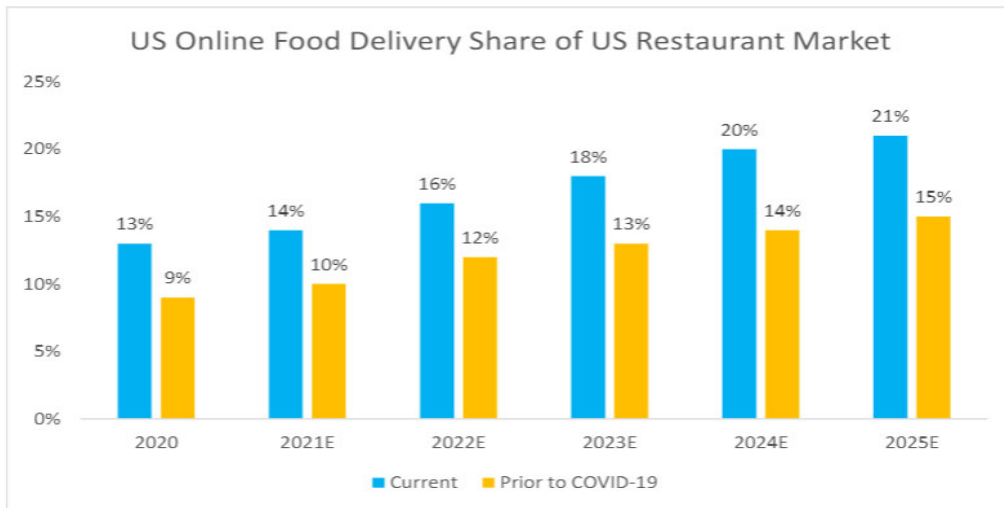




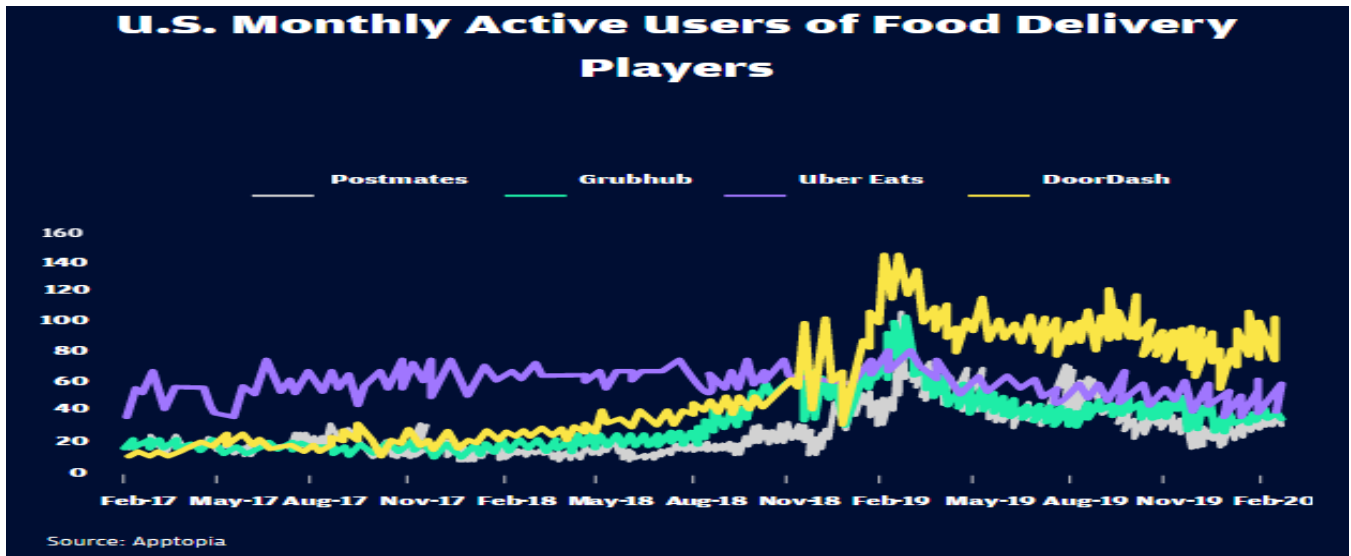
Thematic Research

Digital Dining: Takeout and Delivery Technology Changing the Landscape of Restaurants

