FRANCHISE BRANDS

BUSINESS *builders*

ANNUAL REPORT AND ACCOUNTS 2019

BUILDING *Scale*

Franchise Brands is focused on building market-leading service businesses in selected customer segments using primarily a franchised model.

We give our franchisees the support, specialist expertise and tools they need to grow their businesses. If they grow, we grow.

FOR MORE INFORMATION VISIT

WWW.FRANCHISEBRANDS.CO.UK

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

FINANCIAL HIGHLIGHTS

REVENUE
+24%
£44.0m
2018: £35.5m

ADJUSTED EBITDA*
+29%
£5.2m
2018: £4.0m

PROFIT BEFORE TAX
+14%
£3.3m
2018: £2.9m

ADJUSTED EARNINGS PER SHARE*
+29%
4.34p
2018: 3.36p

DIVIDEND PER SHARE
+42%
0.95p
2018: 0.67p

PROFORMA INCOME STATEMENT GEARING**
1.41x
2018: 1.24x

OPERATIONAL HIGHLIGHTS

- Metro Rod's Vision 2023 strategy continues to drive our organic growth.
- Metro Rod's system sales growth accelerated to 14% in 2019.
- 45% of Metro Rod franchisees achieved annual sales above £1m.
- Continued investment by Metro Rod franchisees in capacity.
- Acquisition of Willow Pumps to expand Metro Rod's range of services to the commercial market.
- Creation of B2B division with Metro Rod, Metro Plumb and Willow Pumps.
- Creation of B2C division to facilitate future acquisitions and maximise efficiencies.
- Improved franchise recruitment in the combined B2C networks.

* "Adjusted" items are before amortisation of acquired intangibles, acquisition-related costs, and the share-based payment expense.

** Pro-forma income statement gearing is calculated by dividing Adjusted net debt by pro-forma Adjusted EBITDA (including Willow Pumps for 12 months).

A GROWING *Portfolio*

Franchise Brands' portfolio of market-leading businesses grew in 2019 with the acquisition of Willow Pumps.

The Group currently has a combined network of almost 450 franchisees across five franchise brands in the UK.

The addition of Willow Pumps represented an important step in expanding Metro Rod and Metro Plumb's range of services to the commercial market.

The Group is now organised into two divisions: B2B and B2C. This divisional organisation is designed to provide a greater focus and structure to support the strategic development of our B2B and B2C brands.

B2B

METRO ROD DRAIN CARE AND REPAIR

METRO PLUMB THE NATION'S LOCAL PLUMBER

Founded in 1983, commercial drainage specialist **Metro Rod** is the leading provider of drain clearance, repair and maintenance services. These services are provided by 42 franchisees across the UK. **Metro Plumb** provides plumbing services and has 3 independent franchisees.

Metro Rod serves national business customers across a range of sectors, including facilities management, retail, hospitality and insurance, as well as public sectors such as social housing and education.

SYSTEM SALES
£41.3m

ADJUSTED EBITDA*
£3.2m

FRANCHISEES
45

See pages 14 and 15

*Divisional Adjusted EBITDA excludes Group overheads, and is stated before share-based payment expense.

Founded in 1997, **Willow Pumps** is a leading pump supply, installation and servicing business, with a below-ground and above-ground capability. Franchise Brands acquired Willow Pumps in 2019 to help expand Metro Rod and Metro Plumb's range of services.

Willow Pumps designs, supplies and installs pumping stations. It also has a high-quality service and maintenance client base and a growing above-ground capability.

REVENUE
£3.8m

ADJUSTED EBITDA*
£0.5m

GROSS MARGIN
33%

See pages 12 and 13

B2C

ChipsAway, Ovenclean and **Barking Mad** each provide a high level of service to retail customers of a similar cohort, in the areas of car paintwork repairs, domestic oven cleaning and dog home boarding. All our B2C brands are well established with a long trading history.

Our B2C brands benefit in particular from the Group's shared support services. This allows our B2C management team to focus on growing their networks and supporting their franchisees.

GROSS PROFIT
£5.5m

ADJUSTED EBITDA*
£2.5m

UK FRANCHISEES
404

See pages 16 and 17

BUILDING *Momentum*

2019 has seen us successfully build the business both organically and by acquisition. Organic growth has been driven by an acceleration in the rate of system sales growth at Metro Rod and Metro Plumb and a recovery in the rate of franchise recruitment in the newly formed B2C division.

We are also very pleased to have acquired Willow Pumps, which has allowed us to begin expanding the range of services that we offer to both Metro Rod and Metro Plumb's commercial customers, and thereby take an important step in servicing their complete "Water In. Waste Out." requirements.

Stephen Hemsley
Executive Chairman

METRO ROD
In 2018 we launched our Vision 2023 strategy for Metro Rod, which centres on the development of franchisees as entrepreneurs and the corresponding systems they needed to grow their businesses. The essence is to return the franchisees to the front and centre of their businesses, help them grow local sales, reduce their reliance on over-complicated manual systems and lessen the intervention from the Support Centre.

The initiatives that we put in place to help deliver our Vision 2023 strategy have been embraced by our franchisees and the Support Centre team and have resulted in system sales growth in 2019 of 14% (2018: 8%). This represents a compound annual growth of system sales of 12% during the nearly three years that we have owned the business. The franchisees have become less reliant on the Support Centre and under the guidance of Peter Molloy, the Managing Director of Metro Rod and Metro Plumb, have developed a more entrepreneurial approach to growing their businesses. This has resulted in almost half of the franchisees achieving annual turnover of more than £1 million in 2019, which we believe is the critical threshold that facilitates the investment in people and equipment that will further accelerate their growth.

Investment has been a significant feature of 2019 with our franchisees investing in both people and equipment, including 20 additional sales and marketing executives, 55 additional engineers and 44 additional vehicles. I am also particularly pleased to welcome our first eight apprentices who joined our newly launched ITOL-accredited apprenticeship scheme. Our apprentices will be key to growing our capacity in the coming years.

As anticipated, some franchisees were not willing, or indeed able, to embrace the challenge of Vision 2023 and we have agreed amicable exits whereby these businesses have been sold to new, ambitious franchisees who see the opportunities we are creating. This has resulted in four businesses changing hands during 2019. We have also recruited franchisees for the two vacant territories in Cumbria and Northern Ireland where we previously had to sub-contract work won from national accounts. These new and driven franchisees will be one of the key engines for growth in 2020.

ADJUSTED EBITDA

£5.2m

2018: £4.0m

In 2019, the Group began operating two Metro Rod territories as direct labour organisations ("DLOs"). Following the acquisition of Willow Pumps, it was decided to transfer responsibility for the Kent & Sussex territory to their field service team, both to improve the local management of this business and also to give Willow Pumps a direct insight into the operations of a Metro Rod territory.

While there are still a number of strategic and operational improvements to be made to expand our service offering and achieve our Vision 2023 strategy, one of the most important milestones in 2020 will be the full roll-out of the new works management system ("WMS"). Although this project is three to six months behind our initial schedule, good progress was nevertheless made in 2019 in relation to the practical completion of the software development and the successful roll-out of the system to seven of the smaller Metro Rod and Metro Plumb franchisees. We expect to have completed the roll-out of the new WMS by the end of 2020, with improvements in efficiency and productivity expected to become apparent in the second half of 2020.

METRO PLUMB & KEMAC

Metro Plumb's sales continued to grow in 2019 but it remains reliant on one principal customer. The franchised territories are also predominantly operated by Metro Rod franchisees, or as DLOs under Kemac. There remains a significant opportunity to create a national plumbing business to service the needs of commercial customers, but our current structure is not ideally suited to the development of this.

We have therefore decided to begin franchising Metro Plumb separately from Metro Rod and invite any Metro Rod franchisees who wish to exit the Metro Plumb business the opportunity to sell that franchise to new franchisees. This will enable new ambitious franchisees to have a single focus on developing the Metro Plumb business and expanding the customer base more actively, whilst our Metro Rod franchisees can focus on the significant opportunity to grow their businesses.

WILLOW PUMPS

We acquired Willow Pumps, a leading pump supply, installation and servicing business with an above and below-ground capability, in October 2019. It has subsequently exceeded our expectations in its first three months of ownership. There was a strong strategic rationale for the acquisition, as it furthers Metro Rod's Vision 2023 ambition of expanding its range of services to the commercial market, to provide a full range of drainage, pump and plumbing-related services on a national basis.

Pumps are an engineered solution and the acquisition of this high-quality well-established business represents an optimal way for the Group to enter this specialist market at scale. The deal structure incentivises the Willow Pumps management team, which continues to be led by Ian Lawrence, to work with Metro Rod and Metro Plumb franchisees to develop this aspect of their business whilst continuing to grow Willow Pumps as a complementary DLO within the Group.

To introduce Metro Rod and Metro Plumb franchisees to the substantial opportunities in the pump sector, three "Discovery Days" were held at the Willow Pumps premises in Kent towards the end of 2019. Practical demonstrations of above and below-ground pump installation and maintenance were provided, as well as opportunities to informally meet with Willow Pumps' excellent management team and discuss ways of working together. The opportunity was enthusiastically embraced by our franchisees and already around 20% of their engineers have been trained in the basic skills they will need to safely work on pump maintenance.

METRO ROD SYSTEM SALES

£41.3m

2018: £36.4m

B2C DIVISION

In order to facilitate future acquisitions and to ensure maximum overhead and operational efficiency, the B2C brands – ChipsAway, Ovenclean and Barking Mad – have been formed into an integrated division of the Group, the B2C division. As a result, the overheads of these businesses will no longer be separately attributed to the individual brands, and henceforth our reporting KPIs for this division will be franchisee recruitment, gross profit generated from each brand and EBITDA after divisional overhead. Tim Harris has been appointed Managing Director of this division and Rachel Stewart, Deputy Managing Director.

The strong franchise recruitment performance at ChipsAway combined with a reduced number of leavers resulted in net franchisee growth of 17 across the B2C division (2018: net 10 reduction). This resulted in growth of the combined B2C networks to 404 franchisees (2018: 387). With 205 franchisees, ChipsAway continues to be the largest B2C brand, generating 74% of the B2C gross profit before divisional overhead (2018: 70%).

The creation of strong functional teams within this division, for example in the areas of marketing and franchise recruitment, will facilitate future complementary acquisitions. In considering such acquisitions we will focus on the incremental gross profit that such opportunities offer, and take a view on the existing overhead that we will need to retain. This will be particularly relevant when considering the large number of smaller opportunities that we are presented with in the B2C franchise environment where the founder often wishes to retire.

PEOPLE AND INCENTIVISATION

The strong progress being made by Franchise Brands is a tribute to the hard work of both our franchisees and the employees of the Group. I would like to thank them for their support and continuing passion for our business and emphasise that this is just the start of what I hope will be a long and successful journey for us all.

In a business where we are asking our team to help build our franchisees' businesses and wealth, it is important that we reward colleagues with both attractive remuneration packages and a stake in our business. In 2019 we have continued to grant share options but have now reached the limits available under the attractive EMI Share Option Scheme. These options include those granted to key team members at Willow Pumps, where the performance criteria are the same as those of the earn-out element of the acquisition consideration. Therefore, we will be introducing new share incentive schemes in 2020 that will not only allow us to continue granting options, but also incentivise team members to purchase shares in the Company with their own money. In this way, we will ensure our team really has "skin in the game", just like our franchisees.

OUTLOOK

The Board is pleased to report that trading in 2020 has started well, with job intake at Metro Rod, Metro Plumb and Willow Pumps up on the same period in 2019, and a strong start to the year for franchisee recruitment in the B2C division.

We continue to selectively seek acquisitions that expand the range of services that Metro Rod, Metro Plumb and Willow Pumps can offer to the commercial sector, in pursuit of our ambition to offer a "Water In. Waste Out." service. This may involve further acquisitions of DLOs where these can be used to profitably expand the offering of Willow Pumps, Metro Rod and Metro Plumb.

The B2C division will focus on the acquisition of franchise businesses which are complementary to our existing brands and customer base, and where we can leverage our existing B2C divisional structure.

We also continue to consider the acquisition of entirely new franchise systems, however, we are not anticipating being competitive in the market for larger businesses at a time when private equity is willing to pay very full multiples and gear such purchases to levels that are not acceptable for a publicly-quoted company. We will selectively consider opportunities for smaller or underperforming franchise systems which have the potential to be earnings enhancing and where we consider we have the management resources and expertise to grow such businesses to a meaningful size and scale.

Whilst we have not seen any impact from the Covid-19 virus, we will continue to monitor the situation over the coming weeks. We have put in place plans which seek to mitigate the risk of any impact that the virus may have on our employees, franchisees, customers and suppliers.

Overall, we look forward to 2020 with considerable confidence, given the Group's strong start to the current year and the clear opportunities for growth we see across both our B2B and B2C divisions. In particular, we look forward to increasingly realising the benefits of our Vision 2023 strategy and our investment in new capabilities, capacity and a broader range of services for our commercial customers.

Stephen Hemsley
Executive Chairman

GENERATING *Growth*

Franchise Brands is focused on building market-leading businesses in selected customer segments, using primarily a franchise model.

