



Houlihan
Lokey

Hospitality Sector Update

H1 2025

Houlihan Lokey View on the Market

Our thoughts on the key themes running through the market in 2024 and into 2025.

It's Not About Valuation, It's About Demand



Wingstop has proven that for the right asset, where there is significant demand, valuations are as high as ever.

For the top-performing sector assets, we see valuations capable of matching historical levels. For instance, we suspect Dishoom, if and when it comes to market, will have plenty of suitors and fetch a strong multiple.

The challenge is that demand falls sharply below A* assets. ⁽¹⁾ Then, it becomes not a question of valuation but whether there is a buyer, full stop.

The Middle Is Squeezed Again



It is an age-old adage in the consumer sector that, in tough times, the middle eventually gets squeezed the hardest. There is a flight to value, while luxury invariably survives.

Gyms are probably the best example, but casual dining is catching up. Through no fault of its own, the industry has had to push a lot of price to survive.

As a result, a family going out for a pizza lunch has seen it become an increasingly expensive treat rather than a previously regular, affordable, and convenient routine.

This has been seen even more starkly in delivery where, outside of London, Monday to Thursday deliveries have dropped off a cliff as expense trumps convenience.

Unsurprisingly, Value Is Key



Harking back to Wingstop, you could argue a combination of flavour, value and convenience is always going to win in tough times.

Indeed, QSR more broadly appears to be a thematic winner right now and, as a result, is getting more attention from investors.

Similarly, Loungers' consistently strong trading is undoubtedly underpinned by the fact that it offers everything from all-day breakfast and coffee to burgers and alcohol at very competitive prices.

Right now, value seems like the safest harbour outside of iconic, high-end destination restaurants.

The Experiential Conundrum



Experiential comes up in nearly all our sector discussions with investors.

The opportunity is clear—mass appeal to a younger generation less fixated on alcohol and more on experiences and photo-friendly events. The challenge every one of these conversations ends with is two-fold: barriers to entry and fashion/fad risk.

Outside of capex, what is the barrier to entry? There are now multiple operators of digital darts, shuffleboard, batting cages, etc., as well as canny operators who offer all the above and more under one roof.

Investors are rightly wary of the boom/bust seen in trampolines and, to a lesser degree, padel (at least in parts of Europe). As a result, the sector seems to be screaming out for consolidation, single-site multiformat, or a combination of the two over the medium term.

Auction Unicorns



For all but the A* assets, the M&A auction is a thing of the past, at least for now.

Vast swathes of U.K. consumer assets, let alone leisure and hospitality, are available. How could they not be with so little M&A outside of a short-lived e-commerce IPO spurt in 2021?

However, owners and advisors are rightly wary of sending out information memorandums and process letters. Instead, it is a world of under-the-counter sales, with discrete processes involving a handful of interested parties and significantly less rigid timetables.

The challenge is that, without set deadlines and meaningful competitive tension, timetables lengthen, pricing softens, and buyers procrastinate.

Building a fan club has never been more important; if you want to exit, preparation must start at least 12 months in advance.

It goes without saying that you also need an experienced advisor who knows where interest lies and, just as importantly, where it does not. Timing and process management have never been more important.

Source: Market data.

(1) A* asset refers to a top-tier or prime-quality asset, distinguished by high liquidity, stability, and strong returns.

M&A Is Returning to the Sector

Despite macro challenges, the hospitality M&A market is gradually returning, with high-value deals and opportunistic acquisitions fuelled by new capital sources.

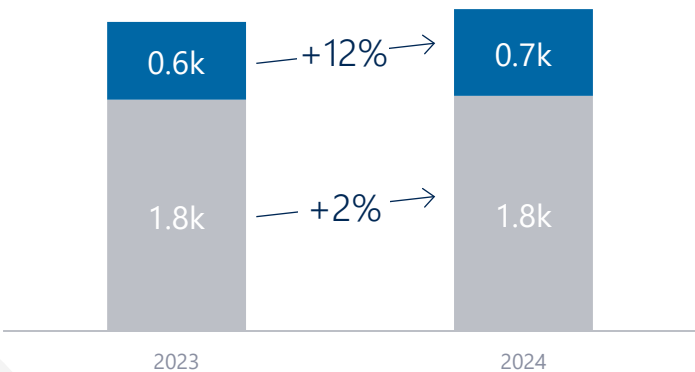
Houlihan Lokey View

- There has been recovery in European consumer deals, including in the hospitality vertical (with deal volumes growing by 12% YoY).
- Geographically, the U.K. has seen the greatest improvement in hospitality M&A activity (+25%).
- Within casual dining, there remains significant pent-up supply with many assets owned for much longer than the typical three to four years by private equity and a raft of stalled or failed sale mandates. Buyers are spoiled for choice. QSR remains more attractive; there are invariably buyers for clusters of franchise units or upcoming brands.

