MONTHLY BRIEFING REPORT

March 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.

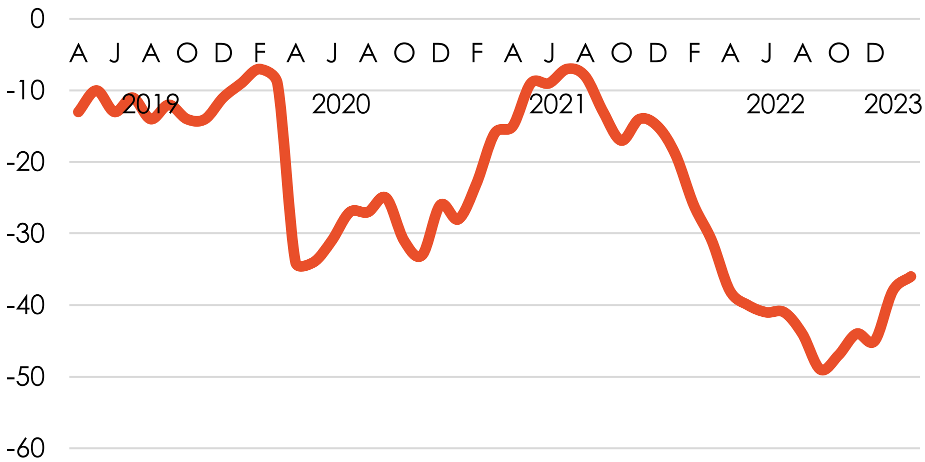
I hope this new format is helpful to you; and I would value your feedback on it – and any topics you would particularly like me to add to my coverage - my email address is peter@peterbackmanfs.com and my phone number is 07785 242809.

The past month (or so)

- In the economy as a whole, the nominal value of consumer spending continued to grow even as inflation eased, and demand was reasonably resilient especially for 'experiential' activities – a broad term ranging from hairdressing to going to the pub.

- Consumer confidence is rising, but from a low level, despite inflation and the upcoming squeeze on their disposable income. The reason for this disparity would seem to be that while squeezed personal budgets are affecting most consumers, it has been an existential issue for only a few.

Consumer confidence



Sources: GfK; Peter Backman

- The majority of consumers are likely to have found (and continue to find) ways of coping and continuing their former purchasing patterns – perhaps by trading down, or foregoing some expenses deemed 'not necessary, or putting off some expenditure on capital items, or adopting some other offsetting strategy.

- However all consumers are facing a landscape of rising prices. For example, according to the Daily Mirror, McDonald's have raised their prices in this past month for the second time since early February (see the section below for more commentary on inflation)

- The British Chambers of Commerce says that access to labour remains a problem. It says '64% of SMEs believe they don't have access to sufficient skilled labour in their local area' and adds that 'more than one in four (27%) SMEs expect their turnover to decrease over the next year, while less than a third (30%) plan to increase investment in technology and R&D …'

- The CBI noted a fall in activity of -11% across the consumer services sector in March; while this is not necessarily indicative of the foodservice sector specifically, it gives an indication of the direction that the market has taken recently.

- Nevertheless some operators have reported good trading figures – JD Wetherspoon is an example of a company that has kept a tight hold on costs while retaining its historical marketing and price stance. The result is consumers continue to spend their money with those businesses that are 'relevant' (and have the 'right' prices).

- However when reviewing current trading figures against a year ago, several things need to be borne in mind:

    - Inflation has flattered sales figures (see elsewhere in this report)
    - Covid-impacted figures in March 2022, flatter year on year trading figures over the last three months.
    - Outlet closures continue especially in retail locations and city centres – thus, while demand in some sites will have increased, in total the market may have fallen.

- While these comments relate particularly to restaurants, QSR and pubs, the hotel sector is recording good to high levels of forward bookings.

- At the same time, availability of credit is in short supply for poorly rated companies (their better funded competitors continue to have access to adequate finance). Credit remains especially tight for property investment or acquisitions, although businesses of most sizes have adequate lines of finance for working capital or for items, such as capex, for which collateral can be offered to the lender.

- The supply chain, having suffered several quarters of disturbed, and falling, trade is now returning to broadly 'normal'. But:

    - As noted, inflation may flatter comparative numbers.
    - Volumes may be trending higher than sales as operators trade down to cheaper products
    - Lead times are still higher than before covid.