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

The acquisition of Willow Pumps, a direct labour organisation ("DLO"), represented an important step in expanding Metro Rod and Metro Plumb's range of services to the commercial market.

The creation of a B2B and B2C division provides a greater focus and structure to grow our portfolio, support our franchisees and develop our businesses.

GROWING *our portfolio*

Acquisitions are a central part of our growth strategy. DLOs with specialist expertise or capabilities, are within scope as acquisitions if they help leverage the range of services of our franchise business, for example, Willow Pumps.

BUSINESS *builders*

DEVELOPING *our businesses*

We develop our businesses through our shared support services such as technology, marketing, franchise recruitment and finance, as well as our management expertise and experience and group resources. We aim to take our businesses from “good to great”.

SUPPORTING *our franchisees*

We give our franchisees the support, specialist expertise and tools they need to grow their businesses. We held Discovery Days at Willow Pumps so Metro Rod and Metro Plumb franchisees could discuss the pump opportunities and meet the Willow Pumps team.

BUILDING *Our Portfolio*

The longer-term aim of the B2B division is to be able to serve our valued commercial customers with a “Water In. Waste Out.” range of drainage, pumps and plumbing-related services on a national basis.

MARKET OPPORTUNITY

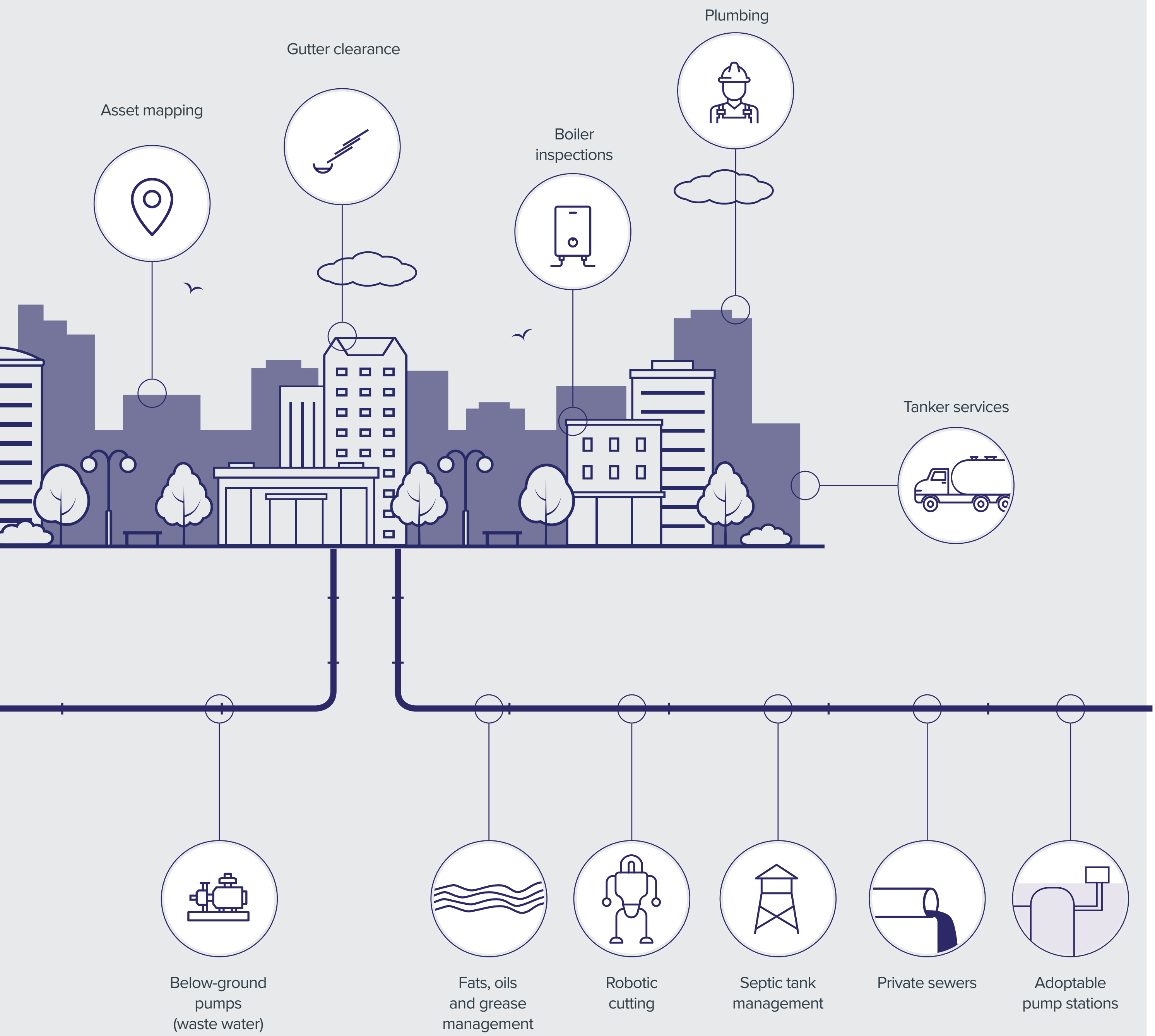
There are approximately 2.2 million commercial addresses in the UK and they all have a “Water In. Waste Out.” requirement. Water enters the premises to be filtrated and pressurised and waste needs to be efficiently removed from the building, often with the assistance of pumps. Commercial customers also have a regular need for drainage and plumbing services, for example to remedy blockages or leaks, or prevent future drainage emergencies via a pre-planned maintenance programme.

METRO ROD AND WILLOW PUMPS

Following the addition of Willow Pumps to the group, Metro Rod can offer its national account customers a combined drainage and pump service. Willow Pumps benefits from the significantly expanded Group service delivery, including Metro Rod and Metro Plumb, of around 450 dedicated engineers, who operate from 47 depots nationwide.

COMMERCIAL ADDRESSES IN THE UK

2.2m
(2019)


Plumbing
Gutter clearance
Asset mapping
Boiler
inspections
Tanker services
Below-ground
pumps
(waste water)
Fats, oils
and grease
management
Robotic
cutting
Septic tank
management
Private sewers
Adoptable
pump stations

ACQUISITION OF Willow Pumps

WILLOW PUMPS
PUMP INSTALLATION & SERVICING

Our acquisition of Willow Pumps represented an important step in expanding Metro Rod and Metro Plumb's range of services to the commercial market.

Founded in 1992, Willow Pumps has a below-ground (waste water) and above-ground (fresh water) capability. The acquisition of Willow Pumps, a highly-respected business and one of the leaders in the market, represents an optimal way for Metro Rod to enter this specialist market at scale.

The below-ground scope of work involves the design, supply and installation of pump stations. These can range from adoptable pump stations on new housing developments to private systems. The design is carried out in-house and Willow Pumps is therefore able to provide its customers with a complete end-to-end service. Willow Pumps also carries out routine servicing and maintenance work with customers in the hospitality, retail and housebuilding sectors.

The growing above-ground capability includes cold water booster sets, storage tanks, and pressurisation units within its offering.

Willow Pumps will benefit from a significantly expanded delivery capability through Metro Rod and Metro Plumb. In total, the Group has around 450 dedicated engineers who work out of 47 depots across the UK, including two Willow Pumps depots. Metro Rod will also benefit from the opportunity to supply its wide range of drainage services to Willow Pumps' customers.

NUMBER OF ENGINEERS
47

NUMBER OF TANKERS
11

GROWTH OF *Metro Rod*

METRO ROD
DRAIN CARE AND REPAIR

METRO PLUMB
THE NATION'S LOCAL PLUMBER

Commercial drainage specialist Metro Rod provides a range of drain clearance, repair and maintenance solutions on a 24/7/365 basis across the UK via 42 depots.

Metro Rod has over 400 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 are trusted by brand names such as AXA, Mitie, Bupa Healthcare and the National Trust and work to exacting service level agreements.

Metro Rod serves national business customers across sectors including facilities management, retail, hospitality and insurance, as well as a public sectors such as social housing and education.

Metro Plumb provides a focused range of largely emergency plumbing services, and has three independent franchisees.

The acquisition of Willow Pumps has allowed us to begin expanding the range of services that we offer to both Metro Rod and Metro Plumb's commercial customers.

SYSTEM SALES
+14%

£41.3m

PERFORMANCE IN 2019
System sales are the total aggregate sales of the Metro Rod network to third party customers. System sales growth accelerated in 2019 as a result of our Vision 2023 strategy and the investment being made in the business.

ADJUSTED EBITDA
+19%

£3.2m

PERFORMANCE IN 2019
Adjusted EBITDA was driven by the 15% growth in our Management Service Fee ("MSF") income, as our franchisees continue to invest in further capacity and capabilities, whilst overheads remain relatively fixed.

METRO ROD AND METRO PLUMB FRANCHISEES

45

PERFORMANCE IN 2019
Four Metro Rod franchise businesses were sold to new, ambitious franchisees who see the opportunities we are creating. We also recruited franchisees for the vacant territories of Cumbria and Northern Ireland and Metro Plumb franchisees for Oxford and Maidstone.

B2C DIVISION
Consumer Services

ChipsAway
Scratches and scuffs won't dent your pocket

Established in 1994, 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 has 205 franchisees in the UK. It also has a presence in ten countries outside the UK through master franchise arrangements.

ChipsAway franchisees primarily serve private consumers, and operate from branded vehicles which are mobile workshops, or Car Care Centres. Our SMART repair process uses mostly water-based formulations.

FRANCHISEES RECRUITED IN 2019	NUMBER OF FRANCHISEES
35	205

PERFORMANCE IN 2019
ChipsAway performed well in 2019. 35 new franchisees were recruited and fewer franchisees left the network. This allowed us to grow the network from 201 to 205. The Car Care Centre we established incorporating the latest advanced driver-assist systems also had a good profitable first year of operation. ChipsAway continues to be our largest B2C brand generating gross profit of £4.08m.

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 112 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, no added caustic, system which helps ensure customers benefit from a safe and hygienic environment.

FRANCHISEES RECRUITED IN 2019	NUMBER OF FRANCHISEES
14	112

PERFORMANCE IN 2019
Franchise recruitment at Ovenclean in 2019 was below our expectations, with only 14 new joiners. However, notwithstanding the slower level of recruitment, the franchisees remained busy, performing over 80,000 jobs during the year, and the system grew from 106 to 112 franchisees. In 2019 Ovenclean generated a gross profit of £0.69m.

Established in 2000, Barking Mad is a leading provider of dog home boarding services (dog holidays) and has 87 franchisees. 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.

FRANCHISEES RECRUITED IN 2019

16

NUMBER OF FRANCHISEES

87

PERFORMANCE IN 2019

Barking Mad's performance in 2019 benefited from the mid-year appointment of Rachel Stewart as Managing Director and the reorganisation of the business. 16 new franchisees were recruited, and with a reduced number of leavers we were able to grow the number of franchisees in the network from 80 to 87. In 2019 Barking Mad generated a gross profit of £0.73m.

Financial Review

In 2019 we have continued to benefit from Metro Rod's accelerating rate of growth, and the acquisition of Willow Pumps, which have contributed to an increase in Adjusted EPS of 28% to 4.34p.

Chris Dent
Chief Financial Officer

SUMMARY STATEMENT OF INCOME

	2019 £'000	2018 Restated £'000	Change £'000	%
Statutory revenue	**44,013**	**35,470**	**8,543**	**24%**
Franchisee payments	(19,612)	(17,330)	(2,282)	13%
Fee income	**24,401**	**18,140**	**6,261**	**35%**
Other cost of sales	(8,019)	(5,011)	(3,008)	60%
Gross profit	**16,382**	**13,129**	**3,253**	**25%**
Other administrative expenses	(11,200)	(9,126)	(2,074)	23%
Adjusted EBITDA	**5,182**	**4,003**	**1,179**	**29%**
Depreciation & amortisation of software	(755)	(447)	(308)	69%
Finance expense	(357)	(340)	(17)	5%
Adjusted profit before tax	**4,070**	**3,216**	**854**	**27%**
Tax expense	(687)	(604)	(83)	14%
Adjusted profit after tax	**3,383**	**2,612**	**771**	**30%**
Amortisation of acquired intangibles	(260)	(216)	(44)	20%
Share based payment	(238)	(139)	(99)	71%
Acquisition-related costs	(296)	–	(296)	100%
Tax on adjusting items	121	68	53	78%
Statutory profit	**2,710**	**2,325**	**385**	**17%**

The results for the year ended 31 December 2019 include our newly-acquired business, Willow Pumps, for the three months since acquisition on 7 October 2019. The 2018 numbers have been re-stated following accounting changes to leases as a result of our adoption of IFRS16, details of which can be found in the notes to the Financial Statements.

STATUTORY REVENUE

Statutory consolidated revenue increased 24% to £44.0m (2018: £35.5m) with the additional revenue coming from Metro Rod and our DLOs, including £3.8m from Willow Pumps. Statutory revenue is made up of several different income streams that have different accounting policies and is not, therefore, a KPI that management tracks on a consolidated basis.

FEE AND DIRECT LABOUR INCOME

Fee and direct labour income are one of the KPIs used by management to track the business, and, as shown in the table below, this increased by 35% to £24.4m in 2019 (2018: £18.1m).

