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Weekly Briefing Report

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About the Weekly Briefing Report

I write the Weekly Briefing Report to provide an immediate view of the market. My premium service (which additionally includes Monthly and Quarterly Briefing Reports) provides a more in-depth view. Learn more and subscribe here

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

My insight and the numbers

You know how it is with finance. You don't need any money, the kids have left home, the mortgage is paid off, no loans to repay. No need for any more funds. The bank desperately wants to lend you some.

But now you are running a restaurant and things are tight. You need some money to shore up the balance sheet and provide a bit more working capital. The bank says: "We really value your custom but because your business is slower to build up than you indicated in your business plan, we'll lend you some money just as soon as you are profitable".

But what happens if you have "tech" somewhere in your portfolio? And you are an international player? And you are making huge losses? Then the funding rules seem very different.

Take Amazon. Set up in 1994 to sell books online at a tiny margin and making no profits. Seven years later, it marks a milestone: that's the arrival of the first quarter in which profits are made. Two years later, accumulated losses are $149 million, and then, after another five years – 12 years after starting - the company makes its first annual profit. Phew! Investment in that book business was justified. Except that the profits didn't come from selling books. Instead they were coming from a new business that is a million miles away from bookselling – Amazon Web Services – created, to run the cloud, only three years before Amazon started to turn a profit.

In short, it took a dozen years' journey to start being profitable, and the profit tap was opened, not from the original book selling proposition, but from an entirely new business stream.

Nevertheless, this promise has proved to be a model that investors follow in their quest for the next Amazon. Look at Uber: founded in 2009 and now, after multiple funding rounds and an IPO, in Q3 2021 it posted its first profitable quarter (but only on an "adjusted EBITDA" basis). This moment has come after Uber has been in operation for twelve years – five years beyond the point when Amazon posted its first quarterly profit.

But that's only the first step. How long before Uber is profitable over a full year? And where is the AWS-equivalent service which will boost the company into consistent profitability? Is it restaurant delivery (which accounts for 50% of the company's revenue) where profits are elusive? Is it grocery delivery – a newly minted kid on the block that shares many of the features of restaurant delivery – short lead-times, local delivery, reliant on short-contract riders. Is there really a treasure trove of profit waiting to be opened?

Continued …

Or look at Deliveroo. Like Uber, this restaurant delivery specialist has also raised funds in many rounds and floated via an IPO, and yet, after eight years, it still has to get close to making a quarter's profit. Taking the progression from Amazon's seven years to make one quarter's profit – and then Uber's 12 years – I think we'll still have a time to wait for Deliveroo's profit. And yet raising funds is apparently not a problem.

And what is the point of all these observations? These businesses are kept going, in the face of momentous losses, by the investment of vast sums in the expectation / hope / chance that they'll turn a profit at some distant point. And the key question becomes: How is it that funds are available for business in the loss-making delivery space, but not for a modest high street restaurant that is facing a difficult patch?

Is it to do with technology? Or the opportunity to offload the investment onto someone else, at a profit? Or must it be "big"? Or international? Or is it based on vast amounts of consumer data waiting to be mined? Whatever it is, delivery is being better funded than restaurants. Is that a good thing?

I had set out those questions, last Tuesday afternoon, in the draft for this Weekly Briefing Report, and then along comes a coincidence. On Wednesday morning, the answer arrived. It's about gaining size. That morning, DoorDash announced its purchase of Wolt – the Finnish delivery aggregator that had been set up in 2014, a year after Deliveroo, and is now active in 23 countries - from Germany to Japan. DoorDash spent over $8 billion on the acquisition - an amount which, I'd note along the way, is more than Deliveroo is worth.

This purchase represents a significant step by a US-based delivery operator with access to funds. And, notably, it follows the acquisition of US- based Grubhub by Europe-based JustEat Takeaway. In other words, we are now seeing the beginning of the serious consolidation in the delivery space that I have been talking about and forecasting, for the past year and more.

But DoorDash / Wolt and Just Eat Takeaway / Grubhub is only the start. There is much more to come. As yet, there is little crossover between American, European and Far Eastern aggregators. They all operate in their own (fairly large) backyards which says that there's still plenty of room for significant consolidation at an international, and then at a global level. This is going to happen soon because investors and aggregators, are realising they are likely to lose out on the upsizing delivery M&A boom, in which the delivery sector consolidates – slowly at first and then rapidly.

And when it's all over, then what? Like Wyatt Earp at the OK Corral, one man will be left standing. To be that one man seems to be what the aggregator business ecosystem, and its investors, is looking for in order to unleash the profits that many believe lies within the sector.

And why should being the last man do this? Because there is the prospect of being the lone player able to set prices, terms and conditions. And profits. But is this a chimera? Is there enough profit in the restaurant business to sustain the cost of the last mile that lies at the heart of delivery? Domino's haven't made a dollar out of the last mile in over 60 years. Is that the timeframe that investors in delivery aggregators are prepared to contemplate?

And assuming it is, which delivery company is going to be Wyatt Earp?

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

News in the past week

Financial & Legal

- ONS says 65% of furloughed staff returned to their former job when the scheme ended on 1 October

QSR

- Pret a Manger sales in early November in Canary Wharf and the City were -14% down versus 2019

Pubs

- Revolution Bar Group LfL sales rose 17% between mid-July and early October
- Shepherd Neame LfL pub sales from late July to early October were -9% down versus 2019, and up 37% versus 2020
- JD Wetherspoon reduces food prices until the start of 2022
- JD Wetherspoon LfL sales for the period from mid-July to early November were -8.9% versus 2019 – food sales fell -8.1%
- Young's sales for the half year to end September was -1% versus 2019

Leisure

- Heathrow airport passenger numbers at -56% of pre-covid levels

Around the World Delivery

- iKcon, UAE dark kitchen operator, was acquired by Reef
- Wolt, Finnish delivery aggregator, acquired by DoorDash
- Delivery Hero sales at GMV in the latest quarter rose 65% versus 2019

Delivery offers in the week

- Deliveroo: Get £15 off your first order
- Deliveroo: We say 20% off (or more)
- Just Eat: 25% off restaurants in your area
- UberEats: Free falafel in pita (spend £30)
- UberEats: Spend £15, save £3
- UberEats: Spend £20, save £5
- UberEats: 30% off
- UberEats: Buy One, Get One Free
- UberEats: Eat Wednesday, with 25% off McDonald's