BUILDING OUR BUSINESS

ANNUAL REPORT AND ACCOUNTS 2020

FRANCHISE BRANDS

OUR PURPOSE

We build market-leading businesses primarily via a franchise model.

We support our franchisees to successfully grow their businesses and achieve their goals:

- Unity behind our purpose; when they grow, we grow.
- Building market-leading brands that support the success of our franchisees.
- Providing specialist expertise, tools and development to our franchisees so they can deliver a first-class customer experience.
- All the benefits of passionate and knowledgeable support teams for each brand.

PROGRESSING METRO ROD'S VISION 2023 STRATEGY

Harnessing technology to benefit our customers. See pages 12 and 13.

Expanding our 'Water In. Waste Out.' proposition. See pages 14 and 15.

WHY INVEST IN FRANCHISE BRANDS

Market-leading brands in selected customer segments. See pages 16 to 21.

Proven track record of developing our businesses. See pages 12 to 21.

Demonstrable track record of shareholder value creation. Five-year CAGR:

Adjusted EBITDA	Dividend
47%	**59%**

Significant potential to grow our portfolio of brands.

Highly experienced Board and senior management team who are significant shareholders (57%). See pages 34 to 36.

Potential to accelerate our growth through targeted earnings-enhancing acquisitions. See pages 14, 15, 18 and 19.

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Front cover image:

GEORGE CAPEL
Senior Field Engineer
Willow Pumps

FINANCIAL HIGHLIGHTS

REVENUE
+12%

£49.3m

2019: £44.0m

ADJUSTED EBITDA*
+28%

£6.6m

2019: £5.2m

PROFIT BEFORE TAX
+12%

£3.7m

2019: £3.3m

ADJUSTED EARNINGS PER SHARE**
+0%

4.35p

2019: 4.34p

DIVIDEND PER SHARE
+16%

1.10p

2019: 0.95p

NET CASH/(NET DEBT)

£4.9m

2019: £(11.1)m

OPERATIONAL HIGHLIGHTS

A resilient performance following strong growth in Q1, early and decisive action taken during the Spring lockdown to reduce costs, and a strong recovery across the majority of businesses during the second half of the year.

Willow Pumps fully integrated into the Group, and assumed management responsibility for the two Metro Rod corporate franchises, with positive results.

B2C division closed during the Spring lockdown, but resumed trading in June 2020, with a strong restart at both ChipsAway and Ovenclean.

Robust B2C franchise recruitment of 58 (2019: 61), with 31 new franchisees in H2 (H2 2019: 27).

Roll-out of "Vision" works management system completed on-time and on-budget.

* Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and share-based payment expense and non-recurring items (COVID-19 related restructuring charge and bad debt provision).

** Adjusted EPS is earnings per share before amortisation of acquired intangibles, share-based payment expense and non-recurring items (COVID-19 related restructuring charge and bad debt provision).

OUR LEADING BRANDS

The Group currently has a combined network of over 425 franchisees across five principal franchise brands in the UK.

The Group is organised into a B2B division comprised of Metro Rod, Metro Plumb, and Willow Pumps, and a B2C division that incorporates ChipsAway, Ovenclean and Barking Mad. This divisional organisation is designed to provide a greater focus and structure to support the strategic development of our B2B and B2C brands.

Each of our brands are leaders in their respective markets and each brand has a long trading history. The combined trading history of all the Group's brands is over 135 years. The Group employs 265 people across three principal locations in Macclesfield, Kidderminster and Aylesford.

B2B

METRO ROD DRAIN CARE AND REPAIR

METRO PLUMB THE NATION'S LOCAL PLUMBER

METRO ROD

- The UK's commercial drainage experts with over 35 years' experience.
- Provides one-stop solutions to a range of commercial customers, including facilities management, construction, manufacturing, education, retail, insurance, water utilities and the public sector.
- Full national coverage through the B2B divisions network of 50 depots and 425 highly trained engineers.

METRO PLUMB

- Specialist plumbing franchise built on providing emergency services to insurance customers.
- Range of services is expanding and moving to service domestic as well as commercial customers.
- 30 franchisees of which 5 are independent.

SYSTEM SALES
£40.6m

ADJUSTED EBITDA*
£3.7m

METRO ROD AND METRO PLUMB FRANCHISEES
47

See pages 16 and 17.

* Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation and share-based payment expense and non-recurring items (COVID-19 related restructuring charge and bad debt provision).

WILLOW PUMPS

- Founded in 1997, a leading pump design, installation and maintenance business, with a below-ground and above-ground capability.
- One-stop shop for design, installation and maintenance of adoptable and non-adoptable pump stations.
- Servicing, reactive and extra works for a wide range of commercial customers across different sectors.
- Acquired by Franchise Brands in 2019 to help expand Metro Rod and Metro Plumb's range of services.

REVENUE
£13.2m

ADJUSTED EBITDA*
£1.8m

ENGINEERS
40

See pages 14 to 15 and 18 to 19.

B2C

CHIPSAWAY

- The UK's leading mobile car paintwork repair specialist established in 1994.
- ChipsAway has 215 franchisees in the UK.
- 33 Car Care Centres can complete larger and more specialist repairs.

OVENCLEAN

- The leading and longest established oven cleaning business in the UK since 1994.
- Ovenclean has a network of 100 franchisees.

BARKING MAD

- A leading provider of dog home boarding services (dog holidays) since 2000.
- Services provided by 71 franchisees.

SYSTEM SALES
£18.8m

ADJUSTED EBITDA*
£2.1m

UK FRANCHISEES
386

See pages 20 and 21.

PROTECTING OUR BUSINESS

We moved swiftly and decisively to right-size the business to trade profitably through the crisis.

The actions we took very early in the crisis to right-size the business to match anticipated levels of income enabled the Group to trade profitably through the crisis. We also worked with our teams and franchisees to develop and implement safe working practices. At all times our key priority has been the safety of our team members, franchisees, engineers, customers and the public whilst continuing to provide the best possible customer service in a challenging environment.

Our businesses were impacted in different ways by the crisis. The majority of the services of our B2B division were designated by the Government as essential to ensure the smooth running of the health service, public utilities and other key businesses during the first lockdown. The business therefore continued to operate and serve customers, albeit at significantly lower volumes in the Spring lockdown.

We protected our cost base by furloughing approximately 40% of our staff. We also supported our franchisees to right-size their businesses.

We are proud of the role our front-line key workers have played during the crisis in keeping Britain's drains and water flowing.

Our B2C division was impacted more significantly by the Spring lockdown as it does not provide essential services. During this period, it was effectively shut down. We furloughed 85% of the team and supported our franchisees by reducing or suspending fees and charges, other than those necessary to maintain skeleton operations.

Given the uncertain outcome and duration of the crisis we reassessed our liquidity position and the options available and concluded that it would be prudent to strengthen the balance sheet by an equity placing. This has allowed us to provide valuable support to our franchisees and commercial customers.

We became increasingly well practiced through the crisis at how to mitigate the impact of the restrictions by protecting our people, controlling costs and continuing to serve our customers where it was safe to do so.

FRANCHISE BRANDS HEROES

Our 425 engineers have played a vital role in keeping hospitals, and other key establishments such as supermarkets and distribution centres, operational throughout the crisis.

In the Spring lockdown several of our engineers attended a COVID-19 ward in a major city centre hospital. Their job was to clear the drains in the intensive care unit into which the patient's ventilators drained.

Their story was really quite harrowing. They needed the full range of personal protective equipment ("PPE"), including a hazmat suit. The engineers then had to crawl between beds to unblock pipes and drains. They received amazing support from the hospital staff before and after the work.

RESPONSE TO COVID-19

1 PROTECTING OUR COST BASE

- Utilised the Government Job Retention Scheme (“furlough scheme”) by furloughing 40% of B2B staff and 85% of B2C staff in the Spring lockdown.
- The Board volunteered temporary pay cuts of up to 100% of salary.
- Agreed temporary pay cuts with higher paid employees.
- Achieved other operational cost savings.

2 SUPPORTING OUR FRANCHISEES: HEALTH AND SAFETY

- Developed and helped implement safe working practices to keep our people, customers and members of the public safe.
- Provided regular guidance regarding Government health and safety advice.
- Provided regular guidance on the impact of the Government restrictions.
- Sourced and distributed PPE, particularly in the Spring lockdown.

3 STRENGTHENING OUR BALANCE SHEET

- Raised £13.6m (net) in April through an equity placing with existing and new shareholders.
- Placing allowed us to support our commercial customers by extending payment terms for those in challenged sectors such as hospitality.
- It also allowed us to support our franchisees by providing funds for investment in additional equipment.
- Positioned the Group for opportunities post-pandemic.

4 MOVING TO REMOTE WORKING

- Seamless and efficient enablement via cloud-based IT systems.
- Moved to being very data driven to make key decisions.
- Utilised communications platforms for day-to-day operations, teamwork and larger initiatives such as the training needed for the successful roll-out of new works management system.
- Established new permanent ways of working such as remote out-of-hours contact centre.

5 SUPPORTING OUR FRANCHISEES: BUSINESS

- Helped our franchisees right-size their businesses to put them in an optimum financial position.
- Provided regular guidance on changing COVID-19 restrictions and how to access the Government support that was available.
- Reduced or suspended franchisee fees and charges at the height of the crisis to ensure their survival.
- Delivered active marketing campaigns and support to drive customer enquiries.

6 KEEPING PEOPLE SAFE AND WELL

- Established safe working practices for company premises.
- Provided proactive support through our 20 Mental Health First Aiders and made counselling services available to all staff.
- Organised regular employee engagement and wellbeing initiatives.
- Our franchisees provided free or discounted services to NHS staff and other Key Workers.
- Provided support in the community.

CONTINUING MOMENTUM

I am pleased to report that trading in 2020 has been considerably better than might have been anticipated in a year of multiple disruptions as a result of the COVID-19 pandemic.

STEPHEN HEMSLEY
Executive Chairman

This resilient performance has been driven by strong trading across the Group in the first quarter; early and decisive action taken at the start of the Spring lockdown to reduce costs, and a strong recovery across most of our businesses in the second half of the year.

B2B DIVISION

Our B2B division, which comprises Metro Rod, Metro Plumb, and Willow Pumps, provides a "Water In. Waste Out." range of drainage, plumbing and pumps services to commercial and domestic customers across the whole of the UK. Most of these services have been designated by the Government as essential and continued to operate throughout the lockdowns.

Metro Rod and Metro Plumb started the year strongly with system sales in Q1 up by 19% year-on-year. As a result of the Spring lockdown, system sales declined by 29% in April, before recovering slightly to end Q2 down 23%. The business then steadily recovered for the remainder of the year with system sales down 5% in Q3 and up 5% in Q4, despite the November lockdown. For the full year, system sales were down just 2% against 2019, which we consider to be a strong performance given the challenging circumstances.

> "I would like to extend a special thank you to our exceptional engineers at Metro Rod and Willow Pumps and our plumbers at Metro Plumb."

Although system sales were slightly lower than 2019, the mix of business was such that our effective rate of Management Service Fee ("MSF") charged to the franchisees favoured the higher rate services. In addition to the reduced staffing costs resulting from use of the Government Job Retention Scheme ("furlough scheme"), other overhead costs, such as conferences and travel, were not incurred due to the lockdown restrictions and home working. As a result, adjusted EBITDA from the core Metro Rod business increased by 24% from 2019, an excellent performance in a challenging year and a credit to Peter Molloy, the Managing Director of Metro Rod and Metro Plumb.

We have also assisted our franchisees in planning for the anticipated downturn by providing advice on the furlough scheme, the various loan support schemes and assisting with cashflow where necessary. In the event, our franchisees proved remarkably resilient. There have been no franchisee failures and most of the assistance we have provided has funded expansion of their businesses, for example, helping to purchase new equipment. This resilience has resulted in 17 of our franchisees growing their business on a like-for-like basis during 2020 (2019: 33) and all franchisees generating a positive EBITDA for the year.

The initiatives taken towards the end of 2019 to develop Metro Plumb as a separate franchise have started to bear fruit, with two new franchisees joining in the year, bringing the total number of independent territories to five. In addition, there are 25 Metro Rod franchisees operating Metro Plumb territories, and three territories in the South East operated corporately. Metro Plumb system sales exceeded £5m in the year and grew by 3% on a like-for-like basis. In a difficult environment, this growth resulted from the efforts of the excellent new management team in our corporate operation and the enthusiasm of our new independent franchisees. We will be focusing significant additional resources in sales, marketing and recruitment to develop Metro Plumb in the coming year.

Willow Pumps, which was acquired in October 2019, started its first full year as part of the Group with excellent year-on-year sales growth of 15% in Q1. The inevitable impact of the Spring lockdown, in particular from the closure of construction sites, led to more reliance being placed on lower revenue/higher-margin emergency pump work rather than the higher revenue/lower margin supply and installation ("S&I") work. As a result, turnover declined 56% in Q2, however, due to the change in business mix, gross margin was more resilient falling by only 37%. This pattern of work continued to characterise the remainder of the year, as whilst building sites reopened after the Spring lockdown and S&I work recovered, volumes were lower and routine service and emergency work predominated. As a result, sales were 23% lower, but gross profit declined by only 4% for the full year.

ADJUSTED EBITDA

£6.6m

2019: £5.2m

During 2020, Willow Pumps assumed responsibility for the Metro Rod corporate franchises in Kent & Sussex and Exeter resulting in a significant increase in both revenue and profitability. Progress was also made in rolling out pump maintenance expertise to the Metro Rod engineers. However, the speed of this was held back by the various restrictions and their disruptive effect on the required face-to-face training. Notwithstanding this, Metro Rod franchisees have embraced the pump opportunity enthusiastically and remain keen to add this higher margin service to their businesses.

Part of the Willow Pumps acquisition deal structure was the payment of further consideration based on increased profits and the increase in pump work undertaken by Metro Rod franchisees over five years. The COVID-19 crisis has impacted on the ability of the management team to deliver these demanding targets, and whilst there will be a modest cash payment made in respect of 2020, the balance of the 2020 targets have been rolled over into the targets for the remaining four years. This will provide our team at Willow Pumps with an even greater incentive to grow the business over the remaining term of the earn-out.

B2C DIVISION

The B2C division which comprises ChipsAway, Ovenclean and Barking Mad, started the year strongly, with robust recruitment levels and strong consumer demand in Q1. However, the restrictions in the Spring lockdown meant that all the brands in this division had to suspend trading for most of Q2, as they were not considered to be essential services. To mitigate the impact on franchisees, MSF fees were reduced, and almost all other charges suspended. In response, 85% of the B2C support centre team were furloughed and other non-essential costs curtailed or otherwise not incurred. These measures helped ensure the division traded at a small surplus throughout this period.

With the reopening of most businesses in Q3, the B2C brands began to recover, albeit at different speeds. ChipsAway, which contributes 88% of the division's EBITDA, led the way with robust consumer demand allowing it to quickly re-establish pre-lockdown levels of activity. Ovenclean also recovered quickly from early summer onwards, however, Barking Mad continued to suffer very low demand as people were unable to take holidays that generated demand for dog boarding.

Considering the background, franchise recruitment in the B2C division in 2020 was robust resulting in 58 recruits (2019: 61). Recruitment started the year well with 18 new franchisees in Q1 (Q1 2019: 20). Q2 was, unsurprisingly, slower with 9 recruits (Q2 2019: 15) but accelerated strongly in the second half of the year with 31 new franchisees joining (H2 2019: 27). However, given the loss of income experienced by franchisees, which was particularly severe in the Barking Mad network, there has been a 4% reduction in the total number of franchisees in the B2C network to 386 from 404 at the end of 2019.

Most of the income generated in the B2C division is based on franchisees paying a fixed monthly fee (rather than a turnover-related fee as in our B2B franchise businesses). We were able to reinstate full fees once franchisees recommenced trading and consumer leads recovered. As a result of this robust business model, and the overhead cost savings, adjusted EBITDA decreased by only 16% in the year which we consider to be a resilient performance.

OUR DIGITAL JOURNEY

A crucial part of the Group's strategy for developing all our brands, but particularly Metro Rod and Metro Plumb, is the automation of as many of our processes and interactions as possible. We believe that this will not only enhance customer service and thereby increase sales, but also improve corporate and franchisee efficiency and thereby reduce costs. Together, these will allow us to grow profits, improve productivity, and maintain competitiveness in an ever more demanding environment.

METRO ROD SYSTEM SALES

£40.6m

2019: £41.3m

Since we acquired Metro Rod and Metro Plumb in 2017, we have been developing and improving the systems, with the initial objective of introducing a works management system that will form the bedrock from which we can develop more advanced customer facing functionality. I am therefore delighted to report that despite the disruption during the year, our excellent IT team successfully completed the roll-out of our new works management system, "Vision", to all Metro Rod and Metro Plumb franchisees, on-time and on-budget.

With this core infrastructure in place, we are now embarking on a further, more ambitious three-year journey that will eventually see jobs booked on-line, deployed to an engineer, reported to our customer, and billed with the minimum of human intervention. We will also have the facility to integrate all this information and functionality directly into our customers' systems. The first element of these enhancements, a customer portal branded "Connect", has just been launched. This provides customers with near real-time, online visibility of every job, including status, costs, and photographs. We are one of the first drainage companies in the UK to offer this functionality to customers.

The increased investment we are making in the accelerated digital transformation of our business is projected to be an additional £1.5m over the next three years. This additional investment will lead to increased sales, overhead savings and operational efficiencies that will enhance run-rate EBITDA.

EXPANSION AND STRATEGIC TARGETS

In April 2020 we successfully raised £14m (£13.6m net of expenses) via an equity placing from new and existing investors. The primary purpose of this was to ensure the Group was financially secure through the COVID-19 crisis and able to support our franchisees where necessary and financially prudent to do so. As we reach an end to the crisis, our strengthened balance sheet will allow us to focus on expanding the business and take advantage of the considerable opportunities we see in the recovery.

At Metro Rod, our organic growth priorities include the acceleration of existing initiatives to widen and deepen the services offered by the franchise network, particularly in the area of pump service and maintenance. At Willow Pumps our focus will be the acceleration of design-led S&I work which has enormous potential as the country invests more in new infrastructure and housing. In addition, our digital transformation plan is a key strategic imperative to meet our customers' needs and enhance our operational gearing and profitability.

