FRANCHISE BRANDS

Building an international business

Annual Report & Accounts 2022

Our Purpose

If they grow, we grow

Contents

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Building

Our purpose is to build market-leading businesses primarily via a franchise model

Supporting

We support our franchisees to successfully grow their businesses and achieve their goals.

Growth

This provides unity behind our purpose and theirs – if they grow, we grow.

Financial & Operational Highlights

Our highlights

Revenue

£99.2m

+72%

2021: £57.7m

Adjusted Earnings Per Share**

8.38p

+51%

2021: 5.55p

Adjusted EBITDA*

£15.3m

+80%

2021: £8.5m

Dividend per Share

2.0p

+33%

2021: 1.50p

Profit Before Tax

£10.3m

+78%

2021: £5.8m

Net Cash***

£8.0m

2021: £6.5m

Operational highlights

Another significant and highly successful year for the Group.

Completion of the transformational acquisition of Filta, bringing an international footprint, a broader range of complementary services and considerably enhanced scale.

Filta International has delivered strong results, ahead of our expectations, driven by the full recovery in its key commercial customer sectors and the elevated price of cooking oil.

Excellent performance of the newly-formed B2B division growing system sales 29% to £90.2m.
- Metro Rod and Metro Plumb system sales increased by 19% to a record £60m.
- Willow Pumps sales increased 16%.
- Significant turnaround in productivity at Filta UK which has been integrated at pace.

B2C Division franchisee recruitment and retention affected by unusual post Covid labour market.

Digital transformation of the business continues to accelerate.

* Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, exchange differences, share-based payment expense and non-recurring items.

** Adjusted EPS is earnings per share before amortisation of acquired intangibles, share-based payment expense, exchange differences and non-recurring items.

*** Net Cash is cash less HP and obligations under leases.

At a Glance

Our leading brands...

B2B

Adjusted EBITDA*	Total franchisees
£9.2m	77

Metro Rod – Commercial drainage experts providing a full range of drainage, tankering and pump services via 42 franchisees with over 50 depots nationwide.

Willow Pumps – A leading pump design, installation and servicing business. Direct Labour Organisation (DLO) which also manages two Metro Rod franchises.

Metro Plumb – Specialist plumbing services, including those to water utilities. 13 stand-alone franchisees. Kemac also operates 5 Metro Plumb territories.

Filta – Complementary services to commercial kitchens. GRUs, fridge and freezer seal replacement, extraction vent cleaning. DLO & 22 Filta Environmental franchisees.

Filta International

Adjusted EBITDA*	Total franchisees
£5.2m	160

Filta – Cooking oil filtration and fryer management services to commercial customers through the FiltaFry service. Franchisees also supply cooking oil to customers and collect used oil, which they sell to be recycled into biodiesel.

133 franchisees in North America, most of which are multi-van operators. 27 franchisees in Europe including 9 in Germany and 18 under Benelex master franchise.

B2C

Adjusted EBITDA*	Total franchisees
£2.6m	349

ChipsAway – LIKE IT NEVER HAPPENED; ovenclean – LESS GRIME. MORE TIME; Barking Mad

Leading home service brands which repair or look after key elements of the home or vehicle. 349 franchisees across three well established brands: ChipsAway, Ovenclean and Barking Mad.

Azura

Adjusted EBITDA*

£0.2m

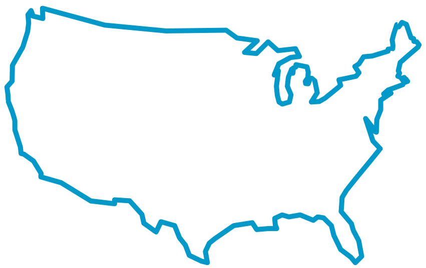
Azura Franchise Technologies

A leading franchise software system developer with over 30 franchise customers.

* Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, exchange differences, share-based payment expense and non-recurring items. EBITDA presented before inter-company management recharges which eliminate on consolidation.

Our international footprint

North America



£67m total sales*

133 franchisees

24 people**

United Kingdom

£116m total sales*

426 franchisees

384 people**

Europe

£3m total sales*

27 franchisees

6 people**

How the services are delivered

FiltaFry cooking oil filtration and fryer management services are provided by 133 franchisees, 130 of which are in the US and three are based in Canada. The franchisees are supported by a central team of 24 people based in Orlando, Florida.

The B2B range of services are delivered by a combination of franchisees and direct labour. 77 franchisees across Metro Rod, Metro Plumb and Filta Environmental provide drainage, plumbing, fryer management and related services. Willow Pumps is a direct labour organisation (“DLO”). The B2C range of home-based services are delivered by 349 franchisees. 115 people work in our Support Centres and 242 in our B2B direct labour organisations.

The core FiltaFry service is delivered via 27 franchisees, in Germany, the Netherlands and Belgium, supported by six people in the support centre.

* Sales to customers by franchisees, corporate and direct labour organisations. Although Franchise Brands acquired Filta in March 2022, the Filta North American and Filta European sales are for the 12 months of 2022.

** People: Full Time Equivalents

Chairman's Statement

Strong performance

"I am pleased to report another significant and highly successful year for the Group. The Group's strong performance was driven by record organic growth at Metro Rod and the newly formed UK B2B division, complemented by the transformational acquisition of Filta Group Holdings plc ("Filta") which has performed ahead of our expectations. This strong performance has been delivered in challenging macro-economic conditions, highlighting the strength, resilience and growing diversification of the business model."

Stephen Hemsley
Executive Chairman

Adjusted EBITDA

£15.3m

Chairman's Statement continued

"These B2B businesses offer substantial potential for future organic growth, supported by the relatively essential nature of the services they provide and the strength and quality of our franchise networks."

Introduction

Our businesses have small shares of their large, yet relatively fragmented markets, where our scale and ability to serve customers through a one-stop range of services is becoming more of a competitive advantage. We have identified multiple levers to help to maximise business potential, underpinned by efficiency-enhancing technology, which will drive sustainable organic growth and operational leverage.

The acquisition of Filta has taken us from a UK-focused company to one with an international footprint. Our ambition is to continue to expand internationally, both organically and by acquisition, with the objective of generating our income equally from the UK, North America and continental Europe. Since the IPO of Franchise Brands in 2016, approximately 50% of our EBITDA growth has been organic and we continue to see this as a key driver for the business.

Corporate Activity and Strategic Review

On 16 February 2022, we announced the agreed terms of a recommended all-share offer to acquire Filta. The offer became wholly unconditional on 10 March 2022 and the acquisition was completed on 1 June 2022.

On 25 May 2022, we announced the early settlement of the earn-out consideration for the 2019 acquisition of Willow Pumps. This has enabled an accelerated programme of integration and harmonisation across the Group's B2B division following the acquisition of the Filta business in the UK, and is facilitating the accelerated expansion of pump services within Metro Rod.

In our year-end trading update on 12 January 2023, we announced a strategic review of the B2C division. While we consider the factors that depressed franchise recruitment and retention in 2022 were transitory, there are greater opportunities for the Group for organic, acquisitive and international growth within the B2B franchise segment.

Our B2B organic and acquisitive growth focus will be on van-based delivery of reactive and planned essential services. The attractions of the B2B sector are that commercial customers typically have a regular recurring need for our services, coupled with a greater average spend and, therefore, higher lifetime value. Franchise Brands has a strong competitive advantage in these sectors given the ability to cross-sell an increasing range of complementary services and develop marketing synergies.

The Group's operational structure is also best suited to developing B2B businesses, in particular where we can leverage our scalable technology to drive efficiency and operational gearing. Finally, B2B franchise businesses are more attractive acquisition targets for us as they tend to be larger, royalty-based, international businesses with greater potential for growth.

In December the Board appointed finnCap Cavendish to seek a buyer for the B2C division, and as a result, we are required to disclose this division as a discontinuing activity within these accounts. However, we continue to operate this division as normal, pending a sale, and indeed expect to see a significant recovery in franchise recruitment in the current year following the slowdown in the second half of 2022. As noted below, this division was 16.7% of Group EBITDA in 2022.

B2B Division

The B2B Division, which includes Metro Rod, Willow Pumps, and the UK business of the newly-acquired Filta group, had an excellent year growing system sales by 29% to £90.2m. Statutory revenue grew by 34% to £71.4m and Adjusted EBITDA by 30% to £9.2m.

Metro Rod and Metro Plumb

Metro Rod and Metro Plumb experienced continued strong momentum in 2022, with system sales growing by 19% to reach £60m in the year. This growth was underpinned by continued progress on initiatives to widen and deepen the services offered by franchisees. Pump sales, which have an average order value nearly five times that of drainage, grew by 80%. This, together with the continued investment by franchisees in tankers, helped drive tanker and pump sales to a record 22% of system sales.

Franchisees experienced strong growth in their businesses, with one of the 42 Metro Rod franchisees exceeding £3m in sales for the first time, another five exceeding £2m in sales (2021: 1), and 27 exceeding £1m in sales (2021: 24). This growth was spread through almost the entire network, with 48 of the 55 Metro Rod and Metro Plumb franchisees growing their businesses (2021: 47 out of 49) and 27 franchisees growing by more than 20% year-on-year (2021: 32).

Chairman's Statement continued

Metro Plumb continued to expand with the recruitment of 6 new stand-alone franchisees bringing the total to 13 at the year-end. System sales (including Kemac which operates 5 Metro Plumb territories) grew by 23% in the year. We continue to focus on the recruitment of more independent Metro Plumb franchisees and broadening the customer base in both the commercial and domestic plumbing sectors.

Willow Pumps

Willow Pumps made an increased contribution in 2022, with total sales growing by 14% to reach £18.2m in the year. This was driven by a strong recovery in supply and installation work which increased by 43% and an 8% increase in service work.

The early settlement of the Willow earn-out consideration enabled greater progress with initiatives between Willow Pumps and Metro Rod to deliver pump services in an optimum way by utilising the Metro Rod depot network. Of Willow Pumps' total revenue, 18.4% (2021: 11.5%) was delivered by the Metro Rod network, demonstrating the acceleration of our cross-selling strategy. It is our objective to further increase the proportion of pump work undertaken by Metro Rod franchisees. As this will move margin between the two businesses, we expect Willow Pumps' profitability to grow more slowly in future years.

Filta UK

The UK business of the Filta group was acquired in March 2022. It delivers a wide range of complementary services, primarily to commercial kitchens, via a combination of a direct labour organisation ("DLO") and franchisees.

These services include: fats, oil and grease (FOG) solutions; cooking oil filtration; fryer management services; extraction vent cleaning and servicing; pump and drainage servicing; and on-site fridge and freezer seal replacement. The services can help commercial kitchen owners to address environmental impact and enforcement; assure health and safety compliance; reduce energy and other operating costs; and improve food quality.

Filta UK has undergone a period of rapid change as part of the creation of the B2B division, with the streamlining of the management structure, the sharing of central services such as health & safety and HR and a refocusing of the business on improving customer service and optimising service delivery.

This has resulted in a significant turnaround in productivity and profitability. We see significant potential to grow these franchise and DLO businesses by expanding their capacity and coverage and enhancing service delivery through our B2B franchise networks. The quality of Filta UK's blue-chip customer base also provides an opportunity to cross-sell many of the other services offered by the B2B division.

Filta International

The North American division of the Filta group, which was acquired in March 2022, has performed strongly and ahead of expectations. This has been driven by the full recovery of its key hospitality customers and the heightened demand for the FiltaFry oil filtration service due to the elevated price of virgin cooking oil, as the FiltaFry technology can double the usable life of the oil. This has also driven the value of used cooking oil, which is collected from customers and sold by Filta North America for reprocessing into biofuel.

As a result, Filta North America system sales increased 51% for the twelve months of 2022 to reach $92m and exited the year with a record sales run-rate of $100m per annum (Franchise Brands only owned the business for approximately ten months in 2022). The additional income generated has been used by many franchisees to expand their businesses by investing in new mobile filtration units ("MFU"), which will further drive both sales and used oil collections in the coming years. Customers are also increasingly valuing the monthly Environmental Impact Reports we provide. These quantify the farming, processing and packaging environmental benefits of extending the life of the oil and detail the additional savings of recycling the oil into biodiesel.

Filta's market penetration is very low and our "maximum potential model" indicates a potential market size of approaching $1bn based on feasible levels of market penetration and average customer spend. We have developed an accelerated expansion plan called "Filta Max" to seek to capture more of this available market. The key drivers are increased investment in sales and marketing and the accelerated development of un-franchised areas (one-third of the US) or under-serviced areas of existing franchised areas. We expect to start seeing the benefits of this investment in 2023.

The small and currently sub-scale Filta operations in Europe have recovered more slowly as a result of the slower reopening of the hospitality sector. Due to the structural differences in the market, with a much lower density of fryers per location, the economics of the European business are on a reduced scale to that of North America. Most franchisees offer the core oil filtration service and limited collection and recycling of used cooking oil, although some are engaged in the servicing of grease recovery units ("GRUs") in commercial kitchens, which we see as an area for future development.

B2C Division

The B2C division, which comprises ChipsAway, Ovenclean and Barking Mad, had a satisfactory level of franchisee recruitment in the first six months of the year. However, as anticipated in my half-year report, recruitment in the second half of the year was weak with only 10 new recruits (H2 2021: 28), bringing the year-end total to 39 recruits (2021: 57), markedly lower than the five-year average of 55. We attribute this to the high levels of employment and wages which have made self-employment a less attractive option, combined with a low level of redundancies during 2022. Since the year-end, there has been a recovery in enquiry levels which is feeding through in improved recruitment in Q1 2023.

Chairman's Statement continued

The reduced level of recruitment has been compounded by slightly higher rates of attrition, but this abated in the second half of the year. The total number of leavers in 2022 was 69 (2021: 64), slightly higher than the five-year average of 65. As a result, the total number of B2C franchisees at the year-end was 349 (2021: 379). The reasons for the attrition are a combination of a return to employment by some franchisees, given the high salary levels on offer in specific sectors, compounded by the post-Covid trends of work-life balance and the so-called "great resignation" that have seen some opt for early retirement.

Underlying trading in the franchise communities of all three brands remains robust, as our generally older and more financially secure customer base is reasonably resilient to the current cost-of-living pressures. Therefore, we believe we have a significant degree of resilience before our franchisees' income would be impacted by any economic downturn.

Azura

In 2021 we acquired Azura, a leading franchise management software system developer, to secure full ownership of the IP in our Vision works management software. We also saw an opportunity to help Azura further develop and market its franchise management software as a service ("SaaS") solution to other franchise businesses. Whilst Franchise Brands continues to be Azura's largest customer, we have added a number of new customers during the year and have refocused the sales effort onto larger brands. We have also been developing a new flagship franchisee recruitment product and have focused on ensuring that we deliver the highest levels of customer service.

Digital Transformation

We continued to accelerate our digital transformation of the business. The acquisition of Azura and its team of embedded developers has helped increase the pace at which new features can be added to our Vision platform. Additional functionality in 2022 included a new customer quotations system, additional self-service features for our "Connect" customer portal, and several invoicing features. This has allowed us to continue to automate an increasing number of processes, reduce costs for both us and our franchisees, improve efficiency and enhance customer service and engineer job satisfaction. Our robotics automation journey has also progressed as we launched our own platform during the year which allows us to increase the levels of automation of job logging, invoicing and email handling. Over the past five years, system sales per Support Centre employee have more than doubled demonstrating how technology is driving operational gearing.

We have also made progress in developing technology-enabled solutions which can help us address business-critical issues. A key focus has been the development of an advanced scheduling tool to improve engineer utilisation and efficiency, a vital requirement in the current tight labour market. Trials have been ongoing during the year and indicate an initial reduction of unproductive, and therefore unbillable, time of 23 minutes per engineer per day, improved working conditions/hours for engineers and improved customer service. This represents a significant amount of additional potential capacity across the Metro Rod and Metro Plumb resource base of over 550 engineers with any incremental sales achieved using this time being at a very high margin, with minimal incremental cost, which will significantly enhance franchisee profitability.

Our technology team has also been reviewing Filta's IT platforms, particularly in the UK DLO, to identify opportunities to automate operational processes and we are looking at areas where Filta's IT platforms might further improve our existing systems.

Outlook

The excellent momentum created in the B2B businesses in 2022 has continued in 2023 to date without any noticeable impact from slowing economic growth or the rising cost of living. We provide mostly essential services, have strong leadership positions in our chosen markets and enduring goodwill from customers as a result of the continuing high quality, reliable service we have delivered over recent years. We have multiple levers to grow market share and maximise growth across our franchise businesses through further investment in sales and marketing, particularly where we have a unique service with relatively little competition, as in the case of Filta in North America, underpinned by efficiency-enhancing technology.

In addition to our organic growth strategy, we are determined to seek to expand the Group through selective acquisitions of van-based B2B franchise businesses that provide essential services. We also wish to expand our international footprint, with the longer-term objective of having a group of franchise businesses that generate their income equally from the UK, North America and continental Europe.

Conclusion

We have had another busy year and have been very pleased to welcome our new Filta colleagues to the Group. There is always something new to learn from the way another business model is executed, and we are certainly exchanging many great new ideas with the Filta team that will benefit the enlarged Group.

I would also like to thank both the franchisees and corporate teams for their hard work and dedication in a year that has seen its challenges, particularly with a difficult franchise recruitment environment in the B2C division and a certain amount of change with the creation of the B2B division.

We look forward to the rest of 2023 with great enthusiasm and confidence and are determined to capitalise on the excellent momentum we have created in 2022 to both continue expanding the business organically and seek further earnings-enhancing acquisitions.

Stephen Hemsley
Executive Chairman
9 March 2023

Business Model

Building market-leading brands

We are focused on building market-leading brands primarily via a franchise model. We support our franchisees to successfully grow their businesses. A key tenet of the business is that if our franchisees grow, we grow.

Business Model continued

Our unique resources

Multi-brand international franchisor
- 6 franchise brands in the UK, North America, and Europe.
- Market-leading brands provide scale.
- We own all our brands.
- 586 franchisees who are the backbone of our business.

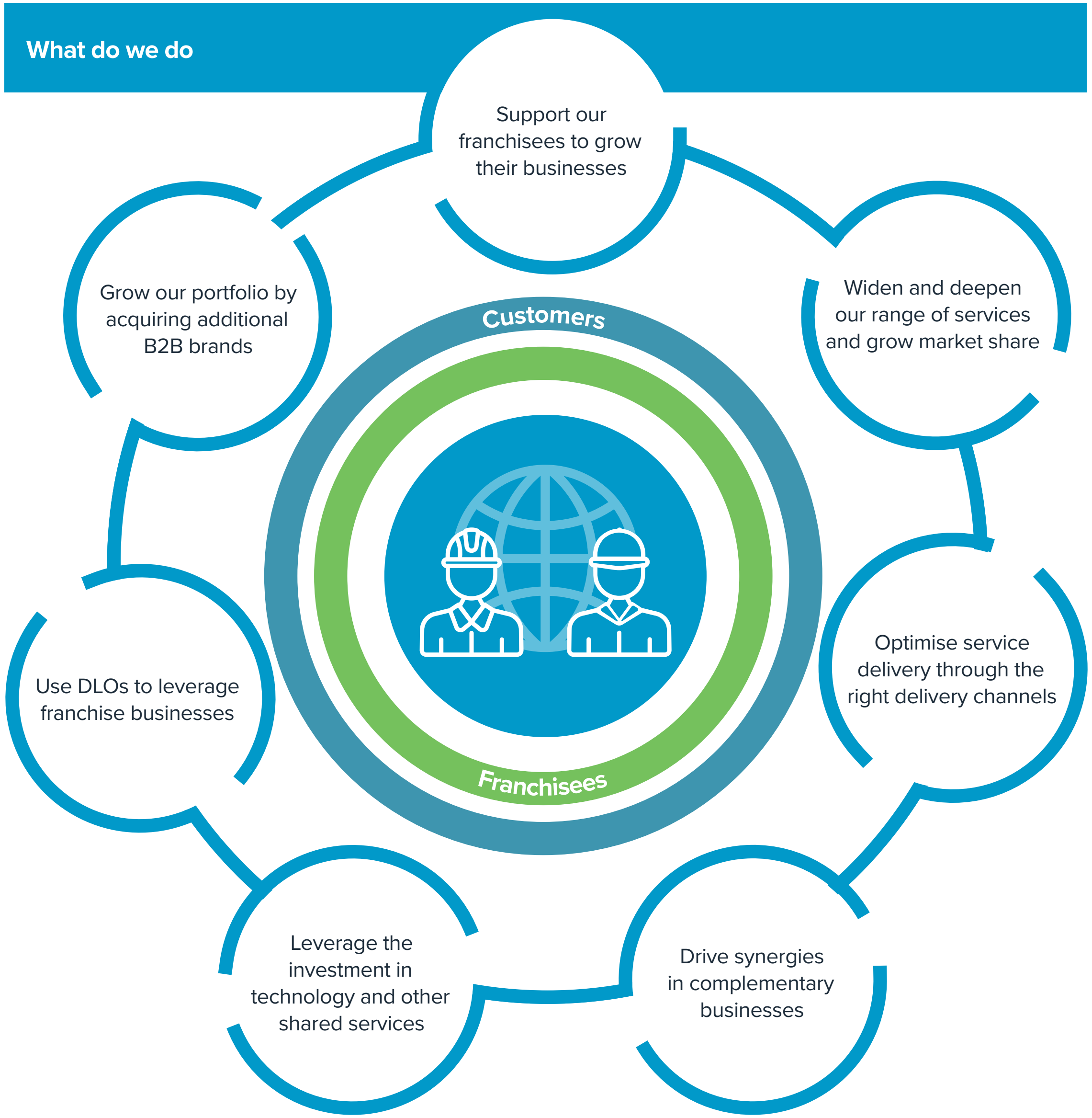
An experienced team
- Highly experienced senior team who are significant shareholders in business.
- More than 400 dedicated team members across the Group who are our most valuable resource.

Technology-enabled business
Digital platform which drives sales, customer experience, productivity and efficiency, and hence operational gearing.

Financial strength
Highly profitable and cash generative with a strong, ungeared balance sheet. Progressive dividend policy.

Strong guiding principles
Five guiding principles that inform the way we work with each other, support our franchisees and serve our customers and communities.

What do we do



The value we create for our stakeholders

Employees
Development opportunities, rewards and recognition. Share options for all qualifying employees.

Franchisees
Support, training, and specialist tools to help franchises grow and build profitable businesses over the long term. If they grow, we grow.

Shareholders
Strong track record of delivering returns to shareholders, share price performance and growing dividend.

Customers and local communities
Passionate about providing the highest possible service to our customers and making a positive contribution to the communities we operate in.

Suppliers
Work in partnership with our suppliers to source the best quality products, equipment, and services.

Strategy

Business building strategy

We build market-leading businesses primarily via a franchise model. Our business-building strategy has five engines of growth.

Supporting our franchisees

We grow our business by enabling our franchisees to grow their businesses: if they grow, we grow. Our support services include sales and marketing support, technology, specialist training, health & safety, invoicing, credit control and mentoring.

Progress in 2022

Metro Rod, Metro Plumb and Filta North America franchisees experienced record system sales in 2022. 27 Metro Rod franchisees grew their businesses by more than 20% year-on-year (2021: 32). 20 Filta North America franchise owners now have turnover of more than $1m (2021: 13) and three have turnover of more than $5m (2021: Zero).

Priorities for 2023

Continue to drive system sales at Metro Rod and Metro Plumb by supporting franchisees to grow. Attract more stand-alone Metro Plumb franchisees. At Filta North America, drive the implementation of the “Filta Max” growth strategy.

Expanding and developing our range of services

We help our franchisees to widen the customer base and deepen their range of complementary services. Offering one-stop services benefits our customers as they can reduce their supply chain. We also cross sell the expanded range of services to existing customers.

Progress in 2022

Pump sales increased by 80% and nearly half the Metro Rod franchisees now offer a full pump servicing capability. The acquisition of Filta has delivered additional complementary services to the B2B division and the opportunity to cross sell all the B2B services to Filta’s customer base.

Priorities for 2023

Continue to expand and develop Metro Rod’s range of services, in particular pump maintenance. The quality of Filta’s customer base provides an opportunity to cross-sell many of the other services offered by the B2B Division and ensure the most economic delivery model.

Strategy continued

Optimising our service delivery

Franchise channels with nationwide servicing capability are ideal for servicing national account customers, whereas DLOs are best placed for specialist, local work, given their more limited number of depots. We use DLOs primarily where we can develop franchise businesses more rapidly and provide specialist services to a complementary customer base.

Progress in 2022

Of Willow Pump's total revenue, 18.4% (2021: 11.5%) was delivered by the Metro Rod network, primarily driven by national account customer work. All Filta drainage work is now carried out by Metro Rod franchisees. 41% of Filta Envrionmental franchisees are now carrying out FOG servicing work.

Priorities for 2023

Continue to drive work from Willow Pumps to the Metro Rod network as more franchisees are able to offer a full pump servicing capability. Continue to look for opportunities to pass work from the DLOs to franchise channels.

Developing a technology platform

We use technology to maximise the potential and efficiency of all our operations. Our digital platform helps enhance customer service and increase sales, improve corporate and franchisee efficiency, thereby facilitating strong operational gearing.

Progress in 2022

Additional functionality to our Vision platform included a new customer quotations system, additional self-service features for our "Connect" customer portal, and several invoicing features. We launched our own platform during the year which allows us to increase the levels of automation of job logging, invoicing and email handling.

Priorities for 2023

Group-wide implementation of the IT Security Policy which includes upgraded Cyber security policies. Further develop the advance scheduling tool to improve engineer utilisation and efficiency. Identify opportunities to automate Filta UK's operational processes.

Growing our portfolio

Targeted acquisitions are a key part of our strategy. Our ambition is to continue to grow our portfolio by acquiring additional B2B brands. Our objective is to generate our income equally from the UK, North America and continental Europe.

Progress in 2022

Completion of the transformational acquisition of Filta in March, bringing an international footprint, a broader range of complementary services and considerably enhanced scale. Filta International has delivered strong results, ahead of our expectations, driven by the full recovery in its key commercial customer sectors and the elevated price of cooking oil.

Priorities for 2023

Continue to integrate recently acquired business. Focus on B2B van-based franchise businesses which provide essential services.

Strategy in Action

Filta Max

Filta is a well-established business of scale specialising in providing fryer management services to commercial kitchens and has huge potential for growth.

- Long trading history
- Little or no competition
- High levels of repeat revenue
- High operational gearing
- System sales run-rate of $100m Q4 2022

filta

Strategy in Action continued

Maximising the potential for Filta in North America

FiltaFry provides a mobile onsite service for the micro-filtration of cooking oil, the cleaning of deep fryers, and full fryer management. These services help customers prolong the life of their cooking oil by micro-filtering out impurities, thus saving money and reducing waste. Filta currently services 8,500 sites in the US per week. However, despite the multiple benefits of the service to customers, and virtually no competition, Filta only services less than 1% of the potential market.

We have analysed the maximum potential for Filta in North America by calculating potential system sales if all franchisees were performing to the level of the best franchisees. Currently, the highest market penetration (of those franchisees with over 50 customers) is 3.9% and the highest average revenue per site is $21,963, with a third of the potential market not being covered by franchise territories. Multiplying out these statistics and assuming full national coverage generates maximum potential revenue of €920m compared to a run-rate at the end of 2022 of $100m.

Currently

Filta US customer base **8,500 sites**

Total potential sites **1.1m**

Less than 1% of the market

Maximum potential model workings

Existing franchisees with more than **50** customers

Highest market penetration **3.9%**

Highest average revenue per site **$21,963**

1/3 of addressable market in territories unsold

$920m
Maximum Potential Revenue

1.1m
Total Potential Sites

Filta Max

Leverage key drivers
Increase market penetration.

Increase revenue per customer.

Attract more top performing franchisees
Filta has one franchisee with turnover of **$9m** and one with turnover of **$7m.**

Upgrade underperforming franchisees
Encourage existing top performing franchisees to buy out. underperforming franchisees. Attract high quality new franchisees.

Procurement of centralised funding for expansion
Leverage the investment made by franchisees with more bulk oil facilities and equipment financing.

Expand corporate team
Grow and strengthen the corporate team, particularly with national account and local sales teams, and in marketing.

Strategy in Action continued

Our B2B growth opportunity

Our well-established B2B brands provide a range of highly complementary, essential services and have significant opportunities for growth.

Defensive growth business

Breadth of services

Cross selling opportunities

Optimising service delivery

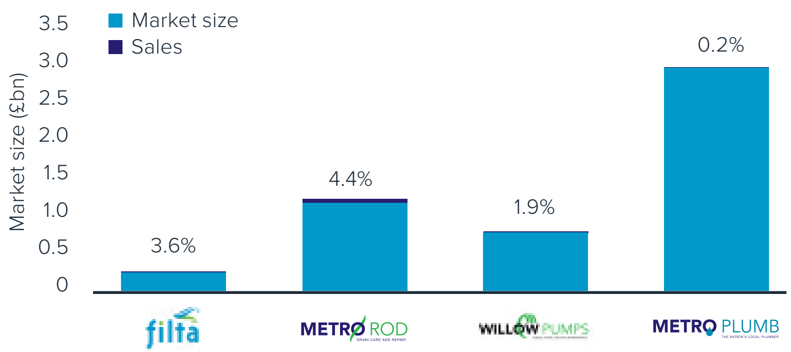
Experienced staff and team

Strategy in Action continued

Our B2B brands have a small share of large, fragmented markets

We are well positioned to capture the significant opportunities for growth.

