

Strategy

UK casual dining market

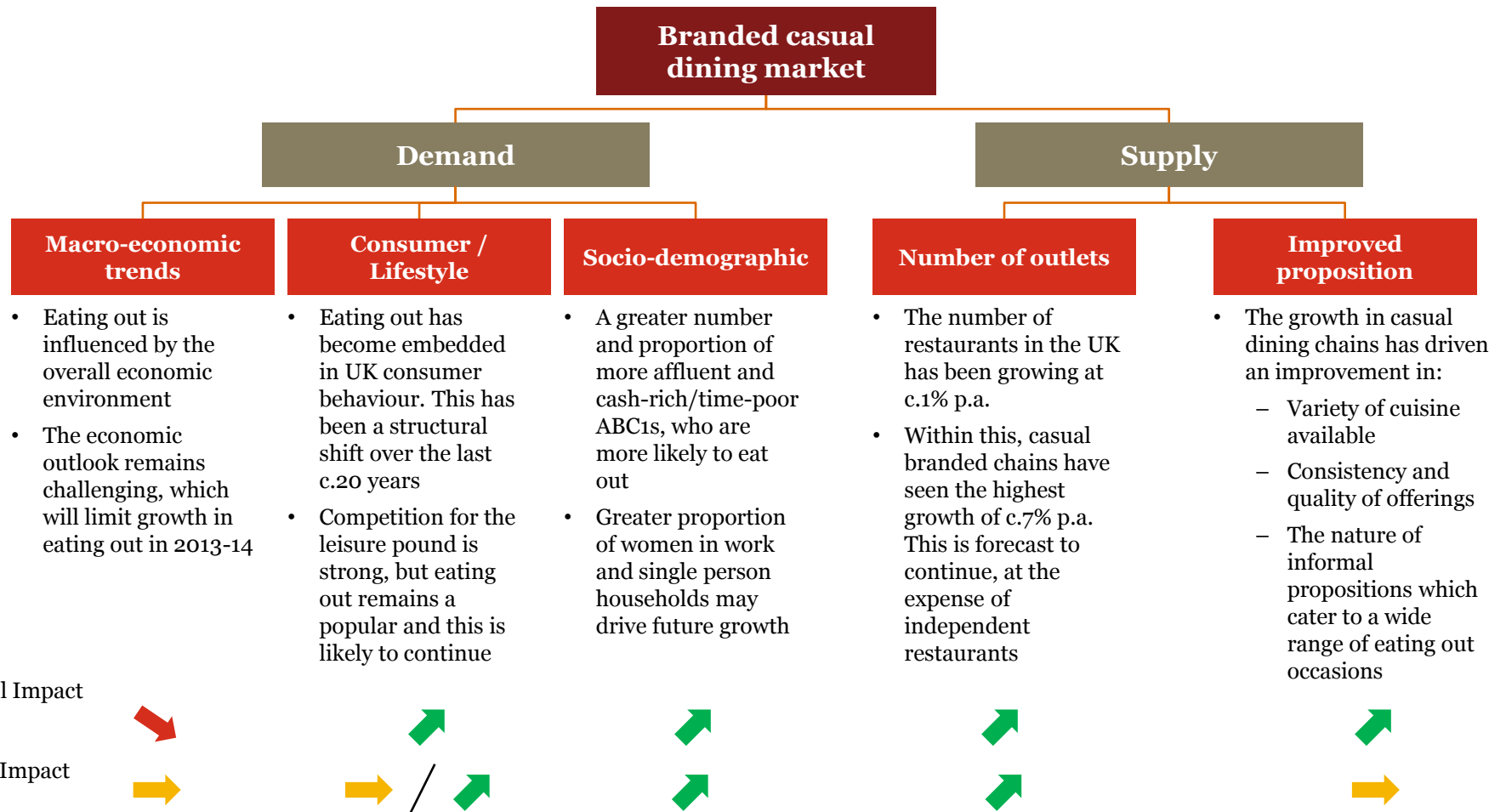
Discussion document

Dec 2013

Key messages

- We believe long term sector fundamentals for the eating out market in the UK are positive
 - There is a structural trend towards further eating out of the home, driven by demographic and consumer trend shifts
 - The industry remains relatively un-penetrated by chains
- In the short term, the sector is being impacted by the consumer downturn, with restaurant/eating out spending a cyclical category
- Branded casual dining and food-to-go chains have outperformed the market, although performance has been mixed
- Comparing the UK and US eating out markets suggests that there is significant opportunity for the development of differentiated offerings at a number of different price points
 - e.g. major eating out chains in the US span a wide range of price architectures whereas in the UK, most casual dining chains are clustered around a median price point of £10 per main course
- There have historically been three key drivers of returns for investors in the industry: like for like sales growth, roll out, and efficient operations

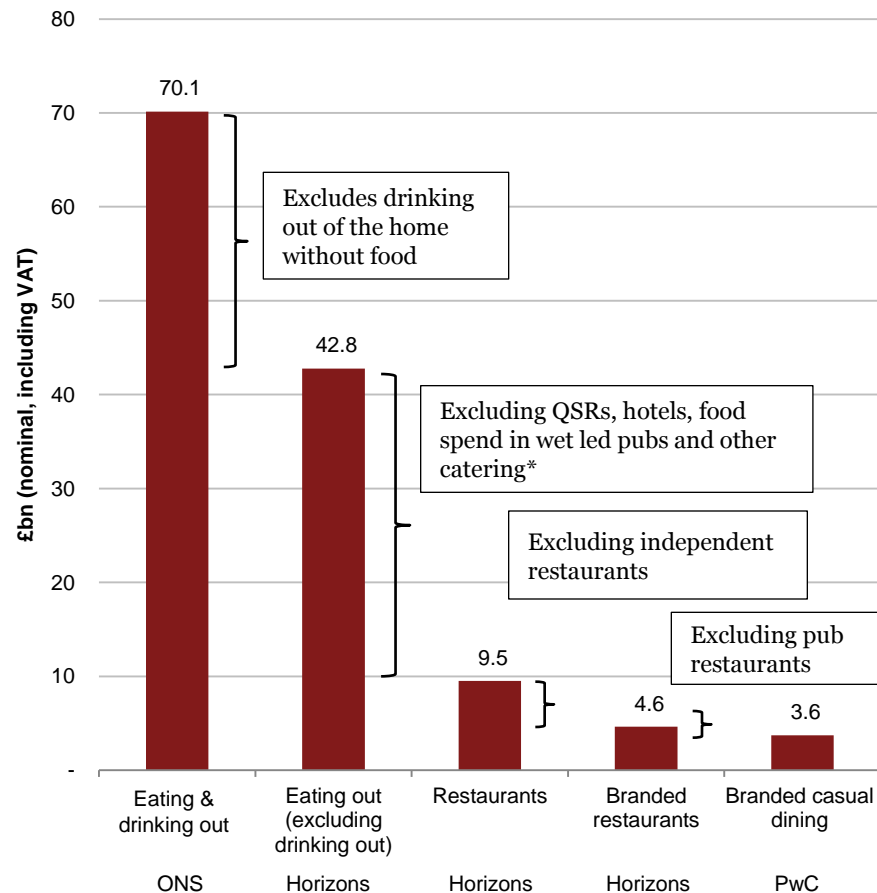
The long term prospects for the eating out and casual dining markets are positive, with robust underlying demand and supply-side drivers



