



Sphera Franchise Group

Analyst Call | Q3 2020 Results



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

Welcome to SFG's Q3 2020 Analyst Call – Presenters



Calin Ionescu
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- 1 Q3 2020 Highlights
- 2 COVID-19 Adaptation in Q3 2020
- 3 Brand Performances
- 4 Key Q3 & 9M 2020 Financials
- 5 Forecasted 2020 Revenue & Expense Budget
- 6 Q&A session

For further details

We invite you to read the Full Director's report which includes analysis of financial results, details our response to COVID-19 crisis as well as provides an overview of events that took place after closing the reporting period. You can access the Q3 2020 report at www.spheragroup.com, Investor Relations section.

In case of any follow-up questions please do not hesitate to contact us at investor.relations@spheragroup.com.



Q3 2020 Highlights



Encouraging results in Q3 2020

- Q3 showed signs of gradual recovery from the onset of the COVID-19 pandemic as the consolidated sales grew with RON 91.6 million (+86.2%) compared to Q2 2020.
- In September 2020, following the reopening of the Romanian economy, the Group registered decline of just 9.4% compared to September 2019 (100% of the pre-pandemic (average of Jan-Feb 2020) sales), proving how fast the results.
- The Group closed Q3 with a normalized EBITDA of RON 26.9 million, just 11.8% lower than result from Q3 2019, and a net profit of RON 17.6 million, 12.3% lower than in Q3 2019.

Cost-optimizations continued in Q3 2020

- Restaurant expenses in 9M 2020 decreased by 22.8%; and 19.2% in Q3 2020.
- In 9M 2020, the Group managed to lower the General and Administrative (G&A) expenses by 17.4% compared to the same period of 2019. Only in Q3 2020, the Group lowered G&A costs by 32.6% compared to Q3 2019.

Historically high EBITDA margins in Q3 2020

- The normalized EBITDA margin registered by the Group in Q3 2020 reached 13.6%, improved compared to Q1 2020 margin (8.7%), Q2 2020 (-1.9%) and Q3 2019 (12.3%).
- Significant improvement of Q3 2020 performance helped partially recover the negative evolution caused by the onset of the pandemic in Q2 2020.
- KFC Romania registered high EBITDA margin of 19.2%, while KFC Moldova registered EBITDA margin of 21.2%. Taco Bell Romania closed the three months period with 11.3% EBITDA margin.

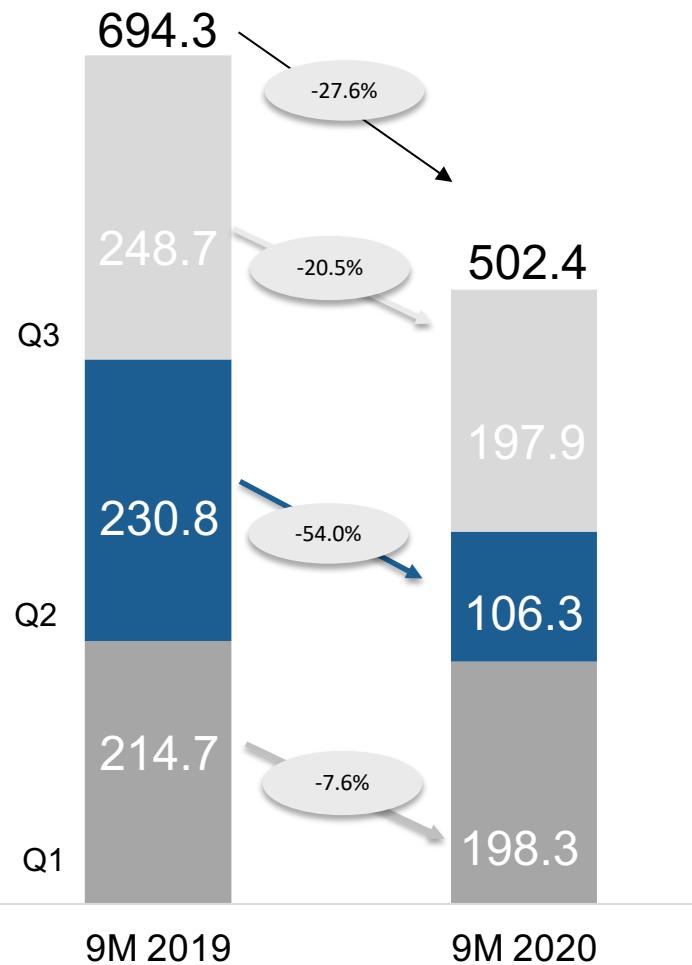
Risks related to local lockdowns, yet Group well prepared for delivering across the “red zones”

- Lockdowns at a local (municipality or city) level were already ordered in Romania in September 2020, in areas qualified a “red zone” (>3 COVID-19 cases/1,000 inhabitants), impacting sales.
- As of October 2020 Bucharest (red alert starting October 20th, 2020), Ramnicu Valcea, Zalau, Bacau, Focsani were qualified red zones and indoor dining sections in those locations had to be closed.
- In “red zones”, the Group sees partial recovery of sales at delivery and take-away.



