

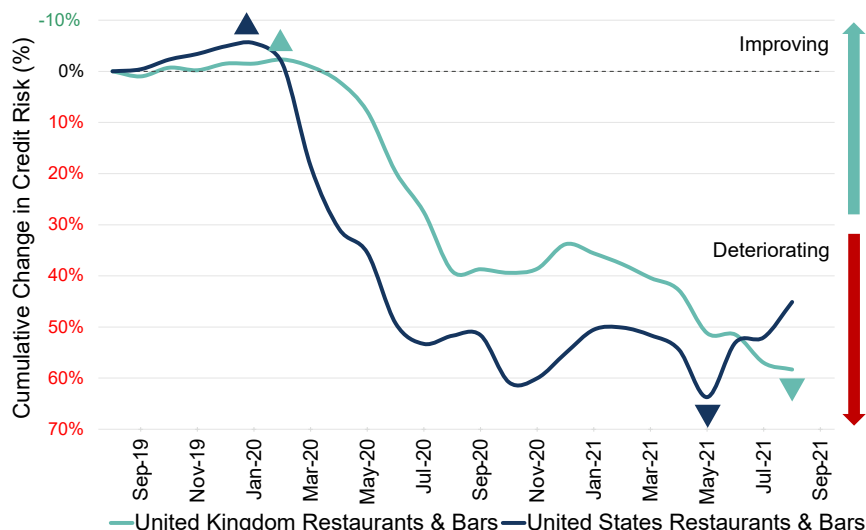
# Restaurants & Bars: US Recovery Pulls Ahead of UK

October 2021

The hospitality industry has been a high profile Covid casualty. For an already low margin business, the combination of prolonged closures followed by socially distanced openings, supply issues and staff shortages has been very damaging. For the UK, Brexit has magnified these effects.

Figure 1 shows credit trends for the UK and US Restaurants and Bars sector.

**Figure 1: Restaurants and Bars, UK vs. US**



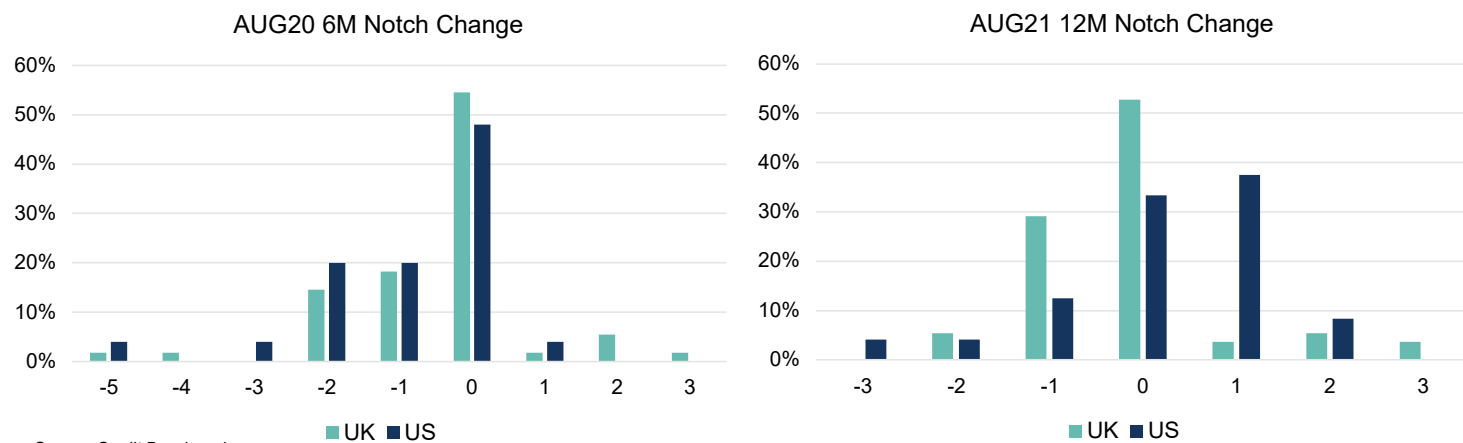
From March 2020, deterioration was initially steeper in the US, with credit risk rising by 60% by October 2020. UK credit risk also rose sharply over the same period, with a 40% increase over the same period.

Since then, the US has shown an erratic but generally positive trend (despite a sharp blip down in May 2021). The UK clearly saw a short-lived benefit from the “Eat Out to Help Out” campaign in Q4 2020, but it has been in steady decline since the start of 2021.

The two sectors have now almost reversed positions since October 2020, with UK risk up 60% since the initial Covid outbreak while the US has recovered about a third of its initial deterioration.

These trends are reflected in the pattern of upgrades and downgrades for the Restaurants and Bars sector in the two countries. Figure 2 breaks the pandemic period into the 6 months to August 2020 and the following 12 months to August 2021.

