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CORPORATE FINANCE

Food, Beverage & Hospitality

Market Update: COVID-19

March 2020

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Jamie Kennell is a Partner at Gambit Corporate Finance and leads the food, beverage and hospitality team. Jamie has been an owner-manager on several occasions during his career and is currently the co-owner and non-executive director of a restaurant group with 8 locations in the UK. He has experience of successfully managing businesses through periods of uncertainty.

For industry operators who are currently facing the immediate impacts of COVID-19, Gambit Corporate Finance will provide the latest updates which are affecting the sector and how best to mitigate the negative implications of COVID-19.

COVID-19 Update:

Government policy is evolving daily, however the latest policy decisions include strict measures on civil liberties, the closure of all non-essential retail outlets, cafes, pubs and restaurants, with the current exemption in the hospitality space of take-away outlets.

During this time there are a number of measures that have been taken to support businesses.

Government Policy:

- Government commitment of a £350bn stimulus to help support businesses throughout the COVID-19 outbreak.
- Legislation relaxation around restaurants temporarily implementing takeaway models to support a base sales framework.
- Government guarantees on 80% of wages (up to £2,500) for employees in the hospitality sector potentially saving in excess of 1m jobs.
- Introduction of forfeiture moratorium that will prevent landlords from repossessing commercial properties if businesses are unable to pay rent.
- VAT payment deferrals from 20th March 2020 until 30th June 2020.
- Government backing to legitimate insurance claims.
- Business rate holidays for all firms in the hospitality sector for 12 months. In addition to, providing a further £25,000 grants to hospitality businesses operating from smaller premises.

Lenders:

- Bank of England interest rates are at 0.1% encouraging banks to improve lending accessibility to support industries most effected by COVID-19.
- High-street banks have offered support schemes for both individuals and SMEs that are the most exposed to COVID-19.
- Government backed banking loans are available through the Coronavirus Business Interruption Loan Scheme (CBILS) for businesses with an annual turnover below £45m.
- The Bank of England has launched the separate Corporate Financing Facility (CCFF), for organisations that make a material contribution to the UK economy.
- It is evident that there is a Government backed funding gap for the mid-market, however this issue is currently under review and will be addressed.
- Businesses should examine and evaluate all facilities that are available to them, adding further liquidity to business models will better equip them to combat the current levels of uncertainty in the economy.
- Gambit Corporate Finance remains in active dialogue with all banks, alternative providers of finance, the British Business Bank and the CBI, amongst others.

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Hospitality

- All cafes, pubs and restaurants are now closed other than for takeaways models.
- The large QSR operators by closing retail operations (McDonalds, Subway, Costa etc.), will reduce competition for delivery services in the SME sector.
- Home delivery platforms will provide a basic sales model for restaurants situated in major urban areas.
- Crowdfunder has set up a pay it forward option to enable consumers to book meals which are redeemable in the future.
- Several hospitality businesses are temporality turning their restaurants in click and collects.
- Hotels are offering bedrooms and meetings to the NHS to help ease pressure on hospitals.
- Hospitality Action have launched a COVID-19 grant scheme for worker affected by the pandemic.

Key Outcomes:

All cafes, pubs and restaurants are now closed.

Legislation relaxed surrounding hot takeaway food.

Implementation of forfeiture moratorium for businesses.

Food

- At least in the short term, food retailers will experience a significant uplift in demand, in excess of 50%.
- Fresh food suppliers have added direct-to-consumer home delivery services from depots around the UK.
- The food multiples such as Tesco, Asda, Aldi, and Lidl are temporarily increasing their work force to meet demand.
- Export markets, at least in the short term, are likely to be restricted as borders close across Europe, China and the US.
- The retail multiples are implementing policies to alleviate pressure on supply chains and reduce stockpiling.
- There is widespread evidence of companies implementing contingency plans to prepare for deeper supply chain disruptions, both internationally and within the UK over the next 3 to 6 months.
- UK food retail sales are £1bn ahead of which is ordinarily expected at this time of year.

Key Outcomes:

Consumers stockpiling causes a surge in demand.

Policies to reduce pressure on supply chains.

Travel restrictions to limit UK export and import of goods.

Beverage

- Similarly, to the food industry, consumers appear to continue to stockpile causing elevated levels of demand.
- Off premise drinks brands have seen exponential sale increases.
- Breweries are electing to diversify their income streams by promoting new retail products such as 'Pub in a Box'.
- Serval drink retailers have turned their operations into 'drive thrus' as they look to maintain their trading traction amid the outbreak.
- Distilleries across the UK have been diversifying their revenue streams and supporting the community by extending production to utilise alcohol supply for the inclusion in emergency supplies.
- The Drinks Trust has launched a campaign to support individuals of the industry through the weeks ahead.

Key Outcomes:

Consumers stockpiling causes a surge in demand.

Diversifying revenue streams with a focus on ecommerce.

Industry bodies and the UK government offering support.

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Practical Considerations for Businesses:

- For businesses that are experiencing the negative trading effects of the outbreak, it is essential to engage directly with their insurers, bank, landlord and HMRC.
- Every business needs to develop a COVID-19 management response and action plan to cover the next 3-6 months.
- Trading forecast should be revisited and regularly updated to reflect the likely impact of the COVID-19.
- Establish a maintainable cost model.
- Utilise food technology where possible and pursue direct-to-consumer delivery channels.
- Reaching out to the wider hospitality sector to establish the 'best in class' survival techniques and deliverables over the next 3-6 months.
- Looking at alternative strategies such as crowdfunding, community funding and loyal customer funding initiatives.
- Seeking professional advice and addressing the points above is likely to help alleviate anxiety around the impact COVID-19 and its medium to long term impact on the business and its stakeholders.
- **We would be happy to speak with any businesses that have concerns and wish to understand the options available to them, including working to finalise a COVID-19 Plan and CBILS application.**

Contact Details

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Gambit Corporate Finance

Established in 1992, Gambit is an independent corporate finance advisory firm specialising in advising private and public companies on mid-market transactions in the UK and overseas. With offices in London and Cardiff, Gambit is widely recognised as a market leader in M&A advice in the hospitality sector having built up detailed industry knowledge and an enviable track record in deal origination and execution.

www.gambitcf.co.uk

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