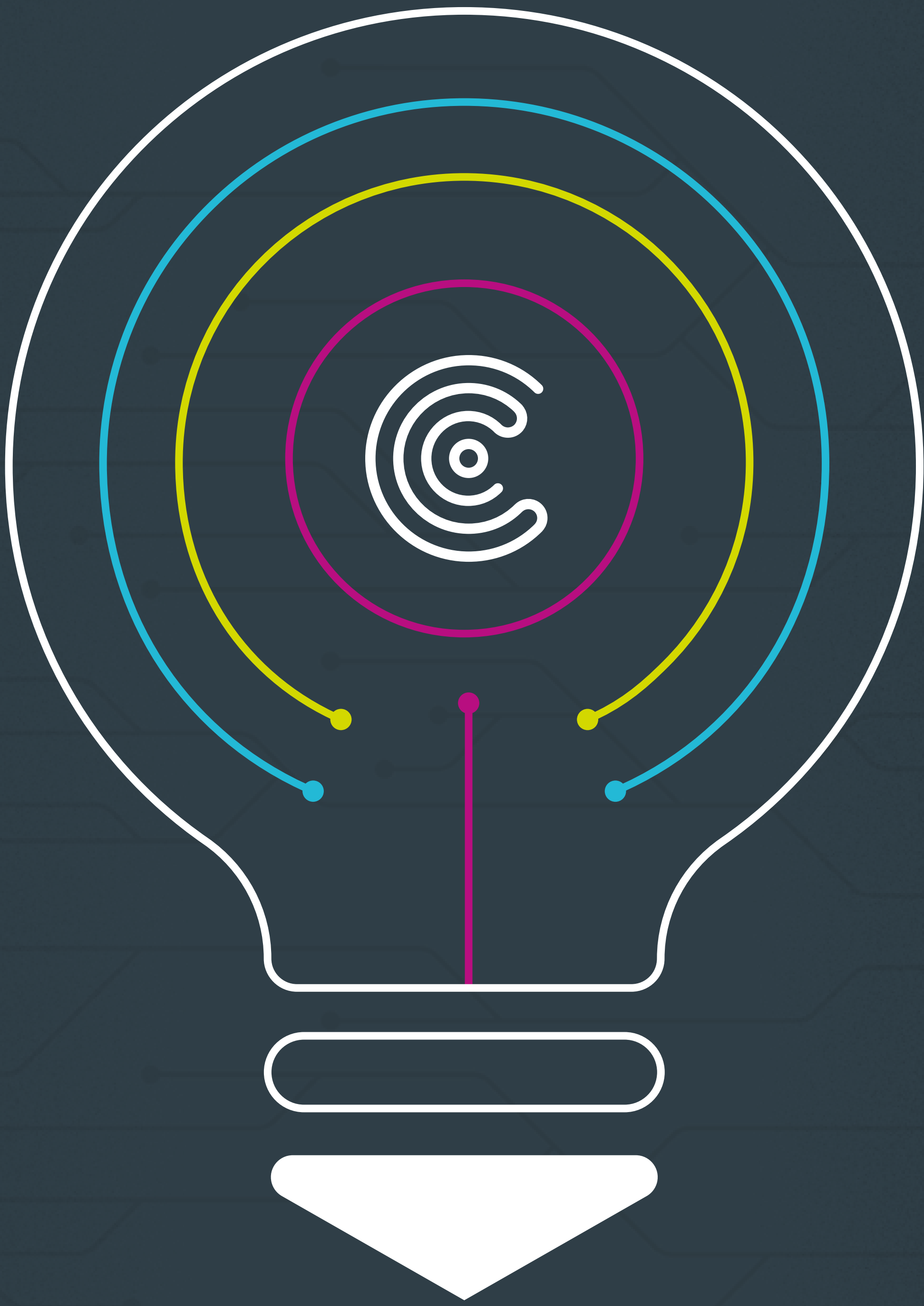
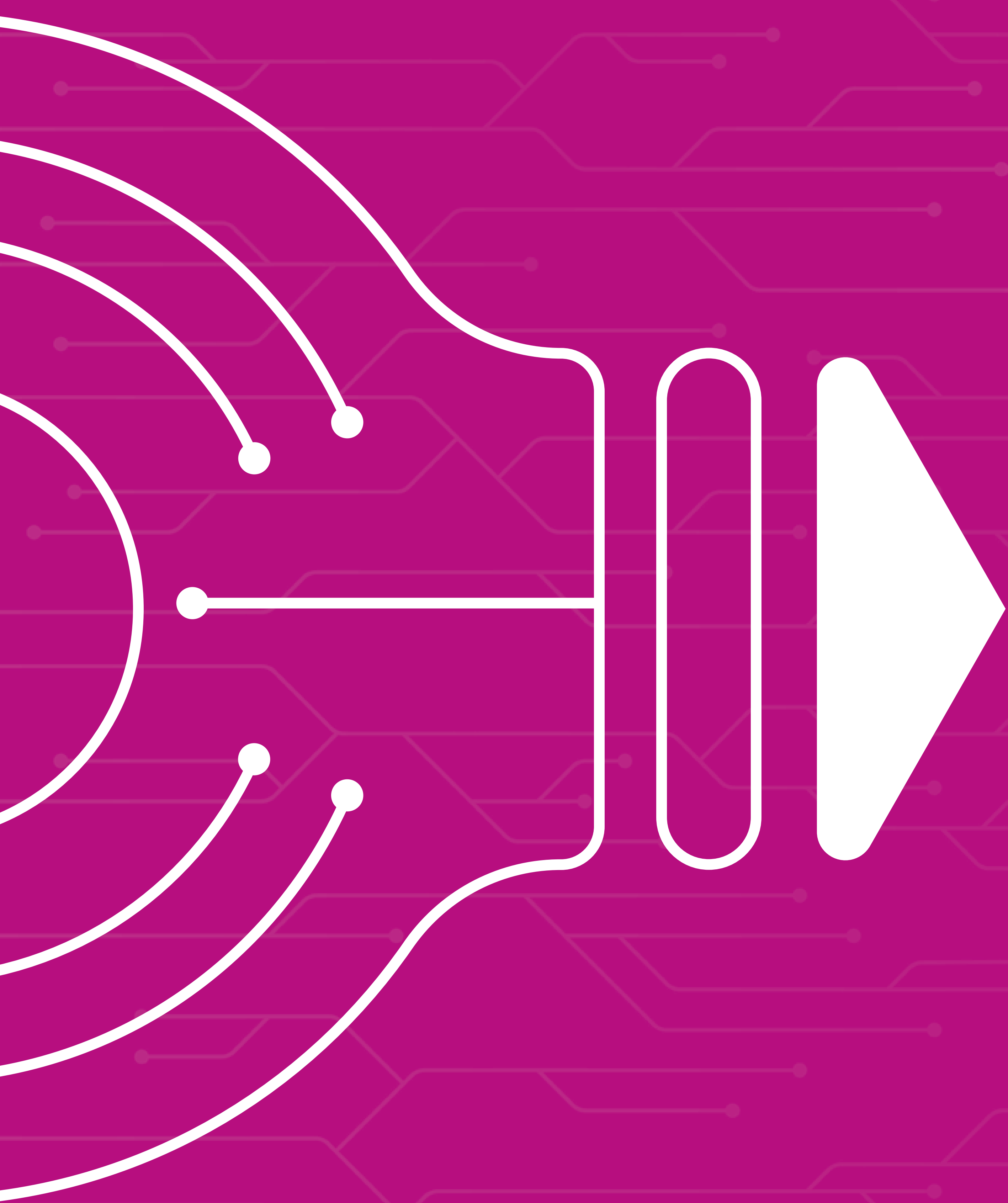


BUSINESS OUTLOOK 2024

CHRISTIE & CO

christie.com



How can we help you?

