

Pubs and Bars

Pubs and bars are expected to adapt their services and products in the face of tough operating conditions amplified by the recession and changing consumer preferences.





Pubs and Bars Overview

A Maturing High-Growth Industry

The pubs and bars industry enjoyed a year of record growth, following two years hampered by lockdown restrictions and forced closures as a result of the Covid pandemic.

Industry revenues grew to £15.4bn in the year to August 2022; an increase of 134.5% from the year to August 2021. This growth is expected to continue, with revenues forecast to grow by a further 29.6% in the year to August 2023, largely due to the expectation of a full year of trading without lockdown restrictions.

Despite this, progress is expected to be offset by changes in work and lifestyle habits, such as the prevalence of working from home, and rising costs are likely to further squeeze industry margins. The impact of the anticipated recession is also a key factor that has not been modelled into the forecasts for the sector.

Notwithstanding the above, the industry is going through a period of change in response to evolving consumer tastes and preferences, which are shifting towards healthier options, such as low and zero alcohol, and 'premium' options, such as craft beers and

premium lagers. With the average craft beer costing 20% more than a standard pint of beer in the UK, this is expected to be a highly lucrative trend for operators that diversify their menus to include these options.

Recent economic developments such as rising household costs and energy bills are expected to put further strain on the industry with an increasing number of customers choosing to cut back on non-essential spending.

Market Trends

Healthier Consumer Preferences

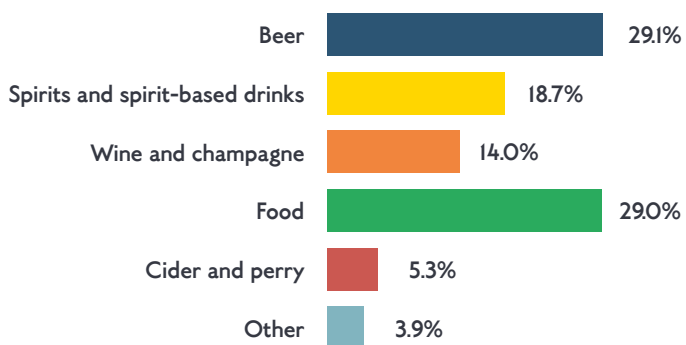
Consumers are becoming increasingly health conscious, leading to the expansion of pub and bar menus to incorporate vegetarian, vegan, and gluten-free options. Furthermore, health initiatives are now engrained in government legislation as businesses with more than 250 employees are legally required to display calorie information on non-prepacked food and soft drinks as of April 2022.

Additionally, alcohol consumption is generally declining as consumers are becoming more health-conscious, exemplified by the 30% growth in production of zero or low-alcohol beers in the last two years.

Premium Beer Growth

Beer remains the most significant revenue stream in the pubs and bars industry, accounting for 29.1% of revenue in 2022-23, as illustrated in the figure below. However, the composition of spending has altered, owing to a shift in consumer preferences towards premium products, such as craft beers and premium lagers.

Products and Services Segmentation



Source: IBISWorld

Cost of Living

The Bank of England estimates that inflation in the UK may reach 13% in Q1 of 2023. Rising prices reduce consumers' real disposable income, as a higher proportion of their income goes towards basic living expenses.

The effect of this on pubs and bars is twofold; customers have less disposable income to spend on eating and drinking out, and costs, such as drink and food prices increase, squeezing industry margins. This is giving rise to the industry trend of 'shrinkflation' whereby portion sizes decrease instead of prices increasing.

Deal Activity

Recent M&A Activity

M&A activity in the pubs and bars industry has returned to pre-pandemic levels in 2022, following a record-setting number of deals in 2021. Despite a sharp decrease in valuations during the Covid-19 pandemic, which saw a rise in the number of distressed transactions in the sector, EV/EBITDA multiples have now settled at around 7-8x; an increase of 11% from 2019 levels. The impact of the anticipated recession on future sector valuations remains to be seen.

Financial investors have become increasingly active in pubs and bars M&A, accounting for almost half of total deal value, a dramatic increase from approximately one-third of total deal value five years ago. Significant 'dry powder' and strong fundraising activities have increased private equity activity, facilitating the increased deal activity in the industry.



