QUARTERLY BRIEFING REPORT

Q4 October-December

Published 31 January 2023

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Introduction

I have been publishing The Quarterly Briefing Report since 2009. This report is now one in my Premium Briefing Reports series – I issue one report at the end of each month. The report issued at the end of each quarter provides my views about the past quarter – and gives my forecasts for the next two quarters.

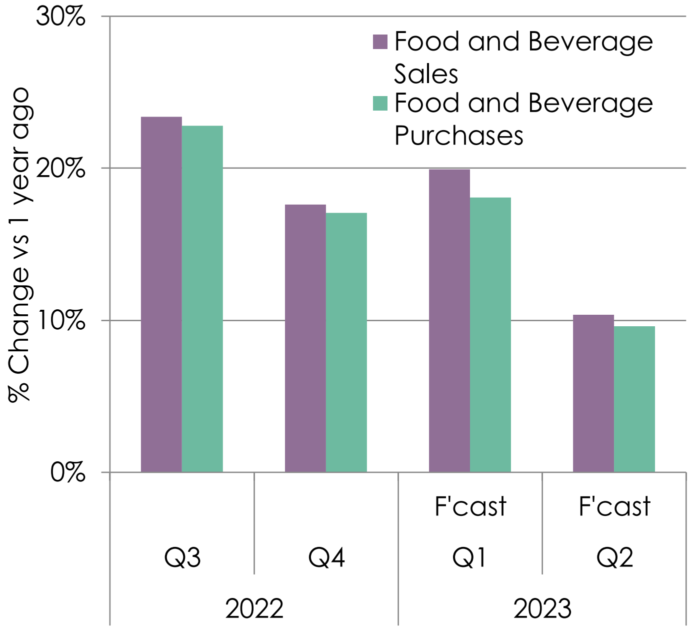
At the start of the covid pandemic, I started producing The Weekly Briefing Report to provide a more immediate view - and this remains available free of charge.

I also produce theDelivery.World - a fortnightly newsletter – and that, too, is free of charge.

In response to several request for a more compact and focused report, this issue of my Quarterly Briefing Report follows a revised format which provides a more structured approach to the report.

I have focused on providing a succinct summary together with some charts to examine what's happening at a sector level since most of the general topics that were formerly covered in depth in my Quarterly Briefing Reports, are now covered in detail in my Monthly Briefing Reports which form part of your subscription to my Premium Briefing Report series.

Nominal Change in Food & Beverage Purchases and Sales



Source: Peter Backman

I hope this new format is helpful to you and I would value your feedback on it – and any topics you would particularly like me to add to my coverage - my email address is peter@peterbackmanfs.com and my phone number is 07785 242809.

The past quarter

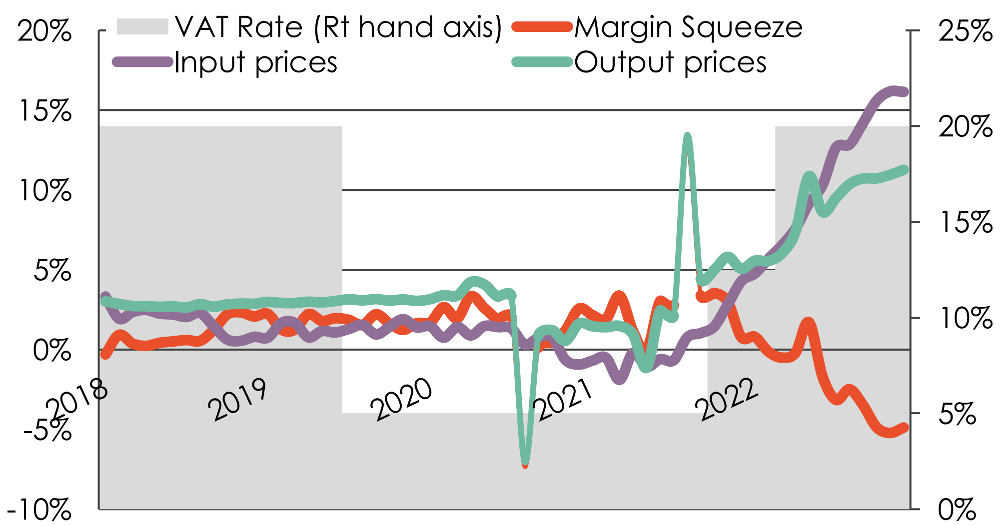
- The foodservice market as a whole was in slightly better shape in Q4 than in Q3.
- Overall, sales were up in value, and there was little bit of structural activity in terms of acquisitions but also some closures and businesses being put into administration

