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Restaurant and Hospitality Industry Sentiment Survey 2020 – Impact of COVID-19

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Introduction

Crowe has undertaken a COVID-19 impact and outlook sentiment survey on the Restaurant and Hospitality Sector.

The questionnaire was specifically designed to examine how the pandemic is affecting the outlook for the sector and views of business owners as to supports required to sustain their operations through to a recovery. The survey was carried out between 24th August and 14th September 2020.

We believe that a survey which gathers the collective thoughts of the industry will be insightful to the scale of damage inflicted on trading levels and act as a reference point to vocalise the challenges and types of stakeholder supports needed.

We would like to thank all the respondents to the survey and hope this and follow-on surveys will allow us to track the outlook over time so we can better estimate the pace of a return to pre COVID-19 trading performance.

For businesses operating in an industry where fixed and semi fixed costs are high, the forecasted declines in revenue will be extremely impactful on profit and loss outcomes and cash flow going forward.



As the leading consultants in relation to hospitality business globally, Crowe can provide you with the reassurance and expert advice you require in developing strategies to ensure your operation is best placed to overcome the current challenges.

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Key Findings From The Sentiment Survey

Overall

- 87% of respondents had their premises fully closed for up to three months in 2020 due to COVID 19.
- The average cost to re-open after closure was €17,200 per business.
- Revenues for the final quarter of 2020 are expected to be down 41% on 2019, which is not surprising given the likely absence this year of staff Christmas parties and corporate lunches.
- For 2021 revenues are expected to be 27% down on 2019 levels.
- Beverage sales are expected to fall by a greater percentage than food sales.
- In 2019 46% of revenues were derived from overseas visitors and the pace of recovery in the international visitors coming to Ireland will be a key determinant in the pace of the recovery for the sector.
- Without the EWSS payroll costs would have been 44.9% of revenue in 2020, a level that would not have been sustainable and without EWSS many more hospitality businesses would have already closed down. So far, respondents have managed to bring back 71% of permanent staff and 55% of casual staff on to their payroll.
- Over 60% of respondents have availed of the VAT and Payroll taxes deferred payment scheme offered by Revenue.
- 48% of respondents needed to avail of a loan principal moratorium to get through the last six months.
- All options to keep payroll costs in check are being taken by respondents including reduced trading hours, redundancies, pay cuts and mandatory clearing of leave.
- Where landlords have reduced rent the majority of reductions are between 40%-60% of the pre COVID rent and only agreed for six months.
- Rent concessions will be required for a further 12 months based on the expected pace of recovery by operators in the sector.
- Nearly all respondents believe the 13.5% VAT rate needs to be cut. Their view is evenly split as to whether it should be to the old 9% rate or the 5% rate as is applicable in the Northern Ireland and the UK.
- The most immediate ask is that commercial rates waiver which is currently in place until 30 September 2020 is extended to the end of the year.
- The respondents would like government to do more to prevent insurance costs rising in future years. 54% of respondents were faced with a premium increase at their last renewal and the average premium increase was 19%.

Survey Respondents by

- Location
- Business type
- Destination classification

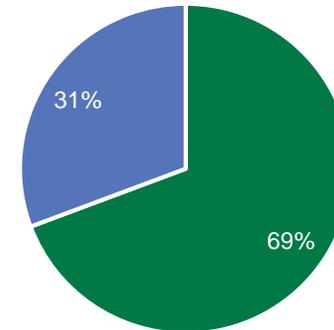


Survey Respondents

Crowe Analysis:

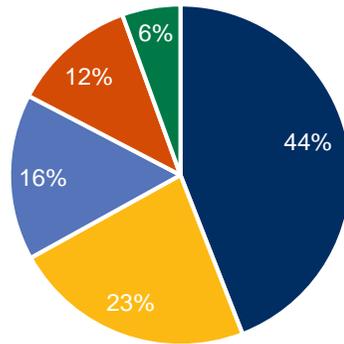
- 127 members of the Restaurant Association of Ireland completed the Crowe sentiment survey
- The breakdown of respondents are as per the pie charts
- The respondents represent a broad spectrum of food businesses across Ireland

