

Come rain or shine, Loungers delivers

8th October 2024

Loungers has achieved record 1H25 revenues of £178.3m, +19.2% on 1H24. 16 new Lounge bars and one new Cosy Club, together with last year's new sites, contributed 14.5% whilst 4.7% LFL sales outperformed industry growth by over 3% due to Loungers' all-day attractions. This growth is especially strong considering the unseasonal weather, the negative impact of the Euro 2024 football tournament and the fall in UK consumer confidence. Given the potential negative implications of the Autumn Budget for consumer spending, we are maintaining our FY25E forecasts and look forward to Loungers' 1H25 results in November.

Revenue growth of 19% despite macro-headwinds

The CGA RSM Hospitality Business Tracker has reported lacklustre sales growth of 1.4% through the summer as rainy weather took its toll. Within this, pubs, rather than bars/restaurants, outperformed as the Football European Cup attracted spend on match days. Yet despite these headwinds, and the 7 point fall in UK Consumer Confidence to -20 in September, Loungers has outperformed with 1H25 LFL sales growth of 4.7% (implying c.4.5% in 13 weeks to 6 October). Meanwhile, the accelerated pace of new openings continued with 17 in 1H25 and 18 due to open in 2H25E. The Ritorno Lounge, on a prime site on Bristol's harbourside, has been the group's best performing new site ever, despite being close to many competitor venues, illustrating Loungers' unique attractions.

Maintaining FY25E forecasts

Although our 2H25 estimates look cautiously set, inferring c.3% LFL and c.10% new site revenue growth, we make no changes to our FY25E forecasts at this stage, given the consumer uncertainty ahead of the Autumn Budget (30 October). We also note that 2H24 LFL sales growth was supported by price inflation to help offset cost inflation; the benefit of price increases will be lower in 2H25E.

Fair Value of 370p still well above current levels

We initiated on Loungers earlier this year, detailing why its profitable model and self-funded growth was undervalued (see "[Loungers: Delivering self-funded growth "all day" long](#)"). The 273-site group still has huge scope to grow towards its ambition of over 650 sites, driving 14% CAGR in Revenues, and 21% CAGR in Adj. EPS FY24-FY27E. We believe this high growth is not reflected in the group's valuation and reiterate our **Fair Value of 370p / share** (8.0x cal. 2025 EV/Adj. EBITDA).

Key Financials & Valuation multiples

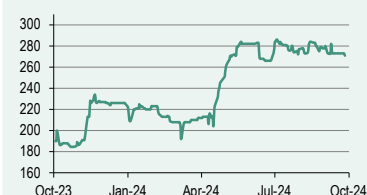
Year to mid-April (£m)	2023	2024	2025E	2026E	2027E
Revenue	283.5	353.5	402.1	459.4	519.4
Revenue growth, 52 weeks comp (%)	19.5	22.2	15.8	14.2	13.1
Adj. EBITDA*	44.0	55.5	63.2	73.9	84.0
Adj. EBITDA^	34.2	44.2	50.3	59.2	67.8
Adj. EBITDA^ margin (%)	12.1	12.5	12.5	12.9	13.1
Adj. PBTA	9.4	14.0	16.1	21.3	26.6
Adj. PBT margin (%)	3.3	4.0	4.0	4.6	5.1
Adj. diluted EPS (p)	8.1	10.5	11.2	14.8	18.5
Net financial debt / Adj. EBITDA (x)	0.2	0.2	0.1	0.0	-0.2
Net debt incl leases / Adj. EBITDA (x)		3.0	2.7	2.6	2.3
EV / Sales (x, calendarised)		1.2	1.0	0.9	0.8
EV / Adj. EBITDA* (x, calendarised)		7.4	6.4	5.6	4.9
PER (x, calendarised)		24.3	19.8	15.5	12.5

Source: ED analysis, IFRS 16 *post pre-opening costs, ^ IAS 17, FY24 53 weeks; Share price at COB 7/10/24

Company Data

EPIC	AIM: LGRS
Price (last close)	266p
52 weeks Hi/Lo	286p/184p
Market cap	£277m
ED Fair Value / share	370p
Net debt incl. leases FY24	£161m

Share Price, p



Source: ADVFN

Description

Founded in 2002, Loungers has grown rapidly to a nationwide portfolio of "Lounge" bars and "Cosy Clubs" which offer a unique combination of restaurant, pub and coffee shop; a proposition which differentiates from competition to appeal regardless of age, demographic or gender.