The pandemic of 2020 showed the importance of technology in the restaurant industry as the names that had invested in digital were able to quickly adapt to the changing consumer dynamics and offset severe sales losses that other industry players suffered. It was paramount to have an application for digital ordering that builds out customer loyalty as well as the logistics in place for takeout and delivery with in-house dining facing restrictions and closures. It has also led to the popularity of “Ghost Kitchens”, a professional food preparation and cooking facility set up for the preparation of delivery-only meals. All these themes fall under the broader Direct-to-Consumer theme basket which incorporates a move to on-demand consumption and an overall desire for convenience. Digital Kiosks is another trend in this industry, expected to reach \$30.8 billion by 2024 growing around a 9% CAGR.



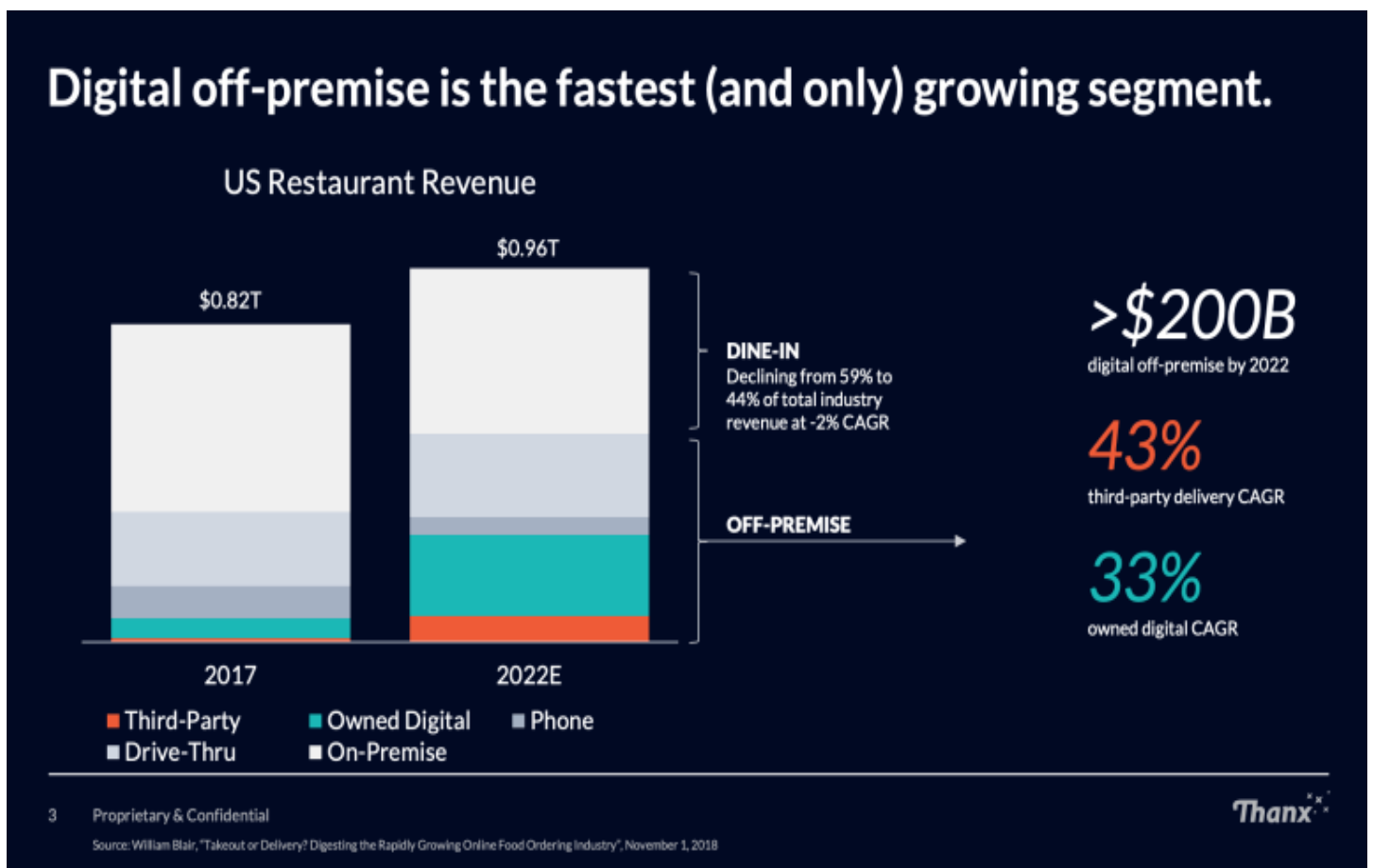
Source: Euromonitor, SFG Research



Source: Apptopia

The food delivery industry has just a few large players and is fiercely competitive. We saw consolidation in 2020 with **Uber (UBER)** acquiring PostMates and **Just Eat Takeaway** acquiring **GrubHub**. Off-premise restaurant dining is a \$300B+ market opportunity and current penetration by the large delivery players is minimal. **Doordash (DASH)** recently came public and owns around half the US food delivery market as it takes market share in cities after already having a substantial share of the suburbs. DASH and others also have a long runway of opportunities to expand into new verticals like grocery (online penetration is just 2-3%) or gifts in a push to “everything-on-demand.” Take-Rates are an important metric for on-demand delivery marketplaces and look to have plenty of room for expansion over time. The global online food delivery services market is expected to grow from \$108 billion in 2019 to reach \$155 billion in 2023 at CAGR of 11.51%. **Lyft (LYFT)** is expected to make a push into food delivery in 2021.

Ghost Kitchens are quickly gaining popularity and Euromonitor says it could create a \$1 trillion global opportunity by 2030. The firm predicts cheaper, faster and more reliable delivery could help this segment capture 50% of drive-thru service (\$75 billion), 50% of takeaway foodservice (\$250 billion), 35% of ready meals (\$40 billion), 30% of packaged cooking ingredients (\$100 billion), 25% of dine-in foodservice (\$450 billion), and 15% of packaged snacks (\$125 billion). Ghost Kitchens offer a major value proposition to the industry allowing for lower cost structure