Operational review

Impact of COVID-19 on the industry

COVID-19 forced restaurants to adapt quickly and changed the way consumers experience dining.

Some of these shifts include the adoption of contactless technology, a rise in take away and delivery sales, a preference for outdoor dining, adjusted staffing levels, and menu rationalisation. Consumers remain under financial pressure in most markets, and many can no longer eat out as frequently.

COVID-19 directly impacted our business along four key themes:

Restrictions and health concerns • Trading activity remains muted due to restrictions related to sit-down dining, seated capacity, trading times and alcohol sales. • Research indicates that fear of contracting COVID-19 remains a first or second barrier to consumers eating at a sit-down restaurant.	**Financial-related impacts** • Consumers are eating out less due to financial constraints. • Consumers increasingly look for value purchases. • Work from home has reduced the frequency of dining at Casual Dining Restaurants.
Travel-related impacts • Lower domestic and international travel levels resulted in lower numbers of travellers through airports, leading to lower turnover from these sites. • Lower levels of domestic travel and restrictions on travel to and from Gauteng decreased turnover for our highway and transient sites.	**School, sport and event-related impacts** • Limited in-person schooling and no school sport limit movement, directly impacting impulse purchases to and from venues. • Limited sporting and cultural events also limit impulse purchases as consumers are on the road less.

Famous Brands has explored several ways to draw foot traffic and boost revenues. All our brands ensured that hygiene standards and COVID-19 protocols were upheld.

Menus We continue to operate with reduced menus for many brands to simplify restaurant operations without compromising consumer choice. We continue our menu engineering principles to improve delivery menus to ensure that consumers receive the best quality take away product.	**Price increases and promotions** We strive to keep menu price increases below food inflation to remain competitive, and this is essential when consumer spending power has declined significantly. Promotional activities focus on value for money propositions. Reduced trading hours in SA and other AME markets have required a renewed focus for casual dining on lunch and breakfast promotions as evening trade has been subdued.
Take away and delivery channels Both Leading and Signature Brands embraced take away and delivery, including kerbside pick-up, own delivery and third-party delivery, order ahead options and increasing drive-through capacity. Adopting technology to enable enhanced service is critical to this channel shift. Tamper-proof food safety stickers were implemented across own delivery and third-party aggregators and have proven to be an industry differentiator.	**Operational planning** Our operational planning focuses on business sustainability, adherence to all COVID-19 health and safety protocols and maintaining the highest brand and quality standards while offering a superior customer experience. Customer safety remains at the heart of all we do.
New payment options Contactless and mobile payment options have become crucial.	

Important definitions

System-wide sales refer to sales reported by all restaurants across the network, including new restaurants opened during the year.

Like-for-like sales refer to sales reported by all restaurants across the network, excluding restaurants opened or closed during the year.

Leading Brands' sales refer to sales of the Leading Brands trading in SA.

Signature Brands' sales refer to franchises and Company-owned store sales in SA as well as cross-border sales where the brand is not managed by the AME management team.

Brands summary

Brands

Our Brands portfolio consists of Leading Brands and Signature Brands. The Leading (mainstream) Brands portfolio is segmented into Quick Service Restaurants and Casual Dining Restaurants brands.

Our brands are represented through a network of 2 758 franchised and 66 Company-owned restaurants in SA, AME and the UK.

Salient features – Global footprint

	Start of 2022	New stores	Converted stores	Revamped stores	Stores closed	End of 2022	Segment revenue (%)	Like-for-like sales growth (%)	Operating margin (%)
AME	**266**	31	–	20	10	**287**	5.3	14.9	9.9
SA	**2 436**	86	2	123	54	**2 470**	14.1	34.7	10.1
Leading Brands	**2 275**	81	2	123	40	**2 318**	11.9	33.0	48.0
Signature Brands	**161**	5	–	–	14	**152**	2.2	59.3	(5.3)
UK	**71**	1	–	6	5	**67**	2	23.8	(6.1)
	2 773	118	2	149	69	**2 824**			

SA

Salient features – SA	Leading Brands 2021	Leading Brands 2022
Segment revenue (%)	10.0	**11.9**
Like-for-like sales growth (%)	(29)	**33.0**
Operating margin (%)	33.4	**48.0**
Total number of restaurants	2 275	**2 318**
New restaurants opened	69	**81**
Number of restaurants converted	2	**2**
Number of restaurants revamped	77	**122**
Number of restaurants closed	51	**40**

In 2022, the South African restaurant industry faced headwinds due to COVID-19 restrictions, consumer apprehension regarding eating out and poor economic conditions. The civil unrest experienced in July slowed the local economic recovery, COVID-19 restrictions related to the third and fourth wave and a poor tourism season in December.

This has been an incredibly challenging period for our franchise partners. Famous Brands continues to provide ongoing direct financial support to affected franchise partners in the form of royalty and marketing fee breaks.

For the first three months of the financial year, capacity was limited to 100 people or 50% of the available capacity. For the second three months, the capacity limit was 50 people. Sit-down dining was not permitted for the first two weeks of July. Alcohol and trading time restrictions due to curfews further dampened performance.

