FRANCHISE BRANDS

Interim results presentation

14 September 2017



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Contents

Presentation team

Stephen Hemsley – Executive Chairman

- Currently Non-Executive Chairman of Domino's Pizza
- During his nearly 20-year association with Domino's Pizza:
  - Market capitalisation risen from £25m to around £1.3bn – FTSE250 company
  - Number of stores grown from c.100 to over 1,000 stores across UK, Ireland and Europe
- Previously the CEO, leading the business through a period of growth
- Joined Domino's in 1998 as Finance Director, steering it to IPO on AIM in 1999
- In 1984, joined the venture capital company 3i, rising to the position of Investment Director
- Qualified as a Chartered Accountant in 1982

Julia Choudhury – Corporate Development Director

- Julia joined the Group in 2008 and has a particular focus on corporate development, which includes acquisitions
- Held a number of senior management positions at AXA Investment Managers between 1997 and 2005, latterly Managing Director of AXA Investment Manager's UK operation
- Between 1989 and 1997, corporate finance and investment management at BZW, latterly Assistant Director at BZW Investment Management

Chris Dent – Chief Financial Officer

- Chris was appointed as Chief Financial Officer of Franchise Brands on 17 July, 2017
- Chris previously spent four years as Finance Director of AIM-quoted 7digital Group plc (formerly UBC Media Group plc)
- He began his career at Deloitte LLP where he spent 10 years within audit, corporate finance and transactional accounting services
- Chris is a Fellow of the Institute of Chartered Accountants of England and Wales

Overview of Franchise Brands plc

- International multi-brand franchisor with over 450 franchisees – mainly UK, but presence in 11 other countries
- September 2008: Founded by Stephen Hemsley and Nigel Wray (who are both Directors and controlling shareholders)
- August 2016: IPO on AIM at market capitalisation of £15.55m
- October 2016: Completed first acquisition of Barking Mad
- April 2017: Completed second acquisition of Metro Rod
- Experienced Board and management team in franchising, operating and growing profitable businesses and identifying acquisitions
- Strategy: organic growth and selective acquisition of franchise businesses that could benefit from:
  - the Group's central support services, such as marketing
  - the experience of the Board and management team
- The Group is profitable, cash generative and pays a dividend

Overview of Metro Rod

Metro Rod

- Founded in 1983 – one of only five national companies in the drainage sector
- Provides a 24/7/365 emergency response and scheduled service to primarily business customers across multiple sectors including facilities management, retail, water utilities, social housing, hospitality and leisure
- Key Accounts:
  - National business accounts won and maintained by the central sales team (>360 customers)
  - Revenue is recognised on a gross basis with a 77.5% cost of sale going to the franchisee
- Commercial Accounts:
  - Secured directly by franchisees within their area as a result of their local marketing (c.2,000 customers)
  - Revenue is recognised on a net basis, with only the 22.5% MSF being the revenue
- 41 franchisees (new franchisee for Aberdeen commenced trading on 4 September 2017)
- Central support services provided from Metro Rod's Macclesfield's office (c.130 people)
- Approximately 150,000 jobs carried out, average job value: c. £230 (excl. VAT)
- Annualised system sales of all Metro Rod franchisees and company owned operation are c.£34m

Metro Plumb

- Launched in February 2016 - provides cold water plumbing services to primarily to the emergency insurance market.
- Operated by 30 of the 40 Metro Rod franchisees and 6 operated by Kemac

Kemac

- Established in 1993 – provides plumbing related services to water companies and operates six Metro Plumb franchise territories mainly in London. Direct labour organisation

Overview of other brands

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ChipsAway
Scratches and scuffs won't dent your pocket

- Established in the UK since 1994
- Provider of “SMART” (Small to Medium Area Repair Technology) car body repairs
  - usually carried out on a mobile basis - competitive pricing when compared to that of a typical body shop
- Brand leading SMART repairer in the UK with 222 franchisees
- 30 franchisees operate multi-van operations or CarCare Centres
- The Directors believe that annualised system sales of all ChipsAway franchisees are c. £16m

OVENCLEAN
The original oven cleaning specialists

- Launched in the UK in 1994
- A “milk round” business where the aim is to establish a stable base of individual customers who have, on average, two cleans per annum which can be diarised ahead of time
- 108 franchisees operating across the UK
- The Directors believe that annualised system sales of all Ovenclean franchisees are c.£5m

Barking Mad
Happy Dog. Happy Holiday. Happy You.

