



Sphera Franchise Group

Interim results: Jan-Sep 2018





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All-store sales up 23.4% with same-store sales growth of 8.6% (Q3: overall +26.6%, same-store +9.6%)

- continued strong growth from KFC, increasing contributions from KFC Italy and Taco Bell

Total store openings: 13 (8x KFC, 4x PHD, 1x TB) in 9-mth, of which 5 in Q3

- An additional 5 stores opened so far in Q4-2018 (1x KFC, 2x Pizza Hut Delivery, 1x Taco Bell)

Network size: 126 @ 30-Sep-2018, 131 @ 15-Nov-2018

- 2018 store opening target expected to be in plan

Strong Operational performance with all brands performing well in league tables measuring operational metrics and customer feedback

KFC delivery services extended in Bucharest and Cluj; now operating 12 stores in Bucharest covering 70% of the city, with growing contribution to sales

Pizza Hut Dine-In new menu rolled out in all restaurants, supported by strong marketing campaign with TV coverage resulting in significant bounce back of sales by high single-digit growth

CSR activities ongoing including team spending time supporting SOS villages

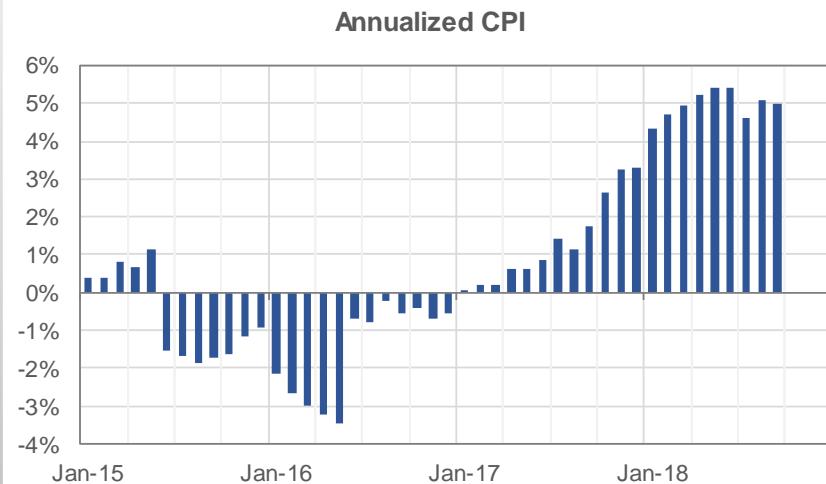
▪ Interim results*	Jan-Sep 2018			Q3-2018		
	RONm	Y/Y*	Margin	RONm	Y/Y*	Margin
▪ Sales	551.6	+23.4%		201.5	+26.6%	
▪ Restaurant profit	74.6	(0.1)%	13.5%	28.0	+17.3%	13.9%
▪ Normalized EBITDA	53.3	(7.4)%	9.7%	21.0	+9.5%	10.4%
▪ EBITDA	52.4	(9.1)%	9.5%	21.0	+9.4%	10.4%
▪ Net Profit	32.4	(22.7)%	5.9%	13.6	+0.5%	6.8%

*) Comparison between H1-2018 consolidated results and H1-2017 pro forma results.

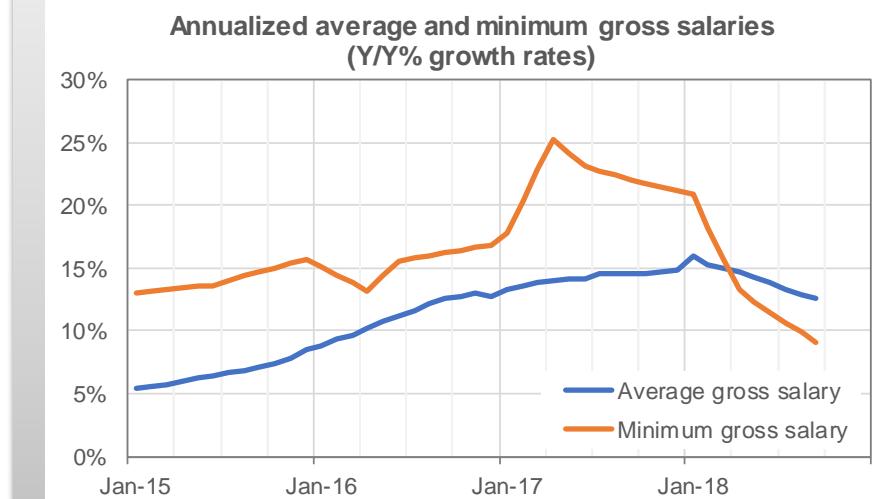
Macro environment becomes increasingly challenging



