FRANCHISE BRANDS

BUSINESS *builders*

PRESENTATION

APRIL 2020

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AN INTRODUCTION TO FRANCHISE BRANDS PLC

- Established in 2008 by Stephen Hemsley (Executive Chairman) and Nigel Wray (Non-executive Director).
- Focused on building market-leading businesses in selected customer segments using primarily a franchise model.
- The Group currently has a combined network of almost 450 franchisees across five franchise brands in the UK.
- Organised into a B2B division and a B2C division.
- Highly experienced Board and senior management team who are significant shareholders (63.6%).
- Admitted to AIM in August 2016 at a market capitalisation of £15.6m; now approximately £75m.
- Organic growth and buy & build strategy.
- Profitable, cash generative, progressive dividend policy.

FRANCHISE BRANDS: AT A GLANCE AS AT 31 DECEMBER 2019

B2B

METRO ROD
DRAIN CARE AND REPAIR

METRO PLUMB
THE NATION'S LOCAL PLUMBER

Founded in 1983, commercial drainage specialist **Metro Rod** provides a range of drain clearance, repair and maintenance services. These services are provided on a 24/7/365 basis across the UK via 43 depots. Plumbing services are provided by **Metro Plumb** which has three independent franchisees.

SYSTEM SALES
£41.3m

EBITDA*
£3.2m

METRO ROD & METRO PLUMB FRANCHISEES
46

WILLOW PUMPS
PUMP INSTALLATION & SERVICING

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

REVENUE
£3.8m

EBITDA*
£0.5m

GROSS MARGIN
33%

B2C

ChipsAway
Scratches and scuffs won't dent your pocket

Barking Mad

OVENCLEAN
The original oven cleaning specialists

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

GROSS PROFIT
£5.5m

EBITDA*
£2.5m

UK FRANCHISEES
401

67% of proforma adjusted EBITDA (assuming 12 months of Willow Pumps in 2019)

* EBITDA excludes Group overheads

A STRONG PERFORMANCE IN 2019 DRIVEN BY ACCELERATING METRO ROD SYSTEM SALES AND ACQUISITION OF WILLOW PUMPS

2019 FINANCIAL HIGHLIGHTS

REVENUE +24% £44.0m 2018: £35.5m	ADJUSTED EBITDA* +29% £5.2m 2018: £4.0m	PROFIT BEFORE TAX +14% £3.3m 2018: £2.9m
ADJUSTED EARNINGS PER SHARE* +29% 4.34p 2018: 3.36p	DIVIDEND PER SHARE +42% 0.95p 2018: 0.67p	PROFORMA INCOME STATEMENT GEARING 1.41x 2018: 1.24x

OPERATIONAL HIGHLIGHTS

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

*Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, the share-based payment expense, and acquisition-related costs.
** Adjusted EPS is earnings per share before amortisation of acquired intangibles, the share-based payment expense, and acquisition-related costs.
*** Pro-forma income statement gearing is calculated by dividing Adjusted Net debt by pro-forma Adjusted EBITDA (including Willow Pumps for 12 months).

THE BUSINESS HAS EXPERIENCED SIGNIFICANT YEAR-ON-YEAR GROWTH IN Q1 2020

- Q1 trading was strong, with Group EBITDA up 27% on 2019, despite the last 2-3 weeks of March being impacted by the crisis.

