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KFC



Sphera Franchise Group Investor & Analyst Call

Q1 2021 Results

17.05.2021



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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 Q1 2021 Results Call



Calin Ionescu
CEO



Valentin Budes
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Monica Eftimie
CMO



Zuzanna Kurek
IR

Sphera Franchise Group's unaudited Q1 2021 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 Q1 2021 Highlights**
- 2 COVID-19 related updates from Q1 2021**
- 3 Brand Performance**
- 4 Q&A session**
- 5 Annex: Key Q1 2021 Financials**

Q1 2021 Highlights



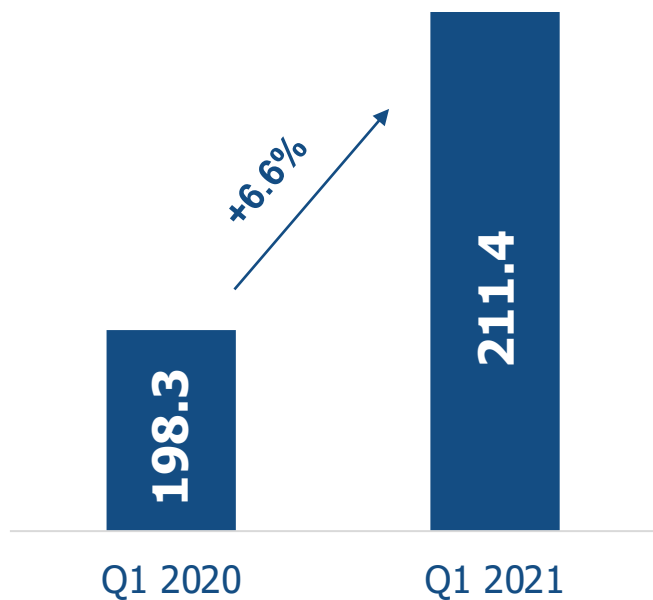
SFG Performance in Q1 2020

Data in RON'000	Q1-21	Q1-20	Y/Y %
Restaurant sales	211,428	198,314	6.6%
Restaurant expenses	195,679	190,876	2.5%
Restaurant operating profit	15,749	7,438	111.7%
General & Admin expenses. net	12,663	13,966	-9.3%
EBITDA	12,749	3,140	306.0%
Normalized EBITDA*	13,115	3,536	271.0%
Operating Profit/(Loss)	3,086	(6,528)	147.3%
Finance costs	2,069	1,542	34.2%
Finance income	2	26	-93.2%
Profit/(Loss) before tax	1,018	(8,044)	112.7%
Income tax expense/(credit)	550	459	19.7%
Specific Tax	-	1,047	-100.0%
Profit/(Loss) for the period	469	(9,550)	104.9%

Results excl. IFRS16

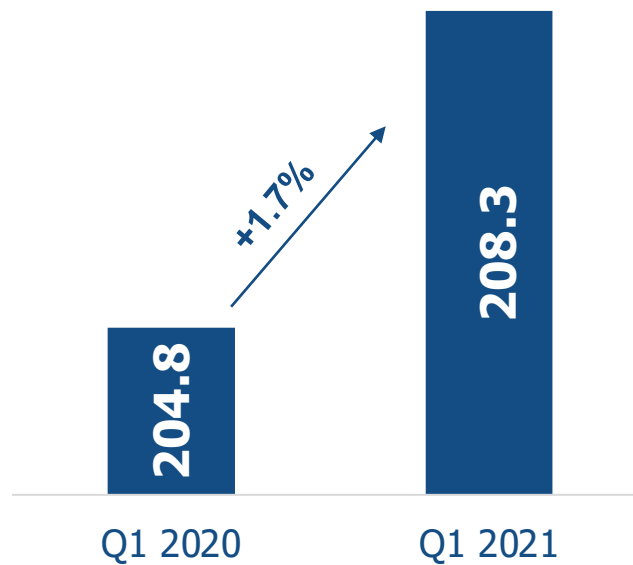
- **QoQ & YoY turnover increase:** Although all three markets of SFG's activity continued to struggle with the growing number of COVID-19 cases and the resulting thereof restrictions, restaurant sales grew 1.5% QoQ and 6.6% YOY, reaching RON 211.4 million in Q1 2021.
- **Controlled restaurant expenses:** Restaurant expenses grew slower than revenues, reaching RON 195.7 (+2.5%). Food costs grew 4.6% YoY, payroll decreased 6.1% YoY thanks to state aid received from governments and lower FTE. Advertising costs declined 13.6%. Depreciation and amortization decreased 3.8% in Q1 2021 compared to the same period of last year as a result of closing of the non-viable locations in 2020. Other operating expenses grew 29.4%, reaching RON 31.4 million, primarily due to surge in aggregator commissions.
- **Continued surge in aggregator fees:** In Q1 2021, approximately 27% of the consolidated sales were made through food aggregators, which led to expenses related to aggregator commissions reaching RON 10.9 million, a 750% increase YoY. Sales for delivery reached 31% of total sales in Q1 2021 (flat QoQ).
- **G&A:** G&A expenses decreased by 9.3% in Q1 2021, due to lower employee benefits and transportation. Share of G&A expenses in the consolidated sales decreased 1pp YoY.
- **KFC RO & MD going strong:** USFN Romania and USFN Moldova closed Q1 2021 profitable, registering together EBITDA of RON 19.6 million and RON 13.9 million in net profit. CFF closed Q1 2021 with restaurant operating profit of RON 0.1 million, but the G&A expenses and finance costs dragged the bottom line to a loss of RON 1 million. USFN Italy and ARS ended the first three months with a net loss of RON 8 million and RON 3.7 million, respectively.
- **Profitable Quarter:** Despite continued restrictions on indoor dining, the Group turned to profit in the first three months of 2021 as the bottom line grew 105%, reaching RON 0.5 million profit for the period, significant improvement compared to RON 9.6 million loss in Q1 2020.

