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Franchise Brands PLC
27 July 2023

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FRANCHISE BRANDS PLC

("Franchise Brands", the "Group" or the "Company")

Interim results for the six months ended 30 June 2023

A period of significant progress including the acquisition of Pirtek Europe

Both Pirtek Europe and our existing businesses fully met our expectations, underpinning confidence in full-year Adjusted* EBITDA at least in line with expectations**

Franchise Brands plc (AIM: FRAN), an international multi-brand franchise business, is pleased to announce its unaudited results for the six months ended 30 June 2023.

Financial highlights

- System sales increased by 81% to £146.0m (H1 2022: £80.6m).
- Statutory revenue increased by 57% to £69.8 million (H1 2022: £44.5m).
- Adjusted* EBITDA increased by 67% to £12.1m (H1 2022: £7.3m).
- Adjusted profit before tax increased by 45% to £8.6m (H1 2022: £5.9m).
- Adjusted EPS increased by 4% to 4.24p (H1 2022: 4.07p) and by 10% on a consistent tax basis.
- Adjusted net debt*** of £79.1m at 30 June 2023 (30 June 2022: net cash of £6.8m) which represents LTM leverage to 30 June 2023 of 2.48x, and LTM leverage to 31 December 2023 of 2.36x****.
- Increase of 11% in the interim dividend declared to 1.0p per share (2022 interim dividend: 0.90p per share) reflecting the Board's confidence in the growth prospects for the enlarged Group.

Operational highlights

- Completion of the acquisition of Pirtek Europe in April which has doubled the size of the Group and has expanded operations into ten countries.
- Whilst the Pirtek business is still in the early stages of being integrated, Pirtek sales and profits reached record levels in most markets, and the business performed in line with our expectations.
- Short-term focus on optimising effectiveness of the Group's businesses through utilising shared resources alongside significant strategic opportunities through leveraging international footprint.
- Strong continued momentum in Metro Rod and Metro Plumb delivering system sales growth of 24% to £35.3m; Metro Plumb system sales grew by 31%.
- Filta International core business performed well - system sales were up 16% on a like-for-like basis with strategic growth initiatives gaining traction; waste oil sales held back by reduced market prices.
- B2C division in line with expectations despite challenging franchise recruitment environment; no longer being actively marketed for sale.
- Digital transformation progressing well with continuing upgrades to the Vision works management system.
- Appointment of new CFO with effect from 2 August; announced separately today.

Outlook

- The outlook for the remainder of the year is positive and we anticipate full year performance to be at least in line with expectations.
- The deleveraging profile is ahead of schedule and we fully expect the acquisition facilities to be repaid within 5 years.

** "Adjusted" throughout this report means exclusion of amortisation of acquired intangibles, exchange differences, share-based payment expense and non-recurring items.*

*** Expectations are £29.0m Adjusted EBITDA for the full year to 31 December 2023 (which includes 36 weeks of Pirtek trading) as set out by the Company in its announcement of 3 April 2023 regarding the acquisition of Pirtek.*

**** Adjusted net debt is the key debt measure used for testing bank covenants and excludes debt on right-of-use assets of £7.2m.*

***** This leverage is calculated using Adjusted net debt at 30 June 2023 and last twelve months ("LTM") pro forma Adjusted EBITDA to 30 June 2023 of £31.9m and LTM to 31 December 2023 of £33.5m (as set out by the Company in its announcement of 3 April 2023 regarding the acquisition of Pirtek) which is one of metrics used for testing bank covenants.*

Stephen Hemsley, Executive Chairman, commented:

"The Group has made significant progress in the first half of 2023, including the acquisition of Pirtek Europe, doubling the size of the group. We now operate seven franchise brands in ten countries in the UK, Continental Europe and North America, generating annualised system sales of approximately £400m.

"Our Metro Rod and Metro Plumb brands are growing rapidly, with the potential for accelerated growth of their small share of very large markets. Filta is an almost unique business, with virtually no direct competition and a huge potential market in the US, and Pirtek has a significant opportunity to grow its existing markets and services and expand its range of services and the markets it serves.

"With the Pirtek Europe acquisition and existing businesses performing well, we are confident in a full-year outturn at least in line with expectations and in the significant potential for growth across our main franchise brands beyond the current year.

"Further, the acquisitions of Pirtek and Filta have significantly advanced our ambition of building a market leading international B2B multi-brand franchisor that generates its income equally from the UK, North America and Continental Europe."

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About Franchise Brands plc

Franchise Brands is an international, multi-brand franchisor focused on building market-leading businesses primarily via a franchise model. The Group has a combined network of 648 franchisees across seven franchise brands in ten countries covering the UK, North America and Europe.

Franchise Brands' focus is on B2B van-based reactive and planned services. The Company owns several market-leading brands with long trading histories, including Pirtek in Europe, Filta, Metro Rod and Metro Plumb, all of which benefit from the Group's central support services, particularly technology, marketing, and finance. At the heart of Franchise Brands' business-building strategy is helping its franchisees grow their businesses: "if they grow, we grow".

Franchise Brands employs some 715 people across the Group.

For further information, visit www.franchisebrands.co.uk

CHAIRMAN'S STATEMENT

Introduction

I am pleased to report that the first half of 2023 has been another period of significant progress for the business with the acquisition of Pirtek Europe Limited ("Pirtek"), which has doubled the size of the Group. The expanded Group now operates seven franchise brands in ten countries in the UK, Europe and North America, generating annualised system sales of approximately £400m.

Both Pirtek and our existing businesses fully met our expectations in the period, generating the anticipated profitability and cashflow required to service our increased debt and maintain our progressive dividend policy. The outlook for the remainder of the year is positive, and we anticipate a full-year performance at least in line with our expectations of £29.0m adjusted EBITDA.

Pirtek Europe

Pirtek, which was acquired on 21 April 2023, is an established provider of on-site hydraulic hose replacement and associated services, operating via 217 service centres and 843 mobile service units ("MSUs") in eight counties. Revenues are primarily derived from franchising, although Pirtek does operate corporate franchises and two of the smallest markets are corporately operated. Pirtek is the market leader in most of the countries in which it operates.

System sales are primarily generated by providing an emergency response service to a wide range of customers who use hydraulic equipment in their operations. Typically, a hydraulic hose will fail when the equipment is in use and will need replacing on-site. Pirtek targets a one-hour response time, 24 hours a day, 365 days a year, with the demand for this time-sensitive service being greatest in sectors with high downtime costs. In most cases, Pirtek's technicians can assemble and fit a replacement hose from the stock and equipment held on the MSU. In addition, customers with less urgent needs are serviced through its network of service centres, which supply parts and hose assemblies and also provide a base and support for the MSUs.

Customer sectors are diverse with no significant concentration and include waste treatment and recycling, logistics, manufacturing, plant hire, construction and marine & rail transport. A number of these sectors have a high degree of resilience as demonstrated by Pirtek's robust trading throughout the Covid period.

