

Sphera Franchise Group (SFG)

HOLD

Company Update

Price Target: 34,2 RON (-13,5%)

Key Points

- Sphera Franchise Group has shown positive performance over the past 12 months, achieving a cumulative return of 48%, significantly outperforming the BET index's 9.1%. This performance is welcomed, considering that the company has underperformed since its listing. SFG remains attractive due to its diversification and stable dividend flow. However, the aggressive price growth in the past two years (+188%) raises questions about the company's proximity to its intrinsic value.
- We value the company at an average price of 34.2 RON/share, approximately 13.5% below the market level, as an average between the DDM valuation (34.8 RON, -12.2%) and relative valuation (33.7 RON, -14.9%). The DDM model better reflects the company's return model, especially given the high leverage (3.4x), while for the relative valuation, we selected a sample of similar companies with franchise-based business models. In both cases, SFG appears overvalued, and we have recommended a hold position. However, the valuation was close to our internal sell threshold (-15%).
- The 9-month results showed growth (restaurant sales +6.4%) but were below the annual growth rate we have been accustomed to since the company's launch (CAGR +15.1%). The slowdown was driven by the underperformance of the Pizza Hut franchise (-7.7% y/y at 9 months), currently undergoing restructuring, and by KFC franchise sales (+7.7% y/y at 9 months), which recorded a decline in revenue per restaurant (-0.2% ttm) for the first time in four years.
- The intensification of competition in the QSR segment in Romania, where local brands have achieved growth rates above the market, has led to a market share decrease for KFC (-4.2%) and Pizza Hut (-1.9%) in Romania over the past six years (top 10, own calculations). The only brand that recorded growth was Taco Bell (+1.9%). Although Sphera announced the launch of a new franchise in Italy (Cioccolatitaliani), the local context in the group's most important market remains challenging, with increasing competition from both local and international players (Wendy's has announced a \$200 million investment over the next 10 years).
- Risks related to the company include a significant deterioration of the macroeconomic environment, impacting the company's business; staff shortages amid a tight labor market; legislative changes and government regulations (including tax increases); and heightened competition in the local market.

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Sector: Restaurants

Shares information

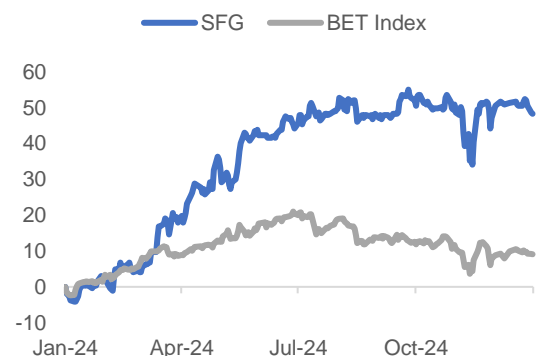
Min/max price, 52 weeks.	25,4 – 41,5
Dividend/share	2,1
Total Shares (mln.)	38,8
Capitalization (RON mln.)	1.559,7
52 weeks liquidity (RON mln.)	171,1

Major Shareholders

	%
Tatika investments limited	28,6
Computerland Romania	20,5
Wellkept Group	17,1
Institutional	28,1
Retail	5,7

