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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

I've been taken to task over the past week, and I want to address those comments. They concern what I wrote under "My Insight" in my last Weekly Briefing Report. I had commented on the state of the foodservice sector in the run up to Christmas and ended with some general comments but with nothing specific – no percentages or market size numbers, for example.

It's still too early to provide definitive answers but information is starting to come through, so I'll have a go at providing some initial numbers. There are many problems with this though. For a start, information is currently partial – it only covers some parts of the market, or some types of operator, for example. Some of the data nominally referring to December may include a part of November, or the first week in January. A useful source – actual sales figures from named operators – are generally missing at this time of year and will arrive over the coming months, or perhaps not at all. And there are always questions over definitions. Some reports may talk just about pubs and restaurants, or hotels, or contract catering; they may exclude schools, or hospitals. They may include booze that is not associated with food (a large market in pubs for example) but which, I constantly argue, is not "foodservice". With that in mind, my comments concern the foodservice market – that is: the market for food and associated drink, from Wormwood Scrubs to The Ritz.

So with those concerns off my chest, what do I think of the performance of the foodservice market in December? I've spoken to operators, I've spoken to suppliers and I've reviewed many published comments and measurements of the market in the month.

Overall, I think sales were down -20% to -25% compared with December 2019. But some sectors were broadly unchanged – health care, and education for example. Others were very badly hit earlier in 2021 and they certainly didn't improve in December – the leisure sector, feeding at work, and much of the hotel sector – were down perhaps -40% in the month. Business was ahead of 2019 in the QSR sector (takeaways, fast food, food to go etc) driven by the growth of delivery. That leaves food sold in pubs, and restaurants which were down perhaps -25% in December – better in the early part but worse in the last couple of weeks of the month. And that slowing trend has continued into 2022.

As for the overall picture? The market – both sales to customers and purchases by operators - was down -15% to -20% or so compared with the last pre-covid December two years ago. The picture has been helped by inflation, so volumes – meals served and quantities of food purchased – show lower numbers. That's my preliminary assessment. Watch this space for further analysis.

## My Insight

What will the restaurant look like in five years' time? Or in ten years? Well, of course, we don't know but after nearly two years of massive disruption which itself followed ten years of huge change, it may be useful to start speculating on what might be.

The first point to note is that I'm talking about restaurants – not food to go, not pubs, but places for which the majority of their income is from the sale of food, where you are served at a table, where you probably pay for the meal when you leave and where you probably have the option of having an alcoholic drink with your meal.

The second point to note concerns the types of changes that have occurred (especially following the last reset, after the Lehman banking crisis and subsequent recession). I'd comment, especially, on the overall weight of private equity investment as a driver of restaurant-sector growth. I'd add to that, the consequent rapid expansion of chain operators (rather than individual operators), whose growth model – which had huge appeal for investors - was predicated on opening ever more stores. In hindsight, it became apparent that this growth came at the expense of quality of service, quality of their menus, and quality of surroundings.

In other words, private equity - the preferred style of funding in the last ten or so years - drove change and expansion. But the ultimate end point was (and covid made this very obvious) overcapacity – too many tables chasing too few customers – offering inadequate value to the customer.

Private equity has noted what happened and has drawn its own conclusions. Most funders, except those with particular skills or insights, have turned away from the restaurant sector. And I think, will not return until the ills of the last decade are a distant memory.

That means that, while private equity will continue to provide funding for the next generation of restaurants in this country, operators are going to have to pay much more attention to alternative sources of funding. We're already seeing the re-emergence of "trade" funding (the preferred model up to the early years of this century) epitomised by EG Group, Boparan, The Restaurant Group, Big Table Group – I suspect we'll be seeing more of this. And I have also mentioned, on more than one occasion, the potential for growth via a franchise model.

And so, just as private equity funding drove the nature of restaurants over the last ten years, future sources of funding will drive the type of restaurant over the next ten years. What are those "types of restaurant"? That's a question I'll leave for another day when there is more space to set it out.

But I think two things to look out for will be, first, offers of genuine quality and value – they will have to be created to meet the aspirations of customers whose lifestyle preferences are being changed by covid. Second, an important leitmotif will be simplicity; this will become desirable for a variety of reason, not the least of which is the ongoing need to run an individual restaurant, or a chain, on the available management and operational resources which have become sorely stretched by covid (and Brexit) and which, I suspect, have settled in for the long term. And a beneficial consequence of this push to simplicity will be lower running costs, and the opportunity this will provide to focus on delivering value for the customer – and the investor whoever, or whatever, that is.

The rest of this report contains a summary of activity over the last week:

## News in the past month

### Retail

- Retail footfall in December fell -18.6% versus 2019 according to Springboard

### Restaurants

- UHY Hacker Young reports losses up 174% amongst top restaurant operators in year to end September
- Whitbread restaurant sales fell -11.1% in the September to November quarter; total UK sales rose 13.1%

### Pubs

- Mitchells & Butlers LfL sales fell -10.2% in the four weeks of the "festive season"; LfL sales down -6% in the seven weeks to early January
- Nightcap revenue up 46.2% in the six months to end December

### Hotels

- ONS reports investment in the hospitality industry up 8.9% in Q3 2021; investment in hotels fell -2.5%
- Hotel occupancy in London at 53.4% in December

### Leisure

- Cineworld revenue down -11% in December versus 2019

### Staff Feeding

- Sodexo sales of vegan and vegetarian meal options were 10% of food sales in the year to November 2021

### Around the World

- SSP operating internationally  at airports where flights were -14% below 2019 - Flight schedules see Omicron impact, but good recovery in prospect through calendar Q2

### Around the World Delivery

- Just Eat Takeaway orders were up 33% in 2021 versus 2020; GTV (Gross Transactional Value) rose 17% in the last three months of 2021
- Flipdish announced plans to hire 700 people in 2022

### Delivery offers in the week

- Deliveroo:     20% on Thursday
- UberEats:     30% off from McDonald's