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Weekly Briefing Report

Week ending 11 April 2021

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Introduction

I write The Weekly Briefing Report to provide an immediate view of the market. My premium service which includes Monthly and Quarterly Briefing Reports provides a slightly more measured view. You can find details here of how to subscribe to this premium service.

I value your feedback. And I would particularly appreciate your thoughts on the topics you would like me to add to my coverage – contact me at peter@peterbackmanfs.com or on 07785 242809.

My insight

Nearly two weeks on from the Deliveroo IPO, now may be a good time to assess its short term impact. The tanking of the share price following the IPO can be seen in that light of what happened earlier to the share price of DoorDash which similarly went for an IPO last December. Despite some yo-yoing in the interim, the DoorDash share price has now fallen by 33%, for the best part of the last month. This doesn't mean that the Deliveroo performance is OK. It means that something's systemically wrong with delivery.

The root cause goes back to the original sin(s) of restaurant delivery: there is the very near impossibility of running last mile restaurant delivery profitably. It's an inherently unprofitable one-to-one delivery model (one supplier delivering to one customer at a time) with minimal economies of scale (unlike say, Amazon's delivery model or Tesco's, which are one-to-many models – and even they struggle to make money). And then there is the need to rely on low paid riders to provide even a small possibility of eventually evolving into a profitable last mile delivery model.

Arising from the employment of low cost riders are the issues that have put off a number of high profile investors: ethical issues, and longer term regulatory issues which may (probably will) result in higher rider costs and therefore delay profitability for even longer. There are other issues which have also influenced the value of Deliveroo. For instance, continuation of the current increased levels of demand are not guaranteed (and investors have picked up on that). I don't see this turning into a long term fall in demand but the momentum that has built up during periods of lockdown will surely seep away as we move into the post-covid world.

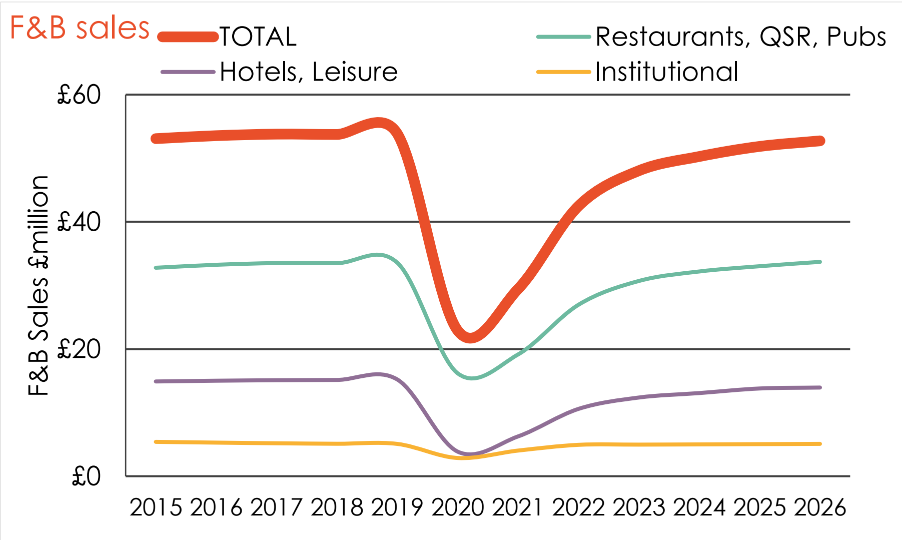
The IPO performance is also being read as a negative influence on perceptions of London as a place for tech investment. But I question whether Deliveroo is really a tech investment. It relies on its ability to create a structure for fairly efficient (even if unprofitable) delivery. Arguably that is its core competence. Sure, it generates data but how effectively is this being deployed to generate profits? To what extent is Deliveroo using the muscle it derives from its data, to influence (some say, strongarm) its restaurant partners into doing things that benefit Deliveroo more than them?

Maybe the IPO performance will develop into a backlash against Deliveroo amongst restaurants (who have been threatening to do so for some time) – there are other models that give them more profitable options. And maybe even consumers will pick up on negative sentiments.

All in all, this is a time of trepidation surrounding the investment value of restaurant delivery.

