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PRESS INFORMATION

FAMOUS BRANDS REPORTS SOLID RESULTS

- Revenue: R3.6 billion (2018: R3.6 billion)
- Strong cash generated: R573 million (2018: R540 million)
- Cash realisation rate: 102.5% (2018: 102.7%)
- Net asset value: 1 624 cents (2018: 1 375 cents)
- Operating profit: R405 million (2018: R422 million)
- Dividend per share: 90 cents (2018: nil)

Johannesburg; Monday, 28 October 2019: Famous Brands is a leading food services franchisor. The Group's vertically integrated business model comprises a portfolio of 20 restaurant brands, represented by 2 879 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.

GROUP PERFORMANCE OVERVIEW

CEO, Darren Hele, says, "Across our trading markets, consumer behaviour continued to be driven by the demand for convenience, value, and enhanced brand experiences." He adds, "Locally, consumer and business confidence remained at low levels throughout the six months under review, while in the UK, uncertainty arising from the change in political leadership and progress regarding Brexit weighed heavily on consumer sentiment and spend."

Hele comments, "The business delivered solid results in a challenging environment. Particularly pleasing was the good performance reported in the Brands division. Disappointingly, this performance did not pull through to the Supply Chain, which experienced weaker sales and significant margin pressure."

"Rewarding progress was achieved across our key strategic focus areas: to ensure the total value chain delivers franchisee profitability; to entrench the gold standard in the GBK business resulting in a more focused and relevant offering and an improvement in costs and efficiencies; and to focus on working capital management; ensure the best return on investment in key areas of the business and exit non-core business," states Hele.

RESULTS

Revenue of R3.57 billion was in line with the comparable period (2018: R3.58 billion). Operating profit before non-operational items was down 4% to R405.0 million (2018: R421.8 million). The Group reported basic earnings per share of 159 cents (2018: loss of 572 cents). This increase relates primarily to recognition of an impairment of R874 million in the GBK UK business in the prior comparable period; no impairment was recognised in the current period. Headline earnings per share decreased to 159 cents (2018: 188 cents).

Cash generated before working capital changes was R583.8 million (2018: R528.8 million). The cash realisation rate was 102.5% (2018: 102.7%). The net debt/equity ratio was 165% (2018: 142%); net debt increased to R2.7 billion (2018: R2.0 billion).

Having considered the Group's optimal capital allocation programme, the Board declared a dividend of 90 cents (2018: nil).

OPERATIONAL REVIEW: BRANDS

This portfolio is segmented into Leading and Signature brands, strategically positioned to appeal to a wide range of consumers across the income and demographic spectrum, meal preferences and value propositions.

Revenue increased by 11% to R481.1 million (2018: R432.2 million), with Leading brands contributing R386.4 million (2018: R366.5 million), up 5%. Signature brands' revenue rose 44% to R94.7 million (2018: R65.7 million), primarily due to the higher number of company-owned stores which generate higher revenue than royalty-only income from franchised stores. Operating profit rose 6% to R235.2 million (2018: R222.5 million), of which Leading brands contributed R220.2 million and Signature brands' the balance.

The division's operating margin declined to 48.9% (2018: 51.5%), reflecting a significant investment in technology capability in the Leading brands portfolio, sub-inflationary menu price increases, and higher operating costs.

During the review period, new store growth was notably lower than in prior years, with a total of 50 restaurants (2018: 79) opened. Hele notes, "In light of the weak economy, the roll-out of the brand footprint continues to be measured and conservative to ensure the sustainable viability of the network."

SA: Across the Leading and Signature brands, combined system-wide sales (including all restaurants opened during the period) grew 7.1% and like-for-like sales (excluding all restaurants opened or closed during the period) rose by 3.6%. Independently, Leading brands' system-wide sales increased 6.0% and like-for-like sales improved 4.0%. Signature brands' system-wide sales grew 14.0% reflecting the increase in new stores, while like-for-like sales rose 1.4%.

Leading brands portfolio: This portfolio comprises the Group's mainstream brands. In the period under review, Debonairs Pizza, Steers and FishAways increased their share of the market, while Wimpy, Mugg & Bean, Fego Caffé and Milky Lane did well to stabilise share in a subdued trading segment. Despite sub-inflationary menu increases, all of the brands in this portfolio reported pleasing like-for-like growth.

Hele says, "Ongoing innovation and calculated investment positioned our mainstream brands to compete more effectively and enhance their leadership status in their specific categories. Key focus remained on: prioritising resources to support the brands; improving the total customer experience through optimising opportunities in the online ordering and home delivery space, and enhancing consumer-facing technology; improving accessibility to customers through new flexible, convenience-centred trading formats; and driving cost leadership to entrench the sustainability of the franchise model for our partners."

Signature brands: This portfolio comprises a wide range of bespoke niche casual dining offerings. Good progress was achieved across the priority focus areas, namely: to drive margin growth; expand the footprint of those brands that are scalable; and rationalise under-performing brands and restaurants to improve the returns on this portfolio. Further opportunities to leverage these improvements exist.

