THE UKHOSPITALITY CHRISTIE & CO BENCHMARKING REPORT 2022

Abridged

UKHOSPITALITY

CHRISTIE & CO

CONTENTS

Foreword

Christie & Co has been involved with the report in some capacity for several years, and the 2022 edition will be our fourth year of authoring the report. We remain fully committed to continuing our support into future years, and look forward to driving the report forward with the benefit of the increased membership of an enlarged and growing organisation.

The events that have taken place since the last benchmarking report have had a significant impact on our sector, with relentless economic and operational challenges forcing operators to adapt, with many operators unfortunately not able to sustain business, yet some have managed to survive and even enjoy growth.

As a result, the responses this year reflect the continuing evolution of both the UK consumer and investor landscapes as the sector emerged from one of the most challenging periods in its history. This is perhaps demonstrated most accurately by the revenue profile of the overall survey, which is the most diverse the report has ever seen. Room revenue now represents a significant proportion of turnover, continuing to grow at a strong pace, as more operators seek to benefit from high margin letting rooms.

Accommodation-Led outlets also saw the highest like-for-like growth in revenue in comparison to H2 2019, ahead of inflation, as the staycation boom directed demand to regional and coastal locations.

The overall picture for top-line growth showed a contraction of 2.3% on 2019 levels, however we expect like-for-likes to improve in 2022 as consumers return to licenced venues to reclaim much of the lost socialising activity in the last two years.

Unsurprisingly, operating costs have increased to challenging levels at 55.2% of turnover before rent. This increase has been driven by utility, premise and operational costs rather than payroll, which has seen a minor decrease due to the impact of furlough and staffing efficiencies resulting from the implementation of technology to assist service and more dynamic staff rotas.

From a Christie & Co perspective in terms of the transactional market, we are seeing strong demand for assets at the premium and value end of the spectrum, with fewer opportunities in the midmarket. Lack of supply and the strong presence of buyers in the market has resulted in relatively robust pricing, with freehold assets remaining more attractive, although there is still good demand for free-of-tie leasehold sites in prime locations.

Christie & Co has a wealth of expertise in the licenced hospitality sector, across the hotels, pubs and restaurants divisions, and our agents, valuers and consultants alike are available to assist UKHospitality's members, and investors, with transactions, advice and business planning on both a strategic and operational level.

Stephen Owens
Managing Director – Pubs & Restaurants
Christie & Co

Executive Summary

Operators look to alternative revenue streams to drive trade

Like-for-likes average -2.3%

This year's annual benchmarking report is the 13th edition, and benefits from the inclusion of an additional and separate segment to the licenced segments, Hotels. In future reports, we will strive to include the broader membership of UKHospitality as the membership base grows across all our segments. As in previous years, we seek not only to observe the trends within the industry, but also include a more in-depth analysis as to their underlying causes. Our success in doing so is in no small part thanks to the close collaboration between Christie & Co and UKHospitality, both of whom continue to contribute materially to the production of the report.

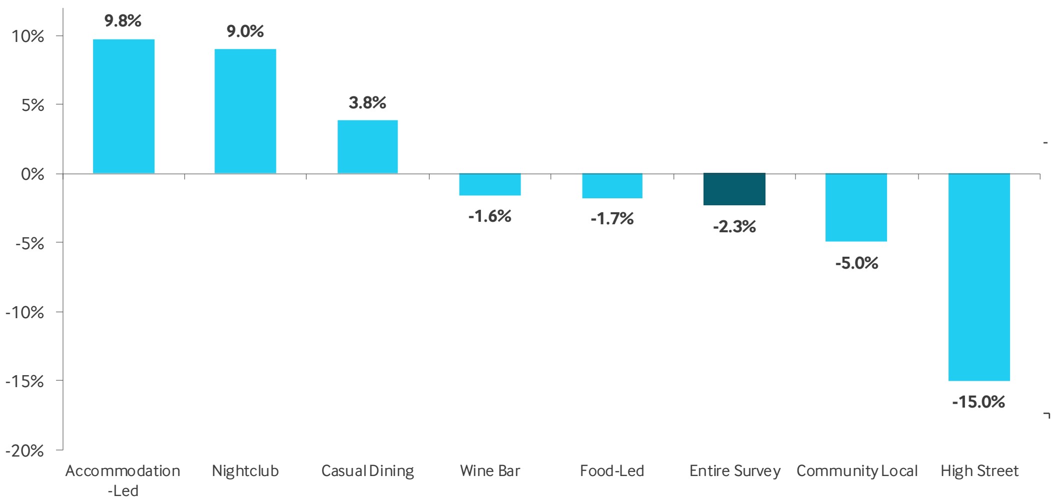
This year's report is based on results for the six months to December 2021, due to the impact of the pandemic in 2021 and the restricted trading the first half of the year. Our approach to conducting the survey as a simple series of questions for operators was kept in line with previous years, and we thank all those members who contributed this year.

54 companies participated in the survey, providing data covering a total of 4,791 licenced managed outlets, and 15 companies provided responses covering 357 hotel outlets. This is a significant increase on the previous report, particularly in terms of the number of companies participating in the survey, and indicates the inclusion of many more smaller to medium sized multiple operators.

Analysis of survey responses in the current year has revealed the following key trends:

- Faced with a continued shift in consumer demand and operators finding alternative ways to drive business, the revenue profile for licenced outlets has never been more diverse, with accommodation sales now forming a far more significant proportion of overall revenue
- The overall survey saw a contraction in revenue of 2.3%, with three segments in growth, two of which outpacing inflation for the period: Accommodation-Led and Nightclub segments

Like-for-Like Growth by Market Segment

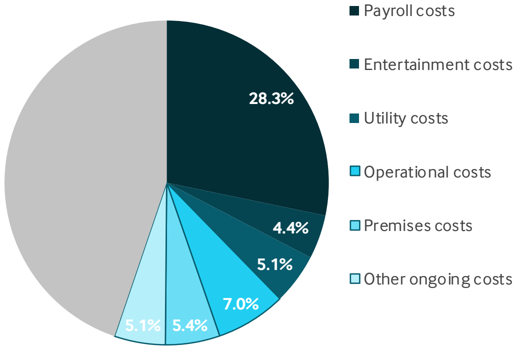


Source: The UKHospitality Christie & Co Benchmarking Survey

Operating costs continue to rise, with payroll the biggest component

- The average capital expenditure across the entire survey was 3.8%, a 0.3ppts increase on the previous survey, which was at the low point of the investment cycle. Given the time and events that have passed since the last survey, however, it is difficult to know where we are in the overall investment cycle and we hope that next year's survey will provide us with a clearer picture in this regard
- The average overheads associated with running a licenced premises increased by 2.7ppts since the last survey to now stand at 55.2% of annual turnover, the highest total recorded since 2007. Results vary between segments of the market from lows of 47.6% for Wine Bars, to a high of 59.8% for Accommodation-Led outlets
- Whilst payroll costs remain the single most significant cost for operators, there has been a slight decrease of 1.2ppts to 28.3% over the year, as operators took advantage of the Government's furlough scheme to protect jobs and operate a leaner staff schedule. Overall cost increases were therefore driven by utility, premise and operational costs, which represent 27% of turnover on average

Operating Costs - % of Turnover



Source: The UKHospitality Christie & Co Benchmarking Survey

We hope that you find this report to be informative - it is our intention that stakeholders use the data contained within to support benchmarking themselves and competitors, as well as to inform policy and assist with strategic business decisions.

Kate Nicholls OBE
Chief Executive Officer
UKHospitality

1. Introduction

An established point of reference for the hospitality sector

A unique insight into operating costs, market trends and sector performance

Overview

The UKHospitality Christie & Co Benchmarking Report 2022 is the 13th edition, and publishes the results of the latest benchmarking survey, for the period covering six months up to and including 31 December 2021, and includes an entirely new section covering Hotels. It is the only report in the industry that is based on actual profit & loss accounts, which are provided by UKHospitality members, and therefore does not rely on assumptions. This ensures that the analysis is a true reflection of the various individual segments and the wider hospitality sector.

It was almost impossible to predict what followed in 2020, and with the severe disruption caused by the impact of COVID-19 on the hospitality industry and the UK more generally. This year's report aims to provide a snapshot of the sector as it emerged from one of the most difficult challenges it has had to face in history. As a result, an in-depth understanding of both turnover and controllable operating costs are more integral to business planning and success than ever before.

The original survey aimed to provide an understanding of the average costs associated with running a licenced business in the UK, and the four main objectives behind that survey remain as relevant now as they did in 2007:

- **To support the development of KPIs for commonly-reported operating costs** - understanding costs at an outlet level can allow for internal reviews of cost structure, as well as comparison against the industry as a whole, by market segment and by size of business. This is particularly helpful for smaller operators who cannot readily draw comparisons from within their estate.
- **To provide a point of reference for operators seeking to assess performance** - by benchmarking outlet and individual performance, operators can assess the ability of managers and tenants to control and allocate costs, as well as understand the impact this may have on profitability
- **To equip operators with evidence to support business valuations** - rent reviews and rates revaluations are often partly based on assumptions. For example, landlords commonly make a fixed allowance for operating costs. The survey quantifies these costs and allows for differences in trading style to be taken into account
- **To provide UKHospitality with reliable and robust information** - evidence of the long-term and emerging trends within the wider industry can be shared with the Government and other key industry stakeholders for the ultimate benefit of UKHospitality's members

After four years of disruption, continuation of the Benchmarking Report in 2022 provides a feed on the performance of hospitality operators and the sector as a whole in comparison to pre-pandemic performance, and it is our intention to return to undertaking the survey annually as was the case prior to this year's survey, thereby recreating a link to a repository of historical data that will allow for the ongoing analysis of emerging trends within the industry as we embrace the post-COVID-19 era.

Protecting the anonymity of respondents is paramount

Methodology

In keeping with the approach we have adopted in previous years, this year's survey was devised as a simple series of questions to be completed by operators. The questions contained within the survey covered five main areas of inquiry:

- **Company information** - including company name (not publicly disclosed) and the total number of outlets owned and operated
- **Managed outlet information** - including a matrix of the number of managed outlets operated, together with their tenure and operational or trading style
- **Trading information** - including turnover composition, gross profit margins on food and wet sales, and like-for-like growth for the total managed estate, as well as for the company's leasehold and freehold assets by operational or trading style
- **Operational costs** - including the percentage of outlet turnover accounted for by common operating cost categories, as well as rent and capital expenditure
- **Questionnaire** - on the impact of specific legislative events and confidence in the sector

This year's survey introduced a new distribution and collection methodology, by welcoming the help of CGA Strategy (powered by NielsenIQ). The questions were distributed via an online survey that was sent to all operators with UKHospitality membership, and through the trade press and direct correspondence to include non-members and single site operators.

An illustrative example of the survey is included within Appendix I of the full version of this report.

Analysis

For the purposes of our analysis, the term "average" refers to the mean of all company responses.

Unless otherwise indicated, the source of all graphs, charts, tables and statistics quoted within this report is The UKHospitality Christie & Co Benchmarking Survey 2021.

Information within this report is dated to correspond with the year in which respondents' underlying results were recorded, and not the year in which the benchmarking report was subsequently produced. This differs from the method of presentation adopted in early editions of the report.

Percentages quoted are rounded for presentational purposes, and may not sum exactly to 100%.

Confidentiality

UKHospitality considers the confidentiality of respondent companies' data to be paramount, and individual responses are never disclosed. As such, all results presented within this report are an aggregation of the data contained within multiple survey responses, and all information contained within individual responses remains anonymous.

Disclaimer

Where this report is to be used in preparing business plans or for other purposes it should be noted that the sector has been through an extremely turbulent period since the last survey was conducted. Given the events of the last two years and the impact on the sector as well as the shorter survey period, we advise reviewing the data in this year's report with extra caution.

Confidential data provided by our members is invaluable, and enables accurate analysis of the industry

2. Response Overview

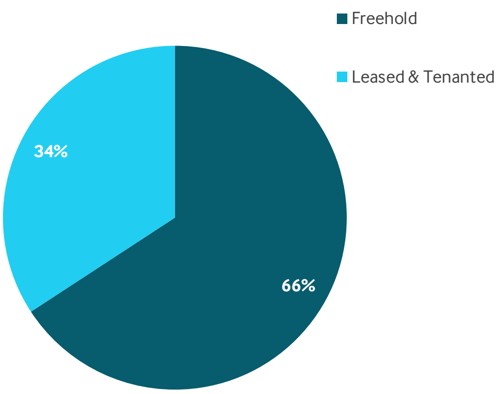
Majority of outlets operated on a freehold basis

Largest sample of respondent companies in the survey's history

Respondents

Participation was the strongest the survey has ever seen, most likely due to the newly reinforced membership base of UKHospitality. There is a strong representation across all categories of company size and trading style, with detailed responses received from 54 licenced companies. In addition to this, there were 15 hotel companies that provided responses to the survey for the first time.

Those participating companies provided data covering a total of 4,791 licenced managed outlets, with a further 357 outlets representing the hotel sector. This is significantly above the level typically obtained by independent trade surveys and commentators, and statistical analysis of the data and observed trends is therefore robust and reliable.



Source: The UKHospitality Christie & Co Benchmarking Survey

Ownership Structure

The majority of the outlets within the licenced sector were operated on a freehold basis (66%). The remaining leasehold outlets were split into commercial leases and industry leases. The former are free-of-tie and are representative of most of the sample set for leasehold outlets, at 97%. "Industry" leases, which are given by a pub company or brewery and usually impose some form of "tie" requiring the tenant to purchase wet products through its pub landlord. As expected, the two segments that accounted for the most leasehold outlets were Casual Dining and High Street.

Operational Style

Operators were asked to classify the assets within their estate into defined market segments within the hospitality sector – Community Local, Food-Led, Casual Dining, High Street, Accommodation-Led, Nightclub, Wine Bar and Hotel. The definitions of these market segments are set out within Appendix I of the full version of this report, and intentionally mirror classifications typically used by other industry research bodies, for ease of comparability.

A reliable and representative snapshot of the hospitality industry

Between seven and 23 companies provided data for each individual sector, resulting in statistically reliable conclusions to be drawn from its analysis.

The largest contributor in terms of number of outlets for this year's survey was Food-Led, which accounted for 34% of outlets, up by 2ppts since the last survey. There was a notable increase in Accommodation-Led outlets from 0.4% to 5% in this year's survey, and Casual Dining outlets decreased from 21% to only 10% over the same period. Once again, Nightclub and Wine Bar segments represent the least amount of outlets in the survey.

Comparability to the Wider Industry

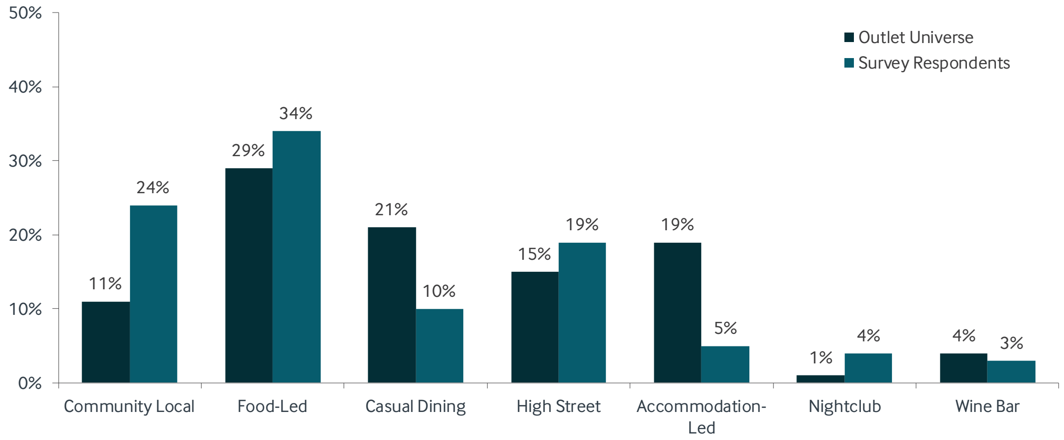
The survey, like the broader UK market, has been reshaped since 2007, as a change in consumer behaviour has led to the rise of food-led operations, with wet-led premises more orientated towards craft beer, gin and other trends.

The graph below compares the distribution of managed outlets surveyed this year with the distribution of the entire managed outlet universe across England and Wales. The benchmarking survey sample broadly follows the distribution of managed outlets seen across the UK licenced sector as a whole, and apart from some disparity within certain segments, the results can be reliably seen as a snapshot of the industry.

The segments showing some slight differences compared to the wider outlet universe are Community Local, Casual Dining and Accommodation-Led outlets, where there is a greater proportion of Community Local outlets that is offset by a lower proportion of Casual Dining outlets within the survey. The decline in Casual Dining outlets had been observed prior to the pandemic, as unsustainable rents put many operators out of business. The challenges presented by the pandemic exacerbated this trend, leading to a further decline in Casual Dining outlets. Apart from the major disparity between Accommodation-Led outlets, which can be explained by the broadening of this segment in the Outlet Universe to include hotels, this is reflective of the membership profile of UKHospitality.

