April 13, 2020 | Equity Research

Take Away's From Trends In Small-Business Call

Restaurants May Be Seeing Temporary Bottom

Grocery remains strong, aggregate retail down low double-digits

Transaction and Business Services
Restaurants
Internet

- **Summary Viewpoint;** We recently hosted a conference call with software with the research group at Womply, a software company that serves over 450,000 small/mid-sized businesses (SMB). While the overall data shows, as expected, that SMB revenues dropped in the back half of March there appear to be some signs of stabilization and/or minor bounce backs in some of the harder hit industries such as restaurants. Grocery, as expected saw a spike in March and appears to be seeing another mini-spike in early April. As well, overall retail (which encompasses a large amount of subsectors) is down low-double digits, not as bad as we would have envisioned.
- **Restaurants down sharply but may be seeing stabilization and/or slight improvement.** Data indicates that on a year over year basis the worst data point so far was a 68% decline the 3rd weekend of March. Since then it appears as if the year over year declines have stabilized and that the data would seem to point to a slight sequential rebound through early April, though volumes are still down in the mid-50% range. Mid-size restaurants are faring better than large and small locations at this time.
- **Grocery remains the bright spot and is seeing another mini-wave of buying.** Mid-march, grocery saw growth that peaked at over 100% with a 10-14 day time frame that was up in the range of 60%-70% before pulling back as we exited the month. That being said, after pulling back to just 15% growth at the end of March the data so far in April points to a re-acceleration that got as high as 40% in the first week.
- **Overall retail is not as bad as we feared, thought it covers a lot of sub-sectors with winners and losers at the extremes.** In total, retail appears to be down mid-single digits since mid-March with a low point of -16% towards the end of March but strong positive data points at the beginning of April before going negative again. Department stores and men's apparel are some of the weaker categories while sporting goods, vitamin/health and hobby/hardware have been flat to up with sporting good showing growth in excess of 50% since mid-march.
- **We think all Meal Delivery players have increased their bargaining power and importance in the food delivery value chain** during the Coronavirus Pandemic. Only ~4% of US Restaurant Food was ordered through online order and delivery (as of 2018), and the pandemic may very well weed out independent restaurants that lacked strong delivery and takeaway channels. By our estimates, eat-in sales comprise 87% of sales of US Independent Restaurants versus 9% of sales for Chain Restaurants as of 2018, suggesting that we could see a wave of permanent business closures among non-deliverers and a significant increase in the mix of restaurants using the delivery channel in the US.

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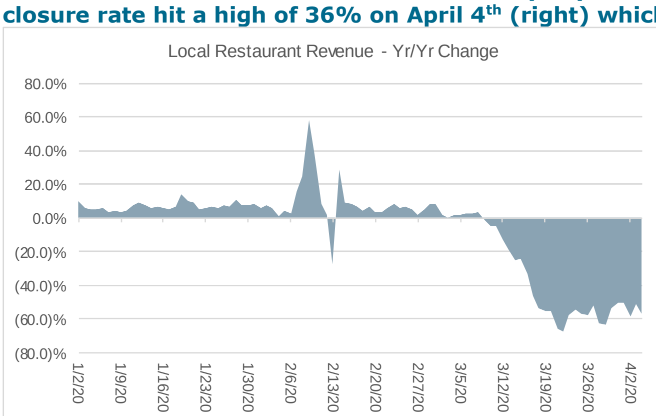
Discussion