	2019		2018		Change	
	£'000	%	£'000	%	£'000	%
MSF Income	11,207	46%	10,107	56%	1,100	11%
Area Sales	2,006	8%	1,513	8%	493	33%
Product Sales	912	4%	894	5%	18	2%
Direct Labour	9,097	37%	4,564	25%	4,533	99%
NAF	1,179	5%	1,062	6%	117	11%
Fee Income	**24,401**	**100%**	**18,140**	**100%**	**6,261**	**35%**

Management Service Fee ("MSF") income received from our franchisees is based on fixed monthly fees or a percentage of the franchisees' sales. Our strategy is to increase sales-related MSF income to improve the quality of our earnings and align ourselves with the interests of our franchisee communities so that both parties benefit from the growth in system sales. We continue to incentivise Metro Rod franchisees to grow their own businesses through a series of MSF discounts and schemes designed to encourage sales growth and investment in a wider range of equipment and people.

The 11% increase in MSF income has been driven primarily by a 14% increase in system sales (the gross sales made by our franchisees) at Metro Rod and Metro Plumb, to £41.3m in the year (2018: £36.4m). This drove a 15% increase in MSF from these brands. The size and scale of our Metro Rod franchisees' businesses continues to evolve as they invest in new capacity and capabilities, such as increasing the number of tankers in the network from 30 to 49.

Fees generated from the sale (or re-sale) of franchise territories have seen a strong upturn in 2019 compared with 2018, growing by 33%. This increase was not only due to improved franchisee recruitment at our B2C division with 65 new franchisees recruited (2018: 57), but also as a result of the successful launch of the franchise re-sale activity at Metro Rod and Metro Plumb. This increased re-sale activity allows exiting franchisees to realise value from their business, and Franchise Brands to recruit new, motivated franchisees to grow the territories more actively.

DLO sales increased by 99% in the current year to £9.1m (2018: £4.6m). DLO sales arise from three principal areas: Willow Pumps, the Metro Rod corporate businesses (Kemac, Metro Rod Exeter and Metro Rod Kent & Sussex) and the ChipsAway Car Care Centre. Much of this growth (£3.8m) has been derived from the addition of Willow Pumps to the Group for the last three months of the year.

Franchisees pay a monthly contribution into their respective National Advertising Funds. These funds are used exclusively to promote the system sales of those brands. The Group does not make any profit from these activities. Any surplus or shortfall within an accounting period is carried forward on our balance sheet.

TRADING RESULTS – ADJUSTED EBITDA

With the creation of our B2B and B2C divisions, the Board reviews the numbers on the following basis:

	2019 £'000	2018 £'000	Change £'000	Change %
B2B – Franchisor	3,184	2,683	501	19%
B2B – DLO	492	–	492	100%
B2C	2,533	2,368	165	7%
Group overheads	(1,027)	(1,048)	21	2%
Adjusted EBITDA	**5,182**	**4,003**	**1,179**	**29%**

Our B2B division consists of operations where we are primarily operating as a franchisor (Metro Rod and Metro Plumb), and operations where we are operating as a DLO (Willow Pumps). As the margins of these two types of operations are fundamentally different, we show them separately, although strategically they form one division.

Adjusted Earnings before interest, tax, depreciation, amortisation and share-based payments ("Adjusted EBITDA") at B2B-Franchisor increased by 19% to £3.2m in the year (2018: £2.7m) principally driven by the increase in the Metro Rod MSF income.

Adjusted EBITDA at B2B-DLO was £0.5m (2018: £nil) and arose exclusively from Willow Pumps in the three months of our ownership, post acquisition. The business enjoyed particularly strong trading at the end of the year, a performance that exceeded expectations at the time of the acquisition.

Adjusted EBITDA at our B2C division (ChipsAway, Ovenclean and Barking Mad) increased 7% in the year to £2.5m (2018: £2.4m) due to improved franchisee recruitment. The B2C division continues to be strongly cash generative, supporting the Group's debt-servicing capacity.

Group overheads remained prudently controlled at £1.0m and, as a result, Adjusted EBITDA for the Group increased by 29% to £5.2m (2018: £4.0m).

EARNINGS

Depreciation and amortisation costs increased 53% to £1.0m (2018: £0.7m) as a result of our investment at our DLOs, the addition of the assets at Willow Pumps, and continuing software development at Metro Rod. The share-based payment charge increased 71% to £0.2m (2018: £0.1m) as a result of the new share options granted at the end of 2018 and during 2019, including share options granted at the time of the acquisition of Willow Pumps.

The finance charge of £0.4m increased 5% in the year (2018: £0.3m) as a result of the higher net debt position following the largely debt funded acquisition of Willow Pumps. The finance charge does not solely represent bank interest, but also includes interest on leases. Interest cover remains strong, with the interest charge being 14.5 times covered by Adjusted EBITDA (2018: 12.0 times).

Financial Review continued

Statutory profit before tax increased 14% to £3.3m (2018: £2.9m). The tax charge for the year at 17% (2018: 19%) was lower than the statutory rate of 19% due to the tax relief on the exercise of share options during the year. As a result, the statutory profit after tax increased by 17% to £2.7m in the year (2018: £2.3m).

Basic earnings per share increased by 16% to 3.48p (2018: 2.99p) and diluted earnings per share increased by 16% to 3.42p (2018: 2.95p). During 2019, we repurchased 338,700 Ordinary Shares for a total consideration of £268,000, taking the total number of shares in treasury to 538,700. 513,700 of these treasury shares were then used to satisfy the exercise of share options, resulting in a balance of 25,000 Ordinary Shares in treasury at 31 December 2019 (2018: 200,000). We issued a further 569,633 Ordinary Shares to satisfy share option exercises and 1,212,121 as part of the consideration for the acquisition of Willow Pumps. This resulted in the total number of Ordinary Shares in issue increasing to 79,513,787 at 31 December 2019 (2018: 77,732,033) and a basic weighted average number of Ordinary Shares in issue and not in treasury of 77,948,178 (2018: 77,687,101).

Adjusted earnings per share (EPS), adjusted for the acquisition-related items and the share-based payment charge, increased by 29% to 4.34p in the year (2018: 3.36p), as set out in the table below:

	2019 £'000	EPS p	2018 £'000	EPS p
Statutory profit after tax	**2,710**	**3.48**	**2,325**	**2.99**
Amortisation of acquired intangibles	260	0.33	216	0.28
Share-based payment charge	238	0.31	139	0.18
Acquisition-related costs	296	0.38	–	–
Tax effect of adjusting items	(121)	(0.69)	(68)	(0.09)
Adjusted profit after tax	**3,383**	**4.34**	**2,612**	**3.36**

FINANCING AND CASH FLOW

The Group generated cash from operating activities of £4.7m (2018: £3.2m) resulting in a cash conversion rate from Adjusted EBITDA of 90% (2018: 79%).

Expenditure on new equipment for the DLOs (£1.0m), the fit-out of our Car Care Centre at Kidderminster (£0.1m), and the capitalised element of our IT investment (£0.7m) totalled £1.8m (2018: £0.6m). This included the purchase of a new tanker for Willow Pumps (£0.3m), which took the number of tankers in the corporate fleet to 12 (2018: 1).

During the year we repaid £2.5m of our loan balances but renegotiated our facilities with our bank at the time of the acquisition of Willow Pumps. At the year-end our term loans totalled £6.3m (2018: £5.4m), we had utilised £3.0m of our £5.0m revolving credit facility ("RCF") (2018: £2.5m) and had cash in hand of £1.7m (2018: £2.9m). We also put in place a £2m overdraft facility for Metro Rod. This resulted in available cash and facilities of £5.7m (2018: £5.4m).

	2019 £'000	2019 £'000	Change £'000
Cash	1,682	2,940	(1,258)
Term loan	(6,401)	(5,435)	(966)
RCF	(3,002)	(2,514)	(488)
Loan fee	129	110	19
Hire purchase debt	(1,588)	(72)	(1,516)
Adjusted net debt	**(9,180)**	**(4,971)**	**(4,209)**
Other lease debt	(1,899)	(936)	(963)
Net debt	**(11,079)**	**(5,907)**	**(5,172)**

The acquisition of Willow Pumps has introduced a significant level of hire purchase debt onto the Group balance sheet, as Willow Pumps has financed the recent expansion of their tanker fleet using hire purchase facilities. In addition, the Group, as part of the new accounting standard on leasing, has recognised obligations in relation to operating leases. As our banking arrangements determine our interest rate margin and covenant compliance using net debt before operating lease obligations, we use adjusted net debt as our KPI, as shown in the table above.

Shareholders' funds at 31 December 2019 were £27.8m (31 December 2018: £24.4m) against adjusted net debt of £9.2m (31 December 2018: £5.0m), resulting in capital gearing of 33% (31 December 2018: 20%). On an income statement basis, our ratio of adjusted net debt to Adjusted EBITDA on a statutory basis was 1.77 times (2018: 1.24) and on a pro-forma basis (including Willow Pumps for a full 12 months) was 1.41 times. We consider such ratios to be prudent, giving us the capacity to consider further debt funded acquisitions, although as a policy we would not gear beyond an adjusted net debt to pro-forma Adjusted EBITDA ratio of more than 3 times.

DIVIDEND

The Board is pleased to propose a final dividend of 0.65 pence per share (2018: 0.46 pence per share), taking the total dividend for the year to 0.95 pence per share (2018: 0.67 pence per share), an increase of 42%. The cost of the proposed final dividend is £517,000. The total dividend for the year is 3.7 times covered by statutory profit after tax and 4.6 times covered by adjusted profit after tax. It is the Board's intention to continue with our progressive dividend policy, reducing the cover as we reduce our net debt.

Subject to shareholder approval at the AGM on 28 April 2020, the final dividend will be paid on 25 May 2020 to shareholders on the register at the close of business on 11 May 2020.

STRATEGIC REPORT

The Strategic Report (which includes all the content from pages 1 to 33 inclusive) was approved by the Board on 4 March 2020 and was signed on its behalf by:

Chris Dent
Chief Financial Officer

Environmental, Social and Governance

Franchise Brands is committed to sustainable growth and seeks to incorporate environmental, social and governance ("ESG") considerations into the principles and policies that guide our business. Below we set out our commitment to ESG and some practical examples of this commitment.

Environment	Social	Corporate Governance
We are committed to reducing our environmental impact, continually improving our environmental performance and supporting our customers in reaching their environmental goals.	**Our people are our most important asset and we want to provide a great overall working environment which is underpinned by strong cultural values.**	**We believe that good corporate governance is vital in supporting our Company's growth strategy and in turn its long-term success.**
• Metro Rod, Willow Pumps, ChipsAway and Ovenclean have an Environmental Management System that is externally audited and accredited to BS EN ISO 14001.	• We appreciate the benefits of diversity and inclusion. • 45% of our senior management team is female and 1 out of 4 of our Managing Directors is female.	• Compliance with the 10 key principles in the QCA Corporate Governance Code for small and mid-sized companies.
• We aim to employ environmentally-friendly processes where possible. • ChipsAway's SMART repair process uses mostly water-based formulations and Ovenclean employs a no added caustic system.	• We are committed to investing in our people through training and development. • The "Developing Inspiring Leaders" programme was launched in 2019, and we are pioneering this with 12 women from across the business.	• Independent Board members. • Independence of Audit and Remuneration committees.
• 72% of Chips Away franchisees are trained to IMI NVQ3 Level repair EV and Hybrid vehicles.	• We proactively support employee wellbeing and mental health. • Starting in 2018, we have trained 45 staff and some franchisees in mental health awareness.	• Annual review of Board effectiveness.
• Our investment in audio/video technology allows us to communicate more efficiently with less travel. • Our IT investment in the 'Cloud' means we can support environmentally positive technology such as Microsoft Azure.	• We believe in training for the future. • The Metro Rod Apprenticeship Scheme, accredited by ITOL, was launched in 2019. An industry first, apprentices complete a two-year Level 3 Advanced Apprenticeship while they are working in the business.	• 1 out of 9 Board members is female.
• Our Support Centres aim to maximise energy efficiency and environmental impact. • Willow Pump's new premises has sensors fitted to increase the efficiency of heating, cooling and lighting. Metro Rod's Support Centre sources electricity from a renewable energy provider.	• Annual training for all employees in Anti-Bribery and Corruption and GDPR.	• Julia Choudhury appointed as Board Director with overall responsibility for ESG.

LIVING *Our Values*

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 empower our people

We are challenging of ourselves

We are fair

We work as a team

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

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

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

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

STAKEHOLDER *Engagement*

OUR COMMITMENT TO SECTION 172

As a progressive, principle-led Group, we place huge importance on working constructively and in partnership with all our stakeholders to create value which benefits everyone. We place particular importance on directly engaging and communicating with our employees, franchisees, customers, suppliers and shareholders.

For examples of how the Board has discharged its decision making responsibilities during the year, please see page 37.

1 *Employees*

2 *Franchisees*

3 *Customers and local communities*

4 *Suppliers*

5 *Shareholders*

- Franchise Brands employs some 250 employees in four principal locations.
- The Board and senior management team actively engages with our teams to understand areas of importance to them, the potential for development opportunities and to communicate on Group strategy and performance.
- We engage through a combination of visits, management forums, events, presentations, conferences, communications bulletins and videos.

