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# Famous Brands

## Preparing to feast

### #themes: off-premises dining versus on-premises dining

- **Famous Brands (FBR) is one of Africa's leading quick service (QSR) and casual dining (CDR) restaurant franchisors.** FBR holds the second highest market share (7.4%) in the SA consumer food service sector in South Africa with the most diverse store footprint and a stable portfolio of franchise partners. The group has a portfolio of established brands (*Steers, Wimpy, Debonairs and Mugg and Bean*) supported by a vertically integrated business model which supports economies of scale and provides an element of predictability.
- **Restaurant sales are forecast to grow at a CAGR of 14% over the next 5-years, as off-premises dining visits are expected to outpace on-premises as consumer prioritise convenience and affordability.** We therefore believe that QSRs are better positioned to respond to these trends. FBR's QSR stores comprise 70% of its SA store network, which in our view, could provide resilience despite a challenging environment. Moreover, we believe FBR's diverse menu options across various food categories, shields the group from supply chain challenges in isolated food categories (e.g., chicken).
- **Our geolocation analysis reveals FBR's extensive store network** (largest in South Africa), a competitive moat, in our view, in a highly fragmented sector particularly considering the entry (and exit) of various international brands. Our geolocation analysis shows that 27% of Famous Brands' QSR network does not have a significant fast-food competitor within a 5km radius. Within the CDR network, 11% of stores have no significant casual dining competitor within a 5km radius. Of the major categories, we find the group has a noteworthy advantage through its Debonairs brand in the Pizza category as 31% of stores have no significant competitor within a 5km radius. In our view, this allows the group to be a price setter in certain categories further aided by brand loyalty and resonance.
- **Famous Brands has generated stable cash flows, historically. We believe this stems from its stable portfolio of franchisee partners (> 60% of franchisees have been with FBR for >5-years).** In our view this suggests the majority of FBR's franchisees have acquired adequate knowledge and experience to drive local insights and growth but are also less reliant on the franchisor for support.
- **Management has reduced debt by c. ZAR2bn over the last six years** within palatable levels (ND/EBITDA: 1.3x vs. recent FY21 peak of 3x), though where feasible over the medium term could gradually reduce debt in the absence of acquisitive opportunities. In our view, creating room for dividend growth and upside potential to SBGSe c. 6%, 12-month forward dividend yield. That said, management is yet to disclose a concrete dividend policy.
- **We initiate coverage of Famous Brands with a fair value range of R76 to R89, providing an estimated total return range of 18% to 37%, including a 6% dividend yield.** We forecast diluted HEPS of R4.63 (30%) in FY:23E and R5.42 (+17%) in FY:24E and a DPS of R3.01 (+50%) and 3.52 (+17%), respectively. **Should management achieve group operating margins ahead of SBGSe at c. 20% by FY26E our analysis suggests 23% upside relative to the mid-point of our fair value range.**
- **Risks:** Limited pricing power in a high inflationary environment may weigh on margins, while frail consumer demand and weak franchisee health, coupled with higher stages of load-shedding, could soften revenue growth. Sustained momentum of food aggregators intensifies competition potentially redirecting demand from the group's brands.

Key forecasts	Feb 20A	Feb 21A	Feb 22A	Feb 23E	Feb 24E	Feb 25E
Revenue (R m)	7,780	4,684	6,476	7,315	8,014	8,583
EBITDA (R m)	1,242	594	851	965	1,125	1,286
Net Income (R m)	427	(1,216)	356	505	591	687
Adj. EPS (R)	3.61	(12.34)	3.17	4.63	5.42	6.30
DPS (R)	0.90	0.00	2.00	3.01	3.52	4.10
Dividend Yield (%)	1.7	0.0	2.8	4.5	5.2	6.1
PE (adjusted)	14.8	n/a	22.6	14.6	12.5	10.7
EV/EBITDA (adjusted)	2.7	8.9	8.8	7.4	6.4	5.8

Source: Company financials, SBG Securities estimates

#### Share data

RIC	FBR.J
Sub industry	Restaurants & Bars
Price (2 Mar 2023)	R 67.80
Market cap. (R m)	6,780
Enterprise value (R m)	7,167
Market cap. (USD m)	371
Enterprise value (USD m)	383
Avg. daily trade value (USD m)	0.23
Free float (%)	84

#### Price relative to FTSE/JSE All Share



Historical performance relative to FTSE/JSE All Share			
Performance over	1M	3M	12M
Absolute (%)	8.5	8.7	-2.0
Relative (%)	9.9	0.3	-7.4

Source: FTSE/JSE All Share, SBG Securities Research

The price relative chart measures performance against the South Africa FTSE/JSE All Share which closed at 79011 on 02 March 2023

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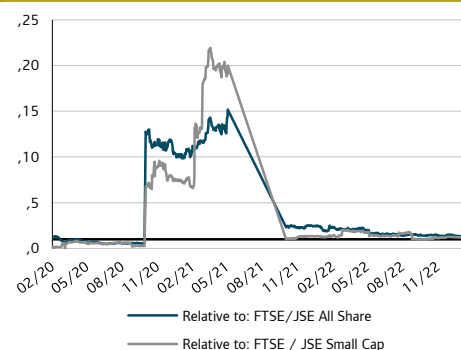
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Valuation metrics	Feb 20A	Feb 21A	Feb 22A	Feb 23E	Feb 24E	Feb 25E
P/E adjusted (x)	14.8	n/a	22.6	14.6	12.5	10.7
EV/EBITDA (adjusted) (x)	2.7	8.9	8.8	7.4	6.4	5.8
Dividend yield (%)	1.7	0.0	2.8	4.5	5.2	6.1
NAV/book value per share (R)	18.0	3.9	7.2	9.2	11.6	14.3
Ratio analysis	Feb 20A	Feb 21A	Feb 22A	Feb 23E	Feb 24E	Feb 25E
ROE (headline basis) (%)	49.6	5.5	81.8	67.9	63.1	59.3
ROCE (EBIT basis) (%)	n/a	n/a	n/a	n/a	n/a	n/a
Gross margin (%)	52.8	42.8	45.0	45.0	46.0	47.0
EBITDA margin (%)	16.0	12.7	13.1	13.2	14.0	15.0
EBIT margin (%)	11.7	6.3	10.1	11.4	12.2	12.9
Sales/total assets (%)	126.0	156.5	218.8	231.6	235.5	233.9
Net debt/equity (%)	70.9	415.1	133.8	101.9	85.4	53.8
Interest coverage (to EBITDA) (x)	(5.8)	(3.6)	(5.5)	(2.3)	(2.3)	(2.4)

Relative to JSE All Share



Profit and Loss	Feb 20A	Feb 21A	Feb 22A	Feb 23E	Feb 24E	Feb 25E
Revenue (R m)	7,780	4,684	6,476	7,315	8,014	8,583
% growth	n/a	-39.8	38.3	13.0	9.5	7.1
Gross profit (R m)	4,108	2,006	2,912	3,292	3,686	4,034
EBITDA (R m)	1,242	594	851	965	1,125	1,286
% growth	n/a	-52.2	43.3	13.4	16.6	14.2
EBIT (R m)	912	295	655	834	979	1,108
% growth	n/a	-67.7	122.1	27.4	17.4	13.2
Exceptional & non continuing items (R m)						
Reported PBT (R m)	646	(70)	514	721	844	982
Net interest (R m)	(219)	(176)	(108)	(113)	(135)	(127)
Tax (R m)	(219)	(35)	(159)	(216)	(253)	(294)
Tax rate (%)	n/a	n/a	n/a	n/a	n/a	n/a
Associate income (R m)	5	5	0.3	0	0	0
Net profit (R m)	427	(1,216)	356	505	591	687
Headline earnings (continuing business) (R m)	417	53	356	463	542	631
% growth	n/a	-87.2	568.1	30.2	17.0	16.3
Weighted diluted number of shares (m)	100	100	100	100	100	100
Earnings per share (EPS) (R)	3.62	(12.37)	3.17	4.63	5.42	6.31
Reported diluted HEPS (R)	3.61	(12.34)	3.17	4.63	5.42	6.30
% growth	n/a	-441.6	125.6	46.2	17.0	16.3
Adjusted diluted HEPS (cont. business) (R)	3.61	(12.34)	3.17	4.63	5.42	6.30
% growth	n/a	-441.6	125.6	46.2	17.0	16.3
Ordinary dividend per share (DPS) (R)	0.90	0.00	2.00	3.01	3.52	4.10
Ordinary dividend pay-out ratio (%)	21.6	0.0	56.2	64.9	64.9	64.9

Cash flow	Feb 21A	Feb 22A	Feb 23E	Feb 24E	Balance sheet	Feb 21A	Feb 22A	Feb 23E	Feb 24E
EBIT (cash flow) (R m)	(70)	514	721	844	Total non-current assets (R m)	1,693	1,625	1,687	1,921
Change in working capital (R m)	42	(47)	(108)	(35)	Property, plant equipment (R m)	667	640	721	970
Operating cash flow (R m)	521	871	856	1,091	Intangible fixed assets (R m)	917	872	854	838
Net finance income (charge) (R m)	(167)	(155)	(415)	(488)	Total current assets (R m)	1,301	1,335	1,471	1,482
Taxes paid (R m)	(70)	(184)	(216)	(253)	Cash (R m)	352	333	210	124
Dividends paid (R m)	(6)	(44)	(302)	(353)	Total assets (R m)	2,993	2,960	3,158	3,403
Total cash flow from operations (R m)	285	533	225	350	Total ordinary shareholders equity (R m)	270	601	764	954
Total capex (R m)	(84)	(140)	(233)	(421)	Total non-current liabilities (R m)	1,805	1,195	1,075	1,032
Net cash flow from investing activities (R m)	(57)	(117)	(193)	(380)	Current liabilities (R m)	797	1,044	1,160	1,210
Share issuance (repurchases) (R m)	0	0	0	0	Total equity and liability (R m)	2,993	2,960	3,158	3,403
Net increase (decrease) in cash (R m)	(95)	(18)	(124)	(86)	Net cash (debt) (R m)	1,376	1,126	1,006	1,039

Source: Company financials, SBG Securities estimates

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## Investment case

### Overview

Famous Brands began as a family business in the early 1960s with the Steers brand. The group has achieved commendable growth and is one of Africa's leading quick service and casual dining restaurant franchisors. The group owns **17** restaurant brands (excluding three under licence) supported by a vertically integrated business model. In our view, the group's investment case is founded on the following key pillars:

- **Vertical integration**, supporting economies of scale and providing an element of predictability.
- **A portfolio of established brands**, cumulatively holding the second highest market share in SA, with the most diverse store footprint.
- **Stable portfolio of franchise partners** despite a pandemic-induced deterioration in franchisee health.
- **Pre-pandemic momentum in SA** as revenue growth and margins rubbed shoulders with major global peers.
- **Menu options provide diversification** across food categories, shielding the group from supply chain challenges in isolated food categories (e.g., chicken).
- **Exposure to a fast-growing fast-casual restaurant** segment through Mugg & Bean, Steers and Wimpy.

Headwinds to the sector and the group include sticky elevated food inflation as well as persistent load shedding, both of which could impact consumer demand, inflate the cost base and require additional franchisee support.

That said, we view the group's sector positioning as favourable and management as well experienced. We therefore initiate coverage of Famous Brands with a fair value range of between R76 and R89 implying a total return of 18% to 37%, including of a dividend yield of 6%. We note Famous Brands and its South African peers do not have forward multiples though based on the valuation range, the group would trade between 29% and 35% discount to global peers' valuation multiples, which we view as adequate.

Should management achieve group operating margins ahead of SBGSe at c. 20% by FY26E our analysis suggests 23% upside relative to the mid-point of our fair value range.

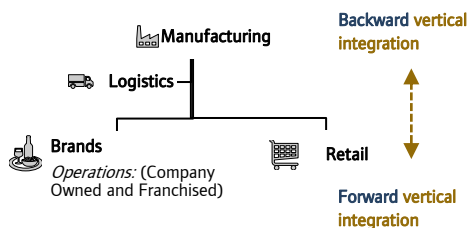
### 'Verti-gration' at work

The integrated supply chain comprises manufacturing, logistics and distribution capabilities (back end) providing services to franchise partners and retailers (front end). When executed effectively, vertical integration can have the following benefits:

- Improved cost control and quality of products through oversight of inputs and processes.
- Eliminate intermediaries increasing efficiencies and minimising supply chain disruptions, especially in current supply constrained environment.
- Diversification and bargaining power: Increased bargaining power with suppliers and franchisees as Famous Brands offer a complete product or service.

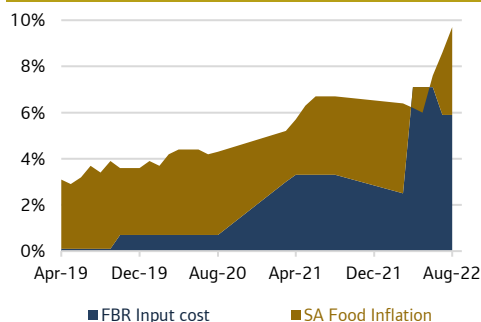
Famous Brands' primary franchise operations facilitate predictability within the manufacturing and logistics operations. There is the assurance that manufactured products will be purchased by franchise partners, delivered to the restaurants and sold to customers. The model also assists with easy alignment between the front and back end.

**Figure 1: FBR Vertical Integration Business Model**



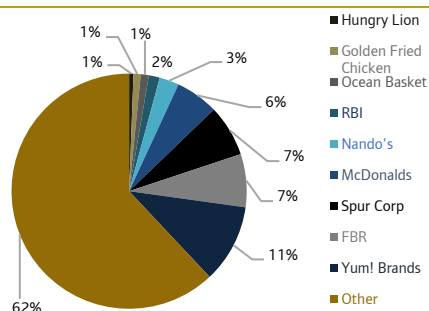
Source: SBG Securities Analysis

**Figure 2: Famous maintains input cost below food inflation**



Source: Company Data, SBG Securities Analysis

**Figure 3: Consumer food service sector market share. Famous Brands has the second-highest market share**



Source: Euromonitor, SBG Securities analysis

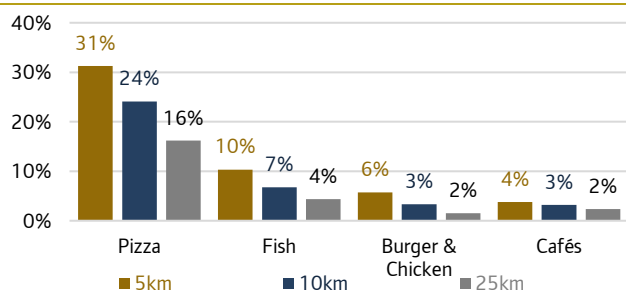
## Major player in the consumer food service sector

Famous Brands is South Africa's second-largest franchisor by market share in the consumer food service sector. The group has gained market share in the sector through its history, aided by franchisee demand for its brands and consequential growth in its store network (the largest in South Africa). Famous Brands' store network is approximately twice as large as that of its nearest competitor Yum! Brands, which owns KFC and Pizza Hut.

The sector is highly competitive with the entry (and exit) of various international brands. The group's extensive store network therefore provides a competitive moat, providing, in our view, brand resonance and potentially low elasticity of demand.

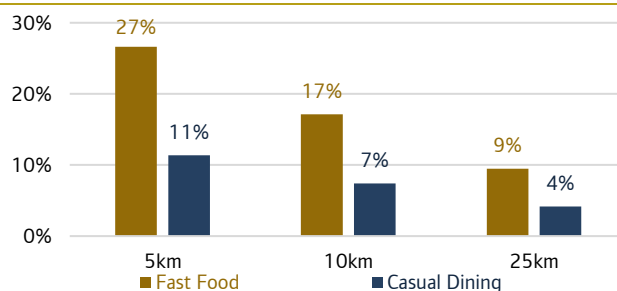
Our geolocation analysis finds that 27% of Famous Brands' QSR network does not have a significant fast-food competitor within a 5km radius. Of the CDR network, 11% is in areas with no significant casual dining competitor within a 5km radius. Of the major categories, we find the group has a noteworthy advantage through its Debonairs brand in the Pizza category as 31% of stores have no significant competitor within a 5km radius, followed by Fish (Fishaways).

**Figure 4: % of Famous Brands network without a competitor in radius by product category**



Source: Company reports, SBG Securities analysis

**Figure 5: % of Famous Brands network without a competitor\* in radius by restaurant category**



Source: Company reports, SBG Securities analysis, \* Top 30 peers

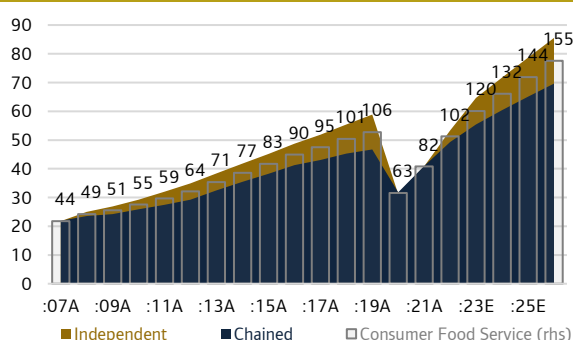
**QSR is the largest restaurant format in South Africa, 2x larger than CDR.**

## Consumer food services expected to grow by a 14% CAGR to 2026

According to Euromonitor data, the size of the South African consumer food service market is estimated at R102bn (reflecting growth of 24% y/y). The sector is expected to exhibit a five-year CAGR to 2026 of c. 14% (a market size of R155bn).

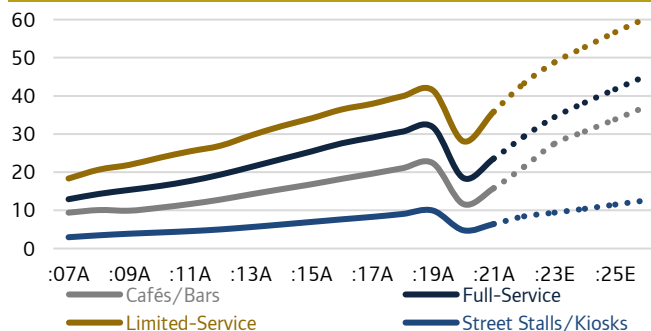
In terms of sub-categories, limited-service restaurants, also known as Quick Service Restaurants, have historically been the highest contributor (est. 2022: R43bn). This trend is expected to continue as a result of the current consumer trends. Full-service restaurants (also known as Casual Dining Restaurants – valued at R29bn) and Cafés/Bars (R21bn) are 1.5x and 2x smaller than the limited-service restaurant format respectively. Street Stalls/Kiosks is valued at R8bn.

**Figure 6: Market value by restaurant type (ZAR'bn)  
Sector to increase by c. 14% 5yr. CAGR by 2026**



Source: SBG Securities analysis and Euromonitor

**Figure 7: Value by restaurant category (ZAR'bn)  
QSR is the largest restaurant format in South Africa**



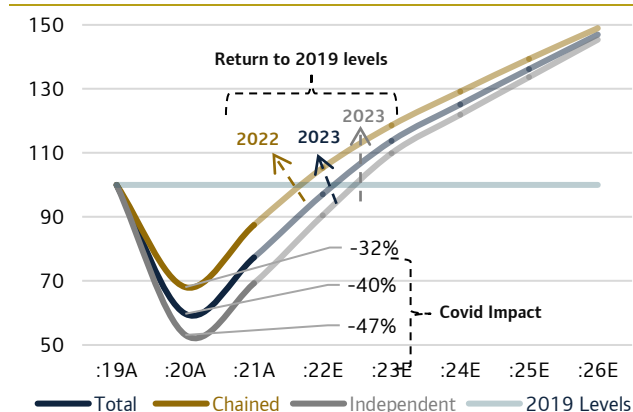
Source: SBG Securities analysis and Euromonitor

QSR was less affected by the pandemic as they quickly adapted to changes in consumer behaviour.

By category, limited-service restaurants or quick service restaurants (QSR) were the least affected by the pandemic, hence they are recovering to 2019 levels faster. We believe this is because QSRs can adapt more quickly to changes in consumer behaviour; for instance, several limited-service restaurants were able to pivot to delivery options and drive through, which allowed them to continue serving customers while adhering to social distancing guidelines. Euromonitor suggests that cafés/bars (+18%) and full-service restaurants (+8%) could reach 2019 levels in 2023, while street stalls lag, only expected to return to pre-pandemic levels in 2024.

**Figure 8: Restaurant type (Index: 2019 = 100)**

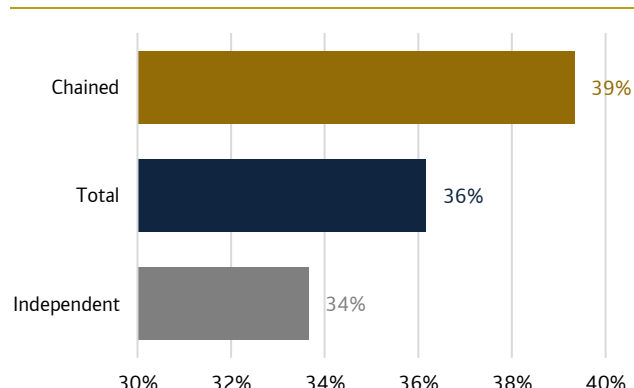
**Chained least affected by the pandemic, hence recovering faster**



Source: SBG Securities analysis and Euromonitor

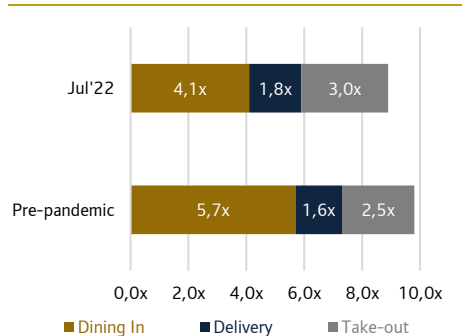
**Figure 9: Restaurant type - growth (2025 relative to 2019)**

**Chained to deliver highest performance relative to pre-pandemic levels**



Source: SBG Securities analysis and Euromonitor

**Figure 10: Global trends - frequency per month (times). Off-premises more frequent than on-premises dining**



Source: Near – Restaurants 2022 research report

Off-premises dining (take-outs and delivery) likely to remain high relative to pre-pandemic levels while on-premises dining's frequency diminishes.

## Off-premises versus on-premises

Famous Brands' higher exposure to the quick service restaurants (QSR) category than casual dining restaurants (CDR) should provide resilience as take-out and delivery underpin normalisation of consumer wallet allocation to restaurants. The sector, as with other consumer-facing sectors, was impacted by Covid-related lockdowns, shrinking the sector by c. 32% in 2020. In order to remain afloat, restaurants focused on off-premises services, eg., take-away and delivery. As a result, quick service restaurants (e.g., Steers) were less affected than casual dining restaurants (e.g., Turn 'n Tender), which tend to provide an experiential service to customers. Despite lockdowns easing, some practices are expected to persist. As a result, restaurants are likely to maintain a mix of on-site and off-site services, implement contingency plans and experiment with new ways of doing business.

Although eat-in dining continues to be popular, there has been a decline in the frequency of monthly visits, as take-out options become increasingly popular (as shown in Figure 10). If these trends continue, they may pose a challenge to on-premises dining. However, the ongoing recovery of global tourism could revive demand for eat-in dining. According to the United Nations World Tourism Organization (UNWTO), international tourist arrivals are expected to reach pre-pandemic levels later 2023 or early 2024.

That said, inherent in the increasing frequency of take-outs and desire to dine more at home, we find the following trends shaping consumer behaviour/demand:

- 1) Convenience;
- 2) Healthy food options; and
- 3) Affordability

In our view, QSR is likely better positioned than CDR to respond to these trends, as the concept is founded on speed of service and affordability. Conversely, casual dining restaurants focus on providing a unique dining experience at higher price points. Furthermore, QSR brands healthy food options will help to cater for the health-conscious consumer as they return to work amidst worsening power outages.

**Figure 12: Famous Brands network by category**  
**QSR almost 70% of the store network**



Source: Company Data, SBG Securities Analysis

**Figure 11: Famous Brands summary by restaurant category**

Characteristics	Quick Service Restaurants (QSR)	Casual Dining Restaurants (CDR)
Leading Store Network	70%	30%
Signature Store Network	0%	100%
Target Market	High-Low to Med	Med to High
Royalties	4 to 7%	6% to 7%
Marketing Fees	5% to 8%	8% to 9%
Franchised stores	More than 70%	Less than 40%
Assets	Lighter	Heavier
Expenses	Lighter	Heavier
Operating Margins	Wider	Narrower
Main revenue driver	Volumes	Pricing
Premiumisation	Less ability	More ability
COVID impact	Less severe	More Severe
Offering	Affordability and Convenience	Experiential services
Outlook: Consumer Behaviour	More inclined to convenience and affordability	Less inclined to Experiential services
Upside Potential in MT*	Available	Limited
Famous Brands Exposure	More Exposed	Less Exposed
Spur Corp Exposure	Minor	Majority

Source: Company Data, SBG Securities Analysis, \*MT – Medium Term

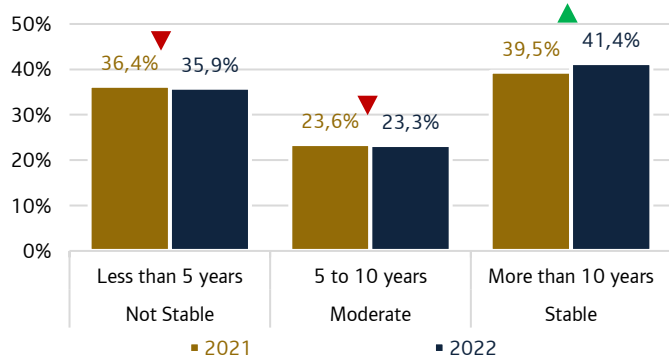
Fast casual restaurants offer a unique blend of the convenience and affordability of fast foods with the quality and experience of casual dining. We believe Famous Brands is already positioned to be a market leader in this space through its leading brands Mugg & Bean, Steers and Wimpy.

### Franchise partner demographics

**Stable franchisee demographics support store rollout aspirations.** Franchisees with an average tenure of more than five years account for 65% (FY21: 63%). We believe this reflects good working relationships with partners and satisfactory support to the franchisees.

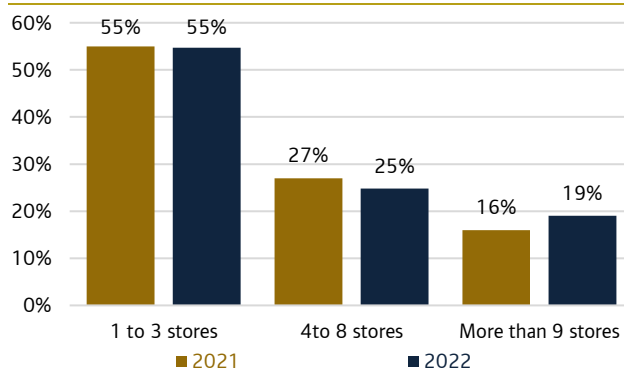
While it is encouraged to diversify across various partners, having too many franchise partnerships with fewer stores may result in higher administrative costs, making cost savings difficult. Currently, 64% (FY21: 64%) of FBR partners have fewer than five locations, implying that 36% have more than five locations. We believe FBR management has achieved a good balance between diversification and making it easier to monitor each partner's operations.

**Figure 13: Famous Brands franchise partners by age (stability analysis)**  
**Stable franchise partners portfolio improving**



Source: Company reports and SBG Securities analysis

**Figure 14: Famous Brands franchise partners by number of stores**  
**Stable franchise partners portfolio improving**



Source: Company reports and SBG Securities analysis



## Stable cash flows to support franchisee partners

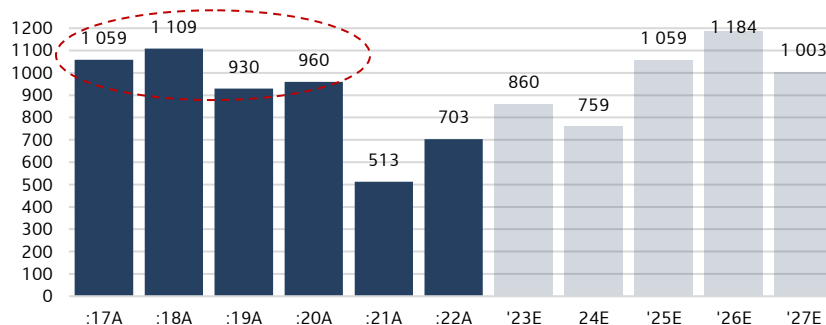
To support franchise partners during economic downturns, a franchise business needs to maintain consistent and stable cash flows. Famous Brands has a stable portfolio of franchise partners, which has historically enabled the group to generate consistent and stable cash flows. 65% of the franchise partners have been in business for more than five years. This suggests that these partners have acquired knowledge and experience, making them less reliant on the franchisor for support and guidance. Even during the pandemic, the group was able to maintain positive cash flows despite royalty breaks.

Therefore, the lower risk of pressure on franchisees enables FBR to allocate funds towards investments, reducing debt and dividends, ultimately maximising returns for its shareholders.

Stability of franchise partners eases burden on cash flows.

**Figure 15: Free cash flow (ZAR'm)**

**Stable cash flows to support franchise partners**



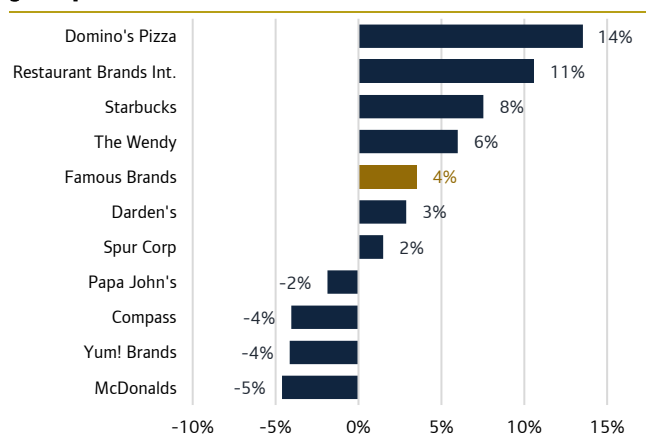
Source: Company reports and SBG Securities analysis and estimates

## FBR in upper echelon of global peer set

We notice that global peers have recovered from the pandemic faster, which we attribute to a higher share of wallet spent on consumer food services, relatively better pricing power, quicker recovery in tourist traffic and well-established tech capabilities to service customers online. **Famous Brands has encouraging pre-pandemic revenue and EBITDA growth outperformance relative to global peers.** When examining EBITDA performance pre-pandemic, Famous Brands delivered the third highest three-year CAGR in USD terms, outperforming global peers except for Domino's Pizza. McDonald's, Famous Brands and Domino's Pizza delivered EBITDA growth well ahead of revenue growth, reflecting positive operating leverage in local currency of 2.1x, 1.3x and 1.1x respectively.