Consumer behaviour has evolved, reshaping the market

Comparison of Survey Respondents to England & Wales Outlet Universe



Source: CGA Strategy, UKHospitality Christie & Co Benchmarking Survey

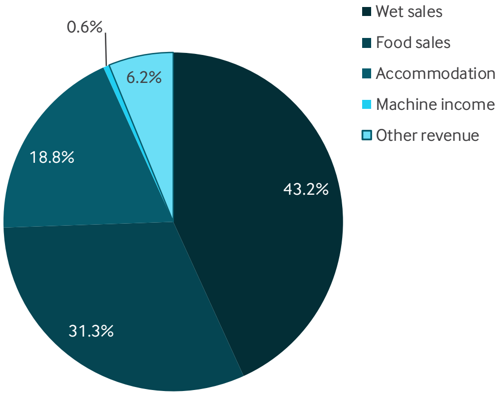
3. Revenue Analysis

The most diverse revenue profile the report has ever seen

Across all respondents, accommodation sales accounted for 18.8% of turnover, the highest level on record

Revenue Composition

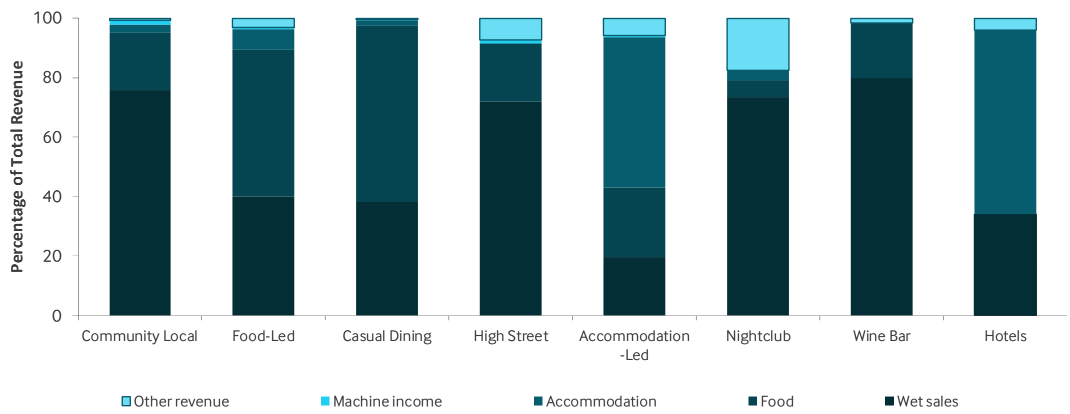
Throughout this report, costs are presented as a percentage of turnover, and therefore understanding the make-up of different sources of income across the industry and by market segment is key to understanding differences in cost base. To this end, respondents were asked to specify the proportion of their total turnover accounted for by different income streams. Hotel revenue composition is not included in the pie chart across the page, but rather shown separately below due to differences in profit and loss reporting standards compared to the wider licenced industry.



Source: The UKHospitality Christie & Co Benchmarking Survey

Wet sales across the entire survey accounted for 43.2% of turnover, a significant decrease on the last survey results (57.0%), making it the lowest in the survey's history for the second consecutive report. Food sales decreased 5.2ppts to 31.3%, potentially due to the proportion of Casual Dining outlets halving this year compared to the last survey period, although the reduction in both wet and food sales seems to have been absorbed by accommodation sales, driven by a significant increase in Accommodation-Led outlets in this year's survey. Other revenue also saw a significant increase and now represents 6.2% of turnover, the highest in the history of the survey. This indicates that operators are looking for alternative ways to drive footfall into their businesses.

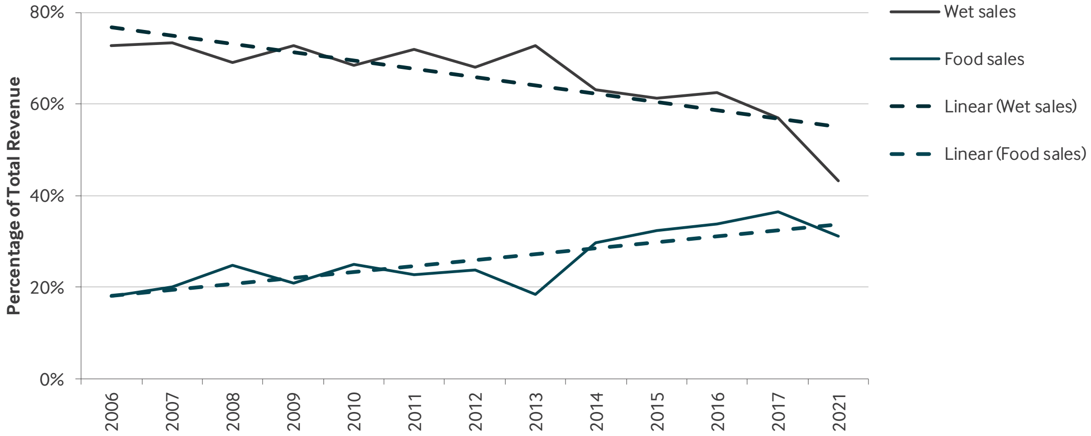
Revenue Composition by Market Segment



Source: The UKHospitality Christie & Co Benchmarking Survey

Operators focus on high margin accommodation and other sales

Long-Term Trends in Food and Wet Sales



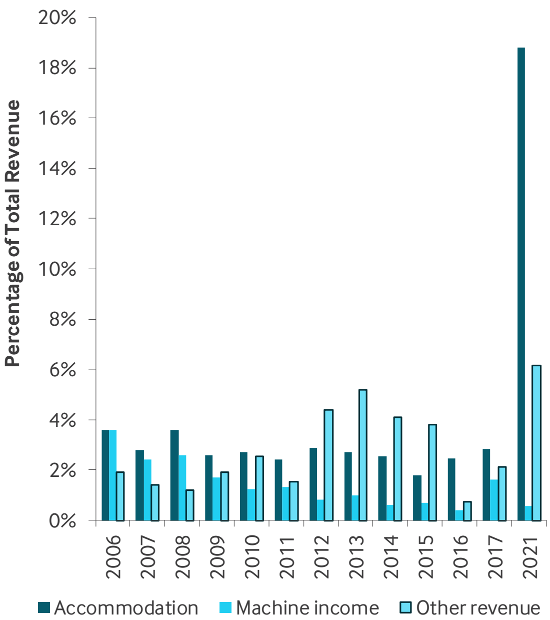
Source: The UKHospitality Christie & Co Benchmarking Survey

Convergence of wet and food sales stalled in 2021

Whilst the overall decline in wet sales that has been observed since 2006 continues, this is usually a convergence with food sales (demonstrated by the linear trend line) and as a result tends to be met with an opposite and relatively equal rise in food sales. This year, however, the change in respondent profile versus that seen in the previous report has led to a decrease in both food and wet sales to make way for the meteoric rise in accommodation sales, as well as increased other revenue. Whilst revenue profile is generally dictated by market segment, this change in profile supports the continued trend for buying or developing coaching inns and pubs with letting rooms.

Other revenue has also increased significantly compared to previous years, and this appears to be driven by Nightclub, Accommodation-Led and High Street outlets, which collectively account for 28% of the total sample size for licenced operators. Further analysis of trends at a segmental level is included within section 11 of this report.

Long-Term Trends in Other Revenue



Source: The UKHospitality Christie & Co Benchmarking Survey

3. Revenue Analysis (continued)

Inflation exacerbating contraction further

Accommodation -Led and Nightclub segments with nominal and real growth for the period

Annual Like-for-Like Growth

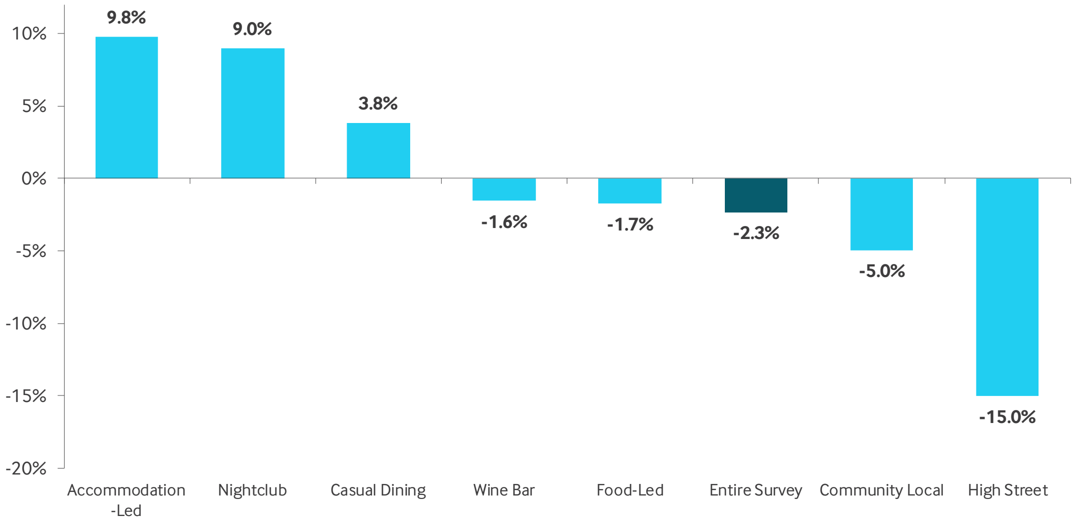
The survey asked respondents for percentage changes in like-for-like turnover between H2 2021 and the same period in 2019 (pre-pandemic). This effectively provides an indication of how each segment is performing in comparison to pre-pandemic levels. Across the entire survey, the sector is trading 2.3% below 2019 levels for the same period.

The survey period (H2 2021) was a turbulent time for the sector, with the operational challenges of reopening and partial impact of Omicron on December trading, a contraction of 2.3% appears reasonable. However, the Office for National Statistics reported that the Retail Price Index (RPI) measure of inflation grew by 4.5% over the same period, indicating that the contraction experienced by the entire survey is more significant in real terms, and across nearly all segments, with Accommodation-Led and Nightclub outlets appearing to be the only two segments that experienced growth in nominal and real terms.

Prior to the pandemic Accommodation-Led outlets had started to pick up the baton from Food-Led outlets with strong consecutive like-for-like growth, as operators began to see the opportunity for high margin income by developing unutilised space.

Perhaps two of the biggest surprises are the exceptional growth seen by Nightclub outlets, and the contraction in sales for Community Locals. The Nightclub growth could be explained by the fact that a higher magnitude of pent up demand was attached to this segment due to it being closed the longest, combined with poor performance in the comparable period in 2019. We would have expected Community Locals to perform better and to absorb the loss in demand clearly impacting High Street outlets, as working from home displaced demand away from High Streets towards local communities.

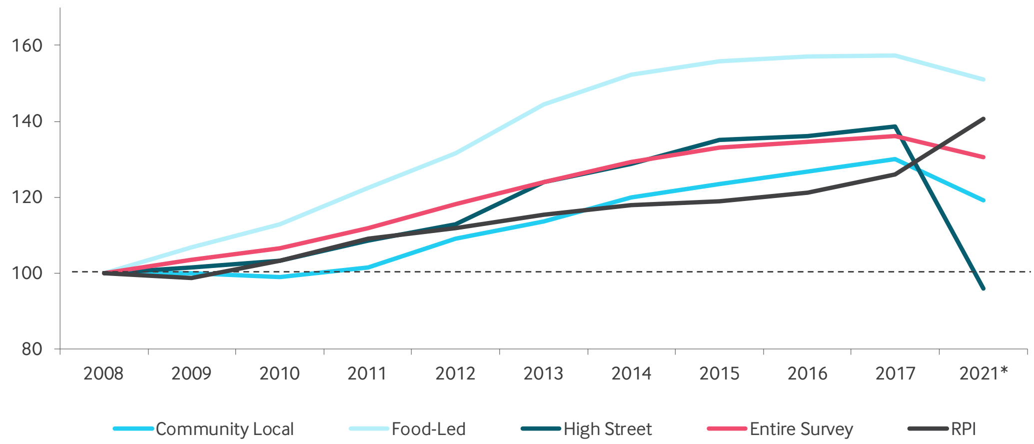
Like-for-Like Growth by Market Segment



Source: The UKHospitality Christie & Co Benchmarking Survey

Food remains important, consumers need other reasons to visit

Like-for-Like Growth by Market Segment – Rebased from 2008



Source: The UKHospitality Christie & Co Benchmarking Survey

Consumers in a post-pandemic world are seeking new and exciting experiences

The meteoric rise in Food-Led businesses that started in 2008 began to stall in 2015, and after remaining broadly flat for two years in nominal turns, has begun to decline as a result of the challenging trading environment that all outlets emerged into after the pandemic. Food remains an essential part of many successful operations, however it's apparent that in a post-pandemic world operators need to find new ways of attracting customers to their businesses. Consumers are prioritising experiences over the traditional drink and a meal more than ever now, as a hiatus from socialising over the last two years has exacerbated the desire to see and interact with friends in new and entertaining environments. This is particularly evident by the explosion of competitive socialising and big box leisure operators throughout the UK, where these operators are seeing success by combining simplified menus, exciting cocktails and drink offers with immersive games.

*note that like-for-like revenue figures are based on the comparison between H2 2021 and H2 2019, and therefore are not necessarily comparable with historic like-for-like revenue figures which were analysed on a rolling twelve month basis up to and including 30 September of each year in the previous survey periods.

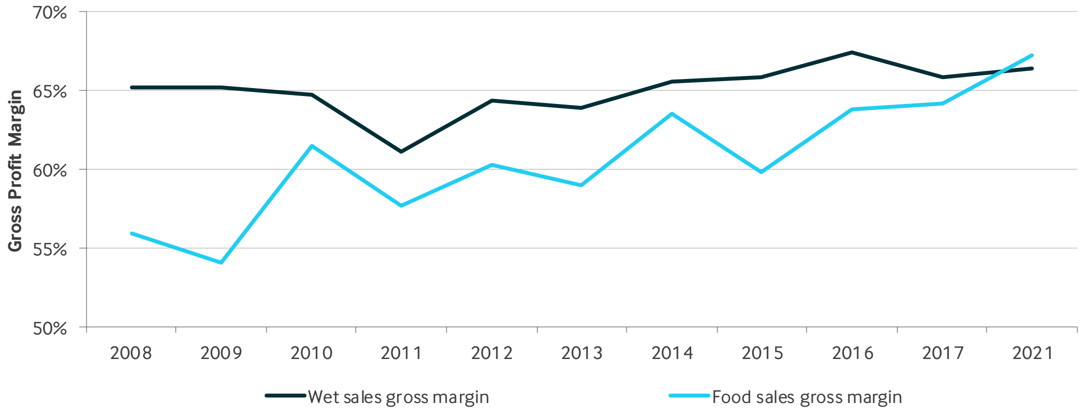
Many companies opened their outlets on a staggered basis from July 2021 onwards and therefore like-for-like revenue should be observed with caution.

4. Margin Analysis

Gross profit margins on food exceed wet sales for the first time

Improvement in margins as operators seek to absorb increases in other operating costs

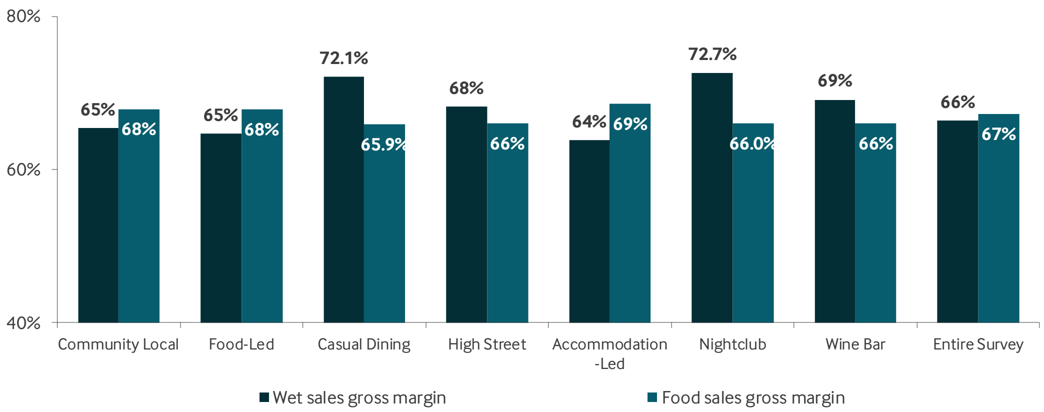
Gross Profit Margins – Food and Wet Sales



Source: The UKHospitality Christie & Co Benchmarking Survey

Gross profit margins on food sales and wet sales improved by 3.1ppts and 0.5ppts respectively, as operators have been forced to increase pricing in order to combat increases in operating costs. Gross profit margins on food sales surpassed that of wet sales for the first time in the history of the survey, indicating marginal saving on food sales due to the temporary VAT reduction that applied to the sector during the survey period. Nightclubs operate with the highest wet margin, somewhat unsurprisingly given the need to drive sales at premium price points in the shorter hours that they operate. In contrast, Casual Dining outlets have longer trading hours on average throughout the week and therefore drive more volume, however it appears that this segment is aiming to capitalise on the premiumisation trend by stocking expensive wet products and charging more.

