Franchise Brands plc
Annual Report
& Accounts 2018

FRANCHISE BRANDS

FOCUSED ON

WHAT MAKES A DIFFERENCE

MARKET-LEADING FRANCHISE BUSINESSES

At Franchise Brands we are **FOCUSED ON** developing established franchise businesses into market leaders.

We give our franchisees the support and tools they need to grow their business.

www.franchisebrands.co.uk

Front cover images:

Top: Jamie Harrison, engineer at Metro Rod Mid Lancs
Bottom: Sandip Kalkat, ChipsAway franchisee for Walsall
Photographer: Ben Wood - Island Images

Strategic Report

Governance

Financial Statements

FINANCIAL HIGHLIGHTS

Revenue

£35.5m +43%

2018	£35.5m
2017	£24.9m
2016	£4.9m

Dividend per share

0.67p +34%

2018	0.67p
2017	0.50p
2016	0.17p

Adjusted EBITDA*

£3.7m +37%

2018	£3.7m
2017	£2.7m
2016	£1.4m

(Net debt)/Cash

£(5.0)m -21%

2018	£(5.0)m
2017	£(6.3)m
2016	£2.5m

Profit/(loss) before tax

£2.9m

2018	£2.9m
2017	£(0.1)m
2016	£0.8m

Adjusted earnings per share*

3.0p +21%

2018	3.00p
2017	2.47p
2016	2.40p

OPERATIONAL HIGHLIGHTS

- Metro Rod's Vision 2023 strategy greeted with real engagement from the franchise network.
- Double-digit like-for-like sales growth for half the Metro Rod network.
- Development of new business systems is progressing well.
- Metro Plumb grew rapidly with system sales up 27%.
- ChipsAway continues to improve the quality of income.

* "Adjusted" items are before costs of acquisitions of subsidiaries, costs of transition of subsidiaries, exceptional bad debt provision and IPO expenses and, in relation to EBITDA only, share-based payment expense.

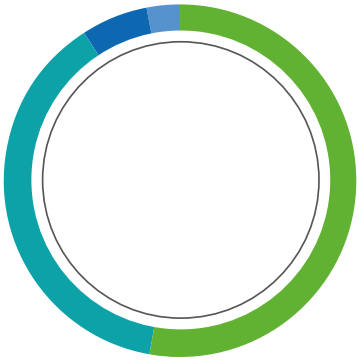
AT A GLANCE

Franchise Brands plc is an international multi-brand franchisor with a combined network of over 450 franchisees in 12 countries across four brands.

Franchise Brands' vision is to create a group of market-leading franchise businesses that benefit from sharing the same support services. This model allows the management of our individual brands to focus on expanding their networks, and supporting their franchisees to grow their businesses. We believe this can really make a difference.

Currently the Group has four principal brands; Metro Rod, ChipsAway, Ovenclean and Barking Mad.

Portfolio split by EBITDA (excluding central costs)



Metro Rod	51%
ChipsAway	39%
Ovenclean	6%
Barking Mad	4%

To read more about each of our brands see pages 16-23

METRO ROD
DRAIN CARE AND REPAIR

Founded in 1983, Metro Rod is a leading provider of drain clearance and maintenance services to the commercial market. These services are provided by 40 franchisees on a 24/7/365 basis with geographical coverage across the majority of the UK. In 2016, Metro Rod expanded its service offering with the launch of Metro Plumb. Franchise Brands acquired Metro Rod in April 2017.

We serve national business customers across multiple sectors including facilities management, retail, water utilities, social housing, hospitality, and insurance, as well as local businesses and other customers in the private and public sectors.

Number of drainage franchisees

40

Years of operation

35

ChipsAway

Scratches and scuffs won't dent your pocket

ChipsAway is the UK's leading and longest established mobile car paintwork repair specialist focusing on SMART ("Small to Medium Area Repair Technology") repairs. ChipsAway was established in 1994 and has 201 franchisees in the UK. It also has a presence in ten countries outside the UK through master franchise arrangements. ChipsAway franchisees primarily serve consumers, and operate from branded vehicles which are mobile workshops or Car Care Centres, which are fixed workshop facilities.

Number of UK franchisees

201

Years of operation

24

OVENCLEAN

The original oven cleaning specialists

Established in 1994, Ovenclean is the leading and longest established oven cleaning business in the UK and has a network of 106 franchisees. Ovenclean franchisees are able to clean all domestic oven brands and models, including electric ovens, gas ovens, range-style ovens, microwaves, and also hobs, extractor fans, and barbecues. Ovenclean employs an environmentally friendly system which helps ensure customers benefit from a safe and hygienic environment.

Number of franchisees

106

Years of operation

24

Barking Mad

Established in 2000, Barking Mad is a leading provider of dog home boarding services (dog holidays) and has 80 franchisees nationwide. As well as marketing to dog owners, the franchisees recruit dog-loving host families who can take in and look after a dog when the owners are away from home. Customers enjoy peace of mind with a professional service which focuses on the individual needs of every dog. Franchise Brands acquired Barking Mad in 2016.

Number of franchisees

80

Years of operation

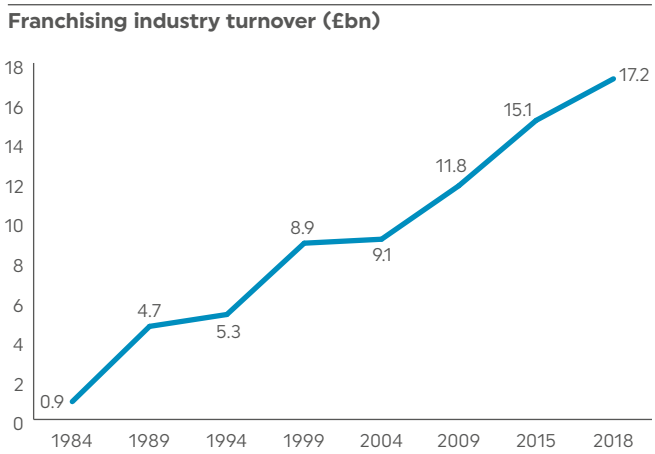
19

"Franchise Brands has recently celebrated its ten-year anniversary and the vision, business model and core principles we established in 2008 have underpinned the tremendous growth in the business."

Stephen Hemsley
Executive Chairman

THE FRANCHISING INDUSTRY

The market for franchising in the UK is significant. In 2018 it contributed in excess of £17bn to the UK economy according to the most recent bfa/NatWest survey.



OVERVIEW

Turnover generated

£17.2bn

(2015: £15.1bn)

People employed in franchising

710,000

(2015: 621,000)

Franchised units in the UK

48,600

(2015: 44,200)

Franchising has been a great success story over the past 35 years. In 1984, when the size of the industry was first measured by the bfa/NatWest, the franchising industry was only £1bn in size and a relatively small number of sectors (such as automotive, food and hotels) had embraced franchising as a means to expand their businesses.

Fast forward to 2018, and franchising is now a thriving industry with franchised businesses in a large variety of sectors, including household services, business and commercial services, retailing, fitness, transportation and vehicle services, children's services and pet services. It's sometimes the case that customers are unaware that franchising is the means of delivery of their holiday, property sale, business accountancy service, children's after-school activity, mobile phone, gym experience, babies' swimming lesson, domiciliary care or car rental to name a few.

The impact franchising has had on certain sectors, in particular quick-service restaurants, is well documented. A number of leading food and coffee shop brands such as: McDonalds, Subway, KFC, Domino's, Starbucks and Costa Coffee are among the very largest franchise brands in the market.

The bfa/NatWest 2018 survey also pointed to a number of additional metrics which demonstrate the successful evolution of franchising, in particular:

- There has been a significant increase in the estimated number of people working in franchising over the past ten years, with 710,000 now employed in the sector compared to only 467,000 in 2008.
- There are an estimated 48,600 franchised units in the UK – the highest number on record – with the number of franchisees estimated to be around 20,000.
- There are 935 franchise systems, a nearly four-fold increase since 1988.

"Franchising has been a tremendous success story over the past 35 years. In the UK, there are 935 franchise systems with around 20,000 franchisees employing over 700,000 people."

Julia Choudhury
Corporate Development Director

One of the factors underpinning the success of franchising is that the failure rate for a franchise business remains very low. According to the 2018 bfa/NatWest survey, fewer than 1% per year of all franchise businesses closed due to commercial failure in the first five years.

The high success rate for franchises across the industry is a result of the number of well-established brands, proven business models and the wide range of support provided by the franchisors. In addition, the 2018 survey pointed to record levels of profitability with 93% of franchisees claiming they were profitable.

The 2018 bfa/NatWest survey also showed an increasing proportion of franchisees are now managing sizeable businesses. 40% of franchisees surveyed had sales of more than £500,000 and 61% of franchisees surveyed had sales in excess of £250,000. Three quarters of all franchisees employ staff and 30% employ six or more staff.

While around 70% of franchisees are male, the indications are that around 65% of those employed within franchise units are female. Furthermore, more females are becoming franchisees, with a 20% increase since the 2015 bfa/NatWest survey. In addition, more people under the age 30 are also getting into franchising with 18% of all franchisees now under 30.

Finally, the survey also showed that multi-unit franchising is on the increase, with 36% of franchisees now owning more than one unit. This compared to only 25% in 2013 and 29% in 2015.

SCALE

Franchisees with multiple units

36%

(2015: 29%)

PROFITABILITY

Turnover of six out of ten franchised units

£250,000+

Franchisees claiming profitability in 2018

93%

DEMOGRAPHIC

New franchisees who are female

37%

(2015: 17%)

Women employed in franchise businesses

65%

Franchisees under 30 years old

18%

The proportion of female franchisees in 2018 is the highest since the bfa/NatWest survey began, with 30% of all franchisees being female.

CHAIRMAN'S STATEMENT

Adjusted EBITDA

£3.7m

(2017: £2.7m)

Total no. of UK franchisees

428

(2017: 438)

Stephen Hemsley
Executive Chairman

2018 has been a year of consolidation and development following the April 2017 acquisition of Metro Rod.

Our stated strategy has been to invest in our business systems, team members and franchisees to ensure that we can capitalise on the opportunities presented by the sectors in which we operate and provide a first-class customer experience. I am therefore pleased to report that this investment is beginning to deliver tangible benefits that I expect to become increasingly more visible in the current year and beyond.

Metro Rod

As set out in my 2017 statement, following many years of corporate and private equity ownership, Metro Rod required a new strategy centred on the development of the franchisees as entrepreneurs and the corresponding systems that they needed to grow their businesses. The essence of this was to return the franchisee to the centre of the business and to help them grow local sales, reduce their reliance on over-complicated manual systems and lessen the intervention from Head Office (now renamed the Support Centre). The strategy necessitated creating new systems and ways of working that passed back to the franchisees far greater responsibility for looking after customers and indeed their own businesses.

This new strategy was originally presented at a conference in November 2017, as a five-year growth plan which we entitled Vision 2023. Implementation of most of the proposed strategic and operational changes commenced in January 2018 and I am very pleased to report that they have been greeted with real engagement from a re-invigorated franchise community. This is evidenced by the fact that half the network recorded double-digit like-for-like sales growth in 2018. This "freeing up" of the system under Vision 2023 was not without its risks, but our faith in our franchisees has been well rewarded, with improvements also being delivered in customer service and the operational efficiency of the Support Centre.

Development of these new business systems is progressing well and several have been rolled out to the franchisees. Others such as the works management system ("WMS") and linked CRM are still under development. The existing WMS originated from a legacy system developed by a previous corporate owner. It is over-complicated and too slow for our current business volumes. In addition, it neither links with other systems nor allows us to adequately update our customers on the status of their jobs. The new WMS, which is being developed in close co-operation with our franchisees, is on trial in our directly-owned operation in Exeter and we expect to start rolling it out to a wider group of franchisees in the second half of 2019. Whilst most of the technology development activity is currently focused on Metro Rod, these systems will also have direct applications in other Group businesses and future acquisitions.

The other key element of Vision 2023 is to grow sales, which had increased relatively slowly in previous years. One of the contributing factors was the very low level of awareness of the Metro Rod brand and the focus on a limited number of national accounts which were won by a central sales team. We launched the National Advertising Fund ("NAF") in January 2018 with the objective of growing brand awareness and promoting local sales and marketing activity. This has allowed the creation of a dedicated marketing team. We have also put in place an initiative to encourage franchisees to employ their own direct sales force and are now supporting this with dedicated central resource.

The transfer of increased responsibility from the Support Centre to the franchisees, together with the local sales and marketing initiatives, will increase the franchisees' cost base whilst allowing the Support Centre to reduce its headcount and become more efficient. This transfer of responsibility and cost can only be equitably achieved if we progressively reduce the Management Service Fee ("MSF") charged to franchisees. Therefore, a sales-based incentive scheme was launched which, together with allowable expenses, has resulted in the average MSF reducing to 18.6% in 2018, compared with the contracted rate of 22.5%. It is our ultimate aim to gradually reduce the MSF to 15%. As well as being a fair level in a rebalanced business, a 15% MSF will have the additional advantage of significantly improving our competitiveness. Whilst this MSF reduction will erode our percentage margin, our overall cash profitability will increase as sales increase and our cost percentage declines and eventually becomes semi-fixed in cash terms.

The drainage market, which we estimate to be approximately £1bn in size, is extremely fragmented with 1,500-1,800 providers, most of which are local firms. This presents a clear consolidation opportunity for Metro Rod, with a strong brand and best-in-class IT systems. Strategic acquisitions that can assist in expanding the scope of services that we can offer will also assist us in growing market share from our current modest level of 4%.

OUR GUIDING PRINCIPLES

At Franchise Brands we have five guiding principles that inform the way we work with each other, support our franchisees and serve our customers and the communities in which we operate:

We demand integrity:

We are professional in everything we do and treat people with respect. Nothing is more important to us than acting with integrity at all times.

We empower our people:

We empower our people and expect them to take ownership of a situation and to be accountable for their actions and the results they generate.

We are challenging of ourselves:

We set high standards, are demanding of ourselves, are prepared to challenge the norm and have a relentless focus on continual improvement.

We are fair:

We consider that fairness and transparency are essential to creating high-trust working relationships with each other, and with our franchisees, partners and suppliers.

We work as a team:

We place a huge amount of importance on teamwork between our colleagues and our franchisees in creating a dynamic business which delivers impressive results. We are inclusive, encourage ideas and innovation and welcome diversity.

CHAIRMAN'S STATEMENT
continued

The drainage market presents a clear consolidation opportunity for Metro Rod, with a strong brand and best-in-class IT systems.

Kemac & Metro Plumb

In contrast to 2017, Kemac had an excellent year in 2018 as a result of a number of large one-off jobs. As it will be difficult to anticipate such work recurring, we have taken the opportunity to place the business onto a more sustainable and predictable footing to assist in the development of Metro Plumb. Kemac was responsible for generating the interest that led to the launch of our first stand-alone Metro Plumb franchise, when two of its employed plumbers became franchisees of the London South-East territory. We are hopeful that this will be the first of many independent Metro Plumb franchises in the future.

Metro Plumb has continued to grow rapidly with sales 27% up on 2017. We continue to seek new ways to diversify the customer base and expand the range of services offered. However, as most of the Metro Plumb franchisees are also Metro Rod franchisees – and we have been very demanding of them in 2018 – the limited number of initiatives to grow Metro Plumb have not yet won the full attention of the franchise community. As more Metro Plumb franchise territories are sold to independent franchisees, we expect Metro Plumb to gain additional traction.

ChipsAway, Ovenclean & Barking Mad

Franchisee recruitment at ChipsAway, Ovenclean and Barking Mad was disappointing in 2018, with 57 territories sold (2017: 80) across the three brands. We believe that this level of recruitment might have been the result of the high levels of employment in the UK, the absence of redundancies and uncertainty over Brexit. Encouragingly, some of this shortfall was made up through existing franchisees buying additional territories to expand their businesses, which demonstrates their confidence in the brands.

ChipsAway is in a transition from a van-based operation undertaking SMART repairs where the franchisees pay a fixed monthly fee, to Car Care Centres which undertake larger repairs and where the franchisees pay a turnover-related MSF of 10%. As a result of this transition and the relative decline in recruitment income, MSF income now represents 62% of ChipsAway income (2017: 57%) and 30% of MSF income is turnover related rather than a fixed monthly fee. This represents a significant improvement in the quality of our income. To encourage franchisees to invest in Car Care Centres (of which we already have 33) and the specialist equipment needed to deal with driver-assist technology and electric vehicles, we will shortly be opening a new model facility in Kidderminster. This will give us the ability to test the effectiveness of new equipment and to train our franchisees in its use.

Ovenclean franchisees continue to trade well in a business that is predominantly based on one man in one van, servicing a "milk-round" of customers on a six-monthly cycle. Franchisees pay us a fixed monthly fee that increases with both inflation and the length of time they have been in the system, approximating to 10% of their turnover.

Barking Mad, which was acquired in 2016 and continues to be run semi-autonomously by its founder, has benefited from the adoption of some Group systems and practices, particularly in the areas of IT and finance. Income is generated from a 10% MSF on system sales, which grew by 6%, and mitigated the disappointing franchisee recruitment income noted above.

Outlook

2018 has been a period of significant change for the team at Franchise Brands as we have integrated Metro Rod and further developed our shared support services of IT, finance, marketing and franchisee recruitment. I want to thank all of our team for their unfailing enthusiasm and dedication. I would also like to recognise the hard work and commitment of all our franchisees who are the backbone of our business.

2019 has started encouragingly, with a good trading performance across the networks in the first two months of the year and order intake at Metro Rod ahead of 2018. The level of franchise enquiries at ChipsAway, Ovenclean and Barking Mad is also significantly ahead of last year. We therefore look forward to the year ahead with confidence.

With the integration of Metro Rod now complete we can begin to turn our attention to acquisition opportunities. We will consider the selective acquisition of reasonably valued and earnings enhancing franchise businesses that can leverage our core functions and complementary drainage and plumbing businesses which expand our scope of works.

Conclusion

2018 has been a year of significant evolution and progress for Franchise Brands. We have a high-quality portfolio of businesses with significant potential, as well as a first-class entrepreneurial team that can successfully take on still more challenges and is highly committed, with the Board and senior management team owning 68.3% of the equity. I look forward with optimism to our continued progress in the next phase of our development to become a substantial force in franchising.

Stephen Hemsley
Executive Chairman

12 March 2019

OUR STRATEGY AND BUSINESS MODEL

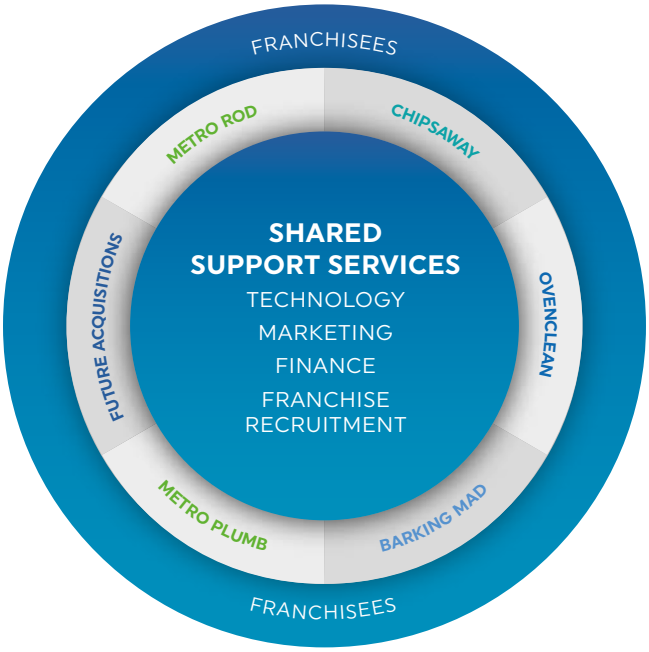
Our strategy is to develop established franchise businesses into market leaders.