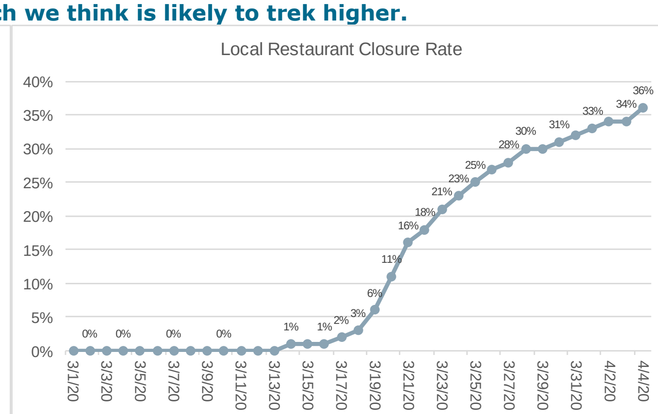
We hosted a conference call with the co-heads of data research at Womply, a software company that works with ~450,000 SMB's and sees their business volumes and revenue performance, providing some interesting insights into what is happening with the SMB market, on an almost real-time basis. As expected, the aggregate data is sharply negative. As expected, travel-related, restaurants and certain parts of retail are down very sharply though areas such as grocery, health and select pockets of retail However, with data now being recorded through early April, there may be some incrementally positive or "less negative" trends emerging.

Restaurants—Taking a hard hit but possibly putting in a near-term bottom

As expected, restaurants are one of the hardest hit industries by the virus, with Womply's data suggesting: (1) Revenues are down ~48% yr/yr on average at tracked restaurants since March 11th, with a trough (down 68%) reached on 3/22 and trends appearing to have stabilized at down ~50-60% since late March (Exhibit 1); (2) Medium-sized restaurants ($10k-$75k/week in revenue) appear to be performing better than larger (>$75k/week in revenue) and smaller locations ($1-$10k/week in revs) with Womply offering that the move to local eating backed by celebrity sponsorship has helped the medium-sized concepts most; (3) As of 4/4/20, restaurants are seeing a 36% closure rate (meaning no revenue for at least 3 consecutive days per tracked info), with the worst hit cuisines being diners, steak houses and Chinese food.

Exhibit 1. Womply's data suggests restaurant revenue troughed at down 68% yr/yr on 3/22 and has since "stabilized at down 50-60% (left). Meanwhile, data also suggests the restaurant closure rate hit a high of 36% on April 4th (right) which we think is likely to trek higher.



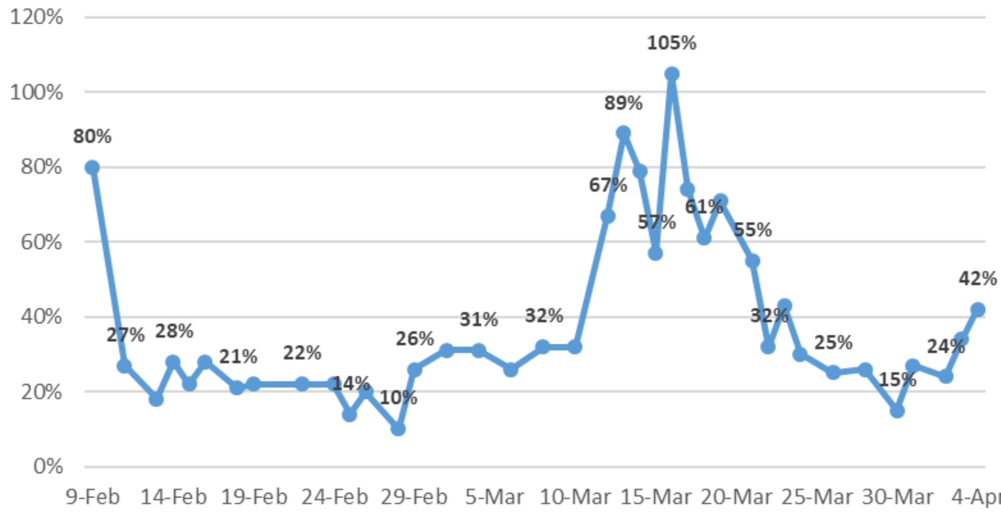


Source for both charts: Womply and Wells Fargo Securities, LLC.

Grocery—Seeing another mini-spike?

While it is well documented that grocery saw a surge in mid-March as the impact of the virus and quarantining went into effect the volumes began to taper off in late March. However, in the last 7-10 days grocery volumes began to re-accelerate, possibly reflecting the depletion of groceries from earlier surge purchases in mid-March or additional states beginning to implement "shelter-in-place" policies.

