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TACO BELL

Sphera Franchise Group Investor & Analyst Call

Q1 2023 Results

15.05.2023



Agenda for today's call

- 1 Q1 2023 Highlights
- 2 Business updates from Q1 2023
- 3 Brand Performance
- 4 Q&A session
- 5 Annex: Key Q1 2023 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 Q1 2023 Results Call



Calin Ionescu
CEO



Valentin Budes
CFO



Monica Eftimie
CMO



Zuzanna Kurek
IR

Sphera Franchise Group's unaudited Q1 2023 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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Q1 2023 Highlights



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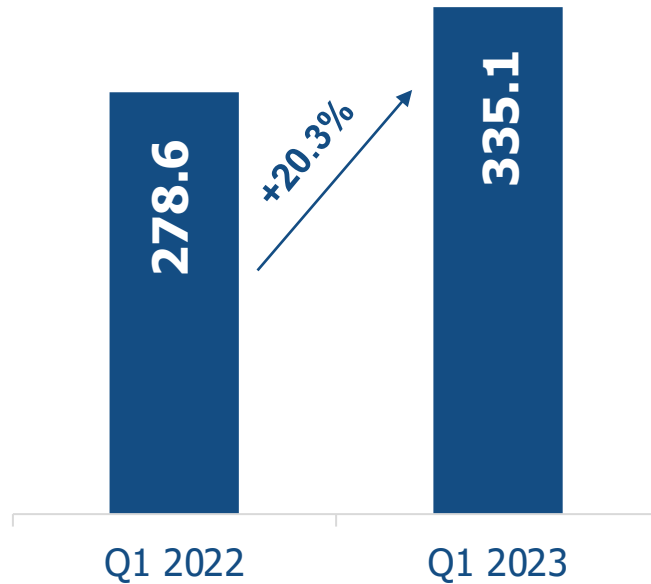
SFG Performance in Q1 2023



Data in RON'000	Q1-23	Q1-22	Y/Y %
Restaurant sales	335,060	278,579	20.3%
Restaurant expenses	307,705	272,031	13.1%
Restaurant operating profit	27,355	6,548	317.8%
General & Admin expenses	14,990	13,628	10.0%
EBITDA	23,523	3,760	525.6%
Normalized EBITDA	23,523	3,760	525.6%
Operating Profit	12,365	(7,081)	-
Finance costs	3,051	2,949	3.5%
Finance income	942	152	521.3%
Profit/(Loss) before tax	10,255	(9,878)	-
Income tax expense	2,911	386	655.2%
Specific Tax	-	624	-100.0%
Profit for the year	7,344	(10,887)	-
Normalized profit for the year	7,344	(10,887)	-

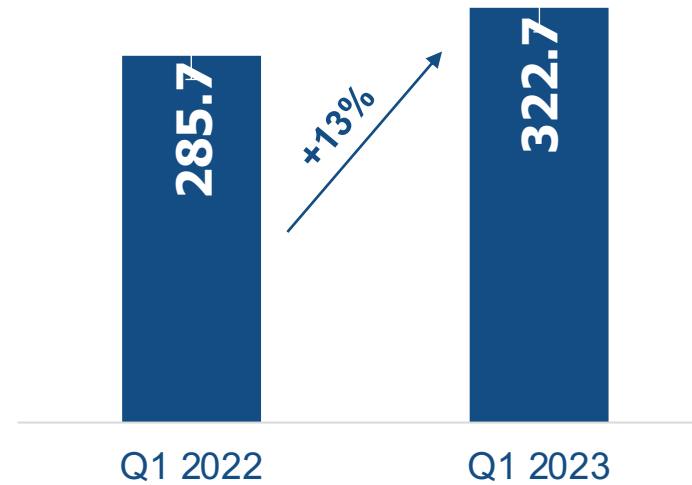
- **Strong start of the year despite business cyclicality & inflationary context:** Q1 is usually a slow period for the food service industry due to the post-holiday season slowdown. Despite the usual business cyclicality and the more challenging economic context of high inflation, the Group started 2023 strong, with the consolidated sales in Q1'23 reaching RON 335.1, a 20.3% increase vs Q1'22 when the Group saw revenues of RON 278.6 mn.
- **All brands recorded increases in revenues Q1'23:** Sales of KFC appreciated 20.3% in Q1'23 vs Q1'22, delivering RON 284.1 mn in revenues, Pizza Hut increased 10%, contributing RON 31.2 mn, while Taco Bell grew 40.6%, registering revenues of RON 19.8 mn in the first three months of 2023.
- **Restaurant expenses decreased share in sales:** After a challenging 2022, restaurant expenses weight in sales decreased with 6pp reaching 91.8% in Q1'23 vs. 97.6% in Q1'22. In Q1'23, the increase of 13.1% YoY in the restaurant expenses was below the increase in restaurant sales of 20.3%.
- **Significant operating profit due operational excellence:** Due to effective cost management throughout 2022, the group ended Q1'23 with a restaurant operating profit of RON 27.4 mn, a 317.8% increase compared to Q1'22.
- **Improved EBITDA margin across the brands:** USFN Moldova registered in Q1'23 the highest margin of 13.1%, followed by USFN Romania - 9%, USFN Italy - 5%, CFF - 2%, while ARS reduced the loss by RON 1.7 mn.
- **G&A in check:** The weight in sales of the G&A expenses decreased with 0.4 pp in Q1'23 vs. Q1'22, reaching RON 15 mn in Q1'23.
- **Profitable quarter:** the net profit for the Group significantly increased from a net loss of RON 10.9 mn in Q1'22 to a net profit of RON 7.3 mn in Q1'23. This turnaround can be attributed to the strong performance of USFN Romania and USFN Moldova, along with the cost control measures implemented across the Group.

