



S P H E R A



Sphera Franchise Group

Analyst Call | H1 2020 Results



UN PiC
MĂI APROAPE,
DOAR UN PiC



This presentation is not, and nothing in it should be construed as, an offer, invitation or recommendation in respect of shares issued by Sphera Franchise Group SA ("Sphera"), or an offer, invitation or recommendation to sell, or a solicitation of an offer to buy shares in Sphera.

Neither this presentation nor anything in it shall form the basis of any contract or commitment. This presentation is not intended to be relied upon as advice or recommendation to investors or potential investors and does not take into account the investment objectives, financial situation or needs of any investor.

All investors should consider this presentation in consultation with a professional advisor of their choosing when deciding if an investment is appropriate.

Sphera has prepared this presentation based on information available to it, including information derived from public sources that have not been independently verified. No representation or warranty, express or implied, is provided in relation to the fairness, accuracy, correctness, completeness or reliability of the information, opinions or conclusions expressed herein.

This presentation should not be considered a comprehensive representation of Sphera's business, financial performance or results.

This presentation may contain forward-looking statements. These statements reflect Sphera's current knowledge and its expectations and projections about future events and may be identified by the context of such statements or words such as "anticipate," "believe", "estimate", "expect", "intend", "plan", "project", "target", "may", "will", "would", "could" or "should" or similar terminology.

Sphera undertakes no obligation to update or revise these forward-looking statements to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events. Inevitably, some assumptions may not materialize, and un-anticipated events and circumstances may affect the ultimate financial results. Projections are inherently subject to substantial and numerous uncertainties and to a wide variety of significant business, economic and competitive risks.

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

Welcome to SFG's H1 2020 Analyst Call – Presenters



Anastasios Tzoulas
Vice-Chairman of the Board



Calin Ionescu
Interim CEO



Valentin Budes
CFO



Monica Eftimie
CMO



Zuzanna Kurek
IR



- 1 H1 2020 Highlights
- 2 COVID-19 Response
- 3 Brand Performances
- 4 Key H1 2020 Financials
- 5 Q3 2020 Gradual Recovery
- 6 Q&A session

For further details

We invite you to read the Full Director's report which includes analysis of financial results, details our response to COVID-19 crisis as well as provides key risks as foreseen by management for H2 2020. You can access the H1 2020 report at www.spheragroup.com, Investor Relations section.

In case of any follow-up questions please do not hesitate to contact us at investor.relations@spheragroup.com.



H1 2020 Highlights



Swift response helped close H1 2020 performance well-above the RO market average

- In COVID-19 context, HoReCa industry was hit the hardest as it faced direct cease-of-operations order from authorities.
- Romanian Hotels and Restaurant Association, HORA announced that in H1 2020 the revenues of sector dropped by 70% compared to H1 2019; 40% of operators suspended their activity.

Amid lock-down on all markets on activity, April 2020 registered the weakest performance. Recovery since.

- As expected, and communicated on 14.05.2020 (Q1 results), Q2 took the hardest hit: -54% in sales compared to Q2-2019.
- Sales in April plunged but gradual increases were recorded since May until today. Management expects gradual recovery in Q3 and Q4 unless other lockdowns are ordered or unexpected negative evolution occurs.

Focus on cost-optimization in Q2 2020, to be continued throughout H2 2020

- Sales dropped by 31.6% compared to H1 2019, nonetheless the Group managed to maximize financial results in COVID-19 context by swiftly adjusting business model.
- Key measures taken in COVID-19 context in Q2 2020:
 - operational focus on containing operational expenses (incl. restaurant and G&A) and cash drains;
 - financial focus on enhancing short-term liquidity;
 - strategic & marketing focus to boost revenues through delivery and collaboration with food aggregators.

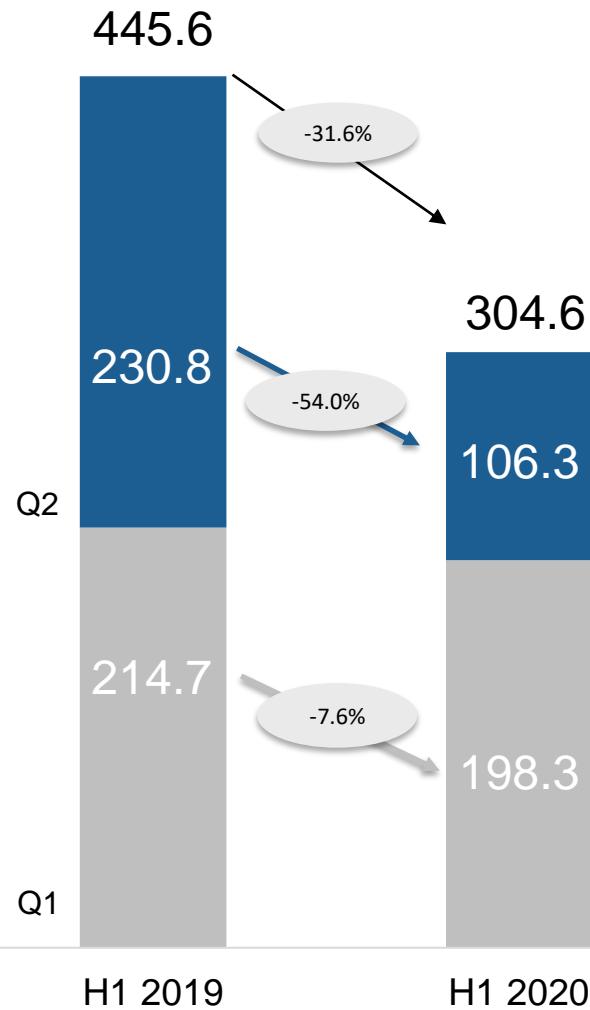
Positive signs of gradual recovery thus far in Q3 2020

- Estimated results from July & August presented by the management alongside H1 2020 to support Group's confidence in improving situation.



