

Q3 2023

FINANCIAL REPORT

SPHERA FRANCHISE GROUP SA



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The interim condensed consolidated financial statements presented on the following pages are prepared in accordance with International Financial Reporting Standards, as adopted by European Union ("IFRS").

The interim condensed consolidated financial statements as of September 30th, 2023 **are unaudited**.

The financial figures presented in the descriptive part of the report that are expressed in million RON are rounded off to the nearest integer. This may result in small reconciliation differences.

NOTE: As of January 1st, 2019, Sphera Franchise Group applies IFRS 16 "Leases" standard that sets out the principles for the recognition, measurement, presentation, and disclosure of leases. When analyzing the performance of the Group, the management's focus is on the financial results that exclude the impact of IFRS 16. Therefore, the basis for the financial analysis on the following pages are the results excluding IFRS 16. Nonetheless, for most of the tables included in this report are provided financial results both including, as well as excluding the impact of IFRS 16.

ISSUER INFORMATION

INFORMATION ABOUT THIS FINANCIAL REPORT

Type of report	Quarterly Report for Q3 2023
For financial period	9M: 01.01.2023 – 30.09.2023 Q3: 01.07.2023 – 30.09.2023
Date of publishing	15.11.2023
According to	Annex 13 of ASF Regulation 5/2018

ISSUER INFORMATION

Issuer's name	Sphera Franchise Group S.A.
Fiscal code	RO 37586457
Trade registry number	J40/7126/2017
Registered office	Calea Dorobanților nr. 239, 2nd floor, Bucharest sector 1

INFORMATION ABOUT FINANCIAL INSTRUMENTS

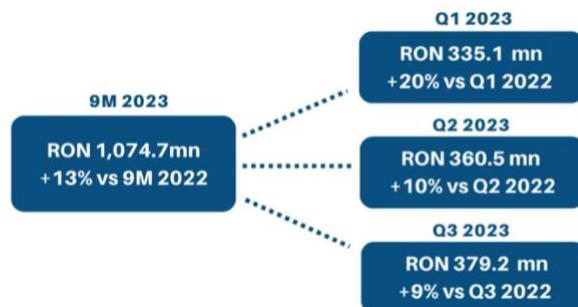
Subscribed and paid-up share capital	RON 581,990,100
Market on which the securities are traded	Bucharest Stock Exchange, Main Segment, Premium Category
Total number of shares	38,799,340
Symbol	SFG

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FINANCIAL RESULTS HIGHLIGHTS

Sales per quarter



Sales per geography



Sales per brand



RON 31 mn

Normalized operating profit in Q3 2023, +20% vs. Q3 2022

RON 42.4 mn

Normalized EBITDA in Q3 2023, +14% vs. Q3 2022

RON 28.3 mn

Normalized gross profit in Q3 2023, +28% vs. Q3 2022

RON 94.7 mn

Normalized EBITDA in 9M 2023, +63% vs. 9M 2022

RON 43 mn

Normalized net profit in 9M 2023, +175% vs. 9M 2022

0.4

Net Debt/ EBITDA Ratio

Q3 2023 RESULTS ANALYSIS

Q3 2023 brought another quarter of topline increases and historical sales for Sphera Franchise Group, as the Group reported the best quarter in history in terms of overall sales, registering revenues of RON 379.2 million, a 9.1% year-on-year increase versus RON 347.6 generated in Q3 2022. It is important to underline that, as previously reported, as of Q2 2023, Sphera registers more moderate, single digit YoY growth rates. These rates are reflective of pre-pandemic levels and indicate the consolidation of the Group's network across the three markets.

Romania contributed RON 324.3 million to the Q3 2023 turnover, bringing in 85.5% of the total sales as the revenues registered a 9.1% YoY increase. Italy brought RON 49.7 million, 13.1% of total revenues, with sales registering a 9.2% YoY increase, while the Republic of Moldova contributed RON 5.2 million, amounting to 1.4% of revenues and an 8.9% appreciation in sales. At the level of the brands, in Q3 2023, KFC saw a 10.4% increase in sales, generating RON 330.2 million, while Taco Bell grew 19.1% to RON 21.3 million. Pizza Hut sales declined 9.8% to RON 27.7 million. A restaurant network reorganization program formally began in Q3 2023 with the aim to optimize costs, increase the agility of the brand and improve profitability indicators.

Data in RON '000	Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23	Change 9M-23/9M-22
Sales by region								
Romania	241,607	284,592	297,301	315,594	289,218	311,266	324,269	12.3%
Italy	33,545	38,768	45,512	48,510	40,951	44,364	49,708	14.6%
Rep. Moldova	3,427	4,086	4,757	5,123	4,891	4,890	5,179	21.9%
Total sales	278,579	327,445	347,570	369,228	335,060	360,520	379,156	12.7%

At the level of restaurant expenses, those grew in Q3 2023, almost in line with the sales, increasing 10% to RON 339.2 million. The largest contribution to restaurant expenses were the food and material costs, which stabilized and increased 4.1%, below the inflation rate, to RON 122.2 million, followed by payroll and employee benefits, which saw a 12.8% increase to RON 79.8 million, reflecting the Group's efforts to motivate and secure its employee base. Rent saw a 13.2% increase, linked to the evolution of sales, amounting to RON 27.6 million, while royalties increased 21.7%, to RON 25 million. Advertising costs increased 29% to RON 21 million, reflecting the seasonality of the marketing campaigns. Depreciation and amortization increased 43%, amounting to RON 14.6 million. Out of this amount, RON 4.5 million is related to the impairment of the non-current assets related to the planned closings (13 Pizza Hut locations, temporary closing of KFC Romana and Paul Romana due to building restoration).

The main contributions to other operating expenses of RON 49 million are third-party and utility costs, which remained stable YoY. This position also includes the aggregator commissions, which amounted to RON 11.3 million, a 3.2% YoY increase, reflecting the overall sales increase.

The Group closed Q3 2023 with a restaurant operating profit of RON 40 million, a 1.8% increase. The G&A expenses increased 20.4% to RON 16.1 million, the weight in sales remaining stable excluding the non-cash items. Consequently, the operating profit amounted to RON 23.9 million, a 7.7% YoY decline. Excluding the normalized items, the operating profit increased 19.8% reaching to RON 31 million in Q3 2023. The net finance cost decreased 30% reaching to RON 2.6 million in Q3 2023 vs. RON 3.7 million in Q3 2022. The tax expense amounted to RON 4.8 million in Q3 2023 vs RON -2.1 million in Q3 2022, as a combined effect of deferred tax and the changes in tax regime applicable for HORECA companies in Romania.

The gross profit for the quarter of RON 21.3 million registered a 4% YoY decline, and the net profit for the period of RON 16.4 million decreased 32.6% YoY. Excluding the impact of the one-offs, the normalized gross profit for the period amounted to RON 28.3 million, a 28.2% YoY increase, while the normalized EBITDA was RON 42.4 million, a 14.4% YoY increase.