Dublin vs Regional Ireland Location



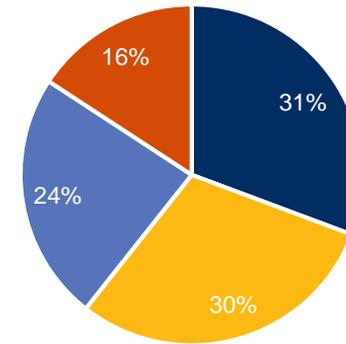
■ Regional ■ Dublin

Business Type



■ Restaurant ■ Gastropub ■ Café ■ Hotel Restaurant ■ Other

Destination Classification



■ Urban central ■ Suburban ■ Rural ■ Tourist hotspot

Closure Period for In-house Dining

- Business closure
- Services provided if remained open
- Re-opening costs



Closure Period for In-house Dining

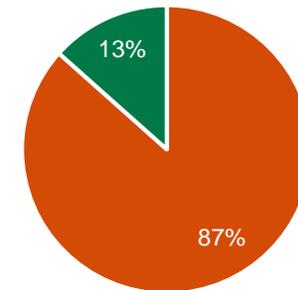
Crowe Analysis:

- 87% of respondents were fully closed during the period April to June 2020
- Just 4% of respondents have not reopened their business
- 44% of business that remained open between April and June provided a delivery service to their customers
- The loss of a quarters revenue and disruption costs will turn many profitable businesses into loss making businesses for 2020

Re-opening costs

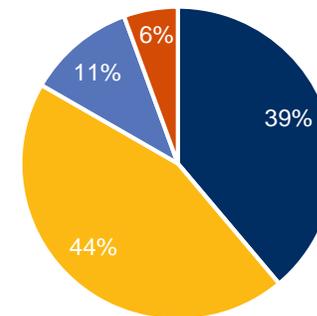
- Reopening costs for respondents were €17,200 on average, broken down as to payroll element being €5,800 and non-payroll element being €11,400

Was your Business Closed During Covid-19



■ Closed ■ Open

Services Offered by Businesses that Remained Open



■ Collection only ■ Collection and delivery ■ Catering ■ Wine shop

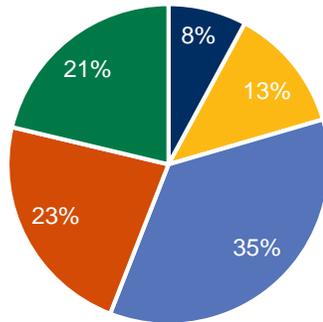
Quantum of Revenue Collapse as a Result of Covid-19

- Time frame for business recovery
- Q3 – actual and Q-4 forecasted revenue declines
- 2020 expected revenue declines
- 2021 expected revenue declines



Quantum of Revenue Loss as a Result of Covid-19

For How Long will Business be Adversely Impacted by Covid-19



- 3-6 months
- 6-12 months
- 12-18 months
- 18-24 months
- Longer than 24 months

Crowe Analysis:

- 79% of respondents expect their revenue to be down for at least 12 months
- 21% of respondents to expect their revenue to be impacted for more than 2 years
- 2021 to remain a very challenging year as it will be difficult to sustain operations for prolonged periods of greatly reduced revenues

For Q3 respondents report that revenue is down 37% on the same quarter last year

For Q4 respondents have forecasted their revenue to be down 41% on the same quarter last year

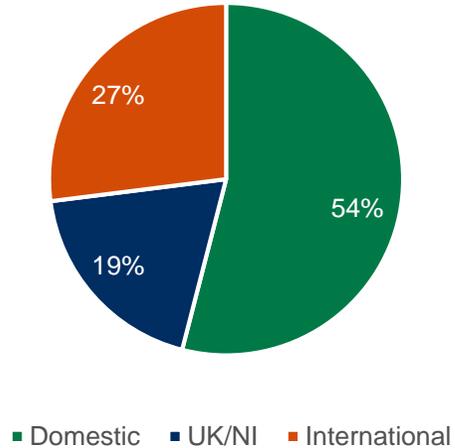
When asked to compare 2020 revenues and 2021 revenues against year ended 2019, respondents expected the following:

- 2020 revenue to be down on 2019 revenue by 42%
- 2021 revenue to be down on 2019 revenue by 27%

Businesses expect beverage revenue to fall 10% more than food revenue

Quantum of Revenue Loss as a Result of Covid-19

Geographic Mix of Customers



Crowe Analysis:

- With 46% of revenue derived from international visitors, businesses will find it difficult to recover to 2019 levels until international travel restrictions are fully lifted

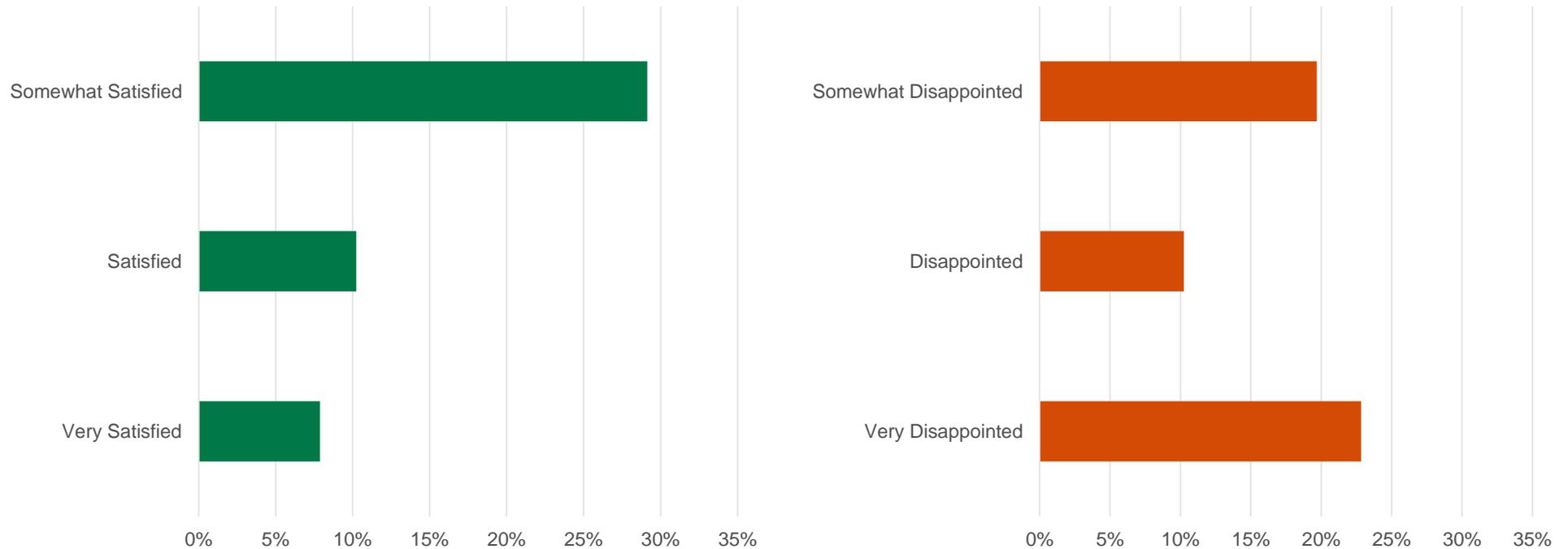
Customer Origin

- 54% of customers are domestic
- 19% are UK/NI
- 27% of customers are other international