Source: Horizons, ONS, PwC Analysis

The branded casual dining segment of the overall eating out market is worth c.£4bn out of an overall market of c.£70bn

UK eating out market sizing and segmentation, 2011

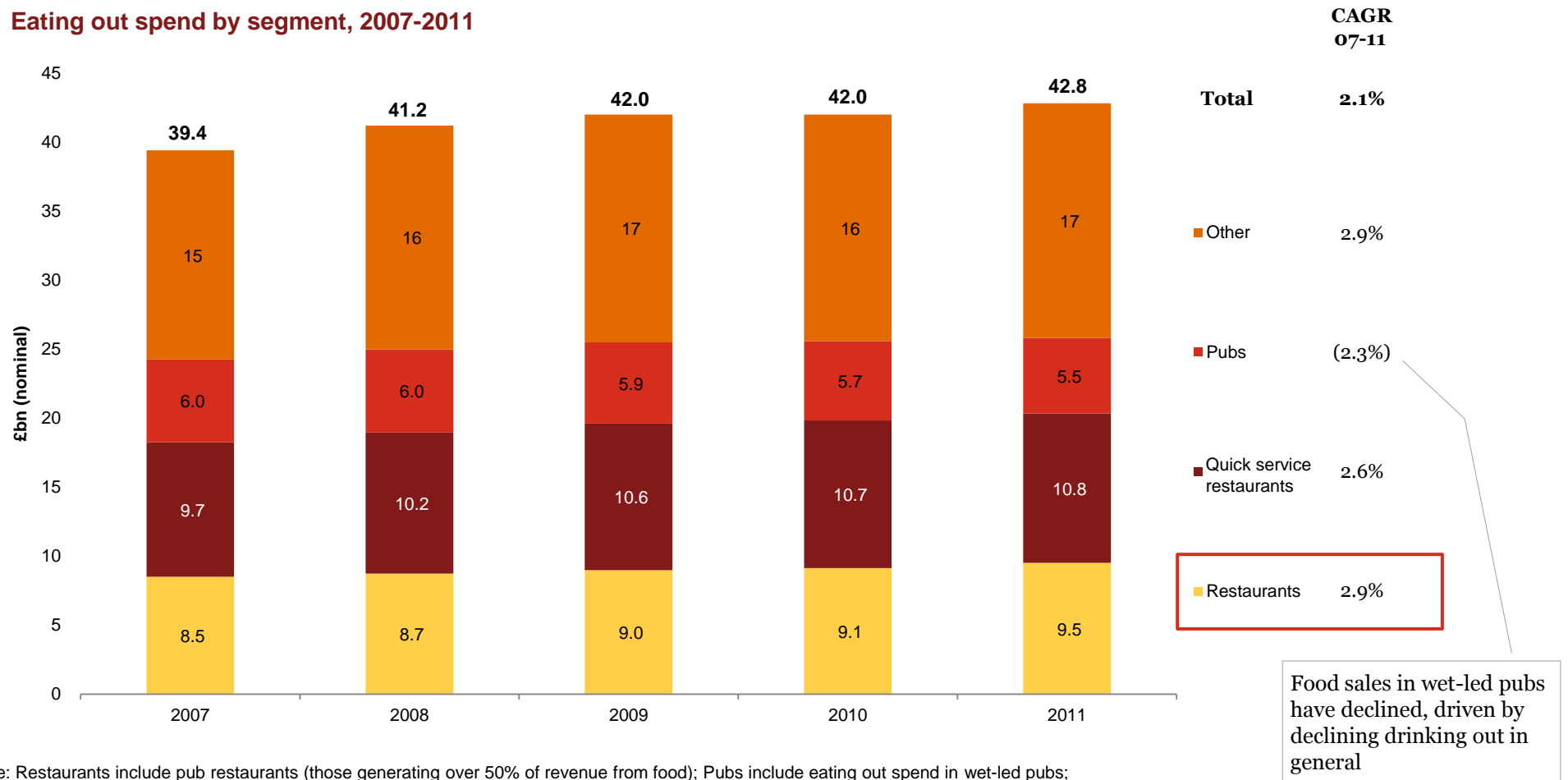


Market segment	Definition
Eating & drinking out <i>c.£70bn</i>	Source: ONS • UK consumer spending in “Restaurants & Cafes” (including meals, alcohol, snacks and drinks sold by restaurants, pubs and cafes)
Eating out (excluding drinking out without food) <i>c.£43bn</i>	Source: Horizons • Value of food and beverages sold by UK caterers (including restaurants, QSR, food served in pubs, hotels and other venues)
Eating out at restaurants <i>c.£10bn</i>	Source: Horizons • Value of food and beverages sold in outlets “which have table service and where the customer generally pays on departure”
Branded restaurants <i>c.£5bn</i>	Source: Horizons • As above but excluding independent restaurants. Includes restaurant and pub restaurant chains
Branded casual dining restaurants <i>c.£4bn (incl. VAT)</i>	Source: PwC • Bottom-up aggregation of revenues of UK casual dining chains; excludes pub restaurants • Revenue reported is net of VAT so 20% VAT added to present on a comparable basis to other sources