4 GLOBAL MANAGING DIRECTOR'S STATEMENT

5 PRICE INDEX

6 BANK SUPPORT & BUSINESS RECOVERY

8 DENTAL

9 PHARMACY

10 CARE

11 CHILDCARE & EDUCATION

12 RETAIL

13 LEISURE

14 PUBS

15 RESTAURANTS

16 HOTELS

17 INTERNATIONAL OFFICES

18 GROUP SERVICES

After starting to see business return towards more normalised levels following the pandemic, 2023 stuttered on the back of the high inflation and a further five increases in interest rates.

Whilst this didn't have an immediate impact economically, it led to a slowdown in transaction volumes as sellers held out for pricing, and buyers adjusted for increased operating and financing costs in the future.

Overall, we saw around a 20% year-on-year decline in volumes of transactions conducted by Christie & Co. Whilst perhaps not as significant as the fall-off in wider commercial real estate market deals, there was a noticeable absence of larger M&A activity, as corporate operators paused and reviewed their immediate growth strategy.

Our year has been dominated by a number of significant multi-property disposal campaigns for corporate operators, who sought to dispose of their poorer performing assets. Bringing to market packages of between 25 and 100+ properties for sale on an individual or sub-group basis has realised strong outcomes, in a market where the independent and regional buyer appetite remains very positive. Our teams worked on multiple such projects in care, dental, hotels, pharmacy, pubs and retail.

As we begin 2024, we've seen an uptick in distressed activity. In 2022, about 3% of all sales were categorised as having some form of distress. By the end of 2023, this figure had increased to 10% and we expect it to increase further still in 2024.

You will note from the commentary across our markets, the themes remain the same. Higher inflation continues to have an impact on wage costs and overheads for business. To date, much of this has been offset by price increases, which have been largely absorbed by the consumer. We anticipate that this will not be possible to replicate for much longer before consumers vote with their feet.

Any fall in multiples and yields over the last 18 months have been offset by improvements in trading performance, which has meant we haven't seen widespread price corrections, although values have reduced.

As you will see from our annual price index, average prices of businesses transacted by Christie & Co decreased by an average of 3.5% in 2023.

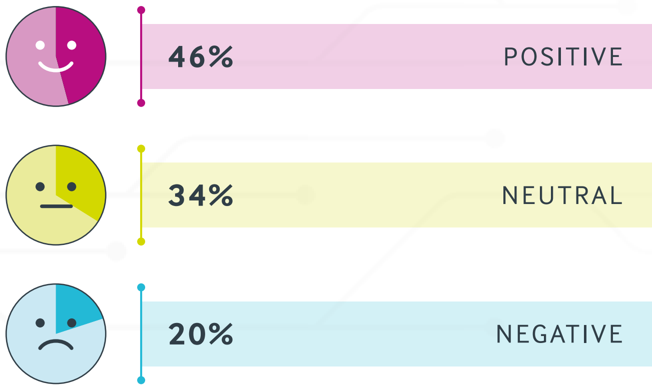
In Europe, we have added care sector specialists in Germany, focusing on the sale of healthcare businesses. This sits alongside our hotels team, as we celebrate 25 years since we opened our first German office in Frankfurt back in 1999. We see further growth opportunities in our other sectors to add more specialists in Austria, France and Spain over the coming years. Exciting times ahead!

DARREN BOND
Global Managing Director

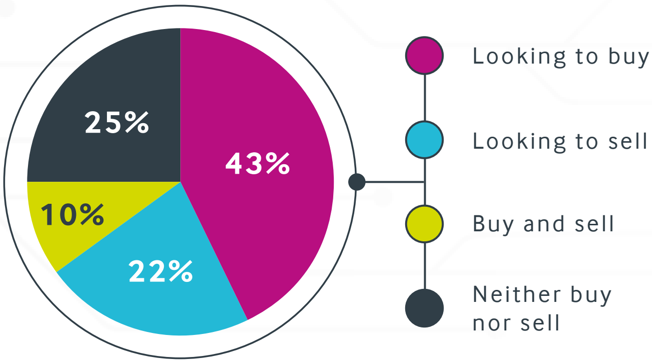
SENTIMENT SURVEY

We anonymously surveyed sector stakeholders across the country to gather their views on the year ahead.

When asked about their sentiment in 2024:



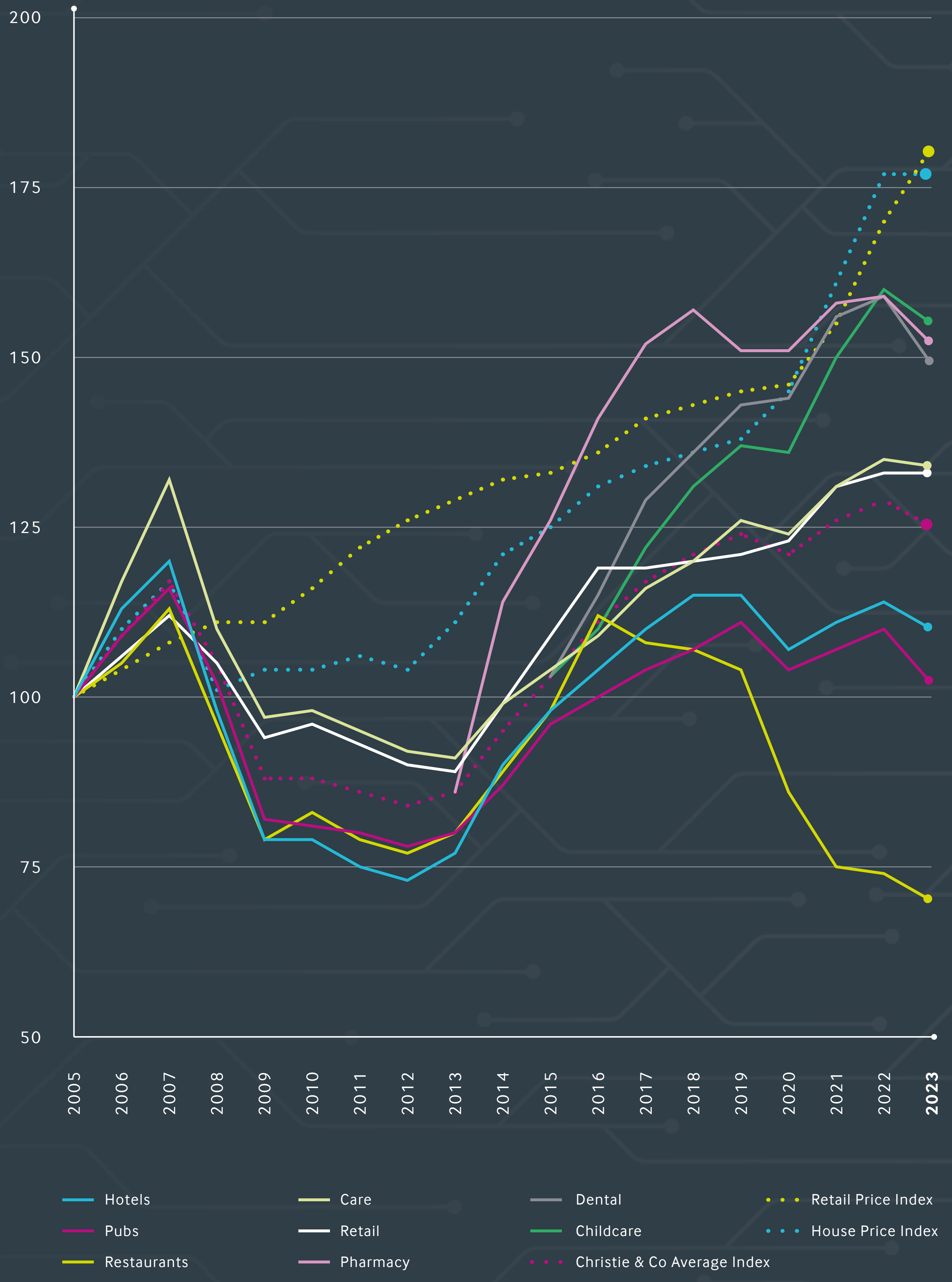
When asked about their sale and acquisition plans in 2024:



