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TACO BELL

Sphera Franchise Group Investor & Analyst Call

Q3 2022 Results

14.11.2022



Agenda for today's call

- 1 9M 2022 Highlights
- 2 Business updates from Q3 2022
- 3 Brand Performance
- 4 Q&A session
- 5 Annex: Key 9M 2022 Financials



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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 Q3 2022 Results Call



Calin Ionescu
CEO



Valentin Budes
CFO



Monica Eftimie
CMO



Zuzanna Kurek
IR

Sphera Franchise Group's unaudited Q3 2022 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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9M 2022 Highlights



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SFG Performance in 9M 2022

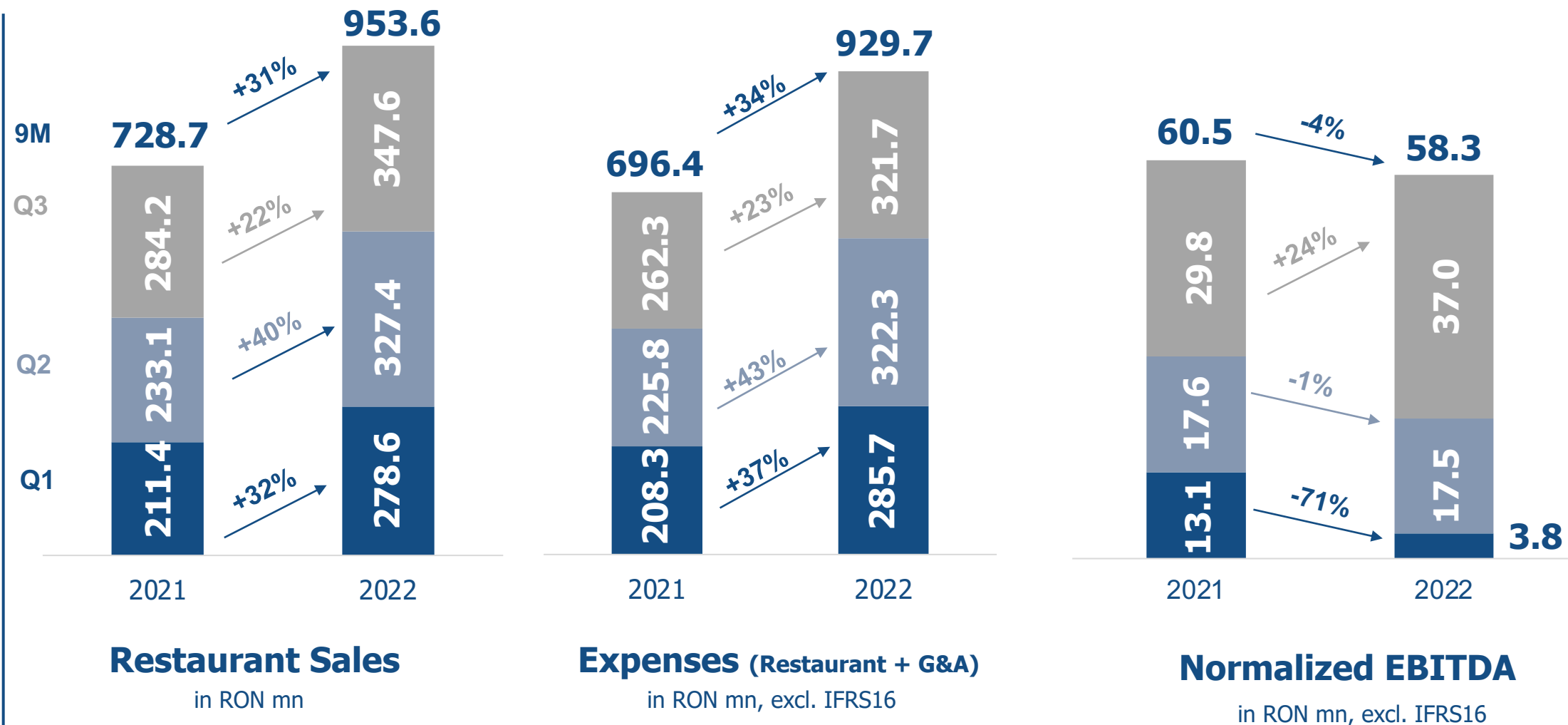


Data in RON'000	9M-22	9M-21	Y/Y %
Restaurant sales	953,594	728,719	30.9%
Other restaurant income	1,172	-	-
Restaurant expenses	889,856	657,909	35.3%
Restaurant operating profit	64,910	70,810	-8.3%
General & Admin expenses	39,824	38,477	3.5%
EBITDA	58,272	62,074	-6.1%
Normalized EBITDA*	58,272	60,547	-3.8%
Operating Profit	25,086	32,333	-22.4%
Finance costs	10,459	5,551	88.4%
Finance income	368	125	193.4%
Profit/(Loss) before tax	14,995	26,908	-44.3%
Income tax expense/(credit)	(2,530)	(2,923)	-13.5%
Specific Tax	1,914	1,769	8.2%
Profit for the period	15,610	28,062	-44.4%

