COMPANY NOTE

Interim results

23 July 2019

FRANCHISE BRANDS PLC (FRAN)

A further period of strong organic growth

H1 2019 was a period of strong organic growth for the Group with encouraging progress from the Group's principal brand, Metro Rod. Following a much-needed overhaul of Metro Rod's IT systems and processes and a revitalised franchisee network, there was an acceleration in system sales up 15% year-on-year (yoy). With a new works management system due to be rolled out in Q4 2019/Q1 2020, Metro Rod will be far better equipped to unlock the potential within the franchise network that the Board foresaw on acquisition. We are confident that there is much more to come. In the B2C space, ChipsAway, Ovenclean and Barking Mad all noted an improved level of franchisee recruitment against the decline seen in H2 2018, but still lower in EBITDA terms yoy. Net debt has reduced from £5.9m to £5.4m and the interim dividend has been increased by 43% to 0.30p. The outlook remains encouraging and our forecasts for the year are unchanged.

- **Fee and direct labour income up 25%** – to £10.6m (H1 2018: £8.4m). Management Service Fee (MSF) income rose by 11% to £5.4m although the MSF contribution to the total reduced from 58% to 51% due in part to a continuing strong performance from the four direct labour businesses which saw income rise by 99% year-on-year to £3.2m representing 30% of total fee and direct labour income.

- **EBITDA increased by 25%** - to £2.5m, with a strong half year from Metro Rod which reported EBITDA up 44% from £1.2m to £1.7m thanks to higher MSF and effective control of overheads. After lower finance costs, profit before tax increased by an impressive 27% to £1.8m, while EPS after a slightly higher effective tax rate rose by 24% to 1.84p although fully diluted EPS was ahead by 27% to 1.82p.

- **Net debt fell** - from an IFRS16 restated £5.9m at the end of December 2018 to £5.4m and would have been lower save for a temporary increase in debtor days from 63 to 67 which was influenced by the change in the Group's accounting and finance systems, the benefits of which should be apparent in H2 2019.

- **Outlook remains positive** – both in terms of continued organic growth, in particular from Metro Rod as the benefits of Vision 2023 bear fruit, but also from potential earnings enhancing acquisitions of other reasonably valued franchise brands or businesses. With the outlook remaining very positive we reiterate our fair value of circa 100p, some 25% higher than the current share price.

EXHIBIT 1: FINANCIAL				
Year End: 31 December (£m)	2017	2018	2019E	2020E
FEE AND OTHER INCOME	12.7	17.9	20.7	22.5
EBITDA	2.7	4.0	4.8	5.6
EBITDA GROWTH	*100%*	*48%*	*21%*	*15%*
PBT	2.1	2.9	3.5	4.3
ADJ. EPS (p)	3.28	3.37	4.08	5.04
PER (x)	25.8	25.1	20.7	16.8
DIVIDEND (p)	0.50	0.67	0.91	1.12
NET CASH / (DEBT)	-7.3	-5.9	-4.6	-1.8

Source: Franchise Brands plc; Allenby Capital Ltd. * Adj. EPS excludes one-off charges, amortisation and share based charges.

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

CORPORATE

Current price	84.5p
Sector	General Retailers
Code	(FRAN)
Listing	AIM

SHARE PERFORMANCE

	1m	3m	12m
—FRAN	2.4%	-2.8%	4.9%

Source: Fidessa, Allenby Capital

SHARE DATA

Market cap (£)		63.1m
Shares in issue (m)		77.4
52 weeks	High	Low
	89p	64.5p
Financial year end		Dec

Source: Company Data, Allenby Capital

LARGEST SHAREHOLDERS

Nigel Wray	28.07%
Stephen Hemsley	26.52%
Net Cap Ltd	4.36%
Canaccord Genuity	4.33%
David Poutney	4.28%

Source: Company Data, Allenby Capital

Ian Jermin

+44 (0)20 3328 5664

i.jermin@allenbycapital.com

www.allenbycapital.com

EQUITY RESEARCH

HALF YEAR REVIEW

Franchise Brands consists of four principal brands, **Metro Rod (including Metro Plumb)**, **ChipsAway, Ovenclean**, and **Barking Mad**. Note that income streams vary from business to business and include a margin on system sales, MSF (a type of royalty payment based on a percentage of system sales, a fixed fee or a combination of both), sales of franchise territories and sales of products that are used by franchisees in the course of their business.

