Operating margin	17.6%	14.9%	12.8%	17.0%
Finance expense	-0.3	-0.4	-0.4	-0.3
Statutory profit before tax	**2.9**	**3.3**	**3.1**	**5.1**
Tax	-0.5	-0.6	-0.8	-1.1
Tax rate	18.7%	17.3%	24.8%	20.5%
Statutory post tax profit	**2.3**	**2.7**	**2.3**	**4.1**
Shares				
Basic, weighted average (m)	77.687	77.948	90.056	95.720
Diluted, weighted average (m)	78.787	79.139	93.556	99.220
Shares in issue at year end (m)	77.532	79.314	95.720	95.720
EPS				
Basic adjusted (p)	3.36	4.34	3.94	4.84
Basic statutory (p)	2.99	3.48	2.56	4.30
Dividend				
Interim (p)	0.21	0.30	0.30	0.46
Final (p)	0.46	0.65	0.65	0.94
Total dividend per share (p)	0.67	0.95	0.95	1.40
Cover (x)	4.5	3.7	2.7	3.0

Source: Franchise Brands; Allenby

Balance Sheet & Forecasts

	£m	£m	£m	£m
Y/E December	**2018A**	**2019E**	**2020E**	**2021E**
Assets				
Non-current assets				
Intangible assets	27.2	35.1	34.5	34.2
Property, Plant & Equipment	0.4	1.2	1.5	1.7
Right-of-use assets	0.9	3.5	2.6	1.4
Total non-current assets	**28.5**	**39.8**	**38.5**	**37.3**
Current assets				
Inventories	0.2	0.6	0.6	0.6
Trade and other receivables	11.0	16.9	14.9	16.5
Cash and Cash equivalents	2.9	1.7	11.0	12.1
Total current assets	**14.2**	**19.2**	**26.6**	**29.2**
Total Assets	**42.8**	**59.0**	**65.1**	**66.5**
Liabilities				
Current liabilities				
Trade and other payables	-8.6	-12.7	-9.5	-11.0
Loans and borrowings	-3.4	-4.1	-2.0	0.0
Obligations under finance leases	-0.3	-0.9	-0.9	-0.9
Current tax liability	-0.2	-0.6	-0.8	-0.9
Accruals	0.0	0.0	0.0	0.0
Total current liabilities	**-12.6**	**-18.3**	**-13.2**	**-12.8**
Non-current liabilities				
Loans and borrowings	-4.4	-5.2	-4.0	-2.6
Obligations under finance leases	-0.7	-2.6	-3.1	-3.1
Provisions	0.0	-3.6	-3.7	-3.5
IFRS16 leases	0.0	0.0	0.0	0.0
Deferred tax liability	-0.7	-1.5	-1.2	-1.2
Total non-current liabilities	**-5.8**	**-12.9**	**-12.0**	**-10.4**
Total liabilities	**-18.3**	**-31.2**	**-25.2**	**-23.2**
Net current assets	**1.7**	**0.9**	**13.3**	**16.4**
Net Assets	**24.4**	**27.9**	**39.9**	**43.3**

BALANCE SHEET RATIOS				
	£m	£m	£m	£m
Y/E December	**2018A**	**2019E**	**2020E**	**2021E**
Long-term financial (debts) (excluding IFRS16 leases)	-5.1	-7.8	-7.1	-5.7
Short term financial (debts)	-3.8	-5.0	-2.9	-0.9
Gross (debt) (excluding IFRS16 leases)	-8.8	-12.8	-10.0	-6.6
Cash and cash equivalents	2.9	1.7	11.0	12.1
Net debt (excluding IFRS16 leases)	-5.9	-11.1	1.0	5.4
Adjusted net debt	-5.0	-9.2	2.5	6.4
Acid test (Current Assets - inventory / Current Liabilities)	1.1	1.0	2.0	2.2
Equity	24.4	27.9	39.9	43.3
Gearing (Net Debt / Equity)	24.2%	39.8%	-	-
Net debt / EBITDA (x)	1.5	2.1	-	-

Source: Franchise Brands; Allenby

Cash flow & Forecasts

Y/E December	£m 2018A	£m 2019E	£m 2020E	£m 2021E
Operating cash flow:				
Post tax profit after exceptional costs	2.3	2.7	2.3	4.1
Depreciation	0.4	0.6	1.2	1.5
Amortisation	0.0	0.1	0.2	0.2
Amortisation of acquired intangibles	0.2	0.3	0.4	0.4
Acquisition related costs	0.0	0.3	0.0	0.0
Finance expense	0.3	0.4	0.4	0.3
Other	0.0	0.0	0.0	0.0
Income tax expense	0.5	0.6	0.6	1.2
Share Based charges	0.1	0.2	0.2	0.2
Operating cash flow before changes in working cap & provisions	**4.0**	**5.2**	**5.3**	**7.8**
Decrease/(increase) in inventories	*0.0*	*0.0*	*0.0*	*0.0*
Decrease/(increase) in trade receivables	*-3.0*	*-1.5*	*2.0*	*-1.6*
Increase (decrease) in trade and other payables	*2.1*	*1.0*	*-3.2*	*1.5*
Net movement in working capital	***-0.8***	***-0.5***	***-1.1***	***-0.1***
Net cash inflow/(outflow) from operating activities	3.2	4.7	4.2	7.7
Income tax paid	0.0	-0.1	-0.8	-1.2
Net cash (outflow)/inflow from operating activities	**3.2**	**4.5**	**3.4**	**6.5**
Investing Activities:				
Purchase of intangible assets	-0.3	-0.8	0.0	-0.3
Purchase of property, plant and equipment	-0.2	-0.9	-0.5	-0.5
Acquisition of subsidiary	0.0	-4.0	0.0	0.0
Net cash inflow/(outflow) from investing activities	**-0.6**	**-5.7**	**-0.5**	**-0.8**
Financing Activities:				
New term loan	0.0	4.0	-3.3	0.0
Repayment of term loan	-1.6	-2.5	-2.4	-2.3
Other loans made	-0.1	-0.0	0.1	0.0
Interest charges	-0.3	-0.4	-0.6	-0.5
Receipts from share issue net of costs	0.0	0.4	13.7	0.0
Purchase of treasury shares	-0.2	-0.3	0.0	-0.3
Dividend payments	-0.4	-0.6	-0.3	-1.3
Capital element of finance lease repaid	-0.3	-0.7	-0.7	-0.5
Net cash inflow/(outflow) from financing activities	**-2.9**	**-0.1**	**6.5**	**-4.7**
Total net increase/(decrease) in cash and cash equivalents	**-0.3**	**-1.3**	**9.3**	**1.1**
Cash and cash equivalents at start of period	3.2	2.9	1.7	11.0
Cash and cash equivalents at end of period	**2.9**	**1.7**	**11.0**	**12.1**

Source: Franchise Brands; Allenby

Disclaimer

Research Recommendation Disclosure

Ian Jermin is the author of this research recommendation and is employed by Allenby Capital Limited as an Equity Analyst. Unless otherwise stated the share prices used in this publication are taken at the close of business for the day prior to the date of publication. Information on research methodologies, definitions of research recommendations, and disclosure in relation to interests or conflicts of interests can be found at www.allenbycapital.com. Allenby Capital acts as Nomad and Joint Broker to Franchise Brands plc.

Allenby Capital, 5 St Helen's Place London EC3A 6AB, +44 (0)20 3328 5656, www.allenbycapital.com