Combined system-wide sales across our Leading and Signature Brands improved 37.1%, and like-for-like sales increased by 34.7%. Leading Brands' system-wide sales improved by 35.8%, while like-for-like sales grew by 33.0%. Signature Brands' system-wide sales improved 55.1%, and like-for-like sales improved by 59.3%.

Impact of July's unrest on SA operations

Civil unrest occurred in South Africa's KwaZulu-Natal and Gauteng provinces from 9 to 18 July 2021, and several Famous Brands' and franchisee properties suffered varying degrees of damage. The total number of restaurants damaged and rendered non-operational was 99, the majority being in KwaZulu-Natal.

At the height of the unrest, all our KwaZulu-Natal restaurants and numerous in Gauteng closed for a few days. Across all brands, we recorded a total loss of 4 111 restaurant trading days due to these closures.

Famous Brands provided ongoing support to franchisees impacted by the riots in royalty relief, assistance with insurance claims and bridging finance between restoration and insurance payouts.

Leading brands portfolio: Quick Service

Quick Service	Start of 2022	New stores	Converted stores	Revamped stores	Stores closed	End of 2022
Steers	**632**	18	1	32	9	**642**
Debonairs Pizza	**610**	36	1	48	2	**645**
Fishaways	**248**	6	0	13	6	**248**
Milky Lane	**85**	5	0	3	1	**89**
Giramundo	**4**	0	0	0	2	**2**
Wakaberry	**3**	0	0	0	1	**2**
Total	**1 582**	65	2	96	21	**1 628**

Established in the 1960s in South Africa, Steers is a well-loved hamburger brand known for its legendary 100% pure flame-grilled burgers, hand-cut chips, fresh ingredients and real flavour.

Key developments and initiatives

- Steers experienced a positive shift in day trading activity with consumers returning to work, including lunch and mid-afternoon activity.
- Supply chain uncertainty and the rise in input costs, most notably on beef, oil and packaging, impacted the pricing strategy and margins. Steers implemented a margin protection pricing strategy with an average price increase of 5.7%.
- National promotions were anchored in real customer occasions and were executed through advertising, in-store messaging and online promotions.
- Wacky Wednesday continues to drive sales activity for online orders and in-restaurant trade. Despite a higher price point, Wacky Wednesday volumes have remained largely intact.
- Steers amplified its own delivery with promotions on television, social and digital media to grow the remote convenience channel to meet customer demand.
- The brand continued its strong association with Varsity Cup Rugby to reach the next generation of customers with televised SuperSport games on DSTV. Unfortunately, some games were interrupted due to COVID-19 lockdowns.
- Steers grew its store footprint by 18 new restaurants and one conversion despite a challenging environment. This included opening five new drive-thrus.

Areas of focus in 2022

- Margin protection through price increases and menu engineering.
- Growing own delivery channel and leveraging third-party delivery aggregators.
- Continued the roll-out of self-service terminals and digital screens.
- Rebuilding restaurant network after July's unrest.

Focus for 2023

- Grow delivery on own platform and third-party delivery platforms.
- Continue to roll out self-service terminals and digital screens across all restaurants.
- Promotions to entice customers back to breakfast and dinner options.
- Investment in media spend to support the promotional strategy around clearly articulated customer occasions.
- Deliver improved profitability for the franchise partners.
- Continue to push own delivery online offers with exclusive promotions to retain current users and attract new users to the Steers app and own delivery platform.
- Ensuring the affordability of products is a priority, especially on the Real Value products, including the burger and flame-grilled chicken categories.

Awards

- Steers received notable mentions achieving 2nd place in Coolest Sauces, Coolest Fast Food Place at 5th place, and 6th place on Coolest Restaurant categories of the Sunday Times Generation Next Awards.

OPERATIONAL REVIEW continued

Debonairs Pizza is a market-leading Quick Service Restaurant brand that owes its popularity to an unwavering focus on pizza innovation, cutting edge customer-interactive technology and free home delivery, which it pioneered in 1996.

Key developments and initiatives

- Sales performance exceeded expectations despite the operating environment.
- July's unrest impacted the Debonairs Pizza network, with 63 restaurants closing for a period. By year-end, only six restaurants remained closed.
- Debonairs Pizza's online ordering channel continues to grow while call centre volumes decline further. The most significant shift in customer behaviour has been the increase in ordering for in-store collection.
- Sales on third-party aggregator platforms continued to grow substantially with demand from a high-income customer base who prefer the convenience of an aggregator app, rather than individual brand apps.
- Demand for larger sharing meals declined while smaller meal-for-one purchases increased.
- Promoted good value offers, including sharing meals and meal and drink combos.
- We targeted the home delivery group meal occasion by promoting the exceptional sharing value of our flagship products.
- The brand continues to drive affinity through its association with soccer, specifically television sponsorships of SABC's Soccer Laduma and Soccer 411 and expanding its reach to include a sponsorship package that offers full coverage of all DSTV SuperSport soccer tournaments.
- The brand opened 36 new restaurants with only two restaurant closures.

Areas of focus in 2022

- Grew delivery via third-party aggregators.
- Upgrading our delivery software.
- Relaunched the brand website.
- Marketing campaigns to drive the brand's value offerings and sharing bundles.
- Rebuilding restaurant network after July's unrest.

