



Sphera Franchise Group

Interim results: Jan-Mar 2018





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- **Strong sales & operational performance**

- All-store sales up 22.5% with same-store sales growth of 9.7%
 - continued strong growth from KFC, increasing contributions from KFC Italy and Taco Bell
- Total store openings: 3 (3x KFC, all being part of 2017 development plan)
 - other 4 stores opened so far in Q2-2018 (3x KFC, 1x Pizza Hut Delivery)
- Network size: 116 @ 31-Mar-2018, 120 @ 15-May-2018
 - 2018 network target: +23 (excluding the 3 included in the 2017 plan) to 139
- KFC Romania and Moldova in Yum's top 4 CEE GES performance, with both stores in Italy leading the Italian performance chart
- KFC and Pizza Hut continue to lead top of mind awareness in Romania
- Taco Bell restaurant operating margin moving into positive territory at 4%
- KFC Italy restaurant operating margin improving to 3.5%

- **Interim results***

	<u>RONm</u>	<u>Y/Y*</u>	<u>Margin</u>
▪ Sales	170.2	+22.5%	
▪ Restaurant profit	26.1	+0.5%	15.3%
▪ EBITDA	18.8	(3.9)%	11.1%
▪ Net Profit	12.5	(13.7)%	7.4%

*) Comparison between Q1-2018 consolidated results and Q1-2017 pro forma results.



Sales performance by brands



Sales growth analysis

All-store performance

- All-store sales growth of 19.6% Y/Y supported mainly by same-store performance (11.6pp contribution);
- The 8 net openings contributed 7.8pp to the Y/Y growth, with all but one in cities with existing KFC stores;



Same-store performance

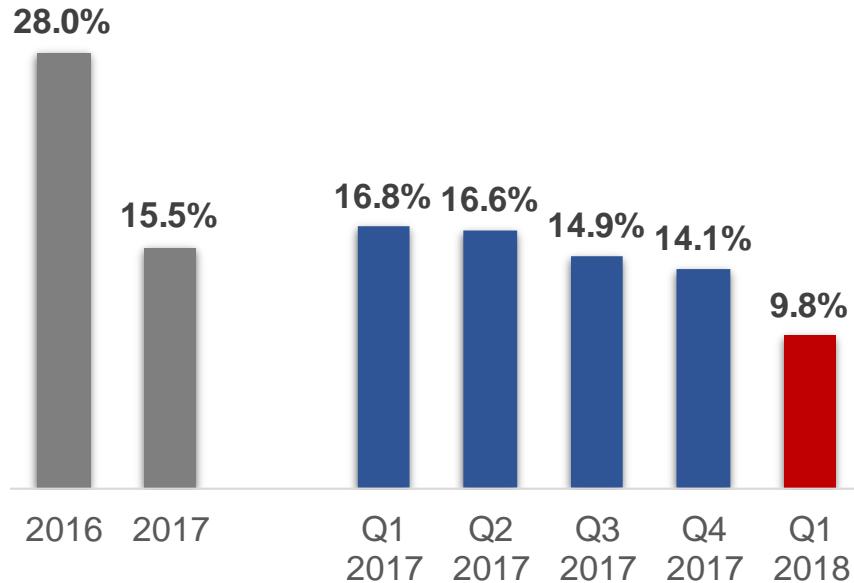
- same-store sales growth of 11.8% Y/Y on the back of continued strong performance from the Drive-Thru format, as well as a better performance of the restaurants located outside Bucharest;
- Average ticket was up 8.2% and transactions were up 3.3% in Q1-2018 vs Q1-2017;



Sales growth analysis

All-store performance

- All-store sales growth of 9.8% Y/Y, with a relatively uniform performance across quarters, of which 8.2pp was the contribution of the net 6 stores opened starting Jan-2016;



Same-store performance

- Same-store sales growth of 1.6% Y/Y, still reflecting a certain cannibalization impact from the stores opened since Jan-2017 (with 4 of the 6 net openings taking place in cities with existing Pizza Hut stores);
- Average ticket was up 7.6% and transactions were down 5.5% in Q1-2018 vs Q1-2017;





Development

Restaurant openings in Q1-2018

	Total stores BoY	Openings	Plan	Total stores EoP	New store locations
 KFC	72	3*	13	75	<ul style="list-style-type: none"> ▪ Romania: Bucharest (1x DT), Botosani (1x DT) ▪ Italy: 1x FC
 Pizza Hut	22	0	2	22	
 Pizza Hut Delivery	17	0	5	17	
 TACO BELL	2	0	3	2	
 S	113	3	23	116	

* All three restaurants opened in Q1-2018 were part of 2017 development plan.