For further insight, interviews with industry experts and an extended Business Outlook 2024 report **please scan the QR code**

PRICE INDEX

INDEX BASED ON AVERAGE SALE PRICES (FROM A BASE OF 100 IN 2005)



Our activity, in terms of advising on, selling and valuing distressed operational real estate saw a material increase in 2023, particularly from Q3, with our business property sale mandates 75% up on the prior year and accounting for 10% of all our sales mandates, up from 3% in 2022.

We also saw a shift in the proportion of distressed assets we disposed of due to insolvency rather than consensual exit, at 42% in 2023 compared with 22% in 2022.

This reflected a rise in compulsory liquidations, receiverships, and administrations, driven in part by an increase in creditor action, and notably by funders outside of the main clearing banks who were not as forbearing as their peers. A hardening stance from HMRC, who were responsible for 45% of all winding-up petitions between June and November 2023, also had an effect.

Government support through the pandemic and beyond has fallen away. This combined with enduring challenges facing businesses; inflationary pressures, supply chain issues, labour shortages, the cost of capital, and the cost of living crisis, has seen an increasing number of businesses run out of road.

STEPHEN JACOBS
Director, Bank Support & Business Recovery

It appears there has been a lag effect, with the anticipated rise in business failures starting to come through in 2023.

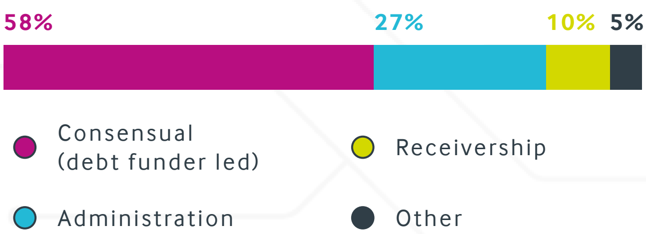
It is difficult to predict when the next peak will be. We do, however, expect the upward trend of business distress to continue during 2024, as debts taken on in the pandemic must be re-paid, creditor action intensifies and businesses unable to mitigate the effect of decreasing margins become unviable.

Refinancing will be increasingly challenging for a greater number of businesses with operational and financial issues. Higher for longer interest rates will create more opportunities for distressed debt funds, speculative investors and experienced well-funded operators who can deploy capital for more troubled companies and distressed debt.

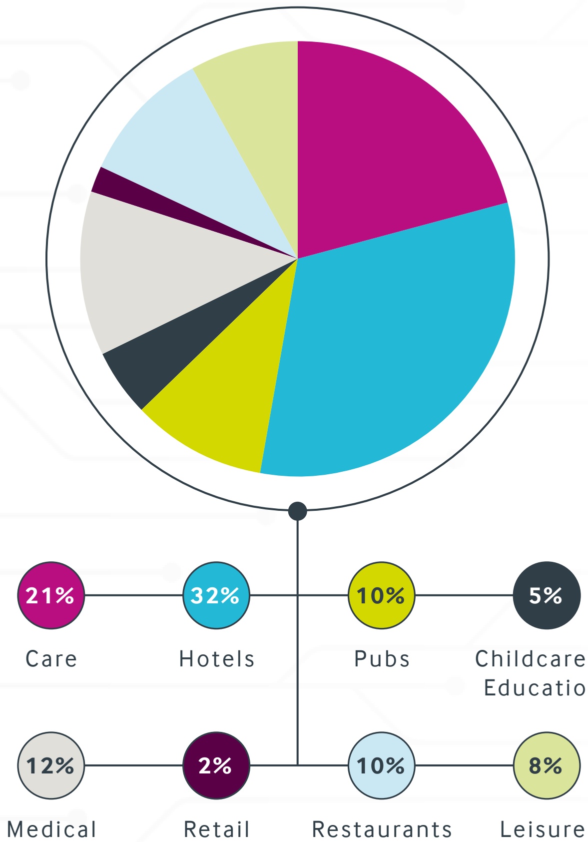
MARKET PREDICTIONS

- A low growth economy as the cost of living and higher interest rates continue to impact consumer spending and business investment
- Interest rates have peaked but will not reduce before Q3 2024 to ensure a continued downward trajectory rather than a renewed surge in inflation
- The upward trend of business distress seen in 2023 will continue into 2024 extending beyond small SMEs to the mid-market
- Businesses with operational and financial issues will find it increasingly difficult to restructure through refinancing in a market where the cost of capital has risen significantly

DISTRESSED ASSET INSTRUCTIONS FOR DISPOSAL BY APPOINTMENT TYPE IN 2023



DISTRESSED ASSETS SOLD BY SECTOR IN 2023



FOR FURTHER INSIGHT,
DATA AND VIDEO CONTENT
PLEASE VISIT OUR WEBSITE

The operating environment for many businesses has been increasingly challenging, with the combined effects of cost inflation and rising interest rates. Dentistry has not been immune to these and, even before the mini-budget in September 2022, had been adjusting to more uncertain trading conditions.

Despite this turbulence and the continued workforce challenges affecting NHS dentistry, in particular, long-term confidence in the dental market remains.

Transaction volumes were surprisingly strong in the latter part of 2022, driven principally by the number of corporate buyers who were financially committed to pipeline acquisitions at that time.

Increased interest rates and running costs, and heightened workforce challenges caused many corporate operators to pause their acquisition plans in the first half of 2023, which led to a 9.8% reduction in completion volumes.

The independent market was, however, resurgent in the second half of 2023, as buyers who had previously been deterred by competition from others, returned, resulting in 69% of transactions being agreed to first-time buyers, existing owners, or smaller independent groups.

This helped drive an average of 112% of asking price being achieved in 2023. Similarly, the overall volume of offers received increased, year on year, by 75%.

The supply of new practices to the market further improved in the second half of the year, and we anticipate more normalised trading conditions in 2024 as this trend continues.

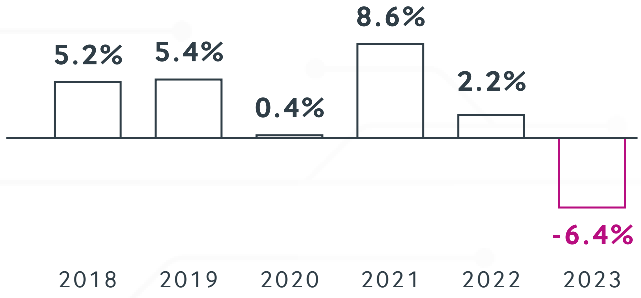
MARKET PREDICTIONS

- The transaction volume within the market is expected to rebound in 2024. However, it's anticipated that these levels will still fall short of the peak witnessed in 2022, which suggests a gradual recovery and stabilisation of market activity
- M&A activity from corporate operators will reflect a strategic recalibration, with these entities showing restraint in their investment choices and a heightened focus on long-term value over immediate expansion
- During a period where corporate entities are exercising enhanced selectivity in their acquisitions, experienced multi-site independent operators and first-time buyers are poised to capitalise on this opportunity

PRICE INDEX

Reverberations since the mini-budget in September 2022, including the ongoing workforce challenges, collectively instigated a strategic reassessment amongst buyers in the dental sector, particularly the dental corporates.