Pirtek operates in eight European countries being UK, Germany, the Netherlands, Belgium, France, Sweden, Austria and the Republic of Ireland. The business in the UK, Germany, the Netherlands, Belgium and the Republic of Ireland is mainly operated by a total of 70 franchisees, whereas the operations in the start-up markets of France and Sweden are corporately operated. These more developed franchise markets, with national coverage, are highly profitable, whereas the start-up corporate markets in France and Sweden and the small Austrian franchised operation have yet to reach scale and therefore currently make a marginal contribution to Pirtek's overall result. Pirtek has a significant opportunity to expand into a further eight European countries under the terms of its master license agreement, which gives it perpetual, royalty-free, use of the brand in all 16 countries.

The integration of Pirtek is progressing well with an immediate focus on optimising the effectiveness of the business through utilising shared resources. The business has multiple growth opportunities including: growing system sales by driving local sales, adding additional MSUs and opening further service centres; expanding the range of services, including total hose management and planned services; and leveraging technology to increase efficiency. We are continuing to deepen our knowledge of the business by spending time with local management in each country, meeting franchisees and carrying out site visits.

B2B Division

The B2B Division includes Metro Rod, Metro Plumb, Willow Pumps, the Filta UK direct labour operations ("DLO") and the UK Filta Environmental franchise network. The Filta UK businesses are included for the full six months in this period compared with four months in 2022 following its acquisition in March 2022. Overall sales grew by over 24% to £52.7m (H1 2022: £42.4m), with Metro Rod and Metro Plumb being the main drivers of this increase.

Metro Rod, Metro Plumb and Kemac

Metro Rod and Metro Plumb delivered continued strong momentum, with system sales growing by 24% in the period to £35.3m (H1: 2022: £28.5m). This growth was spread through almost the entire network, with 91% or 52 of the 57 Metro Rod and Metro Plumb franchisees growing their businesses in the period (H1 2022: 87% or 46 out of 53), and 61%, or 35 franchisees, growing by more than 20% year-on-year (H1 2022: 61% or 28).

The increase in sales was driven by an increase in both job volumes and average order value. All services continued to grow, with plumbing and drainage services to national accounts leading the way. Initiatives to widen and deepen the range of services offered by the franchise network continue to develop, particularly those with a high average order value such as pump service and tankering, which now contribute over 21% of total system sales at an average order value nearly five times that of drainage and plumbing work.

Metro Plumb continued to expand with 15 stand-alone and 19 combined Metro Plumb/Metro Rod franchisees trading at 30 June. This results from six new stand-alone franchisees and two leavers over the previous twelve months. Metro Plumb system sales grew by 31% and now represent 9.5% of total Metro Rod and Metro Plumb system sales in the first half. We continue to focus on broadening the customer base in both the commercial and domestic plumbing sectors.

Kemac, the London-based DLO plumbing business, provides specialist services to several water utilities and operates five Metro Plumb territories. Its sales increased by 11% on a like-for-like basis, primarily as a result of the expansion of the specialist services it provides to water utility companies.

Willow Pumps

Willow Pumps had an improved performance in the first six months of the year, with sales growing by 10% following a management reorganisation and the expansion of the sales team. The support functions have also been re-organised to improve customer service and by passing more work to Metro Rod franchisees.

The Metro Rod corporate franchises in Kent & Sussex and Exeter had a challenging six months. Both these corporate franchises have excellent territories with huge potential that would be better developed with a dedicated Metro Rod franchisee. We have therefore decided to re-sell them to independent franchisees as soon as possible. This will enable divisional management to focus on its primary role of developing the Willow Pumps core business and helping Metro Rod franchisees grow their pump sales.

Filta UK

Filta UK has undergone a period of considerable change since being acquired. Following the initial management reorganisation, which returned the business to profitability, we have continued to review how best to deliver the wide range of services offered to the hospitality sector, and this process is ongoing. Some of these services duplicate existing Metro Rod and Willow Pumps services or could be more efficiently serviced by our growing network of 24 Filta Environmental franchisees. We therefore continue to review, with our customers and franchisees, how best to optimise service delivery and deliver synergies across the B2B division.

Filta International

The management team in North America continued to develop the FiltaMax strategic growth initiative, based on the maximum potential model that we announced earlier this year. This plan is now gaining traction with system sales up 16% on a like-for-like basis.

Whilst the volume of waste oil collected and sold for recycling increased year-on-year, the price decreased significantly resulting in the gross profit generated being only slightly ahead, and on a like-for-like basis significantly behind the four months of the prior year.

One of the FiltaMax development projects is the roll-out of FiltaGold bulk oil equipment to franchisees. This will enable franchises to buy virgin oil in bulk, dispense it into 25 litre "jugs", and profitably supply it to customers at a more competitive price. This new activity will also generate additional royalty income for the business from January 2024.

A further new royalty stream will also be generated from July this year by the introduction of a turnover-related royalty on FiltaClean, a steam cleaning service for commercial kitchens that is now gaining traction with both franchisees and customers.

B2C Division

The B2C division comprises the ChipsAway, Ovenclean and Barking Mad franchise businesses. The unusual market conditions that followed Covid saw a significant increase in the number of people taking early retirement, which included a number of our franchisees, but a reasonably buoyant recruitment market as people looked to improve their work/life balance by starting their own businesses. This had the effect of reducing the franchise population, and therefore recurring income, but allowed us to maintain our recruitment income.

This environment has been replaced by one where there are record levels of employment, high wages and elevated inflation, in which people have become more risk-averse and where the perceived comparative rewards of self-employment have reduced. This has reduced the number of franchisees leaving the system but made recruitment more challenging. This was anticipated in our budget for H1 2023, which I am pleased to report have been fully achieved, with the recruitment of 24 new franchisees (H1 2022: 30). As a result, the total number of franchisees in the B2C division at the period end was 339 (H1 2022: 370) and compares to a five-year average at the half-year of 376 franchisees.

In our year-end trading update on 12 January 2023, we announced a strategic review of the B2C division and subsequently that we had appointed finnCap Cavendish to seek a buyer for the B2C division. Consequently, we were required to disclose this division as a discontinuing operation within the 2022 accounts. Subsequently, the business has been marketed to a range of trade and franchise buyers, and whilst offers have been received, these have not met our expectations. The Board has therefore decided to suspend marketing activity until further notice. As the sale of this division is now not reasonably foreseeable, we are required to reincorporate the results of this division into the consolidated results of the Group as a continuing operation.

Digital transformation

The digital transformation of the Group is progressing well, with continuing upgrades to the Vision works management system to improve functionality and ease of use. We are particularly focused on enhancing the productivity and efficiency of both engineers and the corporate functions. These developments include the continued rollout of our advanced scheduling system and our first trial of AI, which is "reading" emails and loading jobs onto Vision.

The recent acquisitions of Filta and Pirtek have provided us with new opportunities to maximise the value our proprietary technology can deliver, and we are seeking to ensure that all businesses within the Group benefit from these developments and also have robust cyber security. Over the next six months we will be developing a comprehensive "vision" for the further development of all the IT platforms in our seven franchise brands in ten countries.

Corporate Governance and new CFO

Since the acquisition of Filta and Pirtek, we have been considering the optimal management and board structures to manage the significantly enlarged business and operate to high standards of corporate governance. As a result, we will be introducing a two-tier structure whereby the PLC board will be streamlined to comprise two executive directors (myself as the Executive Chairman and the CFO), together with a minimum of three independent non-executive directors.

