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Franchise Brands PLC
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FRANCHISE BRANDS PLC
("Franchise Brands", the "Group" or the "Company")

Final results for the year ended 31 December 2022

Another significant and highly successful year for the Group

Record organic growth at Metro Rod and transformational acquisition of Filta which has performed ahead of expectations

Franchise Brands plc (AIM: FRAN), an international multi-brand franchise business, is pleased to announce its audited results for the year ended 31 December 2022.

Financial highlights

- Revenue increased by 72% to £99.2m (2021: £57.7m) reflecting record organic growth from the B2B Division, complemented by the acquisition of Filta.
- Adjusted EBITDA* increased by 80% to £15.3m (2021: £8.5m).
- Adjusted profit** before tax increased by 98% to £12.8m (2021: £6.5m).
- Statutory profit before tax increased by 78% to £10.3m (2021: £5.8m).
- Cash conversion (after adding back acquisition and reorganisation costs) of 79% (2021: 97%). The decline was due to additional trade debtors at Metro Rod on increased system sales.
- Net cash*** of £8.0m at 31 December 2022 (2021: £6.5m).
- Adjusted EPS** increased by 51% to 8.38p (2021: 5.55p).
- Basic EPS increased by 54% to 6.81p (2021: 4.42p).
- Final dividend of 1.1p per share proposed (2021: 0.9p per share), giving a 33% increase in the total dividend for the year to 2.0p per share (2021: 1.5p per share), 4.2 times covered by adjusted profit after tax (2021: 3.7 times).

Operational highlights

- Completion of the transformational acquisition of Filta in March, establishing 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-created B2B division with revenue growing by 34%.
    - Metro Rod and Metro Plumb system sales increased by 19% to a record £60m.
    - Willow Pumps sales increased 14% and accelerated its cross-selling strategy.
    - Significant turnaround in productivity at Filta UK which has been integrated at pace.
- B2C division franchisee recruitment and retention affected by the unusual labour market and post-Covid employment trends, nevertheless, underlying franchisee trading remained robust.
- Continuing to leverage efficiency-enhancing technology across the Group.

Current trading and outlook

- Good momentum in the B2B businesses continued into 2023 to date, reflecting defensive growth opportunities for its essential services to resilient and diversified sectors.
- Filta International maintains excellent progress in North America.
- Strategic review has concluded there are greater opportunities for the Group for organic, acquisitive and international growth within the B2B franchise sector. The B2C Division is therefore being offered for sale.

**Adjusted EBITDA is earnings before interest, tax, depreciation, amortisation,exchange differences, and share-based payment expense and non-recurring items.*
***Adjusted profit before tax and Adjusted EPS are before amortisation of acquired intangibles, share-based payment expense, exchange differences and non-recurring items.*
**** Net Cash is cash less hire purchase obligations and obligations under leases.*

Stephen Hemsley, Executive Chairman, commented:

"2022 was another significant and highly successful year for the Group, with a strong performance driven by record organic growth in the Group's UK B2B division complemented by the transformational acquisition of Filta, which has performed ahead of our expectations.

"The excellent momentum in the B2B businesses has continued in 2023 to date, as we capture the defensive growth opportunities afforded by the Group's mostly essential services, strong leadership positions in its chosen markets, and reputation for high quality, reliable services among its diversified client base.

"We look forward with confidence to expanding the business organically and by seeking further earnings-enhancing acquisitions. We have clear opportunities to grow our franchise businesses through further investment in sales and marketing, supporting franchisees to expand their services, and leveraging efficiency-enhancing technology. In addition, our focus on B2B franchise businesses provides a strong platform from which to seek selective acquisitions of van-based businesses that provide essential services, as we seek to expand our international footprint."

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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 currently has a combined network of 586 franchisees across six principal franchise brands in 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 a long trading history which benefit from the Group's central support services, in particular technology, marketing, management experience and other group resources. At the centre of Franchise Brands' business building strategy is helping its franchisees grow their businesses.

Franchise Brands employs 415 people from 5 principal offices in the UK, Orlando, Florida and the Netherlands.

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

CHAIRMAN'S STATEMENT

Introduction

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.

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. 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 scaleable 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).

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 5-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.

