

Frankis Group Oyj

Interim report – Q2 2014

FRANKISgroup



CEO Comments – Q2 2014

Summary

The net sales of the Finnish fast food market totaled €120,7 million in Q2 2014 representing a slight decrease of -0,3 % to Q2 2013. Consumer confidence remained unmoved and stayed low in the end of quarter (June 8,7 points/May 8,7 points/April 3,7 points 2014) well below longtime average of 12,1 points.

The Group's net sales and EBITDA-R in the second quarter came in below our expectations at € 13.1 million (€ 13.6 million) and € 0.94 million (€ 0.90 million) respectively. Main reasons for the increase in EBITDA-R (Q2/2014 vs. Q2/2013) have been the positive same store sales development and the decreasing number of own stores. With regards to EBITDA-R during H1 2014 we are approximately € 0.11 million behind the equivalent period last year. The main reason for the lower EBITDA-R is the decline of our store network. At the end of Q2 2014 we had 16 Kotipizza stores less than in Q2 2013, which affect negatively to the chains net sales and also to the revenues and gross margins of whole group. As of Q2 2014 we had altogether 263 Kotipizza stores (279). During H1 2014 we have actively been reshaping our strategy (marketing and store concept) in order to better support positive chain sales and store openings. Based on consumer and franchisee response as well as sales development we are positive regarding the changes made.

The operational cash flow of the period Q2 2014 was € 1.34 million positive. The actual payment date of account payables and receivables may result in relatively large variations in the operational cash flow between quarters. The operational cash flow in Q2 2014 was higher than in Q2 2013 mainly due to the payment days of payables. The new IT system, on the Helsinki Foodstock side, has now been fully implemented as should not cause any invoicing delays going further which during H1 2014 resulted in occasional cash flow variations.

Due to the bond financing made in April 2013, financing items and interest rates are not comparable to the previous years.

Marketing

Q2 marketing activities in April started with our classic Americana TOP 3 product with a great film on TV, supported by sponsored Facebook advertising.



In mid May we introduced series of 3 different Organic pizzas in May (Margherita, Porchetta and Steak). The organic pizzas were welcomed with families and PR supporting Kotipizza's brave and pioneering step towards high quality organic raw materials. The campaign itself reached sales levels of 5% of the total mix. Stakeholders and NGO's in Finland were praising this idea and challenged other fast food operators to act alike. Kotipizza published their second corporate social responsibility report and announced "Commitment 2020" together with Ministry of the Environment while we launched the Organic Pizzas in the marketplace. The commitment (in Finnish) can be viewed at:

<http://sitoumus2050.fi/fi/sitoumus/teemme-maailmasta-paremmen-ja-herkullisemman-pizza-kerrallaan>



In June we increased our digital presence in the market launching electronic value coupons and started sponsoring ever-increasing Youtube networks together with popular video blogs. All the coupons were uploaded also to Instagram, which is the most growing new social media in Finland especially with younger audience.



Digital value coupons were possible to download from our website or shown from customer's phone screen. Products were free to choose with a number of toppings and attractive pricing.



Just by the end of June we introduced our innovative new summer campaign items: Plank Pizzas. Kotipizza new product development team worked hard the whole first half of the 2014 to produce 3 new interesting items. Plank wood pizzas were introduced with the tastes of Pulled Pork & Apple Chutney, Beef and Roast & Red Onion and Vegetables, Kalamata-olives & Feta cheese. Marketing activities were related to vacation time media, afternoon papers, mobile advertising, in store marketing and social media competitions together with biggest festivals in Finland. Plank pizzas were served from actual plank "wood" - part of the new concept renewal food menu that will take place in the stores 1st October 2014. Plank pizzas took immediately a place in the consumers' heart and share of sales mix climb over 6% of total mix. We were very pleased with the outcome of the campaign, which resulted in new customer traffic especially in the 15-34 year customer segment. The product will be included in the upcoming new concept menu.