Our focus is on established brands which can benefit from our shared support services as well as our management expertise, experience, and group resources.

The execution of this strategy is achieved through a combination of organic growth and growth through acquisition. We will consider the acquisition of B2B and B2C franchise businesses of scale, where we believe our management and financial resources can significantly enhance an already profitable business. We will also consider the acquisition of complementary businesses where these expand our scope of works at the individual brand level.

SHARED SUPPORT SERVICES

The Franchise Brands business model enables all our brands to benefit from our high-quality shared support services, allowing the management of these brands to focus on expanding their networks and supporting their franchisees to grow their businesses. Our principal shared support services are: technology, marketing, finance and franchise recruitment. In 2018 we strengthened these capabilities, in particular, technology.



FOCUSED ON

GROWTH

Strategic priority
System sales is our primary growth driver. A key part of our strategy is to help our franchisees grow their businesses through increasing sales in their local territories. If they grow, we grow.

Progress in 2018

- Appointment of Metro Rod Sales and Marketing Director.
- Establishment of NAF, appointment of new marketing team and implementation of new marketing strategy at Metro Rod.
- Roll-out of field-based marketing training for Metro Rod franchisees.
- Launch of sales-based incentive scheme for Metro Rod franchisees to encourage and reward growth.
- Establishment of new sales support team for Metro Rod franchisees.
- Generation of record numbers of consumer leads for ChipsAway and Ovenclean franchisees.
- Launch of new, better optimised, Barking Mad website focused on the customer journey and driving leads.

Focus for 2019

- Implementation of sales recruitment, sales training and sales management support for Metro Rod franchisees.
- Launch of new Metro Rod website to improve commercial customer acquisition.
- Support ChipsAway franchisees to develop expanded operations including Car Care Centres.
- Refresh the ChipsAway brand to emphasise the development of Car Care Centres, including new website and TV campaign.
- Engage with cleaning sector social media "influencers" to increase Ovenclean brand awareness.
- Launch PR campaigns to benefit all brands.

FOCUSED ON

DEVELOPMENT

Strategic priority
As franchisor we play an important role in developing, testing and piloting new ideas, strategies, systems and technologies so that our franchisees may benefit from these in the future.

Progress in 2018

- Development of ITOL-accredited Metro Rod apprenticeship scheme to develop new engineering talent.
- Roll-out of ITOL-accredited training programme to "train the trainer" in franchisee's depots.
- Development of ChipsAway Car Care Centre to introduce franchsees to the latest technology.
- Establishment of company-owned Metro Rod franchise in Exeter which trialled the new quotations system and WMS.
- Recruitment of first independent Metro Plumb franchisee.
- Roll-out of hybrid and electric vehicle training to ChipsAway franchisees.
- Assisted Barking Mad franchisees in securing local authority licences following new commercial dog boarding regulations.

Focus for 2019

- Launch new ChipsAway model Car Care Centre at the Kidderminster Head Office.
- Launch of apprenticeship scheme and recruitment of first apprentices.
- Continue to roll-out the Metro Rod "train the trainer" programme.
- Open our first Metro Rod Vision 2023 depot.
- Broaden the scope and capability of drainage and plumbing services, possibly by acquisitions.
- Complete the licencing of Barking Mad franchisees and promote this to customers as a badge of quality and compliance.

FOCUSED ON

SUPPORT

Strategic priority
Our shared support services allow the management of our individual brands to help their franchisees to grow their businesses.

Progress in 2018

- Identification of, and commencement of trial, of new Metro Rod WMS.
- Successful use of robotics to log and monitor an increasing proportion of Metro Rod jobs.
- Development and launch of Management Information ("MI") and reporting dashboard, balanced scorecards and intranet to Metro Rod franchisees to aid productivity, profitability and share best practice.
- Investment in new Metro Rod telephone system and technology to improve the customer call handling experience.
- Launch of new finance scheme to assist Metro Rod franchisees to buy additional equipment.
- Supported Metro Rod franchisees in the production and analysis of monthly management accounts.

Focus for 2019

- Develop and commence roll-out of new Metro Rod WMS in 2H 2019.
- Launch new quotations system for all Metro Rod franchisees in 1H 2019.
- Develop and implement new CRM system at Metro Rod.
- Further automate job acquisition and monitoring at Metro Rod.
- Update and relaunch franchise recruitment process for ChipsAway, Ovenclean and Barking Mad.
- Establish franchise recruitment process for Metro Rod.

STRATEGY IN ACTION

FOCUSED ON

FIRST-CLASS CUSTOMER EXPERIENCES

Group system sales

£60m

We provide support, training and development to our franchisees so they can deliver a first class customer experience.

Metro Rod:
Visibility and trust

As a leading provider of drainage services, our customers expect: a rapid response, technically competent engineers and a solution which is delivered first time, safely and professionally 365 days a year.

Providing updates to customers throughout the life-cycle of a job ensures that our customer experience is first class. It is vital our customers have visibility of the work we complete and trust us to manage their budget as well as their drainage assets. Providing digital images or CCTV surveys of the work we complete is critical in gaining and retaining their trust, as most of what we do is invisible or unseen.

Compliance with customer systems, processes and policies is also essential, whether these are health and safety related such as obtaining a permit to work, or digitally logging on and off site.

Number of Metro Rod jobs carried out in 2018

174,000

ChipsAway:
Like it never happened

At ChipsAway, we recognise our customers want convenient, high-quality and cost-effective repairs. Our local specialists provide a free, no obligation repair estimate upon inspecting the damage. We always tailor our service around times and locations which suit our customers. Our mobile specialists can complete repairs at our customer's home or office. By performing small and localised repairs we can provide high-quality repairs at the fraction of the cost and time of a garage or body shop, and we always pride ourselves in being honest, respectful and easy to deal with.

Ovenclean:
As good as new

Many of our customers say that their oven looks "as good as new" after a visit from Ovenclean. Our no added caustic system ensures a safe and hygienic environment and ovens can be used immediately after we have cleaned them. Our specialists take great pride in being personable, clean and tidy, as well as efficient. At an average price of £65, an Ovenclean also represents great value for money. Many of our customers request a regular Ovenclean and we diarise these ahead of time for additional convenience.

Barking Mad:
Happy Dog, Happy Holiday, Happy You

Barking Mad gives customers complete peace of mind when they are away by delivering a professional, tailor-made service. Our franchisees meet customers and their dogs in person to establish all their needs, so they can deliver completely bespoke pet care. Dogs are lovingly looked after in our carefully chosen host family homes. For additional convenience, all dogs are collected and delivered at the beginning and end of the dog holiday. Regular updates are provided to customers while they are away for a truly worry-free experience.

"Our networks of exceptional franchisees take enormous pride in delivering an outstanding overall customer service. It is our responsibility to provide all the support and development they need."

Tim Harris
Managing Director, ChipsAway and Ovenclean

Market-leading established brands:

102 years
combined trading history

Trustpilot

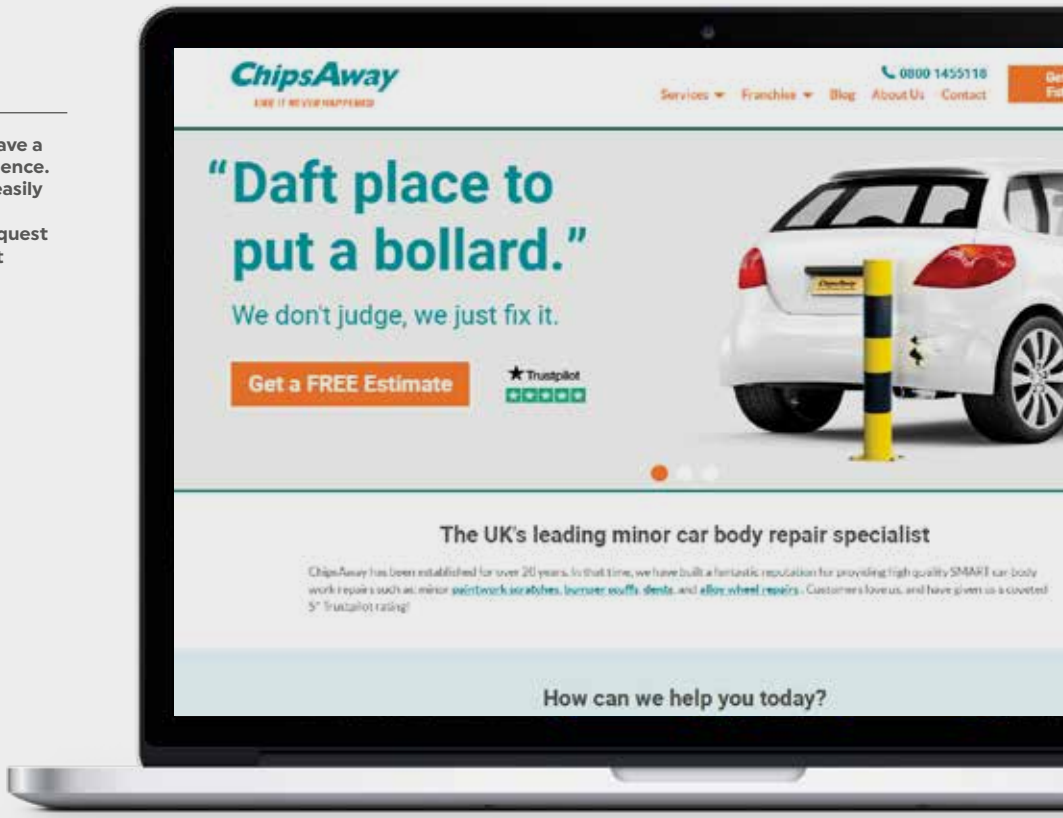
All of our B2C brands have five star ratings on Trustpilot and customers are quick to recommend us.

All our brands have a strong web presence. Customers are easily able to find our websites and request estimates or get in touch.

ChipsAway
9.5/10

Ovenclean
9.8/10

Barking Mad
9.9/10



STRATEGY IN ACTION

FOCUSED ON

OUR INVESTMENT IN TECHNOLOGY

The dashboard allows franchisees to drill down into particular metrics such as engineer productivity, SLAs, work completed and job mapping.

Enhancing efficiency and customer experience

We are digitally-enabling our business to enhance our customer experience and help us and our franchisees become more efficient. As customers digitise their end-to-end business processes, it is vital that we develop systems that can efficiently and accurately integrate with theirs. As a key strategic enabler, technology will reduce the time spent on repetitive tasks and free up our people to focus on activities where they can add real value.

Investment in Metro Rod systems

At Metro Rod, our starting point in late 2017 was to migrate our systems onto a cloud-based platform which has significantly improved reliability and performance.

In 2018 we rolled out several technology developments that generated efficiencies by automating repetitive, manual tasks. For example, we are using robotics to log jobs onto our system from emails.

Approximately 40% of jobs are now logged automatically, resulting in jobs being logged more quickly and accurately. Engineers, as well as the right equipment, can be deployed more rapidly, enhancing our ability to meet customer Service Level Agreements ("SLAs") .

We are also using robotics to monitor and update the status of jobs in real time, which, again, is helping us improve performance on customer SLAs and customer reporting. We are currently monitoring our largest ten customer portals in this way. Robots also assist our franchisees as they are notified automatically via SMS if an engineer fails to log onto a customer portal when on site. 95% of jobs that are logged via a portal are now monitored and tracked using robotics.

MI and reporting

A key system we have rolled out at Metro Rod is a digital MI and reporting tool for our franchisees and the Support Centre. This dashboard, accessible from any PC or mobile device, provides our franchisees with a suite of financial, operational and productivity metrics. These metrics can also be compared to other Metro Rod franchise businesses which helps with sharing best practice. The system incorporates Artificial Intelligence, meaning that in future we will be able to identify previously unseen patterns in the data.

% of jobs logged automatically

40%

Total Group IT spend in 2018

£1.5m

Quotations system

The latest significant roll-out to our franchisees is a new system that allows them to provide a quote to our customers for any further work identified during the initial reactive job. As there is a direct correlation between the speed of submission of a quote and the conversion rate, this should significantly increase our sales.

Previously, most quotes for further works were prepared and submitted by a team in the Support Centre based on information supplied by the franchisee. This was an inefficient, manual process which took as long as 10 to 12 days. The new system, launched in early 2019, allows franchisees to submit the quote directly to the customer using professionally-designed, prepopulated templates. We are achieving an 80% improvement in the speed of submission of a quote and are already seeing the benefit in conversion rates.

Contact centre solution and technology

The investment we have made in a state-of-the-art, cloud-based telephone system for Metro Rod's customer contact centre has resulted in significantly better data and reporting. The Interactive Voice Response technology has resulted in over 30% fewer calls to the Support Centre as these are now routed directly to the franchisee. The customer experience is thereby improved by allowing them to speak directly to our franchisees and receive updates on their jobs.

WMS

The priority for 2019 is the commencement of the roll-out of our new WMS for Metro Rod. Our vision for this system is that it will allow us to acquire a job, deploy it to the engineer, process the invoice and update our customers in real time, with minimal manual intervention. We carry out approximately 4,000 jobs per week, with an average order value of £200 to £250. Each of these jobs needs to be individually reported on and invoiced. The new WMS will help us keep our customers better updated on the status of each job and improve the accuracy of invoicing.

The franchisees will benefit from a faster, simpler and more intuitive system that will additionally allow them to schedule labour more effectively. In due course they will also be able to track their engineers in real time and provide even more accurate ETAs for customers, thereby improving our SLA compliance.

The new system will also provide the Support Centre with a higher level of visibility, and hence control, over franchisee efficiency and available capacity.

CRM

The CRM that is being rolled out in early 2019 will be populated with customer data as well as sales opportunities. We utilise the concept of a "hot-spot" map whereby we map where we are doing work across the UK and where we are not.
The "not-spots" represent the sales opportunities and the CRM will help our franchisees target and track these. The CRM will be linked to the WMS once the latter has been fully rolled out, allowing the seamless transfer of data on new customers.

Group-wide applications for technology investment

While our investment in technology is currently centered on Metro Rod, the systems and functionality we are developing have applications across the Group. Our vision is to have a standard core operating platform (to include email, office applications, support, and key systems such as finance and telephony), together with applications such as the WMS, CRM and performance dashboards, which can be customised for each brand. Our core design principle is simplicity. We want to be easy to do business with and have systems that are simple to operate for our franchisees, engineers and Support Centre teams.

"We want to be at the very forefront of technology development and believe it will provide us with considerable competitive advantage.
The increasing size and scale of Franchise Brands means that our technology investment is increasingly spread over a larger business."

Colin Rees
Chief Information Officer

MEET THE METRO ROD MANAGING DIRECTOR

Peter Molloy
Managing Director
Metro Rod

"I am delighted that 20 franchisees enjoyed double digit sales growth in 2018 and 14 franchisees now have sales in excess of £1m."

The key to achieving Vision 2023 is to have everyone in the business, from engineers to contact centre staff, focused on delivering exceptional customer service.

Q Franchise Brands plc acquired Metro Rod in April 2017. How would you describe the journey so far?

A The pace of change has been phenomenal and the business is already transformed from two years ago, with so much more to come. I've been with Metro Rod since 2003 as Commercial Director before being asked by Franchise Brands to take over as MD. It was a frustrating time as Metro Rod was run by previous owners as a drainage, rather than a franchise business, and the franchisees were treated as sub-contractors rather than our business partners. This created friction between the franchisee and the franchisor and certainly stalled the growth. All that has completely changed under Franchise Brands' ownership.

The experience the Franchise Brands leadership team has in growing franchise businesses has been instrumental in transforming the relationship we have with our franchisees. Fundamental to that is if you treat franchisees as mature, intelligent business people who are taking responsibility for their business, and then set out what you expect from them, they respond positively. My proudest achievement since I became MD has been the change in the relationship between the franchisees and the Support Centre which is far stronger, more respectful and collaborative than it has ever been. The result of that has been increased ambition, investment and sales.

> Metro Rod's Vision 2023 strategy sets out how we can build a significantly larger business.

Q What was the initial reaction of the franchisees to Vision 2023?

A The initial reaction was one of apprehension and scepticism. They couldn't see how such an ambitious goal could be achieved. However, through illustrating the market size and potential in their own territories and through our commitment to invest and develop key areas of the business such as IT, marketing and sales, the apprehension soon turned to enthusiasm. We now have a high-powered support package to give franchisees everything they need to grow their businesses, including for example, new training initiatives in marketing, technical, and more recently sales. Importantly we are sharing the success with franchisees through a number of schemes and incentives to encourage and reward growth.

Q What are the key success factors to achieving the Vision 2023 strategy?

A Vision 2023 is really ambitious and targets a business with system sales several multiples of today's level. But it's not unrealistic given the £1bn market size, the small 4% share we have currently and the very fragmented nature of the market which lends itself to consolidation. We are in the unique position of having of 40 depots nationwide which are close to our customers. More importantly, Metro Rod is now a nimble, fast-paced business, not encumbered by tedious corporate decision-making processes, and this allows us to react quickly to both market and customer demands and take advantage of the sales opportunities.

The key to achieving Vision 2023 is to have everyone in the business, from engineers to contact centre staff, focused on delivering exceptional customer experience. I want all our people to feel part of the business and valued. We have a real focus on elevating the status of our engineers, or as we like to call them "our Heroes". For example, we have increased and improved the level of training, we have introduced newly designed uniforms and, being a 24/7/365 business, we are working hard to facilitate a better work-life balance. Equally the Support Centre teams need to feel that they are part of the journey towards Vision 2023. I was very pleased to issue share options to the majority of the staff at the end of 2018 which will see them rewarded for their efforts in helping us grow the business.

Q What factors do you see potentially impacting progress?

A The market opportunity is sizeable and we've certainly got the capability to take advantage of it. However, a key challenge will be having the right people, not just in terms of their technical expertise, but more importantly their culture, so we can deliver industry-leading customer service. We want to be the employer of choice and attract and retain the best people we possibly can. In addition, we have recently launched an apprenticeship scheme. We will take unskilled youngsters, and put them through a two-year accredited programme, after which they will be fully qualified and have had some fantastic work, as well as life, experience.

Q Finally, what are the prospects for the newer Metro Plumb business?

A Metro Plumb is really exciting. It is still a relatively embryonic business but with huge potential. One of the priorities for 2019 is to develop the equivalent Vision 2023 strategy for Metro Plumb. The market opportunity we have in plumbing is five times larger than in drainage and we've established the platform to market this business actively and attract new customers and franchisees.

BRAND REVIEWS

METRO ROD
DRAIN CARE AND REPAIR

Our vision is for Metro Rod to be the most respected company in the commercial drainage market. We will achieve this by always providing our customers with a safe, honest and professional service day and night.

System sales

£37.4m

Leading provider

Metro Rod is a leading provider of drain clearance and maintenance solutions to the commercial market. Our full range of services are provided on a 24/7/365 basis by 40 franchisees from regional depots across the UK. We have 370 engineers who are highly skilled and trained to the highest industry standards. They use the latest equipment and technology to deliver permanent drainage solutions to our customers.

