famous | brands LIMITED

(Incorporated in the Republic of South Africa)
(Registration number 1969/004875/06)
JSE share code: FBR
ISIN code: ZAE000053328
("Famous Brands" or "the Group")

You're in good company

Unaudited consolidated interim results for the six months ended 31 August 2012

Revenue up
17%
to R1 184 million

Operating profit up
12%
to R207 million

Headline earnings per share up
20%
to 150 cents

Interim dividend per ordinary share up
35%
to 108 cents

Commentary

Overview

The Group has reported strong results for the six months ended 31 August 2012 in an environment of continued subdued consumer spend and intensive margin pressure across the retail landscape.

Trading conditions remained competitive but stable, with the key driving forces in the industry being the unrelenting demand from consumers for a convenient value proposition, and their gravitation to tried-and-tested brands in the context of constrained disposable income.

Continuous innovation at the front end of the business, represented by the Group's extensive brand portfolio, and enhancements at the back end of the business, comprising the backward integrated supply chain, served to drive growth in the review period.

Financial results

Group revenue increased by 17% to R1.18 billion (2011: R1.01 billion) while operating profit rose by 12% to R207 million (2011: R184 million), reflecting the greater contribution of the disproportionately lower-margin Logistics business. In line with this changed mix in relative profit contribution, the operating margin declined to 17.5% (2011: 18.1%).

Profit after tax was up 21% compared with the pre-tax increase of 14%. The lower tax rate of 28.5% (2011: 32.7%) is directly attributable to the replacement of Secondary Tax on Companies ("STC") by the new Dividends Tax levied directly on shareholders.

Average net borrowings were negligible given the strong cash-generating ability of the Group and intensive cost management. Accordingly, net interest paid amounted to only R2.1 million, an improvement of 57% on the prior comparable period.

Basic earnings per share ("EPS") and headline earnings per share ("HEPS") both increased by 20% to 150 cents per share (2011: 125 cents per share), while diluted EPS and HEPS increased by 22% to 147 cents per share (2011: 120 cents per share).

Cash generated from operations before changes in working capital rose 10% to R223 million (2011: R203 million). Working capital absorbed a modest R13 million reflecting an increase in inventories in anticipation of the forthcoming peak trading season. Net cash flow from operating activities of R157 million was more than sufficient to service a greater dividend yield, totalling R118 million and net capital expenditure of R22 million, which included R7.3 million incurred on the acquisition of Java Lava Beverage Manufacturers (Pty) Ltd ("Java Lava") and other fleet and manufacturing plant expansions.

Borrowings of R37 million, net of cash and bank balances of R32 million, represent a mere 4% of equity (2011: 25%).

In light of the Group's healthy cash position, the board has declared an interim dividend of 108 cents per share (2011: 80 cents), an increase of 35%.

Operational reviews

The past decade has been one of rapid organic and acquisitive growth for Famous Brands. To date the existing business model has served the Group well, but in order to ensure sustained growth of this vastly transformed enterprise, management has undertaken a major strategic intervention to build a "fit-for-purpose" business model which will support future expansion of the Group.

Fundamental to this model is the single-minded focus on getting closer to customers (franchisees) and consumers. Initiatives implemented in this regard have already delivered significant results, exemplified by the tremendously positive response received from the 118 franchisees now serviced directly by the Group's new in-house Nelspruit depot rather than third-party vendors, and reflected by the impact that this business has had on the Group's results. Further improvements in the Group's performance and results are anticipated as the model is bedded down.

FRANCHISING DIVISION – LOCAL

This division reported an increase in both revenue and operating profit of 12%, to R234 million (2011: R209 million) and R138 million (2011: R123 million) respectively. The operating margin remained virtually unchanged at 58.8% (2011: 58.9%).

The solid 10.1% system-wide sales growth reported in South Africa was boosted by an increase in turnover of 33.3% in the Group's African markets north of the border. Revenue contribution from these territories now comprises 7.3% of total sales (2011: 6.1%).

Like-on-like sales across the Group's network improved 7.1% (2011: 4.1%) with encouraging growth reported by both established and new brands.

Central to this pleasing performance is Famous Brands' portfolio of high profile aspirational brands which are relevant, contemporary and innovative, being underpinned via a strong market presence, compelling consumer value propositions and exceptional product quality.

