

SPHERA

Sphera Franchise Group

Interim results: Jan-Jun 2018


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Therefore, the final results achieved may vary significantly from the forecasts, and the variations may be material.

Sphera – H1-2018 key events

All-store sales up 21.6% with same-store sales growth of 8.0%

- continued strong growth from KFC, increasing contributions from KFC Italy and Taco Bell

Total store openings: 7 (6x KFC, 1x PHD), of which 3 in Q1

- An additional 4 stores opened so far in Q3-2018 (1x KFC, 2x Pizza Hut Delivery, 1x Taco Bell)

Network size: 121 @ 30-Jun-2018, 125 @ 14-Aug-2018

- 2018 store opening target expected to be exceeded by 3 (+3x KFC Italy) totalling 26, with a year-end network size of 142

KFC Romania and Moldova in Yum's top 4 CEE GES performance, with 5 stores in Italy in top 10 performance chart

KFC delivery services extended in Bucharest and Cluj; preliminary tests on self-ordering kiosks successful;

Pizza Hut Dine-In new menu rolled out in all restaurants; delivery online ordering approaching 35%

Contract signed with Grandi Stazioni to provide accelerated development plan in Italy, over and above current geographies

- **Interim results***

	RONm	Y/Y*	Margin
Sales	350.1	+21.6%	
Restaurant profit	46.6	(8.3)%	13.3%
Normalized EBITDA	32.3	(15.9)%	9.2%
EBITDA	31.4	(18.3)%	9.0%
Net Profit	18.8	(33.8)%	5.4%

*) Comparison between H1-2018 consolidated results and H1-2017 pro forma results.

KFC – “Franchisee of the Year” award

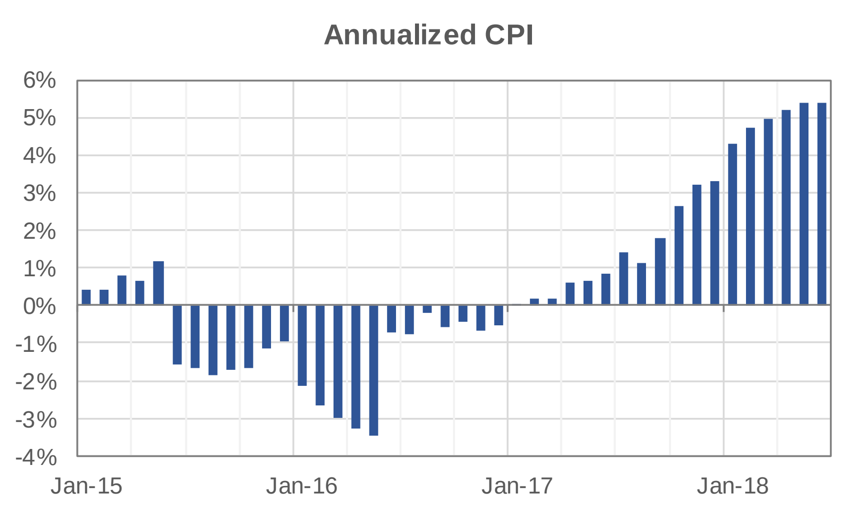
The Franchisee of the Year award is the highest recognition YUM! offers around the globe and is offered to the franchise that proves constant excellence in all business activities and that is an authentic ambassador for the KFC brand.

It is also worth mentioning that KFC Romania was nominated for awards in other three categories, namely Operations, Marketing and Human Resources.

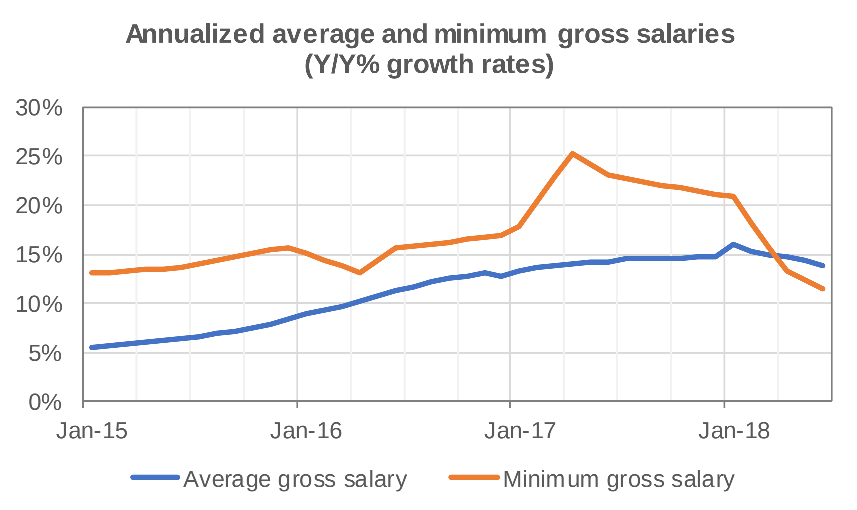
The award was granted during the 10th edition of the Yum! Franchise Convention, a week-long global event organized every other year with all franchisees within the Yum! Universe.

