



S P H E R A



Sphera Franchise Group

Investor & Analyst Call

2020 Preliminary Financial Results

26.02.2021



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



Welcome to SFG's 2020 Preliminary Results Call



Calin Ionescu
CEO



Valentin Budes
CFO



Zuzanna Kurek
IR

Sphera Franchise Group's unaudited preliminary 2020 results are available for download on our website: www.spheragroup.com.

The recording of this conference call will be available on our website shortly.

For any questions related to Sphera Franchise Group's activity on the Bucharest Stock Exchange, please contact our IR team at: investor.relations@spheragroup.com.

Agenda for today's call

- 1 Q4 & FY2020 Highlights**
- 2 COVID-19 related updates from Q4 2020**
- 3 Brand Performance**
- 4 Q&A session**
- 5 Annex: Key 2020 Financials**

Q4 & FY2020 Highlights

SFG Performance in Q4 2020

Data in RON'000	Q4-20	Q4-19	Y/Y %
Restaurant sales	208,352	260,412	-20.0%
Other income	726	0	
Restaurant expenses	194,625	224,341	-13.2%
Restaurant operating profit	14,453	36,071	-59.9%
General & Admin expenses. net	15,663	7,875	98.9%
EBITDA	9,602	36,703	-73.8%
Normalized EBITDA*	15,623	28,766	-45.7%
Operating Profit/(Loss)	(1,211)	28,195	-104.3%
Finance costs	1,235	1,158	6.6%
Finance income	55	45	22.2%
Profit/(Loss) before tax	(2,391)	27,082	-108.8%
Income tax expense/(credit)	(4,794)	1,129	-524.6%
Profit/(Loss) for the period	2,403	25,953	-90.7%

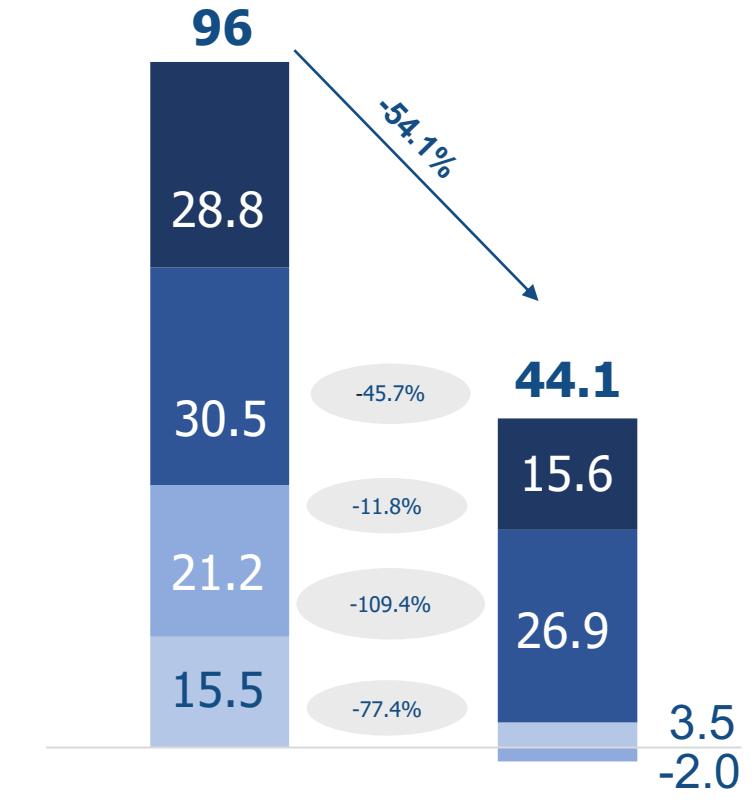
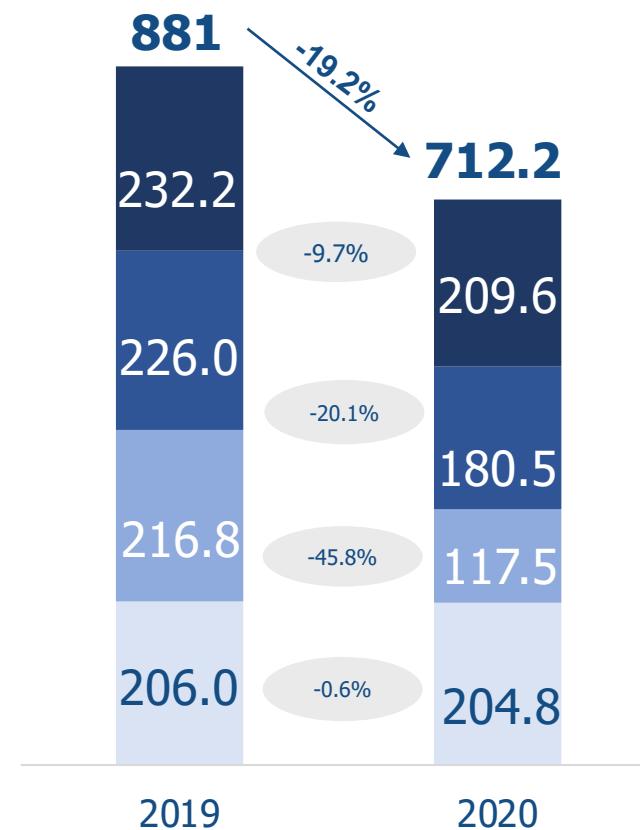
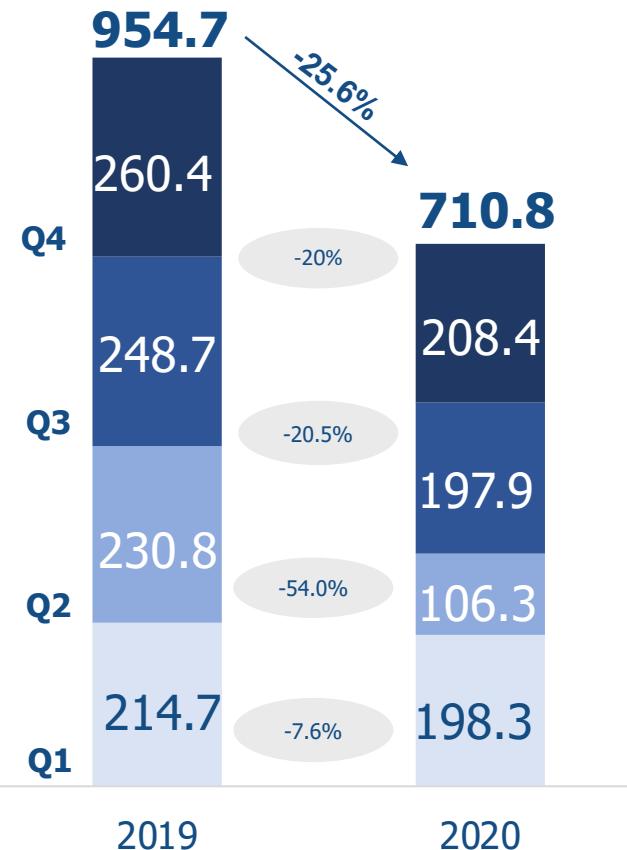
- **QOQ turnover increase:** SFG registered RON 208.4 million turnover in Q4 2020, a 5.3% increase QOQ despite more prevalent restrictions on indoor dining as well as colder months that made outdoor dining challenging for the customers.