Notable achievements recorded in the reporting period include Debonairs Pizza's milestone 21st trading year in which the brand will celebrate the opening of its 400th restaurant in November 2012. A total of 42 new Debonairs Pizza restaurants will be opened in South Africa and a further 9 in Africa during the current fiscal year.

Mugg & Bean opened a new restaurant in the OR Tambo Airport Duty-free terminal, the response to which has been hugely positive, and provides outstanding exposure of the brand to international tourists. The brand's presence will be enhanced further when it launches the Mugg & Bean retail offering of four coffee variants to supermarkets for at-home consumption.

In response to market conditions, Steers recently launched an "everyday value" offering which has started to deliver market share gains.

Despite intense competition in the breakfast category, Wimpy succeeded in retaining and growing market share in its traditional specialist sector.

The re-launch of the Group's Keg brand was celebrated at the revamped Keg & Crow restaurant in Bedfordview, Gauteng. Consumer response since opening has been extremely positive.

The Group's footprint as at 31 August 2012 comprised 2 048 restaurants across South and Southern Africa and the United Kingdom ("UK").

During the review period 51 new restaurants (2011: 50) were opened across the Southern African network, and 65 were revamped. Development activity typically peaks in the second half of the calendar year; accordingly, a further 134 restaurants will be opened in the next six months, which will equate to 185 new restaurants opened for the full year. In South Africa, previously under-serviced rural areas continue to offer robust expansion opportunities for the Group's brands, whilst heightened interest from prospective franchisees continues to be experienced in the Rest of Africa.

FRANCHISING DIVISION – INTERNATIONAL

This business, which comprises Wimpy UK, contributes only 3.7% to Group revenue and is scaled in accordance with the adverse trading conditions prevalent in the UK market. Revenue in Rand terms increased 6% to R44 million up from R42 million in the prior comparative period, while revenue in Sterling declined 7%. In the context of severe inflationary pressure and the Group's deliberate decision to withhold menu price increases, operating profit declined 22% to R2.7 million; the operating margin decreased to 6.1% from 8.4%. Development activity included the opening of two new restaurants and the revamp of three existing restaurants. Two additional restaurants will be opened in the forthcoming period.

SUPPLY CHAIN

This division, comprising the Group's Manufacturing and Logistics operations reported pleasing results, reflected by an increase in consolidated revenue of 19% to R897 million (2011: R755 million) and an improvement in operating profit of 17% to R67 million (2011: R57 million). Key to this improved performance was first-time revenue contribution from the Group's Nelspruit distribution centre commissioned in April 2012, improved turnover from the chicken fillet manufacturing plant, and two month's income from the recently acquired Java Lava coffee roasting business (discussed further under "Corporate actions"). Despite intense margin pressure resulting from increased input and utilities costs, the operating margin declined only very slightly to 7.42% from 7.54%.

The revenue of Warehousing activities previously reported on under the Manufacturing division's results has been transferred to the Logistics division's results. Accordingly the prior year comparative figures have also been adjusted.

- **Manufacturing**

Revenue generated from this division increased by 17% to R313 million (2011: R268 million), whilst operating profit grew by 14% to R41 million (2011: R36 million). The operating margin of 13.0% is in line with the Group's best-practice target.

- **Logistics**

This division reported robust revenue growth, up 21% to R852 million from R702 million in the prior comparable period. Operating profit rose 22% to R26 million (2011: R21 million), producing an operating margin of 3.1% up from 3.0% in 2011.

Corporate actions

The Group's stated strategy is to build and expand its manufacturing capability and capacity, and leverage growth opportunities in the supply chain. During the review period Famous Brands concluded two transactions in pursuit of this goal.

A 60% controlling stake was acquired in Java Lava Beverage Manufacturers (Pty) Ltd, a privately owned state-of-the-art coffee roasting and packaging business. The new joint-venture entity, Famous Brands Coffee Company, has been integrated into the Group's business ahead of schedule, having already successfully taken on supply of coffee to the Wimpy brand. It is anticipated that the Mugg & Bean franchise volume business will be integrated in March 2013. The purchase consideration was R7.3 million and further capital expenditure of R7.9 million will be incurred on new equipment. Both amounts will be settled from cash reserves.

