GrubHub Inc.(GRUB)

$46.68 (As of 04/27/20)

Price Target (6-12 Months): **$49.00**

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:D
	Value: D Growth: B Momentum: D	

Summary

Grubhub's shares have underperformed the industry on a year-to-date basis. The company has been under stress due to higher investments, less frequent ordering by new cohorts compared with prior cohorts and co-marketing and free delivery for certain enterprise partners. It also provided weak first-quarter guidance. Grubhub is facing significant competition from the likes of UberEats and DoorDash. However, its expanding partner base including the likes of McDonalds', Yum Brands! and Shake Shack is a major driver. Efforts to enhance the delivery network and strengthen alliance with new quality-focused restaurants are also expected to expand the clientele. Moreover, an expected ramp-up in food delivery on the rampant coronavirus scare bodes well for Grubhub's Daily Average Grub (DAGs) and Gross Food Sales.
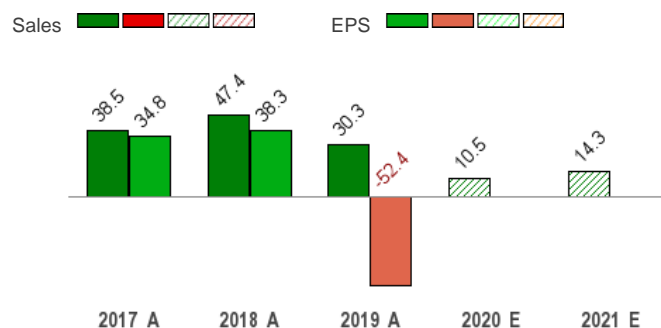
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$80.25 - $29.35**
20 Day Average Volume (sh)	**3,219,237**
Market Cap	**$4.3 B**
YTD Price Change	**-4.0%**
Beta	**1.18**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Delivery Services**
Zacks Industry Rank	**Top 15% (38 out of 253)**
Last EPS Surprise	**-66.7%**
Last Sales Surprise	**4.4%**
EPS F1 Est- 4 week change	**-9.7%**
Expected Report Date	**05/06/2020**
Earnings ESP	**-22.7%**
P/E TTM	**59.1**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**3.3**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	385 E	380 E	391 E	437 E	1,657 E
2020	350 E	345 E	346 E	383 E	1,450 E
2019	324 A	325 A	322 A	341 A	1,312 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.10 E	$0.03 E	$0.13 E	$0.06 E	$0.30 E
2020	-$0.01 E	-$0.07 E	$0.03 E	-$0.02 E	-$0.06 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 04/27/2020. The reports text is as of 04/28/2020.

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 300K restaurants on its platform, including more than 155K restaurant partners, as of Dec 31, 2019.

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, which increased 28%, 13% and 17%, respectively, over2018.

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, 2019, the company's Active Diners were 22.6 million.

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.
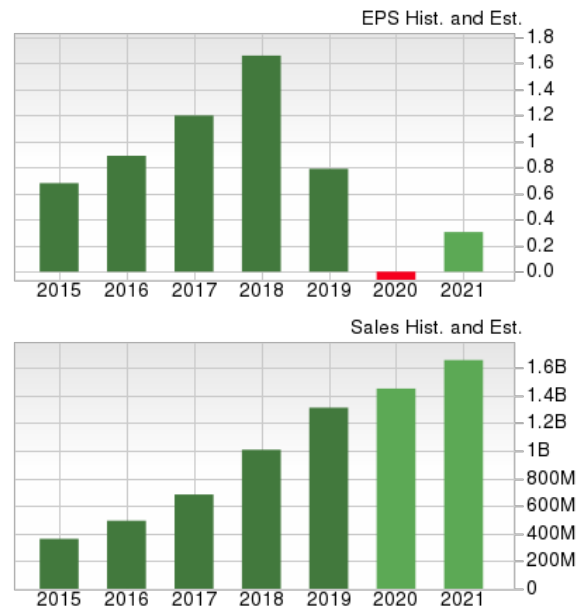
Reasons To Buy:

▲ 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 diverse restaurant base, expanding partner restaurant network and acquisitions are driving active diner base.

▲ Grubhub's expanding partner restaurant network is a major growth driver. At the end of 2019, the company had more than 300K restaurants on its platform, including more than 155K restaurant partners. The company added roughly 15K net new partnered restaurants during the fourth-quarter. Notably, orders delivered on behalf of restaurant partners accounted for approximately 40% of Grubhub's Daily Average Grubs (DAGs) during the fourth-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 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.

