Peter Backman.

# Quarterly Briefing Report

Q4 2021 October - December

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### Introduction

I launched the Quarterly Briefing Report to satisfy the widespread need for factual information about what has happened recently in foodservice and its supply chain and how things will pan out over the short term. At the start of the covid lockdown I launched my free Weekly Briefing Report and more recently my Monthly Briefing Report which, with my Quarterly Briefing Reports, is now available as a premium subscription service.

Please visit www.peterbackmanfs.com for further information about how I work, or contact me on +44 (0)844 800 0456 or peter@peterbackmanfs.com

### Headlines

The end of one year. The start of another. It's time for reflection – and looking forward. A time for taking stock.

First then, what is the context? In answering this question I doubt that I'm saying anything you don't already know but I think it's helpful to explain the background to my thinking which underlines the forecasts later in this Quarterly Briefing Report.

There is a general feeling in the UK, fostered by politicians, that perhaps the worst is behind us. And this feeling suggests that while difficulties and challenges remain, they are not going to be as daunting as what we have gone through over the past eighteen to twenty months. Covid is not "beaten" (it probably never will be) but its effects seem, at last, to have become manageable.

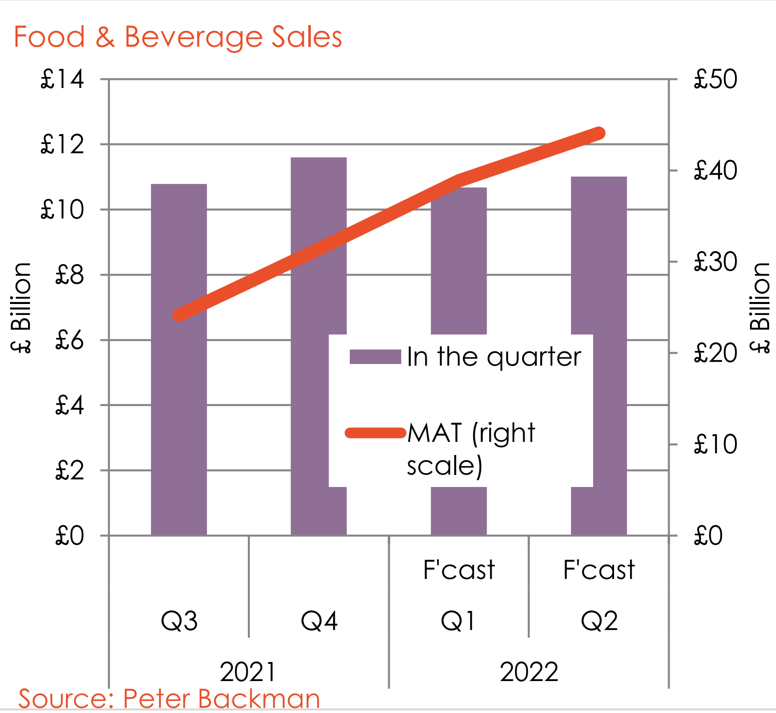
This comforting view comes with a big proviso. And that is that new variants do not emerge – delta took hold of many people's lives, and then omicron took hold of more people's lives but less severely. What's to say there won't be another along soon? The next "variant of concern" (which ignores all those variants of little or no concern) may combine the lethality of delta with the vast spread of omicron (or it may not combine these two aspects). What seems reasonably clear though, is that the political, social and economic actions necessary to contain the implications of the spread of a virus are now measurable and in the best cases the necessary mitigating measures can be deployed. And in that respect, I'd just add a cautionary note regarding the recent emergence of a sub-variant of omicron – BA.2 – which seems to be more contagious than omicron itself – and which is being transmitted amongst schoolchildren especially. That's not to suggest that the effects of new variant will be benign, but at least the necessary mitigating actions seem to be known and available.

On that score, we have a good goalkeeper to keep out covid attacks. But goalkeepers sometimes let goals in.

