# 2017

famous | brands

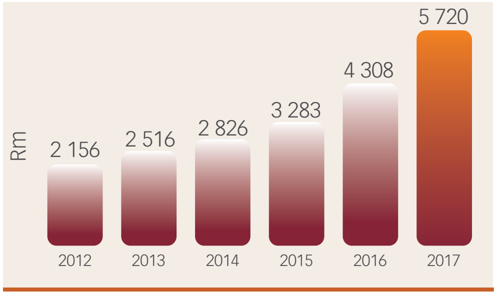
*you're in good company*

Provisional summarised results for the year ended 28 February 2017

# Financial highlights

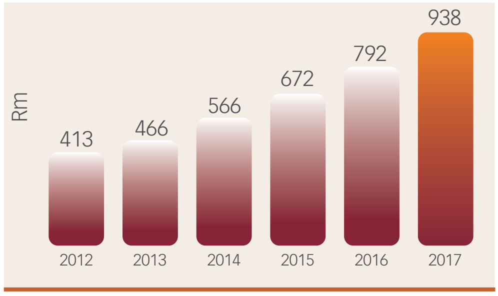
**Revenue** up to R5.7 billion

▲ 33%



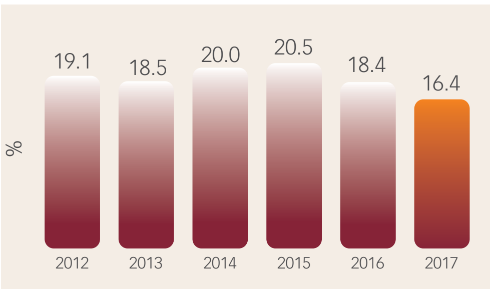

**Operating profit** before non-operational items and additional interest costs up to R938 million

▲ 18%



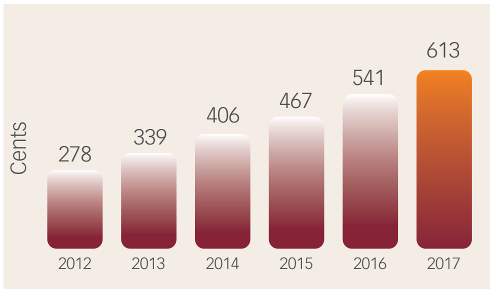

**Operating margin** before non-operational items

16.4%




**Headline earnings per share** before non-operational items and additional interest costs up to 613 cents per share

▲ 13%




# Highlights

Core business **delivers strong organic growth**

New acquisitions **integrated successfully**

Built scale to **facilitate future growth**

Business model **transformed with GBK acquisition**

Refined and advanced **Strategy 2020**

# Commentary

## GROUP PERFORMANCE

Famous Brands reported a very strong set of results for the year under review. The Group's resilience in the face of adverse trading conditions is attributable to a strategic and integrated business model, dedicated leadership, and unwavering focus on constant innovation in the business's branded food service solutions which are designed to ensure relevance to consumers, competitive advantage for franchise partners and rewarding returns for all stakeholders.

Strong organic growth was reported by the Brands, Logistics and Manufacturing operations, complemented by solid results derived from the integration of newly acquired businesses. In the Brands division, both the Leading and Signature portfolios delivered rewarding performances, underpinned by the Group's compete-to-win culture and best practice disciplines across the offering. The Logistics and Manufacturing divisions successfully integrated higher volumes of existing business as well as new volumes arising from acquisitions, as reflected in their pleasing results.

As advised in the respective SENS announcements, Famous Brands concluded seven acquisitions during the period. These included:

- The UK's premium burger category market leader, Gourmet Burger Kitchen (GBK), the Group's largest acquisition to date and a transformational one for the business model.
- The establishment of joint venture partnerships with local emerging brands, Salsa Mexican Grill, Lupa Osteria and Catch.
- The acquisition of a 49.9% stake in commercial catering company, By Word of Mouth.
- The acquisition of Lamberts Bay Foods (LBF), a manufacturer of French fries and other potato products, and Coega Concentrate, a tomato paste processing plant based in the Eastern Cape.

All of the abovementioned acquisitions were successfully integrated into the Group's operations during the year. They are discussed in more detail under the respective divisional reports in this announcement.

## FINANCIAL RESULTS

Famous Brands' strong results track record is exemplified by another consecutive year of improved turnover and operating profits.

Revenue for the period grew by 33% to R5.7 billion (2016: R4.3 billion), which includes 20 weeks of turnover contribution from the GBK business which was acquired with effect from 7 October 2016. Operating profit before non-operational items increased 18% to R938 million (2016: R792 million). The operating margin before non-operational items declined to 16.4% (2016: 18.4%) due to a higher percentage of joint venture entities and company-owned restaurants in the system; the incorporation of high-volume lower-margin manufacturing business; and continued investment in resources to enhance operational capabilities.

The Group's results for the year under review were impacted on by the following once-off non-operational items related to the GBK acquisition: a realised derivative loss of R33 million on the call option that was utilised to hedge the purchase price of the acquisition; a realised foreign exchange loss of R23 million arising from the unfavourable movement in the ZAR:GBP exchange rate between the acquisition payment date and the effective date; and professional fees related to the acquisition of R50 million.

As previously disclosed in the interim results announcement on 24 October 2016, the Group recognised an impairment loss of R20 million on the investment made in 2013 in UAC Restaurants Limited in Nigeria.

Net finance costs incurred for the period were R132 million compared to R7 million in the prior corresponding period mainly as a result of interest-bearing borrowings raised to fund growth in operations and to optimise the Group's capital structure.

Accordingly, headline earnings per share (HEPS) decreased 21% to 428 cents per share (2016: 541 cents per share). HEPS before non-operational items and additional interest costs, rose 13% to 613 cents per share (2016: 541 cents per share).

Cash generated by operations before changes in working capital increased to R932 million (2016: R875 million). Working capital changes improved to R137 million (2016: R156 million). After changes in working capital, cash generated by operations increased to R795 million (2016: R718 million).

The Group raised interest-bearing borrowings of R2.4 billion to fund its operating activities, while employing the cash generated from operations to fund among others, the GBK acquisition and related transaction costs. Cash utilised in investing activities was R2.3 billion (2016: R202 million).

The effective tax rate for the period increased to 34% from 29% in the prior year as a result of the once-off non-operational items related to the GBK acquisition. Tax payments were R215 million (2016: R244 million).