SFG Q1 2021 Performance



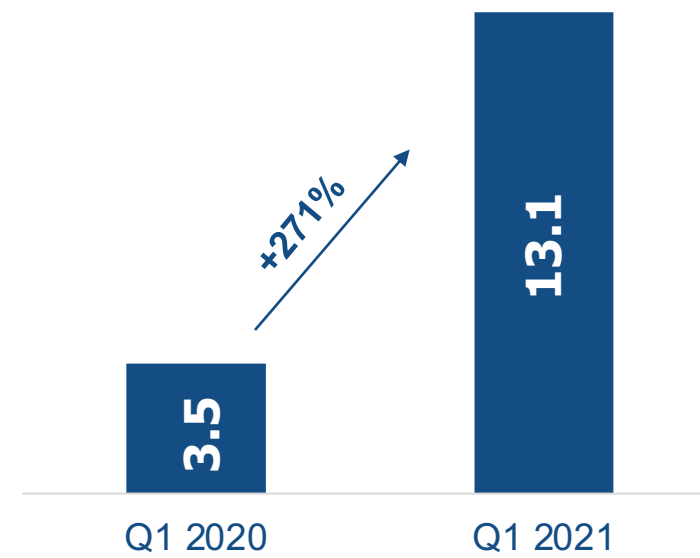
Restaurant Sales

in RON m



Expenses (Restaurant + G&A)