Gross Profit Margins by Market Segment



Source: The UKHospitality Christie & Co Benchmarking Survey

5. Operating Cost Analysis

Operating costs reach new eye-watering record relative to turnover

In order to collate comparable cost data on licenced outlets, we asked companies to quantify the level of certain common operating costs by reference to percentage of net turnover. The common operating cost categories used were as follows:

- **Payroll costs** - gross payroll costs including staff wages, PAYE, NICs and manager's salary
- **Entertainment costs** - Sky and/or other subscription packages and charges, entertainment licenses and fees to PRS and PPL for background music, and live entertainment and security costs
- **Utility costs** - electricity, gas and other fuels, water and sewage and waste disposal
- **Operational costs** - including cleaning, laundry and glassware
- **Premises costs** - including rates, insurance and repairs and maintenance but excluding rent and capital expenditure
- **Other ongoing costs** - all other costs that do not fit into the above categories

Rent as a proportion of turnover for leasehold outlets and **capital expenditure** were requested separately to the above.

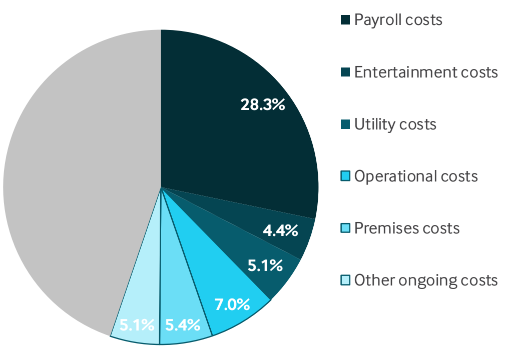
All information was provided for the six month period up to and including 31 December 2021.

Further details on the costs apportioned to each cost centre are set out in the survey questionnaire in Appendix I of the full version of the report.

Total Operating Costs

Set out below is the aggregated average figures for each of the operating cost categories as a percentage of turnover. Costs have been grouped together for ease of reference. These figures are an average across all outlets participating in the survey and therefore provide an indicative benchmark across the wider licenced sector. Granular analysis for the different trading styles is included within section 11 of this report.

Operating Costs - % of Turnover



Source: The UKHospitality Christie & Co Benchmarking Survey

Survey responses suggest that the average operating costs across all market segments amounted to 55.2% of turnover, before rent is taken into account, a 2.7ppts increase on the previous survey (52.5%). In the past the overall increase has been driven mostly by increases in National Living Wage and its resulting impact on payroll costs, however this year pressure from utility, operational and premise cost lines are driving costs to an all time record.

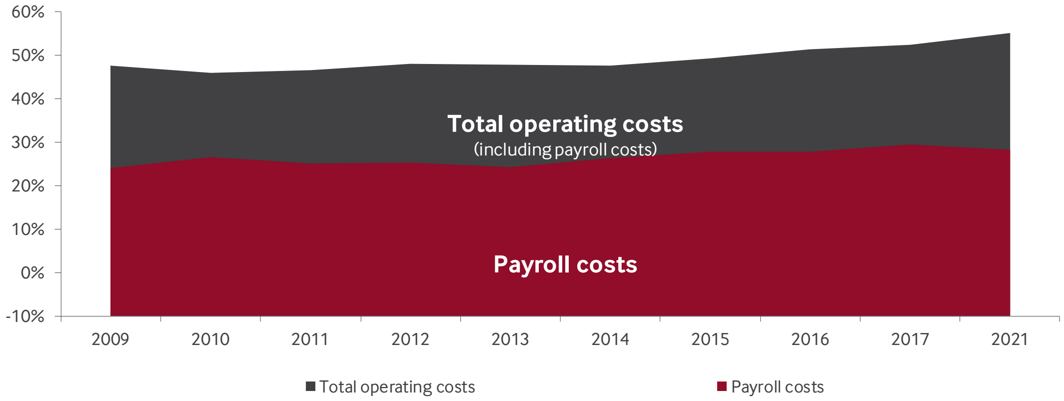
2.7ppts increase in operating costs since the last survey

5. Operating Cost Analysis (continued)

Payroll costs decrease due to furlough and staffing efficiencies

Labour shortages are likely to drive payroll costs up in the next survey

Payroll and Total Operating Costs – Percentage of Revenue



Source: The UKHospitality Christie & Co Benchmarking Survey

Payroll Costs

Typical payroll costs have decreased as a percentage of turnover, and now account for 28.3%, 1.2ppts lower than in the previous survey. It appears that operators are assigning more responsibility to management, requiring them to have a more hands-on role, reflected in a 1.8ppts increase in the average managers salary to 9.2% of turnover. The decrease in overall payroll costs is therefore being driven by a reduction in bar/kitchen/floor staff, which has decreased 3.0ppts to 19.0%.

The Coronavirus Job Retention Scheme, also known as furlough, only came to an end on 30 September 2021, which means half of the survey period will include some element of furloughed staff. Operators elected to retain management and furlough staff, resulting in a lower staff headcount and therefore lower wages.

More generally, operators have clearly attempted to run leaner businesses with more efficient staff rotas, and an element of this decrease may also be driven by the introduction of technology into operations – many operators now have apps that allow customers to order to their table, placing less emphasis on bar/waiting staff whilst still maintaining a satisfactory flow of service.

Labour Shortages

During the early stages of the pandemic, when hospitality businesses were told to shut, many of the lower paid staff in the industry were placed on furlough. One of the unintended consequences of furlough was a mass exodus of hospitality staff finding work in other sectors that guaranteed an income, such as warehouse, delivery and removal jobs.

Combined with the UK's formal exit from the European Union, this left a large shortage of workers in the hospitality industry when it reopened. Those that have remained in the sector are demanding more as they realise their value, and there is likely to be a sharp increase in payroll costs in the next report.

Utility costs began to rise towards the end of 2021, with more to come

Entertainment Costs

After a brief period of steady increases, entertainment costs have now declined, representing 4.4% of turnover. This suggests that operators are trying to save costs by reducing security/door staff, which falls under this cost line. The impact of COVID-19 also had a disruptive effect on televised sport, and as a result there may have been savings on TV packages within licenced venues compared to previous years.

Utility Costs

Utility costs saw the sharpest rise out of the operating costs, increasing 2ppts to 5.1%. As the costs in this report relate specifically to H2 2021, they will not reflect the full extent of the energy crisis that is having a significant impact on domestic and commercial properties in 2022. With many businesses reporting utility cost increase in excess of 100%, we expect a dramatic impact on licenced businesses' overall cost and operating margins in the next report.

Operational Costs

Average operational costs across the survey amounted to 7.0% of turnover, another sharp increase relative to the last survey period, and remains the second biggest cost line after payroll. With the presence of more Accommodation-Led outlets, these costs are expected to grow further in 2022 as labour cost inflation for providers of operational services, such as outsourced cleaning and laundry costs, are passed on.

Premises Costs

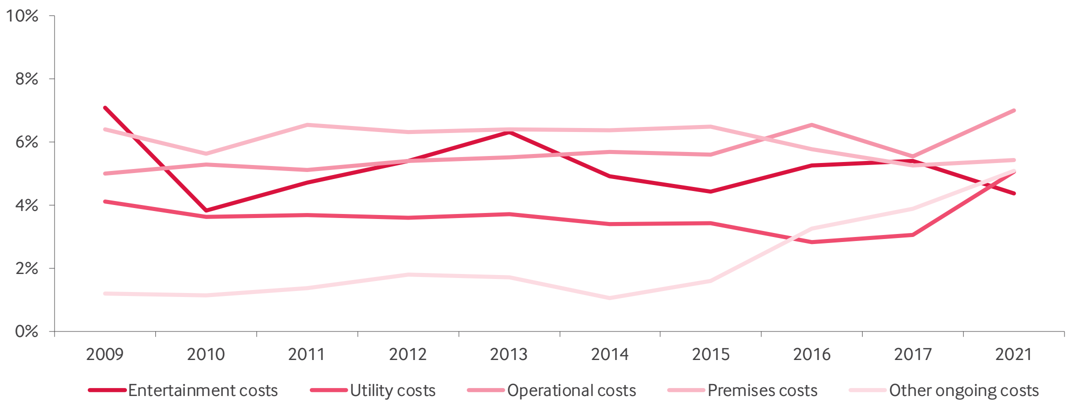
Premises costs, which exclude rent, increased marginally by 0.2ppts to 5.4% of turnover. Whilst there was a business rates holiday due to COVID-19, this relief was only available to hospitality businesses in the 2020/2021 tax year and therefore any saving would not be seen in the survey period.

Other Ongoing Costs

Other ongoing costs continued to increase and now make up 5.1% of turnover, a new high, and possibly driven by outsourced payroll costs.

Overheads excluding payroll have increased 3.9ppts to 27% of turnover

Operating Costs (excl. Payroll Costs) – Percentage of Revenue



Source: The UKHospitality Christie & Co Benchmarking Survey

5. Operating Cost Analysis (continued)

Only three segments reporting operating costs lower than 50%

Premise costs the most consistent across all segments

Operating Costs by Market Segment

As can be seen from the breakdown of operating costs in the graph below, each of the market segments exhibits a unique cost profile.

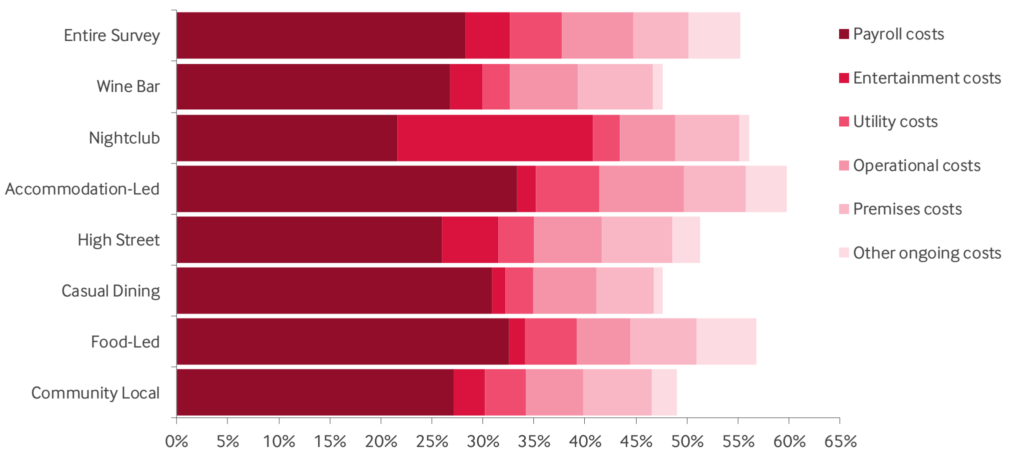
Wine Bar, Casual Dining and Community Local segments had the lowest total operating costs in the survey, with costs running lower than the 50% of revenue threshold, an impressive feat under the circumstances. As expected, payroll costs are highest for Accommodation-Led, Casual Dining and Food-Led segments, as these businesses need to employ chefs and additional kitchen staff to run full commercial kitchens. Accommodation-Led outlets are running the highest cost base as a percentage of turnover, at 59.8%, driven by high payroll costs in this segment as well as high operational costs (the highest in the survey) due to services such as laundry and cleaning that tend to be outsourced.

Nightclubs, where entertainment is a significant driver, saw entertainment costs increase 3.8ppts to 19.2% of turnover, well above levels seen before in this survey for this segment, indicating that operators are clearly having to work hard to drive trade.

Premises costs, which exclude rent and capital expenditure but include rates and repairs, show the least amount of variation across the different segments within the survey, and average 5.4% of turnover across the entire survey. Wine Bar, High Street and Community Local outlets appear to have the highest premises costs in this year's survey, potentially due to the pavement licences that were adopted during the pandemic, which meant operators in these segments needed to install and maintain outdoor seating to sweat their assets as much as possible.

The observed cost profiles of the various market segments are discussed in further detail throughout this report. However, our predictions for overall operating costs in the next survey are for all segments to breach the 50% threshold, as inflationary pressure and substantial increases in energy prices take effect.

Operating Costs by Market Segment – Percentage of Revenue



Source: The UKHospitality Christie & Co Benchmarking Survey

Rental increases seen across the board, apart from Nightclubs

Rent Analysis

The survey asked respondents to express rent as a proportion of turnover for their leasehold estate. On average, the level of rent across the entire survey was equivalent to 10.0%, up 1.2ppts from the previous survey.

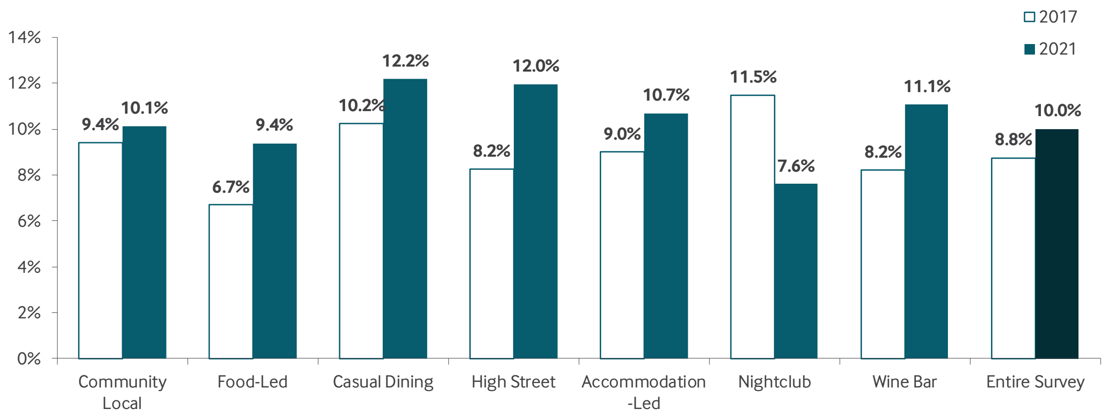
Rent, when expressed as a percentage of turnover, is a reasonable indicator as to the affordability of a premise. For tied premises, the level of rent that can be considered sustainable will depend heavily on the terms of the tie, whereas even for a fully-fitted, free-of-tie premises, rental levels above 15% are on the verge of being unsustainable in certain sectors and geographies.

A moratorium on commercial rent arrears was introduced in 2020 specifically to deal with COVID-19 related rent debt, preventing landlords from taking control of tenant's assets to recover rent debts. Whilst the moratorium came to an end in March 2022, a subsequent Commercial Rent (Coronavirus) Act 2022 came into force in March of this year, to help resolve remaining rent debt accrued resulting from forced closures during the pandemic. The aim is to encourage landlords and tenants to resolve these outstanding debt payments through arbitration or negotiation. The full effect of these negotiations is yet to become clear, however given the survey period covers six months and there are various mechanisms for rent payments, caution should be taken when observing the data relating to rent.

The average size of leasehold estates amongst respondents and between categories remains incredibly varied. This can make direct comparison to the broader market or between segments challenging, as larger operators may be able to use their enhanced covenant strength to support negotiating preferential rents, the increased security also often contributing, potentially materially, to the investment value of the underlying freehold. Rent relative to turnover increased significantly across all segments, apart from Nightclubs, with operators in this segment perhaps having more sympathetic landlords given the impact of the pandemic on this sector.

Casual Dining and High Street outlets with rent at 12.2% and 12.0% respectively

Rent Levels by Market Segment – Percentage of Revenue – 2017, 2021



Source: The UKHospitality Christie & Co Benchmarking Survey

5. Operating Cost Analysis (continued)

Investment cycle distorted by various periods of forced closure

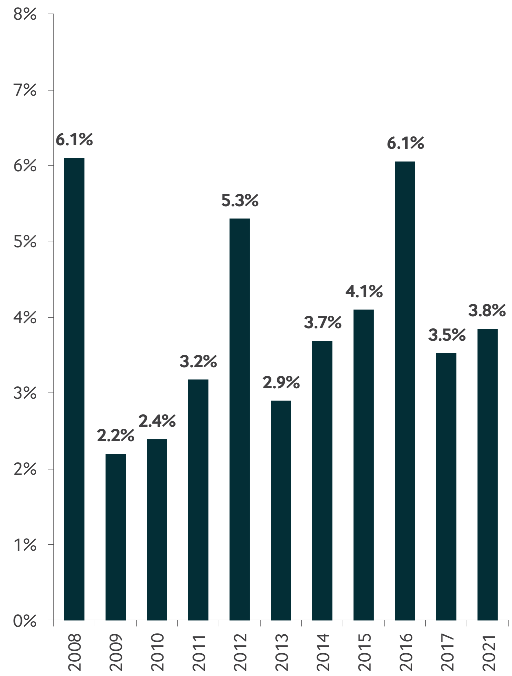
Freehold capital expenditure ahead of leasehold, but only marginally

Capital Expenditure Analysis

Capital expenditure excludes repair costs, which are included within the premises costs line. The average capital expenditure across the entire survey was 3.8%, a 0.3ppts increase on the previous survey. The adjacent graph indicates the cyclical nature of capital investment since 2008, with the last survey period appearing to represent the low point in the investment cycle. However, given the time that has lapsed between the last survey, as well as the various closures throughout the pandemic that allowed certain well-capitalised operators to carry out capital expenditure projects, it is difficult to know where we currently are in the investment cycle.

