FRANCHISE BRANDS

# Acquisition of Pirtek Europe

**April 2023**

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Our purpose

# If they grow, we grow

## Contents


# Introduction & transaction overview

# Introduction
## & transaction overview

### £200M ACQUISITION OF PIRTEK (EUROPE)

### ESTABLISHED EUROPEAN PROVIDER OF ON-SITE HYDRAULIC HOSE REPLACEMENT SERVICES

Acquisition represents an EV/Adjusted EBITDA* multiple of 13.6x, forecast to fall to 12x in the first full year of ownership.

**Pirtek has a strong history of growth:**

| 5-year Adjusted EBITDA* CAGR | System sales* | Adjusted EBITDA* |
|---|---|---|
| 18.8% | £164.1m | £14.7m |

* Year-ended 31 December 2022 derived from audited accounts to 31 March 2022 and unaudited management accounts to 31 December 2022.

Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, exchange differences, share-based payment expense and non-recurring items.

Acquisition is expected to be immediately earnings accretive and forecast to generate single digit earnings accretion in the first full year of ownership.

The £200m acquisition, transaction costs, and working capital will be funded by an equity fundraise, consideration shares and a £110m debt package.

Forecast pro forma net debt to Adjusted EBITDA estimated to be 2.3x at 31 December 2023 (on a prorated basis), falling to 1.6x at 31 December 2024.

Full repayment of debt expected within five years (excludes B2C disposal proceeds).

# Overview of Franchise Brands

# Overview of Franchise Brands

## WHO WE ARE

- Multi-brand international franchisor, focused on B2B, van-based, reactive and planned services.
- Resilient growth company.
- Operations in UK, North America and Europe.

## FOCUS

- Focused on building market-leading B2B businesses primarily via a franchise model.
- If our franchisees grow, we grow.
- Capital light with strong cashflow.
- B2C disposal process.

## SCALE

- System sales of £186m in 2022.
- 586 franchisees across six principal brands in 6 countries.
- 415 direct employees*.

## HOW

Enabling franchisees to grow their businesses.

Use DLOs selectively where:

- need for corporate franchises.
- develops franchise channel.
- Specialist services.

*On a full time equivalent basis

# Franchise Brands' key strengths

**FOCUSED ON BUILDING MARKET LEADING BRANDS**

with a long trading history. We own all our brands.

**TECHNOLOGY ENABLED BUSINESS**

facilitating strong operational gearing.

**OPPORTUNITIES**

for organic growth and growth enhanced by accretive acquisitions.

**HIGHLY EXPERIENCED TEAM**

who have worked together for many years
in the franchise sector.

**FINANCIAL STRENGTH**

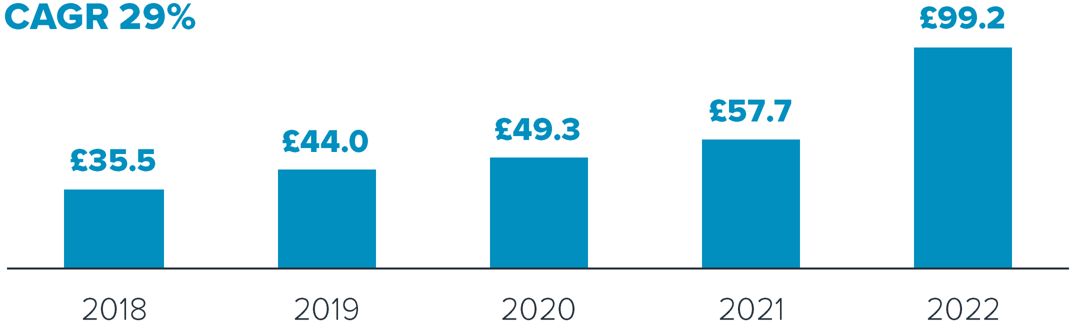
strong record of earnings growth and large ungeared balance sheet.

