



# Strategy of the Sfinks Polska Group for 2017–2022

(31 March 2017)

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## I. INTRODUCTION

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Sfinks Polska S.A. is one of the largest restaurant companies in Poland. It has been listed on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A) since 2006. As a capital group, it manages restaurant chains – Sphinx, Chłopskie Jadło and WOOK, as well as the pub ‘Bolek’ localised in Warsaw. Sfinks has been active on the market since 1999, however the first restaurants belonging to the chains from its portfolio were opened four years earlier.

The leading and most valuable chain belonging to Sfinks Polska is Sphinx. It is the largest restaurant chain in the casual dining segment in Poland. At the same time, Sphinx is the strongest and most recognised Polish restaurant brand. According to the latest polls conducted by TNS OBOP for Sfinks Polska in 2016, the Sphinx brand ranked second among all restaurant brands on the Polish market in terms of top-of-mind awareness with a 16% market share. The brand’s prompted awareness increased, on the other hand, to 91%. Sphinx accounts for 90% of the Group’s restaurant income. The first restaurant under that name was opened in Łódź in 1995. In the next two years another Sphinx was opened, this time in Poznań. The success of these two restaurants initiated the creation of the entire chain, currently including 93 restaurants scattered around several dozen Polish towns and cities.

The second largest chain managed by Sfinks Polska in terms of the number of restaurants and income is Chłopskie Jadło, i.e. the most recognised brand in the Polish food restaurant category. At present, the brand is represented by 13 restaurants, e.g. in Warsaw, Kraków, Wrocław, Olsztyn and Bydgoszcz.

Through a subsidiary company, the Sfinks Polska Group also owns the WOOK brand with two restaurants serving Asian food, as well as the pub ‘Bolek’ localised in Warsaw and taken over in 2016.

The Company has also concluded master franchise / license agreements under which it may develop restaurant chains under the following brands: Fabryka Pizzy, Meta, Meta Disco, Funky Jim.

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## II. SUMMARY

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The Strategy of the Sfinks Polska Group for 2017–2022 envisages that all actions carried out by Sfinks during this period will be guided by the objective of generating value for the shareholders. In the period covered by the Strategy, the Company will strive to achieve an increase in the P/E ratio to reach the level of the market leaders in the HORECA segment and to pay out a dividend.

The actions aimed at business expansion will be implemented mainly by extending the portfolio of complementary restaurant brands. The growth in this regard will be both organic and based on acquisitions. Restaurant concepts will be developed within Sfinks Polska S.A., through subsidiary and associated companies, provided that control over them is ensured. The Company's goal is to manage within the Sfinks Polska Group chains with a total number of at least 400 restaurants.

The Sphinx restaurants will remain the flagship chain of the Group. The current chain from the Sfinks Polska portfolio, i.e. Chłopskie Jadło and WOOK, will also be developed. The Company is also planning to design and implement its own brands in the Fast Casual Dining segment (Middle East cuisine dishes under a new name) and QSR (Polish food), and to develop pizza and pasta restaurants under the Fabryka Pizzy brand. The objective of the Group in the Italian food segment is to become a leader on the Polish market once the Strategy has been implemented. The Company will also develop a gastropub chain, as well as chains under the Meta, Meta Disco and Funky Jim brands, based on its license agreements. The Group will continue developing a chain of the existing and new concepts by means of both organic growth and acquisitions.

The Group intends to develop its chains within the model of company-owned and franchise restaurants, with the intended share of franchise restaurants at the level of 70–90% depending on the type of chain. The development of sales within the system of customer delivery based on its own brand is to constitute yet another source of income and competitive advantages for the Sfinks Polska Group. In the period covered by the Strategy, Sfinks also intends to implement the master franchise concept and launch a restaurant chain in at least 3 countries.

Moreover, the Sfinks Polska Group will seek to achieve high operational and financial efficiency, e.g. by implementing ICT solutions that facilitate managing restaurant chains. The Company has set itself the objective of reaching the average ROI at the level of 25% and the debt/EBITDA ratio at the level of consolidated results at 3.5, and of reaching and maintaining the EBITDA/revenues ratio at the level of 15%.

The implementation of the Development Strategy for 2017–2022 will be financed from the generated disposable cash, franchisees' funds and financial leverage, with a simultaneous focus on achieving the strategic financial goals. To this end, the Company intends to improve significantly the profitability ratios of the Group, convert some of Sphinx and Chłopskie Jadło chains into franchise points, adjust the amounts of principal and interest payments to the Strategy's objectives and use external (debt and equity) financing in order to develop the Group's companies, while maintaining the intended level of the DEBT/EBITDA ratio, as well as to make a greater use of fit-out, thus decreasing the share of own funds contribution to the financing of investments.

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### III. RESTAURANT SERVICES MARKET IN POLAND

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The following part of this document presents selected information on the restaurant services market. A detailed description of the market and competitive environment of the Sfinks Polska Group can be found in the Supplement to the Strategy.

#### 1. VOLUME AND STRUCTURE OF THE RESTAURANT MARKET IN POLAND

**The main conclusion:** For several years now, the restaurant market has been on the increase. As shown by the GfK Polonia data,<sup>1</sup> since 2010 the value of sales in restaurant outlets has been increasing systematically. The upward trend was particularly marked in 2016.

- ✓ The **total sales** generated by all restaurant outlets in **2016** reached almost PLN 32.7 billion, which means a **9.1 p.p. increase** compared to 2015.<sup>1</sup>
- ✓ **The value of sales increased clearly in all restaurant market segments** (except for night clubs where sales remained at the 2015 level). The fastest growth rate was observed in terms of restaurants (+17 p.p.), bars/lunch-bars (+9 p.p.) and cafés (+8p.p.).
- ✓ The **estimated number of restaurant outlets** operating in 2016 reached almost **~72,800**. As regards outlets opened all year round, their number grew to 54,150, which means an increase of 4 p.p. compared to 2015.<sup>1</sup>
- ✓ All segments of round-year outlets, except for night clubs, recorded an increase in their number compared to 2015. **The largest increase** is recorded among **fast-foods and restaurants** – by 7 p.p. and 6 p.p. respectively. Also the number of outlets of the **Top 10 largest chains** increased – by over 8 p.p.<sup>1</sup>
- ✓ The development of the Polish restaurant market confirms **the increase in the percentage of Poles using such services**. In 2016, 54% of Poles ate out (an increase of 8 p.p. compared to 2015).<sup>1</sup>
- ✓ Eating out is increasingly popular among various consumer groups, both women and men in their 20s, 30s and 50s, residents of towns of various sizes and the majority of groups distinguished according to life stages.<sup>1</sup>

#### 2. CUSTOMER BEHAVIOUR ON THE RESTAURANT SERVICES MARKET

**The main conclusion:** Polish consumers are clearly going to restaurants more and more often, on a growing number of occasions and are using an increasing number of types of restaurant services, spending a growing share of household budget on eating out. As a result of the growing consumer awareness and high competitiveness on the market, in the coming years restaurant owners will need to fight for customers mainly by **offering high quality and diverse services**.

- ✓ As the Central Statistical Office (GUS) data show, the disposable household income has been systematically increasing in Poland, which entails also growing spending on visits to restaurant outlets.
- ✓ There has been a noticeable **steady increase in the average number of various types of restaurant outlets visited by consumers** since 2014 (an increase from 2.2 types of outlets visited on average by consumers to 2.6).<sup>1</sup>
- ✓ **Restaurants (26%), pizzerias (25%), fast foods (21%), pubs (14%) and cafés (10%) are the most popular** restaurant outlets among consumers.<sup>1</sup>
- ✓ The number of situations in which Poles eat out is on the increase. **Going out with friends** is still the **most common occasion** to visit restaurant outlets (46%). The following are gaining in popularity

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<sup>1</sup>The restaurant services market in Poland, GfK Polonia, November 2016.

compared to the previous years: **spontaneous meetings without any special occasion**, as well as **eating on the way to work or school, fast snacks, going out during the holidays or during business trips**. Family occasions, spending time with children and lunches during work are still popular occasions to eat out.<sup>1</sup>

- ✓ **Delivery is enjoying growing popularity when it comes to using restaurant services. Over one fourth of the customers eating out also order food from restaurants via phone and/or the Internet. This is a 6 p.p. increase compared to 2015.**<sup>1</sup>
- ✓ Together with an increase in competitiveness on the market, certain other elements apart from functional elements, such as the quality and taste of dishes, are becoming the key aspects determining the choice of the place to eat out. These include non-taste sensations offered to customers by restaurant outlets, such as: the need to relax (manifested by the desire to spend time in a nice and friendly atmosphere), the need of novelty and variety (manifested by the desire to try new and varied tastes and places), the need to please oneself and the closest ones (manifested in the desire to develop and cherish contacts with other people).<sup>2</sup>
- ✓ Among people who do not eat out, the barriers related to excessively high prices (although it is still the most often cited barrier to eating out), taste-related concerns, health qualities of food in restaurants or the reluctance to spend time with family and friends away from home are becoming weaker and weaker. On the other hand, the concerns related to the uncertainty of the quality of ingredients used in food eaten in town are growing.<sup>1</sup>

### **3. GROWTH PROSPECTS FOR THE RESTAURANT SERVICES MARKET IN POLAND**

The further growth of the restaurant market in Poland is supported by the following:

- ✓ a systematic increase in the household disposable income;
- ✓ the financial support for households in the form of the 500+ programme;
- ✓ an increase in economic activity, including in particular women who are traditionally responsible for shopping and cooking in households;
- ✓ cultural and social trends related to the fast pace of life, a high workload and studying away from home towns, a change in the manner of spending free time;
- ✓ the development of tourism.

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<sup>2</sup>Trends on the restaurant services market, IQS and Quant Group for Sfinks Polska, December 2015.

#### IV. COMPETITIVE ADVANTAGES OF SFINKS POLSKA S.A.

- ✓ **Staff** – the number of people having the expertise and experience in managing restaurant chains is very limited on the Polish market. The number of training courses and low fluctuation result in that each year the expertise and experience accumulated in companies are on a higher level. In addition, the recruitment – through acquisitions – of new people who achieved success in building their own restaurant chains strengthens the Group’s staff.
- ✓ **Know-how** related to the management and development of tools facilitating management.
- ✓ **Strong Polish** chain brands in the Group.
- ✓ **The largest chain in the casual dining segment** (Sphinx) and the strongest Polish restaurant brand.
- ✓ A **highly varied offer** and developed offer management methods.
- ✓ The **business scale** and the resulting conditions of purchasing raw materials, media, materials and equipment; the number of customers.