Retail sales have cooled down notably amid rampant inflation



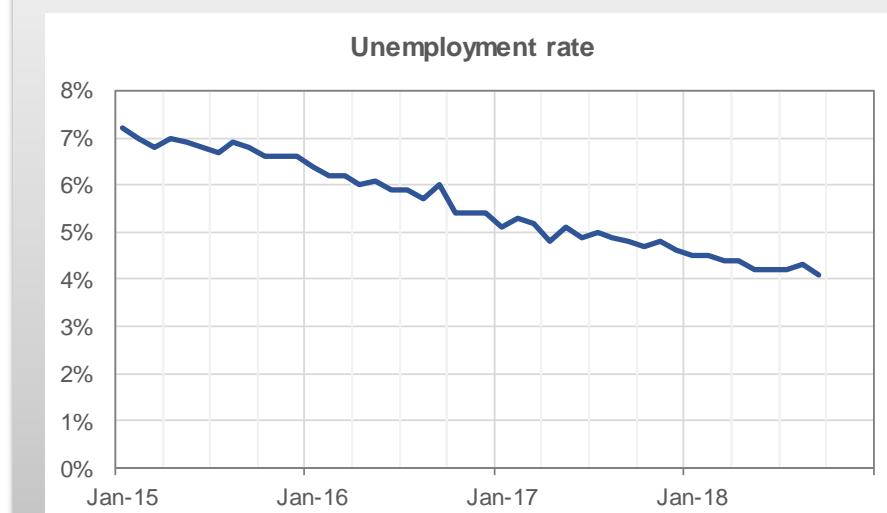
- CPI has eased a bit from the 5.4% peak in June, but inflationary stimuli remain in place



- Salary pressure expected to remain high, with another 9.5% hike in the minimum salary to be enforced in Dec-18



- Retail sales Y/Y growth improved marginally in Q3 vs Q2



- Unemployment rate hit a minimum record of 4.1% in Sep-18



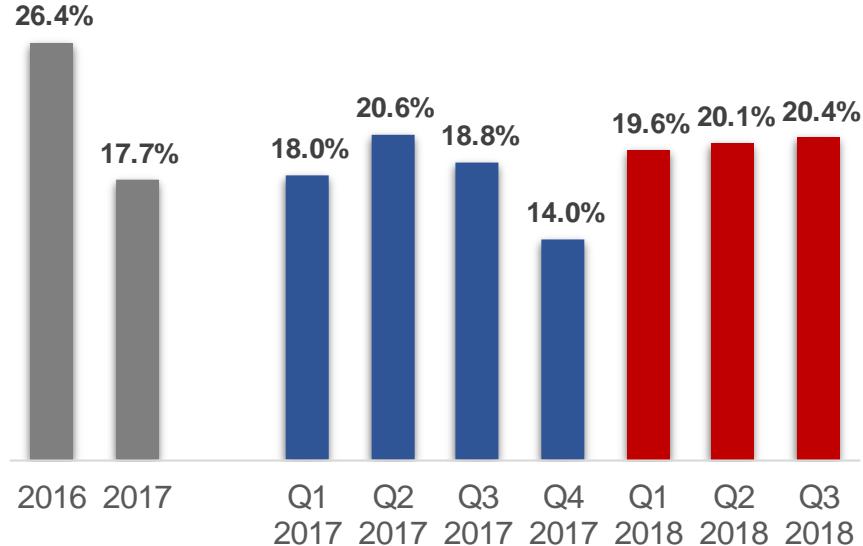
Sales performance by brands



Sales growth analysis

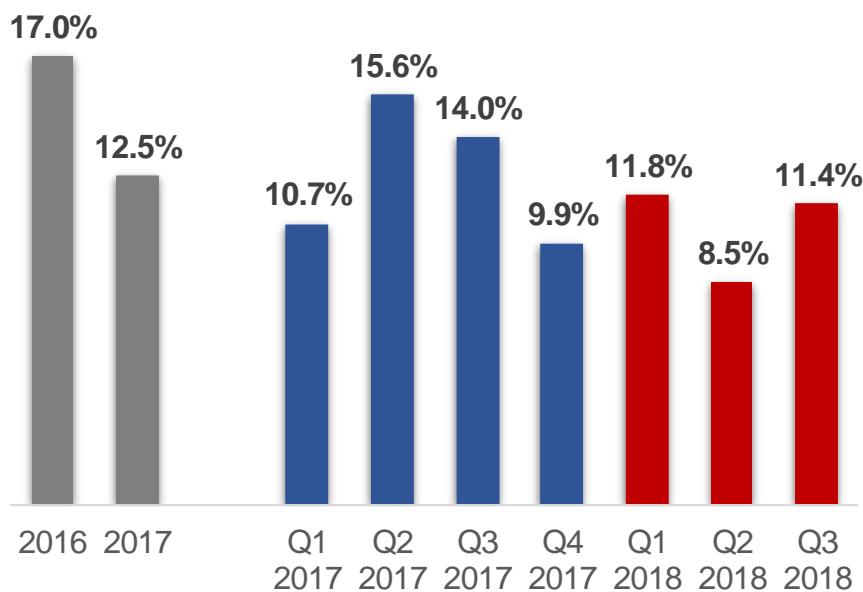
All-store performance

- All-store sales growth of 20.9% Y/Y in 9-mth supported mainly by same-store growth of 10.5%;
- In Q3, all-store sales advanced 20.4%, with same-store sales improving by 11.4%;
- The 9 net openings (since Jan-2017) contributed 10.7pp to the Y/Y growth in 9-mth, with all but two in cities with existing KFC stores;



