

Strategy of the Sfinks Polska Group for 2017– 2022

Warsaw, 3 April 2017

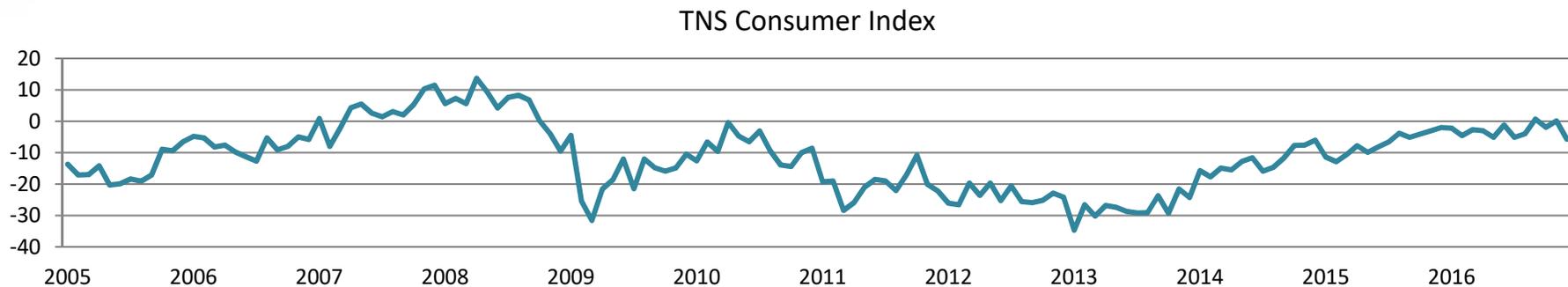




MARKET AND COMPETITION

THE ECONOMIC SITUATION IN POLAND

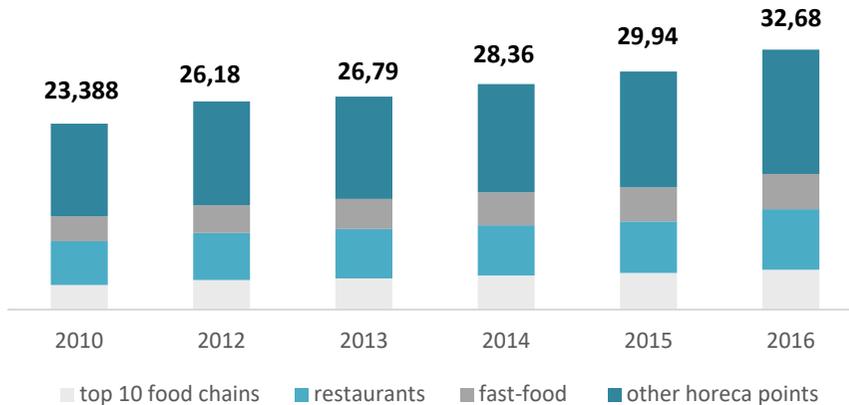
- ✓ The consumer sentiment indices indicate a long-term increase in Polish consumers' optimism since 2013 – the TNS Consumer Index showed positive values for the first time in 8 years (in September and November 2016)
- ✓ Since June 2016 the unemployment rate in Poland has been the lowest in 25 years – it decreased to the level of 8.3% in 2016, and the average salary increased by 4% in 2016
- ✓ The assessments of both the state of the Polish economy and the economic situation of households are becoming more and more positive
- ✓ According to Poles, the long-term perspective of the financial standing of households is stable



Source: TNS Polska

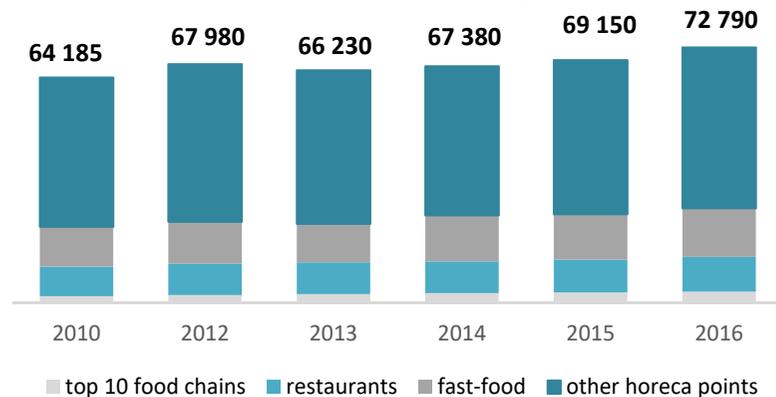
SITUATION IN THE RESTAURANT MARKET

The annual sales of the restaurants
(in PLN billion)