A selection of notable industry deals over the last 12 months are as follows:

Date	Company	Investor	Deal Size	Deal Type
12-Feb-22	The Inn Collection Group	Kings Park Capital	£300m	Buyout
31-Mar-22	The Pig Hotels	KSL Capital Partners	£202m	Buyout
09-Feb-22	Brasserie Bar	Alchemy Partners	£40m	Buyout
11-Aug-22	The Groucho Club	Artfarm	£40m	M&A
23-Nov-21	XP Factory	Escape Hunt	£17.38m	M&A
18-Oct-22	Peach Pub	Revolution Bars Group	£16.50m	M&A
21-Nov-21	Barrio Familia*	Nightcap	£5.6m	M&A

* Advised by the Gerald Edelman Deal Advisory Team

Competitive Landscape

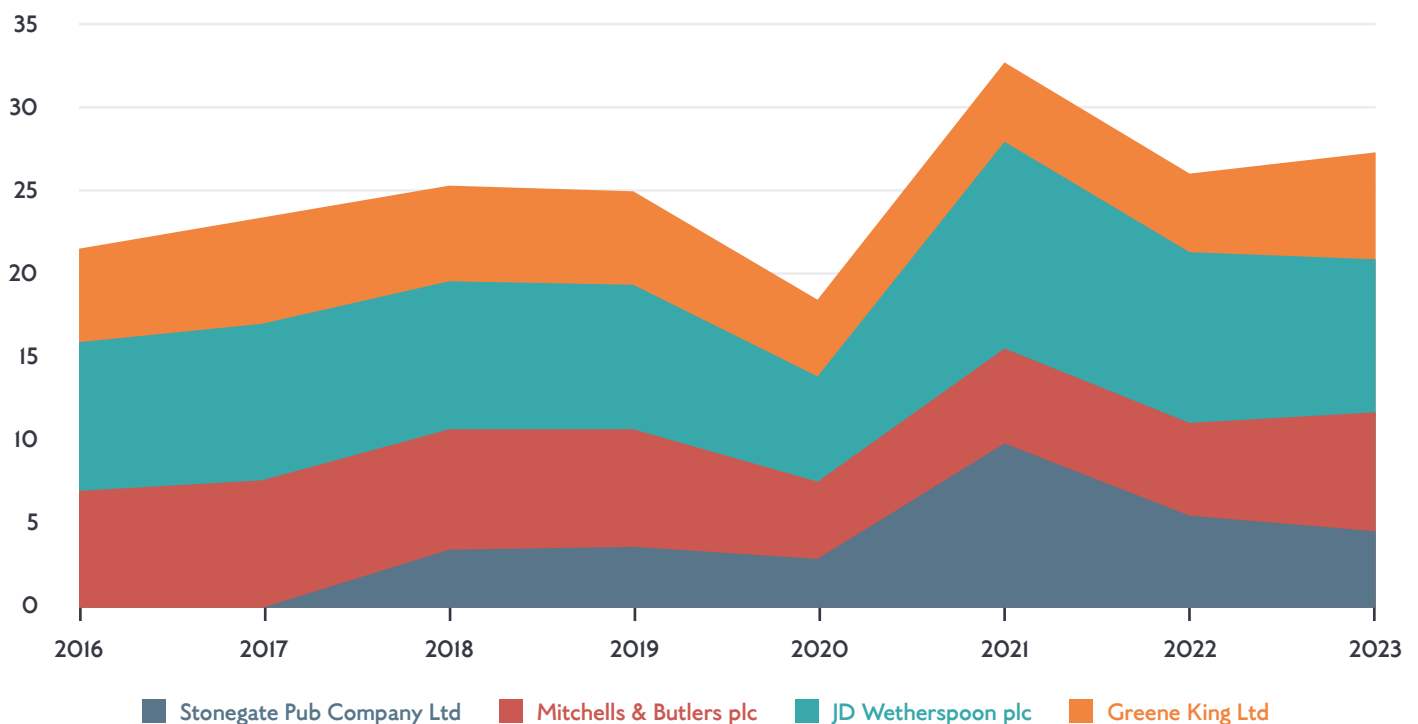
JD Wetherspoon plc is the largest industry player, maintaining an 8.9% market share. Their success is largely attributable to maintaining a hybrid model of drinks and food, with food sales constituting 36% of 2020-2021 company revenue.

However, their business model has been tested in recent months, with the company recently announcing the closure of 39 pubs, citing a slower than expected recovery in trading since the pandemic and substantially higher costs.

Other major players are Mitchells & Butlers plc, Greene King Ltd, and Stonegate Pub Company Ltd, with market shares of 7.2%, 6.2%, and 4.4% respectively.

