WHITESPACE PARTNERS

BIG EATS: INVESTOR APPETITE IN EUROPEAN RESTAURANT M&A

A WSP WHITE PAPER - OCTOBER 2022

WHITESPACE

PARTNERS

WhiteSpace Partners is a strategic advisory firm, specializing in the restaurant and foodservice industry. Our focus concentrates on the development and execution of strategies for three types of clients:

- ✓ *Restaurant brands planning to expand within or outside their home market*
- ✓ *Investors assessing acquisitions in the restaurant industry*
- ✓ *Property asset managers developing projects including restaurants*

Our **private equity and investor advisory practice** relies on unrivalled industry expertise in the foodservice space, constant research and data collection, an extensive network of contacts and a world class buy-side transaction track record, including several of the transactions cited in this report.

We advise private equity firms, industry investors and family offices on:

- ✓ *Commercial and strategic due diligence*
- ✓ *Investment thesis and business forecast analysis*
- ✓ *Acquisition target identification and activation*
- ✓ *Investment strategy review*
- ✓ *Transaction support*

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Earlier this year, while we were considering the topic of our 2022 white paper, we realised several of our private equity clients were not feeling optimistic post-Covid but were increasingly concerned by the growing challenges the restaurant industry was facing.

Many restaurant groups – including large brands – were postponing development projects because they were struggling to find and retain staff, simply to keep their existing venues open. Whilst increasing wages and benefits to boost staff retention, they were suddenly faced with rising energy prices, supply chain disruptions and the necessity of raising price points like never before. It was and still is a 'perfect storm'.

All storms end. Pandemics and lockdowns ended. We all felt the industry was held on pause (or, fluctuating between stop-and-go) and things would resume in the 'new normal'. With ramp-up curves we expected to see different bounce-backs amongst industry segments, but all should have been heading in the same direction.

Instead, in the first quarter of 2022, unforeseen Russian aggression in Ukraine has introduced more uncertainty and sent the entire industry – operators and investors – towards greater unpredictability, particularly in the traditional restaurant business and its scalability model. As never before, the industry is pondering its next steps.

No one really knows when and where the landing point will be. Where is the price point ceiling for a brand? Will utilities continue to represent 3 or 4 times more on a restaurant group P&L than they did 18 months ago? Where is the staffing model and related labour cost structure going? What will happen with delivery aggregators that can represent over a third of sales, but are losing more money than ever?

We have been fascinated to see that, today, those with a deep understanding of the restaurant industry have a critical advantage compared to newcomers or opportunistic bidders. Investors must now understand how to operate and expand their brands on multiple platforms and varied formats; far from the simple 'just add water' they were familiar with. There are simply many more things to consider now, than pre-Covid.

We believe this complex moment is also one of the most interesting, whilst recognising the pain and damage our industry is facing. We decided to focus our research on the status of the European M&A market in this post-Covid period, trying to outline the key identified trends and directions. We conducted vital research, analysing over 150 transactions in the restaurant industry between 2018 and 2022 (year to date). Our many learnings are detailed in this report, but it also asks several important questions.

Of course, the entire **WhiteSpace Partners** team is excited to further discuss your M&A challenges and opportunities alongside our learnings and research.

Vincent Mourre

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Honourable Mentions

Some key players in the industry had a central role in the last few years, navigating through the unforeseeable Covid pandemic and all the subsequent headwinds. Although the purpose of this study is not to single anyone out, we believe it is important to recognise their resilience and confidence in the future of the industry. Among them, the emergence of **McWin** – which we extensively analyse here – is probably one of the most interesting phenomena of this half-decade: the partnership between two European tycoons, which had the chance to stay away from the M&A market before Covid and have lots of dry powder available, will indeed change the shape of the European restaurant landscape.

A special mention also to **Groupe Bertrand**, which is recognised for remaining almost the only consolidator of the French market; keeping a very operational and strategy-led approach despite their huge size. And not to forget the true financial investors, who have been able to close deals in the restaurant industry during Covid, when private equity funds in general have kept their distance from an industry with a downgraded predictability: primarily **Vendis Capital** with the acquisition of **Pokawa**, **HIG** with **Quick France**, **Bridgepoint** with **Itsu**, **Cinven** with **Restaurant Brands Iberia**…

In general, we would like to pay a tribute to the entire restaurant industry – operators and investors at all levels – which has shown and is still showing an incredible vitality, always finding solutions and never giving way when all possible crises seem to be converging on their venues. Energy and positivity are part of the restaurateurs' DNA. We hope all industry players will keep this in mind when assessing investments in such a complex moment.

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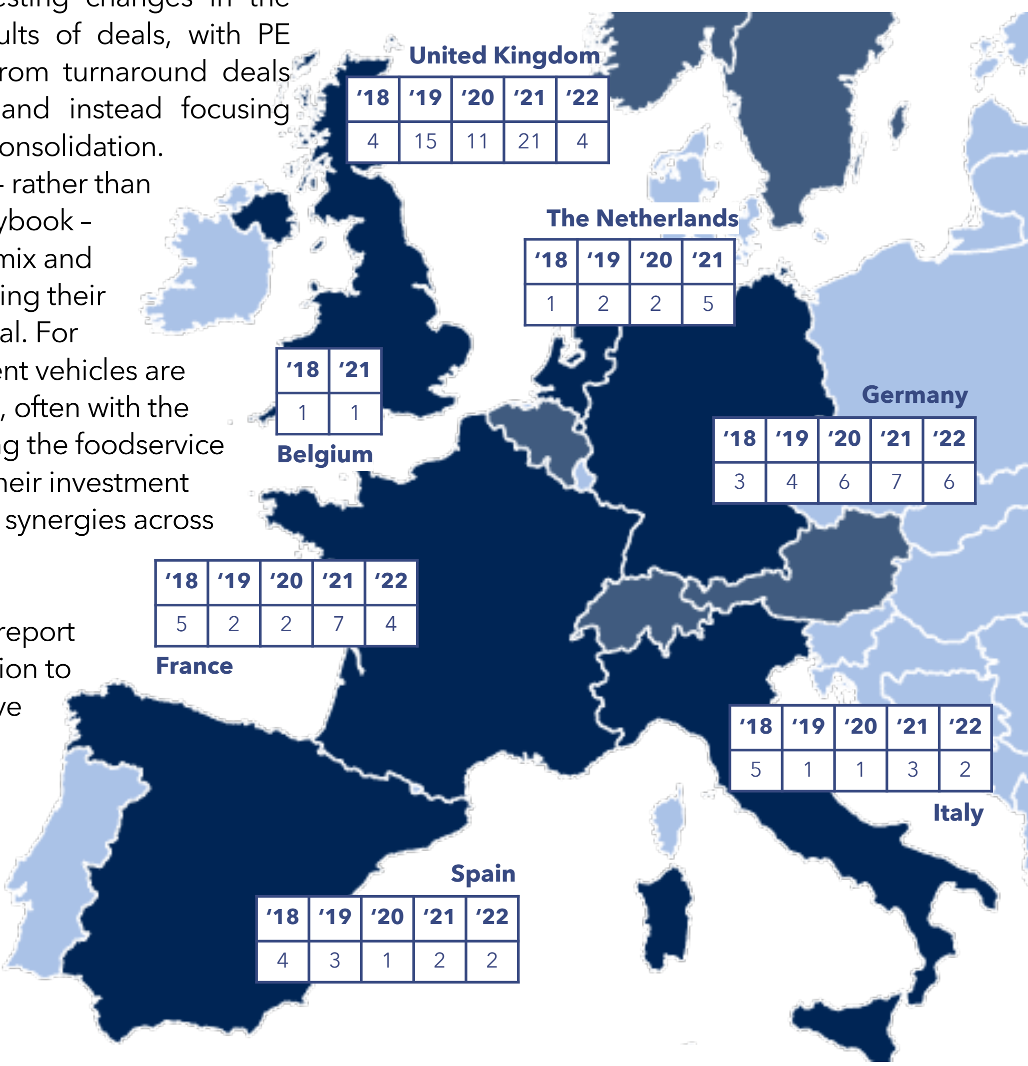
Mergers and acquisitions within the foodservice industry have never endured such a challenging period as now, in the wake of Covid. Post-pandemic, there has been a flurry of M&A activity – causing seismic shifts within the landscape and giving rise to new dynamics that are critical for anyone invested in the industry to understand.

Private equity companies have been more cautious than before. This is particularly true in the UK, which is usually a hotbed of activity. We've seen some interesting changes in the motivation and end results of deals, with PE investors shifting away from turnaround deals and uncertain models, and instead focusing transactions on industry consolidation.
In addition, it's clear that – rather than following a fixed deal playbook – investors have sought to mix and match their models, tailoring their approach to each new deal. For example, hybrid investment vehicles are becoming more common, often with the clear purpose of improving the foodservice environment that drives their investment decisions and generating synergies across their portfolio of assets.

For these reasons, in this report we have paid close attention to the kinds of deals that have been taking place, categorising them into various segments and sub-segments. In total, we considered over 150 transactions across 11 European countries, with some interesting learnings emerging.

In 2021, for example, we saw the number of deals almost double, compared to the previous two years. The much-anticipated wave of turnaround transactions on distressed restaurant assets never in fact materialised. Over the five-year period of our study, we recorded only nine transactions that can clearly be categorised as turnarounds: six in 2020, and in 2019, 2021 and 2022 just one each year.



As well as crunching the numbers, we have also dug deeper into the trends we observed to be common amongst those at the forefront of the European restaurant M&A landscape: interviewing industry leaders and experts who operate on the frontline and collecting their insights and observations.

This report presents the findings of this qualitative and quantitative research. We hope it proves essential reading, and we would be delighted to discuss any of our findings with you. What is clear is that things are changing – fast.

Methodology

To deep-dive into the trends, the motivations for investors, and the shifting power balance amongst the key players, we have catalogued **152 transactions,** which represent all the major (and many minor) deals **from 2018 to 2022 YTD**. This wide time period allows us to compare the pre-pandemic landscape, the lockdown period and the post-Covid bounce-back, as well as overseeing the impact of the unexpected recent and vicious cost increases triggered by staff, energy and commodity disruptions, in large part due to the war in Ukraine.