We continue to selectively seek earnings-enhancing acquisitions of complementary B2C franchise businesses where we can leverage our existing divisional structure and high-quality shared support services. Having visibility of both franchisees' and franchisors' longer-term viability following the COVID-19 crisis is a key factor and we are taking a cautious approach. We also remain interested in the acquisition of complementary B2B businesses that will assist in expanding the range of services offered by our B2B franchisees. Finally, we continue to search for additional franchise businesses of scale that could create a third division of the Group.

Since being admitted to AIM in August 2016, we have developed a market-leading portfolio of brands through organic growth and targeted acquisitions and have generated compound annual growth in adjusted EBITDA of 47% and a 59% compound growth in dividends.

We now set out for the first time our strategic financial targets of run-rate revenues of £100m and adjusted EBITDA of £15m by the end of 2023. This will be achieved through organic growth and complementary acquisitions largely funded from existing facilities, without the need for additional equity capital other than to incentivise the management of acquired businesses. In addition, we will continue to evaluate the acquisition of franchise businesses of scale that may require additional shareholder support and would be additive to these targets.

OUTLOOK

We have made a strong start to 2021 as a result of resilient sales in the B2B division, robust recruitment in the B2C division and the enduring legacy of some of the cost saving measures implemented at the start of the pandemic. We therefore look forward to the remainder of 2021 with confidence.

I usually conclude my statement by thanking our team and our franchisees for their hard work and commitment during the year, and this year is no exception in what has been one of the most challenging years for business (and health) that anyone can remember. I would, however, like to extend a special thank you to our exceptional engineers at Metro Rod and Willow Pumps and our plumbers at Metro Plumb for the dedication they have shown attending jobs in everything from supermarkets and offices to COVID-19 wards. They are a huge credit to our business, and their commitment and dedication is truly appreciated by all of us.

Stephen Hemsley
Executive Chairman

METRO ROD FRANCHISEES IN GROWTH IN 2020

17

2019: 33

BUSINESS BUILDING STRATEGY

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

Our focus is on established brands which can benefit from our shared support services as well as our management expertise, experience, and Group resources.

Underpinning our strategy are 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.

SUPPORTING FRANCHISEES

We provide our franchisees with the support, training and specialist tools they need to successfully grow their businesses and achieve their goals. This includes: providing customer leads; sales and marketing support; systems to manage their business; and specialist finance, health & safety and technical support.

OUR STRATEGY IS UNDERPINNED BY **OUR GUIDING PRINCIPLES**

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.

SERVICE EXPANSION

We actively look for opportunities to help our franchisees expand their range of services. To help Metro Rod and Metro Plumb franchisees benefit from the considerable opportunities available in the specialist pump sector, we acquired Willow Pumps. Their expert team is helping franchisees build a pump capability.

DEVELOPING BUSINESSES

We develop our businesses through our shared support services such as technology, marketing, franchise recruitment and finance. Our management expertise and experience and Group resources also play a key role in helping grow our businesses from “good to great”.

GROWING OUR PORTFOLIO

Acquisitions are a central part of our growth strategy. These include complementary B2C franchise businesses where we can leverage our divisional structure, and complementary B2B businesses that assist in expanding the range of services offered by Metro Rod and Metro Plumb. Also in scope are additional franchise businesses of scale which could create a third division of the Group.

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 continuous 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, suppliers, and customers.

WE WORK AS A TEAM

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

HARNESSING TECHNOLOGY

> "As a digitally enabled company, we are able to provide near real-time visibility of any work in progress and can integrate directly with our customers' internal systems to ensure they are always kept up to date."

COLIN REES
Chief Information Officer

NEW WORKS MANAGEMENT SYSTEM

A crucial part of the Group's brand development strategy, in particular for Metro Rod and Metro Plumb, is to use technology to automate as many of our processes and interactions as possible. We believe this will not only enhance customer service and thereby sales and but also improve corporate and franchisee efficiency.

We made considerable progress in digitising our business in 2020 with the roll-out to Metro Rod and Metro Plumb franchisees of "Vision", our new works management system. As a cloud and web-based system, "Vision" allows our franchisees and Support Centre teams to connect remotely via any device, which was of particular benefit during the crisis.

A key benefit of "Vision" is its simplicity of use. This reduces mistakes and hence improves accuracy, as the quality of data and information is so high. Invoicing is one area where we have already experienced a substantial improvement in accuracy. The speed at which tasks, such as job logging, can be performed has also increased. Additionally, the system design is leading to better compliance with our customers' "on-the-job" processes as the system provides more checks and balances.

"Vision's" modern technology helps us collect and analyse specific data, for example, on engineer productivity. This will help our franchisees be more efficient and profitable by showing them how they can improve labour scheduling, utilisation and customer service.

The crisis has increased the speed at which our customers are digitising their businesses. The roll-out of "Vision" allows us to accelerate our digital journey that will eventually see jobs booked online, deployed to an engineer, reported to our customer, and billed with the minimum of human intervention.

NEW CUSTOMER PORTAL

We have fast-tracked the development of "Connect", a new portal which provides customers with instant, online visibility of every job. "Connect" has the potential to transform the customer experience as well as significantly reduce unproductive contact with the Support Centre and franchisee offices. We anticipate that "Connect" will be expanded to become the front end for a large proportion of our customers who don't have their own systems but need access to real-time information. For our larger customers, we will look to seamlessly integrate our systems with theirs, improving accuracy and increasing efficiency.

OPERATIONAL GEARING

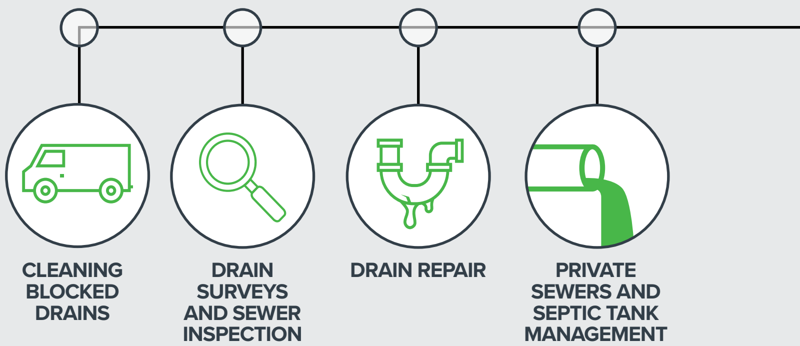
The next phase in our digital journey is to upgrade other systems so that they integrate more tightly with "Vision" and its in-built CRM. This will allow us to track in one system the entire customer journey. By digitising the business end-to-end, we can enhance customer service and thereby increase sales, improve corporate and franchisee efficiency and thereby reduce costs. Ultimately, this will generate operational gearing whereby we have a very scalable platform able to support a significantly larger business at modest incremental cost which allows us to improve profitability and maintain competitiveness.

EXPANDING OUR PROPOSITION

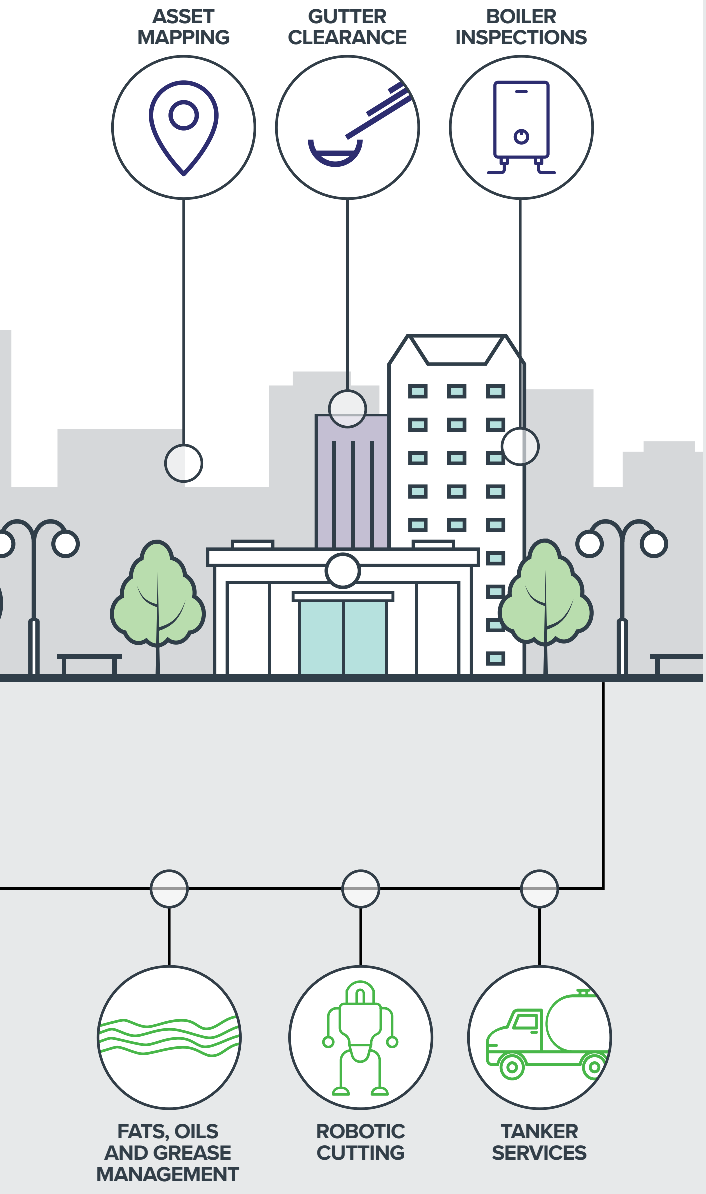
Our ambition is to offer a 'Water In. Waste Out.' service to the commercial sector. Pumps are an integral service as the majority of drainage customers have a pump requirement and would benefit from a single-source solution.

WATER IN. WASTE OUT.

Pumps are an engineered solution, involving a mechanical and electrical element. In 2019 we acquired market-leading brand Willow Pumps to help upskill franchisees so they could develop a pump capability. This activity has gained traction with 25% of Metro Rod franchisees now being able to offer pump maintenance services.



WINNING PUMP WORK



There is a natural relationship between drainage and pumps as every drain eventually leads to a pump station. Metro Rod visits some 150,000 commercial premises a year and our research shows 60% of them have a pump station. There is a tremendous opportunity for franchisees who have developed a pump capability to benefit from additional work from their existing customers. Customers appreciate the benefits of a one-stop drainage and pumps solution. Having full knowledge of all the issues and being able to self-deliver enables the job to be carried out faster and more efficiently.

TYPES OF WORK AND KEY SUCCESS FACTORS

The starting point in pumps for franchisees is generally regular maintenance work. Pumps require an interim service at three or six-monthly intervals and a major annual service. These services often generate further scheduled extra works to keep the pump station operating at its highest level of reliability. Customers also require emergency call-outs from time to time.

Pump work is higher margin for franchisees compared to drainage work. Pump work can also generate the requirement for additional drainage services, principally tankering, as pump chambers often need to be emptied and cleaned prior to work being carried out. Franchisees need suitably qualified engineers and also a tanker capability in order to perform pump work.

SUPPORT FROM WILLOW PUMPS

Willow Pumps has helped a number of franchisees hire experienced pump engineers who can perform a wide range of work and train up higher-calibre drainage engineers to carry out basic pump maintenance. Through ITOL-accredited training courses at the Willow Pumps depot, engineers are given exposure to a wide range of pump issues, including the ability to test their knowledge in a safe environment and then experience live jobs with Willow Pumps engineers.

Willow Pumps also provides technical and practical advice on quotations, equipment and pricing. The team is available to provide support and advice to Metro Rod engineers when they are out in the field. Spending time at the Willow Pumps depot allows franchisees and their engineers to build valuable relationships as well as develop confidence.

FRANCHISEES WITH A PUMP CAPABILITY

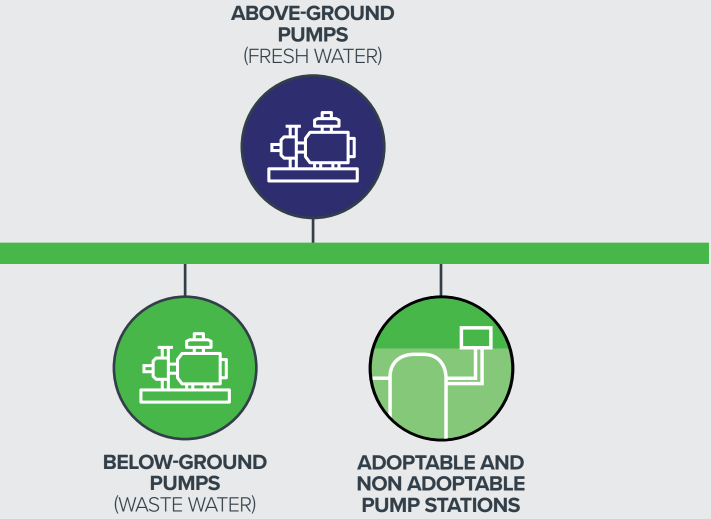
25%

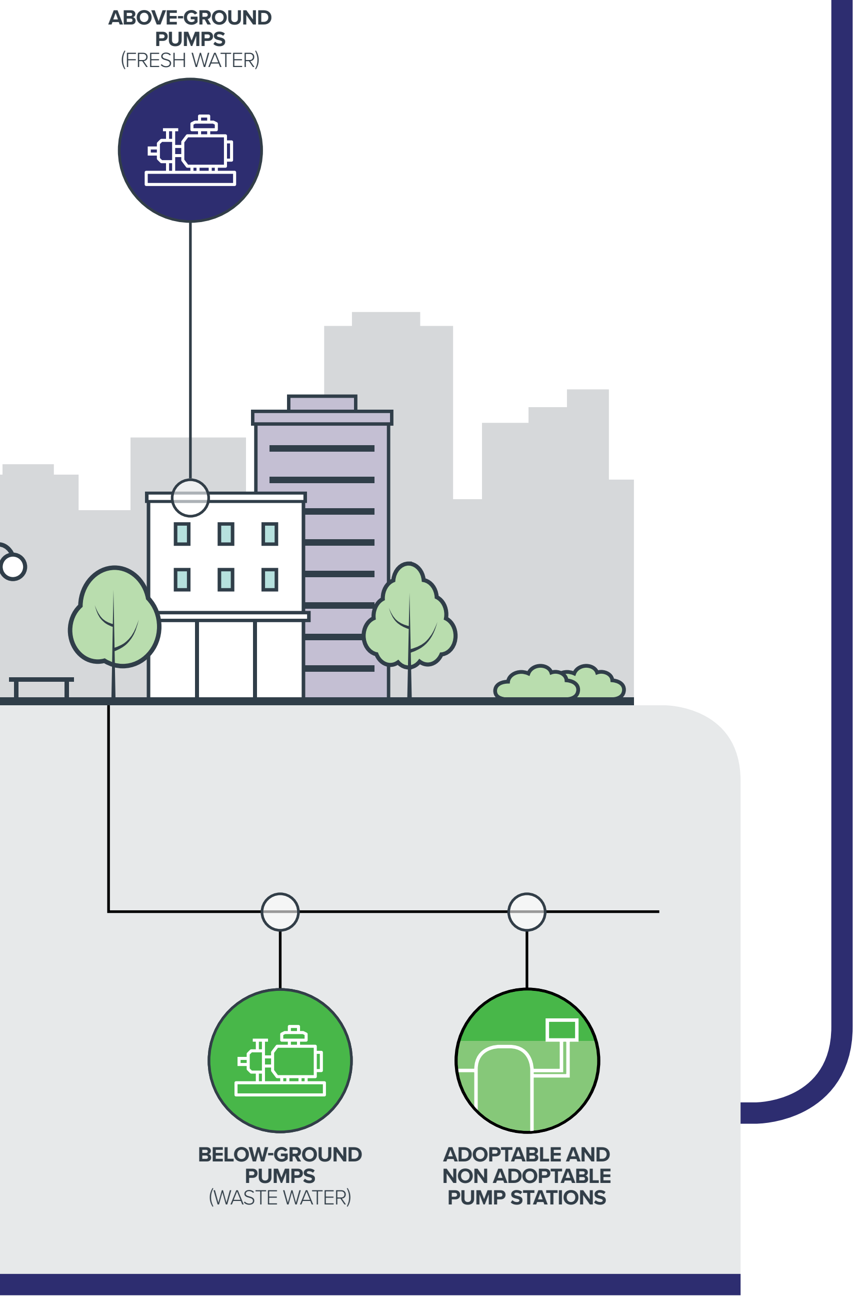
METRO ROD SITES WITH A PUMP STATION

60%

"Pumps represent a fantastic opportunity for Metro Rod franchisees to expand their range of services, deliver single-source solutions to their customers and build a more profitable business."

IAN LAWRENCE
Managing Director
Willow Pumps




ABOVE-GROUND PUMPS (FRESH WATER)
BELOW-GROUND PUMPS (WASTE WATER)
ADOPTABLE AND NON ADOPTABLE PUMP STATIONS

GROWING OUR NETWORK

METRO ROD
DRAIN CARE AND REPAIR

METRO PLUMB
THE NATION'S LOCAL PLUMBER

"The strength and resilience of our business has helped us attract new, ambitious franchisees."

PETER MOLLOY
Managing Director
Metro Rod and Metro Plumb

METRO ROD

We have attracted a number of high-quality new franchisees over the past couple of years, from a range of different backgrounds. They have purchased existing businesses from franchisees who wanted to retire or focus on other opportunities. In order to deliver on our commitment to full national coverage, we have also sold territories to new franchisees that were previously subcontracted.

New franchisees join with the ambition and drive to build a much larger business and several have already developed their businesses by purchasing new equipment such as tankers and adding to their teams. One new franchisee joined in 2020 in the middle of the Spring lockdown having been trained remotely and went on to have a successful year.

The resilient way in which the Metro Rod and Metro Plumb franchisees have traded through the crisis, with the relatively defensive nature of the business and a supportive franchisor, bodes well for franchise recruitment as we look to continue to attract new, ambitious franchisees.

Existing franchisees have also continued to invest in their businesses and several franchisees now have three or more tankers. The proportion of monthly sales accounted for by tanker sales has more than doubled since the first half of 2019.