in RON m, excl. IFRS16

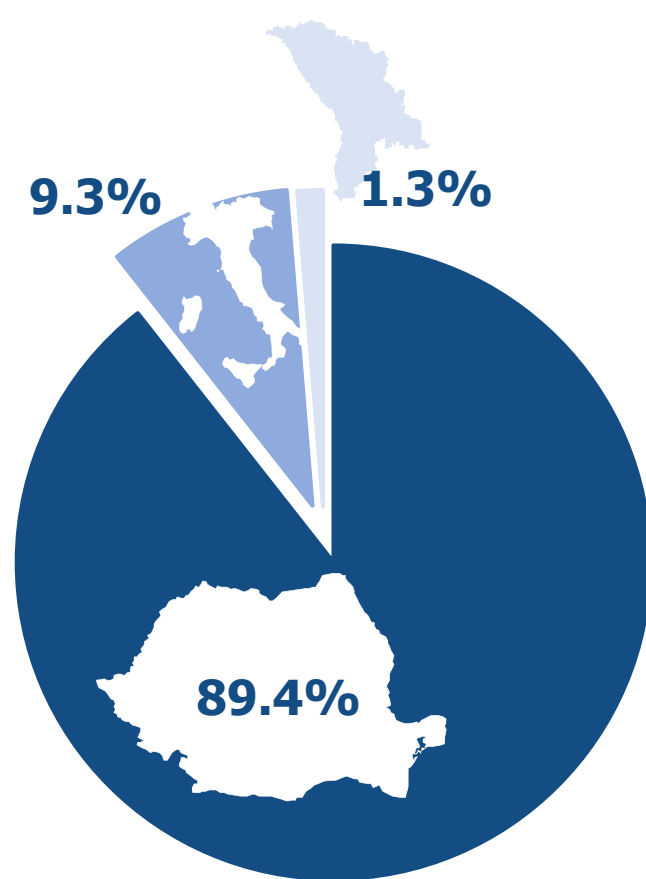


Normalized EBITDA

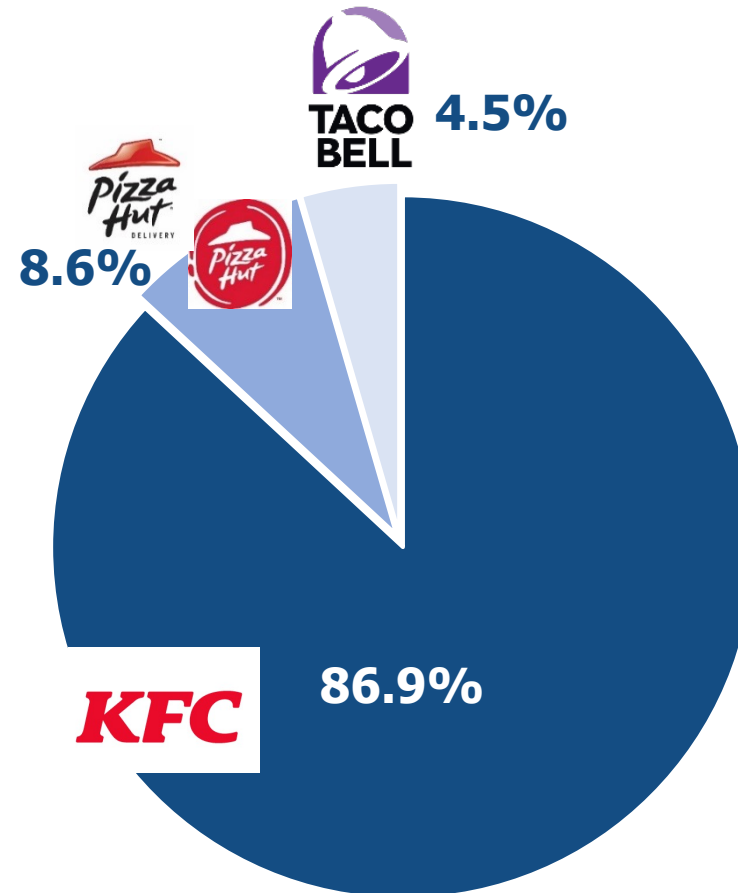
in RON m, excl. IFRS16

SFG Q1 2021 Performance breakdown

Contribution to Q1 2021 turnover



Per market



Per brand

Market evolution

- Romania registered the best quarter since beginning of the pandemic, as it's share in the total turnover grew.
- Italy was severely impacted by the lockdown measures introduced in March 2021, growing only 2.5% YoY and thus declining 1.5% in market share compared to 2020 average.
- Moldova grew its share 1pp compared to 2020 as delivery surged, despite country lagging on vaccinations.

Brand evolution

- KFC grew its market share compared to 2020, driven by solid performance in Romania (+14.3% YoY) and Moldova (+19% YoY).
- Pizza Hut decreased sales 32.6% YoY as a result of restrictions on indoor dining.
- Taco Bell increased market share compared to 2020 by solid same store (+6%) as well as all store (13.1%) performance.
- KFC Romania and KFC Moldova closed Q1 2021 profitable, registering together EBITDA of RON 19.6 million and RON 13.9 million in net profit.

COVID-19 related updates from Q1 2021



COVID-19 Update

Vaccinations

- **RO & IT progressing with vaccination campaigns:** In December 2020, the anti-COVID-19 vaccination campaigns started in Romania and Italy. Approx. 14.5% of the Romanian, 14% of the Italian and 1.2% of Moldavian adult population were so far completely vaccinated.

