



Final Results Presentation

22 March 2018



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Highlights



Financial highlights:

- Revenue up five-fold to £24.3m (2016: £4.9m).
- Adjusted EBITDA increased by 101% to £2.7m (2016: £1.4m).
- Adjusted profit after tax grew by 77% to £1.7m (2016: £1.0m).
- Cash generated from operations before exceptional costs of £2.6m (2016: £1.4m).
- Net debt of £6.3m at 31 December 2017 (2016: nil), with gearing of 27% (2016: nil).
- Adjusted Basic EPS 2.5p (2016: 2.4p), reflecting the significant increase in shares in issue following the IPO and acquisition of Metro Rod.
- Final dividend of 0.33p per share proposed (2016: 0.17p per share), giving a total dividend for the year to 0.50p per share (2016: 0.17p per share), covered 5x by adjusted profit after tax.

Highlights



Operational highlights

- Trading summary:
 - Metro Rod was acquired in April 2017 for £28.4m and traded in-line with management expectations.
 - ChipsAway and Ovensclean exceeded budget through strong Management Service Fee (“MSF”) growth.
 - Barking Mad made a good contribution in its first full year of ownership and exceeded budget.
 - Kemac delivered a very disappointing performance due to the loss of work from water utilities.
- The Group’s shared support services extended and now complete.
- New strategy formulated for Metro Rod which includes investment in IT, sales and marketing.
- Board and senior management team strengthened.

Metro Rod Strategy (1)

- Feedback exercises with the franchisees and Support Centre teams confirmed that Metro Rod has a market-leading national offering in the commercial drainage market which has never been fully exploited.
- Significant opportunity identified for Metro Rod to take market share from competitors in a relatively stable c£750m market:
 - Approximately 1,500 competitors in a very fragmented market most of which are small firms,
 - Larger competitors such as Lanes for Drains and Ansa have a different strategic focus to Metro Rod
- However, franchisees have become over-dependent on central services, which provides them with the following services:
 - The central sales team wins 60% by value (70% by volume) of franchisee turnover as national accounts,
 - The works management system (Athena) deployed across the system which manages all work,
 - Liaison and updating of national accounts via call centre,
 - Management of **all** out of hours (5pm to 8am and weekends) customer contact, via the call centre,
 - The invoicing of **all** customers,
 - Credit control and cash collection,
 - Payment of all sales invoices in 47 days, regardless of cash collection (subject to 90 day clawback of unpaid commercial accounts),
 - The full credit risk on national accounts (ie, Carillion),
 - Most engineer and health and safety training and system accreditations,
 - Preparation and submission of all further recommendations relating to national accounts,
 - Central marketing support.
- All these services are provided for an MSF of 22.5% of turnover.

Metro Rod Strategy (2)

- New strategy formulated for Metro Rod, the central objective of which is to grow franchisee sales and their profitability whilst also building our MSF income.
- A key driver of the new strategy is for the franchisees to become more independent and more responsible for building their businesses. This will allow them to provide their customers with a superior and more responsive service.
- Our strategic goals are to:
 - Increase the amount of business won locally from 40% to 60% of franchisee sales,
 - Continue to develop nationally-won accounts,
 - Have all franchisees operate on a truly 24/7/365 business with a much reduced level of central support.
- The strategy will be achieved as follows:
 - Improve IT and MI infrastructure,
 - Regional sales team to help franchisees win more local work,
 - Professional marketing, underpinned by the NAF, to build the brand,
 - Improved skill base and equipment to increase capacity of franchisees,
 - Some corporate franchisees, so we can lead by example and pilot new ideas/systems,
 - Some franchisee churn, as not all will share our vision and ambition.

IT: Challenges and Opportunities

- Metro Rod's business processes and IT systems need to be completely overhauled:
 - IT systems: old technology, over engineered for our needs, functionality issues, clunky,
 - Business processes: overly complicated, very manual, very poor MI.
- The scale of the Metro Rod investment has required us to create an in-house capability, headed up by Colin Rees, Chief Information Officer.
- Systems being developed are designed to enhance and automate the business systems and management information at Metro Rod but will have applications for all current and future Group brands.
- IT investment required to fully develop the opportunity at Metro Rod is greater than originally anticipated, but it is now factored into the Group's budget.
- Additional investment in IT will enable us to build a significantly larger and more efficient business than we originally projected, including reducing the cost base at the Macclesfield Support Centre.

IT: Vision and Strategy

- Key design principles: cloud-based, future-proofed, customer-centric, simple to use, flexible, franchisee involvement, right sized, secure.

