



7 Mar 2017

RESTAURANT GROUP (RTN): 327p FY Numbers – Analysts’ Meeting:

Group outlines recovery strategy. Starting position sub-optimal but understanding the issues is a credible Step One...

Year to end-Dec	PBT (£m)	EPS (p)	PER (x)	DPS (p)	Yield (%)
2015 (A)	86.8	33.8	9.2	17.4	5.6
2016 (E)	74.0	28.5	10.9	17.4	2.6
2017 (E)	55.0	21.5	14.5	8.0	2.6

Source: Company & Broker Estimates. Forecasts under review

Full year results – Analysts’ Results Meeting:

Following the release of its results earlier this morning, the Restaurant Group hosted a meeting for analysts and our comments are set out below:

The evolving problem:

- Group says Frankie & Bennies has been losing share since 2013. It had put prices up but lost customers. Cover volumes were well down. Menu development was untested & the operation was losing customers
- Chiquitos was losing customers & its strategic positioning was unclear
- Coast to Coast was clearly a disaster. Despite its recent launch, it was seeing ‘extreme declines in LfL sales.’
- Pubs & concessions were (and are) performing well.

The current situation & future development:

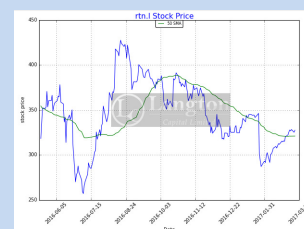
- The group accepts that it needs to cut prices & market more. This will cost money. Costs will be immediate but benefits could be H2 or FY18.
- The mechanics are that lower prices, even if they result in higher footfall, will put a drag on LfL sales.
- RTN has shut 41 units but has only disposed of 4. This has resulted in additional provisions. Profits are sheltered but closed units cost money. Both rent and, ultimately, rates & insurance will be payable.
- RTN is facing industry-wide cost headwinds in 2017. It believes these will add between £16m and £19m to costs.

Find us at:



Recent News Here:

- [Today's email](#)
- [Recent emails](#)
- [A day in the life...](#)
- [Who we are, what we do...](#)
- [Upcoming news-flow](#)
- [Recent company updates](#)
- [Thematic pieces](#)
- [LinkedIn profile](#)



Market Cap: £658m
12m range 256p – 543p

- When you're in a hole, stop digging. So far, so good. Broadly speaking. The dividend, which we believe should have been cut, has been maintained.
- This will 'remain under review'. That's practical and understandable but may not be what shareholders wish to hear.

The likelihood of success:

- Whether RTN's initiatives succeed or fail is unclear at this point. This is inevitable.
- Hence, whilst understanding & accepting problems is (usually) necessary for recovery, it is not sufficient. Execution will be key.
- The group accepts that its competitors will not stand still. The marketing budget & new openings will change in response to events 'on the ground' and the dividend may yet be cut.
- On a brighter note, RTN's market cap is only around £700m and it has (or had in FY16) some £710.7m. There are plenty of bangs for your buck.
- That said, margins will fall, LfLs will fall in the short & medium term and, whilst RTN will be pulling hard on one end of the rope, its competitors will be pulling on the other.
- We look below at internal & external factors. Some problems can be addressed & others are without the gift of this (or any) company.

Self-help (soluble problems):

- Don't gouge customers, become lazy, entitled and fat. RTN gets a tick here. At least the verbiage is encouraging. Execution comes later. Group self-admittedly must 'restore its value credentials'.
- Ask customers what they want. As above.
- Serve them better. Be relevant, give them a reason to return. As above.
- Don't run your company from a PC terminal. Get into the trenches. Tick.
- Don't sit back with tired brands. Ask 'if it didn't exist, is the UK crying out for it?' Judgement here pending.
- Rebrand Coast to Coast as a better-burger operator. Crowded space with nimble (and some well-funded) operators but less crowded on leisure parks. This will be 'aspirational but affordable'. That's the Holy Grail.
- Push where there is give. The pub estate will. More concessions will be sought. This takes time, however, and will be slow to move the dial.