- Further on the negative side, inflation became a prominent issue – and added pressure to already stretched margins. On the other hand prices were raised – both by operators and suppliers – which helped flatter year on year comparisons.
- At the same time volumes were down on a year earlier.
- Sectors exposed to workers – contract catering, some hotels, coffee shops in large city centres etc – continued to see depressed sales (compared with 2019) as a result of hybrid working.
- Christmas trading was very disappointing for restaurants (and food sold in pubs). The figures were influenced partly by the weather but more severely by strikes notably on the railways which exacerbated pressures already felt especially by outlets reliant on the travel sector such as travel-located coffee shops.
- Overall, the mood in the quarter started off in slightly more positively than at the end of the quarter when there was definitely a feeling of foreboding about what would happen in the first quarter of this year.

Context and conditions in Q4 2022

- While not providing a deep dive view of the economy it is helpful to highlight some issues that impact (or are changing their impact) on the foodservice sector:
- GDP has been rising almost interruptedly since the start of covid lockdowns
- However it started to turn down in the autumn and is currently about 2% below pre-covid levels – experts expect it to worsen over the next year or eighteen months
- Food price inflation continues to rise and, together with alcohol increases, has led to an overall rise of 18% in the cost of goods at the end of the quarter versus a year before
- The Margin Squeeze eased somewhat during the quarter but is still tighter than at any time since mid 2009:

Margin Squeeze



Source: ONS; Peter Backman

- Product shortages are also easing
- Employment is still high (but numbers of people in the workforce or seeking work) are still below pre-covid levels)
- Staffing shortages in the foodservice sector while still very noticeable, are easing
- Meanwhile, issues such as eating vegetarian /

vegan, sustainability and employees' rights continue to be important – their salience varies in the short term (as well as in the long term) since there are many other considerations to keep customers occupied

- Delivery will continue to be important and, although it has slowed down considerably over the past year, there is still a lot of activity and changing business models – with dark kitchens and virtual brands remaining significant developments. The net result of these activities for operators is some increased revenue and a disproportionate reduction in profitability

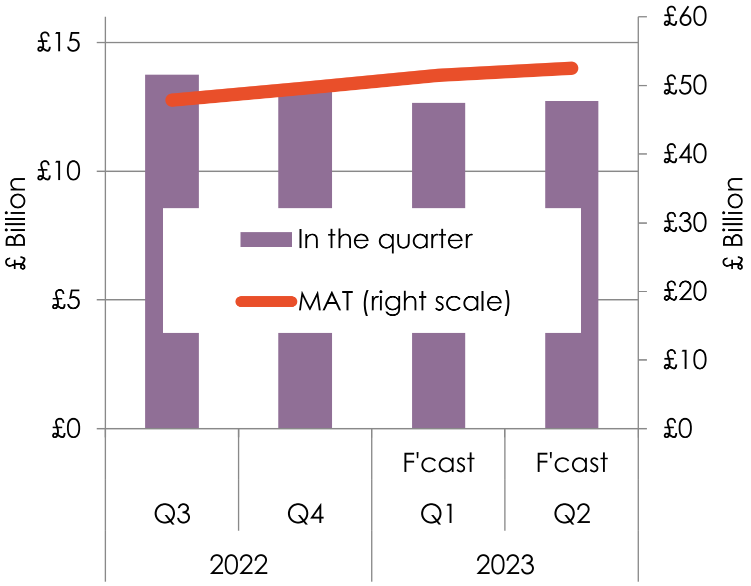
By sector

- Restaurant trading was flat in the quarter – a hoped-for resurgence over Christmas was dashed by poor seasonal trading. Operators have been squeezed and continue to draw on their savings (and lending lines) to remain trading

