

GrubHub Inc.(GRUB)

\$70.77 (As of 07/22/20)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/15/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: F

Summary

Grubhub exited first-quarter 2020 with new diner wins and the momentum continued in the second quarter. Moreover, this industry player is experiencing solid growth in non-New York markets. Additionally, Grubhub's strong partner base is a major driver. The company plans to spend much of its second-quarter EBITDA on helping its restaurant partners survive the coronavirus woes. However, its corporate business has been adversely impacted by the pandemic situation as almost all the clients shifted to work-from-home models. Hence, reopening of the economy bodes well for Grubhub's corporate business. Shares have outperformed the industry on a year-to-date basis. Notably, the company accepted Just Eat Takeaway.com's all-stock acquisition offer worth \$7.3 billion. The deal is set to culminate in first-quarter 2021.

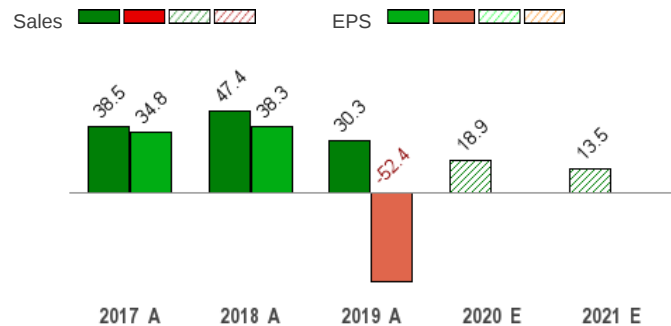
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$80.25 - \$29.35
20 Day Average Volume (sh)	1,970,594
Market Cap	\$6.5 B
YTD Price Change	45.5%
Beta	1.24
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Delivery Services
Zacks Industry Rank	Top 44% (111 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	100.0%
Last Sales Surprise	0.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	144.4
P/E F1	NA
PEG F1	NA
P/S TTM	4.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	409 E	413 E	389 E	424 E	1,770 E
2020	363 A	400 E	381 E	406 E	1,560 E
2019	324 A	325 A	322 A	341 A	1,312 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$-0.00 E	-\$0.02 E	-\$0.03 E	\$0.07 E	\$0.21 E
2020	\$0.00 A	-\$0.17 E	-\$0.07 E	-\$0.05 E	-\$0.33 E
2019	\$0.30 A	\$0.27 A	\$0.27 A	-\$0.05 A	\$0.79 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/22/2020. The reports text is as of 07/23/2020.

Overview

Grubhub is a leading online and mobile food ordering company. The company's platform assists diners in searching for local restaurants, tracking orders and re-ordering for convenience. The company completed its Initial Public Offering (IPO) on Apr 4, 2014.

Grubhub connects more than 300K restaurants on its platform, including more than 200K restaurant partners, as of Mar 31, 2020.

Chicago-based Grubhub generates revenues primarily when diners place an order on the platform, as restaurants pay it a commission, which is usually a percentage of the transaction on orders delivered through the platform.

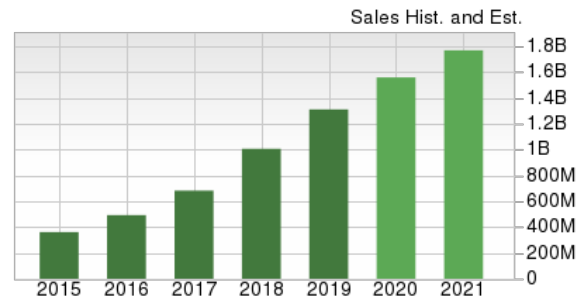
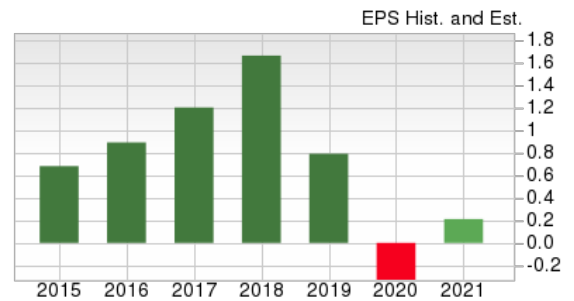
The company generates a negligible amount of revenues from companies that participate in their corporate ordering program. Sale of advertisements on allmenus.com and menuPages.com websites to third parties also contributes a small amount.