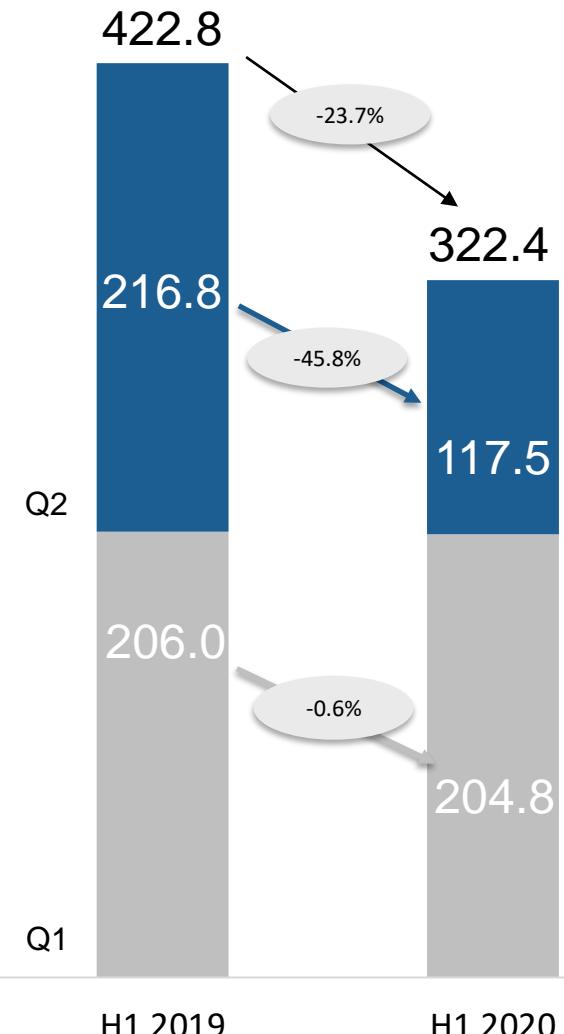
RESTAURANT SALES

RON m



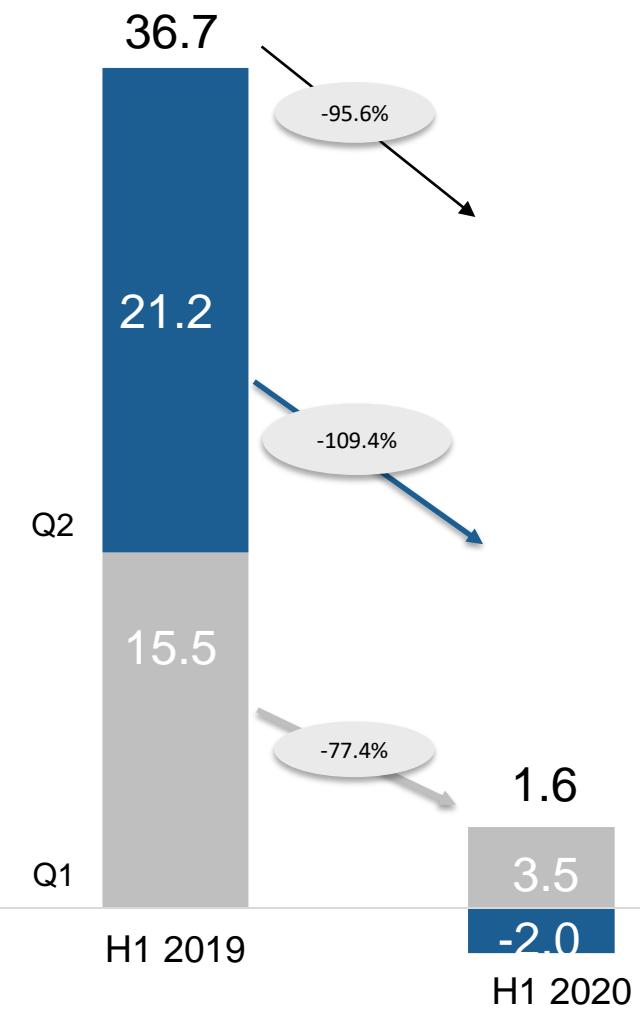
EXPENSES

RON m, excluding IFRS 16

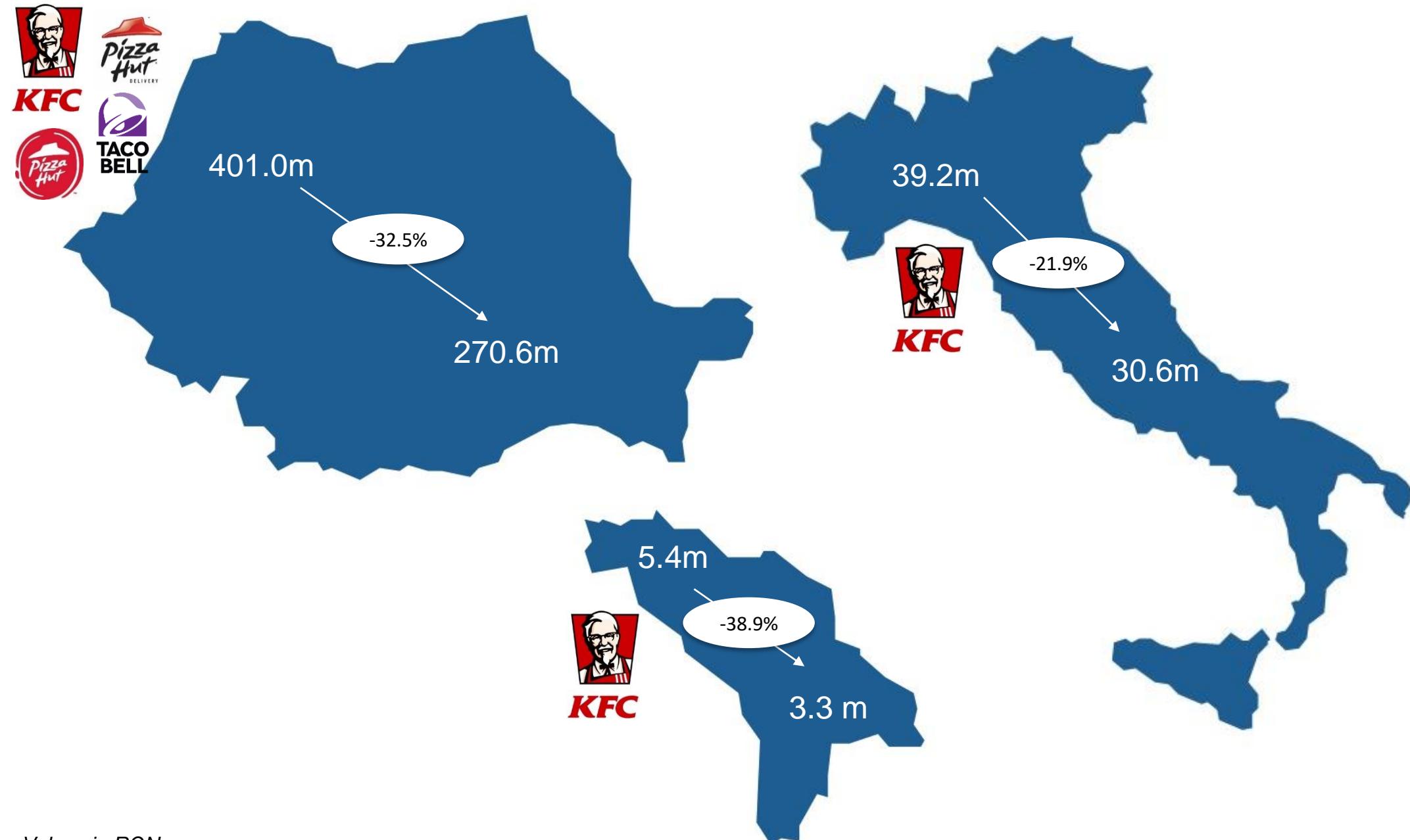


NORMALIZED EBITDA

RON m, excluding IFRS 16



Sphera Franchise Group H1-2020 Sales performance per country





COVID-19 Response



- State of Emergency: 18.03.2020 – 14.05.2020.
- State of Alert: 15.05.2020 – today.
- SFG restricted restaurant operations on 18.03.2020 until 15.05.2020.
- 15.05.2020 – restaurants with outdoor seating reopened.
- 15.06.2020 – shopping malls open but closed-space food courts closed.
- Indoor seating restaurants currently closed as per Emergency Ordinance. Recently, discussions at the Government level about re-opening of indoor restaurants have started.



- Lockdown: 09.03.2020 – 18.05.2020.
- State of Emergency: 18.05.2020 – 15.10.2020.
- 18.05.2020 – restaurants allowed to open applying strict social distancing rules. Consequently, only 50% of indoor seating available.



- State of Emergency: 17.03.2020 – 15.05.2020, further extended by Extraordinary National Commission of Public Health.
- On 15.03.2020 announced that dine-in bars and restaurants closed, takeout orders and delivery limited.
- Since 22.04.2020 take-away is allowed for all street locations.
- Since 16.06.2020 take-away is allowed for all service venues except for commercial centres and markets.



Maximizing Revenues

- Change in strategy: enhanced cooperation with local food aggregators:
 - Romania: FoodPanda, Glovo, Tazz (EuCeManac), TakeAway;
 - Italy: Glovo, Deliveroo, Just Eat, UberEats;
 - Moldova: Straus (iFood pending).