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 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

FINANCIAL REVIEW

Summary statement of income

	2022 Continuing Operations	**2022 Discontinuing Operations**	**2022**	2021 Continuing Operations	2021 Discontinuing Operations
	£'000	**£'000**	**£'000**	£'000	£'000
System sales	**160,580**	**25,773**	**186,353**	69,978	23,593

Revenue	**92,729**	**6,423**	**99,152**	51,262	6,427
Cost of sales	**(61,936)**	**(1,251)**	**(63,187)**	(34,396)	(1,368)
Gross profit	**30,793**	**5,172**	**35,965**	16,867	5,060
Administrative expenses	**(18,066)**	**(2,618)**	**(20,684)**	(11,031)	(2,422)
Adjusted EBITDA	**12,727**	**2,554**	**15,281**	5,836	2,638
Depreciation & amortisation of software	**(2,093)**	**(188)**	**(2,281)**	(1,555)	(162)
Finance expense	**(221)**	**(14)**	**(235)**	(283)	(10)
Foreign Exchange	**28**	**-**	**28**	-	-
Adjusted profit before tax	**10,441**	**2,352**	**12,793**	3,998	2,466
Tax expense	**(2,151)**	**(409)**	**(2,560)**	(791)	(363)
Adjusted profit after tax	**8,290**	**1,943**	**10,233**	3,207	2,103
Amortisation of acquired intangibles	**(1,504)**	**-**	**(1,504)**	(393)	-
Share-based payment expense	**(510)**	**(25)**	**(535)**	(302)	(32)
Non-recurring items	**(1,708)**	**-**	**(1,708)**	(187)	-
Other gains and losses	**1,232**	**-**	**1,232**	223	-
Tax on adjusting items	**595**	**5**	**600**	(391)	4
Statutory profit	**6,395**	**1,923**	**8,318**	2,159	2,075

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 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: £8.8m).

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:

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

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.

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:

	Year ended 31 December 2022				Year ended 31 December 2021			
	Metro Rod	Willow Pumps	Filta UK	Total	Metro Rod	Willow Pumps	Filta UK	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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)	(26,276)	(10,226)	-	(36,501)
Gross profit	**12,822**	**5,979**	**3,489**	**22,290**	**11,115**	**5,692**	**-**	**16,808**
GP%	*29%*	*33%*	*38%*	*31%*	*30%*	*36%*		*32%*
Administrative expenses	(6,557)	(4,134)	(2,421)	(13,112)	(5,734)	(4,007)	-	(9,740)
Adjusted EBITDA	**6,265**	**1,845**	**1,067**	**9,177**	**5,381**	**1,686**	**-**	**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:

Metro Rod	**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)	(26,276)	(4,972)	19%
Gross profit	**12,822**	**11,115**	**1,707**	**15%**
GP%	*29%*	*30%*	*(1%)*	*(2%)*
Administrative expenses	(6,557)	(5,734)	(823)	14%
Adjusted EBITDA	**6,265**	**5,381**	**884**	**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:

Metro Rod Franchisor	**2022 £'000**	**2021 £'000**	**Change £'000**	**Change %**
System sales	**59,814**	**50,361**	**9,430**	**19%**
MSF income	11,085	9,411	1,674	18%
Effective MSF %	*18.5%*	*18.7%*		
Other gross profit	1,737	1,704	33	2%
Gross profit	**12,822**	**11,115**	**1,707**	**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).

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:

Willow Pumps	2022	2021	Change	Change
	£'000	£'000	£'000	%
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**	**1,686**	**159**	**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).

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	(2,421)
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 re-opened 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.

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:

Filta International	**North America**	**Europe**	**2022**
	£'000	**£'000**	**£'000**
System sales	**66,699**	**2,861**	**69,560**
Statutory revenue	**23,273**	**602**	**23,874**
Cost of sales	(15,398)	(386)	(15,784)
Gross profit	**7,875**	**216**	**8,091**
GP%	*34%*	*36%*	*34%*
Administrative expenses	(2,516)	(360)	(2,877)
Adjusted EBITDA	**5,358**	**(145)**	**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 %**
MSF	2,294	2,294	100%
Equipment and Supply	2,500	799	32%
Waste Oil	16,293	2,934	18%
Area Sales	958	753	79%
NCA, Marketing and IT	1,227	1,095	89%
Total	**23,273**	**7,875**	**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.