1 year performance vs BET

	%
SFG	48,3
BET Index	9,1



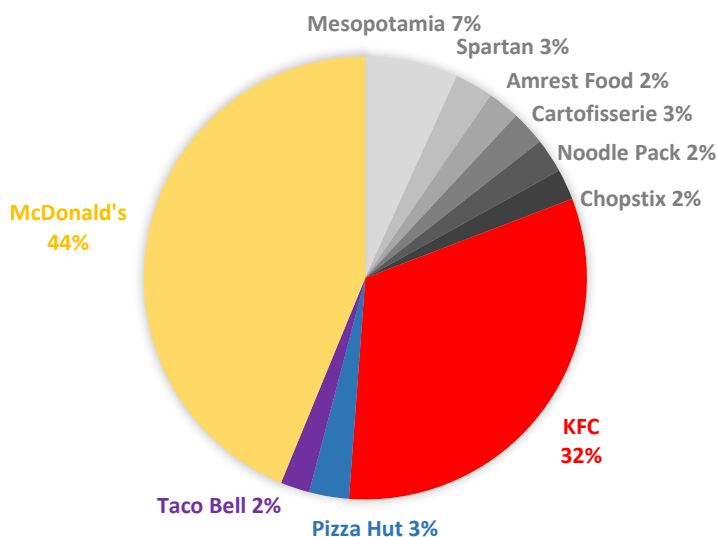
source: Bloomberg

Investment Case

Sphera Franchise Group is one of the largest local franchise companies, operating in Romania (86.3%), Italy (12.3%), and the Republic of Moldova (1.5%). It manages renowned international brands in the fast-food and casual dining industries. Sphera is the exclusive franchisor of KFC in Romania, the group's main growth driver, which has held the second position since its market entry. The group also manages the Taco Bell franchise, which has seen an annualized growth of 47.7% in the local market, as well as Pizza Hut, currently undergoing a reorganization process.

Sphera achieved remarkable performance over the past year, being the second-best performing company in the BET index last year (+56.8%). The group's business has experienced a high growth rate (CAGR +15.1%) since its listing, with an average ROE of 36.2% over the past six years and a stable dividend flow, maintaining a payout ratio above 80% in recent years.

The top 10 franchises in the QSR segment remain dominated by McDonald's and KFC

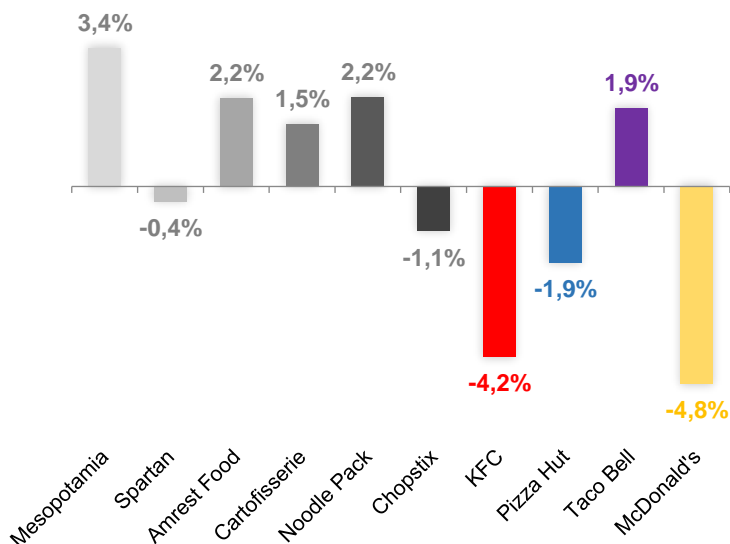


source: romanian universe, own estimates, 2023

Although the group's business reached record levels of 1.47 billion RON in 2023 and an estimated 1.54 billion RON in 2024, the growth rate has slowed significantly to 11.1% in 2023 and 5.1% in 2024. The slowdown is linked to the underperformance of the Pizza Hut franchise, which recorded declines of -6.3% and -5.8% in 2023 and 2024, respectively, amid intensified local competition and rising costs, with the brand posting an EBITDA of -7.6 million RON in 2023.

Sphera initiated a reorganization program for the Pizza Hut franchise in Q3 2023, merging the Pizza Hut and Pizza Hut Delivery brands and reducing the number of restaurants from 42 in 2022 to 28 currently. This measure had a positive impact, reducing losses and focusing on profitable restaurants, with EBITDA for the first nine months of 2024 reaching -2.3 million RON. More importantly, revenue per restaurant increased by 14.4% (2024 TTM) to 3.9 million RON, and it is estimated to rise further to 4.4 million RON per restaurant in 2025 due to brand efficiency measures.