The pubs and bars industry has a low market concentration, with the largest four companies holding a 26.7% combined market share in 2022-23. Market concentration is expected to increase in the coming years, with key industry players adopting aggressive M&A strategies, and a rise in private equity backed consolidators entering the market.

Major Players and Their Market Share 2016-2023



Outlook

Sector Threats

Demand from takeaway and fast-food restaurants is expected to grow in 2022-23, fuelled by busier consumer lifestyles, heavier workloads, and changes in preferences to favour eating and drinking at home. Furthermore, industry revenue is expected to be constrained by strong price competition from value supermarkets selling low-cost alcohol.

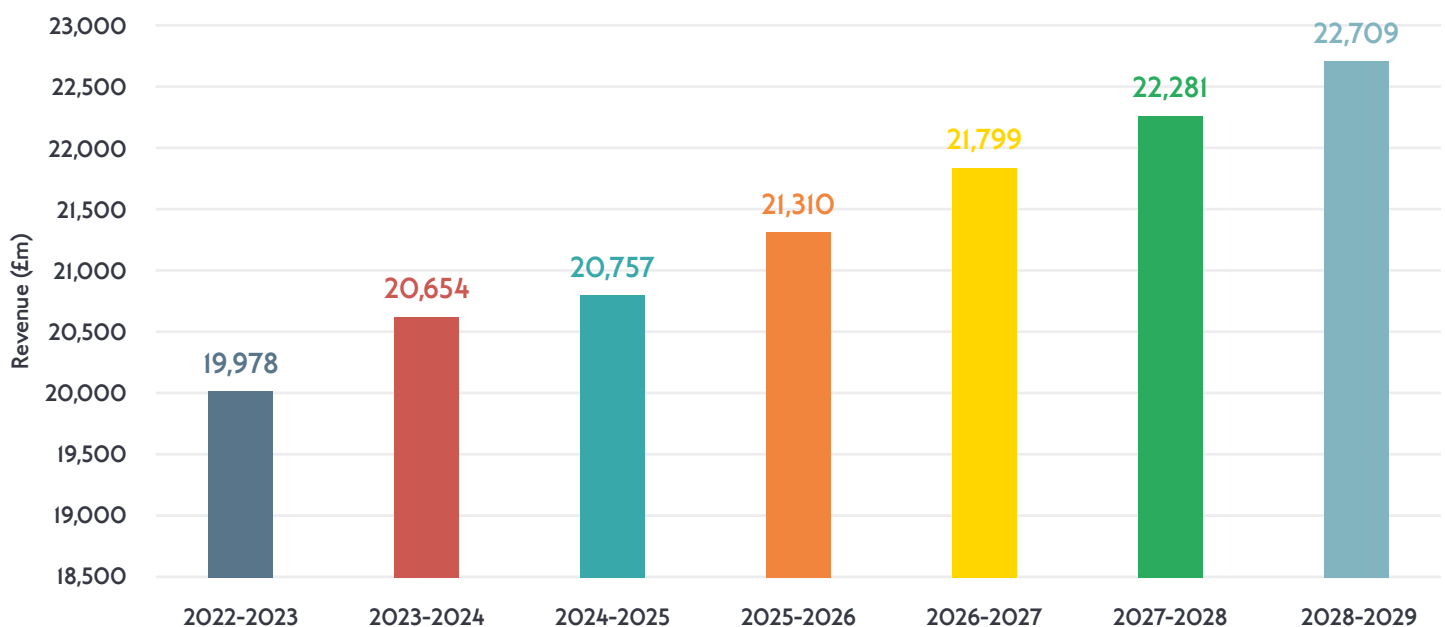
The possibility of a long-term recession and rising costs continue to be a key threat to the sector, with

customers being less likely to go to pubs and bars and more likely to consume food and beverages at home for a lower price.

Positive Sector Predictions

The pubs and bars industry is expected to experience steady growth in the coming years, with revenues forecast to grow at a CAGR of 2.2% over the 5 years through 2027-28, reaching £22.3 billion; although growth may be slowed by the possible recession in the medium term. Pubs and bars which offer food and 'premium' alcohol options are expected to perform particularly well during this period.

Performance Data Outlook



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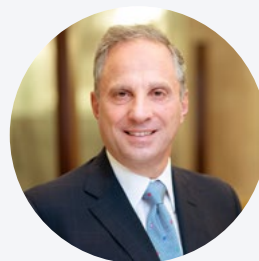
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