Private Equity Society

Apollo's £506M interest in The Restaurant Group

Deal Overview

Acquirer

Apollo Global Management

Expected closing: January 2024

Target

The Restaurant Group

£1.07B

Total Transaction Value

£700M

Implied Equity Value

34.4%

Premium

Financial Advisors (Buy-side & Sell-side)

Buy-side

RBC

Sell-side

Centerview Partners

Lazard

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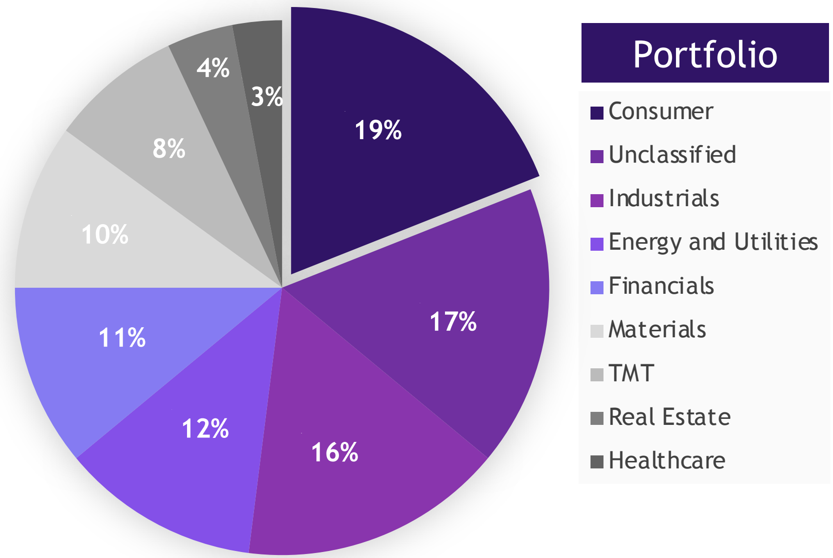
Apollo Global Management

- Founded in 1990 and headquartered in New York City
- **Specialization:** buyouts, corporate carve-outs and distressed investments in a wide variety of sectors
- **Recent Transactions and Successful Deals**
  - ✓ Albertsons: bought stake at £1.4B (2021), sold to Kroger for £3.5B (2022)
  - ✓ ADT: Merged with Protection 1, becoming a leading home security industry player



610

Total Investments

£504B

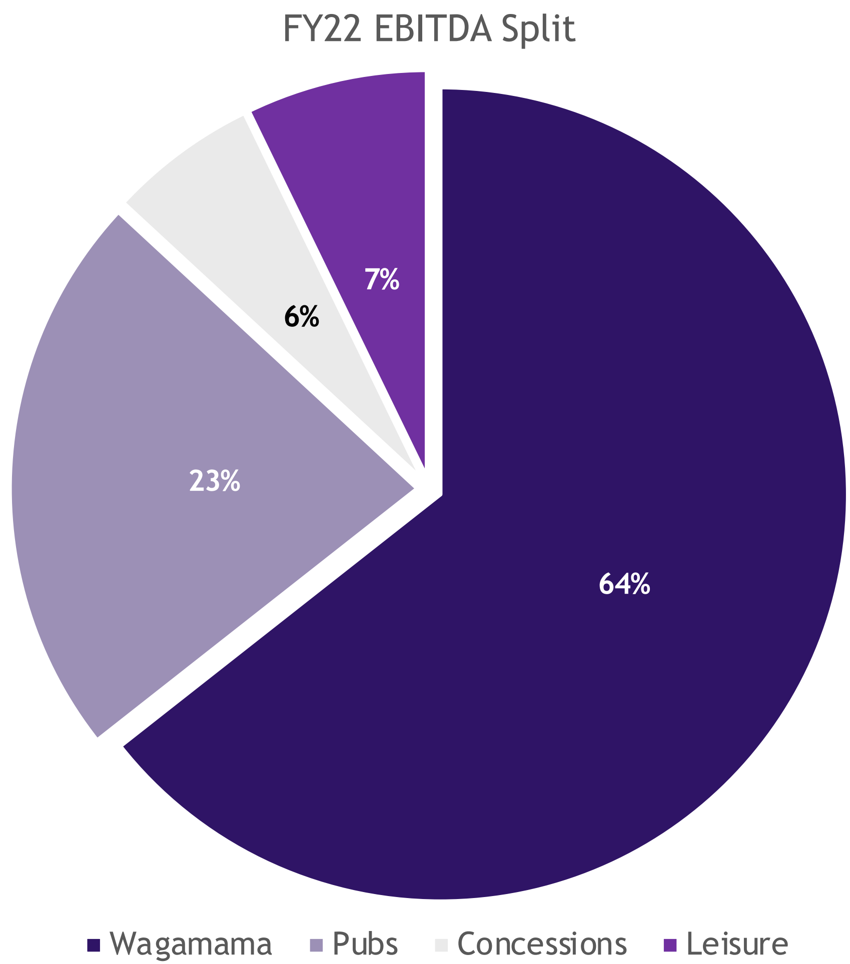
Assets under Management (AUM)

