22 March 2017

FRANCHISE BRANDS PLC

("Franchise Brands", "the Group" or "the Company")

Final results for the year ended 31 December 2017

A year of substantial strategic progress with the acquisition of Metro Rod and a strong organic growth performance

Franchise Brands plc (AIM: FRAN), an international multi-brand franchisor, is pleased to announce its full year results for the year ended 31 December 2017.

Financial highlights

- Revenue up five-fold to £24.3m (2016: £4.9m).
- Adjusted EBITDA* increased by 101% to £2.7m (2016: £1.4m).
- Adjusted profit before tax* grew by 72% to £2.1m (2016: £1.2m).
- Adjusted profit after tax* grew by 77% to £1.7m (2016: £1.0m).
- Statutory loss after tax and net exceptional costs of £0.1m (2016: profit £0.5m).
- Cash generated from operations before exceptional costs of £2.6m (2016: £1.4m).
- Net debt of £6.3m at 31 December 2017 (2016: cash of £2.5m), with gearing of 27% (2016: nil).
- Adjusted Basic EPS* of 2.5p (2016: 2.4p), reflecting the significant increase in shares in issue following the IPO and acquisition of Metro Rod.
- Basic EPS loss of 0.16p (2016: profit of 1.28p), reflecting both the increase in shares in issue and the exceptional cost of the acquisition.
- Final dividend of 0.33p per share proposed (2016: 0.17p per share), giving a total dividend for the year of 0.50p per share (2016: 0.17p per share), 5 times covered by adjusted profit after tax.

** "Adjusted" items are before costs of acquisition of subsidiaries, costs of transition of subsidiary, bad debt provision and IPO expenses and, in relation to EBITDA only, share-based payment expense. A reconciliation of Adjusted to Statutory measures is provided in the Financial Review below.*

Operational highlights

- Metro Rod was acquired on April 2017 for £28.4m and traded in-line with management expectations.
- ChipsAway and Ovenclean exceeded budget through strong Management Service Fee growth.
- Barking Mad made a good contribution in its first full year of ownership and exceeded budget.
- Kemac, acquired as part of the Metro Rod transaction, delivered a very disappointing performance due to the loss of work from water utilities.
- The Group's shared support services extended and now complete.
- New strategy formulated for Metro Rod which includes investment in IT, sales and marketing.
- Franchise territories sold totalled 82 (2016: 62).
- Total number of UK franchisees increased to 438 (2016: 393).
- Board and senior management team strengthened.

Stephen Hemsley, Executive Chairman, commented:

"2017 has been a year of considerable progress in the development of Franchise Brands, with strong growth from the original brands, and the acquisition of Metro Rod has propelled the Company into becoming one of the largest franchise groups in the country.

Metro Rod has a market-leading national offering in the commercial drainage market which has never been fully exploited and its upside potential is substantially greater than we originally anticipated. The implementation of the new strategy we have formulated is well underway, and I am confident that the additional investment we are making in the business, combined with the quality and experience of the management team we now have in place, will allow us to unlock that potential over the next two years."

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Executive Chairman's statement

2017 has been a year of substantial progress in the development of your Company. When we were admitted to AIM in August 2016 our strategy was to build a multi-brand franchisor group through organic growth and acquisition. I am pleased to report that our existing brands continue to deliver strong organic growth and the acquisition of Metro Rod in April 2017 has propelled the Group into becoming one of the largest franchise groups in the country.

Metro Rod

Following completion of the acquisition of Metro Rod, we launched a wide-reaching and detailed feedback exercise designed to improve our understanding of the business. Together with our Corporate Development Director, Julia Choudhury, I toured the country to meet all our franchisees in their offices and depots to hear first-hand the opportunities and challenges presented by Metro Rod and Metro Plumb. We were impressed by the market opportunity and the ambition of many of our franchisees. We also met a large cross-section of the Support Centre teams and listened to their views and recommendations. The feedback from both groups reaffirmed our view that Metro Rod has a market-leading national offering in the commercial drainage market which has never been fully exploited. We also felt that Metro Plumb, whilst an early stage business, had real potential but that the strategic direction was unclear. Work is continuing to establish the right strategy for Metro Plumb, including how it should operate with the Metro Rod drainage business.

