Famous Brands Limited
Incorporated in the Republic of South Africa
Registration number: 1969/004875/06
JSE share code: FBR
ISIN code: ZAE000053328

SUMMARISED RESULTS FOR THE YEAR ENDED 29 FEBRUARY 2020

In the interests of accurate and representative reporting, this announcement focuses on the period under review, being 1 March 2019 to 29 February 2020. The extraordinary post year-end events and impacts related to the COVID-19 global pandemic are confined to the commentary under Subsequent events and Prospects.

FINANCIAL HIGHLIGHTS

Revenue
R7.8 billion
UP 1%

Headline earnings per share
417 cents
UP 32%*

Operating profit
R912 million
UP 8%*

Operating profit margin
11.7%*
* Includes IFRS 16 impact.

Overview

Famous Brands is Africa's leading food services franchisor. The Group's vertically integrated business model comprises a portfolio of 24 restaurant brands, represented by 2 898 restaurants across South Africa (SA), the rest of Africa and the Middle East (AME), and the United Kingdom (UK). The Brands division is underpinned by substantial Logistics and Manufacturing operations.

Operating environment

Trading conditions across our markets continued to deteriorate over the 2020 financial year, with South Africa edging into recession in the latter half of the review period. Consumers in all our key jurisdictions faced significant financial pressure and business and consumer sentiment reached new lows.

The food services industry continued to evolve at a rapid pace during the reporting period, and our responsiveness and flexibility to emerging challenges and opportunities were key to maintaining our leadership position in the market. Consistent with trends over recent years, the quick service (QS) restaurant category performed better than the casual dining (CD) segment, primarily due to perceptions of affordability and value. The expansion of delivery services accelerated this trend. Technology remains a key differentiator in the industry, and participants continued to invest heavily in innovations across the channels. Delivery offerings gained further momentum, with a proliferation of third-party aggregators investing significantly and competing aggressively for market share.

Group performance

Positioning our brands to remain innovative and relevant to customers has always been a key driver for the business. In light of the trends discussed above, there is ongoing commitment of resources to:

- ensure our offering has a strong value for money component;
- invest in our technological capability in the digital and social media arenas;
- continue to upweight our delivery offering, both in-house and via third-party aggregators; and
- ensure our menus display greater awareness of evolving health and wellbeing trends.

Another key development during the review period was the construction of our 2021 - 2023 strategic roadmap, which is customer inspired, brand led and supported by the back-end value chain. Across our operations we are inculcating a better understanding of how to create value for stakeholders: by individual, by business unit, and by the Group as a whole. This understanding is underpinned by intensified performance management criteria, with a clear focus on cost leadership and return on investment.

Group financial results

Salient features		2020	2019	% change
Net asset value per share*	Cents	1 797	1 527	18
Basic earnings/(loss) per share*	Cents	362	(484)	175
Revenue*	Rm	7 780	7 725	1

HEPS*	Cents	417	316	32
Operating profit before non-operational items*	Rm	912	847	8
Dividend per share	Cents	90	100	(10)

* Restated. Details of the restatement, which relate to marketing funds, are set out in Note 21 of the Group's summarised consolidated financial statements which are available on the Company's website.

Gearing

As announced on SENS on 3 April 2020, management successfully concluded negotiations with the Group's primary lender regarding a more appropriate debt finance structure. The debt covenants were concluded at the same level as the previous debt structure. Details of the new structure are discussed in the Subsequent events commentary in the consolidated summarised financial statements www.famousbrands.co.za/investor-relations/financial-results.

Attainment of strategic imperatives

Our overriding strategy is centred on creating value for our stakeholders. Good progress was achieved in regard to each of our key strategic imperatives, namely: to improve our operational efficiencies; enhance our financial performance; lead in the categories we compete in; prioritise our franchise partners; develop and transform our people; and optimise capital management.

Operational review

Brands

This portfolio consists of 24 restaurant brands, represented by a network of 2 791 franchised and 107 Company-owned restaurants across SA, the AME and the UK. The business is segmented into Leading (mainstream) brands and Signature (niche) brands, strategically positioned to appeal to a wide range of consumers across the income and demographic spectrum and across meal preferences and value propositions. The Leading brands are categorised as quick service, fast casual and casual dining.

South Africa

Our SA Brands division reported a 9% increase in revenue to R974 million. Operating profit reduced by 1% to R472 million, while the operating profit margin decreased to 48.5% from 53.2%. The margin decline reflects significant investment in technology enablers in the Leading brands portfolio, sub-inflationary menu price increases, and higher operating costs due to tighter allocation of costs to our Leading brands, as well as the relocation to new offices to alleviate congestion at our Midrand campus.

Our Leading and Signature brands' combined system-wide sales* improved by 6.4% and like-for-like sales** increased by 2.9%. Independently, Leading brands'# system-wide sales grew 5.7%, while like-for-like sales rose by 3.5%. Signature brands'^ system-wide sales improved by 10.6%, while like-for-like sales declined by 0.8%.

