

2019 Scrip Dividend Alternative – Franchise Brands plc



(Incorporated in England and Wales with registered number 10281033)

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If you have sold or otherwise transferred some or all of your ordinary shares in the capital of Franchise Brands plc (the "Company"), please immediately forward this document, together with any accompanying documents, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected. However, these documents should not be forwarded or transmitted in or into any jurisdiction in which such an act would constitute a violation of the relevant laws of such jurisdiction. If you have sold or otherwise transferred only part of your holding of your ordinary shares in the capital of the Company, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

A copy of this document is available at the Company's website at <https://www.franchisebrands.co.uk/investor-relations/>. Neither the content of the Company's website nor any website accessible by hyperlinks to the Company's website is incorporated in, or forms part of, this document.

Letter from the Chairman Franchise Brands Plc

(Incorporated in England and Wales with registered number 10281033)

Directors:

Stephen Hemsley, Executive Chairman
Chris Dent, Chief Financial Officer
Peter Molloy, Managing Director, Metro Rod
Tim Harris, Managing Director, B2C Division
Julia Choudhury, Corporate Development Director
Colin Rees, Chief Information Officer
Nigel Wray, Non-Executive Director
David Poutney, Non-Executive Director
Rob Bellhouse, Non-Executive Director

Registered Office:

Ashwood Court Springwood Close
Tytherington Business Park
Macclesfield
SK10 2XF

26 March 2020

Dear Shareholder

Franchise Brands plc 2019 Scrip Dividend Alternative

Unless otherwise defined, all capitalised terms in this document shall have the meanings given to them in Appendix I below.

On 5 March 2020, we announced our results for the year ended 31 December 2019. This included a proposal from the Board that a final Dividend of 0.65p per Ordinary Share should be paid, taking the total dividend for 2019 to 0.95p per Ordinary Share. The 2019 Final Dividend is subject to shareholder approval at the AGM scheduled to take place on 28 April 2020.

Given the current extraordinary environment as a result of the Covid-19 pandemic and the resulting economic and business uncertainties, we consider it necessary for the Company to adopt a very cautious approach and preserve the strength of its balance sheet by retaining cash.

Therefore, we are giving Shareholders the option to receive the 2019 Final Dividend as a scrip dividend. The Board strongly recommends that this option is taken to allow the Company to preserve cash. A scrip dividend is a dividend which is payable to Shareholders in the form of new Ordinary Shares rather than in cash. The number of new Ordinary Shares which are issued instead of the cash dividend will be calculated according to the following formula:

$$(\text{Number of Ordinary Shares held at the Record Date} \times 0.65\text{p}) \div \text{Scrip Reference Price}$$

The Scrip Reference Price is the average share price over five trading days prior to the date of the AGM notice (i.e. 19 March to 25 March 2020).

The purpose of this document is to provide Shareholders with details of the 2019 Scrip Dividend Alternative and to explain how Qualifying Shareholders may elect to receive Scrip Shares rather than a cash Dividend in respect of the 2019 Final Dividend.

If you do not wish to receive the 2019 Final Dividend in Scrip Shares you need take no action and may disregard this document.

Expected timetable

The expected timetable for payment of the 2019 Final Dividend is as follows:

28 April 2020, 11:00 am	Annual General Meeting
7 May 2020	Ex-Dividend Date
11 May 2020	Record Date
26 May 2020, Noon	Final date and time for receipt of Elections
8 June 2020	Payment of Dividend, issue and admission to AIM of Scrip Shares

Further details of the 2019 Scrip Dividend Alternative and the procedure to be followed are set out in Appendices I and II to this document. Whether or not you should elect to receive Scrip Shares instead of the cash Dividend will depend upon your own tax circumstances and personal preferences. Appendix II sets out some of the points you may wish to consider. If, after reading the Appendices, you are in any doubt about what course of action to take, you should consult an independent financial adviser. Please bear in mind that the price of Ordinary Shares (including Scrip Shares) can go down as well as up.