- Quick service (including food to go) had a reasonable period compared with a year earlier – and although volumes were only slightly higher than in 2019, inflation pushed sales up

- Pubs had a reasonably good December (and this came on the back of slowly improved trading in the quarter as a whole compared with the prior quarter and the prior year). Most of the positivity was due to increased alcohol sales during the World Cup. City centre pubs suffered as a result of pre-Christmas rail strikes

Food & Beverage Sales



Source: Peter Backman

- Hotels were (and are still) struggling to revert to 2019 in real terms. Nevertheless, sales were up on 2021 perhaps as a result of additional tourist numbers (because the UK is now cheap as a result of the low value of sterling)

- The leisure market continued to grow during the quarter but is still below pre-pandemic trading levels

- Feeding at work (primarily the province of contract caterers) is still suffering from changed work patterns leading to reduced overall volumes, trading being concentrated in the middle parts of the day etc

- Volumes in the health sector are still at 'normal' pre-covid levels – but pressure is building up on budgets in light of large food price increases

- Conditions in the education sector are similar to the health sector

The context for the coming two quarters

- The biggest influence on the health of foodservice demand over the next two quarters is consumer demand – and I am not at all positive that it will be sufficient, in real terms, to prevent dire times for many operators

- There is much uncertainty about international conditions with the conflict in Ukraine forming the most serious unknown with the most uncertainty

- Meanwhile the global economy – thought not that of the UK according to the IMF - appears to be in a slightly better position than was predicted only two or three months ago

- Government support for operators (and consumers) is due to be reduced in the middle of the forecast period. This is very likely to be an existential time for many operators – and I expect the rate of company closures to increase towards the end of Q1 2023 and well into Q3 and beyond

- Inflation while high is falling – and core inflation is considerably below current overall inflation in the UK. This implies a fall in inflation (or at least in inflationary pressures) over the next few months.

- Nevertheless two core categories for foodservice purchases – food and fuel – will continue to see high inflation, though falling slowly, over the forecast period.

- Strikes are very much a practical condition and will have a negative, if relatively small impact, on the overall eating out market. Rail strikes will affect numbers of travellers obviously and this will lead to changed patterns of eating out. Teachers' strikes will affect parents who will have to stay at home and may affect how much and where they eat out

- Staff shortages are likely to continue to ease somewhat over the next few months, but warmer weather might lead to growing problems as demand grows

- In the meantime wages will increase across the sector (and indeed across the whole economy) leading to higher wage bills for operators but – because of inflation – consumers will feel no better off (and probably worse off)