Focus for 2023

- Continue to offer customers exceptional value despite inflationary pressures.
- Recover more costs from delivery given the rising petrol price.
- Continue to invest in leading consumer-facing technology.
- All new restaurants will implement self-service terminals.
- Begin the process of converting all restaurant in-store menus to digital.
- Rolling out new systems to enable monitoring of order preparation time, introducing measures to reduce order prep time, increase capacity and exceed customer expectations.
- Continue the national roll-out of new delivery software.
- Launching a new Debonairs Pizza express container concept to take pizza to communities that cannot easily access our restaurant offering.

Awards

- Debonairs Pizza was voted the 2nd Coolest Fast Food Brand in the Sunday Times Next Generation Awards 2021. The brand was voted the Most Reputable Fast Food Brand in South Africa in the 2021 Top Companies South Africa Reputation Index. In addition, Debonairs Pizza was acknowledged as the 2nd Most Reputable Company in South Africa, outranking many other major brands.
- The brand's advertising received attention, with two of its social media campaigns winning awards at the 2021 Assegai Integrated Marketing Awards, including a Gold Assegai Award for a delivery campaign.

Fishaways is South Africa's leading Quick Service Restaurant seafood brand, offering uncompromisingly fresh and nutritious seafood-based meals that cater to the discerning and health-conscious consumer.

Key developments and initiatives

- Fishaways' performance improved thanks to growing brand awareness and offering the right products and price points.
- Fishaways was left relatively unscathed by July's unrest. The brand closed nine stores, and seven of them had reopened by year-end.
- The customer shift towards family occasions at home resulted in an uptick in sharing meals.
- The spent per customer dining at the restaurant has increased.
- The margins have come under pressure due to rising input costs, especially cooking oil and packaging.
- Take away continues to grow, accelerated by COVID-19.
- The brand opened six new restaurants

Awards

- Best of Mbombela: Fishaways voted Best Fish and Chips.
- Best of Bloemfontein: Fishaways voted Best Fish and Chips.

Areas of focus in 2022

- Focus on operational efficiencies to drive bottom-line profitability for franchisees.
- Maintained a consistent presence on TV promoting value and variety.
- Invested further in Fishaways own delivery platform with live driver tracking to elevate the consumer experience.

Focus for 2023

- Special offers on third-party aggregator platforms to drive sampling of fish dishes to expose South Africans to this meal option.
- Continue to elevate the under 500 calorie menu offerings and exploit the market opportunity for healthier choices.
- Continue to build the Fishaways brands through advertising campaigns which emphasise the value of fish as a component of a healthy lifestyle.
- Develop a Fishaways CSI initiative.
- Continue to leverage and extend the Momentum Multiply partnership.

Since the late 1950s, Milky Lane has been a household favourite in SA, serving deliciously decadent ice cream treats and desserts. Popularly known as the "Feelgood Specialists", this brand is a leader in the indulgence category.

Key developments and initiatives

- Milky Lane relies on holiday trade and experiences its best-performing periods during Easter and the school holidays during October and December.
- The sit-down channel remains under pressure, with counter sales making up the bulk of the sales mix.
- Milky Lane NiceCream Carts continue to support the network through increased turnover via this new channel. Milky Lane currently has 60 NiceCream Carts trading nationally.
- Continued to grow deliveries through third-party delivery platforms via regular promotions.
- NiceCream Cakes and NiceCream Stix Bundles continue to perform well.
- Downloads of the Milky Lane app continue to grow.

Areas of focus in 2022

- Promoted ordering via the Milky Lane app.
- Expanded delivery via third-party delivery platforms to a national roll-out.

Focus for 2023

- Continued product innovation and more points of purchase to improve appeal and access for consumers.

Awards

- Best Ice Cream Shop in Johannesburg in the Star Readers' Choice Awards.
- Best Ice Cream Shop in Pretoria in the Star Readers' Choice Awards.

OPERATIONAL REVIEW continued

Leading Brands portfolio: Casual Dining

Casual Dining	Start of FY2022	New stores	Revamped stores	Stores closed	End of FY2022
Mugg & Bean	**236**	8	9	10	**234**
Wimpy	**458**	8	17	9	**457**
	694	16	26	19	**691**

[redacted]

MUGG & BEAN

Since opening in 1996, Mugg & Bean restaurants are known for the spirit of generosity, and the brand's bottomless coffee, giant muffins and hearty portion sizes. Mugg & Bean is also accessible to customers through various convenient formats, including On The Move, On The Move Limited Service and On The Move Express.

Key developments and initiatives

- Mugg & Bean's overall performance continues to be impacted by COVID-19 restrictions and changing consumer behaviour in response to the pandemic. This particularly affects sit-down restaurant trade.
- The On The Move format, offering convenient coffee and light meals, continues to perform strongly with turnover growth driven by increased foot traffic and new store openings.
- The July unrest badly impacted the Mugg & Bean brand with 60 restaurants affected, and On The Move restaurants closed at the peak of the unrest. Fortunately, the brand only had one store closed with long-term damage.
- Restaurants offered trimmed-down menus to support franchisees' operational efficiencies. However, selective innovation was introduced to attract customers and differentiate the offering from competitors.
- Menu price increases were kept below food inflation to remain price competitive.
- Mugg & Bean extended its partnership with Discovery Vitality with direct and indirect benefits to the brand.
- Mugg & Bean enhanced its online ordering capabilities by allowing franchisees to sign-up for order online customer functionality. Uptake has been positive in the On The Move format where average order value and repeat orders per store are better than walk-in orders.
- The turnover contribution from third-party delivery continued to grow, however, towards the latter part of the year, this flattened out as sit-down dining numbers improved.

