
# Cleansing Materials
4 August 2020

# Disclaimer

19 65

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# Introduction

- PizzaExpress Group is pleased to announce that it has received overwhelming support from its key stakeholders for a proposed balance sheet restructuring transaction (the "Transaction") and the forthcoming launch of a Company Voluntary Arrangement (the "CVA")
- The agreement in principle constitutes an important milestone for the Group, as the Transaction would provide the business with a deleveraged capital structure, significant liquidity and adequate financial flexibility, to enable the Group to re-start the business out of the COVID-19 crisis and support its future development
- As a result of the discussions, the Group has entered into a lock-up agreement with the following stakeholder groups (the "Lock-up Agreement"):
  - holders representing in excess of 75%(1) of its £465m Senior Secured Notes due 2021 issued by PizzaExpress Financing 2 plc (the "Company") (the "Existing SSNs"); and
  - its principal shareholder Hony Capital
- By their execution of the Lock-up Agreement, those parties agree to support the implementation of the Transaction, subject to the satisfaction of certain conditions precedent. The Transaction also comprises a number of inter-conditional steps:
  - a resetting of the Group's leasehold obligations through a CVA;
  - an extension of its £70m existing super senior term loan facility (the "SSTL") following the completion of the Transaction;
  - a major recapitalisation of its business with £144m(2) of additional liquidity fully backstopped by an ad hoc group of holders representing in excess of 75% of the Existing SSNs (the "Ad Hoc Group") to support the future development of the Group's business;
  - a restructuring of its principal third party indebtedness, the Existing SSNs and the SUNs, involving a significant de-leveraging and extension of maturities;
  - the potential transfer of majority ownership of the Group to holders of the Existing SSNs; and
  - the sale of PizzaExpress China Limited, PizzaExpress PRD Limited and PizzaExpress Beijing Limited and their respective subsidiaries (the "China Group") to an SPV incorporated by Hony Capital ("Hony SPV") (the "China Disposal")
  - all of the Group's current equity holders have been offered the opportunity to co-invest in the divested China group, and all SUN holders will also have the option to do so at the closing of the restructuring transaction

Notes: (1) As of 4 August 2020; (2) £130m net of backstop fee and OID. Includes a tranche A of £49m (£40m net of OID and backstop fee), tranche B of £21m (£20m net of OID), and tranche C of £74m (£70m net of OID). Tranche C is meant for the event that a refinancing of the SSTL is required