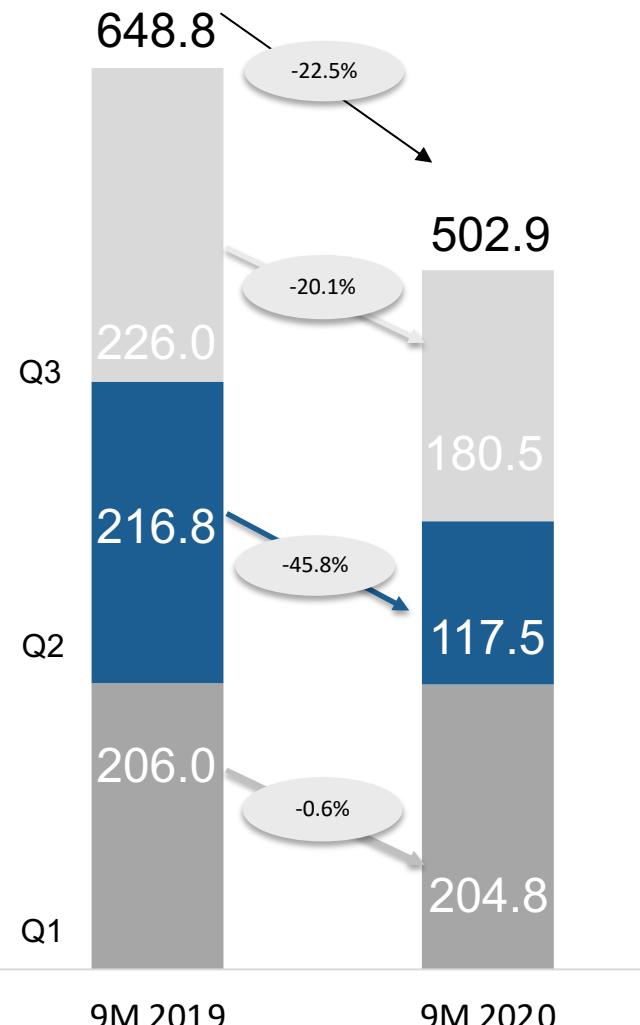
RESTAURANT SALES

RON m



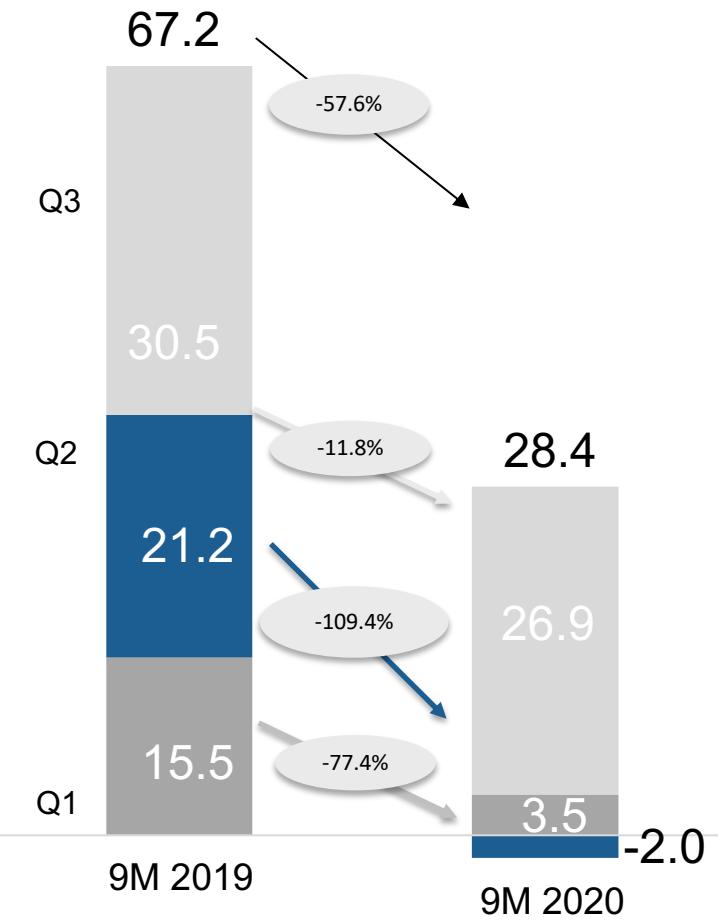
EXPENSES (Restaurant + G&A)

RON m, excluding IFRS 16

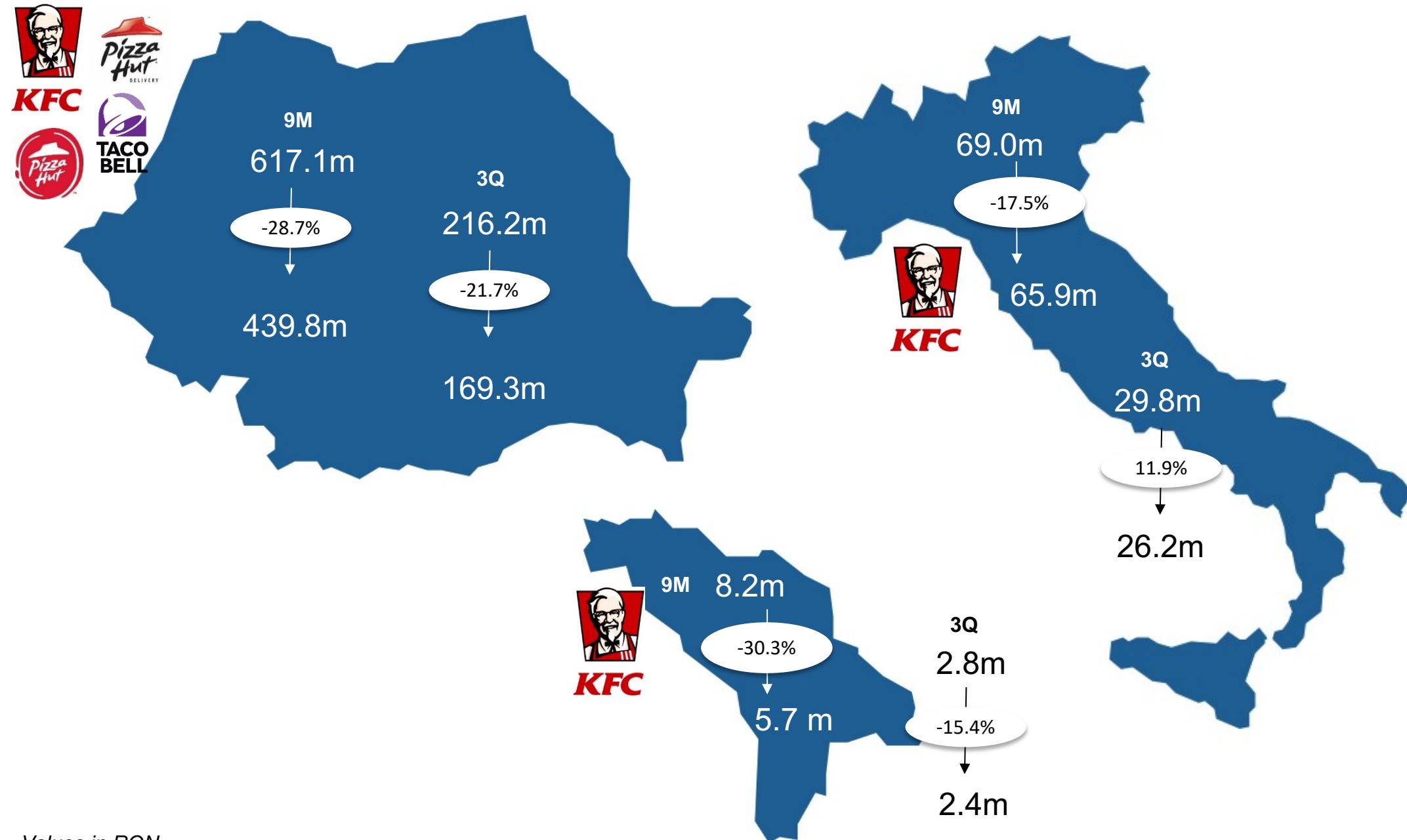


NORMALIZED EBITDA

RON m, excluding IFRS 16



Sphera Franchise Group 9M & Q3 20 Sales performance per country



Values in RON.

