

Risks and opportunities

Risk management policy and process

Famous Brands’ philosophy is that risk taking, in an appropriate manner, is an integral part of our business. Our success relies on optimising the trade-off between risk and reward. In the course of conducting business, the Group is exposed to a variety of risks, including but not limited to strategic, financial, operational, compliance and reputational risk. The long-term sustainable growth, continued success and reputation of the business are critically dependent on the effectiveness of risk management. Risk management continues to be one of our core focus areas and notable progress has been achieved since commencing implementation of our three-year risk management plan. The Group’s risk management framework aligns to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework, illustrated below. Our risk philosophy is underpinned by our strategy to create value for shareholders through sustainable growth, in a manner that is consistent with shareholder expectations of the business’s risk-bearing capacity and its risk appetite.

Our risk management process and frameworks enabled the business to remain flexible and resilient in the difficult trading conditions and assisted us in achieving our strategic objectives. They also provided a forum to identify and realise opportunities to deliver sustainable value for stakeholders.



Governance and culture Strategy and objective setting Performance Review and revision Information, communication and reporting

Source: Enterprise Risk Management Framework: integrating with strategy and performance © 2017 COSO. All rights reserved. Used with permission.

The Audit and Risk Committee oversees risk management on behalf of the Board, and the Committee and the management team, together with the established Risk Forum, promote a culture of risk governance and awareness throughout the organisation.

Risk activity and accountability

As illustrated below, risk is proactively managed across the Group.

	Governance	Assessment	Monitoring and reporting	Quantification	Assurance	Orientation and awareness	Response
Board	○	○	○				
Board Committee Chair	○		○				
Audit and Risk Committee	○	○	○	○	○		
Executive management	○	○	○	○	○	○	○
Senior operational management		○	○	○	○	○	○
External Audit					○		
Internal Audit					○	○	

Identification of risk

Key risks are identified based on:

- **Risk-bearing capacity** (the capacity to absorb losses arising from risks without an immediate threat to the Group's continued existence based on its current business model);
- **risk appetite** (the amount and type of risk the Group is willing to accept in pursuit of its strategic objectives); and
- **risk tolerance** (the acceptable levels of variation relative to the achievement of the Group's strategic objectives).

Key risks

Our key risks are outlined below, together with their potential impact, our mitigating actions, the opportunities presented, future focus and outlook. Both internal and external risks have been identified and are addressed through focusing on our business's key material matters.

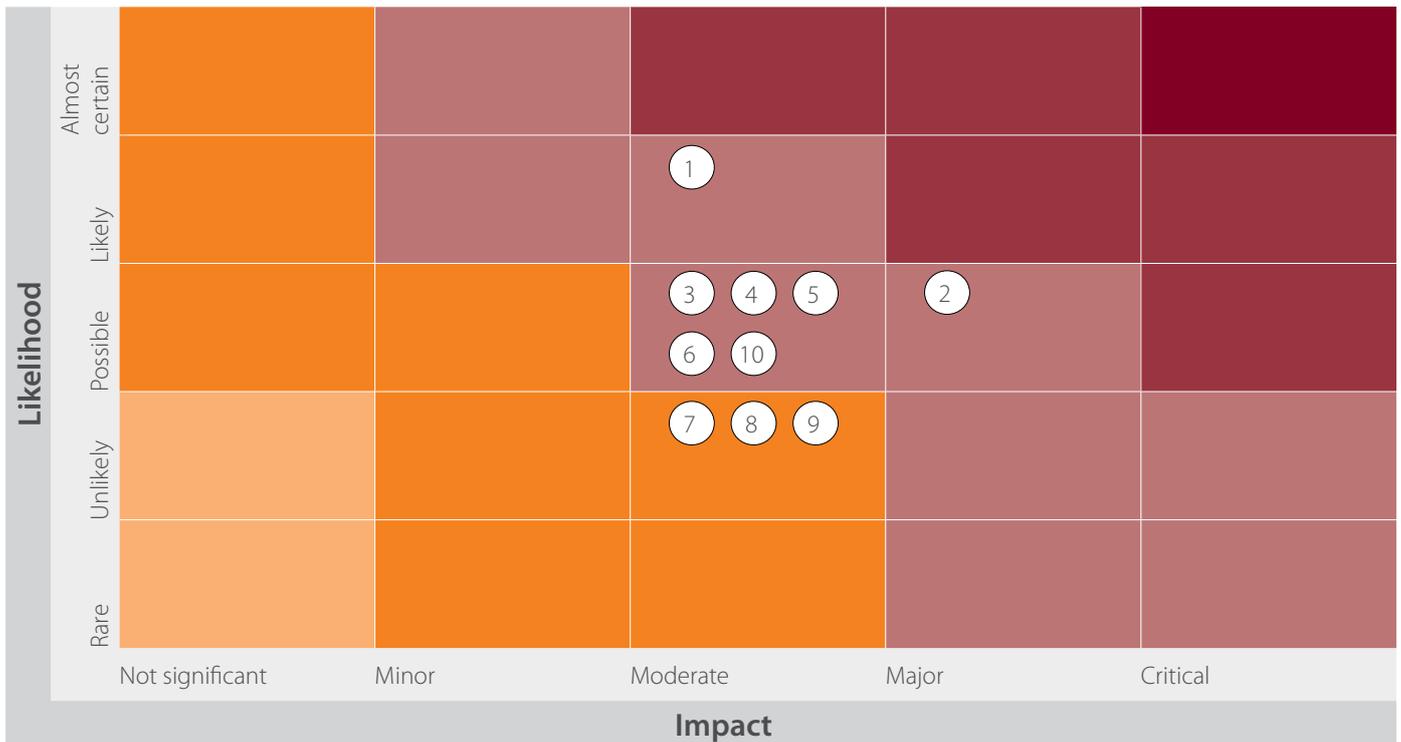
The table below refers to the top 10 key risks identified and managed in FY2019 and FY2020. They are ranked according to their materiality to the Group's sustainability based on the inherent exposure.