- Acquired by Franchise Brands in October 2016 - founded in 2000 by Lee Dancy, Managing Director
- The pioneer and leading franchise provider of professionally-organised dog sitting services in the UK
- 75 franchisees operating across the UK
- Franchisees market to individual customers and then recruit “host” families who look after customers’ dogs
- Annualised system sales of all Barking Mad franchisees are c. £3m

Key activities since completion of Metro Rod: franchisee roadshow

- Completed a tour of all 40 Metro Rod franchisees, visiting them at their local offices and meeting their teams

- This has given us a tremendous insight into the business and confirms the exciting opportunity presented by the Metro Rod business as well as the quality of the franchisees

- We have also attended regional meetings and experienced engineer jobs first hand

- A franchisee conference will take place in November for the whole network to share our proposed initiatives to take the business forward

Key activities since completion of Metro Rod: meeting the teams in the Support Centre

- We have also spent a considerable amount of time in the Support Centre in Macclesfield:
  - All-team meetings attended by the Franchise Brands board
  - A "day in the life": sales, marketing, technical, franchise operations, the call centre and finance

- "Speed dating the boss" exercise took place where over 40 staff were met individually. Follow up via management offsite in October

- This has provided valuable feedback on the business processes and systems including how they can be improved

- We have also been evaluating how we can provide the right level of support to our franchisees to help them grow their businesses

Key findings and actions

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Metro Rod

- The upside potential of the Metro Rod core business is substantially better than our expectations. We are firmly of the view that Metro Rod has a market leading national offering in the commercial drainage market which has never been fully exploited during the company's over 30 year history
- Marketing is extremely poor across the board, in particularly very low levels of brand awareness. A significant amount of marketing initiatives are underway to raise brand awareness and profile, improve the brand perception, improve the website visibility and navigation and the impact and effectiveness of brand messaging
- Marketing expenditure will be mostly covered by raising a National Advertising Fund from franchisees, although we intend to contribute alongside our franchisees an initial share equivalent to our MSF contribution of 22.5% (Cost of £75,000 in 2018)
- An IT investment is needed to replace a cumbersome and inefficient works management system, outdated call centre systems and to automate some manual administrative systems and processes all of which are inhibiting the ability of the business to grow efficiently
- IT expenditure is expected to start following the transfer of the existing systems from Metro Rod's previous owners onto a stand-along basis later this year, and will be partly offset by some cost savings initiatives
- With further investment in IT, sales and marketing, combined with the application of sound franchising principles and the expertise of the enlarged Franchise Brands team, we are confident that we can deliver significant additional value from this business

Metro Plumb & Kemac

- We are increasingly encouraged that Metro Plumb is becoming a viable source of profit for most of the participating franchisees and ourselves. Much effort is being directed at generating additional sales volume
- We are examining the long term potential of the Kemac business given disappointing trading. This process is underway following remedial action which has been taken to reduce the cost base

Franchise Brand's growth strategy

Overarching strategy

- Develop franchise businesses that provide primarily services to individuals and businesses – a combination of organic growth and acquisitions
- Intention to grow by selective acquisition focusing on both B2B and B2C franchisee businesses where the Group's financial and management resources can add value
- Metro Rod integration and development will be the near term focus of the Group

Metro Rod

- Raise brand awareness
- Create sales and marketing support for franchisees
- Simplify and automate key business processes
- Apply sound franchising principles
- Bring about a cultural shift at the Support Centre

ChipsAway and Ovenclean

- Actively expand the franchise systems through recruiting new franchisees as well as improving retention rates
- Support ChipsAway franchisees in the development of "CarCare Centres"
- Increase MSF payments and drive collection

Barking Mad

- Increase the number of franchised territories over time from 77 territories to over 250
- Leverage the Group's central support services, in particular marketing, to grow system sales

The Board: executive team

In addition to Stephen Hemsley, Chris Dent and Julia Choudhury, the plc executive Directors are as follows:

Tim Harris - Chief Executive Officer

- Seasoned franchise professional with over 20 years' experience of successfully developing franchise brands in both the UK and overseas
- Formerly Sales Director at Franchise Brands, appointed CEO and Director in 2012
- Led the Group through a period of increased profitability and international reach
- Previously held senior sales positions at Autosheen, Pitman Training and Jani-King