In the second transaction, Famous Brands entered into a ground-breaking joint-venture partnership with the Coega Dairy Company ("Coega Dairy"), an existing dairy manufacturing business in Port Elizabeth owned by local farmers, factory and farm employees, regarding the supply of cheese products to the Group. Famous Brands Cheese Company, the new joint-venture entity, (entirely independent from the existing dairy business), has been established for this purpose. Famous Brands controls 51% of the company's shares, while shareholders of Coega Dairy hold the balance of 49%. Coega Dairy will supply milk to the new company, which in turn will produce mozzarella, cheese slices and cheese spread for the Group. The transaction comprises a straightforward greenfield investment with significant earnings potential and a short payback period. Famous Brands' investment is limited to capital expenditure of R17.9 million for latest-technology equipment. Construction of this new cheese plant is scheduled to begin in November 2012 with a May 2013 commissioning date.

The effective date of these transactions was 1 July 2012 and 1 October 2012 respectively.

Directorate

Shareholders are advised that with effect from 1 June 2012 two new board appointments were made. Darren Hele, Chief Operating Officer – Franchising, was appointed as an Executive Director, and Santie Botha was appointed as a Non-executive Director. On 17 October 2012 Santie Botha was appointed Lead Independent Director.

Prospects

There is little to suggest that relief from prevailing trading conditions is imminent. It is anticipated that consumer spend will remain under pressure, which together with hyper-inflation in diesel and utility prices, will serve to impact negatively on the Group's margins.

Notwithstanding this environment, management is optimistic that the business is well positioned to capitalise on growth opportunities as they develop. Additionally, the latter half of the calendar year incorporating the peak holiday season traditionally affords good growth for the Group. Famous Brands' extensive brand network catering to consumers across the income spectrum and situated in a wide variety of destinations ensures that the offering is accessible and top of mind at all times.

Aimed at underpinning the Group's ambition to be a lowest-cost producer, R10.1 million has been budgeted for capital expenditure to further enhance manufacturing capacity in the Ice-Cream plant, Sauce and Spice operation, and Meat Processing plants in Midrand and the Western Cape. The Bloemfontein distribution centre will be relocated and extensively upgraded in October 2012 and is expected to promote increased franchisee loyalty and deliver strong results in line with the newly commissioned Nelspruit depot. Furthermore, Famous Brands Coffee Company is expected to add material volume and value at the back end of the business.

Opportunities to expand the Group's presence in Africa remain a key focus area. Debonairs Pizza is represented by a steadily growing footprint and roll-out of the Steers and Mugg & Bean network has been prioritised for the forthcoming period, pending access to suitable retail sites and partners.

Management is confident that the "fit-for-purpose" business model transformation which is currently being implemented across the Group will provide opportunities to unlock further value for stakeholders in the forthcoming decade.

On behalf of the board

P Halamandaris
Non-executive Chairman

K A Hedderwick
Chief Executive Officer

Condensed consolidated statement of comprehensive income

	Unaudited six months ended 31 August 2012 R000	Unaudited six months ended 31 August 2011 R000	% change	Audited year ended 29 February 2012 R000
Revenue	**1 183 918**	1 013 443	17	2 155 615
Gross profit	**490 775**	428 025	15	922 967
Selling and administrative expenses	**(284 181)**	(244 189)	16	(510 311)
Operating profit	**206 594**	183 836	12	412 656
Net interest paid	**(2 077)**	(4 863)		(10 652)
Profit before taxation	**204 517**	178 973	14	402 004
Taxation	**(58 313)**	(58 523)		(133 950)
Profit for the period	**146 204**	120 450	21	268 054
Foreign currency translation differences	**15 678**	2 242		7 837
Total comprehensive income for the period	**161 882**	122 692		275 891
Profit attributable to:				
Equity holders of Famous Brands Limited	**145 319**	119 949		266 811
Non-controlling interests	**885**	501		1 243
Total comprehensive income attributable to:				
Equity holders of Famous Brands Limited	**160 997**	122 191		274 648
Non-controlling interests	**885**	501		1 243
Reconciliation to headline earnings for the period				
Earnings attributable to equity holders of Famous Brands Limited	**145 319**	119 949		266 811
Loss on sale of company-owned restaurants	**194**	—		455
(Profit)/loss on disposal of property, plant and equipment	**(74)**	222		172
Headline earnings for the period	**145 439**	120 171	21	267 438
Earnings per share – cents				
– basic	**150**	125	20	278
– diluted	**147**	120	22	272
Headline earnings per share – cents				
– basic	**150**	125	20	278
– diluted	**147**	120	22	272
Dividends to shareholders – cents				
– interim dividend declared	**108**	80	35	80
– final dividend declared				120
Total dividends	**108**	80	35	200
Ordinary shares				
– in issue net of treasury shares	**97 757 435**	96 162 435		96 192 435
– weighted average	**96 962 435**	96 022 435		96 102 435
– diluted weighted average	**99 032 435**	100 054 274		99 937 435

