

Corporate

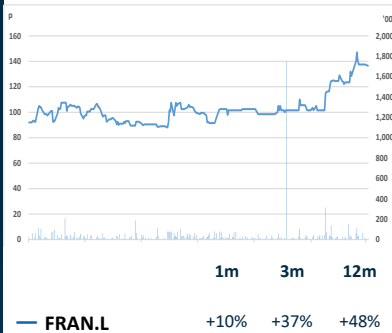
 Current price **136.5p**

 Sector **General Retailers**

 Code **FRAN.L**

 AIM **AIM**

Share Performance



Source: Thomson Reuters, Allenby Capital

Share Data

 Market Cap (£m) **130.7**

 Shares in issue (m) **95.8**

52 weeks	High	Low
	147.0p	89.0p

 Financial year end **December**

Source: Company Data, Allenby Capital

Key Shareholders

 Nigel Wray (NED) **23.36%**

 Stephen Hemsley (Exec. Chair) **23.14%**

 Cannacord Genuity **7.03%**

 Slater Investments **6.27%**

 Gresham House AM **5.69%**

 David Poutney (NED) **3.81%**

Source: Company Data, Allenby Capital

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Franchise Brands plc (FRAN.L)

Strong Q1 performance and positive outlook for year

We take significant encouragement from the Franchise Brands' AGM statement which reveals that Q1 adjusted EBITDA was ahead 24% year on year (yoy) at a record £2m (Q1 2020: £1.6m). The strong start to the year serves to underpin the organic element of the Board's financial growth strategy that seeks to achieve a revenue run-rate of £100m and adjusted EBITDA of £15m by the end of 2023. The promising start points to another year of strong earnings growth and cash generation which we expect to be reflected in an equally strong share price. We believe a fair value of c.200p is appropriate for such a well-managed growth company that is on target to deliver its 2023 objectives.

- Strong start to Q1** – The Franchise Brands Board reported that the Group performed strongly in Q1 with adjusted EBITDA ahead by 24% yoy to a record £2m, with turnover returning to pre-COVID 19 levels by the end of the quarter. This was achieved without the benefit of any substantial revenues from the hospitality sector which had still not reopened by the end of the quarter, indicating the underlying strength in trading elsewhere.
- Against an equally strong comparative period** - We note that this growth was achieved against an equally strong comparative period in 2020; COVID 19 only beginning to impact results in the final two to three weeks of Q1 2020. The comparative quarter reported B2B EBITDA growth of 42% (helped by the first-time inclusion of Willow Pumps) and system sales growth at Metro Rod of 19%, while the B2C division delivered EBITDA growth of 5%.
- Another year of strong growth in prospect** – The strong start to 2021, noted at the time of the Group's final results for 2020 and the Board's confidence in the future had already prompted us to raise FY2021 EBITDA and EPS forecasts to £7.9m and 5.1p respectively. Additionally, our FY2022 forecasts anticipated EBITDA rising by a further 18% over FY2021 and EPS by 23%. At this stage, the Group would appear to be comfortably on track to achieve these projections.
- Commendable record of EBITDA and dividend growth** - Since being admitted to AIM in August 2016, the Group has developed a market-leading portfolio of brands through organic growth and targeted acquisitions, generating compound annual growth in adjusted EBITDA of 47% and a 59% compound growth in dividends.
- Ambitious growth targets for 2023** - Impressive as this historic record is, in March 2021 the Board set a new financial growth strategy that targets a run rate in revenues of £100m and adjusted EBITDA of £15m, all to be achieved by the end of 2023. This new target, supported by the solid trading record, cash generation and strength of the management team encourages us to believe that an appropriate fair value for Franchise Brands shares should be much nearer 200p than the current share price.

