Loungers plc

Delivering self-funded growth "all-day" long

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27th March 2024

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Delivering self-funded growth "all day" long

Loungers is an award winning, uniquely positioned all day café-bar group that has grown revenues an impressive 22.5% CAGR FY16-FY23. Comprising of Lounges, Cosy Club and Brightside, the 257-site group still has huge scope to grow towards its conservative ambition of over 650 sites. Loungers is profitable with improving margins and we forecast will generate over £100m free cashflow (pre-expansion capex) FY24E-FY26E. This, we estimate, will fully fund c.100 new site openings over the next three years driving 16% CAGR in Revenues, 18% CAGR in Adj. EBITDA and 20% CAGR in Adj. EPS FY23-FY26E. This high growth is not reflected in the group's valuation, in our view. We initiate coverage with a Fair Value of 360p, based on 8.0x cal 2025 EV/Adj. EBITDA.

Menu diversity and value driving 25% increase in LFL sales since FY19

Loungers was established as a great value-for-money neighbourhood café-bar that is as good for coffee as it is for breakfast, lunch, dinner or evening cocktails. By offering an inventive and diverse menu that appeals to all ages, Loungers has consistently outperformed peers with LFL sales growth accelerating to an impressive 7.7% in 1H24. With high average weekly sales densities and low rents to sales ratios, Loungers has successfully navigated cost headwinds and has seen Adj. EBITDA margin return to 12.1% (IAS 17 metric) in FY23 and is on track to recover to pre-COVID levels of 13.5%.

Accelerated new site openings and 30%+ CROCCI returns

Opening new sites is part of Lounger's DNA and the group is on track to open 36 (more than one a fortnight) in FY24E. With a property market in Loungers' favour and a versatile approach to new locations, Loungers is driving highly attractive cash returns on cash invested of more than 30%.

Growth prospects undervalued, 360p Fair Value

Offering higher organic growth than sector peers, operating cashflow to re-invest in growth and a strong balance sheet, we initiate coverage of Loungers with a Fair Value of 360p based on c.8.0x calendar ("cal") 2025 EV/EBITDA and equating to c.1.3x cal 2025 EV/Sales and 29x cal 2025 PER, approximately 1.5x our forecast 20% CAGR in EPS FY23-FY26E.

Key Financials & Valuation multiples

Year to mid-April (£m)	2022	2023	2024E	2025E	2026E
Revenue	237.3	283.5	344.2	391.6	446.2
Revenue growth (%)	*n/c*	*19.5*	*21.4*	*13.8*	*13.9*
Adj. EBITDA*	51.3	44.0	52.7	61.7	71.9
Adj. EBITDA margin (%)	*21.6*	*15.5*	*15.3*	*15.8*	*16.1*
Adj. PBTA	21.6	9.4	11.6	14.8	19.7
Adj. PBT margin (%)	*9.1*	*3.3*	*3.4*	*3.8*	*4.4*
Adj. diluted EPS (p)	17.0	8.1	8.1	10.4	13.9
Net financial debt / Adj. EBITDA (x)	0.0	0.2	0.2	0.2	0.0
Net debt incl leases / Adj. EBITDA (x)	2.2	3.0	2.8	2.7	2.4
EV / Sales (x, calendarised)		1.2	1.0	0.9	0.8
EV / Adj. EBITDA* (x, calendarised)		7.8	6.6	5.7	4.8
PER (x, calendarised)		25.8	22.0	16.7	12.1

*Source: ED analysis, IFRS 16 *post pre-opening costs, FY24E 53 weeks; Share price at COB 25/3/24*

Company Data

EPIC	**AIM: LGRS**
Price (last close)	210p
52 weeks Hi/Lo	240p/178p
Market cap £m	£218m
ED Fair Value	360p
Net debt incl leases FY24E	£162m

Share Price, p

Source: ADVFN

Description

Founded in 2002, Loungers has grown rapidly to a nationwide portfolio of 218 "Lounge" bars, and 36 "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.

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Contents

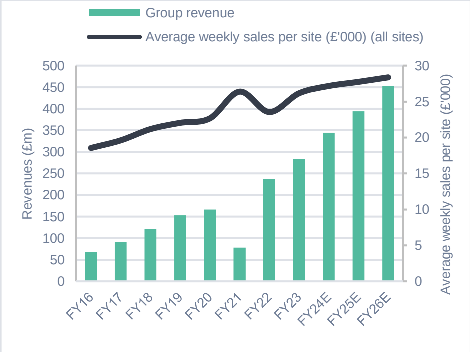
Loungers: Investment Overview

Founded in 2002 and floated on AIM in April 2019, Loungers is an all-day dining restaurant-café-bar that has won multiple industry awards across its two main brands: Lounge (now 218 locations) and Cosy Club (36 sites). A third brand, Brightside, a roadside diner, is in trial with three sites.

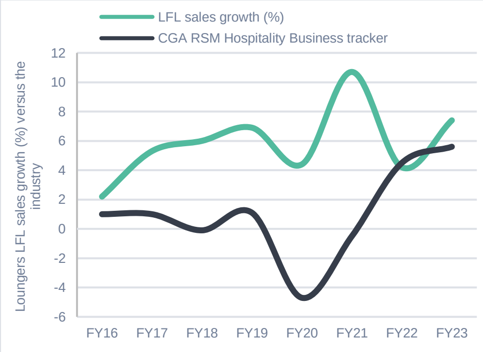
The diversity of menu allows for high average (net) sales per site of £27,100 per week, +25% LFL in four years since pre-COVID, as well as value and innovation, to keep the offer fresh and relevant. As such, Loungers has consistently outperformed peers with 5% average LFL sales growth from FY15-FY23, accelerating to 7.7% in 1H24. With high sales densities and low rents to sales, Loungers has navigated the cost headwinds and seen Adj. EBITDA margin return to 12.1% (IAS 17 metric) in FY23 and is on track to recover to pre-COVID levels of 13.5%.

Excitingly for investors, Loungers' is only approximately a third of the way through its potential for site openings, funded from internally generated cashflows, thus maintaining a strong balance sheet.

An impressive track record of site expansion…



…and industry-beating LFL sales growth



Source: Company data, ED

Investment Highlights	Risk Factors
• Excellent track record of sales growth • All-day innovative dining menu • Operating margins improving • Huge opportunity for expansion; a favourable property market and CROCCI of 30%+ • Experienced management team and valued staff with annual "LoungeFest"	• 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**
• Industry-leading LFL sales growth of 7.6% in FY24E and then 5% in FY25E and FY26E • 34 new site openings a year towards long term ambition of 650+ • £100m+ cashflow pre-expansion capex over the next 3 years to fund growth	• Trading on only c.5.7x cal 2025 EV/Adj. EBITDA, below pub & restaurant peers • Offers higher growth and less financial gearing than peers • Our Fair Value is 360p (8.0x cal 2025 EV/Adj. EBITDA)

Investment attractions

1) A unique all day and evening dining concept

Over the past 20 years Loungers has built its main brand, Lounge, as an all day and evening café-bar offering something for everyone. From high-quality coffee to cocktails, drinks account for 41% of Lounge sales, whilst food sales make up 59%. Throughout the day, Lounge bars offer breakfast and brunch through to evening meals with c.14% of sales occurring before noon, c.44% between 12 and 5pm and c.42% after 5pm bringing additional resilience to the model. The example menu below, which is the same menu on offer across the estate, gives an idea of the wide diversity of food on offer from flatbreads to burgers to tapas. Moreover, all of the menu is served all day, fresh from the kitchen, giving customers an array of choice, irrespective of the time of day.

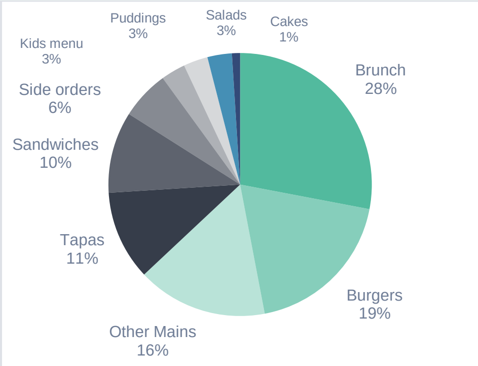
A diversified all-day dining menu ranging from brunch to burgers to tapas

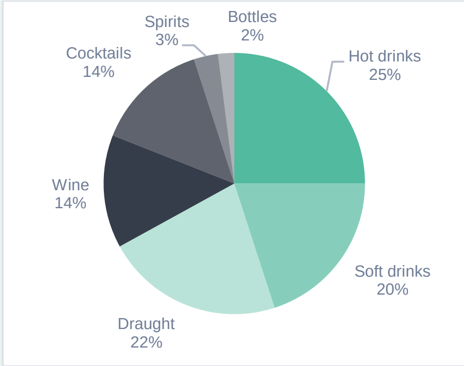
Source: Company (menu from Castano Lounge, Ealing Broadway, February 2024)

As an all-day concept, brunch sales are nearly 30% of the food sales mix and fast growing

The following charts illustrate how customers buy into the whole menu with a wide diversity of both food and drink sales. Brunch sales account for nearly 30% of the mix whilst burgers account for nearly 20%, other main meals 16% and tapas 11%. Meanwhile hot drinks such as coffee & tea account for a quarter of drink sales (and c. 10% of total sales), other soft drinks, including recent innovations in milkshakes and iced-coffee, account for 20% and alcoholic drinks account for c.55%.

A balanced split of food… …and drinks





Source: Company data, ED

Not being reliant on one particular food, such as pizza, burgers or chicken, gives Loungers great flexibility for menu innovation

There is further food diversity within main meals with Asian dishes accounting for 18% of main meal sales in Lounge since the introduction of dishes such as Nasi Goreng. The non-reliance on any one food group, such as burgers, pizza or chicken, is important for three reasons.

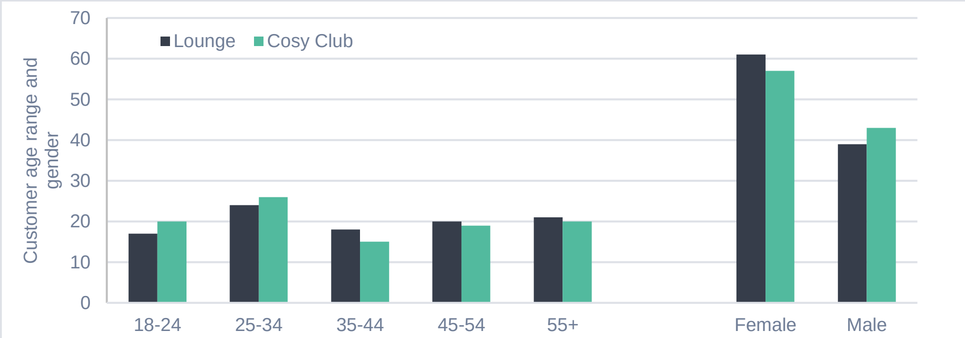
- In a time of particularly high input cost inflation, menu diversity allows for a more flexible cost base and the ability to respond to customer demand with greater value for money.
- It allows for menu innovation and an ability to adapt to changing customer tastes and fashions to stay relevant. Loungers' expansion of its flatbread range and its vegan offer have been directly in response to customer demand and highly successful.
- It allows Loungers to compete with a broad competitor set of coffee bars, burger chains, other restaurants and bars, as can be seen in the (non-exhaustive) diagram below.

Loungers competes against a broad range of restaurants, pubs and bars

Source: Company data, Names mentioned were finalists in different categories at the Casual Dining Awards 2023

The diversity of menu and "occasion" (i.e. coffee, lunch, socialising with friends, evening drinks or dinner) attracts customers of all ages and genders. It also allows for multiple opportunities for customers to visit within a week. This competitive advantage is seen in Loungers' sales trends.