2019 values on top of the map, 2020 on the bottom.



COVID-19 Adaptation in Q3 2020



MAXIMIZING REVENUES

- Expansion of delivery services: in September KFC Romania launched a dedicated online ordering platform.
- Continued enhanced cooperation with local food aggregators:
 - Romania: FoodPanda, Glovo, Tazz (EuCeManac), TakeAway;
 - Italy: Glovo, Deliveroo, Just Eat, UberEats;
 - Moldova: Straus, iFood.
- Focused on marketing campaigns promoting delivery and take away, with the aim of addressing new consumption occasions.
- Stand out in the category with communication messages adapted to the new reality.
- Menu Engineering: optimizing menus to fit the market conditions.

DEVELOPMENT PLANS

- Despite the pandemic, the Group continued to implement the plan for opening new restaurants as well as identifying new locations for future developments.
- Since beginning of 2020 until today, 3 new KFC stores opened in Italy, 4 KFCs in Romania (+1 relocation in Targu Mures), and 1 Taco Bell. In Q3, the Group inaugurated 4 stores – 3 in Romania and 1 in Italy. So far in Q4 1 KFC restaurant was inaugurated in Romania, 1 KFC in Italy and 1 Taco Bell in Romania. Since 01.01.2020, 3 stores in Romania identified as non-viable were closed.
- The Group is currently in negotiations with YUM!, the Master Franchisor, to revise and update the restaurant development plan for KFC Romania and Pizza Hut in Romania.

LEASE AGREEMENTS

- In Q3 2020, the Group benefited from a discount of RON 4.3 million on fix rent.
- Total amount of discounts from fix rent granted in 9M 2020 equaled RON 8.7 million. There are no more ongoing negotiations related to the rent for the first 9M of 2020.
- In Q4 2020, new negotiations will be initiated by the Group on a case-by-case basis, depending on the restrictions applicable in specific areas (countries, regions, counties or cities).



STAFF & STATE AID RELATED TO STAFF COSTS

- As of 30.06.2020, estimated 22% of the restaurant employees in Romania were still in technical unemployment, which covered the expenses of 75% of the average national salary. As of 1.09, all the restaurant employees, on all three markets of activity, have returned from the technical unemployment.
- As of 30.06.2020 all HQ staff was back from technical unemployment. In Q3 2020, HQ staff continued to work under a reduced schedule.
- In Q3, 2020 Sphera Franchise Group benefitted from technical unemployment grants from the Romanian state as well as applied for the state aid accorded by the Romanian government that covered 41.5% of costs related to the salaries of employees who received technical unemployment indemnity, according to the provisions of the Emergency Ordinance no. 92/2020.
- The total amount of state aid granted to the entities from the Group in Q3 2020, across all 3 markets of activity, was RON 7.7 million., out of which:
 - RON 2.4 million technical unemployment indemnity received from the Romanian state;
 - RON 0.3 million received from Italian and Moldovan governments in Q3 2020 for employees who were in technical unemployment in H1 2020;
 - RON 4.9 million lei Romanian state aid that covered 41.5% of payroll costs of restaurant employees who previously were in technical unemployment.
- The applicability of further indemnities granted by the State for Q4 2020 on, is to be evaluated based on the legislation to be released.
- As of 30.09.2020, the Group had 4,934 employees, out of which 4,533 in Romania, 321 in Italy and 80 in the Republic of Moldova. Mid-September, the Group announced the intention to hire over 400 employees in order to ensure continuous operations of KFC Romania.



Financial



- All the financing facilities accessed in H1 2020 to ensure working capital were still applicable throughout Q3 2020.
- Group secured a new short-term working capital line of RON 9.6 million, which has not been activated to date,
- Group continued to engage in good faith negotiations with suppliers and with the Master Franchisor, YUM!.
- To enhance the liquidity, the Group decided to take advantage of the provisions of Emergency Ordinance 181/2020, which allows to benefit from payment rescheduling, for a maximum of 12 months, for the principal fiscal obligations whose maturity were fulfilled after the date the state of emergency was declared.



Brand Performance



| |  KFC |  KFC |  KFC |  Pizza Hut |  Pizza Hut DELIVERY |  TACO BELL |  |
|--|--|--|---|--|--|--|---|
| Restaurant count as of 30.09.2020 | 85 | 2 | 17 | 23 | 21 | 10 | 158 |
| Operational restaurants | | | | | | | |
| - June '20 | 80 | 1 | 16 | 20 | 21 | 10 | 148 |
| - September '20 | 84 | 2 | 17 | 23 | 21 | 10 | 157 |
| - October '20 | 85 | 2 | 17 | 23 | 21 | 10 | 158 |

