

COMPANY UPDATE

Sphera Franchise Group

Accumulate

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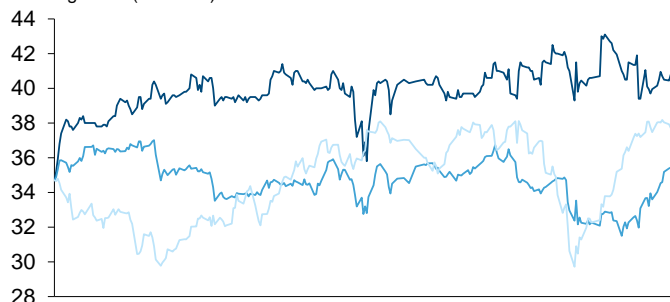
Share price (RON) close as of 03/06/2025	40.8	Reuters	ROSFG.BX	Free float	34.0%
Number of shares (mn)	38.8	Bloomberg	SFG RO	Shareholders	Tatika Inv. Ltd (28.6%)
Market capitalization (RON mn / EUR mn)	1,583 / 313	Div. Ex-date	15/05/25	Computerland Romania SRL (20.53%)	
Enterprise value (RON mn / EUR mn)	1,919 / 379	Target price	48.3	Homepage:	www.spheragroup.com

Key figures Overview

RON mn	2023	2024	2025e	2026e
Net sales	1,469.1	1,548.1	1,679.4	1,786.9
EBITDA	212.1	250.1	277.3	287.7
EBIT	108.9	139.8	152.5	147.2
EBT	83.9	114.9	125.7	117.9
Net profit	71.7	93.2	105.6	99.0
EPS (RON)	1.85	2.40	2.72	2.55
CEPS (RON)	5.40	5.75	7.19	7.07
BVPS (RON)	3.68	3.89	5.54	6.86
Dividend/Share (RON)	1.06	2.10	1.09	1.24
EV/EBITDA (x)	6.16	7.67	6.92	6.57
P/E (x)	13.92	16.79	14.99	15.99
P/CE (x)	4.76	7.00	5.68	5.77
Dividend yield (%)	4.12	5.21	2.67	3.03
EBITDA margin (%)	14.44	16.15	16.51	16.10
Operating margin (%)	7.41	9.03	9.08	8.24
Net profit margin (%)	4.88	6.02	6.29	5.54

Trading data & Statistics

Daily averages	5 days	30 days	last year
Volume	2,114	64,659	24,309
Trading value (RON mn)	0.1	2.6	1.0



—Sphera...

Price performance:	1M	3M	6M	12M
in EUR	-4.3%	1.4%	11.2%	15.7%

Financial Strength

	2023	2024	2025e	2026e
ROE (%)	55.49	63.65	57.92	41.32
ROCE (%)				
Equity ratio (%)	20.34	19.23	23.79	26.66
Net debt (RON mn)	308.20	354.70	335.25	306.03
Gearing (%)	216.08	234.75	156.00	114.98

Monitoring for future developments

We maintain our target price and recommendation for Sphera Franchise Group's shares, while we monitor closely the evolution of same store sales, employee costs and the general market sentiment in Romania. Contingent on a disappointing second quarter we may have to revisit our model and target price.

Q1 2025 results reflect a challenging consumer and macroeconomic environment, with declining same store sales and significant pressure on margins due to labor cost inflation and limited operating leverage. While Taco Bell and the Moldova operations remain growth drivers, the Group faces continued challenges in Romania and with Pizza Hut. Management's focus remains on disciplined cost management, selective network expansion, and operational optimization. The 2025 budget targets a 12.1% YoY sales increase and a 9.8% rise in EBITDA, contingent on a normalization of consumer sentiment and macroeconomic conditions.

However, while these figures may be achieved, we are concerned by the trend of declining same-store sales that have persisted for the KFC Romania for already more than a year. Second half of the year may be even more difficult considering macro challenges, and management action is limited in scope. At the same time, the expansion plans, innovative marketing and the contribution of the new brand acquired can make a positive impact and bring the current outlook to fruition.

