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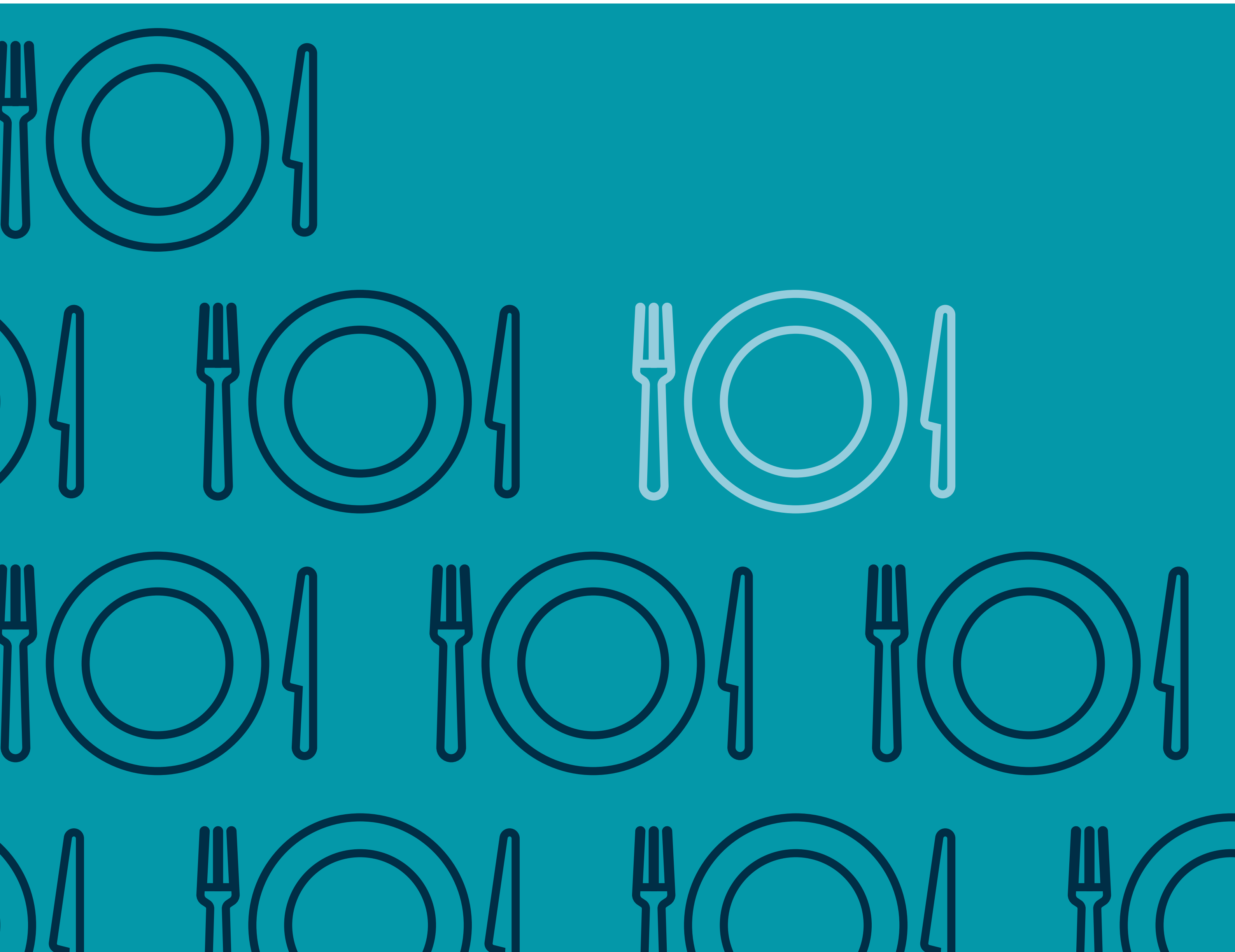
RESTAURANTS, HOSPITALITY & LEISURE | NOVEMBER 2017

Strong growth continues with M&A unlocking further value but there are cost headwinds on the horizon



At A Glance

The past 12 months have marked another positive period for the UK foodservice market. Despite continuous pressure from competition and material cost increases caused by wages, imported goods, and property costs, the leading players in the industry have increased their turnover and profits.

By Graeme Smith, Managing Director, AlixPartners

ONWARD AND UPWARD FOR THE FOODSERVICE SECTOR

This performance has been seized on by the financial markets, with the main quoted catering operators achieving share price outperformance of +16.6% compared with the adjacent market sectors of restaurants—minus 20.2% since 11 November 2016—and facilities management +3.2% (figure 1). Compared with restaurants, caterers have faced less pressure from new capacity being opened—unlike the race for space in the restaurant sector—and caterers have also not had to bear the full force of cost pressures based on the presence of cost-plus contracts in their business mix. The facilities management industry has faced greater price pressure from clients than caterers, and it has suffered from poorly priced, complex long-term contracts whose anticipated efficiencies have not been achieved. It will be interesting to see whether this outperformance can continue into 2018.

We have noted many trends in the market through 2017, which I will summarise below and explore in more detail later in this report.

LEADING WITH FOOD

Food is enjoying renewed focus from both clients and operators alike. Awareness continues to build with regard to the importance of good nutrition and the quality that can be achieved without charging premium prices. That awareness is serving to increase expectations with regard to choice, provenance, and value and is proving to be a double-edged sword for the industry because clients are expecting more from their caterers—but they also appear willing to view food differently from other types of outsourced service. We hear many reports of food being unbundled from multi-service contracts, and the criteria for selecting caterers are not only about cost of provision. The more that caterers can present their services as beneficial for employee, visitor, patient, and student well-being and satisfaction, the greater the protection that caterers have from commoditisation of their products.

PREMIUM LONDON

Battle lines have been drawn in recent years in the fight for market share in the premium London market. Whether it's through renewed focus on existing brands (Compass with Restaurant Associates) or through

FIGURE 1: RELATIVE INDEX SHARE PRICE PERFORMANCE (11 NOVEMBER 2016 TO 31 OCTOBER 2017)

Source: Capital IQ

the use of acquisitions to strengthen a position (Elior with Lexington, CH&Co with Harbour & Jones, Sodexo with Good Eating Company, or WSH with Searcy's), many of the leading industry players have redoubled their efforts in the capital. London continues to thrive as a global city and is a great showcase for both major operators and niche specialists. The next round of contract tenders will undoubtedly see tough competition for prime contracts, which can be only good for clients.

COST PRESSURES

One of the main issues that has emerged for the UK economy as a whole—but that has been especially acute in labour-intensive multi-site sectors—has been cost pressure. The pressure has been in the form of employee costs caused by the national living wage, the apprenticeship levy, cost of goods driven by the depreciation of sterling, and property costs wherein rent and rates have been stepping up. The Brexit process, too, is leaving its mark on costs, whereby sterling depreciation has not only increased the costs of goods but also imposed an effective pay cut on any foreign nationals working in the UK who are often remitting wages home in their domestic currencies. This is resulting in some workers choosing to work elsewhere or to push for higher pay to compensate. The industry is responding by passing costs on where possible to the end client or customer, by redesigning menus, improving labour efficiency, or looking to technology to replace labour. Operators that can improve productivity will in the end become best placed to succeed in this higher-cost environment.

SUCCESSFUL M&A

A steady stream of M&A has continued in the UK foodservice market. This year has seen the completions of another five material deals. Such activity demonstrates the confidence that buyers have in being able to capture the benefits of business combinations without suffering from problematic client attrition. Our experience in advising on those transactions has been that successful buyers are careful to conduct their due diligence but are also able to focus on major risk areas so that they're not just well-informed but also well-prepared to integrate the target once the deal is complete. Client engagement and messaging are vital, and we've also seen a desire to maintain the brand and the culture of the target business rather than just absorb it into the large corporate machine. The aims are very much to keep what is special about the acquired business and to enable that business to benefit from the scale, systems, and stability of the larger group.

WHITE SPACE IN THE MIDMARKET

That M&A activity has predominantly involved companies with turnovers of £20 million to £100 million. The result of that activity has been to create a larger white space in that midmarket for the next wave of successful independents to grow into (approximately £600 million of turnover has been acquired in the past 10 years). It is in that space where independents are able to invest sufficiently in systems and head office support so they can demonstrate to clients that they are credible alternatives for the larger, multi-site contracts. Once those independents reach that size, they then become attractive targets for the consolidators, and the cycle can begin again.