Local brands have gained market share over the past 6 years

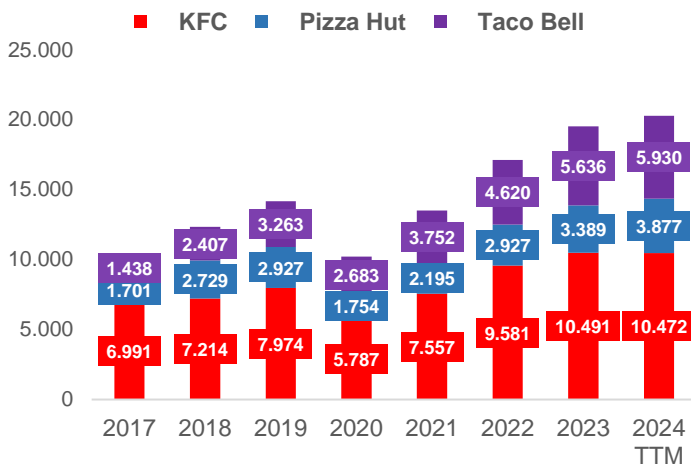


source: romanian universe, own estimates, 2023

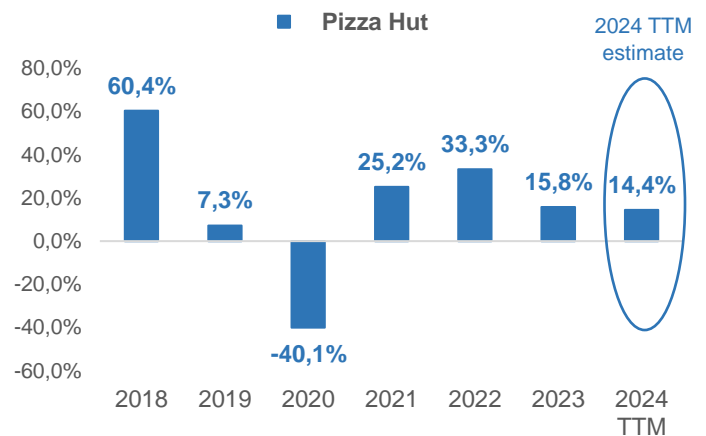
Pizza Hut was not the only segment facing challenges. For the first time in four years, a tough competitive environment caused a decline in revenue per restaurant for KFC, which fell to 10.47 million RON in 2024 TTM, down 0.2% from the previous year. In 2023, Sphera opened eight new KFC units but closed five, including two in Italy and three in Romania, focusing on more profitable units. By the first nine months of 2024, the group had 128 KFC units, seven more than the previous year, with total franchise sales reaching 1.34 billion RON (TTM), only 5.6% above the prior year.

The slowing growth rate contrasts with that of market leader McDonald's, which increased its business by 18.1% in 2023, compared to 12.3% for KFC. Smaller competitors, despite their size, posted much higher growth rates compared to KFC in the same year, such as Mesopotamia (+23.3%), AmRest (+20.0%), Cartofiserie (+50.1%), and Noodle Pack (+24.9%). Although these brands do not enjoy the same image and local presence, their more dynamic growth in recent years explains KFC's declining market share among the top 10 fast-food/quick-service chains.

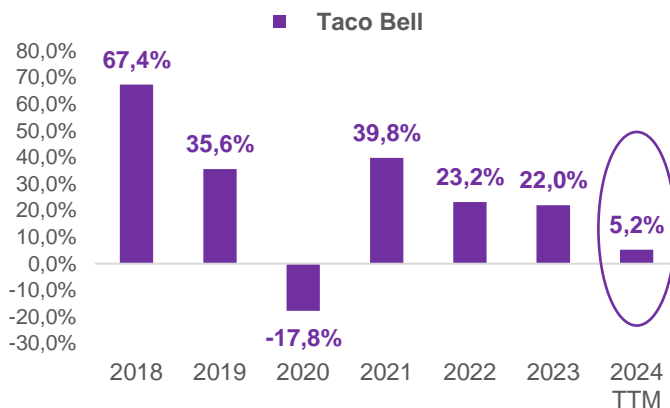
Sales per restaurant slowed down in 2024...