Results excl. IFRS16

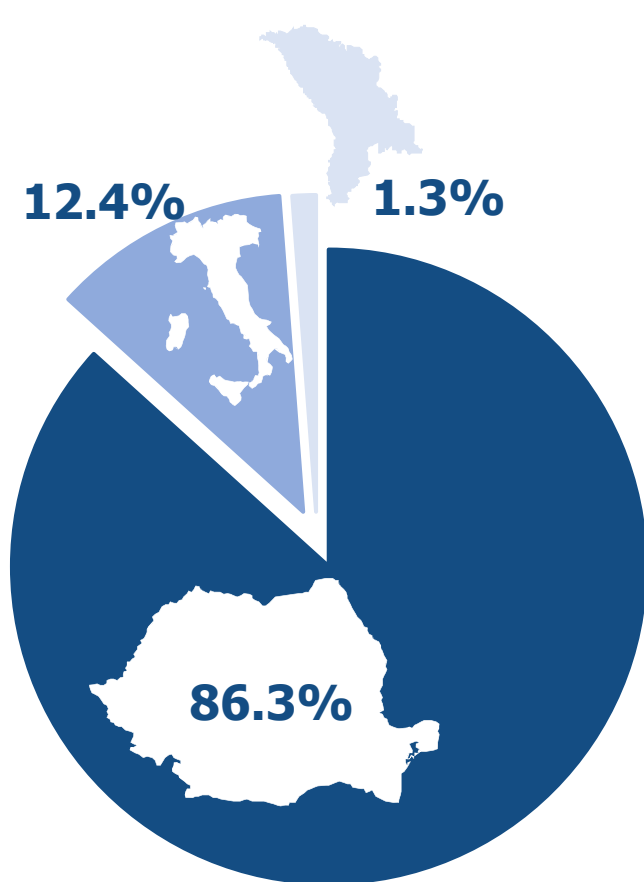
- **Best quarter in history:** Q3'22 continued the positive trend of quarter-on-quarter increases, with Sphera Franchise Group closing the period with record-high results, registering RON 347.6 million in consolidated sales, a 22% increase compared to Q3'21.
- **Return to healthier margins in Q3'22:** In terms of EBITDA, Sphera registered the best quarter in history, in Q3'22 increasing 6% compared to Q3'21 due to the increased customer presence in stores (this leading to higher transactions overall), contribution of the stores opened in the preceding 12M, price adjustments paired with the highest rate of delivery sales through own channels since the onset of the pandemic.
- **Gap between topline and expenses narrowed thanks to Q3'22 result:** Restaurant expenses grew slightly faster than revenues in 9M'22, reaching RON 889.9 million, a 35% YoY increase, the gap in the pace of growth of the sales versus expenses narrowing compared to the situation as of H1'22. The increase in cost of food and material which has the highest share of the total costs tempered, registering 27% YoY increase in Q3'22 vs. 52% YoY in H1'22.
- **Other operating expenses:** Increased 39%, reaching RON 137.7 million due to an almost doubling of the utility costs, which reached RON 37.6 million (+97%).
- **Aggregator sales at sustainable levels:** Aggregator commissions increased 9% in 9M'22 versus 9M'21, with the weight of aggregators' commissions in net sales progressively decreasing in 9M'22 vs. 9M'21, from 5% to 4%.
- **G&A in check:** G&A expenses increased 3.5% in 9M'22, due to 7% increase in payroll and a 27% increase in third-party services. The variance of the G&A costs resulted in a reduction of the share of G&A expenses in the consolidated sales by 1.1 pp in 9M'22 versus 9M'21.
- **Return to profitability:** The excellent topline performance and positive bottom line in Q3'22 helped recover the losses that the Group registered in Q1'22. The net profit for 9M'22 reached RON 15.6 mn, vs. RON 28.1 mn for 9M'21.