Table 1. SWOT analysis

Strengths	Weaknesses
<ol style="list-style-type: none"> <li>1. A strong and recognised leading brand – Sphinx</li> <li>2. The business scale allowing the Group to grow dynamically, with a relatively low increase in G&amp;A expenses</li> <li>3. A new ICT system being implemented which enables using competitive solutions in customer relations, as well as solutions that strengthen management and know-how development</li> <li>4. A competent, involved and loyal staff</li> <li>5. Process-based management – a large potential to support the development and operation of subsidiary companies, which guarantees an appropriate level of management</li> <li>6. High customer loyalty – significantly above the market average</li> <li>7. Very high customer satisfaction with the service obtained for the price paid, a steady improvement in the reviews of customers visiting the restaurants</li> </ol>	<ol style="list-style-type: none"> <li>1. The Company’s history that affects the low valuation of its shares and thus limiting the available methods of financing the dynamic growth of the Group, given the structure of the Company’s balance sheet</li> <li>2. The lack of full implementation of an integrated ICT system</li> <li>3. A large diversity in the size of Group chains, and therefore a lower profitability of some chains due to the excessively small scale of operation</li> <li>4. A low share of sales in the system of customer delivery and take-away sales in the other chains</li> <li>5. The lack of an extended catering offer</li> </ol>
Opportunities	Threats
<ol style="list-style-type: none"> <li>1. A growing market <ul style="list-style-type: none"> <li>• Changing customer habits and an increasing frequency of restaurant visits</li> <li>• A steady increase in the purchasing power of people</li> <li>• A growing demand for take-away sales</li> </ul> </li> <li>2. <b>Limiting the grey area on the restaurant market</b></li> <li>3. A growing demand for high quality services</li> <li>4. A low interest rate of loans and deposits</li> <li>5. Strengthening of the zloty (PLN)</li> <li>6. A decrease in rental and property prices</li> </ol>	<ol style="list-style-type: none"> <li>1. An increase in the operating costs, including as a result of legal and tax changes</li> <li>2. A recession and an increase in consumer pessimism</li> <li>3. Devaluation of the zloty (PLN)</li> <li>4. An increase in credit costs</li> <li>5. An increase in rental and property prices</li> <li>6. A dynamic entry of foreign competition</li> <li>7. An increase in the unemployment rate</li> </ol>

## **MISSION**

We care about the customer. We build long-lasting relations, offer diverse services and professional service.

## **VISION**

To strengthen our position as an expert in restaurant chain management. To manage, within the Sfinks Polska Group, chains totalling at least 400 restaurants. To achieve the leading position in the market of sales within the system of customer delivery

## **VALUES**

- ✓ **Creativity and originality**, we search for new ideas and concepts with passion, we create our own solutions.
- ✓ **Readiness for change** we treat changes as constant development opportunities
- ✓ **Diversity** we respect different cultures, experiences, outlooks and views, which allows us to create products and solutions meeting the expectations of our customers.
- ✓ **Reliability** we operate and work in a fair manner, responsibly and reliably, continuously building trust of our partners and customers.
- ✓ **Professional approach** we raise the qualifications and improve the technologies with full commitment.



**INTRODUCTION**

Despite a good market prospect, the changes in the market, resulting in higher expectations among the customers, coupled with an increase in operating costs, make it necessary for businesses to:

- ✓ modify their cost structure while providing services of an appropriate standard;
- ✓ manage the price accurately to ensure an adequate sales margin;
- ✓ increase the scale of operations.

This makes it necessary for businesses in the restaurant industry, including the Sfinks Polska Group, to take measures to adjust their development strategy and operational activities to address the rapid developments.

Due to its scale of operations, staff, know-how, knowledge and skills in obtaining financing in the context of the current low interest rates, gained over the years, as well as its experience and relations when it comes to securing locations, Sfinks Polska S.A. is able to efficiently adjust its operations to market changes.

The Group strives to acquire new chains/concepts to develop a brand portfolio that allows it to offer its customers dishes from all over the world, to provide services via different distribution channels and to cater to the expectations of the customers as to the time they have to wait for their dish to be served and the opportunities to eat out. The choice of brands in the Group's chains, the Company's experience in inspiring loyalty from its customers and in positioning the brands, all make it possible to steadily strengthen the market position of all the brands managed by the Group, and in most cases to place the Company in a leading position in its segment.

At the same time, Sfinks Polska develops new IT solutions that support the management and creation of customer relations, which, coupled with strong brands and the economies of scale, will be crucial for the profitability of the Group. This will make management more effective and, consequently, support a systemic development of the chains. Once the tool is fully operational, it will be easier to use various price lists and incentives, which will allow to customise the services offered to the customers, and thus to reach an appropriate sales volume while maintaining the expected profit and satisfaction of the customers.

Increasing the scale of operations will result in improved profitability. The main drivers will include: a decrease in costs following an increase in the scale of purchases, more attractive rental prices due to the improved position when negotiating rental agreements, the possibility to use the most effective organisation and business solutions within all the chains, as well as a decrease in the general administration costs of Sfinks Polska Group as compared to revenues.

The Company has successfully introduced a loyalty programme and price management methodologies. Extension of the chains to include strong brands will make it possible to offer to the customers more interesting services, catering to their needs depending on particular occasions and locations, as well as accounting for diverse tastes and atmosphere.

Due to the number of the ongoing projects (i.e. the development of IT tools, acquisitions, the creation of management processes and work on preparing the Company to market and regulatory changes), over the last 2 years Sfinks Polska S.A. incurred higher labour costs than expected considering the size and profitability of the chains. The finalisation and implementation of the key projects will allow for a steady decrease in the general administration costs of Sfinks Polska Group as compared to revenues.

**1. POLICY OBJECTIVES OF THE SFINKS POLSKA S.A. GROUP FOR 2017–2022**

The main policy objective is to create value for the shareholders. Company will strive to achieve an increase in the value of Sfinks Polska S.A. measured with the P/E ratio to reach the level of the

market

leaders

in HORECA segment. In the period covered by the Strategy, the Company will also strive to pay out a dividend.

The Company intends to reach this objective by achieving the following goals:

- building a portfolio of complementary restaurant brands to cater to diverse needs of the customers;
- achieving high rates when it comes to the recognisability of the managed brands and to the quality assessment by the customers;
  - ✓ maintaining the level of satisfaction among the customers of the Sphinx restaurants (very satisfied and satisfied) as regards every aspect of the services provided at a minimum of 95%;
  - ✓ achieving the satisfaction rates among customers of the chains of the other brands corresponding to those reached by Sphinx restaurants;
  - ✓ reaching and maintaining the customer loyalty rate for all the chains above the market average;
  - ✓ achieving the top 5 brand recognition rate by all the Group's brands in their respective segments;
- achieving an increase in the scale of operations;

The chains will be developed through:

- ✓ acquisition of existing restaurants and restaurant chains/concepts;
- ✓ further development of a chain of own brands in the Casual Dining segment;
- ✓ final alignment of the standards of the Sphinx chain and, consequently, designing and implementing new brands at specific locations, not in line with the standards of the Sphinx restaurants:
  - restaurants in the Fast Casual Dining segment – Middle Eastern cuisine;
  - QSR restaurants – Polish cuisine;
- ✓ development of sales within the system of customer delivery based on own brand and organisation;
- ✓ implementation of the master franchise concept and launch of a restaurant chain in at least 3 countries.

The Group intends to develop its chains within the model of company-owned and franchise restaurants, with the intended share of franchise restaurants at the level of 70–90% depending on the type of chain.

- Achieving high operational and financial efficiency of actions by:
  - ✓ implementing IT tools that allow to achieve full competitive advantage by means of flexibility and scalability of the solutions, as well as better quality and speed of obtaining managerial information;
  - ✓ reaching the average ROI at the level of 25%;
  - ✓ reaching the debt/EBITDA ratio at the level of consolidated results at 3.5;
  - ✓ reaching and maintaining the EBITDA/revenues ratio at the level of 15%.

## 2. STRATEGY ASSUMPTIONS

- Development of chains within Sfinks Polska S.A. and associated companies

The Group will continue developing the chain by means of both organic growth and acquisitions. The Group will decide on the choice of the development path in particular by analysing market trends and synergy effects, coherence with the strategy pursued and expected investment return.

Sales within the system of customer delivery will also play an important role in the development of the brand chains within Sfinks Polska Group and in increasing their profitability. The Group intends to create its own brand of sales within the system of customer delivery and to provide services to all its brands, ensuring quality and conditions significantly more favourable than in the case of each of the chain acting separately.

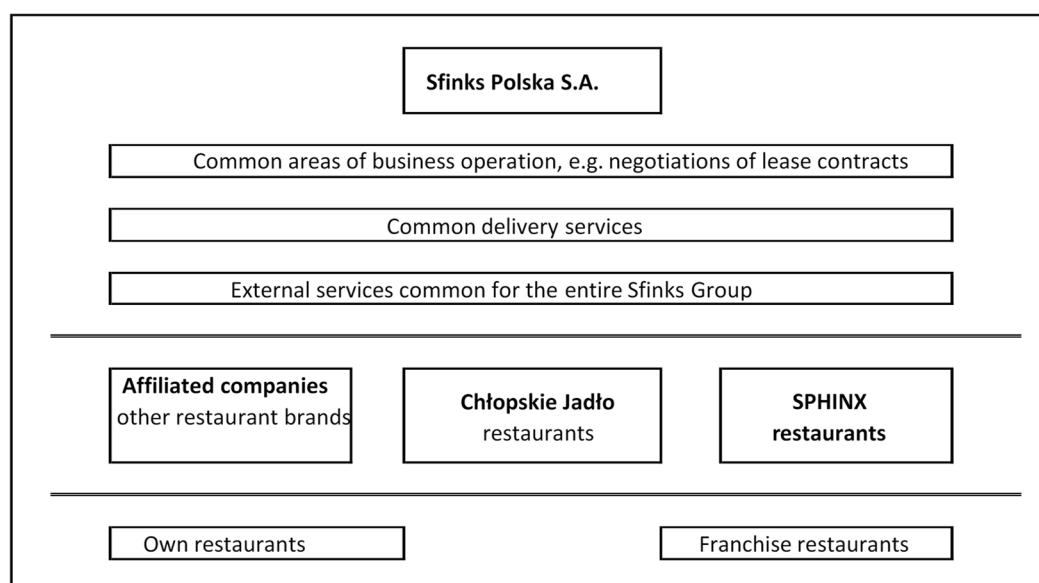
- Structure of the Group

Sfinks Polska S.A. will still play the leading role within the Group. The chains will be developed within Sfinks Polska S.A., through subsidiary and associated companies. Sfinks accepts that it may hold less than 100% shares in such companies, provided that it still controls them.

