Key Investment Highlights:

We initiate coverage on Americana Restaurants ("AMR" or "the Company") with a target price of AED 3.96 per share. AMR is a leading restaurant operator in the four Out of Home Dinning (OOHD) market categories (QSR, FSR and casual dining, coffee shops, and indulgence restaurants) across 12 countries with a portfolio of 2,090 restaurants as of 3Q22 and revenue of USD 2,052 Mn in FY2021.

Our investment view is supported by:

- *Leading restaurant franchise operator in the OOHD categories aided by macroeconomic tailwinds*
- *Efficient digital ecosystem with an advanced technology stack*
- *Strong financial performance with top quartile margin and strong cash generation*
- *Significant future growth potential across Core and Other Markets*

Leading restaurant operator supported by strong macroeconomics dynamics

AMR Restaurants operates several brands across the fastest-growing and most developed economies in the MENA region. AMR has a portfolio of 2,090 (as of 3Q22) restaurants which is more than the combined store count and market share of the next four operators in the region. AMR's market share in the OOHD industry in the region grew from 3.2% in FY2020 to 3.6% in FY2021. The Company outperformed its peers in the AMR's Core Market such as UAE, KSA, Egypt, and Kuwait. AMR has a strong foothold underpinned by a positive macroeconomic outlook including diversified economies, a large population base, high urbanization, favorable demographics, and strong consumer expenditure across AMR's Core and Other Markets.

Efficient digital infrastructure with an advanced technology stack

AMR integrated digital ecosystem benefits in several ways such as tangible growth, enhanced customer experience, and lower customer acquisition cost. AMR owns 17 proprietary "super-apps" for five brand ecosystems built upon the proprietary Americana Digital Platform (ADP), which provides a seamless customer experience and facilitates new brand and country onboarding. Furthermore, AMR also has an integrated CRM platform and Voice of Customer (VoC) platform that builds an effective customer management ecosystem. The resolution time is reduced from 5 days to 15 min owing to the efficient use of cutting-edge technologies. For instance, KFC's digital-led marketing focused on youth helped it to strengthen its brand positioning and hold a competitive edge in the QSR segment in the region.

Strong financial performance with top quartile margin and strong cash generation

AMR'S well-ingrained zero-base budgeting process helped the Company to keep costs in check which led to improvement in profitability and margin over the period. AMR's revenue grew at a CAGR of 4.7% from USD 1,705 Mn in FY2017 to USD 2,052 Mn in FY2021. The growth is primarily driven by the increase in like-for-like (LfL) sales and the addition of 534 gross store openings from FY2017 to FY2021. AMR's LfL revenue growth increased to 30.1% in FY2021. In addition, AMR's strong revenue growth provided operating leverage, smart pricing, and menu engineering also led to improvement in margins. The Company's focus on enhancing customer experience, automation, and smart pricing resulted in double-digit LfL revenue growth to continue in 9M22. LfL softened in 3Q22 due to seasonality, back to school in September, and FX headwind in Egypt. It is expected to bounce back in 4Q22 due to an increase in pricing in early Oct'22, a strong demand trend, and the FIFA world cup. AMR generated a cumulative strong cash flow of USD 738 Mn during FY2019–21.

Significant future growth potential in existing and new business segments

AMR has an omnichannel presence with significant penetration and expansion opportunities across existing countries. AMR owns exclusive development rights and the right of first refusal for global and regional brands it operates in each region. Pizza Hut and Krispy Kreme successfully launched operations in KSA in FY2022 and Egypt in FY2021. AMR is planning to launch KFC, Pizza Hut in Iraq, Krispy Kreme in Jordan, Peet's Coffee, and Wimpy in GCC countries. The market remains highly fragmented, which provides AMR with an opportunity to grow its market share over the period by opening more restaurants, increasing market penetration by capturing a share of wallet, and leveraging opportunities in the existing market by increasing penetration of existing brands.

Initiating Coverage

Sector: Consumer Discretionary

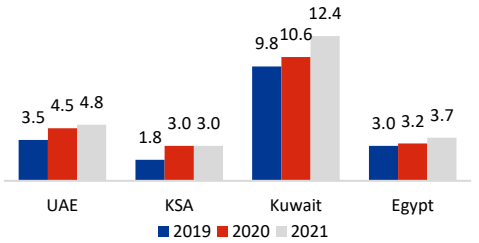
Analyst Name: Ahmad Banihani

Rating: BUY

Target Price: AED3.96, SAR 4.05

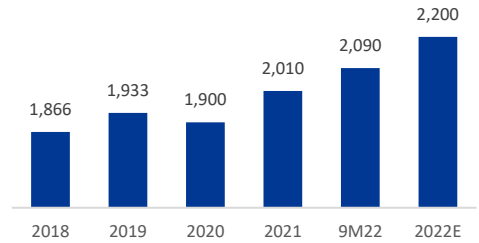
Current Price (AED)	3.39
Upside/(Downside)	+17%
Market Cap (AED, Bn)	28.56

AMR's Market Share across Core Market (%)



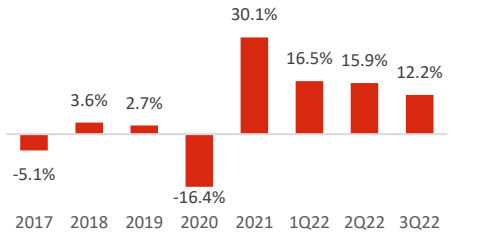
Source: Company Information

AMR's No. of restaurants



Source: Company Information

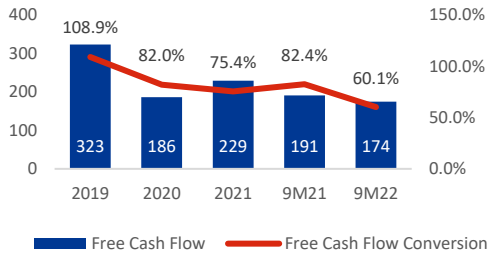
Like-for-Like (LfL) Revenue growth (%)



Source: Company Information

Note: Like-for-like revenues growth denotes the percentage increase/decrease in the revenues for those AMR sites which have generated monthly revenues over the 12-month period in a given financial year and exclude revenues of those restaurants which have not generated revenues for more than 6 consecutive months

AMR's Free Cash flow (USD, Mn) & Conversion Rate



Source: Company Information

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Introduction to Americana Restaurants LTD

AMR Restaurants is the Leading Food Operator in MENA

AMR Restaurants- Company Introduction

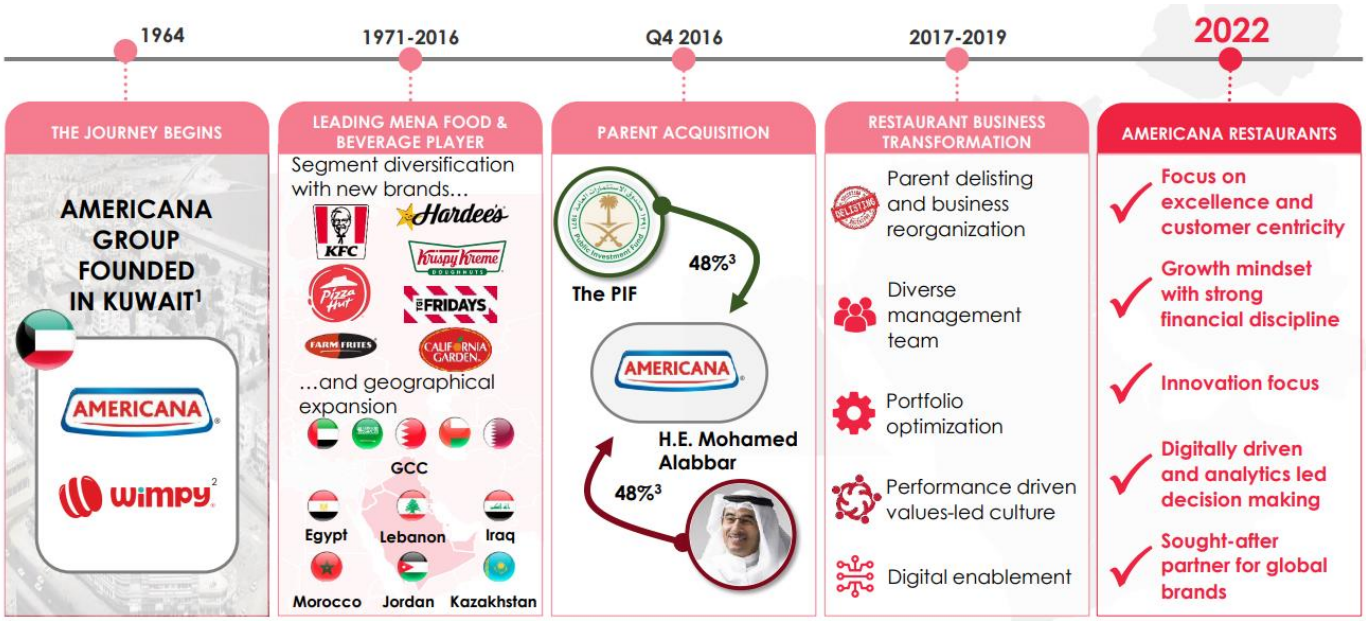
AMR Restaurants is the largest restaurant operator across 12 markets in four OOHD categories

Kuwait Food Company (Americana Group/the former Parent Company) incorporated in Kuwait, operates in two major business lines including the Restaurant Business and Food Business. The Parent Company transferred the restaurant business to a new entity named Americana Restaurants LTD on 02 June 2022. Americana Restaurants (the "Company" or "AMR") is an Abu Dhabi entity established in 2022, with a mission to create a substantial customer experience and shareholder value. AMR is a wholly owned subsidiary of Kuwait Food Company, in which *Adeptio AD investments Ltd (the intermediate Parent Company)* holds a majority stake of 93.42%. The key shareholder of the Parent Company is Mr. Mohamed Ali Rashed Alabbar and Gulf Food Investments Company, a subsidiary of the Public Investment Fund (PIF) of KSA, who together own a 96.1% stake in Kuwait Food Company.

AMR holds a diverse portfolio of local and global brands with a broad geographical footprint. AMR is the largest restaurant operator across 12 markets of operation in the four Out of Home Dinning (OOHD) categories (QSR, FSR and casual dining, coffee shops, and indulgence restaurants). The Company maintained stable and resilient performance across its portfolio. It operates 2,090 restaurants as of 3Q22. AMR re-established the relationship with the aggregator and benefited from the stronger negotiating position and continues to expand its asset base in the potentially high-growth region, while retaining customers through innovation and digitalization initiatives. AMR owns franchise rights for multiple brands including power brands (KFC, Pizza Hut, Hardee's, Krispy Kreme), growth/niche brands (Baskin Robbins, TGIF, Chicken Tikka, Wimpy, Costa Coffee), and other brands (Grand Café, Fish Market and Pavilion). AMR Restaurants operates across 12 markets including four core markets across UAE, KSA, Kuwait, and Egypt. The Company generated the majority of its FY2021 revenues through four power brands: KFC (60%), Hardee's (17%), Pizza Hut (12%), Krispy Kreme (4%), and other brands (7%).

AMR Restaurants has a diverse geographical presence in the MENA's largest economies supported by attractive macroeconomic drivers including strong population growth, an attractive demographic profile, and multiple underlying drivers for macroeconomic growth. In addition, the powerful digital platform with robust supply chain infrastructure gives the Company a competitive edge against its close competitors. AMR's scale of operations also gives it a significant edge in contrast to its peers as it operates a greater number of restaurants compared to the sum of the next four largest players in the region.

Figure 1: AMR Restaurants – Growth & Performance



Source: Company Information

1. Trading as The Kuwait Food Company

2. Current brand logo

3. 48% is effective indirect ownership

AMR Restaurants - Diverse Portfolio of Global and Local Brands

AMR Restaurants owns franchise rights for a multiple portfolio of iconic global brands across OOHD categories consisting of four power brands: KFC, Hardee's, Pizza Hut, and Krispy Kreme

AMR has an integrated brand portfolio across 12 markets in 4 key OOHD categories. AMR's brands are classified into 3 main categories: Power Brands, Niche/Growth Brands, and Other Brands. The Company's power brands include:

1) **KFC**: KFC is the market leader in the Chicken QSR segment across AMR's 12 operating countries. The Company is the top global KFC operator and is consistently ranked first in independent audit score by Yum! Brands. KFC owns 31.3% market share in the chicken QSR segment as of FY2021 across KSA, UAE, Egypt, Kuwait, Qatar, Bahrain, Oman, Jordan, Lebanon, Morocco, Kazakhstan and Iraq. KFC contributed 60% to the Company's revenue (USD 1,236 Mn) with 896 outlets in FY2021. Despite having operations in multiple countries, KFC earns most of the revenue in the pegged currencies which stood at 77% in FY2021. Due to its presence on omnichannel distribution, it derived 81% of the total revenue in FY2021 from off-premises which include home-delivery, drive-thru, takeaway, and others. The average payback period for KFC restaurants is 1.7 years and the average unit volume (AUV) stood at USD 1.5 Mn in FY2021. KFC provides a strong value proposition to customers through unique product offerings, smart pricing, product innovation driving local relevance, omnichannel access, and widening its reach. As a result, KFC brand is distinctively positioned and continues to drive AMR Restaurants' leadership across the region.

2) **Hardee's:** Hardee's is the leading player in the Burger QSR segment across UAE, KSA, and Egypt. The brand has a strong appeal in the MENA region with operation in 10 countries and enjoys a market share of 8.5% based on the value of sales in FY2021. AMR Restaurants is the parent company's top quartile performer for Carl Karcher Enterprises. Hardee's contributed 17% to the Company's revenue (USD 350 Mn) with 381 outlets in FY2021**.** The average payback period for Hardee's is 1.9 years and the average unit volume (AUV) stood at USD 1.0 Mn in FY2021. Despite having operations in multiple countries, Hardee's earned 89% revenue from pegged currencies in FY2021

which insulates it from currency volatility. It also derived 86% of the revenue from the off-premise channel in FY2021. Hardee's created a strong value proposition for its customers by creating craveable product offerings through product innovation, driving local relevance, a comprehensive product range with attractive pricing, along with omnichannel presence. These factors led the brand to claim the second spot in the QSR burger category in the region.

3) **Pizza Hut:** Pizza Hut is the leader in the Pizza category in key AMR Restaurants across UAE and Egypt. It only has a presence in seven countries and plans to expand in Iraq and KSA which presents a significant opportunity to grow in the region. The brand contributed 12% to the Company's revenue (USD 237 Mn) with 280 outlets in FY2021**.** The average payback period for Pizza Hut is 2.3 years and the average unit volume (AUV) stood at USD 0.9 Mn in FY2021. It earned 81% of its revenue from the pegged currency in FY2021 with 86% of the revenue in FY2021 earned through the off-premise channel from this brand. The Company plans to leverage its decades of understanding of the KSA to relaunch Pizza Hut in the Kingdom. Recently, it received franchise rights of Pizza Hut in KSA except for Jeddah City.

4) **Krispy Kreme:** Krispy Kreme is the preferred brand in KSA in the Indulgence segment. Krispy Kreme contributed 4% to the Company's revenue (USD 74 Mn) with 220 outlets in FY2021**.** The average payback period for Krispy Kreme is 0.9 years and the average unit volume (AUV) stood at USD 0.4 Mn in FY2021. The brand has a footprint only in six countries and plans to further expand its presence in Egypt and Jordan. Despite its limited presence, the brand earned 97% of its revenue from pegged currencies in FY2021 and 96% of revenue from the off-premise channel in FY2021. Krispy Kreme has a unique operating model and agile assets establishing its presence across the region.

Figure 2: AMR Restaurants – Brands by OOHD Categories

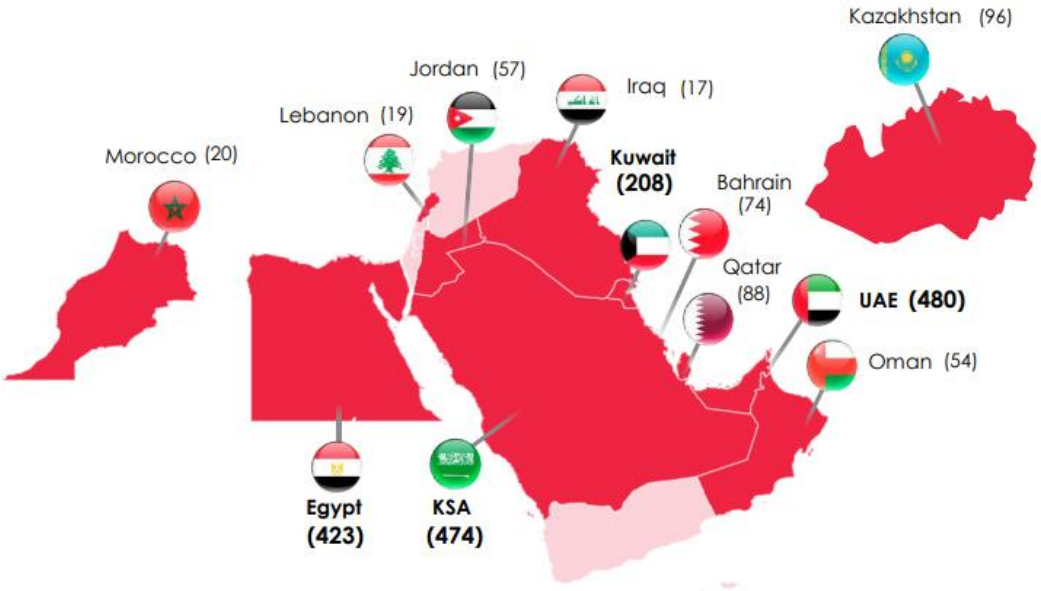
Source: Company Information

AMR Restaurants - Wide Geographical presence

AMR Restaurants has a strong geographical presence across 12 markets and leadership in four core markets

AMR has a wide geographical footprint with operations in 12 nations with leadership in four key core markets: UAE, KSA, Egypt, and Kuwait, making it one of the largest restaurant operators. Adopting of western cuisine in daily life is fueling expansion opportunities for the Company, 79% of the Company's revenue originates from its core markets. In the near term, the geographic mix is likely to remain stable in terms of GCC and Non-GCC exposure wherein KSA is expected to grow rapidly due to its brand focus. The brands are focusing more on off-premise smaller units to improve productivity and cost efficiency.

Figure 3: AMR Restaurants – Geographical Presence and Number of Restaurants (FY2021)



Source: Company Information

AMR Restaurants – Strong Historical Financial Performance

AMR Restaurants continues to register strong historical financial performance across the period

AMR Restaurants exhibited strong performance after the acquisition of stake by new promoters, delisting from Kuwait Stock Exchange, and business reorganization of the Parent Company. The key priorities the Parent Company had post-acquisition were to attract more customers to the restaurants through portfolio growth and brand evolution which will lead to higher topline growth. The Parent Company also took multiple initiatives to keep cost in check which led to improvement in profitability and margin over the period. AMR Restaurant's topline rebounded sharply post COVID- 19 due to strong growth in power and growth/niche brands in FY2021. The margins also improved as the company adopted a disciplined approach to control costs. AMR also generated USD 738 Mn in free cash flow over FY2019-21.

Revenue: AMR Restaurant's revenue grew at a CAGR of 4.7% from USD 1,705 Mn in FY2017 to USD 2,052 Mn in FY2021. This growth is driven by an addition of 534 restaurants from FY2017-21, robust growth in like-for-like (LfL) sales, somewhat offset by store closures and foreign exchange movement. Further the topline rose from USD 1,508 Mn in 9M21 to USD 1,771 in 9M22 due to strong growth in LfL revenue and the addition of new restaurants. The Company's focus on enhancing customer experience, automation, and smart pricing resulted in LfL revenue growth over the past seven quarters (1Q21 to 3Q22). The power brand segment contributed 92% to AMR's revenue in FY2021, followed by niche brands and other brands.

EBITDA & Margin: EBITDA grew faster than revenue from USD 243 Mn in FY2018 to USD 308 Mn in FY2021 with a margin of 13.4% in FY2018 to 15.0% in FY2021. The expansion in margin is driven by zero-based budgeting productivity initiatives of 2.2% during the period from 2018-21 somewhat offset by the increase in royalty, marketing, and home delivery cost. Post-IFRS 16 adjusted EBITDA rose from USD 333 Mn in 9M21 to USD 404 Mn in 9M22. The adjusted margin also improved from 22.1% in 9M21 to 22.8% in 9M22. The Company's margin benefitted from operating leverage due to strong growth in topline, disciplined cost control and decline in home delivery revenue share.

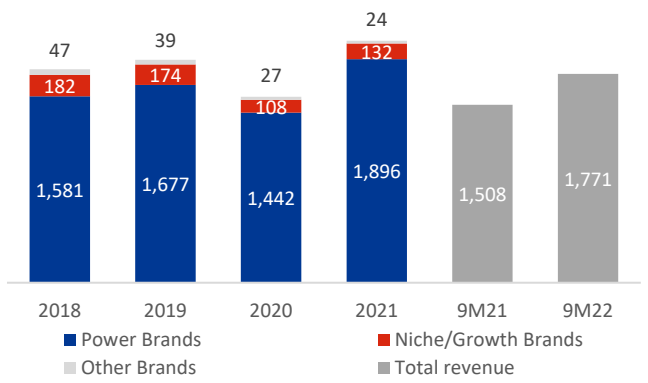
Net Profit: Thus, net profit attributable to equity shareholders of AMR expanded at 15.4% CAGR from USD 133 Mn in FY2018 to USD 204 Mn in FY2021 due to strong growth in revenue somewhat offset by a lower growth in cost. Net profit attributable to equity shareholders further rose from USD 155 Mn in 9M21 to USD 196 Mn in 9M22.

Free Cash Flow: During FY2019-21, the Company generated a cumulative strong cash flow of USD 738 Mn with an average free cash flow conversion ratio of 88.8%. AMR free cash flow declined 8.5% YOY to USD 174 Mn in 9M22 due to higher investment in capex, investment in working capital to secure supplies owing to supply chain disruption and increase in lease payments. The free cash flow conversion ratio declined from 82.4% in 9M21 to 60.1% in 9M22. The Company expects the disruption to normalize from 4Q22 and investment in inventory to revert to normal levels by 4Q22.

Key drivers enabling AMR Restaurant's financial performance include:

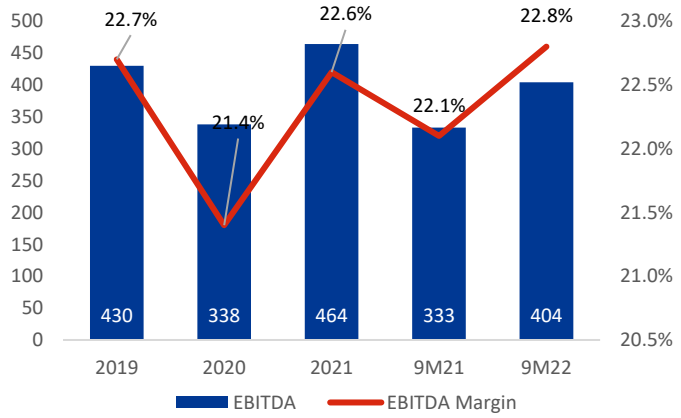
- Healthy growth in restaurant portfolio with gross addition of 534 restaurants over FY2017-21. Out of which 89% of the restaurant's break-even and generating profit
- Increasing share of power brands with a steady contribution in the GCC markets will drive the financial growth of the Company as power brands on average account for 89.2% of total revenue during FY2017-21
- Revenue per sqm rose 18% over FY2017-21 due to the Company's focus on format evolution and digital enablement
- AMR managed to grow its margin despite high commodity inflation as it used multiple levers to maintain margins such as menu engineering, smart pricing, and a disciplined approach to manage costs
- The Company further plans to strengthen its presence in the existing region and grow in new markets such as Iraq with existing brands. This expansion and use of existing infrastructure provides operating leverage which will drive growth in the near future.

Figure 4: AMR – Seg. Revenue (USD, Mn)



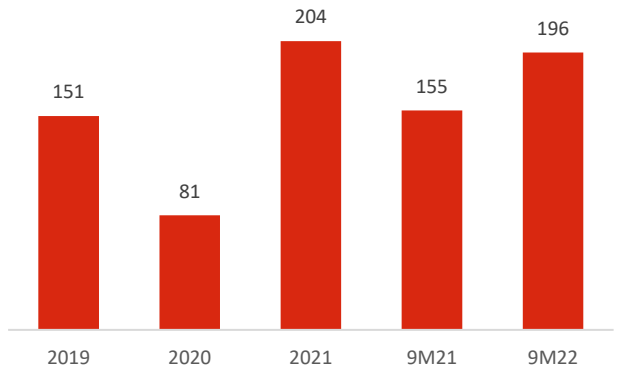
Source: Company Information

Figure 5: AMR – Post-IFRS 16 Adj. EBITDA (USD, Mn) & Margin



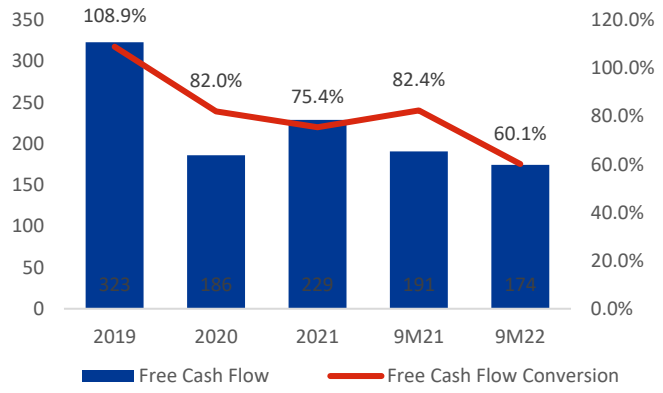
Source: Company Information

Figure 6: AMR – Net Profit attr. to equity shareholder (USD, Mn)



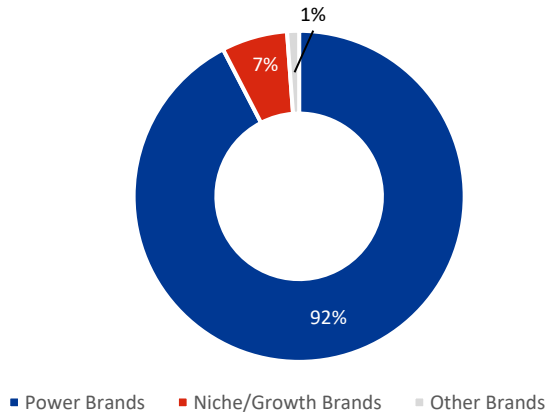
Source: Company Information

Figure 7: AMR – Free Cash Flow (USD, Mn)



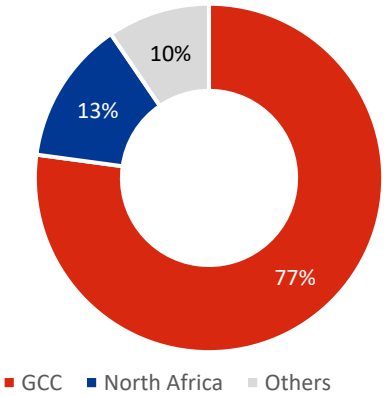
Source: Company Information

Figure 8: Revenue by Brand (FY2021)



Source: Company Information

Figure 9: Revenue by Country (FY2021)



Source: Company Information

Note: 1. Gulf Cooperation Council (GCC) countries include KSA, Kuwait, UAE, Qatar, Oman and Bahrain

2. North Africa includes Egypt and Morocco

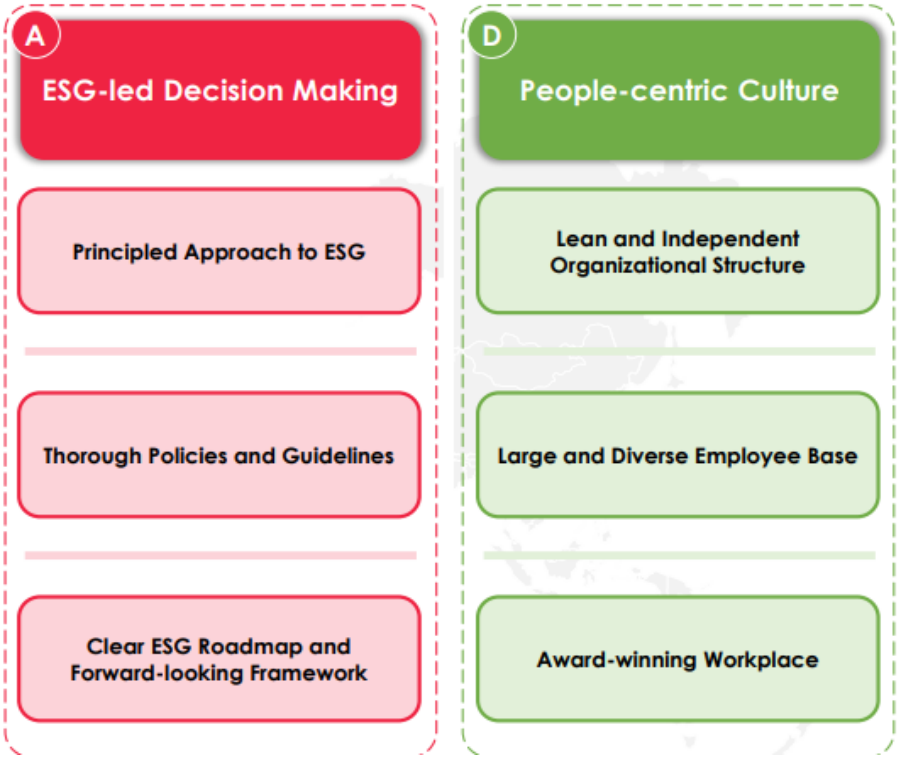
3. Others includes Kazakhstan, Iraq, Lebanon and Jordan

AMR Restaurants Operating Platform

A perfect mix of the operating platform enhances the Company's growth collectively

AMR Restaurants' operating platform consists of ESG-led decision-making, Portfolio Management, Supply Chain, and people-centric Culture. The ESG section consists of the Company's ESG approach which is governed by various policies and guidelines with optimistic ESG targets to develop a favorable environment to work and build a strong community. Adoption of best-in-class principles makes AMR the regional leader in ESG. Portfolio management includes real estate and development. A strong real estate pipeline supports the opening of new restaurants and an efficient design and construction ensures high brand standards whereas an in-house maintenance team makes sure the productivity level stays high. Furthermore, a strong global supply network with a good balance is maintained between imports and domestically sourced products with no single supplier forming up for more than 10% of the total supply. AMR has good bargaining power with the suppliers due to solid centralized purchasing with partial dependence on external parties. On the other hand, AMR has maintained a people-centric culture across the Company. Various initiatives taken by the management to develop the workplace and a dynamic performance management framework have increased the efficiency of the workforce. The Company has employees in different countries across the globe while female participation is also increasing improving the gender mix. AMR is one of the 12 first time winner of the Gallup Exceptional Workplace Award for providing an exceptionally engaging workplace culture to its people.

