

QUARTERLY BRIEFING REPORT

Q2 April – June 2023

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Peter
Backman.





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.

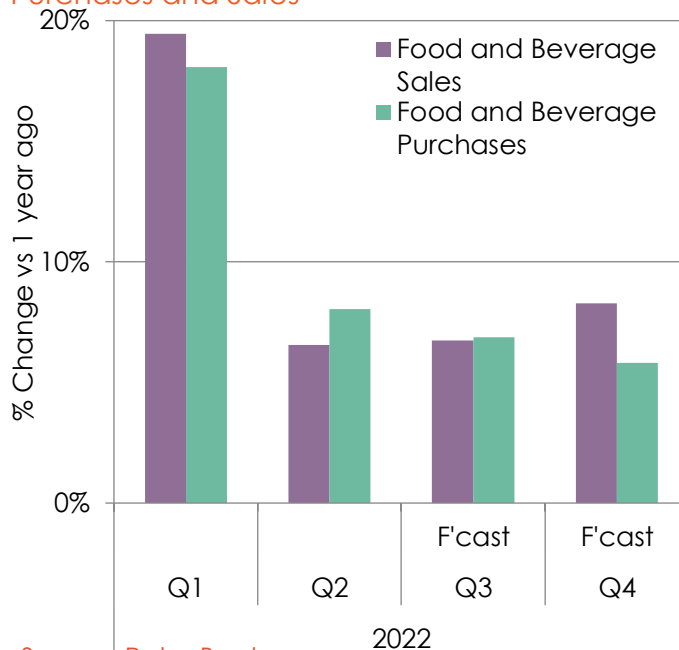
In response to several requests for a more compact and focused report, this issue of my Quarterly Briefing Report follows a revised format which provides a more structured approach to the report.

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.

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.

Nominal Change in Food & Beverage Purchases and Sales



Source: Peter Backman

The past quarter – Demand side

- CGA report LfL sales increased by an average of 6.4% amongst a sample of (mainly larger) pub and restaurant operators in Q2 versus a year ago.
- HDI, whose data is derived from credit card spending, reported an increase of 8.6% in the last quarter compared with a year ago.

- S4Labour, whose information ultimately comes from company payroll data, reported an increase in sales of 7.8% in June compared with the same month last year
- May and June were the hottest months on record. These are good conditions for pubs, and less so for restaurants.
- Meanwhile the working population continued to show a preference for working from home benefitting local (and suburban) outlets over city centres; travel outlets (at least those for commuters) and workplace catering continue to feel the effects, mainly negative.

Travel and tourism

- The numbers of passengers travelling through Heathrow in June was 15.7% ahead of June 2022 while Manchester airport recorded an increase of 16.4% in April
- SSP UK and Ireland sales rose to 94% of 2019 levels period in the ten weeks from 1 April

Regions

- Increases in foodservice sales in London outpaced the rest of the UK – I estimate growth in Q2 in the capital, at about 12%, was about 50% higher than in the rest of the country

The past quarter – Supply side

- There was a mix on news on the supply side – broadly reflecting a slightly increasing rate of corporate failures

Bad news

- Government figures showed that across the economy, company insolvencies in England and Wales rose 40% in May versus the same month last year.
- This was reflected in some negative news from within the foodservice and hospitality sector for example Lakeland Inns and Gino D'Acampo Worldwide Restaurants were examples of companies being put into liquidation
- In addition to this news about operators, meal supplier, Tillery Valley Foods, was also put into administration.
- Nevertheless, this situation is not as bad as I had feared but I think it would be wise to expect company failures to feature more strongly over the coming months.