SFG Q1 2023 Performance



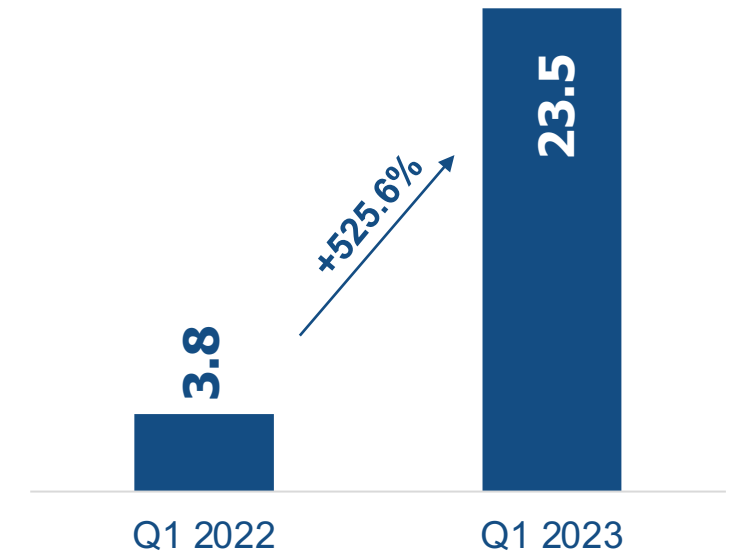
Restaurant Sales

in RON m



Expenses (Restaurant + G&A)