As an all-day operator providing value for money, "Lounge" bars offer a "home from home" ambience and are competitive in a wide range of locations from market towns to coastal towns to retail and leisure centres. "Cosy Club" offers a more dramatic and up-market experience in city centres. In 2023 Loungers launched its third brand, with three "Brightside" roadside diners.

Next Event

November (tbc) – 1H25 results

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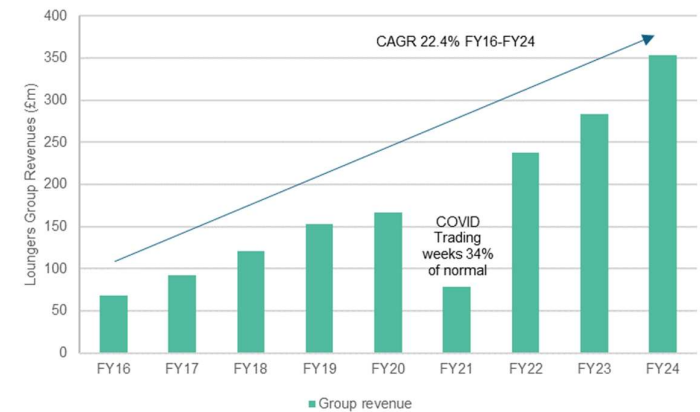
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Loungers' impressive track record of revenue growth continues

Diversity of menu helps Loungers outperform

- Loungers' 1H25 sales growth of 19.2% is an extension of its 22% CAGR in Revenues FY16-FY24 and illustrates again the attractiveness of Loungers' all-day dining model which attracts customers of all ages, genders and income groups.
- The diverse and innovative menu, ranging from brunch to flatbreads to tapas, and from (good) coffee to cocktails, leads to Loungers' resilience.
- Loungers' LFL sales growth of 4.7%, with 5% in the first 11 weeks and c. 4.5% in the second 13 weeks, outperformed the industry by c.3% as summer sales were hit by rainy weather.
- Loungers' growth is also impressive considering pubs showing the Euro 2024 football competition attracted spend away from bars and restaurants over the summer.

19% 1H25 revenue growth on top of 22% CAGR FY16-FY24



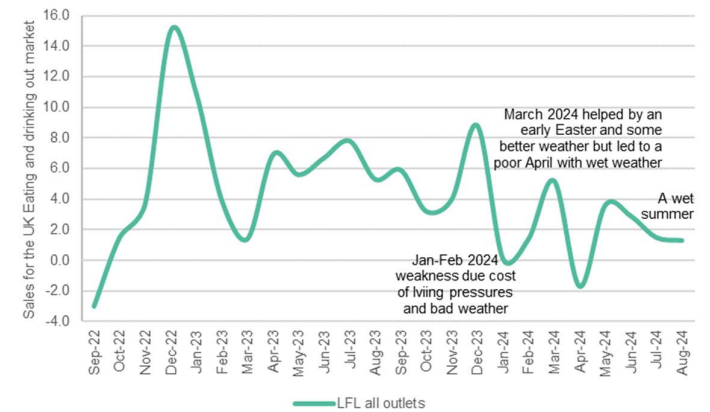
Source: Company data

Loungers' consistent c.3% outperformance of the industry...