Sphera 1Q25 – lower same store sales in flagship segment, higher employee costs

Sphera Franchise Group published its Q1 2025 results, marking a modest contraction in top-line figures, heavily influenced by a strong comparison base and weakening discretionary spending amid the Romanian electoral cycle uncertainty and unfavorable weather. The Group saw margin pressures intensify due to rising labor costs and ongoing inflationary effects, particularly on general operating expenses, though some offset came from stable food cost ratios. Despite this, profitability metrics remained positive, albeit significantly lower versus Q1 2024.

In Q1 2025, consolidated restaurant sales declined by -0.9% y/y to RON 362.6m, against a strong Q1 2024 base. While total revenues dropped slightly, other restaurant income increased sharply by 156.9% y/y, driven by the one-off write-off of lease liabilities linked to a delayed construction permit. Restaurant expenses rose by 4.3% y/y to RON 336m, with payroll increasing 12.4% y/y and other opex categories such as advertising and maintenance also climbing.

(RON mn.)	1Q25	1Q24	change	4Q24	change	1Q23	change
Revenues&oth income*	365	367	-0.6%	406	-10%	335	9%
COGS	115	116	-1%	125	-8%	113	2%
Employee costs	93	82	12%	91	2%	78	19%
Rents	6	8	-17%	9	-27%	8	-16%
Royalties	22	22	-2%	24	-11%	20	8%
Advertising	16	18	-9%	19	-16%	16	1%
Other opex	53	48	11%	54	-2%	46	14%
Depreciation	28	25	11%	30	-6%	24	19%
Operating costs restaurants	333	319	4.5%	353	-5%	304	10%
Operating profit restaurants	31	48	-35%	53	-42%	31	2%
SGA	16	16	2%	17	-6%	15	7%
Operating profit	15	32	-52%	36	-58%	16	-4%
Financial costs	6	6	-4%	7	-15%	6	-11%
Financial revenues	0	0	-65%	0	-49%	1	-88%
Financial result	(6)	(6)	0%	(7)	-14%	(6)	2%
PBT	10	26	-64%	30	-68%	10	-7%
Taxes	3	4	-20%	7	-57%	3	5%
Net Profit	7	23	-71%	23	-71%	7	-12%
EBITDA**	45	59	-23%	69	-34%	41	9%
Net margin	1.8%	6.2%		5.6%		2.2%	
EBITDA margin	12.4%	16.1%		16.9%		12.4%	

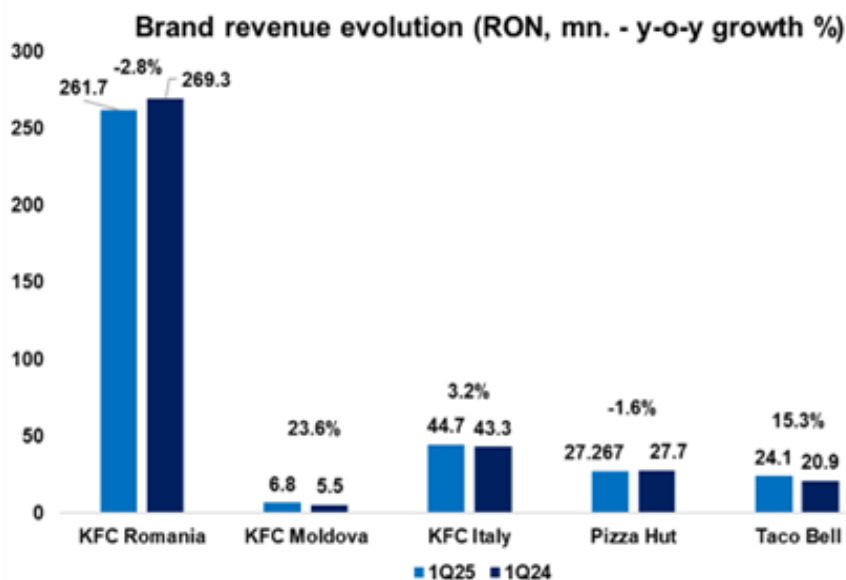
* - After 2024 includes "other income"

** - as per company report, not Erste calculation

Source: Company data, Erste Group Research

These trends compressed the Group's restaurant operating profit, which fell 35% y/y to RON 31m. Operating profit more than halved (-52% y/y) to RON 15.3m, and net profit dropped 71% y/y to RON 6.5m. EBITDA fell 23% y-o-y. If excluding the impact of IFRS16, the picture appears slightly more benign with a 64% drop in net profit while EBITDA fell 37.5% y/y to RON 24.8m, with the EBITDA margin narrowing 4pp y/y to 6.9%.

