Group Financial Director's report

Famous Brands is beginning to see the benefits of a local economic recovery combined with a gradual reduction of COVID-19 restrictions. These results reveal a return to profitability, an improvement in cash generation and a strengthened balance sheet.

Deon Fredericks
Group Financial Director

Key features of 2022

Strong signs of recovery

We are seeing a recovery across our Brands and Supply Chain.

Renegotiated debt facilities

In the 2021 financial year, we renegotiated our debt facilities to take cognisance of the difficult and challenging operating environment. We have observed the benefits of a more appropriate debt structure in the 2022 financial year.

Deleveraging the balance sheet

We have delivered on our commitment to significantly reduce debt by focussing on cash flow generation.

Strengthening internal controls

Risk, Internal Audit and Finance have collaborated to improve financial controls throughout the Group.

The Group's financial performance recovered in varying degrees across SA, AME and the UK.

This report should be read together with the Summarised Consolidated Financial Statements on page 152 and the AFS available online at: https://famousbrands.co.za/investor-centre/financial-results/

The operating environment has improved, however, the Group had to carefully navigate the impact of COVID-19, general countrywide civil disruptions, rising inflation and constrained consumer spending.

Within this context it was another difficult year, however, the Group delivered resilient financial results. We continued to deliver against our stated financial objectives of improving our financial performance and optimising our capital management. The key focus was to control our costs and reduce our interest-bearing debt to facilitate greater balance sheet flexibility.

COVID-19 continued to have a pronounced impact on restaurant operations with restrictions including reduced operating hours, alcohol sales and seating limits. Famous Brands supported franchisees through reduced royalties and marketing fund contributions.

Revenue: Continuing operations

Revenue improved by 38% to R6.5 billion (2021: R4.7 billion). This increase can be attributed to improved trading conditions across our markets due to less stringent COVID-19 restrictions. Revenue is currently in line with 2020 levels, although the mix is different.

Logistics experienced a strong rebound due to increased trading activity from the Brands division in SA. Logistics revenue increased by 35% to R4.1 billion from R3 billion in the prior year.

Franchise fees revenue increased 43% to R918 million from R644 million in the prior year, reflecting improved restaurant turnovers. Leading Brands contributed 96% or R882 million of this revenue, an improvement of 42% year on year. Signature Brands revenue was R36 million, an improvement of 66% year on year.

Company-owned stores revenue improved by 36% to R447 million compared with R328 million in the prior year, reflecting higher trading activity and improving restaurant turnovers. Leading Brands contributed 76% or R338 million of this revenue, an improvement of 23% year on year. Signature Brands revenue was R109 million, an improvement of 101% year on year.

Manufacturing revenue increased by 9% to R222 million compared to prior year of R204 million.

The Retail division, which supplies SA supermarkets with branded licensed products, continued to experience strong sales thanks to growing consumer demand, new products and expanding distribution. Retail revenue was R222 million, an improvement of 47% over prior year revenue of R151 million.

Revenue (R million)	2021	**2022**	2022 vs 2021 %
SA	4 256	**5 998**	41
UK	112	**133**	19
AME	316	**345**	9
Group	4 684	**6 476**	

Revenue

Group revenue (R million)	2021	**2022**	2022 vs 2021 %
Revenue at point in time			
Manufacturing revenue	204	**222**	9
Owned	141	**118**	(17)
Subsidiaries	63	**104**	67
Logistics revenue	2 994	**4 052**	35
Retail revenue	151	**222**	47
Company-owned stores	328	**447**	36
Leading Brands (SA and AME)	274	**338**	23
Signature Brands (SA)	54	**109**	101
Joining fees	6	**8**	36
Sales-based royalties			
Franchise fee revenue	644	**918**	43
Leading Brands	622	**882**	42
Signature Brands	22	**36**	66
Marketing fees revenue	325	**583**	80
Leading Brands	318	**518**	63
Signature Brands	7	**65**	875
Revenue over time			
Services revenue	32	**24**	(22)
Total revenue	4 684	**6 476**	38

Operating profit and margins

Due to a recovery in our business, the Group's operating profit improved 428% to R630 million (2021: R119 million). However, margins remain under pressure.

While our operating profit margins have improved across our trading markets, margins have not reached pre-COVID-19 levels. The Group's overall margin was 9.7% (2021: 2.5%). In SA, our margin improved to 10.1% (2021: 1.8%). The AME region recorded an improved margin of 9.9% (2021: 9.5%). The UK's operating profit and margin lifted slightly from 2021 however remains under pressure at (6.1%) after impairments.