Source: Company data, CGA RSM Hospitality Business Tracker

...with 4.7% LFL sales growth despite a wet summer



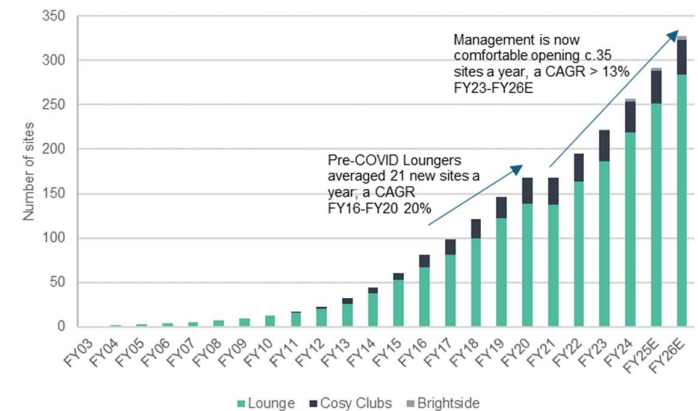
Source: Company data, CGA RSM Hospitality Business Tracker

Accelerated new site openings to c.35 a year on track with 37 in FY25E

17 new sites in 1H25, 18 to come in 2H25E

- Loungers has opened 17 new sites in 1H25 – 16 Loungers and 1 Cosy Club.
- These sites - including the new Ritorno Lounge in Bristol harbourside which has had the best opening for a Lounge bar ever– together with new sites from last year have contributed an impressive 14.5% to revenue growth in 1H25.
- Loungers has 18 more openings planned for 2H25E including one Cosy Club and one new Brightside diner.
- Loungers continues to successfully open new sites in different locations nationwide (from coastal towns to mixed retail/leisure schemes) and from a variety of former uses (e.g. retail, banks).

Loungers on track for 37 new sites in FY25E



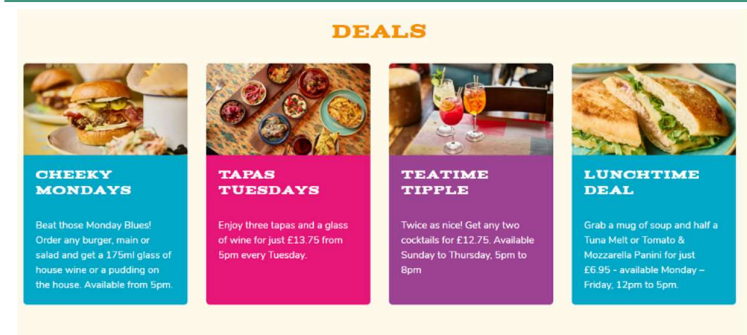
Source: Company historic data, ED forecasts and analysis

Loungers benefits from retail, restaurant and bank closures



Source: Company data

Appetising deals on offer at the new Ritorno Lounge, Bristol



Source: Company website, 7 October 2024

No change to FY25E forecasts

2H25E forecasts cautiously set

- Despite a strong 1H25 revenue outcome of 19.2% growth versus our FY25E of 13.8%, we make no changes to our FY25E forecasts at this stage due to the volatility of consumer confidence and trading. Thus, our FY25E revenue estimate of £402m looks well underpinned, requiring c.3% LFL sales growth and c.10% new site contribution.
- Loungers reports that it is making good progress towards its pre-COVID EBITDA (IAS 17 margin) of 13.5% and we forecast 12.5% for FY25E. This is flat on FY24E as wage inflation remains elevated even as food and drink inflation and selling price inflation eases.
- For 1H25E we estimate Adj PBT of c.£5m with £11m in 2H25E reflecting the 28-week period and the stronger Christmas trading period.
- Loungers also reports that net financial debt (non-property, i.e. excluding property leases) as at 6 October was £12.2m, £2m lower than the prior year, reflecting the self-funded nature of its site growth programme.