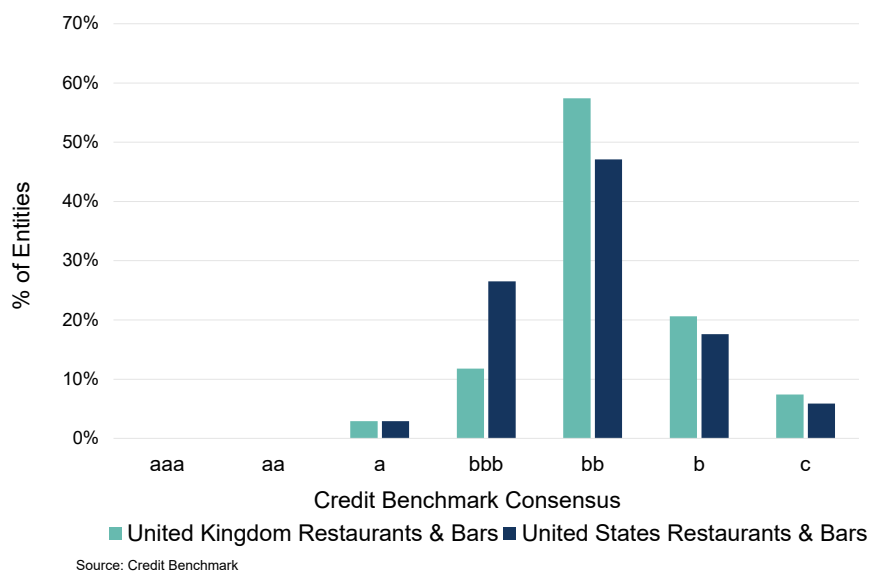
**Figure 2: Restaurants and Bars, UK and US, 21-category notch changes, 2020 and 2021**



In the first 6 months, compared with the UK, the US had a modestly higher proportion of borrowers with 1 or 2 notch downgrades. Since then, the distribution has shifted: in the 12 months to Aug-21, the UK shows a significantly higher proportion of 1 or 2 notch downgrades compared with the US. The US distribution is particularly skewed; the 12 month single notch upgrade category dominates.

Figure 3 shows the effect of this on the overall credit distribution.

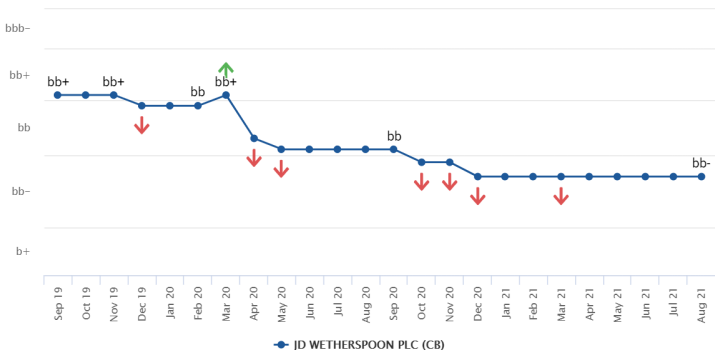
**Figure 3: Restaurants and Bars, UK and US, Credit Distribution**



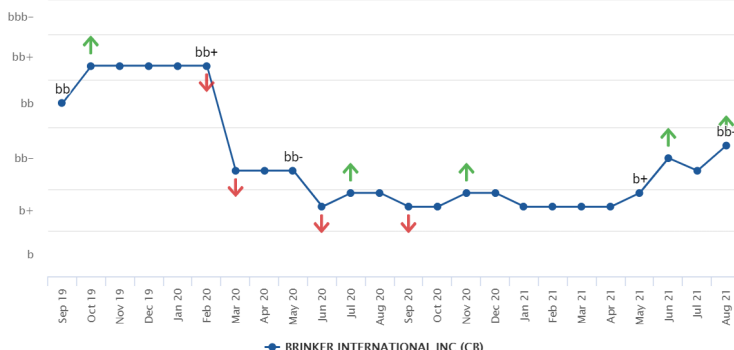
Both countries are dominated by the **bb** category, but the UK has a significantly higher proportion in the non-investment grade **bb** category compared with the US. The US has a significantly higher proportion in the investment grade **bbb** category.

Figure 4 shows two single name examples that illustrate these differences.

**Figure 4: UK - JD Wetherspoons**



**US - Brinker International Inc**



JD Wetherspoons – a bellwether for the UK Restaurant and Bar sector – has seen a series of modestly deteriorating credit assessments from banks (red arrows). The cumulative effect is a double notch downgrade from **bb+** to **bb-**. Brinker International (owner of Chili’s and Maggiano’s Little Italy) has seen recent improvements in bank estimates; it is currently also at **bb-** after a rollercoaster ride that has taken it from **bb+** to **b+** before recovering a notch.

With the pandemic – and Government fiscal response – yet to run its course, the situation may again reverse. The UK is struggling with an HGV shortage, the end of furlough, and the possible impact of Brexit on staff for the sector. US Congress faces deadlock on its stimulus package and brinkmanship on its debt ceiling. For now, Restaurants and Bars in the US continue to improve while the UK has not yet turned the corner.

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CB USA  
 12 East 49th Street, 9th Floor  
 New York, NY, 10017  
 Telephone: +1 646 661 3383

CB UK  
 131 Finsbury Pavement, 5th Floor  
 London, EC2A 1NT  
 Telephone: +44 (0)207 099 4322

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