13 March 2019

FRANCHISE BRANDS PLC
(“Franchise Brands”, the “Group” or the “Company”)

Final results for the year ended 31 December 2018

A strong performance, ahead of expectations, as we start to unlock Metro Rod’s potential

Franchise Brands plc (AIM: FRAN), an international multi-brand franchisor, is pleased to announce its full year audited results for the year ended 31 December 2018.

Financial highlights

- Revenue increased by 43% to £35.5m (2017: £24.9m).
- Fee income increased by 41% to £17.9m (2017: £12.7m).
- Adjusted EBITDA* increased by 37% to £3.7m (2017: £2.7m).
- Adjusted profit before tax* grew by 36% to £2.9m (2017: £2.1m).
- Statutory profit after tax increased to £2.3m (2017: loss £0.1m).
- Cash generated from operations of £2.9m (2017: £0.7m).
- Net debt** of £5.0m at 31 December 2018 (2017: £6.3m), with gearing of 20% (2017: 26%).
- Adjusted basic EPS* increased by 21% to 3.00p (2017: 2.47p).
- Basic EPS of 3.00p (2017: loss of 0.18p).
- Final dividend of 0.46p per share proposed (2017: 0.33p per share), giving a 34% increase in the total dividend for the year to 0.67p per share (2017: 0.5p per share), 4.4 times covered by adjusted profit after tax (2017: 4.9x).

** “Adjusted” items are before costs of acquisition of subsidiaries, costs of transition of subsidiary, bad debt provision and, in relation to EBITDA only, share-based payment expense. A reconciliation of Adjusted to Statutory measures is provided in the Financial Review below.*
*** A reconciliation of net debt and its component parts is given as part of the consolidated statement of cash flows.*

Operational highlights

- Metro Rod’s “Vision 2023” strategy greeted with real engagement by the franchise network and the benefits are starting to be visible:
  - Half of the Metro Rod network achieved double-digit like-for-like sales growth.
  - System sales grew 10.2% on a pro-forma basis.
  - Development of new business systems is progressing well and several have been rolled out to the franchisees.
- Kemac outperformed due to a number of large one-off jobs.
- Metro Plumb has continued to grow rapidly with system sales up 27%. First independent franchise launched.
- ChipsAway continues to grow Management Service Fee income with 30% of the network now paying turnover related, as opposed to fixed, fees.
- Franchisee recruitment in our B2C brands was more challenging with new franchisees recruited lower at 57 (2017: 80), and the total number of UK franchisees decreased by 2% to 428 (2017: 438).

Stephen Hemsley, Executive Chairman, commented:

“Franchise Brands has made considerable progress in 2018. The investment we have made in Metro Rod to support our Vision 2023 strategy is beginning to deliver tangible benefits which I expect to become increasingly more visible in the current year and beyond as we continue to unlock the clear potential for the business. 2019 has started encouragingly, with a good trading performance across the Group’s businesses in the first two months of the year and we, therefore, look forward to the year ahead with confidence”.

“With the integration of Metro Rod now complete we can begin to turn our attention to acquisition opportunities. We will consider the selective acquisition of reasonably valued and earnings enhancing franchise businesses that can

leverage our core functions, and complementary drainage and plumbing businesses which expand our scope of works."

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CHAIRMAN'S STATEMENT

2018 has been a year of consolidation and development following the April 2017 acquisition of Metro Rod. Our stated strategy has been to invest in our business systems, team members and franchisees to ensure that we can capitalise on the opportunities presented by the sectors in which we operate and provide a first-class customer experience. I am therefore pleased to report that this investment is beginning to deliver tangible benefits that I expect to become increasingly more visible in the current year and beyond.

Metro Rod

As set out in my 2017 statement, following many years of corporate and private equity ownership, Metro Rod required a new strategy centred on the development of the franchisees as entrepreneurs and the corresponding systems that they needed to grow their businesses. The essence of this was to return the franchisee to the centre of the business and to help them grow local sales, reduce their reliance on over-complicated manual systems and lessen the intervention from Head Office (now renamed the Support Centre). The strategy necessitated creating new systems and ways of working that passed back to the franchisees far greater responsibility for looking after customers and indeed their own businesses.