Top 10 inherent risks			
Risk rating	Risk FY2019	Risk rating	Risk FY2020
1	Breach of debt covenants and undertakings to lenders	1	Inability to ensure GBK breaks even at PBIT level by FY2022
2	Vulnerability of IT infrastructure and network to cyber-attacks	2	Cyber-attacks on local and international entities
3	Decline in like-for-like revenue growth at franchised or Company-owned restaurants	3	Breach of food safety standards and regulations
4	Slow response to logistics capacity constraints	4	Lagging on consumer-facing technology in the industry
5	Decrease in shareholder returns (ROE/ROCE/return on net assets (RONA))	5	Unreliable electricity supply impacting the supply chain
6	Lack of smooth reporting processes	6	Inability to respond appropriately to business disruption
7	Digital and convenience strategy implementation decelerates	7	Breach of debt covenants and undertakings to the lender
8	Leading brand ideas fail to meet long-term sustainable growth projections	8	Failure to prevent and respond to major health and safety incidents
9	Failure to identify and execute on sites for new formats	9	Loss of reputation and severe brand damage
10	Adverse publicity impacts negatively on corporate reputation	10	Inability to materially improve franchisee profitability by FY2021

Residual risk heat map

The heat map below illustrates the residual risk rating for our key risks. Residual risk is the remaining risk exposure after the current control measures are applied and while implementation of the residual mitigation actions are being planned or are still in progress.

Residual risk



1 Inability to ensure GBK breaks even at PBIT level by FY2022

Root causes	Impact on value	Residual mitigation actions	Opportunities, outlook and focus on strategic matter
<ul style="list-style-type: none"> Low consumer confidence due to political and economic uncertainty amid Brexit transition Failure of the GBK turnaround strategy to deliver growth Natural or man-made disaster with major economic effects 	<ul style="list-style-type: none"> Assets impairment resulting in financial loss at entity and Group level Loss of market share Erosion of share price Loss of confidence in management 	<ul style="list-style-type: none"> Implement the defined, narrowly focused business plan for GBK Continuous engagement with landlords in line with the CVA process 	<p>Business growth and enhanced shareholder value</p>
			<p>Capital</p>

2 Cyber-attacks on local and international entities

Root causes	Impact on value	Residual mitigation actions
<ul style="list-style-type: none"> Inconsistent execution of independent vulnerability assessments IT security policy control gaps Ageing IT infrastructure 	<ul style="list-style-type: none"> Loss of intellectual property System downtime impacting operational activities 	<ul style="list-style-type: none"> Define Group IT role for international entities and mirror local IT security controls in those entities Implement the GBK IT transformation plan

Opportunities, outlook and focus on strategic matter

Increase competitive edge with new IT infrastructure and software



Capital



3 Breach of food safety standards and regulations

Root causes	Impact on value	Residual mitigation actions
<ul style="list-style-type: none"> Failure to comply with the total quality and food safety management system Sabotage 	<ul style="list-style-type: none"> Reputational damage, Regulatory fines and penalties Loss of consumer confidence 	<ul style="list-style-type: none"> Total quality and food safety management system to be tightened in Logistics division

Opportunities, outlook and focus on strategic matter

Enhanced delivery of unique consumer experiences



Capital



4 Lagging on consumer-facing technology in the industry

Root causes	Impact on value	Residual mitigation actions
<ul style="list-style-type: none"> Strategy and investment not in line with current and future economic and consumer trends 	<ul style="list-style-type: none"> Negative impact on consumer experience Negative impact on growth opportunities 	<ul style="list-style-type: none"> Commence implementation of the Leading brands technology roadmap