See pages 26 and 27

- We encourage a regular and open dialogue with our franchisees so we can provide them the support they need to grow their businesses.
- Franchisee engagement takes place in a variety of formats, from one-on-one meetings to seminars and events, conferences, training courses, forums, surveys and online communications platforms.
- Our engagement with franchisees takes place at every level of Management and our Support Centre teams.

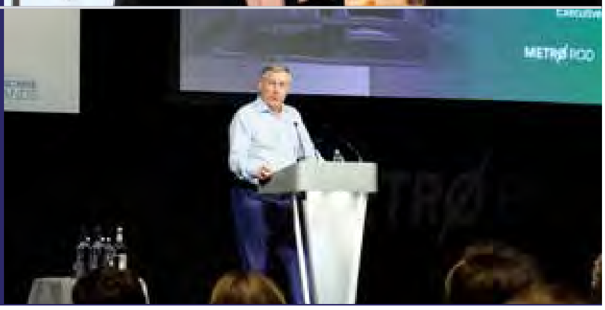
See pages 30 and 31

- We encourage the widest range of potential customer engagement so we can make sure we provide the highest possible service.
- Management and our account executives conduct one-on-one meetings with our large customers to review our performance against KPIs and receive feedback on our service delivery.
- We encourage reviews, performance ratings and direct feedback from individual customers and commission external surveys to assess quality and levels of satisfaction.

See pages 28 and 29

- Our objective is to source the highest possible quality of products, equipment and services for our franchisees and customers.
- Robust reviews take place to ensure a supply-chain free from slavery and human trafficking.
- Meetings are held with our Management and technical teams to review supplier offerings and experience demonstrations of equipment.
- Our franchisees and suppliers engage at the expos we organise at our annual conferences and directly through visits.

- Franchise Brands has a number of institutional and retail shareholders who we regularly engage with.
- The Board meets regularly with institutional investors, and exhibits and presents at events attended by retail investors. We also provide content to retail financial news websites.



DEVELOPING *Inspiring Leaders*

We have designed the Developing Inspiring Leaders programme to help our high-potential leaders to successfully embrace the opportunities and challenges arising from greater leadership roles within Franchise Brands.

This innovative, inspiring and personalised programme provides our future leaders with the opportunity to: broaden their understanding of the Group, and themselves; deepen and expand their competencies and capabilities; improve their knowledge of key business functions; be enthused by new thinking and ideas and build and strengthen their ability to lead.

The learning environment we have designed is engaging, collaborative and experiential. Training and development is provided via curated content that is digitally delivered as well as workshops and training sessions, external events and mentoring and coaching from the Franchise Brand's leadership team.

We are pioneering our Developing Inspiring Leaders programme with 12 women from across the business.


FRANCHISE

TRAINING *Apprentices*

In 2019 we launched the Metro Rod Apprenticeship Programme to help provide our franchisees with a qualified and highly-skilled engineer resource by developing young talent.

An industry first, the Metro Rod Apprenticeship Programme has been designed in conjunction with The Institute of Training & Occupational Learning ("ITOL"). Metro Rod apprentices complete a two-year, work-based, Level 3 Advanced Apprenticeship, with training and development taking place while they are working in the business, meaning they can earn while they learn.

Tailored mentoring and development is provided by experienced drainage technicians and business owners, who help our apprentices develop the necessary skills, confidence and experience. The formal training is built on a suite of specialist training courses that have been ITOL-accredited and certified.

In time, apprentices will have the opportunity to develop into a senior drainage engineer, a manager or even a business owner.


METRO ROD

FRANCHISEE *Engagement*

Our franchisees are the backbone of our business and it is their dedication, ambition and entrepreneurial spirit that allows us to grow.

We engage with our franchisees on multiple levels. We welcome franchisees and key members of their teams to our annual brand conferences and award dinners. Franchisees attend specialist events, such as the Discovery Days at Willow Pumps, so that they can learn about new opportunities and meet people from across the business. The Chairman's Dinner, for our largest Metro Rod franchisees with annual sales of over £1m, allows us to celebrate and recognise the success of our franchisees.

We support our franchisees through individual visits and meetings, seminars and training courses. We also engage with them through specialist franchisee forums and our digital and online platforms. Regular surveys, including those we commission from external parties, help us obtain useful feedback on key issues and the support services we provide.

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 (Decreasing)	• 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 (No movement)	• Metro Rod and Willow Pumps have a number of large customer relationships, 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, could have a detrimental impact on system sales and hence profits.	• No one customer accounts for a significant proportion of sales. • Both brands have long-standing relationships with many of these customers, and also their end-customers, and are able to be very responsive to changing requirements and customer feedback.

FINANCIAL RISKS	IMPACT	MITIGATION
ABILITY TO CONVERT PROFITS TO CASH (Increasing)	• Metro Rod has a large number of customers within the facilities management sector. This sector has had two well-publicised failures in recent years (Carillion & Interserve). There is a risk that we will be unable to collect amounts due. • Both Metro Rod and Willow Pumps have positive working capital requirements which grows as our sales increase, which could limit our ability to grow. • The B2C division relies on the receipt/collection of ongoing monthly payments from franchisees.	• The Group continually monitors the financial position of its key customers. In the current year we have hired an Operations Controller (Finance) to improve our working capital management. • Factors likely to affect a franchisee's ability to make payments are monitored by Finance on a monthly basis. Any material concerns are raised with the department manager who will investigate and direct help to individual franchisees. Although the risk of an individual franchisee failing is high, with 404 UK franchisees our overall risk is reduced.

OPERATIONAL RISKS

LEGAL RISKS	IMPACT	MITIGATION
CHANGES IN LEGISLATION (No movement)	• 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.	• 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.

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 and Willow Pumps operate 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 and Willow Pumps have good long-term health and safety records; however, a serious incident could have adverse consequences to their businesses. • 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 and Willow Pumps have developed health and safety systems and processes the objective of which is the creation of a safe environment. • A point of work risk assessment is inbuilt into our works management systems and must be completed prior to work commencing. • Franchisees and employees are provided with health and safety training and are audited for compliance through a number of inspections. Metro Rod and Willow Pump'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.

Board of Directors

Stephen Hemsley

Executive Chairman

Stephen co-founded Franchise Brands in 2008 and has led the development of the business since then, including the IPO and the acquisitions of Metro Rod and Willow Pumps. Stephen is a Chartered Accountant by training and spent nearly ten years with venture capital company 3i as Investment Director. He was until recently Non-executive Chairman of Domino's Pizza Group plc. During his 21-year involvement with Domino's, he took the company from a market capitalisation of £25m to almost £1.5 billion. Stephen 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 began his career at Deloitte LLP where he spent ten years within audit, corporate finance and transactional accounting services. He subsequently spent four years as Finance Director of AIM-quoted 7digital Group plc. Chris is a Fellow of the Institute of Chartered Accountants of England and Wales. He was appointed as Chief Financial Officer of the Company 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. Prior to joining Metro Rod, he 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 in September 2017, and a Director of the Company on 21 March 2018.

Tim Harris

Managing Director, B2C Division

Tim is a seasoned franchise professional with over 25 years' experience of successfully developing automotive, commercial and domestic franchise businesses in both international and UK markets. Tim joined the Group in 2008. He led the brands through a period of increased profitability and international reach and is now Managing Director of the B2C Division. 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 30 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 at AXA Investment Managers including Managing Director of the 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 in April 2017. Colin was previously Director of IT at Domino's Pizza where he was responsible for all IT systems. 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 Chapel Down Group plc and 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 is CEO of Dowgate Capital Limited and has over 40 years of finance and investment experience. 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. He was appointed as a Director of the Company on 15 July 2016.

A R AR

Rob Bellhouse

Independent Non-executive Director

Rob is an experienced Company Secretary with strong commercial experience gained over 30 years in listed companies, with a strong focus on governance, compliance and risk management activities. Rob has been Company Secretary of a number of listed companies including Domino's Pizza (on an interim basis), Lonmin and Greene King and was voted 2014 ICSA Company Secretary of the Year. He was appointed as a Director of the Company on 15 July 2016.

A R AR

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.

COMMITTEE MEMBERSHIP

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

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 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 2019. 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, Franchise Brands is a member of the QCA in order to support the work it does in promoting good corporate governance.

OUR COMMITMENT TO SECTION 172

As a Board we continue to uphold the highest standards of conduct and make decisions for the long-term success of the business.

The disclosures set out on the following page demonstrate how the Board has arrived at three principal decisions for the year. We define principal decisions as both those that are material to the Group, but also those that are significant to any of our key stakeholder groups: employees, franchisees, customers and local communities, suppliers and shareholders.

In making the following principal decisions the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the Company.

This statement of commitment to Section 172 forms part of the Strategic Report.

Stephen Hemsley
Executive Chairman

Corporate Governance

	Board decisions		
	The acquisition of Willow Pumps	The creation of the B2B and B2C divisions	Increase of the dividend
1 Employees	• External growth provides greater opportunity and security for employees.	• Creates a greater level of focus and structure for employees.	• As most employees are share option holders or shareholders, this is beneficial to them.
2 Franchisees	• Optimal way to expand the range of services to both Metro Rod and Metro Plumb's commercial customers.	• Franchisees from across the Group's brands benefit from a more focused range of support services.	• No direct impact on franchisees but a good indication of the Board's confidence in the business and health of the company.
3 Customers and local communities	• Benefit from an increased range of "Water In. Waste Out." services.	• Ability to provide a more focused customer offering.	• No direct impact on customers but a good indication of the Board's confidence in the business and health of the company.
4 Suppliers	• Opportunity to benefit from deepening relationships with key suppliers.	• Provides more opportunity for suppliers across the Group's brands.	• No direct impact on suppliers but good indication of the Board's confidence in the business and health of the company.
5 Shareholders	• The Board considered the acquisition would be significantly earnings enhancing.	• Facilitates future acquisitions and maximises efficiencies.	• Board's intention to continue with our progressive dividend policy, reducing the cover as we reduce our net debt.

QCA PRINCIPLE 1

STRATEGY AND BUSINESS MODEL

Franchise Brands is focused on building market-leading businesses in selected customer segments, using primarily a franchise model. We currently have a combined network of almost 450 UK franchisees across five franchise brands.

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

The acquisition of Willow Pumps, a DLO, represented an important step in expanding Metro Rod and Metro Plumb's range of services to the commercial market.

The creation of a B2B and B2C division provides a greater focus and structure to grow our portfolio, support our franchisees and develop our 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 and communities, 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, 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. We aim to employ environmentally-friendly processes where possible. ChipsAway's SMART repair process uses mostly water-based formulations and Ovenclean employs a no-added caustic system.

Metro Rod and Willow Pumps have 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. Metro Rod and Willow Pumps also ensure that they dispose of waste responsibly and safely.

QCA PRINCIPLE 4

RISK MANAGEMENT

The Risk Management section on pages 32 and 33 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 regularly reviews its risk management framework, 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. 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 34 and 35. 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 that meetings 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 2019. While there is no formal succession plan in place, four Managing Directors run the Group's brands and two of these individuals sit on the parent company Board. 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.

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 invited 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 2018 annual accounts and the interim accounts to 30 June 2019. 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 for 2018 (IFRS9 and IFRS15) and the new accounting standard for 2019 (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. In the current year these services included due diligence work which BDO performed in relation to our acquisition of Willow Pumps.

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 41 and 42. 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 twice during the year, to approve the awards 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 updates on Group performance 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. 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.

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 may 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 retained 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 (audited)

The aggregate remuneration payable to the Directors for the year ended 31 December 2019 was as follows:

Director	Salary or fees (£)	Benefits in kind (£)	Pension contributions (£)	Total (£)	2018 comparison (£)
Stephen Hemsley	107,500	–	–	107,500	100,000
Chris Dent	103,750	7,800	1,280	112,830	109,800
Julia Choudhury	96,250	–	–	96,250	85,000
Tim Harris	124,181	8,400	1,179	133,760	129,428
Peter Molloy[1]	127,500	14,651	5,057	147,208	102,106
Colin Rees[1]	94,065	–	1,178	95,243	64,259
Robin Auld	–	–	–	–	20,000
Nigel Wray	25,625	–	–	25,625	25,000
David Poutney	26,875	–	–	26,875	25,000
Rob Bellhouse	26,875	–	–	26,875	25,000
Total	732,621	30,851	8,694	772,166	685,593

Notes:
1 Peter Molloy and Colin Rees served as Directors of the Company from 21 March 2018.

No Director received any remuneration from a third party in respect of their service as a Director of the Company.

As seen from the table above, four 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:

Director	Date of grant	Exercise price (pence)	Performance condition	2018 Number of shares	Changes in the year Granted	Changes in the year Exercised	Changes in the year Lapsed	2019 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-19	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-19	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 2019 the closing mid-market quote for the Company's shares ranged from a low of 65p to a high of 128.5p. As seen from the table above, two Directors exercised options over the Company's shares during the year. The shares were exercised on 28 August 2019 when the share price was 82.5p, with a resultant gain of £150,000 for each director who exercised.

