

The Restaurant Group plc

Final results for the 53 weeks ended 1st January 2017

Strategic review complete
Trading in line with expectations

Strategic highlights

We have completed the strategic reviews of our brands. While there is much work to do, we are confident in our plan to turnaround the business which has four key elements:

- Re-establish the competitiveness of our Leisure brands.
- Serve our customers better and more efficiently.
- Grow our Pubs and Concessions businesses.
- Build a leaner, faster and more focused organisation.

Price investment and proposition changes are underway, roll out of Leisure sites has been slowed down and £10m of cost savings have been identified for delivery in 2019.

Financial highlights

- Challenging trading year across the Leisure brands; good performance from Pubs and Concessions.
- Total revenue up 3.7% to £710.7m.
- Like-for-like sales down 3.9%.
- Adjusted profit before tax* down 11.2% to £77.1m.
- Exceptional charge of £116.7m (H1 2016: £59.1m, H2 2016: £57.6m) primarily reflecting site closures, asset value impairments and provision for onerous leases.
- Statutory loss before tax of £39.5m (2015: statutory profit before tax £86.8m).
- Adjusted EBITDA* down 5.5% at £121.0m, adjusted operating profit* down 11.0% to £79.2m.
- Adjusted EPS* down 11.2% to 30.0p per share.
- Statutory loss per share of -20.1p (2015: statutory earnings per share 34.5p per share).
- Strong free cash flow of £78.9m.
- Full year dividend maintained at 17.4p per share.
- Current trading in line with our expectations.

* Pre-exceptional charge

Andy McCue, Chief Executive Officer, commented:

“Having completed the strategic reviews of our brands, we are now pursuing a new and focused plan to turnaround and grow the business. TRG has significant scale advantages, a diverse portfolio of brands with strong brand awareness and is highly cash generative. However, there is much to change in our Leisure businesses to provide customers with better value and an improved experience while, at the same time, ensuring we continue to grow our Pubs and Concessions businesses. It will take time to effect the scale of change required and for customers to respond but I'm proud of how our colleagues are rising to the challenge.”

Enquiries:**The Restaurant Group**

020 3117 5001

Andy McCue, Chief Executive Officer
Barry Nightingale, Chief Financial Officer

Instinctif Partners

020 7457 2020

Matthew Smallwood
Guy Scarborough

Notes:

1. The Restaurant Group plc operates 488 restaurants and pub restaurants throughout the UK. Its principal trading brands are Frankie & Benny's, Chiquito, Coast to Coast and Brunning & Price. It also operates a multi-brand Concessions business which trades principally in UK airports.
2. Statements made in this announcement that look forward in time or that express management's beliefs, expectations or estimates regarding future occurrences are "forward-looking statements" within the meaning of the United States federal securities laws. These forward-looking statements reflect the Group's current expectations concerning future events and actual results may differ materially from current expectations or historical results.
3. Adjusted measures (*): This report primarily focuses on adjusted measures, denoted by an asterisk. Adjusted measures, unless otherwise stated (e.g. free cash flow) are defined as the equivalent statutory measure before exceptional charges. Adjusted measures are reconciled to the statutory measures on the income statement.
4. Like-for-like sales: This measure provides an indicator of the underlying performance of our existing restaurants. Group like-for-like is calculated by comparing the performance of all mature sites in the current period vs. the comparable period in the prior year.

Chairman's statement

2016 was a challenging year for the Group with a consistently disappointing trading performance exposing fundamental issues across our three main Leisure brands, although we continued to benefit from a strong performance from Pubs and Concessions. Total revenues were up 3.7% to £710.7m with like-for-like sales for the year down 3.9%. Adjusted profit before tax* was down 11.2% to £77.1m and Adjusted EPS* was down 11.2% to 30.0p per share. Statutory loss before tax was £39.5m and the statutory loss per share was 20.1p.

We have taken decisive action by implementing a strategy review across all of our leisure brands. It is clear that we had added an unsustainable premium to pricing in our Leisure businesses and that changes to our menus had been insufficiently tested with our customers. Complex operational processes have added costs and the business operating model had become inefficient.

We have a rigorous plan in place to address these issues. 2017 will be a transitional year during which we will implement measures to restore profitability, growth and ultimately transform the business.

There has been substantial change to the Board and to the Executive leadership team to support this programme. I became Chairman in May 2016 and the Board was refreshed with the appointment of two new non-executive Directors, Mike Tye and Graham Clemett in April and June respectively.

Andy McCue joined us as Chief Executive of the business in September. Andy is the ex CEO of Paddy Power plc and brings substantial experience of managing a turnaround in a multi-site consumer business through a rigorous approach to customer insight, the development of the customer proposition and colleague engagement. Barry Nightingale joined us as Chief Finance Officer in June 2016. He has a broad commercial background and turnaround experience allowing him to make an important contribution to this critical phase in the Company's development.

As I highlighted in our Interim Report in August, the Board has taken measures to ensure that we have a more rigorous and disciplined approach to the allocation of capital. We have slowed down our site roll out plans until we can be sure that the Group's brand and location strategy is sufficiently robust. We continue to take action to close underperforming sites where we do not believe they are capable of generating adequate returns.