Taking account of the feedback we formulated a new strategy for Metro Rod, the central objective of which is to grow franchisee sales ("system sales") and their profitability whilst also building our Management Service Fee ("MSF") income. In particular, we have identified a significant opportunity to grow sales won by franchisees in their territories. These locally-won sales currently represent only 40% of total system sales. The market for drainage services is extremely fragmented with approximately 1,500 providers, most of whom are small local firms. This presents a clear opportunity for Metro Rod, with a strong brand and good quality IT systems, to take market share from these smaller firms. I would like to see these locally-won sales representing 60% of total system sales in the future whilst still increasing the level of national account sales which are secured centrally on behalf of the franchisees. To help achieve this strategic aim, we have created a regional sales team whose objective is to work with franchisees and win this local work.

We also felt that the franchisees' entrepreneurial flair had been stifled by too many of the business processes being undertaken by the Macclesfield Support Centre. This, in part, resulted from the poor IT systems available to franchisees. A further key part of the strategy therefore is to improve these systems so we can devolve more responsibility to the franchise community. This will allow them to be more autonomous and provide their customers with a superior and more responsive service.

The IT investment required to fully develop the opportunity at Metro Rod is therefore greater than originally anticipated, but it is now factored into the Group's budget. I am confident that the additional investment in IT will enable us to build a significantly larger and more efficient business than we originally projected and to reduce the cost base at the Macclesfield Support Centre. The scale of the investment has required us to create an in-house capability and I was pleased to welcome Colin Rees as Chief Information Officer. Prior to joining us, Colin held a similar role at Domino's Pizza Group plc. The systems being developed are initially designed to enhance and automate the business systems and management information at Metro Rod but will have applications for all current and future Group brands.

A further key element of the strategy is to significantly improve the profile and awareness of the Metro Rod brand amongst key decision makers. The investment in sales and marketing is being partly funded through the introduction of a National Advertising Fund ("NAF") at Metro Rod. The franchisees are making a contribution of 1% of sales and Metro Rod is also contributing an initial share equivalent to our MSF contribution of 22.5%. The NAF will allow us to expand the Group's central marketing team, which manages the marketing funds for all the brands. We believe that the economies of scale and shared expertise this affords us is of huge benefit to each of the underlying brands in growing system sales and thereby our MSF.

It was clear that this change of strategy could only be achieved with a change of leadership at Metro Rod and we were pleased to appoint Peter Molloy as Managing Director (previously Commercial Director at Metro Rod). After consultation with representatives of the franchise community, the new strategy and associated operational changes were introduced by Peter at Metro Rod's annual conference in November 2017 and implementation of most of the strategic and operational changes started in January 2018. The early signs are that these initiatives are having the desired effect and will give us a platform from which to significantly build this business. However, there is much work still to do and we anticipate some additional churn in the franchise community before we establish a group of franchisees aligned with our ambition for the business.

We are also in the process of developing a new strategy for the direct labour plumbing business, Kemac, which we acquired as part of the Metro Rod acquisition, as well as continuing with the restructuring process. Kemac's very disappointing results in 2017 were the reason for the shortfall in our earnings compared to market expectations at the time of the Metro Rod acquisition.

As a result of our continued emphasis on developing the significant opportunities within the Metro Rod business, our focus during 2018 is likely to be on organic expansion rather than external growth.