Directors' Report

SCOPE OF THIS REPORT

The Directors' biographies on pages 34 and 35, the discussion of corporate governance matters on pages 36 to 40 and the Remuneration report on pages 41 and 42 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 focused on building market-leading businesses in selected customer segments, using primarily a franchise model. Our focus is on established brands which can benefit from our shared support services, specialist sector expertise, management experience and group resources. The principal activity of the Company is to act as a holding company and to provide management services to its subsidiary companies.

DIRECTORS

Names, biographical details and appointment dates of the Directors of the Company at the date of this report are shown on pages 34 and 35.

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 2019**	At 31 December 2018
Stephen Hemsley[1]	**20,515,117**	20,640,117
Chris Dent	**15,000**	15,000
Julia Choudhury[2]	**1,507,288**	1,204,258
Tim Harris[3]	**1,362,314**	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]	**3,438,881**	2,260,791
Rob Bellhouse	**82,768**	82,768

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 Vidacos Nominess 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 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.

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 41 and 42.

RESEARCH AND DEVELOPMENT

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

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%
Canaccord Genuity	3,351,033	4.2%

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.

DIVIDENDS

A final dividend of 0.46p per share was paid on 20 May 2019 in respect of the 2018 financial year.

An interim dividend of 0.30p per share in respect of the 2019 financial year was paid on 24 September 2019.

The Directors are recommending a final dividend of 0.65p per share which, subject to shareholders' approval at the AGM, will be paid on 26 May 2020 to shareholders on the register at the close of business on 11 May 2020.

SHARE CAPITAL
The Company's entire issued share capital comprises Ordinary shares of 0.5 pence each. Note 24 to the financial statements summarises the number in issue during 2019.

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 74. 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 43;
- 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 28 April 2020, 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
4 March 2020

Directors’ Responsibilities Statement

The Directors are responsible for preparing the Annual 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
4 March 2020

Independent Auditor's Report to the Members of Franchise Brands plc
For the year ended 31 December 2019

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 2019 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 2019 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.

KEY AUDIT MATTERS CONTINUED

Acquisition of WPL Group Holdings Limited	How We Addressed the Key Audit Matter in the Audit
During the year, the Group acquired WPL Group Holdings Limited and its subsidiaries for consideration of £9.28m. Accounting for acquisitions can be complex and requires significant judgement. The recognition and valuation of assets and liabilities acquired, such as customer relationships, brands and other intangible assets is inherently complex and judgemental. As a result of the judgements required to be made by management there is a risk of material misstatement in the fair value allocated to assets and liabilities acquired including intangible assets and the balance of goodwill recognised. Management have prepared detailed calculations to determine the fair value of the assets acquired and the acquisition consideration. The difference between this consideration and the net assets acquired, including the recognition of intangible assets is goodwill. The business combinations disclosure is set out in note 5 of the consolidated financial statements and the relevant accounting policies can be seen within note 2.	We obtained the sale and purchase agreement (SPA) to check that appropriate accounting treatment had been applied. Our work included: • Confirming cash consideration as stated in the SPA to bank statements; • Reviewing the fair value of the deferred contingent consideration and challenging management on the assumptions made using a range of alternative estimates and sensitivities; • With the support of our internal specialists we challenged the key inputs, assumptions and methodology used by management in determining the fair values of intangible assets acquired based on our knowledge of the industry; • Use of management reconciliations and supporting documentation to agree the acquisition net book values of assets and liabilities and resulting fair value adjustments, including the adoption of IFRS 9, 15 and 16, to the amounts recognised. We have also reviewed the relevant disclosure in the financial statements to assess compliance with the requirements of IFRS 3. Key observations: Based on our procedures we noted no material exceptions and found management's key assumptions to be within a reasonable range.

Impairment of goodwill and intangible assets	How We Addressed the Key Audit Matter in the Audit
Refer to the Accounting Policies on pages 56 and 57 and Note 2 on page 60. 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 using a range of sensitivities; • Using our internal specialists to determine the appropriateness of 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; • Verifying the long term growth rate using historical performance to compare to budgeted rates used; • 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. Key observations: Based on our procedures we noted no material exceptions and found management's key assumptions underlying the impairment reviews to be within a reasonable range.

Independent Auditor's Report to the Members of Franchise Brands plc continued
For the year ended 31 December 2019

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 £160,000 (2018: £140,000). 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 £110,000 (2018: £90,000). 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 £120,000 (2018: £105,000) and for the Parent Company £82,500 (2018: £67,500), 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.

Component materiality for significant components was set at levels between £70,000 and £140,000 (2018: £64,000 and £130,000).

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 £3,200 (2018: £3,000). 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

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.

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 the two significant components of the Group were subject to full scope audit by the Group audit team.

For the insignificant components we performed review procedures or specific scope procedures on certain balances based on their relative size, risks in the business and our knowledge of those entities appropriate to respond to the risk of material misstatement.

As a consequence of the audit scope determined, we achieved coverage of 85% (2018: 100%) of revenue, 84% (2018: 100%) of profit before tax and 88% (2018: 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 and accounts, 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.

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
4 March 2020

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 2019

	Note	2019 £'000	2018 Restated £'000
Revenue	6	**44,013**	35,470
Cost of sales		**(27,631)**	(22,341)
Gross profit		**16,382**	13,129
Adjusted earnings before interest, tax, depreciation, amortisation, share-based payments & non-recurring items ("Adjusted EBITDA")		**5,182**	4,003
Depreciation	7,14,15	**(635)**	(410)
Amortisation of software	7,13	**(120)**	(37)
Amortisation of acquired intangibles	7,13	**(260)**	(216)
Share-based payment expense	7,9	**(238)**	(139)
Costs of acquisition of subsidiaries	5,7	**(270)**	–
Total administrative expenses		**(12,723)**	(9,928)
Operating profit		**3,659**	3,201
Other gains and losses	20	**(26)**	–
Finance expense	10	**(357)**	(340)
Profit before tax		**3,276**	2,861
Tax expense	11	**(566)**	(536)
Profit for the year and total comprehensive income attributable to equity holders of the Parent Company		**2,710**	2,325

All amounts relate to continuing operations

	Note	2019	2018 Restated
Earnings per share			
Basic	12	**3.48**	2.99
Diluted	12	**3.42**	2.95

The notes on pages 56 to 75 form part of these financial statements.

Consolidated Statement of Financial Position
At 31 December 2019

	Note	2019 £'000	2018 Restated £'000	2017 Restated £'000
Assets				
Non-current assets				
Intangible assets	13	**35,057**	27,232	27,025
Property, plant and equipment	14	**1,242**	339	115
Right-of-use assets	15	**3,538**	947	1,133
Total non-current assets		**39,837**	28,518	28,273
Current assets				
Inventories	16	**594**	245	252
Trade and other receivables	17	**16,935**	11,048	8,144
Cash and cash equivalents		**1,682**	2,940	3,245
Total current assets		**19,211**	14,233	11,641
Total assets		**59,048**	42,751	39,914
Liabilities				
Current liabilities				
Trade and other payables	18	**12,684**	8,595	6,404
Loans and borrowings	19	**4,074**	3,439	4,164
Obligations under leases	21	**924**	335	326
Current tax liability		**594**	196	–
Total current liabilities		**18,276**	12,565	10,894
Non-current liabilities				
Loans and borrowings	19	**5,200**	4,400	5,255
Obligations under leases	21	**2,563**	673	872
Contingent consideration	20	**3,606**	–	–
Deferred tax liability	22	**1,544**	702	374
Total non-current liabilities		**12,913**	5,775	6,501
Total liabilities		**31,189**	18,340	17,395
Total net assets		**27,859**	24,411	22,519
Issued capital and reserves attributable to owners of the Parent				
Share capital	24	**398**	388	388
Share premium	24	**22,806**	22,621	22,621
Share-based payment reserve	24	**316**	226	88
Merger reserve	24	**1,390**	396	396
Treasury reserve	24	**(21)**	(151)	–
Retained earnings		**2,970**	931	(974)
Total equity attributable to equity holders		**27,859**	24,411	22,519

The consolidated financial statements of Franchise Brands plc (Company number: 10281033) on pages 50 to 75 were approved and authorised for issue by the Board of Directors on 4 March 2020 and were signed on its behalf by:

Chris Dent
Director

Company Statement of Financial Position
At 31 December 2019

	Note	2019 £'000	2018 £'000
Assets			
Non-current assets			
Fixed asset investments	23	**41,049**	31,703
Total non-current assets		**41,049**	31,703
Current assets			
Trade and other receivables	17	**–**	2,860
Cash and cash equivalents		**25**	6
Total current assets		**25**	2,866
Total assets		**41,074**	34,569
Liabilities			
Current liabilities			
Trade and other payables	18	**923**	247
Loans and borrowings	19	**4,074**	3,439
Total current liabilities		**4,997**	3,686
Non-current liabilities			
Loans and borrowings	19	**5,200**	4,400
Contingent consideration	20	**3,606**	–
Total non-current liabilities		**8,806**	4,400
Total liabilities		**13,803**	8,086
Net assets		**27,271**	26,483
Issued capital and reserves attributable to owners of the Parent			
Share capital	24	**398**	388
Share premium	24	**22,806**	22,621
Share-based payment reserve	24	**316**	226
Merger reserve	24	**1,270**	276
Treasury reserve	24	**(21)**	(151)
Retained earnings		**2,502**	3,123
Total equity attributable to equity holders		**27,271**	26,483

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 2019 of £0.05m (2018: £3.0m).

The Company financial statements of Franchise Brands plc (Company number: 10281033) on pages 52 to 75 were approved and authorised for issue by the Board of Directors on 4 March 2020 and were signed on its behalf by:

Chris Dent
Director

Consolidated Statement of Cash Flows
For the year ended 31 December 2019

	Note	2019 £'000	2018 Restated £'000
Cash flows from operating activities			
Profit for the year		**2,710**	2,325
Adjustments for:			
Depreciation of property, plant and equipment	14	**183**	131
Depreciation of right-of-use assets	15	**452**	279
Amortisation of software	13	**120**	37
Amortisation of acquired intangibles	13	**260**	216
Acquisition-related costs		**270**	–
Share-based payment expense	9	**238**	138
Other gains and losses	20	**26**	–
Finance expense	10	**357**	340
Income tax expense	11	**566**	536
Operating cash flow before movements in working capital		**5,182**	4,002
Increase in trade and other receivables	17	**(1,523)**	(2,952)
Decrease in inventories	16	**5**	7
Increase in trade and other payables	18	**999**	2,107
Cash generated from operations		**4,663**	3,164
Income taxes (paid)/received		**(147)**	48
Net cash generated from operating activities		**4,516**	3,212
Cash flows from investing activities			
Purchases of property, plant and equipment	14	**(865)**	(222)
Purchase of software	13	**(837)**	(348)
Acquisition of subsidiary including costs, net of cash acquired	5	**(3,958)**	–
Net cash used in investing activities		**(5,660)**	(570)
Cash flows from financing activities			
Bank loans – repaid		**(2,506)**	(1,600)
Bank loans – received		**4,000**	–
Other loans – made		**(5)**	(138)
Capital element of lease obligations repaid		**(716)**	(326)
Interest paid – bank and other loan		**(343)**	(279)
Interest paid – leases		**(44)**	(4)
Proceed from issue of shares		**358**	–
Purchase of Treasury shares		**(266)**	(151)
Dividends paid	27	**(592)**	(420)
Net cash used in financing activities		**(114)**	(2,948)
Net decrease in cash and cash equivalents		**(1,258)**	(305)
Cash and cash equivalents at beginning of year		**2,940**	3,245
Cash and cash equivalents at end of year		**1,682**	2,940

Reconciliation of cash flow to the Group net debt position

Group	Term Loan £'000	Revolving credit facility £'000	Loan fees £'000	Obligations under leases £'000	Total liabilities from financing activities £'000	Cash £'000	Total net cash/(net debt) £'000
At 1 January 2018 (restated)	(6,058)	(3,506)	145	(1,198)	(10,617)	3,245	(7,372)
Financing cash flows	600	1,000	–	330	1,930	–	1,930
Other cash flows	–	–	–	–	–	(305)	(305)
Other changes	23	(8)	(35)	(140)	(160)	–	(160)
At 31 December 2018 (restated)	**(5,435)**	**(2,514)**	**110**	**(1,008)**	**(8,847)**	**2,940**	**(5,907)**
Financing cash flows	**(1,000)**	**(500)**	**–**	**760**	**(740)**	**–**	**(740)**
Other cash flows	**–**	**–**	**–**	**–**	**–**	**(1,258)**	**(1,258)**
Other changes	**34**	**12**	**19**	**(3,239)**	**(3,174)**	**–**	**(3,174)**
At 31 December 2019	**(6,401)**	**(3,002)**	**129**	**(3,487)**	**(12,761)**	**1,682**	**(11,079)**

