GrubHub Inc.(GRUB)

$58.57 (As of 01/24/20)

Price Target (6-12 Months): **$62.00**

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:C
	Value: D Growth: B Momentum: C	

Summary

Grubhub's shares have underperformed the industry in the past year. The company has been negatively impacted by higher investments in marketing and advertisements that fully offset top-line growth. The company also provided weak fourth-quarter guidance citing lower order expectations amid intensifying competition in the online food delivery industry. Grubhub is facing significant competition from the likes of UberEats and DoorDash. However, momentum in gross food sales and active diner base is a key catalyst. Grubhub's expanding partner base that now includes the likes of McDonalds', Yum Brands!, Shake Shack, Blue Apron, Dunkin' Brands Group is a major driver. Efforts to enhance delivery network and strengthen its alliance with new quality-focused restaurant are also expected to boost customer base.
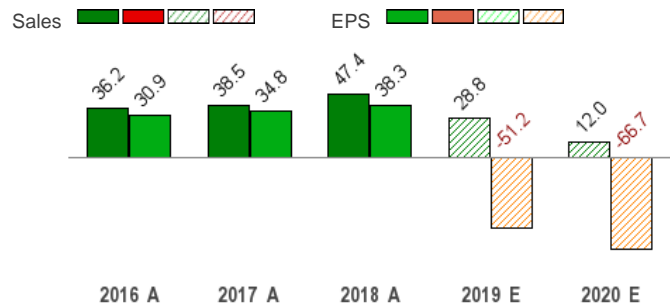
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$87.98 - $32.11**
20 Day Average Volume (sh)	**3,432,661**
Market Cap	**$5.4 B**
YTD Price Change	**20.4%**
Beta	**1.24**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Delivery Services**
Zacks Industry Rank	**Top 6% (15 out of 255)**
Last EPS Surprise	**0.0%**
Last Sales Surprise	**-2.5%**
EPS F1 Est- 4 week change	**7.6%**
Expected Report Date	**02/05/2020**
Earnings ESP	**0.0%**
P/E TTM	**56.9**
P/E F1	**216.9**
PEG F1	**9.4**
P/S TTM	**4.3**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	361 E	359 E	353 E	375 E	1,452 E
2019	324 A	325 A	322 A	327 E	1,297 E
2018	233 A	240 A	247 A	288 A	1,007 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$0.09 E	$0.09 E	$0.16 E	$0.01 E	$0.27 E
2019	$0.30 A	$0.27 A	$0.27 A	-$0.03 E	$0.81 E
2018	$0.52 A	$0.50 A	$0.45 A	$0.19 A	$1.66 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 01/24/2020. The reports text is as of 01/27/2020.

Overview

Founded in 2004, Chicago-based 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 105,000 local restaurants with diners in more than 2,000 cities across the United States, as of Dec 31, 2018. Further, the company was providing delivery services in more than 300 of the largest core-based statistical areas across the country.

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 billion in 2018. The company's business depends on three key metrics, namely Active Diners, Daily Average Grub and Gross Food Sales, which increased 22%, 31% and 34%, respectively, over fiscal 2017.

EPS Hist. and Est.

Sales Hist. and Est.

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 Dec 31, 2018, the company's Active Diners were 17.7 million.

Daily average Grubs (DAGs) are the number of orders placed on the platform divided by the number of days for a given period. DAGs were more than 435,900 in 2018.

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 $5,056.8 million in 2018.
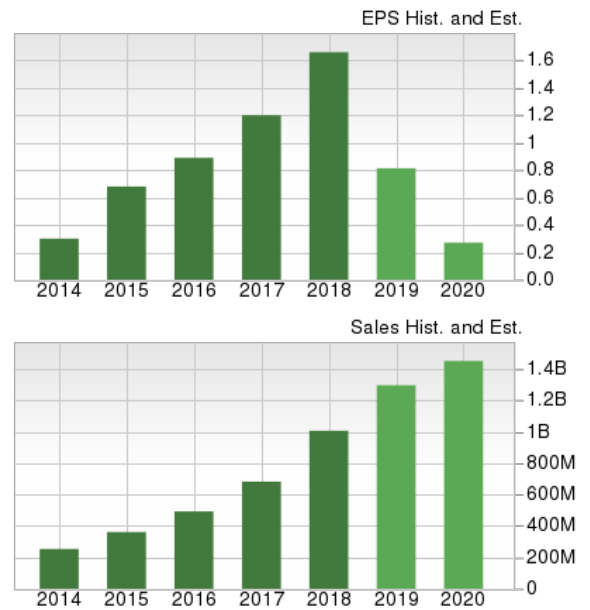
Reasons To Buy:

▲ 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 newly launched delivery markets also contributed to new diner growth. The company launched GrubHub Delivery into 125 new markets compared with its original expectation of 100 new markets. Grubhub Delivery now accounts for approximately 30% of the company's Daily Average Grubs (DAGs). Moreover, the company now has more than 105,000 restaurant partners in more than 2,000 cities in all the 50 states.