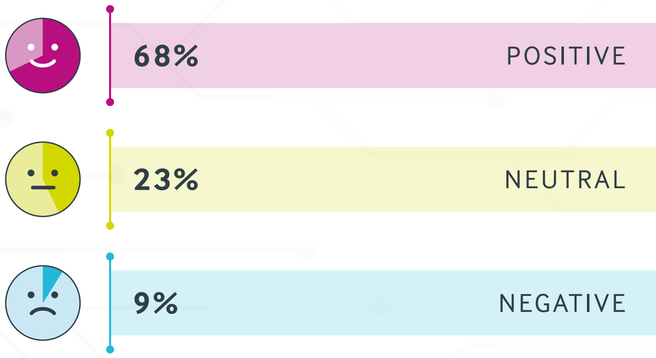
Consequently, many chose to moderate or temporarily suspend their acquisition plans, a sharp contrast to their aggressive growth in 2022. As a result, the market has undergone a constructive and healthy recalibration. Stability has been restored in pricing, signalling a new phase of equilibrium and resilience.



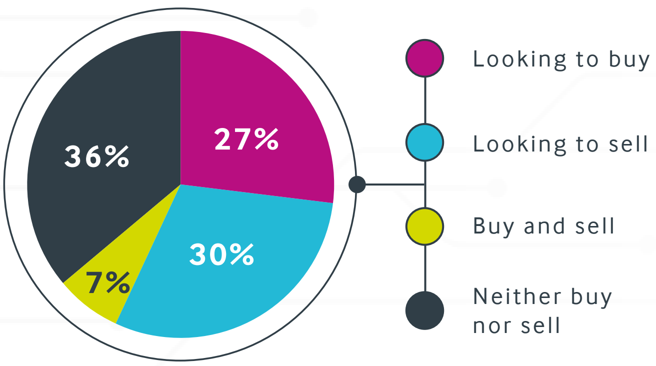
SENTIMENT SURVEY

We anonymously surveyed dental stakeholders across the country to gather their views on the year ahead.

When asked about their sentiment in 2024:



When asked about their sale and acquisition plans in 2024:



PHARMACY

The pharmacy business landscape in the UK remains challenging, partly because of legacy issues from the pandemic years but also as a result of the ongoing pressure the flat funding agreed in the 2019 five-year deal, restricting the global funding sum to £2.592 billion for each year.

Some respite may be seen from the introduction of the £645 million additional services funding, which is being introduced in January this year. However, all eyes are focused on the sector's wider funding settlement anticipated later this year.

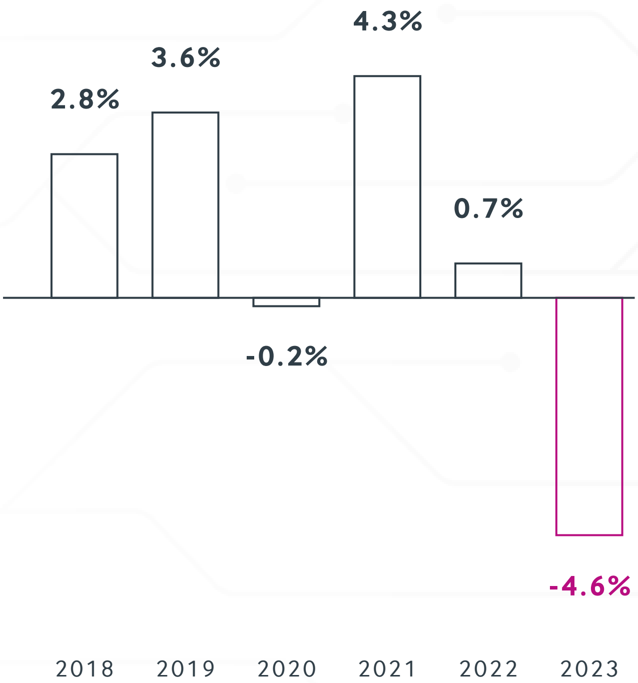
Throughout 2023, transactional activity was strong despite ongoing operational challenges. However, as a result of the continued pressures contractors faced in the second half of the year, there was a noticeable rise in the number of distressed pharmacy sales, a trend that we expect to continue throughout 2024.

Distressed businesses that have come to the market have generated significant interest from buyers who have been keen to acquire competitively priced opportunities on a local and regional basis.

MARKET PREDICTIONS

- An increase in distressed pharmacies across the sector
- Continued interest from existing operators, particularly in relation to defensive purchases
- Opportunities for investors and those with finance who are looking to enter the market
- Operators will be awaiting the outcome of negotiations for the new funding settlement as it will have a big impact on the short to mid-term future

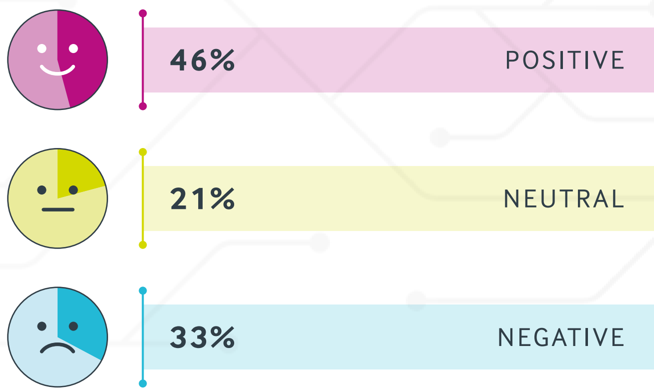
PRICE INDEX



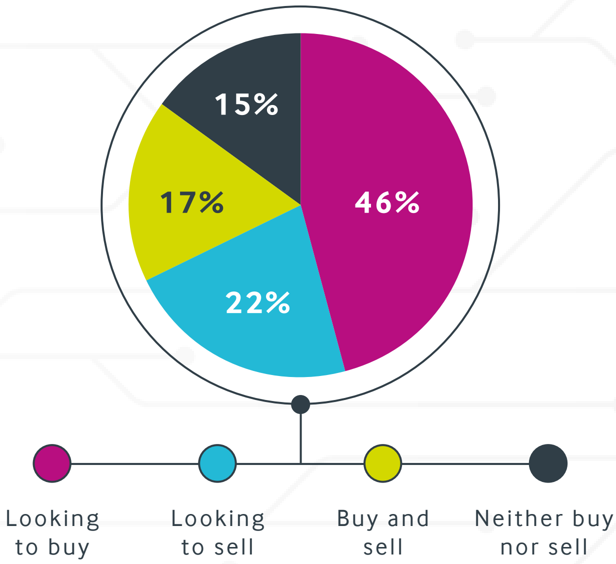
SENTIMENT SURVEY

We anonymously surveyed pharmacy stakeholders across the country to gather their views on the year ahead.

