

Hospitality

Bars and Pubs

The bars and pubs industry is forecast to grow 0.7% in revenues next year to reach £19 billion.

The royal wedding, heat wave and football world cup last year saw the demand for bars and pubs increase significantly. Consumers have continued to be resilient, despite the uncertain political and economic environment that we currently live in, and actual spend in pubs and bars has increased in 2019.

Overview

Since January 2018, the bars and pubs sector has seen significant M&A activity. The prospect of strong returns from high quality managed pubs and bars presents an attractive opportunity for investors. This opportunity, alongside a wave of consolidation from existing firms within the sector, such as Greene King and Stonegate Pub Company, has helped fuel a surge in M&A activity.

Some of the risks to the industry over the past few years have involved declining alcohol consumption per capita and increased competition from supermarkets. Supermarkets have been able to offer far lower prices than pubs and bars by absorbing tax increases on alcohol. Particularly during times of economic uncertainty, lower priced alcohol from supermarkets to drink at home offers a cheaper alternative to alcohol purchases from pubs and bars. Furthermore, rising purchase costs, wage costs and high rates of tax have all constrained profitability in brick and mortar sites.

M&A

Two of the largest ever pub and bar transactions have been announced in the last few months. Hong Kong based CKA announced plans to acquire Greene King (and their 2,700 pubs) for £2.7 billion in August 2019, and Stonegate Pubs agreed to buy rival Ei Group, the UK's largest pub operator, formally known as Enterprise Inns, for £1.3 billion in July 2019.

The past five years has seen consolidation increase, with Greene King acquiring Spirit Pub Company plc in June 2015 and Mitchells & Butlers acquiring a significant number of establishments from the Orchid Group. Stonegate Pub Company has also expanded rapidly in recent years, acquiring 48 establishments from Be At One and Novus Leisure in July 2018.

With Brexit uncertainty driving lower domestic consumer spending within the UK, share prices for pubs and bars have fallen since the 2016 referendum. However, the industry has remained attractive, playing a prominent role in M&A. This has stemmed from an appetite for growth by existing businesses in the sector, and a strong private equity (PE) interest, with lower share prices creating a 'Brexit bargain' for investors. This PE interest in the sector, alongside the strategic consolidation, was evidenced by Simmons Bars being acquired by Lonsdale Capital to enhance its roll out and growth.

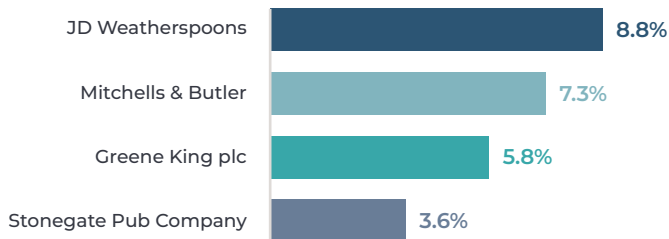
Investment activity has mainly focused on established chains (Simmons had 12 sites when sold), which grants more opportunities to strengthen market share, and less exposure to industry headwinds and Brexit when compared to smaller independents.

There have been over 180 M&A deals in the UK in the sector since the start of 2018. A selection of these deals are shown in the table below.

Companies	Investor	Amount
Greene King	CK Assets	£2.7B
Ei	Stonegate Pubs	£1.3B
Hawthorn Leisure	NewRiver	£106.8M
Laine	Patron Capital and Partners and May Capital	£45M
Star Pubs & Bars	Henieken UK	£44M
Redcomb Pubs	Young & o's Brewery	£34M
Puttshack	Promethean Investors	£30M
The Alchemist Bar & Restaurant	Loan from Santander	£16M
Fight Club Darts	Undisclosed	£15M
Brewdog	Draft House	£15M
Simmons Bars	Lonsdale Capital Partners	£10M
ETM	HSBC Holdings	£10M
Derby Pub Company	Puma Investments	£6.2M
The Evenlode	Prospect Pubs & Bars	£1.75M

The big players

The four largest companies are expected to have a combined market share of 25.5% in 2019 (JD Wetherspoons 8.8%, Mitchells & Butler 7.3%, Greene King plc 5.8%, Stonegate Pub Company Ltd 3.6%) pre-recent acquisitions.



