

Cavendish

**QUARTERLY
CONSUMER NOTE
AN M&A PERSPECTIVE**

Review of Q3 2024



Sub-Sector in Focus:
Experiential Leisure

Contents

1	Consumer Sector: Key Themes	3
2	Sub-Sector in Focus: Experiential Leisure	5
3	About Cavendish	9



“

Welcome to the Cavendish Quarterly Consumer Note, where we give an M&A perspective on a number of key themes impacting operators and investors across the Consumer sector.

In each of these publications, we take a more detailed look at a particular sub-sector; this quarter we look at experiential leisure.

Our focus in this publication is around the rise in popularity of experiential leisure and our view on the outlook for this sub-sector from an M&A perspective, while in the context of the UK budget and global elections.

We hope you find this interesting and if you have any questions, or you would like to discuss anything in this document, please contact me or any member of the Cavendish team (contact details on the back page).”

HENRY WELLS
HEAD OF CONSUMER



Consumer Sector: Key Themes

Despite encouraging inflation and consumer spend data, consumer confidence has wavered, driven mainly by uncertainties surrounding the impact of the recent Budget

CONSUMER MACRO BACKDROP

Consumer Confidence

Consumer confidence, as measured by GfK, has recovered well over the last two years, after hitting its lowest recorded score of -49 in September 2022. This progress was knocked in September when the score fell to -20, marking a six-month low. This setback has been primarily attributed to uncertainty ahead of the recent Autumn Budget, with significant media coverage surrounding potential tax increases and reduced government support.

Inflation & Interest Rates

Inflation continues to fall, dropping lower than expected at the end of September to 1.7%. This marks the first time in three and a half years that inflation has fallen below the BoE's target of 2.0%. Despite this trend, inflation remains a key issue for the economy, especially in areas such as energy and food prices.

In August, the BoE reduced the base interest rate to 5.0%, down from 5.25%, where it has been held for a year, and as we publish, there is expectation of another 0.25% cut to be announced this week. These moves signal that policymakers believe inflation is under control, and the lower rates should help to stimulate growth in the economy.

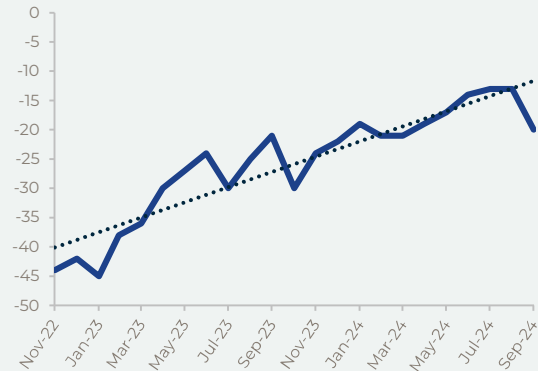
Consumer Spend

The recent September Barclays consumer spend data showed resilience, with year-on-year spending up by 1.2%. The Entertainment sector had a particularly strong month, (+14.4% year-on-year), mainly driven by Shows & Concerts, which grew 35.8% year-on-year (largely due to Oasis ticket sales). Spend on travel, dining, and leisure activities also saw strong growth in the last quarter with overall hospitality spend up 4.5% year-on-year. This trend supports the ongoing desire of the consumer to continue to prioritise spend on experiences over goods, even in the face of financial pressures.

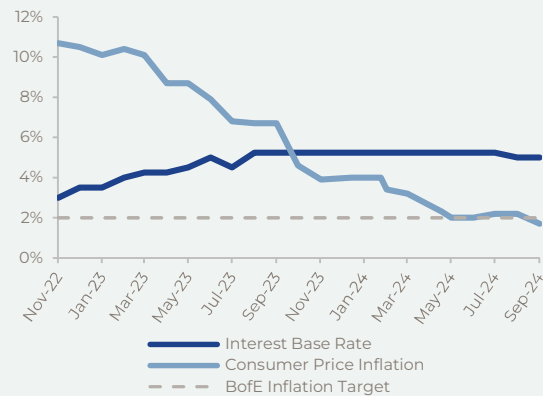
Autumn Budget

On 30th October, Rachel Reeves set out in detail how the Government plans to raise an additional £40 billion in tax. The policies were largely in line with expectations, with the burden largely shouldered by businesses through an increase in employer NICs. The impact of the new measures on businesses and the extent to which this flows into consumer spending remain to be seen.