When asked about their sentiment in 2024:



When asked about their sale and acquisition plans in 2024:



In many ways, 2023 was a year of consolidation, with the majority of operators reporting that occupancy had returned to pre-pandemic levels and staffing issues eased slightly due to the successful recruitment of foreign staff via the sponsorship licence. The demand for bed spaces remained high, particularly for dementia care, and fee increases, in the main, kept pace with inflation.

The transactional market adjusted to an environment of significantly higher interest rates, placing greater emphasis on debt serviceability. Deal volumes were robust, whilst buyers scrutinised staffing costs, any reliance on agency, and utility contracts. Positively, we didn't see a material deterioration in asset values for going concern deals, and the performance of the sector fared well compared with other asset classes such as retail and offices.

Deals in the healthcare investment market reflected the higher cost of capital, with yields moving out relative to the peak of the market in 2022.

The development market faced stronger headwinds due to construction cost inflation and the availability of debt. However, the need for future-proof care beds remains undiminished and the underlying ESG credentials, together with future bed demand needs, remain compelling for investors. We saw a greater number of developments in the regions, and this will continue into 2024.

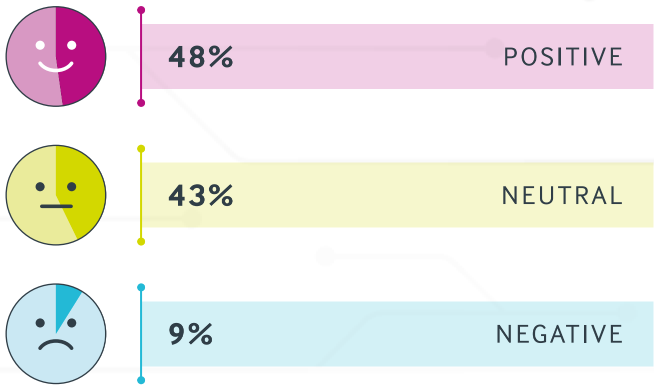
MARKET PREDICTIONS

- Capital values will remain stable with strong occupancy levels and investor demand offsetting higher debt costs
- Capital markets activity will increase with more stable interest rate environment
- Increased number of OpCo transactions as operators seek to expand their portfolios without tying up capital in real estate
- Increased distress for smaller assets as higher interest rates bite
- New build development activity will increase across broader geographical regions as operators seek less competitive operating markets
- Ongoing rationalisation from larger providers and third sector providers
- Continued protractions and uncertainty in the planning system will constrain supply of consented care home development sites

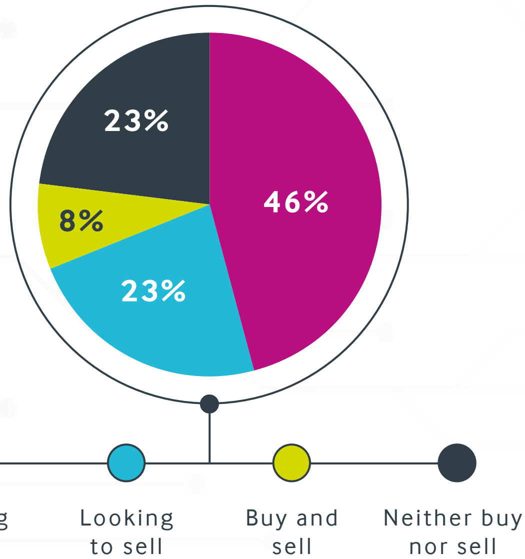
SENTIMENT SURVEY

We anonymously surveyed care stakeholders across the country to gather their views on the year ahead.

When asked about their sentiment in 2024:



When asked about their sale and acquisition plans in 2024:



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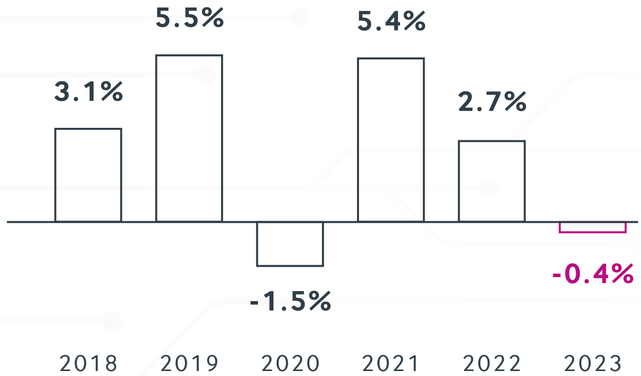


CHILDCARE & EDUCATION

Across the UK's childcare and education markets, 2023 was a year typified by 'market resets' due largely to cost of capital increases, inflation and government announcements associated with policy changes.

Workforce challenges continue to impact some operators' abilities to trade effectively or efficiently. This, along with rising operating costs and pressure on limitations around inadequate fee increases has, for some, led to margin erosion. In some cases, economic pressures resulted in banking covenants being breached, leading to providers either refinancing in a bid to settle outstanding debts, selling or closing their businesses.

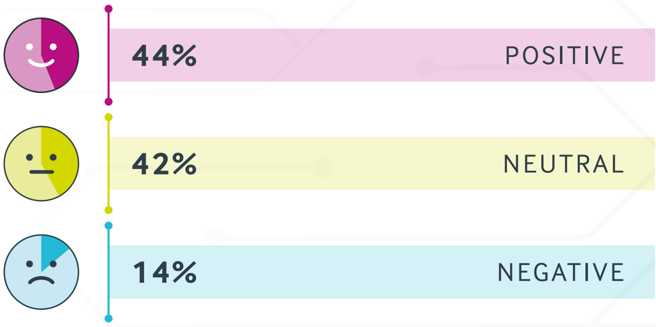
This has been particularly prevalent in the day nursery and provincial independent school markets, where we've seen an increase in setting closures, with properties being sold with vacant possession for alternative use or, in the case of leasehold premises, keys being handed back to the freeholders.

Changes in the economic landscape have resulted in buyers sharpening their focus on the types of businesses that they seek to acquire, this has been especially evident within the independent school and day nursery sectors. Associated to buyers perceptions around risk, reward and growth prospects, teamed with considerations relating to financial longevity and sustainability, the differential between the most attractive business, and those that are less desirable to buyers has widened.

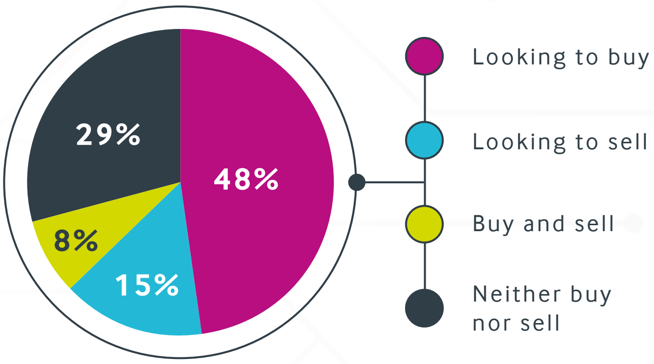
SENTIMENT SURVEY

We anonymously surveyed childcare and education stakeholders across the country to gather their views on the year ahead.

