Lucidity Insights

PRIMED FOR GROWTH

CLOUD KITCHENS IN THE GCC

A LOOK AT THE REGION'S ROLE
IN A GLOBAL INDUSTRY THAT'S EXPECTED
TO BE WORTH US$71.4 BILLION BY 2027

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INTRODUCTION

Food is what sustains the 7.9 billion people on this planet, and so it should come as no big surprise that it is one of the largest industries globally. Unless you are growing all of your own food, chances are the food in your fridge has quite the story to tell.

Food and Agriculture constitutes 10% of world GDP according to the World Bank, commanding a mammoth market size of $8.5 trillion USD in 2020; this industry incorporates farming, agricultural machinery required for farming, processing and manufacturing plants, the trucks and logistics players that are delivering food at various points in the process to the plants, stores, restaurants and kitchens, and even the last-mile food delivery man with your prepared meal.

With an industry with such a broad reach, it is also an industry that is rife with issues; some of which involve managing the levels of environmental impacts and tonnes of food wastage, on top of the growing challenge of meeting a voraciously increasing demand for more food. Today, there are currently over 5,300 FoodTech companies[1] working to solve some of these global challenges as well as improve the efficiency, sustainability, and our overall customer experience across the entire food ecosystem around the world. But what is FoodTech, exactly?

FoodTech is an emerging sector that, quite literally, is at the cross-section of technology and food. It's bringing widespread technological transformation to the food and beverage industry and includes innovation across the entire food value chain, from farm to fork. FoodTech covers production, transportation and storage,

processing, marketing, distribution, consumption and ultimately, the disposal of food. But don't be fooled, FoodTech is much more than online groceries and food delivery.

If you're a farmer using advanced artificial intelligence to aggregate weather patterns and topographical data to determine the amount of fertilizer to use on your crop to maximize your yield, that's FoodTech. If you're a food connoisseur browsing food options online, booking table reservations, and leaving restaurant reviews on various mobile apps, that's FoodTech too. If you're growing new and improved "I can't believe it's not meat" foods in a laboratory – that's also FoodTech. As are the new pandemic-friendly QR coded menus at restaurants, and the hydroponic and aquaponic vertical farms growing leafy greens in a perfectly climate-controlled warehouse in the middle of the city.

[1] "The State of Global FoodTech Report" Talent Garden (2020)

A GLIMPSE OF THE FOODTECH ECOSYSTEM AND VALUE CHAIN (NON-EXHAUSTIVE):

AGTECH

refers to the cross section of Agriculture and Technology. It involves harnessing the power of technology to maximize productivity, yield, and overall efficiency.

Ex[1]: Precision Agriculture is a subset of Agtech involving the real-time aggregation of data points like using GPS, weather data like rainfall, and satellite information to determine, for example, how much fertilizer to dispense in each parcel of land. The first Precision Ag company to become a unicorn was IndigoAg.

indigo

Ex[2]: Another example of up-and-coming agtech is found in vertical farms, sometimes found in industrial zones or even in urban areas inside the city. These players use machine learning to determine exact temperatures, light, water and nutrients plants need to grow efficiently and without pesticides. A regional example is Pure Harvest in Dubai, which began producing tomatoes in 2018. They recently closed a $64.5 million fundraising round, bringing the total capital raised to date to $272 million USD, making them the most funded agtech player in MENA.

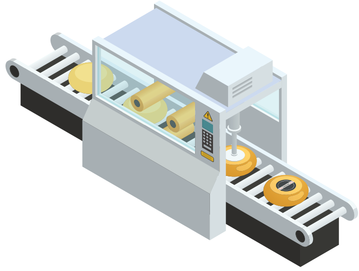
Pure HARVEST

FOOD SCIENCE:

Next generation food products that are more likely to have been created in a laboratory than out in nature. This includes plant-based meat products, insect-based proteins, mushroom-based foods, etc. Functional foods, drinks, nootropics, nutraceuticals, and meal replacements fall into this category as well.

Ex[3]: Beyond Meat is likely the most famous vegan unicorn, making plant-based meat products. When it listed on the stock exchange in 2019, it had a valuation over $5 billion USD .

BEYOND MEAT



FOOD PROCESSING AUTOMATION:

like in all manufacturing verticals, robotics and automation is all the rage with the advent of Industry 4.0. In essence, this entails using technology, IoT, and robotics to create more efficient food processing.

Source: EMW Advisory Research

CLOUD KITCHENS, MEAL PLANS & FOOD DELIVERY:

refers to any tech ventures that help consumers get food delivered to their home. This includes everything from virtual kitchens, online food ordering platforms, the last-mile logistics delivery players, grocery ordering and delivery, online meal plan catering, and high-end meal prep kits, to name a few.

Ex[4]: Cloud Kitchens are commercial kitchens set-up in different boroughs of a city, in order to serve the same menu of food especially for delivery-only customers. KITOPI is the most famous cloud kitchen operator in the Middle East, as their recent round of $415 million USD put their valuation at over $1 billion, becoming the 3rd unicorn in the Arab world.

KITOPI

Ex[5]: Delivery players like Deliveroo and DoorDash are both unicorns in the food ordering and delivery app space. They operate an online marketplace where individuals can purchase meals for delivery.

deliveroo

KITCHEN AND RESTAURANT TECH:

refers to IoT (internet of things)-enabled and smart kitchen and restaurant appliances such as kitchen robotics, smart food processing systems, point-of-sales machines, supply chain and inventory management software, and even QR-coded digital menus and ordering platforms.

FOOD PACKAGING & SAFETY:

refers to technology based solutions to preserve the freshness of food and prolong shelf-life. It covers everything from the sanitization of food processing equipment, to technological solutions to detect unwanted ingredients, pathogens and allergens in food.

CONSUMER APPS:

refers to applications and services that enable consumers to connect to food and understand relevant related data like nutrition, recipes, food and wine tech.

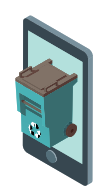
Ex[6]: Vivino is a digital sommelier app that allows customers to take a picture of bottles of wine, and get detailed information including other customer reviews on each bottle. Vivino raised $155mn USD in early 2021 for its series D round of funding, in order to develop its wine recommendation capabilities.

vivino

FOOD EXPERIENCES & CATERING ON DEMAND:

refers to applications and services that allow you to order chefs, bartenders and catering services on demand via an app.

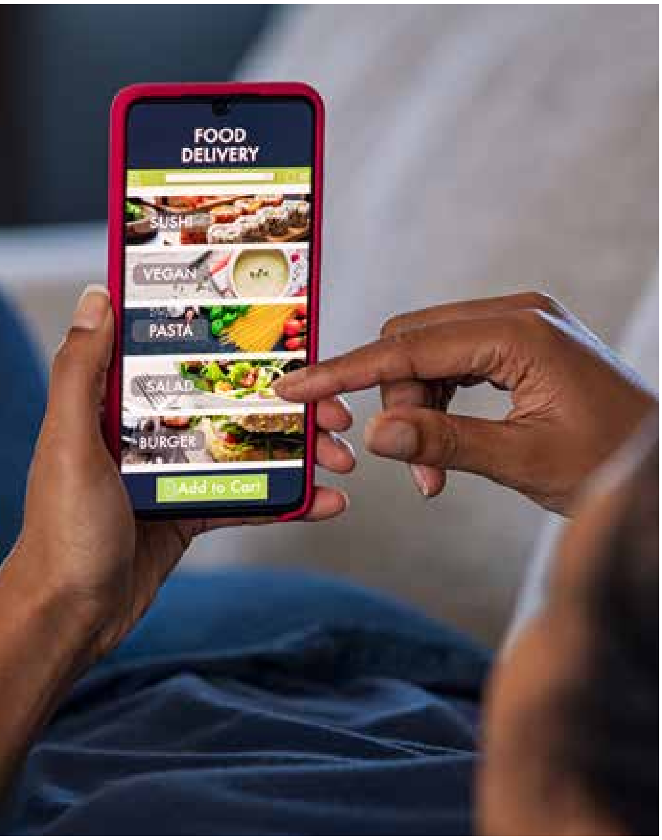
FOOD WASTE:



refers to applications and services that reduce food wastage, such as surplus food apps, or tech-enabled food recycling to create products out of food waste.

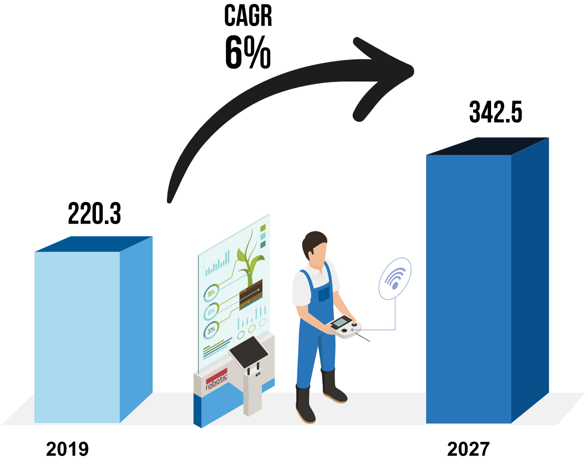
Ex[7]: Olio is a free to use food sharing app that connects users to their neighbours and local shops to share surplus food and reduce food waste. Olio have 2.3 million registered users and operate in 49 countries, they raised $43 million USD in their last funding round in September 2021.

OLIO



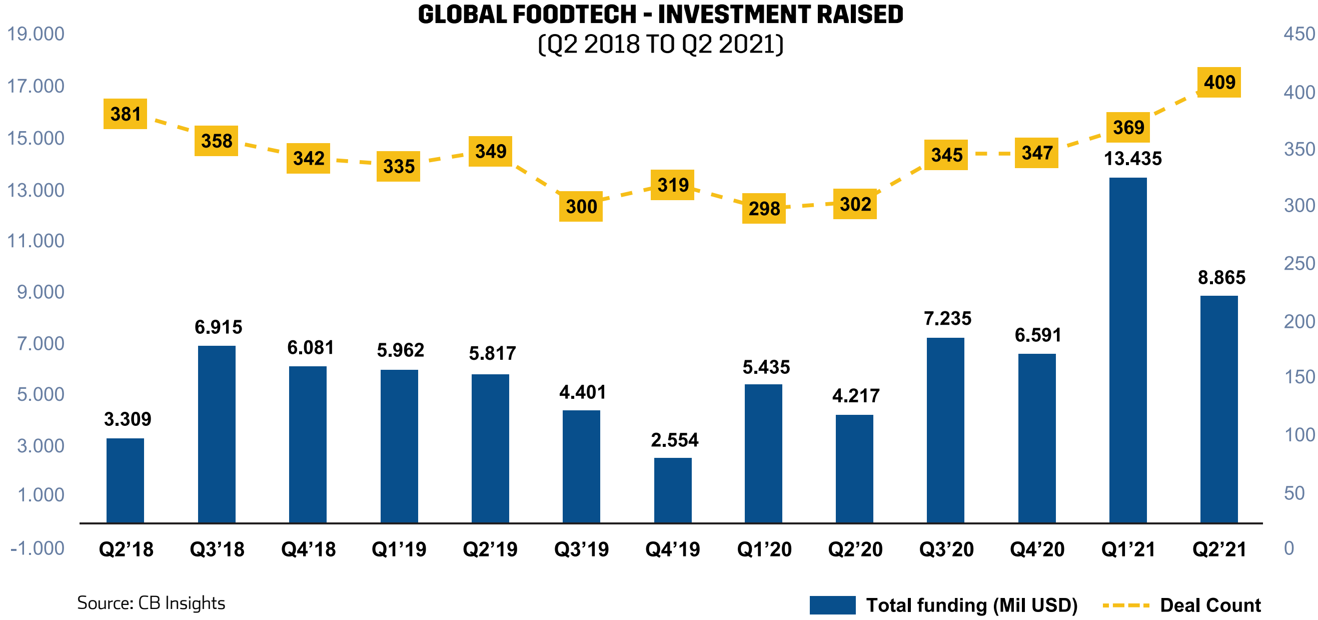
Despite its relatively recent emergence as an industry, the global FoodTech market is already estimated to have reached over $220 billion USD in 2019. FoodTech's cumulative annual growth rate is forecasted to be 6% annually to 2027, when it is projected to be valued at over $342 billion USD. In 2020, FoodTech start-ups around the world raised nearly $23.5 billion USD; 2021 is forecasted to eclipse 2020, as $22.3 billion USD has already been raised by FoodTechs in just the first half of the year.

GLOBAL FOODTECH - MARKET SIZE (MIL USD)



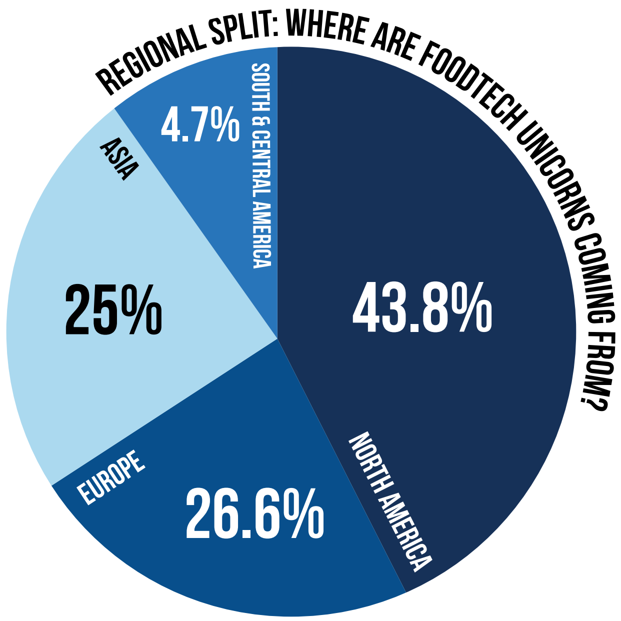
Source: Emergen Research

GLOBAL FOODTECH - INVESTMENT RAISED
(Q2 2018 TO Q2 2021)

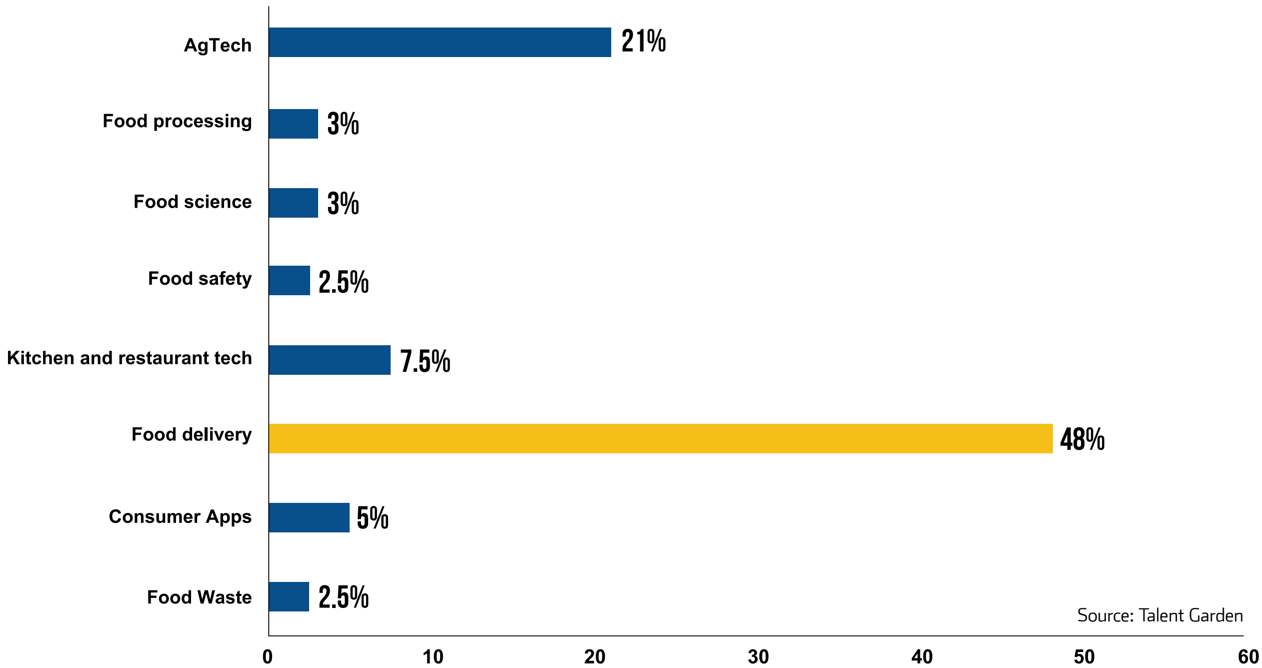


Source: CB Insights

When most people think of FoodTech, they think of Food and Grocery Delivery, and for good reason. There are 64 FoodTech Unicorns[2] globally and 31 (48%) of them are "food delivery companies". It's important to remember that when we are talking about "food delivery companies", we aren't just talking about the food delivery apps with delivery drivers scattering across the city to get you your order on motorcycles and bicycles, but also the cloud kitchens that prepare this food, the healthy meal kit deliveries, grocery delivery, and the like. So don't just think Deliveroo and DoorDash… Think Instacart, HelloFresh, and Rebel Foods. In the GCC region, we're talking about Talabat, Instashop, HelloChef, and Kitopi to name just a few. The numbers speak for themselves; over the last decade, this wide-ranging "food delivery" vertical of FoodTech has received 48% of all funding raised by FoodTech players, followed by Agtech at 21%.