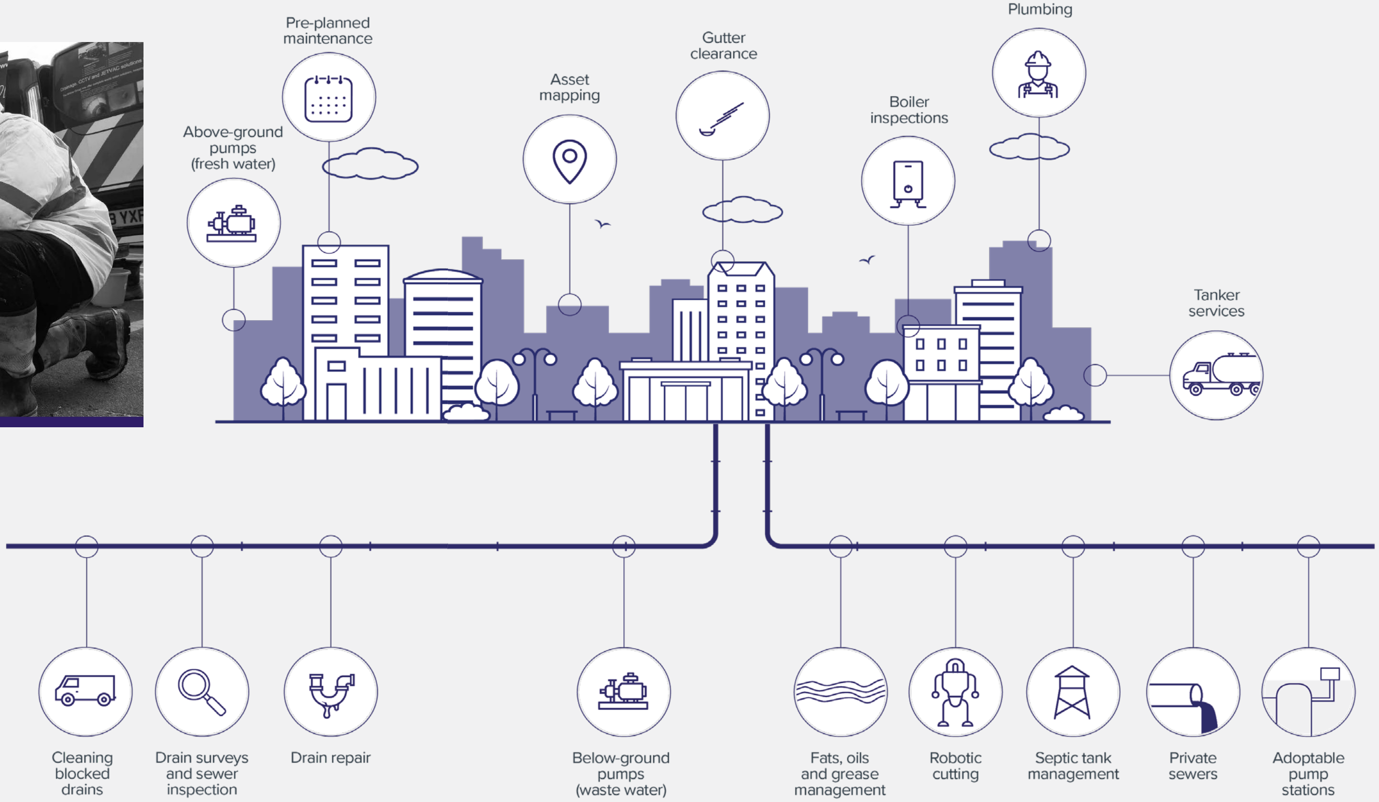
- EBITDA in the B2B division was 42% up on 2019 as a result of a strong performance at Metro Rod (29% ahead) and the inclusion of Willow Pumps for the first time (acquired in Q4 2019).

- Growth in Metro Rod system sales accelerated to 19% (FY2019:14%).

- EBITDA in the B2C division was 5% ahead of 2019:
  - Strong franchise recruitment at ChipsAway.
  - But, weakening in consumer demand from early March impacted fee income, as people began self-isolating at home and cancelled holidays.