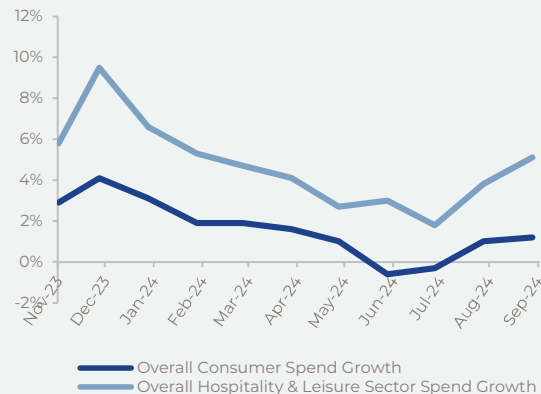
GFK CONSUMER CONFIDENCE INDEX



INTEREST RATES & INFLATION



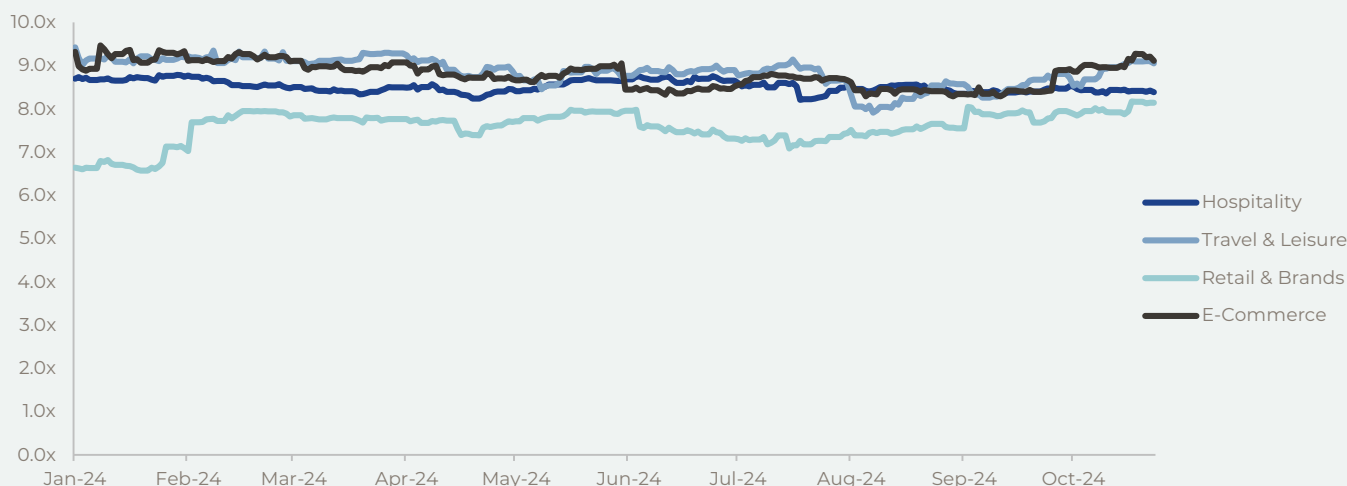
BARCLAYS CONSUMER DATA



Consumer Sector: Key Themes

Q3 has seen a continuation of the improvement in EV/EBITDA multiples in all cohorts across the consumer sector

UK LISTED VALUATIONS (EV/NTM EBITDA)



Hospitality: Loungers plc, The Brighton Pier Group plc, The Revel Collective Plc, Domino's Pizza Group plc, Marston's plc, Mitchells & Butlers plc, Fuller, Smith & Turner plc, Young & Co's Brewery plc, Shepherd Neame Limited

Travel & Leisure: Saga plc, Norwegian Cruise Line Holdings Ltd, Royal Caribbean Cruises Ltd, Carnival Corporation & plc, Tripadvisor, Inc, Booking Holdings Inc, Expedia Group Inc, eDreams ODIGEO S.A., On the Beach Group plc, Hostelworld Group plc

Retail & Brands: Frasers Group plc, Burberry Group plc, Dr. Martens plc, N Brown Group plc, NEXT plc, Superdry plc

E-Commerce: AO World plc, Marks Electrical Group plc, Moonpig Group plc, musicMagpie plc, THG plc, CMO Group plc, ASOS plc, boohoo group plc

Note: Since the previous Quarterly Note Nightcap plc has been removed from the Hospitality cohort as they have been delisted. Webjet Limited has been removed from the Travel & Leisure cohort due to its recent demerger of its B2C division.