OUTLOOK FOR 2018

It appears likely that trading will be somewhat tougher next year. Competition in many markets will be more intense as acquisitions made in 2016 and 2017 become fully integrated and the full benefits of business combinations are achieved. Cost pressures look set to continue—making operational efficiency all the more important—and potentially favours larger operators that can use their scale to drive down costs. We may also see more operators turn to technology to reduce labour or to increase productivity. However, operators will be keeping a close eye on the impact technology has on other areas and on whether delivery apps such as Deliveroo or UberEATS catch on in the workplace in the same way they have in the home. Leading foodservice operators are used to such pressures, and we would expect them to adapt to these challenges and continue to thrive.

Graeme Smith is a Managing Director in the Corporate Finance practice at AlixPartners. He has more than 15 years' experience in advising corporate and private-equity clients on M&A, fund raising, and strategy, with a specific focus on the hospitality and leisure industries.

Talking to industry operators, one of the ongoing debates remains the business model for the sector and whether there is a need to see change that will enable companies to generate greater profit margins. It is an interesting debate, as the research will note that underlying margins have improved since the launch of the report in 2014. If this is the case, then why the debate?

By Chris Sheppardson, Managing Director, EP Business in Hospitality

CHALLENGES ON THE MARGIN

The counterargument is that the cost of doing business continues to expand, with increased regulation and increased client expectation—so much so that it is creating a very challenging environment for foodservice players. This fact does not need further debate, but there is no doubt that the landscape is changing and expectations are increasing.

WHY?

- There is a renewed focus on well-being and employee welfare. It is recognised that the daily work environment has become relentless, intense, and, arguably, too stress filled: 1 in 10 are today reported to be suffering from a level of depression; 1 in 4, with a form of stress or mental illness. The best and most accessible route to relieving stress within the workplace? Food and the restaurant. Food, arguably, is playing a more central and important role in both work culture and daily life than ever before.
- Restaurants are becoming social hubs which become central to the daily working pattern.
- Nutrition and health is now a central force within most F&B strategies across all markets.
- The industry is becoming challenged by new players and forces all the time. Some clients are seeking to reclaim kitchen space whilst maintaining a leading offer. Delivered-in models are becoming an increasingly competitive force all the time.
- Clients are seeking greater and greater innovation—especially within technology. Every company today almost needs to have its own innovation strategy and team to remain competitive and "on-trend."
- Sustainability is core.
- The rise of the 'gig' economy (an environment in which temporary positions are common and organisations contract with independent workers for short-term engagements) is creating change, and the lack of new leadership talent is becoming a concern.
- Brexit and the challenges that this will bring.
- Increased regulation on recruitment and HR.

Pressure is building, and margins, by consequence, are under increased pressure.

The debate does come down to: What is a fair profit margin for the sector? There are many that operate at relatively low margins of 3 to 4%, which would have many in other industries shaking with horror. The debate over procurement and purchasing is still ever present, and procurement, arguably, is the process that allows many contractors to earn a fair margin for their work.

The debate will no doubt continue, but it is a testament to the leading operators as to how they constantly adapt and change with these ever-increasing demands. It may not be perfect and it has its challenges, but this is an industry that consistently demonstrates great character and fortitude during testing periods of time.

Many ask what will be the greatest threat that lies ahead. The most common answer is Brexit and the need for talent, but the industry will find new solutions and new answers—as it always does. Foodservice will adapt to the challenge.

Chris Sheppardson is Managing Director of EP Business in Hospitality, a magazine launched in 2005 to provide a communications source for leaders in the industry. His vision was inspired by the desire to look at the real people and characters who make up the industry and to provide constructive debate on issues which affect the industry at many levels.

Industry and investor insight

By Martin Boden, Managing Director, Sodexo Corporate Services – UK

A GLOBAL OPERATORS' VIEWPOINT: ENHANCING THE EXPERIENCE—FOODSERVICE IN 2017

We as foodservice providers have a big part to play today in helping create a workplace that inspires, engages, and, ultimately, improves productivity. By working in partnership with clients, we can help them enhance the performance of their businesses by forging communities in which their employees can thrive.

As we all know, the health and well-being of our employees is crucial to the success of businesses whatever the industry. For many employers looking at the workplace and how it can improve the quality of life of their employees, food is a major element of this.

But market demand and the way people interact with food are evolving. New disruptors and changing lifestyle trends mean that workplace food offers must not only compete; they must also differentiate in some way to provide a genuine hook for consumers to keep on coming back. This is made all the more difficult by increasing corporate real estate costs leading to greater pressures on space.

It's not just the workplace that's changing; the way we work is, too. More flexible work patterns require foodservice providers to think differently about how and when they should engage with consumers.

At Sodexo, it is our challenge to understand these trends and create different workplace and food offers that customers value. Even for a company such as ours—with a long-established heritage in culinary excellence—there is always the drive to continuously improve, and we have been working hard to do this by reinforcing our global food offer.

Central to this is London. London remains one of the most competitive and dynamic markets for food globally. We recognise that for some clients, our credentials as a large, global integrated facilities management organisation are not what they are looking for, but for others, they will be. Having recognised this, we looked to see what we could do to broaden our scope, and in September this year, we welcomed The Good Eating Company into the Sodexo family. The Good Eating Company has 19 years' experience of delivering a bespoke offer with fantastic artisan food, and this unique, food-only offer is exactly what some clients and prospects are looking for. We are delighted that they have joined us and look forward to working with them to grow our presence in the metropolitan corporate market.

> "It's not just the workplace that's changing; the way we work is, too.
>
> – MARTIN BODEN

The Good Eating Company is a great addition, but we continue to build our expertise both internally and externally. In 2015, Sodexo created a global food platform to drive craft excellence, knowledge sharing, and consistency across all of our operations. Last year, Sodexo UK & Ireland welcomed Peyton and Byrne to its business, acquiring the retail contracts for such venues as the Royal Academy of Arts and the National Gallery.

Our conversations often focus on how we can improve the workplace experience; clients want space for people to not only relax and eat their meals but one that encourages social interaction and collaboration. In light of this, we recently launched a new global food offer for workplaces in large urban areas, which focusses on wellness, nutrition and productivity.

Food is all about experiences, and when agile space, excellent product and exceptional service are all combined and executed effectively the experience is enhanced, creating a proposition that exceeds what the high street can offer.

We recognise there is more to be done as the changing nature of office work affects the needs of employees in the workplace, but Sodexo is relishing the challenge.

Martin Boden is Managing Director of Sodexo Corporate Services–UK, and has more than nine years of operational leadership experience in facilities management and workplace services.

Prior to that, Martin spent six years at Shell in a range of service and consulting roles. He joined Sodexo in July 2012 as Global Account Director for the AstraZeneca contract which covered more than 20 locations in nine countries.

In his current role, Martin is responsible for the Sodexo Corporate Services segment in the UK. This includes all Operations, Business Development and Health and Safety within the segment. In addition to operational responsibilities, Martin has led consumer research into some of the biggest challenges facing productivity and the work environment amongst UK knowledge workers. He is passionate about the role of great food and the workplace experience, and is committed to creating compelling workplace solutions that improve quality of life for our clients, consumers and the broader industry.

Kevin Watson, Managing Director, Amadeus

AN INDEPENDENT OPERATORS' VIEWPOINT: THE SPECIAL INGREDIENT

Amadeus has been on quite a journey over the last five years, from the well-reported problems that we faced at the 2012 London Olympics to today, with Amadeus becoming recognised as not just a foodservice player in our own right but, arguably, one that is a true competitive force. In September, we were recognised as the Caterer of the Year at the Sport and Leisure Catering Awards, while in July, I was honoured to be nominated for a Catey following on from award of Retail and Leisure Caterer of the year at the Foodservice Cateys back in October 2016. We have now won over 670 industry awards in our 42-year history.

Today we possess a rich legacy which should allow us to continue to build our business to new levels. This year, turnover will approach £50 million and next year we forecast further growth in the region of 15%, putting us very much in the top quartile of the UK's independent sector by scale. At the same time, we have grown profit by 27% on a compound basis since 2013, demonstrating the strength of the organisation which is a reflection of all the hard work our team has put into the business over the last few years.

