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are full of lies.
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June 2019 Long Thesis for Grubhub

@BluegrassCap

Disclaimer: This material is not investment advice and should not be relied upon to make investment decisions. Do your own work.

Agenda

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What does the market see? *… why the opportunity exists*	4 - 7
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What the Market Sees: Uneconomic Model, Scary Competition

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OPINION • FINANCING

AS DELIVERY GROWS, DEBATE RAGES OVER ITS PROFITABILITY

Sales at the largest third-party providers rose 55%, but many operators still question the math, says RB's The Bottom Line.

By Jonathan Maze on Feb. 08, 2019

Quora | Home | Answer | Spaces | Notifications | Search Quora

Discounts | Delivery | Food Delivery | Delivery Services

How do food delivery apps make money if they give huge discounts?

Amazon leads $575 million investment round for food delivery company Deliveroo

PUBLISHED FRI, MAY 17 2019 • 1:35 AM EDT | UPDATED FRI, MAY 17 2019 • 6:25 AM EDT

food on demand — The Intersection of Food, Technology & Mobility | About | Conference

Google Adds "Order Delivery" Button, Will Late Adopters Follow?

by Tom Kaiser | May 29, 2019 | Best Practices, News, Third-Party Delivery, Top Stories

CNBC | MARKETS | BUSINESS | INVESTING | TECH | POLITICS | CNBC TV

TECH

GrubHub sinks as analysts say it's struggling to keep pace with UberEats and DoorDash

PUBLISHED TUE, MAR 19 2019 • 1:14 PM EDT | UPDATED TUE, MAR 19 2019 • 4:02 PM EDT

BARRON'S

TECHNOLOGY

GrubHub Is Losing in Food-Delivery War, Analyst Says

What the Market Sees: Unlimited VC Funding

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Exhibit 32: Select food delivery companies, by capital raised

$mn, pre-M&A/IPO if applicable, ex-debt financing

	Capital Raised	HQ Location	Company Description
Meituan-Dianping	$7,300	Beijing, China	Offers diversified daily services including food delivery, in-store dining, hotel, and travel booking and other services.
Ele.me	$2,090	Shanghai, China	Meal ordering platform in China
DoorDash	$1,970	San Francisco, CA	Developer of a food delivery application intended to provide on-demand food-ordering and delivery services.
Delivery Hero	$1,760	Berlin, Germany	Provider of online food delivery services from restaurants and cafes, also operating as its own delivery service
Deliveroo	$1,520	London, United Kingdom	Developer of an online food delivery platform intended to help users order restaurant meals in the UK
Rappi	$1,460	BogotÆ, Colombia	Helps consumers order groceries, food and drugstore medications
Miss Fresh	$1,360	Beijing, China	Developer of an application platform designed to offer fresh food to customers across China.
Swiggy	$1,270	Bengaluru, India	Developer of an on-demand food delivery platform in India
BigBasket	$694	Bengaluru, India	Operator of a food delivery platform designed to offer food and grocery products
Postmates	$681	San Francisco, CA	On-demand delivery platform in the US
FreshDirect	$517	Bronx, NY	Online retail platform to sell food and grocery products

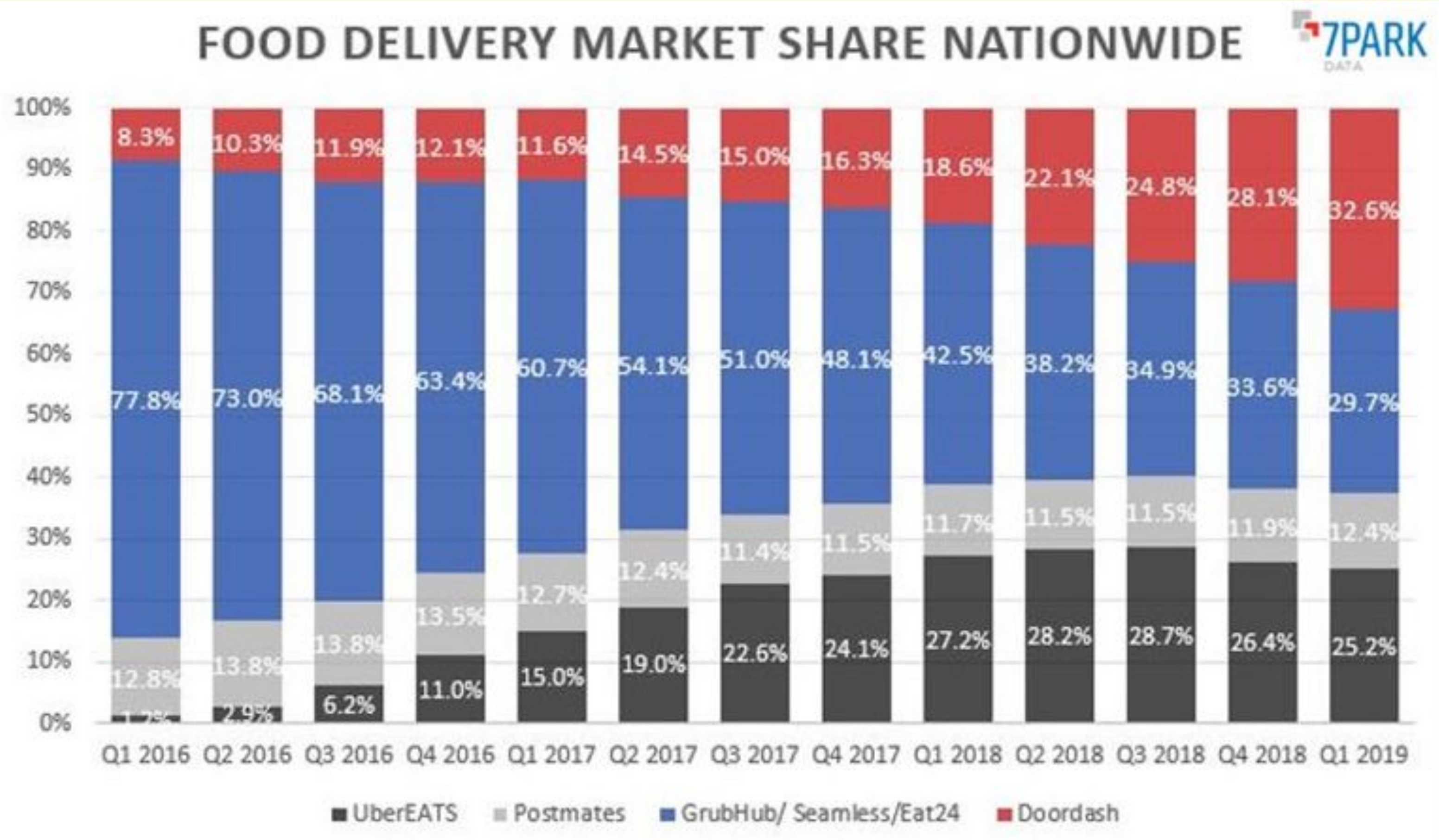
Source: Pitchbook, Data compiled by Goldman Sachs Global Investment Research

RESTAURANT DIVE   Deep Dive   Opinion   Library   Events   Jobs   Topics

BRIEF

Venture capitalists are investing big in delivery, but will third parties last?

What the Market Sees: Market Share Erosion



What the Market Sees: Crashing Stock Chart, Bubble Valuation

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GrubHub Stock Is In Free Fall — Can Earnings Deliver A Surprise?

