

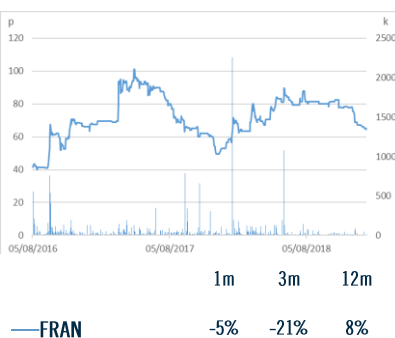
**CORPORATE**

Current price 64.5p

Sector General Retailers

Code (FRAN)

Listing AIM

**SHARE PERFORMANCE**


Source: Fidessa, Allenby Capital

**SHARE DATA**

Market cap (£) 50.0m

Shares in issue (m) 77.5

52 weeks	High	Low
	89.5p	60p

Financial year end Dec

Source: Company Data, Allenby Capital

**LARGEST SHAREHOLDERS**

Nigel Wray 28.01%

Stephen Hemsley 26.62%

Net Cap Ltd 4.35%

Hargreave Hale 4.32%

David Poutney 4.27%

Source: Company Data, Allenby Capital

**Ian Jermin**

+44 (0)20 3328 5664

i.jermin@allenbycapital.com

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

## FRANCHISE BRANDS PLC (FRAN)

### Results to be “at least” in line with expectations

Franchise Brands has published a bullish trading update today which states that the Board “*expects revenues and profits for the year to 31 December 2018 to be at least in line with consensus market expectations*”. It notes the very encouraging progress made with the Board’s “Vision 2023” growth strategy for Metro Rod with all elements of the strategy gathering momentum. In addition, the update reveals that trading in the initial weeks of 2019 has been positive with job intake at Metro Rod up on the same period in 2018 and healthy levels of franchise enquiries at ChipsAway, Ovensclean and Barking Mad. Our forecasts for 2018 are unchanged and in our view the current share price fails to reflect the cash generative nature of the business, the trading progress already achieved or that still to come. We believe the shares remain undervalued.

- Impressive top-line growth achieved at Metro Rod** – During the first half of 2018 the Board introduced “Vision 2023”, a forward-looking strategy for Metro Rod franchisees which set out the market opportunity for the business. This has been widely accepted by the franchisees and has delivered impressive top-line growth in the period. In addition, the investment that has been made in the business systems are delivering the anticipated improvements as well as offering sustained benefits to be realised over the longer term at Metro Rod.
- Welcome increase in Management Service Fee (MSF) income** – The Board states that whilst franchise recruitment has slowed at ChipsAway, Ovensclean and Barking Mad, sound underlying trading and investment by the existing franchisees has driven an increase in MSF. We noted the first half progress in this area with more ChipsAway franchisees moving towards Car Care Centres and multi-van operations which deliver MSF based on actual turnover rather than a fixed monthly fee. Similarly, Ovensclean’s MSF improved in H1 due to an increase in monthly fees.
- No changes to forecasts** – The Group believes consensus headlines for FY2018 to be revenue of £32.7m, profit after tax of £2.2m and basic EPS of 2.89p. We are making no changes to our forecasts, which sit slightly higher than consensus. It is our belief that the Board and management have delivered good growth in the business in 2018 and more importantly have set Metro Rod, the Group’s largest brand, on a strong growth trajectory after a challenging period of integration following its acquisition in April 2017. We expect further growth and cash generation in 2019 and continue to believe that the share price does not adequately reflect either past growth, growth still to come and the cash generative nature of its operations.

**EXHIBIT 1: FINANCIAL SUMMARY**

Year End: 31 December (£'000)	2016	2017	2018E	2019E
FEE INCOME	4,870	12,736	17,300	18,000
ADJUSTED* EBITDA	1,352	2,716	3,681	4,424
ADJUSTED* PBT	1,239	2,129	2,819	3,484
ADJUSTED* EPS (p)	2.40	2.50	2.94	3.63
PER (x)	26.9	25.8	21.9	17.8
DIVIDEND (p)	0.17	0.50	0.58	0.71
NET CASH / (DEBT)	2.48	-6.26	-4.65	-2.12

Source: Franchise Brands plc; Allenby Capital

\* Adjusted PBT and EPS are stated before exceptional items and in the case of EBITDA only, before share based charges.

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

## FINANCIAL SUMMARY

### EXHIBIT 2: FINANCIAL SUMMARY

#### PROFIT & LOSS

	£000	£000	£000	£000
Y/E December	FY 2016A	FY 2017A	FY 2018E	FY 2019E
Fee income	4,870	12,736	17,300	18,000
Gross profit	3,298	9,715	13,441	14,124
<i>margin</i>	67.7%	76.3%	77.7%	78.5%
Total operating costs	-1,946	-6,998	-9,760	-9,700
<i>as a % of revenue</i>	40.0%	28.1%	28.7%	27.7%
Adjusted EBITDA	1,352	2,716	3,681	4,424
<i>margin</i>	27.8%	10.9%	10.8%	12.6%
Profit/(Loss) before tax (adjusted)	1,239	2,129	2,819	3,484
Net Profit/(Loss)	524	-112	2,283	2,822
Weighted Average Shares	40.84	69.55	77.73	77.73
Weighted Average Shares (fully diluted)	40.99	70.30	81.13	81.13
EPS adjusted (basic) (pence)	2.40	2.50	2.94	3.63
Dividend	0.17	0.50	0.58	0.71

#### CASH FLOW

	£000	£000	£000	£000
Y/E December	FY 2016A	FY 2017A	FY 2018E	FY 2019E
Net cash inflow from operating activities	909	701	2,740	3,711
Net cash outflow from investing activities	-341	-28,509	-400	-450
Net cash inflow/(outflow) from financing activities	1,935	28,054	-3,786	-2,736
Cash and cash equivalents at end of the year	2,999	3,245	1,799	2,324

#### BALANCE SHEET

	£000	£000	£000	£000
Y/E December	FY 2016A	FY 2017A	FY 2018E	FY 2019E
<b>Assets</b>				
Non-current assets	2,375	27,187	27,137	27,087
Current assets (excluding cash)	500	9,922	10,762	11,096
Cash	2,999	3,245	1,799	2,324
<b>Total Assets</b>	<b>5,874</b>	<b>40,354</b>	<b>39,698</b>	<b>40,507</b>
<b>Liabilities</b>				
Current liabilities	-1,485	-11,317	-9,752	-9,205
Non-current liabilities	-486	-5,846	-4,876	-3,876
<b>Total Liabilities</b>	<b>-1,971</b>	<b>-17,163</b>	<b>-14,628</b>	<b>-13,081</b>
<b>Net Assets</b>	<b>3,903</b>	<b>23,191</b>	<b>25,070</b>	<b>27,426</b>
<b>Net (debt)/cash</b>	<b>2,480</b>	<b>-6,260</b>	<b>-4,647</b>	<b>-2,120</b>

Source: Franchise Brands; Allenby Capital

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Ian Jermin is the author of this research recommendation. Ian is employed by Allenby Capital Limited as an Equity Analyst.

Tel: 0203 328 5664

Email [i.jermin@allenbycapital.com](mailto:i.jermin@allenbycapital.com)

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.

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**Allenby Capital**  
**5 St Helen's Place London EC3A 6AB**  
**+44 (0)20 3328 5656**

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