in RON m, excl. IFRS16

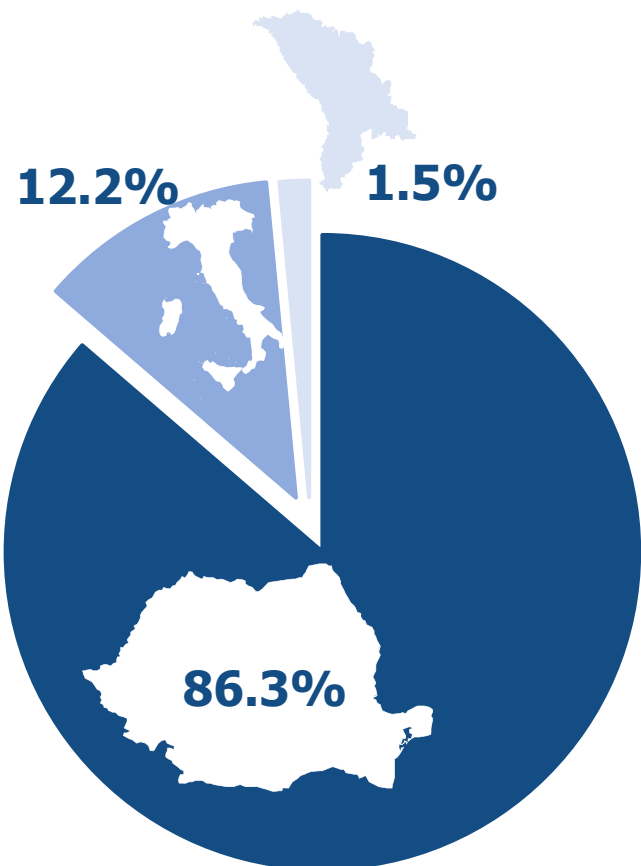


Normalized EBITDA

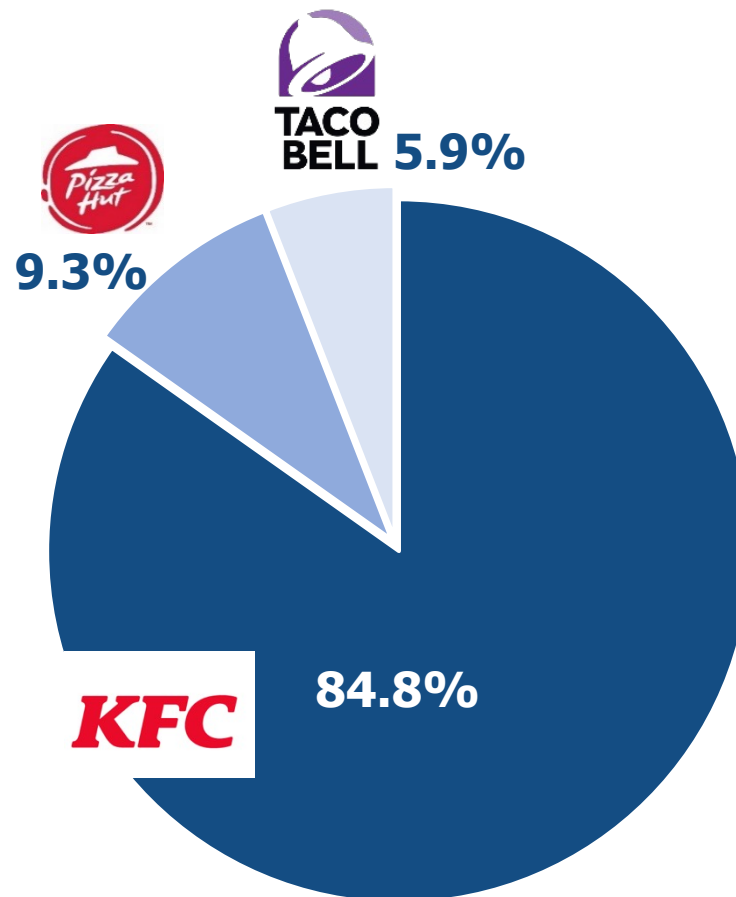
in RON m, excl. IFRS16

SFG Q1 2023 Performance breakdown

Contribution to Q1 2023 turnover



Per market



Per brand

Business updates from Q1 2023



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Development, staff & fiscal updates

Number of stores

- **177 restaurants operated:** out of which 98 KFC restaurants in Romania, 2 in Moldova and 18 in Italy, as well as 42 Pizza Hut restaurants, 15 Taco Bell restaurants, one PHD subfranchise and one Paul restaurant as of 31.03.2023
- **2 openings:** 2 new KFC drive-thru units in Romania – one within Rompetrol gas station on the A1 highway, KFC Orastie (km. 340+500) and another, a food court location in Giurgiu Shopping Park.
- **2 closings:** In January 2023, two KFC stores in Italy were closed: KFC Verona Corso Milano and KFC Torino Moncalieri.

Staff

- **Employees:** As of 31.03.2023, the Group had 5,467 employees, of which 4,978 were in Romania, 406 in Italy and 83 in the Republic of Moldova.
- **Continuing the digitalization to simplify the sales process:** In Q1'23, the Group continued the process of digitalizing its network through further deployment of digital kiosks to simplify the selling process, as well as carried on with the project of hiring employees from abroad. So far, Sphera has over 200 employees from Sri Lanka, most of them currently working for USFN Romania.