FUNDING RAISED - % BREAKDOWN ACROSS VERTICAL (2010-2020)



Source: Talent Garden

This report will focus on Cloud Kitchens; you may also know them as Dark Kitchens, Ghost Kitchens, Virtual Kitchens or Satellite Kitchens. They all refer to the same thing: essentially a commercial kitchen, making restaurant quality food, meant solely for the purpose of delivering that food directly to the consumer to eat in the comfort of their own homes. This segment of food delivery has seen significant growth during the pandemic and is expected to produce many more unicorns going forwards. The latest Unicorn to be born in the Middle East is KITOPI, a cloud kitchen player with over 200 restaurant brands working with their kitchens to get their products delivered to customers across cities in the MENA region. KITOPI is the first unicorn to be born out of the FoodTech space in the Arab World, and is a statement to how fast this industry has grown in the region in just a few short years.

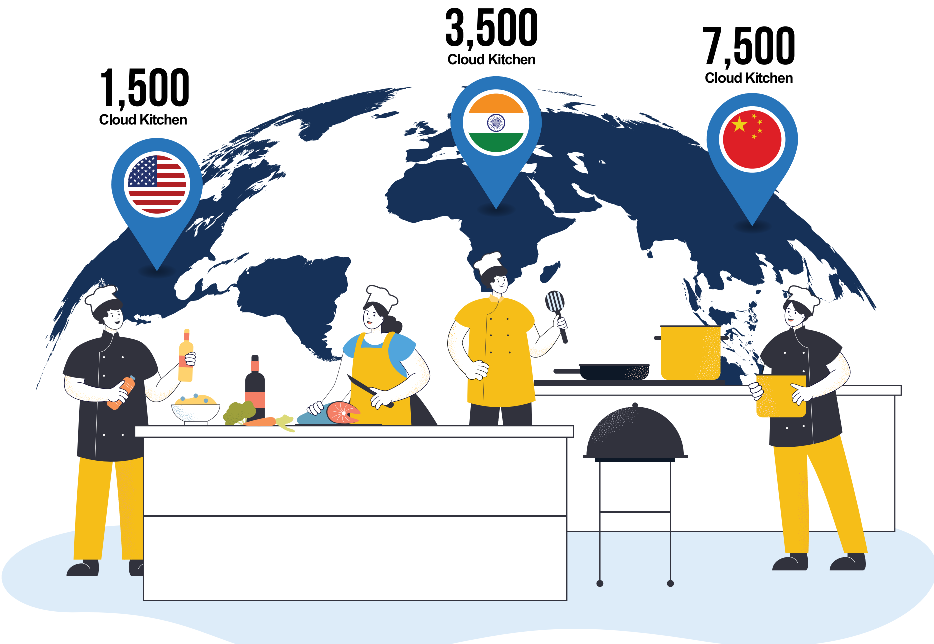
[2] "Unicorns of the FoodTech industry" ForwardFooding (2020)

CLOUD KITCHENS

No fancy décor, no tables, no chairs, no waiters, in fact nothing at all apart from a kitchen preparing food for delivery.

If you're familiar with restaurant kitchens, you might be surprised at how these cloud kitchens are some of the quietest and cleanest kitchens you've ever seen, with a surprisingly sparse number of cooks on hand – when considering the hundreds of orders they are preparing each day. Orders come in, and food is prepared, cooked, packaged, and then immediately picked-up by a delivery driver and whisked off to the delivery destination; hundreds of thousands of meals are prepared like this every day around the world. Much like we have seamless access to files stored on cloud servers around the world, cloud kitchens offer us a way for us to have access to even more food options via delivery. No longer do we have to drive 40 minutes across town to grab take-away or dine-in at our favourite restaurants; many of them are setting up "dark kitchens" in our neighborhoods preparing meals that can be delivered to us within 15 minutes - and quite often we won't even know that it isn't coming from the restaurant itself. This concept of professional food preparation and cooking facilities set up for delivery-only meals, with no dine-in option, has opened-up a world of virtual restaurants, menus and brands that are able to operate in a new way. New "online-only" restaurants can launch brands and menus overnight without the need to invest in any brick-and-mortar set-up, except for an effective kitchen or two. Existing restaurants can expand their reach to consumers across the entire city by subscribing to a kitchen-as-a-service (KaaS) offering that prepares the same meals in cloud kitchens operating in new neighbourhoods (and even in new cities and new countries). Some restaurants will choose to subscribe to a KaaS just to move the disruptive "delivery orders" out of their restaurant kitchens (can you blame them? Ever gone out to eat at a restaurant to see a barrage of delivery boys picking up orders at the front door?). The reality is that food being prepared to be eaten in a restaurant, and food being prepared to be delivered on the back of a motorcycle require very different processes, and certainly different speeds.

The growing global trend of food delivery is showing no signs of waning. The global cloud kitchen market size was valued at $43.1 billion USD in 2019 and is estimated to reach $71.4 billion USD by 2027, with a CAGR of 12.0% from 2021 to 2027. The United States is expected to hold the largest cloud kitchen market share during this forecast period.



America dominates due to its' large 330 million population size, 87% of which both own a smartphone and have access to internet – and general improvements in lifestyles and buying-power across the country.

The latest data show that there are currently over 7,500 cloud kitchens in China (catering to a population of 1.40 billion), more than 3,500 in India (pop. 1.38 billion) and around 1,500 in the USA (pop. 330 million). The GCC region being the wealthiest region in the Middle East is also a hotbed for cloud kitchens; the UAE has become ground zero for FoodTech start-ups in the region, and the city of Dubai alone has over 400 cloud kitchen brands operating out of 80 locations across the city.
So why are these cloud kitchens growing at such a rapid rate? They typically operate with standard overheads, minimal running costs and a somewhat reduced business risks – especially compared to the traditional restaurant model. When you combine this with the ever-growing demand for food delivery, it is easy to see how it is quickly becoming the business model of choice. Global food delivery company, Deliveroo, who also has operations in the GCC, announced recently that orders as well as transaction values in the first half of 2021, doubled across the board compared to the same period last year. Globally, the rapid growth of the market has also been fuelled by the pandemic lockdowns which led to many restaurants being forced to close, and even when they re-opened, they were operating under partial capacity and covid-safe regulatory requirements. In many cases, restaurants simply had no choice but to try and switch to some sort of delivery offer in order to keep customers. The pandemic also changed consumer behaviour and preferences, as many people became accustomed to having meals delivered home regularly. This alongside the increasing demand for international cuisine, higher social media engagement and internet penetration, means that it is a trend that is here to stay in a post-covid world too. And thus, cloud kitchens have become a means to serve this delivery-only market.

So how does the set-up and operations of a cloud kitchen stack up against a traditional restaurant?

THE KEY METRICS ARE:

TRADITIONAL RESTAURANT		CLOUD KITCHEN
3500 sqft	Real Estate	230 sqft
30+	Employees	5
US $1 million	Upfront cost	US $30,000
52+ weeks	Time to Open	2+ weeks
35mins	Delivery time	15mins
High risk and costly	Innovation feasibility	Low risk and profitable

Lower operational costs:

Typically, traditional restaurants have high overheads, the highest one being the rental of real estate in a prime location to get customers through the doors. Cloud kitchens require less space as they focus solely on cooking the food which also eliminates the costs of serving and front of house staff.

Flexibility:

Cloud kitchens can operate anywhere, on the outskirts of a city or in cheaper areas and are often located on industrial estates without much impact on revenue. The cloud kitchen model is highly flexible and can easily adapt to seasonal demand.

Higher quality of food:

Convenience, consistency and quality are a must-have for today's consumers and cloud kitchens allows for increased efficiency and the ability to focus on food preparation processes rather than service or the sales process.

It's clear to see that the barriers to entry are much lower for cloud kitchens compared to the traditional restaurant set-up. This makes it attractive to both start-up restaurants as well as established restaurants. Start-ups with new food concepts can benefit from the cloud kitchen model when A/B testing menu items and solidifying their offering to consumers in the market. More established restaurants can benefit from the cloud kitchen model by being able to expand their "tried-and-true" menu to larger populations of people, far from the main restaurant. Although the concept of a commercial or industrial kitchen is not a brand-new phenomenon, as they have existed for food catering and manufacturing for some time – technology is now the key differentiator. It's no longer just about good food, delivered fast but the cloud kitchens of today are technology-led and data-driven. Given that the only way to get customers is through technology and often through the online aggregated food delivery apps, cloud kitchens are required to not only understand but to also respond to customer likes, dislikes, and feedback. It is ultimately these reviews that determine how a cloud kitchen will be rated, ranked, and viewed on a delivery app platform. A huge benefit of having access to this data is that cloud kitchens can optimize and streamline their offering based on ordering patterns. For example, they can predict which items will be in higher demand at different times of day thereby allowing them to prepare in advance, for a faster turnaround and delivery. Another example would be analysing consumer ordering patterns to create menus specifically to cater for the demographics of certain areas of a city.

CLOUD KITCHEN BUSINESS MODELS

There are many different combinations of how online food delivery companies, restaurants and cloud kitchens can work together meaning that there isn't a set blueprint or list of business models; and the more businesses we reviewed and more CEOs we spoke to – we realized that the cloud kitchen business models are evolving every day depending on each market's dynamics. Below, we have mapped out the most typical business models currently found in the GCC region today:

ONLINE FOOD DELIVERY / CLOUD KITCHEN BUSINESS MODELS IN THE GCC

Level of Vertical Integration: Low → High

Business Models	Brand Ownership	Procuring Raw Materials	Kitchen Ownership	Kitchen Operations	Staff Ownership	Online Ordering	Delivery Fleet	Branding & Marketing	Example
Full "Kitchen as a Service" (KaaS) Model	★	3rd Party Kitchen	3rd Party Kitchen	3rd Party Kitchen	3rd Party Kitchen	3rd Party Online Food Ordering / Aggregator	3rd Party Food Delivery	3rd Party Online Food Ordering / Aggregator ★	KITOPI
Virtual Brands-Only Model	★	3rd Party Kitchen	3rd Party Kitchen	3rd Party Kitchen	3rd Party Kitchen	3rd Party Online Food Ordering / Aggregator	3rd Party Food Delivery	★	
"Rent a Kitchen Space" Model	★	★	3rd Party Kitchen	★	★	3rd Party Online Food Ordering / Aggregator	3rd Party Food Delivery	★	KitchenPark
Virtual Restaurant Model	★	★	★	★	★	3rd Party Online Food Ordering / Aggregator ★	3rd Party Food Delivery ★	★	
Traditional Restaurant Model	★	★	★	★	★	3rd Party Online Food Ordering / Aggregator ★	3rd Party Food Delivery ★	★	Traditional Restaurant Model
Fully-Stacked Integrated Restaurant Model	★	★	★	★	★	★	★	★	KRUSH BRANDS, KITCH•IN

★ Owned Process | 3rd Party Kitchen | 3rd Party Online Food Ordering / Aggregator | 3rd Party Food Delivery

Source: EMW Advisory Research & Analysis

Image courtesy: Kitopi

THE KITCHEN-AS-A-SERVICE (KAAS) MODEL

The Kitchen-as-a-Service (KaaS) B2B model is the business model that KITOPI, our region's famous foodtech unicorn employs. In this model, a KaaS such as KITOPI essentially becomes a franchisee for different food brands and offers a turn-key solution requiring minimal effort on the F&B brands. The KaaS player learns each recipe, and takes onboard the entire process; everything from sourcing and storing ingredients, preparing and portioning meals at a central kitchen, distributing prepped meal components to different satellite kitchens across the city, hiring and managing cooks to prepare the food at the various satellite kitchens, and ensuring all of their smart-kitchen and ERP technology is up-to-date to maximize efficiency. The KaaS also has a centralized call-centre to trouble-shoot any order or delivery issues. The only job the KaaS subcontracts out, is the online delivery platforms and food delivery – which the KaaS signs up to on behalf of each food brand. In this full-service KaaS model, anywhere between 13-18% royalties are paid by the KaaS to the F&B brand owner. Restaurants and food brands look for KaaS solutions for 2 primary reasons:

a. They want help to expand their total addressable market by **expanding their geographical reach** to delivery-only orders outside of the reach of their current restaurants/kitchens

b. They want **to move-out all the delivery orders** from their dine-in restaurant kitchens, which aren't designed for high-volume orders

IkCon and OneKitchen are some of the other KaaS players in the GCC market. Read about KITOPI's journey to become the region's first cloud kitchen unicorn on page 16.

THE VIRTUAL BRANDS-ONLY MODEL

The Virtual Brands-Only model is exactly what it says on the box: these companies essentially create restaurant brands and menus that are entirely virtual, and only available for delivery, and then outsource everything else. These players design the menus and then launch the various food brands and menus on delivery aggregator platforms, and then contract a full-service KaaS to fill their orders for them. As they increase the number of successful virtual brands they have on the various platforms, they expect to create economies of scale. The benefit of this model is "all brains and limited brawn" – in other words, contract out the heavy lifting, but trust in the menus and data-driven strategic decision making of your creative team. The challenge with this model is the lack of control and visibility along the value chain, and thus it is difficult to pinpoint why a particular F&B brand is failing – is it branding and marketing, the menu itself, or the execution and delivery of the product? But with the right partners, and with enough successful brands, this model has proven to be profitable without the headache of managing extensive operations. Some players in the market employing this business model include The Leap Nation and Cloud Restaurants (read about Cloud Restaurant's growth in the UAE Country Profile on page 25-27).

THE "RENT A KITCHEN SPACE" MODEL

The Rent-a-Kitchen space model is often confused for the KaaS model. This business model is more of a real-estate play. Players like Kitchen Park, Kitchen Nation and Deliveroo Editions to name just a few, essentially build large "shared" commercial kitchens in strategic locations across a city (housing anywhere from 6 to 50 kitchens in a complex), designed and built with delivery-only restaurants in mind. These players then rent-out these kitchens to various F&B brands, but the brands themselves are responsible for providing their own cooks and procuring their own ingredients, and operating out of the kitchens themselves. The same kitchen can be rented out to multiple restaurants to use, at different times of day – similar to the hot-desk concept in an open office. For example, there may be a breakfast restaurant team that uses a kitchen space in the morning, and a lunch and dinner restaurant for the afternoon and evening. Deliveroo Editions goes one step further by sharing insights off their online food ordering and delivery platform to determine which neighbourhoods various cuisines and restaurant brands are likely to be strong performers, and they provide this opportunity for their F&B brand partners to expand with them into one of their "Rent-a-Kitchen" spaces in the desired neighbourhood.

THE VIRTUAL RESTAURANT MODEL

The Virtual Restaurant Model most resembles the traditional restaurant model, in everything except it is a restaurant that does not have dine-in as an option (though some virtual restaurants have begun to reverse the trend and open brick-and-mortar restaurants either adjacent to their cloud kitchens or entirely separately). A virtual restaurant owns its' brand(s), menus, kitchens, kitchen staff, and manages everything from ordering ingredients, preparing meals, cooking, and marketing its products on 3rd party food aggregators and delivery apps. As a customer, you may be ordering online from virtual restaurants regularly, and you may not even know that there is no restaurant to visit and dine-in at. This model seems to provide greatest control to the restaurant across the value chain, and allows them to choose which neighbourhoods to expand their kitchens into. Some of these virtual restaurant players also have their own fleet, and may employ a hybrid model using both their own delivery fleet and the fleet of aggregators. There are single brand virtual restaurants, that do one thing (such as shawarma or pizza) extremely well at scale, and then there are multi-brand virtual restaurants that produce multiple cuisines, restaurant brands and menus in one large virtual kitchen, achieving economies of scale in that way.