B2C Division

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

B2C	**2022**	**2021**	**Change**	**Change**
	£'000	**£'000**	**£'000**	**%**
System sales	**25,773**	**23,593**	**2,180**	**9%**
Statutory revenue	**6,423**	**6,427**	**(4)**	**0%**
Cost of sales	(1,252)	(1,368)	116	(8%)
Gross profit	**5,171**	**5,060**	**111**	**2%**
GP%	*81%*	*79%*	*2%*	*2%*
Administrative expenses	(2,618)	(2,422)	(196)	8%
Adjusted EBITDA	**2,554**	**2,638**	**(85)**	**(3)%**

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:

Azura	2022 £'000	2021 £'000	Change £'000
Statutory 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	(2,281)	(1,716)	(564)	33%
Finance expense	(235)	(292)	58	(20)%
Foreign exchange	28	-	28	100%
Adjusted profit before tax	**12,794**	**6,465**	**6,329**	**98%**
Tax expense	(2,561)	(1,154)	(1,406)	122%
Statutory profit after tax	**10,233**	**5,311**	**4,923**	**93%**
Amortisation of acquired intangibles	(1,504)	(393)	(1,111)	283%
Share-based payment expense	(535)	(334)	(201)	60%
Non-recurring costs	(1,708)	(187)	(1,521)	813%
Other gains and losses	1,232	223	1,009	452%
Tax on adjusting items	599	(387)	986	(255)%
Statutory profit after tax	**8,318**	**4,233**	**4,085**	**96%**

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 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 IFRS13 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	**EPS**	**2021**	**EPS**
	£'000	**p**	**£'000**	**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	(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	599	0.49	(387)	0.40
Statutory profit after tax/Basic EPS	**8,318**	**6.81**	**4,233**	**4.42**

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 representthe 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.

	2022 £'000	2021 £'000	Change £'000	Change %
Cash	10,799	9,054	1,745	19%
Hire purchase debt	(1,132)	(821)	(311)	38%
Adjusted net debt	**9,667**	**8,233**	**1,434**	**17%**
Other Lease debt	(1,623)	(1,713)	90	(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

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 11 April 2023, the final dividend will be paid to those shareholders on the register at the close of business on 14 April 2023.

Andrew Mallows
Interim Chief Financial Officer
9 March 2023

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

	2022 Continuing Operations £'000	2022 Discontinuing Operations £'000	2022 Total £'000
Revenue	92,729	6,423	99,152
Cost of sales	(61,936)	(1,251)	(63,187)
Gross profit	30,793	5,172	35,965
Adjusted earnings before interest, tax, depreciation, amortisation, share-based payments & non-recurring items ("Adjusted EBITDA")	13,005	2,276	15,281
Depreciation	(1,594)	(187)	(1,781)
Amortisation of software	(499)	(1)	(500)
Amortisation of acquired intangibles	(1,504)	-	(1,504)
Share-based payment expense	(510)	(25)	(535)
Non-recurring items	(475)	-	(475)
Total administrative expenses	(22,371)	(3,108)	(25,479)
Operating profit	8,422	2,064	10,486
Other gains and losses	-	-	-
Finance expense	(221)	(14)	(235)
Profit before tax	8,201	2,050	10,251
Tax expense	(1,556)	(405)	(1,961)
Profit for the year attributable to equity holders of the Parent Company	6,645	1,645	8,290
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 (pence)			
Basic	5.46	1.35	6.81
Diluted	5.37	1.33	6.70

Consolidated Statement of Financial Position

At 31 December 2022

	2022	2021
	£'000	£'000
Assets		
Non-current assets		
Intangible assets	**85,113**	35,278
Property, plant and equipment	**3,208**	2,609
Right-of-use assets	**2,568**	2,723
Contract acquisition costs	**402**	-
Trade and other receivables	**811**	182
Total non-current assets	**92,102**	40,792
Assets in disposal groups classified as held for sale	**5,576**	-
Current assets		
Inventories	**1,989**	908
Trade and other receivables	**21,660**	16,514
Contract acquisition costs	**92**	-
Current tax asset	**220**	-
Cash and cash equivalents	**10,799**	9,054
Total current assets	**34,760**	26,475
Total assets	**132,438**	67,267
Liabilities		
Current liabilities		
Trade and other payables	**18,160**	12,144
Obligations under leases	**831**	754
Deferred income	**807**	-
Current tax liability	-	213
Contingent consideration	-	345
Total current liabilities	**19,798**	13,456
Liabilities directly associated with assets in Disposal groups classified as held for sale	**1,786**	-
Non-current liabilities		
Obligations under leases	**1,626**	1,780
Deferred income	**1,744**	-
Contingent consideration	-	2,567
Deferred tax liability	**4,444**	2,139
Total non-current liabilities	**7,814**	6,486
Total liabilities	**29,398**	19,942
Total net assets	**103,040**	47,325
Issued capital and reserves attributable to owners of the Company		
Share capital	**652**	480
Share premium	**37,293**	36,966
Share-based payment reserve	**1,217**	789
Merger reserve	**52,212**	1,390
Translation reserve	**155**	-
EBT reserve	**(3,007)**	(504)
Retained earnings	**14,518**	8,204
Total equity attributable to equity holders	**103,040**	47,325