Robin Auld - Marketing Director

- Successful track record of consumer marketing success over nearly 20 years
- Joined Franchise Brands as Group Marketing Director in 2010, establishing consumer marketing campaigns for the brands, generating increases in demand and raising brand awareness
- Head of Marketing and then Sales and Marketing Director at Domino's Pizza 2004-2010
- Senior role at a WPP group agency, Head of Marketing for Topps Tiles

Note: Stephen Hemsley, Chris Dent and Julia Choudhury summary bios on page 3

Senior management team

Peter Molloy – Managing Director, Metro Rod

- Promoted to the position of Managing Director on 4 September 2017, having previously been Commercial Director. Peter joined Metro Rod in 2003
- Peter has played a key role in delivering and managing the majority of the impressive customer contracts that have been won during this period. He has also been responsible for establishing the key Metro Plumb customer relationships
- Prior to Metro Rod, Peter was Managing Director of Solaglas Replacement Glazing, part of the Saint-Gobain Group

Lee Dancy – Managing Director, Barking Mad

- Over 25 years of commercial experience, primarily in sales and marketing
- In 2000, Lee founded Barking Mad and successfully franchised the business in 2002
- Prior to establishing Barking Mad, Lee was an independent marketing consultant

Colin Rees – Chief Information Officer

- Colin joined the Group as Chief Information Officer on 3 April 2017
- He was previously Director of IT at Domino's Pizza where he was responsible for all technology within the business including the point-of-sale system and the eCommerce platform, which has been a significant driver of business growth over the past 6 years
- Prior to that held a number of senior IT positions in organisations such as EasyJet, Figleaves and News International

Andrew Mallows – Finance Director, ChipsAway, Ovenclean and Barking Mad

- FD of Franchise Brands at the IPO
- Finance Director of Domino's Pizza during the period 2001 to 2004, having taken over that role from Stephen Hemsley when he was promoted to CEO

Highlights of interim results

Financial highlights:

- Revenue up three-fold to £8,639,000 (H1 2016: £2,488,000)
- Adjusted EBITDA increased by 66% to £1,256,000 (H1 2016: £758,000)
- Organic EBITDA increased by 13% to £1.16m (H1 2016: £1.03m)
- Adjusted profit before tax and exceptional items grew by 38% to £1,001,000 (H1 2016: £724,000)
- Cash generated from operations before exceptional costs of £2,117,000 (H1 2016: £773,000)
- Increase in cash balances to £5,961,000 (31 December 2016: £2,999,000)
- Net debt of £5,990,000 at 30 June 2017 (31 December 2016: nil)
  - Gearing at 30 June 2017 of 26% (31 December 2016: nil)
- Adjusted EPS 1.31p (H1 2016: 1.58p), reflecting the significant increase in shares in issue following the IPO and acquisition of Metro Rod
- Maiden interim dividend of 0.17p per share declared, covered 7.7 times by adjusted earnings per share

Highlights of interim results

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Operational highlights

- £28.5m acquisition of Metro Rod completed on 11 April 2017, funded by:
    - Placing of new shares which raised £20m before expenses (29,850,746 shares issued at 67p each);
    - Bank debt of £12m raised by way of five-year term loan, and
    - Secured a further £5m revolving credit facility, which remains undrawn
- Franchise territories sold totalled 49 (H1 2016: 33)
- Total number of UK franchisees increased to 443 (H1 2016: 320)
- Board and management team strengthened

Summary of group results

6 months ended 30 June	2017 £'000	2016 £'000	Change	%
Revenue	8,639	2,488	6,151	247%
Cost of Sales	(5,033)	(825)	(4,208)	510%
Gross Profit	**3,606**	**1,663**	**1,943**	**117%**
Other operating costs	(2,350)	(905)	(1,445)	160%
Adjusted EBITDA	**1,256**	**758**	**498**	**66%**
Depreciation	(47)	(32)	(15)	47%
Amortisation	(48)	-	(48)	n/a
Share based payment	(56)	-	(56)	n/a
Finance costs	(104)	(2)	(102)	n/a
Adjusted profit before tax	**1,001**	**724**	**277**	**38%**
Taxation	(197)	(149)	(48)	32%
Adjusted profit after tax	**804**	**575**	**229**	**40%**
Exceptional items (net of tax)	(1,041)	-	(1,041)	n/a
Statutory (loss)/profit	**(237)**	**575**	**(812)**	**-141%**