SFG 9M 2022 Performance

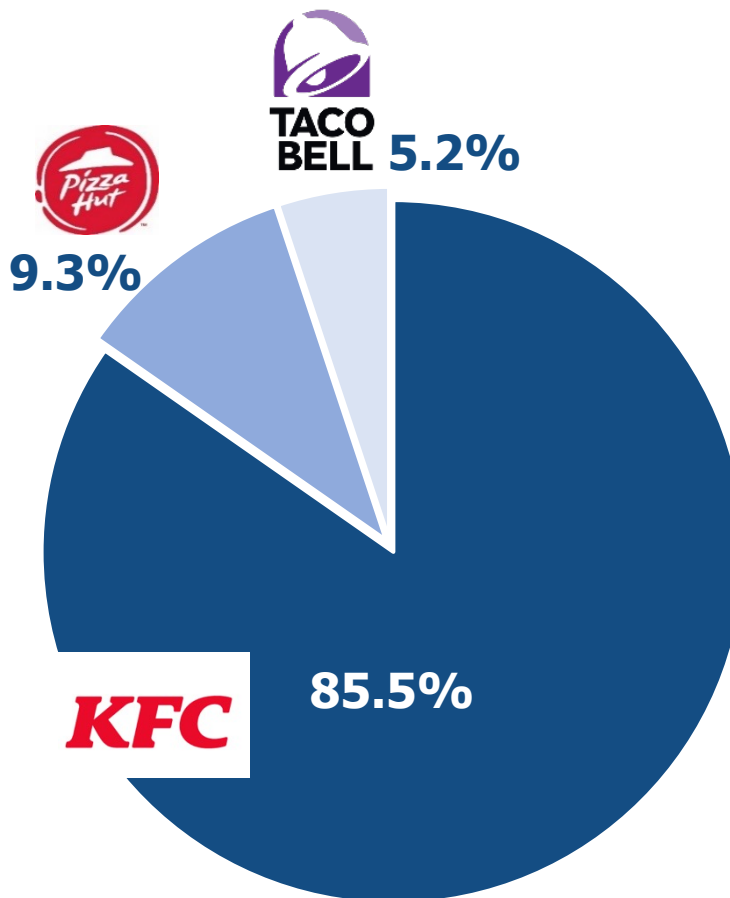


SFG 9M 2022 Performance breakdown

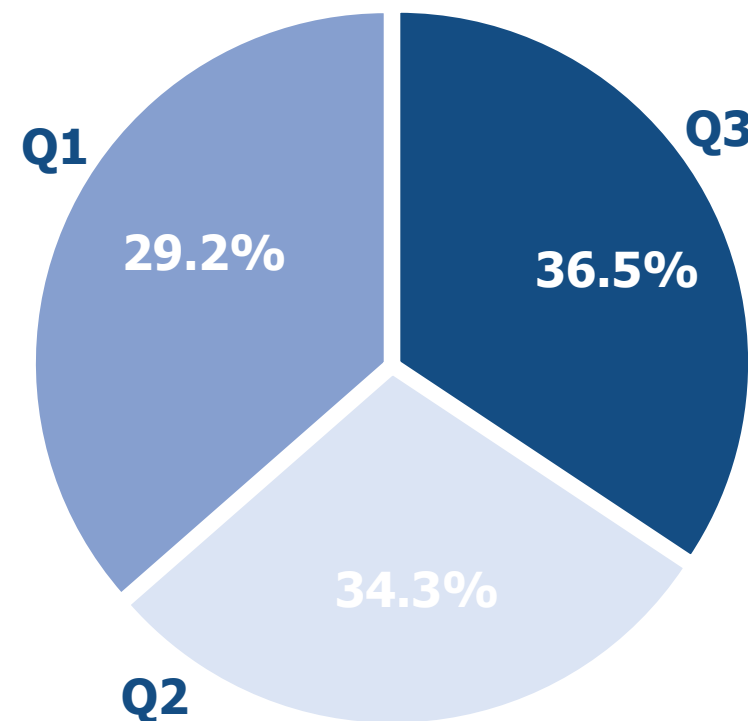
Contribution to 9M 2022 turnover



Per market



Per brand



Per quarter

Business updates from Q3 2022



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COVID-19 & staff updates

COVID-19 UPDATES

- **Lifting of the restrictions in all markets of activity in Q2'22:** Romania lifted all the COVID-19 restrictions as of 09.03.2022, Italy as of 01.05.2022, and the Republic of Moldova as of 19.04.2022.
- **No rent renegotiations as of Q3'22:** With the lifting of the COVID-19 restrictions, in Q1'22 the rent renegotiations were not substantial and as of Q2' and Q3'22, there were none.
- **No more technical unemployment as of Q1'22:** In terms of technical unemployment indemnities, there were limited technical unemployment grants provided in Q1'22, which amounted to RON 0.1 million, none as of Q2' and Q3'22.

Staff

- **YoY increase in number of employees:** As of 30.09.2022, the Group had 4,643 employees, out of which 4,312 in Romania, 254 in Italy and 77 in the Republic of Moldova.
- **Continuing the digitalization to simplify the sales process:** The Group continued the process of digitalizing its network through further deployment of digital kiosks to simplify the selling process as well as continued the project of hiring employees from abroad. So far, Sphera hired over 200 employees from Sri Lanka, with most of them currently working for USFN Romania.

Restaurant development, ESG rating

Number of stores

- **174 restaurants operated:** SFG operated 174 restaurants as of 30.09.2022, out of which 94 KFC restaurants in Romania, 2 in Moldova and 20 in Italy, as well as 14 Taco Bell restaurants, 42 Pizza Hut restaurants (of which 22 Pizza Hut and 20 Pizza Hut Delivery), 1 PHD subfranchise and 1 Paul restaurant in Romania.
- **5 openings in 9M'22:** Sphera opened 5 new restaurants in 9M'22 (4 in Q1'22 and 1 in Q2'22): 2 KFC (Colosseum Mall, Bucharest & drive thru Catex commercial center, Calarasi), Taco Bell (City Park Mall, Constanta), 2 Pizza Hut (Fast Casual Delivery in Militari Shopping Centre, Bucharest & Express in Shopping City Targu Jiu). One restaurant was closed in Q2'22 – Pizza Hut in AFI Cotroceni.
- **Another 5 estimated for Q4'22:** In Q4'22, Sphera opened a new KFC restaurant in Funshop Park Timisoara and estimates to open additional 4 new restaurants before the yearend – 3 KFC restaurants and a Taco Bell.

