Allenby Capital

Company Note

Interims

22 July 2021

Franchise Brands plc (FRAN.L)

Strong recovery and growth across all divisions

In the half year to June 2021 Franchise Brands posted an increase in revenues of 18% and an increase in adjusted EBITDA of 50% with strong cash conversion of 84%. Revenue and adjusted EBITDA increased across all divisions as COVID-related restrictions were progressively lifted through the period. The easing of restrictions in the hospitality sector and the digital transformation continuing at pace, will further benefit the H2 outcome. The Board is confident regarding the prospects for organic growth in H2 and that the full year performance will be ahead of current market consensus. Consequently, we are raising our earnings forecasts by c.6% for 2021 and c.3% for 2022. With strong organic growth expected, management is increasingly focussing on earnings enhancing acquisition opportunities.

- **Strong recovery from COVID-related headwinds** – The Group achieved revenue growth of 18% to £28.6m and adjusted EBITDA growth of 50% to £4.2m driven by a recovery across all divisions from COVID-related challenges and tight control of costs. We anticipate this year-on-year (yoy) growth accelerating in H2 as the hospitality sector reopens. Adjusted basic EPS rose by 46% to 2.7p and the interim dividend doubled from 0.3p to 0.6p. Period end net cash stood at £5.2m (31 December 2020: £4.9m).
- **Improvements achieved across all three divisions** – System sales within the Metro Rod division increased by 21% to a record £23.7m with revenues ahead by 19% to £17.5m and adjusted EBITDA up 54% at £2.3m. Willow Pumps revenues grew more slowly, as the continued partial closure of the hospitality sector impacted activity levels, yet still achieved an 11% yoy increase to £7.8m and adjusted EBITDA growth of 13% to £0.9m. The B2C division also had a very strong H1 with 40 new franchisees recruited leading to a 32% increase in revenues and a 63% increase in adjusted EBITDA to a record £1.5m.
- **Forecasts raised for 2021 and 2022 and focus on acquisitions** – The Board reiterates its confidence in the H2 outcome and is therefore anticipating a full year performance ahead of market consensus. Consequently, we have increased our earnings forecasts for 2021 by c.6% and 2022 by c.3% while still factoring in some prudence in our projections. Management is now focusing more closely on earnings-enhancing acquisitions and is reviewing several opportunities.
- **Strong management team with a proven track record** – Since its flotation in 2016, the Board has demonstrated its ability to drive growth through structural innovation, incentivisation of the franchisee network and complementary acquisitions. In addition, Stephen Hemsley (Co-founder & Executive Chairman) and Nigel Wray (Co-founder & NED) continue to have a substantial personal commitment in the business adding weight to the investment proposition. Given the upgrade to forecasts we have increased fair value from 200p to 215p reflecting the Group's record of strong earnings growth, anticipated future growth and the prospect of significantly earnings-enhancing acquisitions.

Year End: December

£m	2019A	2020A	2021E	2022E
REVENUE	44.0	49.3	58.4	63.9
ADJUSTED EBITDA	5.2	6.6	8.5	9.7
ADJUSTED PBT	4.1	4.8	6.4	7.7
ADJUSTED EPS (p)	4.34	4.35	5.45	6.50
DIVIDEND (p)	0.95	1.10	1.50	1.85
ADJ NET (DEBT)/CASH	-9.2	6.5	8.6	12.7
PER (x)	34.7	34.6	27.6	23.1

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.

Corporate

Current price	150.5p
Sector	Waste & disposal services
Code	FRAN.L
AIM	AIM

Share Performance

	1m	3m	12m
FRAN.L	-1%	+9%	+67%

Source: Thomson Reuters, Allenby Capital

Share Data

Market Cap (£m)		144.1
Shares in issue (m)		95.8
52 weeks	High	Low
	156.5p	89.0p
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