Areas of focus in 2022

- Reduced menus to simplify franchise partners' operations.
- Managed menu price increases below food inflation to remain competitive.
- Cancelled or postponed marketing campaigns that were not essential.
- Ongoing direct financial and non-financial support to our franchisees to guide them through the challenging year.
- Increased use of third-party delivery platforms.
- Rebuilding the restaurant network after July's unrest.

Focus for 2023

- Manage menu price increases and monitor margin pressures.
- Selective innovation in chosen categories to attract customers and drive growth.
- Work closer with Discovery Vitality to evolve the Mugg & Bean offering and increase communication to Discovery's customers, including digital integration.
- Expanding order online capability to sit-down restaurants.

Wimpy is a leading Casual Dining Restaurant and family favourite, built around the idea of "enjoy every moment". The brand is known for its famous Wimpy coffee, all-day breakfasts, burgers and grills, complemented by a delicious selection of shakes and desserts.

Key developments and initiatives

- Many customers did not travel over December due to the fear of tighter lockdown restrictions. This particularly impacted airport sites.
- Wimpy began to steadily recover from November to February compared to pre-COVID-19 levels as vaccination rates increased and fears of COVID-19 subside.
- Third-party delivery continued to grow strongly.
- The menu strategy focussed on maintaining food costs through innovation that included cross-utilisation of ingredients and measures to enhance operational efficiencies in the kitchen.
- In October 2021, Wimpy launched 14 new products to provide customers with good quality and value local flavours.
- Eight new restaurants have opened, four restaurants were relocated and 13 were refurbished.
- Wimpy launched order and pay at tables functionality across all restaurants allowing customers to order on the app for sit-down and take away.

Areas of focus in 2022

- Positioning Wimpy as a welcoming, inclusive family restaurant and enhancing the customer experience.
- Increasing the range of value for money products.
- Building equity around new CSI initiatives.
- Investing in consumer-facing technology.

Focus for 2023

- Roll out self-service terminal units to meet customer expectations of digital and contactless services.
- Continue to position Wimpy as the inclusive restaurant that welcomes all South Africans. Work is underway to translate the entire menu into all 11 national languages.
- Enhance franchisee profitability by improving operational efficiencies.

Awards

- Reach for a Dream Virtual Slipper Week – Orchids Award and Assegai Certificate.
- Wimpy Engen Summer Campaign – Craft Mention.
- 2021 Sunday Times Generation Next Awards – 3rd place in the Coolest Brands to Go Out and Eat Category.

OPERATIONAL REVIEW continued

Signature Brands portfolio

Our Signature Brands portfolio comprises a range of bespoke Casual Dining offerings. There are 152 Signature Brands restaurants in South Africa and one Zambia-based Turn 'n Tender. Except for PAUL, which is operated under a licence agreement and all are Company-owned stores, Signature Brands are 100% owned by Famous Brands. The Group operates 10 Company-owned stores within the Signature Brands portfolio.

Signature Brands has segmented its portfolio into the following three categories:

Fun Dining

Mythos is a contemporary Greek restaurant with a traditional spirit, serving time-honoured dishes and modern cuisine in a stylish Mediterranean setting. The authentic dining experience is infused with the customary Greek passion for life.

MYTHOS

With a strong Roman influence, **LUPA Osteria** offers modern yet traditional neighbourhood Italian food in a warm, welcoming environment. From our pasta and sauces to our pizza bases, everything is made from scratch by our talented chefs.

LUPA

In 1977, four brothers with a love for the finest steak, opened their first **Turn 'n Tender** restaurant, a traditional South African steakhouse. Decades later, the brand has evolved to become a destination for discerning lovers of steak, ribs, burgers and fine wine in a contemporary setting.

Turn 'n Tender

SALSA serves authentic Mexican food prepared traditionally, with an unconventional twist. The cuisine is complemented by craft tequilas and beers and a dining experience that epitomises vibrant and welcoming Mexican entertaining.

SALSA

Luxury

Founded in 1889 in France, **PAUL**[1] is an internationally renowned fifth-generation family-owned artisanal bakery-café chain. The brand's traditional French offering is served in its trademark chic restaurants, complemented by crafted baked products. Famous Brands holds the licence agreement for PAUL in South Africa.

PAUL

Vovo Telo is a specialist artisan bakery synonymous with excellence in craft baking, mouth-watering breakfasts and lunches and perfectly brewed coffee. The brand uses local artisanal products, supporting producers who share its respect for quality and integrity.

vovo telo
Bakery & Café

Captive Markets

Fego Caffé epitomises café-style dining, serving delicious light meals, sweet treats and unparalleled coffee. With the finest beans sourced from South America and Africa, the brand is the connoisseur's choice for an extraordinary coffee experience.

