

Christie + Co Market Analysis

Restaurants remain on the menu despite belt tightening

Administrations and promotions have dominated the UK's restaurant landscape over the last nine months, as many operators have concentrated on the latter to escape the former.

At the start of the year, we witnessed to a spate of promotions and 2-for-1 deals as operators tried to counter the slowdown in consumer spending brought on by the credit crunch and latterly the recession.

Unfortunately, several businesses have failed since the turn of the year including high profile casualties such as Tom Aitken and Anthony Worrall-Thompson, established groups like Premium Bars and Restaurants and Fishworks, plus many independent operators.

Transactional activity which had slowed in 2008 remained at a low level during this year. The appetite for medium-sized packages remained low and until debt and credit markets reopen, there is little likelihood of a return to the M&A activity which characterised the restaurant sector pre-2007

Many leading restaurant operators continued to pull back on their expansion plans in order to concentrate on operational efficiencies, leaving the door open for fledgling brands to gain market share.

Emerging operators such as Jamie's Italian and Cote have been able to grow their estates and place their brands firmly in the minds of consumers, giving them a base to expand even further over the next few years.

The test for these emerging operators now is to build on their initial inroads and success, especially when a recovery begins and the more established companies return to the acquisition trail in earnest.

With the majority of the national operators focusing on paying down debt, raising new funds and streamlining their operations, a buying vacuum has also been left in regional markets into which established local operators have started to move. The lack of competition for high street sites is allowing for modest expansion in regional areas and in some cases nationally.

While challenging for independent operators, many newcomers, such as MasterChef 2009 winner Mat Follas, have still been prepared to back their own expertise and open their own restaurants.

The recession has also proven to be good for pizza delivery operators, with both Domino's Pizza and Papa Johns reporting growing sales and increased expansion plans.

Although conditions remained challenging during the year, the landslide of administrations, which were forecast, have not materialised, helped by promotions but also by the drop in interest rates that has left consumers feeling better off.

The latest trading updates from some of the major chains suggest that the appetite of consumers for eating out still remains healthy, with some reporting positive like-for-like figures over the summer and autumn months.

From the conversations we have had with clients and operators most are expecting a favourable run-up to the end of the year in comparison to last year's final tough quarter, which was impacted by the fallout from the Lehman Brothers' collapse.

However, all remain cautious, with VAT set to return to 17.5% in January and interest rates expected to rise at some point in 2010. Both of these measures will impact consumer spending putting further pressure on margins. Despite this it is hoped that the steps taken by the majority of operators over the last 12 months and the continued emergence of new concepts and entrepreneurs will enable the sector and transactional activity to remain resilient in the year ahead.

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