Regional examples of single brand Virtual Restaurants include Manou'she Street and Pinza Pizza in the UAE. Multibrand Virtual Restaurants include KLC Virtual Restaurants in Kuwait (you can read their story on page 43), Sweetheart Kitchen in the UAE (you can read their story on page 31), and VResto in Bahrain. What's most interesting is that we are now seeing some of the successful "delivery-only" virtual brands, such as Pinza Pizza, talking about launching their first brick-and-mortar restaurants – showing us that online restaurants can be a way to provide proof of concept in a relatively quick and cost efficient manner.

THE FULL-STACK CLOUD KITCHEN MODEL

The fully-stacked cloud kitchen is the ultimate self-reliant business model that says "I can do it all". They own the complete food ordering value chain from ordering, processing, to preparing and delivery. They create and owns their own brands and menus, own and operate their own kitchens with their own staff, own their own online ordering platform(s), and then fulfil the delivery to the end customer with their own delivery fleet. The cloud kitchen has complete control over quality and consistency within this model – but it's a mammoth task. Krush Brands, based in the UAE, is one of very few examples of a company operating in this way in the market. Krush Brands' CEO, Ian Ohan, is a strong voice in the region for the full-stack model where F&B chains take the delivery operations and ordering platforms in-house. He's often quoted as saying that delivery aggregators take too large a chunk out of F&B outlet's revenues, charging up to 30% plus a delivery charge on top of that in many cases to the customer, making this an unsustainable proposition to restaurants. Kitch-In is another near full-stack player that is redefining the cloud kitchen market by delivering high-end cuisine for delivery and hotel room service. Read more about their story on page 28.

SPOTLIGHT | KITOPI

THE CLOUD KITCHEN UNICORN NAMED KITOPI

KITOPI


Image courtesy: Kitopi

Kitopi is a household name these days in the Cloud Kitchen business. This summer, Kitopi officially became the first FoodTech unicorn in the region when it successfully raised US $415 million in a series C led by SoftBank's Vision Fund 2. It also became the region's fastest start-up to reach unicorn status to date, in just three years. Though details of the valuation are undisclosed, a Bloomberg report officially noted that Kitopi had crossed the US $1 billion valuation mark. Mohamad Ballout, Co-Founder and CEO of Kitopi said, "I think that with SoftBank coming in here, we're the first of probably many more investments they're going to do, and other great investors coming in as well. It's also great to see sovereign wealth funds jumping in to back homegrown concepts. You don't see a lot of that happening, so that's also something we're proud of."

Kitopi seemed to have speed as part of its strategy since day one. Having launched in 2018 in the UAE, the enterprise needed less than a year to expand to Saudi Arabia; Kitopi then began 2019 by closing its Series B funding round with $60 million in its war chest. COVID19 was a growth engine for Kitopi; more and more people were looking to order restaurant quality food at home, and F&B chains didn't have the geographical reach they wanted. Kitopi was an obvious choice. Indeed, in 2020, Kitopi announced 300% growth year-on-year. Today Kitopi operates 60 kitchens in the UAE, Saudi Arabia, Kuwait and Bahrain, and sources ingredients for, prepares, and cooks meals for over 200 F&B chains' delivery-only business. Shake Shack, Papa Johns and Luca all have turned to Kitopi to ensure their high-volume delivery business is completely outsourced and managed by Kitopi. Virtual Restaurants carrying multiple brands under them, like Kuwait's KLC Virtual Restaurants, also have looked to Kitopi to help them expand into new markets.

Ballout insists that this is not a Founder-led enterprise, but a company led by 25 strong entrepreneurs. "We're proud founders, but Kitopi is not a founder-led business – we have a top leadership team of 25 people, and they're all heavily involved with our success story. All 2,500 of us are heavily involved, but it's a leadership-led team versus a founder-led business, which allowed us to move much, much faster."

Though the beginning of the pandemic brought a dip in online orders, that seemed to change relatively quickly. "While it continues to be a tough time in many parts of the world, what the pandemic has done is help the F&B industry leapfrog to the digital age, in what otherwise would have taken them years to do," Ballout notes, "Cloud kitchens are the future, as they not only help restaurants scale beyond borders quickly, but provide customers access to their favourite brands from anywhere in the world." The pandemic also allowed the Kitopi team to innovate new business verticals, such as Shop Kitopi. During a time when customers were struggling to get daily essentials, Kitopi launched its grocery business that allowed our customers to order all of their essential groceries and other food items from anywhere in Dubai, and receive it in 60min or less.

Image courtesy: Kitopi

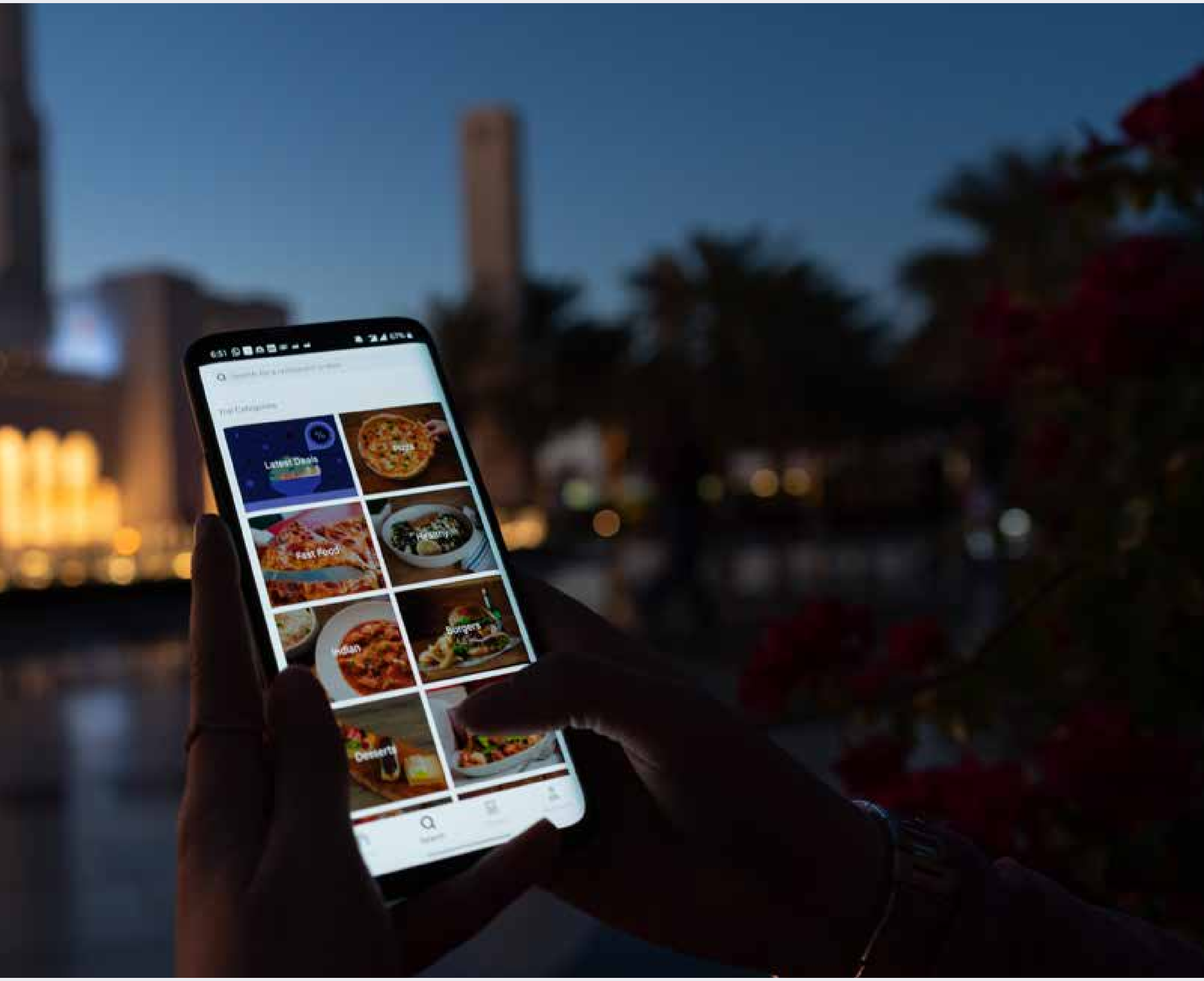
In a world where new cloud kitchens seem to be popping up on a daily basis, Kitopi says they are choosing to focus on their competitive advantage, which is their proprietary Smart Kitchen Operating System (SKOS). SKOS is a suite of applications that optimize the performance of its cloud kitchen operations in real-time. Since launching SKOS, kitchens have been able to double the order volume, while reducing prep time by 40%. The system also makes use of data science to predict when drivers will arrive, and how long an item would take to cook – then auto sequences which items to cook first, thereby enhancing speed.

As for what's next, Ballout says the plan is to continue to innovate and expand Kitopi's infrastructure, as well as grow strategic restaurant partnerships. Dubai will remain its global headquarters, but Saudi Arabia is set to be the regional headquarters overseeing the Middle East. With a war chest filled with over US $400 million, we can only begin to imagine what might come next.

GCC OVERVIEW & COUNTRY PROFILES

The GCC is one of the most lucrative parts of the world for online food delivery. Estimates put the online food delivery market at over $3 billion USD across the GCC, with the UAE and Saudi Arabia accounting for 2/3rds of the total GCC market [3].

[3] Statista



This correlates with population sizes, as Saudi Arabia comprises 59% of the region's total population, and the UAE follows with an additional 17%, making up 76% of the GCC's total population. Despite Saudi Arabia being the largest market in terms of sheer size and market potential, the industry seems to have chosen Dubai as ground zero to incubate the vast majority of all major cloud kitchen start-ups in the region. This is despite Dubai being only the 4th largest city in terms of population in the region; begging the question, "Why Dubai?" when 3 other cities in the region – namely Riyadh, Jeddah and Kuwait City – are more densely populous? As online food delivery is essentially a last-mile logistics business, with a requirement for high levels of internet and smartphone penetration in order to ensure high levels of eCommerce transactions – one must consider all of these variables, to start.

SAUDI ARABIA

Population (2020):	**34.8 Mil**
% of GCC Total Population:	**59%**
% of Population Under Age 40 (2020):	**66.5%**
Internet Penetration Rate:	**95.7%**
eCommerce Penetration Rate:	**80.2%**

KUWAIT

Population (2020):	**4.3 Mil**
% of GCC Total Population:	**7%**
% of Population Under Age 40 (2020):	**57.7%**
Internet Penetration Rate:	**99.5%**
eCommerce Penetration Rate:	**58.3%**

GCC FOOD DELIVERY INDUSTRY MACRO-ECONOMICS

GCC

Population (2020)

58.7 MILLIONS

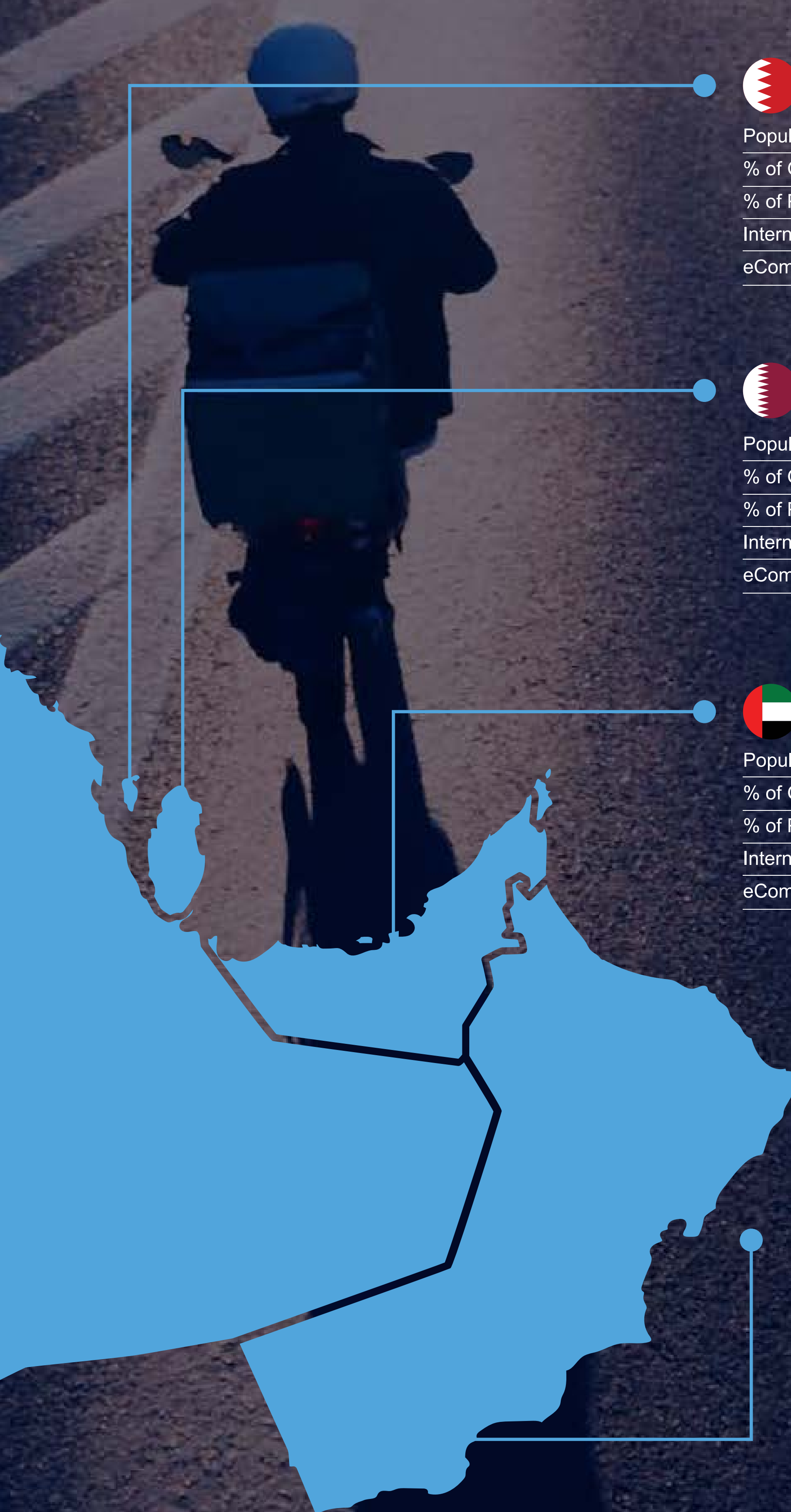
% of Population Under Age 40 (2020)

69.3%

eCommerce Penetration Rate:

62.4%

Source: World Bank, Oxford Business Review, Payfort, EMW Advisory Research & Analysis



BAHRAIN

Population (2020):	1.7 Mil
% of GCC Total Population:	3%
% of Population Under Age 40 (2020):	71.4%
Internet Penetration Rate:	99.7%
eCommerce Penetration Rate:	56.4%

QATAR

Population (2020):	2.9 Mil
% of GCC Total Population:	5%
% of Population Under Age 40 (2020):	71.6%
Internet Penetration Rate:	99.7%
eCommerce Penetration Rate:	62.1%

UNITED ARAB EMIRATES

Population (2020):	9.9 Mil
% of GCC Total Population:	17%
% of Population Under Age 40 (2020):	72.5%
Internet Penetration Rate:	99.2%
eCommerce Penetration Rate:	69.4%

OMAN

Population (2020):	5.1 Mil
% of GCC Total Population:	9%
% of Population Under Age 40 (2020):	76.1%
Internet Penetration Rate:	95.2%
eCommerce Penetration Rate:	48.0%