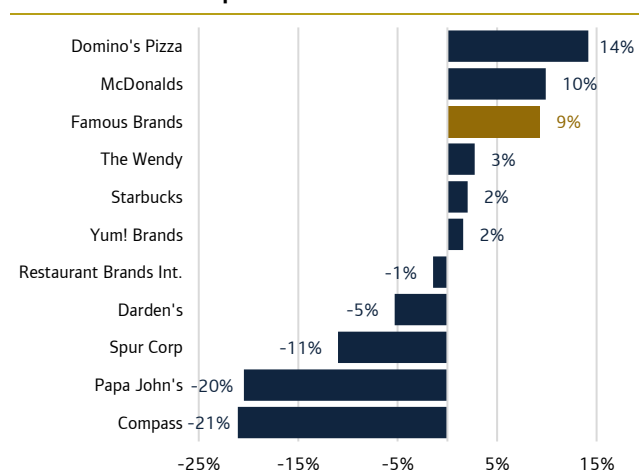
**Figure 16: Revenue constant growth - 3yr CAGR (2016 – 2019)**

**Pre-pandemic FBR (exc. GBK) performance fairly comparable to global peers**



Source: Company report and SBG Securities analysis, \*local currency FBR +8%, SUR +6%

**Figure 17: EBITDA constant growth 3yr CAGR (pre-pandemic) - Famous Brands versus peers**



Source: Company reports and SBG Securities analysis, \*local currency FBR +10%, SUR -9%



## Financial analysis

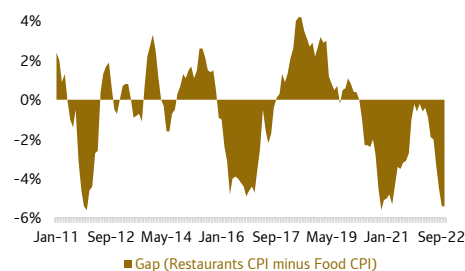
### Strong performance in a fragile environment

**Revenue to deliver robust growth (10%, 3yr CAGR: 2022 – 2025E) in a fragile trading environment** characterised by consumer behaviour shifts, significant inflationary pressures, and low economic growth. In arriving at our estimate, we consider the following per division:

#### Brands – SA

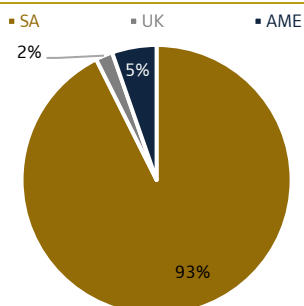
- **Inflation and pricing power:** Limited pricing power due to high inflation, though, in our view, the group's diverse and extensive store footprint (as identified in our geolocation analysis) could provide a relative competitive advantage, potentially providing the ability to pass on some input price inflation to consumers relative to peers.
- **Royalties (take rates):** During the Aug 2022 AGM, management indicated that take rates had recovered to pre-pandemic levels across the group. We do not expect management to increase take rates considering the current health of franchisees.
- **Store rollouts and revamps likely to support top line through low growth environment.** Net space growth is expected to average between 2% and 3%, albeit below the pre-pandemic seven-year average of 4%. Additionally, store revamps pre-pandemic occurred every seven years, representing c. 10% - 15% of store network each year. These revamps (as in the retail environment) provide a halo effect improving the consumer experience and supporting footfall into stores. We factor in revamps of c. 5% of the portfolio, improving marginally into the medium term as franchisee health improves.
- **Load-shedding:** Recent history has shown that load-shedding has the potential to attract consumers to restaurants as they escape the home environment where they potentially are unable to cook. However, higher stages of load-shedding have been found to be disruptive as restaurants' back-up power is strained potentially weighing on performance through peak trading hours.
- **Trade-off between eating out and dining at home:** Usually, restaurants lag retailers in pushing on price increases, as is evidenced in Figure 17 with the gap between Restaurant CPI and Food CPI. The widening of the gap, as has occurred over the past few months, improves the relative trade-off between eating out and dining at home.

**Figure 18: Restaurants CPI minus Food CPI**  
**Restaurant price increases normally below food retailers**



Source: Bloomberg and SBG Securities Analysis

**Figure 19: Revenue mix by geography (FY'22)**



Source: Company Data, SBG Securities Analysis

### Supply Chain

- **Manufacturing:** We expect volumes to normalise post pandemic as manufacturing capacity utilisation improves. However, the risk of intense load-shedding poses a downside risk and volatility, as diesel costs are not hedged. Higher stages of load-shedding require increased expenditure on diesel. That said, as the cost of diesel normalises, cost pressures are likely to ease.

### AME and UK

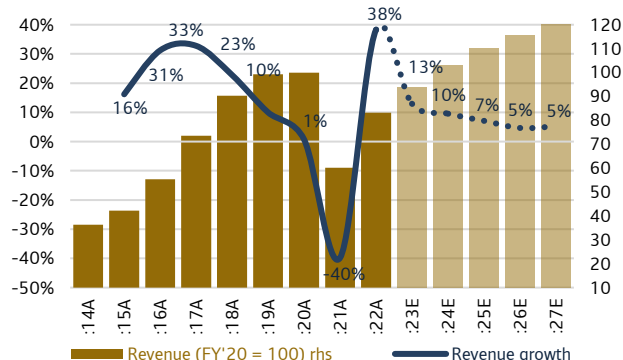
The group's AME portfolio has exhibited healthy growth, indicative, in our view, of further growth opportunities. The region reflected relatively minimal disruption from the pandemic, in our view, due to benign Covid related restrictions. Recent trends reflect emerging momentum and management believes AME has relatively lower risks considering the growth opportunities relative to other regions.

We expect the UK trading environment to remain challenging and contribution to revenue to remain negligible.

Margins are expected to recover likely benefitting from economies of scale as cost base is skewed towards fixed costs.

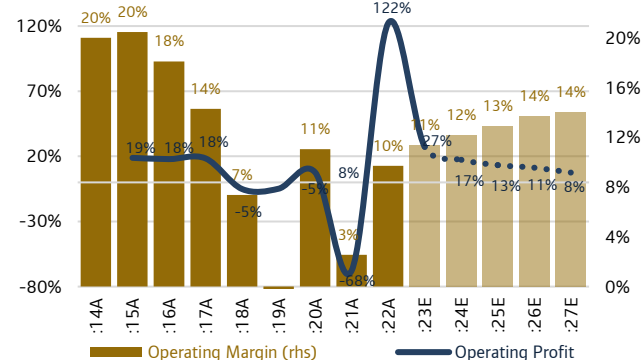
Operating profit to deliver a 19% 3-year CAGR (FY22 – FY25E), implying operating leverage of 1.9x. Manufacturing and franchise-based operations result in a c. 55% skew towards fixed costs. We therefore believe that as volumes recover, the group can benefit from economies of scale and enhance efficiencies over the medium term, improving margins. In line with management, we do not expect margins to return to 2014 –2016 levels as, in our view, group investment and support to franchisees are likely to exceed that experienced between 2014 and 2016. However, management is confident that margins could return to c. 20% in the long term.

**Figure 20: Group revenue (% y/y and FY20 = 100)**  
**Strong performance in a fragile environment**



Source: Company reports, SBG Securities analysis and estimates

**Figure 21: Operating profit%\* (ZAR'm) and operating margin (%)**  
**Operating profit (Exc. GBK) to deliver a 19%, 3yr CAGR**



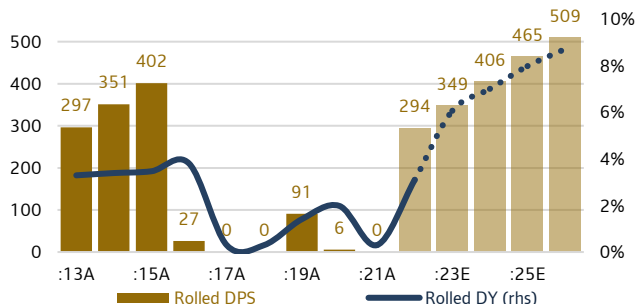
Source: Company reports, SBG Securities analysis and estimates, \*before non-operational items

### Balance sheet strength to enhance dividend return

Gradual debt reduction over the medium term could facilitate enhanced shareholder returns, in our view. Management expressed its intention to continue enhancing shareholder returns in the medium term, though is yet to disclose a concrete dividend policy. We expect dividends to therefore grow in line with HEPS over the medium term, providing a c. 6% dividend yield at spot.

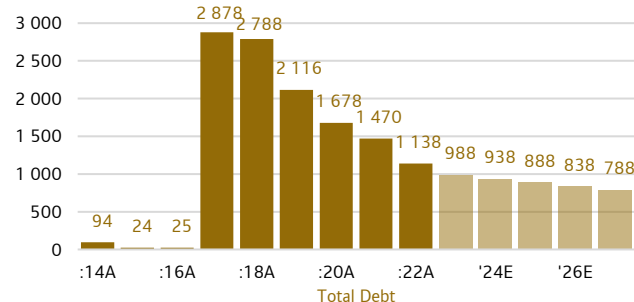
- Management indicates that it is comfortable with current debt levels though where feasible will reduce debt gradually over the medium term to maintain sufficient liquidity headroom to run operations.
- While there might be organic expansion plans, recent missteps with Gourmet Burger Kitchen could keep management more discerning with inorganic growth and investments, as a result, its interest in taking on debt is expected to be low, especially considering current interest rates.

**Figure 22: Rolled DPS (cps) and DY (%)**  
**Famous Brands committed to growing dividends**



Source: Company reports, SBG Securities analysis and estimates

**Figure 23: Total debt (ZAR'm)**  
**Low appetite for debt acquisition to reduce burden on cash flows**



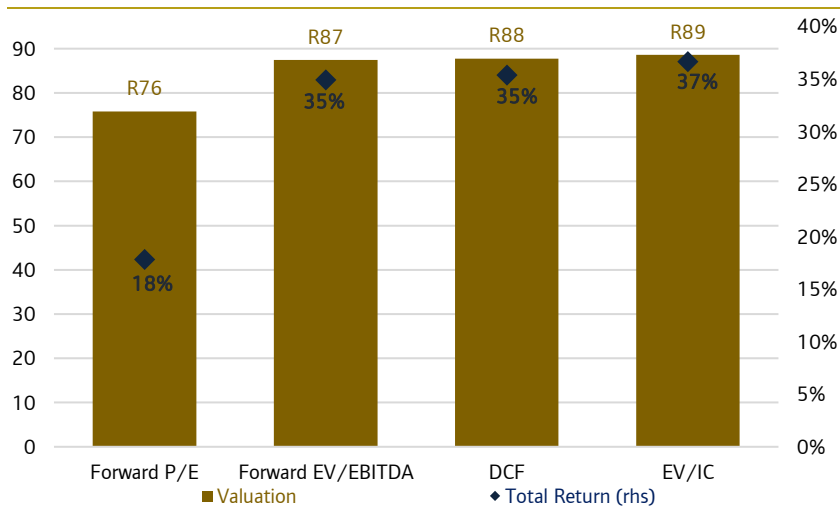
Source: Company reports, SBG Securities analysis and estimates

## Valuation summary: We value FBR between R76 and R89

We use four methods to determine our equity valuation range for Famous Brands. These include, DCF, ROIC-IC, relative PE multiple and relative EV/EBITDA. We highlight that Famous Brands and its South African peers do not have consensus-based forward multiples. Therefore, to overcome the limitation of forward-looking multiples on consumer services in the JSE, we used MSCI EM consumer services as a proxy and compared it with MSCI US consumer services. This helped us determine the discount to apply on global peers to get an implied multiple for Famous Brands.

**Figure 24: Valuation summary**

**Famous Brands future value ranges from R76 to R89**

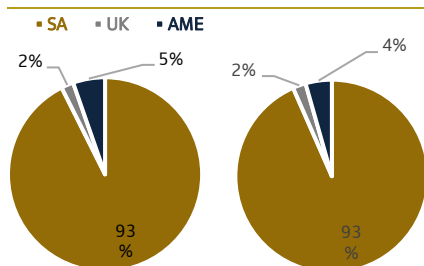


Source: SBG Securities analysis and estimates

## Investment risks

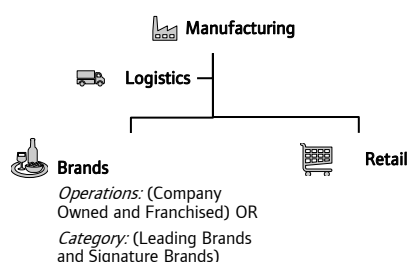
- **Limited pricing power in a high inflation environment:** Generally, South African restaurants have limited pricing power, which makes it challenging for them to keep up with inflation and pass it on to the consumer. This means profitability margins will come under pressure.
- **South African consumer losing grip on buying power:** A weaker-than-expected consumer environment could weigh on consumption within discretionary categories impacting demand in the QSR and CDR sectors.
- **Weaker franchise market and potential pressure on royalties:** In order to support franchisees through tough operating conditions the group could be forced to accept lower take rates, leading to lower revenue growth.
- **Persistent high stages of load-shedding:** Higher stages of load-shedding are disruptive as most back-up solutions provide the ability to operate for shorter periods (and can be costly). As a result, the group could be required to provide additional support to franchisees to ensure operations remain relatively unaffected.
- **Food aggregators intensifying competition:** The popularity of food aggregators such as Mr D, Uber Eats and Bolt Food allow consumers to easily compare food menus and prices, while providing discounted offers in an already tightly contested market. As network effects improved insights, aggregators launched dark kitchens informed by consumer demand, rivalling established brick-and-mortar brands. Should such strategies gain traction, demand could be redirected to these platforms away from the group's brands.

**Figure 25: Revenue (lhs.) and EBIT (rhs.) mix by geography (FY22)**



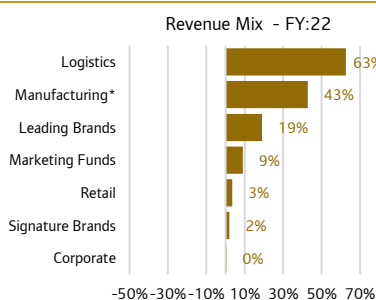
Source: Company reports and SBG Securities analysis

**Figure 26: FBR vertical integration business model**



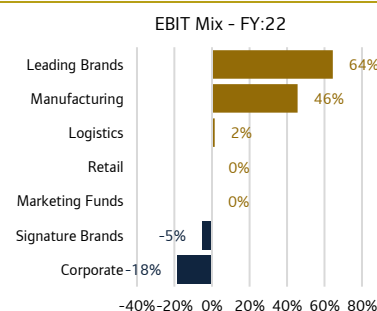
Source: Company reports and SBG Securities analysis

**Figure 27: Revenue mix by segment**



Source: Company reports \*43% including eliminations

**Figure 28: EBIT mix by segment**



Source: Company reports and SBG Securities analysis

## Supply chain

The main function of the supply chain is to provide a competitive advantage to franchise partners through efficient supply, product innovation and margin management. The three segments under this division are all managed and measured independently.

- **Manufacturing:** Supplies ingredients and products to the Logistics division. Famous Brands has *five wholly owned* and *five partly owned subsidiaries*. Gauteng has six plants (meat, serviette, sauce and spice, coffee and ice cream). There are two plants in the Western Cape (meat and potato products). KwaZulu-Natal has a juice plant, and the Eastern Cape has a cheese plant.
- **Logistics:** Internal logistics ensures that restaurants and retail outlets receive ingredients and products on time. Ten distribution centres support logistics operations in South Africa.
- **Retail:** This division sells condiments (sauces, dressings and spices), frozen meat products, coffee (ground and beans), frozen chips and additional value-added products to food retailers.

## Brands

The Brands portfolio consists of 17 restaurants (excluding three under licence), represented by a network of 2,824, South Africa (2,470), AME (287 in 16 countries) and the UK (67). **The portfolio is divided into two segments: Leading Brands (mainstream) and Signature Brands (niche).** The Leading Brands segment is further subdivided into Quick Service Restaurants and Casual Dining. Signature Brands primarily operates casual dining restaurants.

An interesting sub-segment in the restaurant sector is fast casual, which offers a unique blend of the convenience and affordability of fast food with the quality and experience

**Figure 29: Famous Brands –list of brands by segment**



Source: Company reports

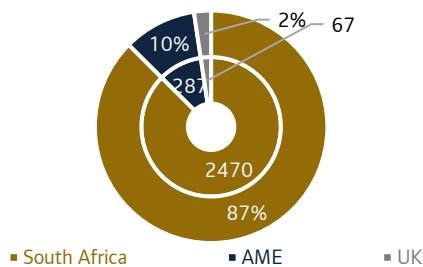
of casual dining. We believe Famous Brands is positioned to be a market leader in this sub-sector through its leading brands Mugg & Bean, Steers and Wimpy.

**South Africa accounts for c. 90% of the restaurant store network.** Famous Brands' store network is primarily comprised of franchisees. The company-owned store model is mainly used in Botswana, Kenya and Nigeria. Before venturing into the franchise business model, a company stores model is usually considered when entering a new market to ensure the brand is well established in terms of perception and market share.

**Famous Brands' business is oriented towards quick service restaurants,** which account for nearly 70% of the store network. Casual Dining and Signature Brands (a territory dominated by Spur Corp) account for 34% of the store network, management focuses on company-owned stores in this category. We believe this is because the QSR business model requires less capital and is asset light compared to CDR. Operating costs are also lower in comparison to Casual Dining and Signature Brands, which thrive primarily on providing customers with a full range of experiential services.

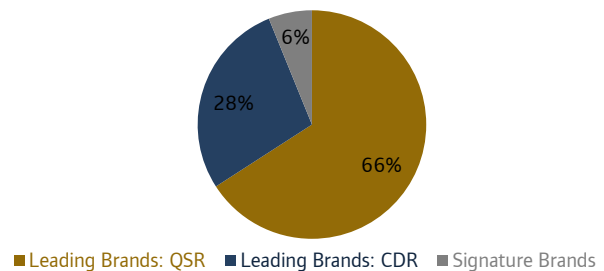
**Famous Brands' menu options are well-diversified across food categories.** As a result, despite supply issues in an isolated food category, operations continue. As an example, the recent chicken crisis in SA due to load-shedding has impacted competitors such as KFC and Nando's as they specialise primarily in chicken.

**Figure 30: Restaurants store network by geography  
SA accounts for almost 90% of the store network**



Source: Company reports and SBG Securities

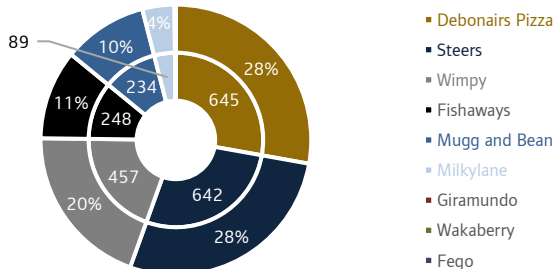
**Figure 31: Restaurants store network by category  
QSR almost 70% of the store network, Leading Brands – 94%**



Source: Company reports and SBG Securities analysis

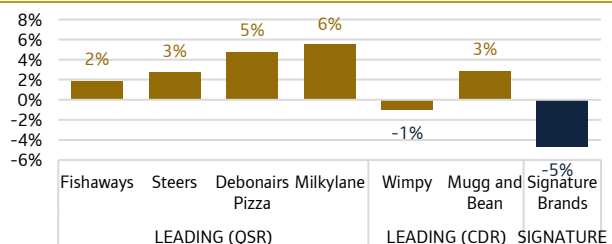
**Leading Brands:** Debonairs (28%), Steers (28%) and Wimpy (20%) account for more than three quarters of the South Africa network. Fishaways (11%), Mugg & Bean (10%) and Milky Lane (4%) take much of the remaining quarter. Among the bigger brands, Debonairs Pizza's store network has received the most attention over the past five years (+5%, 5yr CAGR), followed by Steers (+3%, 5yr CAGR). In the casual dining segment, only Mugg & Bean (+3%) increased while Wimpy declined by -1%. At one point, Wimpy had the largest network. However, as consumer demographics evolved, waning demand in smaller towns could not support overlapping stores resulting in closures.

**Figure 32: SA restaurants store network by geography (total and mix)  
Debonairs, Steers and Wimpy c. 75% of network**



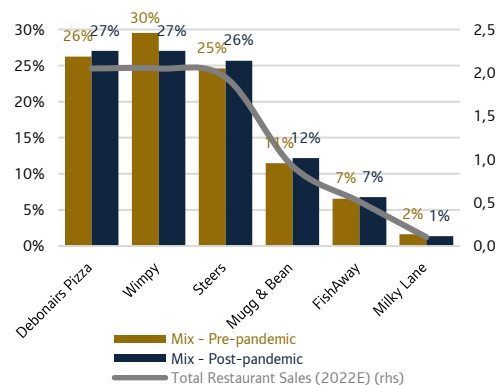
Source: Company reports and SBG Securities analysis

**Figure 33: SA restaurants store network growth (5yr. CAGR)  
Investment in Debonairs and Steers continues while Wimpy's network evolves**



Source: Company reports and SBG Securities analysis

**Figure 34: Total restaurant sales (ZAR'bn – 2022) and mix. All brands gaining except for Wimpy and Milky Lane**

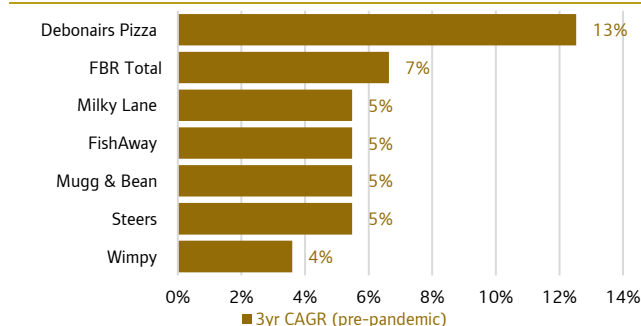


Source: Euromonitor and SBG Securities analysis

Prior to the pandemic, Wimpy delivered the least growth. Management cited changes in socio demographics and reduced demand in smaller towns as reasons for lower growth as it was reducing the number of stores to optimise the network. Debonairs Pizza was the top performer with double-digit growth, while other leading brands recorded similar growth (mid-single digit). Famous Brands' total restaurant sales growth was c. 5% (three-year CAGR).

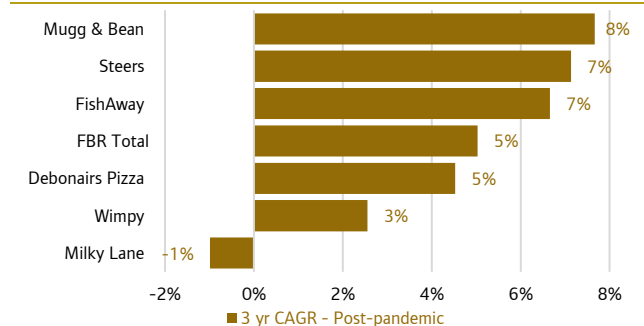
Post the pandemic, Euromonitor data imply that all leading brands in the restaurant industry exceeded pre-pandemic levels, except for Milky Lane (-1%) based on a three-year CAGR. Mugg & Bean leads the pack with a growth rate of 7.7%, followed by Steers (7.1%), Fishaways and Debonairs Pizza (6.7%). Mugg & Bean holds the largest market share (23.1%) in the Chained Cafés and Bars category, and it is believed that it capitalised on its flexible business model, including on-the-go and drive-thru franchises, as well as partnerships with third-party delivery services, to meet consumer needs during the temporary ban on sit-downs. Furthermore, Mugg & Bean is said to continue attracting health-conscious consumers by maintaining its relationship with Discovery Health, which allows it to reach members of the Vitality programme. Famous Brands' total restaurant sales are expected to increase by approximately 6% on a three-year CAGR.

**Figure 35: Total restaurant sales – 3yr CAGR (2016 to 2019)**  
**Wimpy delivered the least growth**



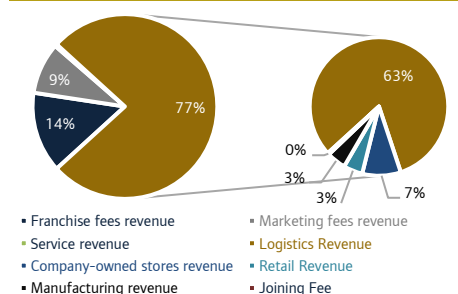
Source: Euromonitor and SBG Securities analysis

**Figure 36: Total restaurant sales – 3yr CAGR (2019 to 2022)**  
**All brands expected to have delivered growth except for Milky Lane**



Source: Euromonitor and SBG Securities analysis

**Figure 37: Revenue mix by contracts with customers**

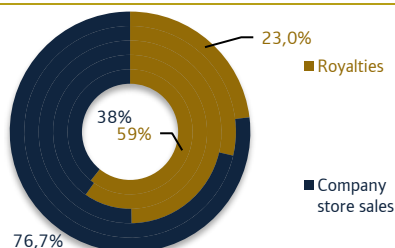


Source: Company reports and SBG Securities analysis

Company owned versus franchise stores – 70% of revenues are supply chain related while the remainder is mostly earned through sales-based royalties (23%). Company-owned stores account for 7%.

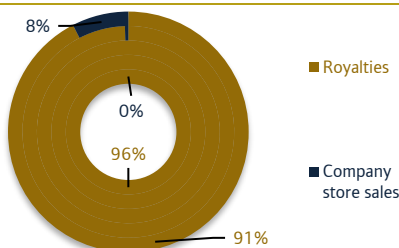
- **Leading Brands:** Primarily focuses on the franchise (91%) model, this trend has remained constant over the years. Company-owned stores account for 8%.
- **Signature Brands:** In FY18, the franchise (59%) model was the main form of business but has seen a shift to focus on company-owned stores (FY21: 77% versus FY18: 38%).
- **AME:** Operations are skewed towards company-owned store sales; this trend has remained constant over the years. A company-owned store model is the preferred business model when entering new markets to ensure the brand is well established and gains a sizeable market share before rolling out partnerships for franchises.
- **UK operations** focus solely on the franchise model.

**Figure 38: Signature – revenue breakdown (FY:18 – H1:22)**



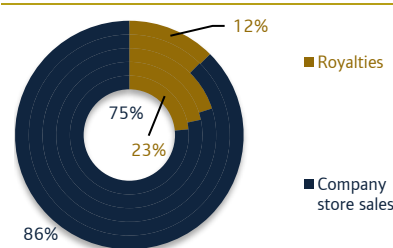
Source: Company reports and SBG Securities analysis

**Figure 39: Leading Brands – revenue breakdown (FY:18 – H1:22)**



Source: Company reports and SBG Securities analysis

**Figure 40: AME – revenue breakdown (FY:18 – H1:22)**



Source: Company reports and SBG Securities analysis

## Management strategy

**Growth:** Pursuing organic and acquisitive growth (where feasible)

- **Leading Brands** – Store roll outs, closing gaps created through the pandemic (independents and/ or international brand closures) in our view.
- **Signature Brands** – awaiting post pandemic recovery before committing additional investment.
- **Acquisitive growth** – provided potential targets are palatable and appropriate for the business.

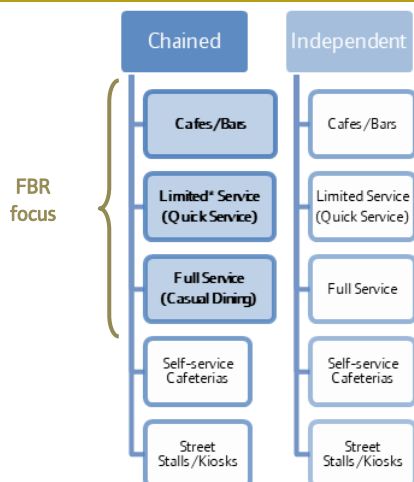
**Operational:** increasing and optimising capacity

- **Leading Brands (SA and AME) and Supply Chain (Manufacturing and Logistics)** – investing ahead of the curve to increase capacity
- **Divesting from non-core assets** and channelling funds to key operations.
- **Improving digital platforms.**

**Financial:** Maximising shareholder returns

- **Protecting margins** in an inflationary environment. Management indicates menu price increases have filtered through in November. Moreover, where possible management aims to cap cost growth.
- **Reduction of interest-bearing debt** in the absence of acquisitions facilitating in our view increasing returns to shareholders.
- **Consistent dividend policy:** Famous Brands management aims to stabilise the dividend policy after resuming payments in H1:23.

**Figure 41: Famous Brands focus areas in the restaurants industry**



Source: SBG Securities analysis, Euromonitor

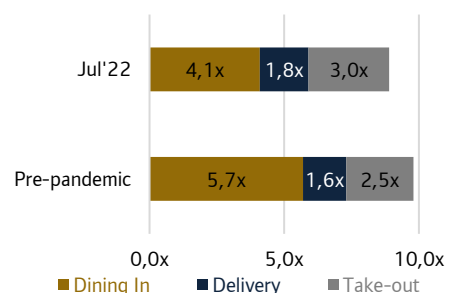
In assessing management's strategy, the sections that follow aim to address:

1. **Global and SA allocation of spend to leisure**– Allocation of wallet spend to hotels and restaurants is relatively low in South Africa compared to both developed and emerging markets (eg. Turkey). That said, in SA we find a high correlation between gross disposable income and expenditure on restaurants and hotels, which when considering potentially peak unemployment is likely indicative to market tailwinds into the medium term.
2. **SA Consumer Food Service market overview** – Based on Euromonitor data we find FBR is exposed to a fast-growing fast-casual restaurant segment through Mugg & Bean, Steers and Wimpy.
3. **Store network relative to peers using SBGS geolocation analysis** – We find the group has a portfolio of established brands, cumulatively holding the second highest market share in SA, with the most diverse store footprint.
4. **SA franchise market** – FBR has, in our view, a stable portfolio of franchise partners despite a pandemic-induced deterioration in franchisee health.
5. **Peer analysis** – FBR (ex. GBK) positions favourably relative to peers pre-pandemic as revenue growth and margins rubbed shoulders with major global peers. In our view this favourable positioning provides optimism and momentum in SA, indicative of strong brands.



The consumer food service sector lost c. -31.5% of its value due to Covid in 2020.

**Figure 42: Restaurant global trends - frequency per month (times) Off-premises more frequent than on-premises dining**



Source: Near – Restaurants 2022 research report

Consumer trends post-pandemic: 1) convenience; 2) affordability; and 3) health food options

## Global consumer food services sector overview

As the pandemic spread, Covid related restrictions on social gatherings, severely impacted the consumer food service sector, reducing the sector's value by c. 32% in 2020. To ensure an element of business continuity, many restaurants focused on off-premises services (eg. take-out and delivery). This meant that quick service restaurants (QSR, also known as fast food restaurants, e.g., Steers) were less affected relative to their casual dining counterparts (CDR, e.g., Spur steak ranches). CDR's primarily thrive on providing experiential services to customers and thus their investment in food delivery technology capabilities has been largely negligible.