FEGO
Caffé

Coffee Couture is a specialised hospital coffee shop brand situated in Mediclinic hospitals nationwide. Coffee Couture's offering comprises tasty meals complemented by a creative coffee offering. The brand also offers a range of gifts and other convenience retail items.

coffee couture

Established in 1965, **House of Coffees** is a specialist coffee shop serving premium coffees and hearty meals. The brand's restaurant patrons enjoy the high-quality coffee blends which are also available in leading retailers nationwide.

House of Coffees

Our bespoke **NetCafé** brand was created to cater to the Netcare Group's hospital staff, patients, and visitors. The brand offering comprises a full sit-down menu, a deli section and a retail convenience outlet. Netcare operates the largest private hospital business in South Africa.

NetCafé

OPERATIONAL REVIEW continued

Salient features – SA	Signature Brands 2021	Signature Brands 2022
Segment revenue (%)	2	**2**
Like-for-like sales growth (%)	(0.8)	**59.3**
Operating margin (%)	(166.3)	**(5.3)**
Total number of restaurants	162	**152**
New restaurants opened	5	**5**
Number of restaurants revamped and/or converted	1	**1**
Number of restaurants closed	14	**14**

Trading conditions

Signature Brands overall sales turnover bounced back for the year but is still lower than pre-COVID-19 levels. These figures continue to improve each month. Signature Brands are particularly impacted by COVID-19 restrictions such as curfews, capacity reductions and alcohol restrictions. These trading conditions are not conducive to attracting interest from potential new franchisees.

Performance and focus areas

Like-for-like sales were up by 59.3%, while system-wide sales were up 56.1%. Operating margins improved to -5.3% (2021: -41.1% before impairment to goodwill). Delivery remained strong.

Fun Dining
The Fun Dining category experienced strong growth in the first quarter of the year. This growth was eroded by the restrictions that followed the third and fourth COVID-19 waves.

Captive Markets
NetCafé and Coffee Couture, which operate in Netcare and Mediclinic hospitals, are the hardest hit by COVID-19 trading restrictions. These restrictions include one visitor per patient per day, no casual visitors, limited visits from hospital suppliers and sales representatives and a ban on the sit-down service. While some restrictions are loosening, sales turnovers are tracking way below pre-COVID-19 levels. These are expected to recover in 2023.

Vovo Telo's restaurants are primarily located in local residential malls. The brand's strong coffee, breakfast and lunch offering performed well, almost reaching pre-COVID sales.

Luxury
PAUL[1] was the best-performing restaurant in the portfolio for the second consecutive year. These restaurants have strong day trading attributes, rely less on alcohol sales and evening trade, and are less affected by the COVID-19 curfew and alcohol restrictions. In 2022, the brand opened three new restaurants in premium shopping precincts.

Optimising our operating structure
In 2021, Signature Brands completed the strategy of rationalising its portfolio. In 2022, the focus shifted to optimising the operating structure to support the growth of the portfolio categories.

In 2022, Famous Brands bought out the minority shareholders in LUPA Osteria and Turn 'n Tender. All four Fun Dining brands are now 100% owned by Famous 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, IT and franchise services.

Quick fact

Diners have no reservations about naming PAUL[1] the Best Bistro and Best French Restaurant in the Best of Joburg Awards. Here is what the judges said: "A big merci beaucoup to PAUL for keeping the bistro vibes going. We love the French-inspired menu, and as for those pastries – well, surely one won't hurt."

Source: Best of Joburg Awards.

Famous Brands completed a corporate restructure where the Fun Dining franchised businesses were consolidated into one entity called FB Signature Brands. The Company-owned restaurants were sold into a newly created entity called FB Signature Brands Co Stores. This change simplifies the corporate structure.

Turn 'n Tender's central kitchen, which was housed in a separate entity, was sold to Cater Chain in February 2022. This was completed as a processing facility does not fit within a franchise business. The move is sure to unlock synergies for Cater Chain. Cater Chain is 75% owned by Famous Brands.

Supporting franchisees

Famous Brands continues to support franchisees across the portfolio. This support included a reduction of franchise fees for the full year according to a sliding scale. A special compensation was made during the June and July 2021 lockdown and liquor restrictions where franchisees were granted a 50% reduction in franchise fees.

Many franchisees are struggling with cash flow issues as they await the finalisation of insurance payouts. Famous Brands has spent significant time negotiating with landlords on behalf of franchisees regarding rental arrears due to COVID-19. Paying back these arrears is an ongoing challenge for several franchisees and negatively impacts cash flow and the ability of franchisees to re-invest in their restaurants.

Signature Brands designed streamlined menus to simplify restaurant operations and improve margins. This also allowed the restaurants to operate with fewer employees to ensure their businesses could survive in low turnover environments.

Awards in 2022

Turn 'n Tender	SALSA	Mythos	LUPA Osteria	PAUL[1]
• Best of Joburg – Best Steakhouse • Best of Ekurhuleni – Best Rare Rump Steak – Joint Winner Best Restaurant for Business Lunch • Best of Mbombela – Best Steakhouse	• Best of Joburg – Best Mexican Restaurant • Best of Ekurhuleni – Best Mexican Restaurant • Best of Bloem – Best Mexican Restaurant	• Best of Joburg – Best Greek Restaurant • Best of Pretoria – Best Greek and Mediterranean Restaurant	• Best of Joburg – Best Sit-down Pizzeria	• Best of Joburg – Best Bistro and Best French Restaurant

Focus for 2023

While Signature Brands now has a tight portfolio of brands, there are strategic gaps to be filled. In April 2022, Famous Brands acquired a 51% shareholding in Lexi's Healthy Eatery. Lexi's, whose slogan is 'Eat more plants', is a Casual Dining Restaurant brand, offering a full-service, sit-down, plant-based dining experience across breakfast, lunch and dinner. The acquisition includes the franchise and the central kitchen operations of the business.

