

# Pubs and Bars

After a year of turbulence induced by the Covid-19 pandemic, consumers have now flooded back to pubs and bars, putting the industry on the path to recovery.

A significant shift in consumer preferences, along with a growing interest in the food experience and a recent rise in staycations, has led to trading levels exceeding pre-pandemic levels within UK bars and pubs. The industry outlook remains optimistic, as consumers look to make the most of their newfound freedoms, despite the scaling back of government support and challenges with staff shortages.



## Overview

**The loosening of social distancing restrictions has afforded consumers rediscovered freedoms, and has recently allowed them to enjoy pubs and bars, favourable weather, the Euros, and a summer of staycations.**

This release of pent-up demand is expected to see industry revenue bounce back from a pandemic-induced slump, increasing by c. 130% in 2020-21. This resurgence in trading is expected to persist, with revenue growing at a compound rate of 7.2% over the next five years to return to pre-pandemic levels of over £20bn.

Whilst the UK Government has supported the industry via schemes such as CJRS, business rates relief, VAT deferrals and Eat Out to Help Out, inevitably some businesses have struggled throughout the pandemic as industry revenues fell to £6.3bn. This, coupled with the significant market fragmentation, leaves the industry ripe for investment and consolidation.

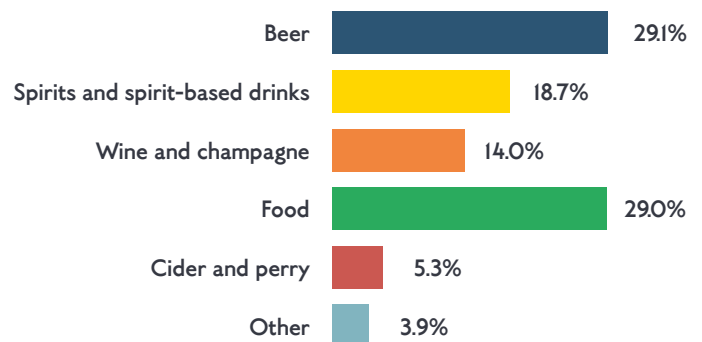
## Market Trends

### Health conscious consumers

Evolving consumer preferences have caused a significant shift in the industry over the past 5 years. As consumers become more health conscious, alcohol consumption is down compared to previous

generations and beer has declined in popularity in favour of wines, spirits and ciders. In order to adapt to the new consumer environment, some successful pub operators have gravitated towards gastro pubs experiences rather than the traditional wet-led establishments. This has involved expanding menus to keep up with health and sustainability trends, such as veganism.

### Products and Services Segmentation



Source: IBISWorld

### Premiumisation

Consumers are increasingly favouring premium drinks and food experiences, as individuals often seek the most 'instagrammable' establishments. This trend is expected to continue, with the Bank of England estimating that UK households have saved an estimated £100 billion during pandemic.

The hospitality industry is expected to reap the benefit of these additional savings, placing pubs and bars which have successfully established a premium offering, in an opportunistic market position.

## Geographic

Following a rise in consumer confidence and an influx of staycations, recent research suggests that trading within pubs and bars has exceeded pre-pandemic levels by 5% in August 2021. The strongest recoveries were typically from establishments located outside of the M25, as London continues to be impacted both by the relative lack of office workers and tourists.

## M&A Activity

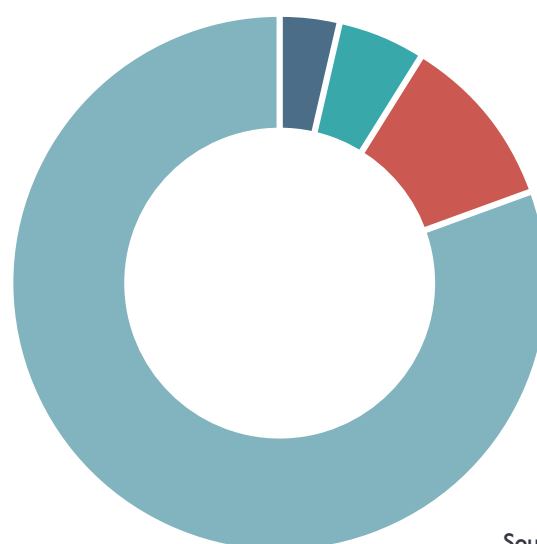
In the face of difficult trading conditions, M&A in the pubs and bars industry has remained active with over 60 deals completed since the start of 2020. A selection of recent deals is as follows:

Date	Company	Investor(s) / Acquirer	Deal Type
17-Dec-20	The Deltic Group	REKOM	Merger/ Acquisition
13-Jan-21	London Cocktail Club	Nightcap	Merger/ Acquisition
26-Jan-21	Red Mist Leisure	Revcap	Buyout/ LBO
05-Feb-21	Redcat Pub Company	Oaktree Capital Management	Growth Capital
08-Feb-21	Curious Brewery	Risk Capital Partners	Buyout/ LBO
04-May-21	Adventure Bar	Nightcap	Merger/ Acquisition
26-Jul-21	Little Britain Pub Company	Redcat Pub Company, Oaktree Capital Management	Buyout/ LBO
20-Aug-21	Hawthorn Leisure	Admiral Taverns, Proprium Capital Partners	Buyout/ LBO

Consolidation has been occurring in the industry for a number of years, most notably Stonegate Pub Company's acquisition of Ei Group for £1.3bn in March 2020. Despite these recent consolidations, the market remains fragmented, with the three major players expected to be limited to a combined market share of 19.6% in 2021-22.

In light of this, we expect that consolidation will continue to be a major trend in the industry, as shown by the recently formed Nightcap's acquisitions of the Adventure Bar and London Cocktail Club chains earlier this year. Companies that will be at the top of prospective consolidators' lists are likely to be those that have adapted to evolving consumer trends, developed a premium offering and successfully implemented modern technology.

## Major Player Market Share



Source: IBISWorld

- 3.7% Greene King plc (£529.4m)
- 5.4% Mitchells & Butlers plc (£772.7m)
- 10.5% JD Wetherspoon plc (£1.5bn)
- 80.4% Other (£11.5bn)

We expect that some of the significant amounts of dry powder that many private equity firms are holding will now be deployed to take advantage of the post-pandemic recovery in the industry. Most recently, Redcat Pub Company, the acquisition vehicle created by former Greene King CEO Rooney Anand, raised a £200m 'war-chest' from US-based investor Oaktree Capital. Despite having only secured the funding earlier this year, Redcat Pub Company have already acquired over 60 sites and we expect them to continue to be an active player in the hospitality sector's M&A market.



## Threats to the sector

Those within the industry will be well aware that it is currently experiencing a human resource shortage. The industry relies heavily on EU migrants who make up a large portion of their workforce, but new immigration policies implemented as a result of Brexit have reduced access to this market, as many workers do not qualify for 'skilled worker' status. Throughout the pandemic, this shortage has been exacerbated both by staff leaving the industry due to uncertainty over their positions and also the quarantine requirements.

Furthermore, the industry returning to normality brings a VAT cost, as the temporarily reduced rate of 5% on food and non-alcoholic drinks has increased to 12½% from 1 October and will return 20% from 1 April 2022. A decision will need to be made on whether this increase can be absorbed or whether prices will need to rise or whether there will be a combination of the two.

As we move towards a post-Covid-19 world, there is optimism in the industry, tempered by uncertainty given the threat of future lockdowns still looms large. With a question still being posed around future virus

variations and the long-term efficacy of the existing vaccines, industry leaders know they are not yet completely out of the woods.

## Outlook

Industry operators have reason to be optimistic, as a resurgence in trading led by the release of pent-up demand is allowing industry trade to return to pre-pandemic levels. The recovery is expected to continue as consumers look to make the most of their rediscovered freedoms. Although the ongoing labour shortage and Covid-19 uncertainty may prove to be short-term headwinds, these factors are also providing the impetus for technical innovation, which may lead to greater efficiency and profitability in the long-term.

M&A activity has been strong, with consolidation expected to continue going forward. With private equity interest in the industry returning, we expect there to be considerable activity as both financial investors and industry operators look to take advantage of this fragmented sector's post-pandemic recovery.



## CONTACT US

**Nick Wallis**

**PARTNER**

+44 (0)20 7299 1420

nwallis@geraldedelman.com

MEET NICK

**Richard Kleiner**

**PARTNER**

+44 (0)20 7299 1405

rkleiner@geraldedelman.com

MEET RICHARD

**Richard Staunton**

**PARTNER**

+44 (0)20 7299 1438

rstaunton@geraldedelman.com

MEET RICHARD



City of London Office

73 Cornhill, London, EC3V 3QQ +44 (0)20 7299 1400 hello@geraldedelman.com



GERALD  
EDELMAN