Summary of interim Consolidated Financial Statements for Q3 (excluding IFRS 16 Impact):

Data in RON'000	Q3-23	Q3-22	Q3-23/ Q3-22	Y/Y %	% of Sales	
				Q3-23	Q3-22	Δ%
Restaurant sales	379,156	347,570	9.1%			
Restaurant expenses	339,175	308,314	10.0%	89.5%	88.7%	0.7%
Food and material	122,225	117,457	4.1%	32.2%	33.8%	-1.6%
Payroll and employee benefits	79,755	70,695	12.8%	21.0%	20.3%	0.7%
Rent	27,560	24,350	13.2%	7.3%	7.0%	0.3%
Royalties	24,996	20,544	21.7%	6.6%	5.9%	0.7%
Advertising	20,995	16,266	29%	5.5%	4.7%	0.9%
Other operating expenses	49,006	48,768	0.5%	12.9%	14.0%	-1.1%
Depreciation and amortization	14,638	10,235	43.0%	3.9%	2.9%	0.9%
Restaurant operating profit	39,981	39,256	1.8%	10.5%	11.3%	-0.7%
General & Admin expenses	16,109	13,384	20.4%	4.2%	3.9%	0.4%
Operating profit	23,872	25,872	-7.7%	6.3%	7.4%	-1.1%
Normalized operating profit¹	31,001	25,872	19.8%	8.2%	7.4%	0.8%
Finance costs	2,769	3,735	-25.9%	0.7%	1.1%	-0.3%
Finance income	155	12	1202.5%	0.0%	0.0%	0.0%
Profit before tax	21,258	22,149	-4.0%	5.6%	6.4%	-0.8%
Normalized profit before tax¹	28,387	22,149	28.2%	7.5%	6.4%	1.1%
Income tax expense/(credit)	4,871	(2,806)	-	1.3%	-0.8%	2.1%
Specific Tax	-	639	-100.0%	0.0%	0.2%	-0.2%
Profit for the period	16,387	24,316	-32.6%	4.3%	7.0%	-2.7%
Normalized profit for the period¹	23,516	24,316	-3.3%	6.2%	7.0%	-0.8%
EBITDA	39,721	37,038	7.2%	10.5%	10.7%	-0.2%
Normalized EBITDA²	42,353	37,038	14.4%	11.2%	10.7%	0.5%

¹ Profit was normalized for the period to exclude: the impairment for the closing of 13 Pizza Hut units, in line with the network reorganization plan (RON 4.1m), impairment for the temporary closing of KFC Romana and Paul Romana restaurants in Romania due to building restoration (RON 0.4m), closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). There are no items of normalization in Q3 2022.

² EBITDA was normalized for the period to exclude: closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). There are no items of normalization in Q3 2022.

The continued strong performance in Q3 2023 contributed to all indicators reported for the first nine months of 2023. Consequently, the revenues overpassed, for the first time, the milestone of RON 1 billion in sales generated within the first three quarters of the year. This milestone was supported by a 12.7% increase in restaurant sales, from RON 953.6 million generated in 9M 2022 to RON 1,074.7 million in 9M 2023. The restaurant expenses increased at a slower pace than sales, growing 9.5% from RON 889.9 million to RON 974.1 million, also reducing their weight in sales with almost 3pp, reaching 90.6% of sales in 9M 2023 versus 93.3% in 9M 2022.

All cost categories saw small to moderate increases, with food and material expenses of RON 355.1 million increasing 6.1%, lower than the inflation rate for food products registered at a national level. The weight of food and material costs in total sales decreased by 2pp, down to 33%. On the other hand, payroll and employee benefits increased 14.4%, to RON 243.1 million, mirroring the labor market evolution.

The rent increased 13.2% YoY in 9M 2023 to RON 78.1 million due to both larger restaurant footprint and the variable structure of rental contracts linked to the sales. Royalties increased 17.1%, reaching RON 66.7 million, while advertising increased by 15% to RON 56 million. Depreciation and amortization increased 13.5%, amounting to RON 34.6 million, with the increase being primarily driven by the impairment of the non-current assets related to the considered closings.

Other operating expenses amounted to RON 140.7 million, a 2.2% increase. The main contribution to this category was brought by the third-party expenses, which increased 8.7% to RON 72.2 million. On the other hand, the utility costs decreased 14.7% to RON 32.1 million.

Attributable to an effective pricing strategy and higher sales volumes, the Group reported a restaurant operating profit of RON 100.6 million for 9M 2023, reflecting a 55% YoY increase. The G&A increased 16.4% to RON 46.4 million but maintained a comparable weight in sales of 4.3% (vs. 4.2% in 9M 2022).

Consequently, the operating profit for the period was RON 54.2 million, a 116.1% YoY increase compared to RON 25.1 million generated in 9M 2022.

The net finance costs decreased 22.6% to RON 7.8 million for 9M 2023 vs. RON 10 million for 9M 2022. Consequently, the gross profit for 9M 2023 amounted to RON 46.4 million, more than triple versus RON 15 million registered in 9M 2022. As the income tax expense amounted to RON 10.6 million, the bottom-line ended at RON 35.8 million for 9M 2023, versus RON 15.6 million in 9M 2022, reflecting a 129.3% increase. Excluding the impact of one-offs related primarily to the closing costs for the selected Pizza Hut units under the network reorganization plan and related thereto impairment, the normalized net profit for the 9M 2023 amounted to RON 42.9 million, a 175% YoY increase, while the normalized EBITDA was RON 94.7 million, a 62.5% YoY increase.

Summary of interim Consolidated Financial Statements for 9M (excluding IFRS 16 Impact):

Data in RON'000	9M-23	9M-22	9M-23/ 9M-22	Y/Y %		Δ%
				9M-23	9M-22	
Restaurant sales	1,074,736	953,594	12.7%			
Other restaurant income	-	1,172	-100.0%			
Restaurant expenses	974,145	889,856	9.5%	90.6%	93.3%	-2.7%
Food and material	355,068	334,743	6.1%	33.0%	35.1%	-2.1%
Payroll and employee benefits	243,059	212,475	14.4%	22.6%	22.3%	0.3%
Rent	78,065	68,954	13.2%	7.3%	7.2%	0.0%
Royalties	66,679	56,950	17.1%	6.2%	6.0%	0.2%
Advertising	55,982	48,580	15%	5.2%	5.1%	0.1%
Other operating expenses	140,690	137,677	2.2%	13.1%	14.4%	-1.3%
Depreciation and amortization	34,603	30,476	13.5%	3.2%	3.2%	0.0%
Restaurant operating profit	100,591	64,910	55.0%	9.4%	6.8%	2.6%
General & Admin expenses	46,370	39,824	16.4%	4.3%	4.2%	0.1%
Operating profit	54,221	25,086	116.1%	5.0%	2.6%	2.4%
Normalized operating profit¹	61,351	25,086	144.6%	5.7%	2.6%	3.1%
Finance costs	9,001	10,459	-13.9%	0.8%	1.1%	-0.3%
Finance income	1,191	368	223.8%	0.1%	0.0%	0.1%
Profit before tax	46,411	14,995	209.5%	4.3%	1.6%	2.7%
Normalized profit before tax¹	53,541	14,995	257.1%	5.0%	1.6%	3.4%
Income tax expense/ (credit)	10,611	(2,530)	-	1.0%	-0.3%	1.3%
Specific Tax	-	1,914	-100.0%	0.0%	0.2%	-0.2%
Profit for the period	35,800	15,610	129.3%	3.3%	1.6%	1.7%
Normalized profit for the period¹	42,929	15,610	175.0%	4.0%	1.6%	2.4%
EBITDA	92,072	58,272	58.0%	8.6%	6.1%	2.5%
Normalized EBITDA²	94,704	58,272	62.5%	8.8%	6.1%	2.7%

¹ Profit was normalized for the period to exclude: the impairment for the closing of 13 Pizza Hut units, in line with the network reorganization plan (RON 4.1m), impairment for the temporary closing of KFC Romana and Paul Romana restaurants in Romania due to building restoration (RON 0.4m), closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). There are no items of normalization in Q3 2022.

² EBITDA was normalized for the period to exclude: closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). There are no items of normalization in Q3 2022.

