



Sphera Franchise Group

Interim results: Jan-Mar 2019





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



All-store sales up 26.2% with same-store sales growth of 7.3%

- Same-store double-digit growth from KFC, mixed performance of Pizza Hut, normal sales corrections for Taco Bell and KFC Italy

Total store openings: none; 4 stores opened until 15-May; on track to deliver full-year target; network size 138 @ 31st March 2019 and 142 @ 14th May 2019

Strong Operational performance with all brands performing well in league tables measuring operational metrics and customer feedback

KFC continuing to drive new sales channels with roll out of delivery to new stores continuing whilst presence in retail through garlic sauce initiative increasing

Pizza Hut Dine In business performance improvement started in Q3/Q4 2018 continued in Q1 2019 whilst delivery business, although still negative, is starting to see projected slow top line improvement towards the end of the quarter, helped in part by starting collaboration with aggregators

Italy performance consolidating with number of stores being developed for Q2 opening. New Marketing Co-Op established with Yum with key representation on the Ad-Board to take increasing ownership and involvement in Co-Op strategic thinking and promotional execution. Taco Bell launched first value promotion with strong sales mix and 2 new stores prepared for Q2 opening

New CEO George Argentopoulos and new CFO Valentin Budes joined Sphera at the beginning of May

▪ Interim results

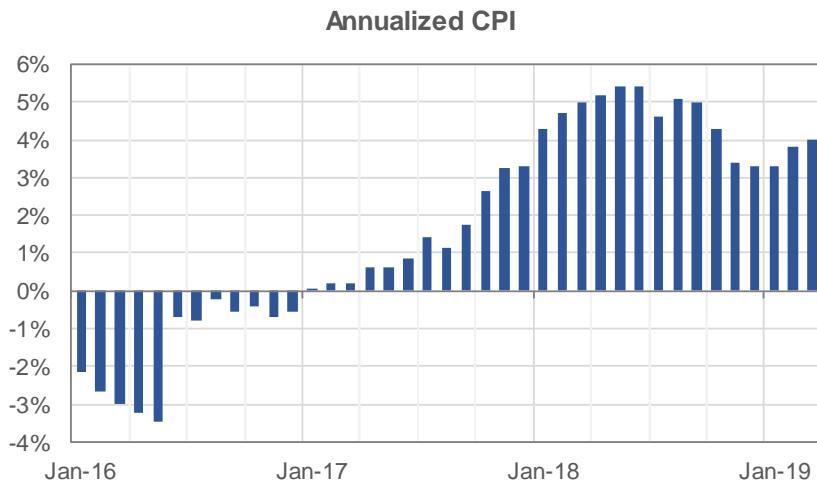
	Q1-2019		
	RONm	Y/Y*	Margin
▪ Sales	191.9	+26.1%	
▪ Restaurant profit	22.8	-12.7%	10.6%
▪ EBITDA	27.1	+43.7%	12.6%
▪ Net Profit	1.3	-89.8%	0.6%

