

Grubhub Inc.
NASDAQ:GRUB

Analyst: Chrsitian Henderson
Sector: Consumer Disc.

BUY

Price Target: \$42

Key Statistics as of 12/2/2016

Market Price: \$35.78
Industry: Leisure/Restaurants
Market Cap: \$3,054M
52-Week Range: \$17.77-44.58
Beta: 1.86

Catalysts:

- Q4 Winter Earnings Report
- Possible future acquisitions

Company Description:

Grubhub is the nation's leading online and mobile food ordering company dedicated to connecting hungry diners with local takeout restaurants. Grubhub was founded in 2004, and Seamless was founded in 1999. In late 2013, the companies merged, and today serve diners and corporate businesses from more than 45,000 local takeout restaurants in over 1,100 U.S. cities and London. The company's online and mobile ordering platforms allow diners to order directly from more than 45,000 takeout restaurants in over 1,100 U.S. cities and London. Every order is supported by the company's 24/7 customer service teams. Grubhub has offices in Chicago, New York and London. Grubhub's portfolio of brands includes Grubhub, Seamless, MenuPages, Allmenus, LABite, Restaurants on the Run, DiningIn and Delivered Dish.



Thesis

The current status of the company Grubhub indicate that is due for a long term buy. This company is a food delivery company that focuses on providing the service of delivering food from restaurants to consumers' doorstep. The reasons that I believe this stock is a long term buy are listed as follows:

- Operating expenses are a decreasing percentage when compared to revenue growth as the company grows.
- Competition is clearing the way for the success of Grubhub, as Grubhub remains the cheapest way for consumers to get food delivered.
- The company is debt free with a free cash flow of \$64.2 million.

With a large free cash flow and no debt obligations, Grubhub has no room for anything but to continue to grow and increase revenues and net income. Being that the company is only on its 3rd year of being traded as a public company and is performing better each year, the stock price should increase. Grubhub is practically in the industry alone and leads it assertively.

My recommended entry price is current price of \$35.78 and my exit price is \$42 yielding a return of 17.38%.

Macro Environment

Minimum wage hikes could mean depressed operating income for restaurants. This may result in decrease in employees and potentially even a raise in prices. However, this can deflate Grubhub's revenue, but they will stay above the curve because they offer a service independent of restaurants performance.

Tax situations that will be determined by the upcoming president will have a forecasted good economic benefit to Grubhub as a corporation and the restaurants that Grubhub services.

Industry Outlook

The Company's geographic reach includes more than 1,100 cities across the United States as of November 2016. The company's largest markets are: Boston, Chicago, Los Angeles, New York, Philadelphia, San Francisco and Washington, D.C. The company also generated a nominal amount of foreign revenues through its U.K. subsidiary.

The RPI – a monthly composite index that tracks the health of and outlook for the U.S. restaurant industry – stood at 99.6 in August, down 1.0 percent from a level of 100.6 in July.

Restaurant Performance Index



Business Model

The Grubhub portfolio of brands includes Grubhub, Seamless, AllMenus, MenuPages, LABite, Restaurants on the Run, DiningIn and Delivered Dish. All of these subsidies provide the same service. There is an app and website that consumers log into and they can view the restaurants in their local community that use Grubhub as a delivery services. The restaurant typically pays a commission for the order placed through the Grubhub website which is between 5% and 15%, in 2014 the average was said to be 13.5%.

Based on the distance from the restaurant to the consumer the order can either be free or a small fee is charged, depending on mileage and city. Grubhub. Inc also makes money by charging restaurants for appearing higher in the list of selections when a consumers accesses the

website or app. Some restaurants will pay a higher commission if they are placed in the top selections when consumers look to place an order.

Porters Five Forces

Intensity of competition

The intensity of competition is low to moderate. It is low with companies such as UberEats and Amazon's Food delivery business sector, because this food delivery business sector is minimal and not their main nature of business. The competitors that CapitalIQ and Bloomberg database have organized are not accurate, because they are websites such as Yelp and Zillow that provide online browsing services but not food delivery services. Grubhub states this it competes with paper menus and restaurants own delivery systems. Through increasing orders to businesses they can curb this competition by offering their services as a benefit.