EXHIBIT 2: SEGMENTATION OF EBITDA BY BUSINESS

£000	H1 2019	H1 2018	*% change*
Metro Rod	1,725	1,199	*44%*
ChipsAway	973	947	*3%*
Ovenclean	154	193	*-20%*
Barking Mad	98	138	*-29%*
Group Head Office	-489	-506	*3%*
Group EBITDA	**2,460**	**1,971**	***25%***

Source: Franchise Brands plc

METRO ROD

Metro Rod (including Metro Plumb, Kemac and corporate franchises in Exeter and Brighton & Gatwick), experienced encouraging growth in the first half with EBITDA up 44% to £1.7m and was generated from system sales growth of 15%, an excellent increase on the comparative growth rate of 4%.

It reflects well on the success of Vision 2023 that 84% of the network is now delivering year-on-year (yoy) growth with 45% of franchisees growing at over 20%, two achieving sales of £2m and a further 13 with sales of over £1m. Additional success has been achieved through franchisees promoting a greater volume of higher margin local sales which now represent 42% of overall system sales compared to just 40% a year earlier.

It remains a management target to increase this percentage to 60% over time and to help facilitate this goal and reduce reliance on centrally-won national accounts, the Company has appointed Ailsa Illingworth as Head of Marketing.

Replicating the attributes of its best franchisees across the network in a fragmented commercial drainage market would suggest that there is still very significant potential within this business to grow system sales as its franchisees, with support from the Centre and the benefit of the National Advertising Fund, take more responsibility for the growth of their own businesses.

Management makes the valid point that not all franchisees will be willing or able to take their businesses to the next level and so the appointment of Tracy Ball as Franchise Recruitment Manager will help enable the smooth transfer and sale of territories to new franchisees. This has already resulted in two new franchisees joining the business with a further two sales agreed and a number of other territories under offer. This will result in a more stable network of franchisees, all of whom will be committed to growing their businesses and taking advantage of technological support from the Centre.

Continued integration of new systems and processes

To support the increase in franchisee responsibility and independence, Franchise Brands has invested in a new cloud-based IT system and a new finance platform. These systems and processes have been designed to automate back office workflow which has historically been labour-intensive and costly.

A new quotation system has been rolled out that enables franchisees, after completing reactive work, to submit quotations for remedial work directly to the customer using simplified pre-populated templates. This has allowed the Centre to reduce back office headcount and to reduce the time to quote the customer from twelve days to four.

Management is making good headway in the introduction of a new works management system (WMS). The legacy system was deemed unfit for purpose, particularly on current volumes and failed to link with other systems, for example being unable to adequately update customers on the status of their jobs.

The new WMS is currently being trialled in two territories and it is anticipated that the trials will be extended to a further two territories in H2 with roll out across the network expected in Q4 2019/ Q1 2020.

Management makes the point that although the introduction of the new technology is currently focused on Metro Rod, the systems will have direct applications in other Group businesses and can be applied to future acquisitions as necessary.

METRO PLUMB

Metro Plumb was launched in February 2016 providing 24/7/365, cold-water plumbing services including the repair of leaking pipes, toilets and taps, mainly serving the emergency insurance market. Over 90% of its revenues relate to remedial service contracts with insurance companies that provide first call stabilisation of an emergency plumbing incident in the policy holders home.

It was launched through the established Metro Rod franchise network and all franchisees were given the opportunity to purchase Metro Plumb franchises covering their respective territories with 75% electing to purchase the additional franchise.

However, it has become increasingly evident that a number of franchisees have been utilising the majority of their time on the drainage element of their business with the result that the potential within Metro Plumb has been slower to realise than previously anticipated.

