





The Restaurant Group plc

# Full year results presentation

52 Weeks to 30 December 2018

# 2018 FY highlights

- Acquisition of high quality business in Wagamama which has continued to outperform the sector
- Concessions business opened 21 new units and entered 4 new airports
- Pubs business increasingly outperformed the market and opened a record 21 pubs
- Leisure business improved like-for-like sales momentum in every quarter in 2018
- Group delivered like-for-like sales growth since the World Cup

**Enlarged group now strongly orientated towards growth**

# A diversified business aligned to structural growth trends

**Diversified growth business**

| Wagamama | Concessions | Pubs | Leisure |
|---|---|---|---|
| • UK leader in pan-Asian cuisine<br>• Significant and consistent outperformance in core UK market<br>• Well aligned to key structural trends; speed, convenience, delivery and healthy options | • Market leader in UK airports<br>• Strong brand and operational capabilities create high barriers to entry<br>• Consistent track record of growth and site renewals | • Market leading premium food-led pub restaurants<br>• Attractive market dynamics<br>• Healthy pipeline of new openings<br>• Freehold asset base in excess of £90m | • Casual dining restaurants spanning the UK across multiple brands<br>• Optimising performance but exposed to structural headwinds<br>• Capitalising on "off-trade" opportunities |
| 141 sites / 58 franchised | 71 sites | 82 sites | 367 sites |
| **70% Outlet EBITDA*** | | | **30% Outlet EBITDA*** |

**Multiple growth drivers**

- Wagamama UK
- UK Concessions
- Premium pubs
- International opportunities
- Delivery & delivery kitchens
- Food-to-go formats

**FY 2018 (Jan-Dec) Pro-forma outlet EBITDA*

# Financial review

# Financial summary

| | 2018 FY 52 weeks £m | 2017 FY 52 weeks £m | % Change |
|---|---|---|---|
| Revenue | **686.0** | 679.3 | +1.0% |
| **Like-for-like** | | | **(2.0%)** |
| EBITDA* | **87.9** | 95.8 | (8.3%) |
| *EBITDA margin** | ***12.8%*** | *14.1%* | |
| EBIT / Operating profit* | **55.4** | 59.5 | (6.9%) |
| *Operating margin** | ***8.1%*** | *8.8%* | |
| PBT* | **53.2** | 57.8 | (8.1%) |
| Earnings per share* | **14.7p** | 16.7p | (11.9%) |
| * Adjusted (pre-exceptional charge) | | | |
| Dividend per share | **8.27p** | 17.4p | |