Catching falling knives is dangerous especially when there is big competition with deep pockets

By Nicolas Chahine, InvestorPlace Contributor Apr 15, 2019, 2:40 pm EDT

Seeking Alpha

GrubHub's Premium Valuation Hard To Justify

Grubhub Inc. (GRUB)

NYSE - Nasdaq Real Time Price. Currency in USD

Add to watchlist

64.70 -0.52 (-0.80%) — At close: 4:01PM EDT

64.70 0.00 (0.0 — After hours: 4:28PM EDT

Summary | Chart | Conversations | Statistics | Historical Data

Previous Close	65.22	Market Cap	5.899B
Open	64.50	Beta (3Y Monthly)	0.66
Bid	64.59 x 900	PE Ratio (TTM)	110.79
Ask	64.77 x 800	EPS (TTM)	0.58
Day's Range	63.80 - 65.99	Earnings Date	Jul 23, 2019 - Jul 29, 2019
52 Week Range	60.20 - 149.35	Forward Dividend & Yield	N/A (N/A)
Volume	1,772,337	Ex-Dividend Date	N/A
Avg. Volume	2,618,263	1y Target Est	98.82

Reality Check: Grubhub KPIs

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Period *(in 000s)*	2014	2015	2016	2017	2018	CAGR
Active diners	5,029	6,746	8,174	14,462	17,688	37%
Average daily orders	183	227	275	334	436	24%
Annual order frequency	13.3	12.3	12.3	8.4	9.0	-9%
Average order value	$26.79	$28.39	$29.89	$31.04	$31.78	4%
Gross food sales	$1,787,400	$2,353,600	$2,998,100	$3,783,700	$5,056,800	30%
Take rate	14.2%	15.4%	16.5%	18.1%	19.9%	9%
EBITDA / gross food sales	**4.4%**	**4.5%**	**4.8%**	**4.9%**	**4.6%**	**1%**
Revenue	$253,873	$361,825	$493,331	$683,067	$1,007,257	41%
Adjusted EBITDA	$78,703	$104,967	$144,646	$183,988	$233,742	31%
EBITDA margin	31%	29%	29%	27%	23%	-7%
Cash from operations	$74,609	$43,988	$97,780	$154,144	$225,527	32%
Book value	$770,522	$877,596	$972,119	$1,117,816	$1,442,339	17%
Net working capital (ex cash)	-$71,938	-$44,079	-$37,772	-$67,854	-$78,472	2%
Shares outstanding (year end)	83,643	84,577	85,903	87,194	90,999	2%
Return on tangible capital		*Infinite*	*Infinite*	2098%	714%	
Return on total capital		12%	14%	14%	12%	

Note: annual order frequency impacted by timing of Q4 2017 acquisitions; Q1 2019 annual order frequency = 9.9.
Share count increase in 2018 due to YUM! Brands partnership and associated purchase of 2.8 million shares.

Industry Primer: Second Coming of the OTAs, But Better

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- Incremental revenue expands the share of wallet (by as much as 30%) restaurants capture on food spending, displacing other channels (eg grocery stores).
- Food order customers are more loyal (70% only use the first app they download) and order more frequently (range: 10x per year to 10x per month) than OTA customers.
- Restaurants are more fragmented than hotels and have less relative negotiating leverage, demonstrated by food order networks' structurally negative working capital.
- Customers are cheaper to acquire than other internet marketplaces.

	User Growth	Supply Penetration	End-Market Margin	End-Market Distribution Needs	Utilization Frequency	Adjacencies & affiliates	Expansion vs. Displacement	Moat
ANGI HOMESERVICES	+	+	+	+ −	+ −	+	+ −	+
BOOKING HOLDINGS	+ −	+ −	+	+	−	+ −	−	+ −
expedia group	+ −	+	+	+	−	+ −	−	−
GRUBHUB	+	+	−	+	+	+	+	+ −
REDFIN	+ −	−	+ −	−	+ −	+ −	−	−
tripadvisor	−	+	+	+	−	+	+ −	+ −
yelp	−	+ −	+ −	+ −	+	+ −	+ −	−

Matt Maloney: "We're one of the few consumer internet companies for which offline advertising works really well — specifically, at transit hubs. People coming home from work around 6 p.m. are hungry and very susceptible to our message. We figured this out when we advertised on mass transit in Chicago. We had noticed that the person managing the outdoor ads was really bad at taking them down, so we knew if we bought a month of space, we'd get five. That placement worked very well. It has been a staple of our advertising ever since. In New York City, you'll see Seamless ads plastered on the subways and buses."

Source: Needham; Chicago Tribune

Industry Primer: Two Sided Food Order Marketplace Drivers

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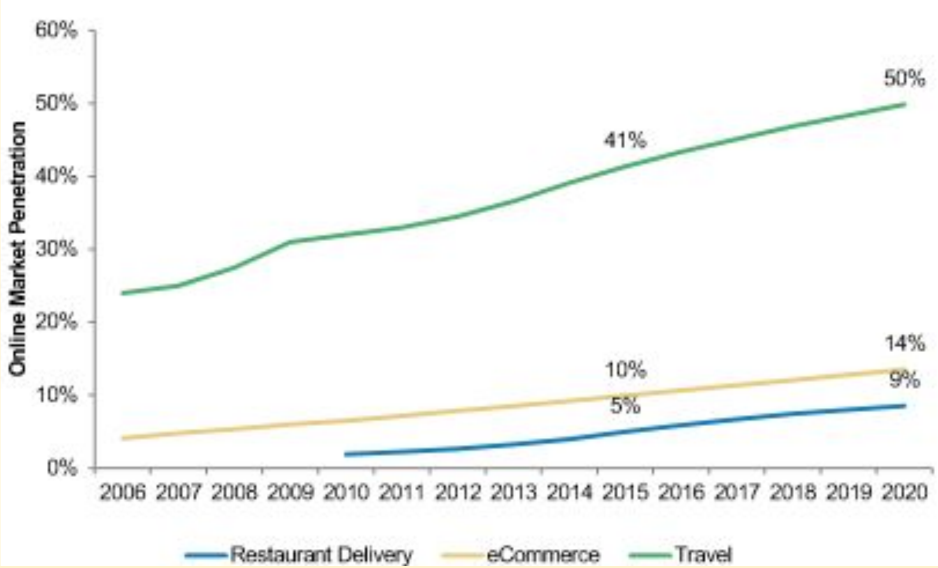
US Restaurants - "Off Premise"		Long Term Online Penetration		Take Rate		3P Online Industry Revenue		Steady state EBITDA Margin		3P Online Industry EBITDA
$300B	*	30%	*	15%	=	$13.5B	*	40%	=	$5.4B



Note: Off premise = delivery + carryout + drive thru. Source: NRA; AlphaWise; Morgan Stanley