* 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 SA.
^ Signature brands' sales refer to franchise and Company-owned store sales in SA as well as sales cross border only where the brand is a joint

venture partnership and the brand is not managed by the AME management team.

Leading brands portfolio

Our Leading brands delivered solid results, reflecting their market leadership of the categories they trade in. Consistent with recent years and in line with general market trends, our QS brands, being Steers, Debonairs Pizza, Fishaways and Milky Lane, outperformed the CD brands, namely Wimpy, Fego Caffe and Mugg & Bean.

All four of the QS brands grew system-wide and like-for-like sales, and Steers, Debonairs Pizza and Fishaways continued to gain market share, while Milky Lane retained its competitive posture. Our CD brands all retained market share, with a particularly pleasing performance by Wimpy, after several years of decline.

Signature brands portfolio

Our Signature brands operate in the over-traded, highly competitive CD market segment and their performance for the review period reflects the difficulties faced. Like-for-like sales for the year were flat, while system-wide sales growth was constrained by the closure of 17 restaurants. In light of the subdued economic environment, the roll out of new restaurants was necessarily conservative.

Lupa Osteria delivered the portfolio's strongest like-for-like performance, largely attributable to a menu and pricing review, followed by PAUL, which is well positioned to appeal to the niche premium-end market segment, and the coffee brands, which benefit from strong strategic alliances with hospital partners, Netcare and Mediclinic.

AME

The Group is represented by 322 restaurants in 16 countries in this region.

In line with our deep and narrow strategy in the AME, we implemented a more direct approach to developing brands in existing markets through establishing in-country teams and investing in Company-owned outlets in key nodes in East and West Africa. We continued to expand strategic alliance partnerships, trial new trading formats, strengthen marketing capability and leverage delivery offerings where appropriate. We also signed key Master License agreements in the UAE, Saudi Arabia and Oman.

Combined revenue reported for the region rose to R314 million in Rand terms (2019: R273 million). Operating profit increased to R55 million, up from the R22 million reported in the prior year which reflected the remeasurement of put options entered into with the Group's JV partners in relation to the acquisition of Retail Group in Botswana, effective 1 August 2015. Accordingly, the operating profit margin was positively impacted, improving to 17.5% (2019: 7.9%).

Solid like-for-like sales were reported for the period, with 12 of our 16 trading markets recording positive growth. The region contributed 8.7% (2019: 10.2%) to the Group's total system-wide Brands division sales. Five brands accounted for 93% (2019: 93%) of turnover across the region, namely, Debonairs Pizza, Steers, Mr Bigg's, Wimpy and Mugg & Bean.

28 stores were opened, 41 closed and 26 revamped during the period.

UK

Overview

In the uncertain political environment, consumer confidence and spend remained subdued. The shift to online retail and the sustained pressure on traditional brick-and-mortar retailers continued to escalate.

Wimpy UK

Management's ongoing focus in this business is to ensure the portfolio is optimally structured and appealing to capitalise on growth opportunities in the constrained economic environment. The network comprises 67 restaurants (2019: 67). The business reported solid results in the year under review, boosted by an increased contribution from the delivery offering, a re-engineered menu and improved sales in revamped restaurants.

Revenue in Rand terms increased to R122 million (2019: R113 million). Revenue in Sterling was 4% higher. Operating profit grew by 31% to R23 million (2019: R18 million); while the operating margin rose to 19.0% (2019: 15.7%).

The subdued trading environment will continue to weigh heavily on performance; however, following rationalisation of 12 under-performing stores in the prior year and an ongoing revamp programme, the portfolio is more optimally structured for growth. Expanding the delivery offering across the network continues to offer opportunity for growth.

GBK (UK and Ireland)

Remedial measures implemented to stabilise the business and return it to profitability gained momentum during the period; however, year-on-year sales continued to decline, aligned with the general trend across the industry. The strategy to leverage opportunities to expand the multi-party delivery platform progressed well, but while online delivery revenue grew, this solid performance was offset by weaker in-store sales in malls and on the high street.

GBK UK reported an operating loss before non-operational items of GBP-0.6 million (2019: operating loss of GBP-4.6 million). The operating margin improved to -0.9% (2019: -5.7%). System-wide sales (Sterling) were GBP68.9 million (2019: GBP80.2 million) largely due to the closure of 24 stores as part of the Company Voluntary Arrangement process, eight of which were closed in the review period. GBK UK and Ireland's combined like-for-like sales increased by 2.7% (2019: decrease of -4.2%).

GBK's network comprises 72 restaurants (2019: 80).

Due to the COVID-19 global pandemic, on 2 April, the Board announced that regretfully, the GBK UK business would henceforth no longer receive financial assistance from the Group. This decision followed the deterioration in GBK's store sales in the UK after year-end due to the COVID-19 global pandemic, and the subsequent directive by the governments of the UK and Republic of Ireland to indefinitely close all restaurants in those countries. While various measures of support were offered by the respective governments to the industry to mitigate the economic impact of this decision, the uncertainty regarding resumption of trading was significant cause for concern in both markets.