Exhibit 2. Grocery Sales. Based on data from Womply after a strong surge and pullback it appears that spending began to see a mini-spike in early April.

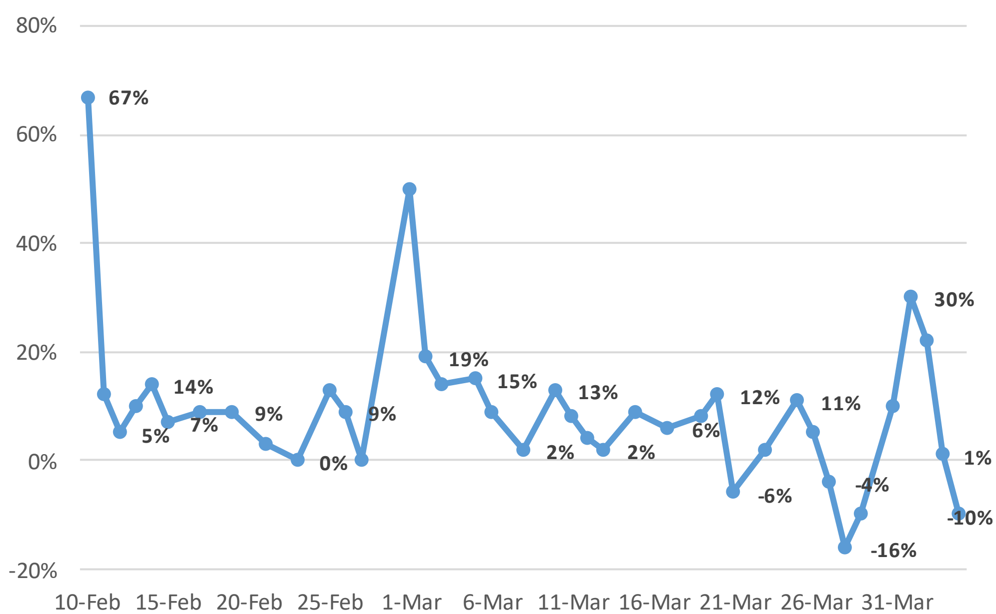


Source: Womply and Wells Fargo Securities, LLC.

Overall Retail—Not as bad as feared…but outliers on both sides

In our opinion, the data point that was somewhat of a surprise was the aggregate retail spending numbers, which have shown that spending was down in the ballpark of ~10% from mid-March. Frankly we would have thought that this aggregate number would have been much worse given the shock to the economy that we have seen. Given the size of this category and the vast number of sub-sectors that are captured in this data there are some outliers on both ends of the spectrum. Department stores and men's stores were down 88% and 68%, respectively. On the flip side, sporting goods stores have consistently been up over 50% (and often much higher) since mid-March with vitamin/supplement stores relatively flat and hobby/hardware stores up 20%. The bottom line take away for us is that while areas such as restaurants/bars and mall-based retailing our definitely seeing sharp declines it appears that based upon the aggregate retail data in exhibit #3 that not all spending categories are in a free-fall.