* Other includes leisure, staff catering, healthcare, education and services
Source: ONS, Horizons, PwC Analysis

Within the UK eating out market, restaurants have taken share and proven relatively resilient during the downturn

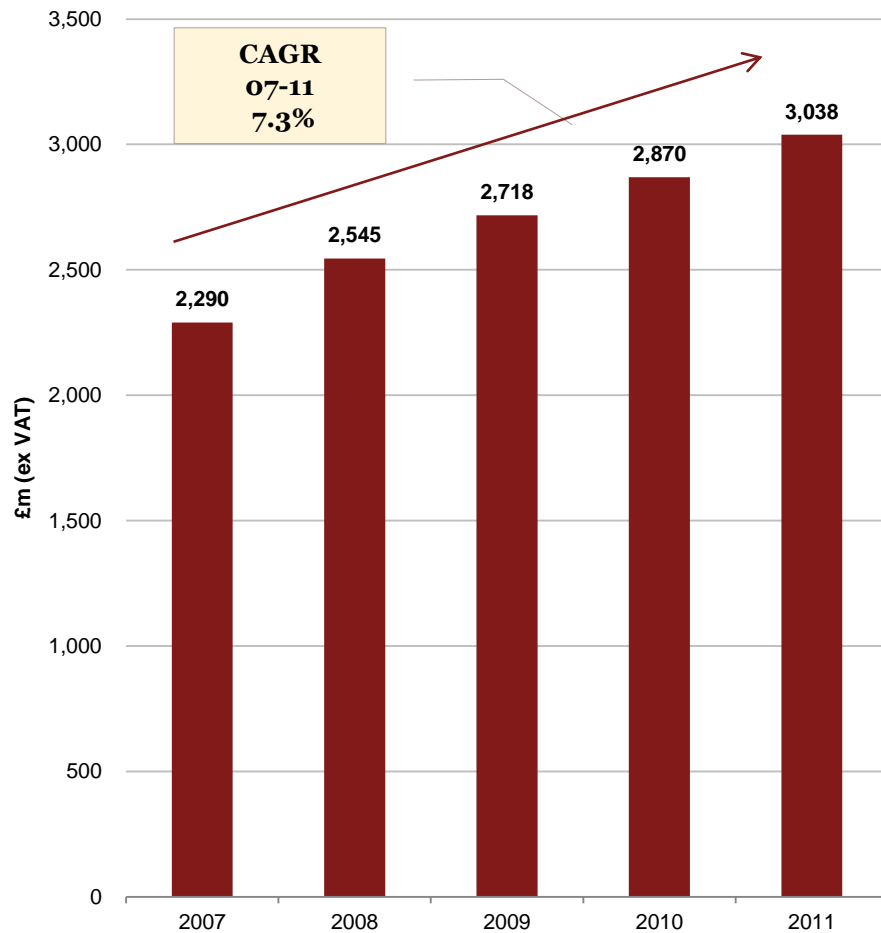
Eating out spend by segment, 2007-2011



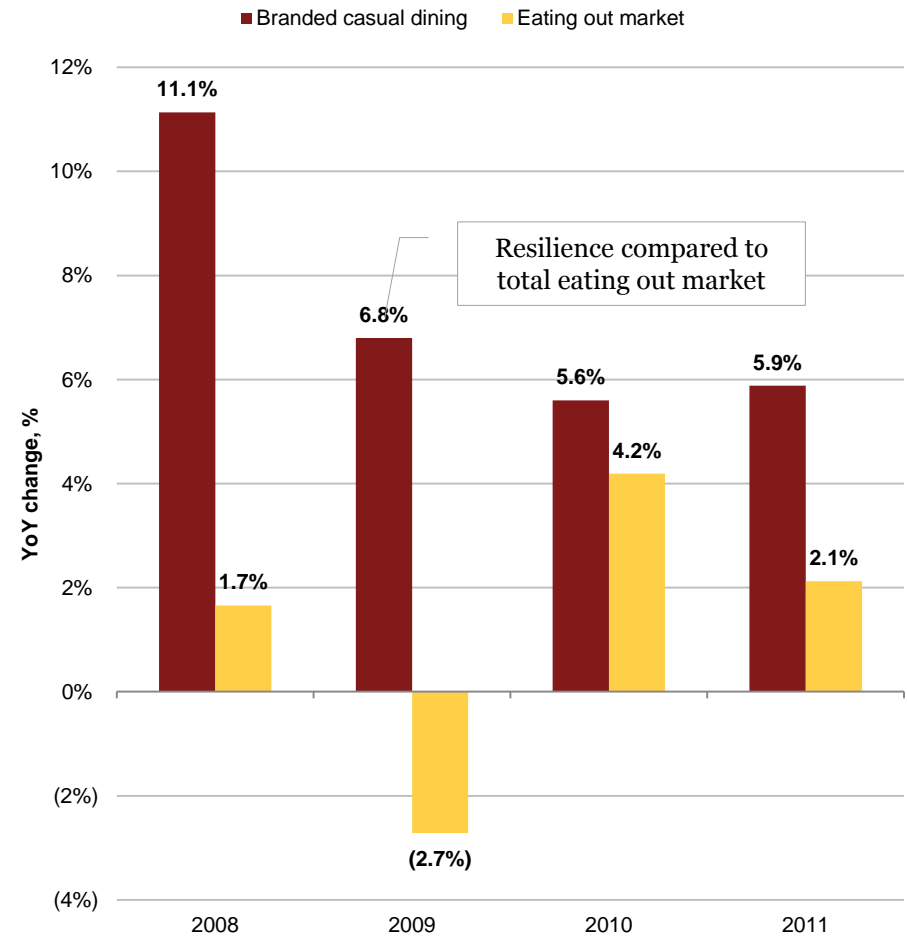
Note: Restaurants include pub restaurants (those generating over 50% of revenue from food); Pubs include eating out spend in wet-led pubs; Other includes hotels, leisure, staff catering, healthcare, education & services
Source: Horizons

The branded casual dining market has outperformed overall eating out and grew at 7% p.a. in 2007-2011