We considered **mergers and acquisitions across the restaurant sector throughout Europe,** with a key focus on deals taking place in the **UK, Germany, Spain, Italy** and **Belgium.** We further included some of the larger deals occurring in **The Netherlands, Sweden, Norway, Switzerland, Austria, Luxembourg** and **Ireland.**

We differentiated **transactions between four key macro categories: Private-Equity** (sub-categorised into majority deals, minority deals and family offices investments), **Industry Consolidation** (sub-categorised into PE-backed industry consolidation, brand acquisitions, brand conversions, acquisition of franchised portfolios, new market entries, acquisitions by non-restaurant operators), **Turnaround** (sub-categorised into PE turnarounds and industry turnarounds), and **IPOs.**

Our analysis incorporates **deals across all major foodservice sectors,** which we categorised as follows:

- ✓ **Restaurant chains (table-service)**
- ✓ **QSR & Fast-Casual**
- ✓ **Café & Bakery**
- ✓ **Pubs & Bars**
- ✓ **Travel-oriented foodservice**
- ✓ **Delivery services**
- ✓ **Contract Catering companies**

Over the 150+ transactions reviewed, the landscape of investors in the European restaurant industry appears starkly contrasted. Large players able to deal at the >€250m table and to manage cross-border business are few in number. The institutional investors – the 'usual suspects' – could almost be counted with one hand: **McWin, Kharis Capital / QSRP, JAB Holding Company, Bridgepoint, LCatterton,** and **TDR.** Then we have a few possible 'one-shot' bidders – those with a smaller industry track record: **Permira, HIG, Cinven,** amongst others. Combined, this amounts to a limited number of strong investment arms. For example, in the tranche above €250m, you can only count around five transactions each year across the whole of Europe.

This dropping off of large private equity transactions might in part be due to a relatively small number of players competing for similar targets. As **Henry McGovern (McWin)** tells us: "For significant deals you've only got a few players. Across Europe there are four or five strong and experienced international PEs (**Bridgepoint, LCatterton,** etc.) On the industry side, for large and international deals, you also have a very limited number of buyers: **Alsea, Amrest, Groupe Bertrand,** and hybrid models like **McWin, Kharis Capital / QSRP and JAB**. When the deal is focused on a single country the pool of investors tends to be much wider."

Nevertheless, within this 'champions league' we are seeing some interesting shifts, with a few investors choosing different deal types to suit each specific transaction, rather than sticking with a tried and tested model. For example, the likes of **McWin, JAB Holding Company, Kharis Capital** et al. are mixing their investments between private equity and industry consolidation, creating a hybrid model that meets the needs of their portfolio.

While we will examine **McWin, Bridgepoint**, and **Kharis Capital / QSRP** in greater detail in Section 6, it's worth noting that **JAB Holding** are international investors, focused on the Café & Bakery segment, with controlling positions in **Pret a Manger** and **Espresso House**, as well as **Krispy Kreme** and **Panera Bread** in the US. At a smaller scale, very few investors can prove to have succeeded in the internationalization of the brands they acquired, like **Palamon Capital Partners** did with **Espresso House** when they scaled it from 20 units in Sweden to a 120-strong brand across all Nordic countries (before selling it to **Herkules Kapital** who subsequently sold it to **JAB**).

Each European country has its national champions: operators able to complete large acquisitions of national groups, but with a more limited reach when it comes to cross-border business. Among these national champions we must keep on our radar large industry players such as **Groupe Bertrand** in France, **Cigierre** in Italy, and **TRG and EG Group** in the UK.

In addition, we're watching a number of private equity investors that are highly experienced in their home markets – **Naxicap** in France, **DeA Capital** in Italy, and **Gimv** and **Bluegem** in Belgium – able to bid on large national brands, relying on a sound knowledge of their respective national markets.

These industry players have developed astute acquisition know-how and are able to integrate, rejuvenate, or turnaround restaurant groups with a large and established presence.

While other competitors have deployed a 'one-shot' strategy, like the **TDR Capital**-backed French **Napaqaro Group** (formerly the **Buffalo Grill Group**), which became in 2020 the unexpected buyer of the popular but dated **Courtepaille.**

A further interesting category of investors is one that's particularly active when industry expertise is required to support a financial transaction: the restaurant-focused private equity funds. There are examples to be found in each country, groups like **Trispan Rising Stars, Capdesia** (UK) and **French Food Capital** (FR). And, to some extent, active players like **Graphite Capital** (UK), **Active Partners** (UK), **BGF-Business Growth Fund** (UK), **Milano Investment Partners** (Italy), **Vendis Capital** (Belgium) and **Montefiore** (FR), amongst others. Restaurant knowledge is strong within these businesses.

Alessandro Preda (QSRP)

"For us, scouting targets for M&A activity didn't stop during Covid; we also continued organic growth with 50 new restaurants in 2020 and 70 in 2021, seeing the resilience of QSR brands. In 2020, once delivery was permitted, click & collect happened quite fast and now all these brands are seeing double digit growth compared with 2019. As the sector demonstrated strong resilience sellers have expectations. The high multiples – perhaps 13 to 15 times – mainly selling the dream of a strong growth for the future which has to be demonstrated.

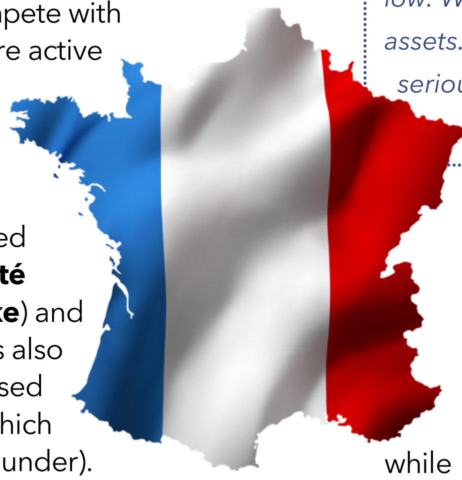
Speaking to our industry leaders, we saw a range of investment criteria driving their M&A strategies. Some, like **Trispan,** steer clear of auction-style bidding but prefer proprietary investments, ideally teaming with entrepreneurs, maybe at an early stage, and taking on just a few sites and looking for scalability, where others might not have seen it so clearly.

Others are looking from an operator perspective, thinking about what opportunities fit well with their existing portfolio, balancing their exposure across a range of segments. **McWin** on the other hand have a clear vision of themselves and the companies they're looking for, searching for partnership opportunities and supporting entrepreneurs into growth. They take a nurturing role, putting the right people in place to help scale a brand into more sites or countries.

Post-pandemic, investor appetite for risk has diminished overall – with investors often looking for safer asset-light models and franchising opportunities, usually in QSR. They're looking much harder at the business, and at the future opportunities it might present for growth and diversification, through retail opportunities, branding, and other sales platforms. Covid has also shown the value in many tried and tested QSR formats and brands that were 'less sexy' but performed well in the pandemic.

FRANCE

FrenchFood Capital are big players in France (invested in **Nouvelle Garde, Sophie Lebreuilly, Class'Croute,** and **Thierry Marx La Boulangerie)** and compete with French investors that are active in the restaurant industry, although not industry-focused. For example, **Montefiore Investment** has invested in the **ETLB Group** (**Côté Sushi** and **Maison Poke**) and **Street Bangkok.** It was also a bidder on the distressed **Planet Sushi brand** (which finally stayed with its founder). While **Vendis Capital** (France and Belgium) have invested in the poké market-leader **Pokawa.**



Laurent Plantier (FFC)

"In France the availability of good investment opportunities in the restaurant sector is low. We don't see many enquiries with good assets. There were very few investors who were seriously interested in the last deal we have been looking at."

SPAIN

The Spanish M&A market has seen a relatively small number of deals in comparison, but some significant shifts to note. These include **Beer & Food / Abac Capital** picking up **Tommy Mel's,** while **Miura Private Equity** did deals that added **Grupo Saona** and **Grupo Tragaluz-En Compañía de Lobos** to their portfolio. While **Comess Group**, together with private equity investor **GED Capital** and the private financing firm **Oquendo Capital**, bought the pastry and bakery company **Levaduramadre**. Finally, the acquisition of **Pizzeria Carlo's** by the Italian **DeA Capital / Taste of Italy** was also one to note.

THE NETHERLANDS

It's interesting to mention the Dutch **Waterland Private Equity** group, who combined the acquisitions of **Debuut Groep (Loetje)** and **Happy Italy**, creating the efficient **Restaurant Company Europe (RCE)** platform, operating at a large scale in the country.

UNITED-KINGDOM

The UK also features a competitive landscape, with investors such as **Trispan Rising Stars** (backed by the US-based **Trispan**, which made investments in **Pho, Thunderbird Fried Chicken, and Rosa's Thai Café**) and **Capdesia**, which relies more on a boutique club-deal model (currently invested in **Wasabi**, **Marugame Udon**, and **Gail's Bakery**, along with **McWin** and **Bain Capital**).

Robin Rowland (Trispan)

"For investors it's no longer a generous market. You need to have a good sense of the market you're investing in. But the market is heating up. No one wanted to sell anything a year ago, now everyone is looking for investments."

Remember too the early-stage industry-focused investors such as **Imbiba** (**Pizza Pilgrim, Farmer J, Vagabond Wines, NQ64**), **White Rabbit** (**Kricket, Lina Stores, Island Poké**), and consumer-focused funds with an extensive past and present track record in the restaurant industry: investors like **BGF** (which has stakes in **Barburrito, Bob & Berts, TD4 Brands, Camino, Crêpeaffaire, Entier and Giggling Squid**), **Active Partners** (**LEON, Chicken Shop and HONEST Burgers**), **Quilvest** (**Yo! Sushi, Tortilla**), and **Graphite Private Equity** (**Hawksmoor, Corbin & King, Laine's, Wagamama**), and of course the **Luke Johnson** backed **Risk Capital Partners** (**The Bread Factory, The Genuine Dining Co., Giraffe**…).

Of particular interest is the UK industry platform **Boparan Restaurant Group**: owners of **Slim Chickens** (franchise rights), **Gourmet Burger Kitchen, Ed's Easy Diner, Fishworks, Carluccio's, Cinnamon Collection, Giraffe** and **Wondertree**. **Boparan** has been able to close a number of acquisitions, taking advantage of the challenging headwinds on the UK market in the last decade: increasing business rates and minimum wages, development of debt and rent renegotiations procedures set against expensive occupancy costs, Brexit etc.