Customers have since returned to restaurants as the world has recovered from the worst of the pandemic, but some habits attained during the crisis are expected to persist. Many restaurants are likely to continue to provide a mix of on-site and off-site services, implement contingency plans and experiment with new ways of doing business.

Although eat-in dining continues to be popular, there has been a decline in the frequency of monthly visits, as take-out options expand (as shown in Figure 42). If these trends continue, they may pose a challenge to on-premises dining. However, the ongoing recovery of global tourism could revive demand for eat-in dining. According to the United Nations World Tourism Organization (UNWTO), international tourist arrivals are expected to reach pre-pandemic levels later in 2023 or early 2024.

Inherent in the increasing frequency of take-outs and desire to cook from home, we find the following trends **shaping consumer behaviour include 1) convenience; 2) a desire for health food options; and 3) affordability.** We believe that QSR is better positioned than CDR to respond quickly to these trends as the bedrock of QSR is speed of service and affordability.

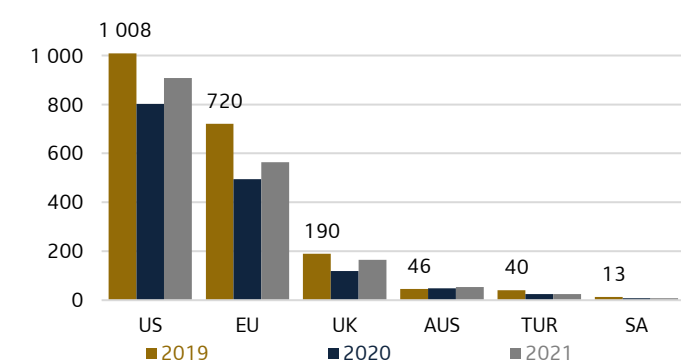
## Market size

In the sub-sections that follow, we focus on restaurants and hotels as proxies for the sector to assess the evolution of the sector pre and post pandemic, both locally and globally.

We estimate the global market value of restaurants and hotels (based on consumption expenditure) at > USD2tn. Unsurprisingly, developed economies have more mature markets than emerging economies. In addition to a more benign consumer, developed markets benefit from a higher proportion of international tourists. In 2019, the US and Europe accounted for nearly 60% of all international tourist arrivals.

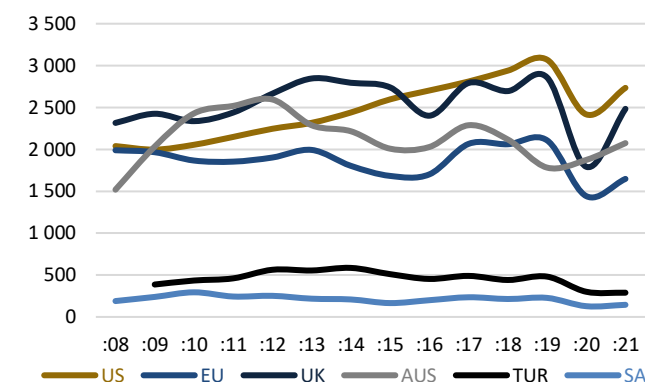
The US has the largest market size of USD1.01tn, followed by Europe (USD0.72tn) and the UK (USD190bn). Among the emerging markets, Turkey's market is valued at USD40bn, while South Africa's valued at USD13bn.

**Figure 43: Market value by consumption expenditure – hotels and restaurants (USD'bn) US consumers spend over USD1tn on restaurants and hotels.**



Source: SBG Securities analysis, OECD and SARB

**Figure 44: Restaurants and hotels consumption per capita (USD) Turkey and South Africa consumption per capita is below USD500**

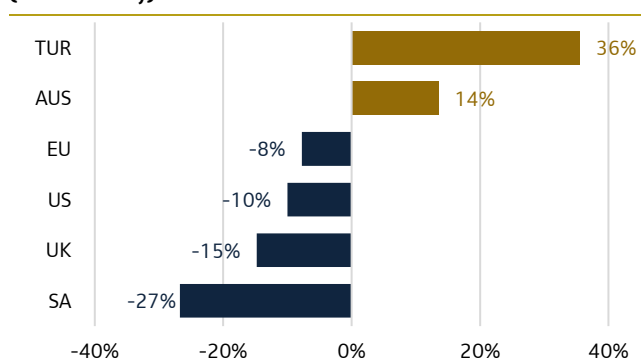


Source: SBG Securities analysis, OECD, SARB and Bloomberg

We see similar trends in consumption per capita, confirming the maturity of developed markets over emerging markets. Developed economies' per capita consumption ranges from USD1 500 to USD3 000, while emerging economies' per capita consumption is less than USD500. The US has the highest per capita consumption value of USD2 730, while South Africa USD145.

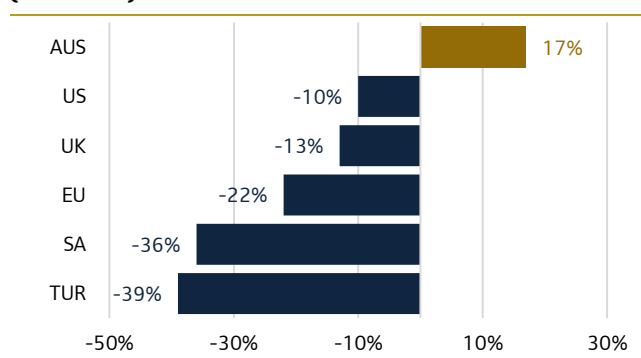
When we examine market value growth relative to 2019, we find that in *local currency*, all markets remained below pre-pandemic levels in 2021 except for Turkey (+36%) and Australia (14%). South Africa (-27%) experienced the slowest recovery relative to 2019. Only Australia (+17%) was ahead of pre-pandemic levels in *constant currency*, while Turkey's (-39%) decline reflects foreign exchange effects.

**Figure 45: Restaurant and hotels consumption growth versus 2019 (local currency)**



Source: SBG Securities analysis, OECD, SARB and Bloomberg

**Figure 46: Restaurant and hotels consumption growth versus 2019 (CER\* - USD)**



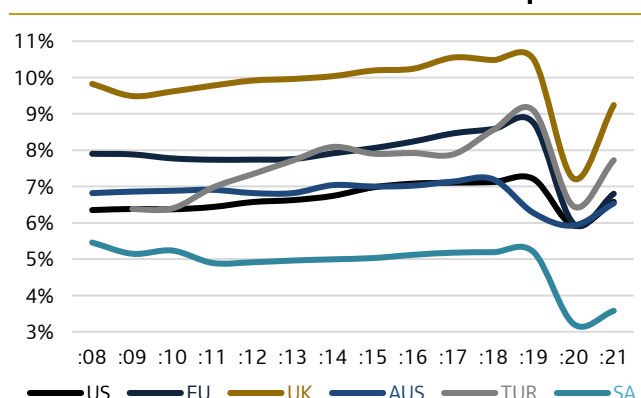
Source: SBG Securities analysis, OECD, SARB and Bloomberg

## Share of wallet

The allocation of wallet spend to restaurant and hotels is relatively low in South Africa compared to both developed and emerging markets (eg. Turkey). The UK has the largest share and, surprisingly, Turkey has the second largest. We attribute South Africa's low share of wallet to the characteristics of the economy, which include high levels of unemployment and consistently low growth.

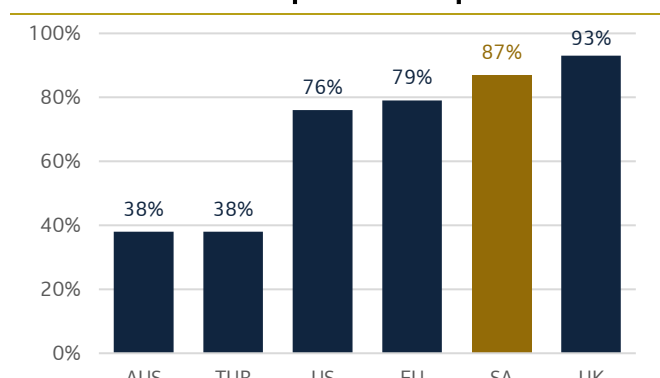
Moreover, we find South Africa (87%) has one of the highest correlations in our sample set of spend on restaurants and hotels and gross disposable income. A higher correlation confirms the cyclical nature of the sector, which when considering potentially peak unemployment is likely indicative of market tailwinds into the medium term.

**Figure 47: Share of wallet – restaurants and hotels**  
**South Africa has the lowest share of wallet while UK tops the chart**



Source: SBG Securities analysis, OECD and SARB

**Figure 48: 13-year correlation - restaurants and hotels expenditure and gross disposable income (2009 – 2021). Strong correlation between consumer services expenditure and disposable income in SA.**



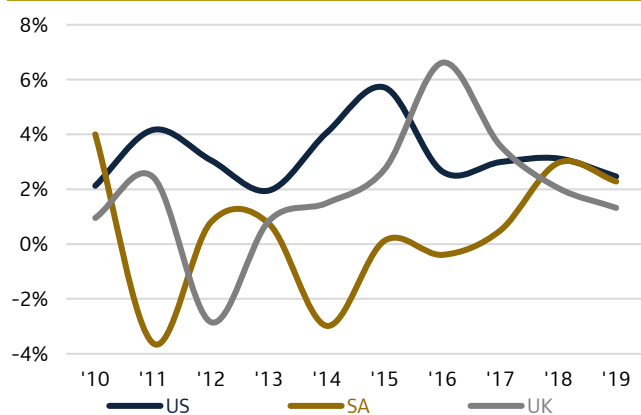
Source: SBG Securities analysis, OECD and SARB

## Pricing power – as indicated by elasticity of demand

Due to global inflation pressures, restaurants have had to raise their menu prices in the past year to protect profit margins. Recent trends indicate that inflationary pressures are showing signs of slowing but remain relatively high compared to pre-pandemic levels. However, if inflation remains sticky, businesses may be forced to raise prices even further, dampening demand. As a result, understanding elasticity of demand can help us understand consumer appetite to digest inflationary pressures.

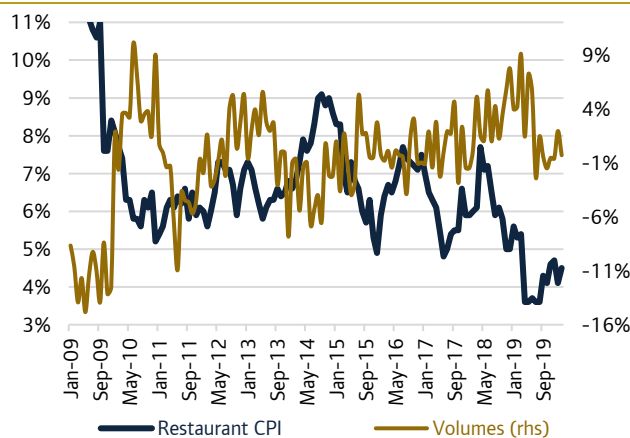
The figure below illustrates that historically restaurants in the US have better price dynamics, as implied volumes have been sustained, relative to the UK and South Africa. Restaurants in South Africa appear to exhibit high elasticity of demand, challenging margins during sustained period of high inflation. **Therefore, when CPI slows, we expect volumes to recover (see figure 49) and support margin improvement.**

**Figure 49: Price elasticity in SA, US and the UK (Restaurant retail sales less Restaurant CPI). Restaurants in South Africa exhibit high elasticity of demand**



Source: Bloomberg, UK office for National Statistics, Statista and SBG Securities analysis

**Figure 50: SA restaurant CPI versus SA restaurant volumes  
Inverse correlation between inflation and restaurant volumes**



Source: Bloomberg, Stats SA and SBG Securities analysis

**Figure 51: Share of wallet of restaurants**  
**Restaurant spending above pre-pandemic levels**



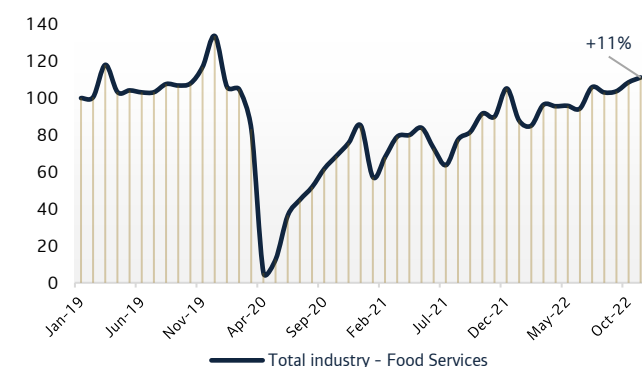
Source: Standard Bank

## SA consumer food service sector

According to Standard Bank proprietary data, the share of income spent on restaurants has surpassed its pre-pandemic levels. South Africa's overall restaurant retail sales, as per Stats SA, also indicates a recovery supported in our view by quick service restaurants which have far exceeded pre-pandemic levels, as casual dining and catering services still lag.

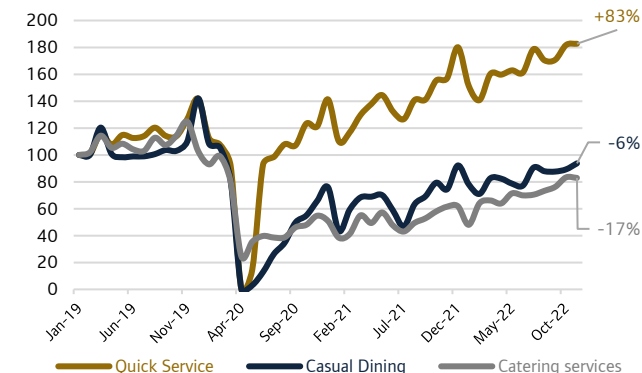
**As the post-pandemic recovery continues, we anticipate that quick service restaurants will maintain their momentum.** On the other hand, casual dining is expected to lag, leading us to conclude that restaurant companies with a focus on quick service restaurants are better positioned for growth.

**Figure 52: Total retail sales - food services (Jan 2019 = 100)**  
**The sector is on the road to recovery...**



Source: SBG Securities analysis and Stats SA

**Figure 53: SA - food services retail sales by category (Jan 2019 = 100)**  
**QSR driving sector growth as CDR lags and is below 2019 levels**



Source: SBG Securities analysis and Stats SA

We believe that casual dining restaurants (CDR) will continue to underperform due to prevailing consumer behaviour trends, as outlined below.

- **Convenience (take-out and delivery):** We believe intense load-shedding coupled with the work from home trend is influencing consumer behaviour towards convenience.
- **Affordability:** The consumer environment has been less benign to discretionary spend post the pandemic, resulting in consumer prioritising affordability particularly within discretionary categories.
- **Home cooking trend and QSR healthy menu options:** As health-conscious consumers increasingly choose to cook at home, demand for nutritious food is on the rise. This trend is expected to continue even as power outages drive people back to work. To meet this demand, QSR brands have introduced plant-based and vegan menu options. Given the importance of affordability and convenience, QSR brands are likely to attract more health-conscious customers than casual dining restaurants.

Besides these trends shaping consumer behaviour, other factors that have limited growth for CDR are:

- **Higher exposure to tourism:** CDR has higher exposure to tourism or tourist traffic as restaurants tend to be associated with experiential services normally sought after by tourists. Demand has been largely driven by local consumption in the absence of tourist traffic. Therefore, we believe the recovery in international tourism will help to boost CDR growth.

- **Negligible investment in delivery capability:** Prior to the pandemic, QSRs (2019: 9% online penetration) had initiated investment in delivery technology capabilities, whereas CDRs (2019: 1% online penetration) were focusing primarily on improving on-premises experiences. Due to the relatively more narrowed focus, CDR's were not as adequately prepared.

## Market size and performance

### Value

Independent restaurants (52% of total sales, R53bn) total sales are 1.2x bigger than chained restaurants (48% of total sales, R49bn).

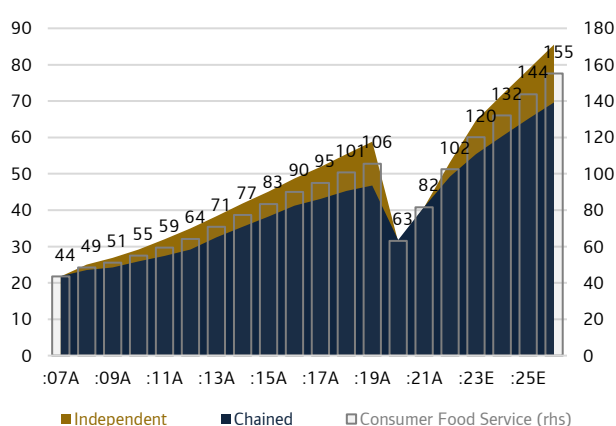
According to Euromonitor data, the South African consumer food service market is expected to be worth R102bn in 2022, representing a 24% growth year-on-year. The sector is expected to grow to R155bn by 2026, representing a 14% CAGR. Independent caterers have historically accounted for the largest share of consumer food services in South Africa (c. 60%), and this trend is expected to continue. This, we believe, is due to:

- **Low capital investment:** Running an independent restaurant requires little capital and considering the high levels of unemployment in the country, an independent format is the most preferred. The capital required to buy a restaurant franchise is usually high, ranging from R525 000 to R6m.
- **Need for independence:** The franchise model (i.e., chained) limits the franchisee's ability to exercise their initiative and make decisions as the franchisor establishes the framework for how the business should be run.

QSR is the largest restaurant format in South Africa, 2x larger than CDR.

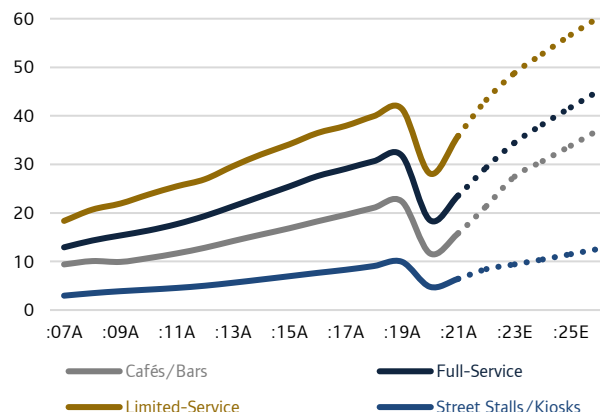
In terms of restaurant categories, limited-service restaurants, also known as Quick Service Restaurants, have historically generated the most sales (est. 2022: R43bn). Full-service restaurants (also known as Casual Dining Restaurants – valued at R29bn) and Cafés/Bars (R21bn) are 1.5x and 2x smaller than limited-service restaurant formats respectively.

**Figure 54: Market value by restaurant type (ZAR'bn)**  
**Franchise operating model smaller than independents**



Source: SBG Securities analysis and Euromonitor

**Figure 55: Value by restaurant category (ZAR'bn)**  
**QSR is the largest restaurant format in South Africa**



Source: SBG Securities analysis and Euromonitor

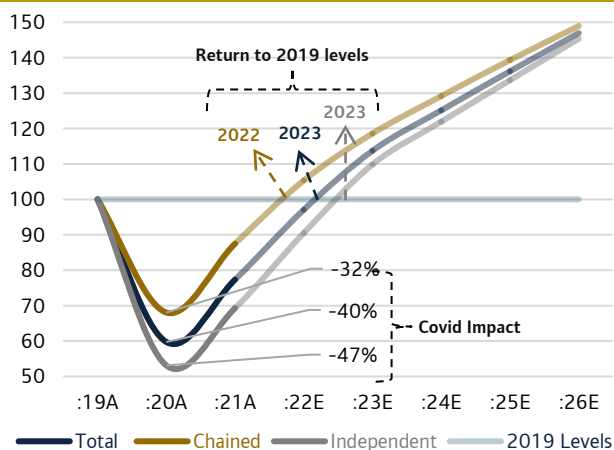
## Growth

Chained restaurants (2022: c. 5%) expected to return to pre-pandemic levels faster than independent restaurants (2023: 10%).

By type, chained restaurants experienced the lowest decline in 2020 and are expected to recover faster than independent restaurants following the pandemic. Chained restaurants are better positioned for growth as they receive support (royalty breaks, lease negotiation, etc.) from the franchisor, whereas independents lack the financial strength and ability to negotiate lower rental costs with landlords. Independents also usually lack sufficient capacity for online delivery.

**Figure 56: Restaurant type (Index: 2019 = 100)**

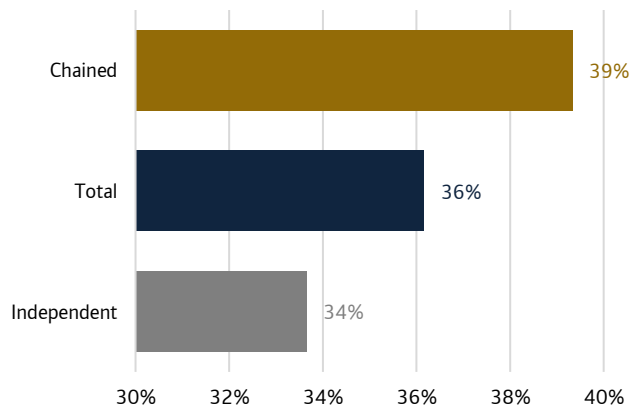
**Chained least affected by the pandemic, hence recovering faster**



Source: SBG Securities analysis and Euromonitor

**Figure 57: Restaurant type - growth (2025 relative to 2019)**

**Chained to deliver highest performance relative to pre-pandemic levels.**



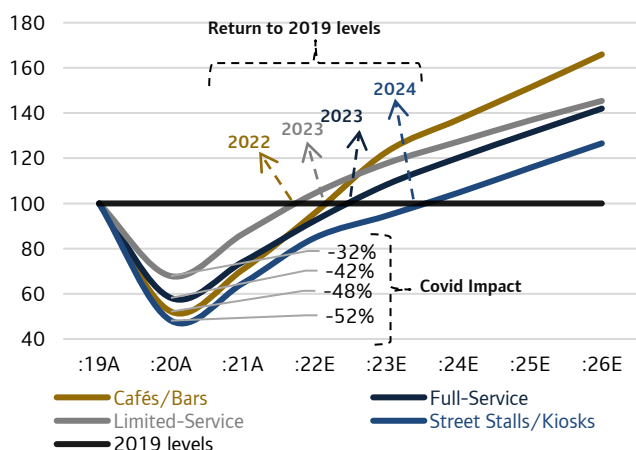
Source: SBG Securities analysis and Euromonitor

Limited-service restaurants (QSR) can adapt more quickly to changes in consumer behaviour compared to restaurant in other categories.

By category, limited-service restaurants (QSR) were the least affected by the pandemic, hence are recovering to 2019 levels faster. We believe this is because QSRs can adapt more quickly to changes in consumer behaviour; for instance, several limited-service restaurants were able to pivot to delivery options and drive through, which allowed them to continue serving customers while adhering to social distancing guidelines. Cafés/bars (+18%) and full-service restaurants (+8%) to reach 2019 levels in 2023.

**Figure 58: Restaurant categories (Index: 2019 = 100)**

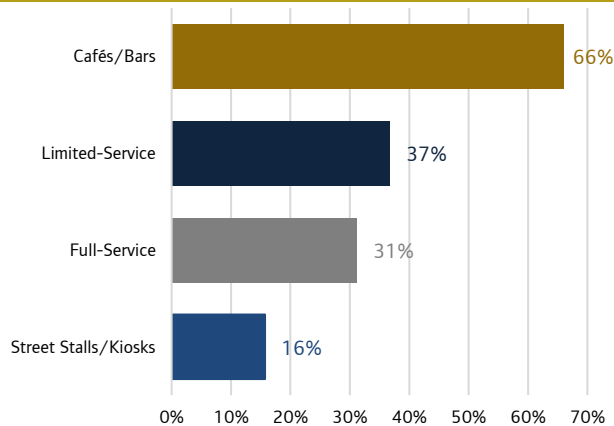
**QSR was the least affected by the pandemic, hence is recovering faster**



Source: SBG Securities analysis and Euromonitor

**Figure 59: Restaurant categories – Growth (2025 relative to 2019)**

**Cafés and limited-service restaurants top performers post the pandemic.**



Source: SBG Securities analysis and Euromonitor

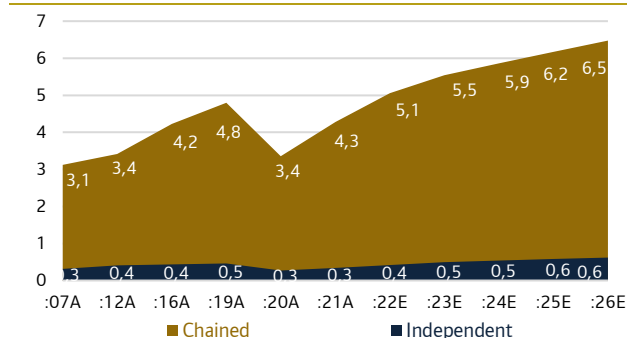
## Sales per Outlet

By restaurant type, chained restaurants (R5.1m per outlet) deliver the highest sales per outlet, 10x higher than independent restaurants (R400K per outlet).

By restaurant category, limited-service restaurants deliver the highest sales per outlet (R4m), which is 1.4x, 1.8x and 4.9x larger than full-service, cafés/bars and the overall sector respectively. Limited-service restaurants normally don't offer the same dining experiences as full-service restaurants, implying that the QSR segment offers higher profit margins.

**Figure 60: Sales per outlet by type (ZAR'm)**

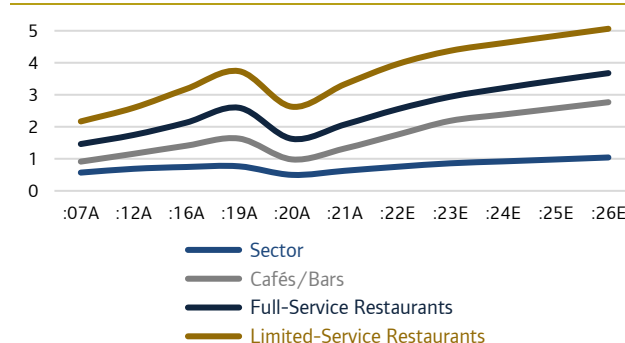
**Chained most profitable restaurant operating model type**



Source: SBG Securities analysis and Euromonitor

**Figure 61: Sales per outlet by category (ZAR'm)**

**QSR delivers the highest sales per outlet**



Source: SBG Securities analysis and Euromonitor

## Value per transaction

By type - chained restaurants (2022: R79) have consistently delivered average value per transaction (AVT) higher than independents (2022: R53). We believe this could be due to:

- Chained restaurants have more resources to invest in marketing and promotion, which can drive customer traffic and increase AVT.
- Chained restaurants often have a larger and more diverse menu, which can lead to higher AVT as customers are likely to purchase additional items or higher-priced items because they have more options to choose from.

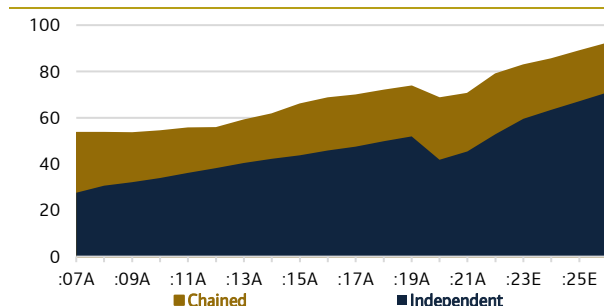
QSRs – drive volumes at competitive prices.

CDRs –enhance the appeal of high-ticket items through experiential services.

By category - full-service restaurants (CDRs) and cafés/bars consistently deliver average transaction values that exceeded R100. While limited services and street stalls have yet to break the R100 and R50 barrier. Because of their experiential services offering, CDRs command a higher price than other restaurant formats.

**Figure 62: Average value per transaction by type (ZAR)**

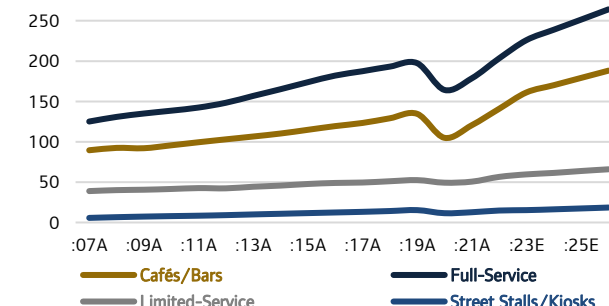
**Chained attracts more spending on higher ticket items than independents**



Source: SBG Securities analysis and Euromonitor

**Figure 63: Average value per transaction by sub-sector (ZAR)**

**CDRs trade at a premium due to the experiential services offering**



Source: SBG Securities analysis and Euromonitor



## Market share

Consumer food services sector is highly fragmented. Top six firms account for 35%, rest is shared among smaller players.

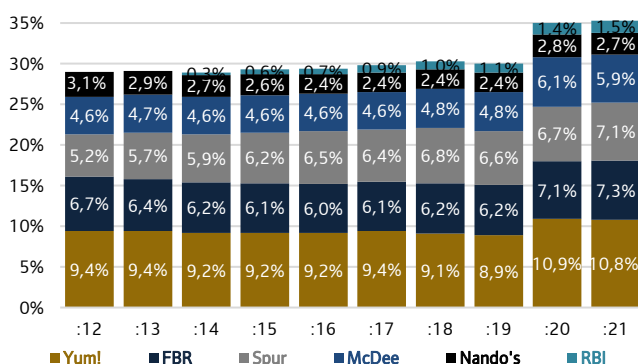
Larger companies protect market share while smaller companies show vulnerability during times of subdued trading activity due to lack of financial strength.

The sector is highly fragmented, as the top six brands account for 35% of the market share while smaller brands share the rest of the market. Yum! Brands (which owns KFC and Pizza Hut) is the only company or franchise with a double-digit market share (c. 11%). We attribute this share almost entirely to KFC, which is one of the most loved brands in South Africa.

Famous Brands (2021: 7.3%) reclaimed second place from Spur Corp (2021: 7.1%) in 2020, as casual dining restaurants were the most affected by the pandemic.

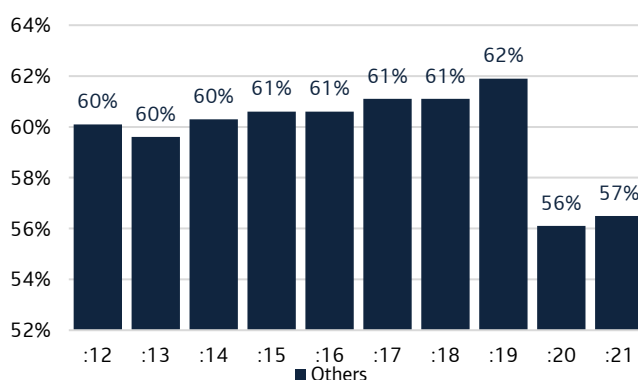
Other brands (smaller companies) have lost market share (c. 600 bps), while the top six have gained market share in comparison to 2019. In our view, smaller brands lacked the financial strength to sustain operations at the peak of the pandemic.

