

## Corporate

 Current price **150.5p**

 Sector **Waste & disposal services**

 Code **FRAN.L**

 AIM **AIM**

### Share Performance



Source: Thomson Reuters, Allenby Capital

### Share Data

 Market Cap (£m) **144.1**

 Shares in issue (m) **95.8**

52 weeks	High	Low
	<b>156.5p</b>	<b>89.0p</b>

 Financial year end **December**

Source: Company Data, Allenby Capital

### Key Shareholders

 Nigel Wray (NED) **23.36%**

 Stephen Hemsley (Exec. Chair) **23.16%**

 Cannacord Genuity **7.03%**

 Slater Investments **6.27%**

 Gresham House AM **5.69%**

 David Poutney (NED) **3.81%**

Source: Company Data, Allenby Capital

### Ian Jermin

0203 328 5664

i.jermin@allenbycapital.com

[www.allenbycapital.com](http://www.allenbycapital.com)

## Franchise Brands plc (FRAN.L)

### Record system sales at Metro Rod in H1

Franchise Brands has updated the market on its headline performance for the six months to June 2021. It is encouraging to learn that system sales growth at Metro Rod in the period has been very strong and accelerating, reaching a record level of £23.8m for the period and a record £4.3m for the month of June. Willow Pumps, which was impacted more severely by the lockdown, has also responded well to the easing of COVID restrictions with year-on-year invoiced sales increasing by 9% in H1. The B2C division also performed strongly, recruiting 40 new franchisees resulting in the number of B2C franchisees increasing to 393. H1 results are due on 22 July and should underpin our expectation for strong earnings growth and cash generation.

- Strong H1 from Metro Rod** – In today's update, ahead of interim results to be announced later this month, the Board highlights a very encouraging recovery from Metro Rod following the easing of COVID-related restrictions, with growth recovering to its strong pre-COVID levels. In H1 system sales grew by 21% to a record £23.8m but also 17% ahead of the comparative period in 2019. Indeed, the Board notes that system sales growth accelerated in June resulting in record system sales of £4.3m representing growth of 41% against June 2020 and 26% compared to June 2019 suggesting a semi-annualised run rate of £25.8m.
- Willow Pumps also showing encouraging signs of recovery** – Willow Pumps was impacted more severely by COVID as a greater element of its business is exposed to the hospitality sector. Nevertheless, invoiced sales have increased by c.9% compared to the first half of 2020 which is encouraging as restrictions in the hospitality sector only began to ease in mid-April. In addition, Willow Pumps engineers continue to help facilitate the growth of pump-related work within Metro Rod, where pumps system sales by its franchisees have increased 159% to £0.7m (H1 2020: £0.3m).
- B2C franchisee recruitment growth** – The B2C division, which includes ChipsAway, Ovenclean and Barking Mad, has reported strong growth in the number of franchisees recruited in the period, increasing the number by 40 against 27 in H1 2020 and 34 in H1 2019, taking the total B2C franchisees to 393 (H1 2020: 394).

**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 underpinned by the Q1 trading update in April, had already resulted in us raising FY2021 EBITDA and EPS forecasts to £7.9m and 5.1p respectively. Today's announcement is similarly encouraging and gives the Board strong confidence in delivering a full year performance at least in line with market expectations. We look forward to the interim results on 22 July.

### 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)				

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.