Management has also taken the view that the customer base is too narrow which has resulted in high sales fluctuations and a lack of pricing flexibility. The strategy has therefore been adapted to create smaller territories and franchise these separately from Metro Rod. This process could be enhanced by actively facilitating the sale of territories from franchisees.

KEMAC

Kemac operates five Metro Plumb territories - London Central, London East Central, London South, Reading and Guilford. During 2018, the London South-East territory was sold to two of its independent plumbers that had effectively run the area for Kemac.

The business has enjoyed a strong start to the year being helped by a large contract from a water utility, following on from several large one-off contracts in 2018. This contributed to fee and direct labour income that increased by 99% yoy in total to £3.2m, representing 30% of total fee and direct labour income against just 19% a year earlier.

However, this work with a water utility has now been completed and as its remaining Metro Plumb territories are sold off to independent franchisees, additional work will be required to maintain divisional profitability. The task of placing the business onto a more sustainable and predictable footing is currently underway.

CHIPSAWAY, OVENCLEAN, BARKING MAD

ChipsAway, Ovenclean and Barking Mad franchise recruitment was strong in H1 compared to a relatively weak H2 2018.

ChipsAway

Franchise recruitment was encouraging in the first half with 19 franchisees recruited compared to 6 in H2 2019 with the total network extending to 204 franchisees compared to 201 in H2 2018. Fee income consists of MSF, franchise recruitment and product sales, however the Group is actively engaged in trying to increase the proportion of fee income that is generated from system sales-led MSF with an increasing element of this being turnover related rather than a fixed monthly fee. This offers a higher quality of earnings and one which is directly related to network sales.

To help facilitate this move to higher quality earnings, a model Car Care Centre was recently opened in Kidderminster to showcase the concept to its franchisee network and to allow the company to test new equipment required for the calibration of Advanced Driver Assistance Systems (ADAS) and to train franchisees. The Centre has already achieved modest profitability.

Ovenclean

Ovenclean was launched in 1994 and is one of the UK's original, and (management believes) most successful oven cleaning service in its sector, covering all retail oven brands and models, including electric ovens, gas ovens, ranges, microwaves, hobs and even barbecues.

Franchise recruitment at Ovenclean was pleasing with 9 new recruits in the period compared with 6 in H2 2018 and a total number of franchisees rising from 106 in H2 2018 to 109. However, management states that this increase was still below its expectations and lower than the 13 new franchisees recruited in H1 2018. A reassessment of processes is being undertaken to ensure they remain effective and relevant.

Barking Mad

Barking Mad was established in 2000 as an alternative to putting dogs into kennels and is now believed to be the UK's leading pet sitting service.

In common with the other B2C companies, Barking Mad improved its rate of franchisee recruitment in H1 2019 compared to H2 2018. The business had been run semi-autonomously by its founder Lee Dancy and her husband but has recently been reorganised following their departure from the business.

Rachel Stewart, who was the Business Development Consultant for the past four years, has been promoted to Managing Director and is leading the move to increase the integration of the business with Franchise Brand's shared support services. This will reduce overheads locally and allow the team to refocus on accelerating franchise recruitment and providing business development support to Barking Mad's franchisees.

Almost three-quarters of the network are now licenced under the 2018 Animal Welfare Regulations with their respective Local Authorities which will give Barking Mad a significant competitive advantage and important differentiation over unlicensed web-based providers of dog sitting services.

FINANCIALS

Prior year periods have been restated to reflect IFRS16 Leases. The adoption has had a significant impact on the presentation of the Group's assets and liabilities, mainly relating to property and vehicle leases. The standard has increased lease assets by £0.9m, and increased lease liabilities by a similar value. Overall the standard has had an immaterial overall effect on profit and earnings.