Loungers attracts customers of all ages and genders



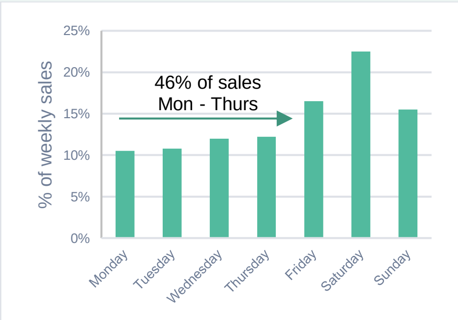
Source: Company data from November 2018 and December 2017 surveys

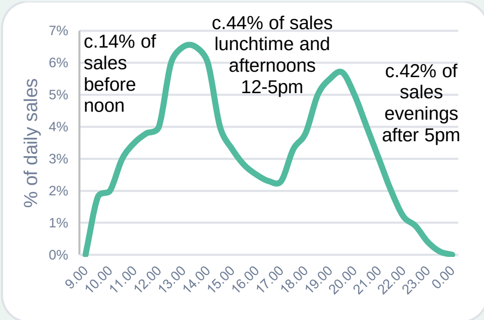
Over 50% of Lounge sales are in the daytime, driving greater sales overall

2) Menu diversity, innovation and value drive sales and awards

As a result of Loungers' brand appeal and diversity of menu, sales are split fairly evenly by hour and even by day, driving average weekly sales and reducing the reliance some bars and restaurants have on evening or weekend trade. Brunch and daytime sales are the fastest growing area, though evenings sales growth is also encouraging (as mentioned in the 1H24 results).

Nearly half of sales are Mon-Thurs… **…and sales are throughout the day**





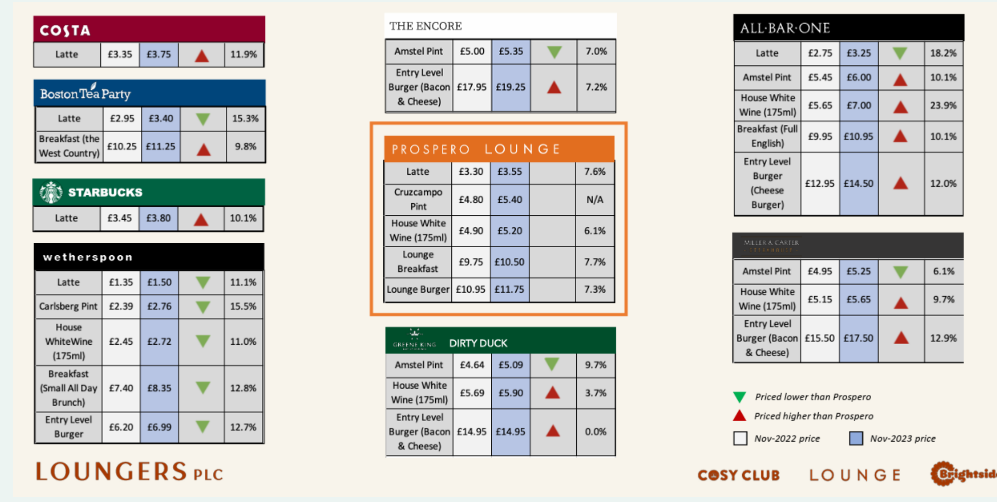
Source: Company data, ED

Loungers has improved its value for money versus the competition during the recent period of very high inflation

There is also a relentless focus on maintaining excellent value for money. In a time of high inflation, where Loungers' top 20 ingredients have seen weighted average inflation of over 10% in the year to September 2023, the business has had to pass on some input inflation. But not all. Selling prices rose on average 4% in April 2023 (the Spring menu) and a further 3% in October 2023 (the Autumn menu) but management believes this to be less than the competition.

As an example, Loungers illustrated in its 1H24 results how prices for a coffee, beer, glass of house white wine, a breakfast and a burger had risen by 6%-8% at its Prospero Lounge in Stratford upon Avon, in the year to November 2023. However this was considerably less than price increases at the local competition, which were mostly in the 10%-15% range.

Loungers has raised prices by less than the industry, offering greater value



Source: Company data

TripAdvisor shows more than half of customer reviews of the Prospero Lounge to be "Excellent" (28/53) with comments such as "*Consistently Great!*", "*Fantastic!*" and "*Best Breakfast*".

High praise from customers for Lounge's breakfast and value for money

Note: As of February 2024, Prospero Lounge's Breakfast was priced at £10.50 and the "Big Breakfast" priced at £14.95.
Source: TripAdvisor

But we don't need to rely on the view of just one customer. Loungers' unique offering, value and strong brand appeal is recognised not only by Loungers' customers ("*72 per cent of Lounge customers see it as a unique proposition, rather than categorise it as solely a restaurant, pub or coffee shop*" as cited in the FY22 Annual Report), but by the hospitality industry.

An award-winning business model

In 2023 Loungers won Best Overall "Pub/Bar of the Year"…

…and Cosy Club won "Best Menu Innovation"

Loungers recorded its latest awards at the 2023 Casual Dining Awards for the "UK's best restaurants, pubs & bars" (25th April 2023 (see: https://cdawards.co.uk/2023/05/12/uks-best-restaurants-pubs-bars-revealed-at-the-casual-dining-awards-2023/). Overall, Loungers won in an exceptional two out of the three categories entered.

- Loungers won overall 'Pub/Bar of the Year', even though it is not a pub;
- Cosy Club won 'Best Menu Innovation', highlighting a key point of difference; and
- Loungers was also a finalist for Casual Dining Group of the Year..

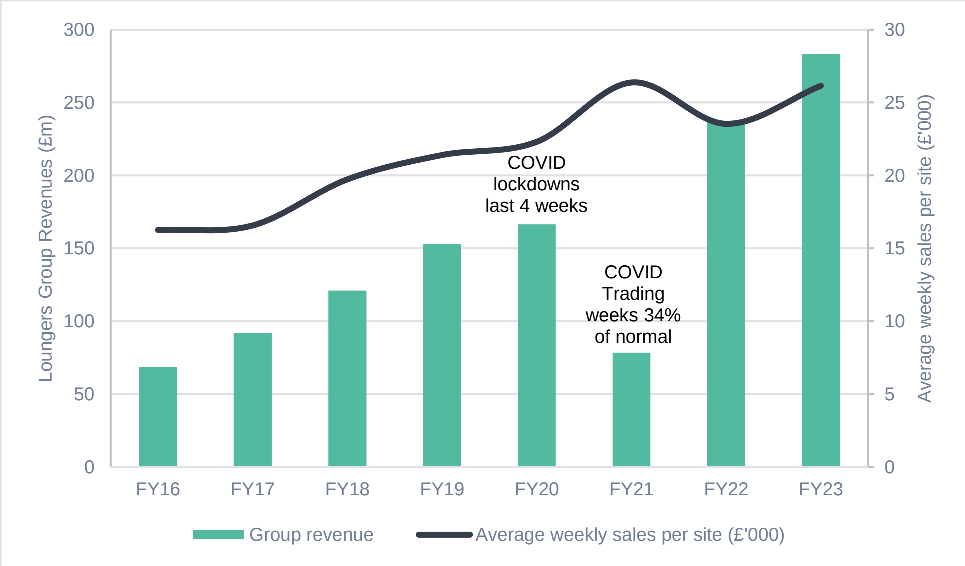
This success has been building over many years, and particularly through the last four years during and post COVID. In our view, these awards illustrate the strength of the business model, the significant experience of the Loungers' management team, and the high regard the group is held in across the industry.

Impressively high sales growth

Average weekly sales per site have grown an impressive c.67% since FY16 (to 1H24) and c.27% since pre-COVID levels.

Total group sales have grown from £68.5m in FY16 to £283.5m in FY23, an impressive CAGR of 22.5%, whilst average weekly sales per site have grown 67% from £16,300 in FY16 to £21,400 in FY19 (pre-COVID) to £26,100 in FY23 and £27,100 in 1H24.

Loungers' 22.5% CAGR in sales and c.67% increase in average weekly sales



Source: Company data, ED, average weekly sales in FY20 and FY21 adjusted for trading weeks opened due to COVID lockdowns and FY22 average weekly sales excludes the temporary VAT benefit.

Loungers has consistently outperformed the industry with a four year LFL sales growth of 25% (to 1H24) …

…and average LFL sales growth of 5% a year since FY15 (ex-COVID).

This competitive advantage has led to Loungers consistently outperforming the industry in LFL sales growth over the past decade. The following chart shows how Loungers has grown faster than the wider UK hospitality industry, as measured by the CGA RSM Hospitality tracker (which aggregates sales data from over 100 leading bar, restaurant and pub chains in the UK). Excluding FY20 and FY21 as COVID impacted years, the industry has averaged 2.1% LFL sales growth from FY15-FY23, whilst Loungers has averaged an impressive 5%, 3 percentage points higher, over the same period. 1H24 LFL sales accelerated to 7.7% and LFL sales in the first 8 weeks of 3Q24 continued at a similar level (7.6% for 32 weeks to 26 Nov 23).

The compound impact of Loungers' superior LFL growth is even more stark. Whereas Loungers has grown LFL sales 25% over the past four years, the compound industry LFL growth from FY19-FY23 was only 5%.

Loungers has averaged 5% LFL sales growth (ex-COVID years), consistently outperforming the industry's 2% LFL sales growth

Source: Company data, CGA RSM Hospitality Business Tracker

3) Engaged staff, low rents, profitable and high returns

A profitable model, on track back to pre-COVID margins

Not only does Loungers' all-day dining and balanced offer drive high average weekly sales but it enables Loungers to manage its gross margin and leverage its fixed costs resulting in a profitable business model. In FY23 Loungers achieved a:

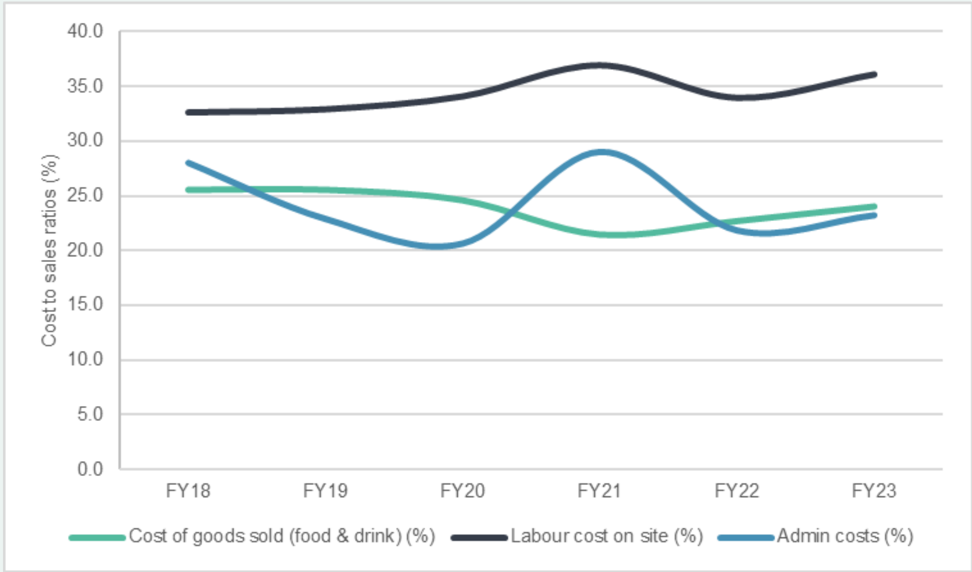
- 39.9% gross margin (post cost of food & drink and staff on site);
- a 16.7% Adj. EBITDA margin (IFRS 16) (post administration costs);
- a 12.1% Adj. EBITDA margin under (the old) IAS 17 definition (which was post property leases);
- a 5.9% Adj. operating margin (post depreciation comprising 4.7% of sales on PPE (fixtures) and 3.5% of sales on right-of-use-assets – all property leases, and post site pre-opening costs equivalent to 1.2% of sales, and share-based payments, 1.4% of sales)
- and a 3.3% Adj. PBT margin.

Loungers' three biggest costs are:

- staff on site (36.1% of sales in FY23, including pre-opening staff costs);
- food and drink (24.0% of sales in FY23);
- and administration costs (23.2% of sales in FY23).

Through all the upheaval of the past few years – COVID lockdowns, extremely high inflation in energy, labour and food & drink and low consumer confidence – management has managed the business well. As a result, the business is on track to get back to a pre-COVID Adj. EBITDA (IAS 17) margin of 13.5%. We estimate Loungers will see 30bps of operating leverage to a 12.4% Adj. EBITDA (IAS17) margin in FY24E and a further 30bps to 12.7% in FY25E.