***Note: Earnings per share adjusted for bonus element following the rights issue in both financial years***



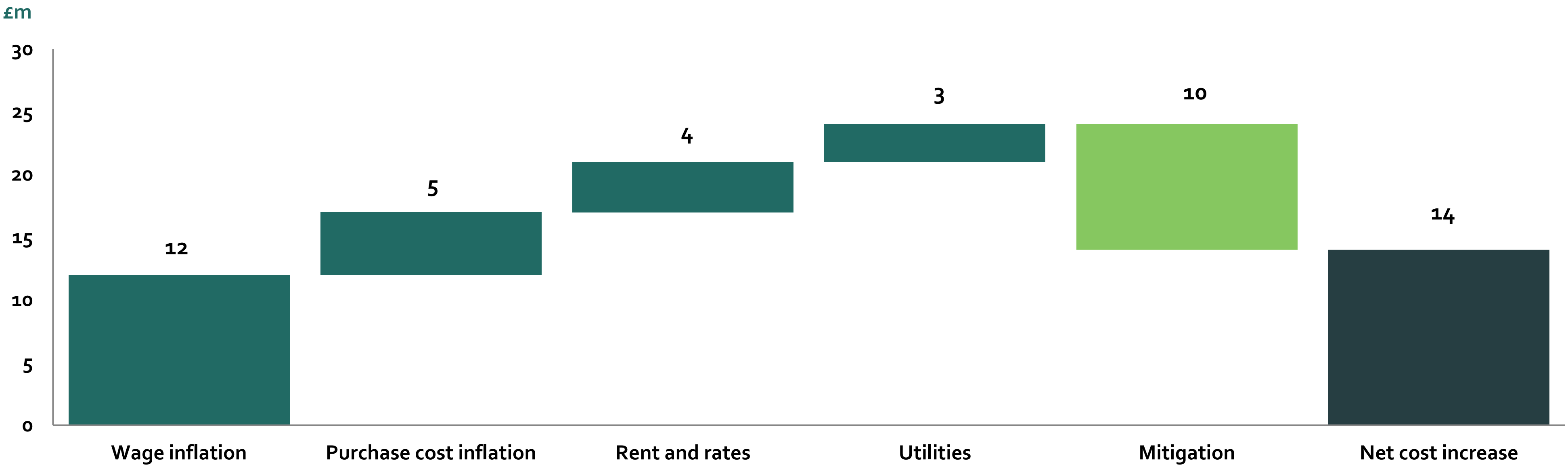
The Restaurant Group plc

# Exceptional charges FY 2018

| | Onerous lease provisions £m | Impairment of property, plant & equipment £m | Total £m |
|---|---|---|---|
| Exited sites | (5.2) | - | **(5.2)** |
| Distressed/closure sites | 15.2 | 14.0 | **29.2** |
| Acquisition and refinancing | - | - | **15.2** |
| **2018 Exceptional charge** | **10.0** | **14.0** | **39.2** |

- Successfully exited 34 out of the original 41 closure sites (closed in 2016 and 2017) at lower than expected onerous lease cost
- Following disciplined management reviews during 2018, 18 leisure sites in total have closed or are marked for closure
- £2.3m impairment due to trading conditions in specific locations; £11.7m impairment following changes to accounting policy

# Group cost headwinds expected FY 2019




- Mitigating c.40% of 2019 cost increases (excluding synergies):
  - Continued focus on labour scheduling and optimising deployment
  - Continuing to leverage our purchasing scale across the wider group
  - Further site-level overhead savings identified
  - Ongoing negotiations with landlords on rent reviews and appeals with local councils on business rates

# Acquisitions and capital expenditure

| | 2018 FY £m | 2017 FY £m |
|---|---|---|
| Development expenditure | **33.0** | 18.4 |
| Acquisitions of Ribble Valley and Food & Fuel | **15.2** | - |
| Refurbishment and maintenance expenditure | **20.3** | 14.9 |
| **Total capital expenditure (excluding Wagamama)** | **68.5** | 33.3 |
| Number of new units (excluding Wagamama) | **43** | 17 |
| Acquisition of Wagamama | **349.0** | - |
| **Total capital expenditure (including Wagamama)** | **417.5** | 33.3 |
| Number of new units (including Wagamama) | **183** | 17 |

- Core development expenditure in FY18 primarily relates to 21 new Concessions sites and 6 single site Pub acquisitions
- The acquisitions of "Ribble Valley Inns Ltd" and "Food & Fuel Ltd" added 15 pubs to our portfolio
- Refurbishment and maintenance expenditure increased in FY18 due to Frankie and Benny's capital refreshes and Firejacks conversions

# Cash flow

| | 2018 FY £m | 2017 FY £m |
|---|---|---|
| **Adjusted operating profit*** | **55.4** | 59.5 |
| Working capital and non-cash adjustments | **0.4** | 12.0 |
| Depreciation | **32.5** | 36.3 |
| **Cash inflow from operations** | **88.3** | 107.8 |
| Net interest paid | **(1.0)** | (0.7) |
| Tax paid | **(7.4)** | (7.1) |
| Refurbishment and maintenance expenditure | **(20.3)** | (14.9) |
| **Free cash flow** | **59.6** | 85.1 |
| Development expenditure | **(33.0)** | (18.4) |
| Acquisitions of Ribble Valley Inns and Food & Fuel net of cash acquired | **(14.8)** | - |
| Movement in capital creditor | **5.8** | (5.9) |
| Dividend paid | **(34.9)** | (34.9) |
| Utilisation of onerous lease provisions | **(11.2)** | (12.7) |
| Restructuring costs | **-** | (6.8) |
| Acquisition of Wagamama net of cash acquired | **(310.1)** | - |
| Debt acquired on acquisition of Wagamama | **(225.0)** | - |
| Acquisition and refinancing exceptional costs | **(10.1)** | - |
| Proceeds from issue of share capital | **305.8** | - |
| Other items | **(0.1)** | 0.5 |
| **Cash inflow** | (268.0) | 6.9 |
| Net debt at start of period | **(23.1)** | (30.0) |
| **Net debt at end of period** | **(291.1)** | (23.1) |
| ** Adjusted (pre-exceptional charge)* | | |

