

LICENSED VENUES

OCTOBER 2014

What recent market activity is telling us about the hospitality and pubs industry

A range of transactions and events have occurred in the industry which have highlighted a number of key issues and trends. In this update, we take a closer look at five key themes currently relevant to licensed venues, and the underlying transactions and events which support and illustrate significant changes in the industry.



Changing consumer tastes are influencing hospitality offerings

The proliferation of “small bar” venues, the popularity of craft beer and cider, and the increasing sophistication of customer expectations and food tastes are fundamentals that are driving changes in the hospitality offerings around Australia. The growth of small bar venues, particularly driven by favorable licensing schemes, has had a major influence on traditional large licensed venues such as pubs. This has extended to aspects such as the food offering (cuisine, presentation) and the design and ambience demanded at venues undergoing renovation (intimacy, décor, small multi-purpose spaces).

The Opening of the Pavilion Coogee NSW

Merivale has opened the Pavilion in Coogee NSW, which could be considered a large-scale “community venue” aimed at providing a sophisticated and diverse food and beverage offering for patrons, including families with children. Interestingly, this multi-faceted suburban venue is a marked departure from Merivale’s traditional metropolitan/CBD style based operations.

Industry consolidation

The industry is currently progressing through an inflection point in the cycle of consolidation which has been occurring for a number of years. Experienced operators have continued to add to their portfolios in recent years, and as a number of family and corporate groups have expanded they have sought

to acquire quality venues to develop their footprint and offering. Established operators are now examining opportunities to exit the industry considering the improved yields being achieved in recent transactions via listings and purchases made by private equity funds.

Merger of two hospitality groups

The acquisition of the Pacific Restaurant Group by the Keystone Group has resulted in a large pub, bar and restaurant group with a national footprint. The scale and range of offerings in the merged group provide diversity and breadth. The venues in the newly formed group include successful Keystone bar/hotel venues such as Cargo, The Winery and Bungalow 8, and the popular Jamie’s Italian restaurant chain.

Strong results for the sale of iconic venues

Seasoned hospitality operators continue to search for value through the purchase of first class venues. These purchases may involve the potential for development upside, however are primarily iconic venues which meet the criteria for hospitality groups and offer a good combination of location and scale. A number of recent transactions involving iconic venues have been completed off-market.

Yields in the range of 10-11% have consistently been achieved for first class venues on the Eastern seaboard.

Sale of iconic venues

The recent sale of the iconic Cronulla venue Northies and the Mona Vale Hotel on Sydney’s Northern beaches has been one of the most significant pub transactions to date in 2014. The venues were sold for a combined price of AU\$57 million. The sale has reinforced that the market for iconic venues, which have historically been tightly held, is now strong across the East coast. Other well-known iconic venues currently on the market include the famous Bondi Hotel and the Golden Sheaf Hotel at Double Bay in Sydney.

About FTI Consulting

FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. FTI Consulting professionals, who are located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management and restructuring. More information can be found at www.fticonsulting.com.

Institutional movement into the hospitality sector

The Charter Hall/Host Plus purchase of a large parcel of the Australian Leisure and Hospitality Group's (ALH Group) freehold venues (discussed below) represents a significant institutional investment in the hospitality/pubs sector. Whilst primarily a retail property transaction, this investment raises a number of questions in relation to potential for further institutional investment in hospitality portfolios, coupled with industry consolidation.

Charter Hall and Host Plus buy ALH pubs

The recent sale and lease-back of a portfolio of 54 of ALH's pub venues (including 46 retail liquor outlets) to Charter Hall Group and Hostplus Superannuation Fund, in a transaction reportedly worth AU\$603 million, is Australia's largest ever pub sale. The venues were purchased on an initial yield of 6.8% subject to initial lease terms of 20 years plus options, and they will be leased back to ALH (75% owned by Woolworths) to operate.

The impact of legislative/regulatory changes

Recent changes to legislation/regulation governing licensed venues and gaming have affected a range of operators. Recent examples include:

- Kings Cross & CBD Lockout (NSW)
- Safe Night Out Strategy (QLD)
- Changes to the Victorian Gambling Regulation Act (VIC)

Changes to the manner in which licensed venues are regulated can have a significant effect on the profitability and viability of venues.

Impact on CBD and Kings Cross Lockout NSW

A range of measures were introduced by the NSW state government in late February 2014 in an attempt to curb alcohol related violence and anti-social behaviour. The measures introduced included mandatory 1:30 a.m. lockouts, and 3:00 a.m. cessation of alcohol service for venues within a designated zone encompassing Kings Cross and the Sydney CBD. Venues in the CBD and Kings Cross have reported a fall in patronage in peak times such as Saturday night. Other venues, such as the Star City Casino which are located outside of the lockout exclusion zone, are reported to have seen an improvement in patronage and trade, as they are able to trade in an unrestricted capacity.

One impact of this legislation may be that experienced operators look to add suburban venues (outside of the lockout zone) to their portfolios in greater numbers. This will have a number of flow on effects such as changes to the "style" of a typical venue and offering provided.

Questions to consider

1. Is activity in the current market reflective of a perception from operators that now is a good time to sell, or will yields tighten further as demand increases for high quality venues?
2. What does the potential for the tightening of yields mean for the sector in an environment in which private equity and institutional investors have deep pockets which are currently underutilised?
3. What are the risks and opportunities in the current environment for operators at different ends of the spectrum?
 - Portfolio operators
 - Single venue operators
4. To what extent will pub operators and restaurant operators explore working together to further diversify food and beverage offerings (including the involvement of celebrity chefs)?
5. Are recent transactions in Sydney illustrative of consumer shift from the Sydney CBD back to the suburbs following the implementation of the lock out legislation?

HOW FTI CONSULTING CAN HELP

FTI Consulting has an unrivalled breadth of advisory experience in this industry. Through our national experience, we have developed an in-depth understanding of the specific requirements and business operations of entertainment, hospitality, gaming and leisure operators. We offer clients the full range of corporate advisory and consulting services including compliance reviews and profit improvement as shown below.

Clients can be confident in our thorough understanding of the intricacies associated with entertainment, hospitality, gaming and leisure businesses. We have experience advising on complex assignments for all types of businesses in this industry, regardless of their size and location.

Our Services



Should you require any advice, please contact us to further discuss how FTI Consulting can help.



SYDNEY
Nathan Landrey
 Senior Managing Director
 +61 2 8247 8040
 nathan.landrey@fticonsulting.com



BRISBANE
Andrew Weatherley
 Senior Director
 +61 7 3225 4935
 andrew.weatherley@fticonsulting.com



SYDNEY
Quentin Olde
 Senior Managing Director
 +61 2 8247 8017
 quentin.olde@fticonsulting.com



MELBOURNE
Ian Morton
 Senior Director
 +61 3 9604 0615
 ian.morton@fticonsulting.com



SYDNEY
Liam Healey
 Director
 +61 2 8247 8013
 liam.healey@fticonsulting.com



PERTH
Ian Francis
 Senior Managing Director
 +61 8 6430 1309
 ian.francis@fticonsulting.com

Liability limited by a scheme approved under Professional Standards Legislation.