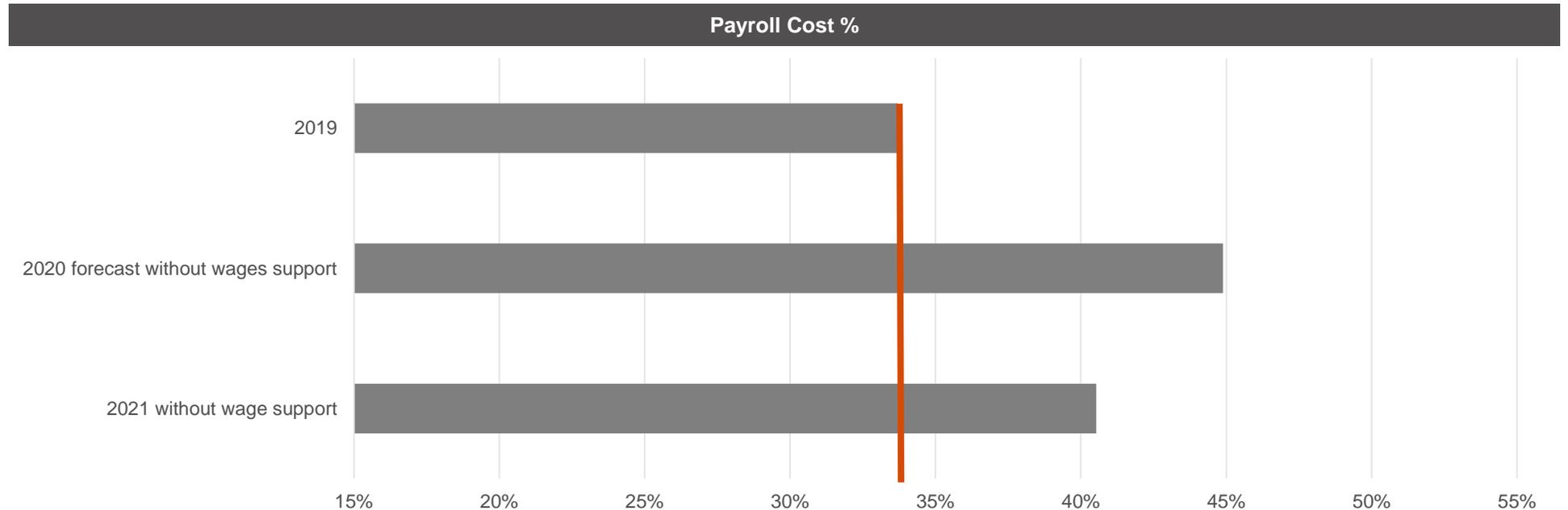
July Jobs Stimulus Package

- Respondents welcomed the supports that were announced in the July package, however there appears to be disappointment that the measures did not go far enough
- 33% are disappointed or very disappointed while only 18% are satisfied or very satisfied

How Satisfied were you with the July Jobs Stimulus Package



Payroll and Importance of Wage Support Schemes



Crowe Analysis:

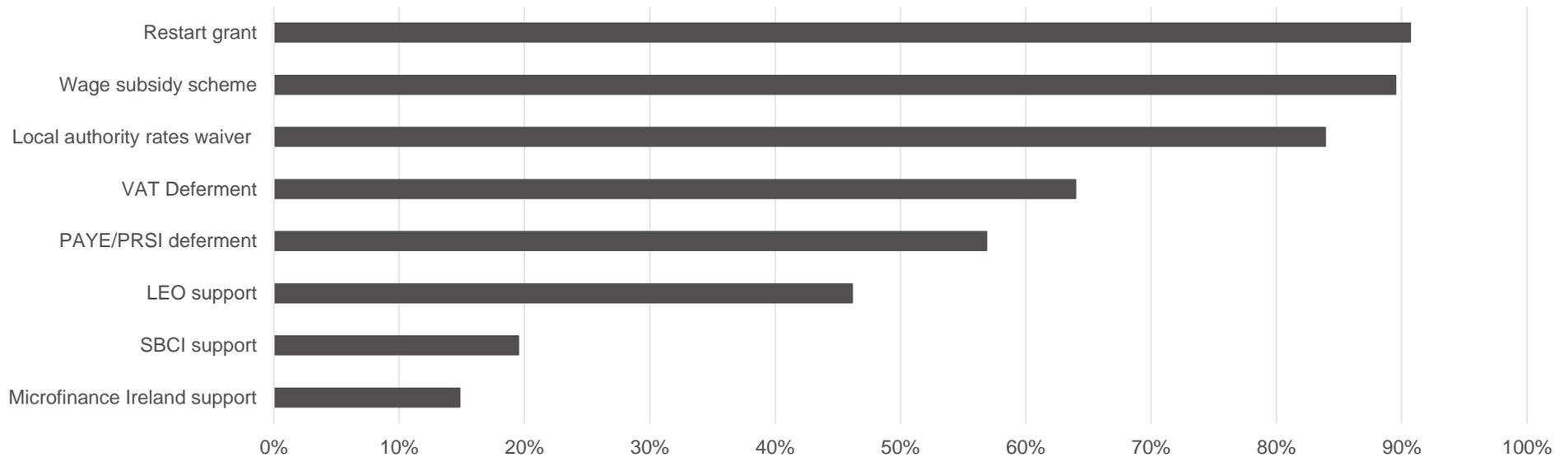
- Pre Covid-19 the average payroll cost was 33.7%
- Without wage supports payroll cost would be 44.9% in 2020
- Without wage support, payroll cost is estimated to be 40.5% in 2021
- To support businesses to operate on a viable basis during Covid, it is likely that wage supports will be required for **all** of 2021