ESG Risk Score

- **Significantly improved ESG risk management, as certified by Sustainalytics:** Under partnership with BVB, Morningstar Sustainalytics assessed Sphera an ESG Risk Score of 18.7, certifying low ESG risk, significant improvement since previous ESG Risk Score of 29.5. Score is available on [BVB Research Hub](#).
- **Top 3 restaurant in terms of ESG risk management** The ESG Risk Score of 18.7 ranks Sphera No. 3 in the Restaurants subcategory, which includes 125 companies analyzed by Morningstar Sustainalytics. The management score has increased significantly in the analyzed period, going from 21.2 in 2021, to 55.2. Management score refers to how well a company is managing its relevant ESG issues.

Marketing



Pricing adaptation to the market conditions

- In the current economic climate, we increased the prices in September for the three brands in order to protect the bottom line and absorb the increased cost of inputs. At the same time, we focused on value offerings to the customer to ensure continued traffic, visits, and transactions.

KFC: Drive frequency and maximize relevance

- KFC focused on building innovation for the summer and created new occasions to visit for our customers, successfully launching a range of LTO products with non-spicy strips. The campaign delivered a strong sales mix of the new products which resulted in listing them on the permanent menu.
- We continued our journey to reinforce the “value for money” perception by communicating for the second time this year Tuesday Bucket (abundant value) and De Pofta / Craving (affordable bundles) through campaigns that drove traffic in the stores. With the same transactional objective in mind, the brand offers coupons all year round through its mobile app.
- Building a distinctive brand that is effortlessly associated with craving remains a main objective this year, therefore, we launched a digital activation called CraveRun that rewarded customers with discounts based on how fast they reached a KFC store after scanning a QR code.
- We launched a recruitment campaign to add more passionate employees to our restaurant teams who will continue to offer our customers memorable experiences. The campaign includes TV, digital, radio and outdoor as well as testimonials from both current and former employees.

Marketing



Pizza Hut: Build sales and increase distinctiveness

- To reverse the sales trend and to bring to life the power of the brand, Pizza Hut included gamification in its three-month repositioning campaign “the favorite pizza of Romanian families”. The campaign delivered strong same-store sales results and a significant increase in purchase intent and recommendation indicators.
- With the objective of improving transaction levels, the brand communicated “Family Deals” for the back-to-school period, offering disruptive value in dine-in with a special price point for any small pizza and abundant value in delivery with a bundle of 2 medium pizzas and 2 drinks.
- As a secondary layer the brand communicated Good Deals, a value platform for the dine-in and delivery channels which resulted in same-store sales growth.

Taco Bell: Drive trial and build brand

- Taco Bell concentrated its communication on affordable innovation by bringing in focus a fan favorite, Quesadilla, but in a small format with the aim of creating favorability and driving trial, which resulted in double-digit same-store sales and transactions growth.
- The brand campaign that started in Q2 under the tagline “nothing ordinary” continued in Q3 and delivered strong sales and an increase in brand awareness and consideration.
- Taco Bell remained relevant for its die-hard fans and early adopters by running its first contest on TIK TOK, by continuing its gaming partnerships and by making its rewards program ownable and distinctive.

The digital normal

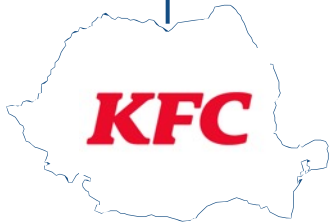
- Focusing on ease of access for our consumers who expect frictionless experiences, we continued our digital journey and communicated through digital media our “click & collect” services and ecommerce platforms, with the objective of expanding our user base and gaining repeat visits from existing users.

Brand performance



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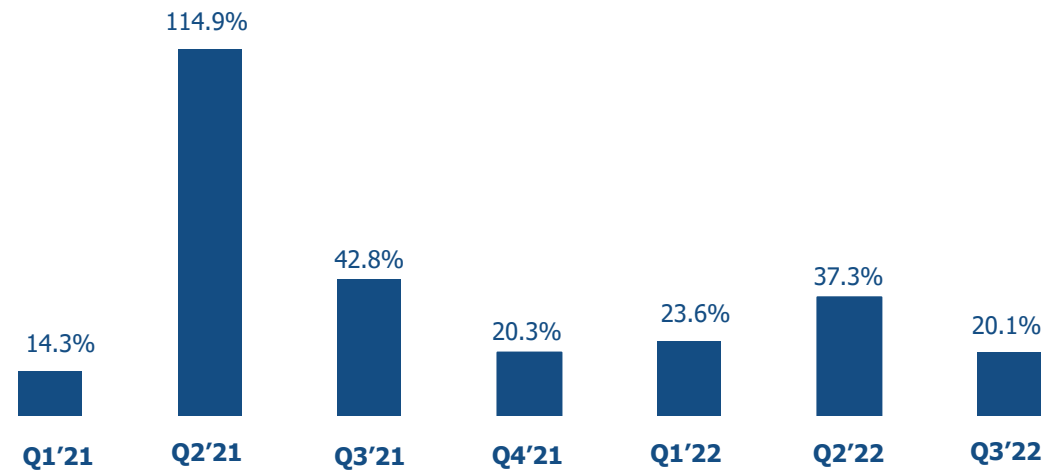