Acquisitions

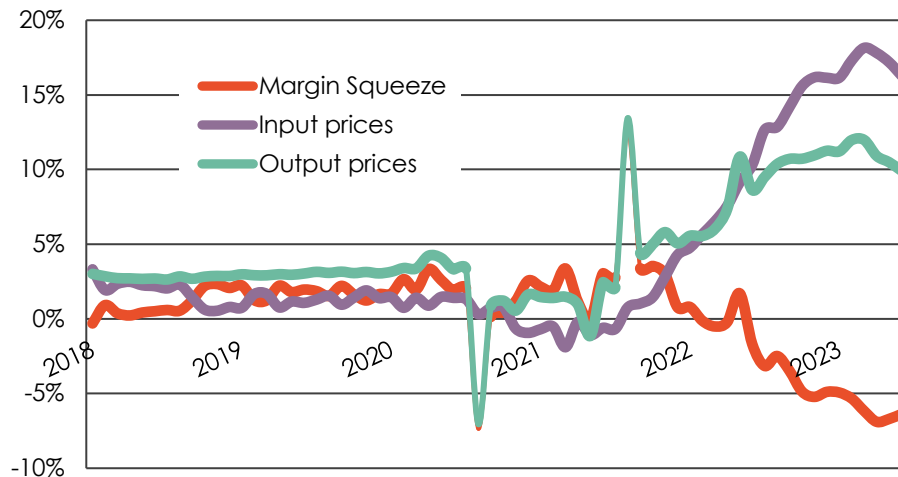
- Amid, the slow performance of the foodservice sector and the trickle of bad news, there has been some restructuring though mergers and acquisition activity.
- Most of this has been in the nature of 'tidying up' shareholdings – for example Beechbrook Capital acquired the minority of shares in D&D that it had not previously owned.

- On the acquisition front, Azzuri acquired Boojum (the Northern Ireland burrito chain), Black Sheep Brewery was acquired by Breal Group, Rhubarb Hospitality Collection was acquired by Oak View Group, and the acquisition of Fulham Shore was approved by the shareholders of Toridoll Group.

Inflation

- Overall, economy-wide inflation measured by the ONS was 7.9% at the end of June.

Margin Squeeze



- My analysis is that inflation in the costs of food and beverages for the foodservice sector stood at 16.3% at the end of June.
- Notably beverage inflation was about half this – while food costs were up by over 17%
- This is higher than the 9.9% inflation in output (ie consumer-facing, selling) prices. In other words the difference in inflation

Source: ONS: Peter Backman

between input and output costs was 6.4% - and this represents a significant ongoing squeeze on margins.

- At the end of June this was more noticeable in the quick service sector and in canteens than in restaurants.
- It also means that foodservice businesses reporting an increase of below 10% (that is, most of them) are likely to be not seeing any real growth
- Inflation rates continue to show wide variations between product categories:
 - Prices of dairy products, pork, and processed vegetables are increasing at close to 30%
 - On the other hand inflation for fish, fruit, and lamb are at 5% or less.

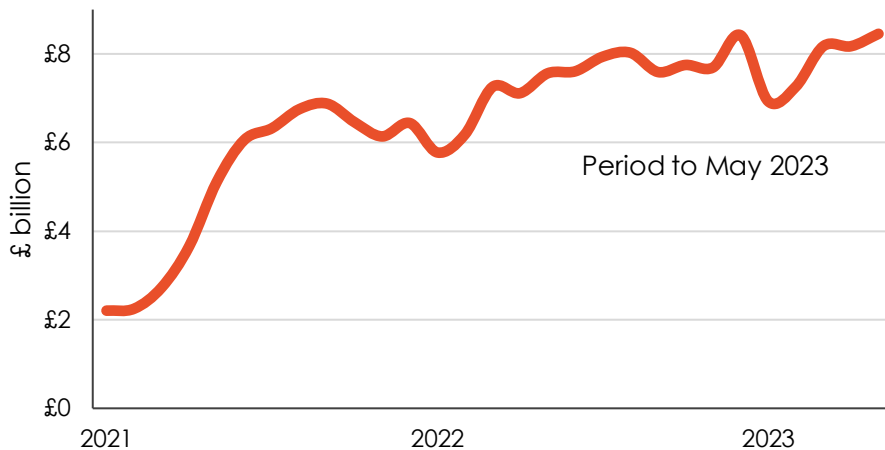
By sector

Restaurants

- The restaurant sector recorded positive sales figures in nominal terms in the quarter.