Figure 10: AMR Restaurants – Governance Framework



Source: Company Information

Perfectly Balanced Approach to ESG

AMR Restaurants adopted a balanced ESG approach toward the environment as well as society with an effort to reduce climate impact and make the region a better place for people to live

AMR Restaurant's ESG approach revolves around the excellent principles set by the management. The principles are perfectly balanced and take care of both the environment and people, making it an ideal workplace. AMR Restaurants adopted the environmental policies established by the regulatory authorities and the franchisor in line with the regulations of the specific region. One of the primary goals of the company is to protect the environment. In addition, AMR focuses on waste minimization and intends to lessen its reliance on plastic in order to reduce its impact on the environment, which is a growing problem worldwide. Also, the Company believes in focusing on social elements such as employee and community welfare, as well as proper training and assistance for career growth. AMR's ESG compliance is managed by a well-experienced management group that balances all three elements of ESG.

Following are the key initiatives taken by the organization -

Committed to best-in-class global industry practices: To maintain the highest quality of raw materials supplies, all AMR suppliers strictly need to follow Global Food Safety Initiatives (GFSI) standards. Every year, over 1,900 restaurants are audited, either by a third party or internally, to ensure product quality. Also, the Company maintains a high level of security to protect customers' data while ensuring confidentiality and data availability.

Minimizing waste and carbon emissions: AMR Restaurants made a significant move to reduce its environmental impact, including the installation of 1,200 kWp solar panels in Jordan on a 15-year lease. AMR also intends to reduce the usage of water and plastic by replacing plastic bags with paper bags and launching recycling initiatives. It also intends to track and gradually minimize its carbon footprints.

Committed to improving the welfare of employees and the community: Over the last decade, AMR collaborated with colleges to offer dual degree programs and more than 13,000 students graduated from this program. Few of the organizations' stores are entirely run by people with special needs, providing employment opportunities for this particular segment of society. In addition, the AMConnected application connects 16,700 employees to increase employee engagement.

ESG Targets

AMR sets promising targets to reduce employee turnover, maintain gender diversity, and enhance employee engagement in the organization

AMR Restaurant's vision is to become the most trusted restaurant operator in the world. The strategy is laid out keeping into consideration which lays emphasis on people, food, customer, environment, and communities. AMR is working hard to make its restaurants a better place for people to develop social skills and think outside the box. Every effort is made to maintain the highest food quality in every restaurant where AMR ensures that the products meet the defined standards laid out by the Quality Management System. AMR reviews customer feedback on a regular basis in order to improve the customer experience not only in the restaurants but also in food deliveries and food quality. In addition, the Company implemented measures to protect customer data with a stringent security policy, and it strives to reduce environmental impact and follow the best sustainable business practices. In order to serve society, AMR also works with various charities and associations.

The management objective is to integrate ESG into its corporate strategy, a strong ESG governance model, and through data collection and targets. The Company plans to regularly identify and monitor ESG related issues that are in line with AMR Restaurant's expansion as a franchisor and restaurant owner, moving it to the next level by offering employee safety, customer privacy, and staff training. It is constantly upgrading its governance approach and is working to incorporate additional governance aspects. AMR Restaurants plans to reduce employee turnover from 46% in 2021 to 40% by FY2025. In addition, the Company is also taking steps to increase female employee participation from 15% in FY2021 to 25% in FY2025. AMR

anticipates that employee engagement will reach 85% in FY2025, up from 80% in FY2021. AMR Restaurants is focused on meeting its targets on climate change.

Figure 11: AMR - Employee Turnover Target

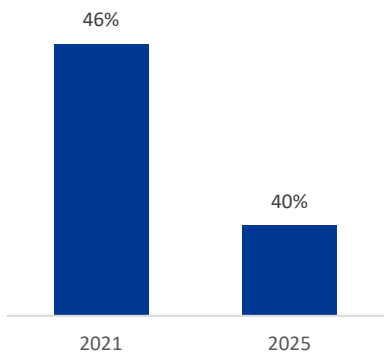


Figure 12: AMR - Female Participation Target

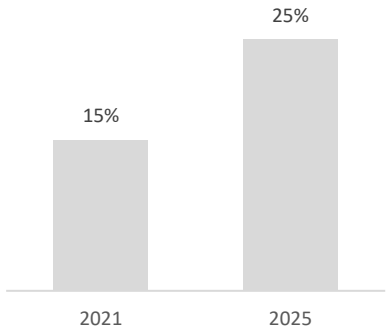
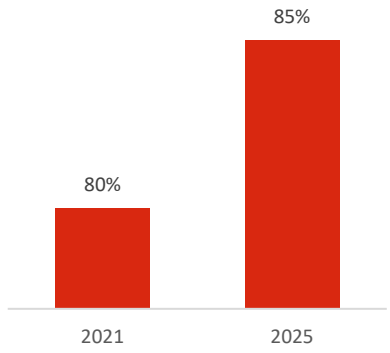


Figure 13: AMR - Employee Engagement Target



Source: Company Information

Social

AMR is committed to its diversified workforce to increase female participation, improve gender mix and provide a highly engaged workplace to its employees

AMR is committed to its employees, the communities in which it operates, and society as a whole. It has a large and diverse employee base across age, gender, and different nationalities:

- **Core Values:** The company follows core values of CHOICE which translates into **C**ustomer Obsession, **H**onesty & Integrity, **O**wnership, **I**nnovation & Agility, **C**ollaboration, and **E**xcellence
- **Inclusion and Diversity:** AMR currently employs more than 40,000 people from multiple countries. The company has set a goal to increase gender diversity and achieve a target of 25.0% female representation by 2025, which stood at 15.0% in FY2021
- **Cultural & Generation diversity:** AMR is focused on recruiting not only from the local region but across the MENA region. In FY2021, AMR employs people from more than 84 nationalities, with most employees coming from the UAE. Aside from nationalities, AMR also recruited people across the age group. About 60.4% of its employees belong to the millennial generation, which is under the 23-38 age group, followed by Generation Z with 30.1% which belongs under-22 age group, Generation X with 9.2% in the 39-54 age group, and Boomers with 0.4% in the 55-73 age group.
- **Training and Development:** AMR employee turnover rate stood at 46% in FY2021, and it has set a goal to reduce the turnover rate from 46% to 40% by FY2025. The Company has a robust performance management system that includes planning and assigning goals to individual employees, which are reviewed on monthly basis. Employee performance is evaluated and recorded on a monthly basis. Mid-year and year-end reviews are conducted, and employees receive feedback on developing their skills. At the end, employees are rewarded for their performance, which gives them recognition and motivates them to improve their performance and grow within the company. The year-round coaching and feedback program helps the Company grow and achieve its goals. As a result, AMR Restaurants is one of the 12 first time winner of the Gallup Exceptional Workplace Award. The award is based on the most engaged workplace cultures around the world. Efforts made by AMR led to an increase in employee potential and healthy development in the community.

Figure 14: AMR Restaurants – Performance Management Framework

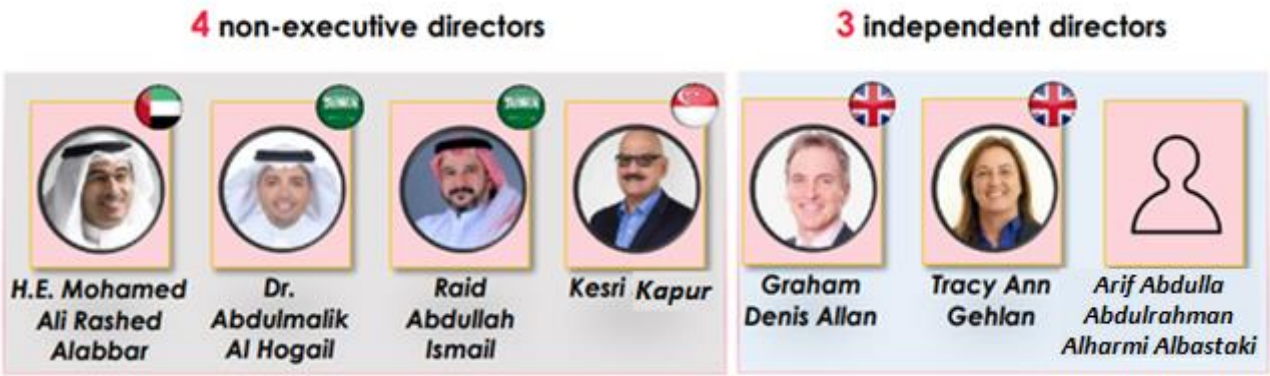
Source: Company Information

Corporate Governance

Strong and effective leadership team led by experienced people from all areas with sound policies and a transparent governance framework

The Board of Directors of AMR Restaurants consists of four non-executive directors and three independent directors. The independent directors include one female director, as required by the Securities and Commodities Authority (SCA). The Board comprises of individuals from various countries, which underscores the strength of the Board with solid experience in multiple industries. The Company has internal guidelines and policies in place on various activities including, Whistleblower policy, Conflicts of interest policy, Health and safety policy, Risk tolerance policy, Anti-bribery and corruption policy, and Sanctions policy. In addition to this, AMR has also made a Governance handbook, Delegation of authority manual, and People policy manual to successfully run the operations. The risk management and audit committees meet at regular intervals to maintain checks and balances. It has also developed an Information and data security policy to safeguard customer information. The management ensures proper control over the suppliers, producers, and employees until the final consumption of the product. The management conducts training and seminars to promote health and well-being in line with the Sustainable Development Goals of the United Nations. The Company maintains a systematic and consistent food safety system and works only with suppliers certified by the Global Food Safety Initiative (GFSI).

Figure 15: AMR Restaurants – Governance Framework



Source: Company Information

Note: 1. Additional board member to be onboarded prior to listing

Key Investment Highlights

Leading Operator of Global and Local Brands, Buoyed by Strong Macroeconomic Tailwinds

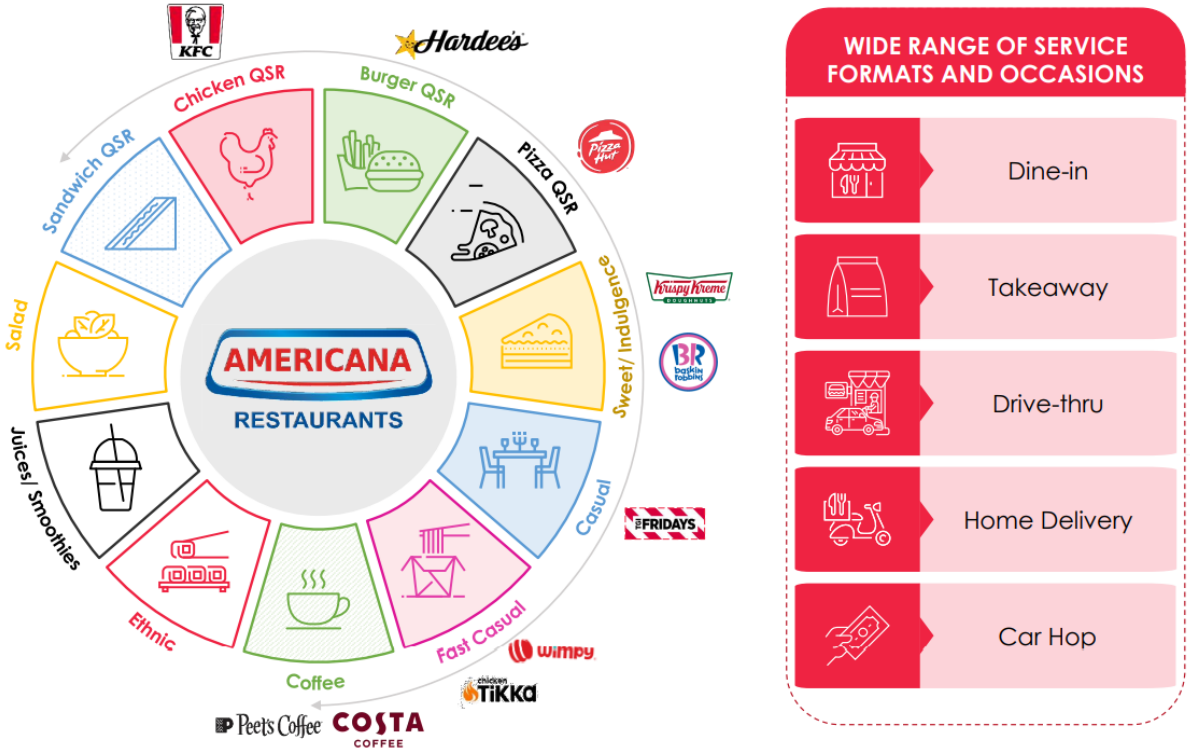
Strong Foothold in MENA's Largest Economies with Broad Category Exposure

AMR owns franchise rights of key brands coupled with favorable macroeconomic fundamentals propelling its growth

AMR Restaurants operates various local and global brands across MENA's fastest and largest growing economies. AMR is focused on a customer-centric operating culture, providing access to a wide range of brand and service formats. The Company operates through a portfolio of 2,090 (as of 3Q22) restaurants which is more than combined store count and market share of next four operators in the region. It owns leading market share in OOHD category across the core market (UAE, KSA, Kuwait and Egypt). The Company is the largest restaurant operator in the four Out of Home Dinning (OOHD) categories – 1) QSR, 2) FSR and Casual Dining, 3) Coffee Shops, and 4) Indulgence Restaurants – across 12 countries. AMR maintains stable and resilient performance across its portfolio. The Company is serving all principal categories in the OOHD market as a result, the consumer wallet sharing is growing stimulating brand loyalty and consumer retention. In addition, AMR is planning to enter into new cuisines and segments to cater to the evolving needs of the target audience.

This strong foothold is underpinned by a favorable macroeconomic outlook including diversified economies, large population base, high urbanization, favorable demographics and strong consumer expenditure across AMR's Core and Other Markets. Countries in which AMR operates are expected to grow at higher rate than developed economies, which will potentially result in healthy growth for AMR portfolio.

Figure 16: AMR's Brand Platform with Broad Category Exposure



Source: Company Information

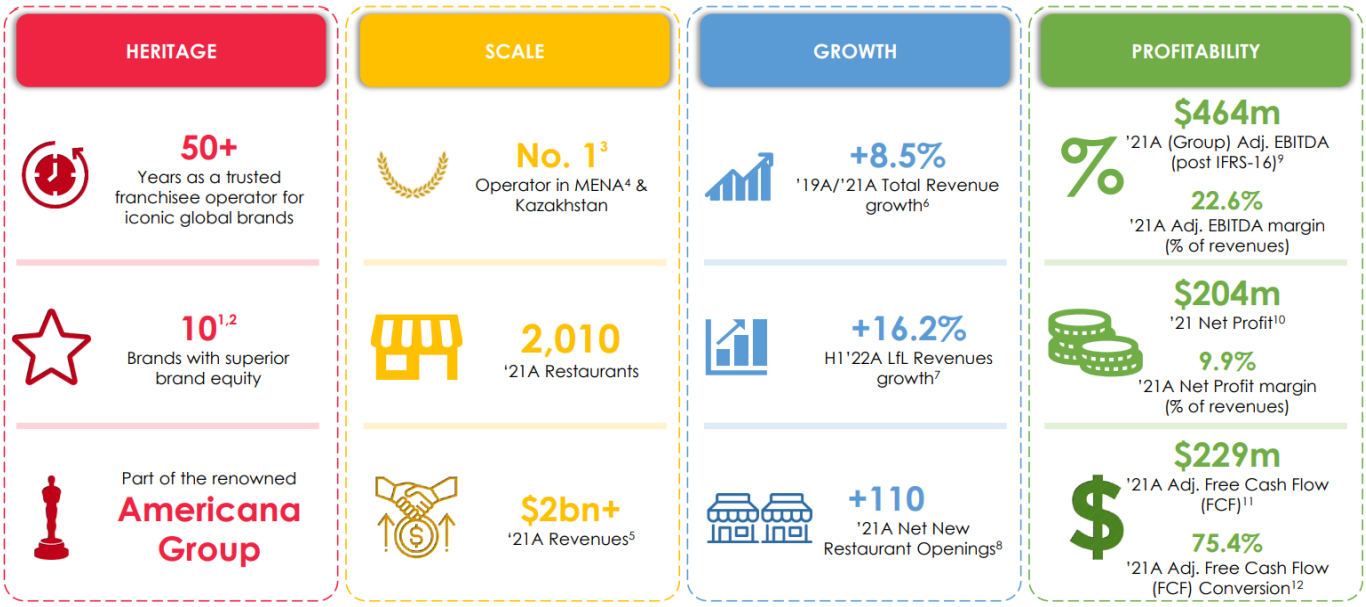
Note: Exposure through Chicken QSR, Burger QSR, Sweet/Indulgence. and Casual Dining in KSA, Kuwait, UAE and Egypt; Exposure to Pizza QSR in KSA, UAE and Egypt; Exposure to coffee in Egypt

AMR own a scalable operation and with a track record of generating healthy profit across the period

AMR is one of the pioneers in the MENA food & beverage industry with more than 50 years of experience. The Company operations are scalable with a track record of delivering profitable results. It reported revenue of USD 2,052 Mn and Post IFRS-16 Adj. EBITDA of USD 464 Mn in FY2021 with a healthy growth rate in the historical period. In addition, AMR generated adequate cash with free cash flow conversion ratio of 75.4% in FY2021, reflecting efficient cash management. The Company's financial is insulated from currency risk as approximately 80% of the revenue is generated from pegged currencies. We anticipate AMR to maintain this healthy performance as it remains highly focused on food quality & speed of service, introducing new menus with local relevance & flavor, entering into strategic partnership with supplier, pooling deliveries to improve productivity, and in addition multiple other factors which will drive performance.

Moreover, the Company is owned by two key shareholders Mr. Mohamed Ali Rashed Alabbar and the Saudi Company for Gulf Food Investments, which is a subsidiary of the Public Investment Fund (PIF) of KSA. Mr. Mohamed Ali Rashed Alabbar is the Founder and Managing Director of Emaar Properties PJSC, a leading real estate company in UAE. PIF is the sovereign wealth fund of Saudi Arabia with an AUM of USD 620 Bn as of 1Q22. These two shareholders own a significant stake in the parent Company indicating strong shareholder support to AMR Restaurants.

Figure 17: AMR Restaurants- Scale, growth & profitability



Source: Company Information

Notes: 1. Red Lobster disposed in June 2022
2. Adj. CAGR excluding 2020A as impacted by COVID-19 closures beyond Company's control, excluding one year in the cumulative average annual growth rate estimation
3. Average unit volume, estimated as revenue for the period divided by average number of restaurants in the same period
4. Comparable 2017A information not available
5. Adj. EBITDA is defined as Net profit for the year plus finance cost (net), income tax and zakat and contribution to KFAS; depreciation and amortisation and other adjustments. Refer to Appendix for detailed calculation
6. Net profit relates to net profit for the year attributable to Net Parent Investment attributable to Parent Company
7. Refers to KFC, Hardee's, Pizza Hut, Krispy Kreme
8. Refers to Baskin Robbins, TGIF, Chicken Tikka, Wimpy, Costa Coffee
9. Includes Grand Café, Fish Market, Pavilion and divested brands
10. Adj. Free Cash Flow (FCF) defined as adj. EBITDA post IFRS-16 less capex, tax, change in net working capital, change in non-current portion of trade payables and lease payments

Significant Penetration and Expansion Opportunities Within Existing Region

AMR owns exclusive development rights and the right of first refusal in its markets of operation

AMR Restaurants have an omnichannel presence with significant penetration and expansion opportunities across existing countries. AMR's comprehensive omnichannel presence caters to customers anytime and anywhere across multiple channels such as dine-in, online, car hops, aggregators, kiosks, drive-thru, and others. AMR serves 12 countries with a total population size of 271 Mn and 2,090 restaurants (3Q2) operating in various categories. The Company owns exclusive development rights and the right of first refusal for global and regional brands it operates in each region. Pizza Hut and Krispy Kreme successfully launched operation in KSA in FY2022 and Egypt in FY2021. AMR is planning to launch KFC, Pizza Hut in Iraq, Krispy Kreme in Jordan, and Peet's Coffee, Wimpy in GCC Countries.

AMR's existing platform across the value chain is leveraged for brand expansion within existing geographies. The Company is only present in food category in the GCC region and plans to foray into beverages segment through Peet's Coffee**.** The beverage segment enjoys higher margin as compared to food segment. Typically, marketing costs are higher for establishing a brand in a region, however given attractive margin profile of the coffee segment AMR will be able to increase profitability in beverage segment in the GCC region. AMR's existing positioning and understanding of the market and consumer will give an opportunity to establish and grow its foothold in new segments Furthermore, Krispy Kreme's successful launch in Egypt leads to future expansion into Jordan, Oman, and Kazakhstan. In KSA, AMR's Pizza Hut franchisee started operation with four restaurants and plans to add 12 more outlets in the FY2022. We believe with extensive market study, segment research, understanding of the target customers, and an efficient supply chain, the Company is able to execute its operations on time.

Figure 18: AMR Restaurants - Whitespace Potential Across Multiple Region (FY2021)

Our Brands	Category	Significant Penetration and In-fill Opportunity in the Brand/Country Matrix												Total Number of Restaurants
		UAE	KSA	Kuwait	Egypt	Qatar	Bahrain	Oman	Jordan	Morocco	Lebanon	Iraq	Kazakhstan	
KFC	Chicken QSR	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	Launch in progress	✓	896
Hardee's	Burger QSR	✓	✓	✓	✓	✓	✓	✓	✓	Right of First Refusal		✓	✓	381
Pizza Hut	Pizza QSR	✓	Successful launch		✓		✓		✓			Launch in progress	✓	280
Krispy Kreme	Sweet / Indulgence	✓	✓	✓	Successful launch	✓	✓	Right of First Refusal	Launch in progress	Right of First Refusal		Right of First Refusal		220
COSTA COFFEE	Coffee				✓				✓				✓	74
Peet's Coffee	Coffee	Launch in progress	Exclusive Rights	Exclusive Rights	Own Brand	Exclusive Rights	Exclusive Rights	Exclusive Rights	Exclusive Rights	Exclusive Rights	Exclusive Rights	Exclusive Rights	Exclusive Rights	
BR Baskin Robbins	Sweet / Indulgence			✓	✓									60
TGI FRIDAYS	Casual Dining	✓	✓	✓	✓	✓	✓							50
chicken TiKKa[1]	Fast Casual	✓	Own Brand	✓	✓	Own Brand	Own Brand	Own Brand	Own Brand	Own Brand	Own Brand	Own Brand	Own Brand	30
wimpy[1]	Fast Casual	Launch in progress	Own Brand	✓	✓	Own Brand	Own Brand	Own Brand	Own Brand	Own Brand	Own Brand	Own Brand	Own Brand	8
Other[3]	Casual Dining	✓		✓	✓									11
Total addressable population. m²	**271**	9	33	4	101	3	1	4	10	37	7	41	19	**2,010**

☆ Successful launch ✓ Established Operation Launch in progress Right of First Refusal Own Brand Exclusive Rights

Source: Company Information

Note: Other includes Grand Café (3), Fish Market (6), Pavilion (1), and Red Lobster (1). Red Lobster has been exited as of Jun-2022A

Figure 19: AMR Restaurants - Omnichannel Presence

Source: Company Information

Market leader in Out of Home Dining Industry with consistent Market Share Gain

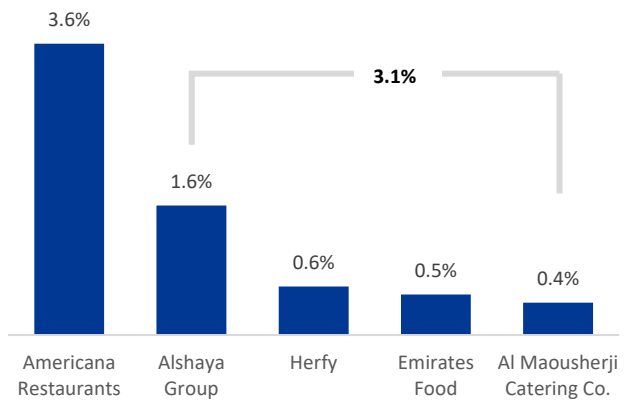
Higher Number of Restaurants Compared to the Combined Total of Next Four Players

AMR's number of restaurants and market share is higher than the combined total of the four largest key competitors, making it the market leader in the OOHD segment

AMR Restaurants is the clear market leader in the region with a diverse brand portfolio. The Company's size and scale could be understood by the number of restaurants which stood at 2,090 in 3Q22, larger than the total number of restaurants operated by combined total of four next major players. In addition, it is gaining market share in the OOHD and its sub-segment over the period.

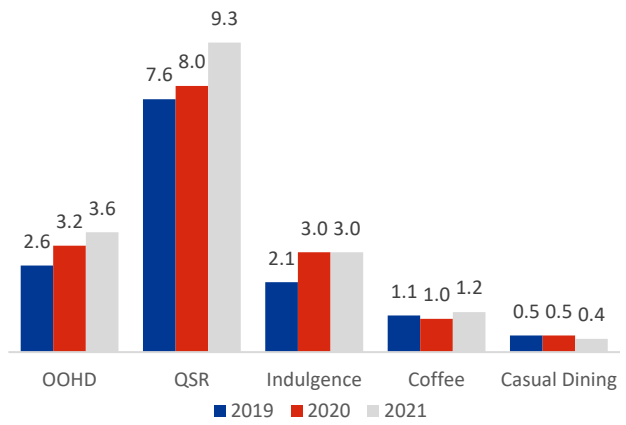
AMR's market share in the OOHD industry reached 3.6% in FY2021 from 3.2% in FY2020. The market share in the QSR segment rose 130 basis points to 9.3% in FY2021. The Company outperformed its peers in the AMR Core Market such as UAE, Egypt, and Kuwait. Furthermore, AMR showcased a resilient performance in the indulgence sector as compared to its competitors who lost 38% of its market value during FY2020 compared to FY2019. Despite this, AMR managed to improve its market share from 2.1% in FY2019 to 3.0% FY2020 due to Company's strong and growing presence in the segment for instance Krispy Kreme's successful launch in Egypt leading to further footprint expansion in Jordan.

Figure 20: Market Share of Key Players - 2021



Source: Company Information

Figure 21: AMR Market Share in Selected Categories Across Core Markets (%)

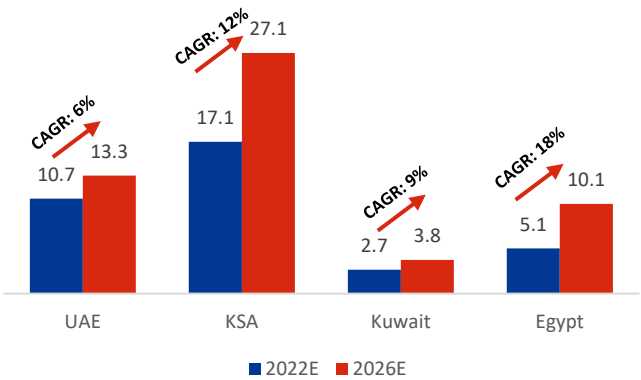


Source: Company Information

Egypt and Saudi Arabia are expected to drive AMR's growth

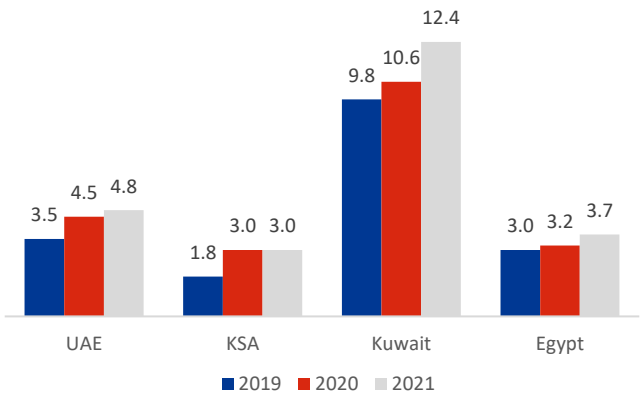
AMR continues to maintain strong foothold in OOHD market by ranking among the top-ranked restaurant players in its Core Markets of operation with consistent market share gains. The dominance and presence of the Company are prevalent across all 12 markets in the region. The OOHD market in the UAE is expected to grow at a 6% CAGR from USD 10.7 Bn in FY2022 to USD 13.3 Bn in FY2026. With key brands such as Pizza Hut, KFC, Krispy Kreme, Hardee's, and TGIF, AMR gained market share from 4.5% in 2020 to 4.8% in FY2021. KSA's OOHD Market is estimated to grow at a CAGR of 12% from USD 17.1 Bn in FY2022 to USD 27.1 Bn in FY2026. AMR holds the leading position with its market share in the OOHD category of 3.0% in FY2021 followed by Herfy's with 2.1% and Albaik with 1.5%. Furthermore, Egypt's OOHD market is expected to grow at a CAGR of 18% and is dominated by AMR Restaurants with a market share of 3.7%, followed by Al-Mansour at 2.2% and Tropicana at 0.4% in FY2021. In addition, Kuwait's OOHD market is expected to rise at a CAGR of 9.0%, wherein AMR owns the largest market share of 12.4%, followed by Al-Maouserji Catering Co. with 8.4% and Alshaya at 8.3% in FY2021. All these markets hold huge potential in the near term, however, Saudi Arabia and Egypt are expected to be the key drivers for this growth due to ongoing addition of Pizza Hut outlets in KSA and Krispy Kreme in Egypt.

Figure 22: Market Size[1] across AMR Core Market (USD, Bn)



Source: Company Information, [1]Based on value sales, includes QSR, Casual Dining, Coffee and Indulgence segments within OOHD

Figure 23: AMR Market share across Core Market (%)



Source: Company Information

AMR ranked first in QSR sub-segment categories

AMR is also ranked as the number one player in the sub-segment within the QSR space. In the Chicken category, AMR operates across 12 countries with 896 KFC restaurants, making it the market leader across all 12 countries. The Company outpaces the local players such as Albaik and Herfy and international players such as Texas and Popeyes. In the Burger category, AMR's market share increased from 7.6% in FY2020 to 8.5% in FY2021, Hardee's operates in 10 countries with 381 restaurants. In the Pizza Category, Pizza Hut is the market leader in UAE and Egypt. The Company successfully launched its first Pizza Hut restaurants in KSA, given the positive market dynamics indicating potential to capture a large market share in the pizza category in the new future.