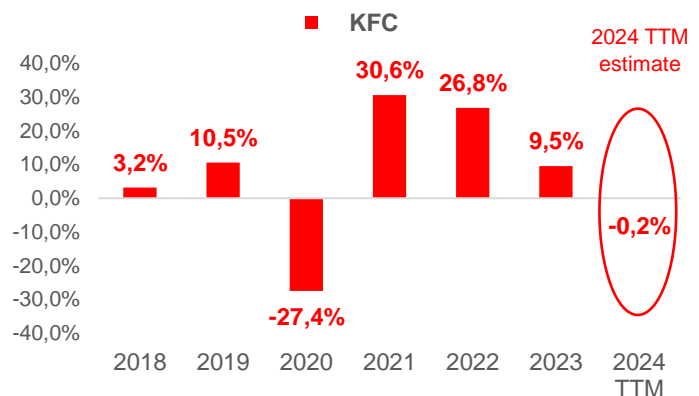
... but not for Pizza Hut



... and for Taco Bell



For the first time in the past four years, sales per restaurant decreased at KFC



source: SFG, own estimates

source: SFG, own estimates

Taco Bell also experienced a slowdown compared to 2023, with total franchise sales reaching 88.9 million RON, an increase of only 5.2% (2024 TTM). However, sales per restaurant reached 5.93 million RON, recording the highest annualized growth rate among the three brands (CAGR of 22.4%). With only 15 restaurants as of the first nine months of 2024 (16 by Q4), the franchise accounted for 5.8% of the group's sales, driven by improved sales per restaurant, as the group opened just one unit in the past three years. Management expects a gradual increase in the number of Taco Bell units, averaging two per year, a much more modest pace compared to KFC's average of seven units per year.

In 2024, Sphera announced its expansion into Italy with a new franchise, Cioccolatitaliani, an artisanal ice cream brand already operating 43 units in Italy. The group plans to open its first unit in 2025, with a planned expansion of four units per year. Estimated revenue per restaurant is approximately €700,000 annually, and according to estimates, the franchise could grow to represent up to 4.0% of the group's sales by 2030.

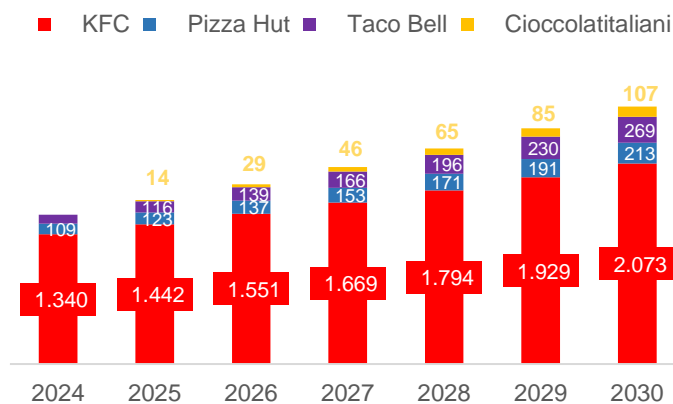
In the coming period, Sphera is expected to continue expanding its restaurant network, averaging eight new units per year, and reach 220 restaurants compared to 171 currently. The largest growth is anticipated to come from the expansion of the new Cioccolatitaliani franchise, while more modest expansion rates have been estimated for KFC (two per year on average) and Taco Bell (one to two per year). No new openings have been projected for the Pizza Hut franchise throughout the forecast period up to 2030.

We expect the growth rate of revenues per restaurant for the KFC franchise to recover in 2025, increasing to 11.1 million RON (+5.9%), supported by anticipated growth in both the QSR segment and delivery services, according to a survey by the Hospitality Culture Institute.

For the Pizza Hut franchise, we expect revenues per restaurant to continue improving at an average annual growth rate of 11.9%, lower than the growth rate recorded in recent years (+15.1%), allowing the franchise to return to profitability.

