Sphera Franchise Group

Investor & Analyst Call

H1 2021 Results

31.08.2021

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

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Welcome to SFG's H1 2021 Results Call

Calin Ionescu
CEO

Valentin Budes
CFO

Monica Eftimie
CMO

Zuzanna Kurek
IR

Sphera Franchise Group's unaudited H1 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.

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Agenda for today's call

1 H1 2021 Highlights

2 Business updates from Q2 2021 & beyond

3 Brand performance

4 Q&A session

5 Annex: Key H1 2021 financials

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H1 2021 Highlights

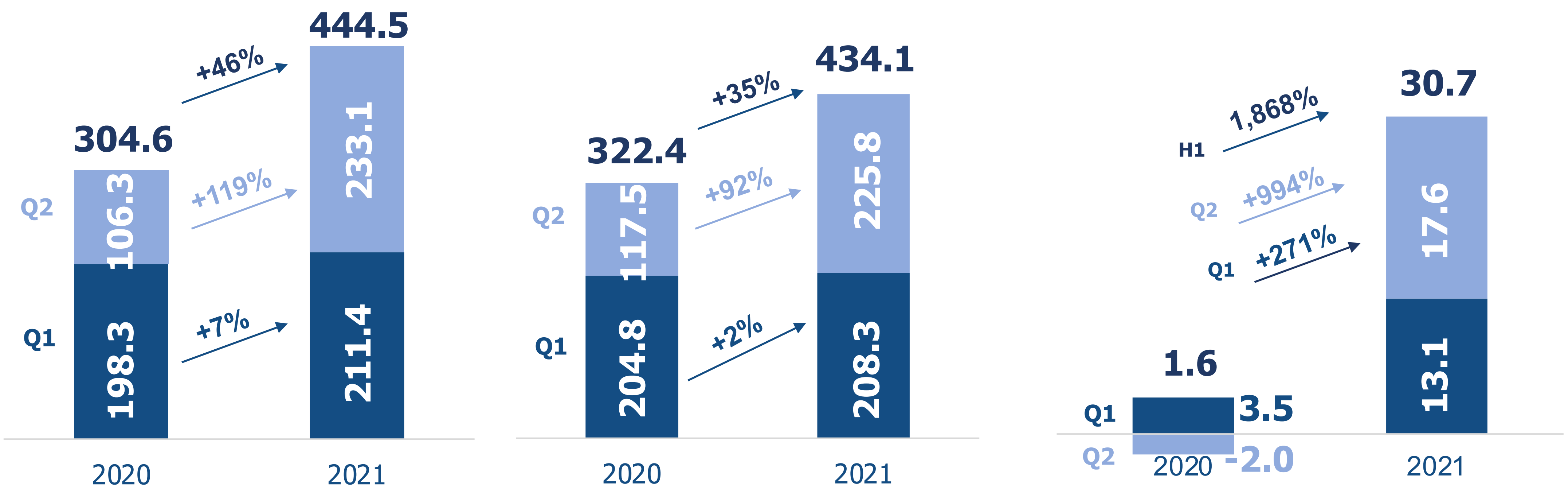
SFG Performance in H1 2020

Data in RON'000	H1-21	H1-20	Y/Y %
Restaurant sales	**444,544**	**304,580**	**46.0%**
Restaurant expenses	408,708	297,903	**37.2%**
Restaurant operating profit	**35,835**	**6,677**	**436.7%**
General & Admin expenses. net	25,420	24,447	4.0%
EBITDA	**30,006**	**772**	**3,785.4%**
Normalized EBITDA*	**30,740**	**1,563**	**1,866.7%**
Operating Profit/(Loss)	**10,415**	**(17,771)**	**158.6%**
Finance costs	3,534	2,902	**21.8%**
Finance income	42	88	-52.1%
Profit/(Loss) before tax	6,924	-20,585	133.6%
Income tax expense/(credit)	559	796	**-29.8%**
Specific Tax	1,179	978	**20.6%**
Profit/(Loss) for the period	**5,185**	**(22,360)**	**123.2%**