European Consumer Deals

Volume

■ European Other Consumer ■ European Hospitality



Source: Mergermarket.
Note: The deals on the right-hand side represent a selected set of transactions only from the U.K., European, and U.S. markets.

M&A Activity in the Hospitality Sector Is Improving

H1 2023



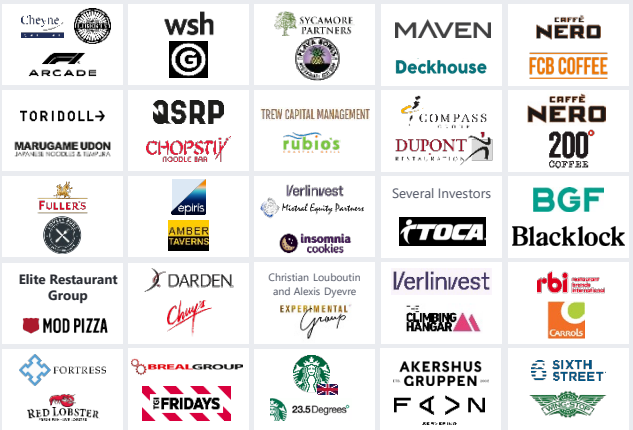
H2 2023



H1 2024



H2 2024



Acquisition of Loungers by Fortress

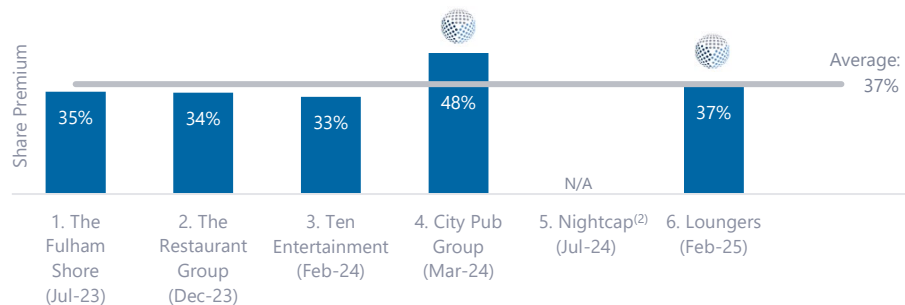
A deep dive into the Houlihan Lokey-advised sale process

Houlihan Lokey Insights

- Loungers is a repeat client of Houlihan Lokey, having sold the Piper-backed business to Lion and later floated it.* We remained financial advisor and nominated advisor.
- The sale process was the culmination of extended strategic discussions aimed at addressing the struggles of Loungers' share price to reflect the business' strong operational performance. Houlihan Lokey was mandated to find a buyer.
- The Fortress final offer was the highest offer received for Loungers following its comprehensive and competitive sale process involving both private equity and strategic potential acquirors and several rounds of negotiations.
- Key points of attraction included:
 - Genuinely strong management/founders who are passionate about the business.
 - Loungers performs consistently well across multiple locations and a variety of formats.
 - An ability to deliver a relatively complex offer efficiently and at great value.
 - Consistent LFL performance and, crucially, volume growth.
- Main questions were consistent with every other process we have been involved in over recent years:
 - Whitespace—With many operators in retreat, parties understandably focus on pipeline and headroom.
 - Future exit—PE remain nervous about the consumer sector and the IPO market is dead.
 - Single-country consumer exposure—several larger PE houses now insist on multi-territory.

Public Market Valuations

The Loungers acquisition represents the sixth P2P transaction in the hospitality space in the past c. 18 months.



Source: Loungers Rule 2.7.

(1) Premium to the closing price of 238 pence per share on 27 November 24.

(2) Nightcap taken private by existing shareholder group, no share premium available.

*Selected transactions were executed by Houlihan Lokey professionals while at other firms acquired by Houlihan Lokey or by professionals from a Houlihan Lokey joint venture company.

£367M

EV

9.4x

December 2024
EBITDA multiple
(after preopening costs)

37%

Premium⁽¹⁾

All-Time High

Share price



Valuation Landscape

Valuations of hospitality groups marginally declined over 2024. U.S. valuations continue to outstrip those of the U.K. and EU substantially.