Same-store performance

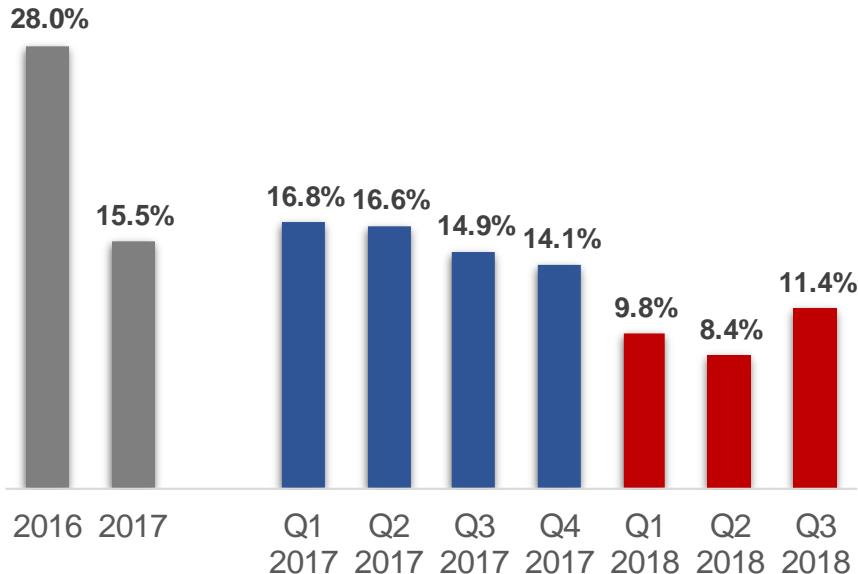
- Same-store sales growth of 10.5% Y/Y in 9-mth on the back of continued strong performance from the Drive-Thru format, as well as a better performance of the restaurants located outside Bucharest;
- Average ticket was up 9.9% and transactions were up 0.6% in 9-mth 2018 vs 9-mth 2017;



Sales growth analysis

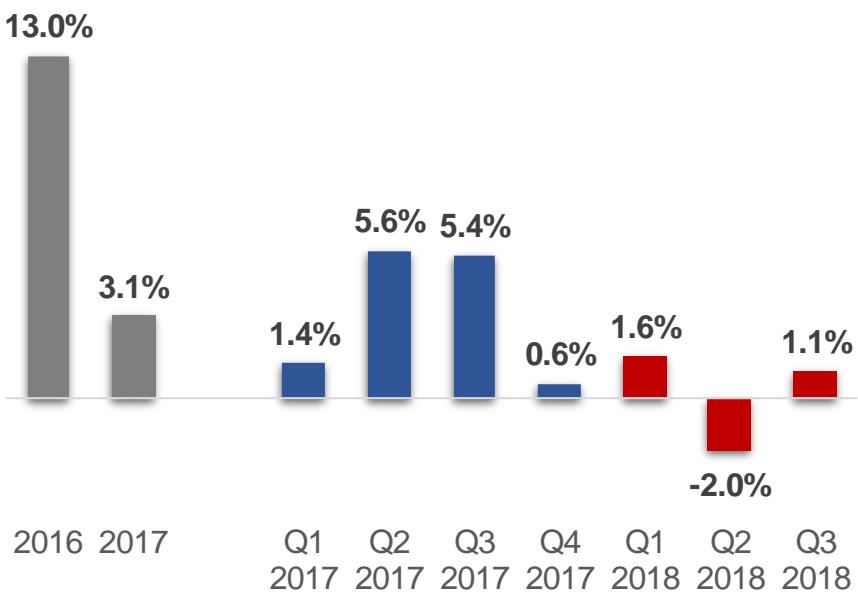
All-store performance

- All-store sales growth of 9.9% Y/Y in H1, with virtually all growth being contributed by the 9 stores opened starting Jan-2017 (of which 7 in existing cities);
- In Q3, all store sales advanced 11.4% Y/Y, while same-store sales improved 1.1%



Same-store performance

- Same-store sales grew 0.2% Y/Y in 9-mth, helped by improved performance of the Dine-In format, while Delivery lost ground after the opening of another two units in cities with existing delivery stores;
- Average ticket was up 8.2% and transactions were down 7.4% in 9-mth 2018 vs 9-mth 2017;





Development

Restaurant openings in 2018

	Total stores BoY	Openings 9-mth	Total stores end-Q3	QTD ⁽¹⁾ Openings	Total YTD ⁽²⁾	2018 Initial Plan ⁽²⁾	Total Expected YE
 KFC	72	8	80	3	83	16⁽²⁾	88
 Pizza Hut	22	0	22	1	23	2	24
 Pizza Hut Delivery	17	4	21	1	22	5	22
 TACO BELL	2	1	3	0	3	3	5
 SABMiller	113	13	126	5	131	26	139

(1) As at 15-Nov-2018.

(2) Of which 3 stores were part of the 2017 plan.