- But at about 5% they were below the rate of inflation meaning that the sector moved backwards in real terms

Food & Beverage serving



Sources: ONS; Peter Backman

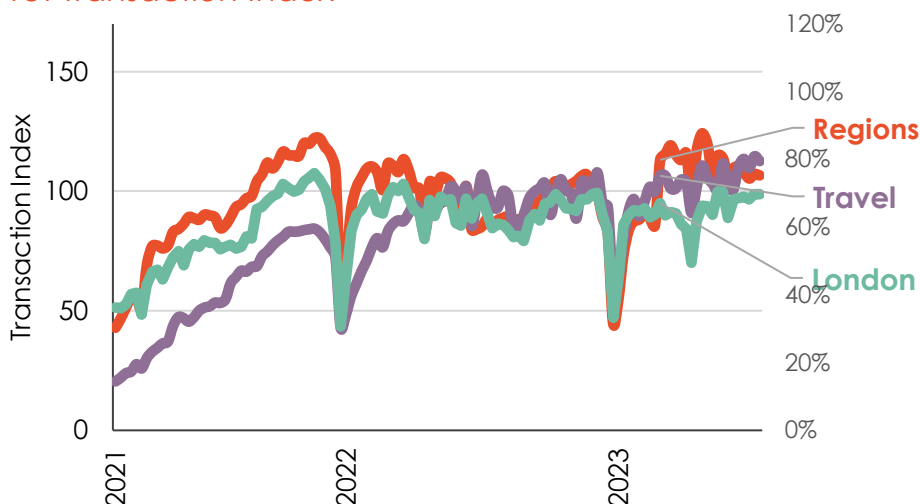
The Restaurant Group, saw sales falling -7% in the same period

- Hostmore (the owner of TGI Fridays and 63rd+1st in the UK) noted a -3% decline in LFL sales in the five months to early June; total sales fell -1%

- On a somewhat more positive side, Wagamama saw LfL sales rising 5% in the three months from early April to end June; on the other hand, its sister Leisure division (which includes Frankie & Benny's and Chiquito) within

QSR

Pret Transaction Index



Sources: ONS; Pret a Manger; Peter Backman

- The QSR sector did somewhat better than restaurants and recorded LfL sales growth at above 10%.

- For example: Subway UK and Ireland sales increased 10.5% and coffee franchises reported an increase of 12% in the quarter.

- Pret a Manger recorded increasing sales across the quarter – with travel-related locations doing especially well

Pubs

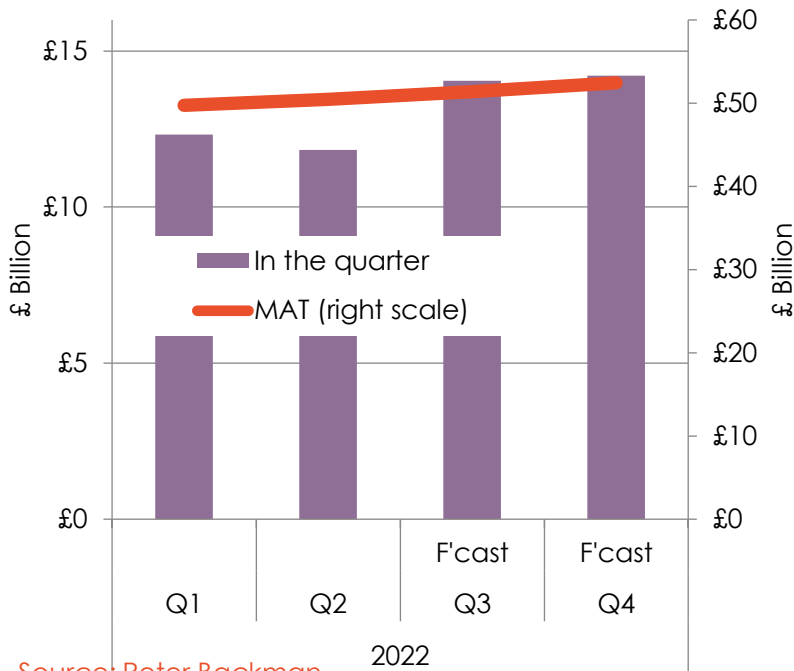
- Pub LfL sales rose at about 10% during the quarter (to end July) – ranging from Loungers increase of 5.7% and Young's 6.8% to Fullers at 15.1% and St Austell at 20%. Note that the periods vary between companies although all are based on short term (monthly or quarterly) reporting periods.
- Thus the pub sector appears to be recording sales ahead of inflation – in other words real growth, but there are signs that the rate was slowing during June