Results excl. IFRS16

- **Best Q2 in history for all store performance:** After a long period of instability caused by the novel coronavirus pandemic, Sphera Franchise Group closed Q2 2021 with record-high results and the best second quarter in the company's history, registering RON 233.1 million in consolidated sales on all three markets of activity, a surge of 119% compared to the same period of last year.
- **EBITDA surges in H1 2021 after challenging 12 months:** Combined with a strong first quarter of the year, Sphera Franchise Group closed H1 2021 with consolidated sales of RON 444.5 million, a 46% increase compared with H1 2020, normalized EBITDA of RON 30.7 million (+1,867%) and a net profit of RON 5.2 million (+123%).
- **Expenses growing slower than topline:** In H1 2021, restaurant expenses grew at a slower pace than the topline, reaching RON 408.7 million, a 37% increase compared to H1 2020. In H1 2021, food and material costs grew by 42%, payroll and employee benefits by 43%, rent by 16%, royalties by 48% advertising by 39%. Depreciation and amortization, reaching RON 18 million, was in line with H1 2020.
- **Aggregator fees continue to take fair share of other expenses:** Other operating expenses increased by 39%, reaching RON 64.4 million, driven by a 63% increase in third-party expenses due to a spike in aggregators volume, resulting in a 148% cost increase YOY, representing 58% of third-party expenses in H1 2021, a 20pp increase compared to a share of 38% registered in H1 2020.
- **G&A:** G&A expenses grew only by 4% in H1 2021, mainly due to cost optimization measures, while the share of G&A expenses in the consolidated sales decreased in the analyzed period, reaching 6%, down 2pp from 8% registered in H1 2020.
- **Profitable quarter:** In the first six months of 2021, the restaurants of the Group registered operating profit of RON 35.8 million, a 437% increase compared to H1 2020.

SFG H1 2021 Performance



Restaurant Sales

in RON m

Expenses (Restaurant + G&A)