EV/NTM EBITDA—Global Hospitality



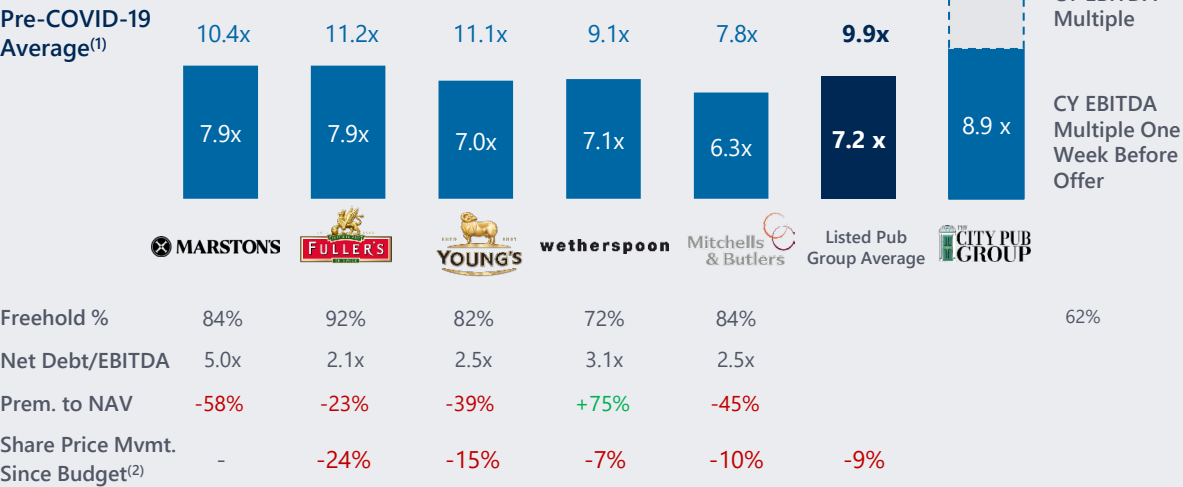
Commentary

- There is a clear valuation premium for U.S. operators vs. European peers.
- This has been driven by market sentiment, macroeconomic outlook and, ultimately, the volume of investors seeking to deploy meaningful capital in the U.S. hospitality space. In short, the U.S. takes a much more positive approach to consumer sector investing.
- We would note that a size premium will be attached to U.S. operators (\$30 billion average market cap vs. c. £1 billion in the U.K./Europe), which will boost U.S. valuations. Furthermore, several of the U.S. operators are QSR master franchisors with asset-light, highly cash-generative business models—no doubt being valued at a premium to many European operators.

Source: S&P Capital IQ as of 12 February 2025, on an IFRS basis.
Notes: (1) Pre-COVID-19 average relates to the period from 1 January 2015 to 31 December 2019.
(2) Autumn Budget delivered on 30 October 2024.
U.S. Hospitality: Starbucks Corp., The J. M. Smucker Co., Denny's Corp., Cracker Barrel Old Country Store, The Cheesecake Factory, Krispy Kreme, Wingstop, Restaurant Brands International, Chipotle Mexican Grill, Yum! Brands, McDonald's Corp., Domino's Pizza, Shake Shack, Papa John's International, El Pollo Loco, The Wendy's Co.
U.K./European Hospitality: Domino's Pizza Group, Loungers (now delisted), Greggs, Tortilla Mexican Grill, Fuller, Smith & Turner, Marston's, Mitchells & Butlers, J D Wetherspoon, Young & Co.'s Brewery, AmRest, DP Poland.
Trading multiples are based on share price, other market data, and broker consensus future revenue and earnings estimates from S&P Capital IQ as of 28 February, 2025.

Deep Dive Into Freehold Pub Valuations

EV/NTM EBITDA



Commentary

- Freehold pub valuations are sitting at material discounts to pre-COVID-19 averages, with NAVs reflecting some investor caution post-COVID-19 and some of the challenges experienced across the sector in relation to NMW, NICs, energy, etc.
- Given the strong freehold backing and enduring appeal of the pub, there appears to be a lot of valuation upside, particularly compared to their long-term valuations.
- This was clear in the valuation applied to City Pub Group when Young's acquired the business for 16.6x CY EBITDA—a 48% premium to the pre-announcement share price on 14 November 2023.
- We continue to see investor interest in high-quality estates, particularly strong freehold portfolios and premium offerings with rooms.
- Strategics are always looking to raise their freehold percentages and boost KPIs. Brunning & Price, Chestnut, Heartwood, Butcombe, et al. would all be hard to resist if they came to market.

U.K. Hospitality LFL Performance Over 2024

2024 saw mixed results across hospitality subsectors, with pubs leading the way and bars continuing to struggle.

LFLs by Operator Group



Source: CGA RSM Hospitality Business Tracker.

2024 Average

 **TOTAL**
+1.9%
(2023: +5.0%)

 **PUBS**
+2.9%
(2023: +7.5%)

 **RESTAURANTS**
+1.9%
(2023: +6.0%)

 **BARS**
-5.9%
(2023: -8.2%)

 **ON-THE-GO**
+0.9%
(2023: n/a)

Commentary

2024 has seen a wide range of performance across hospitality subsectors, with overall LFLs up a muted 1.9% on 2023 despite widespread price increases.

Pubs (+2.9% 2024 Average)

The highest performer for the second year running. Pubs appeared to be the only British winner of the UEFA Euro 2024 championships over the summer, with many patrons spending more time in pubs and less in restaurants, with LFLs in July up c. 5% (even when compared with 2023 which benefitted from the Rugby World Cup). Listed managed pub groups reported LFL sales up c. 5%–6% in 2024, indicating that tenanted groups and smaller groups/independents had a more challenging 2024.