Fiscal changes

- **No more specific HORECA tax as of 01.01.2023:** The specific tax for HORECA is no longer available in Romania and has been replaced by the profit tax or tax on micro-company income, at the companies' choice. Consequently, US Food Network SA opted for payment of micro-company tax (in the amount of 1% of the turnover), while American Restaurant System SA and California Fresh Flavors SRL opted for profit tax.

Capital markets updates

SFG evolution on BVB

- **Increases registered in Q1 2023:** SFG shares continued the positive evolution from the end of 2022 in Q1'23, registering a 16.4% increase in the first quarter of the year, as the share closing price on March 31, 2023 was RON 16.3, vs closing price of RON 14.0 from December 31, 2022.
- **SFG outperforms reference indices in Q1 2023:** In Q1'23, investors traded 336,397 SFG shares (2.6% of free float), with a total value of RON 5.1 mn. The share price evolution in Q1'23 outperformed the BVB reference index BET, which increased 3.8% in the period as well as the BET-TR index, which grew 3.9%.

Dividend distribution

- **Gross dividend per share of RON 0.5155:** On March 31, 2023, Sphera Franchise Group paid shareholders dividends amounting to RON 20,001,059.77 from the undistributed net profit of 2020, fixing a gross dividend per share at RON 0.5155. The ex-date for the dividend payment was March 10th, 2023; the record date was March 13th, 2023.

2023 Guidance



Indicator	Budget 2023		2022		Budget 2023 vs 2022
	RON mn	% Sales	RON mn	% Sales	%
RON millions (mn)					
Restaurant Sales (*)	1,600.3	100.0%	1,322.8	100.0%	21.0%
Other Income	-	-	1.2	-	-
Food and Material	526.2	32.9%	457.1	34.6%	15.1%
Restaurant Gross Margin	1,074.0	67.1%	866.9	65.5%	23.9%
Restaurant Operational Expenses	850.3	53.1%	712.1	53.8%	19.4%
Restaurant Operating Profit	223.8	14.0%	154.8	11.7%	44.5%
G&A expenses	61.2	3.8%	52.2	3.9%	17.2%
EBITDA (normalized, excluding IFRS 16 impact) (*)	162.6	10.2%	102.7	7.8%	58.4%
Normalized Profit for the year (*)	83.4	5.2%	44.3	3.3%	88.3%
Free Cash Flow (*)	71.1		55.6		27.8%

Marketing



Pricing adaptation to the market conditions

- In the current economic climate, we increased the prices in March 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

- With the aim of growing sales through transactions, KFC launched a promotional campaign in Q1 where, for any 25 lei purchase, you could win KFC products - one per minute for eight weeks - and become eligible for the big prize of €100,000; the campaign mechanic set us apart in the category and resulted in a significant transactions boost.
- We continued our effort to reinforce the “value for money” perception by communicating the Tuesday Bucket through a 360 campaign that drove traffic in the stores and by offering coupons through our mobile app.
- Since driving sales and reinforcing crave are strategic objectives this year, we concentrated our communication on value for the beginning of the year, successfully re-launching De Pofta / Craving (value bundle for 14.9 RON), which resulted in a significant same-store sales increase.
- Unlocking new growth layers helps sales building and addresses different usage occasions, thus KFC opened its first locations in gas stations in collaboration with Rompetrol; the partnership was communicated through an all-encompassing PR campaign.

Marketing



Pizza Hut: Build sales and increase distinctiveness

- With the objective of improving transaction levels, the brand started the year by communicating value through its “small pizza only 5 RON with any medium pizza” which attracted price-conscious consumers and increased trial.
- As a secondary layer, Pizza Hut brought in focus Cheesy Bites, an iconic and popular curst, with the objective of increasing both frequency among regular users and average ticket.
- In March 2023 Pizza Hut finalized its complex menu optimization process by aligning prices in all sales channels which will result in a lower cost of goods and a more consistent customer experience.

Taco Bell: Drive trial and build brand

- The Mexican-inspired brand focused its communication in Q1 on value innovation by launching a new taco at an affordable price, with the aim of creating favorability and differentiation, which resulted in increased transactions.
- In an effort to further educate consumers about our brand universe, we launched a digital activation called Taco Zoom that rewarded customers with free tacos when they were able to find the hidden product on their screen.
- Taco Bell continued to communicate its mobile app with a rewards program on top, with the aim of making our digital assets so ownable that customers can only come to us for certain exclusive offers.