Figure 24: AMR Restaurants - QSR Sub-categories Portfolio

Source: Company Information

Powerful Digital Platform with an Advanced Technology Stack

In-house Digital Ecosystem and Cutting-Edge Capabilities Driving Rapid Growth

AMR's integrated digital platform enables tangible growth at the same driving efficiency

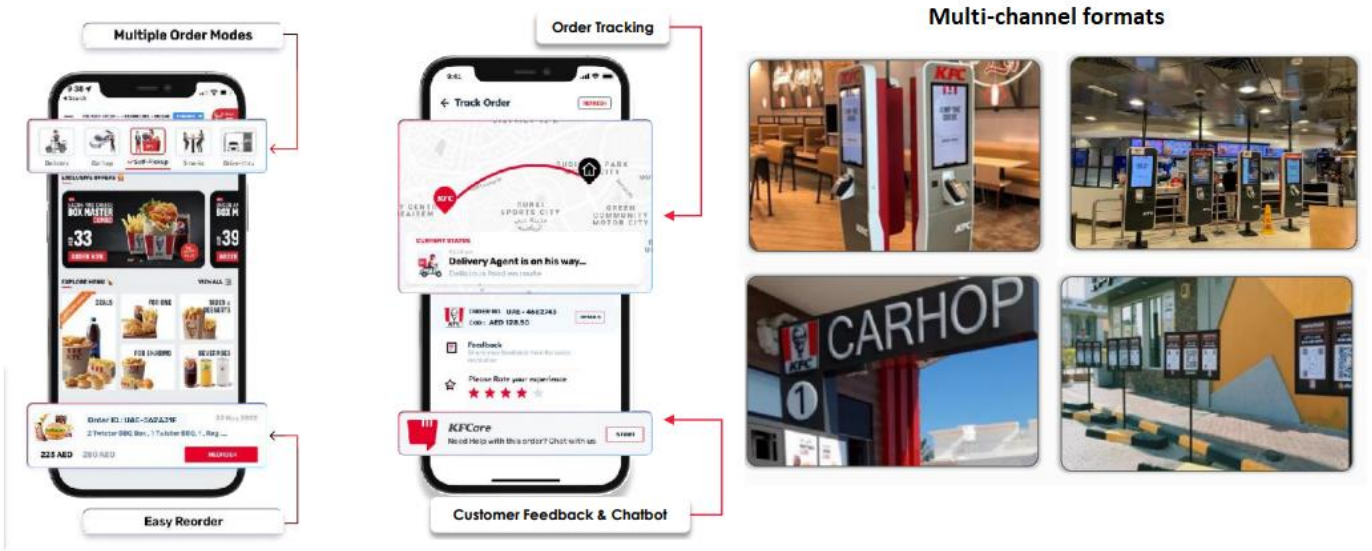
AMR's integrated in-house digital ecosystem benefits it in multiple ways such as tangible growth, enhanced customer experience, lower customer acquisition cost, and real-time data helping in decision making. The Company's digital platform is data-driven wherein customer data, operational data, and financial data are processed in a single ecosystem to create insights to drive the business. The cutting-edge technologies increase the customer lifetime value (CLTV) providing enhanced customer experience and shareholders value. The Company owns 17 proprietary "super-apps" for five brand ecosystems built upon the proprietary AMR Digital Platform (ADP) that offers seamless customer experience and facilitates new brand and country onboarding. ADP provides multiple enhancements to the app including direct customer support, personalized customer experience, immediate query resolution, and lesser call load for call centers. Distinctive app features also include multiple order modes, order tracking, easy reorder, customer feedback & chatbot to attract and retain customers. The Company's App rating stood at 4.4 in FY2021, and it witnessed 17x transaction growth from 0.3 Mn in FY2019 to 4.7 Mn in FY2021. Revenue also rose by a strong 16x from USD 5 Mn in FY2019 to USD 78 Mn in FY2021, which is one of leading industry growth rates.

The comprehensive digital assets also help to ward-off disruptive threats from aggregators. In one of the countries where KFC operates, one of the leading aggregators stopped taking orders that put more than 5,800 daily orders at risk. Within two days, the Company's KFC app scaled-up transaction volume which otherwise could take almost three months to fill that demand gap. This helped AMR on a strong footing and has re-established the relationship with the aggregator and benefited already from the stronger negotiating position.

AMR's focus on channel optimization to enhance customer experience driving the growth

AMR's store format changed with a focus on optimizing channels and digital-enabled self-services to facilitate ordering experiences and capture consumers' attention. Initiatives like self-ordering kiosks allow customers to make any changes in their order and payments without the assistance of a cashier. The Company has 350+ kiosks operating in 173 restaurants across five countries (KSA, UAE, Egypt, Kuwait, and Qatar). AMR has car hops format in 530 restaurants, more than 6,500 installed digital menu boards, and 128+ QR-codes installed across UAE, KSA, and Kuwait to ensure channel optimization. The Company is in the process of implementing innovative back-of-house restaurant tech systems such as Kitchen display systems, robotics, AMR restaurant connect, IoTs and others to improve operational efficiency and productivity, manage talent, and increase profitability.

Figure 25: AMR's Digital Platform



Source: Company Information

Evolution in Channel Mix and Growing Preference for Home Delivery

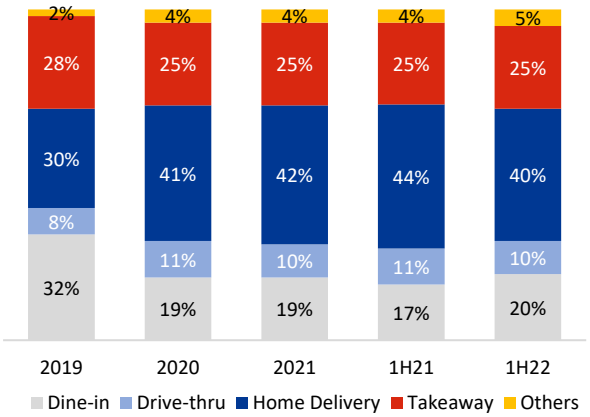
Evolving food ordering habits driving a change in sales channel mix

AMR's omni-channel presence helped it in bringing its products closer to the customer. AMR's sales channel mix consists of dine-in, drive-thru, home delivery, takeaway, and others (including Kiosk). The Company pre-empted this strategic move pre-COVID-19 and invested in its digital assets to meet this shift. Home delivery accounts for the highest revenue share in the channel mix with 42%, followed by takeaway with 25% share, dine-in 19%, drive-thru 10% and others 4% in FY2021. The Company's move to shift toward off-premises channels along with digital enablement evolved due to the pandemic, proliferation of smartphone along with increase in internet penetration and change in consumer habit of consuming ordering food. The home delivery channel revenue expanded from 30% in FY2019 to 42% in FY2021 owing to the pandemic restrictions. Home delivery share reduced from 44% in 1H21 to 40% in 1H22 whereas, dine-in revenue share increased from 17% in 1H21 to 20% in 1H22 following ease in restrictions. Furthermore, takeaway's revenue share remained stable at 25% from FY2020 to 1H22.

AMR's home delivery channel revenue rose at a CAGR of 17.2% from USD 457 Mn in FY2017 to USD 863 Mn in FY2021

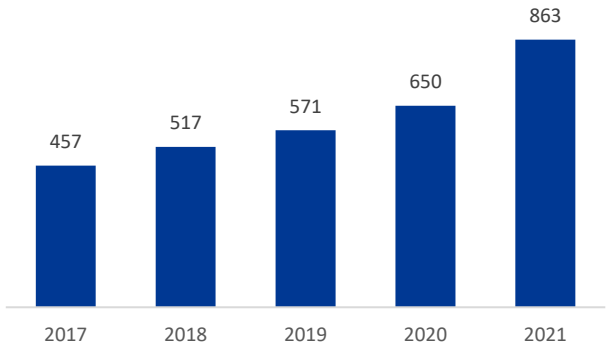
AMR's revenue from home delivery channel increased from USD 650 Mn in FY2020 to USD 863 Mn in FY2021. The Company adopted a differentiated approach to expanding revenue from home delivery channels by entering into strategic partnership with aggregators for customer acquisition and access to consumer data for driving revenue growth. These partnerships are long-term in nature and are at an attractive commercial proposition with minimal increase in commission while the Company has access to customer data which could be leveraged later to improve marketing ROI. At the same time, it also secured marketing commitments from aggregators. AMR maintained a healthy mix between its own channel and aggregators to enhance revenue diversification while deliver a consistent experience. Around 25% of restaurants are pooled together in AMR Core Markets resulting in 74% of order getting delivered in less than 30 minutes. AMR's total home delivery transactions reached 55 Mn in FY2021, where in 81% are self-fulfilled and remaining 19% by aggregators. To meet these deliveries, the Company maintained a fleet size of 1,934 cars and 4,974 bikes with 7,851 drivers.

Figure 26: Revenues Breakdown by Channel



Source: Company Information

Figure 27: Home Delivery Channel Revenue (USD, Mn)



Source: Company Information

AMR's integrated CRM platform builds an effective customer management ecosystem

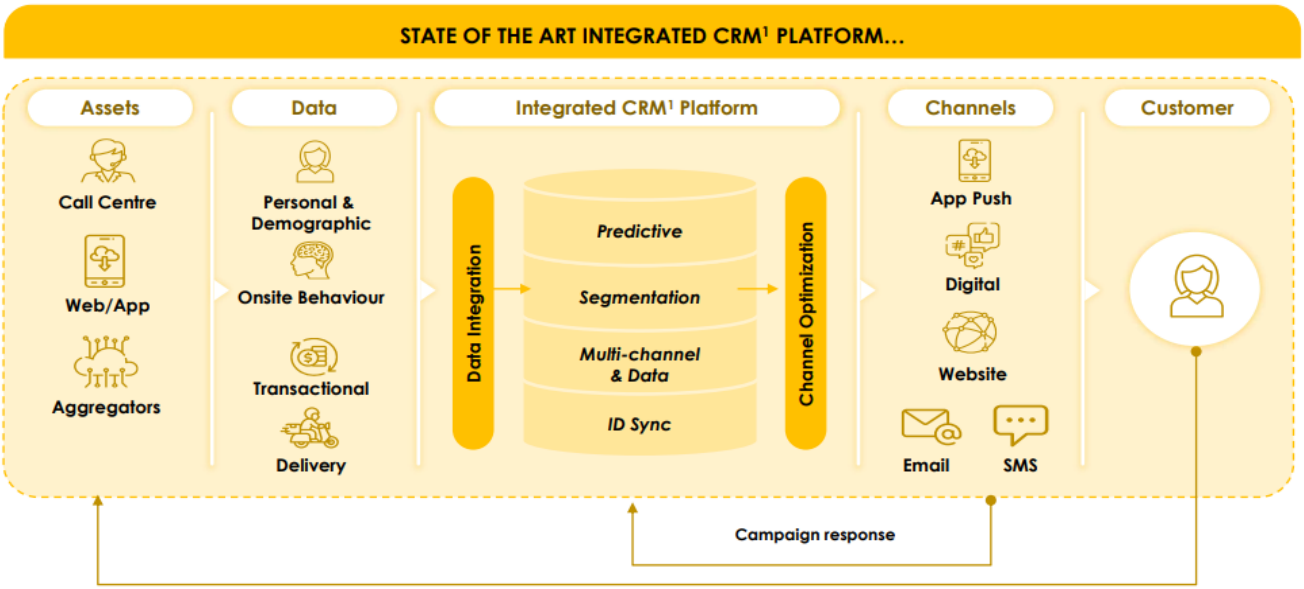
AMR's integrated CRM platform provides access to real-time data collection across all delivery channels. The Company remained focused on building a customer management ecosystem that unifies all customers to be represented as AMR customers. Along with CRM campaigns, the Company also uses behavioral data, transactional, personal, and demographic data for channel optimization and to deliver a personalized experience. With this integrated CRM platform, AMR is able to double the CRM revenue and lower the cost of marketing channels by using app notifications and email notifications that constitute zero cost.

AMR's total active customer base, as of April 2022, stood at 7.7 Mn. Furthermore, AMR unified Voice of Customer (VoC) platform helps in delivering an exceptional customer experience. VoC is a platform that provides the Company with a comprehensive source of feedback across multiple channels and helps in conducting detailed feedback analysis. The feedback received from customers across the restaurant, call centers, apps, aggregators, social media and through email are analyzed and acted upon in a short-time to deliver an exceptional customer experience. Due to efficient use of technology, the resolution time is reduced from 5 days to 15 minutes. The service is currently available in more than 1,200 restaurants and further plans to cover more restaurants. AMR is planning to introduce single loyalty programs which will provide loyalty incentives to the customers on the basis of spend, visit, subscription and tier.

The Company does not want to limit the use of technology only to improve customer experience but it is also being used to drive productivity at the back-end. AMR plans to move to a paper-less kitchen where incoming orders are informed to the kitchen staff via Kitchen Display System which will reduce the delivery time. The CCTVs are installed at more than 2,000 restaurants to

reduce theft, anticipate long waiting queues, customer bounce rates and deter criminal activity. It is one of the 1st QSR restaurant in UAE with automated kitchen operations.

Figure 28: AMR Restaurants- Advanced CRM System



Source: Company Information

KFC: Digital First Approach Strengthened Brand Positioning among Youth

KFC's distinct brand positioning due to the digital transformation

KFC's digital-led marketing focused on youth helped it to strengthen its brand positioning and hold a competitive edge in the QSR segment. KFC's digital spending as percentage of marketing spend increased from 30% in FY2019 to 45% in FY2021. The Company's investment in digital and home delivery channels along with data-driven decision in operations helped in driving the youth affinity. KFC has 6.2 Mn online followers across social media platforms and the app has a rating of 4.3, reflecting a strong social network. To achieve revenue maximization KFC shifted the focus towards dual food categories to cater larger target audience and improved the speed of service with structured and consistent practices. Thus, KFC's Average Unit Volume (AUV) grew from USD 1.2 Mn in FY2017 to USD 1.5 Mn in FY2021, owing to the growth in off-premises revenue and quality improvement.

Figure 29: KFC's Digital Spend as % of Marketing Spend

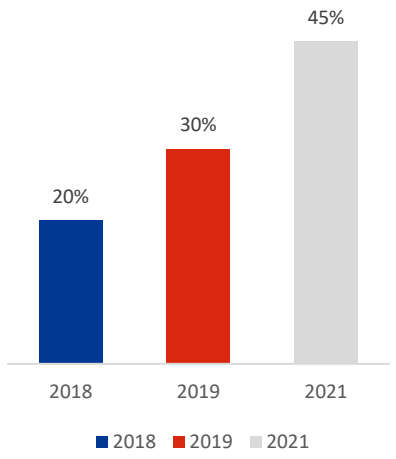


Figure 30: KFC: Average Unit Volume (USD, Mn)

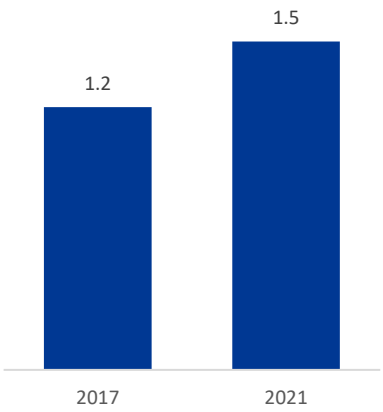
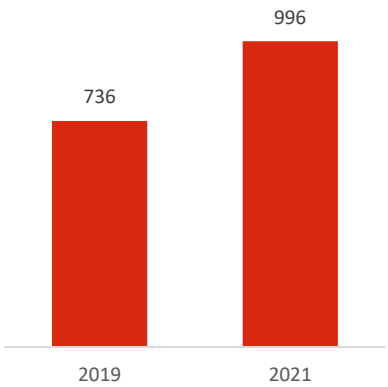


Figure 31: KFC: Off-premise Revenue (USD, Mn)



Source: Company Information

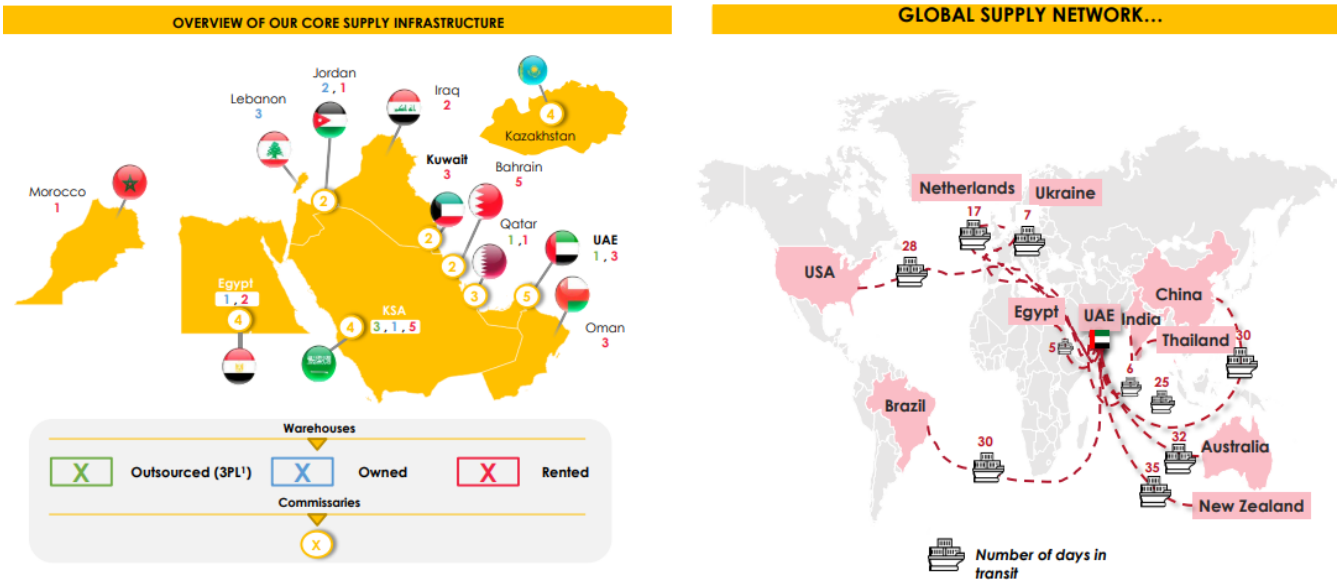
Robust Supply Chain Infrastructure Supporting Future Growth

Significant Bargaining Power with Low Supplier Concentration

AMR is uniquely positioned due to high bargaining power amid low supplier concentration

AMR Restaurants operates in the countries which are dependent upon imports to meet their food requirement. Thus, maintaining a robust supply chain to meets its supplies is critical. AMR benefits from competitive advantages that allow the Company to manage cost inflation, and retain margins, while maintaining its supply chain resilience. AMR secured supplies of raw material from a diversified supplier base due to the strong supply chain infrastructure in more than 12 countries with long-standing supplier relationships. The diversified supplier base helps the Company in having a higher bargaining power against suppliers. In these regions, AMR operates 26 commissaries, 38 warehouses and 248 trucks wherein 26 warehouses are rented, 7 owned and remaining five are outsourced warehouses. In addition, AMR operations are centrally located which reduces the number of days in transit and securing timely supplies. It also maintains enough inventory in hand to ensure operation remain undisrupted. During FY2021, no single supplier supplied more than 10% of the Company's supplies of direct spend (including raw materials, food related items and packaging materials). The top 10 suppliers accounted for 36% of direct spend by supplier in FY2021. The Company also maintains a balance between local supplies and imports. In FY2021, local supplies made up 52% of supplies and remaining 48% is secured from imports.

Figure 32: AMR's Supply Chain Infrastructure and Network



Source: Company Information

Centralized purchasing of raw materials, food related items and packaging material enhances buyer negotiating power

AMR's centralized/bulk purchasing of raw materials, food related items and packaging materials gives it strong bargaining power against suppliers. Around 86% of direct spend is centrally managed by AMR, whereas remaining 14% is locally managed**.** AMR maintains 55-60 days of inventory and strategically increased inventory to mitigate stock-out risks during uncertainty such as food inflation and during the pandemic. In terms of supply sourcing breakdown, 84% of supplies are procured from third parties, while the remaining 16% are from related parties which maintain an arms-length relationship with AMR. A long-standing relationship with trusted suppliers in key categories such as chicken, beverages, potatoes, oil, dairy, and others. In the beverage category, PepsiCo alone supplies 13% of total inputs. In Potatoes and Beef category, Americana Foods, a sister company of AMR Restaurants, is one of the major suppliers for the

Company. AMR constantly adapts its operational strategy in line with changing macro circumstances and consumer preferences.

Figure 33: Inputs Sourced Locally vs. Imported (2021)

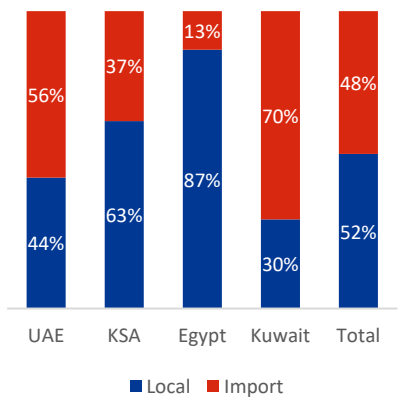


Figure 34: % of Direct Spend by Supplier (2021)

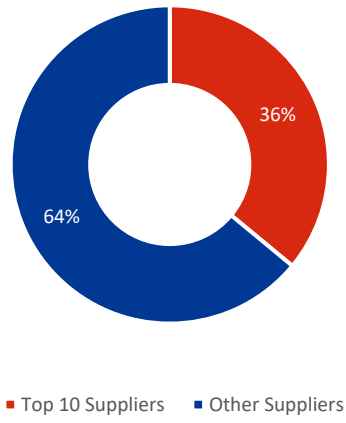
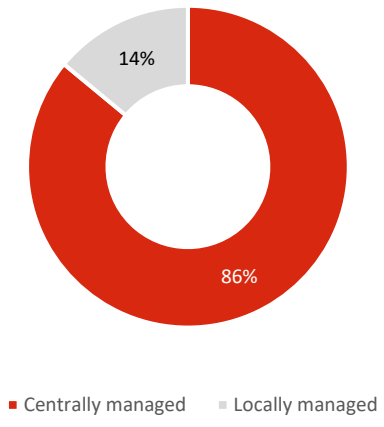


Figure 35: Direct Spend Breakdown by Sourcing (2021)



Source: Company Information

Strong Financial Profile with Top Quartile Margin and Cash Generation Track Record

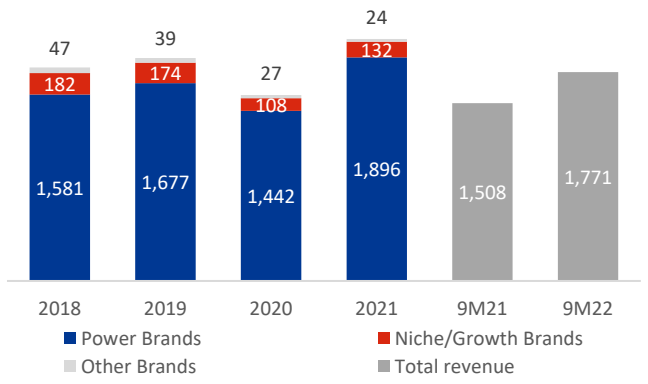
Multiple Levers to Drive the Company's Margin and Profitability

AMR uses multiple levers such as operating leverage, menu engineering and disciplined cost control through on-going zero-based Budgeting (ZBB) to drive margin and profitability

AMR Restaurants' well-ingrained zero-based budgeting process helped the Company to keep costs in check which led to improvement in profitability and margin over the period. Due to this initiative, the Company margin improved by 2.2% from 2018 to 2019 and further by 2.6% from FY2019 to FY2021. With the implementation of zero-based budgeting, AMR reduced the utility cost per restaurant from USD 25,243 in FY2019 to USD 22,771 in FY2021. Several energy efficiency initiatives such as pre-rinse spray valves, thermostats, and demand control kitchen ventilators addresses underlying issues and help in reducing cost**.** In addition, AMR's strong revenue growth provided operating leverage, smart pricing and menu engineering also led to improvement in margins.

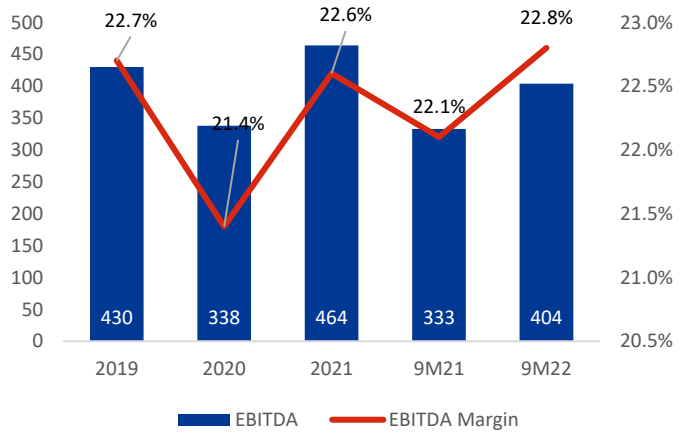
The number of restaurants increased from 1,933 in FY2019 to 2,010 in FY2021 and further to 2,090 in 3Q22, drove revenue growth. The Company's revenue grew at a CAGR of 4.7% from USD 1,705 Mn in FY2017 to USD 2,052 Mn in FY2021. A strong increase in like-for-like (LfL) sales and the addition of 534 gross store openings from FY2017 to FY2021 are the main drivers of this growth, which is slightly mitigated by store closures and foreign exchange movement. Adjusted Pre-IFRS EBITDA grew at a CAGR of 8.2% from USD 243 Mn in FY2018 to USD 308 Mn in FY2021, while post-IFRS 16 adjusted EBITDA grew at a CAGR of 3.9% from USD 430 Mn in FY2019 to USD 464 Mn in FY2021. Pre-IFRS EBITDA rose 160 basis points from 13.4% in FY2018 to 15.0% in FY2021. Post-IFRS 16 adjusted EBITDA remain flat at 22.6% in FY2021. Post-IFRS 16 adjusted EBITDA increased 21.3% YOY to USD 404 Mn in 9M22 with a margin of 22.8% compared to a margin of 21.1% in 9M21.

Figure 36: AMR – Seg. Revenue (USD, Mn)



Source: Company Information

Figure 37: AMR – Post-IFRS 16 Adj. EBITDA (USD, Mn) & Margin



Source: Company Information

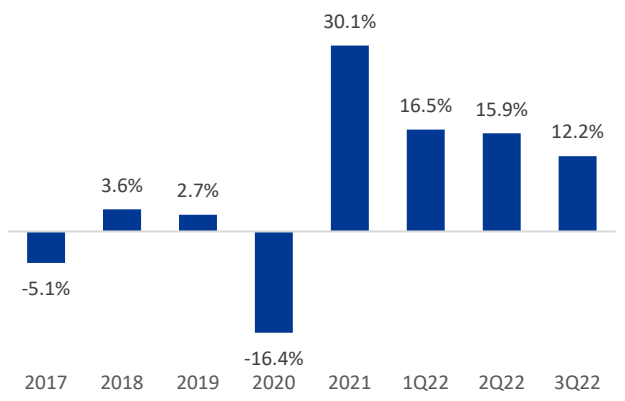
Strong LfL Growth and New Store Addition Driving Top line

Strong LfL growth and contribution from new restaurants driving AMR's total revenue growth

AMR's total revenue growth is driven by an increase in LfL sales and the contribution by addition of new restaurants partially offset by store closures. LfL sales rebounded strongly after pandemic and recorded double digit growth in LfL sales over the last seven quarters from 1Q21 to 3Q22. AMR also continued to record revenue from new restaurant opening contributed adjusted CAGR of 6.4% during FY2017-21. LfL revenue declined to a negative 16.4% during FY2020 and after that rebounded by a strong 30.1% during FY2021. In addition, LfL revenue growth in Power Brands significantly contributed to the post-pandemic recovery. KFC delivered the highest LfL revenue growth of 35.7% resulting in average unit value to grow from USD 1.2 Mn in FY2017 to USD 1.5Mn in FY2021, followed by Hardee's with 28.1% and Pizza Hut recording LfL growth of 16.0% in FY2021. The Company's focus on enhancing customer experience, automation, and smart pricing resulted in double-digit LfL growth to continue in 9M22. LfL softened in 3Q22 due to seasonality, back to school in September, and FX headwind in Egypt. It is expected to bounce back in 4Q22 due to an increase in pricing in early Oct'22, a strong demand trend, and the FIFA world cup. We expect LfL to grow in mid-single digit during FY2023-26.

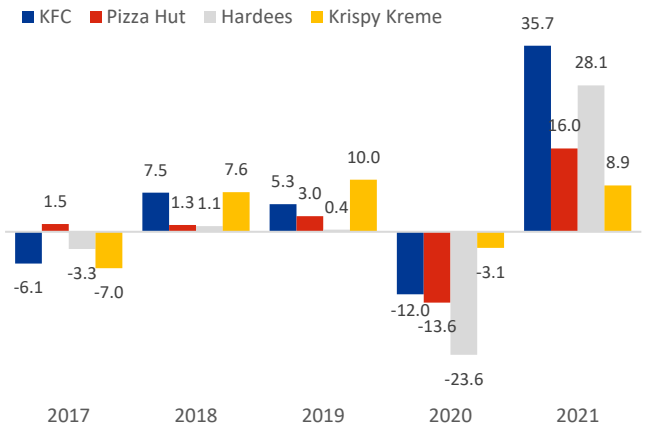
Furthermore, healthy growth in restaurant portfolio with gross addition of 534 restaurants over FY2017-21 is reflecting strong financial performance over the period. Out of 534 restaurants, 89% of the restaurants break even and generate profit. As AMR's power brands account for 89.2% of total revenue between 2017 and 2021 and an increasing share of power brands with a steady contribution in the GCC markets would propel the Company's financial growth.

Figure 38: Like-for-Like (LfL) Revenue growth



Source: Company Information

Figure 39: LfL Growth by brand (%)



Source: Company Information

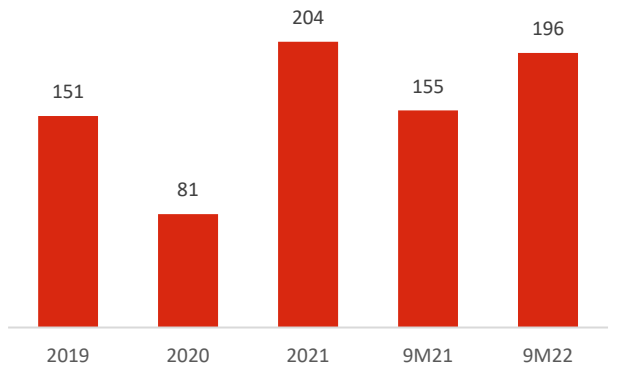
Strong Net Profit and Free Cash Flow Generation Driving Shareholder Return

AMR recorded strong net profit growth and robust free cash flow generation to drive shareholder return

AMR's net profit attributable to equity shareholders bottom line expanded at a 15.4% CAGR from USD 133 Mn in FY2018 to USD 204 Mn in FY2021 due to robust growth in revenue and cost discipline in managing expenses. Further, the net profit attributable to equity shareholders grew from USD 155 Mn in 9M21 to USD 196 Mn in 9M22. The Company generated a cumulative strong cash flow of USD 738 Mn during FY2019–21, with an average free cash flow conversion ratio of 88.8% during the same period. AMR free cash flow declined 8.5% YOY to USD 174 Mn in 9M22 due to higher investment in capex, investment in working capital to secure supplies owing to supply chain disruption and increase in lease payments. The free cash flow conversion ratio declined from 82.4% in 9M21 to 60.1% in 9M22. AMR expects the disruption to normalize from 4Q22 and investment in inventory to revert to normal levels by 4Q22. The Company maintains a strong track record of cash flow generation and free cash flow conversion providing enough capacity to generate healthy shareholder returns.