Industry Primer: Competition is 1) Telephone 2) Awareness

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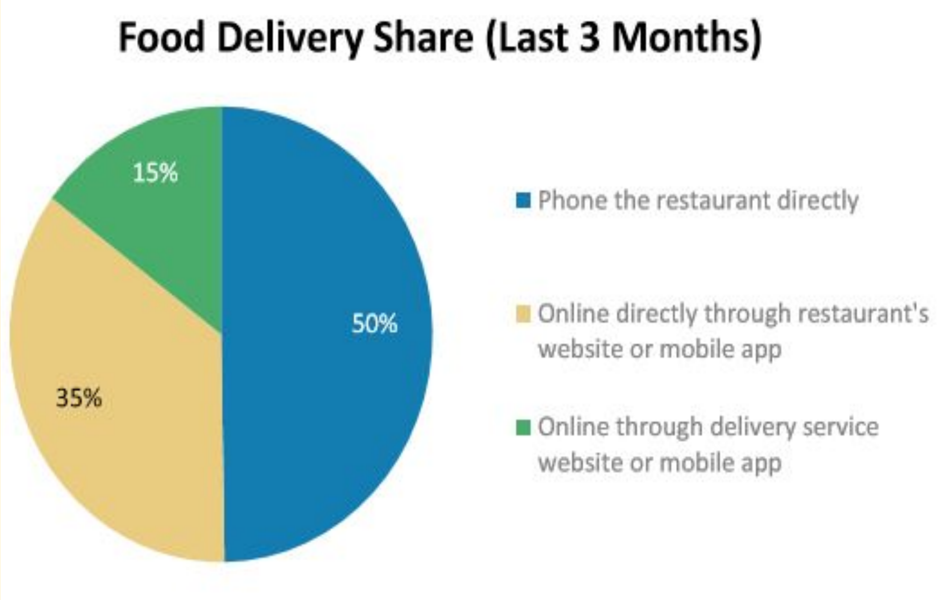
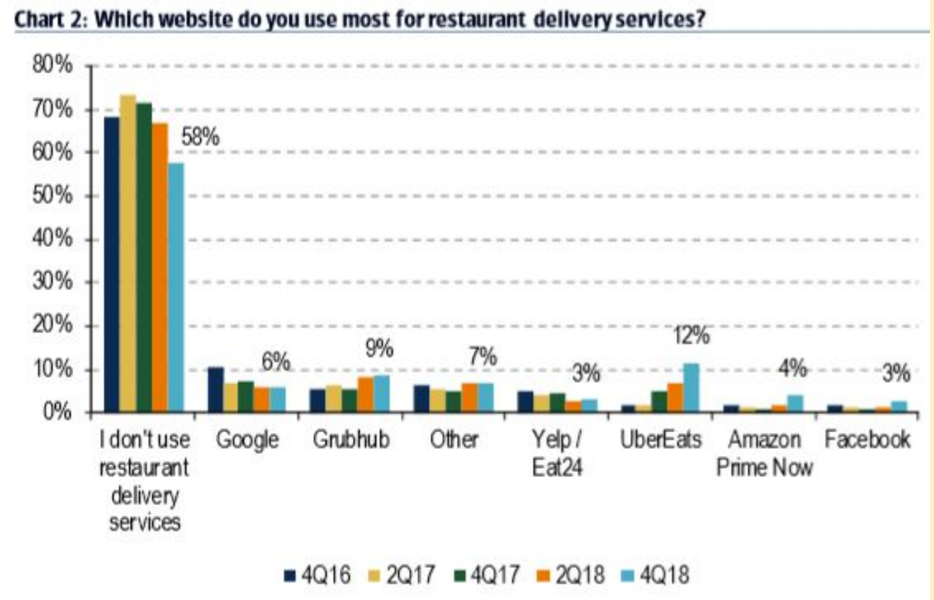
Channel shift: easy path to 3x market growth



Behavior shift: harder to predict but market 5x larger



Maloney doesn't see the competition as stealing away diners or market share. Instead, he told *Forbes* that the other companies are helping to propel the transition from paper menus to digital delivery. In an industry

So it's not like when we're going to markets, we're acquiring diners by stealing them from other providers. We are getting diners and acquiring diners that aren't even aware that they can order online. And that's really how we're

Source: Morgan Stanley; BAML

Industry Primer: Business and Revenue Model

Business model

Marketplace: Two-sided

Features

- Connecting customers with restaurants
- Orders delivered through restaurants own drivers or third party couriers
- Significant network effects 'winner takes most'

Drivers/economics

- High operating leverage delivering high margins once scale achieved
- Restaurants get effective variable cost marketing service
- Limited control of food/delivery experience

Delivery: Three-sided

Features

- Connects customers, restaurants and delivery on one platform
- Technology data and scale key to cost effective service
- VC-backed logistics players have entered the market

Drivers/economics

- Requires significant long-term investment
- Revenue growth enhancing but generally lower margins
- Expands choice to include chains, branded restaurants and high value/quality
- More control over full user experience

Business Model:	Self-Delivery	Grubhub Delivery
Average Order Size	$30.00	$30.00
Commission Paid by Restaurant	*15.0%*	*30.0%*
Commission	$4.50	$9.00
Delivery Fee Paid to Grubhub by Diner	$0.00	$2.00
Grubhub Revenue per Order	**$4.50**	**$11.00**
Credit Card & Care Expenses	$1.10	$1.10
Payment to Delivery Partner	$0.00	$6.50
Grubhub Profit per Order	**$3.40**	**$3.40**
Profit Margin	*76%*	*31%*

- In the Self-Delivery model, the delivery fee (typically $2 to $5 per order) is kept by restaurant
- Grubhub sets fees in the Grubhub Delivery model (including diner delivery fees and fees paid to delivery partners)
- Efficiency of scale allows Grubhub to drive down cost to the consumer

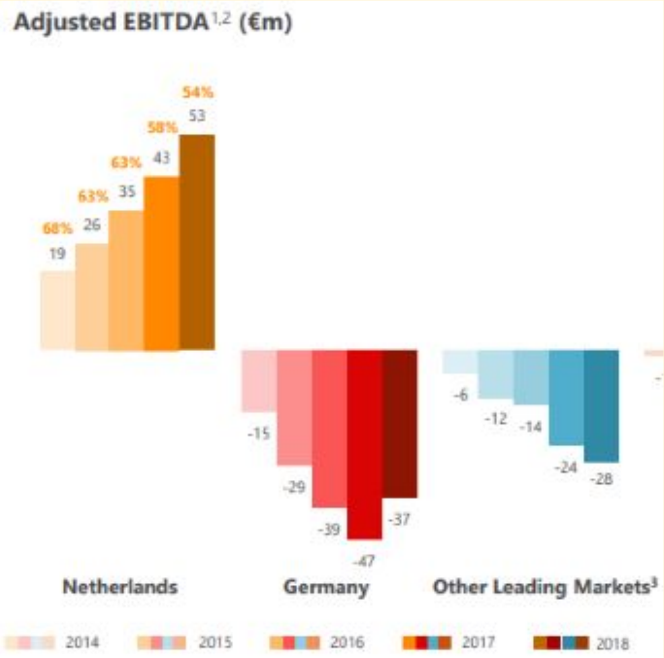
Source: Just Eat; Grubhub

Industry Primer: Two Sided Versus Three Sided Markets; Competitive vs Consolidated Markets

"There is a structural difference between Europe and Australia and parts of the United States in terms of how big these third-party logistics businesses are going to be. Basically, if you had a market where all the restaurants did their own delivery, logistics would be a de minimis portion of the overall market. It would be zero percent of the total market. If you had another market where none of the restaurants did their own delivery, logistics would be 100% of the delivery market. Then each market is somewhere in between. What you'll find, and I think this is a crucial data point that we really focus on, that I'm not sure the street is focused on as much, is the question of what portion of the total restaurant estate actually does its own delivery. In places like the UK, in places like Netherlands, in places like New York City, you have so many marketplace restaurants that are doing their own delivery, and that have been doing it even before the internet. They've been taking phone orders and offering those delivery orders, that naturally, the logistics business is going to be much smaller by way of comparison. The selection that a logistics only player is going to be able to offer is much smaller.

