Press Information: Interim Results for the six months ended 31 August 2020

FAMOUS BRANDS' RESILIENT BUSINESS MODEL WEATHERS PANDEMIC

- **Revenue**
  R2.0 billion
  down 48%
- **Operating margin**
  (5.5%)
- **Operating loss before non-operational items**
  (R110 million)
  down 129%
- **Net asset value**
  464 cents
  down 70.9%

Johannesburg; Monday, 26 October 2020: 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.

Darren Hele, Chief Executive Officer, says, "Across the geographies in which we operate, the negative financial impact of the pandemic and resultant restrictions have been extremely severe." He adds, "While the gradual easing of restrictions in SA and the UK in the second half of the review period enabled us to reopen parts of the business, significant components remained in hibernation until July."

Hele comments, "Aligned with our 2021-2023 strategic 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. This focus, together with a range of mitigating measures which we swiftly implemented across the business, has seen the Group weather the worst of the pandemic's impact."

Approximately 95% of the Group's store network has reopened, with a small balance temporarily closed. "More significant," notes Hele, "is the adverse impact the pandemic has had on new store openings, which is a key driver of brand momentum."

He notes, "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," says Hele.

Group performance

Hele notes, "An array of mitigating measures was implemented across the business at the outset of the pandemic. These included a freeze on capital expenditure; reduction of operational costs (including ceasing further funding of the GBK business); providing franchisee relief in the form of temporarily deferred payments and reduced royalties and fees; negotiations with banks and landlords; strategic temporary hibernation of parts of the business; and a retrenchment programme where all other options had been exhausted."

Hele elaborates, "Notwithstanding the extremely challenging conditions, a number of key achievements were reported for the period based on the following strengths:

- we were able to flex our resilient business model to respond to various risk-adjusted levels of activity;
- the Group's robust cash generating ability ensured uninterrupted payment of creditors. In addition, the R300 million short-term contingency facility raised during the period was not utilised;
- our differentiated, defensive Leading brands portfolio ensured that consumers could continue to access our offering even under restricted trading conditions;
- our management and franchise partners responded with agility to quickly hibernate and safely reopen operations;
- we continued to prioritise brand innovation in both trading formats and menu offerings, aimed at improving efficiencies for franchise partners, while enabling customers to enjoy popular favourites; and
- invested in technology enablers which enhanced the Group's convenience, collect and delivery positioning and elevated health and safety protocols for customers through a range of no-touch interventions."

Group financial results *(Restated).*
Revenue for the period declined 48% to R2.0 billion (2019: R3.9 billion). An operating loss of R110 million was reported, compared to an operating profit of R376 million in the prior comparable period. The Group's operating margin was (5.5%). A headline loss per share of 240 cents was recorded (2019: earnings of 140 cents per share).

Prudent capital allocation and cash management was a key focus during the period, and despite cash generated from operations declining to R55 million from R573 million, the Group's balance sheet remained strong under the circumstances, with net assets of R3.3 billion (2019: R4.7 billion), representing a net asset value per share of 464 cents (2019: 1 594 cents). Cash reserves were R341 million (2019: R428 million).

In the current environment, the Board deemed it prudent to preserve cash; accordingly, no dividend was declared for the review period (2019: 90 cents).

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 of 2 727 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 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%.

Hele notes, "While disappointing relative to historical performance, these results were a commendable achievement in light of the prevailing 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 75.9% 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.

Hele comments, "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."

He adds, "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 harshly 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," cautions Hele.

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.

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

Wimpy UK

Hele notes, "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 Rands rose by 7% to R65 million (2019: R61 million), while revenue in 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%).

GBK (UK and Ireland)
During the review period, revenue in Rand terms deteriorated by 60% to R257 million (2019: R641 million), while revenue in 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 (Sterling) reduced by 66.2% (2019: decrease of 12.5%).

Hele comments, "In the context of the pandemic, and in light of our ongoing strategy to reduce costs, optimise capital allocation and preserve cash, the Group resolved in April 2020 that it would no longer provide any further financial assistance to GBK."

GBK - subsequent event: the ongoing adverse impact of the pandemic on the business proved devastating, and on 25 September 2020, the Group announced that an impairment of R1.3 billion (net of tax), had been recognised at Famous Brands Group level in relation to the GBK UK business, meaning that the investment in GBK UK was fully impaired at Famous Brands Group level.

With effect from 14 October, the business was placed into administration in accordance with UK insolvency legislation. GBK's results will henceforth no longer be consolidated into the Group's results.

Hele says, "Over the past two years, in the challenging context of Brexit and a deteriorating UK economy, management's overriding goal was to secure the financial viability and sustainability of GBK through a range of remedial measures, and while these measures stabilised the business and gained momentum over time to position the operation for growth into the future, we came up against new and even more destructive headwinds in the form of the pandemic."

"The GBK business placed significant financial burden on the Group's core operation. In the interests of all stakeholders and having explored all alternative practicable options, we are confident that the decision to move forward without GBK is the right one," states Hele.

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.

Hele comments, "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%.

Looking forward
Hele cautions, "Black Friday 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."

Prospects

Hele says, "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 manufacturing and logistics facilities, and intensifying investment in high return assets); and optimising capital management and allocation."

He notes, "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," Hele concludes, "barring any further unforeseen events, management is cautiously optimistic that the second half of the current financial year will deliver stronger growth than the first half. 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 Group's upward sales trend over the last three months and particularly post the review period."

For further information:

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