Restaurants (+1.9% 2024 Average)

A close second behind pubs in terms of LFL performance. Houlihan Lokey's conversations with business leaders indicate substantial variance across individual operators. There again appears to be a strong variance between London and the rest and North vs. South.

Bars/Clubs (-5.9% 2024 Average)

Late-night woes continue with a second consecutive LFL contraction in the sector—performing some basic maths, 2024 was c. 14% down vs. 2022 (given 2023's -8.2% LFL). This is despite supply coming out of the market—NTIA estimates that a third of clubs (400+ sites) have closed since COVID-19. We would note that in December 2024, the bars segment clocked its first month of LFL growth since December 2023, demonstrating improvement in festive trading.

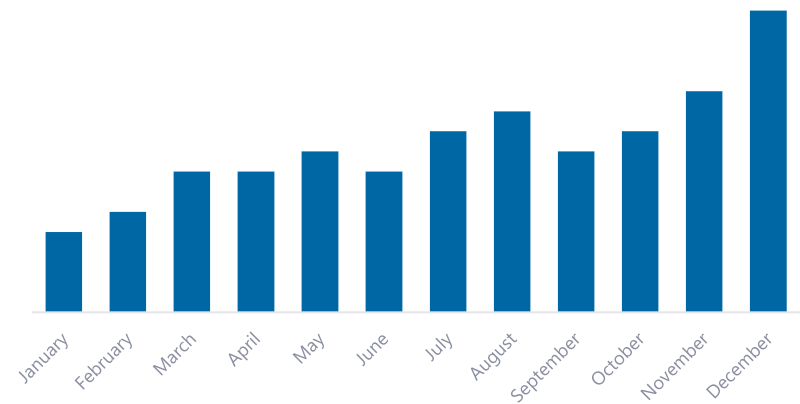
On-the-Go (+0.9% 2024 Average)

A new category monitored by the CGA RSM Hospitality Business Tracker includes fast-casual concepts with limited dine-in and a focus on grab-and-go food and drink, primarily through counter service. A strong H2 helped recover from a challenging start to the year—improvement no doubt buoyed by the affordability of the segment's low price point.

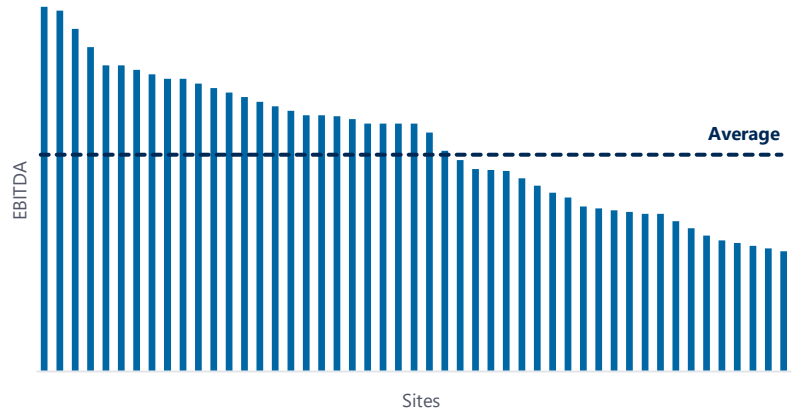
What Does Good Look Like?

Houlihan Lokey’s view on what sector investors want to see in high-performing hospitality businesses.

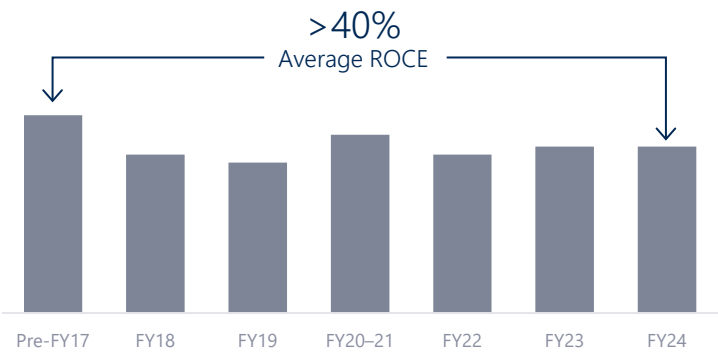
Monthly Revenue Demonstrating Life Beyond November and December



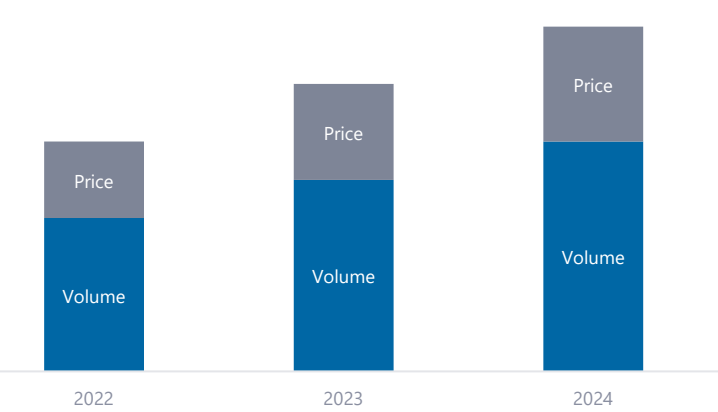
Robust EBITDA Performance Across the Estate Not Skewed by a One-Off Outperformer and With Minimal Tail



