Viant Capital
San Francisco

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May 29, 2018

Restaurant Technology Industry Overview

Massive consolidation of Technology and Platforms

There are a large amount of M&A transactions motivated by acquisition of customer base and key technologies. Given this liquidity and the need for customer base expansion, this presents a good time for investors looking to exit their positions through a strategic sale in this space.

Consolidation of restaurant technology companies is happening, motivated by acquisition of customer base and in some cases, the technology. Digital food ordering and delivery is transforming into a scale game with larger profitable companies dominating the space. They are now using a combination of cash and stock and acquiring smaller, usually not profitable companies with a well defined user base. Generally buyers are less interested in the underlying technology of the target.

To-Go Market has huge growth potential. Companies are also growing through partnerships and consolidation of software. Companies are looking to dominate the To-Go market and obtain access to the technology through acquisitions, but the underlying motive is to acquire established customers. Food delivery companies with a fully integrated software offering partner with restaurants to offer POS, Online Ordering and Delivery as one suite. Standalone system with similar offerings are preferred too. Smaller startups are partnering with bigger companies to play the scale game effectively. Restaurant technology companies are also trying to integrate vertically by investing in restaurants.

Dominating B2B catering is pivotal for companies. The United States corporate catering market is valued at $20 billion. Companies are trying to dominate this space due to higher margins and customer life time value compared to the B2C food delivery space.

Venture Capital firms are becoming more conservative. Funding in 2018 is directed towards bigger "safer" players and high growth companies, which account for majority of the funding in this space this year.

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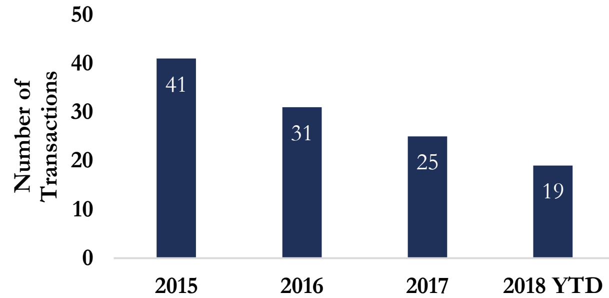
Global Restaurant Technology Transaction Tracker



YTD refers to announced transactions as of April 30th, 2018

About Viant Capital

Viant Capital, a FINRA-registered broker-dealer, is chartered to engage in all investment banking activities. Based in San Francisco, Viant's seasoned industry professionals provide advisory services to a global base of SaaS and technology clients. Viant Capital has deep industry knowledge, a strong track record of delivering optimal outcomes, and significant relationships with software and private equity firms actively seeking to invest within the restaurant technology marketplace.

Capital Formation

Assist clients seeking to raise $10+ million in capital

- Corporate / strategic partners
- Institutional investors (Private Equity, Hedge Funds, Venture Capitalists)
- Private investors

Mergers & Acquisitions

Advise clients with $20-$500M valuations

- Buy-side & sell-side M&A
- Consolidation / roll-up
- Fairness opinions
- Restructuring

Source: Capital IQ

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2018 Market Overview

The restaurant industry has grown from $43B in 1970 to $800B in 2017. The off-premise space represents the new frontier for the restaurant industry's growth with an estimated total addressable market ("TAM") of $220B by 2022, or 40% of total restaurant sales. Over the last 10 years, we saw the proliferation of third party intermediaries—companies that interposed themselves between the restaurant and the consumer. They included the marketplaces—like GruhHub, Eat24, ezCater and Uber Eats, which offered numerous restaurant options from a single interface such as a website or an app along with order and delivery fulfillment**.** We also saw more limited offerings, including those offering last mile delivery, such as Deliveroo and Postmates. These services continue to charge large fees ranging from 10% to 30% of the price of the ticket.

Restaurants willingly embraced these offerings for two reasons. First, they expected to find and keep more customers and, second, they had no other viable technology options. For most restaurants, achieving more customers did not materialize due to poor retention rates and lower margins due to delivery fees. Most intermediaries considered their customer lists proprietary and often refused to share the data with the participating restaurants. However, in recent times the restaurant technology industry's power has shifted towards customers (restaurants) due to the availability of standalone web and mobile systems and the abundance of cheap last mile delivery options. Moreover, through loyalty programs and the retention of customer data, restaurants can actually build their customer base, without forfeiting margin.

