MONTHLY BRIEFING REPORT

February 2023

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Introduction

This is the most recent of my Monthly Briefing Reports which, together with my Quarterly Briefing Reports ,comprise the subscription-only series of Premium Briefing Reports.

In response to requests for a more compact and focused report, this latest issue, follows a revised format which I introduced in the most recent Quarterly Briefing Report.

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 month (or so)

- In the absence of relevant and up to date published statistics it is a challenge to capture what happened to the foodservice sector during February. This absence of data is, of course, nothing new, and will remain a challenge probably forever. Nevertheless, there are some sources of reasonably relevant, and reasonably current, information about the sector and I have made some use of them in what follows.

- The market for food and beverages has made some recoveries since this time last year – which is when the omicron variant was becoming much less apparent. That period can be seen broadly as the end of the 'covid era' (that is not to say that it won't return).

- That means that any growth in the period from pre-Christmas period up to February this year should be measured against weak comparable figures a year ago. On that score, the eating out market has not been doing very well.

- That view is underlined by the Bank of England's agents who reported in February that "Contacts in the hospitality sector reported that revenue growth had been driven by price increases, while volumes were weak. Firms in leisure and entertainment reported increased cancellations – especially for subscription-based services"

- The Coffer CGA Business Tracker reports LfL sales in the pub sector up 12.9% year on year in January (and 19.0% in December); restaurant LfL sales were 10.3% ahead in January (9.1% in December)
    - Note: The Coffer CGA Business Tracker is based on data from larger operators and, as such, is not representative of the more general, wider market. But is nevertheless directionally useful.

- But any evidence of growth must be severely tempered by the impact of inflation. The ONS measured menu price inflation in January at 11.2% in restaurants, and at 12.8% in take aways. The price of canteen meals rose by 6.5% - about half the rate in restaurants and takeaways. Prices of off-sales of beer (broadly in pubs) rose by 12.6% ,

- After allowing for these changes there may, at best, be modest real growth in alcohol sales, but not F&B in most eating out sectors which, right now, may be in real decline of a few percent.

- Hotel occupancy in London was down -4.1% year on year in early December, and down -1.2% in the rest of the country. STR have not published figures in the public domain since early December, but hotel analysts suggest that occupancy rates are starting to come under further pressure; Room Rates, however, are pushing upwards strongly. So sales are probably rising – but that is before the impact of inflation is factored in, so it is likely that, at best, hotel sales are stable.

- These trends, and the size of the changes, are broadly in line with the anecdotal evidence that I hear from operators – large and small – across the sectors from restaurants to pubs, from hotels to caterers.

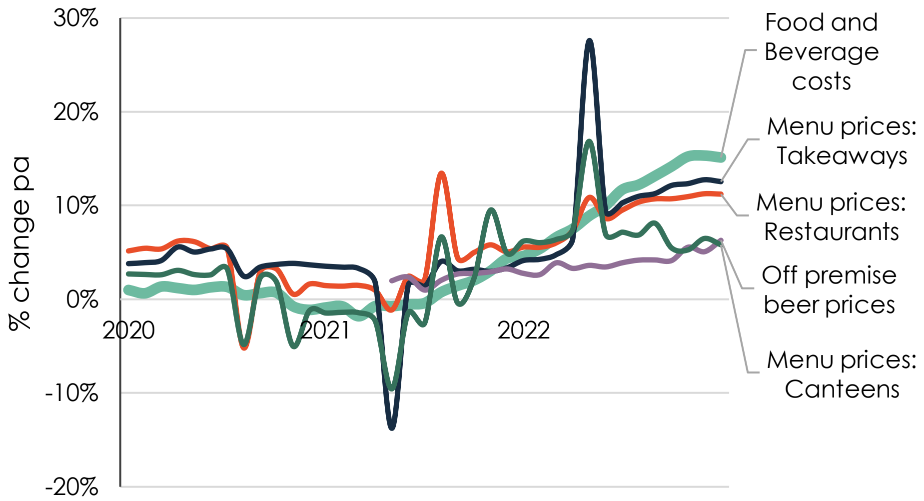
- **Overall**, the foodservice market is still being challenged and growth is not fully apparent. Meanwhile, other challenges remain; fuel price rises are a key concern and an ongoing, perhaps increasing, cost of living crisis is likely to reduce customers' propensity to eat out.