Summary of interim Consolidated Financial Statements for 9M – results and evolution presented with and without IFRS 16 impact

Data in RON'000	9M-23	9M-23	9M-22	9M-22	Change (%)	
	1	2	1	2	9M-23/ 9M-22 (1)	9M-23/ 9M-22 (2)
Restaurant sales	1,074,736	1,074,736	953,594	953,594	12.7%	12.7%
Other restaurant income	-	-	1,172	1,172	-100.0%	-100.0%
Restaurant expenses	966,241	974,145	884,818	889,856	9.2%	9.5%
Food and material	355,068	355,068	334,743	334,743	6.1%	6.1%
Payroll and employee benefits	243,059	243,059	212,475	212,475	14.4%	14.4%
Rent	25,468	78,065	22,471	68,954	13.3%	13.2%
Royalties	66,679	66,679	56,950	56,950	17.1%	17.1%
Advertising	55,982	55,982	48,580	48,580	15.2%	15.2%
Other operating expenses	140,460	140,690	137,677	137,677	2.0%	2.2%
Depreciation and amortization	79,525	34,603	71,921	30,476	10.6%	13.5%
Restaurant operating profit	108,496	100,591	69,948	64,910	55.1%	55.0%
General & Admin expenses	45,767	46,370	38,987	39,824	17.4%	16.4%
Operating profit	62,728	54,221	30,960	25,086	102.6%	116.1%
Normalized operating profit¹	69,857	61,351	30,960	25,086	125.6%	144.6%
Finance costs	20,245	9,001	16,830	10,459	20.3%	-13.9%
Finance income	1,191	1,191	368	368	223.8%	223.8%
Profit before tax	43,674	46,411	14,498	14,995	201.2%	209.5%
Normalized profit before tax¹	50,803	53,541	14,498	14,995	250.4%	257.1%
Income tax expense/ (credit)	10,582	10,611	(2,596)	(2,530)	-	-
Specific Tax	-	-	1,914	1,914	-100.0%	-100.0%
Profit for the period	33,092	35,800	15,180	15,610	118.0%	129.3%
Normalized profit for the period¹	40,222	42,929	15,180	15,610	165.0%	175.0%
EBITDA	147,930	92,072	107,521	58,272	37.6%	58.0%
Normalized EBITDA²	150,562	94,704	107,521	58,272	40.0%	62.5%

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

¹ Profit was normalized for the period to exclude: the impairment for the closing of 13 Pizza Hut units, in line with the network reorganization plan (RON 4.1m), impairment for the temporary closing of KFC Romana and Paul Romana restaurants in Romania due to building restoration (RON 0.4m), closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). There are no items of normalization in Q3 2022.

² EBITDA was normalized for the period to exclude: closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). There are no items of normalization in Q3 2022.

G&A expenses increased by 16.4% compared to 9M 2022. However, as a percentage of sales, G&A remained stable. Payroll and employee benefits accounted for 67.7% of total G&A expenses, with a total value of RON 31.4 million. Expenses related to third-party services decreased 1% YoY and accounted for 11% of total G&A expenses, with a total value of RON 5.1 million. Rent increased 7.6% to RON 3.2 million (6.9% of total G&A expenses), while depreciation and amortization increased 19.9% to RON 3.2 million (7% of total G&A costs).

	Data in RON '000				Percentage of sales			
	9M-23	9M-23	9M-22	9M-22	9M-23	9M-23	9M-22	9M-22
	(1)	(2)	(1)	(2)	(1)	(2)	(1)	(2)
General and administration (G&A) expenses	45,767	46,370	38,987	39,824	17.4%	16.4%	6.6%	4.3%
Payroll and employee benefits	31,406	31,406	25,992	25,992	20.8%	20.8%		
Third-party services	5,112	5,112	5,162	5,162	-1.0%	-1.0%		
Depreciation and amortization	5,677	3,248	4,640	2,710	22.3%	19.9%		
Rent	174	3,205	212	2,978	-17.9%	7.6%		
Banking charges	561	561	536	536	4.7%	4.7%		
Transport	989	989	840	840	17.6%	17.6%		
Other*	1,849	1,849	1,605	1,605	15.2%	15.2%		

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.

The growth in the restaurant operating profit, from RON 64.9 million in 9M 2022 to RON 100.6 million in 9M 2023, can be attributed to the improved performance of KFC and Taco Bell brands across all the markets. USFN Romania contributed RON 89.7 million (+31.4% vs. 9M 2022), USFN Italy: RON 13.3 million (vs. restaurant operating loss of RON 3 million in 9M 2022), CFF : 3.5 million (+158.8% vs. 9M 2022), and USFN Moldova: RON 2.6 million (+35% vs. 9M 2022). Due to the reorganization process of the Pizza Hut network, ARS deepened its restaurant operating loss in 9M 2023 to RON 8.8 million (vs. a loss of RON 4 million) due to the one-off costs in the total amount of RON 6.5 million (impairment of non-current assets and closing costs).

Similarly, the normalized EBITDA has followed a positive evolution, increasing from RON 58.3 million in 9M 2022 to RON 94.7 million in 9M 2023, a 62.5% increase. This improvement can be mainly attributed to effective cost-control measures taken across the Group, leading to an increase in operating profit. As in the case of restaurant operating profit evolution, USFN Italy notably took EBITDA from negative, as reported for 9M 2022, to positive territory in 9M 2023 to RON 12.2 million close to two-digits landmark of EBITDA margin. The normalized EBITDA margin varied per brand, with USFN Moldova having the highest margin of 16.9%, followed by USFN Romania: 10.5%, USFN Italy: 9%, and CFF: 5.6%. ARS saw negative EBITDA margin of -5.3% since the network is in the turnaround process.

As the normalized net profit for 9M 2023 increased 175% to RON 42.9 million, the biggest contributor to this result was USFN Romania, which generated a normalized profit of RON 51.3 million (+29.3% vs. 9M 2022), USFN Moldova with RON 1.9 million (+33% vs. 9M 2022), and USFN Italy with RON 1.2 million (vs. a net loss of RON 9.6 million for 9M 2022). CFF closed 9M 2023 with a net loss of RON 0.7 million (vs. a net loss of RON 2.5 million for 9M 2022), while ARS saw a normalized net loss of RON 9.3 million (vs. a net loss of RON 11.5 million for 9M 2022).

Breakdown of consolidated results by Group companies – 9M 2023 (excluding IFRS 16 Impact):

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons, Adj,	SFG Cons
Restaurant sales	776,130	86,657	14,960	135,023	61,972	29,807	(29,813)	1,074,736
Dividends revenue	-	-	-	-	-	73,003	(73,003)	-
Restaurant expenses	686,445	95,429	12,372	121,735	58,502	(338)	(338)	974,145
Food and material	266,282	23,868	6,068	37,014	21,832	-	3	355,068
Payroll and employee benefits	171,878	24,586	2,238	30,689	13,668	-	-	243,059
Rent	52,758	8,793	805	11,138	4,572	-	-	78,065
Royalties	46,640	7,312	897	8,086	3,744	-	-	66,679
Advertising	39,829	4,575	582	8,323	2,992	-	(319)	55,982
Other operating expenses	91,385	18,988	1,537	19,682	9,104	-	(6)	140,690
Depreciation	17,672	7,308	244	6,803	2,590	-	(15)	34,603
Restaurant operating profit/(loss)	89,685	(8,771)	2,587	13,289	3,470	102,809	(102,478)	100,591
G&A expenses	27,424	6,227	330	7,976	2,757	31,019	(29,364)	46,370
Operating profit/(loss)	62,261	(14,999)	2,257	5,312	713	71,790	(73,113)	54,221
Normalized operating profit/(loss)¹	62,621	(8,535)	2,257	5,312	712	72,095	(73,113)	61,351
Finance costs	6,383	785	41	2,339	1,244	2,806	(4,598)	9,001
Finance income	3,686	10	-	1	-	2,091	(4,598)	1,191
Profit/(Loss) before tax	59,564	(15,774)	2,216	2,974	(531)	71,074	(73,113)	46,411
Normalized profit/ (loss) before tax¹	59,924	(9,310)	2,216	2,974	(531)	71,380	(73,113)	53,541
Income tax expense/ (credit)	8,619	(33)	301	1,771	125	(173)	-	10,611
Profit/(Loss) for the period	50,945	(15,741)	1,914	1,203	(656)	71,247	(73,113)	35,800
Normalized profit/(loss) for the period¹	51,305	(9,277)	1,914	1,203	(656)	71,552	(73,113)	42,929
EBITDA	81,678	(6,961)	2,528	12,192	3,458	72,310	(73,134)	92,072
Normalized EBITDA²	81,678	(4,634)	2,528	12,192	3,458	72,616	(73,134)	94,704

¹ Profit was normalized for the period to exclude: the impairment for the closing of 13 Pizza Hut units, in line with the network reorganization plan (RON 4.1m), impairment for the temporary closing of KFC Romania and Paul Romana restaurants in Romania due to building restoration (RON 0.4m), closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). There are no items of normalization in Q3 2022.