Condensed consolidated segmental information – business unit and geographical

	Unaudited six months ended 31 August 2012 R000	Unaudited six months ended 31 August 2011 R000	% change	Audited year ended 29 February 2012 R000
Revenue				
Franchising	**234 042**	208 534	12	439 946
Supply chain	**897 031**	754 887	19	1 613 907
Manufacturing	**312 625**	267 619		573 436
Logistics	**851 576**	702 298		1 516 375
Eliminations	**(267 170)**	(215 030)		(475 904)
Corporate	**8 900**	8 382		19 829
South Africa	**1 139 973**	971 803	17	2 073 682
Franchising (UK)	**43 945**	41 640	6	81 933
Total	**1 183 918**	1 013 443	17	2 155 615
Operating profit				
Franchising	**137 598**	122 905	12	264 685
Supply chain	**66 588**	56 913	17	140 508
Manufacturing	**40 600**	35 617		87 784
Logistics	**25 988**	21 296		52 724
Corporate	**(295)**	532		(40)
South Africa	**203 891**	180 350	13	405 153
Franchising (UK)	**2 703**	3 486	(22)	7 503
Total	**206 594**	183 836	12	412 656

NOTES:

1. These results have not been audited by the Group's auditors.
2. The unaudited results of the Group for the six months ended 31 August 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS"), the AC500 standards as issued by the Accounting Practices Board and its successor, the Companies Act No. 71 of 2008 and the Listings Requirements of the JSE Limited.
3. The accounting polices applied by the Group are consistent with those applied in the comparative financial periods.
4. The interim results have been prepared in accordance with IAS34 Interim Financial Reporting.
5. These condensed interim consolidated results were prepared under the supervision of Mr SJ Aldridge CA(SA), in his capacity as Group Financial Director.

Declaration of ordinary dividend

Notice is hereby given that an interim dividend No. 36 of 108 cents (2011: 80 cents) per ordinary share, payable out of income, has been declared in respect of the six months ended 31 August 2012.

The dividend cover for the period has been reduced to 1.39 times (2011: 1.56 times), which is considered sustainable given Famous Brands' strong cash-generating ability and also compensates shareholders for any dividend withholding tax that they may be liable for under the Dividends Tax introduced on 1 April 2012. In considering future dividend declarations, the board will be guided by the Group's cash requirements according to future cash flow forecasts.

In terms of the abovementioned Dividends Tax, the following additional information is disclosed:

- The local dividend tax rate is 15%.
- There are no STC credits used or to carry forward. The net local dividend amount is 91.8 cents per share for shareholders liable to pay the Dividends Tax and 108 cents per share for shareholders exempt from paying the Dividends Tax.
- The issued share capital of Famous Brands is 97 757 435 ordinary shares; and
- Famous Brands' tax reference number is 9208085846.

The salient dates for the payment of the interim dividend are detailed below:

Last day to trade cum-dividend	Friday, 30 November 2012
Shares commence trading ex-dividend	Monday, 3 December 2012
Record date	Friday, 7 December 2012
Payment of dividend	Monday, 10 December 2012

Share certificates may not be dematerialised or rematerialised between Monday, 3 December 2012 and Friday, 7 December 2012 both dates inclusive.