It is sometimes argued foodservice is not the most complicated of industries. That is perhaps true, but neither is it simple. There will be many that agree that the model is difficult. The cost of business is increasing with each year, the margins are under pressure, and expectations on food quality are rising.

> "This year turnover will approach £50 million... putting us very much in the top quartile of the UK's independent sector by scale.
>
> – KEVIN WATSON

As a result, foodservice businesses have become process and procurement heavy, but the truth is that foodservice is all about people. It always has been and always will be. One has only to look at the great success stories over the years—from Gardner Merchant under Sir Garry Hawkes to Compass under Sir Francis Mackay, to the achievements of Alastair Storey with WSH Group, to Bill Toner's work in creating a business that generates close to £300 million of revenue in six years. I am sure all will say the same: that they are surrounded by a talented group of quality people.

Amadeus delivers strong results to our shareholders, but the real success since the low of the London Olympics has been to build a strong team that not only delivers results and growth but has allowed our chefs to take a step forward, be creative and recognised. Just as Amadeus was recognised as Caterer of the Year at the Sport and Leisure Awards, so was one of our chefs, Neil Ashton, who was recognised as Chef of the Year for the sector.

I am not trying to boast about our achievements, although I am naturally proud at how we have turned the perception of Amadeus around over the last five years. My real point is, success in foodservice is challenging and does rely on having able and strong teams. The business is people led. As an industry, there is much spoken about procurement, brands, systems, and technology. All of this is important, but nothing is more important than our teams: people that care about the customer, are passionate about food, work as a team, and work long, hard hours to ensure success.

If one looks around our team, we have some genuine talent in a range of disciplines: not just culinary but operations, marketing, sales, and finance. The challenge is always to build strong cultures that allow the talent to thrive.

Foodservice is not always seen as a complex industry, but those with such views do not understand all the ingredients required for success.

670

Industry awards in our 42 year history

Kevin Watson is Managing Director of Amadeus, the award-winning and established conference, banqueting, event and hospitality caterer.

Over the last five years, Kevin has made Amadeus one of today's fastest growing venue and event caterers in the UK. Since becoming Managing Director in 2012, he has succeeded in doubling Amadeus' profit, vastly expanding its catering portfolio, while the business has won numerous awards for quality and innovation in catering.

Before joining Amadeus, Kevin had over 20 years' experience in retail catering, including high street retail, contract catering and brand building with businesses including The Natural Retail Company, AEG and Compass Group plc.

Amadeus has more than 40 years' experience delivering catering solutions to around four million visitors at over 750 events annually at the NEC Group's world class venues (the National Exhibition Centre, International Convention Centre, The Vox Conference Centre, Genting Arena and Arena Birmingham), as well as regional venues and events. With more than 1,500 staff, the Amadeus team service more than 1.8 million covers every year and has won more than 650 awards for quality and innovation in catering.

Matthew Tunna, Investment Team, Livingbridge

AN INVESTORS' VIEWPOINT: MANAGING COMPLEXITY WITH CREATIVITY AND FLAIR

Established in 1996, *rhubarb* is a premium hospitality group specialising in luxury event catering, iconic restaurant dining, and venue hospitality. *rhubarb's* destinations include the Sky Garden at the "Walkie Talkie" building in London, the Royal Albert Hall, and events at the Goodwood Estate. *rhubarb* also provides bespoke catering for over 600 events per year.

In December 2016 Livingbridge invested in a secondary buyout, backing *rhubarb's* CEO, P.B. Jacobse, his experienced management team, and their ambitious plans for growth.

Although *rhubarb's* heritage lies in events, since 2003 the business has transitioned towards longer-term contracts, taking advantage of rising consumer expectations and ongoing trends towards higher-quality food and beverage. A premium offering, along with an ability to manage complexity and create bespoke concepts that meet the needs of a situation or location, have enabled the business to win a number of key contracts over recent years, including Pilots at Terminal 5 (2014), Sky Garden (2015), and Goodwood (2016). Longer-term contracts have resulted in a more predictable revenue base in the business, which provides a steady platform well positioned for future growth.

Whilst market trends continue to support the role of a premium operator, this continues to be a highly competitive space. Relative to large and small competitors, midsize providers such as *rhubarb* have the advantage of scale, creativity, and flexibility. This has allowed *rhubarb* to effectively roll out its proposition across a wide range of location types at various price points targeting a diverse customer base. The open-minded approach of the team along with an ability to tailor an offering to a location provides *rhubarb* with multiple expansion options for the future.

It's not, however, all plain sailing: the market continues to face pressures from rising wages as the national living wage steps up and increased food costs as a result of a weak pound. Furthermore, the unknown impact of Brexit on the size of the labour pool may create difficulties in the market and add to the current shortage of trained chefs in the industry.

Despite such challenges, *rhubarb's* future growth plans remain ambitious and the team is looking to capitalise on a proven track record of operationalising complex, high-quality contracts. Moving forward, *rhubarb* anticipates a doubling of site numbers, and plans to internationalise the business are high on the agenda. In addition, Livingbridge is supporting the team to increase brand awareness of its premium quality proposition as it establishes itself as the preeminent operator within the industry.

Matthew Tunna is an Associate Director at Livingbridge, an independent specialist asset management firm with over 80 people in the UK and Australia and over £1 billion to invest in fast-growing small and medium-size enterprises over the next five years. Livingbridge invests between £2 million and £70 million and has invested in over 100 fast-growing businesses over the past 20 years, with *rhubarb* being Livingbridge's third in the food and drink sector having invested in Pho, the Vietnamese fast-casual restaurant in 2012, and Bistrot Pierre, the regional French bistrot group in 2015. Livingbridge's track record and knowledge of the hospitality industry means it understands the challenges operators can face when expanding their estate, together with the opportunities that come with growth.

Disclaimer

The opinions expressed are those of the authors and do not necessarily reflect the views of Livingbridge, its affiliates, or any of its or their respective other professionals or clients.

> "Whilst market trends continue to support the role of a premium operator, this continues to be a highly competitive space.
>
> – MATTHEW TUNNA

Methodology

> Companies that have grown through acquisition qualified for inclusion.

PROFIT MEASURE

In the *AlixPartners Foodservice Growth Report*, the term *profit* is defined as earnings before interest, taxes, depreciation, amortisation, and exceptional items, with directors' remuneration added back to account for differences in the means by which entrepreneurs extract cash from private companies. We therefore remove that variable to avoid any potential distortion.

TIME FRAME

Profit growth is measured by compound annual growth rate over three years, based on statutory accounts. The analysis has a cut-off date for account filings available at Companies House on 30 September 2017. Companies that have filed their 2017 accounts will have profit measured from 2015 to 2017; companies that have not yet filed 2016 accounts will have profit growth measured for the same length of time from their most-recently-filed accounts, which report 12 months of trading.

QUALIFYING COMPANIES

Qualifying companies must have turnovers of at least £8 million in their latest accounts and must have profits of at least £250,000. They also must have been profitable in all three years and have achieved profit growth in their latest financial year.

Businesses must be UK registered, independent, and unquoted. UK subsidiaries of European businesses are included in the analysis. However, only their performance in the UK was considered. Companies that have grown through acquisition qualified for inclusion. We excluded companies with turnovers of more than £1 billion. Companies focusing primarily on facilities management services were also excluded, but catering subsidiaries, when reported separately, qualified for inclusion. Traditional catering companies expanding into facilities management services were also included.