The issues

- Two issues confront the foodservice sector right now – inflation (notably in cost of goods and energy) and consumer demand. There are of course others (perhaps too many to cope with) but these two are make or break issues across the sector.

- UK **Inflation** appears to have peaked at slightly above 10% and is expected to fall to within the Bank of England's 2% target by the end of the year.

Inflation - COGS and Menus



Sources: ONS; Peter Backman

- However, the foodservice industry has seen cost increases above this while it has been next to impossible to raise prices correspondingly – or even to match overall UK inflation.

- The key issue, though, is that many of the inflationary cost pressures are not (or are not likely to be reversed).

- This applies particularly to food and beverages, and labour – together these two areas amount to about 85% of operators' total costs.

- And because inflationary costs are baked in, operators have had to (and will continue to have to) include these increases in their finance calculations and projections.

- That means inflationary costs of 10% over the past few months - plus whatever additional inflation takes place over the next few months - will either have to be offset by raised prices, or will have to be borne on balance sheets (by weakening them), or through remedial action – such as sourcing cheaper items, sourcing from cheaper sources, or re-engineering menus to focus on cheaper (or more profitable) lines.

- These are not new actions – the sector has coped with these issues in the early 2010s, in the 1970s and at other times. But these are difficult decisions that have to be made.

- An issue is when (or perhaps whether) to increase prices and if so by how much. The restaurant sector has been here before in the 1970s. Last summer, I asked some industry veterans what they did about inflation at that time and here are some comments (I reported them in some greater length in my Weekly Briefing Reports at the time). This is what they said (I have listed their most recent job titles – even though they may now be retired):

    - 'Don't let your prices fall behind if your cost pressures are increasing. All prices are going up; the public are dismayed and confused, but they get used to it happening everywhere. Increase their prices, regularly, little and often. If you hang on, it is very noticeable to your customers when you are eventually forced to make a big catch-up increase.' Andrew Guy, CEO City Centre Restaurants.

    - 'With rampant inflation, our divisional problems were more around preventing buying out and the major issue of watering down beer. Inflation was just routinely passed on. It was never absorbed.' Geof Collyer, Analyst, Deutsche Bank (and Regional Manager with S&N in the 1970s).

- And this is some additional context:

    - 'The focus must be on the quality of your customer experience; you need to keep your customers and ruthlessly fight to grow your market share.' Ian Neill, CEO, Wagamama.

- The other major issue facing the foodservice sector is consumer demand. This has not yet had a major impact because it has held up reasonably well – but note that sector sales performance has been boosted by inflation-impacted menu prices.

- However, consumers are:
    - Suffering from reduced savings (they had been boosted during covid but were subsequently drawn on over the past year or so, either to buy goods and services, or to repay loans)
    - Faced with similar inflationary pressures as foodservice operators. Fuel costs rose in the second half of 2022 and are set to rise again in April (as government support is reduced). In this context it's important to note that prices are still rising year on year – it's the rate at which they grow that is slowing). Fuel cost rises will further reduce the amount that consumers are able to spend on other things.
    - Concerned over their future financial position – this measure of confidence is in significant negative territory compared with a year ago (-18% versus +1% in December, according to GfK)
    - Their confidence is also low (-38% in January versus -19% in January 2022, again according to GfK).

- These pressures are not yet past – indeed they are building up.

- UKHospitality has told the government about a 'stark year ahead' as their figures show a third of businesses are at 'risk of failure' and 'although the demand from the public is quite clearly there, with revenue exceeding pre-Covid levels, there is no way venues can take advantage of this demand as they drown amidst price rise after price rise.'

