



BUSINESS
builders

FINAL RESULTS
PRESENTATION
2019



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AN INTRODUCTION TO FRANCHISE BRANDS PLC



- Established in 2008 by Stephen Hemsley (Executive Chairman) and Nigel Wray (Non-executive Director).
- Focused on building market-leading businesses in selected customer segments using primarily a franchise model.
- The Group currently has a combined network of almost 450 franchisees across five franchise brands in the UK.
- Organised into a B2B division and a B2C division.
- Highly experienced Board and senior management team who are significant shareholders (63.3%).
- Admitted to AIM in August 2016 at a market capitalisation of £15.6m; now approximately £100m.
- Organic growth and buy & build strategy.
- Profitable, cash generative, progressive dividend policy.

FRANCHISE BRANDS: AT A GLANCE

B2B



Founded in 1983, commercial drainage specialist **Metro Rod** provides a range of drain clearance, repair and maintenance services. These services are provided on a 24/7/365 basis across the UK via 42 depots. Plumbing services are provided by **Metro Plumb** which has three independent franchisees.



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

SYSTEM SALES

£41.3m

EBITDA*

£3.2m

REVENUE

£3.8m

EBITDA*

£0.5m

METRO ROD & METRO PLUMB FRANCHISEES

45

GROSS MARGIN

33%

B2C



ChipsAway, Ovensclean 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 of our B2C brands are well established with a long trading history.

GROSS PROFIT

£5.5m

EBITDA*

£2.5m

UK FRANCHISEES

404

* EBITDA excludes Group overheads

A STRONG PERFORMANCE DRIVEN BY ACCELERATING METRO ROD SYSTEM SALES AND ACQUISITION OF WILLOW PUMPS

2019 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

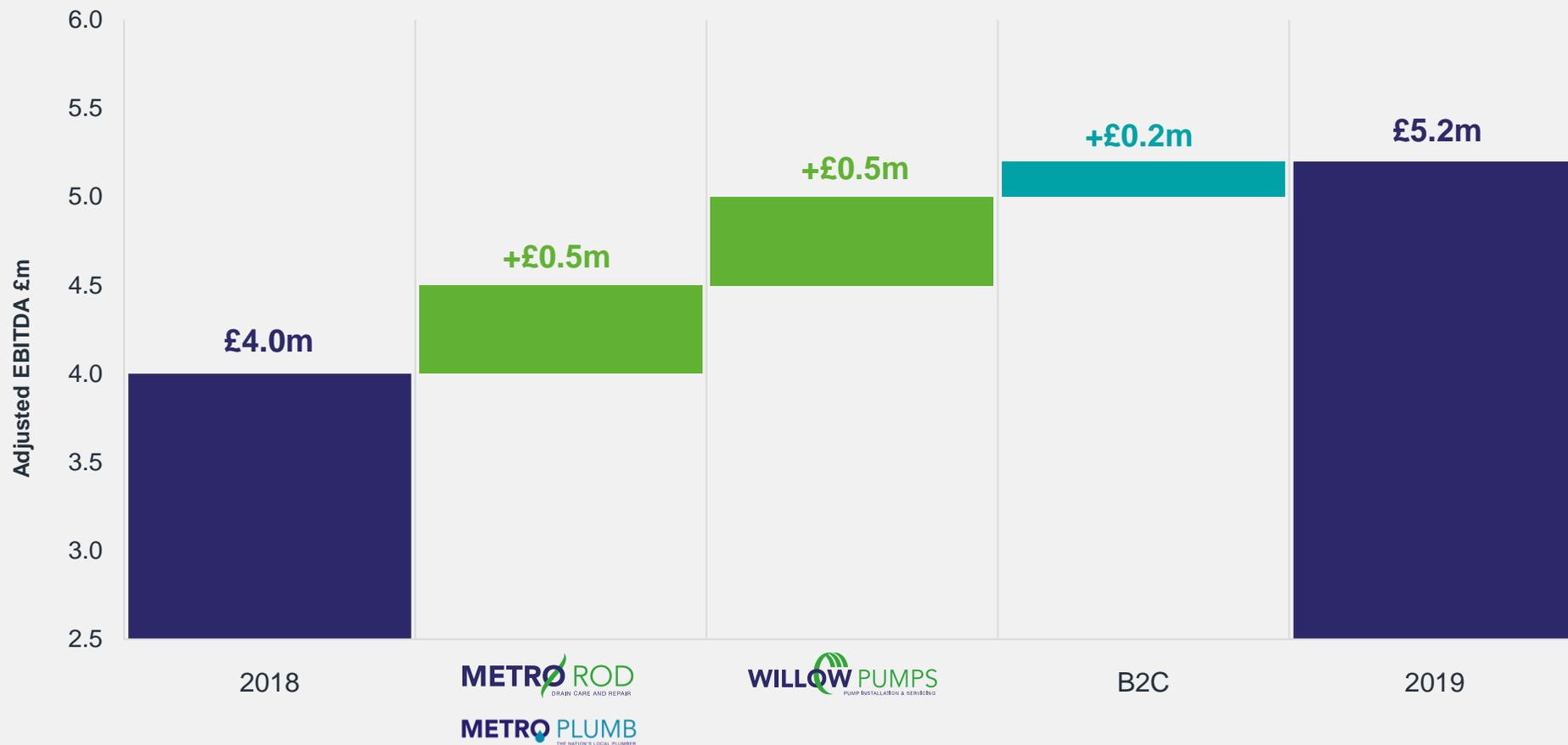
- Metro Rod's Vision 2023 strategy continues to drive our organic growth.
- Metro Rod's system sales growth accelerated to 14% in 2019.
- 45% of Metro Rod franchisees achieved annual sales above £1m.
- Acquisition of Willow Pumps to expand Metro Rod's range of services to the commercial market.
- Creation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

*Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, the share-based payment expense, and acquisition-related costs.

** Adjusted EPS is earnings per share before amortisation of acquired intangibles, the share-based payment expense, and acquisition-related costs.

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

THE 2019 RESULTS: AT A GLANCE



OUR STRATEGY AND BUSINESS MODEL: GENERATING GROWTH

- 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 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 B2B and B2C divisions provides a greater focus and structure to grow our portfolio, support our franchisees and develop our businesses.



METRO ROD'S RATE OF GROWTH CONTINUES TO ACCELERATE THROUGH VISION 2023 STRATEGY



Vision 2023: returns the franchisee to front and centre of their businesses.

- 2019 growth metrics:
 - System sales growth of 14% (2018: 8%).
 - 45% of franchisees achieved annual sales above £1m (2019: 34%).
 - Continued investment in capacity.
 - Launch of ITOL-accredited apprentice scheme.
- Several businesses sold to new, ambitious franchisees: 4 re-sales and 2 sales of vacant territories.
- Responsibility for Kent and Sussex territory transferred to Willow Pumps.
- Continued progress on development of new Works Management System. Completion of roll-out now expected by end 2020.



WILLOW PUMPS ACQUISITION ALLOWS FOR EXPANSION OF METRO ROD AND METRO PLUMB'S RANGE OF SERVICES



Acquisition of Willow Pumps in October 2019 helps further Metro Rod's ambition of expanding its range of services to the commercial market:

- Leading pump supply, installation and servicing business with a below-ground and above-ground capability.
- The acquisition of this high quality well-established business represents an optimal way for the Group to enter this specialist market at scale.
- Willow Pumps trading exceeded our expectations in its first three months of ownership.
- Three Discovery Days at Willow Pump's main depot have successfully introduced the Metro Rod franchisees to the substantial opportunities in the pumps sector.