- For suppliers of food, it is important to note that the increases are primarily based on alcohol sales which, anecdotally, have been performing better than food sales
- In general, pub sales, again especially for drinks, Pub sales were up and the sector as a whole saw a real increase in turnover driven primarily by improving alcohol sales which benefitted from the warm weather in the past two or three months.

Hotels

- Hotel F&B sales rose 9% in the March to May period at Whitbread's UK hotels, just over half the rate of increase in accommodation sales of 16%. This suggests that overnight guests were not taking advantage of Premier Inn F&B offers.

Food & Beverage Sales



Source: Peter Backman

On the other hand economy hotels in London were flat, and premium hotels in the regions saw an increase of 2%.

- The hotel and accommodation sector was broadly negatively impacted by Easter, the Coronation (on 6 May) and two normal bank holiday weekends in May.
- The sector benefitted from increased overseas tourists, but this was reflected primarily in room sales – F&B sales traded at below the rate of inflation throughout the sector except in premium hotels in central London
- Overall occupancy levels were down -2.4% in premium hotels in London versus 2022. They were also down in economy hotels in the regions.

Institutional sectors

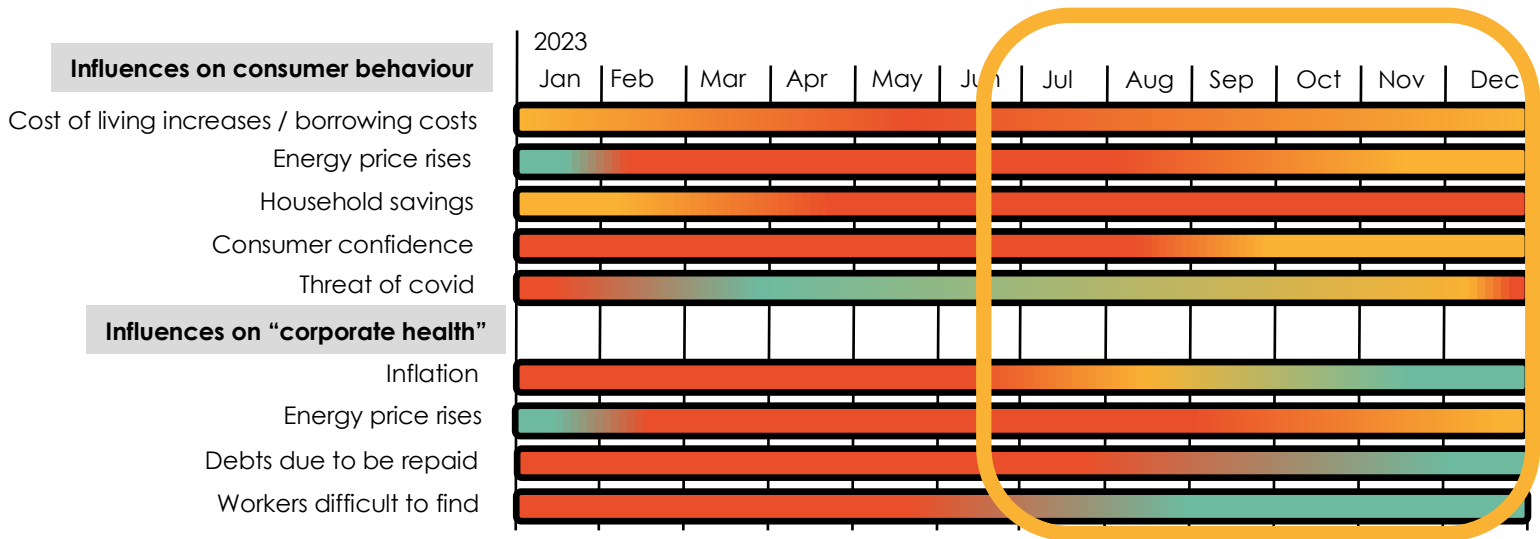
- The contract catering sector continued to suffer from changes to work patterns, notably more working from home.
- Business in the health and education sectors was basically slow and steady – but was severely challenged by rising costs without commensurate increases in funding or sales growth

