Bank of Ireland Sectors Team Pub Sector 2021 H1 Insights

July 2021

Bank of Ireland

Classification: Green

2021 H1 Insights

Bars and restaurants across the country have resumed 'on-premises' trade following the easing of restrictions which began in early June with the relaxation on outdoor dining. The government's timely initiative for the rollout of outdoor dining grants at a business and local County council level led to the development of a number of pavement widening projects around the country to encourage trade. Customers eager to reconnect with friends and family, the novelty factor for outside food and drink as well as historically high level of personal savings are all contributing factors for the immediate surge in demand that followed the easing of restrictions.

Pub sector key activity and trends H1 2021

- **Trade resumption:** 'On premises' provision of food and drink resumed on June 7th although it was not until July 26th that indoor dining was allowed for bars and restaurants, although at first, limited to fully vaccinated people. Prevailing guidelines maintained to mitigate risk of super-spreader events are still impacting on capacity.
- **Staffing Challenges:** The 15 or so months of disrupted trade took a toll on bar and restaurant staff, many of whom sought alternative employment or left the country altogether. Despite the figures from the CSO showing an 18.3% adjusted unemployment figure for June 2021, recruitment continues to be a pain point for the sector and is likely to have a permanent impact on the cost of wages.
- **Strong demand:** Bars and restaurants have reported a strong bounce back in demand albeit limited by capacity constraints. Pent up demand, the novelty factor for outside dinning and historically high level of personal savings are all contributing factors. A large number of premises delayed their reopening to coincide with indoor dining to avoid the expense of outdoor dining facilities which are not feasible for some venues. Lack of meaningful corporate or event based footfall continues to impact some city centre premises.
- **Operational adjustments:** A number of bars and restaurants invested time and resources into developing a stronger online presence to drive takeaway/delivery sales over the last year, these are expected to scale back as the heightened demand for 'meal kits' is diluted by on-premises consumption. Retail displays which had replaced tables in some restaurants during the lockdown will also be phased out as dining rooms are repurposed.

Alcohol consumption

One of the primary objectives of the Public Health (Alcohol) act 2018 was to reduce the consumption of alcohol per adult to 9.1lts by the end of 2020. While the target was not met, the actions put in place which included putting barriers in retailers' alcohol section, managed to deliver an 8% drop over the last two years. Part of this drop in consumption happened during the lockdown and as a result there may be a bounce back when normal trade resumes. As Table 2 shows the pandemic disruption had a big impact on beer sales while actually strengthening wine sales for the same period.

Table 1. Alcohol consumption Ireland (litters per adult)*

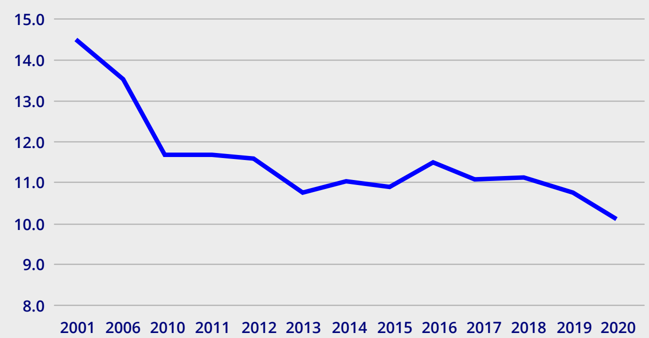

Table 2. Alcohol consumption Ireland* – Showing consumption to Year end December 2020 vs December 2019

Product	Variance
Beer	-17%
Spirits	+1%
Wine	+12%
Cider	-11%

Government supports 2021

Sector stakeholders are lobbying for the extension of government supports which continue to play a vital role in the recovery/ short term viability of some businesses as lockdown restrictions are slowly phased out. The revised qualifying criteria for the Employment Wage Subsidy Scheme (EWSS) was widely welcomed by industry bodies as it may allow some pubs and restaurants to claim wage supports for a few months after trade resumes even if summer trade is relatively strong.