Sfinks Polska S.A. will be responsible for providing organisational support to the entities within the Group, including searching for synergy effects, in particular as regards:

- ✓ finances and accounting
- ✓ negotiations and searching for locations and franchisees
- ✓ negotiating the terms and conditions for purchasing goods and services
- ✓ looking for opportunities to produce dedicated products in certain areas of huge sales potential for the Group
- ✓ ensuring that the operations comply with legal regulations
- ✓ coordination of the cooperation between the entities within the Group, in particular in building databases, promotion activities and sales within the system of customer delivery.

*Table 2. Structure of the Group organisation*



- Building the brand portfolio

Sfinks Polska S.A. will strive to create a portfolio of restaurant brands that will allow it to

- ✓ diversify the restaurant services offered to customers;
- ✓ make better use of available restaurants – location, size, potential expected profitability and ROI;
- ✓ cater to different needs also according to the criteria below:
  - business meetings, family gatherings, entertainment;
  - time of the day, day of the week;
  - travel, work;
  - eating out at a restaurant, a cafe, catering, sales within the system of customer delivery;
- ✓ diversify available prices;
- ✓ achieve potential growth, including master franchise sales outside Poland.

### 3. CHAIN CHARACTERISATION

The following tables show the list of the current and expected brands within the Group’s portfolio including the elements for their positioning. The brand portfolio may be extended as a result of the ongoing market analysis and the subsequent organic growth and acquisitions.

Table 3. Brands in the Casual Dining segment

Brand	Chłopskie Jadło	Sphinx	WOOK	Fabryka Pizzy
Restaurant type	<b>Casual Dining</b>			
Main kind/cause of visit	Meetings: get-togethers, family gatherings, business meetings, <b>lunches, dinners, sit-down parties</b>	Meetings: get-togethers, family gatherings, business meetings, <b>lunches, dinners</b>	Meetings: get-togethers, family gatherings, business meetings <b>lunches, dinners</b>	Meetings: get-togethers, family gatherings, business meetings, <b>lunches, dinners</b>
Kinds of dishes	Polish cuisine	International cuisine mixed with Middle Eastern flavours	Asian cuisine	Italian cuisine
Distinctive dishes in the offer	Traditional Polish cuisine beef roulades, dumplings, “placki Macieja” pancakes, compotes, Polish alcoholic beverages Polish music	Shoarma by Sphinx, steaks, novelties – additional kids menu 4-6 /year, cultural events Before	Dishes prepared in a wok placed over the fire	Wholemeal dough – light pizzas and pastas, wine Italian music
Typical surface area	250–400 m <sup>2</sup>	250–350 m <sup>2</sup>	220–250 m <sup>2</sup>	100–150 m <sup>2</sup>

- **SPHINX RESTAURANTS**

The Sphinx brand is the strongest restaurant brand in Poland in the casual dining segment with waiter service. It is a strong brand characterised by high customer recognition (full awareness 91%, top of mind 16%). After 20 years in the market, it is a stable brand showing rise in customer loyalty and satisfaction. The international cuisine mixed with some oriental flavours: shoarma, steaks, starters, mezze, low-fat and seasonal dishes, will live up to the expectations of various groups of customers. The restaurants modernised over the last couple of years, as well as new Sphinx restaurants are designed in a modern style with oriental elements, with the space arranged to serve various needs and occasions.

The Company intends to develop the chain of Sphinx restaurants in line with the current standards, i.e. a surface area of 250–350 sq. m. At the same time some Sphinx restaurants of less than 200 sq. m are planned to be turned into restaurants operating under different brands within the Group (see information below), for which the size of the restaurants is suitable. This will make it possible to create a fully uniform image of the Sphinx restaurants and to obtain a higher EBITDA of the transformed restaurants, mainly as a result of lowering the labour and food-related costs.

Some of the restaurants, which will operate under the Sphinx brand, will be run in the franchise system. This will bring real benefits to the Company, including: greater commitment on the part of the restaurant manager and a corresponding rise in sales, release of funds for new investments by the Company and, consequently, a higher total EBITDA in the period covered by the Strategy.

The Company expects that, with the introduction of sales of the dishes offered by Sphinx restaurants within the system of customer delivery, the dynamics of sales in the Sphinx chain will exceed the dynamics of development of restaurants in this chain.

In the end, this will result in Sphinx restaurants having a uniform image across the country and a potential to be more profitable, with a lower general administration costs/the chain’s revenues ratio.

- **CHŁOPSKIE JADŁO**

Chłopskie Jadło is the third largest chain of restaurants in Poland and the largest one offering Polish cuisine dishes; over the last three years, no dynamic growth of the competing chain restaurants has been

observed. The main competitors of the Chłopskie Jadło brand are local city restaurants serving Polish dishes and out-of-town (roadside) taverns/inns specialising in serving Polish dishes, as well as outlets serving dumplings.

The studies conducted for Sfinks Polska S.A. by IQS and Quant Group in 2015 show that when it comes to the country of origin, Polish cuisine is the most favoured kind of cuisine, indicated as such by 71% of adult Poles who eat out. Polish cuisine is valued mainly for large portions, healthy dishes (no preservatives and artificial additives), balanced composition of ingredients and related emotional experiences – tastes from childhood, linking generations, occasions to meet with family and friends, comfort and casual atmosphere during the meal. Accordingly, quality assessments of the Chłopskie Jadło brand conducted by Sfinks Polska show that the above values are associated with this brand as well. The elements placed in the forefront of the Chłopskie Jadło chain image are those which gain importance for clients while choosing the place to eat out, namely those related to the natural character of dishes and their healthy aspects, i.e.:

- a restaurant uses natural/unprocessed ingredients;
- a restaurant offers dishes prepared on the basis of seasonal products;
- a restaurant offers healthy dishes;
- products used in a restaurant to prepare dishes are of high quality;
- a restaurant offers a wide selection of accompaniments.

In 2016, the Company tested the sales within the system of customer delivery for the Chłopskie Jadło restaurant offer. The sales results confirmed the high potential for the sales of Polish cuisine through this distribution channel. Currently, 13 Chłopskie Jadło restaurants are operating, i.e. 12 own restaurants and 1 operating under the franchise agreement.

Based on the results achieved so far, the assumed development of the Chłopskie Jadło chain covers up to several dozen of restaurants in the period under the Strategy, including the franchise model, as well as the additional growth of sales within the system of customer delivery.

#### • **WOOK RESTAURANTS**

Historically, the subsidiary company Shanghai Express Sp. z o.o. managed five WOOK restaurants. Although the image of these restaurants was uniform, their parameters of activity were different. They varied significantly in the scope of the surface area (from 170 to 800 m<sup>2</sup>), and they had highly diversified share of rental costs in relation to the reached turnover. Currently two restaurants are characterised by similar parameters of rent in relation to sales value. The optimum surface area for a WOOK restaurant falls within the scope between 220 and 250 m<sup>2</sup>.

The Asian cuisine dishes are, after the Polish and Italian cuisines, the third most popular group of dishes preferred by clients. The clients of the WOOK restaurant appreciate the way of preparing food (in a wok placed over the fire) and the tastes in the offer. The offer of sushi dishes will also be introduced.

Due to the considerable sales potential within the system of customer delivery, the dishes from the menu, including sushi, will be offered through this distribution channel. In the Strategy implementation period, the development of the WOOK chain is planned mainly in big cities, with the share of approximately 70% of franchise restaurants.

#### • **FABRYKA PIZZY**

The Italian cuisine is the most popular type of foreign cuisine in Poland. At the same time, pizza is the most popular and easily transportable product for sale within the system of customer delivery. The popularity of pizza among Poles results in systematic development of client's needs in the scope of diversity of the product in the offer, accessibility of the product and the speed of fulfilling orders depending on the situation.

In the 4<sup>th</sup> quarter of 2016, Sfinks Polska S.A. concluded the master franchise agreement granting the exclusive right to develop the restaurants chain serving Italian cuisine dishes under the brand name Fabryka Pizy to Sfinks Polska or subordinate entity. At the same time, Sfinks Polska has the rights to purchase the

company Fabryka Pizzy Sp. z o.o. in the specified time and at the specified price. The company informed about the above-mentioned transaction in the current report No 28/2016 of 28 December 2016.

Fabryka Pizzy is a chain of 12 restaurants, which was established in Cracow in 2000. The brand is especially well known in this city and offers a wide variety of Italian cuisine dishes, including pizza. The chain offers its distinctive dish under the name Bomber (a hot pizza bread stuffed with various ingredients) and a possibility to order wholemeal pizzas, pasta and Bombers.

Sfinks Polska Group intends to develop the chain of pizza and pasta restaurants under the brand name Fabryka Pizzy. The inputs for building such a chain are significantly lower per one restaurant than in the case of Sphinx or Chłopskie Jadło restaurants, due to both lower requirements for technological facilities and smaller surface area of restaurants. The preferred surface area is 120-150 m<sup>2</sup>.

The objective of the Group in the Italian food segment is to become the leader on the Polish market once the Strategy has been implemented, which is to be achieved through the development of both the Fabryka Pizzy chain and other brands within this segment.