ChipsAway, Ovenclean and Barking Mad

ChipsAway and Ovenclean reported strong adjusted EBITDA growth of 15% during the period and exceeded budget. Under the experienced direction of Tim Harris, ChipsAway continues to recruit new franchisees, however, the real opportunity lies in helping franchisees grow their businesses and profits so that they can develop from being "man-in-a van" operators to management franchisees who operate from premises (Car Care Centres). At present, 32 of our 214 franchisees operate from Car Care Centres and a further 35 operate multiple vans or multiple territories. Once they reach this stage of development our MSF income becomes turnover-related rather than a fixed monthly fee and therefore provides us with a real incentive to help them grow.

Ovenclean remains a fundamentally "man-in-a van" franchise, however, the effectiveness of our consumer marketing is resulting in an increase in the average franchisee turnover, which, in turn, allowed us to increase the monthly fee to approximately 10% of the expected sales. Given the fixed cost nature of this operation, this significantly enhances profitability.

Barking Mad, which was acquired in October 2016, made a good contribution under the continued leadership of Lee Dancy and also exceeded budget. We accelerated the recruitment of new franchisees by leveraging the Group's franchise recruitment capability and we estimate that there is the potential for up to 250 viable Barking Mad territories in the UK. System sales, on which we collect a 10% MSF, continued to grow at a satisfactory rate, although the VAT threshold does represent a challenge for franchisees in growing sales beyond this level.

Board changes

I am pleased to report we have strengthened the plc Board with the appointment of Peter Molloy, Managing Director of Metro Rod, and Colin Rees, Chief Information Officer as directors of the Company. Both Peter and Colin are key members of the senior management team and have made a valuable contribution to the business since their appointments. We also welcomed Chris Dent to the Board in 2017 as Chief Financial Officer. Chris has prior experience with AIM-quoted companies and spent the earlier part of his career with Deloitte. In view of Peter's role as Managing Director of Metro Rod and my role as Executive Chairman, we are re-aligning the Board titles and Tim Harris is now the Managing Director of ChipsAway and Ovenclean.

Regrettably, I also have to report that Robin Auld, our well-respected Marketing Director, will be stepping down from the Board at the AGM on health grounds. Fortunately, Robin will continue to oversee our marketing strategy during his recovery, and the Board and I wish him a speedy recovery.

Conclusion

It remains for me to thank our franchisees for their continuing hard work and dedication to our brands. As I have often said, our franchisees are the backbone of the business and it is their passion and entrepreneurial flair that allows us to grow. I would also like to thank the "home team" who have continued to support our franchisees and grow our business through a year of significant change and development. Finally, I would like to express my gratitude to our shareholders for their support in the fundraising that financed the Metro Rod acquisition and for their continuing support in what has been an eventful year.

2018 will be a year in which we continue to build on the foundations we have created. I am pleased to report that the year has started in line with our expectations and we look forward to the remainder of the year and beyond with confidence.

Stephen Hemsley
Executive Chairman

Financial Review

I am pleased to present my first Financial Review since becoming Chief Financial Officer in July 2017. Our first full year as an AIM-quoted company has been transformational. The acquisition of Metro Rod has significantly increased the scale of the business and whilst there have been challenges there are also opportunities. The results represent solid progress in the delivery of the Company's strategy and lay the foundation for an exciting future.

	2017	2016	Change
	£'000	£'000	£'000
Statutory revenue	**24,292**	**4,870**	**19,422**
Franchisee payments	(12,131)	-	(12,131)
Fee income	**12,161**	**4,870**	**7,291**
Other cost of sales	(3,067)	(1,572)	(1,495)
Gross profit	**9,094**	**3,298**	**5,796**
Administrative expenses	(6,378)	(1,946)	(4,432)
Adjusted EBITDA	**2,715**	**1,352**	**1,363**
Depreciation	(96)	(66)	(30)
Amortisation of intangibles	(156)	(10)	(146)
Share-based payment	(58)	(30)	(28)
Finance expense	(277)	(7)	(270)
Adjusted profit before tax	**2,128**	**1,239**	**889**
Tax expense	(392)	(260)	(132)
Adjusted profit after tax	**1,737**	**979**	**758**
Non-recurring items (net of tax)	(1,849)	(455)	(1,394)
Statutory (loss)/profit	**(112)**	**524**	**(636)**

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

The 2017 numbers contain a full year of ChipsAway, Ovenclean and Barking Mad and almost nine months of Metro Rod, following the completion of our acquisition of the business in April 2017. The 2016 numbers contain the full year for ChipsAway and Ovenclean, two months of Barking Mad and nearly five months of being a quoted company following our IPO in August 2016. During this period, the capital structure and financial position of the Company have also changed significantly.

