

Quarterly Briefing Report

Summary of Q3 2011 with forecasts for Q4 2011 and Q1 2012

15 October 2011

Quote of the Quarter

**“We now face an economic crisis that is the economic equivalent of war.
This is not the time for business as usual”**

Vince Cable, Business Secretary.

Horizons say:

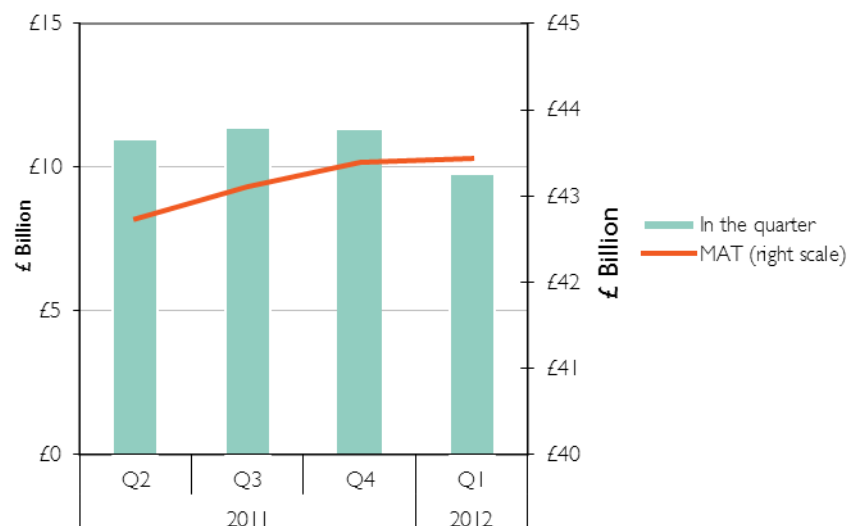
There seems to have been growth in the market over the last two quarters and we see some more growth in the lead up to Christmas.

However, this hides a reduction in volumes and this positive picture is solely due to inflation and the increase in VAT in January which won't slip out of the picture until Q1 next year.

At that time we expect the market to level off.

The reality is that sales are down in real terms, meals numbers are down and margins are being squeezed.

Change in Food and Beverage Sales



Source: Horizons

The Quarterly Briefing Report was launched by Horizons to satisfy the widespread need for factual information about what is happening right now and how things will pan out over the short term. With over 30 years' experience of delivering highly regarded insight and information, and possessing trend data since 1981, Horizons is ideally placed to help our clients in this way.

In addition to resources, such as ONS and the Bank of England, plentiful use has been made of a number of products from Horizons including:

Quarterly Data
Menurama
QuickBite

We ask for your feedback on content and layout of this Quarterly Briefing Report to help us develop it so that it becomes the essential, fully informed basis for your short-term business reporting and planning.

Please visit www.hrzn.com for further information about our services or contact Horizons on +44 (0)20 8349 0162 or info@hrzn.com

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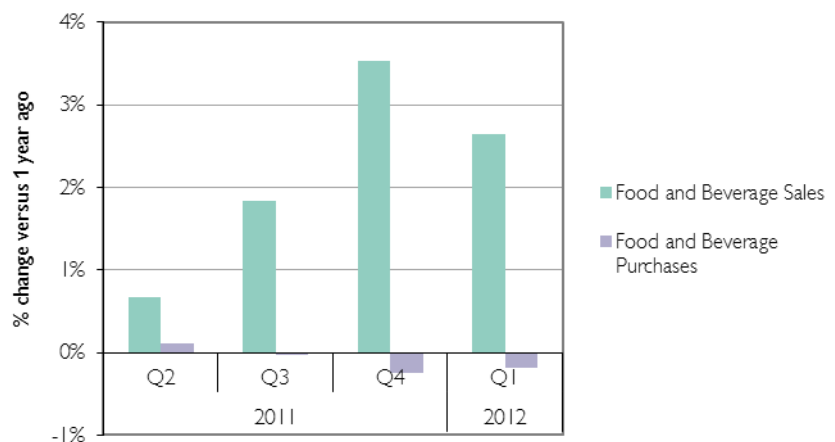
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Headlines

What news?

