FRANCHISE BRANDS

# Interim results presentation

July 26 2018



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# Contents

# Good progress in H1 2018

**Financial highlights:**

- Statutory revenue up 88% to £16.8m (H1 2017: £8.9m).
- Recurring Management Service Fee ("MSF") income up 86% to £5.4m (H1 2017:£2.9m), and is now 64% of total fee income (H1 2017: 57%).
- Adjusted EBITDA* increased by 46% to £1.8m (H1 2017: £1.3m).
- Cash generated from operating activities of £1.5m (H1 2017: £0.7m).
- Strong cash conversion of 83% (H1 2017: 54%).
- Net debt of £5.5m at 30 June 2018 (31 December 2017: £6.3m).
  - Gearing at 30 June 2018 of 23% (31 December 2017: 27%).
- Basic and adjusted EPS* of 1.5p (H1 2017: basic loss of 0.40p; adjusted profit of 1.3p).
- Interim dividend of 0.21p per share declared, an increase of 24% (H1 2017: 0.17p per share).

**Operational highlights:**

- 41 new franchisees recruited (H1 2017: 49).
- Continuing significant investment in IT: included new telephone technology and works management automation.
- Launch of Metro Rod "Vision 2023" to accelerate business growth.
- Completion of 88,000 jobs at Metro Rod, an increase of 15% from the equivalent period in 2017.



** 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.*

# Metro Rod strategy update

- New Metro Rod strategy was formulated and rolled out in late 2017.

- The strategy has the central objective of making franchisees more independent and responsible for building their own business by giving them the IT, sales and marketing support needed to achieve this.

- Additional essential building blocks in realising the strategy:
  - Improve the skill and equipment base of franchisees to increase capacity and productivity;
  - Operate some corporate franchises so we can lead by example and pilot new ideas/systems; and
  - Some franchisee churn, as not all will share our vision and ambition.

- Summary of 1H 2018 progress against strategic objectives:

  - Significant progress in respect of IT systems: digitally-enabling the business is a key strategic priority;

  - The launch of “Vision 2023” has given further impetus and focus to franchisees and is also helping us identify where a change of franchisee may be needed if we are to fully exploit the market opportunity;

  - Some progress in sales and marketing support for Metro Rod franchisees following the introduction of the NAF in January 2018; and

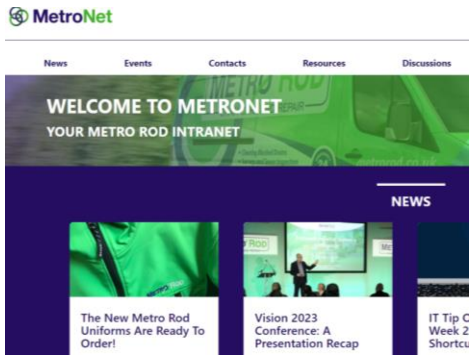
  - Our strategy to invest in our franchisees is now underway through the operation of Exeter as our first corporate franchise. We anticipate investing in other strategic partnerships with existing franchisees in different areas of the country to provide an example of the ways in which the business can be developed.

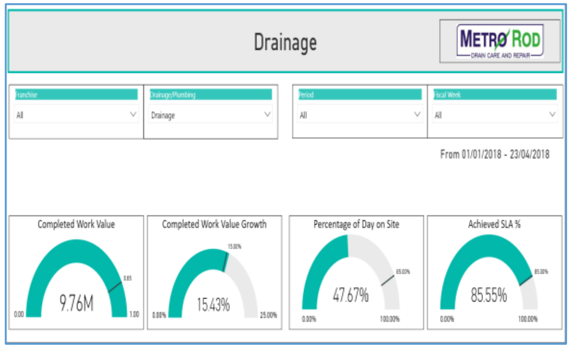
# Delivering a digitally-enabled business

- We have started the process of building a digitally-enabled business.