KFC Bucharest Sun Plaza (DT)



KFC Botosani (DT)



KFC Italy - Villesse





Brand news

Q1-2018 highlights



- KFC focused on communicating value for Q1, successfully re-launching Smart Menu (full meal for 12.9 RON) and Ceva (*Something*) (value bundle for 5 RON) and maintaining strong same-store sales growth;
- Continuous activities to build KFC as a digital brand by making the story more relevant for the millennials: they could apply to an online “smart job” platform in order to gain experience and win prizes; the digital activation had c. 29k online participants that generated over 120k sessions;
- c. 4.5% price increase done in mid-February;

Delivery

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



Self-ordering kiosks

- Model and journey selected and customized for local market needs and specifications;
- Integrations with IT systems and bank's POS solution finalized
- Pilot kiosks to be implemented in selected locations;
- Expected roll-out by year-end





Q1-2018 highlights



- Pizza Hut started the year by communicating abundant value through its Pizza Festival all-you-can-eat signature campaign;
- The new menu designed by a well-known chef was introduced in selected stores with the aim of covering all stores by end of Q2;
- Pizza Hut Delivery experienced positive same-store sales growth in Q1 after launching Mix for 2, an abundant value campaign;
- Overall online orders exceeding 30% of delivery sales;
- c. 5% price increase done in mid-February;
- Taco Bell continued to use social media as its main brand awareness builder and launched a Monday offer to help value perception and boost sales;
- 2018 awards: ADC school of creativity - KFC client of the year; CSR awards - KFC & Pizza Hut for involvement in education; MomentUM media awards - Silver for KFC "Winter is not coming" campaign, best content creation

Q1-2018 campaigns





Financials



Pro forma financials

Note:

Q1-2018 pro forma results are identical to consolidated results

Q1-2017 pro forma results include ARS performance for the full period

Q1-2017 consolidated results do not include ARS performance



Statement of comprehensive income

- Pro forma sales up 22.5% 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 up 0.5% Y/Y, with margin down 3.4pp, especially on food and salary costs, as well as impact from new openings and new areas of business;
- G&A expenses up 16.7% Y/Y, but 0.3pp down to 7.3% of sales, driven mainly by head-office payroll expenses;
- EBITDA fell 3.9% Y/Y and EBITDA margin contracted 3.0pp to 11.1% of sales, virtually due to higher restaurant expenses;
- Net profit was 13.7% lower Y/Y and net profit margin fell by 3.0pp to 7.4% of sales.

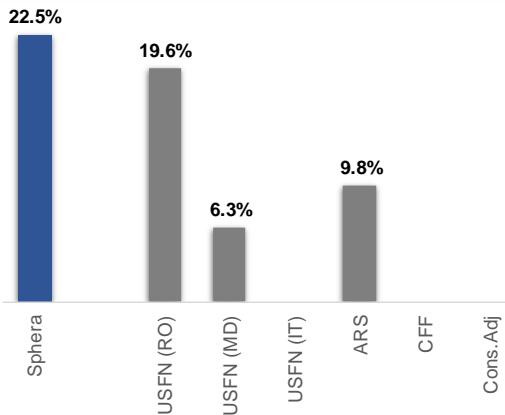
Data in RON'000	Mar-18	Mar-17	Y/Y%	% of Sales		
				2018/2017	Mar-18	Mar-17
Restaurant sales	170,232	138,970	22.5%			
Restaurant expenses	144,119	112,988	27.6%			
Food and material	61,909	49,138	26.0%	36.4%	35.4%	1.0%
Payroll and employee benefits	33,010	25,964	27.1%	19.4%	18.7%	0.7%
Rent	12,416	10,260	21.0%	7.3%	7.4%	-0.1%
Royalties	9,918	8,288	19.7%	5.8%	6.0%	-0.1%
Advertising	7,060	5,770	22.4%	4.1%	4.2%	0.0%
Other operating expenses, net	14,938	10,126	47.5%	8.8%	7.3%	1.5%
Depreciation and amortization	4,867	3,443	41.4%	2.9%	2.5%	0.4%
Restaurant operating profit	26,113	25,983	0.5%	15.3%	18.7%	-3.4%
General and administration expenses, net	12,350	10,586	16.7%	7.3%	7.6%	-0.4%
Operating profit	13,764	15,397	-10.6%	8.1%	11.1%	-3.0%
Finance costs	487	278	75.3%	0.3%	0.2%	0.1%
Finance income	183	131	39.4%	0.1%	0.1%	0.0%
Profit before tax	13,459	15,250	-11.7%	7.9%	11.0%	-3.1%
Income tax expense	910	705	29.1%	0.5%	0.5%	0.0%
Profit for the period	12,549	14,545	-13.7%	7.4%	10.5%	-3.1%
EBITDA	18,836	19,598	-3.9%	11.1%	14.1%	-3.0%