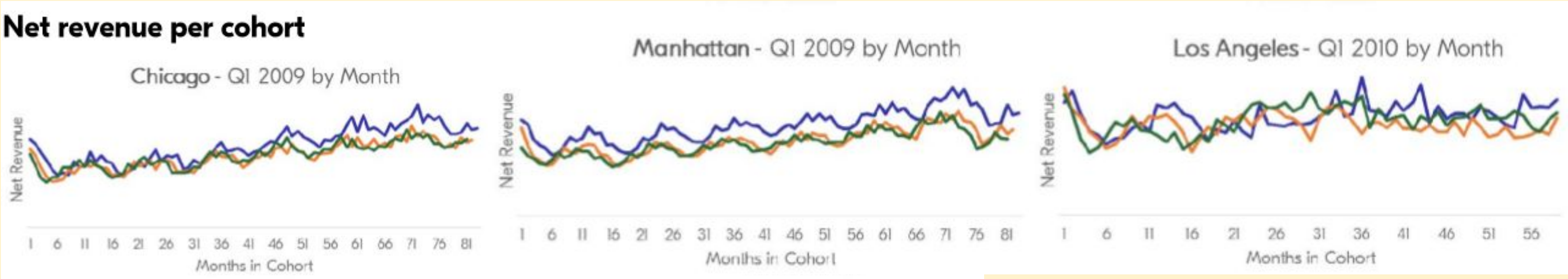
I think even Uber actually recognized that in their recent announcement around doing marketplace in Netherlands. They realized that they'll never have a good product unless they have marketplace, so now they're going to try to catch up. We think that they're going to fail pretty miserably in trying to do that because restaurants get so much of their business from takeaway.com. Restaurants in the UK get so much of their business, 30 to 40% of their business from Just Eat. That makes the incumbent marketplace player a very important partner to those restaurants. That is an advantage that these companies can leverage over time."

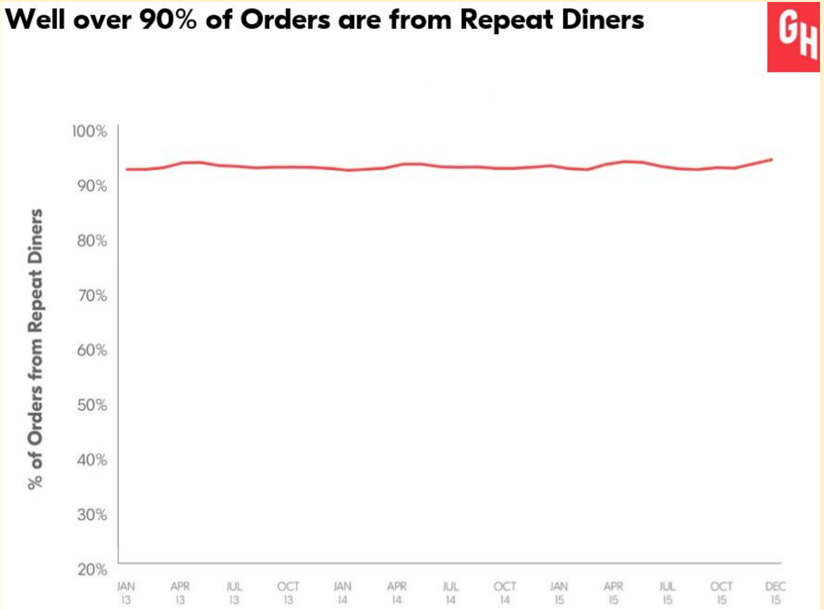
"**Just in general, I think it's important to understand why some countries are good food delivery countries and others are not so good food delivery countries.** There's a couple of countries worldwide. Holland is one of them. Turkey is one of them. The U.K. is one of them, where people have been ordering food for the past 40 years. So you have a lot of restaurants delivering the food themselves. And that, obviously, is a better business model than logistics, which is much harder, of course, to do from our perspective. If you compare, for instance, let's say, a country like Holland with a country like France, France doesn't have that food delivery culture. We can probably explain why that is, but that's not really important. It doesn't have it. So what can you do in France? You can start a logistical business, and then start delivering food from restaurants that people actually know. With that, you can build off a business. The chance that, that's going to be large is not that great, because it's more expensive. Still, the market is not very prone to food ordering. And you also see this in countries like the U.K., where the largest logistical player is about 1/10 of the largest marketplace player. So this means your actual addressable market is quite small, your business model doesn't really work, and you need to work much harder to scale it, because actually, your marketing cost, in a country like France, are going to be very close to a country like Germany. I mean France and Germany, Germany is a bit bigger. But if you want to go out with TV advertisements and all that, you need to make the same effort, of course. And if the returns are much lower or even negative, of course, that country is not going to be such a good country for food delivery. That doesn't mean that the consumers won't order, it just means you are never going to make money there or you're going to make very little money in those markets. So this is why we feel it's important to concentrate on a couple of really good markets, and we will build our business from there."

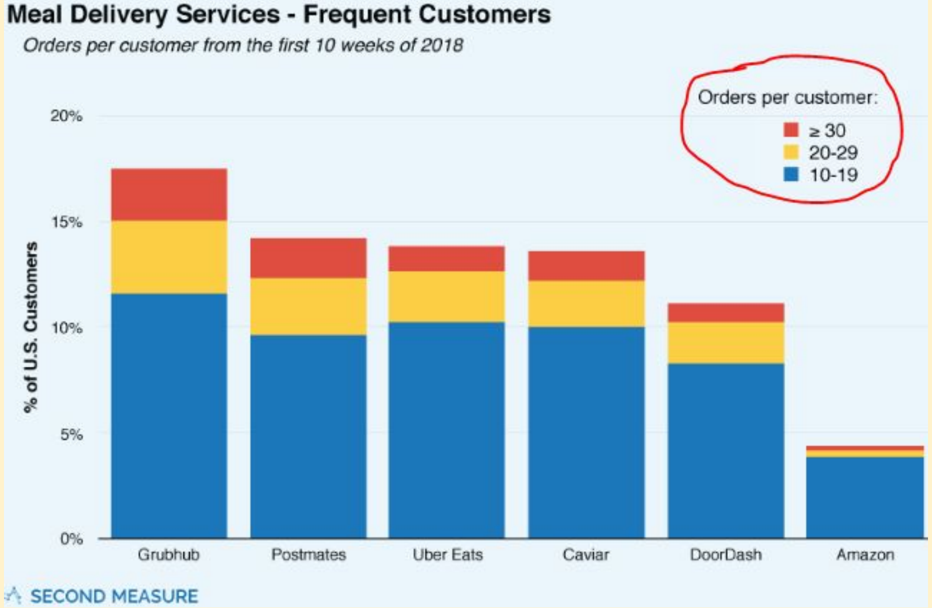


Source: Cat Rock; Takeaway.com

Industry Primer: Sticky Customer Behavior Post Initial Churn







What You Need to Believe: Unit Economics Are Healthy

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- Assuming highly profitable customer lifetime value versus acquisition cost, accelerated marketing spend is an attractive capital deployment option for the company, even to the near term detriment of GAAP profit margins.

GrubHub (GRUB) Q3 2018 Results - Earnings Call Transcript

Matthew M. Maloney - GrubHub, Inc. CEO

We're seeing CPAs decrease overall over the year, which is fantastic. Adam mentioned earlier that we're seeing very stable cohorts, and we're seeing the cost of acquisition decrease. We're seeing the lifetime value overall go up, and that's why we're so aggressive right now to push the big marketing investment.