One industry outlier taking its own route through the restaurant M&A landscape is **EG Group.** Created through the merger of **Euro Garages** and **EFR Group** in November 2016, this British retailer operates petrol stations and fast-food outlets across Europe, the USA and Australia. Despite the volatile market conditions around Covid, **EG Group** is forging an aggressive development strategy in the UK, taking on 146 **KFC restaurants** through the acquisition of **The Herbert Group**, and another 52 with the buying of **Amsric Group**. It also took on 22 **Cooplands** locations and the 70-strong **LEON Restaurants** group. Finding its stride, it even attempted a hostile bid on **Caffe Nero**.

ITALY

In Italy, **DeA Capital / Taste of Italy** have concluded the acquisition of **Alice Pizza,** following the admired roll-out of **La Piadineria**, which was then sold to **Permira** in late 2017. **OpCapita** have acquired the **Sebeto Group.** And **BC Partners** took on the **Cigierre** portfolio which they have subsequently made occasional attempts to find buyers for. A special mention to **Investindustrial** who recently acquired a 52% stake in **Eataly**.

The Italian market can also rely on family offices such as **Milano Investment Partners** which made shrewd early-stage investment in **Miscusi**, and then provided growth funding to **Poke House**, and to private investor **Francesco Manzi**, backing **I Love Poke**. On the industry buyers' side, **Cigierre** acquired **Temakihno** in 2018, to strengthen its brand portfolio.

GERMANY

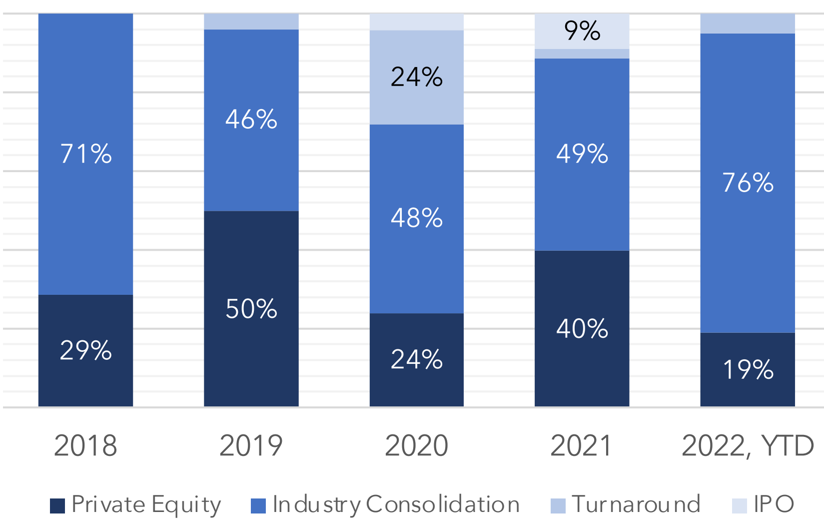
The German market recently witnessed **Valora** taking on **Back-Factory** (with the support of its previous owner Harry-Brot) and **Frittenwerk**. With **Gustoso Group** taking on **Ruff's Burger** in 2019, that brand has since been consolidating small burger chains with the acquisition of **Burgerista** and **Beef Brothers**. Meanwhile **12.18 Investment Management** took a stake in **Gastro & System**, since rebranded as **Tasteful Concepts**, as well as adding **Schlemmer-meyer** to their portfolio.

Mapping of the main investors

Looking at the deals that have taken place during the past five years, we've identified some interesting features in the restaurant M&A landscape.

Comparing the different types of deals, we recorded a total of 49 private equity transactions between 2018 and the present day, compared with 82 deals which supported industry consolidation. Just five deals amounted to IPO, and nine were turnaround deals.

Breakdown of deals per category (2018-2022, YTD)



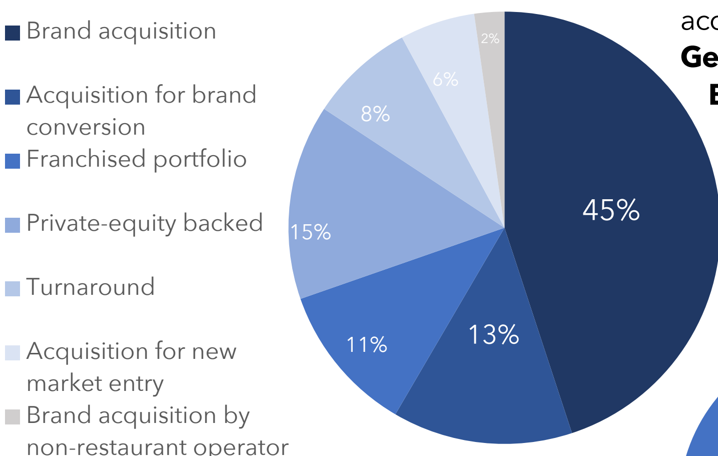
What's especially interesting is that amidst Covid uncertainty in 2020, private equity deals dropped off drastically from 13 in 2019 to just 6 the following year. Although this number bounced back in 2021 to 19 deals, as a percentage of all deals the shift is clear. In 2019, private equity deals made up well over 50% of all M&A activity, but in 2020, private equity represented only around 24% of all deals. Whilst the number of private equity deals climbed in 2021, they still represented just 40% of all M&A activity, and so far in 2022, only 19% of the 21 deals we've recorded are private equity (4 midcap deals, the investment in **Eataly** by **Investindusrial** and the impressive €500m **Abu Dhabi Investment Authority** in **McWin**).

Until 2019, PE firms were enjoying the 'easy' investment model of the restaurant industry: the good assets had high margins and short paybacks, excellent predictability in the business model, strong scalability and development potential.

Covid put many investments on hold, but apparently has not permanently disrupted the predictable model of the industry. This may explain the relative bounce back of PE-led transactions in 2021, when mass vaccination finally brought some light at the end of a long tunnel, often made longer by varied governmental and regional responses to the pandemic.

Subsequently we would have expected to see a recovery timeline (barring differences between industry segments) and comparing current numbers to the 2019 pre-Covid results was still a valid methodology. But the unexpected 2022 cost crisis may prove to be a harder knock to the model. No one can judge the medium to long term impact of the ongoing staff shortages and wage increases, the sudden surge of energy costs, supply chain disruptions, and the subsequent significant jump of the casual food price points in all segments. **Henry McGovern,** CEO of **McWin** told us: "It is not only difficult to analyse company financials these days, it is also quite difficult to predict what they will look like in 2022 and 2023. And it becomes more and more difficult to rely on dated 2019 pre-Covid results." In general, all our industry execs reported seeing a lot of 'noise' in the balance sheets and a constant swing in the market – all of which suggests a high degree of uncertainty across all market segments.

Breakdown of industry consolidation transactions (2018-2022, YTD)

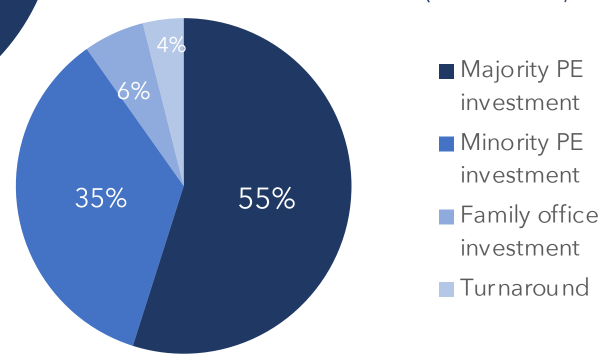


As an indirect but important consequence, banks have revised their debt support strategies. Leverage is lower and the cost of debt is higher, due to the increased unpredictability of business models. Less and more expensive debt has a direct impact on valuations and investor returns. Someone has to pay for that, and it is still unclear how this bill with be shared around the seller / investor table.

We're therefore seeing a shift away from the typical investor model of buying to develop and sell on. Instead, M&A activity is focused on consolidation, with industry operators adding to their portfolio and growing their market share, unit sales, and channels.

We analysed the split between different investors, noting 49 private equity deals since 2018, with 28 of those deals seeing the majority of their investment from private equity (compared to just 18 where PE represented a minority investment). These of course featured some of the largest industry players making the biggest deals, including **Ring International** buying **Burger King Scandinavia** from **Umoe**, **HIG's** acquisition of **Quick Restaurants** in **France** from **Groupe Bertrand**, **McWin's** acquisition of **Gail's Bakery** and **Burger King Germany** (then of **Burger King Poland**), **Bridgepoint** buying **Vermaat Groep**, **Cinven** investing in **Restaurant Brands Iberia**, etc.

Breakdown of private equity deals (2018-2022, YTD)



Just three deals in the five years represented family office investments and a further five represented IPO flotations (none in 2018-2019, one in 2020, and four in 2021). These include **Hostmore Group**, (a large **TGI Fridays** operator). However, given the current cautious approach of PE firms in the restaurant industry, we believe IPOs should see a renewed interest when groups need to provide liquidity to their founders and shareholders, even when it comes to mid and small caps as we saw in the UK.

Just as investor models have changed during the Covid period, interest in the different market segments has shifted too. Understandably, investors are avoiding riskier opportunities and are focused on safer bets. For the time being, at least, this means an increased appetite for agile QSR and Fast- Casual concepts which showed their flexibility, and to some extent a move away from traditional table-service restaurants.

Jonathan Doughty (WSP)

"The more upscale the restaurant, the more the diner is paying for environment, service, ambience and social scene along with the food and drink. They aren't so easy to package and deliver on a bike."

There are a number of reasons why table-service restaurants have under-performed during the pandemic, not least because they were less able to pivot to new delivery mechanisms during lockdown. Fast-Casual meals are easier to package and transport to the home environment, but few are going to attempt delivery of a three-course meal. Whilst the likes of the **UK Cote Brasserie** attempted the 'Cote at Home' concept, it was not enough to keep them out of trouble, leading to their acquisition by **Partners Group** who converted in equity their debt lending to the company.

In addition, in the early days post-lockdown, nervous diners were unlikely to choose to sit for long periods in rooms with dozens of other people, preferring QSR and Fast-Casual options instead, particularly those that could provide outdoor dining.

One prominent PE executive told us that omni-channel sales and digitalisation are now key investment criteria. That view is supported by **Mario C. Bauer** (Partner, **WhiteSpace Partners**) when he says: "It's essential that the brand can be stretched into various channels: four-wall sales, delivery, retail, and supermarkets. To be successful in residential areas but also in shopping and office hubs. To make sure you don't rely on one single customer audience." For table-service concepts which rely on large venues and more homogeneous audiences, such an approach would prove a more difficult display of operational gymnastics, compared to the highly flexible and agile QSR brands.