# Track record of delivery

FRANCHISE BRANDS

### Statutory revenue (£m)

**CAGR 29%**

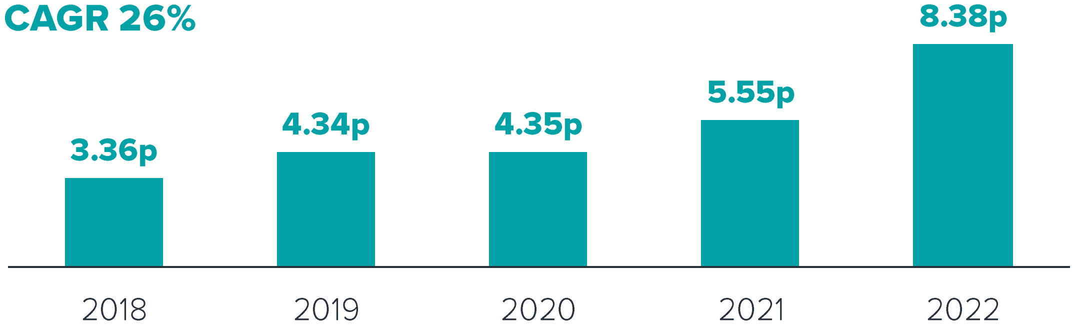



### Adjusted EBITDA (£m)

**CAGR 40%**

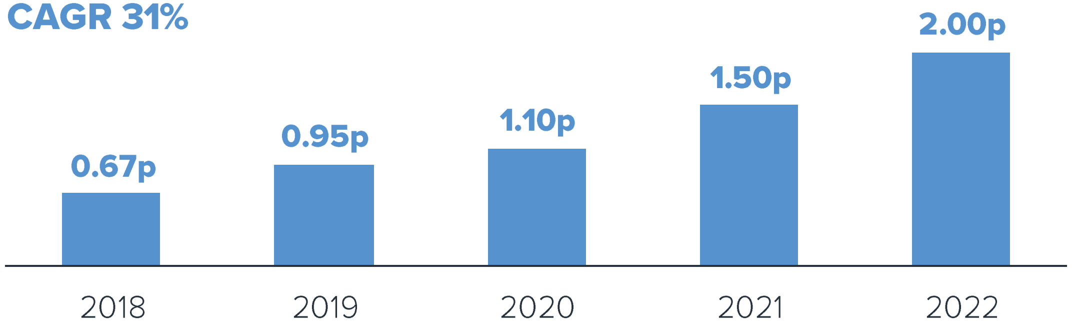

### Adjusted earnings per share (p)

**CAGR 26%**




### Dividend per share (p)

**CAGR 31%**




**ORGANIC GROWTH ENHANCED BY SELECTIVE ACQUISITIONS**

**ADJUSTED EBITDA 2016**
**£1.4m**

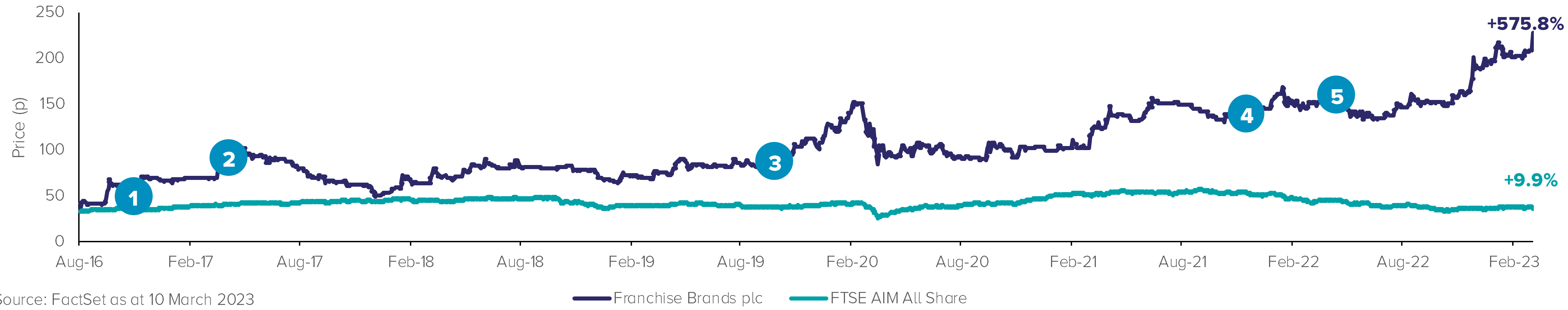
**ADJUSTED EBITDA 2022**
**£15.3m**

**INCREASE SINCE IPO**
**£13.9m**

**ORGANIC GROWTH**
**51.9%**

# Track record of delivery

| | 1 Barking Mad | 2 Metro Rod | 3 Willow Pumps | 4 Azura | 5 Filta |
|---|---|---|---|---|---|
| | **October 2016** | **April 2017** | **October 2019** | **November 2021** | **March 2022** |
| **Consideration** | £0.9m | £28.4m | £7m | £1m | £51m |




Source: FactSet as at 10 March 2023

| | | |
|---|---|---|
| **Adj. EBITDA*** | **£1.4m** | **£15.3m** |
| **Market Cap** | **£15.55m** | **£291m**** |
| **Share price** | **33p** | **223p**** |

*Year ended 31 December

**At 10 March 2023

# Acquisition track record

| | METRO ROD | WILLOW PUMPS | filta |
|---|---|---|---|
| **Division** | B2B | B2B | B2B |
| **Date** | 11 April 2017 | 7 October 2019 | 10 March 2022 |
| **Price paid** | **£28.4m** (£20m equity, £17m cash funded by new debt facilities) | **£7m** (£6m cash, £1m equity) (£5m upfront, £2m deferred) | **£51m** (all equity) |
| **Strategic rationale** | Expand into B2B franchise sector | Leverage Metro Rod by introducing pump expertise | US expansion of franchise business providing services to hospitality sector |
| **Transaction summary** | - Acquired from Private Equity<br>- Neglected franchise business with significant franchisee discontent<br>- Launched Vision 2023 to revitalise the business and give more empowerment to franchisees | - Acquired from founder for cash & equity plus an earn-out<br>- Lock-down 5 months after completion which impacted hospitality and construction customers.<br>- Settled earn-out three years early to accelerate integration with B2B | - AIM-quoted, acquired in an all-share deal<br>- Strong recovery in 2022 from the impact of lock-downs<br>- Small share of large market with huge growth potential |
| **Value creation** | - Purchase multiple of 11.4x EBITDA, now implied 4.5x as a result of profits increasing over 150%<br>- ROCE* of 22% | - After earn-out settlement purchased on effective multiple of 3.8x EBITDA<br>- ROCE* of 26% | - Purchase multiple of 15.3x EBITDA, now implied 6.8x on annualised contribution in 2022<br>- ROCE* of 15% |

*ROCE is defined as Adjusted EBITDA divided by acquisition consideration

# Levers for growth

Headroom
for future revenue and
profit growth

## INCREASE MARKET SHARE

We only have a small share of our chosen markets.

## INCREASE COVERAGE

We do not have national coverage for most of our brands, limiting our ability to serve existing national customers.

## EXPAND RANGE OF SERVICES

The range of services offered can be expanded to increase services to existing customers and enter new markets.