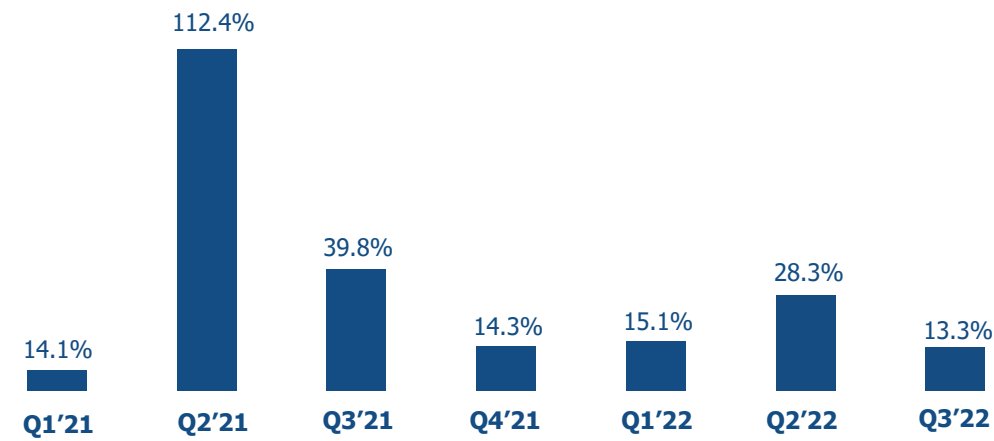
KFC Romania

- Q3'22 was another quarter of continued increase for KFC Romania as all store performance improved 20% YoY due to good same store performance (+13%) paired with the sales generated by the 5 new KFC restaurants that were opened between Q4'21 and Q3'22.
- KFC Romania ended 9M'22 with EBITDA of RON 63.5 million and a net profit of RON 39.7 million.
- Highest share of own sales channels in Q3'22 since the onset of the pandemic, with sales for delivery reaching 16% (of which 14% through aggregators and 2% through own delivery).

All Store Performance



Same Store Performance



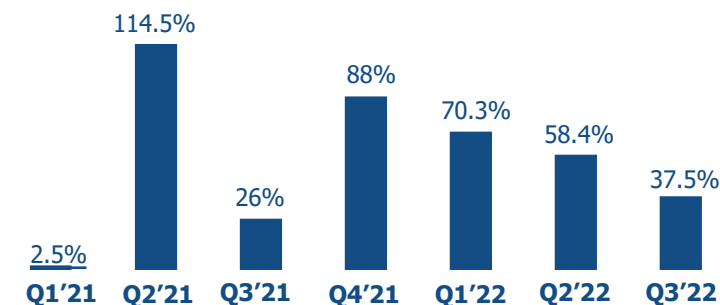


KFC Italy & KFC Republic of Moldova

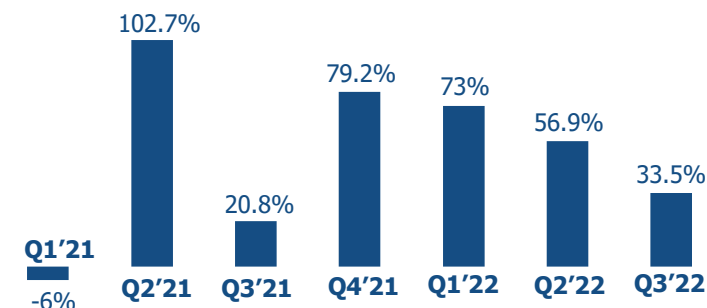
KFC Italy

- All-store performance registered 38% sales increase in Q3'22 vs. Q3'21, while the same store evolution was second best of all the Group, registering a 34% sales increase in same store sales in the same period. Between Q4'21 and Q3'22, one new KFC restaurant was opened in Italy.
- USFN Italy significantly decreased the restaurant operating loss due to excellent Q3'22 performance, from RON 7.6 million loss for 9M'21, to RON 3 million loss for 9M'22. EBITDA for 9M'22 stood at RON -2 million, net loss at RON 9.7 million.
- 9% of orders in Q3'22 were for delivery, 3pp QoQ decrease.