NUMBER OF TANKERS IN THE GROUP

57

METRO PLUMB

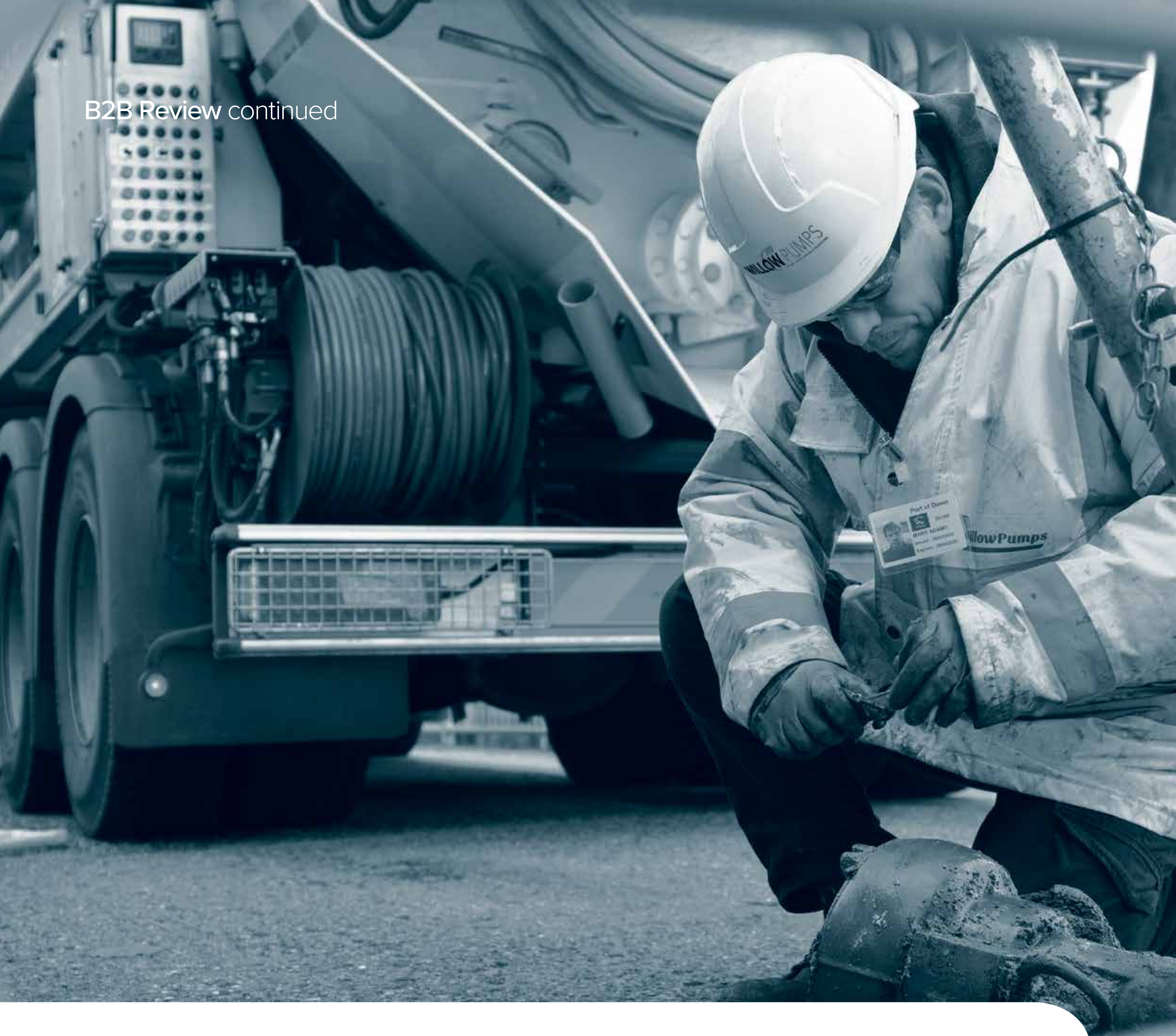
We are making good progress to grow the Metro Plumb network. By the end of 2020 we had five independent Metro Plumb franchisees having attracted two new franchisees during the year. We are increasingly attracting experienced, ambitious, plumbers who want to own their own business. One of our early recruits has successfully expanded his territory, workforce and scope of works and is already on track to build a sizeable business. In addition, there are 25 Metro Rod franchisees operating Metro Plumb territories, plus three Metro Plumb territories in the South East operated corporately.

Plumbing is a large market and the sector has been very resilient during the crisis as more people have been at home. Metro Plumb system sales exceeded £5m in the year and grew by 3% on a like-for-like basis.

We have expanded our expertise and now have over 60 NVQ-qualified plumbers in the network. This improved capability allows us to promote a wider range of plumbing services to more customers. Over 500 commercial customers placed orders for plumbing works in 2020. We are also diversifying the customer base to include domestic customers and are successfully driving enquiries for Metro Plumb franchisees through our targeted digital marketing.

NUMBER OF NVQ-QUALIFIED PLUMBERS

61



EXTENDING OUR CAPABILITY

WILLOW PUMPS DESIGN, INSTALLATION & MAINTENANCE

"Willow Pumps provides a one-stop shop for full design, installation and maintenance requirements."

IAN LAWRENCE
Managing Director
Willow Pumps

ESTABLISHMENT OF FULL DESIGN SERVICE

Willow Pumps extended its range of capabilities in 2020 by providing customers with a full mechanical and electrical design service for all types and sizes of installations, including adoptable and non-adoptable pump stations. Previously Willow Pumps had to either outsource this work or work as a subcontractor for the designers.

Willow Pumps works with customers to produce a site-specific design ensuring the solution not only meets their pumping needs but is efficient, cost-effective, reliable, and durable. The designs are offered at no extra charge when we carry out the installation and maintenance.

With the inclusion of the full design service, we are able to provide customers with an end-to-end offering of design, installation and maintenance, providing a competitive advantage. In 2020, Willow Pumps worked with leading house builders and construction companies and their teams to carry out supply and installation ("S&I") work on 250 pump stations. We also carried out over 3,000 servicing and maintenance visits, and played a key role working with leading supermarkets and other key establishments to ensure they could remain operational during the crisis.

EXPANSION INTO METRO ROD

Early in 2020, Willow Pumps assumed responsibility for the Metro Rod corporate franchise servicing Kent & Sussex, which was subsequently integrated into the Willow Pumps operation. The resultant more focused management and reduced overhead delivered a significant turnaround of the business. Willow Pumps subsequently assumed responsibility for the Metro Rod Exeter franchise which had also been operated corporately, working closely with Metro Rod to offer a drainage and pump service to the area and applying the same turnaround principles. Both areas increased their sales by over 10% in 2020 and increased profitability.

INTEGRATION INTO THE GROUP

We have integrated Willow Pumps into the Group during 2020, its first full year of operation. The management team works closely with the Metro Rod leadership team, and Willow Pumps is increasingly benefitting from the Group's shared support services. The team at Willow Pumps is also actively working with Metro Rod franchisees to help them build a pump capability and to generate sales. A specialist business development manager was appointed to drive this process.

NUMBER OF PUMP STATIONS WHERE S&I WORK WAS CARRIED OUT IN 2020

250

NUMBER OF SERVICING & MAINTENANCE VISITS CARRIED OUT IN 2020

3,000

SUPPORTING OUR FRANCHISEES

> "We were delighted that franchise recruitment continued to be robust in 2020 despite the crisis."

Tim Harris
Managing Director
B2C Division

ChipsAway performed well in 2020. After a strong Q1, franchise recruitment recovered quickly post the Spring lockdown and 45 new franchisees joined the network during the year. This helped us grow the network size from 205 to 215.

All our B2C brands were shut-down during the Spring lockdown as they do not provide essential services. We supported our franchisees during this challenging period by reducing or suspending fees and charges other than those necessary to maintain skeleton operations.

Post the lifting of restrictions, the Support Centre teams worked to help franchisees recommence trading. We distributed PPE using our supplier contacts and helped franchisees develop safe working practices.

Our marketing team ensured franchisees had a plentiful supply of consumer leads so they could restart trading with confidence. Q3 leads were 12% higher than the same period in 2019, which was a record quarter. We were also pleased to make further progress developing the Car Care Centre operation we established in 2019 which had a profitable year.

ChipsAway continues to be our largest B2C brand generating 88% of the division's EBITDA.

Ovenclean recovered more slowly than ChipsAway as consumers have been cautious in allowing non-essential tradesmen to work in their homes. However, we did welcome eight new joiners to the network in 2020. With 20 franchisees leaving the network, the size of the network reduced from 112 to 100 franchisees over the year.

Post lockdown, franchisees benefitted from a plentiful supply of leads, particularly towards the end of the year which is their busiest trading period. Despite the impact of the Autumn lockdown, November was a record month with over 7,000 leads generated. Over 2020 as a whole, leads were down only 3%, a fantastic result given the crisis.

Barking Mad was hardest hit by the crisis given its heavy dependency on the foreign holiday market. We have continued to support franchisees and have restructured Barking Mad, integrating all its operations into our Kidderminster office. This move should allow it to continue to make a positive contribution to Group profitability in the future. Five new franchisees joined in 2020. However, 21 franchisees left the network and the size of the network therefore reduced from 87 to 71 franchisees.

TOTAL FRANCHISEES RECRUITED
58
2019: 61

TOTAL SYSTEM SALES
£18.8m
2019: £26.4m

The resilience of our trading highlights the underlying strength of our business model.

Our strengthened balance sheet will allow us to swiftly take advantage of post-COVID opportunities.

CHRIS DENT
Chief Financial Officer

SUMMARY STATEMENT OF INCOME

	2020 £'000	2019 £'000	Change £'000	Change %
Statutory revenue	**49,287**	**44,013**	**5,274**	**12%**
Franchisee payments	(19,898)	(19,612)	(286)	1%
Fee income	**29,389**	**24,401**	**4,988**	**20%**
Other cost of sales	(8,464)	(8,019)	(444)	6%
Gross profit	**20,925**	**16,382**	**4,543**	**28%**
Other administrative expenses	(14,285)	(11,200)	(3,085)	28%
Adjusted EBITDA	**6,640**	**5,182**	**1,458**	**28%**
Depreciation & amortisation of software	(1,358)	(755)	(602)	80%
Finance expense	(446)	(357)	(89)	25%
Adjusted profit before tax	**4,836**	**4,069**	**767**	**19%**
Adjusted tax expense	(899)	(687)	(212)	31%
Adjusted profit after tax	**3,937**	**3,382**	**555**	**16%**
Amortisation of acquired intangibles	(393)	(260)	(133)	51%
Share based payment	(205)	(238)	33	(14%)
Non-recurring costs	(707)	(270)	(437)	162%
Other gains and losses	151	(26)	177	(679%)
Tax on adjusting items	10	121	(111)	(92%)
Statutory profit	**2,793**	**2,710**	**83**	**3%**

The results for the year ended 31 December 2020 include all of our businesses for the full year, whereas the results for the year ended 31 December 2019 included Willow Pumps for the almost three months following the acquisition on 7 October 2019.

STATUTORY REVENUE

Statutory consolidated revenue increased 13% to £49.3m (2019: £44.0m) with the increase due to our full-year ownership of Willow Pumps which added £12.4m of revenue (2019: £3.8m). Like-for-like revenue declined by 8% to £36.9m (2019: £40.2m) due to the effects of the COVID-19 lockdowns, albeit it grew in H2 compared to H1.

System sales, which are the gross sales made by our Metro Rod and Metro Plumb franchisees, decreased by 2% to £40.6m in the year (2019: £41.3m). The decrease of 2% masks the significant changes which we saw quarter-by-quarter, from an increase of 19% year-on-year in Q1 to a decrease of 23% in Q2 and progressive recovery from June onwards. The recovery resulted in Q4 being 4% ahead year-on-year, and just £219,000 below the level of system sales achieved in Q1, despite the November lockdown, as shown below.

	2020 £'000	2019 £'000	Change £'000	Change %
Q1	**11,385**	9,566	1,819	19%
Q2	**8,215**	10,679	(2,465)	(23%)
Q3	**9,879**	10,374	(495)	(5%)
Q4	**11,166**	10,688	478	4%
System Sales	**40,645**	41,307	(662)	(2%)

Our most engaged franchisees continued to grow throughout the year, with 11 franchisees achieving year-on-year growth of over 10% and 17 franchisees achieving sales of over £1m.

FEE AND DIRECT LABOUR INCOME

Fee and direct labour income ("fee income") is one of the KPIs used by management to track the business, and, as shown in the table below, this increased 20% to £29.4m in 2020 (2019: £24.4m), due to the full-year contribution from Willow Pumps. The table below analyses fee income by division.

	2020 £'000	2019 £'000	Change £'000	Change %
B2B – Franchisor	**10,282**	12,186	(1,903)	(16%)
B2B – DLO	**13,274**	5,454	7,820	143%
B2C Division	**5,833**	6,761	(928)	(14%)
Fee income	**29,389**	24,401	4,988	20%

The decreases in B2B-Franchisor and B2C Division of 16% and 14% respectively, reflect the impact of the lockdown restrictions on our income. The table below analyses fee income by type.

	2020 £'000	2019 £'000	Change £'000	Change %
MSF income	**10,694**	11,207	(513)	(5%)
Area sales	**1,607**	2,006	(399)	(20%)
Product sales	**758**	912	(154)	(17%)
Direct labour income	**15,547**	9,097	6,450	71%
National advertising funds	**783**	1,179	(396)	(34%)
Fee Income	**29,389**	24,401	4,988	20%

MSF income received from our franchisees is based on fixed monthly fees or a percentage of the franchisees' sales. We continue to incentivise Metro Rod's franchisees to grow their businesses through a series of MSF discounts and schemes designed to encourage sales growth and investment in a broader range of equipment and people. In the B2C division, fixed monthly fees remain the most effective method of generating income given the large number of franchisees and the lower level of individual sales.

Overall MSF income was 5% lower than in 2019. MSF at Metro Rod remained steady at £7.8m despite the 2% fall in system sales due to a change in mix towards sales which attract the full rate of MSF. In the B2C division, we reduced the fees charged to franchisees during the Spring lockdown to ensure the continuing viability of our networks, resulting in a 14% reduction in B2C fee income for the year as a whole.

Fees generated from the sale (or resale) of franchise territories were 20% lower than in 2019. Considering the background, franchise recruitment in the B2C division was robust, with 58 recruits in 2020 (2019: 61). Most of the reduction in recruitment income resulted from fewer Metro Rod franchises changing hands which generated income of £73,000 compared to £328,000 in the prior year.

Our direct labour income increased by 71% in 2020 to £15.5m (2019: £9.1m) principally as a result of the full-year contribution from Willow Pumps.

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. The Group reduced spending and suspended collection of these funds during the lockdowns to support the cashflow of the franchise networks.

TRADING RESULTS – ADJUSTED EBITDA

	2020 £'000	2019 £'000	Change £'000	Change %
B2B – Franchisor	**3,722**	3,184	538	17%
B2B – DLO	**1,844**	492	1,352	275%
B2C Division	**2,132**	2,531	(400)	(16%)
Group overheads	**(1,058)**	(1,026)	(31)	(3%)
Adjusted EBITDA	**6,640**	5,182	1,458	28%

Despite the 16% decrease in fee and direct labour income, tight cost control throughout the year has resulted in adjusted EBITDA from B2B-Franchisor rising by 17% to £3.7m. This represented an increase in operating margin from 28% to 36%. As the business returned to pre-COVID-19 levels, we were cautious in re-introducing costs and have realised permanent cost savings through new ways of working. In addition, although system sales were lower, our effective rate of MSF was higher due to the sales mix, meaning that overall adjusted EBITDA from the core Metro Rod business (excluding area sales and Kemac) rose by 24% to £3.3m. This exceptional performance at the core business was partially off-set by the lower area sales, and a drop in profitability at Kemac (down 9% to £0.4m), where the 2019 result had been bolstered by a significant one-off event.

At B2B-DLO, the significant increase in income and adjusted EBITDA has been as a result of the ownership of Willow Pumps for the full year. However, we have also seen an increase in B2B-DLO adjusted EBITDA due to Willow Pumps taking over the day-to-day responsibility of the two previously Group-operated Metro Rod franchise areas, Kent & Sussex and Exeter, which traded poorly during 2019.

Adjusted EBITDA at our B2C division (ChipsAway, Ovenclean and Barking Mad) decreased 16% in the year to £2.1m (2019: £2.5m) due to the 14% fall in fee income and lower recruitment income, partly offset by overhead savings as a result of furloughing staff. The B2C division continues to be strongly cash generative, supporting the Group's debt-servicing capacity.

During the year the Group made use of the furlough scheme. At the height of the Spring lockdown, the Group furloughed a total of 118 people which represented 42% of the workforce. During the Autumn lockdown the Group made limited use of the scheme with only six people furloughed. In total we claimed £653,000 during the year.

Group overheads remained steady at £1.1m (2019: £1.0m) and, as a result, adjusted EBITDA for the Group increased by 28% to £6.6m (2019: £5.2m).

ADJUSTED & STATUTORY PROFIT

	2020 £'000	2019 £'000	Change £'000	Change %
Adjusted EBITDA	**6,640**	**5,182**	**1,458**	**28%**
Depreciation & amortisation	(1,358)	(755)	(603)	80%
Finance charge	(446)	(357)	(89)	25%
Adjusted profit before tax	**4,836**	**4,070**	**766**	**19%**
Amortisation of acquired intangibles	(393)	(260)	(133)	51%
Share-based payment charge	(205)	(238)	33	(14%)
Non-recurring costs	(707)	(270)	(437)	162%
Other gains and losses	151	(26)	177	(681%)
Statutory profit before tax	**3,682**	**3,276**	**406**	**12%**
Tax	(889)	(566)	(323)	57%
Statutory profit after tax	**2,793**	**2,710**	**83**	**3%**

Depreciation and amortisation of software increased 80% to £1.4m (2019: £0.8m), as a result of the inclusion of the Willow Pumps charge for the full year and an increase in the amortisation charge in respect of software development at Metro Rod.

The finance charge increased 25% to £0.4m as a result of the higher level of lease-related finance costs following the acquisition of Willow Pumps. Bank interest fell 18% to £257,000 from £313,000 following the repayment of £3m of our Revolving Credit Facility ("RCF") following the April equity placing.

Amortisation of acquired intangibles increased 51% to £0.4m (2019: £0.3m) following the acquisition of Willow Pumps. The share-based payment expense has remained steady at £0.2m as no new share options were granted until the second half of the year, and the IPO related options had fully vested during 2019.

The Group has taken a total £0.7m charge in respect of events related to the COVID-19 pandemic. In light of the impact that the trading restrictions are having on a number of our commercial customers, we believe it is appropriate to make a provision against our accounts receivable. A detailed analysis of debtors has been completed on a risk-weighted basis according to the business sector and the financial position of each of our customers, resulting in a charge of £0.5m to provide for these potential future credit losses. During the full year the Group utilised just £0.2m (2019: £0.1m) of the provision as no significant credit losses have yet occurred, leaving a total provision for expected credit loss at the year-end of £0.8m (2019: £0.4m). The Group has also taken a charge of £0.2m in relation to the closure of our Barking Mad office and redundancy costs.