HOSPITALITY

Multiples within the Hospitality cohort have remained consistent throughout the last quarter

There remains a valuation premium for freehold estates compared with their leasehold counterparts

The Budget's extension of Business Rates Relief and a cut in the alcohol duty on a pint, is welcome news for the sector. However, the 6.7% increase in the National Living Wage will add pressure on profitability for operators reliant on a significant workforce, which may have a negative impact on valuation multiples

TRAVEL & LEISURE

The Travel & Leisure cohort continues to perform strongly, with multiples hovering around 9x

Travel spend continues to demonstrate robust growth, with a year-on-year increase of 7.0%¹ in September. This reflects the ongoing trend of consumers ring-fencing travel budgets, despite unfavourable economic headwinds

We are seeing a good amount of private market M&A activity in the sector, off the back of stronger trading in 2023 and 2024

RETAIL & BRANDS

Retail & Brands maintain the lowest valuation multiples in consumer sectors, though they've improved from around 6x in early 2024 to over 8x by September, indicating growing investor confidence

While there was growth in sales within key areas, such as personal care and premium food categories, many consumers in this sub-sector remain cautious in their spending

In return, retailers are deploying discounting strategies to entice spending and to manage stock levels ahead of key shopping events in Q4

E-COMMERCE

E-Commerce multiples remain relatively high and stable at over 9x

E-Commerce is exposed to many of the same factors as Retail & Brands. It continues to be more resilient due to its lighter and more flexible cost base, which is largely the driver in the valuation differential between these two sub-sectors

Many traditional retailers are responding to this through further integrating E-Commerce into their omni-channel strategies and investing in technologies such as AI-driven personalised shopping experiences, and mobile-optimised solutions

Sub-Sector in Focus: Experiential Leisure

EAT, DRINK, COMPETE, REPEAT: The rise of experiential leisure

In the rapidly evolving leisure sector, experiential leisure and competitive socialising have emerged as significant trends, capturing the attention of both consumers and operators alike. We explore some of the key trends being seen by operators across the market

Strong market growth and demand

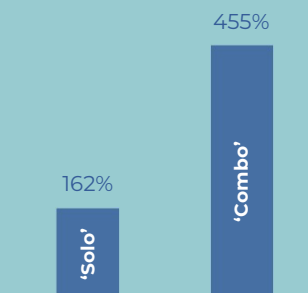
- Growth in the wider hospitality market has been challenging. 2024 was the first time in two years that the number of UK pubs, bars, restaurants and hotels increased quarter on quarter on a net basis¹. Despite this, growth in the experiential leisure cohort has been much more positive. The number of experiential leisure venues in the UK has grown by 40%² since 2018, with 28% of adults now participating more than once a month. As a result, the 'Experience Economy' now contributes c.£134bn annually³ to the UK economy. This growth has been fuelled by the demand for in-person experiences, transforming experiential leisure into mainstream culture.

Remaining relevant

- Consumers are prioritising unique, memorable experiences, which requires operators to keep concepts fresh, and so innovation has been key in remaining relevant.
- Innovation has come in the form of both new concepts such as VR and racing simulators, as well as the revitalisation of traditional activities such as bowling and mini golf, which have been modernised with a digital and contemporary focus.

Solo vs combo concepts

- There has been a clear distinction in growth between 'solo' and 'combo' concepts.
- According to Savills, over the last 5 years 'combo' venues have shown a 293%⁴ higher growth rate, compared to single-activity sites.



Importance of F&B

- It is not uncommon for income to exceed revenue from the entertainment itself. At Junkyard Golf and Puttshack, food and beverage (F&B) accounts for 45-50%⁴ of total revenue.
- Attractive food options have become a key differentiator, enhancing footfall, spend, and dwell time, with 32%² of customers saying that new or improved food offerings would encourage them to visit more often.
- However, in terms of alcohol consumption, Millennials and Gen Z are increasingly adopting a sober-curious lifestyle and are seeking experience-focused activities that don't rely on alcohol. This shift in preferences is drawing footfall away from traditional pubs and "vertical drinking" venues toward experiential leisure for these demographics.