210

Active investments

The Restaurant Group – Industry Multiples

- Multiples - TEV/LTM EBITDA: 7.45x, TEV LTM Revenue: 1.18x



The Restaurant Group - Overview

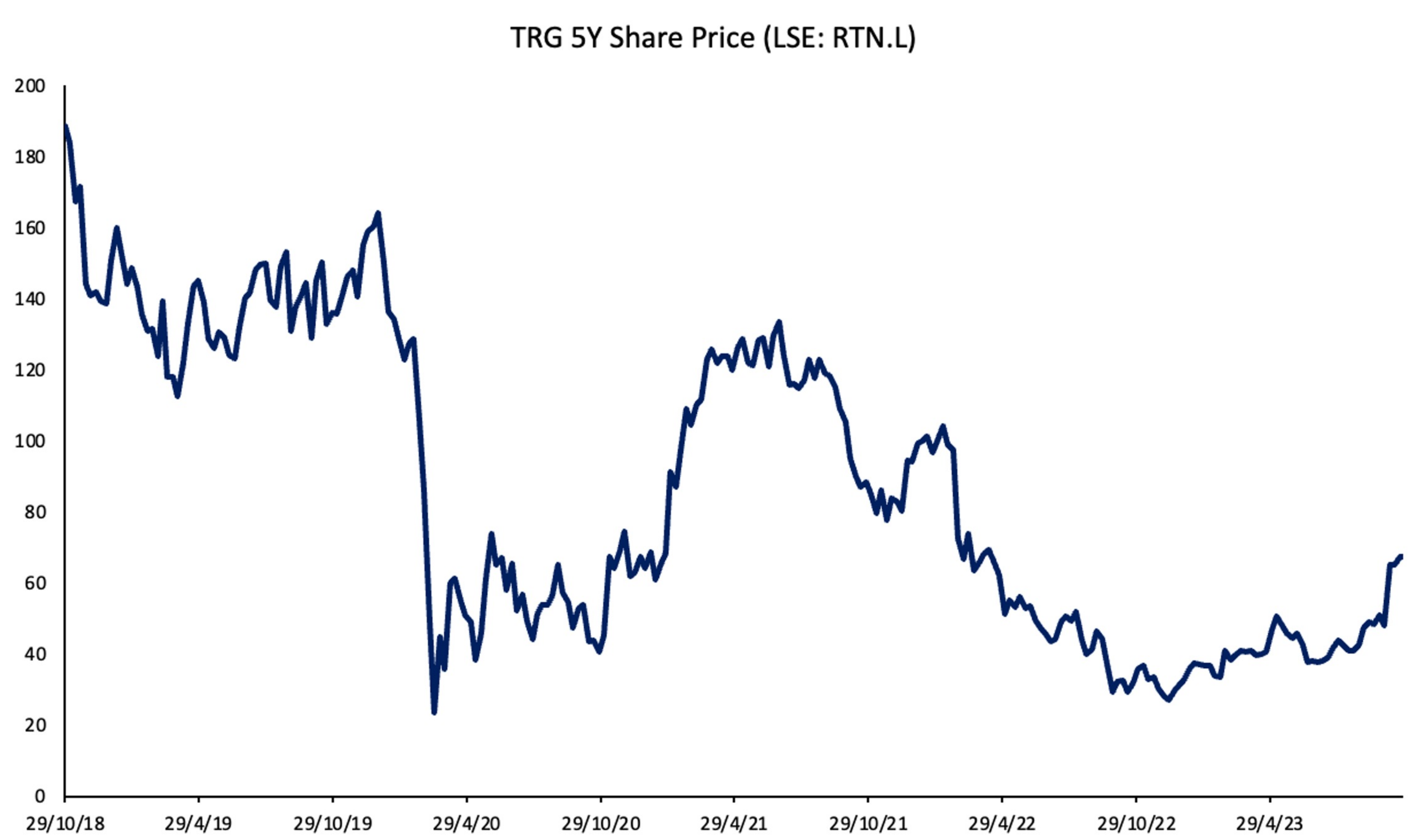
- The Restaurant Group plc (TRG) operates **over 400 restaurants and pubs** in the United Kingdom
- TRG was founded in **1954** and is currently headquartered in London, UK
- Diverse portfolio of brands including Wagamama, Frankie & Benny's, Brunning & Price, Chiquito, Coast to Coast, Firejacks, and Barburrito
- Also operates TRG concessions that provide table and counter services, as well as operate sandwich shops, pubs and bars at UK airports