Source: GfK Polonia, Raport Rynek Gastronomiczny w Polsce

The number of restaurant premises



Source: GfK Polonia, Raport Rynek Gastronomiczny w Polsce

- ✓ A 9% increase in sales in HoReCa points (16' vs. 15')
- ✓ A 5% increase in the number of food establishments (16' vs. 15'), including:
 - ✓ an 8% y/y increase in the growth of the top 10 food chains, from 2,810 to 3,040 and
 - ✓ a 6% y/y increase in the number of restaurants, from 9,360 to 9,920
- ✓ The Poles are more willing to eat out
 - ✓ a significant increase in the share of people using restaurant services – from 46% to 54% in 2016 (values from before the 2009 crisis)
 - ✓ an increase in the average daily number of bills in outlets opened all year round, from 57 to approx. 64
 - ✓ a simultaneous increase in the bill value from approx. PLN 23 to PLN 25
- ✓ further upward trend predicted in the HoReCa market in the coming years

COMPETITIVE ENVIRONMENT

CHAINS OF RESTAURANTS WITH WAITING STAFF

- Lack of dynamic growth of the competing chains of restaurants over the last three years
- Sphinx restaurants are the biggest chain of restaurants with waiting staff, and Chłopskie Jadło comes third in this category

PIZZERIA CHAIN

- Lack of significant growth of the biggest pizzeria chains over the last two years

QUICK SERVICE RESTAURANTS (QSR)

- After cafés, the second fastest growing segment in the recent years, in spite of the clear change in the consumers' attitude towards this kind of restaurants
- The main barrier to growth will constitute in the weakening growth in the number of clients due to the changes in dietary habits.

FOREIGN COMPANIES MANAGING RESTAURANTS (entering / planning to enter the market)

- Lack of significant increase in the number of restaurants in the recent years
- Main barriers to the market entry in the coming years: time and costs necessary to achieve the economy of scale, purchasing power and customers' habits, high promotion costs due to a low knowledge of foreign restaurant brands other than fast food, growing cost pressure



THE SITUATION OF SFINKS POLSKA

STARTING POINT

- ✓ Market changes resulting in the need to:
 - modify the cost structure while providing services of an appropriate standard
 - manage the price accurately to ensure an adequate sales margin
 - increase the scale of operations
- ✓ The scale of operations, staff, know-how, knowledge and skills in the area of fund-raising as well as experience in the acquisition of new locations which allows effective adaptation to changes and acting as the entity which supports the development of Polish restaurant brands
- ✓ The strongest and the most recognisable Polish restaurant brand is Sphinx, while the most recognisable restaurant brand serving Polish cuisine is Chłopskie Jadło
- ✓ Exclusive master franchise / license contracts signed for the development of chains under the brands: Fabryka Pizzy, Meta, Meta Disco and Funky Jim
- ✓ Development of new IT solutions supporting the management and building customer relations



STRATEGIC OBJECTIVES

MISSION, VISION AND VALUES

MISSION

- We care about the customers. We build long-lasting relations, offer diverse services and professional service

VISION

- To strengthen our position as an expert in restaurant chain management. To manage, within the Sfinks Polska Group, chains totalling at least 400 restaurants. To achieve the leading position in the market of sales within the system of customer delivery.

VALUES

- **Creativity and originality** – we search for new ideas and concepts with passion, we create our own solutions.
- **Readiness for change** – we treat changes as constant development opportunities.
- **Diversity** – we respect different cultures, experiences, outlooks and views, which allows us to create products and solutions meeting the expectations of our customers.
- **Reliability** – we operate and work in a fair manner, responsibly and reliably, continuously building trust of our partners and customers.
- **Professional approach** – we raise the qualifications and improve the technologies with full commitment.