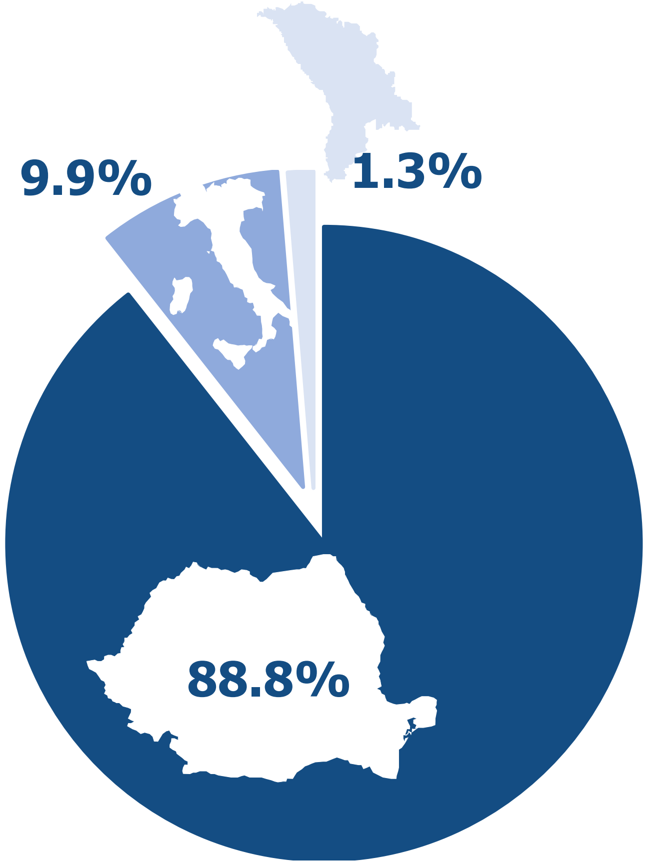
in RON m, excl. IFRS16

Normalized EBITDA

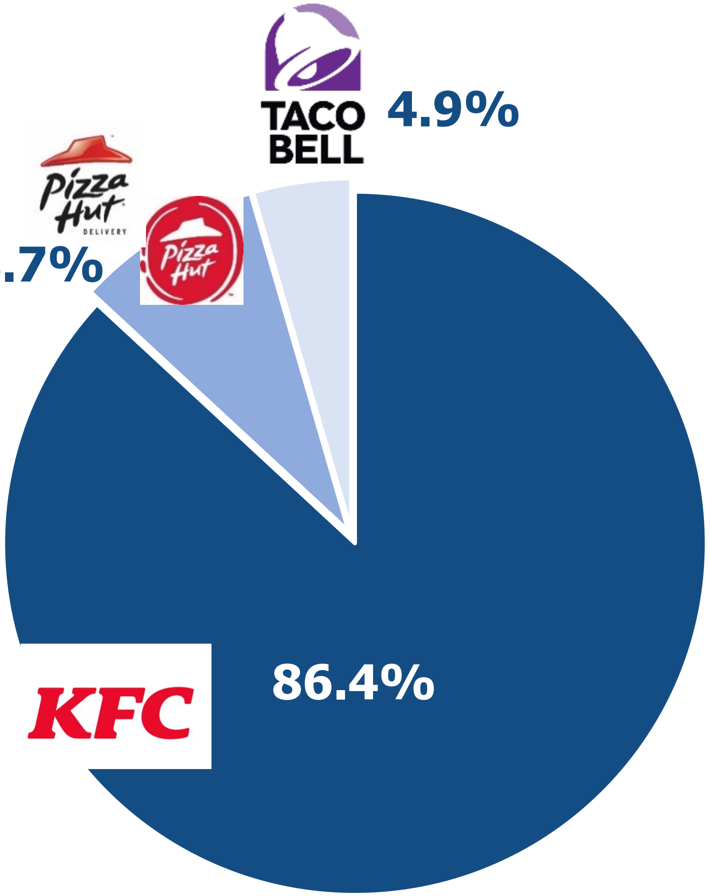
in RON m, excl. IFRS16

SFG H1 2021 Performance breakdown

Contribution to H1 2021 turnover



Per market



Per brand

Market evolution

- Sales in Romania grew 119% in Q2 2021 compared to Q2 2020, and consequently the Group registered best quarter since pandemic started and the best Q2 in history. H1 2021 sales in Romania grew 46% compared to H1 2020.
- Following lifting of lockdown measures introduced in March 2021, sales in Italy grew 114% in Q2 2021, compared to Q2 2020. In H1 2021, sales grew 44%.
- Moldova registered the most dynamic increase, of 180% in Q2 2021, compared to Q1 2021, consequently lifting H1 2021 result by 67% compared to H1 2020.

Brand evolution

- KFC grew sales 50% in H1 2021 compared to H1 2020, led by 51% increase in sales on the Romanian market, 67% increase in Moldova and 44% increase it Italy.
- Pizza Hut increased sales 5% in H1 2021 vs. H1 2020.
- Taco Bell sales grew 83% compared to H1 2020.
- KFC Romania and KFC Moldova closed H1 2021 profitable, registering EBITDA of RON 38.4 million and RON 0.8 million, respectively, and net profit of RON 26.8 million and RON 0.5 million, respectively.

Business updates from Q2 2021 & beyond

Facilities granted by the state, lease discounts

Facilities granted by the state

- **Technical unemployment:** In H1 2021, the indemnities for technical unemployment were in total amount of RON 2.47 million, out of which RON 1.27 million were facilities granted in Q1 2021 and RON 1.2 were granted in Q2 2021.
- **HORECA specific tax facility:** At the end of 2020, the Romanian government adopted the payment exemption regarding specific income tax due in 2021 for HoReCa sector, for a period of 90 days (Q1), starting from 01.01.2021; on 25.03, the payment exemption was prolonged for another 90 days (Q2 2021). The Group posted specific income tax in amount of RON 1.2 million due for H1 2021, taking into consideration the total period of 180 days of exemption when calculating 2021 annual tax amount. The total impact of this measure on Sphera's result was a saving of estimated RON 2.3 million for the year 2021. On June 24th, Emergency Ordinance 59/2021 was published that stipulates that the payment of H1 specific tax is postponed to 25.12.2021.
- **HORECA aid in Romania:** On December 30th, 2020, Emergency Ordinance 224/30.12.2020 was published that stipulates that companies from HoReCa sector can apply for a state aid in the amount that represents 20% of the loss of turnover in 2020 compared to 2019, capped at EUR 800,000 at Group level. The Group has applied for the aid and the application is currently under analysis with the relevant authorities.

Lease

- **RON 2.77 million discounts in H1:** In Q2 2021, the Group continued lease renegotiations agreements whenever possible and consequently benefitted from rent discounts amounting to RON 1.52 million, out of which RON 0.9 were granted to ARS, 0.6 to USFN IT and 0.01 to USFN Moldova. Paired with RON 1.25 million in discounts obtained in Q1 2021, in H1 2021, the Group registered a saving in total amount of RON 2.77 million.

Restaurant plan development

Number of stores

- **161 restaurants operated:** SFG operated 161 restaurants as of 30.06.2021, out of which 140 based in Romania, 19 in Italy and 2 in Republic of Moldova.
- **4 new openings in H1 2021:** In H1 2021, SFG opened 2 new KFC stores in Romania, in Sfantu Gheorghe and in Braila, 1 new KFC store in Italy – the first Drive Thru location outside of Romania, in Lazio and 1 new Taco Bell store, in Palas Mall in Iasi.

