



# Al Masah Capital: GCC Foodservice Sector



**August 2017**

## GCC FOODSERVICE SECTOR

### Market Overview

*GCC foodservices sector well supported by booming population and growing tourism industry*

Foodservices sector is one of the fastest growing sectors in the world and this is particularly true in the GCC. It has surfaced as one of the most promising sectors in the region and has grown exponentially over the last few years, with the trends pointing towards further growth. Despite a recent slowdown in the backdrop of sluggish economic conditions, factors like favorable demographics, changing dietary habits and preferences, rising tourist arrivals, and increasing penetration of organized retail formats will continue to build hearty expectations. The region's foodservices sector will further continue to be supported by higher disposable income due to a growing middle-class population and prevalently young demographics, who love to see new visually attractive cooking processes and technology being used to make and serve food in an interesting and appetizing manner. Thus, the demand for food is likely to continue growing in the face of an expanding consumer base, with the region building a strong brand identity in the foodservices space and will keep on strengthening its foothold in coming years.

Rapid urbanization in the GCC has resulted in major changes in work and life styles along with changes in the consumption patterns, which has led to tremendous growth in the 'eating out' culture in the region. The high expat population has further added to the demand for assorted global cuisines and new dining concepts. Additionally, owing to a young population base, service providers are focusing more and more on creating new concepts and brands in the F&B sector to attract this age group. With a concurrent growth in the working population, the instances of business meetings, team lunches and conferences have also increased. Consequently, as these favorable demographic trends continue, the demand for the F&B sector will continue to increase across the region. Since the industry has started gaining a substantial momentum in the past few years, the market has witnessed strong growth in all food service categories, including Fine Dining, Casual Dining, QSRs (Fast Food), Cafes and Bakeries, and Lounges/Bars.

Additionally, rising obesity rates and related lifestyle diseases coupled with growing health awareness and a developing taste for a westernized diet in the GCC, introduced by the increasing expatriate population, are bringing about a change in the region's dietary habits. This has led to the emergence of new concepts such as organic and gluten-free food and healthy fast food choices such as salads and baked fries. In-line with the healthy eating trend, food service operators are increasing their focus on locally sourced ingredients and are continuously developing innovative set-ups to make the eating and dining experience more appealing.

So far, the GCC countries have adopted a wealth of foodservice concepts from around the globe, ranging from fast food franchises to celebrity chef-endorsed restaurants. This is led by local operators who have partnered with international brands to boost the destination's dining credentials. Big brands and international chefs continue to contribute, in a big way, in making the GCC a gastronomic hub, particularly in cities such as Dubai, Abu Dhabi, Muscat and Doha. However, apart from the international brands, even the home-grown brands across GCC are altering the dynamic of the regional dining scene. The region is witnessing a phenomenon in the QSR segment, building a strong momentum in concepts such as mobile food trucks and pop-up kiosks, especially in the UAE where chefs and entrepreneurs are capitalizing on the country's international flavor

and spreading homegrown dining options. The encouraging initial response of the concepts is likely to spread across the other GCC nations, going forward.

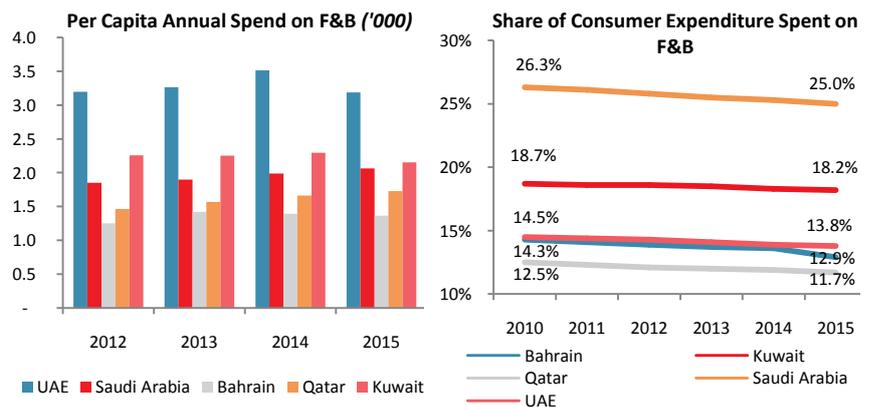
Moreover, as people become more tech-savvy and begin to value convenience and speed of service, various online food ordering portals have emerged across the GCC. An inclination towards home-grown brands and a thriving cafe culture are also playing a role in shaping up the region's F&B market. Although the market is highly competitive, huge opportunities still exist for well thought out foodservice concepts that deliver consistently on service and quality in this demanding marketplace.

## Per Capita Spend on Food in GCC

Around 25% of Saudi Arabia's consumer expenditure was spent on food in 2015, the highest in the region, equating to USD 2,063 per person. However, on the basis of per capita annual spend on food, the UAE with USD 3,188 per person (representing around 14% of consumer expenditure) not only ranks first in the region, but is also above most of the developed nations', including the US (USD 2,438), the UK (USD 2,333) and Japan (USD 2,605). Food is the largest segment of consumer expenditure in the GCC region and stood at around USD 109 billion at 2015-end, equating to approximately 18% of the total consumer spend, up significantly (50.4%) from USD 72.4 billion in 2009. Saudi Arabia and the UAE, home to nearly 77% of the overall GCC population in 2016, together account for 87% of the region's total food expenditure.

*UAE has the highest per capita annual spend on food in GCC; even higher than developed nations*

**Exhibit 1: Food & Beverages Expenditure in GCC (2010-15)**

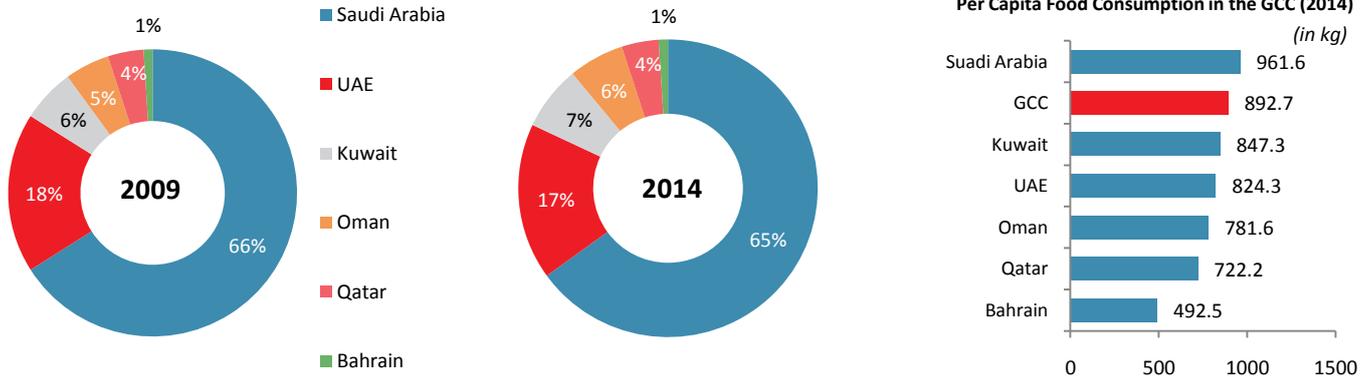


Source: USDA – ERS Food Expenditure Series, Al Masah Capital Research

*Saudi Arabia and the UAE are the largest food consuming countries in the GCC*

Food consumption by volume in the GCC grew at a CAGR of 6% to 45.8 million MT in 2014, and is further estimated to have reached 48.1 million MT by 2016. The 'MEED Insight Thought Leadership Report' further expects it to grow at a CAGR of 4.5% until 2019 on the back of expanding population. Increasing tourist inflow into the region could also stimulate food consumption, particularly of packaged foods and restaurant meals. While Saudi Arabia accounts for the highest consumption, primary owing to its large population base, the UAE's share in overall food consumption has decreased, while consumption in Kuwait and Qatar has increased considerably. The per capita food consumption in the region averaged at 892.7 kg in 2014, with Saudi Arabia recording the highest levels (961.6 kg), followed by Kuwait (847.3 kg), and the UAE (824.3 kg). Bahrain had the lowest per capita consumption at 492.5 kg.

Exhibit 2: Food Consumption in GCC (2009-14)



Source: IMF, Al Masah Capital Research

While the region's food consumption was well supported by rapid increase in population, a CAGR of ~4% between 2006 and 2016, GCC's food production remained restricted due to its arid climate, less arable land, and water scarcity, making the region heavily reliant on imports (70% of total food requirement). In 2015, total food imports reached USD 36.3 billion, growing at 7.7% Y-o-Y from the previous year. According to the 'MEED Insight Thought Leadership Report', the GCC's food import bill will reach USD 53.1 billion over the next few years.

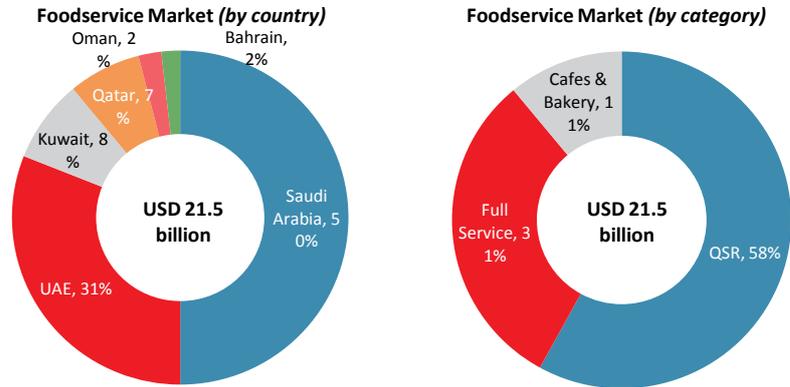
## Market Size and Structure

*GCC foodservice market was valued at USD 21.5 billion in 2016 and is expected to grow at a CAGR of 8% to reach ~USD 29.3 billion by 2020*

The GCC foodservice market was valued at USD 21.5 billion in 2016, up from around USD 16.5 billion in 2012 and USD 20.1 billion in 2015. It is further expected to grow at a CAGR of around 8% to reach USD 29.3 billion by 2020. The market has grown at a modest 6.8% CAGR since 2012, and is now expected to bolster on account of an estimated 25 million tourists to visit the EXPO 2020 in Dubai, increasing deal activity and investments in the sector, and the influx of several global brands, coupled with the fast growing QSR segment. Further, the foodservices sector is expected to witness considerable uptake on the back of increased consumer spending in the next few years, which is expected to grow at over 25% to reach around USD 136.1 billion by 2020. Most notably, the market has grown substantially over the last couple of years, largely driven by the rapid expansion of homegrown brands - well supported by the regional private equity (PE) players who have clearly preferred to rebalance their portfolios by increasing their investment focus in the foodservices sector, which is a defensive, non-cyclical sector, amid rising volatility and decline in oil prices since 2014.

As of 2016, Saudi Arabia led the region with total foodservice sales of USD 10.8 billion, accounting for approximately half of the total GCC market. The UAE was the second largest contributor, with total sales of USD 6.7 billion, followed by Kuwait (USD 1.7 billion), Qatar (USD 1.5 billion), Oman (USD 0.5 billion), and Bahrain (USD 0.4 billion). Even though the UAE makes up only 17.2% of the GCC population, 31% of the GCC foodservices transactions occur within the nation, which can be largely attributed to the higher traffic of tourist arrivals in the country that pushes up the foodservices consumption every year.

**Exhibit 3: GCC Foodservice Market Size (2016)**

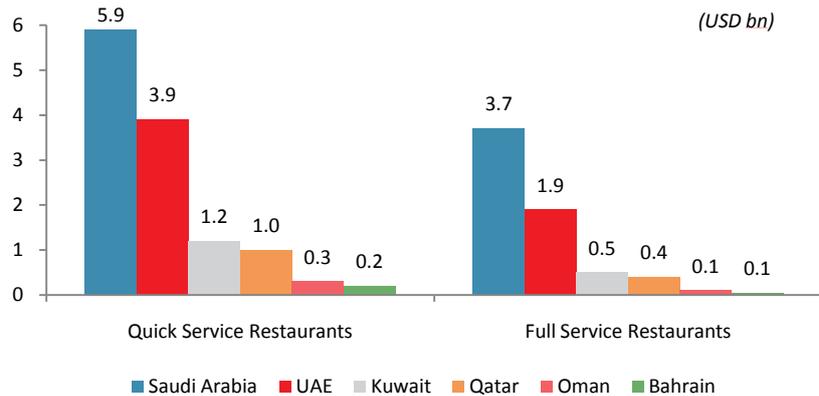


Source: Al Masah Capital Research

*QSR remains the largest segment, accounting for 58% of the GCC food services market in 2016*

The Fast food or Quick Service Restaurants (QSR) segment continues to dominate the market, accounting for 58% (USD 12.5 billion) of the total GCC foodservices sales in 2016, followed by the Full Service Restaurant (FSR) segment with 31% share (USD 6.7 billion), while the Cafes & Bakery segment made up for the remaining 11% of the market (USD 2.4 billion). Most notably, the FSR segment, which includes fine and casual dining, is just over half the size (56.1%) of the QSR market.

**Exhibit 4: GCC Fast Food and Full Service Restaurant Market Size (2016)**



Source: Al Masah Capital Research

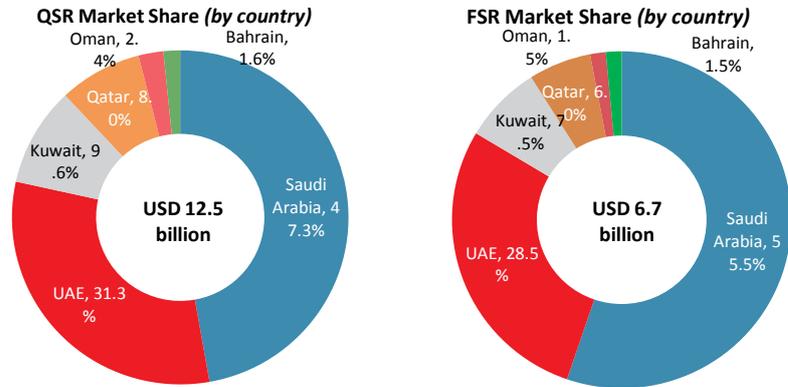
While the concept of fine dining is still confined to the affluent class and has not grown radically in the last few years, the casual dining segment has been rising steadily with the entry of new brands, backed by the rising mid-income populace, and their moderate pricing which has a mass appeal. Although the GCC Cafes & Bakery segment sales has remained relatively subdued, registering a CAGR of 7.5% over 2012-16, it has still managed to outpace the QSR and FSR segments which grew by 7.4% and 6%, respectively, over the same period. The Cafes & Bakery market size stands at approximately USD 2.4 billion as of 2016, up from USD 1.8 billion in 2012, and is expected to grow at around 3% CAGR to reach USD 2.75 billion by 2020.

*Saudi Arabia leads the region's QSR and FSR markets with the UAE quickly gaining ground*

Saudi Arabia, with a market size of USD 5.9 billion in 2016, was the region's largest QSR market (47.3% QSR market share), followed by the UAE with USD 3.9 billion (31.3% QSR market share). Though American chains such as McDonald's, KFC, Burger King and

Hardee's dominate the region's QSR market, the segment has seen the entry of a large number of local players capitalizing on the demand for Middle Eastern fast food. Likewise, Saudi Arabia, with a market size of USD 3.7 billion in 2016, was also the region's largest FSR market (55.5% FSR market share), followed by the UAE with USD 1.9 billion, equating to 28.5% of the total GCC FSR market.

**Exhibit 5: GCC Fast Food and Full Service Restaurant Market Share (2016)**



Source: Al Masah Capital Research

*The GCC QSR market has grown by 32.6% between 2012-16, compared to 26.2% growth in the FSR market*

A number of international QSR chains have flocked to the GCC, especially in Saudi Arabia and the UAE, over the past few years, with specific cuisines and product offerings, fueling the market's exponential growth. Even the home-grown QSR food operators, especially in QSR segment, are rapidly rising in the region to benefit from the growing demand for innovative food. The entry of a number of players into this space has widened the market to USD 12.5 billion in 2016, up 32.6% from USD 9.4 billion in 2012.

On a similar note, the GCC FSR market too has witnessed the entry of a large number of international chains setting their base in the UAE, Saudi Arabia and Kuwait, fueling the market with multi-cuisine and specialty food options. The GCC FSR market has grown by over 26.2% to reach USD 6.7 billion in 2016 from USD 5.3 billion in 2012. Most notably, in the last 3-4 years, the region, especially the UAE, has witnessed the establishment of an increased number of celebrity chef restaurants. Due to increased influx of foreign brands and chain restaurants, currently, only 20% of the UAE's food sector is home-grown, signifying the vast potential for local businesses to eat into the dominant franchise market's share.

