Press Information: Annual Results for the year ended 28 February 2021

Famous Brands resilient despite COVID-19 impact

- Revenue down to R5bn (2020: R7.8bn)
- Cash generated from operations down to R574m (2020: R1.3bn)
- Headline earnings per share down to -86 cents (2020: 417 cents)
- Operating profit down to R193m (2020: R912m)

Johannesburg, 31 May 2021: Famous Brands, Africa's leading food services franchisor announced its annual results for the year ended 28 February 2021.

While many industries experienced a downturn due to COVID-19, the food services industry was one of the worst hit. Lockdown restrictions in different markets included bans on sit-down dinning, curfews, alcohol bans and capacity restrictions.

"The announcement of the COVID-19 pandemic in March 2020 coincided with the first month of our financial year, and its impact has been felt across the entire 12 months, in varying degrees. While we are accustomed to trading in tough conditions, nothing in our long history compares to the hardship as a result of the pandemic," says Darren Hele, Chief Executive Officer of Famous Brands.

Group performance

Across the Group's trading markets in South Africa, the Middle East and Africa and the United Kingdom, the negative financial impact of the COVID-19 pandemic, resulting lockdowns and trading restrictions was severe. During the lockdowns, in line with regulations, the South African and United Kingdom operations were shut in April 2020, excluding the South African retail division. Restrictions in the Middle East and Africa region were slightly less onerous, affording some trading activity.

"The gradual easing of restrictions in South Africa and the United Kingdom in the second half of the reporting period enabled the business to improve performance while complying with regulations. While trading conditions remained tough throughout the year, franchise partners embraced delivery across third-party platforms and own delivery services," comments Hele.

Revenue for the period declined by 35% to R5 billion (2020: R7.8 billion), attributable to poor trading conditions across all markets. Operating profit before non-operational items dipped to R193 million (2020: R912 million). The Group's operating profit margin declined to 3.8% (2020: 11.7%).

Headline earnings per share declined to -86 cents (2020: 417 cents), while Basic earnings per share declined to -1 237 cents (2020: 362 cents). No dividend was declared.

The Group's balance sheet remains resilient, with net assets of R391 million (2020: R1.8 billion), representing a net asset value per share of 390 cents (2020: 1 797 cents).

"We quickly implemented several measures to reduce cash outflows. We also stepped up support of our franchise partners to get through the toughest months. This meant that our plans to expand were swiftly replaced by plans to survive the worst of the crisis," says Hele.

South Africa

The South Africa restaurant industry was affected by the Level 5 and Level 4 lockdown restrictions and decent trading conditions only recommenced in July 2020. The South African Brands division reported a 42% decline in revenue to R567 million (2020: R974 million). Operating profit fell by 64% to R169 million (2020: R472 million), while the operating profit margin dropped to 29.9% from 48.5%.

Leading brands

Leading brands delivered weaker results where system-wide sales* declined by 28.6%, while like-for-like sales** decreased 29.1%.

Consumers changed their shopping and travelling habits, and this has a negative impact on sales in major malls and transport routes. Leading brands strengthened existing strategic partnerships with third party delivery platforms to maximise on delivery opportunities.

Casual Dining experienced a much slower recovery due to seating capacity restrictions, reduced trading hours as a result of the curfew, as well as consumer nervousness around eating out.

“Consistent with recent years and in line with general market trends, the Quick Service brands, being Steers, Debonairs Pizza, Fishaways and Milky Lane outperformed the Casual Dining brands, namely Wimpy and Mugg & Bean,” says Hele.

Signature brands

“Signature brands operate in a competitive and difficult dining market segment. This segment was greatly affected by the alcohol bans and curfews. To assist restaurants, menus were streamlined to simplify restaurant operations and manage gross profit margins. Restaurants had to quickly adopt delivery platforms to capitalise on revenue where possible,” says Hele.

Operating margins declined to -41.1% and we achieved only 69% of our overall target to roll out new. Store closures increased to 14 stores from 7 stores in the prior year. Signature brands' system-wide sales* deteriorated by 53.7%, while like-for-like sales** reduced by 52.0%.