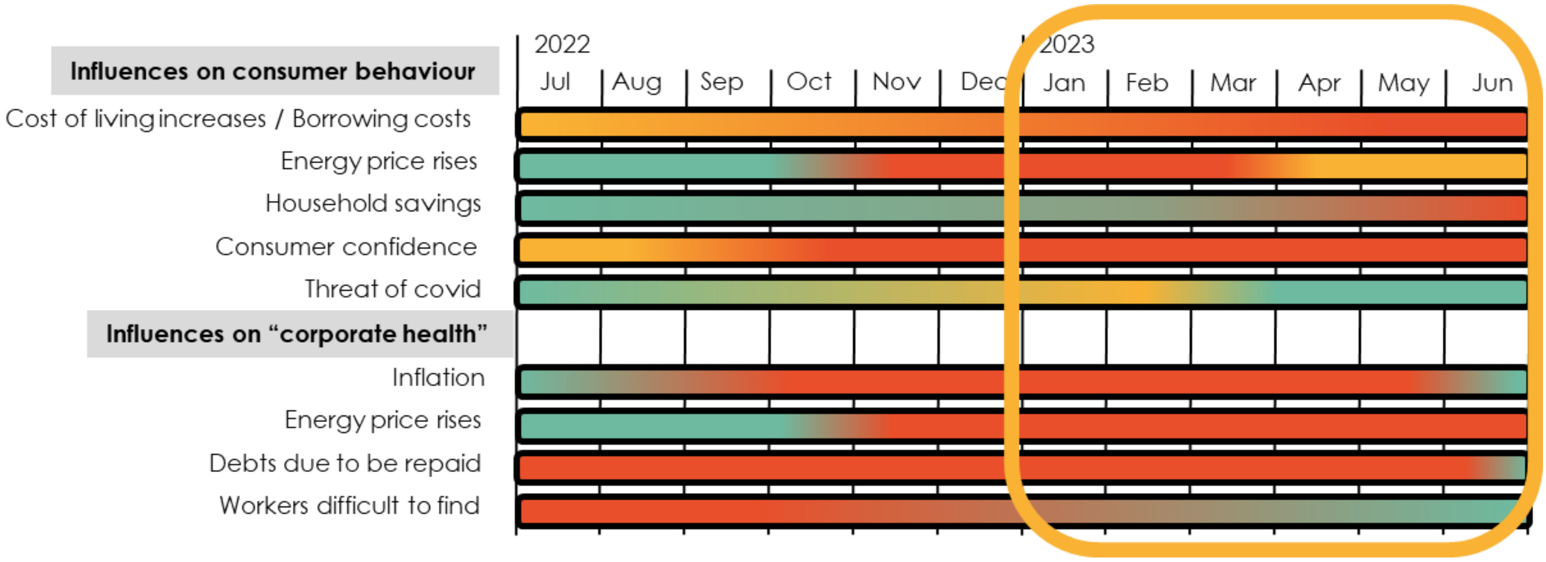
- I am particularly concerned that consumers, having drawn down on their savings will start to face severe difficulties in the spring when the government's assistance on fuel bills starts to be reduced, and interest costs will raise dramatically for the ten million or so people whose mortgages will need to be renegotiated

- Meanwhile, operators face the opening of the quarter with depleted balance sheets caused by the long covid period of poor trading (and despite help from the government); and this is without the cash cushion that they would normally expect to have built up during the Christmas trading period which was well below expectations, not to say below what was required.

- Overall, financial pressures will be changing and for some will be improving, but consumer demand is in danger of falling away.

- I am concerned about the overall state of the market especially when debts are still to be repaid and support for energy bills is reduced from the end of March. These effects impact both consumers - who will be less inclined to spend on eating out - and operators - who face credit squeeze.

- The foodservice Heat Map summarises these issues and threats – and it's flashing red over the coming quarter:



- Despite all these negative pressures, sales will apparently increase as inflation flatters the overall revenue picture.

In summary

- The discretionary sector – restaurants, quick service, pubs – will bear the brunt of consumers depressed savings

- Demand will not fall off a cliff – it never does (except during a pandemic!)

- But it will soften and will add to pressure on sectors and locations which have already been hit by changed work patterns for example

- Hotels, and the leisure sector generally, is still weak from the effects of covid and that is unlikely to reverse in the next six months.

- But the holidays season, and an expected increase in overseas tourist numbers, holds out promise for a modestly good spring and summer

- The non-commercial / institutional sector will continue serving the same number of meals as historically – but prices will be severely squeezed.

Quarterly Trends UK Foodservice Q3 2022-Q2 2023		2022 Q3	Q4	2023 Q1 F'cast	Q2 F'cast
Food and Beverage Sales					
In the quarter	£ Billion	13.2	13.1	12.4	12.3
MAT (right scale)	£ Billion	45.8	47.7	49.8	50.9
% change vs 1 year ago		23.4%	17.6%	19.9%	10.4%
Food and Beverage Purchases					
In the quarter	£ Billion	3.9	3.9	3.8	4.3
MAT	£ Billion	14.4	15.0	15.5	15.9
% change vs 1 year ago		22.8%	17.1%	18.1%	9.6%
Food purchases					
In the quarter	£ Billion	3.0	3.0	2.9	3.4
MAT	£ Billion	11.2	11.6	12.1	12.4
% change vs 1 year ago		22.7%	17.2%	18.0%	9.7%

Source: Peter Backman

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 recent periods including the current week. Below I have listed the news items that cover a longer time period:

Note: Comparisons are with the prior period unless stated otherwise.