SIGNIFICANT OPPORTUNITY TO CREATE A NATIONAL PLUMBING BUSINESS



Metro Plumb's sales continued to grow in 2019, however, our current structure has limitations:

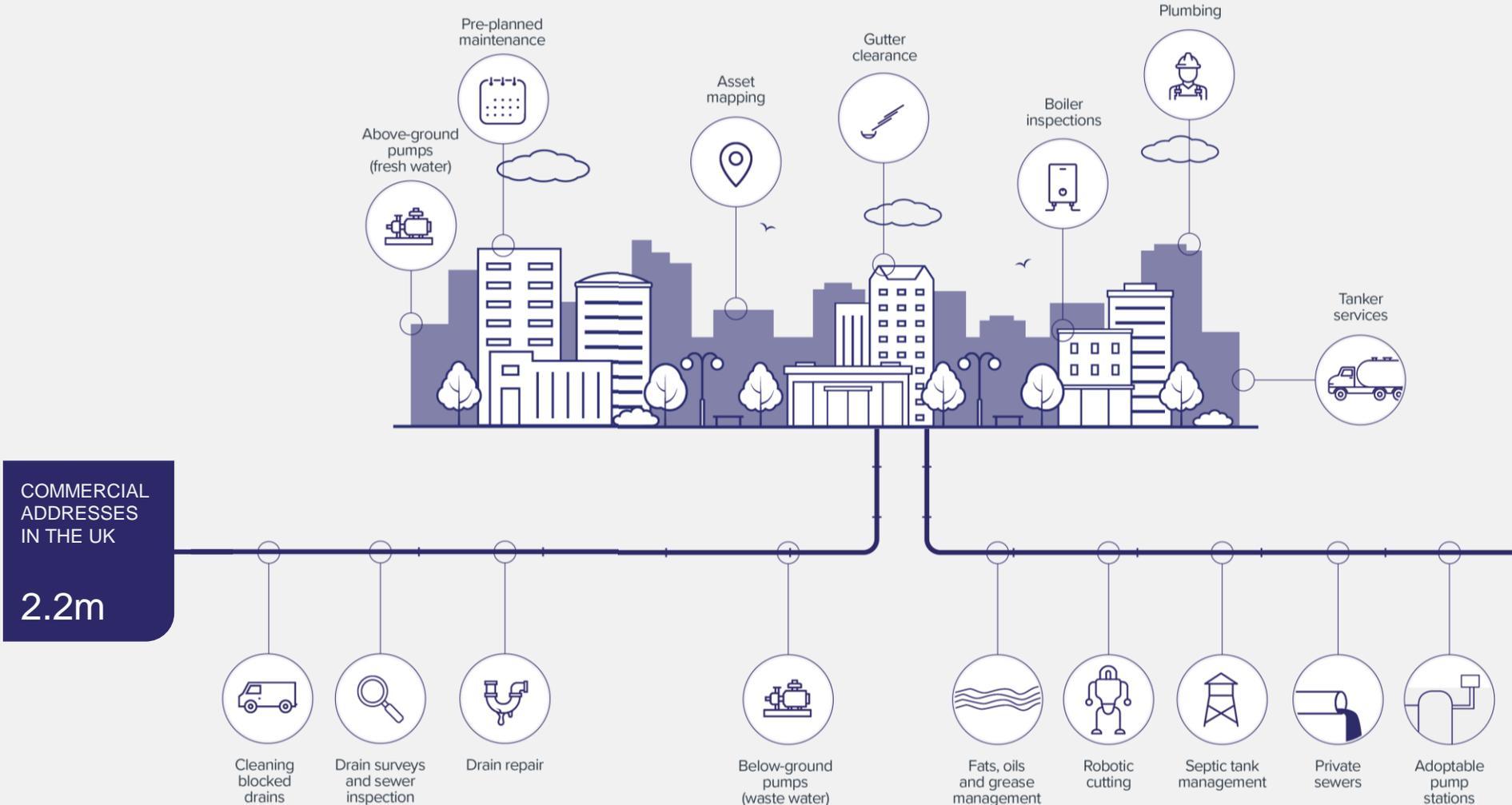
- Metro Plumb is dependent on one principal customer.
- Metro Plumb franchised territories are predominantly operated by Metro Rod franchisees or as DLOs under Kemac.