Scrip Dividend Election

Shareholders who wish to receive Scrip Shares should sign and return the enclosed Scrip Mandate Form to the Company's registrars, SLC Registrars, Elder House, St Georges Business Park, Brooklands Road, Weybridge, Surrey, KT13 0TS. A reply-paid envelope is enclosed for your use. No acknowledgement of receipt of the Scrip Mandate Forms will be given. Any Scrip Mandate Form sent to an address other than that stated above will not be accepted or considered valid. Alternatively, scanned PDFs of the Scrip Mandate Form may be emailed to office@slcregistrars.com. For details regarding overseas Shareholders please see paragraph 6 of Appendix I below.

You may call SLC Registrars on 01903 706150, if calling from the UK, or +44 (0)1903 706150 if calling from outside the UK, to request a copy of the Scrip Mandate Form. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am – 5.00 pm, Monday to Friday excluding public holidays in England and Wales. Please note that SLC Registrars cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes. Your attention is drawn to the terms and conditions of the 2019 Scrip Dividend Alternative, which are set out in Appendix I to this document.

Elections to participate in the 2019 Scrip Dividend Alternative must be received by SLC Registrars by no later than Noon on 26 May 2020.

You may cancel your Election at any time in accordance with the procedure set out in paragraph 9 of Appendix I.

Yours faithfully

Stephen Hemsley
Chairman

Appendix I: Terms and Conditions of the 2019 Scrip Dividend Alternative

1. Definitions of terms used in this document:

“2019 Final Dividend”	the final dividend of 0.65 pence per Ordinary Share proposed to be paid by the Company in respect of the financial year ended 31 December 2019;
“2019 Scrip Dividend Alternative”	the option to receive the 2019 Final Dividend in Scrip Shares rather than cash;
“AIM”	AIM, the market of that name operated by the London Stock Exchange;
“Annual General Meeting” or “AGM”	the annual general meeting of the Company scheduled to be held on 28 April 2020;
“Business Day”	a day other than a Saturday, Sunday or public holiday in England and Wales when banks in London are open for business;
“Company”	Franchise Brands plc, a public limited company incorporated in England and Wales with registered number 10281033, whose registered office address is at Ashwood Court Springwood Close, Tytherington Business Park, Macclesfield, SK10 2XF;
“CREST”	the computerised system for the paperless settlement of sales and purchases of securities and the holding of uncertificated securities operated by Euroclear;
“CREST Manual”	the CREST manual referred to in agreements entered into by Euroclear;
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) as amended from time to time;
“Directors” or “Board”	the board of directors of the Company from time to time;
“Dividend”	a dividend (including an interim dividend) declared or paid from time to time in respect of Ordinary Shares;
“Election”	a valid election to participate in the 2019 Scrip Dividend Alternative, made by means of a Scrip Mandate Form in accordance with paragraph 4 of Appendix I;
“Euroclear”	Euroclear UK & Ireland Limited;
“Ex-Dividend Date”	7 May 2020;
“London Stock Exchange”	London Stock Exchange PLC;
“Ordinary Shares”	ordinary shares of 0.5 pence each in the capital of the Company;
“Participant”	a Qualifying Shareholder who makes a valid Election;
“Qualifying Shareholder”	a Shareholder who, under the terms set out in this document, is eligible to make an Election;
“Record Date”	the record date for entitlement to participation in a Dividend, as notified to Shareholders from time to time;
“Return Date”	the date by which: (i) a completed Scrip Mandate must be received by SLC Registrars in order to participate in the 2019 Scrip Dividend Alternative; or (ii) a written notice of withdrawal must be received by SLC Registrars in order to withdraw from the 2019 Scrip Dividend Alternative, being 26 May 2020;
“Scrip Dividend”	a Dividend in the form of Scrip Shares (credited as fully paid) instead of in cash;
“Scrip Mandate”	the instructions given by a Shareholder pursuant to an Election;
“Scrip Mandate Form”	a written instruction from a Shareholder to SLC Registrars, in the format supplied, electing to participate in the 2019 Scrip Dividend Alternative;
“Scrip Shares”	Ordinary Shares, credited as fully paid, issued and allotted pursuant to the 2019 Scrip Dividend Alternative and subject to the terms and conditions set out in this document;
“Scrip Reference Price”	100.6 pence per Scrip Share, calculated in accordance with paragraph 5 of Appendix I;
“Shareholders”	persons holding Ordinary Shares from time to time and “Shareholder” shall mean any one of them; and
“SLC Registrars”	SLC Registrars, the Company's duly appointed registrars.