The concept of restaurants has changed drastically in the region over the past few years, from being a simple food place to an entertainment and enjoyment destination. With the growing cultural diversity and greater recognition and preference for branded products, international chains perceive tremendous growth potential in this region. While the UAE and Saudi Arabia still remain the key growth markets in the region, leading international and local chains are now increasingly focusing on Tier II GCC countries and smaller cities for further expansion.

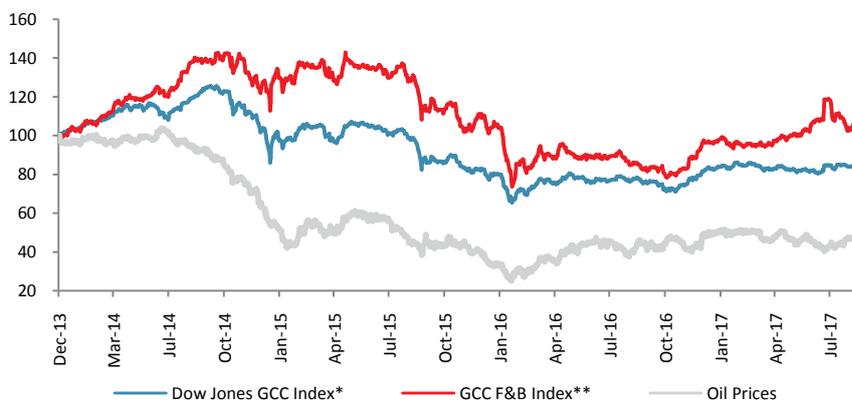
## INVESTMENT LANDSCAPE

### Foodservices in GCC Offer an Attractive Investment Thesis

*Despite the slowdown in broader economy, the region's foodservices sector has shown resilience*

The GCC foodservices market has attracted investments from several international restaurants and fast food chains, and this spurt is further expected to continue as the countries are currently overlooking a market with possibly the lowest level of saturation. As the GCC's F&B sector continues to embark on its rapid growth trajectory, several investors are eyeing a pie of the market share through M&A and PE deals, in addition to opening company-owned outlets and franchised outlets in the region. Despite the slowdown in broader economy, the region's foodservices sector has shown resilience and continued to deliver healthy growth over the past couple of years, hence being the sector with maximum expansion for most international brands. This was primarily driven by favorable demographics and rising participation from the private sector.

**Exhibit 6: GCC Equity Index Performance (Rebased to 100)<sup>1</sup>**



Source: Thomson Reuters, Al Masah Capital Research

The F&B sector primarily acts as a hedge against the cyclical sectors, which are highly correlated to the oil prices, such as the Banking and Real Estate sectors. Since the beginning of 2014, oil prices have nearly halved, impacting the leading indexes to fall by around 15% until mid-Aug 2017, as regional equity markets have a larger weight age of Petrochemical and Banking sector, both of which are cyclical in nature and are highly correlated to movement in oil prices. On the contrary, the GCC F&B sector, being defensive in nature, has remained resilient to rather grow by 4.5% during the same period, primarily gaining momentum since the beginning of 2017.

### Localization - The Franchise Concept

Most of the international brands prefer setting up base in the GCC through franchises as local partners not only enable global brands to better navigate the bureaucracy involved

<sup>1</sup>\*Dow Jones GCC Index measures the stocks in the region that are accessible to local investors and represents approximately 95% of the underlying market capitalization of the six countries.

\*\*GCC food service index has been calculated based on market capitalization of following companies: Kuwait Food Co, Herfy Food Services, Fawaz AbdulazizAlhokair, Danah Al Safat Foodstuffs, United Foodstuff Industries Group, Almarai, Juhayna Food Industries, Agthia Group, Halwani Brothers, Savola Group, and Saudi Airlines Catering.

*Most of the international brands prefer setting up base in the GCC through franchises*

in opening outlets but also to cater to regional consumers' demands. Notably, the QSR segment is estimated to account for 40% of the franchising market in GCC, and experts expect the region's F&B franchises to grow by ~25% in the coming years, maintaining their dominance. On the other hand, regional chains are also expanding operations in the market on the back of increasing demand for Arabic cuisine. Despite the market being flooded with international brands, regional entrepreneurs are facing off with the international competition and spreading restaurant chains serving local cuisine, such as falafel, to overseas markets.

Some of the other notable family-owned franchise-holders in the GCC include:

Exhibit 7: Top Franchise Families in GCC

Family-owned Firms	Franchises Held (Portfolio)
Al Shaya Group	
Kuwait Food Co. (Americana Group)	
Fawaz Abdulaziz Alhokair	
Bin Hendi Group	
First Food Services	
Rmal Hospitality	
Apparel Group	

Source: Al Masah Capital Research

Most local franchisees are large companies, primarily family-owned businesses, with the ability to invest heavily in building brands. As per Euromonitor, Kuwait Food Co. (Americana Group) is the largest operator of restaurant chains in MENA and the only player with double digit value share of 12% in 2015, representing key brands such as KFC, Hardee's, TGIF, Krispy Kreme, and Pizza Hut, amongst others. With a current network of around 1,800 outlets, Americana Group has developed 12 most recognised brands under different food service categories, from fast food to fine dining. Based out of Kuwait, the company has leveraged its strong understanding of the varied F&B tastes and preferences of people in the GCC. This capability has enabled it to develop six of its home-grown brands, including Chicken Tikka, Fish Market, Samadi, Maestro, Grand Cafe and Fusion. The company has expanded operations across 13 countries and 105 cities.

Another famous international retail franchise operator - MH Alshaya Co. has been a pioneer in franchising and brought in several international brands such as Starbucks, The Cheesecake Factory, etc. to the GCC countries. It has added several famous international restaurant groups to its portfolio in the last few years, and is a trusted partner for international chains looking for expansion in the region. The popular US chain - Raising Cane's (among the top five US QSR), with over 220 restaurants in the US, made its first international debut in Sep. 2015 in Kuwait in partnership with Alshaya Co. Since its first launch in 2015, it has opened six restaurants in the GCC and plans to continue further expansion. In 2017, Alshaya Co. announced a partnership with award-winning Australian chef Johnny Di Francesco to bring the 400 Gradi Italian restaurant brand to the Middle East. Another significant deal was recently signed with the US-based Blaze Fast-Fire'd Pizza to build and operate multiple Blaze Pizza restaurants across the MENA region, and the first five restaurants are scheduled to open in Kuwait and the UAE in 2018.

*Dubai has been a launch pad for various international F&B chains since long*

Amongst the GCC nations, the UAE, especially Dubai, has been a launch pad for various international F&B chains since long, while Kuwait has also started witnessing a surge in international investors, after the promulgation of the country's Company Law which was revised and simplified to provide a more realistic and practical perspective than the previous law. Though the UAE has become an ideal destination for many international brands, it does not allow foreign nationals or companies to directly carry out business in the country - they can operate only through franchises which are run by local corporate and family run businesses. Several of the notable UK and US casual restaurants and QSR joints have inked multi-unit franchise agreements for expansion in the region in the last few years. Franchising is expected to remain strong in consumer foodservice in the UAE in the long run, primarily backed by government initiatives such as the launch of UAE 'Franchise Association' in 2004. The 'Franchising Middle East Exhibition' also continues to be held annually in Dubai.

Additionally, Saudi Arabia with its number of expat workers and tourists has also been an attractive destination for international casual and fast food restaurants to set shop. According to the Oman Ministry of Tourism, foreign investors from the UK, US and the Middle East have expressed an interest in investing in the Sultanate's tourism and hotel industry projects. However, the presence of international restaurants in Oman has been negligible so far. On the other hand, Bahrain, which has been relatively unexplored by international restaurant chains, has recently set foot to bring in US restaurants into the country. First Bahrain and International Business Group (IBG) are set to introduce the region's first branches of Jalapeño Charlie's and WildSide Texas BBQ in Bahrain.

Some of the recent international chains to establish their presence in the GCC and their planned expansion are highlighted below:

The American fast-casual burger chain **Mooyah Burgers, Fries and Shakes** launched its first outlet in Dubai's Ibn Battuta Mall in 2013, and has more than 6 restaurants in KSA alone, with the most recent one being opened up in Jan 2017. It is owned and operated by franchise partner Awgal Investments, which entered into a multi-unit development agreement with MENAFEX, Mooyah's international development partner for the UAE.

The US fast food chain **Smashburger** began its expansion in the UAE and Qatar in partnership with Pearl Investments in 2016. Together, they plan to open 26 restaurants across the two countries over the next several years. 22 of the outlets will open in the UAE and the remaining four restaurants will be located in Qatar.

Indian cuisine is a favourite in the region and in July 2017, the award-winning, fine dining Indian restaurant Khyber was launched in Dukes Dubai on the Palm Jumeirah.

The fondue restaurant chain, **The Melting Pot Restaurants**, announced plans to launch its unique fondue dining experience to Qatar in February 2016 through a franchise agreement with Al Amthal Hospitality (AAH). It is already operational in the UAE and Saudi Arabia and this is going to be its first outlet in Qatar.

In 2016, the UK casual steak house group **SteakOut** announced plans to expand in the Middle East and signed a master franchise agreement with an investor to open six SteakOut restaurants in Middle East by 2017-end.

Another notable entry of a UK group is the **CDG (Casual Dining Group)**, which entered into an agreement with Riyadh based Fawaz Alhokair Group in 2016 to open 18 franchised outlets of Bella Italia in Saudi Arabia alone.

In May 2016, **Arby's Restaurant Group** announced its plans to expand in the GCC by opening 25 new Arby's restaurants in Kuwait and Saudi Arabia over the next seven years. The Atlanta-based fast-food chain inked an international franchise development agreement with Al-Kharafi Global General Trading & Contracting Co. for the expansion.

Al-Kharafi is also the largest international franchise partner of the US hamburger brand **Johnny Rockets** and has opened more than 20 restaurants across Bahrain, KSA, Kuwait and Qatar since 1995, with about 10 new restaurants opened in the last 3-4 years alone. In 2015, Diamond Lifestyle Limited (DLL) acquired the perpetual and exclusive brand rights as well as assets for the Johnny Rockets brand in the UAE, in addition to the exclusive development rights for Oman. Originally at 14 outlets, they now have 20 outlets in operation with 3 more restaurants under construction, while 7 are under design and development in UAE and Oman. DLL expects to touch 30 restaurants by 2017 in comparison to 14 in 2016.

## Exhibit 8: International Brands with Strong Presence in the GCC



Source: Al Masah Capital Research

Apart from the family-owned firms, private investment firms (PE players) have also started investing in the GCC foodservice market. Regional players have started focusing on middle-market chains, both local and international, with high growth and established presence in the GCC.

*A total of 22PE deals were clocked between 2006-2017 YTD in the GCC foodservices sector*

## Private Equity Deals (Acquisitions by PE Companies)

PE activity in the GCC foodservices sector has been ripe, with a total of 22 deals being clocked between 2006–2017 YTD. Most notably, the deal activity has been robust in recent years with 16 deals struck in the region since 2013. Over the last decade, NBK Capital and AWJ Investments were the most active funds in the GCC foodservice sector with completion of four deals each since 2012, including six deals in the Casual Dining and two in the Bakery segments.

In terms of deals by country (of target company), UAE led the PE activity with a total of 12 deals, followed by Saudi Arabia (7), while Kuwait, Qatar and Bahrain witnessed one deal each. Casual Dining was the most active segment accounting for 12 deals, followed by eight deals in the fast food (QSR) segment, and two in the Bakery segment.

**Exhibit 9: PE Deals in GCC's Foodservices Sector (2006-2017 YTD)**

Year	Company	Country	Fund	Category
May 2006	Rotana Hotel Management Corp PJSC	UAE	Shuaa Partners Fund I, LP	Casual Dining
Apr 2010	Intercat Hospitality (LLC)	UAE	QInvest LLC	QSR
Oct 2010	International Food Services	Saudi Arabia	GrowthGate Capital Corporation	QSR
Jan 2011	Hassan Mohammed Jawad and Sons	Bahrain	Standard Chartered PE	Casual Dining
Dec 2011	Alamar Foods	Saudi Arabia	Carlyle Group LP(MENA Fund)	QSR
Aug 2012	Sanabel Al Salam Company for Food	Saudi Arabia	NBK Capital	Bakery
Feb 2013	Hungry Bunny	Saudi Arabia	International Investment Bank BSCc (IIB) & Tharawat Investment House	QSR
Jul 2013	Chef Middle East LLC	UAE	GC Equity Partners II	Casual Dining
Oct 2013	Shakespeare and Co	UAE	NBK Capital Equity Partners (Fund II)	Casual Dining
Mar 2014	Awani	UAE	Awj Investments	Casual Dining
Mar 2014	Bahria	UAE	Awj Investments	Casual Dining
Mar 2014	Operation Falafel	UAE	Awj Investments	Casual Dining
Sep 2014	Al Faysal Bakery & Sweets Co. WLL	Kuwait	NBK Capital (Mezzanine Fund I) & Noor Kuwaiti LBO Fund, LP	Bakery
Jan 2015	Bateel Company Limited	Saudi Arabia	L Capital Asia LLC	Casual Dining
Apr 2015	Kudu Corp	Saudi Arabia	Abraaj Capital, TPG Capital Management	QSR
Jan 2015	Al Faris Restaurant LLC (Johnny Rockets)	UAE& Oman	Diamond Lifestyle Limited	QSR
Jun 2015	Al Safadi Restaurants	UAE	Audacia Capital Ltd	Casual Dining
Sep 2015	Shater Abbas Rest Intl	Qatar	First Investor QSC	Casual Dining
Apr 2016	Amo Hamza Seafood Restaurants Co	Saudi Arabia	NBK Capital Equity Partners Fund II	Casual Dining
May 2016	Cravia Inc LLC	UAE	Fajr Capital	QSR, Café
Nov 2016	Catch 22 Restaurant LLC	UAE	Awj Investments LLC	Casual Dining
Dec 2016	Yum Yum Tree Food Court Co	UAE	Global Capital Management	QSR

Source: Zawya, Thomson Reuters, Thomson One Banker, Al Masah Capital Research; Data as of August 2017

## Mergers & Acquisitions (within F&B Groups)

*26 M&A deals took place in the GCC's foodservice sector during 2010-17 YTD, of which 13 deals took place since the beginning of 2015*

Owing to the burgeoning growth in the GCC foodservice sector, several investors have turned their focus towards the industry to bolster their strengths by building onto established core brands.

A total of 26 M&A deals took place in the GCC's foodservice sector during 2010-2017 YTD, of which 13 deals took place since the beginning of 2015, showing early signs of consolidation in the market. Amongst the GCC nations, UAE was the most attractive destination, accounting for 12 deals during the period, followed by Kuwait with three deals, while Qatar and Saudi Arabia recorded one deal each. Of the total, nine were outbound deals, of which five were recorded in the UK. Of the 26 deals completed during the period, QSR was the most prominent segment with nine deals, followed by Casual Dining, Fine Dining, Bakery, and Cafes/Bars, all recording four deals each.