Despite high food and labour inflation, Loungers has controlled cost ratios



Source: Company data, ED

Engaged, happy staff key to Loungers' success

Loungers places considerable emphasis on the hiring, retention and motivation of its staff, recognising that in the managed hospitality market the quality and commitment of employees is key to overall performance. Management's goal is to be "the number one choice for anyone pursuing a career in the hospitality industry in the UK". To this end, 67% of the Lounge operations team have been promoted internally from site roles and Loungers has recently introduced regional talent and recruitment managers.

In addition, the Group has regular monthly forums called "Glue Crews" where the senior management team meet with employees of all levels, and there is an annual survey of employee priorities. Coming out of COVID the Group launched a programme called 'The Commitments', which outlines employer responsibilities, followed by regular employee surveys to gauge management performance against delivery. The introduction of an "Order at table" app during COVID also helped in driving a higher quality of hospitality service (e.g. more at table interactions and fewer queues at the bar), as well as higher average spend and faster ticket times.

Unique LoungeFest annual party helps drive an inclusive, fun culture

In April 2023 on-site team salaries were restructured, with the redistribution of a portion of the bonus pool into an average +11% overall salary increase, mindful of cost-of-living pressures. For staff paid on an hourly basis the Group has added benefits such as free food and non-alcoholic drinks on site and staff discounts, which, in addition to the existing no-uniform policy and "be yourself" culture, made Loungers an attractive place to work. Loungers has also adapted shift hours recognising (from their annual survey) that some employees want to work shorter hours.

In addition, once a year all employees are invited to a free staff party, LoungeFest. Illustrated below it is a day of free food, drink and entertainment styled as an outdoor music festival. As Loungers notes: "One of the consistent messages we hear from our team is that it's not all about pay. Working in hospitality should be rewarding and fun, and this is inherent in the Loungers' culture". The 2023 event, illustrated below, was held on 19th June and was an investment of £0.7m or c 0.2% of sales.

LoungeFest celebrations 2023

Source: Company data. Note: Loungers PLC's LoungeFest is a corporate event and not the – annual, July - Loungefest event held in Noordwijkerhout, Netherlands.

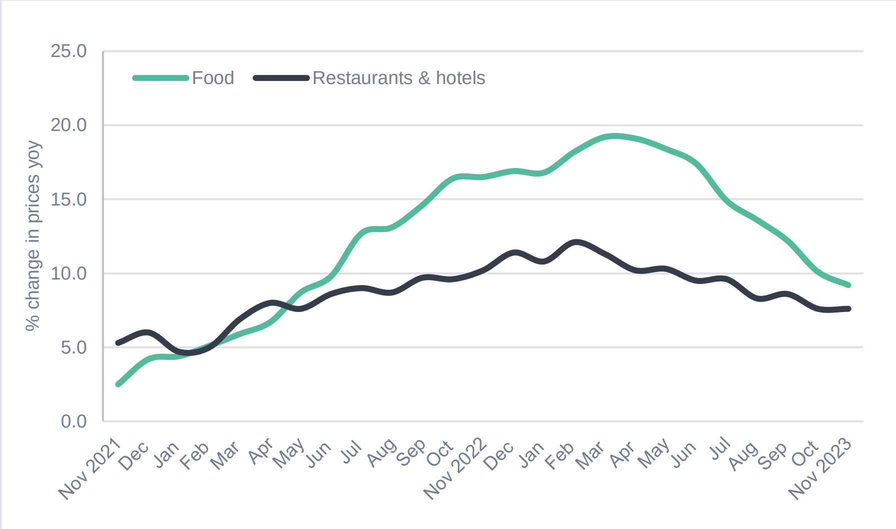
Wage inflation remains a factor, however the 1H24 results showed that Loungers had broadly absorbed c.8% wage inflation, driven by the April 2023 National Living Wage ("NLW") increases, within 7% price inflation, resulting in a steady labour cost to sales ratio of c.36% we estimate. Looking ahead, the NLW will increase again, by 9.8%, in April 2024, but we anticipate Loungers will once again have plans to manage the increase. Fortunately, and helpfully, the outlook for food and drink inflation is more benign.

Food & drink inflation easing

As already mentioned, inflation in Loungers' top 20 ingredients was 10.2% in the year to September 2023, impacting the whole industry, but cost inflation is now easing. Lounger's top 20 ingredients saw minimal inflation (+0.2%) over 1H24 whilst drink inflation averaged only 2.7% in 1H24. As a result the group's gross margin increased 60bps in 1H24 (excluding pre-opening costs) benefitting from scale purchasing and operational gearing (and flat labour costs to sales).

The group has a diverse supplier base with the top five accounting for c.40% of total non-payroll spend and prices for seasonal market products are fixed for 3-6 months typically. Most suppliers are paid in sterling (so very little direct foreign exchange "FX" risk).

Food price inflation finally moderating



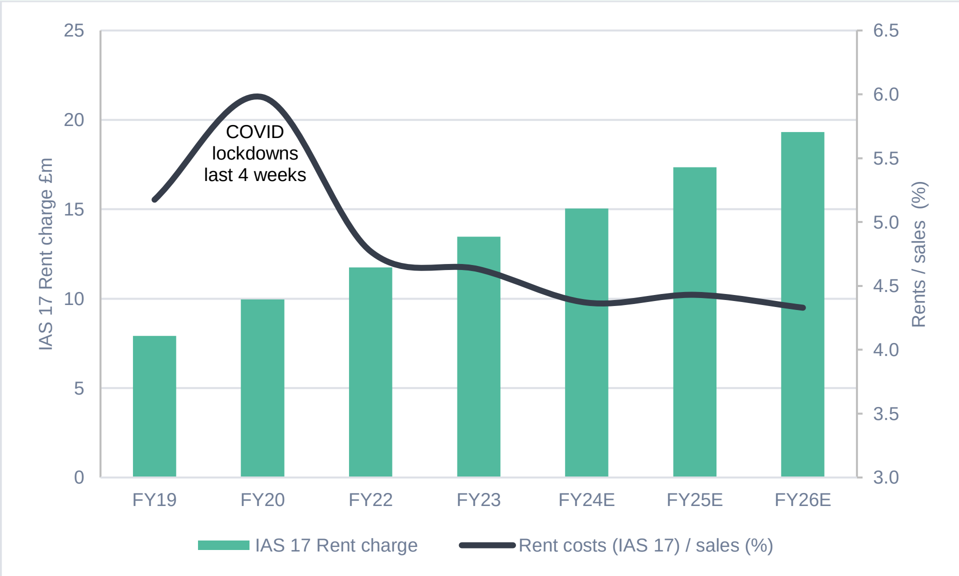
Source: ONS, ED

Leveraging property costs over increased sales

Rent costs have fallen to only 4.4% of sales in 1H24, down from 5.2% in FY19

Loungers' success in increasing LFL sales and average weekly sales is helping leverage the group's property costs. This has resulted in a low group rent to sales ratio of only 4.4% in 1H24, down 30bps yoy from 4.7% and from 5.2% in FY19, pre-COVID. Loungers is also able to leverage its business rates expenses with rates only accounting for 2.2% of sales in 1H24, also down 30bps yoy from 2.5%, with the introduction of April 2023 rating list.

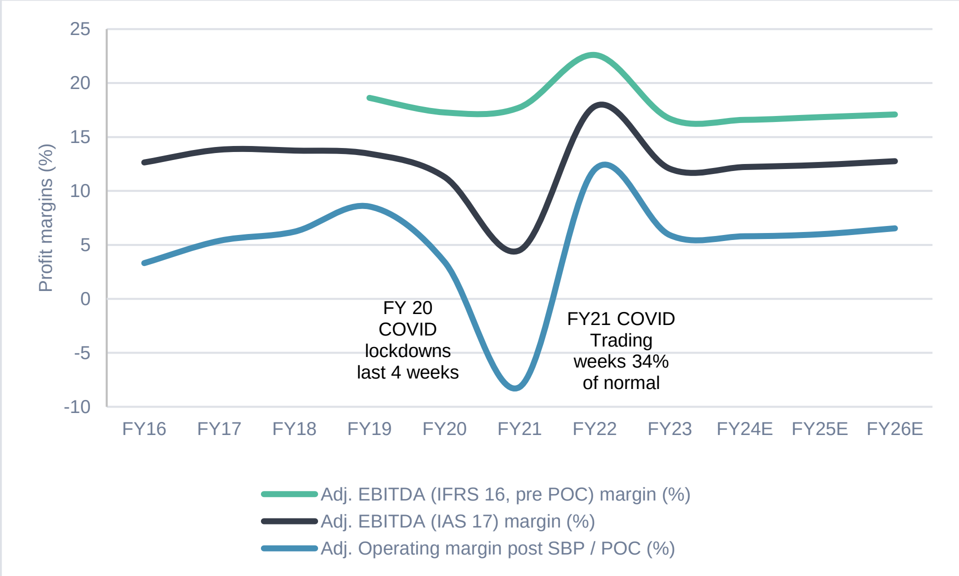
110bps of rent & rates cost leverage since FY19; more to come



Source: Company historic data, ED forecasts and analysis

The net impact of increasing average weekly sales, easing food and drink cost inflation, property cost leverage and engaged staff results in a forecast improvement in profit margins. After the COVID dip in FY21, FY22 benefitted from £15.1m temporary VAT reductions, driving margins higher.

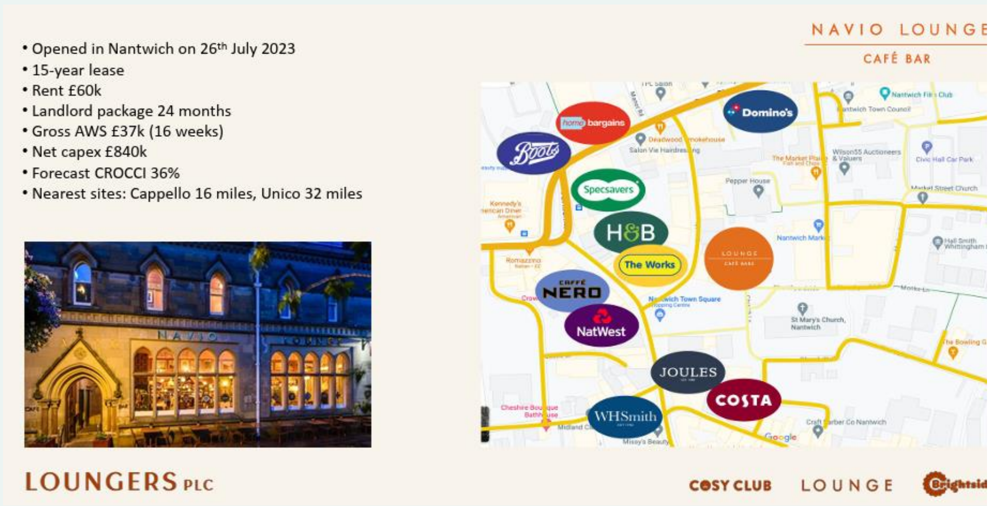
Profitable growth, gaining leverage over fixed costs



Note: FY22 margins benefitted from £15.1m of temporary VAT reductions.
Source: Company historic data, ED forecasts and analysis

As we go on to discuss, high site contribution margins combine with low net capex to drive very good returns on capital with site cash return on capital invested ("CROCCI ") of over 30%.