We serve national business customers across multiple sectors including facilities management, retail, water utilities, social housing, hospitality and insurance, as well as local businesses and other customers in the private and public sectors. We are trusted by national brand names such as AXA, Mitie, Bupa Healthcare and the National Trust. We work to exacting service level agreements day and night and 20% of our work is completed outside of normal working hours.

Number of drainage engineers

370

Increase in franchisees' local sales

14%

MEET A FRANCHISEE

Graeme and Avril Stevenson
Metro Rod, Manchester South & Central

Business overview

- Metro Rod franchisee since 1994.
- Sales of £1.8m in 2018, an increase of 35% on 2017.
- 19 engineers, nine dedicated office staff, 20 vans and two tankers.
- Provides high-pressure water jetting, CCTV surveys, drain or sewer lining, excavation, electro mechanical cleaning, fat and grease management and tankering services.
- Serves a wide range of national and local customers across multiple sectors, including some of Manchester's best-known institutions and businesses.

Accolades

- Recipients of the highly coveted Metro Rod "Franchisee of the year award" 2018.
- Nick Broadbent, Metro Rod Manchester engineer won the Metro Rod "Engineer of the Year" award for 2018.

For more information visit metrorod.co.uk

Customer case study

"We use Metro Rod for planned maintenance on all our schools across Liverpool and Knowsley, and they also complete reactive works once a year on a large proportion of our Liverpool schools. We trust Metro Rod to get the job done quickly and that is why they receive so much work from us. The communication is also second to none, and we know we can count on Metro Rod to ensure we comply with the very strict Service Level Agreements on all our contracts."

Engie Facilities Management

Franchisee business model

Metro Rod is a management franchise in that the franchisee manages individuals who provide the service. On average, franchisees employ nine engineers and operate eight vans. The average sales of a Metro Rod franchisee are approximately £900,000 with 35% of franchisees now achieving sales of over £1m, and several achieving sales of over £1.5m.

Sources of revenue for Franchise Brands

Virtually all the revenue to the Group derives from MSF income. While the standard rate of MSF for drainage is 22.5% of franchisee sales, in practice this amount is lower as a result of a number of special incentives and allowable expenses, and in 2018 was 18.6%.

Metro Rod's highly skilled and trained engineers carried out 174,000 jobs in 2018.

ChipsAway

Scratches and scuffs won't dent your pocket

ChipsAway's mission is to provide outstanding customer service and excellent value for money to car owners.

Jobs carried out in 2018

75,000

Franchisee expansion to Car Care Centres

ChipsAway is the UK's leading mobile car paintwork repair specialist focusing on SMART repairs. We have been operating successfully for over 20 years and have 201 UK franchisees.

All our repair specialists carry out bumper scuffs, minor dents, paintwork scratches and alloy wheel repairs. In addition to mobile franchisees, we now have 33 Car Care Centres, which are workshops with additional capacity and more advanced equipment than mobile units and can complete larger and more specialist repairs.

The average Car Care Centre turnover is £200,000 per annum compared to an average of £70,000 for a mobile unit after three years. A further 18 franchisees are transitioning into a Car Care Centre by trading from fixed units where the average turnover is £120,000. In total, 11% of ChipsAway franchisees expanded their operations in this way in 2018.

Developing expanded operations

Some 45% of the network have expanded their businesses to include multiple vehicles, multiple geographic areas, Car Care Centres or fixed units.

Number of Car Care Centres

33

Franchisees with expanded operations

45%

Customer case study
"We truly couldn't recommend ChipsAway highly enough!
The repairs to the scratches on our car were completed to an excellent standard with no inconvenience whatsoever. Plus, the cost was so reasonable. Thank you very much ChipsAway".

Mrs B
Teeside South

MEET A FRANCHISEE

Ali Hoy
ChipsAway,
Cardiff

Business overview

- ChipsAway franchisee since 2010.
- Opened Car Care Centre five months after joining the network.
- Sales in excess of £300,000 for the past three years.
- 60% repeat business.
- Team of six including Ali's wife and son.
- Four courtesy cars for customers, providing extra convenience.

Accolades

- Recipient of the highly coveted ChipsAway "Franchisee of the year award" 2015.

For more information visit chipsaway.co.uk

Sources of revenue for Franchise Brands

Each new franchisee pays an initial fee, currently £29,995. The franchise agreement provides for a number of ongoing monthly fees (fixed and variable), the combined effect of which results in franchisees making a monthly payment to the Group equivalent to 10% of their sales.

ChipsAway continues to grow MSF income with 30% of the network now paying turnover related, as opposed to fixed, fees.

Additional revenue is generated from the sale to franchisees of products used in the repair process such as paints, lacquer and consumables.

Our Car Care Centres have additional capacity and more advanced equipment than our mobile units and can complete larger and more specialist repairs.

OVENCLEAN
The original oven cleaning specialists

Ovenclean's mission is to save our customers the time and effort of cleaning their oven by providing a professional, bespoke service.

Jobs carried out in 2018

76,000

Longest established brand

Ovenclean is the longest established and leading oven cleaning business in the UK, and has been successfully operating for over 20 years.

Franchisee business model

Ovenclean is a "milk round" business where the aim is to establish a stable base of 400 to 500 individual customers who have, on average, two cleans per annum. The business model provided to prospective new franchisees demonstrates how turnover of £50,000 per annum and operating profits of £32,000 per annum can be achieved by operating one van and charging the average £65 rate per clean.

Sources of revenue for Franchise Brands

Each new franchisee pays an initial franchise fee to Ovenclean, currently £14,995 and an ongoing monthly licence fee currently of £195 in the first year, followed by £335 in the second and subsequent years and £350 at renewal.

Trustpilot ranking

9.8/10

For more information visit ovenclean.com

Barking Mad

Barking Mad's mission is to be the UK's most devoted and trusted dog care provider through our network of local communities.

System sales

£3.8m

Professional, tailor-made service

Established in 2000, Barking Mad is a local dog home-boarding service which gives customers complete peace of mind when they are away by delivering a professional, tailor-made service.

Barking Mad's franchisees market to individual customers and also recruit dog loving "host" families who look after the customers' dogs in their own homes. This is described to customers as a "dog holiday".

The average sales of a Barking Mad franchisee are £50,000.

Sources of revenue for Franchise Brands

Each new franchisee pays an initial franchise fee to Barking Mad, currently £15,110. Franchisees pay a MSF of 10% each month based on the prior month's sales.

Trustpilot ranking

9.9/10

For more information visit BarkingMad.uk.com

FINANCIAL REVIEW

Adjusted earnings per share

3.00p

(2017: 2.47p)

Proposed dividend per share

0.67p

(2017: 0.5p)

Chris Dent
Chief Financial Officer

> In 2018 we continued to feel the transformational effect of the acquisition of Metro Rod in April 2017.

The figures for 2018 contain a full year for all our brands, whereas the comparative figures for 2017 contain almost nine months of trading of Metro Rod, and a full year for ChipsAway, Ovenclean and Barking Mad. The 2017 numbers have also been restated following accounting changes to revenue recognition as a result of our adoption of IFRS15, details of which can be found in the notes to the Financial Statements.

	2018 £'000	2017 Restated £'000	Change £'000	Change %
Statutory revenue	**35,470**	**24,867**	**10,603**	**43%**
Franchisee payments	(17,604)	(12,166)	(5,438)	45%
Fee income	**17,866**	**12,701**	**5,165**	**41%**
Other cost of sales	(4,737)	(2,986)	(1,751)	59%
Gross profit	**13,129**	**9,715**	**3,414**	**35%**
GM on Fee income	*73%*	*76%*		
Administrative expenses	(9,429)	(7,018)	(2,411)	34%
Adjusted EBITDA	**3,700**	**2,697**	**1,003**	**37%**
Depreciation	(131)	(96)	(35)	37%
Amortisation of intangibles	(253)	(156)	(97)	62%
Share-based payment	(138)	(58)	(80)	138%
Finance expense	(310)	(277)	(32)	12%
Adjusted profit before tax	**2,868**	**2,110**	**758**	**36%**
Tax expense	(536)	(389)	(147)	38%
Adjusted profit after tax	**2,332**	**1,721**	**611**	**36%**
Non-recurring items (net of tax)	–	(1,849)	1,849	100%
Statutory profit/(loss)	**2,332**	**(128)**	**2,460**	**1,926%**

Note: "Adjusted" items are before costs of acquisitions of subsidiaries, costs of transition of subsidiaries, exceptional bad debt provision and IPO expenses and, in relation to EBITDA only, share-based payment expense.

Statutory revenue and fee & direct labour income

Statutory consolidated revenue has increased 43% from £24.9m to £35.5m with the additional revenue coming from Metro Rod. Statutory revenue is made up of a number of different income streams that have differing accounting policies and is not, therefore, a KPI that management track on a consolidated basis.

The Group as a franchisor has three main fee income streams: MSF received from our existing franchisees either based on fixed monthly fees or as a percentage of system sales; fees generated from the sale or resale of franchise territories; and income from the sale of products to franchisees. The Group, through Metro Rod, also has two direct labour divisions, Kemac, a plumbing operation based in London, and our new Metro Rod corporate franchise in Exeter, which comprise a separate category of direct labour income.

	2018		2017 Restated		Change	
	£'000	%	£'000	%	£'000	%
MSF Income	10,894	61%	8,235	65%	2,659	32%
Area Sales	1,513	8%	1,829	14%	(316)	-17%
Product Sales	895	5%	946	7%	(51)	-5%
Direct Labour	4,564	26%	1,690	13%	2,874	170%
Fee Income	**17,866**		**12,701**		**5,165**	**41%**

Overall fee and direct labour income has increased 41% from £12.7m to £17.9m.

The 32% increase in recurring MSF income reflects our focus on improving the quality of our income stream to one which is more aligned to the growth in franchisees' sales, rather than recruitment income from the sale and resale of franchise territories.

On a pro forma basis, System Sales at Metro Rod grew 10.2% from £33.9m to £37.4m. As part of the Vision 2023 strategy, we have introduced a variety of schemes and incentives to better enable our franchisees to grow their businesses. These include rebates relating to growing their System Sales, and a financing scheme with HSBC to give them access to funds to increase their capacity. As a result of these initiatives we have seen some really outstanding performances: 20 franchisees have seen double-digit like-for-like sales growth, with 7 growing by above 30%. We now have 14 franchisees with sales larger than £1m (2017: 12). Within the overall increase, the local sales made by franchisees in their territories and Metro Plumb sales drove the growth, increasing by 14% and 27% respectively.

Income from area sales has fallen in both absolute terms and relative to other income streams. ChipsAway, Ovenclean and Barking Mad have all suffered a slow-down in relation to franchisee recruitment, due to the external environment. Although we have seen a fall in the number of new franchisees entering our networks, we have seen an increase in the level of existing franchisees investing in additional territories or buying extra postcodes to increase the size of their existing territories.

We have seen direct labour income increase strongly from £1.7m to £4.6m with the inclusion of Kemac for a full year, and the addition of the Exeter region as a corporately owned and run franchise for 10 months. In particular, Kemac has benefitted during 2018 from several large one-off contracts.

Our fee and direct labour income generates a high level of gross margin; in the current period this has reduced marginally to 73% (2017: 76%) due to the change in our income mix, as our direct labour income achieves lower margins at around 25% than our core business as a franchisor at around 90%. Overall, gross profit increased by 35% from £9.7m to £13.1m.

Trading results – EBITDA

	2018 £'000	2017 Restated £'000	Change £'000	Change %
Metro Rod	2,498	1,306	1,192	91%
ChipsAway	1,920	1,912	8	0%
Ovenclean	304	297	7	2%
Barking Mad	160	187	(27)	-14%
Head Office	(1,182)	(1,005)	(177)	18%
Group EBITDA	**3,700**	**2,697**	**1,003**	**37%**

Metro Rod, which includes Metro Plumb, Kemac and Exeter, made an EBITDA contribution of £2.5m in the period, up from £1.3m for the almost nine months of ownership in FY 2017. On a pro forma basis Metro Rod would have contributed around £1.8m in 2017 if it had been owned for the full year, which gives an implied organic EBITDA growth of 38%. This growth has been driven by the increase in our MSF income on system sales from our national network of 40 Metro Rod franchisees, and our one new standalone Metro Plumb franchise.

Given the decrease in recruitment, it is encouraging to report that the EBITDA contribution for ChipsAway, Ovenclean and Barking Mad has been flat at £2.4m (2017: £2.4m), as lower recruitment income has been offset by higher levels of MSF income, including a higher proportion of ChipsAway franchisees paying supplemental licence fees based on their sales, rather than flat monthly fees.

Group overheads increased from £1.0m to £1.2m, principally as a result of the annualisation of the cost increases which took place following the acquisition of Metro Rod.

Adjusted EBITDA for the Group has increased by 37% from £2.7m to £3.7m.

FINANCIAL REVIEW
continued

Earnings

Depreciation and amortisation costs have increased to £0.4m, due to a full year's amortisation of the intangible assets arising from the acquisition of Metro Rod; the acquisition of new equipment at our Exeter corporate franchise; and new software at the Metro Rod support centre. The share based payment charge has increased by 138% to £0.1m as we see the full year effect of new options granted at the end of 2017. The finance charge of £0.3m is up 12%, as the benefit of lower average debt was more than offset by the full year effect of the debt facilities that were taken out in April 2017 to finance the acquisition of Metro Rod, and an increase in the base rate in August 2018.

Adjusted profit before tax was £2.9m which is a 36% increase when compared to the adjusted profit before tax in 2017 of £2.1m. In 2018, the Group had no items which we considered to be 'non-recurring', whereas in the prior year there were a number of these items, primarily in relation to the acquisition of Metro Rod.

The tax charge for the period at 18.7% (2017: adjusted tax charge 18.4%) was lower than the statutory rate of 19% owing to a small adjustment in respect of previous years. As a result, the Group made a statutory profit after tax in the period of £2.3m compared to a loss of £0.1m in 2017.

Although the number of shares in issue during the period was 77,732,033, the Group has undertaken a programme to purchase shares into Treasury in order to mitigate the dilutive effect of the share options we have issued to our team. In 2018, we repurchased 200,000 shares (2017: nil) for a consideration of £151,000 (2017: £nil), which, tied to the full year effect of the shares issued in relation to the Metro Rod purchase, resulted in a weighted average number of shares of 77,687,101 (2017: 69,553,746). Therefore, this 12% increase in the weighted average number of shares means that, whilst adjusted earnings increased 36%, adjusted earnings per share increased by 21% or 0.53p to 3.00p per share (2017: 2.47p). As there have been no non-recurring items in 2018, statutory EPS was the same at 3.00p (2017: loss of 0.18p).

Financing and cash flow

The Group generated cash from operating activities of £2.9m (2017: £0.7m). During the period we repaid £1.6m of debt, reducing the gross level of debt from £9.5m to £7.9m. Of the £1.6m repayment, £0.6m was scheduled and £1.0m was a reduction in the drawing on the revolving credit facility ("RCF").

At 31 December 2018, we had utilised £2.5m of our £5.0m RCF (2017: £3.5m) and had cash-in-hand of £2.9m (2017: £3.2m), meaning that we had available cash and facilities of £5.4m (2017: £4.7m).

Shareholders' funds at 31 December were £24.4m (2017: £22.5m) against net debt of £5.0m (31 December 2017: £6.3m), giving modest gearing of 20% (31 December 2017: 28%).

Dividend

The Board is pleased to propose a final dividend of 0.46 pence per share (2017: 0.33 pence per share), taking the total dividends for the year to 0.67 pence per share (2017: 0.50 pence per share). The cost of the proposed final dividend is £358,000. The total dividend for the year is 4.4 times covered by adjusted profit after tax.

Subject to shareholder approval at the AGM on 23 April 2019, the final dividend will be paid on 20 May 2019 to shareholders on the register at the close of business on 3 May 2019.

The Strategic Report (which includes all of the content from pages 1 to 31 inclusive) was approved by the Board on 12 March 2019 and signed on its behalf by:

Chris Dent
Chief Financial Officer

12 March 2019

2018 GROUP ACHIEVEMENTS

We regularly engage with our franchisees.
Here's a selection of highlights from 2018.

KEY PERFORMANCE INDICATORS

Financial and non-financial measures used by management

Metro Rod

EBITDA (£m)

£2.5m +91%

2018	£2.5m
2017	£1.3m
2016	n/a

Description
Adjusted EBITDA (profit before interest, tax, depreciation, amortisation, share-based payments, non-recurring items and excluding central costs) is the KPI which the Group uses to measure the underlying performance of its brands.

Metro Rod – Performance in 2018
Metro Rod, which includes Metro Plumb, Kemac and Exeter, made an EBITDA contribution of £2.5m in 2018, up from the £1.3m for the almost nine months of ownership in 2017. On a pro forma basis, Metro Rod would have contributed around £1.8m if it had been owned for the full year, which gives an implied organic EBITDA growth of 38%.

Total number of jobs completed

174,000 +60%

2018	174,000
2017	108,750
2016	n/a

Description
This is the total number of drainage and plumbing jobs completed and is a key measure of activity levels within the business.

Metro Rod – Performance in 2018
The total number of jobs completed was 174,000, up from 108,750 during the period of almost nine months of ownership in 2017. On a pro forma basis job numbers would have increased 14% comparing 2018 with the full year 2017, when 152,000 jobs were completed.

System sales (£m)

£37.4m +43%

2018	£37.4m
2017	£26.1m
2016	n/a

Description
System sales are the total aggregate sales of franchisees and Metro Rod-owned operations of services to third party customers.

Metro Rod – Performance in 2018
System sales were £37.4m compared to £26.1m in the almost nine months of ownership in 2017. On a pro forma basis, system sales would have increased 10% from £33.9m in 2017 to £37.4m in 2018. Of these, local sales by franchisees grew 14% in 2018.

ChipsAway

EBITDA (£m)

£1.9m 0%

2018	£1.9m
2017	£1.9m
2016	£1.6m

Description
Adjusted EBITDA (profit before interest, tax, depreciation, amortisation, share-based payments, non-recurring items and excluding central costs) is the KPI which the Group uses to measure the underlying performance of its brands.

ChipsAway – Performance in 2018
EBITDA was flat in 2018 due to a slowdown in franchise recruitment. However, lower recruitment income was compensated for by higher levels of MSF income, including a higher proportion of ChipsAway franchisees paying supplemental licence fees, rather than purely fixed monthly fees.

Number of franchisees recruited

23 -30%

2018	23
2017	33
2016	34

Description
The number of franchisees recruited is a driver of franchise recruitment income in the current year and MSF in both the current and future years. It is not measured in isolation as the Group also assesses the quality of new franchisees.

ChipsAway – Performance in 2018
The number of franchisees recruited in 2018 was less than in recent years due, we believe, to the UK macroeconomic climate of record high employment and uncertainty around Brexit. However, 30 franchises invested in additional territories or extra postcodes to increase the size of their businesses.

Total number of UK franchisees

201 -6%

2018	201
2017	214
2016	218

Description
The total number of UK franchisees is an indicator of the overall health of the franchise system, however, the Group is placing more emphasis on the quality of franchisees and their ability to grow their businesses.

ChipsAway – Performance in 2018
While the number of franchisees in the system in 2018 was 6% lower than in 2017, this was mainly due to the reduction in new franchisees recruited, as one fewer franchisee left the system than in 2017. The quality of franchisees has continued to increase with 45% now operating expanded operations.

Ovenclean

EBITDA (£m)

£0.3m +2%

2018	£0.3m
2017	£0.3m
2016	£0.3m

Description
Adjusted EBITDA (profit before interest, tax, depreciation, amortisation, share-based payments, non-recurring items and excluding central costs) is the KPI which the Group uses to measure the underlying performance of its brands.