## Financial Summary &amp; Forecasts

<b>INCOME STATEMENT</b>				
<b>Y/E December</b>	<b>FY 2019A</b>	<b>FY 2020E</b>	<b>FY 2021E</b>	<b>FY 2022E</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Revenue	44.0	49.3	57.2	62.0
<b>Fee &amp; direct labour income</b>	<b>24.4</b>	<b>29.4</b>	<b>31.8</b>	<b>35.3</b>
<i>Fee &amp; direct labour income margin</i>	<i>55.4%</i>	<i>59.6%</i>	<i>55.6%</i>	<i>56.9%</i>
Gross profit	16.4	20.9	23.0	25.1
<i>Gross margin</i>	<i>37.2%</i>	<i>42.5%</i>	<i>40.1%</i>	<i>40.4%</i>
Total operating costs	-11.2	-14.3	-15.1	-15.8
<i>as a % of revenue</i>	<i>25.4%</i>	<i>29.0%</i>	<i>26.3%</i>	<i>25.4%</i>
<b>Underlying EBITDA</b>	<b>5.2</b>	<b>6.6</b>	<b>7.9</b>	<b>9.3</b>
<i>EBITDA margin</i>	<i>11.8%</i>	<i>13.5%</i>	<i>13.8%</i>	<i>15.0%</i>
<b>Underlying profit before tax</b>	<b>4.1</b>	<b>4.8</b>	<b>6.1</b>	<b>7.4</b>
Underlying profit after tax	3.4	3.9	4.9	6.1
Weighted average shares (m)	77.948	90.463	95.758	95.758
Diluted weighted average shares (m)	79.139	92.112	97.407	97.407
<b>Underlying basic EPS (p)</b>	<b>4.34</b>	<b>4.35</b>	<b>5.13</b>	<b>6.33</b>
Interim dividend (p)	0.30	0.30	0.46	0.60
Final dividend (p)	0.65	0.80	0.94	1.20
<b>Total dividend (p)</b>	<b>0.95</b>	<b>1.10</b>	<b>1.40</b>	<b>1.80</b>
<b>CASH FLOW</b>				
<b>Y/E December</b>	<b>FY 2019A</b>	<b>FY 2020E</b>	<b>FY 2021E</b>	<b>FY 2022E</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Net cash inflow from operating activities	4.5	5.2	6.6	5.8
Net cash outflow from investing activities	-5.7	-0.8	-1.1	-1.1
Net cash inflow/(outflow) from financing activities	-0.1	7.1	-4.7	-3.0
<b>Cash and cash equivalents at end of the year</b>	<b>1.7</b>	<b>13.2</b>	<b>14.1</b>	<b>15.9</b>
<b>BALANCE SHEET</b>				
<b>Y/E December</b>	<b>FY 2019A</b>	<b>FY 2020E</b>	<b>FY 2021E</b>	<b>FY 2022E</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Assets</b>				
Non-current assets	39.8	39.2	37.9	36.6
Current assets (excluding cash)	17.5	16.0	17.6	20.8
Cash	1.7	13.2	14.1	15.9
<b>Total Assets</b>	<b>59.0</b>	<b>68.4</b>	<b>69.6</b>	<b>73.3</b>
<b>Liabilities</b>				
Current liabilities	-18.3	-14.5	-14.1	-15.1
Non-current liabilities	-12.9	-10.3	-10.0	-7.5
<b>Total Liabilities</b>	<b>-31.2</b>	<b>-24.8</b>	<b>-24.1</b>	<b>-22.5</b>
<b>Net current assets</b>	<b>0.9</b>	<b>14.7</b>	<b>17.6</b>	<b>21.6</b>
<b>Net Assets</b>	<b>27.9</b>	<b>43.6</b>	<b>45.5</b>	<b>50.8</b>
<b>Net (debt)/cash</b>	<b>-9.2</b>	<b>-6.5</b>	<b>9.1</b>	<b>13.0</b>

Source: Franchise Brands; Allenby Capital

## Disclaimer

Allenby Capital Limited (“Allenby”) is incorporated in England no. 6706681; is authorised and regulated by the Financial Conduct Authority (“FCA”) (FRN: 489795) and is a member of the London Stock Exchange. This communication is for information only it should not be regarded as an offer or solicitation to buy the securities or other instruments mentioned in it. It is a marketing communication and non-independent research, and has not been prepared in accordance with the legal requirements designed to promote the independence of investment research, and is not subject to any prohibition on dealing ahead of the dissemination of investment research. The cost of Allenby research product on independent companies is paid for by research clients.

This communication is for the use of intended recipients only and only for distribution to investment professionals as that term is defined in article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. Its contents are not directed at, may not be suitable for and should not be relied upon by anyone who is not an investment professional including retail clients. Any such persons should seek professional advice before investing. For the purposes of this communication Allenby is not acting for you, will not treat you as a client, will not be responsible for providing you with the protections afforded to clients, and is not advising you on the relevant transaction or stock. This communication or any part of it do not form the basis of and should not be relied upon in connection with any contract.

Allenby uses reasonable efforts to obtain information from sources which it believes to be reliable. The communication has been prepared without any substantive analysis undertaken into the companies concerned or their securities, and it has not been independently verified. No representation or warranty, express or implied is made, or responsibility of any kind accepted by Allenby its directors or employees as to the accuracy or completeness of any information in this communication. Opinions expressed are our current opinions as of the date appearing on this material only and are subject to change without notice. There is no regular update series for research issued by Allenby.

No recommendation is being made to you; the securities referred to may not be suitable for you and this communication should not be relied upon in substitution for the exercise of independent judgement. Neither past performance or forecasts are a reliable indication of future performance and investors may realise losses on any investment. Allenby shall not be liable for any direct or indirect damages including lost profits arising from the information contained in this communication.

Allenby and any company or persons connected with it, including its officers, directors and employees may have a position or holding in any investment mentioned in this document or a related investment and may from time to time dispose of any such security or instrument. Allenby may have been a manager in the underwriting or placement of securities in this communication within the last 12 months or have received compensation for investment services from such companies within the last 12 months, or expect to receive or may intend to seek compensation for investment services from such companies within the next 3 months. Accordingly, recipients should not rely on this communication as being impartial and information may be known to Allenby or persons connected with it which is not reflected in this communication. Allenby has a policy in relation to management of conflicts of interest which is available upon request.

This communication is supplied to you solely for your information and may not be reproduced or redistributed to any other person or published in whole or part for any purpose. It is not intended for distribution or use outside the European Economic Area except in circumstances mentioned below in relation to the United States. This communication is not directed to you if Allenby is prohibited or restricted by any legislation or registration in any jurisdiction from making it available to you and persons into whose possession this communication comes should inform themselves and observe any such restrictions.

Allenby may distribute research in reliance on Rule 15a-6(a)(2) of the Securities and Exchange Act 1934 to persons that are major US institutional investors, however, transactions in any securities must be effected through a US registered broker-dealer. Any failure to comply with this restriction may constitute a violation of the relevant country’s laws for which Allenby does not accept liability.

By accepting this communication, you agree that you have read the above disclaimer and to be bound by the foregoing limitations and restrictions.

### 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](http://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](http://www.allenbycapital.com)**