Reasons To Sell:

▼ GrubHub is facing significant competition from Uber Eats, Postmates and DoorDashin 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 $1.51 billion or 63.5% of total assets as of Dec 31, 2019. Moreover, frequent acquisitions carry higher integration risks, which could impact growth.

> 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's Q4 Earnings Lag Estimates, Revenues Beat

Grubhub reported fourth-quarter 2019 loss of 5 cents per share, missing the Zacks Consensus Estimate by 66.7%.

Notably, the company had reported earnings of 19 cents per share in the year-ago quarter.

The loss can be attributed to higher investments in operating & support and sales & marketing that fully offset top-line growth.

Revenues increased 18.6% year over year to $341.3 million, which beat the consensus mark by 4.4%.

The company's capture rate, net revenues divided by gross food sales, was 22% and included nearly 100 basis points (bps) of technology-oriented revenues from LevelUp and Tapingo.

Quarter Ending	12/2019
Report Date	**Feb 05, 2020**
Sales Surprise	**4.40%**
EPS Surprise	**-66.67%**
Quarterly EPS	**-0.05**
Annual EPS (TTM)	**0.79**

Operating Details

Total costs & expenses increased 26% year over year to $366.1 million. Operations & support, sales & marketing, technology, and general & administrative expenses grew 32.1%, 23.2%, 16.8% and 2.3%, respectively.

Grubhub stated that advertising cost per new diner in the reported quarter was relatively unchanged from the first three quarters of the year.

Revenues excluding operations and support costs were $3.26 per order, down from $3.82 in the previous quarter.

Adjusted EBITDA decreased 36.6% from the year-ago quarter to $26.7 million. Adjusted EBITDA per order was 58 cents, down from $1.28 in the previous quarter and 98 cents in the year-ago quarter.

The sequential decline in adjusted EBITDA per order was due to less frequent ordering by new cohorts compared with prior cohorts, co-marketing and free delivery for certain enterprise partners, including KFC, McDonald's, Panera Bread and Taco Bell, and continued investments.

Gross Food Sales & Active Diners Increase

Gross food sales rose 13% year over year to $1.6 billion. Average order size increased 5% to $34.

Active diners were 22.6 million, up 28% year over year. The company added 1.4 million net new active diners sequentially.

However, the company stated that a lower number of frequent orders, particularly from newer diners in newer markets, affected growth. 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.

Daily Average Grubs (DAGs) were 502,600, up 8% year over year and 10% sequentially. Favorable weather added 150 bps of DAG growth.

Orders delivered on behalf of restaurant partners accounted for approximately 40% of Grubhub's DAGs during the quarter.

Grubhub now has more than 300K restaurants on its platform, including more than 155K restaurant partners. The company added roughly 15K net new partnered restaurants during the quarter.

The company added thousands of new, partnered locations of 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.

Grubhub stated that McDonald's pilot in New York City and the Tristate area, which commenced in September, is progressing well. Moreover, the company is in the process of rapidly adding thousands of Wendy's locations to its marketplace. Additionally, its partnership with Shake Shack continues to expand to new locations and regions.

Guidance

For first-quarter 2020, GrubHub forecasts revenues between $350 million and $370 million. Order growth is expected to remain a drag in the first quarter.

Adjusted EBITDA is anticipated to be $15-$25 million.

For 2020, GrubHub forecasts revenues between $1.40 billion and $1.50 billion. DAG growth on a year-over-year basis and order growth are expected to improve.

Adjusted EBITDA is anticipated to be at least $100 million compared with $186.2 million reported in 2019.

Grubhub anticipates sales and marketing expenses to grow at a more normalized rate in 2020.

Recent News

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.

On Jan 23, Grubhub launched its Ultimate technology, a digital workflow solution, which connects the front and back-of-the house directly with diners, creating a transparent view into their order status.

Valuation

Grubhub shares decreased 4.5% in the year-to-date period and 29.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 0.3% and 4.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 5.5%, while the sector is up 2%.

The S&P 500 Index is down 10.8% in the year-to-date period and 2.9% in the past year.