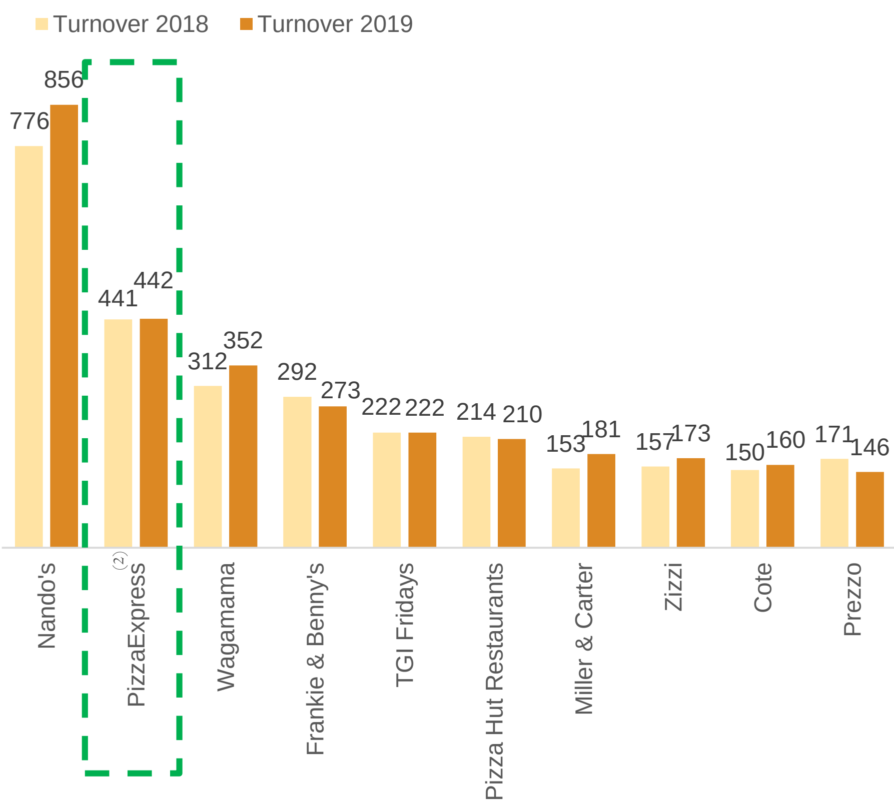
# Introduction

- The Group will launch the CVA in the near-term. With a phased reopening of restaurants which started on 4 July 2020, the CVA forms part of the Group's plans for a smaller and better-invested estate going forward
- The Group is in discussions with certain holders of the SUNs and hopes to reach a consensual agreement regarding the participation of these holders of the SUNs in the Transaction
- The Group intends to launch a restructuring plan process to restructure the SSNs and the SUNs
- Houlihan Lokey EMEA, LLP and Kirkland & Ellis International LLP are assisting the Company as financial advisor and as legal advisor, respectively in relation to the aforementioned restructuring
- In parallel, the Group has launched a process which is being run by Lazard & Co., Limited, to solicit bids for the sale of the Group (or all or substantially all of the assets of the Group), with the exception of the China Group, which is expected to still be subject to the China Disposal (the "M&A Process")
- Assuming that no third party bid is received which is higher than the bid of the holders of the Existing SSNs, the Existing SSNs will acquire majority ownership of the Group as part of the Transaction through a transfer of the shares in the Group to a newly established entity ("BidCo SPV") which will be controlled by the holders of the Existing SSNs, the "Investors"
- The Group is targeting completion of the Transaction as soon as possible and in any event on or before 15 November 2020 and will continue working with key stakeholders to complete the Transaction
- The Company has appointed two non-executive directors, Dr Beatrice Lafon and Mr David Adams, who will be joining the board of directors of the Company as part of the Transaction
- A committee consisting of one Company Executive (Andy Pellington, the Group's Chief Financial Officer) and the two non-executive directors has been formed to review, manage and progress the M&A Process and the implementation of the Transaction

# Company overview

PizzaExpress is one of the leaders in UK casual dining

## Top 10 UK branded restaurants by turnover (£m)




## Overview

**PizzaExpress is one of the leaders in UK casual dining**

- 468[1] unique sites in the UK & Ireland
- #2 branded restaurant by turnover in the UK
- Iconic brand with one of the highest brand recognitions in the sector. The brand is held by PizzaExpress Limited

**Established international operations with 93[1] international sites in Hong Kong, the UAE, Singapore and other key locations (excluding 60 [1] China sites which will be disposed to Hony Capital)**

- 44 Company-owned restaurants
- 49 franchised international sites

**Headquartered in London (UK) and employs c.11,379[1] people worldwide (excluding c.1,196 employees in China)**

Sources: MCA Eating Out in the UK Report 2020
Notes: (1) As of Q2 2020 including 5 franchise sites with Welcome Break; (2) Total Sales (i.e. including Restaurant Turnover, Retail, Franchise and Other Income) for PizzaExpress UK & Ireland

# Impact of COVID-19 crisis

- Beginning in January 2020, the coronavirus pandemic ("COVID-19") has significantly impacted PizzaExpress' business operations both in the UK & Ireland and in its International segment
  - From March to June 2020, the Group had to close dine-in, delivery, takeaway and click and collect operations in the 449 company-owned restaurants across the UK and 19 company-owned restaurants in Ireland
  - The International business has also been affected by closures and/or more stringent conditions on operating as a result of COVID-19
- The Group's main priority during this unprecedented time has been, and continues to be, ensuring the health and safety of its customers and employees. Like many competitors, PizzaExpress continues to review and, in certain instances, benefit from various measures announced by the UK Government to assist businesses and employees during this crisis, including business rates relief, the job retention (or furlough) scheme, and VAT rate reduction
- Given the impact of COVID-19 on EBITDA and faced with this level of disruption, the Company has taken immediate action to preserve cash, including:
  - Pausing all capital expenditure;
  - Benefitting from Government support on rates;
  - Deferring VAT payments due from 20 March 2020 to 30 June 2020 until 31 March 2021, in line with government guidance(1);
  - Benefitting from Government's reduction of the VAT rate on food from 20% to 5%;
  - Seeking deferral of PAYE and NIC due from February to May 2020, totalling c£5m with HMRC (excluding PAYE relating to furlough);
  - Furloughing all restaurant staff (c.9,500) and reducing pay for non-furloughed staff (including management);
  - Strictly controlling supplier payments; and
  - Non-payment of rent to the majority of landlords at the end of March 2020 and June 2020.
- To improve the Group's liquidity, the Parent and the Company entered into a new £70m super senior facility agreement on 29 April 2020
  - The proceeds of the SSTL were used to repay in full and cancel the Group's (i) £20m super senior revolving credit facility; and (ii) £10m super senior term facility with Hony Capital which in each case were due to mature in August 2020
  - The remaining proceeds of c£38m after issue costs were intended to fund general corporate and working capital requirements. However, a significant proportion has been used to fund this highly challenging trading period