Macro environment becomes increasingly challenging

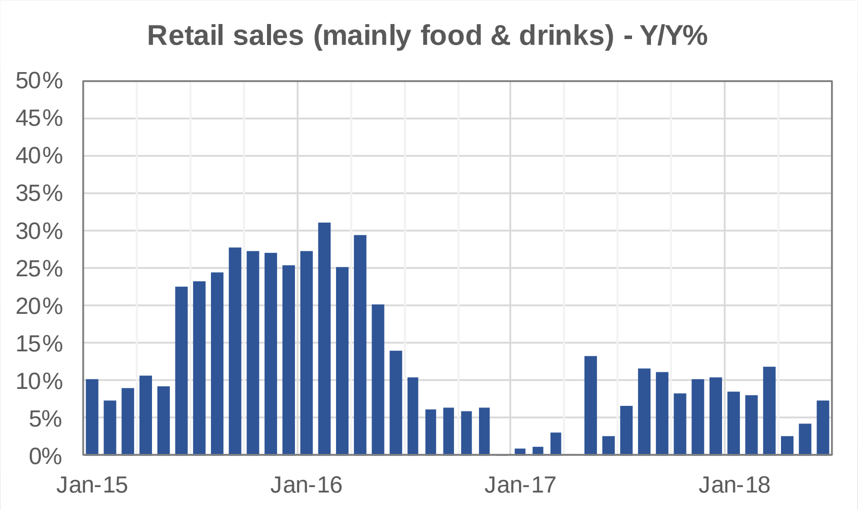
Retail sales have cooled down notably amid rampant inflation



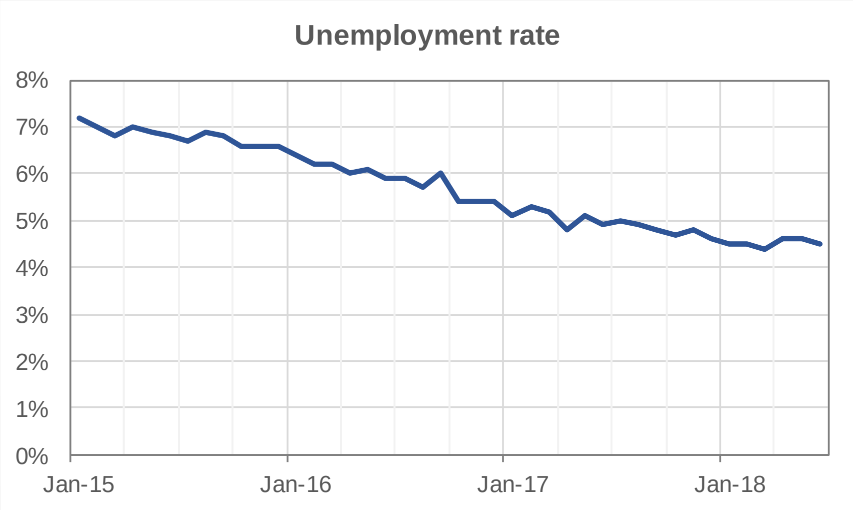
- CPI peaked at 5.4% in June, highest level since 2008, and is expected to ease towards 4% by year end



- Salary pressure is easing but still remains at an annualized growth rate of over 10%



- Retail sales Y/Y growth dropped by c. 5pp to an average of 4.7% in Q2 vs Q1, with further cooling expectations



- Unemployment rate remains close to minimum record, further fueling high labour mobility and salary pressure