Market Penetration



Source: Plimsoll, Mintel, internal analysis

Customers

8,500

Jobs per annum

267,000

Overview

We have a small share of the large end markets in which we operate. All our brands have a market share of less than 5% of their chosen markets. Metro Plumb has only a 0.2% share of the large plumbing market where we see a significant opportunity for growth. These end markets are characterised by being highly fragmented, comprised of mainly regional or local competitors, with few able to provide full national coverage.

At a macro level, environmental change is a key growth driver as a result of increasingly stringent legislation. Our businesses support water companies to ensure environmental standards are met. Within our businesses we have multiple levers for growth.

Levers for growth

Our B2B growth strategy has multiple levers for growth.

Cross selling opportunities

The majority of our customers require all of our services.

Enhance franchise delivery

Reduce the dependency on direct labour for certain services.

Focused franchisees, e.g, Plumbing and FOG install.

Further investment in sales

Grow the sales capability, improve processes and leverage technology.

Grow market share of under-penetrated sectors

Drive penetration of attractive sectors such as health care and education where market share is currently low.

Improve territory utilisation

Enhance the penetration of territories that currently have sub-optimal utilisation.

Strategy in Action continued

Delivering operational leverage

Technology and marketing play a key role in driving efficiency, productivity and growth across the group.

- Efficiency and productivity
- Support centres, franchises, technicians
- Increase sales
- Customer experience
- Digital tools

Strategy in Action continued

Technology

Vision and strategy

Our technology vision is to deliver a digital platform that enhances the customer experience, increases sales and improves customer retention. It is also focused on driving operational gearing by improving the efficiency and productivity of our support centres, our franchisees and our engineers.

2022 Deliverables

In 2022 we added several key capabilities. These included an automatic quotation management system (to improve conversion rates) and advanced engineer scheduling tools (to drive efficiency for our franchisees). We also established our own robotics automation platform which helped drive higher levels of automation for job logging, invoicing and email handling.

2023 Priorities

Our priorities are to improve the level of cyber security across the Group in line with the increasing threats, roll out some of the technologies we have developed to our other brands, further develop the advanced scheduling tools with a view to rolling them out across Metro Rod and Metro Plumb. We will continue to improve levels of automation to enhance operational gearing.

Jobs auto logged

31%

Invoices auto created

13%

Emails auto handled

26%

Marketing

Vision and strategy

The Marketing department's primary objective is to generate new customer enquires efficiently and effectively which enables our franchisees to optimise their growth over the long term. A secondary objective is to target prospective franchisees and ensure a healthy pipeline of new franchisees to join the various networks.

2022 Deliverables

We spent c£1.9m split equally between the B2C Division and the B2B Division. In the B2B Division we used digital targeting to help attract a number of large new customers. In our B2C Division, a new TV advert and digital marketing helped deliver some 370,000 new customer enquiries and 5,000 new franchisee enquiries. Visit to Filta US and integration of North America marketing within the Group.

2023 Priorities

Continue to accelerate the efficiency and effectiveness of marketing activity. Work closely with franchisees to optimise growth. We will focus on digital marketing and will deliver four new websites, and dozens of new PPC, email and social campaigns. This will be supported by extensive SEO and PR activity.

Marketing expenditure

£1.9m

Franchisee funded

82%

Spent on media

70%

Filta International Review

Growing system sales

Filta North America performed strongly in 2022, driven by the full recovery in its key commercial customer sectors and the elevated price of cooking oil.

Filta International Review

2022 Performance review

Filta North America

Record system sales growth

Filta North America performed strongly in 2022. System Sales grew 51% to a record $92m for the full year (2021: $61m) and reached a run rate of $100m by the end of the year. This growth was helped by the elevated market price of virgin cooking oil which increased the demand for the service. A future growth opportunity is for franchisees to provide new oil in bulk.

Record system sales growth

The FiltaFry service includes the microfiltration of cooking oil, and full fryer management which can double the usable life of the oil. The service can be performed multiple times per week, depending on the type of cooking and how often the fryers are being used. FiltaFry franchisees carried out over 8,500 weekly services in 2022. Generally, the FiltaFry service takes 12-15 minutes per fryer, so a technician can service up to four fryers per hour.

There are many customer benefits to the FiltaFry service. As well as saving customers money by extending the life of the oil and reducing labour costs by outsourcing the service, employee health and safety is improved, and food quality is enhanced. Customer retention and lifetime value is therefore high. The repeat nature of the service and ability to add vans and MFUs as new customers are taken on generates compounding growth for franchise owners and for Filta.

Recycling of waste oil

Once the cooking oil comes to the end of its life, Filta franchise owners collect the oil and store it at their depots. Customers benefit by not having to store and dispose of the oil themselves. 65 franchisees now have large 6,000 gallon storage facilities at their depots. Filta's Symphony system can identify when a collection is due. Filta arranges for the collection of the oil and sells it to biodiesel plants located around the country to be processed and converted into biodiesel. In 2022, Filta organised for 5m gallons of waste oil to be collected and recycled.

Filta franchise network

Filta is a management franchise, and the model is to partner with the best franchisees in each market and support them to grow their businesses. Filta's head office team based in Orlando helps franchisees grow their sales by securing new national accounts and upselling new products to existing customers.

The Symphony IT system helps automatically invoice national accounts and make payments to franchisees. Its highly developed operational functionality helps franchisees be more efficient by giving them a suite of actionable data to help improve performance.

Jason Sayers
Managing Director, Filta International

Filta encourages successful franchisees to expand into adjacent vacant territories and to acquire underperforming neighbouring territories. In 2022, nine existing franchisees expanded by purchasing additional vacant territories and eight existing franchisees acquired neighbouring businesses. Demonstrating the improving quality of the network, while system sales increased 51% to $92m in 2022, the number of franchisees reduced from 137 to 133. 20 franchisees now have turnover of more than $1m (2021: 13) and three have turnover of more than $5m (2021: zero).

System sales for 2022 (full year)

$92m

Priorities in 2023

FiltaMax Plan Phases 1 and 2
Analysis of top franchisees to determine and share best practice and generate end-to-end operational performance improvements across the network.

Roll out bulk oil system
Enables franchisees to buy oil in bulk with enhanced delivery and storage.

Increase Operations Module Adoption
Allows head office team to track work and provide information to help improve the operational capability for our franchisees.

Roll out of new Inside Sales System
New auto-dialling software system has improved the efficiency of our sales team significantly and we are looking to roll this system more fully.

Franchisee expansion
Encourage successful franchise owners to expand into adjacent vacant territories and to acquire underperforming neighbouring ones.

Filta International Review continued

2022 Performance review continued

Filta Europe

The small and currently sub-scale Filta operations in Europe have recovered more slowly due to the slower reopening of the hospitality sector. Due to the structural differences in the market, the economics of the European business are on a reduced scale to that of North America. Most franchisees offer the core FiltaFry service and limited collection and recycling of used cooking oil, although some are also engaged in GRU servicing.

As in North America, the increased price of new and used cooking oil has helped make the FiltaFry service more attractive and drive growth. Franchisees are investing in new MFUs and vans and while the business is of a small scale, it does present a good platform for future growth.

Priorities in 2023

Drive System Sales

Implement new Inside Sales System

Environmental Impact Report

Increasing attractivness of ESG credentials

ESG is becoming increasingly important to many of our corporate clients, and commercial kitchen operators.

Filta's Environmental Impact Reports quantify the environmental savings from farming, processing and packaging of reusing, rather than disposing of, cooking oil. The reports also detail the additional savings of replacing diesel with biodiesel at the end of the useful life of the cooking oil.

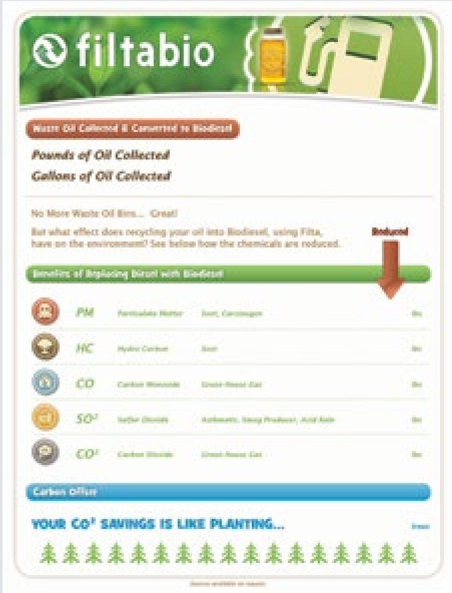
These reports help our customers demonstrate their ESG credentials to their stakeholders. As franchise owners explain the report, they have the opportunity to inform commercial kitchen owners and operators of how cooking oil is created from the seed to the fryer.

Along that journey, facts are given about the process, for example, it takes 1.2 pounds of plastic to create the "jug in a box" packaging. Additionally, franchise owners are able to generate their own, customer specific reports. This road allows commercial kitchens to benchmark their individual results. For example, the carbon offset of saving and collecting 1,000 pounds of oil equates to planting 168 trees.

Filta International Review continued

Environmental benefits of extending life of the oil

This customer report shows the environmental benefits from extending the life of cooking oil, and hence reducing the amount required to be purchased. It analyses the resources required to farm the soybeans (e.g. five gallons of fuel to farm each acre) and to processing the product (e.g. 7kWh of energy for each acre of land). It then sets out the savings from reduced packaging and distribution (e.g. 1.2lb of plastic per jug).



Environmental benefits of recycling into biodiesel

All of Filta's waste oil is sent to be recycled into biodiesel. As such the FiltaBio report shows the customer the calculations of the environmental benefits of using biodiesel as a replacement for regular mineral oil diesel. These benefits include reducing soot, carbon dioxide, carbon monoxide and sulfur dioxide.

Environmental certificate for customers

Filta customers receive a certificate which can be displayed at their sites to demonstrate to their staff, and also their customers, how the Filta services help them with their ESG commitments. Filta has the ability to consolidate the numbers for each National Account so that this data can be used centrally.

B2B Review

Growing our B2B division

The newly-formed B2B Division had an excellent year in 2022 growing system sales by 29%. We have identified multiple levers to help to maximise business potential.

B2B Review continued

Our B2B business

Introduction

2022 saw the formation of the B2B division bringing together Metro Rod, Metro Plumb, Willow Pumps and Filta UK under the leadership of Peter Molloy, Managing Director.

The catalyst for this change was the acquisition of Filta in March 2022 and the May buy-out of the earn-out consideration for the acquisition of Willow Pumps.

The acquisition of Filta significantly expanded the range of services we can deliver. It enables us to provide our customers with a unique proposition where a single supplier can service their "Water In, Waste Out" requirements. An important part of our strategy will be driving cross selling opportunities and leveraging our existing customer relationships to provide additional services.

The B2B division is of significant scale with total system sales of £86m, carrying out over 260,000 jobs per annum delivered by 700 field based engineers servicing over 8,500 customers.

Priorities in 2023

- Centralise shared services, such as HR, technical training, health and safety, across the B2B Division.
- Wherever we can, move self delivered services to our franchisees.
- Expand our customer base and drive sales.

Peter Molloy
Managing Director, B2B Division

METRO ROD DRAIN CARE AND REPAIR

Metro Rod experienced continued momentum in 2022, delivering record system sales. Our strategy of ensuring we can deliver a one-stop range of higher-value services nationwide continues to develop. Franchisees further invested in tankers taking the fleet to 65. This resulted in a 22% increase in tanker sales which exceeded £10m for the first time.

Good progress was also made developing our pump servicing capability. We have continued to train and recruit pump engineers to take advantage of the market opportunities, and 50% of the network now offers a full pump servicing capability. This resource increase saw our pump sales increase by 80% to £2.6m and we serviced over 500 customers.

Our franchisees are seeing the benefit of their investment and subsequent growth in system sales, with 27 (out of 42) franchisees exceeding £1m in sales, five exceeding £2m and one franchisee exceeding £3m in sales for the first time in Metro Rod's history. The average size of a Metro Rod franchisee in 2022 was £1.4m.

We are also continuing to seeing the benefits of our IT investment and refined working practices resulting in a significant increase in system sales per head from £493k to £575k, a 16.5% improvement.

Priorities in 2023

- Drive local sales through the implementation of the recruitment of more local sales persons.
- Drive the expansion of engineer expertise by leveraging the new Macclesfield training facility.
- Accelerate the use of technology to increase productivity, reduce fuel costs and enhance customer service.

B2B at a glance

B2B Sales split 2022

£90m
System sales

METRO ROD
£57m
System sales

METRO PLUMB
£6m
Sales sales

WILLOW PUMPS
£18m
System sales

filta
£9m
System sales

B2B Review continued

METRO PLUMB

THE NATION'S LOCAL PLUMBER

Plumbing is our fastest growing service stream. The increase in the number of ambitious stand-alone Metro Plumb franchises, which grew from seven to thirteen over the year, has been a key driver behind this. Metro Plumb system sales increased by 32% in 2022. Including sales from Kemac, which operates five Metro Plumb franchises, plumbing sales increased by 23%.

We continue to see the plumbing client base expand both nationally and locally. A total of 781 clients used our plumbing service in 2022, an increase of 28% on 2021. We are helping our franchisees to win more local work through sales and marketing support, including highly effective national digital advertising that was launched in 2022. 20% of the sales from our dedicated Metro Plumb franchisees are generated locally, compared with 8% in 2021.

Eight Metro Plumb businesses achieved over £150,000 in sales, and one business achieved sales of over £800,000. We now have over 100 plumbers in the network and 28 of these have specialist skills.

Our strategy of creating independent Metro Plumb franchisees as opposed to having combined Metro Rod and Metro Plumb franchisees is proving successful. We have a strong platform from which to continue the expansion of Metro Plumb.

13

Stand-alone Metro Plumb franchisees

Priorities in 2023

- Grow the number of new stand-alone Metro Plumb franchisees.
- Drive growth in local sales.
- Expand the range of services to include gas plumbing.
- Cross sell plumbing services to existing B2B customers.

WILLOW PUMPS

DESIGN, INSTALLATION & MAINTENANCE

The change in structure following the buy out of the earn-out faciliated an accelerated programme of integration and harmonisation across the B2B division of the Group. This included building on initiatives between Willow Pumps and Metro Rod to deliver pump services in an optimum way and accelerate the expansion of pump expertise and resources in the Metro Rod network.

Kevin Perry, formerly Sales & Marketing Director was promoted to Managing Director and plays a key role in the B2B Division's management team.

Willow Pumps made an increased contribution in 2022, with total sales growing by 16% to reach £15.9m in the year. This was driven by a strong recovery in supply and installation ("S&I") work which increased 43% and an 8% increase in the service work. The increase in S&I work was the result of a focus on smaller packaged pump stations with a shorter lead time. During the year Willow Pumps carried out nearly 6,000 pre-planned maintenance service jobs and nearly 10,000 quoted and reactive service jobs.

Of the total revenue, 18.4% (2021: 11.5%) was delivered by the Metro Rod network, primarily driven by national account work demonstrating the acceleration of our cross-selling strategy. During the year, Willow Pumps invested over 160 training days via a dedicated training team to upskill drainage engineers across 18 Metro Rod franchises.

18.4%

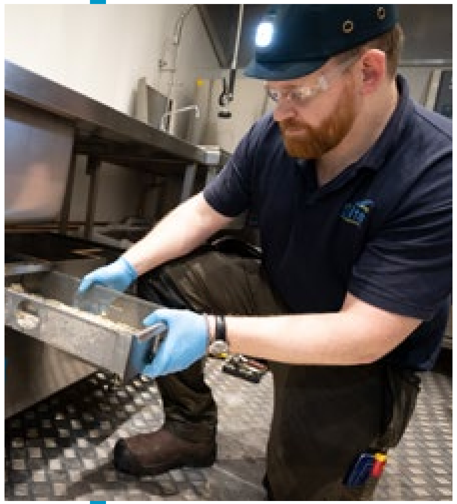
Total revenue delivered by Metro Rod

Priorities in 2023

- Accelerate the expansion of pump expertise and sales at Metro Rod.
- Expand the customer base.
- Utilise the resources of the wider Group and drive operational gearing.
- Enter new markets via our new framework projects division working with new strategic customers.

B2B Review continued

"A number of the service streams have untapped potential, in particular, FiltaSeal our unique on-site fridge and freezer seal replacement business."



Filta delivers a wide range of complementary services, primarily to commercial kitchens, via a combination of a DLO and franchisees.

These services include: on-site fridge and freezer seal replacement (FiltaSeal); FOG solutions; extraction vent cleaning and servicing (FiltaVent); pump and drainage servicing; cooking oil filtration; and fryer management services (Filta Environmental).

Filta UK has undergone a period of rapid change as part of the newly-formed B2B division. These changes include the streamlining of management, the sharing of central services and a refocusing of the business to improve customer service and optimise service delivery. This has resulted in a significant turnaround in productivity and profitability. Revenue increased 25% for the year as a whole to £10.8m.

The number of jobs carried out in 2022 increased 14% to 36,275. Services were delivered to 1,179 customers across a range of sectors in particular supermarkets, restaurants, offices and care homes. The quality of Filta's customer base provides an opportunity to cross-sell many of the other services offered by the B2B Division and ensure the most economic delivery model.

All drainage is now delivered through Metro Rod, with drainage sales increasing 70% year-on-year. FiltaPump has benefited from sharing resources with Willow Pumps.

The Filta Environmental franchise has been revitatlised under the leadership of a new Franchise Manager. The range of services provided by franchisees has extended to FOG pre-planned maintenance, with 41% of franchisees carrying out this more profitable work by the end of 2022. To support this growth, we invested significantly in training and upskilling franchisees. One new franchisee joined the network in 2022 and a pipeline of new franchisees has been built.

A number of our service streams have untapped potential. FiltaSeal, by which fridge and freezer seals are custom manufactured on-site by one of our technicians, has a very small market share. We are also encouraged by the potential of FiltaVent, which sprays biological enzymes directly into the ventilation system. The endorsement in 2022 by several blue chip customers combined with TR19-required standards by the insurance industry, gives us confidence that FiltaVent will continue to build on its initial success.

Increase in revenue in 2022

25%

Jobs attended in 2022

36,275

Priorities in 2023

- Drive sales of Filta services to new customers and cross-sell B2B Division services.
- Grow Filta Environmental franchise network by attracting new franchisees and increasing the range of services provided.
- Further optimise service delivery and productivity by leveraging the resources of the B2B Division.

B2C Review

Resilient performance

B2C division franchisee recruitment and retention was affected by the unusual labour market and post-Covid employment trends, however, underlying franchisee trading was robust.

B2C Review continued

2022 Performance review

Number of franchisees
349

EBITDA*
£2.6m

Number of consumer leads generated for franchisees
370,000

Franchisee recruitment and retention in 2022 was affected by the unusual labour market and post-Covid employment trends. Recruitment in the second half of the year was weak bringing the year-end total to 39 recruits (2021: 57). A combination of high levels of employment and wages which made self-employment a less attractive option, together with a low level of redundancies during 2022, were contributing factors.

The number of leavers was 69 (2021: 64), slightly higher than the five-year average of 65. We attribute this to a return to employment by some franchisees who were attracted by the high salary levels on offer in specific sectors. The post-Covid 2022 trends of work-life balance and the so-called "great resignation" that have seen some opt for early retirement were also contributing factors. As a result, the total number of B2C franchisees at the year-end was 349 (2021: 379).

Underlying trading in the franchise communities of all three brands remained robust, as our generally older and more financially secure customer base is reasonably resilient to the current cost-of-living pressures. The average turnover of a ChipsAway franchisee increased 18% to £92,547 (2021: £78,319).

Our franchisees continued to benefit from a substantial quantity of leads which are generated by our national marketing activity. The team delivered 370,000 consumer leads during 2022 which saw the launch of a new ChipsAway TV advert. We also worked with over 20 social media influencers to drive Ovenclean enquiries.

ChipsAway continues to be our largest brand, generating 76% of the B2C Divisions' EBITDA (2021: 84%). 51% of our revenue was from MSF income (2021: 47%).

ChipsAway LIKE IT NEVER HAPPENED

ovenclean LESS GRIME, MORE TIME

Barking Mad Happy Dog. Happy Holiday. Happy You.

* EBITDA presented before inter-company management recharges which eliminate on consolidation

Priorities in 2023

ChipsAway
- Integrate AI into ChipsAway website to enable the automatic triage of damage from customers photographs.
- Launch ADAS training together with Thatcham Research.

Ovenclean
- Test online booking portal to improve customer user experience.

Barking Mad
- Focus on helping franchisees recruit more host families.

Tim Harris
Managing Director, B2C Division

Working Responsibly

Our guiding principles

We demand integrity

We are professional in everything we do and treat people with respect.

We empower people

We empower our people and expect them to take ownership of a situation and to be accountable for their actions and the results they generate.

We are fair

We consider that fairness and transparency are essential to creating high-trust working relationships with each other, and with our franchisees, partners, suppliers, and customers.

We challenge ourselves

We set high standards, are demanding of ourselves, are prepared to challenge the norm and have a relentless focus on continuous improvement.

We work as a team

We place a huge amount of importance on teamwork between our colleagues and our franchisees to create a dynamic business.

Working Responsibly continued

Overview

Working responsibly is an imperative and we want to do what we can to contribute to a more sustainable future. Our focus is on developing a business that builds economic and social value and protects our environment in everything we do. Our goal is create an inclusive, fair and rewarding environment where our colleagues and franchisees can thrive. We also want to have a positive impact on the communities in which we work and live, and operate to the highest standards of integrity, transparency and accountability. We acknowledge the significant risk posed by climate change and are committed to reducing our environmental impact wherever we can.

UN goal:	How we principally contribute:
Good health and wellbeing	– Mental Health First Aiders training. – Employee assistance programme for all staff. – Highly developed health and safety processes and training. Flexible working arrangements.
Gender equality	– High proportion of females in our Support Centres: 60% in Metro Rod and 62% in B2C. – Leadership development opportunities for female managers.
Decent work and economic growth	– Development opportunities, rewards and recognition. Share options for 100% of qualifying employees. – Create local employment in the community. – Opportunities through apprenticeship scheme.
Sustainable cities and communities	– High standards of quality and sustainability, enhanced by Filta Environmental services. – Manage and commitment to reduce environmental impact. – Accreditations and certifications.

Julia Choudhury
Corporate Development Director

Our approach to ESG

In 2022, we made good progress on our ESG journey. We refined our framework around three pillars: environment, social and governance to help drive and measure progress and embed sustainability considerations into our decision making.

In March 2022, we acquired Filta, a business fully committed to sustainability. Filta's services are intrinsically environmentally positive, providing benefits to their customers through reducing their carbon footprint and reducing their waste. With our extended range of services, we have also identified additional UN Sustainable Development Goals to contribute to, and these are set out on page 32.

Helping our franchisees and employees work more responsibly

Environment

- Reduce, Re-Use, Recycle.
- High quality and sustainable service delivery.
- Education and training.
- Environmental Impact Reports for Filta customers.

Social

- Creating local employment.
- Apprenticeships and work experience.
- Contribution to community projects, charities and activities.

Governance

- Upholding high standards.
- Being transparent.
- Being accountable.

Working Responsibly continued

Social

A great working environment

Our commitment to diversity and inclusion

We believe in the importance of creating and maintaining a diverse and inclusive working environment where team members feel welcome and can be themselves. We are committed to promoting equality of opportunity for all our people and those seeking to join the Franchise Brands family. We aim to create a working environment in which all individuals are able to make best use of their skills, free from discrimination or harassment, and in which all decisions are based on merit.

Gender pay gap

We reward our people fairly. This includes upholding equal pay. As part of our commitment to be an Employer of Choice we report on our Gender Pay Gap. Our gender pay gap in 2022 was 28% (2021: 27%). Our gender pay gap is due largely to the nature of our business with predominantly male engineers who command a higher salary than office workers, the fact we have fewer women in senior management. The ratio between our top salary and bottom salary is 11x (2021: 8x).

Share ownership

Our strong ownership culture is one of the keys to our success and we offer share options to everyone in the Group. This principle is extended to all the businesses we acquire.

Women in the business

We continue to be proud of the number of women we have in the business, particularly in our Support Centres. We also have a growing number of women in management positions across the business.

At 31 December 2022	Total number of FTE* employees	% of male employees	% of female employees
Metro Rod Support Centre	97	40%	60%
B2B DLO and corporate franchises	242	79%	21%
B2C Division Support Centre	18	38%	62%
Filta International	30	76%	24%
Azura	17	85%	15%
Franchise Brands plc	10	90%	10%
Total:	**414**	**69%**	**31%**

* Full time equivalent

Employee benefits and engagement

In 2022, we widened our range of employee benefits, which have been well received by colleagues:

- We rolled out a company-wide employee benefits platform to all directly employed staff within the UK. The digital platform allows staff to benefit from discounts on a range of products and services, from grocery shopping to holidays and electrical goods. This offering was particularly welcome in light of the cost of living crisis.
- We are supporting employees to transition to electric vehicles with the commitment to an EV salary sacrifice scheme, allowing directly employed colleagues to access attractive vehicle lease deals.
- We introduced a cycle to work salary sacrifice scheme, allowing staff to benefit from a new bicycle and associated equipment in an affordable manner that is both tax-efficient and spreads the payments.
- Free EV chargers at Support Centres.

Flexible working

Building on the success of home working during the Covid-19 pandemic we have retained a range of options – both contractual and informal – for working remotely, The effectiveness of this is borne out by our improved customer experience and contact centre statistics, not to mention the health, wellbeing and morale of colleagues, who appreciate the opportunity to work more flexibly.

Health and Wellbeing

We have a number of established initiatives to support health and wellbeing, particularly around mental health, through our Mental Health First Aiders programme. Our Employee Assistance Programme is a valued resource and we continue to provide localised occupational health support to those in need – ranging from physiotherapy to psychotherapy. We also work closely with any colleagues who develop progressive or chronic illnesses, ensuring that we review and make reasonable adjustments to their role and environment to deliver a better quality of working life.

Julian Mason
Group Head of HR

Working Responsibly continued

Social

Developing leaders

Steve Chambers
Head of Franchise Operations

"I joined Metro Rod in 2013, in the contact centre answering the phones. I thought it would be a temporary role but I started to get quite involved, and when a position for call centre supervisor came up I applied. I started dealing with a lot more of the franchising side of the business, talking to franchisees and sorting out issues and escalations. I really enjoyed problem solving.

After a short-term role in the Operations team I was approached by the Franchise Director to be an Operations Manager under his guidance. The role involved taking over the management of all subcontractors and we realised that we could quickly turn around this loss making activity by franchising elements of the work, restructuring the contractor relationships and making sure the work was being carried out on sound commercial terms for us and the customers.

When Metro Rod was acquired by Franchise Brands in 2017, I saw the potential and really embraced Franchise Brands' plans for the business under the Vision 2023 strategy to support and empower franchisees. There was a huge opportunity to work more collaboratively with the franchisees.

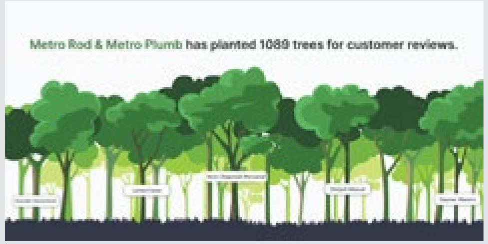
I was promoted to Head of Franchise Operations in 2020, covering franchise sales, health and safety and the whole operations of Metro Rod. I wanted to completely change the engagement with Metro Rod and Metro Plumb franchisees, to make this more positive and encouraging, focusing on solutions and learning opportunities rather than on things that might have gone wrong.

I really enjoy engaging with franchisees on a daily basis, persuading them to hire that extra person, buy that extra van and reassuring them that it will be okay if they follow our principles in franchising.

Last year I introduced a way to recognise franchisees who do well. The first week of the month I spend a day contacting all the franchisees who had their best month ever to say well done and to buy lunch for their entire team. It's a small gesture but they really appreciate it and it motivates them.

My career has excelled beyond anything I could have imagined. I didn't do well in school, so it's been amazing being able to work with supportive colleagues who mentor and coach me. I'm given the opportunity to try things out. I have some mad ideas, but it's not often I'm told no, and there's someone always at the end of the phone if I need support.

The business has really invested in my development. I recently became a Qualified Franchise Professional (QFP). Last year I completed a Directors' course where I got to meet senior people from different companies and to learn about different aspects of business such as finance and marketing, and how to engage with different people. I use what I learned about leadership to help franchisees and also my team to develop".



Tree planting

Metro Rod and Metro Plumb work in partnership with ReviewForest and their planting partner Eden Reforestation Project to provide a positive environmental impact to combat climate change and biodiversity loss.