Consistent ROCE Across All Cohorts Proving an Operator Hasn’t Opened the Best Units First



LFL Performance Driven by Volume and Not Just Price

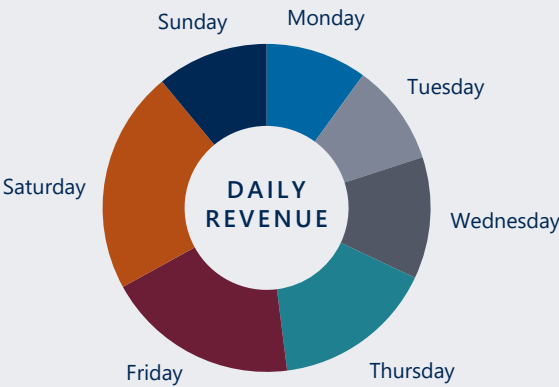


Consistent, Estate-Wide NPS Scores and Substantial Whitespace Opportunity

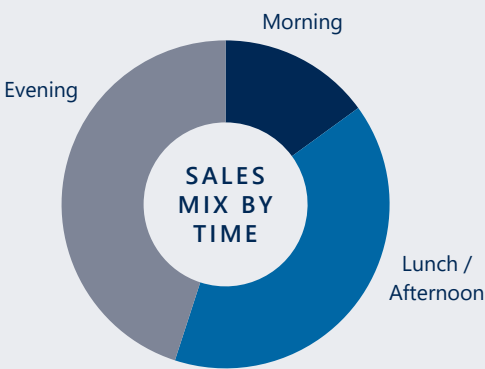
Average NPS
60+

Whitespace
>3x

Regular Trading, All Week
Not dependent on weekends



All-Day Proposition, Working the Shoulders

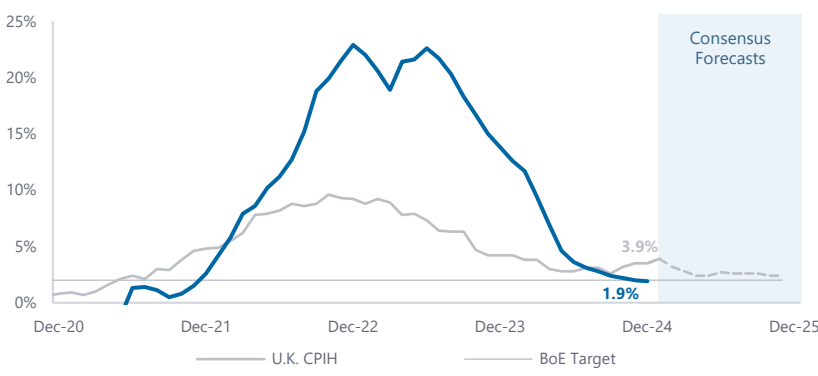


U.K. Consumer Outlook

Macro indicators trended in the right direction in 2024, with reducing inflation and interest rate cuts lifting consumer spending and confidence in the U.K. However, post-election/-budget gloom means we anticipate a stagnating consumer outlook over the first six months of the year as inflation returns in early 2025.

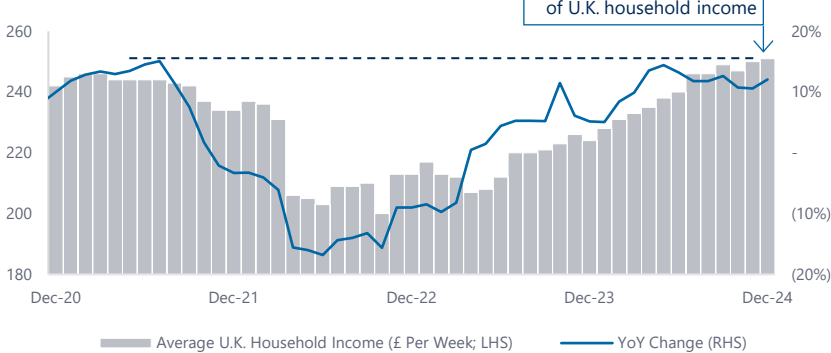
In August 2024, food price inflation dropped below headline CPIH for the first time since January 2022. CPIH had been nearing the 2% target until recent months, sparking rising concerns of persistent inflation in 2025.