Significant impact from the adoption of IFRS 16
Impact on margins

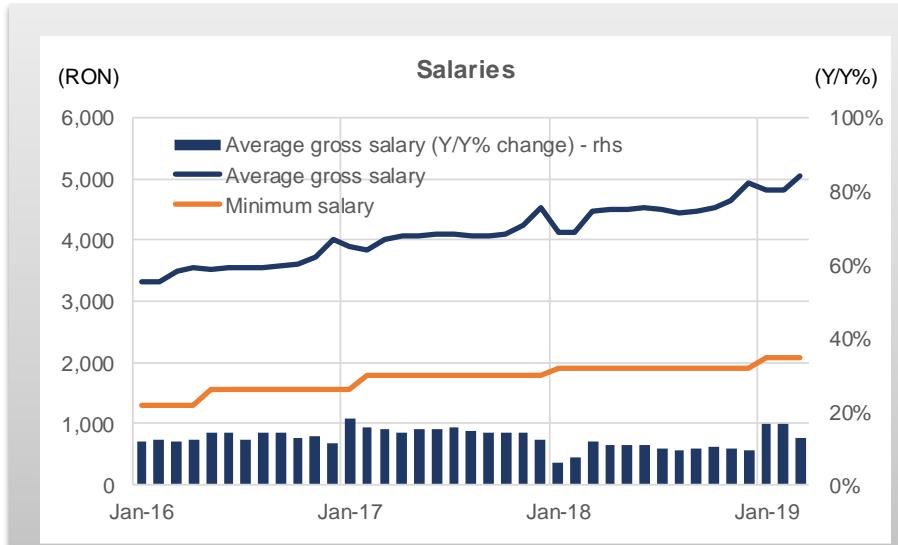
+0.5pp
+5.4pp
-1.8pp



Retail sales easing further as CPI resumes growth



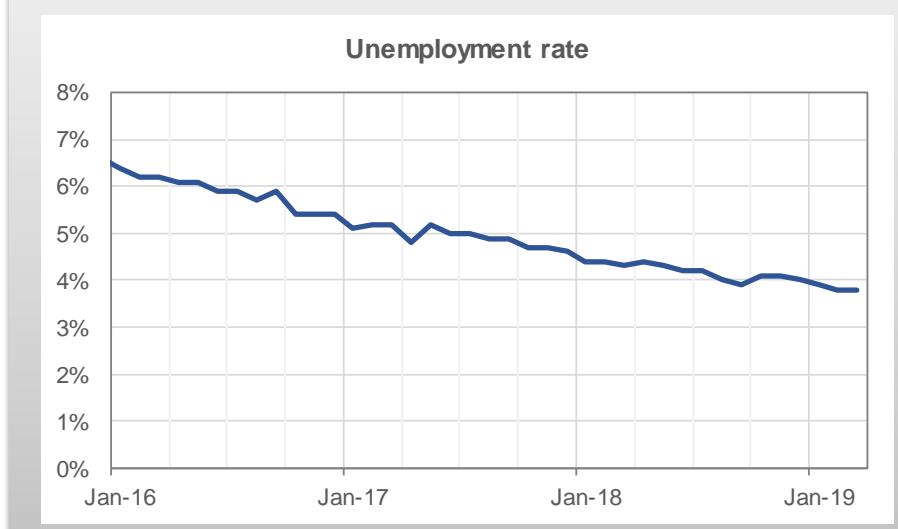
- CPI resumed growth in Q1, reaching 4.0% in Mar-2019



- Minimum salary up 9.5% and average salary up 15.3% in Q1-2019



- Retail sales Y/Y growth slows down to 3.1% in Q1-2019



- Unemployment rate hit a minimum record of 3.8% in Mar-19



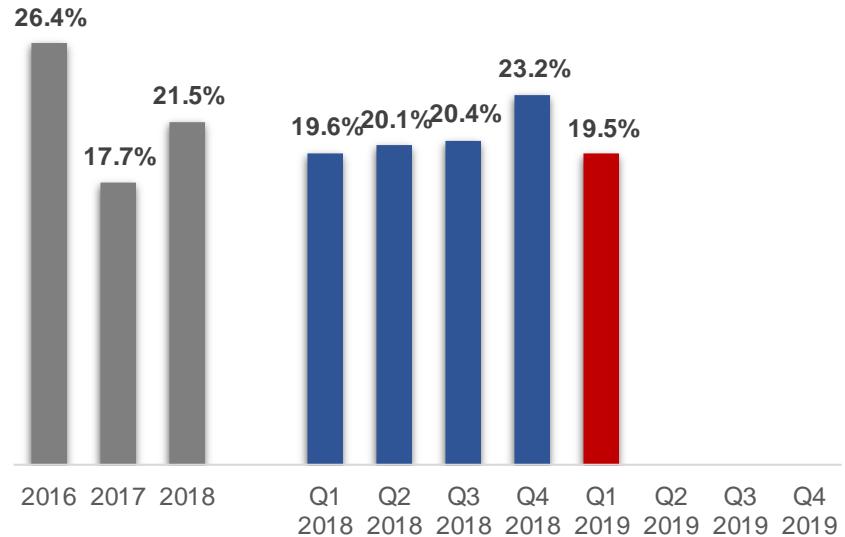
Sales performance by brands



Sales growth analysis

All-store performance

- All-store sales growth of 19.5% Y/Y in Q1-2019 supported mainly by same-store growth of 10.9%;
- The 8 net openings (since Jan-2018) contributed 8.6pp to the Y/Y growth in Q1-2019, six of these openings were in new cities.