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Equity Research

Interim results summary

EXHIBIT 1: FIRST HALF FINANCIAL SUMMARY

	H1 2021 £000	H1 2020 £000	*change*
INCOME STATEMENT			
Statutory revenue	28,631	24,209	*18.3%*
Gross profit	11,710	9,576	*22.3%*
margin	*40.9%*	*39.6%*	*3.4%*
Adjusted EBITDA	**4,168**	**2,782**	*49.8%*
margin	*14.6%*	*11.5%*	*26.7%*
Adjusted PBT	**3,192**	**1,854**	*72.2%*
Adjusted EPS (p)	**2.70**	**1.84**	*46.7%*
Dividend (p)	**0.60**	**0.30**	*100.0%*
Adjusted net cash	**6,709**	**6,686**	*0.3%*
BALANCE SHEET			
Non-current assets	39,936	39,560	*1.0%*
Current assets (excluding cash)	16,920	15,784	*7.2%*
Cash	12,182	13,203	*-7.7%*
Total current assets	29,102	28,987	*0.4%*
Total assets	**69,038**	**68,547**	*0.7%*
Current liabilities	-14,604	-14,378	*1.6%*
Non-current liabilities	-9,724	-10,328	*-5.8%*
Total liabilities	**-24,328**	**-24,706**	*-1.5%*
Net current assets	**14,498**	**14,609**	*-0.8%*
Net assets	**44,710**	**43,841**	*2.0%*
CASH FLOW			
Operating cash flow before working capital movements	4,168	2,782	*49.8%*
Net movement in working capital	-669	-1,800	*-62.8%*
Tax	-444	-127	*249.6%*
Net cash from operating activities	**3,055**	**855**	*257.3%*
Net cash used in investing activities	**-1,654**	**-178**	*829.2%*
Net cash generated/(used) in financing activities	**-2,422**	**9,461**	-
Net increase/(decrease) in cash	**-1,021**	**10,138**	-
Cash at start of year	13,203	1,682	*685.0%*
Cash at end of year	**12,182**	**11,820**	*3.1%*

Source: Franchise Brands

Group revenue up 18% reflecting COVID challenges in Q1 but a strong recovery in Q2 as lockdown eased

Group revenue in the first half increased by 18% to £28.6m, reflecting a relatively challenging Q1 due to continuing COVID restrictions (although still stronger than Q1 2020) but an encouraging recovery in Q2 as the lockdown was eased. Conversely, the first six months of 2020 comprised of a very strong Q1 and a much weaker Q2 as COVID restrictions began to severely impact business activity.

Gross profit up 22% reflecting strong performance from Metro Rod and B2C

Gross profit also increased, but at a higher rate (22%) than revenue growth, due to a stronger performance from the higher-margin franchise operations of Metro Rod and B2C and margin improvement from Willow Pumps. Overall, gross margin increased 130bps from 39.6% to 40.9%.

Adjusted EBITDA up 50% to a record £4.2m

Overheads were prudently managed while new ways of working as a function of the pandemic and the continuing benefits resulting from the investment in IT systems further reduced costs. As a percentage of revenue, administrative expenses (before depreciation, amortisation, share based charges and exceptional items) fell from 28.1% to 26.3%. Resulting adjusted EBITDA increased by 50% to a record £4.2m (H1 2020: £2.8m).

Adjusted EPS up 46% to 2.7p

After a reduced interest charge, adjusted pre-tax profit increased by 72% to £3.2m (H1 2020: (£1.9m) with adjusted EPS up 46% at 2.7p.

The tax charge was 40% (H1 2020: 35%) and was higher than the statutory rate of 19% due to the revaluation of the deferred tax liability on acquired intangibles resulting from the increase in the future corporation tax rate to 25%. This added £0.6m to the H1 tax charge. Excluding this one-off charge (which will not recur at the year-end), the underlying tax rate would have been 19%.

Cash and available facilities of £19.2m

At the half year end the Group had cash of £12.2m and undrawn bank facilities of £7m, giving the Group £19.2m of cash and available facilities.

Dividend up 100% to 0.6p which reflects a reweighting between interim and final

Given the good results, strong balance sheet and a positive outlook for the remainder of the year, the Board declared a dividend of 0.6p. This is twice the level of dividend paid in the comparative period and reflects a reweighting between the interim and final dividend and the unwinding of the cautious approach taken in 2020.