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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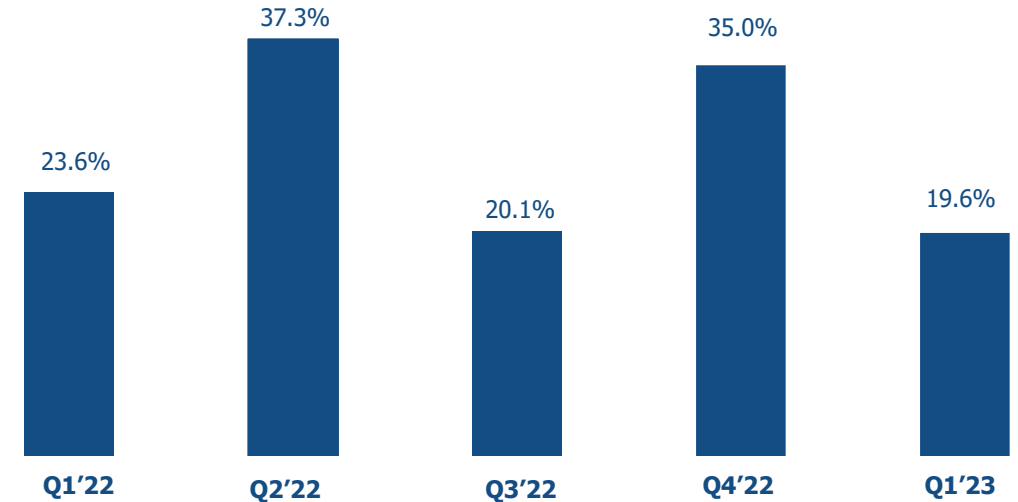




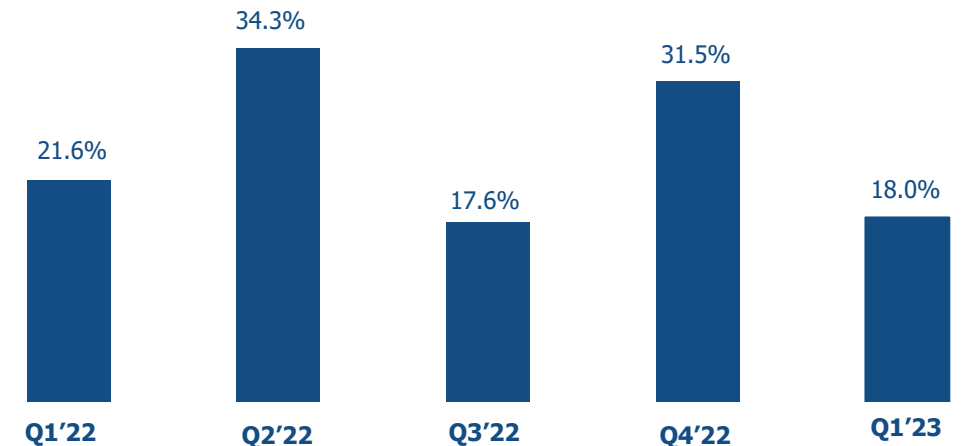
KFC Romania

- Q1'23 was another strong quarter of consolidation for KFC Romania as all store performance improved 20% YoY due to excellent same store results (+18%) paired with the sales generated by the 4 new KFC units that were opened between Q2'22 and Q1'23.
- The sales for delivery in Q1'23 amounted to 18%, a 2pp increase QoQ driven by the weather and seasonality.
- In Q1'23, KFC Romania increased EBITDA by 133.3% YoY to RON 21.5 , with EBITDA margin of 9% and net profit of RON 11.6 mn.