The stock is currently trading at trailing 12-month EV/Sales of 3.4X, which compares to 1.07X for the Zacks sub-industry, 3.82X for the Zacks sector and 2.85X 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 6.38X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $49 price target reflects 3.01X 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	3.4	1.07	3.82	2.85
	5-Year High	15.32	2.82	4.44	3.45
	5-Year Low	2.24	0.75	2.58	2.16
	5-Year Median	6.38	1.35	3.57	2.82
P/S F12M	Current	2.87	1	3.41	3.23
	5-Year High	11.05	1.89	3.59	3.44
	5-Year Low	1.82	0.77	2.32	2.54
	5-Year Median	5.28	1.01	3.09	3.01
P/B TTM	Current	2.87	4.25	4.51	3.81
	5-Year High	9.48	18.8	5.38	4.55
	5-Year Low	1.78	3.07	3.16	2.84
	5-Year Median	3.75	7.18	4.29	3.64

As of 04/27/2020

Industry Analysis Zacks Industry Rank: Top 15% (38 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
ANGI Homeservices Inc. (ANGI)	Neutral	3
Alibaba Group Holding Limited (BABA)	Neutral	2
eBay Inc. (EBAY)	Neutral	2
Etsy, Inc. (ETSY)	Neutral	3
1-800 FLOWERS.COM, Inc. (FLWS)	Neutral	3
MercadoLibre, Inc. (MELI)	Neutral	3
Wayfair Inc. (W)	Neutral	2

Industry Comparison Industry: Internet - Delivery Services — Industry Peers

	GRUB	X Industry	S&P 500	AMZN	BABA	MELI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	3
VGM Score	D	-	-	B	B	F
Market Cap	4.29 B	468.38 M	19.77 B	1,184.50 B	518.27 B	29.30 B
# of Analysts	9	3	14	13	6	6
Dividend Yield	0.00%	0.00%	2.13%	0.00%	0.00%	0.00%
Value Score	D	-	-	D	C	F
Cash/Price	0.11	0.16	0.06	0.05	0.10	0.11
EV/EBITDA	40.91	17.31	12.09	30.85	23.31	847.01
PEG Ratio	NA	1.06	2.36	3.66	0.94	NA
Price/Book (P/B)	2.86	2.41	2.70	19.06	4.20	14.78
Price/Cash Flow (P/CF)	32.56	6.36	10.70	35.44	35.24	1,395,624.63
P/E (F1)	NA	14.82	18.72	84.93	23.07	NA
Price/Sales (P/S)	3.27	0.83	2.12	4.22	7.35	12.76
Earnings Yield	-0.13%	3.89%	5.19%	1.18%	4.34%	-0.27%
Debt/Equity	0.40	0.04	0.72	0.38	0.14	0.41
Cash Flow ($/share)	1.43	1.21	7.01	67.05	5.78	0.00
Growth Score	B	-	-	A	B	F
Hist. EPS Growth (3-5 yrs)	6.79%	9.37%	10.88%	110.19%	33.64%	-42.08%
Proj. EPS Growth (F1/F0)	-107.88%	20.69%	-5.87%	21.58%	20.54%	56.83%
Curr. Cash Flow Growth	-34.43%	-10.52%	5.92%	31.33%	6.63%	-99.77%
Hist. Cash Flow Growth (3-5 yrs)	22.81%	29.50%	8.55%	49.26%	30.02%	-83.10%
Current Ratio	2.27	1.04	1.23	1.10	1.75	2.16
Debt/Capital	28.80%	14.93%	43.90%	27.39%	12.78%	31.38%
Net Margin	-1.42%	0.41%	11.32%	4.13%	34.90%	-7.49%
Return on Equity	1.33%	1.83%	16.60%	21.07%	15.82%	-3.50%
Sales/Assets	0.57	0.57	0.55	1.41	0.44	0.50
Proj. Sales Growth (F1/F0)	10.53%	6.36%	-1.15%	20.44%	33.34%	31.11%
Momentum Score	D	-	-	A	D	D
Daily Price Chg	7.26%	3.57%	2.63%	-1.42%	-0.33%	3.19%
1 Week Price Chg	2.40%	0.43%	-1.74%	1.48%	-2.45%	-4.39%
4 Week Price Chg	18.03%	12.61%	8.71%	20.98%	6.49%	24.55%
12 Week Price Chg	-13.20%	-14.57%	-17.57%	18.55%	-4.42%	-13.06%
52 Week Price Chg	-28.92%	-23.75%	-11.60%	22.57%	8.96%	19.29%
20 Day Average Volume	3,219,237	300,812	2,734,148	5,517,953	14,618,931	605,440
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.26%	0.00%	-9.93%
(F1) EPS Est 4 week change	-9.75%	-9.12%	-6.57%	2.03%	-1.35%	-9.93%
(F1) EPS Est 12 week change	-144.91%	-17.32%	-12.64%	7.13%	0.39%	-94.04%
(Q1) EPS Est Mthly Chg	-25.79%	-12.89%	-10.33%	-6.10%	-11.30%	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	D
VGM Score	D

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.

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