Notes: (1) HMRC's guidelines are that if a Company chooses to defer VAT payment as a result of coronavirus, these must be paid on or before 31 March 2021

# Re-opening of the business

- As the COVID-19 restrictions started to ease since 4 July 2020, the Company recently announced the latest stage of its phased re-opening which included 71 restaurants opening their doors for dine-in customers in the week commencing 27th July, and the extension of 35 locations to also offer dine-in options. As of 4 August, a total of 166 sites have re-opened for trading, 14 of which are in Ireland
  - The Group has started by re-opening locations which are expected to generate a positive net contribution to the Group
  - Overall, reopening the majority of the estate is expected to take approximately six to eight weeks
- The management team have worked on a reopening plan to ensure the swift reopening of all remaining restaurants whilst also ensuring the necessary health and safety protocols are satisfied. Management has devised a model that maintains the integrity of the restaurant environment and will help build trust with team members and customers. It rigorously implements the UK Government guidelines to ensure that the Group's restaurants are COVID-19 secure
- To date, sales have been slightly ahead of expectations, providing assurance around customer satisfaction with the revised layout of restaurants and confidence for the re-opening of further sites. On a LfL basis, trading for re-opened sites has declined by 36.5%[1]
- Looking ahead, PizzaExpress remains committed to the roll-out of its FutureExpress programme to enhance not only its physical estate but the overall customer experience. The business will continue to innovate and focus on areas it believes will provide a competitive advantage, investing appropriately to ensure that it can continue trading successfully in the years ahead

Notes: (1) Cumulative LfL sales for dine-in sites, accounting for full weeks trading only and up to 26th July

# Recent financial highlights as of YTD Q2 2020

## The impact of COVID-19 on the Group's trading performance has been immediate and significant


- YTD Q2 2020 Turnover down 53.3%(1) to £126.2m
  - UK & Ireland turnover down 57.6%(1) to £90.6m
  - International turnover down 37.2%(1) to £35.5m
- LFL sales decline of 55.0%(1)
- YTD Q2 2020 EBITDA down from £32.4m to (£26.5m)
  - UK & Ireland EBITDA decreased from £31.0m to (£21.4m)
  - International EBITDA declined from £1.5m to (£5.1m)
- EBITDA margin down from 12.0% to (21.0%)
  - UK & Ireland EBITDA margin declined from 14.5% to (23.6%)
- YTD Q2 2020 UK&I operating cash flows (pre-capex) resulted in an outflow of £38.8m
  - Unlevered free cash flows (post-capex) resulted in an outflow of £21.0m (-£27.2m including international funding) and levered free cash-flows resulted in an outflow of £47.0
- Adjusted net debt stands at £708.9m(2)
- Number of sites declined from 638 in Dec-19 (481 in the UK&I(3)) to 626 in Jun-20 (468 in the UK&I)
- Cash balance as at June 2020 stands at £46.6m after settling £4.4m cash costs related to the restructuring of the Company

Notes: (1) At constant rates; (2) Including £465m SSN, £200m SUN, £19.6m accrued interest on both SSNs and SUNs, £70m HPS, £0.9m accrued interest on the HPS facility, less £46.6m cash; (3) Including 5 Welcome Break franchise sites

# Expected outlook for FY20

**For 2020, EBITDA Group (excl. China) is forecast at £(4.8)m before exceptional costs mostly driven by the temporary closure due to COVID, which is expected to be followed by a return to c.85% of 2019 trading levels by the end of the year**

## Pro-Forma Forecast P&L and Operating Cash-Flow Items (£m)

| £m | 2019[1] | 2020[1] |
|---|---|---|
| Restaurant Sales UK&I | 425.0 | 197.3 |
| Other Sales UK&I | 17.2 | 14.0 |
| **Total Sales UK&I** | **442.3** | **211.3** |
| Sales International (excl. China) | 63.5 | 49.5[2] |
| **Total Sales Group (excl. China)** | **505.8** | **260.8** |
| | | |
| **EBITDA UK&I** | **73.5** | **(2.9)** |
| *EBITDA margin UK&I %* | *16.6%* | *(1.4)%* |
| **EBITDA International (excl. China)** | **3.8** | **(1.9)[2]** |
| *EBITDA Margin International (excl. China) %* | *6.0%* | *(3.8)%* |
| **Total EBITDA Group (excl. China)** | **77.3** | **(4.8)** |
| *Total EBITDA Margin Group (excl. China) %* | *15.3%* | *(1.8)%* |
| | | |
| Exceptional Items UK&I | - | (11.0)[3] |
| Exceptional Items UK&I (restructuring) | - | (25.9)[4] |
| Exceptional Items UK&I (re-start) | - | (3.5) |
| **EBITDA UK&I including Exceptional** | **73.5** | **(43.3)** |
| | | |
| **Total Number of Restaurants (excl. China)** | **571** | **566[5]** |
| Of which UK & Ireland | 481 | 473[5] |
| Of which International (excl. China) | 90 | 93[5] |
| | | |
| Change in Working Capital UK&I | (7.3) | 5.3 |
| Capital Expenditures UK&I | (14.7) | (11.8) |
| Cash Tax UK&I | (4.4) | (0.6) |
| International Funding | (13.2) | (8.0)[6] |
| **Year-End Cash Balance UK&I** | **£37.6** | ***Not disclosed*** |