Statutory profit before tax increased 12% to £3.7m (2019: £3.3m). The tax charge for the year at 24% (2019: 17%) was higher than the statutory rate of 19% due to the change in the deferred tax liabilities in relation to acquired intangibles. This change resulted from the Government's decision to reverse the reduction in the corporation tax rate from 19% to 17%. As a result, the statutory profit after tax increased by 3% to £2.8m (2019: £2.7m).

EARNINGS PER SHARE

During the year the Group completed a placing of 15,555,556 new ordinary shares at a price of 90p per share raising £13.6m (net of expenses). In addition, the Group issued 388,199 new ordinary shares as part of the final 2019 dividend which had a scrip option, and 300,928 new ordinary shares to satisfy the exercise of share options. The Group also used 25,000 shares held in Treasury to satisfy the exercise of share options. These transactions resulted in the total number of ordinary shares in issue increasing by c.20% to 95,758,470 at 31 December 2020 (2019: 79,513,787) and a basic weighted average number of ordinary shares in issue and not in Treasury of 90,462,594.

Earnings per share are analysed in the table below.

	2020 £'000	EPS p	2019 £'000	EPS p
Statutory profit after tax	**2,793**	**3.09**	**2,710**	**3.48**
Amortisation of acquired intangibles	393	0.43	260	0.33
Share-based payment charge	205	0.23	238	0.31
Non-recurring costs	707	0.78	270	0.35
Other gains and losses	(151)	(0.17)	26	0.03
Tax on adjusting items	(10)	(0.01)	(121)	(0.2)
Adjusted profit after tax	**3,937**	**4.35**	**3,382**	**4.34**

Adjusted profit after tax increased by 16% to £3.9m (2019: £3.4m). However, as a result of the dilution resulting from the share issues referred to above, adjusted earnings per share increased by only 0.01p to 4.35p (2019: 4.34p). Basic earnings per share decreased by 11% to 3.09p (2019: 3.48p) and diluted earnings per share decreased by 11% to 3.03p (2019: 3.42p).

FINANCING AND CASH FLOW

The £13.6m net proceeds from the April equity placing have significantly strengthened our balance sheet and allowed us to pay down the RCF in full. We decided not to repay the Term Loan (which stood at £5.2m at the year-end) in order to maximise the Group's immediately-available liquidity. At 31 December 2020, the Group had cash of £13.2m, and undrawn bank facilities of £7.0m (comprised of the £5.0m RCF and a £2.0m overdraft), giving the Group over £20m of cash and available facilities.

	31 December 2020 £'000	31 December 2019 £'000	Change £'000	Change %
Cash	13,203	1,682	11,521	685%
Term loan	(5,225)	(6,401)	1,176	(18%)
RCF	–	(3,002)	3,002	(100%)
Loan fee	116	129	(13)	(10%)
Hire purchase debt	(1,408)	(1,588)	180	(11%)
Adjusted net cash/(debt)	**6,686**	**(9,180)**	**15,866**	**(173%)**
Other lease debt	(1,729)	(1,899)	170	(9%)
Net cash/(debt)	**4,957**	**(11,079)**	**16,036**	**(145%)**

Overall, the Group has moved from an adjusted net debt position to an adjusted net cash position of £6.7m (2019: adjusted net debt of £9.2m). Statutory net cash, including capitalised leases, was £4.9m (2019: net debt of £11.1m).

The Group generated cash from operations of £6.0m (2019: £4.7m) resulting in a cash conversion rate from adjusted EBITDA of 90% (2019: 90%). As a result of the April equity placing and the strong cash generation of the Group, we have been able to continue to pay all our creditors within terms and also take a pragmatic approach with our debtors, particularly those in the hospitality sector who have been unable to trade during the lockdowns. Our ability to extend payment terms to them has, we anticipate, deepened our commercial relationship.

DIVIDEND

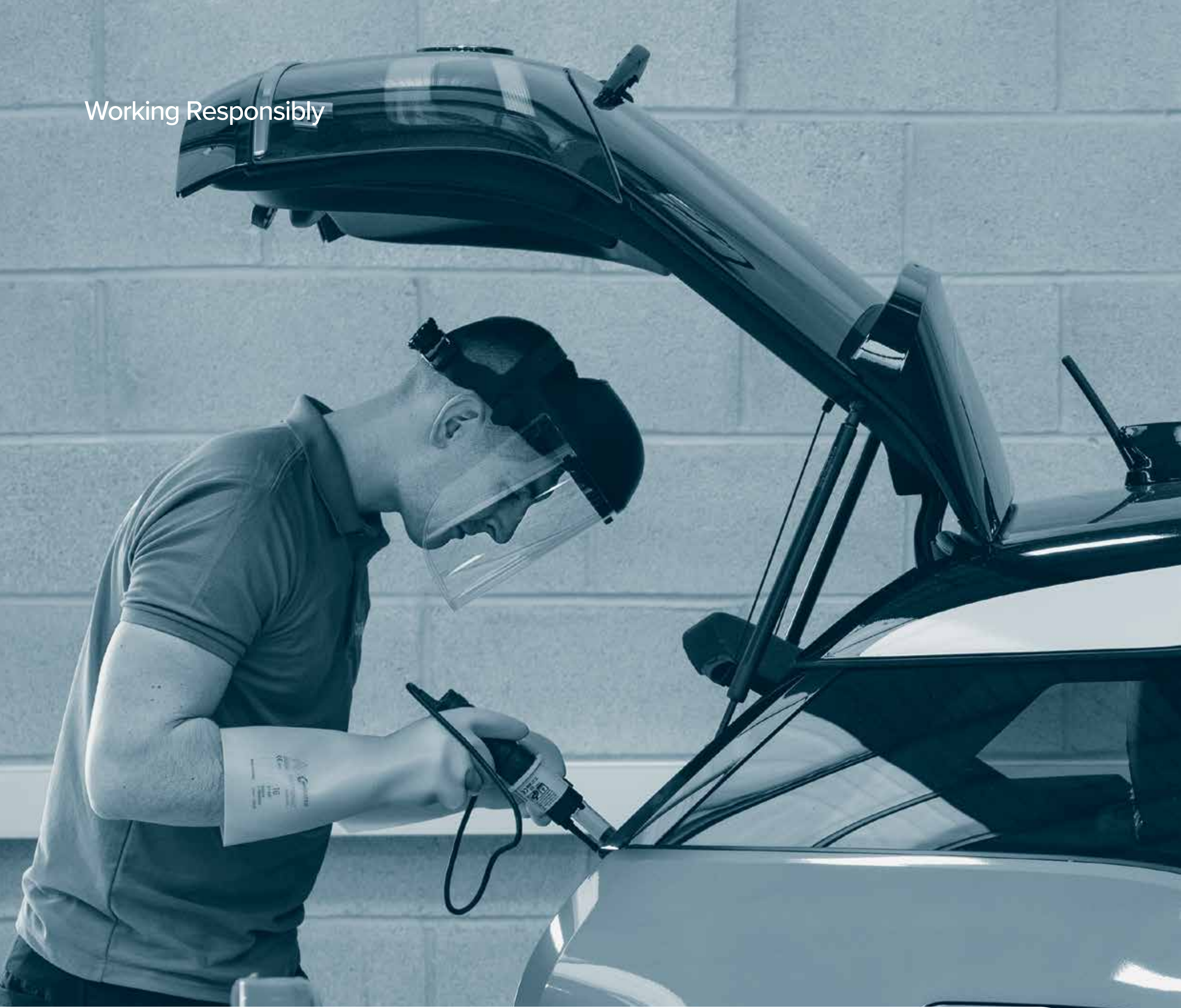
Given the improved trading in the second half of the year, and the healthy level of cash as a result of shareholder support in the April equity placing, the Board is pleased to continue its progressive dividend strategy and proposes a final dividend of 0.8 pence per share (2019: 0.65 pence per share). This takes the total dividend for the year to 1.1 pence per share (2019: 0.95 pence per share), an increase of 16%, which is covered 2.8 times by statutory profit after tax, and 4.0 times by adjusted profit after tax. The cost of the proposed final dividend is £766,000.

Subject to shareholder approval at the AGM on 20 April 2021, the final dividend will be paid on 28 May 2021 to shareholders on the register at the close of business on 14 May 2021.

STRATEGIC REPORT

The Strategic Report (which includes all of the content from pages 1 to 33, and the Section 172 reporting on pages 38 to 40) was approved by the Board on 3 March 2021 and was signed on its behalf by:

Chris Dent
Chief Financial Officer



WORKING RESPONSIBLY

Our sustainability commitments and ESG ambitions underpin our actions across the Group. We are committed to adopting responsible business practices, delivering sustainable growth, positively supporting employees and empowering our franchisees.

ENVIRONMENTAL

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

Material topic 1
National delivery through locally based engineers reduces travel time. With 50 depots nationally, we are able to access 85% of the UK's commercial properties within one hour.

Material topic 2
Metro Rod, Willow Pumps, ChipsAway and Ovenclean have an Environmental Management System that is externally audited and accredited to BS EN ISO 14001.

Material topic 3
The total CO_2e emissions for a ChipsAway smart repair can vary between 12.3kg and 16.1kg per repair. This compares to approximately 29kg for a traditional body shop repair.

Focus in 2021
Target setting for reducing energy consumption and carbon emissions for Company operations.

See page 45.

SOCIAL

Our people are our most important resource and we want to provide a great working environment which is underpinned by strong cultural values.

Material topic 1
We appreciate the benefits of diversity and inclusion. 42% of our senior management team is female and one out of four of our Managing Directors is female.

Material topic 2
We proactively support employee wellbeing and mental health. We currently have 20 Mental Health First Aiders who provide support. Counselling services are also available to all staff.

Material topic 3
We now have 12 apprentices on the Metro Rod ITOL-accredited Apprenticeship Scheme. They complete a two-year Level 3 Advanced Apprenticeship while working.

Focus in 2021
Development of IT tools to improve lone worker health and safety.

See pages 30 and 31.

GOVERNANCE

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

Material topic 1
Compliance with the ten key principles in the QCA Corporate Governance Code for small and mid-sized companies.

Material topic 2
A Board performance review was undertaken in 2020 led by an independent Non-executive Director, the results of which have been implemented by the Board.

Material topic 3
Following the lifting of restrictions, more engagement with QCA and further guideline development.

Focus in 2021
Leadership development for senior management team including succession planning.

See page 39.

STAKEHOLDER ENGAGEMENT

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.

	Importance of stakeholder to the Group
EMPLOYEES	Our committed and dedicated employees are our most important resource. They play a key role in supporting our franchisees and helping provide them with the tools they need to grow their businesses. We recognise the importance of cultivating and maintaining a positive working environment and providing a range of learning and development opportunities for individuals to broaden their range of skills and to enable them to fulfil their potential.
FRANCHISEES	Our franchisees are the very backbone of the Group and it is their commitment, hard work and entrepreneurialism that helps us grow our business. Across our portfolio of brands, our franchisees and their teams take enormous pride in delivering a first-class experience to all our customers. It is our responsibility to provide all the support and development they need to grow their businesses and to maintain the highest brand and operational standards.
SHAREHOLDERS	Our shareholders support the long-term growth of the Group. We rely on them to finance our development and growth plans. Engaging with them regularly to communicate progress, understand their perspectives, discuss long-term issues and ensure feedback is taken into account in our decision-making is critical to the success of the Group over the long term.
CUSTOMERS AND LOCAL COMMUNITIES	We are passionate about providing the highest possible customer service across all of our brands. Understanding the needs of our customers, evaluating our performance delivery against KPIs and receiving feedback on our service delivery helps us to continually improve. We recognise the importance of making a positive contribution to the communities in which we operate by providing employment and supporting local activities and causes.
SUPPLIERS	Our suppliers provide us and our franchisees with the highest possible quality of products, equipment and services. This allows us to deliver a first class service to our customers. Regular reviews take place to ensure a supply chain free of slavery and human trafficking.

How we engaged and topics discussed in 2020

- Presentations, forums, events, webinars, communications bulletins, videos and online events, with a greater focus on digital communications due to the crisis.
- Keeping our employees updated with how the business was responding to the crisis and performing and providing support for working from home and for wellbeing.
- Share options granted and exercised.

- The focus of our engagement in 2020 was digital, online and telephone-based due to the crisis, facilitated by better IT systems.
- We reduced or suspended franchisee fees and charges at the height of the crisis to ensure their survival.
- We kept our franchisees updated on health and safety, new COVID-19 ways of working, the implications of the restrictions and what help was available to them.

- Annual Report & Accounts, Interim Report, trading updates, regular meetings with institutional investors and AGM.
- Updating our shareholders on how the Group was trading throughout the crisis and the April Placing.
- Engagement with retail digital platforms including Proactive Investors.

- Online meetings, reviews, customer surveys, performance ratings and direct feedback.
- We communicated how we were delivering our services in a safe and responsible way. At all times our key priority has been the safety of our customers and the public.
- We supported our commercial customers by extending payment terms for those operating in challenging sectors such as hospitality.

- Online meetings and demonstrations, reviews and direct feedback.
- Our suppliers played an important role in sourcing and providing PPE during the crisis as well as continuing to make sure franchisees could access equipment and products.
- During the crisis, we continued to pay all our suppliers on time.

S172 STATEMENT

LIKELY CONSEQUENCES OF ANY DECISION IN THE LONG TERM

Our 2019 acquisition of Willow Pumps has enabled us to expand our range of services for B2B franchisees which benefits our customers and provides opportunities for our employees.

See pages 10, and 16 to 19.

INTERESTS OF THE COMPANY’S EMPLOYEES

Our employees are our most valuable resource as they play a key role in supporting our franchisees. Investing in, and rewarding our employees helps create a positive working environment.

See pages 30, 31 and 37.

FOSTER THE COMPANY’S BUSINESS RELATIONSHIPS

We put our franchisees at the centre of what we do and develop relationships with our customers and suppliers to understand how we can best achieve mutual goals.

See pages 10, 11, 16 to 21 and 39.

IMPACT OF THE COMPANY’S ACTIONS

We are committed to delivering services to our customers in a responsible manner. As such, we make every effort to understand and effectively manage impact of our activities on the community and environment.

See pages 30 to 33.

MAINTAINING A REPUTATION FOR HIGH STANDARDS OF BUSINESS

Our guiding principles inform the way we work with each other, support our franchisees and service our customers. We set high standards, are challenging of ourselves and demand integrity and fairness.

See pages 10, 11, 32, 33 and 39.

NEED TO ACT FAIRLY BETWEEN MEMBERS OF THE COMPANY

Our shareholders benefit from our success through the returns we generate for them. As most employees are share option holders or shareholders, they also benefit from the Group’s success.

See pages 1, 22 to 25, 30 and 31.

ENCOURAGING AN OWNERSHIP CULTURE

"Our strong ownership culture is one of the keys to our success."

Julia Choudhury
Corporate Development Director

SOCIAL

Our committed and dedicated employees are our most valuable resource. We recognise the importance of cultivating and maintaining a positive working environment and providing a range of development opportunities for individuals to broaden their range of skills, take on new challenges and fulfil their potential.

OUR LONG-TERM INCENTIVE PLAN

One of the keys to our success is our strong ownership culture. All the senior management team have invested in the business and still own 57% of the equity. This ownership culture extends more widely to all Franchise Brands staff in the form of share options, which are awarded to all employees with more than six months of service. When we acquire a new business, our principle is to award all employees with qualifying service share options within the first year of ownership.

ATTRACTING TALENTED AND DIVERSE PEOPLE

We believe in the importance of creating a diverse and inclusive working environment, where team members feel welcome, can be themselves and are able to fulfil their potential. We are particularly proud of the fact 42% of our senior management team is female.

We look for people with a wide range of skills, backgrounds and perspectives. We also provide leadership development and mentoring to help our high-potential managers successfully take on new roles and responsibilities.

ENVIRONMENT AND SUSTAINABILITY

We are committed to delivering services to our customers in a responsible manner. As such, we make every effort to understand and effectively manage the potential environmental impact of our activities. We aim to continually improve our environmental performance and support our customers in reaching their environmental goals. Our key environmental commitments are to:

- Comply with, and where possible exceed, applicable requirements;
- Promote improved fuel and energy efficiency;
- Reduce waste and actively promote reuse and recycling across our business;
- Monitor our environmental performance and set objectives and targets;
- Integrate environmental innovation and efficiency in project design, construction and the services we provide; and
- Work with our franchisees, suppliers and contractors to support our efforts and to promote sustainability in everything we do.

PERCENTAGE OF SENIOR MANAGEMENT TEAM WHICH IS FEMALE

42%

MEMBERS OF STAFF HOLDING SHARE OPTIONS (31 DEC 2020)

243

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 on the prospects of the Group. Below is a summary of current principal risks and uncertainties identified, which may be subject to change following any review.

STRATEGIC RISKS

Increasing Decreasing No movement

MARKET RISKS	IMPACT	MITIGATION
FRANCHISEES	• 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 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 through the franchise support and regular inspections and audit. • In light of COVID-19 we have provided additional support to our franchise network to ensure their continuing financial viability. See page 5.
CUSTOMERS	• Metro Rod, Metro Plumb 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 total Group 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.
AGGREGATE DEMAND	• During the current year, COVID-19 related Government restrictions have meant that underlying demand for our services has been periodically reduced due to the requirement for our customers to temporarily close premises and suspend trading.	• The Group has made use of Government schemes such as the Job Retention Scheme which has allowed the Group to temporarily reduce payroll costs without needing to use redundancy. • The Group has become adept during the year in rapidly changing the level of aggregate costs within the business to match the fall in aggregate demand which reduces the impact to profitability.
ABILITY TO CONVERT PROFITS TO CASH AND LIQUIDITY	• The B2B division has customers within the hospitality, retail and leisure sectors, which have been adversely affected by the COVID-related restrictions. It Is expected that corporate bankruptcy rates will increase during the year as Government support draws to a close. There is a risk that we will be unable to collect amounts due. • The B2B division has a positive working capital requirement that 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 addition, the Group has significantly increased the level of the expected credit loss provision in the current year to anticipate the level of losses expected during future periods. • In response to COVID-19 the Group raised £13.6m to ensure a strong balance sheet. See page 5. • Factors likely to affect a franchisee's ability to make payments are monitored by the finance team on a monthly basis. Although the risk of an individual franchisee failing is high, our overall risk is reduced due to the large overall number of franchisees.