We also predict a gradual but ultimately precipitous decline in the number of intermediaries. The bigger players will acquire the smaller ones, and those which don't get acquired might end up going out of business. For restaurants, more changes will occur in product pricing and margins will improve both with scale and as operators adjust their pricing for the off-premise market.

In the software space, most restaurants have four to five devices at their point of sale to service the multitude of third party vendors. We expect that to drop to one over time, as restaurants consolidate their offerings behind one, perhaps two, platforms. Companies which offer restaurants a one stop solution for all their off-premise needs are also preferred by restaurants.

Finally, size is becoming vital for survival in this concentrated space and food service operators are now looking to partner with bigger clients like Walmart, to target other delivery markets. But, operators will need to become experts at executing their off premise channels first before they can partner with marketplaces profitably. Thus huge investments by foodservice operators can be expected, especially in the areas of off premise leadership, centralized services, sales & marketing, operations & delivery.

Delivery: Prepared Meals & Catering

ACQUIRED

Ordering & Delivery Platforms (B2B)

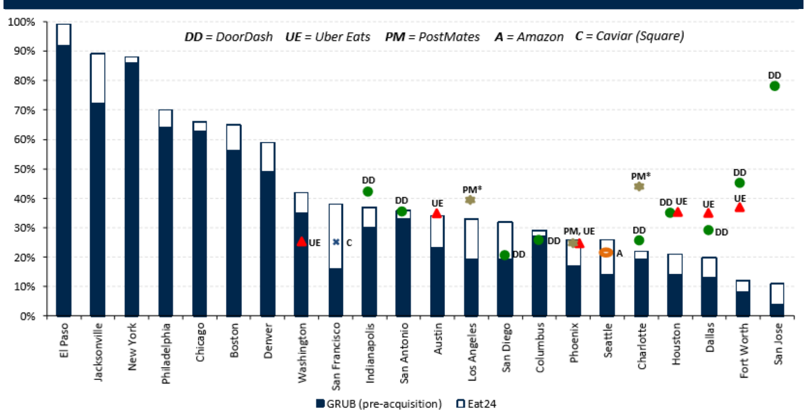
Ordering & Delivery Marketplaces

Source: Mixingbowlhub, FactSet, Morgan Stanley, Capital IQ, Juggernaut

Consolidation of Industry

Consolidation of the industry is currently happening largely motivated by the acquisition of customer base. Being the first mover and scaling fast can bring increased operating efficiencies and profitability compared to its cohort. It further leads to organic growth and later branches out into acquisitions. This increases the footprint of the company which leads to a repetition of the same cycle. Case in point GrubHub, which has an EBITDA margin of 26% while its peers are still unprofitable. GrubHub is approximately three times the market share of its biggest competitor DoorDash, and four times as big as Uber Eats, the third biggest in the US industry. Its long history in the market, acquisition strategy and earned customer loyalty has led to a dramatic scale advantage for the company. GrubHub's scale has resulted in a cycle of serving more guests, more efficiently, which is expected to continue given the growth present in this space. This, when done efficiently, leads to profits which is reflected in its financials.

GRUB Market Share in Major U.S. Cities vs. Peer Strongholds



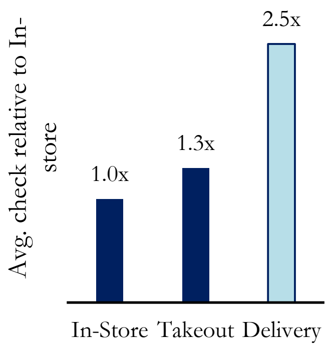
This idea of scale has led to many acquisitions in this industry with customer acquisition costs being an important factor driving acquisitions. Some major acquisitions include Caviar's acquisition by Square, Grubhub buying Eat24 in 2017.