Vs the previous quarter, top line shrunk by 10%, while operating costs of restaurants declined by only 5% on the back of an actual 2% advance of employee costs. This led to a net profit 71% lower q-o-q. Even vs the first quarter of 2023, profitability was marginally lower, mainly due to the same wage component of costs.



Total sales by companies (RON mn.)	1Q25	1Q24	Chng
KFC Romania	261.7	269.3	-2.8%
Pizza Hut	27.267	27.7	-1.6%
KFC Italy	44.7	43.3	3.2%
Taco Bell	24.1	20.9	15.3%
KFC Moldova	6.8	5.5	23.6%
Total	364.6	366.7	-0.6%
Total Romania	313.1	317.9	-1.5%
Total KFC	313.2	318.1	-1.5%

Source: Company data, Erste Group Research

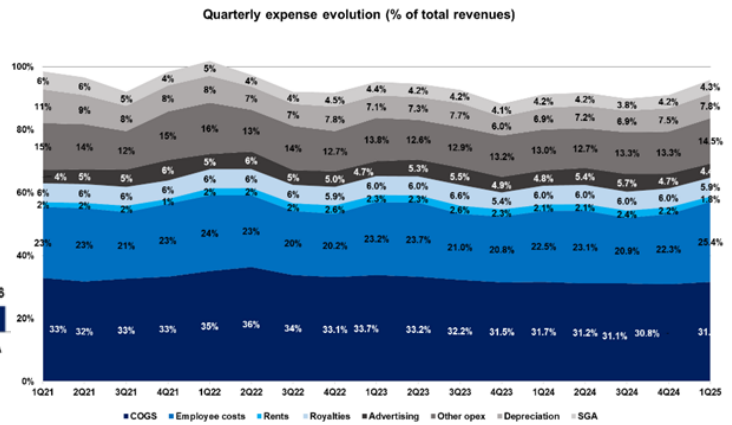
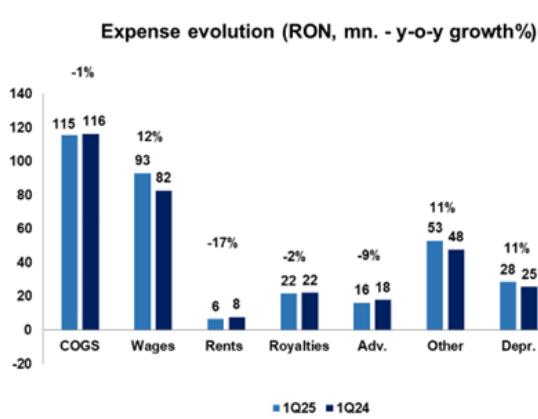
Y-o-y growth (%)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	1Q25
KFC RO All stores	-9.9%	-51.6%	-17.1%	-11.5%	14.3%	114.9%	42.8%	20.3%	23.8%	37.3%	20.1%	35.0%	19.8%	10.5%	10.7%	10.5%	12.8%	4.8%	7.6%	1.2%	-3.4%
Same store	-14.7%	-53.3%	-23.6%	-17.3%	14.1%	99.4%	35.9%	13.7%	15.1%	28.3%	13.3%	31.1%	18.0%	8.5%	8.9%	5.1%	7.2%	0.5%	0.8%	-2.4%	-6.4%
KFC MD All stores	-14.4%	-82.1%	-15.4%	-5.3%	18.9%	179.3%	35.3%	22.3%	22.8%	44.8%	48.3%	42.0%	42.7%	19.7%	8.9%	9.9%	12.4%	10.8%	9.4%	25.9%	23.2%
Same store	-14.4%	-82.1%	-15.4%	-5.3%	18.9%	179.3%	35.3%	22.3%	22.8%	44.8%	48.3%	42.0%	42.7%	19.7%	8.9%	9.9%	12.4%	10.8%	7.5%	-2.4%	-1.8%
KFC IT All stores	11.4%	-48.4%	-11.7%	-33.6%	2.5%	114.5%	28.0%	88.0%	70.3%	58.4%	37.5%	31.6%	22.1%	14.4%	9.2%	0.6%	5.7%	4.4%	1.7%	5.7%	3.3%
Same store	-29.5%	-84.5%	-27.0%	-52.1%	-8.0%	102.7%	20.8%	79.2%	73.0%	58.9%	33.5%	29.0%	22.1%	14.4%	9.2%	0.6%	5.7%	4.4%	1.7%	5.7%	3.3%
Pizza Hu All stores	-15.8%	-88.8%	-51.4%	-55.8%	-32.8%	108.4%	71.4%	54.6%	55.3%	45.5%	15.1%	38.5%	10.0%	-8.2%	-9.8%	-18.6%	-12.0%	-7.8%	-2.9%	-0.5%	-1.0%
Same store	-15.8%	-88.8%	-51.4%	-55.8%	-32.8%	108.4%	71.0%	47.5%	45.3%	35.9%	6.3%	34.4%	8.7%	-8.8%	-9.5%	-18.7%	-12.0%	-7.8%	-2.9%	-0.5%	-1.0%
Taco Be All stores	46.0%	-55.9%	-3.0%	-9.2%	13.1%	245.4%	62.8%	43.6%	48.2%	39.6%	27.3%	58.3%	40.6%	19.9%	19.1%	13.3%	5.4%	2.6%	13.1%	12.9%	15.6%
Same store	-10.3%	-84.4%	-24.1%	-22.9%	13.1%	204.4%	48.1%	26.4%	32.0%	34.2%	18.2%	48.0%	28.0%	14.5%	14.6%	14.8%	5.4%	2.6%	13.1%	8.7%	8.1%
Sphe ra All stores	-7.7%	-54.0%	-20.4%	-20.0%	6.6%	119.4%	43.6%	30.3%	31.8%	40.5%	22.3%	35.9%	20.3%	10.1%	9.1%	6.8%	9.2%	3.8%	6.4%	2.7%	-0.9%
Same store	-18.0%	-57.0%	-27.6%	-26.1%	5.6%	114.9%	39.9%	23.5%	23.8%	32.3%	15.6%	31.9%	18.0%	6.8%	6.2%	3.0%	5.2%	0.6%	1.3%	-0.5%	-3.9%