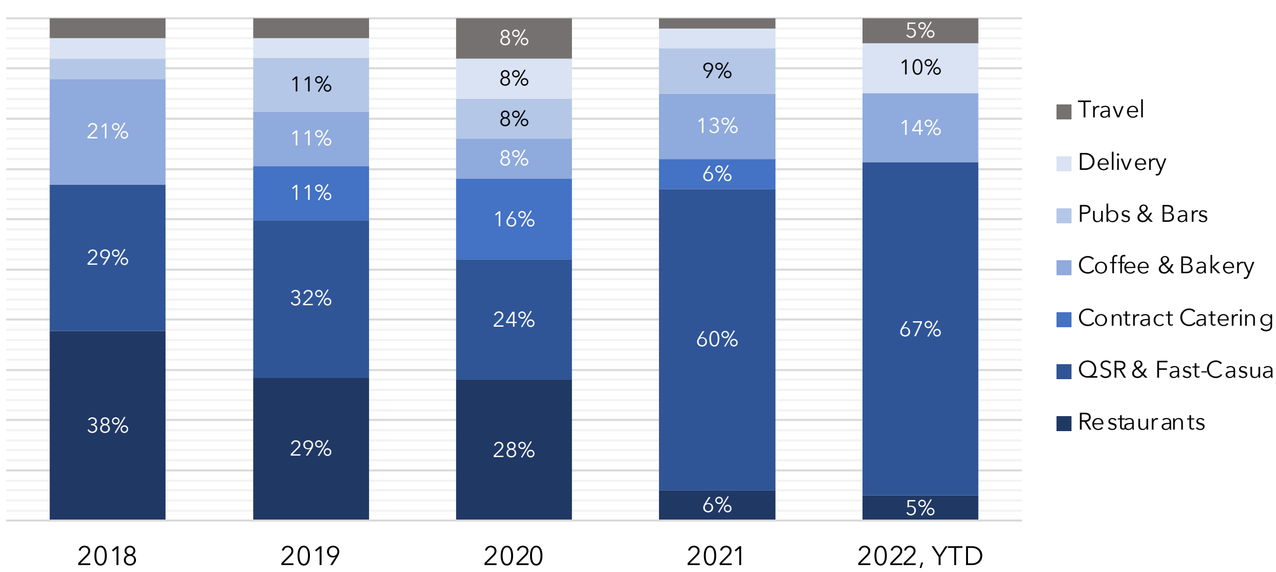
QSR has therefore shown an impressive resilience (and performance for the best brands) during Covid. A key factor when investors come to assess risk. Consumers have fallen back in love with the brands they know and trust, ditching those brands they found new and interesting for a short while.

Our analysis shows that whilst the table-service Restaurant segment in 2018 represented just under half of all M&A (9 out of 24 deals), that dropped to less than a third of all deals in 2019 and 2020, and less than 10% of all deals in 2021. This compares to a remarkable shift for the QSR and Fast-Casual segment which represented less than a third of all deals in 2018, just a little over a third of deals in 2019, just under a quarter of deals in 2020, leaping up to represent more than 60% of all deals in 2021, and so far accounting for 67% of deals in 2022. We've seen almost no Restaurant deals completed so far in 2022, although some great local champions are said to be on the market in various European countries.

Cooplands, Creams Café, and **Gail's Bakery.** We also saw deals in this segment in Italy, Sweden, Spain and Austria, and several deals in Germany including **Le Crobag** and **San Francisco Coffee Company.**

Deals in the Contract Catering segment, as well as Pubs & Bars, Café & Bakery, Delivery, and Travel oriented segments have remained relatively stable throughout the five-year period. This means the biggest shift we've observed has been to the QSR and Fast-Casual segment. However, some landmark transactions must be mentioned: namely, the impressive acquisition of **Valora** by **Fomento Economico Mexicano**, and the mega-merger between **Autogrill** and **Dufry.**

Breakdown of deals per industry segments



Our analysis also revealed a total of 18 M&A deals in the Café & Bakery segment, including activity in France around **Starbucks France** acquired by **Alsea**, and **Boulangerie Louise** recently sold to the **Invivo**-led vehicle **Teract.** And in the UK: **Costa Coffee**, **Taylor Street Baristas, Coffee#1, Small Batch Coffee,**

It's interesting to note that our experts **Edward Duckett (Rothschild & Co.)** and **Robin Rowland (Trispan)** could both see that dining in the suburbs was recovering faster than cities, as people stay away from the office and crowd-heavy shopping centres.

Contract Catering segment

Contract catering remains a small but consistent segment of the market for investment, with a steady three or four deals taking place every year throughout the pandemic, although the segment has probably been the hardest hit by lockdowns (Education, Leisure) and the sudden rise of work-from-home habits (Business & Industry). A lot of M&A activity in this segment was focused on the UK and tended to be larger groups buying out smaller premium players. For example, we saw **WSH** buying out **Bartlett Mitchell** and **Somerset Larder**, whilst **Aramark** picked up **Wilson Vale**, and **CH&Co** added **Mitie Group** to their portfolio. **Compass Group** took on **Fazer Food Services**. In the Netherlands, **Bridgepoint** acquired from **Partners Group** the coveted **Vermaat Groep,** which subsequently started its European expansion with the acquisition of **Serenest** in France. While in Germany, **Aramark** further consolidated with the addition of **Stockheim**. The sector remains very traditional in its outlook, growth, and acquisition models. However, we feel the limited number of available assets in this segment may change the situation.

Another industry leader agreed, saying: "People's behaviour has changed with inflation, the cost of living, how they move around the city: residential vs the suburbs, the high street vs the shopping centre". And **Mario C. Bauer** reminds us that: "QSR may have a stronger pressure on margins due to the various and sudden costs increases, since there is less elasticity on price point. Likewise, Fast-Casual brands that stand in the €15-20 average spend range are those which could face more difficulties, as they are often more labour-intensive and must retain some expensive products in their menus, such as those based on plant-based meat alternatives".

This is balanced by the fact that consumers are now relishing being 'out and about' after the forced home living; to catch-up, meet and enjoy themselves again. So, price may be becoming less important in the pursuit of experiences.

The benefit of QSR in this environment is that risk is spread across a large number of sites with stronger scalability models, and franchising reduces the risk even further. As **Duckett** tells us: "The de-risking and margins that franchise brands bring is quite appealing. There's much more appeal today for models relying on franchising compared with before Covid." Which is confirmed by the number of M&A transactions involving franchised restaurant portfolios (**Burger King Germany and Poland**, **Hostmore Group**, **Restaurant Brands Iberia**, **Amsric Group**, etc.)

We saw eighteen high profile deals in QSR and Fast-Casual across Europe during the five-year period of our analysis. Interestingly, the medium profile deals speak to newer trends in consumer choices, with an emphasis on models based on poke bowls, Mexican dining, pho and sushi.

In the UK, the 2021 **BDO** M&A Market Overview made the same observation, reporting: "QSR brands and operators saw the greatest trading success in 2021. Drive-Thru store formats, products designed to be consumed off-premises, highly developed delivery propositions and leading app / loyalty programmes have delivered an outstanding 18 months to QSR operators and brand owners alike. Franchising has gained publicity as a way for brand owners to accelerate domestic and international growth. **Pret, Franco Manca, Black Sheep Coffee, BrewDog, Sushi Shop, Creams** and **Chopstix** all announced successful franchise partnerships in 2020 and 2021."

Jonathan Doughty (WSP)

"Many people are asking me where the delivery segment can go next. During Covid, everything was working in their favour, and they still didn't make money. If they couldn't make it work then, when will they?"

Delivery segment

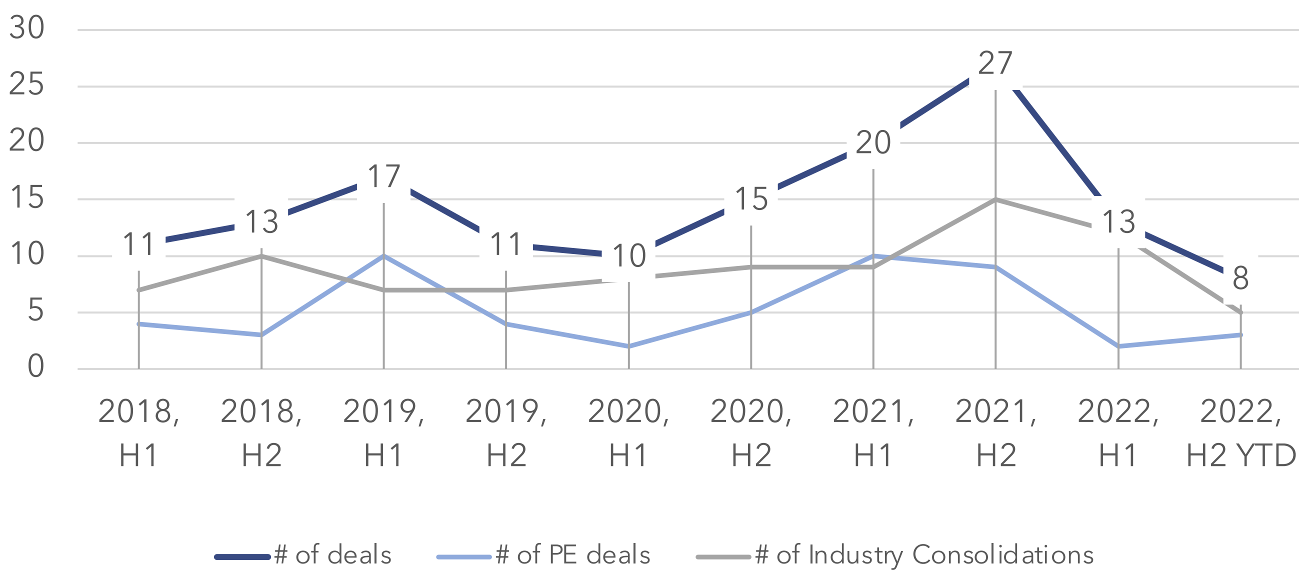
Delivery remains a relatively weak market segment, with a lot of our experts concerned by the absence of correlation between increasing volumes and financial performance – even despite the lockdown boom – fuelling their reluctance to invest. **QSRP** group CEO **Alessandro Preda** sees it as "still not stabilised and influenced by the atypical environmental condition." While **Henry McGovern** sees the segment as "very exposed to staff shortages, minimum wage increases, labour regulation litigations in many countries, and gas and energy increases." He wonders whether it would make more sense for brands to manage their own delivery service.