Same-store performance

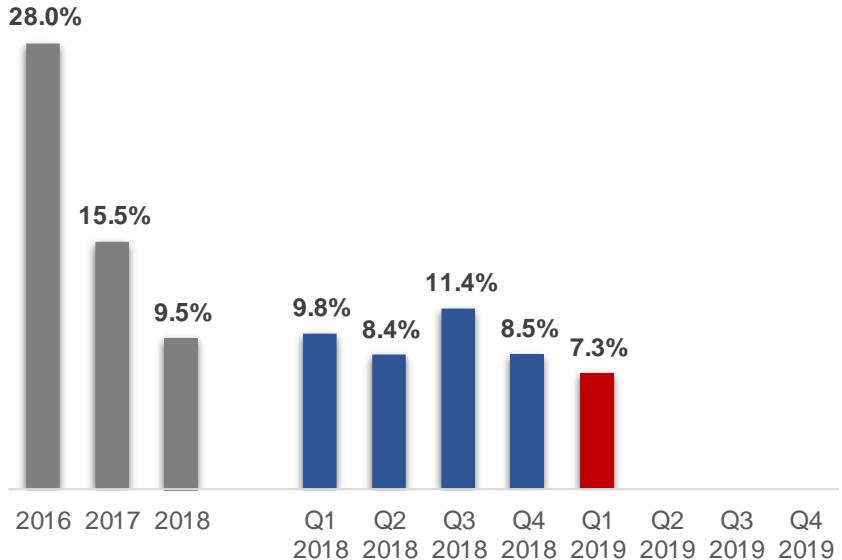
- Same-store sales growth of 10.9% Y/Y in Q1-2019 on the back of continued strong performance from the Drive-Thru format, as well as a better performance of the restaurants located outside Bucharest;
- Delivery effective in 21 stores during Q1-2019 with increasing impact on sales growth
- Average ticket was up 11.9% and transactions fell 0.9% in Q1-2019 vs Q1-2018.



Sales growth analysis

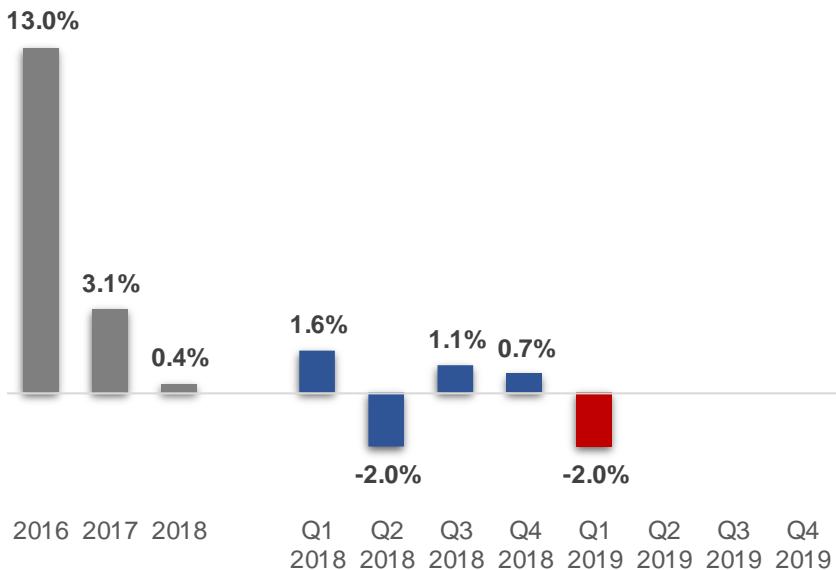
All-store performance

- All-store sales growth of 7.3% Y/Y in Q1-2019, driven by the 6 stores opened starting Jan-2018 (of which 3 in existing cities);



Same-store performance

- Same-store sales fell 2% Y/Y in Q1-2019, with an improving performance from the Dine-In format being offset by weaker Delivery sales;
- Average ticket was up 9.1% and transactions were down 10.2% in Q1-2019 vs Q1-2018.





Development

Restaurant openings in 2019

	Total stores BoY	Openings Q1-2019	Total stores end-2019	2019 Plan	QTD ¹⁾ openings
 KFC	78	0	78	8	1
 KFC	10	0	10	10	1
 Pizza Hut	23	0	23	0	0
 Pizza Hut	22	0	22	1	0
 TACO BELL	5	0	5	5	2
 Stylized S	138	0	138	24	4



Brand news

Q1-2019 highlights



- KFC concentrated its communication on value for Q1, successfully re-launching Smart Menu (a full meal for 13.9 RON) and Ceva (*Something*) (value bundle for 5 RON) and maintaining double-digit sales growth for the 6th consecutive year;
- The brand continued its digital journey by launching a chatbot which will have different roles throughout the year, during Jan-Feb it taught users basic economic principles so they can save money and afford a Smart Menu; in March, a new series for the social entertainment channel was launched, promoting Ceva and reaching millions of people in the target group;
- In an effort to help the environment, we discontinued the plastic straws in our stores and introduced paper ones with the aim to remove all non-recyclable packaging by 2025.