In spite of our trading challenges, the business continues to generate strong free cash flow, with £78.9m in 2016 and as a sign of confidence in our plan the Board is proposing the payment of a final dividend of 10.6 pence per share to be paid on 7 July 2017 to all shareholders on the register on 16 June 2017 (ex-dividend date 15 June 2017). The total dividend for the year is, therefore, maintained at 17.4 pence per share. During this transitional period the Board will assess the dividend based on progress against the plan. The Board will revisit the previous policy of two times EPS cover at the appropriate time.

During 2017, the Group will face well documented external cost pressures from the increases in the National Living Wage, the National Minimum Wage, the Apprenticeship Levy, the revaluation of business rates, higher energy taxes and increased purchasing costs due to the combined effects of a devalued pound and commodity inflation. We expect the trading performance of the business in the first half of 2017 to remain difficult but anticipate momentum improving towards the end of this transitional year as our initiatives start to take effect.

TRG employs over 15,000 people and they are the life blood of our business. The Board would like to record our thanks and appreciation for their hard work, commitment and dedication.

The Board is confident that we have a robust plan and the team and resources in place to deliver.

Debbie Hewitt MBE
Chairman
8 March 2017

Business review

Strategy update

Despite the poor trading performance of the Group in 2016, TRG remains a highly cash generative business which benefits from significant scale and a diversified portfolio. While the Group's performance has suffered due to weakness in our Leisure businesses, it is clear that these performance issues can be addressed and we are confident in our turnaround plans.

Andy McCue joined TRG as CEO on 19th September 2016. In recent months we have made good progress in strengthening the team, completing the strategic review of our brands and conducting a comprehensive review of our cost base.

We have a clear plan to turnaround the business which has four key elements:

1. Re-establish competitiveness of our Leisure brands.
2. Serve our customers better and more efficiently.
3. Grow our Pubs and Concessions businesses.
4. Build a leaner, faster and more focused organisation.

We expect 2017 to be a transitional year. We plan to address the competitiveness of our Leisure businesses head-on, requiring investment in both price and proposition, as well as increased marketing spend to re-engage lapsed customers and attract new ones. We are focused on a volume-led turnaround which will take time as customers respond to the improvements we are making. Where initiatives prove successful, we will invest behind them in order to accelerate our progress.

1. Re-establish competitiveness of our Leisure brands

Frankie & Benny's

We identified last year the key root causes of our decline: loss of value credentials, poor menu changes and lack of operational discipline which impacted the consistency of our offering.

Initial trials of alternative value options indicate that, while a step in the right direction, simply correcting for past mistakes will be insufficient to recover our market share losses endured since 2013. Since then we have traded price over volume while competitors have improved their offer and consequently, we have lost customers who now need to be persuaded to revisit us and regain trust in an improved proposition.

Our initial responses include:

- re-focusing our efforts on the core customer base of 'families' and those 'out & about';
- developing an improved customer proposition, more closely aligned to the requirements and preferences of these groups;
- launching a new weekday value menu at £9.95, the lowest price for five years, to be competitive during non-peak times, whilst improving the choice and quality of offering;
- reinstating some previously popular dishes;
- re-engineering and testing a new core menu in readiness for launch this month, which will offer our customers substantially better value. This menu is also easier for the guest to navigate and less complex in its delivery, enabling us to improve our consistency; and
- embarking on targeted promotional campaigns, over specific periods, to ensure we are competitive and delivering a compelling offer to the most value-conscious customer segments.

Our improvement focus will be on restoring our value credentials, deepening the distinctiveness of our offer and investing in marketing to attract back lapsed customers.

Chiquito

Chiquito's brand positioning in the market is relatively weak. Compared to competitors, a narrow reach of potential customers are attracted to the brand. Customer research indicates Mexican cuisine and particularly its association with spice, can alienate some potential customers. For the customers that do visit us, their frequency of visit is the lowest of our competitor set, due in part to our value positioning as well as a relatively high proportion of visits being oriented around infrequent, special occasions such as celebrations.

Separately Chiquito has, more recently, substantially underperformed the market. This decline has been driven by poor menu changes, a lack of value competitiveness, speed of service issues, as well as a softer market due to weaker cinema attendances.

Taking learnings from recent menu trials, we have made improvements to the offer, having introduced a weekday value menu offering two courses for £10.95 and three courses for £14.95, with encouraging early participation rates. We have also tested a variety of promotional mechanics as we build an understanding of the response rates by campaign type, customer segment and versus competitor activity.

We intend to broaden the appeal of the brand, making it accessible to a wider customer base. This will involve:

- a widened cuisine extending to, for example, Texan and Californian influences;
- providing customers with the option for greater customisation, including of fillings and spice levels;
- better value, delivered via an improved price architecture;
- a menu that is easier to understand and navigate; and
- reducing unnecessary complexity of dishes, facilitating quicker service and improved consistency.

We will roll out the changes in a sample of restaurants to learn and optimise before implementing more widely. Later in the year, once the changes are widespread, we will invest in marketing behind the rejuvenated proposition.

Coast to Coast

Launched in 2011, Coast to Coast sites showed promising early trading, leading to an acceleration in the opening programme, peaking at 23 restaurants. However, since 2014 the business has suffered extreme declines in like-for-like sales.

The brand positioning has become progressively more premium, which has been at odds with the typical customer missions when visiting out-of-town locations. As with our other Leisure brands, poor price and menu decisions have been made, although the extent of the changes within Coast to Coast have been more pronounced, with a corresponding impact on performance.