Top 20 list

Rank 2017	Change since 2016	Company	Turnover (£m)[1]	Profit (£m)[1]	Profit CAGR (%)
1	New	Innovate	17.7	1.3	125.8
2	▲7	*rhubarb*	63.3	6.8	83.2
3	▲16	CH&Co	191.2	8.9	65.4
4	Non-mover	Cucina	12.5	0.9	42.0
5	▲11	Harbour & Jones	55.1	4.2	30.8
6	▲7	Dine Contract Catering	30.8	2.5	30.6
7	New	Accent Catering	12.3	1.0	28.9
8	Non-mover	Entier	44.9	2.7	27.3
9	▲21	Bartlett Mitchell	35.1	0.8	25.8
10	Non-mover	Olive Catering Services	25.7	2.1	25.7
11	▲11	Unique Catering	10.8	0.8	24.5
12	▲5	Wilson Vale	25.1	2.6	18.3
13	▲5	Pabulum	24.5	1.4	15.5
14	▲7	ABM Catering	24.4	1.6	13.2
15	▲16	Thomas Franks	24.6	1.2	13.1
16	▲4	Westbury Street Holdings	731.5	63.0	13.0
17	New	Graysons	24.4	0.7	12.5
18	Non-mover	Blue Apple Contract Catering	11.1	0.7	12.0
19	▼13	Eventist Group	15.1	1.5	11.9
20	▲15	The Good Eating Company	15.9	0.9	9.7

Key: CAGR = compound annual growth rate
Source: Company statutory accounts

[1] Most-recent-filed accounts reporting 12 months comparable trading.

Top 20 company profiles

1 INNOVATE

Latest turnover:	**£17.7 million**
Profit CAGR:	**125.8%**
Key personnel:	**Geoff Peppiatt, Nonexec CEO; Ken Navin, Managing Director; Michelle Callcut, Finance Director**
Backer:	**Privately funded**
2016 ranking:	**New**

Education catering specialist Innovate made a bold statement in 2016. It catapulted itself to the top of our index, reporting more than 100% compound profit growth in the past three years after completing a strategic review in 2015 and refocusing its operations to deliver both high-quality food and service. Combined with a streamlined cost base, the business has reaped the rewards, with £1.3 million of profit in its latest set of accounts, delivering an impressive margin of 7.6%.

Led by CEO Geoff Peppiatt and Managing Director Ken Navin, the business, which was founded in 2007, focuses exclusively on the education sector, with more than 100 schools and canteens served across primary, secondary, and sixth form. At the primary level, service is delivered to clients with and without kitchen facilities, and the business offers both cashless and preordering systems to simplify parents' lives but to ensure that children receive fresh and healthy produce.

Based in West Byfleet, Surrey, the business was awarded the coveted EDUcatering Contract Caterer of the Year in 2012, covering a variety of schools nationwide—from Lincolnshire to Devon—and also serving several clients in Surrey. With a streamlined operation and a strong focus on customer service, Innovate appears to be well-placed to expand its education footprint in 2017 and beyond.

2 RHUBARB

Latest turnover:	**£63.3 million**
Profit CAGR:	**83.2%**
Key personnel:	**P. B. Jacobse, Managing Director**
Backer:	**Livingbridge**
2016 ranking:	**9**

During a period in which the business completed a secondary buyout in November 2016, premium events and restaurant operator *rhubarb* made a significant step forward in our index this year following a sizable profit contribution from the new contract opened at the Goodwood Estate, which was taken over in March 2016.

The business, still led by Managing Director P.B. Jacobse, who was appointed in 2005, continues to set the standard for premium event and venue catering at prestigious locations, including the Royal Albert Hall, the London Eye, and the Saatchi Gallery, delivering 83.2% compound profit growth in the past three years.

Having diversified into the operation of lease and concession contracts—most notably, Sky Garden at the "Walkie Talkie" building in 2015—*rhubarb* plans to open a further site at the recently refurbished Centre Point site on Tottenham Court Road in early 2018, thereby augmenting an already impressive portfolio that also includes airport lounges at Heathrow and London City Airport.

The business has not forgotten its past and still provides bespoke catering solutions at around 600 events per year for a broad range of clients, from high-profile charity galas for 2,000 guests to small, intimate dinners in country venues. With a defining focus on creative food presentation and diverse menus, the business delivered an impressive 10.8% margin in 2016, having broken through the £60 million turnover barrier. 2017 is expected to be another exciting year.

3 CH&CO

Latest turnover:	**£191.2 million**
Profit CAGR:	**65.4%**
Key personnel:	**Tim Jones, Chairman; Bill Toner, CEO; Madeleine Musselwhite, CFO; Terry Waldron, Group Relationships Director**
Backer:	**MML Capital Partners (minority investor)**
2016 ranking:	**19**

It has been another year of strong performance from the industry's second-largest independent player. CH&Co delivered 8.7% turnover growth, following its merger with the Brookwood Partnership in July 2016. Having increased margins from 2.8 to 4.6% in the past three years, the business has demonstrated the value that can be created from M&A-driven consolidation following its merger with the HCM Group in June 2015.

Led by CEO Bill Toner and supported by Chairman Tim Jones and minority equity investor MML Capital, the business continues to expand and is expected to deliver pro forma annual revenues of more than £265 million in 2017 following its recent merger with Harbour & Jones. This has created one of the preeminent catering operators in Central London, supplementing the well-respected Ampersand brand and further augmenting state education services through the integration of Principals.

The stand-alone business already reported a strong start to 2017, with more than £58 million of new and retained business in the first six months from more than 20 new clients such as Farnborough Business Park, Coleg Gwent, Arqiva, Pall Europe, St Giles Hospice, Healthcare at Home, and Neilsen. As a result, CH&Co is expected to continue its strong growth trajectory next year, with the addition of significant sales talent and the benefit of further merger synergies.

4 CUCINA

Latest turnover:	**£12.5 million**
Profit CAGR:	**42.0%**
Key personnel:	**Steve Quinn, CEO; Stuart Lenton, Managing Director**
Backer:	**Privately funded**
2016 ranking:	**4**

Cucina brings restaurant-quality food to secondary school education and business organisations across the UK. Rather than operating canteens, food halls, or cafeterias, Cucina's outlets are all full-scale restaurants with trained chefs cooking from scratch and using local and fresh ingredients where possible.

Cucina's online cookbook is an ever-growing collection of original recipes created by Cucina's own award-winning team. In association with the School Food Trust, the Food for Life Partnership, and other organisations, Cucina strives to promote higher standards of food in education.

Having entered our index last year, the business reported another healthy set of results in the most recent financial year, with 14.9% turnover growth and £0.9 million of profit delivered at a 7.1% margin. It will be looking to deliver more of the same in 2017.

5 HARBOUR & JONES

Latest turnover:	**£55.1 million**
Profit CAGR:	**30.8%**
Key personnel:	**Patrick Harbour and Nathan Jones, Co–Managing Directors; Nick Thomas, Finance Director**
Backer:	**CH&Co and MML Capital Partners**
2016 ranking:	**16**

The past 12 months proved a game changer for Harbour & Jones following the acquisition of Principals Catering Consultants at the end of 2015, which contributed to an impressive, 48.7% growth in turnover in 2016. The business is one of only three operators to have placed in each edition of our report in the past five years, demonstrating the group's genuine strength during that time.

Adding a collection of traditional Central London venues such as the Honourable Artillery Company to an existing portfolio of venues—including the Royal Society of the Arts and RIBA and having substantially expanded the Principals schools contract portfolio following the acquisition—Harbour & Jones grew profit by some 22.6% in the past financial year, supported also by substantial operating and purchasing synergies.

Having diversified the business and expanded growth horizons in 2016, the business caught the eye of external investors, resulting in a merger with CH&Co in June 2017. Together the businesses boast the most attractive portfolio of city venues in the industry and a strong list of legal, insurance, and financial services clients. As a result, the combined group will be well-placed to strengthen its position as one of the UK's leading independent operators in 2018 and beyond.

6 DINE CONTRACT CATERING

Latest turnover:	**£30.8 million**
Profit CAGR:	**30.6%**
Key personnel:	**Jim Cartwright, Chairman and Cofounder; Ian Cartwright, Managing Director and Cofounder**
Backer:	**Privately funded**
2016 ranking:	**13**

Continued service excellence, investment in staff, and greater financial control again represented a recipe for success at Dine Contract Catering in 2016. The Warrington-based caterer increased profits by 5.9% to reach £2.5 million from more than 200 contracts in the business and industry, education, and care sectors. Dine remains a family-owned business run by father and son team Jim and Ian Cartwright.

Despite entering the care sector only two years ago, Dine was awarded first place in the Supplier Category for Best Food and Catering at the Care Home Awards in May 2017. The business has long focused on the importance of providing nutritious and healthy food for customers and is a great supporter of the government's antiobesity and sugar reduction campaigns.