Table 4. Brands in the FCD, Bistro and Gastropub segments

Brand	New Own Brand	Meta Disco	Meta	Funky Jim	Pubs/ 'Bolek'
<b>Restaurant type</b>	<b>Fast Casual Dining</b>	<b>Bistro</b>			<b>Gastropub</b>
<b>Main kind/cause of visit</b>	Meetings: get-togethers, family gatherings lunches	Meetings: get-togethers, business meetings entertainment	Meetings: get-togethers, business meetings lunches	Meetings: get-togethers, business meetings lunches	Meetings: get-togethers, business meetings entertainment Lunches
<b>Kinds of dishes</b>	Middle Eastern cuisine	Polish cuisine	Polish cuisine	American cuisine	Polish cuisine
<b>Distinctive dishes on offer</b>	Shoarma, kebab, kofte, falafels, couscous	Steak Tartar, Polish pickles, Polish vegetable salad, traditional Polish alcohol disco-polo music + world retro disco, disco	Steak Tartar, Polish pickles, Polish vegetable salad, traditional Polish alcohol Polish retro music, casual ambience	Steak, burger, alcohol – Jim Beam, music	Shish kebab, ribs, beer pork knuckle, sport broadcasts, dancing
<b>Typical surface area</b>	60–100 m <sup>2</sup>	250–400 m <sup>2</sup>	80–150 m <sup>2</sup>	100–150 m <sup>2</sup>	200–400 m <sup>2</sup>

- **NEW OWN BRAND**

With view to the planned transformation of some of Sphinx restaurants into another brand, in order to finalise the standardisation of the Sphinx restaurants chain, Sfinks Polska S.A. is planning to transform these restaurants into FCD restaurants offering the Middle Eastern cuisine dishes. Currently, the leading main dish with the highest sales rate in this group of restaurants is shoarma. Limiting the menu and at the same time keeping the most popular dishes, including shoarma, as well as supplementing it with attractive Middle Eastern cuisine dishes, will grant possibility to keep the current group of clients, attract a new group of clients and – thanks to limiting the menu – improve the profitability and decrease the prices of the dishes.

Development of such a chain will enable opening restaurants with lower investment inputs than in the case of SPHINX restaurants, thus creating a significant potential to develop the chain on the basis of franchise agreements. The Company is planning to transform several selected Sphinx restaurants into the new own brand in 2017. The plans for further development will be based on the results achieved.

- **META**

In the first quarter of 2017, the company from the Sfinks Polska Group concluded license agreements granting exclusive rights to develop restaurants operating under the brand names Meta and Meta Disco to

Sfinks Polska or the subordinate entity. At the same time, Sfinks Polska has the rights to purchase these brands and the existing restaurants operating under these brands in the specified time and at the specified price. The company informed about this transaction in the current report No 4/2017 of 26 January 2017.

The restaurants operating under the above-mentioned brands are bistros characterised by low investment inputs compared to the restaurants with waiting staff, limited menu offer, significant share of alcohol and soft drinks in the total sales. The surface area depends on the brand: for the Meta brand the surface area of 80–150 m<sup>2</sup> is preferred, and for the Meta Disco brand – the surface area of 250–400 m<sup>2</sup>.

The bistro chain operating under the above-mentioned brands will be managed under the company subordinate to Sfinks Polska S.A.

- **FUNKY JIM**

Under the above-mentioned license agreements concerning Meta and Meta Disco brands, the company subordinate to Sfinks Polska purchased the analogous rights to develop and purchase the Funky Jim chain. The concept of a restaurant operating under this brand covers bistro and restaurant with a “short” offer on the menu. The offer of alcohol drinks considers a growing interest in drinking premium alcohol beverages, especially whiskey and mixed alcohols (drinks). Restaurant offer includes such dishes as steaks with accompaniments and beef burgers. Depending on the model, the surface area amounts to 150–200 m<sup>2</sup> for a bar and 250-300 m<sup>2</sup> for a bar&restaurant.

The concept will be developed based on own and franchise restaurants with interesting and diversified offer of alcohol beverages prepared by bartenders and with classic American cuisine dishes.

- **PUB ‘BOLEK’**

Since 2016, the Shanghai Express Sp. z o. o. (company subordinate in 100% to Sfinks Polska S.A.; ‘SE’) has been managing the PUB ‘BOLEK’ localised in Warsaw, in the Pola Mokotowskie park. The experience gained during this period will enable developing an appropriate menu and entertainment offer for this type of outlets.

The gastropub restaurants are characterised by a significant share in the sales of drinks.

Thanks to the development of bistros and gastropubs, the Sfinks Polska Group will be able to create synergies related to purchase of alcohol and soft drinks for the entire Group. At the same time, the company may respond in this way to the clients’ needs in the different area of the restaurant needs.

The Group is planning to enlarge the gastropub chain through both organic growth and acquisitions.

- **OWN SALES BRAND WITHIN THE SYSTEM OF DELIVERY**

During the period under this Strategy, the Sfinks Polska Group is intending to increase significantly the sales in the system of customer delivery in all Group’s chains. Currently, the companies operating in the segment of sales within the system of customer delivery are struggling to achieve a position in the market. The companies which are currently competing in the market in the area of intermediation both in sales and in delivery, do not offer high quality services, even though their charges are high. The Sfinks Polska intends to create its own brand of sales within the system of customer delivery and to provide services to all brands of the Group ensuring quality and conditions significantly more favourable than those available on the market so far.

Thanks to the customers’ recognition of the brands in the Sfinks Polska Group portfolio, the wide products offer and the intended scale of chains development, the new offer of sales within the system of delivery will be granted possibility to gain competitive advantage. With regard to the development of new distribution channel, Sfinks Polska is considering acquisitions and alliances enabling creating the scale of operations, development of a wide group of customers, sharing knowledge and a wide offer.

Table 5. Total assumed share of sales within the system of customer delivery for individual brands

Brand	Chłopskie Jadło	Sphinx	WOOK	Fabryka Pizzy	Meta	Funky Jim
Assumed share	15-30%	5-15%	20-30%	30-50%	5-10%	15-30%

#### • **MASTER FRANCHISE**

Sfinks Polska S.A. is planning to develop in the foreign markets on the basis of master franchise agreements. During the period under the Strategy, the company intends to develop the Sphinx restaurants chain through master franchise. The aim is to develop the Sphinx restaurants chain based on master franchise in at least three countries and in a way making it possible for the franchisee to easily use the know-how and to build the appropriate scale of operations. This objective may be met thanks to the intended implementation of the new comprehensive software for chain management.

The new system is centralised, operates on the basis of integrated blocks of specialised tools and dedicated functionalities, and enables coherent real time management of the offer for groups of restaurants, as well as for the individual restaurants in the chain. Open architecture of the software based on modules grants the possibility to adjust the system to specific chains needs with the use of central configuration only.

The software is developed in a way that enables running it in almost every location without the need to invest in the costly IT infrastructure. The system ensures the competitive advantage thanks to the application of online solutions granting a possibility of almost real-time reaction to the appearing changes. In case of any technical problems in communication with the headquarters, the system provides for the upholding of the operation of functionalities ensuring continuity of sales.

#### **4. FINANCING OF THE DEVELOPMENT STRATEGY IMPLEMENTATION**

The financing will be based on the generated disposable cash, franchisees' funds and financial leverage, with a simultaneous focus on achieving the strategic financial goals. For this purpose the Company intends to:

- Improve significantly the Group's profitability ratios by:
  - ✓ increasing the scale of operations;
  - ✓ improvement of the chain's profitability;
  - ✓ and limiting the share of administrative expenses in the income of the Group;
- Transform the part of the Sphinx and Chłopskie Jadło restaurants chains so that they are managed under the franchise model;
- Adjust the amount of principal and interest instalments to be paid to the Strategy assumptions, focusing especially on the period of the first 2 years and on the possibility of the payment of at least 30% of the loan in the last instalment;
- Use the external, debt and equity financing for the purpose of development of the companies of the Group, while keeping the assumed level of the indicator DEBT/EBITDA;
- Limit the share of own funds exposure in investments financing through increased use of the fit out.

#### **5. RISKS**

The possible risks for the Strategy implementation have been indicated in the SWOT analysis. In relation to its activity, the Group bears a number of risk types. They are described in the Consolidated Annual Financial Report covering the period from 1 December 2015 to 31 December 2016 and published on 21 March 2017. The above-mentioned document is available on the Company's website.

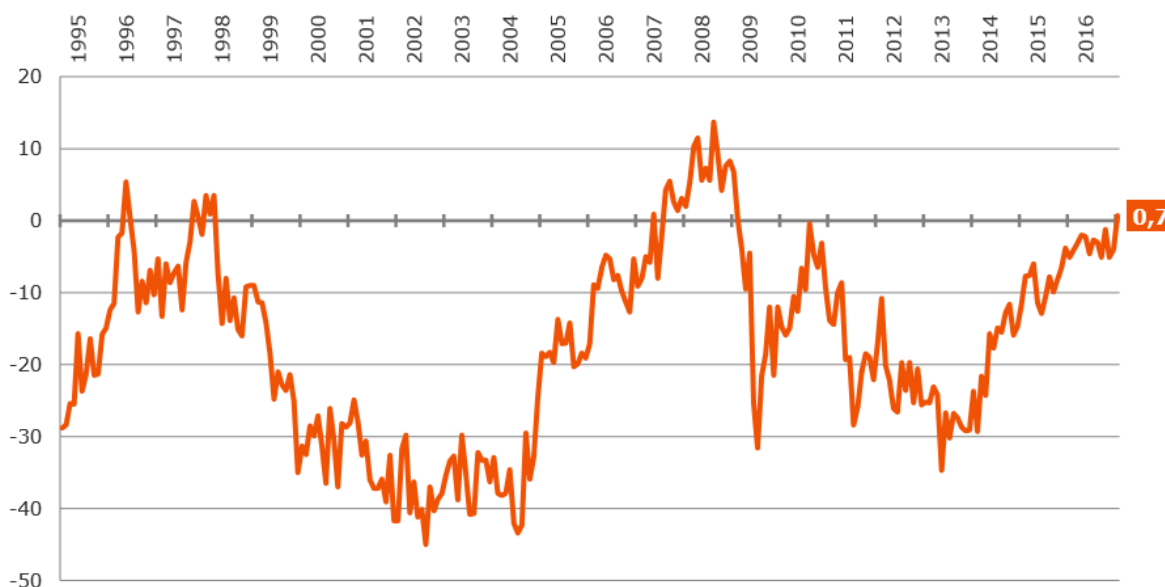
The aims and objectives concerning the future, which are described in this document, do not constitute the financial performance forecasts within the meaning of the § 5(1)(25) of the Ordinance of the Minister of Finance of 19 February 2009 on the current and periodic information presented by the security issuers and on the conditions of considering information required by the provisions of the country which is not a Member State as equivalent.