Headline CPIH and Food Price Inflation



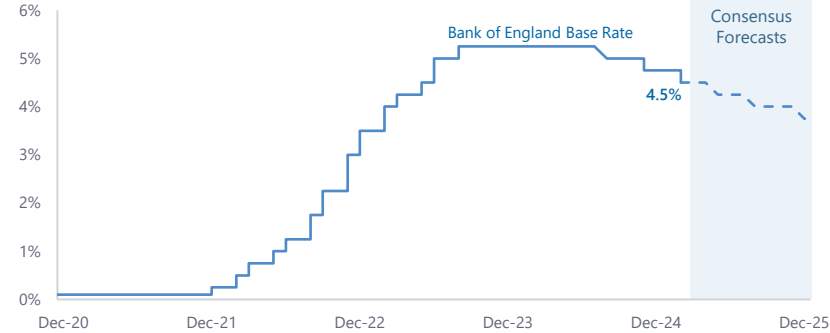
U.K. spending power reached its highest-ever level in December 2024 and has recorded double-digit annual growth for 10 consecutive months.

Asda Income Tracker



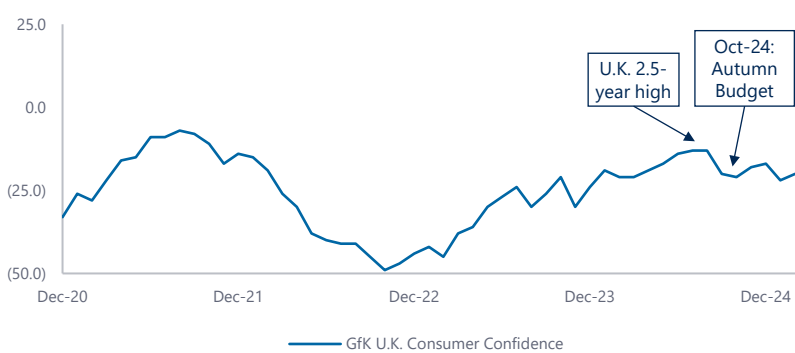
The Bank of England interest rate was cut to 4.5% in February 2025. Economists forecast three further cuts by the end of 2025, leaving interest rates at 3.75% by December 2025.

Bank of England Base Rate



U.K. consumer confidence had been broadly improving since October 2022, only to be dented by the Autumn Budget, as well as rising fears of an inflationary 2025.

U.K. Consumer Confidence Indices



Sources: Eurostat, ONS, Focus Economics, FactSet, CGA Service, Bank of England, Asda Income Tracker, GfK.

Outlook for 2025

First-half M&A may be limited, with scope for a real acceleration as the year progresses.

Budget Impact



Positive investor sentiment was building through 2024, only to be spiked by the Autumn Budget.

2025 will be the first year of budget impact on NIC/NLW, with hospitality groups anticipating a c. 7%–10% increase in labour costs.

- **Mitchells & Butlers:** additional £100 million on cost lines
- **Greene King:** “£20 million shock”
- **J D Wetherspoon:** £60 million jump in labour costs
- **Young’s:** £11 million in additional annual costs
- **Pizza Hut UK (HWS):** £4 million impact on labour costs
- **Loungers:** impacted c. £10 million

Every operator we know is planning to raise prices in April. Morgan Stanley research indicates this will likely be 2%–3% (assuming no volume impact), UKHospitality has estimated a 6%–8% price increase, demonstrating substantial variances across estimates.

One can only imagine how consumers will react to widespread price rises across leisure, hospitality, retail, and more. Indeed, we believe the past few months have already seen wallets stay in pockets. The government’s gloomy rhetoric and the media/business leaders’ response to the budget are not a great backdrop for discretionary spending!

In terms of M&A, we suspect H1 2025 will be subdued as the cost increases and price rises wash through. Strategics will have enough on their plate and PE will want to watch and wait.

Subsector View



Pubs: Freehold pub groups are persistent M&A targets for strategics, with substantial synergies available (e.g. Young’s → City Pub Company and Fuller’s → Lovely Pubs in 2024), as well as for private equity seeking asset-backed, resilient businesses with opportunities for buy-and-build (e.g. Epiris → Amber Taverns). We expect selective M&A to continue through 2025.

QSR: Remains highly attractive to investors. The market still sees great value in the asset-light QSR franchise model, as well as the strong returns available from an equity-owned rollout. We expect momentum to continue through 2025 with further assets, such as GAIL’s, which are expected to attract investor attention.

Experiential: As mentioned on page 2, we are confident a consolidation play will happen in the medium term. Most larger-scale operators have institutional investor backing and plenty of firepower to consider a roll-up strategy. 2025 may well be too soon, but as the macro environment improves, it could unfold quickly.

Casual Dining: Much of the sector remains effectively up for sale. Many processes are underway, with an overhang from slow-burn 2024 mandates catching up with new 2025 deals. Such is the volume of supply that we believe there will continue to be M&A in the space. Picking winners should be easy, as strong performers stand out.