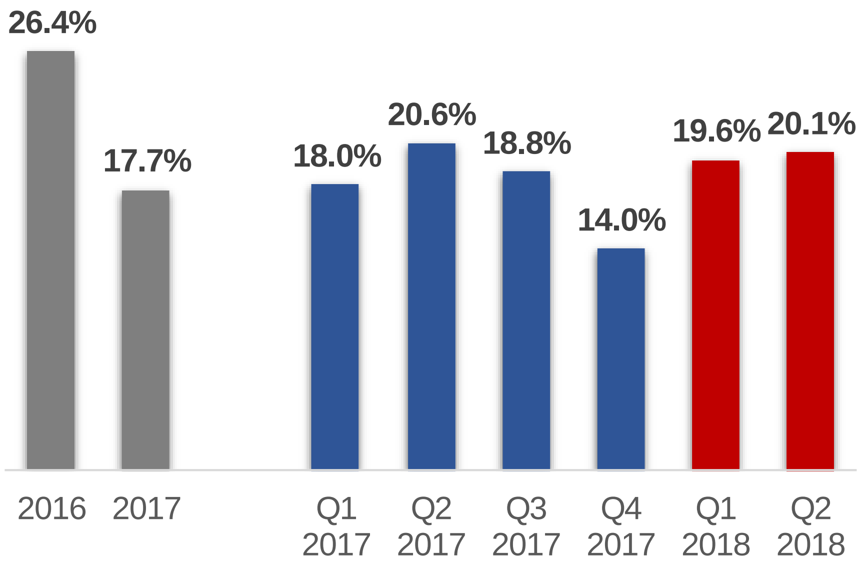
Sales performance by brands

Brand performance: KFC Romania

Sales growth analysis

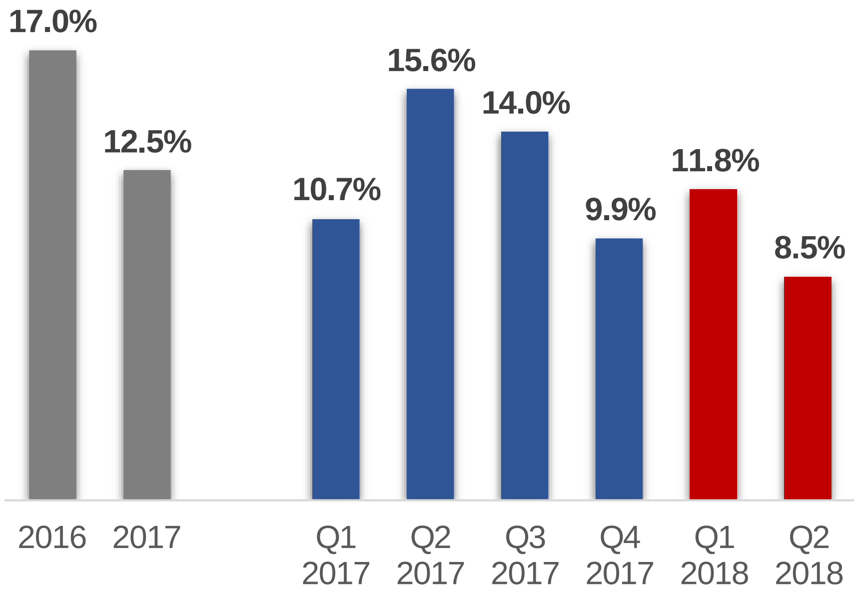
All-store performance

- All-store sales growth of 19.8% Y/Y in H1 supported mainly by same-store growth of 10.1%;
- In Q2, all-store sales advanced 20.1%, with same-store sales improving by 8.5%;
- The 9 net openings (since Jan-2017) contributed 10pp to the Y/Y growth in H1, with all but two in cities with existing KFC stores;



Same-store performance

- Same-store sales growth of 10.1% Y/Y on the back of continued strong performance from the Drive-Thru format, as well as a better performance of the restaurants located outside Bucharest;
- Average ticket was up 8.8% and transactions were up 1.2% in H1-2018 vs H1-2017;

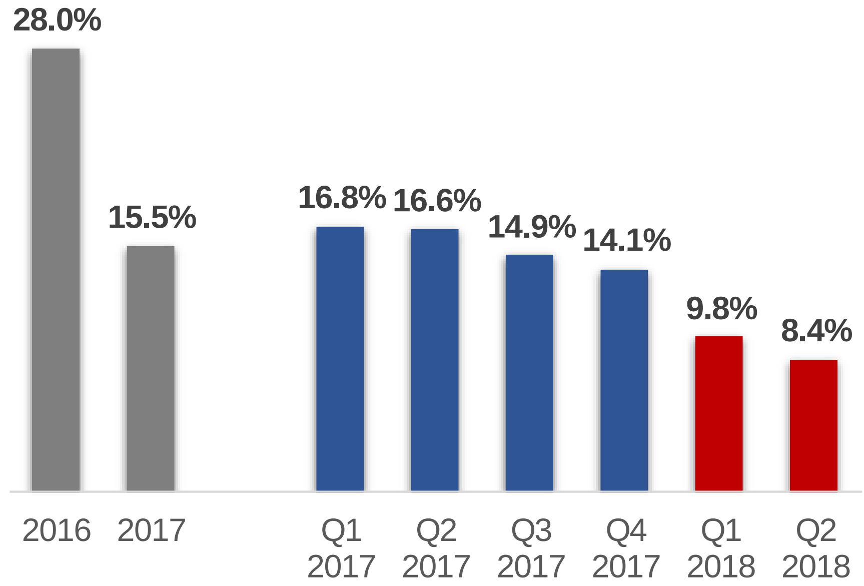


Brand performance: Pizza Hut

Sales growth analysis

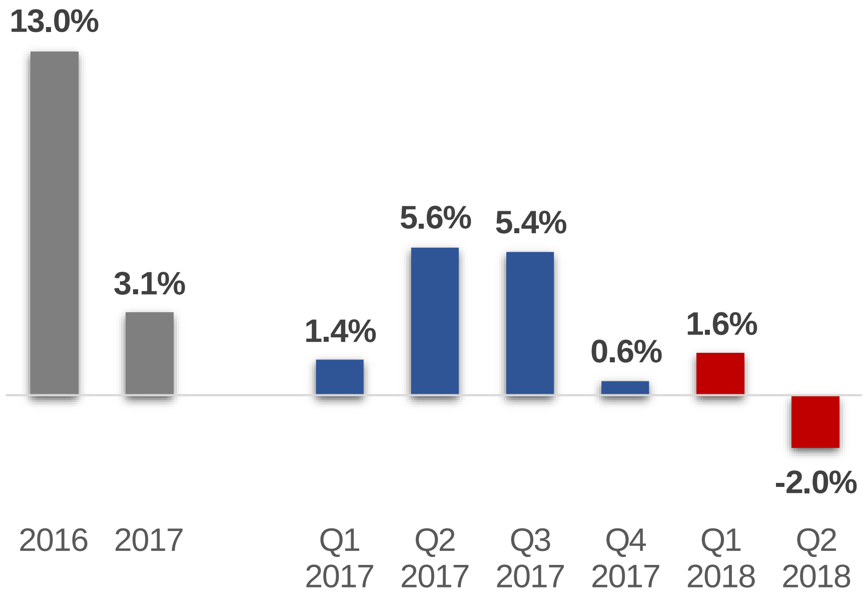
All-store performance

- All-store sales growth of 9.1% Y/Y in H1, with virtually all growth being contributed by the 7 stores opened starting Jan-2017 (of which 5 in existing cities);
- In Q2, all store sales advanced 8.4% Y/Y, while same-store sales fell 2.0%