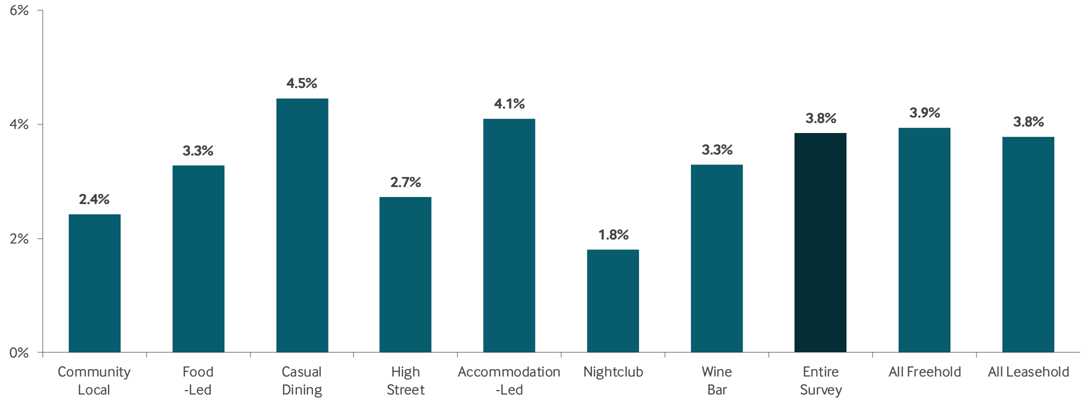
Freehold capital expenditure has historically been higher than leasehold, however is only marginally ahead of leasehold this year, perhaps due to some consolidation in the Casual Dining market (majority leasehold) as various companies restructured, with those outlets bought out of administration requiring conversion to new brands or uplifts in properties that had been closed for prolonged periods.

Capital Expenditure - % of Turnover - 2008-2021 (H2)



Source: The UKHospitality Christie & Co Benchmarking Survey

Capital Expenditure by Market Segment and Tenure – H2 2021



Source: The UKHospitality Christie & Co Benchmarking Survey

6. Analysis by Ownership Model

Freehold ownership remains an aspiration for many operators

Tenure

34% of the managed properties operated by survey respondents are leasehold assets, of which 97% are commercial leases, the remaining 3% being tied leases. This is a significant decline of tied leases in comparison to the last survey period, partly due to a different segment profile in this year's survey, but there could also be an element of more tenants choosing to go free-of-tie using the Market Rent Only ("MRO") option available to those on leases tied to Pub Companies with more than 500 pubs.

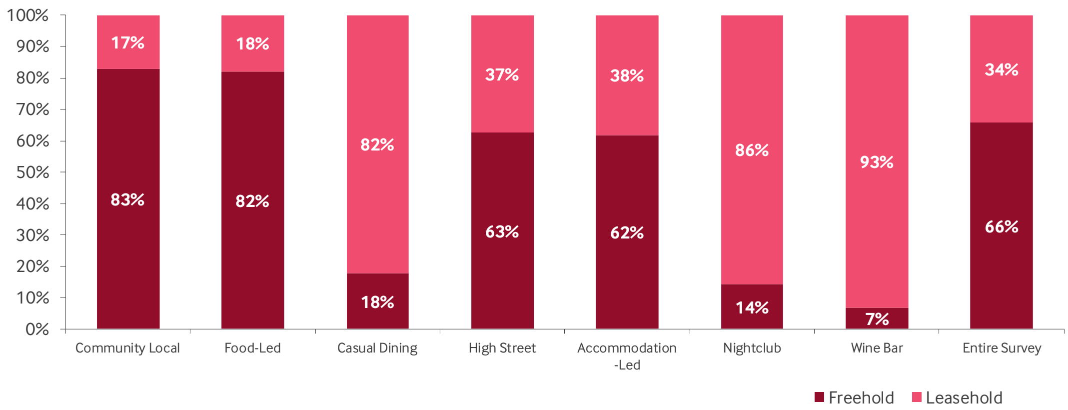
At a segmental level, Wine Bars, Nightclubs and Casual Dining have the highest proportion of leasehold premises at 93%, 86% and 82% respectively. Premises in these segments tend to be located in high-footfall town and city centres or out-of-town retail and leisure parks, where it is common for the freehold ownership of the property to be held by an institutional investor distinctly separate from the leasehold operational interest.

In past surveys, the Food-Led segment tended to have the highest number of freehold outlets in the survey by a significant margin. This year, however, the Community Local segment has demonstrated the highest proportion of freehold assets in the survey, with 83% of the segment operated on a freehold basis, compared to 52% in 2017. Whilst this is clearly a result of the inclusion of large operators with a freehold focussed operating style in this year's sample, there is also an element of smaller multiple operators with aspirations to acquire the freehold of their business, and use profits to make repayments on their mortgage as opposed to paying rent to a pub company or commercial landlord.

Furthermore, where operators do own the freehold, it allows them full discretion on use of the building (subject to planning consent and licensing restrictions) without having to obtain permission from the landlord for alterations and potentially change of use.

The majority of assets in the survey are owned on a freehold basis

Tenure Split by Market Segment



Source: The UKHospitality Christie & Co Benchmarking Survey

6. Analysis by Ownership Model (continued)

Commercial leases show improved margins at the cost of higher rent

Wet margins are 7.8ppts higher for commercial leases than tied leases

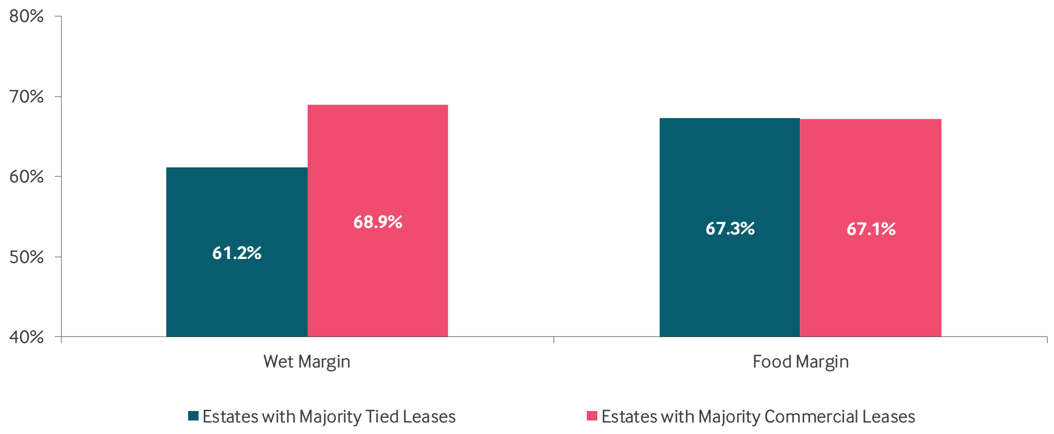
Tied Leases vs Commercial Leases

We analysed gross profit margins by tenure across all surveyed respondents, looking in particular for differences in gross profit margin between those whose assets were held primarily via industry leases (i.e. tied tenants) and those held primarily on commercial (i.e. free-of-tie) leases. For the purposes of our analysis, we have only considered respondents whose leasehold estates contain equal to or greater than 50% of a single lease type (i.e. either industry or commercial).

As those with knowledge of the tied sector might anticipate, gross profit margins on wet sales for estates with primarily commercial leases were higher than their tied counterparts, at 68.9% and 61.2% respectively. Landlords (i.e. the freeholder) of tied leases generate wholesale profit from the sale of tied stock to their tenant, whilst tied tenants can often expect to pay less rent than they would under a free-of-tie lease. The survey results confirm this with rent costs higher for commercial leases across the entire survey, with these free-of-tie leases incurring higher rent costs, 2.7ppts over tied leases on average. However, there also might be an element of tied lease landlords being more sympathetic to tenants due to difficult trading conditions, whereas commercial lease landlords have shown less mercy. Food margins are almost exactly at parity, which is to be expected given tied tenants are unrestricted and are free to choose their own suppliers for food products. It is important to note that there can be many additional benefits of being a tied tenant, such as lower costs of entry and marketing support. The lease will vary between tenants including different levels of tie (ranging from being tied only for beer, to all alcoholic beverages and minerals), reflecting the business model, the financial position of the tenant in question, and careful consideration of the outlet's unique characteristics and trading profile.

Please note that whilst the results of the survey reflect what we expect to see in the sector, the sample size for tied leases is relatively limited, and therefore caution should be taken in reviewing the data.

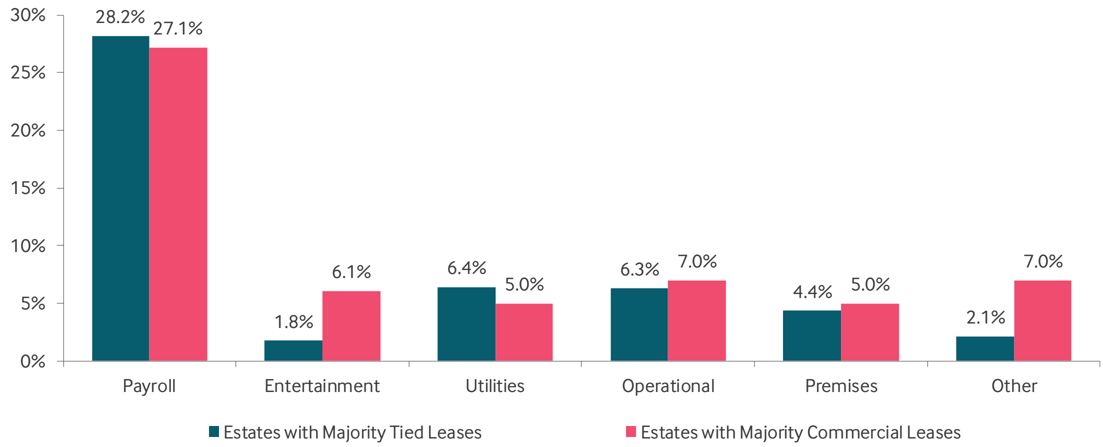
Gross Profit Margins – Tied Leases vs Commercial Leases



Source: The UKHospitality Christie & Co Benchmarking Survey

Cost profiles reflect the variance in segmental composition

Operating Costs – Tied Leases vs Commercial Leases

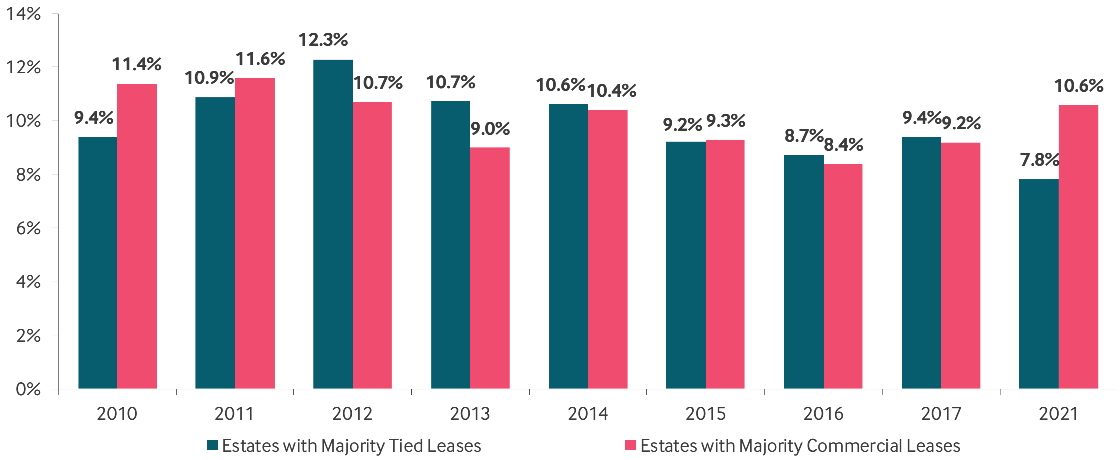


Source: The UKHospitality Christie & Co Benchmarking Survey

Operating costs after rent have started to approach unsustainable levels in commercial leases

Total operating cost (before rent) was 46.6% for those leasehold estates with predominantly tied premises, up 2.5ppts from the last survey, and 57.2% for those majority free-of-tie estates, reflecting a significant 6ppts increase on the last survey. This is in line with our experience of licenced premises, where the difference between industry and commercial leases tends to be more pronounced in gross margins on wet and machine income, and rent, than operating costs. We consider that much of this variance is due to inherent differences between segments which are pre-disposed to one lease type, as outside of entertainment and other operating costs, there is little difference in overheads. Once rent is included, the total costs for tied and commercial leases amount to 57.0% and 67.8% respectively, which is reflective of the differing rents.

Rent – Tied Leases vs Commercial Leases



Source: The UKHospitality Christie & Co Benchmarking Survey

7. Cost Pressures 2022

Inflationary pressures forcing operators to pass on costs where possible

April 2022 was a pivotal point for cost pressures

Adding Fuel to the Fire

Prior to COVID-19, this report documented the "perfect storm" of cost pressures that had a direct impact on payroll, property and operational cost lines for operators. Many of these costs have been exacerbated by the unforeseen global economic and geopolitical shocks over the past two years. Whilst the full impact of COVID-19 and partial impact of rising utility costs would have been captured in the 2021 data reported here, more current issues that have arisen since the survey was closed are starting to add fuel to an already roaring fire.

Perhaps the biggest concern for operators is the inflation being driven by the lingering effects of Brexit and COVID-19 as well as the recent impact of Russia's invasion of Ukraine. This is having an enormous impact on total overheads, through either its direct impact on supply chain and staffing issues or indirect impact on demand driven by declining consumer confidence and spending.

April Armageddon

Several anticipated cost pressures materialised in April 2022, including the National Living Wage (NLW) increase and return of the full VAT rate. Whilst operators might have had these increases on their radars, it by no means detracts from their significant impact on running costs. NLW increased 7% to £9.50, a direct increase on payroll costs that would also have a further impact as operators look to maintain pay differentials between front-of-house, kitchen staff and managers. However, anecdotal evidence suggests the impact of this was relatively limited as market forces had already driven wages up.

The VAT rate payable by hospitality businesses was temporarily reduced to 5% in July 2020 to drive consumer confidence and provide some relief for operators during the pandemic. After increasing to 12.5% in October 2021 it returned to the full rate on the 1st of April 2022, which is currently 20%. Operators will have to strike the balance between how much of this cost will be passed on to consumers, and how much will be absorbed by their businesses. Understandably, we expect many businesses will try to pass on at least some of these costs.

Rising Staff Costs

Whilst NLW increases bring with it a short-term direct impact, the staff shortage crisis in the hospitality sector is leading to further cost pressures with longer term implications. From front-of-house to kitchen staff, operators are experiencing vacancies across all roles, requiring more emphasis on recruitment and retention strategies in order to ensure customer demand can be serviced efficiently. If this can't be achieved, the opportunity cost of turning away customers (particularly in food-led establishments) will lead to a loss of income and potentially longer-term implications with less understanding and fickle customers not wanting to return.

Inflationary Pressure

With year-on-year inflation already reaching eye-watering levels across multiple supply channels, further increases are set to cause operators more concern for how these additional costs will be passed on/absorbed. The war in Ukraine has added further stress on key commodities for the sector such as wheat, oils, fish and fertilisers, not to mention surges in energy markets and its impact on utility costs. Operators are therefore faced with a challenging environment, as expected growth in top line performance will be met by significant margin erosion across all segments.

8. Government Response – New Legislation

Minimal immediate relief for hospitality operators

Government aiming to support businesses and help consumers navigate cost of living crisis

Hospitality's Role in Growing the Economy

Against the backdrop of the wider economic crisis within the UK, the Government announced its new legislative agenda in the Queen's Speech on 10 May 2022. With the aim to grow the economy and address the cost-of-living crunch, the hospitality sector will naturally play a critical role in achieving this, as it has done in the past. As a result, many of the legislative proposals that were announced will provide hospitality with the much-needed boost to grow individual businesses and drive growth in the economy, particularly the Levelling Up and Regeneration Bill, the Non-Domestic Rating Bill and the Brexit Opportunities Bill. With the resignation of Boris Johnson, these priorities may change however the policies are likely to remain consistent.

Levelling Up and Regeneration Bill

One of the reliefs offered to the hospitality sector during the pandemic was the introduction of temporary licences that allowed hospitality businesses greater flexibility to serve food and drinks alfresco. The goal of these licences was to mitigate the lost floorspace due to social distancing requirements, allowing operators to not only extend the capacity of their venues, but in some cases avoid closing completely. The new legislation aims to make these licences permanent, and given many operators invested significant money and effort in to creating innovative outdoor spaces during the pandemic, they can now see a return on this investment. The legislation is therefore central to driving growth back into local economies by levelling up high streets. The bill also suggests a commitment towards a more devolved government, with the balance of powers shifting in favour of local authorities. This includes an investigation into how the planning system works, which should encourage more collaboration between businesses, residents and local government to speed up and ease the process of planning. The Government's proposals to restore empty properties to occupancy within the Bill should consider the longer-term implications if this process involves forcing landlords to take on a tenant that may not have the minimum covenant strength requirement for a given landlord. The benefit of having high streets fully occupied and trading on the local economy will only be sustainable if the correct amount of due diligence has been undertaken and the right mix of tenants/businesses is selected.