**Figure 64: Company market share (%) – Food Service Sector Top Six firms** Top six franchise firms account for 35% of the market share...



Source: SBG Securities analysis and Euromonitor

**Figure 65: Company market share (%) – Food Service Sector 'Others'** Smaller restaurants lost almost 600 bps of market share due to Covid

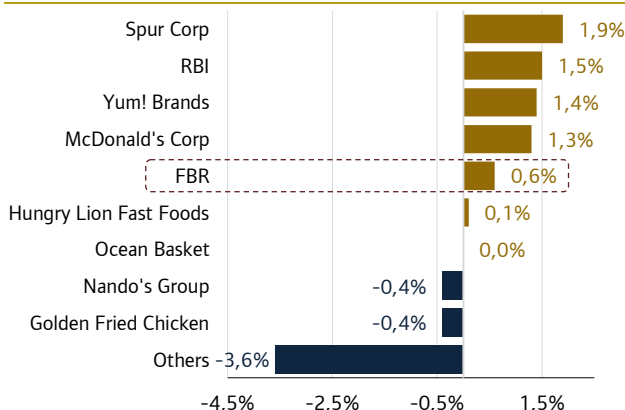


Source: SBG Securities analysis and Euromonitor

Lack of financial strength of smaller brands make it difficult to compete with larger brands. Hence, they have been losing market share.

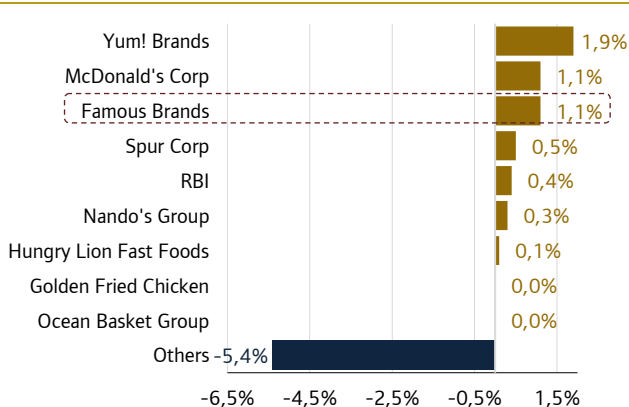
- **Ten-year period:** Spur, which primarily operates in the full-service restaurants segment, gained the highest market share over 10 years. Only Nando's Group (-0.4%), Golden Fried Chicken (owner of Chicken Licken) (-0.4%) and Others (smaller companies) (-3.6%) shed market share. Famous Brands gained 0.6%.
- **Since 2019:** Only smaller brands have lost market share, while the rest of the companies recorded gains, led by Yum! Brands (1.9%), McDonald's (1.1%) and Famous Brands (1.1%).

**Figure 66: 10yr. market share movement (%) – Top 10 companies** Spur Corp the highest gainer over the past 10 years



Source: SBG Securities analysis and Euromonitor

**Figure 67: Market share movement (%: '19 – '21) – Top 10 companies** Top three gainers specialise in QSR (fast food), FBR among the Top 3



Source: SBG Securities analysis and Euromonitor

## Eat-in versus Ordering online

Off-premises dining to continue shaping consumption in the QSR segment.

Eat-in was trending downward pre-pandemic as meal delivery gained prominence.

Meal delivery customer base to be almost half the population of South Africa.

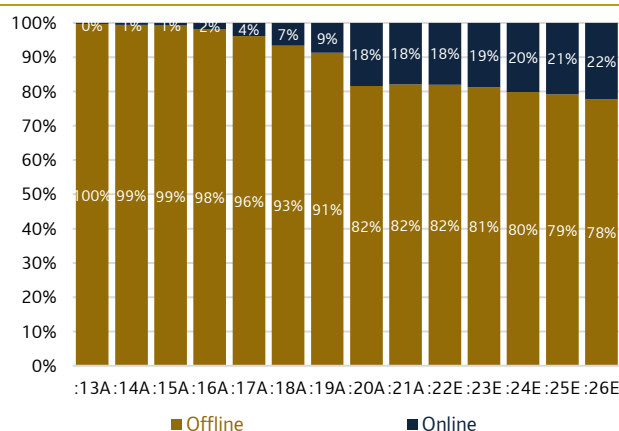
Delivery services became crucial for restaurants at the height of the lockdowns since people were confined to their homes for months. Customers continued to demonstrate a preference for convenience even when lockdowns were loosened, making delivery and take-outs the dominant trends for buying fast food. The number of sit-ins has decreased. According to a recent poll conducted in the US, the majority of consumers opt to pick up their orders when they think it will be quicker than delivery or when they are close to the restaurant. Therefore, they prefer to either order delivery or leave the house to collect the order rather than sit down and eat. Similar patterns are emerging in South Africa:

- Take-outs (59.4%) are pushing closer to 60% of the QSR market value.
- Meal delivery is reaching for 20%, currently sits at 17.9%.
- Eat-ins (22.5%) have declined by almost 10% since 2019 and more than halved since 2016 (50%).

Delivery has established itself as an integral distribution channel for the QSR industry, and South African consumers are likewise becoming more convenience driven. Eat-ins have declined by 10% since 2019 and have more than halved since 2016. Revenue in the meal delivery segment is projected to reach USD0.83bn in 2022 and deliver a five-year CAGR of 7.28%, increasing market value to USD1.18bn by 2027. The customer base for meal delivery is currently at 14.8m, accounting for c. 34% of the SA population (excluding 14 years and younger). By 2027 (48%), almost half of the SA population will be meal delivery users.

**Figure 68: QSR ordering – offline versus online %**

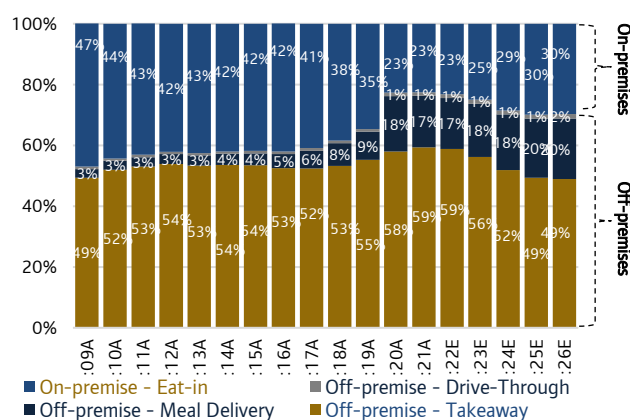
Online to account almost one quarter of QSR transactions by 2026E



Source: SBG Securities analysis and Statista

**Figure 69: QSR consumption preference (%)**

Eat-in fading while off-premises dining increases



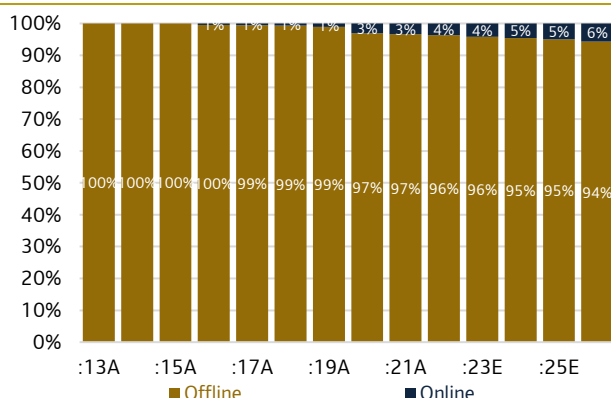
Source: SBG Securities analysis and Statista

Casual dining restaurants may remain centred on driving on-premises sales.

Casual dining restaurants will continue to put their attention on getting people to visit their establishments and sit down to eat because the focus of their operations is to provide experiences. Consequently, investing in delivery and drive-through is not a top priority. To ensure that their business is successful, casual dining restaurants must become more inventive while considering the trends that are influencing consumer behaviour. Given that working from home and cooking at home have a more noticeable impact on CDR, we believe they would want to offer uncooked meal kits to be delivered to homes to give the customer the choice to prepare their meal in the comfort of their homes. On the contrary, venturing into this space may cannibalise dining-in sales as consumers may want to order more meal kits instead of dining at restaurants.

**Figure 70: CDR ordering – offline versus online %**

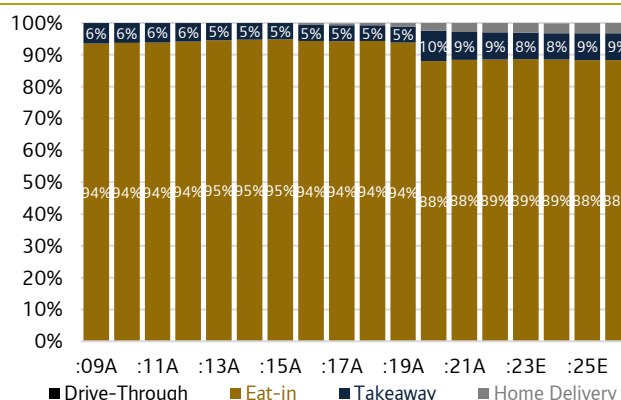
**CDR focus is to provide experiential services by visiting their stores**



Source: SBG Securities analysis and Statista

**Figure 71: QDR consumption preference (%)**

**On-premises dining to remain dominant in CDR segment**



Source: SBG Securities analysis and Statista

More than 60% of meal delivery in South Africa is through food aggregators.

Food aggregators have intensified competition between restaurants.

## Meal delivery demographics

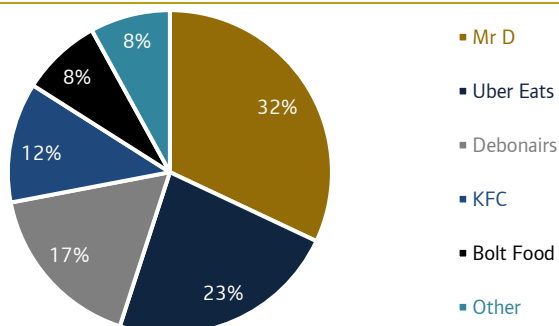
Mr D is the leader in the meal delivery segment, accounting for 32% market share. Second highest is Uber Eats (23%) and Debonairs Pizza (Famous Brands) is the third highest with 17%. KFC sits at number four with 12%. The top two brands (Mr D and Uber Eats) are food aggregators also referred to as platform-to-consumer delivery. Debonairs and KFC form part of the restaurant-to-consumer delivery segment.

Food aggregators are making it easier for the consumer to make informed decisions before purchasing food; for example, the consumer can compare prices and delivery times. As a result, food aggregators have intensified competition between restaurants. To differentiate themselves, restaurants will need to find innovative ways to produce distinct meals quicker.

Meal delivery users in SA currently account for approximately 34% of the total population (excluding 14 years and younger). According to Statista, there will be 22.2m users by 2027 and if we assume a 1.4% annual growth rate (20-year average growth) for SA's population, meal delivery users will almost equate to half the population by 2027 (48%). As a result, we anticipate QSR players to increase their technology expenditure to enhance the delivery experience. The ability to provide exceptional delivery services will allow QSR brands to attract premium customers in an industry that is intensely contested.

**Figure 72: Delivery brands market share 2022**

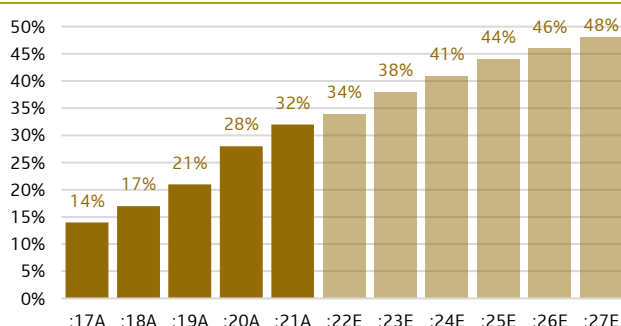
**Food aggregators dominating the meal delivery space**



Source: SBG Securities analysis and Statista

**Figure 73: Meal delivery users % of SA population**

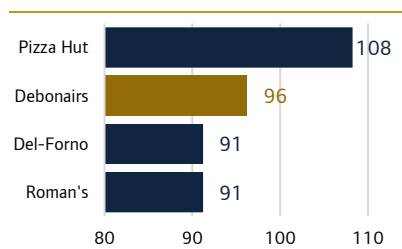
**Meal delivery users to be almost half of the SA population by 2027**



Source: SBG Securities analysis and Statista

## Geo location

**Figure 74: Large pizza average prices (ZAR)**



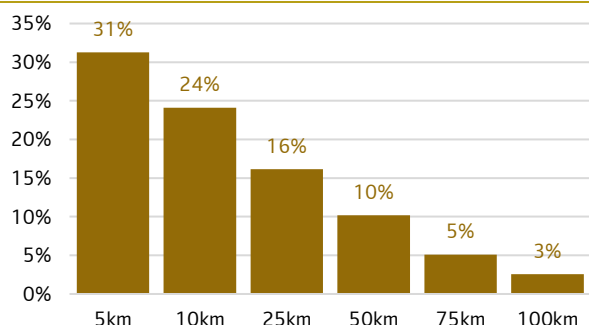
Source: SBG Securities analysis

### Pizza – Debonairs boasts a large store network

In the QSR segment, the primary goal is to attain volume through convenience and competitive prices. As a result, a far-reaching store network close to the consumer is imperative. With this in mind, Debonairs Pizza has c. 668 stores across SA, 3x more than its closest competitor, Roman's Pizza. The pizza category was the best-performing category in 2021 (+31% y/y).

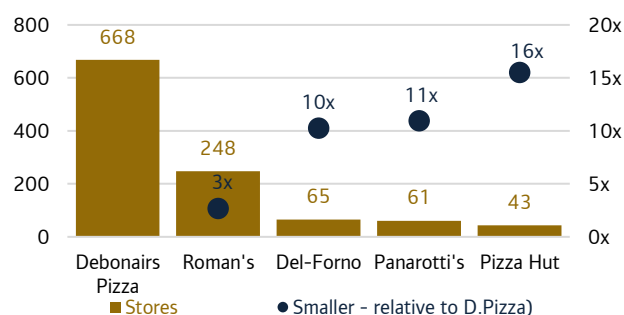
Within a 5km radius, 31% of Debonairs stores do not face competition from its larger peers, reflecting the depth of its store network across SA, in our view. Hence, we find Debonairs has one of the second highest average price (large pizza) relative to its peers aided in our view by its brand loyalty and resonance.

**Figure 75: % of Debonairs Pizza stores without a pizza restaurant in radius. Debonairs enjoys a competitive edge due to its large network**



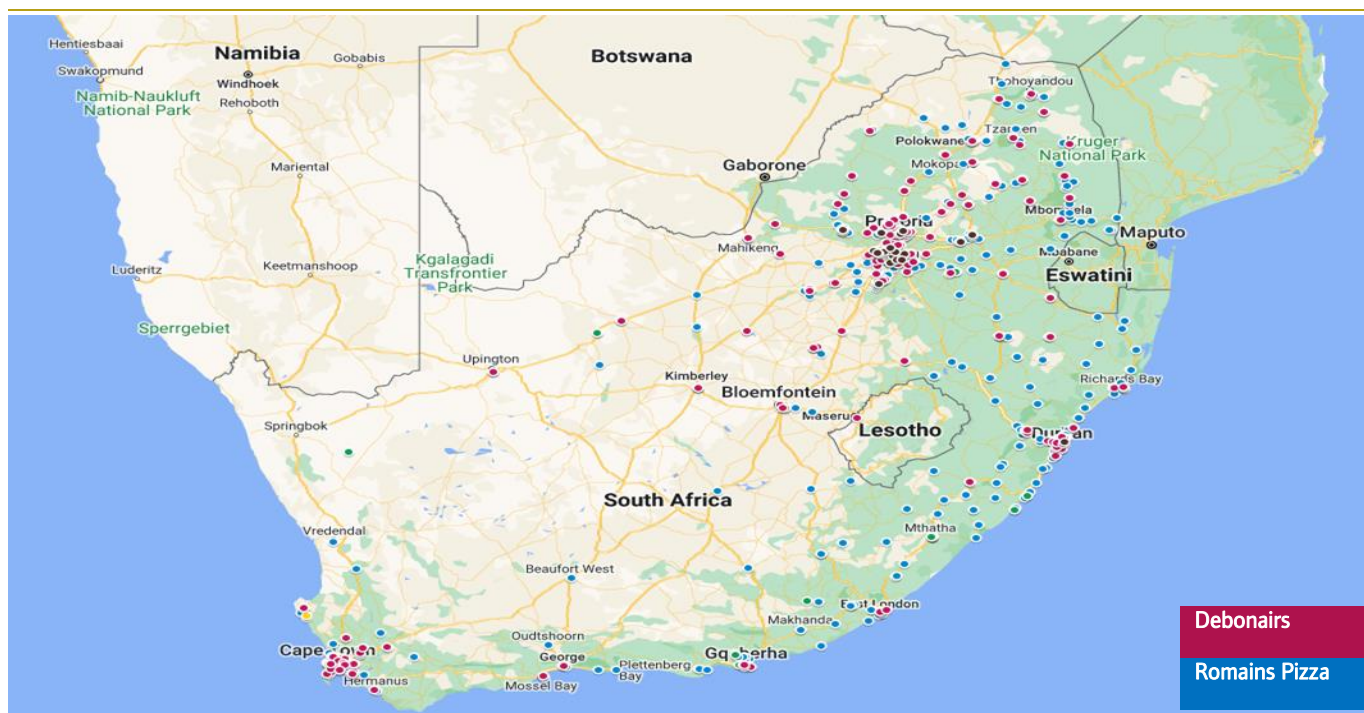
Source: SBG Securities analysis

**Figure 76: Store network of pure pizza restaurants**  
**Debonairs boasts a large store network**



Source: SBG Securities analysis

**Figure 77: Google Mapping – Pizza store network of major competitors in South Africa**  
**Debonairs Pizza Network well spread across South Africa than its nearest competitors**

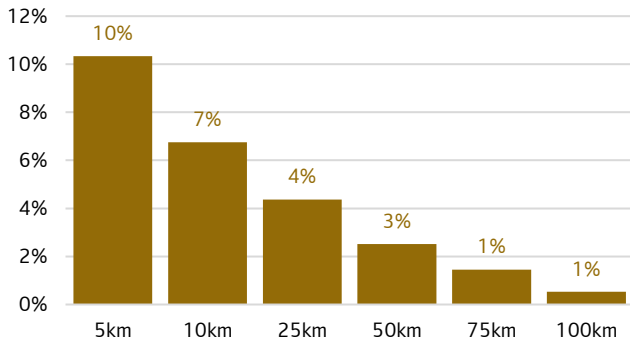


Source: SBG Securities analysis and Google Maps

## Fish and seafood

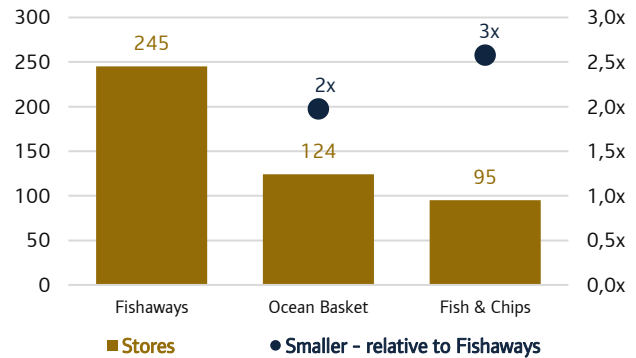
Fishaways has a store network double that of its closest competitor and enjoys substantial coverage without any of its larger closest peers nearby. Within a 5km radius, 10% of Fishaways stores do not face competition from any of its peers.

**Figure 78: % of Fishaways stores without a pure fish and seafood restaurant in radius. Fishaways has a fairly substantial coverage advantage over its closest peers**



Source: SBG Securities analysis

**Figure 79: Store network of pure fish and seafood restaurants. Fishaways store network is double its closest competitor**



Source: SBG Securities analysis

**Figure 80: Google Mapping – Fish and seafood store network of major competitors in South Africa. Fishaways is a market leader in one of the smallest categories of the restaurant industry**



Source: SBG Securities analysis and Google Maps

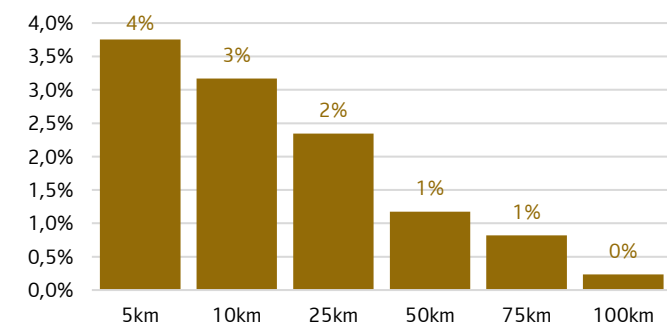


## Cafés (coffee and drinks) – Mugg & Beans stands strong in a tightly contested market

Mugg & Bean has the highest market share in the very competitive chained cafés industry. Mugg & Bean only enjoys 4% of coverage within a 5km radius without a close larger competitor nearby.

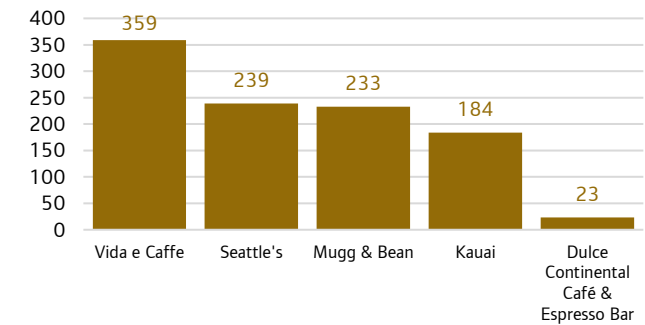
Despite having the third highest number of stores, Mugg & Bean (23.1%) has the highest market share in the chained cafés industry. Vida e Caffé its closest competitor, has a market share which is almost 3x smaller than Mugg & Bean. We believe Mugg & Bean is a more established brand with a larger loyal customer base.

**Figure 81: % of Mugg & Bean stores without a café in radius**  
**Cafés is a closely contested industry**



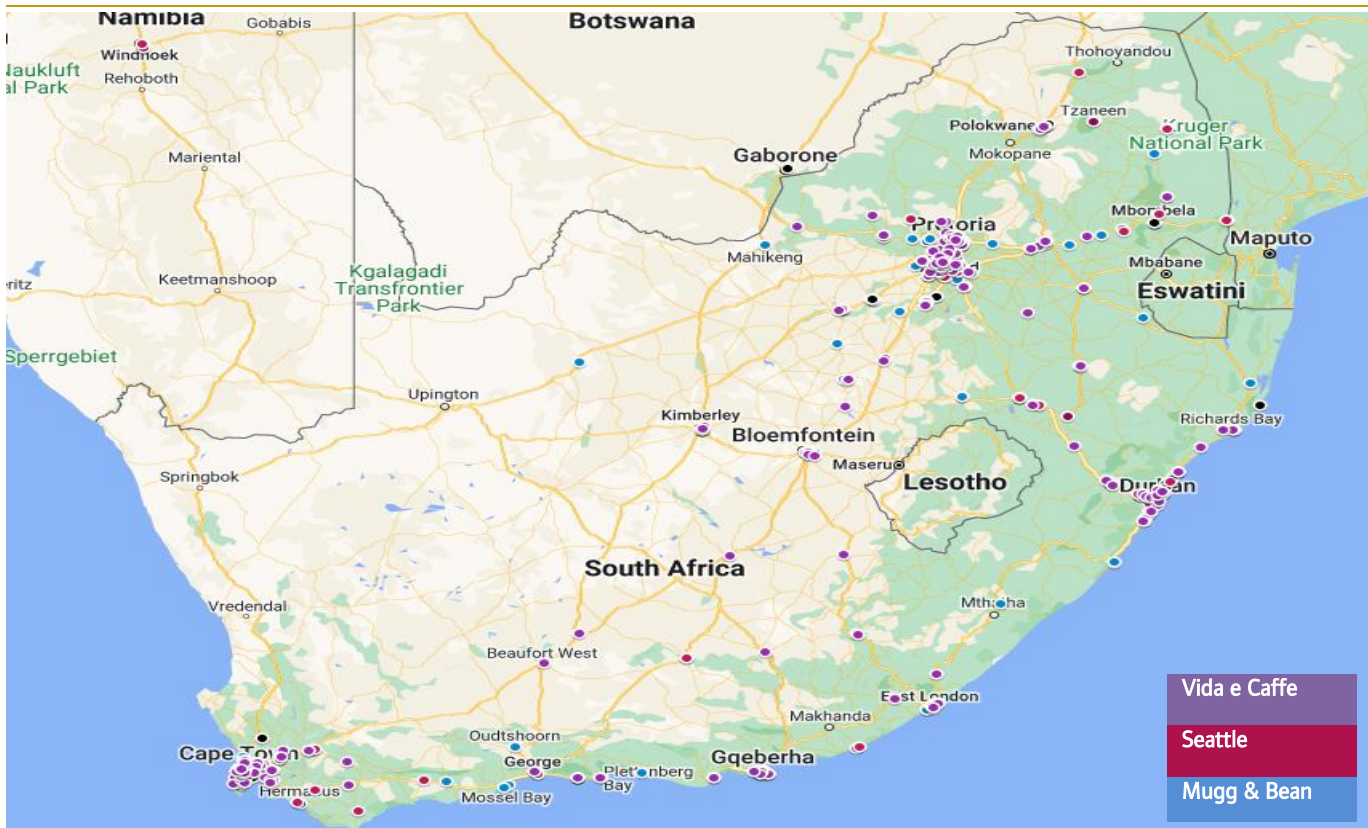
Source: SBG Securities analysis

**Figure 82: Store network of cafés**  
**Mugg & Bean has the third highest store network**



Source: SBG Securities analysis

**Figure 83: Google mapping –coffee and drinks store network of major competitors in South Africa**  
**Vida e Caffé is the major competitor to Mugg & Bean**

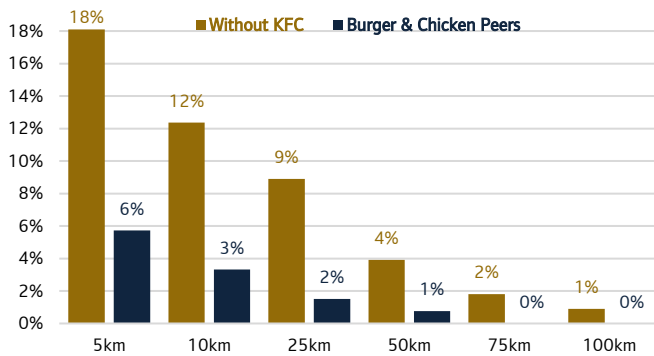


Source: SBG Securities analysis and Google Maps

## Burger and chicken

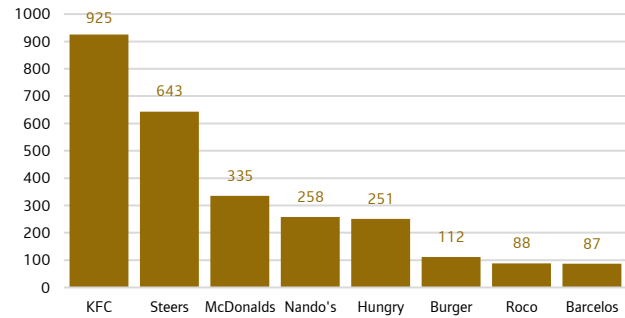
Steers enjoys c. 6% of coverage within a 5km radius without larger category competitors. If we exclude KFC, coverage increases to 18%. KFC has the highest number of franchised stores in the fast-food segment in South Africa. Therefore, its larger store network tightens competition for Steers.

**Figure 84: % of Steers stores without a competitor (burger and chicken) in radius. KFC tightens competition for burger and chicken restaurants**



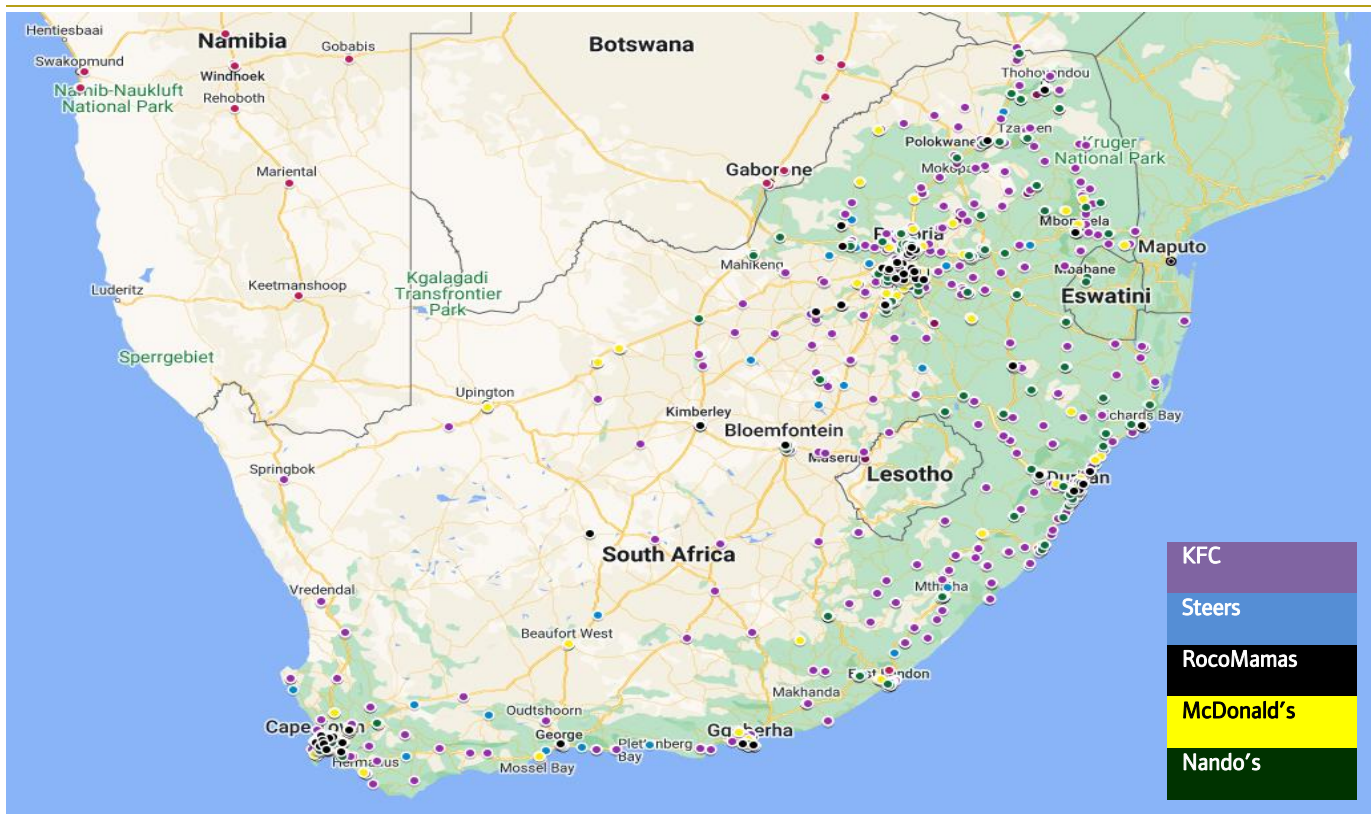
Source: SBG Securities analysis

**Figure 85: Store network of burger and chicken restaurants (top five peers). KFC has the largest store network; Steers is second-largest**



Source: SBG Securities analysis

**Figure 86: Google mapping – burger and chicken store network of major competitors in South Africa**  
**KFC store network more diverse than peers**



Source: SBG Securities analysis and Google Maps



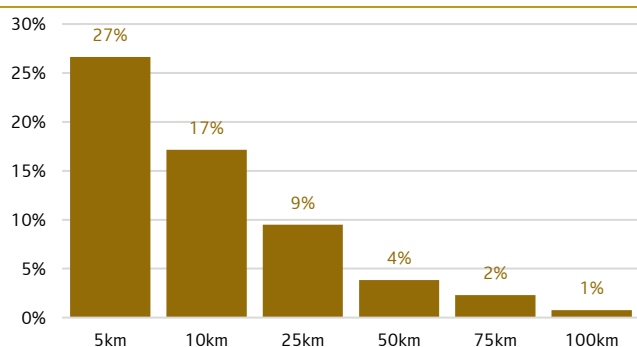
## Fast food (QSR) and casual dining (CDR)

Famous Brands has more competitive advantage and better pricing power in the QSR segment than CDR

If we look at the rest of the QSR market, we understand that Famous Brands' QSR portfolio (Debonairs and Steers) enjoys almost a third of coverage without a larger competition within a 5km radius. Within a 10km radius, they enjoy 17% of coverage without larger competition. This translates to competitive advantage and pricing power.