- **Higher restaurant expenses due to larger share of active stores:** Restaurants expenses increased by RON 24.8 million (+14.6%) QOQ. Growth was primarily fueled by surge in payroll, which increased by 27.1% (RON 9.4 million) QOQ, reaching 21.2% of the total sales (vs 17.5% in Q3 2020).
- **State aid & discounts:** In Q4 2020, SFG saw decrease in the state aid accessed as the Group received state aid in the total amount of RON 1.6 million, lower 79.4% QOQ. The Group also succeeded to receive rent discounts in amount of RON 2.9 million, 32.7% lower QOQ. Other income of RON 0.7 million represents the state aid received by the Italian subsidiary for the turnover reduction due to the COVID-19 business disruption.
- **Surge in aggregator fees:** Other operating expenses increased 26.6% QOQ as a result of 43.3% surge in aggregator fees, which reached RON 10.5 million in Q4 2020. Aggregator fees contributed to 29.5% of other operating fees in Q4 2020.
- **G&A:** G&A costs grew 45.2% QOQ, reaching RON 15.7 million. However, for like-for-like comparison, excluding the normalized items for Q4 2020, the G&A expenses increased QOQ by 4.9% (RON 0.5 million).
- **2nd best EBITDA margin:** The Group closed the last quarter of 2020 with a normalized EBITDA of RON 15.6 million (margin of 7.5%), operating loss of RON 1.2 million and a net profit for the period in the amount of RON 2.4 million. Q4 2020 was the 2nd best quarter of 2020 in terms of normalized EBITDA margin. In Q1 2020 the normalized EBITDA margin was 1.8%, in Q2 2020 -1.9%, in Q3 2020 13.6% and in Q4 2020 7.5%.

