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Ones to Watch

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Introduction

Ones To Watch are tomorrow's leading operator brands that provide new opportunities for suppliers, operators, distributors and investors, often growing organically, through franchising, external investment or acquisition by larger foodservice organisations.

Ones To Watch was launched to identify these fast growing brands in the restaurant sector – both full service and quick service / food to go. The report and the underlying lists of brands have been updated twice a year and this is the eighteenth edition. However, it has been produced against a very different backdrop to the previous reports. Coronavirus has obviously changed the size of those brands listed. And importantly, it is difficult, even impossible, to identify which brands are still viable until they have been reopened for a while.

Nevertheless, I have produced this report on the assumption that the market will return to growth at some point in the future and with it, we will see the emergence of new brands worthy of watching. In the meantime, this report will produce a benchmark to measure future changes against.

Previous editions have included Bubbling Under brands, which are brands that do not meet the criteria for inclusion as a Ones To Watch brand, but warrant attention nevertheless. In the current conditions, identification of such brands is not possible, so these are not included.

Even though the future is still a big unknown, many (hopefully all) of the Ones To Watch brands identified in this report will go on to become the leading brands in the years to come. They will have been through the trials of coronavirus and will have hardened their operational practices which will stand them in good stead.

Definitions and additional notes

Definitions

Ones To Watch brands are initially identified through my Key Brands dataset of over 4,000 operator brands which tracks the lifecycle of brands as they emerge on to the foodservice landscape, experience growth, or decline. To qualify for inclusion, brands must:

- Be in the restaurant and quick service sectors
- Have between 5 and 25 outlets (excluding dark kitchens, pop-up sites and trucks)
- Be experiencing outlet growth rates of at least 20% over the previous 3 years

These criteria indicate that a brand has an outlet base significantly large enough to establish itself despite the various launch and initial growth phase challenges. They also suggest that the brand's **revenue and customer bases are sufficiently developed to have the ingredients necessary for long term survival and growth**.

Notes

The brands listed as Ones To Watch are available in additional Excel datasets.

Outlet numbers represent numbers that existed at the time of the lockdown on 23 March 2020; nevertheless some of these outlets might prove to be unviable when lockdown conditions are relaxed and restaurants open their doors.

Operator websites are the primary source of outlet data. Occasional inaccuracies may occur where company websites are not regularly updated.

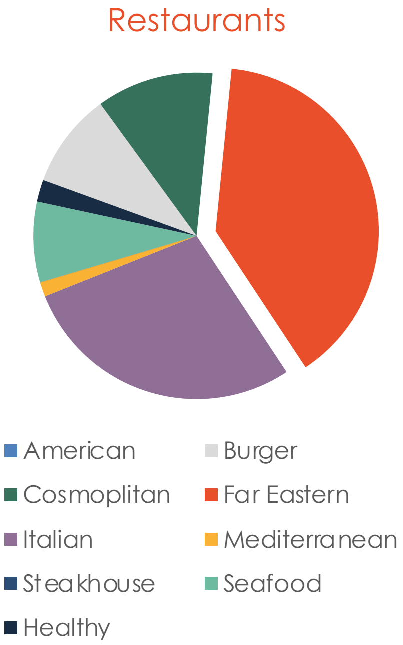
Please contact me at peter@peterbackmanfs.com or on +44 (0)7785 242 809 for further discussion of any of the topics raised in this report or for additional information about the brands listed, including their strategies and ownership.

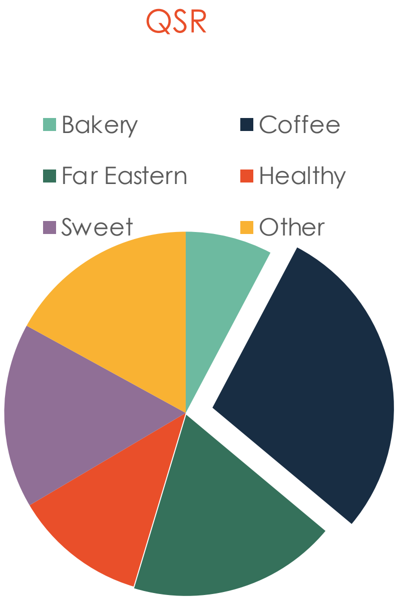
www.peterbackmanfs.com

Some overall takeaways

- Ones To Watch has suffered a **severe decline in numbers of brands** – down by 36 since last November
- The **number of outlets has also fallen** – by 329 to just under a thousand
- **A third of the outlets** operated by Ones To Watch brands **were actually open** – the remainder having closed during the coronavirus lockdown
- There was one graduate this time – **Heavenly Desserts**
- The fastest growing brand was **Oodles Chinese** which is destined for continuing expansion during the rest of 2020
- **Far Eastern** cuisines continued to dominate the amongst restaurants
- **Coffee** dominates Quick Service offers