Products and services

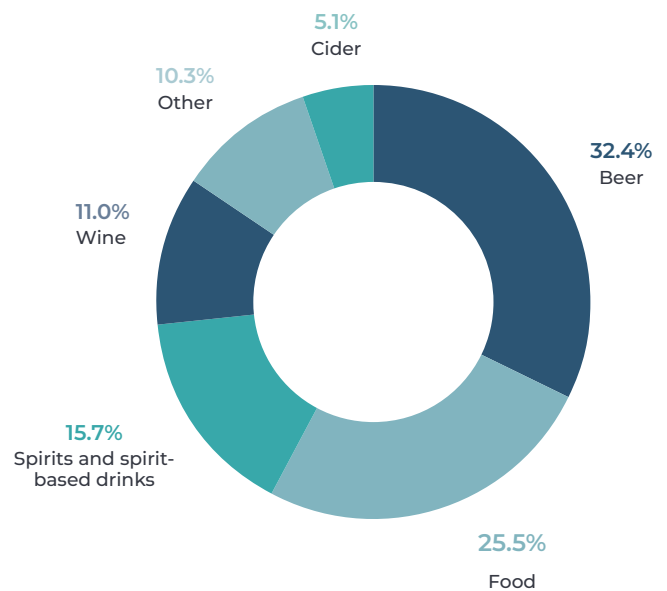
Beer is the industry's key revenue stream, although it makes up a smaller portion (expected 32.4%) than in the past due to food and other beverages, such as wine, spirits and cider, becoming more popular. The popularity of premium lagers and craft beers, which are slightly more expensive, alongside the surge in the 2018 World Cup mean that overall beer sales have still grown.

Although food has always been part of a pub's offering, since drink sales have declined, it plays a more vital role as operators attempt to keep up with changing consumer tastes and increase expenditure per customer (expected 25.5%).

Gin has rapidly grown in popularity, and spirit sales have increased as a proportion of industry revenue over the past five years. This has been caused by the increase in cocktail bars and premium decorative drinks. Sales of spirits and spirit-based drinks, or ready to drink beverages (RTDs), are expected to account for 15.7% of industry revenue in 2018-19. However, RTDs sales have fallen partly due to the awareness of sugar content.

Wine consumption at pubs and bars has grown strongly over the past five years and is expected to generate 11% of industry revenue in 2018-19. As a more sophisticated approach to wine drinking has become a trend, pubs and bars have responded by increasing their range of wines available, resulting in wine sales increasing. 71% of the adult drinking population drink wine, which is around 30 million wine drinkers in the United Kingdom (WSTA).

Products and service segments (2018-19)





Outlook

A rise in real household income, compared to previous years, and falling unemployment levels have led to increased popularity of premium products, such as decorative gin and craft beer. In 2017, gin overtook vodka and whiskey to become the nation's favourite spirit (WSTA)- potentially related to consumers favouring low-calorie options due to a rise in health consciousness. The increased popularity of premium beers and spirits has helped restrict the loss of sales in the industry. Despite this, the continued uncertainty relating to Brexit could cause consumers to tighten their belts.

Growth from the food-led pub sector performance is expected to be strong. Despite the oversupply of the casual dining market limiting the opportunity for growth, businesses such as JD Wetherspoons have made the most of this trend by offering quick and cheap alternatives to restaurant dining. Other industry operators have taken different approaches, such as offering a child friendly menu to encourage demand from families. It is expected that pubs and bars are likely to adapt menus to cater for the increasing health consciousness among consumers. The food-led pub sector is expected to stabilise overall industry performance, and revenue is expected to grow at a compound annual rate of 0.5% over the next five years to 2023-24 and reach £19.5 billion.

Threats to the sector

The majority of industry revenue is made up of alcohol consumption. Therefore, a rise in health awareness, an ageing population and economic uncertainty could prove detrimental to bars and pubs in the future. A number of independent pubs have had financial difficulties recently. High levels of tax and import costs, the increasing national living wage and poor sales has led to a considerable number of pub closures. This trend is likely to continue, and these closures have led to several campaigns calling for more relaxed tax regulations to give the industry a performance boost.

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- ▶ M&A and deal advisory
- ▶ HR advisory
- ▶ Tax planning and advice
- ▶ Valuations
- ▶ Due diligence
- ▶ Funding solutions



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