Through this partnership, a tree is planted for each Google review received. Having originally launched in 2021, this project now runs across our entire Metro Rod and Metro Plumb franchise networks and Willow Pumps. it will shortly be rolled out at Filta in the UK. To date, we have planted over 1,000 trees which is the equivalent of removing 26 tonnes of CO_2 per year, once the trees mature.

Working Responsibly continued

Helping our customers meet their environmental obligations

Our services provide a number of important environmental benefits to customers in particular through reducing their carbon footprint and reducing their waste.

Metro Plumb

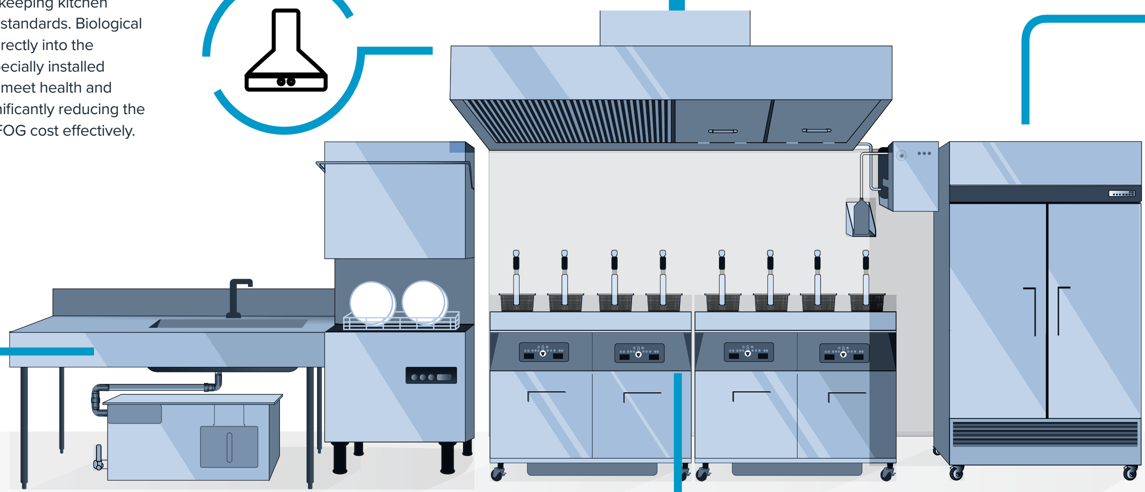
Specialist plumbing services

Metro Plumb contributes by installing units which increase water pressure to sinks and reduce water usage. Tankless water heaters and the insulation of hot water pipes can improve energy efficiency and reduce emissions. Metro Plumb is also able to reactively repair leaks on pipework to reduce water leakage and waste.

FiltaVent

Automated extraction cleaning system

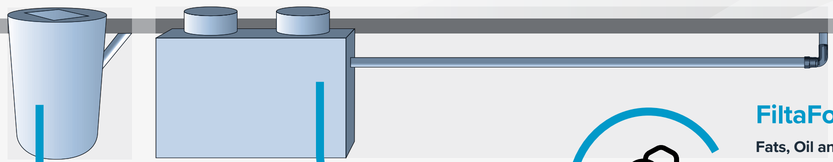
FiltaVent contributes to keeping kitchen ductwork clean to TR19 standards. Biological enzymes are sprayed directly into the ventilation system by specially installed nozzles. FiltaVent helps meet health and safety standards by significantly reducing the accumulation of waste FOG cost effectively.



FiltaSeal

Fridge and freezer seal replacement service

FiltaSeal is an on-site supply and fitting service for any commercial fridge and freezer door seal at a competitive price. FiltaSeal delivers health and safety compliance and energy efficiency (and therefore carbon) savings.



Metro Rod & Willow Pumps

Full range of drainage and pump services

Metro Rod and Willow Pumps contribute to the environment by ensuring that drains and pumps are regularly serviced, kept clear and running smoothly. This decreases the risk of environmental impact if drains and pumps become clogged and over spill. The servicing of the pumps also ensures that they are running at full capacity to derive maximum energy efficiency.

FiltaFog

Fats, Oil and Grease management

FiltaFOG's Cyclone delivers effective FOG management whilst using significantly less energy than alternative GRUs. It helps prevent drain and sewer blockages which can lead to wastewater flooding and environmental harm. FiltaFOG helps our customers comply with legislation.

Filta Environmental

Cooking oil filtration and fryer management

FiltaFry helps our customers prolong the life of the cooking oil by micro-filtering impurities out of the oil thus saving money and reducing waste. Employee safety is increased and food quality improves. Filta then collects waste oil, which is then sold to be recycled into biodiesel, a low carbon fuel. In 2022, Filta recycled 5m gallons of waste oil into biodiesel.

Working Responsibly continued

Environmental

Priorities in 2023

Approach and Performance

We acknowledge the significant environmental risk posed by climate change and are committed to reducing our environmental impact. This is the third year we have reported Scope 1, 2 and 3 GHG emissions and we have identified measures to help tackle our top three high emitting areas of liquid fuels, fuel used within road travel, and electricity use.

Actions Taken in 2022

We installed electric charging points at our Support Centres and made electric pool cars available to our people. We also developed and trialled a scheduling tool to improve labour utilisation and efficiency which is helping reduce mileage and fuel consumption.

Activities Planned for 2023

Further development of the labour scheduling tool which has the potential to be rolled out across all our networks. We will be running a campaign on safe, and fuel-efficient driving ("SAFED") across the group and will hope to improve miles per gallon across all vehicles and improve road safety. We continue monitoring the viability of electric and hybrid vehicles and equipment.

Franchise Brands plc Streamlined Energy and Carbon Reporting 2022

This is the third year we have reported our emissions formally in-line with the UK Government's Streamlined Energy and Carbon Reporting ("SECR") legislation. This SECR report reflects the period 1 January 2022 – 31 December 2022. The 2020 and 2021 data points have also been included in this report to allow for a direct year-on-year comparison.

Methodology

Franchise Brands was responsible for the internal management controls governing the data collection process. Compare Your Footprint and Green Element were responsible for the data aggregation, any estimations and extrapolations applied (as required), the Greenhouse Gas Protocol ("GHG") calculations and the resultant emissions statements.

Greenhouse gas emissions were calculated according to the GHG Corporate Greenhouse Gas Accounting and Reporting Standard. This standard is internationally accepted as best practice. The figures were calculated using UK Government 2022 carbon factors, expressed as tonnes of carbon dioxide equivalent ("tCO_2e").

Scope and Subject Matter

The report includes the sources of environmental impact under the operational control of Franchise Brands plc.

Greenhouse Gas sources included in the process:

GHG Protocol Category	Data Source
Scope 1: Fuel used in Company vehicles, natural gas (boilers), diesel for electricity generation, other fuels	Natural gas consumption was reported in one of two ways: kWh and spend in GBP. Those in spend were converted into kWh, using the average price per kWh in 2022 (6.39p/kWh in the UK, 11.0p/kWh in the Netherlands). Companies reported their fuels used in company vehicles in one of three metrics: spend, litres or mileage. For example, mileage in a diesel company car was converted to litres under the assumption that for an average car, one litre of diesel covered 2.83 miles (derived from DEFRA). For petrol cars, spend on fuel was converted to litres using the average fuel price of unleaded petrol per litre in 2022: 165.06p in the UK and 66.00p in the US. Meanwhile, for diesel cars, spend on fuel was converted to litres using the average fuel price of unleaded petrol per litre in 2022: 178.13p in the UK and 91.00p in the US. Litres of both fuels were converted to kWh using 2022 conversion factors calculated by DEFRA.
Scope 2: Purchased electricity*	Companies provided their 2022 annual electricity consumption in kWh. Only two companies (Azura & Filta US) did not provide a kWh and instead only provided a total spend. To convert the spend into kWh, the average cost per kWh in the UK and US (respectively) in 2022 was used. According to the Department for Business, Energy & Industrial Strategy (BEIS) and the Energy Guide, the average cost for standard electricity in the UK in 2022 was 18.9 p/kWh. In the US, the average cost in 2022 was 12.2p/kWh according to the U.S. Energy Information Administration.
Scope 3: Fuel used for business travel in employee owned or hired vehicles	Many Franchise Brands companies utilise leased or employee-owned vehicles for business travel. Expensed mileage in employee-owned or rental vehicles was reported in a spend format rather than by consumption (e.g. litres of fuel or distance). The reimbursement rate of 45p per mile was utilised to convert the spend to distance, which was then converted into kWh using 2022 conversion factors calculated by DEFRA. Companies reported fuels used in leased vehicles either in a spend format or in litres. When the data was only provided in a spend format, the average fuel price per litre in 2022 was used to convert the spend into litres. In 2022 the average price per litre of diesel was 178.13p in the UK and 91.00p in the US. Meanwhile, the average price per litre of unleaded petrol in 2022 was 165.06p in the UK and 66.45p in the US. Litres were converted to kWh using 2022 conversion factors provided by DEFRA.

* Dual reporting of electricity emissions have been presented in line with the GHG Protocol.

The Kyoto Protocol seven groups of GHGs are included in the emissions calculations: CO_2, N_2O, CH_4, HFCs, PFCs, SF_6, and NF_3. The greenhouse gas emissions were calculated using UK government 2022 conversion factors, expressed as tonnes of carbon dioxide equivalent ("tCO_2e").

Working Responsibly continued

Environmental

Franchise Brands Year-on-Year Energy and Greenhouse Gas Performance

Location	2020	2021	2022 Global Total	2021 to 2022 % Change
	Franchise Brands was UK only in 2020 and 2021			
Energy consumption: (kWh)				
– Electricity	460,927	335,859	**587,263**	74.9%
– Gas	133,507	189,632	**168,610**	(11.1%)
– Transport fuel	5,045,390	5,952,495	**11,417,733**	91.8%
– Other fuels	39,609	40,199	**20,700**	(48.5%)
Total energy consumption	5,679,433	6,518,185	**12,194,306**	87.1%
GHG Emissions (tCO_2e)				
Scope 1				
Emissions from combustion of gas in buildings	24.50	34.70	**30.78**	(11.3%)
Emissions from heating oil	9.70	9.90	**5.08**	(48.7%)
Emissions from combustion of fuel for transport purposes	895.70	1,138.20	**2,523.16**	121.7%
Scope 2				
Emissions from purchased electricity – Location Based	107.50	71.30	**137.61**	93.0%
Emissions from purchased electricity – Market Based	–	–	**251.85**	–
Scope 1 & 2				
Total Scope 1+2 emissions – Location Based	1,037.40	1,254.10	**2,696.63**	115.0%
Total Scope 1+2 emissions – Market Based	–	–	**2,810.87**	–
Scope 3				
Category 6: Business travel (Emissions from business travel in rental cars or employee vehicles where company is responsible for purchasing the fuel)	118.40	271.30	**437.10**	61.1%
Category 3: Emissions from upstream transport and distribution losses and excavation and transport of fuels not included in Scope 1 – Location Based	274.10	378.50	**786.38**	107.8%
Category 3: Emissions from upstream transport and distribution losses and excavation and transport of fuels not included in Scope 1 – Market Based	–	–	**798.75**	–
Total emissions – Location Based	1,429.90	1,903.90	**3,920.11**	105.9%
Total emissions – Market Based	–	–	**4,046.72**	–
Intensity (tCO_2e / £ million EBITDA)				
EBITDA £m	6.64	8.47	**15.28**	80.1%
Intensity ratio: tCO_2e / £m (location based)	215.3	224.7	**256.87**	14.3%
Intensity ratio: tCO_2e / £m (market based)	–	–	**265.17**	–

Methodology: GHG Protocol Corporate Accounting and Reporting Standard
Calculated and verified as accurate by Green Element Limited and Compare Your Footprint Limited, UK

Energy efficiency actions

Over the financial year 1st January 2022 to 31st December 2022, Franchise Brands has implemented several energy efficiency measures across all of its companies. These include:

Franchise Brands plc

- Franchise Brands offers flexible and home working contracts to allow people to work from home.
- The widespread use of cloud-based team collaboration software helps reduce business travel.
- The group signed up to a salary sacrifice scheme which supports employees to lease electric vehicles and transition from fossil fuel-based vehicles.

B2B

- Metro Rod provided an electric pool car to staff for business travel and installed charging points.

B2C

- Installation of electric charging points and low energy lighting at B2C Support Centre.

Filta International

- Filta's Orlando Support Centre participates in Duke Energy's Shared Solar programme which allows it to support clean energy.

Azura

- Azura predominantly operates a remote working model. The use of video conferencing technology reduces business travel and saves energy.

Franchise Brands will continue to measure Scope 1, 2 and aspects of Scope 3 emissions over the next reporting year. The Group is looking to continue to improve energy efficiency throughout 2023 and beyond.

Working Responsibly continued

Stakeholders and S172

Our commitment to S172 and stakeholder engagement

As a progressive, principle-led Group, we are committed to working in partnership with all our stakeholders. We place particular importance on directly engaging and collaborating with our employees, franchisees, customers, suppliers and shareholders.

Stakeholders	Importance of stakeholder to the Group	How we engaged
Employees	Our committed and dedicated employees are our most important resource. They play a key role in supporting our franchisees and helping provide them with the tools they need to grow their businesses. We aim to cultivate and maintain a positive working environment and provide learning and development opportunities, recognition and rewards.	– Presentations, forums, visits, webinars, social and charity events, updates, communications bulletins. – Visits by senior management to Filta businesses. – Providing support for hybrid and flexible working. – Share options granted and exercised.
Franchisees	Our franchisees are the very backbone of the Group and it is their commitment, hard work and entrepreneurialism that helps us grow our business. Our teams provide all the support and development they need to grow their businesses and maintain the highest brand and operational standards.	– Conferences and award dinners for Metro Rod, Metro Plumb, Filta and ChipsAway franchisees. – Regional meetings, one on one meetings, franchisee forums, calls, webinars, franchisee visits. – New “Together we’re stronger” podcast.
Shareholders	Our shareholders support the long-term growth of the Group. We rely on them to finance our development and growth plans. Engaging with them regularly to communicate progress, understand their perspectives, discuss long-term issues and ensure feedback is taken into account is critical to the long-term success of the Group.	– Annual Report, Interim Report, trading updates, regular meetings and calls with institutions. – Regular engagement on the Proactive Investors digital platform. – UK Investor Show and Mello presentations in person.
Customers and local communities	We are passionate about providing the highest possible customer service. Understanding the needs of our customers, evaluating our performance delivery against KPIs and evaluating feedback helps us to continually improve. We are committed to making a positive contribution to the communities we work in.	– Meetings, reviews, calls, surveys, performance ratings. – Our “Connect” portal allows customers to self serve. – Customer and industry conferences and seminars. – Extensive community initiatives including school. engagement, sports sponsorships, charitable causes.
Suppliers	Our suppliers provide us and our franchisees with the highest possible quality of products, equipment and services. This allows us to deliver a first class service to our customers. Regular reviews take place to ensure a supply chain free of slavery and human trafficking.	– Supplier expos at franchise conferences. – Demonstrations and site visits. – Expansion of Metro Plumb supplier relationships. – Introduced new suppliers to franchise networks.

Financial Review

Andrew Mallows
Interim Chief Financial Officer

Increase in full year dividend

33%

"The Board is pleased to propose a final dividend of 1.1 pence per share. This takes the total dividend for the year to 2.0 pence per share, an increase of 33%"

The Group's results include a maiden contribution from Filta for the approximately ten-month period since the acquisition in March 2022 and the first full year of Azura which was acquired in November 2021. Following a strategic review, we are required to disclose this division (B2C) as a discontinuing activity within these accounts.

Systems sales, which comprise the underlying sales of our franchisees and the statutory sales of the DLOs, grew by 99% to £186.4m (2021: £93.6m). System sales is a KPI of the business as it is considered to be a better indicator of the operating activity of the business than statutory revenue as it is the main driver of our MSF income and DLO margin.

Statutory revenue, which is made up of many different types of revenue, some recorded on a gross basis and others on a net basis from franchisees, increased by 72% to £99.2m in the period (2021: £57.7m). This also impacts gross profit as a KPI, as some items included within statutory revenue, such as National Advertising Fund ("NAF") contributions, have no cost of sales and therefore have a 100% gross margin even though all costs are included within overheads and the Group makes no profit on this "income". The relevant KPI is analysed in detail when considering each business.

Initial cost savings made in the integration of Filta and the continued efficiency gains arising from the digital enablement of the business has resulted in overheads increasing by only 54%, approximately half the growth in system sales, which has, in turn, driven an 80% increase in Adjusted EBITDA, which is the most important KPI in the business, to a record £15.3m (2021: £8.5m).

Financial Review continued

SUMMARY STATEMENT OF INCOME

	2022 Continuing Operations £'000	2022 Discontinuing Operations £'000	2022 £'000	2021 Continuing Operations £'000	2021 Discontinuing Operations £'000	2021 £'000	Change £'000	Change %
System sales	**160,580**	**25,773**	**186,353**	**69,978**	**23,593**	**93,571**	**92,782**	**99%**
Revenue	**92,729**	**6,423**	**99,152**	**51,262**	**6,427**	**57,690**	**41,462**	**72%**
Cost of sales	(61,936)	(1,251)	(63,187)	(34,396)	(1,368)	(35,763)	(27,424)	77%
Gross profit	**30,793**	**5,172**	**35,965**	**16,867**	**5,060**	**21,926**	**14,039**	**64%**
Administrative expenses	(18,066)	(2,618)	(20,684)	(11,031)	(2,422)	(13,453)	(7,231)	54%
Adjusted EBITDA	**12,727**	**2,554**	**15,281**	**5,836**	**2,638**	**8,474**	**6,807**	**80%**
Depreciation & amortisation of software	(2,093)	(188)	(2,281)	(1,555)	(162)	(1,717)	(564)	33%
Finance expense	(221)	(14)	(235)	(283)	(10)	(292)	57	(20%)
Foreign exchange	28	–	28	–	–	–	28	100%
Adjusted profit before tax	**10,441**	**2,352**	**12,793**	**3,998**	**2,466**	**6,464**	**6,329**	**98%**
Tax expense	(2,151)	(409)	(2,560)	(791)	(363)	(1,154)	(1,406)	122%
Adjusted profit after tax	**8,290**	**1,943**	**10,233**	**3,207**	**2,103**	**5,310**	**4,923**	**93%**
Amortisation of acquired intangibles	(1,504)	–	(1,504)	(393)	–	(393)	(1,111)	–
Share-based payment expense	(510)	(25)	(535)	(302)	(32)	(334)	(201)	–
Non-recurring costs	(1,708)	–	(1,708)	(187)	–	(187)	(1,521)	–
Other gains and losses	1,232	–	1,232	223	–	223	1,009	–
Tax on adjusting items	595	5	600	(391)	4	(387)	987	–
Statutory profit after tax	**6,395**	**1,923**	**8,318**	**2,159**	**2,075**	**4,233**	**4,085**	**97%**

DIVISIONAL TRADING RESULTS

Following the acquisition of Filta the decision was taken to consolidate all the UK B2B businesses into a new division to reflect the management responsibilities. The divisional trading results may therefore be analysed as follows:

	B2B £'000	Filta Intl £'000	B2C £'000	Azura £'000	Inter-co £'000	2022 £'000	B2B £'000	Filta Intl £'000	B2C £'000	Azura £'000	Inter-co £'000	2021 £'000
System sales	**90,223**	**69,560**	**25,773**	**797**	**–**	**186,353**	**69,919**	**–**	**23,593**	**59**	**–**	**93,571**
Statutory revenue	**71,376**	**23,874**	**6,423**	**797**	**(3,318)**	**99,152**	**53,309**	**–**	**6,428**	**59**	**(2,106)**	**57,690**
Cost of sales	(49,086)	(15,784)	(1,251)	(1)	2,935	(63,187)	(36,501)	–	(1,368)	–	2,106	(35,763)
Gross profit	**22,290**	**8,090**	**5,172**	**796**	**(383)**	**35,965**	**16,808**	**–**	**5,060**	**59**	**–**	**21,926**
GP%	31%	34%	81%	100%	12%	36%	32%		79%	100%	0%	38%
Administrative expenses	(13,113)	(2,876)	(2,618)	(625)	383	(18,849)	(9,741)	–	(2,422)	(56)	–	(12,219)
Divisional EBITDA	**9,177**	**5,214**	**2,554**	**171**	**–**	**17,116**	**7,067**	**–**	**2,638**	**3**	**–**	**9,708**
Group overheads	–	–	–	–	–	(1,835)	–	–	–	–	–	(1,234)
Adjusted EBITDA	**–**	**–**	**–**	**–**	**–**	**15,281**	**–**	**–**	**–**	**–**	**–**	**8,474**

In order to reconcile the Group's statutory revenues, gross profit and administrative expenses to the underlying entities certain inter-company revenues and costs are eliminated on consolidation. These include the work undertaken by Metro Rod on behalf of Willow Pumps and the IT development work undertaken by Azura on behalf of Metro Rod. The net effect to EBITDA is zero.

Financial Review continued

B2B DIVISION

The B2B division comprises the franchise activities of Metro Rod, Metro Plumb and Filta UK together with the DLO operations of Willow Pumps, Filta UK and Kemac. The organisation of these activities within this division reflects both management responsibilities and our internal KPIs. The results of the B2B division may be summarised as follows:

	Metro Rod £'000	Willow Pumps £'000	Filta UK £'000	2022 £'000	Metro Rod £'000	Willow Pumps £'000	Filta UK £'000	2021 £'000
System sales	**62,917**	**18,175**	**9,132**	**90,223**	**54,001**	**15,918**	**–**	**69,919**
Statutory revenue	**44,069**	**18,175**	**9,132**	**71,376**	**37,391**	**15,918**	**–**	**53,309**
Cost of sales	(31,247)	(12,196)	(5,643)	**(49,086)**	(26,275)	(10,226)	–	(36,501)
Gross profit	**12,822**	**5,979**	**3,489**	**22,290**	**11,116**	**5,692**	**–**	**16,808**
GP%	29%	33%	38%	**31%**	30%	36%		32%
Administrative expenses	(6,557)	(4,134)	(2,422)	**(13,113)**	(5,734)	(4,007)	–	(9,741)
Adjusted EBITDA	**6,265**	**1,845**	**1,067**	**9,177**	**5,382**	**1,685**	**–**	**7,067**

METRO ROD

Metro Rod comprises the franchise and direct labour activities of Metro Rod and Metro Plumb, Kemac and the short term direct labour contract at Peel Ports, which ended during February 2022. The results may be summarised as follows:

	2022 £'000	2021 £'000	Change £'000	Change %
System sales	**62,917**	**54,001**	**8,916**	**17%**
Statutory revenue	**44,069**	**37,391**	**6,678**	**18%**
Cost of sales	(31,247)	(26,275)	(4,972)	19%
Gross profit	**12,822**	**11,116**	**1,706**	**15%**
GP%	29%	30%	(1%)	(2%)
Administrative expenses	(6,557)	(5,734)	(823)	14%
Adjusted EBITDA	**6,265**	**5,382**	**883**	**16%**

The statutory revenue of Metro Rod does not reflect the underlying system sales generated by the franchisees as national sales are accounted for on a gross basis, as are the sales of Kemac and the direct labour activities, whereas in respect of the local sales generated by franchisees, only the management service fee ("MSF") revenue is included. As MSF is the key driver of profits it is re-analysed and compared to system sales as follows:

	2022 £'000	2021 £'000	Change £'000	Change %
System sales	**59,814**	**50,384**	**9,430**	**19%**
MSF income	11,085	9,411	1,674	18%
Effective MSF %	18.5%	18.7%	–	–
Other gross profit	1,737	1,705	32	2%
Gross profit	**12,822**	**11,116**	**1,706**	**15%**

Overall, system sales at Metro Rod and Metro Plumb increased by 19% to a record £59.8m (2021: £50.4m), compared to an 18% increase in MSF as a result of a decline in the MSF margin from 18.7% to 18.5%. We continue to support Metro Rod's franchisees in growing their businesses through a series of MSF incentives designed to encourage sales growth and investment in a broader range of equipment, services and people. In line with this strategy, as system sales have grown, especially in tanker and pump work, the effective MSF percentage rate has continued to fall.

Other gross profit which includes the gross profit from Kemac and Peel Ports along with the income generated from franchise sales and the revenue generated from the NAF, increased by 2% to £1.7m (2021: £1.7m) due primarily to an increase in franchise sales and resales and the increase in the NAF activity, which was offset by the cessation of the Peel Ports short-term contract.

Administration expenses grew by 14% as a result of the business returning to more typical working practices following the Covid disruption to travel and conferences and a prudent increase in the bad debt provision. This offset much of the benefit we continue to generate from the digital transformation of the Group and as a result, Adjusted EBITDA grew by 16% to £6.3m (2021: £5.4m).

Financial Review continued

WILLOW PUMPS

Willow Pumps comprises the core DLO pump business and the Metro Rod corporate franchises in Kent & Sussex and Exeter. The results may be summarised as follows:

	2022 £'000	2021 £'000	Change £'000	Change %
Statutory revenue	**18,175**	**15,918**	**2,257**	**14%**
Cost of sales	(12,196)	(10,226)	(1,970)	19%
Gross profit	**5,979**	**5,692**	**287**	**5%**
GP%	33%	36%	(3%)	(8%)
Administrative expenses	(4,134)	(4,007)	(127)	3%
Adjusted EBITDA*	**1,845**	**1,685**	**160**	**9%**

On 25 May 2022, we announced the early settlement of the earn-out consideration for the 2019 acquisition of Willow Pumps in order to facilitate an accelerated programme of integration and harmonisation across the Group's B2B division. Under the terms of the acquisition agreement, further consideration of up to a possible £7.5m was payable in respect of the five years to 31 December 2024 linked to sales and profits growth over the period. A total of £0.7m was paid in respect of the first two years ended 31 December 2021, and a further £1.3m was paid at the end of May 2022 to settle this liability, resulting in a total consideration of £7m (including the £5m initial consideration paid in October 2019).

The Willow Pumps core business has two distinct types of revenue: Service revenue and Supply & Install revenue ("S&I"). Service revenue is generated from the routine service and maintenance of pumps and drains. S&I revenue is generated from the design, supply, and installation of pump stations, which are typically projects that are performed in discrete phases over a number of accounting periods, with revenue recognised over time based on the proportion of the contract which has been completed. The gross profit generated on S&I projects is lower than service work due to the significant proportion of the total cost being the supply of the pumps.

Whilst revenue increased by 14% during the period, the gross margin percentage declined from 36% to 33% predominantly as the result of the post-Brexit increase in the cost of materials that could not be passed on to customers, and the sub-contracting of work to Metro Rod franchisees. Whilst this sub-contracting of work depressed the margin in Willow Pumps, the Group was compensated for this loss by the additional MSF (at 15% of revenue) generated in Metro Rod.

Overheads continue to be controlled carefully, increasing by 3% resulting in a 9% increase in Adjusted EBITDA to £1.8m (2021: £1.7m).

* EBITDA presented before inter-company management recharges which eliminate on consolidation.

FILTA UK

Filta UK comprises the DLO services which Filta operated in the UK following a number of acquisitions they undertook, pre-merger. These services include fridge and freezer seal replacement; the supply, installation and maintenance of GRUs; extraction vent cleaning and servicing; and pump and drainage repair and maintenance. The business also includes the Filta Environmental network of 22 franchisees, which provides the same services as the DLO.

The results for the ten months since acquisition in March 2022 may be summarised as follows:

	2022 £'000
Revenue	**9,132**
Cost of sales	(5,643)
Gross profit	**3,489**
GP%	38%
Administrative expenses	(2,422)
Adjusted EBITDA	**1,067**

Prior to the merger the Filta UK business had performed poorly as many of the activities were sub-scale and could not support the independent overhead (most of the Filta business being in the USA). Following the formation of the B2B division we undertook a review which resulted in the streamlining of the management structure, the elimination of duplicated overhead, and other savings made to better align costs with sales volumes.

With its focus on hospitality, Filta UK was also more affected by the Covid shutdowns. As this sector fully reopened in 2022, revenue has slowly recovered but remains behind our expectations. The principal reason for this has been a hold-up in the roll-out of the Cyclone GRU due to supply-chain issues. This market leading GRU, on which Filta has worldwide exclusive distribution rights, still represents a significant opportunity for the enlarged B2B customer base, particularly given increasing environmental and legislative tailwinds relating to fats, oil and grease being discharged into drains, but until regular supply can be guaranteed, we remain cautious.

Pump service, which accounted for 18.4% of total revenue in the period, continues to experience a strong pipeline of new business quotes, although operational delivery has been a challenge owing to delays in sourcing materials and labour constraints. As this business is highly complementary to the services offered by Metro Rod, Metro Plumb and Willow Pumps we are reviewing how the end-to-end processes can best be delivered by the broader business.

Financial Review continued

FiltaSeal, which accounted for 17.6% of total revenue, has traded well in the period. Whilst sales volume has been slightly lower than expected due to capacity constraints, this has been more than compensated for by considerably higher margins. We believe there is significant scope to accelerate this activity and expect an improved contribution going forward.