OPERATIONAL RISKS

LEGAL RISKS	IMPACT	MITIGATION
CHANGES IN LEGISLATION	• 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 which are introduced to reduce the spread of COVID-19.	• 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.
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 ("LTIP"). • The Group encourages and supports employees to undertake training to expand existing skills where necessary.
HEALTH AND SAFETY	• The B2B division operates in sectors where the health and safety risks are 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, Metro Plumb 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. • During the current year, the Government introduced health and safety measures to reduce the spread of COVID-19. The restrictions in the Spring lockdown meant that our B2C divisions were unable to trade. • In order to continue to monitor health and safety risks, the Board considers the result of the health and safety reports at each Board meeting. • The current COVID-19 restrictions means that many of our people are required to work from home, with resultant raised home-working and mental health risks.	• The B2B division has developed health and safety systems and processes to create 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. The Group'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 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. • Where Government restrictions require us to temporarily restrict trading, the Group endeavours to reduce its cost base to match the fall in anticipated revenue in order to mitigate the overall effect on profitability. • During home working we have ensured that our people have access to both the correct working equipment and mental health support through our 20 trained Mental Health First Aiders.
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.	• The architecture of the Metro Rod systems has recently been restructured and the systems are 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/or 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 ageing systems that need to be replaced.

Our team has considerable experience in operating and growing profitable franchise businesses.

STEPHEN HEMSLEY
Executive Chairman

Stephen co-founded Franchise Brands in 2008 and has led the development of the business, including the IPO and external growth. He is a Chartered Accountant by training and spent nearly ten years with 3i as Investment Director. He then joined Domino's Pizza as Finance Director progressing to CEO, Executive Chairman and Non-executive Chairman before retiring in 2019 after 21 years with the business to focus exclusively on Franchise Brands. During this time, he took Domino's from private ownership to a market capitalisation of almost £1.5bn. 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 and Metro Plumb

Peter has over 35 years of management and commercial experience. Peter joined Metro Rod in 2003 and was promoted to 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, with national responsibility for the network branches, field engineers, call centre and sales and marketing. Peter was appointed 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.

COMMITTEE MEMBERSHIP

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

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.

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.

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, including Saracens Rugby Club. 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 45 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 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

The Group's senior management team also includes the following individuals:

IAN LAWRENCE
Managing Director, Willow Pumps

Ian founded Willow Pumps in 1992. Over the past 28 years he has built it into a leading pump design, 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.

RACHEL STEWART
Managing Director, Barking Mad

Rachel was appointed as Managing Director of Barking Mad in 2019. She was previously a Business Development Consultant with the company for almost 4 years. Rachel comes from a commercial background, and previously Commercial Director at Trinity Mirror Plc and held a Board position at Clear Channel Outdoor.

ROBIN AULD
Group Marketing Director

Robin oversees consumer, trade and franchise recruitment marketing activity ensuring continual evolution of strategy and best practice in execution. He joined Franchise Brands in 2010 and has a successful track record of marketing success over 25 years. He is best known for his work at Domino's Pizza as Sales & Marketing Director.

ANDREW MALLOWS
Group Commercial Director

Andrew has spent his career in the consumer sector and has particular experience in franchising. Andrew joined Franchise Brands in 2016 and works as Commercial Director for all the Group's brands. He was Finance Director of Domino's Pizza during the period 2001 to 2004, before being appointed Business Development Director.

Our locations

MACCLESFIELD
102 team members support our Metro Rod and Metro Plumb franchisees from the Support Centre in Macclesfield, Cheshire. A further 22 employees are based at the Metro Plumb depot in Hertfordshire.

TOTAL NUMBER OF EMPLOYEES
124

AYLESFORD
Willow Pumps has 91 team members who are based at the depots in Aylesford, Kent and West Yorkshire. A further 21 employees work in the two Metro Rod corporate franchises operated by Willow Pumps.

TOTAL NUMBER OF EMPLOYEES
112

KIDDERMINSTER
20 team members support our ChipsAway, Ovenclean and Barking Mad franchisees predominantly from our Support Centre in Kidderminster, Worcestershire.

TOTAL NUMBER OF EMPLOYEES
20

An additional 9 people work across all locations and from home. This includes most of the plc Board.

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.

STEPHEN HEMSLEY
Executive Chairman

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 2020. Further information on the Group's governance practices, the business model and strategy can be found in the 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 page 40 demonstrate how the Board has arrived at five 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, shareholders, customers and local communities and suppliers.

In making these principal decisions the Board considered the outcome for its stakeholder engagement, as set out on page 29, 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

Set out below is how we currently comply with the key principles set out in the QCA code.

QCA PRINCIPLE	COMPLIANT	EXPLANATION	FURTHER READING
1 ESTABLISH A STRATEGY AND BUSINESS MODEL WHICH PROMOTE LONG-TERM VALUE FOR SHAREHOLDERS.	✓	Focused on building market-leading businesses using primarily a franchise model. Focus is on established brands which can benefit from our shared support services and Group expertise and resources.	See pages 10 to 25. See www.franchisebrands.co.uk
2 SEEK TO UNDERSTAND AND MEET SHAREHOLDER NEEDS AND EXPECTATIONS.	✓	The Executive Chairman, Chief Financial Officer and Corporate Development Director meet regularly with institutional shareholders and provide feedback. Retail shareholders benefit from presentations and website updates.	See pages 28 and 29. See www.franchisebrands.co.uk
3 TAKE INTO ACCOUNT WIDER STAKEHOLDER AND SOCIAL RESPONSIBILITIES AND THEIR IMPLICATIONS FOR LONG-TERM SUCCESS.	✓	The Board has a clear understanding of the factors important to all its stakeholders and maintains strong relationships, solicits feedback and fosters responsible working practices.	See pages 28 and 29. See www.franchisebrands.co.uk
4 EMBED EFFECTIVE RISK MANAGEMENT, CONSIDERING BOTH OPPORTUNITIES AND THREATS, THROUGHOUT THE ORGANISATION.	✓	The Board reviews its risk management framework biannually to detail the key risks, their potential impact and mitigation and embeds risk management principles to drive proactive management.	See pages 32 and 33. See www.franchisebrands.co.uk
5 MAINTAIN THE BOARD AS A WELL-FUNCTIONING, BALANCED TEAM LED BY THE CHAIR.	✓	The Board comprises six Executive Directors, two of which are the Managing Directors of the two largest businesses, and three Non-executive Directors of which two are considered to be independent.	See pages 34, 35, 38, and 40. See www.franchisebrands.co.uk
6 ENSURE THAT BETWEEN THEM THE DIRECTORS HAVE THE NECESSARY UP-TO-DATE EXPERIENCE, SKILLS AND CAPABILITIES.	✓	Directors are drawn from a range of backgrounds, skills and experiences. New appointments will be considered against objective criteria and with due regard for the benefits of diversity.	See pages 34 and 35. See www.franchisebrands.co.uk
7 EVALUATE BOARD PERFORMANCE BASED ON CLEAR AND RELEVANT OBJECTIVES, SEEKING CONTINUOUS IMPROVEMENT.	✓	A performance self-evaluation was undertaken in December 2020 led by an independent Non-executive Director, the results of which have been implemented by the Board.	See page 27. See www.franchisebrands.co.uk
8 PROMOTE A CORPORATE CULTURE THAT IS BASED ON ETHICAL VALUES AND BEHAVIOURS.	✓	Franchise Brands has five well established guiding principles that inform the way we work with each other, support our franchisees and serve our customers and communities.	See pages 10 and 11. See www.franchisebrands.co.uk
9 MAINTAIN GOVERNANCE STRUCTURES AND PROCESSES THAT ARE FIT FOR PURPOSE AND SUPPORT GOOD DECISION-MAKING BY THE BOARD.	✓	Franchise Brands has properly constituted Audit, Remuneration and AIM Compliance committees of the Board with formally delegated duties and responsibilities, comprised of independent Directors.	See pages 35, 38, and 40. See www.franchisebrands.co.uk
10 COMMUNICATE HOW THE COMPANY IS GOVERNED AND IS PERFORMING BY MAINTAINING A DIALOGUE WITH SHAREHOLDERS AND OTHER RELEVANT STAKEHOLDERS.	✓	Regular shareholder communications on performance via interim and annual financial reports, trading updates issued via RNS, investor presentations, retail digital platforms including Proactive Investors and shareholder meetings.	See pages 28 and 29. See www.franchisebrands.co.uk

Set out below is our commitment to Section 172.

In making decisions, the Company's Directors are cognisant of all their legal duties, including their duty under Section 172(1) of the Companies Act 2006 to act in the way that is most likely to promote the success of the Company for the benefit of its members as a whole and to have regard (among other matters) to the factors set out in Section 172(1)(a) to (f) of the Companies Act 2006.

Examples of some of the principal decisions taken by the Board during the year and an explanation of which factors the Directors had regard to when reaching such decisions, including those set out in Section 172(1)(a) to (f) of the Companies Act 2006, are set out in the table below.

KEY OF FACTORS CONSIDERED:

- Financial impact
- Long-term impact
- Reputation
- Employees
- Acting fairly between members
- Fostering business relationships

BOARD DECISION-MAKING

Given the uncertain outcome and duration of the crisis, the Board took a number of swift and decisive actions to reduce costs, enhance liquidity and protect the business.

BOARD DECISIONS	KEY	DIRECTORS' CONSIDERATION OF FACTORS IN ACCORDANCE WITH S.172(1)
APRIL PLACING OF £13.6M 1	Financial impact, Long-term impact, Fostering business relationships, Employees, Acting fairly between members	The strengthening of the balance sheet allowed us to repay borrowings, extend credit terms to commercial customers who were required to close during lockdown, continue to support B2B franchisees with capital expansion and make all our supplier payments and HMRC payments on a timely basis. The strengthened balance sheet provided a greater level of security to management and employees. It also positions Franchise Brands for earnings-enhancing opportunities that may arise which will benefit all shareholders.
SUSPENSION OF B2C FRANCHISEE FEES DURING SPRING LOCKDOWN 2	Financial impact, Long-term impact, Reputation, Fostering business relationships, Employees	Our ChipsAway, Ovenclean and Barking Mad franchisees were unable to operate during the Spring lockdown because they were not performing essential services. They benefitted from the suspension of franchisee fees and charges other than those necessary to maintain skeleton operations. While the reduction in fees reduced income in the short term, the action safeguarded their survival and supported the long-term growth of the networks.
AGREEING PAY CUTS 3	Financial impact, Reputation, Employees	The Board took the early decision to reduce costs through agreeing temporary pay cuts with a number of higher paid employees. The Board itself agreed temporary pay cuts of up to 100% of salary. As activity levels improved, these pay cuts were reversed.
UTILISING THE JOB RETENTION SCHEME 4	Financial impact, Reputation, Employees, Acting fairly between members	The Board took the early decision in March to furlough approximately 40% of the staff in the B2B division and approximately 85% of the staff in the B2C division in anticipation of the reduction in activity and income. This safeguarded the jobs of employees during the peak of the crisis and allowed us to bring people back to the business as activity levels improved.
CONTINUATION OF DIVIDEND PAYMENTS 5	Financial impact, Long-term impact, Reputation, Acting fairly between members	The continuation of our dividend payments reflects the Board's future confidence in the business which is beneficial for all stakeholders. Importantly, it acknowledges the support provided by our shareholders with the April Placing which raised £13.6m. As most employees are share option holders, or shareholders, the dividend payments were beneficial to them. Shareholders were given the option to receive the 2019 final dividend, which was declared before the Placing had taken place, as a scrip dividend. Given the uncertainties due to COVID-19 the Board considered it necessary for the Group to adopt a prudent approach and preserve the strength of its balance sheet by retaining cash.

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. **Variable pay** – 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 generally 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 exception to this is for matching schemes, where director are required to an equal number of shares to those being granted. 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 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 corporate 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 2020 was as follows:

Director	Salary or fees (£)	Benefits in kind (£)	Pension contributions (£)	Total (£)	2019 comparison (£)
Stephen Hemsley	110,000	–	–	110,000	107,500
Chris Dent	105,000	7,800	2,193	114,994	112,830
Julia Choudhury	100,000	–	–	100,000	96,250
Tim Harris	125,000	8,400	2,454	135,854	133,760
Peter Molloy	130,000	16,984	4,092	151,077	147,208
Colin Rees	97,087	–	2,077	99,164	95,243
Nigel Wray	27,500	–	–	27,500	25,625
David Poutney	27,500	–	–	27,500	26,875
Rob Bellhouse	27,500	–	–	27,500	26,875
Total	749,587	33,184	10,817	793,589	772,166

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 has never operated 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:

					Changes in the year					
Director	Date of grant	Exercise price (pence)	Performance condition	2019 Number of shares	Granted	Exercised	Lapsed	2020 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
	15-Sept-20	88	EPS growth	—	34,091	—	—	34,091	15-Sept-23	15-Sept-30
	15-Sept-20	0.5	EPS growth	—	17,045	—	—	17,045	15-Sept-23	15-Sept-30
Julia Choudhury	11-Dec-18	69	EPS growth	71,970	—	—	—	71,970	11-Dec-21	11-Dec-28
	15-Sept-20	88	EPS growth	—	34,091	—	—	34,091	15-Sept-23	15-Sept-30
Tim Harris	11-Dec-18	69	EPS growth	71,970	—	—	—	71,970	11-Dec-21	11-Dec-28
	15-Sept-20	88	EPS growth	—	34,091	—	—	34,091	15-Sept-23	15-Sept-30
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
	15-Sept-20	88	EPS growth	—	34,091	—	—	34,091	15-Sept-23	15-Sept-30
	15-Sept-20	0.5	EPS growth	—	28,409	—	—	17,045	15-Sept-23	15-Sept-30
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
	15-Sept-20	88	EPS growth	—	34,091	—	—	34,091	15-Sept-23	15-Sept-30
	15-Sept-20	0.5	EPS growth	—	39,773	—	—	17,045	15-Sept-23	15-Sept-30

During 2020 the closing mid-market quote for the Company's shares ranged from a low of 83.5p to a high of 151.5p. No Director exercised an option over the Company's shares during the year.

During 2020 the Remuneration Committee approved the grant of options to employees and Directors under two new incentive schemes, a Company Share Option Plan ("CSOP") and a Management Share Option Scheme ("Management Scheme"). Unlike the majority of options granted to employees, options granted to the Executive Directors and certain members of the Senior Leadership team are "matching" options. This means that these employees are required to purchase shares in the Company at the prevailing market price before any option grants are effective.

COMPANY SHARE OPTION PLAN

The Company established a new CSOP for employees and Directors, which will enable them to acquire new Ordinary Shares of 0.5 pence each in the Company subject to certain Company performance criteria being met. Similar to the Company's existing share option schemes, employees and directors are only able to exercise their options under the CSOP as follows:

1) 20% after reported adjusted EPS achieves compound annual growth of 8% over each of the next three financial years;
2) 100% after reported adjusted EPS achieves compound annual growth of 15% over each of the next three financial years; and
3) between 20% to 100% of their options on a sliding scale basis on EPS growth between the targets in 1) and 2) above.

In respect of the Directors and certain members of the senior leadership team, this plan is a matching plan, requiring these participants to purchase shares in the Company at the prevailing market price before the grant is effective. The Company awarded a total of 170,455 options to five Executive Directors. The number of matching share options granted to each Director has been determined as being two times the number of Ordinary Shares they have each purchased in the Company, subject to a maximum of £30,000 of CSOP options each.

MANAGEMENT SHARE OPTION SCHEME

In addition to the above, the Company has awarded 85,227 options to three Executive Directors under a new unapproved "nil cost" Management Scheme, which will enable them to acquire new Ordinary Shares at their nominal value of 0.5 pence each based on the number of Ordinary Shares they have purchased in the Company. The number of matching shares options granted to each Director under the Management Scheme has been determined as being equal to the number of Ordinary Shares they have purchased in the Company, at the then prevailing share price. Options granted under the Management Scheme have the same EPS conditions of exercise as the CSOP as set out above.

Directors' Report

SCOPE OF THIS REPORT

The Directors' biographies on pages 34 and 35, the discussion of corporate governance matters on pages 38 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 2006, 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 building market-leading businesses in selected customer segments, primarily via 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 2020**	At 31 December 2019
Stephen Hemsley[1]	**22,156,644**	20,515,117
Chris Dent[2]	**60,603**	15,000
Julia Choudhury[3]	**1,544,671**	1,507,288
Tim Harris[4]	**1,385,365**	1,362,314
Peter Molloy[5]	**71,956**	33,582
Colin Rees	**403,009**	298,507
Nigel Wray[6]	**22,366,303**	21,720,120
David Poutney[7]	**3,696,495**	3,438,881
Rob Bellhouse	**111,260**	82,768

Notes:

1. Included in the holding of Stephen Hemsley are 1,626,875 Ordinary Shares held by his wife, 7,525,927 Ordinary Shares held by CTG Investment Limited, a company owned by a discretionary trust of which Mr Hemsley and his family are potential beneficiaries, 1,397,862 by the Stephen Hemsley No.5 Trust, a trust settled by Stephen Hemsley of which his family are potential beneficiaries, and 1,613,292 Ordinary Shares held by his Self-Invested Personal Pension ("SIPP").
2. Included in the holding of Chris Dent are 60,603 Ordinary Shares held by his SIPP.
3. Included in the holding of Julia Choudhury are 384,286 Ordinary Shares held jointly with her husband, 421,140 Ordinary Shares held by her SIPP and 37,554 Ordinary Shares held by Winsham Capital Partners Ltd, a Company controlled by Julia Choudhury and her husband.
4. Included in the holding of Tim Harris are 74,156 Ordinary Shares held by his SIPP.
5. Included in the holding of Peter Molloy are 38,095 Ordinary Shares held by his SIPP.
6. Included in the holding of Nigel Wray are 14,117,007 Ordinary Shares held by Vidacos Nominees Limited, acting as nominee for RBC Trustees (Jersey) Limited as trustee of Nigel 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.
7. Included in the holding of David Poutney are 2,800,109 Ordinary Shares held by his SIPP and an interest in 761,386 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 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 continues to invest in the development of its IT platforms, particularly at Metro Rod. In the current year, the Group claimed £371,655 of qualifying R&D expenditure (2019: £430,828).