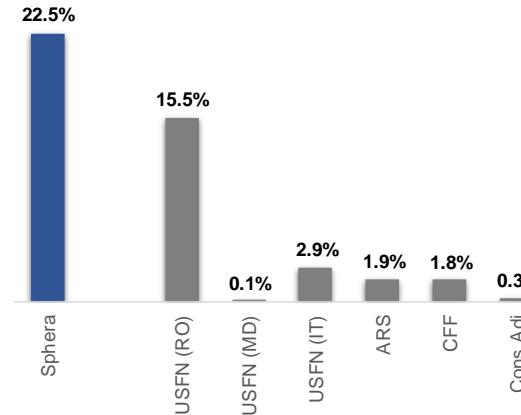
Breakdown of results by Group companies

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	131,007	29,962	2,188	4,123	2,544	5,949	(5,541)	170,232
Restaurant expenses	108,839	27,014	1,914	3,978	2,440	0	(67)	144,119
Food and material	50,363	8,452	954	1,215	975	0	(51)	61,909
Payroll and employee benefits	22,858	7,745	326	1,284	798	0	0	33,010
Rent	9,210	2,522	191	286	205	0	2	12,416
Royalties	7,821	1,670	130	246	51	0	0	9,918
Advertising	4,890	1,802	49	232	103	0	(15)	7,060
Other operating expenses, net	10,480	3,659	192	506	104	0	(3)	14,938
Depreciation and amortization	3,218	1,164	72	209	205	0	0	4,867
Restaurant operating profit	22,168	2,948	274	145	104	5,949	(5,474)	26,113
General and administration expenses, net	7,334	2,755	61	800	615	6,257	(5,474)	12,350
Operating profit	14,834	192	213	(656)	(512)	(308)	0	13,764
Finance costs	339	144	30	131	76	168	(401)	487
Finance income	455	46	5	0	0	78	(401)	183
Profit before tax	14,949	94	188	(787)	(587)	(398)	0	13,459
Income tax expense	732	347	19	(184)	28	(32)	0	910
Profit for the period	14,217	(252)	169	(603)	(615)	(367)	0	12,549
EBITDA	18,153	1,412	298	(447)	(307)	(273)	0	18,836