INCOME STATEMENT

EXHIBIT 3: INCOME STATEMENT – HALF YEAR

	H1 2019	H1 2018	*Change*
	£000	£000	
Revenue	20,084	16,844	*19.2%*
Franchisee payments	-9,493	-8,395	*13.1%*
Fee and direct labour income	10,591	8,449	*25.4%*
margin	*52.7%*	*50.2%*	*5.1%*
Other cost of sales	-3,147	-1,972	*59.6%*
as a % of sales	*15.7%*	*11.7%*	*33.9%*
Gross profit	7,444	6,477	*14.9%*
GP margin as a % of fee income	*70.3%*	*76.7%*	*-8.3%*
Admin expenses	-4,984	-4,506	*10.6%*
as a % of revenue	*47.0%*	*53.3%*	*-11.8%*
EBITDA	**2,460**	**1,971**	***24.8%***
Margin as a % of fee and direct labour income	*23.2%*	*23.3%*	*-0.4%*
Depreciation	-317	-201	*57.7%*
Amortisation	-108	-108	*0.0%*
Share based payment	-100	-80	*25.0%*
Finance costs	-159	-187	*-15.0%*
Profit/(loss) before tax	**1,776**	**1,395**	***27.3%***
Tax	-348	-235	*48.1%*
%	19.6%	16.8%	*16.3%*
Post tax profit	**1,428**	**1,160**	***23.1%***

Source: Franchise Brands plc

EXHIBIT 4: FEE AND DIRECT LABOUR INCOME DISTRIBUTION – HALF YEAR

	H1 2019	%	H1 2018	%
	£000	contribution	£000	contribution
MSF Income	5,401	51%	4,861	58%
Sale and resale of franchise territories	908	9%	898	11%
Product Sales	460	4%	535	6%
Direct Labour	3,202	30%	1,611	19%
National Advertising Funds	620	6%	544	6%
Fee and direct labour income	**10,591**	**100%**	**8,449**	**100%**

Source: Franchise Brands plc

Fee and direct labour income rose by 25% to £10.6m with the primary component continuing to be the MSF which grew by 11% to £5.4m. In terms of percentage contribution, MSF income declined from 58% to 51% due to another strong contribution from the direct labour business Kemac which contributed to fee income growth of 99% to £3.2m reflecting in part a large one-off contract with a major water utility. Overall, the EBITDA margin on fee and direct labour income was steady at 23.2% (H1 FY2018: 23.3%).

The increase in recurring MSF income reflects the focus on improving the quality of the Group's income stream to one that is more aligned to the growth in franchisee sales rather than recruitment income from the sale and resale of franchise territories.

Income from the sale and resale of franchise territories fell from 11% of total fee and direct labour income to 9%, while product sales declined from 6% to 4%. The yoy decline in the former reflected a modest reduction in recruitment from 41 to 36 and poor weather which impacted product sales at ChipsAway.

Compared to revenue and fee and direct labour income growth, administrative expenses grew by a lower percentage increasing by just 11% to £5m and represented 47% of revenue against 53% a year earlier. We would expect the increase in overheads in H2 to remain at a similar rate of growth despite the annual rise in salary costs and new hires. We would also anticipate administration costs as a percentage of revenue to continue to decline as the transition of sales responsibilities and their associated costs from the Group to the franchisee, gains traction.

Adjusted EBITDA for the Group increased by 25% from £2.0m to £2.5m with the margin as a percentage of fee and direct labour income largely unchanged moving from 23.3% to 23.2%

EXHIBIT 5: EBITDA BY DIVISION

	H1 2019	H1 2018	Change
	£000	£000	%
Metro Rod	1,725	1,199	44%
ChipsAway	973	947	3%
Ovenclean	154	193	-20%
Barking Mad	98	138	-29%
Head Office	-489	-506	-3%
Group EBITDA	**2,461**	**1,971**	**25%**

Source: Franchise Brands plc

Metro Rod reported EBITDA growth of 44% to £1.7m, generated chiefly from the 15% increase in the MSF. EBITDA from ChipsAway, Ovenclean and Barking Mad were collectively lower at £1.2m against £1.3m a year earlier, a yoy decline of 4.1%.

Profit before tax was reported as £1.8m, a 27% increase on H1 2018 after an increase in depreciation and share based charges while finance costs declined by 15% to £0.16m due to a lower level of debt. Higher depreciation reflected the acquisition of new equipment at the new corporately owned Brighton & Gatwick Metro Rod franchise, the new Car Care Centre at Kidderminster and continuing software development at Metro Rod

Basic earnings per share of 1.84p is based on a weighted average of 77.4m shares and fully diluted earnings per share were 1.82p based on a weighted average of 78.6m.