This new strategy was originally presented at a conference in November 2017, as a five-year growth plan which we entitled Vision 2023. Implementation of most of the proposed strategic and operational changes commenced in January 2018 and I am very pleased to report that they have been greeted with real engagement from a re-invigorated franchise community. This is evidenced by the fact that half the network recorded double-digit like-for-like sales growth in 2018. This "freeing up" of the system under Vision 2023 was not without its risks, but our faith in our franchisees has been well rewarded, with improvements also being delivered in customer service and the operational efficiency of the Support Centre.

Development of these new business systems is progressing well and several have been rolled out to the franchisees. Others such as the works management system ("WMS") and linked CRM are still under development. The existing WMS originated from a legacy system developed by a previous corporate owner. It is over-complicated and too slow for our current business volumes. In addition, it neither links with other systems nor allows us to adequately update our customers on the status of their jobs. The new WMS, which is being developed in close co-operation with our franchisees, is on trial in our directly-owned operation in Exeter and we expect to start rolling it out to a wider group

of franchisees in the second half of 2019. Whilst most of the technology development activity is currently focused on Metro Rod, these systems will also have direct applications in other Group businesses and future acquisitions.

The other key element of Vision 2023 is to grow sales, which had increased relatively slowly in previous years. One of the contributing factors was the very low level of awareness of the Metro Rod brand and the focus on a limited number of national accounts which were won by a central sales team. We launched the National Advertising Fund (“NAF”) in January 2018 with the objective of growing brand awareness and promoting local sales and marketing activity. This has allowed the creation of a dedicated marketing team. We have also put in place an initiative to encourage franchisees to employ their own direct sales force and are now supporting this with dedicated central resource.

The transfer of increased responsibility from the Support Centre to the franchisees, together with the local sales and marketing initiatives, will increase the franchisees’ cost base whilst allowing the Support Centre to reduce its headcount and become more efficient. This transfer of responsibility and cost can only be equitably achieved if we progressively reduce the Management Service Fee (MSF) charged to franchisees. Therefore, a sales-based incentive scheme was launched which, together with allowable expenses, has resulted in the average MSF reducing to 18.6% in 2018, compared with the contracted rate of 22.5%. It is our ultimate aim to gradually reduce the MSF to 15%. As well as being a fair level in a rebalanced business, a 15% MSF will have the additional advantage of significantly improving our competitiveness. Whilst this MSF reduction will erode our percentage margin, our overall cash profitability will increase as sales increase and our cost percentage declines and eventually becomes semi-fixed in cash terms.

The drainage market, which we estimate to be approximately £1bn in size, is extremely fragmented with 1,500-1,800 providers, most of which are local firms. This presents a clear consolidation opportunity for Metro Rod, with a strong brand and best-in-class IT systems. Strategic acquisitions that can assist in expanding the scope of services that we can offer will also assist us in growing market share from our current modest level of 4%.

Kemac & Metro Plumb

In contrast to 2017, Kemac had an excellent year in 2018 as a result of a number of large one-off jobs. As it will be difficult to anticipate such work recurring, we have taken the opportunity to place the business onto a more sustainable and predictable footing to assist in the development of Metro Plumb. Kemac was responsible for generating the interest that led to the launch of our first stand-alone Metro Plumb franchise, when two of its employed plumbers became franchisees of the London South-East territory. We are hopeful that this will be the first of many independent Metro Plumb franchises in the future.

Metro Plumb has continued to grow rapidly with sales 27% up on 2017. We continue to seek new ways to diversify the customer base and expand the range of services offered. However, as most of the Metro Plumb franchisees are also Metro Rod franchisees - and we have been very demanding of them in 2018 - the limited number of initiatives to grow Metro Plumb have not yet won the full attention of the franchise community. As more Metro Plumb franchise territories are sold to independent franchisees, we expect Metro Plumb to gain additional traction.

ChipsAway, Ovenclean & Barking Mad

Franchisee recruitment at ChipsAway, Ovenclean and Barking Mad was disappointing in 2018, with 57 territories sold (2017: 80) across the three brands. We believe that this level of recruitment might have been the result of the high levels of employment in the UK, the absence of redundancies and uncertainty over Brexit. Encouragingly, some of this shortfall was made up through existing franchisees buying additional territories to expand their businesses, which demonstrates their confidence in the brands.