Non-Domestic Ratings Bill

New legislation aimed at overhauling the business rates valuation process will be addressed by the Non-Domestic Ratings Bill. At the time of writing, this Bill is currently in session at Parliament and includes positive measures for hospitality such as: more frequent valuations every three years, aligning the tax paid more closely with the market, a 12-month relief for properties that have been invested in as well as measures to exclude green technology from being rated, encouraging more green features in buildings.

Brexit Opportunities and Energy Bill

Whilst perhaps not as structurally transformative as the Non-Domestic Ratings Bill or Levelling Up and Regeneration Bill, other changes in legislation affecting the hospitality sector include de-regulating EU power in the UK and removing £1bn worth of red tape via a Brexit Opportunities Bill. Lastly, an Energy Security Bill will ensure that the energy price cap for consumers will be extended beyond next year to ease the cost of living crisis from an energy bill perspective, and a "cost of living" support package financed by the Energy Profits Levy will help consumers navigate the rising domestic costs, hopefully encouraging more visits to hospitality venues.

9. Pandemic Aftermath – Opportunities

Leaner business models and new ways of operating key to survival

Opportunities to expand in the face of reduced competition

The impact of the Pandemic on businesses

There is no doubt that the pandemic forced hospitality businesses to adapt quickly to a shift in consumer behaviour and drastically different trading environment. Despite the significant disruption to business performance resulting from restricted trade and low consumer confidence, with certain segments of the industry being more adversely affected than others, new opportunities and ways of operating have emerged, and there are signs of consumer demand returning.

Rebalancing of Demand

Whilst there was a clear displacement of demand from city centres into local communities as a result of the work from home trend, and this demand continues to buoy regional operators, there is evidence of consumers returning to offices, albeit not at a rate that city centre operators are hoping for nor in the pre-pandemic Monday-Friday fashion. Commuter data is increasing in traffic terms as we come out of the pandemic, however given the flexible working arrangements that most companies are implementing, the current level of consumer demand and footfall in city centres compared to 2019 will potentially be a permanent shift. There is however more (cautious) optimism around inbound tourism returning to full strength over the next two years, particularly from Europe, which will no doubt support the city centre locations over summer.

The hospitality sector can also take refuge in the fact that the pre-COVID-19 trend of consumers prioritising experiences over material possessions looks likely to continue, and after the country went into a forced social sabbatical for the last two years, most consumers are looking to make up for lost time. Rising costs are likely to curb this trend in the short to medium term, however the hospitality industry is well positioned to deliver experiences and places to socialise across the value spectrum to cater to all consumers.

Operational Efficiencies

With limited and uncertain demand levels, staff shortages and pressures to contain costs, many operators sought to adopt digital solutions and additional revenue streams, leveraging existing staff and working capital to service these efficiently. An increased number of businesses offered solutions such as apps for table or room service, self-check-in at hotels and providing take-away food via multiple distribution channels (in-house or delivery partners). Takeaway was almost a necessary means of survival for operators at certain stages of the various lockdowns, and those that were able to successfully service this incremental revenue stream during the pandemic now have an additional source of income, that might not have been a part of the business in 2019, so long as it does not cannibalise eat-in trade now that unrestricted trading is upon us.

Expansion Opportunities

Government measures introduced during the 2021 Budget, including allowances for capex investment, has made investment into such technologies more attractive. Many well capitalised hospitality operators took the opportunity during lockdowns to implement capex programmes sooner than planned with the aim of capitalising on the returning demand that was expected once unrestricted trade resumed. The unfortunate casualties of permanent closures during the pandemic served as a good opportunity for certain operators to initiate roll-out strategies and take advantage of declining competition in target locations. This definitively widened the gap between the "winners" and "losers" of the pandemic, with unsustainable businesses making way for well-funded and expanding operators.

10. Confidence and Outlook Survey

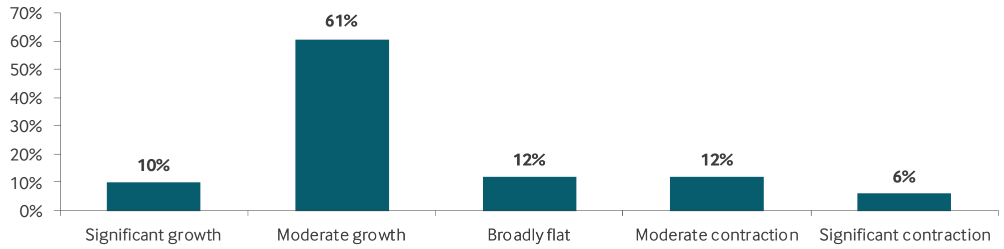
Confidence in top-line growth not mirrored in margin growth

Confidence in growth returns to 2017 levels in revenue terms

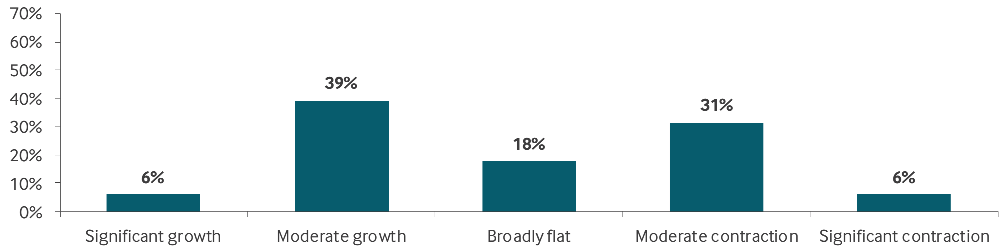
Confidence Survey 2022

The Confidence Survey was introduced in the 2017 report for the first time, and includes the results of a series of straightforward multiple choice questions that seeks to assess the confidence levels of participating managed operators. Given the events that have occurred since the last report was released, current sentiment of business leaders in the sector provides a good overall indication of how businesses expect to perform and overcome challenges in the coming months. Despite the obvious turbulence the sector has faced, it is encouraging to see that confidence in revenue growth has returned to the same level seen in 2017, with 71% of operators anticipating at least moderate growth. The following pages present the results of the questionnaire.

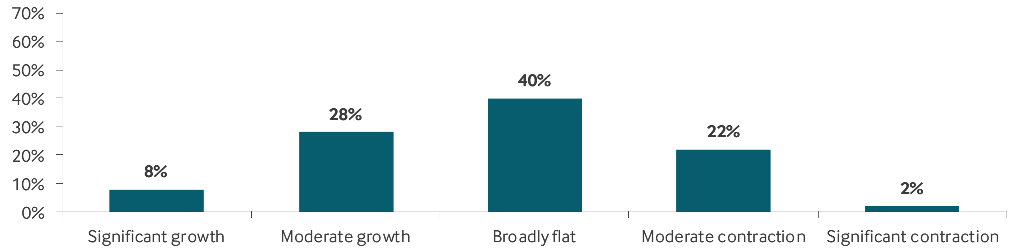
What are your trading prospects for 2022, as measured in anticipated like-for-like turnover growth?



What are your trading prospects for 2022, as measured in anticipated profitability?



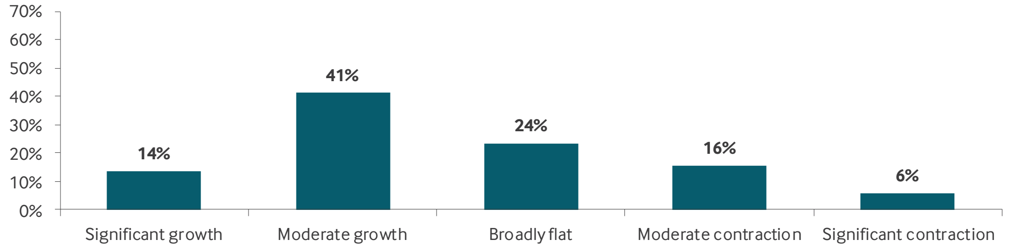
What are your trading prospects for 2022, as measured in anticipated headcount?



Source: The UKHospitality Christie & Co Benchmarking Survey

Majority of operators are poised for expansion in 2022

What are your trading prospects for 2022, as measured in anticipated investment (expansion, extension and new sites)?



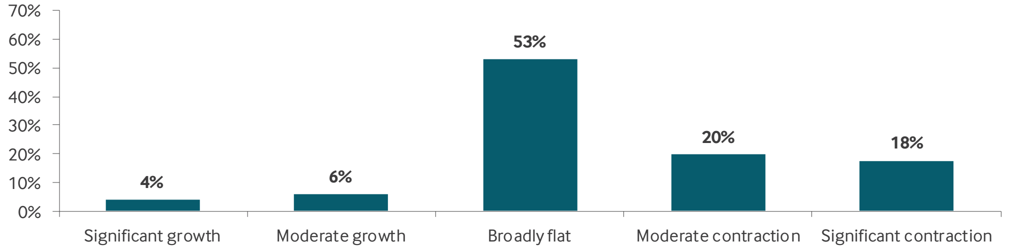
Source: The UKHospitality Christie & Co Benchmarking Survey

More positivity relating to UK's exit from the EU amongst operators in the long term

UK exit from the EU

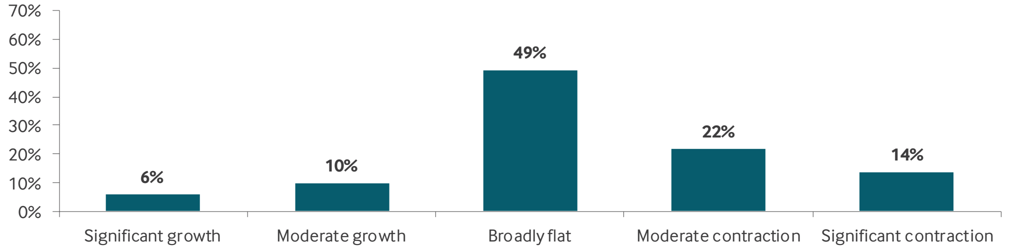
The majority of respondents indicated that the UK's exit from the EU had a neutral effect on business performance in H2 2021. However, when comparing the long term impact on business performance with H2 2021, the number of respondents that anticipated growth as a result of the exit increased by 6%. With the Brexit transition period having come to an end, the biggest concern for operators has been the increased difficulty in the recruitment (and retention) of EU nationals and a general overhaul in the business' recruitment strategy has been on the agenda for many.

How has the UK's exit from the EU affected your business performance during H2 2021?



Source: The UKHospitality Christie & Co Benchmarking Survey

How will the UK's exit from the EU affect your business performance in the long term?



Source: The UKHospitality Christie & Co Benchmarking Survey

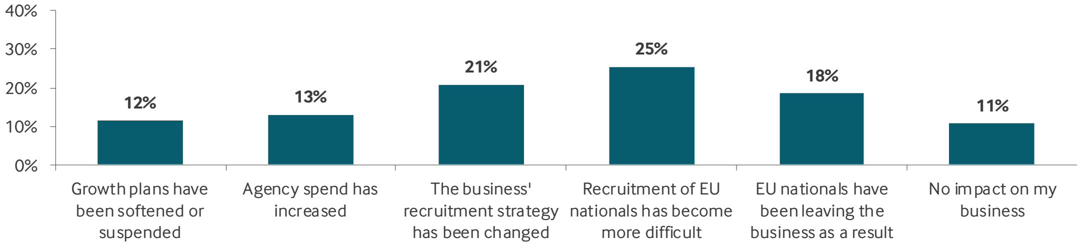
10. Confidence and Outlook Survey (continued)

Staff shortages as a result of the end of free movement?

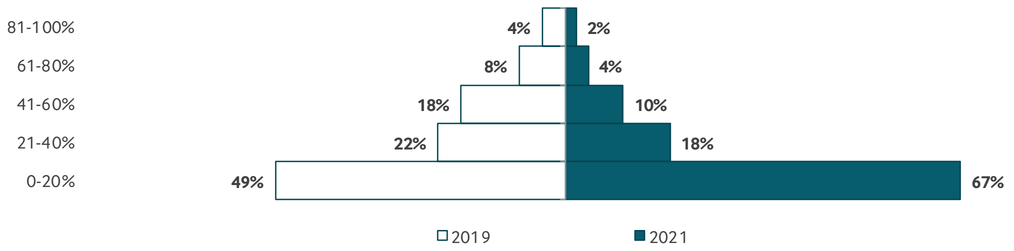
A significant shift in the proportion of EU nationals employed by licenced hospitality operators since 2019

There has been a clear shift in the proportion of EU nationals that occupy roles within the sector. In 2019, just under half of operators indicated that less than 20% of roles were filled by EU nationals. In 2021 this number increases to 67%, meaning that more employers of hospitality staff are having to fill most of their vacancies with domestic or other non-EU nationalities. At the time of the survey, the majority of respondents indicated that up to 20% of roles are vacant, demonstrating the combined impact of stricter immigration policies and the COVID-19. We would expect the challenges around immigration to encourage more operators to apply for sponsorship licences.

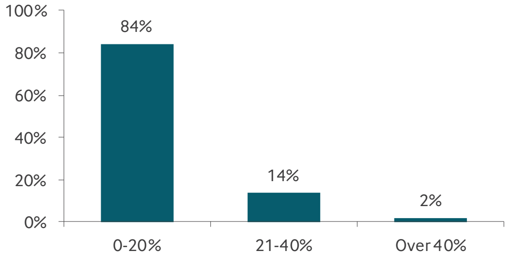
How has the end of the Brexit transition period impacted your business' ability to attract and retain staff in 2021?



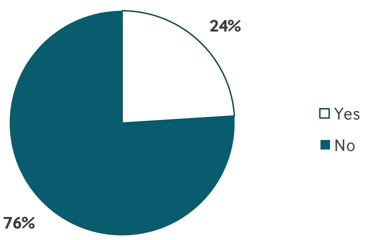
What percentage of roles within your business were filled by EU nationals in 2019 and how does that correspond to 2021?



What percentage of roles within your business are currently vacant?



Have you applied for a sponsor licence to recruit people from outside the UK?



Source: The UKHospitality Christie & Co Benchmarking Survey

67% of operators raised prices to mitigate a rise in energy prices

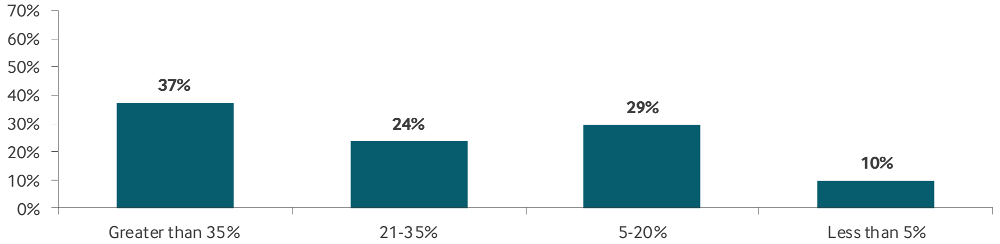
Operational Issues

The increases in energy wholesale price increases has resulted in soaring energy prices across the sector, evidenced in the 61% of respondents who saw energy costs rise by at least 21% on 2019 levels, with more than half of these operators seeing increases greater than 35%. Energy prices have undoubtedly increased further since the cap was increased again in April 2022.

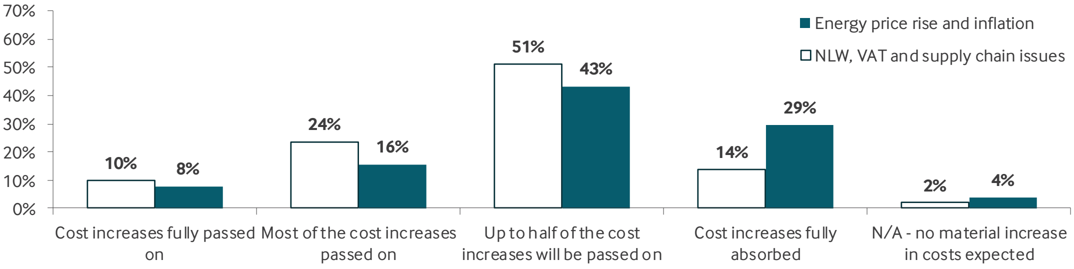
At the same time operators were presented with National Living Wage (NLW) increases as well as VAT returning to its original rate of 20%. More operators elect to fully absorb cost increases from NLW and VAT adjustments compared to energy price increases, however the reverse is true where there is an element of passing at least some cost onto the consumer.

Operators more willing to fully absorb energy price increases than costs associated with NLW, VAT and supply chain

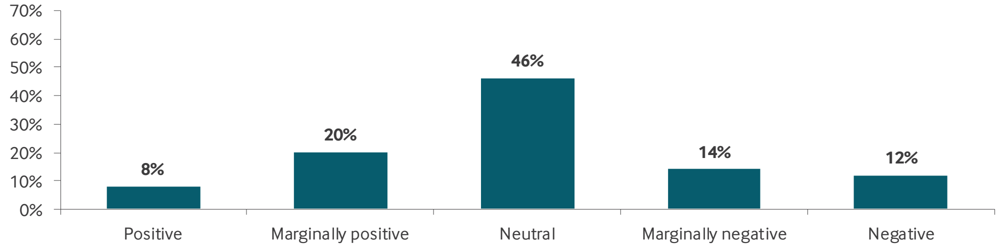
What percentage have you seen your energy costs increase compared to 2019 levels?



