

## Corporate

Current price **120.5p**

Sector **General Retailers**

Code **FRAN.L**

AIM **AIM**

### Share Performance



Source: Thomson Reuters, Allenby Capital

### Share Data

Market Cap (£m) **95.8**

Shares in issue (m) **79.5**

52 weeks High Low

**128.5p** **64.5p**

Financial year end **December**

Source: Company Data, Allenby Capital

### Key Shareholders

Nigel Wray (NED) 27.38%

Stephen Hemsley (Chair) 25.87%

David Poutney (NED) 4.34%

NetCap Limited 4.25%

Cannacord Genuity 4.22%

Source: Company Data, Allenby Capital

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## Franchise Brands plc (FRAN.L)

### Significant year on year growth achieved in FY2019

Franchise Brands' trading update for the year to December 2019 states that results are expected to be "at least" in line with consensus market expectations which the Board believes to be revenue of £40.55m, underlying EBITDA of £5.15m and underlying EPS of 4.26p implying significant year on year growth. Allenby Capital's forecasts are marginally above consensus, however, our forecasts remain unchanged for FY2019 and FY2020. With Metro Rod trading well, the Willow Pumps acquisition bedding in nicely and the B2C franchise businesses experiencing strong franchisee recruitment and cash generation, we view the future with confidence and have raised our fair value from 120p to 145p.

- A strong performance across the board** - Management reports that the strong performance achieved in the year was driven by encouraging revenue growth from the Metro Rod franchisee network which resulted in year on year System Sales growth of 14%. In addition, the B2C brands of ChipsAway, Ovenclean and Barking Mad continue to generate strong cash flow while at the same time achieving a welcome increase in franchisee recruitment of 65 new franchisees, taking the total number of B2C franchisees to 404 (2018: 387).
- Encouraging interaction between Metro Rod and Willow Pumps** - The Metro Rod franchise network has already begun to embrace the many opportunities afforded it through the recent acquisition of Willow Pumps. The anticipated close association between the two companies was very evident at the recent "Discovery Days" that provided a forum for franchisees to discuss with Willow the opportunities that can be leveraged through collaboration between the two businesses.
- Potential for Metro Rod to expand services** - We attended one of these Discovery Days and can independently attest to the positive interaction between franchisees and Willow personnel and the keen interest shown by franchisees in how they can expand their business and increase the range of services offered. Clearly, any increase in System Sales generated by the success of these strategic opportunities would be reflected in higher management service fees for the Group.
- No changes to forecasts** - With our forecasts standing marginally above consensus we are making no changes to our expectations for FY2019 or our projections for FY2020. The success of the Group to date and more importantly its potential going forward has been reflected in a strong share price that has risen 87% over the past 12 months and with a confident outlook we are raising fair value from 120p to 145p.

Year End: December	2017A	2018A	2019E	2020E
<b>£m</b>				
REVENUE	24.9	35.5	41.0	57.5
UNDERLYING EBITDA	2.7	4.0	5.2	7.5
UNDERLYING PBT	2.1	2.9	4.1	5.9
UNDERLYING EPS (p)	3.3	3.4	4.3	6.0
DIVIDEND (p)	0.50	0.67	0.86	1.31
NET (DEBT) (£m)	7.3)	(5.9)	(8.5)	(5.0)
PER (x)	48.8	35.8	28.2	20.1

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

## Financial Summary &amp; Forecasts

<b>PROFIT &amp; LOSS</b>				
<b>Y/E December</b>	<b>FY 2017A</b>	<b>FY 2018A</b>	<b>FY 2019E</b>	<b>FY 2020E</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Revenue	24.9	35.5	41.0	57.5
Fee & direct labour income	12.7	17.9	20.7	22.5
<i>Fee &amp; direct labour income margin</i>	<i>51.1%</i>	<i>50.4%</i>	<i>50.5%</i>	<i>39.1%</i>
Gross profit	9.7	13.1	15.6	22.1
<i>Gross margin as a % of fee &amp; direct labour income</i>	<i>76.5%</i>	<i>73.5%</i>	<i>75.4%</i>	<i>98.3%</i>
Total operating costs	-7.0	-9.1	-10.4	-14.6
<i>as a % of fee &amp; direct labour income</i>	<i>55.2%</i>	<i>51.1%</i>	<i>50.2%</i>	<i>64.9%</i>
<b>Underlying EBITDA</b>	<b>2.7</b>	<b>4.0</b>	<b>5.2</b>	<b>7.5</b>
<i>EBITDA margin as a % of fee &amp; direct labour income</i>	<i>21.2%</i>	<i>22.4%</i>	<i>25.1%</i>	<i>33.4%</i>
<b>Underlying profit before tax</b>	<b>2.2</b>	<b>3.2</b>	<b>4.1</b>	<b>5.9</b>
Underlying profit after tax	2.1	2.6	3.4	4.8
Weighted average shares (m)	69,554	77,687	78,405	79,314
Diluted weighted average shares (m)	70,295	78,787	81,905	82,814
<b>Underlying EPS (basic) (p)</b>	<b>2.47</b>	<b>3.37</b>	<b>4.27</b>	<b>6.00</b>
Interim dividend (p)	0.17	0.21	0.30	0.45
Final dividend (p)	0.33	0.46	0.56	0.86
<b>Total dividend (p)</b>	<b>0.50</b>	<b>0.67</b>	<b>0.86</b>	<b>1.31</b>
<b>CASH FLOW</b>				
<b>Y/E December</b>	<b>FY 2017A</b>	<b>FY 2018A</b>	<b>FY 2019E</b>	<b>FY 2020E</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Net cash inflow from operating activities	0.7	3.2	4.7	7.1
Net cash outflow from investing activities	-28.5	-0.6	-6.3	-0.8
Net cash inflow/(outflow) from financing activities	28.1	-2.9	3.0	-5.5
<b>Cash and cash equivalents at end of the year</b>	<b>3.2</b>	<b>2.9</b>	<b>4.4</b>	<b>5.2</b>
<b>BALANCE SHEET</b>				
<b>Y/E December</b>	<b>FY 2017A</b>	<b>FY 2018A</b>	<b>FY 2019E</b>	<b>FY 2020E</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Assets</b>				
Non-current assets	28.2	28.5	37.2	36.9
Current assets (excluding cash)	8.4	11.3	16.7	18.9
Cash	3.2	2.9	4.4	5.2
<b>Total Assets</b>	<b>39.9</b>	<b>42.8</b>	<b>58.2</b>	<b>61.0</b>
<b>Liabilities</b>				
Current liabilities	-10.6	-12.3	-18.6	-20.7
Non-current liabilities	-6.7	-6.1	-12.2	-10.1
<b>Total Liabilities</b>	<b>-17.3</b>	<b>-18.3</b>	<b>-30.8</b>	<b>-30.8</b>
Net current assets	1.1	2.0	2.4	3.4
<b>Net Assets</b>	<b>22.5</b>	<b>24.4</b>	<b>27.4</b>	<b>30.2</b>

Source: Franchise Brands; Allenby Capital

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