ChipsAway is in a transition from a van-based operation undertaking SMART repairs where the franchisees pay a fixed monthly fee, to Car Care Centres which undertake larger repairs and where the franchisees pay a turnover-related MSF of 10%. As a result of this transition and the relative decline in recruitment income, MSF income now represents 62% of ChipsAway income (2017: 57%) and 30% of MSF income is turnover related rather than a fixed monthly fee. This represents a significant improvement in the quality of our income. To encourage franchisees to invest in Car Care Centres (of which we already have 33) and the specialist equipment needed to deal with driver-assist technology and

electric vehicles, we will shortly be opening a new model facility in Kidderminster. This will give us the ability to test the effectiveness of new equipment and to train our franchisees in its use.

Ovenclean franchisees continue to trade well in a business that is predominantly based on one man in one van, servicing a “milk-round” of customers on a six-monthly cycle. Franchisees pay us a fixed monthly fee that increases with both inflation and the length of time they have been in the system, approximating to 10% of their turnover.

Barking Mad, which was acquired in 2016 and continues to be run semi-autonomously by its founder, has benefited from the adoption of some Group systems and practices, particularly in the areas of IT and finance. Income is generated from a 10% MSF on system sales, which grew by 6%, and mitigated the disappointing franchisee recruitment income noted above.

Outlook

2018 has been a period of significant change for the team at Franchise Brands as we have integrated Metro Rod and further developed our shared support services of IT, finance, marketing and franchisee recruitment. I want to thank all of our team for their unfailing enthusiasm and dedication. I would also like to recognise the hard work and commitment of all our franchisees who are the backbone of our business.
2019 has started encouragingly, with a good trading performance across the networks in the first two months of the year and order intake at Metro Rod ahead of 2018. The level of franchise enquiries at ChipsAway, Ovenclean and Barking Mad is also significantly ahead of last year. We therefore look forward to the year ahead with confidence.

With the integration of Metro Rod now complete we can begin to turn our attention to acquisition opportunities. We will consider the selective acquisition of reasonably valued and earnings enhancing franchise businesses that can leverage our core functions and complementary drainage and plumbing businesses which expand our scope of works.

Conclusion

2018 has been a year of significant evolution and progress for Franchise Brands. We have a high-quality portfolio of businesses with significant potential, as well as a first-class entrepreneurial team that can successfully take on still more challenges and is highly committed, with the Board and senior management team owning 68.3% of the equity. I look forward with optimism to our continued progress in the next phase of our development to become a substantial force in franchising.

Stephen Hemsley
Executive Chairman

FINANCIAL REVIEW

	2018 £'000	2017 Restated £'000	Change £'000	%
Statutory revenue	**35,470**	**24,867**	**10,603**	**43%**
Franchisee payments	(17,604)	(12,166)	(5,438)	45%
Fee income	**17,866**	**12,701**	**5,165**	**41%**
Other cost of sales	(4,737)	(2,986)	(1,751)	59%
Gross profit	**13,129**	**9,715**	**3,414**	**35%**
GM on Fee income	*73%*	*76%*		
Administrative expenses	(9,429)	(7,018)	(2,411)	34%
Adjusted EBITDA	**3,700**	**2,697**	**1,003**	**37%**
Depreciation	(131)	(96)	(35)	36%
Amortisation of goodwill	(253)	(156)	(97)	62%
Share based payment	(138)	(58)	(80)	138%
Finance expense	(310)	(277)	(32)	12%
Adjusted profit before tax	**2,868**	**2,110**	**758**	**36%**
Tax expense	(536)	(389)	(147)	38%
Adjusted profit after tax	**2,332**	**1,721**	**611**	**36%**
Non-recurring items (net of tax)	-	(1,849)	1,849	100%
Statutory profit/(loss)	**2,332**	**(128)**	**2,460**	**1926%**

Note: "Adjusted" items are before costs of acquisitions of subsidiaries, costs of transition of subsidiaries, exceptional bad debt provision and, in relation to EBITDA only, share-based payment expense.