Restrictions in Romania

- **Reopening Bucharest:** Between 21.01 and 07.03, indoor dining was allowed at 30% capacity in Bucharest. As of 08.03, it was forbidden again. On 03.05 indoor restaurants and cafes, cinemas and event halls were reopened at 30% capacity as the COVID-19 incidence rate in Bucharest dropped below 3 cases/1,000 inhabitants.
- **Whole Romania is now “green”:** As of 11.05, all the counties in Romania, including the capital of Bucharest, are in the “green” scenario, meaning the COVID-19 incidence is below 1.5 cases/1,000 inhabitants. The national average of cases is 1.02, as reported at the total population of Romania, according to the INS. As of 15.05, restaurants can operate indoor at 50% capacity, outdoor events with a maximum of 300 participants can be organized.

Restrictions in Italy

- **Strict lockdown reintroduced in March:** Italian government reimposed widespread lockdown between March and 01.05. The indoor and outdoor restaurants were closed, only takeaway and delivery was allowed.
- **Easing of lockdown measures on 26.04 for “yellow”:** Across regions classified as lower risk “yellow zones” restaurants and bars are allowed to serve customers at outdoor tables. There is a Government decision that states that as of June 1st, indoor dine-in will be allowed until 18:00, and with social distancing rules.

Restaurant development

Number of stores

- **159 restaurants operated:** SFG operated 159 restaurants as of 31.03.2021, out of which 138 were based in Romania, 19 in Italy and 2 in Republic of Moldova. 1 non-viable PHD location was closed, impaired as of 31.12.2020.
- **3 new openings so far in 2021:** In Q1 2021, SFG inaugurated 1 new KFC restaurant in Romania (Sfantu Gheorghe) and 1 new KFC restaurant in Italy (first Drive Thru location outside of Romania, in Lazio). So far in Q2 2021, Sphera opened 1 new Taco Bell store, in Palas Mall in Iasi, Romania.

2021 Development Plan

- **RON 1bn+ in sales:** On 28.04.2021, GSM approved the 2021 consolidated Budget and Activity Plan of the Group. SFG estimates RON 1,157.6 million in restaurant sales in 2021, RON 150.5 in restaurant operating profit and normalized EBITDA of RON 95 million.
- **16 new restaurants:** The development plan includes opening of 16 restaurants in 2021, out of which 8 KFC, 3 Pizza Hut and 3 Taco Bell restaurants in Romania and 2 KFC restaurants in Italy. The estimated CAPEX for the new store opening is EUR 10.2 million. Additional to the opening of new restaurants, the store remodelling costs are estimated at approximately EUR 3.8 million.

State aid, lease discounts

State aid

- **Technical unemployment:** Approximately 4% of employees in Romania and 17% of employees in Italy were in technical unemployment as of 31.03.2021. The total state aid received in Q1 2021 equalled RON 919K, out of which RON 840K were granted by the Romania government and RON 79K by the Italian state.
- **Specific income tax in Romania:** At the end of 2020, the Romanian government adopted the exemption from the payment of the specific income tax due by the economic operators from HORECA sector, a period of 90 days, starting from 01.01.2021. On 25.03.2021, the exemption was prolonged for another 90 days, until 30.06.2021. The total impact of this measure on Sphera's result is a saving of estimated RON 2.3 million lei in H1 2021. The assumption is based on the already existing locations.
- **HORECA aid in Romania:** Project for the implementation procedure of ordinance 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 was recently published. SFG is analysing the impact.

Lease

- **Case-by-case negotiations:** In Q1 2021, 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 1.25 million discounts:** In Q1 2021 the Group managed to obtain discounts on the fixed rent in the total amount of RON 1.25 million, out of which RON 0.72 million were granted in Romania, RON 0.52 million in Italy and RON 11K in the Republic of Moldova.

Sales & Marketing

Sales

- **Delivery maintains the same share as in Q4'20:** 31% of all orders (RON 65.9 million) were delivered in Q1 2021 by aggregators or using Sphera's own delivery capacity. The relatively high share of delivery in the total sales in Q1 2021 continued primarily due to cold weather as well as restrictions on indoor dining in majority of the restaurants operated by the Group.
- **Expectation for in-door dining to grow share as of Q2:** As the weather improves, the vaccination campaign progresses and indoor restrictions loosen, the share of the sale for delivery is expected to decrease, reaching similar levels to those registered in Q3 2020 (approx. 24%). FY2021 estimates approx. 25% of all orders to be done for delivery.