Same-store performance

- Same-store sales dropped 0.2% Y/Y in H1, triggered mainly by weaker performance of the Dine-In format, while Delivery continued to remain in positive territory despite the opening of 5 units in Bucharest;
- Average ticket was up 7.7% and transactions were down 7.3% in H1-2018 vs H1-2017;



Development

Development

Restaurant openings in H1-2018

	Total stores BoY	Openings(1)	Total stores EoP	QTD(2) Openings	Total YTD(2)	2018 Initial Plan	2018 Expectation	Total Expected YE
KFC	72	7	79	1	80	13	16	91
Pizza Hut	22	0	22	0	22	2	2	24
Pizza Hut Delivery	17	1	18	2	20	5	5	22
Taco Bell	2	0	2	1	3	3	3	5
Total	113	8	121	4	125	23	26	142

(1) Of which three KFC restaurants opened in H1-2018 were part of 2017 development plan.
(2) As at 14-Aug-2018.

KFC Bistrita (DT)

PHD Bucurestii Noi (Delivery)

KFC Italy – Udine Citta Fiera

Brand news

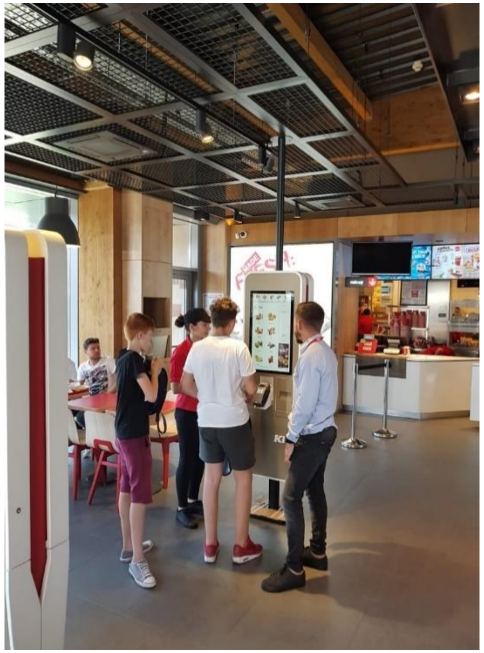
Brand news

H1-2018 highlights

- KFC focused on building innovation by driving share of burger occasion in Q2, successfully launching new recipes for well-known products like Zinger & Fillet and maintaining strong same-store sales growth;
- Launched *studycoin*, a platform that rewarded teens who solved math problems with digital coins that could be redeemed in the stores; above target results with over 30k unique participants, 280K math problems solved in a month and half a million visitors in the platform;
- Continuous effort in building new consumption occasions by communicating breakfast products through a 360 campaign that drove both traffic in the stores and awareness;
- Being transparent and staying relevant for a desired target, the millennials, by launching the “open kitchen” program that offered hundreds of participants the chance to visit our kitchens.

Delivery

- Delivery test expanded to seven stores in Bucharest and three in Cluj, with very encouraging results;



Self-ordering kiosks

- Pilot kiosks were implemented in the first store in May;
- Positive feedback from clients and 70% of eat-in and take-away orders done through the kiosk with the help of KFC employees
- Expected roll-out to first 10 stores by year-end

Brand news

H1-2018 highlights

- Pizza Hut reinforced its product innovation superiority by launching Extra Cheesy Bites, a twist on an iconic dough type, with the aim of increasing average spend;
- The new menu designed by a well-know chef was rolled-out in all the restaurants with the aim of launching a re-positioning campaign in Q3;
- New website was launched with a contemporary look & feel to better showcase the new menu;
- Pizza Hut Delivery launched the same innovation campaign, Extra Cheesy Bites and was present on TV with a tail on the brand commercial, enjoying a high sales mix of the product;
- Overall online orders exceeding 34% of delivery sales;

- Taco Bell launched an online brand manifesto to translate the Live Mas philosophy while being relevant and insightful for the Romanian consumers;
- Continued to build brand equity by generating trial and creating buzz around the Park Lake opening