The Restaurant Group - History

- **Completed acquisition of Wagamama restaurant business in December 2018 for £559M**
- **In recent months, TRG has faced sustained shareholder pressure** from hedge funds including Oasis Management, TMR Capital and Irenic Capital.
- **In September 2023, TRG Chair Ken Hanna stepped down**, citing personal reasons, although this was perceived as a major concession to growing calls from activist investors over executive pay and inadequacy of corporate governance to guide the casual dining operator through rising costs and consumer slowdown.
- **One month before the Apollo deal, TRG sold its leisure businesses (including Frankie and Benny's and Chiquito chains) to rival Big Table Group**, paying the group £7.5 million to take in their loss-making segment.
- Andy Hornby, chief executive officer of The Restaurant Group, said: "A sale of our leisure business significantly accelerates our medium-term strategic plans to increase adjusted EBITDA margins and reduce leverage."

The Restaurant Group – Market impact

Upon news of the buyout, TRG shares rose more than 37 per cent in morning trading



Balance sheet

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	Note	At 1 January 2023 £m	At 2 January 2022[1] £m
Non-current assets			
Intangible assets	11	**604.1**	599.9
Right of use assets	12	**237.6**	289.4
Property, plant and equipment	13	**257.7**	285.1
Derivative financial instruments	23	**15.4**	2.1
Trade and other receivables	15	**8.2**	4.7
Total assets		**1,123.0**	1,181.2
Current assets			
Inventory		**6.5**	6.0
Trade and other receivables	15	**18.3**	13.9
Prepayments		**8.0**	6.1
Cash and cash equivalents	23	**27.7**	146.5
		60.5	172.5
Total assets		**1,183.5**	1,353.7
Current liabilities			
Trade and other payables	16	**(160.7)**	(128.3)
Provisions[1]	17	**(2.3)**	(3.1)
Lease liabilities	18	**(55.0)**	(73.1)
		(218.0)	(204.5)
Net current liabilities		**(157.5)**	(32.0)
Long-term borrowings	23	**(213.4)**	(318.1)
Deferred tax liabilities[1]	19	**(25.8)**	(43.6)
Provisions[1]	17	**(5.3)**	(3.2)
Lease liabilities	18	**(341.0)**	(337.3)
		(585.5)	(702.2)
Total liabilities		**(803.5)**	(906.7)
Net assets		**380.0**	447.0
Equity			
Share capital	20	**215.2**	215.2
Share premium		**–**	394.1
Other reserves		**1.6**	0.1
Retained earnings[1]		**163.2**	(162.4)
Total equity		**380.0**	447.0

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Current Ratio:	0.27
Quick Ratio:	0.24
Working Capital:	(£157M)
Debt to Equity Ratio:	2.11

The balance sheet metrics point towards significant opportunity for a new owner:

Financial Health Assessment:

- Low Liquidity & Negative Working Capital
- High Financial Leverage

Potential for Improvement with Strategic Investment:

- Improve Liquidity & Operational Efficiency through capital infusion
- Leverage Debt for Strategic Growth and optimize financial structure
- Drive Value Creation through Expertise and operational improvements