² EBITDA was normalized for the period to exclude: closing costs for the selected units as part of the PH network reorganization (RON 2.3m), as well as other provisions (litigation with a former non-executive director, RON 0.3m). There are no items of normalization in Q3 2022.

In Q3 2023, the like-for-like sales across Sphera brands grew 6.2%, with the most significant like-for-like increase registered by CFF, which grew 14.6% YoY, followed by USFN Italy, where comparable sales increased 9.2% YoY, USFN Moldova, where sales grew 8.9% YoY, and USFN Romania, where like-for-like sales grew 6.9%. ARS saw a 9.5% YoY decrease in same store performance.

Between September 30th, 2022, and September 30th, 2023, Sphera opened 8 new restaurants – 7 KFC and 1 Taco Bell restaurant in Romania, with the new openings being offset by the closing of 2 non-performing KFC units in Italy and 2 Pizza Hut locations. The new locations helped the Group's performance as CFF's all store performance increased by 19.1%, and USFN Romania – 10.7%. ARS all store performance declined 9.8% YoY.

		Y/Y Q1-22	Y/Y Q2-22	Y/Y Q3-22	Y/Y Q4-22	Y/Y Q1-23	Y/Y Q2-23	Y/Y Q3-23
USFN RO	All Stores	23.6%	37.3%	20.1%	35.0%	19.6%	10.5%	10.7%
	o/w Same Stores	21.6%	34.3%	17.6%	31.5%	18.0%	6.5%	6.9%
ARS	All Stores	55.3%	45.5%	15.1%	38.5%	10.0%	-6.2%	-9.8%
	o/w Same Stores	52.8%	42.1%	11.1%	34.2%	8.7%	-6.8%	-9.5%
CFF	All Stores	48.2%	39.6%	27.3%	56.3%	40.6%	19.9%	19.1%
	o/w Same Stores	46.4%	31.7%	17.3%	41.1%	27.7%	14.5%	14.6%
USFN IT	All Stores	70.3%	58.4%	37.5%	31.6%	22.1%	14.4%	9.2%
	o/w Same Stores	70.3%	58.4%	37.5%	31.6%	22.1%	14.4%	9.2%
USFN MD	All Stores	22.8%	44.8%	48.3%	42.0%	42.7%	19.7%	8.9%
	o/w Same Stores	22.8%	44.8%	48.3%	42.0%	42.7%	19.7%	8.9%
TOTAL	All Stores	31.8%	40.5%	22.3%	35.9%	20.3%	10.1%	9.1%
	o/w Same Stores	29.9%	37.5%	19.6%	32.4%	18.3%	6.8%	6.2%

In Q3 2023, the sales for delivery maintained the same level as in Q2 2023, with 17% of sales being done for delivery, reflecting the post-pandemic realities where customers prefer to dine-in, in line with the management's expectations. Consequently, the total value of sales for delivery in Q3 2023 amounted to RON 62 million, a 1.4% increase vs. RON 61.1 million registered in Q3 2022.

The Group decided to gradually outsource its own delivery fleet to existing partners to optimize costs while securing sales and remaining in close contact with customers. In Q3 2023, 9.3% of sales for delivery were delivered using Sphera's own delivery capacity, vs. 13% in Q3 2022.

Sales by entity		Q1-22	Q2-22	Q3-22	Q4-22	Q1-23	Q2-23	Q3-23
USFN RO	delivery	27%	20%	16%	16%	18%	16%	16%
	non-delivery	73%	80%	84%	84%	82%	84%	84%
ARS	delivery	49%	40%	38%	39%	36%	34%	35%
	non-delivery	51%	60%	62%	61%	64%	66%	65%
CFF	delivery	41%	32%	26%	27%	30%	28%	23%
	non-delivery	59%	68%	74%	73%	70%	72%	77%
USFN IT	delivery	14%	12%	9%	10%	8%	7%	6%
	non-delivery	86%	88%	91%	90%	92%	93%	94%
USFN MD	delivery	35%	31%	31%	29%	31%	30%	30%
	non-delivery	65%	69%	69%	71%	69%	70%	70%
All	delivery	28%	22%	18%	18%	19%	17%	17%
	non-delivery	72%	78%	82%	82%	81%	83%	83%

MAIN FINANCIAL RATIOS

The main financial ratios of Sphera Franchise Group (preliminary consolidated result) as of September 30th, 2023, are presented below, together with the result as of September 30th, 2022. All the ratios are including IFRS 16 impact.

<i>Financial data in RON '000</i>	9M Period ended 30.09.2023	9M Period ended 30.09.2022
Current ratio		
Current assets	149,352	= 0.52
Current liabilities	289,147	= 0.60
Debt to Equity ratio		
Interest-bearing debt (long term)	316,349	= 310%
Equity	102,176	= 294%
Interest-bearing debt (long term)	316,349	= 76%
Capital employed	418,525	= 75%
Trade receivables turnover (days)		
Average receivables	14,938	= 3.75
Turnover	1,074,736	= 9.90
Fixed asset turnover		
Turnover	1,074,736	= 2.69
Net fixed assets	532,398	= 2.49

Notes: Annualized values, based on the ASF methodology.



Q3 2023 Results Call

15.11.2023 | 16:00 hrs

On November 15th, at 16:00 Bucharest time (15:00 CET | 14:00 UK), Sphera Franchise Group will hold a conference call with the management to discuss the Q3 2023 results. The call will be attended by Calin Ionescu (CEO), Valentin Budes (CFO), Monica Eftimie (CMO), and Zuzanna Kurek (IR).

The call will be held in **English**. To receive the log-in details, please email investor.relations@spheragroup.com.

SIGNIFICANT EVENTS IN Q3 2023 & AFTER CLOSING OF THE REPORTING PERIOD

BUSINESS UPDATES

AMERICAN RESTAURANT SYSTEM RESTAURANT NETWORK REORGANIZATION

On September 25th, 2023, Sphera Franchise Group informed the market that it begun the process of reorganizing the restaurant network of American Restaurant System, operator of Pizza Hut® and Pizza Hut Delivery® brands in Romania. The process aims to optimize costs, increase agility in the face of high competition, and improve customer experience, which will reflect in improved profitability indicators.

The process includes closing of 13 Pizza Hut restaurants over a period of approximately 6 months, particularly units serving areas with a high degree of overlap resulting from the consolidation under one brand and the alignment of Pizza Hut and Pizza Hut Delivery operations. The Company aims for the process of efficiency increase to have as little impact as possible on employees, who will be relocated within the Sphera Group network, while the customers will benefit from the same products and services in the nearby Pizza Hut restaurants.