THE MAIN STRATEGIC OBJECTIVE

INCREASING SFINKS SA'S SHAREHOLDER VALUE

Achieving an increase in the value measured with the P/E ratio to reach the level of the market leaders in the HoReCa segment

Aiming at paying out a dividend in the period covered by the strategy

IMPLEMENTATION OF THE STRATEGIC OBJECTIVE

- ✓ Building a portfolio of complementary restaurant brands to cater to diverse needs of the customers
- ✓ Achieving high rates when it comes to the recognisability of the managed brands and to the quality assessment by the customers
- ✓ Achieving an increase in the scale of operations
- ✓ Achieving high operational and financial efficiency of actions among others by:
 - Implementing IT tools that allow to achieve full competitive advantage
 - Reaching the average ROI at the level of 25%
 - Reaching the debt/EBITDA ratio at the level of consolidated results at 3.5
 - Reaching and maintaining the EBITDA/revenues ratio at the level of 15%

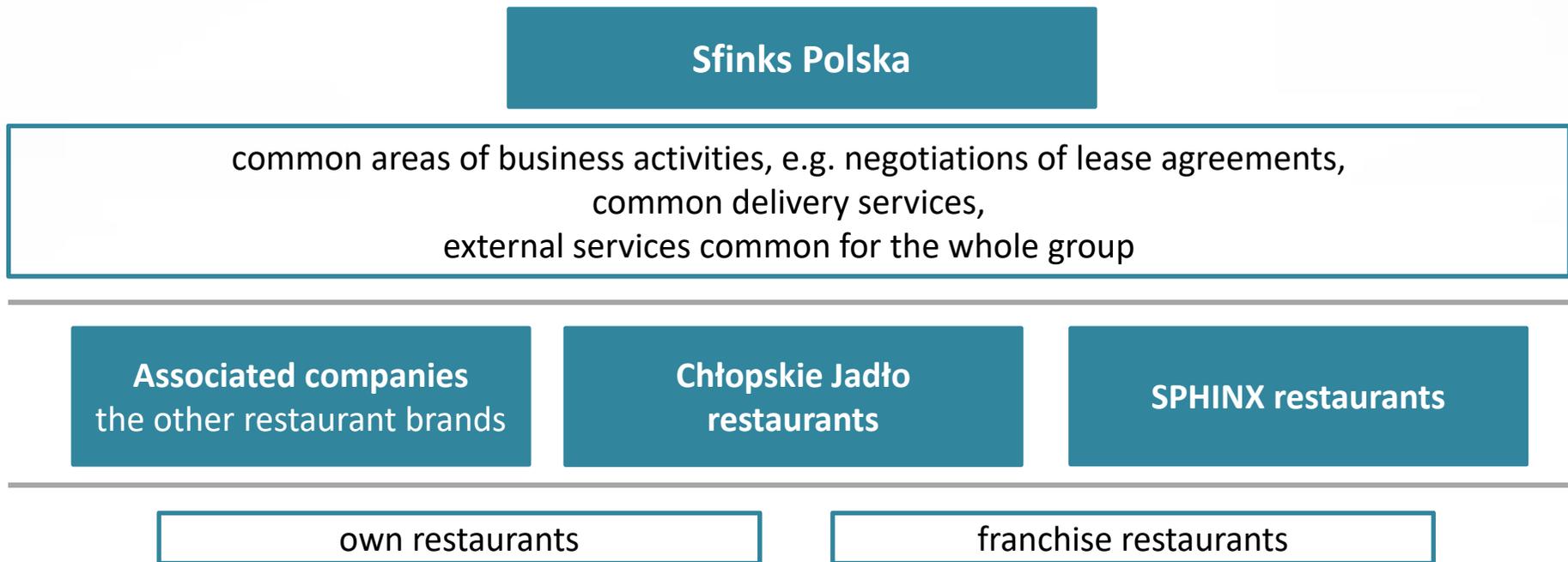


STRATEGY ASSUMPTIONS

ORGANISATION OF THE GROUP

- ✓ Most of all, Sfinks Polska provides organisational support to subsidiary/associated entities
- ✓ Chains developed within Sfinks or through subsidiaries or associated companies

Sfinks may hold less than 100% shares in subsidiaries / associated companies (provided that it still controls them)