- Significant progress has been made in 1H 2018:
    - Migration of systems to Cloud-based platform has resulted in speed and reliability improvements;
    - Increased franchisee access to Works Management System (WMS): more autonomy, greater responsiveness;
    - Substantial progress in automating the customer contact centre: efficiency improvements, enhanced customer service;
        - Increasing proportion of job requests now automatically logged
        - New telephone system: improved functionality and analytics
    - Improved management information: roll out of franchisee "dashboard" which has resulted in greater insights into the business; and
    - Development of new intranet: knowledge management and information sharing.

- Our key IT priority is the selection of a new end-to-end WMS that allows us to acquire a job, deploy it to the engineer, process the invoice and frequently update our customers all with the minimum manual intervention. This will be transformational for Metro Rod.




# Sales & Marketing progress

- An important element of our overall sales and marketing strategy is to provide franchisees with sales and marketing support and training so that they can grow their sales in their local territories. Our strategy is for these local sales to become 60% of total system sales, versus 40% today.

- A key element of the Metro Rod marketing strategy is to significantly improve the profile and awareness of the Metro Rod brand amongst key decision makers. Our research shows we are starting from a very low base.

- Integrating sales and marketing is also a key consideration to improve overall effectiveness.

- Summary of 1H 2018 progress:
    - National Advertising Fund ("NAF") introduced at the beginning of the year;
    - National campaigns, advertising, PR and other promotional activities have taken place;
    - Appointment of Metro Rod Sales & Marketing Director in May;
    - Continued rebranding of vans and tankers, new Metro Rod uniforms designed;
    - Encouraging PPC and SEO activity;
    - Commencement of marketing training to franchisees;
    - Regional sales team beginning to gain traction; and
    - Co-ordination of sales and marketing.


- Local sales made by franchisees in their territories grew by 6% in 1H 2018, double the rate of growth of system sales as a whole.

- As this new sales and marketing team becomes established we are anticipating a more rapid increase in sales, although this will depend on the franchisees' appetite and operational capacity to service this additional volume. The lack of a suitable CRM (which interfaces with the WMS) will also impact progress.

# Metro Plumb & Kemac

## Metro Plumb

- Metro Plumb has continued to grow sales and these have now reached critical mass for a growing number of franchisees.
    - System sales for Metro Plumb increased 27% over the same period last year.

- The revised strategy is to focus our sales effort on those areas where we think we can develop critical mass and to offer this franchise opportunity independently of Metro Rod.

## Kemac

- Kemac had a much-improved performance over the period. This resulted from a combination of the actions taken at the end of 2017 to reduce the cost base and a pick-up in work from water utilities resulting from several emergency situations.

- We anticipate the first Metro Plumb territory operated by Kemac will be sold to a third party franchisee in August/September.

# ChipsAway, Ovenclean and Barking Mad

- **ChipsAway** franchisee recruitment slowed, however, the real opportunity lies in helping franchisees develop from being "man-in-a van" operators to management franchisees with turnover-related MSF income:
  - 7% of the network bought additional territory, demonstrating their confidence in the business; and
  - MSF based on actual turnover, albeit still small, almost doubled year-on-year.

- **Ovenclean** MSF income improved as a result of the 10% increase in the monthly fee that became effective at the end of the first half of 2017. Ovenclean remains fundamentally a "man-in-a van" franchise, however, the effectiveness of the consumer marketing improves franchisee turnover, thereby allowing us to increase the "fixed" monthly fee from time to time.

- Marketing at ChipsAway and Ovenclean which is funded through the NAF continued to deliver a strong pipeline of consumer leads to franchisees.

- **Barking Mad** has seen a good progression in the first half of the year. New franchisee recruitment increased from last year and operationally, Easter was particularly buoyant. As Barking Mad franchisees pay a 10% MSF on turnover, this source of income grew reasonably well during the period.