Staffing Levels

- Despite the Covid restrictions businesses have so far managed to bring back 71% of permanent staff and 55% of casual staff on to their payroll

Take-up of Government Supports

Covid-19 Government Supports Take-up



Crowe Analysis:

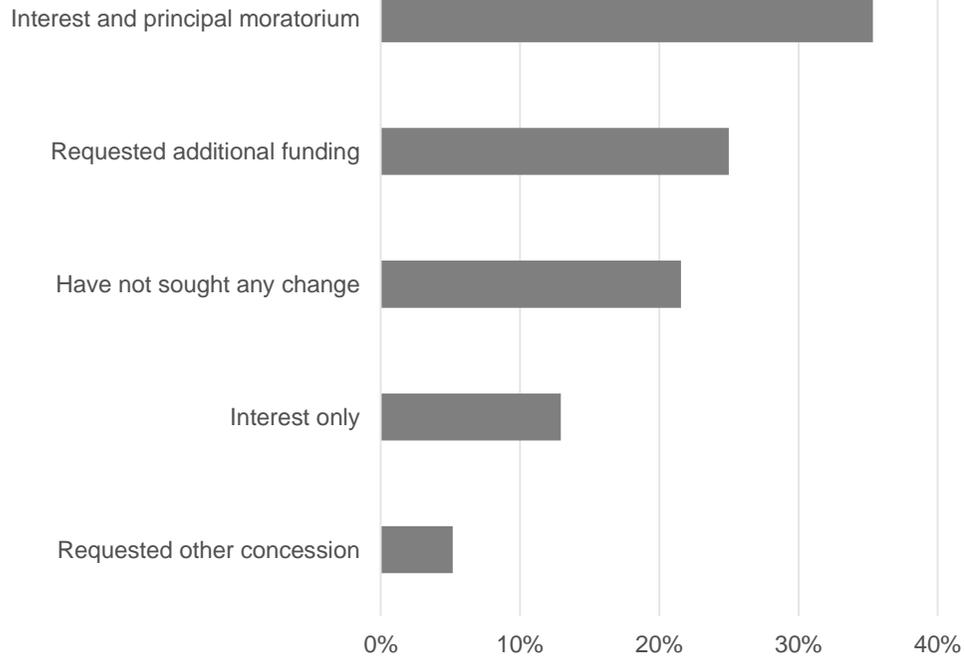
- There appears to be a reluctance by business owners to take on more bank borrowings as evidenced by the low percentage seeking SBCI support
- The uncertain economic and trading environment is probably causing a cautious approach to be taken as regards to future commitments

Overall:

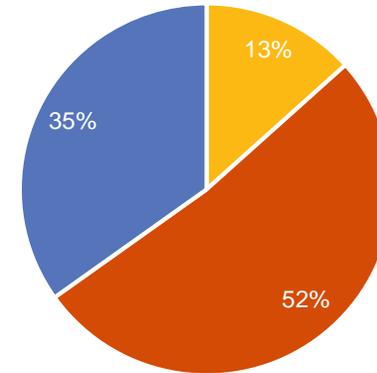
- Over 90% have used the wage subsidy scheme/restart grant
- Over 80% have used the local authority rates waiver
- Over 60% have used the deferment of VAT and PAYE

Cash Flow Pressures

Changed Banking Arrangements



How Long is your Business Funded for?