We are pleased to announce the appointment of Mark Fryer as CFO, who will join the Group on 2 August. Mark is an experienced CFO with 25 years of public company (AIM, FTSE Small Cap and FTSE 250) and private equity experience in global manufacturing and business service companies. Mark's experience includes extensive M&A, operational and business improvement experience in complex international environments across a wide range of sectors. With the appointment of Mark, Andrew Mallows will step down as a Director of the Company and return to his role as Group Commercial Director and I would like to thank him for his hard work as our Interim CFO.

A Management Board will also be created comprised of the divisional CEOs together with the directors of the key central support functions of finance, IT, marketing and corporate development. We will also be recruiting a full-time Company Secretary to help manage the increasing complexity of a multi-jurisdictional business, who will also join the Management Board. We are aiming for these changes to be complete by the year-end and look forward to updating shareholders in due course.

Corporate development and capital allocation

Following the acquisition of Filta, and more recently Pirtek, our strategic focus will be on integrating these businesses into the Group and repaying the acquisition debt facilities. The Board does not expect to make any further significant acquisitions during this time. We will also seek to use our shared central resources of finance, IT and marketing to enhance the effectiveness of all our businesses, whilst looking to reduce costs by sharing resources. We see significant opportunities to leverage the international footprint we have now created to organically expand our existing brands in markets where the Group has a presence.

Capital allocation decisions will balance debt reduction, a progressive dividend policy and organic investment in the Group. Adjusted net debt of £79.1m at 30 June 2023 (30 June 2022: net cash of £6.8m) represents LTM leverage to 30 June 2023 of 2.48x, and LTM leverage to 31 December 2023 of 2.36x. The deleveraging profile is ahead of schedule and expected to fall to 1.6x by 31 December 2024 and we therefore fully expect the acquisition facilities to be repaid within 5 years (which for the avoidance of doubt excludes any potential future proceeds from a disposal of the B2C division). The Board has set a target leverage range corridor of 1.0-1.5x Adjusted EBITDA before it will consider any further acquisitions of scale.

Outlook

System sales at our Metro Rod and Metro Plumb brands are growing rapidly, and this growth can be accelerated given their small share of very large markets in which they operate. The other DLOs within the B2B division also have a significant opportunity to scale up as stand-alone businesses or in support of the franchise channels.

Filta is an almost unique business, with virtually no direct competition and a huge potential market in the US, where customers can benefit from both the cost saving resulting from oil filtration and the environmental benefits arising from the responsible recycling of used oil and FOG (fats, oils and grease) management. This business has real traction in the US and is poised for significant expansion. Filta's European markets are at an earlier stage and require more work to develop a compelling franchise model, but this is progressing well in the UK and I am confident it will grow into a business of scale.

The Pirtek business has a significant opportunity to continue growing in its existing more developed markets through the development of its reactive business and by expanding the range of services offered. The earlier-stage markets of France, Sweden and Austria also have huge potential to reach scale, particularly where the competition is fragmented. In addition, Pirtek has the opportunity to expand into a further eight European markets, which will be developed when the existing early-stage markets become more mature and profitable.

The acquisitions of Filta and Pirtek have significantly advanced our ambition of building a market leading international B2B multi-brand franchisor that generates its income equally from the UK, North America and Continental Europe. Whilst the Pirtek business is still in the early stages of being integrated, we are anticipating a full-year performance at least in line with our expectations of £29.0m Adjusted EBITDA.

Conclusion

The first half of 2023 has been another very productive and successful period as we build a Group with international reach. I would like to welcome our new colleagues at Pirtek and say how much we look forward to working with them.

Somewhat unusually, I would also like to single out one person in the corporate team that has been key to the progress the Group has made over this period. Julia Choudhury, our Corporate Development Director, worked extraordinarily hard in bringing the multi-streamed acquisition of Pirtek to a successful conclusion. On behalf of all shareholders, I would like to thank her for her efforts.

Of course, none of this would have been possible without our dedicated franchisees and corporate teams, and so I would also like to thank them for their hard work and commitment to building our great business.

Stephen Hemsley
Executive Chairman

27 July 2023

FINANCIAL REVIEW

Summary statement of income (unaudited)

	H1 2023 £'000	H1 2022 £'000	Change £'000	Change %
System sales	**146,060**	**80,642**	**65,418**	**81%**
Revenue	**69,751**	**44,508**	25,243	57%

Cost of sales	**(40,795)**	**(27,891)**	(12,904)	46%
Gross profit	**28,956**	**16,617**	12,339	74%
Administrative expenses	**(16,839)**	**(9,352)**	(7,487)	80%
Adjusted EBITDA	**12,117**	**7,265**	4,852	67%
Depreciation & amortisation of software	**(1,840)**	**(1,097)**	(743)	68%
Finance expense	**(1,611)**	**(176)**	(1,435)	814%
Foreign exchange	**(69)**	**(77)**	8	(11)%
Adjusted profit before tax	**8,597**	**5,915**	2,682	45%
Tax expense	**(2,077)**	**(1,193)**	(884)	74%
Adjusted profit after tax	**6,520**	**4,722**	1,797	38%
Amortisation of acquired intangibles	**(4,476)**	**(669)**	(3,806)	
Share-based payment expense	**(411)**	**(351)**	(59)	
Non-recurring costs	**(2,991)**	**(1,282)**	(1,709)	
Other gains and losses	**-**	**1,232**	(1,232)	
Tax on adjusting items	**145**	**(83)**	228	
Statutory (loss)/profit after tax	**(1,213)**	**3,569**	(4,782)	(134)%

The Group's results for the six months ended 30 June 2023 include the maiden 10-week contribution from Pirtek which was acquired on the 21 April 2023. They also include six months (2022: four months) of trading from Filta, which was acquired in March 2022. In the audited accounts for the year ended 31 December, the trading results and balance sheet of the B2C division were presented as a discontinuing operation as this division was being marketed for sale, but as this is no longer the case, the results have been re-incorporated into continuing operations.

System sales, which comprise the underlying sales of our franchisees and the statutory sales of the DLOs, grew by 81% to £146.0m (H1 2022: £80.6m) in the period. System sales is a KPI of the business as it is considered a better indicator of the operating activity of the business than statutory revenue, as it is the main driver of Management Service Fee ("MSF") income and DLO margin.

Administration expenses are up by 80% to £16.8m (H1 2022: £9.4m), partly as a result of the inclusion of Pirtek overheads for the first time (£5.1m) and the full six months of Filta's overheads compared to four months in the prior period (an additional £1.0m). The underlying increase in overheads was therefore £1.3m or 13%. The main drivers of this increase were salary cost, up £0.4m or 6% and professional fees, in particular audit fees, up £0.3m or 67%.

Adjusted EBITDA, which is the main KPI of the business, increased 67% to a record £12.1m (H1 2022: £7.3m) driven by the maiden contribution from Pirtek, a full six-month contribution from Filta, and the growing contribution from the Metro Rod core business.

Depreciation and amortisation of software increased 68% to £1.8m (H1 2022: £1.1m). The significant increase primarily resulted from the acquisitions of Pirtek and a full six-month expense from Filta.

The finance charge has increased to £1.6m from £0.2m, primarily as a result of the interest cost of the Pirtek acquisition debt and the IFRS 16 charge on their leased assets.