SFG Performance in 2020

Data in RON'000	12M-20	12M-19	Y/Y %
Restaurant sales	710,797	954,728	-25.6%
Other income	726	0	
Restaurant expenses	662,245	830,448	-20.3%
Restaurant operating profit	49,277	124,281	-60.4%
General & Admin expenses. net	50,899	50,519	0.8%
EBITDA	36,912	103,926	-64.5%
Normalized EBITDA*	44,094	95,989	-54.1%
Operating Profit/(Loss)	(1,621)	73,761	-102.2%
Finance costs	5,208	5,980	-12.9%
Finance income	237	166	43.2%
Profit/(Loss) before tax	(6,593)	67,946	-109.7%
Income tax expense/(credit)	(4,283)	3,779	-213.3%
Profit/(Loss) for the period	(2,309)	64,167	-103.6%

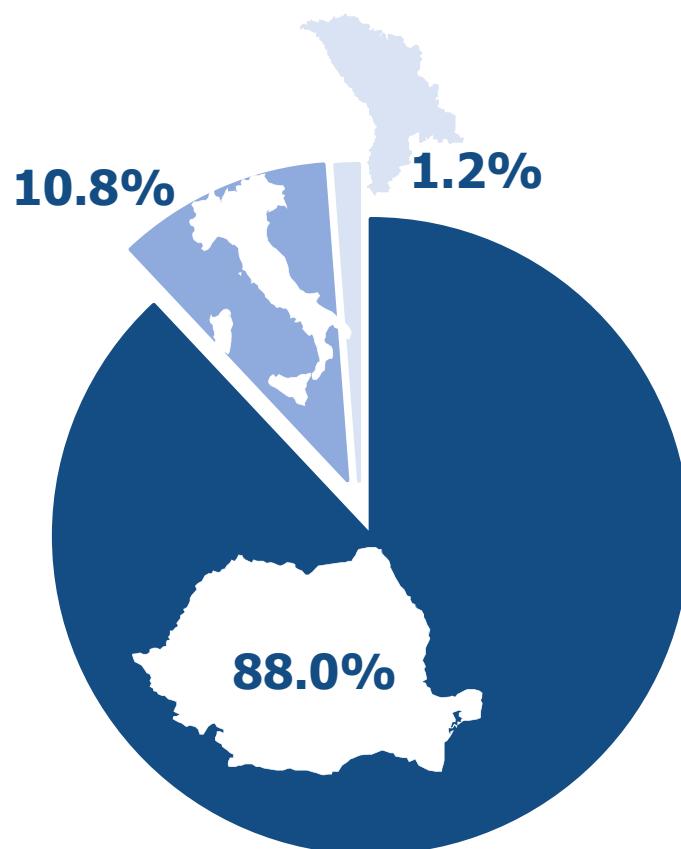
- **H2 significantly better than H1:** The strong performance in Q4 2020 helped offset the negative effect of weak H1 2020. Consequently, the Group closed 2020 with consolidated sales for a full year of RON 710.8 million, a decrease of 25.6% compared to the performance in 2019.
- **Cost savings across restaurant expenses:** The restaurant expenses decreased 20.3% YOY with most significant declines registered on food and material (-27.2%, representing RON 86.7 million), payroll and employee benefits (-30.4%, representing RON 65.6 million), advertising (-33.1%, representing RON 16.3 million), royalties (-26.3%, representing RON 14.8 million) and rent (-13.7%, representing RON 9.3 million).
- **Increase in aggregator fees, D&A:** Other operating expenses grew 17.3% in 2020, reaching RON 110 million, driven by the higher share of aggregator commissions which grew 1,136% in 2020, reaching RON 26.7 million in 2020. The increase in depreciation and amortization costs by 28.8% was the result of opening 9 new restaurants in 2020.
- **Good restaurant operating profitable given context:** The Group ended 2020 with restaurant operating profit of RON 49.3 million.
- **Decrease in normalized G&A:** G&A expenses amounted to RON 50.9 million in 2020, an increase of 0.8% compared to 2019. Group made the most considerable cost-savings on payroll and employee benefits (-RON 6.2 million), followed by third-party services (-RON 3 million) and transport (-RON 1.7 million). Other expenses increased by 136.1%, reaching RON 2.6 million, the increase in mainly due to one-off: in FY2019, RON -10.3 million reversal of tax provision. Excluding the effect of one-off (normalization), other expenses decreased with RON 0.4 million.
- **Small loss for the most challenging year in Group's history:** The Group ended 2020 with a normalized EBITDA of RON 44.1 million, operating loss of RON 1.6 million and a loss for the period of RON 2.3 million.