We do, however, see an opportunity to re-position the brand towards a focus on steaks and burgers, both of which are growing market segments and yet remain relatively unpenetrated in our current locations. Our offer will be substantially more affordable, with a compelling range and quality ingredients. Inevitably this will result in lower gross margins, which we believe will be offset by increased volume of covers. The more focused offering will also facilitate a stronger brand identity and to maximise its potential, we expect to invest in marketing alongside some capital expenditure to make clear the proposition has changed.

We are developing a plan for how this new proposition will be delivered. In the meantime roll out of further Coast to Coast sites is suspended until we have clear evidence this new proposition is working.

2. Serve our customers better and more efficiently

The business lacks rigorous, streamlined processes and systems that would enable us to deliver the right service standards, with the optimal level of resources, on a consistent basis.

We see opportunities to improve our sales forecasting accuracy, to optimise our labour modelling and to deploy resources more accurately which, in turn, will increase our sales by ensuring the right service level is available at the right times, while removing costs from those parts of the day where we operate sub-optimally.

We have plans to reduce non-value adding or customer facing activities throughout the business, some of which are dependent on process, systems and supplier changes.

We are also focused on equipping our servers with the training and tools, tailored to each brand, to showcase our proposition fully, generating higher sales through cross-sell and up-sell.

3. Grow our Pubs and Concessions businesses

Our Pubs business is well positioned with a distinctive offering and defensible locations. Strong operational execution, along with locally sourced produce, has attracted a loyal and increasing customer base who rate the offering highly, relative to competitors. We see opportunities to further increase sales in existing sites by optimising our menus and pricing and investing in marketing.

The Pubs deliver consistently good and growing returns, with a relatively modest refurbishment capital requirement compared to our other brands. Our Pubs are concentrated in the North West, North Wales and the Home Counties, presenting opportunities to organically extend our footprint. Over the medium-term we expect to increase the rate of openings as we build and convert a bigger pipeline of prospective sites.

Our Concessions business operates five different food and beverage formats, across 37 brands, within 12 UK airports. The business has grown sales and profits consistently driven by new space from contract wins, strong growth in passengers and continued improvement in sales per head and conversion of passengers.

With our unique capabilities enabling us to consistently deliver high operational standards at high volume and peak-load intensity, along with our format development and partnering skills, we are positioned well for further contract wins in the future.

4. Build a leaner, faster, more focused organisation

The business has excess cost driven by complexity and inefficiency. We have undergone a detailed review of the cost base and have identified opportunities to reduce costs by approximately £10m on an annual run-rate basis, delivered in 2019. Implementation has begun and the savings we capture in 2017 and 2018 will be re-invested in price, product and marketing to grow the business. The one-off cost to achieve these efficiencies is expected to be c. £6m.

These efficiencies will include streamlining our processes, reducing overheads, extracting further purchasing benefits from our scale and reducing the number of people we employ. This will involve some difficult decisions but we are confident our colleagues will embrace being part of a more efficient organisation.

We are effecting a culture change towards a more customer focused, insight-led organisation which can operate at pace. To that end, we are pleased to have made some important changes to the leadership team:

- Murray McGowan has been appointed Managing Director, Leisure and will join us on 5th June 2017. Since 2015, Murray has been the Managing Director for Costa Express and prior to that, worked for Yum! Brands, Cadbury and McKinsey.
- Lucinda Woods has joined us as Director of Strategy and Business Development and brings analytical and strategic skills from her experience at Paddy Power Betfair, Investec and KPMG.
- Debbie Moore has joined us as Group HR Director and brings extensive multi-site and large employee company experience from Spirit Pub Company, Royal Mail and Dixons.
- Keith Janes has been promoted to Property Director, having been at TRG for two years and previously rolled out formats for Costa and Nokia.

We are taking a more disciplined approach to capital investment. We have undertaken a comprehensive review of our property pipeline on a site-by-site basis and have refined our selection criteria, resulting in a reduction in the number of viable prospects.

Business review

Overview of the year

2016 was a disappointing year. Turnover was up 3.7%, benefitting from a 53rd week, with like-for-like sales down 3.9%. The underperformance was driven by each of our three major Leisure brands, Frankie & Benny's, Chiquito and Coast to Coast. Our Pubs and Concessions businesses performed well, benefitting from good operational execution.

Brands

Frankie & Benny's (258 units)

The brand had a difficult trading year, with declining like-for-like sales and operating margins, substantially underperforming the market. Operational leadership was changed in June and following the strategic review of the brands at the end of the summer, a series of price and menu trials were launched to test and learn the most effective way to arrest trading performance. 10 sites were opened and 15 sites closed during the year.

Chiquito (79 units)

Chiquito traded poorly in 2016, with declining like-for-like sales and operating margins. While a drop in cinema attendances contributed to some of this decline, the main drivers were poor proposition changes, and operational issues affecting speed of service. Five sites were opened and 12 sites closed during the year.

Coast to Coast (21 units)

Coast to Coast had a difficult year. The brand is relatively young and while lower sales are to be expected from new units after their opening year, sales have continued to decline thereafter. A radical change to the menu in January was received poorly and progressive price changes in recent years have also contributed to significant declines in like-for-like sales. Two sites were opened and two sites closed during the year.