**Exhibit 10: M&A Activity in GCC's Foodservices Sector (2010-2017 YTD)**

Year	Target Company	Target Country	Acquirer Company	Acquirer Country	Deal Size (USD mn)	Segment
Jan 2010	Model Restaurants Co PLC	Jordan	Global MENA Macro Fund Co	Bahrain	NA	QSR
Apr 2011	Al Oumara Bakery Co	Lebanon	Al Meera Consumer Goods	Qatar	NA	Bakery
Apr 2011	800 Pizza	UAE	Belhasa Hospitality LLC	UAE	NA	Casual Dining
Dec 2011	Leila Restaurant	UAE	Pinnacle Restaurant Management Co	UAE	NA	Casual Dining
May 2012	Banquets New Chicken Ltd	UK	Kout Food Group	Kuwait	4.0	QSR
Sep 2012	Model Restaurants Co	Jordan	Jemball Holding Co	Bahrain	1.9	QSR
Mar 2013	Galadari Brothers Group	UAE	Dunkin' Brands Group	US	NA	Bakery
May 2013	Marco Pierre White Grill & Steak House	UAE	Rmal Hospitality PJSC	UAE	NA	Fine Dining
Aug 2013	Gourmet Gulf LLC	UAE	MAF Ventures LLC	UAE	NA	QSR
Aug 2013	Little Chef	UK	Kout Food Group	Kuwait	23.0	QSR
Aug 2013	South West Coffee	UK	Kout Food Group	Kuwait	4.9	Cafe
Jan 2014	Sushisamba	UK	Leemar Investments FZE	UAE	NA	Fine Dining
Jul 2014	Coffee Snobs	UK	Kout Food Group	Kuwait	8.2	Cafe
May 2015	Reem al Bawadi Group	UAE	Marka PJSC	UAE	85.8	Casual Dining
Jun 2015	Al Oumara Bakeries Co LLC	Qatar	Qatar Quality Food LLC	Qatar	0.8	Bakery
Jul 2015	VIP Room Facility Management	UAE	African & Eastern LLC	Oman	NA	Bars/Lounges
Jul 2015	Bulldozer Group Investment	UAE	African & Eastern LLC	Oman	NA	Fine/Casual Dining
Jul 2015	Gourmet Gulf LLC-Morelli's Gelato Outlets	UAE	Marka PJSC	UAE	8.4	Cafe
Sep 2015	Aamal Holding Co KSC	Kuwait	Zima Holding Co KSC Holding	Kuwait	6.0	QSR
Oct 2015	United Foodstuff Industries	Kuwait	Advantage Holding Co KSCC	Kuwait	8.0	Bakery
Jan 2016	Novikov Restaurant LLC	UAE	African & Eastern LLC	Oman	NA	Fine Dining
Mar 2016	Al-Thiqa Restaurants Co WLL	Kuwait	Baynunah for Investment Co	UAE	19.0	QSR
Jun 2016	Sushi Art Group	UAE	Eathos	UAE	NA	Casual Dining
Aug 2016	HungerStation	KSA	Hellofood(Saudi Arabia)	KSA	NA	Online Food Portal
Sep 2016	McDonald's Corp-South Africa	South Africa	MSA Holdings	UAE	NA	QSR
Jun 2017	Kcal Healthy Fastfood	UAE	Vis Mundi Ltd	UAE	NA	QSR

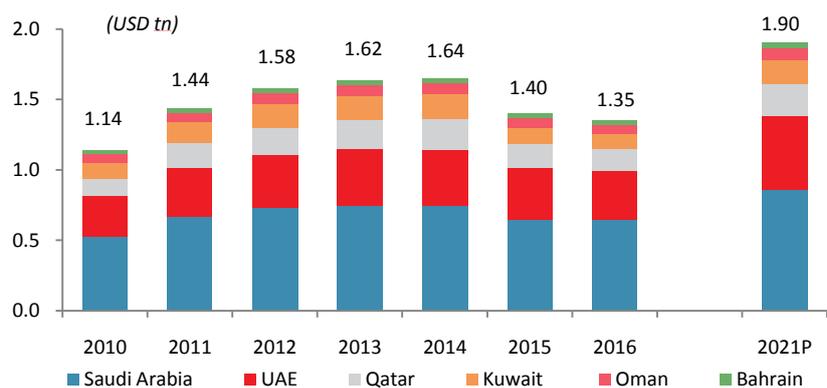
Source: Zawya, Thomson Reuters, Thomson One Banker, Al Masah Capital Research; Data as of August 2017

## KEY GROWTH DRIVERS

### Resilient Economy due to Diversification Strategy

Though the recent drop in oil prices since mid-2014 have weakened the region's GDP growth in the short term, the GCC economy is expected to remain resilient and revive on the back of supportive economic policies and growth in the non-oil sector. Over the last decade (2006-16), it has grown at a CAGR of 5.2%, higher than the world GDP CAGR growth of 4.3%, and is estimated to reach USD 1.9 trillion by 2021.

**Exhibit 11: GDP, Current Prices (2010-21P)**

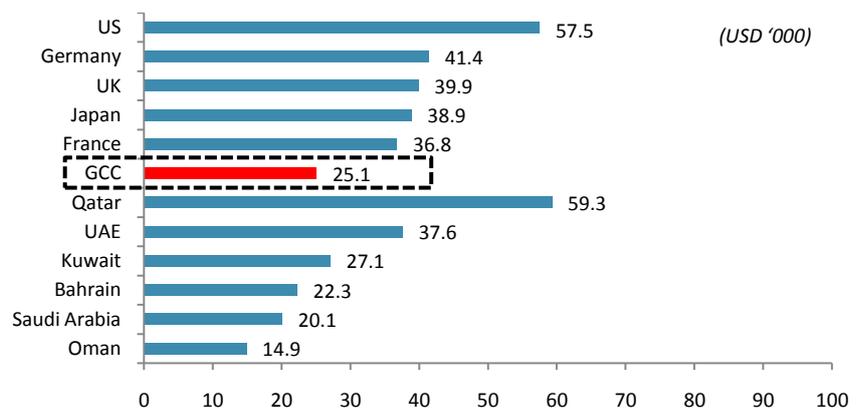


*GCC GDP is estimated to reach USD 1.9 trillion by 2021 from USD 1.35 trillion in 2016*

Source: IMF, Al Masah Capital Research

While the GCC economies are clearly moving towards diversification, the structure of government budget and export revenues registered nominal changes over the past decade. For most GCC states, hydrocarbon revenues accounted for over 80% of total government revenues in 2014, while this figure was close to 70% for more diversified economies of Qatar and the UAE. While the economic diversification efforts have propelled the share of non-hydrocarbon GDP, its contribution to government revenues remains small primarily due to policy decision of maintaining a low or zero-tax environment to assist private sector activity.

**Exhibit 12: GCC Per Capita Income (2016)**



*Continued GDP growth in the region has led to higher personal income levels, supporting the market for foodservice providers*

Source: IMF, Al Masah Capital Research

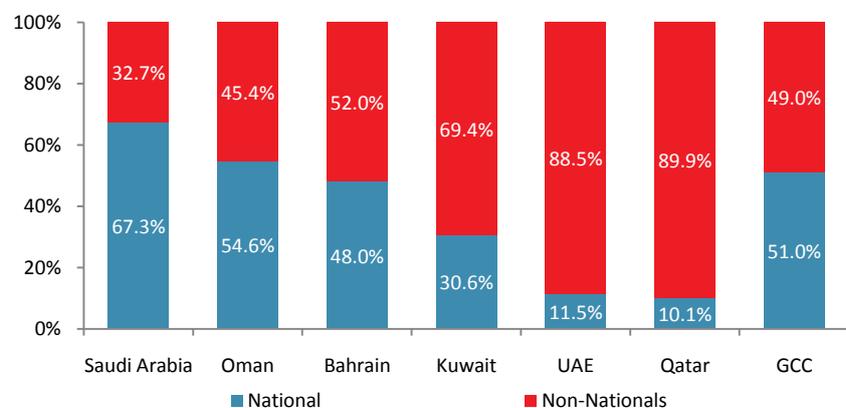
Despite the challenging economic scenario and a growing population, the region's personal income levels have remained strong, supporting the market for foodservice providers. Over the last decade (2006-16), the GCC's per capita income grew at 1.2% CAGR, pulled down slightly over the last couple of years due to the slowdown in economy on the back of low oil prices, but still highlights the region's rising affluence levels. This in turn has drawn international as well as local F&B providers to establish and expand their presence in the region.

## Favorable Demographics with High Proportion of Expats

The region's rising population, well supported by its oil wealth and the government's efforts toward economic diversification, is one of the key drivers of food consumption in the GCC. During 2006-16, the GCC population grew at 3.9% CAGR, considerably higher than in MENA (2.3%) and the world average of 1.3% during the same period. Moreover, almost 37% of the region's population is aged between 15 and 34 years, mainly comprising the young and the working, which supports the market's shift in taste for international brands and preference towards convenient and high-quality food services.

**Exhibit 13: GCC Expat Population (2016)**

*49% of GCC population is made up of expats with Qatar and the UAE having the largest share*



Source: National Institute of Statistics, Al Masah Capital Research

The region is also home to expatriates from over 200 countries, which account for 49% of the total population and almost 80% of the workforce in the Gulf. The busy lifestyles of expatriate groups help create demand for dining out, especially the casual restaurants and fast food outlets.

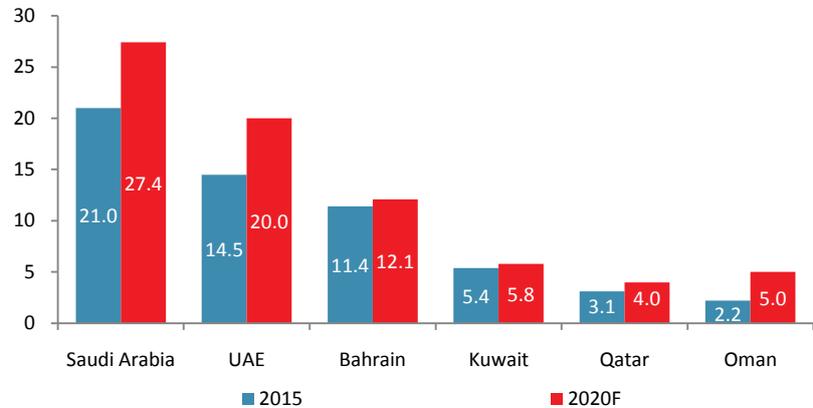
## Strong Investments in the Hospitality Sector

The hospitality and tourism market in the GCC is robust with huge potential for investments from both local and global players. Many of the GCC countries are investing heavily in the hospitality industry as a strategic initiative for economic diversification, with the hotel and tourism being the key focus areas. While UAE and Saudi Arabia are the key destination for tourism and luxury hotels, comprising a major chunk of the market, Qatar, Oman and Bahrain have also identified this sector as a promising one to fuel growth, and are taking measures to improve their market presence. There has been a wave of investments to promote tourism and develop infrastructure to meet the demand, boosted by several events and expos. This in turn led to a robust growth in the foodservices sector in the region which reached USD 21.5 billion in 2016, and is further

expected to rise to USD 29.3 billion by 2020, growing at around 8% CAGR, propelled by upcoming events such as the Expo 2020 Dubai and FIFA World Cup 2022, which will make GCC a promising hub for investors and hospitality brands.

**Exhibit 14: International Tourist Arrivals in GCC (in millions)**

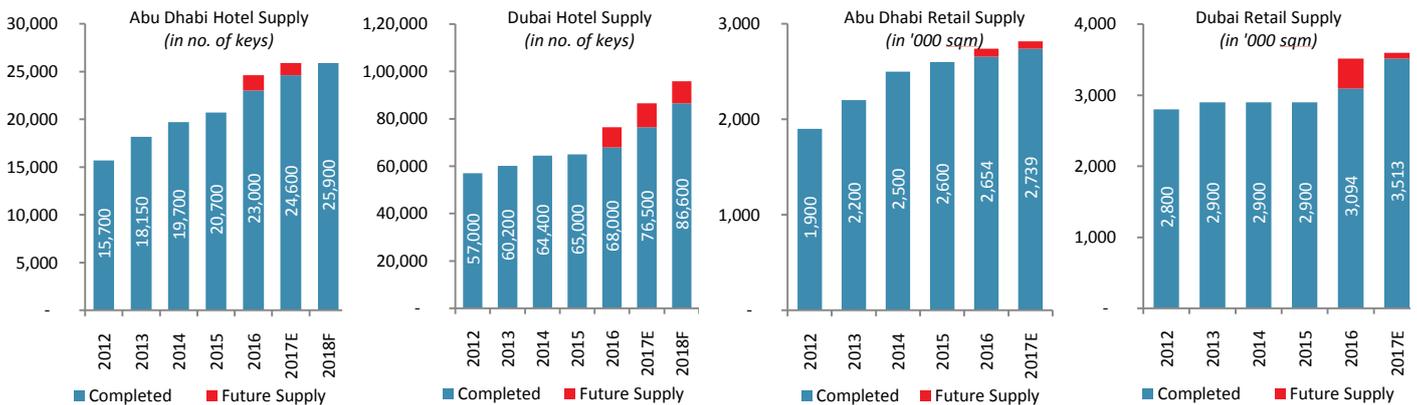
Tourist arrivals in Saudi Arabia and the UAE accounted for ~62% of the total in 2015



Source: The World Travel & Tourism Council (WTTC); Al Masah Capital Research

On an average, Saudi Arabia and the UAE receive more than 30 million tourists annually, and accounted for approximately 62% of the total tourist arrivals in the GCC in 2015. By 2020, the share of both the countries is expected to rise to approximately 64% of the total GCC tourist arrivals. Further, according to The World Travel & Tourism Council, the tourist arrivals in the region are expected to grow at a CAGR of 5.7% during 2016-2026.

**Exhibit 15: UAE Hotel and Retail Supply (2012-18F)**



Source: Jones Lang LaSalle (JLL), Al Masah Capital Research

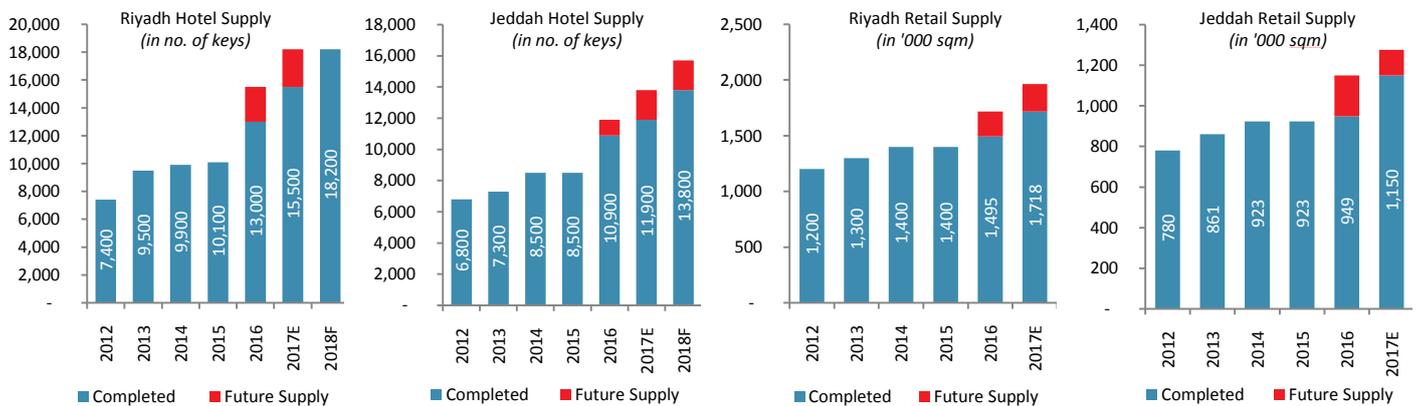
Malls and hotels are the most preferred locations in the GCC for restaurant operators to set up their bases. There are several hotel and retail projects in the pipeline in GCC, with UAE and Saudi leading the region. Dubai is likely to witness an addition of nearly 57,000 rooms in hotels and serviced apartments by 2020, while Saudi Arabia has a pipeline of over 47,000 rooms. In Dubai, the hotels and tourism sector attracted large amount of FDI in 2016 as recent developments have enabled the nation to scale up its position as a global tourism destination. Many international brands have expanded into the GCC region in recent years, and groups like Hard Rock International chose Dubai to develop its pioneering property in the Middle East. Additionally, Dubai's AED 25 billion Mall of

*The UAE and Saudi governments are heavily investing in the hotel and retail space*

the World is a massive project which will add around 100 hotels to the Emirate upon completion, and also be home to a plethora of regional and international restaurants as its home.

Growth in population and personal incomes coupled with increasing consumer preference toward modern retail outlets due to limited entertainment avenues, has boosted the demand of hypermarkets and malls in the UAE and Saudi Arabia. The retail supply in the UAE is expected to remain robust with Abu Dhabi's total GLA anticipated to reach 2.82 million sqm by the end of 2017, while Dubai's total GLA is likely to reach 3.6 million sqm by the end of 2017, growing at a CAGR of 7.8% since 2015. On the other hand, Saudi Arabia, one of the largest retail markets in the GCC, expects an addition of 372,000 sqm of GLA by end of 2017 in Jeddah and Riyadh, cumulatively. This exponential growth in development of retail space, which is mostly in the form of malls, present a higher demand for foodservices outlets to be established in the space.

