REGENCY
PURCHASING GROUP
NEWSLETTER - MAY 2020

Water Companies Support for Businesses

Local water provider in the South West, Water2Business are offering support for any venues that are closed due to the Covid-19 pandemic and it is thought that others have done the same. Water2Business have removed standard charge, sewage charges etc whilst premises are closed but continue to maintain supply for cleaning, water plants etc. Customers will still be billed for any water used whilst closed but standing charges will be waived.

As well as this they will no longer send disconnection notices, ask for payment of interest, add non-payment charges, or carry out any enforcement actions.

Whilst no new industry standards have been introduced across the board to advise water companies on how to engage with their customers during the pandemic 'OfWat' (the economic regulator of the water sector in England and Wales) did advise back in March that they wouldn't expect any customers to be cut off due to non-payment during this time.

Whilst phone lines are busy it may be worth checking with your water provider directly to see if they have any support packages available to you should you be closed during this time.

Boparan purchases Carluccio's

Carluccio's restaurant chain has been purchased by the 'Boparan Restaurant Group' (BRG) after moving into administration two months ago after the Cornovirus impact worsened the firms long-standing financial difficulties.

Of the chains 70 sites 40 will close permanently resulting in a loss of 1,019 jobs. The remaining 30 restaurants across the UK will reopen when deemed safe to do so meaning 800 jobs will be saved.

Satnam Leihal the Managing Director of BRG said the following of the acquisition:

"We welcome Carluccio's colleagues to BRG. This acquisition is in line with our strategy to grow our restaurant group with quality brands. Whilst it is an extremely challenging time for the sector, we believe quality hospitality businesses will recover in the long term as people return to eating out.

Mortgage Holiday Extension

Mortgage providers across the UK have extended the offer of payment holidays for a further three months.

Originally the payment respite, brought in in March was initially set to run until June to help those financially struggling during the Covid-19 pandemic but now lenders are running this offer until September.

The deadline for applications has also been extended until October which means if a home owner submits an application in that month the extension will run from October until January.

All deferred payments will still have to be paid back after the holiday has completed so mortgage customers could face higher bills after this point but the hope is that with most mortgages having around 25 years to run on them that this additional cost can be spread into manageable repayments.

More than 1.8 million mortgage customers have taken advantage of the current payment holiday which UK Finance estimates is saving households an average £755 a month.

The advice from the Financial Conduct Authority (FCA) is for customers to still make payments or partial payments where possible but they have welcomed the extension for those in need to avoid an abrupt 'cliff edge' end to financial support for those who require it.

Food delivery & take away

Licensing and planning rules have been relaxed by the government in order to support businesses in the hospitality sector that can offer a takeaway and delivery service for customers. This move has been welcomed by the industry as businesses are now being given the ability to start bringing in some much-needed revenue.

The new rules mean hot or cold non-alcoholic drinks and food can be made available to customers without the need for licences. Businesses still need to apply for a temporary event notice or premise licence if they wish to operate between the hours of 11pm - 5am or to provide sealed alcoholic beverages to be consumed off site.

Sites wishing to offer a new takeaway or delivery services must:

- Check their lease allows them to operate as a takeaway
- Be registered with the government as a food business
- Make sure all staff including delivery drivers maintain social distancing and comply with self-quarantine should they display any symptoms of Covid-19
- Ensure that delivery drivers have insurance that covers their vehicle for business use