Current government schemes/initiatives that are aimed at supporting the sector on its path to recovery, include:

- EWSS extended to 31st December 2021. https://www.gov.ie/en/service/ead8c-employment-wage-subsidy-scheme-ewss/
- The lower tourism VAT rate of 9% has been extended until 1st September 2022 which will support food margins.
- COVID-19 Restrictions Support Scheme (CRSS) extended until the end of 2021. https://www.revenue.ie/en/self-assessment-and-self-employment/crss/index.aspx
- Commercial rates waiver extension to the end of September2021. https://www.gov.ie/en/press-release/da3e9-government-announces-further-extension-of-commercial-rates-waiver-for-quarter-three-2021/
- Tax debt warehousing scheme extended to the 31/12/21; interest free period during 2022, balances to be paid from 01/01/23 https://www.gov.ie/ga/preasraitis/63fc8-minister-donohoe-announces-further-economic-supports-for-businesses-as-they-re-open/
- Outdoor dining enhancement scheme by Fáilte Ireland. Grant of up to €4k (for up to 75% of the ex-VAT cost of equipment) https://www.failteireland.ie/Identify-Available-Funding/local-authority-schemes/Outdoor-Dining-Enhancement-Scheme/Outdoor-seating-accessories.aspx

Market activity

Transaction activity was strong in the licensed trade sector during the first half of the year with a number of high profile pub sales completed. Non-publicans dominated major purchases which has led to speculation about alternative uses for some of the pubs sold so far. Notably a number of properties have transacted off-market.

- The 108 in Rathgar sold by Lisney Morrissey sold for over €2.2m

- The Roundy in Cork sold at auction for €710k
- Queen's Pub in Dalkey purchased by Ray Byrne and Eamonn Doyle for €3.5m
- The Brazen Head in Dublin 8 was purchased by a London based private equity fund for €15m

Other transacting pubs included, Larry Murphy's and the Wellington on Baggot Street, Murphy's Bar in Galway and The Eagle House in Dundrum.

2021 H2 Outlook

Initial fears about lasting changes in consumer behaviour have somewhat dissipated following strong demand in the licensed trade and restaurant sector from a wide range of consumer segments and demographics. Although some restrictions remain, operators are much more optimistic about a full recovery being achievable by 2022 or 2023, depending on the dynamics of the return of overseas visitors and corporate/office trade which are vital for a wide range of premises. However, the easing of restrictions will eventually bring government supports to an end, and stakeholders in the sector have been strongly advocating for supports (at some level) to be extended, potentially to the end of next year.

Trends

- Although recently reviewed and extended government supports will be eventually cease. Similarly, payment concessions with Revenue, landlords and financial institutions will require some level of payments to resume. Cash flow forecasts will need to be routinely reviewed by operators as businesses enter into the unchartered waters of the post pandemic economy.
- The rise of localism which has been further fuelled by the working from home revolution will present growth opportunities to premises located in some suburban locations. The shift could lead to changes in menus and service options as demanded by new patrons.
- Prevailing macro-economic conditions including low/negative interest rates and overseas funds activity could promote property transaction activity in the coming months. Some investor groups believe the post pandemic environment could allow for the opportunistic expansion of well-established pub groups. British pub group Wetherspoon has announced plans for further openings including its first pub in Waterford expected to open later this year, 'The Arundel Gate'.
- A High Court hearing is currently taking place to determine the level to which FBD insurance should compensate publicans. The decision could have implications on compensation that could be claimed by some 1,000 pubs and restaurants.
- The COVID-19 pandemic has further accelerated an already enhanced rate of tech-adoption in the hospitality industry. Some "intelligent" capacities and services that might have been considered add-ons to the guest experience may soon become requirements as we come out of lockdown.
- Many experts agree that the economic recovery in the aftermath of COVID-19 must focus on sustainability. While previously bars and restaurants wouldn't have been associated with robust ESG strategies some have already taken major steps to embrace sustainability. The focus on locally produced craft beers and spirits can be an easy win for some bars looking to get the ball rolling. As we slowly exit the lockdown we can expect more businesses to embrace green strategies as they try to differentiate themselves in the market.

Headwinds

- The widespread adoption of remote working and associated virtual meeting/collaboration platforms could present challenges to premises who depend on office/corporate trade.
- Rising cases of the Delta variant and the possible emergence of further strains could delay the sector's recovery.
- New legislation regarding paid sick leave will introduce mandatory sick pay leave of3 sick days in 2022 moving to 5 days in 2023, 7 days in 2024 and 10 days in 2025. Although not immediately a game changer this could erode what are already tight margins.
- A number of premises are reporting tighter credit terms from suppliers due to fear of bad debts.
- Inflation fears – Increases in commodities and transportation costs are likely to impact the cost of goods and services and potentially impact on margins.

Bank of Ireland

At Bank of Ireland we have been dealing with the ups and downs of the Irish economy for over 235 years providing a wide range of financial supports. We are now working to support customers as lockdown restrictions ease and normal trade resumes.

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