Operating profit margins (%)	2021	**2022**
SA	1.8	**10.1**
UK	(9.6)	**(6.1)**
AME	9.5	**9.9**
Group	2.5	**9.7**

Other income

Income from associates

The Group holds equity shareholding in the following associates: Sauce Advertising (37%), UAC Restaurants (Mr Bigg's) in Nigeria (49%), FoodConnect (49%) and DHQ (48.5%). Our profit from associates was R260 000 (2021: R4.8 million).

Profit attributable to non-controlling interests

Non-controlling interests are interests the founders of key businesses hold in our Manufacturing division and Signature Brands portfolio. The share of profit for non-controlling interests increased to R38 million (2021: R23 million). In 2022, we purchased the non-controlling shareholder interests from the founders of Turn 'n Tender and LUPA Osteria.

Headline earnings per share and earnings per share for continuing operations

Headline earnings per share improved by 568% or 356 cents (2021: 53 cents), while basic earnings per share improved to 317 cents (2021: (127) cents).

Cash flows

Salient features		2021	**2022**
Cash generated by operations	R million	521	**871**
Net cash outflow utilised in investing activities	R million	(57)	**(117)**
Net cash outflow for financing activities	R million	(322)	**(433)**
Cash realisation rate*	%	108	**102**

* *Cash generated by operations as a percentage of EBITDA.*

Net cash inflow from operating activities

The Group's cash generation capacity has recovered with cash generated from operations of R871 million (2021: R521 million), with a cash realisation rate of 102% (2021: 108%). Net working capital increased slightly by R10 million (2021: R9 million) due to investment in raw materials to support increased revenue. We continue to benefit from the stringent working capital management measures implemented due to COVID-19. The Group's net cash inflow from operating activities was R533 million (2021: R285 million).

Our cash flow forecasts show that the Group's overall liquidity has significantly improved and is adequate to meet our working capital investment requirements and operational needs for the foreseeable future.

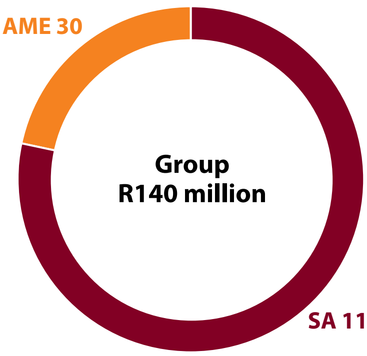
Net cash outflow from investing activities

In 2021, we froze all non-critical capital investments due to COVID-19. In 2022, we began to re-invest in our business, including non-critical maintenance and repairs in our Manufacturing and Logistics divisions. Capital expenditure (capex) increased to R140 million (2021: R84 million).

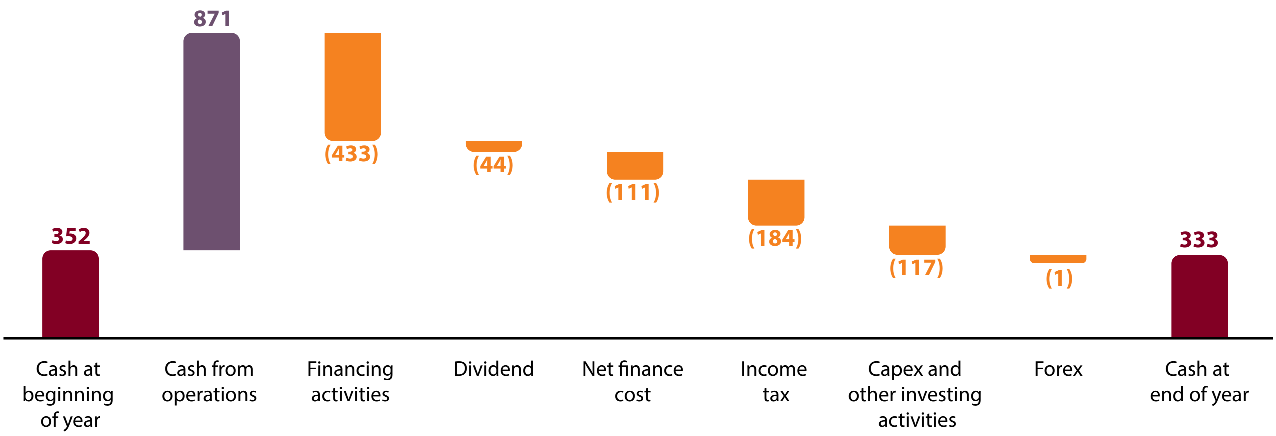
Net cash outflow from financing activities

The net cash outflow from financing activities was R433 million (2020: R322 million). The increase in outflow was primarily due to increased borrowings repayments in the year of R358 million. The Group's closing net cash position was R333 million (2021: R352 million). The definition for cash and cash equivalents has been revised to exclude restricted cash i.e. cash ring-fenced and used for marketing purposes.