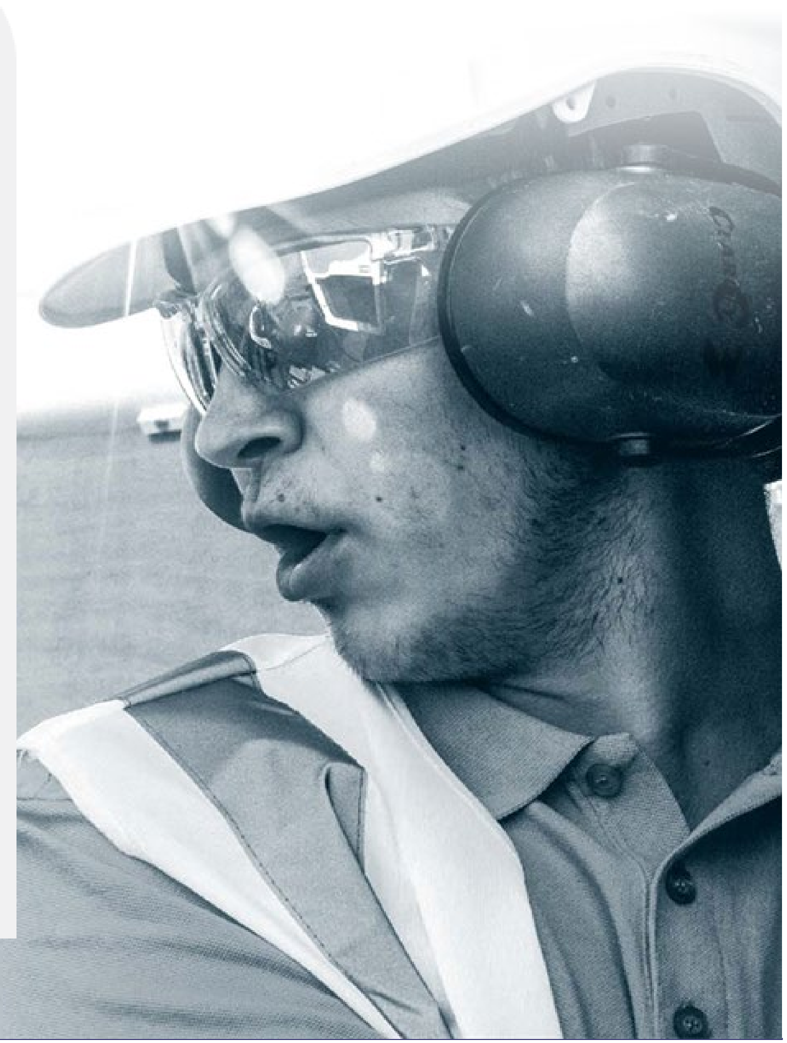
- During the period, Metro Rod has needed to invest a further £1.4m in working capital as a result of:
  - 19% increase in system sales.
  - Increase in debtor days from 71 to 80 as customers have slowed down payments at the end of March.