Garlic sauce in retail

- Discussions with various retailers to launch the 325 g sauce as a permanent product were successful
- We are now present on the shelves of major players like Carrefour, Kaufland and Auchan



Self-ordering kiosks & digital menu boards

- Roll-out of kiosks completed in 12 stores
- Roll-out of digital menu-boards completed in 48 stores

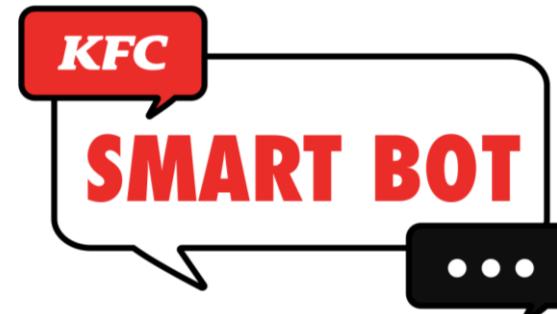


Q1-2019 highlights



- Pizza Hut started the year by communicating abundant value through its Pizza Festival all-you-can-eat signature campaign, under the re-positioning tagline “*a little crazier, just a little*” and enjoyed positive sales growth;
- The new menu launched by Pizza Hut last year was communicated as a second layer in order to attract new clients and enjoyed a high sales mix and positive consumer feedback;
- Pizza Hut Delivery launched Mix for 2, an abundant value campaign with a distinctive communication message; despite efforts to reverse the negative sales trend triggered by increased competition of the delivery segment, the brand did not enjoy a strong quarter;
- Overall online orders exceeding 40% of delivery sales, part of the percentage coming through aggregator platforms;
- The brand focused its communication in existing stores on innovation by launching a new taco, with the aim of creating favorability & differentiation while reinforcing the belief that Taco Bell is the expert in tacos;
- 2019 Q1 award: BIZ Social Media Awards – excellence award for innovation in social video content communication for the launch of KFC Social Entertainment Chanel

Q1-2019 campaigns





Financials

Statement of comprehensive income

- Sales up 26.1% Y/Y on strong performance from KFC Romania/Moldova (+19.6% Y/Y, 15.0pp contribution), with significant contribution from KFC Italy (7.7pp) and increasing contributions from the new businesses (KFC Italy and Taco Bell);
- Restaurant operating profit down 12.7% Y/Y, with margin down 4.7pp, especially on labour and other operating expenses, while cost of food improved;
- G&A expenses up 5.0% Y/Y, reaching 6.0% of sales (down 1.2pp Y/Y);
- EBITDA up 43.7% Y/Y, with EBITDA margin up 1.5pp to 12.6% of sales, mainly due to adoption of IFRS 16 as well as to lower G&A expenses;
 - excluding KFC Italy and Taco Bell, EBITDA margin would have been 2.1pp higher Y/Y at 14.1% of sales;
- Net profit down 89.8% Y/Y, with net profit margin down 6.8pp to 0.6% of sales, due to the incremental finance cost (especially forex depreciation) as a result of IFRS 16 adoption).

Data in RON'000	Mar-19	Mar-18	Y/Y%	% of Sales		
				2019/2018	Mar-19	Mar-18
Restaurant sales	214,725	170,232	26.1%			
Restaurant expenses	191,931	144,119	33.2%	89.4%	84.7%	4.7%
Food and material	77,186	61,909	24.7%	35.9%	36.4%	-0.4%
Payroll and employee benefits	49,101	33,010	48.7%	22.9%	19.4%	3.5%
Rent	4,682	12,416	-62.3%	2.2%	7.3%	-5.1%
Royalties	12,632	9,918	27.4%	5.9%	5.8%	0.1%
Advertising	9,336	7,060	32.2%	4.3%	4.1%	0.2%
Other operating expenses, net	22,829	14,938	52.8%	10.6%	8.8%	1.9%
Depreciation and amortization	16,166	4,867	232.2%	7.5%	2.9%	4.7%
Restaurant operating profit	22,794	26,113	-12.7%	10.6%	15.3%	-4.7%
General and administration expenses, net	12,968	12,350	5.0%	6.0%	7.3%	-1.2%
Operating profit	9,826	13,764	-28.6%	4.6%	8.1%	-3.5%
Finance costs	7,447	487	1428.1%	3.5%	0.3%	3.2%
Finance income	18	183	-90.3%	0.0%	0.1%	-0.1%
Profit before tax	2,397	13,459	-82.2%	1.1%	7.9%	-6.8%
Income tax expense	1,122	910	23.2%	0.5%	0.5%	0.0%
Profit for the period	1,275	12,549	-89.8%	0.6%	7.4%	-6.8%
EBITDA	27,075	18,836	43.7%	12.6%	11.1%	1.5%