Divisional analysis

EXHIBIT 2: DIVISIONAL ANALYSIS - H1 2021 v H1 2020

	H1 2021								H1 2020			
	Metro Rod	*% change*	Willow Pumps	*% change*	B2C	*% change*	H1 2021	*% change*	Metro Rod	Willow Pumps	B2C	H1 2020
	£000		£000		£000		£000		£000	£000	£000	£000
Revenue	17,459	*19.3%*	7,805	*11.0%*	3,367	*32.5%*	28,631	*18.3%*	14,636	7,031	2,542	24,209
Gross Profit	5,065	*22.3%*	4,049	*17.0%*	2,596	*31.4%*	11,710	*22.3%*	4,141	3,460	1,975	9,576
margin	*29.0%*	*2.5%*	*51.9%*	*5.4%*	*77.1%*	*-0.8%*	*40.9%*	*3.4%*	*28.3%*	*49.2%*	*77.7%*	*39.6%*
Admin expenses	-2,717	*3.7%*	-3,120	*18.2%*	-1,140	*5.4%*	-6,978	*10.0%*	-2,620	-2,640	-1,082	-6,343
as a % of revenue	*15.6%*	*-13.1%*	*40.0%*	*6.5%*	*33.9%*	*-20.5%*	*24.4%*	*-7.0%*	*17.9%*	*37.5%*	*42.6%*	*26.2%*
Divisional EBITDA	2,347	*54.4%*	929	*13.3%*	1,456	*63.0%*	4,732	*46.4%*	1,520	820	893	3,233
margin	*13.4%*	*29.4%*	*11.9%*	*2.1%*	*43.2%*	*23.1%*	*16.5%*	*23.8%*	*10.4%*	*11.7%*	*35.1%*	*13.4%*
Group overheads							-564					-451
Adjusted EBITDA							**4,168**					**2,782**
margin							*14.6%*					*11.5%*

Source: Franchise Brands

Growth across all divisions

Revenue, gross profit and divisional EBITDA increased in all divisions while administrative expenses as a percentage of revenue also fell yoy in Metro Rod and the B2C divisions. There was a slight increase at Willow Pumps which reflects lower operational gearing opportunities within the business compared to the franchise operations.

Metro Rod Division

The Metro Rod Division comprises the franchise activities of Metro Rod and Metro Plumb, and the direct labour (DLO) London plumbing business Kemac.

EXHIBIT 3: METRO ROD DIVISION - H1 ANALYSIS

	H1 2021	*% change*	H1 2020
	£000		£000
Revenue	17,459	*19.3%*	14,636
Gross profit	5,065	*22.3%*	4,141
margin	*29.0%*	*2.5%*	*28.3%*
Admin expenses	-2,717	*3.7%*	-2,620
as a % of revenue	*15.6%*	*-13.1%*	*17.9%*
Adjusted EBITDA	**2,347**	*54.4%*	**1,520**
margin	*13.4%*	*29.4%*	*10.4%*

Source: Franchise Brands

Reconciliation of system sales to gross profit

The statutory revenue of Metro Rod does not reflect the underlying system sales generated by the franchisees. This is because national sales are accounted for on a gross basis as are the sales of Kemac and the DLO activities, whereas in respect of the local sales generated by franchisees only the management service fee (MSF) revenue is reflected. A reconciliation of system sales to gross profit is given below:

EXHIBIT 4: METRO ROD - SYSTEM SALES TO GROSS PROFIT RECONCILIATION

	H1 2021	*% change*	H1 2020
	£000		£000
System sales	**23,699**	*20.9%*	**19,600**
MSF income	4,400	*17.4%*	3,747
Effective MSF	*18.6%*	*-2.9%*	*19.1%*
Other gross profit	665	*68.8%*	394
Total gross profit	**5,065**	*22.3%*	**4,141**

Source: Franchise Brands

A tale of two quarters – for both half years - but an acceleration in system sales in Q2 2021 and a record June

H1 results from Metro Rod and Metro Plumb represented a tale of two different quarters for both H1 2020 and H1 2021. Q1 2020 was strong with COVID only impacting the last two to three weeks of the period and as a result yoy growth in system sales was 19%. By contrast, the outcome for Q1 2021 was relatively weak being impacted by the winter lockdown and as a result system sales grew by just 2% yoy, although still a good outturn given that this growth was achieved against a strong comparator. Q2 2021 reflected an acceleration in system sales of 48% with a record £4.3m being achieved in June.