Company Statement of Cash Flows
For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows from operating activities			
Profit for the year		**49**	2,986
Adjustments for:			
Other gains and losses		**26**	–
Finance expenses	10	**287**	305
Income tax expense		**(236)**	(44)
Share-based payment expense		**84**	50
Cash generated from operations		**210**	3,297
Decrease in trade and other receivables	17	**2,920**	503
Increase in trade and other payables	18	**776**	31
Net cash generated from operating activities		**3,906**	3,831
Cash flows from investing activities			
Acquisition of subsidiary including costs		**(4,538)**	(1,607)
Net cash used in investing activities		**(4,538)**	(1,607)
Cash flows from financing activities			
Bank loans – repaid		**(2,506)**	(1,600)
Bank loans – received		**4,000**	–
Interest paid – bank and other loans		**(343)**	(279)
Proceed from issue of shares		**358**	–
Purchase of Treasury shares		**(266)**	(151)
Dividends paid	27	**(592)**	(420)
Net cash flows generated by/(used in) financing activities		**651**	(2,450)
Net increase/(decrease) in cash and cash equivalents		**19**	(226)
Cash and cash equivalents at beginning of year		**6**	232
Cash and cash equivalents at end of year		**25**	6

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 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 1 January 2019	**(5,435)**	**(2,514)**	**110**	**(7,840)**	**6**	**(7,834)**
Financing cash flows	**(1,000)**	**(500)**	**–**	**(1,500)**	**–**	**(1,500)**
Other cash flows	**–**	**–**	**–**	**–**	**19**	**19**
Other changes	**34**	**12**	**19**	**65**	**–**	**65**
At 31 December 2019	**(6,401)**	**(3,002)**	**129**	**(9,275)**	**25**	**(9,250)**

Consolidated and Company Statement of Changes in Equity
For the year ended 31 December 2019

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 2018 (Restated)	388	22,621	88	396	–	(974)	22,519
Profit for the year and total comprehensive income	–	–	–	–	–	2,325	2,325
Contributions by and distributions to owners							
Dividend paid	–	–	–	–	–	(420)	(420)
Treasury shares	–	–	–	–	(151)	–	(151)
Share-based payment	–	–	138	–	–	–	138
At 1 January 2019 (Restated)	**388**	**22,621**	**226**	**396**	**(151)**	**931**	**24,411**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**–**	**2,710**	**2,710**
Contributions by and distributions to owners							
Shares issued	**10**	**185**	**(148)**	**994**	**396**	**(79)**	**1,358**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(592)**	**(592)**
Treasury shares	**–**	**–**	**–**	**–**	**(266)**	**–**	**(266)**
Share-based payment	**–**	**–**	**238**	**–**	**–**	**–**	**238**
At 31 December 2019	**398**	**22,806**	**316**	**1,390**	**(21)**	**2,970**	**27,859**

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 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 1 January 2019	**388**	**22,621**	**226**	**276**	**(151)**	**3,123**	**26,483**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**–**	**49**	**49**
Contributions by and distributions to owners							
Shares issued	**10**	**185**	**(148)**	**994**	**396**	**(79)**	**1,358**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(592)**	**(592)**
Treasury shares	**–**	**–**	**–**	**–**	**(266)**	**–**	**(266)**
Share-based payment	**–**	**–**	**238**	**–**	**–**	**–**	**238**
At 31 December 2019	**398**	**22,806**	**316**	**1,270**	**(21)**	**2,502**	**27,271**

Notes forming part of the Financial Statements
For year ended 31 December 2019

1 SIGNIFICANT 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 focused on building market-leading businesses in selected customer segments, using primarily a franchise model. Our focus is on established brands which can benefit from our shared support services, specialist sector expertise, management experience and group resources. 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 2019 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.

Segmental reporting
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 the previous periods the Group only had a single reportable segment, as the Directors assessed that the aggregation criteria were met with the four primary franchise networks which the Group manages. In the current period the Directors have reassessed the aggregation criteria in light of the acquisition of Willow Pumps Limited on 7th October 2019, and the creation of two operating divisions, business to business ("B2B") and business to consumer ("B2C").

The Directors have determined that the Group currently has two reportable types of operations: Franchise Networks and Direct Labour Organisations ("DLO"). In this assessment the Directors have had regard to the economic characteristics of the operating segments, the nature of their business and their long-term margins. Whereas the Board had previously concluded that whilst the existing Group operated multiple franchise brands, across various business sectors, 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, the Board recognises the direct labour operations as having different economic characteristics, and should, therefore, be presented separately where they form a material separable cash generating unit.

In addition, the Directors believe that now that two operational divisions have been created, it adds to the understanding of the financial statements to separately disclose the B2B and B2C segments.

Therefore in the current period the Directors have chosen to report three segments:

- B2B- Franchisor, which is made up of Metro Rod and Metro Plumb;
- B2B- DLO, which is made up of Willow Pumps; and
- B2C- which is made up of ChipsAway, Ovenclean and Barking Mad.

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 (see Note 2). 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 3-10 years.

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. 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. For ChipsAway and Ovenclean a set monthly fee is charged. For Metro Rod and Barking Mad a variable percentage is charged based on the invoiced revenue of the 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 our performance obligations are met in relation to an individual job. Where performance obligations are met over a number of accounting periods, revenue is recognised over time and is based on the proportion of the level of service performed (see Note 2). The performance obligations are defined in our underlying contracts with customers. At Willow this will be the supply and install of a pump; at Metro Rod and Metro Plumb, this will be on attendance and completion of an individual customer's visit.
- **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. 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. 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.

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 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, 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.

1 ACCOUNTING POLICIES CONTINUED

Impairment provisions for 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 based on customer type, history of payment as well as by the number of days that debt is past due. 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.

Contract assets primarily relate to balances which Metro Rod franchisees have been paid in advance of the related revenue being taken. These balances are at all times less than the overall balances that owed to the franchise network. The contractual right of set-off exists on amounts owed from our franchisees. Therefore, they do not present an impairment risk.

Contract assets include outlays incurred on behalf of clients, including third-party costs that have not yet been billed and are considered receivables under IFRS 15 Revenue from Contracts with Customers.

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. 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	–	over period of lease
Short-term leasehold improvements	–	over period of lease
Motor vehicles	–	10%-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 derecognition 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.

Adjusted Performance Measures (APMs)

APMs are utilised as key performance indicators by the Group and are calculated by adjusting the relevant IFRS measurement by acquisition related costs, amortisation of acquired intangibles and share-based payments. The two main APMs which are used are Adjusted EBITDA and Adjusted EPS. The reconciliation of these items to IFRS measurements can be found in the Chief Financial Officer's Review on page 18. APMs are non-GAAP measures and are not intended to replace those measurements, but are the measures used by the Directors in their management of the business, and are, therefore, important Key Performance Indicators (KPIs).

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 Group, but are a KPI used by management, and it is therefore disclosed to provide more insight into the franchise networks which we operate.

Adoption of New Standards

At the beginning of the period the Group adopted *IFRS16 Leases*. Other new amended standards and Interpretations issued by the IASB that apply to the financial statements do not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

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 are recognised in the form of depreciation of the right to use asset and interest on the lease liability, which has impacted the phasing of operating profit and profit before tax, compared to previous cost profiles and presentation in the income statement, and has also impacted the classification of associated cash flows. The detailed assessment of the impact on the Group has been completed, and the adoption has had a significant impact on the presentation of the Group's assets and liabilities, mainly relating to property and vehicle leases. As part of this assessment the Group applied the practical expedient allowed and did not reassess contracts which had not previously been identified as a lease. Most materially it has impacted adjusted EBITDA, with the 2018 comparative figure rising from £3.7m to £4m.

In respect of IFRS16 we have applied a fully retrospective approach. This means that we have gone back to the accounting at the inception of each of the different leases within the Group. This has resulted in the below adjustments to the previously reported financial statements:

Year ended 31 December 2018	Original Numbers £'000	IFRS16 Adjustment £'000	Final Numbers £'000
Revenue	35,470	–	35,470
Cost of sales	(22,341)	–	(22,341)
Other administration Expenses	(9,820)	303	(9,517)
Depreciation	(131)	(279)	(410)
Finance expense	(310)	(30)	(340)
Tax expense	(536)	–	(536)
	2,332	(7)	2,325
Basic earnings per share (p)	**3.00**	**(0.01)**	**2.99**
Diluted earnings per share (p)	**2.96**	**(0.01)**	**2.95**

At 31 December 2018	Original Numbers £'000	IFRS16 Adjustment £'000	Final Numbers £'000
Intangible assets	27,232	–	27,232
Property, plant and equipment	382	904	1,286
Inventories	245	–	245
Trade and other receivables	11,048	–	11,048
Cash	2,940	–	2,940
Trade and other payables	(8,595)	–	(8,595)
Loans and borrowings	(3,439)	–	(3,439)
Obligations under leases	(21)	(314)	(335)
Current tax	(196)	–	(196)
Loans and borrowings	(4,400)	–	(4,400)
Obligations under leases	(51)	(622)	(673)
Deferred tax liability	(702)	–	(702)
Total net assets	**24,442**	**(32)**	**24,411**

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 franchise 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 franchise 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 2019 £144,000 (2018: £147,000) had been recognised as a debtor, and £141,000 (2018: £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 up to 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 up to 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.

Willow Pumps revenue recognition

As part of its range of services, Willow Pumps undertakes the supply and install of pumps in adoptable pump stations. These are typically projects which are performed over a number of accounting periods. Revenue recognised over time is based on the proportion of the contract completed. Either an input method or an output method, depending on the particular arrangement, is used to measure progress for each performance obligation. For most fee arrangements, costs incurred are used as an objective input measure of performance. The primary input of substantially all work performed under these arrangements is labour. There is normally a direct relationship between costs incurred and the proportion of the contract performed to date. In other circumstances relevant output measures, such as the achievement of any project milestones stipulated in the contract, are used to assess proportional performance. Judgement is required regarding the timing of recognition, particularly in assessing progress on performance obligations where revenue is recognised over time. At the end of the year there were £7.6m of supply and install contracts in progress, on which £3.1m of revenue has been taken. During the three months of ownership £1.7m of revenue was taken on these contracts.

Business combinations

Determining a value for consideration paid

Determining the fair value of the consideration paid in business combinations requires the use of estimates regarding the expected future payments of deferred consideration. The values are determined using discounted cash flows and based upon latest approved budgets and longer-term forecasts which include estimates concerning factors which affect the level of deferred consideration to be paid including revenues expected to be generated, and profits forecast to be earned. The level of deferred consideration expected to be paid is re-evaluated at each balance sheet date, with any change being taken to the income statement. The current provision is a discounted value of the expected cash payments, and the unwind of the discount on the deferred contingent consideration is included within the finance costs of the Group. More details of these estimates can be found in Notes 5 and 20.

Determining a value and life for assets acquired

Determining the fair value, and the life, 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. Management has determined that acquired brands and trademarks acquired 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. 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. More details of these estimates can be found in Notes 5.

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 13.

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 and overdrafts 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 and debt gearing levels, 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	2019 £'000	2018 Restated £'000
Financial assets at amortised cost		
Cash and cash equivalents	**1,682**	2,940
Trade and other receivables	**15,595**	9,950
Financial liabilities at amortised cost		
Trade and other payables	**(11,092)**	(7,777)
Loans and borrowings	**(12,761)**	(7,911)
Financial liabilities at fair value through profit and loss (FVTPL)	**3,606**	–

Company	2019 £'000	2018 £'000
Financial assets at amortised cost		
Cash and cash equivalents	**25**	6
Trade and other receivables	**–**	2,601
Financial liabilities at amortised cost		
Trade and other payables	**(901)**	(247)
Loans and borrowings	**(9,275)**	(7,839)
Financial liabilities at fair value through profit and loss (FVTPL)	**3,606**	–

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates to their fair value. The only financial liability at FVTPL is the provision in relation to the contingent deferred consideration. For details in relation to this, please see Note 20.

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.

	Sensitivity income 2019 £'000	Sensitivity equity 2019 £'000	Sensitivity income 2018 £'000	Sensitivity equity 2018 £'000
0.25% increase in interest rates	**(24)**	**(24)**	(22)	(22)
0.25% decrease in interest rates	**24**	**24**	22	22

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

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.

Group	Trade and other payables 2019 £'000	Loans and borrowings 2019 £'000	FVTPL 2019 £'000	Total 2019 £'000	Trade and other payables 2018 £'000	Loans and borrowings 2018 £'000	FVTPL 2018 £'000	Total 2018 £'000
On demand	–	–	–	–	–	–	–	–
Within one year	11,092	5,252	–	16,344	7,777	3,571	–	11,348
More than one year and less than two years	–	2,924	266	3,190	–	1,251	–	1,251
More than two years and less than five years	–	4,413	2,063	6,476	–	3,200	–	3,200
In more than five years	–	652	1,703	2,355	–	–	–	–
Total	**11,092**	**13,241**	**4,032**	**28,365**	7,777	8,022	–	15,799

Company	Trade and other payables 2019 £'000	Loans and borrowings 2019 £'000	FVTPL 2019 £'000	Total 2019 £'000	Trade and other payables 2018 £'000	Loans and borrowings 2018 £'000	FVTPL 2018 £'000	Total 2018 £'000
On demand	–	–	–	–	–	–	–	–
Within one year	901	4,367	–	5,268	247	3,550	–	3,797
More than one year and less than two years	–	2,117	266	2,383	–	1,200	–	1,200
More than two year and less than five years	–	3,270	2,063	5,333	–	3,200	–	3,200
In more than five years	–	–	1,703	1,703	–	–	–	–
Total	**901**	**9,754**	**4,032**	**14,686**	247	7,950	–	8,197

4 OPERATING SEGMENTS

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Executive Chairman, with support from the Board of Directors, as the function primarily responsible for the allocation of resources to segments and assessment of performance of the segments. During the year the business has reorganised itself along the lines of our B2B and B2C brands. However, within the B2B division we have two different principal activities: Franchisor – management of franchisees who trade with businesses and consumers; and Direct labour organisations – trading directly with businesses and consumers.