# Summary of group results

| Period ended 30 June | 2018 £'000 | 2017 £'000 | Change £'000 | Change % |
|---|---|---|---|---|
| **Statutory revenue** | 16,844 | 8,937 | 7,907 | 88% |
| Franchisee payments | -8,395 | -3,850 | -4,545 | 118% |
| **Fee and direct labour income** | **8,449** | **5,087** | **3,362** | **66%** |
| Other cost of sales | -1,972 | -1,168 | -804 | 69% |
| **Gross profit** | **6,477** | **3,919** | **2,558** | **65%** |
| Administrative expenses | -4,657 | -2,669 | -1,988 | 74% |
| **Adjusted EBITDA** | **1,820** | **1,250** | **570** | **46%** |
| Depreciation | -61 | -47 | -14 | 30% |
| Amortisation of goodwill | -108 | -48 | -60 | 125% |
| Share based payment | -81 | -56 | -25 | 45% |
| Finance expense | -172 | -104 | -68 | 65% |
| **Adjusted profit before tax** | **1,398** | **995** | **403** | **41%** |
| Tax expense | -235 | -196 | -39 | 20% |
| **Adjusted profit after tax** | **1,163** | **799** | **364** | **46%** |

- Statutory revenue up 88% as we include Metro Rod for the full six months (almost 3 months in 2017). As a result of different revenue recognition policies, consolidated turnover is not a KPI management monitor.
- Fee and direct labour income has increased by 66%. Fee income margin has increased from 57% to 64% as we shift towards a higher level of 100% margin MSF income.
- Overheads up by 74% due to full period inclusion of Metro Rod costs.
- Adjusted EBITDA has increased 46% to £1.8m.
- Finance charge of around 3.9% on average debt of £8.7m of debt.
- Taxation rate of 16.8% (below statutory rate of 19%) due to prior year adjustment.
- No exceptional items in the current period, therefore statutory items are the same as adjusted.

# Fee and direct labour income

| £'000 | MSF | Area Sales | Product sales | Total fee income | Direct labour | H1 2018 Total |
|---|---|---|---|---|---|---|
| Metro Rod | 3,554 | 40 | 0 | **3,594** | 1,611 | **5,205** |
| ChipsAway | 1,272 | 514 | 518 | **2,304** | 0 | **2,304** |
| Ovenclean | 280 | 201 | 17 | **498** | 0 | **498** |
| Barking Mad | 295 | 143 | 0 | **438** | 0 | **438** |
| Other | 4 | 0 | 0 | **4** | 0 | **4** |
| **H1 2018 Total** | **5,405** | **898** | **535** | **6,838** | **1,611** | **8,449** |
| *% of Total* | *64%* | *11%* | *6%* | *81%* | *19%* | *100%* |

| £'000 | MSF | Area Sales | Product sales | Total fee income | Direct labour | H1 2017 Total |
|---|---|---|---|---|---|---|
| Metro Rod | 1,222 | 3 | 0 | **1,225** | 545 | **1,770** |
| ChipsAway | 1,121 | 632 | 593 | **2,346** | 0 | **2,346** |
| Ovenclean | 273 | 253 | 46 | **572** | 0 | **572** |
| Barking Mad | 295 | 103 | 0 | **398** | 0 | **398** |
| Other | 1 | 0 | 0 | **1** | 0 | **1** |
| **H1 2017 Total** | **2,912** | **991** | **639** | **4,542** | **545** | **5,087** |
| *% of Total* | *57%* | *19%* | *13%* | *89%* | *11%* | *100%* |

| | MSF | Area Sales | Product sales | Total fee income | Direct labour | Total Difference |
|---|---|---|---|---|---|---|
| Difference £'000s | 2,493 | -93 | -104 | 2,296 | 1,066 | 3,362 |
| Difference % | 86% | -9% | -16% | 51% | 196% | 66% |

- Core fee income which we earn as a franchisor has increased by 34% to £6.8m, driven by the inclusion of Metro Rod for a full six months.
- Our long-term aim is to generate more high-margin, recurring MSF income, and rely less on one-off recruitment income from area sales and low-margin product sales.
- As such MSF income is up 46% to £5.4m.
- We earn direct labour income from Metro Rod's Kemac division and our Exeter corporate franchisee.