The marketing efforts in Q2 followed our new marketing strategy. Please take a moment and view our film describing these changes in more detail. The film can be downloaded at:

http://www.frankisgroup.com/video/kp_case

Q2 same store sales were +0,2% % (April +2,2% / May -0,3 % / June -1,2%). Monthly same store sales comparability can be affected by differences of e.g. campaign mix and campaign starts within the specific years.

International

With regards to our international efforts, we decided to discontinue our operations in Serbia with 5 small roadside stores placed inside NIS gas stations. Serbia's current economical situation and consumer spending does not encourage us to continue the pilot scheme anymore. The discontinuation of the Serbian operations will have a positive effect on profitability going forward.

Network

Our focus in the second quarter of the year 2014 was to increase customer traffic and to reduce the number of own stores (7 own store at the end of Q2 2014 , 9 own stores at the end of Q1 2014 and 15 stores at Q1 2013) and to keep up with the budgeted new store openings. We managed to further reduce the number of own stores. On the new opening side we are lagging with regards to our original plan mainly due to the slightly delayed new concept launch. During Q2 we opened 1 new location and sold 4 own stores to franchisees. Further, we closed 2 unprofitable stores and took 1 store over from a franchisee.

Our new concept launch is ongoing. We refurbished 2 stores into a new concept during Q2 2014. Helsinki Lönnrotinkatu store opened Mid May and Forssa Torikatu store opened in the end of June. The first results have been very promising. Forssa, Torikatu store proved to be well over + 30% sales increase in July 2014 compared to July 2013. Helsinki Lönnrotinkatu sales are up between 5-7% on average. However, Lönnrotinkatu figures are not totally comparable as the restaurant is sharing the lobby of Omenahotel (budget hotel chain), and is overly dependent on hotel traffic. All in all we are looking to step-up the new concept launch and store renewals based on these promising results.

The second half of the 2014 we will concentrate on the effective marketing activities that will generate increased customer traffic. Focus will also be on the currently agreed upon new openings: 1 store in August (opened on the 23rd of August), 1 store in September and 1 store in October. These all will all be implemented based on the new concept. As mentioned, on the 1st October we will introduce new food menu, new work wear and pizza boxes that will communicate our current strong vision of modern fast-casual operator that introduces trendy, healthy, fresh and yet very affordable place to eat.

Covenants

The €30 million bond, issued by Frankis Group Oyj, include maintenance covenants. The covenants based on the Q2 figures of Frankis Group were:

- Net Interest Bearing Debt to EBITDA (as defined in the bond terms): 5.3:1 (shall not exceed 5.5:1)
- Interest Covergare Ratio (as defined in the bond terms): 1.87:1 (shall exceed 1.75:1)
- Cash (as defined in the bond terms): €4.944 million (shall exceed €2 million)

Thus, Frankis Group were in compliance with all the maintenance covenants at the end of Q2 2014.

Tommi Tervanen
CEO Frankis Group Oyj

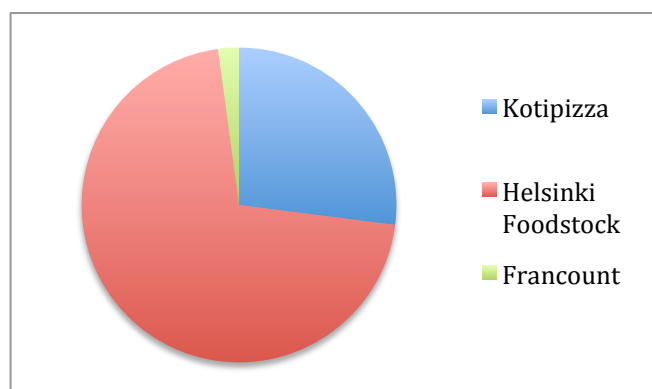
FINANCIAL OVERVIEW APRIL-JUNE

Net sales: tEUR	13,138 (13,609 LY)
Gross margin in %:	22.7 (23.7)
EBITDA-R: tEUR	936 (898 LY)
EBIT: tEUR	103 (229 LY)
Net working capital: tEUR	-433
Net debt: tEUR	25,427