Cuisines – based on numbers of brands





Some brand takeaways

- Oodles Chinese was the fastest growing brand in the Ones To Watch list as measured by **percentage growth in outlet numbers**

- The next fastest growing were:
  - Shack-fuyu
  - Tim Hortons
  - Bar+Block
  - The Shake Lab equal with Slim Chickens

- Measured by actual **increase in unit numbers** over the last 3 years, the top brand, as last time, was Tim Hortons

- The next brands were:
  - Crosstown Doughnuts
  - Bar+Block
  - Rio's Piri Piri

What they say …

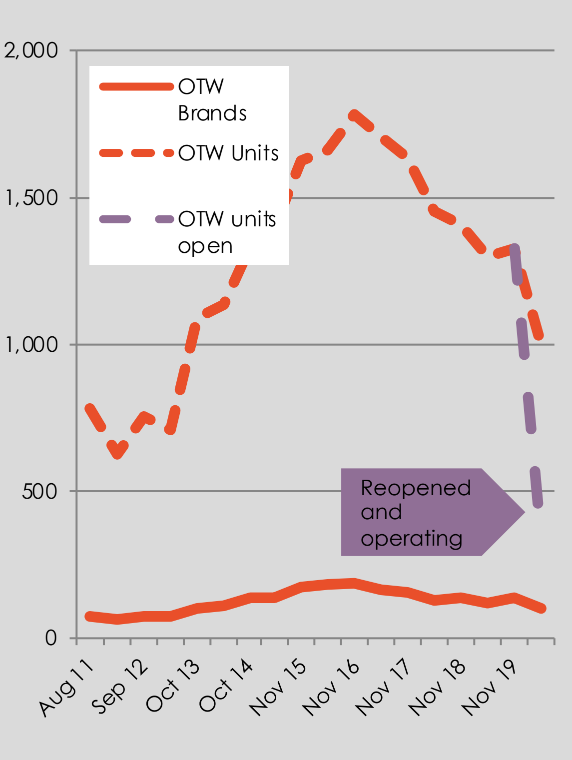
"It's an exciting time for **Ooodles Chinese**. We've grown our outlets from five to 15 in the last three years and have rapid expansion plans, thanks to **our unique brand and franchise model**. In July, we are opening two more stores in Tooting and Manchester and plan to open another 5 by the end of 2020 taking the total to 20 stores.

"Our operation is a casual dining franchise giving customers options to **walk-in and sit-down**, but is also **online and delivery based**, so thankfully, we've been able to maintain momentum during lockdown."

Mohammed Umar, Director of Oodles Chinese

Some market structure takeaways

- The number of brands included in the list fell from 138 in November 2019 to 100 this time. They operated 999 sites, a fall of 24% from the 1,326 sites last time – and this was the level last seen in October 2013
- Only 338 sites were open for delivery, click and collect or takeaway – representing 37% of the available estates operated by the Ones To Watch brands
- The change in the most recent period (November 2019 to May 2020) was driven by:
  - 37 brands that were unable to sustain the pace of growth required to remain in the list
  - 2 newcomers
  - 1 graduate in this most recent period
- The average number of units per brand, at 10.2, was slightly higher than six months and one year ago



Graduates and Newcomers

What are Graduates?

They are brands which were, at one time, in the Ones To Watch list but have now exceeded 25 units and are therefore too large to be included.

The graduate from Ones To Watch with its unit numbers in May 2020 was:

- Heavenly Desserts 27

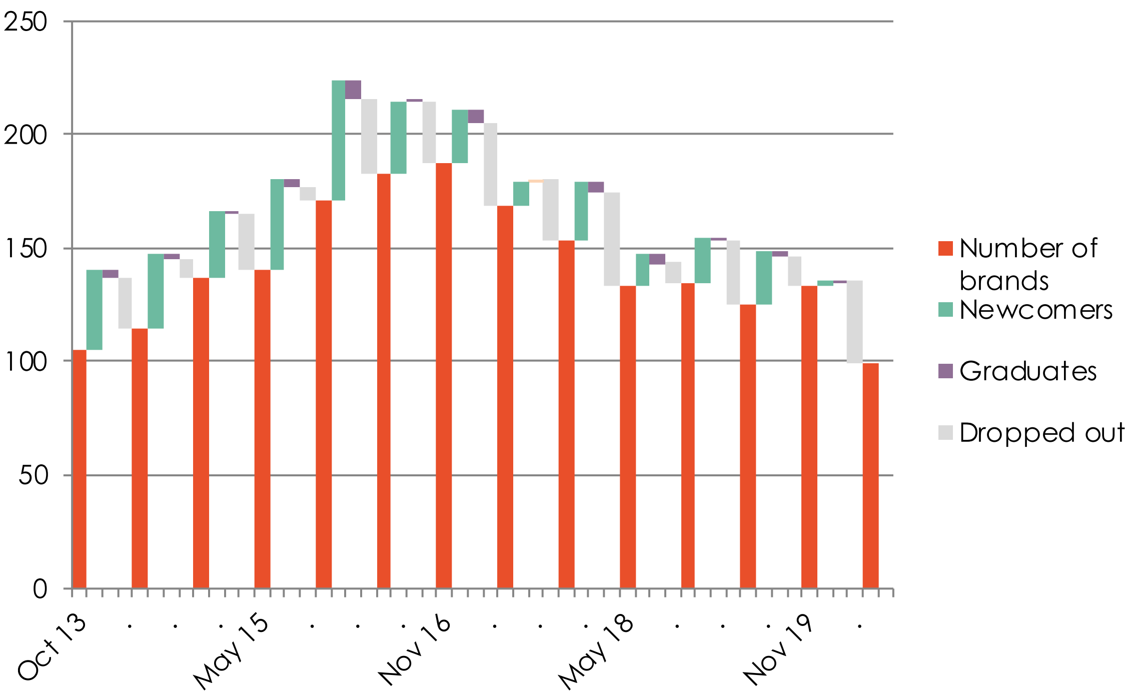
There were four **newcomers** in May 2020

- Oodles Chinese
- Franksters
- Thunderbird
- Elan

The 42 previous graduates - since August 2011

- Abokado
- Auntie Anne's Pretzels
- Bill's
- Black Sheep
- Boost Juice Bars
- Burger Shack
- Byron
- Chatime
- Chimichanga
- Coffee#1
- Cream's Café
- Cosy Club
- Dunkin' Donuts
- Eating Inn
- Ed's Easy Diner
- Euphorium Bakery
- Five Guys
- Fuel Juice Bars
- Gail's
- German Doner Kebab
- Giggling Squid
- Ground
- Handmade Burger Co
- Harris+Hoole
- Harry Ramsden's
- Honest Burger
- Ivy Collection
- Joe and the Juice
- Kaspa's
- Leon
- Lola's Cupcakes
- Pho
- Red Kiosk Company
- SOHO Coffee Co
- Taco Bell
- Tortilla Mexican Grill
- Tossed
- Turtle Bay
- Wahaca
- Wasabi
- Wildwood
- Wrapchic

A large fall – arising from very few newcomers



Within **Ones To Watch** the number of brands has started to grow again.

- There was **1 graduate** - which is slightly fewer than usual
- The number of brands – **37 - that did not sustain the pace** of growth (or whose number of units fell below 5 – there were 3 of these) was lower than normal but unusually so
- There were only **2 newcomers** – which is much lower than normal and is a clear indication of the state of the restaurant sector leading up to the coronavirus lockdown

What happens next?

The contents of this release of Ones To Watch are clearly dominated by coronavirus. The numbers of brands are down by over a quarter. This reduction has been driven by two factors. The first is the higher number than usual of brands that did not make the grade to remain in the list – they either suffered a fall in their numbers of outlets or their rate of growth fell below 20% over the last three years. Both of these considerations were noticeable before the onset of the coronavirus lockdown. Both of these considerations were exacerbated by the lack of new site additions during March, April and May.

The second factor driving the reduction seen in numbers of brands and outlets was an almost complete lack of new entrants into the list. In normal years, the brands falling out of Ones To Watch are replaced by broadly similar numbers of brands that entered the list. This time, only four brands grew fast enough to enter the list.

The impact of coronavirus is also noticeable when note is taken of the numbers of sites which are actually open. Less than 40% of sites were open during lockdown. The positive news is that this percentage will increase over the coming months as the restaurant sector is released from lockdown restrictions.

But even now there are signs of dynamism within the current Ones To Watch cohort. Two brands that were highlighted last time, Crosstown Doughnuts and Zabardast, plan to open new stores during July 2020. But even this optimism is overshadowed by a new entrant, Oodles Chinese, who at the time of publication has reached 14 stores from a standing start in 2017. And at the current planned rate of expansion, are on track to add one or two stores each month until the end of 2020.

So, for investors, as usual, the Ones To Watch list represents a hunting ground for brands to invest in; for suppliers it presents brands whose growth will lead to growing demand for food, drink and other products. And for the operators themselves, Ones To Watch continues to provide benchmarks against which they can measure their growing stature.

How to contact me for a listing of all Ones To Watch brands

If you want to learn more about the brands listed in this report and the database that lists them together with their recent growth history, ownership, serving style etc, please contact me:

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