- Revenue up 3-fold due to the 2.5 months ownership of Metro Rod
- Gross margin has reduced to 42% from 67% due to Metro Rod's revenue recognition policy
- Overheads up by 160%, due to the inclusion of Metro Rod costs, but also plc overheads
- New share based payments charge
- Finance charge on the £12m of debt raised
- Taxation estimate at the expected year end rate of 19.25%
- Exceptional items relate to the transaction fees and associated costs of the Metro Rod acquisition and the re-admission of the enlarged group to AIM

Individual business results

6 months ended 30 June	2017 £'000	2016 £'000	Change	%
Revenue				
Metro Rod	5,626	-	5,626	n/a
ChipsAway	2,191	2,120	71	3%
Ovenclean	472	361	111	31%
Barking Mad	348	-	348	n/a
MyHome	1	7	(6)	-86%
Total Revenue	**8,638**	**2,488**	**6,150**	**247%**
EBITDA				
Metro Rod	354	-	354	n/a
ChipsAway	956	909	47	5%
Ovenclean	205	117	88	75%
Barking Mad	108	-	108	n/a
MyHome	(12)	(69)	57	
Central Overheads	(355)	(201)	(154)	77%
Total EBITDA	**1,256**	**756**	**500**	**66%**

- The existing businesses have performed strongly in the period, with Chips Away growing by 5%, and Ovenclean by 75%. Note that H1 tends to be slightly stronger than H2 due to August and December being ‘low’ months
- Barking Mad is included fully for six month following the acquisition in October 2016, and contributed £108k of EBITDA, in line with expectations
- Metro Rod was owned for 2 months and 20 days during the period, and contributed £354k of EBITDA. This was below management’s expectation due to a disappointing performance at the direct labour operation, Kemac
- MyHome losses have narrowed as this is wound down; we continue to have some minor costs in relation to “The Handyman Van” start up, which is showing promise
- Central overheads have increased 77% due to the addition of new plc overheads relating to being an AIM quoted company (rather than a private company), the cost of a full management team, and the introduction of new non-cash items

EPS and dividend

2017	£'000	Weighted number of Basic Shares	Basic EPS (p)	Weighted number of Diluted Shares	Diluted EPS (p)
(Loss)/profit	(237)	61,239,907	(0.39)	62,067,382	(0.38)
Exceptionals	1,198				
Tax on Exceptionals	(157)				
Net Exceptionals	1,041				
Adjusted Result	804	61,239,907	1.31	62,067,382	1.30

2016	£'000	Weighted number of Basic Shares	Basic EPS (p)	Weighted number of Diluted Shares	Diluted EPS (p)
(Loss)/profit	575	36,324,429	1.58	36,324,429	1.58
Exceptionals	-				
Tax on Exceptionals	-				
Net Exceptionals	-				
Adjusted Result	575	36,324,429	1.58	36,324,429	1.58

- EPS on an Adjusted basis has fallen from 1.58p per share to 1.31p per share
- This is despite earnings growing by 40% in the period
- The fall is due to weighted number of shares increasing by 69% in the same period
- Interim dividend declared of 0.17p, being covered 7.7 times by adjusted earnings per share
- Cash cost of dividend estimated at £132,000 (previous year: £81,000)

Balance sheet

As at 30 June	2017 £'000	2016 £'000	Change	%
Inventories	353	193	160	83%
Trade and other receivables	9,837	419	9,418	2248%
Trade and other payables	(7,369)	(1,078)	(6,291)	584%
Current tax liability	(235)	(211)	(24)	11%
Net Working Capital	**2,586**	**(677)**	**3,263**	**-482%**
Cash and cash equivalents	5,961	2,999	2,962	99%
Loans and Borrowings	(11,838)	(417)	(11,421)	2739%
Leases	(113)	(102)	(11)	11%
Net Debt	**(5,990)**	**2,480**	**(8,470)**	**-342%**
Property, Plant & Equipment	**220**	**121**	**99**	**82%**
Intangible assets	26,771	2,142	24,629	1150%
Deferred tax asset	774	-	774	
Deferred tax liability	(1,164)	(163)	(1,001)	614%
Accounting Assets	**26,381**	**1,979**	**24,402**	**1233%**
Net Assets	**23,197**	**3,903**	**19,294**	**494%**