I think this underlying picture is broadly valid across the UK economy (and many others too – but by no means all). And human nature being what it is, the general view seems to pick up the positive messages – "Covid may be 'beaten'" – and severely downplays the negative – "But it may return". The odds on the latter are fairly high but in that case, so the general mood seems to say: "It'll be OK. Maybe we'll have to wear masks again for a while but let's not get too upset about that right now". Is that too rosy an outlook? I don't know but it seems to be what people are thinking in the UK.

The implications of this are felt personally, economically and politically. I'm not going to comment on the politics in this country except to say that at the time of writing they are especially fractious and have the potential to take off in unknown directions. A cause of potential instability which I suspect makes people's decision making somewhat fragile. But not of hugely significant note regarding what consumers do.

Stepping away from covid specifically. the global political scene is also in a state of some turmoil and what happens at that level might have implications for the foodservice sector. But, for now, I shall assume they are immaterial.



Source: Peter Backman

On the economic front, there are pressures that have arisen from covid, or at least have been exacerbated by the virus. They include inflation – which is going to loom even larger over the coming months. Pressures also include a reduction in the cost of living (which is, of course, closely related to inflationary pressures, with energy costs leading the way, plus other pressures on income – higher NI contributions for example). And supply chain issues came to the fore during 2021; although they are being managed they are still an issue especially for the "just in time" economy, and in their impact on consumer choice (because things, having been subject to supply chain delays, may not be available for purchase).

These pressures are feeding through to consumers and are resulting in uncertainty, fractiousness, lower spending (and no doubt other issues which have a negative impact on eating out and many other areas of expenditure).

These pressures also feed into what operators and their suppliers are doing. They constrain their ability to invest, innovate and grow. And for operators in government-funded sectors – health care, education etc – money is in short supply and will become scarcer while demand grows.

As I say, probably none of this is novel but it forms a basis for looking at the world of foodservice which I'm going to describe.

## What happened this time last year?

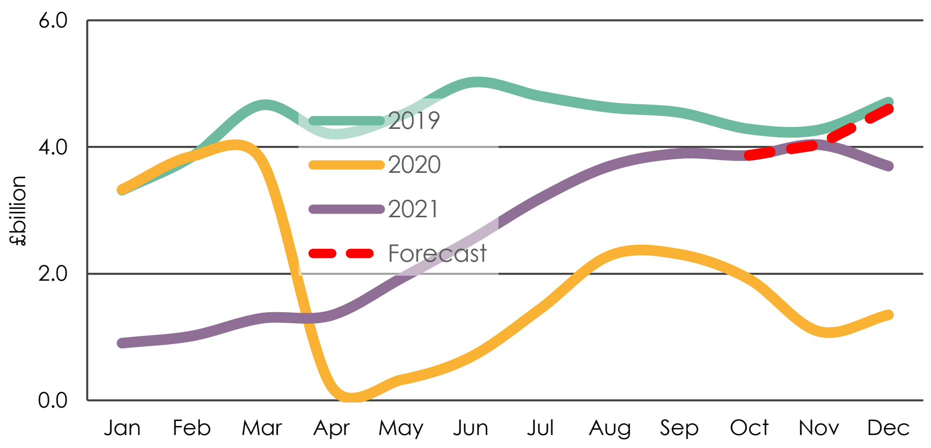
- Vaccines were starting to be rolled out with over nine million (first) doses having been given by the end of January
- The nationwide tiering rules that were in place meant that, for many operators, sales were limited to delivery

- Anything related to leisure and travel was, in effect, closed during January.
- Schools reverted to online teaching obviating the provision of school meals except for vulnerable pupils
- Many landlords, suppliers and operators had a hole in their P&L where there should have been sales and cash.
- Operators were facing the ending of the lease forfeiture moratorium at the end of March

## The last quarter

The most significant thing that happened in the last quarter of 2021 (October to December) happened in the last three or four weeks. The way that the omicron variant operated - How transmissible? How lethal? - was unknown. Consequently, according to the so-called Plan B, severe restrictions were placed on activities where people came into close contact with one another or were in contact with many others. And that, of course, is an almost perfect description of hospitality.

Food and beverage sales - compared annually




Source: Peter Backman

This meant that in the early part of the quarter, Christmas appeared to be within touching distance of 2019, with office and social parties to the fore, and generally elevated levels of demand helped by inflation. This promise was curtailed at extremely short notice, with the rushing onset of omicron.