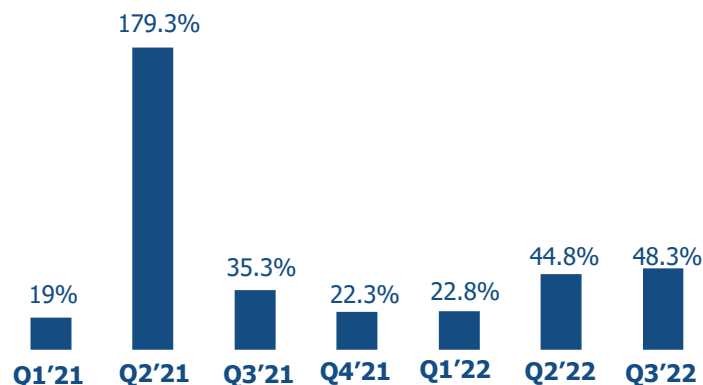
All Store Performance



Same Store Performance



All Store Performance



KFC Moldova

- Sales in the Republic of Moldova registered the most notable increase in Q3'22, registering RON 4.8 million in sales, +48% - approaching the milestone of RON 5 million in sales in a single quarter.
- KFC Moldova closed 9M'22 profitable, with EBITDA of RON 2 million and net profit of RON 1.4 million.
- Sales for delivery kept the same share as in Q2'22, at 31% of total sales.

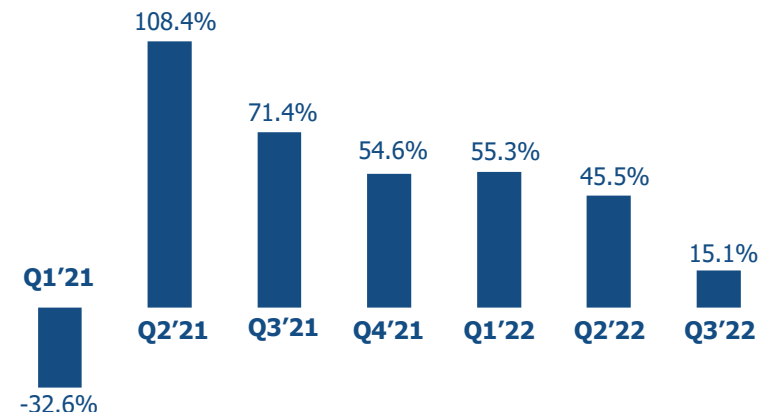


Pizza Hut & Taco Bell

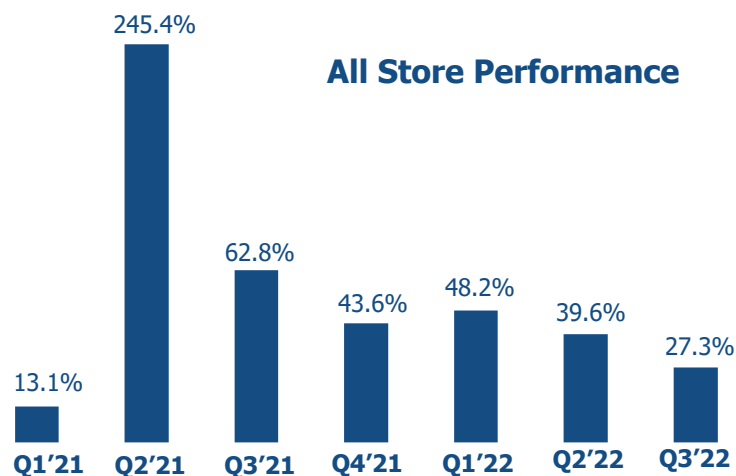
Pizza Hut

- The YoY increase dynamic has slowed down for Pizza Hut, as the brand registered 15% increase in all store performance in Q3'22 and a 6% increase in the same store performance. Between Q4'21 and Q3'22, Sphera opened 3 net new PH units. 38% of all orders were made for delivery in Q3'22 (13% using own delivery capacity and 25% using aggregators).
- Pizza Hut closed 9M'22 with negative EBITDA of RON 6 million and a net loss of RON 11.5 million.

All Store Performance



All Store Performance



Taco Bell

- Taco Bell's same store performance in Q3'22 registered a 18% increase YoY while all store performance appreciated 27%. Between Q4'21 and Q3'22, one new Taco Bell was opened.
- Taco Bell closed 9M'22 with EBITDA of RON 1.6 million and a loss of RON 2.5 million.
- 26% of all orders in Q2'22 were for delivery, a 6pp QoQ decline.