Pub restaurants (57 units)

Our Pub business traded well during the year, growing like-for-like sales and profits. The strong and stable team continued to develop the business, improving the menus and successfully trialling new booking technology to accommodate more covers. Four sites were opened and one closed during the year.

Concessions (59 units)

Our Concessions business had another strong year. While benefitting from strong passenger growth across our UK airport sites, we added to this by successfully driving incremental covers and spend per head. We opened one site during the year, a new pub in Gatwick North terminal which has its own gin distillery and closed two due to airport configuration changes.

Current trading and outlook

Current trading is in line with our expectations.

2017 will be a transitional year for the business, given the significant change underway and the substantial investment in price and marketing. We anticipate momentum improving towards the end of the year as our initiatives start to take effect.

We expect to open between 16 to 20 units in 2017 with associated capital expenditure of between £16m-£20m. Refurbishment and maintenance capital expenditure will range from £20m-£25m.

Financial review

Results

TRG had a disappointing year: revenue was up 3.7% to £710.7m but, following the exceptional charges, the Group incurred a loss before tax of £39.5m (2015: profit before tax of £86.8m). The adjusted measures are summarised in the table below:

	53 weeks ended 1 January 2017	52 weeks ended 27 December 2015	% change
	£m	£m	
Revenue	710.7	685.4	+3.7%
EBITDA *	121.0	128.0	(5.5%)
Operating profit *	79.2	88.9	(11.0%)
Operating margin *	11.1%	13.0%	
Profit before tax *	77.1	86.8	(11.2%)
Tax *	(17.0)	(19.4)	
Profit after tax *	60.1	67.4	(10.8%)
EPS (pence)*	30.02	33.80	(11.2%)

* Excludes the impact of the exceptional charge of £116.7m.

** Reflects the trading performance vs. the statutory 52 week period in 2015. In 2016, the full year comprised 53 weeks.

Total revenue increased by 3.7%, mainly due to the impact of the 53rd week. Total adjusted EBITDA* for the year was £121m, a decrease of 5.5% on the prior year and adjusted operating profit* decreased by 11.0% to £79.2m. Adjusted group operating margin* for the year was 11.1%, a decrease of 190 basis points on the prior year. Within this, our administration cost base decreased as percentage of turnover by 80 basis points, reflecting cost saving initiatives implemented in many of our central support functions during the latter half of 2016.

Interest costs were a little lower this year, partly due to a lower level of average net debt during the year and partly due to the annualisation of improved terms under the new financing arrangements, which were completed in June 2015. This was partially offset by an increase in non-cash interest as a result of increased onerous lease interest charges.

Overall, this resulted in adjusted total profit before tax* of £77.1m, an 11.2% decrease on the prior year. The average tax rate in the year was 22.1%, a little lower than the prior year, resulting in adjusted EPS* of 30.0p, a decrease of 11.2% on the prior year.

Restructuring and exceptional charge

A total exceptional charge of £116.7m has been made in the year, £59.1m in the first half and a further £57.6m in the second half. The total cash element of this charge is £43.2m.

We have closed 33 sites and intend to close a further eight underperforming units which we do not believe are capable of generating adequate returns. We have made an exceptional charge in respect of these closures of £58.4m in the period relating to impairment of fixed assets, provision for onerous leases and other associated costs as a result of these decisions.

We have impaired a total of 66 sites. The total charge of £51.4m in respect of these sites includes fixed asset write downs and contractual cost provisions.

The exceptional charge also includes further costs incurred in the year relating to the Board and management restructuring as well as redundancy and consultancy fees.

The first half 2016 exceptional charge results in 2017 incremental operating profit benefit of £7m; the second half charge results in an incremental operating profit benefit of £3m in 2017. The difference relates primarily to a lower number of loss-making sites closed in the second half of the year. The operating profit benefit comes from lower depreciation following the impairment charge, onerous leases having been provided for and other efficiencies offset by an increased onerous lease interest cost.

Cash flow

The Group continued to be strongly cash generative, generating £78.9m of free cash flow. After development capex of £28.8m, £34.9m of dividend payments and other non-trading items, net debt reduced by £0.1m in the year to £28.3m at the year end. Set out below is a summary cash flow for the year.

	2016	2015
	£m	£m
Adjusted operating profit*	79.2	88.9
Working capital and non-cash adjustments	1.1	5.6
Depreciation	41.8	39.1
Operating cash flow	122.1	133.6
Net interest paid	(0.8)	(1.0)
Tax paid	(16.2)	(17.6)
Maintenance capital expenditure	(26.2)	(19.7)
Free cash flow	78.9	95.3
Development capital expenditure	(28.8)	(55.1)
Movement in capital creditors	(10.3)	1.9
Dividends	(34.9)	(32.1)
Purchase of shares	-	(1.7)
Other items	(4.8)	1.9
Net cash flow	0.1	10.2
Net bank debt brought forward	(28.4)	(38.6)
Net bank debt carried forward	(28.3)	(28.4)

Cost inflation

Food cost inflation pressures were managed well in 2016. This was due to the benefit of contracted supply agreements which shielded the Group from the immediate impact of cost rises observed in the second half of the year. However, the outlook for food and beverage inflation in 2017 is more difficult, with both direct purchase cost inflation and the impact of foreign exchange increasing our input costs. We will continue to take advantage of our highly effective buying function to minimise the impact of these headwinds.