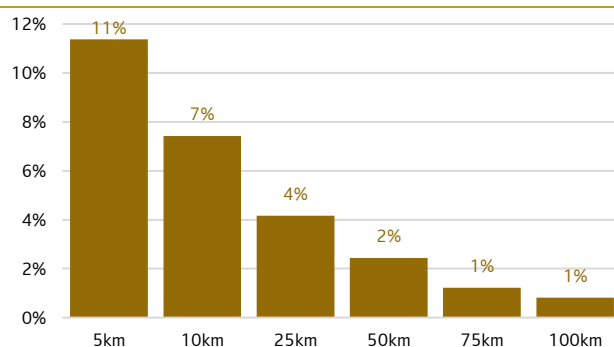
In the Casual Dining Restaurants (CDR) segment, Famous Brands' CDR portfolio's competitive advantage is smaller in relation to QSR. Famous Brands' CDR portfolio enjoys c. 11% and 7% of coverage without larger competition within a 5km and 10km radius.

**Figure 87: % FBR QSR brands network without a QSR competitor in radius. FBR QSR portfolio enjoys almost a third of coverage without competition within a 5km radius**



Source: SBG Securities analysis and estimates

**Figure 88: % of FBR CDR network without a competitor in radius. FBR CDR portfolio enjoys 12% of coverage without a competitor within a 5km radius**



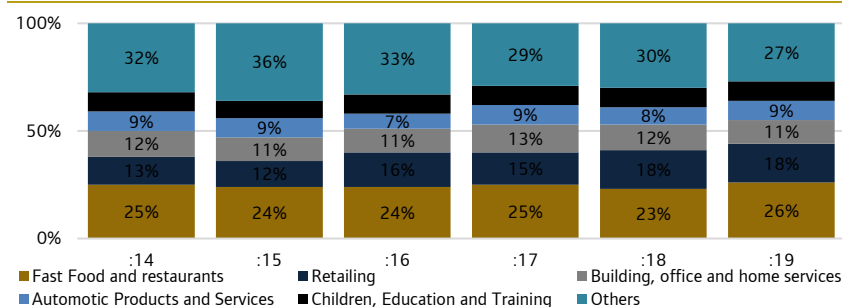
Source: SBG Securities analysis

## Franchise market in South Africa

The largest franchise market in South Africa is fast food and restaurants. It comprises >25% of the franchise market in 2019, which equates to c. 4% of SA's GDP. The franchise industry accounts for c.14% of SA's GDP.

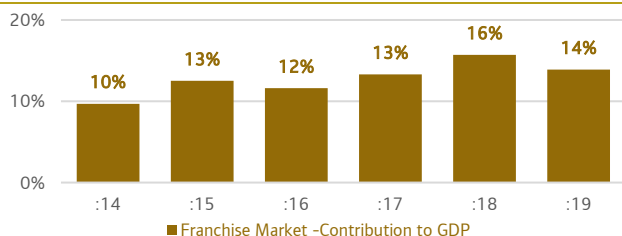
**Figure 89: Franchise market share by business category**

**Fast food and restaurants, largest franchise business segment in South Africa**



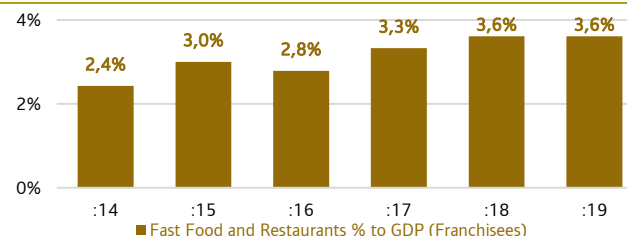
Source: SBG Securities analysis and Franchise Associate of South Africa

**Figure 90: Franchise market - contribution to GDP**



Source: SBG Securities analysis and Franchise Associate of South Africa

**Figure 91: Fast food and restaurants % to GDP (franchisees)**

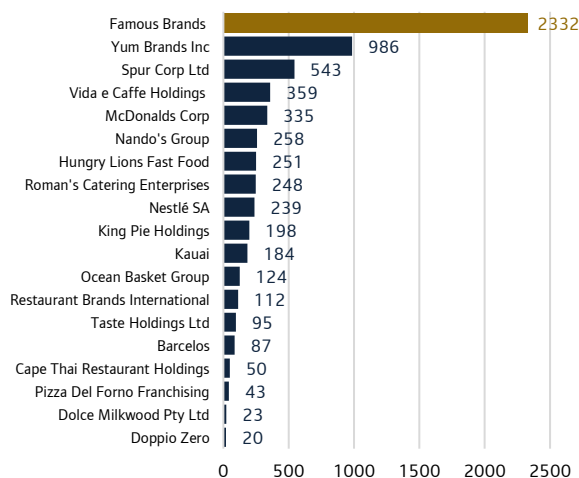


Source: SBG Securities analysis and Franchise Associate of South Africa

## Store network

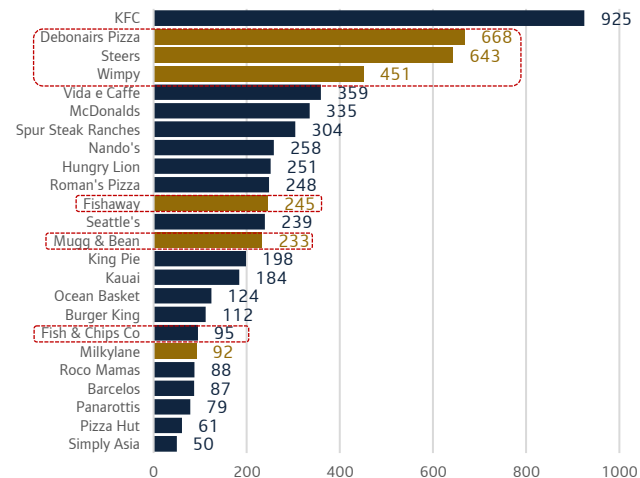
Famous Brands has the largest franchised store network in the fast food and restaurant franchise market. Its total network is more than twice that of its nearest competitor, Yum! Brands (KFC and Pizza Hut), showing the extent to which, it is positioned in the SA franchise market. Spur Corp is ranked third.

**Figure 92: Business franchise by store network in South Africa**  
**Famous Brands has the largest franchise network in South Africa**



Source: Company reports, Business Tech and SBG Securities analysis

**Figure 93: Top 30 largest franchised brands by store network in SA**  
**KFC is the largest franchised brand by store network in South Africa**



Source: Company reports, Business Tech and SBG Securities analysis

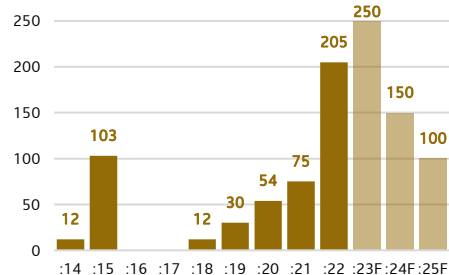
## Health of the market

Famous Brands' management has raised concerns about the weakness of the franchise market. As a result, finding new partners or extending new agreements to existing partners has been difficult owing to a host of challenges (high utility costs, load-shedding, high interest rates) that are lessening the viability of doing business.

**Load-shedding and utility costs:** In 2022, SA experienced the worst load-shedding in its history with 205 days of power cuts. The South African Reserve Bank expects that load-shedding will continue in 2023 with an estimated 250 days of power cuts but is expected to improve to 100 days in 2024 and 2025. Additionally, electricity prices are forecast to rise by an average of 10% over the next three years. Franchisees may need to receive additional financial and operational support from franchisors as a result.

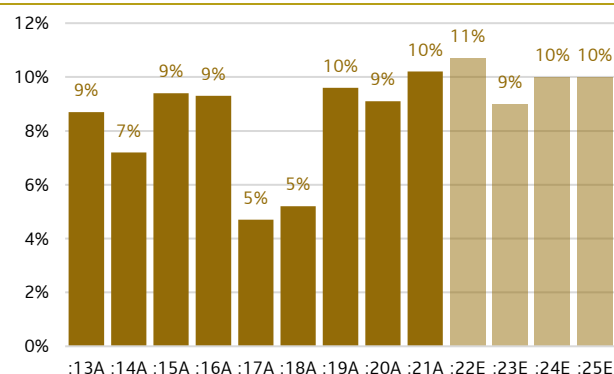
**Interest rates:** Tight monetary policy both globally and locally is likely to raise the funding hurdle for franchisees, both new and existing. Therefore, in order to attract new partnerships, franchisors may offer lower credit rates, but this requires them to have a strong financial standing and steady cash flow. Providing credit can help franchisors in maintaining royalty income, though this could result in the introduction of or increasing of bad debts. That said, Famous Brands' management stated that it does not offer loans but may consider royalty relief where feasible to support its partners.

**Figure 94: Days on which load-shedding occurred per year**



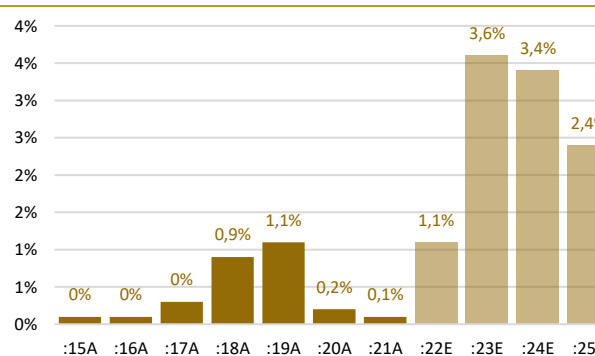
Source: Business Tech, SARB Forecasts

**Figure 95: Electricity prices - % y/y (SARB forecasts)**  
**Electricity inflation to remain high in the medium term**



Source: South African Reserve Bank (MPC – Jan:23)

**Figure 96: International policy interest rate – SARB forecasts (%)**  
**Rates to peak in :23 but to remain contractionary relative to pre-pandemic levels**



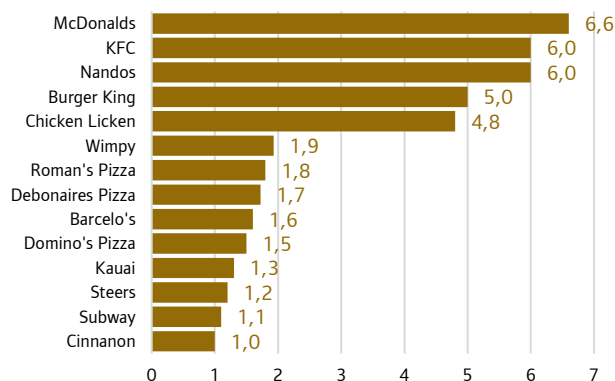
Source: South African Reserve Bank

## Cost of investment and royalties

**Cost of acquisition:** The most expensive franchise in South Africa is McDonald's, with upfront costs of R7m to secure exclusive rights. KFC and Nando's, at c. R6m, follow thereafter. At c. R5m, Burger King and Chicken Licken round out the top five. The rest of the brands are below R2m, which is where Famous Brands' brands are grouped. Wimpy and Debonairs Pizza are the only Famous Brands in the top 10, while Steers is ranked 12th at R1.2m.

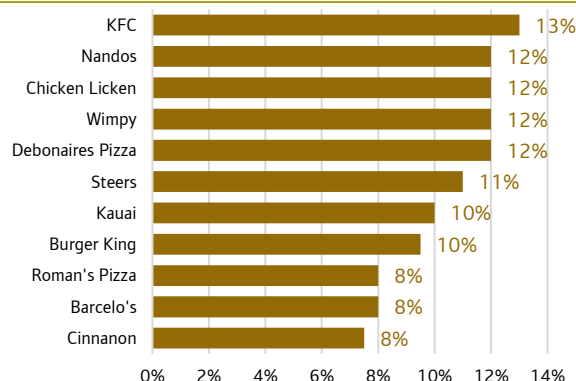
**Royalties (franchise fees and advertising fees):** KFC has the highest royalties. We believe Yum! Brands has the ability to raise royalties above industry norms due to its large consumer base. Famous Brands' leading brands (Wimpy, Debonairs Pizza and Steers) have royalties ranging from 11% to 12% based on our estimates. In general, we observe that the spread of royalties in the fast food and restaurant industry is quite thin, possibly reflecting the degree of competition in the franchise market.

**Figure 97: Franchise investment cost –fast food and restaurants (ZAR'm). McD, KFC and Nando's among the most expensive**



Source: Business Tech and SBG Securities analysis

**Figure 98: Royalties (% of sales) – pre-pandemic KFC has the highest royalties due to its large customer base**



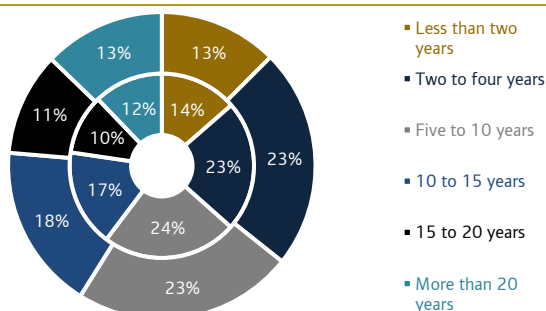
Source: Business Tech and SBG Securities analysis

## FBR franchise partner demographics

**Stable franchise model:** Franchisees with an average tenure of more than five years account for 65% (FY21: 63%). We believe this reflects good working relationships with partners and satisfactory support to the franchisees.

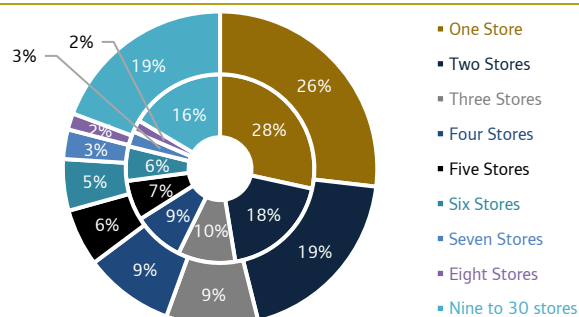
**Diversified portfolio:** While it is encouraged to diversify across various partners, having too many franchise partnerships with fewer stores may result in higher administrative costs, making cost savings difficult. Currently, 64% (FY21: 64%) of FBR's partners, have fewer than five locations, implying that 36% have more than five locations. We believe FBR management achieved a good balance between diversification and making it easier to monitor each partner's operations.

**Figure 99: Average tenure of SA franchise partner (FY22 and FY21) Franchise partners with more than 5 years account for 65% (FY21: 63%)**



Source: Company reports and SBG Securities analysis

**Figure 100: Number of restaurants per SA franchise partner (FY22 and FY21). Franchise partners with more than five stores account for 35% (FY21: 33%)**



Source: Company reports and SBG Securities analysis

## Restaurants peer analysis

### Topline performance

We notice that global peers have recovered from the pandemic faster than Famous Brands and Spur. We attribute this performance to:

- Higher share of wallet spent on consumer food services.
- Relatively better pricing power.
- Faster recovery in tourist traffic and higher proportion of high-net-worth tourists.
- Well-established tech capabilities to service customers online.
- Developed markets achieved higher vaccination rates quicker than emerging markets, which allowed them to relax restrictions much sooner.

When examining revenue performance pre-pandemic, we notice that after Domino's Pizza (13.5%) and Restaurant Brands International (owner of Burger King and Popeyes), Famous Brands delivered the highest three-year CAGR while McDonald's (-4.6%) and YUM! Brands (owner of KFC and Pizza Hut) (-4.2%) were the lowest performers. It is encouraging to see Famous Brands outperformed most of the global peers, reflecting strong revenue growth momentum prior to the pandemic.

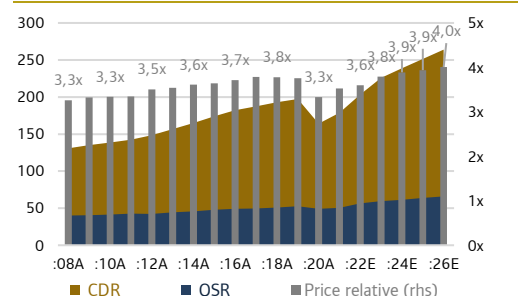
As we recover from the pandemic and enter 2023, the state of the global economy is much weaker than before pandemic despite most companies achieving sales above pre-pandemic levels, primarily driven by pent-up demand. We expect a tougher trading environment in 2023 as inflation erodes purchasing power and relatively higher interest rates make it expensive to acquire credit. As a result, consumers are likely to lean more towards affordability, which we believe favours QSR over CDR. The QSR category has an average value per transaction that is c. 4x lower than CDR. Famous Brands has higher exposure to QSR while Spur has higher exposure to CDR.

Figure 101: Peer brands – origina and primary market

Peers	Brands in South Africa	Country of Origin	Primary Market
<b>Famous Brands</b>	Steers, Debonairs Wimpy, Mugg&Bean	South Africa	QSR
<b>Spur</b>	Spur	South Africa	CDR
<b>Yum! Brands</b>	KFC and Pizza Hut	United States	QSR
<b>Compass Group</b>	None	London	CDR
<b>The Wendy</b>	None	United States	QSR
<b>McDonalds</b>	McDonalds	United States	QSR
<b>Restaurants Brands Int.</b>	Burger King and Popeyes	United States	QSR
<b>Domino's Pizza</b>	Domino's Pizza	United States	QSR
<b>Starbucks</b>	Starbucks	United States	CDR/QSR
<b>Papa John's</b>	None	United States	QSR
<b>Darden</b>	None	United States	QSR
<b>Restaurant</b>	None	United States	QSR

Source: SBG Securities Analysis

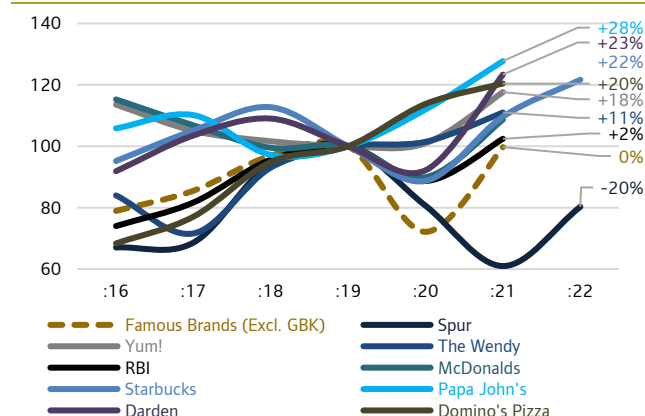
Figure 102: Average sales per transaction (QSR and CDR) – ZAR. QSR category a defensive player compared to the CDR category



Source: Company reports, SBG Securities analysis and estimates

Figure 103: Revenue relative to 2019 = 100

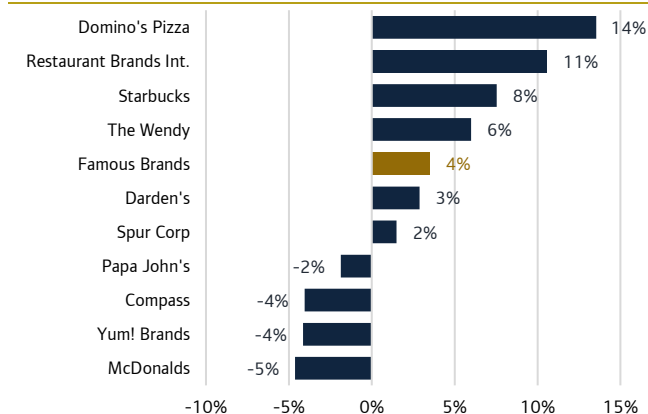
Global QSR peers recovered faster from the pandemic



Source: Company reports and SBG Securities analysis

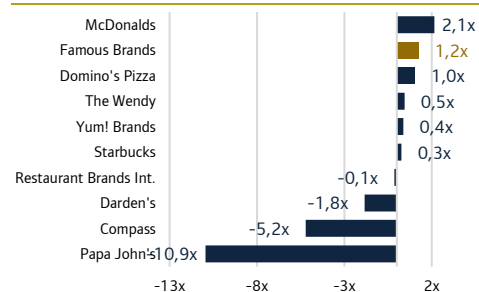
Figure 104: Revenue growth 3yr CAGR (2016 – 2019)

Pre-pandemic FBR (exc. GBK) outperformed most global peers



Source: Company reports and SBG Securities analysis

**Figure 105: Operating leverage\* - Famous Brands versus peers. Famous Brands showing good financial discipline**



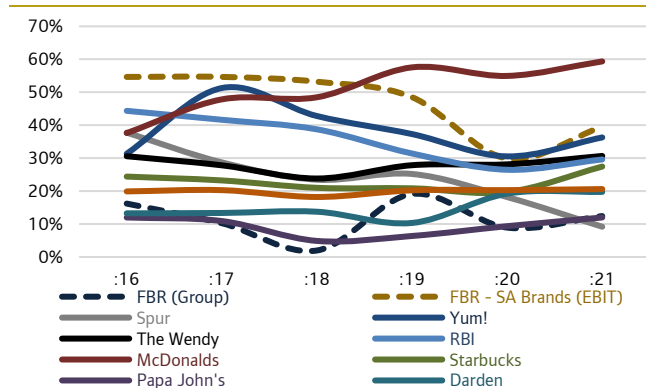
Source: Company reports and SBG Securities analysis, \*local currency

## EBITDA of FBR in upper echelon of global peer set

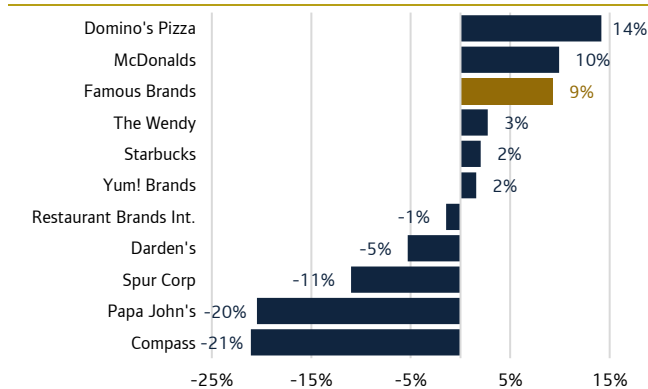
Famous Brands – SA Brands' portfolio has profitability margins closer to McDonald's, the top performer with c. 60% EBITDA margins. At group level (includes the rest of operations – Supply Chain, AME and the UK), Famous Brands has the lowest EBITDA margin compared to peers, largely due to its supply chain operations. Inherently, supply chain operations have lower margins due to their cost structure (higher fixed costs component) and are asset heavy.

When examining EBITDA performance pre-pandemic among global peers, Famous Brands delivered the second highest three-year CAGR, only overshadowed by Domino's Pizza. McDonald's (10%) ranks third more or less in line with Famous Brands. McDonald's, Famous Brands and Domino's Pizza delivered EBITDA growth well ahead of revenue growth, reflecting positive operating leverage of 2.1x, 1.2x and 1.1x respectively. Higher operating leverage can also reflect financial discipline.

**Figure 106: EBITDA margin – Famous Brands versus peers**  
**FBR rubbing shoulders with global peers**



**Figure 107: EBITDA 3yr CAGR (pre-pandemic) - Famous Brands versus peers**

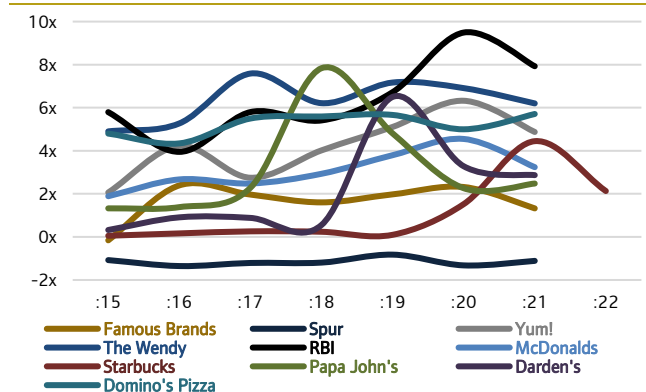


Source: Company reports and SBG Securities analysis

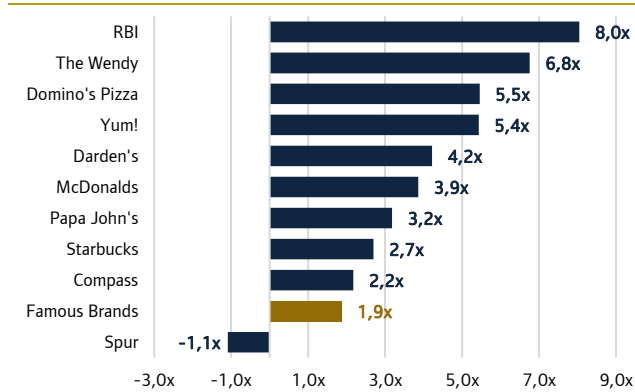
## Leverage – de-gearing trend taking shape

We note that most peers have de-gearred as interest rates tighten. That said, we find that global peers are relatively more geared compared to Famous Brands: 1.9x and Spur: -1.1x.

**Figure 108: Net debt to EBITDA – Famous Brands versus peers**  
**De-gearing trend taking shaping in consumer food service sector**



**Figure 109: Net debt to EBITDA – three-year average**  
**FBR low geared relative to peers**



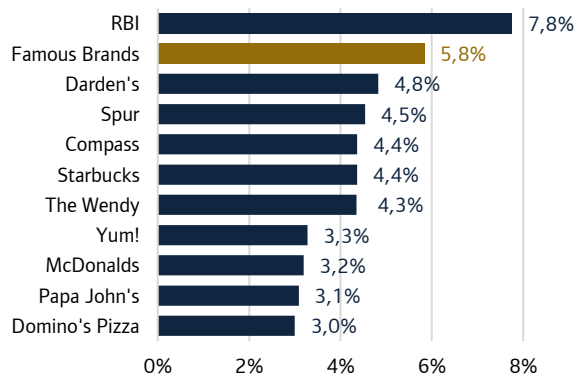
Source: Bloomberg and SBG Securities analysis

## Cash flow generation and dividend yield

A higher free cash flow yield facilitates the ability to pay down debt, reinvest into the company and perhaps increase dividends. Famous Brands (5.8%) has the second highest FCF yield relative to its global peers. Restaurant Brands International (7.8%) is the top performer, followed by Darden Restaurants (4.8%). 12-months out, the top three peers appear to also offer higher dividend yields compared to their peers, supported by their ability to generate strong cash flows.

**Figure 110: FCF yield 5yr. average – Famous Brands versus peers**

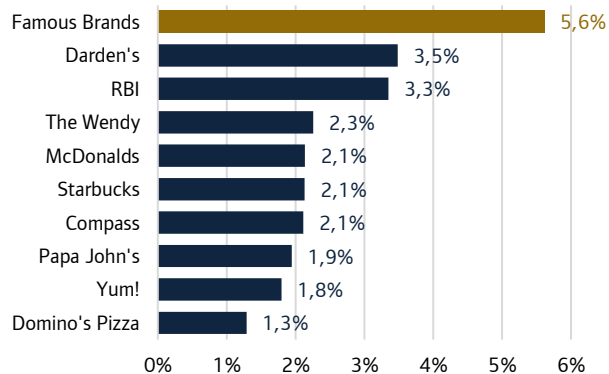
**Famous Brands showing strong cash generation relative to peers**



Source: Bloomberg and SBG Securities analysis

**Figure 111: Dividend yield (Yr.1 Est.) – Famous Brands versus peers**

**FBR promising higher dividend yield than global peers**



Source: Bloomberg and SBG Securities analysis



## Segmental analysis

We discuss segmental revenue and margin drivers in turn:

- 1) Brands
- 2) Supply Chain & Logistics
- 3) AME and UK

### 1) Brands (South Africa)

#### Revenue drivers

##### ● Inflation

- *Leading Brands:* Internal selling price inflation trended higher to 6.4% y/y at the end of H1:23 (ending August 2022). Management indicated its intentions to increase menu prices further in November 2022, likely driving internal selling price inflation to 7%, marking a new record high. Thereafter, we expect internal selling price inflation to decelerate at a slow pace.

- *Signature Brands:* An experiential service offering likely offers superior pricing power prospects, as the format typically attracts customers with a higher propensity to spend. As a result, price inflation has been higher than that of Leading Brands. However, as eat-in traffic is anticipated to decline relative to pre-pandemic levels, we anticipate that pricing power will dilute. As a result, we forecast a faster deceleration in price inflation compared to Leading Brands to entice customers back to restaurants.

- **Revamps:** Given the state of the franchise market, we expect management to hold a cautious stance on new stores openings in SA, barring company-owned stores. Moreover, we expect store renovations to average at c. 5% of the store portfolio per annum (below the historic average of 10% to 15%) supporting revenue by c. 1% y/y to 1.5%. As of H1:23, 2.5% of stores had been renovated.