## Capital structure

- £220m Group RCF facility:
  - TRG £200m RCF until December 2021
  - Wagamama £20m RCF until December 2021
- Wagamama bond:
  - £225m bond nominal value
  - 4.125% coupon rate
  - Matures July 2022
- Leverage:
  - Pro-forma net debt / EBITDA is 2.2x
  - Anticipate net debt / EBITDA to be below 2.0x by December 2020

# FY19 Guidance

- 2019 development capital expenditure – £55m to £60m
  - At least 7 new Pubs
  - Between 5 to 10 new Concessions sites in 2019, and initial expenditure on units in Manchester terminal redevelopment
  - At least 6 new Wagamama sites (3 UK , 1 airport , 2 US)
  - 8 Leisure site conversions to Wagamama
  - Roll-out of delivery kitchens and pilot of Wagamama Grab & Go concept
- 2019 refurbishment and maintenance capital expenditure – £30m to £35m
  - 6 transformational refurbishments of Wagamama UK sites
  - Several large-scale Concessions redevelopment projects
- Depreciation expected to be between £53m to £55m
- Interest guidance:
  - Debt interest expected to be between £14.5m to £15.5m
  - Provision interest expected to be between £1m to £1.5m

# Business review

# Our priorities

1. Deliver the benefits of the Wagamama acquisition

2. Grow our Concessions and Pubs businesses

3. Optimise our Leisure brands

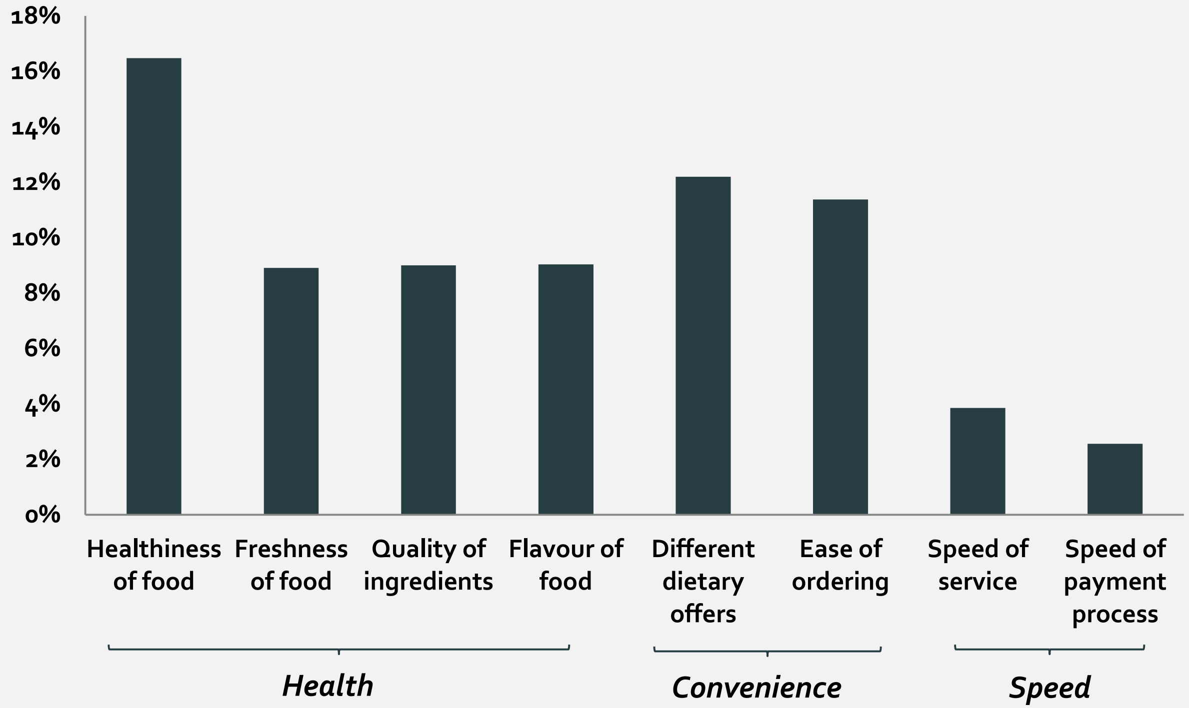
1

# Strengths of the Wagamama business

wagamama

## Aligned to key structural growth trends

### Experience ratings vs market (% outperformance)




## Strong high-performing culture

- High quality leadership team focused on continuing growth momentum
- Strong cohesive culture well maintained as business continues as a standalone entity
- Restaurant teams motivation levels remain high and churn remains low