**Exhibit 16: Saudi Arabia Hotel and Retail Supply (2012-18F)**



Source: Jones Lang LaSalle (JLL), Al Masah Capital Research

Religious tourism is the key growth driver of Saudi Arabia's foodservices sector. The new Saudi government strategy, Vision 2030, aimed at diversifying the country's economy away from dependence on oil revenues from current 70% to 31% in a period of 15 years, envisages increasing the number of annual foreign Umrah pilgrims from the current 8 million to 15 million by the end of 2020 and to 30 million by 2030. The huge increase in the number of foreign pilgrims and tourists is expected to drastically increase demand for hotels, restaurants and imported food products in the coming years.

On the other hand, the rest of the GCC nations are also taking proactive measures to encourage their tourism industry in a bid to diversify their economy, which will resultantly have a positive effect on the foodservices industry. The Bahrain tourism industry is going through a phase of expansion. According to Bahrain EDB, the tourism sector has grown marginally, a 6% increase in the number of tourist arrivals between 2015 and 2016, with 12.2 million visitors in 2016. Though Oman's hospitality industry is at a relatively nascent stage, the country is slowly catching up with its peers. According to the World Travel and Tourism Council, Oman's tourism and hospitality industry is building momentum, with total investment in the sector expected to reach USD 1.2 billion by 2026, and travel and tourism in the country is expected to increase to USD 785 million in the next 10 years.

## Saudi Arabia –National Transformation Program 2020

The Saudi National Transformation Program (NTP), which is a part of the wider Vision 2030 strategy, was approved in April 2016 to reduce the dependence on oil revenues and to diversify the economy of the nation. As a part of the initiative, it is boosting tourism and has approved 13 initiatives submitted by the Saudi Commission for Tourism & National Heritage (SCTH) with a budget of over USD 6.93 billion. The expected huge expansion in the Umrah and Hajj sectors is expected to drastically boost the demand for imported food products used in foodservice sector. In particular, the institutional food service sector in Saudi Arabia is expected to have a strong growth in the next five years.

A strategic aim of the NTP 2020 is to capitalize on the Kingdom's Islamic position to establish the Saudi Food and Drug Authority (SFDA) as the global reference for Halal food and products, and engage both local and international investors for the same. It is also encouraging private investment in the foodservices sector which will recover the domestic market, which has largely been devoid of any investments, and increase spending power for consumers, thereby bringing back the confidence. The NTP also includes an SAR 1.5 billion centre to be founded to battle obesity, a key health issue for Saudis who have a penchant for fast food. Moreover, under Vision 2030, a program for nationalizing employment in selected sectors was launched to help realize the potential of specific sectors such as hospitality, foodservices, and retail in attracting national labor. The goal of Saudi Arabia's Nitaqat (Saudization) system is to reduce unemployment among nationals by encouraging Saudi companies to maintain specific national-to-expat employment ratios. It's an especially challenging policy for restaurant operators, considering 85% of employees in foodservice activities in 2015 were non-Saudi nationals. Recently, the Ministry of Labour and Social Development announced that jobs in shopping malls (where many restaurants are located) would be limited to Saudis only, marking yet another hurdle for operators.

## Expo 2020 Dubai

*Expo 2020 Dubai is likely to attract a record number of over 25 million visitors*

The upcoming Dubai Expo 2020 is expected to boost investment opportunities and support infrastructure development in the country, with hospitality demand likely to peak in that period. The impact on the tourism industry will be substantial as during the six months of the Expo (October 2020 -April 2021), the event is expected to attract more than 25 million visitors. Of these visitors, 70% are estimated to be international visitors, setting a record of the largest number of international visitors in Expo history.

This would have a significant positive impact on the F&B industry and with the huge inflow of people from around the world, there would be a massive demand for food and beverages of assorted varieties during the expo. It is estimated that onsite sales of F&B during the Expo itself would be around USD 544 million, thereby providing a promising opportunity for local service providers to cater to the demand for food supply. F&B will occupy a 30,000 sqm space in the Expo and the food supply required at peak hours is expected to be enormous. As per official Expo statistics, it is estimated that 85,000 meals will be needed to be served per hour. Though the event would primarily support home grown brands and local restaurants to exhibit their talent during the show, it would also provide an opportunity for international brands and renowned chefs to enter the Dubai restaurant scene, which is already popular as a destination for good food. There will be a specific session during the event that will target SMEs in the F&B sector to explore opportunities. The F&B session will be the latest edition of the Business Connect series,

which has been developed by Expo 2020 Dubai to connect with businesses and encourage conversation, exchange ideas, share expertise and deliver the best solutions.

## Food Festivals and Exhibitions

The increasing trend of organizing food festivals in the GCC has given a new dimension to the region's foodservices market, and has brought in many new concepts such as gourmet restaurants featuring celebrity chefs, food trucks and other unique dining experiences to the region. Both Dubai and Abu Dhabi host a number of food festivals and trade shows, and these sustained efforts will continue to keep UAE on the top as a popular tourist destination not only in GCC, but also globally. Saudi, Qatar, Kuwait and Oman have also started hosting several food festivals and exhibitions to promote the regional F&B segment. Food festivals provide a great platform for smaller, innovative and new market entrants to showcase their services. Below are some of the most notable annual food festivals held in the GCC region:

Exhibit 17: Notable Food Festivals and Exhibitions in GCC



Source: Respective Food Festival Websites, Al Masah Capital Research

*GCC food festivals provide a great platform for smaller, innovative and new market entrants to showcase their services*

The Dubai Food Festival (DFF) hosted by the Dubai government is truly the most popular food fest of the Middle East, making Dubai a gastronomic capital, and promoting its foodservices sector. The festival hosts a number of food-related events that aim to popularize Dubai's unique restaurant and cuisine landscape. The Gulfood, hosted in Dubai is the most important trade event for Saudi agribusiness, where more than 4,500 Saudi companies attend the show every year. Another popular food festival in the UAE is the Sharjah Food Festival which was first launched in 2007, and it has grown significantly since then. The 10<sup>th</sup> edition of the Food Festival was recently held in April 2016 and featured a number of celebrity chefs, food trucks and innovative dining concepts.

In Saudi Arabia, Jeddah Food Festival was held for the first time under the patronage of Jeddah government in 2017. It is expected to become an annual event, with a mission to promote the Saudi hospitality industry, attract foreign and local investments and support domestic tourism. Oman also has a few upcoming conferences and exhibitions in the F&B space and the country is advancing its foodservices segment considerably. A major upcoming event is the 12<sup>th</sup> edition of Food & Hospitality Oman that will be held at the new Oman Convention and Exhibition Centre (OCEC) in October 2017. This international trade exhibition is the biggest event in the F&B sector in Oman with more than 500 international and local brands and entrepreneurs participating. Similarly, Qatar International Food Festival and Kuwait Food Festival are some other renowned festivals.

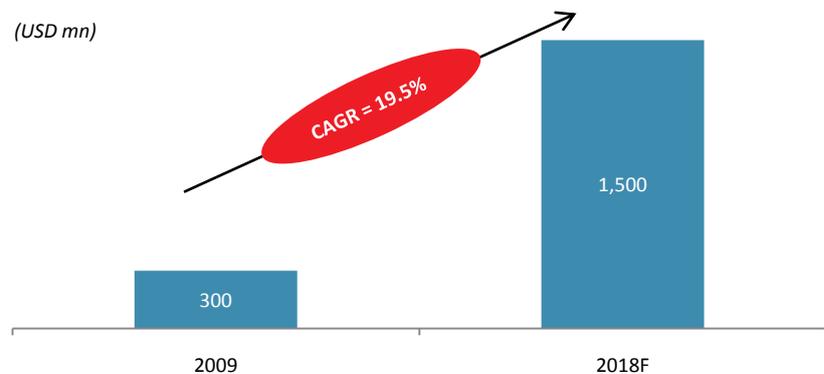
## TRENDS IN FOODSERVICES INDUSTRY

### Rise in Demand for Healthy and Organic Food

With a growing incidence of lifestyle related diseases and a high rate of diabetes and obesity in the GCC, there is a marked increase in demand for healthy and organic foods. The region has some of the highest rates of obesity, diabetes and cardio-vascular diseases in the world. The market for health and wellness food is growing strongly in the GCC due to growing awareness about the benefits of healthy food among consumers, and increasing media and government attention on health issues. As a result, premium operators are adding healthier options to their menus such as salads, whole-wheat dough and organic ingredients in an attempt to stay in line with this rising trend.

Although healthy eating is growing in popularity, it is still a niche market in the GCC countries. While the foodservices industry has a key role to play in creating awareness amongst consumers about healthier options, it is likely not to occupy a majority of the market unless it consistently matches the price, taste and convenience offered by other conventional formats. However, the market is growing slowly and is expected to grow steadily in the next 4-5 years.

**Exhibit 19 :Organic Food Consumption in the GCC (2009-18F)**



*Organic food market in the GCC is expected to reach USD 1.5 billion by 2018, growing at a CAGR of 19.5% from USD 300 million in 2009*

Source: Frost & Sullivan, Al Masah Capital Research

According to Frost & Sullivan, the organic food market in the GCC is expected to reach USD 1.5 billion by 2018, growing at a CAGR of 19.5% from USD 300 million in 2009 due to changing consumer tastes and habits. Recognizing this demand, the regional governments have been pursuing the development of organic farms. The number of organic farms in the UAE rose to 39 covering a total of 3,920 hectares, marking an increase of 1,698% since 2007 when just 218 hectares accounted for organic farming. Furthermore, the UAE is quickly becoming a key market for organic products, as organic exports from the US to Abu Dhabi increased by 346% from 2011 to 2014.

Gluten free foods have become a buzz word in the GCC and many restaurants are serving gluten free options on their menu. California-based Lemonade recently opened two branches in Dubai, Richey's offers custom-made salads, while Circle has been expanding its presence offering salads and bagels. With an increasing preference for organic and healthy foods, not only is it available in retail outlets, but even mainstream restaurants have started offering healthy options on their menu. Many fast food restaurants sense the competition that healthy foods would proffer, and have thus

revamped their menus to offer healthier options such as baked fries instead of french fries, salads and fruits instead of empty calorie foods.

## Rise in Street Food and Food-Truck Concepts

Food trucks and mobile food restaurants is a well-established concept in countries such as the US and the UK; however, it is only recently that the concept is emerging as an attractive option for many service providers in the GCC region. The mobile food market is gaining wide acceptance in the GCC region and has picked up a strong foothold in the market. Though the food trucks concept is in nascent stage in the GCC and might not offer any significant competition to other food service providers, it is a platform for new, home grown entrants with many more players entering the food truck concept competing for a small share of the basket. Food truck businesses in the GCC, especially in the UAE, are expected to grow further as entrepreneurs seek a cheaper way to start restaurants.

**Exhibit 18: Food-truck destinations in the GCC**

Country	City	Area	Prominent Names
UAE	Dubai	Last Exit - Street Food Truck Park	Jebel Ali E11, Al Qudra D63, Al Khawaneej D89, Jebel Ali Mad X
	Dubai	Kite Beach - Jumeirah	SALT, M&M's, Yumtingz, Yellow Brick Road
	Abu Dhabi	Al Mushrif	SALT, SoCalCocina
	Abu Dhabi	Al Bateen	Diet House, YbalaKarak, Quick Way
	Abu Dhabi	Multiple Locations	Street Bites, Big Tasty Truck
Saudi Arabia	Jeddah	Multiple Locations	Chicken in Waffle, Coffeetruck, Xtremesso, Street Chef, Cakendmore, Brainfreeze, Food Truck Park
	Riyadh	Multiple Locations	Zeno Pizza Truck, Amigos Mexican Cuisine, One Truck
Qatar	Doha	Porto Arabia	Pick N Shake, MD's
	Doha	MIA Park	Coffee-Bike, Dareen Sweets, Ice Rolls, Burger &Burmaid, Poori&Karak

*Food trucks are slowly gaining in popularity across the GCC, serving a range of global cuisines at reasonable price points*

Source: Al Masah Capital Research

While the concept of food trucks has been in existence in Dubai for over 10 years now, it was only in 2017 that Abu Dhabi granted the first permits for setting mobile restaurants in the Emirate. According to Abu Dhabi Integrated Transport Centre, also known as Mawaqif, the food trucks will get license to operate in specific locations outside Abu Dhabi Island. The regulations are quite rigorous and food truck applicants have to secure approvals from the Department of Economic Development, Abu Dhabi Police and Abu Dhabi Food Control Authority. In Dubai, food trucks are gaining traction and have mushroomed in the last two to three years. Meraas, the parent of theme parks operator Dubai Parks and Resorts, opened 'The Last Exit' food truck park, on the Dubai-Abu Dhabi highway, as a spin-off from the American idea. By 2017-end the company plans to open nine more Last Exit destinations that would feature between 20 and 40 food trucks at each location. Conceived in line with Dubai's tourism vision, Meraas opened the first Last Exit in July 2016, which has 17 outlets.

Some of the most popular food trucks in UAE are Salt, Big Smoke Burger, Yumtingz (gourmet burgers), The Shebi (Indian- Lebanese fusion food run by Foodsters Inc.), Calle Tacos (Mexican), Casa Latina (Latino food), amongst others. Many new players are constantly entering this space with the latest being from well established player Johnny Rockets. While some of these have permanent locations such as the 'food truck zone', most food trucks are seen in food festivals, markets, concerts and social events, and tour around the city. Events such as Truckers DXB and Street Food Market DXB have been hosted in Dubai recently where talented food pop-up and food truck vendors are encouraged to promote their brands and concepts and have been gaining popularity.

There has been an increase in the number of food trucks in carnivals at Saudi Arabia, and food trucks garnered attention at the Al-Janadriyah festival that took place in February 2017. Saudi's Vision 2030 has a focus on the opportunities for entertainment, and event companies are organizing several carnivals and festivals, where street food and food trucks have become common. The food truck scenario in Saudi Arabia is booming with Riyadh and Jeddah witnessing highest growth of the mobile food concept. Renowned chef Adnan Yamani, from the international television show Top Chef, also followed many others and has a food truck which is one of the most popular burger joints in Jeddah. Dubai based food truck operator, Roundup, recently opened an office in Riyadh and entered into a deal with a Saudi Arabia-based company to expand its operations in the Kingdom. The operator has already exported a few food trucks into Qatar, Bahrain and Kuwait and is looking for partners to begin operations there.

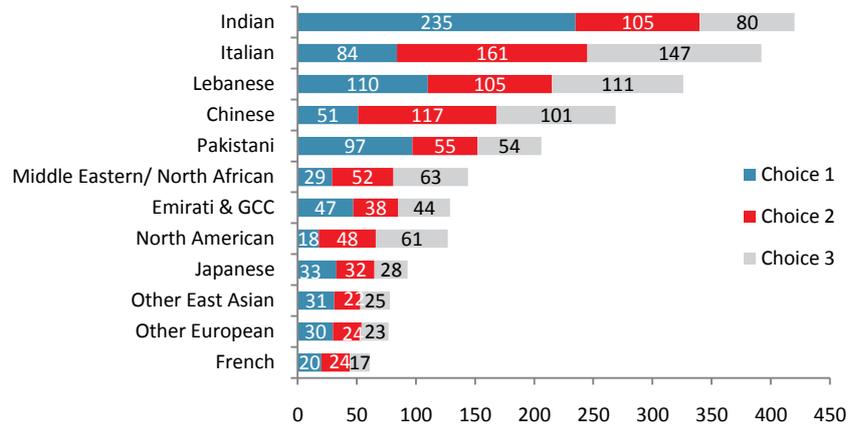
Apart from the UAE, other GCC countries have been quite slow in the adoption of food trucks and some of the regulations are still evolving. Qatar and Bahrain are emerging destination for food trucks, and in 2016 Bahrain launched a food truck zone with four operators, which include Gold Label Burgers offering crepes, burgers and Arabic food. Other operators are Paco's Tacos and Franky Joe's, which participate in many events and markets. Arab Street, Le Creperie, Terminal Burger and Seed are some of the other food trucks recently launched in Bahrain. In a bid to control the number of food trucks, in April 2017, Bahrain's Industry, Commerce and Tourism Ministry passed a resolution, which limits the ownership of mobile food restaurants and food trucks only to Bahrain nationals. Doha, on the other hand, witnessed an explosion of food trucks in the last two editions of the Qatar International Food Festival. Qatar launched its first food truck, Burgeri in 2015 which has been doing rounds in Doha, and has been in existence as a brick and mortar restaurant for quite some time now. In 2016, Qatar's Ministry of Economy and Commerce (MEC) announced that it would give five licenses to set up food trucks in the country.