2. 2019 Scrip Dividend Alternative

The 2019 Scrip Dividend Alternative gives the opportunity to a Qualifying Shareholder to receive Scrip Shares instead of cash in respect of the 2019 Final Dividend.

The 2019 Final Dividend is subject to approval by the Shareholders at the Annual General Meeting of the Company to be held on 28 April 2020.

The operation of the 2019 Scrip Dividend Alternative is conditional on the Scrip Shares being admitted to trading on AIM on or before the date (as notified by the Company) on which dealings in those Scrip Shares are expected to commence.

If the condition as set out in this paragraph 2 is not satisfied, the 2019 Final Dividend will be paid in cash.

Scrip Mandate Forms will only be accepted in relation to an entire holding of Ordinary Shares.

If you complete a Scrip Mandate Form you will receive the 2019 Final Dividend only as a scrip dividend. Any future dividends will be paid in cash subject to the institution of another scrip dividend alternative offered by the Company in respect of a particular interim or final dividend, or a formal and ongoing scrip dividend scheme.

3. Who can participate in the 2019 Scrip Dividend Alternative?

All Qualifying Shareholders resident in the United Kingdom can participate in the 2019 Scrip Dividend Alternative. For details regarding Shareholders resident outside the United Kingdom, please see paragraph 6.

For details regarding cancellation of a Scrip Mandate, please see paragraph 9.

4. How do I participate in the 2019 Scrip Dividend Alternative?

Any Qualifying Shareholder wishing to participate in the 2019 Scrip Dividend Alternative should complete the Scrip Mandate Form in accordance with the instructions thereon.

Upon submission of a Scrip Mandate, either personally or on behalf of the relevant Shareholder, that Shareholder is deemed (subject to paragraph 9 below):

- (a) to agree to participate in the 2019 Scrip Dividend Alternative pursuant to its terms;
- (b) to authorise the Company or its agent in the case of holdings in certificated form, to send to the relevant Participant, at the relevant Participant's registered address, any definitive share certificate in respect of Scrip Shares allotted on the date that dealings in the Scrip Shares commence; and
- (c) to have confirmed that the relevant Participant is not prohibited from receiving or electing to receive Scrip Shares in accordance with the terms of the 2019 Scrip Dividend Alternative and that the relevant Participant's participation in the 2019 Scrip Dividend Alternative will be in compliance with any regulatory and legal requirements of any overseas jurisdiction applicable to the relevant Participant.

5. How many Scrip Shares will I receive?

The entitlement of a Participant to Scrip Shares in respect of the 2019 Final Dividend will depend on the number of Ordinary Shares held by that Participant on the Record Date and the Scrip Reference Price.

The Scrip Reference Price for this purpose will be the average of the middle market quotations for an Ordinary Share on the London Stock Exchange, as derived from the AIM Appendix of the Official Daily List, during the five dealing days immediately preceding (and excluding) the date of the notice of AGM.

When calculating a Participant's Scrip Share entitlement, it is unlikely that this will give rise to an exact number of Scrip Shares. As fractions of Scrip Shares cannot be issued, they will be rounded down to the nearest whole number.

The formula used for calculating a Participant's entitlement of Scrip Shares for the 2019 Final Dividend is set out below:

$$(\text{Number of Ordinary Shares held at the Record Date} \times 0.65\text{p}) \div \text{Scrip Reference Price}$$

An example for illustrative purposes only for the 2019 Final Dividend is as follows:

The cash amount of the 2019 Final Dividend is 0.65 pence per Ordinary Share, the Participant's shareholding is 100,000 Ordinary Shares, the Scrip Reference Price is 100.6 pence.

Value of cash amount of the 2019 Final Dividend: $100,000 \times 0.65 \text{ pence} = \text{£}650$.

Number of Scrip Shares: $\text{£}650 \div 100.6 \text{ pence} = 646.12$ rounded down to 646 Scrip Shares.

Fractional entitlements to Scrip Shares will be disregarded, entitlements to Scrip Shares rounded down accordingly to the nearest whole Ordinary Share, and the benefit of all fractional entitlements shall be retained by the Company.