At the end of the period, net cash increased to R405 million (2016: R6 million). The Group's gearing ratio relative to its market capitalisation as at 28 February 2017 was 16%.

# Commentary continued

## OPERATIONAL REVIEWS

### BRANDS

The Group's Brands portfolio is strategically structured to appeal to a wide range of consumers across the income and demographic spectrum and across meal preferences and value propositions.

The Brands division comprises the following regions: South Africa, Rest of Africa and the Middle East (AME), and the United Kingdom (UK).

Throughout this division, management's focus was on building capability and advancing market penetration.

During the review period, 192 restaurants were opened, bringing the Group's total brand network to 2 782 restaurants (2016: 2 614). The trading environment is monitored closely by management to ensure the restaurant footprint is aligned with market demand; while new restaurant openings were in line with the prior year, there is a general trend to more closures than in previous years given the current economic environment and changing demographic landscape. The Group's restaurant revamp programme continued to gain traction, with 220 restaurants refurbished; post-revamp results have been rewarding.

The performance of the Group's brands in the three operating regions is discussed below.

### SOUTH AFRICA

Revenue increased 15% to R781 million (2016: R681 million). Operating profit rose by 10% to R427 million (2016: R389 million), while the operating margin declined to 54.7% (2016: 57.1%). System-wide sales grew 11.5%.

#### Leading brands portfolio

The Group's Quick Service brands recorded another excellent set of results, while the Casual Dining brands performed solidly in a category that experienced intensified pressure as the economy worsened over the review period. Particularly impressive performances were reported by Debonairs Pizza, Steers, Fishaways and Milky Lane, with each of these brands reporting robust double-digit growth.

#### Signature brand portfolio

Among the established Signature brands, strong double-digit system-wide sales were delivered by tashas, Turn 'n Tender (with the brand also opening its first two restaurants outside of Gauteng), NetCafé, Coffee Couture and Thrupps; the growth reported across these brands was derived primarily from consistent menu innovation and new restaurant openings.

As announced in November 2015, Famous Brands signed an exclusive licence agreement with global bakery-café business, PAUL, to become the brand's South African Licenced Partner for a 10-year period. On 2 March of this year, the Group opened its flagship PAUL restaurant in Melrose Arch, Gauteng, to widespread acclaim from customers.

#### Hospitality portfolio

The acquisition of a 49.9% stake in multi-awarded commercial catering company, By Word of Mouth, affords the Group access to the broader food services category. Key strategic initiatives planned for the business include growing its existing presence in the premium corporate market, establishing a footprint in Cape Town and Durban, and entering the home meal replacement retail space through high-end stand-alone stores retailing bespoke products.

### REST OF AFRICA AND THE MIDDLE EAST (AME)

#### Overview

Combined revenue in Rand terms grew to R249 million (2016: R145 million). Operating profit rose by 47% to R50 million (2016: R34 million), while the operating margin declined to 19.9% (2016: 23.3%). System-wide sales for the period rose 8.3%. The AME region contributes 9.3% to the Group's total system-wide Brands division sales.

The Group has in excess of 20 years of experience in the Rest of Africa and is represented in 15 countries. Seventeen restaurants (2016: 33) were opened in the review period, substantially fewer than management's initial forecasts. This disappointing new restaurant roll-out is a function of weak trading conditions in the region, financial institutions' tighter lending criteria and restricted access to foreign exchange for prospective franchisees.

Debonairs Pizza and Mugg & Bean were once again the best performing brands in the region.

Management continues to assess and evaluate the Group's participation in the region and in line with the stated policy to implement a narrow and deep strategy, the business exited three underperforming markets, Ivory Coast, Democratic Republic of Congo and Tanzania, while additional resources have been allocated to more favourable markets, including Malawi, Zambia and Mauritius.

Debonairs Pizza in the United Arab Emirates (UAE) benefited from the introduction of new management, resulting in improved sales growth. The brand will focus on sourcing new franchisees in the forthcoming period.

tashas' maiden restaurant in the UAE, launched in Jumeirah in 2015, has traded strongly since opening. Based on this success, extensive groundwork has been conducted over the past two years in preparation for the brand's robust expansion in the UAE. Subsequent to year-end, one restaurant was opened in Abu Dhabi and another in Dubai. Three additional restaurants will be opened in Dubai during the remainder of the 2018 financial year.

## UNITED KINGDOM

### Overview

As noted, the effective date of the GBK acquisition was 7 October 2016, and therefore GBK's contribution to the Brands division's total results is for a period of 20 weeks only. In order to present an accurate comparison with the prior corresponding year, the pre-existing (Wimpy and Steers) UK business will be reported on separately for the purposes of this report. Henceforth the combined results of the entire UK operation will be presented.

Economic uncertainty, largely due to Brexit concerns, was a key feature during the period, and the consequent devaluation of the currency, while encouraging an influx of tourists, exacerbated existing inflationary pressure on disposable income.

### Wimpy UK

This business reported a marginal decline in revenue in Sterling. Revenue in Rand terms decreased to R105 million (2016: R116 million), mainly as a function of foreign exchange translation loss, which amounted to R8 million (2016: R15 million gain). Operating profit decreased to R19 million (2016: R33 million), while the operating margin declined to 18.1% (2016: 28.2%).

Several constructive initiatives were introduced during the period, including a new restaurant design, which has had a positive impact on sales growth and in attracting a younger customer base. Further investment in strengthening the operations team has also delivered benefits to the business. Management is confident that Wimpy's offering is structured to capitalise on growth opportunities as the economy improves.

The Steers brand has failed to gain traction in the UK market, with only one restaurant remaining. There are no plans to grow this footprint.

### GBK

In the 20-week period from the acquisition of GBK to Famous Brands' 28 February year-end, the business contributed £35 million in revenue (R599 million) and £2 million (R36 million) in operating profit to the Group's Brands division results.

GBK's higher system-wide and like-on-like turnover was driven by increased sales derived from online, entertainment venue restaurants and London city restaurants. Industry statistics confirm that the brand's results outperformed the market average.

Eight restaurants were opened and two revamped in the specified period.

In June 2016, GBK acquired its five formerly franchised restaurants in Ireland and converted them to company-owned sites. Over the past year, three of the restaurants underwent major revamps to align them with the brand's current look and feel. The focus in the period ahead will be on streamlining the performance of these restaurants.