▲ Grubhub is benefiting from partnerships with renowned brands like Yelp, Groupon and Yum! Brands. Last February, Yum Brands named Grubhub as its official delivery partner. The Pizza Hut, Taco Bell and KFC owner also invested $200 million in GrubHub. Moreover, GrubHub has started delivering Blue Apron's on-demand meal kits on its online and mobile platforms at select places in New York. TripAdvisor integration is allowing the U.S. users to browse for eateries on the platform and order food by clicking a button directly on the platform. 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 Foodler 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 diverse restaurant base, partnerships 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.

▼ 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 $1.02 billion or 49.3% of total assets as of Dec 31, 2018. 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 4.63 which compares unfavorably with what the Zacks industry saw over the last year. Hence, its valuation looks slightly stretched from a P/S perspective.

Intensifying competition and rising marketing expenses can thwart GrubHub's growth prospects.

Last Earnings Report

Grubhub Q3 Earnings Meet, Q4 Outlook Grim

Grubhub reported third-quarter 2019 earnings of 27 cents per share, which was in line with the Zacks Consensus Estimate. However, the bottom line slumped 40% on a year-over-year basis.

The decline can be attributed to higher investments in marketing and advertisements that fully offset strong top-line growth.

Revenues surged 30.3% year over year to $322.1 million, which lagged the consensus mark of $330 million.

Capture rate, net revenues divided by gross food sales, was 23% and included nearly 110 bps of technology-oriented revenues from LevelUp and Tapingo.

However, Grubhub stated that stiff competition and lower frequency as well as retention rates of new diners hurt overall results by more than 300 basis points (bps).

Quarter Ending	09/2019
Report Date	Oct 28, 2019
Sales Surprise	-2.48%
EPS Surprise	0.00%
Quarterly EPS	0.27
Annual EPS (TTM)	1.03

Operating Details

Total costs & expenses jumped 41.3% year over year to $318.5 million. Operations & support, sales & marketing, technology, and general & administrative expenses increased 44.7%, 44.9%, 38.7% and 14.1%, respectively.

Revenues excluding operations and support costs were $3.82 per order, up from $3.66 in the previous quarter. Cost per gross new diner declined sequentially in the reported quarter.

Adjusted EBITDA decreased 10.5% from the year-ago quarter to $53.8 million. Adjusted EBITDA per order was $1.28, up from 98 cents in the previous quarter.

Gross Food Sales & Active Diners Increase

Gross food sales rose 15% year over year to $1.4 billion. Average order size increased 5% to about $33.

Active diners were 21.2 million, up 29% year over year. The company added 900,000 net new active diners sequentially. Roughly 40% of new diners came from its newest markets, 25% from markets that the company is operating since 2012 and the rest came from the oldest markets.

Daily Average Grubs (DAGs) were 457,300, up 10% year over year. Sequentially, DAGs declined 6%.

Orders delivered on behalf of restaurant partners accounted for nearly 35% of Grubhub's DAGs in the reported quarter.

Grubhub now has more than 140,000 partner restaurants on its platform. Moreover, there are nearly 300 enterprise brands available, with nearly 45,000 enterprise locations live on the company's marketplace.

During the reported quarter, Grubhub added 15,000 net new partnered restaurants. Almost 35% of restaurant additions were in the company's oldest markets. Moreover, 25% were in markets where Grubhub is operating since 2012 and the rest in newer markets. The company added thousands of enterprise brand locations during the quarter.

During the reported quarter, Grubhub expanded coverage with brands like Applebee's, Dunkin', IHOP, KFC, McDonald's, Panera Bread, Shake Shack, Subway, Taco Bell and Wendy's.

Guidance

For fourth-quarter 2019, GrubHub forecasts revenues between $315 million and $335 million. Adjusted EBITDA is anticipated to be $15-$25 million.

Management expects a sequential increase in sales and marketing costs in the fourth quarter. However, lower advertising spending is expected to reduce sales and marketing costs on a year-over-year basis.

Recent News

Per a report by The Wall Street Journal on Jan 8, 2020, Grubhub is looking for strategic options, including a potential sale.

On Sep 5, Grubhub and McDonald's USA announced a partnership to expand McDelivery to roughly 500 restaurants in the NYC and Tri-State Area.

Valuation

Grubhub shares decreased 26.6% in the six-months period and 27.7% over the trailing 12-month period. Stocks in the Zacks sub-industry have returned 2.2%, while the Zacks Computer & Technology sector is up 13.7% in the six-months period. Over the past year, the Zacks sub-industry and the Zacks Computer & Technology sector are up 7.3% and 33%, respectively.

The S&P 500 Index is up 9.6% in the six-months period and 23.9% in the past year.