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
Canaccord Genuity Group Inc	6,728,524	7.0%
Gresham House Asset Management Limited	5,444,699	5.7%

GOING CONCERN

The Group has generated significant profits both during the years covered by these financial statements, and in previous years. The Group has sufficient current financial assets to meet its current liabilities as they fall due.

During the year the Group has been impacted by the lockdowns which were imposed by the Government as a result of the COVID-19 crisis. In response to this crisis the Group reduced costs to reflect the reduction in the level of revenues. This included the use of the furlough scheme, which was an excellent tool during the height of lockdown to ensure that we could continue to employ our people in the face of a sharp fall in revenues. In addition, paycuts were agreed with the remaining employees, and other operational cost savings were achieved. This meant that the Group continued to generate profits on a month-by-month basis during the height of the lockdown and continued to be able to pay all its liabilities as they fell due. During the second half of the year the Group saw a recovery in its revenues and has consequently returned all staff from furlough.

The Group has budgeted its anticipated financial performance over the balance of 2021, and throughout the whole of 2022. These financial forecasts include detailed income statement and cash flow budgets. These forecasts have been subject to review by the Board of Directors.

On 20 April 2020 the Company completed a fundraise by which 15,555,556 new Ordinary Shares were issued at the price of 90p raising £13.6m (net of expenses). This fundraise significantly strengthened the Group's balance sheet at a time of heightened uncertainty, providing significant liquidity. The

Group has used part of the Placing funds to pay down its borrowings on the Group's Revolving Credit Facility. The Group has not, currently, used the funds to pay down the Term Loan (which currently stands at £5.2m) to continue to maximise the Group's accessible funding lines. At the 31 December 2020 the Group had cash of £13.2m, and undrawn bank facilities of 7.0m (comprised of £5m RCF and £2m overdraft), giving the Group over £20m of cash and available facilities. Overall, the Group has deleveraged, moving to an adjusted net cash position of £6.7m, and a statutory net cash position (including our capitalised operating leases) of £5.1m.

Given the fact that the Group and the Company continues to be profitable, continues to have net assets and has access to cash and funding, the Directors have made appropriate enquiries and consider that the Company 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.

BRANCHES

There are no branches of the Company outside the UK.

DIVIDENDS

A final dividend of 0.65 pence per share was paid on 8 June 2020 in respect of the 2019 financial year. The final 2019 dividend had a scrip dividend alternative. The scrip dividend alternative was taken up by approximately 63% of the Company's issued shares. Therefore, the dividend was satisfied with a cash payment of £228,695 and the issue of 388,199 new Ordinary Shares of 0.5 pence.

An interim dividend of 0.30 pence per share in respect of the 2020 financial year was paid on 19 October 2020.

The Directors are recommending a final dividend of 0.8 pence per share which, subject to shareholders' approval at the AGM, will be paid on 28 May 2021 to shareholders on the register at the close of business on 14 May 2021.

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 2020.

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 78. 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.

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 2020 Annual General Meeting of the Company will be held on 20 April 2021, 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.

2019-2020 ENERGY AND CARBON REPORTING

Franchise Brands plc has reported scope 1, 2 and 3 greenhouse gas (GHG) emissions in accordance with the requirements of Streamlined Energy and Carbon Reporting (SECR). This includes Franchise Brands plc's stated emissions for one reporting year – the 12 months starting 1 January 2020 and ending 31 December 2020.

METHODOLOGY

Responsibilities of Franchise Brands plc and Green Element

Franchise Brands plc was responsible for the internal management controls governing the data collection process. Green Element was responsible for the data aggregation, any estimations and extrapolations applied (as required) and GHG calculations performed and the emissions statements. Emissions were calculated according to the Greenhouse Gas Protocol Corporate Greenhouse Gas Accounting and Reporting Standard.

SCOPE AND SUBJECT MATTER

The report includes sources of environmental impacts under the operational control of Franchise Brands plc.

GHG SOURCES INCLUDED IN THE PROCESS

Scope 1: Company cars, natural gas, diesel for electricity generation, other fuels.
Scope 2: Purchased electricity.
Scope 3: Business travel in employee-owned or hired vehicles.
Types of GHG included, as applicable: CO_2, N_2O, CH_4, HFCs, PFCs, SF_6, and NF_3. The figures were calculated using DEFRA conversion factors, expressed as tonnes of carbon dioxide equivalent ("tCO_2e").

ENERGY EFFICIENCY ACTION

The following energy efficiency action has been taken:

- calculation of 2020 carbon footprint;
- switching to LED lights with timers and sensors;
- use of video conferencing instead of travel (where possible);
- switch to E.ON for greener energy, trialling use of part electric fleet and movement towards hybrid vehicles; and
- behaviour change promotion.

COMPANY GHG STATEMENT (IN tCO_2e), AS FOLLOWS:

Streamlined Energy and Carbon Reporting	2020
Energy consumption: (kWh)	
Electricity	4,925.5
Gas	965
Transport fuel	5,045,390.4
Fuel for electricity generation	–
Total energy consumption	**5,055,107.9**
Emissions: (tCO_2e)	
Scope 1	
Emissions from combustion of gas in buildings	2.0
Emissions from combustion of fuel for transport purposes	929.1
Scope 2	
Emissions from purchased electricity	107.5
Scope 1 & 2	
Total Scope 1+2 emissions	**931.2**
Scope 3	
Emissions from business travel in rental cars or employee vehicles where Company is responsible for purchasing the fuel	340.3
Emissions from upstream transport and distribution losses and excavation and transport of fuels	0.18264
Total emissions for mandatory reporting	**1,404.5**
Intensity: (tCO_2e / EBITDA)	
EBITDA	£6,640,000
Intensity ratio: tCO_2e from Scope 1, 2, and 3 (fuel for business travel only) / EBITDA	0.23
Methodology	GHG Protocol Corporate Accounting and Reporting Standard
Certification and external verification	Calculated and verified as accurate by Green Element Limited and Compare Your Footprint Limited, UK.

Approved by the Board.

Chris Dent
Chief Financial Officer
3 March 2021

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 accounting standards in conformity with the requirements of the Companies Act 2006. 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
3 March 2021

Independent auditor's report to the members of Franchise Brands plc

OPINION ON THE FINANCIAL STATEMENTS

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 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 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.

We have audited the financial statements of Franchise Brands plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 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 their preparation is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent Company financial statements, as applied in accordance with the provisions 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain 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.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- reviewing and challenging the going concern paper prepared by management by verifying the numerical inputs, accuracy of calculations and obtaining evidence to support management's estimates;
- a comparison of the best estimate forecasts prepared by management to the actual results in the financial period being audited along with an assessment of the assumptions used to substantiate the potential impact of Covid-19 through the use of sensitivity analysis on these key assumptions and an overall comparison to actual post year end results;
- reviewing the forward looking forecasts prepared by management, challenging the inputs and assumptions used within these models and evaluating sensitivities performed to understand the available headroom on all financing facilities, cash and loan covenants. We have challenged the assumptions within the stress test scenarios to understand the headroom impact of reductions in revenue, EBITDA and profit, and any delays in receipts of cash from customers; and
- confirming the accuracy of the management forward looking covenant calculations on the banking facilities based on the forecast figures.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the members of Franchise Brands plc

OVERVIEW

Coverage	*99% (2019: 84%) of Group profit before tax* *99% (2019:85%) of Group revenue* *99% (2019: 88%) of Group total assets*		
Key audit matters		2020	2019
	Impairment of goodwill and intangible assets	✓	✓
	Recoverability of trade receivables	✓	–
	Acquisition of WPL Group Holdings Limited	–	✓
	The acquisition of WPL Group Holdings Limited is no longer considered to be a key audit matter as the entity was acquired in the prior year and there have been no new acquisitions in the current financial year.		
Materiality	*Group financial statements as a whole* £180,000 (2019: £160,000) based on 5% (2019: 5%) of profit before tax.		

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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.

The group operates solely in the United Kingdom through a number of legal entities, which form reporting components. Significant components were defined as those reporting components contributing more than 15% towards Group profit before tax, or if judgementally considered to be significant by nature. The financial information relating to the Parent Company and all other significant components of the Group were subject to full scope audits by the Group audit team. The Group audit team also performed full scope statutory audits on the trading non-significant components.

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) that 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 matter		How the scope of our audit addressed the key audit matter
Impairment of goodwill and intangible assets Refer to the accounting policies on pages 59 and 62 and Note 13 on page 70	The group has goodwill and indefinite life intangible assets, which require 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 Unit ("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 financial reporting standards; • Verifying the long term growth rate using historical performance to compare to budgeted rates used; • Determining 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

Key audit matter		How the scope of our audit addressed the key audit matter
Recoverability of trade receivables Refer to the accounting policies in Note 1 on page 60 and Note 17 on page 74	Material amounts of trade debtors remain outstanding and the aged nature of certain balances along with the impact of Covid-19 increases the risk of recoverability. There is significant management judgement involved in assessing the recoverability of these balances. Such judgements include management's expectations of future payments, based on the forward looking assessment and exercising judgement in determining whether any specific additional provisions are required.	We obtained assurance over management's judgements applied in calculating the amount of receivables provisions by: • Reviewing management's calculation of the expected credit loss provision, including agreeing the inputs to source ledgers and assessing management's judgement on the forward-looking assessment by comparison to our understanding of the business. • In order to assess whether any specific additional provisions were required, we reviewed a sample of balances for the level of cash received post year end against the year-end receivables in each entity, or other supporting documentation where this was still outstanding, to verify the recoverability of these balances post year end. **Key observations:** Based on the audit procedures performed we considered that management's judgements in relation to the recoverability of trade receivables were reasonable.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2020 £m	2019 £m	2020 £m	2019 £m
Materiality	180,000	160,000	110,000	110,000
Basis for determining materiality	5% of Profit Before Tax		60% (2019: 70%) of group materiality	
Rationale for the benchmark applied	Profit Before Tax is one of the principal considerations for users of the financial statements in assessing the financial performance of the business.		This company exists as a parent company and has no trade during the year. As an investment holding company Net Assets were deemed the most appropriate benchmark, but this was limited to component materiality for group purposes	
Performance materiality	135,000	120,000	82,500	82,500
Basis for determining performance materiality	75% selected based on the expected low level of misstatements and the relatively low number of accounts that are subject to management estimation.		75% selected based on the expected low level of misstatements and the relatively low number of accounts that are subject to management estimation.	

Component materiality

We set materiality for each component of the Group between £70,000 and £145,000 (2019: £70,000 and £140,000) dependent on the size and our assessment of the risk of material misstatement of that component. In the audit of each component, we further applied performance materiality levels of 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £3,600 (2019: £3,200). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Key audit matter	How the scope of our audit addressed the key audit matter
Strategic report and Directors' report	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. In the light of the knowledge and understanding of the Group and 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.
Matters on which we are required to report by exception	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 and the part of the Directors' remuneration report to be audited 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.

Independent auditor's report to the members of Franchise Brands plc

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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those that relate to the reporting framework (IFRS and the Companies Act 2006) and the relevant tax compliance regulations.
- In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being those laws and regulations relating to environmental, occupational health and safety and data protection.
- We understood how the group is complying with those frameworks by making enquiries of management and those responsible for legal and compliance procedures. We corroborated our enquiries through our review of Board minutes, papers provided to the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. We considered the programs and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programs and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and challenging the assumptions made by management in their significant accounting estimates in particular in relation to the impairment of goodwill and intangible assets and the recognition and measurement of revenue where the performance obligation is satisfied over time. Our audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved: journal entry testing, with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business; enquiries of those responsible for legal and compliance procedures; and focused testing on laws and regulations that could give rise to a material misstatement in the Group financial statements.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available 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
3 March 2021

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 2020

	Note	2020 £'000	2019 £'000
Revenue	6	**49,287**	44,013
Cost of sales		**(28,362)**	(27,631)
Gross profit		**20,925**	16,382
Adjusted earnings before interest, tax, depreciation, amortisation, share-based payments & non-recurring items ("Adjusted EBITDA")		**6,640**	5,182
Depreciation	7,14,15	**(1,149)**	(635)
Amortisation of software	7,13	**(209)**	(120)
Amortisation of acquired intangibles	7,13	**(393)**	(260)
Share-based payment expense	7,9	**(205)**	(238)
Non-recurring items	5,7	**(707)**	(270)
Total administrative expenses		**(16,948)**	(12,723)
Operating profit		**3,977**	3,659
Other gains and losses	20	**151**	(26)
Finance expense	10	**(446)**	(357)
Profit before tax		**3,682**	3,276
Tax expense	11	**(889)**	(566)
Profit for the year and total comprehensive income attributable to equity holders of the Parent Company		**2,793**	2,710
All amounts relate to continuing operations			
Earnings per share			
Basic	12	**3.09**	3.48
Diluted	12	**3.03**	3.42

The notes on pages 58 to 79 form part of these financial statements.

Consolidated Statement of Financial Position
At 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Intangible assets	13	**34,754**	35,057
Property, plant and equipment	14	**1,274**	1,242
Right-of-use assets	15	**3,377**	3,538
Trade and other receivables	17	**155**	–
Total non-current assets		**39,560**	39,837
Current assets			
Inventories	16	**712**	594
Trade and other receivables	17	**15,072**	16,935
Cash and cash equivalents		**13,203**	1,682
Total current assets		**28,987**	19,211
Total assets		**68,547**	59,048
Liabilities			
Current liabilities			
Trade and other payables	18	**10,808**	12,684
Loans and borrowings	19	**1,908**	4,074
Obligations under leases	21	**897**	924
Current tax liability		**445**	594
Contingent consideration	20	**320**	–
Total current liabilities		**14,378**	18,276
Non-current liabilities			
Loans and borrowings	19	**3,200**	5,200
Obligations under leases	21	**2,240**	2,563
Contingent consideration	20	**3,136**	3,606
Deferred tax liability	22	**1,752**	1,544
Total non-current liabilities		**10,328**	12,913
Total liabilities		**24,706**	31,189
Total net assets		**43,841**	27,859
Issued capital and reserves attributable to owners of the Company			
Share capital	24	**479**	398
Share premium	24	**36,817**	22,806
Share-based payment reserve	24	**455**	316
Merger reserve	24	**1,390**	1,390
Treasury reserve	24	**–**	(21)
EBT reserve	24	**(149)**	–
Retained earnings		**4,849**	2,970
Total equity attributable to equity holders		**43,841**	27,859

The consolidated financial statements of Franchise Brands plc (Company number: 10281033) on pages 52 to 79 were approved and authorised for issue by the Board of Directors on 3 March 2021 and were signed on its behalf by:

Chris Dent
Director

Company Statement of Financial Position
At 31 December 2020

	Note	2020 £'000	2019 £'000
Assets			
Non-current assets			
Fixed asset investments	23	**41,049**	41,049
Total non-current assets		**41,049**	41,049
Current assets			
Trade and other receivables	17	**2,242**	–
Cash and cash equivalents		**8,997**	25
Total current assets		**11,239**	25
Total assets		**52,288**	41,074
Liabilities			
Current liabilities			
Trade and other payables	18	**292**	923
Loans and borrowings	19	**1,908**	4,074
Contingent consideration	20	**320**	–
Total current liabilities		**2,520**	4,997
Non-current liabilities			
Loans and borrowings	19	**3,200**	5,200
Contingent consideration	20	**3,136**	3,606
Total non-current liabilities		**6,336**	8,806
Total liabilities		**8,856**	13,803
Net assets		**43,432**	27,271
Issued capital and reserves attributable to owners of the Company			
Share capital	24	**479**	398
Share premium	24	**36,817**	22,806
Share-based payment reserve	24	**455**	316
Merger reserve	24	**1,270**	1,270
Treasury reserve	24	**–**	(21)
EBT reserve	24	**(149)**	–
Retained earnings		**4,560**	2,502
Total equity attributable to equity holders		**43,432**	27,271

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 2020 of £2.97m (2019: £0.05m).