Recent case study – Navio Lounge

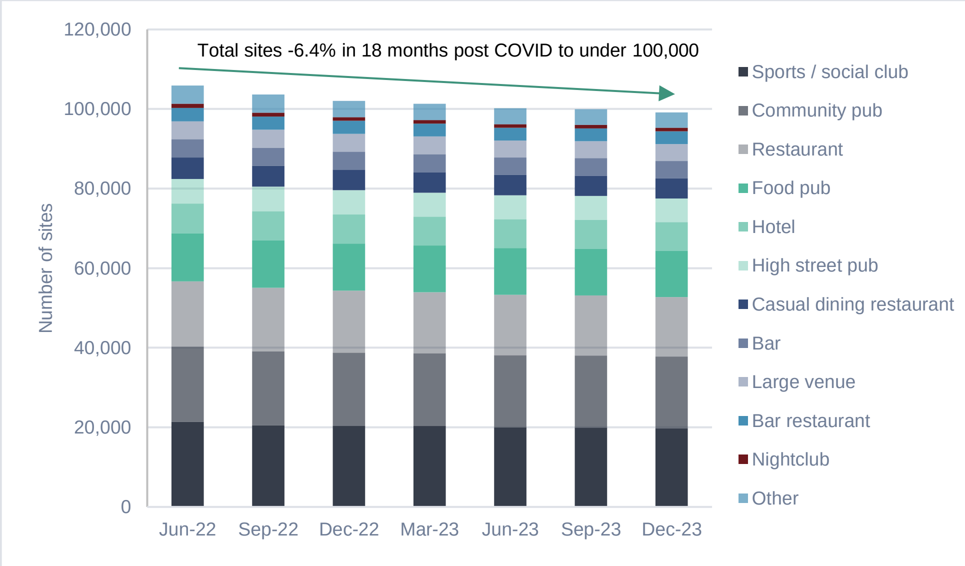


Source: Company data

4) A well invested business, with huge expansion potential

Given a tough economic environment of high inflation and low consumer confidence the wider UK hospitality market has seen significant site closures with over 6% of establishments closed within the past 18 months post COVID.

UK Industry closures: Number of bars, restaurants, pubs down 6%

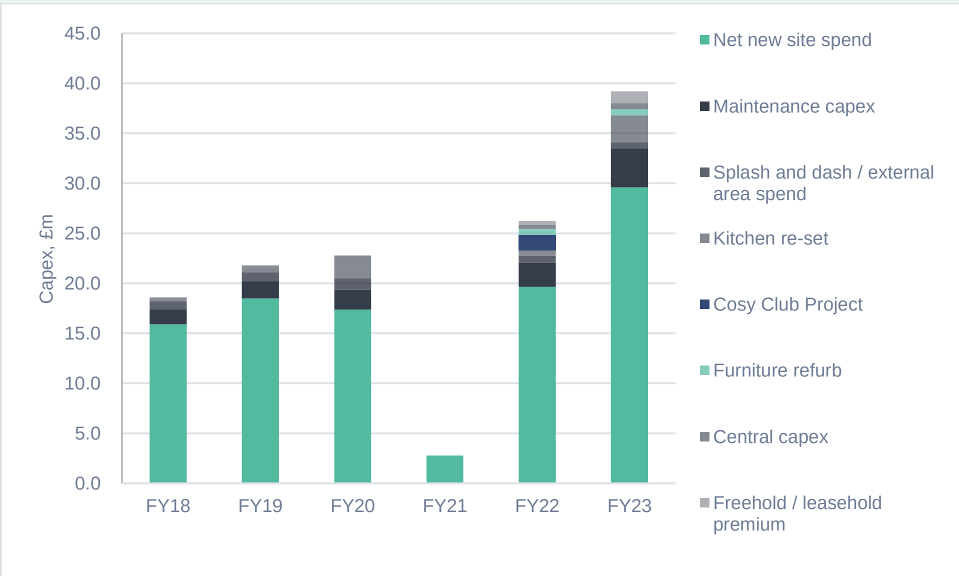


Source: CGA Hospitality Market Monitor

Loungers can take advantage of the more favourable property market

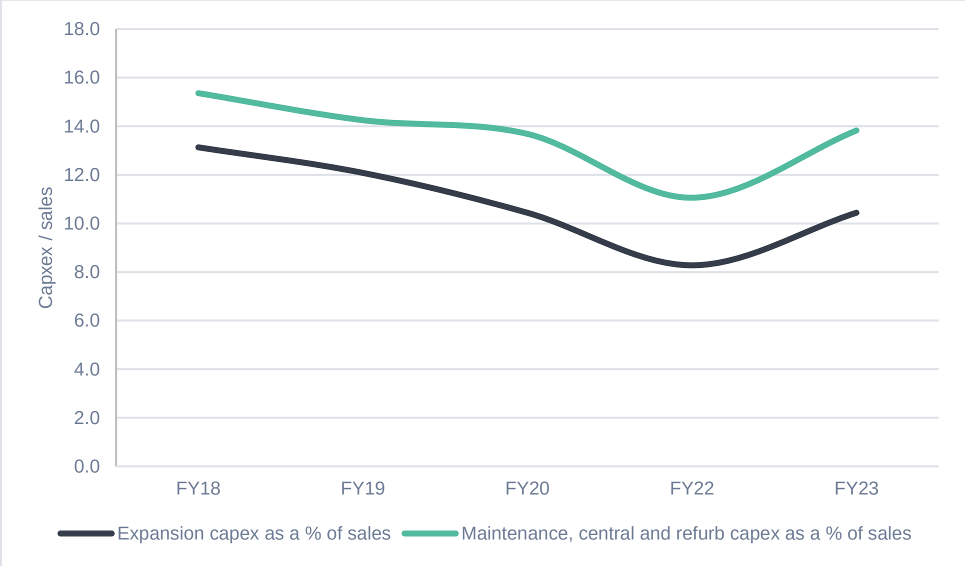
In contrast, Loungers has continued to invest 11%-15% of sales (FY18-FY23, excluding FY21) in its business. Most of this has gone on new sites and expansion but 2%-3% of sales is invested annually into maintaining and refurbishing the existing sites, as seen in the charts below.

Loungers invests 10%-15% of sales a year in maintenance & expansion



Source: Company data

Approximately 10% of sales invested into site expansion



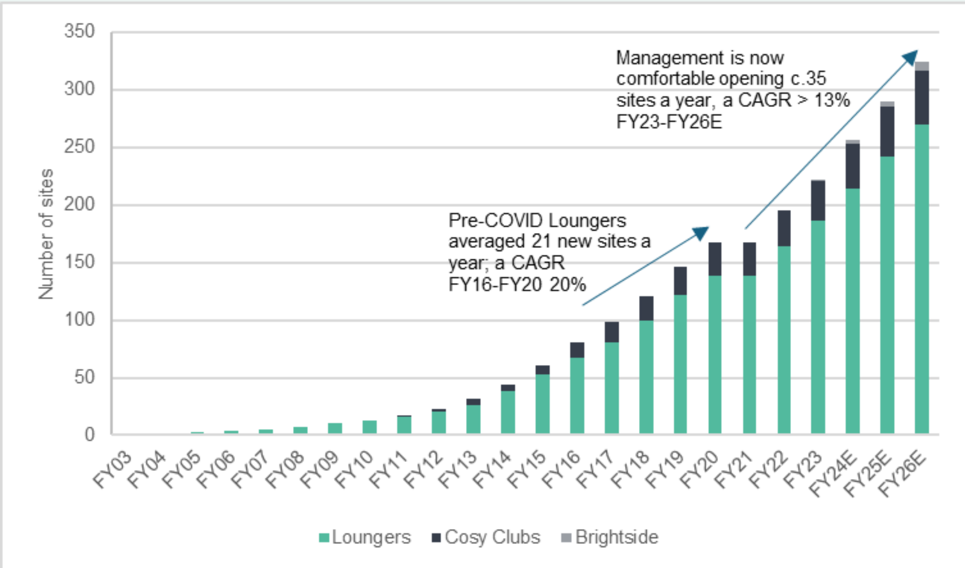
Source: Company data

Pre-COVID, Loungers typically opened around 20 new sites a year costing around £650k to fit out, resulting in net expansion capex of under £20m. With a site opening approximately every two weeks, new sites are a normal part of business operations and the company has significant roll-out experience across the group to support ambitious expansion.

Once open, gross margin and labour ratios at new sites typically take 6 months to reach mature levels. At that point a site reaches operational efficiency and sales will have normalised following any honeymoon period. New sites then continue to grow with typically mid-single-digit LFL sales growth driving improving EBITDA margins and CROCCI.

In FY23 Loungers opened 27 net new sites (29 new sites, one relocation and one closure), and in FY24E Loungers is on track for an increased number of 36 openings, a level which they are now comfortable with going forward.

Loungers' accelerated expansion; comfortable opening c.35 sites a year



Source: Company historic data, ED forecasts and analysis

As many retail sites have also struggled in recent years, the property market is very much in Loungers' favour. As the diagram below shows, of the 59 new sites opened in 2022-2023:

- 23 or c.40% were former retail sites;
- 16 or c.27% were pubs or restaurants that had closed under different brands;
- 6 or c.10% were former banks (banking halls often make great, dramatic, Cosy Clubs); and
- 14 or 23% were new development sites (ranging from a site in Wembley to a former library in Chester and a site at Jesus College in Oxford).

Loungers can be versatile with possible new site locations

Loungers is benefitting from retail, restaurant and bank closures

Source: Company data

This abundance of possible new sites, combined with Loungers' versatility in successfully trading from sites with different characteristics (e.g. coastal towns to retail/leisure centres to high streets), is helping cash return on cash invested (CROCCI) exceed 30%.

As the following table of roll-out investment metrics shows:

Landlords are contributing more than pre-COVID

- Landlord contributions have increased 250% from FY19 to FY23, to, on average, £2.8m or the equivalent of 24 months' rent; and this is not because of higher rents or longer lease lengths; the average lease length has come down marginally to 15.0 years.
- Average annual rents have only risen 8% from FY19 to FY23, whilst the number of covers (related to site size) has increased 12%.
- Meanwhile, Year 1 Gross average weekly sales have increased 36% to £30.9k (equivalent to £1.6m a year), more than offsetting the 29% increase in average fit-out capex of £835k (21% to £785k excluding the Martello Lounge).

Roll out investment metrics	FY19	FY23	% change
Lounge sites opened	**23**	**24**	
Contribution incentive in months	7	21	
Rent free incentive in months	6	3	
Average incentive in months	13	24	
Landlord contributions (£m, "LLC")	**£0.8m**	**£2.8m**	**250**
Average lease length	15.6 years	15.0 years	-4
Average annual rent (£k)	£62k	£67k	8
Rent to revenue ratio	**4.9%**	**4.9%**	
Average capex net of LLC (£k)	**£649k**	**£835k***	**29**
Average covers	125	140	12
Year 1 Gross average weekly sales ("AWS") (£k)	**22.7**	**30.9**	**36**
FY23 Gross AWS (£k)	27.4		

*Nb: * Ex Martello Lounge average is £785k; Source: Company data, ED*

Case study – Ormo Lounge – larger £1.3m investment but bigger return

Source: Company data

Only a third of the way through the 600+ site potential for Lounge

As Loungers has had success in a variety of new openings so management's confidence in the growth potential of the business has grown. Management believes that Lounge could grow from 200 sites in 1H24 to "in excess of" 600 and Cosy Club could grow from 35 sites to in excess of 50 sites. The diagram below illustrates the opportunity to open further Lounge sites even in cities with multiple sites already, such as Bristol.

Bristol area: 4 Lounges, 1 Cosy Club and still 5 areas to open in

Source: Company data

Relocating sites can lead to higher sales, EBITDA and CROCCI

Source: Company data

Two established brands and a third in development

Brightside is Loungers' new roadside dining concept, offering a better-quality experience than the average roadside diner. Three sites have opened so far in Honiton, Exeter and Saltash, all on the roads down to Cornwall. Average weekly sales have already reached £22,500 with good trade from people living locally and peaks around school holidays.