SFG 2020 Performance

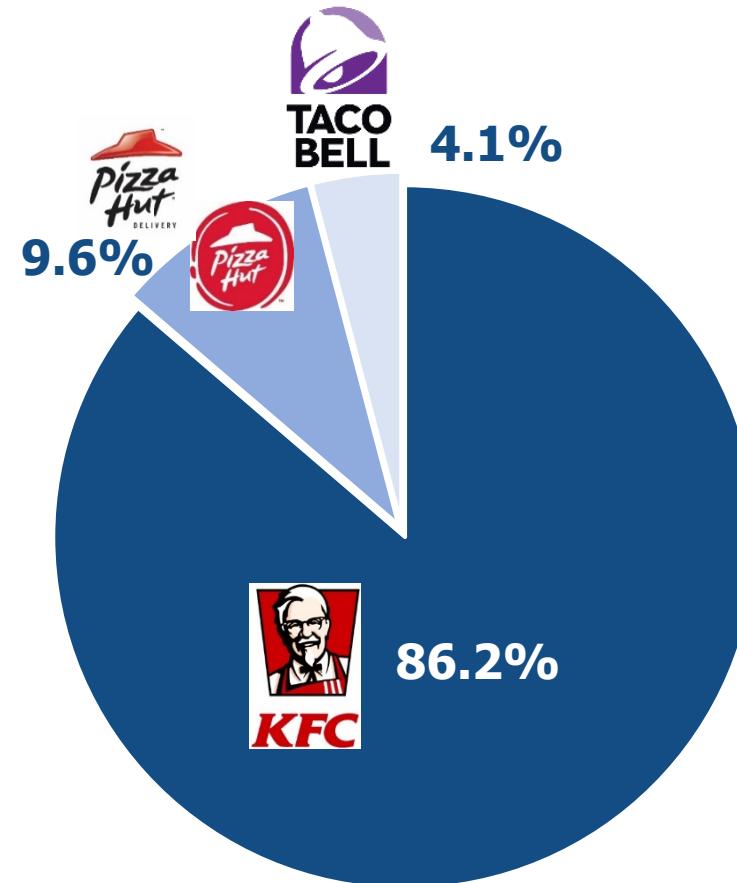


SFG 2020 Performance breakdown

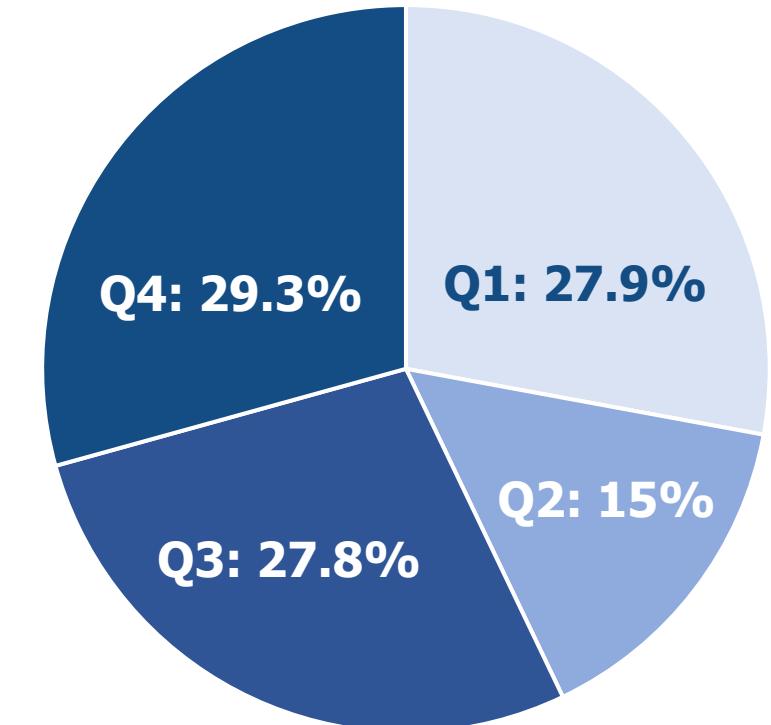
Contribution to FY 2020 turnover



Per market



Per brand



Per quarter

COVID-19 related updates from Q4 2020

Restaurant development

Number of stores

- **+3 net stores in 2020:** SFG operated 158 restaurants as of 31.12.2020. Out of 158 stores, 138 were based in Romania, 18 in Italy and 2 in Republic of Moldova.
- **9 new openings:** SFG inaugurated 5 new KFC restaurants in Romania (+1 relocation of a store based in Targu Mures), 3 new KFC stores in Italy and 1 new Taco Bell in Romania. 6 stores in Romania identified as non-viable were closed.

Restaurant development plan update

- **USFN:** for 2020-2021, USFN will open 10 net new stores in Romania. Out of that amount, 4 net new stores were already inaugurated by the Group in 2020. 6 more net new stores to open by the end of 2021. During the negotiations, the Group also managed to obtain financial incentives that will help in the process of expansion the KFC network in Romania. Should the Group overpass the goal of opening 10 new locations by the end of 2021, it will benefit from further financial incentives from the franchisor.
- **CFF:** for 2020-2021, CFF will benefit of progressive financial incentives, depending on the number of net new restaurants being opened. For each new net Taco Bell restaurant that exceeds the number of 5 net new restaurants, CFF will benefit of additional financial incentives.
- **Pizza Hut:** negotiations ongoing.

State aid, lease discounts

State aid

- **Technical unemployment:** At the end of 2020, approximately 6% of employees from Romania and 8% of employees based in Italy were in technical unemployment. In the Republic of Moldova, all the employees were back from technical unemployment as of Q3 2020. In the context of indoor dining restrictions in Q4 2020, the Group actively monitored, on a weekly basis, the number of employees needed in the restaurants. Restrictions imposed by authorities and reduced consumer demand influenced the number of employees who entered into technical unemployment.
- **RON 2.3 million state aid in Q4:** In Q4, 2020 Sphera Franchise Group benefitted from technical unemployment grants from the Romanian state in the amount of RON 1.6 million. In Q4 2020, USFN Italy benefitted from an aid from the Italian government in the value of RON 0.7 million for the turnover reduction due to the COVID-19 business disruption.

Lease

- **Case-by-case negotiations:** In Q4 2020, depending on the evolution of pandemic and the lockdown measures ordered in regions/cities, new negotiations were initiated by the Group, on a case-by-case basis.
- **RON 2.9 million discounts:** In Q4 2020, the Group benefited from a discount of RON 2.9 million on fixed rent. The total amount of discounts on fixed rent granted in 2020 to the Group equaled RON 11.6 million.

Financial measures, digitalization

Financial measures

- **Bank financing:** All the financing facilities accessed in 9M2020 to ensure working capital were still applicable in Q4. In December 2020, the Group activated a short-term working capital line (RON 9.6 million) and paid back another short-term working capital line (RON 6 million). In January 2021, the Group negotiated with the house bank a further 1-year postponement of principal payments (RON 36 million).
- **Liquidity measure:** In December 2020, the Group took advantage of EO 181/2020 and applied to pay the taxes in the total amount of RON 27.1 million, in 12 installments.
- **New state aid measure in RO:** On 31.12.2020, EO 224/31.12.2020 was published that stipulates that companies from HORECA can apply for a state aid of 20% of the loss of turnover in 2020 compared to 2019, with maximum cap at EUR 800,000 per company. SFG is currently analyzing the impact of the recently published EO 10/24.02.2021 to determine if all 3 companies (USFN RO, ARS, CFF) qualify.

Digitalization

- **Touchless kiosks:** During Q4 the company tested the innovative ordering solution through touchless kiosks, this being part of our strategy of adapting to the new socio-sanitary system
- **New ERP:** At the end of Q4, SFG finished the implementation of new ERP system: Business Central, powered by Microsoft. As of January 2021, all the Group financial operations run under the new system. Together with the new ERP, the company has implemented BPM tool.

