PitchBook

EMERGING TECH RESEARCH

Foodtech

1Q 2019

Report preview

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REPORT PREVIEW

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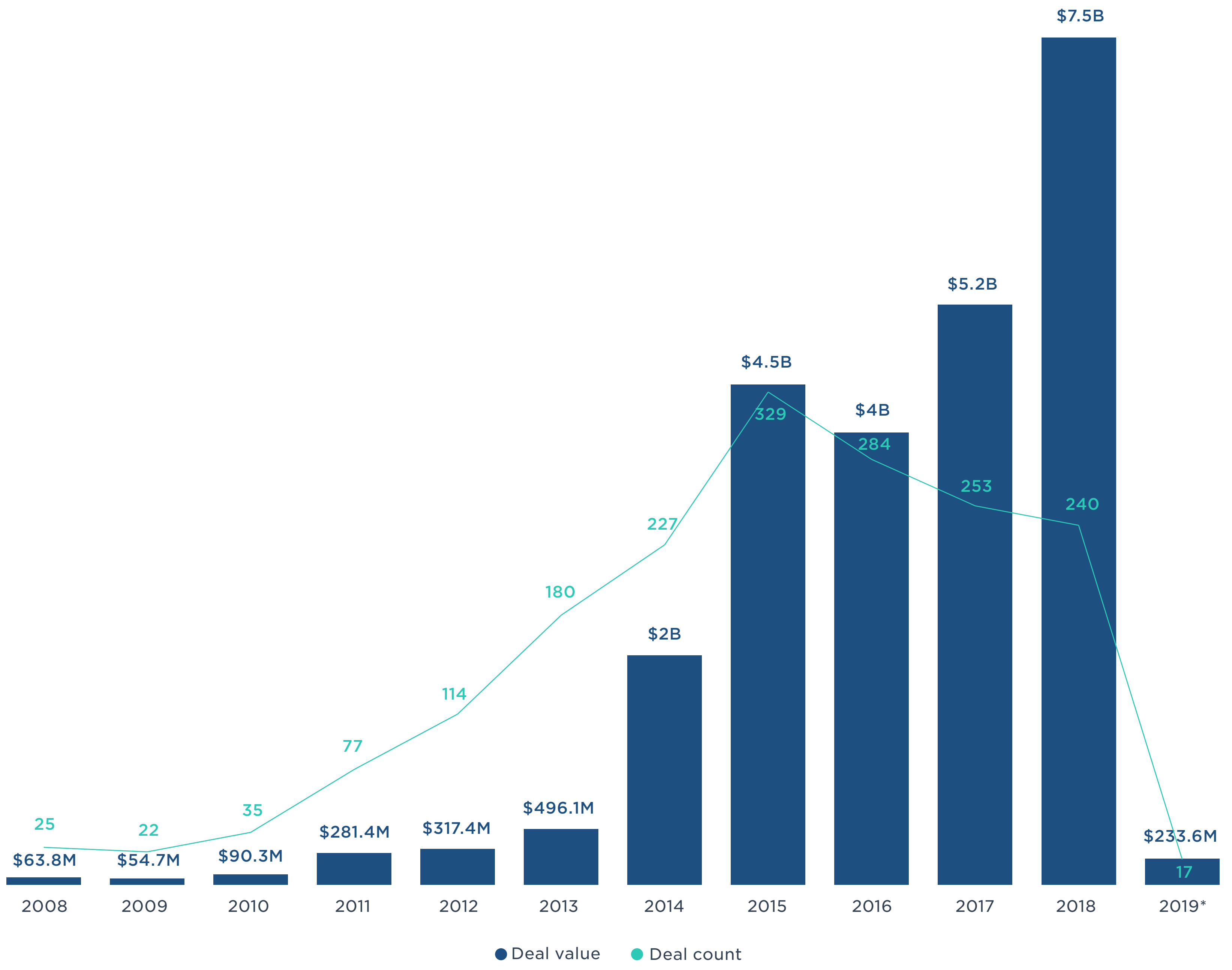
Foodtech Market Map

PE & VC Investment in Foodtech



Source: PitchBook
**as of February 22, 2019*

REPORT PREVIEW

NOTABLE VC DEALS

DOORDASH March 2018 **$535M Series D** Investors: SoftBank, Sequoia	December 2017 **$500M Series D** Investors: Mindworks, Ether
deliveroo January 2017 **$489.8M Series F** Investors: T Rowe Price, Fidelity	JUST May 2017 **$150M Series E** Investors: Blue Horizon, VegInvest
soylent May 2017 **$50M Series B** Investors: GV, Tao Capital	revolution FOODS March 2018 **$46M Series I** Investors: Collaboration Fund