In 2018 we continued to feel the transformational effect of the acquisition of Metro Rod in April 2017. The figures for 2018 contain a full year for all our brands, whereas the comparative figures for 2017 contain almost nine months of trading of Metro Rod, and a full year for ChipsAway, Ovenclean and Barking Mad. The 2017 numbers have also been re-stated following accounting changes to revenue recognition as a result of our adoption of IFRS15, details of which can be found in the notes to the Financial Statements.

Statutory revenue and fee and direct labour income

Statutory consolidated revenue has increased 43% from £24.9m to £35.5m with the additional revenue coming from Metro Rod. Statutory revenue is made up of a number of different income streams that have differing accounting policies and is not, therefore, a KPI that management track on a consolidated basis.

The Group as a franchisor has three main fee income streams: MSF received from our existing franchisees either based on fixed monthly fees or as a percentage of system sales; fees generated from the sale or resale of franchise territories; and income from the sale of products to franchisees. The Group, through Metro Rod, also has two direct labour divisions, Kemac, a plumbing operation based in London, and our new Metro Rod corporate franchise in Exeter, which comprise a separate category of direct labour income.

£'000s	**2018**		**2017**		**Change**	**%**
MSF Income	10,894	61%	8,235	65%	2,659	32%
Area Sales	1,513	8%	1,829	14%	(316)	-17%
Product Sales	895	5%	946	7%	(51)	-5%
Direct Labour	4,564	26%	1,690	13%	2,874	170%
Fee Income	**17,866**		**12,701**		**5,165**	**41%**

Overall fee and direct labour income has increased 41% from £12.7m to £17.9m.

The 32% increase in recurring MSF income reflects our focus on improving the quality of our income stream to one which is more aligned to the growth in franchisees' sales, rather than recruitment income from the sale and resale of franchise territories.

On a pro-forma basis, System Sales at Metro Rod grew 10.2% from £33.9m to £37.4m. As part of the Vision 2023 strategy, we have introduced a variety of schemes and incentives to better enable our franchisees to grow their businesses. These include rebates relating to growing their System Sales, and a financing scheme with HSBC to give them access to funds to increase their capacity. As a result of these initiatives we have seen some really outstanding performances: 20 franchisees have seen double-digit like-for-like sales growth, with 7 growing by above 30%. We now have 14 franchisees with sales larger than £1m (2017: 12). Within the overall increase, the local sales made by franchisees in their territories and Metro Plumb sales drove the growth, increasing by 14% and 27% respectively.

Income from area sales has fallen in both absolute terms and relative to other income streams. ChipsAway, Ovenclean and Barking Mad have all suffered a slow-down in relation to franchisee recruitment, due to the external environment. Although we have seen a fall in the number of new franchisees entering our networks, we have seen an increase in the level of existing franchisees investing in additional territories or buying extra postcodes to increase the size of their existing territories.

We have seen direct labour income increase strongly from £1.7m to £4.6m with the inclusion of Kemac for a full year, and the addition of the Exeter region as a corporately owned and run franchise for 10 months. In particular, Kemac has benefitted during 2018 from several large one-off contracts.

Our fee and direct labour income generates a high level of gross margin; in the current period this has reduced marginally to 73% (2017: 76%) due to the change in our income mix, as our direct labour income achieves lower margins at around 25% than our core business as a franchisor at around 90%. Overall, gross profit increased by 35% from £9.7m to £13.1m.

Trading results - EBITDA

£'000s	2018	2017	Change	%
Metro Rod	2,498	1,306	1,192	91%
ChipsAway	1,920	1,912	8	0%
Ovenclean	304	297	7	2%
Barking Mad	160	187	(27)	-14%
Head Office	(1,182)	(1,005)	(177)	-18%
Group EBITDA	**3,700**	**2,697**	**1,003**	**37%**

Metro Rod, which includes Metro Plumb, Kemac and Exeter, made an EBITDA contribution of £2.5m in the period, up from £1.3m for the almost nine months of ownership in FY 2017. On a 'pro-forma' basis Metro Rod would have contributed around £1.8m in 2017 if it had been owned for the full year, which gives an implied organic EBITDA growth of 38%. This growth has been driven by the increase in our MSF income on system sales from our national network of 40 Metro Rod franchisees, and our one new standalone Metro Plumb franchise.