Management is satisfied that the integration of GBK into the business has proceeded according to programme and is optimistic that the operation will add significant value to the Group over time.

## SUPPLY CHAIN

The Group's Supply Chain division comprises its Logistics and Manufacturing businesses, which are managed and measured separately. Consolidated revenue for the period increased 18% to R4.0 billion (2016: R3.4 billion), while operating profit rose 31% to R455 million (2016: R348 million). The operating profit margin improved to 11.4% (2016: 10.3%).

## LOGISTICS

Revenue for the period increased 17% to R3.4 billion (2016: R2.9 billion), while operating profit improved 24% to R125 million (2016: R100 million). The operating margin increased to 3.6% (2016: 3.4%).

These pleasing results are a reflection of the integration of new brand business into the distribution network and a full-year contribution from Crown Mines Distribution Centre, versus 10 months in the prior corresponding period (this facility manages the previously outsourced frozen and chilled product basket in Gauteng). In addition, efficiencies were improved with the significant increase in fleet size and the opening of the Long Meadow Distribution Centre in August 2016, which added substantial storage capacity to the operation.

Capital expenditure of R32 million was incurred on facility and fleet upgrades.

## MANUFACTURING

This division reported an impressive performance in the year under review, delivering a 28% increase in revenue to R2.3 billion (2016: R1.8 billion), while operating profit rose 33% to R330 million (2016: R247 million). These results are attributable to continued improvements across the operation with particularly strong performances recorded by the Famous Brands Cheese Company and Famous Brands Meat Company.

Despite the extended drought which resulted in higher beef, pork and chicken prices, the operating margin improved to 14.3% (2016: 13.7%) due to intensive cost containment achieved through enhanced efficiencies in the business.

Capital expenditure of R29 million was incurred on plant upgrades, machinery and equipment.

**Lamberts Bay Foods Limited (LBF)**
During the review period, LBF was successfully integrated into Famous Brands' operations, and, in addition to supplying its pre-existing retail customers, the business now also supplies the Group's entire restaurant network. Initiatives have been identified within the plant to improve capacity and ramp up production to meet growing demand.

**Famous Brands Coega Concentrate**
This state-of-the-art tomato paste manufacturing plant was acquired out of liquidation in June 2016. During the period, an experienced management team was appointed and the plant was recommissioned with a small volume of tomatoes, successfully producing quality paste.

While the business commenced with building a robust farmer-supplier pipeline for the forthcoming season, management's key challenge for the foreseeable future will be to establish a strong long-term procurement base to ensure full, sustainable utilisation of the plant's substantial capacity. This process will take considerable time and realisation of this operation's profitability is viewed as a protracted scenario.

## DIRECTORATE AND COMPANY SECRETARY

During the year and as announced on SENS, the Board of Directors was restructured as follows:

- With effect from 1 June 2016, Ms Thembisa Skweyiya was appointed as an independent non-executive director to the Board.
- Effective 1 July 2016, Mr Norman Richards, formerly Group Financial Director, was appointed as Group Commercial Executive, and Ms Kelebogile Ntlha, formerly Group Financial Executive and Company Secretary, was appointed as Group Financial Director.
- Mr Ian Isdale assumed the position of Company Secretary on a consultancy basis for six months with effect from 31 August 2016. As of 28 February 2017, Mr Isdale's appointment was extended to 28 February 2018.

Subsequent to the year-end and effective 2 May 2017, Mr Kevin Hedderwick was appointed as a non-executive director to the Board.

The Group remains committed to transforming the composition of the Board to ensure compliance with the JSE Listings Requirements as well as to continually enhance the range of expertise and experience available to the business.

## PROSPECTS

Management does not envisage an improvement in the Group's home market economy in the near future, and inevitably the downgrade of the country's sovereign credit rating to sub-investment status will harm business and consumer confidence. In the UK market, continued short-term uncertainty is anticipated as Brexit negotiations proceed.

Notwithstanding this context, the Group will remain strongly focused on growth. Management will assiduously implement opportunities within the business to build scale across the Brands and Manufacturing divisions, while also remaining receptive to prospective acquisitions which align with the Group's vision to be the leading innovative branded franchised and food services business in South Africa and selected international markets by 2020.

Among the key priorities are to leverage synergies and enhance efficiencies across the operations to contain costs. Constant innovation and improvement in the business aimed at delivering unique customer experiences will remain management's firm intent.

The acquisition of GBK has been significant in furthering the Group's goal to diversify its earnings and expand its geographic footprint. Management is enthusiastic about the opportunities presented by the business and the UK market.

Higher levels of capital expenditure will be incurred in line with the Group's strategy to open additional company-owned restaurants in the UK and invest in building capacity and scale across the business. This investment includes bolstering the human capital component and fortifying the depth of leadership structures across the business to align with growth ambitions. Management is confident that this investment is prudent and will deliver the anticipated benefits.

## DIVIDEND

As outlined in this announcement, the Group concluded a number of acquisitions during the year to support its robust growth targets. Consequently, the business's gearing is substantially higher than in prior years and the Board has therefore resolved that no final dividend will be declared for the period. As reported in the interim results announcement, it is anticipated that, subject to future acquisitions, payment of dividends will resume in the 2018 financial year.

**SL Botha**
Independent Chairman

**DP Hele**
Chief Executive Officer

Midrand
29 May 2017

# Audit opinion

These summarised consolidated financial statements for the year ended 28 February 2017 have been derived from the audited consolidated financial statements of Famous Brands Limited for the year ended 28 February 2017, on which the auditors, Deloitte & Touche, have expressed an unmodified audit opinion. The information as set out in this announcement has been extracted from audited information but is not itself audited.

A copy of the auditor's report, together with the accompanying financial information, can be obtained from the company's registered office. The auditor's report and the audited consolidated financial statements will be available on the company's website (www.famousbrands.co.za) on 30 June 2017.

The Board of Directors of Famous Brands takes full responsibility for the preparation of this provisional report and for ensuring that the financial information has been correctly extracted from the underlying financial statements.