Ovenclean – Performance in 2018
EBITDA was essentially flat in 2018 as a result of a slowdown in relation to franchise recruitment, however, this was compensated for by an increase in MSF.

Number of franchisees recruited

19 -17%

2018	19
2017	23
2016	28

Description
The number of franchisees recruited is a driver of franchise recruitment income in the current year and MSF in both the current and future years. It is not measured in isolation as the Group also assesses the quality of new franchisees.

Ovenclean – Performance in 2018
Recruitment at Ovenlean declined in 2018 as we believe interest in such a franchising opportunity is linked to levels of employment/redundancy in the wider economy. Virtually none of the new recruits come from a related background and are franchising is their first step into self employment.

Total number of franchisees

106 0%

2018	106
2017	106
2016	102

Description
The total number of franchisees is an indicator of the overall health of the franchise system, however, the Group is placing more emphasis on the quality of franchisees and their ability to grow their businesses.

Ovenclean – Performance in 2018
The number of franchisees in the system in 2018 was the same as 2017 as a result of 19 new joiners and 19 leavers. However, the number of leavers was in line with 2017 and 2016.

Barking Mad

EBITDA (£m)

£0.2m -14%

2018	£0.2m
2017	£0.2m
2016	£(0.01)m

Description
Adjusted EBITDA (profit before interest, tax, depreciation, amortisation, share-based payments, non-recurring items and excluding central costs) is the KPI which the Group uses to measure the underlying performance of its brands.

Barking Mad – Performance in 2018
EBITDA declined 14% in 2018 as a result of a slowdown in relation to franchise recruitment.

Number of franchisees recruited

15 -38%

2018	15
2017	24
2016	0

Description
The number of franchisees recruited is a driver of franchise recruitment income in the current year and MSF in both the current and future years. It is not measured in isolation as the Group also assesses the quality of new franchisees.

Barking Mad – Performance in 2018
The reduction in new franchisees in 2018 was for similar reasons to that set out for Ovenclean. Barking Mad is primarily a lifestyle business that is purchased at a point of change in people's lives and the high levels of employment and uncertainty over Brexit meant that less people were making lifestyle changes.

System sales (£m)

£3.8m +6%

2018	£3.8m
2017	£3.6m
2016	£0.4m

Description
System sales are the total aggregate sales of franchisees of services to third-party customers.

Barking Mad – Performance in 2018
System sales were 6% higher in 2018 than 2017 as the number of franchisees in the system grew from 77 to 80. However, sales may have been impacted by the long hot summer and more people holidaying in the UK with their dogs.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors confirm that the Board regularly reviews the process for identifying, assessing and mitigating any significant risks faced by the Group, and regularly reviews the impact of any significant risks faced by the Group on the prospects of the Group. Below is a summary of current principal risks and uncertainties which may be subject to change following any review.

Increasing Decreasing No movement

Strategic risks

Market risks	Impact	Mitigation
Franchisees ↑	• The ability of the Group to attract and retain franchisees with the appropriate attitude, expertise and skills, in available and suitable locations, cannot be guaranteed. This may have a detrimental effect on trading performance and growth. • Franchisees could default on their obligations under their respective franchise agreements or underperform, or affect the integrity of the brand, all of which could negatively impact the Group's performance, reputation and prospects.	• The Group has an experienced franchise marketing and recruitment capability. KPIs are monitored on a regular basis for all Group businesses in order to ensure a suitable number of new enquiries are being received to achieve the recruitment targets. • The Group provides a comprehensive range of training and support services to its franchisees with the objective of achieving high standards. It monitors performance and compliance where required through the franchise support and operations teams and through regular inspections and audits.
Customers ↓	• Metro Rod has a number of large customer relationships, in particular in the facilities management sector, where reactive services are being provided nationally through framework agreements. The loss of a number of these large customers, and/or a significant reduction in the amount of reactive work that is provided to Metro Rod, could have a detrimental impact on system sales and hence profits.	• No one customer accounts for a significant proportion of sales. With the large investment that is being made in the Metro Rod brand and sales team, the ability of the business to replace lost sales should increase. • Metro Rod has long-standing relationships with many of these customers, and also their end-customers, and is able to be very responsive to changing requirements and customer feedback.

Financial risks	Impact	Mitigation
Ability to generate revenues & profit —	• Failure of the Group to grow sales may result in Group MSF revenues increasing more slowly than anticipated. Due to the fixed nature of the Group's central overhead, the ability of the Group to reduce this in the short term is limited which may affect profits. • The Group relies on the receipt/collection of ongoing monthly payments from ChipsAway and Ovenclean franchisees.	• The Group has well positioned brands and will continue to invest and develop its sales and marketing strategies to further drive sales. • Factors likely to affect a ChipsAway or Ovenclean franchisee's ability to make payments are monitored by our Franchise Support teams on a daily basis and by Finance on a monthly basis. Any material concerns are raised with the department manager who will investigate and direct appropriate help and assistance to individual franchisees.

Operational risks

Legal risks	Impact	Mitigation
Changes in legislation ↑	• Legislation and regulations that impact the business may change and/or new legislation and regulation may come into effect which could have an adverse effect on the Group's franchise model and business. • In particular, the Group could be impacted by changes in health and safety regulations, franchising legislation, employment law, data protection and other legislative areas. • In the current year Barking Mad has seen changes in the licensing regulations relating to providing home boarding for dogs.	• The Group closely monitors regulatory and legal developments to determine its response and to ensure ongoing compliance with its obligations. • The Group works closely with third parties to ensure that it meets its obligations, including independent environmental and health and safety consultants as well as legal advisers. • In the current year we worked closely with our barking Mad franchisees and legal advisors to ensure that we met all the requirements of the change in legislation introduced in the current year.

Operational risks (continued)

Operational risks	Impact	Mitigation
Dependence on key personnel	• Loss of key personnel, either at Executive level, or in relation to key skills, could have adverse consequences for the Group. • The inability to recruit additional skilled and experienced personnel in a competitive market for suitably qualified candidates may impact the performance of the business.	• Each of the Executive Directors and a number of other key personnel are shareholders in the Company. • All employees in key positions are participants in the Company's Long-Term Incentive Plan. • The Group encourages and supports employees to undertake training to expand existing skills where necessary.
Health and Safety	• Metro Rod operates in sectors where the health and safety risk is higher than the Group's other brands due to the nature of the equipment used and the locations in which the services are carried out. Metro Rod has a good long-term health and safety record; however, a serious incident could have adverse consequences to the business. • The chemical compounds used to carry out ChipsAway repairs and Ovenclean processes are compliant with current health and safety regulations, however, should regulations change, compliance with new regulations could result in increased costs for the Group's franchisees which may impact their viability.	• Metro Rod has developed health and safety systems and processes for its franchisees and company owned operations, the objective of which is the creation of a safe environment. • A point of work risk assessment is inbuilt into our works management system and must be completed prior to work commencing. • Franchisees are provided with health and safety training and are audited for compliance through a number of inspections. Metro Rod's processes are the subject of independent review and accreditation. All health and safety KPIs are carefully monitored and assessed on a regular basis. • The Group closely monitors industry developments that may result in a change to the regulation of products used in the ChipsAway repair and Ovenclean process. In such an event the Group will work with key suppliers with the objective of ensuring compliance and managing cost. • All brands hold ISO certification.
Information Technology	• The Group's business is dependent on network and information systems, the internet and other technologies. Shutdowns or service disruptions could adversely affect the Group. • The Group is dependent on products, technologies and services provided by third parties in order for customers to use its services, as well as to deliver, measure and report advertising.	• The architecture of the Metro Rod systems has recently been restructured and the systems are now hosted using the Microsoft Cloud. They are backed up regularly and there are standard processes in place to restore critical services. However, Metro Rod's business is very reliant on these systems. • For the other Group brands, the most critical systems are also externally hosted and regularly backed up. Their operation is monitored closely by a third party professional services company. Annual penetration tests are conducted. • The IT department continually reviews the suitability of the Group's systems and identifies any legacy or aging systems that need to be replaced.
External suppliers (excluding IT)	• The Group relies on certain other suppliers, without whom the Group's revenue generation, efficiency of operations and cash flow may not be optimised. • The Group cannot guarantee that service and products delivered from third parties will remain of a high quality in the future and be provided without interruption.	• The Group maintains good working relationships with its key suppliers to ensure the supply of the highest quality products and services at all times. • The Group continually assesses the quality and value of the products and services supplied and have identified alternative suppliers for all key products and services should alternatives be required at any time. • Metro Rod's reliance on sub-contractors has reduced substantially following the establishment of a new franchisee in Scotland.

BOARD OF DIRECTORS

Stephen Hemsley

Executive Chairman

Stephen co-founded Franchise Brands in 2008. He has long-standing experience in franchising and currently holds the position of Non-executive Chairman, Domino's Pizza Group plc. He led Domino's to an IPO on AIM in 1999, and subsequently as CEO, he led the business through a period of growth. During his 20-year association with Domino's Pizza, Stephen has taken Domino's from a market capitalisation of £25m to over £1bn and from around 100 to over 1,000 stores across the UK, Ireland and Europe. He was appointed as a Director of the Company on 15 July 2016.

Chris Dent

Chief Financial Officer

Chris has substantial accounting and financial experience from his time in the profession and as a Finance Director of private and publicly quoted companies. Chris spent four years as Finance Director of AIM-quoted 7digital Group plc and began his career at Deloitte LLP where he spent ten years within audit, corporate finance and transactional accounting services. Chris is a Fellow of the Institute of Chartered Accountants of England and Wales. Chris was appointed as Chief Financial Officer of Franchise Brands on 17 July 2017.

Peter Molloy

Managing Director, Metro Rod

Peter has over 35 years of management and commercial experience. Peter joined Metro Rod in 2003 and was promoted to the position of Commercial Director in 2005. In this role, he was responsible for national account sales and support. Prior to joining Metro Rod, Peter was Managing Director of Solaglas Replacement Glazing, part of the Saint-Gobain Group, with national responsibility for the network branches, field engineers, call centre and sales and marketing. Peter was appointed Managing Director of Metro Rod on 4 September 2017, and a Director of the Company on 21 March 2018.

Tim Harris

Managing Director, ChipsAway and Ovenclean

Tim is a seasoned franchise professional with 20 years' experience of successfully developing automotive, commercial and domestic franchise businesses in both international and UK markets. Tim joined the Group in 2008. Formerly Sales Director, Tim was appointed CEO in 2012 and has led the brands through a period of increased profitability and international reach, with Master franchises opened in the Americas and across Europe. Prior to joining the Group, Tim held senior sales positions at a number of franchisor companies. He was appointed as a Director of the Company on 15 July 2016.

Julia Choudhury

Corporate Development Director

Julia has over 25 years of commercial, finance and investment experience. Julia joined the Group in 2008 and has a particular focus on corporate development, which includes acquisitions. Between 1997 and 2005, Julia held a number of senior management roles with AXA Investment Managers including Head of Retail, and latterly Managing Director of AXA Investment Manager's UK operation. Her early career was spent in corporate finance and investment management with BZW. She was appointed as a Director of the Company on 15 July 2016.

Colin Rees

Chief Information Officer

Colin is a highly experienced IT professional. He was appointed to the new position of Chief Information Officer on 1 April 2017. Colin was previously Director of IT at Domino's Pizza where he was responsible for all IT systems of the business from the point-of-sale system in over 1,000 stores, via the mobile and web ordering system, through to the ERP system. He previously held a number of senior IT roles at EasyJet including Head of Software Delivery. Colin started his career at Argos plc and held a number of positions over a ten year period. He was appointed a Director of the Company on 21 March 2018.

Nigel Wray

Non-executive Director

Nigel co-founded Franchise Brands in 2008. He is an entrepreneurial investor in both public and private companies. Currently he is a substantial shareholder and Director at Prestbury Investment Holdings Ltd and many other companies. He is also the Chairman and owner of Saracens Rugby Club. He is a significant investor in a wide-ranging number of AIM quoted companies, as well as a number of private companies. He is a former Director and was a significant shareholder in Domino's Pizza. He was appointed as a Director of the Company on 15 July 2016.

David Poutney

Independent Non-executive Director

David has over 40 years of finance and investment experience. David is CEO of Dowgate Capital Ltd. From 2001 to 2016 he was Director and Head of Corporate Broking at Numis Securities Limited. Between 2014 and 2016, he was an Executive Director of Numis Corporation plc. In his 20 years as a corporate broker, David has been involved in the listings of over 30 companies and advised many through extended periods of growth.
In particular, he advised Domino's Pizza from 2002 to 2016. He was appointed as a Director of the Company on 15 July 2016.

A R AR

Committee membership

- A Audit Committee
- R Remuneration Committee
- AR AIM Rules Compliance Committee
- ● Denotes Committee Chair

Rob Bellhouse

Independent Non-executive Director

Rob is an experienced Company Secretary with strong commercial experience gained over 30 years working in listed companies with a strong focus on governance, compliance and risk management activities. He was recently appointed Company Secretary of a Royal Charter body which delivers a major publicly-funded programme for young people. He has previously been Company Secretary of a number of listed companies including Domino's Pizza (on an interim basis), Lonmin and Greene King. He was voted ICSA Company Secretary of the Year in 2014. Rob was appointed as a Director of the Company on 15 July 2016.

A R AR

SENIOR MANAGEMENT

Lee Dancy

Managing Director, Barking Mad

Lee is an experienced franchise professional with over 25 years of commercial experience, primarily in sales and marketing. In 2000, Lee founded Barking Mad and successfully franchised and grew the business over the next 16 years. She has continued in her role as Managing Director following the acquisition of Barking Mad by Franchise Brands in 2016.

Robin Auld

Group Marketing Director

Robin oversees consumer, trade and franchise recruitment marketing activity ensuring continual evolution of strategy and best practice in execution. He joined Franchise Brands in 2010 and has a successful track record of marketing success over 25 years. He is best known for his work at Domino's Pizza as Sales & Marketing Director.

Andrew Mallows

Group Commercial Director

Andrew has spent his career in the consumer sector and has particular experience in franchising. Andrew joined Franchise Brands in 2016 and works as Commercial Director for all the Group's brands. He was Finance Director of Domino's Pizza during the period 2001 to 2004, before being appointed Business Development Director.

Tim Roberts

IT Director,
Metro Rod

Tim has over 20 years IT and project management experience with a number of blue-chip companies in a wide range of business sectors. He joined the Group in 2017. Prior to joining Franchise Brands, Tim spent time at Domino's Pizza where he helped manage the corporate systems.

Craig Henthorn

Sales and Marketing Director,
Metro Rod

Craig has spent his career in commercial roles and has nearly 20 years franchising experience. He re-joined Metro Rod in 2018 having worked for the business under previous management. Most recently he was Managing Director of Expense Reduction Analysis's European operations which had over 300 franchisees.

Chris Hirst

Franchise Director,
Metro Rod

Chris joined Metro Rod in 2008 as Franchise Director, and has particular technical, operations, compliance and health and safety expertise. Prior to that he spent 21 years in the manufacturing sector in a number of production and purchasing management roles. His early career was spent in the Police force.

Julian Mason

Group HR Business Partner

Julian joined Franchise Brands as Group HR Business Partner in 2017. He has over 20 years senior practitioner level strategic and operational HR experience. Julian has successfully managed large scale change projects within the NHS and has specialist knowledge of organisational development and culture change gained at The Guinness Partnership Ltd.

Ella Pugh

Head of Marketing,
ChipsAway and Ovenclean

Ella's background is in consumer goods marketing, in particular product marketing and development. Ella joined Franchise Brands in 2016 and is responsible for ChipsAway and Ovenclean consumer marketing as well as franchise recruitment marketing. She is passionate about building brand awareness and delivering results-orientated multi-channel campaigns.

Mark Peters

Company Secretary

Mark spent over 30 years in the legal profession, which included 17 years with Sherrards Solicitors LLP where he was Senior Partner. Mark has particular expertise in real estate, investment, business development and management and has performed Company secretarial duties for Franchise Brands since 2008.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

"Franchise Brands is an AIM-quoted company and we have chosen to follow the QCA's Corporate Governance Code for small and mid-size quoted companies (the "Code") as we believe that this provides an appropriate governance framework for a Group of our size."

We believe that good corporate governance is vital in supporting our Company's growth strategy and in turn its long-term success. The Board of Directors has chosen to apply the Quoted Companies Alliance (the "QCA") Corporate Governance Code (the "Code") as it believes that this provides an appropriate governance framework for a Group of our size and should help support our growth and success. We seek to comply with the Code's principles and application wherever possible, but there can be circumstances where the interests of the Company and its shareholders are better served by departing from the Code's requirements. In these circumstances we will seek to explain the divergence.

Corporate governance plays a crucial role in helping to preserve value for shareholders by providing a process for decision-making which should ensure that all major decisions are considered in good time, that the Board is provided with good quality briefing materials which cover all relevant factors and that our deliberations consider the risks, as well as the opportunities, in the issues before us. It is for these reasons that the Board is committed to achieving high standards of corporate governance.

The QCA published a new edition of its Code on 25 April 2018, which was after the date on which the Company's last Annual Report and Accounts was published. This edition of the Code requires us to provide an explanation for any departures from the principles or application of the Code. As a result, the remainder of this report explains how we have applied the Code during 2018. Further information on the Group's governance practices, the business model and strategy can be found in the Company Overview, Strategic Report and Governance sections of this Annual Report and Accounts.

In addition to choosing to apply the new edition of the QCA Code, I am delighted to announce that in the current year we have become members of the QCA in order to support the work it does in promoting good corporate governance.

Stephen Hemsley
Executive Chairman

CORPORATE GOVERNANCE

QCA PRINCIPLE 1

Strategy and business model

Our vision and business model is to create a group of market-leading franchise businesses that benefit from sharing the same support services. Our strategy to deliver shareholder value is to acquire and develop franchise businesses which have market-leading positions that primarily provide services to individuals and businesses. Our focus is on established brands which can benefit from our shared support services as well as our management expertise and experience. The execution of this strategy is achieved through a combination of organic growth and growth through acquisition. The focus of future acquisitions will be on market-leading B2B and B2C franchise businesses of scale and where we believe our management and financial resources can enhance an already profitable business.

Our shared support services underpin our business model. These include franchise recruitment, IT, finance and marketing. The shared support services allow the management of the individual brands to focus on expanding their networks and helping their franchisees to grow their businesses.

Further information around our strategy and business model can be found in the Strategic Report.

QCA PRINCIPLE 2

Meeting shareholder needs

The Executive Chairman, the Chief Financial Officer, and the Corporate Development Director regularly meet with the institutional shareholders, and provide the Board with feedback from those meetings and other communications with shareholders. The Board is provided with research notes from sell-side analysts plus insight into shareholders' views from the Company's brokers and nominated adviser. The Group welcomes the personal investment in its equity that many employees and franchisees have made, as well as our retail investors. We regularly update the Investor Relations section of the Group's website with the aim of providing useful information for all investors, but particularly our retail shareholders. We use our Annual Report to provide shareholders with details of the Group, operations, performance, strategy and policies. The Group also exhibits and presents at events attended by retail investors and subscribes, and provides content to, retail financial news websites.

All Directors are invited to attend the AGM at which there is an opportunity for shareholders to ask questions formally, and the Directors are available following the meeting for informal discussions. Voting at the AGM is by poll, with the results being announced in the meeting.