Year End: December

£m	2019A	2020A	2021E	2022E
ADJUSTED EBITDA	5.2	6.6	7.9	9.3
ADJUSTED PBT	4.1	4.8	6.1	7.4
ADJUSTED EPS (p)	4.34	4.35	5.13	6.33
DIVIDEND (p)	0.95	1.10	1.40	1.80
ADJ NET (DEBT)/CASH	-9.2	6.5	9.1	13.0
PER (x)	23.4	23.3	19.8	16.0

Source: Franchise Brands plc, Allenby Capital. Allenby Capital acts as Nomad and joint broker to Franchise Brands plc

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

Income Statement & Forecasts

EXHIBIT 10: INCOME STATEMENT

Y/E December	£m 2019A	£m 2020	£m 2021E	£m 2022E
ADJUSTED				
Revenue	44.0	49.3	57.2	62.0
Franchisee payments	-19.6	-19.9	-25.8	-26.8
Fee and direct labour income	24.4	29.4	31.8	35.3
<i>Fee income margin</i>	55.4%	59.6%	55.6%	56.9%
Other cost of sales	-8.0	-8.5	-8.9	-10.2
Gross profit	16.4	20.9	23.0	25.1
<i>Gross profit margin</i>	37.2%	42.5%	40.1%	40.4%
Administrative expense before D&A, share based charges and exceptional items	-11.2	-14.3	-15.1	-15.8
<i>as a % of revenue</i>	25.4%	29.0%	26.3%	25.4%
Adjusted EBITDA	5.2	6.6	7.9	9.3
<i>margin</i>	11.8%	13.5%	13.8%	15.0%
Depreciation	-0.6	-1.1	-1.4	-1.5
Amortisation of software	-0.1	-0.2	-0.2	-0.2
Adjusted operating profit	4.4	5.3	6.4	7.7
Operating margin	18.1%	18.0%	20.0%	21.8%
Finance expense	-0.4	-0.4	-0.3	-0.3
Adjusted profit before tax	4.1	4.8	6.1	7.4
Tax	-0.7	-0.9	-1.2	-1.3
<i>Tax rate</i>	16.9%	18.6%	19.0%	17.9%
Adjusted post tax profit	3.4	3.9	4.9	6.1
STATUTORY				
Adjusted operating profit	4.4	5.3	6.4	7.7
Share based charges	-0.2	-0.2	-0.2	-0.3
Acquisition of acquired intangibles	-0.3	-0.4	-0.4	-0.4
Cost of acquisition	-0.3	-0.7	0.0	0.0
Exceptional items	0.0	0.2	-0.1	0.0
Statutory operating profit	3.6	4.1	5.7	7.0
Operating margin	14.9%	14.0%	17.9%	19.9%
Finance expense	-0.4	-0.4	-0.3	-0.3
Statutory profit before tax	3.3	3.7	5.4	6.7
Tax	-0.6	-0.9	-1.2	-1.3
<i>Tax rate</i>	17.3%	24.1%	21.3%	19.6%
Statutory post tax profit	2.7	2.8	4.2	5.4
Shares				
Basic, weighted average (m)	77.948	90.463	95.758	95.758
Diluted, weighted average (m)	79.139	92.112	97.407	97.407
Shares in issue at year end (m)	79.314	95.758	95.758	95.758
EPS				
Basic adjusted (p)	4.34	4.35	5.13	6.33
Basic statutory (p)	3.48	3.09	4.43	5.65
Dividend				
Interim (p)	0.30	0.30	0.46	0.60
Final (p)	0.65	0.80	0.94	1.20
Total dividend per share (p)	0.95	1.10	1.40	1.80