DEVELOPMENT OF CHAINS WITHIN SFINKS AND ASSOCIATED COMPANIES

- ✓ Increasing the scale of operations through:
 - Organic development
 - Acquisition of existing restaurants and chains
 - Development of delivery sales
 - International development

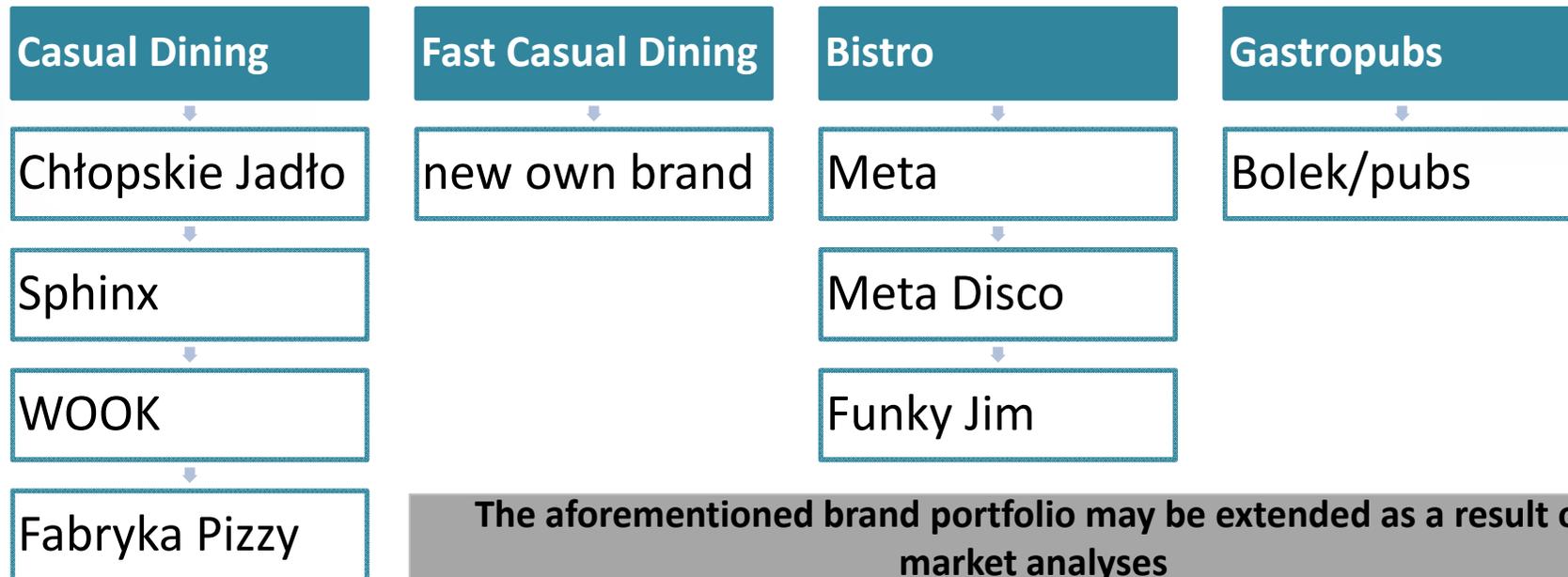
Vision:
managing chains
with a total number of
at least 400 restaurants

Development of a chain under **own** and **franchise** restaurant models

Target share of franchise restaurants
at the level of 70–90%
(depending on the chain)

BUILDING THE BRAND PORTFOLIO

- ✓ Complementary brands operating in various segments of the restaurant market
 - Diversification of restaurant services
 - Making better use of available restaurants
 - Catering to customers' different needs
 - Diversification of available prices
 - Growth possibility



CASUAL DINING – CHARACTERISTICS OF BRANDS

SPHINX[®]
RESTAURACJE



The strongest restaurant brand in Poland in the casual dining segment with waiter service

High customer recognition (top of mind – 16%, prompted awareness – 91%)

International cuisine with some oriental flavours

Restaurant area – 250–350 m²

DEVELOPMENT ASSUMPTIONS

- ✓ The intended development of the restaurant chain in line with the current standards
 - ✓ selected restaurants, smaller than 200 m², transformed into restaurants operating under another brand name
- ✓ Franchising of selected restaurants
- ✓ Sales dynamics exceeding the dynamics of the increase in the number of restaurants is expected due to delivery
- ✓ A chain with a uniform image with the potential of being more profitable, with a lower general administration costs/the chain's revenues ratio.