System sales for the year up 21% and MSF up 17%

Overall, system sales in the half year increased by 21% to £23.7m and MSF by 17% to £4.4m. The effective MSF rate declined marginally from 19.1% to 18.6% as the group continued to incentivise franchisees by offering a variety of MSF discount schemes designed to encourage sales growth and investment in a broader range of equipment and people.

Encouraging progress from almost the entire franchise network

The growth in system sales was spread through almost the entire network, with 44 of the 47 Metro Rod and Metro Plumb franchisees growing their business during the first half of the year (2020: 21). Of the 44 achieving yoy growth, 70% or 31 franchisees grew by more than 20% (2020: 8). Good progress was also made on existing initiatives to widen and deepen the services offered by the franchise network, particularly in the area of pump service and maintenance.

Contract with Peel Ports highlights Group's ability to take on large scale projects directly

Metro Rod now has the ability to take on large scale projects for customers directly, as seen in the award of a £1m contract with Peel Ports Group to deliver a comprehensive drainage mapping and maintenance plan for its Liverpool site. The Group invested c.£1.0m in additional equipment and employed 20 new operatives to satisfy the requirements of the project.

Metro Plumb traded well and remains a growth opportunity for the Group

Metro Plumb continued to trade well throughout the period due to the resilient nature of its principal activity of emergency plumbing services. The Group now has five independent Metro Plumb franchisees compared with two in the first half of 2020. Management believes that Plumbing remains a clear growth opportunity for the Group and therefore we expect further recruitment of independent franchisees and broadening the customer base.

Encouraging growth from Kemac reflecting management changes in 2020

Kemac, operates 6 Metro Plumb territories in the London area, and provides specialist services to several water utilities. The business showed good growth in the half year, following management changes made in 2020. It is currently working on broadening its customer base to improve resilience and increase the range of services offered. This business is shown under "other gross profit" in Exhibit 4 above and includes the contribution from Metro Rod's new centrally managed contract with Peel Ports.

Admin costs increase but decline as a % of revenue

Administrative costs of the division increased modestly by 4% but as a percentage of revenue fell by 13% to 15.6% benefitting from the permanent cost savings achieved through efficiencies developed during lockdowns and the continuing benefits arising from the investment in IT systems.

Digital transformation of the business continues resulting in improved customer service and efficiency savings

The digital transformation in the Metro Rod back office is continuing with the completion of the roll-out of the new works management system "Vision" at the end of 2020 and the introduction of the customer portal "Connect". These platforms are resulting in improved customer service and efficiency savings and a series of upgrades are expected to further enhance functionality.

This integrated platform now enables the division to progress with further automation of the job acquisition, deployment, reporting and invoicing process using robotics and AI technologies. In addition, the digitisation of the business is having a positive impact on overhead costs as manual, repetitive, tasks are automated which will improve operational gearing, and hence profitability.

Willow Pumps Division

Willow Pumps comprises the Willow Pumps DLO pump business acquired in 2019 and the Metro Rod corporate franchises in Kent & Sussex and Exeter.

EXHIBIT 5: WILLOW PUMPS DIVISION - H1 ANALYSIS

	H1 2021	% change	H1 2020
	£000		£000
Revenue	7,805	*11.0%*	7,031
Gross profit	4,049	*17.0%*	3,460
margin	*51.9%*	*5.4%*	*49.2%*
Admin expenses	-3,120	*18.2%*	-2,640
as a % of revenue	*40.0%*	*6.5%*	*37.5%*
Adjusted EBITDA	**929**	*13.3%*	**820**
margin	*11.9%*	*2.1%*	*11.7%*

Source: Franchise Brands

Sales in core ops impacted by COVID in Q1 (-31%) but recovered strongly in Q2 (+43%) …

The core Willow Pumps operation was significantly impacted by the winter lockdown with Q1 sales down 31% yoy. However, these recovered strongly in Q2 as the restrictions lifted with sales growth of 43% yoy in the quarter, resulting in overall sales growth of 9% in the first half of the year.

…and management expectations of continued improvement in H2

This business has a greater focus on the hospitality sector than Metro Rod, particularly in relation to hotel and holiday venues, but management is confident that sales growth will accelerate in the second half of the year as these venues fully reopen.