## Changing Consumer Palates

Consumer profiles are evolving rapidly in the GCC and with an increase in income levels, a growing cosmopolitan crowd and higher global exposure, customers are having varied preferences in terms of cuisines, dining experiences and restaurant brands. Since the GCC region is flooded with expat workers, there is an increase in demand for assorted cuisines and dining concepts. This in turn has boosted the growth of F&B outlets, especially international brands which are creating a strong presence in the GCC. Since a majority of the expat population is from South Asia, mostly from India, Indian is the most preferred cuisine in the region followed by Italian, Lebanese and Chinese.

*Indian continues to be the most preferred cuisine, largely driven by the huge population from the sub-continent country in the UAE*

**Exhibit 19: Preferred Cuisines in the UAE (KPMG 2016 Survey)**



Source: KPMG, AlMasah Capital Research

French cuisine is emerging in the region and spreading rapidly across the GCC. French cuisine caters to all budgets and operates under different concepts, such as bakeries, bistros and high end restaurants, and some brands are even bringing in Middle Eastern flavor to their offerings. Japanese cuisine is gaining popularity due to its health appeal, and many restaurants and kiosks offering Japanese food are sprouting across the region. Though international cuisine is strongly present here, there is also a growth in restaurants offering ethnic and fusion food with a Middle Eastern touch to it.

## Celebrity Chef Restaurants Gaining Ground

*Several celebrity chefs have recently launched many of their brand concepts in the GCC, especially in the UAE*

There is a growing trend of celebrity chefs and Michelin Star chefs making appearance on TV shows, events and even opening restaurants in the GCC countries. With competition stiffening in the GCC food sector, many hotels and entrepreneurs are banking on celebrity chefs as a viable commercial opportunity. Dubai has recently seen an influx of famous international chefs, such as Heinz Beck, Jason Atherton and Gordon Ramsay, amongst others. Celebrity chef and Michelin Star chefs such as Gary Rhodes, Vineet Bhatia, Atul Kochhar and Pierre Gagnaire are some of the celebrity chefs running successful restaurants across the region. Among the Michelin Star rated chefs, some of the recent ones who expanded into the GCC are three Michelin-starred chef Jean-Georges Vongerichten who opened two restaurant outlets in Dubai in 2015, and two-Michelin starred chef SergiArola who launched his restaurant in Abu Dhabi in 2015.

An interesting feature of the food events and fest organized in the GCC is the growing participation of celebrity chefs. Originating from the Dubai Food Festival, this concept is gaining popularity among the people and many top celebrity chefs have established their restaurants after appearing in these food festivals. Some of the top celeb chef restaurants in the UAE include Bread Street Kitchen by Gordon Ramsay, Signature by Sanjeev Kapoor, Nobu by Nobu Matsuhisa and Whitehouse Steakhouse and Grill by Marco Pierre White. Following this trend, popular chefs including Vineet Bhatia and Nirmine Hanno marked their presence at the Sharjah Food Festival 2016.

Exhibit 20: Notable Celebrity Chef Restaurants in GCC



Source: Al Masah Capital Research

Though the concept of celebrity chef restaurants is dominant in the UAE, Qatar and Oman are also witnessing a surge in the number of restaurants in this segment. A good example is Nobu Doha located in the Four Seasons Hotel in Doha, run by Nobuyuki Matsuhisa, which is one of the largest celebrity chef restaurant chains globally.

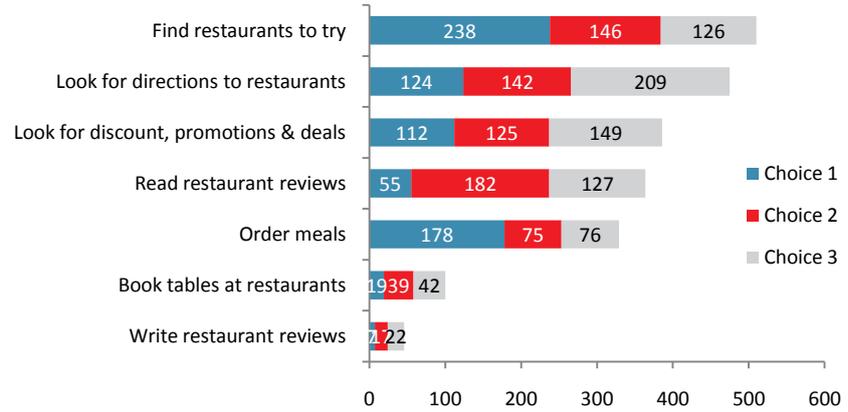
## Online Ordering & Takeaway Delivery Reshaping the Market

*Technology is empowering consumers to make wiser decisions in selecting foodservice options*

Technology is completely reinventing the modern dining experience and it has been more prevalent in the QSR segment. Delivery services such as UberEats, Deliveroo and online ordering platforms like Zomato, talabat.com and foodonlick.com, are generating a majority of the business, especially for many new restaurants. They are providing technology that caters to the preferences of the modern consumers, such as convenience, digital platform functionality, enhanced customisation and engagement through rewards and loyalty programmes. According to the KPMG 2016 UAE F&B Survey Report, nearly 75% of the respondents in the UAE order takeaway at least once a week. The study also found that 82% of operators were listed with food delivery apps. Even older restaurants like the India Palace chain, which has been operating for 20 years and has 12 outlets, have started relying on deliveries for a significant amount of business.

Online ordering, mobile payments and delivery service together form the foundation of the long-term growth opportunities in global foodservice. It is rising rapidly in the UAE due to increasing internet and smartphone penetration. This has opened an additional channel for players in consumer foodservice. Leading service providers have made this area very competitive and they reported a substantial increase in the number of restaurants signing up for these platforms. These services provide occasional free deliveries and discounts for online payments, thereby posing a challenge for players operating in 100% home delivery/takeaway sector. With food orders placed online and through apps per month ranging in the thousands, the trend of online food ordering has caught on in the UAE and expanding to other countries in the region too.

**Exhibit 21: Usage of Smartphones for Foodservices in the UAE (KPMG 2016 Survey)**



Source: KPMG, Al Masah Capital Research

*Online food-delivery platforms are expanding choice and convenience, allowing customers to order from a wide array of restaurants*

Sensing the opportunity in the region, new players are also continuing to enter this segment. For example, Foodora, a Berlin-based start-up founded in October 2014 with a focus on takeaway delivery, recently established itself in the UAE market. The acquisitions of UAE's 24h.ae by global online food delivery company - Food Panda, acquisition of Kuwait-based talabat.com by Rocket Internet, and acquisition of Kuwait-based food delivery platform Carriage by online food takeaway firm Delivery Hero, highlights the market interest and growth potential in online food ordering business. More recently, in August 2016, Food Panda merged its Saudi Arabian arm Hellofood with Hungerstation, a KSA-based food delivery startup. The recent uptake in mergers signify how consolidations are becoming common in the GCC food tech sector, with investment action in new startups slowing down.

**Exhibit 22: Top Foodservices Web Portals in GCC**



Source: Al Masah Capital Research

## KEY GROWTH MARKETS IN THE REGION

### UAE

The UAE's Foodservices market grew the fastest among all the GCC countries, driven by rising affluence, booming tourism sector and high expat population. It is the second largest market in the region and as per Euromonitor, and is ranked amongst the top 20 countries in the world in the foodservice markets in 2015. According to the CBRE Middle East, the UAE has the highest number of F&B outlets, per capita, in the world. About half of the new retail brands setting up in Abu Dhabi and Dubai are either coffee shops or other F&B outlets. Thus, even though the UAE makes up only 17.2% of the GCC population, it accounts for 31% of the GCC foodservice market.

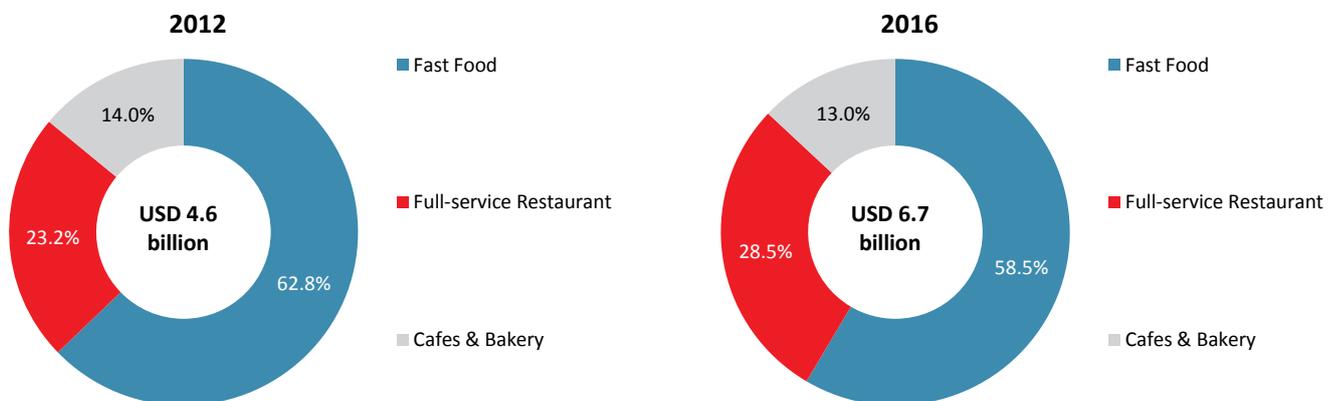
### Foodservices Market Witnesses Exponential Growth

The UAE is one of the world's leading foodservices market, with market size measured at USD 6.7 billion in 2016. It expanded at a CAGR of 9.6% during 2012-2016 and is expected to continue posting strong growth into the future. A growing and diverse population, increasing tourist footfalls and improving living standards have significantly enhanced the demand for foodservices in the UAE. With one of the largest proportion of expats in the world (~88.5% in 2016), UAE's population is very diverse, wealthy and well-travelled, and thus the foodservice options have expanded rapidly to suit a myriad of tastes as well as busy schedules. People are increasingly eating out or visiting cafes with family, friends or colleagues; thus becoming a vital part of their lifestyle.

A strong tourism sector is yet another factor driving the nation's flourishing foodservice market. Dubai, one of the most prominent tourist destinations, attracted over 15.3 million visitors in 2016, up 7.5% from that in 2015. Furthermore, the UAE government's focus on developing the tourism market will push the demand for the foodservice industry. The city is now further gearing up to receive a footfall of about 20 million by 2020. Driven by this demand, the market is expected to reach USD 9.7 billion, by 2020.

*UAE foodservices market stood at USD 6.7 billion in 2016, growing at 9.6% CAGR since 2012*

Exhibit 23: UAE F&B Market by Category (2012-16)



Source: Al Masah Capital Research

The QSR segment is the country's top growing category with the maximum share of 58.5% in 2016, followed by FSRs with a share of 28.5%, while Cafes & Bakery form 13% of total sales.

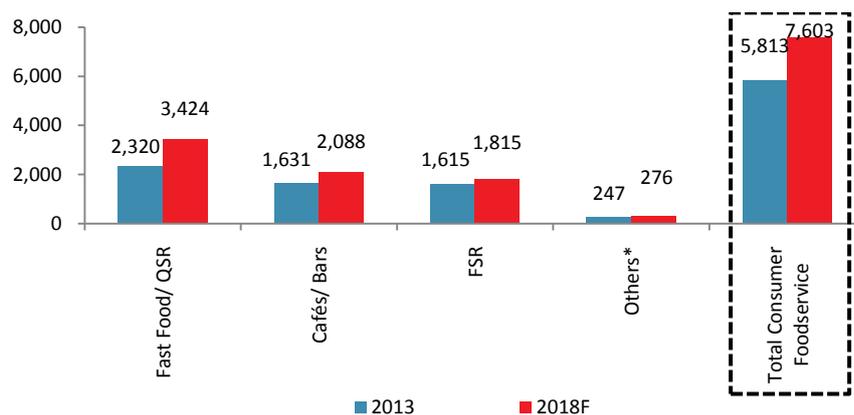
The UAE market has been quite resilient in a challenging environment. Though the foodservices market in the UAE got impacted by changing macroeconomic conditions, it continues to benefit from UAE's efforts towards diversification by positioning the country as a major global tourism and retail destination with a diverse mix of cultures and ethnicities. Additionally, even during the economic downturn, the convenience, indulgence and social opportunities found in foodservice outweighed the cost savings of cooking at home. In fact, Euromonitor predicts that with continued growth in affluence, given the strong affinity for out-of-home dining, consumers in the UAE will prefer eating out for a major part of their weekly meals. Its data suggest that a growth in revenue between 2015 and 2020 is likely to outstrip the growth of outlets by around 30% on the back of continuing strong tourism growth in the UAE in the run up to Expo 2020. There are, however, a number of challenges which operators have to contend with including increasing competition that puts pressure on both top-line and overheads, most evident from rising rents.

## Notable Rise in Number of Outlets across Segments

The UAE's robust foodservice landscape has placed the country as the third biggest F&B spender in malls globally. Retail locations such as malls are the preferred places for establishing foodservice outlets as nationals and tourists visit shopping malls for leisure activities. As per Agriculture & Agri-Food Canada, the total number of outlets in the UAE foodservice sector stood at over 5,813 in 2013 and is expected to rise to around 7,603 outlets by 2018, growing at a CAGR of 7%. By subsector, QSR establishments had the highest number of outlets with 2,320, followed by Cafes & Bars (1,631) as of 2013.

*UAE foodservices outlets are expected to grow at 6.1% CAGR to ~7,603 outlets by 2018*

**Exhibit 24: UAE Foodservice Outlets by Subsector (2013-18F)**



Source: Agriculture & Agri-Food Canada (UAE Foodservice Profile), Al Masah Capital Research

\*Others include Home Delivery/ Takeaway, Street Stalls/ Kiosks, and Self-Service Cafeterias

Most malls have plans to increase the number of F&B outlets to attract more visitors and gain a higher share of tourist spending. The government is also investing in various tourism and retail related projects which will push the F&B sector. There is projected to be strong growth in the number of tourists over 2016-2020 as the country prepares for Expo 2020 with the target expected to reach a milestone of 20 million visitors by 2020. As a result, there will also be a continuous increase in the number of expats from Western countries, particularly as global economic challenges and the re-structuring of

the EU impacts employment rates in their home countries. All of this is likely to support flourishing growth in foodservices market.

## QSR – The Dominating Foodservices Segment

**UAE QSR segment increased from USD 2.9 billion in 2012 to USD 3.9 billion in 2016, growing at a CAGR of 7.7%**

The UAE witnessed strong demand and fast growth of QSRs amid a rise in disposable income, establishment of extravagant shopping malls and a seemingly unquenchable appetite for Western food concepts. Apart from this, with more and more women entering the workforce, both dining out and bringing prepared food home several times a week are becoming increasingly popular. The US brands dominate the fast-food industry in the UAE with players such as McDonald's, KFC, Burger King, Hardee's and Domino's Pizza operating in the region. As per a study by CBRE, the topmost target market for American retailers outside of their home region is London, followed by Dubai and Kuwait City.

Cuisines from all over the world are increasing in popularity in the UAE as it has become a mini world with a multitude of nationalities and culture either residing or travelling to the UAE, due to its myriad attractions and advantages. The premium, fast casual food concepts in the UAE is growing at a much faster pace than any other segment in the food sector with exponential growth anticipated over the next four to five years.

Total market size of the UAE QSR segment increased from USD 2.9 billion in 2012 to USD 3.9 billion in 2016, growing at a CAGR of 7.7%. The number of QSR outlets has increased from 1,707 in 2008 to 3,325 in 2016 on the back of expansion of existing brands, as well as new brands entering the fast-growing segment in the UAE. As the UAE becomes the culinary capital of the world, an industry survey by KPMG states that QSRs and Cafes will continue to be the most popular formats in the UAE. By 2020, the fast food market in the country is bound to grow by leaps and bounds and is expected to reach over USD 5.7 billion, primarily because of the scale and magnitude of world-class events such as Expo 2020 and the influx of several international and local chains, coupled with the rise of food truck business in the country.