Notes: (1) Both years based on 52 weeks of trading; (2) Based on an exchange rate GBP – HKD of 9.68 as of Jul-20; (3) CVA-related costs including £4.2m for redundancies, £2.5m for site closures, £1.5m for D&O insurance and £2.8m for fees; (4) Mainly comprised of transaction costs; (5) As of Q2'20. UK&I sites include 5 Welcome Break franchise sites; (6) Of which £7.4m already committed

# Overview of the Transaction

**The Transaction results in a reduction of total debt from £735m to £319m(1)**

| | Description |
|---|---|
| Super Senior Facility | • Roll over of existing Super Senior Facility (£70m) |
| New Money Facility | • £144m(2) new money facility backstopped by the Ad Hoc Group (the "New Money Facility")<br>• Existing SSN holders to be offered the opportunity to participate pro-rata to their holdings in the New Money Facility in exchange for 35% of equity post-restructuring (before dilution for Management Incentive Plan)<br>• New Money Facility with a 4.5 year maturity(3) and 7.50% cash interest p.a. with PIK toggle to 9.00% at the Company's election (for the first two years) |
| SSNs | • SSNs will be exchanged for:<br>  • £200m of new secured debt with 5 year maturity(3) and 8.00% cash interest p.a. with PIK toggle to 9.50% at the Company's election (for the first two years)<br>  • 63% of equity post-restructuring (before dilution for Management Incentive Plan) |
| SUNs | • To be fully converted into 1% of equity post-restructuring subject to the requisite majority of SUNs agreeing to support the transaction |
| Existing Shareholders | • Existing Shareholders are supportive of the transaction and will receive 1% equity post-restructuring |
| International Business | • Disposal of China operations to Hony<br>• International business excluding China to remain with the Group |

Notes: (1) Includes £70m Super Senior Facility, £49m New Money Facility Tranche A drawn post-transaction and £200m new secured debt (2) £130m net of backstop fee and OID. Includes a tranche A of £49m (£40m net of OID and backstop fee), tranche B of £21m (£20m net of OID), and tranche C of £74m (£70m net of OID). Tranche C is meant for the event that a refinancing of the SSTL is required; (3) From closing

# Overview of the China Disposal

**The key terms of the China Disposal are presented in the table below**

| | Description |
|---|---|
| Purchase | • Sale of the China Group to a Hony SPV for a *de minimis* consideration occur soon after the signing of the Lock-up Agreement[1] |
| Interim Funding | • Up to £1 million based on pre-agreed uses in line with the China Group's requirements. Such amount represents the approximate cost for the UK Group of a China Group bankruptcy<br>• No obligation for the UK Group to make any further funding available to the China Group following completion of the China Disposal |
| Relevant IP | • Marzano word marks (subject to limited exceptions) and domain name registrations (including applications) in Mainland China<br>• Five-year, royalty-free license for the China Group to use the PizzaExpress and Pizza Marzano 'roundel' devices and otherwise grant a perpetual, exclusive, royalty-free license for the China Group to use all other Marzano IP used by the China Group in Mainland China<br>• Right of first refusal to purchase back the IP that is being transferred to the China Group, if the China Group decides to sell such IP<br>• China Group to have a right of first offer to purchase any "PizzaMarzano" or "Marzano" IP that the UK Group intends to sell to a third party. The right of first offer is applicable only in the event of direct sale of the transferred IP |
| "Upside Share" Mechanism | • In the event of a subsequent sale of the China Group, the UK Group shall be entitled to receive an amount equal to 2% of the total consideration received by the Hony SPV in such sale event[2] |
| Intercompany Claims | • On completion of the Purchase, the UK Group shall release all intercompany claims payable by the China Group |

Notes:

(1) All of the Group's current equity holders have been offered the opportunity to co-invest in the divested China group, and all SUN holders will also have the option to do so at the closing of the restructuring transaction

(2) Net of taxes and expenses in relation to the China Group sale, and after deducting the Hony SPV's invested amount to fund the China Group's expansion from the date of the China Disposal