Inflation

- A feature of the last three Monthly Briefing Reports has been inflation and that theme continues in this report because it remains an especially important consideration for operators – at a day to day level (as well as for its longer term implications)

- Over the last few weeks, at the level of the overall economy, inflation has remained at above 10% and not fallen as was expected; indeed, at 10%, it has increased way above the Bank of England target.

- For the foodservice sector this increase has been driven by several factors:

- The war in Ukraine has, of course, driven fuel prices up – so heating, food storage and prep costs have increased significantly.
- Another effect, reinforced by post-covid pressures, has been rising food prices (accompanied with, and to an extent reinforced by, pressures on the supply chain)
- Labour shortages, too, have given rise to wage inflation.

- Operators have, by and large, learned to live with these inflationary pressures:

    - They have raised prices – but by no means equally.
    - Some operators have raised prices early in the cycle.
    - Others, hoping to gain marketing advantage (or benefiting from buying products not subject to the highest inflation rates, or having bought forward through forms of price hedging) have raised their prices later.
    - But overall, after a year of increasing inflation, menu prices have risen by approximately 8% over the year – which is less than the rises seen in costs of goods although lower than employee costs.

- However the Bank of England expressed its belief that inflation will fall from now on and will be below its 2% target by the end of the year – and that means that the rate of price increases will fall between 0.5% and 1% every month.

- There are of course implications from this pattern of change.

    - Over the past few months high inflation has 'baked in' higher prices – both buying and selling. In other words past increases are now part of each businesses' trading landscape and its finances. Of course, this applies to both buying and selling prices.
    - Looking forward, prices will almost certainly fall for some items – energy being a prime example.
    - There will be a less clear cut pattern of falling prices in other categories. Prices of some foods – notably those that are less processed such as produce and meat – will likely fall, while processed foods will, if past experience is a guide, generally retain their new price levels. There will, no doubt, be exceptions
    - The differential inflation rates between operators' buying prices and their menu prices, means continuing pressure on corporate P&L accounts.

- Menu prices are very unlikely to fall – but past experience suggests several things might happen:

    - Operators may institute special deals – the QSR sector is especially prone to this activity.
    - Provided that the rate of inflation remains low after a few months, operators will be able to retain prices at their (currently elevated) levels for quite a while – possible measured in years so long as inflation is benign)
    - Customers may continue to choose cheaper items maintaining current 'basket price levels'.

- The reduced rate of inflation may not be maintained, of course. But that is the subject for a report with a longer time horizon.

Looking ahead

- Jonathan Neame (of Shepherd Neame, the pub company and brewer) and Andy Hornby (CEO of The Restaurant Group) are two, amongst a number of senior executives in the industry, who have expressed views about future prospects for hospitality. Without going into the detail, recent experience is suggesting to them that the short term will be broadly similar to what has happened over the past year:

    - High inflation
    - High interest rates
    - Weak demand
    - Cash flow issues
    - Outlet closures
    - Business failures

- Reported results and internal company sales comparisons will be impacted by the change in VAT last April from 12.5% to 20%. The net result for each business will depend on the action they took at the time – whether to raise prices by the required 7% or whether they absorbed the increase in whole or in part.

- Easter is looming in the first ten days of April and the foodservice sector will be looking out for a boost to trade:

    - Comparative figures versus last will be boosted by inflation
    - The weather forecast this year is fairly benign as was the outcome last year, so the weather will be unlikely to significantly influence comparisons with last year
    - There has been an uptick in eating out since the start of the year – and I assume whatever tailwinds this uptick has will continue into Easter.

- However:

    - 1st April sees a reduction in the level of support for household energy bills. Many consumers (probably most) will have acknowledged this and will have taken some mitigating action if they are able to. Nevertheless the shock of higher energy bills might be unpleasant for many households.
    - Consumers face additional cost increases - council tax, water bills, and some mobile costs amongst a number of notable category increases
    - Increases in costs such as these have a particularly notable impact on the lower paid – indeed any consumer without adequate financial resources
    - On the other hand, the minimum wage increases by almost 10% to £10.42 an hour putting some more money into the wages of the lowest paid
    - But many consumers, not only those on lower wages, still have significant arrears to pay off.

- As a result of these factors, I would expect to see expenditure negatively hit as the month (and beyond) progress. The result for foodservice operators will be pressure on sales.

- At the same time, the reduction in energy support costs will also hit operators during April.