The adjusted tax charge at 24% (H1 2022: 20%) reflects the change in UK rates from 19% to 25% from April 2023 and the generally higher overseas rates applicable in the now expanded international operations.

The increase in the amortisation of acquired intangibles charge reflects the additional charge related to the Pirtek and Filta acquisitions. The increase in the share-based payment expense principally reflects the grant of additional share options following the acquisition of Pirtek and the revaluation of the stock appreciation rights which are remeasured at each reporting period. Non-recurring costs in the current period reflect part of the acquisition costs of Pirtek and in the comparative period, similar costs in respect of the Filta acquisition. The balance of the costs were set against the premium arising on the issue of new shares to fund the acquisitions or capitalised into borrowings.

After a credit in respect of tax on adjusting items, the Group incurred a statutory loss for the period of £1.2m (H1 2022: statutory profit £3.6m).

Divisional trading results

The divisional trading results may be analysed as follows:

Six months to 30 June 2023

	B2B £'000	**Filta Intl £'000**	**Pirtek £'000**	**B2C £'000**	**Azura £'000**	**Inter-co elimination £'000**	**H1 2023 £'000**
System sales	**52,644**	**42,998**	**37,168**	**12,881**	**369**	**-**	**146,060**
Statutory revenue	41,803	13,670	12,352	3,281	369	(1,724)	69,751
Cost of sales	**(29,345)**	**(8,757)**	**(3,421)**	**(803)**	**-**	**1,531**	**(40,795)**
Gross profit	12,458	4,913	8,931	2,478	369	(193)	28,956
GP%	***30%***	***36%***	***72%***	***76%***	***100%***	***11%***	**42%**
Administrative expenses	(7,386)	(1,807)	(5,113)	(1,317)	(270)	193	(15,700)
Divisional EBITDA	**5,072**	**3,106**	**3,818**	**1,161**	**99**	**-**	**13,256**
Group overheads	-	-	-	-	-	-	(1,139)
Adjusted EBITDA	-	-	-	-	-	-	**12,117**

Six months to 30 June 2022

	B2B £'000	**Filta Intl £'000**	**Pirtek £'000**	**B2C £'000**	**Azura £'000**	**Inter-co elimination £'000**	**H1 2022 £'000**
System sales	**42,446**	**24,885**	**-**	**12,900**	**411**	**-**	**80,642**
Statutory revenue	33,373	8,823	-	3,432	411	(1,531)	44,508
Cost of sales	**(22,807)**	**(5,775)**	**-**	**(662)**	**-**	**1,353**	**(27,891)**
Gross profit	10,566	3,048	-	2,770	411	(178)	16,617
GP%	***32%***	***35%***		***81%***	***100%***	***12%***	**37%**
Administrative expenses	(6,199)	(1,039)	-	(1,265)	(313)	178	(8,638)
Divisional EBITDA	**4,367**	**2,009**	**-**	**1,505**	**98**	**-**	**7,979**
Group overheads	-	-	-	-	-	-	(714)
Adjusted EBITDA	-	-	-	-	-	-	**7,265**

In order to reconcile the Group's statutory revenue, gross profit and administrative expenses to the underlying entitles, 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.

Group overheads increased by 60% as a result of a significant increase in the audit fee, higher travel costs associated with both the resumption of normal travel and acquisition due diligence, and increased staff costs as the salaries and benefits of senior group employees were brought more into line with the market. However, these have reduced as a percentage of system sales from 0.9% to 0.8%.

Each of the divisional results are analysed below.

B2B Division

The B2B division comprises the franchise activities of Metro Rod, Metro Plumb and Filta UK together with the direct labour operations of Willow Pumps, Filta UK and Kemac. The results of the B2B division may be summarised as follows:

	Six months to 30 June 2023				Six months to 30 June 2022			
	Metro Rod £'000	**Willow Pumps £'000**	**Filta UK £'000**	**H1 2023 £'000**	**Metro Rod £'000**	**Willow Pumps £'000**	**Filta UK* £'000**	**H1 2022 £'000**
System sales	**37,348**	**9,683**	**5,613**	**52,644**	**30,110**	**8,773**	**3,563**	**42,446**
Statutory revenue	**26,507**	**9,683**	**5,613**	**41,803**	**21,037**	**8,773**	**3,563**	**33,373**
Cost of sales	(19,117)	(6,634)	(3,594)	(29,345)	(14,739)	(5,840)	(2,228)	(22,807)
Gross profit	**7,390**	**3,049**	**2,019**	**12,458**	**6,298**	**2,933**	**1,335**	**10,566**
GP%	*28%*	*31%*	*36%*	30%	*30%*	*33%*	*37%*	32%
Administrative expenses	(3,804)	(2,132)	(1,450)	(7,386)	(3,131)	(2,041)	(1,027)	(6,199)
Adjusted EBITDA	**3,586**	**917**	**569**	**5,072**	**3,167**	**892**	**308**	**4,367**

*4 months only since acquisition in March 2022.

Metro Rod

Metro Rod comprises primarily the franchise activities of Metro Rod and Metro Plumb and the DLO activities of Kemac, which may be summarised as follows:

	H1 2023 £'000	**H1 2022 £'000**	**Change £'000**	**Change %**
System sales	**37,348**	**30,110**	**7,238**	**24%**
Statutory revenue	**26,507**	**21,037**	**5,470**	**26%**
Cost of sales	(19,117)	(14,739)	(4,378)	30%
Gross profit	**7,390**	**6,298**	**1,092**	**17%**
GM%	*28%*	*30%*		*(2)%*
Administrative expenses	(3,804)	(3,131)	(673)	21%
Adjusted EBITDA	**3,586**	**3,167**	**419**	**13%**

The key driver of Adjusted EBITDA is system sales of Metro Rod and Metro Plumb on which the MSF income is generated, which is re-analysed and reconciled to gross profit as follows:

	H1 2023 £'000	**H1 2022 £'000**	**Change £'000**	**Change %**
System sales	**35,324**	**28,452**	**6,873**	**24%**
MSF income	6,589	5,239	1,350	26%
Effective MSF %	*18.7%*	*18.4%*		
Other gross profit	801	1,059	(258)	(24)%
Gross profit	**7,390**	**6,298**	**1,092**	**17%**
Gross profit as % system sales	**21%**	**22%**		**(1)%**

Metro Rod and Metro Plumb system sales increased by an impressive 24% to a record £35.3m (H1 2022: £28.5m). The effective rate of MSF, after incentives provided to franchisees to encourage growth and investment, also increased to 18.7% from 18.4% resulting in a 26% increase in MSF income. The increase in the MSF percentage resulted from the mix of system sales, with the growth in the drainage business slightly outperforming the tanker and pump business which attracts a lower rate of MSF.

Other gross profit declined 24% to £0.8m (H1 2022: £1.0m) a result of a non-recurring event in each period. In H1 2022 we were completing the profitable contract for Peel Ports, whereas in H1 2023 losses were incurred because of the abandonment of a franchisee whose territory we had to continue to operate, resulting in a £0.2m reversal between the two periods. The franchise territory, which is fundamentally viable, is expected to be resold in H2, generating sale proceeds and the elimination of future losses. Were these items adjusted for, total gross profit would have grown by a more respectable 21% and more in line with the growth in system sales.