KFC Italy – Padova



Pizza Hut Delivery Brasov







Brand news

Q3-2018 highlights



- KFC focused on building innovation for the summer and created new occasions to visit for our customers, successfully launching new recipes for a Teriyaki-inspired product platform maintaining strong double digit same-store sales growth
- Disruptive value was communicated for the back-to-school period by launching a new recipe for Booster with an entry price point of 5 lei, maintaining a similar level of transactions compared to LY while increasing same-store sales
- Continuous activities to build KFC as a digital brand by launching a *social entertainment channel* in July, a platform where people come for entertainment and where KFC feeds them relevant content; Social Me was the name of the first content series that was shaped as a brand manifesto and became a phenomenon in the digital space with over 7 million views

Garlic sauce in retail

- Successful September test launch of our famous garlic sauce in Lidl in a 325 g bottle
- Volume forecasted by the retailer for a one-month campaign was sold out in one week
- Discussions with various retailers to launch the sauce as a permanent product in 2019



Self-ordering kiosks & digital menu boards

- Pilot kiosks were implemented in three stores
- Positive feedback from clients and 80% of eat-in and take-away orders done through the kiosk
- Roll-out of digital menu boards completed in 21 stores

SOCIAL ME - Campaign results

+37.8m
impressions
delivered

+7.4m
views registered
to date

+3.5m
engagements
generated

+67 ads
promoted

+137.8m sec of
content viewed
= 4.4 years in real
life

Best practice at
Instagram Summer
School (on IGTV)

Click to run



Q3-2018 highlights



- Pizza Hut launched a national promotion in Q3 that offered prizes with the purchase of a Flatbread pizza with the aim of increasing transactions through attracting new users and bringing back lapsed clients; the decreasing transaction trend went through a slow down over the summer;
- Successfully launched the Pizza Hut re-positioning in Q3 through a 360 communication campaign to announce the new menu designed by chef Nico Lontras and the improved brand attributes; customer feedback was positive and same-store sales growth was high single-digit in September with positive transaction growth for the first time this year
- Pizza Hut Delivery launched the same innovation campaign for the summer, Flatbread and was present on TV with a tail on the brand commercial, enjoying a high sales mix of the product; due to new store openings and cannibalization of existing trade areas, same-store sales took a negative turn
- Overall online orders exceeding 34% of delivery sales with mobile app contributing with one-third

- Taco bell continued to build brand equity and sales by opening its third store in the market and recruited new fans through its online platform “Proud supporters of beginners”

- 2018 Q3 awards: 1st place for best use of photography in Webstock for Pizza Hut “Replate Waste”; 2nd place for innovation in Webstock for KFC Studycoin” 2nd place for best use of video in Webstock for “Social Me”; 2nd place in Webstock for the KFC Instagram account

*Webstock is the biggest social media festival in Romania

Q3-2018 campaigns





Financials



Pro forma financials

Note:

Jan-Sep 2018 pro forma results are identical to consolidated results

Jan-Sep 2017 pro forma results include ARS performance for the full period

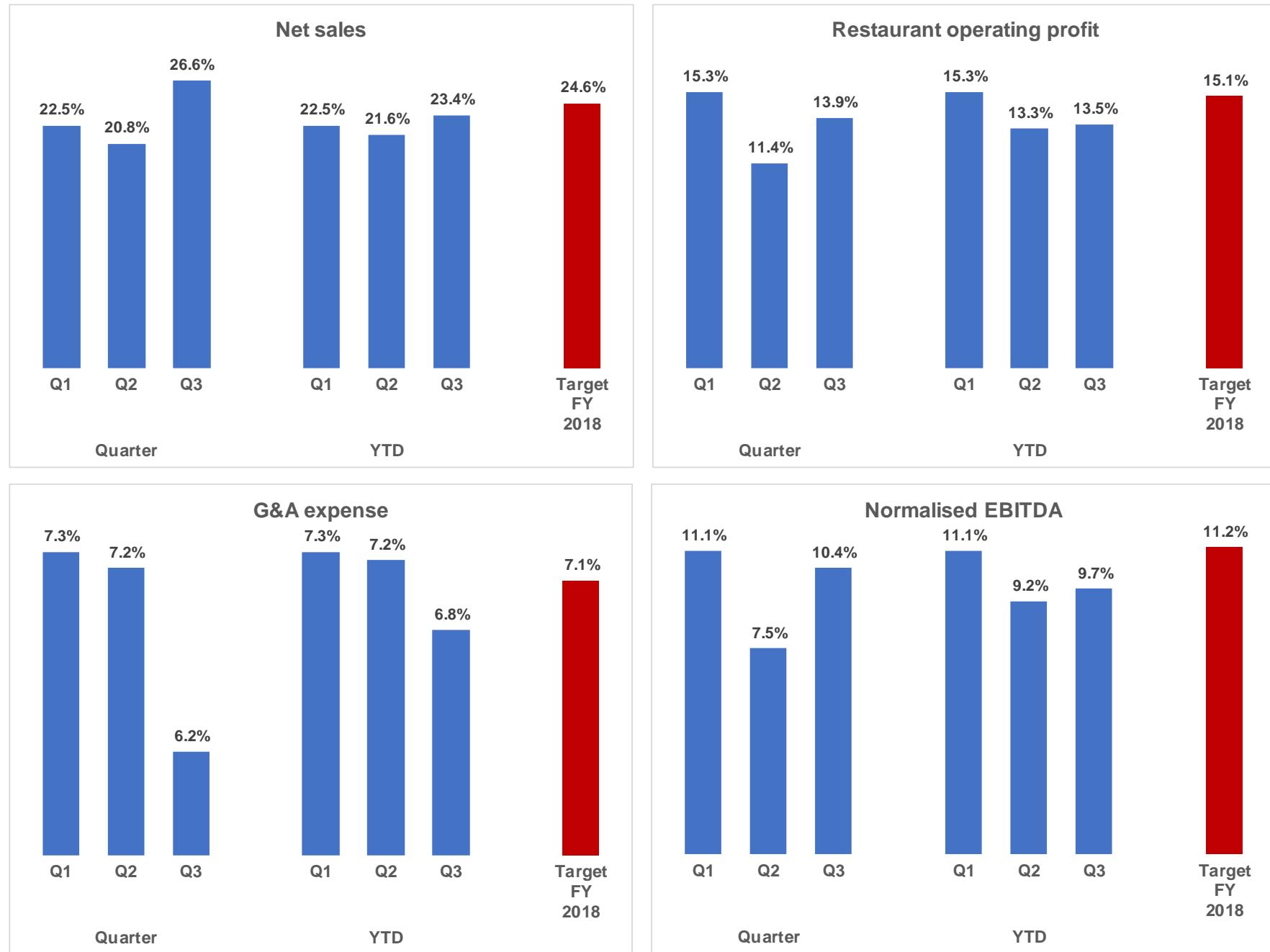
Jan-Sep 2017 consolidated results do not include ARS performance for Jan-May period