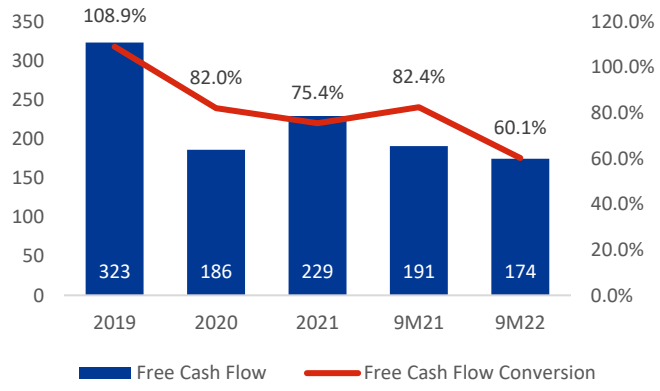
The Company continues to maintain negative working capital despite higher inventory levels. Inventory levels stayed at higher levels to prevent stock-outs and mitigate supply chain disruptions. The Company maintains 55-60 days of inventory due to importation lead time. However, trade payables decreased owing strong growth in cost of inventory from 114 days in FY2020 to 99 days FY2021.

Figure 40: AMR's Net profit attributable to equity shareholder (USD, Mn)



Source: Company Information

Figure 41: AMR's Free Cash flow (USD, Mn) & Conversion Rate



Source: Company Information

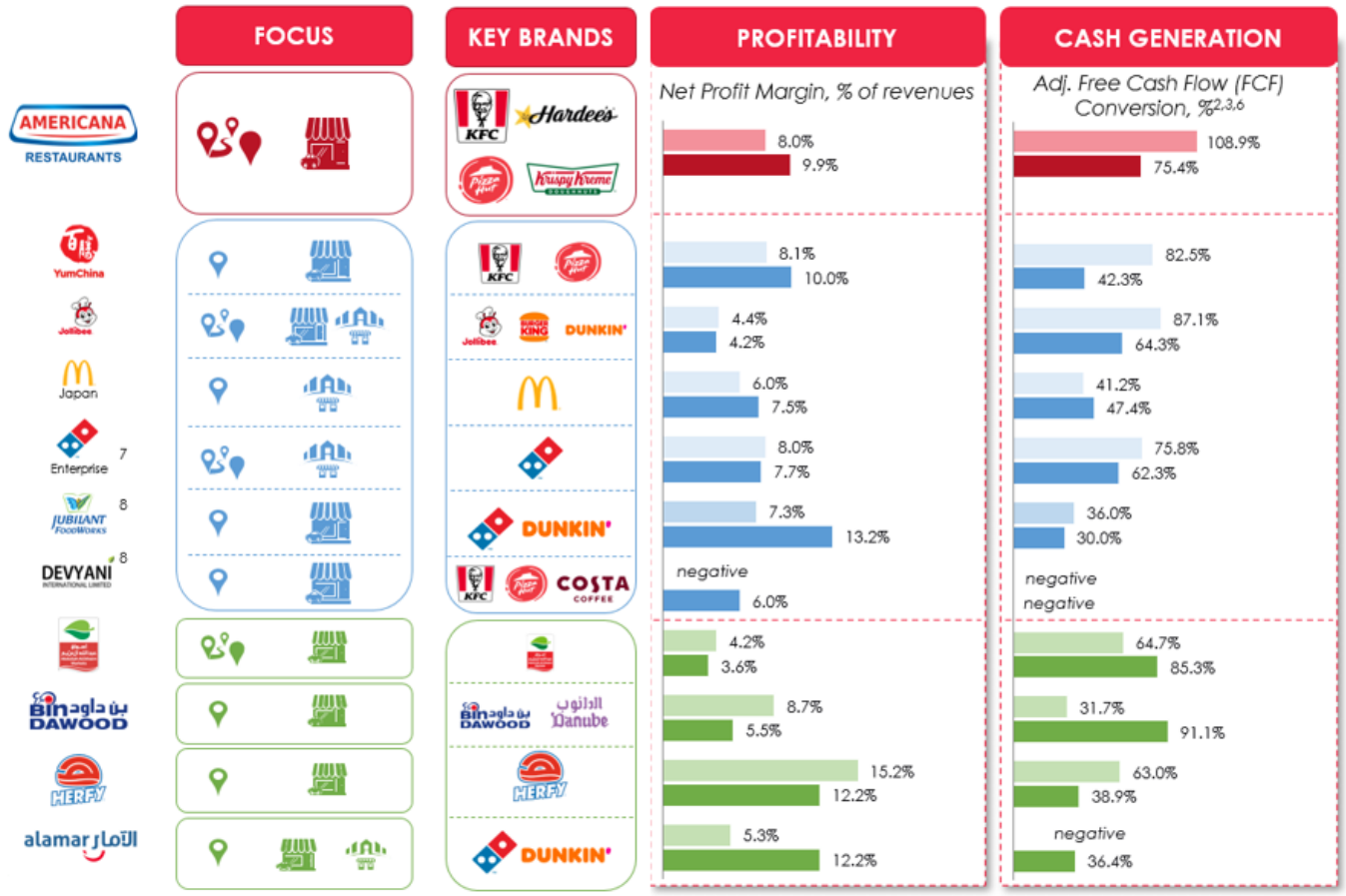
Strong Performance Against International and Local Restaurant Peers

AMR's margin is in line with the international and local peers

AMR Restaurants performed strongly as compared to global and local restaurant operators due to diversified geographical presence and attractive financial model. In the MENA region, none of the restaurant players operate on the similar scale as compared to AMR. AMR's profitability of 9.9% and cash generation of 75.4% in FY2021 gives its an edge over both local and international players. Pure play AMR's competitors in the MENA region include Herfy and Alamar foods whereas, global competitors include Yum China, Jubilant Food Works, Devyani International Limited, Jollibee Corporation, and others.

AMR's Net profit Margin stood at 9.9% in FY2021 which is significantly higher than international peers during the same period. While the Company's net profit margin is slightly lower than Herfy's and Alamar foods, however, AMR is catching up with the margins by planning to grow its portfolio, opening new restaurants, and entering into new segments and geographies. AMR will use multiple levers to improve margin in the medium term.

Figure 42: AMR's Competitive Landscape



Source: Company Information

Note: DOS – Directly operated restaurants

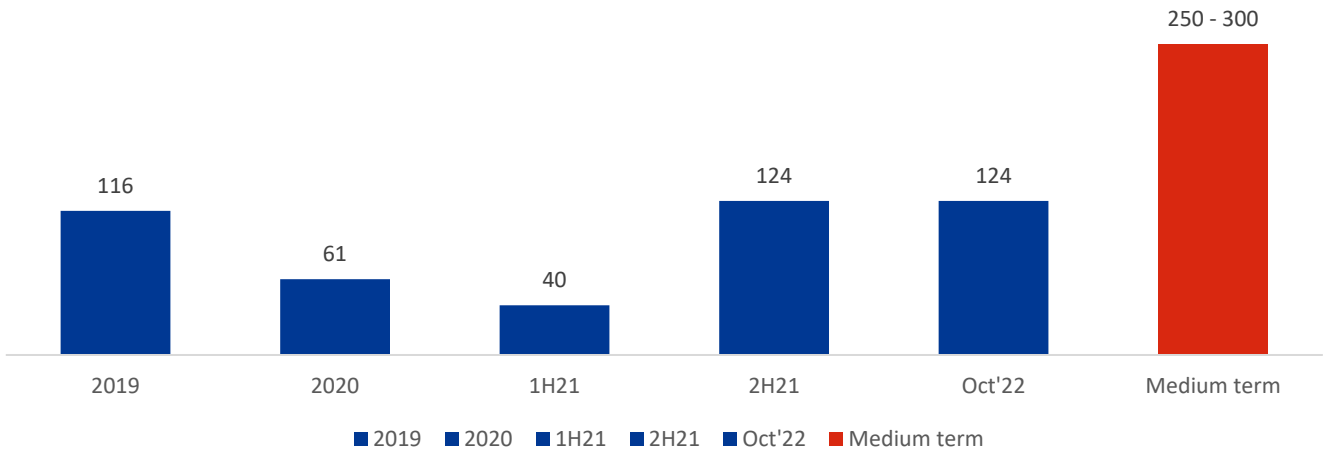
Significant Future Growth Potential in Core and New Business

New Restaurant Openings to Significantly Grow Scale and Footprint

Well-defined pillars and strategies for the future growth

The pillars for future growth include enhancing penetration through a well-defined asset strategy, launching existing brands in existing countries, while entering into other new segments. AMR is a market leader in OOHD segment with a market share of 4.5% in Core Markets and 3.6% market share in AMR's 12 countries of operation. Thus, the market remains highly fragmented, providing AMR with an opportunity to grow its market share over the period by adding more restaurants, increasing market penetration by capturing share of wallet and exploit whitespace in the existing market by increasing penetration of existing brands. In addition, the format evolution and digital enablement boosted productivity and cost efficiency. Another untapped opportunity includes the launching of existing brands in existing markets since existing country infrastructure will provide operating leverage to the revenue growth. The strategy is supported by the adding more Pizza Hut restaurants in KSA Pizza Hut and Krispy Kreme outlets in Egypt. This also includes increasing store count in Iraq. The Company plans to add 150-160 new restaurants in 2H22 and 250-300 net new restaurants in the medium-term from FY2023AMR is planning to enter in broad untapped OOHD categories such as coffee, salad, juice/smoothies, and ethnic segments.

Figure 43: Gross New Restaurants Openings



Source: Company Information

KSA: Relaunch of Pizza Hut to Establish Leadership in Pizza QSR Category

AMR relaunched Pizza hut operation in KSA, leveraging four decades of its understanding of the KSA market and exploit well-invested value chain

AMR launched its Pizza Hut outlet in FY2022. Until now, it has opened 13 restaurants with a strong pipeline of restaurants for which feasibility is approved by Americana Investment Committee. AMR's Pizza Hut remains a market leader in UAE and Egypt, setting the best practices for the development of AMR's Pizza Hut operation in KSA. The competitor presence in KSA indicates large room to expansion. AMR plans to leverage the existing AMR Restaurants customer base, four decades of KSA market understanding, and a well-invested value chain to establish leadership in the Pizza QSR category. The relaunch is carried out in three phases:

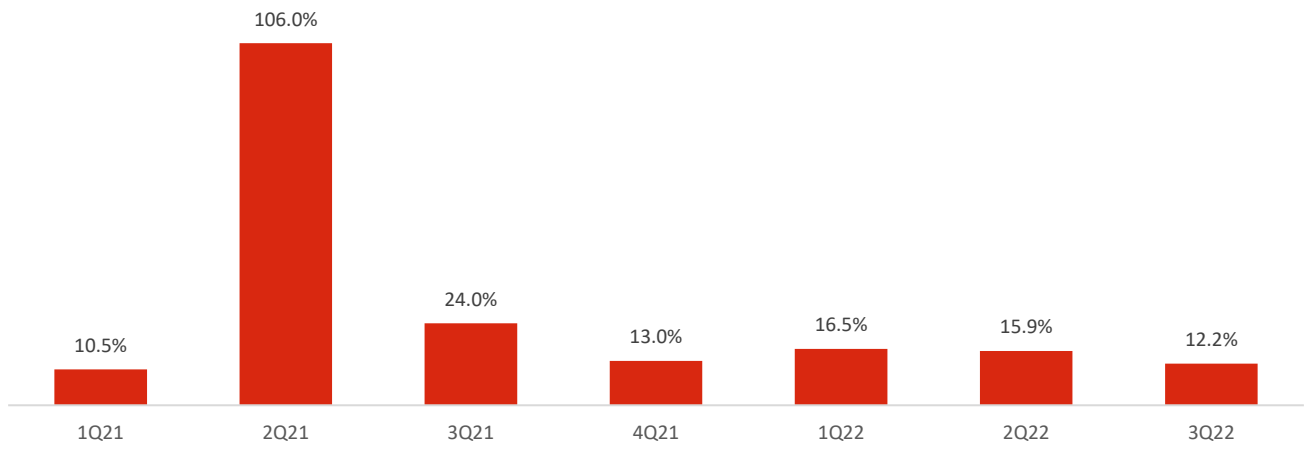
- **Phase I:** The Company conducted a detailed study to understand key target market by size, population and demographics. In the first phase, it plans to target locals, families, millennials and teens for its product. The franchise license as trusted operator was awarded to AMR

- **Phase II:** AMR conducted brand positioning and market mapping exercise. It first plans to expand its operation in North Riyadh. The Company focuses more on enhancing the speed of service & in-store customer experience with cutting-edge technology and providing superior quality & locally sourced products. In another phase, it plans to expand its store count in North-East & Central Riyadh followed by an expansion in South Riyadh
- **Phase III:** As a part of the communication strategy, AMR targeted communications through SMS/ email/ flyers and also created "buzz" on social media. AMR well-defined menu strategy is supported by smart pricing, categories/meals & offers.

The management estimates to record mid-single digit growth in LfL sales in the medium-term

AMR expects to improve adjusted EBITDA by 250-300 bps in the medium term through multiple levers. The multiple drivers include to increase revenue growth (supported by growth in LfL and adding new restaurants) to provide operating leverage and higher revenue per sqm to reduce the rental cost as percentage of revenue. Another driver is the smart pricing strategy to increase profitability by using AMR's integrated CRM platform along with an efficient channel mix.

Figure 44: YOY Like-for-Like Growth



Source: Company Information

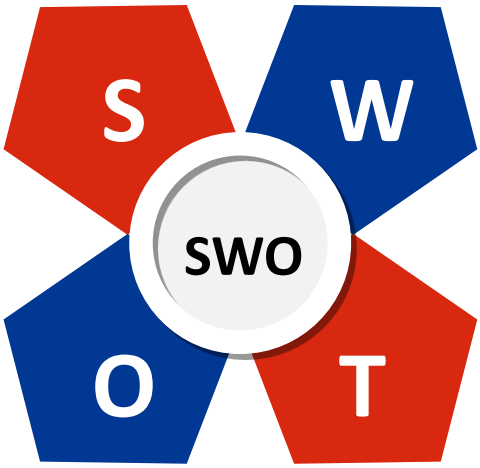
SWOT Analysis:

STRENGTHS

- Leading player in the restaurant industry in the GCC region. Number of restaurants and market share is more than the next four players combined
- Maintains strong relationship with all franchisors leading to achieve 100% International Franchise Agreements (IFA) retention
- Robust operational performance and cash generation across the economic cycle
- Investment in technology enabled to service customer through multiple channels
- A team of dedicated industry experts managing all the way from site identification to store opening by maintaining rigorous timelines
- Well invested supply chain infrastructure with strong focus on supply diversity underpinning consistency and cost discipline
- Governance & ESG framework that meets with global standards at the core of AMR's operating model
- Strong management team with proven track record & supportive shareholder

WEAKNESSES

- Dependent on imports to meet raw material requirement
- High employee attrition rate of 46.0%. In addition, the manpower employed is unskilled which results in frequent job change
- There is no fine dining in the Company's portfolio
- The Company is more focused on its power brand compared to other brands



OPPORTUNITIES

- Improving economic condition, attractive demographic profile, and strong growth in consumer expenditure remain favorable for AMR
- Strong growth in OOHD industry and QSR Segment in the region supports AMR topline growth
- Adding beverage segment to the portfolio by launching Peet's Coffee in GCC region. Also launched Pizza Hut in KSA expect Jeddah City
- The introduction of a health-conscious menu with new, low-fat flavor additives will lead to higher revenues in the future
- Introducing new brands within existing regions as well as entering new markets with new brands.
- Enter new segments/ cuisines like Sandwiches, Salads, Juices, Ethnic and many more

THREATS

- Threat of cancellation of franchise agreement might negatively impact AMR's growth
- OOHD market remains highly fragmented and industry faces Intense competition from small players in the industry
- Global recession is impacting the real estate and construction companies in the United Arab Emirates (UAE) which will directly impact the profitability and operations of the Company

Strong Management Team

With Solid Track Record and Significant Business Experience

Strong leadership with decades of expertise and industry leading capability

AMR's Management & Senior Leadership Team consists of the CEO, CFO and COO. In addition, AMR has a dedicated and diverse senior management team committed to excellence to drive the Company's growth and performance.

AMR's management team has proven its ability to sustainably grow the business while delivering strong profitability and cash generation. It has the appropriate talent, expertise and franchisor reputation to successfully execute the next phase of growth.

Figure 45: AMR's Management Team

Source: Company Information

Key Management:

CEO - Mr. Amarpal Sandhu

Mr. Amarpal Sandhu has been heading the Restaurant Business of the Former Parent Company since 2019. He joined the team as the COO of KFC in 2017 leading the transformation and turnaround of the brand. He also remained a director of Reef Technology Middle East Limited since 2021. In 2019, he was awarded the position of COO in Americana's Restaurant Division and thereafter promoted to CEO of the same section. Being the CEO, Mr. Sandhu's responsibility is to keep the track of multi-country and multi-brand restaurants portfolio of the MENA and Kazakhstan region. Mr. Sandhu had previously served as Vice President and Brand Head at Texas Chicken International looking after Asia-Pacific, Europe, and Middle East region. He successfully expanded the brand internationally in 10 markets from 2011-17. Mr. Sandhu served Wendy's for 17 long years from 1994-2011 managing equity and franchise business portfolio domestically as well as internationally. Mr. Sandhu holds a Master's degree in Business Administration from Richard Ivey Business School, University of Western Ontario, Canada.

CFO – Mr. Harsh Bansal

Mr. Harsh Bansal is currently serving as the CFO and CGO (Chief Growth Officer) at Americana's Restaurant Division. He was awarded the position of CFO in July 2018 whereas, he accepted the additional responsibility of CGO in September 2021. Mr. Bansal's journey with AMR started with the post of Senior Director leading the Corporate Finance and Strategy Function for the Group. He was working with the transformation team after the acquisition in 2016. Prior to joining the group, Mr. Bansal was associated with Alabbar Enterprises as an Associate handling Investments. He also served as an Analyst at Standard Chartered Bank in Mumbai looking after the M&A team in South Asia region after which he worked for the same group in Singapore serving the Southeast Asia region. He also worked at Infosys Technologies Ltd in India as an Oracle Consultant. Mr. Bansal holds a Post Graduate Diploma in Business Management from IIM Lucknow, CFA level-3, and an engineering degree in Electronics and Communication from Jaypee Institute of Information Technology in India.

COO YUM Brands – Mr. Vishal Bhatia

Mr. Vishal Bhatia is the COO of the Former Parent Company's Restaurant Business, managing its KFC and Pizza Hut operations in MENA, since March 2022. Mr. Bhatia is also accountable for AMR's expansions in Iraq. Prior to joining AMR, Mr. Bhatia served Swiggy as CEO handling New Supply Business, Private Brands, Cloud Kitchens, and Virtual Brands. Before working with Swiggy, he worked in the marketing department for companies like PepsiCo, Britannia, and Reckitt. Mr. Bhatia completed his MBA from Management Development Institute, Gurgaon, India and holds a Bachelor's degree in Electrical Engineering.

CIO – Mr. Ramandeep Singh

Mr. Ramandeep Singh Virdi is associated with AMR since 2018 and appointed as Chief Information Officer (CIO). Mr. Ramandeep has more than 23 years of experience in restaurants across retail, travel, hotels, airlines, R&D, and business process outsourcing and products domains. Prior to AMR, he served Jubilant Foodworks as a Senior Vice President in IT. Before working for Jubilant Foodworks, he worked for Interglobe Enterprises as Vice President in IT. Mr. Ramandeep holds Master degree in Business Administration from the University of Surrey, Uk and a Master degree in Technology in Computer Sciences.

CPO – Ms. Oksana Staniszewska

Ms. Oksana Staniszewska recently joined the Company as Chief People Office (CPO) in April 2021. She has developed and launched a process that covers Employee Life Cycle and Americana University to get excellent talent to lead AMR. Ms. Oksana is also a consultant at Oxford Group and LSP Leadership. Before joining Americana, she worked at AmRest Holdings SE as CPO. She devoted her 14 years of career to AmRest from 2006–20. She handled multiple responsibilities at AmRest in European and Russian region. Ms. Oksana completed her postgraduation in neurolinguistics from Kyiv National Linguistic University, and a practitioner in other psychometric tools like EQ, MBTI, OAD, and Mindsonar. She is also ICC-certified coach.

CDO – Mr. Dusan Folta

Mr. Dusan Folta recently joined the team in 2021 and appointed as Chief Development Officer. At the firm, his responsibilities includes development functions across design, construction, sales and catering, real estate, and maintenance across 12 countries. Prior to AMR, he spent 19 long years with AmRest starting as a team member and promoted to shift supervisor, District Coach, Market President. Later, he was hired to the post of Brand COO of KFC in Russia and Europe. He founded EyErne LLc, a US-based social media and e-commerce marketplace in 2018. He holds a Bachelor's degree in Economics and Management from College of Economics Studies in Prague.

Industry Overview

Out of Home Dining Market (OOHD)

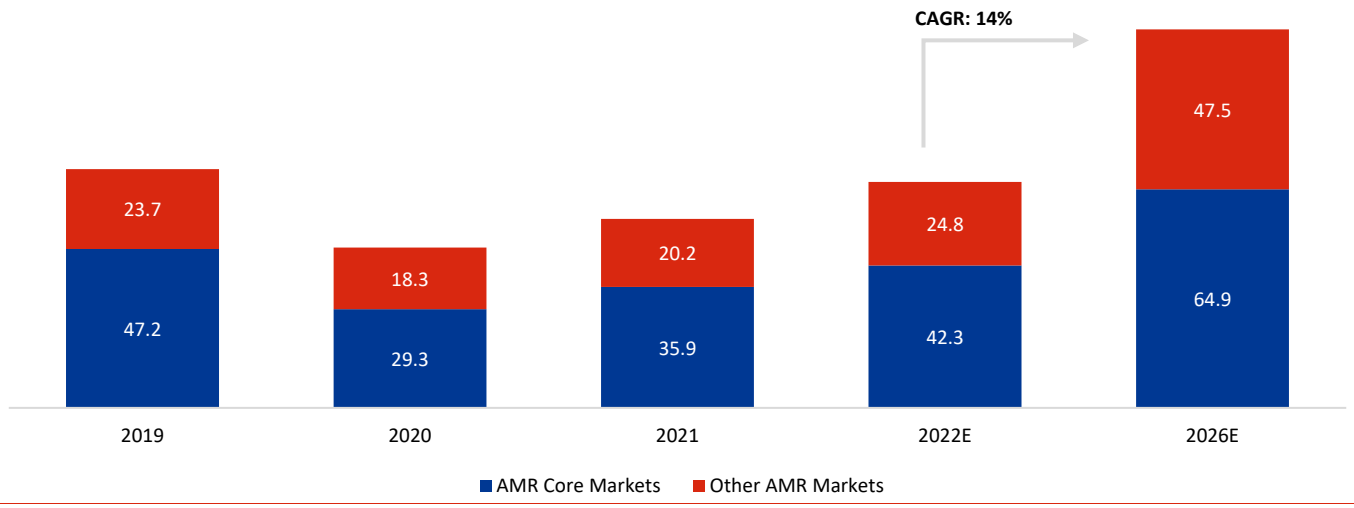
Rapid Growth in OOHD Market is Led by a Combination of Factors

Out of Home Dining Market is estimated to double in size from USD 56.1 Bn in FY2021 to USD 112.4 Bn in FY2026, driven by multiple factors

Out of Home Dining market includes Quick Service Restaurants (QSR), casual dining and fast service restaurants, indulgence restaurants, coffee shops, and other OOHD restaurants (including self-service cafeterias and street stalls/kiosks). OOHD market size in AMR's Core Markets and Other Markets is expected to almost double from USD 56.1 Bn in FY2021 to USD 112.4 Bn in FY2026. The market size of AMR's Core Markets and Other Markets stands at USD 35.9 Bn and USD 20.2 Bn in FY2021, respectively. This is further expected to grow to USD 64.9 Bn and USD 47.5 Bn in FY2026. The growth in OOHD market is primarily driven by several factors:

- A shift in consumer preferences from home cooking to OOHD, which is further boosted by high women's participation in the workforce
- High internet and smartphone penetration, leading to an increase in the tech-savvy young population, and rising popularity of third-party delivery aggregators, giving consumers new spending channels
- The growth of off-premise and home delivery channels surged post COVID-19, leading to an increase in the level of convenience
- Growing adoption of western cuisines amidst changes in consumer lifestyle is propelling a continuous expansion of foreign QSR chains as well as local brands
- Emergence of new communities, rise in the tourism industry, and rising consumer demand for convenience and high-quality meals at affordable prices
- Modernization of the retail sector and changing consumer preferences

Figure 46: Out of Home Dining Market Value by Sales (USD Bn)



Source: Company Information

Growth in Key Out of Home Dining Market Segments

Growth in the QSR segment is primarily driven by high urbanization, expanding tourism industry and rise in the tech-savvy population

QSR: QSR segment is estimated to grow at a CAGR of 14% from USD 22.7 Bn in FY2022 to USD 38.5 Bn in FY2026. This growth is primarily driven by high urbanization, increasing tourist inflows, and a young population with a high preference for international brand offerings. In addition, a rapid roll-out of digital channels accelerated during the pandemic, which acted as a catalyst adding to the growth of global chained QSR operators in the region.

According to an Euromonitor International report, the Chicken and Burger category is anticipated to register double-digit growth in AMR's Core Markets during FY2022-26, while Pizza is expected to grow by a high single digit in the Core Market during the same period. The chicken category is expected to grow at a CAGR of 10% from USD 2.8 Bn in FY2022 to 4.0 Bn in FY2026. Given its popularity with the local population and consumer preferences within the QSR and casual dining sectors, the chicken category is anticipated to remain in high demand across the QSR market. The Burger category is estimated to grow at a CAGR of 10% from USD 3.3 Bn in FY2022 to USD 4.8 Bn in FY2026, indicating a strong growth momentum from the burger premiumization trend. Independent QSR restaurants specialized in burgers are becoming increasingly popular and gaining traction over chained players. Furthermore, the pizza category is expected to increase at a CAGR of 9% from USD 1.0 Bn in FY2022 to USD 1.5 Bn in FY2026 despite having a lower market share within QSR than chicken and burger segments.

Casual Dining segment is expected to benefit from the premiumization trend related to the restaurant environment and healthier menu options

Casual Dining: Casual Dining is expected to grow at a CAGR of 14% from USD 24.6 Bn in FY2022 to USD 41.2 Bn in FY2026. Independent casual dining restaurants are well positioned to attract and acquire customers due to specialized cuisines and location ambiance. This growth is expected to benefit from the premiumization trend related to the restaurant environment and healthier menu options. The growth of nuclear families and dual-income households, as well as a hectic lifestyle, are boosting consumer demand for convenience food products. Consumers are now more receptive to newly introduced and lesser known but high-quality food products. These trends have provided an opportunity for several native fast casual firms to expand. Fast-casual restaurants attract a large day population, which helps to sustain the business for a longer amount of time. Additionally, the turnover in a fast-casual restaurant is high as people visit more frequently depending on the experience of the place.

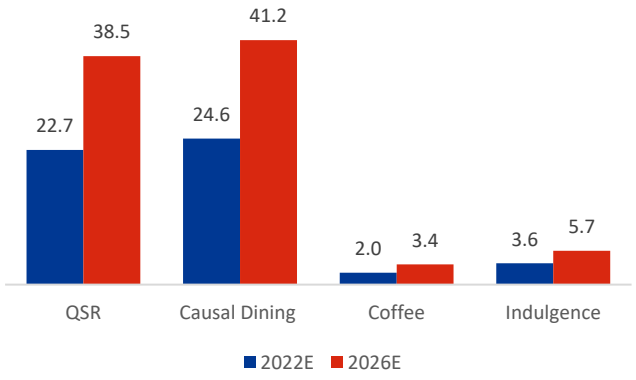
Increasing prevalence of coffee culture among the young population is driving growth of the coffee segment

Coffee: Coffee is expected to grow at a CAGR of 14% from USD 2.0 Bn in FY2022 to USD 3.4 Bn in FY2026. Rising tourism, urbanization, and growth in "coffee culture" among younger generations in the Middle East and North Africa, influenced by American and European norms, are propelling the growth of the Coffee segment. In addition, growing global urban population, rising demand for on-the-go coffee products, and rising purchasing power parity in emerging markets are some of the primary factors driving growth of specialized coffee shops market. Leading coffee shop chains such as Starbucks, Costa, and Dunkin' Brands Group are expanding into emerging markets due to the increasing popularity of malls and shopping facilities. Numerous new firms have invested heavily in coffee distribution through these channels.

Indulgence segment growth is driven by increasing demand for new flavors and health-conscious options

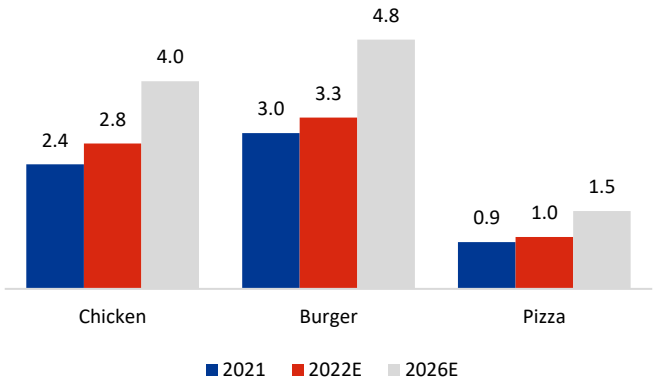
Indulgence: The indulgence segment is estimated to increase at a 12% CAGR from USD 3.6 Bn in FY2022 to USD 5.7 Bn in FY2026. This growth is primarily supported by increasing demand for new flavors, more health-conscious and fresh options (e.g., frozen yoghurt, low-caloric desserts, etc.), as well as a larger increase in the number of restaurants.

Figure 47: OOHD Market Segment across AMR's countries of operations (USD, Bn)



Source: Company Information

Figure 48: Market Size of Selected Categories across AMR's countries of operations (USD, Bn)



Source: Company Information

QSR Segment: Highly Competitive environment

QSR market players are differentiating themselves by unique value propositions

The quick-service restaurant industry is highly fragmented with independent chains and chained restaurants are expected to hold 57% and 43% market share respectively in the region in FY2022. Companies operating in this segment are trying to differentiate based on food quality, menu varieties, pricing, online order processing, delivery systems, customer services, and new unique models such as cloud kitchen. These distinctive factors were particularly prevalent during the pandemic, when restaurants used their infrastructure and financial resources to attract more customers and develop operational skills.