# Capital structure summary pre and post-restructuring

**The Transaction consists of a debt-for-equity conversion, with SSN reducing their claims by £265m, and a £144m new money facility to enable the Group to re-start the business out of the COVID-19 crisis and support its future development**

## Capital Structure Evolution (£m)

| | | | | Illustrative Transaction | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pre-Transaction | Margin (%) | Maturity | SSN Roll-over | SSN and SUN Equitisation | New Money Facility | Post-Transaction | Margin (%) | Maturity |
| Super Senior Term Loan | 70 | L + 6.750% | May-23 | - | - | - | 70 | L + 6.75% | Apr-23 |
| New Money Facility | - | | | - | - | 49 | 49 | 7.5% cash or 9.0% PIK(3) | 4.5y post closing |
| Existing SSNs / Reinstated Secured Debt | 465 | 6.625% | Aug-21 | 200 | (265) | - | 200 | 8.0% cash or 9.5% PIK(3) | 5y post closing |
| **Senior Secured Leverage** | **535** | | | **-** | **(265)** | **49** | **319** | | |
| SUNs | 200 | 8.625% | Aug-22 | - | (200) | - | - | | |
| **Total Group Debt** | **735** | | | **-** | **(465)** | **49** | **319** | | |
| Cash Balance | (41)(2) | | | - | - | (40)(1) | (81) | | |
| **Net Debt** | **694** | | | **-** | **(465)** | **-** | **238** | | |

Notes: (1) Assumes only New Money Facility tranche A of £49m (£40m net of backstop fee and OID) is drawn post-transaction with tranche B of £21m (£20m net of fees) and tranche C of £74m (£70m net of fees) being available in the event additional capital or a refinancing of the SSTL is required.; (2) As of Jun-20. Excludes cash from China (3) PIK toggle mechanism, whereby Company can choose to pay PIK interest instead of cash interest

# Plan for the estate

- The UK&I Group is experiencing significant liquidity pressures as a result of COVID-19, with a forecast cash shortfall in August if no action is taken. PizzaExpress (Restaurants) Limited ("PERL") is c.90% of the UK&I Group by turnover and is the largest component of this funding requirement
- As a consequence, in addition to the substantial write-offs being proposed to shareholders, secured financial creditors and unsecured financial creditors, PERL is proposing a significant restructuring to both rebase the property portfolio and compromise the payment of PERL's rent arrears and other property-related debts via a company voluntary arrangement ("CVA"), which is expected to be launched in the near-term
- It is a condition precedent to the Transaction (including the new money injection) that a CVA is approved. Therefore, the Transaction will only complete if the CVA is approved
- The combination of the CVA and the Transaction would then provide a stable platform for the business to implement its 5 Year Business Plan[(1)],
- Based on property agent advice and the Company's financial forecasts, the Company has classified the sites portfolio into nine categories based on financial viability and strategic importance:
    - A1 and A2: Highest performing sites and those with strategic importance
    - B1, B2, B3: Sites where a rent reduction is required for it to be commercially viable
    - C: Sites that, even with a rent reduction, are still not commercially viable
    - Sublets: Sites that the Company has sub-let to third parties
    - Voids: Sites where the lease is void
    - Other, including sites where leases have terminated, or notice has been served to terminate
- The anticipated benefit to PERL of a CVA is the creation of cost savings. Whilst it is not possible to forecast the exact level with any certainty[(2)], PERL anticipates that the cost savings could be at least £10m annually (before associated one-off CVA costs of £8m to be incurred mainly in 2020) and is going to commence discussions with landlords shortly. PERL will make a further announcement at launch of the CVA, which is anticipated to occur in the near-term (exact date to be confirmed)

Notes: (1) Company 5-Year Business Plan as of 30-Jun-20 (2) Cost savings may vary depending on negotiations with landlords and risk of landlords exercising the lease break option that they will be given as part of the CVA

# Key terms of the Lock-up Agreement

**Under the Lock-up Agreement, holders representing in excess of 75%[1] of the Existing SSNs and Hony Capital have agreed to the key terms below**