How successfully has your business been able to pass on any additional costs from the energy price rise & inflation to consumers? What is your strategy for increases in NLW, the VAT rate and supply chain issues?



How do you believe your business will be impacted by the business rates improvement relief and more frequent valuation?



Source: The UKHospitality Christie & Co Benchmarking Survey

10. Confidence and Outlook Survey (continued)

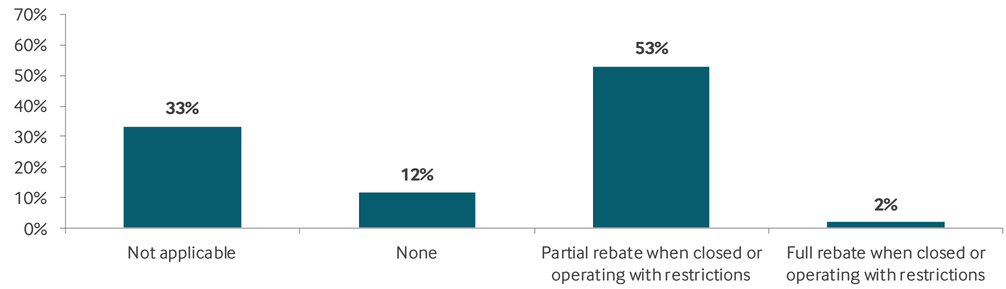
Most operators believe return to pre-COVID trade will take at least a year

Other challenges facing operators over the next six months include pace and extent of the return to city centres

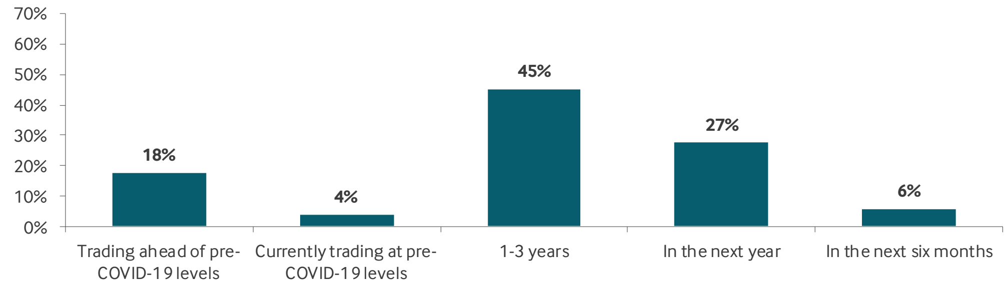
Impact of COVID-19 and Outlook

The impact of the closures resulting from COVID-19 forced landlords and tenants to engage with each other on an unprecedented basis. Of the 67% of respondents who have leasehold properties, 12% were offered no rental concessions when hospitality businesses were either forced to close or restricted in its ability to trade, with the majority of those who did receive concessions only securing partial rebates. In terms of recovery, the majority of operators have taken a long term view on returning to pre-COVID-19 levels, with an impressive 18% of respondents reporting trade is ahead of 2019 levels. However, understandably so, rising costs are the biggest concern over the next six months.

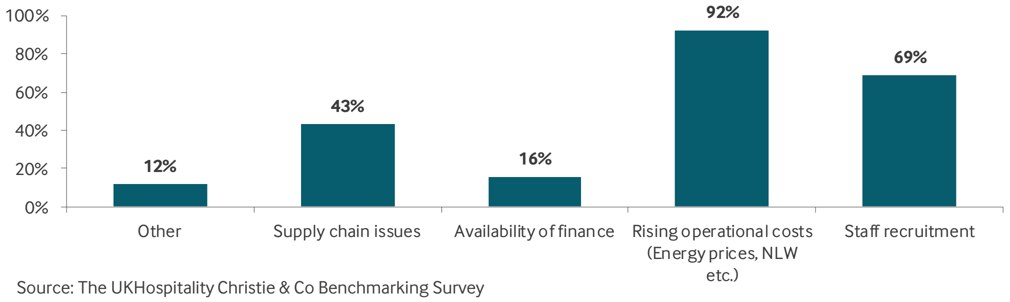
With regards to your leasehold estate, have you been able to obtain a rental concession from your landlord during the pandemic?



How long do you think your business will take to return to pre-COVID-19 levels?



What are the biggest challenges for your business over the next six months?



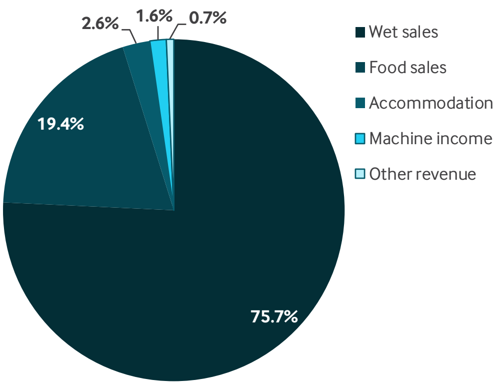
Source: The UKHospitality Christie & Co Benchmarking Survey

11. Segmental Analysis – Community Locals

Unexpected contraction in like-for-like sales

Machine income declines as operators continue to improve food offer

Revenue Composition



Source: The UKHospitality Christie & Co Benchmarking Survey

Community Local outlets are classified as being wet-led and serving primarily a local residential community. They include both rural and suburban outlets.

The survey covered 1,169 Community Local outlets, 24% of total respondents, once again making it the second largest single industry segment in the survey for this year. Data for Community Local outlets was provided from 15 respondent companies, representing an average Community Local estate of 79 premises.

The turnover profile for the average Community Local has evolved over the past decade, with food sales becoming an increasingly significant proportion of turnover. This year's survey shows an increase in food sales of 2.1ppts to 19.4% of turnover in comparison with the 2017 survey results. Community Locals have historically relied on wet sales as the main driver of revenue, and this segment continues to rely on this revenue stream, particularly to take advantage of the temporary off-sales license that was introduced to help licenced businesses generate income during periods of closure and restricted capacity during the pandemic.

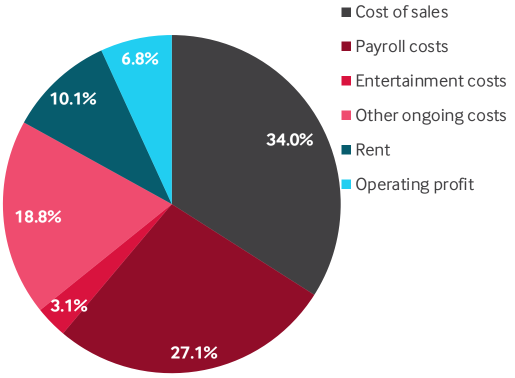
Whilst machine income (after rent) is usually a significant income stream for owners and operators, this revenue stream has reduced in comparison to pre-pandemic proportions, contributing only 1.6% to revenue (2018: 2.4%). However, this income stream typically has little or no direct overheads, and depending on the arrangement of a tied lease or franchise agreement, an operator can retain up to100% of the revenue straight to the bottom line, making this a key revenue stream in profitability terms.

Like-for-like revenue across the segment followed the negative trend seen across the entire survey average, although Community Locals experienced more contraction at 5.0% decrease in like-for-like revenue. With inflation at 4.5% for the survey period, this represents a contraction in nominal and real terms when comparing sales with the same six months in 2019. Whilst we expected this segment to outperform pre-pandemic revenue due to the shift of demand to local communities and away from city centres, the High Street segment saw the most significant decline in like-for-like sales at -15%. This could be explained as the impact of more people working from home during the survey period compared to the same period in 2019.

This segment had the second lowest capital expenditure for the period, ahead of only the High Street segment. The low capex reported during the survey period may be explained by operators focussing on trading having just reopened after restrictions were lifted.

Increase in operating profit despite highest running costs to date

Cost and Profitability



Source: The UKHospitality Christie & Co Benchmarking Survey

Operating costs (before rent) for Community Local outlets have been steadily increasing since 2014, mostly driven by payroll cost increases as a result of the model evolving to incorporate more food sales. In the current year these costs averaged 49.0%, the highest the segment has seen in the survey's history, however profitability has increased on the previous survey period due to an improvement in the overall gross profit margin.

Operating costs in Community Locals tend to be higher in companies with larger estates and this is due to the requirement for a manager in each premises, as well as an area manager for some estates, rather than the owner self operating and not having to pay a manager's salary, which, based on survey responses, is typically 8.7% of turnover within this segment. Conversely, staff costs decreased by 1.1% as operators attempted to run as lean a business as possible. Whilst this is of course driven by the impact of the pandemic, Community Locals historically allow management to have a more hands-on role, undertaking a greater proportion of the required labour.

As a result, the average total payroll cost across the segment is only marginally ahead of the previous survey period, and the increase in overall operating costs is mostly driven by utilities, premise and operational costs (perhaps due to reopening after sporadic periods of forced closure and restricted trading).

Despite increases in costs on the previous survey period for almost all controllable cost lines, there has been a marginal increase in operating profit (before rent) of 0.3%, which has been driven by a significant improvement in gross margins, particularly for food sales. Since 2017, the trend was moving towards improved food offers and as a result, there may have been significant improvement in operating efficiencies as businesses scaled the food offering in the four years since the last survey period.

Outlook

As with other segments, the cost pressures that operators are experiencing in 2022 are likely to have a significant impact on profitability, and we expect to see the full effect of this in the next survey period which will cover the full calendar year of 2022. Whilst there are signs of positive like-for-like revenue growth expected this year for most segments, Community Locals will still enjoy some of the rebalanced demand created by the new way of flexible working and its benefit for rural and suburban outlets.

However, with double digit levels of inflation that looks set to remain at that level or even increase further, growth in real terms is likely to be extremely challenging for most operators.

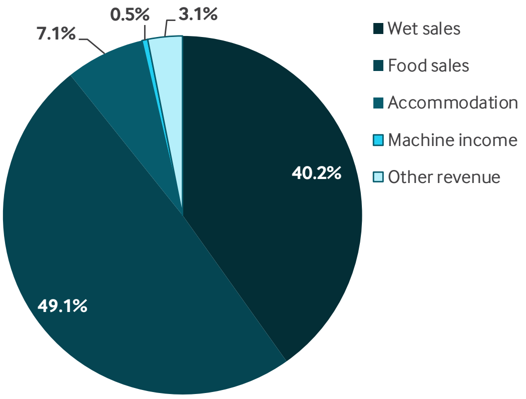
Gross profit margin improvement driving growth

11. Segmental Analysis – Food-Led

Food now represents almost half of revenue

Operators driving growth through accommodation and other revenue streams

Revenue Composition



Source: The UKHospitality Christie & Co Benchmarking Survey

The rise of food-led pub operators has been well documented for several years, as the wider pub sector shifted from providing a predominantly wet-led offering to either mixed or food-led offers in order to meet the changing consumer demands. For the majority of pub operators, food sales are now an essential revenue stream that either complements the drinks offer or as with this segment, is the primary source of income.

The relevance of food-focussed operators is evidenced in the composition of respondents in this survey – there were 1,628 Food-Led outlets covered this year, making it the most prevalent segment amongst respondents for the second year running, at 34% of outlets surveyed. Data for the segment was provided by 23 respondent companies, reflecting an average estate size of 71 outlets.

Whilst like-for-like revenue growth has historically been very strong for this segment, the two survey periods prior to this year showed subdued growth. This year, revenue was down on H2 2019 (pre-pandemic) levels by -1.8%, however this represents less of a contraction when compared to the entire survey like-for-like sales, which were 2.3% down over the same period.

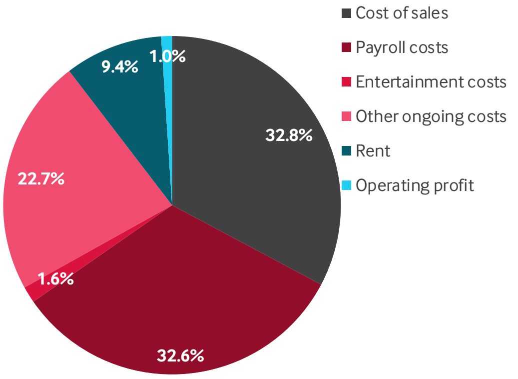
Many operators were forced to trade either at reduced capacity or not at all during various periods of government restrictions. This forced operators to derive additional sales to sustain the business, and many embraced take-away and delivery as a means to combat restricted trading. This is reflected in the increase in food sales as a proportion of total turnover. Whilst food sales have been steadily increasing proportionally since this segment has been introduced into the survey, the past survey periods have shown parity between food and wet sales. However, this year sees a significant shift away from wet sales mostly towards food sales. Food sales are now the primary source of income at 49.1%, with wet sales making up 40.2% of revenue in 2021.This is the first time since 2014 that food sales have represented the largest proportion of turnover.

There was also an increase in accommodation sales of 2.3ppts to 7.1% of turnover, as those operators with outlets in rural and semi-rural locations look to take advantage of the staycation trend due to restricted international travel. Other revenue also increased significantly from 0.7% to 3.1%, which may have been driven by operators hosting events with prepaid tickets to get people through the door.

The segment saw capital expenditure of 3.3%, a decrease of 2.2ppts from the previous survey period, however the segment was still ahead of Community Locals, High Street and Accommodation-Led segments in terms of capital expenditure. This is likely due to the investment required to incorporate a seamless delivery and takeaway system.

Staff shortages more significant for this segment

Cost and Profitability



Source: The UKHospitality Christie & Co Benchmarking Survey

Operating costs accounted for an average of 56.8% of revenue, an increase from the 55.4 % reported in the previous edition of the benchmarking survey, and the second highest across the entire survey. This increase is largely driven by an increase in utilities, premises and other ongoing costs, which are currently at 5.1%, 6.5% and 5.8% respectively.

Payroll costs, which account for 32.6% of total operating costs, are significantly higher than the entire survey average of 28.3%. With a full service commercial kitchen, a manned bar, waiting staff and now an increasing accommodation offer, the Food-Led segment requires a higher than average number of staff, and correspondingly a higher level of payroll is expected.

However, payroll costs have declined by 0.9ppts since the previous survey period, and this decrease is driven by a fall in staff costs, with management salaries increasing but at a lesser rate relative to turnover. This can be explained by the staff shortages the hospitality sector has been facing, with this segment being more sensitive to these issues due to the requirement for more staff per venue on average.

One of the consequences of the pandemic was the impact of social distancing on capacity limitations. Whilst these measures were scrapped in July, venues had already been set up to cater for social distancing, and struggled to trade at pre-pandemic capacity as a result.

Since food-led venues tend to be larger in size on average, property and utility costs tend to be higher, which means suppressed turnover levels will have a direct impact on profitability. This is reflected in the significant decrease in operating profit to 1% after rent for this segment.

Outlook

The full impact of increases in utility costs this year will only be reflected in next year's survey, which will present further challenges in staying profitable. It's clear that operators within this segment are having issues with recruiting and retaining staff efficiently, and whilst this is a trend across all segments, food-led venues rely on more staff to drive revenue effectively. As a result, the challenges around staffing in the current climate will continue to affect profitability, unless operators can find away to trade efficiently through technology innovations requiring less staff.

The surge in prices of key commodities such as wheat, oils, fish and fertilisers will be more difficult for Food-led operators to navigate given food sales is such a significant contributor to revenue, and as a result real growth will be difficult to achieve in the coming year.

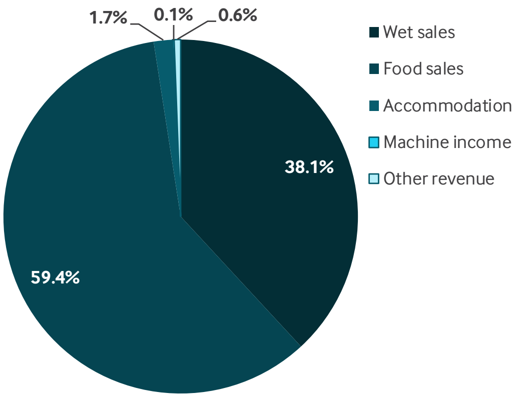
Utility costs rise 1.6ppts, and are set to increase further in the next survey

11. Segmental Analysis – Casual Dining

Reduced competition providing an opportunity for growth

A notable increase in wet sales at the demise of food sales

Revenue Composition



Source: The UKHospitality Christie & Co Benchmarking Survey

The survey covered 503 Casual Dining outlets (defined as a restaurant where alcohol sales are chiefly ancillary to food sales), a decrease on the previous year's sample, but still more than sufficient for meaningful conclusions to be drawn. Casual Dining is the third largest segment in terms of respondent companies (tied with Community Locals), and has an average estate size per respondent of 31 outlets. Whilst Casual Dining was previously one of the fastest growing sectors of the UK restaurant market, this growth has stalled in recent years and is reflected in the decline in outlets covered in this survey as well as the sector more broadly.

Whilst food sales continue to account for the majority of turnover, at 59.4%, this was a significant decrease of 7.3ppts on the previous survey (66.7%) as wet sales increased 6.4ppts to 38.1%, as the other revenue streams remained relatively flat. The dramatic shift towards wet sales may be explained by the survey period running from July to December 2021; this period will have been weighted towards more summer trade given the disruptions to trade caused by the Omicron variant in December, and also coincided with the full lifting of COVID-19 restrictions in July 2021, which means alfresco dining was popular amongst consumers as they returned to the sector. Many operators who previously had no outside space were able to capitalise on the temporary pavement license offered in response to the pandemic, therefore driving more wet sales and longer dwell times as a result of alfresco dining.