Grubhub reported revenues of \$1.31 billion in 2019. The company's business depends on three key metrics, namely Active Diners, Daily Average Grub (DAGs) and Gross Food Sales (GFS), which increased 28%, 13% and 17%, respectively, over 2018.

DAGs are the number of orders placed on the platform divided by the number of days for a given period. DAGs were 492,300 in 2019.

Moreover, gross food sales are the total value of food, beverages, taxes, prepaid gratuities, and any delivery fees processed through Grubhub's platform. Gross food sales were \$5.9 billion in 2019.

Notably, Active Diners are the number of unique diner accounts, from which an order has been placed in the past twelve months through Grubhub's platform. As of Mar 31, 2020, the company's Active Diner base was 23.9 million.



Reasons To Buy:

- ▲ Grubhub is riding on the shift from offline to online food ordering, which is driven by convenience and easy accessibility especially among millennials. On the other hand, restaurants, which have difficulties delivering food on their own, are signing up with Grubhub to reach customers and build a new sales channel. Grubhub, being a first mover in online on-demand food delivery services market is well positioned to capitalize on the trend. The company's active diner base continues to increase due to product improvements, better restaurant selection and increased marketing initiatives.
- ▲ Grubhub's expanding partner restaurant network is a major growth driver. At the end of first-quarter 2020, the company had more than 300K restaurants on its platform, including more than 200K restaurant partners. Notably, orders delivered on behalf of restaurant partners accounted for slightly more than 45% of Grubhub's DAGs in the first-quarter.
- ▲ Grubhub is benefiting from partnerships with renowned brands like Applebee's, Dunkin', McDonald's, Popeyes, Shake Shack and Wendy's. In terms of regional chains, the company added stores and witnessed significant order volumes for Bertucci's, Hale & Hearty, honeygrow, La Madeleine, Mimi's Café, Round Table Pizza and Smokey Bones. These partnerships are expected to help Grubhub rapidly penetrate the expanding food takeout market in the United States.
- ▲ Grubhub has been supplementing organizational growth with strategic acquisitions. Takeover of Yelp's Eat24, Groupon's OrderUp and Boston-based Fodler have broadened its portfolio of restaurants. The addition of Eat24 strengthened the company's position across Tier 1 markets and almost doubled its business in a large number of Tier 2 markets. Moreover, LevelUp acquisition added more than 200 customers. The acquisition of Tapingo — a leading mobile-app for campus food delivery services — is expected to allow Grubhub to serve over 500,000 active diners across 150 universities.
- ▲ Grubhub's strong balance sheet makes it an attractive pick for investors. As of Mar 31, 2020, cash and cash equivalents (including short-term investments) were \$597.1 million compared with \$375.9 as of Dec 31, 2019. Long term debt, as of Mar 31, 2020 was \$668.2 million compared with \$493 million as of Dec 31, 2019. Notably, long-term debt includes \$500 million of senior notes that will mature in 2027. In mid-March, the company borrowed \$175 million from its \$225-million revolving credit facility as a precautionary measure following the coronavirus outbreak. The company recently repaid these loans. Moreover, cash flow from operations was \$37.5 million in the first quarter compared with \$13.9 million in the year-ago period.

GrubHub's diverse restaurant base, expanding partner restaurant network and acquisitions are driving active diner base.