**Exhibit 25: UAE QSR Market Size (2008-18F)**

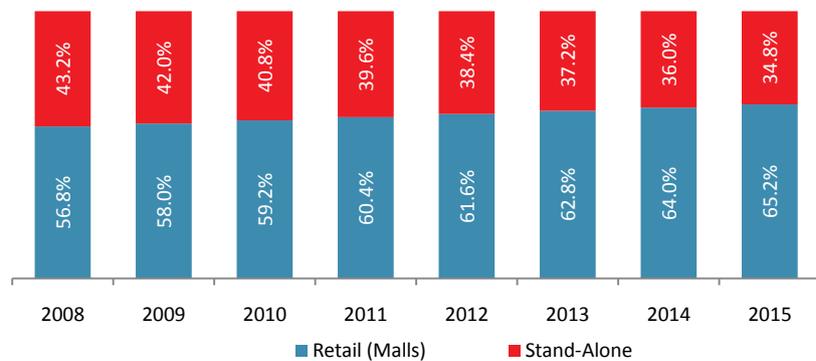


Source: Euromonitor, Al Masah Capital Research

A large share of the QSR market rests in major cities due to higher consumption and heightened consumer awareness and is slowly now expanding into smaller cities with smaller formats. It is majorly found in high footfall market or malls, densely populated residential area or big office complexes, with malls being the most preferred location.

According to a UAE-based F&B strategy house - TRIBE, the UAE residents visit malls once a week, with 60–70% availing Casual Dining or QSR services. As per a CBRE study, UAE residents are the third biggest spenders on F&B worldwide with 60% of consumers visiting a mall just to eat or drink, in contrast to 25% in the UK. Most notably, F&B accounts for more than 20% of the retail mix in Dubai and is expected to grow to around 25-30% in the next five years.

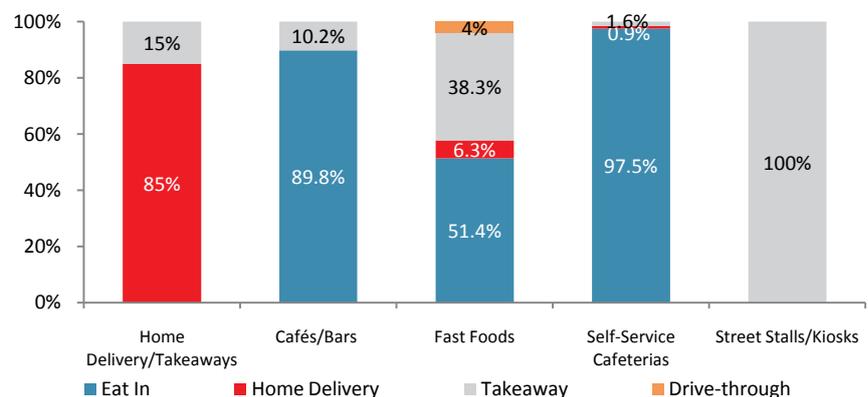
**Exhibit 26: Share of QSR Sales by Outlet Location in the UAE (2008-15)**



Source: Euromonitor, Al Masah Capital Research

As depicted in the chart below, within QSR, 'eat-in' format (sitting/dining experience) is the most prominent in Self-service Cafeterias (97.5%), followed by Cafés & Bars (89.8%), and Fast Food segment (51.4%). On the other hand, the 'takeaway' format dominates street Stalls/Kiosk, and forms a formidable portion of the Fast Food segment.

**Exhibit 27: QSR Sub-Segment Sales by Formats (2015)**



Source: Euromonitor, Al Masah Capital Research

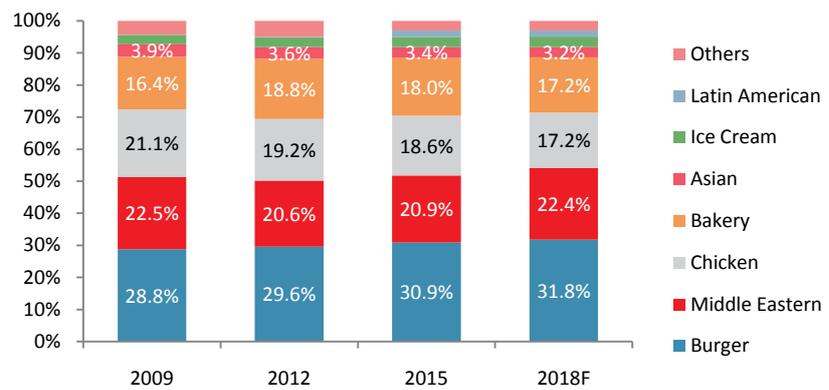
**Burger forms the largest segment of UAE's fast food market, accounting for ~31% of sales in 2015**

Based on food type, the fast food market can be segmented into (i) Burgers, (ii) Middle Eastern, (iii) Chicken, (iv) Bakery, (v) Asian (vi) Ice Cream (vii) Latin American and (viii) others. According to Euromonitor, burger forms the largest segment of UAE's fast food market, accounting for ~31% of sales in 2015, and is expected to contribute ~32% of the total by 2018. Considering the growing number of Middle Eastern food joints in the UAE, the stores are expected to contribute ~22.4% of the sales in 2018, up from ~21% in 2015.

McDonald's is the leading brand in the burger fast food category, followed by Burger King, Hardee's and Wendy's. In 2015, KFC was the top brand in the chicken fast food

category. Moreover, the Middle Eastern cuisine is quite prevalent in the UAE, dominated by the fish fast food category. Bakery fast foods such as sandwiches, rolls, cakes and pastries have a substantial demand in the UAE. Also, within each category of bakery products, numerous options have emerged to meet the demand for assorted foods. Fast food is also seeing premiumization, with a good performance for up market fast casual chains such as Johnny Rockets in the burger/fast food category. Going ahead, fast food brands are likely to be more quality conscious as the competition increases with a greater level of consumer awareness and health consciousness.

**Exhibit 28: UAE Market Value of Fast Food by Type (2009-18F)**



Source: Euromonitor, Al Masah Capital Research

## FSR Segment Gaining Considerable Traction

**UAE FSR segment expanded at a CAGR of 15.6% since 2012 to reach USD 1.9 billion in 2016**

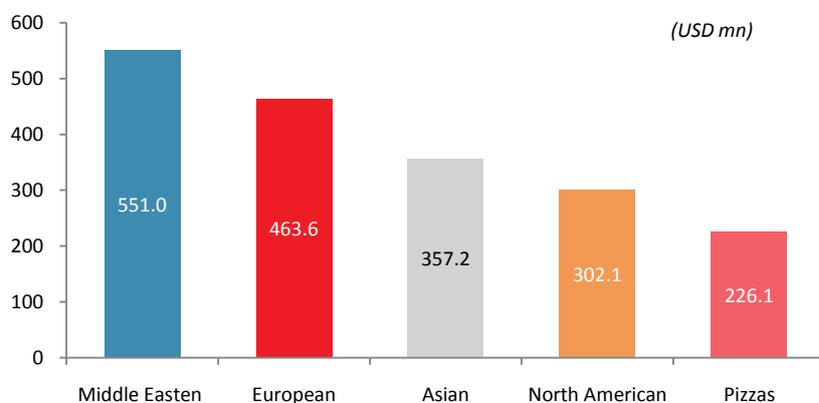
The FSR category has the second-largest share in the UAE's foodservices market, driven by rising disposable income and increasing presence of international fine dining brands. During 2012–2016, the FSR segment expanded the maximum among all segments at a CAGR of 15.6% to reach USD 1.9 billion. The Middle Eastern cuisine had the highest share at 29%, followed by European, Asian and North American cuisines at market share of 24%, 18% and 15%, respectively. The UAE FSR market is expected to further rise to USD 2.9 billion by 2020.

Eating out at upscale food joints has become a style statement and an integral part of social norm. The country is home to a large number of high-income consumers and is also a major luxury shopping destination, attracting high-spending visitors from across the world and also generating strong domestic tourism among affluent consumers. Thus, strong demand for luxury consumer food service is encouraging investment in luxury dining, with Michelin-starred chefs notably featuring in a growing number of up market FSRs. However, FSRs remain a fragmented channel in the country due to the diversity of cuisine types as well as formats across casual and fine dining. Independent players account for 94% of the outlet volume and 84% of value sales.

Middle Eastern cuisine is the most famous among Emiratis, with a growing preference for Lebanese mezze, Persian kebabs and Moroccan meatballs. Qbara, Khan Murjan and Lalezar are some of the top fine dining restaurants serving Middle Eastern specialties. Higher proportion of Asian and European expats has led to an increased demand for these cuisines. Further, it continues to grow due to its focus on value and casual dining experiences. On the other hand, international restaurant chains like Pizza Hut are driving

the growth in the Pizza FSR by adapting their menu offerings to better suit the local palate.

**Exhibit 29: UAE Market Value of FSRs by Cuisine Type (2016)**



Source: Euromonitor, Al Masah Capital Research

During 2016, FSRs moved towards a more dynamic strategy by utilizing the resources of third party online delivery and ordering platforms. Some players also developed new menu items as consumers appeared to be more ready to try different cuisines. Changes in menus ranged from the introduction of seafood menus to fusion recipes. Going ahead, the attraction of the UAE as a leading tourist destination will likely bring many international restaurateurs into the country with these partnering with local players which are looking for more casual and luxury dining concepts to invest in. Operators of Casual Dining restaurants are likely to remain prominent while, existing restaurants are likely to redesign the ambience and décor of their outlets as well as move to high footfall locations. New investors in the channel will look to launch concept dining or chef-featured restaurants in order to offer value to customers looking for more than a meal when they dine-out. Michelin Starred chefs will continue to appear more frequently in the country, with more prominence in Dubai and Abu Dhabi, and this will help them develop a culinary profile among international peer cities known for tourism.

## Café & Bakery Remains a Popular Segment

*UAE Café & Bakery segment increased from USD 0.65 billion in 2012 to USD 0.9 billion in 2016*

Total market size of the UAE Café & Bakery segment increased from USD 0.65 billion in 2012 to USD 0.9 billion in 2016, growing at a CAGR of 7.5%. The segment is further expected to reach USD 1.1 billion by 2020. Based on drinks type, the Café & Bars market can be segmented into (i) Bars/Pubs, (ii) Specialist Coffee Shops, (iii) Cafes, and (iv) Juice/Smoothie Bars. Bars/Pubs is the largest segment in UAE's market, accounting for ~83% of sales in 2015, despite it being highly regulated. The share is likely to increase to ~85% by 2018, on account of being highly frequented by tourists and non-Muslim expats who can have a personal liquor license.

However, specialty coffee and café culture is fast gaining prominence, with international chains dominating this market. Most notably, coffee and tea consumption in the Arab World has tripled over the last decade with the UAE alone registering an 85% increase, according to recent coffee statistics from the International Coffee Organization (ICO). With 3.4 billion cups consumed per day, coffee is undoubtedly one of the most popular

beverages in the UAE. Internationally, the country occupies 35<sup>th</sup> position in terms of coffee consumption, growing at the rate of 30% per annum.

**Exhibit 30: UAE Café/Bars Market Segmentation by Sales (2009-18F)**



*Bars/Pubs share is likely to have reached over 83% in 2015, and is expected to increase to ~85% by 2018*

Source: Euromonitor, Al Masah Capital Research

Dubai is home to thousands of coffee shops, ranging from old-style cafes that serve traditional Arabic coffee to international chains such as Starbucks and Costa Coffee. In spite of the presence of many international brands and cafes serving coffee blends, the preference for speciality coffee is increasing with the rising consumer demand. Rising demand for home roasters and growing affinity for personalization are the two major factors driving the coffee market currently in the UAE. In response to this demand, the number of coffee shops over the last few decades has risen to over 2,200, with many more in the pipeline. Currently, speciality coffee comprises only 1% of the UAE's total market with enormous room for growth for more specialised coffee shops outside the typical franchise model. A study indicates that by 2020, the emerging coffee markets, many of which are in the GCC, will reach 50% of the global consumption, making the Gulf an attractive region for coffee entrepreneurs.

The Alshaya Group continues to lead the Cafés segment in the UAE with an overall value share of 3%, on the back of its strong presence in specialist coffee shops (owns franchise rights for Starbucks in the country). Starbucks led specialist coffee shops in the country in 2016, with a 29% share in terms of outlets and a value share of 32%.

In addition to the expanding coffee market, the tea market is also witnessing a growing demand, due to the large presence of Asian communities, especially from India, who prefer tea to coffee. Capitalizing on this demand, Filli Cafe, a UAE-based tea brand, has gained much popularity not only among the residents but also overseas. Over the last ten years, the consumption of coffee and tea has more than tripled in the Arab region, while it has become a thriving economic activity in the UAE worth around AED 300 million (USD 81.6 million) a year. With independent Cafes on the rise, it is evident that the trend is heading in a more positive and sustainable direction with the emphasis on quality products and services.

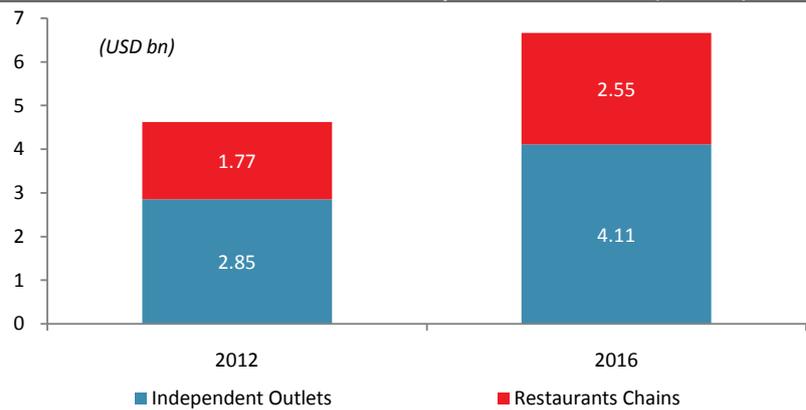
The juice bars market has also witnessed a healthy demand. With a growing preference for healthy beverage options such as fresh or canned juices and smoothies and popular presence of juice/smoothie bars in shopping malls, offering consumers a convenient and portable snack, juice bars are seen as upcoming segments in the UAE's beverage market.

The UAE QSR and FSR markets remain highly fragmented in terms of type of outlets

## Highly Fragmented Market

With the growth of various new home-grown brands, the market now has multiple food options at the domestic level. People are embracing home-grown brands which are increasingly adopting localization. Outlets such as Café Blanc and Mezze House are offering traditional Arabic food in a trendy style. Thus, independent FSRs are the leading F&B service providers, accounting for approximately 62% of the UAE's total foodservice market. However, even the restaurant chains are gaining prominence with the rising international tourists who prefer familiar cuisines and are influenced by strong marketing tactics of the international brands.

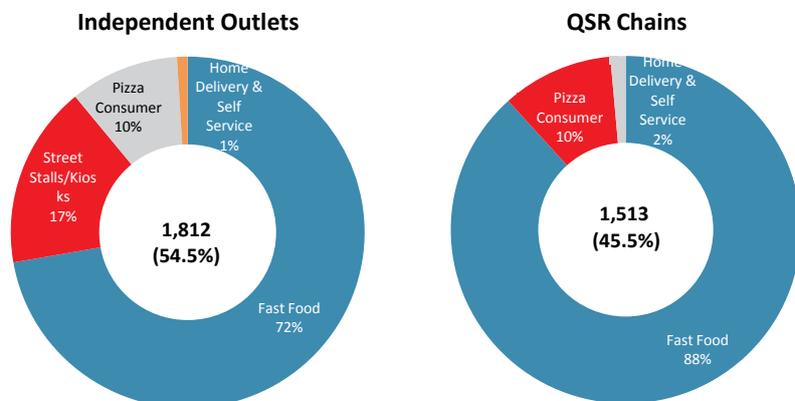
Exhibit 31: UAE Market Share of Chains vs Independent FSR Outlets (2012-16)



Source: Euromonitor, Al Masah Capital Research

Similarly, the QSR market is also highly fragmented with several independent and chain restaurants, with the former accounting for 54.5% of 3,325 outlets in UAE in 2016. However, the revenue generated by the chain outlets continue to remain much higher than the independent outlets.

Exhibit 32: No. of Chain and Independent QSR Stores in the UAE (2016)



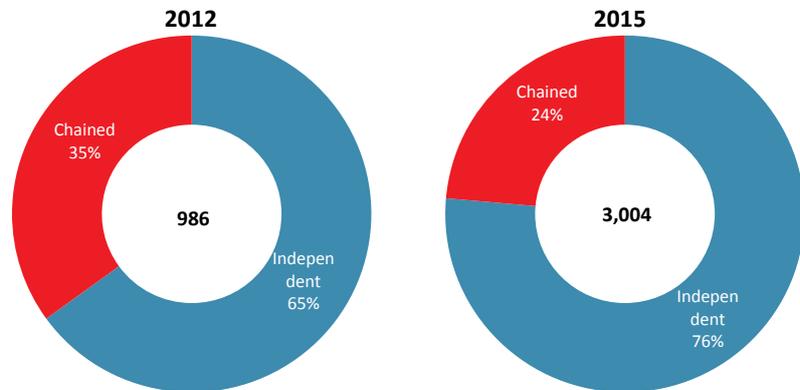
Source: Euromonitor, Al Masah Capital Research

UAE is a favored destination of US burger chains largely because consumers in the nation increasingly favor these chains, more so than in other regions. Going forward, the QSR chain stores will continue to capture significant portion of the QSR market as they reach out to strike a right balance between customization and authenticity. However,

independent outlets will also grow strongly driven by the success of higher-quality concepts targeting affluent local consumers and tourists.