| | Description |
|---|---|
| Support Negotiations | • Each of the parties to the Lock-up Agreement shall take all actions necessary to support, facilitate, implement, consummate or otherwise give effect to the Transaction, including entering into good faith negotiations to agree the definitive transaction documents |
| Waivers and Forbearances | • Consenting Noteholder shall not, in each case other than to support the Group or as required to implement the Transaction:<br>o take any Enforcement Action directly or indirectly;<br>o forbear from exercising any rights or remedies as a result of any Default or Event of Default including those occurring as a result of:<br>  o the proposal, implementation and/or consummation of any step required to implement or consummate the Transaction or the provisions of this Agreement giving rise to a default or an event of default under any contractual agreements<br>  o the failure by the Company to deliver its consolidated financial statement for FY19 and consolidated financial statements for Q1'20 in due course<br>  o an Event of Default caused by the implementation of the CVA, the non payment of the interest on the Existing SSNs or SUNs due 1 August 2020 or the acceleration of the SUNs |
| Group Undertakings | • The Parent and certain other Group companies have launched consent solicitations to incorporate equivalent undertakings in the indenture relating to the Existing SSNs from the Super Senior Facility and certain additional restrictions on the Group's operations also apply under the terms of the Lock-up Agreement |
| Transfer and Sub-Participation | • No transfer or sub-participation of any debt which is subject to the Lock-up Agreement unless the transferee or sub-participant agrees to be bound by the terms of the Lock-up Agreement |
| Termination Events | • Failure to complete the Transaction by 15 November 2020 (or such later deadline as may be agreed under the Lock-up Agreement)<br>• Material non-compliance with the terms of the Lock-up Agreement by certain parties<br>• Failure to satisfy certain implementation milestones by the specified dates |

Notes: (1) As of 4 August 2020

# 5 Year Business Plan levers[1] and accelerated initiatives

19 PIZZA EXPRESS 65

**The interruption generated by COVID-19 provides an opportunity to consider what changes could / should be made to the operating model in the future to ensure a more sustainable, profitable business for the longer term**

| Strategic Pillar | Key Levers |
| --- | --- |
| Pizza Leadership / FutureExpress | • Revitalise core PizzaExpress restaurants<br>• Aggressively grow market share in delivery channel including virtual brands<br>• Optimise retail channel<br>• Refine ZA proposition and location<br>• Optimise existing property portfolio and inform target expansion through Estates Strategy |
| People First | • Future Express training investment<br>• Digitalised on-boarding and employee proposition<br>• Restaurant structure review |
| Customer-centric | • Pipeline of F&B innovation<br>• Marcomms[2] plan that grows share of voice<br>• Shift to offers within CRM framework<br>• Partnerships focused on core customer profile |
| Execute with Excellence | • Releasing value from property<br>• Optimising unit level labour structures<br>• Energy reduction<br>• Productivity strategy<br>• Leverage purchasing, particularly property |

## Key Accelerated Initiatives

1. Smaller, better invested physical estate
2. Meaningful multi-channel growth strategy, underpinned by FutureExpress
3. Pricing and promotional strategy
4. More efficient operating model and review of formats
5. Reduced operating costs

Notes: (1) Company 5-Year Business Plan as of 30-Jun-20 (2) Marketing and communication

# Overview of FutureExpress Investment

## New brand proposition enhances the physical estate and the overall customer experience

### Description

- Following extensive customer research, PizzaExpress has designed and launched a new brand proposition, "FutureExpress", that enhances not only the physical estate but the overall customer experience. Key elements include:
  - New restaurant design
  - Personalized customer service journey
  - Menu innovation
  - Team culture and behavioral change
- The aspiration is to invest in the entire estate in the coming years, using three different models depending on the age and condition of a site, its trading potential and ability to enhance the customer experience
  - ***Full refurb –*** new PizzaExpress signage, redecoration, new furniture, lighting, toilets, external planters and seating, productivity enhancements
  - ***Refurb Lite –*** new PizzaExpress signage, redecoration, furniture replacement, improved lighting, toilet refresh – all leveraging existing items where possible
  - ***Sparkle –*** new PizzaExpress signage, redecoration, some furniture replacement
- Early results (pre-disruption caused by COVID-19) have shown strong like-for-like growth and very positive customer reaction, increasing cover growth and spend
- Outside of the capital investment programme, the rollout of the Customer-Led Service Journey programme "CREW" was completed in Q1'20
  - CREW covers service journey, people and cultural changes, table layouts, and new uniforms
  - All Restaurant Managers have been through a Leadership Development programme as part of the foundation for FutureExpress