Source: Company data, Erste Group Research

Brand and Geographic Performance, Same Store Sales

The regional performance was mixed. In Romania, overall sales declined -1.5% y/y to RON 311.1m, mainly due to soft consumer spending and a decline in KFC same store sales (SSS) of -6.4%. Italy reported a 3.3% y/y increase in sales to RON 44.7m, with SSS up 3.3%. Moldova posted the strongest performance, with sales surging 23.2% y/y to RON 6.8m, supported by the recent opening of a third KFC unit in Chisinau, despite SSS falling -1.8%.

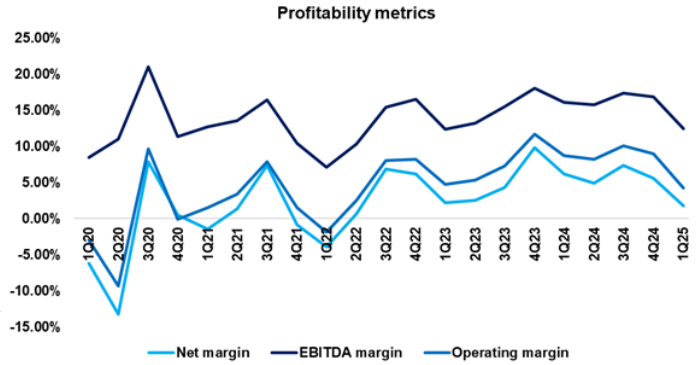
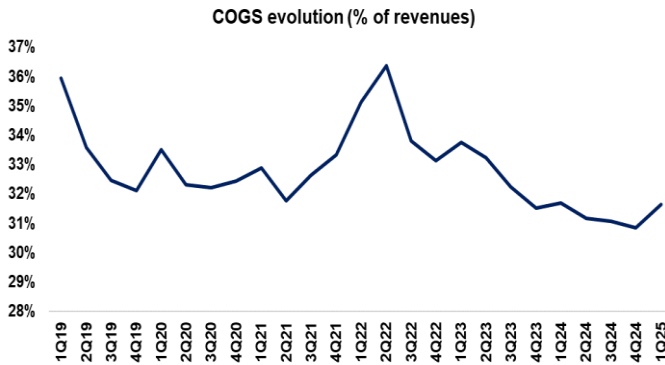
Across brands, KFC generated RON 313m in revenues (-1.5% y/y), impacted by the discretionary spending decline in Romania. Pizza Hut revenue contracted slightly to RON 27.2m (-1.0% y/y), reflecting the impact of the continued streamlining of the store base. Taco Bell maintained robust momentum, advancing 15.6% y/y to RON 24.1m, with SSS up 8.1%, confirming the format's appeal to younger demographics. Overall, Group-wide SSS declined by -3.9% y/y in Q1 2025. Growth came only from Taco Bell (+8.1%) and KFC Italy (+3.3%), while all other markets/brands posted negative comps.