During 2016 we experienced the first National Living Wage increase which resulted in many of our employees benefiting from above inflation wage rises. We expect this trend to continue given the Government's stated aim is to continue to increase the National Living Wage until at least 2020. 2017 also sees the introduction of the Apprentice Levy which will be 0.5% of our annual gross wage bill.

Our other two largest cost items are occupancy and utility costs. The revaluation of business rates, which comes into effect in April 2017, will add approximately £3m to the Group's rates bill. Rental inflation continues to increase at c.2% per annum. We expect that our utility costs will increase in 2017 as the Group's current fixed price contracts expire in the third quarter of the year.

Capital expenditure

During the year the Group invested a total of £55.0m in capital expenditure compared to £74.8m in the prior year. We invested £26.2m in maintenance and refurbishment expenditure which included £7.0m spent on a Frankie & Benny's bar reduction programme and £28.8m in new site development expenditure. During the year we opened a total of 24 new sites. In addition to the 33 closed sites highlighted above, four further sites closed in the year including two concessions which had reached the end of their contractual life and two leisure sites which we declined to renew at the end of their lease. The table below summarises openings and closures during the year.

	Year end 2015	Opened	Closed	Transfers	Year end 2016
Frankie & Benny's	261	10	(15)	2	258
Coast to Coast/Filling Station	28	3	(3)	-	28
Chiquito	86	5	(12)	-	79
Garfunkel's	13	-	(2)	(3)	8
Joes Kitchen	3	1	(2)	2	4
Pub restaurants	54	4	(1)	-	57
Concessions	61	1	(2)	(1)	59
Total	506	24	(37)	-	493

Financial and key financial ratios

The Group continues to maintain considerable headroom against the covenant tests of its £140m revolving credit facility, which is in place until June 2020.

	Banking covenant	2016	2015
Banking covenant ratios:			
EBITDA / Interest cover	>4x	60x	63x
Net debt / EBITDA	<3x	0.2x	0.2x
Other ratios:			
Fixed charge cover	n/a	2.4x	2.7x
Balance sheet gearing	n/a	14%	10%

Tax

The total trading tax charge for the year was £17.0m, summarised as follows;

	2016	2015
	£m	£m
Corporation tax	16.9	19.1
Deferred tax	0.1	0.3
Total	17.0	19.4
Effective tax rate	22.1%	22.4%

The effective trading tax rate for the year was 22.1% compared to 22.4% in the prior year. The lower tax rate reflects the ongoing reduction in the corporation tax rate. As noted in previous reports the Group's effective tax rate will continue to be higher than the headline UK tax rate primarily due to our capital expenditure programme and the significant levels of disallowable capital expenditure therein.

The Restaurant Group plc
Consolidated income statement

	Note	53 weeks ended 01 January 2017			52 weeks ended 27 December 2015		
		Trading business £'000	Exceptional (see note 4) £'000	Total £'000	Trading business £'000	Exceptional (see note 4) £'000	Total £'000
Revenue	2	710,712	-	710,712	685,381	-	685,381
Cost of sales		(598,136)	(109,732)	(707,868)	(558,491)	-	(558,491)
Gross profit/(loss)		112,576	(109,732)	2,844	126,890	-	126,890
Administration costs		(33,420)	(6,944)	(40,364)	(37,999)	-	(37,999)
Operating profit/(loss)		79,156	(116,676)	(37,520)	88,891	-	88,891
Interest payable	5	(2,073)	-	(2,073)	(2,128)	-	(2,128)
Interest receivable	5	66	-	66	82	-	82
Profit/(loss) on ordinary activities before tax		77,149	(116,676)	(39,527)	86,845	-	86,845
Tax on profit/(loss) from ordinary activities	6	(17,043)	16,405	(638)	(19,447)	1,488	(17,959)
Profit/(loss) for the year		60,106	(100,271)	(40,165)	67,398	1,488	68,886
Earnings/(loss) per share (pence)							
Basic	7	30.02		(20.06)	33.80		34.55
Diluted	7	<u>29.84</u>		<u>(20.06)</u>	<u>33.50</u>		<u>34.24</u>

The table below is provided to give additional information to shareholders on a key performance indicator:

Earnings before interest, tax, depreciation and amortisation	120,965	(48,626)	72,339	127,991	-	127,991
Depreciation and impairment	(41,809)	(68,050)	(109,859)	(39,100)	-	(39,100)
Operating profit	<u>79,156</u>	<u>(116,676)</u>	<u>(37,520)</u>	<u>88,891</u>	<u>-</u>	<u>88,891</u>

The Restaurant Group plc
Consolidated statement of changes in equity

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 28 December 2015	56,518	25,255	(11,080)	212,867	283,560
Loss for the year	-	-	-	(40,165)	(40,165)
Issue of new shares	32	287	-	-	319
Dividends	-	-	-	(34,862)	(34,862)
Share-based payments - debit to equity	-	-	1,323	-	1,323
Other reserve movements	-	-	(230)	-	(230)
Current tax on share-based payments taken directly to equity	-	-	-	73	73
Deferred tax on share-based payments taken directly to equity	-	-	-	(581)	(581)
Balance at 01 January 2017	56,550	25,542	(9,987)	137,332	209,437
Balance at 29 December 2014	56,433	24,495	(11,971)	175,567	244,524
Profit for the year	-	-	-	68,886	68,886
Issue of new shares	85	760	-	-	845
Dividends	-	-	-	(32,115)	(32,115)
Share-based payments - credit to equity	-	-	2,900	-	2,900
Employee benefit trust - purchase of shares	-	-	(1,746)	-	(1,746)
Other reserve movements	-	-	(263)	-	(263)
Current tax on share-based payments taken directly to equity	-	-	-	818	818
Deferred tax on share-based payments taken directly to equity	-	-	-	(289)	(289)
Balance at 27 December 2015	56,518	25,255	(11,080)	212,867	283,560

There is no comprehensive income other than the profit/loss for the year in the year ended 1 January 2017 or the year ended 27 December 2015.