Half yearly financial progression							% growth		
Year-end 31 Mar, £m	1H24	2H24	FY24	1H25E	2H25E	FY25E	1H25E	2H25E	FY25E
Revenue	149.6	203.9	353.5	178.3	223.8	402.1	19.2	9.8	13.8
Revenue growth (%)	22.3	26.5	24.7	19.2	9.8	13.8			
LFL sales growth (%)	7.7	7.3	7.5	4.7	3.3	4.0			
New site sales contribution (est) (%)	14.6	14.2	14.7	14.5	10.5	11.8			
Other incl calendar impact (%)		5.0	2.5		-4.0	-2.0			
Adj. EBITDA pre POC (IFRS 16)	23.9	35.8	59.6	28.5	39.0	67.5	19.3	9.0	13.1
Pre-opening costs	(1.9)	(2.3)	(4.2)	(1.9)	(2.3)	(4.2)			
Adj. EBITDA post POC (IFRS 16)	22.0	33.5	55.5	26.6	36.6	63.2	21.0	9.4	14.0
Adj. EBITDA (IFRS 16, post POC) margin (%)	14.7	16.4	15.7	14.9	16.4	15.7			
Adj EBITDA (IAS 17)	17.3	26.9	44.2	20.9	29.4	50.3	20.6	9.3	13.7
Adj. EBITDA (IAS 17) margin (%)	11.6	13.2	12.5	11.7	13.2	12.5			
Adj. PBTA	3.9	10.0	14.0	5.0	11.1	16.1	27.0	10.5	15.1
Adj. PBT margin (%)	2.6	4.9	4.0	2.8	5.0	4.0			
Adjusted diluted EPS (p)	2.6	8.0	10.5	3.5	7.7	11.2	36.9	-3.3	6.5
Adj. EPS growth (%)				36.9	-3.3	6.5			

Source: Company historic data, ED forecasts and analysis

Loungers: Investment Attractions Overview

Investment Highlights	Risk Factors
<ul style="list-style-type: none"> An excellent track record of sales growth with 22.4% CAGR FY16-FY24. All-day innovative and varied dining menu attracting customers of all ages, genders and income groups. Profit margins improving with Adj. EBITDA (IAS 17 metric) recovering to 12.1% in FY23 and 12.5% in FY24 with a mid-term ambition to reach 13.5%. Huge opportunity for expansion; a favourable property market and CROCCI of 30%+. Experienced management team and valued staff with annual “LoungeFest” and high proportion of internal promotions. Ambition to be the number one choice for people wanting a career in the hospitality sector. 	<ul style="list-style-type: none"> Macro-economic pressures on disposable income. Cost inflation, particularly in wage inflation, impacting margin expansion potential. Not securing 30+ sites a year or not generating sufficient cashflow to fund expansion. Brand reputation risk from any food scare.
Forecast Drivers	Valuation Overview
<ul style="list-style-type: none"> Industry-leading LFL sales growth of 7.5% in FY24 with 4.7% in 1H25E; forecast 4% in FY25E and FY26E. Approximately 35 new site openings a year towards long term ambition of 650+. £125m+ cashflow pre-expansion capex over the next 3 years to fund over 100 new sites. 	<ul style="list-style-type: none"> Despite a c.27% rally in the share price since March 2024, Loungers is still trading on only 1.0x cal 25 EV/Sales and c.6.4x cal 2025 EV/Adj. EBITDA, below pub & restaurant peers. Offers higher growth and less financial gearing than peers. Share price still materially below our Fair Value of 370p (8.0x cal 2025 EV/Adj. EBITDA).

Portfolio metrics					
Year-end mid-April, £m	FY22	FY23	FY24	FY25E	FY26E
Lounges	164	186	219	251	284
Cosy Clubs	31	35	35	37	39
Brightside		1	3	4	4
No of sites	195	222	257	292	327
Lounges	26	22	33	32	33
Cosy Clubs	1	4	0	2	2
Brightside	0	1	2	1	0
Net new sites	27	27	35	35	35
% growth	16.1	13.8	15.8	13.6	12.0
Average weekly sales per site (£'000) (all sites)	23.5	26.1	27.8	28.1	28.5