The stock is currently trading at trailing 12-month EV/Sales of 4.4X, which compares to 1.28X for the Zacks sub-industry, 4.39X for the Zacks sector and 3.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.32X and as low as 2.55X, with a 5-year median of 6.61X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $62 price target reflects 3.88X 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	4.4	1.28	4.39	3.3
	5-Year High	15.32	3.85	4.39	3.3
	5-Year Low	2.55	0.97	2.56	2.16
	5-Year Median	6.61	1.38	3.46	2.8
P/S F12M	Current	3.65	1.11	3.73	3.52
	5-Year High	11.05	2.13	3.73	3.52
	5-Year Low	1.82	0.77	2.3	2.54
	5-Year Median	5.42	1.03	3.01	3
P/B TTM	Current	3.57	4.74	5.6	4.5
	5-Year High	9.48	25.95	5.63	4.55
	5-Year Low	1.78	3.81	3.13	2.85
	5-Year Median	3.87	7.31	4.22	3.62

As of 01/24/2020

Industry Analysis Zacks Industry Rank: Top 6% (15 out of 255)

Top Peers

Amazon.com, Inc. **(AMZN)**	Neutral
ANGI Homeservices Inc. **(ANGI)**	Neutral
Alibaba Group Holding Limited **(BABA)**	Neutral
eBay Inc. **(EBAY)**	Neutral
Etsy, Inc. **(ETSY)**	Neutral
1-800 FLOWERS.COM, Inc. **(FLWS)**	Neutral
MercadoLibre, Inc. **(MELI)**	Neutral
Wayfair Inc. **(W)**	Neutral

Industry Comparison Industry: Internet - Delivery Services | Industry Peers

	GRUB Neutral	X Industry	S&P 500	AMZN Neutral	BABA Neutral	MELI Neutral
VGM Score	C	-	-	C	B	D
Market Cap	5.36 B	743.27 M	24.13 B	923.00 B	543.86 B	32.84 B
# of Analysts	9	2	13	13	7	3
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	D	F
Cash/Price	0.08	0.09	0.04	0.05	0.06	0.10
EV/EBITDA	32.41	10.99	14.02	32.19	25.45	831.85
PEG Ratio	9.04	2.88	2.03	2.59	1.13	NA
Price/Book (P/B)	3.57	2.50	3.30	16.33	5.40	16.11
Price/Cash Flow (P/CF)	26.58	10.18	13.52	35.98	36.98	3,243.22
P/E (F1)	209.30	23.38	18.92	71.09	29.05	NA
Price/Sales (P/S)	4.26	0.70	2.65	3.48	8.45	16.02
Earnings Yield	0.46%	3.90%	5.28%	1.41%	3.44%	-0.13%
Debt/Equity	0.40	0.03	0.72	0.40	0.17	0.38
Cash Flow ($/share)	2.20	1.01	6.94	51.74	5.78	0.20
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	21.40%	21.40%	10.60%	116.18%	29.66%	-38.47%
Proj. EPS Growth (F1/F0)	-66.67%	29.81%	7.59%	27.69%	28.62%	71.50%
Curr. Cash Flow Growth	44.08%	2.83%	13.90%	85.21%	6.63%	-93.98%
Hist. Cash Flow Growth (3-5 yrs)	58.37%	43.04%	9.00%	48.43%	30.02%	-41.56%
Current Ratio	2.34	1.14	1.22	1.10	1.38	2.73
Debt/Capital	28.71%	13.34%	42.99%	28.45%	15.19%	30.18%
Net Margin	0.32%	-0.77%	11.35%	4.27%	34.02%	-5.87%
Return on Equity	2.89%	3.48%	17.10%	22.52%	14.92%	-1.29%
Sales/Assets	0.56	0.83	0.55	1.45	0.44	0.52
Proj. Sales Growth (F1/F0)	11.94%	11.00%	4.03%	18.56%	32.84%	38.10%
Momentum Score	C	-	-	F	A	C
Daily Price Chg	1.44%	-0.55%	-1.01%	-1.22%	-2.46%	-0.41%
1 Week Price Chg	6.87%	1.15%	2.29%	-0.98%	1.61%	0.53%
4 Week Price Chg	19.38%	-0.27%	1.02%	-0.38%	-1.22%	10.61%
12 Week Price Chg	71.96%	-1.25%	6.85%	4.78%	20.99%	26.66%
52 Week Price Chg	-24.17%	-2.44%	20.39%	12.49%	37.14%	94.78%
20 Day Average Volume	3,432,661	211,127	1,536,379	3,155,493	11,361,771	411,837
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.10%	0.00%
(F1) EPS Est 4 week change	7.60%	0.67%	0.00%	-0.17%	0.10%	7.60%
(F1) EPS Est 12 week change	-131.37%	-11.80%	-0.23%	-1.38%	3.39%	-145.88%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-0.60%	0.20%	0.00%

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	B
Momentum Score	C
VGM Score	C

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