The Company financial statements of Franchise Brands plc (Company number: 10281033) on pages 52 to 79 were approved and authorised for issue by the Board of Directors on 3 March 2021 and were signed on its behalf by:

Chris Dent
Director

Consolidated Statement of Cash Flows
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit for the year		**2,793**	2,710
Adjustments for:			
Depreciation of property, plant and equipment	14	**327**	183
Depreciation of right-of-use assets	15	**822**	452
Amortisation of software	13	**209**	120
Amortisation of acquired intangibles	13	**393**	260
Non-recurring costs		**707**	270
Share-based payment expense	9	**205**	238
Other gains and losses	20	**(151)**	26
Finance expense	10	**446**	357
Tax expense	11	**889**	566
Operating cash flow before movements in working capital		**6,640**	5,182
Decrease/(increase) in trade and other receivables	17	**1,345**	(1,523)
(Increase)/decrease in inventories	16	**(119)**	5
(Decrease)/increase in trade and other payables	18	**(1,878)**	999
Cash generated from operations		**5,988**	4,663
Corporation taxes paid		**(745)**	(147)
Net cash generated from operating activities		**5,243**	4,516
Cash flows from investing activities			
Purchases of property, plant and equipment	14	**(460)**	(865)
Purchase of software	13	**(319)**	(837)
Acquisition of subsidiary including costs, net of cash acquired	5	**–**	(3,958)
Net cash used in investing activities		**(779)**	(5,660)
Cash flows from financing activities			
Bank loans – repaid		**(4,200)**	(2,506)
Bank loans – received		**–**	4,000
Other loans – made		**(163)**	(5)
Capital element of lease obligations repaid		**(1,100)**	(716)
Interest paid – bank and other loan		**(257)**	(343)
Interest paid – leases		**(189)**	(44)
Proceed from issue of shares		**13,696**	358
Purchase of shares by Employee Benefit Trust		**(214)**	–
Purchase of Treasury shares		**–**	(266)
Dividends paid	26	**(516)**	(592)
Net cash generated from/(used in) financing activities		**7,057**	(114)
Net increase/(decrease) in cash and cash equivalents		**11,521**	(1,258)
Cash and cash equivalents at beginning of year		**1,682**	2,940
Cash and cash equivalents at end of year		**13,203**	1,682

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 2019	(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)**
Financing cash flows	**1,200**	**3,000**	**–**	**1,258**	**5,458**	**–**	**5,458**
Other cash flows	**–**	**–**	**–**	**–**	**–**	**11,521**	**11,521**
Other changes	**(24)**	**2**	**(13)**	**(701)**	**(736)**	**–**	**(756)**
At 31 December 2020	**(5,225)**	**–**	**117**	**(2,930)**	**(8,039)**	**13,203**	**5,164**

Company Statement of Cash Flows
For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit for the year		**2,973**	49
Adjustments for:			
Other gains and losses		**(151)**	26
Finance expenses		**242**	287
Tax expense		**(89)**	(236)
Share-based payment expense		**53**	84
Operating cash flow before movements in working capital		**3,027**	210
(Increase)/decrease in trade and other receivables	17	**(1,998)**	2,920
(Decrease)/increase in trade and other payables	18	**(394)**	776
Cash generated from operations		**635**	3,906
Corporation taxes paid		**(172)**	–
Net cash generated from operating activities		**463**	3,906
Cash flows from investing activities			
Acquisition of subsidiary including costs		**–**	(4,538)
Net cash used in investing activities		**–**	(4,538)
Cash flows from financing activities			
Bank loans – repaid		**(4,200)**	(2,506)
Bank loans – received		**–**	4,000
Interest paid – bank and other loans		**(257)**	(343)
Proceed from issue of shares		**13,696**	358
Funds supplied to Employee Benefit Trust		**(214)**	–
Purchase of Treasury shares		**–**	(266)
Dividends paid	26	**(516)**	(592)
Net cash flows generated by/(used in) financing activities		**8,509**	651
Net increase/(decrease) in cash and cash equivalents		**8,972**	19
Cash and cash equivalents at beginning of year		**25**	6
Cash and cash equivalents at end of year		**8,997**	25

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 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 1 January 2020	**(6,401)**	**(3,002)**	**129**	**(9,275)**	**25**	**(9,250)**
Financing cash flows	**1,200**	**3,000**	**–**	**4,200**	**–**	**4,200**
Other cash flows	**–**	**–**	**–**	**–**	**8,972**	**8,972**
Other changes	**(24)**	**2**	**(13)**	**(53)**	**–**	**(55)**
At 31 December 2020	**(5,225)**	**–**	**117**	**(5,108)**	**8,997**	**3,889**

Consolidated and Company Statement of Changes in Equity
For the year ended 31 December 2020

Group	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Treasury shares £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2019	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 1 January 2020	**398**	**22,806**	**316**	**1,390**	**(21)**	**–**	**2,970**	**27,859**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**2,793**	**2,793**
Contributions by and distributions to owners								**–**
Shares issued	**79**	**13,623**	**(66)**	**–**	**12**	**65**	**66**	**13,779**
Dividend paid	**2**	**389**	**–**	**–**	**–**	**–**	**(906)**	**(515)**
Treasury shares	**–**	**–**	**–**	**–**	**9**	**–**	**(9)**	**–**
Contributions to Employee Benefit Trust	**–**	**–**	**–**	**–**	**–**	**(214)**	**(65)**	**(279)**
Share-based payment	**–**	**–**	**205**	**–**	**–**	**–**	**–**	**205**
At 31 December 2020	**479**	**36,817**	**455**	**1,390**	**–**	**(149)**	**4,849**	**43,841**

Company	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Treasury shares £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
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 1 January 2020	**398**	**22,806**	**316**	**1,270**	**(21)**	**–**	**2,502**	**27,271**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**2,972**	**2,972**
Contributions by and distributions to owners								**–**
Shares issued	**79**	**13,623**	**(66)**	**–**	**12**	**65**	**66**	**13,779**
Dividend paid	**2**	**389**	**–**	**–**	**–**	**–**	**(906)**	**(515)**
Treasury shares	**–**	**–**	**–**	**–**	**9**	**–**	**(9)**	**–**
Contributions to Employee Benefit Trust	**–**	**–**	**–**	**–**	**–**	**(214)**	**(65)**	**(279)**
Share-based payment	**–**	**–**	**205**	**–**	**–**	**–**	**–**	**205**
At 31 December 2020	**479**	**36,817**	**455**	**1,270**	**–**	**(149)**	**4,560**	**43,432**

Notes forming part of the Financial Statements
For the year ended 31 December 2020

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 accounting standards in conformity with the requirements of Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 December 2020. 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
IFRS 8 Operating Segments requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the "chief operating decision maker", who has been identified as the Executive Chairman. IFRS 8 permits the aggregation of these components into reportable segments for the purpose of disclosure in the Group's financial statements.

The Directors have determined that the Group currently has two reportable types of operations: Franchise Networks and Direct Labour Organisations ("DLOs"). 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. In addition, the Directors believe that there are two operational divisions within the Group. Therefore, in both the previous and 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 other B2B DLOs; and
- B2C, which is made up of ChipsAway, Ovenclean and Barking Mad.

In the current year management responsibility for the 2 Metro Rod corporate franchise areas has moved from Metro Rod to Willow Pumps. Therefore, these entities now form part of the B2B-DLO division, and are reported as such internally. The prior year has not been restated for this change.

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, trademarks, 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 Pumps 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.

1 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 Group's 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.

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 are 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 & 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.

Corporation tax
Current tax assets and liabilities are measured at the amount expected to be received or paid to the taxation authorities. Corporation 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 corporation 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.

Leases
Where a contract meets IFRS 16's definition of a lease, lease agreements 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.

Employee Benefit Trust
In order to facilitate its employee share option scheme, on 1 July 2020 the Group established an onshore discretionary employee benefit trust (the "EBT"), which is expected to conduct market purchases of Ordinary Shares to satisfy potential future option exercises by employees (but not Directors). When the Group funds the EBT the cash value is debited to a separate EBT reserve of the Parent Company. During the period 1 July 2020 to 31 December 2020, the EBT purchased 264,848 Ordinary Shares at an average price of 96 pence per share. 109,223 Ordinary Shares have been used to satisfy the exercise of options over Ordinary Shares. Accordingly, at the year end the EBT held 155,625 Ordinary Shares which represents 0.16% of the Company's current issued share capital.

Government Grants
Government Grants are set against the relevant cost. In the current year the Group made use of two different Government Grants: R&D tax credits and the Job Retention Scheme.

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, share-based payments and non-recurring items. 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 22. 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
The 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.

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 2020 £206,000 (2019: £144,000) had been recognised as a debtor, and £151,000 (2019: £141,000) was not recognised.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

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 incentive schemes designed to increase system sales will reduce the headline rate down from the contractual rate of 22.5%. The franchise network has two types of system sales: National and Local accounts. In the case of National accounts Metro Rod bears the credit risk, whereas for Local 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 at least 77.5% to leave a gross margin of up to 22.5%. In relation to Local account 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 contractual 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 £6.0m (2019: £7.6m) of supply and install contracts in progress, on which £3.7m (2019: £3.1m) of revenue has been taken.

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 other gains and losses. 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 Note 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	2020 £'000	2019 £'000
Financial assets at amortised cost		
Cash and cash equivalents	**13,203**	1,682
Trade and other receivables	**14,499**	15,595
Financial liabilities at amortised cost		
Trade and other payables	**(9,642)**	(11,092)
Loans and borrowings	**(8,245)**	(12,761)
Financial liabilities at fair value through profit and loss ("FVTPL")	**3,456**	3,606

Company	2020 £'000	2019 £'000
Financial assets at amortised cost		
Cash and cash equivalents	**8,997**	25
Trade and other receivables	**2,240**	–
Financial liabilities at amortised cost		
Trade and other payables	**(249)**	(901)
Loans and borrowings	**(5,108)**	(9,275)
Financial liabilities at fair value through profit and loss ("FVTPL")	**3,456**	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 2020 £'000	Sensitivity equity 2020 £'000	Sensitivity income 2019 £'000	Sensitivity equity 2019 £'000
0.25% increase in interest rates	**(13)**	**(13)**	(24)	(24)
0.25% decrease in interest rates	**13**	**13**	24	24

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.

3 FINANCIAL INSTRUMENTS – RISK MANAGEMENT CONTINUED

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 2020 £'000	Loans and borrowings 2020 £'000	FVTPL 2020 £'000	Total 2020 £'000	Trade and other payables 2019 £'000	Loans and borrowings 2019 £'000	FVTPL 2019 £'000	Total 2019 £'000
On demand	–	–	–	–	–	–	–	–
Within one year	9,643	3,045	319	13,007	11,092	5,252	–	16,344
More than one year and less than two years	–	2,729	284	3,013	–	2,924	266	3,190
More than two years and less than five years	–	2,377	4,050	6,427	–	4,413	203	4,616
In more than five years	–	448	–	448	–	652	3,585	4,237
Total	9,643	8,599	4,653	22,895	11,092	13,241	4,054	28,387

Company	Trade and other payables 2020 £'000	Loans and borrowings 2020 £'000	FVTPL 2020 £'000	Total 2020 £'000	Trade and other payables 2019 £'000	Loans and borrowings 2019 £'000	FVTPL 2019 £'000	Total 2019 £'000
On demand	–	–	–	–	–	–	–	–
Within one year	274	2,099	319	2,692	901	4,367	–	5,268
More than one year and less than two years	–	2,035	284	2,319	–	2,117	266	2,383
More than two year and less than five years	–	1,204	4,050	5,254	–	3,270	203	3,473
In more than five years	–	–	–	–	–	–	3,586	3,586
Total	274	5,338	4,653	10,265	901	9,754	4,055	14,710

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 prior year the business reorganised itself along the lines of our B2B and B2C brands. Within the B2B division there are 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 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 other B2B DLOs; and
- B2C, which is made up of ChipsAway, Ovenclean and Barking Mad.

Other operations include central administration costs and non-trading companies. In the current year management responsibility for the 2 Metro Rod corporate franchise areas has moved from Metro Rod to Willow Pumps. Therefore, these entities now form part of the B2B-DLO division, and are reported as such internally. The prior year has not been restated for this change.

The CODM uses 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.

2020	B2B- Franchisor £'000	B2B- DLO £'000	B2C £'000	Other £'000	Total £'000
Continuing operations					
Revenue	30,177	14,342	5,835	(1,068)	49,287
Gross profit	8,998	7,437	4,490	653	21,579
Adjusted EBITDA	**3,722**	**1,844**	**2,131**	**(1,058)**	**6,640**
Depreciation & amortisation of software	(445)	(743)	(168)	–	(1,358)
Amortisation of acquired intangibles	–	–	–	(393)	(393)
Share based payment expense	(92)	(45)	(15)	(53)	(205)
Non-recurring costs	(599)	–	(108)	–	(707)
Finance expense	(34)	(159)	(11)	(242)	(446)
Other gains and losses	–	–	–	151	151
Profit before tax	**2,552**	**897**	**1,829**	**(1,596)**	**3,682**
Tax expense	(372)	(129)	(328)	(62)	(889)
Profit after tax	**2,180**	**768**	**1,501**	**(1,656)**	**2,793**

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 & amortisation of software	(435)	(138)	(182)	–	(755)
Amortisation of acquired intangibles	–	–	–	(260)	(260)
Share based payment expense	(101)	(6)	(47)	(84)	(238)
Non-recurring costs	–	–	–	(270)	(270)
Finance expense	(13)	(43)	(12)	(289)	(357)
Other gains and losses	–	–	–	(26)	(26)
Profit before tax	2,634	305	2,292	(1,956)	3,276
Tax expense	(403)	(50)	(346)	233	(566)
Profit after tax	2,231	255	1,946	(1,723)	2,710

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 £5.0m (net of non-trading cash of £700,000 in WPL Group Holdings Limited) and a performance-based deferred consideration of up to £7.5m payable over the next four years.

The initial consideration was paid as £4.7m (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 originally 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. Details of this contingent deferred consideration and its movement in the current year can be found in note 20.

Acquisition costs relating to this transaction amounted to £270,000 and have been disclosed within the statement of comprehensive income in the Group.

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill were 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
Recognised brand	2,777
Recognised customer relationships	863
	3,640

An adjustment has been made to align Willow Pumps with the requirements of IFRS 16. During the current period, a further fair value adjustment of £207,000 has been made to increase both the right of use assets and the related liability.

The deferred tax liability was originally 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 deferred tax liability was revalued in the current year on the change in the future corporation tax rate to 19% (see Note 22). 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 and Group profit before tax would have been £3.6m.

6 REVENUE

	2020 £'000	2019 £'000
Management service fees	**30,592**	30,819
Sale of franchise territories	**1,607**	2,006
Product sales	**758**	912
Direct labour income	**15,547**	9,097
National advertising funds	**783**	1,179
	49,287	44,013

The table shows revenue from contracts disaggregated into major classes of revenue and reconciled to the Group revenue reported. All revenue was generated in the UK.

Contract assets	2020 £'000	2019 £'000
At 1 January	**589**	820
Change in the measurement of progress	**(212)**	(231)
At 31 December	**377**	589

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 IFRS 15.

7 OPERATING PROFIT

Operating profit is stated after charging/(crediting):	2020 £'000	2019 £'000
Depreciation	**1,149**	635
Amortisation	**602**	380
Share-based payment expense	**205**	238
Receipts from Government Job Retention Scheme ("furlough")	**(653)**	–
Auditors' remuneration:		
Fees for audit of the Company	**15**	15
Fees for the audit of the Company's subsidiaries	**80**	82
Fees for non-audit services:		
Taxation services	**25**	21
Corporate finance services	**–**	80
Other assurance services	**26**	5

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

The following costs have been drawn to the attention of the users of the accounts due to their nature and materiality within the accounts.

	2020 £'000	2019 £'000
Acquisition related-costs	**–**	270
Expected credit loss provision (see note 17)	**526**	–
Reorganisation expense	**181**	–
	707	270

During the year the Group has taken a £707,000 charge in respect of events related to COVID-19. In the light of the impact on a number customers, it is appropriate to anticipate that a number of them will fail as the various Government support schemes begin to unwind. A detailed internal analysis of debtors has been completed on a risk-weighted basis according to the business sectors they operate in and their financial position. Therefore, we have taken a COVID-19 related charge of £526,000 to provide for these potential credit losses. Please see note 17. The Group has also taken a charge of £181,000 in relation to the closure of the Barking Mad office and redundancy costs, which includes disposal of £2,000 of Property, Plant & Equipment and £21,000 of software.

In 2019, the Group incurred professional costs of £270,000 in relation to the acquisition of Willow Pumps.

8 STAFF COSTS

	2020 £'000	2019 £'000
Wages and salaries	**9,626**	7,031
Social security costs	**935**	692
Defined contribution pension cost	**212**	154
Share-based payment expense	**205**	238
	10,978	8,115

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

Administration	**170**	144
Sales	**19**	16
Operations	**83**	61
Directors	**10**	8
	282	229

Directors' remuneration

	2020 £'000	2019 £'000
Directors' emoluments	**797**	772
Share-based payment expense	**25**	98
	822	870

The highest paid Director's remuneration was £151,000 (2019: £147,000). The Board of Directors are considered to be the key management personnel. Their cost to the Group is £887,000 (2019: £983,000), after including employer's National Insurance. The Company had one employee (other than the Directors) incurring staff costs of £103,000 (2019: £101,000). Directors' emoluments include £7,000 (2019: £38,000) 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; if the compound annual growth rate is above 15%, then all of these options will vest; between 8% and 15% then a proportion of these options will vest on a straight-line basis. Currently, 243 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 was £205,000 (2019: £238,000). This all arises on equity-settled share-based payment transactions.

	2020	Weighted average exercise price	2019	Weighted average exercise price
Outstanding at the beginning of the period	**4,501,317**	**64p**	4,533,530	51p
Granted during the period	**1,807,955**	**81p**	1,317,925	83p
Lapsed during the period	**(178,349)**	**76p**	(266,805)	63p
Exercised during the period	**(416,621)**	**39p**	(1,083,333)	33p
Outstanding at the end of the period	**5,714,302**	**70p**	4,501,317	64p
Exercisable at the end of the period	**1,621,215**	**51p**	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-88p (2019: 33p-84p), and the weighted average remaining contractual life was 8.3 years (2019: 8.2 years).

In order to facilitate the Programme, the Company established an onshore discretionary employee benefit trust (the "EBT"), which is conducts market purchases of Ordinary Shares to satisfy potential future option exercises by employees (but not directors).

Black-Scholes option pricing model

	14 September 2020	14 September 2020	7 October 2019	7 August 2019
Closing share price, £	**0.88**	**0.88**	0.83	0.84
Exercise price, £	**0.005**	**0.88**	0.83	0.84
Risk-free interest rate	**0.13%**	**0.13%**	0.75%	0.75%
Expected life of option (years)	**6.5**	**6.5**	6.5	6.5
Volatility	**50.8%**	**50.8%**	26.1%	26.1%
Dividend yield	**1%**	**1%**	1%	1%

The Black-Scholes pricing model is applied on the granting dates of options. Options have been issued on three dates in the past two years as shown above.

10 FINANCE EXPENSE

	2020 £'000	2019 £'000
Interest element on lease agreements	**189**	44
Loan interest	**257**	313
	446	357

11 CORPORATION TAX

	2020 £'000	2019 £'000
Current tax expense		
Current tax on profits for the period	**685**	439
Adjustment for prior period	**(4)**	13
Deferred tax expense		
Origination and reversal (see Note 22)	**208**	114
Total tax expense	**889**	566
Accounting profit multiplied by the UK statutory rate of corporation tax	**700**	622
Income not taxable in determining taxable profits	**(82)**	(97)
Expense not deductible for tax purposes	**69**	28
Effect of change in deferred tax rate	**206**	–
Adjustment for prior period	**(4)**	13
Total tax expense	**889**	566
Effective tax rate	**24%**	17%

The current rate of UK corporation tax is 19%. In the prior year, a reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted in October 2015 and was considered when calculating deferred tax at the prior year reporting date. During the current year, the Finance Act 2020, which was substantively enacted in July 2020, effectively cancelled the previous reduction. Therefore, the current rate of UK corporation tax of 19% has been used 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 Company 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 Company 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.