Finally, administrative expenses are lower than expected due to the savings made to better align costs with sales volumes. Overall, Filta UK has contributed well to Group profits, with Adjusted EBITDA at £1.1m.

FILTA INTERNATIONAL

Filta International operates a franchise network that comprises the franchise activities of Filta in North America and mainland Europe. Filta International's results for the period represent the approximately ten months of contribution since acquisition and may be summarised as follows:

	North America £'000	Europe £'000	**2022 £'000**
System sales	**66,699**	**2,861**	**69,560**
Statutory revenue	**23,272**	**602**	**23,874**
Cost of sales	(15,398)	(386)	(15,784)
Gross profit	**7,874**	**216**	**8,090**
GP%	34%	36%	34%
Administrative expenses	(2,516)	(360)	(2,876)
Adjusted EBITDA	**5,358**	**(144)**	**5,214**

The table below provides a breakdown of the key revenue streams and gross profit contributions for the North American operation.

	Revenue £'000	Gross Profit £'000	Gross Margin £'000
Area sales	958	753	79%
MSF	2,294	2,294	100%
Equipment & Supply	2,500	799	32%
NCA, Marketing and IT	1,227	1,095	89%
Waste Oil	16,293	2,933	18%
Total	**23,272**	**7,874**	**34%**

MSF revenue consists of the monthly charge paid by the franchisees for each MFU in operation. The Equipment & Supply revenue consists of revenue from the sale of new MFUs, replacement parts and supplies sold to franchisees. These revenue streams have bounced back strongly as the hospitality sector has recovered from the Covid shutdowns and demand for FiltaFry's services has increased. The combination of the higher oil price and resurgent demand has encouraged franchisees to expand their operations with a total of 39 MFUs being added in the period, which will both increase MSF income and also the capacity to collect used cooking oil.

Waste oil revenues are derived from the sale of used cooking oil for biodiesel production. Through national agreements with biodiesel companies, Filta administers the programme, which involves the franchisees collecting and storing the oil prior to local pick-up via tankers organised by Filta. Filta retains an average 18% margin on waste oil sales. Waste oil revenue has increased by 76% from the comparable prior year period, with approximately one-third of the increase being volume-related and two-thirds price-related, and now contributes 37% of gross profit (2021: 29%).

A number of factors have driven the waste oil price, including the higher price of virgin cooking oil due to supply issues, higher fuel oil prices, and US Federal and State sustainability incentives to increase the proportion of biodiesel in vehicle fuel. 2022 was probably an exceptional year for the price of used oil, although it has only declined slightly in the early weeks of 2023 from the average achieved in 2022. We are confident, however, that the franchisees' investment in additional MFUs and used oil storage will grow volumes in 2023 to a level that will allow us to maintain our revenue and margin from this source in 2023.

Area Sales revenues are derived from the sale and resale of franchise territories. Of the income derived from the sale of a new franchise, 60% is recognised as revenue once training is completed, with the balance spread equally over the 10-year life of the franchise agreement. The revenue from franchise resales, on which a 5-10% commission is earned, is recognised when the transaction completes. Five new franchises and 14 resales were completed during the period, an increase of 50% over the comparable period in 2021.

The national corporate accounts ("NCA"), marketing and IT revenues are the additional fees charged to franchisees for generating and administrating the national accounts and providing marketing and IT systems.

Whilst Europe has experienced improved revenue and gross profit growth post-Covid, the recovery has been slower and has been compounded by hold-ups in rolling out the GRU, which are an important component of their income. Additional sales people have been recruited to accelerate growth, but this additional cost has resulted a small loss in the period.

Financial Review continued

B2C DIVISION

The B2C division comprises the ChipsAway, Ovenclean and Barking Mad franchise businesses. The results of the division may be summarised as follows:

	2022 £'000	2021 £'000	Change £'000	Change %
System sales	**25,773**	**23,593**	**2,180**	**9%**
Revenue	**6,423**	**6,428**	**(5)**	**(0%)**
Cost of sales	(1,251)	(1,368)	117	(9%)
Gross profit	**5,172**	**5,060**	**112**	**2%**
GP%	81%	79%	2%	3%
Administrative expenses	(2,618)	(2,422)	(196)	8%
Adjusted EBITDA*	**2,554**	**2,638**	**(84)**	**(3%)**

* EBITDA presented before inter-company management recharges which eliminate on consolidation.

The key revenue streams are MSF and Area Sales income. MSF income is primarily made up of fixed monthly fees, as this remains the most effective method of generating income given the large number of franchisees and the lower level of individual sales. MSF Income increased slightly, principally driven by a recovery in the holiday market which has increased MSF income form Barking Mad, offset by the reduced recruitment and higher network churn. Area Sales income represents the fees generated from the sale (or resale) of franchise territories, which were lower in the period due to the unusual labour market conditions resulting in lower franchise recruitment and higher attrition. Revenue in the period benefited from the one-off sale of the MyHome domain name for £0.1m.

Cost of sales declined in the period due to a change in the recruitment mix towards Ovenclean and Barking Mad and away from the higher-cost ChipsAway franchise. Overheads increased by 8% as a result of the re-introduction of costs that were suspended during the Covid period, in particular, the annual franchise conference for ChipsAway. Overall, Adjusted EBITDA in the B2C division declined by 3% when compared to the buoyant post-Covid recovery trading in 2021.

As the decision has been made to dispose of the B2C Division and that this sale is likely within 12 months, we are required to disclose this division as a discontinuing activity, despite no buyer identified or terms of sale in discussion. However, the division will continue to be run as part of the Group until a sale is completed.

AZURA

Azura was acquired on 29 November 2021 and therefore this period represents its first full year trading period as part of the Group. The results of the business may be summarised as follows:

	2022 £'000	2021 £'000	Change £'000
Revenue	**797**	**59**	**738**
Cost of sales	(1)	–	(1)
Gross profit	**796**	**59**	**737**
GP%	100%	100%	0%
Administrative expenses	(625)	(56)	(569)
Adjusted EBITDA	**171**	**3**	**168**

Since the acquisition, Azura has focused on improving efficiency in delivering its software solutions to franchise businesses and building sales. It has also been building its internal resources to support the further digital enablement of the Group's businesses by improving the functionality of the Vision works-management platform. Adjusted EBITDA for the period has exceeded management expectations, although just under half of revenue is still derived from intra-group sales on which an inter-company profit of £31,000 is made.

Adjusted & statutory profit

	2022 £'000	2021 £'000	Change £'000	Change %
Adjusted EBITDA	**15,281**	**8,474**	**6,807**	**80%**
Depreciation & amortisation of software	(2,281)	(1,717)	(564)	33%
Finance expense	(235)	(292)	57	(20%)
Foreign exchange	28	–	28	100%
Adjusted profit before tax	**12,793**	**6,464**	**6,329**	**98%**
Tax expense	(2,560)	(1,154)	(1,406)	122%
Adjusted profit after tax	**10,233**	**5,310**	**4,923**	**93%**
Amortisation of acquired intangibles	(1,504)	(393)	(1,111)	
Share-based payment expense	(535)	(334)	(201)	
Non-recurring costs	(1,708)	(187)	(1,521)	
Other gains and losses	1,232	223	1,009	
Tax on adjusting items	600	(387)	987	
Statutory profit	**8,318**	**4,233**	**4,085**	**97%**

Financial Review continued

Depreciation and amortisation of software increased 33% to £2.3m (2021: £1.7m), primarily as a result of the acquisitions of Filta and Azura and the subsequent additions to both tangible assets and software enhancements, as the Group continues to develop technology-based solutions to accelerate operational gearing.

The finance expense includes interest on hire purchase debt, which has decreased by 20%, and the notional interest required under IFRS 16 on property leases. All bank loans, which included those acquired as part of the Filta acquisition have been re-paid, leaving the Group free of bank debt.

The overall effective tax rate of the Group has been increased from 18% to 20% as a result of the addition of Filta North America, where the combined state and federal corporate tax rate is 27%.

The increase in the amortisation of acquired intangibles reflect the additional intangible assets acquired as a result of the Filta acquisition.

The increase in the share-based payment expense principally reflects the grant of three million share options and stock appreciation rights, one third of which were made to Filta employees, to replace their previous options which lapsed at completion of the acquisition.

The non-recurring costs reflect the Filta acquisition costs and the subsequent one-off reorganisation costs, as the UK businesses were aligned into the newly created B2B business division. Other gains and losses reflect the write-back of the IFRS3 contingent consideration provision made in respect of the Willow Pumps earn-out following its early settlement. The tax on adjusting items reflects the tax relief available on the net exceptional costs.

Statutory profit after tax, after exceptional costs and associated tax relief, increased by 95% to £8.3m (2021: £4.2m).

EARNINGS PER SHARE

During the year the Group issued 33,788,008 new ordinary shares of 0.5p each ("Ordinary Shares") in consideration for the acquisition of Filta. In addition, the Group issued 657,495 new Ordinary Shares to satisfy the exercise of share options. This resulted in the total number of Ordinary Shares in issue increasing to 130,311,112 at the year-end (31 December 2021: 95,865,609).

The Employee Benefit Trust ("EBT") started the year holding 219,240 Ordinary Shares, purchased 1,852,870 Ordinary Shares during the year at an average price of £1.43, disposed of 301,427 Ordinary Shares in respect of the exercise of employee shares options, and therefore ended the year holding 1,770,683 Ordinary Shares. At 31 December 2022 there were 6,567,014 shares under option of which 1,457,576 were vested and capable of exercise. All vested options were therefore covered by holdings in the EBT.

The total number of Ordinary Shares in issue at 31 December 2022, net of the EBT holding, was 128,540,429 (31 December 2021: 95,646,369), and a basic weighted average number of Ordinary Shares in issue of 122,126,350 (2021: 85,767,863).

Adjusted EPS increased by 51% to 8.38p (2021: 5.55p), and basic earnings per share increased by 54% to 6.81p (2021: 4.42p), as set out in the table below.

	2022 **£'000**	EPS p	2021 £'000	EPS p
Adjusted profit after tax / Adjusted EPS	**10,233**	**8.38**	**5,311**	**5.55**
Amortisation of acquired intangibles	(1,504)	(1.23)	(393)	(0.41)
Share-based payment expense	(535)	(0.44)	(334)	(0.35)
Non-recurring costs	(1,708)	(1.40)	(187)	(0.20)
Other gains and losses	1,232	1.01	223	0.23
Tax on adjusting items	600	0.49	(387)	(0.40)
Statutory profit after tax / Basic EPS	**8,318**	**6.81**	**4,233**	**4.42**

Financial Review continued

FINANCING AND CASH FLOW

A summary of the Group cash flow for the period is set out in the table below.

	2022 £'000	2021 £'000
Adjusted EBITDA	**15,281**	**8,474**
Acquisition and reorganisation costs	(1,708)	–
Working capital movements	(3,216)	(276)
Cash generated from operations	**10,357**	**8,198**
Taxes paid	(2,629)	(924)
Purchases of property, plant and equipment	(422)	(1,723)
Purchase of software	(1,088)	(433)
Acquisition of subsidiaries net of cash	4,320	(861)
Bank loans repaid	(2,953)	(5,309)
Lease payments	(1,156)	(1,295)
Funds supplied to EBT	(2,503)	(355)
Dividends paid	(2,339)	(1,341)
Other net movements	158	(106)
Net cash movement	**1,745**	**(4,149)**
Net cash at beginning of year	9,054	13,203
Net cash at end of year	**10,799**	**9,054**

The Group generated cash from operating activities of £10.4m (2021: £8.2m) resulting in a cash conversion rate from Adjusted EBITDA of 68% (2021: 97%). However, if the cost of the Filta acquisition and reorganisation is added back the rate of cash conversion in 2022 increases to 79%. The principal reason for the decline was the additional trade debtors at Metro Rod resulting from a £9.4m increase in System Sales.

Other cash movements are explained as follows:

- Taxes paid increased as profits increased, and the Group moved onto quarterly payments.
- Purchases of property plant and equipment declined to more normal levels, following the increased investment in the Peel Ports contract in 2021.
- Purchase of software increased as the digital transformation programme was accelerated.
- Acquisition of subsidiaries net of cash represents the cash balance in Filta on acquisition. In 2021 this was the net the cost of the acquisition of Azura Group Limited.
- Bank loans repaid represent the repayment of the loans acquired with Filta in 2022 and the repayment of the loan used to acquire Willow in 2021.
- Funds supplied to EBT represent the contribution to the EBT, which was increased in the year to ensure that the option dilution was fully covered.
- Dividends paid represent the combined cash cost of the 2021 final and the 2022 interim dividends.

After these outflows, the Group finished the period with cash of £10.8m (31 December 2021: £9.1m). Hire purchase debt increased slightly during the year as a result of the commitments acquired with the Filta acquisition. Overall net cash after hire purchase and lease debt increased by 23% as set out in the table below.

	31 Dec 2022 £'000	31 Dec 2021 £'000	Change £'000	Change %
Cash	10,799	9,054	1,745	19%
Hire purchase debt	(1,132)	(821)	(311)	38%
Adjusted net cash	**9,667**	**8,233**	**1,434**	**17%**
Other lease debt	(1,624)	(1,713)	89	(5%)
Net cash	**8,043**	**6,520**	**1,523**	**23%**

The Group has an ungeared, £103m balance sheet with gross cash of £10.8m, and a £5.0m unutilised Revolving Credit Facility, giving the Group £15.8m of cash and available facilities.

DIVIDEND

The Board is pleased to propose a final dividend of 1.1 pence per share (2021: 0.9 pence per share). This takes the total dividend for the year to 2.0 pence per share (2021: 1.5 pence per share), an increase of 33%. The dividend is 4.2 times covered by adjusted profits after tax (2021: 3.7 times).

Subject to shareholder approval at the AGM on 18th April 2023, the final dividend will be paid to those shareholders on the register at the close of business on 14 April 2023.

The Strategic Report on pages 1 to 43 was approved by the Board of Directors on 9 March 2023 and signed on its behalf by:

Andrew Mallows
Interim Chief Financial Officer
9 March 2023

Risk Management

A proactive approach to risk management

We believe effective risk management is a key part of achieving our strategy, supporting our business model and protecting our key resources.

At Franchise Brands, the Board is ultimately responsible for risk management. The Board meets regularly and reviews the process for identifying, assessing and mitigating significant risks faced by the Group, and the potential impact of these on our ability to meet our strategic objectives.

Our approach is to embed risk management principles within our businesses and the key implementation tool we use is the risk management framework we have developed. This framework incorporates a top down approach, which includes determining our risk appetite and identifying our strategic risks and a bottom-up process to identify individual risks. Our risk appetite is influenced by the nature of the risk and how it might affect the business.

Identifying risks

We identify risks and potential risks by reviewing the key determining factors for each business and the contribution they make to delivering the strategic and financial objectives. Our risk management framework has identified potential strategic, operational, financial and compliance risks.

Strategic risks include those relating to franchisees, customers, demand for the Group's services and our ability to convert profits into cash and liquidity.

Operational risks include changes in legislation, dependence on key personnel, health and safety, information technology and supply chain risks.

Financial risks include credit, liquidity, interest rate, exchange rate and commodity price risk.

Compliance risks include changes in regulation.

Key roles and responsibilities

Implementation and compliance responsibility

Board	Senior Management	Audit Committee
Reviews the process for identifying, assessing and mitigating significant risks. Sets risk appetite and profile.	Regularly reviews top down and bottom up risks from both a divisional and functional perspective.	Monitors the quality of accounting and internal controls.
Challenges the formulation and implementation of strategies and controls.	Assesses impact on strategic and financial objectives.	Ensures the Group's financial performance is properly measured and reported on.
Ongoing monitoring and development.	Discusses and agrees mitigation strategies which are included in Board reporting.	Meets at least twice a year and has unrestricted access to the Group's auditors.

Principal Risks & Mitigations

Analysing risks

In evaluating risks, we review the likelihood and potential impact of the risk, the ability of the business to withstand it and our tolerance to both take on and bear the risk. We carry out structured reviews of risk and traffic light each risk in order to identify those areas of particular concern.

Managing risk

Once risks have been appropriately identified and evaluated, we formulate strategies and identify actions to mitigate and contain them. These are then reported on and reviewed as part of the ongoing monitoring process which also includes the identification of new potential risks.

Principal risks

Description	Mitigation	Risk direction
1 Ability to grow our businesses	– The increasingly diversified nature of the Group, with six franchise brands in six countries provides a wider range of potential growth opportunities. – We have identified multiple levers for organic growth, in particular for B2B and Filta International where we have small shares of large markets. – The opportunities for external growth where the Group has a proven track record.	↓
2 Ability to recruit and retain quality franchisees	– The Group has well established, high quality franchise brands and will continue to invest to support its franchisees to grow their businesses. – With 586 franchisees across six brands, there is a low reliance on any individual franchisee. – The Group is highly experienced in franchise recruitment which ensures a good pipeline of potential franchisees for its brands.	↑
3 Ability to attract and retain customers	– The Group makes a substantial investment in sales and marketing. – The investment the Group is making in technology helps improve customer service and retention. – No single customer accounts for a significant proportion of sales. – The servicing of their reactive work on a dependable basis drives the ability to retain customers.	→
4 Dependence on key personnel	– Our senior management team is strengthened as new businesses are acquired. – The Group has a strong focus on identifying and developing high potential talent. – Recruitment of a new permanent Chief Financial Officer.	→
5 Operational risks	– We have well developed health and safety systems and processes. – We have multiple services, international spread and diversity of operational models from DLOs to franchise businesses.	↓
6 Exposure to external factors	– We take a fundamentally conservative approach to budgeting and planning. – We benefit from external analysis and insights. – Our approach is always to maximise those factors within our control.	→

Chairman's Introduction to Governance

Supporting shareholder value

"We believe that good corporate governance is vital in supporting our Company's growth strategy and in turn its long-term success. As an AIM-quoted company, the Board has chosen to follow the QCA Corporate Governance Code as it believes that this provides an appropriate governance framework for a group of our size and should help support our growth and success."

Stephen Hemsley
Executive Chairman

Board of Directors

Stephen Hemsley
Executive Chairman
Stephen co-founded Franchise Brands in 2008 and has led the development of the business, including the IPO and external growth. He is a Chartered Accountant by training and spent nearly ten years with 3i as Investment Director. He then joined Domino's Pizza as Finance Director progressing to CEO , Executive Chairman and Non-executive Chairman. During this time, he took Domino's from private ownership to a market capitalisation of almost £1.5bn. He retired from Domino's in 2019 after 21 years with the business to focus exclusively on Franchise Brands. Stephen was appointed as a Director of the Company on 15 July 2016.

Andrew Mallows
Interim Chief Financial Officer
Andrew originally joined Franchise Brands in 2016 as Finance Director, and since 2017 has been the Group's Commercial Director. He has significant experience in franchising and business development and was Finance Director of Domino's Pizza UK from 2001 to 2004 before being appointed Business Development Director. On 26 July 2022 Andrew was appointed Interim Chief Financial Officer of Franchise Brands and a Director of the Company on 30 September 2022.

Peter Molloy
Managing Director, B2B Division
Peter has over 35 years of management and commercial experience. Peter joined Metro Rod in 2003 and was promoted to Commercial Director in 2005 and to Managing Director in 2017. In June 2022, Peter was promoted to Managing Director, B2B with responsibility for Metro Rod, Metro Plumb, Willow Pumps and Filta UK. Prior to joining Metro Rod, he was Managing Director of Solaglas Replacement Glazing, part of the Saint-Gobain Group, with national responsibility for the network branches, field engineers, call centre and sales and marketing. Peter was appointed a Director of the Company on 21 March 2018.

Jason Sayers
Managing Director, Filta International
Jason Sayers founded Filta in 1996 and took the business to the US in 2003. Prior to the merger with Franchise Brands he was Group CEO. He is now Managing Director of Filta International with responsibility for growing the Filta businesses in the US and Europe. Jason was appointed a Director of the Company on 10 March 2022.

Board of Directors continued

Colin Rees
Chief Information Officer

Colin is a highly experienced IT professional. He was appointed to the new position of Chief Information Officer in April 2017. Colin was previously Director of IT at Domino's Pizza where he was responsible for all IT systems. He previously held a number of senior IT roles at EasyJet including Head of Software Delivery. Colin started his career at Argos plc and held a number of positions over a ten-year period. He was appointed a Director of the Company on 21 March 2018.

Tim Harris
Managing Director, B2C Division

Tim is a seasoned franchise professional with over 25 years' experience of successfully developing automotive, commercial and domestic franchise businesses in both international and UK markets. Tim joined the Group in 2008 and is the Managing Director of the B2C Division. Prior to joining the Group, Tim held senior sales positions at a number of franchisor companies. He was appointed as a Director of the Company on 15 July 2016.

Julia Choudhury
Corporate Development Director

Julia has over 30 years of commercial, finance and investment experience. Julia joined the Group in 2008 and has a particular focus on corporate development, which includes acquisitions. Between 1997 and 2005, Julia held a number of senior management roles at AXA Investment Managers including Managing Director of the UK operation. Her early career was spent in corporate finance and investment management with BZW. She was appointed as a Director of the Company on 15 July 2016.

Board of Directors continued

Committee membership

- A Audit Committee
- R Remuneration Committee
- AR AIM Rules Compliance Committee
- ◯ Denotes Committee Chair

A R AR

Rob Bellhouse

Independent Non-executive Director

Rob is an experienced Company Secretary with commercial experience gained over 30 years in listed companies, with a strong focus on governance, compliance and risk management activities. Rob has been Company Secretary of a number of listed companies including Domino's Pizza (on an interim basis), Lonmin and Greene King and was voted 2014 ICSA Company Secretary of the Year. He is currently Company Secretary at De La Rue plc. He was appointed as a Director of the Company on 15 July 2016.

A R AR

Andy Brattesani

Independent Non-executive Director

Andy is an experienced banking professional with extensive experience in the franchising sector. From 2016 until recently he was UK Head of Franchise at HSBC, the market leader in the UK franchise sector. As well as supporting the growth of HSBC's franchise business in the UK, Andy has also led the expansion of HSBC's franchise model internationally. Andy's career in banking over the past 30 years has also encompassed roles with HBOS, RBS and Standard Chartered. Andy was appointed as a Director of the Company on 12 September 2022.

A R AR

David Poutney

Independent Non-executive Director

David is CEO of Dowgate Capital Limited and has over 45 years of finance and investment experience. From 2001 to 2016 he was Director and Head of Corporate Broking at Numis Securities Limited. Between 2014 and 2016, he was an Executive Director of Numis Corporation plc. In his 25 years as a corporate broker, David has been involved in the listings of over 40 companies and advised many through extended periods of growth, most recently Belluscura PLC where he is also a Non-executive Director. He was appointed as a Director of the Company on 15 July 2016.

Nigel Wray

Non-executive Director

Nigel co-founded Franchise Brands in 2008. He is an entrepreneurial investor in both public and private companies. Currently he is a substantial shareholder and Director at Chapel Down Group plc and is a significant investor in a wideranging number of AIM quoted companies, as well as a number of private companies, including Saracens Rugby Club. He is a former Director and was a significant shareholder in Domino's Pizza. He was appointed as a Director of the Company on 15 July 2016.

Senior Leadership Team

Robin Auld
Group Marketing Director

Robin oversees consumer, trade and franchise recruitment marketing activity ensuring continual evolution of strategy and best practice in execution. He joined Franchise Brands in 2010 and has a successful track record of marketing success over 25 years. He is best known for his work at Domino's Pizza as Sales & Marketing Director.

Tom Dunn
Managing Director, Filta North America

Tom Dunn is an accomplished US franchise industry veteran with over 25 years experience. Tom joined Filta in 2009, first serving as the VP of Sales, then promoted to COO in 2011 and in 2019 became responsible for the North American business. Prior to Joining Filta, Tom spent most of his career in the hospitality sector with both hotel and restaurant franchisors.

Kevin Perry
Managing Director, Willow Pumps

Kevin joined Willow Pumps in 2021 to head up the sales and marketing department and was promoted to Managing Director in 2022. He has over 25 years' experience primarily in commercial businesses with a focus on sales and business development and has held leadership roles nationally and regionally up to director level.

Rachel Stewart
Managing Director, Barking Mad

Rachel was appointed as Managing Director of Barking Mad in 2019. She was previously a Business Development Consultant with the company for almost four years. Rachel comes from a commercial background, and previously Commercial Director at Trinity Mirror Plc and held a Board position at Clear Channel Outdoor.

Mark Scott
Managing Director, Azura

Mark is an experienced franchise individual with over 20 years' experience. He has worked with franchise networks at all stages of their development from start ups to long established international brands. Mark brings that experience to help franchisors find a suitable technology solution to their business. Prior to joining Azura, Mark spent 39 years at NatWest.

Mark Peters
Company Secretary

Mark spent over 30 years in the legal profession, which included 17 years with Sherrards Solicitors LLP where he was Senior Partner. Mark has particular expertise in real estate, investment, business development and management and has performed company secretarial duties for Franchise Brands since 2008.

Our Governance Framework

Set out below is our commitment to Section 172.

In making decisions, the Company's Directors are cognisant of all their legal duties, including their duty under Section 172(1) of the Companies Act 2006 to act in the way that is most likely to promote the success of the Company for the benefit of its members as a whole and to have regard (among other matters) to the factors set out in Section 172(1)(a) to (f) of the Companies Act 2006.

Examples of some of the principal decisions taken by the Board during the year and an explanation of which factors the Directors had regard to when reaching such decisions, including those set out in Section 172(1)(a) to (f) of the Companies Act 2006, are set out in the table below.

Key of factors considered:

- Financial impact
- Reputation
- Acting fairly between members
- Long-term impact
- Employees
- Fostering business relationships

Board decision-making

Board decisions	Key	Directors' consideration of factors in accordance with S.172(1)
Acquisition of Filta Group Holdings plc	Financial impact, Long-term impact, Fostering business relationships	A key part of the Group's strategy is to seek earnings enhancing acquisitions of complementary B2B franchise businesses. The acquisition of Filta in March provided a compelling strategic rationale, with the ability to deliver substantial benefits to customers, employees, franchisees, shareholders and other stakeholders in both businesses. The acquisition has brought an international footprint, a broader range of complementary services and considerably enhanced scale to the Group.
Buy out of Willow Pumps earn-out	Financial impact, Long-term impact, Employees	Following the acquisition of Filta, the Board identified an opportunity to integrate and harmonise the B2B businesses to unlock further market opportunities, reduce costs and provide our customers with a better service. To further accelerate this process, we agreed the early settlement of the contingent consideration due in respect of the Willow Pumps acquisition.
Strategic review of B2C Division	Financial impact, Long-term impact, Acting fairly between members	The Board decided to carry out a strategic review of the Group's B2C operations given the greater opportunities for both organic and acquisitive growth within the B2B sector. In December, the Board concluded there were greater opportunities for the Group for organic and acquisitive growth within the B2B sector, therefore the B2C Division is being offered for sale.
Increase of the dividend	Financial impact, Long-term impact, Reputation, Fostering business relationships, Employees	The Board has always maintained a progressive dividend policy. With a strong Balance Sheet, and available undrawn Bank facilities, the Group is well placed to invest in the business and support its franchisees, as well as achieving a progressive dividend policy. In line with this, the Board has proposed a final dividend for 2022 which is 33% higher than 2021.
Cyber security	Financial impact, Long-term impact, Reputation, Fostering business relationships	The Board has received reports throughout the year from its Chief Information Officer, concerning cyber security. External professional advice has been sought and recommendations received. The Board agreed to adopt a Group wide Cyber Security Plan, the implementation of which is ongoing.

Board Activities in 2022

Q1

Q1 Activities

- Acquisition of Filta Group Holdings plc.
- Strategic review of marketing to build sustainable long-term brands.
- Review of integration of Azura Group.
- Proposal of a final dividend of 0.9p per share.

Q2

Q2 Activities

- Review of Willow Pumps within newly formed B2B division and decision to buy-out the earn-out.
- Review of Group's technology including cyber security.
- Focus on integration of Filta into the Group.
- Review of updated Risk Management framework for the Group.

Q3

Q3 Activities

- Strategic review of HR focusing on the post Covid-19 environment.
- Review of cross selling opportunities between the B2B Division.
- Appointment of Andrew Mallows as Interim Chief Financial Officer.
- Appointment of Andy Brattesani as an independent Non-executive Director.

Q4

Q4 Activities

- Strategic review of B2C Division.
- Review of 2023 strategy, budgets and risk management.
- Presentation of updated Group Cyber Security plan.
- Biennial board effectiveness review.

Corporate Governance

Set out below is how we currently comply with the key principles set out in the QCA code.