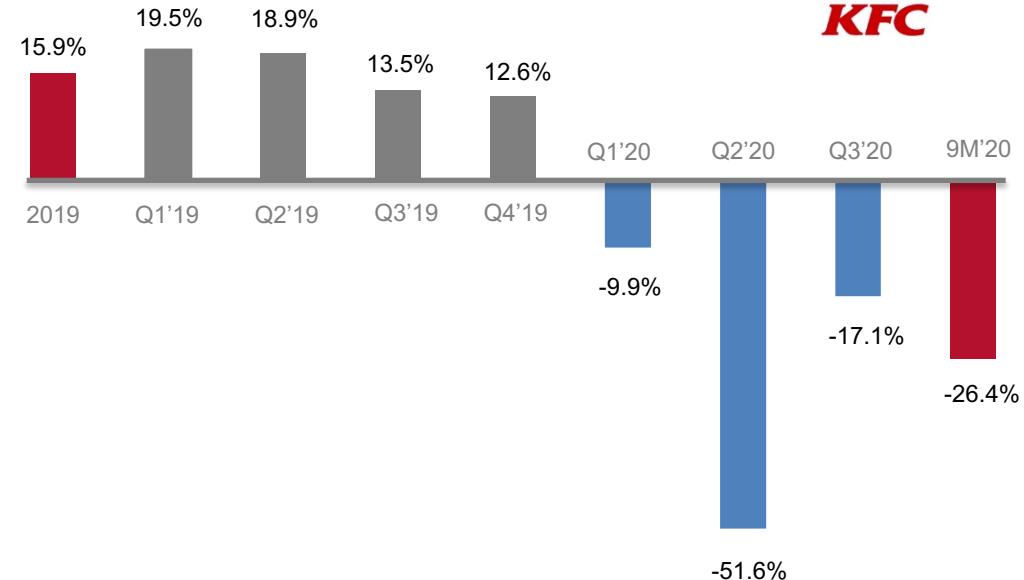
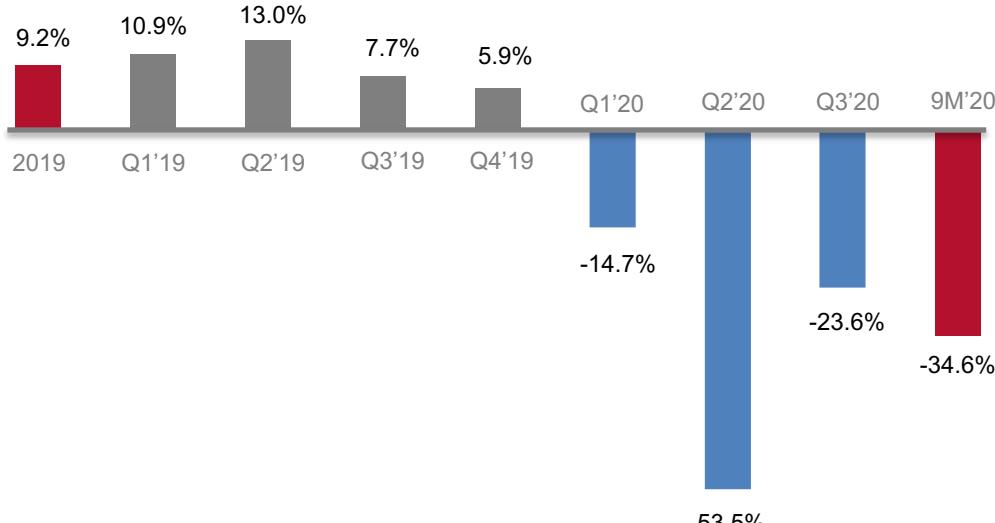
- In Q3 2020, Group inaugurated 4 KFC stores – 3 in Romania and 1 in Italy.
- So far in Q4 2020, 1 KFC restaurant was inaugurated mid-October in Romania, 1 KFC in Italy mid-November and 1 Taco Bell in Romania mid-November.
- Since the beginning of 2020 until today, 4 new KFC restaurants opened in Romania (+1 relocation), 3 new KFC stores opened in Italy and 1 Taco Bell in Romania.
- Since the beginning of 2020, 3 stores in Romania identified as non-viable were closed, one of them impaired as of December 31st, 2019.
- The Group has 158 stores as of 30.09.2020.



KFC

All-Store Performance KFC Romania

- All-store sales dipped 9.9% Y/Y in Q1 2020, followed by a steep decline of 51.6% Y/Y in Q2 2020, and partial recovery in Q3 2020 when it reached -17.1% Y/Y.
- Worst performance in month of April 2020 (-73.2% Y/Y), gradual recovery since then as All-store sales reached -13.2% Y/Y in September 2020 and -3.7% Y/Y in October 2020.
- New locations opened for KFC Romania and their solid performance in Q3 2020 helped recover part of the revenues lost.



Same-Store Performance KFC Romania

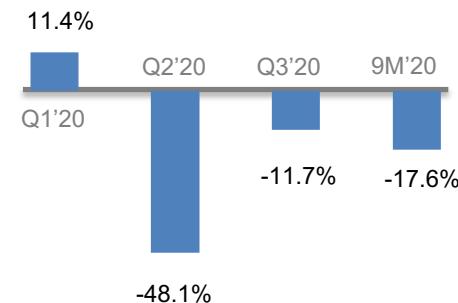
- Same-store sales registered steeper decline in 9M 2020 when compared to all-store, with performance per quarter dropping: -14.7% Y/Y in Q1 2020, -53.5% Y/Y in Q2 2020 and -23.6% Y/Y in Q3 2020.
- In line with all-store performance, April 2020 saw the steepest decline (-74.0% Y/Y), with performance increasing since.
- In October 2020, same-store sales registered -12.0% Y/Y, with all-store performance that month showcasing the positive impact of new locations opened.



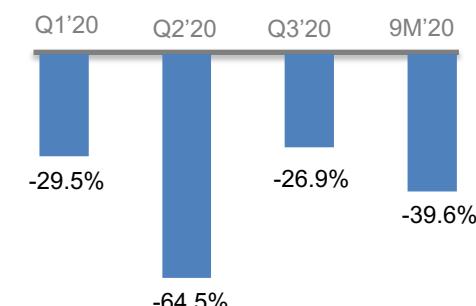
All-Store Performance KFC Italy

- KFC Italy grew All-Store performance in Q1 2020 thanks to the opening of new locations between Q2 and Q4 2019. Same-store performance dropped -17.6% at 9M 2020.
- In August 2020, due to partial reopening of the Italian economy, all-store performance was equal to the performance from August 2019.