QCA PRINCIPLE 3

Manage our responsibilities to wider stakeholders

The Board has a clear understanding of the Group's key stakeholders (which includes our employees, franchisees, customers, suppliers, shareholders, regulators, and banks) and understands that the success of the Company depends on maintaining a positive relationship with each of these groups, particularly its franchisees.

There are good relations with all of the stakeholder groups. The Group's core business as a franchisor has minimal direct impact on society or communities in general terms, but the Board understands the importance of these issues. Management actively solicits feedback from employees and franchisees (both formally and informally) and maintains strong relationships with suppliers. In the current year this has included management visits to franchisees, one-to-one meetings by the senior executive with employees ("speed date the boss"), as well as more formal surveys carried out by independent firms. Customer reviews, ratings and feedback for all our consumer brands are received regularly and action taken where required.

Each of our underlying franchise networks have potential environmental impacts which have been considered and minimised. For example, ChipsAway uses water-based paints and lacquers while Ovenclean uses environmentally-friendly cleaning chemicals. Metro Rod has highly developed health and safety systems and processes which take into account the potential health and safety risk from the nature of the equipment used and the public locations in which the services are carried out.

QCA PRINCIPLE 4

Risk management

The Risk Management section on pages 30 and 31 details the key risks to the business, how these are mitigated and the change in the identified risk over the last reporting period. The Board is embedding risk management principles to drive proactive management of, to better enable us to execute and deliver our strategy. As such, the Board implemented a new risk management framework during the year, which determines the extent of exposure to the identified risks that the Company is able to bear and willing to take. Any changes to the risk profile of the group will be discussed at Board meetings, and the risk management framework updated. The Board formally reviews the risk framework bi-annually. The Group does not currently have an internal audit function, but will consider the introduction of this as the Group grows.

QCA PRINCIPLE 5

Maintain a well-functioning Board

The Company is controlled by the Board of Directors. The Board comprises six Executive Directors and three Non-executive Directors, two of whom (Rob Bellhouse and David Poutney) are considered to be independent. Peter Molloy and Tim Harris are the Managing Directors of the two largest operating components of the Group and sit on the Board of Directors, and they are responsible for the operational leadership of their respective businesses.

The Group holds Board meetings at least six times each financial year and at other times as and when required. During the current year the board met eight times. All directors (or their proxy) attended all meetings with the exception of Nigel Wray being unable to attend one meeting. Stephen Hemsley, the Executive Chairman, is responsible for the running of the Board.

The Board is responsible to the Company's shareholders for:

- Setting the Group's strategy;
- Maintaining the policy and decision-making process through which the strategy is implemented;
- Checking that necessary financial and human resources are in place to meet the strategic aims of the Group;
- Providing entrepreneurial leadership within a framework of good governance and sound risk management;
- Monitoring performance against key financial and non-financial indicators;
- Overseeing the systems of risk management and internal control; and
- Setting values and standards in corporate governance matters.

The role of the Non-executive Directors is to:

- Challenge constructively and help develop proposals on strategy;
- Satisfy themselves as to the integrity of the financial reporting systems and the information they provide;
- Satisfy themselves as to the robustness of the internal controls;
- Ensure that the systems of risk management are robust and defensible; and
- Review management performance and the reporting of such performance to shareholders.

All Directors receive regular and timely information on the Group's operational and financial performance. Detailed strategic Board papers are sent out in advance of Board meetings, and the Board receive the monthly management accounts detailing the performance of our brands. The Directors' contracts provide that they must each devote such time to the Company as is required to fulfil their duties.

QCA PRINCIPLE 6

Ensure Directors have necessary, up-to-date skills

Having Directors drawn from a range of backgrounds, with a cumulatively wide range of relevant skills and experiences, helps us to take decisions in the interests of all shareholders and which take into account the interests of a wide range of stakeholders. Details of the skills and experience of the Board, which cover sector, financial and public markets skills and experience, can be found on pages 32 and 33. Where new Board appointments are considered the search for candidates is conducted, and appointments are made, on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

The Board recognises that as the Group evolves, the mix of skills and experience required on the Board will change, and Board composition will need to evolve to reflect this change, with due regard for the benefits of diversity on the Board, including gender.

Directors are provided with access to the Company's Nominated Advisor who provide briefings on necessary legislation and regulations from time to time. Directors are supported to ensure their skills remain up to date, including training courses and continuing professional development.

QCA PRINCIPLE 7

Evaluate Board Performance

A Board performance self-evaluation was undertaken in November 2018, the results of which have been discussed by the Board. Each Director was invited to complete a questionnaire providing a quantitative rating and justifying narrative on ten strategically aligned questions, with two further questions to identify any improvement opportunities. Overall, the Board felt that it was functioning effectively, with a good balance and blend of skills and experience around the Board table and meetings that were held in a constructive spirit. The evaluation identified two opportunities to enhance the Board's effectiveness. One was to ensure that its meeting agendas and discussions focussed on strategic considerations, with operational outcomes reported by exception. The second was to have specific 'deep dives' into key strategic issues, including both risks and opportunities. Both have been adopted by the Board.

Since the Company joined the AIM market in August 2016, there has been an evolution in the Board's composition, with the most recent changes to the directorate being in April 2018. While there is no formal succession plan in place, three Managing Directors run the Group's brands and two of these individuals sit on the parent company Board. All three are experienced operators of franchised businesses and whilst it is not our plan to consolidate these businesses any further, we have significant resilience in our senior management team.

QCA PRINCIPLE 8

Promote a value-based corporate culture

Franchise Brands has five guiding principles that inform the way we work with each other, support our franchisees and serve our customers and the communities in which we operate:

- **We demand integrity:** We are professional in everything we do and treat people with respect. Nothing is more important to us than acting with integrity at all times.
- **We empower our people:** We empower our people and expect them to take ownership of a situation and to be accountable for their actions and the results they generate.
- **We are challenging of ourselves:** We set high standards, are demanding of ourselves, are prepared to challenge the norm and have a relentless focus on continual improvement.
- **We are fair:** We consider that fairness and transparency are essential to creating high trust working relationships with each other, and with our franchisees, partners and suppliers.
- **We work as a team:** We place a huge amount of importance on teamwork between our colleagues and our franchisees in creating a dynamic business which delivers impressive results. We are inclusive, encourage ideas and innovation and welcome diversity.

An externally conducted survey has been undertaken to ascertain the views and attitudes of the franchisees of Metro Rod, the Group's largest business. This included a number of questions providing insights into the culture within that business and the Board has discussed the survey's findings.

CORPORATE GOVERNANCE
continued

QCA PRINCIPLE 9

Maintain fit-for-purpose governance structures

Audit Committee

The role of the Audit Committee is to monitor the quality of internal controls and check that the financial performance of the Group is properly assessed and reported on. It receives and reviews reports from the Chief Financial Officer, other members of management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group. The members of the Audit Committee are David Poutney (Chairman) and Rob Bellhouse.

The Executive Chairman and Chief Financial Officer are invited to attend all meetings, with other senior financial managers required to attend when necessary. The external auditors attend meetings to discuss the planning and conclusions of their work and meet with the members of the Committee without any members of the executive team present after each meeting. The Committee is able to call for information from management and consults with the external auditors directly as required.

The objectivity and independence of the external auditors is safeguarded by reviewing the auditors' formal declarations, monitoring relationships between key audit staff and the Company and tracking the level of non-audit fees payable to the auditors.

The Committee met twice during the year, to review the 2017 annual accounts and the interim accounts to 30 June 2018. The Committee reviewed with the independent auditor its judgements as to the acceptability of the Company's accounting principles. In particular, the Committee discussed the application of the new accounting standards, IFRS9 and IFRS15, and the future application of IFRS16. The Committee reviewed and discussed the auditor's comments on improvements which could be made to the internal controls. In addition, the Committee has discussed with the auditor the firm's independence from Company management and the Company, and considered the compatibility of non-audit services with the auditor's independence.

Remuneration Committee

The role of the Remuneration Committee is to review the performance of the Executive Directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The Committee also makes recommendations to the Board on proposals for the granting of share awards and other equity incentives pursuant to any share award scheme or equity incentive scheme in operation from time to time. The members of the Remuneration Committee are: Rob Bellhouse (Chairman) and David Poutney.

The Executive Chairman is invited to attend meetings of the Remuneration Committee, but does not participate when his own remuneration is being discussed. All members of the Committee are independent Non-executive Directors.

The Company's remuneration policy and details of the amounts due to the Directors of the Company in or in respect of the year are set out in the Remuneration Report on pages 39 and 40. As the Company is not fully listed, it is not required to produce a formal remuneration policy or seek shareholder approval of that policy.

The Committee met once during the year, to approve the award of options under the Long-Term Incentive Plan ("LTIP").

AIM Rules Compliance Committee

The role of the AIM Rules Compliance Committee is to ensure that the Company has in place sufficient procedures, resources and controls to enable it to comply with the AIM Rules for Companies and this role is set out in its terms of reference available on the Group's website. The Committee makes recommendations to the Board and proactively liaise with the Company's nominated adviser on compliance with the AIM Rules. The Committee also monitors the Company's procedures to approve any share dealings by Directors or employees in accordance with the Company's share dealing code and the requirements of the Market Abuse Regulation. The members of the Committee are Rob Bellhouse (Chairman) and David Poutney. In addition, all other Directors of the Company are invited to attend its meetings. The Committee has not met during the year, as the relevant matters were discussed at meetings of the full Board.

QCA PRINCIPLE 10

Communicate governance and performance with shareholders

The Board communicates regularly with shareholders providing updated on Group performance to shareholders via interim and annual financial reports, trading updates issued via RNS, investor presentations and meetings with institutional shareholders. The Board also ensures that the corporate website is kept up to date with all the latest information about the governance and performance of the business.

DIRECTORS' REMUNERATION REPORT

Remuneration policy

The objective of the Company's remuneration policy is to facilitate the recruitment and retention of executives of an appropriate calibre, to ensure that the senior executives of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

Strategic alignment

The Remuneration Committee is satisfied that the pay that can be earned is appropriate for a company of comparable size and complexity, at each level of performance. All of the Executive Directors have significant exposure to the Company's share price: Stephen Hemsley has a significant personal shareholding in the Company and the other Executive Directors have material personal investments in our shares, supplemented by options granted under our LTIP. The vesting of LTIP options is subject to a performance condition requiring a pre-determined and challenging rate of compound annual growth in adjusted earnings per share, which the Board regards as the key performance metric. As a result, there is a clear incentive to drive earnings per share growth over the longer term and also to mitigate downside risks that could affect the Company's profitability. Reputational risks could reasonably be expected to affect the share price, so the Executive Directors are further incentivised to mitigate these exposures to maximise the potential value of their options.

Remuneration in practice

The remuneration that the Company offers to its Executive Directors has three principal components:

1. **Basic salaries and benefits in kind** – Basic salaries are determined by the Remuneration Committee bearing in mind the salaries paid in AIM-quoted companies of similar size and complexity. Benefits in kind include a car allowance and health care.
2. **Pensions** – The Company operates a defined contribution scheme available for all Executive Directors and employees. Only basic salaries are pensionable.
3. **Equity exposure** – The Company operates a share option scheme covering permanent employees (including the Executive Directors, other than Stephen Hemsley). Subject to achieving compound EPS growth targets, options can vest no earlier than the third anniversary of the date of grant and, once vested, may be exercised until the tenth anniversary. The exercise price of the options is set at the market value of the Company's shares at the time of grant, so that the individual only benefits if there has been share price growth. The share option scheme is overseen by the Remuneration Committee which determines the terms under which eligible individuals may be invited to participate, including the level of awards. The scheme utilises HMRC-approved EMI options to the extent possible.

We believe that the mix between fixed and variable pay creates a powerful, but appropriate, incentive and that our approach ensures that pay and performance are directly linked.

Directors' service contracts

All Executive Directors are employed under service contracts. The services of the Executive Directors may be terminated by the Company, on the expiry of six months' notice (nine months, in the case of Tim Harris).

The Non-executive Directors are employed under letters of engagement which may be terminated by the Company (i) giving three months' notice or (ii) immediately, in the event that the Director is not re- elected by shareholders at an AGM.

DIRECTORS' REMUNERATION REPORT
continued

Directors' remuneration (audited)

The aggregate remuneration payable to the Directors for the year ended 31 December 2018 was as follows:

Director	Salary or fees (£)	Benefits in kind (£)	Pension contributions (£)	Total (£)	2017 comparison (£)[3]
Stephen Hemsley	100,000	–	–	100,000	59,812
Chris Dent[1]	100,000	7,800	2,000	109,800	49,477
Julia Choudhury	85,000	–	–	85,000	120,000
Tim Harris	120,345	8,400	683	129,428	125,201
Peter Molloy[2]	90,000	10,306	1,800	102,106	–
Colin Rees[2]	63,750	–	509	64,259	–
Robin Auld[3]	28,333	–	228	28,561	70,098
Nigel Wray	20,000	–	–	20,000	16,667
David Poutney	25,000	–	–	25,000	21,667
Rob Bellhouse	25,000	–	–	25,000	21,667

Notes:
1 Chris Dent served as a Director of the Company from 17 July 2017.
2 Peter Molloy and Colin Rees served as a Director of the Company from 21 March 2018.
3 Robin Auld ceased to serve as a Director of the Company from 25 April 2018.

No Director made any gains on exercise of a share option during the year or received any remuneration from a third party in respect of their service as a Director of the Company.

As seen from the table above, five Directors are currently accruing retirement benefits, and do so through defined contribution schemes. The Company does not operate a defined benefits scheme. No Director or former Director received any benefits from a retirement benefits scheme that were not otherwise available to all members of the scheme.

Directors' share options (audited)

Details of options held under the Company's LTIP by the Directors who served during the year are as follows:

					Changes in the year					
Director	Date of grant	Exercise price (pence)	Performance condition	2017 Number of shares	Granted	Exercised	Lapsed	2018 Number of shares	Exercisable from	Exercisable to
Chris Dent	12-Dec-17	49.5	EPS growth	303,030	–	–	–	303,030	12-Dec-20	12-Dec-27
	11-Dec-18	69	EPS growth	–	21,970	–	–	21,970	11-Dec-21	11-Dec-28
Julia Choudhury	01-Aug-16	33	EPS growth	303,030	–	–	–	303,030	01-Aug-20	01-Jul-26
	11-Dec-18	69	EPS growth	–	71,970	–	–	71,970	11-Dec-21	11-Dec-28
Tim Harris	01-Aug-16	33	EPS growth	303,030	–	–	–	303,030	01-Aug-20	01-Jul-26
	11-Dec-18	69	EPS growth	–	71,970	–	–	71,970	11-Dec-21	11-Dec-28
Peter Molloy	11-Apr-17	67	EPS growth	150,000	–	–	–	150,000	11-Apr-20	11-Apr-27
	12-Dec-17	49.5	EPS growth	153,030	–	–	–	153,030	12-Dec-20	12-Dec-27
	11-Dec-18	69	EPS growth	–	106,000	–	–	106,000	11-Dec-21	11-Dec-28
Colin Rees	12-Dec-17	49.5	EPS growth	303,030	–	–	–	303,030	12-Dec-20	12-Dec-27
	11-Dec-18	69	EPS growth	–	71,970	–	–	71,970	11-Dec-21	11-Dec-28

During 2018 the closing mid-market quote for the Company's shares ranged from a low of 53.6p to a high of 89.5p. As seen from the table above, no Director exercised an option over the Company's shares during the year.

DIRECTORS' REPORT

Scope of this report

The Directors' biographies on pages 32 and 33, the discussion of corporate governance matters on pages 35 to 37 and the Remuneration report on pages 39 and 40 are hereby incorporated by reference to form part of this Directors' Report.

As permitted under the Companies Act, certain matters which would otherwise need to be included in this Directors' Report have instead been discussed in the Strategic Report. These matters are the discussion of the performance and likely future developments in the business of the Company and its subsidiaries. Disclosures relating to financial risk management are included in Note 3 to the financial statements.

Principal activities

The principal activity of the Group is the acquisition, development and brand marketing of multiple franchised businesses. The principal activity of the Company is to act as a holding company and to provide management services to its subsidiary companies.

Research and development

The Group did not have any material activities in the field of research and development during the year.

Directors

Names, biographical details and appointment dates of the Directors of the Company at the date of this report are shown on pages 32 and 33. In addition, Robin Auld served as an Executive Director until 25 April 2018.

Directors' interests

The following table shows the interests of the Directors (and their spouses and minor children) in the shares of the Company.

Director	**At 31 December 2018**	At 31 December 2017
Stephen Hemsley[1]	**20,640,117**	20,640,117
Chris Dent	**15,000**	15,000
Julia Choudhury[2]	**1,204,258**	1,204,258
Tim Harris[3]	**1,059,284**	1,059,284
Peter Molloy	**33,582**	33,582
Colin Rees	**298,507**	298,507
Nigel Wray[4]	**21,720,120**	21,720,120
David Poutney[5]	**3,310,791**	2,260,791
Rob Bellhouse	**82,768**	82,768

In addition, Chris Dent, Julia Choudhury, Tim Harris, Peter Molloy and Colin Rees held or hold options over shares of the Company through their participation in the Company's LTIP, which are detailed in the Remuneration Report on pages 39 and 40.

Major shareholders

Insofar as is known to the Company and in addition to the holdings of the Directors above, the following persons hold, as at the date of this document, and are expected (based on the information available as at the date of this document), to hold directly or indirectly 3% or more of the Share Capital:

	Current	
Shareholder	Number of Ordinary shares	Percentage of existing share capital
Netcap Limited	3,373,134	4.3%
Hargreave Hale	3,351,033	4.3%

Going concern

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors' and Officers' liability insurance and indemnification of Directors

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for any legal action brought against its Directors.

The Company has also granted indemnities to each of its Directors to the extent permitted by law. Qualifying third party indemnity provisions (as defined in Section 324 of the Companies Act 2006) have been given in favour of all Directors on the Board. These indemnities remain in force and relate to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Company.

Directors' obligations to the auditors

The Directors confirm that:

- so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have each taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Notes:

1. Included in the holding of Stephen Hemsley are 1,616,431 Ordinary shares held by his wife, 7,477,612 Ordinary shares held by CTG Investment Limited, a company owned by a discretionary trust of which Mr Hemsley and his family are potential beneficiaries, and 1,492,537 Ordinary shares held by his Self-Invested Personal Pension (SIPP).
2. Included in the holding of Julia Choudhury are 381,819 Ordinary shares held jointly with her husband, 411,985 Ordinary shares held by her SIPP and 37,313 Ordinary shares held by Winsham Capital Partners Ltd, a Company controlled by Julia Choudhury and her husband.
3. Included in the holding of Tim Harris are 59,522 shares held by his SIPP.
4. Included in the holding of Nigel Wray are 14,026,380 Ordinary shares held by Damor Investments Limited, acting as nominee for RBC Trustees (Jersey) Limited as trustee of Mr Wray's family trust. Also included are 3,731,343 Ordinary shares and 3,684,463 Ordinary shares held by Euroblue Investments Limited and Glengrace Limited, respectively, companies wholly owned by Nigel Wray. Also included in Nigel Wray's interest are 223,880 Ordinary shares owned by The Priory Foundation, a charitable trust of which he is the settlor and a trustee. Nigel Wray controls this interest but is not the beneficial owner of these shares.
5. Included in the holding of David Poutney are 2,574,627 Ordinary shares held by his SIPP and an interest in 676,164 Ordinary shares held by his wife and adult daughters. David Poutney controls the interest held by his wife and adult daughters but is not the beneficial owner of these shares.