Overall revenue growth of 11% reflecting exposure to hospitality sector

The Willow Pumps division overall, increased revenues by 11% to £7.8m, a lower rate of growth than in other areas of the Franchise Brands' Group, again reflecting the division's greater exposure to the hospitality sector which had not returned to pre-COVID levels in the half year.

Gross margins up 270bps due to strong growth in higher margin activities

Gross margins however, increased by 270bps to 51.9% as a direct result of an increase in higher margin service and emergency revenue and a weaker performance from the lower gross margin supply & installation (S&I) activities. Service work now represents 77% of total sales (H1 2020: 64%).

Service work is generated form the routine service and maintenance of pumps and drains. S&I revenue is generated from the design, supply and installation of pump stations which are typically projects that are performed over several accounting periods. Due to the significant costs of the pumps involved in S&I contracts, this type of activity typically generates a lower level of gross profit than Service revenue.

Following the transfer of two Metro Rod corporate franchise areas (Kent & Sussex and Exeter) to Willow Pumps in the first half of 2020, their sales have grown by 19% yoy and have returned to profitability.

System sales of pump related work within MR grew by 159%

Willow Pumps continues to facilitate the growth of pump-related work within Metro Rod, where system sales by franchisees have increased 159% to £0.7m (H1 2020: £0.3m), more than that achieved in the whole of 2019 and 2020 combined.

Limited ability for operational gearing results in admin expenses rising by 18%

DLOs tend to have less opportunity to generate operational gearing than franchise businesses as the increase in income needs to be matched to some extent by a corresponding increase in overheads. As a result, administrative expenses increased by 18% yoy representing 40% of revenue (H1 2020: 37.5%).

B2C Division

The B2C division comprises the ChipsAway, Ovenclean and Barking Mad franchise businesses.

EXHIBIT 6: B2C DIVISION - H1 ANALYSIS

	H1 2021 £000	*% change*	H1 2020 £000
Revenue	3,367	*32.5%*	2,542
Gross profit	2,596	*31.4%*	1,975
margin	*77.1%*	*-0.8%*	*77.7%*
Admin expenses	-1,140	*5.4%*	-1,082
as a % of revenue	*33.9%*	*-20.5%*	*42.6%*
Adjusted EBITDA	**1,456**	*63.0%*	**893**
margin	*43.2%*	*23.1%*	*35.1%*

Source: Franchise Brands

Revenue is generated from MSF imposed upon the franchisees and based on fixed monthly fees together with area sales which are the fees generated from the sale or resale of existing franchise territories.

Divisional revenues grew 32%...

Divisional revenues grew by 32% in the period as the impact of COVID dissipated and as most of the franchisees continued to trade all were paying full monthly MSF. These fees were previously suspended or greatly reduced to ensure the survival of the franchisee network.

...and robust growth in recruitment with 40 new franchisees joining

Franchise recruitment also showed a welcome return to strong growth with 40 new franchisees (H1 2020: 27) joining the three brands. ChipsAway recruited 27 new franchisees in the period (H1 2020: 23) and Ovenclean recruitment accelerated strongly with 9 new recruits (H1 2020: 2). Barking Mad also contributed with 4 new recruits (H1 2020: 2). The total number of franchisees in the B2C division grew to 393 (30 June 2020: 389).

ChipsAway generated 86% of divisional EBITDA

ChipsAway continues to be the division's largest network, generating 86% of divisional EBITDA, an increase of 51% over the comparative period in the prior year. The improved franchise recruitment income at Ovenclean allowed it to contribute 13% of divisional EBITDA and more than double its contribution in the period.

Barking Mad, the smallest network, returned to profitability due to franchise recruitment, the closure of its office and the integration of its activities into the main Kidderminster facility. However, Barking Mad's MSF income is not expected to recover until the foreign holiday market returns.

63% growth in H1 divisional adjusted EBITDA

Overall, the 31% increase in divisional gross profit, a stable cost base and the closure of the Barking Mad office, led to a very strong 63% increase in H1 adjusted EBITDA to a record £1.5m (H1 2020: £0.9m; H1 2019: £1.2m).