- Balance sheet has fundamentally changed due to the purchase of Metro Rod funded by £20m of equity and a £12m loan
- Working capital increased due to Metro Rod revenue cycle
- Move from net cash to net debt due to £12m HSBC debt financing (5 year term loan):
    - Operating well within covenants
    - Moderate gearing of 25%
- A number of accounting assets have been created as part of the acquisition accounting, which make up a large portion of the balance sheet. Valuations of these are currently provisional

Cash flow

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For the six months ended 30 June 2017	£'000
EBITDA	1,256
Receivables	(885)
Inventories	(15)
Payables	1,761
Cashflow From operations	**2,117**
Taxes paid	(179)
Exceptional Costs	(1,198)
Cash generated from operating activities	**740**
Capex	(93)
Acquisition	(28,487)
Cash used in investing activities	**(28,580)**
Loans repaid	(417)
Loans received	11,830
Interest and fees	(96)
Share capital	20,000
Share issue costs	(444)
Dividends	(81)
Leases paid	10
Cash generated from financing activities	**30,802**
Net increase in cash	**2,962**
Opening cash 31 December 2016	2,999
Closing cash 30 June 2016	**5,961**

- The group has had strong cash inflow from its operations, with £2.1m generated from is underlying operations
- The group has incurred exceptional costs of £1.2m in relation to the professional fees incurred on the acquisition of Metro Rod, which also involved a re-admission of the enlarged group to AIM
- The group paid £28.5m (net of cash acquired) for Metro Rod
- The acquisition was funded by £20m of new equity and a £12m term loan (shown net of costs of £170k)
- A £5m RCF remains undrawn

Future prospects

- Principal brands delivered strong growth and on track to deliver another strong performance in the current year
- Remedial action in place with Kemac
- Intensive investment activity should enhance earnings and improve operational gearing as overheads decline as a proportion of income
- Earnings growth to slow in the short term but cashflow remains strong and gearing is expected to reduce, enabling us to maintain a progressive dividend policy

Summary

- Four established franchise brands: Metro Rod, ChipsAway, Ovenclean and Barking Mad

- Experienced management team and Board with experience of franchising, operating and growing profitable businesses and identifying acquisition targets

- Strategy to develop franchise businesses that provide services to individuals and businesses via:
  - Organic growth of the Group’s brands
  - Acquisitions of both B2B and B2C franchisee businesses where the Directors believe that the Group’s financial and management resources can add value

- Integrating and developing Metro Rod is a key focus in the near term, where the upside potential is substantially greater than our initial expectations

- The Group is profitable, cash generative and pays a dividend

Appendix

The Board: non-executive team

Nigel Wray

- Entrepreneurial investor in both public and private companies
- Currently a substantial shareholder and director at Prestbury Investment Holdings Limited and many other companies
- Chairman and co-owner of Saracens Rugby Club
- Significant investor in a number of AIM quoted companies including Avingtrans plc, Rotala plc, Hunters plc, Tekcapital plc and MXC Capital plc, as well as a number of private companies
- Former director and significant shareholder in Domino's Pizza, Carlton Communications plc and Singer & Friedlander plc

David Poutney

- Extensive finance and investment experience
- Executive Chairman of Dowgate Capital and a Non-Executive Director of Be Heard Group plc
- Director and Head of Corporate Broking, Numis Securities Limited (2001-16) where he helped established Numis as a leading institutional stockbroker and corporate adviser to companies on both AIM and the main market. Executive Director of Numis Corporation plc 2014-16
- Involved in the listings of over 30 companies and advised many through extended periods of growth. In particular, he advised Domino's Pizza from 2002 to January 2016

Rob Bellhouse

- Experienced Company Secretary with strong commercial experience gained over 30 years of working with primarily quoted companies
- Currently Company Secretary for Alliance Pharma plc - responsible for all legal, board, governance, compliance and risk management activities
- Previously Interim Company Secretary at Domino's Pizza. Company Secretary of Lonmin plc (2003-15)
- Voted ICSA Company Secretary of the Year in 2014
- Founder and Director of Governance Professionals Limited, which provides corporate governance and company secretarial services to UK listed companies and other corporates

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