**1. CONSUMER SENTIMENT**

The consumer sentiment indices indicate a long-term increase in Polish consumers’ optimism since 2013.

Fig. 1. The TNS Consumer Index value<sup>1</sup> (an index of Polish consumers’ optimism), 1995–2016. Source: TNS Polska



The obtained values of the TNS Consumer Index have not reached the 2008 level yet, but the year 2016 for the first time for 8 years brought positive values of this index in September and November.

The observed high level of consumer optimism is characteristic of groups with significant purchasing power on the market, i.e. persons aged 25 to 39 (+7.1) and households 3+ (+3.2).

Table 1. The TNS Consumer Index value (an index of Polish consumers’ optimism), 2016.

Source: TNS Polska

01'2016	02'2016	03'2016	04'2016	05'2016	06'2016	07'2016	08'2016	09'2016	10'2016	11'2016
-2.2	-4.6	-2.7	-3	-5.1	-1.2	-5.1	-4	0.7	-1.9	0.1

Optimistic conclusions concerning the consumer confidence may be also drawn from the indices calculated by the Central Statistical Office (GUS) (BWUK, WWUK)<sup>2</sup>. The GUS’s Current Consumer Confidence Index

<sup>1</sup> **TNS Consumer Index** – informs about the current assessment and forecasts of the country’s economic situation and households’ economic situation. The TNS Consumer Index is based on five detailed indices obtained during monthly polls conducted by TNS Polska. Respondents assess the current economic situation of the country and the economic situation of their own household. The time horizon of the forecasts for these areas is 12 months. The value of the TNS Consumer Index is an index obtained by aggregating the balances of positive and negative assessments for the monitored areas of assessment of households and the country’s economy. The TNS Consumer Index may range from -100 to 100.

<sup>2</sup>The GUS’s **Consumer Confidence Indices** are created by [the Central Statistical Office](#) in order to determine the economic situation and the society’s expectations regarding the nearest future. They are created on the basis of monthly consumer sentiment polls in Poland conducted by the GUS. The polls intended to determine the changes in households’ financial situation, and as a result in the general economic situation in Poland, cover around 1,700 households.

(BWUK), which synthetically describes the current trends in individual consumption, increased in November 2016

by 1.5 p.p. compared to November 2015 and amounted to -2.4.

The GUS's Leading Consumer Confidence Index (WWUK), which synthetically describes the trends in individual consumption

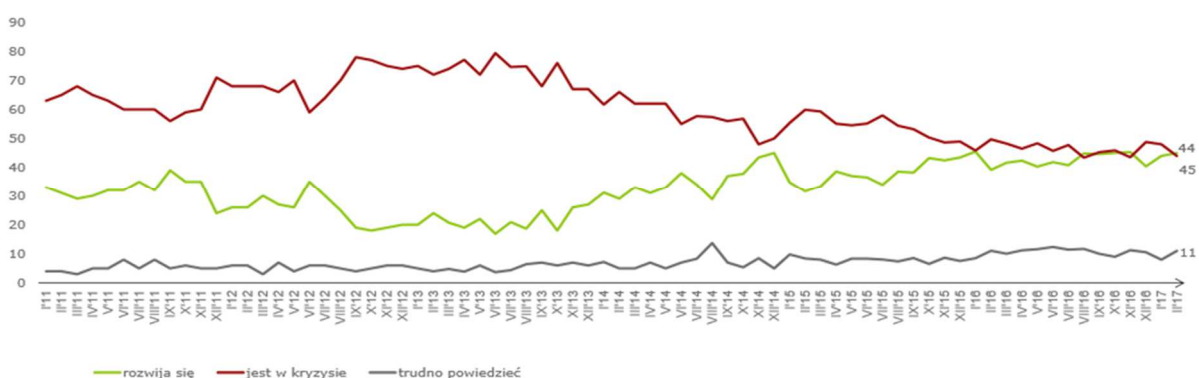
expected in the nearest months, was at the level of 5.4 in November 2016, which means an increase of 2.9 p.p. compared to November 2015.

## 2. SITUATION OF THE ECONOMY AND HOUSEHOLDS

In 2016, the economic growth rate slowed down (the estimated growth rate at the end of 2016 was 2.8% against 3.9% in 2015). At the end of 2017, a growth rate of 2.7% is expected. The main growth rate drivers within the next two years are likely to be: a recovery in investments, an improvement in exports, and private consumption.

According to the periodic survey by Kantar Public (formerly: Team for Social Survey TNS Polska) "Social sentiments of Poles", the positive assessment of the situation of Poland's economy has been on the increase compared to the previous years (the positive evaluation is reaching the 2008 level). It needs to be noted, however, that there is a divergence of opinions in this regard – the same percentage of adult Poles believes that the Polish economy is in the state of crisis (45%), as in the state of growth (44%), with 11% respondents having no opinion at all.

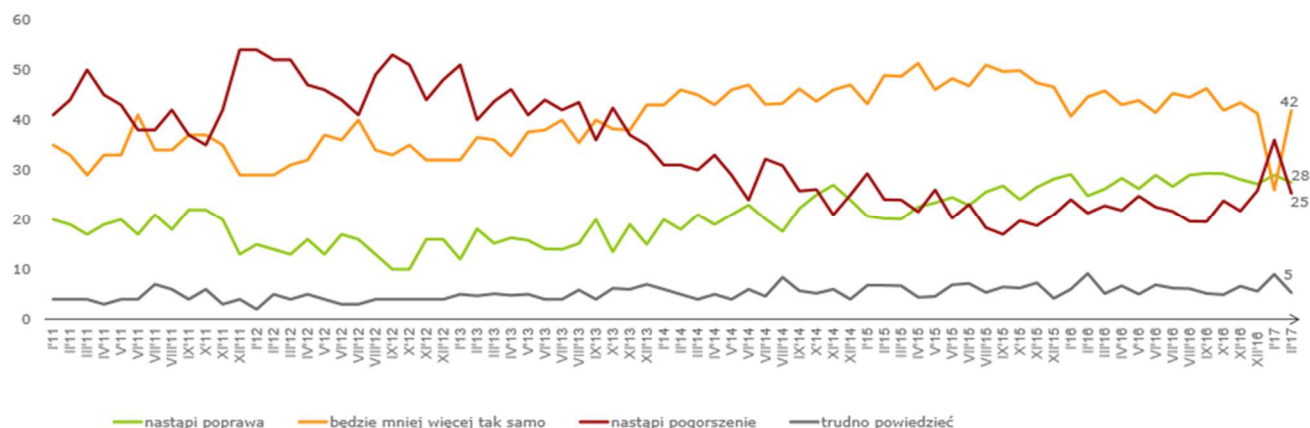
Fig. 2. Assessment of the Polish economy's situation. Source: Social sentiments of Poles. Kantar Public, February 2017



PL	EN
rozwija się	is developing
jest w kryzysie	is in crisis
trudno powiedzieć	hard to say

According to the same poll, the long-term perspective of household financial standing is perceived by Poles as stable (reaching one of the highest levels in a time trend since 2007). As many as 43% of Poles believe that the next three years will not bring any changes when it comes to the financial standing of their households. Over one fourth of the respondents (28%) is of the opinion that their living conditions will improve, whereas the lowest percentage (22%) believes that they will deteriorate.

Fig. 3. Forecast of changes in the financial standing of households. Social sentiments of Poles. Kantar Public, February 2017



PL	EN
nastąpi poprawa	situation is going to improve
będzie mniej więcej tak samo	situation will stay the same
nastąpi pogorszenie	situation is going to deteriorate
trudno powiedzieć	hard to say

According to the GUS's data, already in 2015 the financial standing of Polish households improved. Households were generating higher income and spending more than in 2014. The surplus of income over expenditure increased. The level of an average monthly disposable income per person amounted to PLN 1,386 in 2015 and was by 4.3% higher than the 2014 income. The average monthly expenditure in households per person amounted to PLN 1,091 in 2015 and was in real terms by 2.1% higher than the 2014 income, constituting 78.7% of income (in 2014 – 80.5%). The expenditure on consumer goods and services averaged PLN 1,043 and was higher in real terms by 2.0% compared to 2014.

The year 2016 (Q2) brought a further improvement in the financial standing of households. As reported by the NBP, in the second quarter of 2016 the real income of households increased by 6.1% y/y, of which the payments of 500+ benefits account for around 2.5 p.p. of the increase. Furthermore, the positive dynamics of income was supported by a clear increase in income from employment.

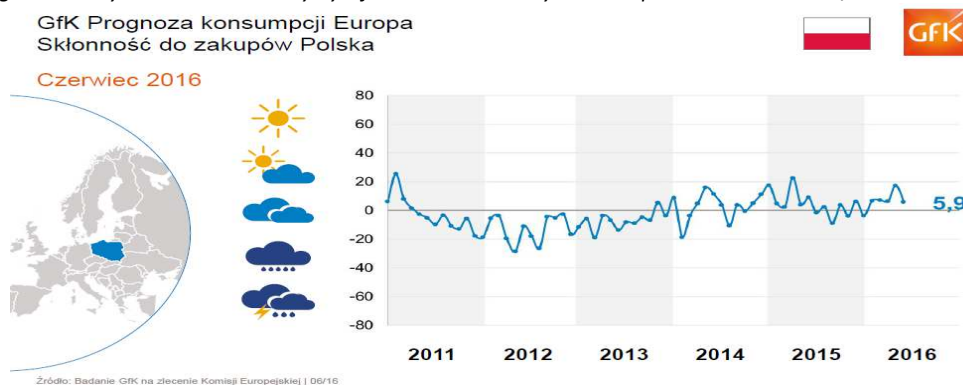
Also the components of the TNS Consumer Index indicate an optimistic assessment of the financial standing of households by consumers. Compared to analogous period from previous years, all indices related to the assessment of the economic situation of households observed marked increases, reaching higher levels than those from before the crisis.