Source: Franchise Brands; Allenby Capital

Balance Sheet & Forecasts

EXHIBIT 11: BALANCE SHEET

	£m	£m	£m	£m
Y/E December	2019A	2020A	2021E	2022E
Assets				
Non-current assets				
Intangible assets	35.1	34.8	34.4	34.1
Property, Plant & Equipment	1.2	1.3	1.5	1.7
Right-of-use assets	3.5	3.2	2.0	0.8
Total non-current assets	39.8	39.2	37.9	36.6
Current assets				
Inventories	0.6	0.7	0.7	0.7
Trade and other receivables	16.9	15.3	16.9	20.1
Cash and Cash equivalents	1.7	13.2	14.1	15.9
Total current assets	19.2	29.2	31.7	36.7
Total Assets	59.0	68.4	69.6	73.3
Liabilities				
Current liabilities				
Trade and other payables	-12.7	-10.8	-12.3	-13.2
Loans and borrowings	-4.1	-2.1	0.0	0.0
Obligations under finance leases	-0.9	-1.0	-0.9	-0.9
Current tax liability	-0.6	-0.4	-0.9	-0.9
Total current liabilities	-18.3	-14.5	-14.1	-15.1
Non-current liabilities				
Loans and borrowings	-5.2	-3.0	-2.5	-0.3
Obligations under finance leases	-2.6	-2.1	-3.1	-3.1
Contingent consideration	-3.6	-3.5	-3.2	-2.9
Deferred tax liability	-1.5	-1.8	-1.2	-1.2
Total non-current liabilities	-12.9	-10.3	-10.0	-7.5
Total liabilities	-31.2	-24.8	-24.1	-22.5
Net current assets	0.9	14.7	17.6	21.6
Net Assets	27.9	43.6	45.5	50.8
BALANCE SHEET RATIOS				
	£m	£m	£m	£m
Y/E December	2019A	2020A	2021E	2022E
Long-term financial (debts) including IFRS 16 leases	-7.8	-5.1	-5.6	-3.4
Short term financial (debts) including IFRS 16 leases	-5.0	-3.2	-0.9	-0.9
Gross (debt) including IFRS16 leases	-12.8	-8.3	-6.6	-4.4
Cash and cash equivalents	1.7	13.2	14.1	15.9
Net (debt)/cash including IFRS16 leases	-11.1	4.9	7.6	11.5
Other lease debt	1.9	1.5	1.5	1.5
Adjusted net debt	-9.2	6.5	9.1	13.0
Acid test (Current Assets - inventory / Current Liabilities)	1.0	2.0	2.2	2.4

Source: Franchise Brands; Allenby Capital

Cash Flow & Forecasts

EXHIBIT 12: CASH FLOW				
Y/E December	£m 2019A	£m 2020	£m 2021E	£m 2022E
Operating cash flow:				
Post tax profit after exceptional costs	2.7	2.8	4.2	5.4
Depreciation	0.6	1.1	1.5	1.5
Amortisation	0.1	0.2	0.2	0.2
Amortisation of acquired intangibles	0.3	0.4	0.4	0.4
Acquisition related costs	0.3	0.7	0.0	0.0
Finance expense	0.4	0.4	0.3	0.3
Other	0.0	-0.2	0.0	0.0
Income tax expense	0.6	0.9	1.2	1.3
Share Based charges	0.2	0.2	0.2	0.3
Operating cash flow before changes in working capital & provisions	5.2	6.6	8.0	9.2
<i>Decrease/(increase) in inventories</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>Decrease/(increase) in trade receivables</i>	<i>-1.5</i>	<i>0.9</i>	<i>-1.6</i>	<i>-3.2</i>
<i>Increase (decrease) in trade and other payables</i>	<i>1.0</i>	<i>-1.5</i>	<i>1.5</i>	<i>1.0</i>
Net movement in working capital	-0.5	-0.7	-0.1	-2.2
Net cash inflow/(outflow) from operating activities	4.7	6.0	7.8	7.0
Income tax paid	-0.1	-0.7	-1.2	-1.2
Net cash (outflow)/inflow from operating activities	4.5	5.2	6.6	5.8
Investing Activities:				
Purchase of intangible assets	-0.8	-0.3	-0.3	-0.3
Purchase of property, plant and equipment	-0.9	-0.5	-0.5	-0.5
Acquisition of subsidiary	-4.0	0.0	-0.3	-0.3
Net cash inflow/(outflow) from investing activities	-5.7	-0.8	-1.1	-1.1
Financing Activities:				
New term loan	4.0	0.0	0.0	0.0
Repayment of term loan	-2.5	-4.2	-2.2	-2.2
Other loans made	-0.0	-0.2	0.0	0.0
Interest charges	-0.4	-0.4	-0.5	-0.1
Receipts from share issue net of costs	0.4	13.7	0.0	0.0
Purchase of treasury shares	-0.3	0.0	-0.3	-0.3
Dividend payments	-0.6	-0.5	-1.3	0.0
Funds supplied to EBT	0.0	-0.2	0.0	0.0
Capital element of finance lease repaid	-0.7	-1.1	-0.5	-0.5
Net cash inflow/(outflow) from financing activities	-0.1	7.1	-4.7	-3.0
Total net increase/(decrease) in cash and cash equivalents	-1.3	11.5	0.9	1.7
Cash and cash equivalents at start of period	2.9	1.7	13.2	14.1
Cash and cash equivalents at end of period	1.7	13.2	14.1	15.9

Source: Franchise Brands; Allenby Capital

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