Capex per region (Rm)



Cash flow movement for the year (R million)



Financial position

The Group's balance sheet is sound with net assets of R721 million (2021: R391 million). This represents a net asset value per share of R7.19 (2021: R3.90). The Group's gearing improved to 1.56 times (2021: 3.75 times) and our leverage to 1.32 times (2021: 3.04 times) mainly due to the return to profitability. Our return on capital employed was 29% (2021: 5%).

Salient features		2021	**2022**
Cash and cash equivalents	R million	352	**333**
Net asset value per share	cents	390	**719**
Net debt*	R million	1 464	**1 126**
Net debt to equity (gearing)	times	3.75	**1.56**
Net debt to EBITDA (leverage)	times	3.04	**1.32**
Total equity	R million	391	**721**
Return on equity (ROE)**	%	5	**64**
Return on capital deployed (ROCE)***	%	5	**29**

* *Total interest-bearing borrowings (including lease liabilities) less cash and cash equivalents.*

** *Headline earnings as a percentage of average shareholders' interest.*

*** *Operating profit divided by the average capital employed (which is calculated as the sum of total equity and interest-bearing debt and lease liabilities).*

Gearing and debt structure

In 2016, the Group made a series of acquisitions, resulting in considerable long-term structured debt on the balance sheet. The Group has a robust programme in place to:

- Reduce gearing and leverage levels through stringent working capital management.
- Fund growth through internally generated cash flow.
- Concentrate capital investment on lower-risk core local opportunities with a strong outlook for long-term sustainable returns.

The Group has a solid, mutually beneficial relationship with its primary lender, which allows for a steady funding platform and essential liquidity for the business.

We proactively track the Group's debt covenants on an ongoing basis and have complied with all our debt covenants.

Civil unrest in South Africa

From 9 to 18 July 2021, KwaZulu-Natal and parts of Gauteng experienced civil unrest, resulting in several Famous Brands and franchise partners properties suffering varying degrees of damage. In total, 99 restaurants were damaged and non-operational. Of these, 85 restaurants had re-opened by the end of this financial year. Our distribution centre in Westmead was damaged and closed for three weeks.

Our R16.4 million claim for material damage loss was successful. The material damage loss was recognised in the results of the current financial year.

Group transactions

Famous Brands completed four transactions in 2022.

In March 2021, Famous Brands Design Studio (Pty) Ltd, a non-core operation, trading as DHQ transitioned to an associate company. Famous Brands now holds 49% (formerly 60%) after the creation of the DHQ employees' share trust. Famous Brands donated the shares to the trust.

In May 2021, Famous Brands acquired the non-controlling shareholders' interest from two subsidiaries namely, LUPA Osteria and Turn 'n Tender founders, respectively. Famous Brands now owns 100% of both brands. This change in ownership structure allowed the Signature Brands team to consolidate the management structure into an efficient services hub to support each portfolio category, providing dedicated procurement, finance, menu development, information technology and franchise services.

In May 2021, Famous Brands sold its 51% shareholding in the Famous Brands Great Bakery Company (Pty) Ltd, trading as Bread Basket, to the business's long-standing partners and founders. This transaction aligns with Famous Brands' plans to divest from non-core operations.

None of the above transactions were categorised transactions in terms of the JSE Listings Requirements.

Post-balance sheet events

Lexi's

In April 2022, Famous Brands acquired 51% shareholding of Lexi's Healthy Eatery for R3.3 million. The acquisition pertains to the franchise and central kitchen operations of the business.

GBK

On 6 May 2022, the Group received notification from the liquidators of GBK indicating an intention to make an interim distribution to creditors of GBK Restaurants Limited with agreed claims. The actual amount of the distribution is not yet certain but in their notice the liquidators estimated the interim dividend to be 5 Pence in the Pound to creditors with agreed claims. The Group's claim against GBK for dividend purposes amounts to GBP55.2 million. The liquidator indicated that the interim dividend will be declared within two months of the last date of approving – 6 August 2022.