By order of the board

JG Pyle
Company Secretary

Midrand
17 October 2012

Condensed consolidated statement of cash flows

	Unaudited six months ended 31 August 2012 R000	Unaudited six months ended 31 August 2011 R000	Audited year ended 29 February 2012 R000
Cash generated before changes in working capital	**222 921**	203 022	451 636
Increase in inventories	**(36 121)**	(81 556)	(44 430)
Increase in receivables	**(18 817)**	(11 303)	(15 690)
Increase/(decrease) in payables	**41 869**	(4 939)	7 194
Cash generated by operations	**209 852**	105 224	398 710
Net interest paid	**(2 077)**	(4 863)	(10 652)
Taxation paid	**(50 585)**	(58 859)	(131 719)
Net cash flow from operating activities	**157 190**	41 502	256 339
Dividends paid	**(117 596)**	(81 589)	(159 165)
Net cash retained from operating activities	**39 594**	(40 087)	97 174
Cash flow from investing activities			
Acquisition of businesses including intangible assets	**(7 260)**	(30 896)	(30 896)
Expansion capital expenditure			
Property, plant and equipment	**(9 692)**	(16 398)	(45 793)
Intangible assets	**(3 401)**	(610)	(1 030)
Replacement capital expenditure on property, plant and equipment	**(1 606)**	(3 600)	(9 776)
Proceeds from disposal of property, plant and equipment	**187**	976	3 263
Net cash flow from investing activities	**(21 772)**	(50 528)	(84 232)
Cash flow from financing activities			
Movement in share capital and reserves	**25 167**	5 207	5 657
Decrease in interest-bearing borrowings	**(55 813)**	(33 066)	(65 634)
Cash flow from financing activities	**(30 646)**	(27 859)	(59 977)
Decrease in cash and cash equivalents	**(12 824)**	(118 474)	(47 035)
Foreign currency effect	**3 933**	428	1 218
Cash and cash equivalents at beginning of year	**40 580**	86 397	86 397
Cash and cash equivalents at end of period	**31 689**	(31 649)	40 580

Condensed consolidated statement of changes in equity

	Unaudited six months ended 31 August 2012 R000	Unaudited six months ended 31 August 2011 R000	Audited year ended 29 February 2012 R000
Balance at beginning of year	**840 370**	708 594	708 594
Group total comprehensive income for the period	**160 997**	122 191	274 648
Group dividends to shareholders	**(117 539)**	(81 611)	(158 565)
Share-based payments	**3 695**	5 174	9 378
Net movement in share capital	**25 167**	5 100	5 657
Increase in non-controlling interests	**1 856**	501	658
Balance at end of period	**914 546**	759 949	840 370

Condensed consolidated statement of financial position

	Unaudited 31 August 2012 R000	Unaudited 31 August 2011 R000	Audited 29 February 2012 R000
ASSETS			
Non-current assets	**881 864**	831 532	859 304
Property, plant and equipment	**154 895**	136 566	155 739
Intangible assets	**717 546**	692 158	694 977
Deferred taxation	**9 423**	2 808	8 588
Current assets	**416 231**	397 620	361 865
Inventories	**159 217**	157 108	119 987
Taxation	**1 705**	1 739	1 386
Trade and other receivables	**223 620**	192 238	199 912
Cash and bank balances	**31 689**	46 535	40 580
Total assets	**1 298 095**	1 229 152	1 221 169
EQUITY AND LIABILITIES			
Equity attributable to equity holders of Famous Brands Limited	**907 362**	754 528	834 792
Non-controlling interests	**7 184**	5 421	5 578
Total equity	**914 546**	759 949	840 370
Non-current liabilities	**79 850**	144 659	106 624
Interest-bearing borrowings	**20 437**	88 402	52 216
Deferred taxation and lease liabilities	**59 413**	56 257	54 408
Current liabilities	**303 699**	324 544	274 175
Trade and other payables	**236 488**	174 653	191 523
Short-term portion of interest-bearing borrowings	**48 255**	66 440	69 936
Taxation	**18 956**	5 267	12 716
Bank overdraft	**—**	78 184	—
Total liabilities	**383 549**	469 203	380 799
Total equity and liabilities	**1 298 095**	1 229 152	1 221 169

Directors and administration:

Non-executive:
P Halamandaris *(Chairman)*, JL Halamandres, P Halamandaris *(Jnr)*, HR Levin, CH Boulle *(Alternate to HR Levin)*, BL Sibiya, SL Botha *(Lead Independent Director)*

Executive:
KA Hedderwick *(Chief Executive Officer)*, T Halamandaris *(Executive Deputy Chairman)*, SJ Aldridge *(Group Financial Director)*, DP Hele *(Chief Operating Officer – Franchising)*

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Transfer secretaries:
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Sponsor:
The Standard Bank of South Africa Limited
(Registration number 1969/017128/06), 3 Simmonds Street, Johannesburg 2001

BASTION GRAPHICS