Update to Pizza Hut agreement

- **Closing negotiations with YUM!:** On August 13th, 2021, Sphera informed the investors about the closing of negotiations between master franchisor YUM! and ARS regarding the development plan for Pizza Hut. The original restaurant rollout plan as agreed between YUM! and ARS, applicable for period 2017-2021, considered opening of 8 new restaurants in 2020 and 9 new restaurants in 2021 in Romania was revised.
- **10 new PH restaurants in the next 3 years:** During the renegotiations, the parties have agreed on a minimum net new unit target (base tier) for the period 2021- 2023, which includes opening 3 new Pizza Hut restaurants in 2021, 3 new Pizza Hut restaurants in 2022, and 4 new Pizza Hut restaurants in 2023. All net new units shall be fast-casual delivery outlets, however out of the new restaurants, ARS will be permitted to open 1 express outlet in 2021, 1 express outlet in 2022, and no more than 2 express outlets in 2023.
- **Incentives:** ARS will benefit of progressive financial incentives, depending on the number of net new restaurants being opened. In terms of the initial franchise fees for years 2019 and 2020 related to the previous development plan as well as accrued penalties for not meeting the minimum target for new Pizza Hut restaurants from 2019, the parties agreed to use these amounts in entirety as a reinvestment credit, which will be deployed into development of the PH network in Romania.

Capital markets

VEKTOR score

- **10/10:** In March 2021, Sphera launched an updated version of its corporate website. Together with the relaunch of the website, Sphera requested an update to the VEKTOR Index assessment that is carried out by ARIR which measures the quality of communication of BVB issuers with investors. On April 19th, 2021, ARIR published an updated assessment and confirmed that Sphera scored 10/10, meaning it complies with the highest investor relations and corporate governance standards. The investors can access Sphera's revised assessment from 2021 HERE.

Dividend

- **RON 0.9021 dividend per share:** On August 19th, 2021, the Ordinary General Shareholder Meeting of the Group approved the distribution of dividends in the total amount of RON 35 million, from the undistributed profit from 2019 and 2020. The gross dividend per share is RON 0.9021. The ex-date for dividend is September 16th, with payment date being set up for September 30th.

Market Making

- **BRK Financial Group becomes SFG's Market Maker:** As of August 24th, 2021, BRK Financial Group acts as the Issuer Market Maker for Sphera Franchise Group with the purpose of enhancing the liquidity of SFG shares.
- **Specific parameters for SFG shares:** The minimum volume corresponding to the firm bid-ask quotes is 4,500 shares, the maximum spread between the bid and ask is 3%, and the maximum period for maintaining the bid and ask quotes during one trading session is 90% of the trading session or if the symbol was suspended from trading, from the period in which was traded during the trading session.

Sales & Marketing

Sales

- **In-store sales gained share compared to previous 2 quarters:** 29% of all orders (RON 67.6 million) were delivered in Q2 2021 by aggregators or using Sphera's own delivery capacity, registering a 2pp decrease QOQ in favour of in-store sales.
- **Expectation for in-door dining to grow in Q3 2021:** Analysing last year's performance, the share of delivery should decrease further in Q3 2021, and later increase back in Q4 2021 as the weather worsens, especially in the context of a threat of a new wave of COVID-19 infections in the autumn.