Q&A Session



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Annex: Key 9M 2022 Financials

Summary of Q3 2022 Consolidated FS

Data in RON'000	Q3-22	Q3-21	Y/Y % Q3-22/ Q3-21	% of Sales		Δ%
				Q3-22	Q3-21	
Restaurant sales	347,570	284,175	22.3%			
Restaurant expenses	308,314	249,201	23.7%	88.7%	87.7%	1.0%
Food and material	117,457	92,706	26.7%	33.8%	32.6%	1.2%
Payroll and employee benefits	70,695	60,093	17.6%	20.3%	21.1%	-0.8%
Rent	24,350	19,718	23.5%	7.0%	6.9%	0.1%
Royalties	20,544	17,223	19.3%	5.9%	6.1%	-0.2%
Advertising	16,266	15,261	7%	4.7%	5.4%	-0.7%
Other operating expenses	48,768	34,857	39.9%	14.0%	12.3%	1.8%
Depreciation and amortization	10,235	9,342	9.6%	2.9%	3.3%	-0.3%
Restaurant operating profit	39,256	34,974	12.2%	11.3%	12.3%	-1.0%
General & Admin expenses	13,384	13,057	2.5%	3.9%	4.6%	-0.7%
Operating Profit/(Loss)	25,872	21,918	18.0%	7.4%	7.7%	-0.3%
Finance costs	3,735	2,017	85.2%	1.1%	0.7%	0.4%
Finance income	12	83	-85.7%	0.0%	0.0%	0.0%
Profit/(Loss) before tax	22,149	19,984	10.8%	6.4%	7.0%	-0.7%
Income tax expense/(credit)	(2,806)	(3,482)	-19.4%	-0.8%	-1.2%	0.4%
Specific Tax	639	590	8.2%	0.2%	0.2%	0.0%
Profit/(Loss) for the period	24,316	22,876	6.3%	7.0%	8.1%	-1.1%
EBITDA	37,038	32,067	15.5%	10.7%	11.3%	-0.6%
Normalized EBITDA*	37,038	29,807	24.3%	10.7%	10.5%	0.2%

(*) EBITDA was normalized for Q3 2021 to exclude the reversal of accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods. In August 2021, the Group signed a revised Development Agreement following the renegotiation with master franchisor YUM! Of the development plan and agreed that the accrued penalties for not meeting the minimum target for new Pizza Hut restaurants from 2019 to be used in entirety as a reinvestment credit, which was deployed into development of the Pizza Hut and Pizza Hut Delivery network in Romania. The normalized EBITDA in Q3 2022 is equal to EBITDA.

Summary of 9M 2022 Consolidated FS

Data in RON'000	9M-22	9M-21	Y/Y % 9M-22/9M-21	% of Sales		Δ%
				9M-22	9M-21	
Restaurant sales	953,594	728,719	30.9%			
Other restaurant income	1,172	-	-	-	-	-
Restaurant expenses	889,856	657,909	35.3%	93.3%	90.3%	3.0%
Food and material	334,743	236,241	41.7%	35.1%	32.4%	2.7%
Payroll and employee benefits	212,475	162,290	30.9%	22.3%	22.3%	0.0%
Rent	68,954	53,668	28.5%	7.2%	7.4%	-0.1%
Royalties	56,950	43,712	30.3%	6.0%	6.0%	0.0%
Advertising	48,580	35,348	37.4%	5.1%	4.9%	0.2%
Other operating expenses	137,677	99,295	38.7%	14.4%	13.6%	0.8%
Depreciation and amortization	30,476	27,355	11.4%	3.2%	3.8%	-0.6%
Restaurant operating profit	64,910	70,810	-8.3%	6.8%	9.7%	-2.9%
General & Admin expenses	39,824	38,477	3.5%	4.2%	5.3%	-1.1%
Operating Profit/(Loss)	25,086	32,333	-22.4%	2.6%	4.4%	-1.8%
Finance costs	10,459	5,551	88.4%	1.1%	0.8%	0.3%
Finance income	368	125	193.4%	0.0%	0.0%	0.0%
Profit/(Loss) before tax	14,995	26,908	-44.3%	1.6%	3.7%	-2.1%
Income tax expense/(credit)	(2,530)	(2,923)	-13.5%	-0.3%	-0.4%	0.1%
Specific Tax	1,914	1,769	8.2%	0.2%	0.2%	0.0%
Profit/(Loss) for the period	15,610	28,062	-44.4%	1.6%	3.9%	-2.2%
EBITDA	58,272	62,074	-6.1%	6.1%	8.5%	-2.4%
Normalized EBITDA*	58,272	60,547	-3.8%	6.1%	8.3%	-2.2%

(*) EBITDA was normalized for 9M 2021 to exclude the reversal of accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods. In August 2021, the Group signed a revised Development Agreement following the renegotiation with master franchisor YUM! Of the development plan and agreed that the accrued penalties for not meeting the minimum target for new Pizza Hut restaurants from 2019 to be used in entirety as a reinvestment credit, which was deployed into development of the Pizza Hut and Pizza Hut Delivery network in Romania. The normalized EBITDA in 9M 2022 is equal to EBITDA.