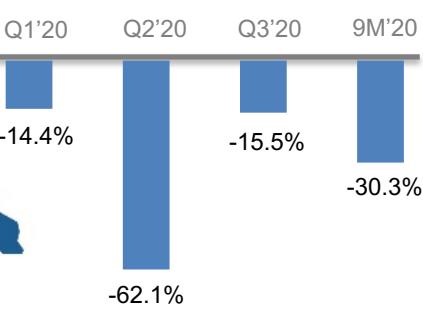
All-Store Performance



Same-Store Performance



All-Store Performance



All-Store Performance KFC Moldova

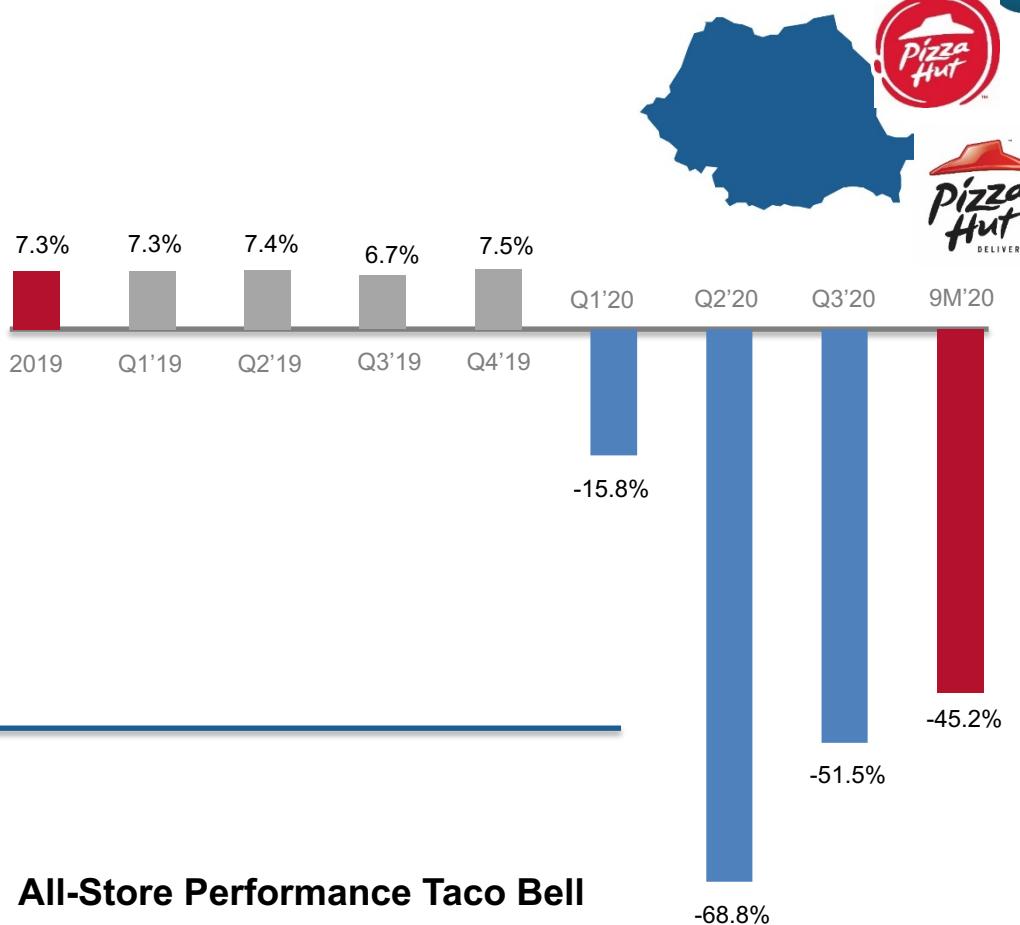
- All-store performance same with same-store performance.
- Gradual, month-by-month, recovery since the sales plunged -74,7% in April 2020.
- In October 2020, sales reached 0,3% of the October 2019 result.

Brand performance: Pizza Hut & Taco Bell

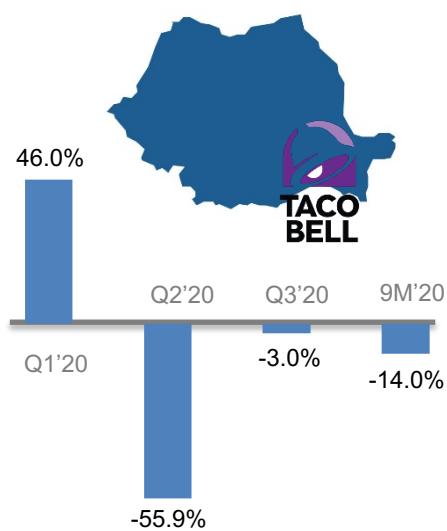


All-Store Performance Pizza Hut

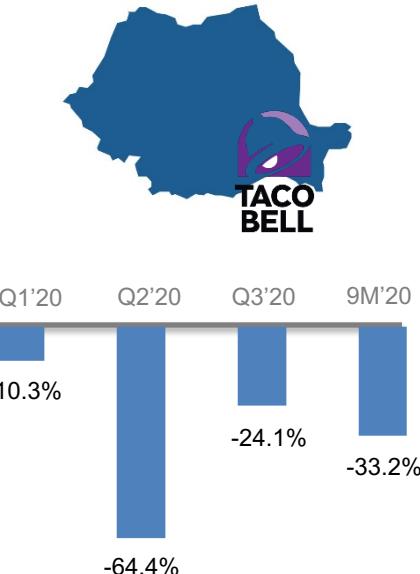
- All-store performance same with same-store performance
- All-store sales declined in Q1 2020 with -15.8%, followed by steep plunge of -68.8% caused by the temporary closing on dine-in restaurants.
- Partial recovery in Q3 2020 however slower than the other portfolio brands caused by the restrictions on indoor dining



All-Store Performance



Same-Store Performance



All-Store Performance Taco Bell

- Taco Bell grew All-Store performance in Q1 2020, driven primarily by the opening of new locations between Q2 and Q4 2019.
- In April 2020, Taco Bell registered 0 sales. As a result both all-store and same-store sales plunged in Q2 2020, but Q3 2020 brought a recovery with all-store sales dropping just 3% compared to same period of last year



Key Q3 & 9M 2020 Financials



Statement of Comprehensive Income at 9M (excluding IFRS 16 impact)

| Data in RON'000 | 9M-20 | 9M-19 | Y/Y % 9M-20/9M- 19 | % of Sales | | Δ% |
|-------------------------------------|----------------|----------------|--------------------------|--------------|--------------|--------------|
| | | | | 9M-20 | 9M-19 | |
| Restaurant sales | 502,445 | 694,317 | -27.6% | | | |
| Restaurant expenses | 467,620 | 606,107 | -22.8% | 93.1% | 87.3% | 5.8% |
| Food and material | 164,520 | 235,421 | -30.1% | 32.7% | 33.9% | -1.2% |
| Payroll and employee benefits | 106,011 | 158,397 | -33.1% | 21.1% | 22.8% | -1.7% |
| Rent | 43,154 | 49,123 | -12.2% | 8.6% | 7.1% | 1.5% |
| Royalties | 29,439 | 40,780 | -27.8% | 5.9% | 5.9% | 0.0% |
| Advertising | 23,435 | 34,230 | -31.5% | 4.7% | 4.9% | -0.2% |
| Other operating expenses, net | 74,477 | 67,625 | 10.1% | 14.8% | 9.7% | 5.1% |
| Depreciation and amortization | 26,585 | 20,530 | 29.5% | 5.3% | 3.0% | 2.3% |
| Restaurant operating profit | 34,825 | 88,210 | -60.5% | 6.9% | 12.7% | -5.8% |
| General & Admin expenses, net | 35,235 | 42,644 | -17.4% | 7.0% | 6.1% | 0.9% |
| Operating Profit/(Loss) | (411) | 45,566 | -100.9% | -0.1% | 6.6% | -6.7% |
| Finance costs | 3,973 | 4,822 | -17.6% | 0.8% | 0.7% | 0.1% |
| Finance income | 182 | 121 | 51% | 0.0% | 0.0% | 0.0% |
| Profit/(Loss) before tax | (4,202) | 40,864 | -110.3% | -0.8% | 5.9% | -6.7% |
| Income tax expense | 511 | 2,650 | -80.7% | 0.1% | 0.4% | -0.3% |
| Profit/(Loss) for the period | (4,712) | 38,214 | -112.3% | -0.9% | 5.5% | -6.4% |
| EBITDA | 27,310 | 67,223 | -59.4% | 5.4% | 9.7% | -4.3% |
| Normalized EBITDA* | 28,417 | 67,223 | -57.6% | 5.7% | 9.7% | -4.0% |