	2020 £'000	2019 £'000
Profit attributable to owners of the Parent Company	**2,793**	2,710
Non-recurring costs (Note 5,7)	**707**	270
Amortisation of acquired intangibles (Note 13)	**393**	260
Change in the fair value of deferred consideration (Note 20)	**(151)**	26
Share-based payment expense (Note 9)	**205**	238
Tax on adjusting items	**(9)**	(121)
Adjusted profit attributable to owners of the Parent Company	**3,937**	3,382

	Number	Number
Basic weighted average number of shares	**90,462,594**	77,948,178
Dilutive effect of share options	**1,649,029**	1,190,696
Diluted weighted average number of shares	**92,111,623**	79,138,874

	Pence	Pence
Basic earnings per share	**3.09**	3.48
Diluted earnings per share	**3.03**	3.42
Adjusted earnings per share	**4.35**	4.34
Adjusted diluted earnings per share	**4.27**	4.27

13 INTANGIBLE ASSETS

	Goodwill £'000	Brands, trademarks & other intangibles £'000	Customer relationships £'000	Software £'000	Total £'000
Cost					
At 1 January 2019	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	1,232	37,636
Additions	–	–	–	318	318
At 31 December 2020	**23,301**	**10,081**	**3,022**	**1,550**	**37,954**
Amortisation					
At 1 January 2019	–	(1,791)	(372)	(37)	(2,200)
Charge for year	–	–	(260)	(120)	(380)
At 31 December 2019	–	(1,791)	(632)	(157)	(2,580)
Impairment	–	–	–	(16)	(16)
Charge for year	–	–	(393)	(209)	(602)
At 31 December 2020	**–**	**(1,791)**	**(1,025)**	**(382)**	**(3,198)**
Net book value					
At 31 December 2020	**23,301**	**8,290**	**1,995**	**1,168**	**34,754**
At 31 December 2019	23,301	8,290	2,390	1,076	35,057
At 1 January 2019	19,488	5,513	1,787	444	27,232

Carrying amount of assets with indefinite useful lives

	Goodwill £'000	**Indefinite life intangibles £'000**	**2020 £'000**	Goodwill £'000	Indefinite life intangibles £'000	2019 £'000
Metro Rod	**18,174**	**4,750**	**22,924**	18,174	4,750	22,924
Willow Pumps	**3,812**	**2,777**	**6,589**	3,812	2,777	6,589
B2C	**1,315**	**763**	**2,077**	–	–	–
ChipsAway	**–**	**–**	**–**	1,171	–	1,171
MyHome	**–**	**–**	**–**	14	–	14
Barking Mad	**–**	**–**	**–**	129	763	892
	23,301	**8,290**	**31,591**	23,301	8,290	31,591

In the current year the Group made the decision to operationally merge the support functions for the B2C franchise networks, which include ChipsAway, Ovenclean, Barking Mad, MyHome and MyHandymanVan. These five franchise networks are centrally managed together using the same team based at our offices in Kidderminster. In the previous years each brand formed its own separate cash generating unit ("CGU"). In the current year the operational changes enacted means that these five brands have become one CGU, and are identified as "B2C".

Metro Rod, which forms part of our B2B-Franchisor operating segment, and Willow Pumps, which forms part of our B2B-DLO operating segment, continue to have separate management, and are run out of separate premises. Therefore, they continue to be separate CGUs.

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 CGU. In the current year a rate of 10.6% (2019: 10.3%) 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 10%. For our B2C brands franchisee recruitment and churn is consistent with historical averages, with the revenue growth being driven by the net new franchisees being introduced to the networks. The operating margins are based on the current operational margins, 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 2019	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
Reclassified (to)/from ROU	–	–	(65)	221	(107)	49
Additions	16	9	70	275	90	459
Disposals	(113)	(12)	0	(82)	(8)	(215)
At 31 December 2020	**331**	**185**	**390**	**863**	**650**	**2,418**
Depreciation						
At 1 January 2019	(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)
Reclassified (to)/from ROU	–	–	19	(199)	32	(148)
Charge for year	(28)	(16)	(56)	(104)	(122)	(327)
Disposals	114	8	2	82	8	214
At 31 December 2020	**(163)**	**(159)**	**(268)**	**(272)**	**(282)**	**(1,144)**
Net book value						
At 31 December 2020	**168**	**26**	**122**	**591**	**368**	**1,274**
At 31 December 2019	179	37	152	398	476	1,242
At 1 January 2019	15	13	54	2	255	339

The Company has no fixed assets at 31 December 2020 or 31 December 2019.

"ROU" assets are those categorised as Right of Use. Please see Note 15.

15 RIGHT OF USE ASSETS

	Land and buildings £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January 2019	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
Reclassified (to)/from PPE	–	(221)	172	(49)
Additions	–	379	251	630
Disposals	(111)	(272)	–	(383)
At 31 December 2020	**2,406**	**3,004**	**455**	**5,865**
Depreciation				
At 1 January 2019	(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)
Reclassified (to)/from PPE	–	199	(51)	148
Charge for year	(340)	(447)	(45)	(832)
Disposals	111	213	–	324
At 31 December 2020	**(1,119)**	**(1,262)**	**(108)**	**(2,488)**
Net book value				
At 31 December 2020	**1,287**	**1,743**	**347**	**3,377**
At 31 December 2019	1,627	1,891	20	3,538
At 1 January 2019	718	204	26	947

"PPE" assets are those categorised as Property, Plant & Equipment. Please see Note 14.

Amounts recognised in profit and loss

	2020 £'000	2019 £'000
Depreciation expense on right-of-use assets	**832**	452
Interest expense on lease liabilities	**189**	44
Expense relating to short-term leases	**92**	33
Expense relating to leases of low value assets	**–**	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	2020 £'000	2019 £'000
Finished goods and goods for resale	**712**	594

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 2020 or 31 December 2019 within the income statement of the Company. £6.1m of inventories were recognised as an expense within the year (2019: £2.7m).

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. The differing segmental risks to which the Group is exposed in respect of the customer base have been considered. The Group has taken a £0.5m charge in respect of events related to the COVID-19 pandemic. In the light of the impact that the trading restrictions are having on a number of commercial customers, it is appropriate to make a provision against the accounts receivable. A detailed analysis of debtors has been completed on a risk-weighted basis according to the business sector and the financial position of customers, resulting in a charge of £0.5m to provide for these potential credit losses.

	2020 £'000 Gross	**2020 %**	**2020 £'000 Provision**	**2020 £'000 Net**	2019 £'000 Gross	2019 %	2019 £'000 Provision	2019 £'000 Net
No provision	**5,956**	**0%**	**–**	**5,956**	12,088	0%	–	12,088
Low risk	**5,366**	**7%**	**(389)**	**4,977**	1,407	4%	(57)	1,350
Medium risk	**2,431**	**12%**	**(303)**	**2,128**	931	17%	(155)	776
High risk	**168**	**69%**	**(116)**	**52**	251	77%	(194)	57
Total	**13,920**	**6%**	**(807)**	**13,113**	14,677	3%	(406)	14,040

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	**2020 £'000**	2019 £'000
Non-current other receivables	**155**	–
Trade receivables	**13,920**	14,677
Provision at the year end	**(807)**	(406)
Other receivables	**1,231**	1,605
Total financial assets other than cash and cash equivalents	**14,344**	15,876
Contract assets	**377**	725
Prepayments	**351**	334
Total current trade and other receivables	**15,072**	16,935
Total trade and other receivables	**15,227**	16,935

	2020 £'000	2019 £'000
Bad debt provision:		
Brought forward	**(406)**	(267)
Additions on acquisition	**–**	(165)
Provision for the year	**(617)**	(77)
Utilised	**216**	104
Carried forward	**(807)**	(406)

	2020 £'000	2019 £'000
The ageing of the trade receivables is as follows:		
Due	**8,009**	8,645
Past due		
0-30 days	**1,400**	1,730
31-60 days	**729**	748
61-90 days	**326**	572
91-120 days	**335**	371
121+ days	**2,394**	2,051
Past due and impaired		
Due	**16**	34
0-30 days	**18**	43
31-60 days	**11**	25
61-90 days	**69**	13
91-120 days	**41**	27
121+ days	**574**	418
Total	**13,920**	14,677

Company	2020 £'000	2019 £'000
Amounts owed by Group undertakings	**1,998**	–
Prepayments	**2**	–
Corporation tax	**242**	–
Total current trade and other receivables	**2,242**	–

18 TRADE AND OTHER PAYABLES

Group	2020 £'000	2019 £'000
Current		
Trade payables	**4,870**	6,520
Accruals	**4,209**	4,142
Other creditors	**583**	713
Social security and other taxes	**1,146**	1,309
Total trade and other payables	**10,808**	12,684

Company		
Trade payables	**20**	61
Accruals	**229**	157
Other creditors	**–**	3
Social security and other taxes	**43**	5
Amounts owed to Group undertakings	**–**	697
Total trade and other payables	**292**	923

Carrying values approximate to fair value. Included within other creditors is an amount of £91,000 (2019: £70,000) which represents the net payable in relation to the National Advertising Funds.

Notes forming part of the Financial Statements continued
For the year ended 31 December 2020

19 LOANS AND BORROWINGS

Group and Company	2020 £'000	2019 £'000
Current		
Revolving credit facility	**–**	3,002
Term loan	**2,025**	1,201
Amortised loan fees	**(117)**	(129)
Total current loans and borrowings	**1,908**	4,074
Non-current		
Term loan	**3,200**	5,200

The loans are comprised of a £5.2m term loan, which carries a 1.81% interest rate (2019: 2.95%) and is repayable in instalments until 2023; and a £5m RCF, of which £nil (2019: £3m) is utilised, which runs until April 2024, and carries a 1.81% interest rate (2019: 2.95%). 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 £116,000 (2019: £129,000), 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, £0.7m (2019: £0.8m) 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	2020 £'000	2019 £'000
Contingent deferred consideration	**3,456**	3,606

On 7 October 2019, the Group acquired Willow Pumps for an initial consideration of £5.0m and a performance-based deferred contingent consideration of up to £7.5m payable over five years. Up to 20% of the deferred contingent consideration can be settled in new Ordinary Shares at the discretion of the Company. A £3.58m provision, representing the net present value of the expected payments was initially established. The deferred contingent consideration of up to £7.5m 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 £3.75m would be paid at the rate of up to £750,000 per annum on a pro-rata basis for every £3.0m per annum or more of incremental pump and related drainage business that Willow Pumps generates for Metro Rod ("Relevant Sales") for each of the five financial years ending 31 December 2020 to 2024 (inclusive). This element was capped at £750,000 per annum and £3.75m in total.

II. Up to £3.75m would 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 profit after tax ("PAT") of Willow Pumps exceed £1.0m in each of the five financial years ending 31 December 2020 to 2024 (inclusive). Therefore, to achieve payment in full, PAT would have had to grow to £2.25m by the year ending 31 December 2024.

During 2020 it became apparent that it would be difficult to hit these targets due to the COVID-19 crisis which reduced the short-term profits of Willow Pumps and reduced the level of pump work being done by the Metro Rod network. Although the network has embraced the concept of pumps, the practical steps necessary the engineers have been disrupted in the current year. As a result, only approximately £1.3m of applicable revenue was generated, leading to a 2020 earn-out of £300,000 out of a maximum of £750,000 and none of the profit target was achieved as PAT at Willow Pumps in 2020 was less than £1.0m. Therefore, out of the total liability of £3.5m, £320,000 is payable within one year, and £3.1m payable after one year.

To continue to motivate the vendor and his management team, whose share options have performance conditions linked to the deferred consideration paid, the future maximum targets will be raised to allow the first year earn-out not realised to be recovered during the subsequent four years.

As a result, the deferred contingent consideration for the four years ending 31 December 2024 is to be amended as follows:

I. For the revenue component, the rebased maximum consideration for the next four years will be raised from £750,000 to £862,500. To achieve this, incremental Relevant Sales of £3.4m per annum will have to be achieved in each of the next four years, resulting in additional sales of £15.0m or more in the year ending 31 December 2024. This payment will be calculated and paid annually in arrears.This element is capped at £862,500 per annum for the next four years (compared to £750,000 previously) and will therefore continue to be £3.75m in total after taking account of the payment made for 2020.

II. For the profit component, as PAT in the current year fell below £1m, the whole of the target rolls over for the next four years, and so to achieve the payment in full, PAT will still have to grow to £2.25m by the year ending 31 December 2024. However, the maximum payment in each of the next four years will increase from £750,000 to £938,000 and will be based on an increase in PAT of £312,500 per annum. This will be calculated and agreed annually 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 £1.87m) and on the finalisation of those accounts for the year ending 31 December 2024 in respect of the fourth and fifth years (capped at £1.87m).

Under IFRS 13 Fair Value, the fair value of the contingent consideration in a business combination falls as a Level 3 item in terms of the fair value hierarchy, as the inputs for calculating the fair value are unobservable. The initial deferred consideration was established at £3.58m at the time of the acquisition. During the current year this has been decreased to £3.46m based on the current long-term forecasts produced by management. The change in value is a gain of £151,000 (2019: loss of £26,000) and has been taken to the income statement as an 'Other Gain or Loss'. The deferred consideration has then been discounted using an estimate of 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.

21 OBLIGATIONS FOR LEASES

Group	2020 £'000	2019 £'000
Current	**897**	924
Non-current (between 1 and 5 years)	**2,240**	2,563
Total obligations for leases	**3,137**	3,487

	Land & Buildings £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
At 1 January 2019	740	242	26	1,008
Additions on acquisition	1,177	1,420	87	2,684
Additions	–	353	–	353
Interest expense	27	13	4	44
Lease payments	(280)	(300)	(22)	(602)
At 31 December 2019	1,665	1,728	94	3,487
Additions	–	343	252	595
Interest expense	44	140	6	189
Lease payments	(378)	(708)	(48)	(1,134)
At 31 December 2020	**1,330**	**1,503**	**304**	**3,137**

22 DEFERRED TAX LIABILITY

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 19% (2019: 17%).

Group	Intangibles £'000	Accelerated allowances £'000	Provisions £'000	Share-based payment £'000	Total £'000
At 1 January 2019	(1,230)	490	–	38	(702)
Acquisition of subsidiaries	(631)	(109)	13	–	(727)
Credit/(charge) in the year	57	(192)	–	21	(114)
At 31 December 2019	(1,804)	186	13	59	(1,544)
Credit/(charge) in the year	(150)	(74)	(10)	26	(208)
At 31 December 2020	**(1,955)**	**112**	**3**	**88**	**(1,752)**

23 SUBSIDIARIES

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

	£'000
Cost	
At 1 January 2019	31,703
Additions in year	9,346
At 31 December 2019	41,049
Additions in year	–
At 31 December 2020	**41,049**

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	2020 %	2019 %
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
My HandymanVan 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**	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**	100
Oven Clean (Ontario) Limited	Dormant	**100**	100
Kemac Services 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**	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	2020 £'000	2019 £'000	2020 No. of shares	2019 No. of shares
At 1 January	**398**	388	**79,513,787**	77,732,033
Placing	**78**	–	**15,555,556**	–
Scrip dividend	**2**	–	**388,199**	–
Acquisition of Willow Pumps	**–**	6	**–**	1,212,121
Exercise of share options	**1**	4	**300,928**	569,633
At 31 December	**479**	398	**95,758,470**	79,513,787

Share capital comprises the nominal value of the Company's Ordinary Shares of 0.5 pence each. During the year the Group completed the Placing of 15,555,556 new Ordinary Shares at a price of 90p per share raising £13.6m (net of expenses). In addition, the Group issued 388,199 new Ordinary Shares as part of the final 2019 dividend which had a scrip option, and 300,928 new Ordinary Shares to satisfy the exercise of share options.

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 nil shares (2019: 25,000 shares) in Treasury for the purpose of the future settlement of equity-settled share-based compensation.

EBT reserve: This represents the amount that the Company paid for its own shares held in the EBT. During the period 1 July 2020 to 31 December 2020, the EBT purchased 264,848 Ordinary Shares at an average price of 96 pence per share. 109,223 Ordinary Shares have been used to satisfy the exercise of options over Ordinary Shares. Accordingly, at the year end the EBT held 155,625 Ordinary Shares which represents 0.16% of the Company's current issued share capital.

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 related parties of the Company.

		2020 £'000	2019 £'000
Mark Peters (Miserden Ltd)	Company Secretary fee	**12**	12
Nigel Wray (Brendon Street Investments Limited)	Director's fee	**7**	26
Related party transactions		**19**	38

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 (2019: £nil).

26 DIVIDENDS

	2020 £'000	2019 £'000
Final 2019 dividend of 0.65p per Ordinary Share paid and declared (2018: 0.46p)	**619**	358
Interim dividend of 0.30p per Ordinary Share paid and declared (2019: 0.30p)	**287**	234
	906	592

In the period before our April Placing, the Board considered it necessary, given the economic and business uncertainties due to COVID-19 for the Group to adopt a prudent approach and preserve the strength of its balance sheet by retaining cash. Therefore, shareholders were given the option to receive the final dividend 2019 as a scrip dividend. Approximately 63% of shareholders elected to take a scrip dividend. This resulted in the issue of 388,199 new Ordinary Shares of 0.5 pence each in the Company and reduced the final 2019 dividend cash payment to £229,000. Therefore, total cash dividend was £516,000.

A final dividend of 0.80 pence per share is proposed.

Five Year Financial Summary (Unaudited)
For the year ended 31 December 2020

Five year financial summary	2020 £'000	2019 £'000	2018 Restated £'000	2017 Restated £'000	2016 Restated £'000
Statutory revenue	**49,940**	**44,013**	**35,470**	**24,867**	**5,430**
Fee income	**30,042**	24,401	18,140	12,701	5,430
Adjusted EBITDA	**6,640**	**5,182**	**4,003**	**2,972**	**1,429**
Depreciation & Amortisation of software	**(1,357)**	(755)	(447)	(349)	(144)
Finance expense	**(446)**	(357)	(340)	(312)	(21)
Adjusted profit before tax	**4,836**	**4,069**	**3,216**	**2,311**	**1,264**
Tax expense	**(899)**	(687)	(603)	(426)	(260)
Adjusted profit after tax	**3,937**	**3,382**	**2,612**	**1,886**	**1,004**
Amortisation of acquired intangibles	**(393)**	(260)	(216)	(156)	–
Other gains & losses	**151**	(26)	–	–	–
Share-based payment	**(205)**	(238)	(138)	(58)	(30)
Non-recurring items	**(707)**	(270)	–	(2,194)	(455)
Tax on adjusting items	**9**	121	67	383	–
Statutory profit	**2,793**	**2,710**	**2,325**	**(140)**	**519**

Basic EPS	**3.09p**	3.48p	2.99p	(0.20p)	1.27p
Adjusted basic EPS	**4.35p**	4.34p	3.36p	2.71p	2.46p
Dividend	**1.10p**	0.95p	0.67p	0.50p	0.17p

Company Information

DIRECTORS AND COMPANY SECRETARY

Stephen Glen Hemsley	Executive Chairman
John Christopher ("Chris") Stewart Dent	Chief Financial Officer
Peter John Molloy	Managing Director, Metro Rod and Metro Plumb
Timothy ("Tim") John Harris	Managing Director, B2C
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

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