	QCA principle	Compliant	Explanation
1	Establish a strategy and business model which promote long-term value for shareholders.	✓	Focused on building market-leading businesses using primarily a franchise model. Focus is on established brands which can benefit from our shared support services and Group expertise and resources.
2	Seek to understand and meet shareholders needs and expectations.	✓	The Executive Chairman and Corporate Development Director meet regularly with institutional shareholders and provide feedback. Retail shareholders benefit from presentations and website updates. All shareholder presentations are available on the website.
3	Take into account wider stakeholder and social responsibilities and their implications for long-term success.	✓	The Board has a clear understanding of the factors important to all its stakeholders and maintains strong relationships, solicits feedback and fosters responsible working practices.
4	Embed effective risk management, considering both opportunities and threats, throughout the organisation.	✓	The Board reviews its risk management framework bi-annually to detail the key risks, their potential impact and mitigation and embeds risk management principles to drive proactive management.
5	Maintain the Board as a well-functioning, balanced team led by the Chair.	✓	The Board comprises seven Executive Directors, three of which are Managing Directors of the two largest businesses, and four Non-executive Directors of which three are considered to be independent.
6	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities.	✓	Directors are drawn from a range of backgrounds, skills and experiences. New appointments will be considered against objective, merit-based criteria and with due regard for the benefits of diversity.
7	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement.	✓	A performance self-evaluation was undertaken led by an independent Non-executive Director, the results of which will be implemented by the Board in 2023. The review will be repeated biennially.
8	Promote a corporate culture that is based on ethical values and behaviours.	✓	Franchise Brands has five well established guiding principles that inform the way we work with each other, support our franchisees and serve our customers and communities.
9	Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board.	✓	Franchise Brands has properly constituted Audit, Remuneration and AIM Compliance committees of the Board with formally delegated duties and responsibilities, comprised of independent Directors.
10	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.	✓	Regular shareholder communications on performance via interim and annual financial reports, trading updates issued via RNS, investor presentations, retail digital platforms including Proactive Investors and shareholder meetings. All shareholder communications are available on the website.

→ See www.franchisebrands.co.uk

Corporate Governance continued

Our governance framework

Our Board

Key Reponsibilities

- Setting strategy and budgets, oversight of the Group's businesses, performance and governance.
- Establishment and oversight of risk management and internal controls.
- Supporting and challenging management. to deliver long-term sustainable success.
- Promoting our guiding principles and ensuring they underpin our strategy.
- Generating value for all stakeholders.
- The role of the Executive Chairman is to lead the Board, and ensure the Group's corporate governance and processes are appropriate, managed and embraced throughout the Group.

Audit Committee

Key Reponsibilities

- Monitors the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on.
- Maintains an appropriate relationship with the external auditors and monitors the internal controls.

Remuneration Committee

Key Reponsibilities

- Ensures remuneration policy and practices of the Group support the strategy and reward fairly and responsibly having regard to statutory and regulatory requirements and ESG.
- Reviews the performance of the Executive Directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. Makes recommendations to the Board on proposals for the granting of share awards.

AIM Compliance Committee

Key Reponsibilities

- Ensures that the Company has in place sufficient procedures, resources and controls to enable it to comply with the AIM Rules for Companies.
- Makes recommendations to the Board and proactively liaises with the Company's nominated adviser on compliance with the AIM Rules for Companies.

Directors' Remuneration Report

Remuneration policy

The objective of the Company's remuneration policy is to facilitate the recruitment and retention of executives of an appropriate calibre. In addition, we ensure that the senior executives of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

Strategic alignment

The Remuneration Committee is satisfied that the pay that can be earned is appropriate for a company of comparable size and complexity, at each level of performance. All of the Executive Directors have significant exposure to the Company's share price: Stephen Hemsley has a significant personal shareholding in the Company and the other Executive Directors have material personal investments in our shares, supplemented by options granted under our LTIP. The vesting of LTIP options is subject to a performance condition requiring a pre-determined and challenging rate of compound annual growth in adjusted earnings per share, which the Board regards as the key performance metric. As a result, there is a clear incentive to drive earnings per share growth over the longer term and also to mitigate downside risks that could affect the Company's profitability. Reputational risks could reasonably be expected to affect the share price, which means the Executive Directors are further incentivised to mitigate these exposures to maximise the potential value of their options.

Remuneration in practice

The remuneration that the Company offers to its Executive Directors has three principal components:

1. **Basic salaries and benefits in kind** – Basic salaries are determined by the Remuneration Committee bearing in mind the salaries paid in AIM-quoted companies of similar size and complexity. Benefits in kind may include a car allowance and health care.

2. **Pensions** – The Company operates a uniform defined contribution scheme available to all Executive Directors and employees. Only basic salaries are pensionable.

3. **Variable pay** – The Company operates a share option scheme covering permanent employees (including the Executive Directors, other than Stephen Hemsley). Subject to achieving compound EPS growth targets, options can vest no earlier than the third anniversary of the date of grant and, once vested, may be exercised until the tenth anniversary. The exercise price of the options is generally set at the market value of the Company's shares at the time of grant, so that the individual only benefits if there has been share price growth. The exception to this is for matching schemes, where Directors are required to purchase an equal number of shares to those being granted and are awarded nil paid shares if performance targets are met. The share option scheme is overseen by the Remuneration Committee which determines the terms under which eligible individuals may be invited to participate, including the level of awards. The scheme utilises HMRC-approved options to the extent possible.

We believe that the mix between fixed and variable pay creates a powerful, but appropriate, incentive and that our approach ensures that pay and corporate performance are directly linked.

Directors' service contracts

All Executive Directors are employed under service contracts. The services of the Executive Directors may be terminated by the Company, on the expiry of six months' notice (nine months, in the case of Tim Harris).

The Non-executive Directors are retained under letters of engagement which may be terminated by the Company (i) giving three months' notice or (ii) immediately, in the event that the Director is not re-elected by shareholders at an AGM.

Directors' remuneration (audited)

The aggregate remuneration payable to the Directors for the year ended 31 December 2022 was as follows:

	Salary or fees (£)	Benefits in kind (£)	Pension contributions (£)	Total (£)	2021 comparison (£)
Director					
Stephen Hemsley	187,500	9,000	–	196,500	146,750
Andrew Mallows	45,000	900	1,350	47,250	–
Peter Molloy	176,875	20,872	5,306	203,053	159,146
Jason Sayers	189,914	25,383	–	215,297	–
Colin Rees	141,250	5,000	4,238	150,488	117,587
Tim Harris	145,000	9,000	4,350	158,350	138,136
Julia Choudhury	133,750	5,000	–	138,750	115,000
Rob Bellhouse	33,750	–	–	33,750	29,375
Andrew Brattesani	10,769	–	–	10,769	–
David Poutney	33,750	–	–	33,750	29,375
Nigel Wray	33,750	–	–	33,750	29,375
Chris Dent	27,571	1,766	694	30,031	124,575
Brian Hogan	393,154	4,421	–	397,575	–
Total	**1,552,033**	**81,342**	**15,938**	**1,649,313**	**889,319**

No Director received any remuneration from a third party in respect of their service as a Director of the Company.

As announced on 26 July 2022, Brian Hogan resigned as Chief Financial Officer for personal reasons. Brian received payments totaling £309,840 as settlement of his contract with the company.

Directors' Remuneration Report continued

The highest paid Director in the year was Colin Rees, totaling £485,336, as can be seen from the remuneration in the table above and the gain on share exercises as seen in the table below. As seen from the table above, four Directors are currently accruing retirement benefits, and do so through defined contribution schemes. The Company has never operated a defined benefits scheme. No Director or former Director received any benefits from a retirement benefits scheme that were not otherwise available to all members of the scheme.

Directors' share options (audited)

Details of options held under the Company's LTIP by the Directors who served during the year are as follows:

					Changes in the year					
Director	Date of grant	Exercise price (pence)	Performance condition	2021 Number of shares	Granted	Exercised	Lapsed	**2022 Number of shares**	Exercisable from	Exercisable to
Chris Dent	12-Dec-17	49.5	EPS growth	303,030	–	303,030	–	**–**	12-Dec-20	12-Dec-27
	11-Dec-18	69	EPS growth	21,970	–	21,970	–	**–**	11-Dec-21	11-Dec-28
	15-Sept-20	88	EPS growth	34,091	–	17,310	16,781	**–**	15-Sept-23	15-Sept-30
	15-Sept-20	0.5	EPS growth	17,045	–	8,655	8,390	**–**	15-Sept-23	15-Sept-30
Julia Choudhury	11-Dec-18	69	EPS growth	71,970	–	–	–	**71,970**	11-Dec-21	11-Dec-28
	15-Sept-20	88	EPS growth	34,091	–	–	–	**34,091**	15-Sept-23	15-Sept-30
	10-Mar-22	150	EPS growth	–	60,000		–	**60,000**	10-Mar-25	10-Mar-32
Tim Harris	11-Dec-18	69	EPS growth	71,970	–	–	–	**71,970**	11-Dec-21	11-Dec-28
	15-Sept-20	88	EPS growth	34,091	–	–	–	**34,091**	15-Sept-23	15-Sept-30
	10-Mar-22	150	EPS growth	–	60,000	–	–	**60,000**	10-Mar-25	10-Mar-32
Peter Molloy	11-Apr-17	67	EPS growth	150,000	–	–	–	**150,000**	11-Apr-20	11-Apr-27
	12-Dec-17	49.5	EPS growth	153,030	–	–	–	**153,030**	12-Dec-20	12-Dec-27
	11-Dec-18	69	EPS growth	106,000	–	–	–	**106,000**	11-Dec-21	11-Dec-28
	15-Sept-20	88	EPS growth	34,091	–	–	–	**34,091**	15-Sept-23	15-Sept-30
	15-Sept-20	0.5	EPS growth	28,409	–	–	–	**28,409**	15-Sept-23	15-Sept-30
	10-Mar-22	150	EPS growth	–	155,000	–	–	**155,000**	10-Mar-25	10-Mar-32
Andrew Mallows	12-Dec-17	49.5	EPS growth	75,758	–	–	–	**75,758**	12-Dec-20	12-Dec-27
	11-Dec-18	69	EPS growth	99,242	–	–	–	**99,242**	11-Dec-21	11-Dec-28
	15-Sept-20	88	EPS growth	34,091	–	–	–	**34,091**	15-Sept-23	15-Sept-30
	15-Sept-20	0.5	EPS growth	96,591	–	–	–	**28,409**	15-Sept-23	15-Sept-30
	10-Mar-22	150	EPS growth	–	75,000	–	–	**75,000**	10-Mar-25	10-Mar-32
	30-Sept-22	151.5	EPS growth	–	120,000	–	–	**120,000**	30-Sept-25	30-Sept-32
Brian Hogan	10-Mar-22	150	EPS growth	–	360,000	–	360,000	**–**	10-Mar-25	10-Mar-32
Colin Rees	12-Dec-17	49.5	EPS growth	303,030	–	303,030	–	**–**	12-Dec-20	12-Dec-27
	11-Dec-18	69	EPS growth	71,970	–	–	–	**71,970**	11-Dec-21	11-Dec-28
	15-Sept-20	88	EPS growth	34,091	–	–	–	**34,091**	15-Sept-23	15-Sept-30
	15-Sept-20	0.5	EPS growth	39,773	–	–	–	**39,773**	15-Sept-23	15-Sept-30
	10-Mar-22	150	EPS growth	–	90,000	–	–	**90,000**	10-Mar-25	10-Mar-32

Directors' Remuneration Report continued

During 2022 the closing mid-market quote for the Company's shares ranged from a low of 132p to a high of 200p. As seen from the table below, two Directors exercised options over the Company's shares during the year.

Director	Scheme	Number of options	Exercise price (pence)	Market price at exercise date	**Gains on exercise 2022 £'000s**	Gains on exercise 2021 £'000s
Chris Dent	December 2017	303,030	49.5	152.5	**312**	–
	December 2018	21,970	69	152.5	**18**	–
	September 2020	17,310	88	152.5	**11**	–
	September 2020	8,655	0.5	152.5	**13**	–
Colin Rees	December 2017	303,030	49.5	160	**335**	–

Company share option plan

During 2020 the Company established a CSOP for employees and Directors, which will enable them to acquire new Ordinary Shares of 0.5 pence each in the Company subject to certain Company performance criteria being met. The market price at award date was 88p. Similar to the Company's existing share option schemes, employees and directors are only able to exercise their options under the CSOP as follows:

1. 20% after reported adjusted EPS achieves compound annual growth of 8% over each of the next three financial years;
2. 100% after reported adjusted EPS achieves compound annual growth of 15% over each of the next three financial years; and
3. between 20% to 100% of their options on a sliding scale basis on EPS growth between the targets in 1 and 2 above.

In respect of the Directors and certain members of the senior leadership team, this plan is a matching plan, requiring these participants to purchase shares in the Company at the prevailing market price before the grant is effective.

Management share option scheme

In addition to the above, the Company has an unapproved "nil cost" Management Scheme, which will enable them to acquire new Ordinary Shares at their nominal value of 0.5 pence each based on the number of Ordinary Shares they have purchased in the Company. The number of matching shares options granted to each Director under the Management Scheme has been determined as being equal to the number of Ordinary Shares they have purchased in the Company, at the then prevailing share price. Options granted under the Management Scheme have the same EPS conditions of exercise as the CSOP as set out above. In respect of this scheme, any future matching options will be granted at market price.

Management unapproved share option scheme

In 2022 the Company has awarded 560,000 options to 5 Executive directors under an unapproved Management Scheme which will enable them to acquire new Ordinary shares of 0.5 pence each in the Company subject to certain performance criteria being met. Options granted under this scheme have the same EPS conditions of exercise as the CSOP as set out above. The average market price at the award date was 150p.

SARs plan

In 2022 the Company awarded 360,000 stock appreciation rights, (SARs) which are cash settled, to Brian Hogan, all of which lapsed during the year. Options granted under this scheme have the same EPS conditions of exercise as the CSOP as set out above. The market price at the award date was 150p.

Directors' Report

Scope of this report

The Directors' biographies on pages 47 to 49, the discussion of corporate governance matters on pages 51 to 54 and the Remuneration Report on pages 55 to 57 are hereby incorporated by reference to form part of this Directors' Report.

As permitted under the Companies Act 2006, certain matters which would otherwise need to be included in this Directors' Report have instead been discussed in the Strategic Report. These matters are the discussion of the performance and likely future developments in the business of the Company and its subsidiaries. Disclosures relating to financial risk management are included in Note 3 to the financial statements.

Principal activities

The principal activity of the Group is building market-leading businesses in selected customer segments, primarily via a franchise model. Our focus is on established brands which can benefit from our shared support services, specialist sector expertise, management experience and Group resources. The principal activity of the Company is to act as a holding company and to provide management services to its subsidiary companies.

Directors

Names, biographical details and appointment dates of the Directors of the Company at the date of this report are shown on pages 47 to 49.

Directors' interests

The following table shows the interests of the Directors (and their spouses and minor children) in the shares of the Company.

Director	**At 31 December 2022**	At 31 December 2021
Stephen Hemsley[1]	**22,179,844**	22,179,844
Andrew Mallows[2]	**115,957**	–
Julia Choudhury[3]	**1,546,701**	1,546,701
Tim Harris[4]	**1,385,365**	1,385,365
Peter Molloy[5]	**71,956**	71,956
Colin Rees	**706,039**	403,009
Jason Sayers[8]	**13,438,183**	–
Nigel Wray[6]	**22,366,303**	22,366,303
David Poutney[7]	**3,696,495**	3,696,495
Rob Bellhouse	**111,260**	111,260

Notes:

1. Included in the holding of Stephen Hemsley are 1,626,875 Ordinary Shares held by his wife, 8,946,989 Ordinary Shares held by CTG Investment Limited, a company owned by a discretionary trust of which Mr Hemsley and his family are potential beneficiaries, and 1,613,292 Ordinary Shares held by his Self-Invested Personal Pension ("SIPP").
2. Included in the holding of Andrew Mallows are 99,007 Ordinary Shares held by his SIPP.
3. Included in the holding of Julia Choudhury are 384,286 Ordinary Shares held jointly with her husband, 423,170 Ordinary Shares held by her SIPP and 37,554 Ordinary Shares held by Winsham Capital Partners Ltd, a Company controlled by Julia Choudhury and her husband.
4. Included in the holding of Tim Harris are 74,156 Ordinary Shares held by his SIPP.
5. Included in the holding of Peter Molloy are 38,095 Ordinary Shares held by his SIPP.
6. Included in the holding of Nigel Wray are 1,815,763 Ordinary Shares held by Vidacos Nominees Limited, acting as nominee for RBC Trustees (Jersey) Limited as trustee of Nigel Wray's family trust. Also included are 11,631,782 Ordinary Shares and 8,085,248 Ordinary Shares held by Euroblue Investments Limited and Glengrace Limited, respectively, companies wholly owned by Nigel Wray. Also included in Nigel Wray's interest are 223,880 Ordinary Shares owned by The Priory Foundation, a charitable trust of which he is the settlor and a trustee. Nigel Wray is not the beneficial owner of these shares.
7. Included in the holding of David Poutney are 2,800,109 Ordinary Shares held by his SIPP and an interest in 761,386 Ordinary Shares held by his wife and adult daughters. David Poutney controls the interest held by his wife and adult daughters but is not the beneficial owner of these shares.
8. Included in the holding of Jason Sayers are 9,171,029 Ordinary Shares held by The Meredian Settlement Trust. Roy Sayers is the settlor and a trustee of the Trust. Jason Sayers is a life tenant and he and Mrs. Dawn Sayers, wife of Roy Sayers, are the beneficiaries of the Trust.

In addition, Andrew Mallows, Julia Choudhury, Tim Harris, Peter Molloy and Colin Rees hold options over shares of the Company through their participation in the Company's LTIP, which are detailed in the Remuneration Report on pages 55 to 57.

Major shareholders

Insofar as is known to the Company and in addition to the holdings of the Directors above, the following persons hold, as at the date of this document, and are expected (based on the information available as at the date of this document), to hold directly or indirectly 3% or more of the share capital:

	Current	
Shareholder	Number of Ordinary Shares	Percentage of existing share capital
Slater Investments Limited	9,188,266	7.1%
Gresham House Asset Management Limited	7,159,812	5.5%
British Growth Fund	6,027,159	4.6%
Victor Clewes	5,274,473	4.1%
Canaccord Genuity Group Inc	4,198,000	3.2%

Directors' Report continued

Going concern

In assessing the appropriateness of adopting the going concern basis in preparing the Annual Report and financial statements, the Directors have considered the current financial position of the Group, alongside its principal risks and uncertainties.

The review performed considers plausible financial and operational issues that could reasonably arise within the period. This included credit risk, dependency on key suppliers / customers; and economic risk. The budgets and plans prepared for the next 12-24 months have been subjected to sensitivity analysis, considering the impact of a downturn in trade; and changes to the Group WACC.

On an individual customer basis we do not have a concentration of credit risk. We have taken account of the heightened bad debt risk in providing additional expected credit loss provision in 2022, and believe this is sufficient.

The Group is not overly dependent on one key customer or supplier. It has 591 franchisees over six different franchise networks. Therefore, each franchisee is of low relevant risk to Franchise Brands plc. In the wider network our franchisees do not have concentration either. Our networks are characterised by having a large number of small value jobs being completed for a wide variety of customers.

The acquisition of Filta has left the Group less reliant on the UK economy, in the past over 99% of our revenues and profits being derived from the UK, this is now nearer 65%.

In all cases, the business model remained robust. The Group has generated significant profits both during the years covered by these financial statements, and in previous years. The Group has sufficient current financial assets to meet its current liabilities as they fall due, and has no external bank borrowings. All these provide resilience against these factors and other principal risks the Group is exposed to.

Given the fact that the Group and the Company continues to be profitable, continues to have net assets and has access to cash and funding, the Directors have made appropriate enquiries and consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors' and officers' liability insurance and indemnification of Directors

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for any legal action brought against its Directors.

The Company has also granted indemnities to each of its Directors to the extent permitted by law. Qualifying third-party indemnity provisions (as defined in Section 324 of the Companies Act 2006) have been given in favour of all Directors on the Board. These indemnities remain in force and relate to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Company.

Directors' obligations to the auditors

The Directors confirm that:

– so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
– they have each taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Branches

As a result of the acquisition of Filta Group Holdings plc in March the business now operates in North America, Europe and the United Kingdom.

Dividends

A final dividend of 0.90 pence per share was paid on 27 May 2022 in respect of the 2021 financial year. An interim dividend of 0.90 pence per share in respect of the 2022 financial year was paid on 23 September 2022. The Directors are recommending a final dividend of 1.10 pence per share which, subject to shareholders' approval at the AGM, will be paid on the 12th May 2023 to shareholders on the register at the close of business on the 14th April 2023.

Share capital

The Company's entire issued share capital comprises Ordinary Shares of 0.5 pence each. Note 28 to the financial statements summarises the number in issue during 2022.

Voting rights

On a show of hands every member who (being an individual) is present in person or by proxy or (being a corporation) is represented by a duly authorised representative and is entitled to vote shall, upon a show of hands, have one vote and on a poll every member who is present in person or by proxy or corporate representative and entitled to vote shall have one vote for every share of which he is the holder.

Where a registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under Section 793 of the Act, then not earlier than 14 days after service of such notice the shares in question may be disenfranchised.

Directors' Report continued

Statutory disclosures

In accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 the Directors disclose the following information:

- The Company's capital structure and voting rights are detailed on page 97. There are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- There exist no securities carrying special rights with regard to the control of the Company;
- Details of the substantial shareholders and their shareholdings in the Company are detailed on page 58;
- The rules concerning the appointment and replacement of Directors, amendment to the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- There exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- There exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

Political and charitable donations

No political or charitable donations were made during the period.

Auditor

A resolution to reappoint BDO LLP as auditor will be proposed at the AGM. A tender in respect of the external audit of the Company and Group was last conducted in 2017.

Financial instruments and risk management

The Company's use of financial instruments and its financial risk management objectives and policies are set out in Note 3 of the financial statements.

Subsidiary audit exemption

The UK subsidiaries of the Company are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of s479a of the Act. The outstanding liabilities at 31 December 2022 of those subsidiaries have been guaranteed by the Company pursuant to s479A to s479C of the Act. In the opinion of the Directors, the possibility of the guarantee being called upon is remote.

Annual meeting

The 2022 Annual General Meeting of the Company will be held on 18 April 2023, the business of which is set out in the Notice of Meeting. A circular containing the Notice of Meeting and an explanatory letter from the Chairman is being posted to shareholders and is also available on the Company's website.

Andrew Mallows
Interim Chief Financial Officer
8 March 2023

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group and Company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the Group's profit or loss for that period. The Directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM.

In preparing these financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors, as is the ongoing integrity of the financial statements contained therein.

Approved by the Board.

Andrew Mallows
Interim Chief Financial Officer
8 March 2023

Independent Auditor's Report

to the members of Franchise Brands plc

Opinion on the financial statements

In our opinion:
- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with UK adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Franchise Brands Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2022 which comprise the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statements of cash flows, the consolidated and company statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included the following:

We obtained the Directors' assessment that supports the Board's conclusions with respect to going concern and performed the following:
- We challenged the rationale for the assumptions utilised in the forecasts, using our knowledge of the business and the sector and wider commentary available from stock market analysts;
- We considered the appropriateness of the Directors' forecasts by testing their mathematical accuracy, assessing historical forecasting accuracy and understanding the Directors' consideration of downside sensitivity analysis and reverse stress testing;
- We reperformed sensitivities on the Directors' base case and stressed case scenarios, considered the likelihood of these occurring and understood and challenged the mitigating actions the Directors' would take under these scenarios; and
- We assessed the going concern disclosures against the requirements of the accounting standards, and assessed the consistency of the disclosures with the Directors' forecasts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage	99% (2021: 94%) of Group profit before tax		
	94% (2021: 94%) of Group revenue		
	92% (2021: 98%) of Group total assets		
Key audit matters		2022	2021
	Acquisition accounting	XX	
	Impairment of goodwill and intangibles	XX	XX
	Acquisition accounting has been raised as a key audit matter in the current year related to the Group's acquisition of The Filta Group Holdings Plc in 2022.		
Materiality	Group financial statements as a whole		
	£485,000 (2021:280,000) based on 5% (2021: 5%) of profit before tax		

Independent Auditor's Report continued

to the members of Franchise Brands plc

An overview of the scope of our audit

Prior to the acquisition of Filta Group Holdings Plc ('Filta') the Group operated solely in the UK. Filta has added operations from a number of locations across the globe, albeit principally in USA and Europe.

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement. Based on that assessment, we focused our Group audit scope primarily on the audit work on the following significant components of the Group, all of which were subject to full scope audits:

- the Parent Company,
- MetroRod Limited,
- Willow Pumps Limited,
- Chipsaway International Limited, and
- The Filta Group Inc.

Each of the entities above were audited by the UK Group engagement team, apart from The Filta Group Inc. for which a USA non-BDO member firm was used as component auditor.

In addition to the above, one component of the Group, The Filta Group Limited, was subject to an audit of specified account balances by the Group engagement team. Review procedures were performed on the financial information of the remaining non–significant components of the Group, also by the Group engagement team.

At Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

Our involvement with component auditors

For the work performed by component auditors, we determined the level of involvement needed in order to be able to conclude whether sufficient appropriate audit evidence has been obtained as a basis for our opinion on the Group financial statements as a whole. Our involvement with component auditors included the following:

- We held discussions with the component auditors at the planning stage of the audit to assess their competence and to ensure their understanding of the Group audit engagement;
- We issued referral instructions to the component auditors detailing matters inclusive of materiality, Group audit risks and other key focus areas, and the required format of reporting us as the Group auditor;
- We visited the component auditor and reviewed the audit working papers;
- We evaluated the work performed; and
- We attended the local close meeting remotely (utilising technology to do) with component management.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter		How the scope of our audit addressed the key audit matter
Acquisition accounting Refer to the accounting policies in note 2 and Note 5	The Group acquired Filta on 10 March 2023 via a share for share exchange. Accounting for acquisitions can be complex and requires significant judgement. The recognition and valuation of assets and liabilities acquired, such as intangible assets, is inherently complex and judgemental. Management have utilised a third party expert to support the preparation of detailed calculations to determine the fair value of the intangible assets acquired. As a result of the judgements required to be made by management there is a risk of material misstatement in the fair value allocated to assets and liabilities acquired including intangible assets and the balance of goodwill recognised. For these reasons, acquisition accounting was determined to be a key audit matter.	We obtained and reviewed the sale and purchase agreement (SPA) to check that the appropriate accounting treatment had been applied. Our work included: – With the support of our internal valuations experts we challenged the key inputs, assumptions and methodology used by management and their expert in determining the fair values of intangible assets acquired based on our knowledge of the industry; – Use of management reconciliations and supporting documentation to agree the acquisition net book values of assets and liabilities and resulting fair value adjustments; – Challenging the completeness of intangible assets acquired through inspection of due diligence reports and previous financial statements of Filta; – Agreeing the fair value of the purchase consideration to supporting evidence and recalculating the equivalent goodwill arising on acquisition; and – Reviewing the disclosures for the business combination in line with IFRS 3. **Key observations:** Based on our procedures we found management's key assumptions to be within a reasonable range.

Independent Auditor's Report continued

to the members of Franchise Brands plc

Key audit matters continued

Key audit matter		How the scope of our audit addressed the key audit matter
Impairment of goodwill and intangible assets Refer to the accounting policies in note 2 and Note 13	The Group has goodwill and indefinite life intangible assets, which management are required to test annually for impairment. There is a high degree of management judgement in assessing the value in use of the Cash Generating Unit ("CGU") to which the Goodwill and Intangible Assets are allocated and therefore determining any potential impairments. Following the acquisition of Filta in the year management have further been required to re-assess the CGUs that are considered within the impairment review. There is therefore a significant risk that impairment of these assets is not appropriately recognised in accordance with applicable financial reporting standards. For these reasons, this was considered to be a key audit matter.	In relation to the impairment analysis performed for each CGU we considered the reasonableness of management's key judgements. Our work included; – We assessed whether the CGUs as presented by management were reasonable and in line with the definition in the applicable financial reporting standards; – Challenging the future trading projections by reference to current performance and the accuracy of prior year forecasting; – Determining whether the forecasts adopted in the impairment review were approved by the Board and consistent with those used in the going concern assessment; – With the assistance of our internal valuations experts, determining the appropriateness of the discount rate applied and challenging the discount rate applied using a range of sensitivities; – Checking the impairment analysis for logical and arithmetic accuracy and that it has been undertaken in accordance with the requirements of the applicable financial reporting standards; – Verifying the reasonableness of the budgeted long term growth rate by comparing to historical performance; and – Performing sensitivity analysis to understand the relative impact of changes in the key assumptions within the impairment models, as well as to confirm the appropriateness of management's disclosure of sensitivities in respect of the impairment review. **Key observations:** Based on our procedures we found management's key assumptions underlying the impairment analysis to be appropriate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2022 £	2021 £	**2022 £**	2021 £
Materiality	485,000	280,000	100,000	112,000
Basis for determining materiality	5% of Profit Before Tax		20% of group materiality	40% of group materiality
Rationale for the benchmark applied	Profit Before Tax is one of the principal considerations for users of the financial statements in assessing the financial performance of the business.		Capped at £100,000 materiality given the assessment of the component aggregation risk.	Capped at 40% of Group materiality given the assessment of the component aggregation risk.
Performance materiality	339,500	210,000	70,000	82,500
Basis for determining performance materiality	70% of materiality based on the expected low level of misstatements however lower than the prior year taking into consideration the Filta acquisition and increase in the number of areas subject to estimation.	75% of materiality based on the expected low level of misstatements and the relatively low number of accounts that are subject to management estimation.	70% of materiality based on the expected low level of misstatements however lower than the prior year taking into consideration the increase in areas subject to estimation.	75% of materiality based on the expected low level of misstatements and the relatively low number of accounts that are subject to management estimation.