Branded casual dining market value



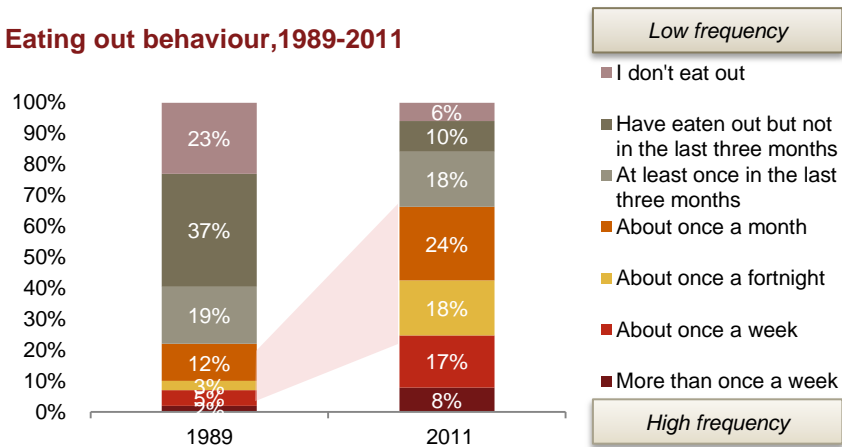
Branded casual dining vs total eating out markets growth



Note: numbers presented are ex VAT
Source: Company accounts, Retail Locations Data, PwC analysis

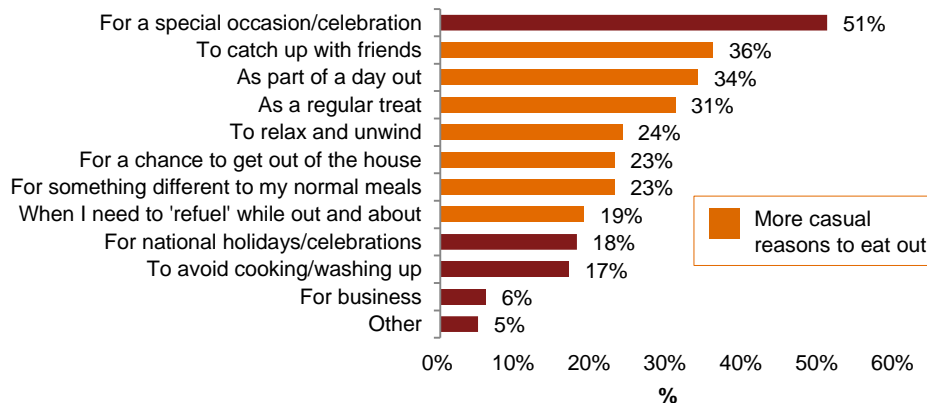
The strong performance of the casual dining segment has been driven by both demand and supply side factors

Eating out behaviour, 1989-2011



- Increasing frequency of eating out – a habit, not a special treat
- More reasons for eating out – brunch with friends, refuelling on a shopping trip; not just a three course meal
- Broadening of the choice offered by casual dining chains across cuisines and price points
- Greater availability of affordable restaurant offerings
- Improvements in the quality and consistency of the eating out experience driven by casual dining chains
- Continuing innovation – menus, loyalty programmes