# Summarised consolidated statement of financial position

at 28 February 2017

| | Note | 2017 R000 | 2016 R000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | **4 315 513** | 1 436 377 |
| Property, plant and equipment | 5 | **1 397 601** | 286 448 |
| Intangible assets | 6 | **2 818 755** | 1 095 888 |
| Investments in associates | | **83 083** | 52 746 |
| Deferred tax | | **16 074** | 1 295 |
| **Current assets** | | **1 570 940** | 971 906 |
| Inventories | | **454 656** | 301 625 |
| Current tax assets | | **38 174** | 60 786 |
| Derivative financial instruments | | **–** | 100 |
| Trade and other receivables | | **649 290** | 463 261 |
| Cash and cash equivalents | | **428 820** | 146 134 |
| **Total assets** | | **5 886 453** | 2 408 283 |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to owners of Famous Brands Limited | | **1 383 509** | 1 474 780 |
| Non-controlling interests | | **101 805** | 75 819 |
| **Total equity** | | **1 485 314** | 1 550 599 |
| **Non-current liabilities** | | **3 407 380** | 214 690 |
| Borrowings | 13 | **2 740 744** | – |
| Derivative financial instruments | | **196 469** | 124 821 |
| Lease liabilities | | **80 122** | 10 858 |
| Deferred tax | | **390 045** | 79 011 |
| **Current liabilities** | | **993 759** | 642 994 |
| Non-controlling shareholder loans | | **22 130** | 24 988 |
| Derivative financial instruments | | **23 381** | – |
| Lease liabilities | | **6 548** | 1 689 |
| Trade and other payables | | **790 891** | 462 481 |
| Shareholders for dividends | | **2 221** | 1 873 |
| Current tax liabilities | | **10 109** | 11 713 |
| Borrowings | 13 | **114 853** | – |
| Bank overdrafts | | **23 626** | 140 250 |
| **Total liabilities** | | **4 401 139** | 857 684 |
| **Total equity and liabilities** | | **5 886 453** | 2 408 283 |

# Summarised consolidated statement of profit or loss and other comprehensive income

## for the year ended 28 February 2017

| | Note | 2017 R000 | 2016 R000 | % change |
|---|---|---|---|---|
| **Revenue** | | **5 720 363** | 4 308 318 | 33 |
| Cost of sales | | **(2 948 744)** | (2 469 947) | |
| **Gross profit** | | **2 771 619** | 1 838 371 | 51 |
| Selling and administrative expenses | | **(1 833 571)** | (1 046 263) | 75 |
| **Operating profit before non-operational items** | | **938 048** | 792 108 | 18 |
| Non-operational items | 8 | **(120 755)** | (12 000) | |
| **Operating profit after non-operational items** | | **817 293** | 780 108 | |
| Net finance costs** | | **(131 557)** | (6 909) | |
| Finance costs | | **(184 389)** | (27 375) | |
| Finance income | | **52 832** | 20 466 | |
| Share of profit/(loss) of associates | | **4 314** | (622) | |
| **Profit before tax** | | **690 050** | 772 577 | (11) |
| Tax | | **(235 246)** | (221 011) | |
| **Profit for the year** | | **454 804** | 551 566 | (18) |
| **Other comprehensive income, net of tax:** | | | | |
| Exchange differences on translating foreign operations* | | **(245 603)** | 65 753 | |
| Movement in hedge accounting reserve* | | **(2 704)** | – | |
| Effective portion of change in fair value of cash flow hedges | | **(3 867)** | – | |
| Tax on movement in hedge accounting reserve | | **1 163** | – | |
| **Total comprehensive income for the year** | | **206 497** | 617 319 | |
| **Profit for the year attributable to:** | | | | |
| Owners of Famous Brands Limited | | **413 747** | 527 699 | |
| Non-controlling interests | | **41 057** | 23 867 | |
| | | **454 804** | 551 566 | |
| **Total comprehensive income attributable to:** | | | | |
| Owners of Famous Brands Limited | | **165 440** | 593 452 | |
| Non-controlling interests | | **41 057** | 23 867 | |
| | | **206 497** | 617 319 | |
| **Basic earnings per share (cents)** | | | | |
| Basic | 7.1 | **414** | 529 | (22) |
| Diluted | 7.1 | **413** | 528 | (22) |
| **Basic earnings per share before non-operational items and additional interest costs (cents)** | | | | |
| Basic | 7.1 | **614** | 541 | 13 |
| Diluted | 7.1 | **612** | 540 | 13 |

** This item may be reclassified subsequently to profit or loss*
*** The increase in net finance costs relates to borrowings raised during the year under review*

# Summarised consolidated statement of changes in equity

for the year ended 28 February 2017

| | 2017 R000 | 2016 R000 |
|---|---|---|
| **Balance at the beginning of the year** | **1 550 599** | 1 417 154 |
| Issue of capital and share premium | **6 121** | 217 |
| Recognition of share-based payments | **26 306** | 10 173 |
| Recognition of put-options over non-controlling interests | **(73 233)** | (118 426) |
| Total comprehensive income for the year | **206 497** | 617 319 |
| Payment of dividends* | **(227 512)** | (398 389) |
| Non-controlling interests arising on business combinations | **1 033** | 24 889 |
| Change in ownership interests in subsidiaries | **(2 929)** | (3 906) |
| Contingent consideration | **(1 568)** | 1 568 |
| **Balance at the end of the year** | **1 485 314** | 1 550 599 |

** Dividend relates to final dividend for F2016 and dividends paid to non-controlling interests*

# Summarised consolidated statement of cash flows

for the year ended 28 February 2017

| | Note | 2017 R000 | 2016 R000 |
|---|---|---|---|
| **Cash generated before working capital changes** | | **931 852** | 874 733 |
| Increase in inventories | | **(91 118)** | (84 357) |
| Increase in trade and other receivables | | **(16 033)** | (131 452) |
| (Decrease)/increase in trade and other payables | | **(29 439)** | 59 446 |
| **Cash generated from operations** | | **795 262** | 718 370 |
| Net interest paid | | **(84 628)** | (205) |
| Tax paid | | **(214 715)** | (243 993) |
| **Cash available from operating activities** | | **495 919** | 474 172 |
| Dividends paid | | **(227 164)** | (398 003) |
| **Net cash inflow from operating activities** | | **268 755** | 76 169 |
| **Cash utilised in investing activities** | | | |
| Additions to property, plant and equipment | | **(282 440)** | (82 199) |
| Intangible assets acquired | | **(40 807)** | (42 749) |
| Proceeds from disposal of property, plant and equipment | | **10 004** | 2 527 |
| Net cash outflow on acquisition of subsidiaries | 11 | **(1 897 991)** | (83 989) |
| Net cash outflow on acquisition of associate | | **(50 573)** | – |
| Dividends received from associate | | **4 550** | 4 200 |
| **Net cash outflow from investing activities** | | **(2 257 257)** | (202 210) |
| **Cash flow from financing activities** | | | |
| Borrowings raised | | **2 484 979** | – |
| Underwriting and participation fees paid on borrowings raised | | **(62 073)** | – |
| Cash (paid to)/contributed by non-controlling shareholders | | **(2 315)** | 539 |
| Proceeds from issue of equity instruments of Famous Brands Limited | | **6 121** | 217 |
| Acquired from non-controlling interests in subsidiaries | | **(2 929)** | (18 084) |
| **Net cash inflow/(outflow) from financing activities** | | **2 423 783** | (17 328) |
| Net increase/(decrease) in cash and cash equivalents | | **435 281** | (143 369) |
| Foreign currency effect | | **(35 971)** | 23 025 |
| Cash and cash equivalents at the beginning of the year | | **5 884** | 126 228 |
| **Cash and cash equivalents at the end of the year*** | | **405 194** | 5 884 |