Statutory revenue & fee income

Statutory consolidated revenue has increased five-fold from £4.9m to £24.3m with virtually all 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 therefore is not a KPI that management track on a consolidated basis. It is, however, relevant to the individual brands as in most cases it drives our MSF income.

The Group has three main fee income streams: MSF received from our 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. During 2017 MSF income increased to 62% of total fee income, from 42% in the previous year. The 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.

Trading results

Adjusted EBITDA for the Group increased by 101% to £2.7m from £1.4m in the previous year.

The original brands ChipsAway and Ovenclean grew strongly, increasing their EBITDA contribution by 15% to £2.2m from £1.9m in the previous year. This resulted from a significant improvement in MSF income, as an increasing number of franchisees began paying turnover-related fees, rather than a fixed monthly fee. A total of 56 new franchisees were recruited during the year which maintained the size of the franchise community for these two brands at 320.

Barking Mad, in its first full twelve months as part of the Group, contributed £0.2m, as a result of both increasing MSF income from growing system sales and strong recruitment income. A total of 24 franchise territories were sold during the year bringing the total franchise community to 77 at the year-end.

Metro Rod, which includes Metro Plumb, made an initial contribution of £1.3m in the nearly nine months since acquisition. This was derived almost entirely from MSF income on system sales from our national network of 41 franchisees. System sales grow through both increases in operational capacity, as franchisees invest in capital equipment such as new tankers and vans, and through the demand for drainage and plumbing services, which is driven by external factors such as adverse weather conditions. In addition to driving profits through growth in system sales we have also reviewed the cost base of the business to maximise the synergies from the acquisition, which has resulted in a reduction in headcount from 132 to 103. This process has continued in the current year with a further reduction, however, the resulting cost savings have been re-invested in areas such as IT and the regional sales team.

Trading at the direct-labour division Kemac, which formed part of the Metro Rod acquisition, was very disappointing, contributing only £34,000 of EBITDA in the period. It is the reason that profits for the Group were below the level anticipated at the time of the acquisition. This resulted from a significant and rapid reduction in work from water utility companies. The contribution from this business has now stabilised but at a lower level than originally planned. This direct-labour business is under strategic review at present, with a view to franchising the Metro Plumb element of its activities.

Group overheads increased from £0.5m to £1.0m, mostly as a result of the annualisation of our first full year cost of being a quoted company.

Non-recurring items

2017 has seen a high level of non-recurring items totalling £1.8m (2016: £0.5m), with the majority of these relating to the acquisition of Metro Rod which constituted a Reverse Takeover under the AIM Rules and resulted in a re-admission to AIM. £1.1m of acquisition costs were recognised as non-recurring items in the income statement, with a further £0.4m set-off against the share premium arising on the issue of new shares. In addition, £0.7m of transitional costs related to the set-up of a standalone IT environment for Metro Rod and a post-acquisition restructuring of the business. A further £0.3m provision was established following the liquidation of Carillion plc in January 2018 to provide for the monies which were owed to Metro Rod on 31 December 2017.

Earnings and dividend

Underlying profit before tax increased by 72% to £2.1m (2016: £1.2m). The Group made a statutory loss before tax of £65,000 (2016: profit of £784,000) as a result of the acquisition-related non-recurring items. The tax charge of £47,000 (2016: £260,000) arose due to certain acquisition costs being disallowable for tax.