Reasons for eating out, April 2012

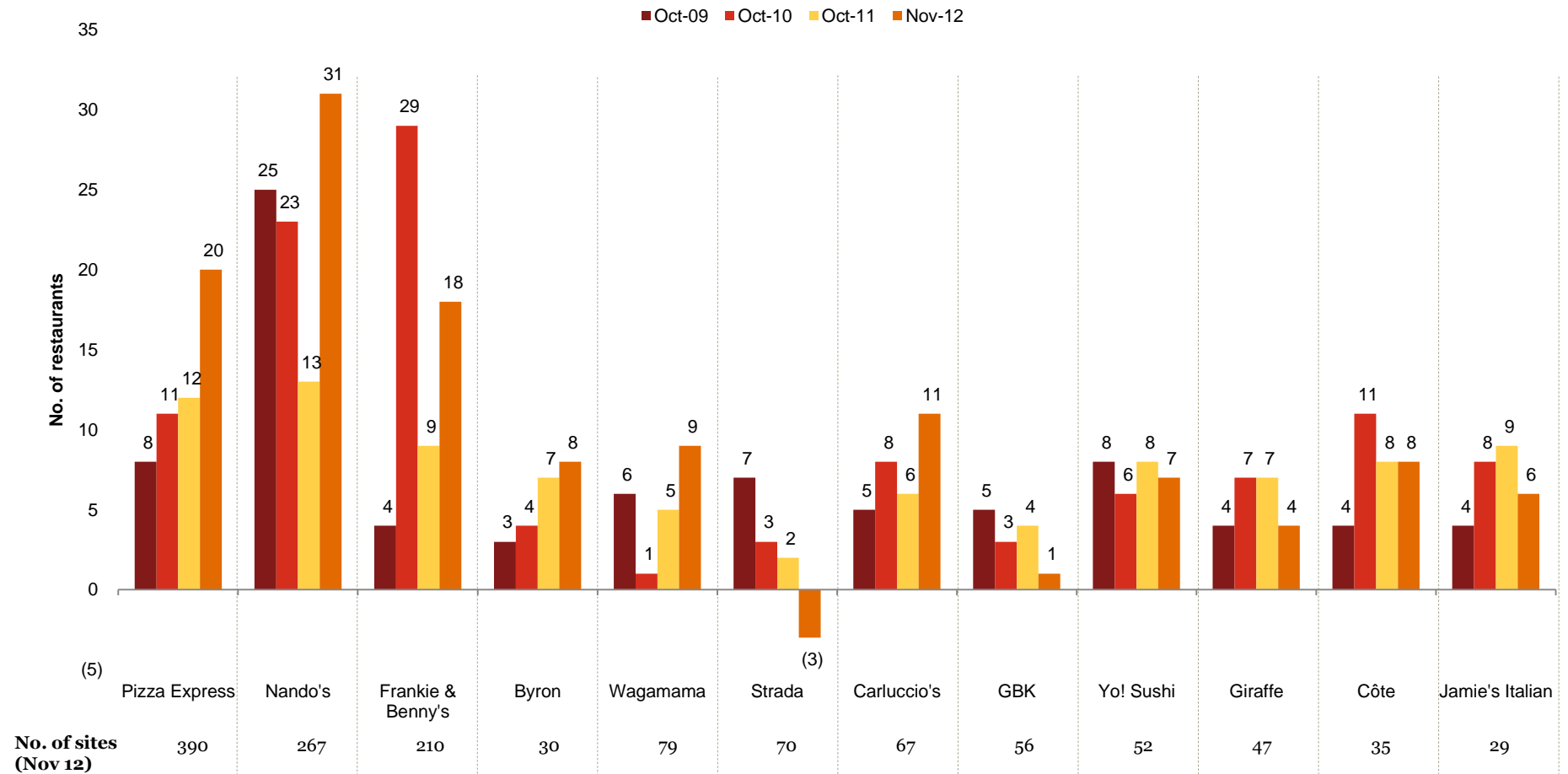


Note: * Consumers were asked "Excluding fast food outlets, which one of these most accurately describes how often you eat out?"

Source: Mintel Eating Out Habits Survey (December 2011; November 2007.), Eating Out Review July 2012

A key driver of growth in branded casual dining has been roll-out

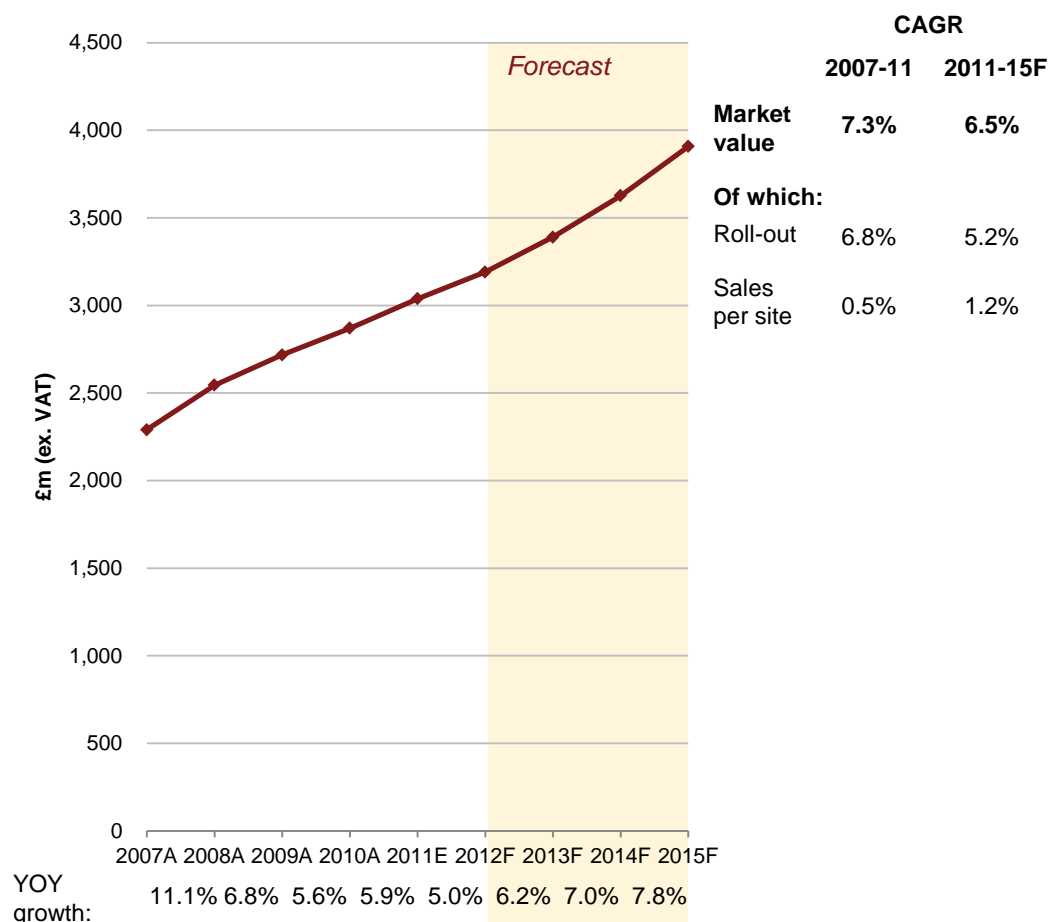
Annual change in the number of UK restaurants, selected operators, year to Oct-09 to Nov-12



Source: Retail Locations, Press, Company accounts

We expect the branded casual dining market to grow at c.6.5% p.a. to 2015, primarily driven by expected roll-out

Branded casual dining market, 2007-15F



Forecast Methodology

Number of sites

- 2012 sites are as at November, based on Retail Locations data
- For 2013-15, we have considered the roll-out plans for the chains included in our market definition to estimate roll-out on a bottom-up basis