All Store Performance



Same Store Performance



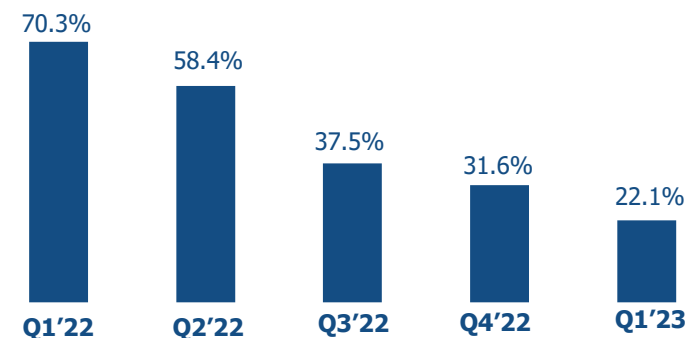


KFC Italy & KFC Republic of Moldova

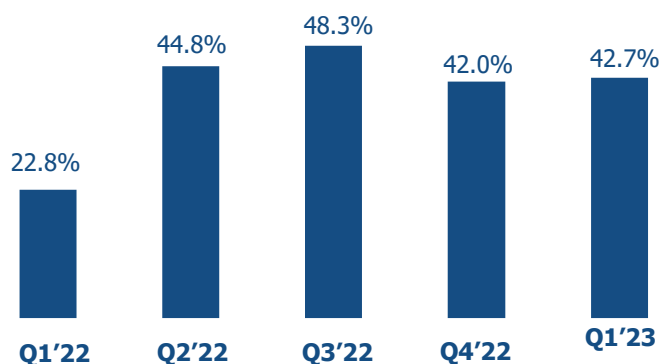
KFC Italy

- All-stores recorded 22% sales increase in Q1'23 vs. Q1'22, as well as same store performance.
- 8% of all orders in Q1'23 were for delivery, 2pp QoQ decrease.
- KFC Italy registered restaurant operating profit of RON 2.1 mn in Q1'23, vs restaurant operating loss of RON 2.9 mn vs Q1'22. EBITDA amounted to RON 2 mn, with EBITDA margin at 5%.

All Store Performance



All Store Performance



KFC Moldova

- The two stores located in Chisinau continued accelerated sales increases, with all store performance increasing 43%.
- Sales for delivery increased in Q1'23 with 2pp QoQ, standing at 31% of total sales.
- KFC Moldova closed Q1 2023 with EBITDA of RON 0.6mn, having the highest margin of all the brands, of 13.1%, and net profit of RON 0.5mn.

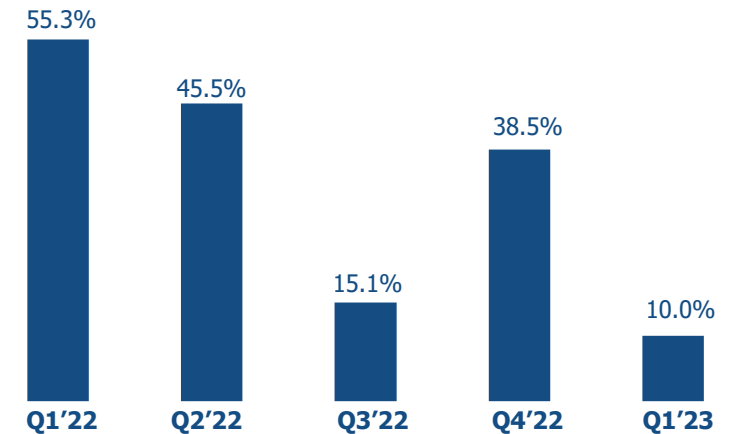


Pizza Hut & Taco Bell

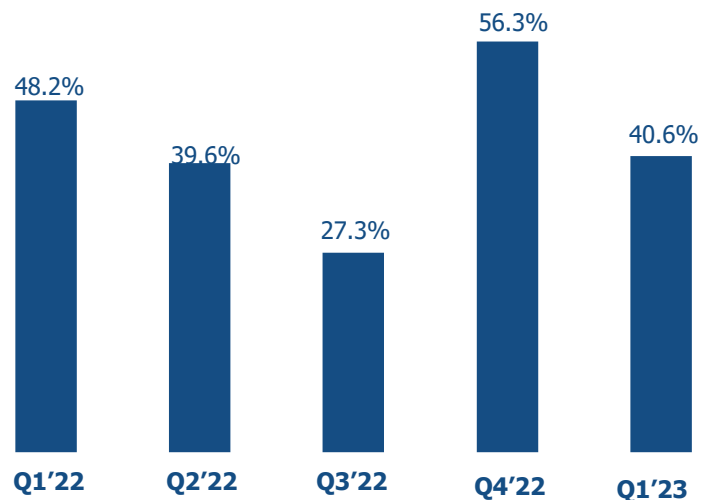
Pizza Hut

- The YoY all store performance registered a 10% increase while the same store sales increased 8.7%.
- 36% of all orders were made for delivery in Q1'23, a 3pp decline QoQ.
- Pizza Hut closed Q1'23 with EBITDA of -0.8 mn, however improving it YoY by RON 1.7 mn, and a net loss of RON 2.3 mn.