Source: Company historic data, ED forecasts and analysis

Key growth and margin metrics

Year-end mid-April, £m	FY22	FY23	FY24	FY25E	FY26E
LFL sales growth (%)	4.2	7.4	7.5	4.0	4.0
New site sales contribution (est) (%)	8.7	12.1	14.7	11.8	10.2
Other incl calendar & COVID (%)	190		2.5	-2.0	
Revenue growth (%)	202.9	19.5	24.7	13.8	14.2
Gross profit growth (%)		9.9	27.4	13.2	14.2
Adj. EBITDA (IFRS 16) growth (%)		-11.7	25.9	13.1	15.9
Adj. EBITDA (IAS 17) growth (%)		-19.2	29.3	13.7	17.7
Adj. Operating profit post SBP / POC (%)		-29.0	28.2	7.3	18.4
Adj. PBT growth (%)		-56.7	49.4	15.1	32.3
Adj. EPS growth (%)		-52.4	29.9	6.5	32.3
Gross profit margin (%)	43.4	39.9	40.8	40.6	40.6
Adj. EBITDA* (IFRS 16) margin (%)	22.6	16.7	16.9	16.8	17.0
Adj. EBITDA (IAS 17) margin (%)	17.8	12.1	12.5	12.5	12.9
Adj. Operating margin post SBP / POC (%)	12.0	5.9	6.5	6.2	6.7
Adj. PBT margin (%)	9.1	3.3	4.0	4.0	4.6

Pre pre-opening costs, Source: Company historic data, ED forecasts and analysis

Profit & Loss Summary					
Year-end mid-April, £m	FY22	FY23	FY24	FY25E	FY26E
Group revenue	237.3	283.5	353.5	402.1	459.4
Cost of sales	(134.4)	(170.4)	(209.3)	(239.0)	(273.0)
Gross profit	102.9	113.2	144.2	163.1	186.3
Other income	2.5	0.0			
Operating costs ex SBP & POC	(51.8)	(65.8)	(84.5)	(95.6)	(108.1)
Adj. EBITDA pre SBP/POC	53.6	47.3	59.6	67.5	78.2
Site pre-opening costs (POC)	(2.3)	(3.3)	(4.2)	(4.2)	(4.3)
Adj. EBITDA post POC	51.3	44.0	55.5	63.2	73.9
Share based payment charge (SBP)	(3.2)	(4.0)	(3.9)	(4.0)	(4.1)
Adj. EBITDA post SBP/ POC	48.1	40.0	51.6	59.2	69.8
Depreciation of PPE	(11.2)	(13.4)	(17.3)	(21.4)	(24.6)
Depreciation of ROUA	(8.5)	(9.9)	(11.4)	(12.8)	(14.3)
Depreciation & amortisation	(19.6)	(23.2)	(28.7)	(34.3)	(39.0)
Adj. Operating profit pre SBP/POC	34.0	24.1	30.9	33.2	39.3
Adj. Operating profit post SBP/POC	28.4	16.8	30.9	33.2	39.3
Interest on financial debt	(1.2)	(1.5)	(2.1)	(1.5)	(1.5)
Interest on lease liabilities	(5.7)	(6.1)	(7.0)	(7.3)	(8.1)
Interest receivable & other	0.0	0.2	0.2		
Finance costs	(6.8)	(7.4)	(8.9)	(8.8)	(9.6)
Adj. PBTA	21.6	9.4	14.0	16.1	21.3
Exceptional costs	0.0	(2.0)	(2.5)		
PBT	21.6	7.3	11.4	16.1	21.3
Tax	(3.7)	(0.4)	(2.3)	(4.0)	(5.3)
Adj. PAT	17.9	8.6	11.3	12.1	16.0
Reported PAT	17.9	6.9	9.1	12.1	16.0
No of f/d shares (m)	105.2	106.6	107.8	107.8	107.8
Adjusted diluted EPS (p)	17.0	8.1	10.5	11.2	14.8