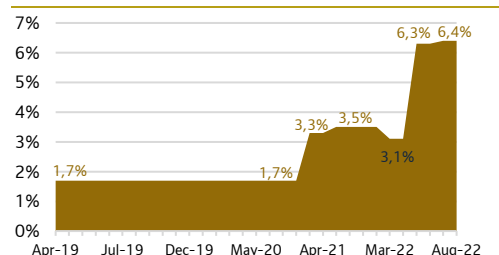
##### ● New store growth: Less aggressive roll out stance but with a focus on QSR

- *Leading brands'* store growth to increase at a gradual pace considering low economic activity in South Africa. However, we expect the focus on store roll outs to be centred on QSR rather than CDR.
- *Signature Brands'* portfolio is under review as management assesses its potential growth post pandemic. Therefore, we expect the roll-out programme to be conservative, picking up pace from FY25E.

##### ● Take rate

- *Leading Brands (franchisee fees, c. 95% of Leading Brands revenue):* Royalties for Leading Brands have been the slowest to recover and remain below pre-pandemic levels. However, during the AGM in Aug '22, management noted that take rates for all divisions have returned to pre-pandemic levels. Post the pandemic, we expect the expansion of take rates to be marginal at best due to the level of competition in the QSR segment and the impact of load-shedding on the franchisees.
- *Signature Brands (franchisee fees, c. 23% of Signature Brands revenue):* Royalties for Signature Brands recovered to pre-pandemic levels faster as most of its revenue is generated from company-owned stores, while franchisee fees only account for 23% of Signature Brands revenue.

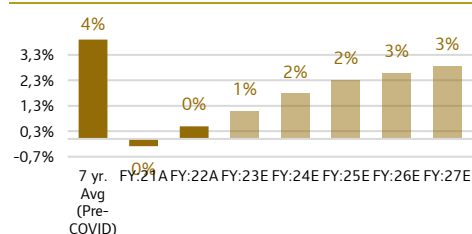
**Figure 112: Leading Brands – Internal weighted selling price inflation %. Inflation at record highs**



Source: Company reports and SBG Securities analysis

**Figure 113: Famous Brands net store growth (%)**

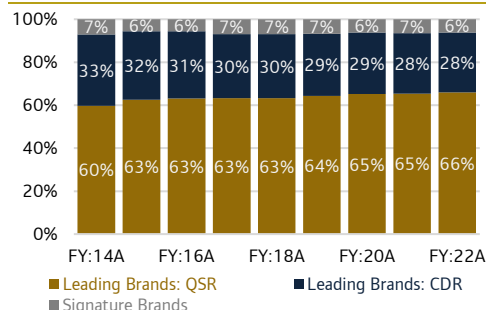
#### Store network developments



Source: Company reports, SBG Securities analysis and estimates

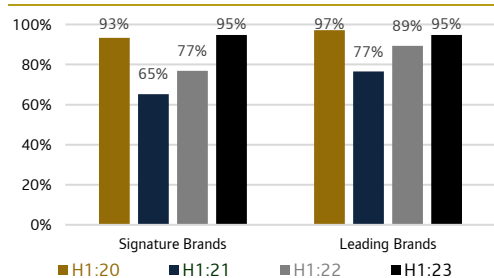
**Figure 114: Store network by brand category**

#### New store base to remain centred on growing QSR



Source: Company reports and SBG Securities analysis

**Figure 115: Royalty versus billable royalty (%) – Signature and Leading Brands. Signature Brands recovered to pre-pandemic levels faster**



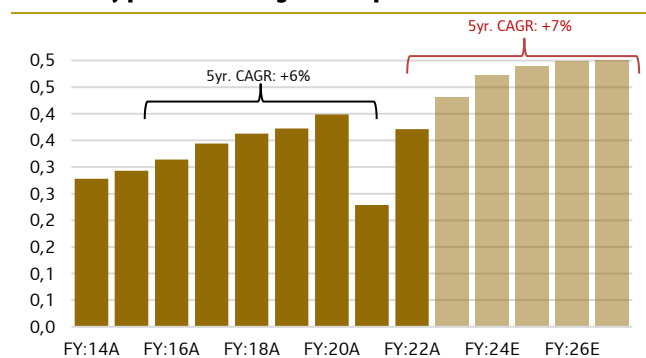
Source: Company reports and SBG Securities analysis

## Revenue per store

As inflation remains elevated, with a likely gradual deceleration, we expect revenue per store to increase and return to pre-pandemic levels. As a result, we expect the growth in revenue per store to increase at a faster pace post-pandemic relative to pre-pandemic.

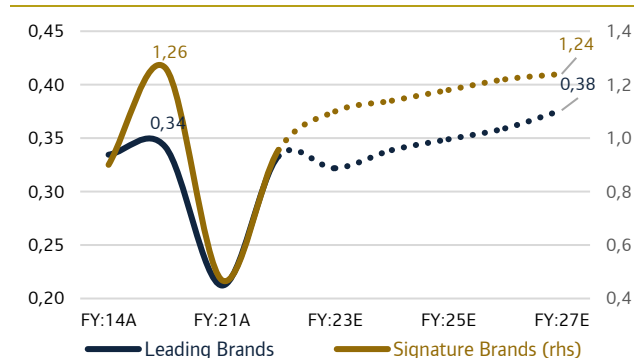
**Leading Brands will return to pre-pandemic levels in the medium term (some brands are already at pre-pandemic levels) while Signature Brands will lag.** We forecast Signature Brands will lag due to faster deceleration in price inflation compared to Leading Brands. Revamps will also play a part in driving revenue per store, but higher selling price inflation will be the major contributor in the medium term.

**Figure 116: Revenue per store – Brands division (ZAR'm)**  
**Inflationary pressures driving revenue per store**



Source: Company reports, SBG Securities analysis and estimates

**Figure 117: Revenue per store – Brands segments (ZAR'm). Leading brands to recover to pre-pandemic levels ahead of Signature**



Source: Company reports, SBG Securities analysis and estimates

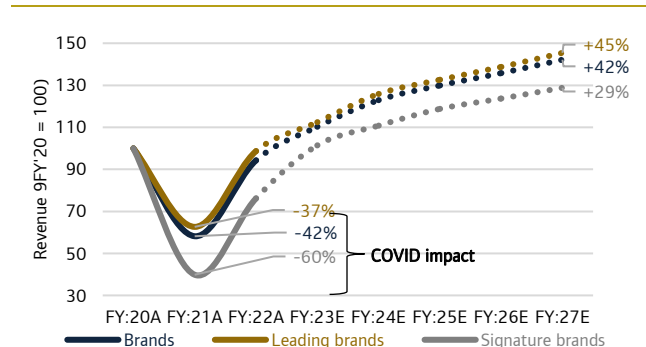
## Total revenue

**Covid impact (Leading versus Signature):**  
In FY21 (ending 28 Feb 2021), Leading Brands lost one-third of its sales and Signature Brands almost two-thirds of its sales.

The pandemic had a disproportionate impact on Signature Brands (which lost nearly two-thirds of sales in FY21) relative to Leading Brands (which lost one-third of sales in FY21). Signature Brands is exposed to the casual dining restaurants (CDR) category, whereas Leading Brands is primarily exposed to the quick service restaurant (QSR) category.

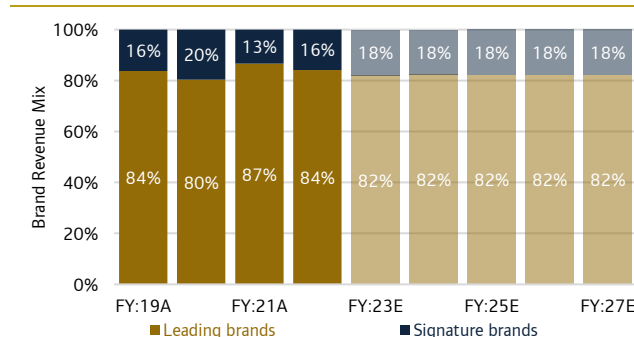
We estimate **Leading Brands will return to pre-pandemic levels in FY23E and Signature Brands in FY25E.** The QSR segment in our view is nimble, better positioned to adapt to trends shaping consumer behaviour (working from home, healthy food options, convenience and affordability). **We estimate the Brands division will deliver a three-year revenue CAGR of 11%.**

**Figure 118: Brand's (Leading and Signature) revenue (FY20 = 100)**  
**Leading less impacted by Covid than Signature**



Source: Company reports, SBG Securities analysis and estimates

**Figure 119: Brand's revenue mix (FY'19 – FY'27) Leading brands to remain primary driver as Signature Brands evolves**



Source: Company reports, SBG Securities analysis and estimates

## Profitability

Famous Brands' management hopes to achieve a 50% operating margin in the medium term, i.e., two to five years. We have decided to adopt a conservative approach and anticipate that the target will be met towards the tail end of the medium-term range. The following are the reasons for our cautious approach:

- Inflation forecast, higher for a longer
- Load-shedding intensity could endure.
- Muted royalty growth in Leading Brands over the medium term
- Review of Signature Brands impacting recovery.

### Leading Brands

As >90% of stores are franchised, the key expense lines for this segment head/regional office costs (staff costs, utilities (water and electricity) and information technology). We estimate that 70% of expenses are variable (salaries and utilities) and 30% are fixed (IT).

- **Employee costs (increases to peak in 2023):** Our expectations are guided by the SARB forecasts on average salaries. The SARB is expecting average salaries to peak in 2023 (6.7%) and decline gradually to 4.8% by 2025. FBR management has acknowledged that FBR consistently raises salaries in line or above the rate of inflation and is likely to maintain this approach.
- **Utilities:** The South African Reserve Bank (SARB) forecasts an average 10% rise in electricity expenses during the upcoming three years. As over 95% of stores are franchised, the franchisors' exposure to load-shedding's effects is relatively manageable. However, the impact on the franchisees is significant. In certain situations, management suggests that FBR may have to offer support to the franchisees. During severe load-shedding, peak trading hours are curtailed, and franchisees are recommended to shut down for the night because trading during off-peak hours would be unprofitable and incur unnecessary costs.
- **IT:** We estimate that Famous Brands will increase expenditure to improve its IT infrastructure to better manage its franchisees. As a result, we expect IT costs to increase by 5% each year until FY25E.

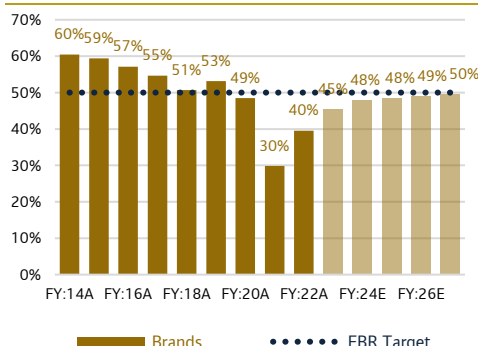
This translates to our expectation of operating margins expanding of 300 bps into FY23E to 53% and nearing 56% by FY25E.

### Signature Brands

Signature Brands, characterised by its high-cost base relative to Leading Brands, has historically struggled with comparatively lower margins. The sub-segment primarily operates casual dining restaurants that offer premium menu options and employ a larger staff complement, while Leading Brands is involved in quick service restaurants that offer lower-priced menu items and require a smaller workforce.

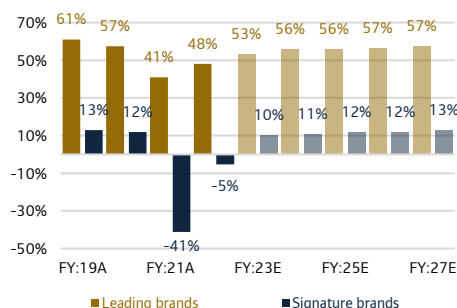
In FY21 and FY22, operating margins were negative, -41% and -5% respectively, due to the slower sales recovery. **We expect margins to turn positive in FY23E and gradually increase to pre-pandemic levels.**

**Figure 120: Brands – operating margin (FY'14 – FY'27). Management targeting 50% in the medium term**



Source: Company reports, SBG Securities analysis and estimates

**Figure 121: Operating Margin by brand category  
Leading Brands to remain critical in driving profitability**

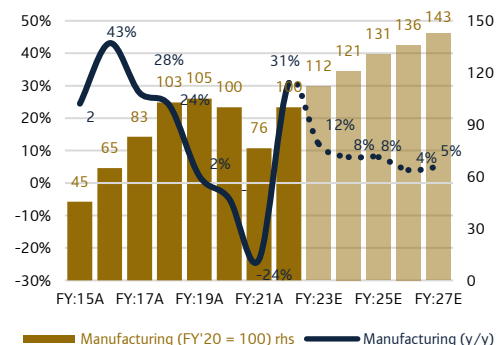


Source: Company reports, SBG Securities analysis and estimates

## 2) Supply chain

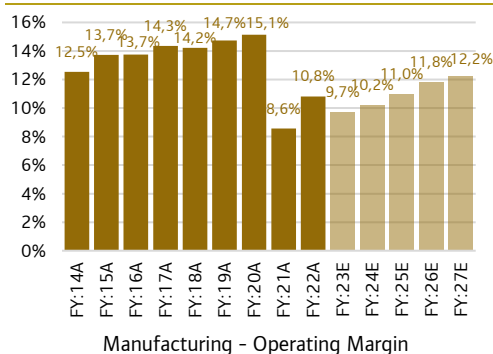
### Manufacturing

**Figure 122: Manufacturing revenue (y/y and FY20 = 100). Returning to pre-pandemic levels in FY23E**



Source: Company reports, SBG Securities analysis and estimates

**Figure 123: Operating margin –manufacturing  
Medium term target towards 13%**



Source: Company reports, SBG Securities analysis and estimates

#### Revenue drivers

- **Price:** Famous Brands has been disciplined in managing input cost inflation and attempting to recover some of the inflationary pressures through menu price increases. Revenue growth in H1:23 was primarily driven by volume. Revenue increased by 8.2% while input cost inflation was 2.6%, implying a 5.6% increase in volume. According to the H1:23 results, input cost inflation peaked in June '22 and is beginning to slow. As inflation remained sticky over the group's H2:23, we believe the input cost index increased marginally.
- **Production volumes:** Manufacturing volumes depend on the performance within the Brands and Retail segments. The Retail division is currently developing and remains a minor contributor, though the performance of the Brands division is assisting in driving volume growth. We expect Famous Brands to open two manufacturing facilities, increasing production volumes to support growth in Brands.

#### Operating expenses

We estimate utilities (water and electricity), employee costs, maintenance, R&D and depreciation are key contributors to the manufacturing cost base.

- **Utilities:** We base our assumption on SARB forecasts. The SARB expects electricity price increases to remain high relative to pre-pandemic levels in the medium term. Management indicated that FBR's back up power is mostly through diesel generators. Spur reported running costs on diesel generators of 0.5% to 2.6% in H1:23 and we expect Famous Brands to report lower figures in comparison to Spur. This projection is mainly due to the fact that over the past three years, Famous Brands has consumed c. 50% less diesel, which we believe can be attributed to their utilisation of alternative energy sources such as coal, steam, and natural gas.
- **Employee costs:** Management notes that all the employees from manufacturing are union members. Given the tendency for unions to negotiate for higher wages, we anticipate an annual increase of CPI plus 2% FBR management has acknowledged that FBR consistently raises wages in line or above the rate of inflation and is likely to maintain this approach.
- **Maintenance costs:** With the return to normal trading hours, production capacity has increased. As a result, we anticipate that maintenance costs will rise as production capacity utilisation improves.

#### Profitability

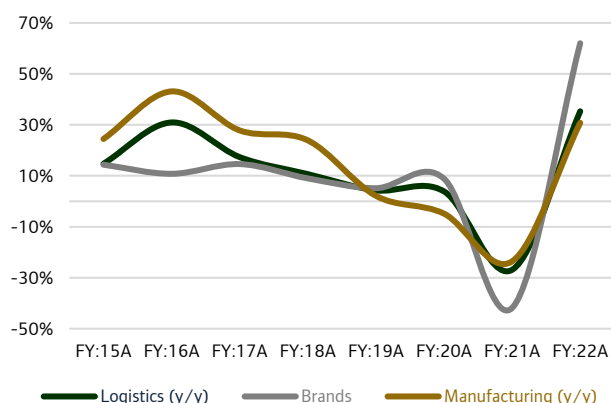
Overall, we expect the operating margins to improve albeit marginal and somewhat impacted by the cost of load shedding. Management is targeting margins towards 13% in the medium term, we forecast a margin of 11% in FY:25E.

## Logistics

### Revenue

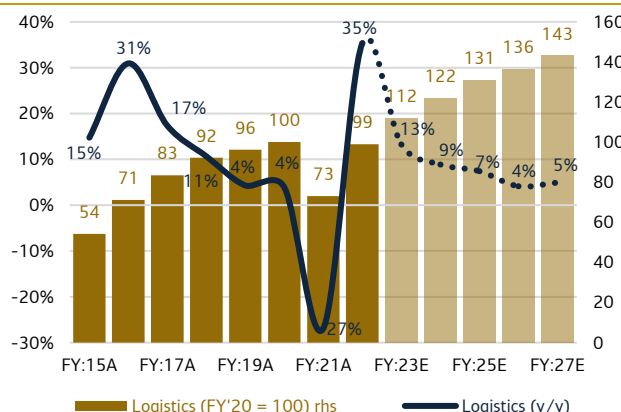
Logistics is the intermediary between the supply chain (manufacturing) and front end (Brands division and Retail). As a result, we find that logistics revenue tracks both manufacturing and brands revenue. That said, through further investigation we find that recently logistics revenue is tracking manufacturing more closely. We therefore used a weighted methodology to estimate the growth rate weighted in favour of Manufacturing (75%) relative to Brands (25%).

**Figure 124: Revenue growth % y/y (Manufacturing, Logistics and Brands). Logistics indexed closer to Manufacturing than Brands**



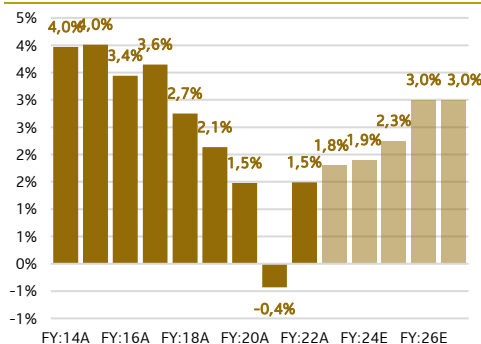
Source: Company reports, SBG Securities analysis and estimates

**Figure 125: Revenue (% y/y and relative to FY20 = 100) Logistics likely to return to pre-pandemic levels in FY23E**



Source: Company reports, SBG Securities analysis and estimates

**Figure 126: Operating margin – Logistics (FY14 – FY27E) Project decade initiated to address capacity constraints**



Source: Company reports, SBG Securities analysis and estimates

### Profitability

Logistics traditionally garners lower margins, which has been further impacted by capacity restrictions and higher fuel costs more recently. As a result, management initiated 'project decade' in FY19 to address these difficulties and ensure lead times are minimised, reducing handling costs and lost sales.

In FY22, Logistics had a gross profit margin of 9% as operating margins varied from 1.5% to 3% in the seven years preceding the pandemic, averaging around 2.5%. **Management is targeting c. 3% over the medium term**, which we believe will be achieved towards the tail end of the medium term, given the vulnerability of the business to supply shocks and elevated fuel prices.

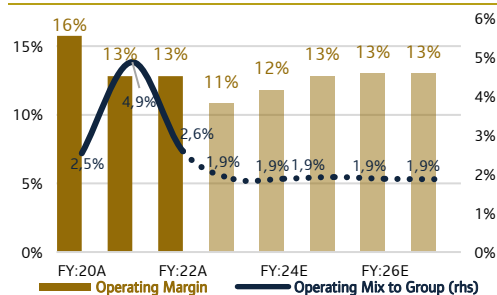
## 3) United Kingdom

### Revenue Drivers

- Store network growth/acquisitions:** The UK business only comprises Wimpy company owned stores. Gourmet Burger Kitchen (GBK) was sold in 2020, four years after it was acquired (R2.1bn). Since then, in our view the emphasis has shifted away from the UK and onto the AME and SA portfolios. As a result, we do not expect the UK business's contribution to the group to change dramatically. Wimpy's store network has reduced by almost a third since 2014

Management notes it will start FY24E with four new stores in development. As a result, we forecast it will add four new stores each year thereafter, which we consider not to be aggressive, especially given that almost a third of the stores have been wiped out since FY14. Closing a third of the stores led to an increase in revenue per store, suggesting that those restaurants were underperforming.

**Figure 127: UK – operating margin (%) and mix to the Group. Inflationary pressures may last for longer than expected and limit margins**



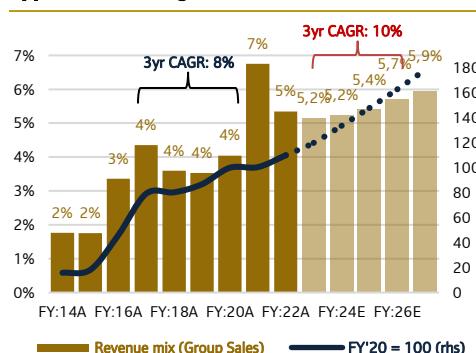
Source: Company reports, SBG Securities analysis and estimates

- **Inflation:** Gas prices have increased steeply in the UK with energy bills for households estimated to be up two-fold since the pandemic. In our view, the ability therefore to increase menu prices is constrained despite UK consumers having a higher propensity to spend on restaurants and hotels, considering a higher allocation of wallet spend.

## Profitability

We anticipate operating margins will decline in FY23E, recovering in FY24E. The UK restaurant industry is facing challenges due to significant utility price increases, sticky double-digit food inflation, higher interest rates, fuel cost increases and ongoing labour shortages. Management notes that the cost of living in the UK has eroded consumer confidence, resulting in a decline in discretionary spending.

**Figure 128: AME Revenue (FY20=100) and revenue mix to group. AME showing great opportunities for growth**



Source: Company reports, SBG Securities analysis and estimates

## 4) Africa and Middle East

The group's AME portfolio has exhibited healthy growth, indicative, in our view, of further growth opportunities. The region reflected relatively minimal disruption from the pandemic, in our view, due to benign Covid related restrictions. Recent trends reflect emerging momentum and management believes AME has relatively lower risks considering the growth opportunities relative to other regions.

The AME store network has been decreased, and we assume that most of the locations that have closed were franchised. Franchised stores now account for 12% of the overall AME store network, down from 23% in FY17. This, we believe, was part of management's goal to restructure the portfolio. The advantage of company-owned stores in our view is the ability to establish and manage brand perception while also assessing the potential before extending franchise partnerships.

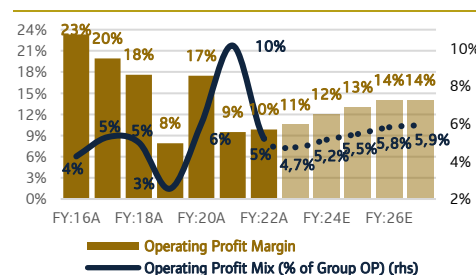
## Revenue drivers

We expect inflation to be supportive in FY23E though gradually tapering thereafter. Considering the opportunity set in AME, we expect management favours an aggressive roll out strategy, particularly for Debonairs Pizza, Steers and Mugg & Bean. Moreover, AME take-rates reflected the quickest recovery among the group's regions. We expect take rates to remain at a premium relative to pre-pandemic levels albeit with muted upside in order to attract new partners/franchisees.

## Profitability

Prior to the pandemic, operating margins were on a downward trend as management strategically invested ahead of the curve to facilitate future growth. We believe the performance in FY21 and FY22 demonstrates the extent to which it has managed to stabilise the business providing a foundation for further expansion. As a result, we foresee a moderate increase in margins in the medium term.

**Figure 129: AME Operating margin and operating profit mix to group. Stable margins in the medium term**



Source: Company reports, SBG Securities analysis and estimates

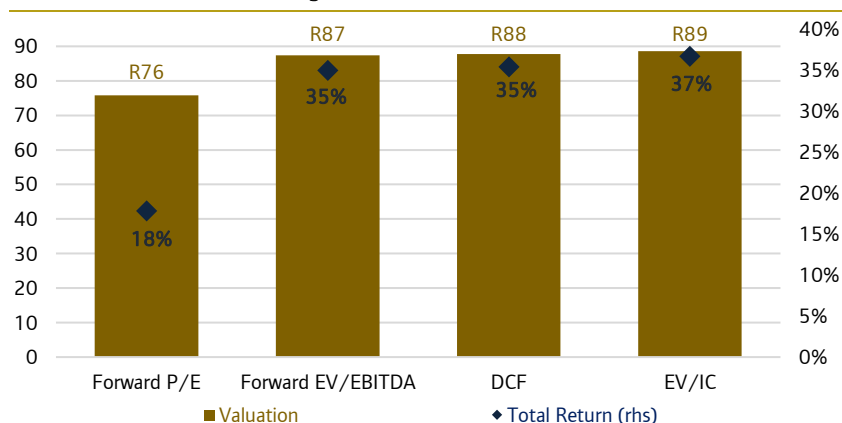
## Valuation

### Valuation summary: We value FBR between R76 and R89

We use four methods to determine our equity valuation range for Famous Brands. These include, DCF, ROIC-IC, relative PE multiple and relative EV/EBITDA. We highlight that Famous Brands and its South African peers do not have consensus-based forward multiples. Therefore, to overcome the limitation of forward-looking multiples on consumer services in JSE, we used MSCI EM consumer services as a proxy and compared it with MSCI US consumer services. This helped us determine the discount to apply on global peers to get an implied multiple for Famous Brands.

**Figure 130: Valuation summary**

**Famous Brands future value ranges from R76 to R89**



Source: SBG Securities analysis

### Discounted cash flow valuation: R88

Based on our discount cash flow valuation, we estimate a fair value of R88 implying a total return of 40% (including DY: +6%). In Figure 131 below, we show the parameters we used to calculate a WACC of 15.87%.

**Figure 131: WACC calculation for Famous Brands**

Capital Allocation	Cost of Equity	Cost of Debt	
Equity Weight	80% Rf=	10.00% Pre-Tax	10%
Debt Weight	20% E(Rmkt) =	6.00% Tax rate	27%
<b>Total</b>	<b>100% 3yr. Beta (Levered)</b>	<b>1.33</b>	
<b>WACC =</b>	<b>15.87% Re=</b>	<b>18.1% Rd (after tax)</b>	<b>7.01%</b>

Source: SBG Securities analysis, Bloomberg, and Company financials

In determining the DCF valuation, we applied long-term growth of 4.3% in line with Standard Bank Research long-term CPI forecast.

**Figure 132: Famous Brands DCF valuation summary**

DCF	FY'22	FY'23F	FY'24F	FY'25F	FY'26F	FY'27F
EBITDA	850.74	964.74	1125.28	1285.54	1429.31	1541.94
Change in net working capital	47.00	108.42	34.58	30.48	24.37	27.88
Less CAPEX	-189.11	-213.61	-400.68	-257.49	-269.50	-566.94
<b>FCF</b>	<b>708.63</b>	<b>859.56</b>	<b>759.17</b>	<b>1058.53</b>	<b>1184.18</b>	<b>1002.89</b>
<b>Present Value</b>		<b>857.55</b>	<b>656.83</b>	<b>794.25</b>	<b>777.91</b>	<b>570.40</b>
5yr Horizon		2 773	39%			
Terminal Value		4 844	61%			
<b>Enterprise Value</b>		<b>7 438</b>	<b>100%</b>			
Net cash/(debt)		-1 039				
<b>Equity Value</b>		<b>7 438</b>				
Shares in Issue		100				
<b>Fair Value</b>		<b>74</b>				
<b>Future Value</b>		<b>88</b>				

Source: SBG Securities analysis and Company financials

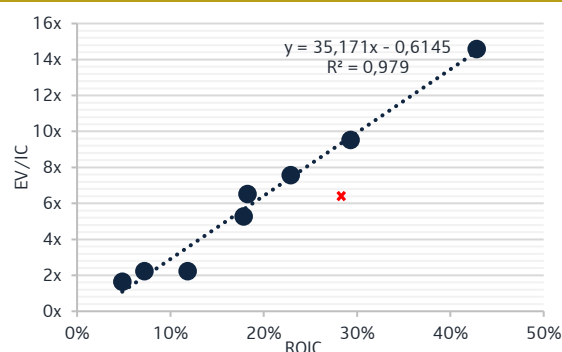


## Regressed EV/IC valuation: R89

For our EV/IC valuation, we created a scatter plot of invested capital values versus forecast ROIC estimates for global listed restaurant companies. Thereafter, we applied a linear regression line with the highest R-squared value to the scatter plot. We calculated the implied EV/IC that Famous Brands should be trading on relative to its peers using the line of best fit coupled with an applied discount of 33% (differential between large and mid-to-small caps) which translated to an implied enterprise value. Our analysis implies an enterprise value of R9.9bn and an equity value of R8.9bn.

**Figure 133: Regressed EV/IC versus ROIC analysis indicates an EV/IC ratio of 6.5x and an implied EV of R9.9bn (equity value of R8.9bn)**

EV/IC versus ROIC valuation	EV	IC	ROIC	EV/IC
YUM*	47 150	4 948	29%	9.5x
QSR*	42 231	18 935	7%	2.2x
MCD*	226 635	42 971	18%	5.3x
WEN*	7 048	4 293	5%	1.6x
DRI*	18 066	8 108	12%	2.2x
DPZ*	15 656	1 074	43%	14.6x
PZZA*	3 595	551	18%	6.5x
SBUX	128 750	17 009	23%	7.9x
FBR	9 913	1525	29%	6.5x
Net Debt	-1035			
<b>Equity Value</b>	<b>8 876</b>			
<b>Future Value</b>	<b>R89</b>			



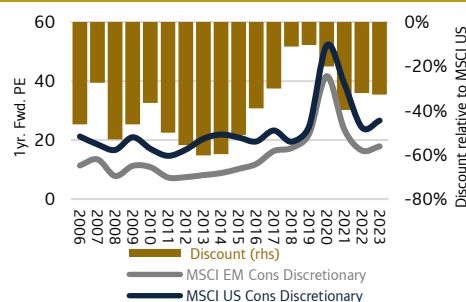
Source: SBG Securities analysis, estimates and Company financials, \*EV and IC in USD

## Forward relative PE multiple: R76

We used an applied forward PE multiple methodology using SBGS' FBR earnings forecast. The QSR global peer group has a 20 year 12-month forward PE average of 21x, though these peers based on their domiciled exchanges benefit with a valuation premium. We found that the MSCI Emerging Markets consumer services has traded at c. 35% discount to the MSCI US consumer services over the past 20 years, therefore when discounting the peer group multiple by c. 35%, we arrive at an implied 12-month forward PE of 14x which we apply to Famous Brands. This implies a future value of R76.