In 2023, Famous Brands will incorporate this acquisition into the Signature Brands stable and develop an expansion strategy for Lexi's. These plans include expanding the eatery into a Quick Service Restaurant brand and developing its products for the retail supermarket space.

In 2023, Famous Brands plans to develop exciting Quick Service Restaurant Formats based on brands within the Fun Dining category. The plan is to launch some of these formats in the coming year.

Other focus areas for 2023 include:

- Grow selected brands in SA.
- Capitalise on good sites becoming available at competitive rentals.
- Improve franchisee profitability through operational efficiencies.
- Expand and enhance the usage of third-party delivery platforms.

[1] *Licensed brand by PAUL International.*

AME

The Group operates in 16 countries in the AME region, outside of South Africa.

AME	Start of 2022	New stores	Revamped stores	Stores closed	End of 2022
Debonairs Pizza	**99**	18	9	4	**113**
Steers	**41**	4	5	1	**44**
Wimpy	**25**	1	0	1	**25**
Fishaways	**7**	0	0	1	**6**
Mugg & Bean	**28**	4	2	1	**31**
Milky Lane	**9**	0	2	0	**9**
Total	**209**	27	18	8	**228**
Keg	**5**	0	1	0	**5**
Europa	**1**	0	0	0	**1**
Mr Bigg's	**51**	4	1	2	**53**
Total	**57**	4	1	2	**59**
AME total	**266**	31	20	10	**287**

Salient features – AME	Leading and Signature Brands 2021	2022
Segment revenue (%)	6	**5**
Operating margin (%)	9.5	**9.9**
Total number of restaurants	266	**287**
New restaurants opened	13	**31**
Number of restaurants revamped and/or converted	7	**20**
Number of restaurants closed	57	**10**

Trading conditions

The impact of COVID-19 gradually reduced during 2022, with most markets recovering to 2020 trading levels by year-end. All AME markets experienced some COVID-19 restrictions, including border closures, curfews, travel bans and health and safety protocols. While several African countries started vaccination programmes, vaccination rates tend to be low. Ten restaurants closed permanently during 2022 as a direct result of COVID-19.

Performance and focus areas

The AME region delivered solid results, with revenue increasing by 9% to R345 million (2021: R316 million). System-wide sales in this region increased by 19.5% but are still below pre-pandemic levels. The operating profit increased to R34 million (2021: R30 million).

The region achieved significant growth in the delivery sales across Quick Service Restaurant brands in Botswana, Ethiopia, Kenya, Nigeria and Sudan. Debonairs Pizza and Steers delivery apps were launched in Kenya. A new format dark kitchen store was opened for Debonairs Pizza in the United Arab Emirates in response to the ongoing customer shift to online platforms.

The Mugg & Bean On The Move format was launched in Angola at four Total Energies sites in Luanda.

Famous Brands continues to grow its Company-owned footprint in Africa. Four new Company-owned Mr Bigg's restaurants opened in Nigeria, and one Debonairs Pizza. A Debonairs Pizza and one Steers restaurant opened in Kenya. Company-owned restaurants introduce new brands to markets and drive faster scalability. They also allow Famous Brands to set the benchmark standards for those brands and develop sustainable business models for future franchisees.

Famous Brands assisted franchises by providing reduced royalties and extended payment terms to support the overall continued sustainability of the brand networks.

Restaurant revamps and relocation activity increased versus the prior year, with 20 projects completed.

Focus for 2023

We aim to grow our footprint selectively in the AME region through strategic partnerships, geographic expansion and Company-owned restaurants. We will continue investing in establishing Company-owned restaurant networks in Nigeria and Kenya.

We plan to enhance our online ordering, call centre and social media platform capabilities across key markets. This includes launching the Debonairs Pizza and Steers delivery apps in Zambia.

UK

Famous Brands operates the Casual Dining Restaurant Brand Wimpy in the UK.

	Wimpy	
Salient features – UK	**2021**	**2022**
Segment revenue (%)	2	**2**
Operating margin (%)*	12.8	**12.8**
Total number of restaurants	71	**67**
New restaurants opened	5	**1**
Number of restaurants revamped and/or converted	7	**6**
Number of restaurants closed	1	**5**

* *Operating margin before impairment loss.*

Trading conditions

The UK began 2021 in a lockdown period where restaurants could only offer delivery and take away services. Lockdown measures were eased in May 2021, allowing indoor hospitality to re-open with social distancing measures in place. In July 2021, all restrictions were lifted, including social distancing, allowing restaurants to operate without any seating limits.

The UK restaurant industry faces challenges due to significant utility price increases, rising food inflation, supply chain disruptions, fuel cost increases and poor labour availability.