Customer feedback has generally been very good:

- Brightside in Exeter has already generated 40 "Excellent" ratings out of 64 on TripAdvisor;
- Brightside, Honiton has generated 45 "Excellent" reviews out of 58 (average rating a high 4.5); and
- Brightside, Saltash has generated 40 out of 70 "Excellent" reviews with two recent reviews in January 2024 being:

First reviews of Brightside are promising

Lowis H
1

Reviewed 2 weeks ago

Food 10/10 staff 10/10

Well what can I say I do miss the old restaurant that use to be in this building but wow what a change.
I run restaurants as a deputy manager for a large chain and this play is lovely I would 100% visit again. It was very quiet when we arrived late afternoon but Lucia I think that was the young lady's name that looked after us a little trimmed but went that extra mile too look after us. You could see this was he first rodeo as a FOH waitress but you carry on the way you are going and you will go far within any business such a polite and professional young lass thank you again.
Show less

Date of visit: January 2024

Value | Service
Atmosphere | Food

sandra b
Cornwall, United Kingdom
31 12

Reviewed 2 weeks ago via mobile

Very very good

Two of us visited on a Friday evening. Its certainly different from Route 38, much more spacious, better lay out too, tables to take large and small bookings. Friendly greeting, and we chose a table in the section at the rear, looking out over their patio. Tables are a good size ie plenty of room for drinks, plates, etc. (no squashing everything together, like some places), seating is comfortable. We selected a vegan burger and a cheeseburger both served with your choice of French fries or waffle fries or sweet potato fries. Had a couple of sides too. Have to say...couldn't fault anything at all. Food was hot and tasty, sides were well portioned, plates had been warmed, service was very friendly. Could see partly into the kitchen and the bit I could see was spotless. Toilets were immaculate too. Music was playing, not blaring, in the background. Disabled access too.

Wasn't too busy, but looking at other restaurants in the same boat, perhaps it's that post Christmas 'spent out' time of year. Whatever it is, we will happily be eating there again. Well done.
Show less

Date of visit: January 2024

Source: TripAdvisor

This is promising but we recognise it is early days for these sites and the brand's business model is evolving.

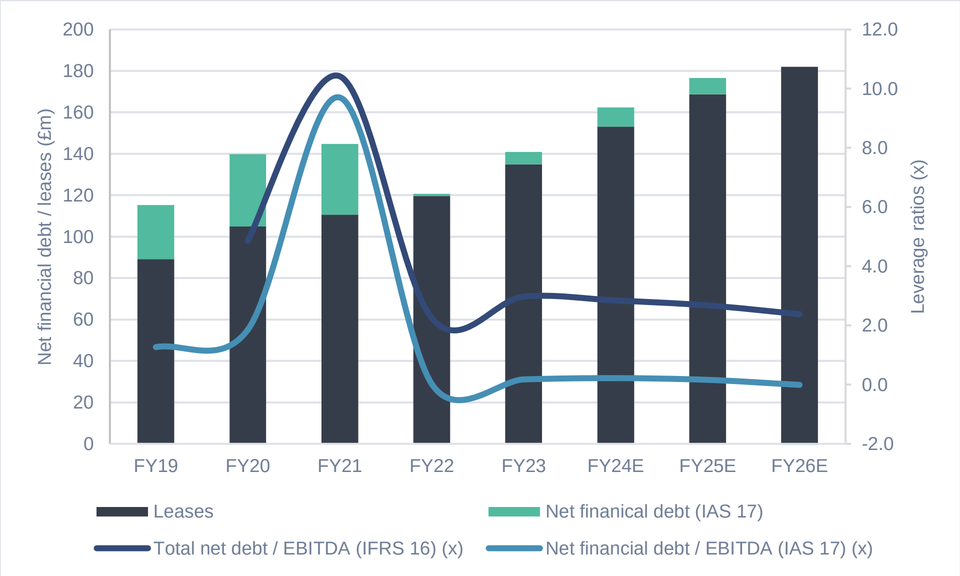
In summary, Loungers is only approximately a third of the way through its site potential with Lounge and Cosy Club and has a third brand in development. Moreover, expansion can be predominantly self-funded from operational cashflows.

5) Growth self-funded by internally generated cashflows

In contrast to some other peers, Loungers has strong pre-expansion cashflow generation and a strong balance sheet. The company has very little net financial debt – just £6m at FY23 year end and £14m at the seasonally lower point of 1H24 – and £142m of leases.

As such the group renegotiated its financing facilities in June 2023 and reduced its Term Loan from £32.5m to £20m whilst increasing its Revolving Credit Facility ("RCF") from £10m to £22.5m, improving flexibility for working capital and growth. At the same time the facilities were extended to June 2026, giving management confidence to continue with its expansion plans.

Loungers has little financial debt (0.2x EBITDA at end FY23)…



Source: Company historic data, ED forecasts and analysis

…and at 3x Net debt incl leases / Adj. EBITDA (IFRS 16), Loungers is the least financially geared of its quoted peers

Source: Koyfin, ED analysis

Meanwhile, Loungers generated £27m of free cashflow pre new site spend in FY23, and £34m in the last twelve months to 1H24, enough to cover 100% of £34m new site capex. Looking ahead we forecast Loungers will generate c.£103m of free cashflow pre-expansion capex FY24E-FY26E, enough to fully fund our forecast new site capex.

Loungers can self-fund the next three years of expansion – > 100 new sites

Source: Company historic data, ED forecasts and analysis

Conclusions

To conclude on Lounger's investment attractions thus far:

- Loungers has a unique all day dining offer across 218 Lounge and 36 Cosy Club sites nationwide that attracts customers of all ages and genders and has won awards.
- The diversity of menu allows for high average (net) sales per site of £27,100 per week, +25% LFL in four years since pre-COVID, as well as value and innovation, to keep the offer fresh and relevant.
- Consequently, Loungers has been able to consistently outperform peers, averaging 5% LFL sales growth FY15-FY23 (excluding COVID disruption), significantly above the industry average of 2%.
- Opening new sites is part of Lounger's DNA and from FY16-FY20 Loungers opened c.21 sites a year (a CAGR of 20%). In FY22 and FY23 Loungers accelerated new openings to 27 a year and is on track to open 36 in FY24E, a level management is comfortable with.
- Returns on new sites are highly attractive at a CROCCI of 30%+, helped by a favourable property market and Loungers' versatility in operating from sites with different characteristics. Landlords are significantly more generous than in FY19, offering contributions worth 24 months' rent free, 15-year average lease lengths and average rents that have increased only 8% since FY19 whilst average weekly sales have increased 36%.
- Loungers' is only approximately a third of the way through its potential for site openings with a combined target of 650+ sites for Loungers and Cosy Club.
- In addition, Loungers has opened a third brand, Brightside, offering a higher quality roadside dining experience. With only three sites in SW England so far it is too early to discuss the possible scale of the brand but early signs are promising.

- Loungers is profitable, with a FY23 Adj. EBITDA margin of 16.7%, a FY23 Adj. EBITDA margin post rents (IAS 17) of 12.1% and an Adj. PBT margin of 3.3%. Management is on track to get back towards pre-COVID Adj. EBITDA margin (IAS 17) of 13.5%.
- Loungers is also cash-generative, and we forecast over £100m of free cashflow pre-expansion capex over the three years FY24E-FY26E, which will fund opening c. 34 new sites a year.
- As a result we expect Lounger's to maintain a strong balance sheet with financial net debt at only 0.2x Adj. EBITDA and Lounger's total debt including leases to also stay relatively low compared to peers at under 3x Adj. EBITDA.

In the next section we present Loungers' financial performance and our forecasts before discussing valuation.

Financials and forecasts

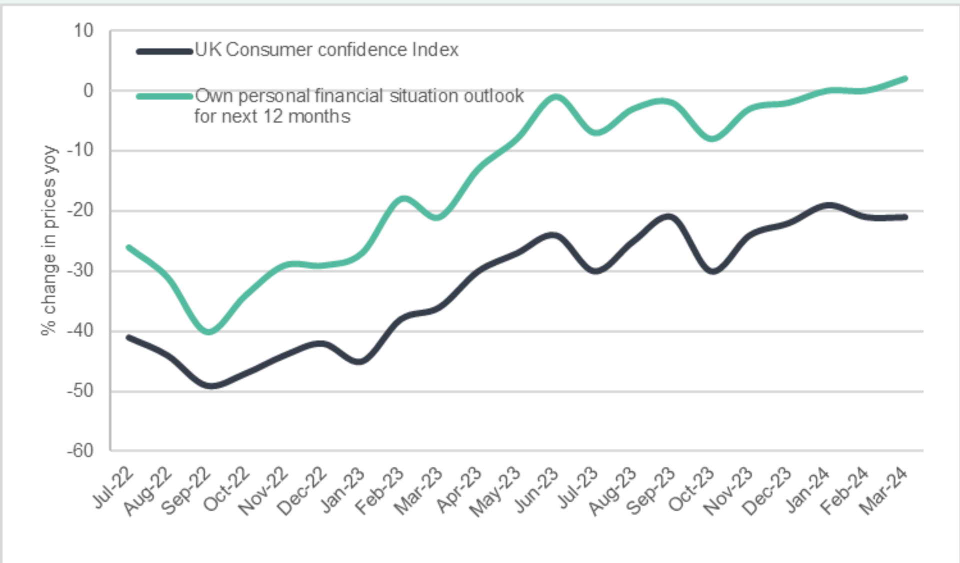
Loungers has a mid-April year end (FY23 ended 16 April) and FY24E will be a 53 week year ending 21st April 2024. The 53rd week is anticipated to add £6.8m to Revenues, £1.1m to Adj. EBITDA (IFRS 16) and £0.8m to Adj. EBITDA (IAS 17). Loungers report on an IFRS 16 basis and include a reference to Adj. EBITDA (IAS 17) – i.e. post property rents.

Macro-economic backdrop – an improving outlook

As a consumer discretionary stock, Loungers has been remarkably resilient with LFL sales growth far exceeding the industry, however we note that encouragingly:

- UK consumer confidence is improving with the March 2024 index standing at -21, close to its highest level in two years. Furthermore, for the first time since 2021, consumers are positive about their own financial situation in the next 12 months (+2).
- Underpinning this is easing inflation (CPI fell to 3.4% in March 2024) and expectations for interest rate cuts in 2024 have risen, leading to average mortgage rates falling in recent months (to c.4.6% for a 2-year fixed rate mortgage and to c.4.4% for a 5-year fixed rate mortgage, indicating that financial markets expect interest rates to fall (from the base rate of 5.25% which was held on 20th March 2024).
- The easing of cost inflation, as discussed, is a tailwind for Loungers, however significant increases anticipated in National Living Wages in April 2024 is a headwind.

UK Consumers finally feeling positive about their own finances



Source: GFK Consumer Confidence Barometer, powered by NIM (March 2024)

Forecast drivers- site expansion and margin leverage

Underpinning our forecasts, which are presented in the following tables, are the following assumptions:

- 7.6% LFL sales growth for FY24E (given 7.6% for 32 weeks to Nov 23) followed by 4% in FY25E-FY26E, being a conservative discount to Loungers' historic performance of 5%. From FY25E we assume this is mostly volume rather than price led and includes the benefit of maturing new sites in their second year.
- Approximately 34 new site openings a year to reach c.326 in FY26E, costing c.£950k each to fit out post landlord contributions.

- A flat gross margin of 40.4% as we assume food & drink cost inflation moderates and buying and labour efficiencies offset the headwind of National Living Wage increases.
- Approximately 30-40bps of underlying operating leverage a year as higher average sales densities leverage fixed costs such as rents, noting there is a headwind as Loungers' May 2020 energy hedge for 145 sites rolls off in September 2024.
- Maintenance capex equals 1.4% of sales, rising to 1.8% and total capex/sales is 9%-12%.
- At the current time, we assume Loungers intends to reinvest cashflow into site expansion rather than pay dividends.

A high growth sales and profit outlook

As a result, we forecast:

- Sales, Adj. EBITDA and Adj. PBT CAGR FY23-FY26E of 16.3%; 18% and 28% respectively;
- Adj. EBITDA margin (IFRS 16, before pre-opening costs, company definition) rising 40bps from 16.7% in FY23 to 17.1% in FY26E;
- Adj. EBITDA margin (IAS 17) rising 70bps from 12.1% in FY23 to 12.8% in FY26E, moving towards the pre-COVID margin of 13.5% in FY19 as the company leverages property costs; and
- Adj. PBT margin rising 110bps from 3.3% in FY23 to 4.4% in FY26E.
- The increase in corporation tax rate leads to our EPS CAGR being below our Adj. PBT CAGR but still high at 20% for FY23-FY26E.
- We model a working capital inflow as the company expands and free cashflow before expansion capex of c.£30m-£40m, which we estimate will fully fund the new site opening program over the next three years.
- Hence we forecast total net debt including leases rising from £141m in FY23 to £182m in FY26E but total net debt / Adj. EBITDA falling from 3.0x in FY23 to 2.4x in FY26E.

