QSR

Can BurgerFi Become the Next Great Burger Chain?

A recent rise in digital sales could hint at a bright future.

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BurgerFi wants to build awareness through virtual kitchens and nontraditional locations.

The fact BurgerFi is going public is a surprising development on its own. A $100 million merger with blank-check company OPES Acquisition will send the 125-unit fast casual to the stock market—a rare development in foodservice. When Kura Sushi started trading last August after raising $41 million its IPO, it became the first restaurant chain to do so since Wingstop and Fogo de Chao in 2015 (the latter is private today). Muscle Maker Grill priced its IPO at $5 per share in February.

But, in general, the opposite—a firm taking a public chain private—is far more frequent. Papa Murphy's, Zoes Kitchen, Del Frisco's, and Buffalo Wild Wings are some recent notables. TGI Fridays also tried to reach the public sector through a business combination transaction with Allegro Merger Corp in November. The $380 million deal fell through in April due to COVID-19 uncertainty.

OPES shared some reasons Monday why the company is forging ahead in an uncommon direction. Firstly, on the financial side, blank-check companies deploy public investor money to fund acquisitions. They're publicly traded entities that merge with an established brand and then take the company's name, and head to Wall Street. The deal is expected to close in Q3. BurgerFi tracked up-and-down growth in its nine-year history. It expanded by 25–30 units per year from 2013–2015—quickly become one of the category's fastest-growing upstarts. Yet like a bevy of better-burger brands, and fast casuals in general, its pace slowed significantly amid a tightening landscape. BurgerFi essentially paused for about two years before ramping back up in the second half of 2018. The chain said it needed to update infrastructure, technology, and franchise systems before it could scale effectively in a suddenly saturated and tech-driven sector. One change was the addition of a call center to field off-premises orders and second make-lines in kitchens to accommodate delivery.

It helped jump-start the company. In June 2018, BurgerFi's year-to-date same-store sale rose 8.5 percent on top of positive comps in 2017, with 40 percent of business systemwide flowing via takeout. BurgerFi earned $146 in systemwide sales in 2019 and reported AUVs of $1.41 million. Adjusted EBITDA in 2019 was $3.3 million and same-store sales rose 2.4 percent. The company expects sales to decline roughly $33 million to $112.5 million this year (thanks to coronavirus) before bumping to $161 million in 2021. It also predicts adjusted EBITDA to reach $4.3 million in 2020 and balloon to $10.5 million the following year. Overall, projected 2019–2021 net company revenue and adjusted EBITDA compounded annual growth rate of 36.4 percent and 77.2 percent, respectively.

In expansion terms, BurgerFi sees 15 restaurants opening this year, despite the pandemic.

OPES said, at closing, BurgerFi will have anticipated net cash of over $40 million to support capital expenditures expansion (money to grow). Existing BurgerFi shareholders will receive up to 6.6 million newly issued shares of the company and $30 million in cash. In addition, existing BurgerFi shareholders will be entitled to receive more shares after closing subject to BurgerFi International, Inc.'s stock price performance. Assuming no redemptions by OPES public shareholders, the combined company will be capitalized with about $50 million in cash held in OPES's trust account along with an incremental $30 million committed private placement by Lionheart Equities and Lion Point Capital pursuant to the forward purchase agreement entered at the time of OPES's initial public offering.

Here's a look at year-over-year delivery sales, to get an idea of why OPES believes BurgerFi has the potential to turn some of its COVID resilience into lasting levers.

2019 versus 2020

- January: 41 percent
- February: 30 percent
- March: 35 percent
- April: 51 percent
- May: 111 percent
- June: 65 percent

Combining its third-party delivery year-to-date (January 1 to June 30) plus in-house app business, BurgerFi served 428,000 orders and generated $10.9 million in total sales, the company said. That accounts to a 32 percent boost in order volume and a 60 percent hike in sales volume. BurgerFi runs on DoorDash, Grubhub, Postmates, and Uber Eats, and has its own app for third-party delivery, too. The app's delivery is fueled by Olo. BurgerFi said the company's on-demand delivery network allowed it to lower fees for customers and have greater control over transit time and delivery providers.

By using the integrated network of third-party delivery vendors, BurgerFi said, it enabled third-party delivery apps that do not feature the fast casual to be included in the pool to bid for their business, which ensures customers have access to the best available delivery couriers for the quickest service.

"BurgerFi has continuously looked for ways to enhance the customer experience," said Charlie Guzzetta in a statement. Guzzetta, formerly chief brand development officer, was named president with the merger. "Through our investment in technology we have been able to strategically anticipate and execute against the current industry-wide changes. This investment in technology, complemented by strong partnerships with third-party delivery services, has served BurgerFi well during the crisis and will help us continue on our path of redefining the way the world eats burgers."

BurgerFi also has a LevelUp ordering app and in-restaurant Oracle digital kiosks. In total, the chain said it uses more than 20 different technology platforms and is positioned to capitalize on omnichannels.

In June, BurgerFi opened its first delivery-only kitchen in downtown Miami in partnership with REEF. The company said Monday the venture broke sales records for a new concept in a REEF neighborhood kitchen. Fifteen are planned by the end of the year, including "several more" in Miami, as well as new markets in Seattle, Houston, Nashville, and Minneapolis. Others will come on line in 2021.

BurgerFi was the first national burger brand to partner with REEF Kitchens. REEF Technologies created delivery-only neighborhood kitchens as a component of its hubs, and features a national network of 85-plus locations across 18 cities. Like most ghost-kitchen models, it aims to lower barriers to entry for restaurants trying to capitalizing on growing delivery demand without worrying about the overhead.