The Restaurant Group plc
Consolidated balance sheet

		At 01 January 2017 £'000	At 27 December 2015 £'000
	<i>Note</i>		
Non-current assets			
Intangible assets		26,433	26,433
Property, plant and equipment	9	345,952	403,640
		<u>372,385</u>	<u>430,073</u>
Current assets			
Stock		5,632	6,389
Trade and other receivables		18,782	13,366
Prepayments		15,824	15,267
Cash and cash equivalents		9,568	2,983
		<u>49,806</u>	<u>38,005</u>
Total assets		<u>422,191</u>	<u>468,078</u>
Current liabilities			
Overdraft		-	(838)
Corporation tax liabilities		(1,275)	(8,692)
Trade and other payables		(121,850)	(125,388)
Other payables - finance lease obligations		(393)	(355)
Provisions	10	(16,391)	(1,130)
		<u>(139,909)</u>	<u>(136,403)</u>
Net current liabilities		<u>(90,103)</u>	<u>(98,398)</u>
Non-current liabilities			
Long-term borrowings		(37,882)	(30,527)
Other payables - finance lease obligations		(2,950)	(2,956)
Deferred tax liabilities		(4,434)	(12,096)
Provisions	10	(27,579)	(2,536)
		<u>(72,845)</u>	<u>(48,115)</u>
Total liabilities		<u>(212,754)</u>	<u>(184,518)</u>
Net assets		<u>209,437</u>	<u>283,560</u>
Equity			
Share capital		56,550	56,518
Share premium		25,542	25,255
Other reserves		(9,987)	(11,080)
Retained earnings		137,332	212,867
Total equity		<u>209,437</u>	<u>283,560</u>

The Restaurant Group plc
Consolidated cash flow statement

		53 weeks ended 01 January 2017 £'000	52 weeks ended 27 December 2015 £'000
	<i>Note</i>		
Operating activities			
Cash generated from operations	11	122,148	133,632
Interest received		41	82
Interest paid		(865)	(1,125)
Tax paid		(16,223)	(17,644)
Net cash flows from operating activities		105,101	114,945
Investing activities			
Purchase of property, plant and equipment		(65,280)	(72,914)
Disposal of fixed assets		2,219	250
Net cash flow on exceptional Items		(7,074)	-
Net cash flows used in investing activities		(70,135)	(72,664)
Financing activities			
Net proceeds from issue of ordinary share capital		319	845
Employee benefit trust - purchase of shares		-	(1,746)
Net withdrawals/(repayments) of loan draw downs		7,000	(8,000)
Dividends paid to shareholders	8	(34,862)	(32,115)
Net cash flows used in financing activities		(27,543)	(41,016)
Net increase in cash and cash equivalents		7,423	1,265
Cash and cash equivalents at the beginning of the year		2,145	880
Cash and cash equivalents at the end of the year		9,568	2,145

The Restaurant Group plc
Notes to the accounts
For the year ended 01 January 2017

1 Segmental analysis

The Group trades in one business segment (that of operating restaurants) and one geographical segment (being the United Kingdom). The Group's brands meet the aggregation criteria set out in paragraph 22 of IFRS 8 "Operating Segments" and as such the Group report the business as one reportable segment.

2 Revenue

	2016	2015
	£'000	£'000

Income for the year consists of the following:

Revenue from continuing operations	710,712	685,381
Other income not included within revenue in the income statement:		
Rental income	2,260	2,688
Interest income	66	82
Total income for the year	713,038	688,151

3 Profit for the year

	2016	2015
	£'000	£'000

Cost of sales consists of the following:

Continuing business excluding pre-opening costs	594,756	553,106
Pre-opening costs	3,380	5,385
Trading cost of sales	598,136	558,491
Exceptional charge	109,732	-
Total cost of sales for the year	707,868	558,491

Profit for the year has been arrived at after charging / (crediting):

	2016	2015
	£'000	£'000

Depreciation	41,809	39,100
Impairment	68,050	-
Purchases	144,467	142,325
Staff costs (see note 4)	239,297	225,642
Minimum lease payments	74,616	67,009
Contingent rents	10,906	9,607
Total operating lease rentals of land and buildings	85,522	76,616
Rental income	(2,260)	(2,688)
Net rental costs	83,262	73,928

4 Exceptional items

	2016			2015	
	Exit sites	Impaired sites	Other	Total	Total
	£'000	£'000	£'000	£'000	£'000
Impairment of fixed assets	26,585	41,465	-	68,050	-
Void period costs and onerous leases	27,629	7,218	-	34,847	-
Other exceptional costs	4,173	2,662	6,944	13,779	-
	58,387	51,345	6,944	116,676	-
Credit in respect of tax rate change	-	-	(261)	(261)	(1,488)
Tax effect of exceptional items	(8,142)	(7,219)	(783)	(16,144)	-
	(8,142)	(7,219)	(1,044)	(16,405)	(1,488)
	50,245	44,126	5,900	100,271	(1,488)

The Group has recorded a charge of £58.4m for the exit costs of 33 underperforming sites, and a further eight underperforming units which we intend to exit in the short-term as we do not believe that these sites are capable of generating adequate returns.