US Restaurant Delivery Industry Snapshot

Source: Stephens

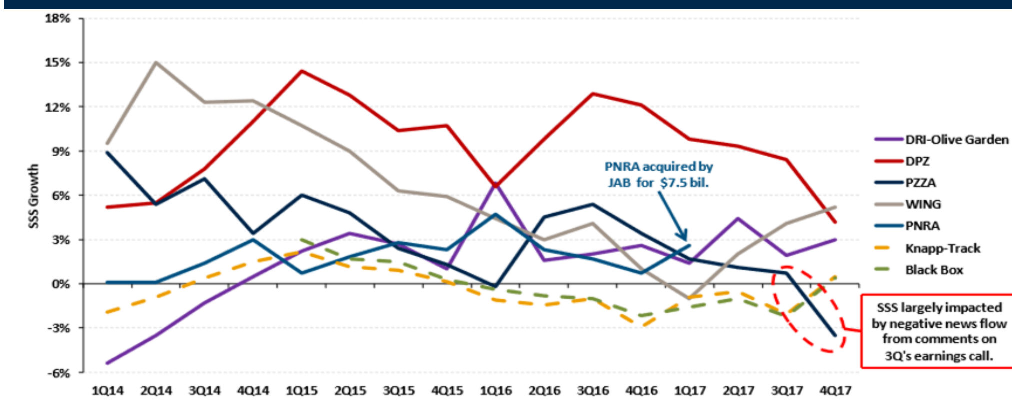
To-Go Market, Software and Partnerships

Average Check Size

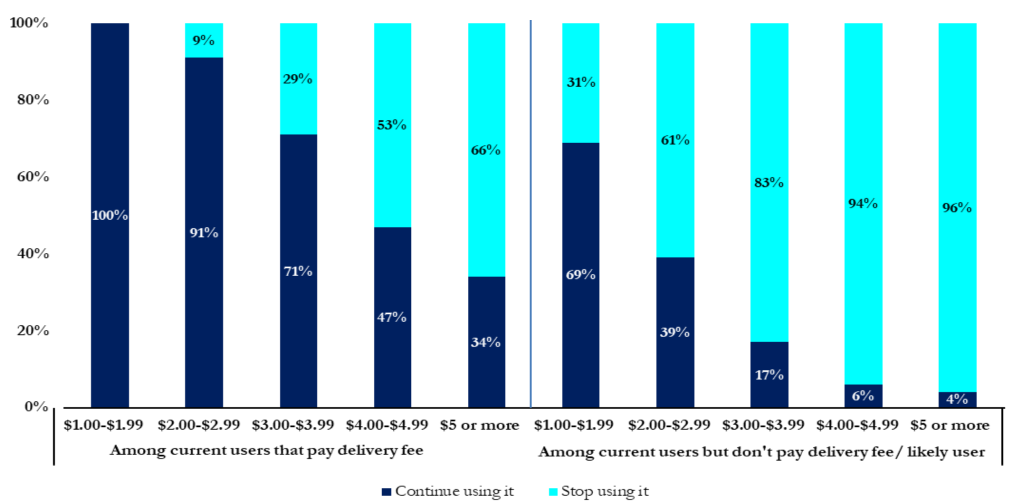


To-Go and delivery have been increasingly important drivers of Same-Store Sales (SSS) growth in the last few quarters for restaurants. Case in point Olive Garden. With 13% of all its sales in the To-Go market, it jumped in early to improve the To-Go experience resulting in consistent double-digit growth in this segment. Red Robin placed a huge emphasis in this market through store and package remodeling and marketing its To-Go offering leading to a 35% increase in its To-Go business. This graph by Stephens shows quick-service and casual dining restaurants that have had the most success with driving growth through delivery, and their SSS has consistently outperformed industry benchmarks (Black Box and Knapp-Track). Also, studies show that the average check size for To-go and Delivery markets are higher than its dine-in counterparts.

SSS Out-performance for Restaurants Executing on Delivery / To-Go



Given the huge market potential for To-Go business, restaurant technology companies will be looking to dominate this market. Recent acquisitions show that larger companies prefer to acquire companies that come with the technology and a pre-established customer base, rather than investing resources to build their own. For example, Caviar acquired OrderAhead to incorporate To-Go functionality, but the underlying motive is to acquire established customers not just the technology. But the To-Go and delivery market is still price sensitive and technology companies must tread carefully on how much they can charge their customers.



Source: Stephens, Olo, Industry Data, UBS Evidence labs, Venturebeat

To-Go Market, Software and Partnerships

There is a drive towards consolidation of software in the industry. Previously, restaurants had a separate system for online orders and had to re-enter the order into their own POS to update their records. Now, with the availability of standalone software with functions to automatically integrate online orders and POS companies partnering with delivery companies to offer software integrations, there is a fusion of interfaces and reduction in the number of systems in restaurants. Some examples include GruhHub's partnership with Yum brands, leading to the integration of GrubHub's offerings into all portfolio restaurants of Yum. Restaurant Revolution Technologies partnered with DoorDash to integrate its Order One ordering platform to DoorDash Drive, Door Dash's catering and fulfillment service, to combine and streamline the order process for participating restaurants. Stand-alone software providers such as Monkey Media* who offer online ordering, POS integrations and delivery software as one suite are preferred by restaurants as well.