Administrative expenses grew by 21% principally as a result of an elevated increase in staff salary costs in the face of high inflation and the need to retain and recruit additional staff. This was combined with a full return to more typical working practices post Covid, which in particular increased travel costs. However, administrative expenses as a percentage of system sales reduced slightly from 10.4% to 10.2%.

Adjusted EBITDA grew by 13% to £3.6m (H1 2022: £3.2m). The absence of any operational gearing in this period was due to the reduced gross profit and elevated overheads, the impact of which will be less apparent in H2.

Willow Pumps

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

	H1 2023	**H1 2022**	**Change**	**Change**
	£'000	**£'000**	**£'000**	**%**
Statutory revenue	**9,683**	**8,773**	**910**	**10%**
Cost of sales	(6,634)	(5,840)	(794)	14%
Gross profit	**3,049**	**2,933**	**116**	**4%**
GP%	*31%*	*33%*		(2)%
Administrative expenses	(2,132)	(2,041)	(91)	4%
Adjusted EBITDA	**917**	**892**	**25**	**3%**

The statutory revenue at Willow Pumps grew by 10% to £9.7m (H1 2022: £8.8m), although the gross margin declined from 33% to 31% as more of the work was sub-contracted, as planned, particularly to Metro Rod franchisees. This resulted in gross profit increasing by only 4%. However, further streamlining of the management structure limited the growth in administrative expenses to just 4%, so a small increase in Adjusted EBITDA was achieved.

While the two Metro Rod franchises incurred small losses, they contributed significant MSF income to Metro Rod. As already mentioned, we intend to sell these territories to new franchisees to allow Willow Pumps management to focus entirely on maximising the opportunities within the pump sector and in helping Metro Rod franchisees develop their pump expertise.

Filta UK

Filta UK comprises a range of complementary DLO services including pump & drainage repair and maintenance, fridge & freezer seal replacement, extraction vent cleaning and the supply, installation and maintenance of grease recovery units ("GRUs"). The Filta Environmental network of 24 franchisees is also included in this business. The results for the period, are for a full six months compared to four months in H1 2022 and may be summarised as follows:

	H1 2023 £'000	H1 2022* £'000	Change £'000	Change %
Statutory revenue	**5,613**	**3,563**	**2,050**	**58%**
Cost of sales	(3,594)	(2,228)	(1,366)	61%
Gross profit	**2,019**	**1,335**	**684**	**51%**
GM%	*36%*	*37%*		*(1)%*
Administrative expenses	(1,450)	(1,027)	(423)	41%
Adjusted EBITDA	**569**	**308**	**261**	**85%**

* 4 months only since acquisition in March 2022

The revenue of Filta UK has grown 58% to £5.6m (H1 2022 four months: £3.6m), with a like-for-like growth rate of 5%. This slightly disappointing rate of growth was caused by the disruption in the supply of GRUs caused by the failure of the supplier. Negotiations with the Administrator of the supplier are expected to allow a long-term supply arrangement to be re-established in H2.

Administrative expenses grew by 41% to £1.45m (H1 2022 four months: £1.0m), a like-for-like decline of 7%, and resulted from the management changes made in the comparative period in 2022 and the closer integration of this business with the B2B division. This operational gearing allowed Adjusted EBITDA to grow by 85% to £0.6m (H1 2022 four months: £0.3m), representing like-of-like growth of 23%.

Filta International

Filta International operates a franchise network that comprises the franchise activities of Filta in North America and mainland Europe. The results for the period are for a full six months compared to four months in H1 2022 and may be summarised as follows:

	North America £'000	Europe £'000	H1 2023 £'000	North America £'000	Europe £'000	H1 2022* £'000
System sales	**41,281**	**1,717**	**42,998**	**23,741**	**1,144**	**24,885**
Statutory revenue	**13,178**	**492**	**13,670**	**8,603**	**220**	**8,823**
Cost of sales	(8,416)	(341)	(8,757)	(5,647)	(128)	(5,775)
Gross profit	**4,762**	**151**	**4,913**	**2,956**	**92**	**3,048**
GM%	*36%*	*31%*	36%	*34%*	*42%*	35%
Administrative expenses	(1,538)	(269)	(1,807)	(925)	(114)	(1,039)
Adjusted EBITDA	**3,224**	**(118)**	**3,106**	**2,031**	**(22)**	**2,009**

* 4 months only since acquisition in March 2022

System sales in North America grew by 74% to £41.3m (H1 2022 four months: £23.7m) and on a like-for-like basis by 16%. In local currency, the like-for-like system sales increase was 23%. One of the main drivers of the strong growth in system sales was the acquisition of new national account customers resulting from the further investment in automated outbound telesales activity. Many franchisees also continued to expand their businesses by investing in new equipment, which will further drive used oil revenues in the future, with 23 mobile filtration units ("MFUs") added by the network (H1 2022: 29).

Waste oil volumes in the first six months of 2023 were up 22% on the comparative period in 2022, but average pricing was down by 14%, resulting in an increase in revenue of just 5% (all in local currency). When comparing the four months post-acquisition period in 2022 with the full six-month period in 2023, in sterling terms, waste oil revenues were up 45% to £8.6m (H1 2022 four months: £5.9m), resulting in a like-for-like gross margin contribution up 39% to £1.5m (H1 2022 four months: £1.1m). On a like-for-like basis waste oil revenues were down by 4% and the gross margin contribution down by 7%.

Administrative expenses in North America increased by 66% to £1.5m (H1 2022 four months: £0.90m), a like-for-like increase of 11%. This was driven by higher staff costs resulting from an expansion of the sales team. Overall Adjusted EBITDA in North America increased by 59% to £3.2m (H1 2022 four months: £2.0m), a like-for-like increase of 6%.

The Filta business in Europe has not progressed as hoped following the expansion of the team, as whilst sales increased to £1.7m (2022 four months: £1.1m), like-for-like sales were flat. The disruption in the supply of GRUs, referred to above, has also impacted the development of this business. Given the substantial platform we now have in Europe following the acquisition of Pirtek, we are taking steps to optimise the management of this business with the objective of reducing costs by sharing overheads and developing new business opportunities.

Pirtek

In the six months to 30 June 2023 the results for Pirtek are included for the ten weeks following the completion of the acquisition, as follows:

	UK & ROI	**Germany & Austria**	**Benelux**	**Sweden**	**France**	**Other**	**H1 2023**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
System sales	**17,060**	**13,237**	**4,794**	**541**	**1,536**	**-**	**37,168**
Statutory revenue	**4,825**	**3,133**	**2,340**	**539**	**1,536**	**(21)**	**12,352**
Cost of sales	(1,546)	(994)	(525)	(64)	(313)	21	(3,421)
Gross profit	**3,279**	**2,139**	**1,815**	**475**	**1,223**	**0**	**8,931**
GM%	*68%*	*68%*	*78%*	*88%*	*80%*	-	*72%*
Administrative expenses	(1,426)	(962)	(1,039)	(444)	(1,225)	(17)	(5,113)
Adjusted EBITDA	**1,853**	**1,177**	**776**	**31**	**(2)**	**(17)**	**3,818**

The Pirtek division comprises operations in eight countries but is managed as five business units with the UK management team being responsible for Ireland, the German team being responsible for Austria and the Benelux team managing the operations in the Netherlands and Belgium. France and Sweden also have their own separate management teams.