The numbers

Within all the current short term anticipation of reopening, starting on 12 April, I have been finalising my annual update of foodservice numbers. What do they show? Broadly, they show a bad situation getting better. The top line is, I expect sales to grow quite fast this year, to reach about 55% of 2019 levels (and bear in mind trading in some commercial sectors will have been broadly non-existent for the first four months of this year). Next year I expect sales to be at about 80% of pre-covid levels with the most problematic sectors being workplace and hotels. The market will probably get back to pre-covid levels in 2024 or 2025.



Source: Peter Backman

I have taken into account many factors such as the changing role of delivery in the makeup of full service restaurants versus limited-service restaurants, and the relative exposure of coffee shops to city centres and transport hubs. Similarly, the absence of overseas tourists and businesspeople will have a significant impact on hotels, especially those in central London, while staycationing Brits will have a reverse (and very positive) effect in rural and seaside locations (even if they choose to stay at an Airbnb rather than in a hotel). The broader leisure sector will experience a variety of different growth rates, at least over the next two or three years.

As for the near term, as some sectors open up for eating outside, how will the next few weeks look? The simple answer is: we shall shortly find out – and by the end of June, assuming that all goes well with reopening the foodservice sector, I anticipate some fairly dramatic growth rates. On that score I have been privileged to be shown some, as yet unpublished, figures on what's happening in the US on the food supply side to the, mainly independent, restaurant sector. These figures are based on total food purchases in excess of $5 billion across the country. They show that growth in the trade during the Easter period this year was about 20% higher than it was in 2019. This is probably the same "surge" that early indications (based on forward bookings, consumer intentions etc) seem to be suggest will happen in this country. Although a direct read across from this US experience might be somewhat misleading, I think we can assume, nevertheless, a short term surge of perhaps 20% (compared with 2019) leading up to mid-May. A crucial question is how long will the surge last? Let's hope the answer is "a long time".

In the meantime, here are the latest numbers from the Huq Index and Opentable:

	April							
	5	6	7	8	9	10	11	Metric
Huq Index	37.5	37.0	37.1	39.1	36.4	36.2		YoY % change in footfall
Open Table	-99.6%	-99.8%	-99.7%	-99.7%	-99.6%			YoY % change in bookings

The rest of this report contains a summary of corporate and other activity over the past week:

News in the past week

Financial & Legal

- The Minimum Wage increased; for those over the age of 23, it rose from £8.72 to £8.91 an hour
- The National Living Wage rose 2.2% to £8.91 and includes all those over the age of 23

Retail

- Tesco launches Red's True Barbecue frozen range
- Tesco launches trial of restaurant-quality meal box deliveries

Landlords

- Covent Garden launches 500-seat alfresco dining scheme
- Grosvenor Estates provides 800 outdoor in central London
- Shaftesbury extends outdoor dining scheme in Westminster and Camden

Reopening on / soon after 12 April – for outdoor service

- Arc Inspirations reopens 13 sites
- Dishoom reopens 2 sites
- Five Guys reopens 48 sites
- Homeslice reopens 4 sites
- Ivy Collection reopens 8 sites
- JD Wetherspoon reopens 394 pubs
- Loungers reopens 47 sites
- McDonald's provides outdoor seating in 443 sites
- Marston's reopens nearly 300 pubs
- Mitchells & Butlers reopens 300 pubs
- PizzaExpress reopens 118 sites
- Pret A Manger reopens 47 sites in addition to 276 currently open
- Punch reopens 662 pubs in England
- Revolution Bars reopens 20 sites
- TGI Fridays reopens 28 sites
- The Restaurant Group reopens 42 Frankie & Benny's, 9 Chiquito, 2 Firejacks
- Wagamama reopens 72 sites
- Whitbread reopen 65 sites
- Young & Co reopens about 140 managed pubs

Restaurants

- England restaurants and pubs reopen for outdoor eating and drinking
- Tasty revenue fell -45.7% in calendar year 2020

Leisure

- Brighton Pier Group revenue fell -5% in the second half of 2020
- England outdoor sports – golf included – reopen
- International air travel fell -74.7 in February
- Ten Entertainment Group revenue fell -56.9% in calendar year 2020

Delivery

- Deliveroo Holdings shares launched on LSE at 390p per share
- UberEats launches Dine-In feature for diners to order in person

Suppliers

- Brakes launches Help for Hospitality campaign to support operators with a range of offers

Around the World

- Compass revenue fell -29% in the last quarter versus prior year
- Sodexo sales fell about -21% in the second quarter