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BigDish

27th February 2020

Rapid increase in restaurant acquisition suggests shares remain significantly undervalued

BigDish is an early stage technology company which owns and operates a yield management platform for the restaurant industry. This helps restaurant owners maximise sales during quiet trading periods by offering discounts to customers. Big Dish earns money by restaurants paying a fixed fee per diner seated.

Expanding yield management to the UK restaurant industry

BigDish's platform allows restaurants to improve sales by setting variable prices dependent on the time of a reservation. For customers, it is free to use. The company is now concentrating on expanding its operations in the attractive UK dining market. After successful launches with restaurant partners in several UK cities at the start of 2019, a full nationwide rollout commenced in the summer and is now being accelerated.

New telesales approach to restaurant acquisition, led by new CEO

In November 2019 BigDish announced a move from a "boots on the ground" approach to restaurant acquisition towards a more efficient and lower cost telesales strategy. A new office has been opened in Manchester, led by recently hired CEO Tom Sumner. At dining discount app TableNow he grew the platform with a 10 person telesales team from 250 to 3,000 restaurants across the UK over a six month period.

Strategy already delivering rapid growth in restaurant numbers

On 3rd February 2020, BigDish announced an operational update stating that, compared to November, when there were 177 restaurants live on the BigDish platform, restaurant numbers increased by 150% and by 120% in January alone. At the time of the update the company confirmed there were 351 restaurants live on the BigDish platform and an additional 91 restaurants that have agreed to join, taking the total to 442.

Industry deals suggest the shares are significantly undervalued

We believe the $70 million Series B valuation that Asia focused peer Eatigo commanded could be applied as a valid benchmark to BigDish given its current level of restaurant numbers and growth expectations. **Discounting this figure by 50%, to be conservative and take into account valuation uncertainties, would give a valuation of £26.83 million, or 7.685p per share, some 148% above the current share price.**

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CONVICTION BUY
Target price – 7.685p

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Key data

EPIC	DISH
Share price	3.1p
52 week high/low	9.2p/1.15p
Listing	Main Market
Shares in issue	348,950,355
Market Cap	£10.82m
Sector	Technology

12 month share price chart

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Corporate Background & Operations

BigDish Plc listed on the Standard segment of the Main Market of the London Stock Exchange on 2nd August 2018, at the same time raising £2.22 million (£1.837 million net) at a price of 4.5p per share to advance its corporate strategy. The company has developed a yield management platform for use in the restaurant industry, which allows restaurants to improve sales by offering variable prices dependent on the time of a reservation. Yield management refers to a type of pricing strategy adopted by businesses which sees the price of a good or service varied dependent on its demand. This is frequently use to maximise revenues gained from a time dependent or perishable resource, such as time at a restaurant table.

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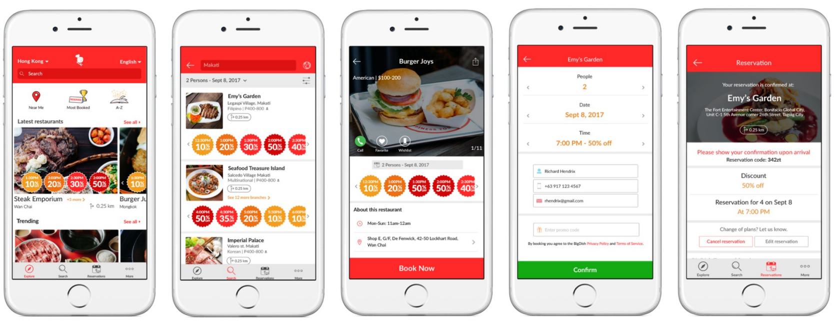
Platform

Using the BigDish platform (mobile app and website), customers can choose a level of discount on food pricing offered by a restaurant (up to 50%) depending at what specific time they make a reservation – as a standard drinks are not discounted. As per the yield management philosophy, customers are offered larger discounts to dine at a restaurant's off-peak times when demand is lower and when seats might otherwise remain empty if standard prices were charged.

The mobile app is available for iOS and Android devices, with customers able to make location based searches and see individual restaurant profiles, including menus and pricing, before making a booking. **For customers, BigDish is free to use, with the company deriving income by charging restaurants a flat fee per restaurant customer based on the approximate average spend at the restaurant.**

There are low barriers to adoption for customers, with a booking able to be made within a few button clicks. Customers are only required to provide their name, email address and phone number, with no upfront payment, credit card details or voucher code needed. Instead, the BigDish discount is automatically applied to the customer's bill at the end of the meal. This ease of use, combined with the zero cost, offers a unique selling point to consumers compared to traditional subscription based discount services.