Therefore, the Board has now determined that we have three different operating segments:

- B2B- Franchisor, which is made up of Metro Rod and Metro Plumb;
- B2B- DLO, which is made up of Willow Pumps; and
- B2C- which is made up of ChipsAway, Ovenclean and Barking Mad.

Other operations include central administration costs and non-trading companies.

The CODM use Adjusted EBITDA, as reviewed at Board meetings and as part of the Managing Directors' and Chief Financial Officer's weekly report to the senior management team, as the key measure of segments' results as it reflects the underlying performance for the financial year under evaluation. The following is an analysis of the Group's revenue and results by reportable segment in 2019:

	B2B- Franchisor £'000	B2B- DLO £'000	B2C £'000	Other £'000	Total £'000
Continuing operations					
Revenue	33,405	3,842	6,766	–	44,013
Gross profit	9,625	1,252	5,505	–	16,382
Adjusted EBITDA	**3,184**	**492**	**2,533**	**(1,027)**	**5,182**
Depreciation	(435)	(138)	(182)	–	(755)
Amortisation	–	–	–	(260)	(260)
Share based payment expense	(101)	(6)	(47)	(84)	(238)
Exceptional items	–	–	–	(269)	(269)
Finance expense	(13)	(43)	(12)	(315)	(383)
Profit before tax	**2,634**	**305**	**2,292**	**(1,956)**	**3,276**
Income tax expense	(403)	(50)	(346)	233	(566)
Profit after tax	**2,231**	**255**	**1,946**	**(1,693)**	**2,710**

In the prior year the Group's revenue and results were solely as a franchisor, therefore no comparator is provided.

5 BUSINESS COMBINATION

Acquisition of WPL Group Holdings Limited (Willow Pumps)

On 7 October 2019, the Group acquired the entire issued share capital of WPL Group Holdings Limited and its subsidiaries, Willow Pumps Limited and Willow Drainage Limited (together, "Willow Pumps") for an initial consideration of £5.0 million (net of non-trading cash of £700,000 in WPL Group Holdings Limited) and a performance-based deferred consideration of up to £7.5 million payable over the next five years.

The Initial Consideration was paid as £4.7 million (gross of non-trading cash of £700,000 in WPL Group Holdings Limited) in cash and £1.0 million through the issue of 1,212,121 new Ordinary Shares of 0.5p each in the Company at 82.5 pence per share. The Deferred Consideration will be payable in cash, subject to the Company having the right to settle 20% of the amount due in new Ordinary Shares at the then prevailing share price. The fair value of consideration comprised:

	£'000
Cash	4,700
Consideration shares	1,000
Fair value of deferred consideration	3,580
Fair value of consideration	**9,280**

Performance related deferred consideration of up to £7.5m is payable under the sale and purchase agreement. A £3.6m provision, representing the net present value of the expected payments to be made over the next five years has been established based on the current budgets and longer-term forecasts of the Group.

Acquisition costs relating to this transaction amounted to £269,000 and have been disclosed within the statement of comprehensive income in the Group. There was a further £26,000 charge relating to the fair value movement on the deferred consideration.

5 BUSINESS COMBINATION CONTINUED

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Intangible assets	–	3,640	3,640
Property, plant and equipment	374	–	374
Right of use assets	1,595	1,167	2,762
Inventories	490	–	490
Trade and other receivables	3,942	–	3,942
Cash	585	–	585
Trade and other payables	(4,420)	(1,178)	(5,598)
Deferred tax liability	(109)	(618)	(728)
Total fair value of the identifiable assets and liabilities acquired	**2,457**	**3,011**	**5,468**
Fair value of consideration			9,280
Goodwill			3,812

Intangible asset adjustments comprise:

	£'000
Recognise brand	2,777
Recognise customer relationships	863
	3,640

An adjustment has been made to align Willow Pumps with the requirements of IFRS16.

The deferred tax liability has been calculated on the value of the intangible assets acquired at a corporation tax rate of 17% and a corresponding amount has been recognised as goodwill. The amount recognised as goodwill will not be deductible for tax purposes.

Customer relationships have a useful economic life of five years, whereas the brand and goodwill both have indefinite lives. Goodwill represents the value of the business that does not qualify for separate recognition. The goodwill recognised includes certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired business, and the scale and the future growth opportunities that it provides to the Group's operations. If the acquisition had occurred on 1 January 2019, Group revenue would have been £56.3m, Group profit before tax would have been £3.6m.

6 REVENUE

	2019 £'000	2018 £'000
Management service fees	**30,819**	27,436
Sale of franchise territories	**2,006**	1,513
Product sales	**912**	894
Direct labour income	**9,097**	4,565
National advertising funds	**1,179**	1,062
	44,013	35,470

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

Contract Assets	2019 £'000	2018 £'000
At 1 January	**820**	611
Change in the measurement of progress	**(231)**	209
At 31 December	**589**	820

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.

7 OPERATING PROFIT

Operating profit is stated after charging:	2019 £'000	2018 £'000
Depreciation	**635**	410
Amortisation	**380**	253
Share-based payment expense	**238**	138
Auditors' remuneration:		
Fees for audit of the Company	**15**	15
Fees for the audit of the Company's subsidiaries	**82**	49
Fees for non-audit services:		
Taxation services	**21**	16
Corporate finance services	**80**	–
Other assurance services	**5**	–

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

In 2019, the Group incurred costs in relation to the acquisition of Willow Pumps which Management believe should be brought to the attention of users of the accounts. These costs totalled £295,000, which included £269,000 of professional fees and £26,000 movement in the fair value of the deferred consideration (please see Note 20). There were no such items during the course of 2018.

8 STAFF COSTS

	2019 £'000	2018 £'000
Wages and salaries	**7,031**	4,789
Social security costs	**692**	429
Defined contribution pension cost	**154**	70
Share-based payment expense	**238**	138
	8,115	5,426

The average monthly number of persons (including Directors) employed by the Group was:

	2019	2018
Administration	**144**	110
Sales	**16**	12
Operations	**61**	24
Directors	**8**	10
	229	156

Directors' remuneration

	2019 £'000	2018 £'000
Directors' emoluments	**772**	690
Share-based payment expense	**98**	92
	870	782

The highest paid Director's remuneration was £147,000 (2018: £129,000). The Board of Directors are considered to be the key management personnel. Their cost to the Group is £983,000 (2018: £835,000), after including employer's National Insurance. The Company had no employees (other than the Directors) or staff costs in either year. Directors' emoluments include £38,000 (2018: £30,000) paid to companies controlled by Directors (see Note 25).

9 SHARE-BASED PAYMENTS

The Company has established an 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% then a proportion of these options will vest on a straight-line basis. Currently, 132 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 2019 was £238,000 (2018: £139,000). This all arises on equity-settled share-based payment transactions.

	2019	Weighted average exercise price	2018	Weighted average exercise price
Outstanding at the beginning of the period	4,533,530	51p	3,467,747	43p
Granted during the period	1,317,925	83p	1,308,132	69p
Forfeited during the period	(266,805)	63p	(242,349)	45p
Exercised during the period	(1,083,333)	33p	–	–
Outstanding at the end of the period	4,501,317	64p	4,533,530	51p
Exercisable at the end of the period	310,606	33p	–	–

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-84p (2018: 33p-69p), and the weighted average remaining contractual life was 8.2 years (2018: 8.8 years).

Black-Scholes option pricing model

	7 October 2019	7 August 2019	11 December 2018
Closing stock price, £	0.83	0.84	0.69
Exercise price, £	0.83	0.84	0.69
Risk-free interest rate	0.75%	0.75%	0.75%
Expected life of option (years)	6.5	6.5	6.5
Volatility	26.1%	26.1%	33.2%
Dividend yield	1%	1%	1%

10 FINANCE EXPENSE

	2019 £'000	2018 £'000
Interest element on lease agreements	44	35
Loan interest	313	305
	357	340

11 INCOME TAX

	2019 £'000	2018 Restated £'000
Current tax expense		
Current tax on profits for the period	**439**	215
Adjustment for prior period	**13**	(7)
Deferred tax expense		
Origination and reversal (see Note 22)	**114**	328
Total tax expense	**566**	536
Accounting profit multiplied by the UK statutory rate of corporation tax	**622**	544
Expenses that are not deductible in determining profit	**(97)**	–
Expense not deductible for tax purposes	**28**	(1)
Adjustment for prior period	**13**	(7)
Total tax expense	**566**	536
Effective tax rate	**17%**	19%

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 2019) 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.

12 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 share options at the start of the period or, if later, the date of issue.

	2019 £'000	2018 Restated £'000
Profit attributable to owners of the Parent	**2,710**	2,325
Acquisition-related costs (Note 5)	**269**	–
Amortisation of acquired intangibles (Note 13)	**260**	216
Change in the fair value of deferred consideration (Note 20)	**26**	–
Share-based payment expense (Note 9)	**238**	138
Tax on adjusting items	**(121)**	(67)
Adjusted profit attributable to owners of the Parent	**3,382**	2,612

	Number	Number
Basic weighted average number of shares	**77,948,178**	77,687,101
Dilutive effect of share options	**1,190,696**	1,100,364
Diluted weighted average number of shares	**79,138,874**	78,787,465

	Pence	Pence
Basic earnings per share	**3.48**	2.99
Diluted earnings per share	**3.42**	2.95
Adjusted earnings per share	**4.34**	3.36
Adjusted diluted earnings per share	**4.27**	3.32

13 INTANGIBLE ASSETS

	Goodwill £'000	Brands, trade marks & other intangibles £'000	Customer relationships £'000	Software £'000	Total £'000
Cost					
At 1 January 2018	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
Acquisition	3,812	2,777	863	–	7,452
Additions	–	–	–	752	752
At 31 December 2019	**23,301**	**10,081**	**3,022**	**1,233**	**37,636**
Amortisation					
At 1 January 2018	–	(1,791)	(156)	–	(1,947)
Charge for year	–	–	(216)	(37)	(253)
At 31 December 2018	–	(1,791)	(372)	(37)	(2,200)
Charge for year	–	–	(260)	(120)	(380)
At 31 December 2019	**–**	**(1,791)**	**(632)**	**(157)**	**(2,580)**
Net book value					
At 31 December 2019	**23,301**	**8,290**	**2,390**	**1,076**	**35,057**
At 31 December 2018	19,488	5,513	1,787	444	27,232
At 1 January 2018	19,488	5,513	2,003	21	27,025

Carrying amount of assets with indefinite useful lives

	Goodwill £'000	Indefinite life intangibles £'000	2019 £'000	Goodwill £'000	Indefinite life intangibles £'000	2018 £'000
Metro Rod	**18,174**	**4,750**	**22,924**	18,174	4,750	22,924
Willow Pumps	**3,812**	**2,777**	**6,589**	–	–	–
ChipsAway	**1,171**	**–**	**1,171**	1,171	–	1,171
MyHome	**14**	**–**	**14**	14	–	14
Barking Mad	**129**	**763**	**892**	129	763	892
	23,301	**8,290**	**31,591**	19,488	5,513	25,001

The Cash generating units ("CGUs") used for the impairment testing are the same as in the prior period, and are based on the different brands which the business owns and operates. Each brand is a separate CGU, and no CGUs have been grouped together for the purpose of impairment testing. 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 financial 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 10.3% (2018: 9.9%) 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 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. For our B2B businesses revenue growth rates have been set at between 5% and 12.5%, as compared to the current year growth in system sales at Metro Rod of 14%. For our B2B brands franchisee recruitment and churn is consistent from the current year, with the revenue growth being driven by the net new franchisees being introduced to the networks. The operating margins are based on those extant, with the exception of Metro Rod, where we have forecast changes in operating margins based on our rebate schemes. 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, on the basis that this is a reasonable long-term growth rate for the UK economy. 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 or growth rates. 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.

14 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 2018	122	129	210	35	31	527
Additions	3	7	34	(2)	282	324
At 31 December 2018	125	136	244	33	313	851
Additions on acquisition	296	44	73	–	150	563
Additions	7	8	68	416	212	711
At 31 December 2019	**428**	**188**	**385**	**449**	**675**	**2,125**
Depreciation						
At 1 January 2018	(100)	(109)	(158)	(27)	(18)	(412)
Charge for year	(10)	(14)	(32)	(4)	(40)	(100)
At 31 December 2018	(110)	(123)	(190)	(31)	(58)	(512)
Additions on acquisition	(126)	(18)	(4)	–	(41)	(189)
Charge for year	(13)	(11)	(39)	(20)	(100)	(183)
At 31 December 2019	**(249)**	**(151)**	**(233)**	**(51)**	**(199)**	**(883)**
Net book value						
At 31 December 2019	**179**	**37**	**152**	**398**	**476**	**1,242**
At 31 December 2018	15	13	54	2	255	339
At 1 January 2018	22	20	52	8	13	115

The Company has no fixed assets at 31 December 2019 or 31 December 2018.