# Individual business results

| Period ended 30 June | 2018 | 2017 | Change | Change |
|---|---|---|---|---|
| EBITDA | £'000s | £'000s | £'000s | % |
| Metro Rod | 1,104 | 351 | 753 | 215% |
| Chips Away | 976 | 956 | 20 | 2% |
| Ovenclean | 193 | 205 | (12) | -6% |
| Barking Mad | 126 | 108 | 18 | 17% |
| Head Office | (579) | (370) | (209) | 56% |
| **Total** | **1,820** | **1,250** | **570** | **46%** |

- Metro Rod is included for a full 6 months, compared to almost 3 months in 2017, increasing its contribution by 215%
    - On a 'pro-forma' basis EBITDA is up by 36% with growth being driven by both increases in System Sales, and cost efficiencies.
    - Kemac has returned to profitability, contributing £0.2m in the period.

- ChipsAway has grown by 2% - franchisee recruitment has been lower, but we have seen growth in the MSF of the business, driven by expansion by our existing network as they buy new territories and move towards Car Care Centres.

- Ovenclean is down slightly period on the period with fewer franchisees recruited than in the previous period.

- Barking Mad has increased by 17%; franchisee recruitment income continues to underpin this.

# Metro Rod IT expenditure

| IT expenditure for period ended 30 June 2018 | £'000 |
|---|---|
| | |
| Business Systems | 238 |
| IT Services | 106 |
| **Total ‘Run’ Spend** | **344** |
| | |
| Transform Revenue | 83 |
| Transform Capex | 81 |
| **Total ‘Transform’ Spend** | **164** |
| | |
| **Total Spend** | **508** |

- Total IT spend in the period has been just over £500k.
- No comparatives, as in prior year Metro Rod IT was being provided under Transitional Services Agreement with the previous owner.
- ‘Run’ costs are the normal on-going costs of running the Metro Rod IT department (excluding staff costs).
- ‘Transform’ is the separate investment we are making to increase operational efficiencies.
- Around half of the ‘Transform’ spend of £164k has been capitalised in the period.

# EPS and dividend

| For the period ending 30 June | 2018 | 2017 | Change (£) | Change (%) |
|---|---|---|---|---|
| **Adjusted profit after tax (£'000)** | **1,163** | **799** | **364** | **46%** |
| **Non-recurring items (net of tax) (£'000)** | 0 | (1,041) | 1,041 | -1,005 |
| **Statutory profit/(loss) (£'000)** | **1,163** | **(242)** | **1,405** | **-581%** |
| | | | | |
| Weighted number of shares- basic | 77,732,033 | 61,239,907 | 16,492,126 | 27% |
| Weighted number of shares- fully diluted | 81,127,493 | 62,067,382 | 19,060,111 | 31% |
| | | | | |
| Underlying basic EPS (p) | 1.50 | 1.30 | 0.20 | 13% |
| Underlying fully diluted EPS (p) | 1.43 | 1.29 | 0.15 | 10% |
| Basic EPS (p) | 1.50 | (0.40) | 1.89 | 126% |
| Fully diluted EPS (p) | 1.43 | (0.40) | 1.83 | 128% |
| | | | | |
| **Dividend per share (p)** | **0.21** | **0.17** | **0.04** | **24%** |

- EPS on an adjusted basis has increased by 13% year-on-year.
- Whilst earnings have increased by 46%, the 27% increase in the weighted number of shares has diluted that increase.
- Interim dividend for the period declared of 0.21p per share, an increase of 24% from H1 2017.
- Dividend covered 7.1 times by basic EPS (H1 2017: 7.6 times by basic EPS). The lowering of the dividend cover is in line with the total 2017 dividends (interim 0.17p per share; final 0.33p per share) being covered 5 times by earnings.

# Movement in net debt

FRANCHISE BRANDS

| Period ended 30 June | 2018 | 2017 | Change |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| Cash | 2,751 | 3,245 | (494) |
| Term loan | (5,700) | (6,000) | 300 |
| RCF | (2,500) | (3,500) | 1,000 |
| Accrued interest | (50) | (64) | 14 |
| Loan fee | 128 | 145 | (17) |
| Lease debt | (99) | (86) | (13) |
| **Net debt** | **(5,470)** | **(6,260)** | **790** |

- During the period the net debt has decreased to £5.5m from £6.3m
  - Moderate capital gearing of 23% (31 December 2017: 27%)
  - Operating well within all covenants
- We have made scheduled payments on our term loan of £300k, and have also voluntarily paid down our RCF by £1m.
- At the end of the period we had undrawn facilities of £2.5m, leaving us with £5.3m to utilise should the right opportunity present itself.

