

UK Hospitality: Unlocking Hidden Value

The hospitality industry has experienced several challenges over the last few years, which at times has led to valuation concerns amongst investors. However, an opportunity presents for businesses to attract investor interest – by unlocking hidden value.

Below, Lincoln International dives deep into the challenges affecting the industry, prevalent market dynamics and how businesses can demonstrate value.

CHALLENGES

Labor Shortages: Brexit resulted in labor shortages in the UK; and other more recent economic factors caused shortages in the rest of Europe. In addition, as of 2021, 20% of the UK working age population is economically inactive, further compounding labor challenges.

COVID-19: Lockdowns and pandemic-related concerns significantly reduced demand in the hospitality industry, especially in previously high traffic cities.

Rising Costs: Costs are increasing due to inflation across all areas – labor, energy, ingredients, cost of living, etc. – negatively impacting price and consumer demand for the hospitality industry.

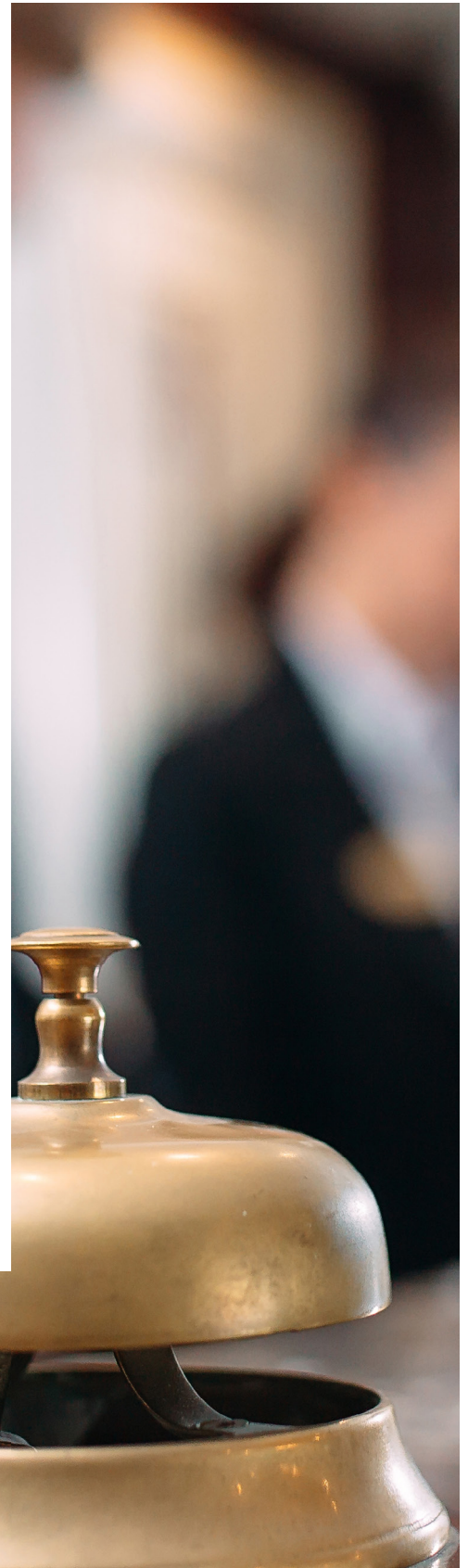
Market Volatility: Uncertainty in the markets has caused investors to become risk averse, particularly in areas more reliant upon discretionary spend.

LINCOLN PERSPECTIVE

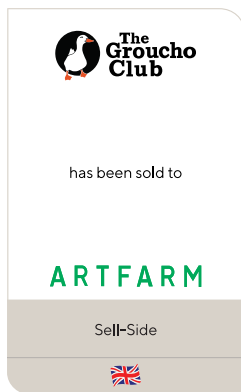
In times of uncertainty, investors can look at hospitality companies that have property assets via freehold / long leasehold property with positive premium values as one way to mitigate any risk concerns. In these types of investments, fewer outgoings are paid to landlords, yielding a lower operational gearing. Security is therefore provided by the property asset, underpinning the company's value.

At Lincoln, we think creatively to help corporates and investors identify other separable assets that sit behind companies. To attract investor interest, companies should unlock less traditional value streams outside of cash flow / EBITDA multiples. These value streams can take several forms: intellectual property (IP) value, alternative use, lease premium value, etc.

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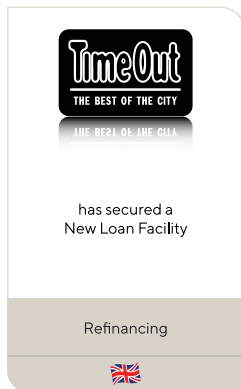


Lincoln successfully highlighted the hidden value of assets in two recent transactions.



The Groucho Club has been sold to Artfarm

- The Groucho Club is a private members club in Central London that celebrates art in all forms
- The company's value was significantly underpinned by the freehold ownership
- Central London real estate hospitality asset valuations were reduced post-COVID-19
- Lincoln advised Groucho Club to revalue the freehold and ran a process to identify the most qualified property valuer. The resulting valuation underpinned the successful sale of the business



Time Out has secured a New Loan Facility

- Time Out is a world-renowned brand known for guiding locals and tourists to the best experiences in cities and has a global hospitality portfolio with the ability to secure property in upcoming areas of major cities
- Lincoln organized a competitive process resulting in commissioning two valuation reports that demonstrated the company's value and ultimately resulted in its refinancing
- Value of the brand IP based on implied royalty rates
- Value of the lease premium of its highly successful Lisbon Marketplace

Lincoln's professionals are eager to meet with companies in the hospitality industry to help underline the values that attract investor interest.

For other perspectives, visit us at www.lincolninternational.com/perspectives.

Interested in learning more? Get to know Lincoln's Consumer Group at www.lincolninternational.com/consumer.