AMR is ranked first among the top five players in OOHD operators across AMR's focused countries. AMR operates 2,090 restaurants as of 3Q22, higher than the sum of the next four largest players (Alshaya, Herfy, Emirates foods, Al- Maousherji Catering Co.) operating in the region.

UAE's QSR market is dominated by key players: Alshaya, AMR, Azadea and Emirates Fast Food Co.

UAE: OOHD market in UAE is expected to grow at a CAGR of 6% from USD 10.7 Bn in FY2022 to USD 13.3 Bn in FY2026. The presence of major restaurant chains, an abundance of food options, and rivalry from other foodservice segments make the UAE QSR industry competitive. The market is dominated by large business houses - Alshaya, AMR, Azadea, and Emirates Fast Food Co. AMR owns the leading market share in overall OOHD category with a market share of 4.8% in FY2021 followed by Alshaya with 2.4% and Emirates Fast Food Co. 2.2% during FY2021. Alshaya holds the biggest portfolio including Starbucks, The Cheesecake Factory, and P.F. Chang, while AMR is gaining considerable market share with Pizza Hut, KFC, Krispy Kreme, Hardee's, and TGIF. The Azadea group manages Eataly, New Shanghai, The Butcher Shop & Grill, Pauls, and Pulp Juice. Emirates Fast Food Co. owns the franchise right of McDonald's restaurants in UAE. OOHD companies in the region are also focusing on enhancing customer experience and increasing efficiency through the use of technology (such as robot waiters, AI-based kiosks, etc.)

KFC is the dominant player in the QSR industry with 183 outlets in the UAE followed by McDonald's which own 182 restaurants. Chicken QSR is dominated by KFC with 183 restaurants followed by Texas with 41 restaurants. Pizza Hut operates 145 restaurants followed by Papa John's with 62 restaurants. Pizza Hut owns the leading market share with 51.4% in FY2021 followed by Papa John's 20.1% and Dominos 5.5%. In Burger QSR category, McDonalds own 182 restaurants and Hardee's operates 79 restaurants. To cater to the UAE's multi-cultural population, QSR operators emphasized menu localization by including regional flavors and vegetarian options.

McDonald is the market leader in the QSR industry, in terms of GMV and store number

KSA: QSR markets in KSA is fragmented with two-thirds of the market served by the chained restaurant and remaining by small restaurants owing individual outlets. KSA's OOHD Market is expected to grow at a CAGR of 12% from USD 17.1 Bn in FY2022 to USD 27.1 Bn in FY2026. The key companies operating in KSA's QSR industry include AMR, McDonald's, Herfy Food Services Co., Albaik Food Systems Co. SA, Domino's Pizza Inc. AMR owns the leading market share in OOHD category with a market share of 3.0% in FY2021 followed by Herfy's with 2.1% and Albaik 1.5% during FY2021. Herfy's is the market leader in the QSR industry in terms of number of restaurants with 388 outlets in FY2021, followed by McDonald's with 335 outlets and KFC with 215 outlets. In the Burger segment, Herfy holds the pole position and Hardee's with 115 outlets remain at fourth position in the KSA market. The top three pizza chains are Domino's, Maestro, and Pizza Hut. Dominos remains the market leader in Pizza category.

Egypt's QSR has a large presence of international chains as well as strong local brands

Egypt: OOHD market in Egypt is expected to grow at a CAGR of 18% from USD 5.1 Bn in FY2022 to USD 10.1 Bn in FY2026. Egypt's QSR industry has a large presence of international chains as well as local brands. Local Brands such as Buffalo Burger, Cook Door, Koshary Abu Tarek, Koshary Al Tahrir, and others are well-known and continue to strengthen their positions. AMR has the largest market share in the OOHD category, accounting for 3.7%, followed by Al-Mansour at 2.2% and Tropicana at 0.4% in FY2021. With over 170 outlets, KFC is the market leader in Egypt's QSR industry. Chicken QSR is dominated by KFC as the next company remain small. Pizza Hut and Papa John's operates 93 and 57 restaurants, respectively in Egypt. In terms of market share, Pizza Hut remains market leader with a market share of 28.2% followed by Dominos 3.2% and Papa John's 2.7%. In Burger QSR, McDonalds operate leading number of restaurants in Egypt with 140 restaurants under operation followed by Hardee's with 47 restaurants. In the Cafe market, Costa Coffee, Starbucks, Dunkin Donuts and local chains such as Beano Cafe and Espresso Labs operate in the region. Costa Coffee and Starbucks are leading operators in terms of number of restaurants.

Figure 49: QSR segment competitive landscape across AMR Core markets

Source: Company Information

QSR Segment Remain Under-Penetrated in AMR Core and Other Markets

Numerous demand drivers contribute to the growth of under-penetrated OOHD and QSR market in the region

There is a sizable untapped market opportunity in the region in the OOHD dining sector, including QSR segment that will allow operators to increase its footprint. Restaurants per ten thousand population within out-of-home dining for developing and developed markets stood at 62 and 21, respectively in FY2021. In AMR's Core Markets and Other Markets, this ratio stood at 6 and 10, respectively. This low ratio of restaurants provides a significant potential for QSR companies to expand its footprint in AMR's focused markets. It is further expected that annual per capita QSR spending in AMR's Core Markets will grow at a CAGR of 10% from USD 44 in FY2022 to USD 69 in FY2026. Several key factors contributing to the growth of significantly under-penetrated market are -

- Increase in demand from online channel is being driven by QSR companies with its focus on developing digital capabilities (mobile apps, loyalty programmes, working with third-party aggregators)
- Consumer preferences are shifting toward convenience and high-quality meals at reasonable prices and service speed
- Attractive demographics like increase in young and tech-savvy population with more people moving to urban areas, rising middle-class income, and internet penetration

Figure 50: Restaurants per 10k population within OOHD (2021)

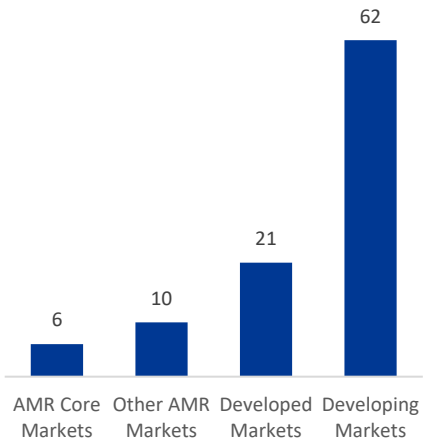


Figure 51: Chained QSR restaurants per 10k population

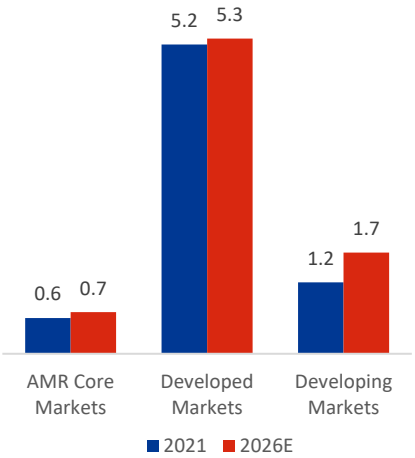
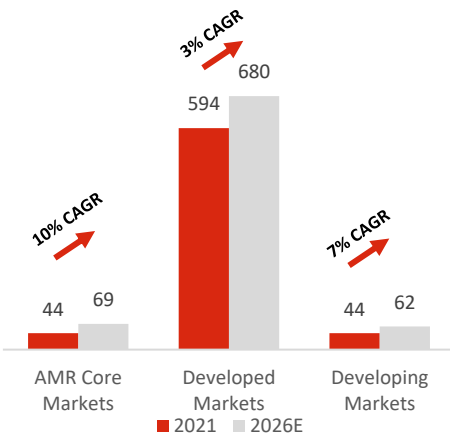


Figure 52: Annual QSR spend (USD per capita)



Source: Company Information

Note: AMR Core Markets: KSA, UAE, Kuwait, Egypts
AMR Other Markets: Qatar, Bahrain, Oman, Jordan, Lebanon, Morocco, Kazakhstan and Iraq
Developed Markets: UK, USA, Canada and Australia
Other MENA Markets: Algeria, Djibouti, Iran, Israel, Libya, Mauritania, Sudan, Syria, Tunisia, Yemen

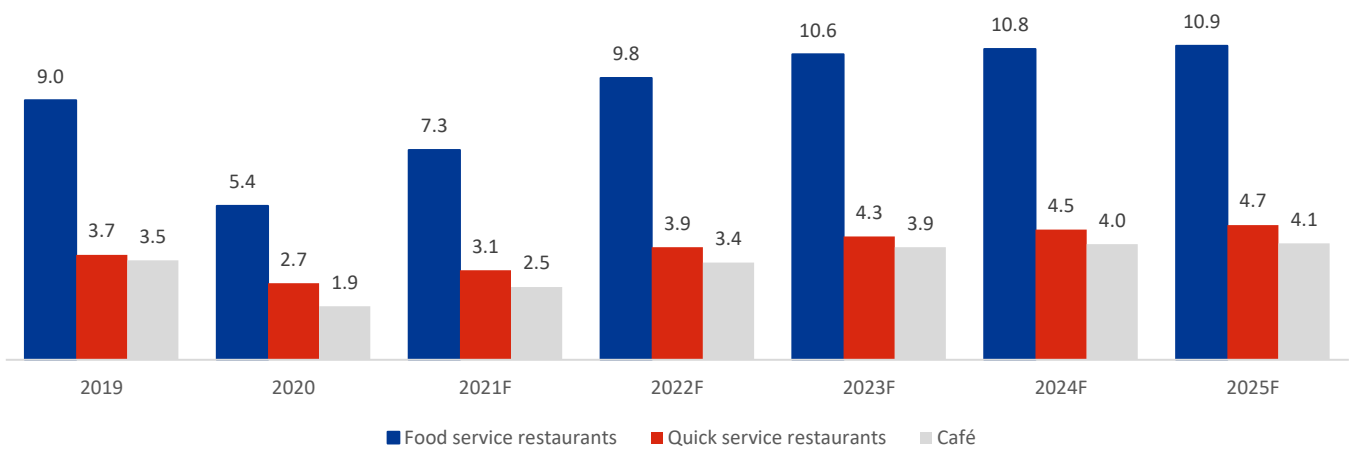
QSR Industry Benefitted During Pandemic and Expected to Continue Momentum

UAE's foodservice industry will expand at a CAGR of 11% from FY2021-25

The UAE foodservice market is projected to reach USD 7.3 Bn in FY2021. Due to COVID-19 restrictions and a decline in the tourism industry, the foodservice market fell 38.8% in FY2020. However, successful vaccination rollout and government initiatives to boost the tourism sector aided the UAE food service industry to recover and the market is expected to expand at a CAGR of 11.0% between FY2021-25. UAE is witnessing a growth in fine dining as tourists are keen to experience luxurious fine dining culture. This trend is increasing the demand for full-service restaurants. Quick-service restaurants accounted for 25% of the total UAE foodservice market. QSR market players responded to the pandemic by emphasizing home delivery and with

technology and efficient delivery infrastructure chained restaurants were able to switch from dine-in to home deliveries smoothly. Thus, QSR industry sales fell 27.0% in FY2020 compared to a decline of 38.2% in total food service industry during the same period. Chained restaurants account for 74% of total QSR market in FY2021 and dominated by international and local QSR players. The popularity of QSR restaurants in UAE is attributed to number of tourist arrivals and food quality. During COVID-19, chained restaurants garnered higher sales as compared to independent QSRs due to access to financial muscle and established delivery infrastructure. The consumers also displayed more faith in operation of QSR chains since there is more attention to health and hygiene. In UAE, burger and chicken are the market leaders in QSR category with a market share of 48% followed by Pizza with a market share of 12%. QSR industry is expected to grow at a CAGR of 10.7% from USD 3.1 Bn in FY2021 to USD 4.7 Bn in FY2025.

Figure 53: GMV UAE Foodservice Market by Category (USD, Bn)



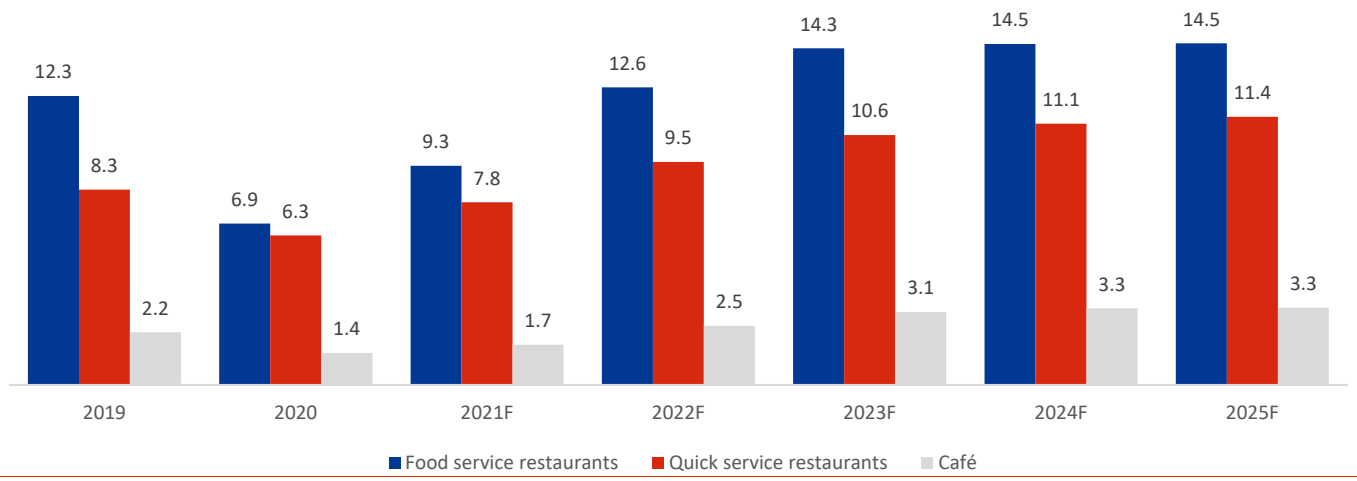
Source: Redseer, Arthur D. Little

High Purchasing Power, Rise in Tourism, and Adoption of Western Culture to Drive OOHD Market

KSA foodservice industry is projected to expand at a CAGR of 11.7% from FY2021-25

Saudi Arabia enjoys a large population with high spending power, making it the largest food service market in the Middle East. Due to restrictions related to the COVID-19 pandemic, the KSA foodservice market stood at USD 22.8 Bn and USD 14.6 Bn in FY2019 and FY2020, respectively. However, the food service industry is estimated to recover and expand at a CAGR of 11.7% from FY2021 to FY2025 to reach USD 29.2 Bn. This growth is expected to be supported by customers resuming their pre-pandemic habits as well as an increase in tourist numbers driven by numerous tourism-related efforts taken by the government.

Figure 54: GMV Saudi Arabia Food Service Market by Category (USD, Bn)



Source: Redseer, Arthur D. Little

Strong influence of western culture is one of the vital trends

One of the significant trends in Saudi's QSR industry is a strong influence of western food culture in the market. Saudi Arabia's foodservice market saw substantial socio-cultural changes, largely as a result of the country's expanding economy, which allowed citizens to travel to western nations, exposing them to western cuisine and culture. QSRs and Cafes became the primary places for social gatherings with friends. Dining at fast-food restaurants is said to be a major factor in the Kingdom's fast-food industry's significant growth.

Increasing internet and smartphone penetration in Saudi Arabia is evolving consumer preferences. In addition, due to convenience, ease of technology usage, and online discounts, young consumers are increasingly preferring online food delivery. Furthermore, rise in adoption of the cloud kitchen business model is gaining traction in KSA as many new startups such as CoKitchen, Kitopi, Kitchen Park have entered the market.

After the pandemic, consumers are shifting to a healthy lifestyle

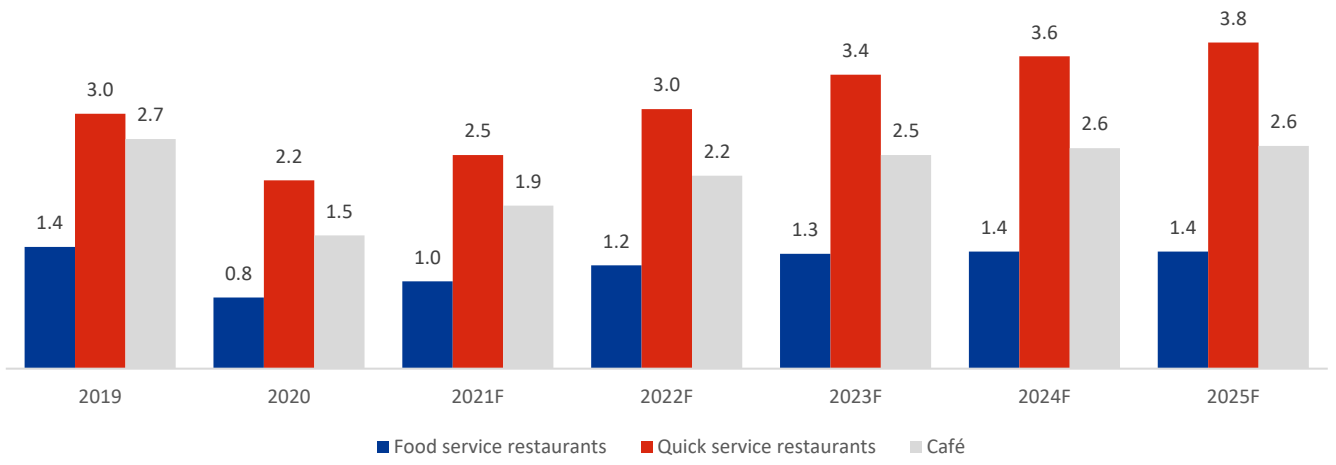
The shift to healthy and sustainable eating habits is another trend in the QSR market. Due to the COVID-19 pandemic, consumers became more health and wellness conscious, and this affected their food choices. Many of the QSR chains introduced healthy options on the menu, reflecting the change in consumer lifestyle. Local companies like Sinless and Yogi built a strong position in Riyadh, as it offers healthy locally produced foods in an effort to capitalize on the health-conscious consumer.

Increasing prevalence of eating-out culture in Egypt

Egypt foodservice industry is projected to expand at a CAGR of 9.6% from FY2021-25

In Egyptian culture, eating out with family and friends is very popular. The market for food service in Egypt was valued at USD 4.6 Bn in FY2020 and is anticipated to increase at a CAGR of 9.6% from FY2021 to FY2025 to reach USD 7.8 Bn. The Egyptian government didn't implement stringent lockdown regulations during the pandemic, as a result the impact on Egypt's food service sector was less than compared of other countries. Egypt's QSR market is estimated to grow from USD 2.5 Bn in FY2021 to USD 3.8 Bn in FY2025 as a result of the ongoing economic recovery and the opportunities to grow new customer segments.

Figure 55: GMV Egypt Foodservice Market by Category (USD, Bn)



Source: Redseer, Arthur D. Little

High customer demand for beverages and smoothies, resulted in a significant market share of Cafes

With a growing demand for hot beverages, juices, and smoothies - cafes are highly popular in Egypt. As a result, the cafe category enjoys a significant market share in Egypt's foodservice industry. Due to a lack of takeout and drive-through options, the café witnessed a slowdown in demand during the pandemic. However, players adopted and explored new methods to serve the customers. For example, Costa Coffee in Egypt started a car-hub service where a waiter takes the order outside the store and serves it inside the car. Another coffee chain started delivering coffee kits to customers at home to prepare it at home. While chained juice and smoothie bars became popular owing to the rising health concerns among people.

The rise of local brands, loyalty programs, and healthy food options are the key trends impacting the growth

Future prospects for the QSR industry in Egypt are favorable due to a variety of factors such as the growing population, development of the tourism sector, increased popularity of western cuisines, and many more. In Egypt QSR market, several trends are emerging which will have a vital impact on the growth.

- **Emergence of local brands:** In Egypt, a number of regional brands evolved and are serving affordable regional cuisine. Brands like Buffalo Burger, Sultana, El-Shabrawy, Momen, and others are becoming more well-known.
- **Increasing impact of discounts and loyalty programs:** To attract new customers and enhance customer retention rates, QSRs offer promotions and loyalty programs. On their online platforms, restaurants including Burger King, KFC, McDonald's, Domino's, and others have dedicated deals/special orders areas. Successful rewards programs and loyalty programs are other strategies used by cafés to enhance consumer engagement.
- **Increasing prevalence of healthy food menu**: QSR companies are adding healthy food options to their menus in response to changing dietary preferences brought on by an increase in urban population and health consciousness.

Transformation of Digital Ecosystem and Adoption of Western Dining Habits Contributing to Kuwait's OOHD Market Growth

Stable GDP Growth rate and high level of urbanization are driving

Kuwait's foodservice industry is expected to grow rapidly over the years owing to increase in disposable income, rising population, and the introduction of new products and trends. An increase in Kuwait's GDP Growth rate and high urbanization rate is driving the food service industry in Kuwait.

Kuwait's foodservice industry

Furthermore, Tourism also plays a significant role in the food service industry and several government reforms such as Kuwait Vision 2030 aim to promote tourism activities in the country. The demand for workers could rise significantly in the tourism industry, which will also support the opening of more restaurants and cafes. While it will open doors for new opportunities, it will also raise competition and encourage current food service players to modernize their operations to compete with the market's new participants.

Growth in the QSR market is driven by the rise in the number of eateries and delivery services

Kuwait's QSR Market is estimated to rise as a result of increasing tourism activities, high consumer spending, and low unemployment rates. The growth in the QSR market is driven by the rise in the number of eateries, fast-food chains, and meal delivery services like Grub Hub, Caviar, and others. In addition, increasing consumer preference for organic, natural, and fresh foods as a result of growing health consciousness is the main driver anticipated to boost demand for the QSR market. Consumer trends that are constantly changing are the main influence on how Kuwaiti QSR companies develop their strategy. Consumer demand for processed and ready-to-eat meals increased due to changing lifestyles, which is contributing to the market's growth.

Increase in adoption of technology trends and western dining habits

With the adoption and use of technology trends, consumers are more influenced to try new food cuisines as it is convenient to them. The use of technology is increasing, and it is reshaping the restaurant industry in Kuwait. Food Delivery is very popular in the Middle-East region, Kuwait based app known as Talabat boosted the trend in Kuwait. Along with the increasing use of technology, western dining habits are growing in popularity.

Macroeconomic Environment

Favourable Macroeconomic Outlook Across the MENA region

Positive macro trends driving the economic growth across MENA region

The MENA region is expected to record healthy economic growth supported by several positive macro trends. Among them, AMR's Core Markets are attractively positioned as it benefit from multiple tailwinds. AMR's Core Markets (KSA, UAE, Kuwait, Egypt) and Other Markets (Qatar, Bahrain, Oman, Jordan, Lebanon, Morocco, Kazakhstan and Iraq) accounted for 78% of the MENA total addressable population in FY2021. Both of AMR's core and other markets are expected to benefit from healthy growth in population as compared to that in developed markets. AMR's core and other market's population is expected to grow at a CAGR of 1.4% during FY2022-26, much above the developed markets population growth forecast of 0.5%. The companies operating in the consumption sector are also expected to benefit from a young population base as 78% of the population in this region is below 45 years. The combined effects of government reforms and large-scale mega projects is likely to drive economic diversification. Transformative government reforms being implemented in selected AMR markets include Saudi Vision 2030, Kuwait Vision 2035, Egypt Vision 2030, and many more. These are propelling regional economies' growth rates ahead of the growth rates in developed markets. Furthermore, a vibrant and large tourism sector with promising growth prospects is further expected to drive economic growth and consumer expenditure. AMR's core and other markets are expected to add more than USD 500 Bn in consumer expenditure during FY2022-26, owing to dramatic socio-economic reforms, rapid urbanization, and an increase in middle-class population.

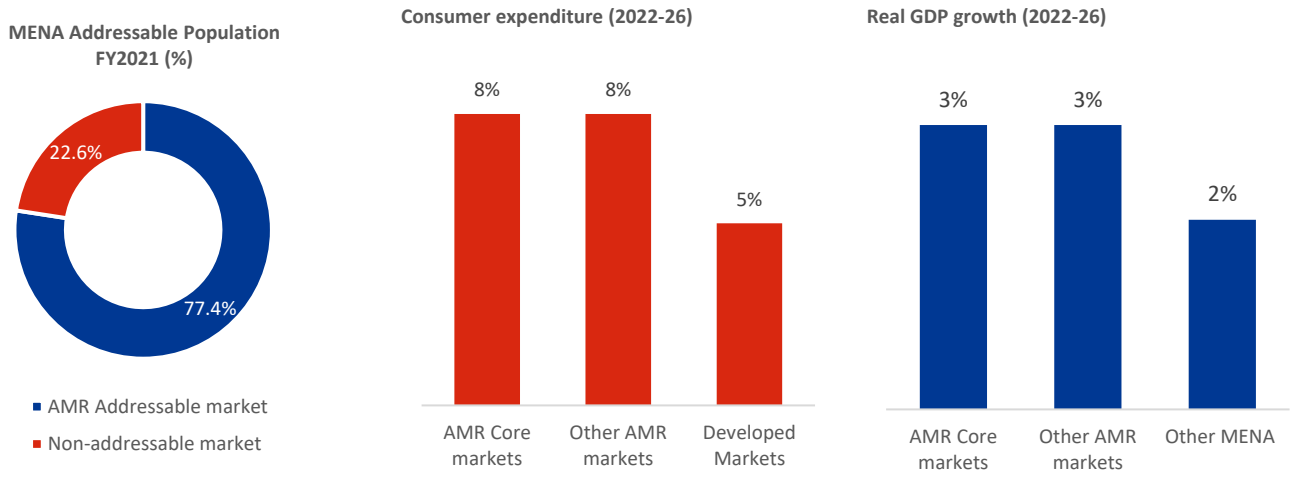
Digitalization and boosting internet penetration initiatives in countries such as Egypt, Morocco, and Algeria are likely to support further momentum in economic growth in MENA. In addition, an increase in private sector investments, growing local workforce participation, rising disposable income, and large-scale infrastructure programs are expected to further improve the economic prosperity and consumer expenditure.

Figure 56: Key macro trends across selected AMR Markets

Key Trends								
Robust population fundamentals (size / growth / young / diverse (large expat base)	✓	✓	✓	✓	✓	✓	✓	✓
Government socio-economic reforms driving growth and economic activity	✓	✓	✓	✓	✓	✓	✓	✓
Large and thriving tourism sector with strong growth prospects propelling GDP and expenditure	✓	✓	✗	✓	✓	✗	✗	✓
Large scale mega-projects and developments driving urbanization	✓	✓	✗	✓	✓	✗	✗	✓
Rising **affluence of middle class** and disposable income **fueling consumer expenditure**	✓	✓	✓	✓	✓	✓	✓	✓
High share of **smartphone / internet penetration** and tech-savvy populations adopting new digital trends at fast pace	✓	✓	✓	✓	✓	✓	✓	✓
Growing out of home dining spend driven by popularity of international chains, westernization of food and evolving consumer preferences	✓	✓	✓	✓	✓	✓	✓	✓

Source: Company Information

Figure 57: AMR Core and Other Markets - Macroeconomic Dynamics



Source: Company Information

Note: AMR Core Markets: KSA, UAE, Kuwait, Egypt
AMR Other Markets: Qatar, Bahrain, Oman, Jordan, Lebanon, Morocco, Kazakhstan and Iraq
Developed Markets: UK, USA, Canada and Australia
Other MENA Markets: Algeria, Djibouti, Iran, Israel, Libya, Mauritania, Sudan, Syria, Tunisia, Yemen

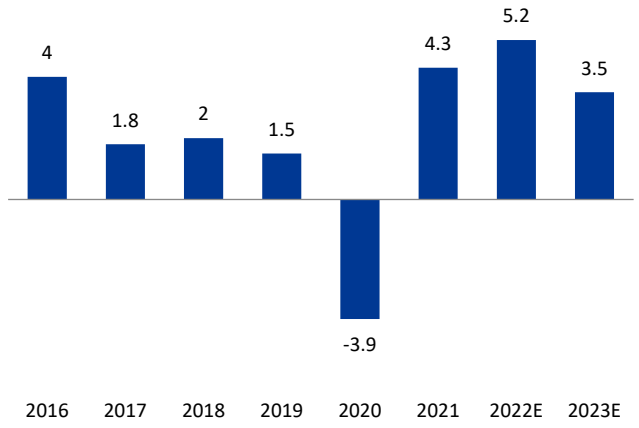
MENA Economic Growth

MENA's real GDP is expected to grow 5.2% in FY2022, according to the World Bank

According to the World Bank's MENA Economic Update, the MENA region is expected to grow by 5.2% in FY2022, the fastest rate since 2016. The World Bank expects the recovery to remain uneven across the region as oil producers are expected to grow by 5.4% benefiting from higher energy output and prices, while oil importers' growth is expected to lag and grow by 4.0% due to a rise in import bills of commodities. MENA region is further expected to grow 3.5% in FY2023. According to the World Bank, the growth in real GDP per capita is a more accurate measure of change in living standards. The region's per capita real GDP growth is expected to be 3.6% in FY2022, after a modest growth of 1.7% in FY2021. It is further expected to grow by 2.0% in FY2023. The private sector recovery in the region is also expected to keep improving. The Purchasing Manager Index (PMI) monthly data tracks give an account of economic activity in the private sector. Recently, released PMI data of AMR Core Markets indicates improvement in business conditions in the private sector of UAE and KSA while Egypt's non-oil sector private sector data indicates a slower contraction than the previous two months.

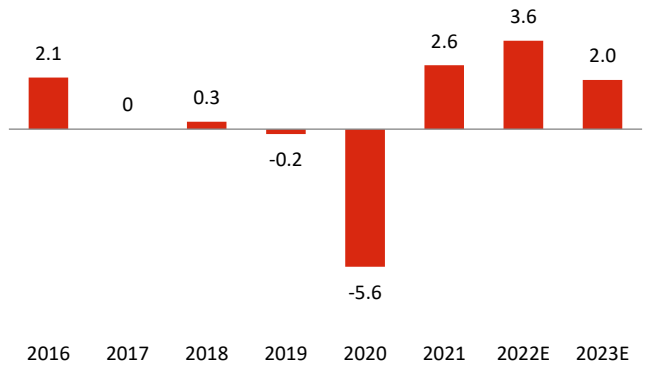
The current account balance for the region is expected to improve from 3.3% in FY2021 to 8.3% in FY2022 and further to 6.5% in FY2023. The region is also expected to record a surplus after recording a deficit for the last two years, benefitting oil exporters due to higher energy prices. However, inflation continues to remain elevated and a prime concern in the region due to a mismatch in demand and supply as well as due to supply disruptions caused by the pandemic. According to the IMF Regional Economic Outlook published in April 2022, inflation is expected to average 14.8% in the MENA region in FY2021 and moderate to 13.9% and 10.4% in FY2022 and FY2023, respectively.