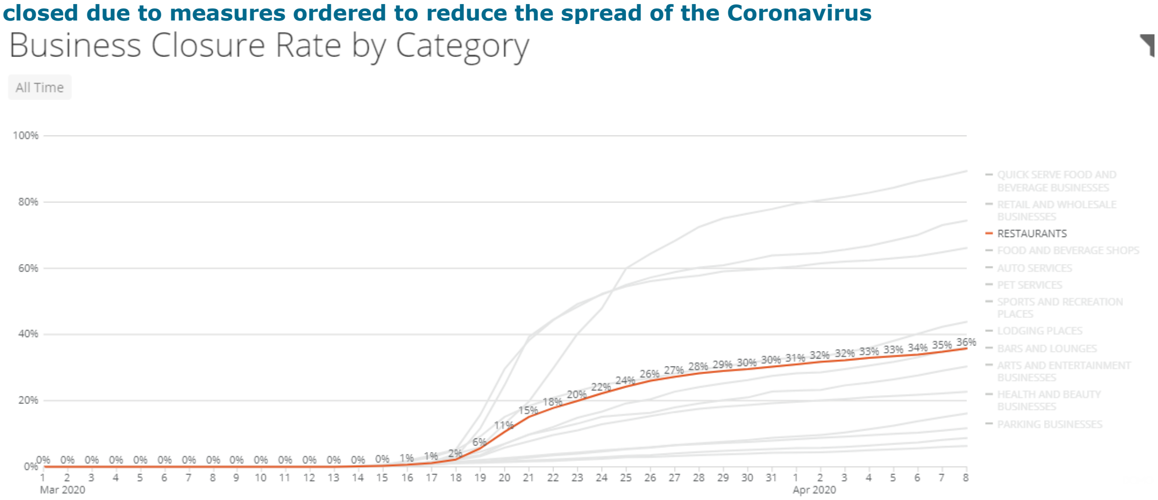
Exhibit 3. Retail Spending has not contracted as much as we would have feared with a bit more volatility in recent weeks but the average since mid-March being a decline of ~10%.



Source: Womply and Wells Fargo Securities, LLC

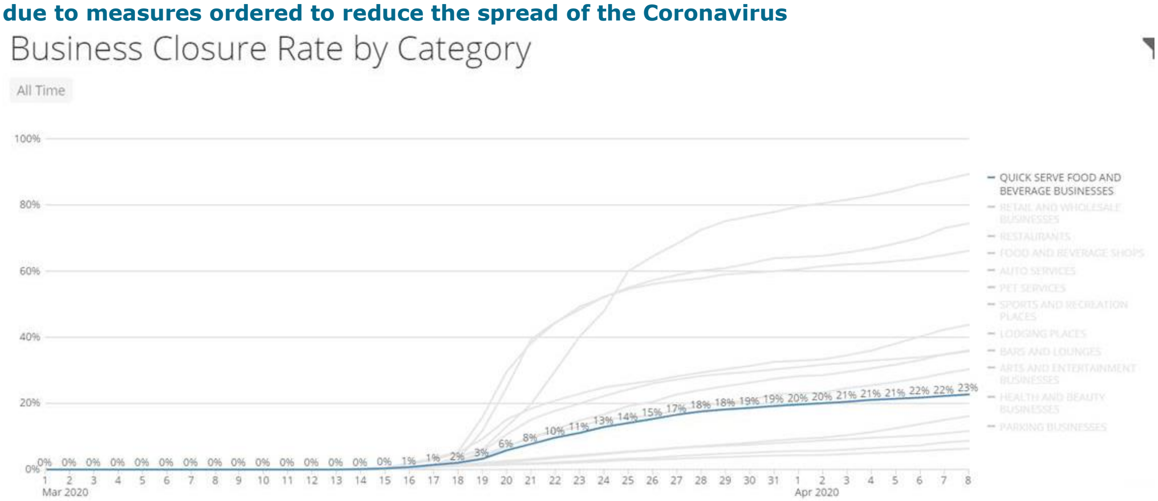
Social Distancing and Lock Down Underscores the Growing Importance of Meal Delivery
As of 4/8, closure rates for Restaurants were 36% and Quick Serve Food & Beverage was 23% (Exhibit 4 and 5). Significant business closures per Womply: 89% of Health & Beauty, 74% of Arts & Entertainment, and 66% of Bars & Lounges. Pet Services are only 6% closed, followed by Auto Services at 9% and Food and Beverage shops at 12%. Note – a business was designated as "closed" if it didn't process a single transaction for three straight days starting on March 1. If, after that three day period, the business processed a transaction, they are no longer considered closed and we back-update previous dates to represent that business as being "open". ***Importantly, restaurants and other businesses that shifted to processing 100% of their transactions via third party delivery apps (like UBER, Doordash, Grubhub, etc.) would also show as being "closed" by this metric.***

Exhibit 4. 36% of Restaurants (non-QSR, and likely "Full Service") in Womply's data set had closed due to measures ordered to reduce the spread of the Coronavirus



Source: Womply and Wells Fargo Securities, LLC.