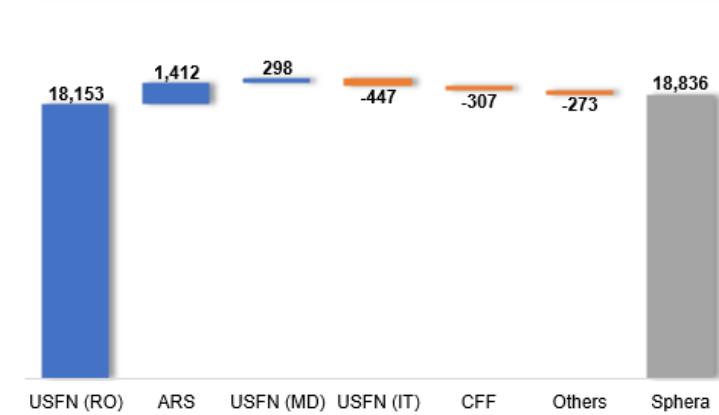
Y/Y Sales growth by companies



Contribution to Sales growth by companies



Contribution to EBITDA by companies



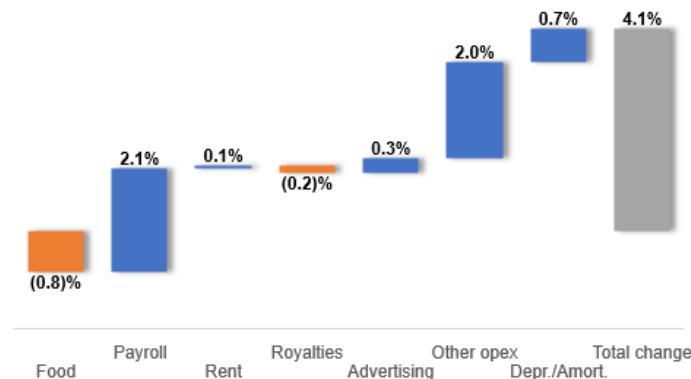


Restaurant operating expenses and margin

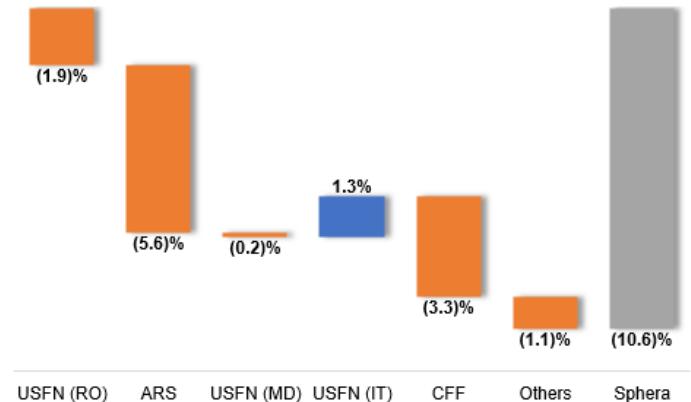
Data in RON'000	Mar-18	Mar-17	Y/Y%	% of Sales	
				2018/2017	Mar-18
Restaurant expenses	144,119	112,988	27.6%	84.7%	81.3%
Food and material	61,909	49,138	26.0%	36.4%	35.4%
Payroll and employee benefits	33,010	25,964	27.1%	19.4%	18.7%
Rent	12,416	10,260	21.0%	7.3%	7.4%
Royalties	9,918	8,288	19.7%	5.8%	6.0%
Advertising	7,060	5,770	22.4%	4.1%	4.2%
Other operating expenses, net	14,938	10,126	47.5%	8.8%	7.3%
Depreciation and amortization	4,867	3,443	41.4%	2.9%	2.5%
Restaurant operating profit	26,113	25,983	0.5%	15.3%	18.7%

- Operational expenses increased 27.6% Y/Y to RON 144.1m in Q1-2018,
- As percentage of sales, operational expenses increased by 3.4pp Y/Y to 84.7% in Q1-2018, of which:
 - By main areas of business:
 - +3.4pp was the combined effect of the changes in the restaurant expenses of KFC Romania and KFC Moldova (+1.6pp from cost of sales, +1.5pp from other operating expenses);
 - +0.5pp was the impact from ARS operations
 - (0.3)pp was the combined impact of our new KFC stores in Italy and Taco Bell stores;
 - By expense category:
 - +1.5pp from other operating expenses
 - +1.0pp from cost of food and materials
 - +0.7pp from payroll expenses
- Compared to Q4-2017, restaurant opex ratio fell 1.3pp, mainly attributed to lower advertising expenses; cost of food and cost of labor remained virtually unchanged, while other operating expenses increased by 1.1pp on expenses associated with the newer stores.

Contribution to change in restaurant opex ratio

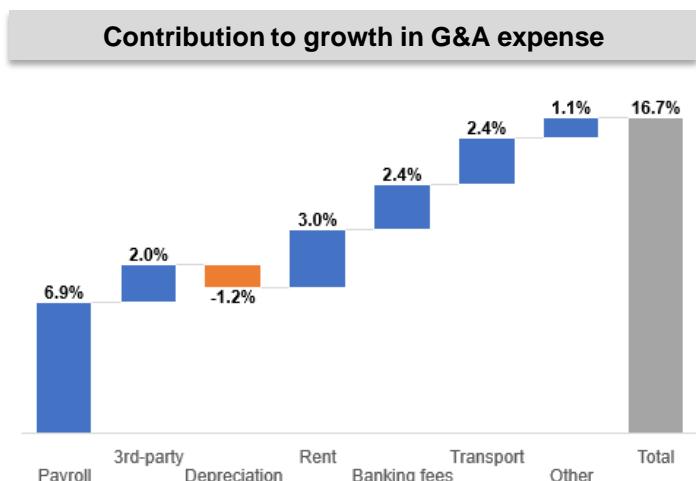


Contribution to change in restaurant profit



G&A expenses

Data in RON thousand	Mar-18	Mar-17	Change 2018/2017	Percentage of sales	
				Mar-18	Mar-17
General and administration expenses (net), of which:	12,350	10,586	16.7%	7.3%	7.6%
Payroll and employee benefits	6,828	6,098	12.0%		
Third-party services	2,405	2,191	9.8%		
Depreciation and amortization	205	334	-38.6%		
Rent	738	418	76.6%		
Banking charges	635	383	65.8%		
Transport	742	483	53.8%		
Other expenses	797	680	17.2%		