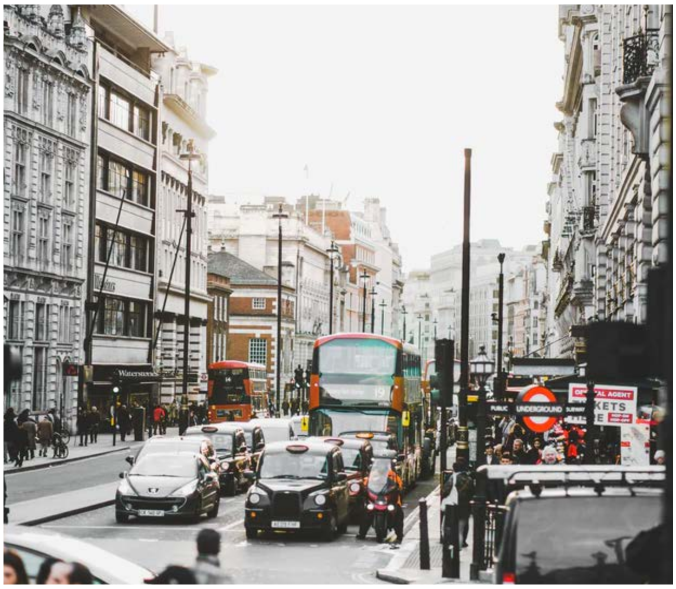
Carlsberg Marston's Brewing Company

On the 22nd of May Carlsberg UK and Marston's PLC announced their plans to merge in the second half of 2020 to create 'Carlsberg Marston's Brewing Company'.

Once completed Carlsberg will pay up to £273 million to Marston's to retain a 60% share in the business making them the controlling shareholder.

Shares in Marston's surged by 36% after the announcement which helped to recover some of the revenue they've lost since pubs across the country were told to close.

Carlsberg brands such as Tetley's, Somersby Cider, Carlsberg Export and Poretti will sit alongside Marston's brands such as Hobgoblin, Marston's Pedigree and Wainwright on bars across their own estate as well as being available for customers to purchase via their on-trade accounts. Thanks to this merger Carlsberg Marston's Brewing Company will also own the UK licence for San Miguel, Mahou, Estrella Damm and Shipyard to name a few.



Congestion Charge Extended

From the 22nd of June the congestion change in London will temporarily increase to £15 a day and be applicable from 7am to 10pm every day of the week whereas previously weekends and journeys after 6pm were exempt from the charge.

There has been no announcement on when these temporary measures will be reviewed or loosened creating further concern for the leisure and hospitality markets. Evening and weekends would traditionally be the busiest times for restaurants as they look to re-open. Given that many people are uncomfortable with public transport at the current time, implementing this congestion charge increases the cost of eating within the zone by £15.

This is reportedly part of the conditions set by the government who have supported Travel For London (TFL) with a £1.6 billion bailout.

KFC Re-openings

KFC have pledged to reopen 500 restaurants across the UK over the coming weeks, roughly 50% of their sites, on a delivery or drive-thru only basis.

A reduced new menu is one of the major changes the chain has made in order to comply with social distancing between their staff members in their kitchens. They are also asking all customers to make contactless payment and orders are being passed to customers on a tray to maintain social distancing and remove any accidental physical contact.

#Fair4Hospitality

The UKHospitality Group launched their #Fair4Hospitality campaign on the 22nd of May. The aim of this campaign is to ensure that all sectors of the hospitality industry are given guidance and advice as to what's expected of them in order to begin trading in July as set out in Boris Johnson's recent speech.

They have prepared and sent a 75 page document to ministers with a list of suggested measures businesses could undertake to minimise any risk of Covid-19 in their vicinity. Some of their suggestions are as follows:

- Table service to be offered in bars to prevent customers from queuing or socialising at the bar itself.
- Menu's to be reduced to ensure kitchen staff can remain the recommended 2 meters apart.
- Gyms to reduce and remove equipment where relevant to make sure there is a 2-meter distance between members at all times.
- Members of gyms or golf clubs, guests using hotel facilities etc to be advised to change and prepare in their rooms or homes and return there for a shower afterwards.
- Tables no longer to be laid in advance with cutlery and condiments in any establishment serving food with these to be supplied by the staff when the order is delivered.
- All payments and tips to be made via contactless payment to eliminate the risk cash could carry
- Family entertainment venues to cancel concerts, character meet and greats and end of day parades or parties.