** Comprises cash and cash equivalents of R429 million (2016: R146 million) and bank overdrafts of R24 million (2016: R140 million)*

# Primary (business units) and secondary (geographical) segment report

for the year ended 28 February 2017

| | Note | 2017 R000 | 2016 R000 | % change |
|---|---|---|---|---|
| **Revenue** | | | | |
| Franchising and Development | | **780 887** | 681 364 | 15 |
| Supply Chain | | **3 983 297** | 3 363 929 | 18 |
| Manufacturing | | **2 300 418** | 1 799 958 | 28 |
| Logistics | | **3 415 746** | 2 911 061 | 17 |
| Eliminations | | **(1 732 867)** | (1 347 090) | 29 |
| Corporate | | **2 800** | 2 562 | |
| South Africa | | **4 766 984** | 4 047 855 | 18 |
| International | | **953 379** | 260 463 | 266 |
| United Kingdom (UK) | | **704 182** | 115 696 | 509 |
| Rest of Africa and Middle East (AME)* | | **249 197** | 144 767 | 72 |
| **Total** | | **5 720 363** | 4 308 318 | 33 |
| **Operating profit** | | | | |
| Franchising and Development | | **426 755** | 389 282 | 10 |
| Supply Chain | | **454 671** | 347 653 | 31 |
| Manufacturing | | **330 103** | 247 455 | 33 |
| Logistics | | **124 568** | 100 198 | 24 |
| Corporate | | **(48 463)** | (11 239) | |
| South Africa | | **832 963** | 725 696 | 15 |
| International | | **105 085** | 66 412 | 58 |
| UK | | **55 468** | 32 640 | 70 |
| AME* | | **49 617** | 33 772 | 47 |
| **Operating profit before non-operational items** | | **938 048** | 792 108 | 18 |
| Franchising and Development | | **–** | (12 000) | |
| Impairment loss | 8 | **–** | (12 000) | |
| Corporate | | **(483 244)** | (228 542) | |
| Non-operational items | 8 | **(100 755)** | – | |
| Impairment loss | 8 | **(20 000)** | – | |
| Net finance costs | | **(131 557)** | (6 909) | |
| Share of profit/(loss) of associates | | **4 314** | (622) | |
| Tax | | **(235 246)** | (221 011) | |
| **Profit for the year** | | **454 804** | 551 566 | (18) |

| | 2017 % | 2016 % | % change |
|---|---|---|---|
| **Operating margins** | | | |
| Franchising and Development | **54.7** | 57.1 | (2.4) |
| Supply Chain | **11.4** | 10.3 | 1.4 |
| Manufacturing | **14.3** | 13.7 | 0.6 |
| Logistics | **3.6** | 3.4 | 0.2 |
| South Africa | **17.5** | 17.9 | (0.4) |
| International (Rest of Africa, Middle East and UK) | **11.0** | 25.5 | (14.5) |
| UK | **7.9** | 28.2 | (20.3) |
| AME* | **19.9** | 23.3 | (3.4) |
| **Total** | **16.4** | 18.4 | (2.0) |

** Previously categorised as Rest of Africa*

# Statistics and ratios

| | 2017 R000 | 2016 R000 | % change |
|---|---|---|---|
| **Basic earnings per share (cents)** | | | |
| Basic | **414** | 529 | (22) |
| Diluted | **413** | 528 | (22) |
| **Basic earnings per share before non-operational items and additional interest costs (cents)** | | | |
| Basic | **614** | 541 | 13 |
| Diluted | **612** | 540 | 13 |
| **Headline earnings per share (cents)** | | | |
| Basic | **428** | 541 | (21) |
| Diluted | **426** | 540 | (21) |
| **Headline earnings per share before non-operational items and additional interest costs (cents)** | | | |
| Basic | **613** | 541 | 13 |
| Diluted | **612** | 540 | 13 |
| **Dividends per share (cents)** | **–** | 405 | |
| Interim | **–** | 190 | |
| Final | **–** | 215 | |
| **Ordinary shares (000)** | | | |
| in issue | **99 862** | 99 812 | |
| weighted average | **99 842** | 99 810 | |
| diluted weighted average | **100 092** | 99 892 | |
| **Operating profit margin (%)** | **16.4** | 18.4 | |
| **Net debt/equity (%)** | **165.0** | (0.4) | |
| **Net asset value per share (cents)** | **1 487** | 1 554 | |

# Notes to the summarised consolidated financial statements

## for the year ended 28 February 2017

Famous Brands Limited (the "company") is a South African registered company. The summarised consolidated financial statements of the company comprise the company and its subsidiaries (together referred to as the Group) and the Group's interest in associates.

**1. Statement of compliance**

These provisional summarised consolidated financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by Financial Reporting Standards Council, and contains at a minimum the information required by IAS 34, the JSE Listings Requirements, and the Companies Act of South Africa.

**2. Basis of preparation**

The summarised consolidated financial statements do not include all the information and disclosures required for the full set of audited consolidated financial statements, and should be read in conjunction with the full set of the audited Annual Financial Statements which are available at the registered office of the company and will be available on our website at www.famousbrands.co.za on 30 June 2017.