Independent Auditor's Report continued

to the members of Franchise Brands plc

Component materiality

We set materiality for each significant component of the Group based on a percentage of between 20% and 62% (2021: 25% to 65%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £100k to £300k (2021: £70K and £182k). In the audit of each component, we further applied performance materiality levels of 70% (2021:75%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £14,550 (2021: £8,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: – the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and – the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: – adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or – the Parent Company financial statements are not in agreement with the accounting records and returns; or – certain disclosures of Directors' remuneration specified by law are not made; or – we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report continued

to the members of Franchise Brands plc

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Based on our understanding and accumulated knowledge of the Group and the sector in which it operates we considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud and whether such actions or non-compliance might have a material effect on the financial statements. These included but were not limited to those that relate to the form and content of the financial statements, such as the Group accounting policies, UK adopted international accounting standards and the UK Companies Act 2006; those that relate to the payment of employees; and industry related regulations such as compliance with health and safety.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates, inappropriate application of revenue recognition policies, as well as revenue cut-off in specific subsidiary entities. Our audit procedures included, but were not limited to:

- challenging assumptions and judgements made by management in their significant accounting estimates and judgements, in particular performing focused audit testing in relation to:
  - a) the valuation and potential impairment of goodwill and other intangibles (refer to the key audit matters section above),
  - b) the accuracy of business combination accounting, inclusive of challenging the values assigned to intangible assets recognised on acquisition (refer to the key matters section above), and
  - c) the application of revenue recognition policies, in particular the pertinence of the supply and install revenue stream within subsidiary Willow Pumps and its adherence to IFRS 15 guidance.
- identifying and testing journal entries to source documentation, in particular any journal entries posted with unusual account combinations, journals to revenue and cash, and review of journals posted to least used accounts or including specific keywords to source documentation;
- assessing revenue recognised on key revenue streams for a defined period around the year end and post year end for specific subsidiary entities, selecting a sample of revenue items within this defined period and identifying if the transactions have been reflected in the correct period in line with when the performance obligation was met;
- incorporating an element of unpredictability into the audit procedures, by testing a sample of immaterial employee expenses incurred in the year to supporting documentation to assess the validity, and performing revenue recognition testing within an insignificant component of the group;
- holding discussions with those charged with governance, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- reviewing minutes of Board meetings throughout the year and post year end for instances of non-compliance with laws and regulations and fraud;
- reviewing a sample of legal costs incurred and any known legal correspondence throughout the year for instances of non-compliance with laws and regulations;
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations; and
- agreeing the financial statement disclosures to underlying supporting documentation.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including component team members, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. For the component team members, we have reviewed the work performed in this regard as noted earlier in our report.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion.

There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's Report continued

to the members of Franchise Brands plc

Use of our report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Graham Ellis (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, United Kingdom
8 March 2022

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	Note	2022 Continuing Operations £'000	2022 Discontinuing Operations £'000	2022 Total £'000	2021 Continuing Operations £'000	2021 Discontinuing Operations £'000	2021 Total £'000
Revenue	6	**92,729**	**6,423**	**99,152**	51,262	6,427	57,690
Cost of sales		**(61,936)**	**(1,251)**	**(63,187)**	(34,396)	(1,368)	(35,763)
Gross profit		**30,793**	**5,172**	**35,965**	16,867	5,060	21,926
Adjusted earnings before interest, tax, depreciation, amortisation, share-based payments & non-recurring items ("Adjusted EBITDA")		**13,005**	**2,276**	**15,281**	6,136	2,338	8,474
Depreciation	7,14,15	**(1,594)**	**(187)**	**(1,781)**	(1,216)	(162)	(1,378)
Amortisation of software	7,13	**(499)**	**(1)**	**(500)**	(339)	–	(339)
Amortisation of acquired intangibles	7,13	**(1,504)**	**–**	**(1,504)**	(393)	–	(393)
Share-based payment expense	7,9	**(510)**	**(25)**	**(535)**	(302)	(32)	(334)
Non-recurring items	5,7	**(475)**	**–**	**(475)**	(187)	–	(187)
Total administrative expenses		**(22,371)**	**(3,108)**	**(25,479)**	(13,166)	(2,916)	(16,082)
Operating profit		**8,422**	**2,064**	**10,486**	3,701	2,144	5,844
Other gains and losses		**–**	**–**	**–**	223	–	223
Finance expense	10	**(221)**	**(14)**	**(235)**	(283)	(10)	(292)
Profit before tax		**8,201**	**2,050**	**10,251**	3,641	2,134	5,775
Tax expense	11	**(1,556)**	**(405)**	**(1,961)**	(1,182)	(359)	(1,541)
Profit for the year attributable to equity holders of the parent company		**6,645**	**1,645**	**8,290**	2,459	1,775	4,233
Other comprehensive income							
Exchange differences on translation of foreign operations		**28**	**–**	**28**	–	–	–
Total comprehensive income attributable to equity holders of the parent company		**28**	**–**	**28**	–	–	–
Earnings per share							
Basic	12	**5.46**	**1.35**	**6.81**	2.57	1.85	4.42
Diluted	12	**5.37**	**1.33**	**6.70**	2.50	1.80	4.30

The notes on pages 76 to 100 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2022

	Note	2022 £'000	2021 £'000
Assets			
Non-current assets			
Intangible assets	13	**85,113**	35,278
Property, plant and equipment	14	**3,208**	2,609
Right-of-use assets	15	**2,568**	2,723
Contract acquisition costs	16	**402**	–
Trade and other receivables	18	**811**	182
Total non-current assets		**92,102**	40,792
Assets in disposal groups classified as held for sale	22	**5,576**	–
Current assets			
Inventories	17	**1,989**	908
Trade and other receivables	18	**21,660**	16,514
Contract acquisition costs	16	**92**	–
Current tax asset		**220**	–
Cash and cash equivalents		**10,799**	9,054
Total current assets		**34,760**	26,476
Total assets		**132,438**	67,268
Liabilities			
Current liabilities			
Trade and other payables	19	**18,160**	12,144
Obligations under leases	24	**831**	754
Deferred income	20	**807**	–
Current tax liability		**–**	213
Contingent consideration	23	**–**	345
Total current liabilities		**19,798**	13,456
Liabilities directly associated with assets in Disposal groups classified as held for sale	22	**1,786**	–
Non-current liabilities			
Obligations under leases	24	**1,626**	1,780
Deferred income	20	**1,744**	–
Contingent consideration	23	**–**	2,567
Deferred tax liability	25	**4,444**	2,139
Total non-current liabilities		**7,814**	6,487
Total liabilities		**29,398**	19,943

	Note	2022 £'000	2021 £'000
Total net assets		**103,040**	47,325
Issued capital and reserves attributable to owners of the Company			
Share capital	28	**652**	480
Share premium	28	**37,293**	36,966
Share-based payment reserve	28	**1,217**	789
Merger reserve	28	**52,212**	1,390
Translation reserve	28	**155**	–
EBT reserve	28	**(3,007)**	(504)
Retained earnings		**14,518**	8,204
Total equity attributable to equity holders		**103,040**	47,325

The consolidated financial statements of Franchise Brands plc (Company number: 10281033) on pages 69 to 100 were approved and authorised for issue by the Board of Directors on 8 March 2023 and were signed on its behalf by:

Andrew Mallows
Director

Company Statement of Financial Position

At 31 December 2022

	Note	2022 £'000	Restated 2021 £'000	Restated 2020 £'000
Assets				
Non-current assets				
Fixed asset investments	27	**91,590**	42,823	41,469
Total non-current assets		**91,590**	42,823	41,469
Assets in disposal groups classified as held for sale	27	**2,564**	–	–
Current assets				
Trade and other receivables	18	**1,268**	859	2,242
Cash and cash equivalents		**3,282**	3,958	8,997
Total current assets		**4,550**	4,817	11,239
Total assets		**98,704**	47,640	52,708
Liabilities				
Current liabilities				
Trade and other payables	19	**4,531**	1,181	712
Loans and borrowings		**–**	–	1,908
Contingent consideration	23	**–**	344	320
Total current liabilities		**4,531**	1,525	2,940
Non-current liabilities				
Loans and borrowings		**–**	–	3,200
Contingent consideration	23	**–**	2,568	3,136
Total non-current liabilities		**–**	2,568	6,336
Total liabilities		**4,531**	4,093	9,276
Net assets		**94,173**	43,547	43,432
Issued capital and reserves attributable to owners of the Company				
Share capital	28	**652**	480	479
Share premium	28	**37,293**	36,966	36,817
Share-based payment reserve	28	**1,217**	789	455
Merger reserve	28	**52,092**	1,270	1,270
EBT reserve	28	**(3,007)**	(504)	(149)
Retained earnings		**5,926**	4,546	4,560
Total equity attributable to equity holders		**94,173**	43,547	43,432

No statement of comprehensive income is presented by the Company as permitted by Section 408 of the Companies Act. Franchise Brands plc reported a profit and total comprehensive income for the financial period ended 31 December 2022 of £3.71m (2021: £1.19m).

The Company financial statements of Franchise Brands plc (Company number: 10281033) on pages 69 to 100 were approved and authorised for issue by the Board of Directors on 8 March 2023 and were signed on its behalf by:

Andrew Mallows
Director

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	Note	**2022 Continuing Operations £'000**	**2022 Discontinuing Operations £'000**	**2022 Total £'000**	2021 Continuing Operations £'000	2021 Discontinuing Operations £'000	2021 Total £'000
Cash flows from operating activities							
Profit for the year		**6,673**	**1,645**	**8,318**	2,459	1,775	4,233
Adjustments for:							
Depreciation of property, plant and equipment	14	**725**	**31**	**756**	474	25	499
Depreciation of right-of-use assets	15	**869**	**156**	**1,025**	743	136	879
Amortisation of software	13	**499**	**1**	**500**	338	1	339
Amortisation of acquired intangibles	13	**1,504**	**–**	**1,504**	393	–	393
Non-recurring costs		**–**	**–**	**–**	187	–	187
Share-based payment expense	9	**510**	**25**	**535**	302	32	334
Willow contingent consideration	23	**(1,232)**	**–**	**(1,232)**	(223)	–	(223)
Finance expense	10	**221**	**14**	**235**	283	10	292
Exchange differences on translation of foreign operations		**(28)**	**–**	**(28)**	–	–	–
Tax expense	11	**1,556**	**405**	**1,961**	1,183	359	1,542
Operating cash flow before movements in working capital		**11,297**	**2,277**	**13,574**	6,136	2,338	8,474
(Increase)/decrease in trade and other receivables	18	**(1,997)**	**(2,664)**	**(4,661)**	(1,505)	113	(1,392)
(Increase) in inventories	17	**85**	**(486)**	**(401)**	(218)	23	(195)
Increase/(decrease) in trade and other payables	19	**1,862**	**(17)**	**1,845**	2,469	(1,159)	1,311
Cash generated from operations		**11,247**	**(890)**	**10,357**	6,882	1,315	8,198
Corporation taxes paid		**(2,629)**	**–**	**(2,629)**	(993)	68	(924)
Net cash generated from operating activities		**8,618**	**(890)**	**7,728**	5,890	1,384	7,273
Cash flows from investing activities							
Purchases of property, plant and equipment	14	**(378)**	**(44)**	**(422)**	(1,708)	(15)	(1,723)
Proceeds from the sale of property, plant and equipment	14	**259**	**–**	**259**	–	–	–
Purchase of software	13	**(1,077)**	**(11)**	**(1,088)**	(433)	–	(433)
Loans to franchisees		**(1,062)**	**–**	**(1,062)**	–	–	–
Franchisee loans repaid		**548**	**–**	**548**	–	–	–
Acquisition of subsidiaries including costs, net of cash acquired (including deferred consideration)	5	**4,320**	**–**	**4,320**	(861)	–	(861)
Net cash used in investing activities		**2,610**	**(55)**	**2,555**	(3,002)	(15)	(3,017)
Cash flows from financing activities							
Bank loans – repaid		**(2,953)**	**–**	**(2,953)**	(5,309)	–	(5,309)
Other loans – made		**–**	**–**	**–**	2	–	2
Capital element of lease liability repaid		**(902)**	**(135)**	**(1,037)**	(900)	(206)	(1,106)
Interest paid – bank and other loan		**(111)**	**(5)**	**(116)**	(107)	–	(107)
Interest paid – leases		**(110)**	**(9)**	**(119)**	(180)	(9)	(189)
Proceed from issue of shares		**330**	**–**	**330**	–	–	–

Consolidated Statement of Cash Flows continued

For the year ended 31 December 2022

	Note	**2022 Continuing Operations £'000**	**2022 Discontinuing Operations £'000**	**2022 Total £'000**	2021 Continuing Operations £'000	2021 Discontinuing Operations £'000	2021 Total £'000
Funds supplied to Employee Benefit Trust		**(2,503)**	**–**	**(2,503)**	(355)	–	(355)
Dividends paid	30	**(2,339)**	**–**	**(2,339)**	(1,341)	–	(1,341)
Net cash generated from financing activities		**(8,588)**	**(149)**	**(8,737)**	(8,190)	(215)	(8,404)
Net increase in cash and cash equivalents		**2,639**	**(1,094)**	**1,546**	(5,302)	1,154	(4,148)
Cash and cash equivalents at beginning of year		**7,397**	**1,658**	**9,054**	12,699	504	13,203
Exchange differences on cash and cash equivalents		**199**	**–**	**199**	–	–	–
Cash and cash equivalents at end of year		**10,235**	**564**	**10,799**	7,397	1,658	9,054

RECONCILIATION OF CASH FLOW TO THE GROUP NET DEBT POSITION

Group	Term Loan £'000	Loan fees £'000	Lease liabilities £'000	Total liabilities from financing activities £'000	Cash £'000	Total net cash/ (net debt) £'000
At 1 January 2021	(5,225)	117	(3,137)	(8,245)	13,203	4,958
Financing cash flows	5,309	–	1,295	6,604	–	6,604
Other cash flows	–	–	–	–	(4,149)	(4,149)
Other changes	(84)	(117)	(692)	(893)	–	(893)
At 1 January 2022	**–**	**–**	**(2,534)**	**(2,534)**	**9,054**	**6,520**
Financing cash flows	**(2,953)**	**–**	**1,155**	**(1,798)**	**–**	**(1,798)**
Other cash flows	**–**	**–**	**–**	**–**	**1,546**	**1,546**
Other changes	**2,953**	**–**	**(1,377)**	**1,576**	**199**	**1,775**
At 31 December 2022	**–**	**–**	**(2,756)**	**(2,756)**	**10,799**	**8,043**

Company Statement of Cash Flows

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Profit for the year		**3,715**	1,199
Adjustments for:			
Non-recurring costs		**–**	181
Other gains and losses		**–**	84
Finance expenses		**40**	(223)
Willow contingent consideration		**(1,232)**	–
Tax expense		**(108)**	132
Share-based payment expense		**90**	(107)
Operating cash flow before movements in working capital		**2,505**	1,267
Decrease/(increase) in trade and other receivables	18	**(2)**	2,459
Increase/(decrease) in trade and other payables	19	**2,303**	561
Cash generated from operations		**4,806**	4,287
Corporation taxes paid		**(930)**	(924)
Net cash generated from operating activities		**3,876**	3,362
Cash flows from investing activities			
Acquisition of subsidiaries including costs (including deferred consideration)		**–**	(1,290)
Net cash used in investing activities		**–**	(1,290)
Cash flows from financing activities			
Bank loans – repaid		**–**	(5,309)
Interest paid – bank and other loans		**(40)**	(107)
Proceed from issue of shares		**330**	–
Funds supplied to Employee Benefit Trust		**(2,503)**	(355)
Dividends paid	30	**(2,339)**	(1,341)
Net cash flows (used)/generated by financing activities		**(4,552)**	(7,112)
Net (decrease)/increase in cash and cash equivalents		**(676)**	(5,039)
Cash and cash equivalents at beginning of year		**3,958**	8,997
Cash and cash equivalents at end of year		**3,282**	3,958

RECONCILIATION OF CASH FLOW TO THE COMPANY NET DEBT POSITION

Group	Term Loan £'000	Loan fees £'000	Total liabilities from financing activities £'000	Cash £'000	Total net cash (net debt) £'000
At 1 January 2021	(5,225)	117	(5,108)	8,997	3,889
Financing cash flows	5,309	–	5,309	–	5,309
Other cash flows	–	–	–	(5,039)	(5,039)
Other changes	(84)	(117)	(201)	–	(201)
At 1 January 2022	**–**	**–**	**–**	**3,958**	**3,958**
Financing cash flows	**–**	**–**	**–**	**–**	**–**
Other cash flows	**–**	**–**	**–**	**(676)**	**(676)**
Other changes	**–**	**–**	**–**	**–**	**–**
At 31 December 2022	**–**	**–**	**–**	**3,282**	**3,282**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

Group	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Translation reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2021	479	36,817	455	1,390	–	(149)	4,849	43,841
Profit for the year and total comprehensive income	–	–	–	–	–	–	4,233	4,233
Contributions by and distributions to owners								
Shares issued	1	149	–	–	–	–	–	150
Dividend paid	–	–	–	–	–	–	(1,341)	(1,341)
Contributions to Employee Benefit Trust	–	–	–	–	–	(355)	–	(355)
Share-based payment	–	–	334	–	–	–	463	797
At 1 January 2022	**480**	**36,966**	**789**	**1,390**	**–**	**(504)**	**8,205**	**47,325**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**8,318**	**8,318**
Foreign exchange translation differences	**–**	**–**	**–**	**–**	**155**	**–**	**–**	**155**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**155**	**–**	**8,318**	**8,473**
Contributions by and distributions to owners								
Shares issued	**169**	**–**	**–**	**50,822**	**–**	**–**	**–**	**50,991**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**–**	**(2,339)**	**(2,339)**
Contributions to Employee Benefit Trust	**3**	**327**	**–**	**–**	**–**	**(2,503)**	**–**	**(2,173)**
Share-based payment	**–**	**–**	**428**	**–**	**–**	**–**	**335**	**763**
At 31 December 2022	**652**	**37,293**	**1,217**	**52,212**	**155**	**(3,007)**	**14,518**	**103,040**

Company Statement of Changes in Equity

For the year ended 31 December 2022

Company	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	EBT reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2021	479	36,817	455	1,270	(149)	4,560	43,432
Profit for the year and total comprehensive income	–	–	–	–	–	1,199	1,199
Contributions by and distributions to owners							
Shares issued	1	149	–	–	–	–	150
Dividend paid	–	–	–	–	–	(1,341)	(1,341)
Contributions to Employee Benefit Trust	–	–	–	–	(355)	–	(355)
Share-based payment	–	–	334	–	–	128	462
At 1 January 2022	**480**	**36,966**	**789**	**1,270**	**(504)**	**4,546**	**43,547**
Profit for the year and total comprehensive income	**–**	**–**	**–**	**–**	**–**	**3,715**	**3,715**
Contributions by and distributions to owners							
Shares issued	**169**	**–**	**–**	**50,822**	**–**	**–**	**50,991**
Dividend paid	**–**	**–**	**–**	**–**	**–**	**(2,339)**	**(2,339)**
Contributions to Employee Benefit Trust	**3**	**327**	**–**	**–**	**(2,503)**	**–**	**(2,173)**
Share-based payment	**–**	**–**	**428**	**–**	**–**	**4**	**432**
At 31 December 2022	**652**	**37,293**	**1,217**	**52,092**	**(3,007)**	**5,926**	**94,173**

Notes forming part of the Financial Statements

For the year ended 31 December 2022

1 Significant accounting policies

General information

Franchise Brands plc (the "Company", and together with its subsidiaries, the "Group"), is a public company incorporated in England and Wales under the Companies Act 2006 with Company Number 10281033. The principal activity of the Group is focused on building market-leading businesses in selected customer segments, using primarily a franchise model. Our focus is on established brands which can benefit from our shared support services, specialist sector expertise, management experience and Group resources. The principal activity of the Company is that of a holding company of a group of companies engaged in franchising and related activities.

Basis of consolidation

The consolidated financial statements incorporate the results and net assets of the Company and its subsidiary undertakings. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date control ceases. All inter-company transactions and balances between Group entities are eliminated upon consolidation.

Basis of preparation

The Group's financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 December 2022. The Group's consolidated financial statements are prepared under the historical cost convention. The principal accounting policies adopted are set out below and have been consistently applied to all the years presented. The Group's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000s) except where indicated.

The Group's financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. In assessing the appropriateness of adopting the going concern basis in preparing the Annual Report and financial statements, the Directors have considered the current financial position of the Group, alongside its principal risks and uncertainties. The review performed considers plausible financial and operational issues that could reasonably arise within the period. This included credit risk, dependency on key suppliers / customers; and economic risk. The budgets and plans prepared for the next 12-24 months have been subjected to sensitivity analysis, considering the impact of a downturn in trade; and changes to the Group WACC.

In all cases, the business model remained robust. The Group has generated significant profits both during the years covered by these financial statements, and in previous years. The Group has sufficient current financial assets to meet its current liabilities as they fall due, and has no external bank borrowings. All these provide resilience against these factors and other principal risks the Group is exposed to.

The Directors have made appropriate enquiries and consider that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Segmental reporting

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Executive Chairman, with support from the Board of Directors, as the function primarily responsible for the allocation of resources to segments and assessment of performance of the segments. The business is organised along the lines of our B2B, International and B2C brands.

Therefore, the Board has determined that we have four different operating segments:

- B2B, which is made up of Metro Rod and Metro Plumb, Willow Pumps and Filta UK;
- Filta International, which is made up of Filta US, Filta Canada and Filta Europe;
- B2C, which is made up of ChipsAway, Ovenclean, Barking Mad and The Handyman Van;
- Azura, which is made up of the software business Azura; and
- Other operations including central administration costs and non-trading companies.

Business combinations

The consideration of the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity issued by the Group, plus if the business combination is acquired in stages the fair value of the existing interest in the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement (see Note 2). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Investments in subsidiaries are measured at cost in the Parent Company.

Foreign currencies

Functional and presentation currency

The consolidated financial statements are presented in Pounds Sterling, which is also the functional currency of the parent company.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency of the respective Group entity, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the profit and loss.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

1 Significant accounting policies continued

Non-monetary items are not retranslated at year-end and are measured at historical cost, except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign Operations

In the Group's financial statements, all assets, liabilities and transactions of Group entities with a functional currency other than Pounds Sterling are translated into Pounds Sterling upon consolidation.

On consolidation, assets and liabilities have been translated into Pounds Sterling at the closing rate at the reporting date. Income and expenses have been translated into Pounds Sterling at the average monthly rate, as an approximation of the rates on the dates of the transactions over the reporting period. Exchange differences are charged/credited to other comprehensive income and recognised in the translation reserve in equity.

Intangible assets

Intangible assets comprise goodwill, certain acquired separable corporate brand names, acquired customer relationships, and capitalised computer software not integral to a related item of hardware. Goodwill represents the excess of fair value attributed to investments in businesses or subsidiary undertakings over the fair value of the underlying net assets, including intangible assets, at the date of their acquisition. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the net present value of future cash flows derived from the underlying assets using a projection period of up to five years, based on the latest approved budgets, for each cash-generating unit. After the projection period a steady growth rate representing an appropriate long-term growth rate for the industry is applied. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Corporate brand names, trademarks, customer relationships and other intangibles acquired as part of acquisitions of businesses are capitalised separately from goodwill as intangible assets if their value can be measured reliably on initial recognition and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Certain corporate brands and trademarks of the Group are considered to have an indefinite economic life because of the institutional nature of the corporate brand names, their proven ability to maintain market leadership and profitable operations over long periods of time and the Group's commitment to develop and enhance their value.

The carrying value of these intangible assets is reviewed at least annually for impairment and adjusted to the recoverable amount if required. Recoverable amount is the higher of fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount the asset or cash generating unit is considered impaired and written down to its recoverable amount. Any impairment is charged to the profit and loss in the period concerned.

Amortisation is provided at rates calculated to write-off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life as follows. Customer-related intangibles have a useful life of 10 years. Others (including capitalised computer software) have a useful life of 3-10 years.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, net of returns, rebates and value-added taxes. There have been no changes to the accounting for revenue in the year. The following criteria must also be met before revenue is recognised:

- Management service fees ("MSF"): MSF is charged for the continuing use of the rights and continuing services provided during the franchise agreements term. They are recognised as the service is provided and the rights are used. These are charged on a monthly basis and the values recognised are based on the performance obligations in the relevant contracts with our franchisees. For ChipsAway and Ovenclean a set monthly fee is charged. For Metro Rod and Barking Mad a variable percentage is charged based on the invoiced revenue of the franchisees.
- Metro Rod, ChipsAway, Ovenclean and Barking Mad sales of franchise territories: Sales of franchise territories represent the charges for packages which include training, other start-up support and equipment. No element of these charges relate to subsequent services. Revenue from franchise fees is recognised when a franchisee completes the relevant training, as this is when we have delivered our performance obligation under the franchise contract.
- Filta sales of franchise territories. The Filta franchise fee consists of two distinct components, being the opening package and the territory fee. The revenue associated with the opening package is recognised when substantially all initial services required by the franchise agreement are performed, which is generally upon the completion of training of the franchisee. The territory fee represents the exclusive right to operate in a designated territory for a stated length of time. The territory fee is deferred over the length of the franchise agreement and released to the combined statements of comprehensive income on a straight-line basis. In circumstances where franchise territories are resold, on an arm's length basis, between a franchisee and a third party, it is the Groups policy to continue to recognise the deferred revenue over the life of the original franchise agreement.
- Product sales: Revenue from sales of products is recognised on delivery to customers, as this is when control is deemed to have transferred.
- Direct labour income: Revenue from our direct labour organisations is recognised when our performance obligations are met in relation to an individual job. Where performance obligations are met over a number of accounting periods, revenue is recognised over time and is based on the proportion of the level of service performed (see Note 2). The performance obligations are defined in our underlying contracts with customers.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

1 Significant accounting policies continued

– National Advertising Funds: National Advertising Funds are collected from franchisees under their agreements and then spent on their behalf on advertising which benefits the underlying franchise networks. The management of the funds does not result in any profit or loss for the Group as all funds received are expended on behalf of the networks. The Directors have concluded that the Group will recognise the costs expended by the funds in the year, and will recognise an equal amount as revenue, with any difference from the amount of cash received from our franchisees as accrued or deferred revenue within the balance sheet. This is because it is the Group which controls the expenditure of the funds, rather than the franchisees. Overall, there is no effect on profit.

Contract acquisition costs

The incremental costs to directly obtain a contract with a customer are capitalised and recognised within contract assets where management expects to recover those costs. Contract assets are amortised, through cost of sales, over the period consistent with the Group's transfer of the related goods and services to the customer. The costs capitalised include sales commission paid to employees and broker fees paid to third parties where payment is identified as relating directly to the sale of a territory licence and initially recognised upon the signing of a customer contract. The costs are amortised over the contract life. Management is required to determine the recoverability of contract related assets at each reporting date. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the Group expects to receive in exchange for providing the associated goods and services under the relevant contract. Any impairment is recognised immediately where such losses are forecast. The movement in the contract asset balance in the period, therefore, represents additional payments made, subsequent amortisation and any required impairment.

Financial liabilities

Bank borrowings are initially recognised at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest-bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. For the purposes of each financial liability, interest expense includes initial transaction costs and any premium payable on redemption, as well as any interest or coupon payable while the liability is outstanding. Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Financial assets

All of the Group's financial assets are classified and held at amortised cost. These assets arise principally from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Inventories are stated at the lower of cost and net realisable value. At the end of each reporting period inventories are assessed for impairment.

Impairment provisions for trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed based on customer type, history of payment as well as by the number of days that debt is past due. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision. Cash and cash equivalents includes cash in hand.

Property, plant and equipment

Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes cost directly attributable to making the asset capable of operating as intended. Depreciation is provided to write-off the cost, less the estimated residual values, of all tangible fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Leasehold property improvements	–	over period of lease
Short-term leasehold improvements	–	over period of lease
Motor vehicles	–	10%-25% straight line
Plant & equipment	–	10% straight line
Fixtures & fittings	–	33% straight line
Computer equipment	–	33% straight line

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

1 Significant accounting policies continued

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate on an annual basis. Any gain or loss arising on derecognition of an asset is included in the statement of comprehensive income in the year that the asset is derecognised.

Share-based payment

When equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. When the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period. Where share options vesting is contingent on a future event a charge is recognised only if the future event is considered probable.

Fair value is measured by the use of an appropriate valuation model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The volatility in the model is calculated by reference to an implied volatility of a group of listed entities that have similar characteristics and are in the same industry sector.