(*) For the 9M period ended September 30th, 2020, EBITDA was normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods.

- Restaurant sales down 27.6% in 9M 2020 compared to 9M 2019; expenses down by 22.8%.
- Restaurant operating profit of RON 34.8 million in 9M 2020, 60.5% lower compared to 9M 2019.
- 17.4% decrease in General & Administrative expenses, helped achieve normalized EBITDA of RON 28.4 million, lower by 57.6%.
- Normalized EBITDA margin by 4pp lower compared to 9M 2019.
- Operating loss of RON 411K, lower 100.9% Y/Y.
- Net loss for the period equalled RON 4.7 million, significantly lower than the H1 2020 result of a loss of RON 22.4 million.



Statement of Comprehensive Income for Q3 (excluding IFRS 16 impact)

| Data in RON'000 | Q3-20 | Q3-19 | Y/Y % Q3-20/Q3- 19 | % of Sales | | Δ% |
|-------------------------------------|----------------|----------------|--------------------------|--------------|--------------|--------------|
| | | | | Q3-20 | Q3-19 | |
| Restaurant sales | 197,865 | 248,749 | -20.5% | | | |
| Restaurant expenses | 169,717 | 209,969 | -19.2% | 85.8% | 84.4% | 1.4% |
| Food and material | 63,726 | 80,722 | -21.1% | 32.2% | 32.5% | -0.3% |
| Payroll and employee benefits | 34,696 | 52,077 | -33.4% | 17.5% | 20.9% | -3.4% |
| Rent | 13,859 | 17,481 | -20.7% | 7.0% | 7.0% | 0.0% |
| Royalties | 11,555 | 14,705 | -21.4% | 5.8% | 5.9% | -0.1% |
| Advertising | 9,006 | 13,843 | -34.9% | 4.6% | 5.6% | -1.0% |
| Other operating expenses, net | 28,063 | 23,741 | 18.2% | 14.2% | 9.5% | 4.7% |
| Depreciation and amortization | 8,813 | 7,400 | 19.1% | 4.5% | 3.0% | 1.5% |
| Restaurant operating profit | 28,148 | 38,781 | -27.4% | 14.2% | 15.6% | -1.4% |
| General & Admin expenses, net | 10,788 | 16,012 | -32.6% | 5.5% | 6.4% | -0.9% |
| Operating Profit/(Loss) | 17,360 | 22,768 | -23.8% | 8.8% | 9.2% | -0.4% |
| Finance costs | 1,071 | 1,355 | -20.9% | 0.5% | 0.5% | -0.0% |
| Finance income | 94 | 58 | 63.5% | 0.0% | 0.0% | 0.0% |
| Profit/(Loss) before tax | 16,383 | 21,471 | -23.7% | 8.3% | 8.6% | -0.3% |
| Income tax expense | (1,264) | 1,354 | -193.4% | -0.6% | 0.5% | -1.1% |
| Profit/(Loss) for the period | 17,647 | 20,118 | -12.3% | 8.9% | 8.1% | 0.8% |
| EBITDA | 26,538 | 30,512 | -13.0% | 13.4% | 12.3% | 1.1% |
| Normalized EBITDA* | 26,908 | 30,512 | -11.8% | 13.6% | 12.3% | 1.3% |

(* EBITDA normalized to exclude the accrued penalties due to Pizza Hut Europe (Master Franchisor) for the restaurants committed to be opened in 2019 and postponed for the future periods.

- Q3 showed signs of gradual recovery from the onset of the COVID-19 pandemic as the consolidated sales grew with RON 91.6 million (+86.2%) compared to Q2 2020.
- Restaurant sales down 20.5% in Q3 2020 compared to Q3 2019, with restaurant operating profit lower by 27.4%.
- Restaurant expenses lower by 19.2% while G&A expenses decreased by 32.6%.
- Normalized EBITDA margin higher by 1.3pp in Q3 2020 compared to same period of last year.
- Net profit of RON 17.6 million in Q3 2020, just 12.3% lower than same period of last year.
- The performance in Q3 2020 alone helped recover RON 26.9 million in EBITDA and lower the net loss registered as of 30.06.2020 by RON 17.6 million.



Restaurant Expenses lower by 27.6% in 9M 2020 vs 9M 2019 (excluding IFRS 16)

| Data in RON'000 | 9M-20 | 9M-19 | Y/Y % 9M-20/9M- 19 | % of Sales | | Δ% |
|------------------------------------|----------------|----------------|--------------------------|--------------|--------------|--------------|
| | | | | 9M-20 | 9M-19 | |
| Restaurant sales | 502,445 | 694,317 | -27.6% | | | |
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| Rent | 43,154 | 49,123 | -12.2% | 8.6% | 7.1% | 1.5% |
| Royalties | 29,439 | 40,780 | -27.8% | 5.9% | 5.9% | 0.0% |
| Advertising | 23,435 | 34,230 | -31.5% | 4.7% | 4.9% | -0.2% |
| Other operating expenses, net | 74,477 | 67,625 | 10.1% | 14.8% | 9.7% | 5.1% |
| Depreciation and amortization | 26,585 | 20,530 | 29.5% | 5.3% | 3.0% | 2.3% |
| Restaurant operating profit | 34,825 | 88,210 | -60.5% | 6.9% | 12.7% | -5.8% |