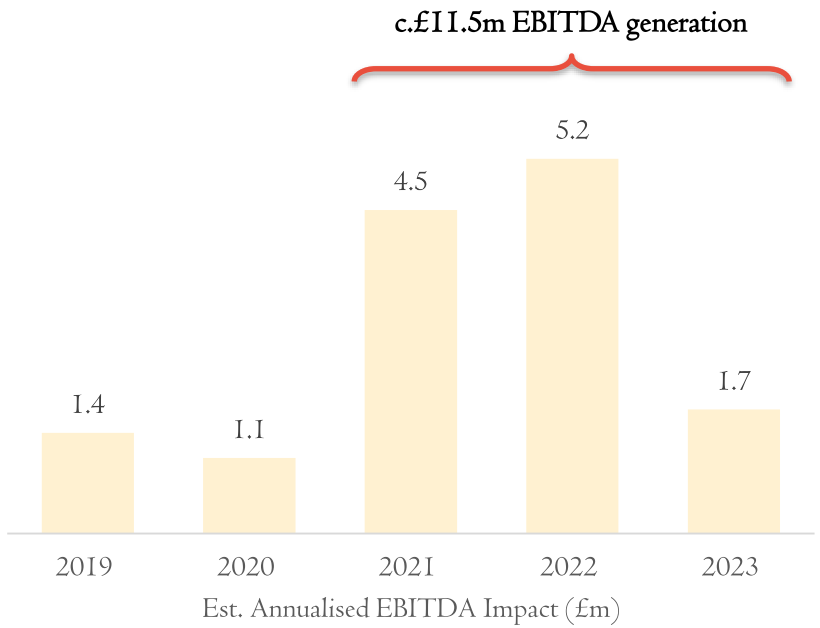
### Refurbished Sites Before and After




# Projected FutureExpress implementation schedule

## FutureExpress est. capex over next three years (£m)

| | | | | | |
|---|---|---|---|---|---|
| # sites to be refurbished | 21 | 19 | 120 | 150 | 50 |
| Capex per site (£ k) | c.190 | c.220 | 150 | c.140 | c.140 |




## Commentary

- Due to the initial success of FutureExpress, PizzaExpress has started to roll out this program across the UK & Ireland and expected to have completed the implementation in three years (from 2021)
- This is slightly longer than originally anticipated in the 5 year plan due to the interruption in 2020 from COVID-19, meaning only 19 out of a planned 100 refurbishments were completed (plan was on track prior to COVID-19)
- Over the next three years, PizzaExpress plans to refurbish 320 sites, spending c.£45m in capex which is expected to generate c.£11.5m additional EBITDA by 2023 (in addition to the £2.5m generated by 2019/2020 refurbishments)
- Strong economics with low average capital investment per site (c.£140-220k)

Note: Annualised EBITDA means the full year benefit of the refurbishments completed in that year

# Summary of accelerated initiatives

- PizzaExpress has identified the potential to accelerate changes to the business that will result in:
  - Smaller, better invested physical estate – no tail of marginal or loss making sites – with the remainder fully refurbished as "FutureExpress" with consequential reduction of central overheads
  - Meaningful multi-channel reach across dine-in, delivery/collection, Retail, Franchise and Za[1] underpinned by the FutureExpress Brand proposition
  - More efficient restaurant operating model benefitting both gross margin and central overheads
  - Lower discount cost and renewed pricing and spend strategy – this will require further detailed analysis before quantifying
- The below table presents a summary of the actions required to implement each initiative
- The 5 Year Business Plan[2] is predicated on a steady recovery of trading across H2 2020 and H1 2021 and a return to near pre-COVID-19 levels by H2 2021. **Clearly at the current time it is impossible to predict with any degree of certainty when the business will re-open or how quickly it can attain prior sales levels – both the competitive environment and customer behaviour could prove less favourable than currently assumed**

## Overview of Accelerated Initiatives

| Initiative | Description |
|---|---|
| **Smaller Estate** | • Rent reductions from remaining estate including through CVA implementation |
| **Multi-Channel** | • Greater success from / additional virtual brand(s)<br>• Stronger growth from retail channel<br>• Wider rollout of Za concession in Tesco<br>• Additional franchise partner/sites |
| **Pricing and Promotion** | • Spend/volume benefit from optimised model |
| **Efficiency** | • Improved savings across food, labour and variable cost lines |

Notes: (1) Fast-food casual dining brand, which would rely on distribution of slices of PizzaExpress pizza across points of distribution (potential concession with Tesco under review) (2) Company 5-Year Business Plan as of 30-Jun-20

# 5Y Business Plan[1] inclusive of accelerated initiatives

19 65

**The Group has updated its 5-year Business Plan to reflect the financial impact of COVID-19 and an initial view of the potential benefit from the accelerated approach to the key strategic initiatives**