The consolidated audited Annual Financial Statements and the summarised consolidated financial statements as at and for the year ended 28 February 2017 were prepared on the going concern basis. The accounting policies applied in the presentation of the summarised consolidated financial statements are consistent with those applied for the year ended 29 February 2016, except for new standards or amendments that became effective for the Group's financial period beginning 1 March 2016, refer note 3.

In light of a number of non-operational items and additional interest costs incurred during the year, the Group has presented earnings per share and headline earnings per share excluding these items to enhance comparability to prior year results.

The summarised consolidated financial statements were prepared on the historical cost basis, under the supervision of Kelebogile (Lebo) Ntlha, Group Financial Director.

**3. Changes in accounting policies**

The Group has adopted all the new, revised or amended accounting standards which were effective for the Group from 1 March 2016, none of which had a material impact on the Group.

| | | 2017 R000 | 2016 R000 |
|---|---|---|---|
| **4.** | **Capital expenditure and commitments** | | |
| | **Invested** | **324 824** | 124 948 |
| | Property, plant and equipment | **282 167** | 82 199 |
| | Intangible assets | **42 657** | 42 749 |
| | **Authorised, not yet contracted** | **426 163** | 169 815 |
| | Property, plant and equipment | **419 760** | 156 917 |
| | Intangible assets | **6 403** | 12 898 |
| **5.** | **Property, plant and equipment** | | |
| | **Opening balance** | **286 448** | 208 951 |
| | Additions | **285 467** | 82 199 |
| | Acquired in business combinations | **992 605** | 38 025 |
| | Government grant | **(2 992)** | (1 078) |
| | Foreign currency translation | **(64 489)** | 1 945 |
| | Disposals | **(5 091)** | (2 405) |
| | Depreciation | **(94 347)** | (41 189) |
| | **Closing balance** | **1 397 601** | 286 448 |
| **6.** | **Intangible assets** | | |
| | **Opening balance** | **1 095 888** | 922 576 |
| | Additions | **40 807** | 59 955 |
| | Acquired in business combinations | **1 888 402** | 90 219 |
| | Foreign currency translation | **(186 787)** | 46 859 |
| | Disposals | **(3 955)** | – |
| | Amortisation | **(15 600)** | (11 721) |
| | Impairment | **–** | (12 000) |
| | **Closing balance** | **2 818 755** | 1 095 888 |

# Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2017

| | | Note | 2017 Gross amount R000 | 2017 Income tax R000 | 2017 Net R000 | 2016 Gross amount R000 | 2016 Income tax R000 | 2016 Net R000 |
|---|---|---|---|---|---|---|---|---|
| **7.** | **Basic and headline earnings per share** | | | | | | | |
| **7.1** | **Basic earnings per share** | | | | | | | |
| | Profit attributable to equity holders of Famous Brands Limited | | | | **413 747** | | | 527 699 |
| | **Basic and diluted earnings** | | | | **413 747** | | | 527 699 |
| | *Adjustments for:* | | | | | | | |
| | Non-operational items | 8 | **120 755** | **(16 288)** | **104 467** | 12 000 | – | 12 000 |
| | Additional interest costs | | **106 454** | **(11 837)** | **94 617** | – | – | – |
| | Interest on borrowings | | **94 000** | **(11 837)** | **82 163** | – | – | – |
| | Remeasurement of interest rate swap (ineffective portion) | | **5 416** | **–** | **5 416** | – | – | – |
| | Amortisation of underwriting and participation fees | | **7 038** | **–** | **7 038** | – | – | – |
| | **Basic and diluted earnings before non-operational items and additional interest costs** | | | | **612 831** | | | 539 699 |
| | Basic earnings per share (cents) | | | | | | | |
| | Basic | | | | **414** | | | 529 |
| | Diluted | | | | **413** | | | 528 |
| | Basic earnings per share before non-operational items and additional interest costs (cents) | | | | | | | |
| | Basic | | | | **614** | | | 541 |
| | Diluted | | | | **612** | | | 540 |
| **7.2** | **Headline earnings per share** | | | | | | | |
| | **Basic earnings** | 7.1 | | | **413 747** | | | 527 699 |
| | *Adjustments:* | | **12 829** | **268** | **13 097** | 11 878 | 34 | 11 912 |
| | Profit on disposal of property, plant and equipment | | **(958)** | **268** | **(690)** | (122) | 34 | (88) |
| | Gain on bargain purchase | | **(6 213)** | **–** | **(6 213)** | – | – | – |
| | Impairment loss | | **20 000** | **–** | **20 000** | 12 000 | – | 12 000 |
| | **Headline earnings** | | | | **426 844** | | | 539 611 |
| | *Adjustments:* | | | | | | | |
| | Non-operational items | | **106 968** | **(16 288)** | **90 680** | – | – | – |
| | Additional interest costs | 7.1 | **106 454** | **(11 837)** | **94 617** | – | – | – |
| | **Headline earnings and diluted headline earnings before non-operational items and additional interest costs** | | | | **612 141** | | | 539 611 |
| | Headline earnings per share (cents) | | | | | | | |
| | Basic | | | | **428** | | | 541 |
| | Diluted | | | | **426** | | | 540 |
| | Headline earnings per share before non-operational items and additional interest costs (cents) | | | | | | | |
| | Basic | | | | **613** | | | 541 |
| | Diluted | | | | **612** | | | 540 |

| | | 2017 R000 | 2016 R000 |
|---|---|---|---|
| **8.** | **Non-operational items*** | | |
| | Impairment loss | **20 000** | 12 000 |
| | Derivative loss on call option utilised to hedge purchase price | **33 253** | – |
| | Foreign exchange loss on initial recognition of investment | **23 295** | – |
| | Professional fees | **50 420** | – |
| | Gain on bargain purchase | **(6 213)** | – |
| | | **120 755** | 12 000 |

** Represents non-operational items that are not expected to recur in future.*

## 9. Related party transactions

The Group entered into various sale and purchase transactions with related parties, in the ordinary course of business, on an arm's length basis. The nature of related-party transactions is consistent with those reported previously.

