WEEKLY BRIEFING REPORT

Week ending 21 August 2022

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About the Weekly Briefing Report

I write the Weekly Briefing Report to provide an immediate view of the market. 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

My Premium Briefing Report service includes Monthly and Quarterly Briefing Reports; they provide a more in-depth view than this Weekly Briefing Report. I offer a choice of monthly and annual subscriptions. You can subscribe here.

My insight

Last week, I was talking to Jamie Barber, the successful restaurant investor, entrepreneur, and creator of Cabana and Hush. He asked for my opinion on what is keeping the restaurant industry awake at night (they weren't his words, but they encapsulate his question).

I replied to the effect that it's three things: inflation, staff shortages, and the growing credit squeeze on consumers with the implication that they'll be spending less on eating out. Jamie added a fourth, larger and arguably overriding, concern: rising energy costs. I replied that I'd included them under my portmanteau heading of 'inflation'.

Now this is when the conversation took an interesting turn. Because, so said Jamie, the nature of the energy price rises is fundamentally different from the other inflationary pressures such as those affecting food, drink, and staff wages. The price rises for these are manageable to a degree. But the impending rises for fuel, and energy, are huge, unmanageable, and they threaten the very existence of restaurants and pubs.

And then, over the next few days, I began to see the truth of that; I received quotes like these: "Energy is going to cost more than our rent" and "My fuel bills are going to go up from £30,000 to over £150,000". And then there is this frightening quote from a pub operator whose energy bills are set to rocket: "Our trade is high risk, so a lot of providers do not want to take us on". In other words there is no way out for operators in this position. Energy cost inflation is going to affect the very existence of some operations. Now, as covid has shown, existential threats are not new for the restaurant sector. But in the days when the pandemic was new, everybody was in the same boat, and there was some forgiveness – some landlords did their bit by forgoing rents and suppliers didn't always call in unpaid bills. And the government also helped.

But right now It seems that restaurants are going to have to live with high, and potentially business-threatening, increases in energy prices. Some restaurants will be able to get through: large companies that have been able to forward buy their energy will be insulated from price rises during their contracts, and with luck they might find that prices have turned down by the time they negotiate their next contract. And there is some talk about government-backed grants, and holidays for VAT and business rates. But there is no certainty.

Most restaurants are on their own. And so I now ask the question that I posed during the first stages of covid, how will they survive? For some the answer, regrettably will be: they won't.

The numbers

It's two years ago, this month, that the Eat Out to Help Out scheme was underway in an attempt, fostered by the government, to kick start the restaurant sector. Little did we know that it would be another eighteen months of lockdowns, the Rule of Six, Plan B and tiered restrictions, before the sector could genuinely be felt to be coming alive again.

In one of My Weekly Briefing Reports, on 13 September 2020, I asked "Did the EOtHO scheme meet its objectives (of kickstarting the restaurant sector)?". After some discussion of the evidence, I concluded "I think not". And this was despite the government having spent substantially more than half a billion pounds with over 90,000 restaurants at an average spend per diner of £10.56.

And what has happened, since then, to those businesses that participated in EOtHO? What about those that didn't qualify for the scheme because they only offered delivery and takeaway? And what about pubs which couldn't take part because they had to remain closed for social distancing reasons? As a way of answering those questions, I've been keeping a close eye on changes in my local high street – and although it's a tiny sample, it might give some insight into what has happened in the wider world over the last twenty-four months.

First off, at the start of EOtHO, there were four zombie restaurants in my high street – they'd been shut for a while anyway (and they still are). But there were a dozen other restaurants that were open for business – two had decided to offer delivery and click and collect only, and so didn't qualify for the scheme; but nine others did, and they still operate today, three of them now under different names and with the benefit of some capex in the last few months. And one restaurant, that had extended over two shopfronts, has now been split into two. Three restaurants, perhaps bravely, opened during EOTHO and two are still operating – although one has been sold, rebranded, and refurbished in the intervening months. And three totally new restaurants have opened in the last few months – one in a former bank, one in a former hairdresser, and one in a former pound store.

This list doesn't cover the dozen or so fast-food outlets and cafes which remained open during EOtHO, and which are still operating today. And I find it really noteworthy that these stalwarts have been joined by five new cafes. Nor does the list include the new bar – and another that has been total refurbished – that have been opened in the last nine months to join the three pubs that have been around for generations.

And as for the diners themselves, I checked what was happening last week: their numbers were down over 50% compared with the same days during EOtHO. But that was not necessarily comparing like with like when the numbers were high in the first week of EOtHO but fell in the second week. And remember that last week was quite wet – the weather during EOtHO was bright and warm.

This pattern, of change coupled with stability, is probably not very different from what would have happened during any other period. Given the ravages of covid, the newly opened restaurants and quick service outlets provide a sign of confidence for the future. But whether the demand is there, and whether they are adding to a new wave of overcapacity, remains to be seen.

But for now, despite the tough times – due to get tougher - there are signs of promising activity.

The rest of this Weekly Briefing Report provides a summary of the limited news in the past week:

News in the past week

Finance & Legal

- Lloyds Bank reports that UK tourism and recreation contracted in July – the first time since January 2022

Restaurants

- 3Sixty Restaurants sales rose 196% in the year to end March versus 2021

QSR

- Tim Hortons opened its first ghost kitchen in the UK with Foodstars

Pubs

- The Alchemist sales rose 19.1% in the year to end March versus 20220 – 230% versus 2021

Around the World

- Krispy Kreme revenue rose 15.8% in the second quarter of 2022 versus 2021
- Membership Collective Group, owner of Soho House, turnover rose 96.5% in the three months to early July versus 2021

Delivery around the world

- Delivery Hero GMV in Europe fell -2.8% in the second quarter of 2022 versus 2021, revenue was up 4.7%
- Just Eat Takeaway sells 30% stake in iFood to fellow investor, Prosus

Delivery Offers in the Week

- Deliveroo: Enjoy a delicious 20% off or more! It's Tasty Thursday
- UberEats: Save £5, this Eat Wednesday