Delivery

- Growth in delivery sales remained weak in the past quarter – figures from Just Eat Takeaway recorded an increase in GTV (sales to consumers) of 1.6% in Q2 for UK and Ireland which is an improvement on the fall of -1% in the first quarter, but is still well below the rate of inflation.

The context for the coming two quarters

- There seems to be an air of stability at the moment without major changes either now or on the near term horizon.



- Bad news so far in July has been limited to operators in the Leisure sector – Camel Creek (the leisure site operator, Majestic Bingo and Empire Cinemas have all been put into administration reflecting that capital intensive businesses are beginning to experience (or more likely, are already experiencing) the ongoing pressures exerted by the effects of 'financial long covid' – basically they are running out of money.
- These leisure businesses are not mainstream foodservice operators, but they do serve food and are therefore a part of the sector.
- Inflation looks set to continue to ease and borrowing costs will be coming down – and this will lead to a likelihood of improved spending on eating out.
- The foodservice Heat Map summarises these issues and threats – and although there is still quite a bit of red, it is also brightening up from Q4.
- While conditions will ease for operators, consumers will still be squeezed on the financial front – higher mortgage costs for many, still high inflation, fears of job losses and more - and accordingly their eating out purchases will remain challenged.
- In the meantime, the coming quarter is summertime and while the weather is extremely volatile, on the whole it is sunnier and warmer than usual. This bodes well for pubs and hotels.
- The final quarter of the year will probably be better than the same period last year, primarily as a result of 'almost normal' conditions for consumers who, although financially stretched, will be seeing an easing of their financial pressures in the new year

In summary

Quarterly Trends		2022			
UK Foodservice		Q1	Q2	Q3	Q4
Q1 2023-Q4 2023				F'cast	F'cast
Food and Beverage Sales					
In the quarter	£ Billion	12.3	11.8	14.1	14.2
MAT (right scale)	£ Billion	49.7	50.5	51.4	52.4
% change vs 1 year ago		19.5%	6.5%	6.7%	8.3%
Food and Beverage Purchases					
In the quarter	£ Billion	3.8	4.3	4.2	4.1
MAT	£ Billion	15.5	15.9	16.1	16.4
% change vs 1 year ago		18.1%	8.1%	6.9%	5.8%
Food purchases					
In the quarter	£ Billion	2.9	3.3	3.3	3.2
MAT	£ Billion	12.1	12.3	12.6	12.7
% change vs 1 year ago		18.0%	8.1%	6.8%	6.0%

Source: Peter Backman

- The rapid annual growth seen in Q1 was predicated on comparisons with a poor period in 2022. More recent comparisons are being made against more 'normal' conditions.
- But although sales growth will be accelerating at the end of the year, it will still be lower than in real, inflation adjusted terms.
- I expect food purchases also to be increasing but more slowly than sales as food inflation falls and consumers open their purses and wallets – a bit.
- While this is not a time to relax, conditions might – just – be improving.