With a strong apprenticeship programme and annual participation in the Duke of Edinburgh awards, it is clear to see why Dine was also awarded the Silver accreditation in the Investors in People Standard in January 2017. In 2016, Dine reached a milestone of its 100th apprenticeship and was invited to participate in a pilot group to test the new Digital Apprenticeship Service as part of the government's introduction of the new Apprenticeship Levy.

7 ACCENT CATERING

Latest turnover:	**£12.3 million**
Profit CAGR:	**28.9%**
Key personnel:	**Ian Crabtree, Managing Director; Derek Warman, Finance and IT Director; Clare Piggott, Client Services Director**
Backer:	**Privately funded**
2016 ranking:	**23**

Achieving an impressive, 28.9% growth in profit in the past three years, education and business and industry caterer Accent Catering climbs 16 places as a new entrant in this year's index. Alongside his wife, Clare, and business partner, Derek Warman, the late Gordon Haggarty established Accent in 2002 following his role as Commercial Director and part owner of Capital Catering Management Services. Following Gordon's battle with illness, Accent appointed Ian Crabtree as Managing Director in 2014.

In June 2017, Accent was awarded a three-year £1.8-million contract with the FitzWimarc School in Essex, with the possibility to extend for a further two years. Representing a school with nearly 1,600 students and more than 200 teaching and support staff, this deal highlighted Accent's ability to serve large, stand-alone contracts on an independent basis.

With a focus on healthy eating and in line with its accreditations, Accent introduced reduced-sugar meals across all of its menus in 2017, and the business already exceeds all recommendations of the national school food standards. New menus reflect its commitment to promoting healthy eating habits, which the business expects will continue to resonate with parents and employees in the coming years.

8 ENTIER

Latest turnover:	**£44.9 million**
Profit CAGR:	**27.3%**
Key personnel:	**Peter Bruce, CEO; Scott Campbell, Finance Director**
Backer:	**Business Growth Fund (minority investor)**
2016 ranking:	**8**

Despite wider travails in the oil and gas sector, offshore catering specialist Entier, Scotland's largest independent privately owned catering company, continued to deliver last year, with 13.1% growth in turnover and 36.5% growth in profit. Infrastructure investment to support food distribution and the launch of a retail grab-and-go concept called Fresh, designed specifically for the workplace, was instrumental in that expansion.

Having reported 27.3% profit growth in the past three years and despite challenging end markets, Entier attracted the external investment community in 2017, securing £6.5 million of funding from the Business Growth Fund. The investment will facilitate plans to expand overseas operations, building on an existing network of 38 remote locations in 23 countries.

Having also acquired Perthshire-based catering firm Wilde Thyme in late 2016, which runs the restaurants at Glamis Castle in Angus and the Glenturret Distillery in Perthshire, home of the Famous Grouse whiskey brand, Entier, which continues to be led by CEO Peter Bruce, appears well-placed to drive further growth in 2017 and beyond.

9 BARTLETT MITCHELL

Latest turnover:	**£35.1 million**
Profit CAGR:	**25.8%**
Key personnel:	**Wendy Bartlett, Executive Chairman and Cofounder; Ian Mitchell, Cofounder; Ian Thomas, CEO; Francois Gautreaux, Operational Managing Director**
Backer:	**Privately funded**
2016 ranking:	**30**

Reentering this year's index, Bartlett Mitchell achieved substantial profit growth of 35.7% in the past financial year. The London and South East based caterer, which invested heavily in people and infrastructure in recent years and now employs more than 750 staff, was awarded a Gold accreditation in the Investors in People Standard in 2016.

Bartlett Mitchell was founded in 2000 by Wendy Bartlett and Ian Mitchell and now operates at more than 90 locations around the UK, generating more than £35 million in annual revenue. In early 2017, bartlett mitchell was awarded contracts with Fidelity International and Rabobank in London, with a combined value of £7 million in total annual turnover. The business delivered a profit of £0.8 million in its most recent set of results, contributing to an impressive, 25.8% profit CAGR in the past three years.

To capitalise on wider food trends, bartlett mitchell recently launched BM Inc., an initiative that will enable selected entrepreneurial suppliers to present their innovative products at Bartlett Mitchell sites. Such focus on innovation represents part of the company's commitment to entrepreneurs in the broader foodservice community and an attempt to offer customers a point of difference.

10 OLIVE CATERING SERVICES

Latest turnover:	**£25.7 million**
Profit CAGR:	**25.7%**
Key personnel:	**Sally-Ann Bradley, Director and Cofounder; Damon Brown, Director and Cofounder; Andrew Norrie, Finance Director and Cofounder**
Backer:	**Privately funded**
2016 ranking:	**10**

Business and industry and independent schools specialist, Olive Catering Services, retained its position in this year's index—breaking through the £25-million turnover barrier and generating £2.1 million of profit, representing compound profit growth of 25.7% in the past three years.

Led by Sally-Ann Bradley and Damon Brown (who previously worked together at Catering Alliance) and Andrew Norrie (ex PwC), Olive retains a minimum of 25% of profit generated each year to reinvest in the business, thereby ensuring that both clients and staff benefit from a first-class platform and market-leading service.

The business continued where it left off in 2016, with a clutch of new contracts, including Sony PlayStation, Danone, Ted Baker, and Suzuki, which were announced in early 2017 and bolstered an already extensive list of clients such as Vitality, its first London restaurant. Having enhanced operating margins for an incredible fifth year in a row, Olive looks set to continue its growth story in 2017, supported by its unique reinvestment model.

11 UNIQUE CATERING

Latest turnover:	**£10.8 million**
Profit CAGR:	**24.5%**
Key personnel:	**Dave Needham, Managing Director; Paul Knappett, Finance Director; Ian Thornewill, Operations Director; Mike Ham, Sales Director**
Backer:	**Privately funded**
2016 ranking:	**22**

Climbing 11 places in this year's index and returning to the top 20 after a three-year absence, Midlands-based staff dining and hospitality specialist Unique Catering posted an impressive, 47.0% profit growth in 2016 and 24.5% over the past three years.

The business, led by former Summit Catering Operations Director Dave Needham, provides quality catering management services for small and medium-sized enterprises operating in the retail, commercial, industrial, and government sectors.

From humble but entrepreneurial beginnings, the company has amassed a portfolio of multi-site contracts for various blue-chip clients such as Iveco, Lever Fabergé, and the Samworth Group. Having broken through the £10 million revenue barrier in 2015 and achieved a further 5.5% growth last year, the business reported an impressive, £0.8 million of profit at a margin of 7.4%, highlighting the strength of the Unique platform.

12 WILSON VALE

Latest turnover:	**£25.1 million**
Profit CAGR:	**18.3%**
Key personnel:	**Andrew Wilson and Carolyne Vale, Cofounders and Joint Managing Directors**
Backer:	**Privately funded**
2016 ranking:	**17**

Breaking through the £25 million revenue mark for the first time in 2016, Wilson Vale experienced another fantastic year, adding two significant conference venue contracts to its ever-expanding portfolio. The Midlands-based business and industry and private-education caterer grew annual revenue by 14.8% from the previous year and returned a profit of £2.6 million, having commenced operations at Conference Aston in Birmingham in August 2016, the single-largest contract in its 14-year history.

The business now employs more than 720 staff, operating sites across the length and breadth of the UK, and the business continues to grow. Earlier this year, Wilson Vale extended its catering contract with the InterContinental Hotels Group's Denham headquarters. In August, the business also secured an additional contract at New Day, operating a café service at the King's Cross location on top of its existing call centre catering contract in Leeds, held since 2014.

Wilson Vale is one of only three operators to place in each edition of our report. With the full-year impact of the Conference Aston contract set to contribute further in 2017 alongside recent contract extensions, it is well positioned to strengthen its position in the UK independent foodservice industry for yet another year.

13 PABULUM

Latest turnover:	**£24.5 million**
Profit CAGR:	**15.5%**
Key personnel:	**Deborah Harvey, Chairman; Nelson Williams, Managing Director**
Backer:	**Privately funded**
2016 ranking:	**15**

Climbing two places in the index this year, Pabulum grew annual revenue by 5.7% in the past financial year to £24.5 million, which included the full-year impact of new business wins amounting to £2.8 million and strong contract retention. The Hampshire-based education caterer was also awarded the Foodservice Cateys' Education Caterer of the Year 2016 for the exceptional performance of more than 900 staff across the business' 140 schools, colleges, and academies.