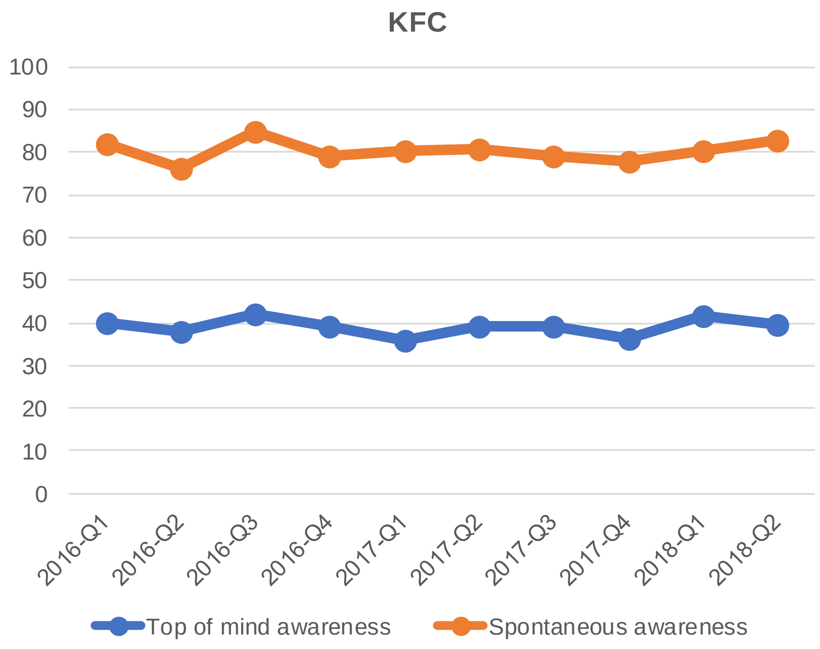
Italy

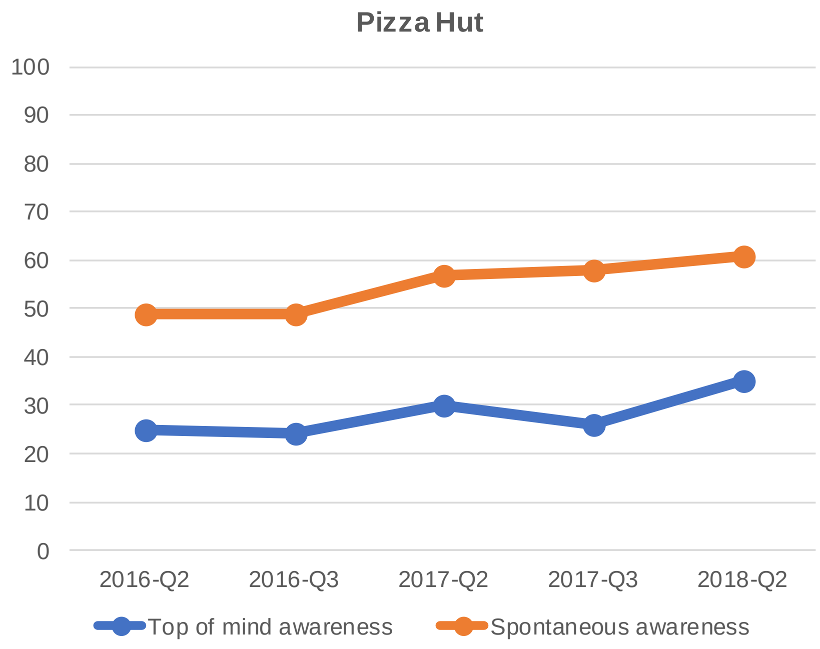
- Grandi Stazioni contract covers 13 locations, of which 4 are located outside our currently signed geographies
- Head of terms signed with Il Gigli mall in Florence, the busiest commercial center in Italy (20m visitors/year), with expected opening in November – location outside our currently signed geographies

- 2018 Q2 awards: Silver Effie in Restaurants for KFC *Ceva* (Something) campaign - no gold awarded in the category; Silver Effie in New Product or Brand Introduction for *The first Taco Bell on a 1208 km radius* campaign - no gold awarded in the category; Top Social Brands: KFC ranked #6 in Romania and awarded “most creative brand”

Brand news

Brand awareness consolidating for KFC, improving for Pizza Hut





- KFC has closed the gap against its main competitor in terms of spontaneous brand awareness and maintained positive gap in terms of top of mind awareness

- Pizza Hut reached all-time high levels in both spontaneous and top of mind brand awareness in Q2-2018, while other competitors’ results remained broadly unchanged

H1-2018 campaigns

Financials

Pro forma financials

Note:

H1-2018 pro forma results are identical to consolidated results

H1-2017 pro forma results include ARS performance for the full period

H1-2017 consolidated results do not include ARS performance for Jan-May period

Financial performance: H1-2018 (Consolidated) vs H1-2017 (Pro-forma)

Statement of comprehensive income

- Pro forma sales up 21.6% Y/Y on strong performance from KFC Romania/Moldova and Pizza Hut and increasing contributions from the new businesses (KFC Italy and Taco Bell);
- Restaurant operating profit down 8.3% Y/Y, with margin down 4.3pp, especially on food and salary costs, as well as impact from new openings and new areas of business;
- G&A expenses up 24.9% Y/Y, reaching 7.2% of sales;
- Normalized EBITDA* fell 15.9% Y/Y and normalized EBITDA margin contracted 4.1pp to 9.2% of sales, virtually due to higher restaurant expenses;
- EBITDA fell 18.3% Y/Y and EBITDA margin contracted 4.4pp to 9.0% of sales, virtually due to higher restaurant expenses;
- Net profit was 33.4% lower Y/Y and net profit margin fell by 4.5pp to 5.4% of sales.