We reviewed eight deals in this segment, spread across France, Germany, the UK and the Netherlands. Again, this was predominantly larger players consolidating with the purchase of smaller competitors. For example, **Just Eat Takeaway** picking up **City Pantry** in the UK and the large US platform **Grubhub**. **Delivery Hero** were active in The Netherlands and Germany, and key player **Just Eat Takeaway** were also prominent, picking up **Foodarena** and **Just Eat** in The Netherlands. **Just Eat Takeaway** have just sold their stake in **iFood** for over €1.8bn achieving a 5x return on their investment (having previously rejected a €2.3bn offer), but also recently downgraded the value of **Grubhub** by 50%, representing a $3bn depreciation one year after the acquisition and communicating on exploring sale options. This leads **Edward Duckett** to note that delivery assets today can be seen as relatively low valued compared to historical levels, being almost back to the value they had five years ago. This is probably the industry segment with the highest degree of uncertainty.

The shift away from private equity towards industry consolidation has also been interesting to observe. Whilst industry consolidation via brand acquisition has remained strong throughout the 2018-2022 window, representing almost a third of all deals, we've seen a dramatic dropping back on private equity deals. We've noted 49 out of a total 145 M&A deals, compared with an impressive 82 consolidation deals. 51 of those deals have happened since 2020, showing the resilient model of QSR during Covid has been quickly identified by investors.

coveted and competitive QSR opportunities attracting a premium compared with traditional table-service propositions. **Olivier Bertrand** (CEO, **Groupe Bertrand**) said: "We see QSR valuations increasing. But I'm not sure that full-service valuations are decreasing – there are too few deals to say. In general, however, amongst the public / listed restaurant companies, share prices in QSR are showing growth where full service appears to be flat or declining." This is probably a reflection of the limitations of these formats to expand into different channels as easily as QSR can (and should).

Breakdown of deals per six months 2018-2022, YTD

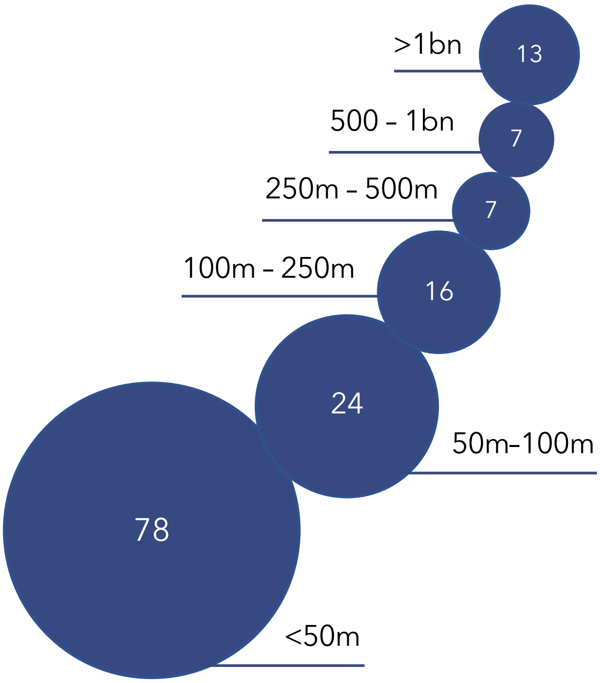


Several of our experts discussed the impact these M&A trends were having on asset valuations. Typically, despite the turbulent period the sector has endured, valuations do not seem to be lower than the pre-pandemic numbers we were seeing in 2019, even in the heavily disrupted contract catering segment. Some consultants have even observed the

Laurent Plantier (French Food Capital) told us that in many cases it can be hard to ascertain an accurate valuation on a business, and the lack of consistent data makes it difficult to read balance sheets and P&Ls. It's hard to pin down the operational profitability of a concept that's seen so much disruption. And he told us, "Debt is more expensive and more difficult to find.

Bank debt is normally related to an EBITDA multiple but when there is no EBITDA, it is much more difficult. And private debt, convertible bonds, etc. are much more expensive. This must have an impact on valuations." However, it is not visible yet.

Breakdown of deals per estimated value



Robin Rowland (Trispan) said: "Valuations are a bit punchy right now. The sector has changed with the increasing cost of goods and labour, and industry advisors sometimes create too high expectations. The real issue is whether the business can pass on the costs via their pricing." Meanwhile **Mario C. Bauer (WhiteSpace Partners)** had noticed some owners pulling back from negotiations as they realise they can't get the price they'd expected.

Turnaround deals

We saw far fewer turnaround deals happening between 2018 and 2022 than had been the case in previous years. In total we saw just eight key deals. This included **Boparan** in the UK taking on **Gourmet Burger Kitchen**, and **Partners Group** converting its debt loaned to **Cote Restaurants** into equity. While **Epiris** were keen to turnaround **Casual Dining Group**. In Germany, the M&A landscape for turnarounds is particularly interesting, with **Mario C. Bauer** leading a group of investors to turnaround **Vapiano**, and another group of investors gathered under the name **Equity 69** conducting a turnaround deal on **Maredo**. But the anticipated wave of turnaround transactions on distressed restaurant assets never materialised, at least not yet.

McWin is an investment platform aimed at developing the 'food ecosystem', and describing itself as 'primarily investing in Unstoppable Trends'. Founded by industry legends **Henry McGovern** and **Steven K. Winegar**, their focus is on 'daring' companies which are tuned to sustainability and disruption. Their modus operandi is investing in companies 'whose breakthroughs will deliver impact on a world-changing scale'.

The partners behind **McWin Food Ecosystem Fund** have more restaurant acquisitions to their name than anyone else in Europe. Chasing trends rather than a particular segment means they have invested across a variety of systems and markets, from Russia to Spain. **Winegar** and **McGovern** can be considered '*Godfathers*' of the European restaurant scene.

The McWin Fund aims to accelerate the foodservice ecosystem by connecting entrepreneurs, brands and technology, therefore, whilst 70% of the fund is invested in foodservice concepts that align with shifting consumer tastes, 30% targets food technology, with a particular interest in alternative proteins, tech-for-food solutions, sustainable packaging, etc.

*Their model is a blend of **'hold and develop'** vs **exit strategy scenarios.***

McWin cut their teeth with the acquisition of **Vapiano** in Germany before progressing to deals across Europe. They see themselves as growth investors and for that reason can achieve fast turnarounds on acquisitions. **McGovern** says when they consider a deal, they look at whether the brand can grow, whether the right people are in place, and whether they can scale it.

They enjoy partnering with entrepreneurs to develop a brand. In 2021, **McGovern** became a 49% shareholder in German healthy eating concept **Dean & David**, with plans to double its outlets from 150 to 300. This is a longer-term investment for him, working in partnership with the company's founder **David Baumgartner**.

Their investment approach also led them to acquire **Burger King Deutschland** in 2021, recognising that the QSR brand had adapted quickly to the challenging times, with **McGovern** being quoted: "**Burger King Germany'**s eagerness to innovate by leading the inclusion of vegetarian and vegan products into QSR menus, pursuing investments that enhance the dining experience, and overhauling their digital strategy, has impressed us very much."

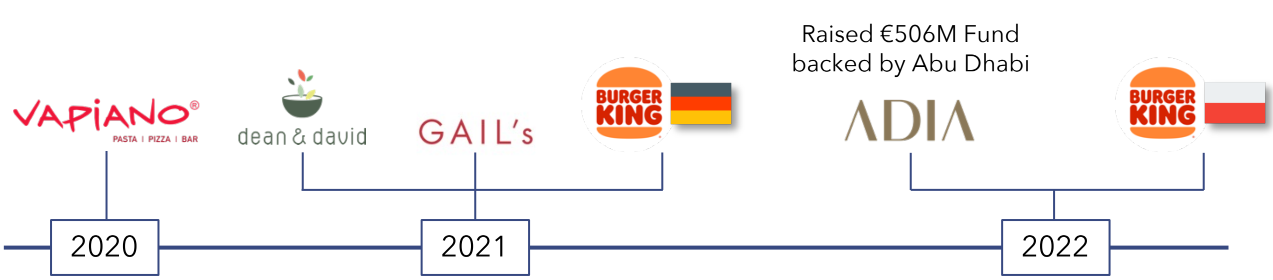
The Fund's plan for **Burger King Deutschland** is to level it up through a focus on growth opportunities including new locations, promoting meat alternatives, enhancing delivery services, and developing the **Burger King** brand digital experience. In our interviews, **McGovern** told us: "A lot of what we are trying to do is focused on health and wellness, but we are also pragmatic and opportunistic. We are looking for businesses we can scale."

In 2021 the Fund, trading as EBITDA Investments, enabled US private equity company **Bain Capital** to acquire **Gail's Bakery** and **The Bread Factory** owner, **Bread Holdings.** Although the pandemic hit Gail's hard, it adapted and bounced back, fuelling confidence in its brand and prompting **McGovern** to announce: "With our combined knowledge [alongside Bain and Gail's] and spirit of 'anything is possible', we look forward to growing this great brand."

Early August 2022, **McWin** announced it had secured a €500m funding from the **Abu Dhabi Investment Authority,** which brought total capital managed by **McWin** in excess of €1bn. The announced strategy is to focus on strong brands and large restaurant groups, with EV above €100m, adding that new investments should be announced shortly. Something they followed through with quickly – announcing at the start of September a new master franchise and development agreement with **Restaurant Brands International** to acquire **BK SEE Poland S.A.** and grow the **Burger King** brand in Poland.

Looking ahead, **McWin** will be showing an active interest in an increasing number of investment opportunities across Europe. They clearly want to take advantage of their unrivalled industry expertise during a time when financial investors will be more cautious than ever. **McGovern** understands that "In some ways, we're in a really difficult time. But strategically, a very interesting time – because you have to look at how to change your business model". Their adaptable approach means they can bid on very different assets, looking at both small and large businesses, turnaround opportunities or already fast-growing assets, looking to keep management in place, or moving them on. Although they will not take on every investment they're considering, they are a serious competitor for other investors at every size level.

Timeline McWin Food Ecosystem Fund



Whilst they have a clear vision of their investment purpose, their hybrid model of part industry investor / part operator is relatively new to the landscape, so we may see evolutions of this going forwards. We suspect synergies between the different investments and brands will be more effectively leveraged, shifting towards a model where liquidity will rise up and hinting at IPO possibilities, moving them closer to industry conglomerate players such as **Amrest, JAB** or **Kharis Capital / QSRP**.

groupebertrand

Founded in 1997 by **Olivier Bertrand**, Groupe Bertrand is the leading independent restaurant group in France and by far the biggest consolidator of the restaurant industry in the country. **Au Bureau** was its first important chain acquisition (in 2010, from **AB Inbev**) where they first gained their franchisor credentials.