## DRIVE DIGITAL TRANSFORMATION

Use technology to enhance the customer experience, increase sales, improve retention and drive operational gearing.

## OPPORTUNITY FOR FURTHER GEOGRAPHICAL EXPANSION

We own all our brands and there is the potential to launch them in additional international markets.

## ACQUIRE FURTHER B2B FRANCHISE SYSTEMS

Providing both sector and geographical diversification.

# Overview of Pirtek

# Established European provider of on-site hydraulic hose replacement services

Established in 1988 and has become a prominent European provider of on-site hydraulic hose replacement services.

Operates in eight countries via 213 service centres and >800 mobile service vehicles.

System sales are largely arrived at from franchising.

- UK, Ireland, Germany, Austria and the Netherlands are franchised*.
- Sweden and France are company owned operations.
- Belgium operates a mixed model.

Master agreement enables trade in a further eight countries.

Highly experienced management team, led by Alex McNutt, CEO since 2015.


**Service centres**

**213**

**Franchisees**

**70**

**System sales****

**£164.1m**

**Adjusted EBITDA****

**£14.7m**

* Includes small number of corporate franchises in UK (1), Austria (1) and the Netherlands (2)

** Year-ended 31 December 2022 derived from audited accounts to 31 March 2022 and unaudited management accounts to 31 December 2022.

# Value-added service offering to diverse customers

## MISSION-CRITICAL, EMERGENCY SERVICE TARGETS ONE HOUR RESPONSE, 24/7/365.

High level of resilience. Demand for time-sensitive service solutions of great importance in sectors with high labour costs, well evolved customer service standards and high downtime costs.

Comprehensive range of other value-added services underpinned by c2,500 core products supplied by Pirtek.

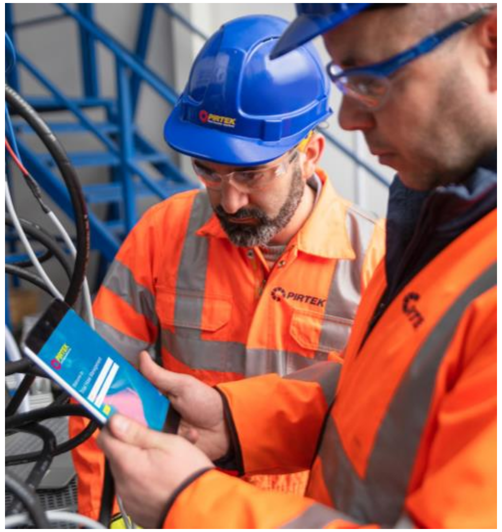
Diverse portfolio of thousands of customers across a number of end markets with no customer concentration. Largest customer <1% revenues.

Sales consist of national accounts, regional accounts and local accounts.

Approximately 500,000 jobs per year are carried out.

- Emergency on-site hydraulic service
- Non-urgent hose replacement
- Trade counter service and support
- Hose flushing, testing and fluid analysis
- Ram repair and manufacture
- Oil spill products
- Planned maintenance and servicing
- Total hose management
- Systems design and bespoke solutions
- Training courses
- Pneumatic products and service

# Pirtek operating model

## FRANCHISED MARKETS

- Strong, proven franchise model
- Management Service Fees (MSF) ranging from 15% in Germany to 19.5% in UK.
- Product sales charged at cost plus handling fee.
- Some costs recharged to franchisees, as follows:
  - IT & Systems
  - Marketing
  - Training (some countries)
  - Central invoicing services

## OWNED MARKETS

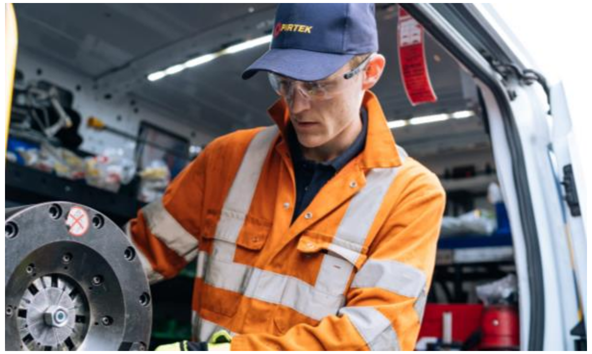
- Operate direct labour operations in Sweden, France, part of Belgium.

## FRANCHISE LICENSE AGREEMENT

- Master agreement between Pirtek Australia and Pirtek Europe.
- Trademark license agreement alongside the Master Agreement.
- Exclusive license in effect allowing Pirtek Europe and its subsidiaries to grant franchises and use the Pirtek name, system and related trademarks within 16 European countries
- Rights are granted on a perpetual, royalty-free basis.

# Pirtek key financials 2020-2022

| Prorated year ended 31 December | 2020 £m | 2021 £m | 2022 £m | 2020 to 2022 % Change |
|---|---|---|---|---|
| **System sales** | **122.9** | **139.1** | **164.1** | ***33.5%*** |
| **Statutory revenue** | **34.8** | **40.1** | **49.2** | ***41.6%*** |
| Cost of sales | (10.2) | (11.6) | (14.4) | ***40.4%*** |
| **Gross profit** | **24.5** | **28.5** | **34.8** | ***40.2%*** |
| *GM%* | *70.5%* | *71.1%* | *70.8%* | |
| Administrative expenses | (16.2) | (17.5) | (20.2) | ***24.4%*** |
| *Administrative expenses as a % of system sales* | *13.1%* | *12.6%* | *12.3%* | |
| **Adjusted EBITDA** | **8.3** | **11.0** | **14.7** | ***77.0%*** |
| Depreciation and amortisation of software | (0.4) | (0.5) | (0.6) | ***68.3%*** |
| **Adjusted profit before tax** | **8.0** | **10.5** | **14.0** | ***77.4%*** |



Year-ended 31 December 2022 derived from audited accounts to 31 March 2022 and unaudited management accounts to 31 December 2022

# Pirtek
## Levers for growth

### GROW SYSTEM SALES
Multiple levers from CRM, outbound sales capability, targeted marketing campaigns, Mobile Service Technician contact calls, incentives and measurement. Opportunity to drive local sales.