Impact of IFRS 16 - Leases on Q1-2019 results

- Starting 1 January 2019, Sphera applied IFRS 16 that sets out the principles for the recognition, measurement, presentation and disclosure of leases. Sphera uses the modified retrospective approach for this transition, thus not restating comparative amounts for the comparative periods presented;
- At the commencement date of a lease, a lessee recognises a **liability** to make lease payments (i.e., the lease liability) and an **asset** representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognise the **interest expense** on the lease liability and the **depreciation expense** on the right-of-use asset;
- In Q1-2019, following the adoption of IFRS 16, Sphera recognized additional depreciation expense of RON 10.4m (4.9% of sales) and finance cost of RON 5.0m (2.3% of sales) – of which RON 3.4m in forex expenses related to the revaluation of FCY-denominated lease liability (c. EUR 39m); concomitantly, rent expenses were reduced by RON 11.6m (5.4% of sales);
- As a result, EBITDA margin was increased by 5.4pp to 12.6%, while net profit fell by 1.8pp to 0.6% (of which 1.6pp represents unrealized forex losses).

Data in RON'000	% of Sales		
	Including impact of IFRS 16	Excluding impact of IFRS 16	Impact of IFRS 16 adoption
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Restaurant sales	214,725	214,725	0
Restaurant expenses	191,931	192,921	(990)
Food and material	77,186	77,186	0
Payroll and employee benefits	49,101	49,101	0
Rent	4,682	15,491	(10,810)
Royalties	12,632	12,632	0
Advertising	9,336	9,336	0
Other operating expenses, net	22,829	22,739	90
Depreciation and amortization	16,166	6,437	9,729
Restaurant operating profit	22,794	21,804	990
General and administration expenses, net	12,968	13,087	(119)
Operating profit	9,826	8,717	1,110
Finance costs	7,447	2,455	4,992
Finance income	18	18	0
Profit before tax	2,397	6,279	(3,882)
Income tax expense	1,122	1,149	(27)
Profit for the period	1,275	5,131	(3,855)
EBITDA	27,075	15,540	11,535

Statement of comprehensive income (excluding impact of IFRS 16 adoption)

- Sales up 26.1% Y/Y on strong performance from KFC Romania/Moldova (+19.6% Y/Y, 15.0pp contribution), with significant contribution from KFC Italy (7.7pp) and increasing contributions from the new businesses (KFC Italy and Taco Bell);
- Restaurant operating profit down 16.5% Y/Y, with margin down 5.2pp, especially on labour and other operating expenses, while cost of food improved;
- G&A expenses up 6.0% Y/Y, reaching 6.1% of sales (down 1.2pp Y/Y);
- EBITDA down 17.5% Y/Y, with EBITDA margin contracting 3.8pp to 7.2% of sales, helped by lower G&A expenses;
 - excluding KFC Italy and Taco Bell, EBITDA margin would have been 3.1pp lower Y/Y at 8.9% of sales;
- Net profit down 59.1% Y/Y, with net profit margin down 5.0pp to 2.4% of sales.

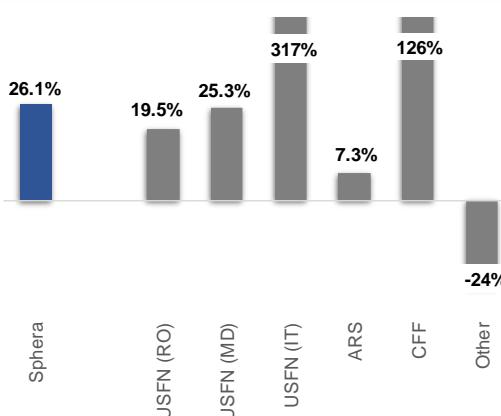
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Payroll and employee benefits	49,101	33,010	48.7%	22.9%	19.4%	3.5%
Rent	15,491	12,416	24.8%	7.2%	7.3%	-0.1%
Royalties	12,632	9,918	27.4%	5.9%	5.8%	0.1%
Advertising	9,336	7,060	32.2%	4.3%	4.1%	0.2%
Other operating expenses, net	22,739	14,938	52.2%	10.6%	8.8%	1.8%
Depreciation and amortization	6,437	4,867	32.3%	3.0%	2.9%	0.1%
Restaurant operating profit	21,804	26,113	-16.5%	10.2%	15.3%	-5.2%
General and administration expenses, net	13,087	12,350	6.0%	6.1%	7.3%	-1.2%
Operating profit	8,717	13,764	-36.7%	4.1%	8.1%	-4.0%
Finance costs	2,455	487	403.8%	1.1%	0.3%	0.9%
Finance income	18	183	-90.3%	0.0%	0.1%	-0.1%
Profit before tax	6,279	13,459	-53.3%	2.9%	7.9%	-5.0%
Income tax expense	1,149	910	26.2%	0.5%	0.5%	0.0%
Profit for the period	5,131	12,549	-59.1%	2.4%	7.4%	-5.0%
EBITDA	15,540	18,836	-17.5%	7.2%	11.1%	-3.8%