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

- Crown Partnership (Bird, Midsummer House) sales rose 80.0% in the year to end July 2022
- Middletons Steakhouse & Grill has appointed advisors to 'explore options'
- Middletons Steakhouse & Grill, sales rose 153% in the year to end April 2022
- Novikov sales rose 97.1% in the year to end October 2022
- Pizza Pilgrims sales rose 71.0% in the year to end June 2022
- Roux Waterside Inn sales rose 47.6% in calendar 2022

QSR

- AFA Restaurants sales rose 10.4% in calendar 2022
- Benugo sales rose 141% in calendar 2022
- Boston Tea Party sales rose 71.4% in the year to end October 2022
- Boswells sales rose 70.2% in the year to end October 2022
- CGN Restaurants sales rose 15.6% in calendar 2022
- Club Pret redemptions rose 66.9% globally in calendar 2022
- Fieldrose sales rose 9.2% in the year to end September 2022
- Joe & The Juice UK sales rose 34.7% in calendar 2022; they rose by 49% globally
- MLS Operations sales rose 39.1% in calendar 2022

Pubs

- Frontier Pubs sales rose 93.4% in the year to end September 2022
- Mash Inns sales rose 80.7% in the year to end September 2022
- McGinty's Group sales rose 44.3% in the year to end September 2022.
- McMullen sales rose 90.3% in the year to end September 2022
- Palmers sales rose 2.2% in the year to end March 2023 versus 2022
- Stonegate Group LfL sales rose 6.1% in the six months to end April 2023 versus 2022
- Westbourne Leisure sales rose 107% in the year to end September 2022

Hotels

- School House Leisure sales rose 103% in the year to end September 2022
- Anderbury sales rose 75.1% in the year to end September 2022
- Calcot Health & Leisure sales fell 3.0% in calendar 2022
- Cameron House Resort sales rose 172% in calendar 2022
- Center Parcs sales rose 18.0% in the year to mid-April 2023, and 23.7% versus 2019
- Chewton Glen sales rose 21.6% in calendar 2022

- Daish's Holidays sales rose 97% in the year to end September 2022
- Historic Sussex Hotels sales rose 40.2% in the year to end November 2022
- Hotels Fraser Hospitality UK sales rose 85.1% in the year to end September 2022
- Lester Hotels sales rose 62.7% in calendar 2021 versus 2020; and rose 1,3% versus 2019
- Manor House Country Hotel sales rose 69.0% in the year to end September 2022
- Nelson Hotels & Inns sales rose 69.1 in the year to end September 2022
- Poste Hotels sales rose 41.8% in the year to end October 2022
- RAD Hotels sales rose 158% in the year to end June 2022
- Snowdonia Hospitality and Leisure sales rose 28.3% in the year to end January 2023 versus 2022
- Stay Original Company sales rose 17,2% in the year to end September 2022
- Surya Hotels sales rose 35.2% in calendar 2022
- The McKeever Hotel Group sales rose 150% in the year to end September 2022, and 19.7% versus 2029
- Thurlestone Estates sales rose 31.6% in the year to end October 2022
- Tregenna Castle sales fell -24.9% in the year to end October 2022
- Wildes Group sales rose 205% in the year to end March 2022
- Wyboston Lakes sales rose 80.7% in calendar 2022

Leisure

- A&S Leisure Group sales rose 139% in the year to end September 2022
- Moto sales rose 33.8% in calendar 2022
- Searcy's sales rose 139% in calendar 2022 versus 2021 and 3.4% versus 2019
- Visitor Centres sales rose 42.6% in the year to end October 2022

Staff catering

- BaxterStorey sales rose 57.4% in calendar 2022

Health Care

- Gainford Group sales rose 30.6% in calendar 2022

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