When asked about their sentiment in 2024:



When asked about their sale and acquisition plans in 2024:



MARKET PREDICTIONS

CHILDREN'S DAY NURSERIES

- We are cautiously optimistic about the continued demand for high-quality settings across the country
- Further market consolidation with acquisitions and investment into groups and individual settings
- A continued loss in capacity as a result of smaller settings closing amid continued financial sustainability challenges

SPECIAL EDUCATION NEEDS AND DISABILITY (SEND) SCHOOLS

- Demand will continue for SEND school placements
- More SEND schools are predicted to open in 2024
- The SEND market will continue to grow, fuelled by demand, but fees and costs are likely to be in sharp focus as budget restraints tighten

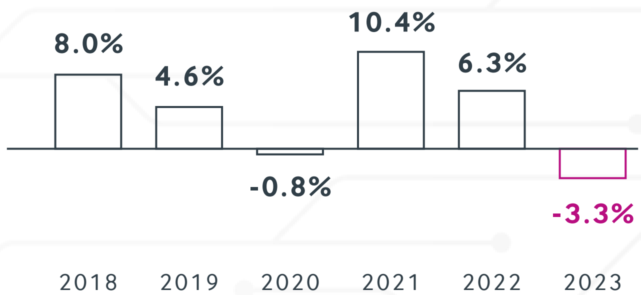
CHILDREN'S SOCIAL CARE

- Further expansion of provision with assets currently in alternative use seeking consent to be used as children's homes and associated educational services
- Increased consolidation activities, with owners of long-established businesses exiting their services due to market conditions and the upcoming general election
- We anticipate seeing further foster carer recruitment campaigns and potentially a shift back to foster care placements being local authorities' preferred placement route as Local Authority purse strings tighten

INDEPENDENT MAINSTREAM SCHOOLS

- Demand will remain for larger independent schools – those with capacity for over 1,000 students – and that evidence strong trading performances
- We expect to see further provincial school closures, notably schools with smaller capacities in less affluent areas
- Mainstream independent schools may see a slight stagnation of market activity in the lead-up to the general election, as buyers proceed with caution amid a degree of uncertainty created by the Labour Party's VAT on school fees pledge

PRICE INDEX



Convenience retail has emerged from the pandemic and ongoing tricky economic environment as a robust industry, which has bucked many of the negative transactional trends observed in the mainstream property market. The absence of any significant distress underlines this strength.

Buyers for going concerns remain attracted to the solid, needs-driven trading fundamentals that convenience stores and petrol filling stations offer, and this has driven some of the highest levels of demand in many years. Our focus on pipeline deals resulted in a busier H2 and reinforces the importance of instructing a specialist agent who can push deals to completion. Scan the QR code for more details on each retail market.

SENTIMENT SURVEY

We anonymously surveyed retail stakeholders across the country to gather their views on the year ahead.

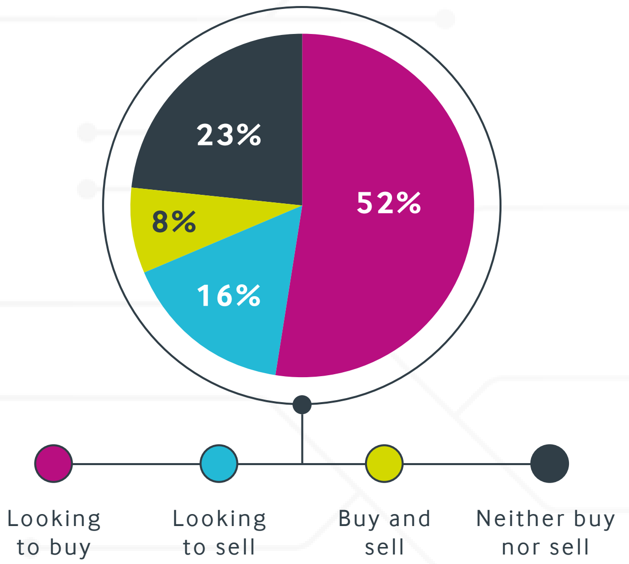
When asked about their sentiment in 2024:

53% POSITIVE

30% NEUTRAL

17% NEGATIVE

When asked about their sale and acquisition plans in 2024:



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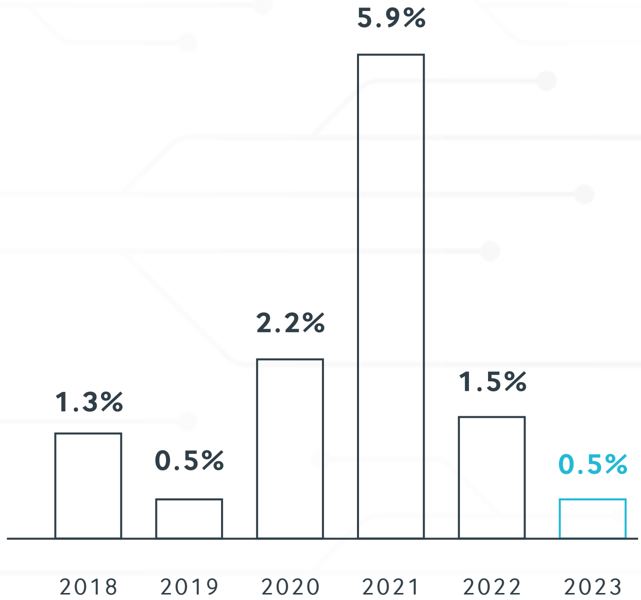


MARKET PREDICTIONS

CONVENIENCE

- Demand will continue to outstrip supply as buyers are attracted to the strong, needs-driven trading fundamentals that convenience retail assets offer
- Lots of first-time buyers still looking to enter the sector
- Multi-site operators will remain acquisitive and looking to expand existing portfolios – looking for better quality, higher turnover stores in particular, to combat inflationary pressures
- Increased activity at small multiple operators level – could include acquisitions or expansion
- Corporates will also be looking to continue targeted divestment programs – shed poor performing/weaker sites to the independent market

PETROL FILLING STATIONS

- Electric vehicles to have little impact on the sector for now
- Strong demand for assets that are sub £3m
- More focus on ESG-compliant businesses, particularly banks

For further insight and an extended Business Outlook 2024 report, please visit our website.

As predicted in our Business Outlook 2023 report, reductions in household discretionary spending due to the cost of living crisis and record-level inflation rates weighed on margins for UK leisure businesses in 2023.

However, certain businesses fared better than others due to shifts in consumer spending habits, with businesses comprising a social, experiential, outdoor or staycation-led focus remaining a popular choice for consumers.

Additionally, many consumers opted to trade down on leisure experiences rather than forgo activities altogether which bodes well for the value end of the market.

These trends continued to shape buyer appetite across the transactional market, with garden centres, holiday and residential parks, and marinas remaining some of the most in demand and active market segments.

In 2023, our Leisure team advised on over £1.3 billion worth of leisure businesses from these markets and more.