### EXPAND RANGE OF SERVICES
Opportunity to grow total hose management, which includes full preventative maintenance proposition, and expand the amount of planned, as opposed to, reactive business. Technically driven sales helps franchisees deliver more specialist, high value work.

### LEVERAGE TECHNOLOGY
Business intelligence software to help franchisees improve management information and increase efficiency.

Customer portal which helps customers self serve and CRM.

### POTENTIAL FOR GEOGRAPHICAL EXPANSION
Pirtek operates in only 8 European markets but has rights to an additional 8 countries (Spain, Italy, Portugal, Norway, Denmark, Finland, Iceland and Luxembourg).

# Overview of the combined business

# Strategic rationale for acquisition

**AIM TO CREATE A MARKET-LEADING INTERNATIONAL B2B MULTI-BRAND FRANCHISOR IN UK, EUROPE, NORTH AMERICA**

The size and diversification of the enlarged Group will provide greater resilience in the services provided, customer base, end markets, franchise networks and geographically.

**ABILITY TO LAUNCH BRANDS OF EXISTING GROUP INTO NEW MARKETS**

Pirtek's established overhead will provide a low-cost platform from which to launch the existing Group's brands into new markets.

**COMBINED FRANCHISING EXPERIENCE OF ENLARGED GROUP WILL ACCELERATE GROWTH OF COMBINED BUSINESS**

Pirtek's management team is considered strong and provides breadth and capacity for further expansion of the existing and enlarged Group's brands into Europe and the US.

**OPERATING LEVERAGE FROM CENTRAL SERVICES**

Principally in the areas of technology, marketing, finance which will allow significant expansion of the group without additional overhead costs.

# Enlarged Group financials

| Year ended 31 December (£m) | 2020 Actual | 2021 Actual | 2022 Actual | 2023 Forecast | 2023 Forecast Prorated | 2024 Forecast |
|---|---|---|---|---|---|---|
| | FRANCHISE BRANDS | FRANCHISE BRANDS | FRANCHISE BRANDS | FRANCHISE BRANDS [2] | FRANCHISE BRANDS [2] | FRANCHISE BRANDS [2] |
| | | | filta [1] | filta | filta | filta |
| | | | | PIRTEK [3] | PIRTEK [4] | PIRTEK |
| Statutory revenue | 49.9 | 57.7 | **99.2** | 155.0 | 168.0 | 182.0 |
| **Adjusted EBITDA** | 6.6 | 8.5 | **15.3** | 29.0 | 33.5 | 36.9 |
| *Growth in Adjusted EBITDA (%)* | *28.1%* | *28.8%* | ***80.0%*** | *89.5%* | *n/a* | *27.2%* |

- Forecasts are management estimates only, using internal assumptions; not independently verified or reported on; actual results may differ.

[1] 10 months of Filta ownership
[2] Includes B2C Division
[3] Assumes 8 months of Pirtek ownership
[4] Assumes full year of ownership

# New management structure

## MANAGEMENT

**Stephen Hemsley**
**Executive Chairman**

Stephen is Executive Chairman of Franchise Brands, which he co-founded with Nigel Wray in 2008. He joined Domino's Pizza as FD in 1998 progressing to CEO, Executive Chairman and Non-executive Chairman. He led Domino's from private ownership to a market cap of around £1.5bn. Stephen retired from Domino's in 2019 after 21 years to focus exclusively on Franchise Brands.

**Peter Molloy**
**CEO, UK B2B**

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 and to Managing Director in 2017. Prior to joining Metro Rod, he was Managing Director of Solaglas Replacement Glazing, part of the Saint-Gobain Group.

**Jason Sayers**
**CEO, Filta**

Jason founded Filta in the UK in 1996 and as Group CEO was the driving force for the business, with ultimate responsibility for all of its operations worldwide. He has a degree in European Business Systems, major Systems Analysis.

**Alex McNutt**
**CEO, Pirtek***

Alex joined Pirtek as CEO in 2015. He implemented the current growth strategy and groupwide initiatives. He has a strong track record of growing and acquiring businesses. He was previously CEO at Waterwell Su Hizmelteri, Pronet Guvenlik, Anglian Group and President of ADT Europe and South Africa prior to joining Pirtek.

## GROUP FINANCE

**Andrew Mallows**
**Interim Chief Financial Officer**

Andrew originally joined Franchise Brands in 2016 as Finance Director, and since 2017 has been the Group's Commercial Director. He has significant experience in franchising and business development and was Finance Director of Domino's Pizza UK from 2001 to 2004 before being appointed Business Development Director. On 26 July 2022 Andrew was appointed Interim Chief Financial Officer of Franchise Brands.

**Adrian Richards**
**Group Finance Director**

Adrian is a Chartered Management Accountant and joined Pirtek as UK FD in 2010, and was promoted to CFO in 2015. He is a strategic CFO with significant input into operational and commercial decision making. He has held senior positions at Pims Group, Gate Total Solutions and Alpha Inflight Retail prior to joining Pirtek.