Marketing

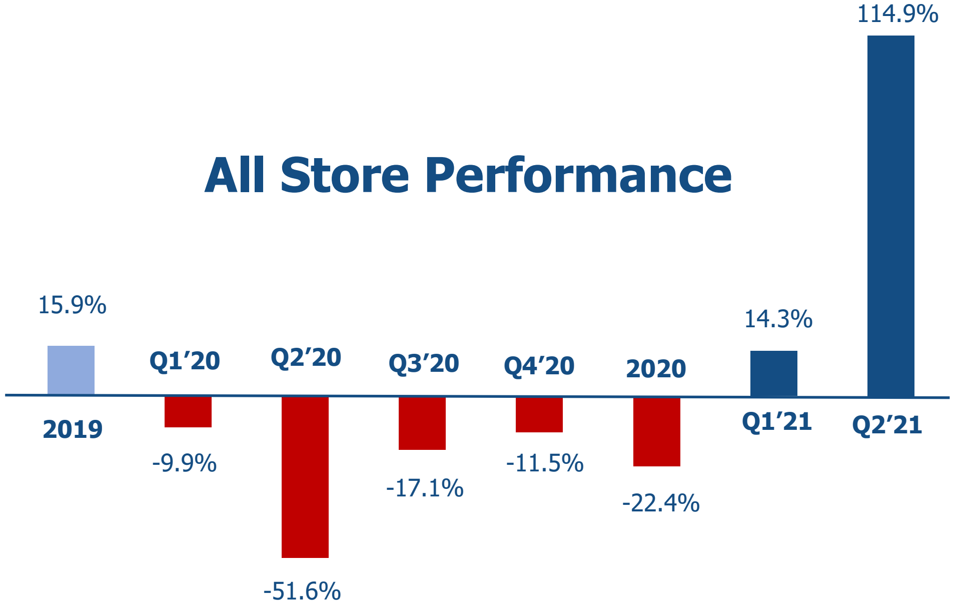
- **Build sales through transactions:** KFC concentrated its communication on product innovation for Q2, successfully launching a lower-priced format for its beloved Real Burger which drove both sales and share of burger occasion; value remained in focus with CEVA bundles at 5 lei and Wednesday 1+50% offer being communicated as a secondary campaign layer.
- **Regain lost visits:** Pizza Hut continued its value journey in Q2 by launching Special 5, five pizza recipes at a special price with the aim of increasing transactions through attracting new users and bringing back lapsed clients.
- **Focus on brand trial:** Taco Bell focused its communication in both existing and new stores on product innovation by launching a value format of the Crunchwrap, with the aim of creating differentiation while making core products affordable.
- **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, proximity e-targeted communication.

Brand performance

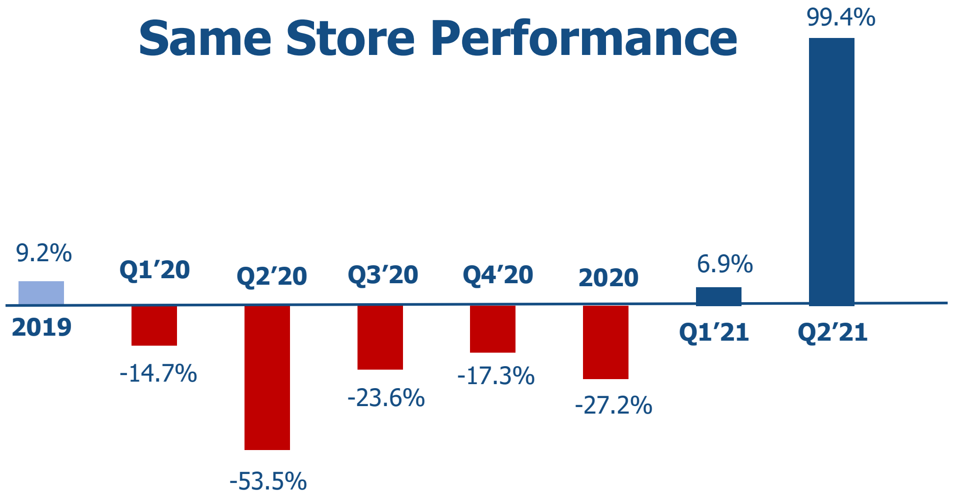
KFC Romania

- In Q2 2021, the results of KFC Romania skyrocketed as all store performance improved 115% YOY. The increase in vaccinations and the resulting thereof relaxation of COVID-19 prevention measures drove the performance in Q2 2021.
- Same-store performance of KFC Romania improved 99.4% YOY, registering a solid recovery after difficult 2020.
- 27% of all orders at KFC Romania were made for delivery in Q2 2021, a significant decrease in relative terms compared to 44% in Q2 2020.