Marketing

- **Build sales through transactions:** KFC concentrated its communication on value for Q1, successfully re-launching Smart Menu (a full meal for 15 RON) and Ceva / *Something* (value bundle for 5 RON) both with a promo layer on top offering prizes for purchase, which resulted in regaining lost transactions.
- **Regain lost visits:** Pizza Hut started the year by communicating aggressive value through its "small pizza only 1 RON with any medium pizza" which attracted frugal consumers and increased trial.
- **Focus on brand trial:** Taco Bell launched a value campaign in Q1 by offering tacos supreme for 6 RON each, with the objective of making core famously craveable and offering accessibility to our products.
- **Digitalize or die:** Sphera continued the digital journey by making our brands easy to access and order, anywhere and any way, with focus on self-ordering kiosks, digital menu boards, e-commerce platform, click & collect mobile app, e-coupons, CRM strategy, aggregators presence.

Brand performance

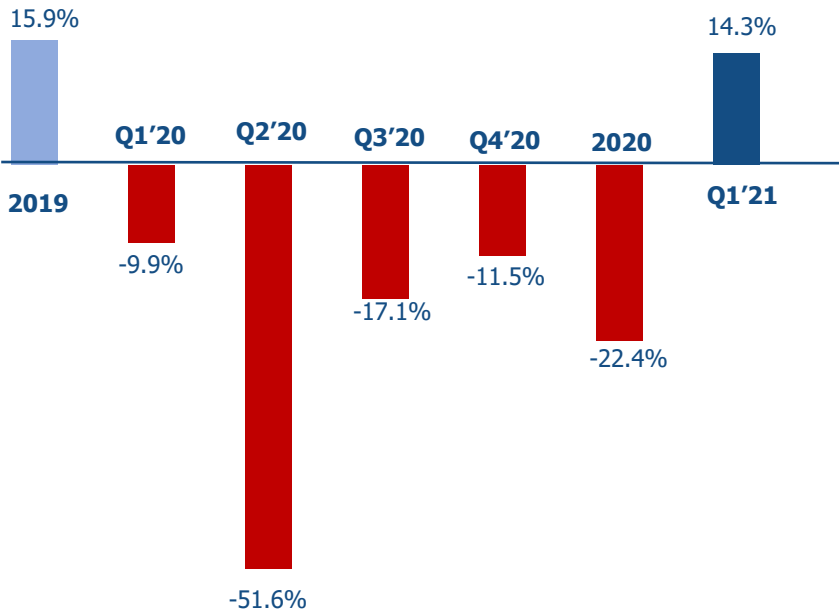




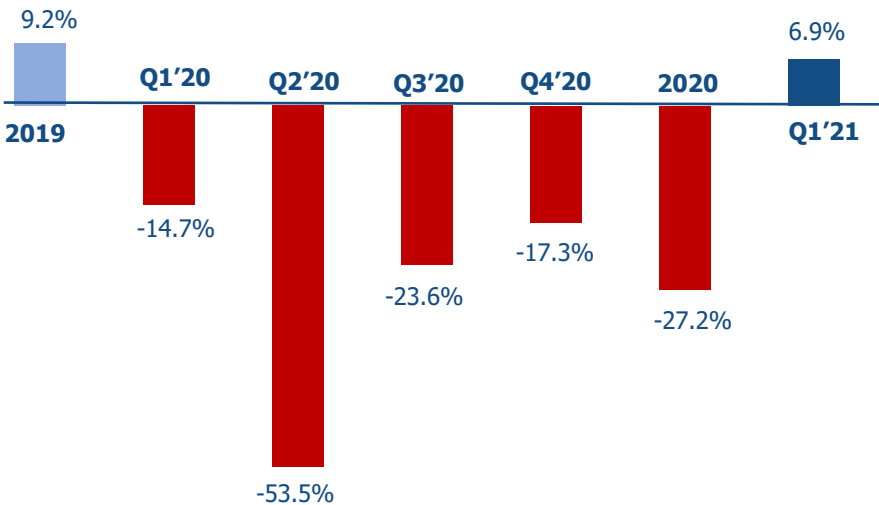
KFC Romania

- Q1 2021 was a strong quarter of growth for KFC Romania as all store performance improved 14.3% y-o-y. 6 new locations opened in Romania between 31.03.2020 and 31.03.2021 contributed to the solid result.
- Same-store performance of KFC Romania improved 6.9% y-o-y, registering a partial recovery after 2020.
- 28% of all orders at KFC Romania were made for delivery in Q1 2021 (compared to 6% in Q1 2020; same as in Q4 2020).