Key Value Drivers



From a financial/quantitative standpoint, we expect the key value drivers from 2024 to persist in 2025. We would note that excelling in two or three of the below is likely not enough in the current market to transact at a premium multiple (or perhaps at all):

1. **Whitespace:** The ultimate gauge of scalability in the hospitality space. Scepticism of 100+ unit promises remains on the minds of boards and investment committees. Credible, diligent growth stories are crucial.
2. **ROCE:** 30% is becoming the new 40%—returns have been impacted by rapidly inflating capex, labour, and utility costs in recent years, resetting the benchmark for “what good looks like.”
3. **Volume LFLs:** Remains front of mind for investors given just how much price is in the system—with more to come.
4. **Exit:** Who buys a business next and maybe even after that? Will there still be enough whitespace? Will an operator have opened the best sites and be facing diminishing returns? Will competition have eaten brands up as per the “Burger Wars” of the past 10 years?

Reasons for Optimism



Some positive trends: Labour is as benign as it has been for a long time. We are hearing of low vacancies, many applicants, sites increasingly available, and reasonable rents. Competition will reduce (sad and good!).

U.S. acquirors: We are seeing more interest in U.K. and European hospitality assets than ever before—from PE and trade alike. This is the result of much lower valuations than the U.S. and a greater number of U.S. investors with a more positive approach to consumer.

Strategic consolidators: Apollo will surely buy for TRG, Azzurri (in time), Toridoll, Zensho, Gustoso Gruppe, McWin, and Epiris’ sector platform, Big Table. All have stated consolidation strategies, while Domino’s was in the press bidding for Wingstop. The list is the longest in memory.

Debt is back: It is not cheap, which might explain its return, but it’s available from a range of traditional and more innovative sources.

Valuations are increasingly realistic: 8x EBITDA with 3x–4x leverage sounds a lot better than >10x with no debt!

Houlihan Lokey Hospitality Coverage

Houlihan Lokey has comprehensive global coverage and specialised resources dedicated to the hospitality sector.

Investment Banking



We have a track record of structuring and executing **value-optimising transactions** for our clients.



Our team has an **extensive and expansive reach** of the highest likelihood debt and equity investors within the hospitality and leisure sector globally.



We advise clients on **strategic alternatives** that enable them to accomplish next-level strategic goals—whether the aim is accelerated growth, partial, or full sale.



We run efficient, momentum-driven processes that drive results in **M&A and capital raising** for our clients.



We are well-versed in crafting tailored solutions to achieve client objectives, with deep experience **across sectors, company types, and market cycles**.



We know the **KPIs buyers are looking for** and how best to present them.

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Contact Us

Please reach out to us to schedule a call to discuss this quarter's market update or to explore how we can serve your business needs.



Request a Meeting



Learn More About Us

Houlihan Lokey Is a Global Powerhouse

Exceptional global connectivity and product expertise.

CORPORATE FINANCE

2024 M&A Advisory Rankings
All Global Transactions

	Advisor	Deals
1	Houlihan Lokey	415
2	Rothschild	406
3	Goldman Sachs	371
4	JP Morgan	342
5	Morgan Stanley	309

Source: LSEG (formerly Refinitiv).
Excludes accounting firms and brokers.

No.1
Global M&A Advisor

Leading
Capital Markets Advisor

FINANCIAL RESTRUCTURING

2024 Global Distressed Debt &
Bankruptcy Restructuring Rankings

	Advisor	Deals
1	Houlihan Lokey	88
2	PJT Partners Inc	59
3	Rothschild	48
4	Lazard	44
5	Perella Weinberg Partners LP	40

Source: LSEG (formerly Refinitiv).

No.1
Global Restructuring Advisor

1,800+
Transactions Completed Valued at
More Than **\$3.8 Trillion** Collectively

FINANCIAL AND VALUATION ADVISORY

2000-2024 Global M&A
Fairness Advisory Rankings

	Advisor	Deals
1	Houlihan Lokey	1,243
2	Duff & Phelps, A Kroll Business	1,045
3	JP Morgan	1,020
4	UBS	792
5	Morgan Stanley	698

Source: LSEG (formerly Refinitiv).
Announced or completed transactions.

No.1
Global M&A Fairness Opinion
Advisor Over the **Past 25 Years**

2,000+
Valuation Engagements

TOP U.S. M&A CONSUMER ADVISOR

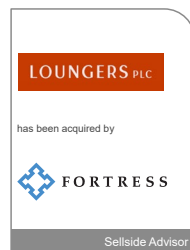
2024 M&A Advisory Rankings
All U.S. Consumer Transactions

	Advisor	Deals
1	Houlihan Lokey	26
2	William Blair	20
3	Jefferies	19
4	Generational Equity	17
4	Lincoln International	17

Source: LSEG (formerly Refinitiv).

Leading Advisor in the Leisure and Hospitality Sector

Highlighted European Credentials



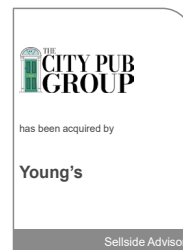
Houlihan Lokey advised its long-standing client, Loungers PLC, on the sale to funds managed by affiliates of Fortress Investment Group by way of a recommended scheme of arrangement.