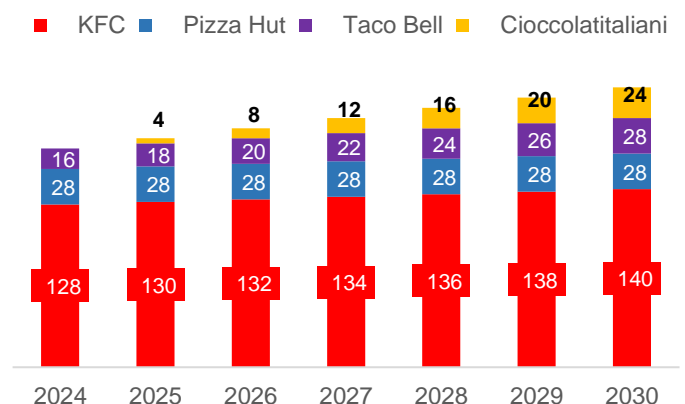
For Taco Bell, we estimate an improvement in revenues per restaurant to 6.4 million RON in 2025, along with the opening of two new restaurants, bringing the total to 18. This would result in a 22.1% increase in franchise restaurant revenues compared to 2024.

Restaurant sales - estimates (RON, mln)



source: SFG, own estimates

Number of restaurants - estimates



source: SFG, own estimates

9M Results Overview

Sphera reported total restaurant sales of 1.14 billion RON in the first nine months, up 6.4% compared to the same period last year. The results were driven by KFC sales, which grew by 7.7% to 997.1 million RON, and Taco Bell sales, which reached 66.4 million RON (+7.1%). Pizza Hut sales declined by 7.7% compared to the same period last year, reaching 80 million RON, marking the second consecutive year of declines for the franchise.

In Italy, revenues increased by 3.8% in the first nine months of the year, reaching 140.2 million RON, though the operating result of 12.8 million RON saw a slight decrease (-3.9%) compared to the previous year. In contrast, sales in Moldova grew by 10.8%, reaching 16.5 million RON, the highest growth within the group.

The EBITDA margin improved, reaching 16.0% compared to 13.2% previously, due to a more moderate increase in salary expenses (+4.3%) and other operational costs (+5.7%). The number of employees decreased by 88 in 2024, reaching 5,064, following the closure of Pizza Hut restaurants.

Net profit was 70.8 million RON, up 114%, with a net margin of 6.2%, double that of the same period last year. For 2024, we estimate a net profit of 104.4 million RON (after minorities) and expect the entire amount to be distributed as dividends, which would indicate a dividend yield of 6.8% based on the current price.

(RON, ths)	9M 2023	9M 2024	% var
Restaurant Sales	1.074.736	1.143.447	6,4%
COGS (Cost of Goods Sold)	-355.068	-358.331	0,9%
Gross Profit	719.668	785.116	9,1%
Salary Expenses	-243.059	-253.486	4,3%
Rent Expenses	-25.468	-25.032	-1,7%
Royalty Expenses	-66.679	-68.620	2,9%
Advertising Expenses	-55.982	-60.641	8,3%
General and Admin Expenses	-45.767	-46.411	1,4%
Other Operational Expenses	-140.460	-148.490	5,7%
EBITDA	142.253	182.436	28,2%
Depreciation and Amortization	-79.525	-80.015	0,6%
Other Income	0	1.279	
EBIT	62.728	103.700	65,3%
Financial Income	1.191	333	-72,0%
Financial Expenses	-20.245	-18.689	-7,7%
Pre-tax profit	43.674	85.344	95,4%
Income Tax	-10.582	-14.526	37,3%
Net Result	33.092	70.818	114,0%