- Meal numbers fell in the last two quarters – we have slightly revised down our previously reported estimates for Q2 and our estimates for Q3 are less positive than we thought three months ago
- So what has been happening? Consumer confidence has taken a knock and has been translated into fewer eating out occasions. Nevertheless, the amount spent by consumers per meal has increased
- Consequently top line sales figures were up in both of the two most recent quarters
- Inflation has added to operators' costs and has generally limited their room for manoeuvre
- However, as we note later on, chain operators as a class have done moderately well although even their performance showed signs of falling off towards the end of September
- There were no special events or activities last year that might have provided an unreliable comparison with this year - but the August riots might have had a marginal impact on some operators and in some badly hit areas - notably London
- Nevertheless, it should be noted that London still continues to grow - and this is where many of the chain operators realise the majority of their sales

Changes in Food & Beverage Sales and Purchases



Source: Horizons

Performance in Q3 2011

July

- The drift in the eating out market that started in June continued into July as consumer confidence seems to have slackened
- Reductions in government spending started to bite and business in the non-commercial sector suffered

August

- The early August riots had a small direct impact on the market but probably had a larger impact on already fragile confidence
- Continuing discussion about the Eurozone crisis was also unsettling for many people
- The weather was cool and quite wet which probably helped the downturn in eating out in the month

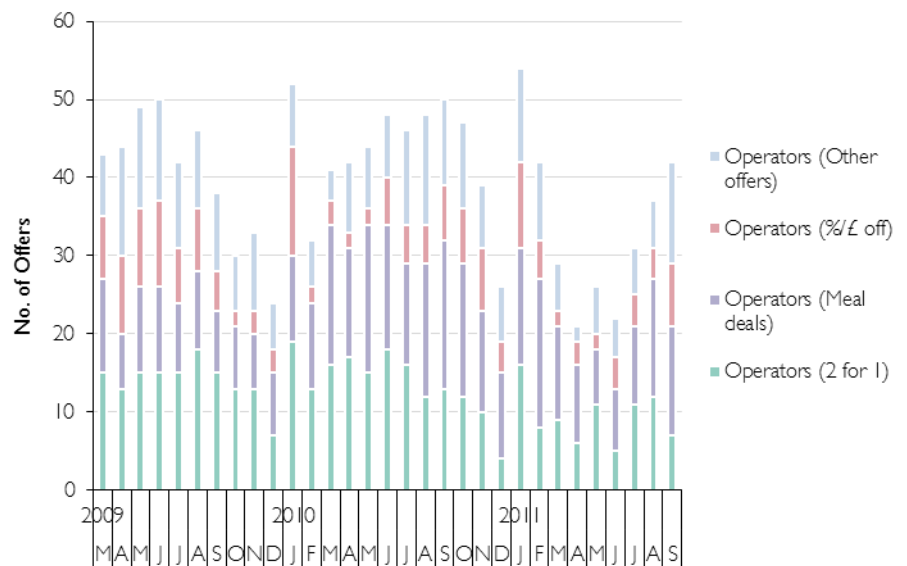
September

- Quite a number of restaurant and food-led pub chains reported good numbers during September, but since these related primarily to 2010, they were not a good guide to the current state of the market
- Poorish weather persisted during the month as people returned from their holidays, although the weather heated up towards the end of the month

Discounting

- Discounting continued in the quarter. Although the number of vouchers on offer in September was only 84% of the number in the same month in 2010, this was an increase on the 52% on offer in Q2 compared with Q2 last year
- It seems that having tried to dramatically reduce the use of vouchers, restaurant and other chains, are returning to them as a way to drive customer traffic

Numbers of Meal Deals available from selected sites



Source: Horizons

Consumers and the wider UK economy

We do not report in detail on issues that are well covered elsewhere except those that have an above average impact on the eating out market - or which are of major general significance.

Events

- Rioting started in London on 6 August and continued in several towns and cities for four days and nights - a considerable number of pubs, restaurants and quick service outlets were affected some severely and some were destroyed, but the loss of turnover for the foodservice sector as a whole was probably less than the increase that resulted from the Royal Wedding three months before

The weather

- July: After a generally fine first few days, the weather became unsettled. With low pressure close by, it was rather cool with showers and periods of rain, heavy and prolonged at times across northern areas
- August: The weather was predominantly unsettled and cool during August, with areas of low pressure over or close to the UK for most of the month. Showers or more persistent rainfall occurred on many days, especially across Scotland and northern England
- September: Changeable weather prevailed for most of the month with showers or longer spells of rain, especially in the north-west As before: it was hot!