EAT, DRINK, COMPETE, REPEAT: The rise of Experiential Leisure

Leveraging technology

- Operators are increasingly leveraging technology to create more engaging, immersive experiences for their customers.
- Some are focusing on technology-driven experiences like virtual and augmented reality, allowing participants to enter hyper-realistic worlds that dynamically respond to their choices in real time.
- Others integrate technology to boost customer satisfaction and encourage repeat visits by offering progressively personalized experiences. For instance, in escape rooms, apps can track players' skill levels and activity history, customizing future challenges to build on past experiences and encourage return visits.

Attractive lease environment

- Retail vacancies and closures in mainstream hospitality are creating attractive lease opportunities for well-capitalised experiential leisure operators. These opportunities are being taken, with 32%¹ of the leisure market now being occupied by experiential operators.
- However, some landlords are starting to push for rent increases following extended tenant-favourable post-pandemic rental terms.

Inflation has peaked

- After hitting record highs in recent years, inflation has steadily eased, with rates now down at more manageable levels.

	Inflation peak	Peak month	At Sept-24
Food and non-alcoholic beverages	19.1%	Mar-23	1.9%
Alcoholic beverages and tobacco	12.9%	Dec-23	4.9%
Energy	59.0%	Oct-22	(16.2%)

Note: Inflation data above relates to the CPI percentage change over the prior 12 months;
Source: ONS

- This is welcome news for operators and provides an opportunity to start to rebuild margins.

Growth opportunities

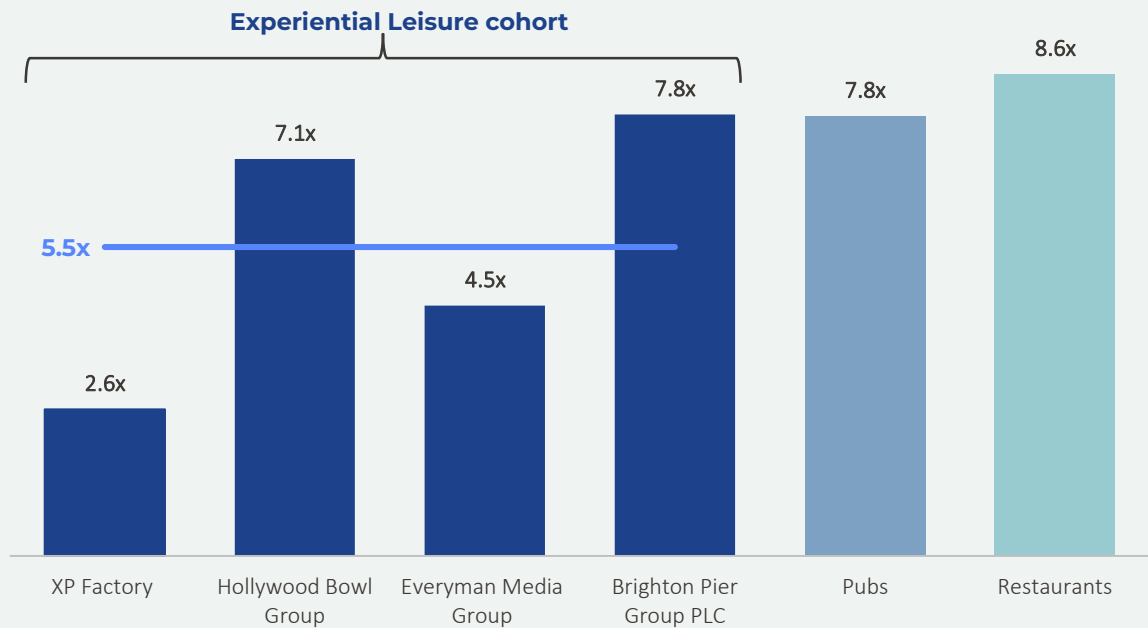
- Significant UK market headroom – 70%² of the UK adult population have still not been to an experiential leisure venue. This is due to a lack of supply outside of the major UK cities³, which provides a major UK roll-out opportunity for operators looking to scale.
- Wider demographic appeal – Experiential leisure is reshaping hospitality demographics, with 18–34 year-olds accounting for nearly 60% of spend – over twice their share of total hospitality sales. This group skews towards men, in cities, on above-average income⁴, and so there is a huge growth opportunity for those successful in appealing to a wider demographic.
- International Expansion – As the appetite for experiential leisure grows globally, many established operators, founded and tested in the UK, are expanding into international markets. When expanding overseas, operators should consider potential adaptations to their model to better suit international markets.
- Capitalising on customer loyalty – Around 70% of experiential leisure customers return to venues multiple times per year². Harnessing the value of these loyal, repeat customers is critical.