Portfolio metrics

Year-end mid-April, £m	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Lounges	164	186	219	249	279
Cosy Clubs	31	35	36	38	40
Brightside		1	3	5	7
No of sites	**195**	**222**	**258**	**292**	**326**
Lounges	26	22	33	30	30
Cosy Clubs	1	4	1	2	2
Brightside	0	1	2	2	2
Net new sites	**27**	**27**	**36**	**34**	**34**
% growth	16.1	13.8	16.2	13.2	11.6
Average weekly sales per site (£'000) (all sites)	23.5	26.1	27.1	27.4	27.8

Source: Company historic data, ED forecasts and analysis

Key growth and margin metrics					
Year-end mid-April, £m	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
LFL sales growth (%)	4.2	7.4	7.6	4.0	4.0
New site sales contribution (est) (%)	8.7	12.1	11.7	11.8	9.9
Other incl calendar & COVID (%)	190		2.1	-2.0	
Revenue growth (%)	**202.9**	**19.5**	**21.4**	**13.8**	**13.9**
Gross profit growth (%)		9.9	22.9	13.8	13.9
Adj. EBITDA (IFRS 16) growth (%)		-11.7	20.6	15.5	15.6
Adj. EBITDA (IAS 17) growth (%)		-19.2	23.0	15.5	17.1
Adj. Operating profit post SBP / POC (%)		-29.0	17.9	11.9	18.5
Adj. PBT growth (%)		**-56.7**	**23.8**	**27.3**	**33.6**
Adj. EPS growth (%)		**-52.4**	**0.7**	**27.3**	**33.6**
Gross profit margin (%)	43.4	39.9	40.4	40.4	40.4
Adj. EBITDA* (IFRS 16) margin (%)	22.6	16.7	16.6	16.8	17.1
Adj. EBITDA (IAS 17) margin (%)	**17.8**	**12.1**	**12.2**	**12.4**	**12.8**
Adj. Operating margin post SBP / POC (%)	12.0	5.9	5.8	6.0	6.5
Adj. PBT margin (%)	**9.1**	**3.3**	**3.4**	**3.8**	**4.4**

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

Profit & Loss Summary					
Year-end mid-April, £m	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Group revenue	**237.3**	**283.5**	**344.2**	**391.6**	**446.2**
Cost of sales	(134.4)	(170.4)	(205.1)	(233.3)	(265.8)
Gross profit	**102.9**	**113.2**	**139.1**	**158.3**	**180.3**
Other income	2.5	0.0			
Operating costs ex SBP & POC	(51.8)	(65.8)	(82.0)	(92.3)	(104.1)
Adj. EBITDA pre SBP/POC	**53.6**	**47.3**	**57.1**	**65.9**	**76.2**
Site pre-opening costs (POC)	(2.3)	(3.3)	(4.4)	(4.3)	(4.4)
Adj. EBITDA post POC	**51.3**	**44.0**	**52.7**	**61.7**	**71.9**
Share based payment charge (SBP)	(3.2)	(4.0)	(4.0)	(4.1)	(4.2)
Adj. EBITDA post SBP/ POC	**48.1**	**40.0**	**48.7**	**57.6**	**67.7**
Depreciation of PPE	(11.2)	(13.4)	(17.5)	(21.1)	(24.0)
Depreciation of ROUA	(8.5)	(9.9)	(11.2)	(13.0)	(14.6)
Depreciation & amortisation	(19.6)	(23.2)	(28.7)	(34.1)	(38.5)
Adj. Operating profit pre SBP/POC	**34.0**	**24.1**	**28.4**	**31.8**	**37.7**
Adj. Operating profit post SBP/POC	**28.4**	**16.8**	**20.0**	**23.5**	**29.2**
Interest on financial debt	(1.2)	(1.5)	(1.9)	(1.3)	(1.3)
Interest on lease liabilities	(5.7)	(6.1)	(6.5)	(7.4)	(8.2)
Interest receivable & other	0.0	0.2			
Finance costs	(6.8)	(7.4)	(8.4)	(8.7)	(9.5)
Adj. PBTA	**21.6**	**9.4**	**11.6**	**14.8**	**19.7**
Exceptional costs	0.0	(2.0)	0.0		
PBT	**21.6**	**7.3**	**11.6**	**14.8**	**19.7**
Tax	(3.7)	(0.4)	(2.9)	(3.7)	(4.9)
Adj. PAT	**17.9**	**8.6**	**8.7**	**11.1**	**14.8**
Reported PAT	17.9	6.9	8.7	11.1	14.8
No of f/d shares (m)	105.2	106.6	**106.6**	**106.6**	**106.6**
Adjusted diluted EPS (p)	**17.0**	**8.1**	**8.1**	**10.4**	**13.9**

All figures IFRS 16

Source: Company historic data, ED forecasts and analysis

Capex analysis

Year-end mid-April, £m	FY22	FY23	FY24E	FY25E	FY26E
Number of new sites	27	27	36	34	34
Average cost per new site (£m)	0.8	1.3	1.07	1.05	1.03
Average landlord contribution (£m)	0.1	0.2	0.12	0.12	0.12
Expansion capex as a % of sales	8.3	10.4	9.9	8.0	6.9
Maintenance capex as a % of sales	1.0	1.4	1.4	1.8	1.8
Maintenance, central and refurb capex as a % of sales	2.8	3.4	2.2	2.2	2.2
Total capex as a % of sales	**11.1**	**13.8**	**12.2**	**10.2**	**9.0**
New site capex	22.6	34.1	38.5	35.7	34.9
Landlord contributions	(2.9)	(4.5)	(4.3)	(4.2)	(4.2)
Net new site spend	**19.6**	**29.6**	**34.2**	**31.5**	**30.7**
Maintenance capex	2.4	3.9	4.8	7.0	8.0
Splash and dash / external area	0.7	0.6	1.0	1.0	1.0
Kitchen re-set	0.6	2.7	1.0		
Cosy Club Project	1.5				
Furniture refurb	0.6	0.6			
Advance purchases	0.4	0.6	0.6	0.6	0.6
Central capex			0.3		
Freehold / leasehold premium	0.4	1.2			
Net spend	**26.2**	**39.2**	**41.9**	**40.1**	**40.3**
Capex creditor movement	(3.3)	(2.2)	(2.0)		
Cash outflow	**22.9**	**37.0**	**39.9**	**40.1**	**40.3**

Source: Company historic data, ED forecasts and analysis

Cashflow					
Year-end mid-April, £m	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Adj. EBITDA (pre SBP/POC)	**53.6**	**47.3**	**57.1**	**65.9**	**76.2**
Pre-opening costs (POC)	(3.2)	(3.6)	(4.4)	(4.3)	(4.4)
Working capital movement	19.7	7.3	8.2	5.2	5.7
Exceptionals (cash)					
Tax paid	(1.4)	(0.1)	(2.9)	(3.7)	(4.9)
Net cash from operating activities (pre leases)	**68.8**	**50.9**	**58.0**	**63.2**	**72.7**
Net financial interest paid	(1.1)	(1.1)	(1.9)	(1.3)	(1.3)
Interest paid on lease liabilities	(5.3)	(6.1)	(6.5)	(7.4)	(8.2)
Lease payments (principal)	(6.9)	(8.8)	(11.2)	(13.0)	(14.6)
Maintenance capex	(6.2)	(7.9)	(7.4)	(8.6)	(9.6)
New site capex	(16.6)	(29.1)	(34.2)	(31.5)	(30.7)
M&A		(2.7)			
Capex	**(22.8)**	**(39.7)**	**(41.6)**	**(40.1)**	**(40.3)**
Free cashflow	**32.6**	**(4.9)**	**(3.2)**	**1.4**	**8.3**
Free cashflow pre-expansion	**49.2**	**26.9**	**31.0**	**32.9**	**39.0**
Dividends	0.0	0.0	0		
Share buy backs / equity issues	(0.1)	(0.2)	0.0		
Other					
Net cashflow	**32.5**	**(5.1)**	**(3.2)**	**1.4**	**8.3**

All figures IFRS 16

Source: Company historic data, ED forecasts and analysis

Net debt metrics					
Year-end mid-April, £m	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Gross financial debt	(32.3)	(32.4)	(22.4)	(22.4)	(22.4)
Net cash	31.3	26.4	13.2	14.5	22.9
Net financial debt (IAS 17)	**(1.0)**	**(6.0)**	**(9.2)**	**(7.9)**	**0.5**
Leases	(119.6)	(134.8)	(153.1)	(168.7)	(182.0)
Total net debt (IFRS 16)	**(120.6)**	**(140.9)**	**(162.4)**	**(176.6)**	**(181.5)**
Net financial debt / EBITDA (IAS 17)	**0.0**	**0.2**	**0.2**	**0.2**	**0.0**
Total net debt / EBITDA (IFRS 16)	**2.2**	**3.0**	**2.8**	**2.7**	**2.4**

Source: Company historic data, ED forecasts and analysis

Balance Sheet					
Year-end mid-April, £m	**FY22**	**FY23**	**FY24E**	**FY25E**	**FY26E**
Property, plant and equipment	90.0	116.7	140.8	159.8	176.2
Right of use assets	98.4	111.7	130.0	145.6	158.9
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	0.9	0.9	0.9
Non-current assets	**303.5**	**344.1**	**386.5**	**421.1**	**450.7**
Inventories	1.9	2.5	3.0	3.4	3.9
Trade and other receivables	5.5	8.7	10.1	10.9	11.8
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	13.2	14.5	22.9
Current assets	**38.7**	**37.6**	**26.2**	**28.8**	**38.5**
Bank overdraft & s/t loans	0.0	0.0	0.0	0.0	0.0
Trade payables and other liabilities	(56.2)	(69.7)	(79.7)	(86.2)	(93.3)
Lease liabilities	(8.5)	(10.2)	(10.2)	(10.2)	(10.2)
Current tax liabilities	0.0	(0.1)	(0.1)	(0.1)	(0.1)
Provisions					
Other financial liabilities					
Current liabilities	**(64.7)**	**(80.0)**	**(90.0)**	**(96.4)**	**(103.5)**
Capital employed	**277.5**	**301.7**	**322.7**	**353.5**	**385.7**
Bank borrowings	(32.3)	(32.4)	(22.4)	(22.4)	(22.4)
Lease liabilities	(111.1)	(124.6)	(142.9)	(158.5)	(171.8)
Deferred tax liabilities	0.0	0.0			
Provisions					
Other financial liabilities					
Non-current liabilities	**(143.4)**	**(157.0)**	**(165.3)**	**(180.9)**	**(194.2)**
Net assets	**134.1**	**144.7**	**157.4**	**172.6**	**191.6**
Shareholders' funds	**134.1**	**144.7**	**157.4**	**172.5**	**191.5**

All figures IFRS 16

Source: Company historic data, ED forecasts and analysis

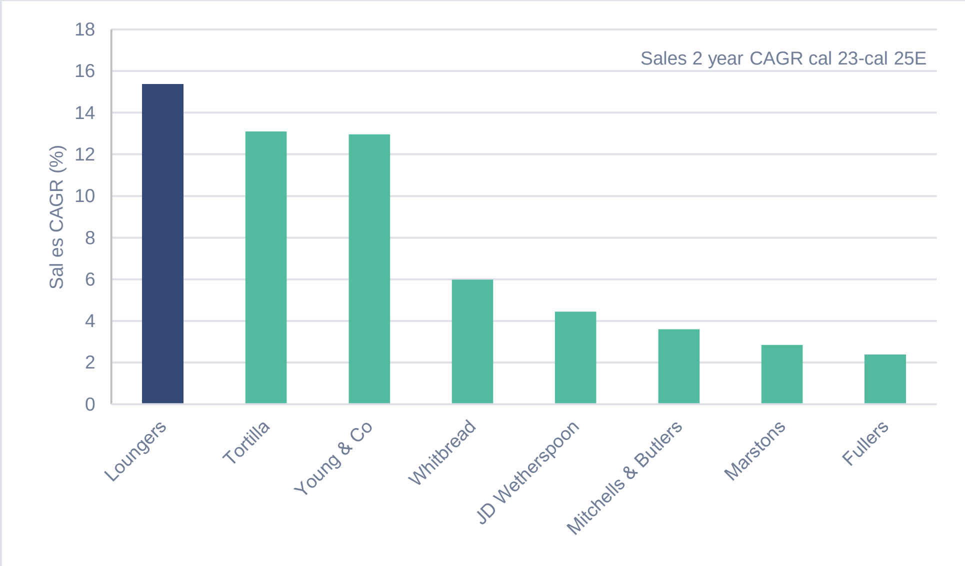
Valuation – high growth deserves a premium rating

As already mentioned, we forecast a high growth outlook for both revenues and profits for Loungers as superior LFL sales growth and a high growth expansion plan drive sales and margin expansion.