With its focus on locally sourced, fresh ingredients, Pabulum has proven a standout operator in education catering. Continued success saw the business open 11 new sites in April 2016—at the end of its financial year—and also win two new contracts for a collection of schools and academies in Kent that have a combined value of more than £4 million. Pabulum, which recently implemented a new school-specific app across 20 of its schools, continues to demonstrate the innovation and quality of service required to prosper in the foodservice sector.

14 ABM CATERING

Latest turnover:	**£24.4 million**
Profit CAGR:	**13.2%**
Key personnel:	**Sue Johnson, Managing Director; Neil Floyd, Group Finance Director**
Backer:	**Privately funded**
2016 ranking:	**21**

Founded in 1994, ABM Catering Solutions provides contract catering for the business and industry, stadium, education, and healthcare sectors, employing more than 900 staff at its sites across the UK.

In 2016, the business grew annual revenue by 7.0% to £24.4 million on the back of significant contract wins in the first three months of the reporting period, and by absorbing business and industry and healthcare contracts as part of its trade and assets purchase of Talkington Bates Midlands in April 2016.

Led by Sue Johnson, ABM operates with a clear focus on corporate responsibility and environmental sustainability, leveraging 30 years of experience in the hospitality and stadia industries. The business has provided catering services for major shareholder Peter Coates' Stoke City Football Club for the past five years, having ousted former operator Lindley in 2012. The business will be looking to cement its position in the independent sector and looks well-placed to break through the £30 million turnover barrier in the next few years.

15 THOMAS FRANKS

Latest turnover:	**£24.6 million**
Profit CAGR:	**13.1%**
Key personnel:	**Frank Bothwell, Managing Director; Lorraine Wilson, Finance Director**
Backer:	**Privately funded**
2016 ranking:	**31**

Passing the £1 million profit milestone this year, Thomas Franks returns to the index, reporting a profit CAGR of 13.1%. The Oxfordshire-based contract caterer, which serves clients in business and industry, independent schools, and fine-dining events, was founded in 2005 by Tom Barrett and Frank Bothwell, who had previously worked together at Avenance (now part of the Elior Group). In February this year, the business announced the appointment of Philippa Cresswell as Managing Director, who will be tasked with developing a strategy for the future of Thomas Franks by incorporating her passion for innovation and progressive concepts.

Thomas Franks continued to add to its portfolio this year, having won a range of independent schools from across the UK, with Bristol's Queen Elizabeth's Hospital, Dulwich Prep London, and Ackworth School in Yorkshire joining the fold. In addition, the business won the catering services contract with the London office of Liberum, a fast-growing brokerage firm. With future ambitions to reach £50 million of annual turnover, the business has continued to invest in people and back-office infrastructure and appears well-positioned to achieve its aims in the next five years.

16 WESTBURY STREET HOLDINGS

Latest turnover:	**£731.5 million**
Profit CAGR:	**13.0%**
Key personnel:	**Alastair Storey, Chairman; Noel Mahony, CEO; Marc Bradley, CFO; Simon Esner, Sales Director**
Backer:	**Intermediate Capital Group (minority investor)**
2016 ranking:	**20**

The independent sector's leading light, Westbury Street Holdings, continues to set the standard for UK foodservice, placing in our index for the fifth year running. This remains an incredible feat given that the business has now reached more than £730 million of annual revenue—and 10.9% of its growth driven organically in the past financial year.

The group continues to spread its wings into the wider hospitality space, having developed the Michelin star Woodspeen restaurant in Newbury in 2015, partnered with Mark Hix to acquire the HIX Restaurants business in 2016, and more recently opened Mere, in partnership with Monica and David Galetti, in March 2017. At the same time, the Benugo brand continues to build its presence on the high street through shops, restaurants, public spaces, and visitor attractions.

Chairman Alastair Storey, who was awarded an OBE in the Queen's birthday honours in April, will be looking to continue WSH's charge towards the UK's largest public operators in the next 12 months.

17 GRAYSONS

Latest turnover:	**£24.4 million**
Profit CAGR:	**12.5%**
Key personnel:	**Sir Francis Mackay, Chairman; Tim O'Neill, Managing Director; Barnaby Watson, Finance Director; Ian Daly, Director**
Backer:	**Privately funded**
2016 ranking:	**39**

Graysons enters the index for the first time this year following a period of internal restructuring and consolidation—namely disposing of the Tony Roma and Fulton's brands and exiting loss-making contracts over the past 12 months.

Led by ex-Compass CEO and industry veteran Sir Francis MacKay and Managing Director Tim O'Neill, the business operates at more than 30 sites across London and the South of England, via Graysons Restaurants (business and industry staff restaurants, cafés, and corporate hospitality suites), Graysons Venues (conference and event venue catering), and By Word of Mouth (party design and event catering).

Supported by annual revenue growth of 14.5% in the past financial year, the business reported £0.7 million of profit, and the platform was further strengthened by the appointment of industry stalwart Ian Daly as a Director in August 2017. We expect Graysons to continue its upward trajectory this year, with new contracts such as the British Library and the Sir Francis Crick Institute supporting other venues mobilised in the past 12 months.

18 BLUE APPLE CONTRACT CATERING

Latest turnover:	**£11.1 million**
Profit CAGR:	**12.0%**
Key personnel:	**Brian Allanson, CEO; Ruston Toms, Sales Director**
Backer:	**Privately funded**
2016 ranking:	**18**

Featuring in our report for the fourth consecutive year, Blue Apple Contract Catering founders Ruston Toms and Brian Allanson continue to think to the future, with growth on the agenda in the next 12 months.

In June 2017, the business won its first contract with a City law firm, DAC Beachcroft, and will provide catering services for its two Central London sites and one site in Bristol. The contract win is the business' second London contract after the business decided to focus on gaining business and industry (B&I) clients in the capital last year.

Small but well-formed, Blue Apple also recently secured new catering contracts at the headquarters of Whitbread and TATA Technologies, which together with DAC Beachcroft will add almost £5.5 million to its turnover in the coming year.

The future outlook appears bright for this B&I specialist, and 2017 looks like it will be another year of strong growth, with a further 14 sites coming online before the end of the year.

19 EVENTIST GROUP

Latest turnover:	**£15.1 million**
Profit CAGR:	**11.9%**
Key personnel:	**Jeffrey Hilliard, Thomas Hilliard, and Peter Stevens, Founders and Directors**
Backer:	**Privately funded**
2015 ranking:	**6**

Eventist Group, previously Best Parties Ever, was relaunched as a multi-brand event-services company in August 2016. The business has undertaken another major exercise one year on: acquiring a smaller rival—London-based Food by Dish. Food by Dish is listed as a caterer at more than 25 high-profile venues around London, and the acquisition takes the number of full-time employees at Eventist Group to more than 60.

Heading into the festive season, Christmas party planning brand Best Parties Ever reported a 20% increase in bookings this year. It also recently announced the addition of Birmingham warehouse venue CRANE to its portfolio, making it the business' 23rd venue. Having reported a solid turnover growth of 9.7% in 2016, Eventist Group's expanding business does not show signs of slowing anytime soon.

20 THE GOOD EATING COMPANY

Latest turnover:	**£15.9 million**
Profit CAGR:	**9.7%**
Key personnel:	**John Harris, Chairman; Carlos Mistry, Managing Director; Robert Lindner, Finance Director**
Backer:	**Privately funded**
2016 ranking:	**35**

Re-entering the index for a final year following its acquisition by Sodexo in September 2017, The Good Eating Company reported stellar profit growth of 67.9% in 2016. The business achieved annual profit of £0.9 million and also broke through the £15-million revenue barrier in its latest accounts.

Led by creative chairman John Harris and Managing Director Carlos Mistry, who are to remain with the company, this London-centric business and industry specialist offered a perfect fit for global foodservice operator Sodexo, which was looking to strengthen its central metropolitan food operations. The Good Eating Company offers a differentiated, stand-alone, and food-focused platform whose brand will become a central component of the Sodexo workplace food proposition in the future.