The transaction implies an enterprise value of £366.6 million.



Houlihan Lokey advised Kindred Concepts Ltd., trading as F1® Arcade, on a growth financing raise.

The \$130 million commitments were funded by Cheyne Capital, Liberty Media Corp., Permira Credit, and OakNorth.



Houlihan Lokey advised The City Pub Group PLC on the recommended cash-and-share offer of approximately £162 million from Young & Co.'s Brewery, PLC.

The offer represented a 48% premium to the closing share price on 14 November 2023.



Houlihan Lokey advised BAUM Unternehmensgruppe on the sale of a majority stake in Burger King Deutschland GmbH to McWin Food Ecosystem Fund.

Burger King Deutschland is the master franchisee of Burger King® in Germany.



Houlihan Lokey advised premium hospitality group, Rhubarb Hospitality Collection, a portfolio company of LGT Private Debt, on the sale to Oak View Group, a portfolio company of Silver Lake.

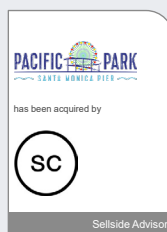
North American Credentials



has received a major investment from

ZMC

Sellside Advisor



has been acquired by

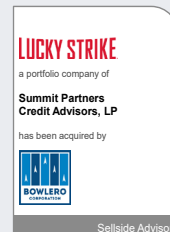
SC

Sellside Advisor



has successfully completed a restructuring of its USD 460m convertible bonds via a Cayman Islands scheme of arrangement including entering into a binding term sheet to settle class action claims filed on behalf of purchasers of the Company's ADS in historical periods

Company Advisor

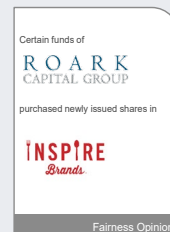


Summit Partners Credit Advisors, LP

has been acquired by

BOWLEO

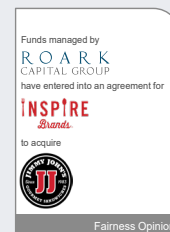
Sellside Advisor



has purchased newly issued shares in

INSPIRE Brands

Fairness Opinion



to acquire

INSPIRE Brands

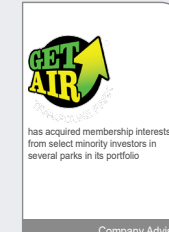
Fairness Opinion



has been acquired pursuant to 363 sales transactions by

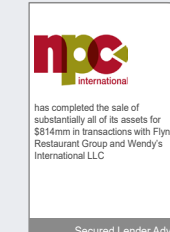
David's Cookies

Company Advisor



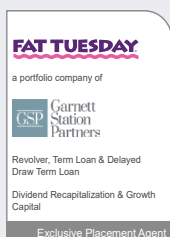
has acquired membership interests from select minority investors in several parks in its portfolio

Company Advisor



has completed the sale of substantially all of its assets for \$814mm in transactions with Flynn Restaurant Group and Wendy's International LLC

Secured Lender Advisor



Garnett Station Partners

Revolver, Term Loan & Delayed Draw Term Loan

Dividend Recapitalization & Growth Capital

Exclusive Placement Agent



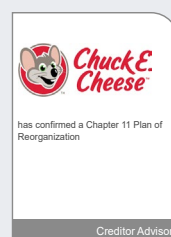
A majority stake of

Pizzeria Carlos

has been acquired by

DEACAPITAL

Sellside Advisor



has confirmed a Chapter 11 Plan of Reorganization

Creditor Advisor



has acquired

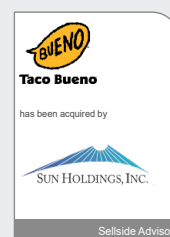
PLAYERONE

a subsidiary of

CINEPLEX

Acquisition Financing

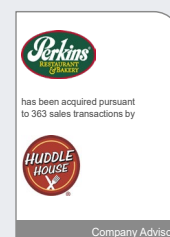
Buy-side & Financing Advisor



has been acquired by

SUN HOLDINGS, INC.

Sellside Advisor



has been acquired pursuant to 363 sales transactions by

PERKINS

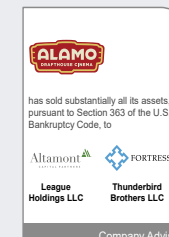
Company Advisor



has been acquired pursuant to 363 sales transactions by

ELITE RESTAURANT GROUP, a Wyoming Corporation

Company Advisor



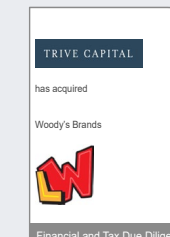
has sold substantially all of its assets, pursuant to Section 363 of the U.S. Bankruptcy Code, to

Altamont

League Holdings LLC

Thunderbird Brothers LLC

Company Advisor



has acquired

Woody's Brands

Financial and Tax Due Diligence



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