- Marketing campaigns promoting delivery and drive-through, joint campaigns with food aggregators (TV, digital).

Restaurant Operations

- Upon reopening additional safety measures in all operating restaurants, in line with Yum + Govt. recommendations.
- New operational flows at restaurant level that allow safe operation and delivery activity.
- Limited menu in restaurants, only core products.
- The management is actively monitoring the performance of individual stores to determine which stores remain open, fully or partially, and which ones are to be closed.
- **Only restaurants that can cover their operating costs by taking advantage of the open-air dining option and/or by concentrating on delivery remain open.**

COGS

- No significant disruptions on supply chain procurement.
- -1.6pp decrease in food and material expenses in H1 2020 despite temporary increase in waste in March 2020.
- Excess raw materials (due to the closing of restaurants) with limited shelf-life was donated.



Staff

Romania:

- Technical unemployment covering 75% of average national salary implemented. Depending on the location, employees were sent either fully or partially into technical unemployment.
- HQ kept oversight over the activity in the restaurants and in case of increased sales, calibrated the number of staff and brought employees back from technical unemployment.
- As of 30.06.2020, an estimated 22% of the employees from Romanian restaurants were still in technical unemployment.

Republic of Moldova:

- Starting with 1.04.2020, more than half of Group employees were on technical unemployment, receiving an indemnity of 70% of their base salary; the state covered 43% of this indemnity.