Reasons To Sell:

- ▼ GrubHub is facing significant competition from Uber Eats, Postmates and DoorDash in the fast-growing food delivery market. Stiff competition is expected to hurt active diner base expansion, which will eventually drag down top-line growth.
- ▼ GrubHub is suffering from lower number of frequent orders, particularly from newer diners in newer markets. The unfavorable shift in mix from New York and Corporate, both of which have very high activity rates, and increasing dependence on free delivery and food offers to attract customers are negatively impacting the quality of customers. Moreover, increasing expenses due to planned expansion into new delivery markets are likely to keep margins under pressure. Furthermore, as these markets will take some time to generate volumes, higher upfront costs will hurt profitability.
- ▼ GrubHub has grown its business through acquisitions, which have affected its balance sheet in the form of a high level of goodwill, totaling nearly \$1.50 billion or 57.8% of total assets as of Mar 31, 2020. Moreover, frequent acquisitions carry higher integration risks, which could impact growth.
- ▼ We note that GrubHub currently has a trailing 12-month Price/Sales (P/S) ratio of 4.10 which compares unfavorably with what the industry saw over the past year. The ratio is also closer to the high end of the valuation range over this period. Hence, its valuation looks slightly stretched from a P/S perspective..

Intensifying competition, lower number of frequent orders from newer diners in newer markets and rising marketing expenses is hurting GrubHub's prospects.

Last Earnings Report

Grubhub Q1 Earnings Beat Mark, Revenues Rise Y/Y

Grubhub reported a break-even in first-quarter 2020 results. The Zacks Consensus Estimate was of a loss of 5 cents per share.

Notably, the company had delivered earnings of 30 cents per share in the year-ago quarter.

Net loss per order of 71 cents in the first quarter came against the year-ago quarter's net income per order of 15 cents.

Revenues increased 12.1% year over year to \$363 million, beating the consensus mark by 0.7%.

The company's capture rate, net revenues divided by gross food sales, was 22% and included nearly 85 basis points (bps) of technology-oriented revenues from LevelUp and Tapingo.

Excluding the technology-oriented revenues, Grubhub's capture rate increased roughly 75 bps on a year-over-year basis. This upside was attributed to the mix shift toward delivering a greater percentage of orders on behalf of the company's restaurant partners.

Operating Details

Total costs & expenses increased 29.8% year over year to \$408.9 million. Operations & support; sales & marketing; technology; and general & administrative expenses grew 33%, 15.7%, 14.8% and 70.9%, respectively.

Revenues excluding operations and support costs were \$3.16 per order, down from \$3.26 in the previous quarter.

Adjusted EBITDA plunged 58.7% from the year-ago quarter to \$21 million. Adjusted EBITDA per order was 45 cents, down from \$1.09 in the year-ago quarter and 58 cents in the sequential quarter.

The sequential decline in adjusted EBITDA per order was due to Grubhub's restaurant supply and diner-loyalty initiatives.

Grubhub successfully rolled out its GH+ subscription program that caters to myriad paying subscribers within its bounds. Besides, it added proceeds from independent restaurant-funded promotions and made a steady progress by integrating Enterprise loyalty programs in its marketplace.

The company also witnessed cohort stabilization in respect of diner quality across some of the most competitive markets.

GFS & Active Diners See a Spike

GFS rose 8.5% year over year to \$1.6 billion. Average order size increased 8% year over year to \$35. The coronavirus outbreak drove average order size in the quarter under review despite a double-digit decline in the year-over-year orders during the last two weeks of March.

Grubhub's corporate business was adversely impacted by the pandemic situation as almost all its clients shifted to work-from-home models. New York, the company's largest consumer market and the epicenter of the viral outbreak in the United States, saw the steepest decline with a number of residents having temporarily moved out of the city and many restaurants halting operations.

Active diners were 23.9 million, up 23.9% year over year. The company added 1.3 million net new active diners sequentially.

Daily Average Grubs (DAGs) were 516,300, down 0.9% year over year. Orders delivered on behalf of restaurant partners accounted for slightly more than 45% of Grubhub's DAGs during the quarter.

Grubhub now has more than 300K restaurants on its platform including above 200K restaurant partners.