FRANCHISE BRANDS

Post-acquisition, it is intended that the enlarged group's registered office and headquarters will move from Macclesfield to a new location in West London

* It is intended that Alex McNutt will be appointed a Director of Franchise Brands plc

PIRTEK


# Funding structure

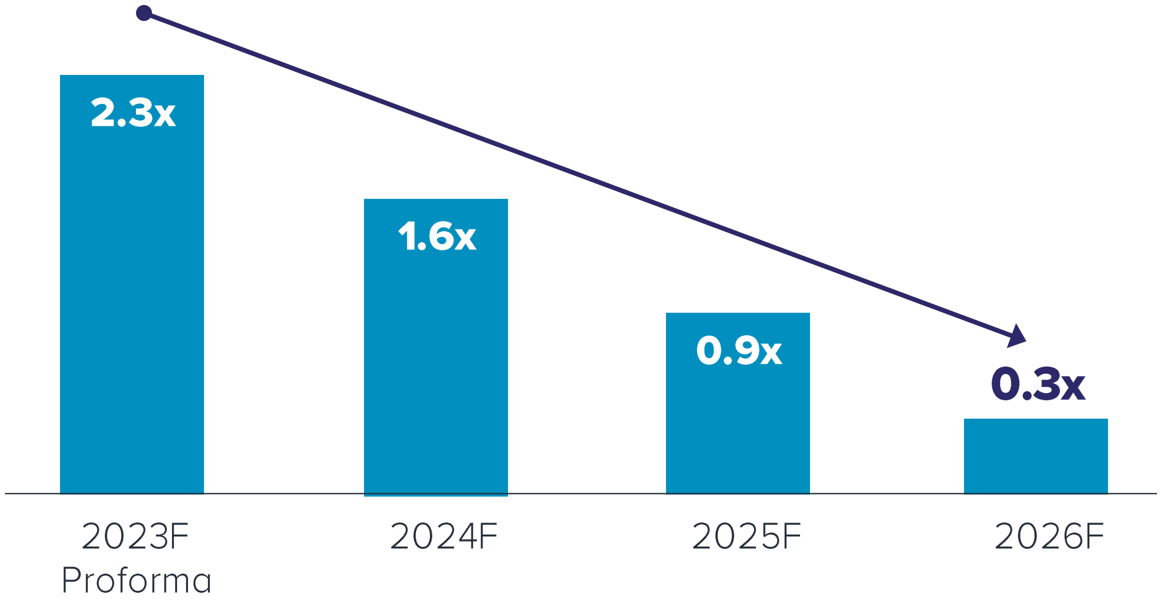
# Debt structure

**Expecting to fully repay acquisition leverage within 5 years whilst continuing to grow organically**

## DEBT STRUCTURE

| | |
|---|---|
| **RCF** | RCF of £55m<br>Tenor of 4 years plus 1 year optional extension |
| **Term Loan** | Amortising term loan of £55m (Quarterly repayments of £2.5m starting quarter ending 30 September 2023 and each quarter thereafter up to and including quarter ending 31 December 2026, £10m final payment)<br>Tenor of 4 years plus 1-year optional extension |
| **Margin** | Both facilities have a margin of between 200bps and 300bps over SONIA, dependent on leverage on a LTM basis |

## ESTIMATED NET DEBT TO ADJUSTED EBITDA AT 31 DECEMBER




- Deleveraging profile excludes proceeds from B2C disposal.
- Management does not expect to make any further significant acquisitions while integration is on-going and until leverage reduces to target corridor of 1.0 – 1.5x Adjusted EBITDA.

Management estimates only using internal assumptions; not independently verified or reported on; actual results may differ.