Furthermore, as of September 1st, 2023, the position of General Manager of American Restaurant System S.A. is held by Mr. Costică Mișaca, for an initial mandate of 2 years, valid until 31.08.2025.

NETWORK EVOLUTION

In Q3 2023, Sphera opened 1 new restaurant – a KFC in Alba Iulia, in Carolina Mall, and closed 2 Pizza Hut Delivery restaurants, in Cluj Centre and Mures Mall in Targu Mures. As of 30.09.2023, Sphera Franchise Group operated 178 restaurants: 101 KFC restaurants in Romania, 2 in Moldova and 18 in Italy, as well as 40 Pizza Hut restaurants, 15 Taco Bell restaurants, one PHD subfranchise and one Paul restaurant in Romania.

In October 2023, the Group opened 2 new KFC restaurants in Romania and closed 1 KFC, 5 Pizza Hut restaurants and 1 Paul restaurant in Romania, ending the month with a total of 173 restaurants. The closing of 1 KFC and 1 Paul restaurant is due to external factors (building restoration).

STAFF

As of September 30th, 2023, the Group had 5,143 employees, of which 4,670 were in Romania, 400 in Italy and 73 in the Republic of Moldova. In Q3 2023, 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. Sphera has over 250 employees from Sri Lanka, most of them currently working for USFN Romania.

FISCAL UPDATES

Recent fiscal changes are brought by the Law 296/26.10.2023, the increase of income tax for microenterprises from 1% to 3% is applicable for one company within the Group, US Food Network Romania, all other Romanian companies of the Group being corporate income tax payers. This fiscal change will probably determine the switch from tax on income (1%) to corporate income tax (16%) for USFN Romania, starting Jan 1st, 2024, therefore, all Romanian entities of the Group will apply the same tax regime. The introduction of a new minimum tax of 1% on a taxable basis (detailed in the law) for companies with a turnover higher than EUR 50 million will not be applicable for our Group, as the only company meeting the turnover criteria (USFN Romania) is generating more tax on profit than 1% tax on income.

Regarding VAT, all non-alcoholic drinks with added sugar (included in NC code 2202) and food products with added sugar whose total sugar content is at least 10 g/100 g product that are currently subject to a 9% VAT will be subject to a 19% VAT starting Jan 1st, 2024.

GOVERNANCE UPDATES

EXECUTIVE MANAGEMENT CHANGES

In the meeting held on August 29th, 2023, the Board of Directors of Sphera Franchise Group extended the mandate of Mrs. Monica Eftimie as the Chief Marketing Officer of the Company. Mrs. Eftimie's new four-year term is effective as of September 1st, 2023 until September 1st, 2027.

In the same meeting, the Board of Directors noted the legal termination of the mandate of Mr. Cristian Osiac as Development Director of the Company as of September 1st, 2023, decided that the position of Development Director would no longer have executive power at the level of the Company as of the same date and at the same time decided the reorganization of the Company's Development Department under the CEO of the Company.

GENERAL MEETING OF THE SHAREHOLDERS

On September 4th, 2023, the Ordinary General Meeting of the Shareholders of Sphera Franchise Group took place. During the OGSM, the shareholders approved of the dividend distribution amounting to RON 45,007,234.40 from the undistributed net profit of financial years 2020-2022, fixing a gross dividend per share at RON 1.16. The ex-date was September 18th, 2023, record date – September 19th, 2023, and payment date – October 10th, 2023.

CAPITAL MARKET UPDATES

MSCI INDICES INCLUSION

On August 10th, 2023, global index provider MSCI announced that SFG shares will be included, as of August 31st, 2023, in the MSCI Frontier Markets Small Cap and MSCI Romania Small Cap indices. The MSCI Romania Small Cap Index is designed to measure the performance of the small cap segment of the Romanian market. The MSCI Frontier Markets Small Cap Index captures small cap representation across 28 Frontier Markets countries as classified by MSCI. The inclusion in the MSCI indices was part of Sphera Franchise Groups' strategy to increase the visibility of the Group in an international arena and improve the stock's daily liquidity.

SHARE BUY-BACK PROGRAM

On September 4th, 2023, Sphera Franchise Group completed the share buyback program communicated to the market on June 30th, 2023 and initiated on July 3rd, 2023. The buyback was carried out in accordance with EGMS Resolution no. 1 dated April 27th, 2023. During the buyback, Sphera Franchise Group bought back 104,100 shares at an average buyback price of RON 19.5715 per share, with the full price paid for the buyback shares repurchased amounting to RON 2,037,392.50. The payment of the buyback shares was made from the distributable profit or from the available reserves of the Group, as presented in the latest approved financial statements, according to the provisions of art. 103¹ of Law no. 31/1990. The buyback was carried out to implement the Share Option Plan for Directors for the activity related to the years 2021 and 2022.

STOCK EXCHANGE EVOLUTION

SFG shares continued the positive evolution in Q3 2023, registering a 14.7% increase in the third quarter of the year, as the share closing price on September 30th, 2023, was RON 20.7, vs. closing price of RON 18.05 on June 30th, 2023. In Q3 2023, investors traded 852,984 SFG shares (6.5% of the free float), with a total value of RON 16.9 million, of which Deal transactions accounted for 101,463 shares and RON 1.9 million. The share price evolution in Q3 2023 performed in line with the BVB reference index BET, which increased 14.9% in the period and below the BET-TR index, which grew 17.6%. Overall, in the first nine months of the year, investors traded 1,771,369 SFG shares (13.5% of the free float) with a total value of RON 32.1 million. In 9M 2023, SFG shares appreciated 47.9%, significantly outperforming the BET index, which grew 22.9%. The Total Return on SFG shares in 9M 2023, including the dividend paid on March 31st, 2023, was 51.5%, versus 29.3% increase for the BET-TR index registered in the same period.

DECLARATION FROM THE MANAGEMENT

Bucharest, November 15th, 2023

We confirm to the best of our knowledge that the unaudited interim condensed consolidated financial statements for the nine months period ended 30 September 2023 give a true and fair view of Sphera Franchise Group's assets, liabilities, financial position and profit and loss, as required by the applicable accounting standards, and that the Directors' Report gives a true and fair view of important events that have occurred during the first nine months of the 2023 financial year and their impact on the interim condensed consolidated financial statements.

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (UNAUDITED)

The interim condensed consolidated financial statements presented below are prepared in accordance with International Financial Reporting Standards, as adopted by European Union (“IFRS”).

The interim condensed consolidated financial statements are unaudited.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (UNAUDITED)**

	Note	Nine-month period ended	
		30 September 2023	30 September 2022
Restaurant sales		1,074,736	953,594
Other restaurant income		-	1,172
Restaurant expenses			
Food and material expenses		355,068	334,743
Payroll and employee benefits	4	243,059	212,475
Rental expenses		25,468	22,471
Royalties expenses		66,679	56,950
Advertising expenses		55,982	48,580
Other operating expenses	5	140,460	137,678
Depreciation, amortization and impairment	7	79,525	71,921
Restaurant operating profit		108,495	69,948
General and administrative expenses	6	45,767	38,988
Profit from operating activities		62,728	30,960
Finance costs	8	20,245	16,830
Finance income		1,191	368
Profit before tax		43,674	14,498
Income tax expense/(credit) from continuing operations		10,582	(2,596)
Specific tax expense		-	1,914
Profit		33,092	15,180
Attributable to:			
Owners of the parent		32,709	14,893
Non-controlling interests		383	287
Other comprehensive income			
<i>Other comprehensive income that may be reclassified to profit or loss in subsequent periods</i>			
Exchange differences on translation of foreign operations		110	14
Total comprehensive income		33,202	15,194
Attributable to:			
Owners of the parent		32,791	14,900
Non-controlling interests		411	294