Summary of 9M 2022 Consolidated FS

(with and without IFRS 16 impact)



Data in RON'000	9M-22	9M-22	9M-21	9M-21	Change (%)	
	1	2	1	2	9M-2022/ 9M-2021 (1)	9M-2022/ 9M-2021 (2)
Restaurant sales	953,594	953,594	728,719	728,719	30.9%	30.9%
Other restaurant income	1,172	1,172	-	-	-	-
Restaurant expenses	884,818	889,856	657,132	657,909	34.6%	35.3%
Food and material	334,743	334,743	236,241	236,241	41.7%	41.7%
Payroll and employee benefits	212,475	212,475	162,290	162,290	30.9%	30.9%
Rent	22,471	68,954	13,005	53,668	72.8%	28.5%
Royalties	56,950	56,950	43,712	43,712	30.3%	30.3%
Advertising	48,580	48,580	35,348	35,348	37.4%	37.4%
Other operating expenses	137,677	137,677	99,295	99,295	38.7%	38.7%
Depreciation and amortization	71,921	30,476	67,241	27,355	7.0%	11.4%
Restaurant operating Profit / (Loss)	69,948	64,910	71,587	70,810	-2.3%	-8.3%
General & Admin expenses	38,987	39,824	38,060	38,477	2.4%	3.5%
Operating Profit/(Loss)	30,960	25,086	33,527	32,333	-7.7%	-22.4%
Finance costs	16,830	10,459	14,417	5,551	16.7%	88.4%
Finance income	368	368	125	125	193.4%	193.4%
Profit/(Loss) before tax	14,498	14,995	19,236	26,908	-24.6%	-44.3%
Income tax expense/(credit)	(2,596)	(2,530)	(3,667)	(2,923)	-29.2%	-13.5%
Specific Tax	1,914	1,914	1,769	1,769	8.2%	8.2%
Profit/(Loss) for the period	15,180	15,610	21,133	28,062	-28.2%	-44.4%
EBITDA	107,521	58,272	105,322	62,074	2.1%	-6.1%
Normalized EBITDA*	107,521	58,272	103,795	60,547	3.6%	-3.8%

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 reversal of penalties from franchisor Pizza Hut.

Breakdown of 9M 2022 results by entity

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons, Adj,	SFG Cons
Restaurant sales	685,440	88,689	12,270	117,825	49,373	24,864	(24,867)	953,594
Dividend revenue	-	-	-	-	-	50,502	(50,502)	-
Other restaurant revenue	1,172	-	-	-	-	-	-	1,172
Restaurant expenses	618,377	92,690	10,354	120,776	48,033		(373)	889,856
Food and material	252,209	26,606	5,440	33,671	16,818	-	-	334,743
Payroll and employee benefits	144,829	25,341	1,630	29,106	11,570	-	-	212,475
Rent	46,122	8,491	724	9,760	3,858	-	-	68,954
Royalties	40,873	5,272	738	7,072	2,994	-	-	56,950
Advertising	33,425	5,046	318	7,540	2,603	-	(351)	48,580
Other operating expenses	84,989	18,507	1,260	25,099	7,831	-	(8)	137,677
Depreciation	15,930	3,426	244	8,529	2,360	-	(14)	30,476
Restaurant operating profit/(loss)	68,235	(4,000)	1,916	(2,951)	1,341	75,366	(74,996)	64,910
G&A expenses	22,124	5,926	214	7,703	2,258	25,981	(24,383)	39,824
Operating profit/(loss)	46,111	(9,926)	1,702	(10,654)	(918)	49,385	(50,614)	25,086
Finance costs	7,721	996	41	2,214	1,438	2,049	(4,001)	10,459
Finance income	2,997	5	-	1	-	1,366	(4,001)	368
Profit/(Loss) before tax	41,387	(10,917)	1,661	(12,868)	(2,356)	48,702	(50,614)	14,995
Income tax expense/(credit)	489	43	222	(3,222)	-	(61)	-	(2,530)
Specific tax expense	1,214	540	-	-	160	-	-	1,914
Profit/(Loss) for the period	39,683	(11,499)	1,439	(9,646)	(2,516)	48,763	(50,614)	15,610
EBITDA	63,460	(6,000)	1,974	(1,993)	1,559	49,904	(50,632)	58,272
Normalized EBITDA	63,460	(6,000)	1,974	(1,993)	1,559	49,904	(50,632)	58,272

Overview of the 9M 2022 G&A expenses

(with and without IFRS 16 impact)

	Data in RON '000				Change (%)		Percentage of sales			
	9M-22	9M-22	9M-21	9M-21			9M-22	9M-22	9M-21	9M-21
	(1)	(2)	(1)	(2)	2022/ 2021 (1)	2022/ 2021 (2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses	38,987	39,824	38,060	38,477	2.4%	3.5%	4.1%	4.2%	5.2%	5.3%
Payroll and employee benefits	25,992	25,992	24,297	24,297	7.0%	7.0%				
Third-party services	5,162	5,162	4,075	4,075	26.7%	26.7%				
Depreciation and amortization	4,640	2,710	4,554	2,386	1.9%	13.6%				
Rent	212	2,978	233	2,818	-8.8%	5.7%				
Banking charges	536	536	2,910	2,910	-81.6%	-81.6%				
Transport	840	840	553	553	51.9%	51.9%				
Other*	1,605	1,605	1,437	1,437	11.7%	11.7%				

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 Q3 2022 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.