DIRECTORS' REPORT
continued

Dividends
A final dividend of 0.33p per share was paid on 15 May 2018 in respect of the 2017 financial year.

An interim dividend of 0.21p per share in respect of the 2018 financial year was paid on 13 September 2018. The Directors are recommending a final dividend of 0.46p per share which, subject to shareholders' approval at the AGM, will be paid on 20 May 2019 to shareholders on the register at the close of business on 3 May 2019.

Share capital
The Company's entire issued share capital comprises Ordinary shares of 0.5 pence each. Note 20 to the financial statements summarises the number in issue during 2018.

Voting rights
On a show of hands every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative and is entitled to vote shall upon a show of hands have one vote and on a poll every member who is present in person or by proxy or corporate representative and entitled to vote shall have one vote for every share of which he is the holder. Where a registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under section 793 of the Act, then not earlier than 14 days after service of such notice the shares in question may be disenfranchised.

Statutory disclosures
In accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 the Directors disclose the following information:

- The Company's capital structure and voting rights are detailed on page 42. There are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- There exist no securities carrying special rights with regard to the control of the Company;
- Details of the substantial shareholders and their shareholdings in the Company are detailed on page 41;
- The rules concerning the appointment and replacement of Directors, amendment to the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- There exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- There exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

Branches
There are no branches of the Company outside the UK.

Political and charitable donations
No political or charitable donations were made or political expenditure incurred during the period.

Auditor
A resolution to reappoint BDO LLP as auditor will be proposed at the AGM. A tender in respect of the external audit of the Company and Group was last conducted in 2017.

Financial instruments and risk management
The Company's use of financial instruments and its financial risk management objectives and policies are set out in Note 3 of the financial statements.

Annual General Meeting
The 2019 Annual General Meeting of the Company will be held on 23 April 2019, the business of which is set out in the Notice of Meeting. A circular containing the Notice of Meeting and an explanatory letter from the Chairman is being posted to shareholders and is also available on the Company's website.

Approved by the Board.

Chris Dent
Chief Financial Officer

12 March 2019

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. Under that Law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. Under Company Law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the Group's profit or loss for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors, as is the ongoing integrity of the financial statements contained therein.

Approved by the Board.

Chris Dent
Chief Financial Officer

12 March 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRANCHISE BRANDS PLC

For the year ended 31 December 2018

Opinion

We have audited the financial statements of Franchise Brands plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of cash flows, the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk of misstatement in revenue recognition	How We Addressed the Key Audit Matter in the Audit
As detailed in note 1 to the Group financial statements the Group has adopted IFRS 15 Revenue from contracts with customers during the financial period. The adoption of IFRS 15 has resulted in changes to the revenue recognition policies applied by the Group. There are a number of judgements involved in the application of this new standard. In view of the judgements involved, as well as management being in a position to be able to override controls, we presumed a risk of fraud within this area. *Management service revenue* The application of IFRS 15 has resulted in a change to the timing of revenue recognition based on management's assessment of when control has transferred and the Group has an enforceable right to payment. A key part of the franchisee arrangement is invoicing to the end customer and therefore management consider it appropriate to recognise revenue once this invoicing service has been performed. *Agent vs principal* Significant management judgement is also required in assessing principal vs agent considerations, as disclosed in note 2 of the financial statements and in the Financial Review section of the Strategic Report in respect of Key Account and Commercial customers. *National advertising fund and central advertising funds* As a result of the application of IFRS 15 there has been a change in the presentation of the income and expenditure relating to these advertising funds. As the funds are controlled by the group the income and expenditure are now presented gross. Under IAS 18 the income and expenditure were presented net. There is a risk that the adjustments to the opening reserves are misstated or incomplete and also that the disclosures made to the Group financial statements do not adequately explain the impact of the adoption of IFRS 15.	We have addressed the matter as follows: • We reviewed the group's revenue recognition policies for all revenue streams. We evaluated Management's assessment of the performance obligations in relation to IFRS 15 criteria and challenged the key judgements made by Management. • We corroborated the key points to contracts and have held meetings with management to challenge the assumptions and judgements made. • In respect of Metro Rod Limited, we reviewed a sample of Franchisee agreements and customer contracts and considered the key terms against the principal vs agent considerations as noted within IFRS 15 to verify management's judgement. We further ensured that the accounting policy for the arrangements has been appropriately applied. • We reviewed the accuracy and completeness of the transitional adjustments as set out in note 1. • We tested a sample of the contract assets recognised to ensure that appropriate audit evidence was in place to support the assets and that these met the definition of a contract asset in accordance with IFRS 15. • We reviewed the accounting policies established by the Group by reference to the requirements of IFRS 15 and have reviewed the adequacy of the disclosures within the financial statements. Based on the work performed we consider that revenue has been recognised appropriately and is in accordance with the Group's revenue recognition accounting policy.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRANCHISE BRANDS PLC *continued*

For the year ended 31 December 2018

Key audit matters continued

Impairment of goodwill and intangible assets	How We Addressed the Key Audit Matter in the Audit
Refer to the Accounting Policies on page 55 and Note 11 on page 65. The Group has goodwill and indefinite life intangible assets, which requires management to test these annually for impairment. There is a high degree of management judgement in assessing the value in use of the Cash Generating Units ("CGU") to which the Goodwill and Intangible assets are allocated and therefore determining any potential impairments. There is therefore a significant risk that impairment of these assets is not appropriately recognised in accordance with applicable Financial Reporting Standards.	We obtained the impairment analysis performed by management for each CGU. We challenged this impairment analysis and considered the reasonableness of management's key judgements, Our work included; • Challenging the future trading projections by reference to current performance and the accuracy of prior year forecasting; • Challenging the discount rate applied; • Checking the impairment analysis for logical and arithmetic accuracy and to ensure that it has been undertaken in accordance with IAS 36; • Challenging the long term growth rate; • Assessing whether the forecasts adopted in the impairment review were Board approved and are consistent with those used in the going concern assessment; • Performing sensitivity analysis to understand the relative impact of changes in the key assumptions within the impairment models, as well as to confirm the appropriateness of Management's disclosure of sensitivities in respect of the impairment review. Based on our procedures we noted no exceptions and found Management's key assumptions to be within a reasonable range. We read the disclosures in the financial statements and found them to be consistent with the information we obtained during the course of our audit.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, individually or in aggregate and including omissions, could reasonably be expected to influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

The materiality for the Group financial statements as a whole was set at £140,000 (2017: £104,000). This was determined with reference to a benchmark of profit before tax, of which this represents 5%, which we consider to be one of the principal considerations for members of the Group in assessing the financial performance of the business.

The materiality for the Parent Company financial statements was set at £90,000 (2017: £94,000). This was determined with reference to a benchmark of 3% of net assets limited to the component materiality set for the audit of the Group.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Performance materiality for the group financial statements was set at £105,000 (2017: £78,000) and for the parent company £67,500 (2017: £71,000), representing 75% of materiality. The performance materiality threshold was selected based on the expected low level of misstatements and the relatively low number of accounts that are subject to management estimation.

The Group operates through a number of legal entities, which form reporting components. Audits have been performed over all components of the Group by the group audit team. Significant components were defined as those reporting components contributing more than 15% towards group assets, turnover or profits. Component materiality on those significant components was set at levels between £64,000 and £130,000 (2017: £52,000 to £94,000).

We agreed with the Audit Committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £3,000 (2017: £2,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including the group's system of internal control, and assessing the risks of material misstatement in the financial statements.

We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement due to fraud.

The group manages its operations from two principal locations in the UK and the financial information relating to the parent company and all other components of the group were subject to full scope audit by the group audit team.

As a consequence of the audit scope determined, we achieved coverage of 100% (2017: 100%) of revenue, 100% (2017: 100%) of profit before tax and 100% (2017: 100%) of net assets.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRANCHISE BRANDS PLC *continued*

For the year ended 31 December 2018

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Gary Harding
(Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, United Kingdom
12 March 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 £'000	2017 Restated £'000
Revenue	4	**35,470**	24,867
Cost of sales		**(22,341)**	(15,152)
Gross profit		**13,129**	9,715
Adjusted earnings before interest, tax, depreciation, amortisation, share-based payments & non-recurring items ("Adjusted EBITDA")		**3,700**	2,697
Depreciation	5	**(131)**	(96)
Amortisation	5	**(253)**	(156)
Share-based payment expense	5	**(138)**	(58)
Costs of acquisition of subsidiaries	5	**–**	(1,144)
Costs of transition of subsidiary	5	**–**	(734)
Bad debt provision	5	**–**	(316)
Total administrative expenses		**(9,951)**	(9,522)
Operating profit	5	**3,178**	193
Finance expense	8	**(310)**	(277)
Profit/(loss) before tax		**2,868**	(84)
Tax expense	9	**(536)**	(43)
Profit/(loss) for the year and total comprehensive income attributable to equity holders of the Parent Company		**2,332**	(128)
All amounts relate to continuing operations			
Earnings per share			
Basic	10	**3.00**	(0.18)
Diluted	10	**2.96**	(0.18)

The notes on pages 55 to 70 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 £'000	2017 Restated £'000
Assets			
Non-current assets			
Intangible assets	11	**27,232**	27,025
Property, plant and equipment	12	**382**	162
Total non-current assets		**27,614**	27,187
Current assets			
Inventories	13	**245**	252
Trade and other receivables	14	**11,048**	8,144
Cash and cash equivalents		**2,940**	3,245
Total current assets		**14,233**	11,641
Total assets		**41,847**	38,828
Liabilities			
Current liabilities			
Trade and other payables	15	**8,596**	6,406
Loans and borrowings	16	**3,439**	4,164
Obligations under finance leases	17	**21**	21
Current tax liability		**196**	–
Total current liabilities		**12,252**	10,591
Non-current liabilities			
Loans and borrowings	16	**4,400**	5,255
Obligations under finance leases	17	**51**	65
Deferred tax liability	18	**702**	374
Total non-current liabilities		**5,153**	5,694
Total liabilities		**17,405**	16,285
Total net assets		**24,442**	22,543
Issued capital and reserves attributable to owners of the Parent			
Share capital	20	**388**	388
Share premium	20	**22,621**	22,621
Share-based payment reserve	20	**226**	88
Merger reserve	20	**396**	396
Treasury reserve	20	**(151)**	–
Retained earnings		**962**	(950)
Total equity attributable to equity holders		**24,442**	22,543

The consolidated financial statements of Franchise Brand plc (Company number: 10281033) on pages 49 to 70 were approved and authorised for issue by the Board of Directors on 12 March 2019 and were signed on its behalf by:

Chris Dent
Director

COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Non-current assets			
Fixed asset investments	19	**31,703**	30,097
Total non-current assets		**31,703**	30,097
Current assets			
Trade and other receivables	14	**2,860**	3,212
Cash and cash equivalents		**6**	232
Total current assets		**2,866**	3,444
Total assets		**34,569**	33,541
Liabilities			
Current liabilities			
Trade and other payables	15	**247**	191
Loans and borrowings	16	**3,439**	4,164
Total current liabilities		**3,686**	4,355
Non-current liabilities			
Loans and borrowings	16	**4,400**	5,255
Total liabilities		**8,086**	9,610
Net assets		**26,483**	23,931
Issued capital and reserves attributable to owners of the Parent			
Share capital	20	**388**	388
Share premium	20	**22,621**	22,621
Share-based payment reserve	20	**226**	88
Merger reserve	20	**276**	276
Treasury reserve	20	**(151)**	–
Retained earnings		**3,123**	558
Total equity attributable to equity holders		**26,483**	23,931

No statement of comprehensive income is presented by the Company as permitted by Section 408 of the Companies Act. Franchise Brands plc reported a profit and total comprehensive income for the financial period ended 31 December 2018 of £3.0m (2017: £0.4m).

The Company financial statements of Franchise Brand plc (Company number: 10281033) on pages 51 to 70 were approved and authorised for issue by the Board of Directors on 12 March 2019 and were signed on its behalf by:

Chris Dent
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 £'000	2017 Restated £'000
Cash flows from operating activities			
Profit/loss for the year		**2,332**	(128)
Adjustments for:			
Depreciation of property, plant and equipment	12	**131**	96
Amortisation of intangible fixed assets	11	**253**	156
Share-based payment expense	7	**138**	58
Finance expense	8	**310**	277
Income tax expense	9	**536**	43
Operating cash flow before movements in working capital		**3,700**	502
Increase in trade and other receivables	14	**(2,952)**	(1,213)
Decrease/(increase) in inventories	13	**7**	(17)
Increase in trade and other payables	15	**2,107**	1,633
Cash generated from operations		**2,862**	905
Income taxes received/(paid)		**48**	(204)
Net cash generated from operating activities		**2,910**	701
Cash flows from investing activities			
Purchases of property, plant and equipment	12	**(222)**	(98)
Purchase of software	11	**(348)**	(21)
Gain on disposal of assets		**–**	13
Acquisition of subsidiary including costs, net of cash acquired		**–**	(28,403)
Net cash used in investing activities		**(570)**	(28,509)
Cash flows from financing activities			
Bank and other loans – repaid		**(1,600)**	(6,417)
Bank loans – received		**–**	15,330
Other loans – made		**(138)**	–
Interest paid – bank and other loan		**(279)**	(186)
Interest paid – finance leases		**(4)**	(10)
Proceed from issue of shares		**–**	20,000
Share issue expenses and other expenses of IPO		**–**	(444)
Purchase of Treasury shares		**(151)**	–
Dividends paid	23	**(420)**	(213)
Capital element of finance lease repaid		**(53)**	(6)
Net cash (used in)/generated from financing activities		**(2,645)**	28,054
Net (decrease)/increase in cash and cash equivalents		**(305)**	246
Cash and cash equivalents at beginning of year		**3,245**	2,999
Cash and cash equivalents at end of year		**2,940**	3,245

Reconciliation of cash flow to the Group net debt position

Group	Term Loan £'000	Revolving credit facility £'000	Loan fees £'000	Finance lease debt £'000	Total liabilities from financing activities £'000	Cash £'000	Total net cash/(net debt) £'000
At 1 January 2017	(417)	–	–	(102)	(519)	2,999	2,480
Financing cash flows	(5,583)	(3,500)	170	16	(8,897)	–	(8,897)
Other cash flows	–	–	–	–	–	246	246
Other changes	(58)	(6)	(25)	–	(89)	–	(89)
At 31 December 2017	(6,058)	(3,506)	145	(86)	(9,505)	3,245	(6,261)
Financing cash flows	600	1,000	–	53	1,653	–	1,653
Other cash flows	–	–	–	–	–	(305)	(305)
Other changes	23	(8)	(35)	(38)	(58)	–	(58)
At 31 December 2018	**(5,435)**	**(2,514)**	**110**	**(72)**	**(7,911)**	**2,940**	**(4,971)**

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Profit for the year		**2,986**	403
Adjustments for:			
Finance expenses	8	**305**	273
Income tax expense		**(44)**	(202)
Share-based payment expense		**50**	24
Cash generated from operations		**3,297**	498
Decrease/(increase) in trade and other receivables	14	**503**	(151)
Increase in trade and other payables	15	**31**	190
Net cash generated from operating activities		**3,831**	537
Cash flows from investing activities			
Acquisition of subsidiary including costs		**(1,607)**	(29,125)
Net cash used in investing activities		**(1,607)**	(29,125)
Cash flows from financing activities			
Bank loans – repaid		**(1,600)**	(6,417)
Bank loans – received		**–**	15,330
Interest paid – bank and other loans		**(279)**	(186)
Proceed from issue of shares		**–**	20,000
Share issue expenses and other expenses of IPO		**–**	(444)
Purchase of Treasury shares		**(151)**	–
Dividends paid	23	**(420)**	(213)
Net cash flows generated by financing activities		**(2,450)**	28,070
Net (decrease)/increase in cash and cash equivalents		**(226)**	(518)
Cash and cash equivalents at beginning of year		**232**	750
Cash and cash equivalents at end of year		**6**	232

Reconciliation of cash flow to the Company net debt position

Group	Term Loan £'000	Revolving credit facility £'000	Loan fees £'000	Total liabilities from financing activities £'000	Cash £'000	Total net cash/(net debt) £'000
At 1 January 2017	(417)	–	–	(417)	750	333
Financing cash flows	(5,583)	(3,500)	170	(8,913)	–	(8,913)
Other cash flows	–	–	–	–	(518)	(518)
Other changes	(58)	(6)	(25)	(89)	–	(89)
At 1 January 2018	(6,058)	(3,506)	145	(9,419)	232	(9,187)
Financing cash flows	600	1,000	–	1,600	–	1,600
Other cash flows	–	–	–	–	(226)	(226)
Other changes	23	(8)	(35)	(21)	–	(21)
At 31 December 2018	**(5,435)**	**(2,514)**	**110**	**(7,840)**	**6**	**(7,834)**

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Group	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
At 1 January 2017	239	3,214	30	396	–	24	3,903
Loss for the year and total comprehensive income	–	–	–	–	–	(128)	(128)
Effect of change in accounting policy (IFRS15)	–	–	–	–	–	(633)	(633)
Contributions by and distributions to owners							
Dividend paid	–	–	–	–	–	(213)	(213)
Placing in relation to acquisition	149	19,407	–	–	–	–	19,556
Share-based payment	–	–	58	–	–	–	58
At 1 January 2018 (Restated)	**388**	**22,621**	**88**	**396**	**–**	**(950)**	**22,543**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**–**	**2,332**	**2,332**
Contributions by and distributions to owners							
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(420)**	**(420)**
Treasury shares	**–**	**–**	**–**	**–**	**(151)**	**–**	**(151)**
Share-based payment	**–**	**–**	**138**	**–**	**–**	**–**	**138**
At 31 December 2018	**388**	**22,621**	**226**	**396**	**(151)**	**962**	**24,442**

Company	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
At 1 January 2017	239	3,214	30	276	–	368	4,127
Profit for the year and total comprehensive income	–	–	–	–	–	403	403
Contributions by and distributions to owners							
Dividend paid	–	–	–	–	–	(213)	(213)
Placing in relation to acquisition	149	19,407	–	–	–	–	19,556
Share-based payment	–	–	58	–	–	–	58
At 1 January 2018	**388**	**22,621**	**88**	**276**	**–**	**558**	**23,931**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**–**	**2,985**	**2,985**
Contributions by and distributions to owners							
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(420)**	**(420)**
Treasury shares	**–**	**–**	**–**	**–**	**(151)**	**–**	**(151)**
Share-based payment	**–**	**–**	**138**	**–**	**–**	**–**	**138**
At 31 December 2018	**388**	**22,621**	**226**	**276**	**(151)**	**3,123**	**26,483**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

For year ended 31 December 2018

1 Accounting policies

General information

Franchise Brands plc (the "Company", and together with its subsidiaries, the "Group"), is a public company incorporated in England and Wales under the Companies Act 2006 with Company Number 10281033. The principal activity of the Group is franchising and related activities. The principal activity of the Company is that of a holding company of a group of companies engaged in franchising and related activities.

Basis of consolidation

The consolidated financial statements incorporate the results and net assets of the Company and its subsidiary undertakings. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date control ceases. All inter-company transactions and balances between Group entities are eliminated upon consolidation.

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2018 and applied in accordance with the Companies Act 2006. The Group's consolidated financial statements are prepared under the historical cost convention. The principal accounting policies adopted are set out below and have been consistently applied to all the years presented. The Group's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000s) except where indicated.

The Group's financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. Please refer to the Directors' Report for further details.