In time, BurgerFi believes ghost kitchens will trigger its growth without the need for additional infrastructure. Additionally, it will allow BurgerFi to develop brand awareness in new markets without actually opening brick-and-mortar locations to start. If this unfolds effectively, the chain can then promote the market to potential operators and franchisees with already-tested proven demand.

This latter point is critical and has been for better-burger concepts in recent years. The category is flooded and difficult to break through via messaging alone. Consider mainstream brands like Burger King and White Castle, which started serving plant-based meat coast to coast. McDonald's and Wendy's put substantial weight and marketing dollars behind directives like antibiotic policies and sustainability. McDonald's made waves with fresh beef Quarter Pounders. The changes stirred a burger dynamic difficult for smaller, ingredient-forward concepts to stand out and justify product investment. Were they getting the same credit from customers as they used to for things like sourcing?

As a case point in fast-casual burger growth, of Shake Shack's 31 markets, 23 have five or fewer locations. And 60 percent of its U.S. units are less than three years old. It's spent several years trying to develop awareness through new-market expansion. This past year, before COVID, it was finally ready to evolve and start expanding concentrically and fill in those areas. About 20 percent of its 2019 growth was of the new-market variety. Only 10 percent was planned for this year before the crisis. Shake Shack opened 49 restaurants in 2019, including seven new markets.

In terms of its IPO, Shake Shack exited 2014 with nearly $120 million in revenue. The figure increased nearly 300 percent by early 2019. Shake Shack had just 44 domestic corporate restaurants and 31 licensed in 2015. There were 274 total headed into 2020.

Spreading brand awareness is critical on a number of levels, particularly in an ultra-competitive category waged on a public arena. For Shake Shack, over time, concentric growth will allow it to curb expansion costs and balance average-unit volumes, which have slowly slid as it webbed out from its NYC base. By last November, the brand's trailing 12-month AUVs were $4.2 million, with average weekly sales of $80,000. As Shake Shack broadened sales volumes by opening across the country and expanding further in existing markets, these average unit metrics experienced gradual declines before leveling off. The company targeted $4.1 million for the full fiscal calendar before the crisis.

The example simply shows how long it might take to get there. Even robust early growth takes a while to mature.

There are other ways to look at it, too. Adding more stores to a trade area opens the cannibalization conversation, which is something BurgerFi could test with multiple virtual kitchens in the same area, like Miami. However, a fortressing path of sorts (building clusters of restaurants in the same market, like Domino's) also speaks to improved brand awareness and less reliance on marketing, as well as better (and cheaper) delivery and off-premises business by widening coverage radius—a critical element of COVID life. Virtual growth has the promise to ease this dilemma, too.

Focusing on a specific market would enable BurgerFi to support and gradually leverage existing infrastructure as well. Everything from operations, training, marketing, and supply chain connections.

BurgerFi employs roughly 3,000 people, with about 50 percent of its locations in Florida (1,200–1,500 workers reside in the Sunshine State alone).

So there's a lot of work, and whitespace, to be done. Additionally, BurgerFi, like Shake Shack, believes it can fuel brand awareness through nontraditional growth. It noted there's whitespace in airports, transportation hubs, travel plazas, college campuses, military bases, and sporting venues (after COVID-19). Airport, stadium, and roadside models in particular have buoyed Shake Shack in recent years.

BurgerFi already has a relationship with airport juggernaut HMSHost. BurgerFi said its sales at its Fort Lauderdale-Hollywood International airport store have exceeded $3 million in annual sales, despite not being in an ideal spot inside the venue. The company said they see potential for $5 million-plus in prime airport locations (again, during non-pandemic times). BurgerFi also had a deal with Aramark and expects to open stores at the University of South Florida, a mall in Portland, Oregon, a transportation hub in Philadelphia, and an entertainment center in Virginia. Also, to partner with the U.S. Air Force on military base locations across Arizona, Colorado, Alaska, Georgia, and Nebraska.

Penetrating markets, whether through physical stores or delivery networks, will be the first, key step during BurgerFi's life as a public restaurant chain—the net-unit growth and revenue driver investors will latch onto. When it gets there, though, BurgerFi said its better-burger message will be a powerful sell, even amid all the noise in the category.

The chain uses 100 percent natural Angus beef with no steroids, antibiotics, growth hormones, chemicals or additives, and was one of only two restaurant brands (Shake Shack) to receive an "A" rating in a 2018 report called "Chain Reaction IV: Burger Edition," which was produced by the Center for Food Safety, Consumer Reports, Food Animal Concerns Trust, U.S. PIRG Education Fund, Friends of the Earth, and Natural Resources Defense Council.

BurgerFi is also known for its sustainability focus and reduced carbon footprint designs. A new Delray location, for example, including specialty walls, chairs, and bar stools made from recycled Coca Cola bottles, communal bar tables and tables made from compressed wood planks, and sensor/touchless restrooms. The design also was built to COVID-19 standards, with social distanced tables, bar stools and chairs, Plexiglas shields, sanitizing restroom door handles, and socially distanced floor stickers.

"Given BurgerFi's strong foundation as a company and dynamism as a brand, we believe that BurgerFi is positioned for rapid growth and are looking forward to taking BurgerFi to the next level and beyond. Our team is thrilled to support BurgerFi's exciting growth initiatives. Its technology-driven business and highly-scalable model continue to position it for significant shareholder value creation," said Ophir Sternberg, chairman and CEO of OPES, in a statement,