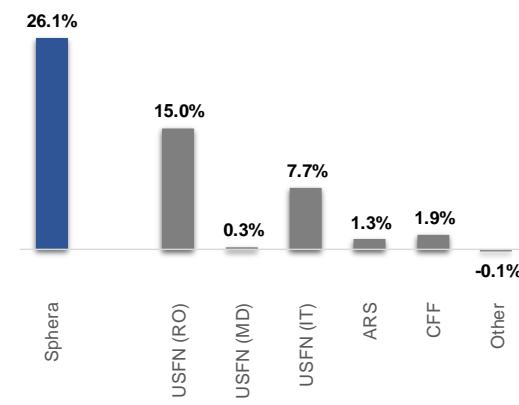
Breakdown of results by Group companies

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	156,561	32,157	2,742	17,203	5,750	6,123	(5,812)	214,725
Restaurant expenses	135,151	31,075	2,186	17,953	5,580	0	(14)	191,931
Food and material	60,239	8,541	1,063	5,221	2,123	0	0	77,186
Payroll and employee benefits	31,146	10,202	407	5,727	1,620	0	0	49,101
Rent	4,292	204	20	95	71	0	0	4,682
Royalties	9,383	1,903	165	1,029	152	0	0	12,632
Advertising	5,982	2,124	75	973	197	0	(15)	9,336
Other operating expenses, net	14,740	4,350	219	2,857	663	0	0	22,829
Depreciation and amortization	9,370	3,752	237	2,052	755	0	0	16,166
Restaurant operating profit	21,410	1,082	556	(750)	170	6,123	(5,798)	22,794
General and administration expenses, net	7,336	2,355	72	1,337	814	6,852	(5,798)	12,968
Operating profit	14,074	(1,273)	484	(2,086)	(643)	(729)	(0)	9,826
Finance costs	4,938	1,410	98	902	531	678	(1,110)	7,447
Finance income	670	3	0	0	0	455	(1,110)	18
Profit before tax	9,807	(2,681)	386	(2,989)	(1,174)	(952)	(0)	2,397
Income tax expense	971	391	73	(512)	43	154	0	1,122
Profit for the period	8,835	(3,072)	312	(2,476)	(1,218)	(1,106)	(0)	1,275
EBITDA	23,999	2,528	730	(28)	149	(303)	(0)	27,075