*Source: Morar/Brandvue, Q4 2018 customer experience ratings*



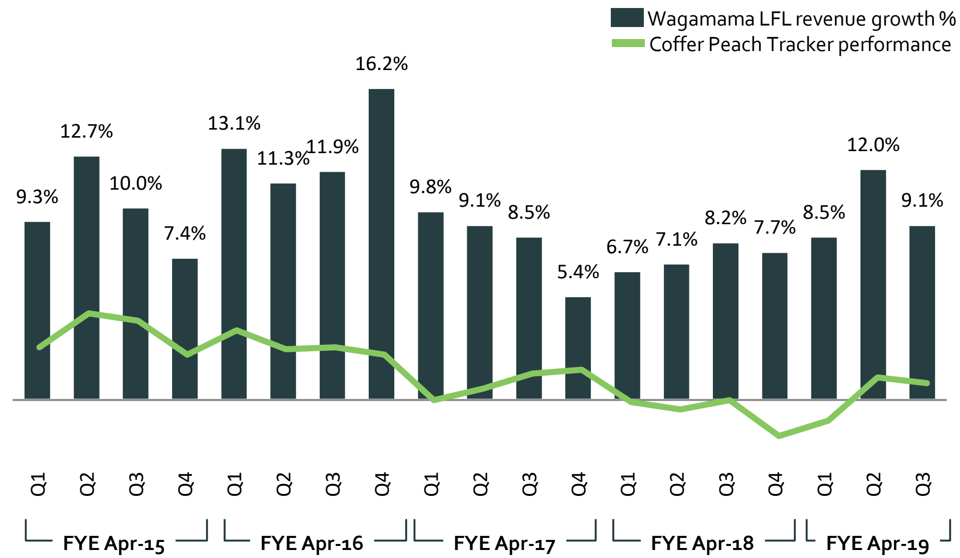
The Restaurant Group plc

1

# Strong LFL sales momentum set to continue

wagamama

## UK LFL revenue growth outperformance




## Drivers of 2019 LFL growth

### Proposition refinement

- Development of drinks range to increase participation
- Investment in local marketing and events to drive greater awareness in non-users
- Further expansion of vegan range

### Further delivery growth

- Increased delivery penetration across restaurants
- Technology integration to optimise delivery capacity within and between restaurants

### Benefits from refurbishments

- 300 new covers to be created from 6 transformational refurbishments
- 40% return on capital from refurbishments generated historically



The Restaurant Group plc

1

# Progressing well on multiple growth avenues

wagamama

## UK Casual Dining


Canary Wharf post refurbishment

- 3 to 4 new openings
- 8 site conversions
- 6 transformational refurbishments

## UK Concessions

Heathrow T3 design

- Won tender in Heathrow T3 - opens in H2 19
- Secured site in planned redevelopment of Manchester Airport due to open in H1 20
- Exploring variety of other airport opportunities

## Delivery

- Delivery kitchen successfully trialled
- Delivery kitchen rollout in FY19

## International


Murray Hill, NYC

- 2 new US restaurants in FY19
- Initiated a review of US strategic options

## Food to go formats

mamago

- Grab & Go concept developed to capitalise on increased customer demand for convenience
- Initial pilot planned for launch in H2 19

***Note:*** **All years (i.e. FY and HY1/H2) mentioned above relate to the calendar year January-December**

1

# Revenue and cost synergies

wagamama

## Site conversions



- 8 conversions planned for this year
- Phased openings between August and November
- Expect >50% return on capital

**Virtual walk-through***

## Cost synergies

- Cross-functional working groups collaborating across the business
- Continued confidence in delivering at least £15m of cost synergies in 2021
- Synergies to be achieved through leveraging scale and consolidating spend across the following cost categories:
  - Procurement and logistics
  - Site level overheads
  - Central costs