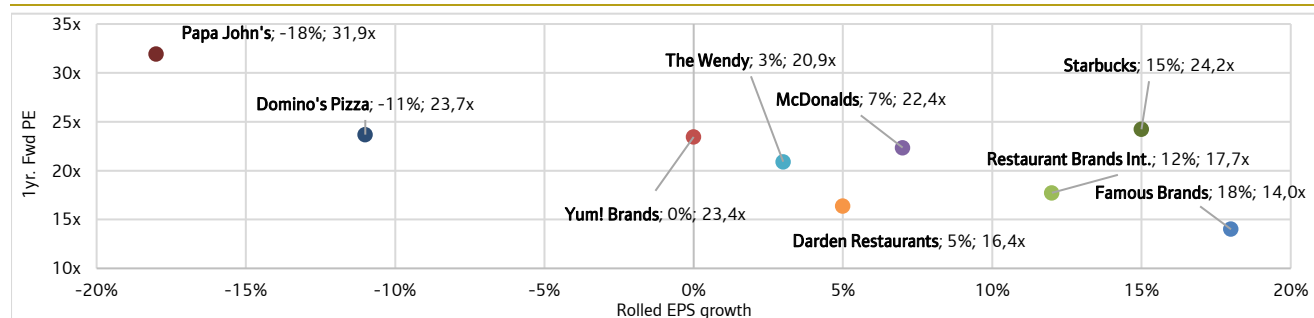
**Figure 134: 1 yr. Fwd. PE valuation summary. On the right-hand side: 1yr Fwd. PE (MSCI Consumer Discretionary – EM versus US) and discount %**

Relative PE Valuation	FY'22	FY'23f	FY'24f	FY'25f	3yr CAGR
Forecasted Diluted HEPS	356	463	542	630	13.3%
% y/y		30%	17%	16%	
Rolled Forecasted Diluted HEPS		540	629	727	
% y/y		17%	16%	16%	
Forward PE		14x			
Equity Value (ZAR'm)		7 597			
Shares in issue		100			
<b>Future Value (ZAR)</b>		<b>76</b>			



Source: SBG Securities analysis, estimates and Company financials

**Figure 135: Famous Brands and peers (1yr. Fwd PE and rolled EPS growth)**



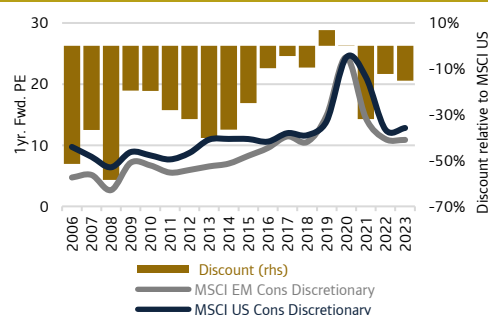
Source: SBG Securities analysis, Bloomberg, and Company financials

### EV/EBITDA relative multiple: R87

We use the same methodology used in our P/E valuation. The MSCI Emerging Markets one-year forward EV/EBITDA has traded at c. 29% discount to the S&P 500. The QSR global peer group one-year forward EV/EBITDA has averaged c. 14x over the past 20 years, discounted by c. 29%, implies a one-year forward EV/EBITDA of 9x for Famous Brands, which leads to a future value of 87.

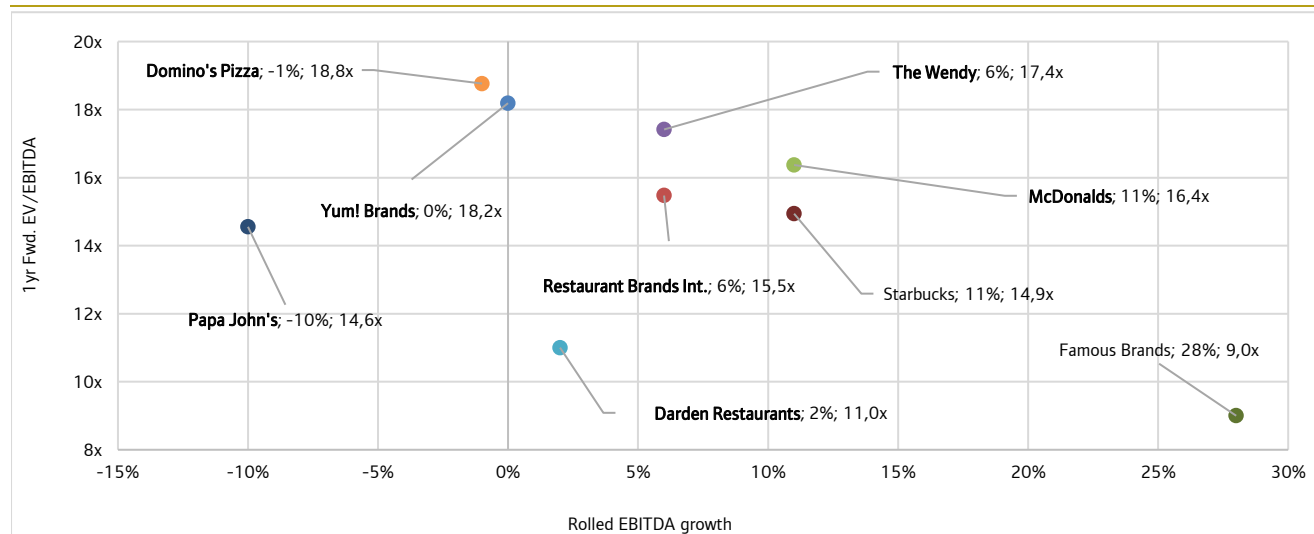
**Figure 136: 1 yr. Fwd. EV/EBITDA valuation summary. On the right-hand side: 1yr Fwd. EV/EBITDA (JSE ALSI versus S&P500) and discount %**

EV/EBITDA Valuation	FY'22	FY'23F	FY'24F	FY'25F	3yr CAGR
Forecast Adj. EBITDA	851	965	1 125	1 286	15%
Rolled EBITDA	851	1 089	1 249	1 397	18%
EV/EBITDA Multiple		9.0x			
Implied EV		9 799			
Net Debt Rolled		-1039			
Implied Equity Value		8 760			
Shares in issue		100			
Future Value		87			



Source: SBG Securities analysis, estimates and Company financials

**Figure 137: Famous Brands and peers (EV/EBITDA and rolled EBITDA growth).**



Source: SBG Securities analysis, Bloomberg, and Company financials

## Investment risks

- **Limited pricing power in a high inflation environment:** Generally, South African restaurants have limited pricing power, which makes it challenging for them to keep up with inflation and pass it on to the consumer. This means profitability margins may come under pressure.
- **South African consumer losing grip on buying power:** A weaker-than-expected consumer environment could weigh on consumption within discretionary categories impacting demand in the QSR and CDR sectors.
- **Weaker franchise market and potential pressure on royalties:** In order to support franchisees through tough operating conditions the group could be forced to lower take rates, leading to lower revenue growth.
- **Persistent high stages of load-shedding:** Higher stages of load-shedding are disruptive as most back-up solutions provide the ability to operate for shorter periods (and can be costly). As a result, the group could be required to provide additional support to franchisees to ensure operations remain relatively unaffected.
- **Food aggregators intensifying competition:** The popularity of food aggregators such as Mr D, Uber Eats and Bolt Food allow consumers to easily compare food menus and prices, providing discounted offers in an already tightly contested market. As network effects improved insights, aggregators launched dark kitchens informed by consumer demand, rivalling established brick-and-mortar brands. Should such strategies gain traction, demand could be redirected to these platforms away from the group's brands.
- **Upside risks** include increased restaurant traffic due to load-shedding as people may not be able to cook at home. Additionally, a pricing lag between restaurants and food retailers may create a trade-off between eating out and cooking from home, with recent trends showing a widening gap between the two and making eating out cheaper for consumers at certain times.

## Appendix I

### Famous Brands Management Profiles



#### **Darren Paul Hele (Group CEO)**

Darren began working for Famous Brands in 2003. He has over 25 years of experience in the consumer food service industry. In 1996, he began his career at Pleasure Food. He held executive positions at Whistle Stop and Wimpy after the management buy-out in 1996. Darren was the Managing Director of Wimpy SA and later in the United Kingdom. In 2011, he was named Chief Operating Officer of the Franchising Division. In January 2013, he was appointed Group Chief Operating Officer. On March 1, 2014, Darren was appointed CEO of the food services division. He was appointed as the Group CEO on 1 March 2016.



#### **Deon Jeftha Fredericks (Group Financial Director)**

Deon has more than 30 years of experience working in blue-chip organizations. He joined Telkom in 1993 as a senior manager in internal audit and has held several executive positions in the finance department. He was appointed Deputy Chief Financial Officer in 2011 and Chief Financial Officer of Telkom SA in 2013 and resigned on 1 July 2018. He was appointed as Chief Information Officer at Telkom shortly afterwards. He thereafter served as the interim Chief Financial Officer at South African Airways for two years. Deon has previously held various other directorships, including Telkom, Vodacom, BCX, Trudon, Gyro Group and the Telkom Retirement Fund. Deon will retire at the end of July 2023.



#### **Nelisiwe Shiluvana (Designated Group Financial Director)**

Nelisiwe joined Famous Brands in October 2021 as a Group Finance Executive. She was appointed as the designated Group Financial Director with effect from January 1, 2023, in December 2022. Nelisiwe began her career at Telkom in 2008 and worked there for eight years. She joined EY in 2013 and held various positions for the next eight years.



#### **Cestelle Appollis (Group Company Secretary and Head of Legal)**

Cestelle joined Famous Brands in 2019 and has nearly 25 years of legal experience. She began her career at Abrahams and Gross in 1998 and moved to the Department of Public Enterprises in 2001. She started at Omnia in 2004 and stayed for over 10 years. She was Head of Legal: Group Company Secretary at Omnia before moving to Kumba Iron Ore for a short time (1 year and 8 months) and then to Famous Brand.



#### **Derrian Nadauld (Chief Operating Officer – Leading Brands)**

Derrian has extensive experience in franchise management in the industry. Prior to his appointment as COO of Leading Brands, he held the following positions. Managing Director of GBK and Wimpy UK, Chief Marketing Officer, Managing Director of Debonairs Pizza, Managing Director of Wimpy SA, and General Manager of Coffee Brands.



#### **Ntando Ndaba (Group Risk Executive)**

Ntando joined Famous Brands in 2015 and has skills in governance, risk management, internal controls and forensics and ethics. Prior to his appointment as the Group Risk Executive, he held the position of Internal Audit Manager. He worked for Massmart as Audit Manager for almost two years (2013 to 2014).



#### **Jean-Paul Renouprez (Group Executive: Manufacturing and Logistics)**

Jean-Paul joined Famous Brands in 2017 and has worked in supply chain operations for 15 years. He spent the majority of his career at SA Breweries, where he held several positions over a ten-year period. He previously worked at Pharma Natura (Operations Manager 2003-2007) and Dimension Data. His career began in 1994 with Detonator Technologies, where he stayed for five years before moving on to Dimensions Data.



#### **Philip Smith (Managing Director AME)**

Philip joined Famous Brands in 2012 and has extensive experience and skills in franchising management spanning over 20 years. He started off his career in 2001 at Franchise Directions (served for 8 years) then later moved to Kanhym Estates in 2009 as Franchise Specialist (3 years) before joining Famous Brands.



#### **Jabulani Mahange (Group HR Executive)**

Jabulani joined Famous Brands in 2018. He has extensive experience in HR having worked for four organisations (Primedia, Johnson&Johnson Medical, Edcon and ABSA) over 25 years.



#### **Andrew Mundell (Group Executive – Business Development)**

Andrew joined Famous Brands in 2017 as Chief Operating Officer (Enterprise Development) and later was appointed (Group Executive – Business Development) in 2020. Prior to Famous Brands he worked as the CEO of iStore Retail Business from 2012 to 2017. He started off his career at SABMiller in 2006 as District Manager.

## Appendix II

### Financial Statements

**Figure 138: Income statement**

	FY:20A	FY:21A	FY:22A	FY:23E	FY:24E	FY:25E	FY:26E	FY:27E
<b>Revenue</b>	<b>7780</b>	<b>4684</b>	<b>6476</b>	<b>7315</b>	<b>8014</b>	<b>8583</b>	<b>8983</b>	<b>9449</b>
y/y	0.7%	-39.8%	38.3%	13.0%	9.5%	7.1%	4.7%	5.2%
<b>Cost of sales</b>	<b>-3672</b>	<b>-2678</b>	<b>-3564</b>	<b>-4023</b>	<b>-4327</b>	<b>-4549</b>	<b>-4671</b>	<b>-4819</b>
y/y	2.2%	-27.1%	33.1%	12.9%	7.6%	5.1%	2.7%	3.2%
<b>Gross profit</b>	<b>4108</b>	<b>2006</b>	<b>2912</b>	<b>3292</b>	<b>3686</b>	<b>4034</b>	<b>4312</b>	<b>4630</b>
GP Margin	52.8%	42.8%	45.0%	45.0%	46.0%	47.0%	48.0%	49.0%
<b>Total Income</b>	<b>4108</b>	<b>2035</b>	<b>2932</b>	<b>3389</b>	<b>3686</b>	<b>4034</b>	<b>4312</b>	<b>4630</b>
<b>Selling and administrative expenses</b>	<b>-3196</b>	<b>-1726</b>	<b>-2267</b>	<b>-2555</b>	<b>-2708</b>	<b>-2926</b>	<b>-3079</b>	<b>-3304</b>
y/y	-2.7%	-46.0%	31.4%	12.7%	6.0%	8.1%	5.2%	7.3%
<b>Operating profit before impairment of intangible assets</b>	<b>912</b>	<b>295</b>	<b>655</b>	<b>834</b>	<b>979</b>	<b>1108</b>	<b>1233</b>	<b>1326</b>
y/y	7.7%	-67.7%	122.1%	27.4%	17.4%	13.2%	11.3%	7.5%
EBIT Margin	11.7%	6.3%	10.1%	11.4%	12.2%	12.9%	13.7%	14.0%
<b>Operating profit</b>	<b>859</b>	<b>119</b>	<b>630</b>	<b>834</b>	<b>979</b>	<b>1108</b>	<b>1233</b>	<b>1326</b>
<b>Net finance costs</b>	<b>-219</b>	<b>-176</b>	<b>-108</b>	<b>-113</b>	<b>-135</b>	<b>-127</b>	<b>-109</b>	<b>-99</b>
<b>Profit/(loss) before tax</b>	<b>646</b>	<b>-70</b>	<b>514</b>	<b>721</b>	<b>844</b>	<b>982</b>	<b>1124</b>	<b>1227</b>
y/y	-320.3%	-110.8%	-838.9%	40.3%	17.0%	16.3%	14.5%	9.2%
PBT Margin	8.3%	-1.5%	7.9%	9.9%	10.5%	11.4%	12.5%	13.0%
<b>Tax</b>	<b>-219</b>	<b>-35</b>	<b>-159</b>	<b>-216</b>	<b>-253</b>	<b>-294</b>	<b>-337</b>	<b>-368</b>
<b>Profit/(loss) from continuing operations</b>	<b>427</b>	<b>-105</b>	<b>356</b>	<b>505</b>	<b>591</b>	<b>687</b>	<b>786</b>	<b>859</b>
y/y	-200.1%	-124.6%	-439.0%	42.0%	17.0%	16.3%	14.5%	9.2%
PAT Margin	5.5%	-2.2%	5.5%	6.9%	7.4%	8.0%	8.8%	9.1%
<b>Headline earnings</b>								
<b>Basic HEPS</b>	<b>417</b>	<b>53</b>	<b>356</b>	<b>463</b>	<b>542</b>	<b>631</b>	<b>722</b>	<b>789</b>
<b>Diluted HEPS</b>	<b>416</b>	<b>53</b>	<b>356</b>	<b>463</b>	<b>542</b>	<b>630</b>	<b>721</b>	<b>788</b>
y/y	32.0%	-87.2%	568.4%	30.2%	17.0%	16.3%	14.5%	9.2%

Source: SBG Securities analysis, estimates and Company financials

**Figure 139: Balance sheet**

	FY:20A	FY:21A	FY:22A	FY:23E	FY:24E	FY:25E	FY:26E	FY:27E
<b>Non-Current Assets</b>	<b>4 641</b>	<b>1 693</b>	<b>1 625</b>	<b>1 687</b>	<b>1 921</b>	<b>1 978</b>	<b>2 028</b>	<b>2 353</b>
PPE	2 227	667	640	721	970	1 041	1 104	1 441
Intangible assets	2 275	917	872	854	838	824	811	799
Other non-current assets	139	108	113	113	113	113	113	113
<b>Current assets</b>	<b>1 532</b>	<b>1 301</b>	<b>1 335</b>	<b>1 471</b>	<b>1 482</b>	<b>1 691</b>	<b>1 927</b>	<b>1 922</b>
Inventories	427	354	408	474	510	536	550	568
Trade and other receivables	603	489	447	641	703	752	788	828
Cash and cash equivalents	486	352	333	210	124	256	444	380
Other current assets	17	106	146	123	123	123	123	123
<b>TOTAL ASSETS</b>	<b>6 173</b>	<b>2 993</b>	<b>2 960</b>	<b>3 158</b>	<b>3 403</b>	<b>3 669</b>	<b>3 955</b>	<b>4 275</b>
<b>EQUITY AND LIABILITIES</b>								
<b>Capital and reserves</b>								
Issued capital and share premium	164	164	164	164	164	164	164	164
Other reserves	329	89	116	116	116	116	116	116
Foreign currency translation reserve		68	55	55	55	55	55	55
Retained earnings/(loss)	1 188	-52	266	429	619	840	1 093	1 370
<b>Equity attributable to owners of Famous Brands Limited</b>	<b>1 680</b>	<b>270</b>	<b>601</b>	<b>764</b>	<b>954</b>	<b>1 175</b>	<b>1 428</b>	<b>1 705</b>
Non-controlling interests	120	121	119	160	207	262	325	394
<b>Total equity</b>	<b>1 800</b>	<b>391</b>	<b>721</b>	<b>923</b>	<b>1 161</b>	<b>1 437</b>	<b>1 753</b>	<b>2 099</b>
<b>Non-current liabilities</b>	<b>3 238</b>	<b>1 805</b>	<b>1 195</b>	<b>1 075</b>	<b>1 032</b>	<b>989</b>	<b>946</b>	<b>904</b>
Borrowings	1 656	1 463	882	765	727	688	649	611
Lease liabilities	1 264	257	232	228	224	220	216	212
Deferred tax	318	86	81	81	81	81	81	81
<b>Current liabilities</b>	<b>1 135</b>	<b>797</b>	<b>1 044</b>	<b>1 160</b>	<b>1 210</b>	<b>1 243</b>	<b>1 255</b>	<b>1 273</b>
Non-controlling shareholder loans	1	-	-	-	-	-	-	-
Trade and other payables	851	674	675	827	889	935	960	990
Borrowings	22	8	256	223	211	200	189	178
Lease liabilities	119	88	89	88	86	85	83	82
Other current liabilities	142	27	23	23	23	23	23	23
<b>Total liabilities</b>	<b>4 373</b>	<b>2 602</b>	<b>2 239</b>	<b>2 235</b>	<b>2 242</b>	<b>2 232</b>	<b>2 202</b>	<b>2 177</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>6 173</b>	<b>2 993</b>	<b>2 960</b>	<b>3 158</b>	<b>3 403</b>	<b>3 669</b>	<b>3 955</b>	<b>4 275</b>

Source: SBG Securities analysis, estimates and Company financials

**Figure 140: Cash Flow Statement**

	FY:20A	FY:21A	FY:22A	FY:23E	FY:24E	FY:25E	FY:26E	FY:27E
<b>Cash generated from operations</b>	<b>1 340</b>	<b>521</b>	<b>871</b>	<b>856</b>	<b>1 091</b>	<b>1 255</b>	<b>1 405</b>	<b>1 514</b>
Net finance costs paid	-216	-161	-111	-113	-135	-127	-109	-99
Income tax paid	-183	-70	-184	-216	-253	-294	-337	-368
Dividends paid	0	-6	-44	-302	-353	-411	-470	-514
Cash available from operating activities	941	285	533	225	350	423	488	533
Dividends paid to owners of Famous Brands Limited	-190	0	0	0	0	0	0	0
Dividends paid to non-controlling interests	-59	0	0	0	0	0	0	0
<b>Net cash inflow/(outflow) from operating activities</b>	<b>692</b>	<b>285</b>	<b>533</b>	<b>225</b>	<b>350</b>	<b>423</b>	<b>488</b>	<b>533</b>
<b>Cash flow from investing activities</b>								
Additions to property, plant and equipment	-152	-73	-123	-214	-401	-257	-269	-567
Intangible assets acquired	-22	-11	-17	-19	-21	-22	-23	-24
Proceeds from disposal of property, plant and equipment	25	15	10	15	17	21	23	25
Proceeds from disposal of intangible assets	0	0	3	24	24	24	24	24
Additional investment in associate	-3	-2	0	0	0	0	0	0
Net cash inflow on disposal of subsidiary	32	44	1	0	0	0	0	0
Net cash outflow on disposal of subsidiary	0	-64	-1	0	0	0	0	0
Net cash inflow on disposal of associate	0	15	0	0	0	0	0	0
Dividends received from associates	4	4	6	0	0	0	0	0
Principal receipts from lease receivables	0	14	12	0	0	0	0	0
Loan to associate	0	0	-11	0	0	0	0	0
Loan repayment from associate	0	0	2	0	0	0	0	0
<b>Net cash outflow from investing activities</b>	<b>-116</b>	<b>-57</b>	<b>-117</b>	<b>-193</b>	<b>-380</b>	<b>-235</b>	<b>-246</b>	<b>-542</b>
<b>Net borrowings repaid</b>	<b>-430</b>	<b>-188</b>	<b>-333</b>	<b>-150</b>	<b>-50</b>	<b>-50</b>	<b>-50</b>	<b>-50</b>
Borrowings raised	0	3 229	25	0	0	0	0	0
Borrowings repaid	-430	-3417	-358	0	0	0	0	0
Settlement of interest rate swap	0	-40	0	0	0	0	0	0
Non-controlling shareholder loans (repaid)/received	-2	1	-1	0	0	0	0	0
Principal repayments of lease obligations	-123	-73	-78	-6	-6	-5	-5	-5
Lease incentives received	0	0	1	0	0	0	0	0
Settlement of put option over non-controlling interest in subsidiary	0	-15	0	0	0	0	0	0
Share-based payment grant settlements	0	-7	-4	0	0	0	0	0
Acquisition of additional interest in subsidiaries (Decrease)/increase in payables to Group companies	0	0	-19	0	0	0	0	0
<b>Net cash outflow from financing activities</b>	<b>-554</b>	<b>-322</b>	<b>-433</b>	<b>-156</b>	<b>-56</b>	<b>-55</b>	<b>-55</b>	<b>-55</b>
<b>Net decrease in cash and cash equivalents</b>	<b>22</b>	<b>-95</b>	<b>-18</b>	<b>-124</b>	<b>-86</b>	<b>133</b>	<b>187</b>	<b>-64</b>
Foreign currency effect	9	0	-1	0	0	0	0	0
Cash and cash equivalents balance at the beginning of the year	455	446	352	333	210	124	256	444
<b>Cash and cash equivalents balance at the end of the year</b>	<b>486</b>	<b>352</b>	<b>333</b>	<b>210</b>	<b>124</b>	<b>256</b>	<b>444</b>	<b>380</b>

Source: SBG Securities analysis, estimates and Company financials



## Appendix III

### Consumer Food service sub-sector overview (Euromonitor)

#### Limited-service restaurants (QSR)

##### 1. Size and growth

###### • Type: Franchise or independents

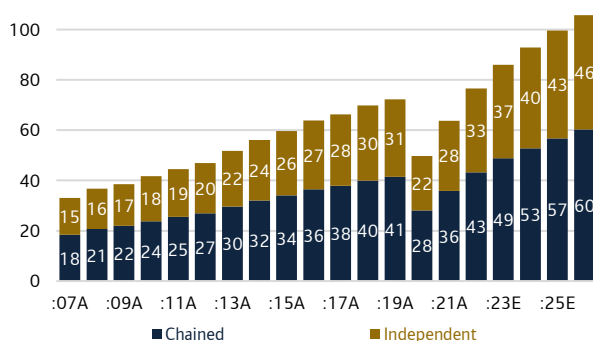
Chained (franchised) restaurants account for the highest share in limited-service restaurants and are estimated to be valued at R43.3bn in 2022. The chained restaurants segment is 1.3x larger than independent restaurants as they benefit from:

- **Financial resources:** Chained restaurants often have access to more financial resources, which allows them to expand more quickly and open more locations. They may also have more capital to invest in marketing and advertising to promote their brand.
- **Brand recognition:** Chained restaurants often have strong brand recognition and a loyal customer base, which makes it easier to open new locations and attract new customers.
- **Economies of scale:** Chained restaurants can often benefit from economies of scale as they can negotiate better prices for ingredients and other supplies due to their large size and purchasing power. This can allow them to be more profitable and expand more quickly.

Franchisors have an opportunity to acquire weakened independent restaurants with great potential and fit to their business.

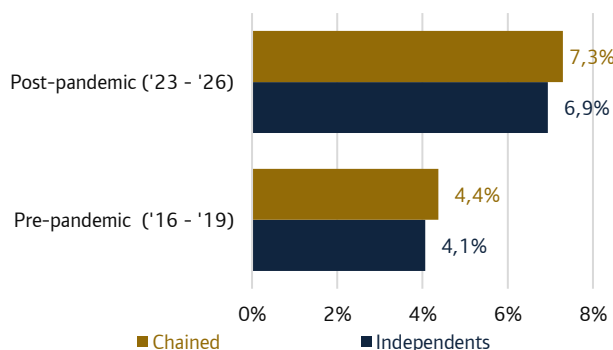
Considering independents are more exposed to adverse trading conditions and have limited cash flows, franchisors could use this opportunity to acquire ailing independent restaurants with great potential and fit to their business at lower prices than they would have paid pre-pandemic.

**Figure 141: Limited-services value by type (ZAR'bn)**  
**Franchised restaurants mainly players in the QSR segment**



Source: SBG Securities analysis and Euromonitor

**Figure 142: Limited-service restaurants – 3yr CAGR (%)**  
**Chained to continue to outperform post the pandemic recovery**



Source: SBG Securities analysis and Euromonitor

Chicken and burgers are among the most loved fast foods in South Africa. Appetite for fish appears to have been diminishing pre-pandemic.

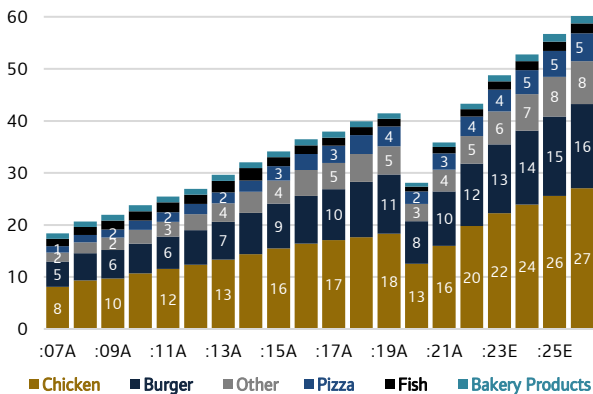
Chicken and burgers to recover to pre-pandemic levels faster (2023) while the other food categories should return in 2024.

###### • Food categories

South Africans have a strong appetite for chicken (est. 2022: c. R20bn) and burgers (est. 2022 c. R12bn), accounting for almost 75% of limited-service restaurants' consumption. Pizza is the third-largest category, valued at c. R4bn and fish at R1.2bn.

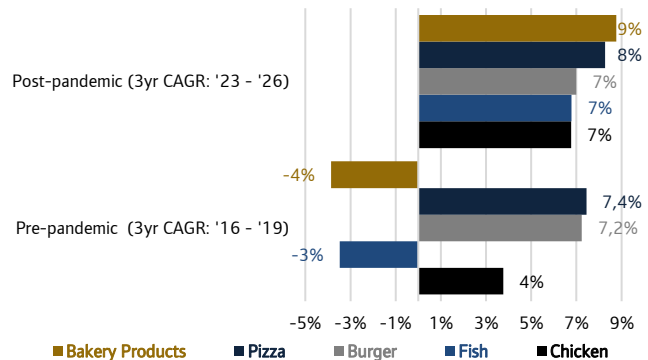
Before the pandemic, Fish and Bakery Products were the only food categories with negative performance (-3% and -4%, 3yr CAGR: 2016 – 2019 respectively). Pizza (+7.4%) and burgers (+7.2%) were the top performers. Post the pandemic all food categories delivered high-single digit positive performance led by Bakery Products and Pizza, 9% and 8% on a 3yr CAGR (2023 to 2026) respectively. We believe the trend for healthy food will benefit Fish the most as it is typically perceived as a health food option.

**Figure 143: Limited-services value by category (ZAR'bn)**  
**South African have a love affair with chicken and burgers**



Source: SBG Securities analysis and Euromonitor

**Figure 144: Limited-services restaurants by food category - 3yr CAGR**  
**All food categories to deliver positive performance post the pandemic recovery**



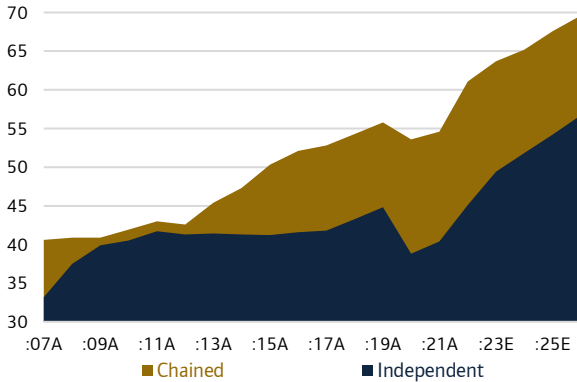
Source: SBG Securities analysis and Euromonitor

- Average value per transaction (AVT)**

By type: Chained restaurants have the highest value per transaction (R61 versus independent restaurants: R45) because their brands are more established, with a larger loyal customer base.

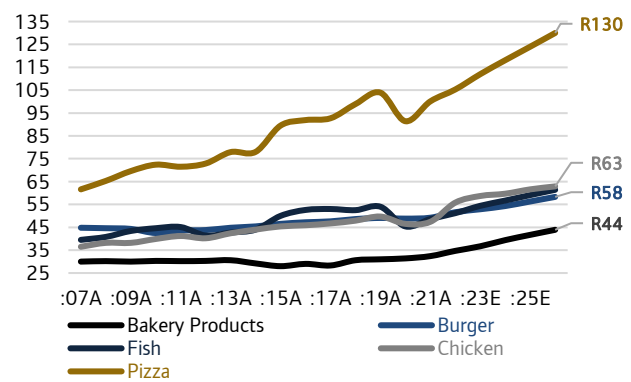
By category: Pizza has the highest value per transaction. Generally, pizza products are higher ticket items compared to other food categories.