Adam J. DeWitt - GrubHub, Inc. CFO

And just to be a little bit more specific, we had a pretty good read on a cohort of diners even after seven days. And we get an even better view of those diners after 15 days. And we're pretty good at projecting out based on the repeat behavior that we're seeing in those time periods, what their LTVs are going to look like. And so, when we see opportunities where CPA is significantly below the LTV, and we feel like we can spend more, we push. And then we continue to watch that in an ongoing cycle, right? It's an ongoing process. And we test in the different channels, different messages, et cetera.

Industry Benchmarks

For growing SaaS companies, the industry standard for this ratio is 3X or higher - since a higher ratio means your sales and marketing have a higher ROI. However, higher is not always better. If the ratio is too high, you're likely restraining your growth by under-spending and giving your competition an advantage.

A ratio of 1:1 means you lose money the more you sell. A good benchmark for LTV to CAC ratio is 3:1 or better. Generally, 4:1 or higher indicates a great business model. If your ratio is 5:1 or higher, you could be growing faster and are likely under-investing in marketing.

Lifetime Value

Customer Type	Customer Mix	Annual Purchases	Cust Life (Yrs)	AOV	Contr Margin	Lifetime Value	Weighted Avg
Power user	20%	48	4.0	$32	11.3%	$695	$139
Trial user	80%	2	1.0	$32	11.3%	$7	$6
Aggregate	100%	11	1.6	$32	11.3%		$145

Customer Acquisition Cost

Period *($s in 000s)*	2017	2018	Q1 2019	Weighted Avg
Advertising expense	$107,200	$170,300	$62,000	
Acquired customers (organic)	2,375	3,226	1,598	
Acquisition cost	$45	$53	$39	$47

LTV / CAC	3.1

Sensitivity

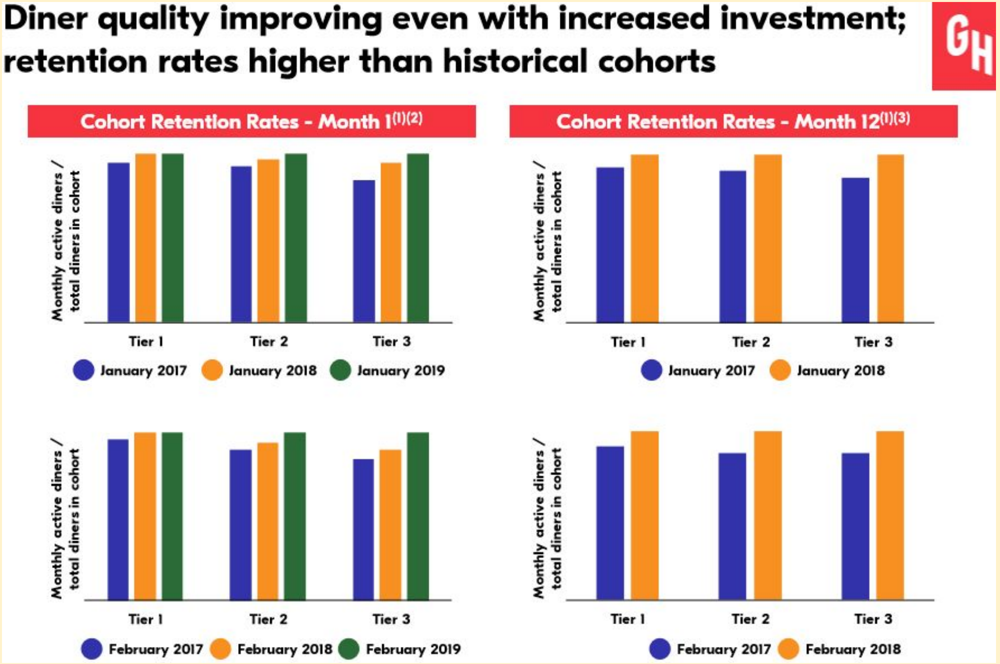
Power user mix \ Annual purchases	12	36	60	96
15%	0.7	1.8	2.9	4.6
20%	0.9	2.3	3.8	6.0
25%	1.0	2.9	4.7	7.5
30%	1.2	3.4	5.6	9.0

Source: company data; Geckoboard. Note: average order value per Q1 2019 actual.

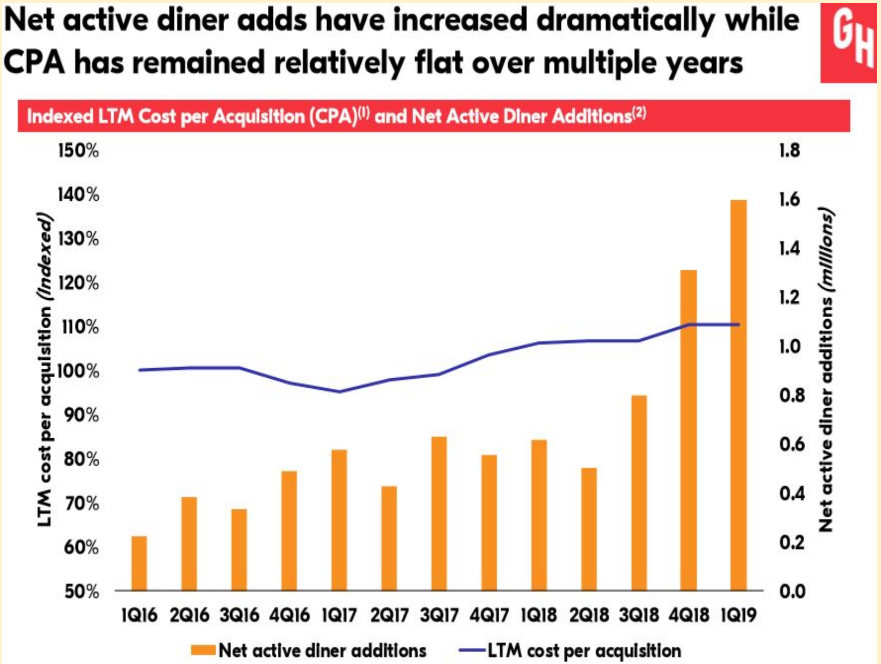
What You Need to Believe: Unit Economics Are Healthy (con't)

GRUBHUB™

Customer retention is increasing



Cost to acquire customers is not increasing



Matt Maloney, CNBC interview 4/26/19: "One of the interesting things we did last night in our earnings release was we released supplemental information. We showed actual consumer cohort purchasing data. This is really interesting and we don't do that very often. And we showed data for the past four years to show how incredibly consistent our diners are on our platform, even during a time of incredible competitive acceleration. We wanted to show our investors that everyone else's growth has not come at our expense. This is not a zero sum growth situation. We are seeing record growth in the face of record competition."

What You Need to Believe: Reported Market Share Misleading

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- Industry mix shift from 2 sided to 3 sided marketplaces is inflating the delivery players' reported market share relative to transaction volume and profit per transaction.
  - A 30% take rate generates much higher market share via aggregated data sources (eg credit card transactions, company reported / speculated revenue) than a 15% take rate, though the latter company may control a larger percentage of the industry profit pool.
- In the example scenario below, Competitor A (a 2 sided marketplace, similar to Grubhub) has a lower average order value and grows order volume slower than Competitor B (a 3 sided marketplace, similar to DoorDash), yet has the same share of industry profits despite being 33% smaller on a headline basis.
  - Grubhub's transaction mix in 2018 was ~75% order only / ~25% integrated delivery.