For restaurants, the merchant app functions as an interface on which they can keep real-time track of their incoming bookings made through the platform. It also allows restaurants to customise their discounts around key target times and amend deals at the last minute in order to optimise bookings. The admin panel meanwhile contains a self-developed business intelligence dashboard which provides restaurants with data insights on areas such as popular days, times, cuisine types, bookings made, revenues, most active users, and how long in advance customers make their bookings. The data can then be used to develop marketing strategies.



Strategy

The restaurant sector in general is traditionally a slow adopter of technology, so BigDish believes that yield management has real potential to disrupt the market. As such, the company's corporate objective is to become one of the leading yield management platforms for the restaurant sector within the countries that it chooses to operate. As the BigDish app is a free consumer product the company believes it has a compelling consumer proposition, as well as offering more flexibility to its restaurant partners.

At IPO, BigDish was focused on expanding its operations in certain Asian markets. But following a strategic review, which concluded at the start of 2019, the company is now concentrating on its UK operations where it believes faster growth will be easier to achieve. The UK is seen as an attractive geography for expansion, not only for its large dining market, but given that it is currently dominated by paid consumer dining membership products, such as Tastecard. After successful launches in several UK cities at the start of 2019, a full nationwide rollout commenced in the summer. In terms of restaurant type, BigDish is targeting casual dining, fine dining and buffet style restaurants as users of its platform.

The UK operations are supported by a 13 person strong technology and business support function located in Manila, the Philippines. These operations cost a total of c.£19,300 per month, considerably less than the cost of having these functions based in the UK.

New approach to restaurant acquisition

In November 2019, BigDish announced a major change to its restaurant acquisition approach. Prior to this, the company had used a so called "boots on the ground" approach, hiring Territory Managers to sign up new restaurants to the platform in a specific geographic region. While some success was seen, the decision was made to open a telesales operation in Manchester as the new, prime strategic initiative for restaurant acquisition. However, two of the best performing Territory Managers, focused on Birmingham and Brighton, will remain with the company and have their progress monitored.

The telesales approach has been implemented as BigDish believes it will be more effective in increasing the number and pace of restaurant sign ups, with the costs also being considerably less than the "boots on the ground" strategy. The cost savings are expected by the company to be *"well in excess of £250,000 per annum"*, a significant sum in the context of H1's admin expenses of £0.74 million. BigDish has noted that peers Tastecard, Gourmet Society and TableNow all have proven the effectiveness of telesales within their operations. The Manchester telesales office opened on 2nd December last year and the objective is to rapidly build up a team of approximately 10 people.

New CEO to drive growth plan

This revised growth plan has been tasked to new CEO Tom Sumner who joined BigDish in early December last year. Former CEO, Sanj Naha, has become a consultant to the company focusing on the acquisition of restaurant chains and third-party integrations with Electronic Point of Sale (ePOS) and other restaurant technology platforms.

Sumner has worked in the restaurant discount industry for the past six years. From 2013 to 2016 he was National Partnership Manager at Gourmet Society and Tastecard, the largest diner membership clubs in the UK. Notably, in 2016 he joined TableNow, a dining discount app that enables diners to book discounted restaurant seats in the UK, rising to the level of Managing Director**. Following a rebrand in April 2019 he grew the platform, with a 10 person telesales team, from 250 to 3,000 restaurants across the UK over a six month period**. Two other people have also joined the BigDish team who have experience working with Sumner in restaurant acquisition and collectively have 12 years industry experience.

The primary focus for the current year is restaurant acquisition and accelerating the growth of restaurant numbers in order to build out a national product. As restaurant numbers increase in key towns and cities the focus of the strategy will then shift to consumer (diner) acquisition and further product development.

BigDish believes that building a national product with increasing restaurant numbers will enable it to use national brands for large-scale marketing partnerships in order to drive consumer acquisition, integral to the strategic marketing plan. Providing a potential additional revenue stream, It is expected that some of these deals will be monetised, with the sums involved possible more significant than future transactional revenue.

Trading statement confirms new strategy is delivering

On 3rd February 2020, BigDish announced an extensive operational update covering recent trading. **The main highlight was that, since the last update in November, when there were 177 restaurants live on the BigDish platform, restaurant numbers increased by 150% and by 120% in January alone.**

At the time of the update the company confirmed there were 351 restaurants live on the BigDish platform and an additional 91 restaurants that have agreed to join, taking the total to 442 (the target is seven days between agreement and being live). Also, there was a 387% increase in deal quality (50% off and 2-4-1 offers) in the month of January compared to the whole of 2019 and a 34% increase in 7 day availability compared to 2019.