Current IT systems	Future IT systems
<ul style="list-style-type: none"> • Manual logging, deployment, amendments, updating, upselling, closing and invoicing of jobs. • Marketing and upselling customer-specific and related to individual jobs. 	<ul style="list-style-type: none"> • Automatic logging, deployment, amendment, updating, upselling, closing and invoicing of jobs. • Automatic problem prediction, “smart drains”, reporting by exception, marketing and upselling to customers.
<ul style="list-style-type: none"> • Incremental improvements to systems being made prior to system replacements. Areas of focus include: management information; ability of franchisees to log and amend jobs directly; automation of the upselling process (further recommendations); automation of customer portals; and improvements to the mobile application. These projects are already underway. • New systems are at the early stages of being investigated (ie, works management system) but better MI and reporting is required to inform the changes that are required. • Our approach to the IT budget follows the “Run, Grow, Transform” model: <ul style="list-style-type: none"> • Run - systems required to keep the business operational, • Grow - systems required to support business growth, • Transform - systems required to enable significant change. 	

Metro Rod Marketing and Sales

- A key element of the Metro Rod strategy is to significantly improve the profile and awareness of the Metro Rod brand amongst key decision makers.
- Investment in marketing is being funded through the introduction of a National Advertising Fund (“NAF”) at Metro Rod:
 - Franchisees are making a contribution of 1% of sales,
 - Metro Rod is also contributing an initial share equivalent to our MSF contribution of 22.5%,
 - NAF allows us to expand the Group’s central marketing team, which manages the marketing funds for all the brands.
- The objective is to position Metro Rod as the leading solution for commercial drainage clearance and maintenance by:
 - Rebranding the vans, signage and other marketing materials,
 - Targeting specific sectors on a national basis, e.g., education is the focus of the Q1 2018 campaign,
 - Using a broad marketing mix including: trade advertising, e-shots, LinkedIn advertising, exhibitions, PR,
 - Providing franchisees with new marketing assets as well as marketing training
- We have also created a regional sales team whose objective is to work with franchisees and win this local work. This is funded entirely by corporate.



Open your doors to Metro Rod...



Metro Plumb & Kemac

Metro Plumb

- Metro Plumb is a national cold-water plumbing business operated currently through a network of 36 franchisees, of which 30 are Metro Rod franchisees and six corporate territories are operated by Kemac.
- Metro Plumb's focus is the provision of a reactive call-out to the claims made by policy-holders on domestic emergency insurance providers (such as AXA).
- The work undertaken is typically the stabilisation of the immediate problem, rather than a more substantial repair or repair of any consequential damage. The provision of a wider service offering remains an opportunity for the business.
- System sales at Metro Plumb are growing rapidly, but are spread unevenly amongst franchisees. This results in a patchy viability across the system.
- Work is continuing to establish the right strategy for Metro Plumb, including how it should operate with the Metro Rod drainage business. Probable that we will franchise Metro Plumb independently of Metro Rod, starting with the six Kemac territories.

Kemac

- Kemac is a direct-labour plumbing business that operates six Metro Plumb territories and undertakes more complex plumbing work for water utilities.
- Very disappointing performance following the acquisition resulted in a shortfall in our earnings compared to market expectations at the time of the acquisition. This resulted from a sharp and rapid decline in work from water utilities.
- Rapid remedial action was taken and trading has now stabilised at a lower level.
- This activity is under strategic review, but it is likely that we will sell the six Metro Plumb territories to third-party franchisees.

ChipsAway, Ovenclean and Barking Mad



- Main sources of revenue from these brands is MSF (50% of total), followed by sales of franchise territories (29%) and product sales (16%).
- **ChipsAway** continues to recruit new franchisees, however, the real opportunity lies in helping franchisees develop from being “man-in-a van” operators to management franchisees with turnover-related MSF income:
 - 32 franchisees operate from Car Care Centres and a further 35 operate multiple territories and/or multiple vans, most of which now pay a turnover related MSF.
- **Ovenclean** remains fundamentally a “man-in-a van” franchise, however, the effectiveness of the consumer marketing has increased average franchisee turnover, thereby allowing us to increase the “fixed” monthly fee from £300 to £335, or 10% of the expected sales.
- **Barking Mad** accelerated the recruitment of new franchisees by leveraging the Group’s franchise recruitment capability:
 - Potential for up to 250 viable Barking Mad territories in the UK.
 - System sales, on which we collect a 10% MSF, continued to grow at a satisfactory rate.