Appendix I: Terms and Conditions of the 2019 Scrip Dividend Alternative continued

6. Eligibility

In view of the securities laws of the United States of America and Canada, the 2019 Scrip Dividend Alternative is not being made available to Shareholders with registered addresses in the United States of America, Canada or their respective territories or possessions. Accordingly, such Shareholders will automatically receive the 2019 Final Dividend in cash.

A Shareholder resident in jurisdictions outside the United Kingdom may not treat the 2019 Scrip Dividend Alternative as being available to them unless it would lawfully be made to them without compliance with any registration or other legal requirements in the relevant jurisdiction. It is the responsibility of any person resident outside the United Kingdom wishing to make an Election to satisfy itself as to the full observance of the laws of the relevant jurisdiction in respect of the receipt of Scrip Shares, including obtaining any governmental or other consents and observing any other formalities which may be required in such territories.

7. Issue and admission to trading of Scrip Shares

Application will be made to the London Stock Exchange for admission to trading on AIM of all Scrip Shares. Subject to such admission, share certificates for Scrip Shares will be issued and posted to Participants eligible thereto, at their risk, at or about the same time as the 2019 Final Dividend in cash is sent to Shareholders, recording their additional holdings of Scrip Shares as a result of the 2019 Scrip Dividend Alternative.

Where Scrip Shares are issued as uncertificated shares, the Company will instruct Euroclear to credit the Shareholder's stock account in CREST (being the account under the same participation ID and member account ID as the Ordinary Shares from which that Participant's entitlement to Scrip Shares is derived) with the appropriate entitlement of Scrip Shares.

The Scrip Shares will, on issue, rank equally in all respects with existing issued Ordinary Shares and will carry the right to all Dividends subsequently declared, including Scrip Dividends.

8. What are the tax effects?

The tax effect of taking Scrip Shares will depend on the individual circumstances of each Shareholder. Further details are contained in Appendix II. If a Shareholder is not sure how they would be affected by the 2019 Scrip Dividend Alternative, they should seek their own personal financial advice immediately from their stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended).

9. Cancellation of a Scrip Mandate

Participants may cancel their Scrip Mandate at any time.

Notice of cancellation must be given in writing to SLC Registrars by the Return Date.

A Participant's Scrip Mandate will be deemed to be cancelled if such Shareholder sells or otherwise transfers their Ordinary Shares to another person, with effect from the registration of the relevant transfer.

A Participant's Scrip Mandate will also terminate immediately on receipt of notice of such Shareholder's death. If a joint Shareholder dies, the Scrip Mandate will continue in favour of the surviving joint Shareholder(s) (unless and until cancelled by the surviving joint Shareholder(s)).

10. Modification and termination by the Company

The 2019 Scrip Dividend Alternative can be modified, suspended or terminated by the Directors at any time without notice to Participants. In the case of a modification, Participants will be deemed to have elected to continue under the modified 2019 Scrip Dividend Alternative unless and until SLC Registrars receives a valid notice of cancellation from such Shareholder pursuant to paragraph 9 above.

The Directors also have the power, after an offer of Scrip Shares under the 2019 Scrip Dividend Alternative is made, to revoke the offer generally at any time prior to the allotment of the Scrip Shares in respect of the 2019 Scrip Dividend Alternative. If the Directors revoke an offer (or otherwise suspend, terminate or cancel the 2019 Scrip Dividend Alternative), Shareholders will receive their Dividends in cash on, or as soon as reasonably practicable after, the Dividend payment date. The Company will use its reasonable endeavours to circulate any updates to the terms and conditions set out in this document. It is the responsibility of each Qualifying Shareholder and Participant to assess with their professional adviser(s) the effect of any such change to their individual circumstances.

11. What if I hold my shares in CREST?

Where practicable, Scrip Shares allotted to a Participant in respect of a holding in CREST will be allotted in uncertificated form and credited electronically to the same CREST member account as registered for that holding prior to the Record Date for the 2019 Final Dividend, unless the Company is unable to do so under the provisions of the CREST Regulations or the facilities and requirements of CREST, in which case share certificates in respect of such Scrip Shares will be issued in the usual way.

12. What is the governing law of the 2019 Scrip Dividend Alternative?

The 2019 Scrip Dividend Alternative (including any Election(s) and authorisation(s) given by any Shareholder) is governed by and its terms are to be construed in accordance with the laws of England and Wales. By electing to receive Scrip Shares the Shareholder agrees to submit to the jurisdiction of the courts of England and Wales in relation to the 2019 Scrip Dividend Alternative.