MOST OF THE SERVICES IN OUR B2B DIVISION HAVE BEEN DESIGNATED BY THE GOVERNMENT AS ESSENTIAL

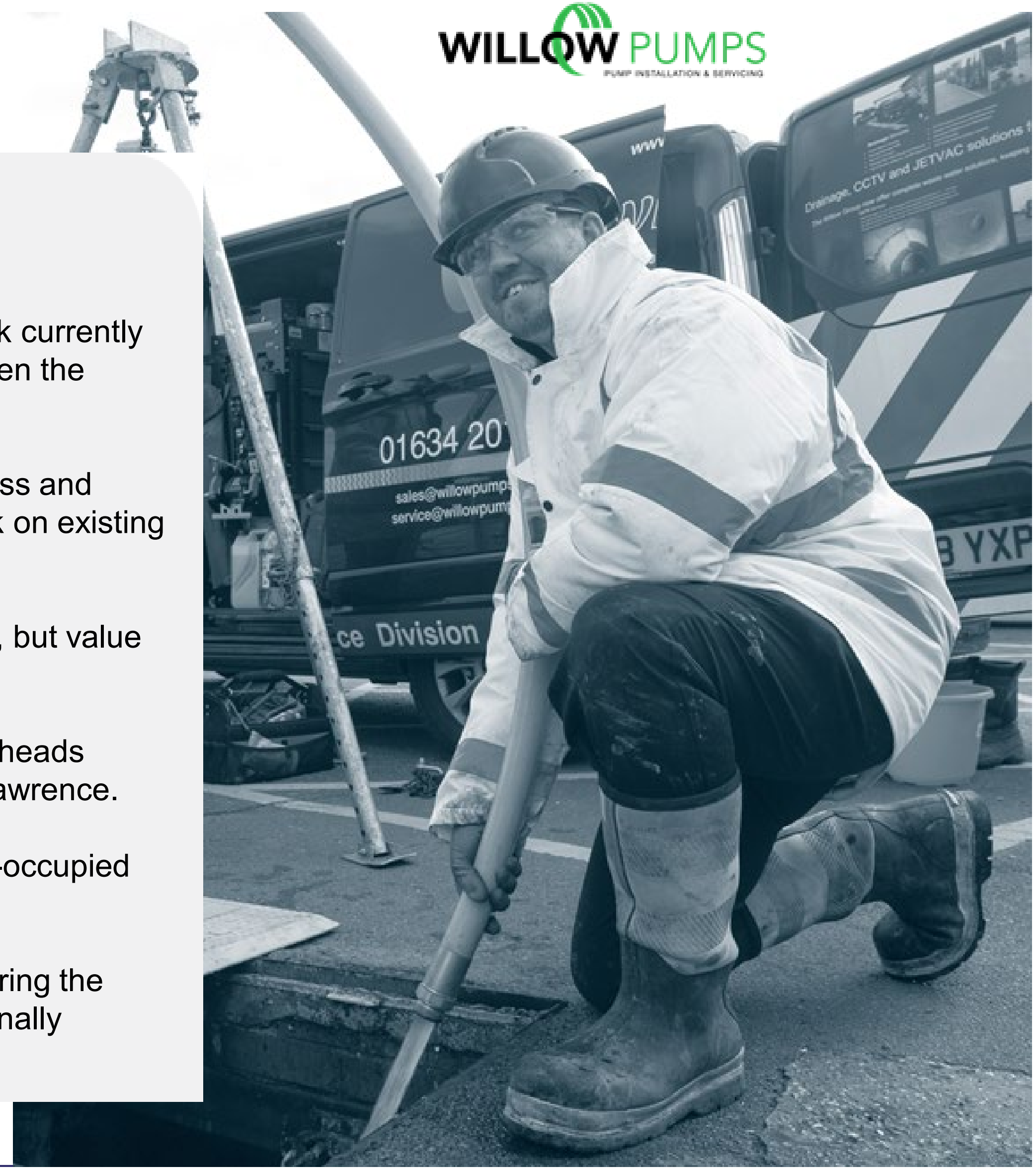


IMPACT OF COVID-19 ON METRO ROD AND METRO PLUMB

- A franchise business, so direct labour employed by franchisees.
- The costs we control are at the Support Centre, where the principal costs are payroll, IT and premises costs.
- High level of reactive work which is resilient, but commercial premises empty or access restricted.
- New work won directly with NHS and food retailers.
- Order intake currently around 60% of 2019 levels, and average order value slightly higher.
- Payroll, which represents 60% of overheads has been reduced by 39% from Q1 2020 levels. Other overheads being cut, particularly IT.
- Elevated level of bad debts expected, particularly among smaller Facilities Management ("FM") companies.
- Strong recovery expected as business premises are re-occupied (subject to available labour).
- Expect the B2B division to continue to trade profitably during the crisis period, albeit at a significantly lower level than originally anticipated.



IMPACT OF COVID-19 ON WILLOW PUMPS



- Business acquired in October 2019
- A direct labour business so full control of all costs.
- Value of reactive and emergency repair/replacement work currently at around 2019 levels which is around 60% of budget given the growth previously forecast.
- Supply and install business impacted by limited site access and absence of new starts, however, still invoicing some work on existing contracts.
- Job numbers in above-ground (fresh water) work are low, but value currently at 2019 levels.
- Payroll reduced by 40% from Q1 2020 levels. Other overheads reduced including a 50% rent reduction granted by Ian Lawrence.
- A strong recovery expected as business premises are re-occupied (subject to available labour).
- Expect the B2B division to continue to trade profitably during the crisis period, albeit at a significantly lower level than originally anticipated.

IMPACT OF COVID-19 ON THE B2C DIVISION

- Virtually no activity by ChipsAway, Ovenclean and Barking Mad franchisees therefore turnover-based payments ceased.
- Fixed monthly payments by franchisees reduced to around one-third of normal.
- Suspended National Advertising Fund and most other monthly fees.
- Franchise recruitment virtually suspended, but enquiry level remains robust.
- Payroll reduced by 78% from Q1 2020 levels through furloughing the majority of the staff.
- Our objective for this division is to operate at a cash break-even level during the crisis.

ChipsAway
Scratches and scuffs won't dent your pocket

Barking Mad

OVENCLEAN
The original oven cleaning specialists

ACTIONS TAKEN TO REDUCE COSTS

FURLOUGHED STAFF & PAY CUTS

	Number of furloughed staff /total staff	% overall cost savings from furlough and pay cuts
Metro Rod	**54/151**	39%
Willow Pumps	**42/104**	40%
B2C	**25/30**	78%
Group overheads	**0/8**	51%
Total	**121/293**	45%

- Total savings of 45% from 121 furloughed staff and pay cuts.
- Staff salary cuts of up to 20%.
- The Board and senior management have taken salary cuts of up to 100% which will contribute two-thirds of the overall savings being achieved by pay cuts.
- The Group does not pay bonuses, but sales commission has been maintained at Metro Rod.
- Reduced other overheads including IT, marketing and rent.