CASUAL DINING – CHARACTERISTICS OF BRANDS

Chłopskie Jadło[®]
Restauracje



The largest chain of restaurants in Poland offering Polish cuisine

Traditional Polish cuisine – the most popular among Poles

Area of the premises – 250–400 m² furnished in modern folk style

DEVELOPMENT ASSUMPTIONS

- ✓ Development of the Chłopskie Jadło chain to dozen of restaurants in the period under the Strategy, including
 - ✓ also in the franchise
- ✓ Sales increase in delivery offer
 - ✓ high potential for the sales of Polish cuisine through this distribution channel, confirmed by the sales results

CASUAL DINING – CHARACTERISTICS OF BRANDS



Chain managed by Shanghai Express

Serving Asian cuisine, the third most popular in Poland

Optimal surface area – 220–250 m²

DEVELOPMENT ASSUMPTIONS

- ✓ Development mainly in big cities
 - ✓ with the share of approximately 70% of franchise restaurants
- ✓ Introducing sushi dishes to menu
- ✓ Menu dishes, including sushi, are also offered in delivery option

CASUAL DINING – CHARACTERISTICS OF BRANDS



Restaurants offering Italian cuisine – the most popular foreign cuisine among Poles

The preferred surface area is 120-150 m²

DEVELOPMENT ASSUMPTIONS

- ✓ Developing the chain of pizza and pasta restaurants under the brand name Fabryka Pizzy, with less expenditure on the premises than in the case of Sphinx and Chłopskie Jadło restaurants

OBJECTIVE:

to become a leader on the Polish market in the Italian food segment, thanks to the development of Fabryka Pizzy chain and other brands

FAST CASUAL DINING

NEW OWN BRAND

Restaurants offering Middle East cuisine

The preferred surface area is 60–100 m²

DEVELOPMENT ASSUMPTIONS

- ✓ Restaurants to be created as a result of transforming some of the Sphinx restaurants (several transformation were already made in 2017)
- ✓ Further development based on the results achieved
- ✓ Shorter menu, with the most popular dishes and changing the way of service to improve profitability, while lowering the prices of dishes
- ✓ Opening restaurants with lower investment inputs than in the case of Sphinx restaurants – a significant potential to develop the chain on the basis of franchise agreements

BISTRO



Bistro bars with wide selection of alcoholic and non-alcoholic beverages, with limited gastronomic offer

The preferred surface area is 80–150 m² (for Meta brand) and 250–400 m² (for Meta Disco)

DEVELOPMENT ASSUMPTIONS

- ✓ Development of brands in Sfinks Polska subsidiary, with low investments inputs compared to waiter service restaurants



The combination of bistro bar and restaurant with a “short” offer on the menu

The surface area amounts to 150–200 m² for a bar and 250–300 m² for a bar&restaurant

DEVELOPMENT ASSUMPTIONS

- ✓ Development based on own and franchise restaurants
- ✓ Interesting and diversified offer of alcohol beverages prepared by bartenders with classic American cuisine dishes

GASTROPUB



PUB Bolek managed by Shanghai Express

The gastropub restaurants are characterised by a significant share in the sales of drinks

The surface area is 200–400 m²



DEVELOPMENT ASSUMPTIONS OF GASTROPUBS

- ✓ Working out a suitable gastronomic and entertainment offer for gastropubs based on the experience gained in Pub Bolek
- ✓ Development enabling achieving synergies in the purchase of beverages
- ✓ Creation of the gastropub chain through both organic growth and acquisitions

DELIVERY

- ✓ **Creation of own delivery brand** and provision of services for all brands of the group
- ✓ The potential for significant **competitive advantage in the delivery channel**, thanks to the recognition of brands belonging to Sfinks portfolio, rich product offer and planned network growth
- ✓ **Considering acquisitions and alliances** enabling creating the scale of operations, development of a wide group of customers and a wide offer etc.
- ✓ **Significant increase in sales in the delivery channel** in all chains