Italy:

- No prolongation of employees' term contracts since the onset of pandemic, generating a natural attrition of 20%.
- For the rest of employees, the Group applied for technical unemployment during lockdown and then gradually recalled them as the stores reopened. The state covered a monthly amount of 80% of employees' salary (subject to caps: EUR 939.89 for a salary of EUR 2,159.48 or below, and EUR 1,199.72 for a salary in excess of EUR 2,159.49)

HQ (G&A):

- All hiring activity frozen as of March.
- Payroll costs reduced by either applying for technical unemployment or by reducing the working week from 5 to 4 days (equivalent to a 20% reduction in payroll cost). As of 30.06.2020, all HQ staff was back from technical unemployment.
- Top management took a voluntary 25% reduction in their pay.

As of 30.06.2020, Sphera Franchise Group had 5,003 employees, 4,665 employees in Romania, 262 employees in Italy and 76 employees in the Republic of Moldova.



Rent



- In March 2020, the Group notified all the lessors to renegotiate or temporarily suspend the rental contracts and entered a detailed and extensive process of renegotiating rental agreements.
- As of 30.06.2020, the amount of fixed rent discounts recognized and recorded in accounting was RON 4.5 million, representing the equivalent of approximately one-month fixed rent.
- Discussions are still in progress for approximately 25% of contracts. Discounts obtained as a result will be reflected in Q3 2020.

Financial



- Activation of existing working capital line opened with house bank that was unutilized until the start of the pandemic – RON 20.3m.
- Secured new short-term working capital line – RON 10m.
- Refinancing of investments by activation of lines from the existing bank – EUR 2.7m.
- Accelerated recovery of VAT from the state for USFN Romania and CFF – RON 23.5m
- Medical leave recovery for USFN Romania – RON 2.5m.
- Postponement of principal amount for banks and leasing companies –approx. RON 24m.
- Supplier financing materialized in engaging in good faith negotiation with suppliers and negotiations with Yum!.

Business Calibration: Measures in response to COVID-19



Marketing



12 August at 16:10

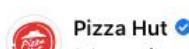
Suntem **#pebune**, mai ales când vine vorba de măsurile de siguranță.
Avem la fel de mare grija de colegi, cât și de tine! Tu ești singurul care atinge puial proaspăt pregătit, odată ce a ieșit din bucătăriile noastre!
#stayawesome #staysafe

See translation



151

42 comments 2 shares



1 June

Good news for our **🍕** lovers - am deschis o parte dintr-o terasele Pizza Hut **🍕** Începând de astăzi, poți rezerva o masă în restaurantele din Dorobanți, Galați și Iași **🍕**
Aici numerele de telefon la care ne poți suna:
https://bit.ly/Rezervare_PizzaHut

See translation



Rezervă o masă

Restaurantul funcționează în regim take-aw...

34



pe terasa

Restaurantul funcționează...

9 shares



Taco Bell Romania

5 July

Mulțumim echipei pentru toată implicarea din această perioadă! Datorită vouă, **#tacofam** s-a bucurat de spiritul **#livemas** în continuare. Give some **♥** to the real **#tacoheroes**

See translation



#bestteam

Taco-Bell

15



#thankyou

Taco-Bell

2 comments



- Recovered sales during the pandemic by adapting our marketing strategy to the new reality and built marketing pillars with the aim of generating acquisition, increasing frequency and strengthening brand equity.

