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

Summarised unaudited condensed consolidated interim financial results
FOR THE SIX MONTHS ENDED 31 AUGUST 2020

Salient features

Revenue
R2.0 billion down 48%

Operating loss before non-operational items
(R110 million) down 129%

Operating margin
(5.5%)

Net asset value
464 cents down 70.9%

Group overview

Famous Brands is Africa's leading food services franchisor. The Group's vertically integrated business model comprises a portfolio of 23 restaurant brands, represented by 2 838 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 Manufacturing and Logistics operations.

Covid-19 global pandemic

Impact on the business

The Group's performance over the six months under review has been influenced by the progression of the pandemic and correlated government-prescribed levels of economic activity in our trading markets. Across the geographies in which we operate, the negative financial impact of the pandemic and resultant restrictions has been extremely severe.

During the lockdowns, in line with regulations, our SA and UK operations were entirely shut with the exception of the SA retail division. Prescribed restrictions in the AME region were slightly less onerous, affording some trading activity. The gradual easing of restrictions in SA and the UK in the second half of the review period enabled us to re-open parts of the business in compliance with regulations, however, significant components remained in hibernation until July.

Approximately 95% of the Group's store network has re-opened, with a small balance temporarily closed. More significant, is the negative impact the pandemic has had on new store openings, which is a key driver of brand momentum.

In general, aligned with travel restrictions and social distancing measures, the most acute impact has been on our restaurants situated on transit routes, in major malls and those reliant on tourist trade; in comparison, local convenience sites and restaurants in neighbourhood shopping centres fared better. Predictably, our Leading brands outperformed the Signature portfolio, primarily because Quick Service restaurants benefitted in the period during which delivery and take-away only trade was permitted, a format which is not easily adaptable for all Casual Dining restaurants.

A key priority across all our brands has been to instil the trust and confidence of our customers by ensuring elevated health and hygiene protocols to demonstrate safe dining. These measures have enabled the business to deliver responsible, safe, uninterrupted service to our customers and ensure the well-being of our employees.

Group performance

At the end of the prior financial year, we reported on the development of our 2021 to 2023 strategic roadmap. Aligned with this roadmap, and accelerated by the pandemic, our focus over the past six months was to right-size the business, reduce costs and preserve cash to facilitate balance sheet flexibility. In this regard, a range of remedial measures were swiftly implemented across the business. These included a freeze on capital expenditure; reduction of operational costs; providing franchisee relief in the form of temporarily deferred payments (for pre-lockdown debt) and reduced royalties and fees post the lockdown; negotiations with banks and landlords; strategic temporary hibernation of parts of the business which were not permitted to operate under prevailing restrictions; and a retrenchment programme where all other options had been exhausted.

Notwithstanding the extremely challenging conditions, a number of key achievements were reported for the period based on the following strengths:
the resilient business model, which we were able to flex to respond to various risk-adjusted levels of activity;

robust cash-generating ability, which ensured uninterrupted payment of creditors. In addition, the R300 million short-term contingency facility raised during the period was not utilised;

the differentiated, defensive Leading brands portfolio which ensured that consumers could continue to access our offering even under restricted trading conditions;

agility and responsiveness displayed by management and franchise partners to quickly hibernate and safely re-open operations;

brand innovation in both trading formats and menu offerings. Innovations such as no-contact kerbside collect and bundling and sharing offers were all warmly received by customers;

investment in technological enablers including new apps and improved e-commerce/online competence to enhance the Group's convenience, collect and delivery positioning;

expansion of the home delivery capability (both owned and third-party aggregators) in line with evolving customer expectations;

menu rationalisation, focusing on key strategic menu offerings, which improved supply and operational efficiencies for franchise partners, while enabling customers to enjoy popular favourites; and

inventive use of technology to enhance health and safety protocols for customers, including QR codes on menus, tables and counters, facilitating no-touch menus and marketing materials.

Group financial results

Salient features		2021 HY	2020 HY*	% change
Net asset value per share	Cents	464	1 594	(71)
Basic (loss)/earnings per share	Cents	(1 535)	140	(1 196)
Headline (loss)/earnings per share	Cents	(240)	140	(271)
Revenue	R million	2 009	3 862	(48)
Operating (loss)/profit before non-operational items	R million	(110)	376	(129)
Dividend per share	Cents	-	90	(100)

* Restated except dividend per share. Details of the restatement, which relate to marketing funds, are set out in note 18 of the Group's summarised consolidated financial statements which are available on the Company's website.

Operational review

Brands

The Group's Brands portfolio 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 store network comprises 2 733 franchised and 111 Company-owned restaurants.

