

CASE STUDY



COMPANY SPOTLIGHT



Market capitalisation at time of purchase US\$340m	Market capitalisation at time of sale US\$445m	Industry Sector Restaurants
---	---	---------------------------------------

FOGO DE CHAO INC. (NASDAQ: FOGO)

Fogo de Chao is a chain of Brazilian steakhouse restaurants, more commonly known as churrascaria. At time of investment in 2016, it operated 42 company-owned restaurants, predominantly in the United States, Brazil and Mexico.

WHY DID WE INVEST?

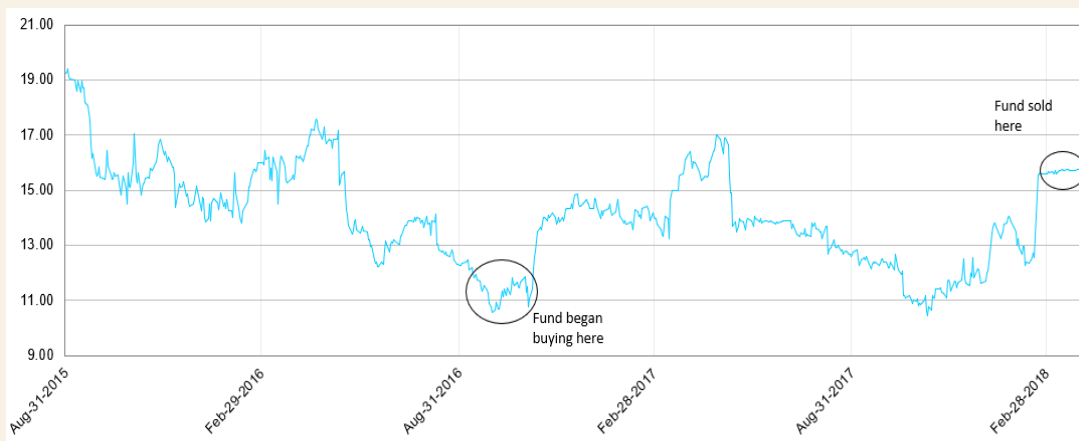
- Industry leading restaurant profitability metrics. In a Brazilian steakhouse, the chefs (gauchos) also act as the servers. Financially, this results in labour costs as a percentage of sales being 10 percentage points lower than other restaurant peers (circa 20% of sales v 30% peer average). As a result, at an individual restaurant level, the operating margins are close to 30% compared to 20% of restaurant peers.
- Rollout of restaurant network is significant, generating attractive return on capital. At the time of investment, the company had 42 company-owned restaurants. We believed that with the increasing appeal of the Brazilian steakhouse concept, Fogo could roll out another 60-70 stores over time with payback on capital invested in new restaurants at around 3 years.
- Trading at circa 10.5x 2016 PE ratio at time of our initial investment.

ENTRY PRICE

- Initially purchased shares in September 2016 and more in August 2017. The average entry price was US\$12.05.

*Past performance is not indicative of future performance. This is general information only and should not be construed or relied upon as legal, financial or professional advice. Accordingly, the recipient should seek independent professional advice as to the risk, financial, taxation and other implications of investing.

COMPANY SPOTLIGHT



Source: S&P Capital IQ

WHY DID WE SELL - TAKEOVER OFFER

- On **20th February 2018**, Fogo announced it had entered into an agreement to be acquired by private equity firm Rhone Capital for US\$15.75 per share, representing a 25.5% premium to the last traded price. The offer valued Fogo at US\$445m.
- Although the offer price represented a profit on our average entry price, we believe the business still had a long growth pathway in terms of rolling out restaurant sites over a 5+ year timeframe. The business was facing some near-term headwinds such as weakness in restaurant foot traffic in the US and Brazil, but these were cyclical in nature, not structural issues with the business itself.

INVESTMENT OUTCOME

- Average purchase price of US\$12.05 in 2016.
- Average sale price of USD \$15.75 in 2018.
- Gain (excluding dividends received), or 30.7% on our investment over a 19-month period.

*Past performance is not indicative of future performance. This is general information only and should not be construed or relied upon as legal, financial or professional advice. Accordingly, the recipient should seek independent professional advice as to the risk, financial, taxation and other implications of investing.