As a result of the shares issued to finance the Metro Rod acquisition, the average number of shares in issue during the year increased substantially to 69,553,746 (2016: 40,837,885), resulting in a basic loss per share of 0.16p (2016: profit per share of 1.28p). Based on adjusted profit after tax of £1.7m (2016: £1.0m), adjusted earnings per share in 2016 are 2.50p (2016: 2.40p), an increase of 4%.

The Board is pleased to propose a final dividend of 0.33 pence per share (2016: 0.17 pence per share), taking the total dividends for the year to 0.50 pence per share (2016: 0.17 pence per share). The cost of the proposed final dividend is £257,000. The total dividend for the year is 5 times covered by adjusted profit after tax.

Subject to shareholder approval at the AGM on 25 April 2018, the final dividend will be paid on 15 May 2018 to shareholders on the register at the close of business on 27 April 2018.

Financing and cash flow

The Group generated cash from operations of £2.6m (2016: £1.6m) before the post-taxation exceptional acquisition costs of £1.9m. After those costs, the Group generated net cash from operations of £0.7m (2016: £0.9m).

The Group raised proceeds of £19.6m by placing 29,850,746 shares at 67p each, net of expenses of £0.44m. The Group also negotiated a 5-year term loan of £12m with HSBC, raising £11.8m after expenses. The proceeds of the equity placing and debt financing were used to acquire Metro Rod for £28.4m, net of cash acquired of £0.47m. The outstanding shareholder loans of £0.42m at 30 June 2016 were repaid from existing cash resources in anticipation of the transaction, enabling HSBC to be the sole lender to the enlarged Group. The Group also entered into a £5m revolving credit facility ("RCF") with HSBC to provide additional headroom.

On 8 December 2017, the Group used excess cash to make an early repayment of £5.6m of the five-year term loan, and at the same time drew down £3.5m of the RCF, in order to reduce our on-going financing costs. Therefore, at 31 December 2017 the Group's gross debt (including accrued interest and finance lease debt) stood at £9.4m, compared to the £11.8m originally arranged. Cash balances were £3.2m (2016: £3.0m), resulting in net debt of £6.3m (2016: net cash £2.5m).

The acquisition of Metro Rod has led to a significant increase in the size of our balance sheet, especially in relation to acquired intangible assets in the Group. Shareholders' funds at 31 December 2017 were £23.2m (2016: £3.9m) against net debt of £6.3m, giving modest gearing of 27% (2016: nil).

Chris Dent
Chief Financial Officer

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Revenue	3	**24,292**	4,870
Cost of sales		**(15,198)**	(1,572)
Gross profit		**9,094**	3,298
Adjusted earnings before interest, tax, depreciation, amortisation, share-based payments & non-recurring items ("Adjusted EBITDA")		**2,715**	1,352
Depreciation	4	**(96)**	(66)
Amortisation	4	**(156)**	(10)
Share-based payment expense	4	**(58)**	(30)
Costs of acquisition of subsidiaries	4	**(1,144)**	(58)
Costs of transition of subsidiary	4	**(734)**	-
Bad debt provision	4	**(316)**	
IPO expenses	4	**-**	(397)
Total administrative expenses		**(8,882)**	(2,507)
Operating profit	4	**212**	791
Finance income		**-**	2
Finance expense		**(277)**	(9)
(Loss)/profit before tax		**(65)**	784
Tax expense		**(47)**	(260)
(Loss)/profit for the year and comprehensive income attributable to equity holders of the Parent Company		**(112)**	524

All amounts relate to continuing operations

	2017	2016
Earnings per share		
Basic	**(0.16)**	1.28
Adjusted basic	**2.50**	2.40
Diluted	**(0.16)**	1.28
Adjusted diluted	**2.47**	2.38