Statement of comprehensive income

- Pro forma sales up 26.6% Y/Y on strong performance from KFC Romania/Moldova (+20.4% Y/Y) and Pizza Hut (+11.4% Y/Y) and increasing contributions from the new businesses (KFC Italy and Taco Bell);
- Restaurant operating profit up 17.3% Y/Y, with margin down 1.1pp, especially on food, advertising and other operating expenses, while cost of labour improved;
- G&A expenses up 43.5% Y/Y, reaching 6.2% of sales – the lowest level since Q3-2017;
- EBITDA up 9.4% Y/Y while EBITDA margin contracted 1.6pp to 10.4% of sales, virtually due to higher restaurant expenses;
 - excluding KFC Italy and Taco Bell, EBITDA would have been up 13.2% Y/Y (11.9% of sales)
- Net profit up 0.5% lower Y/Y, with net profit margin down 1.8pp to 6.8% of sales.

Data in RON'000	Q3-2018	Q3-2017	Y/Y%	% din Vanzari			
				2018/2017	Q3-2018	Q3-2017	Δ%
Restaurant sales	201,493	159,148	26.6%				
Restaurant expenses	173,490	135,269	28.3%				
Food and material	71,829	56,108	28.0%	35.6%	35.3%	0.4%	
Payroll and employee benefits	40,981	33,230	23.3%	20.3%	20.9%	-0.5%	
Rent	14,453	11,489	25.8%	7.2%	7.2%	0.0%	
Royalties	11,846	8,833	34.1%	5.9%	5.6%	0.3%	
Advertising	12,235	9,083	34.7%	6.1%	5.7%	0.4%	
Other operating expenses, net	16,981	12,716	33.5%	8.4%	8.0%	0.4%	
Depreciation and amortization	5,166	3,808	35.6%	2.6%	2.4%	0.2%	
Restaurant operating profit	28,003	23,879	17.3%				
				13.9%	15.0%	-1.1%	
General and administration expenses, net	12,424	8,659	43.5%	6.2%	5.4%	0.7%	
Operating profit	15,579	15,220	2.4%				
				7.7%	9.6%	-1.8%	
Finance costs	911	712	28.0%	0.5%	0.4%	0.0%	
Finance income	(30)	20	-250.4%	0.0%	0.0%	0.0%	
Profit before tax	14,638	14,528	0.8%				
				7.3%	9.1%	-1.9%	
Income tax expense	989	946	4.5%	0.5%	0.6%	-0.1%	
Profit for the period	13,649	13,582	0.5%				
				6.8%	8.5%	-1.8%	
EBITDA	21,011	19,198	9.4%	10.4%	12.1%	-1.6%	
Normalised EBITDA	21,026	19,198	9.5%	10.4%	12.1%	-1.6%	

Quarterly trends in key indicators





Statement of comprehensive income

- Pro forma sales up 23.4% Y/Y on strong performance from KFC Romania/Moldova (+20.7% Y/Y) and Pizza Hut (+9.9% Y/Y) and increasing contributions from the new businesses (KFC Italy and Taco Bell);
- Restaurant operating profit down 0.1% Y/Y, with margin down 3.2pp, especially on food and salary costs, as well as impact from new openings and new areas of business;
- G&A expenses up 30.5% Y/Y, reaching 6.8% of sales;
- Normalized EBITDA* fell 7.4% Y/Y and normalized EBITDA margin contracted 3.2pp to 9.7% of sales, virtually due to higher restaurant expenses;
- EBITDA fell 9.1% Y/Y and EBITDA margin contracted 3.4pp to 9.5% of sales, virtually due to higher restaurant expenses;
- Net profit was 22.7% lower Y/Y and net profit margin fell by 3.5pp to 5.9% of sales.