The UK business is the largest in the division, contributing 46% (£17.1m) of total system sales and 49% (£1.9m) of the division's total Adjusted EBITDA, which were both record results for the period. The UK business has 37 franchisees, 34 in the UK and 3 in Ireland, with one corporately run centre in York.

Germany and Austria accounted for 36% (£13.2m) of system sales and 31% of the division's total Adjusted EBITDA (£1.2m), also both record results for the period. The German business has 22 franchisees, 19 in Germany and 3 in Austria, which includes the joint venture in Graz.

Benelux contributed 13% (£4.8m) of system sales and 20% (£0.8m) of the division's total Adjusted EBITDA, again records for the period. The Benelux business has 10 franchisees, 9 in the Netherlands and 1 in Belgium, with six corporately run centres.

France is comprised of 8 centres and 44 MSUs, mainly based in the Île-de-France and Lyon/Grenoble areas at present. This operation has limited geographical reach and is sub-scale at present, which makes it challenging to attract national customers. Consequently, this business is just breaking even at present. However, as new depots and MSUs are rolled out, this will improve and given the significant market size, which we estimate is somewhere between that of the UK and Germany; this is an exciting growth opportunity.

Sweden is comprised of one head office service centre and 22 MSUs located in the Stockholm, Gothenburg and Malmo areas. As further MSU are rolled out, the contribution from this market will improve and it will also provide a bridgehead for the rollout of Pirtek in Scandinavia.

Overall, sales and profits reached record levels in most markets, and the business performed in line with our expectations at the time of acquisition.

B2C Division

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

	H1 2023 £'000	H1 2022 £'000	Change £'000	Change %
System sales	**12,881**	**12,900**	**(19)**	**0%**
Revenue	**3,281**	**3,432**	**(151)**	**(4)%**
Cost of sales	(803)	(662)	(141)	21%
Gross profit	**2,478**	**2,770**	**(292)**	**(11)%**
GM%	*76%*	*81%*		*(5)%*
Administrative expenses	(1,317)	(1,265)	(52)	4%
Adjusted EBITDA	**1,161**	**1,505**	**(344)**	**(23)%**

The key revenue streams of this division are MSF and area sales income. The MSF income, which was flat year on year, is primarily made up of fixed monthly fees charged to franchisees. As the total number of franchisees reduced year-on-year, maintaining MSF income was a good result. Area sales income declined year-on-year as the number of new recruits declined, although this was fully in line with our budget, which anticipated a slowdown in the market.

Chips Away recruited 18 new franchisees in the period (H1 2022: 16), and attrition was reduced, with 20 leavers (H1 2022: 25), resulting in a period-end system of 189 franchisees, just 2 down on the year-end. Ovenclean recruitment was weak in the period, with just 3 new recruits (H1 2022: 8) and 10 leavers (H1 2022: 7), resulting in 93 franchisees at the period end. This weaker performance, when compared with ChipsAway, reflects the older age profile of Ovenclean franchisees, who are more likely to retire early and less likely to seek self-employment in the current environment. Barking Mad, which was severely impacted by the travel restrictions during Covid, has stabilised and recruited 3 new franchisees (H1 2022: 5) and had 4 leavers (H1 2022: 8), resulting in a period-end system of 57 franchisees, just one fewer than at the year-end.

Overheads were well controlled resulting in administrative expenses increasing by only 4%. Adjusted EBITDA was 23% below last year's level, although if adjusted for the £0.1m one-off income generated from the sale of the domain name for the "MyHome" brand in H1 2022, the decline would be restricted to 17%, which we consider to be a creditable result in the current market.

Azura

Azura, a leading franchise management software system developer, had a reasonable first half and has been successful in selling its software platform to a large international franchisor. It is also integral to the development of the Vision works management system for the Metro Rod businesses. The results of the division may be summarised as follows:

	H1 2023	**H1 2022**	**Change**	**Change**

	£'000	£'000	£'000	%
Statutory revenue	**369**	**411**	**(42)**	**(10)%**
Cost of sales	-	-	-	-
Gross profit	**369**	**411**	**(42)**	**(10)%**
GM%	*100%*	*100%*		
Administrative expenses	(270)	(313)	43	14%
Adjusted EBITDA	**99**	**98**	**1**	**1%**

Adjusted EBITDA was in line with management expectations and included an intercompany profit of £36,000 on intercompany revenue of £193,000 (which is eliminated on consolidation). Whilst the Group continues to be Azura's largest customer, we continue to believe that the software we are jointly developing for our internal use will have applications in other non-competing franchise businesses in due course.

Earnings per share

During the period, the Group issued 63,472,968 shares, raising £114.3m to part-fund the acquisition of Pirtek. This resulted in the total number of Ordinary Shares in issue increasing to 193,780,080 at 30 June 2023 (31 December 2022: 130,311,112) and a basic weighted average number of shares in issue increasing to 155,560,028 (H1 2022: 116,061,969).

Adjusted earnings per share increased by 4% to 4.24p (H1 2022: 4.07p). This modest increase results from a significant increase in the weighted average number of Ordinary Shares; a 4% increase in the tax rate (at a consistent tax rate; EPS increased by 10%); the budgeted reduced contribution from the B2C division, and the reduced like-for-like growth at Filta International due to the lower waste oil price.

The Group incurred a statutory loss after tax as a result of the amortisation of intangibles and the expensing of the Pirtek acquisition costs against only ten weeks of income. On this basis, the loss per share for the period was 0.79p (H1 2022: profit per share 3.08p), as set out in the table below.

	H1 2023 £'000	EPS p	H1 2022 £'000	EPS p
Adjusted profit after tax	**6,520**	**4.24**	**4,722**	**4.07**
Amortisation of acquired intangibles	(4,476)	(2.91)	(669)	(0.58)
Share-based payment expense	(411)	(0.27)	(351)	(0.30)
Non-recurring costs	(2,991)	(1.95)	(1,282)	(1.10)
Other gains and losses	-	-	1,232	1.06
Tax on adjusting items	145	0.09	(83)	(0.07)
Statutory (loss)/profit after tax	**(1,213)**	**(0.79)**	**3,569**	**3.08**

Financing and cash flow

On 21 April the Company completed the acquisition of Hydraulic Authority I Limited, the owner of Pirtek Europe, from PNC Capital Finance, LLC, for a total consideration of £200m plus a cash and working capital adjustment of £10.3m. The acquisition was funded by an equity fundraise of 53.7m shares at £1.80 per share, raising £96.7m, the issue of 9.7m consideration shares to the vendors, and new debt facilities comprising a £55m Term Loan and a £55 million Revolving Credit Facility ("RCF") of which £10m remains unutilised.

In addition, transaction and reorganisation costs of £7.2m were incurred, of which £3.0m have been expensed and £3.3m set against the share premium arising on the issue of the new shares, with a further £0.9m amortising over the term of the bank debt facility.