Threat of Substitution

The threat of substitutions is moderate because companies like Blue Apron and Home Chef are in the business of delivering raw ingredients to consumers that can prepare themselves. However, Grubhub consumers order food as opposed to cooking it and at home cooking is moderately threatening to Grubhub. There will always be consumers that desire the ease of access and that may not have the time to cook or learn to cook.

Barriers to New Entry

Barriers to New Entry is high because a lot of capital needs to be raised and contracts need to be made to be able to service restaurants.

Bargaining power of suppliers

Bargaining power of suppliers is high because the restaurants have full control of using Grubhub and can stop using the service after contracts end. The companies can even resort to hiring their own delivery staff if they choose but that can be most costly than the benefits will give. This is an incentive for Grubhub to keep their service fee low and humble.

Bargaining power of consumers

The bargaining power of consumers is high as well because the consumer can choose to call the restaurant directly to place an order or go to the restaurant in person to pick up an order or to dine. This also causes Grubhub to keep their fees low and competitive.

Product Differentiation

As of November 2016, the Company served approximately 7.7 million Active Diners and over 45,000 local take out restaurants. Their service is a mainstream food delivery service that can be compared to the Uber of food delivery. A consumer has a wide selection of places to eat and can choose any one of them, and access restaurants' full menu at the touch of a finger. Very few companies can be compared to Grubhub, especially since Seamless merged with them in 2013.

Competition

The Company primarily competes with the individual ordering processes used by most restaurants and diners. Consumers use physical menus they picked up from the location or received through circulars or the mail. Or they may be attracted by local or media advertisements. In diners, Grubhub competes with traditional ordering methods by listing numerous diners into the same website which makes it more convenient for the consumer to pick and choose a meal without dealing with the diner directly. For restaurants, Grubhub offers targeted marketing opportunity old fashioned methods handled by individual restaurants. Grubhub offers diners choices, with over 45,000 restaurants to choose from at a low cost delivery and without service or processing fees.

Financials and Valuation

The short interest ratio is relatively low hovering at 5.65. Indicating that the market is hopeful for Grubhub Inc. The ratio given below shows that there is value creation from this company.

ROIC W/O GW		
	History	LFY
GRUB	17.2%	17.3%
Competitors		

The financial statements of this company are easy to read because many lines such as debt, inventory and liabilities read zero. The company is generating and growing revenue from providing a quick and easy service that has little risk involved. They have a lot of cash on hand which can be used to make future acquisitions or begin a new product line. They have met or outperformed seven of the last eight earnings estimates.



They even outperformed Q3 earnings reports. Valuing the company using the proforma has proven to be difficult because the company only has 2 years of trading data. However, outcompeting previous quarters in revenue and net income by margins over 40% are a sign that the company is still in its rapid growth phase of business. As the company and operations continue to improve so will its stock price.

Some highlights for the Q3 report:

- **Revenues:** \$123.5 million, a 44% year-over-year increase from \$85.7 million in the third quarter of 2015.
- **Net Income:** \$13.2 million, or \$0.15 per diluted share, a 92% year-over-year increase from \$6.9 million, or \$0.08 per diluted share, in the third quarter of 2015.
- **Non-GAAP Adjusted EBITDA:** \$35.5 million, a 65% year-over-year increase from \$21.5 million in the third quarter of 2015.

- **Non-GAAP Net Income:** \$19.9 million, or \$0.23 per diluted share, a 73% year-over-year increase from \$11.5 million, or \$0.13 per diluted share.

Catalysts and Summary

Weather is a big impact to the use of Grubhub, the colder the weather consumers typically dine and order out at restaurants more. Q4 estimates are the highest of the year, and in February if they outperform their stock prices could rise.

There are not current talks of new acquisitions to be made soon, however they have already acquired and merged with many companies based in big cities. Any new acquisition could peak their stock price.