Consolidated Statement of Financial Position
At 31 December 2017

	2017	2016
Assets	**£'000**	**£'000**
Non-current assets		
Intangible assets	**27,025**	2,142
Property, plant and equipment	**162**	121
Trade and other receivables	**-**	112
Total non-current assets	**27,187**	2,375
Current assets		
Inventories	**252**	193
Trade and other receivables	**9,670**	307
Cash and cash equivalents	**3,245**	2,999
Total current assets	**13,167**	3,499
Total assets	**40,354**	5,874
Liabilities		
Current liabilities		
Trade and other payables	**7,132**	1,078
Loans and borrowings	**4,164**	167
Obligations under finance leases	**21**	29
Current tax liability	**-**	211
Total current liabilities	**11,317**	1,485
Non-current liabilities		
Loans and borrowings	**5,255**	250
Obligations under finance leases	**65**	73
Deferred tax liability	**526**	163
Total non-current liabilities	**5,846**	486
Total liabilities	**17,163**	1,971
Total net assets	**23,191**	3,903
Issued capital and reserves attributable to owners of the Parent		
Share capital	**388**	239
Share premium	**22,621**	3,214
Share-based payment reserve	**88**	30
Merger reserve	**396**	396
Retained earnings	**(301)**	24
Total equity attributable to equity holders	**23,191**	3,903

Consolidated Statement of Cash Flow
For the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
(Loss)/profit for the year	(112)	524
Adjustments for:		
Depreciation of property, plant and equipment	96	66
Amortisation of intangible fixed assets	156	10
Share-based payment expense	58	30
Finance income	-	(2)
Finance expense	277	9
Income tax expense	47	260
	522	897
Increase in trade and other receivables	**(1,229)**	(31)
Increase in inventories	**(17)**	(15)
Increase in trade and other payables	**1,629**	261
Cash generated from operations	**905**	1,112
Income taxes paid	**(204)**	(203)
Net cash generated from operating activities	**701**	909
Cash flows from investing activities		
Purchases of property, plant and equipment	**(98)**	(10)
Purchase of software	**(21)**	-
Gain on disposal of assets	**13**	-
Interest received	**-**	2
Acquisition of subsidiary including costs, net of cash acquired	**(28,403)**	(333)
Net cash used in investing activities	**(28,509)**	(341)
Cash flows from financing activities		
Bank and other loans – repaid	(6,417)	(1,847)
Bank loans – received	15,330	500
Interest paid – bank and other loans	(186)	(6)
Interest paid – finance leases	(10)	(3)
Proceed from issue of shares	20,000	3,562
Share issue expenses and other expenses of IPO	(444)	(233)
Dividends paid	(213)	-
Capital element of finance lease repaid	(6)	(38)
Net cash generated from financing activities	**28,054**	1,935
Net increase in cash and cash equivalents	246	2,503
Cash and cash equivalents at beginning of year	**2,999**	496
Cash and cash equivalents at end of year	**3,245**	2,999

Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

GROUP	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger Reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	120	-	-	-	(500)	**(380)**
Profit for the period	-	-	-	-	524	**524**
Acquisition of subsidiary	4	-	-	396	-	**400**
Issue of shares	114	3,214	-	-	-	**3,328**
Share-based payment	1	-	30	-	-	**31**
At 1 January 2017	239	3,214	30	396	24	**3,903**
Loss for the year	-	-	-	-	(112)	**(112)**
Dividend Paid	-	-	-	-	(213)	**(213)**
Placing in relation to acquisition	149	19,407	-	-	-	**19,556**
Share-based payment	-	-	58	-	-	**58**
At 31 December 2017	**388**	**22,621**	**88**	**396**	**(301)**	**23,191**

1. *Basis of preparation of financial statements*

While the financial information included in this annual financial results announcement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as endorsed for use in the European Union (IFRSs), this announcement does not contain sufficient information to comply with IFRSs.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2016, but is derived from those accounts. Statutory accounts for Franchise Brands plc for the year ended 31 December 2016 have been delivered to the Registrar of Companies and those for the year ended 31 December 2017 will be delivered following the Company's annual general meeting.