Supply chain

This division, which comprises our integrated Manufacturing and Logistics operations in SA is in service to the front-end Brands division, and its primary function is to provide a competitive advantage to our franchise partners both through efficient and effective supply and margin support. Total volumes across both divisions declined in light of lower demand levels in the front-end Brands division. Combined revenue of R4.5 billion (2019: R4.4 billion) was reported, while operating profit reduced to R457 million (2019: R513 million). The operating profit margin declined to 10.2% (2019: 11.5%), primarily due to our tactic to contain price increases in the sustained low food inflation environment; downward adjustments to remain competitive in a market where margin was sacrificed to gain volume; and the ongoing programme to re-allocate corporate costs to the appropriate business units.

Capital expenditure of R63 million (2019: R47 million) was incurred, primarily related to the commissioning of the two new distribution centres in the Western Cape and Free State.

Subsequent events

Shareholders are referred to the detailed commentary related to events after the reporting period contained in the summarised consolidated financial statements on www.famousbrands.co.za/investor-relations/financial-results.

The first quarter of the current financial year, which commenced on 1 March 2020, has been extremely challenging for the business; this trend will continue into the second quarter unless level 1 economic activity is implemented before then.

Aligned with our three-year roadmap, and accelerated by the COVID-19 global pandemic, our focus over the past two months has been to right-size the business, reduce costs, and preserve cash to facilitate balance sheet flexibility.

In this regard, a range of measures were swiftly implemented across the business. These include a freeze on operational and capital expenditure; providing franchisees with temporary financial relief; strategic temporary hibernation of parts of the business which are not permitted to operate under current lockdown restrictions; and a limited retrenchment programme where all other options have been exhausted.

Following the easing of lockdown restrictions, operational focus has been on optimising the Group's home delivery competence, where practicable and in line with regulations. The viability of the limited delivery-only model remains to be proved, but at this early stage is showing positive signs given that this channel is the only access available to consumers.

Looking forward

The external operating environment post the COVID-19 global pandemic lockdown restrictions will provide ever-changing and challenging conditions. Our business will therefore continue to adapt and transform to align with these challenges.

Management and the Board are confident that we have a solid business model as well as the required specialist skills to navigate and guide our recovery. Our strategically structured, diverse portfolio, agility and the ability to continuously innovate across brands and trading formats will be key to driving future growth.

Prospects

The adverse financial impact on the travel and hospitality industry due to the COVID-19 global pandemic and the resultant national lockdown and trading restrictions has been severe thus far. The casual dining segment has been closed since the start of the lockdown. Our view is that it will only reopen once the COVID-19 global pandemic has subsided. This has a significant negative impact on our business.

Our further concerns going forward are centred around how long the lockdown and trading restrictions will remain in force, as well as the potential impact on consumer spending behaviour post-lockdown.

Parallel to the remedial and revival activities discussed under Subsequent events, we have absolute clarity of purpose in terms of our three-year strategic roadmap. The three key areas of focus include an expansion programme (growing our Leading brands and retail business and building depth of the AME footprint); a consolidation programme (disinvest from non-core brands and non-core manufacturing and logistics facilities, and intensify investment in high return assets); and optimise capital management and allocation.

We fully endorse the decisive actions taken by the respective governments in our various trading jurisdictions to contain the spread and impact of the COVID-19 global pandemic and are committed to ensuring that all of the Group's re-opened operations are managed responsibly and in compliance with risk mitigating regulations. We remain optimistic that government's risk-adjusted strategy in SA will enable the economy to re-open in a considered manner to the benefit of all stakeholders.

Dividend

The COVID-19 global pandemic and subsequent lockdown measures implemented across the Group's various trading jurisdictions have had a significantly adverse financial impact on the business. The Board has considered the current cash position and facilities available to the Group and is of the opinion that while the Company will be able to service its obligations in the foreseeable future, under the current circumstances it is deemed prudent to preserve cash to facilitate balance sheet flexibility. In this regard no dividend will be paid for the second six months of the reporting period.

A live audio webcast of the Group's results presentation will be held on Tuesday, 26 May 2020 at 10:00 (SAST). To pre-register link to:
http://www.corpcam.com/famousbrands26052020.

On behalf of the Board

SL Botha   DP Hele
Chairman   Chief Executive Officer

Midrand
26 May 2020

Full announcement

The content of this announcement is the responsibility of the directors of Famous Brands, and is a summary of the information contained in the full announcement as published on 26 May 2020 on Famous Brands' website at www.famousbrands.co.za and can be accessed on the JSE link:
https://senspdf.jse.co.za/documents/2020/jse/isse/fbr/FY2020.pdf. This announcement is itself not audited but extracted from audited results.

Any decisions made by investors or shareholders should be based on the full consolidated financial statements including the audit report from Deloitte &

Touche which sets out the key audit matters. The basis for the unmodified opinion is furthermore available at www.famousbrands.co.za/investor-relations/financial-results. Copies of the full announcement may be requested by email from investorrelations@famousbrands.co.za or companysecretary@famousbrands.co.za.

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