Performance and focus areas

The UK recorded revenue of R133 million (2021: R112 million) and operating profit improved 18% to R17 million (2021: R14 million) before an impairment loss. The operating margin for the year was 12.8%, indicating no change from 2021 before impairment to goodwill. Delivery sales declined reflecting that more customers had returned to dining in restaurants.

While the pandemic placed additional pressure on the UK restaurant industry, Wimpy maximised trade through all available channels. Famous Brands continued to support its franchisees. Focus areas included digital marketing, especially digital social activity and national in-store marketing campaigns. This marketing drive assisted in boosting sales.

The Wimpy team maintained a consistent level of supply to restaurants despite supply chain issues and shortages of both food products and paper products within the UK.

Focus for 2023

Wimpy begins 2023 with four new restaurants in development. The brand will work on improving operational efficiencies, grow the franchise network, and steadily roll out Wimpy revamps to enhance the brand in the region.

Supply Chain

Our integrated Supply Chain comprises the Manufacturing, Logistics and Retail operations that support our Brands pillar in SA and selected African countries. The primary function of our Supply Chain is to provide a competitive advantage to franchise partners through efficient supply, product innovation and margin management. These businesses are managed and measured independently.

Most of our manufacturing plants are wholly owned, but we also operate certain partially owned subsidiaries. The Retail business sells condiments (sauces, dressings, spices), frozen meat products, coffee (ground and beans), frozen chips and other value-added products.

	Manufacturing		Logistics		Retail	
Salient features	**2021**	**2022**	**2021**	**2022**	**2021**	**2022**
Segment revenue (R million)	2 118	**2 770**	2 994	**4 052**	151	**222**
Segment operating profit (R million)	181	**299**	(13)	**60**	1	**2**
Operating margin (%)	8.6	**10.8**	(0.4)	**1.5**	0.5	**1**
Capex (R million)	20	**57**	4	**3**	–	**–**

Manufacturing

Trading conditions

Over the year, South Africa has seen significant food inflation, peaking at 6.9%. Our basket price pressures were mainly from beef, green coffee beans, milk and whey powders, oil and spices. The stronger Rand has helped soften some significant increases in commodity prices.

COVID-19 continues to disrupt supply chains with a global shortage of vessels and containers, resulting in higher shipping costs, higher costs of imported goods and longer shipping timelines.

Extreme food safety precautions had to be taken, more than in pre-pandemic times. Safety protocols would dictate a potential plant shutdown in the event of COVID-19 high-risk safety breaches.

While the Eastern Cape is still experiencing a drought, better summer rains have improved dam levels and support good agricultural production. Water scarcity and electricity availability require operational focus to drive consumption efficiencies and contribute to cleaner operations.

Hygiene, health and safety standards and COVID-19 protocols were rolled out across all operations. We focus on a leader-led safety culture across the Supply Chain. Asset care practices apply across the value chain and ensure sufficient maintenance capex. The focus of asset care is on safety and environmental impact factors.

Performance and focus areas

Manufacturing turnover increased by 31% to R2.8 billion (2021: R2.1 billion) driven by increased demand from the front end of the value chain. Operating profit was up 65% on the prior year. All plants turnovers were up on the previous year thanks to good volumes and some inflationary increases. Production volumes are up by between 8% and 38%, depending on the product line. Products with higher Quick Service Restaurant exposure continue to perform better than those with high Casual Dining Restaurant exposure. Demand from Retail sales continued to grow.

In April 2021, Famous Brands sold its shareholding in the Famous Brands Great Bakery Company. At the end of January 2022, the Gauteng Bakery operation based at Midrand was closed. All employees were offered alternative employment within the Group while 11 employees opted for retrenchment.

In 2022, Famous Brands began the National Occupational Safety Association of SA (NOSA) audit system, and no plant was rated below three stars. Our sauce plant, coffee plant, Turn 'n Tender central kitchen, TruBev and Midrand meat plant all achieved four stars in 2022. We aim to achieve a four star rating or better for all sites in 2023.

Famous Brands monitors customer complaints across all plants and saw a reduction of customer complaints, with the notable exception of the Famous Brands Cheese Company, which was affected by product recalls and had a poor year in terms of its performance metrics. These included two proactive, plant-initiated product recalls due to the quality of the batches involved not meeting our agreed brand and quality standards. A batch of our cheese slices was recalled, before it was dispatched to customers, due to a potential contamination detected by our laboratory, that later passed all quality checks. Several mozzarella batches produced in September and October 2021, were recalled due to poor in-store store product performance, The stock was returned from both customers and our depots to the plant and replaced at no cost to customers. Additional pre-dispatch quality checks were added to prevent this happening again.

In addition, Manufacturing focussed on the following key initiatives for 2022:

- An ESG roadmap was developed.
- New and improved products were developed.
- Famous Brands Coffee Company moved to a new, more efficient site.
- A two-year wage negotiation aligned with a consumer price index (CPI)-based approach was concluded.
- Major hazardous installation gaps were resolved at the Midrand Head Office and Midrand Meat Plant.
- Implemented a new bacon production system to manage pork costs. Lamberts Bay Foods migrated to the Group's finance system, Sage X3, eliminating the need for month-end merging of numbers for consolidation and simplifying training and system requirements.
- Person machine interface, an additional module of our main maintenance management system, was introduced and implemented at the Famous Brands Ice Cream Plant. This allows for hour by hour tracking of throughput and quality control for the plant.