Metro Plumb will now be franchised separately from Metro Rod:

- Metro Rod franchisees who wish to exit Metro Plumb have been invited to sell their businesses. Benefits of focusing on Metro Rod.
- Metro Plumb Oxford and Maidstone territories sold to new franchisees in 2019.
- Additional new, ambitious Metro Plumb franchisees to join the network.



OUR AMBITION IS TO OFFER A “WATER IN. WASTE OUT.” SERVICE TO THE COMMERCIAL SECTOR



THE MAXIMUM POTENTIAL MODEL



November 2018

MAXIMUM POTENTIAL

£110m

MAXIMUM PENETRATION

4.6%

MAXIMUM YIELD PER ADDRESS

£1,105

June 2019

MAXIMUM POTENTIAL

£161m

MAXIMUM PENETRATION

6.2%

MAXIMUM YIELD PER ADDRESS

£1,194

January 2020

MAXIMUM POTENTIAL

£189m

MAXIMUM PENETRATION

7.4%

MAXIMUM YIELD PER ADDRESS

£1,155

THE B2C BRANDS

ChipsAway
Scratches and scuffs won't dent your pocket

FRANCHISEES
RECRUITED IN 2019

35

FRANCHISEES
205

GROSS PROFIT
£4.07m

OVENCLEAN
The original oven cleaning specialists

FRANCHISEES
RECRUITED IN 2019

14

FRANCHISEES
112

GROSS PROFIT
£0.69m


Barking Mad

FRANCHISEES
RECRUITED IN 2019

16

FRANCHISEES
87

GROSS PROFIT
£0.73m

DIVISIONAL GROSS PROFIT
£5.49m

DIVISIONAL OVERHEAD
£2.96m

DIVISIONAL EBITDA*
£2.53m

MARKETING | FRANCHISE RECRUITMENT | FINANCE | TECHNOLOGY

* EBITDA excludes Group overheads

SUMMARY OF GROUP RESULTS

Year ended 31 December	2019 £'000	2018 £'000	Change £'000	Change %
Statutory revenue A	44,013	35,470	8,543	24%
Franchise payments	(19,612)	(17,330)	(2,282)	13%
Fee income B	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%
Administrative expenses	(11,200)	(9,126)	(2,074)	23%
Adjusted EBITDA C	5,182	4,003	1,179	29%
Depreciation D	(755)	(447)	(308)	69%
Finance expense E	(357)	(340)	(17)	5%
Adjusted profit before tax	4,069	3,216	853	27%
Tax expense	(687)	(604)	(83)	14%
Adjusted profit after tax F	3,382	2,612	770	30%
Amortisation of acquired intangibles	(260)	(216)	(44)	20%
Share based payment	(238)	(138)	(100)	73%
Acquisition-related costs	(295)	-	(295)	
Tax on adjusting items	121	67	54	80%
Statutory profit after tax	2,710	2,325	385	17%

- A • Statutory consolidated revenue increased 24% to £44.0m, with the additional revenue coming from Metro Rod and our DLOs, including £3.8m from Willow Pumps.
- B • Fee income, which reflects our income as franchisor, increased by 35% to £24.4m.
- C • Adjusted EBITDA increased by 29% to £5.2m.
- D • Depreciation increased to £0.8m:
 - Acquisition of Willow Pumps.
 - Purchase of equipment at Metro Rod corporate franchises.
 - Creation of ChipsAway Car Care Centre.
- E • Finance charge of £0.4m increased 4%, reflecting increase of debt following the acquisition of Willow Pumps.
- F • Overall, adjusted earnings increased by 30% to £3.4m.

FEE & DIRECT LABOUR INCOME

Year ended 31 December		2019 £'000	% of Total	2018 £'000	% of Total	Change £'000	Change %
MSF income	A	11,207	46%	10,107	56%	1,101	11%
Sale of franchise territories	B	2,006	8%	1,513	8%	493	33%
Product sales		912	4%	894	5%	17	2%
Direct labour	C	9,097	37%	4,564	25%	4,533	99%
National advertising funds	D	1,179	5%	1,062	6%	117	11%
Fee & direct labour income		24,401		18,140		6,261	35%

A • Strategically important MSF income increased by 11% to £11.2m, driven by a 15% increase in MSF at Metro Rod as a result of the 14% increase in system sales.