Figure 58: MENA Real GDP Growth (%)



Source: World Bank

Figure 59: MENA Real GDP Per Capita Growth (%)

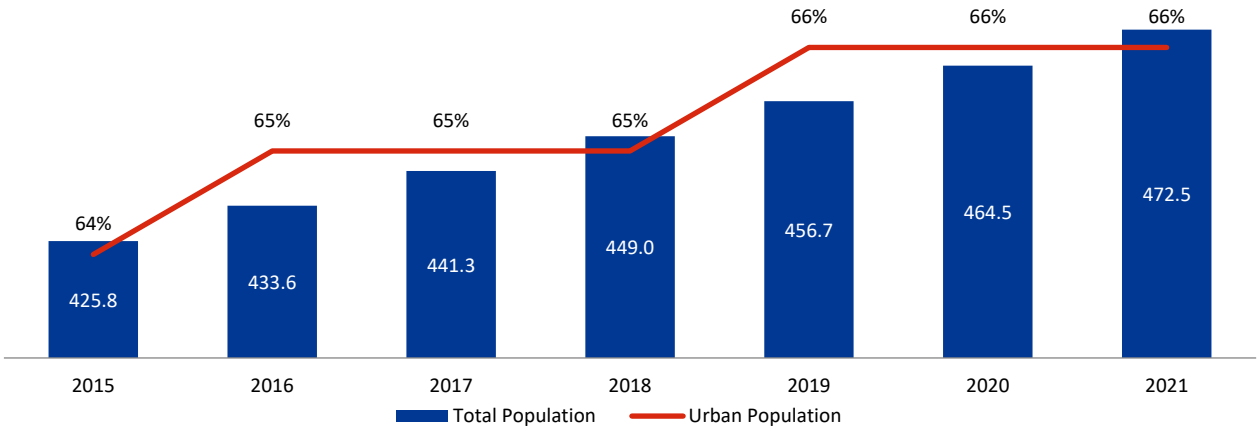


Source: World Bank

High Population growth and rapid urbanization expected to positively impact the growth of consumer companies in the region

MENA's population increased from 464.5 Mn in FY2020 to 472.5 Mn in FY2021. It is further expected to grow by a CAGR of 1.8% in 2022-23. Out of the total population, 66% constitutes the urban population, indicating high regional urbanization. With the increase in population, employment in MENA countries grew 1% per year on average within private sector firms, and the unemployment rate stood at 10.6% in FY2021. Rapid urbanization and GDP growth rate are expected to impact the economy positively.

Figure 60: MENA - Total Population (Mn) and % of population in Urban Areas (%)



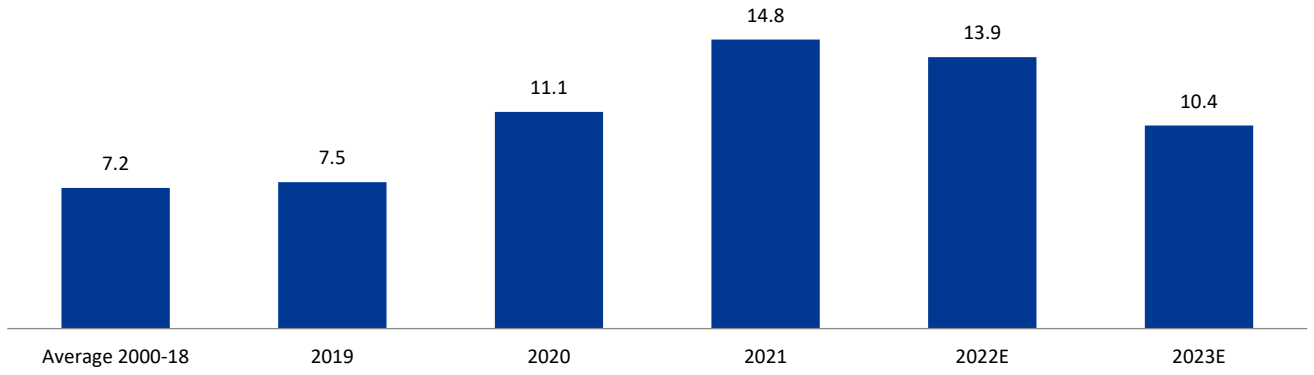
Source: World Bank

MENA saw a significant rise in inflation but several measures were taken to curb it

According to the IMF, the inflation in the MENA region reached 14.8% in FY2021, a significant rise from the region's average inflation rate of 7.2% between FY2000 and FY2018. IMF estimates inflation to moderate to 13.9% in FY2022 and 10.4% in FY2023. To curb inflation, some countries in the region provided subsidies and price controls to reduce the burden while limiting the inflationary impact of high international prices. UAE and KSA approved a package of USD 9 Bn to alleviate the concerns of rising inflation in the country.

The Ukraine war is impacting food prices and food imports in the MENA region, which is largely dependent upon imports to meet demand. According to the Food and Agriculture Organization (FAO) of the United Nations, around 50 countries, including the MENA economies, rely on Russia and Ukraine to meet at least 30% of their requirement, increasing concerns about food insecurity in the region. In addition to current subsidies, several countries also implemented policies to mitigate the effects of rising prices, such as direct transfers and lower food tariffs.

Figure 61: MENA Inflation Rate (%)



Source: IMF

Note: 2011–23 data exclude the Syrian Arab Republic

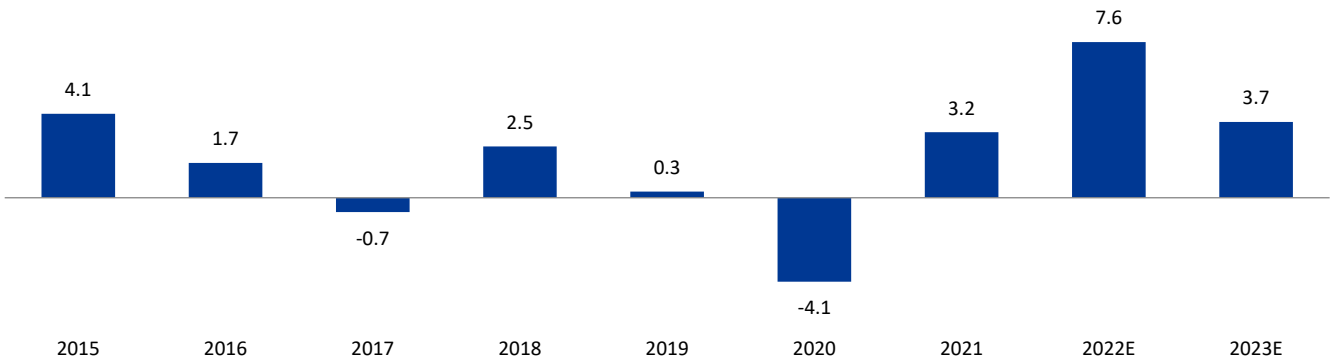
Saudi Arabia Economic Growth

KSA economy is expected to be the fastest growing economies in 2022, according to IMF forecast

Saudi Arabia is the largest economy in the Middle East, with a real GDP growth rate of 3.2% in FY2021. The economy is likely to be one of the fastest-growing economies in 2022. IMF projects real GDP to record a steep growth of 7.6% in FY2022 and later, moderate to 3.6% in FY2023, driven by pro-business reforms, higher energy prices, and a sharp recovery in economic activity post-pandemic. Saudi Arabia managed the pandemic well and is well-positioned to cope with the risks associated with the tight monetary policy and the Russia-Ukraine conflict.

As a result of higher oil prices and increased oil production, the country's current account improved and recorded a surplus of 6.6% of GDP in FY2021 compared to a deficit of 3.1% of GDP in FY2020. This is due to the robust oil-driven exports surpassing imports despite; a significant outflow of remittances. With higher oil prices and economic reforms planned under Vision 2030, economic activity is expected to pick up strongly. Implementing transformational government policy (Vision 2030) drives Saudi Arabia's economic diversification through large-scale investments in tourism, entertainment, and private businesses.

Figure 62: Saudi Arabia Real GDP Growth (%)



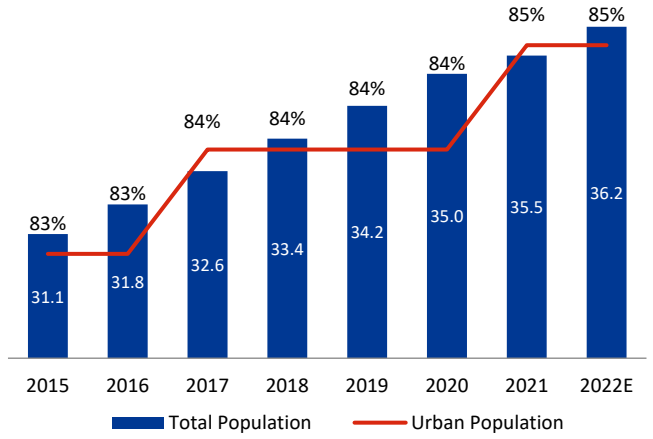
Source: IMF

Saudi Arabia's population is estimated to grow at a CAGR of 2.0% from 35.5 Mn in FY2021 to 39.9 Mn in FY2027

According to the IMF, Saudi Arabia population is expected to grow at a CAGR of 2.0% from 35.5 Mn in FY2021 to 39.9 Mn in FY2027. Due to increased employment opportunities and the growth of urban centers, KSA is experiencing widespread urbanization. Around 85% of the Saudi population lived in urban areas compared to 15% in rural areas in FY2021. Customers have less time to cook due to busier urban lifestyles, which led to an increase in ordering and dine-in. In addition, growing women's participation in the workforce will further result in higher demand for dine-in and home delivery due to an increase in household income and lesser time available for household chores.

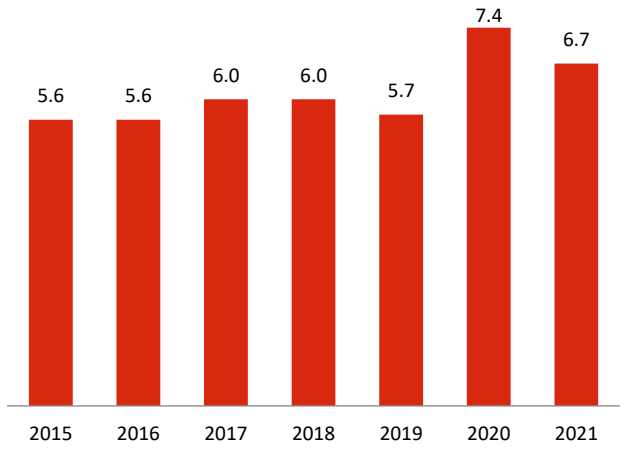
KSA unemployment rate fell to 6.7% in FY2021 from 7.4% in FY2020, mainly owing to higher employment for Saudi nationals. The unemployment rate among Saudi nationals fell from 11.0% in FY2021 to 10.1% in 1Q22, supported by growing economy and higher energy prices. This is the lowest employment rate since the financial crisis.

Figure 63: Saudi Arabia's Total Population (Mn) and % of population in Urban Areas (%)



Source: World Bank, IMF

Figure 64: Saudi Arabia Unemployment Rate (%)



Source: IMF

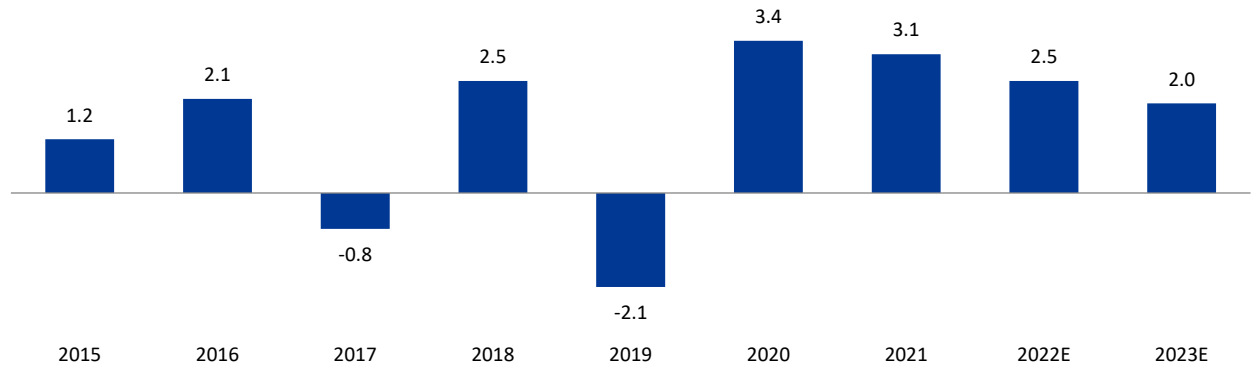
Saudi's Vision 2030 lists tourism as a significant industry and is aiming to host 100 Mn tourist by FY2030

The Vision 2030 lists tourism as a priority industry, and the Country aims to host 100 Mn tourists annually by FY2030. In FY2019, number of tourist arrivals in Saudi Arabia stood at 20.29 Mn. KSA is rapidly expanding the market for both religious and leisure travelers by (i) simplifying the visa application procedure, (ii) investing in infrastructure for entertainment and recreation, and (iii) concentrating on marketing campaigns. To attract more domestic and international tourists, a number of tourism megaprojects, including Al Ula, Al Soudah, NEOM, Qiddya, Red Sea Project, are under construction. With rising demand for restaurants and cafés across all foodservice categories, tourism is anticipated to contribute to the expansion of the foodservice sector.

Saudi's inflation is expected to decline to 2.5% in FY2022

KSA's average Inflation remains contained and is projected to decrease from 3.1% in FY2021 to 2.5% in FY2022, due to price caps and subsidies, as well as falling rents, which compose over 20% of the CPI basket. Recently, inflation in KSA reached 2.7% in July 2022 due to rising food prices. A strong dollar and tighter monetary policy are also expected to impact inflation, going forward.

Figure 65: Saudi Arabia Inflation Rate (%)



Source: IMF

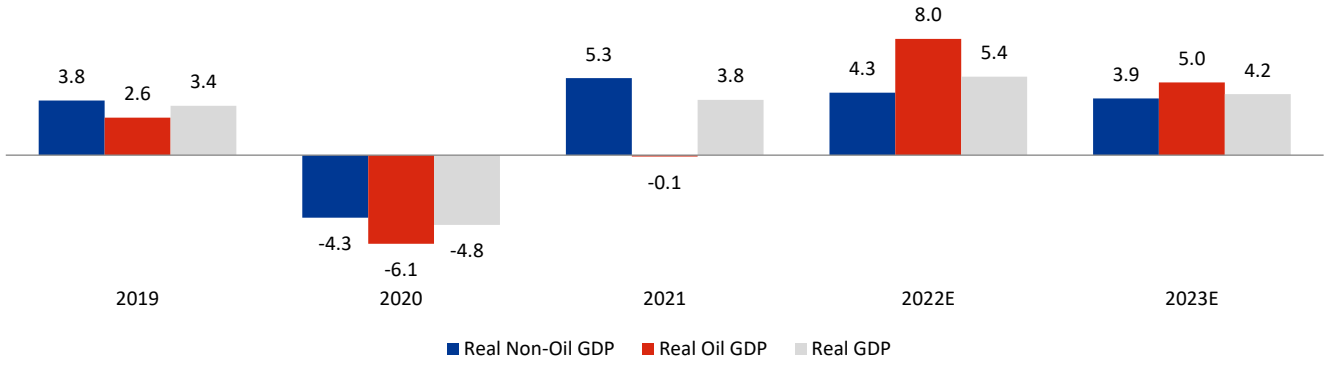
UAE Economic Growth

UAE real GDP grew 3.8% in 2021, and it is predicted to grow 5.4% in FY2022, according to CBUAE forecasts

According to the Central Bank of UAE (CBUAE) estimates, UAE's real GDP grew 3.8% YOY in 2021 compared to a decline of 4.8% in FY2020. The growth is GDP driven by robust increase in non-oil sector. In FY2022, CBUAE expects the UAE's real GDP to expand at a stronger pace of 5.4%, mainly led by strong growth in both oil and non-oil sector.

UAE's non-oil real GDP is expected to grow 4.3% in FY2022, benefiting from continued public spending, a strong credit growth, growing employment and improved business sentiment. Oil GDP will expand 8.0% in FY2022 driven by higher output and increased energy prices. UAE's PMI rose from 54.8 in June 2022 to 55.4 in July 2022 indicating an improvement in non-oil private sector coupled with robust growth in output, new orders and employment rate despite, higher inflation.

Figure 66: UAE GDP Growth (%)



Source: Central Bank of UAE

IMF revises the UAE's real GDP growth to 4.2% in FY2022 compared to the previous forecast of 3.5%

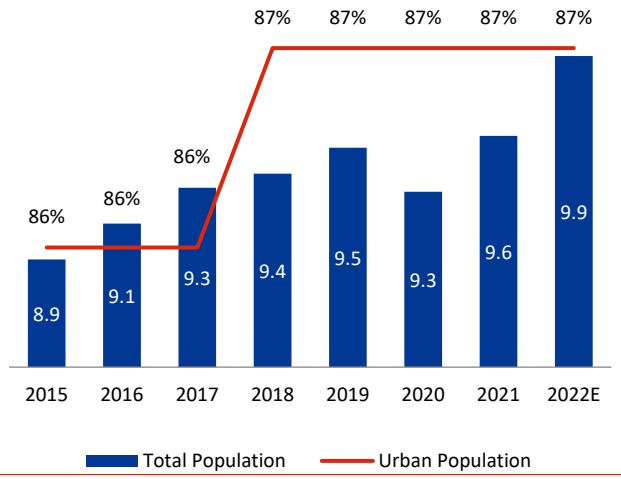
The IMF also raised its UAE real GDP growth forecast from 3.5% to 4.2% in FY2022. As the economy recovered from the pandemic, the UAE's non-oil sector generated roughly 72% of GDP in FY2021. Early and strong health response, ongoing supportive macroeconomic policies, recovery in tourist and domestic activity, and solid performance in sectors such as hotels, restaurants, wholesale, and retail are expected to help the UAE economy grow.

High growth in UAE's population, urbanization, and tourism industry will boost growth of consumer led sectors

UAE population is estimated to grow at a CAGR of 2.0% from 9.6 Mn in FY2021 to 10.8 Mn in FY2027. Around 87% of the total population lives in urban areas, reflecting high urbanization in the country. Furthermore, consumer spending in the UAE grew 14.0% in the 1Q22, owing to the government initiatives launched to boost the country's economic recovery after the pandemic. UAE unemployment rate increased from 3.2% in FY2020 to 3.4% in FY2021. The UAE government introduced unemployment insurance to attract and retain employees by providing cash support.

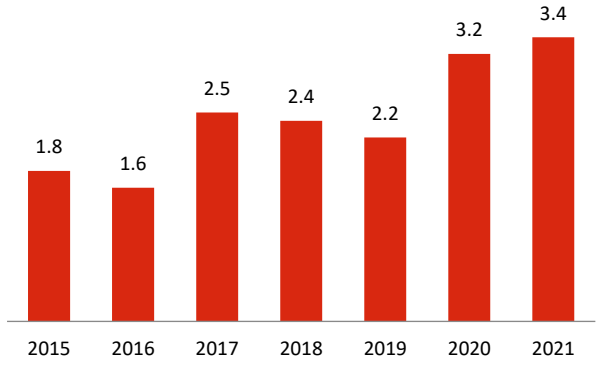
One of the primary six pillars identified by the UAE government to boost economic growth is the tourism industry. UAE positioned itself as one of the top tourist destinations globally over the last few years, drawing 25.28 Mn tourists in FY2019. The nation is expanding its infrastructure and forming partnerships as part of its overall aim to draw tourists from all around the globe. Popular events such as Expo 2020 and the Dubai shopping festival attracted industry stakeholders to visit the region. Dubai welcomed more than 7.12 Mn during 1H22 nearly three times the 2.52 Mn tourists welcomed in 1H21.

Figure 67: UAE Total Population (Mn) & and % of population in Urban Areas (%)



Source: World Bank, IMF

Figure 68: UAE Unemployment Rate (%)

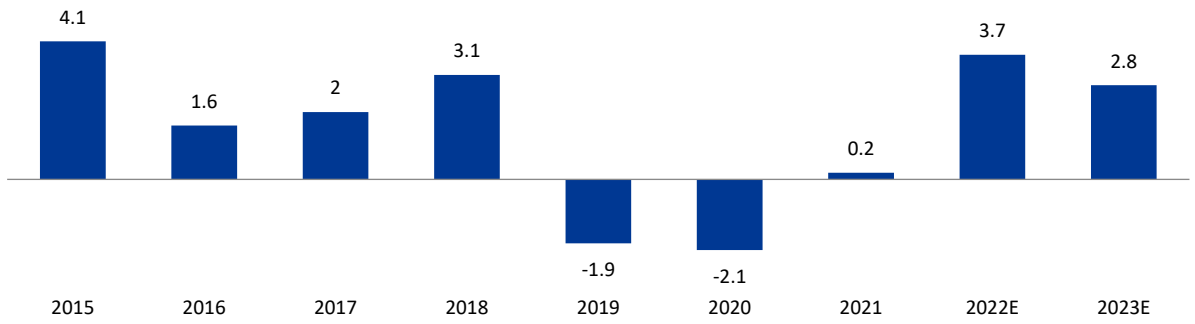


Source: IMF

IMF estimated UAE's inflation to increase from 0.2% in FY2021 to 3.7% in FY2022

The IMF expects UAE's inflation to reach 3.7% in FY2022, up from 0.2 % in FY2021. According to the Federal Competitiveness and Statistics Centre (FCSC), Inflation reached 3.35% in 1Q22 due to higher prices recorded in 11 sectors. Housing, transport, and food together account for almost 63% of UAE's consumer basket, with housing alone accounting for over one-third in FY2021. UAE government is creating a long-term plan to improve the country's attractiveness to make it a better living place. The UAE's quick and effective health response, supportive macroeconomic measures, and rebound in tourist flow and domestic activities are all expected to contribute to the economic recovery's gaining pace.

Figure 69: UAE Inflation Rate (%)



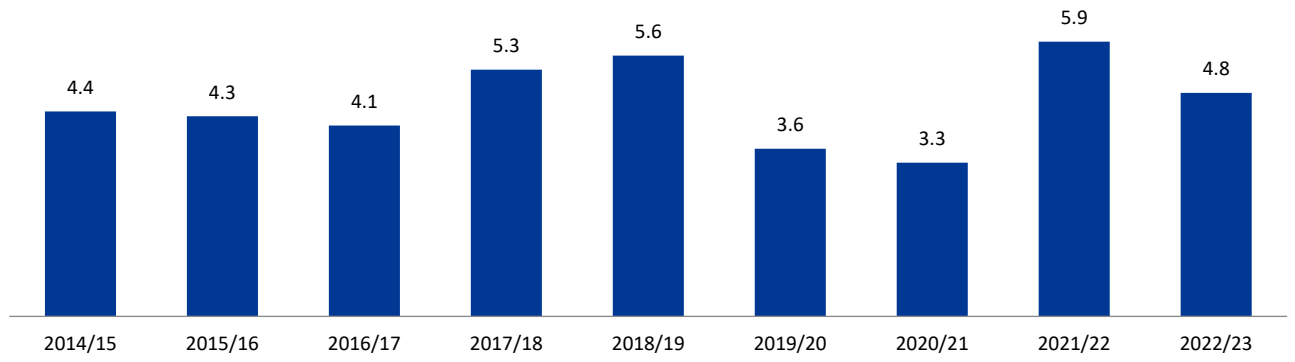
Source: IMF

Egypt Economic Growth

Egypt's real GDP is expected to expand at 5.9% and 4.8% in FY2021/22 and FY2022/23, respectively according to the IMF forecasts

Egypt is one of the largest and fastest-growing economies in the MENA region. IMF estimates Egypt's real GDP growth to reach 5.9% in FY2021/22, up from 3.3% in FY2020/21. The recent release has lowered the growth projections for FY2022/23 from 5.0% to 4.8%. Key industries affected by the COVID-19 pandemic, including tourism, manufacturing, trade, and the oil and gas are recovering. A strong recovery will be further aided by the government's plans to implement macro-fiscal and structural reforms such as Egypt Vision 2030, wherein food security, tourism, and agriculture are the key components of this reform.

Figure 70: Egypt Real GDP Growth Rate (%)



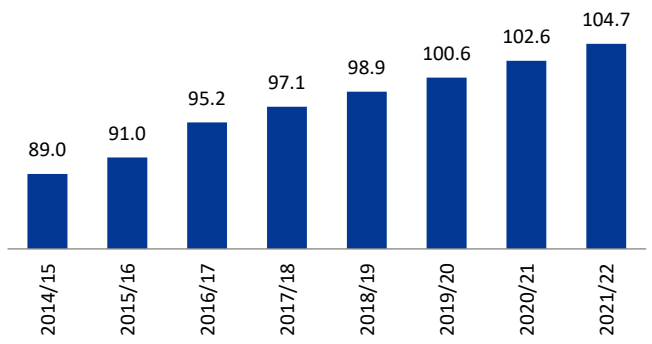
Source: IMF

Egypt's population is estimated to increase, whereas unemployment will decline in FY2021/22

Egypt has the largest population in the MENA region. Egypt's population is estimated to grow at a CAGR of 2.0% from 102.6 Mn in FY2020/21 to 115.6 Mn in FY2026/27. Around 43% of Egypt's population lived in urban areas compared to 57% in rural areas in FY2021. Egypt has a relatively young population; around 58% of the population is under 29 years old. Overall, Egypt's standard of living has been improving over the last decade. Egypt's consumption expenditure as a percentage of GDP increased from 93.8% in FY2020 to 96.9% in FY2021 which bodes well for the consumption sector.

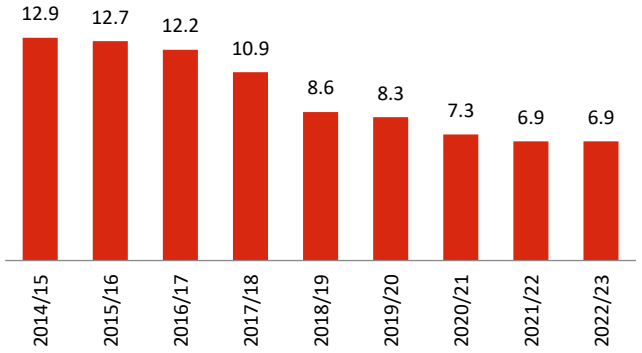
Furthermore, Egypt's unemployment rates gradually declined since 2016 due to the introduction of new fiscal and labor reforms. According to the IMF, Egypt's unemployment rate decreased from 7.3% in FY2020/21 to 6.9% in FY2021/22. It is further expected to remain unchanged at 6.9% in FY2022/23. Egypt's economy depends heavily on tourism, one of the country's major sources of income. As a result of government initiatives to improve tourist infrastructure and security, tourist flow rose strongly from 5.4 Mn in FY2016 to 13.0 Mn in FY2019.

Figure 71: Egypt Total Population (Mn)



Source: IMF

Figure 72: Egypt Unemployment Rate (%)

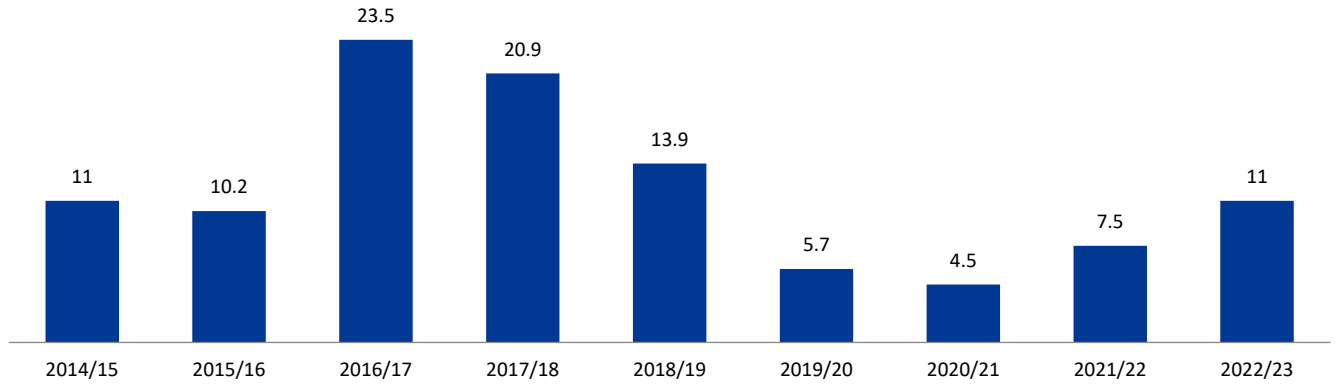


Source: IMF

Egypt inflation is expected to rise to 11.0% in FY2022/23, due to high food and oil prices

The IMF estimates inflation to grow from 7.5% in FY2021/22 to 11.0% in FY2022/23, owing to soaring food and energy prices. The Central Bank of Egypt aims to achieve an inflation rate of 7% during 4Q22. In addition, Egypt's annual urban inflation grew from 13.2% in June 2022 to 13.6% in July 2022. While annual food inflation remains stable at 22.4% in July 2022 compared to 22.3% in June 2022. The rise in inflation is mainly due to an increase in prices of core food, retail product prices and services. The increase is due to rising food prices and fuel prices as Egypt imports 80% of wheat from Russia and Ukraine. Meanwhile, due to increase in supply of agricultural products their prices seen moderating recently. In order to control inflation, Egypt Central Bank hiked interest rate by 300 bps since March 2022. Egypt's government plans to include subsidy reforms in the FY2022-23 budget to control inflation. The resilience and competitiveness of the economy remain dependent on reforms that increase private investment, exports, and FDI.