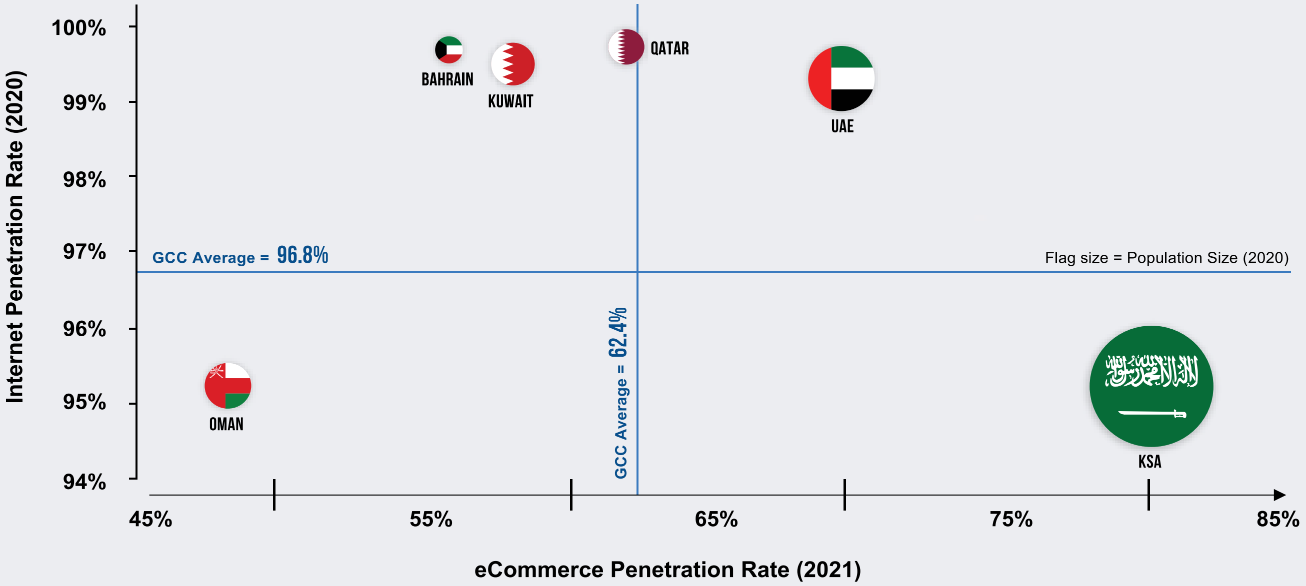
As the GCC Map on the following page illustrates, Saudi Arabia does indeed have the largest population, a large population under 40 years of age, and the highest eCommerce penetration rate in the region at 80.2%[4]. Saudi Arabia also has one of the lowest internet penetration rates for the region, but 95.7% penetration is still a commendable penetration rate, sufficient for the online food delivery industry to take root and flourish. The challenge echoed by many foodtech companies in the region is the complexity of the Saudi Arabian market for foreign investors to enter and scale, especially before the pandemic. Due to Dubai being viewed as a smaller, denser, easier to access, westernized market with a nearly 90% expatriate population residing in the city – entrepreneurs seem to feel more comfortable to build a business and showcase proof of concept in Dubai first. After Dubai, many have opted to go to Kuwait first, before testing Saudi waters, as a second market to establish themselves and flex its' "overseas expansion" muscles. Kuwait was largely seen as an easier market to enter than Saudi Arabia pre-COVID19; Kuwait was thought to be a good testing ground that was very dense with only a slightly larger population than Dubai – but many entrepreneurs have expressed that this sentiment has changed during the pandemic. Over the last 18 months, many Dubai-based players have stated that Kuwait has increasingly become challenging to operate in, as the country announced new Kuwaitization measures (where the government is pushing for local Kuwaiti hires over expat hires, and delaying expat visas) – which has made it very difficult to hire cooks and delivery riders, jobs that local Kuwaitis rarely apply for or are interested in. At the same time, Saudi Arabia has been changing its policies to attract more foreign investment, and removing as much red-tape as possible.

RANKING: MOST POPULOUS CITIES IN THE GCC

#	City	Country	Population (2021)	% of Total GCC Population
1	RIYADH	KSA	7.4 million	12.6%
2	JEDDAH	KSA	4.7 million	8.0%
3	KUWAIT CITY	KUWAIT	3.2 million	5.5%
4	DUBAI	UAE	2.9 million	4.9%
5	MUSCAT	OMAN	1.6 million	2.7%
6	ABU DHABI	UAE	1.5 million	2.6%
7	DAMMAM	KSA	1.3 million	2.2%
8	MANAMA	BAHRAIN	0.7 million	1.2%
9	DOHA	QATAR	0.6 million	1.0%

[4] Payfort

GCC MARKET ATTRACTIVENESS: INTERNET AND ECOMMERCE PENETRATION BY POPULATION SIZE

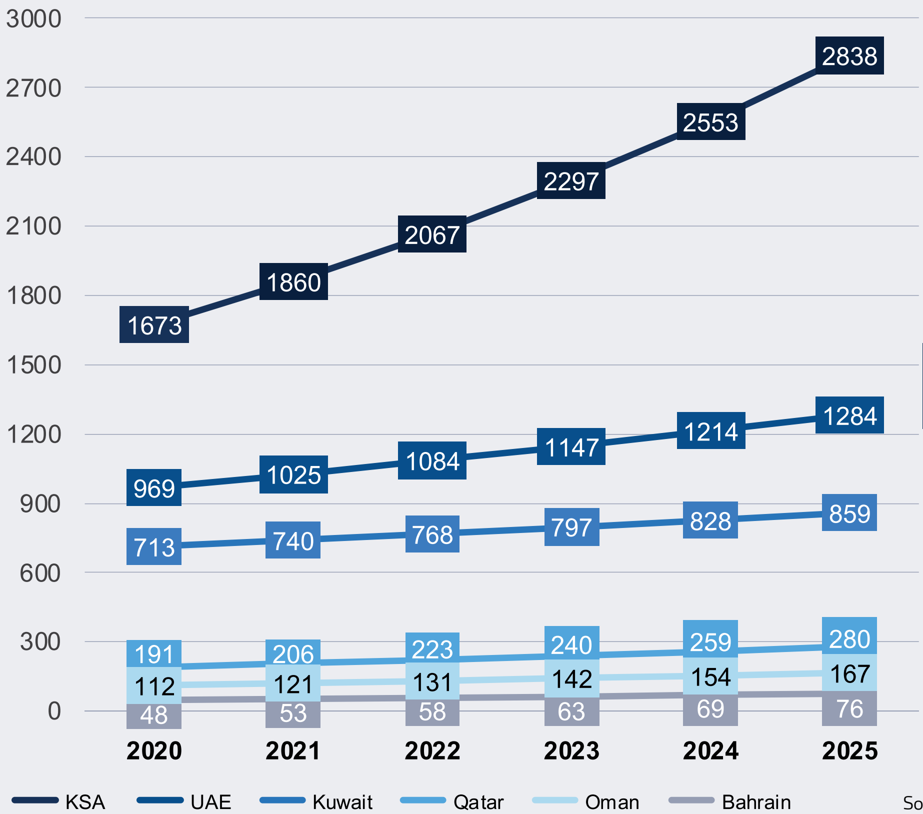


Source: World Bank, Statista, ICT, Payfort, EMW Advisory Research & Analysis

The capital city of Saudi Arabia, Riyadh, has a population 2.5x that of Dubai. The 2nd most populous city in both the GCC Region and the Kingdom is Jeddah, which has a population 60% larger than that of Dubai. Saudi Arabia also has the challenge of needing to provide services across all three Tier 1 cities, as quickly as possible to secure the market leading position. In summary, Saudi Arabia is a big job, and cloud kitchens have seemed a bit reluctant to dive in head-first just yet, though expect this to drastically change in 2022. In contrast, if you look at Muscat, it is the 5th most populated city in the region, but is often last to get attention for the online delivery industry. The reason being that the country has the lowest rate of eCommerce penetration, hovering at just 48%. Oman has the lowest user penetration rate of online food delivery apps with only 12.9% of the population considered to be "users". Online food delivery is still very much in its nascent stages in Muscat and across the rest of Oman. The graphs above shows the GCC markets' levels of attractiveness, and clearly indicates Oman being the least attractive market based on current metrics.

The data laid out in the following pages shows us that Saudi Arabia is the key market to capture in the region, followed by the UAE – today and into the future. Kuwait follows behind the UAE as the 3rd most attractive market to establish oneself (mostly due to size and user penetration), followed by Qatar and Bahrain – and finally trailed by Oman.

ONLINE FOOD DELIVERY MARKET SIZE FORECAST
(MILLION USD, 2020-2025)



#	Market	CAGR (2020 - 2025)
#1	KSA	11.1%
#2	UAE	5.8%
#3	Kuwait	3.8%
#4	Qatar	8.0%
#5	Oman	8.3%
#6	Bahrain	9.6%

Source: Statista, EMW Advisory Research & Analysis

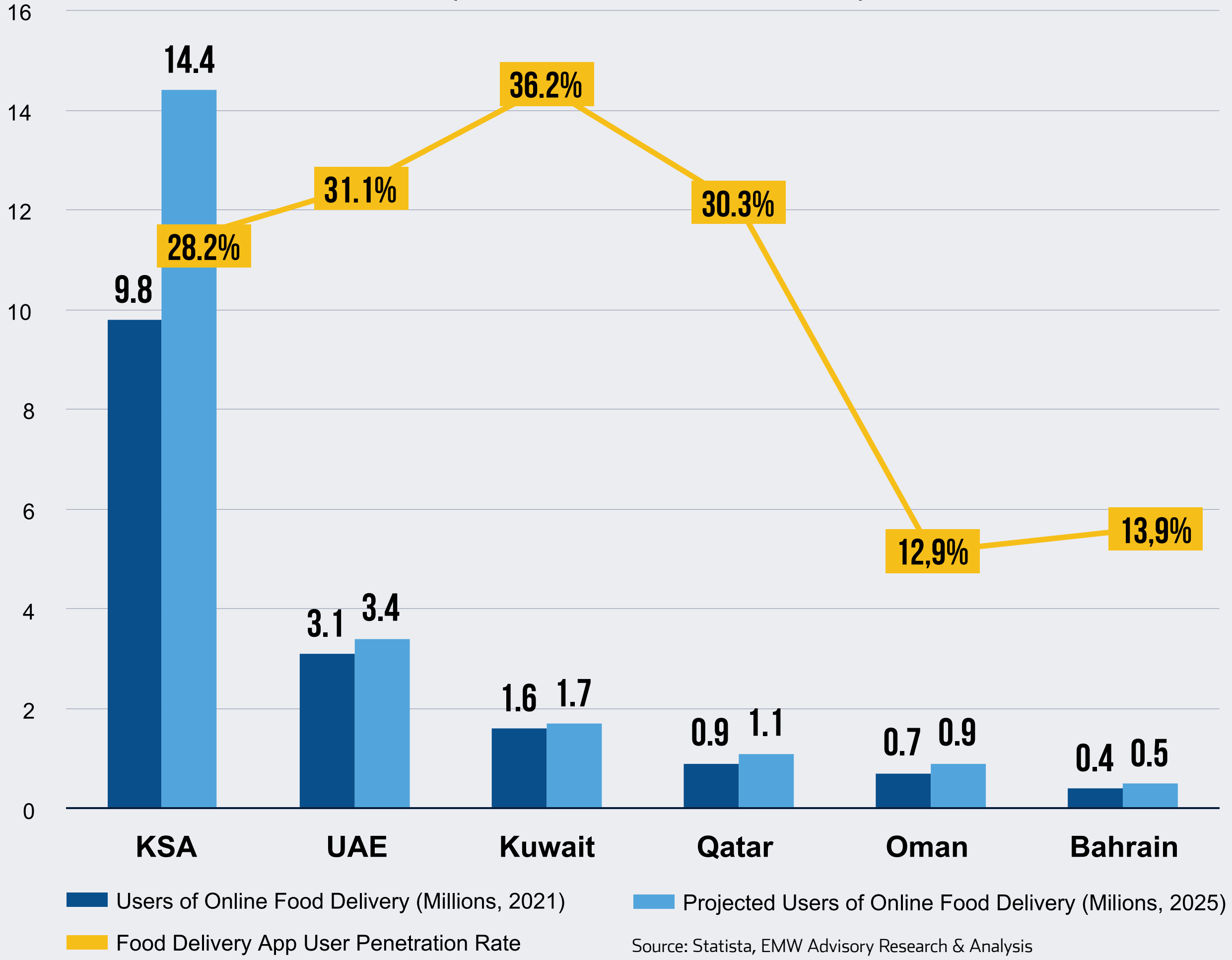
The forecast for the online food delivery market clearly indicates the fast-paced growth displayed by Saudi Arabia over the other markets, growing at a feverish 11% CAGR between 2020-2025. The 5-year forecast illustrates clearly why every major cloud kitchen and food delivery player is eyeing Saudi Arabia for market entry and growth in the coming years; Saudi Arabia is growing at such a hurried pace that the total addressable market (TAM) for Saudi Arabia will be larger than all five of the other GCC countries combined by 2025.

The UAE, despite being 58% of the size of Saudi's current market, is a very strong market because the average revenue per user in the UAE is currently 1.8x that of an average Saudi user.

The slowest growing market over the coming 5 years is expected to be Kuwait, which is only expected to grow at a CAGR of 3.8% due to the saturated nature of the market; Kuwait currently has the highest user penetration rate (for online delivery apps), at 36.2% of the population. Kuwait also has the highest average revenue per user at $498 USD per user.

Saudi Arabia is growing at such a hurried pace that the total addressable market (TAM) for Saudi Arabia will be larger than all five of the other GCC countries combined by 2025.

USERS OF ONLINE FOOD DELIVERY APPS & USER PENETRATION BY GCC COUNTRY
(MILLIONS, 2021 VS 2025 FORECAST)



Source: Statista, EMW Advisory Research & Analysis

Image courtesy: Talabat

A Deeper Look at the United Arab Emirates

Overview

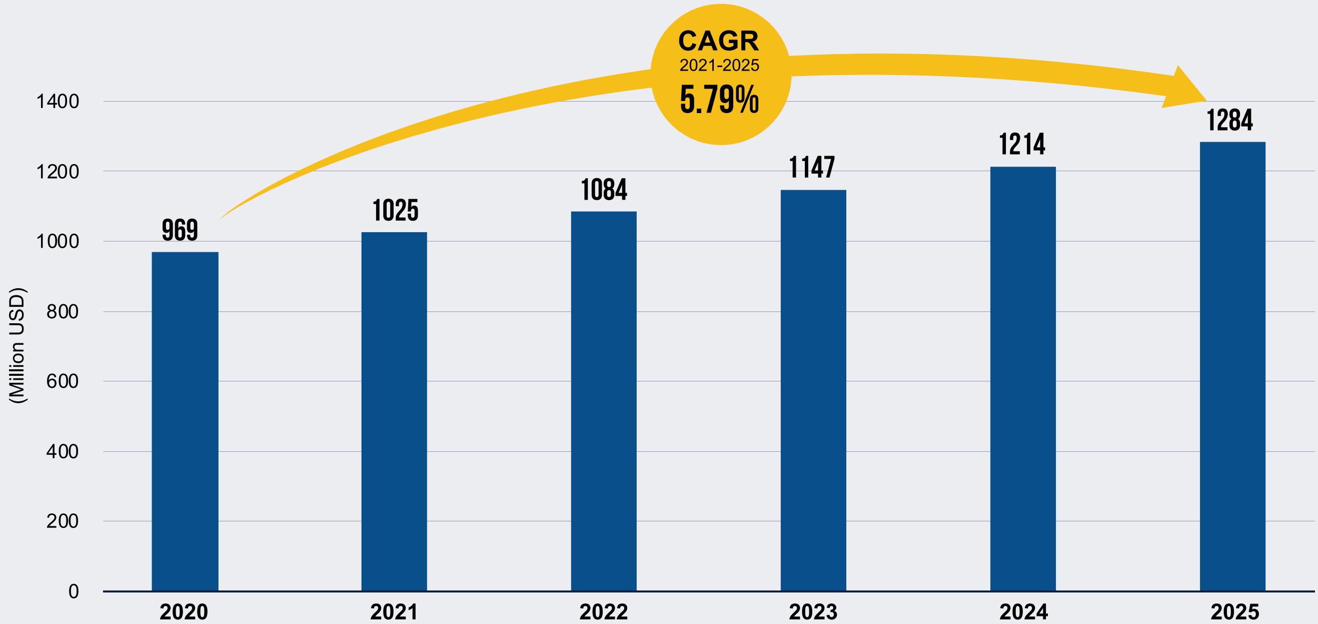
The UAE is currently the front runner in the region when it comes to the Food & Beverage industry; it is the most mature F&B market in the region, and is ground zero for many restaurant brands and restauranteurs looking to break into the Middle East. This is primarily attributed to three reasons: the make-up of the UAE's population, the ease of doing business in the UAE, and Dubai's attractiveness for tourism and the outside world. The UAE's generally wealthy and westernized population, with 89% being expat (and only 25% of the expat population being expat laborers working blue collar jobs), it is believed that over 6 million people in the UAE have sizeable disposable incomes. The UAE also ranks #1 in the region on the World Bank's ease of doing business index, ranking 16th in the world overall. Couple the needs of local residents with Dubai being the world's 4th most visited city in the world (Dubai welcomed nearly 16 million tourists in 2019)[5], and the attractiveness of Dubai to many globally renowned F&B brands becomes even clearer.