Sub-sector in focus: Experiential Leisure

Despite the increasing popularity of experiential leisure, the public market valuations of these operators still trail those of the more traditional hospitality players

UK LISTED VALUATIONS (EV/NTM EBITDA)



As at: 30-Sept-24

Experiential Leisure: as listed

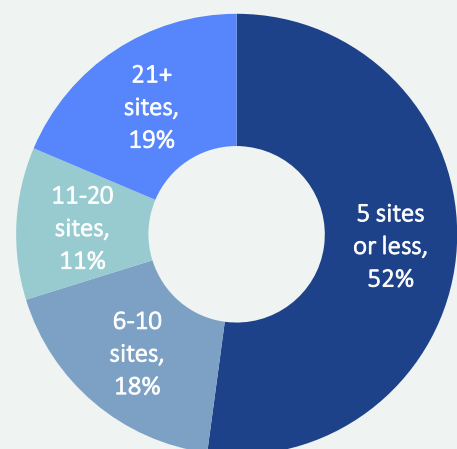
Pubs: Marston's plc, Fullers, Young & Co.'s Brewery plc, Shepherd Neame Ltd., JD Wetherspoon plc.

Restaurants: Loungers plc, Comptoir Group plc, Mitchells & Butlers plc, Tortilla Mexican Grill plc

CAVENDISH INSIGHTS

- The Experiential Leisure market in the UK is still in its infancy. Most players are private companies and currently lack scale
- The market is heavily fragmented, with around half of the UK leading operators still operating only 5 sites or fewer
- Despite a challenging economic environment, the sub-sector continues to gain popularity, with public market valuations of experiential operators now approaching those of more established hospitality sub-sectors like pubs and restaurants
- As experiential operators achieve greater scale, aligning with larger hospitality players, their financial profiles are expected to stabilise, which will enable more comparable valuations across the hospitality sector
- The positive market sentiment and strong demand for experiential leisure activities are likely to drive a significant increase in M&A activity over the next few years. This will be fuelled by both scale-driven acquisitions and consolidation efforts, as larger players seek to enhance their portfolios with new experiences from those of smaller operators

NUMBER OF SITES PER EXPERIENTIAL OPERATOR



Population = 188 of UK's leading experiential operators

About Cavendish

A full-service investment bank and trusted advisor to ambitious growth companies and their investors

Cavendish is a UK champion for ambitious growth and investment companies. The Group is trusted by public and private companies, operating across industry sectors, to deliver expert services in equity capital markets, M&A, debt advisory and growth capital. Cavendish has offices in London and Edinburgh, and has a global reach through its membership of Oaklins.

Cavendish is uniquely placed to advise on the various tracks for growth, investment, IPO and exit options.