Consolidated Statement of Cash Flows

For the year ended 31 December 2022

	2022	**2022**

	Continuing Operations £'000	Discontinuing Operations £'000	2022 Total £'000
Cash flows from operating activities			
Profit for the year	**6,673**	**1,645**	**8,318**
Adjustments for:			
Depreciation of property, plant and equipment	**725**	**31**	**756**
Depreciation of right-of-use assets	**869**	**156**	**1,025**
Amortisation of software	**499**	**1**	**500**
Amortisation of acquired intangibles	**1,504**	-	**1,504**
Non-recurring costs	-	-	-
Share-based payment expense	**510**	**25**	**535**
Willow contingent consideration	**(1,232)**	**-**	**(1,232)**
Finance expense	**221**	**14**	**235**
Exchange differences on translation of foreign operations	**(28)**	-	**(28)**
Tax expense	**1,556**	**405**	**1,961**
Operating cash flow before movements in working capital	**11,297**	**2,277**	**13,574**
(Increase)/decrease in trade and other receivables	**(1,997)**	**(2,664)**	**(4,661)**
(Increase) in inventories	**85**	**(486)**	**(401)**
Increase/(decrease) in trade and other payables	**1,862**	**(17)**	1,845
Cash generated from operations	**11,247**	**(890)**	**10,357**
Corporation taxes paid	**(2,629)**	-	**(2,629)**
Net cash generated from operating activities	**8,618**	**(890)**	**7,728**
Cash flows from investing activities			
Purchases of property, plant and equipment	**(378)**	**(44)**	**(422)**
Proceeds from the sale of property, plant and equipment	**259**	-	**259**
Purchase of software	**(1,077)**	**(11)**	**(1,088)**
Loans to Franchisees	**(1,062)**	-	**(1,062)**
Franchisee loans repaid	**548**	-	**548**
Acquisition of subsidiaries including costs, net of cash acquired (including deferred consideration)	**4,320**	-	**4,320**
Net cash used in investing activities	**2,610**	**(55)**	**2,555**
Cash flows from financing activities			
Bank loans - repaid	**(2,953)**	-	**(2,953)**
Other loans - made	-	-	-
Capital element of lease liability repaid	**(902)**	**(135)**	**(1,037)**
Interest paid - bank and other loan	**(111)**	**(5)**	**(116)**
Interest paid - leases	**(110)**	**(9)**	**(119)**
Proceed from issue of shares	**330**	-	**330**
Funds Supplied to Employee Benefit Trust	**(2,503)**	-	**(2,503)**
Dividends paid	**(2,339)**	-	**(2,339)**
Net cash generated from financing activities	**(8,588)**	**(149)**	**(8,737)**
Net increase in cash and cash equivalents	**2,639**	**(1,094)**	**1,546**
Cash and cash equivalents at beginning of year	**7,397**	**1,658**	**9,054**
Exchange differences on cash and cash equivalents	**199**	-	**199**
Cash and cash equivalents at end of year	**10,235**	**564**	**10,799**

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

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
At 1 January 2021	479	36,817	455	1,390	-	(149)
Profit for the year and total comprehensive income	-	-	-	-	-	-
Contributions by and distributions to owners						
Shares issued	1	149	-	-	-	-
Dividend paid	-	-	-	-	-	-
Contributions to Employee Benefit Trust	-	-	-	-	-	(355)
Share-based payment	-	-	334	-	-	-
At 1 January 2022	**480**	**36,966**	**789**	**1,390**	**-**	**(504)**
Profit for the year	-	-	-	-	-	-
Foreign exchange translation differences	-	-	-	-	155	-
Profit for the year and total comprehensive income	-	-	-	-	155	-
Contributions by and distributions to owners						
Shares issued	169	-	-	50,822	-	-
Dividend paid	-	-	-	-	-	-
Contributions to Employee Benefit Trust	3	327	-	-	-	(2,503)
Share-based payment	-	-	428	-	-	-
At 31 December 2022	**652**	**37,293**	**1,217**	**52,212**	**155**	**(3,007)**

1. Basis of preparation of financial information

While the financial information included in this annual financial results announcement has been prepared in accordance with the recognition and measurement principles of international accounting standards in conformity with the requirements of Companies Act 2006, this announcement does not contain sufficient information to comply with IFRSs.