Figure 73: Egypt Inflation Rate (%)



Source: IMF

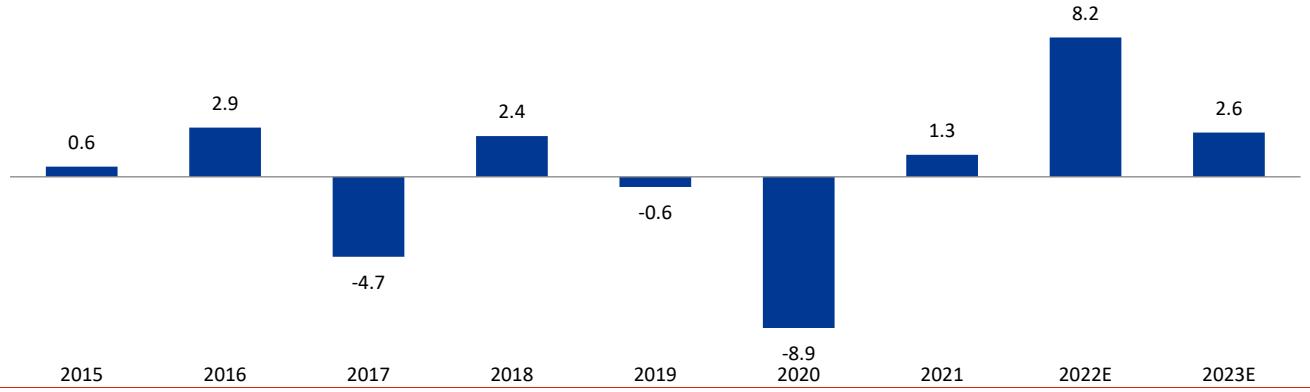
Kuwait Economic Growth

Kuwait is anticipated to record a strong real GDP growth rate of 8.2% in FY2022 and is further expected to average 2.6% from 2023-27, according to the IMF forecasts

Kuwait exited a two-year recession after it registered a real GDP growth of 1.3% in FY2021. The growth is primarily driven by the easing of COVID-19 restrictions and output cuts implemented during COVID-19. The economy is further projected to grow 8.2% in FY2022 and after that to average 2.6% during 2023-27. The strength in growth will be aided by easing of production, higher energy prices and strength in domestic demand. Economic growth will further be supported by growth in non-oil activity and, government reform measures.

Government reforms such as Kuwait Vision 2035 aim to ensure macroeconomic stability, resolve the economic structural and fiscal imbalances, and promote inclusive and sustainable growth. The fiscal budget deficit is anticipated to decrease from about 10% of GDP in FY2021-22 to 0.3% of GDP in FY2022-23. Fiscal balances improved due to the recovery in oil revenues and the implementation of fiscal reforms by the government. A strong emphasis on investment in the private sector increases local workforce engagement, and large-scale infrastructure projects are likely to increase economic growth and consumer spending.

Figure 74: Kuwait Real GDP Growth Rate (%)



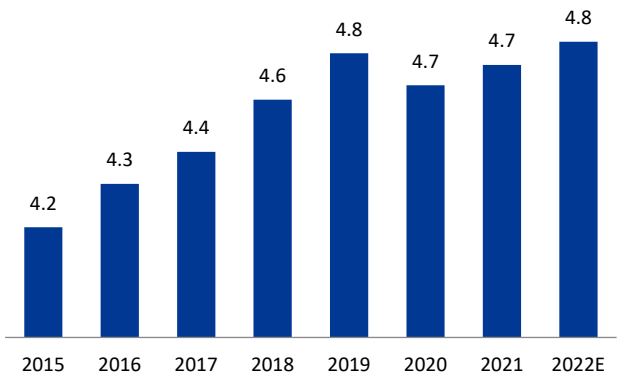
Source: IMF

High urbanization and low unemployment rates driving the Kuwait economy

Kuwait's population is estimated to grow at a CAGR of 1.7% from 4.7 Mn in FY2021 to 5.2 Mn in FY2027. The urban population accounts for 100% of the total population in FY2021, and about 83% of the population lives in the capital, reflecting high urbanization rate. Moreover, Kuwait's unemployment has one of the lowest unemployment rates, which stood at 1.3% in FY2021.

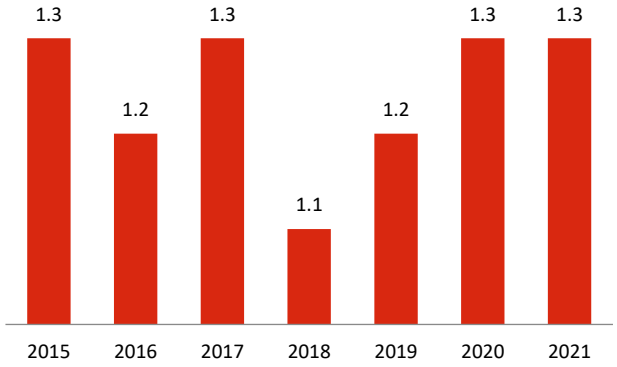
Fitch estimated consumer spending to grow 6.2% in FY2022. The growth will mainly be supported by lifting Covid-19-related restrictions and rising global oil prices. According to the World Bank, domestic credit grew by 6.3% in FY2021, its highest growth rate since 2015 mainly driven by demand in credit from household, while business credit remained flat.

Figure 75: Kuwait Population (Mn)



Source: IMF

Figure 76: Kuwait Unemployment Rate (%)

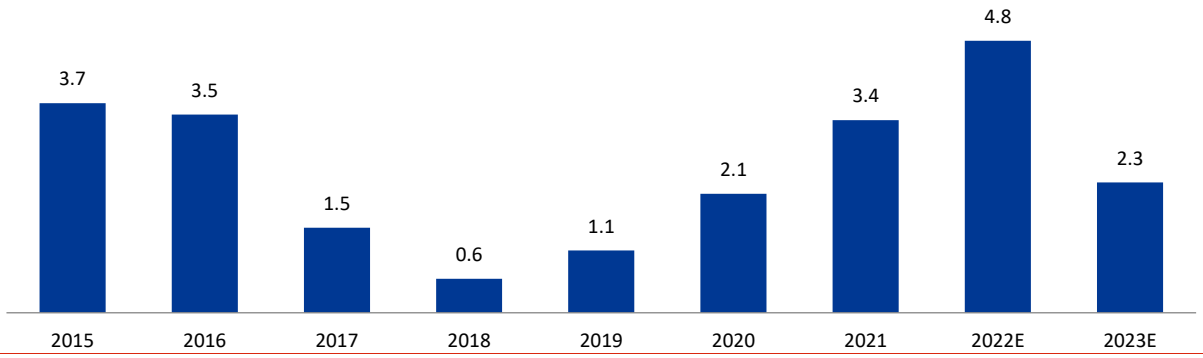


Source: IMF

Kuwait's inflation is estimated to rise 4.8% in FY2022 owing to high food inflation and oil prices

Kuwait's inflation is projected to rise 4.8% in FY2022, owing to food price inflation and high oil prices but the central bank is tightening monetary policy in line with US to curb the inflation. Kuwait currency is pegged with US Dollar and Kuwait Central Bank closely follows US monetary policy action. Due to higher rent prices owing to limited supply and speculation led to an increase in housing prices, which is the most significant component of the CPI, contributing to a rise in the inflation rate. Whereas food price inflation, the second-largest component of the CPI basket, fell to 9.1% in FY2021. The Central Bank of Kuwait raised interest rates multiple times during 2022 to curb inflation.

Figure 77: Kuwait Inflation Rate (%)



Source: IMF

Valuation Methodology

Target Fair Value Analysis

DCF AND RELATIVE VALUATION

We arrive at a fair value of AED 3.96 Per Share, SAR 4.05 Per Share

We have used a mix of Discounted Cash Flow (DCF), and Comparable Company Method (CCM) valuation methods to arrive at the fair value of Americana Restaurants. The Company operates across 12 countries in the four categories of Out of Home Dinning (OOHD) sector (QSR, FSR and Casual Dining, Coffee Shops, and Indulgence Restaurants). It has maintained stable and resilient performance across its portfolio. AMR was operating 2,090 restaurants as of 3Q22. We have assigned a higher weight to DCF valuation as it provides comprehensive value over multiple periods as opposed to other valuation methods. In CCM valuation, EV/EBITDA and PE multiples are used to value the Company.

CONSOLIDATED VALUATION

Name of Entity	Valuation (USD, million)	Weight (%)	Total Valuation (USD, million)
Value of the firm based on -			
Discounted Cash Flow	9,491	60.0%	5,695
Relative Valuation (EV/EBITDA)	8,843	20.0%	1,769
Relative Valuation (PE)	8,180	20.0%	1,636
Total Valuation (USD, million)			**9,099**
Total Valuation (AED, million)			**33,394**
Total Valuation (SAR, million)			**34,122**
Value per share (AED)			**3.96**
Value per share (SAR)			**4.05**

AMR's performance is analyzed in detail to arrive at its fair valuation. We have taken a fair estimate across the Income statement and financial position throughout our valuation. The valuation brought forward a target value of AED 3.96 per share.

The weightage assigned to DCF, relative valuation (EV/EBITDA), and relative valuation (PE) of the business stands at 60%, 20% and 20%, respectively.

Based on DCF valuation, we arrive at a fair value of AED 4.13 per share

Discounted Cash Flow Valuation

We relied upon the guidance provided by the Company management for the next five financial years starting from FY2022 and ending FY2026 to arrive at the valuation through DCF methodology. We derived the Company's Terminal Value using the Gordon Model and extrapolating the adjusted free cash flows for last year at a terminal growth rate of 3.0% to perpetuity. To arrive at Ke (Cost of Equity), we have used the 10-year yield of 4.3%, Country risk premium of 4.8%, and the Beta of 0.89 for the peer group. After applying all these, we arrived at the cost of equity of 8.5%. To calculate, we have used a 10-Year US Government Yield and further added 10-year Abu Dhabi Government CDS spread to arrive at an appropriate risk-free rate. AMR is nearly debt-free therefore, we have used free cash to equity to arrive at the valuation using DCF methodology.

I. DCF Valuation

	FY2022E	FY2023E	FY2024E	FY2025E	FY2026E
All figures in USD million, unless stated					
Net Income	272	333	389	471	563
(+/-) Depreciation & amortization	239	281	332	378	427
(+/-) CAPEX	-134	-164	-178	-194	-210
(+/-) Working Capital	30	34	42	30	34
Net change in debt	-144	-168	-179	-204	-232
Free Cash flow to Equity	**262**	**316**	**406**	**481**	**582**
Discount factor	*1.00*	*0.92*	*0.85*	*0.78*	*0.72*
Present Value of FCFE	**262**	**291**	**345**	**377**	**420**
Total Present value of FCFE					1,695
Terminal Value					7,796
Terminal growth rate					3.0%
Weighted average cost of capital					8.5%
Equity Value					**9,491**
Equity value per share (AED)					**4.13**

Source: FAB Securities Research

a) Sensitivity of DCF to Key Assumptions

Sensitivity may generate the highest valuation of AED 6.32 per share and the lowest valuation of AED 3.11 per share

Our DCF valuation is based on a weighted average cost of capital (WACC) of 8.5%. Since AMR is debt free, as a result the weighted average cost of capital is equal to the cost of equity of 8.5%.

A sensitivity analysis shows that a change of +/- 0.5% in the weighted average cost of capital and weighted average cost of capital yields a valuation of AED 3.11 per share to AED 6.32 per share. The table below shows the sensitivity between the change in terminal growth rate and the weighted average cost of capital.

1. DCF Sensitivity to Terminal Growth rate and WACC

		WACC (%)				
		7.5%	**8.0%**	**8.5%**	**9.0%**	**9.5%**
Terminal Growth Rate	**2.0%**	4.24	3.89	3.59	3.33	3.11
	2.5%	4.61	4.19	3.84	3.54	3.29
	3.0%	5.05	4.55	4.13	3.79	3.50
	3.5%	5.61	4.99	4.49	4.08	3.74
	4.0%	6.32	5.53	4.92	4.43	4.03

Relative Valuation

We are using EV/EBITDA multiple and PE multiple in CCM valuation to value the firm

AMR's FY2023 forecasted financials such as EBITDA and net profit is used to value the firm. The valuation multiple of both regional and global Quick Service Restaurant franchise operators is used to value the firm.

II. Relative Valuation

(All Figures in Million USD, unless stated)	
Based on EV/EBITDA Multiple	
EBITDA (FY2023)	656
Peer Median Valuation	13.1x
Enterprise Value	**8,598**
Net Debt outstanding (as of 30 September 2022)	246
Equity Value	**8,843**
Equity Value attributable to Americana Restaurants	**8,843**
Equity value per share (AED)	**3.85**

Source: Company Information, FAB Securities Research

(All Figures in Million USD, unless stated)	
Based on PE Multiple	
Net Income (FY2023)	333
Peer Median Valuation	24.6x
Equity Value	**8,180**
Stake in the entity	100.0%
Equity Value attributable to Americana Restaurants	**8,180**
Equity value per share (AED)	**3.56**

Source: Company Information, FAB Securities Research

Peers Valuation – Restaurant Sector

			EV/EBITDA (x)		PE (x)	
Co. Name	**Market Cap (USD, mn)**	**EV (USD, mn)**	**2022**	**2023**	**2022**	**2023**
Herfy Food Services Co	713	790	8.8	7.8	19.9	14.6
Jolibee Foods Corp	4,494	5,715	14.1	11.6	37.6	29.4
Domino'S Pizza Enterprises Ltd	3,792	4,875	16.4	13.8	29.4	24.8
Yum China Holdings Inc	20,771	16,776	13.1	9.1	49.1	26.4
Restaurant Brands International	18,905	31,431	13.1	12.4	21.4	20.1
Yum Brands	33,365	44,829	19.1	17.7	25.3	22.1
Domino's Pizza Inc	13,078	18,052	21.1	19.1	28.8	24.4
Starbucks Corporation	102,199	113,784	18.7	16.5	32.2	26.9
Average			**15.6**	**13.5**	**30.5**	**23.6**
Median			**15.2**	**13.1**	**29.1**	**24.6**
Max [1]			**18.8**	**16.8**	**33.5**	**26.5**
Min [2]			**13.1**	**11.0**	**24.3**	**21.6**

Source: Bloomberg, 1 Values correspond to Quartile 3, 2 Values correspond to Quartile 1

Number of Restaurants/Stores

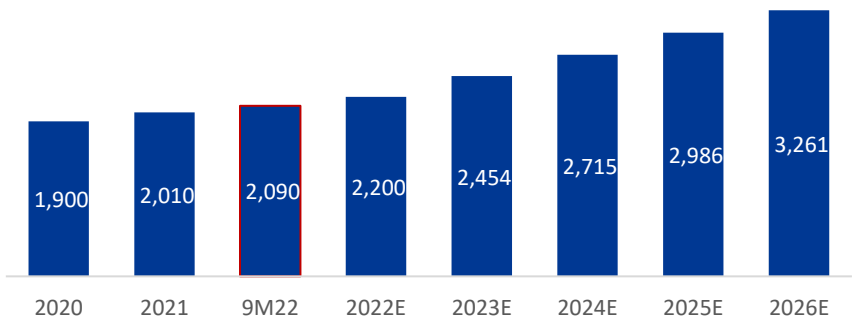
Number of Restaurants/Stores

AMR aims to reach approx. 2,200 restaurants by end of FY2022 and plans to add 250-300 net new restaurants per annum in the medium term from FY2023

AMR owned and operated 2,090 restaurants as of 3Q22. This restaurant portfolio consists of 1,813 restaurants belonging to the Power Brand and 228 to Growth/Niche Brands and remaining nine to Other Brands. AMR opened 600 restaurants from FY2017 to 1H22. Out of which, 518 belonged to Power Brand, 79 related to Growth/Niche Brand and remaining 3 to Other Brands. It has closed 311 restaurants until 1H2022 due to underperformance which were pre- and post-acquisition and brand divestments. KFC is leading with 900 restaurants followed by 386 restaurants of Hardee's, 284 Pizza Hut restaurants and 243 Krispy Kreme restaurants as of 1H22. In the Core Markets, UAE is leading with a maximum number of 480 restaurants followed by KSA 474 restaurants, Egypt 423 and Kuwait 208 in FY2021. It operates 425 restaurants out of Other Markets spread across Qatar, Bahrain, Oman, Jordan, Lebanon, Morocco, Kazakhstan and Iraq. AMR expects this geographic distribution to remain broadly stable in terms of GCC/non-GCC, with KSA expected to grow faster. AMR recently acquired the rights to operate Pizza Hut throughout KSA except Jeddah City area. The Company opened its first Pizza Hut restaurant in KSA in June 2022. Currently, AMR operates 13 Pizza Hut restaurants in KSA with a strong pipeline of restaurants for which feasibility is approved by Americana Investment Committee. The Company signed an exclusive master franchise agreement with Peet's Coffee for the GCC region and plans to open its first outlet in UAE in 4Q22 subsequently, expand its operation into KSA, Kuwait and Qatar. AMR also owns a right of first refusal for the remaining eight markets in which it operates.

AMR closed 285 restaurants during FY2017-21. Out of which, 80.0% of these were unprofitable in old locations that opened prior to the acquisition. Approximately 26 restaurants were closed due to eight brand divestments and exited last Red Lobster branded restaurant in June 2022 in UAE. It opened its flagship TGI Friday's restaurant on the same location in 3Q22. AMR is on track to achieve its target of 2,200 restaurants by FY2022, with 124 gross restaurants opened until October 2022, 88 restaurants already under construction, and eight additional restaurant site is already secured. Further, the Company is targeting to open a net of 250 to 300 net new restaurants per annum during FY2023-26. We expect the net new addition to be in line with management's assumptions. This is supported by the estimated strong growth in the OOHD market in the AMR's Core Market underpinned by strong growth in population, attractive demographic profile, rise in urban population and strong economic growth outlook.

Figure 78: AMR - Number of Restaurants



Source: Company Information, FAB Securities research FY2022-26

Key Financial Metrics

Financial Performance at a Glance

Growth Dynamics

Growth in the top line is driven by strong LfL growth, addition of new restaurants, menu engineering and smart pricing. We anticipate same drivers will drive growth going forward

The Company was acquired by Adeptio AD Investment Ltd in December 2016. Adeptio AD Investments Ltd, is ultimately controlled and beneficially owned in equal shares by H.E. Mohamed Ali Rashed Alabbar ("H.E. Alabbar") and the Public Investment Fund ("PIF") of the Kingdom of Saudi Arabia ("KSA"). PIF is the sovereign wealth fund of Saudi Arabia. Since the acquisition, AMR business was reorganized and delisted. It lacked the necessary foundation to grow and sustain the business. The new/current management took over the Company and laid the groundwork, such as hiring the right talent and setting the necessary strategic priorities, to turn the business around and position AMR for a strong future. Since FY2017, AMR opened 600 new restaurants until 1H22 with a focus on power brands. AMR Restaurants closed 311 unprofitable loss-making restaurants as part of its portfolio from FY2017 to 1H22. AMR revenue grew at a CAGR of 4.7% from USD 1,705 Mn in FY2017 to USD 2,052 Mn in FY2021. Further revenue grew 17.4% YOY to USD 1,771 Mn in 9M22. AMR holds a strong position in the MENA's largest economies supported by favorable macroeconomic tailwinds. Shifting consumer preference from cooking at home to eating out, increasing internet and smartphone penetration, supported by a young, tech-savvy population, and delivery services opened up additional spending channels for consumers; acceptance of Western dishes, growth of the tourism sector, increasing consumer demand, modernization of the retail sector, and many more are driving the OOHD market, which is expected to grow at double-digit rates across AMR's operating region. The market size of AMR's Core Markets across UAE, KSA, Kuwait, and Egypt, is expected to grow at a CAGR rate of between 6.0% and 18.0% during FY2022-26. According to the company's report, AMR holds a 23.2% share of the QSR market in the UAE, making it the market leader. Currently, AMR's brand portfolio includes KFC, Pizza Hut, Hardee's, Krispy Kreme, TGI Fridays, Peet's Coffee, Costa Coffee, Baskins and Robins, Wimpy, Chicken Tikka, Grand café, Fish Market, and Pavilion. KFC, Pizza Hut, Hardee's, and Krispy Kreme remain the key brands. AMR operates in the UAE, KSA, Kuwait, Egypt, Kazakhstan, Bahrain, Qatar, Oman, Jordan, Morocco, Lebanon and Iraq with 2,090 restaurants as of 3Q22.

We expect AMR to add an average of 265 restaurants per year between FY2023-26. AMR's LfL revenue is projected to grow by an average of 5.6% over FY2022-26. We, therefore, estimate that AMR's revenues will grow at a CAGR of 15.2% from USD 2,052 Mn in FY2021 to USD 4,171 Mn in FY2026. The growth in revenue will also be underpinned by growth in menu engineering and smart pricing.

AMR maintained strong cost discipline after business reorganization which led to improved margins over the period. The Company's well-ingrained zero-based budgeting process helped it to keep costs in check which led to improvement in profitability and margin over the period. Due to this initiative, the Company margin improved by 2.2% from 2018 to 2019 and further by 2.6% from FY2019 to FY2021. With the implementation of zero-based budgeting, AMR reduced the utility cost per restaurant from USD 25,243 in FY2019 to USD 22,771 in FY2021. In addition, AMR's strong revenue growth provided operating leverage, smart pricing and menu engineering also led to improvement in margins. Pre-IFRS adjusted EBITDA margin increased from 13.4% in FY2018 to 15.0% in FY2021 led by increase in revenue, menu engineering, smart pricing and cost discipline. Post-IFRS 16 adjusted EBITDA margin dropped marginally from 22.7% in FY2019 to 22.6% in FY2021 due to increase in revenue, menu engineering, smart pricing and cost discipline largely offset by an increase in home delivery share from 30% in

FY2019 to 42% in 2021. We expect post-IFRS 16 adjusted EBITDA to grow at a CAGR of 17.8% from USD 464 in FY2021 to USD 1,054 in FY2026.

AMR maintains strong rigor and discipline in selecting new sites as well as keeps operational cost discipline due to its well-defined zero-based budgeting process, which has a positive impact on its margins. Operating costs per restaurant decreased from approx. USD 25K in FY2019 to USD 23K in FY2021. Over the past three years, the Company maintained an average post-IFRS 16 adjusted EBITDA of 22.3%. We expect post-IFRS 16 adjusted EBITDA to grow at a CAGR of 17.8% from USD 464 Mn in FY2021 to USD 1,054 Mn in FY2026 with an EBITDA margin of 25.3% in FY2026. The post-IFRS 16 adjusted EBITDA margin is expected to average 24.2% during FY2022-26.

Figure 79: Summary Financials (USD, Mn)

(USD, Mn)	2021	2022E	2023E	2024E	2025E	2026E
Revenue	2,052	2,448	2,781	3,198	3,660	4,171
Gross Profit	1,081	1,281	1,463	1,687	1,945	2,225
Adj. EBITDA[1]	464	565	656	772	907	1,054
Net Profit pre-minorities	206	272	333	389	471	563
Gross Profit Margin	52.7%	52.3%	52.6%	52.7%	53.1%	53.4%
EBITDA Margin[1]	22.6%	23.1%	23.6%	24.1%	24.8%	25.3%
Net Profit Margin	10.1%	11.1%	12.0%	12.2%	12.9%	13.5%
Net Debt/EBITDA1	0.5	0.0	-0.3	-0.4	-0.5	-0.6

Source: Company Information, FAB Securities research 2021-26; [1] Post-IFRS 16 adjusted EBITDA

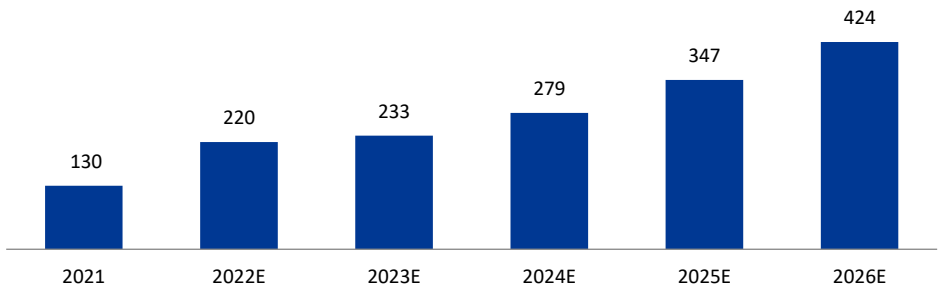
Dividend Policy

AMR aims to pay 75.0% of 2H22 net profit as cash dividend and thereafter distribute minimum 50.0% of net profit in form of dividend

AMR intends to maintain an annual dividend distribution policy, with full year dividend expected to be paid in first half of next fiscal year i.e., from FY2023. AMR paid a dividend of USD 109 Mn in 1H22 and further expected to pay 75.0% of net profit of 2H22 as dividend in 1H23. Thereafter, it intends to distribute a minimum of 50.0% of net profit as dividend attributable to parent to the shareholders and further intends to distribute any cash flow after providing for growth opportunities or cash not specifically reserved for corporate purposes. We anticipate the Company to maintain a payout ratio of 72.7% during FY2023-26 due to healthy cash generation from operations.

AMR paid regular dividend to its existing shareholder from FY2019-21. During the last three years, the Company paid USD 480 Mn dividend to its parent company. We also anticipate AMR to maintain a robust dividend policy. Between FY2019-21, the distribution was paid to shareholders through dividend and distribution of USD 296 Mn and USD 184 Mn through cash received by parent and capital reorganization. We expect AMR to declare USD 1,503 Mn as dividend during FY2022-26.

Figure 80: Dividend Declared to Shareholders (USD, Mn)



Source: Company Information, FAB Securities research FY2022-26

Financials:

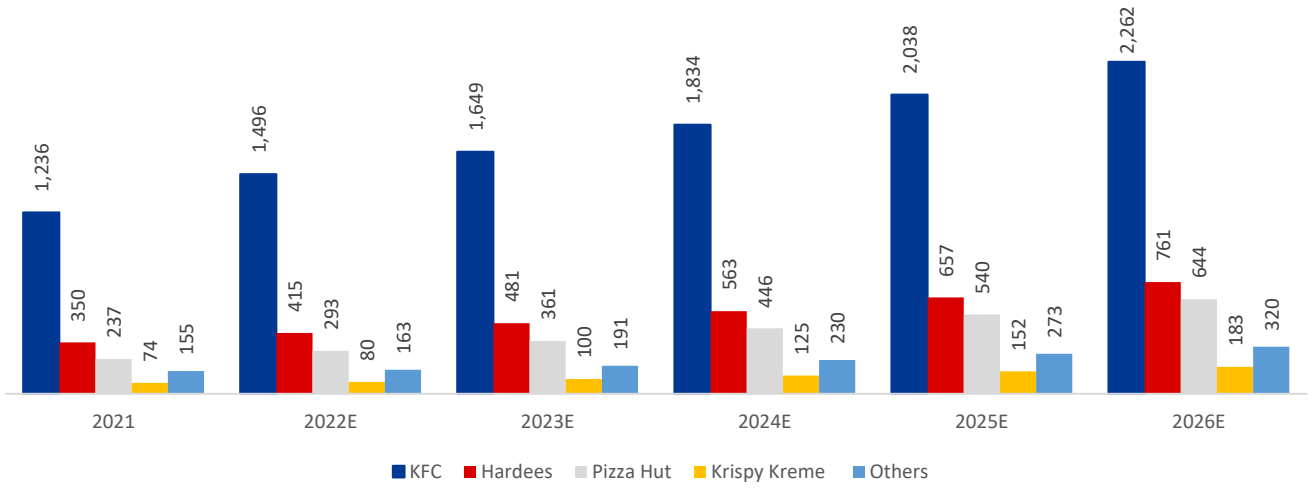
Revenue

We expect consolidated revenue to grow from USD 2,052 Mn to USD 4,171 Mn over FY2021-26

AMR revenue grew at a CAGR of 4.7% from USD 1,705 Mn in FY2017 to USD 2,052 Mn in FY2021 primarily driven by strong LfL revenue growth, addition of new restaurants, menu engineering and smart pricing. Adjusted CAGR growth excluding 2020 as it was impacted by the pandemic outside the Company's control, topline grew at CAGR of 6.4% in FY2017-21. AMR posted negative LfL of 5.1% in FY2017 post-acquisition as management focused on laying the Company's foundation by hiring the right talent and setting the necessary strategic priorities to turn the business around and position the Company for a strong future. As the business stabilized, management shifted its focus to optimizing operations, technology, and people, resulting in positive LfL revenue growth of 3.6% in FY2018 and 2.7% in FY2019. LfL revenue growth was impacted by the COVID-19 pandemic in AMR's operating region and globally, resulting in negative LfL of 16.4% in FY2020. However, this was mitigated by strong momentum with double-digit LfL revenue growth in 1Q21, which enabled the Company to rebound strongly from the pandemic. The Company's focus on customer satisfaction, digital channels and smart pricing along with the opening of 164 new restaurants in FY2021 resulted in significant double-digit LfL revenue growth of 30.1%, while the Company's 9M22 LfL revenue grew 14.8%. AMR consistently posted double-digit LfL growth over the past seven quarters from 1Q21 to 3Q22, with the highest LfL revenue growth of 106.0% recorded in 2Q21. The Company invested heavily in the strong brands, with an average of 93% of AMR's sales coming from its power brands. Within the brand portfolio, KFC was the largest revenue contributor in FY2017-21. KFC delivered strong LfL sales performance, resulting in growth in average unit volume (AUV) from USD 1.2 Mn in FY2017 to USD 1.5 Mn in FY2021. KFC contributed approximately 60.0% of total revenue, or USD 1,236 Mn in FY2021. Pizza Hut achieved positive LfL sales growth over the past four years, with AUV of USD 0.94 Mn in FY2021. Hardee’s rebounded strongly after COVID-19 and LfL sales grew 28.1% in FY2020-21. Hardee’s contributed 17.0% of total revenue or USD 350 Mn in FY2021 with AUV of USD 0.96 Mn. In FY2021, AMR operates in 12 countries which is further classified into - Core Markets (UAE, KSA, Egypt, Kuwait) and other AMR Markets (Bahrain, Qatar, Oman, Kazakhstan, Iraq, Jordan, Lebanon, and Morocco). Revenues from core markets account for approx. 78.0% of total revenue in FY2021.

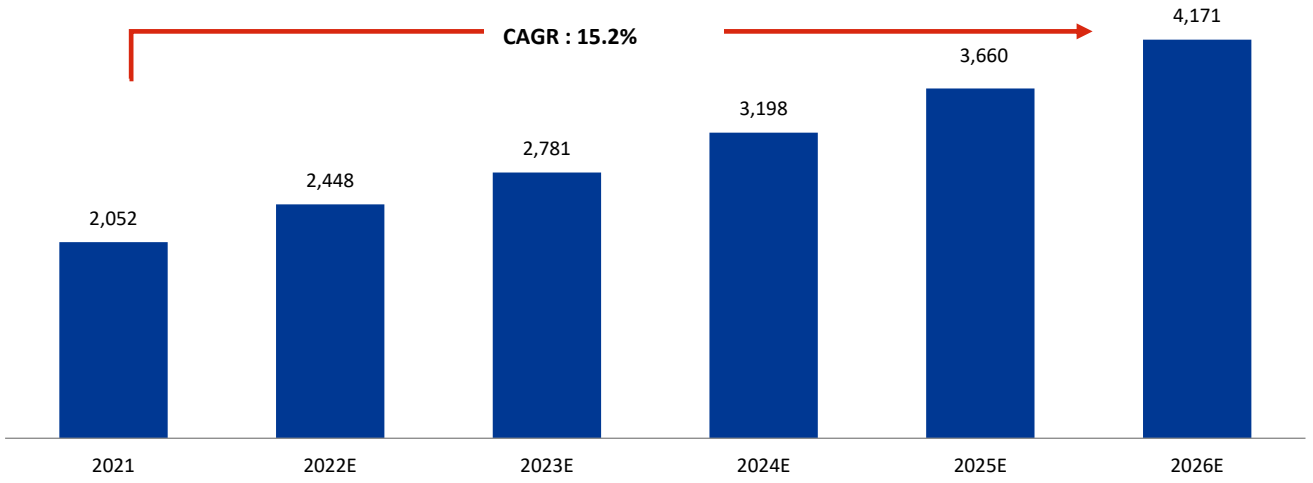
We expect AMR's consolidated revenues to grow at a CAGR of 15.2% and double the topline from USD 2,052 Mn in FY2021 to USD 4,171 Mn in FY2026. This is due to the Company's focus on opening new restaurants and the continued momentum of LFL growth. Revenue growth is also supported by improving penetration in existing and new markets, launching existing brands in existing countries, and introducing new brands in core markets, such as the recent launch of Peet's Coffee in UAE or Pizza Hut in KSA.