Cancellations flooded in leading to disappointment, wasted food, lost revenue and a returning feeling of helplessness in many sectors. This was especially so for restaurants, pubs and hotels, which rely on the Christmas to generate substantial amounts of revenue which, amongst other things, usually tides them over poor trading in January and February. With overall foodservice demand down by about £800 million compared with my earlier forecasts prepared in October, this cash was not forthcoming and left a huge hole where the financial support should have been.

Other things were happening during the pre-Christmas quarter too. Supply issues, while still present and showing few signs of diminishing, were at least being managed. Product ranges were being tightened to restrict choice, and marginally increased volumes of products actually stocked were easing the situation, severe blockages at ports and on the roads were being eased. It wasn't perfect but it was getting better.

Alongside this, and as I have already said, inflation was taking hold. Standing at over 5%, the consensus is that it's going to go significantly higher. And should inflationary expectations become embedded in the economy – government-funded benefits rising in line with inflation, wages and salaries also being raised - the results will be an ongoing inflation. And since this economic environment is unknown to most managers they are probably inexperienced in the decisions that they need to make. This is a real danger - but may not come to pass. Let's hope it doesn't

## Moving into 2022

So here we are. Covid is felt to be under some sort of control (at least in the UK). Foodservice and hospitality have been through a gut-wrenching December. But before that there was some optimism. Supply chain issues, while still significant are tamed, sort of.

The outlook therefore may be a bit brighter. Easter is on its way (and so is Valentine's Day). Then there's warmer weather to look forward to. And, for now, maybe we can beat the inflation monster as well.

### A dark cloud

There is a dark cloud on the horizon though, for restaurants, and to a lesser extent pubs, hotels and the leisure sector generally. As I have commented before, in my Weekly Briefing Report, April brings, with it, a number of challenges.

VAT is due to rise from 12.5% to 20% and as it does it will tend to reduce demand. Depending on how much is passed through into prices (and my feeling is that most of it will because it has to; operators have very little ability to absorb additional costs of this magnitude), operators will feel some pain – either on the top line or in costs or, most likely, both.

At the same time, employment costs will rise With National Insurance due to be increased, employees may demand a salary increase too, and in any case employers have their portion of NI increases to pay. The National Minimum Wage, too, is set to rise.

And the rent moratorium, which has limited landlords' ability to pressure their tenants to pay outstanding rent, is being removed. Overdue rent will have to be paid. Demands for unpaid rates will further squeeze balance sheets.

These pressures taken together suggest that weaker (maybe even stronger) businesses will be under severe strain. This further suggests that there will be corporate failures. Although they have been lower than forecast throughout the pandemic, this time round might be different.