All Store Performance



Same Store Performance



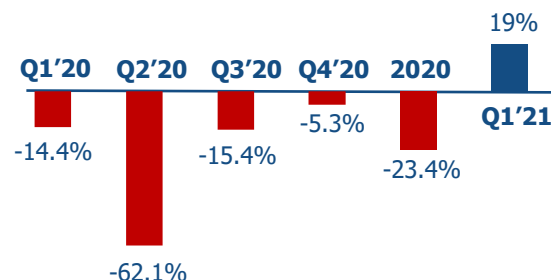


KFC Italy & KFC Republic of Moldova

KFC Italy

- Like-for-like performance in Italy in Q1 2021 dipped 21.3% Y-o-Y as the country was severely impacted by new lockdown measures imposed in March 2021.
- 3 new locations opened after 31.03.2020 helped offset the negative effect, consequently all store performance improved 2.5% Y-o-Y.
- USFN Italy ended Q1 2021 with a negative EBITDA, net loss of RON 8 million.
- 25% of orders in Q1 2021 were for delivery, 2pp increase QoQ.

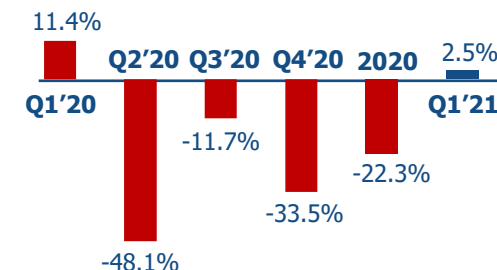
All Store Performance



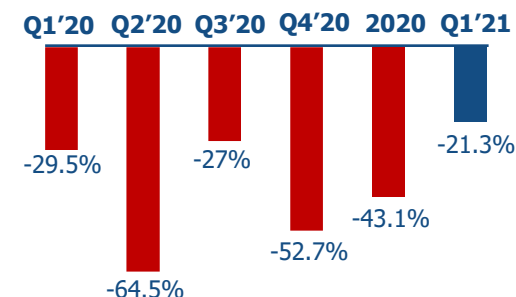
KFC Moldova

- Republic of Moldova managed to increase sales by 19% compared to Q1 2020, the second highest turnover generated since the onset of the pandemic, driven by a significant increase in sales for delivery, up 8pp QoQ.
- USFN Moldova ended Q1 2021 with RON 0.4 million EBITDA and RON 0.28 million net profit.
- 33% of all the orders in Q1 2021 were for delivery, 8pp increase.

All Store Performance



Same Store Performance

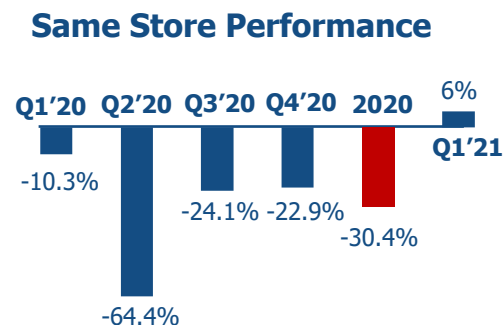
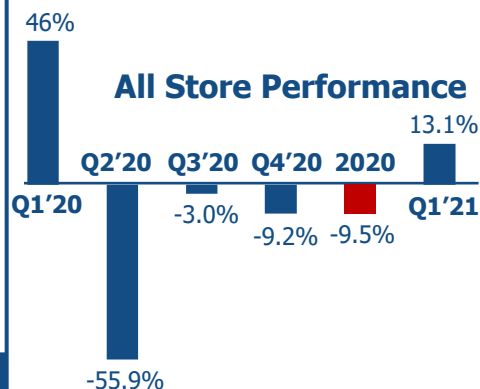
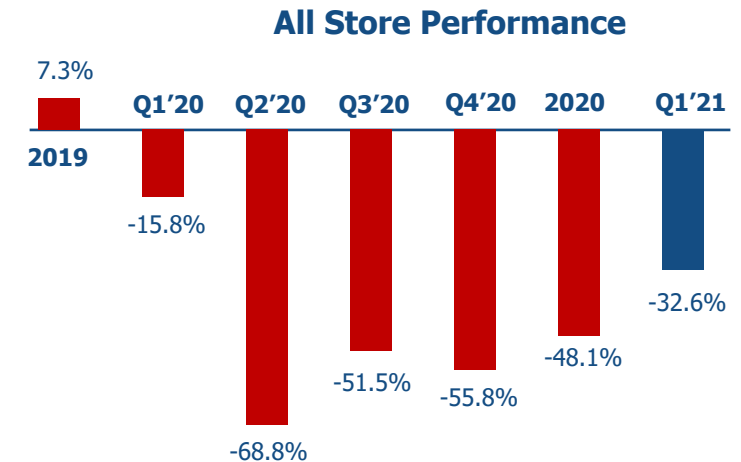