Additionally, all qualifying US and European employees have been awarded stock appreciation rights (SARs) which are cash settled. The SARs are conditional bonuses whose value will be calculated by reference to the amount by which the price of the Company's ordinary shares have risen above the base price at the date of exercise, thus providing holders of SARs the same reward value as if the SARs were share options. The qualifying conditions and timing of vesting are identical to those within the share options scheme for UK employees. For these cash settled share-based payments, a liability is initially recognised at fair value based on the estimated number of awards that are expected to vest, adjusting for market-based performance conditions. Subsequently at each reporting period until the liability is settled, it is remeasured to fair value with any changes in the fair value recognised in the statement of income.

Corporation tax

Current tax assets and liabilities are measured at the amount expected to be received or paid to the taxation authorities. Corporation tax is charged or credited to the income statement, except when it relates to items charged directly to other comprehensive income or to equity, in which case the corporation tax is also dealt with in other comprehensive income or equity respectively. Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on the initial recognition of goodwill. Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities.

Leases

In line with IFRS 16, all leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. There are no variable lease payments to consider. Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

When the group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

1 Significant accounting policies continued

Employee benefit trust

In order to facilitate its employee share option scheme, on 1 July 2021 the Group established an onshore discretionary employee benefit trust (the "EBT"), which is expected to conduct market purchases of Ordinary Shares to satisfy potential future option exercises by employees (but not Directors). When the Group funds the EBT the cash value is debited to a separate EBT reserve of the Parent Company. The EBT's assets are consolidated into the Group.

Government grants

Government Grants are set against the relevant cost. In the previous year the Group made use of the Coronavirus Job Retention Scheme.

Adjusted performance measures ("APMs")

APMs are utilised as key performance indicators by the Group and are calculated by adjusting the relevant IFRS measurement by acquisition related costs, amortisation of acquired intangibles, share-based payments and non-recurring items. The two main APMs which are used are Adjusted EBITDA and Adjusted EPS.

Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation, share based payment expenses and non-recurring items. This measure is used to give the Chief Operating Decision Maker ("CODM") and the Board visibility of the true operational metrics of the business.

Adjusted EPS is before amortisation of acquired intangibles, share based payment expenses and non-recurring items. Once again this provides a more operationally focused view of the relevant subsidiaries. The reconciliation of these items to IFRS measurements can be found in the Financial Review on page 31. APMs are non-GAAP measures and are not intended to replace those measurements, but are the measures used by the Directors in their day-to-day operational management of the business, and are, therefore, important key performance indicators ("KPIs").

System sales

System Sales are the total aggregate sales of our franchisees and Direct labour operations ("DLOs") of services to third-party customers. It is a measure used by management to understand the underlying health and size of our individual brands. For some, but not all, of our brands it is an amount which directly drives our turnover, with the Group collecting a percentage of System Sales as our MSF. System Sales are not, therefore, a component of the financial performance of the Group, but are a KPI used by management, and it is therefore disclosed to provide more insight into the franchise networks which we operate.

Adoption of new standards

The new amended standards and interpretations issued by the IASB that apply to the financial statements for the period, or in future periods do not materially impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

2 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates. Each of the following items contain judgements and significant estimates and have the most significant effect on amounts recognised in the financial statements.

Revenue recognition

Metro Rod revenue recognition

In line with our other networks Metro Rod charges its franchisees a management service fee at the rate of up to 22.5% of their underlying system sales. The incentive schemes designed to increase system sales will reduce the headline rate down from the contractual rate of 22.5%. The franchise network has two types of system sales: National and Local accounts. The Directors have assessed the "principal agent guidance" within "IFRS 15 Revenue from contracts with customers" that in the case of National accounts Metro Rod bears the credit risk, whereas for Local the franchisee bears the risk. Therefore, for National accounts, the Directors believe that we are acting as a principal and recognise the whole of the system sales as revenue, with a cost of at least 77.5% to leave a gross margin of up to 22.5%. In relation to Local account sales the Directors believe that we are acting as an agent, and we only recognise our up to 22.5% management fee as revenue.

Willow Pumps revenue recognition

As part of its range of services, Willow Pumps undertakes the supply and install of pumps in adoptable pump stations. These are typically projects which are performed over a number of accounting periods. Revenue recognised over time is based on the proportion of the contract completed. Either an input method or an output method, depending on the particular arrangement, is used to measure progress for each performance obligation. For most contractual fee arrangements, costs incurred are used as an objective input measure of performance. The primary input for assessing that substantially all work performed under these arrangements is labour. There is normally a direct relationship between costs incurred and the proportion of the contract performed to date. In other circumstances relevant output measures, such as the achievement of any project milestones stipulated in the contract, are used to assess proportional performance. Judgement is required regarding the timing of recognition, particularly in assessing progress on performance obligations, in particular whether the underlying contract contains a single or multiple performance obligations as to when revenue is recognised over time. At the end of the year there were £8.9m (2021: £6.3m) of supply and install contracts in progress, on which £4.1m (2021: £4.1m) of revenue has been taken.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

2 Critical accounting estimates and judgements continued

Filta Revenue recognition – Filta sales of franchise territory. The Filta franchise fee consists of two distinct components, being the opening package and the territory fee. The revenue associated with the opening package is recognised when substantially all initial services required by the franchise agreement are performed, which is generally upon the completion of training of the franchisee. The territory fee represents the exclusive right to operate in a designated territory for a stated length of time. The territory fee is deferred over the length of the franchise agreement and released to the combined statements of comprehensive income on a straight-line basis. In circumstances where franchise territories are resold, on an arm's length basis, between a franchisee and a third party, it is the Groups policy to continue to recognise the deferred revenue over the life of the original franchise agreement.

Business combinations

Determining a value for consideration paid

Determining the fair value of the consideration paid in business combinations requires the use of estimates regarding the expected future payments of deferred consideration. The values are determined using discounted cash flows and based upon latest approved budgets and longer-term forecasts which include estimates concerning factors which affect the level of deferred consideration to be paid including revenues expected to be generated, and profits forecast to be earned. The level of deferred consideration expected to be paid is re-evaluated at each balance sheet date, with any change being taken to the income statement. More details of these estimates can be found in Notes 5 and 20.

Determining a value and life for assets acquired

Determining the fair value, and the life, of acquired intangible assets and goodwill acquired in business combinations requires the use of estimates regarding the value of intangible assets. The values are determined using discounted cash flows and based upon latest approved budgets which include estimates concerning factors such as new franchise sales and timing of such sales. Management has determined that acquired brands and trademarks acquired are to be treated as an indefinite life asset. Management has determined that there is nothing to suggest the future economic benefits will have a finite life. As with all tangible and intangible assets, the brands and trademarks will be reviewed at the end of each reporting period to determine whether there is any indication that they have suffered an impairment loss. More details of these estimates can be found in Note 5 and Note 23.

Performing impairment tests

Subsequent impairment reviews also require the use of estimates to value the cash generating units to which goodwill and indefinite life intangibles have been allocated. The value in use calculations, which are run on an annual basis for goodwill and indefinite life intangibles, or when there is an indicator of impairment for tangible and finite life intangible fixed assets, determine whether there is any impairment to the carrying value of assets arising from business combinations. More details of these estimates can be found in Note 13.

3 Financial instruments – risk management

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to meet their financial obligations as they arise while maximising the return to stakeholders.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained earnings, and long and medium-term debt and lease facilities. Term loans are used to finance long-term investment such as acquisitions. Revolving credit facilities and overdrafts are used to manage short-term cash requirements and minimise interest costs. The Group's financing facilities contain the usual financial covenants including maximum gearing, minimum interest cover and minimum operating cash flow. The Group met these requirements throughout the year.

The Group's dividend policy is to provide sustainable dividends to shareholders, consistent with the Group's earnings growth and debt gearing levels, to attract long-term investors and to enable shareholders to enjoy returns on their investment in tandem with the Group's growth. The payment and amount of any dividends or distributions to shareholders is at the discretion of the Board, and subject to shareholder approval.

Categories of financial instruments

Group	2022 £'000	2021 £'000
Financial assets at amortised cost		
Cash and cash equivalents	**10,799**	9,054
Trade and other receivables	**22,824**	16,395
Financial liabilities at amortised cost		
Trade and other payables	**(19,023)**	(10,951)
Loans and borrowings	**(2,756)**	(2,534)
Financial liabilities at fair value through profit and loss ("FVTPL")	**(107)**	2,913

Company	2022 £'000	2021 £'000
Financial assets at amortised cost		
Cash and cash equivalents	**3,282**	3,958
Trade and other receivables	**–**	–
Financial liabilities at amortised cost		
Trade and other payables	**(3,480)**	(472)
Loans and borrowings	**–**	–
Financial liabilities at fair value through profit and loss ("FVTPL")	**–**	2,913

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

3 Financial instruments – risk management continued

Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, and trade and other payables approximates to their fair value. The only financial liability at FVTPL is the provision in relation to the contingent deferred consideration. For details in relation to this, please see Note 23.

Financial and market risk management objectives

It is the Group's policy not to use or trade in derivative financial instruments. The Group's financial instruments comprise its cash and cash equivalents and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of the financial assets and liabilities is to provide finance for the Group's operations in the year. The Group is exposed to interest rate risk as the Group borrows funds at variable interest rates.

Foreign currency sensitivity

The Group is exposed to foreign currency risk on transactions and balances that are denominated in currencies other than Pounds Sterling. The currency giving rise to this risk is primarily the US Dollar. Foreign currency risk is monitored closely on an on-going basis to ensure that the net exposure is at an acceptable level. The Group maintains a natural hedge wherever possible, by matching the cash inflows (revenue streams) and cash outgoings in foreign currencies.

The following table demonstrates the sensitivity to a reasonable possible change in sterling against the foreign currencies with all other variables held constant.

	Change in rate %	Effect on profit before tax £'000	Effect on net assets £'000
USD	+10%	569	601
USD	-10%	(569)	(601)
CAD	+10%	13	15
CAD	-10%	(13)	(15)
EUR	+10%	(21)	(80)
EUR	-10%	21	80

Credit risk management

The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities after assessing credit quality using independent rating agencies and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits.

Ongoing credit evaluation is performed on the financial condition of accounts receivable. The credit risk on liquid funds is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies. The carrying amount of financial assets recorded in the financial statements, which is net of expected credit risk losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

The Group's policy throughout the year has been to ensure continuity of funds. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

3 Financial instruments – risk management continued

Group	Trade and other payables 2022 £'000	Loans and borrowings 2022 £'000	FVTPL 2022 £'000	Total 2022 £'000	Trade and other payables 2021 £'000	Loans and borrowings 2021 £'000	FVTPL 2021 £'000	Total 2021 £'000
On demand	–	–	–	–	–	–	–	–
Within one year	19,023	1,058	–	20,081	10,951	786	586	12,323
More than one year and less than two years	–	735	–	735	–	558	1,050	1,608
More than two years and less than five years	–	979	–	979	–	1,044	2,116	3,160
In more than five years	–	186	–	186	–	382	–	382
Total	19,023	2,958	–	21,981	10,951	2,770	3,752	17,473

Company	Trade and other payables 2022 £'000	Loans and borrowings 2022 £'000	FVTPL 2022 £'000	Total 2022 £'000	Trade and other payables 2021 £'000	Loans and borrowings 2021 £'000	FVTPL 2021 £'000	Total 2021 £'000
On demand	–	–	–	–	–	–	–	–
Within one year	3,480	–	–	3,480	472	–	586	1,058
More than one year and less than two years	–	–	–	–	–	–	1,050	1,050
More than two year and less than five years	–	–	–	–	–	–	2,116	2,116
In more than five years	–	–	–	–	–	–	–	–
Total	3,480	–	–	3,480	472	–	3,752	4,224

4 Operating segments

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker ("CODM"). The CODM has been determined to be the Executive Chairman, with support from the Board of Directors, as the function primarily responsible for the allocation of resources to segments and assessment of performance of the segments. The business is organised along the lines of our B2B, International and B2C brands.

Therefore, the Board has determined that we have four different operating segments:
- B2B, which is made up of Metro Rod and Metro Plumb, Willow Pumps and Filta UK;
- Filta International, which is made up of Filta US, Filta Canada and Filta Europe;
- B2C, which is made up of ChipsAway, Ovenclean, Barking Mad and The Handyman Van;
- Azura, which is made up of the software business Azura; and
- Other operations include central administration costs and non-trading companies.

The CODM uses Adjusted EBITDA, as reviewed at Board meetings and as part of the Managing Directors' and Chief Financial Officer's weekly report to the senior management team, as the key measure of segments' results as it reflects the underlying performance for the financial year under evaluation.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

4 Operating segments continued

	Continuing					Discontinuing	
2022	B2B £'000	Filta-International £'000	Azura £'000	Other £'000	Total £'000	B2C £'000	Total £'000
Revenue	71,376	23,874	797	(3,318)	92,729	6,423	99,152
Gross profit	22,290	8,090	796	(383)	30,793	5,172	35,965
Adjusted EBITDA*	9,177	5,214	171	(1,835)	12,727	2,554	15,281
Depreciation & amortisation of software	(1,998)	(180)	(32)	117	(2,093)	(188)	(2,281)
Amortisation of acquired intangibles	(4,620)	(29)	–	3,145	(1,504)	–	(1,504)
Share based payment expense	(303)	(107)	(10)	(90)	(510)	(25)	(535)
Non-recurring costs	(363)	(11)	–	(101)	(475)	–	(475)
Finance expense	(210)	31	(2)	(40)	(221)	(14)	(235)
Other gains and losses	(118)	146	–	–	28	–	28
Profit before tax*	1,565	5,064	127	1,196	7,952	2,327	10,279
Tax expense	(77)	(1,203)	(16)	(261)	(1,557)	(404)	(1,961)
Profit after tax*	1,488	3,861	111	935	6,395	1,923	8,318
Additions to non-current assets	1,125	122	212	52,393	53,852	55	53,907
Reportable segment assets	31,535	9,189	328	85,810	126,862	5,576	132,438
Reportable segment liabilities	(13,609)	(4,871)	(9)	(9,123)	(27,612)	(1,786)	(29,398)

* Operating segments presented before inter-company management recharges which eliminate on consolidation

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

4 Operating segments continued

2021	Continuing B2B £'000	Continuing Filta-International £'000	Continuing Azura £'000	Continuing Other £'000	Continuing Total £'000	Discontinuing B2C £'000	Total £'000
Revenue	53,309	–	59	(2,106)	51,262	6,428	57,690
Gross profit	16,808	–	59	–	16,867	5,060	21,926
Adjusted EBITDA*	7,067	–	3	(1,234)	5,836	2,638	8,474
Depreciation & amortisation of software	(1,554)	–	(1)	–	(1,555)	(162)	(1,717)
Amortisation of acquired intangibles	–	–	–	(393)	(393)	–	(393)
Share based payment expense	(218)	–	–	(84)	(302)	(32)	(334)
Non-recurring costs	–	–	–	(187)	(187)	–	(187)
Finance expense	(149)	–	(1)	(132)	(282)	(10)	(292)
Other gains and losses	–	–	–	223	223	–	223
Profit before tax*	5,146	–	1	(1,807)	3,340	2,434	5,774
Tax expense	(770)	–	–	(412)	(1,182)	(359)	(1,541)
Profit after tax*	4,376	–	1	(2,219)	2,158	2,075	4,233
Additions to non-current assets	2,170	–	–	820	2,990	11	3,001
Reportable segment assets	25,813	–	282	37,519	63,614	3,654	67,268
Reportable segment liabilities	(13,637)	–	(6)	(4,421)	(18,064)	(1,879)	(19,943)

* Operating segments presented before inter-company management recharges which eliminate on consolidation

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

5 Business combination

Acquisition of Filta Group Holdings PLC

On 10 March, the Company announced that its all share offer for Filta Group Holdings Plc and its subsidiaries (together, "Filta") became unconditional. On 1 June the Company announced that the compulsory acquisition of the remaining Filta shares was completed. Accordingly, the Company owns 100 percent of the entire issued share capital of Filta.

	£'000
Consideration shares	50,991
Fair value of consideration	50,991

The consideration paid was made up of £50,991,000 through the issue of 33,788,008 new Ordinary Shares of 0.5 p each in the Company at 151 pence per share.

Acquisition costs relating to this transaction amounted to £1,011,000 and have been disclosed within the consolidated statement of comprehensive income.

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill were as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Intangible assets	6,701	10,598	17,299
Property, plant and equipment	1,191	(44)	1,147
Right of use assets	656	–	656
Inventories	1,466	–	1,466
Trade and other receivables	4,436	(250)	4,186
Cash	4,229	91	4,320
Trade and other payables	(7,507)	33	(7,474)
Loans and borrowings	(2,953)	–	(2,953)
Deferred tax liability	570	(3,720)	(3,150)
Total fair value of the identifiable assets and liabilities acquired	8,789	6,708	15,497
Fair value of consideration			50,991
Goodwill			35,494

On acquisition intangible assets have been reviewed and adjusted to Fair Value. Adjustments have been made to write off £250,000 of other receivables which management do not believe to be supported at the acquisition date; to cash and other payables for pre-acquisition share option exercises that were not reflected in the financial statements at acquisition; and to PPE to better reflect the fair value of assets acquired.

A deferred tax liability adjustment has been calculated on the value of intangible assets using a blended deferred tax corporation rate of 26% followed by the deduction of the existing deferred tax liability relating to acquired intangibles.

The fair value of consideration was calculated as the present value of future expected free cashflows using a discount rate of 18.9%, slightly above our WACC of 16.6%. The rationale behind this allowed for significant growth and performance enhancement in the future due to synergies that management believe can be achieved given the similar business model to current operations.

Goodwill represents the value of the business that does not qualify for separate recognition. The goodwill recognised includes certain intangible assets that cannot be separately identified and measured due to their nature, such as the assembled workforce and synergies that are expected to be achieved. This includes control over the acquired business, and the scale and the future growth opportunities that it provides to the Group's operations. If the acquisition had occurred on 1 January 2022 Group revenue would have been £103.9m and Group profit before tax would have been £10.2m.

As at 9th March 2022 the Company had received acceptances equal to 82% from the holders of Filta Group Holdings plc shares. As at the 25th March 2022 this had risen to above 90%. This gave rise to an immaterial non-controlling interest which has not been disclosed within these accounts.

Acquisition of Azura Group Limited

On 26 November 2021, the Group acquired the entire issued share capital of Azura Group Limited and its subsidiaries, (together, "Azura") for gross consideration of £1.1m, and net consideration of £0.8m (with £0.3m of net cash purchased).

	£'000
Cash	850
Consideration shares	150
Fair value of deferred consideration	98
Fair value of consideration	1,098

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

5 Business combination continued

The consideration paid was made up of £850,000 (gross of non-trading net cash of £324,000) in cash and £150,000 through the issue of 107,139 new Ordinary Shares of 0.5 p each in the Company at 140 pence per share. In addition £98,000 was payable on the basis of a completion accounts mechanism.

Acquisition costs relating to this transaction amounted to £48,000 and have been disclosed within the consolidated statement of comprehensive income.

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill were as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Intangible assets	–	–	–
Property, plant and equipment	10	–	10
Right of use assets	–	65	65
Inventories	–	–	–
Trade and other receivables	29	–	29
Cash	428	–	428
Trade and other payables	(80)	(33)	(113)
Loans and borrowings	(108)	(68)	(176)
Deferred tax liability	(1)	–	(1)
Total fair value of the identifiable assets and liabilities acquired	278	(36)	242
Fair value of consideration			1,098
Goodwill			856

An adjustment has been made to align with the requirements of IFRS 16. Trade and other payables has been adjusted during the year by £33,000 to reflect pre acquisition liabilities not reflected at the point of acquisition.

Goodwill represents the value of the business that does not qualify for separate recognition. The goodwill recognised includes certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired business, and the scale and the future growth opportunities that it provides to the Group's operations. If the acquisition had occurred on 1 January 2021 Group revenue would have been £58.3m and Group profit before tax would have been £5.9m.

6 Revenue

	2022 £'000	2021 £'000
Management service fees	**47,657**	36,738
Sale of franchise territories	**2,561**	1,504
Product sales	**3,714**	771
Waste Oil	**16,154**	–
Direct labour income	**27,621**	17,680
National advertising funds	**1,445**	997
	99,152	57,690

The table shows revenue from contracts disaggregated into major classes of revenue and reconciled to the Group revenue reported.

Revenue and non-current assets by origin of geographical segment for all entities in the Group are as follows:

Revenue	2022 £'000	2021 £'000
North America	**23,273**	–
United Kingdom	**75,277**	57,690
Europe	**602**	–
	99,152	57,690

Non-current assets	2022 £'000	2021 £'000
North America	**35,938**	–
United Kingdom	**55,636**	40,792
Europe	**(204)**	–
	91,370	40,792

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

6 Revenue continued

Contract assets	2022 £'000	2021 £'000
At 1 January	**53**	377
Movement in year	**(53)**	(324)
At 31 December	**–**	53

Contract assets are included within trade and other receivables. They arise from payments made to our franchisees as per their contracts in advance of when we are able to recognise revenue under IFRS 15, which is at the point of invoice.

7 Operating profit

Operating profit is stated after charging/(crediting):	2022 £'000	2021 £'000
Depreciation	**1,781**	1,378
Amortisation	**2,004**	731
Share-based payment expense	**535**	334
Receipts from Government Job Retention Scheme ("furlough")	**–**	(58)
Auditors' remuneration:		
Fees for audit of the Company	**24**	12
Fees for the audit of the Company's subsidiaries	**249**	90
Fees for non-audit services:		
Taxation services	**80**	20
Corporate finance services	**106**	23
Other assurance services	**10**	10

Of the total fee for the audit of the Company's subsidiaries, £136,000 was paid to the Group statutory auditors BDO LLP. The remaining amount was paid to non-BDO LLP component auditors in the United States and Europe. No non-audit services were provided on a contingent fee basis.

The following costs have been drawn to the attention of the users of the accounts due to their nature and materiality within the accounts.

	2022 £'000	2021 £'000
Acquisition related-costs	**1,011**	114
Early repayment of term loan	**–**	73
Reorganisation expense	**686**	–
	1,697	187

During the year, the Group incurred professional costs of £1,011,000 in relation to the acquisitions. In addition, the Group incurred £686,000 in relation to re-organisation expenses which included £569,000 costs relating to restructuring of employees and £71,000 to migrate software in line with the Group.

In 2021 the Group incurred professional costs of £114,000 in relation to the acquisitions, and wrote-off £73,000 of capitalised loan fees following the early re-payment of the term loan.

8 Staff costs

	2022 £'000	2021 £'000
Wages and salaries	**15,927**	10,481
Social security costs	**1,618**	1,021
Defined contribution pension cost	**302**	215
Share-based payment expense	**486**	334
	18,333	12,051

The average monthly number of persons (including Directors) employed by the Group was:

	2022	2021
Administration	**193**	157
Sales	**37**	19
Operations	**170**	108
Directors	**11**	9
	411	293

Directors' remuneration

	2022 £'000	2021 £'000
Directors' emoluments	**1,649**	889
Share-based payment expense	**169**	19
	1,818	908

The highest paid Director's remuneration was £485,336 which included £334,848 for gain on share exercises (2021: £159,146). The Board of Directors are considered to be the key management personnel. Their cost to the Group is £1,948,154 (2021: £990,602), after including employer's National Insurance. The Company had four employees during the period (2021: two) (other than the Directors) incurring staff costs of £351,000 (2021: £218,000). Directors' emoluments include £173,373 (2021: £nil) paid to companies controlled by Directors (see Note 29).

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

9 Share-based payments

The Company has established an LTIP in the form of equity settled share option schemes. Awards are granted and approved at the discretion of the Remuneration Committee. Awards vest on or after the third anniversary of their issue, based on compound growth in the underlying earnings per share of the Group for the three-year period. If the compound annual growth rate is below 8%, then none of these options will vest; if the compound annual growth rate is above 15%, then all of these options will vest; between 8% and 15% then a proportion of these options will vest on a straight-line basis. Currently 277 (2021: 201) members of staff hold options for shares in the Company under the scheme. The share-based payments expense recognised in respect of employee services received during the year was £428,000 (2021: £334,000). This all arises on equity-settled share-based payment transactions.

Additionally, all qualifying US and European employees have been awarded stock appreciation rights (SARs), which are conditional bonuses whose value is calculated by reference to the amount by which price of the Company's ordinary shares has risen above the base price at the date of exercise. The qualifying conditions and timing of vesting are identical to the LTIP above. Currently 19 (2021: nil) members of staff hold options for shares in the Company under the scheme. A total of £107,000 was recognised during the year in respect of SARS. This all arises on cash-settled share-based payment transactions.

	Share options	**SARs**	**2022**	**Weighted average exercise price**	Share Options	SARs	2021	Weighted average exercise price
Outstanding at the beginning of the period	**5,219,376**	**–**	**5,219,376**	**71p**	5,714,302	–	5,714,302	70p
Granted during the period	**2,437,924**	**1,126,000**	**3,563,924**	**150p**	–	–	–	–
Lapsed during the period	**(701,596)**	**(568,000)**	**(1,269,596)**	**125p**	(164,273)	–	(164,273)	83p
Exercised during the period	**(946,690)**	**–**	**(946,690)**	**54p**	(330,653)	–	(330,653)	52p
Outstanding at the end of the period	**6,009,014**	**558,000**	**6,567,014**	**106p**	5,219,376	–	5,219,376	71p
Exercisable at the end of the period	**1,457,576**	**–**	**1,457,576**	**63p**	2,305,801	–	2,305,801	59p

The fair value of the options and SARs granted is estimated at the date of grant using a Black-Scholes model, after taking into account the terms and conditions upon which they were granted. For options outstanding at the end of the period the range of exercise prices was 33p- 156.5p (2021: 33p-88p), and the weighted average remaining contractual life was 7.7 years (2021: 7.4 years).
In order to facilitate the Programme, the Company established an onshore discretionary employee benefit trust (the "EBT"), which conducts market purchases of Ordinary Shares to satisfy potential future option exercises by employees (but not directors). The Black-Scholes pricing model is applied on the granting dates of options, as shown in the table below. Expected volatility for the Black-Scholes valuations has been determined using the Company's share price in the 12 months preceding the grant date; and for the Mark-to-Market using the Company's share price from 12 months prior to date of grant to 31 December 2022. The total carrying amount at the end of the period for liabilities arising from share-based payment transactions is £107,000. The total intrinsic value at end the of the period for the 1,457,576 exercisable share options is £1,955,000.

Option pricing models

	Black-Scholes 10 March 2022	**Black-Scholes 29 September 2022**	**Black-Scholes 2 November 2022**	**Mark to Market 10 March 2022**
Closing share price, £	**1.52**	**1.52**	**1.57**	**2.00**
Exercise price, £	**1.50**	**1.52**	**1.57**	**1.50**
Risk-free interest rate	**3.75%**	**3.81%**	**2.86%**	**3.96%**
Expected life of option (years)	**6.5**	**6.5**	**6.5**	**6.5**
Volatility	**27.3%**	**27.4%**	**27.3%**	**31.0%**
Dividend yield	**1%**	**1%**	**1%**	**1%**

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

10 Finance expense

	2022 £'000	2021 £'000
Interest element on lease agreements	**119**	159
Loan interest	**116**	133
	235	292

11 Corporation tax

	2022 £'000	2021 £'000
Current tax expense		
Current tax on profits for the period	**2,509**	796
Adjustment for prior period	**(44)**	(103)
Deferred tax expense		
Origination and reversal (see Note 25)	**(504)**	849
Total tax expense	**1,961**	1,542
Accounting profit multiplied by the UK statutory rate of corporation tax	**1,953**	1,097
Income not taxable in determining taxable profits	**(401)**	(150)
Effect of change in deferred tax rate	**–**	621
Different tax rates applied in overseas jurisdictions	**453**	–
Adjustment for prior period	**(44)**	(29)
Total tax expense	**1,961**	1,542
Effective tax rate	**19%**	27%

The Finance Act 2020, which was substantively enacted in June 2021, increased the UK rate of corporation tax from 19% to 25% from April 2023. Therefore, the future rate of UK corporation tax of 25% has been used when calculating UK deferred tax at the reporting date. A rate of 27.15% has been used when calculating the US and a blended rate of 26% for intangibles acquired during the period based upon the geography of the assets.

12 Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to Ordinary equity holders of the Parent Company by the weighted average number of Ordinary Shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit attributable to Ordinary equity holders of the Parent Company by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would have been issued on the conversion of all dilutive share options at the start of the period or, if later, the date of issue.