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (UNAUDITED)
All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2023 (UNAUDITED)

	30 September 2023	31 December 2022
Assets		
Non-current assets	563,565	537,600
Property, plant and equipment	232,922	230,557
Right-of-use assets	244,069	217,719
Intangible assets and goodwill	55,407	57,778
Financial assets (cash collateral)	9,350	8,929
Deferred tax assets	21,817	22,617
Current assets	149,352	168,282
Inventories	15,637	15,907
Trade and other current receivables	8,598	21,279
Prepayments	6,917	3,007
Cash and short-term deposits	118,200	128,089
Total assets	712,917	705,882
Equity and liabilities		
Equity		
Issued capital (Note 9.1)	581,990	581,990
Share premium	(519,998)	(519,998)
Treasury shares (Note 9.2)	(2,037)	-
Reserves for share-based remuneration	2,037	1,502
Other reserves	(1,115)	(1,115)
Retained earnings	41,228	54,012
Reserve of exchange differences on translation	(242)	(324)
Equity attributable to owners of the parent	101,863	116,067
Non-controlling interests	314	297
Total equity	102,177	116,364
Non-current liabilities	321,595	318,323
Long-term borrowings	102,095	122,949
Non-current lease liabilities	214,254	190,729
Employee defined benefit liabilities (Note 4)	4,279	3,861
Deferred tax liabilities	967	784
Current liabilities	289,145	271,195
Trade and other current payables	180,006	152,667
Short-term borrowings	50,412	65,086
Current lease liabilities	58,422	52,693
Provisions	305	749
Total liabilities	610,740	589,518
Total equity and liabilities	712,917	705,882

SPHERA FRANCHISE GROUP SA

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023
(UNAUDITED)**

All amounts in RON thousand, unless specified otherwise

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023
(UNAUDITED)**

	Issued capital	Share premium	Treasury shares	Reserves for share-based remuneration	Other reserves	Retained earnings	Foreign currency translation reserve	Equity attributable to owners of the parent	Non-controlling interest	Total equity
As at 1 January 2023	581,990	(519,998)	-	1,502	(1,115)	54,012	(324)	116,067	297	116,364
Profit	-	-	-	-	-	32,709	-	32,709	383	33,092
Other comprehensive income										
Exchange differences on translation	-	-	-	-	-	-	82	82	28	110
Total comprehensive income	-	-	-	-	-	32,709	82	32,791	411	33,202
Acquisition of own shares	-	-	(2,037)	-	-	-	-	(2,037)	-	(2,037)
Gain/(Loss) related to acquisition of treasury shares	-	-	-	-	-	(486)	-	(486)		(486)
Reserves	-	-	-	535				535		535
Dividends declared	-	-	-	-	-	(45,007)	-	(45,007)	(394)	(45,400)
At 30 September 2023	581,990	(519,998)	(2,037)	2,037	(1,115)	41,228	(242)	101,863	314	102,177
As at 1 January 2022	581,990	(519,998)	-	-	(1,314)	71,457	(258)	131,877	175	132,052
Profit	-	-	-	-	-	14,893	-	14,893	287	15,180
Other comprehensive income										
Exchange differences on translation	-	-	-	-	-	-	7	7	7	14
Total comprehensive income	-	-	-	-	-	14,893	7	14,900	294	15,194
Dividends declared	-	-	-	-	-	(35,001)	-	(35,001)	(250)	(35,251)
At 30 September 2022	581,990	(519,998)	-	-	(1,314)	51,349	(251)	111,776	219	111,995

SPHERA FRANCHISE GROUP SA

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (UNAUDITED)

All amounts in RON thousand, unless specified otherwise

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (UNAUDITED)

	Nine-month period ended 30 September 2023	30 September 2022
Operating activities		
Profit before tax	43,674	14,498
<i>Adjustments to reconcile profit before tax to net cash flows:</i>		
Depreciation of right-of-use assets	47,495	43,598
Depreciation and impairment of property, plant and equipment	32,609	29,127
Amortisation and impairment of intangible assets and goodwill	5,097	3,836
Adjustments for unrealised foreign exchange losses/(gains)	2,142	(1,354)
Adjustments for (gain)/loss on disposal of property, plant and equipment and right-of-use assets	(469)	10
Adjustments for finance income	(1,191)	(368)
Adjustments for finance costs (interest)	18,073	14,443
Movements in provisions, net	(443)	-
Working capital adjustments:		
Adjustments to decrease/(increase) in trade and other receivables and prepayments	8,047	(11,562)
Adjustments for decrease/(increase) in inventories	270	(1,487)
Adjustments for (decrease)/increase in trade and other payables	143	(1,158)
Interest received classified as operating activities	1,191	368
Interest paid classified as operating activities	(17,459)	(13,633)
Income tax paid	(7,362)	(4,932)
Cash flows from in operating activities	131,817	71,386
Investing activities		
Proceeds from sale of property, plant and equipment	451	146
Purchase of intangible assets	(2,727)	(1,214)
Purchase of property, plant and equipment	(34,937)	(38,476)
Cash flows used in investing activities	(37,213)	(39,544)
Financing activities		
Acquisition of treasury shares (Note 9.2)	(2,037)	-
Proceeds from borrowings	21,633	21,101
Repayment of borrowings	(58,201)	(33,700)
Payment of lease liabilities	(45,906)	(42,936)
Dividends paid to owners of the parent	(19,847)	(34,708)
Dividends paid to non-controlling interests	(179)	(125)
Cash flows used in financing activities	(104,537)	(90,368)
Net (decrease)/increase in cash and cash equivalents	(9,933)	(58,526)
Net foreign exchange differences	45	(174)
Cash and cash equivalents at 1 January	128,089	146,116
Cash and cash equivalents at 30 September	118,200	87,416

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023
(UNAUDITED)
All amounts in RON thousand, unless specified otherwise

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023 (UNAUDITED)

1 CORPORATE INFORMATION

These interim condensed consolidated financial statements are prepared by Sphera Franchise Group SA and comprise its activities and those of its subsidiaries, together referred hereinafter as "SFG" or "the Group". Sphera Franchise Group SA is listed on Bucharest Stock Exchange under the symbol "SFG". Sphera Franchise Group SA ("the legal Parent", or "Sphera") was incorporated on 16 May 2017 as a joint stock company and is registered at No. 239 Calea Dorobantilor, Bucharest, Romania.

The Group operates quick service and takeaway restaurant concepts (a chain of 121 restaurants) under the Kentucky Fried Chicken ("KFC"), spread across Romania as well as in the Republic of Moldova and in Italy. The Group also operates in Romania a chain of pizza restaurants and pizza delivery points (41 restaurants as at 30 September 2023) under the "Pizza Hut" brand, a chain of restaurants under the "Taco Bell" brand (15 restaurants as at 30 September 2023) and one restaurant under Paul brand.

US Food Network SA (USFN), the subsidiary which operates the KFC franchise in Romania was incorporated in 1994 as a joint stock company and is registered at No. 239 Calea Dorobantilor Street, Bucharest, Romania.

American Restaurant System SA (ARS) operating the Pizza Hut and Pizza Hut Delivery franchises was incorporated in 1994 as a joint stock company and is registered at No. 239 Calea Dorobantilor Street, Bucharest, Romania.

The Moldavian subsidiary, US Food Network SRL which operates the KFC franchise in Moldova, was incorporated in 2008 as a limited liability company and is registered at No. 45 Banulescu Bodoni Street, Chisinau, Republic of Moldova. The Group owns 80% of the company's shares.

The Italian subsidiary, US Food Network Srl operating the KFC franchise in Italy was incorporated in 2016 as a limited liability company and is registered at No. 5 Viale Francesco Restelli Street, Milano, Italy. The Group owns 100% of the company's shares.