Outlook and Upgraded Forecasts

Board confident that full year will be ahead of current market consensus forecasts

The Board states that the second half has started encouragingly with growth continuing in both Metro Rod and Willow Pumps as the hospitality sector opens up. In the B2C division, franchisee recruitment remains buoyant and in consequence the Board is confident that the full year performance will be ahead of current consensus market expectations. We are therefore raising our expectations as follows:

EXHIBIT 7: CHANGES TO 2021 AND 2022 FORECASTS

	2021 E (NEW) £000	% *change*	2021E (OLD) £000	2022 E (NEW) £000	% *change*	2022E (OLD) £000
Revenue	58,350	*2.0%*	57,200	63,850	*3.0%*	62,000
Gross profit	24,100	*5.0%*	22,950	26,110	*4.2%*	25,050
Adjusted EBITDA	8,450	*7.0%*	7,900	9,650	*3.8%*	9,300
Adjusted PBT	6,440	*6.3%*	6,060	7,690	*4.1%*	7,385
Adjusted EPS	5.45	*6.2%*	5.13	6.50	*2.7%*	6.33
Dividend	1.50	*7.1%*	1.40	1.85	*2.8%*	1.80

Source: Franchise Brands; Allenby Capital

Still well placed to achieve strategic financial goals of £100m sales and £15m of adjusted EBITDA run rate by end 2023

Management is now confident that external influences aside, the Group is well positioned to generate continued organic growth across all three divisions and remains on track to deliver on its strategic financial targets of a revenue run-rate of £100m and adjusted EBITDA of £15m by the end of 2023.

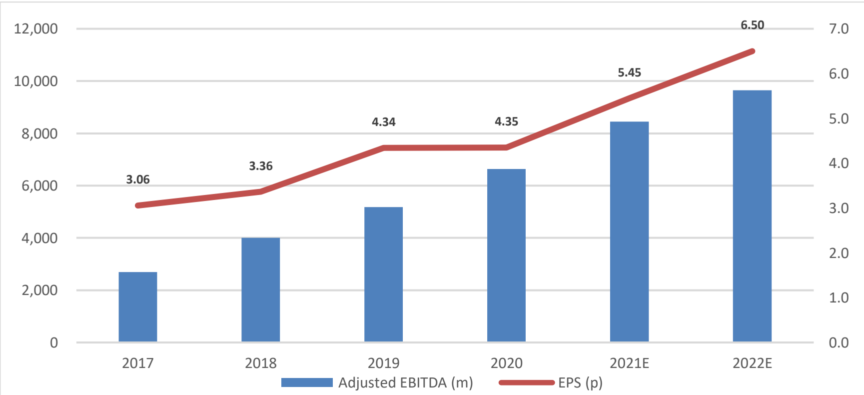
Board currently reviewing acquisition opportunities that would be significantly earnings enhancing

With all main businesses growing again and with a positive outlook, the Board is increasing its focus on growth through acquisition and is currently reviewing opportunities that would be significantly earnings enhancing. This focus on acquisitive growth is supported by a strong balance sheet with cash of £12.2m at 30 June 2021 and undrawn bank facilities of £7m (comprised of the £5m RCF and £2m overdraft), giving the Group £19.2m of cash and available facilities.

We remain confident in management's ability to drive future organic and acquisitive growth

The Board has established a well-deserved reputation for identifying and integrating acquisitions which deliver significant enhancements to earnings. We are therefore very confident in the ability of management to drive further growth in its business activities both organically and through strategic acquisitions.

EXHIBIT 8: HISTORIC AND PROSPECTIVE ADJUSTED EBITDA AND EPS



Source: Franchise Brands; Allenby Capital

Fair value increased to 215p

Given the upgrade to forecasts and the expectation of further strong growth to come we are increasing fair value from 200p to 215p, a c.43% increase over the current share price.