REPORT PREVIEW

Overview

The Foodtech eco-system consists of companies using technology to change the way food has traditionally been discovered, purchased, delivered, prepared, and consumed. While tech-related investment in the food industry has traditionally flown beneath the radar, new technologies and mobile capabilities have sparked new interest in the space in recent years, driving over $7.5 billion in VC investment through 340 deals in 2018. Additionally, recent high-profile investments from technology firms such as Amazon and Uber and IPO-exits including Blue Apron and HelloFresh have underscored the growing importance of Foodtech.

We have observed physical goods industries, such as the food business, to generally be slower to implement new consumer-oriented technologies relative to other sectors, such as financial services. For this reason, we believe Foodtech represents a large and growing market opportunity with the potential for significant disruption of legacy models. This primer provides an overview of the Foodtech eco-system, its segmentation and market sizing estimates. The accompanying market map consists of key VC-backed private Foodtech companies that have received funding since 2015. We have limited our search to only those companies that have received over $15 million total invested capital according to the PitchBook Platform, and selected companies that we felt were important to highlight.

Market segments were determined by similarities in use-cases, then further categorized into more specific buckets. While we recognize that some startups could belong in multiple segments or even in different industries (i.e., Restaurant Tech, AgTech, Ecommerce, Mobile Commerce, or Robotics), we have placed them within the categories that best match our understanding of the primary consumer use-case. Our Foodtech eco-system also includes restaurant delivery, meal kits, recipe boxes, cooking communities, lifestyle brands and products and food-related robotics. All together, we view the burgeoning Foodtech eco-system as vibrant and unique and poised for significant technology-driven growth.

REPORT PREVIEW

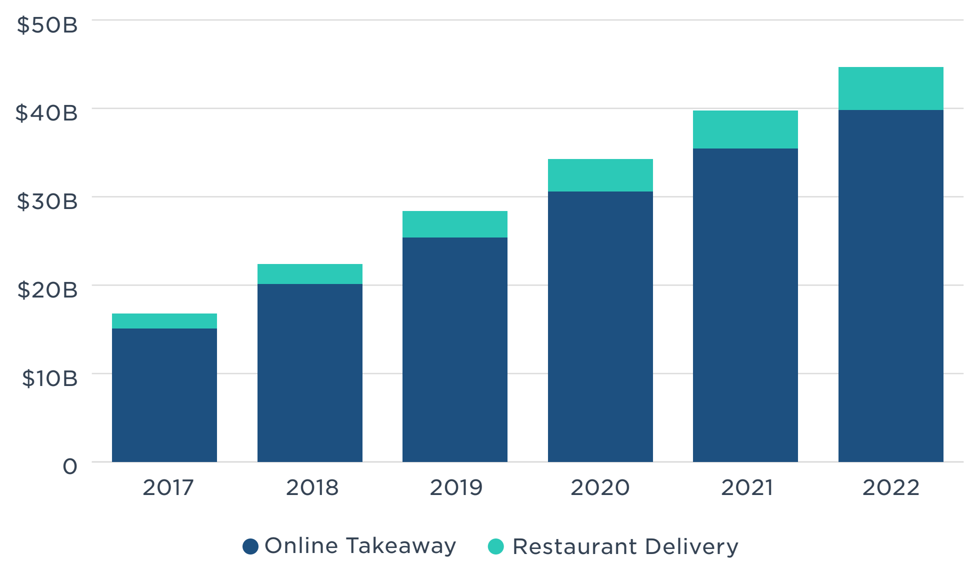
SEGMENT DEEP DIVE

Meal Ordering & Delivery

MEAL ORDERING & DELIVERY

REPORT PREVIEW

MARKET SIZE



Projected US meal ordering & delivery revenue ($M)
Source: Statista
**as of April 2018*

BUSINESS MODEL

Meal Ordering & Delivery platforms act either as marketplaces, connecting consumers with restaurants, or as delivery agents, providing order and payment collection, dispatch, and delivery services. Attractive characteristics of the space include: large market size, growth supported by increased internet and smartphone adoption, and sticky business models.