Partnerships do not end with software. Smaller companies are partnering with bigger retailers to offer delivery in complementary markets. Recent partnerships include Postmates and DoorDash partnering with Walmart to provide grocery delivery. Ford and Postmates announced a partnership in January 2018 to explore the possibility combining of self-driving cars and delivery.

Restaurant technology companies are also looking at integrating vertically, by buying stake in restaurants. Case in point Deliveroo, which launched a £5m fund to invest in UK restaurants. There are also delivery only restaurants coming up, which rely solely on third party delivery services like GrubHub, Uber Eats etc.

Notable Partnerships		
GRUBHUB	yelp	Will increase the number of restaurants serviced by GrubHub and delivery friendly restaurants on Yelp. As a result of this collaboration, there will be more than 80,000 restaurants to choose from on Yelp.
GRUBHUB	Yum!	Will integrate all of GrubHub's service offering into Yum brand's portfolio restaurants. Adds delivery functionality to Yum brand's companies.
RRT Restaurant Revolution Technologies	DOORDASH	Will integrate Restaurant Revolution Technologies' Order one ordering platform to Door Dash Drive, to combine and streamline the ordering process for participating restaurants.
DOORDASH	Walmart Save money. Live better.	Help in quick grocery delivery. Expands delivery capability of Walmart. Helps DoorDash expand delivery into another industry.
POSTMATES	Walmart Save money. Live better.	Help in quick grocery delivery. Expands delivery capability of Walmart. Helps Postmates expand delivery into another industry.
NCR	DOORDASH GRUBHUB	Automatically integrate delivery orders into restaurant POS systems. The partnerships will eliminate the need for restaurant employees to manually input orders for delivery into POS systems using the NCR's Aloha POS solution set.

*Please note that the authors have advised Monkey Media on various financial matters in the past.

Source: Stephens, Techcrunch, Capital IQ, PR Newswire

Catering Industry

Key Statistics Snapshot

Revenue
$12.0bn

Profit
$946.7m

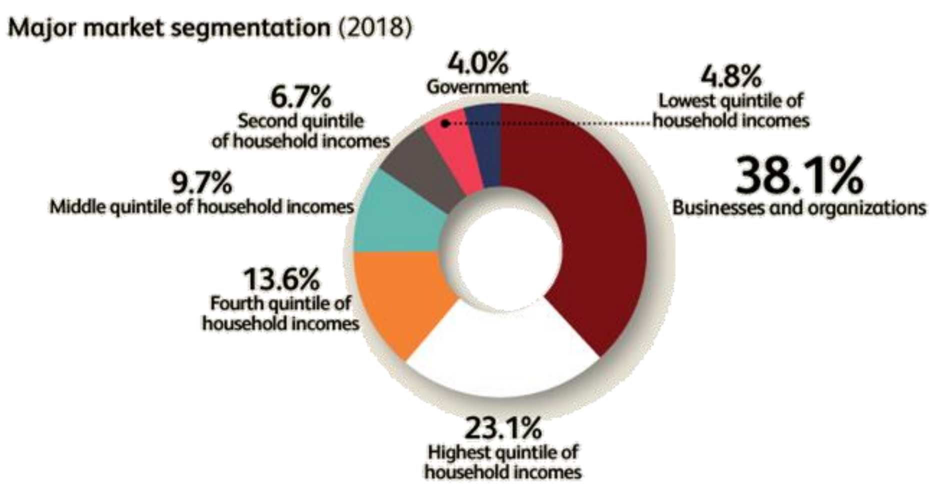
Annual Growth 13–18
1.8%

Wages
$4.2bn

Annual Growth 18–23
2.0%

Businesses
125,464

The catering industry in the United States has found a new strategy for growth in recent years. Industry revenue has risen due to increased consumer spending in this space, leading to an annualized growth rate of 1.8% to $12.0 billion over the five years to 2018. Growth was lukewarm in the second half of the five-year period due to lower consumer and event demand and further affected by volatile corporate profit. Nevertheless, industry revenue is anticipated to rise 1.9% in 2018. Over the past five years, operators have tailored their offerings to suit changing consumer preferences like including healthier options and organic produce, where the profit margins are usually higher. Over the five years to 2023, research from IBIS World shows the Catering industry is forecast to continue to grow as both consumer spending and corporate profit increase. The industry revenue is forecast to rise at an annualized rate of 2.0% to $13.2 billion over the five years to 2023.