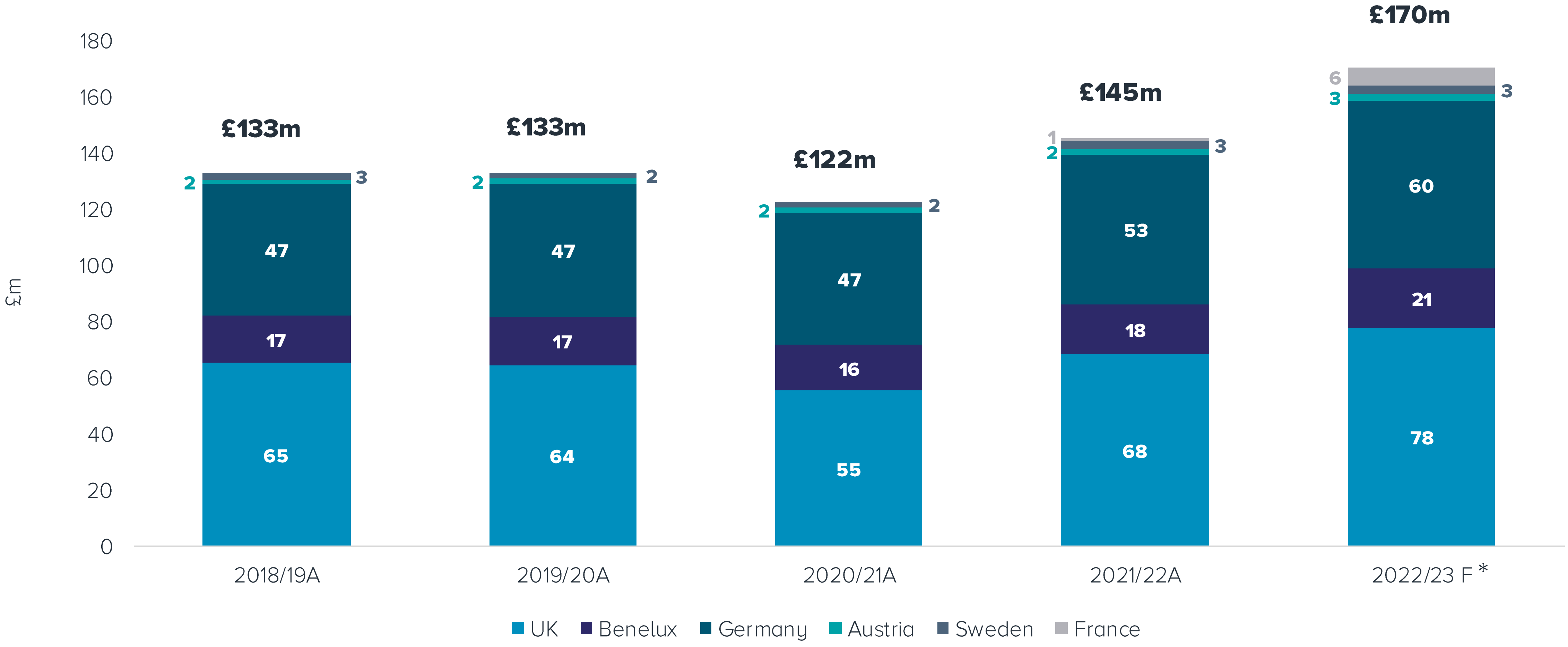
# Summary

- Compelling acquisition which will create an international B2B franchise group with diversified services, customer base and geographical reach.
- Expected to be immediately earnings accretive and forecast to generate single digit earnings accretion in the first full year of ownership.
- Initial leverage is forecast to be repaid within 5 years. Could be accelerated by disposal of B2C businesses.
- Experienced management team provides breadth and capacity for further expansion of existing and enlarged Group's businesses into Europe and US.
- Maintains momentum focused on organic growth enhanced by selective acquisitions.

# Appendix

# Supplementary information on Pirtek

# System sales growth by region

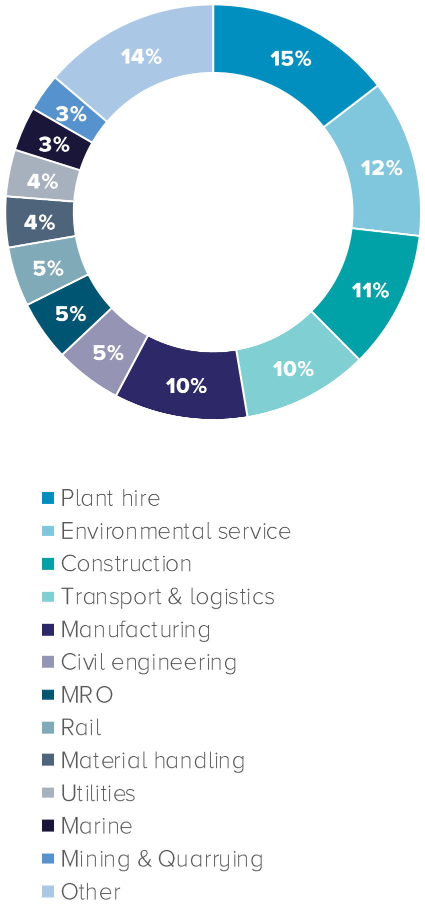



Financial year to 31 March.

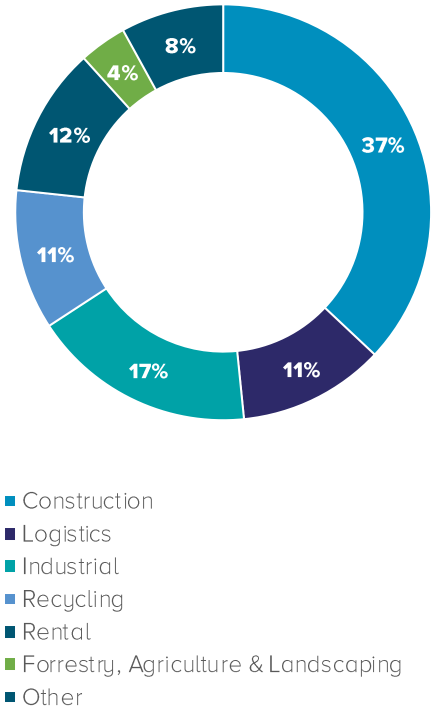
*Management estimates only using internal assumptions; not independently verified or reported on; actual results may differ.