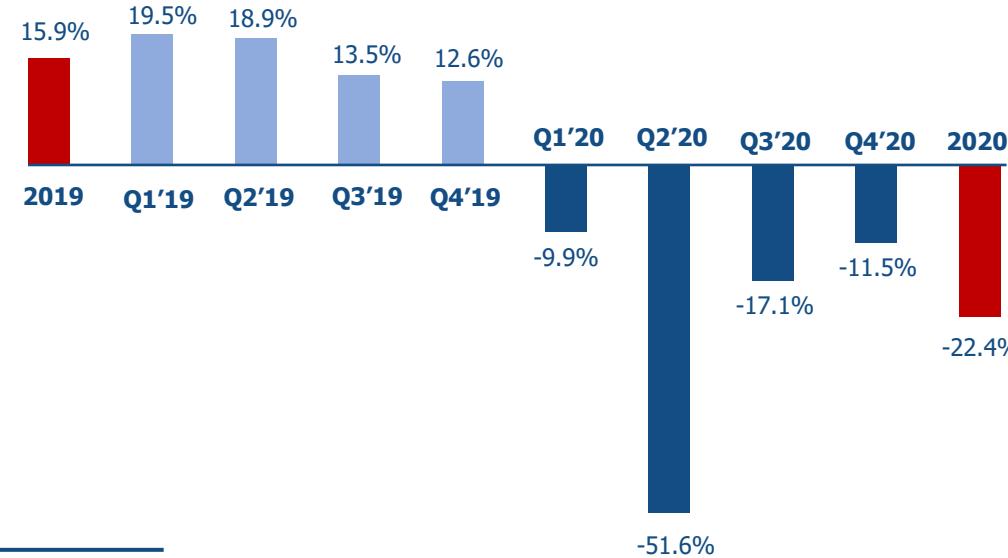
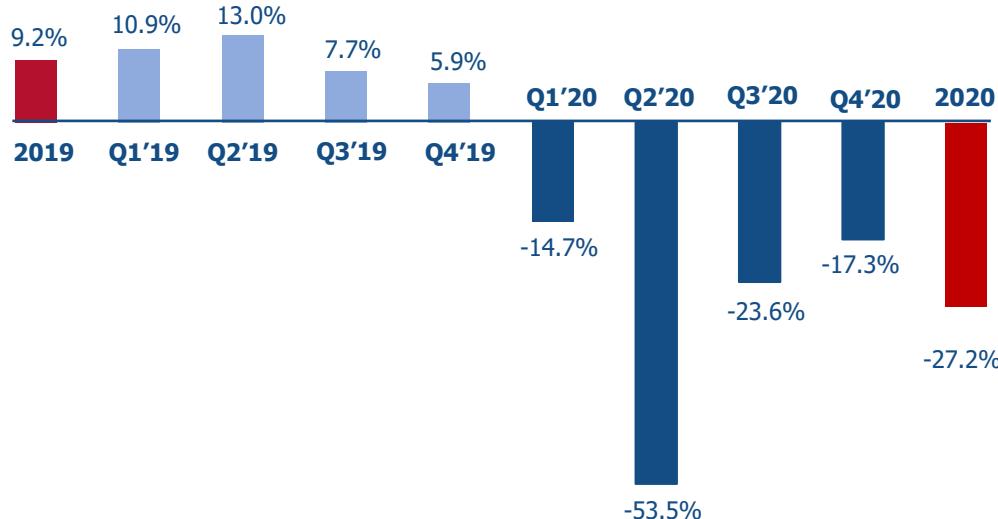
Brand performance



KFC Romania

All Store Performance

- Q4 2020 was the best quarter of the year for KFC Romania as all store performance recovered 5.6pp QOQ.
- Worst performance April 2020 (-73.2% Y/Y), gradual recovery since. New locations opened in H2 2020 and their solid performance in Q3 & Q4 2020 performance increased sales with 14.2pp in H2 compared to H1.
- KFC Romania's turnover dropped 22.4% y-o-y. Yet, USFN Romania managed to reach normalized EBITDA margin of 12.5% in 2020 (vs 13.7% margin in 2019) and closed the year profitable (RON 34.9 mn).



Same Store Performance

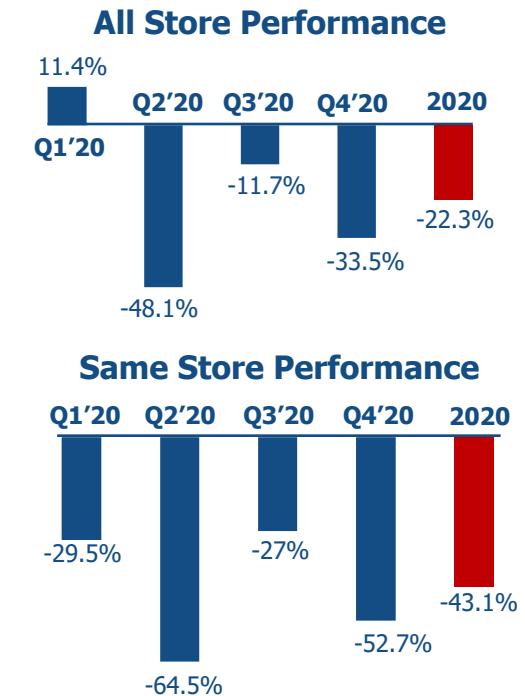
- Same store performance, Q4 2020 also showed continued recovery as the QOQ sales improved 6.3pp.
- Like-for-like performance declined 27.2% y-o-y.