The city of Dubai in particular, is known as a hub for culinary experiences. According to the Dubai Municipality, 1,303 new food establishments opened in Dubai during 2020 amidst the pandemic, which works out at 3.5 openings per day with the total number of establishments estimated to reach 20,000 by the end of 2021. Recent reports from the Dubai Restaurants Group found that even though 75% of UAE-based restaurant operators[6] expected to see revenues return to pre-pandemic levels, 70% were looking to set up cloud kitchens or delivery-only brands to further optimize their business. Also, a third of the restaurant operators expected over 60% of their revenue to come from food delivery this year. Many restaurants and café owners we spoke to said that pre-pandemic, more than 70-80% of their revenues were from dine-in guests, with the remaining 20-30% from delivery orders through aggregators. During the pandemic, that ratio flipped on its' head, with 70-80% coming from delivery orders. Today, many restaurant and café owners say they have stabilized at an even 50:50 split, between dine-in revenue and delivery revenue, and they expect that ratio to stay as the new post-pandemic reality.

In 2020, an average of 3.5 new F&B establishments opened every day in Dubai, even amidst the Pandemic.

[5] Mastercard Global Destination Cities Index 2019
[6] "Restaurant Industry & Market Evolution Report - UAE" POSist and Dubai Restaurants Group (2021)

UAE'S ONLINE FOOD DELIVERY MARKET SIZE & GROWTH PROJECTIONS



Population	Smartphone Penetration*	Internet Penetration	Population under 40	Online Food Delivery Users (2021)	Online Food Delivery Revenue (2020)
9.89 million	98%	99.2%	73%	3.1 million (31% of population)	$969 million USD

$356 USD **Average Revenue per Online Food Delivery User (USD)**

Source: World Bank, Statista, GWI, EMW Advisory Research & Analysis

(*) Smartphone Penetration % was calculated within population between the ages of 16 to 64.

The UAE online food delivery market

The UAE's online food delivery market was a $969 million USD market in 2020 and is expected to grow at a 5.8% CAGR to 2025 to reach $1.28 billion USD. With a wealthy population of 9.8 million people, 99% internet penetration, 98% smartphone penetration, and a relatively young population with 73% being under 40 years old (millennials) – the UAE is primed for success; and successful, it is.

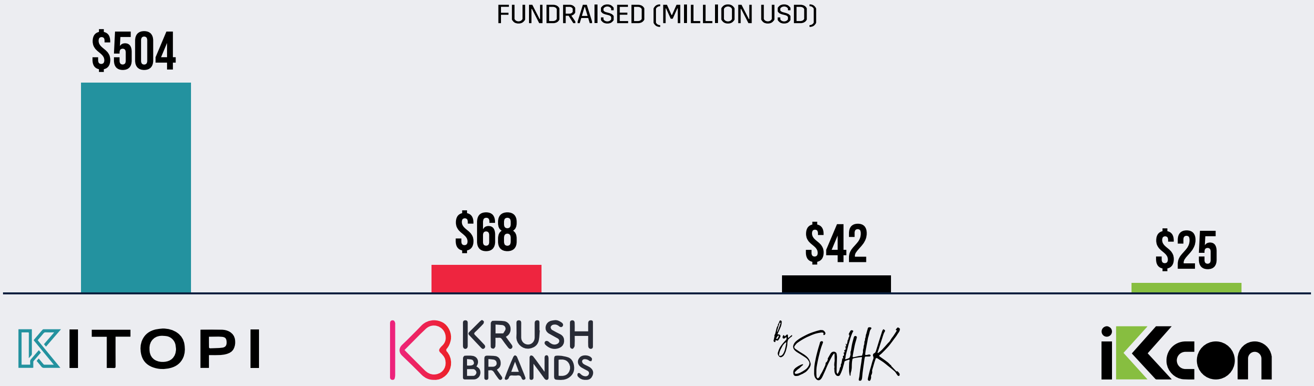
The UAE has the 2nd highest online food delivery revenue in the region, forecasted to reach $1.03 billion USD in 2021 (2nd to Saudi Arabia). UAE online orders has the 2nd highest average revenue per user, standing at $356 USD (2nd to Kuwait). Not only is the UAE posting strong results and is clearly growing, but it is still shows room for growth, with only 31% of the population currently ordering food online. This promise for growth is likely why there are still new entrants at all points in the value chain entering the market. Signs of consolidation have started to present themselves in the UAE with aggregators like UberEats leaving the market, and allowing its subsidiary CareemNow to focus on the food delivery business; CareemNow is part of Careem, which Uber acquired through a $3.1 billion USD deal in 2020. Delivery Hero's Talabat merged and absorbed its' sister-company, Carriage's operations in early 2020 as well.

TOP AGGREGATORS
OPERATING IN THE UNITED ARAB EMIRATES

deliveroo talabat zomato careem

BIG RAISERS: SOME OF THE TOP FUNDRAISERS IN THE UAE CLOUD KITCHEN SPACE (NON-EXHAUSTIVE)

FUNDRAISED (MILLION USD)



Source: EMW Advisory Research & Analysis

The UAE cloud kitchen market landscape

So, it comes as no surprise that there are currently over 400 cloud kitchens in the UAE, mostly based out of Dubai. Kitopi, KrushBrands, Sweetheart Kitchens and Ikcon are some of the biggest fundraisers in the UAE cloud kitchen market to date, all based out of Dubai. KITOPI, a regional Kitchen-as-a-Service (KaaS) player, became the region's first FoodTech unicorn when they recently raised US $405 million; read more about their journey in our case study on them on page 16. IkCon is another KaaS that helps existing F&B brands 'extend' their reach and delivery radius by renting out kitchen space and kitchen staff. KrushBrands is one of the country's first and only fully-stacked cloud kitchens that owns its own brands, restaurants, kitchens, delivery platform and delivery fleets. Sweetheart Kitchens is a multi-brand Virtual Restaurant, that owns and operates their own virtual restaurant brands and kitchens, but uses 3rd party aggregators like Talabat to fill and deliver their orders. The Leap Nation and Cloud Restaurants are companies that simply own the virtual brand and create the menus but contract out all other parts of the business from procuring ingredients, preparing meals, ordering and delivery. Cloud Kitchen's first virtual brand "Go! Greek" averaged 800 orders per month when it initially launched; today, with seven brands, Cloud Restaurants has more than 12,000 orders a month. There are many other players entering the market every week, but consolidation is expected to be on the rise in the coming months and years ahead.

Food Aggregators are also integrating their business vertically upwards. Deliveroo launched Deliveroo Editions in 2016, their "rent-a-satellite-kitchen" business renting out kitchen spaces to successful F&B brands to help them extend their reach across the city. The largest Deliveroo Editions cloud kitchen site ever launched globally by the company was launched in Dubai earlier this year, when Deliveroo Editions opened its 3rd Editions' Kitchen site in the city.

SPOTLIGHT | KITCH-IN

KITCH▸IN

THE FINE DINING CLOUD KITCHEN CONCEPT

Kitch-In is the first fine-dining cloud kitchen concept in the region, and quite possibly the first of its kind in the world. It is a digital platform that combines restaurants and brands endorsed by award-winning chefs, that will deliver high quality food straight to customer's homes and take-care of in-room dining for Accor Group hotel guests. It is the brain-child of Evgeny Kuzin, Co-Founder of Kitch-In and CEO of Bulldozer Group, a luxury hospitality group focused on luxury F&B and Club concepts. The culinary genius and other half of the founding team at Kitch-In is well-known Chef Izu Ani; many regard Chef Izu to be Dubai's first home-grown celebrity chef. "The idea behind Kitch-In began around 3 years ago," explains Kuzin, "Chef Izu and I were discussing building a kitchen lab where he would have the freedom and creativity to explore different cuisines outside of a classic restaurant environment. We both had a keen interest in the future of food technology. When the pandemic hit, we focused all of our resources on R&D and collaborating with super talented chefs alongside food scientists and experts in molecular gastronomy to work on creating unique cuisines that can be delivered to customers' doorsteps at the same quality as it would be served in a restaurant."

Tolga Neftci, Managing Director of Kitch-In explains, "Our journey starts with our unique R&D kitchen led by our celebrity chefs and engineers, who work relentlessly day and night exploring and experimenting with new dishes from all around the world utilizing unique food technologies." Once a dish is created in the R&D Kitchen, it then is shared with the city by being put on KITCH-IN's foodhall menu, and then is prepared and shipped to our centralized Production Kitchen which produces and prepares all of KITCH-IN's dishes for the various Satellite Kitchens across the city. The Satellite Kitchens are replenished on a daily basis, where the final cooking is completed, mise-en-place is finalized, and customers' orders are prepared for that last-mile delivery. "A lot of premium restaurants rushed to put their menus online during the pandemic lockdown period, and although it worked well in some cases, restaurant cuisine is generally not designed for delivery. For that reason, we really focused our energy and resources on a scientific approach on how to produce high quality dishes that are deliverable, and that is where the R&D kitchen is at the core of Kitch-In," said Chef Izu.

Evgeny Kuzin,
Co-Founder

Chef Izu,
Co-Founder

Tolga Neftci,
Managing Director

SPOTLIGHT | KITCH-IN

The terms 'fine-dining' and 'fast-delivery' seem, at first, slightly oxymoronic; but upon speaking to the team members behind Kitch-In, it seems – that might very well be the point. Kuzin explains, "Our goal is to 'McDonald-ize' premium cuisine, changing the perception of 'fast food' by producing excellent quality meals that are as accessible and as prevalent as global burger chains. Good quality, consistency and scalability is the name of the game for us." And scaling is exactly what Kitch-In is doing. Kitch-In was formally established as an entity in July 2020, and on April 4th 2021, Kitch-In processed their first customer order from their Grand Plaza Movenpick Media City kitchen. Today, just after 6 months of active operations, the team has 10 functioning satellite kitchens across Abu Dhabi (Abu Dhabi Corniche, Abu Dhabi Bustan) and Dubai (Palm Jumeirah, JBR, Motor City, Media City, Sheikh Zayed Road, two kitchens in Downtown, and one at the Trade Centre). They anticipate their expansion into Kuwait, Saudi Arabia and Europe in 2022.

The Accor Group synergy and partnership is something else that makes Kitch-In a slightly different beast from all of the other cloud kitchen players in the market. On that partnership, Kuzin remarks, "We approached Accor Group with our vision because we had a strong desire for a strategic partner who would help us compete on a global scale, not just locally. By utilizing Accor's existing framework, Kitch-In has the ability to be much more dynamic, scalable and has the foundations in place for an efficient international expansion." If global expansion is the goal, it is easy to see why Accor Group was sought out for such a strategic partnership; Accor Group is the largest hospitality group in Europe, and the 6th largest hospitality group worldwide, operating in over 110 countries. "Utilizing the existing hotel kitchens from Day 1 definitely distinguished our pace of growth as a start-up," explains Neftci. "Actually, the process for us to expand and utilize these premium kitchen's within Accor's hotels is quite fast. Our operations teams have standardized a playbook which helps us select the best kitchen's based on size, layout and utilization – and once identified, the lead times to becoming operational is much less than a standard cloud kitchen set-up." Looking ahead, it seems additional partnerships are also on the cards for Kitch-In, where the team expressed a desire to partner with schools, hospitals and more.

In a world where efficiency, quality and warp-speed are all requirements for success, Kitch-In also is differentiating itself by launching its' own fully digital ordering app.

Instead of just relying on the common aggregators in the region (ie. Deliveroo, Talabat, etc.), Kitch-In plans on launching their own app at the same time as launching their first fully-digital Kitch-In Food Hall in the DIFC (Dubai) this coming February 2022. Kitch-In's vision is to take this hybrid multi-brand restaurant and online model and expand to new markets following Dubai. By utilizing our own full-stack technology platform and multi-brand software, Kitch-In Food Halls can maintain quality and efficiency across multiple locations. Our Food Halls will be targeting busines districts with high footfall communities like the ADGM (Abu Dhabi) and international markets in Frankfurt, London and Paris. The idea is that diners download the app, place their order and either dine in the sleek, comfortable, communal dining hall with friends and colleagues or choose our take-away option. With transparent, state-of-the-art kitchens, guests can choose from any one of Kitch-In's multi-brand offering through the app, ranging from a variety of brands and cuisines at the same table. Customers then collect their order with a customized QR code. For those in a rush, pre-order pick-ups will also be available. With virtually no waiters, or front-of-house staff, Kitch-In believes that this will be a food-hall of the future. "Designed by a renowned architect originating from Luxembourg, the space will be welcoming, minimal and relaxed, with a clean, sophisticated aesthetic," explains Kuzin. "We want people to feel as though they can stay for hours, enjoy coffee, bring their laptops and have creative sessions – fuelled by Kitch-In." And for those that don't always have time to leave the office, Kitch-In plans on placing over a dozen Food Lockers around DIFC, covering all of the buildings in the financial district, so Diners can order their meals in advance or in real-time and have it delivered for free to the nearest Kitch-In Food Locker. "The lockers are clean, efficient and convenient, and I can't wait to see them go live," says Kuzin.

There are clearly bold plans for expansion for Kitch-In – not just with regards to expansion geographically, but more-so, creative expansion in how this cloud kitchen operates. It certainly has a lot of wow-factors, from the celebrity chef led R&D kitchen to the quick scalability of satellite kitchens using Accor Group's hotels across the Abu Dhabi and Dubai (and soon, more cities and countries), and now this fully-stacked model of Kitch-In bringing their currently virtual delivery-only food-hall into a brick-and-mortar site, alongside their own online ordering platform. That's quite a lot to chew on, but the Kitch-In team seems to take it all in stride. Fuelled by passion, the expert team has 50+ years of experience across global start-ups, Fortune 500 companies, logistics and delivery platforms, as well as their talented culinary force. Today, Kitch-In is in their 7th month of operation in October and has 200 digital restaurants online. Average month-on-month (MoM) growth is 38%, and the average ticket/order size is 90 AED, being on the higher end of cloud kitchens in the region, as well as globally. In a few more months, we will be able to see their Food Hall come to life in the DIFC, and a whole new realm of possibilities awaits thereafter.

KITCH•IN

gigi · JIMOTO 地元 · SEOUL-SISTER · NEO'POLITAN · AYANA · ON CREPE · Toasty · POKE MON · SU CHILL · MA RANI
Lucky Eight · FRESHHLY · AP'OLA · WOKED · Breakfirst (but first, breakfast!) · pasticcio · BELLA'S BAKERY (freshly baked.)