All Store Performance

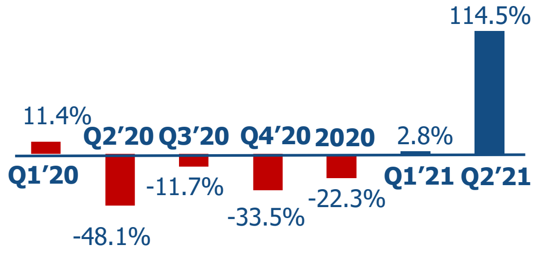


Same Store Performance



KFC Italy & KFC Republic of Moldova

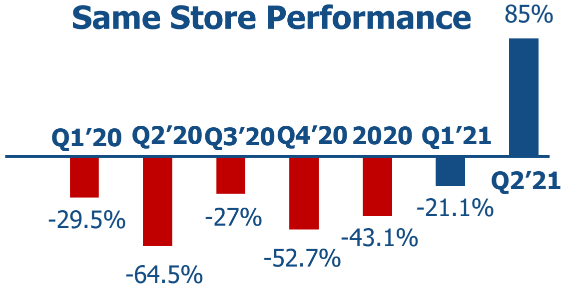
All Store Performance



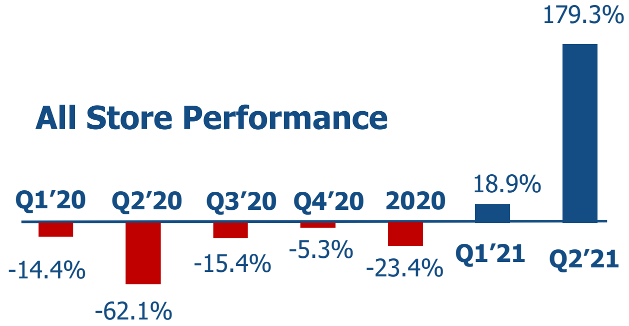
KFC Italy

- Like-for-like performance in Italy in Q2 2021 surged 85% YOY, as the lockdown measures imposed at the end of Q1 started.
- New locations opened after 30.06.2020 helped improve performance even further, consequently all store performance improved 114.5% YOY.
- USFN Italy ended Q2 2021 with a negative EBITDA, net loss of RON 13.5 million.
- 16% of orders in Q2 2021 were for delivery, 9pp decrease QOQ.

Same Store Performance



All Store Performance



KFC Moldova

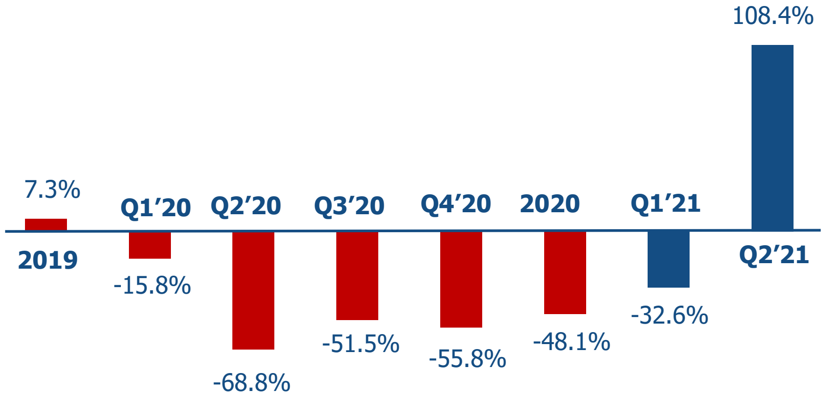
- Sales in the Republic of Moldova increased 179% in Q2 2021 compared to Q2 2020, as sales for delivery continued to grow 2pp QOQ.
- USFN Moldova closed H1 2021 profitable, registering EBITDA of RON 0.8 million and net profit of RON 0.5 million.

Pizza Hut & Taco Bell

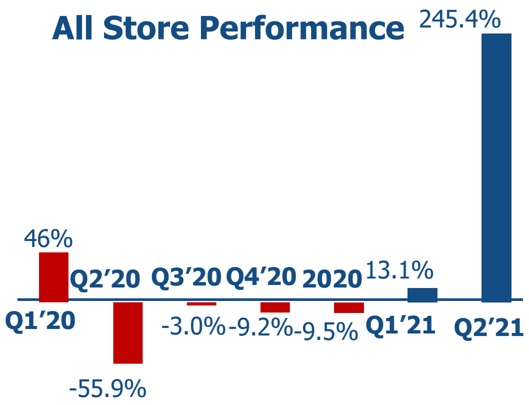
Pizza Hut

- After difficult period, in Q2 2021 Pizza Hut registered a 108% YoY increase in all store performance, despite a lower number of stores compared to the same period of last year.
- Despite the loss registered in the period, Pizza Hut managed to control the expenses in the period, primarily thanks to the decision of the Group to close selected non-performing Pizza Hut locations, starting with Q3 2020.
- 53% of all orders were made for delivery in Q2 2021, a QOQ decline of 4%. Nonetheless, the share of sales for delivery was highest for Pizza Hut out of the whole group.

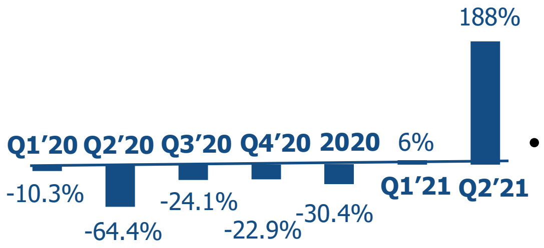
All Store Performance



All Store Performance



Same Store Performance



Taco Bell

- Taco Bell's same store performance in Q2 2021 registered a 188% increase YOY the largest surge out of all the brands in the group. The all-store performance reached 245% increase.
- Taco Bell closed H1 2021 with restaurant operating profit of RON 0.4 million, but the G&A expenses and finance costs dragged the bottom line to a loss of RON 1.7 million.
- 42% of all orders in Q1 2021 were for delivery, a 2pp QOQ decline.