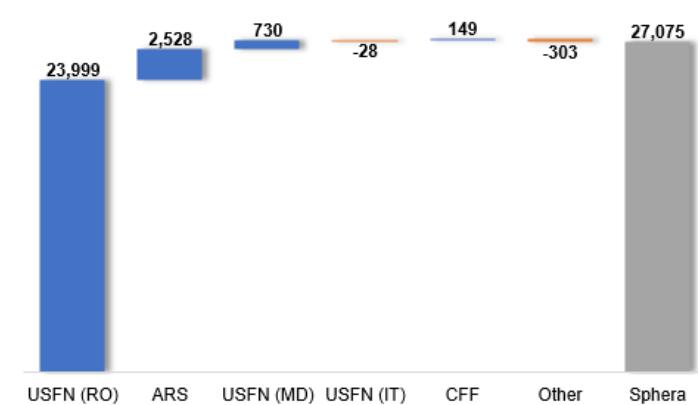
Y/Y Sales growth by companies



Contribution to Sales growth by companies



Contribution to EBITDA by companies

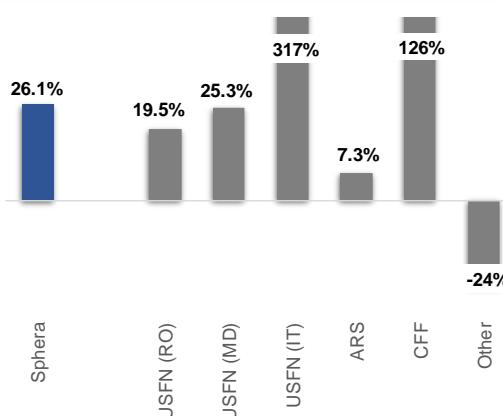




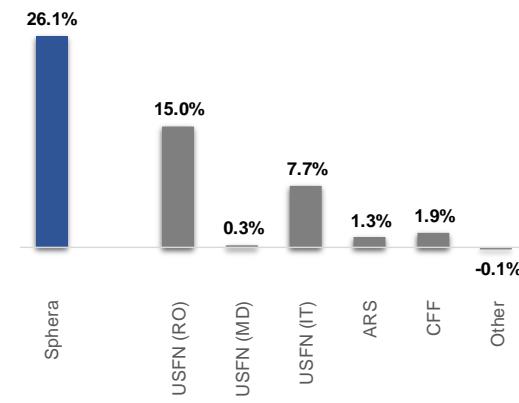
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Restaurant expenses	135,853	31,156	2,195	18,067	5,663	0	(14)	192,921
Food and material	60,239	8,541	1,063	5,221	2,123	0	0	77,186
Payroll and employee benefits	31,146	10,202	407	5,727	1,620	0	0	49,101
Rent	10,819	2,688	194	1,114	676	0	0	15,491
Royalties	9,383	1,903	165	1,029	152	0	0	12,632
Advertising	5,982	2,124	75	973	197	0	(15)	9,336
Other operating expenses, net	14,650	4,350	219	2,857	663	0	0	22,739
Depreciation and amortization	3,635	1,349	72	1,148	234	0	0	6,437
Restaurant operating profit	20,708	1,001	547	(864)	87	6,123	(5,798)	21,804
General and administration expenses, net	7,370	2,389	72	1,346	824	6,882	(5,798)	13,087
Operating profit	13,338	(1,389)	474	(2,210)	(737)	(759)	(0)	8,717
Finance costs	1,412	673	27	657	314	482	(1,110)	2,455
Finance income	670	3	0	0	0	455	(1,110)	18
Profit before tax	12,596	(2,059)	447	(2,868)	(1,051)	(786)	(0)	6,279
Income tax expense	971	391	73	(512)	43	182	0	1,149
Profit for the period	11,625	(2,451)	374	(2,355)	(1,095)	(968)	(0)	5,131
EBITDA	17,100	9	556	(1,057)	(466)	(602)	(0)	15,540

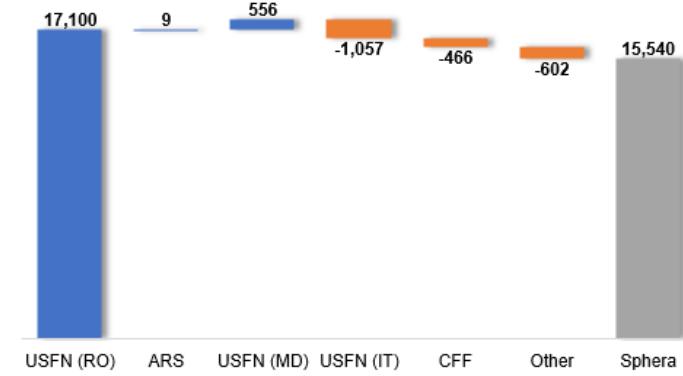
Y/Y Sales growth by companies



Contribution to Sales growth by companies



Contribution to EBITDA by companies

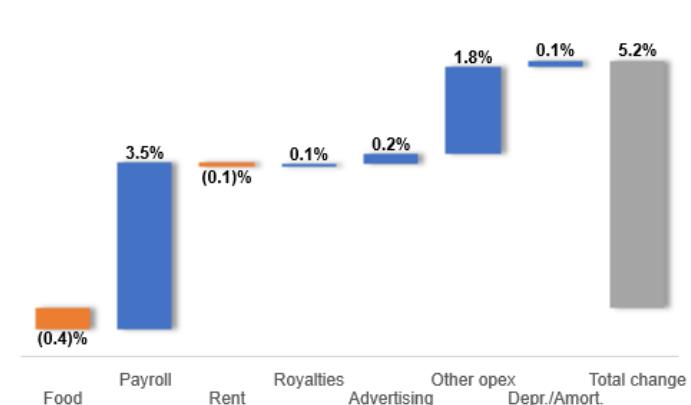


Restaurant operating expenses and margin

Including the impact of IFRS 16 adoption

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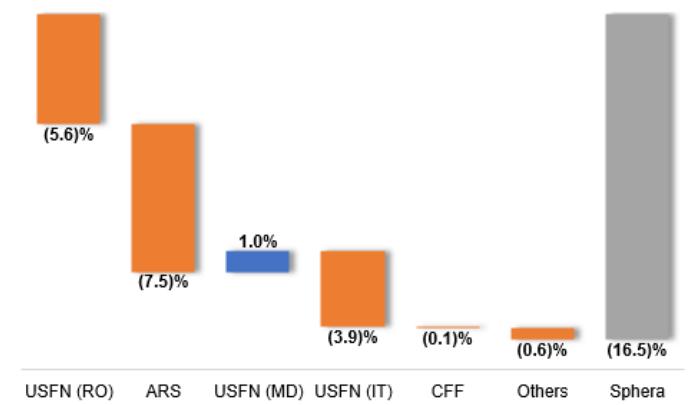
Contribution to change in restaurant opex ratio*