The financial information set out above does not constitute the Company's statutory accounts for the years ended 31 December 2022 or 2021 but is derived from those accounts. Statutory accounts for Franchise Brands plc for the year ended 31 December 2021 have been delivered to the Registrar of Companies and those for the year ended 31 December 2022 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports. Their reports for the year ended 31 December 2022 and 31 December 2021 did not contain statements under s498 (2) or (3) of the Companies Act 2006.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

2. 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 the Group has 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 of Azura; and
- Other operations, which 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.

	Continuing			
		Filta-		
	B2B	**International**	**Azura**	**Other**
2022	**£'000**	**£'000**	**£'000**	**£'000**
Revenue	**71,376**	**23,874**	**797**	**(3,318)**
Gross profit	**22,290**	**8,090**	**796**	**(383)**
Adjusted EBITDA*	**9,177**	**5,214**	**171**	**(1,835)**
Depreciation & amortisation of software	(1,998)	(180)	(32)	117
Amortisation of acquired intangibles	(4,620)	(29)	-	3,145
Share based payment expense	(303)	(107)	(10)	(90)
Non-recurring costs	(363)	(11)	-	(101)
Finance expense	(210)	31	(2)	(40)
Other gains and losses	(118)	146	-	-
Profit before tax*	**1,565**	**5,064**	**127**	**1,196**
Tax expense	(77)	(1,203)	(16)	(261)
Profit after tax*	**1,488**	**3,861**	**111**	**935**
Additions to non-current assets	1,125	122	212	52,393
Reportable segment assets	31,535	9,189	328	85,810
Reportable segment liabilities	(13,609)	(4,871)	(9)	(9,123)

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

2021	Continuing B2B £'000	Filta- International £'000	Azura £'000	Other £'000
Revenue	53,309	-	59	(2,106)
Gross profit	16,808	-	59	-
Adjusted EBITDA*	7,067	-	3	(1,234)
Depreciation & amortisation of software	(1,554)	-	(1)	-
Amortisation of acquired intangibles	-	-	-	(393)
Share based payment expense	(218)	-	-	(84)
Non-recurring costs	-	-	-	(187)
Finance expense	(149)	-	(1)	(132)
Other gains and losses	-	-	-	223
Profit before tax*	5,146	-	1	(1,807)
Tax expense	(770)	-	-	(412)
Profit after tax*	4,376	-	1	(2,219)
Additions to non-current assets	2,170	-	-	820
Reportable segment assets	25,813	-	282	37,553
Reportable segment liabilities	(13,637)	-	(6)	(4,455)

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

3. Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to Ordinary equity holders of the Parent 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 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 To £'0**
Profit attributable to owners of the Parent Company	6,673	1,645	8,3
Non-recurring costs (Note 5,7)	1,708	-	1,7
Amortisation of acquired intangibles (Note 13)	1,504	-	1,5
Change in the fair value of deferred consideration (Note 20)	(1,232)	-	(1,23
Share-based payment expense (Note 9)	510	25	5
Tax on adjusting items	(595)	(5)	(60
Adjusted profit attributable to owners of the Parent Company	8,568	1,665	10,2

	Number	**Number**	**Numb**
Basic weighted average number of shares	122,126,350	122,126,350	122,126,35
Dilutive effect of share options	2,042,848	2,042,848	2,042,84
Diluted weighted average number of shares	124,169,198	124,169,198	124,169,19

	Pence	**Pence**	**Pen**
Basic earnings per share	5.46	1.35	6.
Diluted earnings per share	5.37	1.33	6.
Adjusted earnings per share	7.02	1.36	8.
Adjusted diluted earnings per share	6.90	1.34	8.

4. 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.

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 asset / (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 9 March 2022 the Company had received acceptances equal to 82% from the holders of Filta Group Holdings plc shares. As at the 25 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.

	£'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.

5. Dividends

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

A final dividend of 1.1 pence per share is proposed, bringing the total dividend for the year to 2.0 pence per share (2021: 1.5p).

6. Annual report and accounts

The annual report and accounts for the year ended 31 December 2022 will be available on the Company's website at www.franchisebrands.co.uk/investor-relations by 20 March 2023, notice of which will be sent to shareholders on the register.

7. Annual General Meeting

The Annual General Meeting of Franchise Brands plc will be held on 11 April 2023, notice of which will be sent to shareholders shortly.

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