Source: Company data, Erste Group Research

Costs and Margins Evolution

Total restaurant expenses rose 4.5% YoY to RON 333 million, driven primarily by a 12.4% YoY increase in payroll and employee benefits, reflecting industry-wide wage adjustments. Food and material costs declined 0.7% YoY in line with sales and remained at 31.8% of sales. Rent expenses were broadly stable, while advertising and royalties decreased by 8.7% and 1.6% YoY, respectively. Other operating expenses increased 11% YoY, mainly due to higher third-party commissions and utilities. As a result, the restaurant operating margin declined 4.3pp YoY to 7.9%. G&A expenses rose 1.8% YoY and remained broadly stable at 4.4% of sales. Overall, margin erosion was driven by the limited flexibility to adjust fixed costs in the context of subdued revenues.



Source: Company data, Erste Group Research

No normalization required

The company also provided in the past profitability figures normalized for one-off items such as the impairments and costs for the closing of Pizza Hut units in line with the network reorganization plan, to the impairment for the closing of KFC restaurants in Romania, and to the temporary closing of two restaurants in Romania due to restoration work and other one-offs and provisions together with litigations and other items. During 1Q25 and 1Q24 no normalization was necessary in presenting financial results.

Cash flow

Operating cash flow declined to RON 10.5m in Q1 2025 (vs. RON 28.5m in Q1 2024), mainly due to lower profits and a significant working capital outflow driven by a RON 32m reduction in trade payables. Investment cash flow stood at -RON 11.3m, largely from CAPEX in restaurant openings and digital solutions. Financing cash flow was negative at -RON 28.6m, influenced by lease and loan repayments as well as RON 1.5m in treasury share buybacks. Overall, net cash declined RON 29.5m q/q to RON 86.3m.

Manageable gearing

The gearing of the company remains at a manageable level, with a 1.42x net debt / EBITDA. The net debt slightly increased since the beginning of the year to RON354mn, compared to the RON343mn at the end of 2024, however considering the obtained growth in EBITDA, the gearing remains low compared to the last six years.

(RON, mn.)	2019	2020	2021	2022	2023	2024	1Q25*
LT Debt + leases	263.7	280.8	348.9	313.7	303.0	350.6	332.3
ST Debt + leases	79.6	114.3	120.7	117.8	98.3	108.5	108.7
Cash&Equivalents	57.3	122.0	146.1	128.1	98.2	115.8	86.3
Net Debt	286.0	273.1	323.5	303.4	303.1	343.3	354.7
Net Debt/EBITDA	1.93	3.07	2.54	1.88	1.38	1.37	1.42

* - 2024 EBITDA

Source: Company data, Erste Group Research

Network Development

In Q1 2025, Sphera opened one new restaurant – a KFC drive-thru in Galati, Romania, the second in the city. As of March 31, the Group operated 174 restaurants: 108 KFC units in Romania, 3 in Moldova, and 18 in Italy, alongside 28 Pizza Hut units and 16 Taco Bell locations. In April, Sphera opened a new KFC food court restaurant in Mall Moldova (Iasi). Sphera also announced the upcoming launch of **Ciocolatitaliani**, a new coffee and dessert concept, with the first location set to open by the end of June 2025. This initiative is a part of its diversification strategy to broaden consumer base. No store closures were reported for the period.