Pizza Hut & Taco Bell

Pizza Hut

- Pizza Hut's continued negative performance in Q1 2021 as sales dipped 32.6% Y-oY.
- Nonetheless, Pizza Hut managed to record the highest turnover since Q2 2020, lower the loss by 20.5% QoQ and post an improved performance YoY driven also by the decision of the Group to close selected non-performing Pizza Hut locations, starting with Q3 2020.
- 57% of all orders were made for delivery in Q1 2021, a QOQ decline compared to 63% in Q4 2020.



Taco Bell

- Taco Bell's same store performance in Q1 2021 registered a 6% increase y-o-y. The 1 new Taco Bell Romania opened in 2020 contributed to increasing all store YoY performance by 13.1%.
- Taco Bell closed Q1 2021 with restaurant operating profit of RON 0.1 mn, but the G&A expenses and finance costs dragged the bottom line to a loss of RON 1 mn.
- 44% of all orders in Q1 2021 were for delivery, 2pp QoQ increase.

Q&A Session



Annex: Key Q1 2021 Financials



Summary of Q1 2021 Consolidated FS

Data in RON'000	Q1-21	Q1-20	Y/Y % Q1-21/Q1-20	% of Sales		Δ%
				Q1-21	Q1-20	
Restaurant sales	211,428	198,314	6.6%			
Restaurant expenses	195,679	190,876	2.5%	92.6%	96.2%	-4.6%
Food and material	69,498	66,457	4.6%	32.9%	33.5%	-0.6%
Payroll and employee benefits	47,759	50,837	-6.1%	22.6%	25.6%	-3.0%
Rent	16,493	17,986	-8.3%	7.8%	9.1%	-1.3%
Royalties	12,618	11,639	8.4%	6.0%	5.9%	0.1%
Advertising	8,994	10,405	-13.6%	4.3%	5.2%	-1.0%
Other operating expenses, net	31,383	24,261	29.4%	14.8%	12.2%	2.6%
Depreciation and amortization	8,935	9,291	-3.8%	4.2%	4.7%	-0.5%
Restaurant operating profit	15,749	7,438	111.7%	7.4%	3.8%	3.7%
General & Admin expenses, net	12,663	13,966	-9.3%	6.0%	7.0%	-1.1%
Operating Profit/(Loss)	3,086	(6,528)	147.3%	1.5%	-3.3%	4.8%
Finance costs	2,069	1,542	34.2%	1.0%	0.8%	0.2%
Finance income	2	26	-93.2%	0.0%	0.0%	0.0%
Profit/(Loss) before tax	1,018	(8,044)	112.7%	0.5%	-4.1%	4.5%
Income tax expense	550	459	19.7%	0.3%	0.2%	0.0%
Specific Tax	-	1,047	-100.0%	0.0%	0.5%	-0.5%
Profit/(Loss) for the period	469	(9,550)	104.9%	0.2%	-4.8%	5.0%
EBITDA	12,749	3,140	306.0%	6.0%	1.6%	4.4%
Normalized EBITDA*	13,115	3,536	271.0%	6.2%	1.8%	4.4%

(*) For the 3M period ended March 31st, 2021, 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.

Summary of Q1 2021 Consolidated FS

(with and without IFRS 16 impact)