Income Statement

EXHIBIT 9: INCOME STATEMENT AND FORECASTS

	£m	£m	£m	£m
Y/E December	**2019A**	**2020**	**2021E**	**2022E**
ADJUSTED				
Revenue	44.01	49.29	58.35	63.85
Gross profit	**16.38**	**20.93**	**24.10**	**26.11**
Gross profit margin	*37.2%*	*42.5%*	*41.3%*	*40.9%*
Administrative expense before D&A, share based charges, exceptional items	-11.20	-14.29	-15.65	-16.46
as a % of revenue	*25.4%*	*29.0%*	*26.8%*	*25.8%*
Adjusted EBITDA	**5.18**	**6.64**	**8.45**	**9.65**
margin	*11.8%*	*13.5%*	*14.5%*	*15.1%*
Depreciation	-0.64	-1.15	-1.56	-1.52
Amortisation of software	-0.12	-0.21	-0.15	-0.15
Adjusted operating profit	4.43	5.28	6.74	7.98
Operating margin	*18.1%*	*18.0%*	*21.2%*	*21.5%*
Finance expense	-0.36	-0.45	-0.30	-0.29
Adjusted profit before tax	**4.07**	**4.84**	**6.44**	**7.69**
Tax	-0.69	-0.90	-1.22	-1.46
Tax rate	*16.9%*	*18.6%*	*19.0%*	*19.0%*
Adjusted post tax profit	3.38	3.94	5.22	6.23
STATUTORY				
Adjusted operating profit	4.43	5.28	6.74	7.98
Share based charges	-0.24	-0.21	-0.22	-0.25
Acquisition of acquired intangibles	-0.26	-0.39	-0.39	-0.40
Cost of acquisition	-0.30	-0.71	0.00	0.00
Exceptional items	0.00	0.15	-0.06	0.00
Statutory operating profit	3.63	4.13	6.07	7.33
Operating margin	14.9%	14.0%	19.1%	19.8%
Finance expense	-0.36	-0.45	-0.30	-0.29
Statutory profit before tax	3.28	3.68	5.77	7.04
Tax	-0.57	-0.89	-1.07	-1.30
Tax rate	*17.3%*	*24.1%*	*18.5%*	*18.5%*
Statutory post tax profit	2.71	2.79	4.70	5.74
Shares				
Basic, weighted average (m)	77.948	90.463	95.758	95.758
Diluted, weighted average (m)	79.139	92.112	98.148	98.148
Shares in issue at year end (m)	79.314	95.758	95.758	95.758
EPS				
Basic adjusted (p)	**4.34**	**4.35**	**5.45**	**6.50**
Basic statutory (p)	3.48	3.09	4.91	5.99
Dividend				
Interim (p)	0.30	0.30	0.60	0.60
Final (p)	0.65	0.80	0.90	1.25
Total dividend per share (p)	**0.95**	**1.10**	**1.50**	**1.85**

Source: Franchise Brands; Allenby Capital

Balance Sheet

EXHIBIT 10: BALANCE SHEET AND FORECASTS

	£m	£m	£m	£m
Y/E December	**2019A**	**2020**	**2021E**	**2022E**
Assets				
Non-current assets				
Intangible assets	35.06	34.75	34.46	34.16
Property, Plant & Equipment	1.24	1.27	2.47	2.70
Right-of-use assets	3.54	3.17	1.97	0.77
Total non-current assets	**39.84**	**39.20**	**38.91**	**37.63**
Current assets				
Inventories	0.59	0.71	0.71	0.70
Trade and other receivables	16.94	15.29	16.89	18.69
Cash and Cash equivalents	1.68	13.20	13.67	15.51
Total current assets	**19.21**	**29.20**	**31.26**	**34.89**
Total Assets	**59.05**	**68.40**	**70.17**	**72.52**
Liabilities				
Current liabilities				
Trade and other payables	-12.68	-10.85	-12.30	-13.35
Loans and borrowings	-4.07	-2.13	0.00	0.00
Obligations under finance leases	-0.92	-1.03	-0.92	-0.92
Current tax liability	-0.59	-0.45	-0.89	-0.89
Total current liabilities	**-18.28**	**-14.46**	**-14.11**	**-15.16**
Non-current liabilities				
Loans and borrowings	-5.20	-3.00	-2.53	-0.33
Obligations under finance leases	-2.56	-2.10	-3.10	-3.10
Contingent consideration	-3.61	-3.46	-3.14	-2.84
Deferred tax liability	-1.54	-1.75	-1.20	-1.20
Total non-current liabilities	**-12.91**	**-10.30**	**-9.96**	**-7.46**
Total liabilities	**-31.19**	**-24.76**	**-24.08**	**-22.63**
Net current assets	**0.93**	**14.75**	**17.15**	**19.73**
Net Assets	**27.86**	**43.64**	**46.10**	**49.90**