Given the decrease in recruitment, it is encouraging to report that the EBITDA contribution for ChipsAway, Ovenclean and Barking Mad has been flat at £2.4m (2017: £2.4m), as lower recruitment income has been offset by higher levels of MSF income, including a higher proportion of ChipsAway franchisees paying supplemental licence fees based on their sales, rather than flat monthly fees.

Group overheads increased from £1.0m to £1.2m, principally as a result of the annualisation of the cost increases which took place following the acquisition of Metro Rod.

Adjusted EBITDA for the Group has increased by 37% from £2.7m to £3.7m.

Earnings

Depreciation and amortisation costs have increased to £0.4m, due to a full year's amortisation of the intangible assets arising from the acquisition of Metro Rod; the acquisition of new equipment at our Exeter corporate franchise; and new software at the Metro Rod support centre. The share based payment charge has increased by 138% to £0.1m as we see the full year effect of new options granted at the end of 2017. The finance charge of £0.3m is up 12%, as the benefit of lower average debt was more than offset by the full year effect of the debt facilities that were taken out in April 2017 to finance the acquisition of Metro Rod, and an increase in the base rate in August 2018.

Adjusted profit before tax was £2.9m which is a 36% increase when compared to the adjusted profit before tax in 2017 of £2.1m. In 2018, the Group had no items which we considered to be 'non-recurring', whereas in the prior year there were a number of these items, primarily in relation to the acquisition of Metro Rod.

The tax charge for the period at 18.7% (2017: adjusted tax charge18.4%) was lower than the statutory rate of 19% owing to a small adjustment in respect of previous years. As a result, the Group made a statutory profit after tax in the period of £2.3m compared to a loss of £0.1m in 2017.

Although the number of shares in issue during the period was 77,732,033, the Group has undertaken a programme to purchase shares into Treasury in order to mitigate the dilutive effect of the share options we have issued to our team. In 2018, we repurchased 200,000 shares (2017: nil) for a consideration of £151,000 (2017: £nil), which, tied to the full year effect of the shares issued in relation to the Metro Rod purchase, resulted in a weighted average number of shares of 77,687,101 (2017: 69,553,746). Therefore, this 12% increase in the weighted average number of shares means that, whilst adjusted earnings increased 36%, adjusted earnings per share increased by 21% or 0.53p to 3.00p per share (2017: 2.47p). As there have been no non-recurring items in 2018, statutory EPS was the same at 3.00p (2017: loss of 0.18p).

Financing and cash flow

The Group generated cash from operating activities of £2.9m (2017: £0.7m). During the period we repaid £1.6m of debt, reducing the gross level of debt from £9.5m to £7.9m. Of the £1.6m repayment, £0.6m was scheduled and £1.0m was a reduction in the drawing on the revolving credit facility ("RCF").

At 31 December 2018, we had utilised £2.5m of our £5.0m RCF (2017: £3.5m) and had cash-in-hand of £2.9m (2017: £3.2m), meaning that we had available cash and facilities of £5.4m (2017: £4.7m).

Shareholders' funds at 31 December were £24.4m (2017: £22.5m) against net debt of £5.0m (31 December 2017: £6.3m), giving modest gearing of 20% (31 December 2017: 28%).

Dividend

The Board is pleased to propose a final dividend of 0.46 pence per share (2017: 0.33 pence per share), taking the total dividends for the year to 0.67 pence per share (2017: 0.50 pence per share). The cost of the proposed final dividend is £358,000. The total dividend for the year is 4.4 times covered by adjusted profit after tax.

Subject to shareholder approval at the AGM on 23 April 2019, the final dividend will be paid on 20 May 2019 to shareholders on the register at the close of business on 3 May 2019.