15 RIGHT OF USE ASSETS

	Land and buildings £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January 2018	1,267	476	–	1,743
Additions	–	103	32	135
At 31 December 2018	1,267	579	32	1,878
Additions on acquisition	1,250	2,316	–	3,566
Additions	–	353	–	353
Disposals	–	(130)	–	(130)
At 31 December 2019	**2,517**	**3,118**	**32**	**5,667**
Depreciation				
At 1 January 2018	(323)	(284)	–	(607)
Charge for year	(226)	(91)	(6)	(323)
At 31 December 2018	(549)	(375)	(6)	(930)
Additions on acquisition	(83)	(721)	–	(804)
Charge for year	(257)	(189)	(6)	(452)
Disposals	–	58	–	58
At 31 December 2019	**(890)**	**(1,227)**	**(12)**	**(2,129)**
Net book value				
At 31 December 2019	**1,627**	**1,891**	**20**	**3,538**
At 31 December 2018	718	204	26	947
At 1 January 2018	944	192	–	1,135

15 RIGHT OF USE ASSETS CONTINUED

Amounts Recognised in Profit and Loss

	2019 £'000	2018 £'000
Depreciation expense on right-of-use assets	**452**	332
Interest expense on lease liabilities	**44**	35
Expense relating to short- term leases	**33**	33
Expense relating to leases of low value assets	**1**	1
Expense relating to variable lease payments not included in the measurement of the lease liability	**–**	–
Income from sub-leasing right-of-use assets	**–**	–

16 INVENTORIES

Group	2019 £'000	2018 £'000
Finished goods and goods for resale	**594**	245

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 2019 or 31 December 2018 within the income statement of the Company. £2.7m of inventories were recognised as an expense within the year (2018: £0.8m).

17 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	2019 £'000	2018 Restated £'000
Trade receivables	**14,677**	9,971
Provision at the year end	**(406)**	(268)
Other receivables	**1,605**	247
Total financial assets other than cash and cash equivalents	**15,876**	9,950
Contract assets	**725**	820
Prepayments	**334**	278
Total current trade and other receivables	**16,935**	11,048

	2019 £'000	2018 Restated £'000
Bad debt provision:		
Brought forward	**(267)**	(646)
Additions on acquisition	**(165)**	–
Provision for the year	**(77)**	(97)
Utilised	**104**	476
Carried forward	**(406)**	(267)

	2019 £'000	2018 Restated £'000
The ageing of the trade receivables is as follows:		
Due	**8,645**	6,641
Past due		
0-30 days	**1,730**	1,070
31-60 days	**748**	627
61-90 days	**572**	392
91-120 days	**371**	423
121+ days	**2,051**	550
Past due and impaired		
Due	**34**	18
0-30 days	**43**	14
31-60 days	**25**	19
61-90 days	**13**	10
91-120 days	**27**	133
121+ days	**418**	74
Total	**14,677**	9,971

Company	2019 £'000	2018 £'000
Amounts owed by Group undertakings	–	2,599
Other debtors	–	2
Prepayments	–	125
Social security and other taxes	–	134
Total current trade and other receivables	–	2,860

18 TRADE AND OTHER PAYABLES

Group	2019 £'000	2018 Restated £'000
Current		
Trade payables	**6,520**	3,940
Accruals	**4,142**	3,302
Other creditors	**713**	535
Social security and other taxes	**1,309**	819
Total trade and other payables	**12,684**	8,595

Company		
Trade payables	**61**	39
Accruals	**157**	208
Other creditors	**3**	–
Social security and other taxes	**5**	–
Amounts owed to Group undertakings	**697**	–
Total trade and other payables	**923**	247

Carrying values approximate to fair value. Included within other creditors is an amount of £44,000 (2018: £63,000) which represents the net payable in relation to the national advertising funds.

19 LOANS AND BORROWINGS

Group and Company	2019 £'000	2018 £'000
Current		
Revolving credit facility	**3,002**	2,514
Term loan	**1,201**	1,035
Amortised loan fees	**(129)**	(110)
Total current loans and borrowings	**4,074**	3,439
Non-current		
Term loan	**5,200**	4,400

The loans are comprised of a £6.4m term loan, which carries a 2.95% interest rate and is repayable in instalments until 2023; and a £5m revolving credit facility, of which £3m is utilised, which runs until April 2024, and carries a 2.95% interest rate. The Group also has a £2m overdraft facility, which was unused at the year end. Included above are the amortised value of loan fees of £129,000 (2018: £110,000), 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. The Group has 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, £0.8m (2018: £0.9m) had been lent through this scheme. There are no expected credit losses to recognise in respect of the asset financing scheme.

20 CONTINGENT CONSIDERATION

Group and Company	2019 £'000	2018 £'000
Contingent deferred consideration	**3,606**	–

On 7 October 2019, the Group acquired Willow Pumps for an initial consideration of £5.0 million and a performance-based deferred contingent consideration of up to £7.5 million payable over the next five years. A £3.6m provision, representing the net present value of the expected payments to be made over the next five years has been established based on the current budgets and longer-term forecasts of the Group.

Under IFRS13 Fair Value, the fair value of the contingent consideration in a business combination falls as a Level 3 in terms of the fair value hierarchy, as the inputs for calculating the fair value are unobservable. The deferred consideration of up to £7.5 million will be paid based on business generated for the Group and profits of Willow Pumps over the next five years as follows:

I. Up to £3.75 million will be paid at the rate of up to £750,000 per annum on a pro-rata basis for every £3.0 million per annum or more of incremental pump and related drainage business that Willow Pumps generates for Metro Rod for each of the five financial years ending 31 December 2020 to 2024 (inclusive). Therefore, to achieve payment in full, subcontracted work to Metro Rod would need to have grown by £3.0 million per annum and be £15.0 million or more in the year ending 31 December 2024. This will be calculated and will be payable annually in arrears. This element is capped at £750,000 per annum and £3.75 million in total.

II. Up to £3.75 million will be paid at the rate of up to £750,000 per annum on a pro-rata basis for every £250,000 by which additional maintainable profits after tax of Willow Pumps exceed £1.0 million in each of the five financial years ending 31 December 2020 to 2024 (inclusive) . Therefore, to achieve payment in full, PAT will have to grow to £2.25 million by the year ending 31 December 2024. This will be calculated and agreed annually based on the actual growth in maintainable PAT in each year and will be payable on finalisation of the consolidated accounts of Willow Pumps for the year ending 31 December 2022 in respect of the first three years (capped at £2.25 million) and on the finalisation of those accounts for the year ending 31 December 2024 in respect of the fourth and fifth years (capped at £1.5 million).

III. The deferred consideration will be payable in cash, subject to the Company having the right to settle 20 per cent. of the amount due in new Ordinary Shares at the then prevailing share price.

The Directors believe that the generation of sales for the Metro Rod network is the more difficult as it has no track record, therefore the initial provision was set at £1.5m out of a possible £3.75m, whereas the provision for the Willow profitability target has been set at £3m out of a possible £3.75m. These payments have been discounted at 2.95%, which is the current marginal rate of borrowing for the Group.

The initial deferred consideration was established at £3.58m at the time of the acquisition, and the fair value movement of £26,000 relates to the unwinding of the discount, rather than any changes in Management's judgement. The deferred contingent consideration is payable over the course of the next five years, and the fair value will be re-measured at each balance sheet date to take account of the progress which the business has made in fulfiling the performance criteria.

21 OBLIGATIONS FOR LEASES

Group	2019 £'000	2018 £'000
Current	**924**	335
Non-current (between 1 and 5 years)	**2,563**	673
Total obligations for leases	**3,487**	1,008

	Land & Buildings £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
At 1 January 2018	959	171	6	1,136
Additions	–	167	–	167
Interest expense	25	10	–	35
Lease payments	(244)	(85)	(1)	(330)
At 31 December 2018	740	263	5	1,008
Additions on acquisition	1,177	1,507	–	2,684
Additions	–	353	–	353
Interest expense	27	16	–	44
Lease payments	(280)	(320)	(2)	(602)
At 31 December 2019	**1,665**	**1,819**	**3**	**3,487**

22 DEFERRED TAX LIABILITY

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2019: 17%).

Group	Intangibles £'000	Accelerated allowances £'000	IFRS15 adjustment £'000	Share based payment £'000	Total £'000
At 1 January 2018	(1,269)	743	152	–	(374)
Acquisition of subsidiaries	–	–	–	–	–
Credit/(charge) in the year	39	(253)	(152)	38	(328)
At 31 December 2018	(1,230)	490	–	38	(702)
Acquisition of subsidiaries	(618)	(109)	–	–	(727)
Credit/(charge) in the year	57	(192)	–	21	(114)
At 31 December 2019	**(1,791)**	**189**	**–**	**59**	**(1,544)**

23 SUBSIDIARIES

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

	£'000
Cost	
At 1 January 2018	30,097
Additions in year	1,606
At 31 December 2018	31,703
Addition in year	9,346
At 31 December 2019	**41,049**

The addition in the year relates to the acquisition of Willow Pumps. The Company has also capitalised £66,000 of stamp duty.

Notes forming part of the Financial Statements continued
For year ended 31 December 2019

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	2019 %	2018 %
Metro Rod Limited	Operation and management of a franchise business	**100**	100
ChipsAway International Limited	Operation and management of a franchise business	**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
Barking Mad Limited	Operation and management of a franchise business	**100**	100
Willow Pumps Limited	Operation and management of a pump services business	**100**	–
MRE Drainage Limited	Operator of drainage franchise	**100**	100
MRB Drainage Limited	Operator of drainage franchise	**100**	100
WPL Group Holdings Limited	Intermediate holding company	**100**	–
Oven Clean (Ontario) Limited	Dormant	**100**	100
FB Holdings Limited	Dormant	**100**	100
DentsAway Limited	Dormant	**100**	100
Edwin Investments Limited	Dormant	**100**	100
Willow Drainage Limited	Dormant	**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

24 SHARE CAPITAL AND OTHER RESERVES

Allotted, called up and fully paid	2019 £'000	2018 £'000	2019 No. of shares	2018 No. of shares
At 1 January	**388**	**388**	**77,732,033**	77,732,033
Acquisition of Willow Pumps	**6**	–	**1,212,121**	–
Exercise of Share Options	**4**	–	**569,633**	–
At 31 December	**398**	**388**	**79,513,787**	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 as part of the consideration in relation to acquisitions.

Treasury reserve: This represents the amount that the Company paid for its own shares held in Treasury. At the year end the Group held 25,000 shares (2018: 200,000 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.

25 RELATED PARTY TRANSACTIONS

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

		2019 £'000	2018 £'000
Mark Peters (Miserden Ltd)	Company secretary fee	**12**	10
Nigel Wray (Brendon Street Investments Limited)	Director's fee	**26**	20
Related party transactions		**38**	30

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 (2018: £nil).

26 DIVIDENDS

	2019 £'000	2018 £'000
Final 2018 dividend of 0.46p per Ordinary share paid and declared (2017: 0.33p)	**358**	257
Interim dividend of 0.30p per Ordinary share paid and declared (2018: 0.21p)	**234**	163
	592	420

A final dividend of 0.65 pence per share is proposed.

Five Year Financial Summary (Unaudited)
For year ended 31 December 2019

Five year financial summary	2019 £'000	2018 Restated £'000	2017 Restated £'000	2016 Restated £'000	2015 Restated £'000
Statutory revenue	**44,013**	35,470	24,867	5,430	4,877
Fee income	**24,401**	18,140	12,701	5,430	4,877
Adjusted EBITDA	**5,182**	4,003	2,972	1,429	1,243
Depreciation & Amortisation of software	**(755)**	(447)	(349)	(144)	(115)
Finance expense	**(357)**	(340)	(312)	(21)	(18)
Adjusted profit before tax	**4,069**	3,216	2,311	1,264	1,110
Tax expense	**(687)**	(603)	(426)	(260)	(227)
Adjusted profit after tax	**3,382**	2,612	1,886	1,004	883
Amortisation of acquired intangibles	**(260)**	(216)	(156)	–	–
Interest on deferred consideration	**(26)**	–	–	–	–
Share based payment	**(238)**	(138)	(58)	(30)	–
Acquisition-related costs	**(269)**	–	(2,194)	(455)	–
Tax on adjusting items	**121**	67	383	–	–
Statutory profit	**2,710**	2,325	(140)	519	883
Basic EPS	**3.48p**	2.99p	(0.20p)	1.27p	2.43p
Adjusted Basic EPS	**4.34p**	3.36p	2.71p	2.46p	2.43p
Dividend	**0.95p**	0.67p	0.50p	0.17p	0.00p

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
BDO LLP
3 Hardman Street
Manchester
M3 3AT

LEGAL ADVISOR
Gateley Plc
One Eleven Edmund Street
Birmingham
B3 2HJ

FINANCIAL PUBLIC RELATIONS ADVISERS
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

Notes

Notes


DANGER
NO ENTRY
SafetyLiftinGear.com

Designed and produced by **emperor**
Visit us at **emperor.works**

Franchise Brands plc
Ashwood Court
Tytherington Business Park
Macclesfield
Cheshire
SK10 2XF