BALANCE SHEET RATIOS

	£m	£m	£m	£m
Y/E December	**2019A**	**2020**	**2021E**	**2022E**
Long-term financial (debts) including IFRS 16 leases	-7.76	-5.10	-5.63	-3.43
Short term financial (debts) including IFRS 16 leases	-5.00	-3.16	-0.92	-0.92
Gross (debt) (including IFRS16 leases)	-12.76	-8.26	-6.55	-4.35
Cash and cash equivalents	1.68	13.20	13.67	15.51
Net cash/(debt) (including IFRS16 leases)	-11.08	4.95	7.12	11.15
Other lease debt	1.90	1.52	1.50	1.50
Adjusted net debt	-9.18	6.47	8.62	12.65
Acid test (Current Assets - inventory / Current Liabilities)	1.02	1.97	2.17	2.26

Source: Franchise Brands; Allenby Capital

Cash Flow

EXHIBIT 11: CASH FLOW AND FORECASTS

	£m	£m	£m	£m
Y/E December	**2019A**	**2020**	**2021E**	**2022E**
Operating cash flow:				
Post tax profit after exceptional costs	2.71	2.79	4.70	5.74
Depreciation	0.64	1.15	1.40	1.48
Amortisation	0.12	0.21	0.15	0.15
Amortisation of acquired intangibles	0.26	0.39	0.39	0.40
Acquisition related costs	0.27	0.71	0.00	0.00
Finance expense	0.36	0.45	0.30	0.29
Other	0.03	-0.15	0.00	0.00
Income tax expense	0.57	0.89	1.22	1.46
Share Based charges	0.24	0.21	0.22	0.25
Operating cash flow before changes in working cap & provisions	**5.18**	**6.64**	**8.39**	**9.76**
Decrease/(increase) in inventories	*0.01*	*0.02*	*0.01*	*0.01*
Decrease/(increase) in trade receivables	*-1.52*	*0.87*	*-1.60*	*-1.80*
Increase (decrease) in trade and other payables	*1.00*	*-1.54*	*1.45*	*1.05*
Net movement in working capital	***-0.52***	***-0.65***	***-0.15***	***-0.74***
Net cash inflow/(outflow) from operating activities	4.66	5.99	8.24	9.02
Income tax paid	-0.15	-0.75	-1.22	-1.46
Net cash (outflow)/inflow from operating activities	**4.52**	**5.24**	**7.02**	**7.56**
Investing Activities:				
Purchase of intangible assets	-0.84	-0.32	-0.25	-0.25
Purchase of property, plant and equipment	-0.87	-0.49	-1.40	-0.50
Acquisition of subsidiary	-3.96	0.00	-0.32	-0.30
Net cash inflow/(outflow) from investing activities	**-5.66**	**-0.81**	**-1.97**	**-1.05**
Financing Activities:				
New term loan	4.00	0.00	0.00	0.00
Repayment of term loan	-2.51	-4.20	-2.20	-2.20
Other loans made	-0.01	-0.16	0.00	0.00
Interest charges	-0.39	-0.45	-0.29	-0.29
Receipts from share issue net of costs	0.36	13.70	0.00	0.00
Purchase of treasury shares	-0.27	0.00	-0.25	-0.25
Dividend payments	-0.59	-0.52	-1.34	-1.44
Funds supplied to EBT	0.00	-0.21	0.00	0.00
Capital element of finance lease repaid	-0.72	-1.07	-0.50	-0.50
Net cash inflow/(outflow) from financing activities	**-0.11**	**7.09**	**-4.58**	**-4.68**
Total net increase/(decrease) in cash and cash equivalents	**-1.26**	**11.52**	**0.47**	**1.84**
Cash and cash equivalents at start of period	2.90	1.68	13.20	13.67
Cash and cash equivalents at end of period	**1.68**	**13.20**	**13.67**	**15.51**

Source: Franchise Brands; Allenby Capital

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