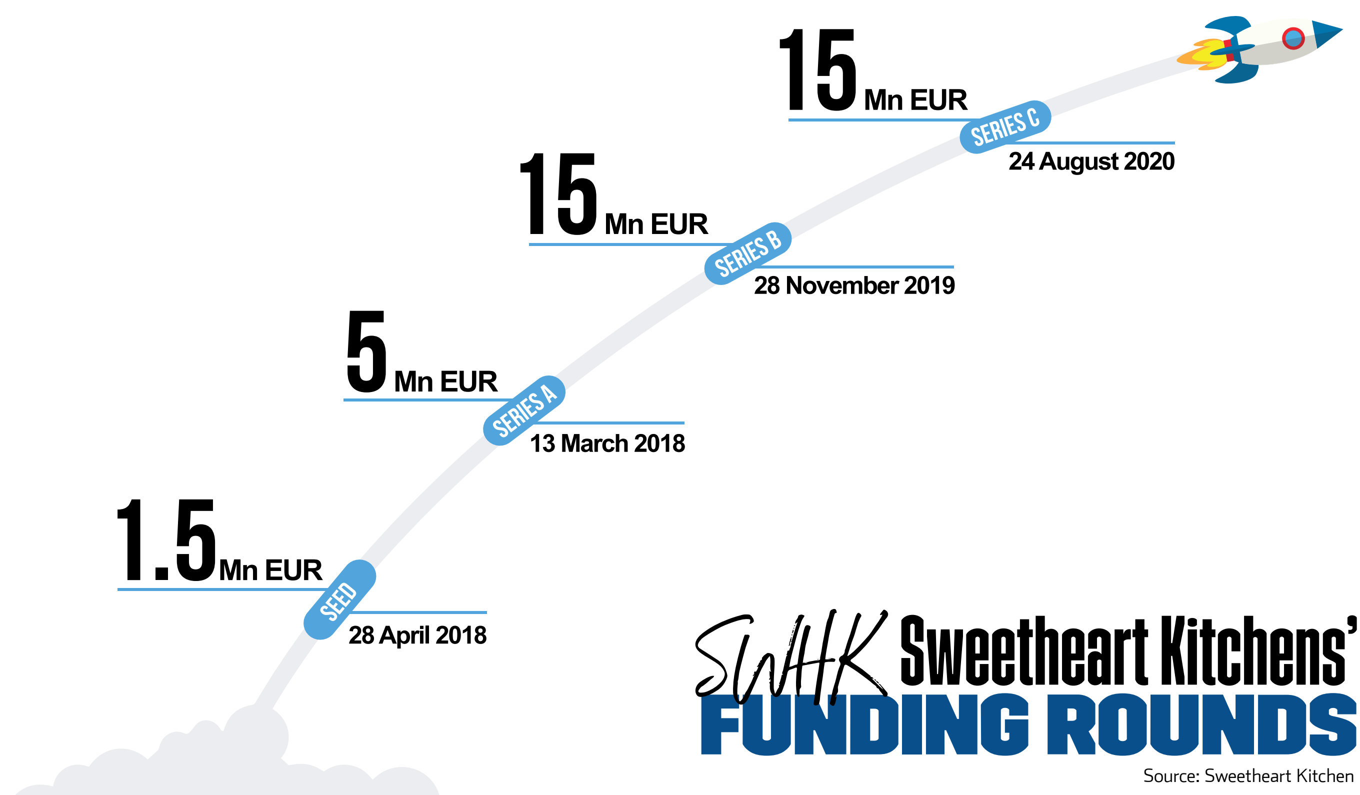



SPOTLIGHT | SWEETHEART KITCHEN

HOW SWEET IT IS TO BE SWEETHEART KITCHEN...

Sweetheart Kitchen is a relatively new kid on the block, having arrived on the Dubai cloud kitchen scene in 2019; but the team is anything but inexperienced. Sweetheart Kitchen Founder & CEO, Peter Schatzberg, has launched several iterations of the multi-brand virtual restaurant and this is his latest venture. He launched his first virtual kitchen in 2013 in New York city, and then in Berlin in 2018. “One of the things I’m most proud of are the learnings from each iteration of the model, and the retention of our leadership team through all of our challenges,” says Schatzberg. “Sweetheart Kitchen is Version 3.0 of my Virtual Kitchen vision; our COO has been with me since Version 1.0 in New York, and our Executive Chef and CTO joined us in Berlin. All three are part of the leadership team we have today in Dubai”. Sweetheart Kitchen didn’t just come to Dubai with a seasoned team, it also came with a sizeable war chest, having raised EUR 7.5 million before opening in September 2019, which was followed-up with an additional EUR 15 million 2 months into operations in November 2019. The virtual restaurants company has now raised EUR 36.5 million in total fundraising to date.

Sweetheart Kitchen is a multi-brand virtual restaurant cloud kitchen model. Sweetheart Kitchen creates all their virtual restaurant brands in-house, prepares, cooks and portions out meals in a central kitchen using their own kitchen staff, and then cooks and packages all delivery orders using their own satellite kitchens and staff. The only part of their business that they outsource is the last-mile delivery, which Sweetheart Kitchen leaves for the food ordering and delivery platforms such as Talabat and Zomato to manage. “We plan to be on all of the platforms in a few months from now, now that we have compatible tech with the aggregators, who have also become better adapted with the Sweetheart Kitchen multi-brand model,” says Schatzberg.



Sweetheart Kitchens’ FUNDING ROUNDS

Source: Sweetheart Kitchen

Sweetheart Kitchen says they are in a league of their own, a function of the proprietary technology and processes they refer to as the “six sigma kitchen”. They claim that their process innovation coupled with their technology results in the fastest lead times in the world, with the least amount of process variation, ever achieved by a kitchen. “Even while processing over 300 items (200 orders) in a single hour from one kitchen, lead times average six minutes, with a standard deviation of two minutes.” Adib Samara, VP of Branding and Marketing shares that “our innovation also results in less than 1% food waste, another metric we lead the industry in.”

In a world where data is the new gold, Schatzberg says “we have turned food into data, whereby we measure the time it takes to prepare each customer order from the moment it arrives to the moment the delivery driver picks it up. We measure inventory levels, expiration dates (to ensure the freshest food inventory) and all procurement, and automate inventory transfers and production decisions using algorithms.” In essence, Sweetheart Kitchen is removing all decisions that would ordinarily be made by employees to achieve operational excellence and to reduce human error wherever possible. Though the pandemic meant a number of strategic pivots and a period without opening units, Sweetheart Kitchen is continuously looking to grow its footprint and enhance product quality and the customer experience through technology.

Today, Sweetheart Kitchen produces over 7,000 daily meals across UAE and Kuwait. Its’ 16 kitchen units operate 24/7 and each unit has between 6 and 10 employees. Employees are responsible for preparing anywhere from 500-1,200 orders per day, an achievement that would be impossible for a brick-and-mortar restaurant kitchen. It is the process

Peter Schatzberg,
CEO and Founder

Adib Samara,
VP of Branding and Marketing

innovation and technology stack that allows Sweetheart Kitchen to be one of the most productive and efficient kitchens in the world. Another advantage that Sweetheart Kitchens possesses is its’ centralized commissary, hub-and-spoke style model, where centralized procurement and production create not only operational efficiencies but precise portioning, food consistency, and helps to ensure quality control.

When asked whether or not the pandemic has enhanced their business, Sweetheart Kitchen’s Adib Samara says, “there is a public perception that food delivery players and virtual kitchens benefitted from the pandemic. In reality, the players in this industry require tremendous scale for success and the pandemic slowed the scaling of new units. Long term, the pandemic served to accelerate the existing global trend towards food delivery, but it was not advantageous to our business in the near term.”

So instead of aggressively expanding during the pandemic, Sweetheart Kitchens turned inward. Samara says, “the pandemic forced us to take a step back, to slow down and evaluate our business in order to tweak it for profitability. Now, we’ve proven that our kitchens achieve unit economics with average revenues in excess of $1.5M, and we are moving forward with rapid scaling. To the extent that the pandemic forced us to mature at an earlier stage than normal for a startup, it was a productive time for us.” Today, Sweetheart Kitchens has 20 brands, whereas they had over 30 in pre-covid times. After a lot of A/B testing, Sweetheart Kitchen removed brands that were not resonating with customers. In other instances, they improved brands with mediocre performance and cultivated “Hero Brands”. “We realized during the pandemic that the number of brands in the portfolio is not a good measure of success but rather the number of Hero Brands that is critical,” says Samara.

Schatzberg continues, “instead of fashioning new blades, we sharpened the blades we had – so to speak. With this focus on operational efficiency and improving our profitability, we grew volume by 600% year-on-year (YoY); revenue run rate is up 500% versus last year. We’ve really reached a level now where we are polished in Dubai and in Kuwait.” When asked why Sweetheart Kitchen, and many others, entered Kuwait before Saudi Arabia, Schatzberg laughed as he said, “we all made a mistake!” He continued, “Kuwait is densely populated and has embraced food delivery, so everyone believed it would be an easy market to enter. Unfortunately, the pandemic was an especially powerful force in Kuwait, and the many COVID related policies that still endure today has made it difficult to

SPOTLIGHT | SWEETHEART KITCHEN

7000
meals prepared daily across UAE & Kuwait

Up to **1200**
orders prepared by kitchen staff per day

36M
fundraising to date

Sweetheart Kitchens' SWHK IN NUMBERS

200
orders processed per hour per kitchen

home to **20**
f&b brands

<1%
food waste produced

Source: Sweetheart Kitchen

scale and operate in the country. Saudi Arabia was previously seen to be a more challenging market, but as reforms have come into place in the Kingdom – that doesn't seem to be the case any longer."

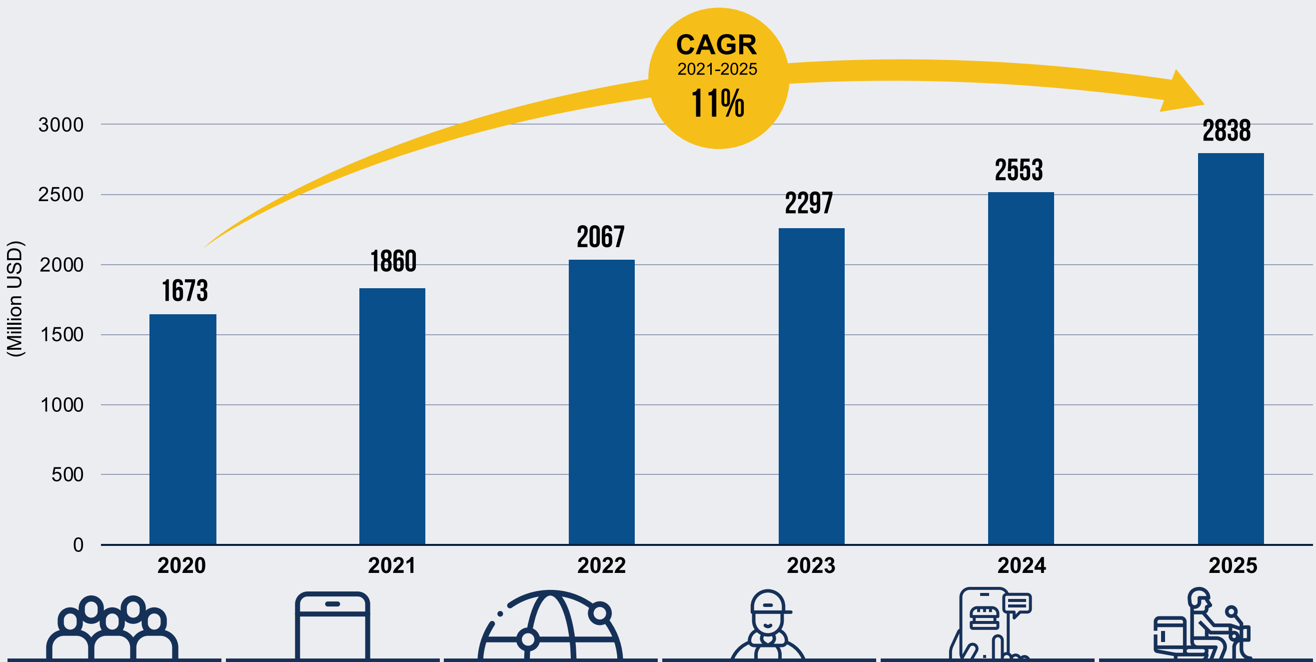
When asked what's next, "Saudi Arabia and Singapore" was the answer. Lastly, I asked Schatzberg if he would consider becoming a fully-stacked cloud kitchen with its own online food aggregator and delivery fleet – he gave an eloquent answer. "We focus on what we do best, which is the creation of virtual brands offering the consumer tremendous value for their money as a result of our economies of scale in procurement and production and our efficient technology stack and process innovation. We are not logistics experts nor are we online marketing / demand aggregation professionals, so we leave that to the platforms, who have already achieved this successfully at a global scale. We stick to what we do best, which is operational excellence and efficiency. I prefer to build a system where all elements of the business were initially designed to work together. Then we drop that system into any market with any aggregator and logistics infrastructure in a turn key manner. We have come close to perfecting that system through trial and error, and now we have a model that is ready for international scaling."

A Deeper Look at the Kingdom of Saudi Arabia

Overview

The Kingdom of Saudi Arabia has the largest addressable F&B market in the GCC with a population of nearly 35 million; it is the key battleground market for most industries across the GCC that count on a sizeable consumer base to scale. The challenge for Saudi Arabia has been in its ease of doing business, or until recently, lack thereof. Aware of the challenges in attracting foreign investment and entrepreneurs, the Kingdom has deployed many reforms over the past few years as part of the government's modernization and economic diversification efforts. This includes Vision 2030 initiatives to expand the tourism, leisure and entertainment industry from which the food scene is likely to change. Saudi Arabia is also opening up a number of new cities including the NEOM project on the Red Sea which will be prime spot for new F&B establishments in the near future. In 2019, Saudi Arabia moved up 30 places from 92nd to a 62nd place ranking in the World Bank's ease of doing business index, crowning Saudi as the "most improved" country in the ranking that year.

KSA'S ONLINE FOOD DELIVERY MARKET SIZE & GROWTH PROJECTIONS



Population
34.8
million

Smartphone Penetration*
99%

Internet Penetration
95.7%

Population under 40
67%

Online Food Delivery Users (2021)
9.8
million
(28% of population)

Online Food Delivery Revenue (2020)
$1.67
billion USD

$194 USD **Average Revenue per Online Food Delivery User (USD)**

Source: World Bank, Statista, GWI, EMW Advisory Research & Analysis

(*) Smartphone Penetration % was calculated within population between the ages of 16 to 64.

The KSA online food delivery market

The Saudi online food delivery market is the largest in the region, currently comprising 45% of the total GCC online food delivery market. KSA's online food delivery market was valued at nearly $1.7 billion USD in 2020, and is expected to grow at an impressive 11.1% CAGR until 2025, when the market is forecasted to reach $2.8 billion USD; In 2025, Saudi Arabia is expected to comprise 52% of the total GCC market, making it a cornerstone market in the region. Though the average revenue per user (ARPU) is on the lower end of the GCC markets at $194 USD, the young, generally wealthy, and large population of 35 million inhabitants, makes for great potential. 67% of the population is under the age of 40, and with 99% smartphone penetration amongst those aged 16-65 years old, the population is tech savvy too. 28% of the population are online delivery platform users, leaving ample room for growth. Despite Delivery Hero's Hunger Station being the number one food delivery app downloaded in Saudi Arabia, 83% of the online food delivery orders are being made directly to the restaurant; this explains the high download rates of restaurant-run delivery apps for Kentucky Fried Chicken, McDonalds, Domino's Pizza, and the like across the Kingdom. Compared to the UAE, the Kingdom is still in the early stages of delivery aggregators duking it out before major consolidation begins.

TOP AGGREGATORS OPERATING IN THE KINGDOM OF SAUDI ARABIA

HUNGER STATION · careem · talabat · zomato · carriage · THE CHEFZ ذا شفز · jahez

CLOUD KITCHEN PLAYERS OPERATING IN THE KINGDOM (non-exhaustive)

KITOPI · iKcon · kitch. Restaurants Reimagined

Source: EMW Advisory Research & Analysis

The KSA cloud kitchen market landscape

The Saudi Arabia cloud kitchen market size was valued at $17.5 million USD in 2020 and is expected to expand at a compound annual growth rate (CAGR) of 14.2% from 2021 to 2028. Many of the top players in the Cloud Kitchen space in Saudi Arabia, are recent transplants from other markets such as the UAE – and it's a recent transition. KITOPI just announced it's foray into the Kingdom in early 2021. KLC Virtual Restaurant of Kuwait and Sweetheart Kitchens of Dubai have both been amongst a group of cloud kitchens announcing plans to enter Saudi Arabia in early 2022. Saudi-born and raised KaaS company, Kitch, raised a $15 million USD seed round while simultaneously launching in Saudi Arabia and the United Arab Emirates in 2021.

The Kingdom's sovereign wealth fund is following the FoodTech trends in its investment choices, too. For instance, CloudKitchens, a company founded by former Uber CEO Travis Kalanick received $400 million from Saudi Arabia's Public Investment Fund in 2020. The company buys cheap real estate and builds shared kitchens for restaurants to rent as well as runs its own delivery-only restaurants.