Notably, success seen at the Wildwood restaurant in Bournemouth has resulted in the roll out of the BigDish platform to all 56 Wildwood and dim t restaurant brands, which are owned by AIM listed casual dining operator Tasty Group. This goes to demonstrate the potential for rapid roll outs in dining chains which see the potential of the company’s technology. Another notable recent addition to the platform is the Marco Pierre White Steakhouse & Grill in Liverpool.

The recent successes follow the appointment of the new CEO and a focus on recruitment and setting up new systems and processes with a view to accelerate growth this year. The telesales team in Manchester has increased in size and is expected to reach full capacity of ten people over the first quarter of 2020. As previously expected, BigDish said that the cost of the telesales operation is proving to be considerably less than the discontinued “boots on the ground” strategy.

In other matters, the platform technology continues to be improved, including an overhaul of the app's search functionality and improvements are being made to the speed and user experience within the app on an ongoing basis. The team is also making improvements to the website layout and functionality and changes are being implemented that will enable consumers to make a booking up to 7 days in advance at all restaurants. Finally, BigDish revealed it is going to provide more regular updates to investors in 2020, announcing updated restaurant numbers on the first business day of each month for the remainder of the year.

Financials

BigDish remains at an early stage of its development so revenues to date have been minimal. Numbers for the six months to 30th September 2019 reported income of £11,766, with a pre-tax loss of £1.05 million. Costs included £0.74 million of administrative expenses along with a £0.4 million non-cash impairment loss.

In June 2019 BigDish took advantage of a sharp rise in its share price and raised £2.1 million through an institutional placing of 29,166,667 new shares at a price of 7.2p per share. The additional funds were earmarked for accelerating the development of new features and functionality across all the BigDish platforms, development of further revenue streams, accelerating the UK rollout and increasing the rate of user acquisition.

At the end of September cash in the bank stood at just under £1.3 million, a figure which the company expects will be sufficient to finance the current strategy through to Q3 2020. This date has been estimated using purely a cash burn assumption (i.e. assuming no revenues) - the most pessimistic scenario. The recent trading update added that the company will continue to monitor its budget forecasts, which may result in extending the funding runway beyond Q3 2020.

Key Risks

Early stage nature of operations

BigDish is currently in the expansion stage of its life cycle, has made minimal revenues to date and remains loss making. Until the company scales up the platform to become cash flow positive it faces funding concerns.

As stated in recent announcements, current cash levels are expected to be sufficient to finance the current strategy to Q3 2020. As such, a further fundraising looks likely in the medium-term, which is not uncommon with early stage technology companies. While BigDish currently has no headroom to issue new equity prior to July 2020 without the publication of a prospectus, it has stated that there are no plans to publish a prospectus.

Competition risk

In the UK, there are a number of subscription based discount schemes offered to consumers, such as Tastecard and TableNow. In contrast, BigDish is free for consumers to use. Further competition comes from restaurant reservations platforms and discovery platforms as well as other platforms which offer discounts in restaurants. However, BigDish distinguishes itself by having a sole focus on time-based discounted restaurant tables. The early stage nature of the yield management industry is also likely to attract new entrants.

Attracting and retaining restaurants

If BigDish is unable to attract sufficient restaurants to its platform it may be unable to successfully compete in the markets it chooses to operate. In addition, following sign up, restaurants may not choose to continue to use BigDish and use competitors or discounts on their own websites instead. While restaurant contracts are typically for 12 months they do not contain minimum revenue amounts and there is no penalty for termination. Therefore, restaurants could switch to a competitor or cease to use the BigDish App at short notice which will reduce the choice for customers and potential for fees to be made.

Marketing risk associated with attracting new customers

BigDish’s revenue growth is directly related to the number of restaurants signed up to its platform and in turn the number of dining customers who sign up and go on to make a booking. Attracting customers is highly correlated to the use of paid advertising and marketing. Should marketing campaigns fail to sign up sufficient customers who then go on make a booking via the BigDish platform the company may not meet its revenue expectations. There is also the risk that the cost of user acquisition becomes so high as to become unprofitable.

Valuation

BigDish shares have enjoyed a substantial rally over the past two months or so, rising from lows of c.1.15p just before Christmas to a high of 4.6p in mid-February before settling at the current 3.1p. That capitalises the company at a shade under £10.82 million. However, the shares remain well short of the 9.2p peak seen last June.

As we discussed in our initiation of coverage note, with early stage technology companies it is difficult to accurately place a valuation on the shares given uncertainty surrounding the amount and timing of future cashflows. An attempt could be made to model BigDish's restaurant and customer numbers over time, and in turn revenues, but with the rapid growth currently being seen they are not likely to be reliable.