Data in RON'000	Sep-18	Sep-17	Y/Y%	% of Sales			
				2018/2017	Sep-18	Sep-17	Δ%
Restaurant sales	551,562	446,982	23.4%				
Restaurant expenses	476,993	372,303	28.1%				
Food and material	197,211	156,580	25.9%		35.8%	35.0%	0.7%
Payroll and employee benefits	113,731	88,425	28.6%		20.6%	19.8%	0.8%
Rent	40,014	32,387	23.5%		7.3%	7.2%	0.0%
Royalties	32,497	25,640	26.7%		5.9%	5.7%	0.2%
Advertising	30,421	23,303	30.5%		5.5%	5.2%	0.3%
Other operating expenses, net	48,378	35,498	36.3%		8.8%	7.9%	0.8%
Depreciation and amortization	14,742	10,468	40.8%		2.7%	2.3%	0.3%
Restaurant operating profit	74,568	74,679	-0.1%		13.5%	16.7%	-3.2%
General and administration expenses, net	37,661	28,863	30.5%		6.8%	6.5%	0.4%
Operating profit	36,907	45,816	-19.4%		6.7%	10.3%	-3.6%
Finance costs	2,071	1,350	53.4%		0.4%	0.3%	0.1%
Finance income	118	135	-12.1%		0.0%	0.0%	0.0%
Profit before tax	34,955	44,601	-21.6%		6.3%	10.0%	-3.6%
Income tax expense	2,549	2,688	-5.2%		0.5%	0.6%	-0.1%
Profit for the period	32,406	41,913	-22.7%		5.9%	9.4%	-3.5%
EBITDA	52,394	57,633	-9.1%		9.5%	12.9%	-3.4%
Normalised EBITDA*	53,340	57,633	-7.4%		9.7%	12.9%	-3.2%

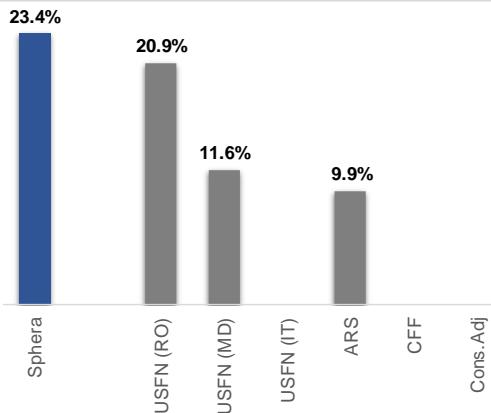
*) Excluding a non-recurring cost for litigation worth RON 0.95m.



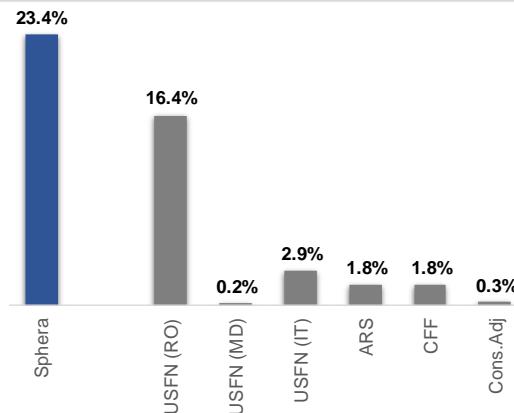
Breakdown of results by Group companies

Data in RON'000	USFN (RO)	ARS	USFN (MD)	USFN (IT)	CFF	SFG	Cons.Adj	SFG Cons.
Restaurant sales	424,966	89,210	6,843	21,394	8,054	18,789	(17,693)	551,562
Dividend revenue	0	0	0	0	0	61,798	(61,798)	0
Restaurant expenses	354,726	86,016	5,868	22,510	7,990	0	(117)	476,993
Food and material	159,752	24,583	2,878	6,807	3,191	0	0	197,211
Payroll and employee benefits	77,684	26,262	1,074	6,658	2,053	0	0	113,731
Rent	29,301	7,710	558	1,808	639	0	(2)	40,014
Royalties	25,470	5,173	410	1,283	161	0	0	32,497
Advertising	20,824	7,146	223	1,483	805	0	(61)	30,421
Other operating expenses, net	32,085	11,539	503	3,472	833	0	(54)	48,378
Depreciation and amortization	9,611	3,602	222	1,000	307	0	0	14,742
Restaurant operating profit	70,240	3,194	974	(1,116)	64	18,789	(17,576)	74,568
General and administration expenses, net	22,366	7,700	201	2,839	1,942	20,190	(17,576)	37,661
Operating profit	47,874	(4,506)	773	(3,955)	(1,879)	(1,401)	0	36,907
Finance costs	1,062	629	85	702	341	862	(1,610)	2,071
Finance income	1,077	3	71	21	0	557	(1,610)	118
Profit before tax	47,888	(5,131)	759	(4,636)	(2,220)	(1,706)	0	34,955
Income tax expense	2,230	1,120	134	(1,038)	77	26	0	2,549
Profit for the period	45,659	(6,251)	625	(3,597)	(2,297)	(1,732)	0	32,406
EBITDA	57,749	(799)	1,036	(2,945)	(1,467)	(1,181)	0	52,394
Normalised EBITDA*	58,696	(799)	1,036	(2,945)	(1,467)	(1,181)	0	53,340