In conclusion, due to the reasons listed throughout, Grubhub is a long-term buy. They are more efficient and have been curbing their operating expenses whilst increasing revenues. There is no competition for Grubhub that will pose any threat to the companies dominate market share. Finally, the company is debt free and can continue to increase free cash flow for the use of new M&A or returning value to investors. Neither of these are in the talk but the high free cash flow and increasing revenue forecasts prove that the company is not performing well and underestimating by the market

GrubHub Inc. (GRUB)

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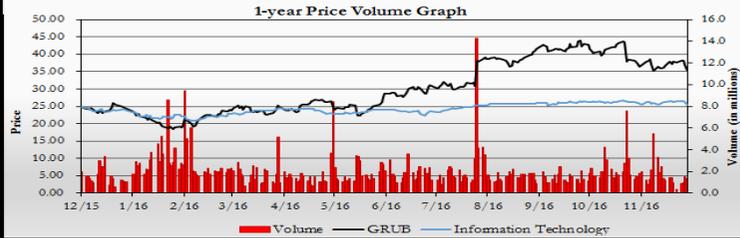
NEUTRAL

Analysis by P.C. Principal
12/4/2016

Current Price: **\$35.78**
Divident Yield: **0.0%**

Intrinsic Value: **\$17.74**
Target Price: **\$28.74**

Target 1 year Return: **-19.69%**
Probability of Price Increase: **37%**



Description
GrubHub Inc., together with its subsidiaries, provides an online and mobile platform for restaurant pick-up and delivery orders in the United States.

General Information
Sector: Information Technology
Industry: Internet Software and Services
Last Guidance: November 3, 2015
Next earnings date: February 4, 2017
Estimated Country Risk Premium: 7.80%
Effective Tax rate: 40%
Effective Operating Tax rate: 27%

Market Data

Market Capitalization	\$3,062.51
Daily volume (mil)	0.64
Shares outstanding (mil)	85.59
Diluted shares outstanding (mil)	85.97
% shares held by institutions	81%
% shares held by investments Managers	62%
% shares held by hedge funds	49%
% shares held by insiders	1.45%
Short interest	13.33%
Days to cover short interest	6.49
52-week high	\$44.58
52-week low	\$17.77
Levered Beta	1.86
Volatility	0.00%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
9/30/2015	-1.88%	-30.24%
12/31/2015	-0.04%	-18.07%
3/31/2016	-0.50%	-24.86%
6/30/2016	4.05%	-6.43%
9/30/2016	2.03%	-15.72%
Mean	0.73%	-19.07%
Standard error	1.0%	4.1%

Peers

Yelp Inc.	N/M
Zillow Group, Inc.	N/M
Shutterstock, Inc.	0% per annum over 0y
Angie's List, Inc.	N/M
Bankrate, Inc.	0% per annum over 0y
Rocket Fuel Inc.	N/M
Quotient Technology Inc.	N/M
Nutanix, Inc.	N/M



Management

Management	Position
Maloney, Matthew	Founder, Chief Executive Off
DeWitt, Adam	Chief Financial Officer and Senior Vice President of Ope
Chia, Stanley	Senior Vice President, Gener
Drucker, Margo	Chief Marketing Officer
Coppola, Barbara	Chief Technology Officer
Belousova, Maria	

Profitability

	GRUB (LTM)	GRUB (5 years historical average)	Industry (LTM)
ROIC	13.9%	31.68%	15.07%
NOPAT Margin	26%	51.11%	17.6%
Revenue/Invested Capital	0.52	0.62	0.86
ROE	10.8%	33.25%	16.25%
Adjusted net margin	26%	50.93%	16.6%
Revenue/Adjusted Book Value	0.41	0.65	0.98