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

	Unaudited 30 June 2023 £'000	Unaudited 30 June 2022 £'000	Audited 31 December 2022 £'000
Adjusted EBITDA	**12,117**	**7,265**	**15,281**
Acquisition and re-organisation costs	(6,270)	(3,049)	(1,708)
Working capital movements	(5,296)	(2,276)	(3,216)
Cash generated from operations	**551**	**1,940**	**10,357**
Taxes paid	(605)	(1,355)	(2,629)
Purchases of property, plant and equipment	(482)	(626)	(422)
Purchase of software	(521)	(466)	(1,088)
Acquisition of subsidiaries net of cash	(200,610)	4,320	4,320
Bank loans received / (repaid)	100,012	(3,042)	(2,953)
Proceeds from issue of shares	114,251	-	-
Lease payments	(1,002)	(559)	(1,156)
Funds supplied to EBT	(18)	(383)	(2,503)
Dividends paid	(1,433)	(1,169)	(2,339)
Other net movements	(101)	(183)	158
Net cash movement	**10,042**	**(1,523)**	**1,745**
Net cash at beginning of period	10,799	9,054	9,054
Net cash at end of period	**20,841**	**7,531**	**10,799**

After these outflows, the Group finished the period with net debt of £86.3m (31 December 2022: net cash £6.5m) as set out below.

	Unaudited 30 June 2023 £'000	**Unaudited** 30 June 2022 £'000	**Audited** 31 December 2022 £'000
Cash	20,841	7,531	9,054
Term loan	(55,000)	-	-
RCF	(44,854)	-	-
Loan fee	843	-	-
Hire purchase debt	(911)	(684)	(821)
Adjusted net (debt)/cash	**(79,081)**	**6,847**	**8,233**
Other lease debt	(7,209)	(2,146)	(1,713)
Net (debt)/cash	**(86,290)**	**4,701**	**6,520**

Adjusted net debt was £79.1m at 30 June 2023 (30 June 2022: net cash of £4.7m). Adjusted net debt is a measure used for testing covenants for the term loan and RCF and excludes debt on right-of-use assets of £7.2m. The other principal covenant measure is finance charges as a multiple of Adjusted EBITDA. Both covenants were comfortably met at 30 June 2023.

Dividend

We are confident in the growth prospects for the enlarged Group and believe that our increased scale and enhanced management team will also help drive the achievement of our ambitious growth targets. This has given the Board the confidence to declare an 11% increase in the interim dividend to 1.0p per share (interim 2022: 0.90p). The interim dividend will be paid on 13 October 2023 to shareholders on the register on 15 September 2023.

Andrew Mallows
Interim Chief Financial Officer

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Notes	**Unaudited 6 months ended 30 June 2023 £'000**	Unaudited 6 months ended 30 June 2022 £'000	Audited Year ended 31 December 2022 £'000
Revenue		**69,751**	44,508	99,152
Cost of sales		(40,795)	(27,891)	(63,187)
Gross profit		**28,956**	16,617	35,965
Adjusted EBITDA		**12,117**	7,265	15,281
Depreciation		**(1,447)**	(885)	(1,781)
Amortisation of software		**(393)**	(212)	(500)
Amortisation of acquired intangibles		**(4,476)**	(669)	(1,504)
Share-based payment expense		**(411)**	(351)	(535)
Non-recurring items	2	**(2,991)**	(50)	(475)
Total administrative expenses		**(26,557)**	(11,519)	(25,479)
Operating profit		**2,399**	5,098	10,486
Finance expense		**(1,611)**	(176)	(235)
Profit before tax		**788**	4,922	10,251
Tax expense		**(1,932)**	(1,276)	(1,961)
Profit attributable to equity holders of the Parent Company		**(1,144)**	3,646	8,290
Other comprehensive income				
Exchange differences on translation of foreign operations		**(69)**	(77)	28
Total comprehensive income attributable to equity holders of the Parent Company		**(69)**	(77)	28
Earnings per share (p)				
Basic	1	**(0.79)**	3.08	6.81
Diluted	1	**(0.78)**	3.01	6.70

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

	Unaudited 30 June 2023 £'000	Audited 31 December 2022 £'000
Assets		
Non-current assets		
Intangible assets	**305,845**	87,207
Property, plant and equipment	**5,288**	3,303
Right-of-use assets	**8,312**	2,845
Contract acquisition costs	**431**	402
Trade and other receivables	**695**	811
Total non-current assets	**320,571**	94,568
Current assets		
Inventories	**7,835**	2,753
Trade and other receivables	**43,210**	22,505
Contract acquisition costs	**93**	92
Cash and cash equivalents	**20,841**	10,799
Total current assets	**71,979**	36,149
Total assets	**392,550**	130,717
Liabilities		
Current liabilities		
Trade and other payables	**33,570**	17,802
Loans and borrowings	**54,854**	-

Obligations under leases	**2,798**	966
Deferred income	**626**	807
Current tax liability	**1,937**	170
Total current liabilities	**93,785**	19,745
Non-current liabilities		
Loans and borrowings	**45,000**	-
Obligations under leases	**5,320**	1,790
Deferred income	**1,670**	1,744
Deferred tax liability	**35,214**	4,398
Total non-current liabilities	**87,204**	7,932
Total liabilities	**180,989**	27,677
Total net assets	**211,561**	103,040
Issued capital and reserves attributable to owners of the Parent		
Share capital	**969**	652
Share premium	**147,948**	37,293
Share-based payment reserve	**1,554**	1,217
Merger reserve	**52,212**	52,212
EBT reserve	**(3,026)**	(3,007)
Cumulative translation adjustment	**32**	155
Retained earnings	**11,872**	14,518
Total equity attributable to equity holders	**211,561**	103,040

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Unaudited 6 months ended 30 June 2023 £'000	Unaudited 6 months ended 30 June 2022 £'000	Audited Year ended 31 December 2022 £'000
Cash flows from operating activities			
Profit for the period	**(1,213)**	3,570	8,318
Adjustments for:			
Depreciation of property, plant and equipment	**619**	885	756
Depreciation of right-of-use assets	**906**	-	1,025
Amortisation of software	**315**	-	500
Amortisation of acquired intangibles	**4,476**	881	1,504
Non-recurring charges	**-**	1,282	-
Share-based payment expense	**411**	351	535
Other gains and losses	**-**	(1,232)	(1,232)
Finance expense	**1,611**	253	235
Exchange differences on translation of foreign operations	**69**	-	(28)
Income tax expense	**1,932**	1,276	1,961
Operating cash flow before movements in working capital	**9,126**	7,266	13,574
Decrease/(increase) in trade and other receivables	**(17,395)**	(7,914)	(4,661)
(Increase)/decrease in inventories	**(5,083)**	(1,132)	(401)
(Decrease)/increase in trade and other payables	**17,182**	6,769	1,845
Cash generated from operations	**3,830**	4,989	10,357
Income taxes (paid)/received	**(605)**	(1,355)	(2,629)
Net cash generated from operating activities	**3,225**	3,634	7,728
Cash flows from investing activities			
Purchases of property, plant and equipment	**(482)**	(626)	(422)
Purchase of software	**(521)**	(466)	259
Proceeds from the sale of property, plant and equipment	**-**	202	(1,088)
Loans to franchisees / franchise loans repaid	**134**	(491)	(514)
Acquisition of subsidiary including costs, net of cash acquired	**(63,715)**	2,951	4,320
Payment of contingent consideration	**-**	(1,680)	-
Net cash used in investing activities	**(64,584)**	(110)	2,555
Cash flows from financing activities			
Bank loans- received / (repaid)	**100,012**	(3,042)	(2,953)
Preference shares acquired	**(58,593)**	-	-
Repayment of loan notes and bank debt	**(78,302)**	-	-