Chris Dent
Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2018

	2018	Restated 2017
	£'000	£'000
Revenue	**35,470**	24,867
Cost of sales	**(22,341)**	(15,152)
Gross profit	**13,129**	9,715
Adjusted earnings before interest, tax, depreciation, amortisation, share-based payments & non-recurring items ("Adjusted EBITDA")	**3,700**	2,697
Depreciation	**(131)**	(96)
Amortisation	**(253)**	(156)
Share-based payment expense	**(138)**	(58)
Costs of acquisition of subsidiaries	**–**	(1,144)
Costs of transition of subsidiary	**–**	(734)
Bad debt provision	**–**	(316)
Total administrative expenses	**(9,951)**	(9,522)
Operating profit	**3,178**	193
Finance expense	**(310)**	(277)
Profit/(loss) before tax	**2,868**	(84)
Tax expense	**(536)**	(43)
Profit/(loss) for the year and total comprehensive income attributable to equity holders of the Parent Company	**2,332**	(128)

All amounts relate to continuing operations.

Earnings per share		
Basic	**3.00**	(0.18)
Diluted	**2.96**	(0.18)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2018

	2018	Restated 2017
	£'000	£'000
Assets		
Non-current assets		
Intangible assets	**27,232**	27,025
Property, plant and equipment	**382**	162
Total non-current assets	**27,614**	27,187
Current assets		
Inventories	**245**	252
Trade and other receivables	**11,048**	8,144
Cash and cash equivalents	**2,940**	3,245
Total current assets	**14,233**	11,641
Total assets	**41,847**	38,828
Liabilities		
Current liabilities		
Trade and other payables	**8,596**	6,406
Loans and borrowings	**3,439**	4,164
Obligations under finance leases	**21**	21
Current tax liability	**196**	–
Total current liabilities	**12,252**	10,591
Non-current liabilities		
Loans and borrowings	**4,400**	5,255
Obligations under finance leases	**51**	65
Deferred tax liability	**702**	374
Total non-current liabilities	**5,153**	5,694
Total liabilities	**17,405**	16,285
Total net assets	**24,442**	22,543
Issued capital and reserves attributable to owners of the Parent		
Share capital	**388**	388
Share premium	**22,621**	22,621
Share-based payment reserve	**226**	88
Merger reserve	**396**	396
Treasury Reserve	**(151)**	–
Retained earnings	**962**	(950)
Total equity attributable to equity holders	**24,442**	22,543

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2018

	2018 £'000	Restated 2017 £'000
Cash flows from operating activities		
Profit/(loss) for the year	**2,332**	(128)
Adjustments for:		
Depreciation of property, plant and equipment	**131**	96
Amortisation of intangible fixed assets	**253**	156
Share-based payment expense	**138**	58
Finance expense	**310**	277
Income tax expense	**536**	43
Operating cash flow before movements in working capital	**3,700**	502
Increase in trade and other receivables	**(2,743)**	(1,213)
Decrease/(increase) in inventories	**(202)**	(17)
Increase in trade and other payables	**2,107**	1,633
Cash generated from operations	**2,862**	905
Income taxes received/ (paid)	**48**	(204)
Net cash generated from operating activities	**2,910**	701
Cash flows from investing activities		
Purchases of property, plant and equipment	**(222)**	(98)
Purchase of software	**(348)**	(21)
Gain on disposal of assets	**–**	13
Acquisition of subsidiary including costs, net of cash acquired	**–**	(28,403)
Net cash used in investing activities	**(570)**	(28,509)
Cash flows from financing activities		
Bank and other loans – repaid	**(1,600)**	(6,417)
Bank loans – received	**–**	15,330
Other loans- made	**(138)**	–
Interest paid – bank and other loan	**(279)**	(186)
Interest paid – finance leases	**(4)**	(10)
Proceed from issue of shares	**–**	20,000
Share issue expenses and other expenses of IPO	**–**	(444)
Dividends paid	**(420)**	(213)
Purchase of treasury shares	**(151)**	**–**
Capital element of finance lease repaid	**(53)**	(6)
Net cash (used in)/generated from financing activities	**(2,645)**	28,054
Net (decrease)/ increase in cash and cash equivalents	**(305)**	246
Cash and cash equivalents at beginning of year	**3,245**	2,999
Cash and cash equivalents at end of year	**2,940**	3,245