- Restaurant expenses in 9M 2020 decreased by 22.8% due to: lower cost of food & material by RON 70.9 million (-30.1% compared to 9M 2019 – mainly volume related), payroll expenses by RON 52.4 million (-33.1%), royalties by RON 11.3 million (-27.8%), advertising by RON 10.8 million (-31.5%) and rent by RON 6.0 million (-12.2%).
- The decrease in the costs related to payroll and employee benefits was fueled mainly by state aid measures, reduced working hours and a lower number of employees in the period.
- Only other operating expenses and expenses related to depreciation and amortization, have increased.
- The increase in “other operating expenses” was driven by the higher share of aggregator commissions, with the weight in this category growing from 2.1% (out of RON million 67.6) as of 30.09.2019, to 21.7% (out of RON 74.5 million) as of 30.09.2020.
- The increase in depreciation and amortization costs was the result of opening 13 new restaurants between 1.10.2019 and 30.09.2020 (16 restaurants including latest 3 openings in Q4)



Restaurant Expenses lower by 20.5% in Q3 2020 vs Q3 2019 (excluding IFRS 16)

| Data in RON'000 | Q3-20 | Q3-19 | Y/Y % Q3-20/Q3-19 | % of Sales | | Δ% |
|------------------------------------|----------------|----------------|----------------------|--------------|--------------|--------------|
| | | | | Q3-20 | Q3-19 | |
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| Rent | 13,859 | 17,481 | -20.7% | 7.0% | 7.0% | 0.0% |
| Royalties | 11,555 | 14,705 | -21.4% | 5.8% | 5.9% | -0.1% |
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| Depreciation and amortization | 8,813 | 7,400 | 19.1% | 4.5% | 3.0% | 1.5% |
| Restaurant operating profit | 28,148 | 38,781 | -27.4% | 14.2% | 15.6% | -1.4% |

- In Q3 2020, the Group continued to implement significant cost-saving measures both at the restaurant level as well as at the level of G&A expenses.
- Throughout Q3 2020, the Group benefitted from state aid from the Romanian government, which helped lower the payroll expenses by 33.4%, as well as successfully renegotiated with its lessors, which ended in 20.7% decrease in rent expenses.
- The advertising costs were lowered by 34.9% compared to Q3 2019.
- The reduction in the cost of food & material, as well as royalties due, was aligned with the decline in overall restaurant sales.
- Like the evolution at 9M 2020, only other expenses related to depreciation and amortization as well as other operating expenses have increased, with the latter being driven by the higher fees due to food aggregators.
- As a result, the consolidated restaurant expenses were lower in Q3 2020 by 19.2% (RON -40.3 million) compared to the same period of 2019.



KFC Romania and Moldova ended Q3 2020 with a net profit (excluding IFRS 16 impact)

| 9M-20 | | | | | | | | |
|---|----------------|-----------------|--------------|-----------------|----------------|----------------|-----------------|----------------|
| Data in RON'000 | USFN (RO) | ARS | USFN (MD) | USFN (IT) | CFF | SFG | Cons.Adj. | SFG Cons |
| Restaurant sales | 366,624 | 52,423 | 5,725 | 56,873 | 20,633 | 17,494 | (17,327) | 502,445 |
| Restaurant expenses | 316,823 | 57,847 | 5,085 | 68,332 | 20,579 | 484 | (1,529) | 467,620 |
| Food and material | 123,284 | 14,691 | 2,264 | 16,923 | 7,365 | 0 | (7) | 164,520 |
| Payroll and employee benefits | 67,891 | 15,076 | 1,076 | 17,886 | 4,082 | 0 | 0 | 106,011 |
| Rent | 29,230 | 5,200 | 244 | 6,815 | 1,665 | 0 | 0 | 43,154 |
| Royalties | 21,873 | 3,010 | 344 | 3,391 | 821 | 0 | 0 | 29,439 |
| Advertising | 15,817 | 3,763 | 204 | 3,521 | 1,142 | 484 | (1,496) | 23,435 |
| Other operating expenses | 44,313 | 12,203 | 702 | 13,511 | 3,775 | 0 | (26) | 74,477 |
| Depreciation | 14,416 | 3,904 | 251 | 6,285 | 1,729 | 0 | 0 | 26,585 |
| Restaurant operating profit/(loss) | 49,801 | (5,424) | 640 | (11,459) | 54 | 17,010 | (15,797) | 34,825 |
| G&A expenses | 17,906 | 4,984 | 198 | 6,022 | 1,670 | 20,180 | (15,724) | 35,235 |
| Operating profit/(loss) | 31,895 | (10,408) | 442 | (17,481) | (1,616) | (3,170) | (73) | (411) |
| Finance costs | 2,553 | 851 | 81 | 2,132 | 1,181 | 1,143 | (3,968) | 3,973 |
| Finance income | 2,653 | 17 | 0 | 1 | 0 | 1,479 | (3,968) | 182 |
| Profit/(Loss) before tax | 31,995 | (11,242) | 361 | (19,613) | (2,796) | (2,833) | (73) | (4,202) |
| Income tax expense | 1,672 | 559 | 24 | (2,141) | 108 | 288 | 0 | 511 |
| Profit/(Loss) for the period | 30,323 | (11,801) | 337 | (17,472) | (2,904) | (3,121) | (73) | (4,712) |
| EBITDA | 46,712 | (6,370) | 722 | (11,178) | 164 | (2,667) | (73) | 27,310 |
| Normalized EBITDA* | 46,712 | (5,209) | 722 | (11,178) | 164 | (2,667) | (73) | 28,417 |

- USFN Romania (KFC Romania), USFN Moldova (KFC Moldova) and CFF (Taco Bell) ended 9M 2020 with a positive normalized EBITDA.
- USFN Romania and USFN Moldova closed 9M 2020 profitable, registering together RON 30.7 million in net profit.
- Significant improvement on EBITDA margin in Q3 2020 compared to Q2 2020 and even Q3 2019:
 - KFC Romania EBITDA margin: 19.2%, improved from 9.9% for Q2 2020 / 15.9% in Q3 2019
 - KFC Moldova EBITDA margin: 21.2%, improved from -4.1% for Q2 2020 / 15.8% in Q3 2019
 - Taco Bell Romania EBITDA margin: 11.3%, improved from -6.7% for Q2 2020 / 9.7% in Q3 2019
 - KFC Italy EBITDA margin: -5.8%, improved from -54.4% in Q2 2020 / 5.3% in Q3 2019
 - Pizza Hut normalized EBITDA margin: -2.4%, improved from -22.7% in Q2 2020 / 4.6% in Q3 2019