California Fresh Flavors SRL (CFF) was set up on 19 June 2017 and operates Taco Bell franchise in Romania. Sphera owns 99.99% of the company's shares. The company operates as a limited liability company and is registered at No. 239 Calea Dorobantilor, Bucharest, Romania.

2 BASIS OF PREPARATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed unaudited financial statements of the Group as of and for the nine-month period ended 30 September 2023 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Romanian Lei ("RON") and all values are rounded to the nearest thousand RON, except when otherwise indicated. Accordingly, there may be rounding differences.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements as at 31 December 2022.

The interim condensed consolidated financial statements for the nine-month period ended 30 September 2023 included in this report are unaudited.

SPHERA FRANCHISE GROUP SA
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE NINE-MONTH PERIOD ENDED 30 SEPTEMBER 2023
(UNAUDITED)
All amounts in RON thousand, unless specified otherwise

General accounting policies

The accounting policies and valuation methods adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2022. The amendments effective since 1 January 2023 do not have a material impact on the Group's interim condensed consolidated financial statements. The Group has not early adopted any other standards, interpretations or amendments that have been issued but are not yet effective.

Foreign currencies

The Group's interim condensed financial statements are presented in Romanian New Lei ("RON"), which is also the legal parent Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency (namely Moldavian Leu "MDL" for the Moldavian subsidiary and the Euro "EUR" for the Italian subsidiary).

The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

The exchange rates as at 30 September 2023 and 31 December 2022 and the average exchange rates for the nine-month period ended 30 September 2023 and 30 September 2022 were:

	Closing exchange rates		Average exchange rates	
	30 September 2023	31 December 2022	Nine-month period ended 30 September 2023	Nine-month period ended 30 September 2022
RON – EUR	4.9746	4.9474	4.9388	4.9351
RON – USD	4.6864	4.6346	4.5586	4.6417
RON – MDL	0.2600	0.2428	0.2500	0.2474

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

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On consolidation, the assets and liabilities of foreign operations are translated into RON at the rate of exchange prevailing at the reporting date and their revenues and expenses are translated using the average exchange rates of daily exchange rates published by National Bank of Romania (NBR) as detailed above. Equity items are translated into RON at the historical exchange rate. The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that foreign operation is recognised in the profit or loss.

3 GROUP INFORMATION

There was no change in the group structure during the nine-month period ended 30 September 2023. Details of the Group consolidated subsidiaries at 30 September 2023 and 31 December 2022 are as follows:

Company name	Country of incorporation	Field of activity	Control 30 September 2023	Control 31 December 2022
US Food Network SA	Romania	Restaurants	99.9997%	99.9997%
American Restaurant System SA	Romania	Restaurants	99.9997%	99.9997%
California Fresh Flavors SRL	Romania	Restaurants	99.9900%	99.9900%
US Foods Network SRL	Moldova	Restaurants	80.0000%	80.0000%
US Food Network SRL	Italy	Restaurants	100.0000%	100.0000%

4 PAYROLL AND EMPLOYEE BENEFITS

	Nine-month period ended	
	30 September 2023	30 September 2022
Payroll and employee benefits recognized in restaurant expenses	243,059	212,475
Payroll and employee benefits recognized in "General and administrative expenses "	31,406	25,992
Total Payroll and employee benefits	274,465	238,467

Payroll costs of 1,308 representing the value of project management and other technical activities performed by the Group's employees during the nine-month period ended 30 September 2023 (2022: 1,304) for the construction or refurbishment of restaurants were capitalized in the cost of construction of the non-current assets.

Employee defined benefit liabilities (Italian subsidiary)

In accordance with the local labour regulations, Italian companies have to pay to their employees a leaving-service indemnity ("TFR"). The accrual for the benefits in amount of 4,279 (3,861 as at 31 December 2022) was calculated as a career-average lump sum, in accordance with the Italian statutory regulations. The Group performs an actuarial computation of these benefits in line with the IAS 19 "Employee benefits".

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5 OTHER OPERATING EXPENSES

	Nine-month period ended 30 September 2023	30 September 2022
Third-party services	72,175	66,395
Utilities	32,053	37,588
Maintenance and repairs	12,329	13,152
Cleaning supplies	7,268	7,454
Transport	6,294	5,731
Smallwares	3,336	1,821
Bank charges	4,188	3,189
Telephone and postage	930	922
Insurance	370	490
Net (gain)/loss on disposal of property, plant and equipment and right-of-use assets	(469)	10
Miscellaneous expenses and income	1,988	926
Total	140,460	137,678

6 GENERAL AND ADMINISTRATIVE EXPENSES

	Nine-month period ended 30 September 2023	30 September 2022
Payroll and employee benefits	31,406	25,992
Third-party services	5,112	5,162
Depreciation, amortization and impairment of non-current assets	5,677	4,640
Rent	174	212
Banking charges	561	536
Transport	989	840
Maintenance and repairs	316	312
Smallwares	98	79
Insurance	380	552
Advertising	118	93
Telephone and postage	265	257
Other provisions (Note 10)	305	-
Miscellaneous expenses and income	366	313
Total	45,767	38,988

7 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

	Nine-month period ended 30 September 2023	30 September 2022
Depreciation of right-of-use assets recognized in "Restaurant expenses"	45,015	41,606
Depreciation, amortization and impairment of other non-current assets recognized in "Restaurant expenses"	34,509	30,315
Depreciation, amortization and impairment recognized in "Restaurant expenses"	79,524	71,921
Depreciation of non-operating right-of-use assets recognized in "General and administrative expenses"	2,480	1,992
Depreciation, amortization and impairment of non-current assets recognized in "General and administrative expenses"	3,197	2,648
Depreciation, amortization and impairment recognized in "General and administrative expenses"	5,677	4,640

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Total depreciation, amortization and impairment	85,201	76,561
For the nine-month period ended 30 September 2023, "Depreciation, amortization and impairment expenses" include an impairment of non - current assets of 4,137 for the closing of thirteen Pizza Hut units, in line with the network reorganization plan and an impairment of non-current assets of 360 for the temporary closing of KFC Romana and Paul Romana restaurants due to building restoration.		

8 FINANCE COSTS

	Nine-month period ended	
	30 September 2023	30 September 2022
Interest on loans and borrowings	8,237	7,534
Interest expense on lease liabilities	9,810	6,909
Interest cost on benefit obligation	26	8
Foreign exchange loss	2,172	2,379
Total finance costs	20,245	16,830

9 EQUITY

9.1 Issued capital

	30 September 2023	31 December 2022
Authorised shares		
Ordinary shares of 15 RON each	38,799,340	38,799,340
Share capital (RON thousand)	581,990	581,990

The shareholders of Sphera Franchise Group SA as at 30 September 2023 are: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (17.0714%) and free float (33.7870%).

The shareholders of Sphera Franchise Group SA as at 31 December 2022 are: Tatika Investments Ltd. (28.6089%), Computerland Romania SRL (20.5327%), Wellkept Group SA (16.8793%) and free float (33.9792%).

9.2 Treasury shares

As of 30 September 2023, Sphera Franchise Group SA has in place a share option plan for senior executives, part of their variable remuneration being granted in shares of the parent company with a vesting period of one year from the date of grant. Following EGMS Resolution no. 1 dated April 27th, 2023, the Group carried out a buyback program for the acquisition of a number of 104,100 own shares, during the period July 3rd – September 4th, 2023. The average buyback price was RON 19.5715 per share, with the full price paid for the buyback shares repurchased amounting to 2,037. The own equity instruments that were acquired (treasury shares) were recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, the difference between the purchase price and the fair value at the date of grant being recognized in equity as a gain or loss related to the acquisition of the treasury shares.