All Store Performance



All Store Performance



Taco Bell

- Taco Bell's all store performance in Q1'23 registered a 41% increase YoY while same store performance appreciated 28%. Between Q2'22 and Q1'23, 1 new Taco Bell was opened.
- 30% of all orders in Q1'23 were for delivery, a 3pp QoQ increase.
- Taco Bell closed Q1'23 with EBITDA of RON 0.4mn, a 2% margin, and a loss of RON 0.9 mn.

Q&A Session



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Annex: Key Q1 2023 Financials

Summary of consolidated Q1 2023 FS

Summary of interim Consolidated Financial Statements for Q1 (excluding IFRS 16 Impact):

Data in RON'000	Q1-23	Q1-22	Y/Y % Q1-23/Q1-22	% of Sales		Δ%
				Q1-23	Q1-22	
Restaurant sales	335,060	278,579	20.3%			
Restaurant expenses	307,705	272,031	13.1%	91.8%	97.6%	-5.8%
Food and material	113,047	97,814	15.6%	33.7%	35.1%	-1.4%
Payroll and employee benefits	77,895	66,877	16.5%	23.2%	24.0%	-0.8%
Rent	24,605	21,484	14.5%	7.3%	7.7%	-0.4%
Royalties	19,983	16,759	19.2%	6.0%	6.0%	-0.1%
Advertising	15,911	13,822	15.1%	4.7%	5.0%	-0.2%
Other operating expenses	46,136	45,301	1.8%	13.8%	16.3%	-2.5%
Depreciation and amortization	10,128	9,973	1.6%	3.0%	3.6%	-0.6%
Restaurant operating profit	27,355	6,548	317.8%	8.2%	2.4%	5.8%
General & Admin expenses	14,990	13,628	10.0%	4.5%	4.9%	-0.4%
Operating Profit/(Loss)	12,365	(7,081)	-	3.7%	-2.5%	6.2%
Finance costs	3,051	2,949	3.5%	0.9%	1.1%	-0.1%
Finance income	942	152	521.3%	0.3%	0.1%	0.2%
Profit/(Loss) before tax	10,255	(9,878)	-	3.1%	-3.5%	6.6%
Income tax expense	2,911	386	655.2%	0.9%	0.1%	0.7%
Specific Tax	-	624	-100.0%	0.0%	0.2%	-0.2%
Profit/(Loss) for the period	7,344	(10,887)	-	2.2%	-3.9%	6.1%
Normalized Profit/(Loss) for the year	7,344	(10,887)	-	2.2%	-3.9%	6.1%
EBITDA	23,523	3,760	525.6%	7.0%	1.3%	5.7%
Normalized EBITDA	23,523	3,760	525.6%	7.0%	1.3%	5.7%

Summary of consolidated Q1 2023 FS

(with and without IFRS 16 impact)



Summary of interim Consolidated Financial Statements for Q1 – results and evolution presented with and without IFRS 16 impact