	2022 Continuing Operations £'000	**2022 Discontinuing Operations £'000**	**2022 Total £'000**	2021 Continuing Operations £'000	2021 Discontinuing Operations £'000	2021 Total £'000
Profit attributable to owners of the Parent Company	**6,673**	**1,645**	**8,318**	2,459	1,775	4,233
Non-recurring costs (Note 5,7)	**1,708**	**–**	**1,708**	187	–	187
Amortisation of acquired intangibles (Note 13)	**1,504**	**–**	**1,504**	393	–	393
Change in the fair value of deferred consideration (Note 23)	**(1,232)**	**–**	**(1,232)**	(223)	–	(223)
Share-based payment expense (Note 9)	**510**	**25**	**535**	302	32	334
Tax on adjusting items	**(595)**	**(5)**	**(600)**	391	(4)	387
Adjusted profit attributable to owners of the Parent Company	**8,568**	**1,665**	**10,233**	3,509	1,803	5,311

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

12 Earnings per share continued

	Number	**Number**	**Number**	Number	Number	Number
Basic weighted average number of shares	**122,126,350**	**122,126,350**	**122,126,350**	95,767,863	95,767,863	95,767,863
Dilutive effect of share options	**2,042,848**	**2,042,848**	**2,042,848**	2,600,637	2,600,637	2,600,637
Diluted weighted average number of shares	**124,169,198**	**124,169,198**	**124,169,198**	98,368,500	98,368,500	98,368,500

	Pence	**Pence**	**Pence**	Pence	Pence	Pence
Basic earnings per share	**5.46**	**1.35**	**6.81**	2.57	1.85	4.42
Diluted earnings per share	**5.37**	**1.33**	**6.70**	2.50	1.80	4.30
Adjusted earnings per share	**7.02**	**1.36**	**8.38**	3.66	1.88	5.55
Adjusted diluted earnings per share	**6.90**	**1.34**	**8.24**	3.57	1.83	5.40

13 Intangible assets

	Goodwill £'000	Brands, trademarks & other intangibles £'000	Customer relationships £'000	Software £'000	Total £'000
Cost					
At 1 January 2021	23,301	10,081	3,022	1,550	37,954
Additions	824	–	–	430	1,254
At 31 December 2021	24,125	10,081	3,022	1,980	39,208
Additions	35,526	11,984	1,151	5,252	53,913
Transfer to assets held for sale	(1,315)	(763)	–	(53)	(2,131)
Foreign exchange rate movements	5	–	5	11	21
At 31 December 2022	**58,341**	**21,302**	**4,178**	**7,190**	**91,011**
Amortisation					
At 1 January 2021	–	(1,791)	(1,025)	(382)	(3,198)
Charge for year	–	–	(393)	(339)	(732)
At 31 December 2021	–	(1,791)	(1,418)	(721)	(3,930)
Charge for year	–	(737)	(420)	(847)	(2,004)
Transfer to assets held for sale	–	–	–	37	37
Foreign exchange rate movements	–	–	(1)	–	(1)
At 31 December 2022	–	(2,528)	(1,839)	(1,531)	(5,898)
Net book value					
At 31 December 2022	**58,341**	**18,774**	**2,339**	**5,659**	**85,113**
At 31 December 2021	24,125	8,290	1,604	1,259	35,278
At 1 January 2021	23,301	8,290	1,997	1,168	34,756

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

13 Intangible assets continued

Carrying amount of assets with indefinite useful lives

	Goodwill £'000	**Indefinite life intangibles £'000**	**2022 £'000**	Goodwill £'000	Indefinite life intangibles £'000	2021 £'000
Metro Rod	**18,174**	**4,750**	**22,924**	18,174	4,750	22,924
Filta Group	**35,494**	**2,301**	**37,795**	–	–	–
Willow Pumps	**3,812**	**2,777**	**6,589**	3,812	2,777	6,589
Azura	**856**	**–**	**856**	823	–	823
B2C	**–**	**–**	**–**	1,315	763	2,078
Foreign exchange movement	**5**	**–**	**5**	–	–	–
	58,341	**9,828**	**68,169**	24,124	8,290	32,414

The key assumptions for the value-in-use calculations are those regarding the discount rates and expected changes to operating results and cash flows during the period of five years from the statement of financial position dates.

Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks in relation to the CGU. In the current year a rate of 11.1% (2021: 11.1%) was used. The Directors believe that the risk profiles of the divisions are broadly similar, even given their operational and geographic natures.

Changes in operating results and cash flows including the sales of franchises and the level of sales of the franchisees, are based on past results and expectations of future performance. The Group prepares cash flow forecasts for the next five years derived from the most recent budgets and long-term business plans which have been approved by the Board of Directors. The key assumptions used for estimating cash flow projections are those relating to revenue growth and operating margin.

For our B2B businesses revenue growth rates have been set at between 5% and 10%. For our B2C brands franchisee recruitment and churn is consistent with historical averages, with the revenue growth being driven by the net new franchisees being introduced to the networks. The operating margins are based on the current operational margins, with the exception of Metro Rod, where we have forecast changes in operating margins based on our rebate schemes. A 2% perpetual growth rate has been assumed when extrapolating cash flow projections beyond the five-year period used in the long-term business plans, on the basis that this is a reasonable long-term growth rate for the UK and US economies. Based on the calculations prepared the recoverable amount for all CGUs exceed their carrying amount.

The recoverable amounts are not considered to be sensitive to reasonably possible changes in the discount rate or growth rates. The Directors do not believe that there is currently a reasonably possible change of key assumptions that would cause the CGUs carrying amount to exceed its recoverable amount.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

14 Property, plant and equipment

	Freehold property £'000	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
Cost							
At 1 January 2021	–	331	185	390	863	650	2,419
Reclassified (to)/from ROU	–	–	–	39	270	106	415
Additions on Acquisition	–	–	–	10	–	–	10
Additions	–	15	11	70	1,471	181	1,748
Disposals	–	–	–	–	(123)	(8)	(131)
At 31 December 2021	–	346	196	509	2,481	929	4,461
Reclassified (to)/from ROU	–	–	–	–	169	–	169
Additions on Acquisition	758	20	20	63	29	257	1,147
Additions	–	3	30	87	168	134	422
Disposals	–	–	–	–	(399)	(100)	(499)
Transfer to assets held for sale	–	(113)	(63)	(110)	(50)	(138)	(474)
Foreign exchange	63	–	1	2	3	4	73
At 31 December 2022	**821**	**256**	**184**	**551**	**2,402**	**1,086**	**5,299**
Depreciation							
At 1 January 2021	–	(163)	(159)	(268)	(272)	(282)	(1,144)
Reclassified (to)/from ROU	–	–	–	(32)	(222)	(63)	(317)
Charge for year	–	(30)	(18)	(61)	(239)	(151)	(499)
Disposals	–	–	–	–	103	6	109
At 31 December 2021	–	(193)	(177)	(361)	(630)	(490)	(1,851)
Reclassified (to)/from ROU	–	–	–	–	(94)	–	(94)
Charge for year	(26)	(26)	(32)	(86)	(378)	(218)	(766)
Disposals	–	–	–	–	194	48	242
Transfer to assets held for resale	–	113	63	107	36	60	379
Foreign exchange	–	–	–	–	–	(1)	(1)
At 31 December 2022	**(26)**	**(106)**	**(146)**	**(340)**	**(872)**	**(601)**	**(2,091)**
Net book value							
At 31 December 2022	**795**	**150**	**38**	**211**	**1,529**	**485**	**3,208**
At 31 December 2021	–	153	19	148	1,851	439	2,610
At 1 January 2021	–	168	26	122	591	368	1,275

The Company has no fixed assets at 31 December 2022 or 31 December 2021.

"ROU" assets are those categorised as Right of Use. Please see Note 15.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

15 Right of use assets

	Land and buildings £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
Cost				
At 1 January 2021	2,406	3,004	455	5,865
Reclassified (to)/from PPE	–	(270)	(145)	(415)
Additions on acquisition	104	–	–	104
Additions	199	204	200	603
Disposals	–	(486)	(118)	(604)
At 31 December 2021	2,709	2,452	392	5,553
Reclassified (to)/from PPE	–	(169)	–	(169)
Additions on acquisition	119	534	3	656
Additions	266	302	7	575
Disposals	(34)	(113)	–	(147)
Transfer to assets held for resale	(316)	(960)	(32)	(1,308)
Foreign exchange movements	–	7	–	7
At 31 December 2022	**2,744**	**2,053**	**370**	**5,167**
Depreciation				
At 1 January 2021	(1,119)	(1,258)	(108)	(2,485)
Reclassified (to)/from PPE	–	222	95	317
Accumulation at acquisition	(39)	–	–	(39)
Charge for year	(329)	(473)	(77)	(879)
Disposals	–	239	17	256
At 31 December 2021	(1,487)	(1,270)	(73)	(2,830)
Reclassified (to)/from PPE	–	94	–	94
Accumulation at acquisition	–	–	–	–
Charge for year	(425)	(538)	(62)	(1,025)
Disposals	34	98	–	132
Transfer to assets held for resale	264	736	31	1,031
Foreign exchange movements	–	(1)	–	(1)
At 31 December 2022	**(1,614)**	**(881)**	**(104)**	**(2,599)**
Net book value				
At 31 December 2022	**1,130**	**1,172**	**266**	**2,568**
At 31 December 2021	1,222	1,182	319	2,723
At 1 January 2021	1,287	1,746	347	3,380

"PPE" assets are those categorised as Property, Plant & Equipment. Please see Note 14.

Amounts recognised in profit and loss

	2022 £'000	2021 £'000
Depreciation expense on right-of-use assets	**1,025**	879
Interest expense on lease liabilities	**119**	152
Expense relating to short-term leases	**277**	149
Expense relating to leases of low value assets	**–**	–
Expense relating to variable lease payments not included in the measurement of the lease liability	**–**	–
Income from sub-leasing right of use assets	**–**	–

16 Contracts acquisition costs

The Group capitalises incremental costs to obtain contracts with customers where it is expected these costs will be recoverable. Incremental costs to obtain contracts with customers are considered those which would not have been incurred of the contract had not been obtained. For the Group, these costs relate primarily to third party broker fees. The Group has elected to use the practical expedient as allowed by IFRS 15 whereby such costs will be expensed as incurred where the expected amortisation period one year or less. Where the amortisation period is greater than one year, these costs are amortised over the contractual term on a systematic basis consistent with the transfer of the underlying goods and services to which these costs relate. Expense recognised in 2022 was £110,000 (2021: £nil) whilst impairment of capitalised contract costs was £nil in 2022 (2021: nil).

The amount of capitalised contract cost expected to be recovered after more than one year is £402,000 (2021: £nil).

17 Inventories

Group	2022 £'000	2021 £'000
Finished goods and goods for resale	**1,989**	908

All amounts are carried at cost and therefore no amounts are carried at fair value less costs to sell. There are no material stock provisions at either period end. No material amounts have been written-off in either year ended 31 December 2022 or 31 December 2021 within the income statement of the Group £9.5m of inventories were recognised as an expense within the year (2021: £6.9m).

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

18 Trade and other receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables and contract assets. To measure expected credit losses on a collective basis, trade receivables and contract assets are grouped separately. Our contract assets represent assets with our franchise network, therefore the assets are reviewed on the basis of the health of individual franchisees.

The expected loss rates are based on the Group's historical credit losses experienced over the three-year period prior to the period end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's customers. The differing segmental risks to which the Group is exposed in respect of the customer base have been considered.

	2022 £'000	2022 %	2022 £'000	2022 £'000	2021 £'000	2021 %	2021 £'000	2021 £'000
	Gross		Provision	Net	Gross		Provision	Net
No provision	**15,349**	**0%**	**–**	**15,349**	12,109	0%	–	12,109
Low risk	**2,795**	**6%**	**(157)**	**2,638**	1,189	17%	(198)	991
Medium risk	**741**	**32%**	**(238)**	**503**	1,819	10%	(180)	1,639
High risk	**596**	**84%**	**(498)**	**98**	386	73%	(283)	103
Total	**19,481**	**5%**	**(893)**	**18,588**	15,503	4%	(661)	14,842

In relation to the Company, the credit risk for amounts owed by Group undertakings has not increased significantly since their initial recognition. No expected credit loss provision has been recognised on the basis of the significant net assets and positive cash flows of subsidiaries.

Group	2022 £'000	2021 £'000
Non-current other receivables	**811**	182
Trade receivables	**19,481**	15,503
Provision at the year end	**(893)**	(661)
Other receivables	**2,650**	1,371
Total financial assets other than cash and cash equivalents	**21,238**	16,213
Contract assets	**–**	53
Prepayments	**422**	248
Total current trade and other receivables	**21,660**	16,514
Total trade and other receivables	**22,471**	16,696

	2022 £'000	2021 £'000
Credit loss provision:		
Brought forward	**(532)**	(807)
Additions on acquisition	**(259)**	–
Provision for the year	**(341)**	(141)
Utilised	**244**	287
Foreign exchange movement	**(5)**	–
Carried forward	**(893)**	(661)

	2022 £'000	2021 £'000
The ageing of the trade receivables is as follows:		
Due	**10,296**	9,434
Past due		
0-30 days	**3,234**	1,335
31-60 days	**987**	787
61-90 days	**744**	292
91-120 days	**505**	210
121+ days	**3,166**	2,548
Past due and impaired		
Due	**–**	–
0-30 days	**7**	11
31-60 days	**7**	32
61-90 days	**5**	239
91-120 days	**3**	85
121+ days	**527**	530
Total	**19,481**	15,503

Company	2022 £'000	2021 £'000
Amounts owed by Group undertakings	**–**	–
Prepayments	**11**	10
Corporation tax	**1,257**	849
Total current trade and other receivables	**1,268**	859

Company amounts owed by Group undertakings are interest free and due on demand.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

19 Trade and other payables

Group	2022 £'000	2021 £'000
Current		
Trade payables	**6,542**	4,372
Accruals	**7,782**	5,622
Other creditors	**2,723**	957
Social security and other taxes	**1,113**	1,193
Total trade and other payables	**18,160**	12,144

Company	2022 £'000	Restated 2021 £'000
Trade payables	**122**	84
Accruals	**293**	280
Other creditors	**11**	8
Social security and other taxes	**42**	39
Amounts owed to Group undertakings*	**4,063**	770
Total trade and other payables	**4,531**	1,181

* This relates to the prior period correction of the share-based payment charge to subsidiaries. Please refer to note 26 for further detail on this adjustment.

Carrying values approximate to fair value. Included within other creditors is an amount of £192,000 (2021: £162,000) which represents the net payable in relation to the National Advertising Funds.

20 Deferred income

Deferred income relates to certain performance obligations from franchise sales that are deferred over the life of the franchise agreement. The deferral period is 10 years in North America and 5 years in the UK and mainland Europe. Revenue is recognised equally over the deferral period.

	2022 £'000	2021 £'000
At 1 January	**–**	–
Additions on acquisition	**2,359**	–
New franchise agreements	**1,678**	–
Utilisation	**(1,708)**	–
Foreign exchange	**222**	–
At 31 December	**2,551**	–

	2022 £'000	2021 £'000
Current	**807**	–
Non-current	**1,744**	–
Total deferred income	**2,551**	–

21 Loans and borrowings

At the year end, the Group had cash of £10.8m and an unutilised £5m RCF, which runs until April 2023. The bank facilities are secured by a floating charge over the assets of the Group. The Group has set up an asset financing scheme with HSBC plc for the use of Metro Rod franchisees, primarily for the purchase of vans and tankers. The Group supports this scheme, on a step-in basis, up to a total value of £1m. In the event of a default of a franchisee, the Group would step-in and have the rights of the financed asset, and the obligation of the liability. At the year end, £0.4m (2021: £0.6m) had been lent through this scheme. There are no expected credit losses to recognise in respect of the asset financing scheme.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

22 Discontinuing operations

Following a strategic review the Company has instructed finnCap Cavendish to assist in finding a buyer for the B2C business. Having considered the guidance in IFRS 5 the standard requires that we disclose the assets and liabilities of this division as held for sale, given, amongst other things, that the sale is highly probable, that management are committed to a plan to sell, the programme has been initiated and the division is ready for sale in its present condition.

	2022 £'000	2021 £'000
Assets held for sale		
Intangible assets	**2,094**	–
Property, plant and equipment	**95**	–
Right-of-use assets	**277**	–
Inventories	**763**	–
Trade and other receivables	**2,301**	–
Deferred tax asset	**46**	–
Total Assets held for sale	**5,576**	–
Liabilities held for sale		
Trade and other payables	**1,097**	–
Obligations under leases	**299**	–
Current tax liability	**390**	–
Total Liabilities held for sale	**1,786**	–

23 Contingent consideration

Group and Company	2022 £'000	2021 £'000
Contingent deferred consideration	**–**	2,913

On May 25 2022, we announced the early settlement of the contingent consideration relating to the 2019 acquisition of Willow Pumps. Under the terms of the original acquisition agreement, further consideration of up to £7.5m was payable in respect of the five years to 31 December 2024, linked to sales and profits growth over the period.

The initial deferred consideration was established at £3.58m at the time of the acquisition, and subsequently revalued to £2.91m at December 2021, based on the long-term forecasts produced by management. During 2022 £345,000 was paid in respect of the performance conditions met in 2021. A further £1.34m was paid as a result of a Deed of Variation during the year to fully settle this liability. The net gain of £1.2m has been taken to the income statement within administrative expenses.

24 Lease liabilities

Group	2022 £'000	2021 £'000
Current	**831**	754
Non-current (between 1 and 5 years)	**1,626**	1,780
Total lease liabilities	**2,457**	2,534

	Land & Buildings £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
At 1 January 2021	1,330	1,503	304	3,137
Additions on acquisition	68	–	–	68
Additions	199	184	200	583
Interest expense	42	93	17	152
Lease payments	(366)	(829)	(211)	(1,406)
At 31 December 2021	**1,273**	**951**	**310**	**2,534**
Additions on acquisition	**126**	**568**	**3**	**697**
Additions	**261**	**297**	**7**	**565**
Interest expense	**38**	**74**	**7**	**119**
Lease payments	**(463)**	**(643)**	**(50)**	**(1,156)**
Disposals	**–**	**(11)**	**–**	**(11)**
Transfer to liabilities held for resale	**(54)**	**(243)**	**(1)**	**(298)**
Foreign exchange movements	**–**	**7**	**–**	**7**
At 31 December 2022	**1,181**	**1,000**	**276**	**2,457**

The Company has no lease liabilities.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

25 Deferred tax liability

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 25% UK, 27% US and a blended rate of 26% for intangibles acquired during the period given their different geographical locations (2021: 25%).

Group	Intangibles £'000	Losses £'000	Accelerated allowances £'000	Provisions £'000	Share-based payment £'000	Total £'000
At 1 January 2021	(1,955)	–	112	3	88	(1752)
Acquired in the year	–	–	(1)	–	–	(1)
Recognised through the statement of changes in equity	–	–	–	–	463	463
Credit/(charge) in the year	(519)	–	(425)	–	95	(849)
At 31 December 2021	**(2,474)**	**–**	**(314)**	**3**	**646**	**(2,139)**
Acquired in the year	**(4,498)**	**1,163**	**(312)**	**497**	**–**	**(3,150)**
Recognised through the statement of changes in equity	**–**	**–**	**–**	**–**	**334**	**334**
Foreign exchange	**–**	**–**	**(2)**	**55**	**–**	**53**
Transfer to assets held for resale	**–**	**–**	**36**	**–**	**(82)**	**(46)**
Credit/(charge) in the year	**408**	**(31)**	**162**	**(95)**	**60**	**504**
At 31 December 2022	**(6,564)**	**1,132**	**(430)**	**460**	**958**	**(4,444)**

26 Prior period restatement

During the year ended 31 December 2022 a material error was identified in relation to the Company's fixed asset investments and other payables. An error arose in relation to the treatment of share-based payments charges from the Company to its subsidiaries. These had been recognised in the December 2021 accounts as a cumulative £670,000 reduction in inter-company payables, rather than as a cumulative £670,000 increase in fixed asset investments in the subsidiaries. There is no change to profit or reserves.

27 Subsidiaries & audit exemption

The fixed asset investments held by the Company are as follows:

	£'000
Cost	
At 1 January 2021 (*restated)	41,469
Additions in year (*restated)	1,354
At 31 December 2021 (*restated)	**42,823**
Additions in year	**51,331**
Assets held for sale	**(2,564)**
At 31 December 2022	**91,590**

* This relates to the prior period correction of the share-based payment charge to subsidiaries. Please refer to note 26 for further detail on this adjustment.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

27 Subsidiaries continued

The subsidiaries of the Company, all of which are 100% owned, which have been included in the consolidated financial statements, are as follows:

Name	Principal activity	2022 %	2021 %
Metro Rod Limited[1,2]	Operation and management of a franchise business	**100**	100
ChipsAway International Limited[1,2]	Operation and management of a franchise business	**100**	100
Oven Clean Domestic Limited[1,2]	Operation and management of a franchise business	**100**	100
The Handyman Van Limited[1,2]	Operation and management of a franchise business	**100**	100
Barking Mad Limited[1,2]	Operation and management of a franchise business	**100**	100
The Filta Group Limited[1,3]	Operation and management of a franchise business	**100**	–
The Filta Group Incorporated[4]	Operation and management of a franchise business	**100**	–
Filta Environmental Canada Limited[5]	Operation and management of a franchise business	**100**	–
Filta Europe BV[6]	Operation and management of a franchise business	**100**	–
FiltaFry Deutschland GmbH[7]	Operation and management of a franchise business	**100**	–
Willow Pumps Limited[1,2]	Operation and management of a pump services business	**100**	100
MRE Drainage Limited[1,2]	Operator of drainage franchise	**100**	100
MRB Drainage Limited[1,2]	Operator of drainage franchise	**100**	100
Azura Group Limited[1,2]	Provider of IT solutions to franchise businesses	**100**	100
WPL Group Holdings Limited[1,2]	Intermediate holding company	**100**	100
Filta Group Holdings Limited[1,3]	Intermediate holding company	**100**	–
Oven Clean (Ontario) Limited[1,2]	Dormant	**100**	100
Kemac Services Limited[1,2]	Dormant	**100**	100
Metro Plumb Limited[1,2]	Dormant	**100**	100
FB Holdings Limited[1,2]	Dormant	**100**	100
DentsAway Limited[1,2]	Dormant	**100**	100
Edwin Investments Limited[1,2]	Dormant	**100**	100
Willow Drainage Limited[1,2]	Dormant	**100**	100
Azura Design Studio Limited[1,2]	Dormant	**100**	100
Azura Business Solutions Limited[1,2]	Dormant	**100**	100
Filta Refridgeration Limited[1,3]	Dormant	**100**	–
FiltaFry Limited[1,3]	Dormant	**100**	–
Watbio Holdings Limited[1,3]	Dormant	**100**	–
Watbio Limited[1,3]	Dormant	**100**	–
Watling Hope Installations Limited[1,3]	Dormant	**100**	–
Environmental Biotech Limited[1,3]	Dormant	**100**	–
M&M Asset Maintenance Limited[1,3]	Dormant	**100**	–
Grease Management Limited[1,3]	Dormant	**100**	–

All holdings are of ordinary shares.

Notes forming part of the Financial Statements continued

For the year ended 31 December 2022

27 Subsidiaries continued

Notes:

1. The UK subsidiaries of the Company are exempt from the requirements of the UK Companies Act 2006 relating to the audit of individual accounts by virtue of s479a of the Act. The outstanding liabilities at 31 December 2022 of those subsidiaries have been guaranteed by the Company pursuant to s479A to s479C of the Act. In the opinion of the Directors, the possibility of the guarantee being called upon is remote.
2. The registered office and principal place of business is Ashwood Court, Tytherington Business Park, Macclesfield, SK10 2XF.
3. The registered office and principal place of business is The Locks, Hillmorton, Rugby, CV21 4PP.
4. The registered office and principal place of business is 7075 Kingspointe Parkway, Suite 1, Orlando, Florida 32819 United States.
5. The registered office and principal place of business is 27th Floor, P.O. Box 49123, 595 Burrard Street, Vancouver, British Columbia, V7X 1J2 Canada.
6. The registered office and principal place of business is Debbeshoek 14B, 7071XK Ulft, Netherlands.
7. The registered office and principal place of business is Pliniusstrasse 8, 48488 Emsburen, Germany.

28 Share capital and other reserves

Allotted, called up and fully paid	2022 £'000	2021 £'000	2022 No. of shares	2021 No. of shares
At 1 January	**480**	479	**95,865,609**	95,758,470
Placing	**–**	–	**–**	–
Acquisition of Filta Group plc	**169**	–	**33,788,008**	–
Acquisition of Azura Group Limited	**–**	1	**–**	107,139
Exercise of share options	**3**	–	**657,495**	–
At 31 December	**652**	480	**130,311,112**	95,865,609

Share capital comprises the nominal value of the Company's Ordinary Shares of 0.5 pence each. During the year the Group issued 33,788,008 as consideration for the acquisition of Filta Group Holdings plc.

Share premium: The share premium reserve is the premium paid on the Company's 0.5 pence Ordinary Shares.

Share-based payment reserve: The share-based payment reserve represents the movement in cost of equity-settled transactions in relation to the long-term incentive plan.

Merger reserve: The merger reserve represents the premium above the nominal value of the equity issued as part of the consideration in relation to acquisitions.

EBT reserve: This represents the amount that the Company paid for its own shares held in the EBT. During the year, the EBT purchased 1,852,870 Ordinary Shares (2021: 394,268 Ordinary Shares) at an average price of 143 pence per share (2021: 140 pence per share). 301,427 Ordinary Shares (2021: 350,653 Ordinary Shares) have been used to satisfy the exercise of options. Accordingly, at the year end the EBT held 1,770,683 Ordinary Shares (2021: 219,240 Ordinary Shares) which represents 1.36% of the Company's current issued share capital.

Movements on these reserves are set out in the consolidated statement of changes in equity.

29 Related party transactions

Renumeration of Directors and other transactions

During the year the Group employed family members of two of the Directors. The total remuneration paid was the same as other employees at an equivalent level in the organisation. During the year £173,373 was paid to Roxanna Inc, a company which Jason Sayers is a director of under a consultancy arrangement with Filta US in relation to Jason Sayer's fee. This is included within the director's remuneration. There are no other transactions with directors.

Notes payable to related party

On 31 January 2018, FiltaFry Deutschland GmbH entered into notes totalling £48,201, bearing interest at 2.5%, with companies which held the master licences acquired in the acquisition. The managing director of FiltaFry Deutschland GmbH is the sole director of one of these companies. The notes mature on 31 January 2023 and include the right to repay early without penalty. At the year end the total amount outstanding under these notes was £25,004. This amount is classified within borrowings.

Interest accrued on the notes amounted to £602 at 31 December 2022 (2021: £1,171).

30 Dividends

	2022 £'000	2021 £'000
Final 2021 dividend of 0.90p per Ordinary Share paid and declared (2021: Final 2020 dividend of 0.80p)	**1,169**	766
Interim dividend of 0.90p per Ordinary Share paid and declared (2021: 0.60p)	**1,170**	575
	2,339	1,341

A final dividend of 1.10 pence per share is proposed.

Five-Year Financial Summary (Unaudited)

For the year ended 31 December 2022

Five-year financial summary	**2022 £'000**	2021 £'000	2020 £'000	2019 £'000	2018 Restated £'000
Statutory revenue	**99,152**	**57,690**	**49,287**	**44,013**	**35,470**
Adjusted EBITDA	**15,281**	**8,474**	**6,640**	**5,182**	**4,003**
Depreciation & Amortisation of software	**(2,281)**	(1,716)	(1,357)	(755)	(447)
Finance expense	**(206)**	(292)	(446)	(357)	(340)
Adjusted profit before tax	**12,794**	**6,465**	**4,836**	**4,069**	**3,216**
Tax expense	**(2,561)**	(1,154)	(899)	(687)	(603)
Adjusted profit after tax	**10,233**	**5,311**	**3,937**	**3,382**	**2,612**
Amortisation of acquired intangibles	**(1,504)**	(393)	(393)	(260)	(216)
Other gains & losses	**1,232**	223	151	(26)	–
Share-based payment	**(535)**	(334)	(205)	(238)	(138)
Non-recurring items	**(1,708)**	(187)	(707)	(270)	–
Tax on adjusting items	**600**	(387)	9	121	67
Statutory profit	**8,318**	**4,233**	**2,793**	**2,710**	**2,325**
Basic EPS	**6.81p**	**4.42p**	**3.09p**	**3.48p**	**2.99p**
Adjusted basic EPS	**8.38p**	**5.55p**	**4.35p**	**4.34p**	**3.36p**
Dividend	**2.00p**	**1.50p**	**1.10p**	**0.95p**	**0.67p**

Company Information

DIRECTORS AND COMPANY SECRETARY

Stephen Glen Hemsley	Executive Chairman
Andrew John Mallows	Interim Chief Financial Officer
Peter John Molloy	Managing Director, B2B Division
Jason Charles Sayers	Managing Director, Filta International
Timothy ("Tim") John Harris	Managing Director, B2C Division
Colin David Rees	Chief Information Officer
Julia Rosalind Choudhury	Corporate Development Director
Robin ("Rob") Christian Bellhouse	Non-executive Director
Andrew ("Andy") Vincent Guilio Brattesani	Non-executive Director
David John Poutney	Non-executive Director
Nigel William Wray	Non-executive Director
Mark Andrew Peters	Company Secretary

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Ashwood Court
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Tytherington Business Park
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JOINT BROKER

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