Marketplace Inputs

	Delivery	Take	Gross Profit	Base Year Metrics					3 Yr Volume
Company	Mix	Rate	Margin	AOV	Volume	GFS	Revenue	Gross Profit	CAGR
Competitor A	0%	15%	80%	$30	50,000	$1,500,000	$225,000	$180,000	22%
Competitor B	100%	30%	30%	$33	50,000	$1,650,000	$495,000	$148,500	30%
Total Market					100,000	$3,150,000	$720,000	$328,500	

Market Share Outputs

	GFS		Revenue		Gross Profit	
Company	Year 0	Year 3	Year 0	Year 3	Year 0	Year 3
Competitor A	48%	43%	31%	27%	55%	50%
Competitor B	52%	57%	69%	73%	45%	50%
Total Share	100%	100%	100%	100%	100%	100%

What You Need to Believe: Reported Market Share Misleading (con't)

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- Versus 2017, Grubhub has retained 75% of beginning market share (based on gross food sales and population data) in its primary takeout markets of NYC / Boston / Chicago / Philadelphia which account for ~2/3rds of the company's EBITDA.
  - UberEats' first US markets of NYC, Chicago & LA were launched in 2015, and have had limited impact to Grubhub.
  - DoorDash share inflated as credit card data also captures Walmart grocery transactions (as of Feb 2019: 70 markets, 550 locations).

US Food Order & Delivery Market Share Trends *(via credit card data)*

	Population			GrubHub					DoorDash					UberEats				
Market Type	**City**	**#**	**%**	**8/17**	**3/18**	**4/19**	**'18v'17**	**'19v'18**	**8/17**	**3/18**	**4/19**	**'18v'17**	**'19v'18**	**8/17**	**3/18**	**4/19**	**'18v'17**	**'19v'18**
	Total (mm)	328,916	100%	59%	46%	30%	-13%	-16%	14%	17%	30%	3%	13%	18%	27%	24%	9%	-3%
Delivery less important	NYC	19,980	6%	88%	85%	68%	-3%	-17%	1%	2%	9%	1%	7%	3%	4%	15%	1%	11%
	Boston	4,875	1%	64%	60%	44%	-4%	-16%	12%	11%	22%	0%	11%	13%	18%	25%	5%	7%
	Chicago	9,499	3%	65%	59%	40%	-6%	-19%	9%	10%	25%	1%	15%	11%	16%	24%	5%	8%
	Philadelphia	6,096	2%	68%	61%		-7%		0%	2%		2%		9%	17%		8%	
	Takeout Markets	**40,450**	**12%**	**77%**	**72%**	**57%**	**-5%**	**-15%**	**4%**	**5%**	**15%**	**1%**	**10%**	**7%**	**10%**	**19%**	**4%**	**9%**
	LA	13,292	4%	34%	29%	21%	-5%	-8%	12%	11%	26%	-1%	15%	12%	17%	15%	5%	-2%
	DC	6,250	2%	42%	34%	22%	-8%	-12%	12%	12%	35%	0%	24%	25%	33%	31%	8%	-2%
	San Francisco	4,730	1%	39%	31%	17%	-9%	-14%	11%	13%	44%	2%	32%	10%	14%	13%	5%	-1%
	San Diego	3,343	1%	32%	27%	20%	-5%	-7%	20%	22%	35%	2%	13%	18%	28%	22%	10%	-6%
	Hybrid Markets	**27,614**	**8%**	**36%**	**30%**	**20%**	**-6%**	**-10%**	**13%**	**13%**	**32%**	**0%**	**20%**	**15%**	**21%**	**19%**	**6%**	**-2%**
	Houston	6,997	2%	22%	16%		-7%		33%	38%		5%		33%	40%		7%	
	DFW	7,540	2%	17%	15%	12%	-2%	-3%	38%	30%	48%	-8%	18%	34%	46%	35%	12%	-11%
	Phoenix	4,858	1%	27%	20%		-7%		20%	20%		0%		24%	36%		12%	
	Seattle	3,939	1%	27%	22%		-5%		7%	8%		1%		20%	34%		14%	
	Austin	2,168	1%	34%	28%		-6%		14%	13%		-1%		31%	45%		14%	
	San Antonio	2,474	1%	37%	25%	13%	-12%	-12%	34%	32%	50%	-3%	19%	19%	38%	29%	19%	-9%
Delivery more important	**Delivery Markets**	**27,977**	**9%**	**25%**	**19%**	**12%**	**-6%**	**-7%**	**27%**	**26%**	**48%**	**-1%**	**23%**	**29%**	**40%**	**34%**	**12%**	**-7%**

Sources: Population = Wikipedia; US total market share = average data per Edison Trends, Second Measure, 7Park; city level market share = Second Measure.

What You Need to Believe: DashPass Proving Out Demand Side

GRUBHUB™

- DoorDash’s introduction of a monthly subscription product is a positive for the industry (!)
  - Proving existence of power users, validating Grubhub unit economics, and training new users to become frequent purchasers
  - Matt Maloney: “If someone comes along with an improved product at a cheaper price, then we damn well better do a better job, or we deserve to fail. So, ***we can copy what they do and make it better***, or we can merge with them.”
- At $2 fee per customer per delivery, Grubhub can offer a subscription model accommodating 5 transactions per user per month with no dilution to its existing economics. At 3 transactions per user per month, DashPass likely creates negative unit economics for DoorDash.

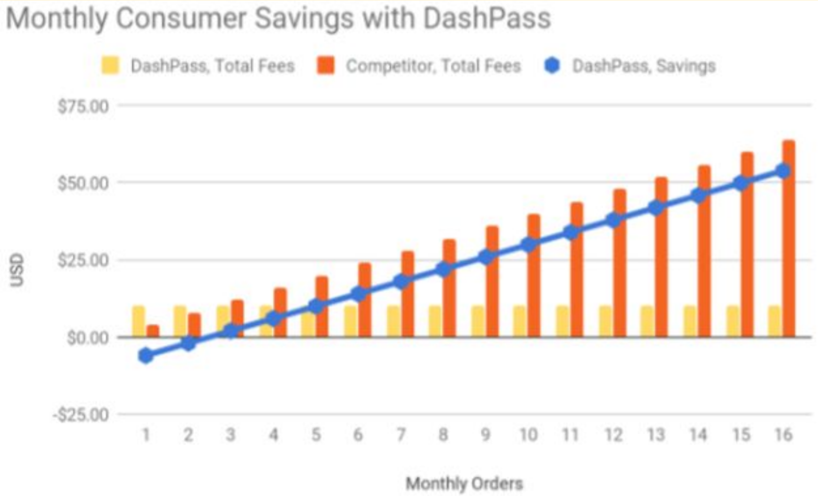
DoorDash’s main challenge has been building a loyal consumer base that regularly taps into its service, especially as it sought to enter a market that already featured established providers. To gain a robust user base and drive immediate daily usage, Ruth said DoorDash has married zero-dollar delivery, a vast selection of participating restaurants and low monthly prices.

“With DashPass, they know that every time they open the **DoorDash app**, they’re going to get a zero-dollar delivery,” Ruth said. “So, that combination of making a thing more affordable and more predictable was the best way we found to make this a daily habit.”

The service, which is available via mobile app for $9.99 per month, offers zero-dollar delivery from a broad selection of restaurants, and also comes with other perks. Ruth said DashPass users save an average of $4 every time they place an order through the service.