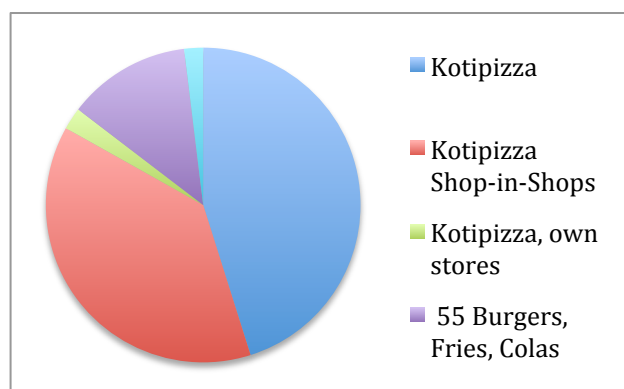
FINANCIAL OVERVIEW JUNE YTD

Net sales: tEUR	25,641 (26,683 LY)
Gross margin in %:	23.7 (25.4)
EBITDA-R: tEUR	1,980 (2,094 LY)
EBIT: tEUR	354 (750 LY)

Frankis Group sales split 4-6/2013*



Frankis Group restaurant split 6/2014



* Excluding intra-group eliminations

Accounting Principles

This Q2 interim report has been prepared in accordance with Finnish GAAP. This report has not been reviewed by the company's auditors.

Parent Company

Frankis Group Oyj is the parent company in the group and was established in 2011. The parent company financials are presented on page 10-12 in this report.

Group Income Statement

Consolidated Income Statement	Quarter		Accumulated (YTD)	
Q2 2014	A	PY	A	PY
<i>EUR thousands</i>				
Total Sales	13 138	13 609	25 641	26 683
Gross Profit	2 984	3 223	6 069	6 769
<i>Gross margin</i>	22,7 %	23,7 %	23,7 %	25,4 %
Operating fixed costs	-2 048	-2 325	-4 089	-4 675
EBITDA - R	936	898	1 980	2 094
<i>EBITDA-R margin</i>	7,1 %	6,6 %	7,7 %	7,8 %
Restructuring costs	-204	-57	-377	-128
EBITDA	732	841	1 603	1 966
<i>EBITDA margin</i>	5,6 %	6,2 %	6,3 %	7,4 %
Depreciation	-115	-99	-222	-195
Amortisation of goodwill	-514	-513	-1 027	-1 021
EBIT	103	229	354	750
Financial net	-737	-1 902	-1 679	-2 632
Extraordinary net	0	0	0	0
EBT	-634	-1 673	-1 325	-1 882
Income Tax	-59	-81	211	-626
EAT	-693	-1 754	-1 114	-2 508

Group Balance Sheet

Consolidated Balance Sheet

30 June 2014

A

PY

EUR thousands

Intangible assets	34 114	35 459
Tangible assets	723	518
Investments	2	2
Non-current assets	34 839	35 979
Inventory	3 856	3 515
Long term receivables	10	11
Short term receivables	6 475	5 709
Cash	4 944	4 328
Current assets	15 285	13 563
ASSETS	50 124	49 542
EQUITY	1 516	2 901
Provisions	31	63
Long term int.bear. liabilities	30 000	30 000
Adv.payments long term	1 862	1 826
Other long term liabilities	7 803	6 988
Short term intr.bear. liabilities	0	0
Adv.payments short term	0	25
Accounts payables	6 535	4 581
Other short term liabilities	2 377	3 158
Liabilities	48 577	46 578
EQUITY & LIABILITIES	50 124	49 542