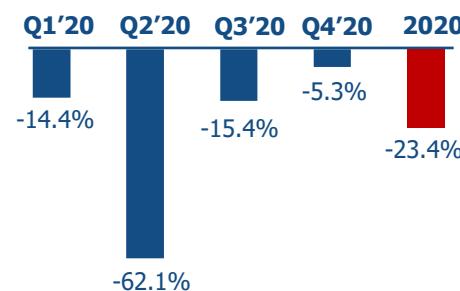
KFC Italy & KFC Republic of Moldova

KFC Italy

- Italian market was severely impacted by the COVID-19 restrictions imposed in Q4 2020. Consequently, sales across all KFC Italy stores dropped 33.5%, deepening the y-o-y decline to 22.3%.
- Like-for-like performance in Italy in Q4 dipped 52.7%, a decline of 25.7pp QOQ.
- USFN Italy ended the year with a negative EBITDA, on loss.



All Store Performance



KFC Moldova

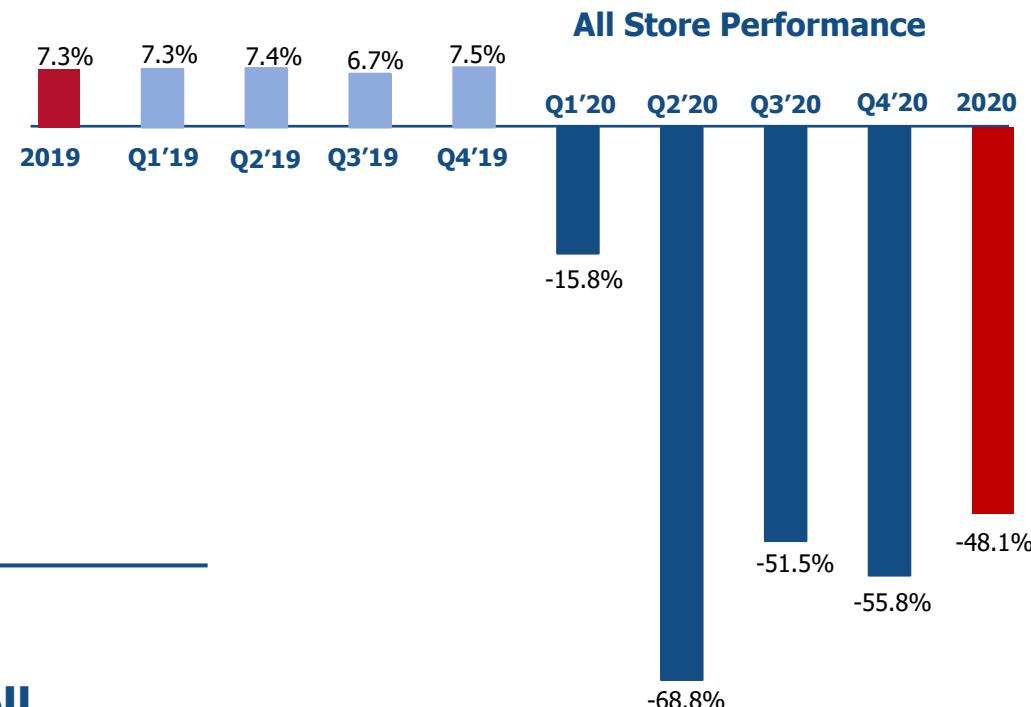
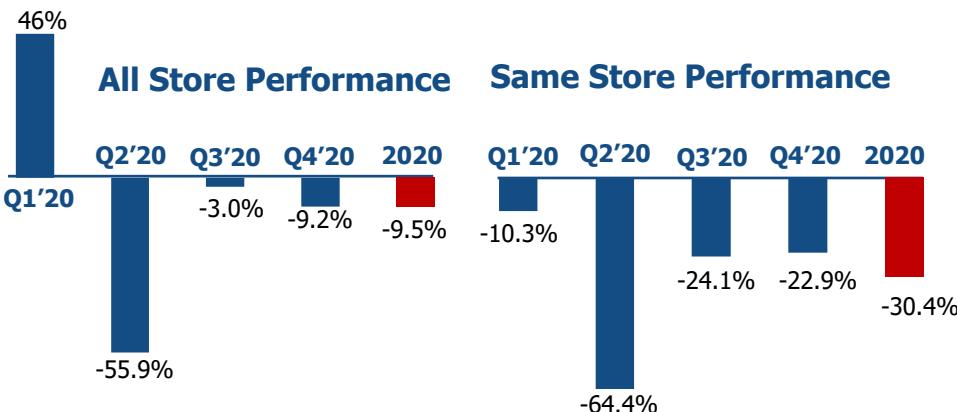
- Q4 2020 was the best quarter of the year for KFC Moldova as sales declined by mere 5.3% QOQ.
- Strong Q4 2020 helped recover 11.2pp of decline from 9M 2020, consequently KFC Moldova ended 2020 with a turnover drop of 23.4%.
- USFN Moldova had 13.8% EBITDA margin in 2020 (vs 17.2% in 2019) and closed the year profitable (RON 0.6 mn).



Pizza Hut & Taco Bell

Pizza Hut

- Pizza Hut's results dipped 4.3pp QOQ as a result of restrictions on indoor dining across Romania.
- Sales for delivery increased 11pp QOQ, reaching 63% of turnover for the period as indoor dining took a hit.
- Pizza Hut ended 2020 with a drop of 48.1% in turnover, and a negative EBITDA.



Taco Bell

- Taco Bell declined 6.2pp QOQ for all store performance and grew 1.2pp QOQ for same store performance.
- In 2020, SFG opened 1 new Taco Bell unit that helped recover a significant part of turnover lost by the same stores.
- CFF ended 2020 with a smallest decline y-o-y, of 9.5% and with a positive EBITDA (RON 0.2 mn).