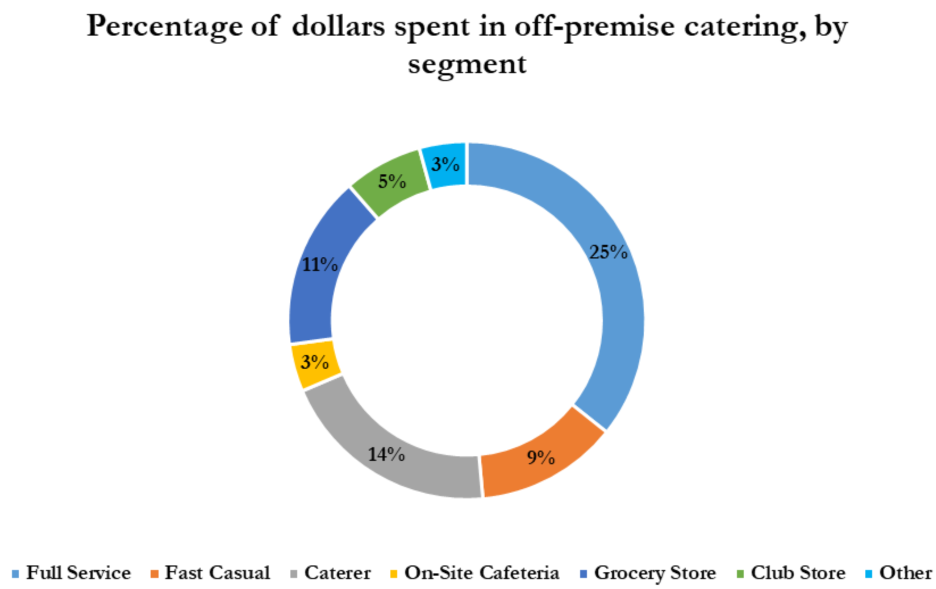


Given this huge potential, technology companies are trying to influence this business by inserting themselves in the supply chain through catering software, delivery and feedback systems. They also help bring traditional non-catering restaurants to the catering business by helping them focus on their food while taking care of the logistics and software. With the advent of these third party players, this market has transformed into an industry with few barriers to entry and low capital intensity and is becoming a key driver of off-premise restaurant revenue.

Source: IBISWorld

Catering Industry

Catering has two different customers: catering to individual consumers and catering to businesses (B2B) . Catering to consumers (also called B2C or social catering) makes up 62% of the total catering market while B2B catering, serving institutions, account for the other 38%. While both are expected to show continued growth, the B2B arena is expected to progress slightly more each year.



The B2B catering market is currently valued at $20 billion and restaurant technology companies are trying to get in and scale fast. B2B catering technology adds convenience to offices, where the office manager can set up preferences such as taste, allergies and dietary restrictions and match that to restaurant menus to create a one-click ordering experience. The restaurant technology company then collects feedback after every meal and information is shared with the catering managers who can then track employee preferences, along with company spending data.

The advantage of B2B catering over regular online orders for restaurants and technology providers are multifold. The customer retention rate and life time value are higher in B2B catering. For restaurants, they can have an increased margin, given the large size of the order and a higher probability of recurring orders.

This market is currently served by legacy players like Sodexo, Aramark and the tech-focused startups Zero Cater, Eat Club, Cater2Me and ezCater. These companies are looking to rapidly expand and increase their market share and build a concrete customer base. Established and legacy companies prefer to acquire smaller companies rather than invest resources to build the technology ground up.