MARKET PREDICTIONS

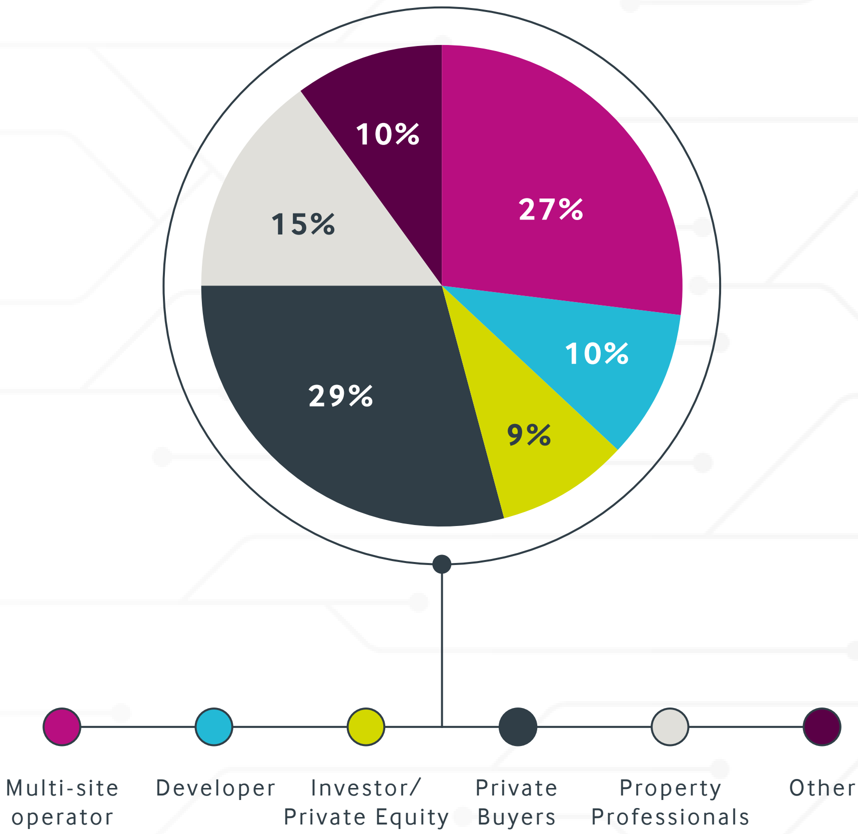
- Investment yields will continue to soften as a result of the greater cost of capital and operational running costs
- Leisure businesses within the luxury and value ends of the market will do best in 2024
- The weakening of sterling from the high of summer 2023 will assist in-bound international leisure and tourism
- The forbearance of the high-street lenders is set to continue, whilst alternative lenders and HMRC are likely to force an increase in administrations and receiverships
- Discretionary spend will continue to be under pressure from most affected demographics – health & fitness will continue to perform strongly as will businesses attracting the grey pound, whereas mid-range family activities such as cinema and adventure golf are likely to remain challenging

CASE STUDY: PROJECT CHARLES

In 2023, we were instructed to market 29 predominantly residential caravan parks and properties by Paul Davies, Sandra Mundy and Tom Russell of James Cowper Kreston, administrators of various companies associated with RoyaleLife Group.

Our carefully designed marketing campaign fully exposed these assets to a variety of buyer groups to ensure maximum proceeds are recovered, a key aim of the administrators on behalf of creditors and stakeholders. This attracted over 62,000 page views and nearly 800 entrants to our data room. We look forward to announcing a deal has been agreed with one of these buyers in the coming months.

BREAKDOWN OF BUYERS



PUBS

In recent years, the UK pub sector has remained resilient in the face of headwinds, and this was no different in 2023. Undeniably, parts of the transactional market remain challenging due to the interest rate hikes and stubborn inflationary environment seen in H1, and pricing will need to adjust further to fully unlock the market.

Nonetheless, the volume of transactions, deals agreed, and exchanges were all ahead in H2. This increased level of activity in the latter half of the year suggests that we should see a more dynamic market in 2024.

8% increase in transactional volumes in 2023

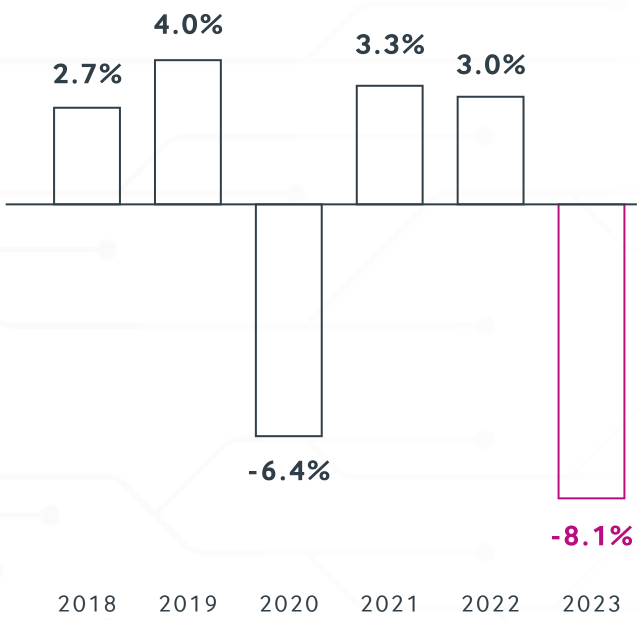
10% increase in deals agreed in H2 vs H1 2023

60% increase in exchanges in H2 vs H1 2023

MARKET PREDICTIONS

- Tenanted pub companies will continue to acquire freeholds up to £1m
- Limited M&A activity will take place as funding becomes less difficult and private equity (PE) return to the market, looking to pick up opportunistic acquisitions (small to large groups)
- Regional and national pub companies will look to rationalise their estate and sell off their bottom end pubs
- The free-of-tie leasehold market will remain strong, as the cost of debt remains high, making the higher end freehold market less obtainable
- Cost pressures will begin to ease
- The number of managed pub operations will continue to rise

PRICE INDEX



SENTIMENT SURVEY

We anonymously surveyed pub stakeholders across the country to gather their views on the year ahead.

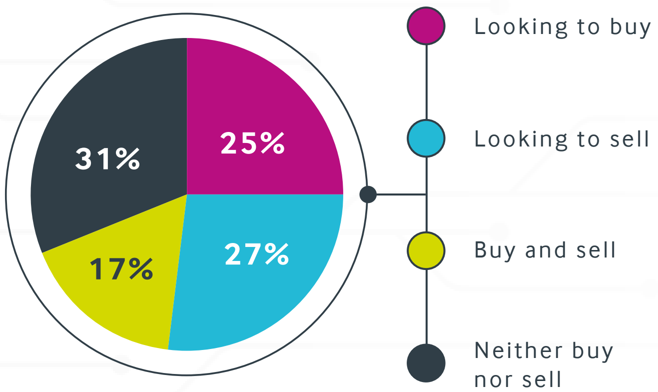
When asked about their sentiment in 2024:

33% POSITIVE

46% NEUTRAL

21% NEGATIVE

When asked about their sale and acquisition plans in 2024:



RESTAURANTS

The UK restaurant industry has been undergoing a period of transformation in recent years, driven by pre-covid over expansion, challenging trading conditions and changing consumer dining habits. These factors continued to significantly shape the sector landscape and transactional activity in 2023, leading certain areas of the market to see growth whilst others remained challenged.

The quick-service restaurant (QSR) and franchise markets experienced further growth and delivery demand remained steady, albeit take-away sales volumes have balanced out compared to the peaks seen during the pandemic.

Throughout 2023, we assisted several key domestic and international market players with both franchisor disposals and franchisee searches. This included Sushi Shop, Chozen Noodles and international brands, Carl's Jr, Paulaner and Bonchon, who are looking to enter the UK market.

Outside of this activity, some individual deals took place, however the transactional market was largely subdued as it adjusted to an inflationary environment with significantly higher interest rates and cautious buyers and sellers.

Headwinds are likely to persist for UK restaurants amid ongoing market corrections but we are confident the sector will remain resilient, and more opportunities will emerge as the market stabilises.