- They will also be subject to rising business rates and water bills, and increases in the minimum wage to be funded to name just three - with similar outcomes.

- In this respect – rising costs, operators will experience similar, but not identical, pressures as consumers.

- In other words, operators will find that, as their costs continue to increase, for some the result will be severe pressures on cash flow (leading in extremis to corporate closures). And since energy prices are now falling, those who hedged their energy prices towards the end of 2022 will be paying more now than others who are buying on the 'spot' market.

- These negative factors will feed through into the supply chain as well, which will see pressure on sales (albeit benefiting from inflation), and increased energy costs.

Pulling this together

- While there are still (quite large) pockets of the foodservice sector where performance is down on 2019, overall there is an ongoing return to normality.

- The start to 2022 has been better than I anticipated but some pressures continue to build up on operators, notably:

    - The ongoing effects of the squeeze on consumers' disposable income
    - The ongoing – possibly growing – need to cope with inflation which although falling is still expected to show several months of well above average increases.

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

News in the month

Landlords

- Time Out sales rose 78.2% in the second half of 2022 versus 2021

Restaurants

- Banana Tree sales rose 69.7% in the year to end April 2022
- Big Mamma Group UK sales rose 79.8% in calendar 2021
- Mamma Dough acquired out of administration by The London Dough Co
- Sticks 'n' Sushi sales rose 66.7% in the year to end June 2022
- Wilton's Holdings sales rose 423% in the year to end March 2022
- Wildwood sales rose 26.1% in the year to end 2022

QSR

- Bob & Berts sales rose 58% in the year to end June 2022
- Caffè Nero sales rose 69.1% in the year to end May 2022
- Domino's Pizza LfL sales (ex VAT) rose 10.4% in October to early November 2022

- MCD Manchester rose 2.0% in calendar 2021
- Papa John's UK sales rose 7.8% in calendar 2021
- Pizza GoGo sales rose 7.1% in the year to end May 2022

Pubs

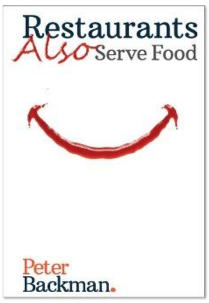
- Rekom sales rose 48.6% in calendar 2022
- Stonegate Group sales rose 128% in the year to end September 2022
- Thorley Taverns sales rose 99.7% in the year to end June 2022
- True North Brew Co sales rose 320% in the year to end March 2022

Hotels

- AB Hotels sales rose 71.7% in calendar 2021
- Arora Hotels sales rose 220% in the year to end March 2022
- Berkeley Hotel sales rose 75.7% in calendar 2021
- Loughview Leisure sales rose 435% in the year to end June 2022
- Low Wood Hotel sales rose 109% in the year to end March 2022
- Lucknam Park sales rose 155% in the year to end May 2022
- Manor House sales rose 290% in the year ending end March 2022
- Maybourne Hotel Group sales rose 18.0% in calendar 2021
- Rushton Hall sales rose 112.4% in the year to end August 2022
- Ragdale Hall sales rose 265% in the year to end June 2022

The latest episode of **The Delivery Prophets** delves into restaurant delivery in general, delivering meal kits in particular, and what delivery adds to an existing restaurant business. Peter Backman together with Jon Borzacchiello of Aviko and guest Jamie Barber, founder of upmarket Hush in London's Mayfair, creator of casual dining collection, Cabana, and part owner of Hache, the upmarket burger collection, discuss opportunities in delivery and how covid has changed how restaurants serve food.

You'll find the podcast here or on Spotify, Apple, Google or wherever you listen to your favourite podcasts.



The revised edition of my book – **Restaurants Also Serve Food** – has now been published. It is addressed to suppliers, especially those who are proficient at selling to the retail sector but find selling to the foodservice sector is a challenge.

In my Weekly Briefing Report published on 6 March I briefly outlined just one of the many issues I discuss in the book. I noted that the unknown should always be expected in foodservice – and this means, for instance having too much back up resource 'just in case'. 'Just in case' can't be predicted; it is a built-in inefficiency, and inefficiency has costs. Operators, investors, and suppliers are all exposed to this inefficiency – and they have to confront the fact that they must face the costs of dealing with it.

Restaurants Also Serve Food provides solutions to this, and many more conundrums – you'll find more about my book and how to buy it here.