# Resilient, diversified end markets

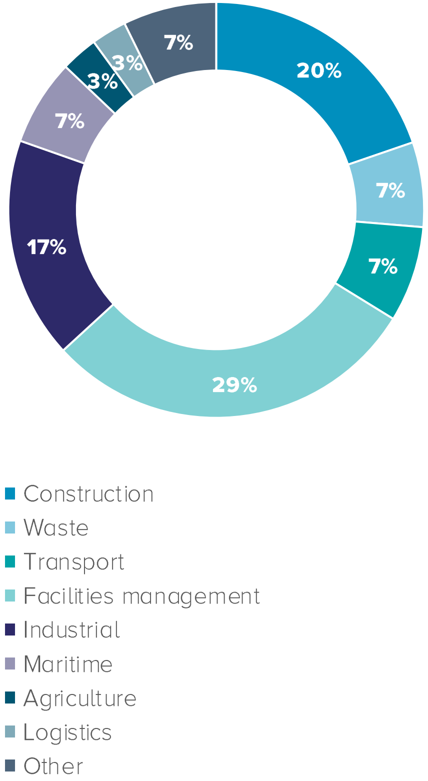
## UK



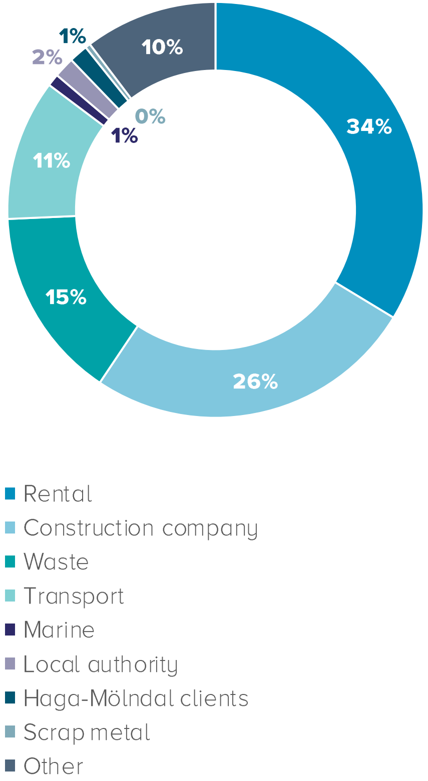

## Germany



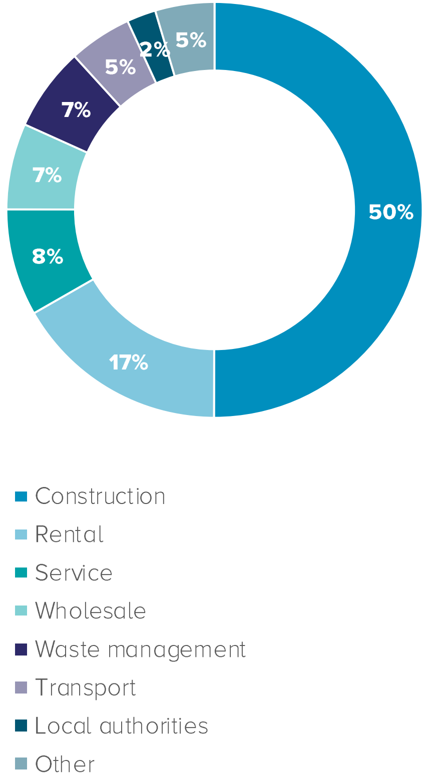

## Benelux




## Sweden




## France




Data for 9 months to 31 December 2022

# High value-added Franchisor proposition

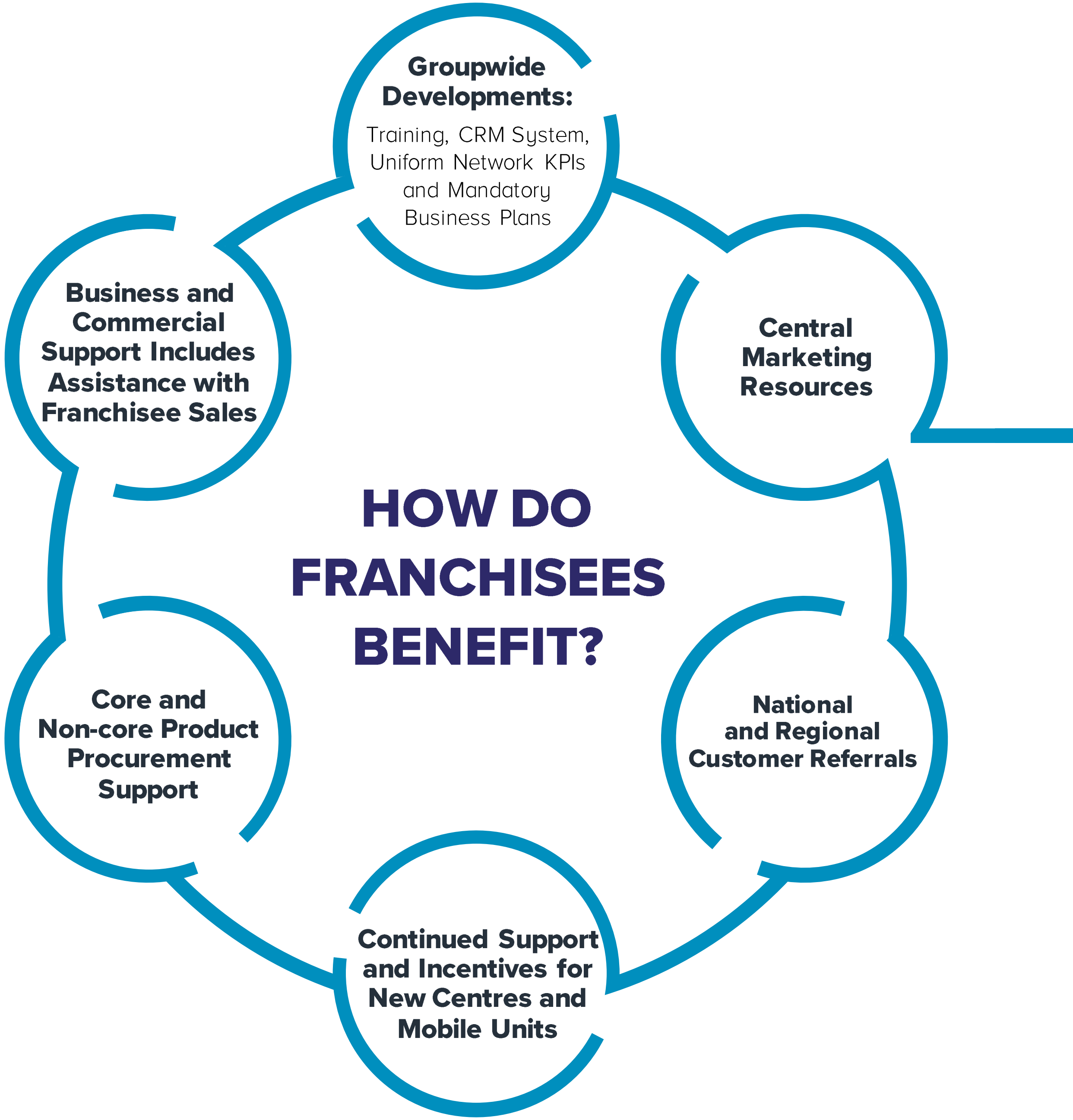
Strong support and development for Franchisees