Within the Cafés/Bars market, the share of independent brands increased to 76% of the total 3,004 total outlets as of 2015, compared to 65% in 2012.

**Exhibit 33: No. of Chain and Independent Café/Bars Stores in the UAE (2012-15)**



Source: Euromonitor, Al Masah Capital Research

## UAE Market Led by International Brands

The UAE market continues to be a lucrative market for many international players, witnessing the increasing entry of global brands into the market, largely due to their affordability, the sheer volume of outlets across the region, and heavy advertisement. From Fine Dining, Casual Dining to Fast Casual, as well as QSR – every segment is sated with new concepts entering the market to quench the increasing diversified appetite of the consumers.

*UAE remains the most preferred destination for international brands to set base*

Most notably, international brands are rapidly expanding in the UAE QSR segment, and testimony of this is growth registered by Burger King and KFC, the first American QSR brands to enter GCC. Apart from the QSR segment, international chains are also establishing themselves across FSRs, Cafes, Bars and Lounges. The number of Casual Dining and Fine Dining restaurants, including franchised and home-grown, are on the rise. In the last five years, several exciting home-grown concepts have also sprung making the market competitive for pricing and offerings.

During the last two years, several internationally acclaimed restaurant brands have opened in UAE, including IHOP, Shake Shack, Tim Hortons, The Cheesecake Factory, MOOYAH, Cielo Tapas Bar & Sky Lounge, Clinton Street Baking Company and GQ Bar. Most of the international brands prefer setting up base in the UAE through franchises. On the other hand, regional chains are also expanding operations in the market. For example, ChicKing, which started in 2000 with just one outlet in Dubai, currently has around 14 outlets across the UAE, and aims to take on international QSR giants by setting up 1,000 outlets across 30 countries by 2020.

Some of the most notable regional and global players operating in the UAE are:

Exhibit 34: Regional and Global Brands with Strong Presence in the UAE

	Regional	Global
Fine Dining Restaurants	     	     
Casual Dining Restaurants	     	     
QSR	     	     
Cafes and Bakery	    	     
Bars and Lounge	     	    

Source: Al Masah Capital Research

## SAUDI ARABIA

Eating out and shopping are the main entertainment activities in Saudi Arabia, making the region a source of potential for restaurant operators and investors looking to get in to the F&B sector. With higher disposable incomes, consumers in the Kingdom are increasingly trading up, eating out and ordering food more often. Further increased travel and the rising use of social media have exposed a significant proportion of Saudi society to Western culture. Technology and increasingly relaxed social norms are in turn leading to an emerging freedom of choice, benefiting foodservice by expanding the consumer base, boosting sales, and driving transaction volume growth.

### Foodservices Market Witnesses Robust Growth

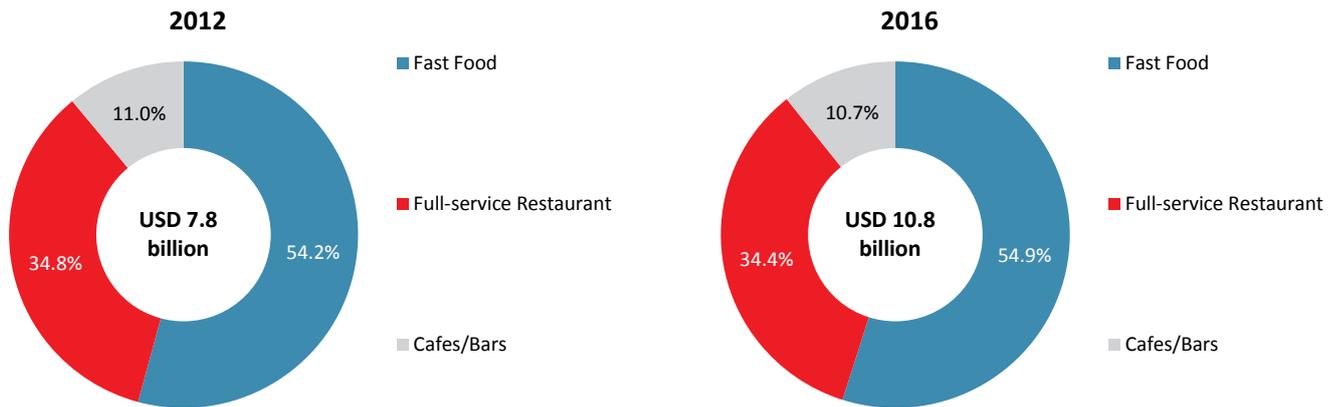
Saudi Arabia is the largest foodservices market in the region, accounting for 50% of total sales in GCC. The market value of the sector expanded from USD 7.8 billion in 2012 to USD 10.8 billion in 2016, growing at a CAGR of 8.5%, with its market share improving from 47% to 50% during the same period. Being the largest economy in the Middle East, Saudi Arabia has a rapid growth of food consumption. The Kingdom offers abundant growth opportunities to foodservices companies, across all its sub-sectors and categories, due to a particular lifestyle, age group and potential.

The fastest growing category within the sector is the QSR segment, followed by FSRs. Though the smallest segment, the Cafes/Bars segment has expanded at the fastest pace owing to the increased popularity of café culture. Characterized by a relaxed and casual

*Saudi Arabia is the largest foodservices market in the region, accounting for 50% of total sales in GCC*

ambiance, offering a full table service, Casual Dining has emerged as the second fastest growing segment within the food sector market with potential for further growth, primarily on the back of its reasonable pricing strategy and a focus on localized offerings. The QSR and Casual Dining segments are expected to continue to prosper at the expense of Fine Dining restaurants due to a decline in disposable income resulting from sluggish oil revenues. Nevertheless, with economic prospects expected to stabilize with the rebound in oil prices and the likely positive demand growth, the size of the foodservices market is expected to reach USD 14.7 billion by 2020.

**Exhibit 35: Saudi Arabia F&B Market by Category (2012-16)**



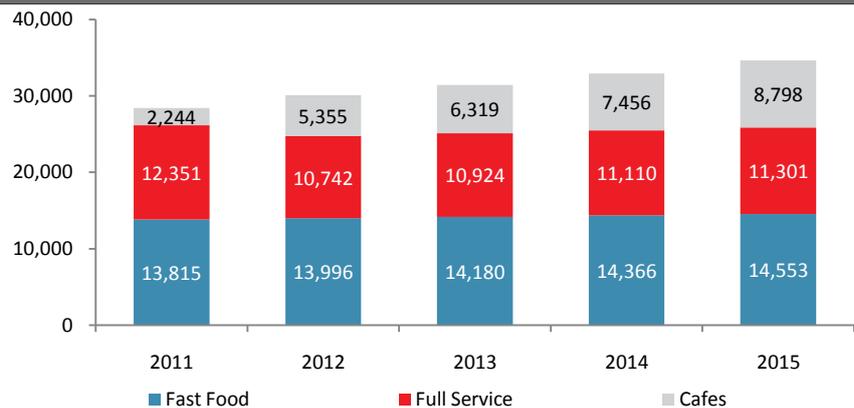
Source: Al Masah Capital Research

Urbanized population, globally-exposed younger generation who are inspired by food, shopping festivals, exhibitions and events are stimulus to the Kingdom's foodservices industry. In combination with high disposable incomes and significant investments in new malls, restaurants and hotels, Saudi Arabia is particularly ripe for global investments in the foodservice sector, most notably in the Casual Dining and QSR segments.

## Increasing Number of Foodservices Outlets

Most of the Kingdom's major branded restaurants with multiple branches are concentrated in the Tier 1 and Tier 2 cities. In 2015, the total number of restaurants and cafés in Saudi Arabia were estimated at 25,854 units and 8,798 units, respectively.

**Exhibit 36: Number of F&B Outlets in Saudi Arabia (2011-15)**



Source: Euromonitor, Al Masah Capital Research

*Saudi Arabia's QSR market is the largest in the region at USD 5.9 billion as of 2016*

The urbanized youth's increasing reliance on foodservice, both for socialization and nourishment purpose, further supported by the evolving roles of women, contributed to the growth of foodservices in Saudi Arabia. With most growth coming from urban areas, transaction growth is expected to outstrip outlet growth, with transactions growing at a CAGR of 2.3% until 2021, compared to an outlet growth of just 0.7%, as per 'The Future of Foodservice to 2021' by GlobalData.

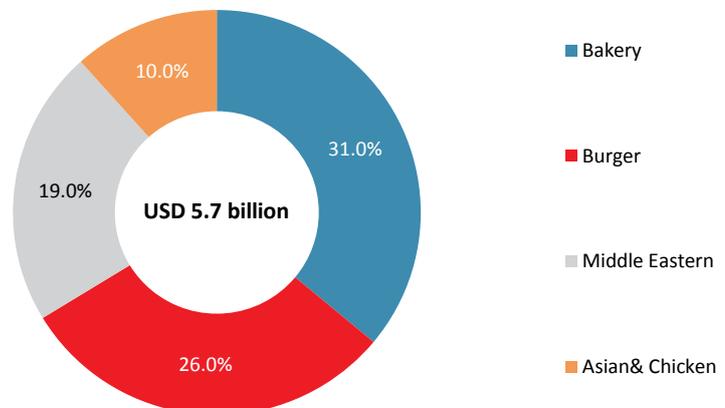
## QSR Remains the Most Dominant Segment

Saudi Arabia's fast food sector has historically been dominated by independent players, which still account for 75% of sales in the region. However, foodservice chains, particularly international ones as well as important local players, account for the lion's share of growth, recording 6% transactions volume growth and 9% current value growth in 2015, compared with the 4% transactions volume growth and 5% current value growth recorded in independent consumer foodservice over the course of the year, as per Aaron Allen & Associates.

Saudi Arabia accounts for the largest share (47.3%) of the total fast food market in the GCC, with USD 5.9 billion, as of 2016. Between 2012 and 2016, it grew at a CAGR of 8.9% from USD 4.2 billion in 2012 to USD 5.9 billion in 2016. The fast food channel offers quick, affordable, filling and tasty snack options to consumers, given that apart from shopping and eating out, the country has limited options for entertainment. By 2020, the market value of the Kingdom's QSR market is expected to reach USD 8.1 billion.

With the growing popularity of QSR segment, American fast food chains dominate the market, especially in the upscale fast food segment. Various local brands such as Herfy, Al Baik and Shawaya House are also leveraging the potential demand for fast food, creating a strong presence in the Kingdom. The top 30 brands in fast food chains accounted for approximately 66.3% of the market in 2015. Among these, McDonald's remained the leading player, with a share of 28.8% among the top 30, followed by Herfy (12%), and Al Baik (5.7%).

**Exhibit 37: Saudi Arabia Market Size of Fast Food by Type (2016)**



Source: Euromonitor, Al Masah Capital Research

Bakery products contribute to the majority of the Saudi QSR market, accounting for 31% of the total fast food market in 2016. Burgers accounted for the second-largest share at 26%. While Mondelez International is the largest player in the Bakery segment, McDonald's is the largest player in the Burger segment. The growing popularity of

burgers has not only boosted the sales of brands such as Herfy and Burger King but also several other independent players such as Burgeronomy, Hamburgini, 12 Burger and The Burger Box. In the Chicken fast food segment, Al Baik leads the market, followed by KFC. A growing trend of takeaways and drive through service has also expanded the fast food sales. Moreover, the global chains have followed the strategy of localization through intelligent modifications in their menus. One such example is McArabia Grilled Chicken sandwich offered by McDonald's.

Going forward, the competition is expected to remain strong among the fast food chains. While in 2016 there were about 2,099 people per fast food outlet, in 2020 that value is expected to decrease slightly (by 2%) to about 2,064 inhabitants per fast food outlet, as per Aaron Allen & Associates.

## Cafes/Bars are a Popular Destination for the Youth

Saudi Arabia's large population of young adults continues to drive the Cafés/Bars segment in the country. Independents outlets remain dominant within the category, claiming an overall value sales share of 82%. This dominance is in large part due to the success of independent outlets offering hookah smoking, an increasingly popular activity among both men and women. On the other hand, Café/Bar chains rarely offer hookah smoking facilities, and their menus tend to be more expensive than those of independent outlets.

Coffee is a popular drink in Saudi Arabia and a symbol of hospitality in the country. Its consumption is increasing, largely because of westernization and the rapidly growing young population who are employed. Rise in working women is catching on in Saudi Arabia, and resulting in further growth of coffee consumption. The country imports around 10,000 tonnes of coffee annually, while the per-capita consumption of coffee is 3 kg per year. Led by the high coffee consumption, the Café/Bars market grew from USD 0.9 billion in 2012 to USD 1.2 billion in 2016 and is expected to attain a market value of USD 1.5 billion by 2020. Moreover, coffee chains, both international and local, are leveraging the growth potential in the Kingdom through innovations in their offerings.

## International Brands Growing Presence

Saudi Arabia has a flourishing foodservices sector and is an ideal location for the global brands to open their outlets. With a dynamic economy and growing numbers of tourists visiting Saudi Arabia, international companies bring a new and fresh dining experience for both locals and the global customer coming to the region.

Saudi inhabitants are very fond of American foodservice brands which is evident from various American outlets operating in the country including Starbucks, KFC, TGI Friday's, Hardee's, Krispy Kreme, Johnny Rockets and many others. The nation offers huge growth potential for the US brands by offering highest margins in comparison to other nations. On the other hand, some of the largest chains in Saudi Arabia are direct knock-offs of American brands that had not yet established a presence there. For example, the largest fast food chain in the Middle East is Herfy, whose burgers were inspired by McDonald's and Burger King. Additionally, a lot of home-grown service providers are also establishing a strong presence across all the segments in the foodservices sector. Some of the most notable regional and global players operating in Saudi Arabia are:

Exhibit 38: Regional and Global Brands with Strong Presence in Saudi Arabia

	Regional	Global
Fine Dining Restaurants	     	    
Casual Dining Restaurants	     	     
QSR	    	        
Cafes and Bakery	   	     
Bars and Lounge	    	  

Source: Al Masah Capital Research

## KUWAIT

*Kuwait is the new hub for foodservices sector, and several international brands are setting foot in the country*

Kuwait has slowly gained prominence and become a hub of activity for the foodservices sector, witnessing steady growth for both local brands and international players. Modernization and changing lifestyles have resulted in the increasing popularity of fast foods in Kuwait. A growing trend of original food concepts is also gaining traction, with many top restaurants adapting menus to the Kuwaiti culture and including ethnic flavors in their menu to attract the locals. With stiffening competition, many local restaurants are reinventing themselves to strengthen their position in the market and are attempting to bring in new dining concepts, providing a vast array of cuisines and customizations, along with improvements in ambience and overall quality. A good example is the high-end Kuwaiti burger joint, Slider Station, which is the world's first conveyor belt burger joint, and offers a vast range of options on its menu.

Many international food brands are expanding their presence in the GCC with their first international franchised outlet opening in Kuwait. Restaurant chains such as McDonald's, Domino's, Cheesecake Factory, Costa Coffee, Red Lobster, Olive Garden, Johnny Rockets and Texas Roadhouse, in addition to franchises and international brands have already built a strong position in the country. Kuwait provides a conducive environment, supporting private investments in the foodservices sector, with the new Companies Law passed in 2013 simplifying regulations for foreign investments. While some of the international brands are already present in the UAE and Saudi Arabia, Kuwait is the latest attractive destination for branching out new restaurants. Boston Market, for instance, opened its first Middle East outlet in Kuwait in 2017, and plans to expand further in the next few years. In March 2016, Nestlé Toll House announced that

*Americana Group dominates the franchised food companies with 45% market share*

its Café by Chip concept would open two new cafés in Kuwait, improving its presence in the GCC. Similarly, Blaze Pizza and US-based Arby's Inc. is expanding into the GCC, and Kuwait will be one of their key priority countries. Kuwait also takes pride in being home to several celebrity restaurants and famous names such as Indian singer Asha Bhonsle opening 5 restaurants (Asha's) in the country with one more expected to open soon. The concept of designer multi cuisine restaurants such as B+F Open Flame Kitchen, that was recently launched in the country is also emerging.