Companies in the space monetize principally by facilitating food delivery orders and charging fees for that service. Key activities include:

- eCommerce Transaction services
- Restaurant-to-customer delivery
- Advertising services

KPIS

- eCommerce conversion rate
- Average order value (AOV)
- Customer lifetime value (LTV)
- Gross merchandise volume (GMV)
- Monthly active users (MAU)

KEY PROVIDERS

ele.me 饿了么网上订餐 · deliveroo · DOORDASH · POSTMATES · RITUAL

KEY INVESTORS

SoftBank · SEQUOIA · INSIGHT VENTURE PARTNERS · Index Ventures · Accel

NOTABLE DEALS

ele.me 饿了么网上订餐	DOORDASH
April 2018 **$9.5B M&A** Acquired by: Alibaba Group	April 2018 **$535M Series D** Investors: SoftBank Group, Sequoia Capital, etc.

INDUSTRY DRIVERS

- Consumer preference for mobile ordering.
- Sophistication of ordering platforms to offer more options and personalization.
- Relatively un-disrupted industry, with large potential market opportunity.
- Recognition by food providers of digital distribution models.

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SEGMENT DEEP DIVE

Grocery Ordering & Delivery

REPORT PREVIEW

Opportunities

Personalization is key: We believe personalization of the customer shopping experience is a key factor in winning the online grocery business. Customer-demand for convenience, cost-savings and selection when they shop as well as the ability to select the exact brand, ripeness of fruit, etc. is a key aspect of the brick and mortar grocery shopping experience. Online grocery shopping that can best bridge the gap with these expectations will likely have the most success. For example, Instacart has implemented a chat system that shoppers can use to interface directly with customers during the shopping process. This ability to cater to consumer-tastes while maintaining a profit will be key to winning in the online grocery business.

Consumers adopt premium goods: While traditional grocery spend largely tracks GDP growth, we believe luxury, organic, and natural food products are experiencing higher growth rates (mid to upper single digits) and often have higher price points as well. We believe providers catering to this segment of the food market may experience higher growth and margin opportunities.

Incumbent/adjacent players could be natural buyers: We believe brick and mortar grocers (e.g. Kroger), meal delivery companies (e.g. DoorDash), or companies with established infrastructure (e.g. Uber) are relatively well positioned to succeed as they leverage existing assets. These companies may serve as natural buyers for new entrants that provide niche or geo-specific services. Although delivery is not a core to the standard grocery business model, many grocers already offer some level of home delivery and we expect they are likely to get more aggressive in the space as the delivery goes more mainstream.

Online grocery is vastly underpenetrated: Nielsen places the US grocery market at $641 billion[1]. Online grocery is estimated to be 2%-4% of the total market, and is expected to grow to 20% of total grocery retail by 2025, representing a significant growth opportunity in an otherwise low-growth industry.

1 *Online Grocery Sales To Reach $100 Billion In 2025, Forbes, Jan, 18, 2018*

REPORT PREVIEW

Outlook

Investment in grocery to grow: We expect investment in the space to pick up over the near to mid-term as the industry, driven in part by the added visibility from large players such as Amazon and Instacart. Nearly $3 billion was invested in grocery ordering companies in 2018, up from $1.6 billion in 2017. Most of the investment thus far has been at the early venture stages. We expect investment at those stages to continue, and to see investment at the later VC stages as well as PE transactions as companies mature and consolidate.

Instacart dominates third-party delivery: We believe leading providers include third-party delivery (e.g. Instacart and Postmates), internet grocery providers (e.g. Peapod and Good Eggs), and grocery stores with delivery services (e.g. Whole Foods Market). Due to the costs and challenges of last-mile delivery service, an increasing number of grocery stores are partnering with third-party firms to outsource delivery operations. This has been key to Instacart's growth as several major grocery chains (Safeway, Kroger, and Fred Meyer) have partnered with the firm. Instacart is able to reduce costs by aggregating and optimizing the picking and delivery of orders. Still, no internet grocery providers dominate the market, and we expect the entire grocery ordering market to grow as consumers seek out increased convenience and cost savings.

Expect consolidation as competition increases: Consolidation is highly likely going forward as larger players look to gain competencies, scale, and grow customer base. Recent acquisitions such as Shipt (by Target) and Unata (by Instacart) have proved this out. Possible acquisition targets include BigBasket which has raised over $550M with Alibaba as a lead investor, as well as Boxed which has raised $243 million and has courted offers from Kroger.