The Math Behind DoorDash’s Subscription Service

Building an economically viable subscription service presented a number of hurdles, however, and Ruth said it was tricky to make DashPass sustainable yet profitable.



Source: PYMNTS; Michael Houck

What You Need to Believe: Positioned as Champion of Supply Side

- 89% of QSR customers are most satisfied ordering online and 80% view a loyalty program as key to its success, yet only 30% of QSR locations have digital ordering and 40% do not have a loyalty program.
- Recognizing these expectation gaps, Grubhub acquired LevelUp, a back end technology infrastructure provider of white label products for restaurants to create and manage their own websites, online ordering, loyalty programs, and data capture.
- While online delivery competitors are positioned as threats to existing restaurant chains, Grubhub is getting closer to restaurants' data and customers by taking this hybrid approach.

GrubHub (GRUB) Q2 2018 Results - Earnings Call Transcript

Adam J. DeWitt, GrubHub CFO

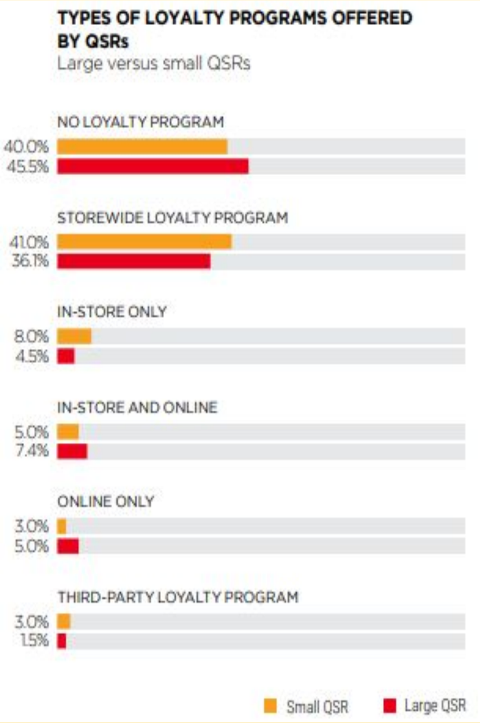
At this point, I'll give you a little bit more insight on our new acquisition, LevelUp. LevelUp provides technology for over 200 regional and national restaurant brands to create a comprehensive online ordering experience. This experience is personalized for each restaurant's brand and product, with a look and feel that represents that restaurant's food and in-store experience. LevelUp enables online ordering through the restaurant-branded properties, facilitates in-store payments through QR-based transactions and provides CRM tools for restaurant brands to drive diner engagement.

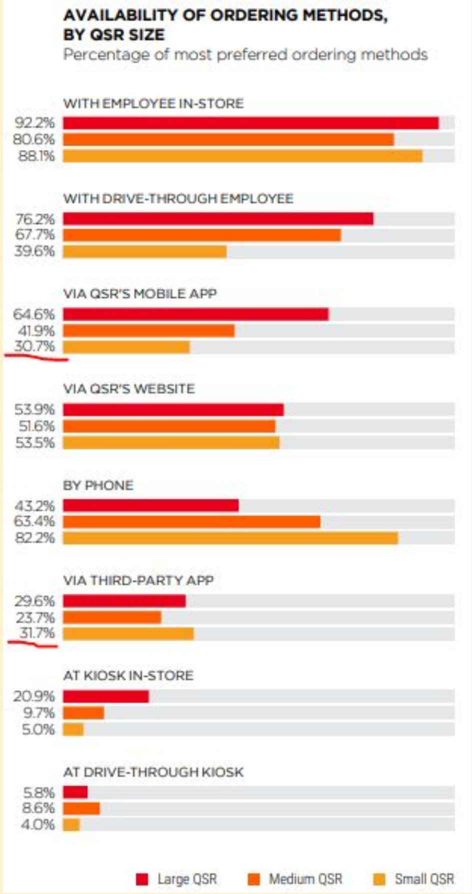
GrubHub (GRUB) Q3 2018 Results - Earnings Call Transcript

Matthew M. Maloney - GrubHub, Inc. CEO

Restaurants are increasingly frustrated. Management teams don't really know where to go. Because on one hand, they want to own the store, and they want to build out the technology, and they want to pay zero incremental fee on orders, but that's not realistic. And the other option is, you see how much growth you can find while the [third party] platforms support that growth. Except then you basically have a 30% toll on all of your future growth. And what does your P&L look like when more than half of your revenue is coming from digital, of which you're paying this tax on. And that's also not a sustainable situation. They're trying to figure this out.

So when you think about LevelUp, I want to help build a branded platform for them. I want to support their pickup business. I want to support their CRM. And I want them to be able to tap into my network whenever they want additional incremental growth. And that's a way to create a sustainable long-term revenue model on a digital basis with a third party for restaurants. And I think that nobody else in our industry has figured that out. And we are absolutely pushing as hard as we can, not just to grow our marketplace, but to grow the way we're able to partner with restaurants and support their long-term business goals.





Source: 2018 Restaurant Readiness Index surveying 2,630 locations of 178 QSRs.

What You Need to Believe: Capital Providers AND Competitors Will Become More Rational OR The Market Will Force It

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CNBC — MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV

‘Treacherous,’ ‘crazy,’ ‘bad idea’: Experts sour on Lyft’s IPO as stock falls

PUBLISHED TUE, APR 2 2019 • 7:17 AM EDT | UPDATED TUE, APR 2 2019 • 9:34 AM EDT

Myles Udland @MylesUdland · 1h

81% of the $29.5 billion in equity raised by Uber is underwater.

Jawad Mian @jsmian

Notes from our Silicon Valley trip have been published.

THE WALL STREET JOURNAL.

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MARKETS

SoftBank Faces Challenges Raising Latest $100 Billion

Japanese tech giant gets chilly reception from some of the world’s biggest money managers

By Miriam Gottfried and Jenny Strasburg

Updated June 2, 2019 12:27 p.m. ET

SoftBank Group Corp.’s bid to raise a second mega fund has met with a chilly reception from some of the world’s biggest money managers, signaling that a crucial initiative for the firm faces significant hurdles.

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Home » Finance » Changing Investor Appetite Underwhelms Uber on IPO

Changing Investor Appetite Underwhelms Uber on IPO

To gain that funding, Postmates pitched a rosy vision of the future. The company forecast a dramatic turnaround over the next few years, trading tens of millions of dollars in losses for an equal amount in profit by 2018, according to a presentation from this summer reviewed by Quartz. At the same time, Postmates offered few details on how it planned to achieve these results. The documents provide a

FORTUNE

Uber Eats Its Way to New Revenues Amid Post-IPO Profitability Concerns

By DANIELLE ABRIL May 14, 2019

What You Need to Believe: Capital Cycle for 3P Food Order Industry is in Late Innings