Total revenue reported for the review period decreased by 61% to R186 million (2019: R481 million), with Leading brands contributing R161 million (2019: R386 million), down 58%. Signature brands' revenue declined 74% to R25 million (2019: R95 million). An operating profit of R4 million was reported (2019: R235 million), and the operating margin declined to 2.3% (2019: 48.9%).

SA

Across our Leading and Signature brands, combined system-wide sales for the review period declined 51.2% and like-for-like sales decreased by 51.7%. Independently, Leading brands' system-wide sales declined by 48.0%, while like-for-like sales decreased 48.7%. Signature brands' system-wide sales deteriorated 70.1% and like-for-like sales reduced by 70.4%.

While disappointing relative to historical performance, these results were a commendable achievement in light of the prevailing adverse environment. This solid effort is validated when compared to the industry's results as quoted in the Stats SA report published in September: SA restaurant sales were down 100% year on year in April, 97.7% in May, 87.7% in June and 75.0% in July.

Leading brands portfolio

The Group's mainstream brands are segmented into Quick Service and Casual Dining offerings and occupy the number one or two position in the categories they trade in.

While our traditional Quick Service brands benefitted from regulations which restricted trading to delivery and take-away only, several of our traditional Casual Dining brands also demonstrated impressive agility to flex their models to expand their take-away and delivery offerings.

Subsequent to the easing of restrictions, and particularly since the transition to level 1 economic activity, our Leading brands have all continued to gain momentum, although the Casual Dining brands still lag their Quick Service counterparts.

Signature brands portfolio

This portfolio comprises a wide range of bespoke niche Casual Dining offerings.

Firmly positioned in the dine-in segment, these brands were most adversely affected by lockdown regulations which included reduced trading hours and restrictions on seating capacity and on-site consumption of alcohol.

In light of the pandemic, our programme to optimise the structure of this portfolio will be determined by the nature of the recovery of the Casual Dining segment, which is expected to be protracted and merciless.

AME

The Group is represented by 283 restaurants in 16 countries in this region.

Although all of the AME markets were adversely affected by the pandemic, the franchise network proved extremely resilient, with only three restaurants permanently closed due to the impact.

As a result of an agile response to changing consumer demand, the Quick Service brands in Botswana, Ethiopia, Kenya, Nigeria and Sudan reported significant growth in home delivery sales. In general, Botswana outperformed all the other markets, benefitting from that country's good management of the pandemic and related restrictions.

Revenue for the combined region declined by 6% in Rand terms to R143 million (2019: R153 million). Operating profit decreased by 47% to R11 million (2019: R21 million), while the operating margin reduced to 7.6% (2019: 13.5%).

System-wide sales declined by 30.1% (2019: increase of 10.3%). The region contributed 12.5% (2019: 8.3%) to total system-wide Group Brands division sales. Debonairs Pizza, Steers, Wimpy and Mugg & Bean accounted for 83.6% of turnover across the region.

UK

Our UK operation comprises GBK (UK and Ireland) and Wimpy UK, which are managed and report independently of each other.

Wimpy UK

Wimpy UK delivered a pleasing result for the six months, reporting a profit for the period, notwithstanding providing support to franchise partners throughout the lockdown with discounts on nominated core line items, and a 13% decline in like-for-like sales.

Revenue in Rand rose by 7% to R65 million (2019: R61 million), while revenue in Pound Sterling was 13% lower. In Rand terms, an operating profit of R9 million was reported (2019: R13 million). The operating margin reduced to 14.5% (2019: 22.0%).

There are 69 restaurants in the Wimpy UK network.

GBK (UK and Ireland)

With the onset of the pandemic and the UK and Irish governments' decisions to indefinitely close all restaurants in those countries, the Group resolved that it would no longer provide any further financial assistance to GBK. Regrettably, the ongoing adverse impact of the pandemic on the business proved devastating, and on 25 September 2020, the Group announced on the Stock Exchange News Service (SENS) that an impairment of R1.3 billion (net of tax), had been recognised at Famous Brands Group level in relation to the investment in the GBK UK business, meaning that the investment in GBK UK was fully impaired at Famous Brands Group level.

During the review period, revenue in Rand terms deteriorated by 60% to R257 million (2019: R641 million), while revenue in Pound Sterling was 67% lower. An operating loss of R120 million was recorded (2019: operating loss of R11 million). The operating margin declined to (46.6%) (2019: (1.7%)). System-wide UK sales (Pound Sterling) reduced by 66.2% (2019: decrease of 12.5%).

At the close of the reporting period, GBK's footprint comprised 67 restaurants.

Further commentary on GBK is contained in the subsequent events paragraph below.