Value Always On

DIGITAL &
DELIVERY

BACK TO CORE

NEW OCCASIONS

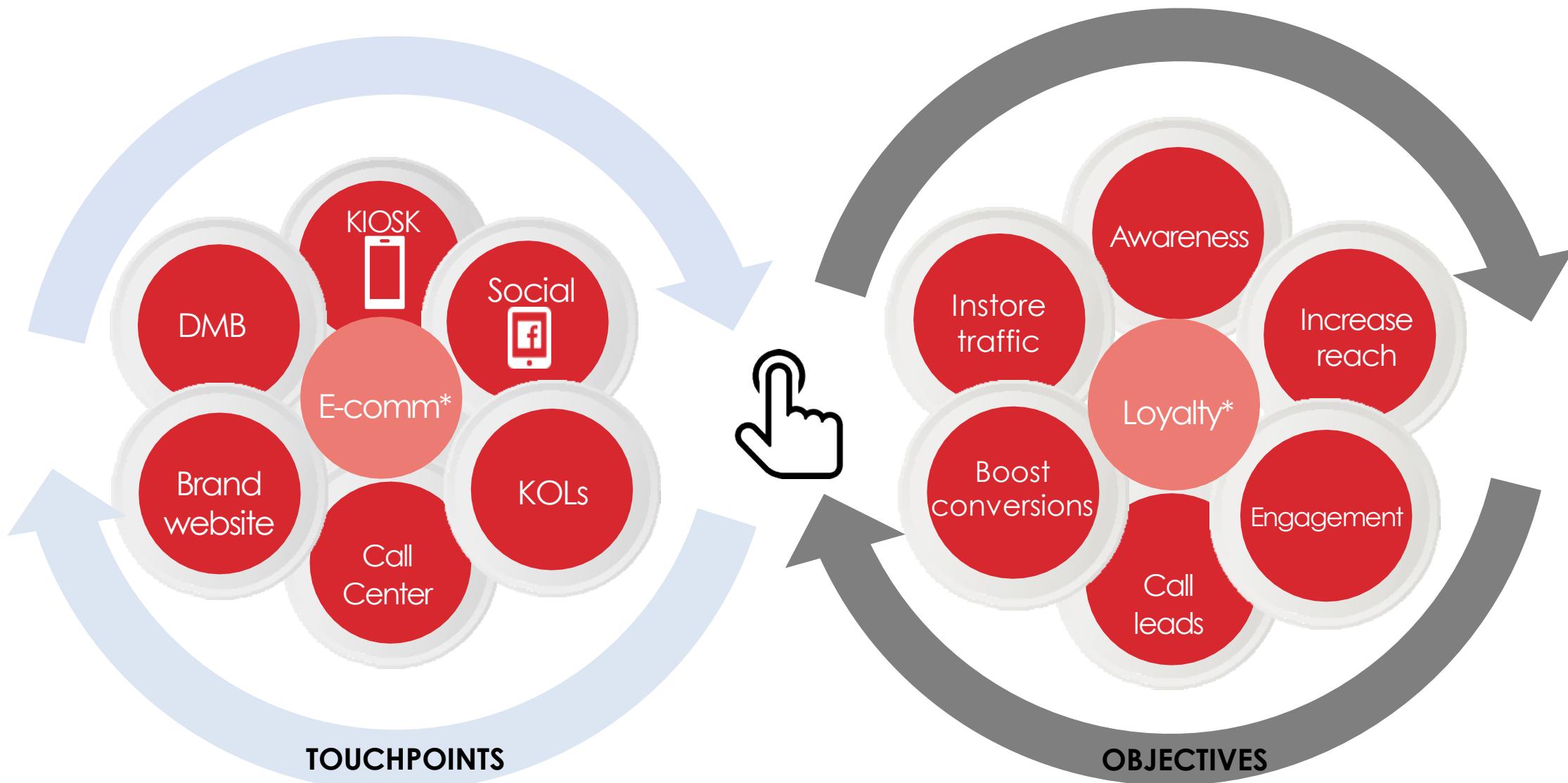
MENU
ENGINEERING

Build a Distinctive Brand

Business Calibration: Measures in response to COVID-19

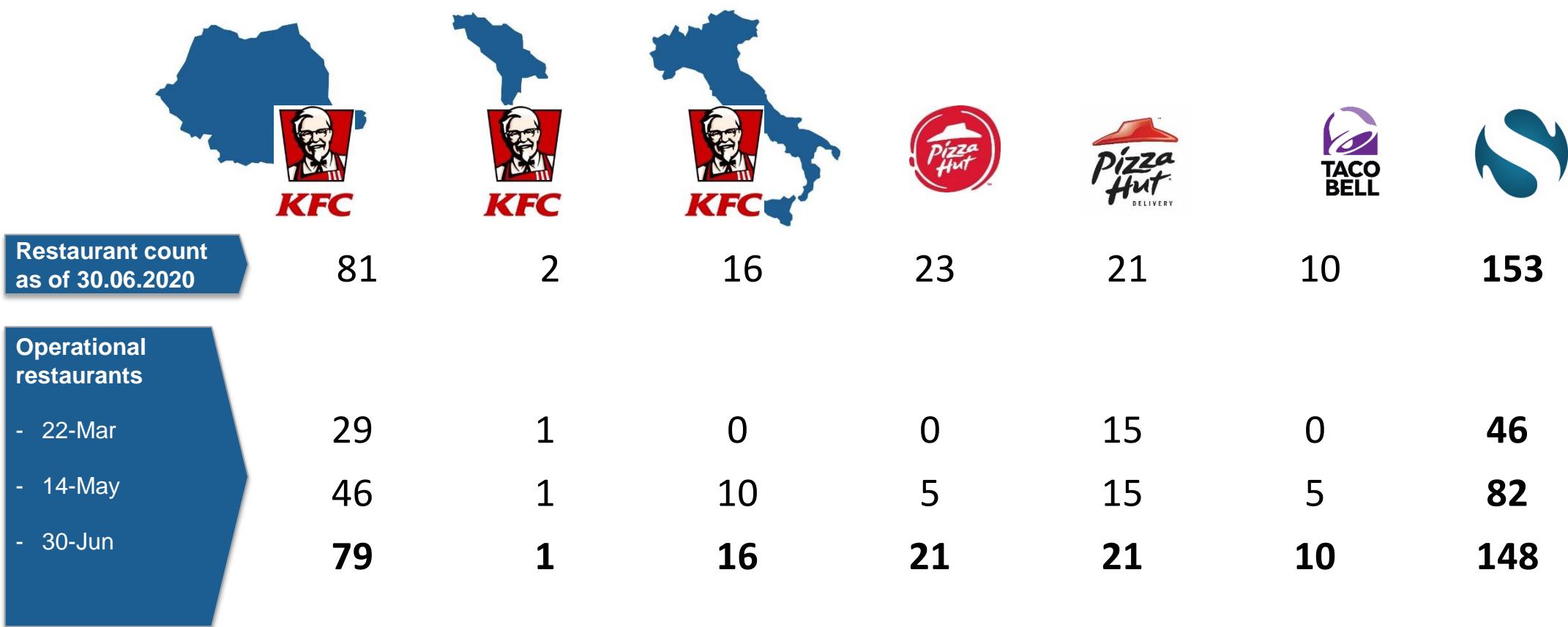


- To be competitive in the category, our brands started to devote outsized efforts in Q2 on maintaining an edge on digital and ease.





Brand Performance



- The number of active stores dropped drastically mid-March following the introduction of State of Emergency, with only 30% of stores active on 22.03.2020.
- On 14.05.2020, following the decision to loosen restrictions on all the markets of activity, 53% of stores were active.
- As of 30.06.2020, 96.7% of stores were active and only 5 restaurants were temporarily closed.
- Since the beginning of 2020 until the date of publishing this report, the Group opened 2 new KFC stores in Italy and 3 KFC in Romania. Two stores were closed in Romania, one KFC and one PHD.
- The Group has 158 stores as of 26.08.2020.