■ No cash reserves ■ Up to 3 months ■ Greater than 3 months

Creditor Days:

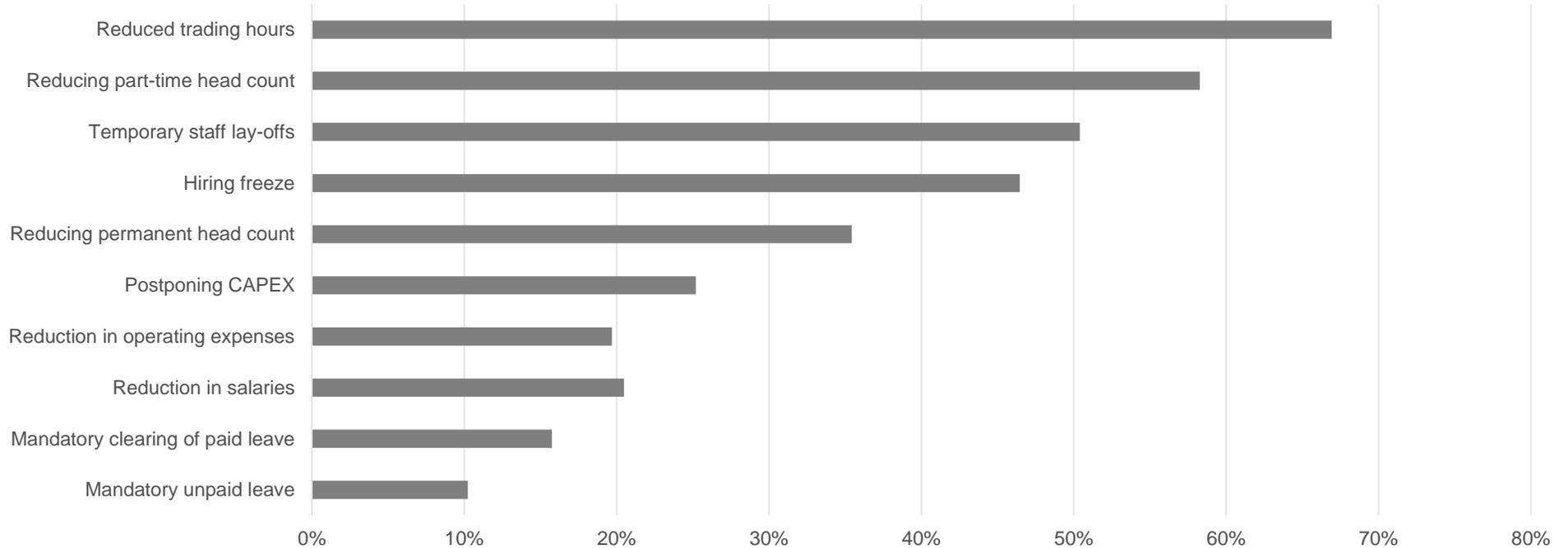
- Respondents have reported that Covid-19 has caused their creditor days to extend from 44 days to 53 days, being a 20% increase in credit days taken

Crowe Analysis:

- With 35% on full payment break and 13% on interest only, 48% of respondents could not afford to repay principal on their loans
- 25% of respondents have sought additional bank loans or overdrafts
- 65% of respondents could without additional facilities run out of cash in 3 months

Trading Through Covid-19

Cost Control Measures



Crowe Analysis:

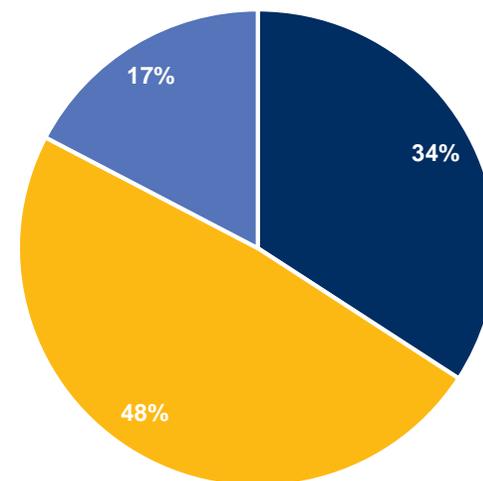
Not surprisingly, the priority area is the reduction of payroll cost through all available mechanisms