from wages/rent to grow margins. It is a potential major opportunity for the delivery platforms to leverage their technology to partner with key influential people/brands to launch concept menus without much capital risk. Morgan Richert, Senior food analyst at GlobalData, notes "The biggest winners with these partnerships will be the delivery companies because they're gaining loads of consumer data and eventually they're going to be able to map cities by demand points for different cuisines." The number of Ghost Kitchens is expected to grow ten-fold over the next decade.



Restaurants with a strong digital presence include **Starbucks (SBUX)**, **Domino's (DPZ)**, **Chipotle (CMG)**, and **WingStop (WING)**. Limited service chains stand to benefit from market share gains with a stronger digital infrastructure, lower tickers, and likely share gains from small restaurant closures. Many new restaurant openings are keeping in mind the accelerated new trend shifts and providing greater access points for drive-thru and curbside pick-up while keeping dining areas smaller. These four names have steadily been gaining market share annually in their respective categories. Chipotle's digital sales mix increased from 20% in the fourth quarter of 2019 to more than 60% in the second quarter of 2020. WingStop saw similar gains, jumping from 30% to nearly 65% over the same period. Research firm Incisiv finds that digital sales will make up more than half (54%) of limited-service and quick-service business by 2025. Boston Consulting Group estimates digital orders making up more than 30% of the market currently and over \$100B in sales up for grabs. Delivery's market share jumped from 7% in 2019 to about 20% in 2020. They also note that in the quick-service, fast casual, and casual dining categories, purchase frequency is about 50% greater for digital customers than for nondigital customers. QSR Magazine notes "the global market size in restaurant tech has been pegged around \$12 billion, a number only said to grow as brands invest in providing engaging digital experiences from ordering to promotions and delivery." Technology is also opening up further opportunities for restaurants to utilize personalized marketing and enhance loyalty programs which tend to lead to higher customer ordering patterns.

In closing, the Restaurant industry is massive and there are several technological shifts accelerated by the pandemic that are set to continue to gain penetration and provide ample growth opportunities for the food delivery platforms as well as the digital leaders in the restaurant industry.