% of pre-pandemic sales*

	51%	53%	18%	35%	72%	43%	47%
- March	51%	53%	18%	35%	72%	43%	47%
- April	25%	21%	10%	0%	63%	0%	22%
- May	49%	42%	40%	9%	72%	46%	46%
- June	68%	42%	80%	24%	70%	61%	65%

- Hardest hit in April, with no sales for Pizza Hut (dine-in) and Taco Bell. Recovery trend starting May.

Sales H1 2020 (RON, m)

218.8	3.4	30.6	19.8	19.9	12.0	304.6
-------	-----	------	------	------	------	-------

- Positive impact of the Work from Home model: significant increases to the average order value for all the brands from the Group portfolio in Q2 2020, as compared to the same period of the last year.
- The split between delivery and non-delivery sales has shifted over Q2 2020, with 47% of all orders in Romanian stores being delivered and 53% sold in-store; as a comparison, in the same period of 2019, only 7% of sales were generated through the delivery channel, with 93% of sales being done in-store

* Average of sales from January and February 2020



Key H1 2020 Financials



Statement of Comprehensive Income (excluding IFRS 16)

Data in RON'000	H1-20	H1-19	Y/Y % H1-20/H1-19	% of Sales		
				H1-20	H1-19	Δ%
Restaurant sales	304,580	445,567	-31.6%			
Restaurant expenses	297,903	396,138	-24.8%	97.8%	88.9%	8.9%
Food and material	100,793	154,699	-34.8%	33.1%	34.7%	-1.6%
Payroll and employee benefits	71,315	106,321	-32.9%	23.4%	23.9%	-0.5%
Rent	29,295	31,642	-7.4%	9.6%	7.1%	2.5%
Royalties	17,884	26,075	-31.4%	5.9%	5.9%	0.0%
Advertising	14,429	20,387	-29.2%	4.7%	4.6%	0.1%
Other operating expenses, net	46,414	43,883	5.8%	15.2%	9.8%	5.4%
Depreciation and amortization	17,773	13,130	35.4%	5.8%	2.9%	2.9%
Restaurant operating profit	6,677	49,429	-86.5%	2.2%	11.1%	-8.9%
General & Admin expenses, net	24,447	26,632	-8.2%	8.0%	6.0%	2.0%
Operating Profit/(Loss)	(17,771)	22,797	-178.0%	-5.8%	5.1%	-10.9%
Finance costs	2,902	3,467	-16.3%	1.0%	0.8%	0.2%
Finance income	88	63	39.7%	0.0%	0.0%	0.0%
Profit/(Loss) before tax	(20,585)	19,393	-206.1%	-6.8%	4.4%	-11.2%
Income tax expense	1,775	1,297	36.9%	0.6%	0.3%	0.3%
Profit/(Loss) for the period	(22,360)	18,096	-223.6%	-7.3%	4.1%	-11.4%
EBITDA	772	36,712	-97.9%	0.3%	8.2%	-7.9%
Normalised EBITDA*	1,563	36,712	-95.7%	0.5%	8.2%	-7.7%

(*For the six-month period ended June 30th, 2020, EBITDA was normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods (Note 4).

- Sales down 31.6% in H1 2020 compared to H1 2019; expenses down by 23.8%.
- Restaurant operating profit of RON 6.7 million in H1 2020, 86.5% lower compared to H1 2019.
- The 8.2% decrease in General & Administrative expenses, helped achieve an EBITDA of RON 0.8 million, 97.9% lower compared to H1 2019.
- Normalised EBITDA of RON 1.6 million, a decrease of 95.7%, with an EBITDA margin by 8pp lower compared to the previous period.
- Operating profit decreased by 178% Y/Y to RON -17.8 million
- Loss for the period equalled RON 22.4 million (-223.6%).



Restaurant Expenses lower by 25% in H1 2020 vs H1 2019 (excluding IFRS 16)

Data in RON'000	H1-20	H1-19	Y/Y % H1-20/H1-19	% of Sales		Δ%
				H1-20	H1-19	
Restaurant sales	304,580	445,567	-31.6%			
Restaurant expenses	297,903	396,138	-24.8%	97.8%	88.9%	8.9%
Food and material	100,793	154,699	-34.8%	33.1%	34.7%	-1.6%
Payroll and employee benefits	71,315	106,321	-32.9%	23.4%	23.9%	-0.5%
Rent	29,295	31,642	-7.4%	9.6%	7.1%	2.5%
Royalties	17,884	26,075	-31.4%	5.9%	5.9%	0.0%
Advertising	14,429	20,387	-29.2%	4.7%	4.6%	0.1%
Other operating expenses, net	46,414	43,883	5.8%	15.2%	9.8%	5.4%
Depreciation and amortization	17,773	13,130	35.4%	5.8%	2.9%	2.9%
Restaurant operating profit	6,677	49,429	-86.5%	2.2%	11.1%	-8.9%

- Except for other operating expenses and depreciation and amortization, all the restaurant expenses have decreased significantly.
- The rent costs (*without IFRS 16*) decreased by 7.4% compared to the same period of last year even though the Group operated 10 more restaurants during H1 2020 compared to H1 2019. Further rent negotiations are still ongoing.
- 5.8% increase in “Other operating expenses” primarily driven by the higher share of aggregators’ commissions.
- Increased depreciation and amortization are the result of opening 10 new restaurants between 30.06.2019 and 30.06.2020.