Adoption of New Standards

At the beginning of the period the Group adopted *IFRS9 Financial Instruments: Classification and Measurement, the new accounting standard on Financial Instruments and IFRS15 Revenues from Contracts with Customers*, the new accounting standard on revenue.

In respect of IFRS9 this has changed the way in which we account for our provision against trade receivables. Under the IFRS9 "expected credit loss" model, a credit event no longer has to occur before credit losses are recognised. Having re-reviewed the provision which existed at 31 December 2017 under the new methodology, the Directors have concluded that no adjustment would have been made under the forward-looking expected default rates; the expected default rates were materially the same as the historical default rates with the major exception of Carillion, where the forward-looking expected default would have been higher at 31 December 2017 than the historical default rate. However, the Carillion debt was fully provided for in the 2017 accounts as a post balance sheet event. Therefore no restatement has taken place with respect to the adoption of IFRS9.

In respect of IFRS15 we have applied a fully retrospective approach. We have restated our previous period figures to show the effect of the new standard. There have been two changes derived from the adoption of the standard.

- **Adjustment One (Metro Rod):** IFRS15 has resulted in a timing shift of the revenue recognition point based on the assessment of control being transferred and when we have a legal and enforceable right for payment. The Directors believe that invoicing is a key performance obligation, which we undertake on behalf of our franchise network and customers. Given the requirements of our Facilities Management customers, the Directors believe that revenue will only be received once invoicing has been completed in accordance with these requirements. Therefore, our revenues should only be recognised at the point at which the invoice has been raised, rather than the point at which the underlying job is completed (as under IAS18). The shift has not had a significant impact in terms of the financial statements as the Company sees approximately the same number of jobs being reported into the relevant period as previously. However, it has a larger effect on the statement of financial position as it reduces down the level of accrued income by £1.8m (2017: £2.1m) and the related accrued costs of £0.9m (2017: £0.7m) and creates a contract asset balance of £0.8m (2017: £0.6m) where franchisees have been paid for work in advance of the work being invoiced to third party customers. The change also created a deferred tax asset of £0.2m which was utilised during the year to decrease the current tax liability.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For year ended 31 December 2018

1 Accounting policies continued

- **Adjustment Two (National Advertising Funds):** National Advertising Funds are collected from franchisees under their agreements and then spent on their behalf on advertising which benefits the underlying franchise networks. These funds have not previously been recognised as revenue under IAS18. The Directors did not believe that the Group met the criteria for recognising revenue due to the fact that the Group is not exposed to the risks and rewards of the transactions. The management of the funds does not result in any profit or loss for the Group as all funds received are expended on behalf of the networks. With the adoption of IFRS15 the Directors have concluded that the Group will recognise the costs expended by the funds in the year, and will recognise an equal amount as revenue, with any difference from the amount of cash received from our franchisees as accrued or deferred revenue within the balance sheet. This is because it is the Group which controls the expenditure of the funds, rather than the franchisees. Overall, there is no effect on profit. In the current period the inclusion of the fund expenditure as income has increased revenue by £1.1m (2017: £0.6m) and has increased administration expenses by the same amount of £1.1m (2017: £0.6m). The revenue which we are recognising in respect of the national advertising fund is included in the total of MSF for the purposes of income categorisation.

In line with the transitional arrangements within IFRS15 we have restated our previous period figures to show the effect of the new standard.

Year ended 31 December 2017	Original numbers £'000	Adjustment One £'000	Adjustment Two £'000	Final numbers £'000
Revenue	24,292	(65)	640	24,867
Cost of sales	(15,198)	46	–	(15,152)
Total administrative expenses	(8,882)	–	(640)	(9,522)
Finance expense	(277)	–	–	(277)
Tax expense	(47)	4	–	(43)
Profit after tax	**(112)**	**(15)**	–	**(127)**
Basic Earnings per share (p)	(0.16)	(0.02)	–	(0.18)
Diluted Earnings per share (p)	(0.16)	(0.02)	–	(0.18)

Assets	Original numbers £'000	Adjustment One £'000	Adjustment Two £'000	Final numbers £'000
Intangible assets	27,025	–	–	27,025
Property, plant and equipment	162	–	–	162
Inventories	252	–	–	252
Trade and other receivables	9,670	(1,526)	–	8,144
Cash	3,245	–	–	3,245
Trade and other payables	(7,132)	726	–	(6,406)
Loans and borrowings	(9,419)	–	–	(9,419)
Obligations under finance leases	(86)	–	–	(86)
Deferred tax liability	(526)	152	–	(374)
Total net assets	**23,191**	**(648)**	–	**22,543**

At the time of publication of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS16 Leases (effective 1 January 2019)

IFRS16 replaces IAS17 'Leases' and substantively changes the accounting for operating leases. Where a contract meets IFRS16's definition of a lease, lease agreements will give rise to the recognition of a non-current asset representing the right to use the leased item, and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability, which may impact the phasing of operating profit and profit before tax, compared to existing cost profiles and presentation in the income statement, and will also impact the classification of associated cash flows. The detailed assessment of the impact on the Group is ongoing, with the current focus being on assessing the completeness of lease contracts. The adoption is expected to have a significant impact on the presentation of the Group's assets and liabilities, mainly relating to property and vehicle leases. Our initial assessment is that the standard will increase lease assets by £1.2m, and increase lease liabilities by a similar value, but will have an immaterial overall effect on profit and earnings.

Segmental reporting
Management has determined that the Group has one reportable segment.

IFRS8 Operating Segments requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the "chief operating decision maker", who has been identified as the Executive Chairman. IFRS8 permits the aggregation of these components into reportable segments for the purpose of disclosure in the Group's financial statements. In assessing the Group's reportable segments, the Directors have had regard to the similar economic characteristics of the operating segments (all the operating segments have the same sources of revenue, costs and processes), the similar nature of their business (all the operating segments are franchise networks with franchisees as their customers) and their long-term margins. Therefore, whilst the Group operates multiple franchise brands, across various business sectors, the Board has concluded that the key management and financial data used to manage them is the same, as the key drivers are attributable to them being franchises rather than the activity of the franchise. It is the strategy of the Group to generate revenue as a franchisor from MSF and licence fees, regardless of the underlying businesses and performance obligations of our franchisees. All segment revenue and profit before taxation are attributable to the principal activity of the Group.

Business combinations
The consideration of the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity issued by the Group, plus if the business combination is acquired in stages the fair value of the existing interest in the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Investments in subsidiaries are measured at cost in the Parent Company.

Intangible assets
Intangible assets comprise goodwill, certain acquired separable corporate brand names, acquired customer relationships, and capitalised computer software not integral to a related item of hardware.

Goodwill represents the excess of fair value attributed to investments in businesses or subsidiary undertakings over the fair value of the underlying net assets, including intangible assets, at the date of their acquisition. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the net present value of future cash flows derived from the underlying assets using a projection period of up to five years, based on the latest approved budgets, for each cash-generating unit. After the projection period a steady growth rate representing an appropriate long-term growth rate for the industry is applied. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Corporate brand names, trade-marks, customer relationships and other intangibles acquired as part of acquisitions of businesses are capitalised separately from goodwill as intangible assets if their value can be measured reliably on initial recognition and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Certain corporate brands and trademarks of the Group are considered to have an indefinite economic life because of the institutional nature of the corporate brand names, their proven ability to maintain market leadership and profitable operations over long periods of time and the Group's commitment to develop and enhance their value.

The carrying value of these intangible assets is reviewed at least annually for impairment and adjusted to the recoverable amount if required. Recoverable amount is the higher of fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount the asset or cash generating unit is considered impaired and written down to its recoverable amount. Any impairment is charged to the profit and loss in the period concerned.

Amortisation is provided at rates calculated to write-off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life as follows. Customer-related intangibles have a useful life of 10 years. Others (including capitalised computer software) have a useful life of 3-5 years.

Exceptional costs
Exceptional items are those significant items which are separately disclosed by virtue of the size or incidence to enable a full understanding of the Group's financial performance.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For year ended 31 December 2018

1 Accounting policies continued

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, net of returns, rebates and value-added taxes. All revenue is recognised at a point in time. With the exception of the IFRS15 adjustments noted above, there have been no changes to the accounting for revenue in the year. The following criteria must also be met before revenue is recognised:

- Management service fees ("MSF"): MSF is charged for the continuing use of the rights and continuing services provided during the franchise agreements term. They are recognised as the service is provided and the rights are used. These are charged on a monthly basis and the values recognised are based on the performance obligations in the relevant contracts with our franchisees.
- Sales of franchise territories: Sales of franchise territories represent the charges for packages which include training, other start-up support and equipment. No element of these charges relate to subsequent services. Revenue from franchise fees is recognised when a franchisee completes the relevant training, as this is when we have delivered our performance obligation under the franchise contract. Where deferred payment terms are offered the revenue is recognised to the extent that there is not considered to be significant doubt over the eventual recovery (see Note 2).
- Product sales: Revenue from sales of products is recognised on delivery to customers, as this is when control is deemed to have transferred.
- Direct labour income: Revenue from our direct labour organisations is recognised when all our performance obligations are met in relation to an individual job. Due to the nature of the contracts we have with our end customers, this point is when the invoice is raised.

Adjusted EBITDA

Adjusted EBITDA is utilised as a key performance indicator by the Directors Group and is calculated utilising profit before tax, adjusted for finance income and costs, amortisation and depreciation on non-current assets, share-based payments and non-recurring items.

Financial liabilities

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding. Trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Financial assets

All of the Groups financial assets are classified and held at amortised cost. These assets arise principally from the provision of goods and services to customers (eg trade receivables), but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment. Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision. Cash and cash equivalents includes cash in hand.

Property, plant and equipment

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes cost directly attributable to making the asset capable of operating as intended.

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Group.

The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the statement of comprehensive income in the period they are incurred.

Depreciation is provided to write-off the cost, less the estimated residual values, of all tangible fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Leasehold property improvements	–	7% straight line
Short-term leasehold improvements	–	33% straight line
Motor vehicles	–	25% straight line
Plant & equipment	–	10% straight line
Fixtures and fittings	–	33% straight line
Computer equipment	–	33% straight line

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate on an annual basis. Any gain or loss arising on recognition of an asset is included in the statement of comprehensive income in the year that the asset is derecognised.

Share-based payment

When share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. When the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period. Where share options vesting is contingent on a future event a charge is recognised only if the future event is considered probable.

Fair value is measured by the use of an appropriate valuation model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The volatility in the model is calculated by reference to an implied volatility of a group of listed entities that have similar characteristics and are in the same industry sector.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be received or paid to the taxation authorities. Income tax is charged or credited to the income statement, except when it relates to items charged directly to other comprehensive income or to equity, in which case the income tax is also dealt with in other comprehensive income or equity respectively.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on the initial recognition of goodwill. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases) the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the statement of comprehensive income over the shorter of estimated useful economic life and the period of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

System Sales

System Sales are the total aggregate sales of our franchisees of services to third party customers. It is a measure used by management to understand the underlying health and size of our individual brands. For some, but not all, of our brands it is an amount which directly drives our turnover, with the Group collecting a percentage of System Sales as our MSF. System Sales are not, therefore, a component of the financial performance of the Goup, but are a KPI used by management, and it is therefore disclosed to provide more insight into the franchise networks which we operate.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For year ended 31 December 2018

2 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates. Each of the following items contain judgements and significant estimates and have the most significant effect on amounts recognised in the financial statements.

Revenue recognition

Deferred payments

The Group offers deferred payment terms in relation to some of the franchisee fees payable. The Group assesses the level of doubt over the ultimate recovery of the deferred fees based on historic experience. If there is significant doubt over the recovery of the franchisee fee the balance is not recognised until the level of risk associated reduces to an acceptable level. The deferred payment terms do not include any financing impact due to their short-term nature. As at 31 December 2018 £147,000 (2017: £147,000) had been recognised as a debtor, and £132,000 (2017: £132,000) was not recognised.

Metro Rod revenue recognition

In line with our other networks Metro Rod charges its franchisees a management service fee at the rate of 22.5% of their underlying system sales. The franchise network has two types of system sales: National Accounts and Commercial. In the case of National Accounts Metro Rod bears the credit risk, whereas for Commercial the franchisee bears the risk. Therefore, for National Accounts, the Directors believe that we are acting as a principal and recognise the whole of the system sales as revenue, with a cost of 77.5% to leave a gross margin of 22.5%. In relation to Commercial sales the Directors believe that we are acting as an agent, and we only recognise our 22.5% management fee as revenue.

Business combinations

Determining a value for assets acquired

Determining the fair value of acquired intangible assets and goodwill acquired in business combinations requires the use of estimates regarding the value of intangible assets. The values are determined using discounted cash flows and based upon latest approved budgets which include estimates concerning factors such as new franchise sales and timing of such sales.

Performing impairment tests

Subsequent impairment reviews also require the use of estimates to value the cash generating units to which goodwill and indefinite life intangibles have been allocated. The value in use calculations, which are run on an annual basis for goodwill and indefinite life intangibles, or when there is an indicator of impairment for tangible and finite life intangible fixed assets, determine whether there is any impairment to the carrying value of assets arising from business combinations. More details of these estimates can be found in Note 11.

Indefinite life assessment

Management has determined that the brands and trademarks acquired with Barking Mad Limited ("Barking Mad") and Metro Rod are to be treated as an indefinite life asset. Management has determined that there is nothing to suggest the future economic benefits will have a finite life. Management further believes the sectors Barking Mad and Metro Rod operate in are sufficiently large and contain sufficient opportunity to support these assumptions. As with all tangible and intangible assets the brands and trademarks will be reviewed at the end of each reporting period to determine whether there is any indication that they have suffered an impairment loss.

3 Financial instruments – risk management

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to meet their financial obligations as they arise while maximising the return to stakeholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained earnings, and long- and medium-term debt facilities. Term loans are used to finance long-term investment such as acquisitions. Revolving credit facilities are used to manage short-term cash requirements and minimise interest costs. The Group's financing facilities contain the usual financial covenants including maximum gearing, minimum interest cover and minimum operating cash flow. The Group met these requirements throughout the year.

The Group's dividend policy is to provide sustainable dividends to shareholders, consistent with the Group's earnings growth, to attract long term investors and to enable shareholders to enjoy returns on their investment in tandem with the Group's growth. The payment and amount of any dividends or distributions to shareholders is at the discretion of the Board, and subject to shareholder approval.

Categories of financial instruments

Group	2018 £'000	2017 Restated £'000
Financial assets at amortised cost		
Cash and cash equivalents	**2,940**	3,245
Trade and other receivables	**9,950**	7,276
Financial liabilities at amortised cost		
Trade and other payables	**(7,777)**	(6,036)
Loans and borrowings including finance leases	**(7,911)**	(9,505)

Company	2018 £'000	2017 £'000
Financial assets at amortised cost		
Cash and cash equivalents	**6**	232
Trade and other receivables	**2,601**	2,950
Financial liabilities at amortised cost		
Trade and other payables	**(247)**	(191)
Loans and borrowings	**(7,839)**	(9,419)

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates to their fair value.

Financial and market risk management objectives

It is the Group's policy not to use or trade in derivative financial instruments. The Group's financial instruments comprise its cash and cash equivalents and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of the financial assets and liabilities is to provide finance for the Group's operations in the year. The Group is exposed to interest rate risk as the Group borrows funds at variable interest rates.

Interest rate sensitivity

The effect on both income and equity, based on exposure to non-derivative floating rate instruments at the balance sheet date, is shown in the table below. The Group arranged a £12m term loan during 2017 in order to fund the acquisition of Metro Rod. At 31 December 2018 £5.4m of this term loan was outstanding, offset in the financial statements by £0.1m of loan arrangement fee. The loan currently carries a variable interest rate of 2.95%, based on both LIBOR and a margin based on leverage, and is repayable in instalments until 2022. The Group had also utilised £2.5m of its £5m Revolving Credit Facility, which runs until April 2023 and carries the same interest rate as the term loan, and currently matures on the 8 March 2019. Note that in the table below the 2017 sensitivity relates to the nearly nine months which the Group had a term loan.

	Sensitivity income 2018 £'000	Sensitivity equity 2018 £'000	Sensitivity income 2017 £'000	Sensitivity equity 2017 £'000
0.25% increase in interest rates	**(22)**	**(22)**	(22)	(22)
0.25% decrease in interest rates	**22**	**22**	22	22

Credit risk management

The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities after assessing credit quality using independent rating agencies and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits.

Ongoing credit evaluation is performed on the financial condition of accounts receivable. The credit risk on liquid funds is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies. The carrying amount of financial assets recorded in the financial statements, which is net of expected credit risk losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

The Group's policy throughout the year has been to ensure continuity of funds. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For year ended 31 December 2018

3 Financial instruments – risk management continued

Group	Trade and other payables 2018 £'000	Loans and borrowings 2018 £'000	Total 2018 £'000	Trade and other payables 2017 £'000	Loans and borrowings 2017 £'000	Total 2017 £'000
On demand	–	–	–	–	–	–
Within one year	7,777	3,571	11,348	6,036	4,353	10,389
More than one year and less than two years	–	1,251	1,251	–	1,155	1,155
More than two years and less than five years	–	3,200	3,200	–	4,586	4,586
In more than five years	–	–	–	–	–	–
Total	7,777	8,022	15,799	6,036	10,094	16,130

Company	Trade and other payables 2018 £'000	Loans and borrowings 2018 £'000	Total 2018 £'000	Trade and other payables 2017 £'000	Loans and borrowings 2017 £'000	Total 2017 £'000
On demand	–	–	–	–	–	–
Within one year	247	3,550	3,797	191	4,318	4,509
More than one year and less than two years	–	1,200	1,200	–	1,131	1,131
More than two year and less than five years	–	3,200	3,200	–	4,559	4,559
In more than five years	–	–	–	–	–	–
Total	247	7,950	8,197	191	10,008	10,199

4 Revenue

	2018 £'000	2017 £'000
Management service fees	28,498	20,402
Sale of franchise territories	1,513	1,829
Product sales	894	946
Direct labour income	4,565	1,690
	35,470	24,867

The table shows revenue from contracts disaggregated into major classes of revenue and reconciled to the Group revenue reported.

Contract Assets	2018 £'000	2017 £'000
At 1 January	611	–
Cash paid to franchisees in advance of revenue recognised	209	405
Acquisition balance	–	206
At 31 December	820	611

Contract assets are included within trade and other receivables. They arise from payments made to our franchisees as per their contracts in advance of when we are able to recognise revenue under IFRS15.

5 Operating profit

Operating profit is stated after charging:	2018 £'000	2017 £'000
Depreciation	131	96
Amortisation	253	156
Share-based payment expense	138	58
Operating lease rentals	481	236
Auditors' remuneration:		
Fees for audit of the Company	15	15
Fees for the audit of the Company's subsidiaries	49	37
Fees for non-audit services:		
Taxation services	16	15
Corporate finance services	–	155
Other assurance services	–	17

No non-audit services were provided on a contingent fee basis. In 2017, the Group incurred significant costs which management believed due to both their one-off nature and magnitude should be brought to the attention of users of the accounts as non-recurring items; these included the costs of acquiring Metro Rod, the transitional costs related to the set-up of a standalone IT environment for Metro Rod, and a provision which was established following the liquidation of Carillion plc. There have been no such items during the course of 2018.