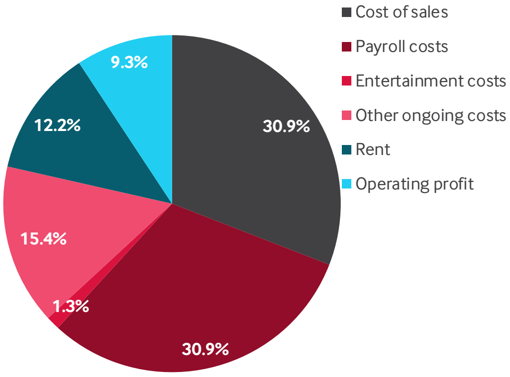
Operators sought to capitalise on the increased demand for wet products, with margins on wet sales increasing to 72.1% for this segment, the second highest in the survey after Nightclubs only. The margin on food sales decreased 2.4ppts to 65.9% in the survey period, and an element of this decrease is likely attributable to discounting and pricing to attract customers through the door with the goal of increasing spend per head and generating higher profit through wet sales.

In the past, operators have had to fight hard to maintain market share due to the highly competitive environment. However, with many outlets falling out of the market due to administration and Company Voluntary Arrangements (CVAs) forcing companies to restructure, competition has eased and we have seen like-for-like growth of 3.8% for this segment, the third highest in the survey.

Capital expenditure of 4.5% for the segment was the highest in the survey, perhaps driven by those operators who were able to pick up vacant sites during the pandemic and had to refresh the site and install their own brand. There might also be a proportion of capital expenditure represented by new technology for ordering food in venues as well as for setting up delivery platforms.

Higher margins driving profitability despite rising costs

Cost and Profitability



Source: The UKHospitality Christie & Co Benchmarking Survey

Cost of sales in the period decreased to 30.9%, as operators attempt to drive profitability in the face of rising cost challenges. Whilst operating profit has declined for the fourth consecutive period of this report, this is the smallest decrease since the 2014 survey period at 0.8ppts, and operating profit is now at 9.3%.

Payroll saw an increase of 1.2ppts to 30.9%, breaching 30% for the second time in the survey's history. This is the third highest in the survey, reflective of the labour intensive nature of the Casual Dining segment. Only Accommodation-Led and Food-Led outlets have a higher payroll, at 33.4% and 32.6% of turnover respectively. This is still above the entire survey average, which has declined this year in the face of staff shortages and businesses having to run leaner operations.

Given that the majority of Casual Dining outlets are operated on commercial leases, we would expect the rent to be higher for this segment in comparison to the wider survey, particularly Community Local, Food-Led and Accommodation-Led businesses, which tend to be located in rural and semi-rural locations on tied leases. Rent is now at 12.2% on average for Casual Dining outlets, followed closely by High Street outlets, which average 12.0%, and whether this will be sustainable remains to be seen.

Outlook

With a full service kitchen operated during the majority of trading hours in Casual Dining sector, we would generally anticipate higher costs of operating a Casual Dining outlet compared to a wet-only establishment. The increase in utility costs that are taking hold in 2022 for businesses will therefore have a significant impact on profitability for this segment, which will no doubt be evidenced in the next edition of this report.

In addition to generally higher utility costs, full service kitchens also rely on additional labour relative to the other styles of operations, and with the staffing shortage driven by a lack of labour supply, which has historically been the bedrock for kitchen staff in this segment, Casual Dining outlets are likely to see an increase in Payroll costs in order to attract and retain staff.

As previously mentioned, the fall in Casual Dining outlets has led to more available market share for the survivors of the pandemic, which might provide some comfort in the face of declining consumer confidence resulting from the rising cost of living. This segment is also positioned well to capitalise on the rise of food-delivery given the revenue mix is majority food sales.

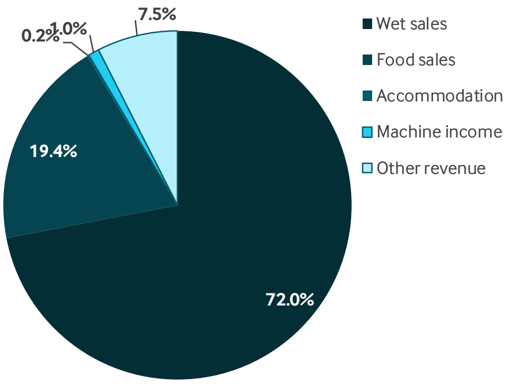
Contraction in supply providing relief from competition

11. Segmental Analysis – High Street

High Street segment continues to evolve its offer to remain relevant

Significant contraction in sales due to prolonged working-from-home advice

Revenue Composition



Source: The UKHospitality Christie & Co Benchmarking Survey

For the purposes of the survey, High Street outlets are determined to be mixed-use pubs and bars with a hybrid offering differentiated between day time and evening trade. They are situated in town centres and retail locations and will generally have a stronger wet than food offering.

The sample for High Street outlets included 908 venues, almost double the number of outlets in the previous period. 13 companies in total provided data for High Street outlets, with the average number of units per respondent company being 70.

Given the high footfall nature of the locations in which the segment operates, High Street venues are constantly evolving the offer to cater to a wide audience and ever changing consumer demand. However, given the mass exodus of people from town centres and high street circuits since the pandemic began, the ability to adapt has never been more important for this segment. This is reflected in the 2.9ppts increase in food sales to 19.4%, as operators were forced to embrace delivery and take-aways.

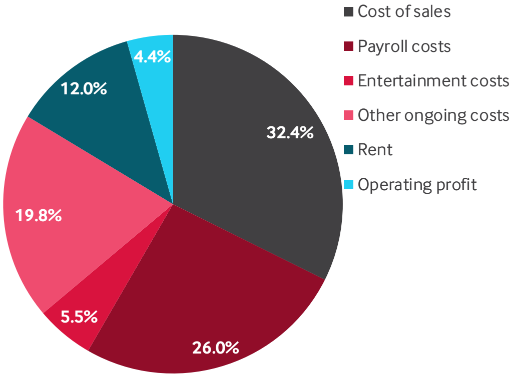
The High Street segment has historically competed with the Nightclub segment for evening and late night trade, however, there has been a distinctive rise in competitive socialising since the last report, and this has required High Street operators to adapt its revenue profile even further to remain relevant. It appears to have made itself more competitive on this front, as other revenue, which includes ticket sales for entry and/or group bookings for competitive socialising activities, increased by 6.7ppts to 7.5%. This may have also had an indirect impact on the increase in food sales, which generally forms part of the spend profile when consumers take part in competitive socialising.

High Street like-for-like growth in turnover has seen the most dramatic decline across the entire survey, at -15.0%. This is a direct result of a rebalancing of consumer demand away from city centres and high streets towards more suburban, rural and semi-rural operations that have benefitted from a workforce that was largely working from home during the beginning of the survey period (workers were only encouraged back into the office from 19 July 2021, after which a gradual return to the office was recommended).

The increase in margins was fairly consistent across wet and food sales, at 2.6ppts and 2.7ppts respectively, and reflects operators' motivation to absorb increasing operating costs through margin improvement. On food margins, the increase in food revenue as a proportion of total turnover for this segment would have also allowed operators to have more efficient supply chain management, and this could also be an element of the increase in food margins overall.

Footfall likely to return, however consumer confidence has taken a hit

Cost and Profitability



Source: The UKHospitality Christie & Co Benchmarking Survey

Profitability in the High Street segment decreased 5.9ppts to 4.4% of turnover, with operators suffering declining profitability as a result of increasing overheads as well as rent relative to turnover reducing the residual balance for tenants. The typically leasehold nature of the segment (due to city and town centre locations) impacts the true profitability of the underlying business in these properties – operating profit increases to 16.4% before rent is taken into consideration, which is only a 3.8ppts decrease on the pervious survey period.

Other ongoing costs were the other significant increase in this survey period, collectively increasing by 5ppts to 19.8%, driven by increases in utility, operational and premise costs. These costs are likely to be associated with the increased "other" revenue that has increased as a proportion of total turnover as operators aim to drive trade through alternative revenue streams after July 2021.

This segment has managed to compress payroll costs exceptionally well, particularly in light of the increase in food sales as a proportion of total turnover. Usually there is a requirement for additional staff to increase food sales whilst maintaining or improving margins. In the six months to December 2021, High Street operators managed to decrease payroll costs by 1ppt to 26% in comparison to the 2018 report. It is worth noting that prior to the last report, payroll costs for this segment had never exceeded 25.6%.

Outlook

In addition to the challenges set to face operators across all spectrums of the sector, the High Street segment is perhaps more disadvantaged in the sense that the high streets across the country are still below 2019 footfall numbers on average. However, there is still plenty of pent up demand as consumers return to pre-COVID socialising habits and continue to seek unique and immersive experiences. Operators should be cautious with pricing and menu engineering however, as consumer confidence is likely to fall with the rising cost of living.

Well-capitalised groups are presented with a significant opportunity to achieve sustainable roll-out growth due to the substantial availability of high street locations that would normally not come to market. Since this segment has historically been more flexible to change and adapting to consumer patterns, there is also an opportunity to be creative with existing spaces and capitalising on the high growth market of competitive socialising.

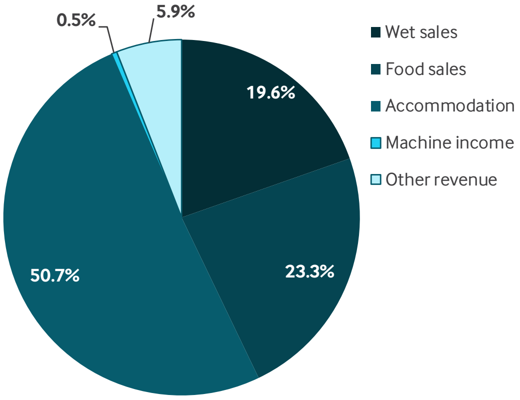
Operating profit margins of 16.4% before rent

11. Segmental Analysis – Accommodation-Led

Letting rooms create a more diverse and higher margin business

50.7% of revenue generated from room bookings

Revenue Composition



Source: The UKHospitality Christie & Co Benchmarking Survey

For the purposes of the survey, Accommodation-Led outlets are those for which letting rooms are a main focus of the business, and contribute in excess of 20% of turnover.

The survey covered 241 Accommodation-Led outlets from 18 respondent companies, representing an average estate size of 13 outlets per respondent. This is a dramatic improvement on the last survey period in terms of statistical significance, where the number of outlets covered in total was only 13 (from 3 respondent companies).

The breakdown of the average turnover profile for Accommodation-Led outlets has evolved significantly as a result of the larger sample, with a significant shift away from wet sales and towards letting rooms and food sales, the majority of the shift being enjoyed by accommodation which now makes up 50.7% of revenue (up from 29.6%). This sample is perhaps more representative of the coaching inn model, where the rooms are the primary focus and serve to enhance the food and drink offer.

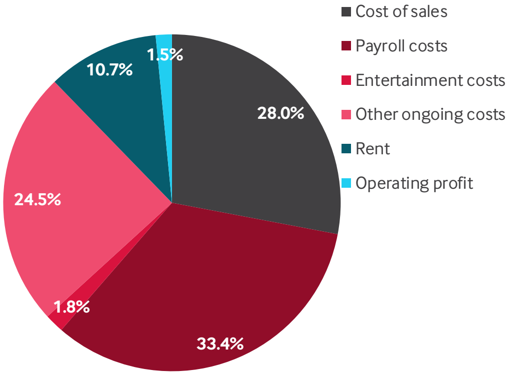
The sector was unsurprisingly the leading segment in terms of like-for-like growth, at 9.8%, which is more than double the growth seen in the 2018 report. With inflation for the same period at 4.5%, this represents growth in real terms, and growth of this magnitude can only be explained by the staycation boom that has seen rural and coastal tourist venues with letting rooms perform significantly better than city centre locations.

As a result of this segment's performance, operators in these rural and coastal locations have taken the opportunity to either develop more rooms or improve the quality of existing rooms to capitalise on the significant domestic demand for these venues. This is reflected in the capital expenditure into this segment among survey respondents, which was the second highest level of investment across the entire survey of 4.1%. Whilst slightly behind the level seen in the 2018 report, this is still marginally above the levels typically invested to maintain an accommodation premises, which is generally between 3-4% of revenue. This further reinforces that actual improvements in the quality and quantity of room stock are being made, rather than pure maintenance.

Given the revenue profile has shifted so significantly as a result of a larger sample that is more accommodation focussed, the gross margins that the segment was able to achieve are reflective of a different supply chain for food and wet sales altogether. Letting rooms are by nature a high margin revenue stream, however these types of assets tend to have a premium food offer with locally sourced ingredients, and therefore the food margin has improved significantly for this segment in comparison to previous years. Food margins are now at 69%, an increase of 12.4ppts.

Strong top line performance met with operational challenges

Cost and Profitability



Source: The UKHospitality Christie & Co Benchmarking Survey

Despite a strong like-for-like revenue performance, surprisingly, the segment saw operating profit decrease significantly to 1.5% of revenue. This might not be reflective of the wider segment, given that the majority of these assets will be freehold and therefore operating profit before rent is a more accurate reflection, at 12.2%.

Payroll costs and operational costs are intrinsically linked for accommodation providers, with many outsourcing room and/or cleaning functions to specialist service providers. As such, movements in one can be offset by movements in the other as previously outsourced functions are brought back in house and vice versa. However, given the increased level of food revenue as well as accommodation revenue, both payroll costs increased (by 4ppts) and operational costs (included in other ongoing costs) almost doubled to 8.3%, meaning operators were perhaps requiring additional support to compensate for the significant demand at these venues during the survey period.

We expect operators will find a suitable and streamlined approach going forward, as they equip themselves to deal with this level of demand.

Outlook

Prior to the pandemic the supressed value of the Pound made the UK a popular destination for foreign tourists, which was an important demand generator for the Accommodation-Led segment. Whilst staycations have filled the void for this demand, and perhaps even enhanced demand, UK residents are beginning to travel back to Europe and international destinations with relatively little restriction from a COVID-19 point of view.

Nevertheless, inbound international travel is likely to bounce back, and this will help not only the rural and coastal destinations that have performed well during the pandemic, but also Accommodation-Led licenced businesses that are located in key cities around the UK.

The wider UK accommodation sector does, however, rely heavily on foreign labour, much of it from Europe, and the staff shortages currently being experienced will affect whether operators in this segment, and hospitality more broadly, will be able to recruit personnel to maintain sufficient staffing levels in a cost-effective manner. Operators that are able to streamline their businesses to cope with high levels of demand will be able to drive profitability back to pre-pandemic levels.

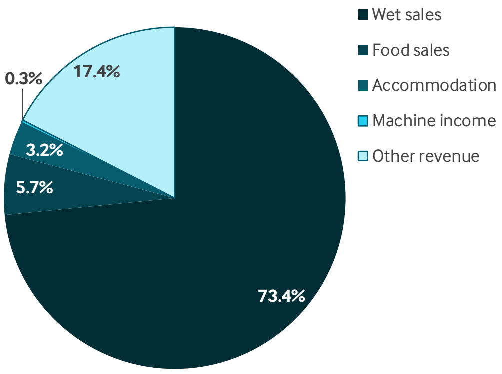
Improved food offer brings with it increased payroll costs

11. Segmental Analysis – Nightclubs

Pent up demand driving top-line growth

Revenue profile reverts back to expected distribution of income

Revenue Composition



Source: The UKHospitality Christie & Co Benchmarking Survey

A Nightclub is classified as a late night entertainment venue. This segment has been arguably the most impacted sub-sector of the hospitality and leisure sector during the pandemic, as these businesses were among the first instructed to close and the last allowed to open. Even prior to the pandemic, the segment was exposed to restrictive measures imposed by police and local council licensing departments, which typically either increases the cost of running a Nightclub premises, or reduces permitted opening hours, thereby constraining revenues.

The survey covered 195 venues, a slightly larger sample size compared to previous years of this report, from seven contributing companies. The sample size is now the second smallest of the sectors, representing 4.1% of all respondent outlets. The consistency of the sample size and respondents will ensure the data remains robust.

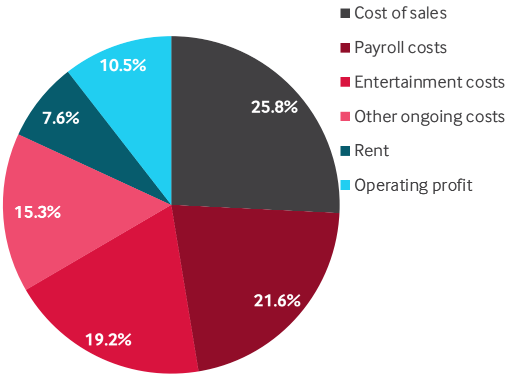
Despite the negative backdrop to this segment in the context of COVID-19, like-for-like revenue growth was the second highest across the survey at 9.0%, trailing only marginally behind Accommodation-Led businesses. This also represents growth in real terms when considering inflation for the period was 4.5%. This impressive growth can perhaps be explained by the strong pent up demand as a result of such prolonged closure, with consumers, particularly those aged between 18-34, desperate to return to pre-pandemic social habits. Average spend, frequency of visits and dwell times all appear to be at or even surpassed pre-pandemic levels.