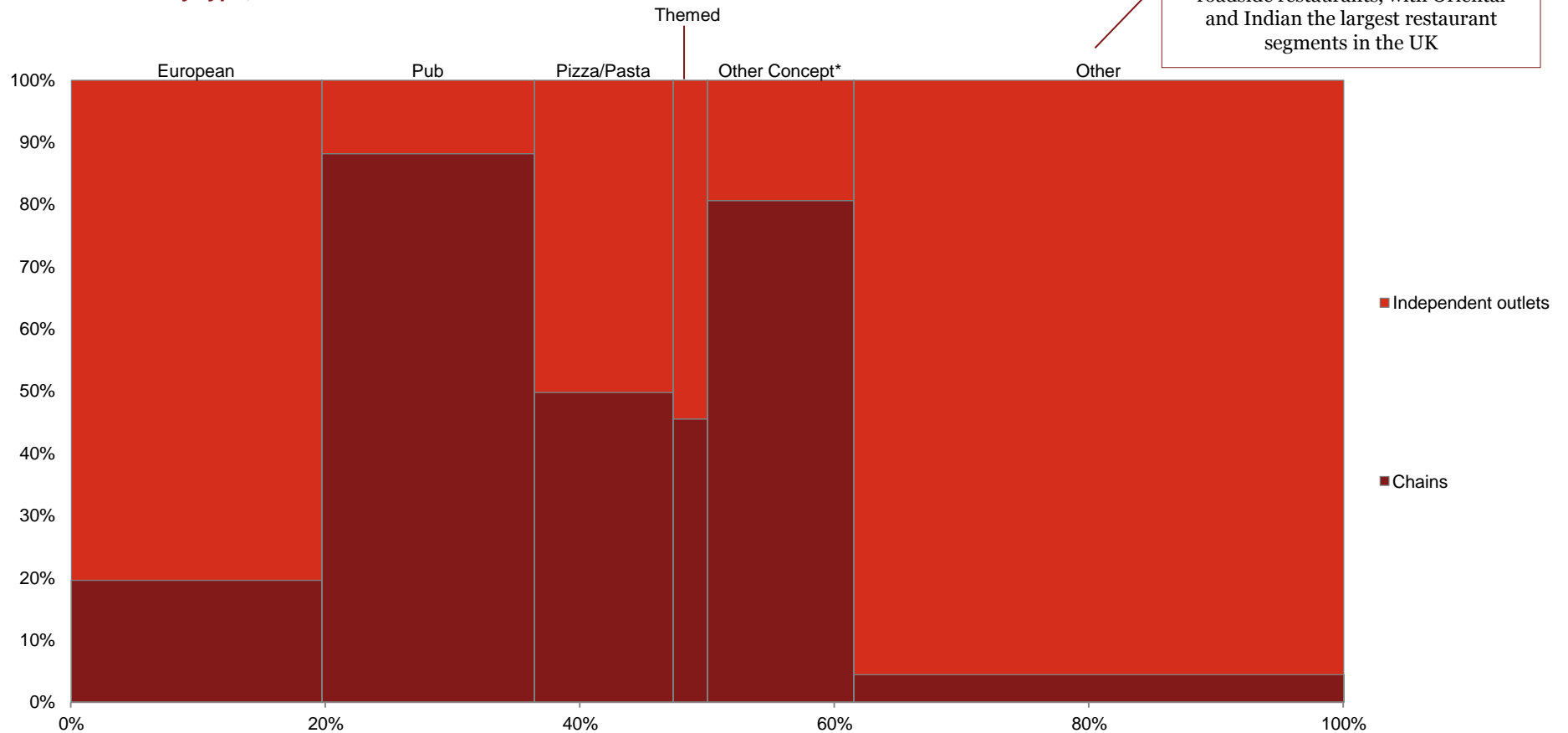
Sales per site

- We forecast sales per site growth based on Consensus Economics forecasts (as at November 2012), the expected growth in overall eating out and the historical performance of branded casual dining
 - Branded casual dining LFLs have been c.0%-2% over the last three years (source: Coffey Peach Tracker)

Source: Retail Locations Data, company accounts, PwC analysis

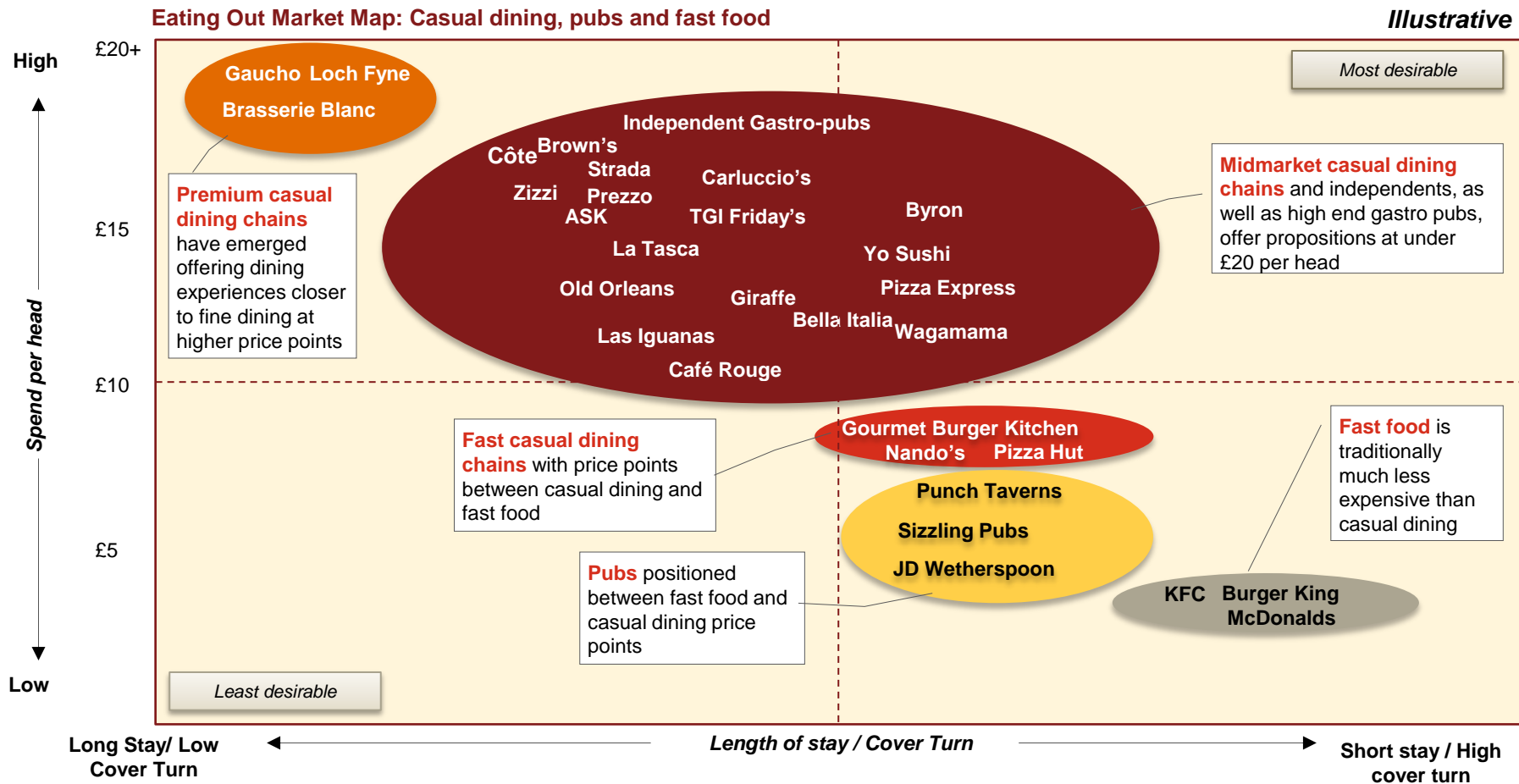
The market remains fragmented, with chain restaurants representing less than 40% of outlets. However, this varies significantly by category