With turnover approaching £20 million and investment from a new owner, The Good Eating Company looks set to cement its position in the UK workplace over the coming years.

Sector review

by Tom Cox, Director, AlixPartners

M&A CONTINUES TO DRIVE GROWTH IN ALL CORNERS OF THE MARKET

Looking back at the latest period of review, we can clearly see that the market has got tougher: 11 of the top 20 members of this year's index reported lower turnover growth compared with the prior year. Further, the average margin in the index fell from 8.2 to 6.9% compared with last year—albeit this was driven partially by a change in the end-market client mix of the top 20 participants in the last 12 months.

2017 is likely to prove more challenging still as operational headwinds that have not yet translated into statutory figures start to bite, driven by the national living wage, apprenticeship levy, and food price inflation squeezing cash flows following the UK's Brexit decision, as well as the subsequent devaluation in sterling.

Life has not got any easier, but it's fair to say best-in-class operators should continue to thrive and could indeed even benefit from changes in the ways contracts are bid in the future. For several years, many large corporate customers focused on bundled facilities management offerings, but they're now increasingly pushing food to the fore as part of disaggregated contract tenders. That could counteract wider cost pressures if the smaller independents are attracted back into bid processes for deals that had recently eluded them—leveraging a more focused, food-only offer.

From an M&A perspective, a review of the past 12 months highlighted two major trends: (1) premium and London-based players are driving value and (2) differentiation—via food or the operating model—is becoming the focus of transaction activity.

London was the major driver of deal activity, with the period under review bookended by two very different deals. Midmarket private-equity fund Livingbridge kicked things off by backing the secondary buyout of premium events and venue caterer *rhubarb* from ECI Partners, supporting its international growth potential and differentiated long-leasehold restaurant model.[1] Second, Sodexo rounded off the year with its acquisition of London-centric business and industry (B&I) and workplace dining specialist The Good Eating Company, reinvigorating its metropolitan food offering on a stand-alone branded basis.[2]

Elsewhere, the B&I and events space served up two other deals. First, One Event Management acquired premium event design company Absolute Taste in January to supplement its premium catering brand Mecco.[3] Second, private-equity-backed integrator CH&Co made another statement in June through its merger with Harbour & Jones (whose shareholders were advised by AlixPartners), cementing its position as the second-largest independent operator in the sector by way of a deal that substantially strengthened its hand with an enviable client list—again covering London and the South East.[4]

[1] http://www.livingbridge.com/private-equity/latest/news/2016/livingbridge-first-deal-new-fund-rhubarb/.
[2] http://uk.sodexo.com/home/media/press-releases/newsListArea/uk-press-releases/the-good-eating-company-joins-so.html.
[3] https://www.oneevent.management/single-post/2017/01/04/One-Event-Management-Acquires-Absolute-Taste.
[4] https://www.hospitalityandcateringnews.com/2017/06/chco-group-harbour-jones-announce-merger/.

With perhaps slightly less fanfare and outside of London, Elior also continued to execute its publicised strategy of rebuilding and expanding its UK business through the acquisition of Norfolk's rapidly growing Education and B&I specialist Edwards & Blake,[5] following its purchase of Waterfall last year.

Elior remains keen to build market share and is expected to maintain its focus on both organic-growth and M&A-led expansion in the next three years, despite Group CEO Philippe Salle's recently announced exit.The broader corporate world will also see major change next year when Richard Cousins—who led the turnaround of the industry's sleeping giant, Compass, into one of the most respected UK operators—hands the reins to current COO Dominic Blakemore after 11 years at the helm. It will be interesting to see what lies ahead in the UK and globally for two of the industry's leading lights.

M&A TRENDS: THE INDEPENDENT SECTOR SINCE 2011

Despite a more challenging operational backdrop in the last 12 months, looking back at our report data set, it is interesting to note the level of consolidation and performance improvement that has taken place in the independent sector in the past five to six years.

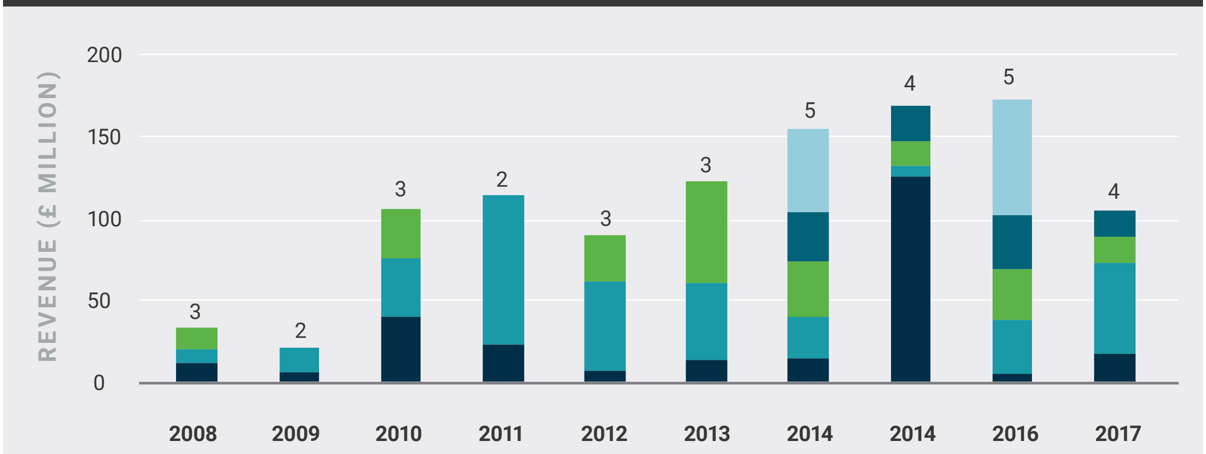
In 2013 (which considered data from 2011), our report tracked 54 independent businesses, generating an average turnover of £32 million and an average profit margin of 4.3%. This year, the comparative data set reduced to 41 (led primarily by M&A), with an average turnover of £48 million and a 6.4% margin—albeit this now includes £730 million of turnover from WSH and more than £250 million from the aggregated CH&Co businesses following its merger with Harbour & Jones. In the last 5 years a total of approximately £500 million of revenue has been acquired through M&A transactions.

Financial performance across the sector has clearly improved—despite more-recent headwinds—as more-efficient procurement has supported improvements to the bottom line. At the same time, larger operators have been attracted by niche players who could enhance their food offer or expand sector horizons (see Servest's acquisition of Catering Academy), or serve as platform integrators in support of a private-equity buy-and-build story (for example, WSH or CH&Co). We also saw Elior join the public equity markets and also drive consolidation via three acquisitions: Lexington, Waterfall, and Edwards & Blake.

Looking back slightly further, we have seen an average of 3.4 M&A deals concluded each year since 2008, involving operators with an average turnover of £31.5 million. Since 2014, average deal count has increased to 4.5 per year, with average turnover rising to £32.9 million.

Transaction activity has clearly increased in recent years, and it appears buyers have attached value to scale as well as proposition and performance. There is clear value in M&A not only through operating synergies but also in the acquisition of well-run, niche

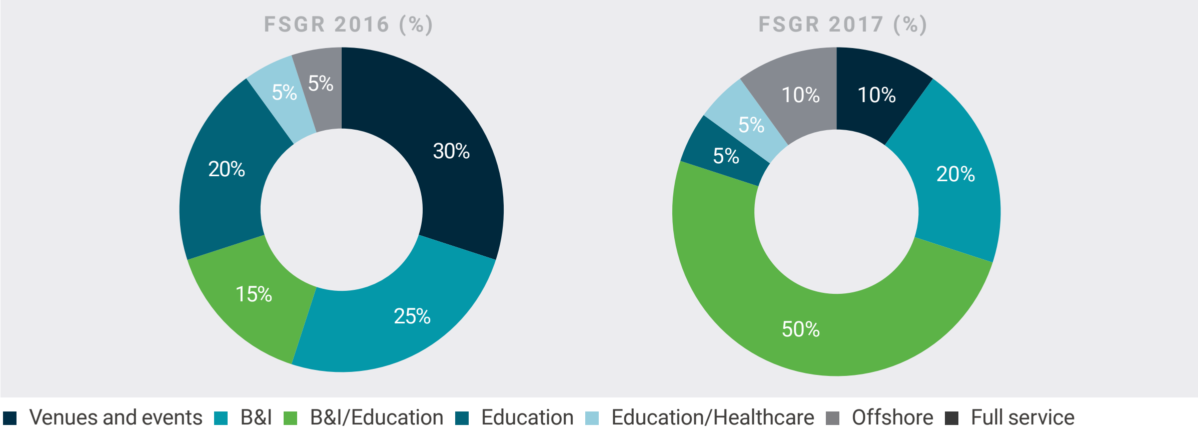
FIGURE 1: ANNUAL TRANSACTION ACTIVITY (2008-17)



Note: Stacked bar represents revenue of the target: figures at end of bar represents number of transactions concluded in each year.
Source: Mergermarket, Capital IQ, and AlixPartners

[5] https://www.thecaterer.com/articles/506846/elior-uk-sees-5-increase-in-revenue-but-profits-dip.