G&A Expenses lower by 8.2% (excluding IFRS 16) in H1 2020 vs H1 2019

	Data in RON '000				Change (%)		Percentage of sales		
	H1-20	H1-20	H1-19	H1-19	2020/2019 (1)	2020/2019 (2)	H1-20	H1-20	H1-19
	(1)	(2)	(1)	(2)			(1)	(2)	(2)
General and administration (G&A) expenses, net	23,915	24,447	26,410	26,632	-9.4%	-8.2%	7.9%	8.0%	5.9%
Payroll and employee benefits	15,630	15,630	15,808	15,808	-1.1%	-1.1%			
Third-party services	4,156	4,441	5,332	5,332	-22.1%	-16.7%			
Depreciation and amortization	2,231	770	2,158	785	3.4%	-1.9%			
Rent	(23)	1,685	237	1,831	-109.6%	-8.0%			
Banking charges	1,304	1,304	1,561	1,561	-16.4%	-16.4%			
Transport	617	617	1,315	1,315	-53.1%	-53.1%			

Note: (1) Including the impact of the adoption of IFRS 16; (2) Excluding the impact of the adoption of IFRS 16.

- In H1 2020, G&A expenses of the Group decreased by 8.2% compared to H1 2019.
- In Q2 2020, G&A expenses decreased by RON 3.1 million (-22.6%) compared to Q2 2019.
- The largest cost-savings registered in H1 2020 were on transport (-53.1%) and third-party services (-16.7%).
- The payroll costs for G&A decreased by 3.0% in H1 2020; in Q2 payroll costs were reduced by 23.7% through different measures.

H1 2020 – individual performance by companies from the group



USFN (KFC) Romania and Moldova ended H1 2020 with a net profit (excluding IFRS 16)

H1-20								
Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj.	SFG Cons
Restaurant sales	221,563	36,848	3,354	30,640	12,008	12,299	(12,133)	304,580
Restaurant expenses	200,280	41,448	3,194	40,865	12,823	484	(1,192)	297,903
Food and material	75,312	10,488	1,353	9,273	4,372	0	(5)	100,793
Payroll and employee benefits	46,007	11,422	720	10,505	2,662	0	0	71,315
Rent	18,917	4,141	133	4,895	1,208	0	0	29,295
Royalties	13,278	2,123	202	1,835	447	0	0	17,884
Advertising	9,502	2,669	196	2,037	708	484	(1,166)	14,429
Other operating expenses	27,358	8,140	423	8,209	2,305	0	(21)	46,414
Depreciation	9,906	2,465	168	4,113	1,122	0	0	17,773
Restaurant operating profit/(loss)	21,283	(4,600)	160	(10,225)	(815)	11,815	(10,941)	6,677
G&A expenses	12,528	3,576	127	3,562	1,156	14,400	(10,902)	24,447
Operating profit/(loss)	8,775	(8,176)	33	(13,788)	(1,971)	(2,585)	(39)	(17,771)
Finance costs	1,860	530	38	1,407	811	738	(2,481)	2,902
Finance income	1,560	9	0	1	0	1,000	(2,481)	88
Profit/(Loss) before tax	8,454	(8,697)	(5)	(15,194)	(2,782)	(2,323)	(39)	(20,585)
Income tax expense	1,040	362	(18)	132	67	192	-	1,775
Profit/(Loss) for the period	7,415	(9,059)	13	(15,325)	(2,849)	(2,514)	(39)	(22,360)
EBITDA	18,928	(5,630)	220	(9,663)	(808)	(2,236)	(39)	772
Normalised EBITDA*	18,928	(4,839)	220	(9,663)	(808)	(2,236)	(39)	1,563

- USFN Romania and USFN Moldova closed H1 2020 on operating profit, corresponding to a net profit of RON 7.4 million.
- The rest of the Group entities ended H1 2020 with a loss for the period. USFN Italy registered the biggest drop resulting from the severe impact of the coronavirus pandemic on the local economy and widespread and prolonged lockdown measures in Italy.



As a result of IFRS 16 adoption, normalized EBITDA increased to RON 29.3m in H1 2020

Data in RON'000	H1-20	H1-20	Impact of IFRS Adoption
	Including impact of IFRS16	Excluding impact of IFRS16	
Restaurant sales	304,580	304,580	0
Restaurant expenses	296,476	297,903	-1.427
Food and material	100,793	100,793	0
Payroll and employee benefits	71,315	71,315	0
Rent	3,409	29,295	-25.886
Royalties	17,884	17,884	0
Advertising	14,429	14,429	0
Other operating expenses, net	46,582	46,414	168
Depreciation and amortization	42,063	17,773	24.290
Restaurant operating Profit / (Loss)	8,104	6,677	1.427
General & Admin expenses, net	23,915	24,447	-532
Operating Profit/(Loss)	(15,810)	(17,771)	1.961
Finance costs	9,303	2,902	6.401
Finance income	88	88	0
Profit/(Loss) before tax	(25,026)	(20,585)	-4.441
Income tax expense	1,313	1,775	-462
Profit/(Loss) for the period	(26,339)	(22,360)	3.979
EBITDA	28,483	772	27.711
Normalised EBITDA*	29,274	1,563	27.711

- Starting 1 January 2019, Sphera applies IFRS 16 that sets out the principles for the recognition, measurement, presentation and disclosure of leases.
- At the commencement date of a lease, a lessee recognizes 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 recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset;
- In H1 2020, as a result of adoption of IFRS 16, Sphera recognized additional depreciation expense of RON 24.3m and finance cost of RON 6.4m. At the same time, the rent expenses were reduced by RON 25.9m.
- As a result, normalized EBITDA increased to RON 29.3m while the loss grew to 26.4 m.