However, another more valid approach we can take to illustrate what kind of valuation the company could command is by looking at recent transactions in the wider food technology industry. This is certainly an industry which is attracting large investment and activity at present, with perhaps the most significant transaction being the recently agreed all-share merger of London listed Just Eat with Takeaway.com, which valued the former at c.£6 billion.

More specific to BigDish's operations and size remains South-east Asia focused yield management and restaurant reservation platform Eatigo, which currently has a reported 6,000+ restaurants on its platform. The company completed a Series B fundraise in October 2016 at which point it reportedly had grown to 700 partner restaurants, with media sources suggesting that c.$10 million was invested by travel and restaurant website owner TripAdvisor. In media reports, Siddhanta Kothari, Chief Financial Officer of Eatigo, suggested the business had a valuation of $70 million following the funding round. A further round, described as a pre-Series C fundraise, in July 2018 saw a further raise of c.$10 million, although details on the valuation at this point are sparse.

We believe the $70 million Series B valuation could be applied as a valid benchmark to BigDish as 700 restaurants look like a highly achievable figure for the company to hit in 2020, in our view. In fact, this could prove to be a very conservative figure given that restaurant numbers recently grew from 177 to 442 in the space of only two months. **At current exchange rates that equates to a valuation of c.£53.65 million, almost 5 times the current market cap. Divided by the current number of shares in issue gives a value per share of 15.37p.**

Conclusion

While BigDish has taken some time to devise the optimal strategy for increasing restaurant numbers, following the appointment of Tom Sumner and the revised telesales approach it now looks to have all its ducks in a row. The recent trading update was highly encouraging, reporting excellent growth figures, new revenue opportunities, and perhaps most importantly, that the new strategy is working.

In terms of investor relations, we are encouraged that the company will be providing, at least, monthly updates to the market from now on. Indeed, Big Dish has already been very active on the newsflow front since its IPO, with the market often reacting positively to good news. With a new CEO in place and focussed expansion strategy, we believe that 2020 could see the shares rise further if more positive updates are made.

Of course, the most imminent risk here relates to financing, with the company being clear that its cash resources are expected to last until Q3 this year. Our valuation above reflects what kind of price we believe could reasonably be put on the shares should an equity placing be carried out after that time. **Even discounting this figure by 50%, to be conservative and take into account valuation uncertainties, would give a pre-funding valuation of £26.83 million, or 7.685p per share, some 148% above the current share price.**

This valuation disparity also poses the scenario where the company could be used as a merger/reverse vehicle – something the market clearly has not ascribed any probability to at this price. Something else which we believe the market has not yet considered is that, as has been evident throughout the technology sector, once companies achieve critical mass and build up access to big data, their strategic value alone can rise by significant multiples. The value of data was recently demonstrated when in a research note analysts at Stifel suggested that certain airline loyalty programmes are worth more than the current market cap of the airlines to which they relate.

What's more, as the number of restaurants and customers grow BigDish will be presented with the opportunity to generate new products and additional revenue streams, especially from the data that it generates. To give an example, following its acquisition by American Express last summer the restaurant reservation platform Resy has launched several offerings with its new owner, including reward points for bookings, early booking access and exclusive access to special events. We believe that the market has not taken account of this particular investment angle with the shares given the current market cap.

We update coverage of BigDish with an initial target price of 7.685p and stance of Conviction Buy.

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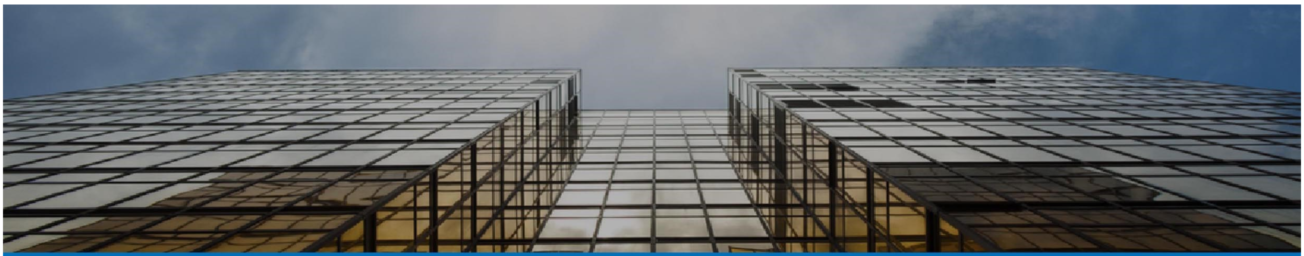

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