

Hospitality sector M&A continues to be relevant despite the macro environment

Challenging backdrop but transactions are happening

In many ways, 2022 could be seen as an annus horribilis for the hospitality sector. Most operators entered the year feeling cautiously optimistic. The worst of the disruption from Covid-19 seemed to be in the rear-view mirror and a more settled trading environment coupled with pent-up consumer demand promised fruitful trading. By contrast, the challenges the sector has ended up facing this year have been well documented (not least by our esteemed research colleagues who have just published on the sector – please get in contact if you would like a copy).

According to ONS data real wages fell by 2.6% in the year to April (the biggest

decline in more than a decade) and annual consumer price inflation was running at 10.1% in September. The largest interest rate rise since 1989 coupled with uncertainty over energy prices (despite recent wholesale gas price falls) present a challenging backdrop for the sector. Despite this challenging macro-backdrop a number of M&A transactions have successfully completed during 2022 although it is clear that the “bar” has been raised for many potential purchasers and for others, the sector is out of favour.

Most processes in the second half of the year have sold to trade acquirers and we attribute this to a combination of factors.

Diversifying consumer exposure – variations on a theme

Trade acquirers are winning out where there is a compelling strategic rationale. On our two most recent hospitality transactions diversification and, more specifically, diversifying exposure to the consumer has been a key theme.

M&A is inherently risky and pursuing a transaction has to be balanced against other growth initiatives / capital allocation opportunities. Market conditions are such that well capitalised operators can access leases that would historically have been the preserve of retailers and on comparatively favourable terms. M&A therefore needs to offer more than “more of the same” and favourable lease terms.

Both [Barburrito \(sale to The Restaurant Group plc\)](#) and [Peach Pubs \(sale to Revolution Bars Group plc\)](#) are good examples of this. In the

case of Barburrito, this gives TRG a QSR offering which plays into a number of key consumer trends. The healthy, fully customisable menu that can be prepared quickly, at an attractive price point and travels well for delivery is a smart addition to TRG's stable given current market conditions. The Mexican cuisine category is also underpenetrated in the UK at present, giving TRG an attractive roll-out option in the current lease environment.

Peach Pubs transaction with Revolution is another good example, albeit in a different way. Peach's focus on premium, food-led gastropubs in affluent rural locations adds a different product and customer base to Revolution's wet-led city-centre bars whilst still offering back-of-house and central office synergy opportunities.



Private Equity considers its appetite

Private Equity funds, for the most part, invest across several preferred sectors or are sector agnostic. The current pressure on the consumer is pushing the sector lower down the priority list for investors and investment committees are particularly sceptical of new platform investments where the business is

directly reliant on consumer spending.

That is not to say that the sector is completely off the menu, but it is harder for Private Equity to compete with strategic purchasers that are able to extract synergies from a combination.



What comes next?

The transaction pipeline looks strong going into 2023. Sellers have been encouraged by those deals that have happened during 2022 and there are buyers for the right opportunity.

The backdrop cannot be ignored and executing deals in this environment is difficult. More than ever, appointing an adviser that

understands the sector; your goals; and those of the buyer and, is willing and able to get into the trenches with you is critical to delivering a successful outcome.



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Henry Wells

HEAD OF CONSUMER,
FINNCAP GROUP

+44 (0)20 7908 6003

+44 (0)7733 122 437

hwells@finncapgroup.com



Mark Stoddart

DIRECTOR

+44 (0)20 7908 6010

+44 (0)7709 067 632

mstoddart@cavendish.com



One Bartholomew Close
London, EC1A 7BL

+44 (0) 20 7908 6000

WWW.FINNCAPCAVENDISH.COM

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