Income Statement

	Note	52 weeks ended 1 January 2023 Trading business £m	Exceptional items (Note 7) £m	Total £m	53 weeks ended 2 January 2022 Trading business £m	Exceptional items (Note 7)[1] £m	Total[1] £m
Revenue		883.0	–	883.0	636.6	–	636.6
Cost of sales[2]		(762.8)	(120.7)	(883.5)	(548.2)	(23.7)	(571.9)
Gross profit/(loss)	5	120.2	(120.7)	(0.5)	88.4	(23.7)	64.7
Share of results of associate		–	–	–	(0.3)	–	(0.3)
Administration costs[2]		(47.5)	(1.7)	(49.2)	(51.0)	(1.6)	(52.6)
Operating profit/(loss)		72.7	(122.4)	(49.7)	37.1	(25.3)	11.8
Interest payable	8	(42.3)	(7.0)	(49.3)	(45.7)	(1.9)	(47.6)
Interest receivable	8	0.3	11.9	12.2	0.6	–	0.6
Profit/(loss) on ordinary activities before tax		30.7	(117.5)	(86.8)	(8.0)	(27.2)	(35.2)
Tax on profit/(loss) from ordinary activities	9	(4.9)	23.2	18.3	4.3	(9.4)	(5.1)
Profit/(loss) for the year		25.8	(94.3)	(68.5)	(3.7)	(36.6)	(40.3)
Other comprehensive income							
Foreign exchange differences arising on consolidation		(0.4)	–	(0.4)	0.1	–	0.1
Total comprehensive profit/(loss)		25.4	(94.3)	(68.9)	(3.6)	(36.6)	(40.2)
Profit/(loss) per share (pence)							
Rights adjusted basic[1]	10	3.3	–	(9.0)	(0.5)	–	(5.6)
Rights adjusted diluted[1]	10	3.4	–	(9.0)	(0.5)	–	(5.6)
EBITDA		147.2	(8.5)	138.7	115.2	0.6	115.8
Depreciation, amortisation and impairment		(74.5)	(113.9)	(188.4)	(78.1)	(25.9)	(104.0)
Operating profit/(loss)		72.7	(122.4)	(49.7)	37.1	(25.3)	11.8

The restaurant group reported an comprehensive loss of **£68.9M in 2023**

This is due to several impairments (in M) :

- **PPE:** £46
- **Goodwill:** £7.5
- **Rights of use Assets of:** £60.4

Total exceptional items for the year 2022 totalled ca. £120M - explaining the loss for the year.

LBO Model

Summary Projected Financials						
Year	**2023A**	**2024P**	**2025P**	**2026P**	**2027P**	**2028P**
Revenue	$883.0	$971.3	$1,068.4	$1,175.3	$1,292.8	$1,422.1
% growth		*10.0%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Gross Profit	$120.2	$145.7	$170.9	$199.8	$245.6	$284.4
% margin	*13.6%*	*15.0%*	*16.0%*	*17.0%*	*19.0%*	*20.0%*
EBITDA	**$72.7**	**$87.4**	**$96.2**	**$105.8**	**$116.4**	**$128.0**
% margin	*8.2%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*	*9.0%*
% growth		*20.2%*	*10.0%*	*10.0%*	*10.0%*	*10.0%*
Net Income	$7.3	$10.8	$11.8	$6.0	$0.5	$0.0
% margin	*0.8%*	*1.1%*	*1.1%*	*0.5%*	*0.0%*	*0.0%*
% growth		*47.9%*	*9.3%*	*(49.4%)*	*(92.2%)*	*(93.2%)*
Balance Sheet	*2023PF*					
Cash	$27.0	$11.0	$30.8	$15.2	$35.4	$20.3
Debt	145.0	146.7	164.6	184.6	221.0	240.2
Net Debt	$118.0	$135.7	$133.8	$169.4	$185.6	$219.9
Cash Flow						
Change in NWC (Incl LTA/LTL)		($38.0)	($41.8)	($46.0)	($50.6)	($55.7)
Capital Expenditures		48.6	53.4	82.3	90.5	99.5

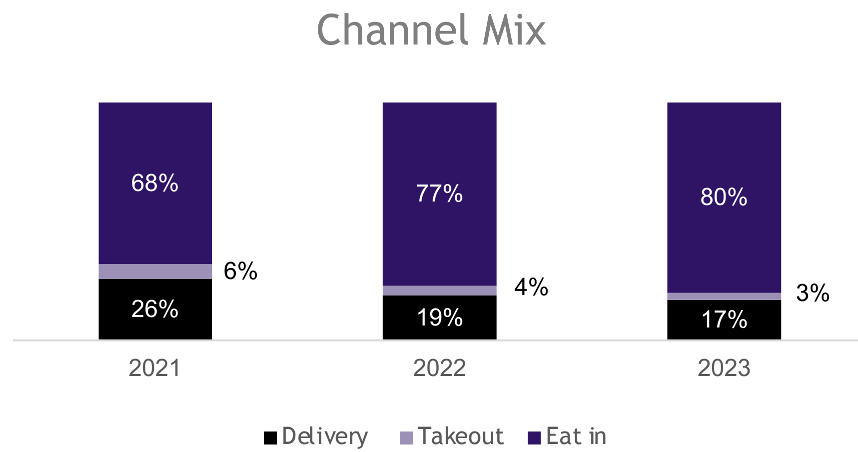
Entry Valuation	
Normalized Share Price	$0.48
Offer Price Per Share	$0.65
% Premium Paid	35%
Fully Diluted Share Count	765
Entry Equity Value	**$496**
Plus: Net Debt	118
Entry Enterprise Value	**$614**
LTM EBITDA	73
Implied Entry Multiple	**8.4x**