SEGMENT DEEP DIVE

Meal Kits

Considerations

An Overcrowded Market with Narrow Competitive Moat: Arguably the biggest challenge to meal kit companies is the proliferation of competitors in the market and relatively low barriers to entry. With over 150 companies[1] (38 of which are VC-backed) battling for a share of the $5 billion market, it's exceedingly difficult to stand out and earn a profit. New competition from grocers, big box stores, and convenience chains makes this an even greater challenge. As previously mentioned, food retailers have begun to compete with the standard meal kit delivery business model by selling kits in brick and mortar stores. These stores have either teamed up (through partnership or acquisition) with existing market players or created their own kits. Costco has partnered with Blue Apron to sell kits in their warehouse stores. Wal-Mart has taken the alternate approach by creating their own meal kits which they sell in store. While the expansion to in-store sales may prove to be a successful channel to reach customers, it also suggests the market for online meal ordering may be smaller than people think.

Disappointing Performance: Blue Apron, the largest and most well-known of the meal kit companies, went public on June 29, 2017. The stock debuted at $10 per share, and has been on a slow decline ever since, at one point dropping as low as $2. This performance signals investor concern over the viability of the meal kit model. Two factors stand out as contributors to poor performance: competition and logistical challenges. As mentioned above, the large number of competitors within a relatively small market presents a challenge to achieving sufficient market share and revenue. Additionally, the typical meal kit business model requires a complex and costly supply chain. Finally, last-mile delivery of perishable goods presents additional challenges such as transparency into order status, efficiency of delivery operations, and frictions around delivering to unique customer situations (e.g. requests to place parcel in specific location or weather delays). Partnerships with larger organizations (e.g. grocery chains) present an opportunity to reduces expenses and achieve profitability.

The Amazon Effect: Amazon has a reputation for expanding into and dominating new markets. The firm has already begun testing meal-kits in the Seattle market, and national expansion is imminent. Customers can order meal kits for delivery or purchase at Amazon Go convenience stores. Utilizing the power of Prime memberships and its ownership of Whole Foods, Amazon will likely be an imposing player in the market, capturing significant market share from smaller upstarts.

1 *"Packaged Facts"*

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Our emerging tech research provides detailed analysis of nascent tech sectors so you can better navigate the changing markets you operate in—and pursue new opportunities with confidence.

See the full foodtech report

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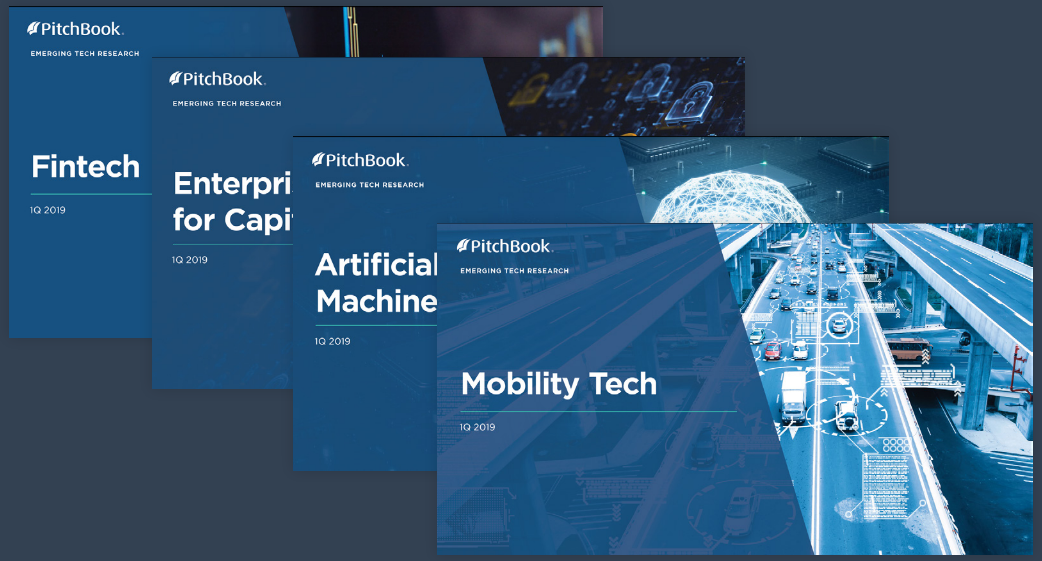

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