The consumer and the economy

- Figures from the British Retail Consortium show current city centre vacancy rates were 17.1% in Northern Ireland, 13.1% in the North of England and averaged 11.2% across the country
- High Street sales in July were 0.6% higher than a year ago according to the British Retail Consortium
- The service sector in the UK continued to grow in June
- Public sector employees were paid 7.8% more on average than the private sector in April 2010. This was an increase from the 5.3% recorded three years before
- Manufacturing in the UK fell -1.6% in April and rose 1.8% in May
- Insolvent companies numbered 3,531 in the April to June 2010 period.
- Over 230 pubs, cafes and restaurants are owned by public sector bodies in the UK
- The Nationwide reported a fall of 0.6% in the price of an average house between July and August
- Business insolvencies declined in September to their lowest since February
- Up to 60 regulations relating to the hospitality, food and drink sectors will be scrapped or simplified according to the Government
- Two thirds of consumers paid off their credit card bills each month in 2010 compared with about 50% in 2005

Inflation

- The Margin Squeeze – our term for the difference between operators' selling prices and their food buying prices – worsened over the last three months and has now been on a downward trend for a year and a half
- This undoubtedly weakened balance sheets across the sector
- Operators have been taking resulting actions to mitigate these effects; none of these actions are new and all of them are continuing what they have been doing for some considerable time

Sectors

Foodservice sector

- Pub sector insolvencies grew 30% in the period April to June 2011
- Pub and restaurant failures in June were the same as a year ago at 0.16% - which is higher than for all businesses
- On-trade beer sales fell -6% in the 12 months to June 2011 according to the BBPA
- London hotel profits fell in August for the first time in eighteen months Heathrow Airport had its busiest ever month in June – 6.1 million passengers and a growth of 3.8% on the same month in 2011
- Visitor numbers to Britain rose 11% - to 7.8 million visits – in the January-May period. The Royal Wedding helped
- Outbound British holidaymakers were at pre-recession levels in May – 5.1 million travelled abroad in the month
- EasyJet carried 14.4 million passengers in the 3 months to end June – 17% up on a year earlier
- There was an increase of 5% in outbound visits by Britons in the quarter to June compared with the first quarter of the year
- Inbound visitors to the UK rose 9% in June compared with 2010 – their spending was also up 9%
- Holidays 4 U, the tour operator, was placed in administration in August
- The lates market – late holiday bookings – was strong in August according to the Travel Trade Gazette
- School meals increased in 2010 – 44.1% of pupils are opting for school meals

Companies

In this section we report on company performance as it relates to the last six months, or more recent past. Note: “LfL” refers to “Like for Like” or “Same Store Sales” ie directly comparing sales in stores that were trading over the periods covered.

July

Good news

- Barracuda more than doubled breakfast sales over the last 12 months, increasing them by 125%
- Sodexo sales rose 2.6% in the March to May period
- Amber Taverns saw sales increase by about 30% to £18.5 million in the twelve months to January
- JD Wetherspoon sales were up 1.6% in the three months to mid July – food sales outperformed drink
- Sales in the three months to end June rose 2.7% at Young and Co aided by good weather in April and May
- McDonald's sales in the UK were 5% higher in 2010 than in the prior year
- Mitchells & Butlers sales were up 2.8% in the 9 weeks to mid July – food was up 6.9%, drink fell -0.8%
- Ego, the restaurant group, saw sales increase 3.2% in the year to end March despite the closure of 3 sites
- Domino's LfL sales in the UK and Ireland were 2.4% higher in the half year to end June
- Jamie's Italian sales were £47.6 million in 2010 which were over twice the £19.4million in 2009 – driven by new store openings
- Sales at Giraffe rose 16.6% in the year to end March helped by new store openings
- Marston's managed pub sales rose 2.0% in the two and a half months to end July. Food sales were up 5% on LfL basis – starters and desserts were in double digit growth
- Best Western grew 20.3% in the UK in the first half of 2011 – regionally, Scotland rose 13.3%. the East was up 28.6%
- Fuller Smith and Turner managed pub sales increased 3.2% in the four months to 23 July