13. What do I do if I have any questions?

If you have any general queries concerning the 2019 Scrip Dividend Alternative, please contact SLC Registrars on 01903 706150, if calling from the UK, or +44 (0)1903 706150 if calling from outside the UK. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. The helpline is open between 9.00 am and 5.00 pm, Monday to Friday excluding public holidays in England and Wales. Please note that SLC Registrars cannot provide any financial, legal or tax advice and calls may be recorded and monitored for security and training purposes.

If you wish to receive the 2019 Final Dividend in cash you should not make an Election and may disregard this document.

Appendix II: Taxation of Scrip Dividends

The following paragraphs, which are intended as a general guide only and are based on current United Kingdom legislation and published HM Revenue & Customs practice as at the date of this document, summarise certain limited aspects of the United Kingdom taxation treatment of Participants receiving Scrip Shares in lieu of cash Dividends. They relate only to the position of Participants who are resident (and, in the case of individuals, domiciled) solely in the United Kingdom for taxation purposes and who hold their Shares beneficially as an investment. The precise tax consequences for a Participant electing to receive Scrip Shares will depend on the Participant's individual personal circumstances. This summary is not exhaustive and does not deal with the tax position of any Participant not resident (or domiciled) in the United Kingdom for tax purposes or with the tax position of certain other categories of Participants to whom special rules may apply. Unless expressly stated, it does not anticipate the effect (if any) of any changes in taxation which may be introduced after the date of this document. Levels and bases of, and reliefs from, taxation are subject to change.

If you are in any doubt as to your position, or if you may be subject to taxation in any jurisdiction other than the UK, you are strongly advised to seek your own professional advice immediately.

1. Individuals

Income Tax

Individual Participants who receive Scrip Shares in lieu of a cash Dividend will be treated as having received dividend income of an amount which is equal to the "cash equivalent" of those Scrip Shares. The "cash equivalent" is the amount of cash Dividend which the Participant would have received had they not elected to take Scrip Shares, unless the difference between the cash-dividend alternative and the market value of the Scrip Shares equals or exceeds 15% of that market value in which case the "cash equivalent" will be the market value of the Scrip Shares. The market value is the market value on the earliest day on which the Company is required to issue the Scrip Shares.

The cash equivalent will be treated as dividend income. For UK resident individuals, no income tax is payable in respect of dividend income received from all sources in the tax year to the extent it falls within the annual dividend allowance (currently £2,000) (although such income will still count towards the basic, higher and additional rate thresholds). Dividend income in excess of the annual dividend allowance is taxed at the following rates: 7.5%, 32.5% and 38.1% to the extent the income falls within the basic rate, higher rate and additional rate bands respectively. Dividend income is treated as the top slice of an individual's income.

Capital Gains Tax

An individual Participant who receives Scrip Shares will be treated as acquiring a separate asset for an amount equal to the "cash equivalent" for capital gains tax purposes. On a subsequent sale or disposal of the Scrip Shares, an individual Participant will pay capital gains tax on any gain realised (taking into account the "cash equivalent" as the acquisition cost) at 10% for basic rate taxpayers and 20% for higher or additional rate taxpayers. The capital gains tax annual exemption may be available to set off against some or all of the gain.

2. UK-resident companies

UK resident companies should not be subject to corporation tax on Scrip Shares issued in lieu of a cash Dividend. For the purposes of corporation tax on chargeable gains, the Scrip Shares will be treated as the same asset as the existing Shares acquired at the same time but no consideration will be treated as having been paid for the Scrip Shares.

3. Cash Alternative

If a UK shareholder receives dividends in the form of cash, the cash dividend will be treated as a conventional dividend for UK taxation purposes. UK resident individuals receiving cash dividends will pay tax on the dividend income at the same rates as would apply in respect of the "cash alternative" as described above. UK-resident companies are generally exempt from corporation tax on dividends.

4. Withholding tax

The Company is not required to deduct any amount on account of UK tax when paying a cash dividend or issuing Scrip Shares.

5. Stamp duty

No UK stamp duty or stamp duty reserve tax will be payable on the issue of Scrip Shares.