The auditors have reported on those accounts; their reports were unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports.

Their reports for the year end 31 December 2017 and 31 December 2016 did not contain statements under s498 (2) or (3) of the Companies Act 2006.

The comparative period was accounted for under merger accounting principles, following the introduction of a new holding company on 15 July 2016, and is presented as if Franchise Brands plc has always been the holding company for the Group. Merger accounting principles were followed since the Directors concluded that the introduction of a new holding company was a group reconstruction, and was outside the scope of IFRS3 Business Combinations. Under merger accounting, the carrying values of the assets and liabilities of the parties to the combination are not adjusted to fair value on consolidation. The difference between the cost of investment and the nominal value of the share capital acquired was taken to a merger reserve.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

2. *Segmental reporting*

Management has determined that the Group has one reportable segment. IFRS 8 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. IFRS 8 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 Franchise Brands 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.

3. Revenue

	2017	2016
	£'000	£'000
Sale of services	**23,346**	3,861
Sale of goods	**946**	1,009
	24,292	4,870

4. Operating profit

	2017	2016
	£'000	£'000
Operating profit is stated after charging:		
Depreciation	96	66
Amortisation	156	10
Share-based payment expense	58	30
Operating lease rentals	236	124
Auditors' remuneration:		
Fees for audit of the Company	15	15
Fees for the audit of the Company's subsidiaries	37	33
Fees for non-audit services:		
Taxation services	15	15
Corporate finance services	155	75
Other assurance services	17	22

No non-audit services were provided on a contingent fee basis.

In 2016, fees payable to the Auditor for corporate finance services were in respect of work required for the Group to complete its IPO. As a result of the readmission to AIM in 2017 further corporate finance fees were incurred. BDO were selected to undertake this work after consideration of the impact this may have on their independence, which it was concluded would not be impinged by undertaking the work. Fees of this type are ad hoc in nature and occur in respect of major events. Any such further occurrence will require Audit Committee approval.

During the year, the Company incurred significant costs which management believe due to both their one-off nature and magnitude should be brought to the attention of users of the accounts as non-recurring items. In the current year these costs included the costs of acquiring Metro Rod, the transitional costs related to the set-up of a standalone IT environment for Metro Rod and the post-acquisition restructuring of the business, and a provision which was established following the liquidation of Carillion plc in January 2018 to provide for the monies which were owed to Metro Rod at 31 December 2017. In the prior year the Company incurred significant costs associated with both its admission to AIM and its acquisition of Barking Mad.

	2017	2016
	£'000	£'000
Cost of acquisition of subsidiaries	1,144	58
Cost of transitioning acquisitions	734	-
Provision for bad debt of Carillion plc	316	-
IPO expenses	-	397
	2,194	**845**

5. 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.

Earnings per share	**2017**	**2016**
	£'000	**£'000**
(Loss)/Profit attributable to owners of the Parent	(112)	524
Non-recurring items gross (note 4)	2,194	455
Tax on non-recurring	(345)	-
Adjusted profit attributable to owners of the Parent	1,737	979
	Number	**Number**
Basic weighted average number of shares	69,553,746	40,837,885
Dilutive effective of share options	741,726	147,654
Diluted weighted average number of shares	70,295,472	40,985,539
	Pence	**Pence**
Basic earnings per share	(0.16)	1.28
Diluted earnings per share	(0.16)	1.28
Adjusted earnings per share	2.50	2.40
Adjusted diluted earnings per share	2.47	2.38

6. Annual report and accounts

The annual report and accounts will be posted to shareholders shortly and will be available to members of the public at the Company's registered office at 5 Edwin Avenue, Hoo Farm Industrial Estate, Kidderminster, Worcestershire, DY11 7RA and on the Company's website at www.franchisebrands.co.uk/investor-relations.

7. Annual General Meeting

The Annual General Meeting of Franchise Brands plc will be held on 25 April 2018, notice of which will be sent to shareholders with the annual report and accounts.