source: SFG, own n estimates

(RON, ths)	Q3 2023	Q3 2024	% var
Restaurant Sales	379.156	403.438	6,4%
COGS (Cost of Goods Sold)	-122.225	-125.453	2,6%
Gross Profit	256.931	277.985	8,2%
Salary Expenses	-79.756	-84.360	5,8%
Rent Expenses	-9.707	-9.490	-2,2%
Royalty Expenses	-24.996	-24.139	-3,4%
Advertising Expenses	-20.996	-22.864	8,9%
General and Admin Expenses	-15.872	-15.341	-3,3%
Other Operational Expenses	-48.776	-53.535	9,8%
EBITDA	56.828	68.256	20,1%
Depreciation and Amortization	-29.250	-27.750	-5,1%
Other Income	0	260	
EBIT	27.578	40.766	47,8%
Financial Income	155	159	2,6%
Financial Expenses	-6.360	-5.918	-6,9%
Pre-tax profit	21.373	35.007	63,8%
Income Tax	-4.939	-5.308	7,5%
Net Result	16.434	29.699	80,7%

source: SFG, own n estimates

DDM Valuation

We evaluate SFG using a Discounted Dividend Model (DDM), which indicates a price per share of 34.8 RON, 12.2% below the market level. In this model, we assume a dividend payout ratio of 100% for the coming years, in line with the company's long-term expectations. This evaluation contrasts with the result from our internal DCF model, which yields a valuation of 56.3 RON per share (+42.2% upside). However, most of the value in the DCF model stems from a lower WACC (11.2%) due to the company's high leverage. For this reason, we opted for the DDM, where we applied a discount rate (COE) reflecting the company's risk level (14.9%). Other assumptions in the model include:

- Market risk premium of 7.3%, calculated using the historical total return of the BET index and the 10-year government bond yield of 7.9%;
- Beta of 0.96, estimated through linear regression relative to the BET index, using the full dataset from the company's listing to date;
- Terminal value, estimated using the Gordon Growth Model, with a terminal growth rate of 4.0%, slightly above the long-term inflation rate.

(RON, ths)	Raportat	Estimat	Estimat	Estimat	Estimat	Estimat	Estimat	Estimat
DDM Model	31-Dec-23	31-Dec-24	31-Dec-25	31-Dec-26	31-Dec-27	31-Dec-28	31-Dec-29	31-Dec-30
Restaurant Sales	1.469.172	1.543.829	1.694.701	1.857.203	2.033.889	2.225.973	2.434.778	2.661.737
% Change	11,1%	5,1%	9,8%	9,6%	9,5%	9,4%	9,4%	9,3%
EBITDA	212.151	253.310	256.439	276.282	302.283	331.028	362.817	397.985
EBITDA Margin	14,4%	16,4%	15,1%	14,9%	14,9%	14,9%	14,9%	15,0%
Net Profit	71.186	108.886	104.432	98.672	112.237	130.350	152.284	172.100
% Change	33,6%	43,0%	40,7%	35,7%	37,1%	39,4%	42,0%	43,2%
Equity	142.130	175.059	170.560	185.455	204.971	228.387	249.772	275.090
ROE	50,1%	62,2%	61,2%	53,2%	54,8%	57,1%	61,0%	62,6%
Dividend Payout Ratio	118,3%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Dividends	44.886	71.186	104.432	98.672	112.237	130.350	152.284	172.100
Discount Rate		1,00	0,87	0,76	0,66	0,57	0,50	0,43
Dividend NPV		71.186	90.898	74.755	74.012	74.817	76.079	74.837

PV Dividends	536.584
PV Terminal Value	813.024
Terminal Growth Rate	4,0%
Equity Value	1.349.607
Number of Shares	38.799
Price/Share	34,78
Market Price	39,60
Upside/Downside	-12,2%

source: SFG, own estimates

	Terminal Growth Rate				
	3,00%	3,50%	4,00%	4,50%	5,00%
16,0%	29,85	30,59	31,39	32,26	33,21
15,5%	31,13	31,94	32,83	33,80	34,87
14,9%	32,86	33,80	34,81	35,93	37,16
14,0%	35,68	36,81	38,06	39,44	40,97
13,0%	39,50	40,94	42,54	44,33	46,34

Multiples Valuation

We evaluate SFG at a price of 33.7 RON/share (-14.9% downside), based on the average relative valuation of three price multiples: EV/EBITDA, P/E, and P/B. We used a sample of comparable companies with franchise-based business models. Importantly, the selected companies needed to include royalty income in their business models, which is why we preferred a local sample instead of large global restaurant groups.

