Strength	<u>**Strength**</u> **Target is the market leader with strong financial forecasts:** Restaurant C is the leading provider of premium Fusion food in the region, with strong forecast revenue growth in the mid-to-high single digits and expanding margins. Additionally, its acquisition by Restaurant Group is set to accelerate growth via cross-selling / revenue synergies, as well as margin expansion through cost synergies and savings. Collectively, these should help drive top line performance post-acquisition. **Model Answer Explanation: The target's market leading position in the premium segment should allow it to capture a significant portion of the growth that is predicted to come, per the sector report extract and new Restaurant C information from Restaurant Group's CEO. The business is also forecast to grow strongly and expand its margins with scale.** **Additionally, Restaurant Group has identified material opportunities to drive incremental growth by cross-selling Restaurant Group's offering to create a superior product. Additionally, there have been additional cost synergies / savings identified, which should all collectively contribute to positive financial performance.**
Strength	<u>**Strength**</u> **Credit metrics are acceptable and improving over time post-acquisition:** Financial analysis of the proposed deal shows MergeCo meets both the Net Leverage Ratio test (<5x) and the Interest Coverage Ratio test (>2x). Additionally, the ratios improve over time as MergeCo continues to grow post-acquisition and as the company pays off its debt (which in turn also lowers interest expense). **Model Answer Explanation: The two key credit metrics tested in the Deal Financial Analysis Excel file shows that the transaction passes both the Net Leverage Ratio test and Interest Coverage Ratio test. Additionally, the metrics improve over time as the company pays off its debt (de-levers). Lastly, the business post-acquisition appears to be in great shape with a strong revenue growth profile (9.3% 2021, 6.5% 2022) and expanding margins.**

Strength	**Strength** **Market is poised for growth:** The quick-service restaurant (QSR) space, and premium QSR in particular, is a fast-growing sector globally underpinned by long-term drivers such as a sustained preference change towards high quality ingredients and culinary experiences over price. This should drive accelerating demand in the future years to help drive company financial performance. **Model Answer Explanation: The sector report extract identified a number of highly attractive strengths of, and opportunities for, Restaurant Group as it expands into Asia via its acquisition of Restaurant C. In particular, as the market leader regionally, it is best positioned to capture incremental market growth (and demand).**
Strength	**Strength** **Developed market operations:** Restaurant C's five existing countries of operations within Asia are all classified as highly developed, with Restaurant Group's home region of Europe also showing healthy economic indicators. With these developed economies at the forefront of the push towards premium offerings, this should bode well for the merged company's future financial prospects. **Model Answer Explanation: The acquirer, Restaurant Group, has its existing operations based in Europe. The region report extract shows Europe's economy is well positioned to grow over the next year and its highly developed nature dovetails well with the fact that high income countries are at the forefront of the trend towards premium QSRs. Furthermore, Restaurant C currently operates in five countries within Asia, which were also classified as highly developed in the region report extract provided.**

Risk	**Risk** **Achievability of synergies and impact on credit metrics:** There is a possibility that the merged entity does not achieve the revenue and cost synergies identified as part of Restaurant Group's due diligence. If this occurs, the credit metrics (Net Leverage Ratio and Interest Coverage Ratio) will be adversely impacted. **Model Answer Explanation: Given the quantum of the identified revenue and cost synergies, they play a significant role in MergeCo meeting both credit metric tests. As such, there is a risk that underperformance in this regard could affect the credit quality of the proposed loan, and potentially jeopardize future repayment.** **Mitigant(s)** **Strong fundamentals and the existence of credit metric buffers:** Both businesses are set to grow on a standalone basis, as well as expand their margins, which are both healthy financial indicators. Additionally, in the first full year after the acquisition (2021), both credit metrics are forecast to have a material buffer from the threshold levels.

Risk	<u>**Risk**</u> **Target CEO churn:** Restaurant C's CEO is unlikely to remain after the acquisition, which may impact the target's ability to perform post-acquisition. **Model Answer Explanation: This risk was one of the main qualitative risks identified from the new Restaurant C information from Restaurant Group's CEO. Without an experienced Asian leader as Restaurant Group is entering this new region, it presents a significant qualitative risk as the leader will be key in driving Restaurant Group's Asian strategy going forward.** <u>**Mitigant(s)**</u> **Shortlisted candidates:** Restaurant Group has shortlisted three candidates (one internal, two external) to fill the Asian CEO post-deal, all of whom are highly experienced operators.
Risk	<u>**Risk**</u> **Future expansion risk:** Expansion into less developed nations by Restaurant C may come with additional country-specific risks, which are not currently present in their operations within 5 well-developed Asian countries. This may impact their ability to perform in these markets post-acquisition. **Model Answer Explanation: This risk was also flagged in the new Restaurant C information from Restaurant Group's CEO and alluded to the in the Region report extract as well. As with any expansion plan, we need to consider the incremental risk associated with it. In particular, the identified countries of Indonesia and Taiwan are slightly less developed than Restaurant C's existing five countries of operations, and therefore represent a material risk to the expansion and therefore to future financial performance.** <u>**Mitigant(s)**</u> **Countries #6 and #7 are low risk:** Restaurant Group has engaged top-tier risk consultants, who found the country risk associated with an expansion into countries #6 (Indonesia) and #7 (Taiwan) is low.