Sphera plans to open **13 new restaurants in 2025**, aligned with its brand and geographical diversification strategy. The rollout includes 4 new KFC units in Romania, 3 in Italy, and 1 in Moldova, along with 1 new Taco Bell and 4 Choco Latte Italiano locations. The Group remains open to opportunistic expansion beyond these plans, with a clear focus on prime high-traffic locations and scalable urban formats.

Marketing strategy

Marketing initiatives remained tailored to each brand. Taco Bell continued capitalizing on its youthful image with social media and delivery app campaigns. KFC Romania adopted selective promotional pricing to stabilize traffic amid weaker SSS. Pizza Hut campaigns emphasized value

menus to counteract long-term declining footfall. The Group maintained overall efficiency in ad spending, which declined y/y, supporting margin preservation efforts.

2025 Financial Guidance

Management reaffirmed its full-year 2025 budget, targeting revenues of RON 1.74bn, EBITDA of RON 195m, and net profit of RON 105m. This guidance implies double-digit top-line and EBITDA growth, supported by the planned expansion, improved delivery contribution (targeting 18.5% of sales), and continued investment in digitization and procurement centralization. While achieving these targets depends on macro normalization and consumer sentiment recovery, management expressed confidence in the visibility of its growth levers and margin rebound potential in H2.

2025 budget – largely in line with our expectations

The company has issued an estimate for their 2025 financials. The released numbers exclude the impact of IFRS 16. The company anticipates an increase in top line of 12%, from RON1.551bn, to RON1.738bn. The costs of food and materials are expected to increase from RON484mn to RON530mn, (9.6%) leading to a restaurant gross margin growth of more than 13% and an EBITDA growth by almost 10%, from RON177mn to RON194mn. Net profit is supposed to increase by 8.2% to RON105mn from the RON97mn of 20224.

Overall, the budget reflects a similar trend compared to our forecasts (which include IFRS 16). Sales in the company's budget exceed our expectations as are costs, most probably because we have not considered Ciocolatitaliani in our forecasts, as we have no indication of the potential impact on revenues and costs incurred by these stores. The EBITDA growth anticipated by Sphera is 9.8%, while we forecast a more conservative 8%. Both the company's and our forecast anticipates a marginal decline in profitability with an EBITDA margin 10-20bp lower in 2025 vs 2024.

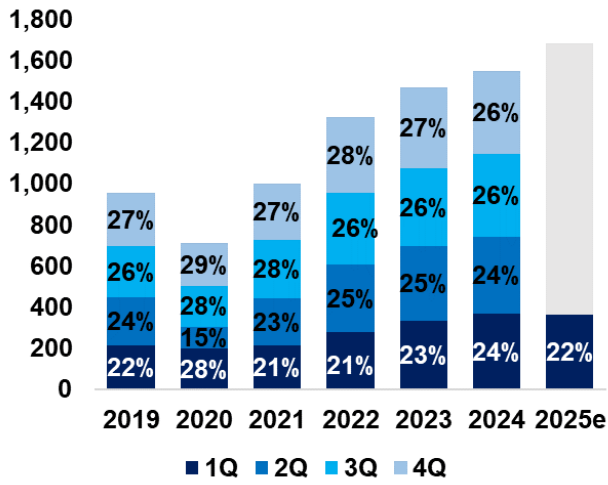
(RON, mn.)	excl. IFRS 16			incl. IFRS 16		
	2024A	2025B	diff.	2024A	2025E	diff.
Total sales	1,551	1,738	12.1%	1,551	1,679	8.3%
Food and material	484	530	9.6%	484	525	8.5%
Rest gross margin	1,067	1,208	13.2%	1,067	1,155	8.2%
EBITDA	177	194	9.8%	257	277	8.0%
Net profit	97	105	8.2%	94	106	12.9%
EBITDA margin	11.4%	11.2%		16.6%	16.5%	
Net margin	6.3%	6.1%		6.0%	6.3%	