Landlord Concessions

Changes to rent

- Landlords have only provided very limited rent reduction to tenants with only 41% so far obtaining an ongoing rent reduction
- 79% of the reductions granted are for a period of just 6 months or less
- It is not surprising that where rent reductions were granted, in the majority of cases it was for over 40% of the rent
- For respondents who have not been granted a rent reduction, 68% state they will not be in a position to pay their full contracted rent
- While 59% of landlords have not reduced ongoing rents, in 23% of cases they have written off the rent for the closure period and in 29% of cases they have deferred the rent for the closure period

Percentage Rent Reduction Granted by Landlords



■ 0%-40% ■ 41%-60% ■ 61%-100%

Crowe Analysis:

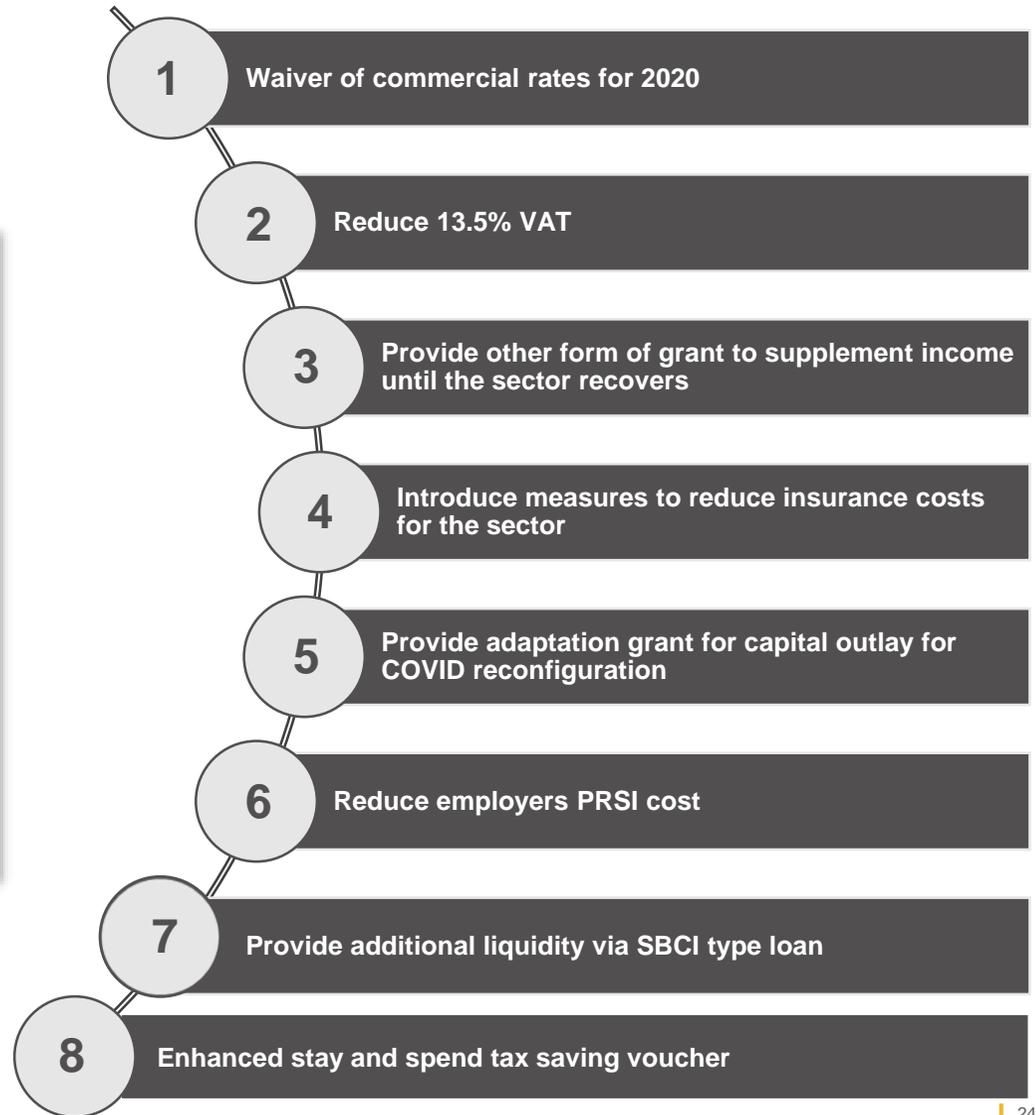
We expect to see much greater support from landlords given the revenue collapse caused by Covid for the sector. By providing certainty on reduced rent for all of 2021 it would help businesses prepare cash flows and underpin their ability to survive and continue as tenants