- In addition to inflation, operators are facing other issues too. There are current **shortages** of some basic food lines such as eggs and essential produce – and although these are often short term, they bring with them, unavailability and increased costs, and the consequent need to change and re-engineer menus.

- **Staff shortages** appear to be becoming less severe, but they remain an issue.

Pulling this together

- The outlook is challenging, and past conditions have not been too helpful in building confidence and financial reserves.

- In my last Monthly Briefing Report I noted that, over the Christmas period

    - Restaurant trading was flat.
    - Quick service (including food to go) had a reasonable period.
    - Pubs had a reasonably good December.
    - Hotels struggled to revert to 2019.
    - The leisure market continued to grow but is still below pre-pandemic trading levels.
    - Feeding at work suffered from changed work.
    - Volumes in the health and education sectors are still at 'normal' pre-covid levels.

- This paints a less than positive picture and is the base from which the sector will have to face further, continuing negative conditions fuelled by inflation (falling but high) and consumer demand (low and falling).

- Times are tough, and there will be failures but, as I frequently note, the industry is resilient and entrepreneurial and will emerge in reasonable shape but probably not before the end do 2023.

The remainder of this Monthly Briefing Report contains a very brief summary of corporate activity over the medium and long term that has been reported in the past month.

News in the month

Landlords

- Boxpark sales rose 178% in the year to end April 2022 versus 2021
- Brighton Pier Group sales rose 19.2% in the 18 months to end 2022 versus the same period to end 2019
- Westmorland sales rose 85.4% in the year to early July 2022 versus 2021

Restaurants

- Hickory's Smokehouse sales rose 160% in the year to end April 2022 versus the prior year
- Daisy Green sales rose 238% in the year to end April 2022 versus 2021
- Montpeliers sales rose 10.3% in the year and half to end April 2022 versus 2019
- MeatLiquor sales fell -30.8% in the year to end June 2021 versus 2020
- Catering UK (Thai Square) sales rose 125% in the year to end June 2022 versus 2021; down -21.1% versus 2019
- Various Eateries sales rose 82.5% in the year to end October 2022 versus 2021

QSR

- Joe & The Juice UK sales rose 34.7% in calendar 2021 versus 2020
- Chipotle UK sales rose 130% in calendar 2021 versus 2020; up 14.8% versus 2019
- Cornish Bakery sales rose 78.5% in the year to end May 2022 versus 2021

Pubs

- Heavitree sales rose 57.6% in the year to end October 2022 versus 2021

Hotels

- Apex Hotels sales rose 486% in the year to end April 2022 versus 2021; down -40.4% versus 2019
- Brook Hotels sales rose 146% in the year to end March 2022 versus 2021; down -47.5% versus 2019
- Andras House sales rose 279% in the year to end April 2022 versus 2021; up 13.0% versus 2019
- Imperial London sales rose 324% in the year to end April 2022 versus 2021; down -26.5% versus 2019
- New Forest Hotels sales rose 61.7% in calendar 2021 versus 2020; down -28.3% versus 2019
- Cawley Hotels & Restaurants sales rose 191% in the year to end April 2022 versus 2021; up 75.5% versus 2019
- Honest Burgers sales rose 39.% in the year to end January 2022 versus 2021
- Crerar Hotels sales rose 163% in the year to end March 2022 versus 2021; down -5.8% versus 2020
- Gough Hotels sales rose 57.7% in the year to end October 2021 versus 2021; up 15.0% versus 2109

Leisure

- Champneys sales rose 313% in the year to end April 2022 versus 2021
- Golf Recreation Scotland sales rose 178% in calendar 2021 versus 2020; down -25.1% versus 2019
- Danieli Group sales rose 31.2% in the year to end April 2022 versus
- Thermae Bath Spa sales rose 305% in the year to end June 2022 versus 2021; down -12.1% versus 2019

Staff Feeding

- EatFirst acquires Feedr

Around the World

- London & Regional Hotels sales rose 89.0% in calendar 2021 versus 2020