			Y/Y%	% of Sales		
Data in RON'000	**Jun-18**	**Jun-17**	**2018/2017**	**Jun-18**	**Jun-17**	**Δ%**
Restaurant sales	**350,068**	**287,834**	**21.6%**			
Restaurant expenses	**303,503**	**237,034**	**28.0%**	**86.7%**	**82.4%**	**4.3%**
Food and material	125,383	100,472	24.8%	35.8%	34.9%	0.9%
Payroll and employee benefits	72,749	55,195	31.8%	20.8%	19.2%	1.6%
Rent	25,561	20,898	22.3%	7.3%	7.3%	0.0%
Royalties	20,650	16,807	22.9%	5.9%	5.8%	0.1%
Advertising	18,186	14,220	27.9%	5.2%	4.9%	0.3%
Other operating expenses, net	31,397	22,782	37.8%	9.0%	7.9%	1.1%
Depreciation and amortization	9,576	6,660	43.8%	2.7%	2.3%	0.4%
Restaurant operating profit	**46,565**	**50,800**	**-8.3%**	**13.3%**	**17.6%**	**-4.3%**
General and administration expenses, net	25,237	20,204	24.9%	7.2%	7.0%	0.2%
Operating profit	**21,328**	**30,596**	**-30.3%**	**6.1%**	**10.6%**	**-4.5%**
Finance costs	1,159	638	81.7%	0.3%	0.2%	0.1%
Finance income	148	115	29.0%	0.0%	0.0%	0.0%
Profit before tax	**20,317**	**30,073**	**-32.4%**	**5.8%**	**10.4%**	**-4.6%**
Income tax expense	1,560	1,742	-10.5%	0.4%	0.6%	-0.2%
Profit for the period	**18,757**	**28,331**	**-33.8%**	**5.4%**	**9.8%**	**-4.5%**
EBITDA	31,383	38,435	-18.3%	9.0%	13.4%	-4.4%
Normalised EBITDA*	32,315	38,435	-15.9%	9.2%	13.4%	-4.1%

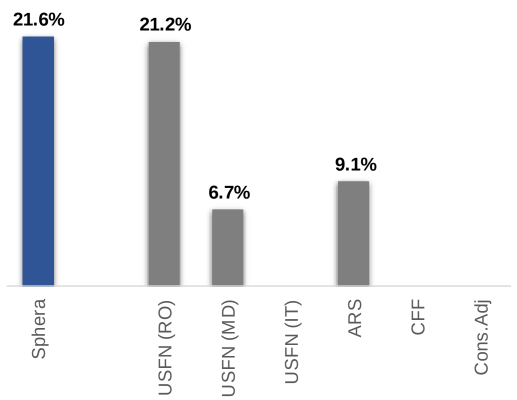
*) Excluding a non-recurring provision for litigation worth RON 0.93m.

Financial performance: H1-2018 (Consolidated) vs H1-2017 (Pro-forma)

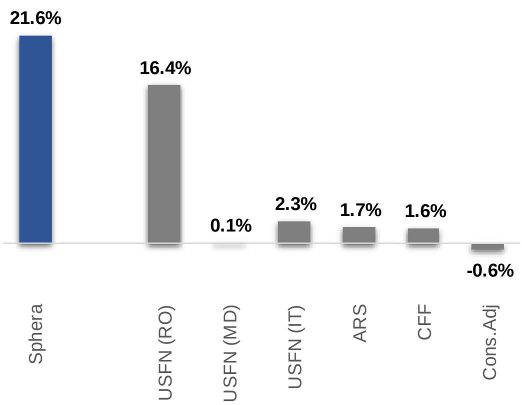
Breakdown of results by Group companies

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	**270,870**	**59,146**	**4,406**	**10,200**	**4,643**	**12,507**	**(11,706)**	**350,068**
Restaurant expenses	**227,953**	**56,207**	**3,823**	**10,760**	**4,832**	**0**	**(72)**	**303,503**
Food and material	102,146	16,437	1,826	3,122	1,853	0	0	125,383
Payroll and employee benefits	49,955	17,449	683	3,380	1,283	0	0	72,749
Rent	18,886	5,012	387	865	409	0	2	25,561
Royalties	16,273	3,407	264	614	93	0	0	20,650
Advertising	12,912	4,002	135	640	526	0	(30)	18,186
Other operating expenses, net	21,408	7,549	382	1,616	486	0	(44)	31,397
Depreciation and amortization	6,374	2,352	146	523	182	0	0	9,576
Restaurant operating profit	**42,917**	**2,939**	**584**	**(559)**	**(188)**	**12,507**	**(11,634)**	**46,565**
General and administration expenses, net	15,241	5,016	124	1,878	1,318	13,294	(11,634)	25,237
Operating profit	**27,676**	**(2,077)**	**460**	**(2,438)**	**(1,507)**	**(787)**	**(0)**	**21,328**
Finance costs	689	377	58	374	135	451	(926)	1,159
Finance income	759	2	68	0	0	62,043	(62,724)	148
Profit before tax	**27,745**	**(2,452)**	**470**	**(2,812)**	**(1,642)**	**60,805**	**(61,798)**	**20,317**
Income tax expense	1,479	714	71	(654)	63	(114)	0	1,560
Profit for the period	**26,266**	**(3,166)**	**399**	**(2,158)**	**(1,704)**	**60,920**	**(61,798)**	**18,757**
EBITDA	34,231	371	633	(1,915)	(1,257)	(680)	(0)	31,383
Normalised EBITDA*	35,163	371	633	(1,915)	(1,257)	(680)	(0)	32,315