Sphera is trading at a forward P/E multiple of 14.7x, above the median of 13.1x for the selected peer group. SFG's P/B multiple is significantly higher than the industry's, at 8.8x compared to 2.1x. However, part of this difference is attributed to the company's superior ROE. When adjusting P/B for the industry's ROE difference, the adjusted P/B for SFG would be 7.3x.

Company	Country	Market Cap (EUR m)	BETA	ROE 5Y	ROA	NIM	EBITDAM	EV/EBITDA	PE	PB
AMREST HOLDINGS	PL	834,2	0,75			0,0	13,3%	7,7	12,6	2,2
MAXIPIZZA	PL	1,19	-0,50	4,4%	3,8%		10,9%	2,6	30,0	1,2
SFINKS	PL	4,97	0,39		1,0%	0,9%	22,5%	9,1	7,8	
MEX POLSKA SA	PL	7,27	0,46	19,1%	4,2%	3,8%	15,4%	4,8	13,1	1,9
TAB GIDA SANAYI	TR	1.196	0,34	28,1%	15,6%	12,0%	12,8%	9,1		3,0
BUYUK SEFLER GID	TR	89,2	0,15	22,7%	10,6%	7,5%		5,0	19,9	2,9
BAYDONER RESTORA	TR	58,0	0,51	2,3%	1,4%	8,3%				1,6
Median		58,0	0,39	19,1%	4,0%	5,6%	13%	6,36	13,12	2,07

Multiples	2024e	2025e	+/-	+/-
Target Price @ EV/EBITDA	32,97	33,49	-16,7%	-15,4%
Target Price @ P/E	35,31	33,36	-10,8%	-15,8%
Target Price @ P/B	32,81	31,97	-17,1%	-19,3%

Target Price AVG	33,70	32,94
Market Price SFG	39,60	
Upside/Downside	-14,9%	-16,8%

2024e	SFG	Industry
PE	14,71	13,12
EV/EBITDA	6,07	6,36
PB	8,78	2,07
PB ROE adj.		7,27
ROE	67,0%	19,1%

source: BBG, own estimates

Financial Statements

(RON ths, consolidated)	Reported 2022	Reported 2023	Estimated 2024 ttm	Estimated 2024e	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e	Estimated 2029e	Estimated 2030e
Restaurant Sales	1,322.822	1,469.172	1,537.883	1,543.829	1,694.701	1,857.203	2,033.889	2,225.973	2,434.778	2,661.737
COGS (Cost of Goods Sold)	-457.108	-479.405	-482.668	-484.534	-530.191	-579.173	-632.239	-689.723	-751.986	-819.422
Gross Profit	865.714	989.767	1,055.215	1,059.295	1,164.510	1,278.030	1,401.650	1,536.251	1,682.791	1,842.315
Salary Expenses	-287.056	-325.207	-335.634	-336.932	-390.477	-436.380	-482.246	-532.045	-586.084	-644.693
Rent Expenses	-32.110	-34.644	-34.208	-34.340	-39.598	-43.395	-47.524	-52.012	-56.891	-62.194
Royalty Expenses	-78.803	-87.935	-89.876	-90.224	-101.682	-111.432	-122.033	-133.558	-146.087	-159.704
Advertising Expenses	-66.988	-75.351	-80.010	-80.319	-88.022	-96.462	-105.639	-115.616	-126.461	-138.250
General and Admin Expenses	-55.572	-61.976	-62.620	-62.862	-70.700	-79.337	-88.918	-99.542	-111.314	-124.352
Other Operational Expenses	-184.450	-192.503	-200.533	-201.308	-217.592	-234.742	-253.007	-272.449	-293.136	-315.138
EBITDA	160.735	212.151	252.334	253.310	256.439	276.282	302.283	331.028	362.817	397.985
Depreciation and Amortization	-100.551	-103.218	-103.708	-109.096	-114.763	-119.850	-126.185	-131.294	-137.764	-142.888
Other Income	1.172	0	1.279	1.284	1.409	1.545	1.692	1.851	2.025	2.214
EBIT	61.356	108.933	149.905	145.498	143.085	157.976	177.789	201.585	227.079	257.310
Financial Income	496	1.239	381	1.302	572	627	687	751	822	899
Financial Expenses	-23.062	-26.177	-24.621	-26.245	-25.421	-24.144	-22.373	-20.034	-21.913	-23.956
Pre-tax profit	38.790	83.995	125.665	120.555	118.237	134.460	156.103	182.302	205.988	234.253
Income Tax	-840	-12.248	-16.192	-15.534	-18.918	-21.514	-24.976	-29.168	-32.958	-37.481
Result before minorities	37.950	71.747	109.473	105.021	99.319	112.946	131.127	153.134	173.030	196.773
Minorities	-393	-561	-587	-590	-647	-709	-777	-850	-930	-1,016
Net Result	37.557	71.186	108.886	104.432	98.672	112.237	130.350	152.284	172.100	195.756