## 10. Financial instruments

**Accounting classifications and fair values**

The table below sets out the Group classification of each class of financial assets and liabilities, as well as a comparison to their fair values. The different fair value levels are described below:

Level 1: quoted prices (adjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: unobservable inputs for the asset or liability.

| | | Group | | | |
|---|---|---|---|---|---|
| | Level | 2017 Carrying amount R000 | 2017 Fair value R000 | 2016 Carrying amount R000 | 2016 Fair value R000 |
| **Financial assets** | | | | | |
| **Loans and receivables:** | | | | | |
| Trade and other receivables | | **551 844** | **551 844** | 444 069 | 444 069 |
| Cash and cash equivalents | | **428 820** | **428 820** | 146 134 | 146 134 |
| **Fair value through profit or loss:** | | | | | |
| Derivative financial instruments (foreign currency options) | 2 | **–** | **–** | 100 | 100 |
| | | **980 664** | **980 664** | 590 303 | 590 303 |
| **Financial liabilities** | | | | | |
| **Measured at amortised cost:** | | | | | |
| Trade and other payables | | **648 162** | **648 162** | 367 494 | 367 494 |
| Shareholders for dividends | | **2 221** | **2 221** | 1 873 | 1 873 |
| Lease liabilities | | **86 670** | **86 670** | 12 547 | 12 547 |
| Non-controlling shareholder loans | | **22 130** | **22 130** | 24 988 | 24 988 |
| Borrowings | | **2 855 597** | **2 855 597** | – | – |
| Bank overdrafts | | **23 626** | **23 626** | 140 250 | 140 250 |
| **Fair value through profit or loss:** | | | | | |
| Derivative financial instruments (put options over non-controlling interests) | 3 | **211 239** | **211 239** | 124 821 | 124 821 |
| **Fair value through other comprehensive income:** | | | | | |
| Derivative financial instruments (foreign currency swaps and foreign exchange contracts) | 2 | **102** | **102** | – | – |
| Derivative financial instruments (interest rate swaps) | 2 | **8 509** | **8 509** | – | – |
| | | **3 858 256** | **3 858 256** | 671 973 | 671 973 |

# Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2017

## 10. Financial instruments continued

**Level 3 sensitivity information**

The fair values of the level 3 financial liabilities of R211 million (2016: R125 million) were determined by applying an income approach valuation method including a present value discount technique. The fair value measurement includes inputs that are not observable in the market. Key assumptions used in the valuation of these instruments include the probability of achieving set profit targets and the discount rates. An increase/(decrease) of 1% in the discount rate would result in a (increase)/decrease of R7 million (2016: R5 million).

**Movements in level 3 financial instruments carried at fair value**

The following table illustrates the movements during the year of level 3 financial instruments carried at fair value:

| | | Group | | | |
|---|---|---|---|---|---|
| | Level | **2017 Carrying amount R000** | **2017 Fair value R000** | 2016 Carrying amount R000 | 2016 Fair value R000 |
| **Put options over non-controlling interests:** | | | | | |
| Carrying value at beginning of the year | | **124 821** | **124 821** | – | – |
| Initial recognition in equity for new acquisitions | | **73 233** | **73 233** | 118 426 | 118 426 |
| Unwinding of discount | | **14 813** | **14 813** | 6 395 | 6 395 |
| Remeasurements | | **(1 628)** | **(1 628)** | – | – |
| Carrying value at end of the year | | **211 239** | **211 239** | 124 821 | 124 821 |

## 11. Business combinations

| | **2017 R000** | 2016 R000 |
|---|---|---|
| **Summary of cash outflow on acquisition of subsidiaries** | | |
| Lupa Osteria | **3 958** | – |
| Salsa Mexican Grill | **4 985** | – |
| Lamberts Bay Foods | **73 530** | – |
| Gourmet Burger Kitchen (GBK) | **1 815 518** | – |
| Cater Chain Food Services and City Deep Cold Storage | **–** | 38 082 |
| Retail Group | **–** | 45 907 |
| **Total cash outflow on acquisition of subsidiaries** | **1 897 991** | 83 989 |

## 11. Business combinations continued

### 11.1 Purchase price allocation

Details of the fair value of identifiable net assets acquired are set out below:

| | 2017 Lupa Osteria R000 | 2017 Salsa Mexican Grill R000 | 2017 Lamberts Bay Foods R000 | 2017 Gourmet Burger Kitchen* R000 | 2016 Cater Chain Food Services and City Deep Cold Storage R000 | 2016 Retail Group R000 |
|---|---|---|---|---|---|---|
| Acquisition date | 1 May 2016 | 31 May 2016 | 1 Aug 2016 | 7 Oct 2017 | 1 Apr 2015 | 1 Aug 15 |
| Interest acquired | 51% | 51% | 100% | 100% | 75% | 51% |
| **Fair value of assets and liabilities acquired** | | | | | | |
| Property, plant and equipment | – | 2 566 | 48 188 | 941 813 | 21 245 | 16 781 |
| Intangible assets | – | – | 16 277 | 1 495 809 | 6 609 | 27 515 |
| Inventory | – | 137 | 38 361 | 25 034 | 28 970 | 1 519 |
| Trade and other receivables | – | 34 | 36 932 | 122 622 | 19 471 | 2 473 |
| Provision for doubtful debt | – | – | – | (14 332) | – | – |
| Receivables from shareholders | – | – | – | – | – | 56 |
| Cash and cash equivalents | 42 | 1 197 | 8 | 11 275 | – | 15 918 |
| Current tax assets | – | – | 1 314 | – | 787 | 1 942 |
| Borrowings | – | – | – | (427 301) | – | (1 232) |
| Deferred lease liabilities | – | – | – | – | – | (923) |
| Deferred tax | – | – | (16 218) | (315 146) | (3 871) | (6 159) |
| Trade and other payables | 89 | (1 952) | (45 110) | (375 471) | (45 296) | (16 923) |
| Bank overdraft | – | – | (3 539) | – | (8 082) | – |
| Current tax liabilities | (5) | – | – | (2 130) | – | – |
| Amounts due to shareholders | – | – | – | – | – | (75) |
| Net assets acquired | 126 | 1 982 | 76 213 | 1 462 173 | 19 833 | 40 892 |
| Non-controlling interests measured at their share of the fair value of net assets | (62) | (971) | – | – | (4 958) | (20 038) |
| Amount capitalised | 64 | 1 011 | 76 213 | 1 462 173 | 14 875 | 20 854 |
| Goodwill/(gain on bargain purchase) | 3 936 | 7 760 | (6 213) | 364 620 | 15 125 | 40 971 |
| Purchase price | 4 000 | 8 771 | 70 000 | 1 826 793 | 30 000 | 61 825 |
| Contingent consideration | – | (2 589) | – | – | – | – |
| Cash and cash equivalents | (42) | (1 197) | 3 530 | (11 275) | 8 082 | (15 918) |
| Cash outflow on acquisition of subsidiary | 3 958 | 4 985 | 73 530 | 1 815 518 | 38 082 | 45 907 |

**Transaction costs related to the GBK acquisition are disclosed in non-operational items (refer note 8)*

### 11.2 Goodwill and gain on bargain purchase

Goodwill arises from anticipated scale and merger benefits related to franchising, manufacturing and logistics capability.