The Group has also made an impairment charge of £51.3m against 66 sites, as required by IAS 36, which, owing to poor trading performance, are unlikely to generate sufficient cash in the future to justify their book value.

Furthermore, the Group has recorded a charge of £5.1m for the Board and management restructuring and strategic review costs, together with an accelerated charge of £1.8m in respect of the cancellation by savers of options for the 2014 & 2015 Save as You Earn schemes.

The Group has recognised a £16.4m tax credit in relation to these exceptional items (52 weeks ended 27 December 2015: £1.5m tax credit in relation to revaluation of the deferred tax liability).

5 Net finance charges

	2016	2015
	£'000	£'000
Bank interest payable	834	1,075
Other interest payable	465	334
Facility fees	387	338
Interest on obligations under finance leases	387	381
Total borrowing costs	2,073	2,128
Bank interest receivable	(5)	(9)
Other interest receivable	(8)	(13)
Loan note interest receivable	(53)	(60)
Total interest receivable	(66)	(82)
Net finance charges	2,007	2,046

6 Tax

	Trading 2016 £'000	Exceptional 2016 £'000	Total 2016 £'000	Total 2015 £'000
a) The tax charge comprises:				
Current tax				
UK corporation tax at 20.0% (2015: 20.25%)	17,011	(8,014)	8,997	19,624
Adjustments in respect of previous years	(116)	-	(116)	(525)
	<u>16,895</u>	<u>(8,014)</u>	<u>8,881</u>	<u>19,099</u>
Deferred tax				
Origination and reversal of temporary differences	27	-	27	24
Adjustments in respect of previous years	121	-	121	324
Credit in respect of rate change on deferred tax liability	-	(261)	(261)	(1,488)
Credit in respect of fixed asset write downs and disposals	-	(8,130)	(8,130)	-
	<u>148</u>	<u>(8,391)</u>	<u>(8,243)</u>	<u>(1,140)</u>
Total tax charge for the year	<u>17,043</u>	<u>(16,405)</u>	<u>638</u>	<u>17,959</u>

b) Factors affecting the tax charge for the year

The tax charged for the year varies from the standard UK corporation tax rate of 20.0% (2015: 20.25%) due to the following factors:

	Trading 2016 £'000	Exceptional 2016 £'000	2016 £'000	2015 £'000
Profit/(loss) on ordinary activities before tax	<u>77,149</u>	<u>(116,676)</u>	<u>(39,527)</u>	<u>86,845</u>
Profit/(loss) on ordinary activities before tax multiplied by the standard UK corporation tax rate of 20.0% (2015: 20.25%)	15,430	(23,335)	(7,905)	17,586
<i>Effects of:</i>				
Depreciation/impairment on non-qualifying assets	1,868	4,765	6,633	1,960
Expenses / (income) not deductible for tax purposes	621	2,616	3,237	103
Credit in respect of rate change on deferred tax liability	-	(261)	(261)	(1,488)
Adjustment in respect of previous years	(876)	(190)	(1,066)	(202)
Total tax charge for the year	<u>17,043</u>	<u>(16,405)</u>	<u>638</u>	<u>17,959</u>

The Finance Act 2012 introduced a reduction in the main rate of corporation tax from April 2015 from 21% to 20% resulting in a blended rate of 20.25% being used to calculate the tax liability for the 52 weeks ended 27 December 2015 and 20% for the 53 weeks to 01 January 2017.

The Finance (No.2) Act 2015 introduced a reduction in the main rate of corporation tax from 20% to 19% from April 2017 and from 19% to 18% from April 2020. These reductions were substantively enacted on 26 October 2015.

The Finance Act 2016 introduced a further reduction in the main rate of corporation tax to 17% from April 2020. This was substantively enacted on 06 September 2016. The deferred tax provision at the balance sheet date has been calculated at this rate, resulting in a £0.3m tax credit.

7 Earnings per share	2016	2015
a) Basic earnings per share:		
Weighted average ordinary shares for the purposes of basic earnings per share	200,230,299	199,408,183
Total (loss)/profit for the year (£'000)	(40,165)	68,886
Basic earnings per share for the year (pence)	(20.06)	34.55
Total (loss)/profit for the year (£'000)	(40,165)	68,886
Effect of exceptional items on earnings for the year (£'000)	100,271	(1,488)
Earnings excluding exceptional items (£'000)	60,106	67,398
Adjusted earnings per share (pence)	30.02	33.80
b) Diluted earnings per share:		
Weighted average ordinary shares for the purposes of basic earnings per share	200,230,299	199,408,183
Effect of dilutive potential ordinary shares:		
Dilutive shares to be issued in respect of options granted under the share option schemes	404,829	488,349
Shares held by employee benefit trust	814,855	1,262,608
	201,449,983	201,159,140
Diluted earnings per share (pence)	(20.06)	34.24
Adjusted diluted earnings per share (pence)	29.84	33.50

The additional non-statutory earnings per share information (where exceptional items, described in note 5, have been added back) has been provided as the Directors believe it provides a useful indication as to the underlying performance of the Group.