In 2013, they secured the exclusive master-franchise rights for the French market of **Burger King**, in a model with the **RBI group** as a co-investor (joined in 2018 by **Bridgepoint**, already the owner of **Burger King UK**). This represented a clear turning point in the group's organisation and development journey, and the reason behind the acquisition of the **Quick group** in 2015, with most sites converted into **Burger King** outlets, and the remaining 100 **Quick** units sold to **HIG** in 2021.

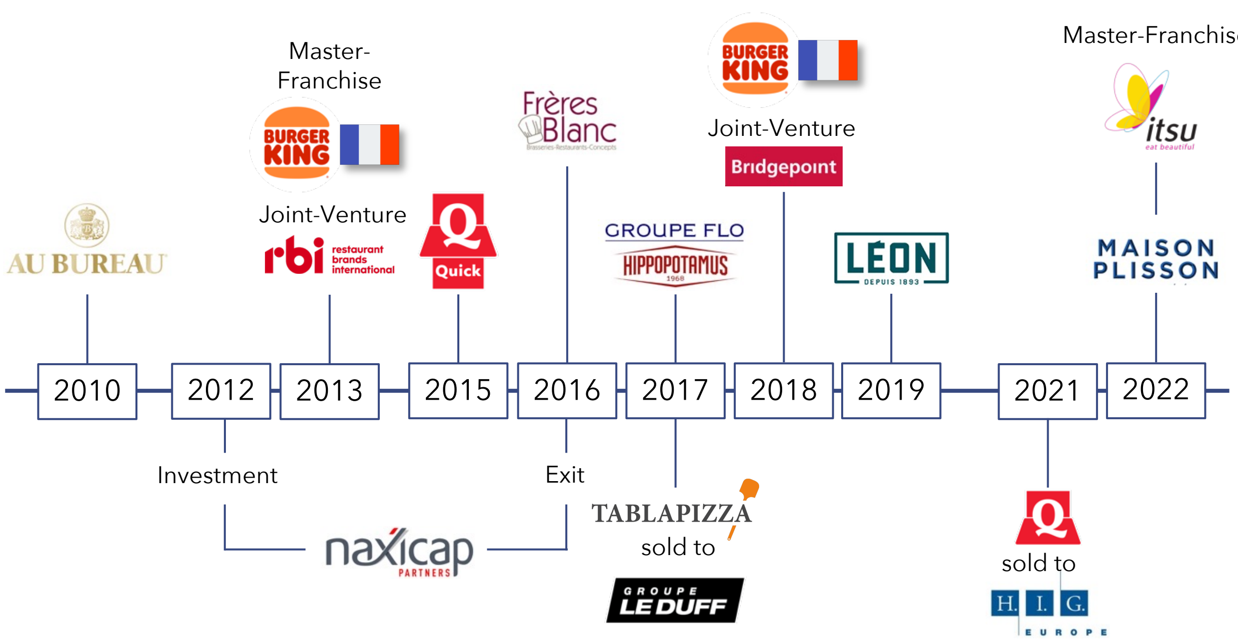
The group has continued to grow through a mix of acquisitions and organic development. They acquired the two major French distressed restaurant groups **Frères Blanc** in 2016 (owner of major iconic Parisian brasseries) and **Groupe Flo** in 2017 (owner of the leading French steakhouse **Hippopotamus**, as well as most of the remaining prestigious Parisian brasseries not owned by **Frères Blanc**). The turnaround of **Hippopotamus** stands as one of the very few successful turnarounds in the European restaurant industry and strengthened **Groupe Bertrand**'s credentials as a buyer of distressed assets needing operational and financial restructuring.

They further added to their casual dining portfolio in 2019 with the acquisition of **Léon de**

Bruxelles (rebranded as '**Léon**'), prompting industry experts to comment on **Groupe Bertrand**'s "insatiable appetite for acquisitions". By 2019 the company was reporting circa €2 billion in business volume, thanks to its theme restaurants, the **Burger King** franchise, and its brasseries.

The group is still actively looking at potential acquisitions in France, especially in markets that would plug gaps in their portfolio – chicken, Asian cuisine, and healthy fast casual brands. Their recently announced (August 2022) acquisition of the Asian-themed fast-casual

Timeline Groupe Bertrand



Groupe Bertrand is a long-term owner and developer. They have a family-owned group mindset, and they don't often sell assets: the sale of **Tablapizza** to **Le Duff** (2017) and of **Quick France** to **HIG** (2021) were mainly driven by portfolio arbitration decisions. In the medium to long term, **Groupe Bertrand** could choose to become a public company, but will continue to be a consolidator of the restaurant industry in France (and perhaps some other European countries).

brand **Pitaya** is a part of this strategy, filling both Asian cuisine and QSR gaps. **Olivier Bertrand** tells us: "*In general, we prefer to own the brands we operate, so our model will always aim to push the acquisition of proprietary brands that we can control, rather than developing external brands as a franchisee.*"

That being said, they remain open to new master-franchise opportunities – as shown with the acquisition of the exclusive rights of the

Julian Metcalfe Asian concept **Itsu** (with **Bridgepoint** as a minority investor), which is taking its first international expansion step.

Bertrand has a clear vision of the businesses that interest him. He confirmed to us that he wants the brands he acquires to have "an excellent scalability and franchisability model, an agile format, not too high CapEx per unit, and easy to operate."

The Groupe stands as the key aggregator of the French restaurant industry. Their long-term vision, operation-focused approach, opportunistic and pragmatic reactivity and unrivalled understanding of their home market – one of the largest in Europe but far from being the easiest one – are all strong upsides when competing with other investors. We believe the next stage of growth for **Groupe Bertrand** could be moving from a national leading position to an international dimension, achieving a first acquisition in another European country.

Bridgepoint is an international alternative asset fund management group, primarily acquiring or investing in businesses with a European focus. Their approach is to seek growth-oriented companies with strong market positions and earnings potential, adding value through expansion and operational improvements, to build stronger businesses with enhanced long-term potential.

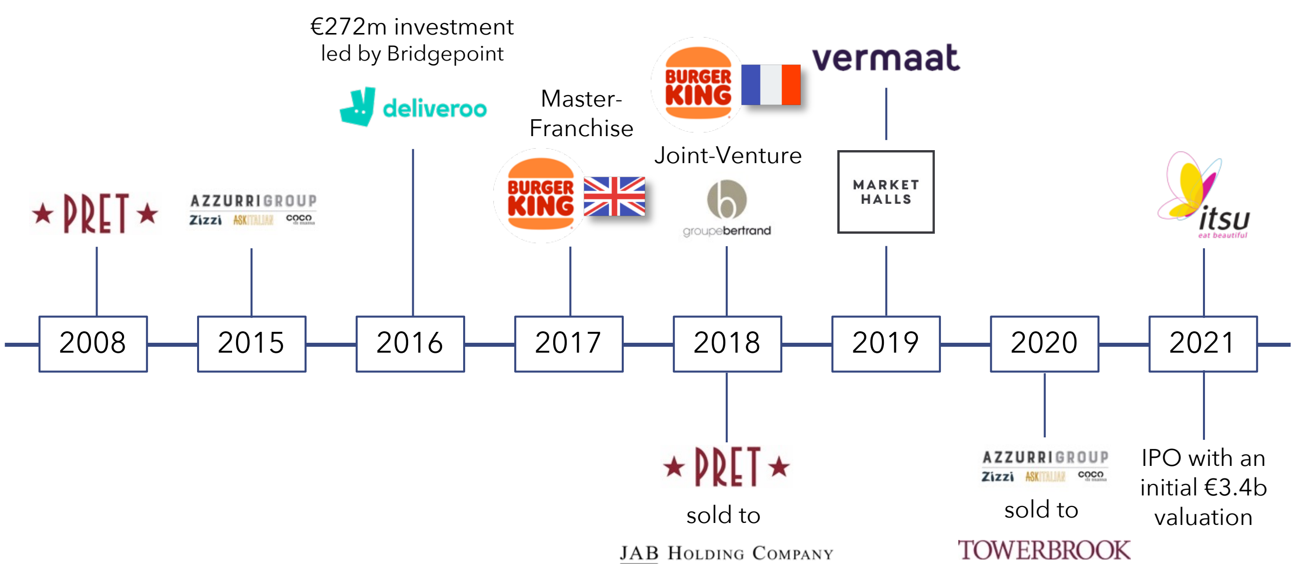
The company is particularly interested in shifting consumer trends and behaviours, especially around health and wellbeing, and where technology supports service delivery efficiencies. They are drawn by the growth in experiential and leisure activity.

Bridgepoint has the strongest track-record in the European industry amongst Private-Equity funds, earning its stripes with the top-class development journey of **Pret A Manger**, which was sold for £1.5bn in 2018 to Luxembourg-based **JAB Holdings**, making it their trophy investment in the industry.

They are renowned as the owners of the master franchisee for **Burger King UK**, which they gained with the acquisition of the **Caspian UK Group**, also in 2018, and they hold a significant minority position in the **Groupe Bertrand** led **Burger King France** vehicle, a pattern they have repeated as a minority investor in **Itsu**.

Other key current and past investments in the restaurant industry include **Vermaat** (leading Dutch contract catering group, acquired in 2019, which is still achieving a solid development performance, despite the strong impact of the Covid crisis), the **Azzurri Group** (operating **Zizzi**, **ASK Italian** and **Coco di Mama** restaurants), **Market Halls** (a UK food hall operator), and a pre-IPO investment in **Deliveroo.**

Timeline Bridgepoint



Like many foodservice investors, the company was affected by Covid, leading them to the sale of the **Azzurri Group** through a pre-pack administration process to **Towerbrook Capital Partners** in 2020, and providing a £20m boost of investment to **Market Halls**. Their portfolio company **Vermaat Groep B.V.** – the Dutch market leader in premium catering and hospitality services – saw a strong decline in sales, while all offices were closed and travel banned, but kept a consistently strong development pace during the two-year pandemic period.

Bridgepoint's reputation for savvy investing led to its value rising by more than a fifth when it debuted on the London stock market in July 2021.