UK restaurants by type, 2011



Note: *Concept restaurants other than Pizza / Pasta, Pubs and Themed restaurants; includes Mexican / Tex-Mex / Caribbean and other specialist menus

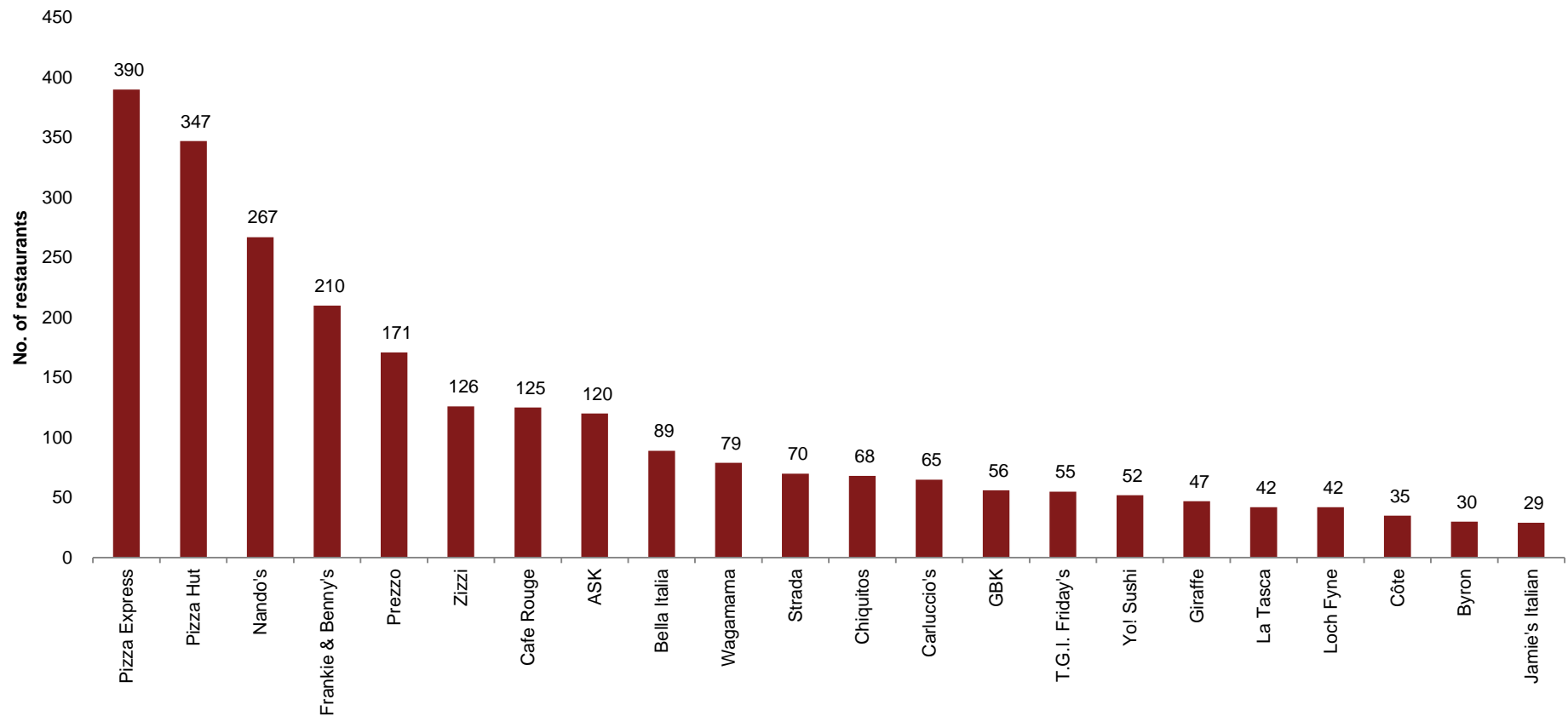
There are a number of different models in the eating out market, differentiated by price point and length of stay / level of service



Source: PwC Analysis

There are few casual dining operators with nationwide footprints, although some have widespread awareness despite relatively small portfolios

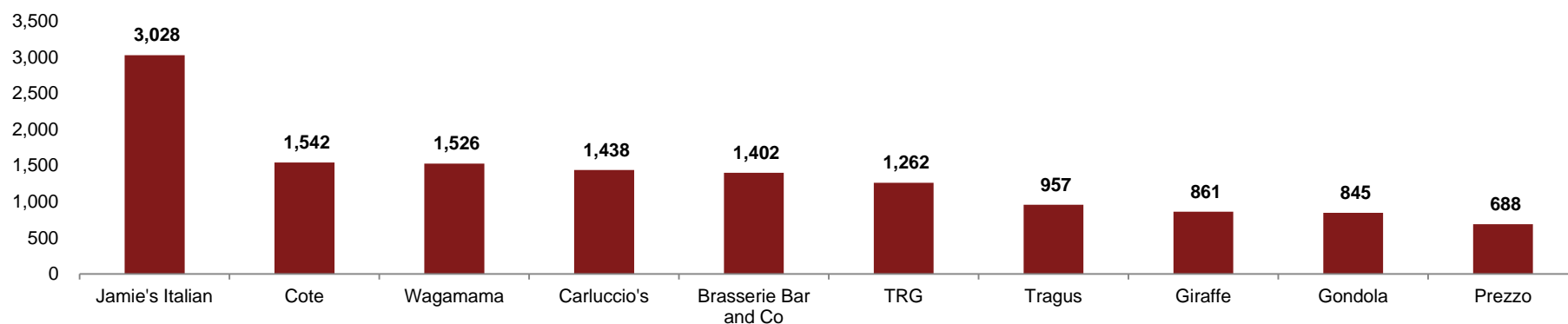
Outlet numbers casual dining chains (Nov 2012)