"While strong system-wide sales were largely derived from the expanded network, good like-for-like sales growth was reported by certain of the brands, including Lupa Osteria, Coffee Couture and Vovo Telo, which traded ahead of the industry in a lacklustre market segment," Hele remarks.

AME: The Group is represented in 16 countries in this region. Revenue for the combined region grew by 13% in Rand terms to R152.6 million (2018: R135.2 million). Operating profit decreased by 15% to R20.6 million (2018: R24.3 million), while the operating margin declined to 13.5% (2018: 18.0%), primarily due to foreign currency translation.

System-wide sales improved by 10.3% (2018: 12.8%). Ten of our 15 markets delivered good system-wide sales, with five recording double-digit growth. The region contributed 8.3% (2018: 10.8%) to total system-wide Brands division sales.

Hele comments, "In line with the narrow and deep strategy which we implement in the rest of Africa, our focus was on driving the contribution of our major Leading brands in the territory, Debonairs Pizza, Steers, Wimpy and Mugg & Bean, which account for 80% of the Group's turnover in the AME."

WIMPY UK: Capitalising on consumers' growing demand for home delivery, the business expanded its multi-partner offering across the restaurant network, contributing to the positive like-for-like sales growth recorded. Revenue in Rands improved by 6% to R60.8 million (2018: R57.4 million), while revenue in Sterling was 1% lower. In Rand terms, operating profit increased by 57% to R13.4 million (2018: R8.5 million), while the operating margin rose to 22.0% (2018: 14.9%), underpinned by foreign currency translation gains.

GBK (UK AND IRELAND): Hele says, "In line with management's projections, the business made good progress, benefitting from the extensive range of operational improvements implemented, together with the CVA restructuring programme completed over the past year."

He notes, "Despite the subdued economy and general pressure experienced by the industry, GBK's like-for-like sales grew, attributable to intensified focus on the quality of the offering (product and experience); a targeted reinvestment in refurbishments; an intensified campaign to upweight online sales; and improved management of efficiencies and costs."

Revenue in Rand terms decreased by 7% to R640.7 million (2018: R691.6 million), while revenue in Sterling was 13% lower. Notably, the business reduced its operating loss by 76% from (R45.4 million) in the prior corresponding period to (R10.7 million). The operating margin improved from (6.6%) in the prior comparable period to (1.7%). The operating loss improvement includes R16.2 million related to the adoption of IFRS 16 *Leases*, which has an impact 2.5% on the operating margin improvement.

System-wide UK sales (Sterling) declined by 12.5% (2018: decrease of 6.8%) due to the closure of 24 stores as part of the CVA process; seven additional stores were closed during the review period. Significantly, like-for-like sales increased by 8.6% (2018: decrease of 9.7%). While dine-in sales declined in line with sector trends, online and delivery sales grew strongly, supported by promotional activity.

Hele remarks, "External benchmarks confirm that the business tracked ahead of the market during the six months. Notably, like-for-like sales post the end of the review period have remained positive, which is pleasing."

At the close of the reporting period, GBK's footprint comprised 73 stores. Three restaurants underwent full revamps, while 30 other sites received kerbside makeovers.

SUPPLY CHAIN: The integrated strategic Supply Chain comprises the Group's Logistics and Manufacturing operations in SA. Combined revenue for the review period decreased by 1% to R2.22 billion (2018: R2.25

billion). Operating profit declined by 18% to R209.1 million (2018: R256.0 million), while the operating margin reduced to 9.4% from 11.4% in the prior comparable period.

This disappointing performance is a reflection of weaker sales, sustained low food inflation which restricted opportunities to increase pricing, and the marked deterioration in the Logistics division's margin.

Hele says, "We are satisfied that the margin will improve to acceptable levels when the once-off and temporary expenses incurred in the Logistics business during the period have been addressed."

LOOKING FORWARD: Hele notes, "While trading conditions are likely to remain challenging across our markets, the Board and management are satisfied that good progress has been made in positioning the business for growth. Across the operations we will maintain intense focus on driving profitability by capitalising on opportunities internally and in the market. Cost optimisation across the operation will continue to be prioritised."

PROSPECTS: Hele says, "In the GBK operation our focus will remain on leveraging efficiencies achieved over the period and driving profitability and margin growth across the operation. The trading environment is expected to remain challenging for at least the medium-term, and we do not anticipate GBK returning to profitability before the end of the 2022 financial year."

"We are cautiously optimistic that wide ranging initiatives to provide consumers with ease of access to our brands and to deliver unique customer experiences at every touchpoint will provide the Group with a competitive advantage during the forthcoming holiday season. Notwithstanding macro-economic challenges faced in the Supply Chain, an improved performance in the Brands division should filter through and positively impact on the Manufacturing and Logistics divisions," Hele concludes.

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 # Leading brands' sales refer to sales of the Leading brands trading in SA.
^ Signature brands' sales refer to SA sales as well as sales cross border only where the brand is a Joint Venture partnership and the brand is not managed by its AME management team.
**Store numbers now exclude Frozen for You (FFY)*