Source: Company data, Erste Group Research

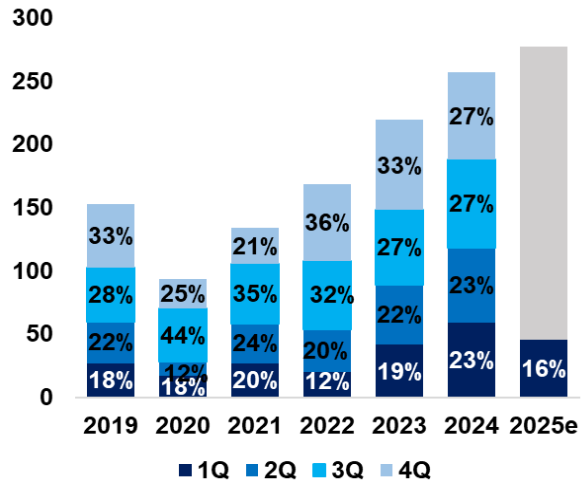
2025 YE forecast is achievable

The 1Q25 results point that our year-end forecast for the top line remains achievable, while the EBITDA and bottom line are below what we would have hoped. Nevertheless, historical data point out to previous periods where first quarter results were less than stellar, with a better performance coming in subsequent quarters. As we mention above, we will be monitoring the impact of new openings in terms of sales and the impact of the company's marketing initiatives. At the same time, the macro environment in the second half of the year is essential to the fulfilment of the company's budget and our forecasts.

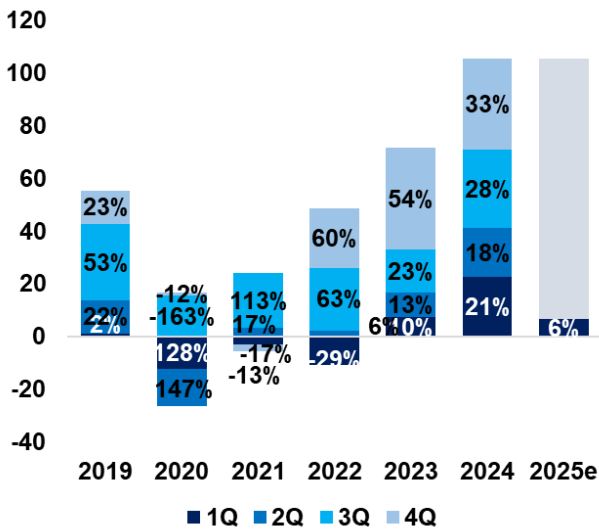
YTD vs. YE revenues (RON, mn.)



YTD vs. YE EBITDA (RON, mn.)



YTD vs. YE net profit (RON, mn.)



Source: Company data, Erste Group Research

Group Research

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Czech Republic David Navratil (Head) Jiri Polansky Michal Skorepa	+420 956 765 439 +420 956 765 192 +420 956 765 172	Institutional Equity Sales Romania Adrian Barbu	+40 7305 18635
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Slovakia Maria Valachyova (Head) Matej Hornak Marian Kocis	+421 2 4862 4185 +421 902 213 591 +421 904 677 274	Group Markets Execution Head: Kurt Gerhold	+43 (0)5 0100 84232
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CEE Equity Research Head: Henning Eßkuchen, CESGA® Daniel Lion, CIIA® (Technology, Ind. Goods&Services) Michael Marschallinger, CFA® Nora Varga-Nagy, CFA® (Telecom) Christoph Schultes, MBA, CIIA® (Real Estate) Thomas Unger, CFA® (Banks, Insurance) Vladimira Urbankova, MBA (Pharma) Martina Valenta, MBA	+43 (0)5 0100 19634 +43 (0)5 0100 17420 +43 (0)5 0100 17906 +43 (0)5 0100 17416 +43 (0)5 0100 11523 +43 (0)5 0100 17344 +43 (0)5 0100 17343 +43 (0)5 0100 11913	Markets Corporate Sales AT Head: Martina Kranzl-Carvell	+43 (0)5 0100 84147
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Company description

Sphera is the leading food operator in Romania, operating through subsidiaries in Italy and Moldova. It operates KFC, Pizza Hut and Pizza Hut Delivery, and Taco Bell branded restaurants under master franchisee agreements

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