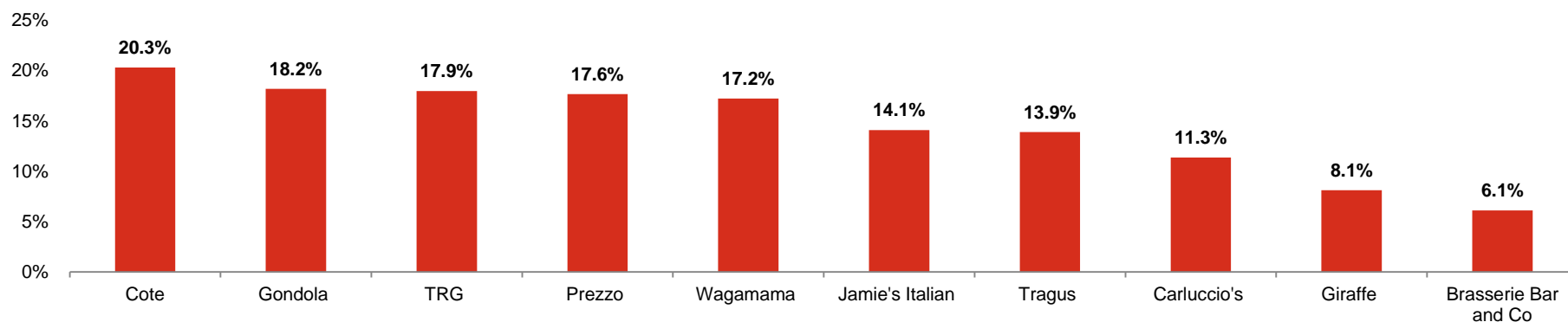
Source: Company websites, Retail Locations (November 2012)

Site economics and group profitability vary significantly across operators, driven by business model, operations and scale

Revenue per site, £'000

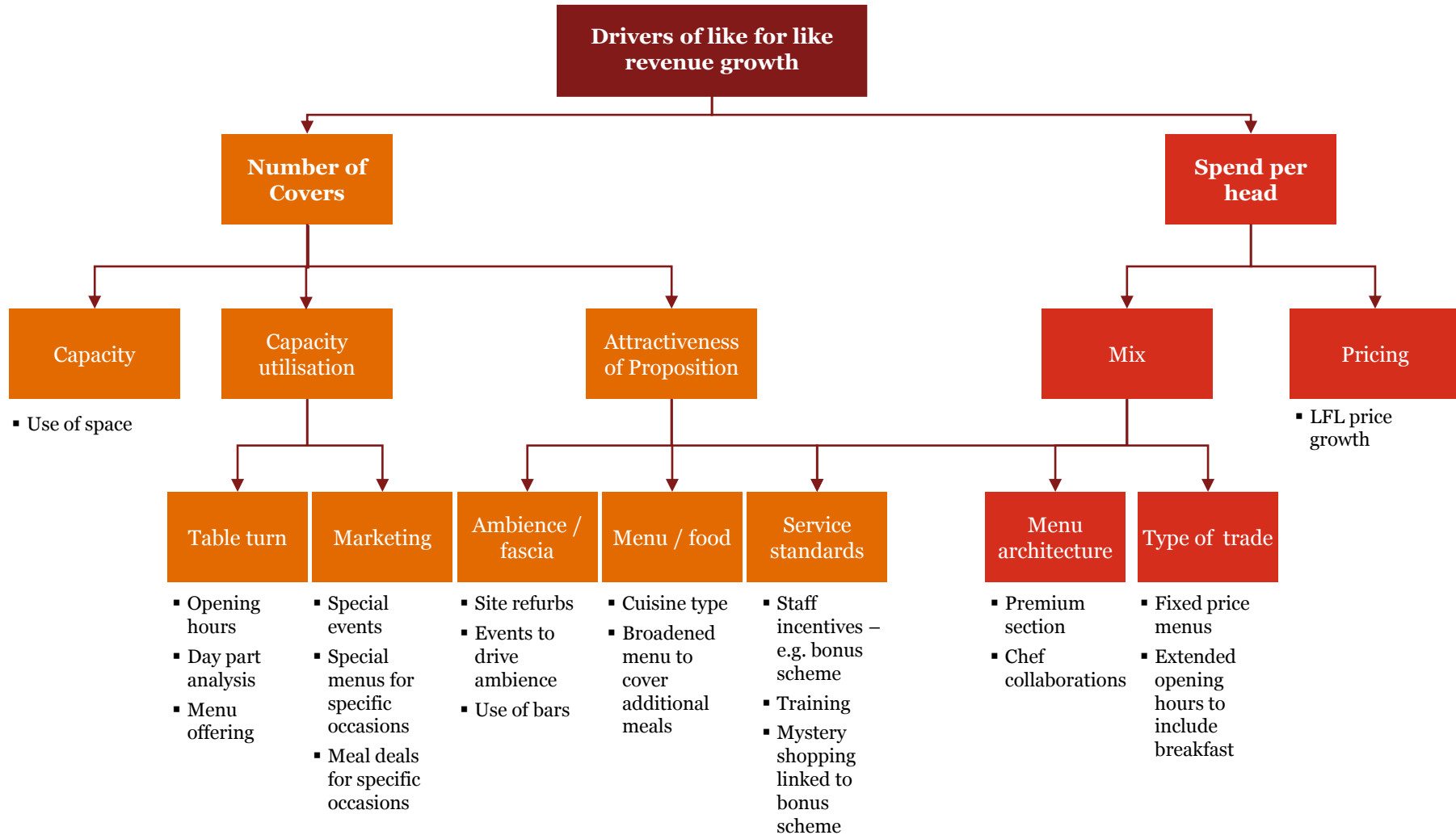


EBITDA margins (%)



Note: All financials are FY12 excluding Brasserie Bar and Co. (Brasserie Blanc) which is FY11. as reported. Cote's and Giraffe's EBITDA margin excludes pre-opening costs
Source: Company accounts, PwC analysis

Leading operators use a number of levers to drive LFL sales through increasing cover turn and spend per head



Thank you

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