

Christie + Co Market Analysis

Late-night venues feel the strain

The UK's late-night venue and bingo sectors continue to feel the impact of the recession. The slowdown in consumer spending, rise in youth unemployment, the ongoing fallout from the smoking ban and other legislative changes continue to ensure that the trading environment remains challenging for many.

The industry is still suffering a hangover from the "me too" years, where operators flooded to the high street in order to capture a slot on the drinking circuit. Increased competition led to operators chasing the same leisure pound whilst paying more for their costs of occupation.

High street rental levels that are based on floor areas, or over-ambitious sale and leaseback deals, have proved inflexible and left many retailers struggling to move their businesses forward. Flat or diminishing sales versus increasing operating costs have translated into weakening profit conversion and have ultimately had a negative impact on value.

Established high street operators, such as Premium Bars and Restaurants (PBR) and Regent Inns both entered administration during 2009. Regent Inns quickly reappeared as part of a management buyout, whilst the Orchid Group acquired PBR at the end of the year.

Regional chains, such as Absolute Leisure in the North East, also fell by the wayside, as the squeeze on consumer spending tightened and asset reinvestment remained under pressure.

Earlier in the year, the UK's biggest nightclub operator, Luminar Leisure, announced plans to raise £37.5 million in a share placing, to expand and develop its business and to take advantage of opportunities coming to the market.

However, in December the company reported like-for-like sales down 13.8% in December and warned that it now expected full-year profits to be below market expectations.

The 3D Entertainment business, which was spun out of Luminar in 2007 for £95 million, was reportedly placed on the market in October, after claims that it tried, unsuccessfully, to merge with both PBR and Regent during the year. Luminar, which held a 49% stake in the business, was said to have slashed the price for its interest to less than £5 million.

Despite the challenging trading environment, a number of deals were completed in the sector during 2009, including the disposal, by Luminar, of 27 sites to Cavendish Bars. In June, Christie + Co acted on behalf of Regent Inns in the sale of seven of its Walkabout sites, which were also acquired by Cavendish.

The following month brought the sale of Nexum Leisure's Zanzibar nightclub in Stafford, through Christie + Co, to West-Midlands operator, Utopia Clubs. In November, RCapital, the backer of Little Chef, completed the acquisition of 28 sites from Helena Leisure.

Deal activity has continued into 2010, with reports suggesting that JD Wetherspoon and 3D Entertainment have exchanged contracts over the sale of 12 leasehold nightclubs.

The start of this year also brought the announcement of a tie up between Luminar and HMV, the high street music and book retailer. This will start as a three-month trial involving Luminar's clubs in Nottingham, Birmingham, Leicester and Cardiff, and will see the clubs working with nearby HMV stores to drive sales in each other's outlets.

The move by HMV, follows the company's bid to take over full control of music venue operator, the Mama Group. If successful, the proposed buyout of Mama, already HMV's joint-venture partner on a number of venues, will give the company an increased share of the thriving live events market.

Bingo operators continued to come under pressure, but the sector has shown some tentative signs of improvement, as smoking ban measures began to take effect. The Government announced a 2% cut in bingo duty to 20% in the second half of the year, in an attempt to halt the rate of bingo hall closures. Although this measure was a step in the right direction, many in the industry saw it as being too little, too late.

The future of operator Gala Coral also came into question during 2009, with the company hoping to complete a refinancing – although the situation, which is still ongoing, was complicated by an approach from Blackstone. Recent reports suggest that a consortium of distressed debt investors and hedge funds are set to gain control of the gaming group within the first quarter of this year.

The late-night sector has the potential for recovery in the medium-term, especially as the licensed leisure market continues to evolve and greater interaction between landlords, investors and operators becomes more widespread.

The reality, we believe, is that the sector is set for another tough 12 months, with more pre-packs and administrations inevitable, as the banks continue to reappraise and reposition their exposure to what is recognised as a high-risk, high-reward market.

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