***Usage Instructions-iOS users with iOS 11 or later - simply open the camera app and point it at the code. Tap the notification that pops up to follow the link. Android and older iOS users will need to download a QR Code Reader from the app store on their device**

# Our priorities

1

Deliver the benefits of the Wagamama acquisition

2

Grow our Concessions and Pubs businesses

3

Optimise our Leisure brands

2

# Growing our Concessions business

trg concessions
a division of the restaurant group plc

**Current portfolio**

- Operational across:
  - 64 sites within 16 UK Airports
  - 5 sites within 4 UK rail stations
  - 2 other sites
  - 5 grocery counter sites

**Core business successfully grown**

- Sales continue to outpace passenger growth
- 21 new openings in FY2018
- Expect to open 5 to 10 new Concessions in FY2019
- Secured a number of large sites for planned redevelopment at Manchester airport

**High proportion of space retained**

- 85% of sites have received a contract extension
- Average extension is now 90% of original lease term

**New growth opportunities**

- Developed 2 counter concepts with Sainsbury's
- Building team to support international growth in airports







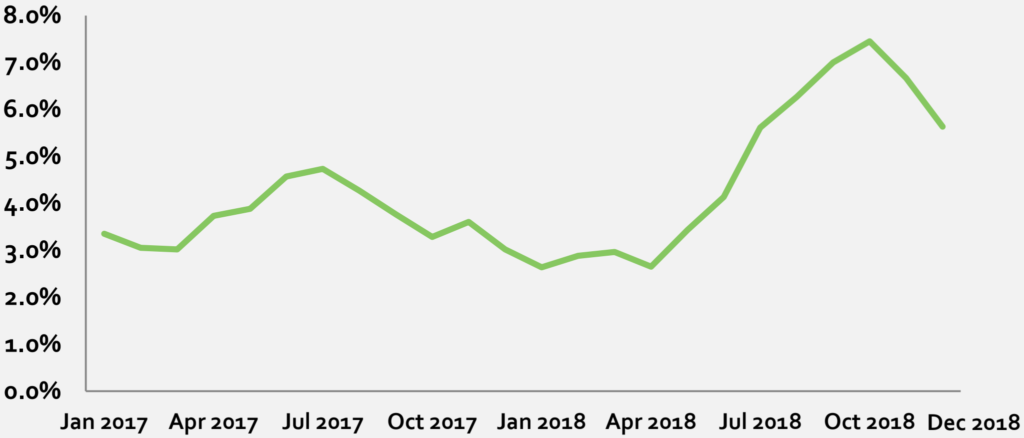
The Restaurant Group plc

# Growing our Pubs business

## Menu evolution

## Optimising existing space

## % LFL sales outperformance vs Coffer Peach Tracker*




*Source*: Coffer Peach Tracker pub restaurants ( 6 month moving average)*

## Estate expansion progressing well

- 21 new openings in 2018:
  - Refurbished Ribble Valley sites delivering sales uplift in excess of 30%
  - Food & Fuel sites trading in line with expectations
  - 6 single site B&P acquisitions trading well
- At least 7 openings anticipated for 2019

# Our priorities

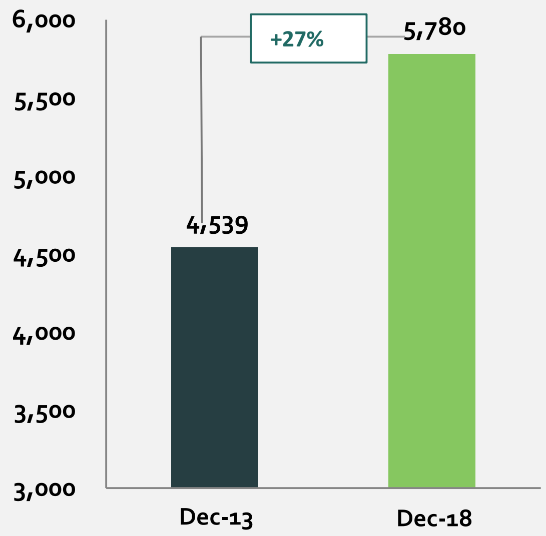
1. Deliver the benefits of the Wagamama acquisition