FIGURE 2: TOP 20 OPERATORS BY END-MARKET PROPOSITION (2016-17)



Source: Company statutory accounts

operations that have become increasingly disruptive to larger organisations—we expect that trend to continue in 2018.

REPORT TRENDS: 2017

When sitting down to write a review of the year, we always find it worthwhile to revisit predictions made in the prior period so that we can determine whether market sentiment ultimately translated into reality.

Indeed, last year we noted the rise of more-defensive subsectors in the index as the B&I market appeared to have gradually slowed. This has proven a recurring theme in the past 12 months, with 55% of the index now comprising an education component—albeit combined, in the main, alongside a B&I offering. As we've already noted, that change in mix has had an impact on margins because the education sector has traditionally generated lower gross profit per head than more premium—and often heavily subsidised B&I services.

However, businesses have to grow to satisfy their shareholders, and diversification can ultimately drive value, which was ably demonstrated by Harbour & Jones following its acquisition of Principals Catering Consultants in December 2015.[6] That deal moved the businesses into a different area of the market, unlocked new growth avenues, and created a genuine scale platform which, when combined with sound back-office infrastructure and sensible operating synergies, rapidly enhanced profit contribution at an absolute level.

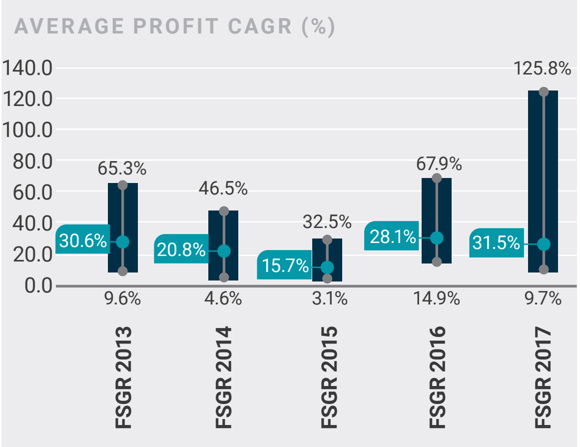
I continue to be hugely impressed by the level of consistency of performance across the foodservice sector over the past six or seven years. In any industry there are always businesses that underperform, but we have observed only a handful of restructurings—let alone insolvencies—while writing this report.

Yes, the economy has been somewhat benign, and by definition, a contract-led industry provides sustainability of cash flows, but the wider facilities management sector has not proven so robust. The past 12 months alone have seen a raft of negative publicity surrounding major operators that expanded too quickly without adequate integration of acquisitions or a focus on service. The foodservice industry has to execute every day because workforces march on their stomachs and clients simply won't accept second best. That makes it even more remarkable to see the independent sector growing year-on-year but equally a testament to the quality of this industry.

Impressively, three operators have placed in every report in the past five years, albeit two were supported by M&A: WSH (having acquired Searcys and Benugo) and Harbour & Jones (Principals). Those leading lights are also joined by perennial index member Wilson Vale, the Midlands-based B&I and education specialist that has almost doubled turnover from £13 million to more than £25 million while tracked by our report. That's no mean feat while also maintaining industry-leading margins that have averaged 9.4% in the past five years! Credit must also be given to *rhubarb* and Blue Apple, both of which have maintained their growth trajectories in the past five years and have featured in four out of five reports. It is unsurprising that several of these names continue to set the standard for the independent sector and attract premium valuations.

[6] http://www.harbourandjones.com/harbour-jones-acquires-principals-catering-consultants/.

FIGURE 3: TOP 20 – PROFIT CAGR (2013-17)



Source: Company statutory accounts

Note: High to low figures represent the highest- and lowest-profit CAGR observed amongst the top 20 participants in each report. Average CAGR represents the average CAGR for all members of the top 20 index in each individual report.

Despite the fall in average profit margin observed across the index from 8.2 to 6.9% compared with last year, which as we have highlighted was driven partially by end-market mix, average profit CAGR increased to 31.5% (28.1% in 2016). As a caveat, that growth was heavily supported by exceptionally strong improvement in bottom-line performance from this year's winner, Innovate (125.6% profit CAGR). Indeed, eliminating the highest and lowest outliers in our report, profit CAGR would have been remarkably consistent with last year.

Because index membership changes each year, it is perhaps unfair to make direct comparisons between reports, highlighting the mix effect rather than underlying performance trends. A look at the top 20 in isolation shows that margin conversion has in fact improved, increasing from 6.4 to 6.9% this year. This is the highest level in five years and a testament to improvement in standards across the sector, as average annual turnover growth declined from 16.8% to 14.0% across the top 20. Growth was clearly more challenging to achieve last year, but index members still found ways to drive the bottom line.

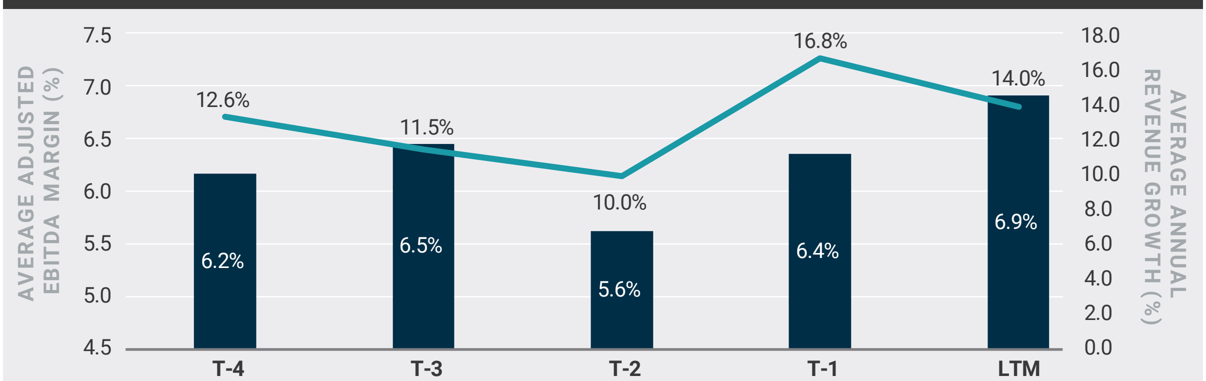
Making predications for our next report may be unwise, but the mood music we're hearing suggests 2017 has proven a more challenging period for growth in the sector, with client budgets under pressure and operating cost increasing.

As highlighted elsewhere in this report, the sector is one that has always dealt with challenge. I have no doubt that although life may have got tougher, well-managed operations will continue to thrive, attracting larger consolidators keen to mitigate such pressures with acquisitions of niche operators that are at the top of their game. **A**

Tom Cox is a Director in the Debt Advisory practice at AlixPartners. He has almost 15 years of advisory and banking experience, with a specific focus on advising corporate and private-equity clients on their debt finance options and strategies.

Disclaimer

FIGURE 4: 2017 TOP 20: MARGIN AND REVENUE GROWTH PROGRESSION (PAST FIVE YEARS)



Source: Mergermarket, company statutory accounts

CONTACT THE AUTHOR:

Tom Cox (tocox@alixpartners.com) and Graeme Smith (gsmith@alixpartners.com).

FOR MORE INFORMATION, CONTACT:

Tom Cox
Director
+44 20 7332 5072
tocox@alixpartners.com

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