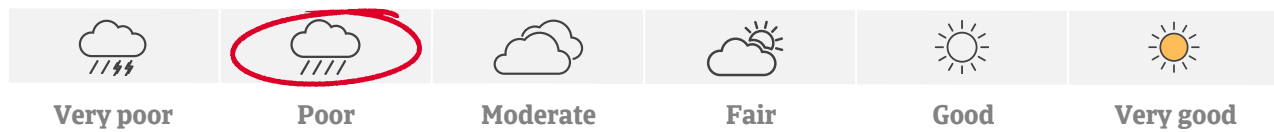


Hospitality Sector Report

Q1 2024

What is the outlook?



Headlines

Some positives in a mainly struggling sector

Some positives in the sector include Loungers group (who own Cosy Club and Lounges in residential areas) – they are outperforming the market, perhaps due to a mix of city centre sites and suburban areas, plus all day dining.

Youngs & Co.'s have some of the highest profit margins in the sector and recently just bought rival City Pub Group (who had been benefitting strongly from a return to office working across London).

Train strikes hit the sector especially hard. Estimated cost in 2023 was £750m with the total impact since the beginning of the dispute in 2022 being £5bn.

Key sector highlights

Drop in turnover

VAT was reduced during Covid to 5% (July 20 to Sep 21), then 12.5% (Oct 21 to March 22) but returned to 20% in 22, so accounts we are seeing now, with a YE of 2023, are often showing a drop in turnover due to this (i.e., higher proportion of VAT paid).

The trade body is lobbying the Government to reduce this to 12.5% permanently which would help the sector enormously and bring us in line with our European neighbours (where VAT is typically 5-15%).

In 2022 VAT
returned to
20%



Staff shortages remain high

Staff shortages remain high, following Brexit and Covid. New post Brexit rules introduced in April raised the minimum salary threshold for a skilled work visa from £26k to £38.7k, far more than typical hospitality employees earn (average wage for waiting staff in London is £28k).

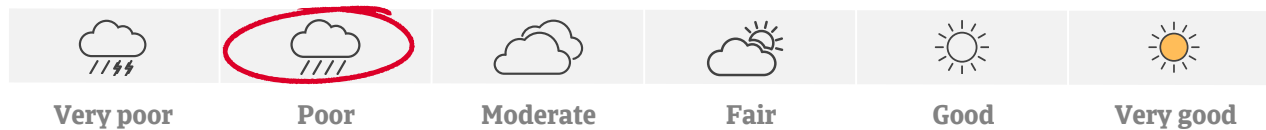
Cost inflation (energy and ingredients) has eased slightly recently but staff costs remain high and are growing. The National Living Wage rose again in April by 10% to £11.44.

Key insolvency statistics

High number of insolvencies

More than 500 restaurants closed in the UK in Q4 23, according to accountancy firm Price Bailey, the highest-ever quarterly figure, smashing the previous record set 6 months earlier.

What is the outlook



Sector updates

Britain's biggest pub chain struggling

Stonegate – Britain's biggest pub operator (who own Slug and Lettuce and Walkabout) are struggling to refinance their £2.2b of debt.

They bought Ei (Enterprise Inns) at the height of the pandemic (March 20) and then had to bear a significant debt burden while trade was heavily disrupted.

Change in drinking habits

The late night sector is still very difficult due to students and other young adults having less disposable money and drinking less alcohol – Rekom recently filed for administration for some of their subs (they operate Pryzm and Attik) citing they would need to make an extra £2m just to cover the NLW rise. Revolution Bars are seeking emergency funding, alongside closures.

We have also seen a continued rise in 'low and no' alcohol drinks, in line with a recent study showing that 39% of young adults don't drink alcohol at all. Producer Asahi forecast that 'low and no' ranges will make up 50% of their global sales by 2040.

39%
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Like for like sales in March up 5.2%

March 24 CGA RSM Hospitality Business Tracker shows like for like sales up 5.2% but this reflects the early Easter revenues while last year, Easter fell in April.

Pubs continue to fare better than restaurants, perhaps because pubs have more flexibility with menus (expensive ingredients can be swapped out and meals can be changed whereas this may be more difficult for a restaurant which might focus solely on one cuisine) and pubs are usually less leveraged.

Atradius approach

Continue to underwrite, case-by-case

We continue to maintain close relationships with buyers, requiring recent management accounts and full insight to debt facilities and covenants for those with higher leverage.

6 month prediction

Unemployment rate hits highest in 6 months

Although inflation has eased slightly, global geopolitical events continue to cause some uncertainty, which may result in an increase in energy prices and disruption in supply chains.

In the UK, the unemployment rate has hit its highest level for 6 months and GDP forecasts have recently been downgraded suggesting a largely stagnant year.

The environment for hospitality companies therefore remains difficult and we expect further failures.