2. Grow our Concessions and Pubs businesses

3. Optimise our Leisure brands

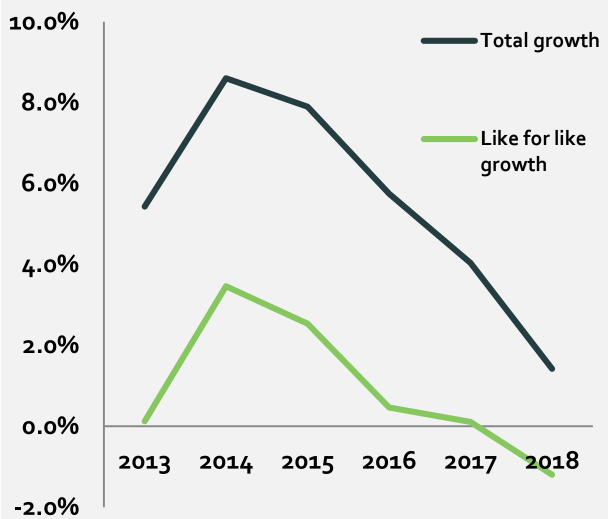
# Market Overview

## Over capacity




*Source: CGA/Alix Partners Market growth monitor*

## Weakening demand




*Source: Coffer Peach Tracker restaurants*

## Structural shift

- Declining retail footfall
- Growth of delivery
- Customer shift towards health, speed and convenience

## Cost pressures

- c.4% wage inflation
- Electricity prices at an 8 year high
- Rent and business rates structurally high against a declining market

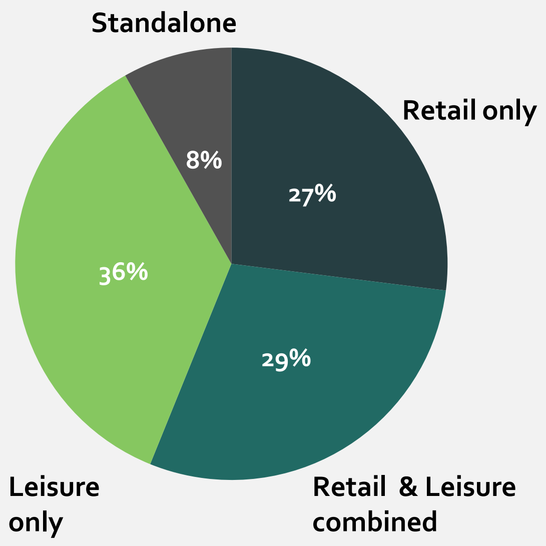
## Responses

- Focused on developing differentiated propositions
- Increasing proposition exposure to healthy and convenient options
- Capitalising on "off-trade" as a disrupter / structural growth driver
- Disciplined approach to lease renewals