## Key Forecast P&L and Operating Cash-Flow Items for FY21-24

| 5YP Revised £m | 2021[2] | 2022 | 2023 | 2024 |
|---|---|---|---|---|
| Restaurant Sales UK&I | 346.6 | 371.3 | 394.1 | 402.3 |
| Other Sales UK&I | 17.5 | 18.0 | 18.7 | 19.5 |
| **Total Sales UK&I** | **364.2** | **389.3** | **412.9** | **421.8** |
| *LFL% YoY UK&I* | *90.0%* | *3.7%* | *3.4%* | *1.5%* |
| Sales International (excl. China)[3] | 52.1 | 62.7 | 69.7 | 75.9 |
| **Total Sales Group (excl. China)** | **416.3** | **452.0** | **482.5** | **497.6** |
| **EBITDA UK&I**[4] | 73.8 | 79.8 | 85.0 | 85.5 |
| *EBITDA UK&I margin %* | *20.3%* | *20.5%* | *20.6%* | *20.3%* |
| EBITDA International (excl. China) | 3.5 | 6.3 | 8.3 | 10.0 |
| *EBITDA Margin International (excl. China) %* | *6.8%* | *10.0%* | *11.9%* | *13.2%* |
| **EBITDA Group (excl. China)**[4] | **77.3** | **86.0** | **93.3** | **95.5** |
| *EBITDA Margin Group (excl. China) %* | *18.6%* | *19.0%* | *19.3%* | *19.2%* |
| Change in Working Capital UK&I | (15.0) | 0.8 | 0.2 | 0.4 |
| Capital Expenditures UK&I | (31.8) | (38.4) | (24.5) | (19.6) |
| *of which Growth Capex on FutureExpress UK&I* | *(18.0)* | *(20.9)* | *(6.9)* | *(2.0)* |
| *of which Maintenance Capex UK&I* | *(7.0)* | *(7.0)* | *(7.0)* | *(7.0)* |
| *of which Other Capex UK&I*[5] | *(6.8)* | *(10.6)* | *(10.6)* | *(10.6)* |
| Cash Tax UK&I | (2.5) | (3.6) | (4.4) | (4.5) |
| Other Operating Cash-Flow Items UK&I[4] | 0.2 | 0.6 | 1.3 | 1.9 |

| 5YP Revised £m | 2019 | CAGR FY19-24 |
|---|---|---|
| Labour and Food Costs UK&I | (217.0) | (1.9%) |
| Gross margin UK&I | 225.2 | Flat |
| Central Costs UK&I | (31.6) | 0.4% |

Notes: (1) Company 5-Year Business Plan as of 30-Jun-20 (2) No international funding assumed to be required after 2021; (3) Based on an exchange rate of 9.68 GBP – HKD as of Jul-20; (4) Excluding £4m exceptional items in 2021; (5) Including capex on new openings (c.70%), and capex on IT systems, tills and website (c.30%)

# Consent required to implement the Transaction

**The implementation of the Transaction is conditional on the successful implementation of the CVA. The highest level of consent amongst each stakeholder class is encouraged to implement the Transaction in a consensual manner and as quickly as possible**

| | SSTL | Existing SSNs | SUNs[1] | Landlords | Other unsecured creditors |
|---|---|---|---|---|---|
| To Consummate the Transaction through a Restructuring Plan, Scheme of Arrangement or Consensually | Consent provided by 100% of creditors | 75% by value and 50% by number (Scheme or Restructuring Plan) or 90% (consensual) | 75% by value and 50% by number (Scheme or Restructuring Plan) or 90% (consensual) | None required | None required |
| To Consummate CVA | 66⅔% | 50.1% | 50.1% | 75% of all unsecured creditors and 50% of non-connected unsecured creditors | 75% of all unsecured creditors and 50% of non-connected unsecured creditors |

Notes: (1) A restructuring plan process allows a dissenting class of creditors (such as the holders of the Existing SSNs or the SUNs) to be 'crammed down' so that the court can approve a restructuring plan without the consent of that class of creditors, provided that certain conditions are satisfied

# Next steps and key dates

| Key Date | Next Steps |
|---|---|
| TBC | • CVA launch date<br>• CVA meeting date<br>• CVA to become effective if voted successfully in conjunction with the overall restructuring |
| 17 August | • Depending on the level of SSNs and SUNs acceptance achieved, implementation of the Transaction via amendment of the debt documentation and / or a Restructuring Plan (or one or two Scheme(s)) |
| 27 August | • M&A indicative bids received |
| 24 September | • M&A final bids received |
| **Assuming Phase II of M&A Process is successful** | |
| 2 October | • M&A transaction signing |
| **Assuming Phase II of M&A Process is unsuccessful** | |
| 21 October | • Meeting of the relevant classes of creditors to vote on Restructuring Plan (or one or two Scheme(s)) to be convened |
| 28 October | • Court hearing to sanction the Restructuring Plan (or the Scheme(s)) |
| 4 November | • The Transaction becomes effective either (i) consensually if > 90% acceptance from SSNs and SUNs achieved; (ii) through a Restructuring Plan of the Company if > 75% acceptance from SSNs achieved; or (iii) through Scheme(s) of the relevant issuer if > 75% acceptance from SSNs and / or SUNs achieved |