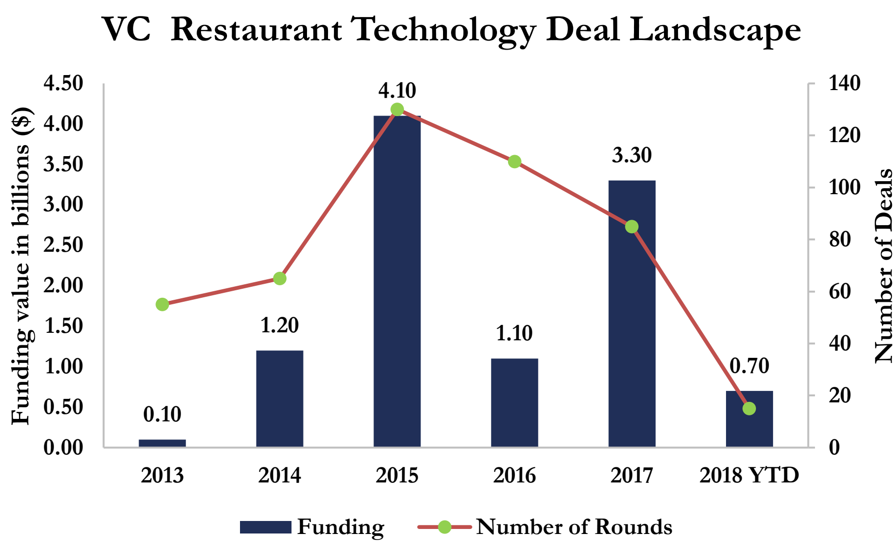
Some recent activity in this space include

- Zero Cater raised $12 million in May 2018 to expand its operations.
- Square acquired Zesty in April 2018 to incorporate catering
- Sodexo invested $30 million in EatClub on May 2017 to expand its operations

Source: IBISWorld, foodnewsfeed, xconomy, restarauntbusinessonline

Venture Capital Funding

Restaurant technology Venture Capital (VC) funding in 2018 is directed towards larger companies with high growth potential as opposed to smaller early stage startups.



YTD refers to announced transactions as of March 1st, 2018

Overall, the VC funding of restaurant technology companies has been coming down. After a period of growth in 2013 – 2015, deal activity to meal delivery startups has continued in a downward trajectory. Though 2017 presented an increase in funding, this was due to large mega-rounds in this space. Overall, funding in 2018 was relatively slow compared to the previous periods and was directed towards larger companies with high growth.

While large deals are a sign of investor interest in the space, they also represent a concentration of interest around large or high growth companies at the top of the market (e.g. Restaurant365, DoorDash).

Approximately 72% of the invested dollars in 2017 went to the top 2 deals in the space: China-based Ele.me's $1B corporate minority round from Alibaba Group, and Germany-based Delivery Hero's $423M corporate minority round from Naspers and the London Stock Exchange Group, which the company raised just one month before making its initial IPO at a valuation of $5.1B.

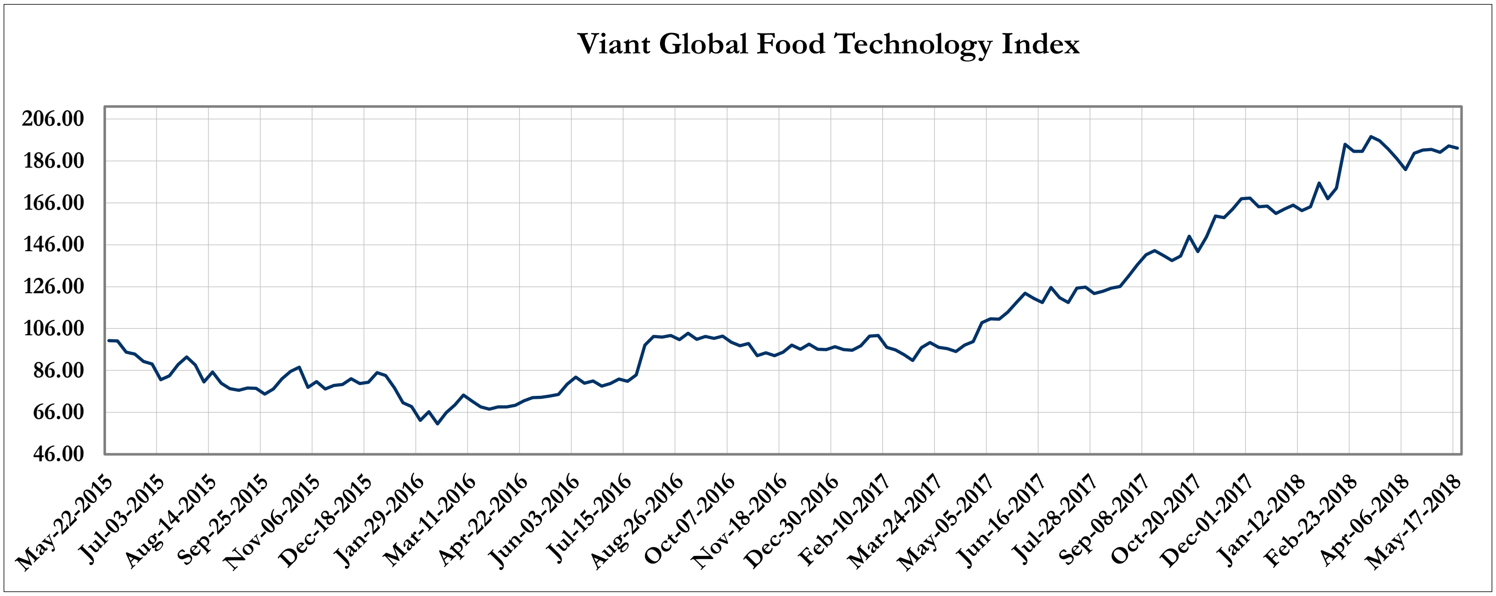
On March 1st 2018, DoorDash raised $535 million from SoftBank, bringing funding to food delivery startups to $702 million so far this year, two-thirds of what was raised during all of 2016, and ahead of the pace at this point (March) in 2017. Thus it can also be viewed as investors losing confidence in the smaller startups which now might have only two exit routes, going out of business or getting acquired.