Q&A Session

Annex: Key 2020 Financials

Summary of FY Preliminary Condensed

Consolidated Financial Statements

Data in RON'000	12M-20	12M-19	Y/Y % 2020/2019	% of Sales		
				2020	2019	Δ%
Restaurant sales	710,797	954,728	-25.6%			
Other income	726	0				
Restaurant expenses	662,245	830,448	-20.3%	93.2%	87.0%	6.2%
Food and material	232,338	319,059	-27.2%	32.7%	33.4%	-0.7%
Payroll and employee benefits	150,124	215,739	-30.4%	21.1%	22.6%	-1.5%
Rent	58,593	67,867	-13.7%	8.2%	7.1%	1.1%
Royalties	41,274	56,029	-26.3%	5.8%	5.9%	-0.1%
Advertising	33,033	49,359	-33.1%	4.6%	5.2%	-0.6%
Other operating expenses, net	110,004	93,755	17.3%	15.5%	9.8%	5.7%
Depreciation and amortization	36,879	28,640	28.8%	5.2%	3.0%	2.2%
Restaurant operating profit	49,277	124,281	-60.4%	6.9%	13.0%	-6.1%
General & Admin expenses, net	50,899	50,519	0.8%	7.2%	5.3%	1.9%
Operating Profit/(Loss)	(1,621)	73,761	-102.2%	-0.2%	7.7%	-7.9%
Finance costs	5,208	5,980	-12.9%	0.7%	0.6%	0.1%
Finance income	237	166	43.2%	0.0%	0.0%	0%
Profit/(Loss) before tax	(6,593)	67,946	-109.7%	-0.9%	7.1%	-8.0%
Income tax expense/(credit)	(4,283)	3,779	-213.3%	-0.6%	0.4%	-1.0%
Profit/(Loss) for the year	(2,309)	64,167	-103.6%	-0.3%	6.7%	-7.0%
EBITDA	36,912	103,926	-64.5%	5.2%	10.9%	-5.7%
Normalized EBITDA*	44,094	95,989	-54.1%	6.2%	10.1%	-3.9%

(*) For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (1,528) and costs related to the Italian subsidiary development agreement terminated in 2020 (1,234). For the year ended 31 December 2019, EBITDA was normalized to exclude the following expenses: release of tax provision (10,343) and impairment loss of goodwill (2,406).

Summary of FY Preliminary Condensed

Consolidated Financial Statements (with and without IFRS 16 impact)

Data in RON'000	2020	2020	2019	2019	Change (%)	
	(1)	(2)	(1)	(2)	2020/2019 (1)	2020/2019 (2)
Restaurant sales	710,797	710,797	954,728	954,728	-25.6%	-25.6%
Other income	726	726	-	-		
Restaurant expenses	657,311	662,245	828,332	830,448	-20.6%	-20.3%
Food and material	232,338	232,338	319,059	319,059	-27.2%	-27.2%
Payroll and employee benefits	150,124	150,124	215,739	215,739	-30.4%	-30.4%
Rent	5,293	58,593	22,480	67,867	-76.5%	-13.7%
Royalties	41,274	41,274	56,029	56,029	-26.3%	-26.3%
Advertising	33,033	33,033	49,359	49,359	-33.1%	-33.1%
Other operating expenses, net	109,479	110,004	93,749	93,755	16.8%	17.3%
Depreciation and amortization	85,770	36,879	71,917	28,640	19.3%	28.8%
Restaurant operating Profit / (Loss)	54,212	49,277	126,396	124,281	-57.1%	-60.4%
General & Admin expenses, net	51,134	50,899	50,024	50,519	2.2%	0.8%
Operating Profit/(Loss)	3,078	(1,621)	76,372	73,761	-96%	-102.2%
Finance costs	17,410	5,208	17,538	5,980	-0.7%	-12.9%
Finance income	237	237	166	166	43.2%	43.2%
Profit/(Loss) before tax	(14,095)	(6,593)	59,000	67,946	-123.9%	-109.7%
Income tax expense/(credit)	(4,508)	(4,283)	3,538	3,779	-227.4%	-213.3%
Profit/(Loss) for the period	(9,587)	(2,309)	55,462	64,167	-117.3%	-103.6%
EBITDA	93,816	36,912	152,619	103,926	-38.5%	-64.5%
Normalized EBITDA*	100,998	44,094	144,682	95,989	-30.2%	-54.1%

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

(*) For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (1,528) and costs related to the Italian subsidiary development agreement terminated in 2020 (1,234). For the year ended 31 December 2019, EBITDA was normalized to exclude the following expenses: release of tax provision (10,343) and impairment loss of goodwill (2,406).