Cash Flow to Equity	MOIC	IRR
2024	1.3 x	31.5%
2025	1.5 x	21.1%
2026	1.6 x	16.0%
2027	1.7 x	14.3%
2028	1.8 x	13.0%

- Deal at 65p per share leads to **Entry Multiple of 8.4x**
- **Apollo pays a 35% Premium for TRG, which seems fairly high, given the financial state of the company.** However, this points to the strategic value of the investment and Apollo's confidence, that the restaurant sector and especially TRG's portfolio has the potential to grow significantly.

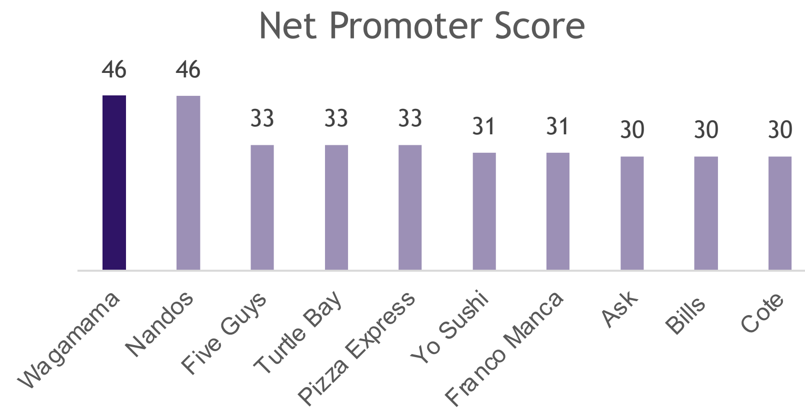
Short-term Consequences

- After an activist campaign by Oasis Management, TRG's largest shareholder at 17.8%, it has agreed to vote in favour of the deal at the current offer price of 65p per share
- This would imply a significant profit as they had bought some of the stock below 40p per share
- The "irrevocable" undertaking can cease to have effect if there is a competing offer of 71.5p per share, implying a premium of 45.8% compared to the current 32.5%
- It will be crucial to keep important key objectives in mind despite these changes

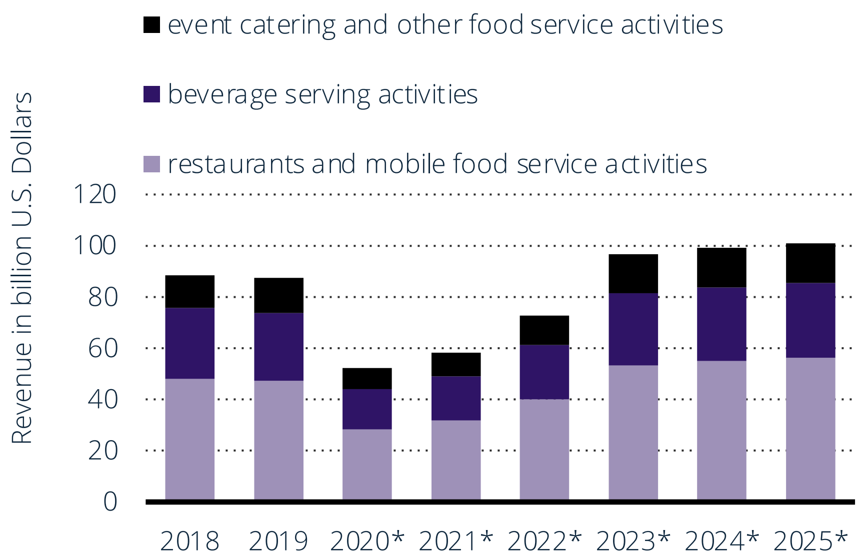


Short-term Consequences

- Wheel Topco, the company behind PizzaExpress, has received diligence information from TRG for the possibility of presenting such a competing offer. **Hence, there exists uncertainty around the closing of this deal**
- With an NPS of 46, Wagamama is significantly more popular than PizzaExpress at 30, representing a potential strategic opportunity for Wheel Topco - owned by Bain Capital Credit and Cyrus Capital Partners
- Amidst this investor pressure TRG has made senior management changes with Kirk Davis, TRG's CFO, stepping down as well as Ken Hanna, TRG's chair