Respondents Preferences for Extended or Additional Government Supports

When asked to rank the importance of varying supports to the sector the following order of preference emerged:

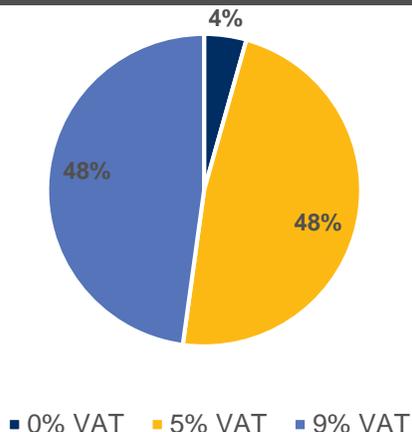
Crowe Analysis:

- Not surprisingly, the higher ranking preferences are of immediate benefit, being further commercial rates waiver period beyond 30 September 2020 and a reduction in the 13.5% VAT. These could be items delivered in Budget 2021
- We expect if we re-run the survey in Spring 2021 that an extension to EWSS would be at the top given it has been a lifeline for most businesses in recent months



Respondents Preferences for Extended or Additional Government Supports

VAT Rate Reduction



13.5% VAT Rate

- Respondents have reported that 62% of their revenues are from food sales which are subject to the current VAT rate of 13.5%

Insurance

- Respondents reported that their insurance cost is 3.4% of turnover
- 54% of respondents were forced to pay an increased premium at their last renewal
- The average premium increase was 19%

Crowe Analysis:

The 13.5% VAT rate

- Not surprisingly nearly all respondents would like to see the 13.5% vat rate be reduced
- Respondents are almost evenly split as to whether the 13.5% VAT rate should be reduced to the previous level of 9% or to a level as in place for the UK at 5%
- As it will take a number of years to recover from the economic damage caused by Covid and the collapse in international visitors, businesses will need to offer lower menu prices and deals to entice both domestic and international customers to their premises. The vat reduction would be a significant help in this regard

Insurance

- With profits decimated by Covid, businesses will not be able to sustain insurance premium increases if they continue at levels experienced in recent years
- On top of the insurance premiums businesses are also dealing with payouts for excess amounts not covered by the policy and an overhaul of the claims process, level of costs and awards is long overdue

About Crowe



About Crowe

Our Background

Established in 1941, Crowe is a leading accountancy and business advisory firm in Ireland. Throughout our 75-year history, we have developed an unrivalled understanding of the Irish business environment and built a national reputation in auditing, tax and business consultancy.

Based in Dublin, the practice has grown to 15 partners and over 140 staff, ranking in the top ten accountancy and business advisory firms in Ireland.

We provide a comprehensive service to a variety of clients, from owner-managed firms to multinational organisations and some of Ireland's leading national companies.

We are members of Crowe Global which is ranked among the top 10 global accounting networks with more than 200 independent accounting and advisory services firms in over 130 countries around the world.

We help our clients make smart decisions today that creates lasting value for tomorrow.

Smart decisions. Lasting value.



**Smart decisions.
Lasting value.**

Contact The Team

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Aiden has for the past 25 years provided consultancy across the hospitality sector competing reviews and benchmark studies for businesses and industry organisations. Aiden specialises in corporate finance and restructuring. His recent projects include refinancing, raising bank loans, business monitoring, feasibility studies, acquisitions, disposals and operator selection. Aiden is a qualified Chartered Accountant & Financial Advisor. He regularly consults with business owners/operators and financial institutions on financial restructuring, business and strategic planning and recommendations on operational efficiencies.

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