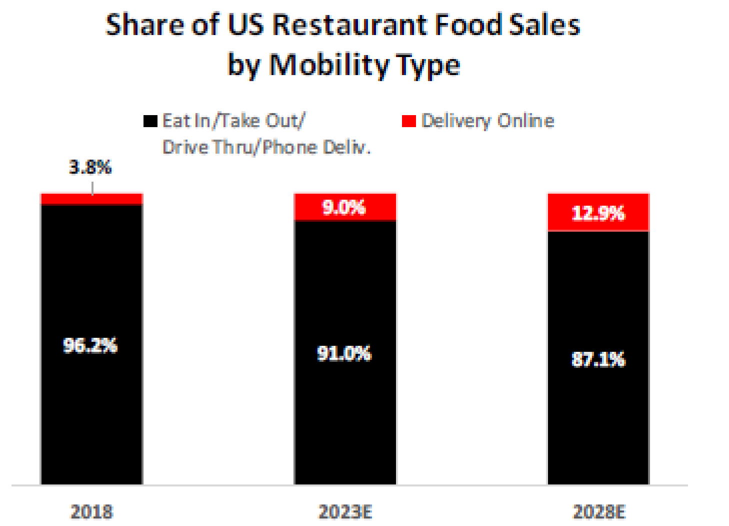
Exhibit 5. 23% of Quick Serve Food & Beverage Businesses in Womply's data set had closed due to measures ordered to reduce the spread of the Coronavirus



Source: Womply and Wells Fargo Securities, LLC.

We think Food delivery players with an early lead in the QSRs segment of the restaurant industry (i.e. UBER, DoorDash) will have higher activity and thus maintain a slight advantage in terms of revenue growth and the ability to employ delivery personnel. However, we think all Meal Delivery players have increased their bargaining power and importance in the food delivery value chain during the Coronavirus Pandemic. Only ~4% of US Restaurant Food was ordered through online order and delivery (as of 2018E) (Exhibit 6), and the pandemic may very well weed out independent restaurants that lacked strong delivery and takeaway channels. By our estimates, eat-in sales comprise 87% of sales of US Independent Restaurants versus 9% of sales for Chain Restaurants as of 2018 (Exhibit 7), suggesting that we could see a wave of permanent business closures among non-deliverers and a significant increase in the mix of restaurants using the delivery channel in the US.

Exhibit 6. Only ~4% of US Restaurant Food was ordered online order and delivery (as of 2018E)



Source: US Census, Euromonitor, Wells Fargo Securities, LLC estimates

Exhibit 7. Eat-in sales comprise 87% of US Independent Restaurant Sales versus 9% of sales for Chain restaurants (mostly quick serve); Independent Restaurants that heavily use GRUB, UBER, and other Meal Delivery services are more likely to retain customers and revenues than Eat-In focused restaurants, thereby remaining solvent through the Coronavirus pandemic.

2018 US Restaurant Segment Characteristics

	Chain Restaurants	Independent Restaurants
Largest 100 Firms	~180K Stores, Strategically Placed High Profitability High IT/Marketing Sophistication Corporate, Franchisee	~200 Stores, Strategically Placed Medium Profitability Medium IT/Marketing Sophistication Corporate Owner
Remaining Firms	~50K Stores, Strategically Placed High Profitability High IT/Marketing Sophistication Corporate, Franchisee	>1M Stores, Highly Fragmented Poor Profitability on Avg. Very Low IT/Marketing Sophistication Owner Operator

Source: Technomic, RestaurantBusinessOnline.com Wells Fargo Securities, LLC

2018 US Restaurant Segments Sales & Mix

	Chain Restaurants	Independent Restaurants
Largest 100 Firms	$265 Bn Sales ~9% Eat-In	$2 Bn Sales ~87% Eat-In
Remaining Firms	$53 Bn Sales ~9% Eat-In	$268 Bn Sales ~87% Eat-In

Source: Technomic, RestaurantBusinessOnline.com Wells Fargo Securities, LLC

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