- General and administration expenses increased 16.7% Y/Y to RON 12.3 million in Q1-2018 (7.3% of sales, up from 7.6% in Q1-2017).
 - The main contributor to the G&A growth was payroll (up 12.0% Y/Y), which accounted for 6.9pp of the total growth rate;



Consolidated financials



Statement of comprehensive income

- Consolidated sales up 52.4% Y/Y on strong performance from KFC Romania (+19.6% Y/Y), while the consolidation of ARS (Pizza Hut restaurants), starting with June 2017, contributed 26.8pp in the consolidated sales growth rate;
- Restaurant operating profit up 20.0% Y/Y, with margin down 4.2pp, especially on salary costs and impact from new openings and new areas of business;
- G&A expenses up 69.9% Y/Y, up 0.7pp to 7.3% of sales, driven mainly by the consolidation of ARS and the KFC Italy and Taco Bell operations;
- EBITDA advanced 9.3% Y/Y and EBITDA margin contracted 4.3pp to 11.1%, mainly due to higher restaurant expenses;
- Net profit was 10.9% lower Y/Y and net profit margin fell by 5.2pp to 7.4%.

Data in RON'000	Mar-18	Mar-17	Y/Y%	% of Sales		
				2018/2017	Mar-18	Mar-17
Restaurant sales	170,232	111,726	52.4%			
Restaurant expenses	144,119	89,963	60.2%	84.7%	80.5%	4.1%
Food and material	61,909	41,566	48.9%	36.4%	37.2%	-0.8%
Payroll and employee benefits	33,010	19,300	71.0%	19.4%	17.3%	2.1%
Rent	12,416	8,071	53.8%	7.3%	7.2%	0.1%
Royalties	9,918	6,687	48.3%	5.8%	6.0%	-0.2%
Advertising	7,060	4,317	63.5%	4.1%	3.9%	0.3%
Other operating expenses, net	14,938	7,587	96.9%	8.8%	6.8%	2.0%
Depreciation and amortization	4,867	2,436	99.8%	2.9%	2.2%	0.7%
Restaurant operating profit	26,113	21,763	20.0%	15.3%	19.5%	-4.1%
General and administration expenses, net	12,350	7,270	69.9%	7.3%	6.5%	0.7%
Operating profit	13,764	14,493	-5.0%	8.1%	13.0%	-4.9%
Finance costs	487	141	245.1%	0.3%	0.1%	0.2%
Finance income	183	93	97.6%	0.1%	0.1%	0.0%
Profit before tax	13,459	14,445	-6.8%	7.9%	12.9%	-5.0%
Income tax expense	910	355	156.8%	0.5%	0.3%	0.2%
Profit for the period	12,549	14,090	-10.9%	7.4%	12.6%	-5.2%
EBITDA	18,836	17,230	9.3%	11.1%	15.4%	-4.4%



Statement of financial position

Data in RON'000	31-Mar-18	31-Dec-17
Assets		
Non-current assets	180,192	176,123
Property, plant and equipment	108,305	105,220
Intangible assets	67,938	67,471
Deposits for rent guarantee	1,606	1,288
Deferred tax assets	2,343	2,144
Current assets	66,310	73,291
Inventories	8,185	8,509
Trade and other receivables	9,779	8,454
Prepayments	3,757	3,673
Cash and short-term deposits	44,588	52,655
Assets held for sale	195	195
Total assets	246,697	249,609

Data in RON'000	31-Mar-18	31-Dec-17
Equity and liabilities		
Total equity	117,114	104,544
Equity attributable to equity holders of the parent	117,059	104,525
Issued capital	581,990	581,990
Share premium	(0)	(520,578)
Other capital reserves	55,705	-
Retained earnings	(520,578)	43,191
Foreign currency translation reserve	(59)	(78)
Non-controlling interests	55	19
Non-current liabilities	40,975	42,190
Interest-bearing loans and borrowings	38,419	39,520
Trade and other payables	2,557	2,670
Current liabilities	88,607	102,874
Trade and other payables	62,800	77,682
Interest-bearing loans and borrowings	25,808	25,192
Total liabilities	129,583	145,064
Total equity and liabilities	246,697	249,608