The Group is cash generative and operates a progressive dividend policy which saw the interim dividend raised by 43% to 0.30p and was covered 6.2x by basic EPS as against 7.5x in H1 2018. In the last full year report and accounts, the dividend cover was 4.5x basic EPS and we assume that this gradual reduction in cover will continue to an eventual level of around 2.5–3.0 times.

CASH FLOW

The Group generated net cash from operating activities of £1.7m (H1 2018: £1.7m). Even though profits were higher, there was a working capital outflow of £0.8m against an outflow of just £0.3m in H1 2018. The lower cash conversion principally resulted from the increase in trade and other receivables as a result of the increase in the level of Metro Rod system sales.

However, this was compounded by an increase in debtor days at Metro Rod from 63 days at the year-end to the current 67 day. This in part was a short-term consequence of the change of accounting and finance system. The longer-term benefits from the new system, with its dedicated credit control module, should be seen in H2 2019.

Capital expenditure on the new Metro Rod corporate franchise and the Car Care Centre together with the capitalised element of the IT investment rose to £0.6m from £0.1m in H1 2018 and we would expect this to rise to around £1m for the full year compared to £0.6m in 2018.

£0.6m of the term loan was repaid in the period, reducing the level of gross debt to £5.7m resulting in available facilities and cash of £5.3m. Net debt was reduced to £5.4m (31 December 2018: £5.9m), giving a comfortable financial gearing figure of 21% (31 December 2018: 24%).

FORECASTS AND CONCLUSION

Forecasts

Our PBT and earnings forecasts are essentially unchanged for the year ending December 2019. However, as a result of the half year outturn we have increased our revenue number from £37.7m to £40.5m, fee and direct labour income from £19.0m to £19.8m and gross profit from £14.1m to £14.7m. Conversely, forecasts for administrative costs have been adjusted upwards from £9.4m to £9.9m which together with minor adjustments to depreciation and share based charges leaves EBITDA and profit before tax effectively unchanged.

EXHIBIT 6: CHANGES TO FORECASTS

	2019E		2020E	
	OLD	NEW	OLD	NEW
	£000	£000	£000	£000
Revenue	37,700	**40,500**	42,800	**44,000**
Fee and direct labour income	19,024	**20,700**	19,024	**22,500**
Gross profit	14,124	**14,730**	14,124	**16,080**
EBITDA	4,719	**4,840**	5,455	**5,580**
Profit before tax	3,484	**3,480**	4,200	**4,335**

Source: Allenby Capital Ltd

We expect the Group to continue to generate significant cash and our expectation for net debt is for this to fall from £5.9m in FY2018 to £4.6m in FY2019 and £1.8m by the end of FY2020, assuming no corporate transactions and incorporating IFRS16. This leaves the Group in a financially flexible position to fund any bolt-on acquisitions from its own resources and able to contemplate larger, earnings enhancing, strategic acquisitions that could be part-funded either through higher debt or equity.

CONCLUSION

"The outlook for the group remains very positive with the combination of accelerating organic growth and the possibility of prudently financed, earnings-enhancing, acquisitions and we look forward to significant growth in earnings and dividends". (Chairman's statement).

Franchise Brands has created a high-quality portfolio of franchise businesses while at the same time gaining critical mass in its chosen sectors. Further investment is ongoing to release the full potential of the Metro Rod business while ChipsAway, Ovenclean and Barking Mad are more mature and we would conclude offer less potential in the future development and growth of the Group overall.

We believe that the management team has now developed a focused strategy and a firm grip on the Metro Rod business. The delivery of this strategy, helped by the Vision 2023 initiative, should unlock further growth opportunities and ultimately an acceleration of that growth in terms of system sales and commensurate MSF income. In addition, the Group is well placed to fund further acquisitions should the opportunities arise.