However, their new investments in the restaurant industry since the Covid crisis did not realise their full potential and it's anticipated they will put their coveted **Burger King UK** business on the market. Given their track record, they are likely to rebound as an active investor in the European restaurant industry once the current headwinds and uncertainties become more manageable.

Kharis Capital describes itself as 'a private equity firm that drives continued growth and innovation in consumer businesses through long-term direct investment partnerships. Now operationally branded as **QSRP** (for "QSR Platform") to emphasise its industrial model as opposed to the **Kharis Capital** private equity vehicle, **Kharis Capital** began life as a start-up in 2014 and quickly became one of the largest EU master-franchisees of **Burger King** in Poland, Belgium and Italy.

Taking **Quick** from **Groupe Bertrand** in Belgium and then Luxemburg, the company has diversified and grown through a mix of acquisitions and organic development, to operate 1,100 restaurants in Europe – 70% franchised (hybrid models) – to a total €1.2b system sales.

Alessandro Preda (QSRP)

"Our success is based on the fact that we bundle strong brands from different cultures and product worlds on one platform. Our credo is to use the strengths of the group while maintaining and strengthening the identity of the individual brands. This means a common infrastructure and governance with a great local customer focus."

In 2018 **QSRP** took over the fast-growing, French halal **O'Tacos** brand and grew it from 180 to 310 restaurants, with an anticipated 350 sites across northern Europe by the end of the year. One of their further landmark transactions came the same year, with their acquisition of **Nordsee** (and the subsequent development of QSR sister concept **Go! Fish**), representing a step into the large German market where they could seek to bring their other brands. They realised a couple of investments in **Not So Dark** (a French dark kitchen operator) in 2021, and in **Novish** (a Dutch plant-based seafood brand) also in 2021.

With the ambitious aim of becoming the leading F&B operator in Europe, **Preda** tells us: "The innovative strength of the entire group makes it possible to offer our customers a 'best in class quick service restaurant experience' across all brands. The focus here is on customer orientation, service and new digitisation strategies such as apps, mobile ordering or flexible checkout systems."

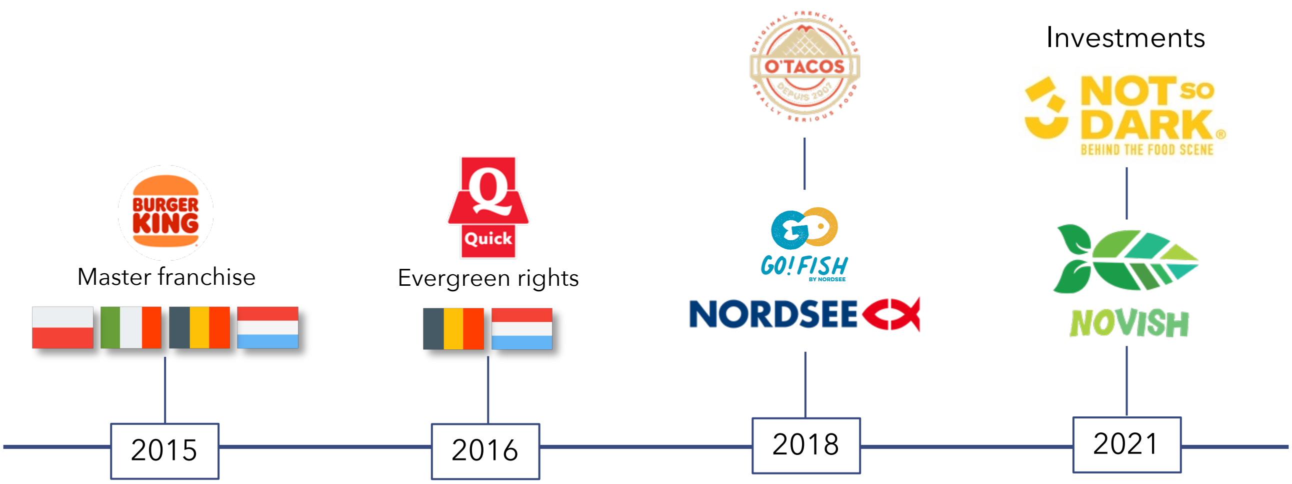
Sticking to master-franchising as their core development model, **QSRP** remains asset-light, directly operating 30% of the restaurant portfolio while looking to co-invest with franchise partners. Neither primarily an operator or an investment platform, **Preda** says their focus is growth, providing investment opportunities for both their franchisees and their shareholders.

The company is keeping an eye out for prospective QSR acquisitions, and **Preda** explained that they have a development model focused on six critical factors: strong scalable brands, tier-1 franchise and JV partners, real-estate expertise across all countries, experienced teams with mixed expertise, a marketing and digital focus, and efficient logistics / supply chain processes.

As they continue their expansion, they could look to plug gaps in their offer around café & bakery, chicken, pizza, and Asian segments, provided that the acquisition targets fit with its six success factors and offer strong development potential.

turnover investor would usually do. Instead, they might seek to become a public company and/or to host new investors at the topco level. Therefore, we see **QSRP** as an ideal candidate for a landmark IPO in the next two to four years.

Timeline Kharis Capital / QSRP



Their acquisition strategy remains highly selective on the quality of the assets and the valuations required. Despite a significant number of transactions in the industry that seemed relevant for **QSRP**, their last significant acquisitions were **O'Tacos** and **Nordsee** (both in 2018). It was of particular note that they didn't acquire **Quick France** when it came on the market from **Groupe Bertrand**, despite being seen by many as the ideal buyer, being the existing owner of **Quick** in Belgium.

QSRP has developed an interesting asset management model. **Preda** tells us their acquisitions are long-term investment and they have no short-term exit strategy for the brands they acquire, so looking ahead it seems clear their intention is not to sell their assets as a

Having examined the key deals, players, motivations, strategies, and outcomes – we can now turn to look at the key takeaways for both investors and operators in the European market.

Pre-Covid, the European foodservice sector had seen growing interest from private equity investors into the restaurant industry. Our research shows that the number of PE deals rose to 7 in 2018 and jumped to 13 deals in 2019. A consistent decade of growth of out-of-home consumption habits, confidence in consumer spending, and restaurant adaptability to address new trends in healthy eating, wellness, sustainability, vegan and vegetarianism were reassuring investors that this was a strong sector for investment.

Predictability in most restaurant segments, from QSR to casual dining and contract catering, was an easy exercise. On top of that, as **Mario C. Bauer** notes, investing in the restaurant industry during this period was '*cool and trendy*' for most private-equity firms. This has led to consistently high valuation multiples across all categories and sizes of transactions. It was easy, or so we thought.

Pre-pandemic, the factors investors had to consider before going ahead with a deal were, in many ways, quite basic and operational. How is the model performing? Is it consistent across the brand system? What is the development potential over the next 4 to 6 years? What's the capacity for growth and returns? How does it fit with my current portfolio? Simple, one-sided, decision-making led to growth. There was little or no outside interference, no mitigating factors, and certainly nothing to remove the customers from the outlets – until Covid struck.

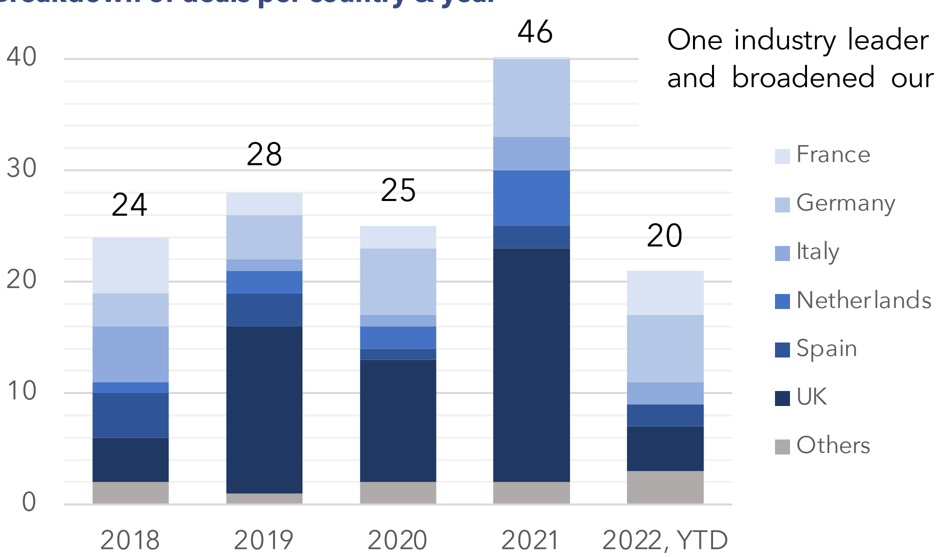
But the pandemic and the 2022 inflation crisis threw all the cards into the air, and for many brands we're only now seeing where they landed. Europe-wide lockdowns hit the previously consistent growth that had been seen in out-of-home dining, and opened up an unexpected period of uncertainty as operators rushed to develop new methods of delivery. Some companies took the opportunity to bring forward plans to modernise their brand, their menu or their operations, with a charge towards new technologies and a push on delivery.

Olivier Bertrand (Bertrand)
"Covid has been 'cleaning' the industry. It has been fostering innovation and new trends and accelerated some important trends that had started to emerge pre-Covid."

Others had greater difficulty weathering the crisis, particularly those with outlets that were dependent on office-based customers, or travel hubs. Once less attractive residential areas now became more coveted and resilient as commuters worked from home and dined out locally. Franchising, agile, and asset-light models appeared more attractive to investors.

These sudden changes accelerated a switch away from bricks and mortar restaurants towards the use of delivery platforms, but this did not always prove profitable for operators and for aggregators. Experts noted that investors were largely able to sit the pandemic out, waiting to see what would happen, and deals in 2020 dropped back from 28 of consequence in 2019, to 25 in 2020. Only Germany saw an increase in deals, with the key UK market dropping from 15 deals in 2019 to just 11 in 2020.

Breakdown of deals per country & year



Our industry experts had mixed opinions on the impact Covid had on the M&A market going forwards, though all agreed it had added some important layers of complexity to the industry, and their various outlooks were largely dependent on the models they operated. Almost everyone we spoke to said the resilience shown by QSR and Fast Casual brands, along with their impressive performance during Covid, made it the most interesting space for investments.