In our view, investors tend to value consumer discretionary stocks on peer group multiples looking out 18-24 months to account for different growth rates and margin recovery trajectories. Whilst Loungers has some unique characteristics as a business model, we base our comparative valuation analysis on a group of seven UK pub and restaurant operators (Hostmore plc is excluded as there are no consensus forecasts).

Our analysis shows that Loungers leads this group with more than double the sales growth with 15% (2 year CAGR for calendarised estimates for 2023-2025E) versus the average of the group of 6%.

Loungers' expansion and superior LFL drives > 2x the average sales growth…



Source: Marketscreener, Koyfin, ED analysis

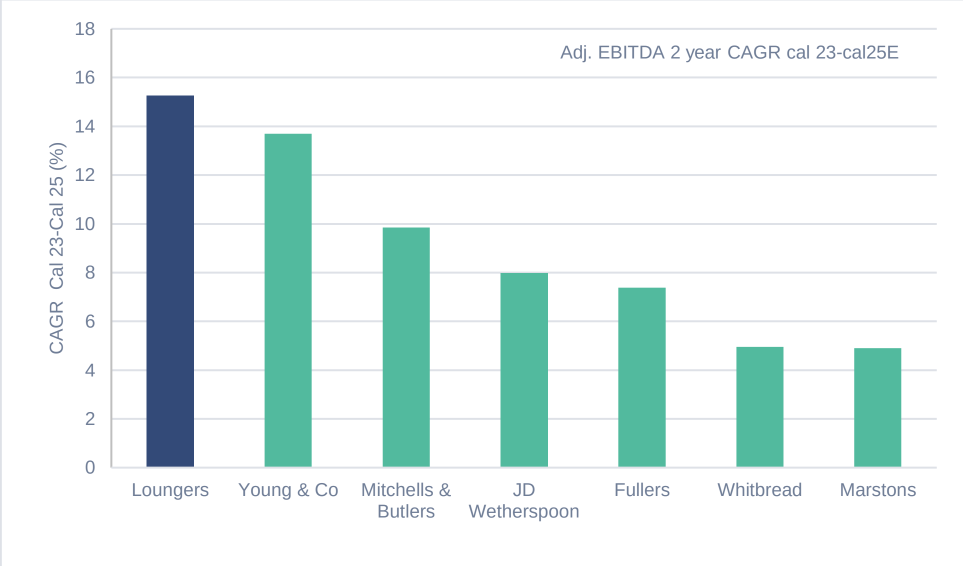
Comparable Peers Growth and Margin Metrics

Company	Share price	Market cap	Enterprise Value	2 year CAGR Cal 2023-Cal 2025E				EBITDA margin	PBT margin	Net debt / EBITDA
	p	£m	£m	Sales	EBITDA	PBT	EPS	Cal 24, %	Cal 24,%	Cal 24, x
Fullers	590	347	545	2.4	7.4	20.2	21.8	17.6	6.4	3.3
JD Wetherspoon	726	874	1,926	4.5	8.0	29.6	29.0	12.2	3.7	4.3
Marstons	29	182	1,671	2.8	4.9	78.6	22.5	21.3	6.3	7.8
Mitchells & Butlers	222	1,319	2,878	3.6	9.9	27.9	23.6	16.1	6.9	3.8
Tortilla	50	19	21	13.1	38.4	n/a	n/a	9.5	0.2	0.2
Whitbread	3282	6,016	10,276	6.0	5.0	4.8	7.9	34.6	18.2	4.1
Young & Co	974	569	900	13.0	13.7	10.5	6.3	23.0	11.4	3.6
Average*				**6.5**	**8.1**	**18.6**	**18.5**	**19.2**	**7.6**	**3.9**
Loungers	**210**	**218**	**377**	**15.4**	**15.3**	**34.4**	**26.8**	**15.8**	**4.3**	**3.0**

Note: All profits are adjusted for exceptionals; all sales and profit estimates are calendarised to a December year-end; * excluding outliers
Source: Marketscreener, KoyFin, ED analysis (share prices at 26th March 2024)

This combines with margin expansion to drive higher Adj. EBITDA (15% CAGR versus peer group average of c.8%, excluding Tortilla) and Adj. PBT growth (34% CAGR versus peer group average of c.19%, excluding Marstons) too.

… and drives significantly higher profit growth too



Excludes Tortilla; Source: Marketscreener, Koyfin, ED analysis

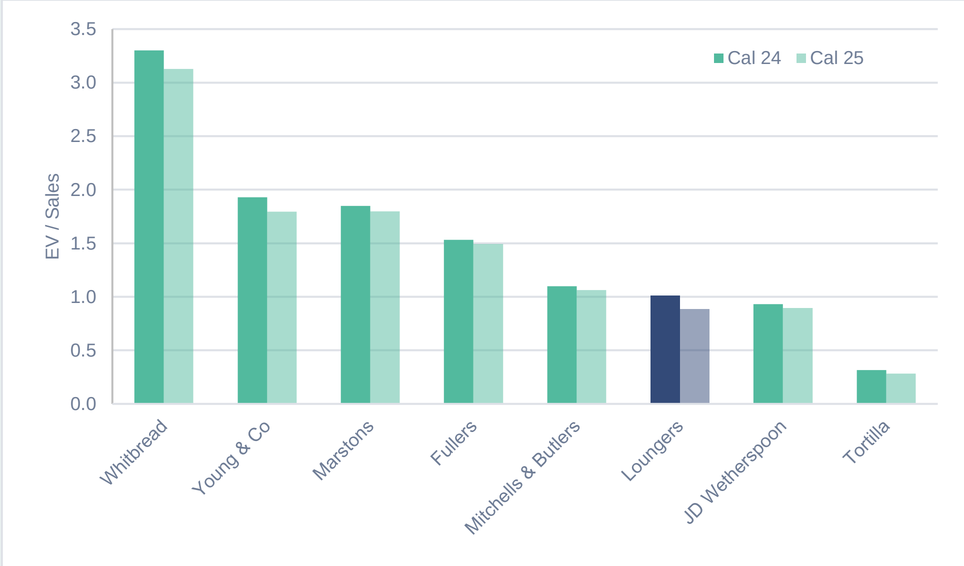
We note that Loungers has a lower Adj. PBT margin than most of the peers, but it is expanding, and although Loungers does not offer investors a dividend (only Whitbread, Young & Co and Fullers do) as already highlighted, Loungers is one of the least financially geared of this peer group.

Loungers has a strong balance sheet and relatively low gearing

Source: Koyfin, ED analysis

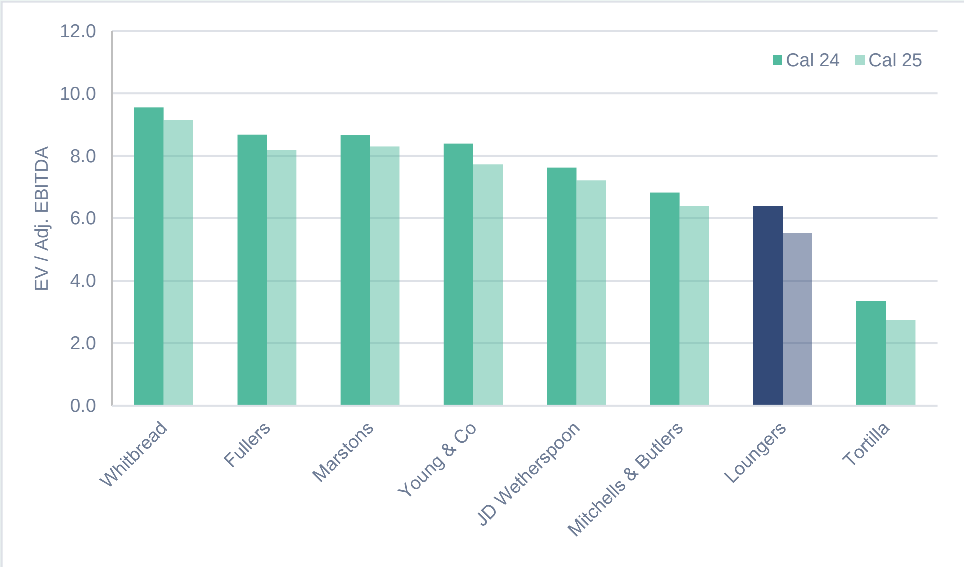
Hence, in our view, Loungers deserves a higher rating that it currently trades on.

Loungers under 1x EV/Sales is below peers and is for 15% Sales growth …



Source: Marketscreener, Koyfin, ED analysis

…and Loungers trades on one of the lowest EV/Adj. EBITDA ratings



We also consider that Loungers' equity-based multiples of a c.15x cal 2025 PER, in line with several peers (e.g. JD Wetherspoon, Whitbread and Young's), and Market cap / PBT of 10.7x Cal 2025 do not fully reflect Loungers' organic growth and margin potential.

We also recognise that recent acquisitions in the sector have been completed at higher multiples; Restaurant Group was acquired by Apollo Group for c. 8.5x Cal 2023 EV/EBITDA, whilst the City Pub Group agreed a cash and shares offer from Young's in November 2023. The share price jumped 32% on announcement and, prior to completion, The City Pub Group traded at 2.5x cal 2024 EV/Sales (and 2.2x cal 2025) and 13.1x cal 2024 EV/EBITDA (and 11.3x cal 2025).

Comparable Valuation Metrics								
Company	**EV/Sales (x)**		**EV/ EBITDA (x)**		**Mkt cap / PBT (x)**		**PER (x)**	
	Cal 2024	**Cal 2025**	**Cal 2024**	**Cal 2025**	**Cal 2024**	**Cal 2025**	**Cal 2024**	**Cal 2025**
Fullers	1.5	1.5	8.7	8.2	15.2	13.3	21.6	18.6
JD Wetherspoon	0.9	0.9	7.6	7.2	11.5	9.7	15.9	13.4
Marstons	1.8	1.8	8.7	8.3	3.2	2.7	4.0	3.5
Mitchells & Butlers	1.1	1.1	6.8	6.4	7.3	6.2	9.7	8.3
Tortilla	0.3	0.3	3.3	2.7	n/a	18.4	25.0	16.7
Whitbread	3.3	3.1	9.5	9.2	10.6	10.2	14.4	13.6
Young & Co	1.9	1.8	8.4	7.7	10.7	9.8	15.0	14.0
Average*	**1.5**	**1.4**	**8.3**	**7.8**	**11.1**	**9.9**	**15.3**	**14.1**
Loungers	**1.0**	**0.9**	**6.4**	**5.5**	**13.6**	**10.7**	**19.3**	**15.1**

Note: All profits are adjusted for exceptionals; all sales and profit estimates are calendarised to a December year-end; * excluding outliers
Source: Marketscreener, KoyFin, Equity Development analysis (share prices at COB 16th Feb 2024)

Conclusion

We believe consistent delivery of LFL sales growth and accelerated site expansion, together with easing cost headwinds will improve investor sentiment and lead to a re-rating of Loungers' shares back towards the higher EV/EBITDA multiples it traded at in 2021.

For the past two years, since March 2022, Loungers has traded between 6x-8x EV/EBITDA NTM (being Next Twelve Months, roughly equivalent to cal 2024 in current multiples). For the most part it has traded between 6x-7x reflecting the pressures of cost headwinds (and currently trades on 6.4x cal 2024 EV.EBITDA).