POTENTIAL SHARE OF SALES IN DELIVERY CHANNEL IN TOTAL SALES OF DIFFERENT BRANDS

					
15–30%	5–15%	20–30%	30–50%	5–10%	15–30%

DEVELOPING ABROAD

- ✓ International development **based on master franchise agreements**
- ✓ Sale of master franchise for Sphinx restaurants **to a minimum of three countries** in the period under the Strategy
- ✓ Tools enabling franchisee to **easily use the know-how and to build the appropriate scale of operations**

International development through master franchise is possible thanks to the intended implementation of the new comprehensive software for chain management



FINANCING OF THE STRATEGY

FINANCING SOURCES

Earned cash reserves

- Significant improvement of profitability indicators by:
 - increasing the scale of operations
 - improving the chain's profitability
 - limiting the share of administrative expenses in the income of the Group
- Limit the share of own funds exposure in investments financing through increased use of the fit out

Financial leverage (with a view to maintaining financial assumptions)

- Adjusting the amount of principal and interest instalments to be paid to the Strategy assumptions, focusing especially on the period of the first 2 years and on the possibility of the payment of at least 30% of the loan in the last instalment
- Using the external financing for the purpose of development of the companies, while keeping the assumed level of DEBT/EBITDA

Funds from franchisees

- Transforming the part of the Sphinx and Chtopskie Jadło restaurants chains so that they are managed under the franchise model
- Building a part of new chain under the franchise model

TRANSFORMING INTO FRANCHISE MODEL – MODEL ASSUMPTIONS

Sfinks:

- ✓ Transfers the selected restaurants to the franchisees in exchange for a compensation fee
- ✓ Reinvests the released funds

Franchisee:

- ✓ Pays compensation fee
- ✓ Covers the costs of a possible restoring of the restaurant
- ✓ Pays franchise fees
- ✓ Develops higher turnover and efficiency – the result of personal involvement in restaurant work
- ✓ Involves own funds (plus the loan)

FRANCHISE – model example Effect for Sfinks Polska

PLN million	Before transformation	After transformation
Annual sales of the restaurant	1.8	2.0
EBITDA %	20%	7%
Annual EBITDA	0.36	0.14
EBITDA NPV (9.5% rate, 10 years)	2.4	0.9
Any expenses for restoring	-0.5	
NPV from reinvestment (IRR 25%)		3.0
NPV in total	1.9	3.9

Transferring the restaurant for the compensation fee based on NPV EBITDA.
Reinvestment of released funds (IRR 25%)

FRANCHISE – model example

Effect for franchisee

PLN million

Financing of investment

Own contribution	0.6
Debt financing	1.8
In total	2.4

Compensation fee (Sfinks Polska)	1.9
Restoring the restaurant	0.5

Effect for franchisee

Annual EBITDA of the restaurant	0.45
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Debt service	0.20
Franchisee profit	0.25

Return from own contribution to the franchisee: IRR above 20%

ASSUMPTIONS OF CONCLUDED ACQUISITION AGREEMENTS

1. Division of the project into stages:
 - ✓ test stage
 - ✓ finalisation stage (possible purchase at a fixed price)

2. The risk borne by Sfinks Polska limited to investments in restaurants:
 - ✓ possibility to check concepts – development based on master franchise agreement / licence (exclusivity to Sfinks Polska)
 - ✓ limiting the investment risk by possibility to withdraw from the agreement

3. Completion of repurchase transaction deferred in time and partly covered with EBITDA earned by restaurants

4. High IRR of initial investment

5. Utilisation of economies of scale of the Group since the signing of the agreement

SUMMARY

- ✓ Building a complementary portfolio of nationwide restaurant brands in different market segments
- ✓ Developing chain through both organic growth and acquisitions
- ✓ Building a chain of at least 400 restaurants within the group in the future
- ✓ Enhancing the role of franchise model – to the level of 70–90%
- ✓ Developing delivery services under own brand
- ✓ Developing abroad in at least three countries based on master franchise
- ✓ Financing from one's own funds, financial leverage and franchisees' funds

CONTACT

Kinga Szkutnik

Practum Consulting

Tel. 609 884 480

E-mail: kinga.szkutnik@practum.pl

Anna Omelańska

Practum Consulting

Tel. 666 366 188

E-mail: anna.omelanska@practum.pl

Joanna Milewska

Practum Consulting

Tel. 605 866 166

E-mail: joanna.milewska@practum.pl