Excluding the impact of IFRS 16 adoption

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Contribution to change in restaurant profit*



*) Excluding the impact of IFRS 16 adoption

- Excluding the impact of IFRS adoption, operational expenses increased 33.9% Y/Y to RON 192.9m in Q1-2019;
- As percentage of sales, operational expenses increased by 5.2pp Y/Y to 89.8% in Q1-2019, of which:
 - +3.5pp from payroll expenses
 - +1.8pp from other operating expenses
 - 0.4pp from cost of food and materials

G&A expenses

Including the impact of IFRS 16 adoption

Data in RON'000	Mar-19	Mar-18	Y/Y%		% of Sales	
			2019/2018		Mar-19	Mar-18
General and administration expenses (net), of which:	12,968	12,349	5.0%		6.0%	7.3%
Employee benefits	7,276	6,828	6.5%			
Third-party expenses	2,016	2,405	-16.2%			
Depreciation	1,083	205	427.4%			
Rent	99	762	-87.0%			
Banking charges	819	635	29.0%			
Transport	974	742	31.4%			
Other expenses	700	772	-9.3%			

Excluding the impact of IFRS 16 adoption

Data in RON'000	Mar-19	Mar-18	Y/Y%		% of Sales	
			2019/2018		Mar-19	Mar-18
General and administration expenses (net), of which:	13,087	12,349	6.0%		6.1%	7.3%
Employee benefits	7,276	6,828	6.5%			
Third-party expenses	2,016	2,405	-16.2%			
Depreciation	386	205	88.3%			
Rent	915	762	20.0%			
Banking charges	819	635	29.0%			
Transport	974	742	31.4%			
Other expenses	700	772	-9.3%			

Contribution to growth in G&A expense*



*) Excluding the impact of IFRS 16 adoption

- Excluding the impact of IFRS adoption, G&A ratio improved 1.2pp Y/Y to 6.1% of sales (RON 13.1 million), mainly on slower growth in payroll expenses and a reduction in third-party expenses;



Statement of financial position

Data in RON'000	31-Mar-19	31-Dec-18	Change	Excluding	
				impact of IFRS 16 adoption	Impact of IFRS 16 adoption
Assets					
Non-current assets	422,171	229,173	192,998		
Property, plant and equipment	347,339	158,122	189,217	164,097	183,242
Intangible assets	63,399	62,150	1,249	63,399	-
Deposits for rent guarantee	7,306	5,219	2,087	7,306	-
Deferred tax assets	4,128	3,682	446	4,101	27
Current assets	101,975	122,979	(21,004)	104,993	(3,019)
Inventories	9,755	10,564	(809)	9,756	(1)
Trade and other receivables	23,207	16,444	6,763	23,207	-
Prepayments	2,074	5,306	(3,232)	5,092	(3,018)
Cash and short-term deposits	66,939	90,665	(23,727)	66,939	-
Assets held for sale	-	-	-	-	-
Total assets	524,146	352,152	171,994	343,895	180,251
Equity and liabilities					
Total equity	133,233	128,825	4,407	133,847	(614)
Equity attributable to equity holders of the parent	132,970	128,679	4,291	133,619	(649)
Issued capital	581,990	581,990	-	581,990	-
Share premium	(520,578)	(520,578)	-	(520,578)	-
Retained earnings	71,641	67,247	4,394	72,304	(663)
Foreign currency translation reserve	(83)	20	(103)	(97)	14
Non-controlling interests	263	146	117	228	35
Non-current liabilities	233,984	91,536	142,447	84,723	149,260
Interest-bearing loans and borrowings	84,259	86,787	(2,528)	84,430	(171)
Finance lease liabilities	149,724		149,724		149,724
Trade and other payables		4,749	(4,749)	293	(293)
Current liabilities	156,930	131,790	25,140	125,325	31,605
Trade and other payables	69,110	82,658	(13,549)	73,814	(4,705)
Interest-bearing loans and borrowings	39,922	37,669	2,253	40,048	(127)
Finance lease liabilities	36,437		36,437		36,437
Provisions	11,463	11,463	(0)	11,463	(0)
Total liabilities	390,914	223,327	167,587	210,049	180,865
Total equity and liabilities	524,146	352,152	171,994	343,895	180,251