Summary of Group Results



Year ended 31 December	2017	2016	Change	%
	£'000	£'000	£'000	
Statutory revenue	24,292	4,870	19,422	399%
Franchisee payments	(12,131)	-	(12,131)	-
Fee income	12,161	4,870	7,291	150%
Other cost of sales	(3,067)	(1,572)	(1,495)	95%
Gross profit	9,094	3,298	5,796	176%
Administrative expenses	(6,378)	(1,946)	(4,432)	228%
Adjusted EBITDA	2,715	1,352	1,363	101%
Depreciation	(96)	(66)	(30)	46%
Amortisation of goodwill	(156)	(10)	(146)	1,459%
Share based payment	(58)	(30)	(28)	92%
Finance expense	(277)	(7)	(270)	3,862%
Adjusted profit before tax	2,128	1,239	889	72%
Tax expense	(392)	(260)	(132)	51%
Adjusted profit after tax	1,737	979	758	77%

- Statutory revenue up 5-fold due to the almost nine months ownership of Metro Rod. As a result of different revenue recognition policies, consolidated turnover is not a KPI management monitor.
- Fee Income includes the core income sources:
 - MSF
 - Sales of franchise territories
 - Product sales
 - Kemac direct plumbing sales
- Fee Income has increased by 155%. Fee income margin has increased from 68% to 73% as we shift towards a higher level of 100% margin MSF income.
- Overheads up by 228% due to the inclusion of Metro Rod costs, but also full year of plc overheads.
- Finance charge on the £12m of debt raised (paid down to £9.5m at the year end).
- Taxation rate of 18% (below statutory rate of 19.25%) due to prior year final adjustment.

Non-recurring Items

Year ended 31 December	2017	2016	Change	%
	£'000	£'000	£'000	
Adjusted profit after tax	1,737	979	758	77%
Costs of acquisition of subsidiaries	(1,144)	(58)		
Costs of transition of acquisition	(734)	-		
Bad debt provision	(316)	-		
IPO expenses	-	(397)		
Tax on adjusting items	345	-		
Non-recurring items (net of tax)	(1,849)	(455)		
Statutory (loss)/profit	(112)	524	(636)	-121%

- Significant increase of non-recurring items in the current year arising from acquisition of Metro Rod.
- £1.1m in relation to the cost of the reverse take-over of Metro Rod transaction, funding and resulting re-admission to AIM. A further £0.4m was set-off against the share premium arising.
- £0.7m for the transition of acquisition (primarily IT related).
- £0.3m bad debt provision in respect of Carillion liquidation.
- Costs offset by partial tax relief of £0.3m.
- Statutory loss of £0.1m

Individual Business Results

Year ended 31 December	2017	2016	Change	%
Fee Income*	£'000s	£'000s	£'000s	
ChipsAway	4,277	3,978	299	8%
Ovenclean	790	818	(28)	-3%
Barking Mad	681	74	607	820%
Metro Rod	6,423	0	6,423	-
Total	12,171	4,870	7,301	150%
Adjusted EBITDA	£'000s	£'000s	£'000s	
ChipsAway	1,912	1,626	286	18%
Ovenclean	297	300	(3)	-1%
Barking Mad	187	(10)	197	1,902%
Metro Rod	1,325	0	1,325	-
Central overheads	(1,006)	(564)	(442)	78%
Total	2,715	1,352	1,363	101%

- Of the existing businesses ChipsAway has performed very strongly growing by 18%, with Ovenclean being flat year-on-year.
- Barking Mad is included for a full year following the acquisition in October 2016, and contributed £187k of EBITDA, in line with expectations.
- Metro Rod was owned for almost 9 months during the year, and contributed £1.3m of EBITDA. The core Drainage and Plumbing businesses performed in-line with management expectation, but was offset by a disappointing performance at the direct labour operation, Kemac.
- Central overheads have increased 110% due to the addition of full year of plc overheads relating to being an AIM quoted company, the strengthening of the management team, and the introduction of new non-cash items. However, the numbers shown in the table include the losses for MyHome of £17,000 (2016: £93,000).

* Fee income includes MSF income, licence fees, product sales and direct sales in relation to Kemac, less payments to franchisees.

EPS and Dividend

For the year ended 31 December 2017	2017	2016	Change	%
Adjusted profit after tax (£'000)	1,737	979	758	77%
Non-recurring items (net of tax) (£'000)	(1,849)	(455)	(1,394)	306%
Statutory (loss)/profit (£'000)	(112)	524	(636)	-121%
Weighted number of shares- basic	69,553,746	40,837,885	28,715,861	70%
Weighted number of shares- fully diluted	70,295,472	40,985,539	29,309,933	72%
Basic EPS (p)	(0.16)	1.28	(1.44)	-113%
Fully Diluted EPS (p)	(0.16)	1.28	(1.44)	-112%
Underlying Basic EPS (p)	2.50	2.40	0.10	4%
Underlying Fully Diluted EPS (p)	2.47	2.39	0.08	3%
Dividend per share (p)	0.50	0.17	0.33	194%

- EPS on an adjusted basis has increased by a modest 4% year-on-year, despite earnings growing by 77% in the year.
- This is due to weighted number of shares increasing by 70% in the same period.
- Total dividend for the year proposed at 0.50p per share (0.17p paid at interim, final 0.33p to be approved at the AGM).
- Total dividend covered 5 times by adjusted basic EPS.