Q3 2020 Gradual Recovery



49.9%

lower Restaurant expenses
(w/o depreciation)
in Q2 2020 vs Q2 2019

97.6 %

restaurants open
as of 30.06.2020

47 %

of sales through delivery
in Romania in Q2 2020

4

new KFC restaurants
opened so far in Q3 2020

8

partner food aggregators
on all markets of activity

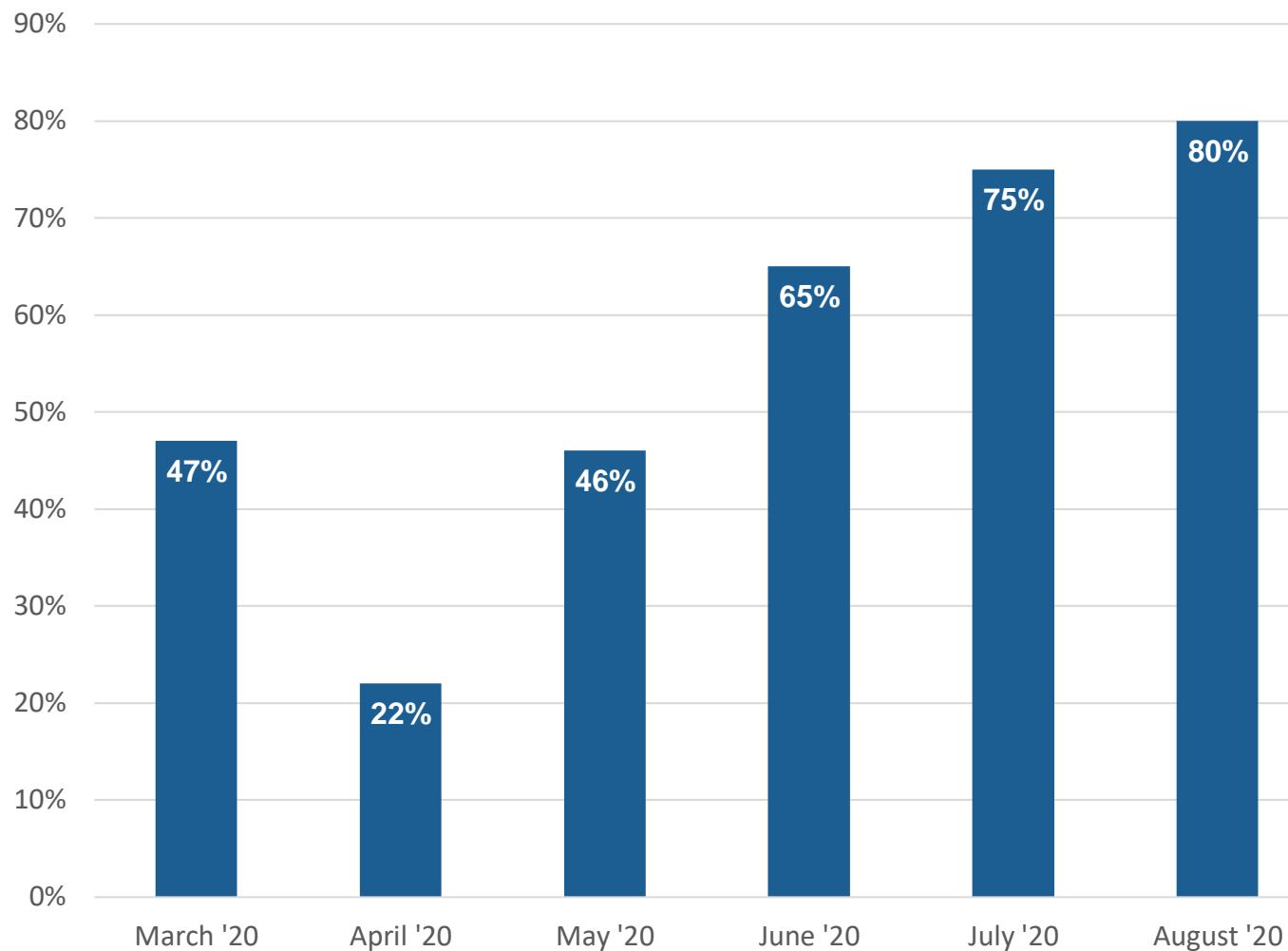
65%

sales in June 2020
as a percentage of pre-pandemic
(Jan-Feb 2020) levels



To support the Group's confidence in the improving situation, we exceptionally provide estimates showcasing the increasing trend in sales as registered in July 2020 and August 2020 (estimated data as of August 26th, 2020).

- On the adjacent graphs are presented sales as a % of pre-pandemic sales levels (average sales from January and February 2020).
- June-August results show the positive effects of the unfreezing of the economies in all 3 countries of activity.
- Management will continue optimization measures throughout H2 2020.
- Group operationally prepared for different scenarios throughout H2 2020, including lockdowns.





Further Support Measures in Romania



- On 29.05.2020, the Emergency Ordinance no. 92/2020 on the application of support measures for the Romanian employees and employers in the context of SARS-CoV-2 coronavirus, as well for the amendment of legislation was published in the Official Gazette no. 459/29.05.2020. At the time of publishing this report, under the terms of the above-mentioned Ordinance, Sphera Franchise Group is in the process of applying for a state aid which will cover 41.5% of costs related to the salaries of employees who received technical unemployment indemnity for at least 15 days. This measure is to apply starting Q3 2020.



Q&A



Thank you for your attention!

We will be attending Frontier Investor Days, WOOD's Virtual Conference on September 3rd and 4th, 2020.

Feel free to book a meeting with our team. For more information, please contact our IR Team at: investor.relations@spheragroup.com.