Whereas in April 2021 Loungers traded on 12.5x EV/EBITDA NTM and de-rated through the year to 8x in April 2022 as the outlook for FY23 cost headwinds grew. This derating was in common with sector peers. Looking ahead however we believe that as cost pressures ease and Loungers delivers on its superior growth potential, we anticipate Loungers can benefit from both a re-rating of the sector, and most importantly, a re-rating relative to its peers.

Offering higher organic growth than peers, operating cashflow to re-invest in growth and a strong balance sheet, we initiate coverage of Loungers with a Fair Value of 360p based on c.8.0x cal 2025 EV/EBITDA and 9.4x cal 2024 EV/EBITDA (a small premium to peers). A 360p Fair Value also equates to c.1.3x cal 2025 EV/Sales and 29x cal 2025 PER, a significant premium to peers, but this we feel is justified by a PEG ratio of approximately 1.5x our forecast 20% CAGR in EPS FY23-FY26E.

An experienced leadership team

The Group has established, and recently expanded, the Board and management team with depth and breadth of experience across the managed hospitality sector and a proven track record of both initiating and growing innovative businesses in the sector.

Board of Directors

Alex Reilley – Executive Chairman

Alex co-founded the Group in 2002, acting as Managing Director until 2015 when he assumed the role of Executive Vice Chairman. In 2016, following the investment from Lion Capital (25.77% shareholder), Alex assumed the role of Executive Chairman with involvement in the branding and development of the Loungers estate. Prior to founding Loungers, Alex had several roles within the leisure sector including as Operations Manager at Glass Boat Co., where he spent seven years.

Nick Collins – Chief Executive Officer

Nick joined the Group in January 2012 as Finance Director, becoming Chief Operating Officer in January 2014 and Chief Executive Officer in January 2015. He has overseen the expansion of the Group from 56 sites as at January 2015 to 238 sites at October 2023. Prior to joining the Group, Nick spent three years as Finance Director at AIM quoted Capital Pub Company plc, leaving when that company was sold to Greene King plc in 2011. Prior to that Nick founded Fuzzy's Grub, a sandwich business in London, which he grew to eight outlets and a central production facility over five years. Nick also spent five years in corporate finance at Arthur Andersen where he qualified as a chartered accountant in 2001.

Gregor Grant – Chief Financial Officer (until 23 April 2024)

Gregor joined the Group in August 2018 as Chief Financial Officer. Gregor qualified as a chartered accountant with Deloitte and Touche in 1992 and, after leaving Deloitte in 1998, has spent the last 24 years in a variety of CFO roles, primarily in the hospitality sector. Prior to joining the Group, Gregor spent two years as interim CFO at Colosseum Dental UK Ltd (2016 – 2018), the third largest provider of NHS dental services in the UK, three years as Finance Director at Novus Leisure Ltd (2013 – 2016), and acted as interim CFO at ETrawler Unlimited (trading as CarTrawler) (2011 – 2012) and CFO at Fuddruckers Inc., a US hamburger chain based in Austin, Texas (2007 – 2010). Gregor was also part of the management buy in team that acquired regional brewers Morrells of Oxford Ltd in 1998, which was subsequently sold to Greene King plc in 2002, and Eldridge, Pope & Co. Ltd in 2004 which was subsequently sold to Marston's plc in 2007. Gregor has decided to step down as Chief Financial Officer and from the Board following the Group's results for the year ending 21 April 2024, with effect from 23 April 2024 though he will remain until 31 July 2024 to provide support and to assist with the efficient handover of responsibilities to the new CFO.

Stephen Marshall – incoming Chief Financial Officer (from 23 April 2024)

Stephen will join the Board on 23 April 2024. He has extensive experience as a CFO and in all aspects of finance, IT, procurement and project management. Between July 2021 and November 2023, he was CFO of Pure Electric, a founder-led e-scooter company. Between December 2018 and July 2021, he was CFO of Nisbets, a leading multinational supplier of catering equipment. From 2013 to 2018, he held a number of senior roles at Dyson, the global technology brand, including UK Finance Director and interim CFO. Stephen qualified as a Chartered Accountant with EY in 1995.

Nick Backhouse – Senior Independent Non-Executive Director

Nick joined the Board in March 2019 as an Independent Non-Executive Director and is the Senior Independent Director of the Board and chair of the Nomination Committee. Nick has extensive public company, finance, and leisure sector experience. Nick has held positions as Senior Independent Director at Hollywood Bowl Group plc (2016-2024), Hyve Group plc (2019-2023) and Guardian Media Group Plc (2007–2017) and as Non-Executive Director at Marston's Plc (2012–2018) and All3Media Ltd (2011–2014). He currently also serves as Non-Executive Chairman of Giggling Restaurants Limited (2019–Present). Nick started his career at Baring Brothers where he became a Board Director (1989 - 99) following which he held CFO positions at Freeserve Plc (1999 – 2001), The Laurel Pub Company Ltd (2002 – 2005) and National Car Parks Ltd (2006 – 2007) and was Managing Director and Deputy CEO of David Lloyd Leisure Ltd (2008 – 2011).

Adam Bellamy – Independent Non-Executive Director

Adam joined the Board in March 2019 as an Independent Non-Executive Director and chair of the Audit Committee. Adam served on the Board at Ten Entertainment Group plc (2018-2024), latterly as Chairman (2021-2024) and is currently also a Non-Executive Director at Gymfinity Kids Limited (2020 - Present). Adam was previously CFO (2012–2018) and then a NED (2018–2020) at PureGym Ltd, prior to which he was Finance Director at Atmosphere Bars & Clubs Ltd (2009–2012) and Finance Director at D&D London Ltd (2006–2009). Prior to this, he held various finance positions at House of Fraser, Granada Group and Whitbread.

Jill Little – Independent Non-Executive Director

Jill joined the Board in March 2019 as an Independent Non-Executive Director and chair of the Remuneration Committee. Jill also held positions as Non-Executive Director at Joules Group plc (2016-2022), Nobia AB (2017 – 2020) and Shaftesbury plc (2010 – 2020), as an adviser to El Corte Ingles S.A. (2012 – 2020), Europe's largest department store group, and as Chairman of the National Trust Commercial Group (2014 – 2021). Jill spent the majority of her executive working life at John Lewis Partnership (1975 – 2012) where she held positions including Merchandise Director, Strategy & International Director and Business Development Director.

Robert Darwent – Independent Non-Executive Director

Robert Darwent is a Founding Partner and member of the Investment Committee of Lion Capital. Prior to founding Lion Capital, Robert served with Hicks, Muse, Tate & Furst for six years. Prior to joining Hicks Muse, he was employed in the private equity group of Morgan Stanley in London. Robert received his BA and MA from Cambridge University.

Senior management

Eve Bugler – Chief Operating Officer

Eve joined the Group in December 2020, as Chief Operating Officer, taking responsibility for the evolution of the People, Commercial, Build and Maintenance functions. Prior to joining the Group, Eve founded and operated the fresh kebab concept BabaBoom. From 2011 to 2015, Eve worked for Nando's, initially as a Strategy Associate in London before moving to Johannesburg to lead the build of the brand's Global HQ, and then to Delhi, where she was Commercial Director of the Indian equity market. Eve previously worked in Haiti for the Inter-American Development Bank and at McKinsey & Co as a Business Analyst. Eve has a degree in Politics, Philosophy and Economics from Oxford University.

Justin Carter – Managing Director of Lounge

Justin joined the Group in January 2015 as Chief Operating Officer and was appointed Managing Director of the Lounge brand in summer 2017. Justin is responsible for the management of the whole Lounge team, its financial performance, the evolution of the Lounge offering and its continued expansion. Prior to joining the Group, Justin was Operations Director at Fuller Smith & Turner P.L.C. where he was responsible for the Premium City division of London managed pubs. In 1995 Justin founded The Elbow Room Ltd, a UK-based chain of pool bars, which he ran until its sale to Inc Group in 2008.

Lucy Knowles – Managing Director of Cosy Club

Lucy joined the Group in September 2023, having previously been appointed as the Managing Director of London-based bar chain, Corney & Barrow, and later SSP as Group Marketing Director. Lucy is responsible for the whole Cosy Club team, its financial performance, the evolution of the Cosy Club offering and its continued expansion.

Jake Bishop – Founder Director

Jake co-founded the Group in 2002 and has held various senior operational roles since that time. After a year establishing the role of Managing Director of the Cosy Club brand Jake became Commercial Director in summer 2017 and is responsible for the Group's food and kitchen operations.

Guy Youll – Chief People Officer

Guy joined the Group in October 2022, as Chief People Officer, taking responsibility for the evolution of the People strategy across Lounge, Cosy Club and Brightside. Prior to joining the Group, Guy was previously Chief Human Resources Officer at Inspired Education, a leading group of international schools across 25 countries with more than 10,000 employees. Prior to that, Guy was Global HR Director at Superdry and Head of HR Operations at Whitbread.

Appendix I: Lounge locations

Lounge sites across the UK

Abergavenny	Christchurch	Kettering	Nuneaton	Stourbridge
Aberystwyth	Cirencester	Keynsham	Oldham	Stratford-U-Avon
Abingdon	Clacton	Kidderminster	Ormskirk	Street
Altrincham	Clevedon	King's Lynn	Orpington	Stroud
Amersham	Colchester	Lancaster	Paignton	Sudbury
Ashby-De-La-Zouch	Corby	Leeds (2)	Penrith	Sutton Coldfield (3)
Aylesbury	Cramlington	Leicester	Peterborough	Swansea (2)
Banbury	Cwmbran	Letchworth	Petersfield	Telford
Bangor	Deal	Lewes	Plymouth (2)	Tewkesbury
Barnsley	Derby	Lichfield	Pontypridd	Thame
Barnstaple	Devizes	Littlehampton	Poole	Thurrock Lakeside
Basildon	Didcot	Liverpool (2)	Portishead	Torquay
Bath	Didsbury	Llandudno	Portsmouth	Trowbridge
Bedford	Dorchester	Loughborough	Prestatyn	Truro
Bicester	Ealing	Louth	Reading (2)	Uxbridge
Biggleswade	E Grinstead	Lower Leigh	Redhill	Wallasey
Birmingham (4)	Epsom	Maidenhead	Reigate	Warrington
Blackpool	Evesham	Maldon	Retford	Watford
Bognor Regis	Exeter	Malvern	Richmond	Wellingborough
Bournemouth (3)	Falmouth	Macclesfield	Ringwood	Wells
Bracknell	Fareham	Manchester (3)	Ripon	Welwyn Gdn City
Bridgend	Fleet	Mansfield	Rochdale	Wembley
Brighton	Frome	Market Harborough	Rugby	Westbury-on-Trym
Bristol (5)	Gainsborough	Matlock	Ruislip	Weston-Super-Mare
Bromsgrove	Glossop	Melton Mowbray	Rushden Lakes	Westwood
Buckingham	Gloucester	Monmouth	Scarborough	Weymouth
Burnley	Grantham	Morpeth	Selby	Whitby
Bury St Edmunds (2)	Harborne	Nantwich	Sheffield	Wilmslow
Buxton	Harlow	Neath	Shrewsbury	Wimborne Minster
Caerphilly	Heswall	Newark	Sidcup	Witham
Camarthan	Haywards Heath	Newbury	Sittingbourne	Witney
Cardiff (4)	Hexham	Newcastle-U-Lyme	Solihull (2)	Woking
Carlisle	High Wycombe	Newport	Southampton (3)	Wokingham
Cheadle	Hinckley	Newport, Isle-of-Wight	Southend	Wolverhampton
Cheltenham	Hitchin	Newquay	Southport	Yate
Chepstow	Hove	Newton Abbot	St Ives (2)	Yeovil
Chesterfield	Hull	North Egham	St Neots	York
Chippenham	Huntingdon	Northallerton	Stafford	
Chorlton	Ilkley	Northampton	Staines	
Chorley	Kendal	Nottingham (2)	Stockport	

Source: Company data, https://thelounges.co.uk/lounges/

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