Invested Funds

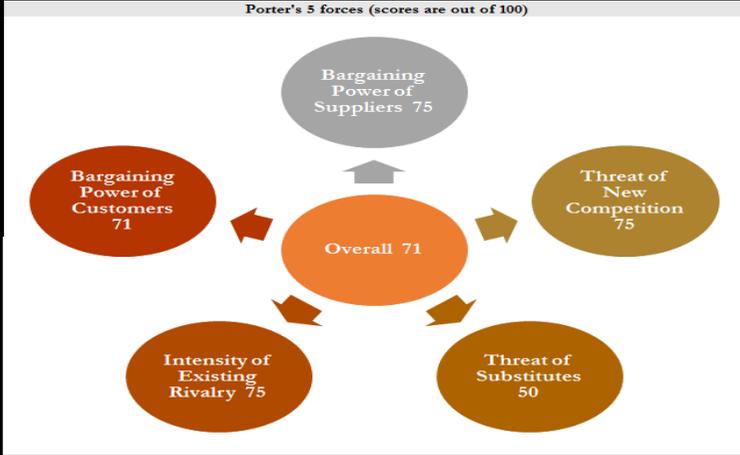
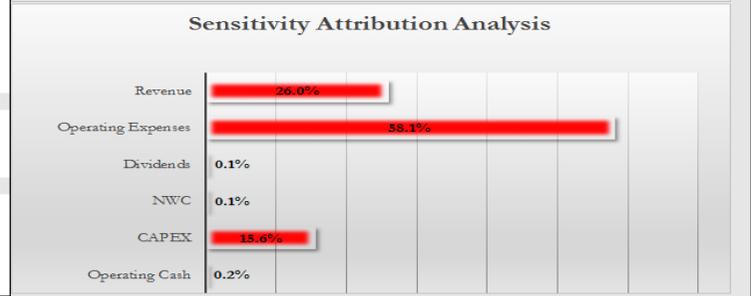
	GRUB (LTM)	GRUB (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	23.3%	24.4%	74%
Estimated Operating Cash/Total Capital	3.0%	7.9%	N/A
Non-cash working Capital/Total Capital	-3.0%	-5.8%	-17%
Invested Capital/Total Capital	79.7%	83.5%	41%

Capital Structure

	GRUB (LTM)	GRUB (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.01	0.00	0.09
Cost of Existing Debt	3.88%	3.56%	2.92%
Estimated Cost of new Borrowing	3.71%	3.80%	2.92%
CGFS Risk Rating	BB	BB	BBB
Unlevered Beta (LTM)	1.85	1.00	1.00
WACC	18.34%	11.82%	11.40%

Porter's 5 forces (scores are out of 100)

Bargaining Power of Suppliers	75
Bargaining Power of Customers	71
Threat of New Competition	75
Intensity of Existing Rivalry	75
Threat of Substitutes	50
Overall	71



Revenue growth

Period	Revenue growth
Base Year	36.0%
9/30/2017	22.9%
9/30/2018	18.0%
9/30/2019	19.1%
9/30/2020	13.8%
9/30/2021	10.8%
9/30/2022	14.7%
9/30/2023	10.4%
9/30/2024	8.7%
9/30/2025	5.3%
9/30/2026	-74.5%
Continuing Period	4.0%

Invested Capital

Period	Invested Capital
Base Year	\$166.46
9/30/2017	\$187.96
9/30/2018	\$710.44
9/30/2019	\$809.18
9/30/2020	\$868.64
9/30/2021	\$1,014.79
9/30/2022	\$1,264.69
9/30/2023	\$1,304.31
9/30/2024	\$1,367.81
9/30/2025	\$1,423.38
9/30/2026	\$1,469.62
Continuing Period	

Valuation

	NOPAT margin	ROIC/WACC
Base Year	26.5%	0.76
9/30/2017	10.9%	0.34
9/30/2018	12.2%	0.37
9/30/2019	14.1%	0.51
9/30/2020	14.9%	0.60
9/30/2021	15.8%	0.70
9/30/2022	16.3%	0.83
9/30/2023	15.9%	0.88
9/30/2024	16.1%	0.95
9/30/2025	16.4%	1.02
9/30/2026	-43.9%	-0.71
Continuing Period	-0.9%	-0.03

Net Claims

Period	Net Claims	Price per share
Base Year	-\$227.88	\$5.56
9/30/2017	-\$87.81	\$6.65
9/30/2018	-\$192.94	\$8.37
9/30/2019	-\$312.70	\$10.23
9/30/2020	-\$462.25	\$12.14
9/30/2021	-\$643.57	\$14.02
9/30/2022	-\$823.61	\$15.99
9/30/2023	-\$1,030.96	\$17.87
9/30/2024	-\$1,263.32	\$19.63
9/30/2025	-\$1,532.56	\$21.15
9/30/2026	-\$2,096.77	\$19.35
Continuing Period		