External issues (without RTN's gift):

- Social & demographic trends are positive. Or they have been.
- Consumer wage squeeze is negative. The danger may be in chasing the customer down the value chain.
- Cost pressures are intense. This is an industry-wide problem. But RTN will find itself under natural pressure to put prices up when it is actually committed to putting them down.
- Staffing issues will come to the fore if EU chefs are expelled. Ditto.

Recent events:

Aug 2014	Andrew Page retires from role at CEO
Aug 2014	Danny Breithaupt appointed CEO
Jan 2016	Profit warning
March 2016	Profit warning
April 2016	Profit warning
April 2016	Stephen Critoph steps down as CFO
May 2016	Debbie Hewitt appointed chairman
May 2016	Alan Jackson retires as chairman
June 2016	Barry Nightingale appointed CFO
Aug 2016	Danny Breithaupt resigns as CEO
Aug 2016	Andy McCue appointed CEO
Jan 2017	Profit warning
Mar 2017	FY16 results, strategy update, dividend held

Langton Comment: Best advice may be 'don't start here'.

But that's not an option. RTN needs to press the marketing button, cut capex, cut prices & generally sharpen up. It needs to compete with nimble competitors and some of these are true throat-cutters. It must own the social media space & make itself relevant.

Easy to say but less easy to do.

However, some actions are in train. Frankie & Benny's will introduce a new menu this month with Chiquitos later this month. Coast to Coast is on a yellow card. Perhaps it should have got a straight red but, with 40-ish closed sites already sitting on the books, that may not have been an option. The consultants are in, though whether this is a positive or negative development is open to debate.

RTN's shares have responded positively to today's results.

Such share price strength will, for some time, be a mark of faith as proof of recovery will be some time in coming.

However, we acknowledge that share prices move ahead of events, and note positively that RTN has substantial sales, a real leisure park, airport & retail park presence & has recognisable brands. It can and will grow its pubs business & its balance sheet is un-stretched. Forecasts are under review. Please drop us a line if you would like to discuss further.

Contact – Mark Brumby - +44(0)20 7702 3389

mark.brumby@langtoncapital.co.uk

This message (and files contained herein) may contain confidential or proprietary information and is intended solely for the use of the individual or organisation to whom it is addressed. If you are not the addressee you should not disseminate, distribute or copy this email or any part thereof. Further, please notify the author immediately by telephone or by replying to this email and then delete all copies of the correspondence from your system. We apologise for any inconvenience that this may have caused. This information is a financial promotion for the purpose of the European Markets in Financial Instruments Directive (MiFID) and FSA's Rules. It has not been prepared in accordance with the legal requirements designed to promote the independence or objectivity of investment research. This document is not based upon detailed analysis by Langton Capital of any market, issuer or security named herein and does not constitute formal research or a research recommendation, either expressly or otherwise. It is not investment advice and does not take into account the investment objectives and policies, financial position or portfolio composition of any recipient. This document should not be relied upon as authoritative or taken in substitution for the exercise of your own commercial judgment. Whilst Langton Capital has taken steps to control the spread of viruses on its systems, it cannot guarantee that this email and any files transmitted with it are virus free. No liability is accepted for any errors, omissions, interceptions, corrupted email, lost communications or late delivery arising as a result of receiving this message via the Internet or for any virus that may be contained in it. Recipients should review independently and / or obtain independent professional advice and draw their conclusions therefrom should decide to undertake transactions with third parties. Langton Capital or its employees may have positions in securities mentioned herein. We reserve the right to monitor email messages passing through our network. Langton Capital Limited is authorised and regulated by the Financial Conduct Authority. Langton Capital Limited is registered in England number 07112949.

Mark.brumby@langtoncapital.co.uk

Suite 415, No1 Alie Street, London, E1 8DE
020 7702 3389