Gain on bargain purchase arising from the Lamberts Bay Foods acquisition is attributable to fair value adjustments relating to property, plant and equipment and Intangible assets.

| 2017 | Lupa Osteria R000 | Salsa Mexican Grill R000 | Lamberts Bay Foods R000 | Gourmet Burger Kitchen R000 | Gourmet Burger Kitchen £000 |
|---|---|---|---|---|---|
| **11.3 Performance of acquired businesses** | | | | | |
| Results since acquisition to reporting date | | | | | |
| Revenue | 3 768 | 15 029 | 165 721 | 598 848 | 35 241 |
| Operating profit/(loss) | 95 | 3 678 | (339) | 36 926 | 2 173 |
| **Pro-forma results from the beginning of the year to the reporting date:** | | | | | |
| Revenue | 3 971 | 19 498 | 271 429 | 1 532 785 | 81 014 |
| Operating profit/(loss) | 173 | 4 535 | (4 765) | 67 015 | 3 542 |

# Notes to the summarised consolidated financial statements continued

for the year ended 28 February 2017

## 12. UK business (Wimpy and GBK)

The table below sets out the performance of the UK business segment in its underlying currency.

| | | 2017 | 2016 | % change |
|---|---|---|---|---|
| Revenue | £000 | **40 722** | 5 678 | 617 |
| Operating profit | £000 | **3 217** | 1 601 | 101 |
| Operating profit margin | % | **7.9** | 28.2 | |
| Revenue | R000 | **704 182** | 115 696 | 509 |
| Operating profit | R000 | **55 468** | 32 640 | 70 |
| Operating profit margin | % | **7.9** | 28.2 | |

## 13. Borrowings

| | Currency | Maturity date | Nature | Interest rate margin % | Rate | 2017 % | 2016 % | 2017 R000 | 2016 R000 |
|---|---|---|---|---|---|---|---|---|---|
| **Unsecured** | | | | | | | | | |
| Long-term borrowings | | | | | | | | 2 740 744 | – |
| Short-term portion of long-term borrowings | | | | | | | | 114 853 | – |
| | | | | | | | | 2 855 597 | – |
| ***Terms of repayment*** | | | | | | | | | |
| Syndicated facility: three-year bullet | ZAR | Sep 19 | variable | 2.35 | 3-month JIBAR | 7.36 | – | 720 000 | – |
| Syndicated facility: four-year bullet | ZAR | Sep 20 | variable | 2.55 | 3-month JIBAR | 7.36 | – | 720 000 | – |
| Syndicated facility: five-year amortising, repayable quarterly | ZAR | Sep 21 | variable | 2.45 | 3-month JIBAR | 7.36 | – | 960 000 | – |
| | | | | | | | | 2 400 000 | |
| Syndicated facility: revolving credit | £ | | variable | 2.15 | 3-month LIBOR | 0.34 | – | 485 553 | – |
| Transaction costs | | | | | | | | (55 035) | – |
| Interest accrued | | | | | | | | 25 079 | – |
| | | | | | | | | 2 855 597 | – |
| ***Maturity analysis – capital*** | | | | | | | | | |
| Payable within one year | | | | | | | | 114 853 | – |
| Payable between two and five years | | | | | | | | 2 740 744 | – |
| | | | | | | | | 2 855 597 | – |

Interest is paid quarterly in arrears.

The company has unlimited borrowing powers in terms of its Memorandum of Incorporation.

***Sensitivity analysis***

A change of 1% in interest rates at the reporting date would have increased/(decreased) profit or loss by R10 million.

***Interest risk management***

The Group utilises interest rate swap contracts to hedge its exposure to the variability of cash flows arising from unfavourable movements in interest rates.

***Facilities***

Total overdraft ZAR facility in place: R190 million. Unutilised portion at year-end: R166 million.

Total borrowing GBP facility in place: £30 million. Unutilised portion at year-end: £nil.

***Guarantees***

Famous Brands Limited, Famous Brands Management Company Proprietary Limited, Mugg and Bean Franchising Proprietary Limited, Venus Solutions Limited and Famous Brands UK Limited have guaranteed in terms of the syndicated loan agreement:

- Punctual performance by the Group of amounts due in the syndication agreement.
- Immediate payment of amounts due which the Group has not paid.
- To indemnify the finance parties against any cost, loss or liability it incurs as a result of the Group not paying amounts that are due.

## 14. Subsequent events

There were no material events after the reporting period.

## 15. Contingent liabilities

15.1 The Company and its South African subsidiaries have issued an unlimited suretyship in favour of FirstRand Bank Limited to secure the banking facilities entered into by certain subsidiary companies.

15.2 Guarantees issued by banks in favour of trade creditors totalled R9 million (2016: Rnil).

15.3 The Group's borrowings are unsecured, no pledges have been issued.

15.4 Refer to note 13 for cross guarantees issued on the Group's borrowings.

# Administration

## Famous Brands Limited

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

## Directors

NJ Adami, SL Botha (Independent Chairman), CH Boulle, P Halamandaris, P Halamandaris (Jnr), T Halamandaris, JL Halamandres, KA Hedderwick, DP Hele (Chief Executive Officer)*, RM Kgosana, K Ntlha (Group Financial Director)*, BL Sibiya, and T Skweyiya
* *Executive*

## Company Secretary

IWM Isdale

## Registered office

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PO Box 2884, Halfway House, 1685
Telephone: +27 11 315 3000
Email: investorrelations@famousbrands.co.za
Website address: www.famousbrands.co.za

## Transfer secretaries

Computershare Investor Services Proprietary Limited
Rosebank Towers
15 Biermann Avenue
Rosebank, 2196, South Africa
PO Box 61051, Marshalltown, 2107

## Sponsor

The Standard Bank of South Africa Limited
30 Baker Street, Rosebank, 2196

## Auditors

Deloitte & Touche

BASTION

famous | brands
*you're in good company*

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