B • Fees generated from the sale (or resale) of franchise territories have seen a strong upturn in 2019.

- B2C division: 65 new recruits v.57 in 2018.
- Successful relaunch of re-sales activity at Metro Rod and Metro Plumb.

C • Direct labour income increased as a result of the acquisition of Willow Pumps (£3.8m), the Metro Rod corporate franchises, and the launch of ChipsAway Car Care Centre.

D • National advertising funds are funded and run on behalf of our franchise networks. Although they form a component of income, the Group does not make any profit from these activities.

INDIVIDUAL BUSINESS RESULTS

EBITDA BY BUSINESS

		2019 £'000	2018 £'000	Change £'000	Change %
B2B- Franchisor (Metro Rod)	A	3,184	2,683	501	19%
B2B- DLO (Willow Pumps)	B	492	-	492	100%
B2C	C	2,533	2,368	165	7%
Group overheads		(1,028)	(1,048)	20	2%
Group EBITDA	D	5,182	4,003	1,179	29%

- A**
 - Metro Rod delivered an EBITDA contribution of £3.2m in the period, an increase of 19%:
 - Accelerating system sales growth of 14% (2018: 8%) from our engaged franchise network.
 - Flat performance from Metro Rod corporate franchises.
 - Total IT investment of £1.8m, with £0.7m being capitalised.
- B**
 - Willow Pumps exceeded expectations and contributed £492k in the three months since acquisition, with a particularly strong December.
- C**
 - B2C increased 7% in the year to £2.5m due to improved franchisee recruitment.
- D**
 - Group EBITDA increased 29% to £5.2m

ADJUSTED EPS AND DIVIDEND

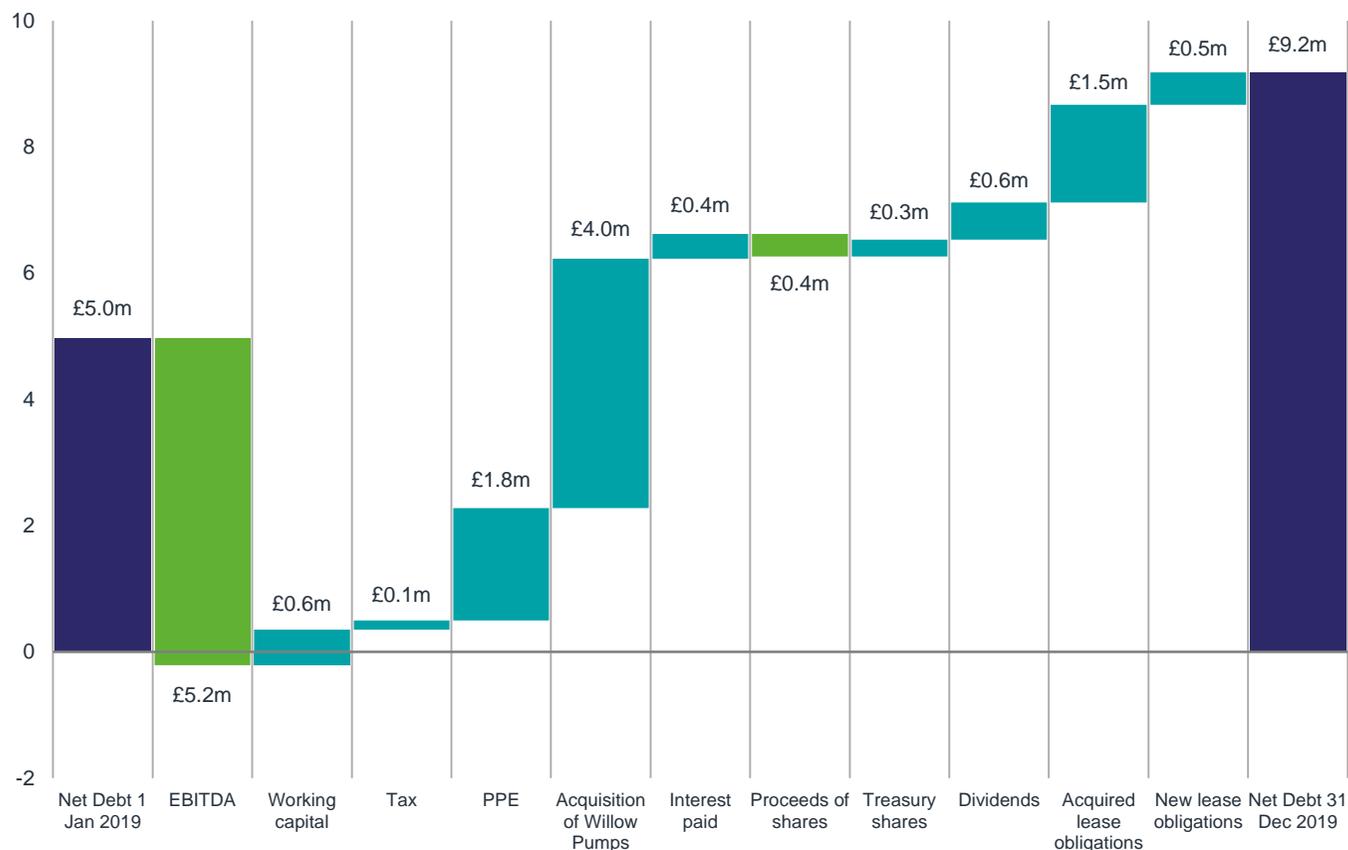
GROWTH IN EPS AND DIVIDEND (P)