**Figure 145: QSR average value per transaction by type (ZAR)**  
**Chained restaurant AVT trades at almost 40% premium to Independents**



Source: SBG Securities analysis and Euromonitor

**Figure 146: QSR average value per transaction by category (ZAR)**  
**Pizza has higher price points hence it has the highest AVT**



Source: SBG Securities analysis and Euromonitor

## 2. Market share

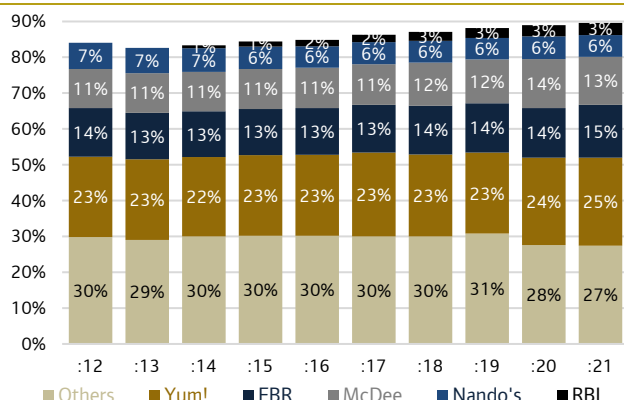
- Company market share**

**Yum! (25%), Famous Brands (15%), and McDonald's Corp (13%), are the top three QSR companies by market share.**

Yum! Brands, Famous Brands and McDonald's Group are the only companies with a double-digit market share in the QSR segment. They collectively account for more than half of the QSR market. All three companies control nearly 70% of the franchised QSR market. Yum! Brands serves a third of the franchised QSR market.

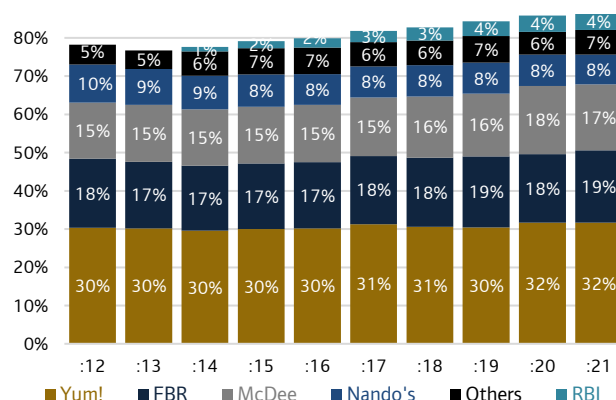
It is important to note that while Spur has negligible exposure to the quick-service restaurant industry, it has substantial exposure to the full-service industry.

**Figure 147: Company market share (%) – limited services**  
**Yum!, FBR and McD\* account for more than half of the QSR segment**



Source: Euromonitor, SBG Securities analysis \*Yum! Brand, Famous Brands and McDonalds

**Figure 148: Company market share (%) – chained limited services**  
**Yum!, FBR and McD\* account for more than c. 70% of the QSR chained segment**

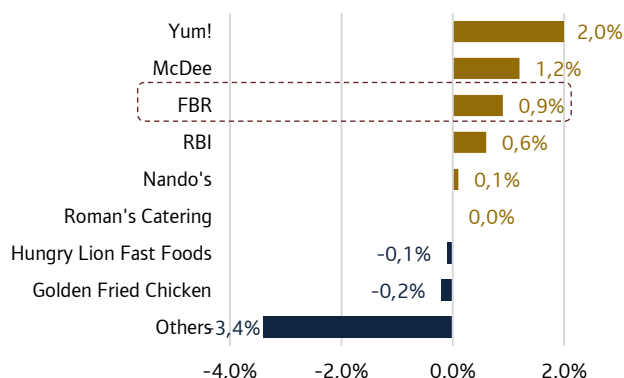


Source: Euromonitor, SBG Securities analysis and estimates \*Yum! Brand, Famous Brands and McDonalds

### Market share movements

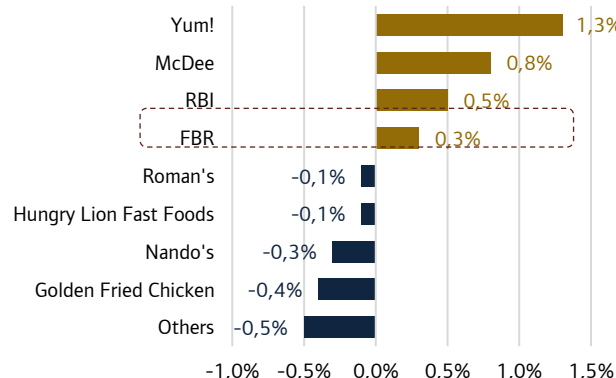
Overall, bigger companies have gained market share while smaller companies seem to be struggling, likely due to fierce competition, which has been noted by their managements.

**Figure 149: Market share movement since 2019 - limited services**  
**Famous Brands among the gainers**



Source: SBG Securities analysis and Euromonitor

**Figure 150: Market share movement since 2019 - chained limited services. Famous Brands among the gainers**



Source: SBG Securities analysis and Euromonitor

### Brands' market share

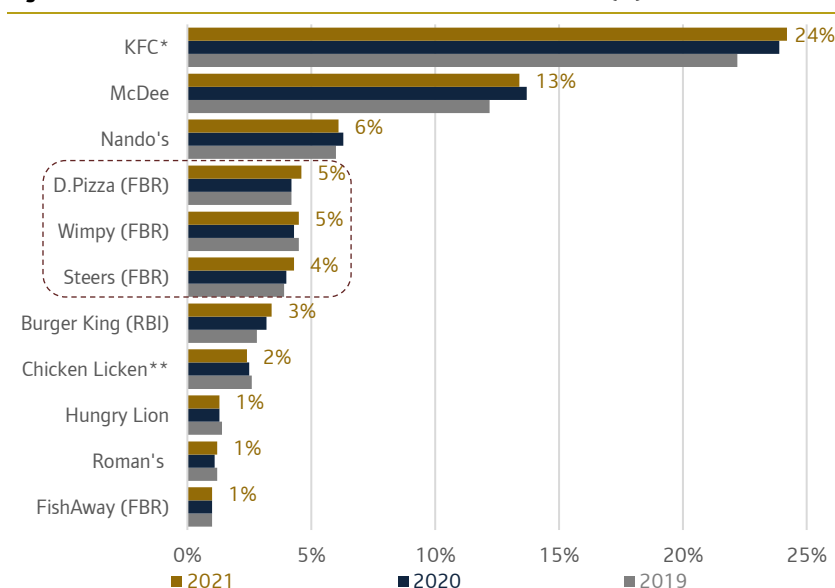
In terms of brands' market share, only KFC (24%) and McDonald's (13%) have double-digit market share.

Famous Brands has three brands (Debonairs Pizza 4.6%, Wimpy 4.5% and Steers 4.3%) in the top 10 with the highest market share in the limited services segment. These brands are in the middle of the pack.

All Famous Brands' brands in the top 10 have market shares that exceed 2019 levels.

FBR brands Debonairs Pizza, Wimpy and Steers are among the top 10 brands with the highest market share in the limited services sector.

**Figure 151: Limited-services restaurants – brands market share (%)**



Source: SBG Securities analysis and Euromonitor

## Full service (CDR) – Spur territory

Full-service restaurants are also referred to as casual dining. Spur has a sizeable market share in this segment. Famous Brands considers Wimpy and Mugg & Bean casual dining restaurants, but Euromonitor does not. We believe this is because Wimpy and Mugg & Bean have exposure to both CDR and QSR, which fall under a new category called 'fast casual'.

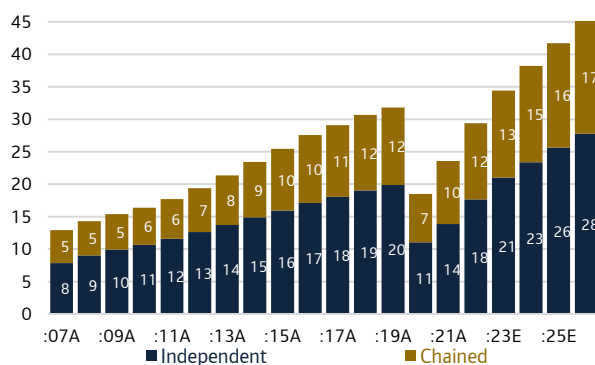
### 1. Market size

Unlike in QSR, independent restaurants dominate in the casual dining segment. Independent restaurants (est. 2022: R18bn) generate total sales 1.5x higher than chained (est. 222: R12bn) restaurants. We attribute this performance to:

- **Unique identity:** Independent restaurants can create their own unique identity and brands, which can be more appealing to customers.
- **Flexibility:** Independent restaurants have more flexibility to adapt to changing customer needs and preferences as they are not bound by the same rules and regulations as franchise restaurants.

**Figure 152: Full-service value by type (ZAR'bn)**

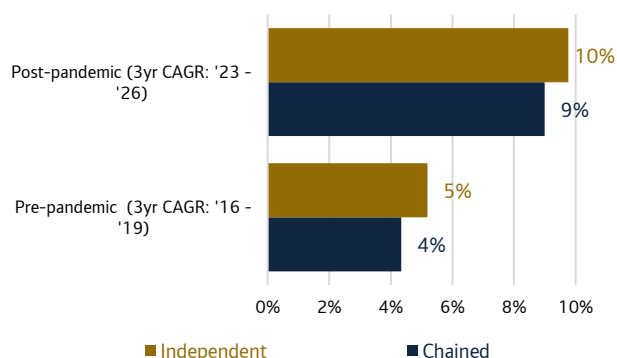
**Independent restaurants dominate in the casual dining segment**



Source: SBG Securities analysis and Euromonitor

**Figure 153: Full-service value by type – 3yr CAGR**

**Independents dominate the casual dining segment**



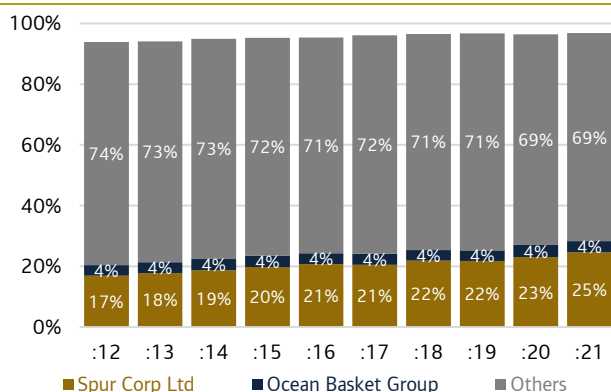
Source: SBG Securities analysis and Euromonitor

## 2. Market share

Spur owns one-quarter of the CDR market. Ocean Basket is its closest and only significant competitor, accounting for 4% of the market. The remainder is distributed among smaller brands (69% market share).

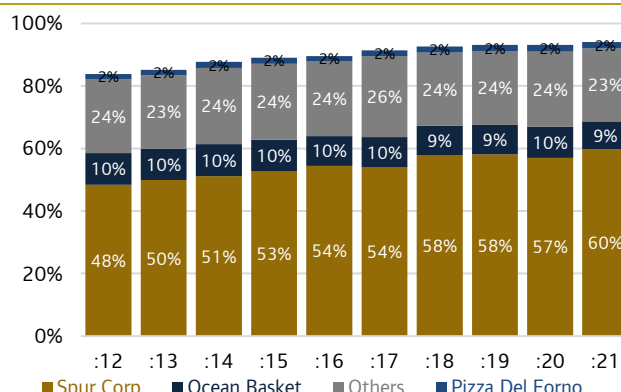
When it comes to the franchised CDR segment, Spur controls nearly two-thirds of the market, while Ocean Basket holds just under 10%.

**Figure 154: Company market share (%) – full service top firms  
Spur accounts for a quarter of the CDR market**



Source: SBG Securities analysis and Euromonitor

**Figure 155: Company market share (%) – chained full service  
Spur accounts for almost two-thirds of the franchised CDR market**



Source: SBG Securities analysis and Euromonitor

## Cafés/Bars

### 1. Market Sizing

Cafés/bars normally have lower overheads and require lower investment capital to start compared to limited-services and full-service restaurants, hence the segment mainly comprises independents.

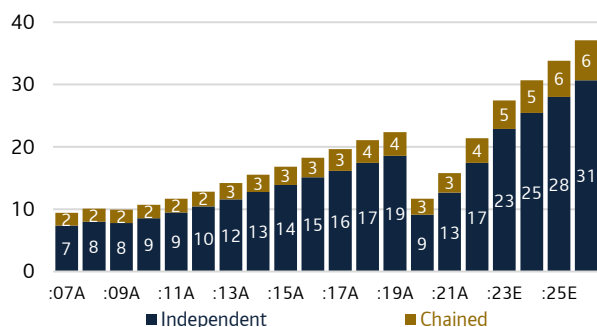
Independents account for 81% of total sales in the cafés/bars segment. The independent segment is worth R21bn, which is four times the value of franchised cafés/bars (R4bn). Cafés/bars normally have lower overheads and require lower investment capital to start compared to limited-services and full-service restaurants, hence the segment mainly comprises independents.

The large pool of independents presents an opportunity for franchisors to grow through acquisition, especially given how vulnerable independents are during subdued or volatile trading periods. Franchisors typically have a stronger financial position and find it easier to navigate through difficult times than independent players.

Speciality coffee and tea shops and cafés have remodelled their establishments to become suitable workplaces by providing free wi-fi, bottomless coffee and large meal portions, which has helped to attract customers.

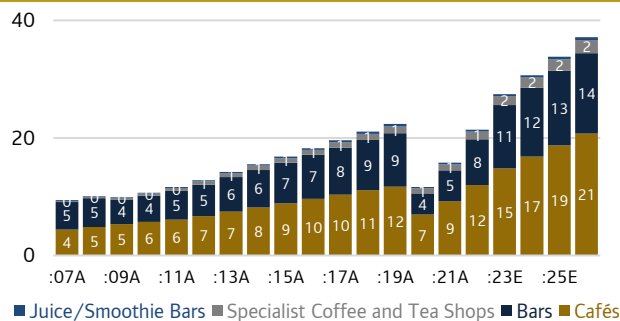
By category: Cafés account for almost two thirds of the Cafés/Bars segment in terms of generating sales. In terms of performance relative to pre-pandemic levels, speciality coffee and tea shops (2022: +14%) and cafés (+2%) have recovered faster while other categories lag (bars: 2022: -14% and juice/smoothie bars: -24%). Bars were severely impacted by alcohol bans and limited trading hours implemented during higher levels of lockdowns hence their recovery is expected to take longer. As the hybrid work model is being widely adopted by several companies in South Africa, speciality coffee and tea shops and cafés have remodelled their establishments to become suitable workplaces by providing free wi-fi, bottomless coffee and large meal portions, which has helped to attract customers.

**Figure 156: Cafés/Bars value by type (ZAR'bn)**  
**Independents accounts for 81% the sector's value**



Source: SBG Securities analysis and Euromonitor

**Figure 157: Cafés/Bars value by category (ZAR'bn)**  
**Cafés account for two thirds of the Cafés/Bars segment**



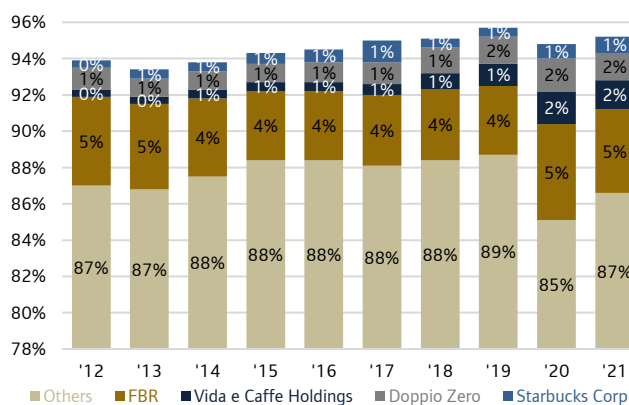
Source: SBG Securities analysis and Euromonitor

## 2. Market share

The café/bar industry is the most fragmented in the consumer food service sector. Famous Brands (Mugg & Bean) has the highest market share (c. 5%). Vida e Caffè Holdings, Doppio Zero and Starbucks Corp have 1.6%, 1.5% and 0.9%, respectively. Other 'smaller brands' share the remainder, 87% (2019: c. 90%).

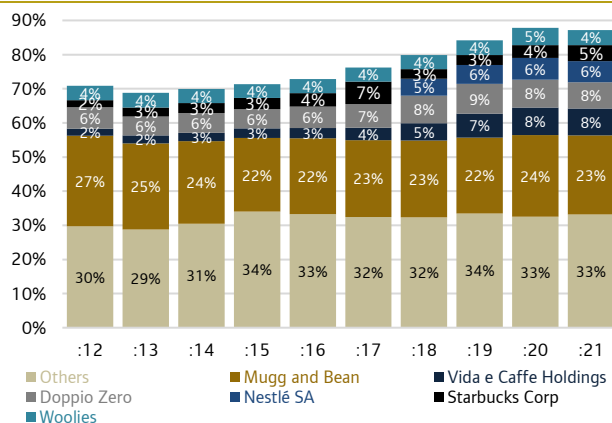
When it comes to franchised cafés and bars, Mugg & Bean controls nearly 25% of the market, while its competitors all hold less than 10%. Since Famous Brands already dominates the market, we think it would be wise for it to expand through acquisition.

**Figure 158: Company market share (%) – Cafés/Bars sub-sector top brands. The café/bar industry is the most fragmented in the sector**



Source: SBG Securities analysis and Euromonitor

**Figure 159: Brands market share (%) –chained Cafés/Bars top brands. Mugg & Bean controls almost a quarter of the franchised market**



Source: SBG Securities analysis and Euromonitor

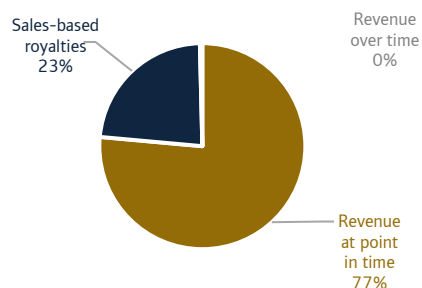


## Appendix IV

### Revenue from contracts with customers

This section shows the different levels (*point in time, sales-based royalties and over time*) at which Famous Brands generates revenue and the nature of the activity for each level including the customer segment targeted.

**Figure 160: Revenue Mix by contracts with customers**



Source: Company reports and SBG Securities analysis

**Figure 161: Revenue from contracts with customers**

Timing of Revenue Recognition	POINT IN TIME	SALES-BASED ROYALTIES	OVER TIME
<b>Items</b>	<ul style="list-style-type: none"> <li>Sales of manufactured and purchased products</li> <li>Logistics</li> <li>Sales of products to retailers</li> <li>Company-owned stores</li> </ul>	<ul style="list-style-type: none"> <li>Joining fees</li> <li>Franchise revenue</li> <li>feesMarketing revenue</li> </ul>	<ul style="list-style-type: none"> <li>feesServices revenue</li> </ul>
<b>Nature of Activity</b>	The group procures or manufactures food and/or other products	Joining fee for upfront training and setting up the business	Franchise partners given exclusive rights to trade using the group's assets
<b>Customer Segment</b>	<ul style="list-style-type: none"> <li>Franchise partners</li> <li>Retailers</li> <li>Company-owned stores</li> </ul>	Franchise partners	Franchise partners given access to marketing services
			Franchise partners provided with services such as project management or revamps or ad hoc services

Source: Company reports and SBG Securities analysis

## Appendix V

### South Africa economic outlook

#### GDP: Possibility of a surprise in economic activity in 2023?

In the third quarter of 2022, South Africa's GDP grew unexpectedly by 1.6% despite elevated inflationary pressures, rising interest rates and the worst load-shedding in a month in September.

Inflation is tapering but at a slower pace. Any upward surprise in inflation could affect consumer confidence and challenge economic growth. The potential for further interest rate hikes has diminished and we believe that interest rates are near peak, with a "higher-for-longer" scenario predicted by the SARB (see Figure 164). Load shedding continues to affect economic activity and the SARB expects that it will reduce GDP growth by 2% in 2023. However, private investment in alternative energy (such as solar) may help to prevent a sharp decline in the economy in 2023, potentially supporting growth over 2H23.

The SARB is less optimistic about the economy, lowering its GDP forecasts for 2023 (0.3% from 1.1%), 2024 (0.7% from 1.4%) and 2025 (1% down from 1.5%). Our outlook is more optimistic, with our 2023 forecast unchanged at 1.3%. We believe the SARB could be underestimating the private sector's growing investment in own electricity generation and backup capacity.

We note the main risks to economic growth: 1) higher stages of load-shedding and 2) persistent elevated inflation.

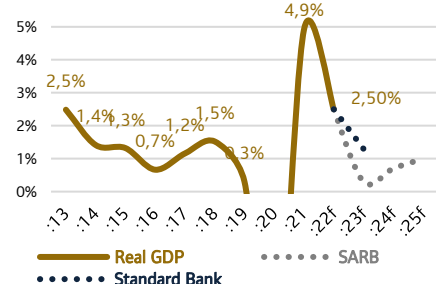
#### Inflation: Will pressures decelerate faster or slower?

In line with the SARB, we foresee inflation retreating towards the mid-point of the target range from 2H23 as food inflation is expected to subside in 2023. However, higher stages of load-shedding could negatively impact this outlook and cause elevated inflation to remain sticky. Higher stages of load-shedding could result in, internal and external shocks.

- **Internal shocks:** higher stages of load-shedding increase the requirement of fuel to run generators which then increases the cost of production and ultimately food prices.
- **External shocks:** higher stages of load-shedding could affect food supply. Almost a third of South Africa's food production relies on irrigation.

Considering the likelihood of both scenarios, we view any further hikes by the SARB to be "a countercyclical buffer" against inflation risks, which could be reversed within a year, followed by neutral rates for a longer period.

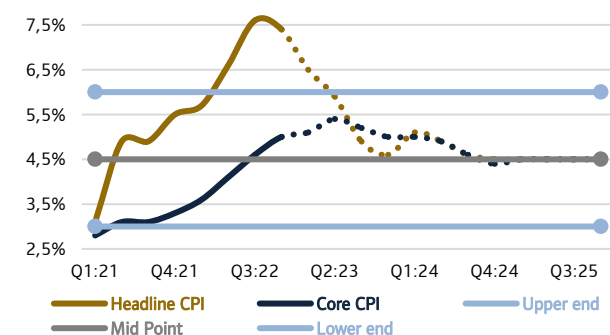
**Figure 162: SA Real GDP forecasts**  
**Standard Bank more optimistic on GDP than SARB**



Source: Standard Bank and South African Reserve Bank

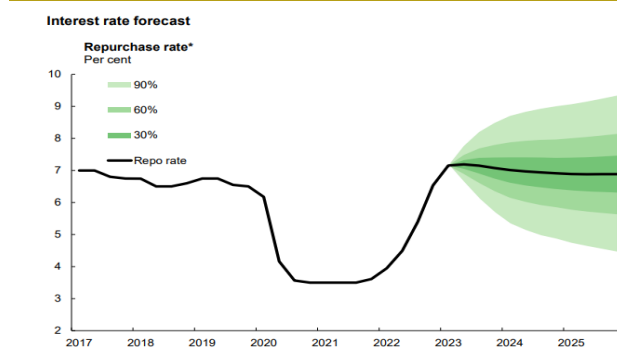
SBR's GDP expectations are more optimistic than the SARB. However, we recognise the potential challenges posed by higher stages of load-shedding and persistently high inflation

**Figure 163: SA inflation % (Q1'21 to Q4'25)**  
**Inflation to move towards mid-point from H2:23**



Source: South African Reserve Bank

**Figure 164: SARB interest rate forecast**  
**Higher-for-longer scenario expected**



Source: SBG Securities analysis, Stats SA

## State of the South African consumer

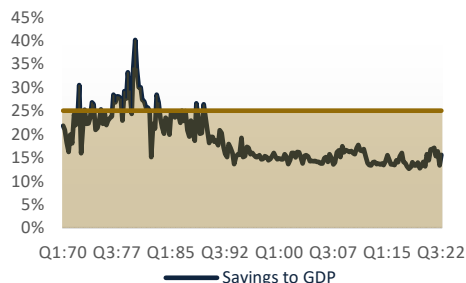
### Does the consumer have enough purchasing power?

As indicated in the prior section, inflationary pressures are diminishing but current trends show that the pace is slow and if the trajectory continues at a slower pace consumers may lack purchasing power. In that case, South African households have to either consider using savings or debt to supplement their disposable income.

- **Savings:** South Africans tends to have low saving habits with household savings to GDP at 16% in Q3:22, below the global average (25%). Therefore, in the pursuit of purchasing power, the consumer is inclined to acquire more credit.
- **Debt:** South Africans have traditionally shown a strong interest in taking on credit. Recent trends indicate that individuals are taking on more debt to boost their purchasing power. Although the debt service cost to disposable income has been trending upward, it was still below pre-pandemic levels in Q3:22, at 7.5%, compared to 8.4% in Q3:19.

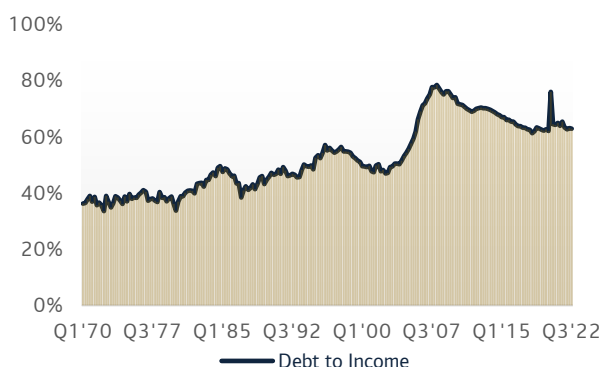
Despite the expectation of 'higher interest rates in the long term', which would raise the cost of borrowing, households may still have some room to take on more debt and supplement their disposable income based on current debt levels.

**Figure 165: Household savings to GDP**  
**South Africa savings well below global average**



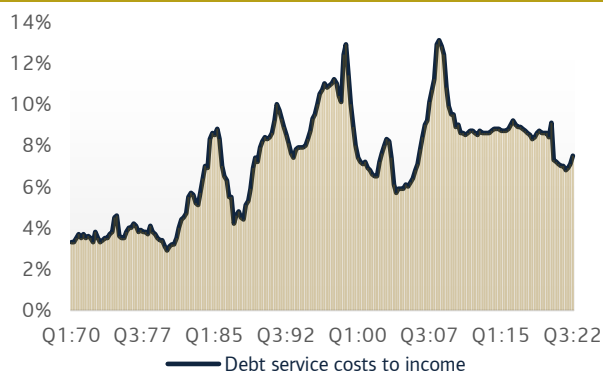
Source: South African Reserve Bank

**Figure 166: SA – Household debt to disposable income**  
**Debt levels declining to pre-pandemic levels**



Source: South African Reserve Bank

**Figure 167: South Africa –household debt service cost to income**  
**Debt services costs below pre-pandemic levels but starting to rise**



Source: South African Reserve Bank

#### Companies Mentioned (Price as of 03 Mar 2023)

Famous Brands (FBRJ.J, R65.84, FVVR: R76 – R89)  
 Yum! Brands (YUM, 129.67 USD, Not Covered)  
 Darden Restaurants (DRI, 147.34USD, Not Covered)  
 Spur Corp (SUR, 24 ZAR, Not Covered)  
 Restaurant Brands International (QSR, 64.08USD, Not Covered)  
 McDonald's (MCD, 269.0701USD, Not Covered)  
 The Wendy (WEN, 21.93USD, Not Covered)  
 Starbucks (SBUX, 104.55USD, Not Covered)  
 Papa John (PZZA, 84.74USD, Not Covered)  
 Domino's Pizza (DPZ, 304.76USD, Not Covered)  
 Compass Group (CPG, 1916GBX, Not Covered)

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**Price Target:** (12 months) for (FBRJ.J)

**Methods:** We determined our Future Value Valuation Range using four valuation methods, 1) Discounted Cash Flow (DCF); 2) 12 Month Forward PE; 3) 12 Month Forward EV/EBITDA and 4) EV/IC. Our DCF model assumes a 10.11% risk free rate, which is indicative of the 10-year government bonds, 4.3% nominal long-term growth rate, which is in line with Standard Bank Research long term CPI forecasts. Also, we assume a risk premium of 6%. On 12 Month Forward PE and EV/EBITDA, we used a peer group of companies listed in the US and applied a discount of 39% and 25%, respectively, to get an implied multiple for Famous Brands. The discounts were determined using the MSCI EM consumer services as a proxy for South Africa and compared it with MSCI US consumer services. Lastly, on the EV/IC valuation, we created a scatter plot of invested capital values versus forecast ROIC estimates for global listed restaurant companies. Thereafter, we applied a linear regression line with the highest R-squared value to the scatter plot. We calculated the implied EV/IC that Famous Brands should be trading on relative to its peers using the line of best fit. We applied a discount of 33% (differential between large and mid-to-small caps), which translated to an implied enterprise value.

**Risks:** Limited pricing power in a high inflationary environment: Generally, South African restaurants have limited pricing power which makes it challenging for them to keep up with inflation and pass it on to the consumer. Therefore, it means profitability margins will come under pressure. South African consumer losing grip on buying power: A weaker than expected consumer environment could weigh on consumption within discretionary categories impacting demand in the QSR and CDR sectors. Weaker Franchise Market and potential pressure on royalties: In order to support franchisees through tough operating conditions the group could lower take rates and/or extend loans to franchisees (raising the risk of bad debts).

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					<b>United Kingdom, Europe</b>
					Francis Marcus (44 744) 705 7250

## Sales Trading

South Africa		West Africa		East Africa	
Selvan Kistnasamy (Head Equities)	(27 11) 415 7013	Bunmi Olarinoeye (CE)	(234 1) 422 8392	Gregory Waweru (CE)	(254 20) 363 8948
Tom Gale	(27 11) 415 7023	Afolabi Gbenro (Head Sales Trading)	(234 1) 422 8382	Eric Ogechi	(254 20) 363 8961
Kagiso Matlala	(27 11) 415 7021	Peter Abe	(234 1) 422 8380	Augustine Misoka	(254 20) 363 8960
Jesse van Rensburg	(27 11) 415 7040	Akinsola Arikawe	(234 1) 422 8329	Edna Maathai	(254 20) 363 7321
Tokelo Khambule	(27 11) 415 7814	Abimbola Moronkola	(234 1) 422 8330	Nicholas Kimuli (Uganda)	(256 031) 222 4972
Alexander Ferrer	(27 11) 415 7024				
Richard Juchniwicz	(27 11) 415 7125				