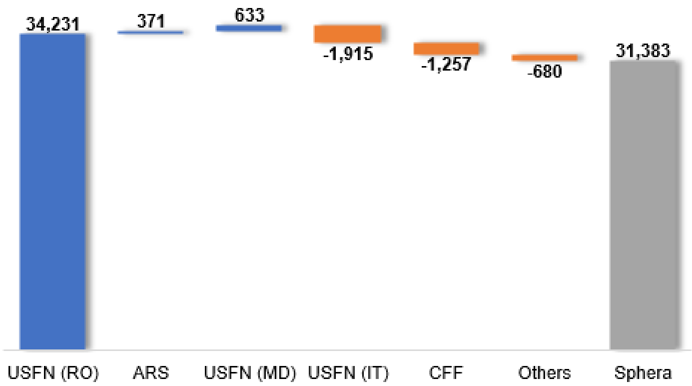
Y/Y Sales growth by companies



Contribution to Sales growth by companies



Contribution to EBITDA by companies



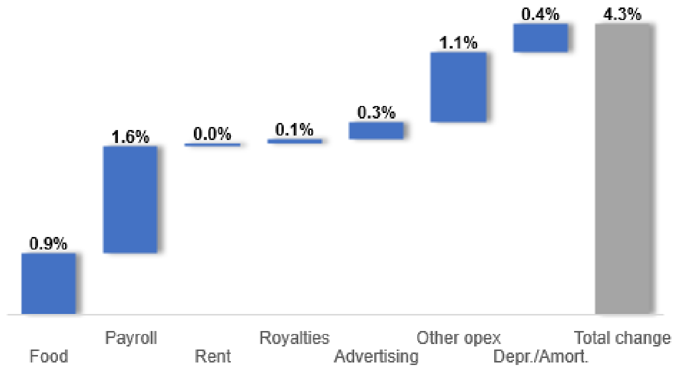
Financial performance: H1-2018 (Consolidated) vs H1-2017 (Pro-forma)

Restaurant operating expenses and margin

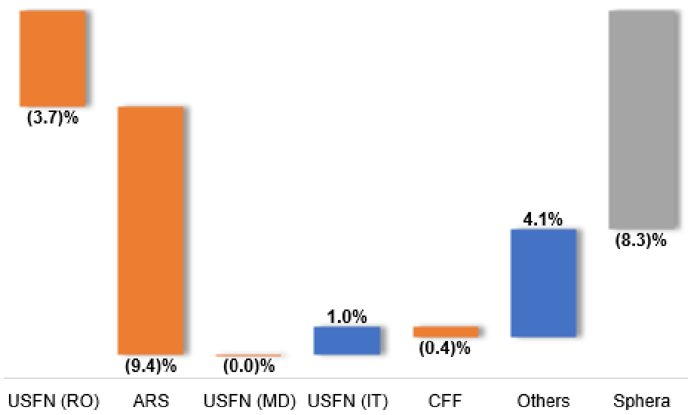
Data in RON'000	Jun-18	Jun-17	Y/Y% 2018/2017	% of Sales Jun-18	% of Sales Jun-17
Restaurant expenses	**303,503**	**237,034**	**28.0%**	**86.7%**	**82.4%**
Food and material	125,383	100,472	24.8%	35.8%	34.9%
Payroll and employee benefits	72,749	55,195	31.8%	20.8%	19.2%
Rent	25,561	20,898	22.3%	7.3%	7.3%
Royalties	20,650	16,807	22.9%	5.9%	5.8%
Advertising	18,186	14,220	27.9%	5.2%	4.9%
Other operating expenses, net	31,397	22,782	37.8%	9.0%	7.9%
Depreciation and amortization	9,576	6,660	43.8%	2.7%	2.3%
Restaurant operating profit	**46,565**	**50,800**	**-8.3%**	**13.3%**	**17.6%**

- Operational expenses increased 28.0% Y/Y to RON 304.3m in H1-2018, reaching 86.7% of sales;
- As percentage of sales, operational expenses increased by 4.3pp Y/Y to 86.7% in H1-2018, of which:
    - +1.6pp from payroll expenses
    - +1.1pp from other operating expenses
    - +0.9pp from cost of food and materials

Contribution to change in restaurant opex ratio



Contribution to change in restaurant profit

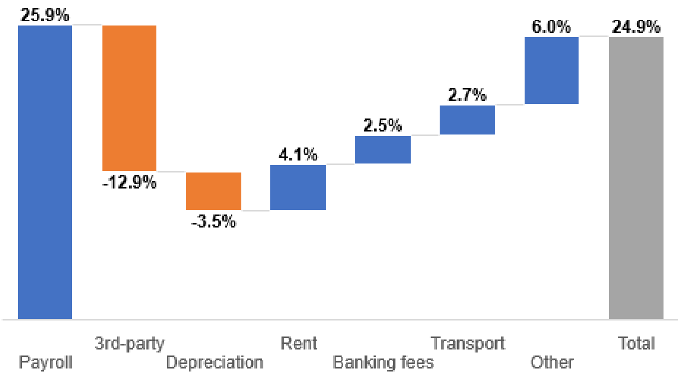


Financial performance: H1-2018 (Consolidated) vs H1-2017 (Pro-forma)

G&A expenses

Data in RON'000	Jun-18	Jun-17	Y/Y% 2018/2017	% of Sales Jun-18	% of Sales Jun-17
General and administration expenses (net), of which:	**25,238**	**20,204**	**24.9%**	**7.2%**	**7.0%**
Payroll and employee benefits	14,010	8,769	59.8%		
Third-party services	3,603	6,211	-42.0%		
Depreciation and amortization	479	1,179	-59.4%		
Rent	1,660	830	100.0%		
Banking charges	1,317	803	64.0%		
Transport	1,463	927	57.8%		
Other expenses	2,706	1,485	82.3%		

Contribution to growth in G&A expense



- General and administration expenses increased 24.9% Y/Y to RON 25.2 million in H1-2018 (7.2% of sales, up from 7.0% in H1-2017)
- G&A ratio stood at 7.2% of sales in Q2-2018 compared to 7.3% in Q1-2018.