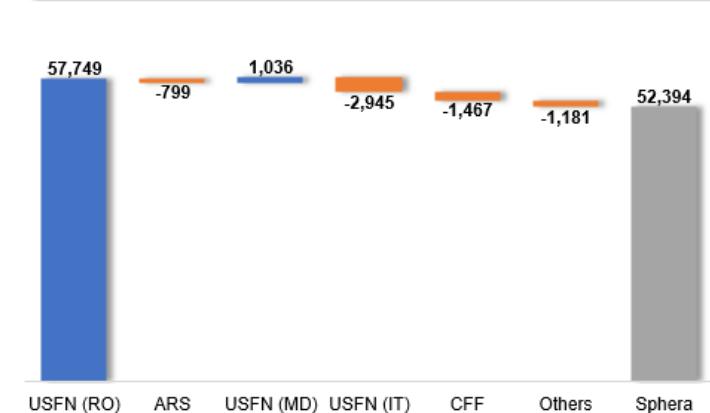
Y/Y Sales growth by companies



Contribution to Sales growth by companies



Contribution to EBITDA by companies

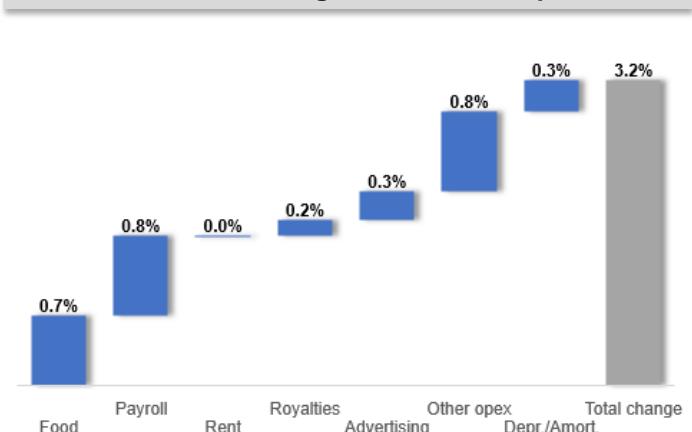




Restaurant operating expenses and margin

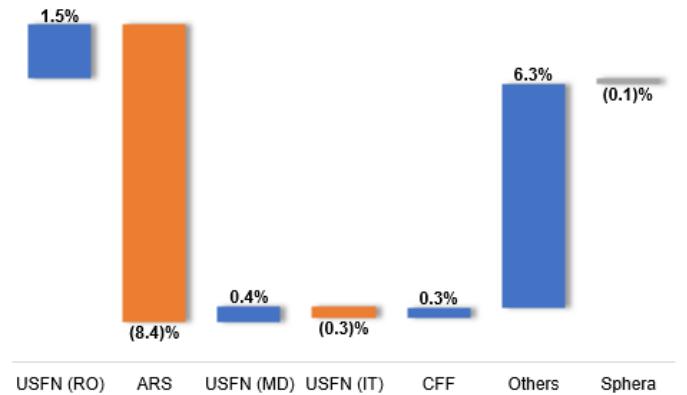
Data in RON'000	Sep-18	Sep-17	Y/Y% 2018/2017	% of Sales		
				Sep-18	Sep-17	Δ%
Restaurant expenses	476,993	372,303	28.1%	86.5%	83.3%	3.2%
Food and material	197,211	156,580	25.9%	35.8%	35.0%	0.7%
Payroll and employee benefits	113,731	88,425	28.6%	20.6%	19.8%	0.8%
Rent	40,014	32,387	23.5%	7.3%	7.2%	0.0%
Royalties	32,497	25,640	26.7%	5.9%	5.7%	0.2%
Advertising	30,421	23,303	30.5%	5.5%	5.2%	0.3%
Other operating expenses, net	48,378	35,498	36.3%	8.8%	7.9%	0.8%
Depreciation and amortization	14,742	10,468	40.8%	2.7%	2.3%	0.3%
Restaurant operating profit	74,568	74,679	-0.1%	13.5%	16.7%	-3.2%

Contribution to change in restaurant opex ratio



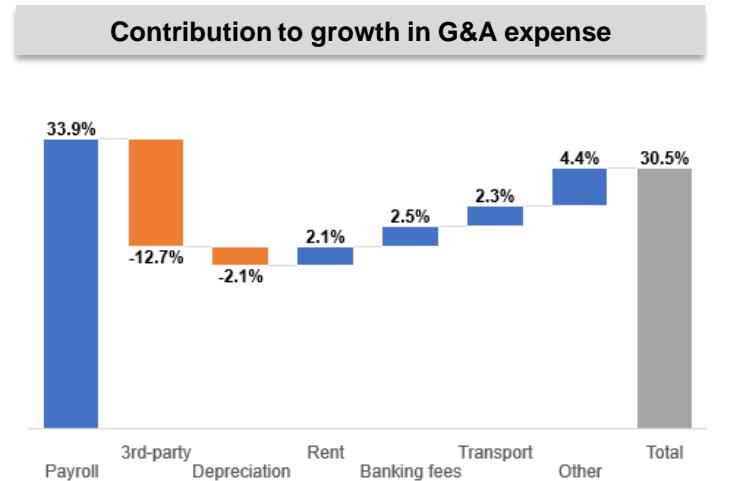
- Operational expenses increased 28.1% Y/Y to RON 477.0m in 9-mth 2018, reaching 86.5% of sales;
- As percentage of sales, operational expenses increased by 3.2pp Y/Y to 86.5% in 9-mth 2018, of which:
 - +0.8pp from payroll expenses
 - +0.8pp from other operating expenses
 - +0.7pp from cost of food and materials

