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news

Rosinter Plans Acquisitions, 'More Aggressive' Growth (Correct)

By Maria Ermakova and Ellen Pinchuk

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(Corrects stock's increase since IPO, company's market value, shares outstanding and RTS trading from 6th paragraph.)

Sept. 27 (Bloomberg) -- OAO Rosinter Restaurants Holding, the operator of T.G.I. Friday's and Benihana outlets in Russia, may make an acquisition next year and will accelerate openings as more eastern Europeans dine out.

Talks on a possible purchase are being held with two smaller groups and Rosinter expects to "have some results" by the end of 2008, the company's founder and chairman Rostislav Ordovsky-Tanaevsky Blanco said in a Sept. 25 interview in Moscow. About 50 restaurants will be added in Russia and central Europe this year and next year's openings "will be more aggressive," he added.

Rosinter opened its 200th restaurant last month, tapping rising consumer spending in Russia, where retail sales growth accelerated to an annual 16 percent in August. The country's dining-out market may reach \$12.4 billion in annual sales by 2011, a 7.7 percent increase from 2006, according to Euromonitor International, a London-based research group.

"It's a very solid economy," the chairman said, speaking at the company's Il Patio Italian restaurant in central Moscow. "We have a growing middle class that is willing and looking for opportunities to have a more comfortable life. That is also going out more often, and that trend is just beginning."

Russians spent an average of \$80.70 per person on food services last year, compared with \$422 in Germany and \$1,374 in the U.K., Euromonitor data shows. Russian spending may increase to \$88.90 by 2011 because more people can afford to eat out and "this relatively new culture is being adopted by a broader consumer base," the researcher's report says.

Share Offer

Rosinter raised \$100 million in an initial public offering in June to fund acquisitions and buy out minority investors in some of its units. As of Sept. 26, the shares had traded seven times on the Russian Trading System.

The stock has gained 34 percent from its IPO price to \$43, equaling the highest point of the stock sale's original pricing range and increasing the company's market value to \$517 million.

"The prospects are wide-open in that sector," said Brady Martin, an analyst at Alfa Bank in Moscow, who doesn't have a rating on the company. "There is not a lot of large organized players and that is positive for Rosinter."

Rosinter has 12,030,457 shares outstanding after Ordovsky-Tanaevsky Blanco's RIG Restaurants subscribed to about 2 million new shares with proceeds from the IPO. That share issue was completed on July 5, said Amin Muci, the company's head of investor relations.

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Most investors who bought Rosinter shares in the IPO have kept the stock, which has led to infrequent trading, according to Natasha Zagvozdina, an analyst at Renaissance Capital in Moscow. Some of the shares are traded over-the-counter in transactions that are not disclosed, she added.

The funds from the IPO will allow the company to finance expansion without having to take on additional debt, Ordovsky-Tanaevsky Blanco said. "We have sufficient funds to take us through unlimited growth for the years to come."

Rosinter has "an ongoing effort" to reduce debt, which reached \$70 million in 2006, he added.

The chairman said the company expects to keep "the same trend" in sales and earnings growth this year as in 2006. Profit climbed 30 percent to \$779,000 last year as revenue increased 32 percent to \$218.6 million.

Ebitda margin, or earnings before interest, tax, depreciation and amortization as a percentage of sales, will widen by a "couple of percentage points" to 15 percent this year because of reduced labor and food costs, Ordovsky-Tanaevsky Blanco said.

Nowhere to Eat

Rental costs are "the key expense" for the company as it rents most of the restaurants under short-term leases and faces rising rates, Alfa Bank's Martin said. A switch to long-term leases would help sustain profitability, he said.





Ordovsky-Tanaevsky Blanco, 48, a Venezuelan national with Russian ancestry, started Rosinter in 1990. The idea to open restaurants came after he first visited the Soviet Union in 1984 for a movie festival in the Uzbek capital of Tashkent and "couldn't find a place to eat," he said in the interview.


The restaurateur now has outlets in 24 cities in Russia, the former Soviet states and eastern European countries. About a fifth are operated by franchisees, a proportion that will rise, according to the chairman. The company plans to open its first outlets in Poland, Romania and Bulgaria by the end of next year.

More than half of Rosinter's outlets are in Moscow where its IL Patio, Planet Sushi and T.G.I. Friday's chains represented 18 percent of the city's casual dining in 2006, according to the company. Novikov Restaurant Group's Yolki-Palki chain of traditional Russian outlets is the closest competitor, accounting for 8.9 percent of the market. Casual-dining restaurants are defined as generating an average check of \$20 to \$70.

To contact the reporters on this story: Maria Ermakova in Moscow at ermakova@bloomberg.net; Ellen Pinchuk in Moscow at epinchuk@bloomberg.net.

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