■ Dividend

- Adjusted EPS increased by 29% to 4.34p from 3.36p:
 - Earnings growth of 29%.
 - Weighted average number of shares has grown from 77.7m to 77.9m as the result of movements in treasury shares and the issuance of Ordinary Shares to satisfy options and acquisition consideration.
 - At the end of the period the total number of Ordinary Shares outstanding and not held in treasury was 79,488,787.
- Total dividend increased 42% to 0.95p per share:
 - 3.7 times covered by statutory profit after tax
 - 4.6 times covered by adjusted profit after tax.
- Board's intention to continue with our progressive dividend policy, reducing the cover as we reduce our net debt.

MOVEMENT IN ADJUSTED NET DEBT



- Adjusted net debt increased by £4.2m to £9.2m (2018: £5.0m).
- Gross bank debt increased by £1.6m to £9.4m, as payments of £2.4m were off-set by the increase in term loan following the acquisition of Willow Pumps:
 - Gross debt repayable over next 3 years.
 - £5m revolving credit facility in place until April 2023.
- Continued investment in PPE:
 - £1m investment at our DLOs, including £0.3m for a new tanker at Willow Pumps. We have also taken on £2.0m of HP obligations.
 - £0.7m investment in IT systems at Metro Rod.
- Cash and unused facilities of £5.7m allows for acquisitions.

BALANCE SHEET

Year ended 31 December	2019 £'000	2018 £'000	Change £'000	Change %
Property, plant and equipment	4,781	1,286	3,495	73%
Intangible assets	35,507	27,232		
Deferred tax liability	(1,544)	(702)		
Accounting assets B	33,513	26,530	6,983	21%
Inventories	730	245		
Trade and other receivables	16,518	11,048		
Trade and other payables	(12,404)	(8,595)		
Current tax liability	(594)	(196)		
Provisions C	(3,606)	-		
Net working capital D	644	2,502	(1,858)	-289%
Gross debt	(12,761)	(8,847)		
Cash	1,682	2,940		
Statutory net debt A	(11,079)	(5,907)	(5,172)	47%
Net Assets	27,859	24,411	3,448	12%

- A**
- Statutory net debt has increased from £5.9m to £11.1m:
 - £4.0m of the £5.0m acquisition of Willow Pumps was funded with debt.
 - Willow Pumps has also introduced a significant level of hire purchase debt in relation to tanker purchases (£1.6m).
 - IFRS16 has meant the recognition of new lease debt on the balance sheet. However, 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.