For investors looking at the numbers, two years of poor and 'noisy' turnovers in their prospects made it harder to understand the brand's actual performance. It isn't easy to decode P&Ls with successive lockdown periods, VAT reliefs, price increases, furlough, subsidies and government-backed loans, plus a sudden rise of delivery sales. They are comparing pre-Covid numbers with the post-Covid recovery but are aware neither may be a reliable predictor, especially as in the longer-term it's harder to guess the exact stabilisation of the volatility we've seen what with working-from-home trends, rising energy costs, staff availability etc.

One industry leader told us: "Covid sharpened and broadened our perspective and the way investors look at business opportunities. Now you consider more the concepts themselves with a broader analysis, looking at the digital side of the business, its online presence, the interaction with delivery channels, logistics and the community behind the brand. We're examining different formats, size, merchandise, innovation, and [the opportunity for] expansion to retail."

Henry McGovern (McWin)

"The situation is very difficult as most groups have now two years of bad numbers, we are struggling to find out what is the normal run-rate level of performance of some restaurant groups."

Whilst the leap into partnerships with delivery platforms had initially piqued investor interest, the rapid dropping off in 2022 has them considering other options. The recent results announced by **Deliveroo** and their intention to pull out from the Dutch market will certainly not help to build confidence. Complicating the picture, many hospitality companies, which were some of the hardest hit in Covid, received government support to help them weather the storm and continue to employ their staff. This helped to boost their bottom lines during lockdown, but now that support is removed, will they all be able to stand on their own two feet?

Looking ahead, recovery in some segments still looks uncertain and patchy. In the evergreen UK market, the sector is impacted by Brexit, strikes, and crippling utilities costs. Across Europe, foodservice continues to be affected by persistent work-from-home habits, staff shortages, and increasing overheads. This is making banks more wary about backing investments. **McGovern** tells us: "*Banks are very cautious, deals require more equity, and this has an impact on the multiples you can pay since returns will be lower. There is significant uncertainty going through the market: Covid, the Ukraine war, etc. This slows down M&A activity, and several deals are being postponed until things improve*".

Edward Duckett (Rothschild &Co.)

"It's a debt market: interest rates are increasing, and banks are much more cautious on restaurants. This means deals with part debt financing are more difficult. Less debt and more expensive debt will have an impact on the deal economics leading to lower valuations and/or lower expected returns."

This uncertainty is also slowing the deal pipeline and impacting valuations.

Mario Bauer said: "In 2021, exiting from Covid, investors were keen to pay the companies on their 2019 numbers since they were convinced, they would come back to normal. But in 2022, the uncertainty is now much higher: inflation and rising costs, etc. You just don't know the model of the company and if it will come back to 2019."

Jonathan Doughty (WSP)

"The industry is focusing on comparisons with 2019 but we are so far away from the conditions that prevailed then. Any comparison is flawed as there is nothing 'like for like' about the two trading periods."

As **Robin Rowland** told us, valuations are currently 'a bit punchy'. Some experts suspect that a few M&A advisors are creating unreasonably high expectations. Therefore, they warn that for 'expensive' assets it is now critical to assess their flexibility and capacity to adapt to the current industry headwinds: is my brand strong enough to increase price point? To what level? How can I keep my projected profitability with consistently higher overheads?

Investors will hope to see greater stability in the M&A landscape in the tail-end of 2022 and moving into 2023. Our experts had some advice to share for those seeking to assess the market for potential investments. For example, **Duckett** notes that leisure brands offering social experiences seem less impacted by inflationary costs. Strong and vibrant brands have a lot to offer but more traditional concepts, full-service restaurants, and those which were heavily reliant on tourism were looking less favourable.

Investors and operators should look to reliable consumer trends around sustainability and health & wellbeing, and build strong ESG into the business plan, with a clear plan to achieve zero carbon by 2030. While the focus remains on franchise opportunities, reliable returns, and scalability.

As the market heats up it will return to a more competitive playing field between investors. Those who can read, understand, and manage the increasing complexity of the restaurant industry will have a strong advantage.

Looking ahead, the question for owners, operators, and investors is where best to focus their attention to ensure future success.

Andy Hornby (TRG)

"I genuinely do think that the delivery boom is over and eat-in will not lose any more share to delivery.."

Whilst private equity deals led the market before the pandemic, post-Covid we're seeing much more industry-oriented activity. Even though several consolidation deals are backed by private equity investors, their objectives are not the same as the traditional PE models of the past. This begs the question: when and if those models return, what will be their motivation to step back into the M&A marketplace?

Our experts agree that investors will need greater predictability from their potential acquisitions. **Edward Duckett** tells us: "The fundamentals are good but there is still a lot of uncertainty – office flow, increasing costs, staff shortages, the possible medium-term impact of inflation on consumption and the overall economic situation, etc – which is not what private equity likes. The private equity model relies on predictability."

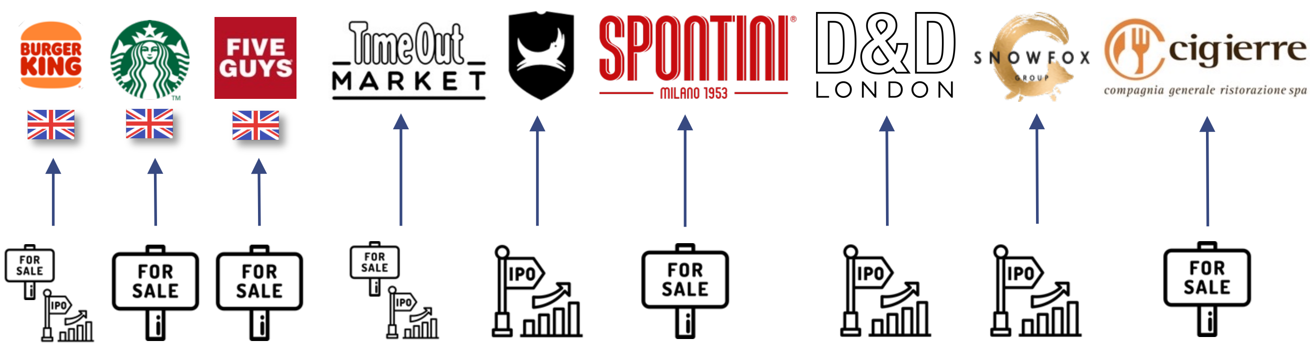
This has fuelled the push towards QSR and franchise opportunities, which offer less risk and greater predictability than other market segments. Their agility and ongoing resilience fuel confidence in them as M&A opportunities.

We're seeing an evolving M&A landscape, with bigger groups as a result of the ongoing consolidation. These stronger owners and operators have been able to weather the storm of several crises, from Covid through to the impacts of the war in Ukraine. They are long-term owners and operators which will help them to navigate the current headwinds, while private equity funds are not prepared to assess transactions on prolonged ownership terms.

We are advising industry players to keep an eye on upcoming IPOs which will garner attention. In addition, a number of interesting deals were postponed or cancelled during the pandemic and will resurface in the near future. These include assets such as **Cigierre** (IT), **Giggling Squid** (UK), and the **Joe & The Juice** IPO.

The Ones to Watch

Large and smaller transactions have been postponed or cancelled in these difficult years. The deal pipeline has become heavily loaded, and there are some '*ones to watch*' that we may see on the market in 2022 and 2023. Amongst the already announced large transactions, some interesting divestments are expected in the UK market, where **Bridgepoint** may sell or IPO its **Burger King UK** business, so too **Starbucks** with **Starbucks UK, Sir Charles Dunstone** with **Five Guys UK**, **Oakley Capital** with **Time Out Market**, and the announced landmark **BrewDog IPO**. The UK could see some additional mid cap IPOs with assets such as **D&D** and the **Snowfox group** (owner of **Yo! Sushi** amongst other brands and backed by **Mayfair Equity Partners** since 2015).



In Italy, **BC Partners** could develop the sale or IPO of **Cigierre** (IT), having pulled out from a process started before Covid, and **Spontini** could resume discussions with investors, also stopped by the sudden rise of the pandemic in 2020. Private equity firms should soon work on their exit from many 2016-2019 vintage investments once market conditions are stabilised.

Contract catering has reached an interesting level of concentration, but many smaller local and agile groups are still good acquisition targets for groups willing to expand their geographical reach. And we could also dream of possible IPOs on some of our gigantic industry consolidators: **QSRP, McWin, Groupe Bertrand...**

Mario C. Bauer pointed to new and disruptive models with alternative sources of funding, telling us: "The industry needs growth and finance for that. There will be alternative sources of funding and new ways of financing." He cited crowdfunding examples like **Haferkater**, which raised €1.5m in three days, a small amount but a big marketing success, and **BrewDog**, with its unrivalled 'Equity for Punks' programme, which raised a total of £109m since its launch in 2009, with the last round dedicated to the group's high-impact sustainability initiatives, representing over £30m alone.

Hints in the direction of the market suggest private equity activity will resume, but it will be on different terms than before the pandemic. Investor appetite for assets will be changed.

One expert interviewee suggested: investors are not "looking at different assets but looking at assets differently". Covid has changed the way investors look at businesses, locations, occasions, week-day operations, omni-channel opportunities etc.

While it is not clear when private equity activity will resume, it is clear that its return will be very much welcomed for what it brings – dynamic growth in assets that will breathe fresh life into the industry as well as a level of management and process that makes assets stronger and more resilient. As well as the healthy competition that comes when both private equity and industry investors are engaged in the market.

One thing is for sure, our industry will continue to be creative, to solve problems and to find a way to give our guests what they want. What they will eat and drink, where they will choose to do this, and at what cost are the key questions that we will no doubt find the answers to soon.

Bon Appétit!

Glossary

CAPEX	Capital Expenditures
EBITDA	Earnings Before Interests, Taxes, Depreciations and Amortisations
ESG	Environmental & Social Governance
EV	Enterprise Value
IPO	Initial Public Offering
JV	Joint Venture
PE	Private Equity
P&L	Profit and Loss
QSR	Quick Service Restaurants
YTD	Year To Date

Section 9
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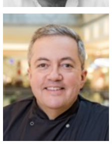

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Notes

WHITESPACE PARTNERS

WhiteSpace Partners is a strategic advisory firm exclusive to the Food & Beverage industry. We work with top-tier restaurant groups, investors and landlords on the development and execution of investment, growth and expansion strategies specific to each market and client requirements.

Our multi-lingual team is made up of 8 nationalities, based across the region, who possess first-hand experience and know-how in Europe and the Middle East.

Whether investment strategy, acquisition due diligence or franchising advisory and activation, we integrate with each client as an extension of their team to bring the strategy to life and deliver results.

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