

Our investments continued

Consumer

Gondola

www.gondolaholdings.com

Activity	Casual dining operator
Location	UK
Acquired	November 2006/January 2007
Transaction value	£886 million
Sales*	£533.9 million
Employees	Approximately 14,000
Cinven representatives	Peter Catterall, Yagnish Chotai Charles Miller-Jones
Senior management	<i>Chairman</i> Chris Woodhouse <i>CEO</i> Harvey Smyth <i>Finance Director</i> Nick Carter

*to end June 2010 (audited)

Company description

Gondola is the leading restaurant operator in the UK casual dining sector, with around 640 sites, trading under the brands PizzaExpress, ASK, Zizzi and Byron.

Cinven origination

Cinven's Consumer team identified Gondola as having a number of the characteristics of previous successful Cinven consumer investments such as Fitness First, Odeon and William Hill: strong brands, a 'high volume, low ticket' business model and a significant opportunity for a high return on capital through the roll-out of new sites. Gondola was an underexploited opportunity that needed strategic redirection and accelerated investment, which would be best achieved under private ownership. Through its successful investment in Unique Pubs, Cinven was able to demonstrate its

knowledge, expertise and value-added input in the UK pub and restaurant sector and became the management team's preferred partner. The company's share price was performing relatively poorly due to an inappropriate management and capital structure at the time of its IPO, together with a share overhang created by the two principal shareholders. Cinven was able to secure an exclusive arrangement with the two main shareholders and thereafter launched a successful offer to the public shareholders.

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GONDOLA GROUP LIMITED

Investment rationale and strategy

Cinven identified Gondola as an attractive business with strong growth potential: a market-leader in a growing segment of the leisure market (casual dining) with a high return on capital employed (RoCE) roll-out model and strong cash flows. However, the group was underperforming, both in terms of its existing estate and in terms of the pace of its roll-out programme. Cinven therefore set a strategy of:

- accelerating the roll-out of successful formats;
- implementing best practice across the whole group;
- revitalising two of the principal brands, ASK and Zizzi;
- extending market leadership through new format launches or acquisitions; and
- strengthening the management team.

Cinven value creation

In order to carry out this strategy, Cinven appointed Harvey Smyth as CEO and made a series of external appointments covering finance, property and the various brands, and introduced Chris Woodhouse, a highly experienced retailer, as Chairman. Together with the newly invigorated management team, Cinven has made significant progress:

- accelerating Gondola's roll-out programme; increasing average restaurant openings to around 35 per year (from 23 previously) while increasing the expected return from new site openings. The increase in restaurants from about 520 at acquisition to around 640 today has been mainly focused on the strongest existing formats, PizzaExpress and Zizzi;
- developing and rolling-out new brands such as Byron, a new burger restaurant concept that now has 13 sites and significant growth potential;
- undertaking a series of innovative revenue initiatives to increase footfall and sales in restaurants in a very challenging retail environment, including new product launches, menu development and collaborations with partners such as Weight-Watchers;
- upgrading Gondola's promotional strategy and investing in its technological capabilities, building a proprietary customer database to increase like-for-like growth and market share; and
- delivering a number of efficiencies on the operational side. For example, management has been working with the Cinven Portfolio team to realise cost savings in the procurement of store fixtures and fittings and staff uniforms through sourcing from Asia. More recently, Cinven has negotiated the acquisition of the international franchise business of PizzaExpress that was previously owned independently of the Gondola Group, and is working closely with Gondola management to accelerate the growth of the business in international markets. Cinven's Portfolio team in Asia is closely involved in this initiative.