An explanation for investors being conservative might be due to the history of startups closing shop including Maple, Sprig, and SpoonRocket. More recently, Munchery shut down its operations in Los Angeles, Seattle, and New York and scaled down to only focus on San Francisco.

Source: CB Insights, Capital IQ, Quartz Media

Global Market and Valuation

Restaurant technology and delivery companies have been very active in the M&A space. Reiterating the fact that scale is key to this industry, Viant Capital has a market cap weighted public delivery company index tracking global public delivery companies.



INDEX COMPOSITION

- Grubhub
- Delivery Hero
- Takeaway.com N.V.
- Just eat, plc

Overall, these public companies have grown fast over the past three years with the Viant Index return at 55% for the period starting August 2017 to May 2018. The latest IPO being Delivery Hero on June 2017, the share price of these companies in the index have been surging since their listing. One thing these companies have in common is their size, which is definitely reflected in their growth, and is very hard for the smaller companies in this space to replicate.

The average enterprise value to last twelve months revenue multiple (EV/Rev) of these companies is around 12x.

Name	Enterprise Value	EV/ Rev		EV/ EBITDA		Revenue Growth Rate*	Gross Profit Margin*
		LTM	NTM	LTM	NTM		
GRUBHUB	$8,939.9	12.2	8.9	59.8	33.5	40.5%	57.2%
JUST EAT	$7,046.00	8.9	7.0	31.6	26.4	30.2%	80.1%
Delivery Hero	$7,887.00	15.0	8.9	NM	NM	40.6%	63.8%
Takeaway.com	$2,265.00	11.6	8.3	NM	NM	40.0%	80.8%
MEDIAN		**11.9x**	**8.6x**	**45.7x**	**29.9x**	**40.3%**	**71.9%**
MEAN		**11.9x**	**8.3x**	**45.7x**	**29.9x**	**37.8%**	**70.4%**

(dollars in millions, data as of 16th May 2018) *** Values refer to 2018 predicted values**

Source: Capital IQ

Global Market and Valuation

Historical M&A transactions had food technology companies getting bought at an average EV/Rev multiple of 10x. But these transactions usually had the target's valuation supported by a concrete, growing user base and strong financials. Companies which were acquired at lower multiples usually lacked key technologies and tie-ups or a strong user base. Given the right conditions, companies can expect valuations of around 10x EV/LTM Revenue multiple, but this number is highly dependent on growth, size, user base and the key partnerships of the company. Restaurant software apps like Nowait also received high valuations which could be explained by its large number of users. Nevertheless, averages and means are just guideposts. Irrespective of market conditions, sellers must bring to the table strong operating fundamentals in order to defend higher multiples and maximize value for shareholders.