Table 2. An index of the assessment of the situation of the economy and of households (the value in brackets shows the change in the index value compared to the previous month). Source: TNS Polska

	Situation of the economy	Situation of the economy – forecasts	Situation of households	Situation of households – a forecast
January 2017	-8.0 (-2)	-5 (+9)	<b>+16 (+12)</b>	<b>6 (+5)</b>
January 2016	-3 (+2)	-8 (-1)	<b>10 (+4)</b>	<b>7 (+1)</b>
January 2015	-20 (-7)	-13 (-8)	<b>+2 (0)</b>	<b>0 (-2)</b>
January 2014	-30 (+6)	-12 (+12)	<b>-6 (+6)</b>	<b>-4 (+7)</b>
January 2013	-44 (-20)	-33 (-18)	<b>-14 (+14)</b>	<b>-19 (-6)</b>

It needs to be noted that according to the survey by GfK, despite an improvement in the assessment of the financial standing of households, the Poles' willingness to buy is still low. To a greater extent than in the previous years, Poles invest a financial surplus to build up savings (in November 2016 the GUS's savings index was by 11.2 p.p. higher than in November 2015). At the same time, income expectations of Poles have grown significantly.

Fig. 4. Willingness to buy. Source: The survey by GfK commissioned by the European Commission 06/16



PL	EN
GfK Prognoza konsumpcji Europa	GfK Consumption forecast for Europe
Skłonność do zakupów Polska	Tendency for shopping in Poland
Czerwiec 2016	June 2016
Źródło: Badanie GfK na zlecenie Komisji Europejskiej   06/16	Source: GfK survey commissioned by the European Commission   06/16

The payments of 500+ benefits, introduced in April 2016, had no significant impact on the consumption increase. A delayed impact of the programme and increased related spending is expected in the second half of 2017.

### 3. LABOUR MARKET AND LEVEL OF SALARIES IN POLAND

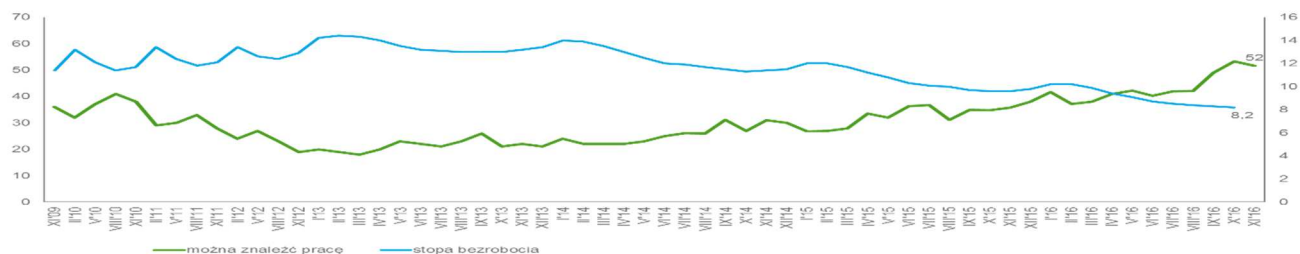
The optimistic Poles' sentiments are confirmed by the data coming from the labour market. Since 2016, the unemployment rate in Poland has remained at its lowest level for the last 25 years. In 2016, the unemployment rate fell to 8.3%. The BZ WBK analysts predict a further decrease in the unemployment rate to 7.4% at the end of 2017.

Table 3. Unemployment rate in Poland in 2010–2016, source: GUS

2010	2011	2012	2013	2014	2015	2016
12.4%	12.4%	13.4%	13.4%	11.5%	10.5%	8.3%

Also in the opinion of Poles, the situation on the labour market is good and is an optimistic outlook for the future.

Fig. 5. Employment opportunities in Poland and the unemployment rate  
Source: Social sentiments of Poles. Kantar Public, November 2016



PL	EN
można znaleźć pracę	possible to find a job
stopa bezrobocia	unemployment rate

The average salary in the national economy increased in 2016 by 4%.

Table 4. The average salary in the national economy in 2010–2016 gross (in PLN), source: GUS

2010	2011	2012	2013	2014	2015	2016
3,225	3,400	3,522	3,650	3,783	3,900	4,056

The current situation on the labour market causes at the same time a cost pressure related to employment, which – given the fact that costs tend to precede any potential benefits resulting from an increase in salaries – might in the short-term worsen the results of the industry to an extent dependent on the size of impact of such a change on a given industry.

#### 4. SITUATION IN THE INDUSTRY AND PROSPECTS FOR GROWTH

The restaurant sector is one of the economy sector which experience a steady increase in a several-year trend. As shown by the GfK Polonia data, since 2010 the value of sales in restaurant outlets has been increasing (Table 4), even in the period in which a drop in the number of restaurant outlets was observed compared to the previous years, i.e. in 2013 (Table 3).

The upward trend was especially marked in 2016. In all segments of the restaurant market a general increase in the value of sales was observed (except for night clubs where sales remained at the 2015 level). The fastest growth rate was observed in terms of restaurants (+17 p.p.), bars/lunch-bars (+9 p.p.) and cafés (+8p.p.). All segments of round-year outlets, except for night clubs, observed an increase in their number also in 2016 compared to 2015.

Table 5. The number of restaurant outlets in 2010–2016 in Poland Source: GfK Polonia, Raport Rynek Gastronomiczny w Polsce

	2010	2012	2013	2014	2015	2016
<b>number of restaurant points (in total)</b>	<b>64,185</b>	<b>67,980</b>	<b>66,230</b>	<b>67,380</b>	<b>69,150</b>	<b>72,790</b>
<b>top 10 of restaurant chains</b>	1,735	2,060	2,353	2,600	2,810	3,040
<b>restaurants</b>	8,400	8,950	9,041	9,050	9,360	9,920
<b>fast foods</b>	11,470	12,000	11,001	13,200	12,980	13,890
<b>other horeca points</b>	42,580	44,970	43,835	42,530	44,000	45,940

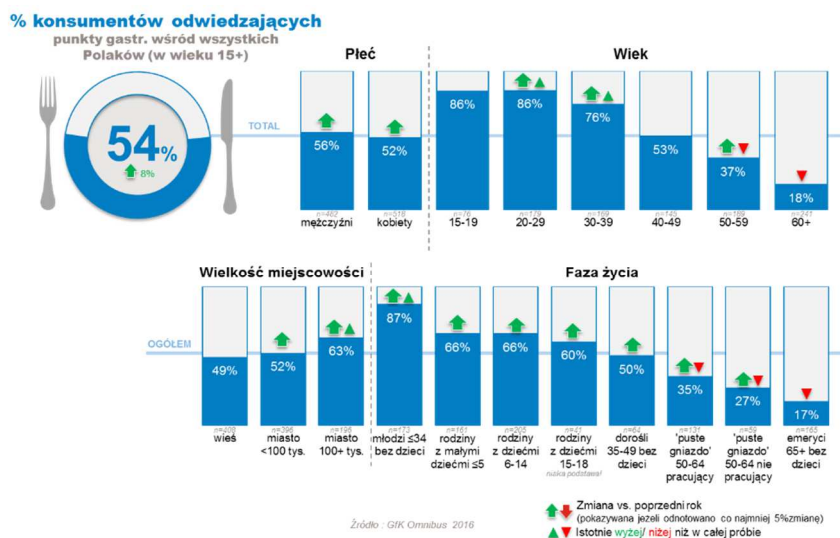
Table 6. Annual sales in restaurant outlets in 2010–2016. Source: GfK Polonia, Raport Rynek Gastronomiczny w Polsce

	2010	2012	2013	2014	2015	2016
<b>annual sales of restaurant points bn pln (in total)</b>	<b>23.388</b>	<b>26.18</b>	<b>26.79</b>	<b>28.36</b>	<b>29.94</b>	<b>32.68</b>
<b>top 10 restaurant chains</b>	3.098	3.74	3.94	4.29	4.62	5.03
<b>restaurants</b>	5.5	5.9	6.2	6.32	6.48	7.60
<b>fast foods</b>	3.15	3.5	3.78	4.15	4.27	4.43
<b>other horeca points</b>	11.64	13.04	12.87	13.6	14.57	15.62

The positive development of the restaurant market is also clearly reflected in the daily operation of the restaurants. The round-year outlets saw an increase in the average daily number of bills (from ~57 to ~64) and an increase in the value of the bill (from about PLN 23 to about PLN 25).

2016 also saw significant changes in eating habits among the Poles. There was a high increase in the share of people using restaurant services (from 46 to 56%), matching the values from before the 2009 crisis. It should be noticed that this positive tendency can be observed in different groups of buyers: both among men and women, people aged 20–39 and those aged 50–59, among residents in cities of all sizes, and in households with and without children.

Fig. 6. Profile of people eating out in Poland Source: GfK Polonia, Raport Rynek Gastronomiczny w Polsce 2016

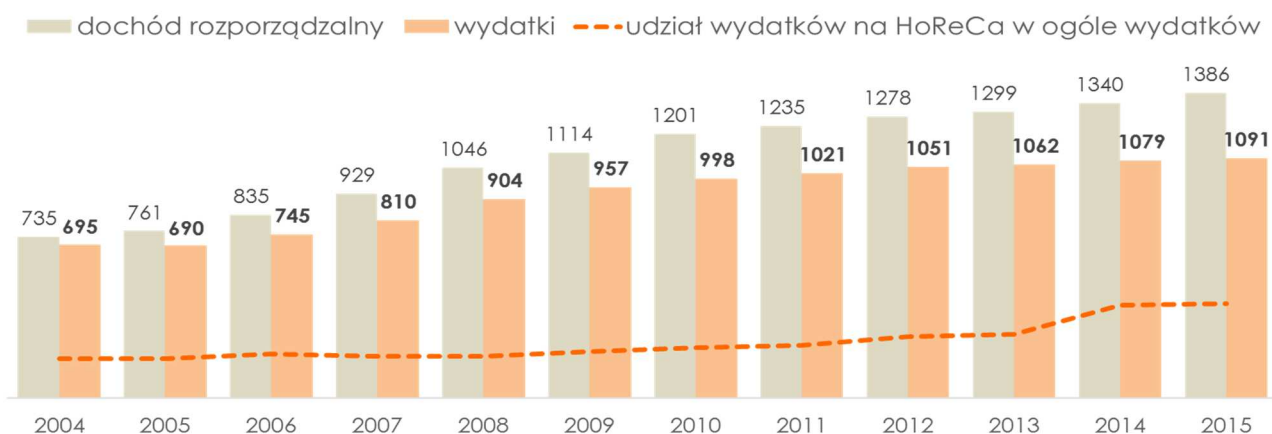


PL	EN
% konsumentów odwiedzających	% of visiting consumers
Punkty gastronomiczne wśród wszystkich Polaków (w wieku 15+)	Restaurant points among all the Poles (aged 15+)
Płeć	Sex
Wiek	Age
Mężczyźni	Men
Kobiety	Women
Wielkość miejscowości	Town size
Faza życia	Phase of life
Wieś	Village
Miasto >100 tys.	City >100 thousand residents
Miasto 100+ tys.	City 100+ thousand residents
Młodzi ≤34 bez dzieci	Young people ≤34 without children
Rodziny z małymi dziećmi ≤5	Families with small children ≤5
Rodziny z dziećmi 6–14	Families with children 6–14
Rodziny z dziećmi 15–18	Families with children 15–18
Dorośli 35–49 bez dzieci	Adults 35–49 without children
„Puste gniazdo” 50–64 pracujący	“Empty nest” 50–64 employed
„Puste gniazdo” 50–64 niepracujący	“Empty nest” 50–64 unemployed
Emeryci 65+ bez dzieci	Pensioners 65+ without children
Zmiana vs. poprzedni rok (pokazywana, jeżeli odnotowano co najmniej 5% zmianę)	Change vs. the previous year (presented if at least 5% change was recorded)

The Restaurant services market in Poland is highly competitive. As shown above, the number of restaurant outlets in Poland is growing steadily and the average number of various types of restaurant outlets where consumers eat out increased from 2.2 in 2014 to 2.6 in 2016. Studies conducted by TNS Polska for Sfinks Polska show that 'boutique style' local restaurants/outlets are becoming evidently more and more popular (an increase in the number of visitors over the last 3 months from 11% in 2015 to 36% in 2016).