(RON ths, consolidated)	Reported 2022	Reported 2023	Reported 2024 ttm	Estimated 2024e	Estimated 2025e	Estimated 2026e	Estimated 2027e	Estimated 2028e	Estimated 2029e	Estimated 2030e
Tangible Assets	448.276	478.836	524.839	527.908	563.511	594.326	632.009	664.255	704.110	737.844
Intangible Assets	57.778	58.137	57.889	57.889	57.889	57.889	57.889	57.889	57.889	57.889
Other Fixed Assets	31.546	33.179	33.281	33.691	31.554	31.922	33.770	34.555	36.364	36.990
Total Fixed Assets	537.600	570.152	616.009	619.488	652.954	684.137	723.668	756.699	798.363	832.722
Inventory	15.907	14.953	13.866	14.041	15.808	15.583	16.490	16.473	17.254	17.005
Receivables	21.279	10.164	10.487	10.616	10.952	11.052	11.692	11.937	12.556	12.736
Other Current Assets	3.007	7.900	6.226	6.303	6.502	6.561	6.942	7.087	7.455	7.561
Cash and Cash Equivalents	128.089	98.147	104.121	109.527	96.847	78.297	82.971	73.400	74.907	60.515
Total Current Assets	168.282	131.164	134.700	140.488	130.108	111.493	118.095	108.897	112.171	97.816
Total Assets	705.882	701.316	750.709	759.976	783.062	795.630	841.763	865.595	910.533	930.539
Retained Earnings	54.012	79.825	109.098	113.660	108.547	122.822	141.711	164.495	185.241	209.914
Other Equity	62.055	62.305	61.399	61.399	62.013	62.633	63.259	63.892	64.531	65.176
Shareholder Equity	116.067	142.130	170.497	175.059	170.560	185.455	204.971	228.387	249.772	275.090
Minority Interests	297	486	317	326	318	345	382	425	465	512
Total Shareholder Equity	116.364	142.616	170.814	175.385	170.878	185.800	205.353	228.813	250.237	275.603
Long-term Financial Liabilitie	313.678	303.299	328.188	329.992	346.110	342.056	359.240	356.904	370.400	362.071
Other Long-term Liabilities	4.645	6.234	6.955	7.025	7.235	7.452	7.676	7.906	8.143	8.388
Trade and Other Payables	150.613	145.959	131.370	132.683	141.836	140.554	147.531	146.942	152.513	149.624
Short-term Financial Liabiliti	117.779	98.360	107.446	109.998	115.321	121.438	127.614	135.360	140.951	148.068
Other Short-term Liabilities	2.803	4.848	5.935	5.994	6.174	6.359	6.550	6.747	6.949	7.158
Total Liabilities	589.518	558.700	579.894	584.590	612.184	609.830	636.410	636.783	660.296	654.936

source: SFG, own estimates

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Analyst

Alex Dodoi

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Company	Symbol	Explanatory note No.
Sphera Francise Group	SFG	5, 7, 10, 11

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