Among the franchised food companies, Americana Group (Kuwait Food Co) with brands such as KFC, Pizza Hut and TGIF dominates the market, and has 175 outlets under its umbrella and accounts for 45% share in Kuwait's F&B market. It recently opened six new Burger King outlets in Kuwait. Another key restaurant operator is Alghanim Industries which is actively opening up new international brands in the country. In 2016, it opened the first Wendy's restaurant in Kuwait, as part of a strategic collaboration to expand the US brand across the Middle East. Demand is increasing for quality food services, restaurants and cafés, both in terms of franchised international brands, and original home-grown concepts.

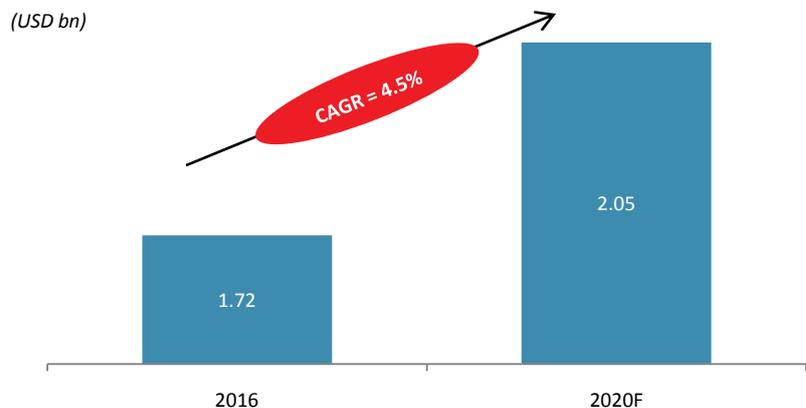
*Kuwait's F&B market stood at USD 1.7 billion in 2016; expected to grow at a CAGR of 4.5% to reach USD 2.05 billion by 2020*

## Foodservices Market has been Thriving with New Entrants

Kuwait is a key growth region in GCC and the foodservices segment is primed for rapid growth in the coming years. The country's foodservices market stood at USD 1.7 billion in 2016, and is expected to grow at a CAGR of 4.5% to reach USD 2.05 billion by 2020. It is the third largest market in the region, driven by rising per capita income and increasing youth population, which has resulted in a high influx of international brands in the country. QSR is the fastest growing segment in the country and had the maximum market share of about 70% in 2016, followed by FSR (29%). In terms of market position in GCC, Kuwait's QSR sales accounts for 9.6% of the total GCC QSR market, while FSR accounts for 7.5% of the total GCC FSR GCC market.

An interesting trend in the last year has been the recent drop in food inflation. Food inflation has been lagging behind consumer prices since April 2016, and this trend could benefit restaurants.

**Exhibit 39: Kuwait Market Share (2016-20F)**



Source: Al Masah Capital Research

Like other GCC economies, Kuwait is also strategically investing its funds in non-oil sectors and a specific focus on tourism and hospitality development is evident. Despite the growth that's occurred in just a short time in Kuwait, continued potential remains on the horizon, particularly in the F&B sector. The country's National Development Plan has identified tourism as one of the sectors for development, which will indirectly have a positive impact on Kuwait's foodservices revenues.

Some of the most notable regional and global players operating in Kuwait are:

**Exhibit 40: Regional and Global Brands with Strong Presence in Kuwait**

	Regional	Global
Fine Dining Restaurants	   	    
Casual Dining Restaurants	   	    
QSR	  	         
Cafes and Bakery	    	     
Bars and Lounge	   	 

Source: Al Masah Capital Research

## QATAR

*Doha market highly competitive with casual dining gaining prominence*

The F&B sector is experiencing rapid growth in Qatar, mainly driven by rising population, high per capital income and high disposable income. Qatar's Ministry of Economy and Commerce (MEC) is promoting investments in the restaurant sector and seeking opening of new restaurants in areas which have not been explored yet. The MEC is also supporting local food producers and has taken steps to encourage restaurants, cafes and other food outlets to buy local produce, which would indirectly have a positive impact on Qatar economy.

According to the recent data from the MEC, the total number of active commercial licenses in the restaurant sector amounts to 3,716, and most of these restaurants are concentrated in Doha (2,004), followed by Al Rayyan (1,038), Wakrah (291), Umm Salal (130), Al Khor and Al Zakhira (111), Al Shehanyah (47), and Al Shamal Municipality (23). These active licenses include 1,889 restaurants, 1,271 cafeterias, 270 juice shops, 201 fast foods, and 121 popular kitchens, 6 healthy eating and diet restaurants, and other

*The demand for QSR is on the rise in Qatar, fueled by trends such as food trucks, kiosks and online ordering platforms*

*Qatar Foodservices market stood at USD 1.5 billion in 2016; expected to reach USD 1.8 billion by 2020*

small joints for other minor activities. The restaurant market in Doha is fiercely competitive, and Casual Dining restaurants with different concepts are mushrooming in the country. While Kuwait restaurant operators run a majority of the Qatar's F&B outlets, the local players such as Hospitality Development Company, Al Muftah and Al Jassim Groups are also gaining prominence.

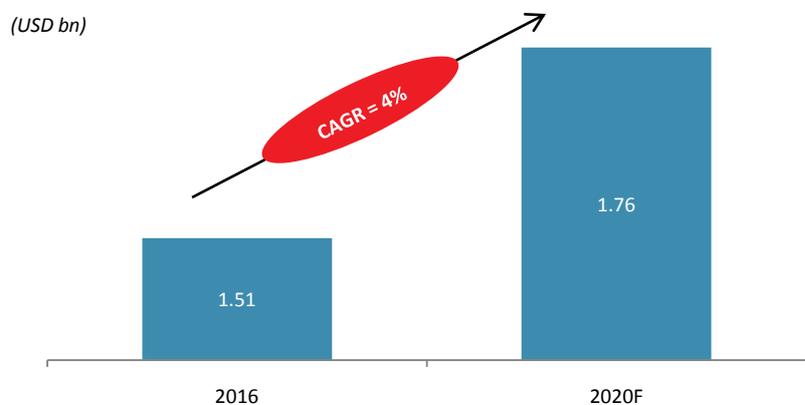
With a large number of expat workers and a high percentage of youth population, there is a demand for assorted cuisines and restaurants offering varying price points to cater to different crowds. Among the cuisines, international and American cuisines remain the most popular and represent over half of the total number of outlets in Doha. Due to Qatari and Arab nationals' exposure to the Lebanese culture, current foodservices trends show that there is an increasing preference for this cuisine, which also contributes to the popularity of 'Shisha/Hookah' concepts in the city.

Similar to the UAE and Saudi Arabia, the demand for QSR options is on the rise in Qatar, fueled by trends such as food trucks, kiosks and online ordering platforms. A notable trend in the country is the increase in number of malls, which is also being driven by the upcoming FIFA 2022, and each mall is expected to open doors to reputed food chains and unique brands for cuisine diversification. The trend of mobile food trucks is also emerging in Qatar and the MEC has issued five licenses to food truck operators in 2017.

## Foodservices Market to Expand on Robust Demand

The Qatar foodservices market size grew steadily over the last few years to USD 1.51 billion by 2016, approximately 7% of the total GCC foodservices market, and is expected to reach around USD 1.76 billion by 2020. The QSR and FSR market shares are estimated at 8% and 6% of the total GCC foodservices market, respectively. With growing urbanization and increase in working population, most people rely on eating meals outside their homes, and easily available, pocket friendly options are most preferred making the fast food segment the largest in the Qatar restaurant sector.

**Exhibit 41: Qatar Market Share (2016-20F)**



Source: Al Masah Capital Research

As of 2016, the fast food segment had a market share of about 67% of the Qatar foodservices market, while the FSR segment comprised of 26%. Of the total GCC QSR market, Qatar accounts for only 7.3% of the total share, and has significant scope for growth, especially in terms of international chains entering the country. This is already

# GCC Foodservice Sector

an emerging trend, as Qatar is actively promoting its tourism and hospitality industry, and the advent of FIFA 2022 is making Qatar a promising destination for foreign companies to invest an expand in.

Some of the most notable regional and global players operating in Qatar are:

**Exhibit 42: Regional and Global Brands with Strong Presence in Qatar**

	Regional	Global
Fine Dining Restaurants	  	  
Casual Dining Restaurants	  	 
QSR	 	  
Cafes and Bakery		   
Bars and Lounge	 	  

Source: Al Masah Capital Research

## OMAN

Until a few years ago, the Omani foodservices sector was quite sluggish compared to other GCC nations, but the scenario is changing with many international restaurants and franchises being set up in Oman. Currently, the F&B sector is one of the fastest growing segments in the Sultanate, and in order to aid its expansion, the government relaxed the regulation for setting up of restaurants in 2015. As per the new regulations, restaurants are no longer required to get an approval from the Ministry of Tourism (MoT) for setting up business. Bin Mirza International (BMI), the Omani franchise partner for some of the world's most reputed F&B brands is one of the key operators in the country. In late 2016, Al Faris Restaurant LLC, the exclusive developer of Johnny Rockets in the UAE & Oman signed a multi-unit sub franchise development agreement with an Omani entity to develop 4 new restaurants in Muscat, three of which will open later this year.

Promoting tourism has been a key priority for Oman, and many of the tourism boosting initiatives have positively impacted the foodservices industry. With an increase in expatriates and tourists, and a rise in income, more people are dining out and are looking for new cuisines and different dining concepts. There is a shift from the limited cuisines and dining options that were available in the past to introduction of restaurants

*Oman's foodservices market is expected to grow at a CAGR of 10.4% to reach USD 0.7 billion in 2020*

servicing new cuisines and unique dining concepts. Customization of food is also becoming quite popular and many restaurants are adapting their menus to incorporate local flavors and introducing healthy, diet options. Oman has opened two themed restaurants (The Jungle and Love at First Bite) along with other new dining venues, and focus on ambience and new concepts are a part of the agenda for many restaurants. Muscat is the hub for multi cuisine restaurants and serves an array of food including Omani, Lebanese, Moroccan, North African, Asian, European and Continental cuisines. Like other GCC nations, Oman's fast food segment is the fastest growing and has remained quite resilient to the recent oil price volatility.

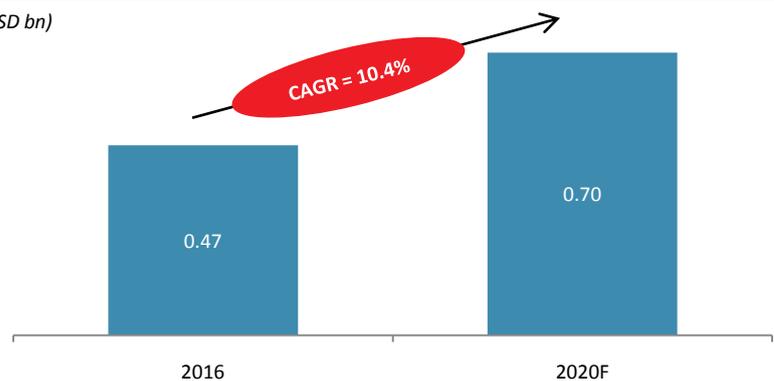
Over the last decade, the Sultanate's QSR and Casual Dining segments have undergone a major transformation, driven growing competition. These two segments have seen the largest number of foreign and local players establishing their brands in, and is expected to see further influx on account of robust demand.

### Market to Expand on Favorable Government Regulations

The foodservices sector in Oman is one of the smallest in the GCC, and the total market was estimated at USD 0.47 billion, accounting for only 2.2% of the entire GCC foodservices market. Oman's QSR segment is growing rapidly and as of 2016, it stood at 63% of the total Omani foodservices market. In terms of market share in the GCC, both FSR and QSR account for only 1.5% and 2.4%, respectively. However, Oman is primed for tremendous growth in the next few years, and the foodservices market is expected to grow at a CAGR of 10.4% to reach USD 0.7 billion by 2020.

**Exhibit 43: Oman Market Share (2016-20F)**

(USD bn)



Source: Al Masah Capital Research

The market is expected to be primarily boosted by the recent initiatives taken by the government on approvals for setting up restaurant businesses, coupled with huge investments in hospitality infrastructure projects. The government plans to construct more than 20,000 hotel rooms to accommodate the growing number of visitors by 2020, which is primed to rise to 2 million from 1.5 million in 2015. In anticipation of a surge in tourist footfalls, and the improvement in oil prices, which until now had somewhat dented the consumer spending, the demand for foodservices is expected to increase considerably over the period of time. However, Oman's foodservices sector continues to be marred by challenges owing to Omanization and the lack of skilled employees may hinder the sector's growth to its full potential.

Some of the most notable regional and global players operating in Oman are:

Exhibit 44: Regional and Global Brands with Strong Presence in Oman

	Regional	Global
Fine Dining Restaurants	     	  
Casual Dining Restaurants	      	     
QSR	    	      
Cafes and Bakery	     	      
Bars and Lounge	  	  

Source: Al Masah Capital Research

## BAHRAIN

Bahrain, which has been relatively unexplored by international restaurants, has recently set foot to bring in US and other international restaurants into the country. In 2014 alone, more than 100 US franchise restaurants and outlets operated in Bahrain, with several new ones opening on a regular basis. The country is flooded with small takeaway restaurants, shawarma delis, fast food joints, Casual Dining restaurants as well as some of the finest dining establishments in the region.

As one of the smallest foodservice markets in the GCC, Bahrain has immense potential to emerge as a vibrant dining hub. Like other GCC countries, Bahrain allows international restaurants to operate only under the franchise model and not independently. First Bahrain and International Business Group (IBG) are set to introduce the region's first branches of Jalapeño Charlie's and WildSide Texas BBQ in Bahrain. While American fast food and Indian restaurants are predominantly present, Italian food is also gaining popularity in Bahrain. Some of the popular restaurants are Roma, Primavera, La Taverna, Cico's, Ciro's Pizza Pomodoro or home-style Italian cooking at Mammamia's.

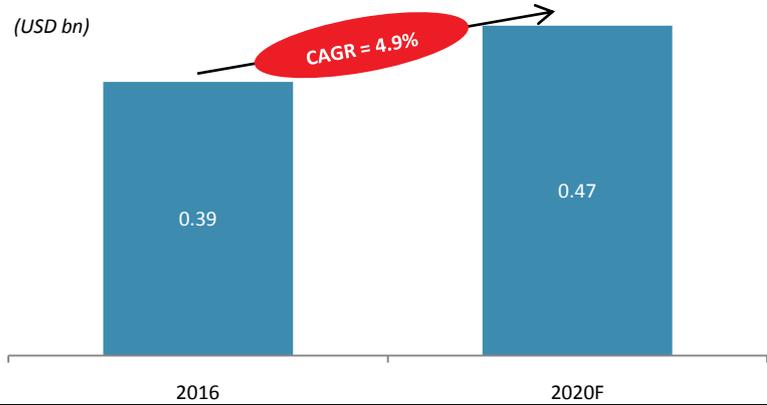
### Market to Expand on Increasing Government Investments

Being one of the smallest foodservices market in GCC, the country's market is estimated at USD 0.39 billion in 2016 and expected to grow a CAGR of 4.9% to reach USD 0.47 billion by 2020. QSR is the largest growing segment and stood at around USD 0.2 billion in 2016, accounting for 50% of the total foodservices market. However, Bahrain is the smallest market for fast foods in the GCC, accounting for 1.6% of total GCC QSR sales in

*Bahrain, the smallest foodservices market, is expected to grow at a CAGR of 4.9% to reach USD 0.47 billion in 2020*

2016. Similarly, the country's FSR market is also the smallest in the region accounting for only 1.5% of the total GCC FSR sales in 2016.

Exhibit 45: Bahrain Market Share (2016-20F)



Source: Al Masah Capital Research

According to Bahrain Economic Development Board (EDB), in Q1 2017, hotels and restaurants emerged as the fastest growing sector recording a 12.3% Y-o-Y real rate of expansion. On account of the increasing government investment in hospitality infrastructure, and influx of several individual and fast food chains, both local and global, the market is expected to receive a much needed boost going forward. Some of the most notable regional and global players operating in Bahrain are:

Exhibit 46: Regional and Global Brands with Strong Presence in Bahrain

	Regional	Global
Fine Dining Restaurants		
Casual Dining Restaurants		
QSR		
Cafes and Bakery		
Bars and Lounge		

Source: Al Masah Capital Research



# GCC Foodservice Sector

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