Q&A session

Annex: Key H1 2021 financials

Summary of H1 2021 Consolidated FS

Summary of interim Consolidated Financial Statements for H1 (results excluding IFRS16 impact):

Data in RON'000	H1-21	H1-20	Y/Y % H1-21/H1-20	% of Sales H1-21	% of Sales H1-20	Δ%
Restaurant sales	**444,544**	**304,580**	**46.0%**			
Restaurant expenses	408,708	297,903	**37.2%**	**91.9%**	**97.8%**	**-5.9pp**
Food and material	143,535	100,793	42.4%	32.3%	33.1%	-0.8pp
Payroll and employee benefits	102,197	71,315	43.3%	23.0%	23.4%	-0.4pp
Rent	33,950	29,295	15.9%	7.6%	9.6%	-2.0pp
Royalties	26,489	17,884	48.1%	6.0%	5.9%	0.1pp
Advertising	20,087	14,429	39.2%	4.5%	4.7%	-0.2pp
Other operating expenses, net	64,438	46,414	38.8%	14.5%	15.2%	-0.7pp
Depreciation and amortization	18,012	17,773	1.3%	4.1%	5.8%	-1.8pp
Restaurant operating profit	**35,835**	**6,677**	**436.7%**	**8.1%**	**2.2%**	**5.9pp**
General & Admin expenses, net	25,420	24,447	4.0%	**5.7%**	**8.0%**	**-2.3pp**
Operating Profit/(Loss)	**10,415**	**(17,771)**	**158.6%**	**2.3%**	**-5.8%**	**8.2pp**
Finance costs	3,534	2,902	**21.8%**	0.8%	1.0%	-0.2pp
Finance income	42	88	-52.1%	0.0%	0.0%	0.0pp
Profit/(Loss) before tax	6,924	-20,585	133.6%	1.6%	-6.8%	8.3pp
Income tax expense	559	796	-29.8%	0.1%	0.3%	-0.2pp
Specific Tax	1,179	978	20.5%	0.3%	0.3%	-0.0pp
Profit/(Loss) for the period	**5,185**	**(22,360)**	**123.2%**	**1.2%**	**-7.3%**	**8.5pp**
EBITDA	**30,006**	**772**	**3,785.4%**	**6.7%**	**0.3%**	**6.5pp**
Normalized EBITDA*	**30,740**	**1,563**	**1,866.7%**	**6.9%**	**0.5%**	**6.4pp**

(*) For the 6M period ended June 30th, 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 H1 2021 Consolidated FS

(with and without IFRS 16 impact)

Summary of interim Consolidated Financial Statements for H1 – results and evolution presented with and without IFRS16 impact

Data in RON'000	H1-21	H1-21	H1-20	H1-20	Change (%)	
	1	2	1	2	H1-21/ H1-20 (1)	H1-21/ H1-20 (2)
Restaurant sales	**444,544**	**444,544**	**304,580**	**304,580**	**46.0%**	**46.0%**
Restaurant expenses	**408,346**	**408,708**	**296,475**	**297,903**	**37.7%**	**37.2%**
Food and material	143,535	143,535	100,793	100,793	42.4%	42.4%
Payroll and employee benefits	102,197	102,197	71,315	71,315	43.3%	43.3%
Rent	7,142	33,950	3,409	29,295	109.5%	15.9%
Royalties	26,489	26,489	17,884	17,884	48.1%	48.1%
Advertising	20,087	20,087	14,429	14,429	39.2%	39.2%
Other operating expenses, net	64,438	64,438	46,582	46,414	38.3%	38.8%
Depreciation and amortization	44,458	18,012	42,063	17,773	5.7%	1.3%
Restaurant operating Profit / (Loss)	**36,198**	**35,835**	**8,104**	**6,677**	**346.7%**	**436.7%**
General & Admin expenses, net	25,156	25,420	23,915	24,447	5.2%	4.0%
Operating Profit/(Loss)	**11,042**	**10,415**	**(15,810)**	**(17,771)**	**169.8%**	**158.6%**
Finance costs	10,002	3,534	9,303	2,902	7.5%	21.8%
Finance income	42	42	88	88	-52.3%	-52.1%
Profit/(Loss) before tax	**1,082**	**6,924**	**(25,026)**	**(20,585)**	**104.3%**	**133.6%**
Income tax expense/(credit)	(183)	559	335	796	-154.6%	-29.8%
Specific tax	1,179	1,179	978	978	20.5%	20.5%
Profit/(Loss) for the period	**85**	**5,185**	**(26,339)**	**(22,360)**	**100.3%**	**123.2%**
EBITDA	**58,527**	**30,006**	**28,483**	**772**	**105.5%**	**3,785.4%**
Normalized EBITDA*	**59,261**	**30,740**	**29,274**	**1,563**	**102.4%**	**1,866.7%**