# Cash flow

| Cash flow for period ended 30 June | 2018 | 2017 |
|---|---|---|
| | £'000 | £'000 |
| | | |
| **EBITDA** | **1,820** | **52** |
| Movement on receivables | (1,613) | (879) |
| Movements on inventories | (24) | (15) |
| Movement on payables | 1,299 | 1,761 |
| Taxes repaid | 48 | (179) |
| **Net cash generated from operating activities** | **1,530** | **740** |
| Capital expenditure | (107) | (93) |
| Acquisition | - | (28,487) |
| Share issue (net of costs) | - | 19,556 |
| Loans received | - | 11,830 |
| Loans repaid | (1,300) | (417) |
| Interest paid | (146) | (96) |
| Loans made | (193) | - |
| Dividends paid | (257) | (81) |
| Leases | (21) | (16) |
| | | |
| **Net (decrease)/increase in cash and cash equivalents** | **(494)** | **2,946** |
| | | |
| Cash and cash equivalents at beginning of year | 3,245 | 2,999 |
| **Cash and cash equivalents at end of year** | **2,751** | **5,945** |

- The Group has had strong cash inflow from its operations, with £1.5m generated.
- Cash conversion of 83% (H1 2017: 54%) (Cash from operating activities/adjusted EBITDA).
- Moderate level of capital expenditure of £107k. Currently low level of IT capitalisation.

# Balance sheet

| Balance Sheet | 30 June 2018 | 31 Dec 2017 |
|---|---|---|
| | £'000 | £'000 |
| | | |
| Inventories | 276 | 252 |
| Debtors | 9,779 | 8,144 |
| Creditors | (7,940) | (6,406) |
| **Net Working Capital** | **2,115** | **1,990** |
| | | |
| Cash | 2,751 | 3,245 |
| Loans | (8,221) | (9,505) |
| **Net Debt** | **(5,470)** | **(6,260)** |
| | | |
| **Property, plant and equipment** | **252** | **162** |
| | | |
| Intangible Assets | 27,621 | 27,658 |
| Deferred Tax | (355) | (374) |
| **Accounting Assets** | **27,266** | **27,284** |
| | | |
| **Net Assets** | **24,163** | **23,176** |

- Balance sheet has grown by £987k.
- Growth driven by profits in the period (£1,163k), less dividends paid (£257k), and an adjustment for share-based payment (£81k).
- Net working capital has remained stable.
- Net debt has reduced as we have continued to make scheduled and voluntary repayments.
- Accounting assets, representing the consideration paid for acquisitions continues to be the largest category of assets at £27.3m.

# Summary

- Pleasing progress in 1H 2018, with the business as a whole performing as expected.

- Metro Rod is capable of significant growth
    - Benefits of the new strategy starting to come through.
    - Investment that is being made in IT, sales and marketing will help unlock Metro Rod's potential.

- ChipsAway, Ovenclean and Barking Mad have performed solidly. It is encouraging to see further growth in high-margin MSF income across all these brands.

- Cash generation and cash conversion remain strong, allowing us to reduce debt and maintain a progressive dividend policy.

- The outlook for the Group remains very positive and we look forward to the remainder of 2018 with confidence.

***A very positive outlook for the Group as Metro Rod strategy delivers***

# Appendix

# Franchise system at 30 June 2018

| | Network size 31 Dec 2017 | New franchisees recruited | Franchisees leaving the system | Network size 30 Jun 2018 |
|---|---|---|---|---|
| ChipsAway | 214 | 17 | (16) | 215 |
| Ovenclean | 106 | 13 | (10) | 109 |
| Barking Mad | 71 | 11 | (8) | 80 |
| Metro Rod | 41 | - | - | 41 |
| **Total:** | **438** | **41** | **(34)** | **445** |

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