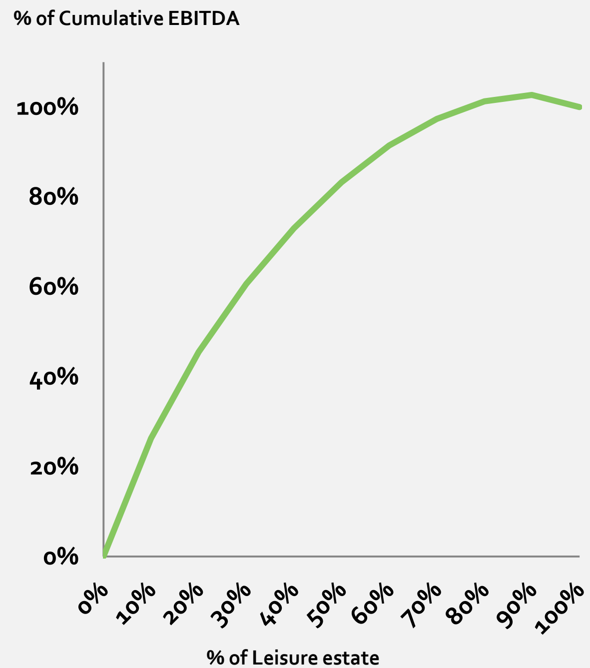
3

# Leisure estate portfolio overview

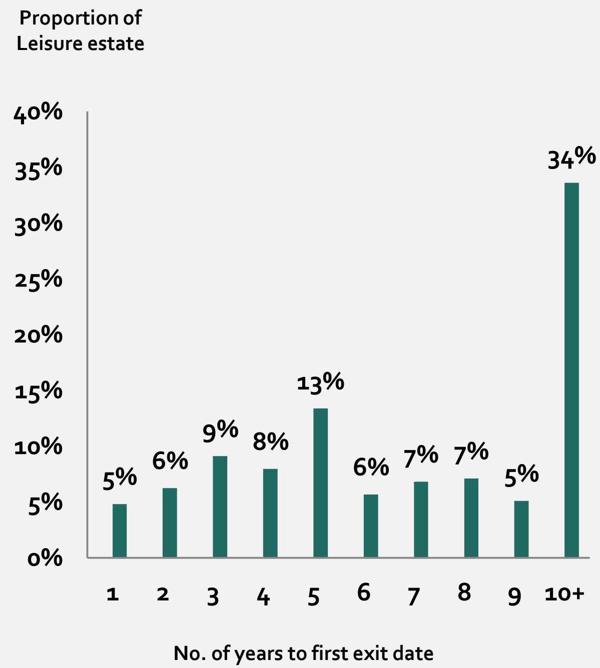
## Location type




## Distribution of profits




## Lease profile

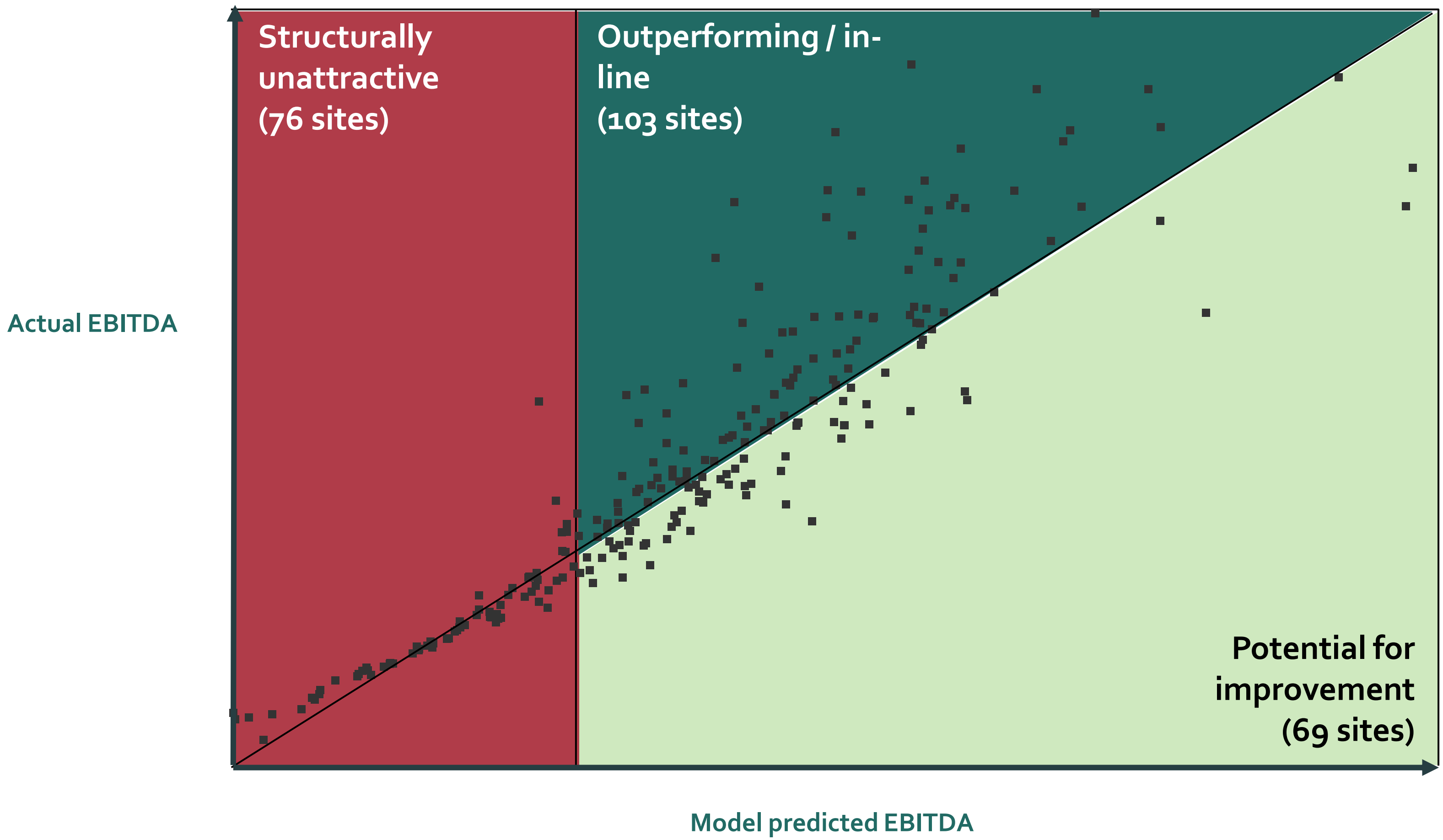





The Restaurant Group plc

3

# Frankie & Benny's: Portfolio analysis




Source: Bain & Company

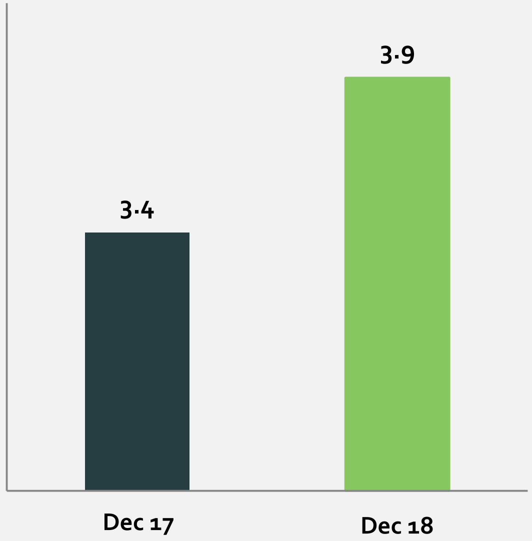
# Frankie & Benny's: Developments and focus areas

## Activity in year




## Social media ratings

Score out of 5




*Source: Yext*

## Upcoming activity

- Continued improvement in core proposition via new menus
- Trial of simplified menu
- Marketing campaigns targeted to specific occasions, supported by limited time offers
- Service and operational focus / support for underperforming sites
- Roll-out of "order ahead" functionality
- Active management of structurally disadvantaged tail

3

# Chiquito: Developments and focus areas

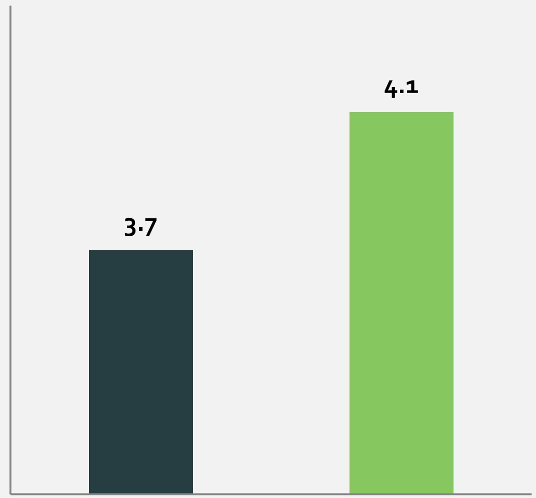
RESTAURANT BAR & MEXICAN GRILL

## Activity in year

- New simplified and better value core menu launched in January
- Investment in improved operational management
- Promotional strategy centred around Mexican favourites
- Launched virtual brand "Kickass Burrito"
- Leveraging insights from guest feedback app

## Social media ratings

### Score out of 5




*Source: Yext*

## Upcoming activity

### New menu launching in April



The Restaurant Group plc

# Summary

- Enlarged group now strongly orientated towards growth
- Wagamama like-for-like sales momentum is strong and we are progressing well on the growth avenues unlocked by the acquisition
- Strong growth continues in Concessions and Pubs
- Focused on optimising our Leisure brands and property portfolio
- Current trading for first 10 weeks of the year in line with expectations with like-for-like sales up 2.8%

# Q&A