	2018 £'000	2017 £'000
Cost of acquisition of subsidiaries	–	1,144
Cost of transitioning acquisitions	–	734
Provision for bad debt of Carillion plc	–	316
	–	2,194

6 Staff costs

	2018 £'000	2017 £'000
Wages and salaries	**4,789**	3,628
Social security costs	**429**	343
Defined contribution pension cost	**70**	47
Share-based payment expense	**138**	58
	5,426	4,076
The average monthly number of persons (including Directors) employed by the Group was:		
Administration	**110**	139
Sales	**12**	13
Operations	**24**	23
Directors	**10**	12
	156	187

Directors' remuneration	2018 £'000	2017 £'000
Directors' emoluments	**690**	484
Share-based payment expense	**92**	31
	782	515

The highest paid Director's remuneration was £129,000 (2017: £125,000). The Board of Directors are considered to be the key management personnel. Their cost to the Group is £835,000 (2017: £565,000), after including employer's National Insurance. The Company had no employees (other than the Directors) or staff costs in either year. Directors' emoluments include £30,000 (2017: £77,000) paid to companies controlled by Directors (see Note 22).

7 Share-based payments

The Company has established a LTIP in the form of an equity settled share option scheme. Awards are granted and approved at the discretion of the Remuneration Committee. Awards vest on or after the third anniversary of their issue, based on compound growth in the underlying earnings per share of the Group for the three-year period. If the compound annual growth rate is below 8%, then none of these options will vest. Between 8% and 15% growth then a proportion of these options will vest on a straight-line basis. Currently, 128 members of staff hold options for shares in the Company under the scheme. The share-based payments expense recognised in respect of employee services received during the year ended 31 December 2018 was £138,000 (2017: £58,000). This all arises on equity-settled share-based payment transactions.

	2018	Weighted average exercise price	2017	Weighted average exercise price
Outstanding at the beginning of the period	**3,467,747**	**43p**	1,628,788	33p
Granted during the period	**1,308,132**	**69p**	2,545,172	57p
Forfeited during the period	**(242,349)**	**45p**	(706,213)	41p
Exercised during the period	**–**	**–**	–	–
Outstanding at the end of the period	**4,533,530**	**51p**	3,467,747	43p
Exercisable at the end of the period	**–**	**–**	–	–

NOTES FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For year ended 31 December 2018

7 Share-based payments continued

The fair value of the options granted is estimated at the date of grant using a Black-Scholes model, after taking into account the terms and conditions upon which they were granted. For options outstanding at the end of the period the range of exercise prices was 33p-69p (2017: 33p-67p), and the weighted average remaining contractual life was 8.8 years (2017: 9.3 years)

Black-Scholes option pricing model

	11 December 2018	12 December 2017	31 March 2017
Closing stock price, £	**0.69**	0.50	0.88
Exercise price, £	**0.69**	0.50	0.88
Risk-free interest rate	**0.75%**	0.46%	0.46%
Expected life of option (years)	**6.5**	6.5	6.5
Volatility	**33.2%**	37.8%	37.8%
Dividend yield	**1%**	1%	1%

8 Finance expense

	2018 £'000	2017 £'000
Interest element of hire purchase agreements	**5**	4
Loan interest	**305**	273
	310	277

9 Income tax

	2018 £'000	2017 Restated £'000
Current tax expense		
Current tax on profits for the period	**215**	(14)
Adjustment for prior period	**(7)**	(34)
Deferred tax expense		
Origination and reversal (see Note 18)	**328**	91
Total tax expense	**536**	43
Accounting profit multiplied by the UK statutory rate of corporation tax	**544**	(17)
Expense not deductible for tax purposes	**(1)**	94
Adjustment for prior period	**(7)**	(34)
Total tax expense	**536**	43
Effective tax rate	**19%**	(51%)

The current rate of UK corporation tax is 19%. A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2018) and to 17% (effective from 1 April 2020) was substantively enacted in October 2015 and has therefore been considered when calculating deferred tax at the reporting date.

10 Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to Ordinary equity holders of the Parent by the weighted average number of Ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit attributable to Ordinary equity holders of the Parent by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would have been issued on the conversion of all dilutive potential Ordinary shares into Ordinary shares at the start of the period or, if later, the date of issue.

	2018 £'000	2017 Restated £'000
Profit/(loss) attributable to owners of the Parent	**2,332**	(128)
Non-recurring items gross (Note 5)	**–**	2,194
Tax on non-recurring	**–**	(345)
Adjusted profit attributable to owners of the Parent	**2,332**	1,721
	Number	Number
Basic weighted average number of shares	**77,687,101**	69,553,746
Dilutive effective of share options	**1,100,364**	741,726
Diluted weighted average number of shares	**78,787,465**	70,295,472

	Pence	Pence
Basic earnings per share	**3.00**	(0.18)
Diluted earnings per share	**2.96**	(0.18)
Adjusted earnings per share	**3.00**	2.47
Adjusted diluted earnings per share	**2.96**	2.45

11 Intangible assets

	Goodwill £'000	Brands, trade marks & other intangibles £'000	Customer relationships £'000	Software £'000	Total £'000
Cost					
At 1 January 2017	1,314	2,619	–	–	3,933
Additions	18,174	4,685	2,159	21	25,039
At 31 December 2017	19,488	7,304	2,159	21	28,972
Additions	–	–	–	460	460
At 31 December 2018	**19,488**	**7,304**	**2,159**	**481**	**29,432**
Amortisation					
At 1 January 2017	–	(1,791)	–	–	(1,791)
Charge for year	–	–	(156)	–	(156)
At 31 December 2017	–	(1,791)	(156)	–	(1,947)
Charge for year	–	–	(216)	(37)	(253)
At 31 December 2018	**–**	**(1,791)**	**(372)**	**(37)**	**(2,200)**
Net book value					
At 31 December 2018	**19,488**	**5,513**	**1,787**	**444**	**27,232**
At 31 December 2017	19,488	5,513	2,003	21	27,025
At 1 January 2017	1,314	828	–	–	2,142

Carrying amount of assets with indefinite useful lives

	Goodwill £'000	**Indefinite life intangibles £'000**	**2018 £'000**	Goodwill £'000	Indefinite life intangibles £'000	2017 £'000
Metro Rod	**18,174**	**4,750**	**22,924**	18,174	4,750	**22,924**
ChipsAway	**1,171**	**–**	**1,171**	1,171	–	**1,171**
MyHome	**14**	**–**	**14**	14	–	**14**
Barking Mad	**129**	**763**	**892**	129	763	**892**
	19,488	**5,513**	**25,001**	19,488	5,513	**25,001**

The key assumptions for the value in use calculations are those regarding the discount rates and expected changes to operating results and cash flows during the period of five years from the statement of position dates. Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks in relation to the cash generating unit ("CGU"). In the current year a rate of 9.9% (2017: 9.3%) was used. The Directors believe that the risk profiles of the divisions are broadly similar given their similar operational and geographic natures. Changes in operating results and cash flows including the sales of franchises and the level of sales of the franchisees, are based on past results and expectations of future performance. The Group prepares cash flow forecasts for the next two to five years derived from the most recent budgets and long-term business plans which have been approved by the Board of Directors. The key assumptions used for estimating cash flow projections are those relating to revenue growth and operating margin. A 2% perpetual growth rate has been assumed when extrapolating cash flow projections beyond the five-year period used in the long-term business plans. Based on the calculations prepared the recoverable amount for all CGUs exceed their carrying amount.

The recoverable amounts are not considered to be sensitive to reasonably possible changes in the discount rate. The recoverable amounts for ChipsAway and Barking Mad are not considered to be sensitive to reasonably possible changes in the growth rates. The recoverable amount for Metro Rod is more sensitive to movements in the growth assumptions within the forecasts, but the Directors do not believe that there is currently a reasonably possible change of key assumptions that would cause the units carrying amount to exceed its recoverable amount.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For year ended 31 December 2018

12 Property, plant and equipment

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
Cost						
At 1 January 2017	111	110	148	243	24	635
Additions on acquisition	–	15	33	–	5	53
Additions	11	4	31	40	12	98
Disposals	–	–	(2)	(130)	(9)	(141)
At 31 December 2017	122	129	210	153	31	645
Additions	3	7	34	24	282	350
At 31 December 2018	**125**	**136**	**244**	**177**	**313**	**995**
Depreciation						
At 1 January 2017	(93)	(96)	(141)	(165)	(17)	(512)
Additions on acquisition	–	–	–	–	–	–
Charge for year	(7)	(13)	(20)	(46)	(10)	(96)
Disposals	–	–	3	115	9	127
At 31 December 2017	(100)	(109)	(158)	(96)	(18)	(481)
Charge for year	(10)	(14)	(32)	(36)	(40)	(131)
At 31 December 2018	**(110)**	**(123)**	**(190)**	**(132)**	**(58)**	**(613)**
Net book value						
At 31 December 2018	**15**	**13**	**54**	**45**	**255**	**382**
At 31 December 2017	22	20	52	54	14	162
At 1 January 2017	18	14	7	75	7	121

The net book value of assets held under hire purchase agreements under Group property, plant and equipment include an amount of £13,000 (2017: £52,000). The related depreciation charge on these assets for the year was £39,000 (2017: £39,000).

The Company has no fixed assets at 31 December 2018 or 31 December 2017.

13 Inventories

Group	**2018 £'000**	2017 £'000
Finished goods and goods for resale	**245**	252

All amounts are carried at cost and therefore no amounts are carried at fair value less costs to sell. There are no material stock provisions at either period end. No material amounts have been written-off in either year ended 31 December 2018 or 31 December 2017 within the income statement of the Company. £835,000 of inventories were recognised as an expense within the year (2017: £936,000).

14 Trade and other receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped separately. Our contract assets represent assets with our franchise network, therefore the assets are reviewed on the basis of the health of individual franchisees.

The expected loss rates are based on the Group's historical credit losses experienced over the three year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. In particular we look at the differing segmental risks to which we are exposed in respect of Metro Rod's customer base, with water utilities (for example) carrying much lower risks than our exposure to the Facilities Management segment.

In relation to the Company, the credit risk for amounts owed by Group undertakings has not increased significantly since their initial recognition. No expected credit loss provision has been recognised on the basis of the significant net assets and positive cash flows of subsidiaries.

Group	2018 £'000	2017 Restated £'000
Trade receivables	**9,971**	7,693
Provision at the year end	**(268)**	(646)
Other receivables	**247**	229
Total financial assets other than cash and cash equivalents	**9,950**	7,276
Contract assets	**820**	611
Prepayments	**278**	257
Total current trade and other receivables	**11,048**	8,144

	2018 £'000	2017 Restated £'000
Bad debt provision:		
Brought forward	**(646)**	(204)
Additions on acquisition	**–**	(231)
Provision for the year	**(97)**	(415)
Utilised	**476**	204
Carried forward	**(268)**	(646)

	2018 £'000	2017 Restated £'000
The ageing of the trade receivables is as follows:		
Due	**6,641**	5,305
Past due		
0-30 days	**1,070**	757
31-60 days	**627**	374
61-90 days	**392**	267
91-120 days	**423**	344
121+ days	**550**	–
Past due and impaired		
Due	**18**	189
0-30 days	**14**	3
31-60 days	**19**	75
61-90 days	**10**	50
91-120 days	**133**	93
121+ days	**74**	236
Total	**9,971**	7,693

Company	2018 £'000	2017 £'000
Amounts owed by Group undertakings	**2,599**	2,940
Other debtors	**2**	10
Prepayments	**125**	67
Social security and other taxes	**134**	195
Total current trade and other receivables	**2,860**	3,212

15 Trade and other payables

Group	2018 £'000	2017 Restated £'000
Current		
Trade payables	**3,940**	3,485
Accruals	**3,302**	2,280
Other creditors	**535**	271
Social security and other taxes	**819**	370
Total trade and other payables	**8,596**	6,406
Company		
Trade payables	**39**	21
Accruals	**208**	170
Total trade and other payables	**247**	191

Carrying values approximate to fair value. Included within other creditors is an amount of £98,000 (2017: £20,000) which represents the net payable in relation to the national advertising funds.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For year ended 31 December 2018

16 Loans and borrowings

Group and Company	2018 £'000	2017 £'000
Current		
Revolving credit facility	**2,514**	3,506
Term loan	**1,035**	803
Amortised loan fees	**(110)**	(145)
Total current loans and borrowings	**3,439**	4,164
Non-current		
Term loan	**4,400**	5,255

The loans are comprised of a £5,400,000 term loan, which carries a 2.95% interest rate and is repayable in instalments until 2022; and a £2,500,000 revolving credit facility, which runs until April 2023, and carries a 2.95% interest rate. Included above are the amortised value of loan fees of £110,000 (2017: £145,000), which are the difference between the book value and fair value of the loans. The bank loans are secured by a floating charge over the assets of the Group. During the year the Group set up an asset financing scheme with HSBC plc for the use of Metro Rod franchisees, primarily for the purchase of vans and tankers. The Group participates in this scheme, on a step-in basis, up to a total value of £1m. In the event of a default of a franchisee, the Group would step-in and have the rights of the financed asset, and the obligation on the liability. At the year end, £0.9m had been lent through this scheme. There are no expected credit losses to recognise in respect of the asset financing scheme.

17 Obligations for finance leases ageing

Group	2018 £'000	2017 £'000
Current	**21**	21
Non-current (between 1 and 5 years)	**51**	65
Total obligation for finance lease	**72**	86

Finance leases are secured on the assets to which they relate.

18 Deferred tax liability

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2018: 17%).

Group	Intangibles £'000	Accelerated allowances £'000	IFRS15 adjustment £'000	Share based payment £'000	Total £'000
Cost					
At 1 January 2017	(132)	(31)	–	–	(163)
Credit in the year	27	–	–	–	27
Acquisition of subsidiaries	(1,164)	774	152	–	(238)
At 31 December 2017	(1,269)	743	152	–	(374)
Credit/ (charge) in the year	39	(253)	(152)	38	(328)
At 31 December 2018	**(1,230)**	**490**	**–**	**38**	**(702)**

19 Subsidiaries

The fixed asset investments held by the Company are as follows:

	£'000
Cost	
At 1 January 2017	972
Additions in year	29,125
At 31 December 2017	30,097
Additions in year	1,606
At 31 December 2018	**31,703**

During the year the Group underwent a corporate simplification process, by which the Company became the holding company of all the main trading entities, and two previously intermediate holding companies became dormant. This resulted in an increase in the level of fixed asset investments held by the Company. The subsidiaries of the Company, all of which are 100% owned, which have been included in the consolidated financial statements, are as follows:

Name	Principal activity	**2018 %**	2017 %
FB Holdings Limited	Dormant	**100**	100
Metro Rod Limited	Operation and management of a franchise business	**100**	100
MRE Drainage Limited	Operator of drainage franchise	**100**	–
ChipsAway International Limited	Operation and management of a franchise business	**100**	100
Edwin Investments Limited	Dormant	**100**	100
Oven Clean Domestic Limited	Operation and management of a franchise business	**100**	100
MyHome Marketing Limited	Operation and management of a franchise business	**100**	100
Oven Clean (Ontario) Limited	Operation and management of a franchise business	**100**	100
Barking Mad Limited	Operation and management of a franchise business	**100**	100
Kemac Services Limited	Dormant	**100**	100
DentsAway Limited	Dormant	**100**	100
MRB Drainage Limited	Dormant	**100**	100

The principal country and place of business of all the above companies is England and Wales. The registered office and principal place of business is Ashwood Court, Tytherington Business Park, Macclesfield, SK10 2XF.

20 Share capital and other reserves

Allotted, called up and fully paid	**2018 No. of shares**	2017 No. of shares
At 1 January	**77,732,033**	47,881,286
Placing in relation to acquisition of Metro Rod	**–**	29,850,747
At 31 December	**77,732,033**	77,732,033

Share capital comprises the nominal value of the Company's Ordinary shares of 0.5 pence each.

Share premium: The share premium reserve is the premium paid on the Company's 0.5 pence Ordinary shares.

Share-based payment reserve: The share-based payment reserve represents the movement in cost of equity-settled transactions in relation to the long-term incentive plan.

Merger reserve: The merger reserve represents the premium above the nominal value of the equity issued to the owners of Barking Mad in relation to its acquisition by the Company on 31 October 2018.

Treasury reserve: This represents the amount that the Company paid on its own shares held in Treasury. At the year end the Group held 200,000 shares (2017: nil shares) in treasury for the purpose of the future settlement of equity settled share based compensation.

Movements on these reserves are set out in the consolidated statement of changes in equity.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS *continued*

For year ended 31 December 2018

21 Operating leases

The Group leases its office premises and holds contract hire agreements on vehicles. The total value of minimum lease payments due until the end of the lease is payable as follows:

	2018 £'000	2017 £'000
Less than one year	**329**	302
More than one year but less than five years	**857**	871
More than five years	**–**	56
	1,186	1,229

The Group maintains a number of leased properties over varying terms. The Company has no operating leases.

22 Related party transactions

The following are payments to entities controlled by Directors of the Company.

		2018 £'000	2017 £'000
Mark Peters (Miserden Ltd)	Company secretary fee	**10**	10
Julia Choudhury (Winsham Capital Partners Limited)	Consultancy service	**–**	50
Nigel Wray (Brendon Street Investments Limited)	Director's fee	**20**	17
Related party transactions		**30**	77

During the year the Group employed a family member of one of the directors. The total remuneration paid was the same as other employees at an equivalent level in the organisation. There were no outstanding balances in regards to related party transactions at the year end (2017: £nil).

23 Dividends

	2018 £'000	2017 £'000
Final 2017 dividend of 0.33p per Ordinary share paid and declared (2016: 0.17p)	**257**	81
Interim dividend of 0.21p per Ordinary share paid and declared (2017: 0.17p)	**163**	132
	420	213

A final dividend of 0.46 pence per share is proposed.

24 Post balance sheet events

On 1 March 2019 the Group moved its Registered Office from 5 Edwin Avenue, Hoo Farm Industrial Estate, Kidderminster, DY11 7RA (the principal place of business of ChipsAway and Ovenclean) to Ashwood Court, Tytherington Business Park, Macclesfield, SK10 2XF (the principal place of business of Metro Rod).

COMPANY INFORMATION

Directors & Company Secretary

Stephen Glen Hemsley	Executive Chairman
John Christopher ("Chris") Stewart Dent	Chief Financial Officer
Peter John Molloy	Managing Director, Metro Rod
Timothy ("Tim") John Harris	Managing Director, ChipsAway and Ovenclean
Julia Rosalind Choudhury	Corporate Development Director
Colin David Rees	Chief Information Officer
Nigel William Wray	Non-executive Director
David John Poutney	Non-executive Director
Robin ("Rob") Christian Bellhouse	Non-executive Director
Mark Andrew Peters	Company Secretary

Registered Office and Principal Place of Business
Ashwood Court
Tytherington Business Park
Macclesfield
SK10 2XF

Nominated Adviser & Joint Broker
Allenby Capital Limited
5 St. Helen's Place
London
EC3A 6AB

Joint Broker
Dowgate Capital Limited
15 Fetter Lane
London
EC4A 1BW

Auditor to the Company
BDO LLP
3 Hardman Street
Manchester
M3 3AT

Legal Advisers to the Company
Gateley Plc
One Eleven Edmund Street
Birmingham
B3 2HJ

Financial Public Relations Advisers to the Company
MHP
6 Agar Street
London
WC2N 4HN

Registrars
SLC Registrars
Elder House
St Georges Business Park
Brooklands Road
Weybridge
Surrey
KT13 0TS

Bankers
HSBC Bank plc
8 Canada Square
London
E14 5HQ

Franchise Brands plc

Ashwood Court
Tytherington Business Park
Macclesfield
Cheshire
SK10 2XF