Contribution to change in restaurant profit



G&A expenses

Data in RON'000	Sep-18	Sep-17	Y/Y% 2018/2017	% of Sales	
				Sep-18	Sep-17
General and administration expenses (net), of which:					
Payroll and employee benefits	37,661	28,863	30.5%	6.8%	6.5%
Third-party services	21,496	11,706	83.6%		
Depreciation and amortization	5,200	8,863	-41.3%		
Rent	745	1,349	-44.8%		
Banking charges	2,566	1,966	30.5%		
Transport	2,004	1,275	57.2%		
Other expenses	1,985	1,315	51.0%		
	3,664	2,389	53.4%		



- General and administration expenses increased 30.5% Y/Y to RON 37.7 million in 9-mth 2018 (6.8% of sales, up from 6.5% in 9-mth 2017)
- G&A ratio stood at 6.2% of sales in Q3-2018 compared to 5.4% in Q3-2017.
- Note: Other expenses include a non-recurring cost for litigation worth RON 0.95m.



Consolidated financials



Statement of comprehensive income

- Consolidated sales up 37.4% Y/Y on strong performance from KFC Romania (+20.9% Y/Y), while the consolidation of ARS (Pizza Hut restaurants), starting with June 2017, contributed 13.4pp in the consolidated sales growth rate;
- Restaurant operating profit up 8.7% Y/Y, with margin down 3.6pp, especially on salary costs and impact from new openings and new areas of business;
- G&A expenses up 53.8% Y/Y, up 0.7pp to 6.8% of sales, driven mainly by the consolidation of ARS and the KFC Italy and Taco Bell operations;
- Normalized EBITDA fell 1.2% Y/Y and normalized EBITDA margin contracted 3.8pp to 9.7%, mainly due to higher restaurant expenses;
- EBITDA fell 3.0% Y/Y and EBITDA margin contracted 4.0pp to 9.5%, mainly due to higher restaurant expenses;
- Net profit was 20.9% lower Y/Y and net profit margin fell by 4.3pp to 5.9%.

Data in RON'000	Sep-18	Sep-17	Y/Y%	% of Sales			
				2018/2017	Sep-18	Sep-17	Δ%
Restaurant sales	551,562	401,353	37.4%				
Restaurant expenses	476,993	332,737	43.4%				
Food and material	197,211	144,052	36.9%	35.8%	35.9%	35.9%	-0.1%
Payroll and employee benefits	113,731	76,660	48.4%	20.6%	19.1%	19.1%	1.5%
Rent	40,014	28,490	40.5%	7.3%	7.1%	7.1%	0.2%
Royalties	32,497	22,958	41.5%	5.9%	5.7%	5.7%	0.2%
Advertising	30,421	20,806	46.2%	5.5%	5.2%	5.2%	0.3%
Other operating expenses, net	48,378	31,190	55.1%	8.8%	7.8%	7.8%	1.0%
Depreciation and amortization	14,742	8,580	71.8%	2.7%	2.1%	2.1%	0.5%
Restaurant operating profit	74,568	68,617	8.7%				
				13.5%	17.1%	-3.6%	
General and administration expenses, net	37,661	24,491	53.8%	6.8%	6.1%	6.1%	0.7%
Operating profit	36,907	44,126	-16.4%				
				6.7%	11.0%	-4.3%	
Finance costs	2,071	1,152	79.7%	0.4%	0.3%	0.3%	0.1%
Finance income	118	129	-7.8%	0.0%	0.0%	0.0%	0.0%
Profit before tax	34,955	43,102	-18.9%				
				6.3%	10.7%	-4.4%	
Income tax expense	2,549	2,130	19.7%	0.5%	0.5%	0.5%	-0.1%
Profit for the period	32,406	40,972	-20.9%				
				5.9%	10.2%	-4.3%	
EBITDA	52,394	53,994	-3.0%	9.5%	13.5%	13.5%	-4.0%
Normalised EBITDA	53,340	53,994	-1.2%	9.7%	13.5%	13.5%	-3.8%

*) Excluding a non-recurring cost for litigation worth RON 0.95m.



Statement of financial position

Data in RON'000	30-Sep-18	31-Dec-17
Assets		
Non-current assets	212,218	176,123
Property, plant and equipment	136,134	105,220
Intangible assets	68,506	67,471
Deposits for rent guarantee	4,434	1,288
Deferred tax assets	3,144	2,144
Current assets	90,425	73,291
Inventories	8,781	8,509
Trade and other receivables	11,816	8,454
Prepayments	4,227	3,673
Cash and short-term deposits	65,601	52,655
Assets held for sale	-	195
Total assets	302,643	249,609

Data in RON'000	30-Sep-18	31-Dec-17
Equity and liabilities		
Total equity	136,932	104,544
Equity attributable to equity holders of the parent	136,867	104,525
Issued capital	581,990	581,990
Share premium	(520,578)	(520,578)
Retained earnings	75,471	43,191
Foreign currency translation reserve	(16)	(78)
Non-controlling interests	65	19
Non-current liabilities	62,305	42,191
Interest-bearing loans and borrowings	57,615	39,520
Trade and other payables	4,690	2,671
Current liabilities	103,406	102,874
Trade and other payables	68,588	77,682
Interest-bearing loans and borrowings	34,818	25,192
Total liabilities	165,711	145,065
Total equity and liabilities	302,643	249,609