Investment Banking

Corporate Finance
Capital Markets
M&A Advisory
Debt Advisory

196

Investment banking professionals

£2.5bn

Transactions advised on in the past 9 months

120

Deals completed in the past 9 months

Equities

Institutional Sales
Research
Trading

190

Listed clients

19

Research analysts covering c160 stocks

1000+

Reports distributed to institutional clients with

c100K downloads

Alternative Financing

Private Equity
VC Funding
Private Growth Capital

250+

Relationships with Global Private Equity and VC funds

70%

Of deals transacted with Private Equity

£115m+

Of debt financing raised in the past 9 months

Cross-border M&A

International reach through our membership of Oaklins

40

Countries represented in across the globe

15

Vertical markets with deep industry expertise

339

Deals closed worth

US\$27.8bn

In 2023 across the group

Cavendish

About Cavendish

A wealth of experience across the Consumer sector

Travel & Leisure



has been acquired by



M&A SELL-SIDE
Consumer



has been acquired by



M&A BUY-SIDE
Consumer



has been acquired by



M&A BUY-SIDE
Consumer

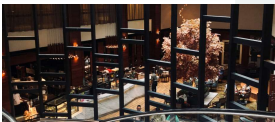


has been acquired by



M&A BUY-SIDE
Consumer

Hospitality



has been acquired by



M&A SELL-SIDE
Consumer



has been acquired by



M&A SELL-SIDE
Consumer



has been acquired by



M&A SELL-SIDE
Consumer



Nominated Adviser and Broker

NOMAD AND BROKER
Consumer

Retail & Brands



has been acquired by



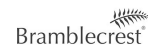
M&A SELL-SIDE
Consumer

ORLEBAR BROWN

has been acquired by



M&A SELL-SIDE
Consumer



has been acquired by an



M&A SELL-SIDE
Consumer



on its investment from



M&A SELL-SIDE
Consumer

Consumer Goods & Services



has been acquired by



M&A SELL-SIDE
Consumer



has been acquired by



M&A SELL-SIDE
Consumer



has been acquired by



M&A SELL-SIDE
Consumer



has been acquired by



M&A SELL-SIDE
Consumer

Beauty & Personal Care



received investment from



M&A SELL-SIDE
Consumer



sale of minority holding to



M&A SELL-SIDE
Consumer



has been acquired by



M&A SELL-SIDE
Consumer



has been acquired by



M&A SELL-SIDE
Consumer

Key contacts details

M&A ADVISORY

Henry Wells
Head of consumer
+44 (0)7733 122 437
hwells@cavendish.com

Jonathan Buxton
Partner
+44 (0)7770 832 560
jbuxton@cavendish.com

Mark Stoddart
Director
+44 (0)7709 067 632
mstoddart@cavendish.com

Stephen Nemeth
Director
+44 (0)7593 439 599
snemeth@cavendish.com

Rebecca McCredie
Director
+44 (0)7766 493 673
rmccredie@cavendish.com

Joshua Gould
Director
+44 (0)7384 213 467
jgould@cavendish.com

Ben Lowe
Associate Director
+44 (0)7443 126 197
blowe@cavendish.com

Amy Mayer
Senior Associate
+44 (0)7874 878 667
amayer@cavendish.com

Sophie Beadsmoore
Associate
+44 (0) 7761 510455
sbeadsmoore@cavendish.com

Kallon Brooker
Associate
+44 (0)7874 857 644
kbrooker@cavendish.com

Liberty Scott
Analyst
+44 (0)7443 437 127
lscott@cavendish.com

CORPORATE FINANCE

Matt Goode
Head of Consumer
Capital Markets
+44 (0)7901 507 912
mgoode@cavendish.com

Adrian Hadden
Director
+44 (0)7887 603 584
ahadden@cavendish.com

Carl Holmes
Director
+44 (0)7880 642 048
cholmes@cavendish.com

EQUITY CAPITAL MARKETS

Tim Redfern
Head of Equity Capital
Markets
+44 (0)7876 030 764
tredfern@cavendish.com

Charlie Combe
Director
+44 (0)20 7397 1966
ccombe@cavendish.com

SALES AND BROKING

Michael Johnson
Head of Growth
Companies
+44 (0)7796 714 500
mjohnson@cavendish.com

Jasper Berry
Director
+44 (0)7977 433 721
jberry@cavendish.com

Tamar Cranford-Smith
Associate Director
+44 (0)7977 433 769
tcranfordsmith@cavendish.com

DEBT ADVISORY

Alistair Hay
Partner
+44 (0)7920 180 002
ahay@cavendish.com

Krishan Raval
Director
+44 (0)7956 268 965
kraval@cavendish.com

Peter McCague
Associate Director
+44 (0)7706 347 509
pmccague@cavendish.com

Rosie Pennell
Senior Associate
+44 (0)7706 347 510
rpennell@cavendish.com

PRIVATE GROWTH CAPITAL

Zuleika Salter
Head of Private Growth
Capital
+44 (0)7763 660 399
zsalter@cavendish.com

Tom Holland-Hibbert
Senior Associate
+44 (0)7912 218 200
thollandhibbert@cavendish.com

RESEARCH

Peter Renton
Co-Head of Research
+44 (0)7796 172 621
prenton@cavendish.com

Nigel Parson
Consultant
+44 (0)7880 788 389
nparson@cavendish.com

One Bartholomew Close
London, EC1A 7BL
+44 (0) 20 7220 0500
cavendish.com

Cavendish