G&A Expenses lower by 17.4% (excluding IFRS 16) in 9M 2020 vs. 9M 2019

| | Data in RON '000 | | | | Change (%) 2020/ 2019 (1) 2020/ 2019 (2) | | Percentage of sales | | | |
|---|------------------|---------------|---------------|---------------|--|---------------|---------------------|--------------|--------------|--------------|
| | 9M-20 (1) | 9M-20 (2) | 9M-19 (1) | 9M-19 (2) | | | 9M-20 (1) | 9M-20 (2) | 9M-19 (1) | 9M-19 (2) |
| | | | | | | | | | | |
| General and administration (G&A) expenses, net | 35,025 | 35,235 | 42,286 | 42,644 | -17.2% | -17.4% | 7.0% | 7.0% | 6.1% | 6.1% |
| Payroll and employee benefits | 21,972 | 21,972 | 25,731 | 25,727 | -14.6% | -14.6% | | | | |
| Third-party services | 4,702 | 4,702 | 6,871 | 7,043 | -31.6% | -33.2% | | | | |
| Depreciation and amortization | 3,391 | 1,136 | 3,199 | 1,128 | 6.0% | 0.7% | | | | |
| Rent | 86 | 2,551 | 301 | 2,693 | -71.4% | -5.3% | | | | |
| Banking charges | 2,090 | 2,090 | 2,382 | 2,276 | -12.3% | -8.2% | | | | |
| Transport | 760 | 760 | 1,891 | 1,891 | -59.8% | -59.8% | | | | |
| Other* | 2,025 | 2,025 | 1,910 | 1,886 | 6.0% | 7.4% | | | | |

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.

- In 9M 2020, G&A expenses of the Group decreased by 17.4% compared to 9M 2019.
- Significant cost-saving measures taken in Q3 2020 alone as the Group lowered G&A costs by 32.6% compared to Q3 2019.
- Biggest cost-savings in 9M 2020 were on:
 - payroll and employee benefits (-14.6%, decrease of RON 3.8 million compared to 9M 2019);
 - third-party services (-33.2%, decrease of RON 2.3 million compared to 9M 2019);
 - transport (-59.8%, decrease of RON 1.1 million compared to 9M 2019).



As a result of IFRS 16 adoption, normalized EBITDA increased to RON 29.3m in H1 2020

| Data in RON'000 | 9M-20 | 9M-20 | Impact of IFRS16 adoption |
|---|--------------------------------|--------------------------------|---------------------------|
| | Including the impact of IFRS16 | Excluding the impact of IFRS16 | |
| Restaurant sales | 502,445 | 502,445 | 0 |
| Restaurant expenses | 464,129 | 467,620 | -3,491 |
| Food and material | 164,520 | 164,520 | 0 |
| Payroll and employee benefits | 106,011 | 106,011 | 0 |
| Rent | 3,085 | 43,154 | -40,069 |
| Royalties | 29,439 | 29,439 | 0 |
| Advertising | 23,435 | 23,435 | 0 |
| Other operating expenses, net | 74,230 | 74,477 | -247 |
| Depreciation and amortization | 63,410 | 26,585 | 36,825 |
| Restaurant operating Profit / (Loss) | 38,316 | 34,825 | 3,491 |
| General & Admin expenses, net | 35,025 | 35,235 | -210 |
| Operating Profit/(Loss) | 3,292 | (411) | 3,703 |
| Finance costs | 13,953 | 3,973 | 9,980 |
| Finance income | 182 | 182 | 0 |
| Profit/(Loss) before tax | (10,479) | (4,202) | -6,277 |
| Income tax expense | 218 | 511 | -293 |
| Profit/(Loss) for the period | (10,697) | (4,712) | -5,985 |
| EBITDA | 70,092 | 27,310 | 42,782 |
| Normalized EBITDA* | 71,253 | 28,417 | 42,836 |

- Starting 1 January 2019, Sphera applies IFRS 16 that sets out the principles for the recognition, measurement, presentation and disclosure of leases.
- At the commencement date of a lease, a lessee recognizes a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset;
- At 9M 2020, as a result of adoption of IFRS 16, Sphera recognized additional depreciation expense of RON 36.8m and finance cost of RON 10.0m. At the same time, the rent expenses were reduced by RON 40.1m.
- As a result, normalized EBITDA increased to RON 71.3m while the net loss reached RON 10.7m.



Forecasted 2020 R&E budget

Forecasted 2020 Performance



As a result of IFRS 16 adoption, normalized EBITDA increased to RON 29.3m in H1 2020

| Indicator | Forecasted 2020 Budget | | Initial 2020 Budget | | 2019 Results | | Forecasted 2020 Budget vs. 2019 Results | Initial 2020 Budget vs. 2019 Results |
|--|------------------------|---------------|---------------------|---------------|--------------|---------------|---|--------------------------------------|
| | RON million | % Sales | RON million | % Sales | RON million | % Sales | | |
| Restaurant Sales | 669.7 | 100.0% | 537.0 | 100.0% | 954.7 | 100.0% | -29.9% | -43.8% |
| Food and Material | 221.6 | 33.1% | 183.2 | 34.1% | 319.1 | 33.4% | -30.5% | -42.6% |
| Restaurant Gross Margin | 448.0 | 66.9% | 353.8 | 65.9% | 635.7 | 66.6% | -29.5% | -44.3% |
| Restaurant Operational Expenses | 375.4 | 56.1% | 319.5 | 59.5% | 482.7 | 50.6% | -22.2% | -33.8% |
| Restaurant Operating Profit | 72.7 | 10.9% | 34.3 | 6.4% | 152.9 | 16.0% | -52.5% | -77.6% |
| G&A Expenses | 46.2 | 6.9% | 45.6 | 8.5% | 56.9 | 6.0% | -18.9% | -20.0% |
| EBITDA (normalized, excluding IFRS 16 impact) | 26.5 | 4.0% | (11.3) | -2.1% | 96.0 | 10.1% | -72.4% | -111.7% |

- On 22.10.2020 the Group informed the market about the update to the forecasted budget for 2020. The new reflects the positive evolution of the Company since the lifting of the state of emergency in Romania, the primary market of the activity of Sphera Franchise Group, as well as in Italy.
- The quick reaction and adaptation of the business model to new realities, including the focus on delivery services, has helped the Group maximize its performance. As a result, the management expects all the key indicators to improve when compared with the budget presented and approved by the shareholders in the OGSM in May.
- As of 30.09.2020, the Group has realized 75% of forecasted restaurant sales, generated 47.9% of the operating profit and 107% of the normalized EBITDA (excluding the IFRS 16 impact).



Q&A



Thank you for your attention!