Diluted earnings per share information is based on adjusting the weighted average number of shares for the purposes of basic earnings per share in respect of notional share awards made to employees in regards of share option schemes and the shares held by the employee benefit trust.

8 Dividend

	2016 £'000	2015 £'000
Amounts recognised as distributions to equity holders during the year:		
Final dividend for the 52 weeks ended 27 December 2015 of 10.60p (2014: 9.30p) per share	21,237	18,550
Interim dividend for the 53 weeks ended 01 January 2017 of 6.80p (2015: 6.80p) per share	13,625	13,565
Total dividends paid in the year	34,862	32,115
Proposed final dividend for the 53 weeks ended 01 January 2017 of 10.60p (2015 actual proposed and paid: 10.60p) per share	21,240	21,176

9 Property, plant and equipment

	Land and buildings £'000	Fixtures, equipment and vehicles £'000	Total £'000
Cost			
At 29 December 2014	447,403	162,940	610,343
Additions	50,842	23,975	74,817
Disposals	(8,360)	(5,079)	(13,439)
At 27 December 2015	489,885	181,836	671,721
Accumulated depreciation and impairment			
At 29 December 2014	141,547	100,220	241,767
Provided during the year	20,848	18,252	39,100
Impairment	-	-	-
Disposals	(7,869)	(4,917)	(12,786)
At 27 December 2015	154,526	113,555	268,081
Cost			
At 28 December 2015	489,885	181,836	671,721
Additions	38,445	16,558	55,003
Disposals	(6,536)	(6,801)	(13,337)
At 01 January 2017	521,794	191,593	713,387
Accumulated depreciation and impairment			
At 28 December 2015	154,526	113,555	268,081
Provided during the year	22,533	19,276	41,809
Impairment	54,807	13,243	68,050
Disposals	(3,991)	(6,514)	(10,505)
At 01 January 2017	227,875	139,560	367,435
Net book value as at 28 December 2015	335,360	68,281	403,640
Net book value as at 01 January 2017	293,919	52,033	345,952

10 Provisions	2016	2015
	£'000	£'000
Provision for onerous lease contracts	19,853	2,714
Provision for property exit costs	24,117	952
Balance at the end of the year	43,970	3,666
Analysed as:		
Amount due for settlement within one year	16,391	1,130
Amount due for settlement after one year	27,579	2,536
	43,970	3,666

	Onerous lease contracts £'000	Property exit costs £'000	Total £'000
Balance at 28 December 2015	2,714	952	3,666
Additional provisions made	18,197	30,221	48,418
Amounts utilised	(1,161)	(6,831)	(7,992)
Provisions released	(5)	(225)	(230)
Adjustment for change in discount rate	(337)	-	(337)
Unwinding of discount	445	-	445
Balance at 1 January 2017	19,853	24,117	43,970

The provision for onerous contracts is in respect of lease agreements and covers the element of expenditure over the life of those contracts which are considered onerous, expiring in 1 to 30 years.

The provision for property exit costs includes the costs of strip out and dilapidations and the costs expected to be incurred over the void period until the property is sublet. In addition, this includes a provision for other committed costs arising from the strategic exit project.

11 Reconciliation of profit before tax to cash generated from operations

	2016	2015
	£'000	£'000
(Loss)/profit before tax	(39,527)	86,845
Net finance charges	2,007	2,046
Impairment (non cash)	68,050	-
Provision for future lease and other costs	46,860	-
Share-based payments	1,323	2,900
Depreciation	41,809	39,100
Decrease / (increase) in stocks	757	(859)
Increase in debtors	(5,973)	(5,633)
Increase in creditors	6,842	9,233
Cash generated from operations	122,148	133,632

12 Reconciliation of changes in cash to the movement in net debt	2016	2015
	£'000	£'000
Net debt:		
At the beginning of the year	(28,382)	(38,578)
Movements in the year:		
(Proceeds from) / repayments of loan draw downs	(7,000)	8,000
Non-cash movements in the year	(355)	931
Cash inflow / (outflow)	7,423	1,265
At the end of the year	(28,314)	(28,382)

Represented by:	At 29 December 2014	Cash flow movements in the year	Non-cash movements in the year	At 27 & 28 December 2015	Cash flow movements in the year	Non-cash movements in the year	At 01 January 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	880	2,103	-	2,983	6,585	-	9,568
Overdraft	-	(838)	-	(838)	838	-	-
Bank loans falling due after one year	(39,458)	8,000	931	(30,527)	(7,000)	(355)	(37,882)
	(38,578)	9,265	931	(28,382)	423	(355)	(28,314)

13 Basis of preparation

The Group's preliminary announcement and statutory accounts in respect of 2016 have been prepared on the going concern basis. The financial information set out above does not constitute the Group's statutory accounts for the years ended 1 January 2017 or 27 December 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be delivered following the Company's Annual General Meeting. The 2016 statutory accounts are prepared on the basis of the accounting policies stated in the 2015 statutory accounts. The auditor has reported on those accounts; their reports were unqualified and unmodified and did not contain statements under s498 (2) or (3) of the Companies Act 2006.