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10 EBITDA

	Nine-month period ended	
	30 September 2023	30 September 2022
Operating profit	62,728	30,960
Adjustments to bridge operating profit to EBITDA:		
Depreciation, amortization and impairment of non-current assets included in restaurant expenses	79,525	71,921
Depreciation, amortization and impairment of non-current assets included in general and administrative expenses	5,677	4,640
EBITDA	147,930	107,521
Non-recurring expenses	2,632	-
Normalized EBITDA	150,562	107,521

For the nine-month period ended 30 September 2023, EBITDA was normalized to exclude the one-off costs: closing costs of 2,327 for thirteen Pizza Hut units, as part of the network reorganization and a provision of 305 for a legal action by a former non-executive director of the Group whose mandate was terminated before term, not re-elected by the General Assembly of Shareholders. For the nine-months period ended 30 September 2022, no EBTDA normalization adjustments were required.

11 RELATED PARTY DISCLOSURES

During the nine-month period ended 30 September 2023 and 30 September 2022 respectively, the Group has carried out transactions with the following related parties:

Related party	Nature of the relationship	Country of incorporation	Nature of transactions
Moulin D'Or SRL	Entity affiliated to shareholders of the parent	Romania	Goods and services
Midi Development SRL	Entity affiliated to shareholders of the parent	Romania	Services
Grand Plaza Hotel SA	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities store PH Dorobanti, services
Arggo Software Development and Consulting SRL	Entity affiliated to a shareholder of the parent	Romania	IT services
Wellkept Group SA	Shareholder and entity under common control of Radu Dimofte, ultimate controlling party of the Group	Romania	Rent training center and payment of dividends
Computerland Romania SRL	Shareholder with significant influence	Romania	Payment of dividends, acquisition of IT equipment, licenses
Cinnamon Bake&Roll SRL	Entity affiliated to a shareholder of the parent	Romania	Sale of goods and services, loans provided
Radu Dimofte	Beneficial owner of Wellkept Group SA, Tatika Investments Ltd and ultimate controlling party of the Group	Romania	Rent store KFC Mosilor
Elicom SRL	Entity affiliated to a shareholder of the parent	Romania	Call-centre services
Elicom Connect SRL	Entity affiliated to a shareholder of the parent	Romania	Marketing services

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Dorobanti 239 Imobiliare SRL	Entity affiliated to a shareholder of the parent	Romania	Rent and utilities for restaurant and administrative area
Baneasa Developments SRL	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent
Baneasa Investments SA	Entity affiliated to a shareholder of the parent	Romania	Restaurant rent
Parc Hotels SA	Entity affiliated to a shareholder of the parent	Romania	Accommodation services

The following table provides the total amount of transactions that have been entered into with related parties for the relevant period:

	Transactions during the nine-month period ended 30 September 2023		Balances as at 30 September 2023	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Wellkept Group SA	-	366	-	8
Grand Plaza Hotel SA	-	887	66	18
Arggo Software Development and Consulting SRL	-	862	-	-
Dorobanti 239 Imobiliare SRL	-	2,799	-	190
Baneasa Developments SRL	-	3,404	-	198
Baneasa Investments SA	-	498	128	66
Computerland Romania SRL	14	2	8	-
Elicom SRL	-	554	-	71
Elicom Connect SRL	-	-	-	1
Radu Dimofte	-	69	-	-
Midi Development SRL	-	12	-	-
Moulin D'Or SRL	-	3	-	-
	14	9,456	202	552

	Transactions during the nine-month period ended 30 September 2022		Balances as at 31 December 2022	
	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
Wellkept Group SA	-	366	-	10
Grand Plaza Hotel SA	-	785	66	28
Arggo Software Development and Consulting SRL	-	927	-	13
Dorobanti 239 Imobiliare SRL	-	2,493	-	69
Baneasa Developments SRL	-	3,485	-	270
Baneasa Investments SA	-	455	128	11
Computerland Romania SRL	12	57	6	213
Elicom SRL	-	442	-	54
Elicom Connect SRL	-	8	-	2
Lucian Vlad	-	168	-	-
Radu Dimofte	-	70	-	-
Cinnamon Bake&Roll SRL	6	4	7	-
Moulin D'Or SRL	-	1	-	-
Parc Hotels SA	-	-	-	3
	18	9,261	207	673

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Compensation of key management personnel of the Group:

	Nine-months ended	
	30 September 2023	30 September 2022
Short-term employee benefits	8,265	6,039
Total compensation of the key management personnel	8,265	6,039

The amounts disclosed in the table are the amounts recognized as an expense during each reporting period.

12 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the restaurants' brands, as follows:

- KFC restaurants
- Pizza Hut restaurants
- Taco Bell restaurants

The Group has also one more immaterial operating segment, being one Paul restaurant, which is managed by USFN.

Inter-segment revenues are presented in the "Inter-segment revenues" line and eliminated during consolidation.

The Board of Directors monitors the operating results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on segment operating profit and is measured consistently with "Restaurant operating profit" in the statement of comprehensive income in the consolidated financial statements.

Nine-month period ended 30 September 2023	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	926,108	86,657	61,972	-	-	1,074,736
Inter-segment revenues	2	-	-	29,807	(29,807)	-
Dividend revenues	-	-	-	73,003	(73,003)	-
Operating expenses	850,415	99,941	60,498	30,856	(29,702)	1,012,008
Segment operating profit/(loss)	75,695	(13,284)	1,474	71,954	(73,110)	62,728
Finance costs	16,874	2,019	1,646	2,973	(3,268)	20,245
Finance income	2,357	10	-	2,091	(3,268)	1,191
Income tax expense/(credit)	10,572	-	182	(173)	-	10,582
Net profit/(loss)	50,605	(15,293)	(355)	71,245	(73,109)	33,092
Total assets	580,353	45,358	39,331	134,201	(86,326)	712,917
Total liabilities	536,151	63,245	42,591	112,925	(144,171)	610,740

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Nine-month period ended 30 September 2022	KFC	Pizza Hut	Taco Bell	Other	Eliminations	Consolidated
Revenues from external customers	815,532	88,689	49,373	-	-	953,594
Inter-segment revenues	-	-	-	24,864	(24,864)	-
Other income	1,172	-	-	-	-	1,172
Dividend revenues	-	-	-	50,502	(50,502)	-
Operating expenses	774,654	98,181	49,878	25,848	(24,755)	923,806
Segment operating profit/(loss)	42,050	(9,492)	(505)	49,518	(50,611)	30,960
Finance costs	14,363	1,565	1,620	2,172	(2,890)	16,830
Finance income	1,887	5	-	1,366	(2,890)	368
Income tax expense/(credit)	(2,578)	43	-	(61)	-	(2,596)
Specific tax expense	1,214	540	160	-	-	1,914
Net profit/(loss)	30,938	(11,635)	(2,285)	48,773	(50,611)	15,180
Total assets						
30 September 2022	577,250	60,142	38,120	116,715	(103,728)	688,499
Total liabilities						
30 September 2022	544,987	70,759	43,961	78,514	(161,718)	576,503
Total assets						
31 December 2022	573,462	60,484	43,059	111,729	(82,853)	705,882
Total liabilities						
31 December 2022	506,582	72,412	50,064	97,419	(136,958)	589,518

Geographic information:

	Nine-month period ended 30 September 2023		30 September 2022
Revenue from external customers			
Romania		924,753	823,500
Italy		135,023	117,825
Republic of Moldova		14,960	12,270
Total restaurant revenue		1,074,736	953,594

The revenue information above is based on the location of the customers.

Bucharest, 15 November 2023

Chief Executive Officer

Calin Ionescu

Chief Financial Officer

Valentin Budes