Balance Sheet & Cash Flow

As of Mar 31, 2020, cash and cash equivalents (including short-term investments) were \$597.1 million compared with \$375.9 as of Dec 31, 2019.

Long term debt, as of Mar 31, 2020 was \$668.2 million compared with \$493 million as of Dec 31, 2019.

In mid-March, Grubhub borrowed \$175 million from its \$225 million revolving credit facility as a precautionary measure following the coronavirus outbreak. The company recently repaid these borrowings.

Cash flow from operations was \$37.5 million compared with \$13.9 million in the year-ago quarter.

Outlook

Grubhub exited the first quarter with new diner wins and expansion in order volumes. The momentum has continued in the second quarter too. Moreover, Grubhub is experiencing solid growth in non-New York markets.

April 2020 DAGs were 20% higher than the April 2019-level. Moreover, average order size was roughly \$40 compared with slightly more than \$32 in April 2019.

However, as restaurants gradually open for dine-in, the company anticipates order rate to decline. Growing unemployment rate is also a huge concern.

Quarter Ending 03/2020

Report Date	May 06, 2020
Sales Surprise	0.65%
EPS Surprise	100.00%
Quarterly EPS	0.00
Annual EPS (TTM)	0.49

Nevertheless, based on the current order trends, Grubhub expects a meaningful adjustment in second-quarter EBITDA, which it plans to spend on helping its restaurant partners survive the coronavirus woes. The company is aiding its restaurant partners to gain as many as orders possible.

Grubhub is also spending slightly more on advertising and much more on pricing, discounts and promotions for restaurants as well as diners. The incremental spending comprises protective equipment for the company's drivers and new processes like contactless pickups and deliveries.

For second-quarter 2020, GrubHub anticipates adjusted EBITDA to be \$5 million after spending more than \$50+ million toward driving orders and safety. These initiatives are expected to generate more than \$150 million in GFS for the company's restaurant partners during the second quarter.

Recent News

On Jun 20, Grubhub and Franklin Junction inked an agreement to expand latter's availability to consumers nationwide.

On Jun 10, Grubhub announced that it lent a nod to Just Eat Takeaway.com's all-stock acquisition offer worth \$7.3 billion. The transaction is expected to close in the first quarter of 2021.

On Mar 13, Grubhub announced that it is temporarily suspending collection of up to \$100 million in commission payments from impacted independent restaurants nationwide due to the outbreak of the pandemic coronavirus.

On Mar 2, Grubhub and Dunkin' announced an extended partnership to bring the latter's Dunkin' Delivers service to even more stores throughout Connecticut, Long Island, New Jersey, New York City and Westchester.

Valuation

Grubhub shares increased 45.5% in the year-to-date period but down 4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 21% and 16.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 17% and 26.2%, respectively.

The S&P 500 Index is up 1.4% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at trailing 12-month EV/Sales of 4.95X, which compares to 1.42X for the Zacks sub-industry, 4.65X for the Zacks sector and 3.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.32X and as low as 2.24X, with a 5-year median of 6.19X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$74 price target reflects 4.07X forward 12-month sales.

The table below shows summary valuation data for GRUB

Valuation Multiples - GRUB					
		Stock	Sub-Industry	Sector	S&P 500
EV/Sales TTM	Current	4.95	1.42	4.65	3.2
	5-Year High	15.32	2	4.65	3.46
	5-Year Low	2.24	0.76	2.59	2.15
	5-Year Median	6.19	1.32	3.62	2.85
P/S F12M	Current	3.88	1.18	4	3.61
	5-Year High	11.05	1.33	4	3.61
	5-Year Low	1.82	0.77	2.32	2.53
	5-Year Median	5.16	1.01	3.14	3.02
P/B TTM	Current	4.4	5.24	6.07	4.46
	5-Year High	9.48	11.74	6.12	4.56
	5-Year Low	1.78	3.12	3.16	2.83
	5-Year Median	3.74	6.99	4.38	3.71