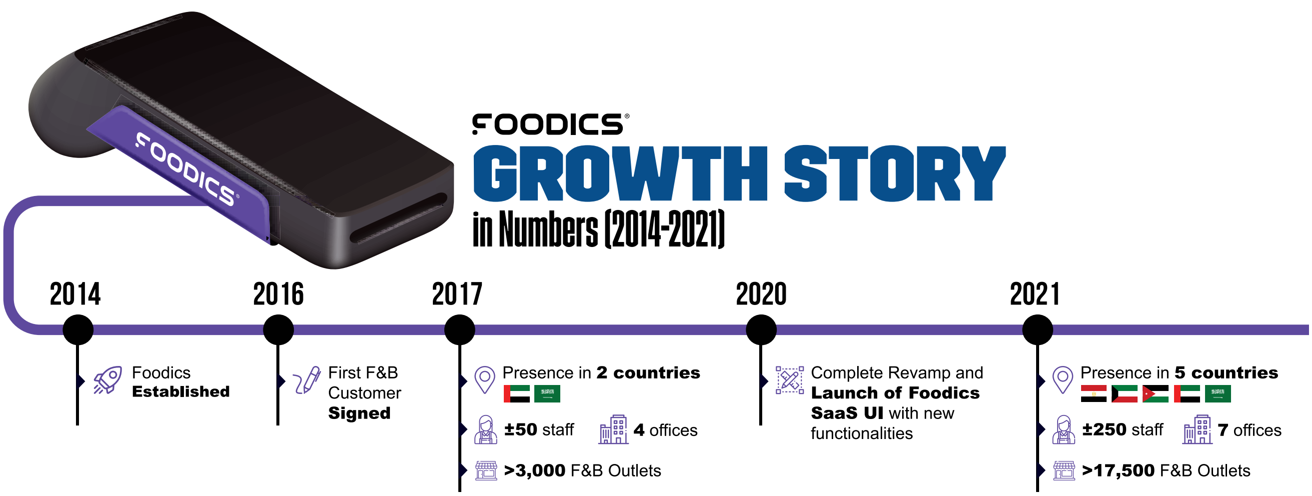
SPOTLIGHT | FOODICS

FOODICS

THE SAAS POWERING CLOUD KITCHENS

Foodics is a cloud-based restaurant management system player that has been around for some time; the start-up was founded in Saudi Arabia in 2014 by Ahmad Alzaini and Musab Alothmani, two entrepreneurs passionate about the F&B industry and technology. At first, the FoodTech business idea was to launch the region's first digital menus, but after speaking with restauranteurs across the Kingdom, the two entrepreneurs quickly found that there was minimal technological innovations to support the operations of a restaurant business. Foodics was born. Foodics' software manages sales, transactions, inventory, employee schedules, and customer relationships among other F&B operations using iPads and tablets as point-of-sale (POS) devices at restaurants. At the time, few customized SaaS options existed for restaurants and F&B chains; this lack of customized product for such a large sector is likely one of the key reasons for Foodics growth success. Foodics signed its first SaaS customer in 2016, and it has been a steady trajectory upwards ever since.

In 2017, Foodics had 50 staff working across 4 offices in Riyadh, Jeddah, Khobar and Dubai catering primarily to 2 markets: Saudi Arabia and the United Arab Emirates. Today, 4 years later – Foodics has presence in 5 countries (KSA, UAE, Jordan, Kuwait and Egypt), has grown 5x in staff to be over 250 personnel strong and operates 7 offices. The Foodics team has grown from operating within over 3000 F&B customer's branches in 2017 to over 17,500 branches in 2021, resulting in a 55% cumulative annual growth rate over the past 4 years. The growth is staggering.



Source: Foodics, EMW Advisory Research

Consider then that it's not just about the number of F&B customer's branches that uses Foodics software, but how many licenses each F&B brand and F&B branch requires. Licenses, are essentially monthly subscriptions, purchased for every "user" that requires a login and access to the Foodics system. Thus, as a F&B brand grows in staff, and grows in the number of branches in a given market, so does Foodics' license subscriptions. A great example is Foodics partnership with Burgerizzer and Hamburgini, two of the largest homegrown hamburger chains in Saudi Arabia. Foodics grew alongside them from just a handful of branches when they first came onto the scene, to over 60 outlets for Hamburgini and over 100 outlets for Burgerizzer across the Kingdom today. These are just two of many growth success stories, where both businesses are empowering each others growth. Today, Foodics has over 62,000 licenses and growing. All of a sudden, we begin to understand why the Foodics story is rife with potential and is an investors dream.

In a country that is really looking to support its small and medium sized entrepreneurial businesses, Foodics says its catering mostly to SMBs, with 80% of its customer base falling in that category; they hope, of course, that their SMB customers become large customers over time, and that Foodics powers their customers' growth success. What's more is that Foodics just got into the Cloud Kitchen business, an industry that is popping up small players across the region looking for speed, efficiency and scale powered by technology.

The company says it's bringing its own innovative customer-oriented approach to develop a software that fits the Cloud Kitchen model, because a cloud kitchens' needs are different from that of a dine-in restaurant. Djamel Mohand, COO at Foodics, said, "We only started to cater to Cloud Kitchens less than a year ago. We realized that we needed to adapt in order to integrate seamlessly and offer the ability of multi-brand virtual cloud kitchens to tag its different brands on the orders coming in." Now that the product is ready, Foodics is ready to cater to these Cloud Kitchens – many of which are looking to bring in the right software and aren't looking to develop it in-house. "We're committed to continue working with our cloud kitchen partners to continuously improve the system and evolve, as the industry evolves," states Mohand. Foodics revamped its UI completely across all of its platforms in 2020, which allows for a customized and centralized dashboard which processes performance data in real-time. That means that a GM of a virtual restaurant cloud kitchen could login to their console and quickly run reports to understand which brands has the highest volume of orders, which kitchens (and neighborhoods) has the greatest order volumes, what are the top selling menu items, and what the average order price is, with a swipe of a finger. To date, Foodics now serves roughly 50 Cloud Kitchens globally, and is growing its cloud kitchen business across the region quickly. As a key industry moving forwards, Foodics seems confident that cloud kitchens will become a major vertical of their business. Only time will tell.

A Deeper Look at Kuwait

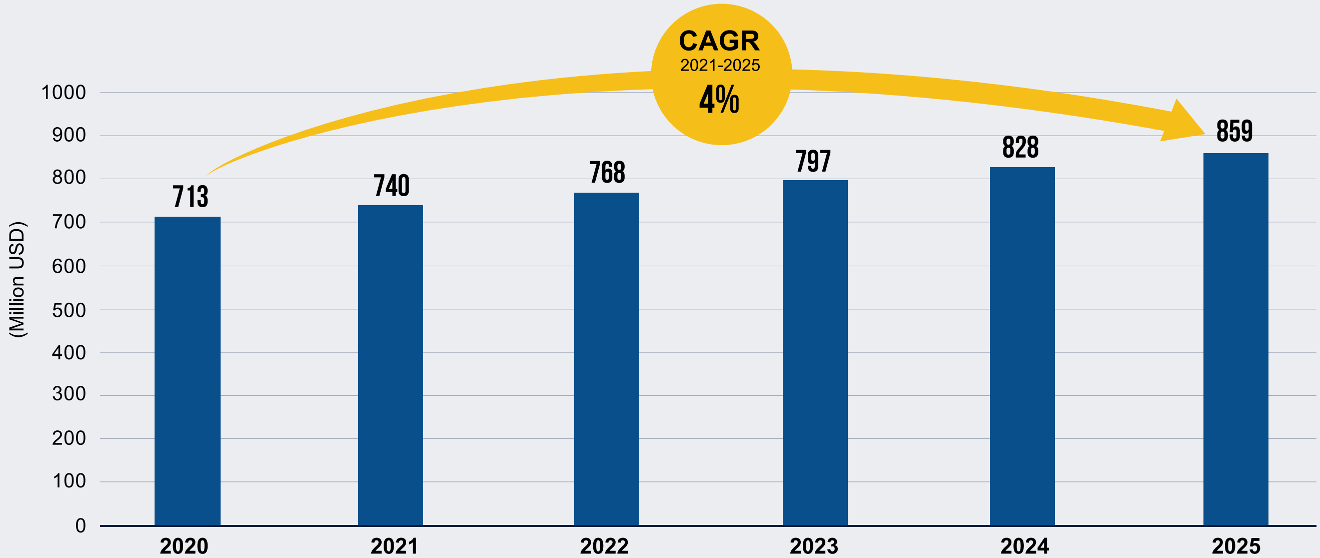
Overview

Kuwait has a unique F&B industry with its own its own distinct culinary scene and homegrown brands. Typically, the GCC's regional culinary market has been dominated by international chains, whereas Kuwait has become the source market for some of the biggest GCC based F&B franchises, including delivery platform Talabat and retail and F&B franchise operator Alshaya Group.

In 2016, a group of F&B entrepreneurs came together to launch "The Food Capital of the World" initiative, with the intent of inaugurating Kuwait as a world food capital by 2030. In the FoodTech space, Kuwait launched Savour in 2016, the first food vertical Accelerator in the Middle East, helping food entrepreneurs bring their products and services to market with the right resources and support. Furthermore, infrastructurally speaking, there are numerous projects that form part of Kuwait's Vision 2035 which are currently being built, including entirely new cities that will dramatically increase the amount of new F&B space available.

Kuwait has a population of just over 4.1 million residents in the country, contributing just 7% to the GCC's total population. What makes Kuwait interesting is that 78% of the country's population live in Kuwait City – meaning it provides a dense urbanized population for the F&B industry. In addition to being ranked 4th out of the 6 GCC nations in population size, Kuwait is also ranked 4th in terms of eCommerce penetration rate (58.3%) behind Saudi Arabia, UAE and Qatar. The country also has the lowest percentage of millennials (26.1%) and people under 40 (57.7%) in the region, yet data show that the general population is very comfortable with technology with a 99.5% internet penetration rate and 80% of the population being avid social media users.

KUWAIT'S ONLINE FOOD DELIVERY MARKET SIZE & GROWTH PROJECTIONS



Population	Social Media Users	Internet Penetration	Population under 40	Online Food Delivery Users (2021)	Online Food Delivery Revenue (2020)
4.3 million	98.8%	99.5%	58%	1.6 million (36% of population)	$713 million USD

$498 USD Average Revenue per Online Food Delivery User (USD)

Source: World Bank, Statista, GWI, EMW Advisory Research & Analysis

The Kuwait online food delivery market

Kuwait is currently the 3rd largest online food delivery market in the GCC, behind Saudi Arabia and the UAE – but is arguably the most saturated. Kuwait's online food delivery market is 43% of Saudi's market and 74% of the UAE's market in terms of size– with only one city to establish oneself in (while Saudi has 3 key cities, and the UAE has 2 key cities). Because Kuwait City is so dense, it tends to be the first battleground after Dubai for Dubai-based cloud kitchens and food delivery players to tackle; that, coupled with the fact that the region's first and leading food delivery aggregator, Talabat, was born and bred in Kuwait - Kuwaitis have the highest rate of user penetration for food delivery apps in the region (36.2%). Kuwaitis are also the biggest spenders when it comes to online food delivery with the average revenue per user (ARPU) coming in at $498 USD per year, which is more than double the APRU for the USA at $235 USD; Kuwait's ARPU dominance is followed by UAE consumers who generate an average $356 USD per user. Kuwait is not only home to Talabat, but also Carriage, another food delivery aggregator success story. Both platforms were acquired by food delivery conglomerate, Delivery Hero. Unlike other food delivery companies of the time, Carriage was unique in that it built its own fleet and quickly captured a large market share of Kuwait and then other regions in the GCC. Delivery Hero recently had Talabat absorb Carriage's operations in order to optimize efficiency in the region.

TOP AGGREGATORS OPERATING IN KUWAIT

deliveroo · Uber Eats · zomato · carriage · talabat · Cravez

CLOUD KITCHEN PLAYERS OPERATING IN KUWAIT

(non-exhaustive)

KLC VIRTUAL RESTAURANTS · KKG Kuwait Kitchens Group LLC · KITOPI · by SWHK SWEETHEART KITCHEN · KitchenPark

Source: EMW Advisory Research & Analysis

The Kuwait cloud kitchen market landscape

The largest Virtual Restaurant group in the GCC, based on the number of virtual restaurant brands it carries in-house, is KLC – a Kuwait-born virtual restaurant group. KLC Virtual Restaurants operate more than 40 virtual restaurants developed in-house across a variety of different cuisines from 15 cloud kitchens in Kuwait. The company has a strategic partnership with Dubai-based Kitopi and has launched more than 20 of its brands in the UAE earlier this year. Read more about KLC's journey on page 43.

Kuwait Kitchens Group (KKG) is a newer kid on the block in the country. Founded by Farah Al-Qasser in 2019, KKG markets themselves as the first independent Cloud Kitchen Company in Kuwait; KKG follows a "rent a kitchen" business model. The company launched their first cloud kitchen site in Q3 2019 and was fully subscribed by tenants at launch, and have subsequently opened 2 additional satellite kitchen sites in Kuwait to meet the needs of its F&B brand tenants.

SPOTLIGHT | KLC VIRTUAL RESTAURANTS

THE CLOUD KITCHEN THAT WANTS TO DO IT ALL...

KLC Virtual Restaurants is currently the largest virtual restaurant group in the GCC. Today, KLC hosts over 50 brands, all home-grown by KLC's in-house design team in Kuwait. The virtual restaurant company's first-mover advantage has helped it gain a stronghold in its home market of Kuwait, and believes it has both the experience and the entrepreneurial spirit to become the regional champion. KLC's origin story is one born out of "necessity" as Mubarak Jaffar, Founder and CEO puts it. "Our family had a restaurant business in 2009 that was, quite simply, struggling. We needed to pivot in order for the business to survive, and the virtual brand restaurant concept was born at a time where very few comparable business models existed in the world." KLC began as a single-brand virtual restaurant company designing meals specifically for the 'food for delivery' market segment, in the early years of the delivery market. In 2016, KLC changed tact and became a multi-brand virtual kitchen – with a mission to become the largest virtual restaurant company in the GCC.

KLC's business model is known as the fully-stacked multi-brand cloud kitchen model. It's a powerful and demanding model, as it takes on all of the operations of running such a business in-house, from sourcing ingredients, to making the food, and finally delivering the various meals to customers' doors. KLC uses a hybrid model, using both their own 100 strong delivery car fleet, and that of aggregators like Talabat. When asked why KLC partners with aggregators when they already have their own fleet, Jaffar explained, "if you want to succeed in the delivery business, you really can't cut out the aggregators. It would be like trying to start a shop that cut-out malls and high-traffic shopping destinations. In the end, you would only be limiting yourself. We believe in viewing aggregators as partners, and we focus on building these relationships to aid in the growth of the business". Today, aggregators fulfil 70% of KLC's deliveries, while the remaining 30% is fulfilled by their own fleet. "It's been an advantage to have our own fleet of cars, as some aggregators tend to mostly invest in motorcycles – and recent regulations have limited movement of motorcycles in some neighbourhoods of Kuwait."

VIRTUAL RESTAURANTS BY NO. OF HOMEGROWN BRANDS

KLC VIRTUAL RESTAURANTS	50+ BRANDS	Since 2016
by SWHK SWEETHEART KITCHEN	20+ BRANDS	Since 2019
KITCH▸IN	20+ BRANDS	Since 2021

Source: EMW Research & Analysis

KLC is adamant that they don't become franchisees of outside brands, though they have been asked by prominent international brands many times. They insist on being the masterminds behind each new virtual restaurant concept, carefully assessing what's available in the market, and addressing the gaps in consumer demands, one neighbourhood at a time – and developing menus that are developed to fill those gaps in the market. When KLC's Business Intelligence and Research (BIR) team uncovers gaps in the market for Mexican food or Breakfast foods, for example – designers in the KLC Studio quickly set-out to become the first to deliver these foods in the market. Meeting customer demands while simultaneously ensuring lean operations is a balancing act for these multi-brand cloud kitchens. On one hand, you get economies of scale with more brands and meals being prepared in each kitchen site; giving the company an opportunity to order raw materials and ingredients in bulk, which in turn helps to drive down costs across all of its brands. On the other hand, the food concepts that are in "high-demand" are often cuisines that don't yet exist in the market, and many of these cuisines require specialty ingredients that can be expensive, especially in smaller quantities as a brand builds its customer base. This is a problem faced and addressed regularly by KLC, especially as it intends to have at least one virtual restaurant brand for every type of cuisine under its portfolio. "Though we are targeting to grow more brands in our portfolio, at the end of the day it isn't about the number of brands, but the attention to the quality of the food and customer experience that delivers sustainable growth," says Jaffar.