Reconciliation of cash flow to the Group net debt position

Group	**Term loan £'000**	**Revolving credit facility £'000**	**Loan fees £'000**	**Finance lease debt £'000**	**Total liabilities from financing activities £'000**	**Cash £'000**	**Net Debt £'000**
At 1 January 2018	(6,058)	(3,506)	145	(86)	(9,505)	3,245	(6,261)
Financing cash flows	600	1,000	-	53	1,653	-	1,653
Other cash flows	-	-	-	-	-	(305)	(305)
Other changes	22	(8)	(35)	(38)	(59)	-	(58)
At 31 December 2018	**(5,436)**	**(2,514)**	**110**	**(71)**	**(7,911)**	**2,940**	**(4,971)**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018

Group	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Treasury shares £'000	Retained earnings £'000	Total £'000
At 1 January 2017	239	3,214	30	396	–	24	3,903
Loss for the year and total comprehensive expense	–	–	–	–	–	(128)	(128)
Effect of change in accounting policy for IFRS15	–	–	–	–	–	(633)	(633)
Contributions by and distributions to owners							
Dividend paid	–	–	–	–	–	(213)	(213)
Placing in relation to acquisition	149	19,407	–	–	–	–	19,556
Share-based payment	–	–	58	–	–	–	58
At 1 January 2018 (Restated)	**388**	**22,621**	**88**	**396**	**–**	**(950)**	**22,543**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**–**	**2,332**	**2,332**
Contributions by and distributions to owners							
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(420)**	**(420)**
Treasury shares	**–**	**–**	**–**	**–**	**(151)**	**–**	**(151)**
Share-based payment	**–**	**–**	**138**	**–**	**–**	**–**	**138**
At 31 December 2018	**388**	**22,621**	**226**	**396**	**(151)**	**962**	**24,442**

1. Basis of preparation of financial information

While the financial information included in this annual financial results announcement has been prepared in accordance with the recognition and measurement principles of International Financial Reporting Standards as endorsed for use in the European Union (IFRSs), this announcement does not contain sufficient information to comply with IFRSs.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017, but is derived from those accounts. Statutory accounts for Franchise Brands plc for the year ended 31 December 2017 have been delivered to the Registrar of Companies and those for the year ended 31 December 2018 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports. Their reports for the year ended 31 December 2018 and 31 December 2017 did not contain statements under s498 (2) or (3) of the Companies Act 2006.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

2. Adoption of New Standards

At the beginning of the period the Group adopted IFRS9 Financial Instruments: Classification and Measurement, the new accounting standard on Financial Instruments and IFRS15 Revenues from Contracts with Customers, the new accounting standard on revenue.

In respect of IFRS9 this has changed the way in which we account for our provision against trade receivables. Under the IFRS9 “expected credit loss” model, a credit event no longer has to occur before credit losses are recognised. Having re-reviewed the provision which existed at 31 December 2017 under the new methodology, the Directors have concluded that no adjustment would have been made under the forward-looking expected default rates; the expected default rates were materially the same as the historical default rates with the major exception of Carillion, where the forward-looking expected default would have been higher at 31 December 2017 than the historical default rate. However, the Carillion debt was fully provided for in the 2017 accounts as a post balance sheet event. Therefore no restatement has taken place with respect to the adoption of IFRS9
In respect of IFRS15 we have applied a fully retrospective approach. We have restated our previous period figures to show the effect of the new standard. There have been two changes derived from the adoption of the standard.

Adjustment One (Metro Rod): IFRS15 has resulted in a timing shift of the revenue recognition point based on the assessment of control being transferred and when we have a legal and enforceable right for payment. The Directors believe that invoicing is a key performance obligation, which we undertake on behalf of our franchise network and customers. Given the requirements of our Facilities Management customers, the Directors believe that revenue will only be received once invoicing has been completed in accordance with these requirements. Therefore, our revenues should only be recognised at the point at which the invoice has been raised, rather than the point at which the underlying job is completed (as under IAS18). The shift has not had a significant impact in terms of the financial statements as the Company sees approximately the same number of jobs being reported into the relevant period as previously. However, it has a larger effect on the statement of financial position as it reduces down the level of accrued income by £1.8m (2017: £2.1m) and the related accrued costs of £0.9m (2017: £0.7m) and creates a contract asset balance of £0.8m (2017: £0.6m) where franchisees have been paid for work in advance of the work being invoiced to third party customers. The change also created a deferred tax asset of £0.2m which was utilised during the year to decrease the current tax liability.