Restaurants

- SushiSamba says rose 64% in calendar 2021
- Ottolenghi sales rose 176% in the year to end March 2022
- Six by Nico sales rose 70.2% in the year to June 2022 versus 15 months to end June 2021
- Sukho Group sales rose 145% in the year to end March 2021
- Ole & Steen sales rose 116% in calendar 2021 versus 2020
- Fulham Shore sales rose 26.4% in the six months to end September 2022
- Hard Rock Cafe UK sales rose 53.7% in calendar 2021
- Iberica sales rose increased 80.8% in the year to end September 2022
- Sticks'n'Sushi sales rose 66.7% in the year to end June 2022
- Ramen Restaurant Group sales rose 44.1% in calendar 2021
- Famously Proper sales rose 71.4% in the year to end July 2022

QSR

- Wasabi sales rose 41.0% in calendar 2021
- MW Eat sales rose 196% in the year to end March 2022
- Pure sales rose 94.1% in calendar 2021
- W. Liddy and Co sales rose 57.3% in calendar 2021
- KFC UK & Ireland sales rose 27.7% in calendar 2021
- Lonetree sales rose 51.8% in calendar 2021
- Kefco Sales sales rose 42.6% in calendar 2021
- Pieminister sales rose 149% in the year to end March 2022
- Splendid Restaurants (Colonel) sales rose 36.8% in calendar 2021
- MCD Manchester sales rose 62.3% in calendar 2021
- A&L Restaurants sales rose 82.6% in the year to end March 2022
- A&S Restaurants sales rose 50.8% in calendar 2021
- Manor Restaurants sales rose 55.2% in calendar 2021
- Fun & Fries sales rose 88.1% in calendar 2021
- Jollibee UK sales rose 186% in calendar 2021
- Soul Foods Group sales fell -2.0% in the year to end June 2022
- K Foley sales rose 59.5% calendar 2021
- 23.5 Degrees sales rose 12.4% in the year to end August 2021

Pubs

- Beds & Bars sales rose over 420% in the year to March 2022
- Upham Inns sales rose 179% in the year to end March 2022
- Palmer's sales rose 98.8% in the year to end March
- Punch Pubs & Co sales rose 94.4% in the year to mid August 2022

- Arkell’s sales rose 145% in the year to March 2022
- Laine Pub Company sales rose 81.1% in the year to mid August 2022
- Ronnie Scott’s sales rose over seven and a half times in the year end March 2022 , and fell -19.1% versus the last pre-pandemic year
- Bathams sales rose 83.4% in the year to end June 2022
- Joule’s sales rose 3.1% in the year to end March 2022
- Wye Valley Brewery sales rose 93.0% in the year to end April 2022
- Chestnut Group sales rose 168% in the year to end March 2022
- Ossett Brewing Group sales rose 13.0% in the year to end March 2022 versus 2020

Hotels

- Edgeman sales rose by over 250% in the year to end March 2022
- Jupiter Hotels sales fell -31.1% versus 2019
- Brend Hotels sales rose 139% in the year to end March 2022 versus 2020
- Lisini Pub Company sales rose over 450% in the year to end March 2022
- Hand Picked Hotels sales rose 42.4% in calendar 2021 ; and fell -33.7% versus 2019
- Manorview sales rose 12.6% in the year to end March 2022 versus 2020
- Devonshire Hotels and Restaurants, sales rose 196% in the year to end March 202
- Inverlochy Castle sales rose 172% in the year to end March 2022 , and fell -5.7% versus 2020
- Brook Hotels sales rose 146% in the year to end March 2022, and fell -46.7% versus 2020

Leisure

- Les Ambassadeurs sales fell 42.4% in calendar 2021 versus 2020
- Hollywood Bowl Group LfL sales rose 8.3% in the year to 30 September 2022 versus 2019
- Green & Fortune fell almost 300% in the year to end March 2022 and -42% versus March 2020
- Elle R Leisure sales rose 277% in the year to end March 2022
- Rhubarb sales fell 27.3% in calendar 2021 versus 2019
- Palatial Leisure sales fell -1.2% in the year to end June 2021 versus pre-pandemic
- Gatwick passenger numbers rose 420% in calendar 2022
- London City Airport passenger numbers rose 318% in calendar 2022