Based on the analysis of the determinants of service development, a further upward trend can be predicted in the case of HoReCa market in the coming years. The disposable household income has been systematically increasing in Poland, which entails also growing spending on visits to restaurant outlets (2014 also saw a significant increase in spending on restaurant services as compared to overall expenses incurred by households).

Fig. 7. Share of spending in disposable household income Source: GUS



PL	EN
Dochód rozporządzalny	Disposable income
Wydatki	Expenses
Udział wydatków na HoReCa w ogóle wydatków	Share of expenses on HoReCa in total expenditure

An increase in economic activity, including in particular women, who are traditionally responsible for shopping and cooking in households, is yet another indicator adequately rendering the conditions for the development of the restaurant sector. Women, who were traditionally responsible for managing food, shopping and cooking in Polish households, more often pursue careers and get more engaged in what they do professionally, having less time for preparing meals, which results in whole families eat out more often. Here, in 2014–2015 there was also an increase in employment rates.

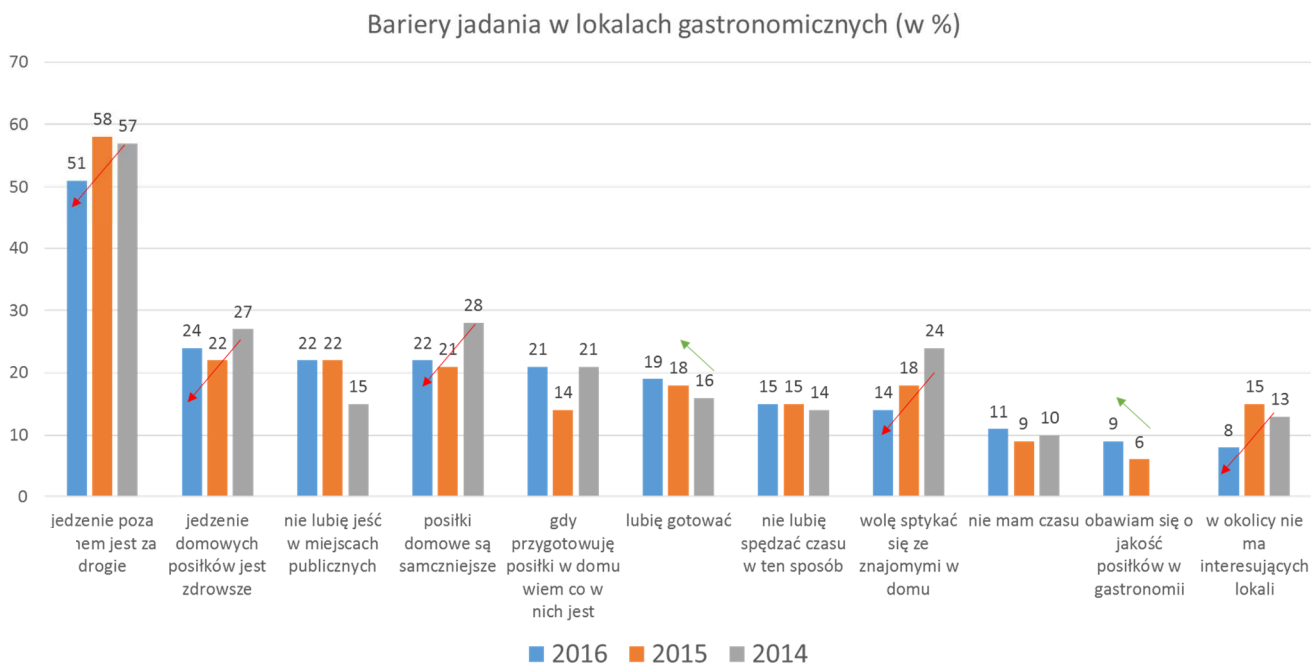
Table 7. Employment rate among men and women in Poland – 2008–2015. Source: GUS

Employment rate	2008	2009	2010	2011	2012	2013	2014	2015
Men 15+	59.3	58.3	58.2	58.5	58.4	58.5	59.8	60.6
Women 15+	43.5	43.3	42.8	42.8	43	43.4	44.3	45.2

Among people who do not eat out, the barriers related to excessively high prices (although it is still the most often cited barrier to eating out), taste-related concerns, health qualities of food in restaurants or the reluctance to spend time with family and friends away from home are becoming weaker and weaker. On the other hand, the concerns related to the quality of ingredients used in food eaten in town are growing.

It seems that the quality aspect of dishes and service will be a functional determinant of the success in the restaurant services market.

Fig. 8. Reasons for not eating out Source: GfK Polonia, Raport Rynek Gastronomiczny w Polsce 2014-2016



Bariery jądania w lokalach gastronomicznych (w %)	Barriers to eating in restaurant outlets (in %)
Jedzenie poza domem jest za drogie	Eating out is too expensive
Jedzenie domowych posiłków jest zdrowsze	Home-prepared meals are healthier
Nie lubię jeść w miejscach publicznych	I don't like eating in public places
Posiłki domowe są smaczniejsze	Home-prepared meals are tastier
Gdy przygotowuję posiłki w domu, wiem co w nich jest	When I prepare meals at home, I know what's in them
Lubię gotować	I like cooking
Nie lubię spędzać czasu w ten sposób	I don't like spending time this way
Wolę spotykać się ze znajomymi w domu	I prefer meeting with friends at home
Nie mam czasu	I don't have time
Obawiam się o jakość posiłków w gastronomii	The quality of meals in restaurants bothers me
W okolicy nie ma interesujących lokali	There are no interesting restaurant outlets in the neighbourhood

Together with an increase in competitiveness on the market and in the awareness among customers, certain “not taste-related” elements, apart from functional elements such as the quality and taste of dishes, are becoming the key aspects determining the choice of the place to eat out. Studies conducted by IQS and Quant Group for Sfinks Polska in October 2015 show that the role of emotional needs linked with eating out is definitely growing. Today, restaurants often serve as places to hang out and tell stories, to have fun, and to identify for a moment with a given life style and values mirrored in the service, atmosphere or the dishes. Indeed, various needs to eat out are becoming increasingly important, for example: the need to relax (manifested by the desire to spend time in a nice and friendly atmosphere), the need of novelty and variety (manifested by the desire to try new and varied tastes and places), the need to please oneself and the closest ones (manifested in the desire to develop and cherish contacts with other people).



## 5. TRENDS IN GASTRONOMY

The selection of trends is always arbitrary to a certain extent. Certain trends may remain in conflict. The consumers are different and they have different needs and preferences. Regardless of the level of cohesion or discrepancy, the trends indicate the paths for development, allow for a better interpretation of the phenomena

in the present time and are helpful while thinking about the brand.

The areas that play a key role in shaping the habits of consumers include in particular:

- **Fast-life** – consumers become more and more engaged in their careers, which leaves them less time for traditional chores like shopping and cooking, and makes them appreciate even more the time-saving functional solutions.

**This means:** the need for consumer-friendly solutions – a growing role of ordering food, takeaway dishes, catering and half-finished products for preparing dishes at home. There are also more and more functional occasions as people want to eat ‘fast’ and ‘safe’ food in town during the day.

- **I know what I eat** – the better the access to the Internet and the more common the consumption of various goods and services, the more aware the consumers become. Customers are aware of the developments, styles and trends that affect them. They react to the way brands communicate with them.

**This means:** we need to respect the growing awareness among consumers. Restaurants should know who the consumers are, what they need and how to communicate with them. When building relationship with the consumers, we need to be authentic and transparent, we should also communicate with the consumer in an individualised and targeted way.

- **Quality in demand** – the more aware the consumers are, the broader their experiences and the higher their expectations become. Quality, freshness, health qualities of food become more and more valued.

**This means:** the growing awareness among consumers means that their eating habits change. Consumers will be increasingly interested in buying healthy quality food from a reliable source. Despite a higher price, some consumers will consider it is worth paying more.

- **Price sensitivity** – nowadays, consumers not necessarily look for the cheapest products, instead they expect high quality for a good price.

**This means:** the need to communicate the benefits of the products affecting the price.

- **Less means more** – hard-pressed and hard-working consumers now value ‘modesty’. Consumers like places where they can relax and regenerate their mind, and avoid places which overwhelm their senses with too many stimuli. Sustainable development approaches become more and more important, which means, among others, that people are more willing to save, do not like wasting food and that they manage their wastes.

**This means:** the willingness to limit rather than entirely give up – people choose smaller cars, packages and dishes.

- **Polishness is trendy** – customers get less excited with what comes from abroad. Poles more often appreciate Polish goods, spending holidays in Poland, Polish towns, the local culture and customs, and Polish cuisine is valued for being healthy, natural and of good quality. As many as 75% of Poles claim that ‘*Polish cuisine is delicious and very often much better than the sophisticated foreign dishes.*’ (based on GfK study, June 2016).