Adjustment Two (National advertising funds): national advertising funds are collected from franchisees under their agreements and then spent on their behalf on advertising which benefits the underlying franchise networks. These funds have not previously been recognised as revenue under IAS18. The Directors did not believe that the Group met the criteria for recognising revenue due to the fact that the Group is not exposed to the risks and rewards of the transactions. The management of the funds does not result in any profit or loss for the Group as all funds received are expended on behalf of the networks. With the adoption of IFRS15 the Directors have concluded that the Group will recognise the costs expended by the funds in the year, and will recognise an equal amount as revenue, with any difference from the amount of cash received from our franchisees as accrued or deferred revenue within the balance sheet. This is because it is the Group which controls the expenditure of the funds, rather than the franchisees. Overall, there is no effect on profit. In the current period the inclusion of the fund expenditure as income has increased revenue by £1.1m (2017: £0.6m) and has increased administration expenses by the same amount of £1.1m (2017: £0.6m). The revenue which we are recognising in respect of the national advertising fund is included in the total of MSF for the purposes of income categorisation.

In line with the transitional arrangements within IFRS15 we have restated our previous period figures to show the effect of the new standard.

Year ended 31 December 2017	**Original numbers**	**Adjustment 1**	**Adjustment 2**	**Final numbers**
	£'000	**£'000**	**£'000**	**£'000**
Revenue	24,292	(65)	640	24,867
Cost of sales	(15,198)	46	–	(15,152)
Total administrative expenses	(8,882)	–	(640)	(9,522)
Finance expense	(277)	–	–	(277)
Tax expense	(47)	4	–	(43)
Profit after tax	**(112)**	**(16)**	–	**(128)**
Basic Earnings per share (p)	(0.16)	(0.02)	–	(0.18)
Diluted Earnings per share (p)	(0.16)	(0.02)	–	(0.18)

	Original numbers	**Adjustment 1**	**Adjustment 2**	**Final numbers**
Assets	**£'000**	**£'000**	**£'000**	**£'000**
Intangible assets	27,025	–	–	27,025
Property, plant and equipment	162	–	–	162
Inventories	252	–	–	252
Trade and other receivables	9,670	(1,526)	–	8,144
Cash	3,245	–	–	3,245
Trade and other payables	(7,132)	726	–	(6,406)
Loans and borrowings	(9,419)	–	–	(9,419)
Obligations under finance leases	(86)	–	–	(86)
Deferred tax liability	(526)	152	–	(374)
Total net assets	**23,191**	**(648)**	–	**22,543**

3. Revenue

	2018	2017
	£'000	£'000
Management service fees	**28,498**	20,402
Sale of franchise territories	**1,513**	1,829
Product sales	**894**	946
Direct labour income	**4,565**	1,690
	35,470	24,867

4. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of Ordinary Shares outstanding during the year. Diluted earnings per share are calculated by dividing the profit attributable to ordinary equity holders of the Parent by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary Shares that would have been issued on the conversion of all dilutive potential Ordinary Shares into Ordinary Shares at the start of the period or, if later, the date of issue.

	2018	2017
	£'000	£'000
Profit/(loss) attributable to owners of the Parent	**2,332**	(128)
Non-recurring items gross	**–**	2,194
Tax on non-recurring	**–**	(345)
Adjusted profit attributable to owners of the Parent	**2,332**	1,721
	Number	Number
Basic weighted average number of shares	**77,687,101**	69,553,746
Dilutive effective of share options	**1,100,364**	741,726
Diluted weighted average number of shares	**78,787,465**	70,295,472
	Pence	Pence
Basic earnings per share	**3.00**	(0.18)
Diluted earnings per share	**2.96**	(0.18)
Adjusted earnings per share	**3.00**	2.47
Adjusted diluted earnings per share	**2.96**	2.45

5. Annual report and accounts

The annual report and accounts will be posted to shareholders in the week commencing 25 March 2019 and will be available immediately thereafter on the Company's website at www.franchisebrands.co.uk/investor-relations.

6. Annual General Meeting

The Annual General Meeting of Franchise Brands plc will be held on 23 April 2019, notice of which will be sent to shareholders with the annual report and accounts.