- B**
- Intangibles and related deferred tax have increased following the acquisition of Willow Pumps. Deferred tax continues to be at 17%.

- C**
- The provision of £3.6m represents our current estimate of the level of the deferred consideration which we will pay over the next five years out of a total potential amount of £7.5m

- D**
- Excluding the provision, net working capital has increased from £2.5m to £4.3m, driven by the 14% growth in Metro Rod's system sales, and the addition of Willow Pump's working capital requirement.

ACQUISITIONS UPDATE



- 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 market in pursuit of our ambition to offer a “Water in. Waste out” service.
- 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.

SUMMARY & OUTLOOK

- 2019 has seen us successfully build the business both organically and by acquisition.
- Acceleration in the rate of system sales growth at Metro Rod continues to drive organic growth.
- Acquisition of Willow Pumps is an important step in servicing the “Water in. Waste out” requirements of Metro Rod and Metro Plumb’s commercial customers.
- Trading in 2020 has started well.
 - Job intake at Metro Rod, Metro Plumb and Willow Pumps up on 2019
 - Strong start to the year for franchisee recruitment in the B2C division
- Clear opportunities for growth across our B2B and B2C divisions, including selective acquisitions and as we realise benefits of recent investments.
- We look forward to 2020 with considerable confidence.





Appendix



THE GROUP'S FRANCHISE SYSTEMS*

AS AT 31 DECEMBER 2019

	Network size 31 December, 2018	New franchisees recruited in 2019		Franchisees leaving the system in 2019		Net new franchisees in 2019	Network size 31 December, 2019
B2C	387	65	+	(48)	=	17	404
Metro Rod	40	6	+	(4)	=	2	42
Metro Plumb**	1	2	+	0	=	2	3
Total	428	73	+	(52)	=	21	449

*All figures relate to UK franchisees

** Independent franchisees

ENVIRONMENT, SOCIAL AND GOVERNANCE

Julia Choudhury appointed as Board Director with overall responsibility for ESG

ENVIRONMENT

We are committed to reducing our environmental impact, continually improving our environmental performance and supporting our customers in reaching their environmental goals.

- Metro Rod, Willow Pumps, ChipsAway and Ovensclean have an Environmental Management System that is externally audited and accredited to BS EN ISO 14001.
- We aim to employ environmentally-friendly processes where possible.
- ChipsAway's SMART repair process uses mostly water-based formulations and Ovensclean employs a no added caustic system.
- 72% of Chips Away franchisees are trained to IMI NVQ3 Level repair EV and Hybrid vehicles.
- 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.
- 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.

SOCIAL

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 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.
- We are committed to investing in our people through training and development.
- We believe in training for the future. The "Developing Inspiring Leaders" programme was launched in 2019, and we are pioneering this with 12 women from across the business.
- We proactively support employee wellbeing and mental health. Starting in 2018, we have trained 45 staff and some franchisees in mental health awareness.
- 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.
- Annual training for all employees in Anti-Bribery and Corruption and GDPR.

GOVERNANCE

We believe that good corporate governance is vital in supporting our Company's growth strategy and in turn its long-term success.

- Compliance with the 10 key principles in the QCA Corporate Governance Code for small and mid-sized companies
- Independent board members
- Independence of Audit and Remuneration committees
- Annual review of Board effectiveness
- 1 out of 9 board members is female

OUR TEAM

Stephen Hemsley



Executive Chairman

Chris Dent



Chief Financial Officer

Peter Molloy



Managing Director, Metro Rod

Tim Harris



Managing Director, B2C Division

Julia Choudhury



Corporate Development Director

Colin Ross



Chief Information Officer

Nigel Wray



Non-executive Director

David Poutney



Non-executive Director

Rob Bellhouse



Non-executive Director

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