All figures IFRS 16; Source: Company historic data, ED forecasts and analysis

Cashflow					
Year-end mid-April, £m	FY22	FY23	FY24	FY25E	FY26E
Adj. EBITDA (pre SBP/POC)	53.6	47.3	59.6	67.5	78.2
Pre-opening costs (POC)	(3.2)	(3.6)	(4.2)	(4.2)	(4.3)
Working capital movement	19.7	7.3	9.0	5.2	5.9
Exceptionals (cash)					
Tax paid	(1.4)	(0.1)	0.2	(0.8)	(4.3)
Net cash from operating activities (pre-leases)	68.8	50.9	64.7	67.6	75.5
Net financial interest paid	(1.1)	(1.1)	(1.7)	(1.5)	(1.5)
Interest paid on lease liabilities	(5.3)	(6.1)	(7.0)	(7.3)	(8.1)
Lease payments (principal)	(6.9)	(8.8)	(10.6)	(12.8)	(14.3)
Maintenance capex	(6.2)	(7.9)	(9.9)	(9.2)	(10.3)
New site capex	(16.6)	(29.1)	(37.8)	(33.4)	(32.6)
M&A		(2.7)			
Capex	(22.8)	(39.7)	(47.7)	(42.7)	(42.9)
Free cashflow	32.6	(4.9)	(2.3)	3.2	8.8
Free cashflow pre-expansion	49.2	26.9	35.5	36.7	41.4
Dividends	0.0	0.0	0		
Share buy backs / equity issues	(0.1)	(0.2)	(0.9)		
Other					
Net cashflow	32.5	(5.1)	(3.2)	3.2	8.8

All figures IFRS 16

Source: Company historic data, ED forecasts and analysis

Net debt metrics					
Year-end mid-April, £m	FY22	FY23	FY24	FY25E	FY26E
Gross financial debt	(32.3)	(32.4)	(19.8)	(19.8)	(19.8)
Net cash	31.3	26.4	10.3	13.6	22.4
Net financial debt (IAS 17)	(1.0)	(6.0)	(9.5)	(6.2)	2.6
Leases	(119.6)	(134.8)	(151.2)	(166.0)	(178.7)
Total net debt (IFRS 16)	(120.6)	(140.9)	(160.7)	(172.3)	(176.1)
Net financial debt / EBITDA (IAS 17)	0.0	0.2	0.2	0.1	0.0
Total net debt / EBITDA (IFRS 16)	2.2	3.0	2.7	2.6	2.3

Source: Company historic data, ED forecasts and analysis

Balance Sheet					
Year-end mid-April, £m	FY22	FY23	FY24	FY25E	FY26E
Property, plant and equipment	90.0	116.7	143.0	164.2	182.5
Right of use assets	98.4	111.7	128.4	143.2	155.8
Intangible assets (Goodwill)	113.2	114.7	114.7	114.7	114.7
Other financial assets	0.6	0.0	0.0	0.0	0.0
Deferred tax assets	1.4	0.9	0.0	0.0	0.0
Non-current assets	303.5	344.1	386.1	422.1	453.0
Inventories	1.9	2.5	2.9	3.3	3.8
Trade and other receivables	5.5	8.7	10.5	11.3	12.3
Other financial assets	0.0	0.0	0.0	0.0	0.0
Current tax assets	0.0	0.0	0.0	0.0	0.0
Cash & cash equivalents	31.3	26.4	10.3	13.6	22.4
Current assets	38.7	37.6	23.7	28.2	38.4
Bank overdraft & s/t loans	0.0	0.0	0.0	0.0	0.0
Trade payables and other liabilities	(56.2)	(69.7)	(79.8)	(86.2)	(93.6)
Lease liabilities	(8.5)	(10.2)	(11.9)	(11.9)	(11.9)
Current tax liabilities	0.0	(0.1)	0.0	0.0	0.0
Current liabilities	(64.7)	(80.0)	(91.7)	(98.1)	(105.5)
Capital employed	277.5	301.7	318.1	352.2	386.0
Bank borrowings	(32.3)	(32.4)	(19.8)	(19.8)	(19.8)
Lease liabilities	(111.1)	(124.6)	(139.3)	(154.2)	(166.8)
Deferred tax liabilities	0.0	0.0	(2.6)	(5.9)	(6.9)
Provisions					
Non-current liabilities	(143.4)	(157.0)	(161.8)	(179.8)	(193.5)
Net assets	134.1	144.7	156.4	172.4	192.5
Shareholders' funds	134.1	144.7	156.4	172.4	192.5

All figures IFRS 16; Source: Company historic data, ED forecasts and analysis



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