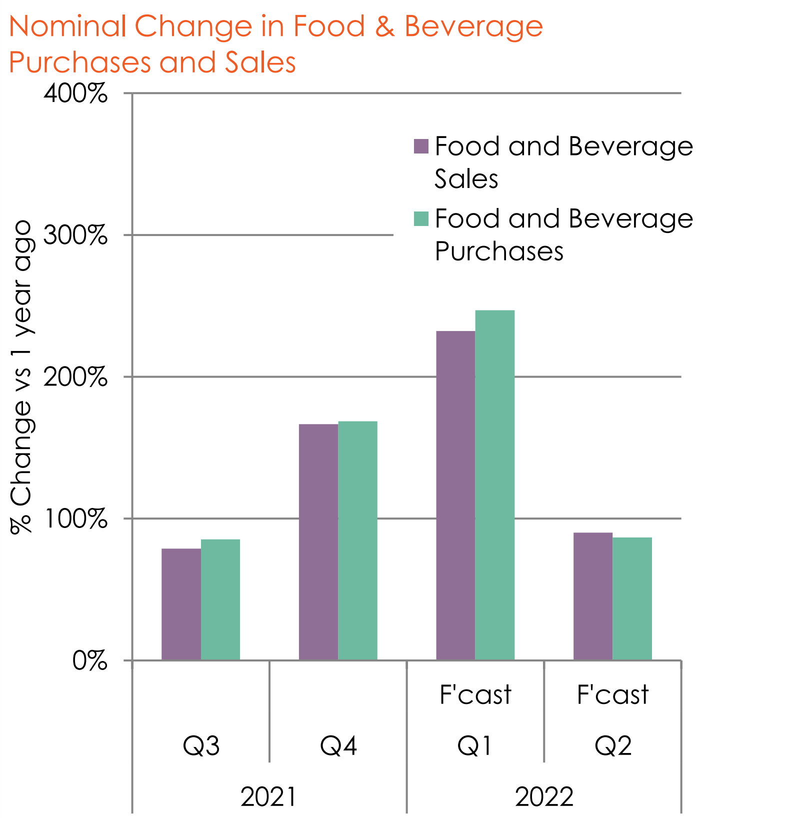
### Travel

Another factor will come into play too, and it appears in several guises under the general heading of travel.

The first guise is international travel – whether business or leisure-related. Easing (or not) of covid restrictions and testing requirements will act to open up the international travel market, although for reasons which I'll come onto in a minute, this is more likely to be for holidays than business.

If (or more likely, when) holiday makers return there will be more business in hotels that cater for overseas holidaymakers (notably in London and other destination towns). On the downside, Brits who have been staycationing for the last couple of years will start to go abroad for holidays once again. Hotels, restaurants, pubs in areas of Britain that have catered for this increase will see a reduction this summer, and into the future. However, these considerations are beyond the forecasting timeframe of this report.

Business travel is different I believe. Covid has taught people how to conduct business at a distance, and while some meetings and events will have to be conducted in person, I am sure that a significant share of such events will be conducted online for a long time to come. Sectors which will fall foul of this evolution include business hotels, businesses that cater for events, conferences, trade shows. They will see lower numbers than prior to covid. While there are reasons for believing that people will value such events, the numbers attending may be lower. Adjustments will have to be made.



Source: Peter Backman

A third element covered under the heading of "travel" is travelling to work. Another lesson learned from covid is that many people value the opportunity to work from home – some of the time or all of the time. And it appears to me that the return to the office, which has been given the starting pistol with the ending of Plan B this month, will see numbers returning to the office. But not everyone will return. My working hypothesis, shared by many others, is that numbers going to the office on any one day will settle down at about 80% of pre-pandemic levels. And I've used that in my forecast although time will show if that percentage is the correct one, and whether it drifts upward in recognition of the fact that perhaps working in the office has benefits that warrant the drift. Or perhaps numbers will drift down as the benefits form this new style of hybrid working take further hold.

Whatever happens though, in the short term covered in this Quarterly Briefing Report?

My working assumptions are that numbers travelling to the office will be down on 2019 and some sectors – contract catering, coffee shops, lunchtime sandwich shops, restaurants catering for business lunches – will see less of an increase than other sectors.

## Delivery

Delivery continues to provide a lifeline for many businesses.

Some restaurants, noting the return of seated diners, have rowed back on delivery because of its negative impact on levels of profitability, and because preparing delivery orders at busy times impacts negatively on service levels for seated diners.

Some pub operators have finally embraced delivery, but others are still holding back or deciding not to do anything meaningful. QSR operators, on the other, are not equivocating but have fully embraced delivery. Even contract caterers are looking at how to combine delivery with their normal meal services.

These different directions for delivery are set to continue for a while I think. However, in total they mean that while demand is growing, its rate of growth is slowing.