ACTIONS TAKEN TO PRESERVE CASH AND STRENGTHEN LIQUIDITY

- Substantial furloughing and pay cuts of staff.
- Dividend to be taken as scrip by Board and larger shareholders.
- Deferment of payments to HMRC:
    - VAT for quarter ending 31 March 2020.
    - April and May PAYE & NI.
- Deferment of rent and rent reduction.
- 6-month payment holiday agreed with main hire purchase supplier (Lombard).
- Modest slowdown in creditor payments, but with continuing payments made to Metro Rod franchisees as per agreement.
- Refocused finance and sales teams onto accounts receivable.
- Accelerated invoicing of all work, particularly where we have concerns about debtor's viability.
- Agreeing extension of overdraft with HSBC from £2m to £6m.

DEBTOR PROVISION

Type of customer category	Balance (£'000)	%	Gross Provision (£'000)	Net Provision (£'000)
Administration	85	100%	85*	71
High risk	839	50%	419	349
Medium risk	2,270	25%	568	473
Low risk – FM	3,519	10%	352	293
Low risk	2,063	0%	0	0
Total Metro Rod national	**8,691**		**1,424**	**1,186**
Metro Rod commercial	2,750	25% of 22.5%	155	129
Willow Pumps	3,675	10%	368	307
Total	**15,116**		**1,947**	**1,622**
Existing Provision				(286)
New COVID-19 Provision				**1,336**

- Except for the collapse of Carillion, Metro Rod and Willow Pumps both have a low history of bad debt. However, given the exceptional nature of the current situation, it is prudent to provide for a number of our customers to become insolvent despite government intervention.
- We have categorised our National Account customers as follows:
  - Administration: This mainly related to some old Carillion balances, and is already provided for.
  - High risk: FM customers that have individual issues, for example, high exposure to the leisure, retail or hospitality sectors.
  - Medium risk: All customers who have exposure to leisure, hospitality or retail sectors.
  - Low risk FM: All other FM customers.
  - Low risk: Includes water utilities, insurance companies and some construction companies.
- In relation to our Metro Rod commercial customers, we only bear the risks in relation to our MSF. These smaller commercial entities are considered to be higher risk.
- Willow Pumps customers are mainly high-quality corporates such as Tesco and Travelodge.
- Overall, we believe that the group could have an exposure of up to £1.6m (net of VAT). Taking into account the existing provision of £0.3m, we will take a COVID-19 related charge of £1.3m in H1.

CURRENT FINANCIAL POSITION

	31 Mar 2020 £'000	31 Dec 2019 £'000	Change
Bank term loan	(6,113)	(6,401)	288
RCF (£5m limit)	(3,432)	(3,002)	(430)
Overdraft (£2m limit)	-	-	-
Loan fee	116	129	(13)
Hire Purchase	(1,652)	(1,588)	(64)
Gross debt	**(11,081)**	**(10,862)**	**(219)**
Cash	715	1,682	(967)
Adjusted net debt	**(10,366)**	**(9,180)**	**(1,186)**
IFRS lease debt	(1,791)	(1,899)	108
Total net debt	**(12,157)**	**(11,079)**	**(1,078)**

- During Q1 Metro Rod has needed to invest a further £0.2m in working capital as a result of a 19% increase in system sales (Q1 2020 v Q1 2019).
- A further £1.2m was also required to fund an increase in debtor days from 71 to 80 days resulting from a slow-down in payments by debtors in March. This is anticipated to deteriorate further during the crisis.
- Our largest creditors are our franchisees and it has therefore not been possible to compensate by a corresponding increase in creditor payment days.
- Capital expenditure in Q1 was £0.2m, mainly related to the development of the new works management system, but this has now been suspended. A tanker acquisition at Willow was funded by HP.
- As a result of the above, adjusted net debt at 31 March 2020 was £10.4m, an increase of £1.2m since 31 December 2019.
- The Group met its existing banking covenants in Q1 and anticipates doing so in Q2.

SUMMARY & OUTLOOK

- Significant year-on-year growth in Q1 despite impact of crisis in last 2-3 weeks of March.
- Swift action taken to reduce costs to match anticipated income which should allow the Group to generate a much reduced, but positive Adjusted EBITDA, through the crisis period.
- A strong recovery is expected in the B2B division after the lock-down is eased, as empty buildings are re-occupied, and the franchise recruitment pipeline is reactivated.
- Many opportunities will arise following the crisis to expand the depth and breadth of "Water in. Waste out" drainage, pumps and plumbing services.
- Many smaller B2C franchise businesses are also shut-down and may only be able to restart with assistance, giving rise to the opportunity for attractively-priced acquisitions.
- We anticipate now being more competitive in our ability to acquire larger franchise systems, as private equity may no longer be able to gear purchases to pre-crisis levels.

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