Thus, the potential for Franchise Brands remains clear and the current share price still fails to reflect either this significant potential or the management team's experience in managing franchise businesses. The shares peaked at 101p in May 2017, a level that we believe better reflects the prospects of substantial long-term capital appreciation and a progressive dividend policy as the Board continues to deliver on its buy and build strategy.

INCOME STATEMENT AND FORECASTS

EXHIBIT 7: INCOME STATEMENT AND FORECASTS

	£000	£000	£000	£000
Y/E December	**2017A**	**2018A**	**2019E**	**2020E**
Revenue	24,867	35,470	40,500	44,000
Franchisee payments	-12,166	-17,604	-19,800	-21,500
Fee and direct labour income	12,701	17,866	20,700	22,500
Margin	*51.1%*	*50.4%*	*51.1%*	*51.1%*
Other cost of sales	-2,986	-4,737	-5,970	-6,420
Gross Profit	9,715	13,129	14,730	16,080
Margin as a % of fee income	*76.5%*	*73.5%*	*71.2%*	*71.5%*
Administrative expenses	-7,017	-9,126	-9,890	-10,500
as a % of fee income	*55.2%*	*51.1%*	*47.8%*	*46.7%*
EBITDA adjusted (before exceptional items)	2,697	4,003	4,840	5,580
Margin as a % of fee income	*21.2%*	*22.4%*	*23.4%*	*24.8%*
Depreciation	-96	-410	-650	-611
Amortisation	-156	-253	-240	-250
Cost of acquisition	-1,878	0	0	0
Share based charges	-58	-138	-190	-240
Operating profit	193	3,202	3,760	4,479
Margin as a % of fee income	*0.8%*	*9.0%*	*9.3%*	*10.2%*
Net Finance Expense	-277	-341	-280	-144
Profit before tax	-84	2,861	3,480	4,335
PBT adjusted - (before exceptional items, amortisation & SBP)	2,324	3,152	3,828	4,695
Tax	-43	-536	-663	-802
Tax rate	*2.0%*	*18.7%*	*19.1%*	*18.5%*
Net Profit	-127	2,325	2,817	3,533
Net Profit adjusted	2,281	2,616	3,165	3,893
Shares				
Basic, weighted average (m)	69.554	77.687	77.500	77.250
Diluted, weighted average (m)	70.295	78.787	81.127	81.127
Shares in issue at year end (m)	77.732	77.532	77.282	77.032
EPS				
Basic adjusted (p)	3.28	3.37	4.08	5.04
Fully Diluted adjusted (p)	3.25	3.32	3.90	4.80
Dividend				
Interim (p)	0.17	0.21	0.30	0.41
Final (p)	0.33	0.46	0.61	0.71
Total dividend per share (p)	**0.50**	**0.67**	**0.91**	**1.12**
Basic cover (x)	4.90	4.40	3.68	3.89
Dividend - cash cost				
Interim (p)	-131	-163	-232	-316
Final (p)	-81	-257	-357	-471
Total dividend per share (p)	-212	-420	-588	-787

Source: Franchise Brands plc; Allenby Capital Ltd. * Adj. EPS excludes one-off charges, amortisation and share based charges.