The turnover profile of the average Nightclub venue has returned to a more normalised revenue profile since the results of the previous survey, which saw a surprisingly significant increase in accommodation. This has now reverted back to a lower level (3.7% of revenue), which appears more reasonable for this segment. Other revenue, which includes ticket sales and entry fees, remained broadly flat on the previous survey's results, which means that wet sales absorbed the majority of the decrease in accommodation sales.

Drink prices in Nightclub venues are typically higher than would be charged in bars or pubs as higher margin spirits and mixers are a popular drink of choice in these establishments. This is reflected in the gross profit margin on wet sales, which was 72.7% on average.

Relatively low investment yielding high returns

Cost and Profitability



Source: The UKHospitality Christie & Co Benchmarking Survey

Despite having the highest cost profile in the survey, high margins and low rent have led to this segment being the most profitable, with operating profit at 10.5% of turnover.

Payroll costs amounted to 21.5% of turnover in the year, which is significantly lower than all other segments in the survey. Whilst this might be indicative of operating efficiencies associated with an overwhelmingly wet-led model, entertainment costs include provisions for security/door staff as well as other entertainment costs such as hiring DJs and musicians. These, whilst not included directly within the payroll, are essential to the trading of such venues.

Utility costs have increased marginally by 0.3ppts to 2.6% of turnover on average, the lowest of the segments in the survey and due to this segment operating with shorter peak trading hours and generally on fewer days of the week, as well as the fact that operators can benefit from off-peak energy tariffs.

Rent has decreased by 3.9ppts to 7.7% of total turnover, which is the lowest seen across the entire survey. Given this is contractual rent and is fixed, the significant like-for-like growth that the segment enjoyed during the survey period might explain why rent has decreased as a proportion of turnover, since all other costs adjust to the level of trade the business is doing.

Capital expenditure as a percentage of turnover is the lowest across the survey, at 1.8% of revenue. This is thought to be a result of prolonged periods of closure prior to the survey period leading to opportunities for investment into venues in preparation for reopening. In addition, these types of venues are among the best equipped in the hospitality sector for opening in line with government guidance even before the pandemic, with efficient air ventilation systems and layouts designed for crowd management, therefore no new investment was required to make venues safer in this regard.

Outlook

This segment has demonstrated the most extraordinary recovery when considering the impact that the pandemic has had on this segment specifically. It is clear that there has been a positive response from consumers, particularly young adults, university students and those who turned 18 during the pandemic that had never experienced Nightclubs, that has brought life back to this sector.

Whilst this segment might be less sensitive to food price inflation and staff shortages compared to other segments, there will still be challenges in maintaining these levels of turnover in the face of falling consumer confidence as disposable income is squeezed in 2022.

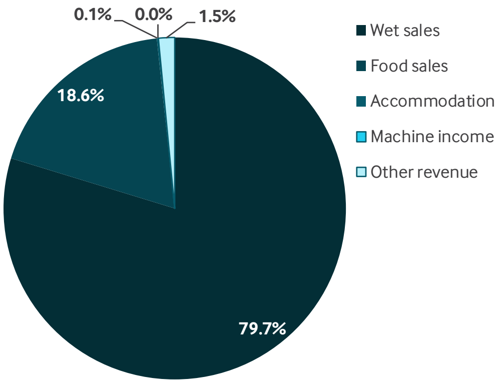
Highest operating profit in the survey, at 10.5%

11. Segmental Analysis – Wine Bars

Contraction in revenue due to shorter trading hours

Food sales decreased by volume, but improved in terms of gross profit margin

Revenue Composition



Source: The UKHospitality Christie & Co Benchmarking Survey

A Wine Bar outlet is defined as a café or bar-style operation, differentiated from other wet-led operators by the fact that it is primarily seated and has a stronger food offering. Venues that were able to provide an all-day offer prior to the pandemic were seen to be efficiently sweating the asset to drive success. However, the pandemic and lingering effects of Brexit has resulted in shorter trading hours at many establishments, purely due to staff shortages and increasing running costs. The Wine Bar segment is, however, better placed to capitalise on shorter trading times given dwell times are likely to be shorter than in traditional full-service restaurants due to café-style operations, enabling a higher turnover of customers during the day.

Data for the segment was provided by eight operators covering 147 outlets. Whilst this is the smallest segment in the survey, it is an increase in sample size on the previous survey and represents 3.1% of the total survey sample. The average Wine Bar estate across respondents is 21 venues.

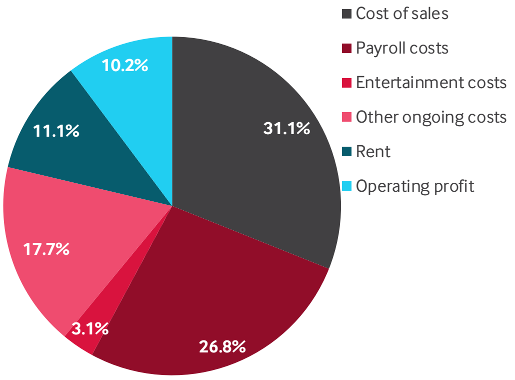
The segment remains heavily reliant on wet sales, of which coffee is a major factor for many, and this revenue stream has increased from 75.1% to 79.7% of revenue. With accommodation, machine income and other revenue contributing only 1.6% of revenue collectively, food sales has decreased to make way for the increased wet revenue.

Despite a fall in food sales relative to other streams of revenue, gross profit margins on those food sales have increased by 3.1ppts to 66%, as operators improve operational efficiency and pricing. Gross profit margins on wet sales have remained flat in comparison to the previous report, however remains one of the highest in the survey, after Nightclubs and Casual Dining at 72.7% and 72.1% respectively. This suggests that the pre-pandemic trend of premiumisation has continued in H2 2021, as consumers were eager to spend savings on premium products and experiences.

Like-for-like revenue saw a contraction of 1.6% on the same period in 2019, which is still a faster recovery than the wider survey contraction of 2.3%. Since Wine Bars (although not cafes) and Nightclubs are often geographically close and increasingly competing with each other for late night trade, the like-for-like growth seen in Nightclubs might have cannibalised demand from the Wine Bars for the evening portion of trade.

Margin improvements and reduced staff rotas improving profitability

Cost and Profitability



Source: The UKHospitality Christie & Co Benchmarking Survey

Payroll costs have historically been relatively high for this segment in the past, which is counter-intuitive due to the emphasis on wet sales and therefore less reliance on kitchen staff. However, these venues tend to set a higher threshold for staff due to the required experience and knowledge of wine and other imported products being sold, compared to other segments which pay staff closer to the National Living Wage minimum threshold. This trend seems to have been reversed, with payroll costs this year decreasing by 4.8ppts to 26.8%, perhaps due to a reduction in food sales and an element of a loss of staff from the EU with local knowledge of the imported products.

Rent as a percentage of revenue has increased 2.9ppts to 11.1%, however, prior to the last survey, assets within this segment saw rent as a percentage of revenue usually in the region of 11-12%. An operating profit of 10.2% represents a reasonably equitable split between landlord and operator, which has historically been heavily in favour of the landlord. The operating profit increase has been driven by higher margins and staff efficiencies.

Capital expenditure for this segment was 3.3% of revenue, which is a decrease of 2.9ppts from the previous report, and 1.3ppts below the entire survey average.

Outlook

Prior to the pandemic, Wine Bars were well positioned to benefit from the growing demand for premiumisation, and whilst the trend appears set to continue, this might be impacted by a squeeze on disposable incomes from the cost of living crisis in 2022. In addition to consumer demand for premium products, another growth opportunity lies in the increasing production and quality of domestic wines in the UK, which operators may seek to incorporate into their offering, however these wines might be expensive and limited in range due to the limited scale efficiencies of production.

Generally, the Wine Bar segment tends to import many of its products, and as a result the disruption to supply chains caused by a shortfall of HGV drivers as well as packaging products in 2021 had a knock on effect into 2022, with certain wines still not available until the end of summer. Savvy operators will have to work with suppliers to front load supplies in order to maintain a good level of stock throughout the year.

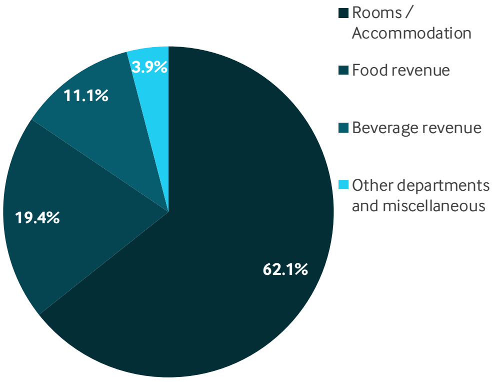
Average operating profit of 21.3% before rent

11. Segmental Analysis – Hotels

Representative of full service hotel with dedicated restaurant

New Hotel section is an opportunity to build a repository of data to track trends going forward

Revenue Composition



Source: The UKHospitality Christie & Co Benchmarking Survey

For the first time in the survey's history, a section focussing exclusively on hotel operators has been introduced. The Hotel segment differs from the Accommodation-Led segment in many areas such as operating style, ownership structure, revenue and cost profile, as well as the general reporting format for benchmarking purposes. The full P&L can be found in Appendix IV of the full report, and is the widely used format for the hotel and lodgings sector, making comparability to the rest of the licenced segments challenging. However, as the survey regathers momentum with the inclusion of a separate Hotel segment, we can create a repository of historical data that will allow for the ongoing analysis of emerging trends within the segment.

Responses were provided by 15 hotel companies, which covered 357 outlets and reflects an average portfolio size of 24 outlets per company. Visibility on number of outlets (and rooms) by operating model and branding was not able to be captured, and so the aggregate data is representative of a wider market.

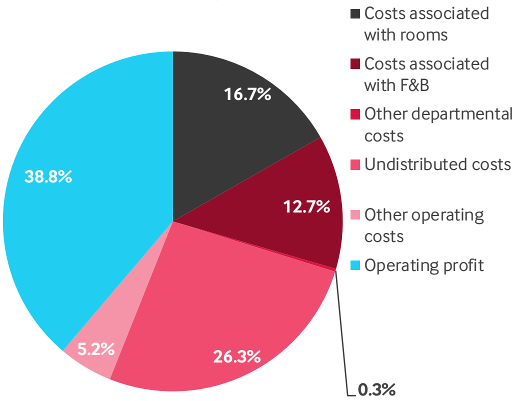
With a lack of historic evidence and visibility on the location and operating style of the outlets surveyed, it is difficult to analyse the results of this year's survey with confidence, and therefore the approach in this report will be to provide commentary and an outlook on the broader hotel market.

As you would expect, room revenue drives the majority of volume in terms of sales (62.1% in H2 2021), with ancillary streams such as food and beverage acting as important demand drivers to enhance room sales. However, it's important to note that the revenue profile tends to differ across different hotel categories. For example, the results of this survey indicate a revenue profile typically seen in full service upscale hotels with a dedicated restaurant, which explains the higher proportion of food sales compared to wet sales. The inverse of this relationship between food and wet sales is seen in Accommodation-Led outlets, given these businesses are primarily pubs or inns.

When operators were able to open their businesses in 2021, various regional cities in the UK, particularly coastal destinations, experienced their best summer performance to date as they capitalised on the staycation trends with the strong domestic demand. The results of the accommodation specific KPIs from this year's survey do not reflect this regional performance however, as occupancy levels ran at 64.8% on average, and with an Average Room Rate (ARR) of £128, Revenue Per Available Room was at £83 for the period. These rates tend to be achieved only by major city centre businesses, which indicates a large presence of London, Edinburgh, Manchester and Birmingham locations in this year's sample.

Undistributed costs are at the upper end of the spectrum

Cost and Profitability



Source: The UKHospitality Christie & Co Benchmarking Survey

Cost pressures affecting the wider licenced sector were equally disruptive to the Hotel sector, however it appears that hotel operators in this year's survey were able to maintain a strong operating profit despite these pressures. Part of this is the ability for Hotel operators to achieve high margins on room sales (this year's survey saw a gross profit margin for rooms of 88% on average across outlets). When combined with a high proportion of room sales , operators will be able to convert to a strong operating profit if they are able to manage undistributed expenses well.

Undistributed costs are costs that do not relate directly to rooms, food and beverage or other income streams specifically, but are still essential to the operation of the business and include administration, IT, sales and marketing, franchise fees (if applicable), property and maintenance and utility costs. At 26.3% of turnover, undistributed costs are at the upper end of what we would expect, with these costs usually ranging from 16%-26% and therefore confirms a higher proportion of full service, upscale outlets within the survey this year. More generally, the cost profile and resulting operating profit varies significantly between different operating structures, with owner/operators, managed, franchised and leased all bringing different cost elements. In future reports, we will aim to segment the hotel market in line with different operating structures to better understand the performance of hotels in different segments of the market.

Outlook

2022 commenced with relatively optimistic trading expectations as the staycation trend driven by strong domestic demand continues to provide some assistance in returning to pre-COVID-10 levels, particularly for regional/coastal businesses. In addition, the sector is yet to feel the return of international travel to its full extent, which should support major city locations, which have perhaps been most affected by the impact of the pandemic.

However, in light of the optimism regarding returning demand, as with the wider hospitality sector, there are significant cost pressures that will take hold in 2022, with the full effect of rising utility costs, staff shortages and general inflationary pressure presenting a threat to operators maintaining their margins.

Average operating profit of 38.8% in Hotels

12. Conclusion

A sector that remains resilient despite significant challenges

Operating costs now at 55.2% of turnover, and likely to increase further

This year's survey saw the largest response in history, both in terms of the number of companies who provided responses as well as the corresponding number of outlets. With 4,791 licenced managed outlets, and a further 357 hotel outlets, this provided a robust sample size to draw analysis from.

The three main sources of income for licenced operators are generally wet sales, food sales and accommodation sales, which contributed 43.2%, 31.3% and 18.8% of revenue, with machine and other income forming the balance. This revenue profile is the most diverse the report has ever seen, with a significant increase in accommodation sales as operators continued the pre-COVID-19 trend of developing high-margin letting rooms, which has since accelerated due to the rise of staycations in the last two years.

Like-for-like averages indicate that the sector was still behind 2019 levels in the second half of 2021. Unsurprisingly, Accommodation-Led businesses saw significant like-for-like growth of 9.8% as operators in this segment benefitted from the staycation boom, although struggled to convert top line growth into profit due to operational challenges and rising costs.

Prior to the pandemic, payroll costs were steadily increasing year-on-year on the back of the NLW increases, however in this year's survey there was a surprising decrease of 1.2ppts due to due to government support in the form of furlough, as well as staffing efficiencies that operators have had to adopt in order to prevent margin erosion. Total running costs, however, increased to 55.2% of turnover, before rent is taken into account, a 2.7ppts increase on the previous survey, driven by rising utility, operational and premise costs. We expect these costs to increase further in 2022 as inflationary pressure, rising energy prices and general operational challenges take hold.

At the time of writing, the Government had recently introduced a series of legislative measures to help both businesses navigate the difficult trading environment, as well as consumers who are faced with a cost of living crisis. Whilst the Levelling Up and Regeneration Bill as well as Non-Domestic Ratings Bill seek to provide relief through structural intervention, this does not necessarily provide the immediate relief that operators need, however is a welcome change long term.

The Confidence Survey, which was first introduced in the 2017 report, provided insight into the sentiment of operators at a time when the Omicron outbreak was just past its peak and the war in Ukraine, inflationary pressure and energy price rises were underway. Despite this, operators took a long term view and were confident in top-line growth in 2022 due to pent-up demand from consumers, however, operators were less confident in improving profitability due to the issues mentioned and the fresh set of cost pressures materialising in April, including an increase in NLW, and an end to the VAT relief.

The pandemic forced hospitality businesses to adapt quickly to a shift in consumer behaviour and drastically changing trading environment, which quickly distinguished winners from losers. Despite the significant challenges that lie ahead in 2022, new opportunities and ways of operating have emerged, and with consumer demand returning, there is still reason to remain cautiously optimistic. With full year trading returning for next year's survey, we look forward to updating the sector with an accurate benchmark against which operators can compare performance.

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Prior to COVID-19 the hospitality sector employed 3.2 million people, representing 10% of all employment, 6 per cent of businesses and 5 per cent of GDP. UKHospitality seeks to unlock the industry's full potential as one of the biggest engines for growth in the economy, and to ensure that the industry's needs are effectively represented by engaging with governments, the media, employees and customers. Our key priorities are the revival of a sector hardest hit by COVID-19, safeguarding the future workforce of the sector, tackling the excessive tax burden the sector faces and ensuring that regulation on business is proportionate. UKHospitality provides a unified voice for hospitality: brewers, coffee shops, contract caterers, hotels and other accommodation providers, indoor attractions and leisure (including ten-pin bowling and escape rooms), late-night, members clubs, pubs, QSR, restaurants, visitor attractions, wedding venues, those that supply the industry and much more.

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