Consolidated financials

Sphera – Consolidated financial performance

Statement of comprehensive income

- Consolidated sales up 44.5% Y/Y on strong performance from KFC Romania (+21.2% Y/Y), while the consolidation of ARS (Pizza Hut restaurants), starting with June 2017, contributed 20.9pp in the consolidated sales growth rate;
- Restaurant operating profit up 4.5% Y/Y, with margin down 5.1pp, especially on salary costs and impact from new openings and new areas of business;
- G&A expenses up 59.4% Y/Y, up 0.7pp to 7.2% of sales, driven mainly by the consolidation of ARS and the KFC Italy and Taco Bell operations;
- Normalized EBITDA fell 7.1% Y/Y and normalized EBITDA margin contracted 5.1pp to 9.2%, mainly due to higher restaurant expenses;
- EBITDA fell 9.8%% Y/Y and EBITDA margin contracted 5.4pp to 9.2%, mainly due to higher restaurant expenses;
- Net profit was 31.0% lower Y/Y and net profit margin fell by 5.9pp to 5.4%.

			Y/Y%	% of Sales		
Data in RON'000	**Jun-18**	**Jun-17**	**2018/2017**	**Jun-18**	**Jun-17**	**Δ%**
Restaurant sales	**350,068**	**242,204**	**44.5%**			
Restaurant expenses	**303,503**	**197,650**	**53.6%**	**86.7%**	**81.6%**	**5.1%**
Food and material	125,383	87,944	42.6%	35.8%	36.3%	-0.5%
Payroll and employee benefits	72,749	43,430	67.5%	20.8%	17.9%	2.9%
Rent	25,561	17,001	50.4%	7.3%	7.0%	0.3%
Royalties	20,650	14,125	46.2%	5.9%	5.8%	0.1%
Advertising	18,186	11,724	55.1%	5.2%	4.8%	0.4%
Other operating expenses, net	31,397	18,474	70.0%	9.0%	7.6%	1.3%
Depreciation and amortization	9,576	4,952	93.4%	2.7%	2.0%	0.7%
Restaurant operating profit	**46,565**	**44,554**	**4.5%**	**13.3%**	**18.4%**	**-5.1%**
General and administration expenses, net	25,237	15,832	59.4%	7.2%	6.5%	0.7%
Operating profit	**21,328**	**28,722**	**-25.7%**	**6.1%**	**11.9%**	**-5.8%**
Finance costs	1,159	440	163.5%	0.3%	0.2%	0.1%
Finance income	148	109	36.1%	0.0%	0.0%	0.0%
Profit before tax	**20,317**	**28,391**	**-28.4%**	**5.8%**	**11.7%**	**-5.9%**
Income tax expense	1,560	1,189	31.2%	0.4%	0.5%	0.0%
Profit for the period	**18,757**	**27,202**	**-31.0%**	**5.4%**	**11.2%**	**-5.9%**
EBITDA	31,383	34,793	-9.8%	9.0%	14.4%	-5.4%
Normalised EBITDA*	32,315	34,793	-7.1%	9.2%	14.4%	-5.1%

*) Excluding a non-recurring provision for litigation worth RON 0.93m.

Sphera – Consolidated financial performance

Statement of financial position

Data in RON'000	30-Jun-18	31-Dec-17
Assets		
Non-current assets	**196,937**	**176,123**
Property, plant and equipment	123,132	105,220
Intangible assets	68,062	67,471
Deposits for rent guarantee	2,827	1,288
Deferred tax assets	2,916	2,144
Current assets	**80,260**	**73,291**
Inventories	8,870	8,509
Trade and other receivables	9,862	8,454
Prepayments	4,059	3,673
Cash and short-term deposits	57,469	52,655
Assets held for sale	195	195
Total assets	**277,392**	**249,609**

Data in RON'000	30-Jun-18	31-Dec-17
Equity and liabilities		
Total equity	**123,326**	**104,544**
Equity attributable to equity holders of the parent	**123,305**	**104,525**
Issued capital	581,990	581,990
Share premium	(520,578)	(520,578)
Retained earnings	61,868	43,191
Foreign currency translation reserve	25	(78)
Non-controlling interests	21	19
Non-current liabilities	**59,266**	**42,191**
Interest-bearing loans and borrowings	55,028	39,520
Trade and other payables	4,238	2,671
Current liabilities	**94,800**	**102,874**
Trade and other payables	62,889	77,682
Interest-bearing loans and borrowings	30,979	25,192
Provisions for litigations	932	-
Total liabilities	**154,066**	**145,065**
Total equity and liabilities	**277,392**	**249,609**