Capital element of lease obligations repaid	**(1,002)**	(559)	(1,037)
Interest paid - bank and other loan	**(8)**	(42)	(116)
Interest paid - finance leases	**(104)**	(33)	(119)
Proceed from issue of shares, net of costs	**110,972**	180	330
Funds supplied to Employee Benefit Trust	**(18)**	(383)	(2,503)
Dividends paid	**(1,433)**	(1,169)	(2,339)
Net cash generated from/used in financing activities	**71,524**	(5,048)	(8,737)
Net increase/decrease in cash and cash equivalents	**10,165**	(1,524)	1,546
Cash and cash equivalents at beginning of period	**10,799**	9,054	9,054
Exchange differences on cash and cash equivalents	**(123)**	-	199
Cash and cash equivalents at end of period	**20,841**	7,530	10,799

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

Group	**Share capital £'000**	**Share premium account £'000**	**Share-based payment reserve £'000**	**Merger reserve £'000**	**EBT reserve £'000**	**Foreign exchange reserve £'000**	**Retained earnings £'000**	**Total £'000**
At 1 January 2022	**480**	**36,966**	**789**	**1,390**	**(504)**	**-**	**8,204**	**47,325**
Profit for the period	-	-	-	-	-	-	3,570	3,570
Foreign exchange translation differences	-	-	-	-	-	289	-	289
Total comprehensive income	-	-	-	-	-	289	3,570	3,860
Contributions by and distributions to owners:								
Shares issued	169	-	-	50,822	-	-	-	50,991
Dividend paid	-	-	-	-	-	-	(1,169)	(1,169)
Contributions to Employee Benefit Trust	-	-	-	-	(383)	-	-	(383)
Share-based payment	-	-	285	-	-	-	-	285
At 30 June 2022	**649**	**36,966**	**1,074**	**52,212**	**(887)**	**289**	**10,606**	**100,909**
Profit for the period	-	-	-	-	-	-	4,748	4,748
Foreign exchange translation differences	-	-	-	-	-	(134)	-	(134)
Total comprehensive income	-	-	-	-	-	(134)	4,748	4,615
Contributions by and distributions to owners:								
Shares issued	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(1,170)	(1,170)
Contributions to Employee Benefit Trust	3	327	-	-	(2,120)	-	-	(1,790)
Share-based payment	-	-	143	-	-	-	334	477
At 31 December 2022	**652**	**37,293**	**1,217**	**52,212**	**(3,007)**	**155**	**14,518**	**103,040**
Profit for the period	-	-	-	-	-		(1,213)	(1,213)
Foreign exchange translation differences	-	-	-	-	-	(123)	-	(123)
Total comprehensive income	-	-	-	-	-	(123)	(1,213)	(1,336)
Contributions by and distributions to owners:								
Shares issued	317	110,655	-	-	-	-	-	110,972
Dividend paid	-	-	-	-	-	-	(1,433)	(1,433)
Contributions to Employee Benefit Trust	-	-	-	-	(19)	-	-	(19)
Share-based payment	-	-	337	-	-	-	-	337
At 30 June 2023	**969**	**147,948**	**1,554**	**52,212**	**(3,026)**	**32**	**11,872**	**211,561**

ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements for the six months ended 30 June 2023 and 2022 are unaudited and were approved by the Directors on 26 July 2023. They do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. The financial statements for the year ended 31 December 2022 were prepared in accordance with IFRS and have been delivered to the Registrar of Companies. The report of the auditor on those financial statements was unqualified and did not draw attention to any matters by way of emphasis of matter. The Group's financial statements consolidate the financial statements of Franchise Brands plc and its subsidiaries.

Applicable standards

These unaudited consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, under the historical cost convention. They have not been prepared in accordance with IAS 34, the application of which is not required to the interim financial statements of AIM companies. The interim financial statements have been prepared in accordance with the accounting policies set out in the Group's Annual Report and Accounts for the year ended 31 December 2022.

Going concern

The condensed financial statements have been prepared on a going concern basis. The Group has generated profits both during the period covered by these financial statements and in previous years. These profits have resulted in operating cash inflows into the Group, and the Group has sufficient current financial assets to meet its current liabilities as they fall due.

NOTES TO THE UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the period attributable to equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period. 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 period 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.

Earnings per share

	Six months ended 30 June 2023 £'000	Six months ended 30 June 2022 £'000	Year ended 31 December 2022 £'000
Profit attributable to owners of the Parent	**(1,213)**	3,570	8,318
Adjusting items, net of tax	**7,733**	1,153	1,915
Adjusted profit attributable to owners of the Parent	**6,520**	4,722	10,233

	Number	Number	Number
Basic weighted average number of shares	153,781,948	116,061,969	122,126,350
Dilutive effect of share options	2,452,633	2,363,754	2,042,848
Diluted weighted average number of shares	156,234,581	118,425,723	124,169,198

	Pence	Pence	Pence
Basic earnings per share	**(0.79)**	3.08	6.81
Diluted earnings per share	**(0.78)**	3.01	6.70
Adjusted earnings per share	**4.24**	4.07	8.38
Adjusted diluted earnings per share	**4.17**	3.99	8.24

2. Non-recurring items

The Company incurred costs associated with the acquisition of Pirtek. An amount of £3.0 million has been charged in arriving at statutory profit.

	£'000
Pirtek acquisition costs	2,824
Reorganisation costs	167
Total	**2,991**

3. Business Combination

On 21 April, the Company acquired the entire issued share capital of Hydraulic Authority I Limited and its subsidiaries (together, "Pirtek" or "Pirtek Europe") for gross consideration of £73.4m, and net consideration of £63.7m (with £9.7m of cash purchased).

The total consideration for Pirtek of £210.3m includes repayments of acquired debt of £78.3m, redemption of acquired preference shares of £58.6m and the gross consideration, detailed below, of £73.4m.

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

	Book value £'000	Adjustments £'000	Fair Value £'000
Intangible assets	-	119,518	119,518
Property, plant and equipment	2,104	-	2,104
Inventories	5,174	-	5,174
Trade and other receivables	14,621	-	14,621
Current asset investment	179	-	179
Cash	9,669	-	9,669
Trade and other payables	(149,654)	-	(149,654)
Deferred tax liability	(11,466)	(20,491)	(31,957)
Total fair value of the identifiable assets and liabilities acquired	(129,373)	99,027	(30,346)
Total consideration paid			73,384
Goodwill			103,730

The deferred tax liability has been calculated on the value of the intangible assets acquired at a blended corporation tax rate of 26%. A corresponding amount has been recognised as goodwill. The amount recognised as goodwill will not be deductible for tax purposes.

The values of the intangibles acquired are currently provisional and will be finalised at the year-end. All of the intangible assets have a useful economic life of 10 years, with the exception of the brands and goodwill, which both have indefinite lives.

4. Availability of this report

This half-year results report will not be sent to shareholders but is available on the Company's website at https://www.franchisebrands.co.uk/key-documents/.

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