Civil unrest

During the financial year, the Group submitted a Business Interruption (BI) insurance claim for R17 million. The initial claim was rejected by the loss adjuster on the basis that loss events included in the claim were not aligned with the insurance policy interpretation.

On 29 March 2022, the Group received confirmation from the loss adjuster that the revised claim was covered subject to the insurance policy interpretation. On 14 April 2022 an updated BI insurance claim for R14.4 million was submitted and the Group received an acknowledgement of liability from the insurer on 10 May 2022 and payment was received on 26 May 2022.

Dividend

The Board has declared a dividend of 200 cents per share. The Group has produced significantly improved results which enabled the Board to consider paying a dividend. The Board considered the Group's current performance and future prospects. The dividend is being paid out of profits for the year ended 28 February 2022 in the amount of R200 million.

Looking forward

We will continue to focus on achieving organic growth, seeking opportunities for efficiencies and cost savings and further optimise our working capital management. Achieving the appropriate debt profile is critical and management is working towards that.

Furthermore, we will continue to selectively reduce debt to create the required headroom to operate efficiently for sustained future growth, including acquisitions. Optimising investment returns for our franchise partners is always a priority.

Our financial and investment decisions in the coming year will be based on the following strategic imperatives:

- Growing our Leading Brands in South Africa and AME.
- Intensifying investment in high return assets.
- Considering attractive and appropriate acquisitions.
- Developing and expanding our Retail division.
- Divesting from non-core assets.
- Expanding our Logistics capacity.

We expect our revenue to recover further as COVID-19 restrictions fall away and the economic recovery continues. We have concerns regarding the weak South African economy, combined with rising inflation and fuel prices, which will continue to weaken consumer spending. In South Africa, our economic recovery will be further impacted by the KwaZulu-Natal floods. The war in the Ukraine continues to impact the pricing of key commodities, including wheat and cooking oil.

Going concern

As part of the consideration of the appropriateness of adopting the going concern basis in preparing the annual report and financial statements, a range of scenarios have been considered. The assumptions modelled are based on the continued estimated potential impact of COVID-19 restrictions and regulations.

Trading is likely to improve in the 2023 financial year and may be impacted by a possibility of more waves that could lead to stringent COVID-19 restrictions again. The scenarios include an assumption that current levels of trading will remain in place until February 2023, considering the rate of vaccination. Also taken into account has been the current challenging operating environment.

Revitalising the Finance function

In my first few months as the incoming Group Financial Director, I have focussed on getting finance and the business 'back to basics'. This has meant closer coordination and collaboration between head office team members and those based at the operational level. This includes ensuring that we focus on the right priorities to enable the business to intensify their efforts in the market. This will be a journey.

I have introduced measures to enable team members to embrace change and cope with a complex ever changing operating and regulatory environment. We are implementing a consolidation tool to make year-end reporting, management accounting and projections easier. Automating certain financial functions is critical as a lack of automation creates risks and complexity. Our goal is to have one ecosystem where reports and financial records are easily accessed from all the different divisions and subsidiaries.

We are also refining and mapping out our critical controls, taking into account the changing environment, and ensuring that our risk control metrics are appropriate.

Management has implemented the following actions of managing the business:

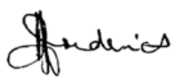
- Managing our relationship with our primary lender.
- Temporary relaxation of contractual arrangements with franchise partners.
- Management of financial resources with focus on capital expenditure programmes and cost to eliminate any potential short term financial pressures.

We have continued to monitor and implement additional health and safety measures in each of our manufacturing and distribution facilities to reduce the risk of a major supply disruption. As at 28 February 2022, the consolidated balance sheet reflects a net asset position of R721 million and the liquidity of the Group remains strong. Our current undrawn facilities are approximately R950 million. Based on all of the considerations the Group is considered a going concern with more than adequate financial resources to continue in operation for the foreseeable future.

Appreciation

I thank the Board for the trust they have placed in me with this critical role.

I have enjoyed my first few months in my new role at Famous Brands and have gained new insights into the business, which is fast moving and very hands on. It allowed me to get a different perspective moving from a non-executive to an executive role. I thank my Exco and finance colleagues for their continued diligence and support and the various management Committees. My thanks is also extended to the Board and its Committees for their continued oversight and support of the Group's financial affairs. I thank our loyal shareholders and lenders for their trust in the business and their ongoing dialogue with management.



Deon Fredericks
Group Financial Director

23 June 2022