As of 07/22/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
eBay Inc. (EBAY)	Outperform	1
Etsy, Inc. (ETSY)	Outperform	2
Wayfair Inc. (W)	Outperform	2
Amazon.com, Inc. (AMZN)	Neutral	3
Alibaba Group Holding Limited (BABA)	Neutral	3
1800 FLOWERS.COM, Inc. (FLWS)	Neutral	2
MercadoLibre, Inc. (MELI)	Neutral	3
Uber Technologies, Inc. (UBER)	Neutral	3

Industry Comparison Industry: Internet - Delivery Services				Industry Peers		
	GRUB	X Industry	S&P 500	AMZN	BABA	UBER
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	D	D	D
Market Cap	6.50 B	598.49 M	22.74 B	1,546.16 B	640.42 B	56.63 B
# of Analysts	8	2.5	14	14	7	11
Dividend Yield	0.00%	0.00%	1.81%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	C	F
Cash/Price	0.09	0.13	0.06	0.03	0.09	0.16
EV/EBITDA	61.22	25.41	13.19	40.69	19.96	-7.39
PEG Ratio	NA	1.14	3.05	5.69	1.82	NA
Price/Book (P/B)	4.40	3.36	3.14	23.69	5.21	4.68
Price/Cash Flow (P/CF)	49.36	26.51	12.31	46.23	30.26	NA
P/E (F1)	NA	16.06	22.34	153.38	29.32	NA
Price/Sales (P/S)	4.81	1.10	2.40	5.22	8.81	3.88
Earnings Yield	-0.47%	2.91%	4.27%	0.65%	3.41%	-11.05%
Debt/Equity	0.53	0.03	0.75	0.36	0.14	0.60
Cash Flow (\$/share)	1.43	0.56	6.94	67.05	8.32	-4.71
Growth Score	D	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	3.00%	18.02%	10.82%	102.38%	36.01%	NA
Proj. EPS Growth (F1/F0)	-141.46%	26.24%	-9.08%	-12.17%	14.76%	46.92%
Curr. Cash Flow Growth	-34.43%	-15.11%	5.51%	31.33%	41.50%	-668.58%
Hist. Cash Flow Growth (3-5 yrs)	22.81%	21.00%	8.55%	49.26%	37.90%	NA
Current Ratio	2.52	1.01	1.30	1.08	1.91	1.68
Debt/Capital	34.58%	3.77%	44.41%	26.42%	12.94%	38.44%
Net Margin	-4.36%	4.04%	10.46%	3.56%	29.16%	-71.48%
Return on Equity	-0.74%	5.43%	15.29%	17.83%	14.56%	-58.70%
Sales/Assets	0.56	0.56	0.54	1.42	0.42	0.47
Proj. Sales Growth (F1/F0)	18.89%	0.00%	-2.27%	25.29%	31.31%	-8.21%
Momentum Score	F	-	-	C	C	D
Daily Price Chg	-0.27%	-0.16%	0.60%	-1.22%	-2.40%	0.34%
1 Week Price Chg	-2.39%	-0.54%	3.82%	-7.44%	-5.31%	-1.78%
4 Week Price Chg	3.39%	5.45%	7.55%	13.37%	11.26%	7.22%
12 Week Price Chg	49.08%	27.65%	7.51%	30.65%	21.77%	4.11%
52 Week Price Chg	-4.03%	-11.53%	-3.37%	54.93%	40.87%	-25.37%
20 Day Average Volume	1,970,594	321,096	2,037,153	5,459,876	19,165,556	20,450,828
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	1.11%	0.38%	0.13%
(F1) EPS Est 4 week change	0.00%	-1.30%	0.14%	5.28%	-0.37%	-0.10%
(F1) EPS Est 12 week change	-26.56%	-7.08%	-3.51%	-24.63%	-5.13%	-44.05%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.79%	-0.39%	0.32%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.