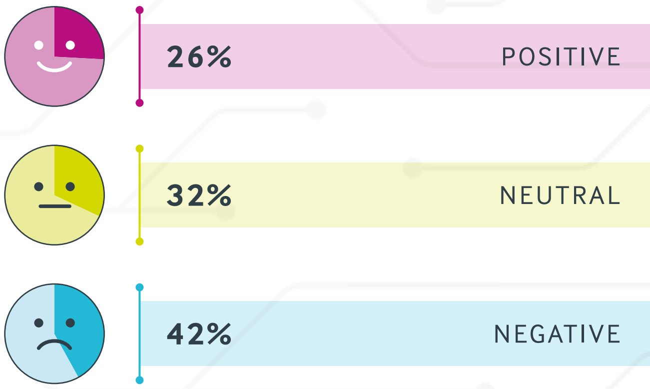
MARKET PREDICTIONS

- Mid-market casual dining will continue to struggle for real growth
- Some return to profitability as menu prices remain steady and inflationary costs reduce
- Continued expansion for franchise brands with greater variety
- Market landscape will continue to compress/decline
- Uptick in insolvencies due to ongoing headwinds, however this will attract new entrants seeking opportunity as confidence returns
- Drop in new site openings as operators look to make better use of existing sites

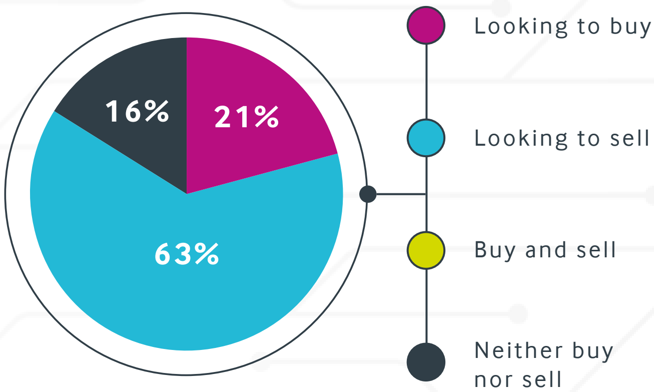
SENTIMENT SURVEY

We anonymously surveyed restaurant stakeholders across the country to gather their views on the year ahead.

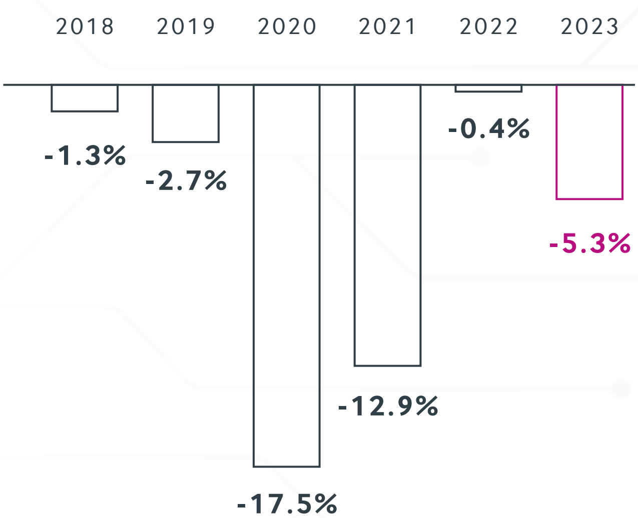
When asked about their sentiment in 2024:



When asked about their sale and acquisition plans in 2024:



PRICE INDEX



In recent years, UK hotels have proven to be a strong, inflation-hedging asset class in comparison to other commercial real estate, such as office or retail. This has solidified the sector in the eyes of investors, with an increasing number expected to redirect capital towards hotels in the year ahead.

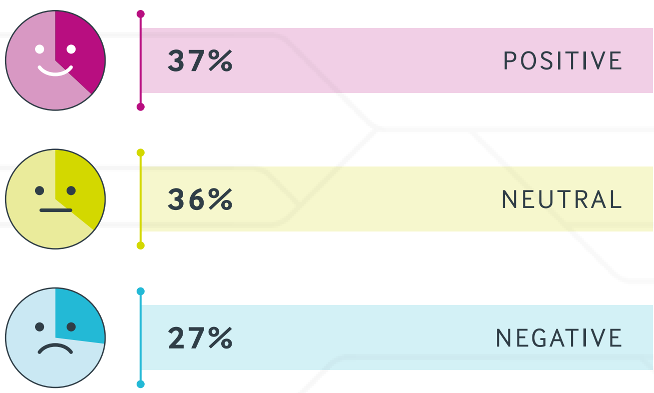
There were signs of rebalancing across the UK hotel sector in 2023, with trading performance maintaining its upwards, albeit decelerating, trajectory. Transaction volumes progressively improved from the summer onwards and resulted in a stronger second half, in line with our mid-year market predictions. In addition, the bid-ask spread is narrowing.

The outlook for the UK hotel sector remains positive and we expect to see increased buoyancy in the market in 2024.

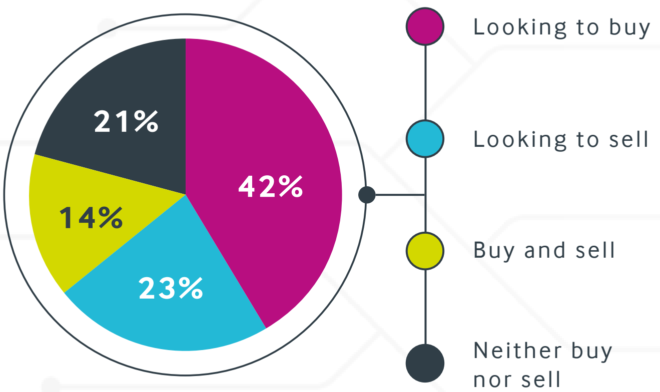
SENTIMENT SURVEY

We anonymously surveyed hotel stakeholders across the country to gather their views on the year ahead.

When asked about their sentiment in 2024:



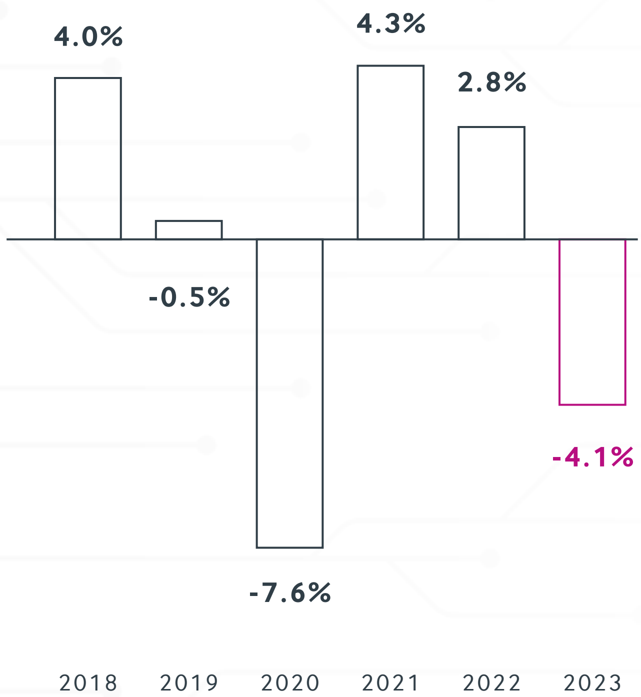
When asked about their sale and acquisition plans in 2024:



MARKET PREDICTIONS

- Continued uptick in stock levels and transactional volumes driven by a wave of refinancings and government contract withdrawals
- Notable increase in distress both through consensual and forced sales which in turn, will lead to further brand consolidation through conversion brands
- Plateauing of performance particularly in leisure-led destinations as household disposable income is under pressure and will drive guests towards the value-for-money accommodation offering
- Further polarisation of the market towards economy and luxury segments with a squeezed midscale segment
- Yields softening to reflect stabilising yet high interest rate environment and pricing finally adjusting
- Development pipeline still at risk in key markets due to increased debt and construction costs

PRICE INDEX



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