Opportunities, outlook and focus on strategic matter

Enhanced delivery of unique consumer experiences



Capital



5 Unreliable electricity supply impacting the supply chain

Root causes	Impact on value	Residual mitigation actions
<ul style="list-style-type: none"> Dependency on unreliable Eskom and local distribution infrastructure Inadequate back-up capacity 	<ul style="list-style-type: none"> Production inefficiencies and reduced day stock cover Loss of revenue and increased operating costs 	<ul style="list-style-type: none"> Continue monitoring impact of load shedding on operating efficiencies and develop response plan

Opportunities, outlook and focus on strategic matter

Alternative energy sources with reduced impact on the environment



Capital



6 Inability to respond appropriately to business disruption

Root causes	Impact on value	Residual mitigation actions
<ul style="list-style-type: none"> Lack of a comprehensive business continuity plan for local and international entities 	<ul style="list-style-type: none"> Extended time lag in recovering operations resulting in loss of revenue and increased operating costs Interruption of service to franchise network and consumers 	<ul style="list-style-type: none"> Complete business continuity plan development project

Opportunities, outlook and focus on strategic matter

Business growth and enhanced shareholder value



Capital



7 Breach of debt covenants and undertakings to lender

Root causes	Impact on value	Residual mitigation actions
<ul style="list-style-type: none"> Contribution to EBITDA and tangible assets by the guarantor entities falling below the required coverage thresholds relative to Group 	<ul style="list-style-type: none"> The lender exercising the right for immediate repayment of the loans Impact going concern status and solvency Erosion of share price 	<ul style="list-style-type: none"> Finalised debt refinance negotiations with primary lender

Opportunities, outlook and focus on strategic matter

Strong balance sheet providing opportunity for further organic and acquisitive growth



Capital



8 Failure to prevent and respond to major health and safety incidents

Root causes	Impact on value	Residual mitigation actions
<ul style="list-style-type: none"> Failure to effectively implement health and safety management system 	<ul style="list-style-type: none"> Reputational damage Regulatory fines and penalties Loss of life 	<ul style="list-style-type: none"> Health and safety is a standing item on the Exco agenda Embed cloud-based injury and follow-up action system Social and Ethics Working Group to monitor international entities

Opportunities, outlook and focus on strategic matter

Responsible corporate citizen and equity enhancement




Capital




9 Loss of reputation and severe brand damage

Root causes	Impact on value	Residual mitigation actions
<ul style="list-style-type: none"> Unethical conduct by any key stakeholder Absence of appropriate skills to respond to and manage a crisis Non-adherence to agreed escalation framework 	<ul style="list-style-type: none"> Reputational damage Erosion of share price 	<ul style="list-style-type: none"> Continue promotion of ethical practices among our key stakeholders Group-wide Ensure all business policies are regularly updated and communicated

Opportunities, outlook and focus on strategic matter

Responsible corporate citizen and equity enhancement





Capital




10 Inability to materially improve franchisee profitability by FY2021

Root causes	Impact on value	Residual mitigation actions	Opportunities, outlook and focus on strategic matter
<ul style="list-style-type: none"> • Low return on investment in restaurant technology, • High total cost of production of licensed products, and • Access to and cost of servicing store revamps onerous on franchise partners. 	<ul style="list-style-type: none"> • Loss of status as preferred franchise partner, and • Increased supply chain margin sacrifice. 	<ul style="list-style-type: none"> • Numerous operational projects are under way to improve franchisee profitability • We have also undertaken to ensure our supply chain pricing is competitive, which has resulted in some notable margin sacrifices in both Manufacturing and Logistics divisions. 	<p>Opportunities, outlook and focus on strategic matter</p> <p>Product innovation </p> <p>Alignment of operating model and formats to consumer behaviour  </p>
			<p>Capital</p> <p> </p>

Forward looking

Our risk management processes and responses will continue to evolve, and may materially change as the socio-economic and political impact and ramifications of the COVID-19 global pandemic continue to unfold locally and globally. Our key priority in the year ahead will be to implement all reasonable risk-mitigating measures to ensure the long-term sustainability of the business.

In addition, our risk preparedness profile incorporates a watch list of other emerging and potential risks that we monitor. This includes among others:

- deterioration of the local and global economic outlook elevating the risk of recession;
- increasing pressure on health systems due to pandemics and other health crises;
- local and global security risks;
- poverty and rising unemployment rate;
- impact of climate change, including the looming water shortage crisis;
- erosion of the Company's share price;
- supply chain disruptions;
- slowing food inflation;
- rising household debt and declining consumer discretionary spend;
- increase in development and enforcement of regulations and standards; and
- transformation of corporate operating procedures in the COVID-19 era.

Our agile risk management processes will continue to enable the business to remain flexible and resilient in the forthcoming challenging trading conditions and ensure we realise opportunities to deliver sustainable value for our stakeholders.