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**BURSA DE VALORI BUCUREȘTI S.A.
AUTORITATEA DE SUPRAVEGHERE FINANCIARĂ**

CURRENT REPORT 40/2022

According to Law no. 24/2017 regarding issuers of financial instruments and market operations, ASF Regulation no. 5/2018 regarding the issuers of financial instruments and market operations and/or Rulebook of the Bucharest Stock Exchange Market Operator.

Date of report	30.08.2022
Name of the Company	Sphera Franchise Group SA
Registered Office	Bucharest, Romania
Address	Calea Dorobanților nr. 239, 2nd floor, Bucharest sector 1
Phone / Fax	+40 21 201 17 57 / +40 21 201 17 59
Email	investor.relations@spheragroup.com
Registration nr. with Trade Registry	J40/7126/2017
Fiscal Code	RO 37586457
Subscribed and paid share capital	581,990,100 RON
Total number of shares	38,799,340
Symbol	SFG
Market where securities are traded	Bucharest Stock Exchange, Main Segment, Premium Category

Important events to be reported: Availability of H1 2022 Results

In the second quarter of 2022, Sphera Franchise Group delivered the best sales quarter in history, registering RON 327.4 million in revenues, a 40% increase compared to Q2 2021. All three brands – KFC, Pizza Hut and Taco Bell registered record sales, across all markets of activity in a rapid ramp-up following the lifting of the COVID-19 restrictions.

The significant increase versus previous quarter was a combined effect of: a) lifting of the dining restrictions and of the green pass entry requirements across Romania, Italy, and the Republic of Moldova (this leading to the increase in transactions overall), b) contribution of the stores opened in the preceding 12 months and c) price adjustment triggered by the increase across all product categories.

Overall, the Group ended Q2 2022 with a positive result, registering EBITDA of RON 17.5 million (1% increase compared to Q2 2021) and a net profit of RON 2.2 million (a 54% decrease compared to Q2 2021). The decrease in the net profit in Q2 2022 was due to the inflationary pressure on the cost side, growing energy prices resulting from the war in Ukraine as well as lack of available government facilities such as technical unemployment or renegotiations opportunities for rental costs, which helped lift the bottom line in Q2 2021. However, Q2 2022 net profit has registered a substantial increase of RON 13.1 million vs. Q1 2022.

The excellent topline performance and positive bottom line in the second quarter helped recover part of the losses that the Group registered in Q1 2022. Consequently, for the first six months of 2022, the Group recorded RON 606 million in consolidated revenue, a 36% increase compared to H1 2021, EBITDA of RON 21.2 million, a 29% decline, and a net loss of RON 8.7 million, versus a net profit of RON 5.2 million.



The restaurant expenses have slightly slowed down in Q2 2022, amounting to 95% of the cost of sales vs 98% registered in Q1 2022, due to successful transfer of part of the costs to the end customers through the price increases which took place in March, May, and June 2022. Nonetheless, when looking at the first half of the year, the restaurant expenses grew faster than revenues, registering a 42% increase YoY, reaching RON 581.5 million. This increase was driven firstly by a 51% increase in cost of food and material costs, due to increase in chicken prices as a result of the spike in costs of poultry rearing, growing energy costs, the minimum wage increase, as well as due to the general inflationary environment. The feed grain prices continued to grow throughout the first six months of 2022 due to lingering war in Ukraine, driving the increase in the raw material prices.

The second largest contributor to the restaurant expenses were the payroll costs, which grew 39% YoY, reaching RON 141.8 million due to average wage increases, a new bonus scheme, and raising benefits (increase in the value of the meal tickets since March 2021). The number of employees across Group companies increased by 19% in H1 2022 versus H1 2021, especially due to new restaurant openings.

Other cost increases included the rent costs, which grew 31% YoY, reaching RON 44.6 million due to negligible opportunities to renegotiate rents in Q1 2022 and lack thereof in Q2 2022. The royalties increased 37% YoY, in line with the topline, reaching RON 36.4 million, while advertising costs increased 61% YoY, reaching RON 32.3 million, due to different timing of the marketing campaigns and, overall, more intense advertising activity. Depreciation and amortization increased 12% YoY, primarily due to the new openings in H2 2021 and H1 2022.

Other operating expenses increased 38% YoY, reaching RON 88.9 million due to an almost doubling of the utility costs, which reached RON 21.2 million (+91%), and a 20% increase in the third-party expenses, which grew to RON 45.4 million. This category also includes aggregator commissions, which increased 16% in H1 2022 versus H1 2021, with the weight of aggregators' commissions in net sales progressively decreasing by 1pp in Q2 2022 vs Q1 2022, from 4.8% to 3.8%.

Due to the rapid increase in restaurant expenses especially in Q1 2022, the Group ended H1 2022 with a restaurant operating profit of RON 25.6 million, a 28% decrease compared to H1 2021. The weight of G&A in sales decreased 1pp Q2 2022 vs previous quarter, reaching RON 26.4 million for H1 2022. The Group has registered an operating loss of RON 0.8 million, versus RON 10.4 million operating profit registered in H1 2021. The EBITDA amounted to RON 21.2 million, a 29% decline compared to RON 30 million registered in H1 2021.

The finance costs increased 90%, reaching RON 6.7 million due to growing costs of financing since the beginning of 2022, while the financial income grew almost eightfold, reaching RON 0.4 million. With the negative financial result, the EBT for H1 2022 was a loss of RON 7.2 million versus gross profit of RON 6.9 million in H1 2021. The income tax expense amounted to RON 0.3 million in H1 2022, versus RON 0.6 million in H1 2021, while specific tax amounted to RON 1.3 million in H1 2022, versus RON 1.2 million in H1 2021. Consequently, the Group ended the first six months of 2022 with a net loss of RON 8.7 million, versus a net profit of RON 5.2 million in H1 2021.

Data presented above is excluding the impact of IRFS 16 adoption.

Investor Call

The conference call for presenting the financial results as of June 30th, 2022, will take place on August 30th, 2022. The Group will organize two calls – one in English, at 14:00 local time (13:00 CET | 12:00 UK), and another one in Romanian, at 15:00 local time. The calls are open to all the stakeholders. To receive the conference call log-in details, the investors and analysts are invited to contact the IR team at investor.relations@spheragroup.com, indicating the language of the call to attend.



Report Availability

The Group's interim condensed consolidated financial statements and the interim condensed separate financial statements for the six-month period ended June 30th, 2022 (unaudited), accompanied by the Director's Report, are available on the company's website, www.spheragroup.com, in the Investor Relations section, on the website of the Bucharest Stock Exchange, www.bvb.ro, as well as are attached to this Report.

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