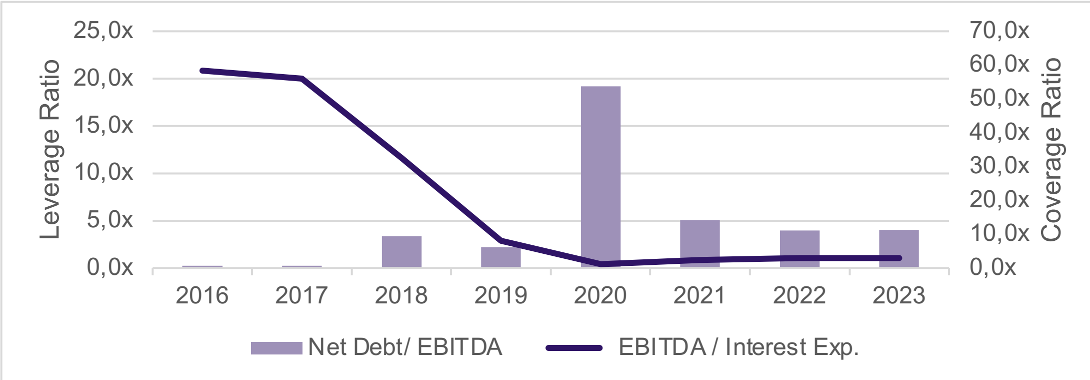


Long-term Potential



- **Deleveraging is one of Apollo's core strategies.** Hence, it wants to continue the current management's strategy to deleverage the company from its current Net Debt/ EBITDA ratio of 4.0x to 1.5x by the end of 2025
- Apollo also has previous experience in the leisure industry with its acquisition of Casual Dining LTD in 2014 and subsequent bolt-on acquisitions of Las Iguanas and La Tasca in 2015 to diversify its portfolio
- While currently appearing to be more of a turnaround case, after successful deleveraging and diversification of TRG's Portfolio, **an exit multiple expansion may be possible** considering Apollo paid 7.5x EBITDA which is significantly lower than the median of 11.5x for precedent transactions in the leisure industry in the past three years
- **Industry revenue has rebounded strongly after the pandemic with forecasts predicting moderate but normal growth until 2025**

Risks and Uncertainties



- **Apollo's previous attempt to scale Casual Dining LTD into a leading holding of restaurants was unsuccessful as Casual Dining LTD went into administration in 2020**

- **Compared to its peers TRG has a below average credit health score.** This is most notably seen in a deteriorating Coverage Ratio. This is explained by TRG's acquisition of Wagamama in 2018, which involved a 220m term loan with a floating interest rate
- Wagamama created 64% of TRG's EBITDA in FY22. **Hence, there is a strong dependence on a single brand.** Wagamama is priced towards the higher end of casual dining and potential further cost-inflation could squeeze profitability margins as passing costs on to consumers may not be possible in the current environment
- TRG's channel mix is still changing significantly with a decrease in delivery from 26% in 2021 to 17% in 2023. **There remains uncertainty about the future equilibrium mix, taking the pandemic's long-term secular changes into account**

Editor‘s Comments

Key takeaways	Benefits for both parties	Impact on the industry

Key takeaways

TRG’s sale of leisure businesses is not merely a financial transaction; it's a **strategic move to reinforce its commitment to its core business and streamline its operations**, which has broader implications for its future partnership with Apollo. This signals a proactive approach to achieving **long-term success and value creation.**

Oasis Management's support for the deal is noteworthy, marking a **significant shift in shareholder sentiment** and an **essential factor in its success.**

Benefits for both parties

For TRG, this deal signifies a path towards **deleveraging from its current high debt levels and strategic alignment with Apollo.** It promises to **unlock cost synergies**, ultimately boosting **profitability.**

Apollo stands to benefit from the **potential expansion and diversification** of TRG's portfolio, as well as the opportunity to navigate TRG through industry challenges, aiming for **long-term value creation.**

Impact on the industry

This deal comes in a time of **industry resurgence post-pandemic**, suggesting confidence in the **restaurant and casual dining sector's growth.**

The potential for a competing offer and interest from Wheel Topco adds uncertainty but also signifies that **TRG's assets are highly desirable.**