Buyer and Target		Date	Deal Value	EV/ Rev LTM	EV/ Rev NTM
UNDISCLOSED BUYER	Delivery Hero	02/23/18	$197	9.4	7.1
NASPERS	Delivery Hero	09/28/17	$660	11.6	7.6
GRUBHUB	EAT24	08/03/17	$288	6.2	5.3
yelp	nowait	03/01/17	$40	9.8	7.2
JUST EAT	hungryhouse	12/15/16	$298	10.2	7.5
JUST EAT	SKIP the DISHES	12/15/16	$153	6.5	3.8
Delivery Hero	foodpanda	12/9/16	$449	9.8	8.3
MEDIAN				**9.8x**	**7.2x**
MEAN				**9.1x**	**6.7x**

(dollar in millions)

Source: Capital IQ

Notable Transactions

Date	Buyer	Seller	Multiple	Strategic Rationale
Aug 2014		caviar	N/A	• "The food ordering app from Square has only been able to allow users to order food for pickup. The payments company has been on the lookout for something that could bridge the gap between orders and delivery. Caviar has the infrastructure to do that for the app."
July 2015	GROUPON	ORDER UP	8.1X	• "The potential in delivery and takeout is apparent, especially with the growth of mobile. OrderUp's operational ability, coupled with Groupon's engaged customer and merchant base, bring tremendous scale to the space."
May 2016	GRUBHUB	LAbite	N/A	• "We are excited by the acquisition of LAbite as it adds to the tremendous strides we've made in expanding the breadth and depth of our delivery network as well as boosting our presence in an important market." LAbite is a food delivery service located in Los Angeles, CA
Dec 2016	Delivery Hero	foodpanda	9.8X	• "The transaction allows Delivery Hero Holding GmbH to strengthen its leadership position in Middle East markets." Foodpanda, GmbH operates an online food ordering marketplace and is headquartered in Germany
Dec 2016	JUST EAT	hungryhouse	10.2X	• "The acquisitions would generate significant benefits for Just Eat's restaurant partners and customers. The acquisition would also generate compelling economic benefits of scale, with high operating leverage driving material synergies.. Hungryhouse was Delivery Hero's UK subsidiary..
Dec 2016	JUST EAT	SKIP	6.5X	• "The combination of SkipTheDishes's delivery capabilities with Just Eat's growing network of restaurant partners and customers will significantly enhance Just Eat's market-leadership in Canada." SkipTheDishes is a Canadian food delivery company.
Mar 2017	yelp	nowait	9.8X	• "The acquisition would enhance the service offerings of Yelp Inc by providing real time seating availability to its customers." Founded in 2010, NoWait Inc is located in Pittsburgh, Pennsylvania, United States and offers a software for the hospitality industry.
Aug 2017	GRUBHUB	EAT24	6.2X	• "Together, GrubHub and Eat24 will form the largest network of restaurants offering online and mobile food ordering in the US. Diners will have the ability to discover and order from approximately 75,000 great local restaurants and take advantage of the industry's lowest diner fees."
Apr 2018	Alibaba.com	ele.me 饿了么网上订餐	N/A	• "Ele.me's network of three million couriers will allow Alibaba to better compete in the on-demand delivery sphere."
Apr 2018		Zesty	N/A	• "Expanding Square's corporate catering product with Zesty enables them to offer their restaurant partners another way to boost sales through higher-margin, large-format catering orders"

Source: Capital IQ

Summary and Recommendation

Future Developments

Since the profit margins are coming down due to market saturation, companies are focusing on other aspects to drive profitability and user experience. Time is now spent towards route optimization using Artificial intelligence (AI) and developing feedback loops to improve customer experience. AI is also being used to predict customer orders and plan inventory accordingly.

Summary and Recommendation

The restaurant space is becoming saturated with scale playing a major role in determining profitability. Larger companies are now targeting smaller companies to acquire their customer base. Many companies are engaging in strategic partnerships to increase their market share and penetration of their product into that industry. This consolidation is happening with restaurant software as well. Companies are even venturing into complementary silos like grocery delivery or directly investing in restaurants. Another field of interest for most Restaurant Technology companies is the catering space (especially B2B catering), given its large market size, higher customer life time value and lower customer retention cost when compared to regular online orders.

Globally, the major public companies operating in this space have been doing extremely well, efficiently using their scale to reduce costs and increase customer retention. But for early stage companies, it is a completely different story. Venture capital funding to smaller startups has reduced and funding is now targeted towards larger players or companies with a high growth record. This fear might be stemming from a string of failures glooming around this industry.

Overall, there is a need to scale, both in delivery and software market which is flooding the M&A market with liquidity. Given the right software or customer base, one can expect premium valuations for their company, when supported by strong financials. Considering the liquidity and M&A multiples trend, this would be a good time for investors looking to exit from companies operating in the restaurant technology space.