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

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

Leading brands’ sales refer to sales of the Leading brands trading in South Africa.

Signature brands’ sales refer to franchise and Company-owned store sales in South Africa as well as sales cross border only where the brand is a joint venture partnership and the brand is not managed by the Africa and Middle East management team.

Africa and Middle East

In the context of less stringent COVID -19 trading restrictions, the AME region delivered solid results. System-wide sales in this region declined by 22.9%. Combined revenue reported for the region was R316 million (2020: R314 million). Operating profit declined to R30 million (2020: R55 million). The operating profit margin was 9.5% (2020: 17.5%).

“Thanks to an agile response to consumer demand we saw a significant increase in home delivery sales across Quick Service brands in Botswana, Ethiopia, Kenya, Nigeria and Sudan. Operational efficiencies were achieved by leveraging strategic alliances, specifically petroleum partnerships and by developing localised supply chains,” comments Hele.

Steers entered Oman for the first time through the opening of a drive-through.

UK

The UK experienced severe economic hardship as lockdown restrictions were only lifted in August 2020 with certain restrictions still in place.

During 2020 the Famous Brands Board decided to cease financial assistance to the Gourmet Burger Kitchen (GBK) business. In October 2020, the GBK business was placed under administration in accordance with UK insolvency legislation. The Group’s investment in GBK was impaired in full (at R1.5 billion, net of tax). The Group awaits the finalisation of the administration process by the Administrator. There are no further operating losses impacting the Group's results from the date on which GBK entered administration.

Wimpy UK turnover was down 8.0% with revenue in Rand terms at R112 million (2020: R122 million). Operating profit declined by 38% to R14 million (2020: R23 million). The operating margin for the year was 12.8% (2020: 19.0%).

Vertical integration

The Group's vertically integrated supply chain comprises of Manufacturing, Logistics and Retail businesses, which are managed and measured independently. Most manufacturing plants are wholly owned, but the Group also operates certain JV partnerships. This division serves the front-end Brands division and provides a competitive advantage to franchise partners though efficient and effective supply and margin support.

The Retail business, which produces condiments, coffees and frozen meat products, has operated for a full financial year as a stand-alone business unit with sales of R151 million. This business unit experienced an increase in sales during the year as consumer demand for at home consumption increased.

Total volumes across both Manufacturing and Logistics declined due to lower demand in the front-end Brands division. Combined revenue of R3.3 billion (2020: R4.5 billion) was reported, while operating profit reduced to R169 million (2020: R457 million). The operating profit margin declined to 5.0% (2020: 10.2%), due to rising food inflation and a decision by the Group to partially absorb price increases and not pass these on to franchise partners immediately. Franchise partners had to be responsive to consumers facing financial stress.

Capital expenditure of R24 million (2020: R63 million) was employed on plant upgrades, machinery and equipment.

Looking forward

Famous Brands anticipates that operating conditions will remain challenging across all geographies. The certainty of a third wave of infections and the possibility of new virus strains could potentially lead to tighter lockdown restrictions, resulting in further revenue pressure. Effective vaccine roll outs will prevent the need for stricter lockdown regulations.

"We predict that our revenue recovery will be slow with incremental improvements as consumer confidence returns to the markets where we operate. We have observed that as infections drop, consumer spending increases. As the world moves away from crisis mode, there will be new growth avenues to consider. We believe that Famous Brands is well-positioned to grow and deliver value for its shareholders," comments Hele.

Hele notes focus for the coming year will be centred on creating further operational efficiencies, prioritising core long-term operations, optimising investment returns for franchise partners and preserving cash

- Ends

About Famous Brands

Famous Brands is Africa's leading branded food services franchisor. The Group's origins date back to the early 1960s, with the founding of a humble family business comprising one brand, Steers, and a limited supply chain. Today our enterprise consists of an extensive, vertically integrated business model, with trading operations on three continents. In 1994 the holding company listed on the JSE Limited in the Travel and Leisure sector. The Brands portfolio consists of 19 restaurant brands, represented by represented by 2 773 restaurants across South Africa, the rest of Africa and the Middle East and the United Kingdom.

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