Summary of Preliminary Condensed Consolidated Financial Statements for Q4

Data in RON'000	Q4-20	Q4-19	Y/Y % Q4-20/Q4-19	% of Sales		
				Q4-20	Q4-19	Δ%
Restaurant sales	208,352	260,412	-20.0%			
Other income	726	0				
Restaurant expenses	194,625	224,341	-13.2%	93.4%	86.1%	7.3%
Food and material	67,818	83,638	-18.9%	32.5%	32.1%	0.4%
Payroll and employee benefits	44,114	57,342	-23.1%	21.2%	22.0%	-0.8%
Rent	15,440	18,743	-17.6%	7.4%	7.2%	0.2%
Royalties	11,835	15,249	-22.4%	5.7%	5.9%	-0.2%
Advertising	9,598	15,128	-36.6%	4.6%	5.8%	-1.2%
Other operating expenses. net	35,527	26,130	36.0%	17.1%	10.0%	7.1%
Depreciation and amortization	10,293	8,111	26.9%	4.9%	3.1%	1.8%
Restaurant operating profit	14,453	36,071	-59.9%	6.6%	13.9%	-7.3%
General & Admin expenses. net	15,663	7,875	98.9%	7.5%	3.0%	4.5%
Operating Profit/(Loss)	(1,211)	28,195	-104.3%	-0.9%	10.8%	-11.7%
Finance costs	1,235	1,158	6.6%	0.6%	0.4%	0.2%
Finance income	55	45	22.2%	0.0%	0.0%	0.0%
Profit/(Loss) before tax	(2,391)	27,082	-108.8%	-1.5%	10.4%	-11.9%
Income tax expense/(credit)	(4,794)	1,129	-524.6%	-2.3%	0.4%	-2.7%
Profit/(Loss) for the period	2,403	25,953	-90.7%	0.8%	10.0%	-9.2%
EBITDA	9,602	36,703	-73.8%	4.6%	10.0%	-5.4%
Normalized EBITDA*	15,623	28,766	-45.7%	7.5%	14.1%	-6.6%

(*)For the year ended 31 December 2020, EBITDA was normalized to exclude the following expenses: impairment loss of goodwill (4,420), accrued penalties due to Pizza Hut Europe (Master Franchisor - YUM!) for the restaurants committed to be opened in 2019 and postponed for the future periods (1,528) and costs related to the Italian subsidiary development agreement terminated in 2020 (1,234). For the year ended 31 December 2019, EBITDA was normalized to exclude the following expenses: release of tax provision (10,343) and impairment loss of goodwill (2,406).

Breakdown of consolidated 2020 results by Group companies

Data in RON'000	2020							
	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	SFG Cons
Restaurant sales	527,588	68,403	8,678	76,456	29,512	23,823	(23,663)	710,797
Other income	-	-	-	726	-	-	-	726
Restaurant expenses	457,176	76,810	7,576	93,061	29,348	483	(2208)	662,245
Food and material	176,760	18,805	3,481	22,949	10,352	-	(8)	232,338
Payroll and employee benefits	99,501	19,178	1,513	23,858	6,074	-	-	150,124
Rent	41,450	6,821	386	7,497	2,440	-	-	58,593
Royalties	31,041	3,919	522	4,560	1,232	-	-	41,274
Advertising	23,418	4,631	341	4,825	1,506	483	(2,171)	33,033
Other operating expenses	65,797	17,009	991	20,815	5,419	-	(28)	110,004
Depreciation	19,207	6,447	343	8,558	2,324	-	-	36,879
Restaurant operating profit/(loss)	70,412	(8,408)	1,102	(15,879)	164	108,564	(106,678)	49,277
G&A expenses	33,598	6,321	283	7,874	2,339	42,468	(41,985)	50,899
Operating profit/(loss)	36,815	(14,729)	818	(23,753)	(2,175)	66,096	(64,693)	(1,621)
Finance costs	3,485	997	166	2,889	1,490	1,639	(5,458)	5,208
Finance income	3,701	25	-	1	-	1,968	(5,458)	237
Profit/(Loss) before tax	37,030	(15,701)	652	(26,641)	(3,665)	66,425	(64,693)	(6,593)
Income tax expense/(credit)	2,100	663	72	(7,165)	129	(83)	-	(4,283)
Profit/(Loss) for the period	34,930	(16,364)	580	(19,476)	(3,795)	66,508	(64,693)	(2,309)
EBITDA	56,708	(8,105)	1,199	(15,171)	221	66,753	(64,693)	36,912
Normalized EBITDA	66,144	(6,577)	1,199	(13,937)	221	82,379	(85,336)	44,094

Overview of the FY G&A expenses

(with and without IFRS 16 impact)

	Data in RON '000					Percentage of sale			
	2020	2020	2019	2019	Change (%) 2020/ 2019 (1) 2020/ 2019 (2)	2020	2020	2019	2019
	(1)	(2)	(1)	(2)			(1)	(2)	(1)
General and administration (G&A) expenses, net	51,134	50,899	50,024	50,519	2.2%	0.8%	7.2%	7.2%	5.2%
Payroll and employee benefits	28,955	28,955	35,183	35,183	-17.7%	-17.7%			
Third-party services	6,035	6,035	9,009	9,009	-33%	-33%			
Impairment of goodwill	4,420	4,420	2,406	2,406	83.7%	83.7%			
Depreciation and amortization	4,968	1,655	4,330	1,525	14.7%	8.5%			
Rent	394	3,472	386	3,688	2.1%	-5.9%			
Banking charges	2,810	2,810	3,384	3,384	-17.0%	-17.0%			
Transport	929	929	2,591	2,591	-64.1%	-64.1%			
Other*	2,622	2,622	(7,265)	(7,265)	136.1%	136.1%			

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

*Other expenses include maintenance & repairs, smallware, insurance, advertising, phone & postage, other provisions (tax provision), and miscellaneous expenses.

Thank you for joining us!

Sphera Franchise Group's unaudited preliminary 2020 results are available for download
our website: www.spheragroup.com.

The recording of this conference call will be available on our website shortly.

For any questions related to Sphera Franchise Group's activity on the Bucharest Stock
Exchange, please contact our IR team at: investor.relations@spheragroup.com.