Capex increased to R57 million (2021: R20 million), including deferred projects from 2021.

Food safety risk was managed well, and no plant stoppages occurred during the year. 100% food safety accreditation at all manufacturing facilities was achieved.

Focus for 2023

- Enhancing efficiencies and reducing costs to improve the overall profitability of the Group and franchisees.
- Implementing the first phases of the ESG roadmap.
- Rolling out person machine interface to all plants.
- Key system upgrades to allow for greater monitoring and insights.
- Maintaining and improving NOSA ratings.
- Turnaround performance of Cheese plant.
- Repurpose now closed Gauteng Bakery plant.
- Commission coffee grounds recycling facility.

Logistics

Salient features	2021	2022
Number of trucks	109	**104**
Number of owner-drivers	28	**28**
% of cases delivered by owner-drivers	42	**56**
Energy consumption (diesel, petrol, other) (litres)	1 853 511	**2 519 462**
CO_2 emissions	5 414	**7 600**

Performance and focus areas

The performance of Logistics improved due to the easing of COVID-19 restrictions, although this was slowed down by the COVID-19 third and fourth wave and July's civil unrest. July's taxi strike in the Western Cape also slowed the recovery in that province. Logistics turnover increased by 35% to R4 billion (2021: R3 billion). The operating margin increased to 1.5% (2021: -0.4%), while national case volumes grew by 53.5%.

July's unrest in Gauteng and KwaZulu-Natal significantly impacted the Logistics business. Revenue losses to the KwaZulu-Natal logistics division amounted to approximately R62 million. The KwaZulu-Natal Distribution Centre was damaged and closed for three weeks before it became fully operational. Our business continuity plan ensured we delivered stock to franchisees through cross-docking and the use of other depots. This proved to be a good stress test for our business continuity plan.

Famous Brands extended the lease of the Crown Mines Distribution Centre until 2024 while the depot's relocation project is in process. We reviewed the layout of the Eastern Cape Province Distribution Centre to increase capacity and efficiency and extended the lease to 2024 while we discuss commercial rates for possible future expansion. The new KwaZulu-Natal Distribution Centre was approved, and we are finalising the lease and development agreements.

The fleet mix review per depot was completed with the reallocation in progress. We upgraded various systems to unlock operational efficiencies and gain greater visibility of key metrics. This included upgrading the drivers' tracking system with dashcams and other tools to improve driver behaviour and safety.

We implemented an AARTO management system to align with the new AARTO Act that went live in July 2021. The implementation process included a review of all policies and procedures associated with the act.

Thanks to a renewed and continuous management focus on safety, all depots achieved a four-star NOSA rating for safety.

Capital expenditure of R3 million (2021: R4 million) was incurred.

Focus for 2023

- Replacement of the warehouse management system to drive productivity and efficiency.
- Ongoing benchmarking of processes, costs and margins to enhance efficiencies and reduce operating costs.
- Relocating and commissioning the new KwaZulu-Natal Distribution Centre targeted for November 2022.
- Focussed evaluations of key personnel to enhance capability and competency development.
- Implement a water-saving project in the Western Cape Province Distribution Centre by reusing the condensed water runoff from the freezers.
- Continued focus on managing and reducing negative environmental impacts.

Retail

Performance and focus areas

The Retail business continued with its strong performance with a 47% increase in sales to R222 million (2021: R151 million). This is in line with the trend towards increased home consumption. We launched 16 new product lines, including dressings, sauces, private label and own-brand coffee blends and a new type of meat patty. While the introduction of new products was slow in the first half of 2022 due to retailers looking to limit in-store promotions due to COVID-19, new product introductions have picked up.

Focus for 2023

Famous Brands plans to grow the Retail business by launching a minimum of 12 new products, promoting the existing products and growing the number of outlets where products are sold. New product innovation includes a Wimpy range of chips, hash browns, skinny fries and thick-cut fries. Pricing will remain under pressure as food input costs increase.

Group associates

Famous Brands holds strategic stakes in the following entities: UAC Restaurants Limited in Nigeria and Sauce Advertising, DHQ and FoodConnect in SA.

uac restaurants

Shareholding owned by the Group

49%

This business comprises the Mr Bigg's and Debonairs Pizza brands in Nigeria, as well as a central kitchen (bakery and manufacturing) and distribution component.

sauce ADVERTISING

Shareholding owned by the Group

37%

Sauce Advertising assists the Group by providing enhanced marketing capabilities and leveraging marketing spend to improve the business's competence in the digital market.

Food Connect

Shareholding owned by the Group

49%

FoodConnect is a sales and distribution business in the food and beverage sector. It owns the rights to the Group's Baltimore ice cream brand and distributes the product to third parties. This provides Famous Brands with a strategic route-to-market. As a Level 2 BBBEE contributor, FoodConnect supports the Group's transformation agenda.

DHQ

Shareholding owned by the Group

49%

In March 2021, Famous Brands Design Studio (Pty) Ltd, a non-core asset trading as DHQ transitioned to an associate company. DHQ provides restaurant planning and design services to the Group and third-party clients. Famous Brands now holds 49% (formerly 60%) after the creation of the DHQ employees' share trust. Famous Brands donated the shares to the trust.