Movement in Net Debt

At 31 December 2017	2017	2016	Change
	£'000	£'000	£'000
Cash	3,245	2,999	246
Term loan	(6,000)	-	(6,000)
RCF	(3,500)	-	(3,500)
Shareholder loan	-	(417)	417
Accrued interest	(64)	-	(64)
Loan fee	145	-	145
Lease debt	(86)	(102)	16
Net debt	(6,261)	2,480	(8,741)

- During the year the Group negotiated new debt facilities with HSBC in order to fund the acquisition of Metro Rod. These facilities included:
 - £12m term loan
 - £5m Revolving Credit Facility (“RCF”)
- In order to reduce excess cash being held on the balance sheet, and to reduce our own-going financing costs, we paid down £6m of the term loan early during December 2018, and utilised £3.5m of the RCF (on which we pay a non-utilisation fee).
- At the year end net debt stood at £6.3m:
 - Interest cost covered 9.8 times by adjusted EBITDA
 - Moderate capital gearing of 27%
 - Operating well within all covenants

Balance Sheet

At 31 December 2017	2017	2016
	£'000	£'000
Inventories	252	193
Trade and other receivables	9,670	419
Trade and other payables	(7,132)	(1,289)
Net working capital	2,790	(677)
Cash and cash equivalents	3,245	2,999
Loans and borrowings	(9,419)	(417)
Obligations under finance leases	(86)	(102)
Net debt	(6,260)	2,480
Intangible assets	27,025	2,142
Deferred tax liability	(526)	(163)
Accounting assets	26,499	1,979
Property, plant and equipment	162	121
Net assets	23,191	3,903

- Balance sheet has fundamentally changed due to the purchase of Metro Rod, which was funded through £20m of new equity and £12m of loans.
- Working capital increased due to Metro Rod revenue cycle.
- A number of accounting assets have been created as part of the acquisition accounting, which make-up a large portion of the balance sheet.

Cash Flow

Cash flow for year ended 31 December 2017	£'000
Adjusted EBITDA	2,715
Movement on receivables	(1,574)
Movements on inventories	(17)
Movement on payables	1,629
Taxes paid	(204)
Net cash from adjusted operating activities	2,550
Net cash paid on exceptional costs	(1,849)
Net cash generated from operating activities	701
Capital expenditure	(106)
Acquisition	(28,403)
Net cash used in investing activities	(28,509)
Loans repaid	(6,417)
Loans received	15,330
Interest paid	(186)
Proceed from issue of shares	20,000
Share issue expenses	(444)
Dividends paid	(213)
Leases	(16)
Net cash generated from financing activities	28,054
Net increase in cash and cash equivalents	246
Cash and cash equivalents at beginning of year	2,999
Cash and cash equivalents at end of year	3,245

- The Group has had strong cash inflow from its operations, with £2.6m generated from its underlying operations.
- The Group has incurred exceptional costs of £1.8m in relation to the acquisition of Metro Rod, which also involved a re-admission of the enlarged group to AIM.
- The Group paid £28.4m (net of cash acquired) for Metro Rod.
- The acquisition was funded by £20m of new equity and a £12m term loan.
- The Group paid down £6m of the term loan, and utilised £3.5m of the RCF (£1.5m remains un-utilised) in order to reduce on-going finance costs.

Summary

- Transformational acquisition of Metro Rod:
 - Significantly increased the scale of the business.
 - Challenges and opportunities, but upside potential of the business much greater than originally anticipated.
 - Strategy being implemented.
- Original brands trading well and strategy is to develop more MSF income.
- Barking Mad made a good initial contribution, particularly in relation to the price paid for the business.
- Creation of an IT function and centralisation of finance substantially completes the Group's shared support services.
- Cash generation and cash conversion remain strong, allowing us to rapidly reduce debt and maintenance of a progressive dividend policy.

Appendix

Franchise system at 31 December 2017

	Network size Jan 2017	New franchisees recruited	Franchisees leaving the system	Network size Dec 2017
ChipsAway	218	33	37	214
Ovenclean	102	23	19	106
Barking Mad	71	24	18	77
Metro Rod	40*	2	1	41
Total:	431	82	75	438

* As at 11 April 2017



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