

**Wagamama Finance plc (Wagamama)** is currently issuing a £150 m senior secured bond on par. It adopts a 5NC2 structure, with a semi-annual coupon of 7.875% p.a. | Credit Ratings: Moody's "B2" S&P "B" | Recommendation: BUY

wagamama

## Company Overview

- Founded in 1991, Wagamama is the only player of scale offering pan-Asian cuisine in the branded restaurant /casual dining industry
- As of Dec 2014, it operated 112 sites in the UK, 4 sites in the US, as well as having 30 sites through a franchise model internationally across 14 other countries (Moody's)
- Almost all of its revenue is derived from its directly owned restaurants in the UK (~96%)
- Plans to open 40 restaurants over the next 3 years
- Its parent holding co. is currently owned by Duke Street GP (43%), Hutton Collins Partners (28%) & Management (7%)

## Transaction Overview

- Uses of the proceeds: £140.9 m for repaying existing debt, of which £85.2 m for Senior Facilities provided by Lloyds Bank & £55.7 m for Mezzanine Debt by Hutton Collins
- Super Senior Revolving Credit Facility (RCF) of £15m (committed) is entered with a bank consortium, with a potential to increase £7.5m (uncommitted)

## Market Overview

- Total UK restaurants market size in 2013: £47.3B, of which £4.3B represents the branded restaurants segment. Allegra Foodservice expected the segment to grow by 6.0% p.a. during 2013 - 2017
- Branded restaurants +5.1% p.a. (2011-2013), vs fast food restaurants +4.8%, pubs +1.3%, independent restaurants -2.3%
- Small chains (<25 outlets) +489 outlets in the last 3 yrs from 2015, vs large chains (>100 outlets e.g. Wagamama) +297 outlets (Savills)
- Large chains sub-segment dominated by 7 major groups (e.g. Nandos, Pizza Express, Prezzo, Ask Italian, Frankie & Benny's, Pizza Hut, Wagamama ) and they account for 44% of all casual dining restaurants (Savills)

## Consolidated Financials

£m	FY14 (Actual)	FY15 (Forecast)	FY16 (Forecast)	FY17 (Forecast)	FY18 (Forecast)	FY19 (Forecast)	FY20 (Forecast)
Revenue	164.0	173.8	184.3	195.3	207.0	219.5	232.6
EBITDA	22.2	25.6	27.2	28.8	30.5	32.4	34.3
FCF	-6.7	4.6	3.5	5.8	7.3	8.9	11.0
FCC Ratio <sup>1</sup>	n.a.	1.6   2.0	2.3   2.0	2.4   2.0	2.6   2.0	2.7   2.0	0.4   2.0
NSSL Ratio <sup>2</sup>	n.a.	5.1   4.5	4.7   4.5	4.2   4.25	3.7   4.0	3.2   4.0	4.8   4.0
Leverage Ratio <sup>3</sup>	n.a.	6.1	5.8	5.4	5.1	4.8	2.3

1: EBITDA/ (Interest + Debt Repayment + other applicable fixed charge) | covenant floor

2: (Senior Secured Debt – Cash & Eqv)/ EBITDA | covenant ceiling

3: (Operating Lease + Total Debt)/ EBITDA

## Investment Return & Risk Analysis

- YTM exceeds the fund target of 6% - 7% p.a.
- Target is met even when the issuer exercised its call option before maturity

Scenario	40% Redemption Aug 16	100% Redemption Aug 16	100% Redemption Aug 17	100% Redemption Aug 18	Maturity Feb 20
Yield* (%)	8.98%	8.64%	9.49%	8.52%	8.01%

\*Calculated based on bond issuance date 28th January 2015 to 1st of Feb or 1st of Aug every year after

- Re-investment risk → Moody's suggested that credit ratings upgrade would be possible if the Leverage Ratio stays below 5.0x, possible exit in the secondary market at a higher price than par
- Geographical concentration risk → Only sizable player of Asian cuisine in the large chains sub-segment
- Only 52% Principal recovered at maturity → BofA Euro High Yield Index OAS has reached the 3 years low
- RCF has priority over senior debt on collateral protection → Unlikely to drawdown the revolving credit line until maturity, based on forecast