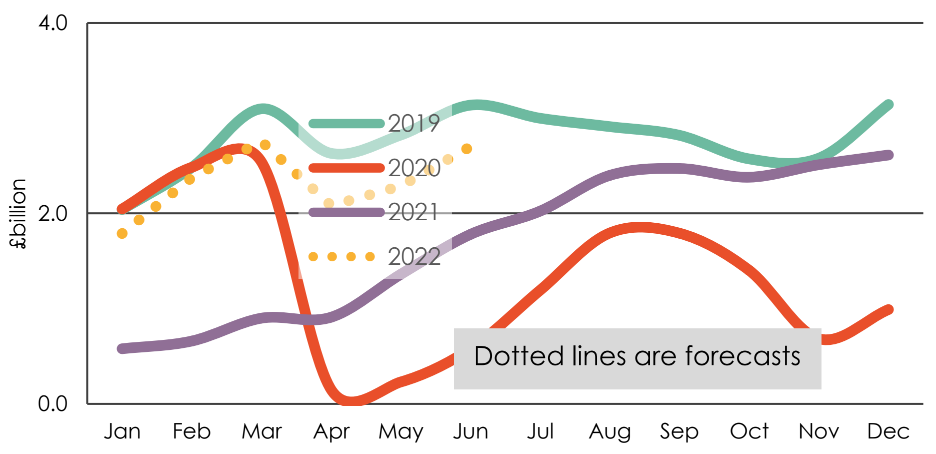
In the meantime, dark kitchen operations continue to grow with several developments - such as Wendy's plans to open in hundreds of sites – making headlines. I suspect dark kitchen numbers will ramp up during 2022 as operators, QSR operators in particular, indulge in a race to ensure that they are not left out.

## Sector Review

In these reports, I often provide detailed sector reviews especially when changes have been large or otherwise notable.

This past quarter and the next to arrive, with one significant exception, are periods of some sort of normality (albeit beset by the supply chain and other issues I've noted). Comparative trading levels have been positive, and will continue to trend upwards, delivery will continue to grow but at a slower pace than in 2020, and people will be moving around a bit more.

F&B sales - Restaurants, QSR, Pubs




Source: Peter Backman

The exception to this occurred in December and since I have already commented on it, I don't intend to do so again except to note that it has had effects.

Instead of a detailed analysis, I will just set out changes in the past quarter and in the next couple under bullet points:

- Restaurants are returning to some form of normality. I have noticed an upsurge in some smaller business that match the spirit of the time – catering for dessert occasions, or offering modestly-priced meals all day for example. I expect this pattern to continue over the coming two quarters
- Quick Service is becoming more transactional – with an emphasis on food to go (with minimal in-store prep), click & collect, walk-in takeaway, delivery, rather than providing the opportunity for socialising as well. While this has been driven by covid, I suspect it is a trend that is here to stay (at least for a while)
- Pubs have suffered whenever lockdowns (or tiering or Plan B or whatever other names are used) have been in operation. If (as I hope) these will not be feature during the next couple

of quarters, I suspect pubs will see an upturn in business as people return to their old haunts, and as holidays and warmer weather approach

- Hotels have seen changes to their business (as I have noted above under 'Travel'), but business is generally subdued, and I can't see any reason why that won't continue for at least the forecast period
- Leisure, like hotels, has seen changes in its business but with warmer weather and fewer (or no) restrictions, I think this sector is destined for a bounce back as summer approaches
- Staff Feeding is at the mercy of whatever happens in regard to working from home. Given the assumptions I have set out above, I think demand will stay low. Contract caterers are, at last, becoming aware of the opportunities presented by delivery but there is still some way to go before it makes any meaningful impact on their business
- Health care has been operating at fairly normal levels throughout the pandemic – and I see no reason for that to change
- Education (and Public Services) have also traded fairly normally over the past year or so although they have been impacted by waves of covid affecting pupils. As the covid pandemic recedes (and I've set out my views on this above), the ups and downs in demand will become fewer and less disruptive.

## The last quarter in conclusion

Here are my headline numbers for the entire foodservice market and its supply chain:

1. Total food and beverage sales in the last quarter of 2021 - were £11.6 Billion – but would have comfortably exceeded £12 billion if Plan B hadn't had such a significant impact on December trading