**This means:** people still like eating dishes from all over the world, yet they tend to appreciate more the local character and quality of Polish food, which is organic, brings back tastes from their childhood and is an element of the Polish identity and the related local patriotism.

- **Chain restaurants are not as exciting as they used to be** – the well-tried standards has ceased to excite the consumers. People need an individualised approach, a ‘well-tailored’ dish. Chain restaurants are often chosen for practical reasons, which still are among the 4 most important factors behind the choice of restaurants.

**This means:** the need to depart from rigid standards and instead treat the guests in a more individual manner, account for local needs and expectations regarding the given kind of meals.

## 6. CULTURAL AND SOCIAL TRENDS IN THE COMING YEARS

Based on the analysis of meta trends and development directions in Western markets, it can be assumed that the following phenomena will play a significant role in shaping the attitudes and habits of customers, including in the restaurant market:

- **Growing role of digitalisation and technologies in providing services** – new technologies will bring breakthroughs not only in the way products/services are developed, distributed or marketed, but also in how customers search for, experience and buy them. Using the huge amount of data on consumers and the advanced forecasting models, brands will adjust the ways to make purchases to the attitudes, habits, needs and interests of the consumers. ‘Smart services’, including, among others, mobile applications, which make life easier not only for customers, will also be important.
- **Socially conscious consumerism** – thanks to information platforms and social media people will be more conscious than ever about the impact of their consumer decisions on the surrounding world. The experts predict that in the following years a new movement will be created under the name “socially conscious consumerism”, joining the efforts of different entities acting for the health protection, social benefit and for the environment. The growing popularity of the socially conscious consumerism will lead consumers to expect that brands should act in an ethical way in all business areas, and that they should engage in this movement. Ethical way of conducting brand’s activities will serve as one of the factors influencing clients purchase decisions. Brands will become more transparent and their actions will more frequently consider the common interest.
- **Ageing populations** – a growing number of the consumers’ group called “Silver Generation” means its greater importance for the economy, including the restaurant services sector. Currently, the share of this group of consumers in the total value of shopping made by Polish households amounts to 29.9%. According to estimations conducted by the GfK analysts under the “Silver Generation” study, in 2035 this share is going to grow to 36.9%. In the coming years, the restaurant owners will have to adjust their services to the elderly people’s need, otherwise risking the loss of a significant group of clients. Cooking for elderly people will be challenging when it comes to adjusting the menu to the health needs and limitations of the “Silver Generation” group.
- **Crowdsourcing** – in today’s reality of expectation economy the consumers seek only the best, they want to receive things immediately and to stay ahead of the others, but at the same time they want to establish true relations with other people. Thanks to platforms providing a possibility to search for financing through crowdsourcing (social financing) and to new production technologies, as well as to general trend towards entrepreneurship, consumers act more frequently as PROSUMERS (consumers and producers at the same time) able to meet their needs by engaging in products and services before they appear on the market. Whether it concerns creating an ideal product, service or place, or the passion for supporting certain project, PROSUMERS want to engage in products and services, support them also financially, and promote them before they become available for everyone.

## 7. CHAINS DEVELOPMENT FORECASTS

In spite of the dynamic development and changes on the restaurant services market in the recent years in Poland, the level of using these services is still low when compared to the EU countries. As shown by the Eurostat data, Poles spend on eating out and hotels approximately 3.2% of their earnings. In comparison, Germans and Slovaks spend for this purpose over 5% and Czechs – over 8% of their budgets. As predicted by the experts, the HoReCa market has very beneficial growth forecasts. On the one hand, the Polish way of life is changing which results in Poles having less time and being more willing to eat out, on the other the available income is growing year by year. The element related to greater availability of restaurant outlets offering services that meet the constantly growing consumers' needs is also important for further development.

### **Main competitors of the Sfinks Polska Group chains**

According to the study commissioned by the Sfinks Polska S.A. and conducted by IQS in November 2015, the local formats – local restaurants as well as local pizzerias – remain the major competitors for the Sfinks brands in the segment of restaurants with waiting staff.

- The biggest **chains of restaurants** with waiting staff are: SPHINX (90), 7 Street (17) and Chłopskie Jadło (13).  
Over the last three years, no dynamic growth of the competing chains of restaurants has been observed. Sphinx restaurants remain the biggest chain of restaurants with waiting staff. The main barrier to development of competitor chains consists in extensively high costs of investment into restaurants with waiting staff, as well as – in the case of combating barriers to growth – the necessity of bearing additional costs related to marketing and management.
- The biggest **pizzeria** chains are: Da Grasso, TelePizza, Biesiadowo, Gusto Dominium and Pizza Hut.  
Over the last two years, no significant growth has been observed for the biggest pizzeria chains. According to the above-mentioned IQS study, the most important competitors are local pizzerias not belonging to any chain.
- **Quick Service Restaurants (QSR)** – McDonald's, KFC, Subway, North Fish  
In the recent years, in spite of the clear change in the consumers' attitude towards this kind of restaurants, it is, after cafés, the fastest growing segment. The main barrier to their growth will constitute in the weakening growth in the number of clients due to the changes in dietary habits. According to the IQS study, the most important competitors in this segment are McDonald's and KFC.
- **Foreign companies managing restaurants** entering or planning to enter the Polish market have not observed any significant increase in the number of restaurants over the recent years.  
The main barriers to enter the market in the coming years, even for the global players, consist in:
  - time needed to achieve the economy of scales and related costs;
  - purchasing power and clients' habits;
  - high costs of promotion related to the limited recognition of foreign restaurant brands other than fast food by Poles;
  - growing costs pressure, especially related to wages.
- **Cooking at home.** Cooking at home is promoted by supermarkets and in the media. On the one hand, more and more Poles declare they like cooking, on the other, more and more Poles claim that they do not have time for cooking on a daily basis. The growing trend for cooking at home with family or friends is developing concurrently with a visible trend of eating out. An important cause of visiting restaurants is socialisation. Considering the constantly growing pace of living, lack of time, as well as increasing purchasing power of the population, it should be assumed, that this trend will be limited and it will not pose any risk for the restaurants' development.
- **Home delivery.** The growing popularity of ordering meals to be delivered at home is being observed. As research shows, the popularity of ordering dishes from pizzerias is decreasing, while the growing trend is observed in the case of dishes ordered from the restaurants in this channel of distribution.
- **Delivery service suppliers.** In the majority of areas, the negotiating power of delivery service suppliers is limited by the market competition.

## 8. STRENGTH AND POSITION OF THE SPHINX BRAND

The Sphinx Restaurants chain is one of the 5 best known and most visited restaurants. It is the best known and the most visited restaurant with the full waiting staff.

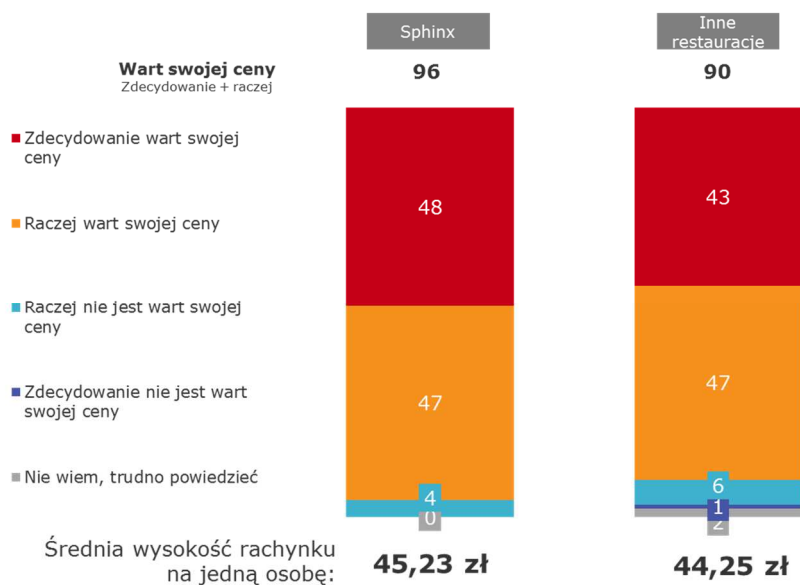
Table 8. Recognition and use of the Sphinx brand compared to its competitors (results for the top 5 biggest brands on the market plus local restaurants with waiting staff). Source: TNS Polska, CAWI, N=800 consumers on the restaurant services market

	Brand awareness				Visiting	
	First brand mentioned spontaneously	Other spontaneous indications	Other supported indications	Total mark recognition	Visiting during 12 months	Visiting during 3 months
McDonald's	33%	50%	17%	100%	85%	71%
KFC	16%	55%	27%	98%	66%	47%
<b>Sphinx</b>	<b>16%</b>	<b>29%</b>	<b>46%</b>	<b>91%</b>	<b>36%</b>	<b>19%</b>
Pizza Hut	5%	28%	59%	92%	37%	17%
Burger King	2%	25%	66%	93%	36%	19%
Local restaurants with waiting staff	14%	50%	8%	72%	46%	36%

The Sphinx's strength on the market and its competitive advantage comes mainly from the positive image assessment of the most important, from the clients perspective, attributes, such as: tasty meals which are prepared directly before being served, kind and competent staff, cleanness and the overall good ambience in the restaurant, where Guests feel good and where they may spend time with their friends.

When compared to its competitors, the relation between the price and the quality is assessed as being to Sphinx's advantage in comparison to other restaurants with waiting staff.

Fig. 11. Price in relation to service value in Sphinx restaurants in comparison to competitors offering services with waiting staff. Source: Study on Sphinx chain clients satisfaction, CAPI, N=446 Sphinx clients



PL	EN
Sphinx	Sphinx
Inne restauracje	Other restaurants
Wart swojej ceny	Worth its price
Zdecydowanie + raczej	Definitely + rather
Zdecydowanie wart swojej ceny	Definitely worth its price
Raczej wart swojej ceny	Rather worth its price
Raczej nie jest wart swojej ceny	Rather not worth its price
Zdecydowanie nie jest wart swojej ceny	Definitely not worth its price
Nie wiem, trudno powiedziec	I don't know, it is hard to say
Średnia wysokość rachunku na jedną osobę	Average bill amount per one person

Over several years, the level of satisfaction of Sphinx Restaurants Clients maintains a stable high position and it oscillates around 90%, which translates into the observed systematic increase in the group of loyal clients – increase from 28% in 2013 to 60% in 2016.

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