These are just a few of the suggestions they have put forward and they have stressed in their letter that a 'one size fits all' set of guidelines will not work for the hospitality industry as a whole, they are pushing for ministers to provide guidance and advice by sector based on relevant needs.

Current & Future Market Pricing

The current situation with COVID-19 has put the market into uncertainty and is making what was a relatively stable; or certainly a justifiable market, uncertain and more challenging to forecast.

Whilst the Foodservice sector has experienced a significant drop in sales, there is an element of slack that has been picked up in retail, which has maintained some manufacturing and distribution of certain product lines.

Milk

Fresh product is the key area of concern with consumer habits differing in the way we eat at home, from the way we eat when we are out.

The latest update from the Agriculture and Horticulture Development Board (AHDB), reports that demand for milk is 2 million litres per day lower than it was prior to lockdown. We simply do not drink the same amount of Lattes and speciality coffees at home.

Farmers have had to dispose of a huge amount of milk due to the demand drop off. This will have a significant effect on not only how quickly we can get production back up to fulfil demand but at what cost once we come out of lockdown.

Fresh Meat

Fresh Meat as you would expect has also been hugely effected by the current lockdown.

With the Foodservice sector closed, Retail sales have grown, but not enough to fill the gap. More specifically, there is a lack of demand for specific cuts of meat which people are perhaps less comfortable with cooking at home or indeed chose not to cook at home (steaks as an example that need an exceptionally hot pan and tend to smoke out the kitchen).

This has led to instability in Beef deadweight pricing as the most valuable cuts such as fillet and sirloin steaks are not being purchased by consumers in supermarkets in the same quantities. Whilst these cuts can and are being aged there may come a point where they have to be disposed of.

This has impacted the reduction on beef pricing with Deadweight Cattle currently circa £3.24 /kg versus £3.50/kg last year.

The correction of this market could also be a problem depending on how restaurants are reopened for sit down meals again. A single date opening across the industry will inevitably create a spike in demand which could impact pricing short term.

The lamb market in the UK started the year off extremely strongly with exports up and imports down. Dead weight prices at the start of 2020 were around £4.50 per kilo and hitting a high of £5.50 in mid-March.

Lockdown in China and Europe quickly impacted these statists and the UK saw a drop in price of 20% in a matter of days which it is yet to recover.

Deadweight pork pricing has consistently continued to rise however, last year pricing was around £1.40 per kilo and has steadily increased to £1.61 per kilo this year.

By contrast, where people are more used to cooking chicken at home, fresh chicken was the first item the UK food market ran out of. Thankfully the stocks of frozen chicken were plentiful, but potential increases in these areas are likely.

Fish

The Fresh Fish market are currently seeing very few boats heading out in UK waters. The demand from Foodservice dropped immediately following lock down and exports also dropping has created huge volatility in this space.

It will be an interesting area as more fishermen get back to work and our Brexit negotiations continue. The new rules and controls of British waters will no doubt have an impact on pricing, as well as plentiful stocks and good fish size given that we have been fishing significantly less

Fruit & Vegetables

The Fresh Produce category whilst dependent on weather and harvest yields, has in large been one of routine with many Food Service wholesalers beginning to offer a much welcomed home delivery services. Although most are still operating at around 30-50% of their usual volumes despite this shift in gear.

It isn't just the movement of current stock this sector needs to consider however. The current uncertainty of the UK's ability to secure a workforce from Europe to harvest is only part of the challenge, learning to work and harvest under social distancing guidance is an added difficulty.

Harvesting iceberg lettuce as an example involves the workforce working within a very close rig. Social distancing will undoubtedly impact the pick rates and is already being estimated to be a third less efficient. All these of challenges are forecasted to affect the price of iceberg between 5%-10%.

The change of purchasing behaviours and in particular the emergence of the 'Veggie Box' which many wholesalers are delivering to homes is hugely innovative but it has also created some pricing challenges.