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 H1 2021 results by entity

Breakdown of consolidated results by Group companies – H1-2021 (excluding IFRS 16 Impact):

	H1-21							
Data in RON'000	**USFN (RO)**	**ARS**	**USFN (MD)**	**USFN (IT)**	**CFF**	**SFG**	**Cons. Adj.**	**SFG Cons**
Restaurant sales	**334,179**	**38,609**	**5,614**	**44,161**	**21,980**	**14,983**	**(14,983)**	**444,544**
Dividend revenue	-	-	-	-	-	37,525	(37,525)	-
Restaurant expenses	290,856	39,801	4,802	51,894	21,549	-	(194)	**408,708**
Food and material	110,998	10,427	2,343	12,800	6,966	-	-	143,535
Payroll and employee benefits	71,353	10,596	796	14,484	4,968	-	-	102,197
Rent	24,197	3,769	325	3,805	1,855	-	-	33,950
Royalties	20,023	2,272	337	2,653	1,203	-	-	26,489
Advertising	14,166	2,052	207	2,622	1,216	-	(176)	20,087
Other operating expenses	40,797	8,696	643	10,276	4,030	-	(4)	64,438
Depreciation	9,321	1,989	150	5,255	1,311	-	(13)	18,012
Restaurant operating profit/(loss)	**43,323**	**(1,192)**	**812**	**(7,733)**	**431**	**52,509**	**(52,315)**	**35,835**
G&A expenses	15,009	3,792	148	4,225	1,266	15,707	(14,727)	25,420
Operating profit/(loss)	**28,315**	**(4,984)**	**663**	**(11,958)**	**(835)**	**36,802**	**(37,588)**	**10,415**
Finance costs	2,453	609	49	1,206	828	956	(2,567)	3,534
Finance income	1,983	5	-	0	-	621	(2,567)	42
Profit/(Loss) before tax	27,844	(5,588)	615	(13,163)	(1,663)	36,467	(37,588)	6,924
Income tax expense/(credit)	266	-	74	332	-	(113)	-	559
Specific tax expense	743	340	-	-	96	-	-	1,179
Profit/(Loss) for the period	**26,835**	**(5,928)**	**541**	**(13,495)**	**(1,759)**	**36,580**	**(37,588)**	**5,185**
EBITDA	**38,377**	**(2,611)**	**831**	**(6,626)**	**520**	**37,119**	**(37,604)**	**30,006**
Normalized EBITDA*	**38,377**	**(1,877)**	**831**	**(6,626)**	**520**	**37,119**	**(37,604)**	**30,740**

Results excl. IFRS16

Overview of the H1 2021 G&A expenses

(with and without IFRS 16 impact)

	Data in RON '000				Change (%)		Percentage of sales			
	H1-21 (1)	H1-21 (2)	H1-20 (1)	H1-20 (2)	2021/ 2020 (1)	2021/ 2020 (2)	H1-21 (1)	H1-21 (2)	H1-20 (1)	H1-20 (2)
General and administration (G&A) expenses, net	**25,156**	**25,420**	**23,915**	**24,447**	**5.2%**	**4.0%**	**5.7%**	**5.7%**	**7.9%**	**8.0%**
Payroll and employee benefits	16,279	16,279	15,630	15,630	4.2%	4.2%				
Third-party services	2,536	2,536	2,603	2,888	-2.6%	-12.2%				
Depreciation and amortization	3,027	1,579	2,231	770	35.7%	105%				
Rent	144	1,856	(23)	1,685	-726.1%	10.1%				
Banking charges	1,957	1,957	1,304	1,304	50%	50%				
Transport	328	328	617	617	-46.8%	-46.9%				
Other*	885	885	1,553	1,553	-43.0%	-43.0%				

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!

Sphera Franchise Group's unaudited H1 2021 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.

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