Retail

The strategy to take back control of the route-to-market proved to be particularly opportune, given that from commencement of the lockdown in SA this operation was permitted to trade, providing one of few revenue streams for the Group. The performance of this business unit during the restricted trading period has proved the scalability of direct retail distribution. Although the pandemic delayed the launch of several new products, management is optimistic that there will be further opportunities for growth in the coming months.

Supply Chain

The strategic integrated Supply Chain, which comprises the Group's Manufacturing and Logistics operations in SA, is in service to the front-end Brands division.

In light of severe disruption to global supply chains and shipping and clearing operations, accurate and agile forecasting, production planning and new stock procurement were key priorities during the review period, and significant focus was placed on re-inventing processes to optimise management of personnel and inventory during the lockdown and ensure the operations were well positioned to restart as soon as required.

Combined revenue for the review period declined by 44% to R1.25 billion (2019: R2.22 billion). An operating loss of R17 million was reported compared to an operating profit of R209 million in the prior corresponding period, while the operating margin weakened to (1.4%) from 9.4%.

Subsequent events

GBK (UK and Ireland)

Shareholders are referred to the Withdrawal of Cautionary announcement published on SENS on 14 October 2020, in which it was advised that GBK had been placed into administration in accordance with the insolvency legislation in the UK. Accordingly, administrators had been appointed and assumed control of GBK and its UK subsidiaries. Consequently, GBK's results will henceforth not be consolidated into the Group's results as the Group no longer has control of GBK. As a major creditor, the Group will pursue recovery of proceeds through the administration process, however a nil recovery assumption has been adopted in the interim.

The GBK impairment recognised during the review period was calculated based on GBP figures. This impairment will be adjusted for the movement in GBK's Cash Generating Unit, as well as the movement in the exchange rate post 31 August 2020.

Looking forward

Black Friday in November and the holiday season which follows in December are historically the industry's peak trading period, however, it is difficult to accurately predict consumer behaviour or spend in the months ahead. The school holidays will be both later and shorter than previously, international tourism is likely to be muted, and domestic travel and leisure activities will be constrained by reduced disposable income. Continued health and safety concerns and protocols may also curtail traditional festive season pursuits.

Health and safety protocols

The rigorously implemented health and safety measures across our operations have been vital to gain the confidence and trust of our customers and ensure the well-being of our employees. As a business we are committed to continuing to play our part in curbing the spread of the virus.

Prospects

In line with the Group's three-year roadmap, we will continue to focus on right-sizing the business, reducing costs and preserving cash to facilitate balance sheet flexibility. This will be achieved through our expansion programme (growing our Leading brands and retail business and building depth of the AME footprint); consolidation programme (disinvesting from non-core brands and non-core manufacturing and logistics facilities, and intensifying investment in high-return assets); and optimising capital management and allocation.

We remain concerned about the weak state of the economy which, together with the financial and psychological impact of the pandemic, will constrain consumer discretionary spend and sentiment. However, management is cautiously optimistic, barring any further unforeseen events, that the second half of the current financial year will deliver stronger growth than the first half (H1). This optimism is based on the very weak base of H1, during which there was one month of no trade and three months of tightly restricted trade. Furthermore, aligned with the phased easing of restrictions, consumer activity has continued to increase, reflected by the upward sales trend over the past three months and particularly post the review period.

Dividend

The Board of Directors (Board) has considered the current cash position and facilities available to the Group. While the Company will be able to service its obligations in the foreseeable future, it is deemed prudent to preserve cash to facilitate balance sheet flexibility. In this regard no dividend has been declared for the review period.

Audio webcast

A recording of the interim results audio webcast held on Monday, 26 October 2020 will be available on the Company's website: www.famousbrands.co.za

SL Botha   DP Hele
Chairman   Chief Executive Officer

26 October 2020
Midrand

Full announcement

The contents of this short form announcement are the responsibility of the Board and have not been reviewed or reported on by the Group's external auditors. Shareholders are advised that this short form announcement represents a summary of the information contained in the full announcement, published on https://senspdf.jse.co.za/documents/2020/jse/isse/fbr/HY2020.pdf and on Famous Brands' website at www.famousbrands.co.za on 26 October 2020, and does not contain full or complete details of the financial results. Any investment decisions by investors and/or shareholders should be based on consideration of the full announcement as a whole and shareholders are encouraged to review the full announcement. The full announcement is also available for inspection at the registered office of the Company and at the offices of Famous Brands' sponsor, The Standard Bank of South Africa Limited. Inspection of the full announcement is available to investors and/or shareholders at no charge, during normal business hours.

Administration

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