2. Food purchases by operators rose faster than sales – adding an additional squeeze to already stretched balance sheets

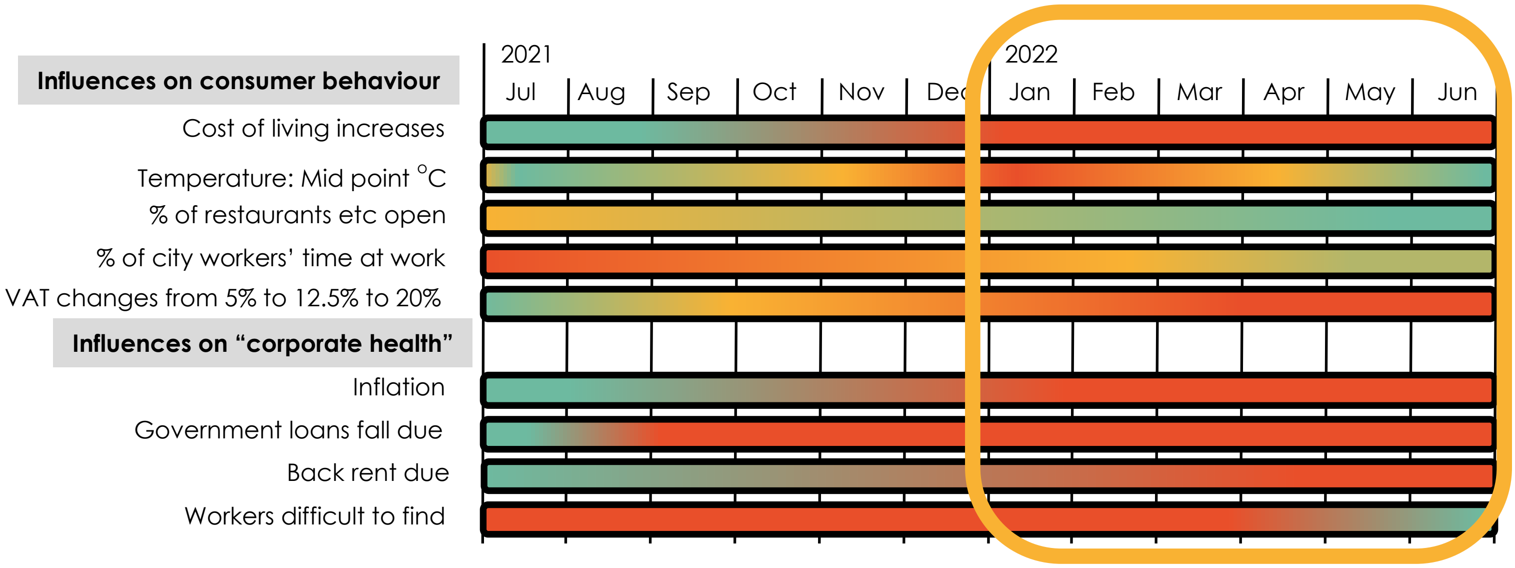
3. Current year on year growth of food and beverage sales, being compared with weal comparative figures in prior periods,  is still very high. But as weaker comparatives drop out, growth rates will start to converge on more 'normal' levels

## The future – Q1 and Q2 2022

### The Heatmap

The Heatmap is mainly red highlighting the continuing negative conditions facing operators.

These include the VAT increase and the ongoing difficulties in finding workers plus the increased costs due to arrive in April, the ending of the rent moratorium, inflation – and the cost of living rises that will impact consumer expenditure




As I noted in the last Quarterly Briefing Report, this pattern suggests a growing market in which individual businesses may show signs of distress and failure. Despite the likely increase in operator costs (and their impact on balance sheets) and squeeze on living standards (which will impact expenditure in general), I am currently taking the view that the foodservice sector will find its way through these negatives because consumers will increasingly want to eat out (and will focus more on this than on higher cost items as their costs of living increase.

With all of that in mind, my summary of consumer sales, and operator food purchases show a growing market – modest on a quarterly basis, more robust when measured annually.