Figure 81: Revenue by Segment (USD, Mn)



Source: Company Information, FAB Securities research FY2022-26

Figure 82: AMR - Total Revenue (USD, Mn)



Source: Company Information, FAB Securities research FY2022-26

Total Expenses

Despite hit by pandemic AMR is able to maintain cost discipline

AMR Restaurants' well-ingrained zero-based budgeting (ZBB) process helped the Company to keep costs in check which led to improvement in profitability and margin over the period. ZBB approach helps AMR in efficiently manage its costs. It also supports the Company in aligning its spending with its strategic goals. This approach promotes broader collaboration within AMR. It also helps in maintaining cost discipline at the same time improve margins.

The direct cost mainly include expenditure on cost of inventory, staff costs, D&A, royalties, rent and others. We project direct costs to increase at a CAGR of 14.9% from USD 970 Mn in FY2021 to USD 1,945 Mn in FY2026. The increase is mainly due to the addition of new restaurants, which leads to an increase in cost of inventory, labor, and royalty costs. We expect inventory costs to increase from USD 624 Mn in FY2021 to USD 1,247 Mn in FY2026. Staff cost mainly include salaries and wages of in-store kitchen employees involved in the preparation of food. Personnel costs will be primarily driven by addition of new restaurants. We expect personnel

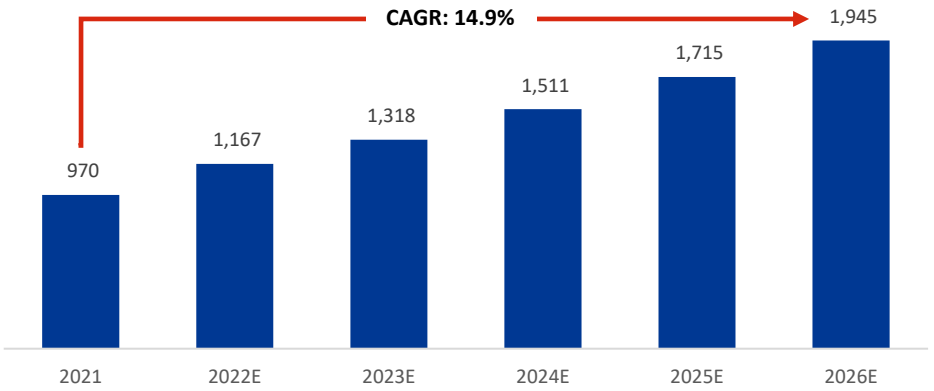
costs to grow at a CAGR of 13.6% in FY2021-26, as we expect the Company to add on an average 265 net new restaurants each year during FY2023-26. Royalty expense is expected to increase at a CAGR of 16.3% from USD 106 Mn in FY2021 to USD 225 Mn in FY2026.

Consolidated marketing and distribution costs amounted to USD 680 Mn in FY2021 and it is expected to increase at a CAGR of 13.7% to USD1,293 Mn in FY2026.

G&A expense stood at USD 177 Mn in FY2021 and expected to grow at a CAGR of 12.7% to USD 321 Mn in FY2026.

Total D&A amounted to USD 209 Mn in FY2021 and is expected to increase to USD 427 Mn by FY2026. The increase is mainly due to the addition of new restaurants and lowering of asset life for lease assets.

Figure 83: AMR- Direct Expenses (USD, Mn)



Source: Company Information, FAB Securities research FY2022-26

EBITDA

Post-IFRS 16 adjusted EBITDA would grow at a CAGR of 17.8% from USD 464 Mn in FY2021 to USD 1,054 Mn in FY2026

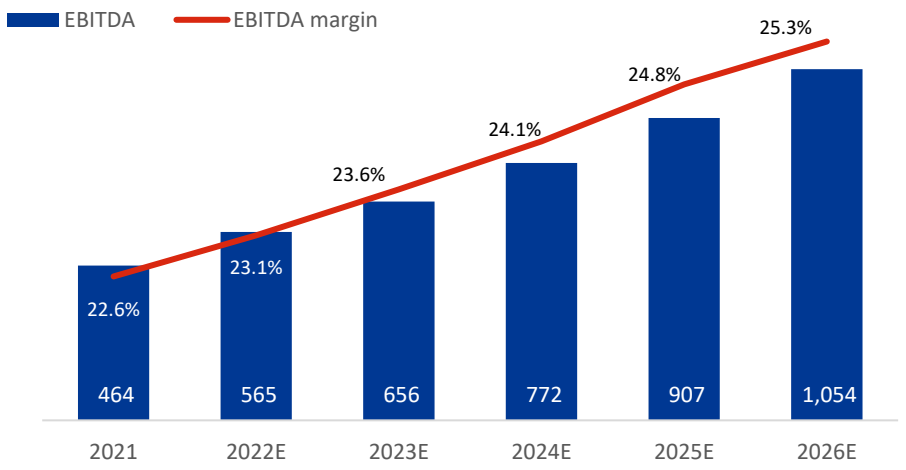
Pre IFRS-16 adjusted EBITDA rose at a CAGR of 8.2% from USD 243 Mn in FY2018 to USD 308 Mn in FY2021. While, post-IFRS 16 adjusted EBITDA grew at a CAGR of 3.9% from USD 430 Mn in FY2019 to USD 464 Mn in FY2021. Pre-IFRS adjusted EBITDA margin increased from 13.4% in FY2018 to 15.0% in FY2021 led by increase in revenue, menu engineering, smart pricing and cost discipline. Post-IFRS 16 adjusted EBITDA margin dropped marginally from 22.7% in FY2019 to 22.6% in FY2021 due to increase in revenue, menu engineering, smart pricing and cost discipline largely offset by an increase in home delivery share from 30% in FY2019 to 42% in 2021.

Post-IFRS 16 adjusted EBITDA rose 21.3% YOY to USD 404 Mn in 9M22. The Company also managed to improve its post-IFRS 16 adjusted EBITDA margin by 73 basis points YOY to 22.8% during 9M22 due to operating leverage as a result of higher revenue, cost discipline and decline in share of home delivery partially offset by an increase in cost of inventory and increase in royalty expenses. The Company expects 4Q22 EBITDA margin to be higher than 9M22 due to increase in pricing and operating leverage. Thus, we expect post-IFRS 16 adjusted EBITDA margin to rise by 46 basis points to 23.1% in FY2022 in line with management estimate.

We estimate post-IFRS 16 Adj. EBITDA to grow at a CAGR of 17.8% from USD 464 Mn in FY2021 to USD 1,054 Mn in FY2026. Going forward, we estimate post-IFRS 16 adjusted EBITDA margin to rise by 218 basis points from FY2023-26 to 25.3% in FY2026. The factors which will lead to higher EBITDA margins are strong LFL growth, addition of new restaurants along with low closure rate, menu engineering and smart pricing.

The growth in EBITDA margin would also be driven by re-normalization of commodity cost post COVID-19, cost discipline and normalization of delivery channel mix.

Figure 84: AMR's Post-IFRS 16 Adjusted EBITDA (USD, Mn) and Margin



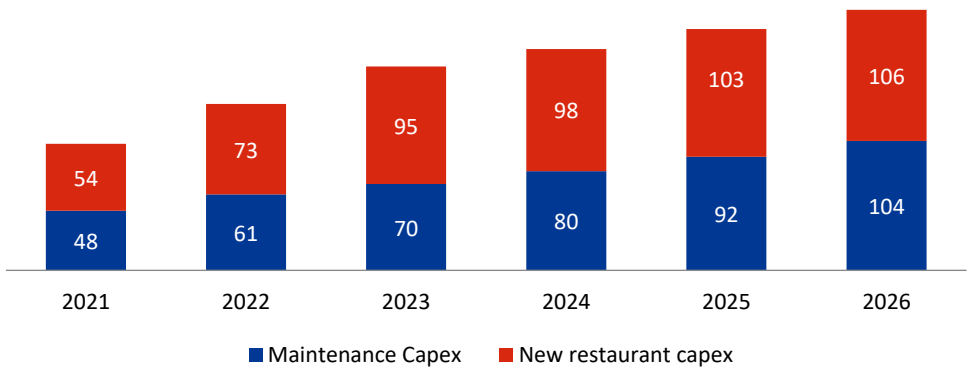
Source: Company Information, FAB Securities research FY2022-26

Capital Expenditure (CAPEX)

We anticipate AMR to spend USD 0.33 Mn to open each new restaurant and maintenance capex will average at 2.5% of total revenue during FY2022-26

We anticipate AMR to spend a sum of USD 881 Mn on capital expenditure during FY2022-26. The Company anticipates to incur 2.5% of total revenue on maintenance capex with a sum of USD 406 Mn during FY2022-26. In addition to this, AMR also anticipates to incur USD 0.33 Mn CAPEX to open each new restaurant and it is expected to amount to USD 475 Mn during 2022-2026.

Figure 85: AMR – Maintenance and Expansion Capex (USD, Mn)



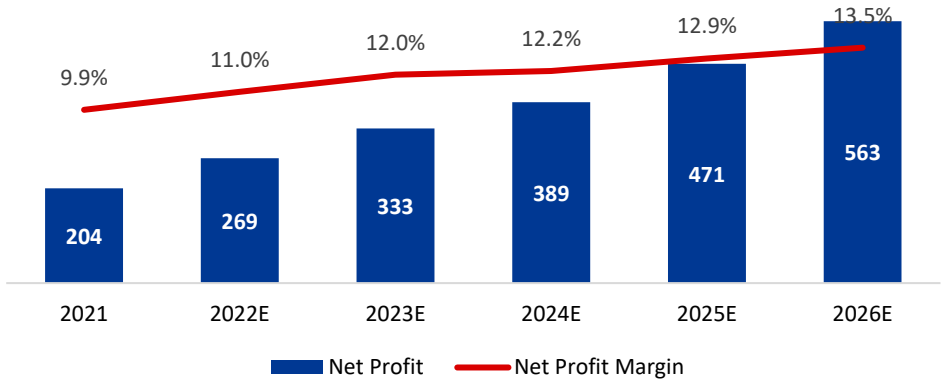
Source: Company Information, FAB Securities research FY2022-26

Net Profit

Net profit attributable to equity shareholder is expected to grow at CAGR 22.5% from USD 204 Mn in FY2021 to USD 563 Mn in FY2026

The Company's net profit attributable to equity shareholder is expected to incline at CAGR 22.5% from USD 204 Mn in FY2021 to USD 563 Mn in FY2026. Finance cost will likely to increase from USD 23 Mn in FY2021 to USD 35 Mn in FY2026 due to increase in finance expense on lease as it plans to add more restaurants. The Company generated an average net profit margin of 7.7% over last three years. We forecast this net margin to grow steadily from 9.9% in FY2021 to 13.5% in FY2026.

Figure 86: AMR's – Net profit attributable to equity shareholder (USD, Mn)



Source: Company Information, FAB Securities research FY2022-26

Working Capital

We anticipate AMR to maintain negative net working capital during FY2022-26

AMR's working capital mainly comprises of Trade and Other Receivables, Trade and Other Payables and Inventories. AMR net working capital stood at negative USD 218 Mn during FY2021. This is mainly driven by higher payable days partially offset by an investment in inventory and receivables. Healthy payable day is mainly due to strong bargaining power with supplier led by significant size and scale. It maintains 55-60 days inventory to mitigate stock-out risk amid of ongoing supply chain uncertainty, as well as to cope with importation lead time.

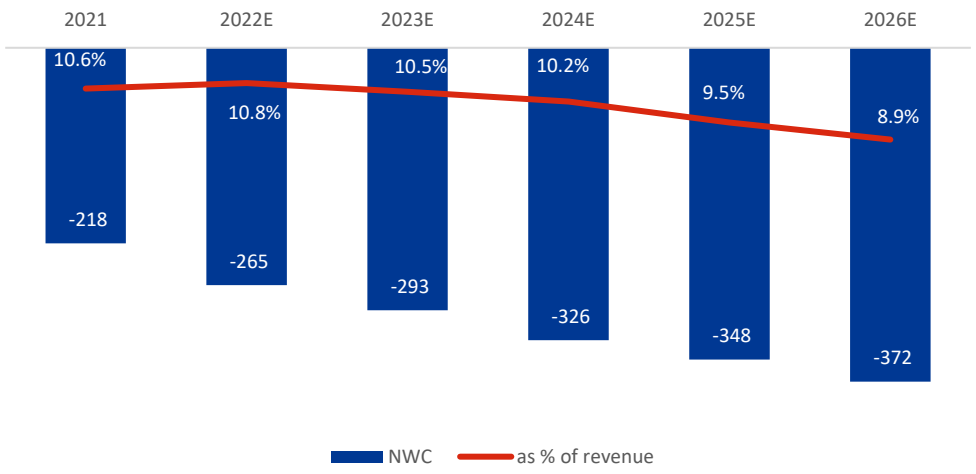
The Company has well invested supply chain infrastructure with strong focus on supply diversity underpinning supply consistency and cost discipline. No single supplier represents more than 10.0% of AMR supply providing strong bargaining power to AMR. Trade payable of AMR stood at 99 days in FY2021.

Trade and other receivable include receivable as well as other receivable. Other receivable includes prepaid expenses, advances, deposits, accrued income, staff and insurance receivable and others, Trade receivable is forecasted based on receivable days while, other receivable is forecasted as percentage of total revenue. Inventory includes raw materials, filling & packing material, goods-in-transit, spare parts and other materials. Raw materials, filling & packing material and goods-in-transit is considered as core inventory and forecasted based on inventory days. Remaining inventory is forecasted as percentage of total revenue. Payable is sub-divided and forecasted into two parts one part is assumed to be core part of trade payable and forecasted based on payable days. Another part assumed not to be part of trade payables and forecasted as percentage of cost of inventory.

We anticipate receivable days to average five days, Inventory Days to average of 55 days and 100 Payable days during the forecasted period from FY2022-26. Due to this, we anticipate the

Company to generate USD 171 Mn in net cash flow from working capital during FY2022-26. It generated a cash of USD 133 Mn from working capital during FY2019-21.

Figure 87: AMR's – Net working capital (USD, Mn) & NWC as % of revenue (%)



Source: Company Information, FAB Securities research FY2022-26

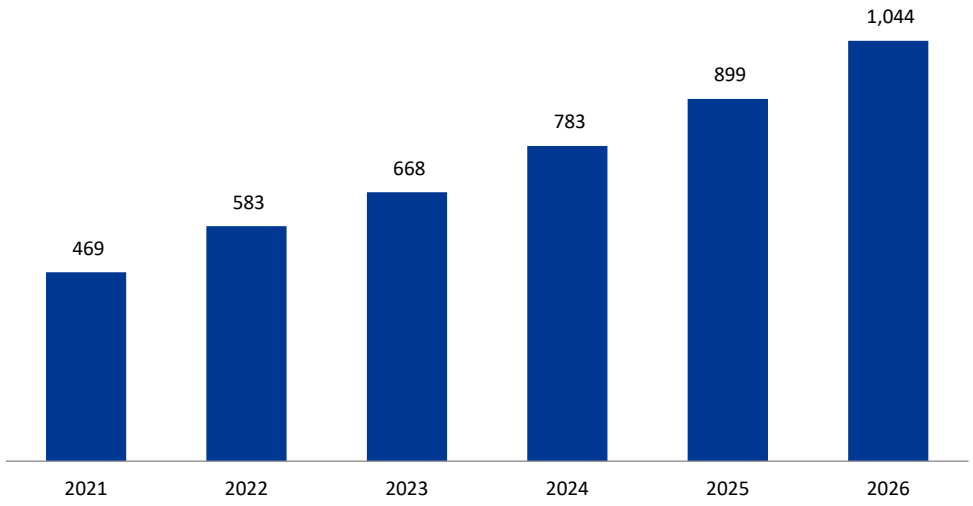
Cash Flow Generation

AMR is expected to generate a cumulative USD 3,977 Mn cash flow from operations during FY2022-26 with a cumulative free cash flow of USD 2,009 Mn during FY2022-26

AMR generated a cumulative USD 1,264 Mn in cash flow from operation in FY2019-21. AMR generated USD 469 Mn in cash flow from operations in FY2021, compared to USD 284 Mn in FY2020. The improvement in cash flow is mainly supported by growth in profitability and decline in investment in working capital. It further generated USD 326 Mn in cash flow from operation in 9M22. We expect AMR to generate steady operating cash flow in FY2022-26 and generate a cumulative of USD 3,977 Mn in cash flow from operation during FY2022-26. Operating cash flow is expected to average USD 795 Mn in FY2022-26. AMR's cash flow from investing activities primarily includes investments in new restaurants and maintenance capex. We expect AMR to spend cumulative USD 881 Mn capex during FY2022-26, in line with management's estimate. Cash flows from financing activities include an outflow of USD 908 Mn in FY2019-21, primarily due to dividend payments and lease repayments. We expect AMR to maintain a stable dividend policy and pay a sum of USD 1,078 Mn in dividend during FY2022-26. AMR intends to maintain its annual dividend payout, with dividends paid in the first half of the following calendar year. We also expect AMR to pay a total of USD 1,072 Mn in lease interest and repayment in FY2022-26.

AMR generated USD 323 Mn, USD 186 Mn, and USD 229 Mn in free cash flow (FCF) with a FCF conversion ratio of 108.9%, 82.0%, and 75.4% in FY2019, FY2020, and FY2021, respectively. Free cash flow primarily includes the principal element of lease payments. We expect AMR to repay total principal amount of USD 927 Mn during FY2022-26. We expect free cash flow to grow at a CAGR of 19.7% from USD 229 Mn in FY2021 to USD 563 Mn in FY2026.

Figure 88: Cash Flow from Operating activities (USD, Mn)



Source: Company Information, FAB Securities research FY2022-26

Financial Statements

Income Statement

Year to Dec (USD, Mn)	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Revenues	**1,578**	**2,052**	**2,448**	**2,781**	**3,198**	**3,660**	**4,171**
COGS	-774	-970	-1,167	-1,318	-1,511	-1,715	-1,945
Gross Profit	**804**	**1,081**	**1,281**	**1,463**	**1,687**	**1,945**	**2,225**
S&D Expenses	-579	-680	-774	-881	-1,012	-1,149	-1,293
G&A Expenses	-158	-177	-201	-222	-251	-284	-321
Other Income	32	15	16	16	16	16	16
Other operating expense/(income)[1]	16	3	6	0	0	0	0
EBITDA[3]	**338**	**464**	**565**	**656**	**772**	**907**	**1,054**
EBIT	**115**	**243**	**327**	**375**	**440**	**529**	**627**
Finance income	1	2	7	8	13	16	20
Financing cost	-30	-23	-25	-28	-29	-32	-35
Other[2]	0	0	-24	0	0	0	0
Profit before tax	**86**	**222**	**285**	**356**	**423**	**512**	**612**
Income tax	-6	-16	-15	-24	-34	-41	-49
Net profit	**80**	**206**	**272**	**333**	**389**	**471**	**563**
Non-controlling interest	-1	2	4	0	0	0	0
Net Profit attri. to equity holders	**81**	**204**	**269**	**333**	**389**	**471**	**563**
EPS	**0.01**	**0.02**	**0.03**	**0.04**	**0.05**	**0.06**	**0.07**

Source: Company Information, FAB Securities research; [1] includes monetary gain/(loss) from hyperinflation and impairment and reversal from non-financial asset, [2] Tax claim charges and Fair value gain on financial assets at fair value through profit or loss, [3] post-IFRS 16 Adjusted EBITDA

Key Ratios:

	2020A	2021A	2022E	2023E	2024E	2025E	2026E
YoY % Change							
Revenue	-16.5%	30.0%	19.3%	13.6%	15.0%	14.4%	13.9%
Gross Profit	-18.6%	34.5%	18.5%	14.2%	15.3%	15.3%	14.4%
EBITDA[3]	-21.4%	37.3%	21.7%	16.2%	17.6%	17.5%	16.2%
Net profit	-46.5%	152.3%	31.7%	23.8%	17.0%	21.2%	19.4%
% Margin							
Gross profit	51.0%	52.7%	52.3%	52.6%	52.7%	53.1%	53.4%
EBITDA[3]	21.4%	22.6%	23.1%	23.6%	24.1%	24.8%	25.3%
EBIT	7.3%	11.8%	13.4%	13.5%	13.7%	14.4%	15.0%
Net Profit margin	5.1%	9.9%	11.0%	12.0%	12.2%	12.9%	13.5%
Leverage							
Debt[1]/Adjusted EBITDA[3]	1.3	0.8	0.8	0.7	0.7	0.6	0.6
Net Debt[1]/Adjusted EBITDA[3]	0.7	0.5	0.0	-0.3	-0.4	-0.5	-0.6
Debt[1]/Equity	5.6	3.0	2.5	1.7	1.3	1.1	0.9
Return ratios							
ROA	7.8%	19.0%	19.2%	19.4%	19.6%	20.5%	21.2%
ROE	103.5%	160.6%	153.2%	119.9%	100.5%	92.1%	86.5%
ROCE	22.8%	46.7%	52.5%	50.7%	49.2%	49.5%	50.0%
Free Cash Flow							
Free cash flow (FCF)	186	229	277	308	394	466	563
FCF Conversion[2]	82.0%	75.4%	65.8%	63.1%	66.6%	66.3%	68.5%

Source: Company Information, FAB Securities research, [1] Debt includes bank facilities, current and long-term lease liabilities reported by the Company, [2] FCF Conversion = Adj. Free Cash Flow (FCF) over Adj. EBITDA post IFRS-16 less principal elements of lease payments, 3 Post-IFRS 16 adjusted EBITDA

Balance Sheet

Year to Dec (USD, Mn)	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Assets							
Property and Equipment-Net	208	222	262	308	345	375	399
Right of use assets	372	362	405	421	446	480	512
Loan to a related party	0	51	0	0	0	0	0
Investment properties	8	9	9	8	7	7	6
Intangible Assets	38	43	48	55	61	69	76
Derivative financial instrument	0	8	8	8	8	8	8
Deferred tax asset	2	2	2	2	2	2	2
Total Non-Current Assets	**626**	**697**	**733**	**801**	**869**	**939**	**1,003**
Inventories	97	107	143	147	167	188	212
Trade and other receivables	96	94	115	130	140	160	182
Due from related parties	1	1	3	3	3	3	3
Loan to related party	0	13	0	0	0	0	0
Derivative financial instrument	0	2	2	2	2	2	2
Cash and cash equivalents	196	174	422	628	804	1,009	1,250
Total Current Assets	**390**	**391**	**686**	**911**	**1,116**	**1,362**	**1,648**
Total assets	**1,016**	**1,088**	**1,418**	**1,711**	**1,985**	**2,301**	**2,651**
Equities and liabilities							
Equity							
Share Capital	0	0	168	168	168	168	168
Merger Reserve	0	0	-2	-2	-2	-2	-2
Accumulated net contribution from Parent	90	149	0	0	0	0	0
Retained earnings	0	0	31	131	241	366	504
Foreign currency translation reserve	-13	-20	-20	-20	-20	-20	-20
Net Parent Invest attr. to Parent Company	**77**	**129**	**178**	**277**	**387**	**512**	**651**
Non-controlling interests	10	11	15	15	15	15	15
Total equity	**87**	**140**	**192**	**292**	**402**	**527**	**665**
Liabilities							
Lease liabilities	264	248	264	270	288	310	384
Prov. for employees' end of service benefits	80	76	76	77	79	83	87
Trade and other payables	46	50	58	65	73	82	91
Deferred gain on derivative finan instrument	0	8	8	8	8	8	8
Deferred tax liabilities	0	0	0	0	0	0	0
Total Non-Current Liabilities	**390**	**382**	**406**	**419**	**447**	**482**	**570**
Bank facilities	25	7	14	14	14	14	14
Deferred gain on derivative financial Instrument	0	2	2	2	2	2	2
Lease liability	140	136	168	179	204	232	207
Income tax, zakat and other deduct. Payable	9	13	13	13	13	13	13
Trade and other payables	322	352	428	475	538	600	671
Due to related parties	22	24	29	29	29	29	29
Provisions for legal, tax and other claims	22	32	57	57	57	57	57
Dividend Payable	0	0	111	233	279	347	424
Total Current Liabilities	**539**	**566**	**820**	**1,001**	**1,135**	**1,293**	**1,416**
Total Liabilities	**930**	**948**	**1,226**	**1,419**	**1,583**	**1,775**	**1,986**
Total Equity and liabilities	**1,016**	**1,088**	**1,418**	**1,711**	**1,985**	**2,301**	**2,651**

Source: Company Information, FAB Securities research

Cash Flows

Year to Dec (USD, Mn)	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Cash flow from operating activities							
Profit for the year	**85**	**221**	**287**	**356**	**423**	**512**	**612**
Adjustments for:							
Depreciation and amortization PPE	215	209	239	281	332	378	427
Prov for employees' EOSB, net of transfers	8	10	11	12	14	15	17
Finance income	-1	-2	-7	-8	-13	-16	-20
Finance cost	30	23	25	28	29	32	35
Hyperinflation impact	-33	1	0	0	0	0	0
Other changes	1	-4	25	0	0	0	0
Operating cash flows before change in working cap	**305**	**458**	**580**	**669**	**786**	**922**	**1,071**
Payments of employees' end of service benefits	-17	-14	-11	-11	-11	-12	-12
Income tax paid	-6	-7	-15	-24	-34	-41	-49
Changes in working capital:							
Trade and other receivables	-9	0	-21	-15	-10	-20	-22
Due from related parties	1	0	-2	0	0	0	0
Inventories	-6	-11	-36	-4	-20	-21	-24
Due to related parties	8	1	5	0	0	0	0
Trade and other payables, provisions and other tax	8	42	84	53	72	70	80
Net Cash inflows from operating activities	**284**	**469**	**583**	**668**	**783**	**899**	**1,044**
Cash flows from investing activities							
Capex	-47	-101	-134	-164	-178	-194	-210
Proceeds from sale of property and equipment	1	1	0	0	0	0	0
Interest received on short term deposits	1	2	7	8	13	16	20
Loans to a related party	0	-64	64	0	0	0	0
Repayments of loans to a related party	0	0	0	0	0	0	0
Net cash outflow from investing activities	**-45**	**-162**	**-63**	**-156**	**-166**	**-178**	**-190**
Cash flow from financing activities							
Payments of finance costs	-1	-1	-1	-1	-1	-1	-1
Changes in non-controlling interests	-1	-1	0	0	0	0	0
Processed from bank facilities	0	0	7	0	0	0	0
Acq. of addn. shares in subsidiary from NCI	-15	0	0	0	0	0	0
Principal elements of lease payments	-111	-160	-144	-168	-179	-204	-232
Interest on lease liabilities	0	0	-24	-26	-28	-31	-34
Distributions to the Parent Company	-60	-130	-109	-111	-233	-279	-347
Move. in payments and impact of capital reorgan	-35	-15	0	0	0	0	0
Proceeds from issuance of share capital	0	0	0	0	0	0	0
Net Cash inflow/ outflow from financing activities	**-223**	**-308**	**-272**	**-306**	**-441**	**-516**	**-614**
Net (decrease)/ increase in cash & cash equivalents	16	-1	248	206	176	205	240
Foreign currency translation differences	0	-4	0	0	0	0	0
Cash & cash equivalents at the beg. of the year	156	172	174	422	628	804	1,009
Cash & cash equivalents at the end of the year	**172**	**167**	**422**	**628**	**804**	**1,009**	**1,250**

Source: Company Information, FAB Securities research

Financial Risk Management

Credit Risk

Credit risk arises principally from the Company's due from related parties

Credit risk is the risk of financial loss to the entity if a customer or counterparty to a financial instrument fails to meet its contractual obligations. AMR Restaurants suffers a loss if the customer or counterparty fails to meet its contractual obligations. The Company's credit risk exposure is mainly impacted by the individual characteristics of each customer, financial condition, past experience, and other relevant factors. Utilization of credit limits and outstanding receivables are monitored regularly. The maximum exposure to credit risk at the reporting date is the carrying amount of each of the above classes of trade and other receivables. Credit risk related to loans to a related party and receivables from related parties is considered minimal because management regularly monitors and reconciles related party balances and evaluates related parties to ensure that they have sufficient resources to meet obligations so that collectability is not considered doubtful. Management does not expect any losses from nonperformance by such related parties.

Liquidity Risk

The Company monitors and maintains a level of cash and cash equivalents through committed credit lines

Liquidity risk management requires holding sufficient cash and marketable securities, that funding is available through an appropriate amount of committed credit facilities, and that the ability to close out market positions exists. Due to the dynamic nature of the underlying businesses, AMR Restaurants seeks to maintain flexibility in funding by keeping credit facilities available. The Company's lease liabilities stood at USD 385 Mn in FY2021, declining from USD 403 Mn in FY2020. In 3Q22, lease liabilities stood at USD 411 Mn. The COVID-19 pandemic also impacted global and regional market liquidity. The Company's management is constantly evaluating the firm's liquidity position and undertaking required measures to mitigate this risk.

Market Risk

Market Risk is the risk associated with changes in exchange rates, interest rates and equity prices

Market risk is the risk arising due to the change in market prices, such as foreign exchange rates, interest rates, and equity prices that will affect AMR Restaurants' revenues or the value of financial instruments it holds. AMR Restaurants operates in multiple countries and transacts in various currencies that are not the functional currency of AMR Restaurants' entities. Foreign exchange risk arises from future business transactions, recognized as assets and liabilities and net investments in foreign operations. AMR Restaurants is exposed to foreign exchange risk arising primarily from the Kuwaiti Dinar ("KWD"), the Saudi Riyal ("SAR"), the UAE Dirham ("AED") and the Egyptian Pound, ("EGP"). The exchange rate risk to KWD, SAR, and AED is limited. AMR Restaurants' operation in Lebanon is exposed to the hyperinflationary environment. Despite all this, the Company's operation is not meaningfully impacted by the foreign exchange risk. AMR is not exposed to the price risk since it does not have any investment in traded equities. The Company finance investment in bank deposits and bank facilities is exposed to the interest rate risk.

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