The 5 years that Jaffar spent at the largest food delivery player in the region, Talabat, after his family acquired it in 2010 has given him an inside-look at understanding the downstream food-delivery business. It wasn't long after Talabat was sold to Rocket Internet in 2015 for $170 million USD that Jaffar completely restructured KLC's business model to go from a single cloud kitchen restaurant model to a fully integrated multi-brand model. We ask him about this and he responded, "Talabat showed us that technological trends influence customers; Talabat helped pioneer the online ordering trend in the MENA region. We could see a clear shift in customers' attention towards food delivery in 2016-2018 and it became hard to find a restaurant that wasn't on Talabat for delivery services. This was the driving factor in our choice to transition to focus on the multi-brand virtual restaurant model.

KLC has grown relatively quickly in Kuwait, growing from 1 brand to 50 virtual cuisine concepts across 18 kitchen sites in 5 years without any outside funding. For a multi-brand virtual restaurant that creates and owns all of its brands – versus sourcing concepts and importing menus from outside – that's fast. As a first-mover in the virtual restaurant space in the region, KLC has been able to carve out a comfortable lead, but newcomers are popping up across the region seemingly daily, and growing at a feverish pace. KLC began its expansion into the UAE in 2020, in partnership with Kitopi, the region's first cloud kitchen unicorn, which offers Kitchen-as-a-Service (KaaS) and currently provides this service to over 200 F&B brands across the region. Today, 25 out of 50 of KLC's restaurant brands are being created and dispensed from 3 Kitopi kitchens across the UAE, and KLC says expansion across the Emirates continues. The Virtual Restaurant company plans to launch all 50+ of their restaurant brands in the UAE within the next twelve months. "When players like

SPOTLIGHT | KLC VIRTUAL RESTAURANTS

Kitopi came onto the scene, it was very beneficial to us, because they helped to educate the market about cloud kitchens and virtual restaurants," mentioned Jaffar, "before then, I don't think many people understood what KLC was doing."

The aggressive entry into the UAE is understandable, as the virtual restaurant market continues to become a saturated and extremely competitive battleground. Entry into the UAE was timely, just as COVID19 hit the region; but unlike Kuwait, the UAE considered food delivery an "essential service" and ensured they kept operating throughout COVID lockdowns and curfews. Kuwait, on the other hand, was another story. KLC shut down operations for 3 weeks straight for the first time since starting operations during lockdowns in Kuwait in 2020. More recently, in March 2021, Kuwait stopped all deliveries for around 45 days after a nightly curfew was implemented. All of this, and more, has led to Kuwait now facing a major labour crisis; as many people were forced to leave the country during 2020 when delivery companies were forced to halt operations, labor supply dried up. Now that operations are ramping up – there are no drivers or chefs to be hired, and harder still in these "pandemic times" to bring labour from abroad – making scaling the business a challenge in Kuwait today. In contrast, KLC has been consistently growing month to month in the UAE at a stable and sustainable pace. Despite all of these challenges faced during the pandemic, Jaffar says, "2021 is the best year for the company to date across every metric – in terms of revenue,

KLC'S 2022 AMBITIONS

2021	50+ BRANDS	2 COUNTRY PRESENCE
2022	100+ BRANDS	6 COUNTRY PRESENCE

Source: EMW Research & Analysis

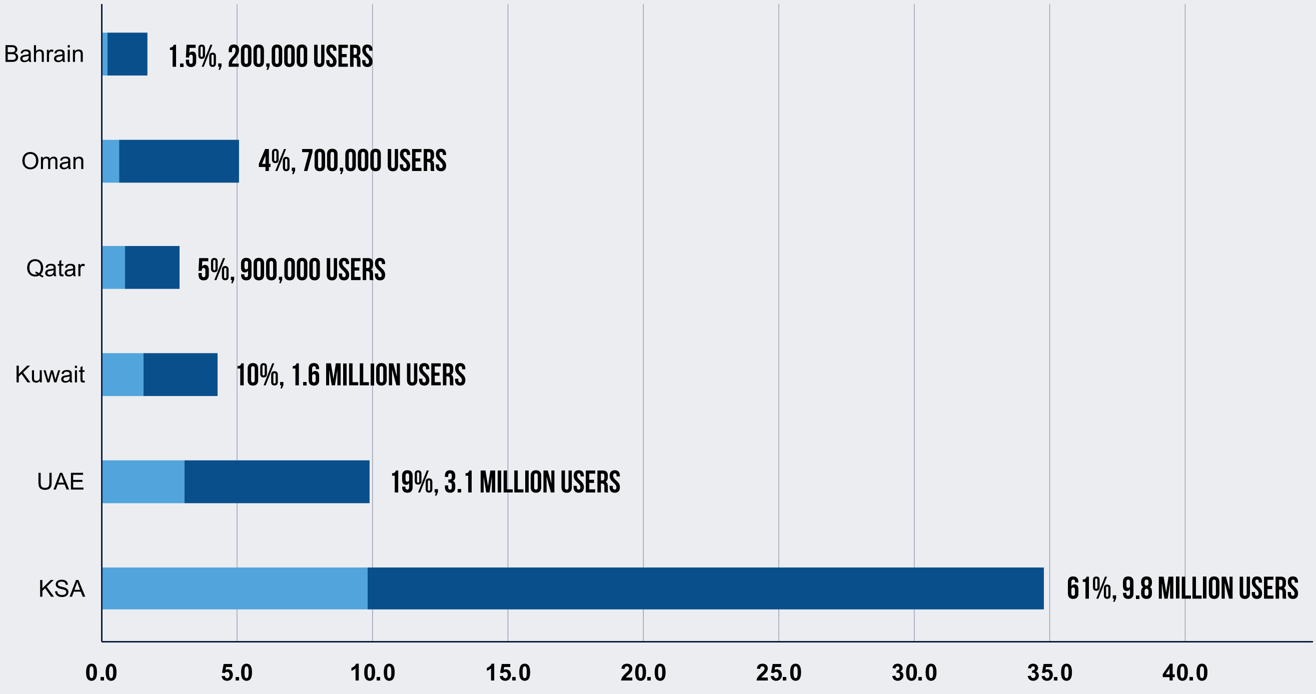
number of orders processed, and in terms of profitability." Today, KLC operates its 18 kitchens in Kuwait, and operates out of 3 Kitopi kitchens in the UAE. The company has over 100,000 monthly orders punched in across their locations in Kuwait and the UAE, and is currently achieving one of the highest average basket sizes in the industry worldwide, at over $20 USD per order. KLC plans on having all food cuisine types covered by the end of this year, and plans to double the number of brands under their umbrella by the end of 2022 to have over 100 restaurant brands in their name. KLC's geographic expansion ambitions include further expansion into the United Arab Emirates, followed by a concerted effort to enter Saudi Arabia, Qatar, and Bahrain – and to complete GCC-wide coverage by the end of 2022.

Perhaps most interesting of all, is KLC's plans to further integrate its operations downstream, by launching their own food-ordering and delivery app, called "One Eatery". One Eatery will host all of KLC's virtual restaurants in one place, expected to total over 100 brands by the end of 2022, and provide one seamless food ordering, payment and delivery solution for KLC's loyal customers. When asked what strategic advantage this app will bring to Consumers, and to KLC, Jaffar replied, "It's about having a direct channel to your customers. We plan on continuing to work with our aggregator partners, but as many of our customers, especially in Kuwait, become increasingly loyal to multiple KLC brands and menus, we can offer them advantages on our own platform, that we can't offer on that of an aggregator platform". By rolling out "One Eatery" out across the GCC, KLC targets to have 20,000 daily orders across the region by the end of 2023 across all platforms. Jaffar continues, "One Eatery will allow customers to order from multiple brands, rather than make a separate order each time. The purpose of the app is to create a one-stop-shop experience customized to the preferences of our loyal customers."

A Quick Look at the Laggards: Qatar, Oman & Bahrain

The laggards in the GCC Cloud Kitchen Market are Qatar, Oman and Bahrain; in the case of Qatar and Bahrain, this is due to their overall population sizes being so small that even if strong penetration could be achieved in these markets, the overall total addressable market would be extremely small in comparison to the leading markets in the GCC. In the case of Oman, the data shows us that Oman is the furthest behind with regards to internet penetration (95%) and the adoption of eCommerce and online purchases (48%) in comparison to the rest of the GCC nations. Despite Oman having a larger population than Kuwait, Oman has the 2nd lowest number of online food delivery users (4%).

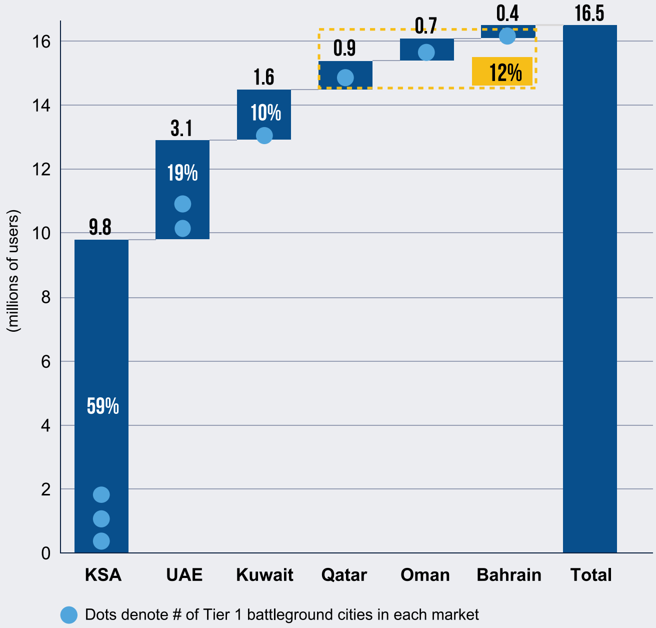
GCC FOOD DELIVERY APP USER PENETRATION (% OF GCC TAM)



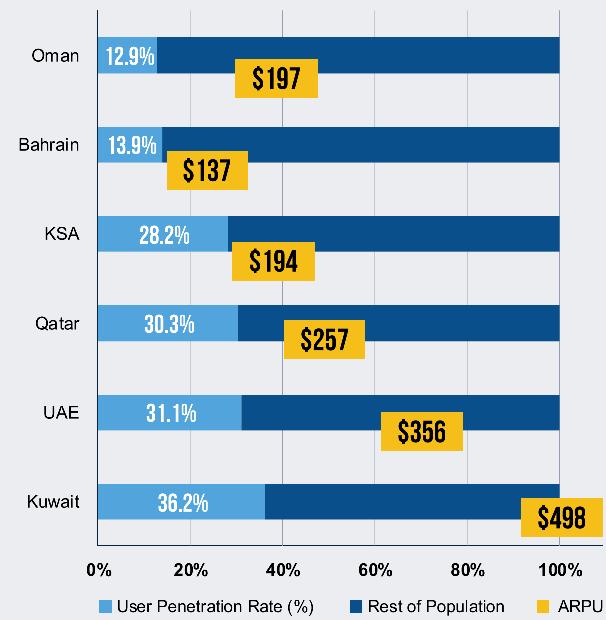
Source: Statista, EMW Advisory Research & Analysis

To illustrate this further, combining the Qatar and the Oman online food delivery market together would equate the Kuwait market, in terms of number of online food delivery users. The challenge here for cloud kitchen operators lies in 3 distinctly small and geographically differentiated markets for small pools of potential consumers; this means a lot more effort for significantly lower returns. Bahrain and Oman in particular have the lowest delivery app penetration rates as well as the lowest average revenue per user (ARPU), making them increasingly unattractive market for cloud kitchens to contemplate entering before investing in buttoning-up the other markets. With the heavy weights in the region duking it out to rise victorious in the UAE, KSA and Kuwait, it will be interesting to see if much movement will happen in the “last three markets” in the GCC: Qatar, Oman and Bahrain in the coming years. Qatar is the most attractive of the three lagging markets, but scores the lowest of all GCC markets in terms of ease of doing business (ranked 77th in the world). The 3 year embargo that was placed on Qatar by four of its Arab neighbours in the GCC has also caused both investors and entrepreneurs to pause before contemplating a go-to-market strategy for Qatar, despite the embargo having lifted in January 2021.

ONLINE FOOD DELIVERY APP USERS BY GCC MARKET (2021)



USER PENETRATION RATE & AVERAGE REVENUE PER USER (ARPU)



TOP AGGREGATORS OPERATING... (NON-EXHAUSTIVE)

EXAMPLES OF CLOUD KITCHEN OPERATORS (NON-EXHAUSTIVE)

QATAR	talabat, carriage, Snoonu, RAFEEQ, foodak, Crave	FAT BRANDS, KITOPI It has been reported that up to 5-10% of Qatar's restaurants are cloud kitchens.
OMAN	akeed, talabat, MOJEEB	eGo kitchen, IO kitchens
BAHRAIN	talabat, carriage, FATAFAT	VRESTO, FAT BRANDS, KITOPI

Source: EMW Advisory Research & Analysis

CONCLUSION

All of the CEOs, entrepreneurs and investors we spoke to in the cloud kitchen space, had one shared sentiment: "This is only the beginning." Investments in FoodTech are set to keep growing to help deliver on the promise of healthier, more sustainable food systems for the world and evolving to meet the changing demands of the consumer – and Food Delivery is expected to stay at the forefront for a few more years yet. But as the food delivery space gets increasingly competitive, it seems there are two levers of differentiation: First, the business model – which seems to be evolving every year to include more and more options and variations. Secondly, most all of the entrepreneurs we spoke to noted their proprietary technology as their differentiating factor. In the end, it will be the same equation for all: which venture is able to scale quickest and capture the most customers and retain them. Within that equation, so many factors will be at play, including the quality of food produced, the speed in which it is delivered to the end-user, and the profitability of the entire system.

The variations of business models are infinite. Which aspects of the business will we do ourselves versus outsource? What is more profitable? What provides us with the level of control that we need? As some cloud kitchens look to invest heavily and develop their technology in-house, others will opt to buy a customizable but off-the-shelf offering to focus on their product quality. As logistics capabilities, data analytics and the infrastructure of the cloud kitchen ecosystem develops and matures, the current players will have to ask themselves

a critical question: do I expand first, and enhance profitability later? Or, do they ensure unit economics and prove profitability of kitchens or entire markets before scaling and expanding to neighbouring cities and countries? Despite some major funding rounds present in the region, the other consensus is that the days of "easy money" being thrown a problem are over. The business model has to be proven to get investors on board.

As we look to the future, momentum seems to be accelerating. The trend of customer personalisation will continue as brands are able to categorize customers by specific delivery zone and are then able to cater for the demand and preferences for that exact demographic. Future development in food preparation robotics in cloud kitchens could push efficiency to another level, with greater consistency, quality and safety of food. If all stakeholders can invest further in their technology integration, the use of machine learning and AI to enhance the process may also be a game-changer. These are all developments in the making, and are still a ways off – based on the conversations had with the region's top Cloud Kitchen entrepreneurs. But the pace of change has been quick so far, and it wouldn't be surprising to see some of these changes come sooner than expected.

Time will tell whether the pandemic has permanently devalued and desocialized the dining out experience and whether food delivery will continue to grow at its current rate. If so, we will start to see international restaurants chains also develop their virtual restaurant delivery capabilities to adapt and keep up with the industry. Kitch-In might be the start of such a trend for high-end restaurants, that uses high-end restaurant kitchen space to deliver in-room dining and delivery menus to customers. This is likely the first of many cloud kitchen concepts targeting the higher-end restaurant segment.

Is the sky the limit when it comes to cloud kitchens? Certainly if you follow the likes of Kitopi, it certainly seems that way. There are likely to be new and fusion business models emerging with the aim of getting ever closer to the consumer, such as Kitopi and Talabat expanding into grocery and creating 'cloud/dark stores' alongside their cloud kitchens.

What is clear going forwards, is the strategic importance of Saudi Arabia in context of the region, as a whole. The UAE may be where the most cloud kitchens have been born in recent years, but the market maker will be Saudi Arabia. As major cloud kitchen players tell us, one by one, that Saudi Arabia is in their strategic plans for a 2022 expansion, it is clear that the Kingdom that will be the GCC's main cloud kitchen battleground over the next 24 months. The data tells us that the Cloud Kitchen player that dominates in Riyadh and Jeddah, will become the regional heavy weight champion. So how important is Saudi as a market to cloud kitchen players? Let's put it this way: a cloud kitchen player dominating the Saudi market, but only having a footprint inside the Kingdom, has the potential of generating greater revenues than a multi-market player dominating all 5 other GCC markets. All eyes are on Saudi, may the best cloud kitchen(s) win.

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