Highlights of the coming two quarters include:

- Some sort of return to some sort of normality all round
- Warmer weather, and Easter, will provide a welcome boost in demand in restaurants and pubs (and possibly, though muted, in Hotels too)
- However, the pressures I've already noted will cause some anguish to operators in these sector

| Quarterly Trends | | 2021 Q3 | Q4 | 2022 Q1 F'cast | Q2 F'cast |
|---|---|---|---|---|---|
| **Food and Beverage Sales** | | | | | |
| In the quarter | £ Billion | 10.8 | 11.6 | 10.7 | 11.0 |
| MAT (right scale) | £ Billion | 24.1 | 31.4 | 38.9 | 44.1 |
| % change vs 1 year ago | | 79% | 167% | 232% | 90% |
| **Food and Beverage Purchases** | | | | | |
| In the quarter | £ Billion | 3.8 | 4.3 | 4.0 | 4.1 |
| MAT | £ Billion | 8.7 | 11.4 | 14.2 | 12.6 |
| % change vs 1 year ago | | 85% | 169% | 247% | 87% |
| **Food purchases** | | | | | |
| In the quarter | £ Billion | 2.5 | 2.6 | 2.5 | 2.9 |
| MAT | £ Billion | 6.3 | 7.7 | 9.2 | 10.4 |
| % change vs 1 year ago | | 77% | 123% | 161% | 67% |

Source: Peter Backman

## Summary

As always, I produce short term – monthly - data for each market sector, distribution channel, temperature etc. Contact me if you want to access relevant data for your business – to benchmark your existing performance, or to help you assess what your future prospects look like.

## Industry news

In my Weekly Briefing Report, I include relevant industry news that relates to the current week. Below I have listed the news items that generally cover a longer time period.

### Landlords

- Boxpark turnover fell -55.3% in the year to end April 2021

### Restaurants

- Glendola Holdings sales fell -93% in the year to end March 2021
- Hakkasan Group sales fell -74.1% in calendar 2020
- Rockfish sales fell -43.0% in the year to end April 2021
- Richard Corrigan sales fell -75% in calendar 2020
- Catsteps Cafes (The Breakfast Club) sales fell -51.9% in the year to end March 2021
- Ottolenghi sales fell -39.2% in the year to end March 2021
- Thai Leisure Group sales fell -57.6% in the year to end January 2021
- Paul UK sales fell -52.9% in calendar 2020
- MW Eats sales fell -78.1% in the year to end March 2021

### QSR

- Leon sales fell -56.8% in calendar 2020 versus 2019
- Lola's Cupcakes sales rose 3.8% in calendar 2020 versus 2029
- Wimpy UK sales fell -19.7% in the year to end February 2021

### Pubs

- Hydes' sales fell -71% in the year to end March 2021
- George Bateman sales fell -59.8% in the year to end January 2021
- Harvey & Son sales fell -49% in calendar 2020
- Wellington Pub Co sales fell -33.6% in the year to end March 2021
- Three Cheers Pub Co sales fell -60.6% in the year to end March 2021
- Palmers Brewery sales fell -49.6% in the year to end March 2021
- Hidden Talents Group sales fell -56.8% in the year to end March 2021
- Tynemill sales fell -78.2% in the year to end March 2021
- Joule's Brewery sales fell -74.2% in the year to end March 2021
- Punch Pubs & Co revenue fell -18.8% in the year to end August 2021
- Laine Pub Company sales fell -13.0% in the year to mid-August 2021
- City Pub Group sales rose 37.2% in calendar 2021

### Hotels

- Gleneagles Hotel sales were down 63% in the year to end March 2021 pro rata to the prior year
- Mogford Hotels sales fell 53.0% in calendar 2020 versus 2019
- The Savoy sales fell -82% in calendar 2020

- Lake District Hotels sales fell -45% in the year to end March 2021
- VUR Village Hotels sales fell -59.9% in calendar 2020
- Richardson Hotels sales fell -56.0% in the year to end March 021

## Leisure

- Virgin Active sales fell -59% in calendar 2020
- Heathrow airport passenger numbers were down 76% in calendar 2021
- Junkyard Golf sales fell -72.8% in the year to end March 2021
- Everyman Cinemas sales fell -75% in 2021

## Delivery

- Just Eat Takeaway GTV rose 31% in calendar 2021

## Suppliers

- Fever-Tree Drinks sales rose 15% in the UK in calendar 2021

## Around the World

- Deliveroo GTV rose 36% in calendar 2021 in UK & Ireland
- DP Eurasia revenues rose 40.6% in calendar 2021

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