A staple item in every Veggie Box are carrots, which are not traditionally purchased in the same quantities by customers in supermarkets. The Veggie Box has meant we have brought forward the end to the UK carrot season forcing prices up by over 20% as a result, with supplies now coming from France, Spain and Israel. Pricing will now remain high until July when the UK season starts again.

By contrast, we are seeing a softening in some prices that would not traditionally be purchased for use in the home such as lolo biobdi, lolo rosso and oak leaf. We are seeing some correction with less of this product being planted currently, but as of today, this product is readily available.

Transport

Supply chain and our ability to bring product in from overseas will also be a factor. Airfreight is currently at a huge premium due to the lack of commercial flights around the globe. The travel industry has an uncertain outlook, with many countries suggesting their borders maybe be closed for some time and the general public choosing to travel less even if they do, potentially meaning this issue is with us for the medium term.

PPE

In the disposable category the big item is of course PPE.

Since the Pandemic started we have seen pricing for plastic gloves vary from £1.95 for a box of 100 through to some care homes paying as much as £24.45 for a pack the same size! We've also seen face masks ranging in price from 30p to £3 per unit.

Clearly there is some profiteering going on here but again the biggest issue beyond availability is cost of delivery.

By boat pricing remains reasonably stable but a lead time of 3-5 weeks applies.

Pricing for airfreighting PPE has risen from $800 per pallet to almost $14,000.

Other disposable items such as food wrap and take away packaging has not been used in its usual quantities despite more businesses moving to a take away model. This has left some manufacturers and wholesalers with warehouses full of product, which should keep pricing low for now.

Other manufacturers and wholesalers have moved their focus onto PPE in order to generate sales over this difficult period. This means in some instances there is significant stock and in other cases suppliers need to stock up before deliveries start again.

Others have 'homed in' on certain products and are limiting their disposables range moving forward to ensure they can continue to supply consistently to clients.

A very mixed message with different markets taking various approaches.

Credit & Stock Holding

Another element that will have a potential effect on pricing is how Manufacturers, Suppliers and Customers have conducted themselves during the pandemic and indeed how they chose to trade moving forward.

The biggest challenge for wholesalers and suppliers now will be the credit line. Cash has always been 'King' but now it is 'Cash is Everything'.

Farmers, brand owners, B2B wholesalers are all reducing the credit line which will put wholesalers under greater cash flow pressure. At the same time, many have outstanding debts from customers who are still waiting for loans to come through or the trade to start again before they can pay old debts.

As the pandemic took hold most wholesalers and suppliers stopped orders coming in or sent product back to reduce stock holding and get money in the bank.

Typically we are seeing fresh suppliers reduce stock holding by 80% but at some point as lockdown eases they will have to ramp up their stock, putting pressure on cash flow.

By contrast, some frozen and grocery suppliers are still holding excess stock over fears of boarder issues at the start of 2020 as we negotiated the UK's Brexit deal.

Consumer habits and lock down release

The final challenge lies in both countries and consumer behaviour.

The extent at which each country comes out of lock down, the speed at which they open their leisure and hospitality businesses and the new behaviours of the consumer will all influence the food markets.

China's lock down reduced the EU's exports of fish into the Asian market and in some areas where we have stopped fishing we have allowed the fish stocks to recover like never before. So whilst we see some pricing increases, there are plenty of examples where seafood, beef and lamb and many other areas may also decrease.

Unlike Brexit where it was easier for us to forecast the market by understanding the impact in the event of a hard or soft Brexit or indeed World Tariff Organisation terms, this is very different.

There are too many factors in play to forecast accurately. Much like operating a leisure or hospitality business in today's market, you cannot plan today and be sure that is the right answer tomorrow.

Things will change daily, we shall have to work harder than ever to navigate through the challenges and to make sure that the leisure and hospitality sectors continue to pay a fair price for product.