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Weekly Briefing Report

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About the Weekly Briefing Report

I write the [Weekly Briefing Report](#) to provide an immediate view of the market. My premium service (which additionally includes Monthly and Quarterly Briefing Reports) provides a more in-depth view. Learn more and subscribe [here](#)

I value your feedback and I would particularly appreciate your thoughts on the topics you would like me to add to my coverage – contact me at peter@peterbackmanfs.com

The numbers

Money makes the world go round. But how to get some of it as an investment to give your world another push? The answer to this question is going to become pressing for many businesses in the foodservice sector. But there is a problem: the answer is changing.

Prior to the onslaught of covid, private equity had proved to be a wide-ranging, way to get investment into the restaurant sector. It was built on two complementary notions: one was the scalability of the model – the way to double EBITDA was to double the number of stores. The other notion was the ability of investors to flip their investment – to sell it on to another entity that, in turn, could see that it would be able to flip its investment in a few years by selling it to another investor. This dual-headed driver – scalability and flippability – financed both emerging and expanding restaurant businesses and enabled the whole sector to grow. But there was a fly in the ointment. Even before covid, some of the shine was wearing off this model - EBITDA was becoming less easy to grow (as a result of the overcapacity that the PE-based model induced), and investments became less easy to flip because investors were becoming warier (setting off a self-reinforcing cycle of reducing numbers of investors prepared to take a stake in the sector). And then covid threw all of this into focus.

So, back to my question: How to get investment on board? Becoming publicly quoted is one route (provided the business is large enough). Burger King UK has expressed interest in an IPO and Hostmore (owner of Fridays – formerly TGI Fridays) launched on the FTSE on 2 November. But there is only a handful of companies of sufficient scale to do this, and for some, such as Gigging Squid, BrewDog, and Hawksmoor, the time is “not now”.

Another route – and one I have written about before – is franchising. Two particular benefits of franchising are appropriate at this time: the brand can grow without significant investment from the franchisor, and franchising brings committed entrepreneurial “managers” into the business. This is a path well-trodden in the US but not (until recently) by UK-based franchisors. The number of brands that are following this route is growing impressively - Creams, Kaspas, Chaiwalla, German Doner Kebab and now they are being joined by Shoryu Ramen, Black Sheep, Shushi Shop, Pret a Manger and others. All of these possess significant keys to running a successful franchise: a relatively simple operating model – no fiddly cooking and dish preparation – combined with a strong brand identity. Until recently these have not been characteristics of many UK brands – but that is clearly changing.

Is PE investment in the restaurant sector dead? Is franchising going to take its place?

My insight

Masks. There is rumbling in the background that the government might introduce a mask wearing mandate in pubs should the “covid numbers” reach worrying levels. What would happen if it did? Last week I got out and about and my experience shed some light on the answer.

On Tuesday, I spoke to a classroom of international students at Le Cordon Bleu Cookery School; they were from many countries, and all wore masks, all the time. On Thursday, I spoke at a company seminar: no mask wearing. During the week, I travelled on the tube in the morning rush hour (the train was less full than in the “old days”): 99% were wearing masks. I also travelled in the evening rush hour (less full than before), and I also travelled later in the evening (as full as the rush hour): about 60% of my fellow travellers were wearing masks. I dined at a busy restaurant in the West End: no mask wearing apart from one waiter. In the streets (I walked from Mornington Crescent to Oxford Circus on a couple of occasions – I still have to lodge my “foot-miles”), about 10% were wearing masks.

So what conclusions can we draw? First, this is a small sample and therefore should not be viewed as “average” or “typical” – but in a generalised sense, I think it’s a broadly helpful view.

Second, and very obviously, mask wearing is not “standardised”. It depends on the location, and it depends on the demographics – some younger people (the students were in their twenties and early thirties as were many of morning rush hour travellers) wore masks a lot.

But (and bearing in mind the small sample) those in their early thirties to fifties (restaurant goers and conference goers) were much less likely to wear masks.

My overall conclusion is that mask wearing is not an issue for most people. The preference is to not wear a mask – it’s awkward, you may not be heard clearly, and the mask becomes rather sweaty after a while. But needs must. And I’d suggest that peer pressure (or at least common practice in the places where people congregate whether at work, in a restaurant, or in a pub) is a significant force.

So what does this have to do with hospitality in particular? Well, so the argument goes, government regulations requiring mask wearing in places where many people congregate indoors, in close proximity and in numbers, will discourage people from going to the pub. My judgement based on my observations, together with many caveats, would suggest that people will wear masks in pubs if required and if others do the same, but it may not impact the numbers too much.

I hope there is no mandate – and, if there is, I hope I’m right about consumers’ behaviour.

While we wait to see what happens, here are the latest numbers from Open Table:

	November						
	1	2	3	4	5	6	7 Metric
Open Table	9%	12%	13%	18%	16%	26%	YoY % change in bookings vs 2019

The rest of this report contains a summary of corporate and other activity over the past week:

News in the past week

Financial & Legal

- Deputy chief medical officer for England recommends mask wearing in pubs
- ONS reports 3% of furloughed people made redundant at the end of the Job Retention Scheme

Restaurants

- Nando's plan to be carbon neutral by 2030
- Hawksmoor plans to be carbon neutral by 2022
- Beefeater launches '74 BBQ sauce for take home sale
- Fulham Shore revenues increased 3% versus 2019 in October

QSR

- McDonald's restricts availability of Chicken Legend because of supply chain issues

Pubs

- Nightclubs in Northern Ireland reopened
- Nightcap sales rose 68% in the quarter to end September versus 2019
- Daniel Thwaites sales rose 119% in the half year to end September versus 2020

Leisure

- Brighton Pier Group sales for three months to end September rose 44% versus 2019 and 145% versus 2020
- Ten Entertainment LfL sales up 30% in the half year to end September

Delivery

- Deliveroo vegan orders up 105% since World Vegan Month – November 2020
- Jamie Barber launches My Supper meal kit delivery

Suppliers

- Carlsberg organic growth was 7% in the latest quarter
- Molson Coors sales rose 1.0% in the latest quarter

Around the World

- McDonald's sales rose 10.2% in the latest quarter versus 2019
- Papa John's International same store sales rose 8.3% in the latest quarter

Around the World Delivery

- Just Eat orders rose 64% in the latest quarter

- Deliveroo orders rose 34% in the latest quarter
- Uber delivery sales rose 50.0% in the latest quarter
- Hello Fresh revenue rose 45.9% in the latest quarter versus 2020

Delivery offers in the week

- Deliveroo: Get £7 off your next order
- Deliveroo: 20% off vegan Pret on World Vegan Day
- Deliveroo: 25% off vegan faves from Pizza Express on World Vegan Day
- UberEats: 30% off from McDonald's
- UberEats: 50% off your first groceries order