Data in RON'000	Q1-21	Q1-21	Q1-20	Q1-20	Change (%)	
	1	2	1	2	Q1-21/ Q1-20 (1)	Q1-21/ Q1-20 (2)
Restaurant sales	211,428	211,428	198,314	198,314	6.6%	6.6%
Restaurant expenses	196,168	195,679	190,396	190,876	3.0%	2.5%
Food and material	69,498	69,498	66,457	66,457	4.6%	4.6%
Payroll and employee benefits	47,759	47,759	50,837	50,837	-6.1%	-6.1%
Rent	3,237	16,493	5,326	17,986	-39.2%	-8.3%
Royalties	12,618	12,618	11,639	11,639	8.4%	8.4%
Advertising	8,994	8,994	10,405	10,405	-13.6%	-13.6%
Other operating expenses, net	31,383	31,383	24,160	24,261	29.9%	29.4%
Depreciation and amortization	22,680	8,935	21,572	9,291	5.1%	-3.8%
Restaurant operating Profit / (Loss)	15,260	15,749	7,918	7,438	92.7%	111.7%
General & Admin expenses, net	12,146	12,663	13,824	13,966	-12.1%	-9.3%
Operating Profit/(Loss)	3,114	3,086	(5,906)	(6,528)	152.7%	147.3%
Finance costs	6,090	2,069	4,998	1,542	21.9%	34.2%
Finance income	2	2	26	26	-93.2%	-93.2%
Profit/(Loss) before tax	(2,974)	1,018	(10,878)	(8,044)	72.7%	112.7%
Income tax expense	135	550	329	459	-59%	19.7%
Profit/(Loss) for the period	(3,109)	469	(12,254)	(9,550)	74.6%	104.9%
EBITDA	26,856	12,749	16,768	3,140	60.2%	306%
Normalized EBITDA*	27,223	13,115	17,164	3,536	58.6%	271%

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

(*) Normalized EBITDA – excludes the penalty from franchisor for postponed development of Pizza Hut restaurants in 2019.

Breakdown of Q1 2021 results by entity

Data in RON'000	Q1-21							SFG Cons
	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons. Adj.	
Restaurant sales	161,194	18,254	2,791	19,693	9,496	7,396	(7,396)	211,428
Restaurant expenses	139,664	19,590	2,374	24,749	9,392	-	(90)	195,679
Food and material	54,240	4,989	1,159	5,943	3,167	-	-	69,498
Payroll and employee benefits	33,355	5,039	385	6,885	2,095	-	-	47,759
Rent	11,446	2,111	161	1,951	823	-	-	16,493
Royalties	9,674	1,076	168	1,185	515	-	-	12,618
Advertising	6,345	1,007	112	1,154	463	-	(87)	8,994
Other operating expenses	19,946	4,374	313	5,055	1,697	-	(2)	31,383
Depreciation	4,658	994	75	2,575	633	-	-	8,935
Restaurant operating profit/(loss)	21,531	(1,337)	418	(5,056)	104	7,396	(7,307)	15,749
G&A expenses	7,369	1,977	75	2,109	651	7,747	(7,264)	12,663
Operating profit/(loss)	14,162	(3,314)	342	(7,165)	(547)	(350)	(42)	3,086
Finance costs	1,351	368	26	635	482	508	(1,300)	2,069
Finance income	1,031	3	-	0	-	268	(1,300)	2
Profit/(Loss) before tax	13,842	(3,679)	317	(7,800)	(1,029)	(590)	(42)	1,018
Income tax expense	214	-	37	198	-	100	-	550
Profit/(Loss) for the period	13,628	(3,679)	280	(7,998)	(1,029)	(691)	(42)	469
EBITDA	19,168	(2,137)	426	(4,584)	108	(191)	(42)	12,749
Normalized EBITDA*	19,168	(1,770)	426	(4,584)	108	(191)	(42)	13,115

Overview of the Q1 2021 G&A expenses

(with and without IFRS 16 impact)

	Data in RON '000				Change (%)		Percentage of sales			
	Q1-21	Q1-21	Q1-20	Q1-20			Q1-21	Q1-21	Q1-20	Q1-20
	(1)	(2)	(1)	(2)	2021/ 2020 (1)	2021/ 2020 (2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses, net	12,146	12,663	13,824	13,966	-12.1%	-9.3%	5.7%	6.0%	7.0%	7.0%
Payroll and employee benefits	8,072	8,072	8,908	8,908	-9.4%	-9.4%				
Third-party services	1,311	1,311	1,783	1,783	-26.5%	-26.5%				
Depreciation and amortization	1,062	728	1,102	376	-3.6%	93.4%				
Rent	72	924	138	1,005	-47.7%	-8.1%				
Banking charges	1,027	1,027	770	770	33.5%	33.5%				
Transport	149	149	448	448	-66.7%	-66.7%				
Other*	453	453	676	676	-33.0%	-33.0%				

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, miscellaneous expenses.

Thank you for joining us!

Sphera Franchise Group's unaudited Q1 2021 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.