Group Cashflow Statement

Consolidated Cashflow Statement	Quarter		Accumulated (YTD)	
	A	PY	A	PY
Q2 2014				
<i>EUR thousands</i>				
EBITDA	732	841	1 603	1 966
Inventory, change	-220	-459	-501	-567
Accounts receivables, change	-333	121	1 768	321
Non-int.bear. Liabilities, change	1 158	-616	292	-1 247
Provisions, change	0	0	-32	42
Operational Cash Flow	1 337	-113	3 130	515
Group contribution	0	0	0	0
Capex	-338	-222	-995	-982
Interest payments, net	-744	-1 901	-1 452	-2 631
Income Tax	-62	-149	-111	-334
Cash flow before financing	193	-2 385	572	-3 432
Loans receivable	0	0	0	0
Long term loans, change	58	5 191	105	3 202
Short term loans, change	-34	-1 016	26	25
Debt to other related parties., chg	52	-394	-168	381
Debt to group comp., chg	52	-57	104	131
Other financing, net	-506	-46	84	19
Net Cash flow	-185	1 293	723	326
Opening Cash	5 129	3 035	4 221	4 002
Closing Cash	4 944	4 328	4 944	4 328

Frankis Group Oyj - Income Statement

Income Statement	Quarter		Accumulated (YTD)	
Q2 2014	A	PY	A	PY
<i>EUR thousands</i>				
Total Sales	214	223	423	432
Gross Profit	213	223	423	432
<i>Gross margin</i>	99,5 %	100,0 %	100,0 %	100,0 %
Operating fixed costs	-362	-284	-736	-552
EBITDA - R	-149	-61	-313	-120
<i>EBITDA-R margin</i>	-69,6 %	-27,4 %	-74,0 %	-27,8 %
Restructuring costs	-43	-3	-43	-15
EBITDA	-192	-64	-356	-135
<i>EBITDA margin</i>	-89,7 %	-28,7 %	-84,2 %	-31,3 %
Depreciation	-4	-8	-12	-15
EBIT	-196	-72	-368	-150
Financial net	-672	-1 851	-1 600	-3 599
Extraordinary net	0	0	4 302	4 258
EBT	-868	-1 923	2 334	509
Income Tax	0	0	-22	-96
EAT	-868	-1 923	2 312	413

Frankis Group Oyj - Balance Sheet

Balance Sheet	Quarter	
30 June 2014	A	PY
<i>EUR thousands</i>		
Intangible assets	11	12
Tangible assets	72	96
Investments	30 772	30 732
Non-current assets	30 855	30 840
Inventory	0	0
Long term receivables	0	0
Short term receivables	10 546	8 703
Cash	75	1 668
Current assets	10 621	10 371
ASSETS	41 476	41 211
EQUITY	3 016	2 240
Provisions	0	48
Long term int.bear. liabilities	30 000	30 000
Adv.payments long term	0	0
Other long term liabilities	7 537	6 953
Short term intr.bear. liabilities	0	0
Adv.payments short term	0	0
Accounts payables	103	23
Other short term liabilities	820	1 947
Liabilities	38 460	38 923
EQUITY & LIABILITIES	41 476	41 211

Frankis Group Oyj - Cashflow Statement

Cashflow Statement	Quarter		Accumulated (YTD)	
	A	PY	A	PY
Q2 2014				
<i>EUR thousands</i>				
EBITDA	-192	-64	-356	-135
Inventory, change	0	0	0	0
Accounts receivables, change	-67	-14	8	-15
Non-int.bear. Liabilities, change	39	7	80	11
Provisions, change	0	0	-48	48
Operational Cash Flow	-220	-71	-316	-91
Group contribution	0	0	4 301	4 258
Capex	0	-10	-42	-743
Interest payments, net	-673	-1 852	-1 600	-3 600
Income Tax	0	0	-97	2
Cash flow before financing	-893	-1 933	2 246	-174
Loans receivable	165	-4 958	-1 917	-6 271
Long term loans, change	0	9 389	-41	8 895
Short term loans, change	-9	-300	-487	-1 414
Debt to other related parties., chg	52	-394	-168	381
Debt to group comp., chg	52	-57	104	131
Other financing, net	-608	-91	223	112
Net Cash flow	-1 241	1 656	-40	1 660
Opening Cash	1 316	12	115	8
Closing Cash	75	1 668	75	1 668

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