*"Pirtek UK and Ireland provides lots of support, skills, knowledge and help from the entire network and are there to contribute to your success"*

Owner of eight Pirtek centres in the UK

*"From a credit controller 26 years ago to owning two franchises, if you have the drive and passion to succeed, then Pirtek can be incredibly rewarding. This business has been a great investment for me and my family."*

Owner of two Pirtek centres in the UK



# Pirtek's European service delivery capability

| | FRANCHISEES | VANS | CENTRES |
|---|---|---|---|
| **UK & Ireland** | 37 | 334 | 86 |
| **Benelux** | 10 | 99 | 23 |
| **Germany** | 20 | 321 | 90 |
| **Austria** | 3 | 20 | 6 |
| **Sweden** | - | 22 | 1 |
| **France** | - | 42 | 7 |
| **Total** | 70 | 838 | 213 |

* As at 31 December 2022


# Key purchasing criteria and customer feedback

Pirtek has historically outscored their key competitors on key purchasing criteria, allowing them to charge premium rates

| KEY PURCHASING CRITERIA | IMPORTANCE | RELATIVE PERFORMANCE | CUSTOMER COMMENTS |
|---|---|---|---|
| Speed of Response | ★★★★ | Poor / Excellent | "...Pirtek can't be beaten on speed. When you have that sort of urgency, they're the obvious choice every time. Hydraquip can't give us that..." |
| Nationwide Service | ★★★☆ | Poor / Excellent | "...Pirtek is the only one who is truly national, and can reach you wherever you are within reason. We've tried Parker, and Hydraquip, but they couldn't get to the more widespread places..." |
| Quality of Job | ★★★☆ | Poor / Excellent | "...We use a few other suppliers, mostly independents and Hydraquip. But Pirtek have got better quality and they get the lion's share of our work..." |
| Customer Service | ★★☆☆ | Poor / Excellent | "...Compared to the competition, I think Pirtek are spot on. I think they're better than the competition on pretty much every dimension. No one else offers the photos and that's worth a lot to us..." |
| Health & Safety | ★☆☆☆ | Poor / Excellent | "...They're much better for health and safety. If you ask them, they'll be able to tell you their health and safety specifications. The other suppliers don't do that ..." |
| Pricing | ★★☆☆ | Poor / Excellent | "...They're not the cheapest but they're still reasonably competitive and definitely worth the extra money..." |

**Key:** Pirtek Competitor 1 Competitor 2

Source: LEK research, September 2018

# Key milestones

PIRTEK

**1988**
Peter Duncan brings concept from Australia to Park Royal UK

**1996**
Cologne centre opens in Germany

**1997**
Rotterdam Centre opens in the Netherlands

**1998**
Antwerp opens Centre in Belgium

**2017**
Pirtek Acquires Slangakuten Sweden

**2021**
Returned to France with Acquisition of Allo Flexs

**2022**
Pirtek Acquires Flex Up and centres in Lyon & Grenoble

**2023**
**OPPORTUNITY TO GROW WITH FRANCHISE BRANDS**

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# Franchise license agreement

- Franchise Licence Agreement (the "Master Agreement") is between Pirtek Fluid Systems Pty Ltd ("PFSPL"), an Australian company, and Pirtek Europe Limited ("PEL").
- Trademark licence agreement alongside the Master Agreement.
- Master Agreement provides that PFSPL grants to PEL an exclusive licence to use the PFSPL system and trade name and related trademarks within 16 countries: the UK, Republic of Ireland, Germany, Belgium, The Netherlands, Luxembourg, France, Norway, Sweden, Denmark, Finland, Iceland, Italy, Austria, Spain and Portugal.
- The Master Agreement is, in effect, a master licence allowing PEL and its subsidiary undertakings to grant franchises and use the Pirtek name and trademarks in the Territory or sub-divisions thereof in the operation of a business selling, custom manufacturing and installing hydraulic industrial hoses, fittings and components.
- Whilst the grant of rights to PEL is irrevocable, there is a termination right for PFSPL to exercise if PEL becomes insolvent or ceases to carry on trading. There is no right in the Master Agreement to terminate for breach of contract or for change of control.

**Number of European countries which Pirtek has rights to**

**16**

**Number of countries Pirtek trades in currently**

**8**


PIRTEK

# Pirtek Corporate team

- **ALEX MCNUTT** — CEO
  - **ADRIAN RICHARDS** — CFO
  - **CHRIS STUCKEY** — UK & Ireland MD
  - **MICHAEL THIEHOFE** — Germany & Austria MD
  - **HARALD OVERWATER** — Netherlands and Belgium MD
  - **SEBASTIEN MAUQUE** — France MD
  - **PETER BRINGBY** — Sweden MD