Data in RON'000	Q1-23	Q1-23	Q1-22	Q1-22	Change (%)	
	1	2	1	2	Q1-23/ Q1-22 (1)	Q1-23/ Q1-22 (2)
Restaurant sales	335,060	335,060	278,579	278,579	20.3%	20.3%
Restaurant expenses	304,563	307,705	270,476	272,031	12.6%	13.1%
Food and material	113,047	113,047	97,814	97,814	15.6%	15.6%
Payroll and employee benefits	77,895	77,895	66,877	66,877	16.5%	16.5%
Rent	7,629	24,605	6,292	21,484	21.2%	14.5%
Royalties	19,983	19,983	16,759	16,759	19.2%	19.2%
Advertising	15,911	15,911	13,822	13,822	15.1%	15.1%
Other operating expenses	46,136	46,136	45,301	45,301	1.8%	1.8%
Depreciation and amortization	23,840	10,128	23,610	9,973	1.0%	1.6%
Restaurant operating Profit / (Loss)	30,618	27,355	8,103	6,548	277.9%	317.8%
General & Admin expenses	14,755	14,990	13,336	13,628	10.6%	10.0%
Operating Profit/(Loss)	15,863	12,365	(5,233)	(7,081)	-	-
Finance costs	6,467	3,051	4,803	2,949	34.6%	3.5%
Finance income	942	942	152	152	521.3%	521.3%
Profit/(Loss) before tax	10,338	10,255	(9,885)	(9,878)	-	-
Income tax expense	2,916	2,911	366	386	697.5%	655.2%
Specific Tax	-	-	624	624	-100.0%	-100.0%
Profit/(Loss) for the period	7,422	7,344	(10,875)	(10,887)	-	-
Normalized Profit/(Loss) for the year	7,422	7,344	(10,875)	(10,887)	-	-
EBITDA	41,494	23,523	19,893	3,760	108.6%	525.6%
Normalized EBITDA	41,494	23,523	19,893	3,760	108.6%	525.6%

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

Breakdown of Q1 2023 results by entity

Breakdown of consolidated results by Group companies – Q1 2023 (excluding IFRS 16 Impact):

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons, Adj,	SFG Cons
Restaurant sales	238,245	31,185	4,891	40,951	19,788	9,518	(9,518)	335,060
Restaurant expenses	214,030	31,360	4,219	38,831	19,369	0	(104)	307,705
Food and material	83,362	8,741	2,168	11,605	7,170	-	2	113,047
Payroll and employee benefits	53,739	8,784	768	10,039	4,566	-	-	77,895
Rent	16,488	2,897	266	3,494	1,460	-	-	24,605
Royalties	14,195	1,836	291	2,445	1,216	-	-	19,983
Advertising	10,950	1,491	164	2,480	925	-	(99)	15,911
Other operating expenses	29,837	6,437	483	6,201	3,180	-	(2)	46,136
Depreciation	5,459	1,174	79	2,567	854	-	(5)	10,128
Restaurant operating profit/(loss)	24,215	(175)	672	2,120	419	9,518	(9,415)	27,355
G&A expenses	8,771	1,993	120	2,676	935	9,873	(9,378)	14,990
Operating profit/(loss)	15,444	(2,169)	552	(556)	(516)	(355)	(36)	12,365
Finance costs	2,181	163	11	651	388	892	(1,235)	3,051
Finance income	1,007	8	-	0	-	1,163	(1,235)	942
Profit/(Loss) before tax	14,270	(2,324)	541	(1,206)	(905)	(84)	(36)	10,255
Income tax expense	2,649	(61)	88	45	43	148	-	2,911
Specific tax expense	-	-	-	-	-	-	-	-
Profit/(Loss) for the period	11,621	(2,264)	453	(1,251)	(947)	(232)	(36)	7,344
Normalized Profit/(Loss) for the year	11,621	(2,264)	453	(1,251)	(947)	(232)	(36)	7,344
EBITDA	21,489	(818)	640	2,040	389	(174)	(43)	23,523
Normalized EBITDA	21,489	(818)	640	2,040	389	(174)	(43)	23,523

Overview of the Q1 2023 G&A expenses

(with and without IFRS 16 impact)

	Data in RON '000				Change (%)		Percentage of sales			
	Q1-23	Q1-23	Q1-22	Q1-22			Q1-23	Q1-23	Q1-22	Q1-22
	(1)	(2)	(1)	(2)	2023/ 2022 (1)	2023/ 2022 (2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses	14,755	14,990	13,336	13,628	10.6%	10.0%	4.4%	4.5%	4.8%	4.9%
Payroll and employee benefits	10,168	10,168	9,148	9,148	11.1%	11.1%				
Third-party services	1,710	1,710	1,695	1,695	0.9%	0.9%				
Depreciation and amortization	1,791	1,030	1,516	868	18.1%	18.8%				
Rent	59	1,054	55	996	7.3%	5.9%				
Banking charges	189	189	196	196	-3.9%	-3.9%				
Transport	300	300	259	259	16.0%	16.0%				
Other*	538	538	466	466	15.4%	15.5%				

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 2023 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.