BALANCE SHEET AND FORECASTS

EXHIBIT 8: BALANCE SHEET AND FORECASTS				
	£000	£000	£000	£000
Y/E December	**2017A**	**2018A**	**2019E**	**2020E**
Assets				
Current assets				
Inventories	252	245	745	1,186
Trade and other receivables	8,144	11,048	13,698	15,948
Cash and Cash equivalents	3,245	2,940	2,289	3,105
Total current assets	**11,641**	**14,233**	**16,732**	**20,239**
Non-current assets				
Property, Plant & Equipment	1,202	1,286	1,216	1,165
Intangible assets	27,025	27,232	27,492	27,492
Total non-current assets	**28,227**	**28,518**	**28,708**	**28,657**
Total Assets	**39,868**	**42,751**	**45,440**	**48,896**
Liabilities				
Current liabilities				
Trade and other payables	-6,406	-8,596	-11,096	-13,796
Other loans and borrowings	-4,164	-3,439	-2,584	-1,584
Obligations under finance leases	-21	-21	-30	-30
Current tax liability	0	-196	-331	-331
Total current liabilities	**-10,591**	**-12,252**	**-14,041**	**-15,741**
Non-current liabilities				
Other loans and borrowings	-5,255	-4,400	-3,255	-2,255
Obligations under finance leases	-1,103	-987	-987	-987
Deferred tax liability	-374	-702	-526	-526
Total non-current liabilities	**-6,732**	**-6,089**	**-4,768**	**-3,768**
Total liabilities	**-17,323**	**-18,341**	**-18,809**	**-19,509**
Net Assets	**22,545**	**24,410**	**26,631**	**29,387**
Balance Sheet Ratios	**£000**	**£000**	**£000**	**£000**
Y/E December	**2017A**	**2018A**	**2019E**	**2020E**
Long-term financial debts	-6,358	-5,387	-4,242	-3,242
Short term financial debts	-4,185	-3,460	-2,614	-1,614
Gross (debt)	-10,543	-8,847	-6,856	-4,856
Cash and cash equivalents	3,245	2,940	2,289	3,105
Net debt	-7,298	-5,907	-4,567	-1,751
Acid test (Current Assets - inventory / Current Liabilities)	1.1	1.1	1.1	1.2
Equity	22,545	24,410	26,631	29,387
Gearing (Net Debt / Equity)	32.4%	24.2%	17.1%	6.0%
Net debt / EBITDA (x)	2.7	1.5	0.9	0.3

Source: Franchise Brands plc; Allenby Capital Ltd

CASH FLOW AND FORECASTS

EXHIBIT 9: CASH FLOW AND FORECASTS

	£000	£000	£000	£000
Y/E December	**2017A**	**2018A**	**2019E**	**2020E**
Operating cash flow				
Post tax profit after exceptional costs	-127	2,325	2,817	3,533
Depreciation	96	131	650	611
Amortisation	156	253	240	250
Finance income	277	310	0	0
Finance expense	0	0	280	144
Income tax expense	43	536	663	802
Share option costs	58	138	190	240
Operating cash flow before changes in working cap & provisions	**503**	**3,693**	**4,840**	**5,580**
Decrease/(increase) in inventories	*-17*	*-202*	*-500*	*-441*
Decrease/(increase) in trade receivables	*-1,229*	*-2,743*	*-2,650*	*-2,250*
Increase (decrease) in trade and other payables	*1,629*	*2,107*	*2,500*	*2,700*
Net movement in working capital	***383***	***-838***	***-650***	***9***
Net cash inflow/(outflow) from operating activities	**886**	**2,855**	**4,190**	**5,589**
Income tax paid	-204	48	-663	-802
Net cash (outflow)/inflow from operating activities	**682**	**2,903**	**3,527**	**4,787**
Investing Activities:				
Purchase of intangible assets	-21	-448	-500	-250
Purchase of property, plant and equipment	-98	-122	-580	-560
Sale of property, plant and equipment	13	0	0	0
Acquisition of subsidiary	-28,403	0	0	0
Net cash inflow/(outflow) from investing activities	**-28,509**	**-570**	**-1,080**	**-810**
Financing Activities:				
Repayment of shareholder loans	-417	0	0	0
New term loan	15,330	0	0	0
Other loans made	0	-138	0	0
Repayment of term loan	-6,000	-1,600	-1,000	-1,000
Repayment of RCF	0	0	-1,000	-1,000
Interest charges	-196	-283	-280	-144
Receipts from share issue net of costs	19,556	0	0	0
Payments to finance lease creditors	-6	-53	-30	-30
Purchase of treasury shares	0	-151	-200	-200
Dividend payments	-213	-420	-588	-787
Net cash inflow/(outflow) from financing activities	**28,054**	**-2,645**	**-3,098**	**-3,161**
Total net increase/(decrease) in cash and cash equivalents	**242**	**-312**	**-651**	**816**
Cash and cash equivalents at start of period	2,999	3,245	2,940	2,289
Cash and cash equivalents at end of period	**3,245**	**2,940**	**2,289**	**3,105**

Source: Franchise Brands plc; Allenby Capital Ltd

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