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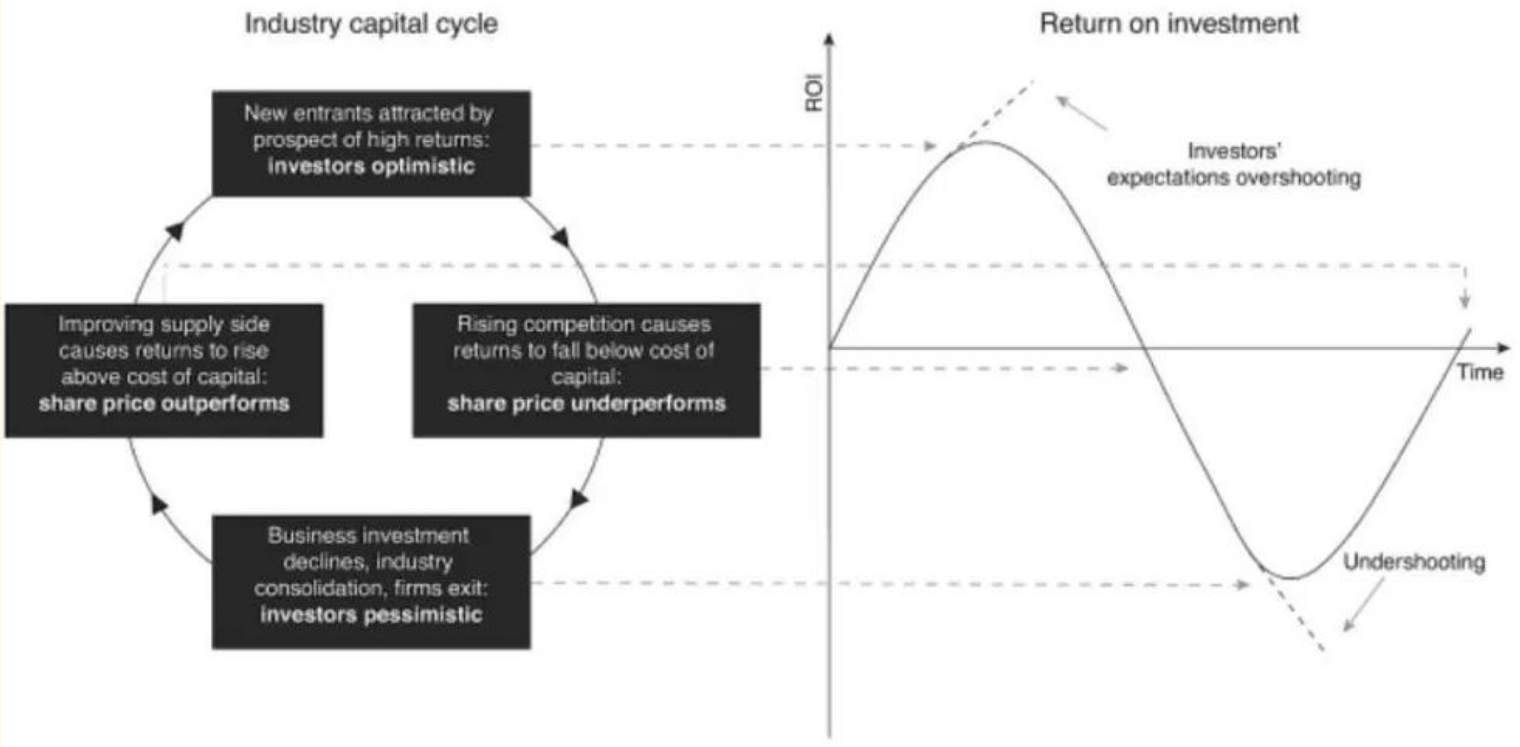


Source: Marathon Asset Management

What You Need to Believe: US Consolidation Lags Europe & Asia… But Getting Closer to End Stage

GRUBHUB™

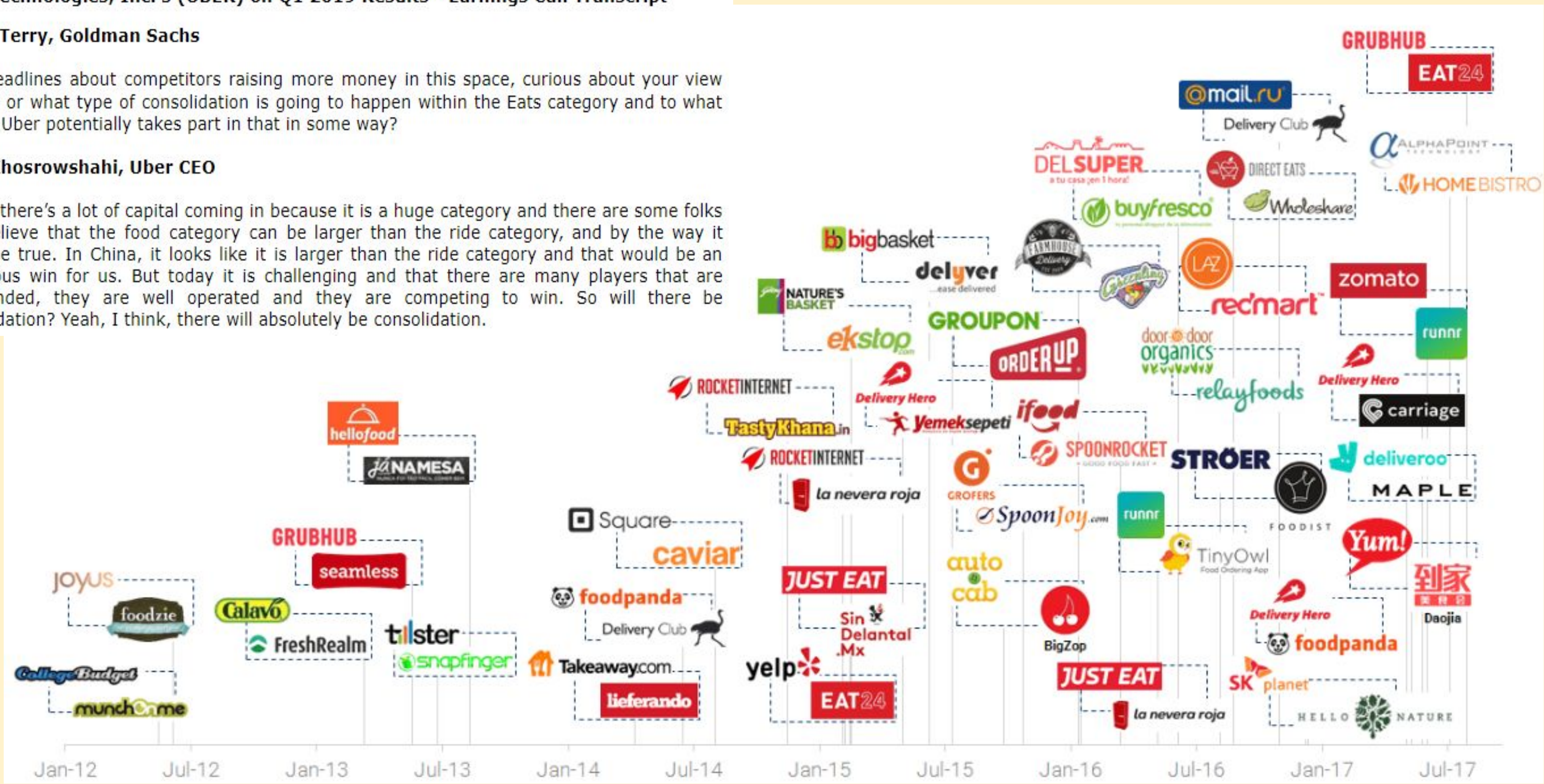
Uber Technologies, Inc.'s (UBER) on Q1 2019 Results - Earnings Call Transcript

Heath Terry, Goldman Sachs

With headlines about competitors raising more money in this space, curious about your view on how or what type of consolidation is going to happen within the Eats category and to what degree Uber potentially takes part in that in some way?

Dara Khosrowshahi, Uber CEO

Listen, there's a lot of capital coming in because it is a huge category and there are some folks that believe that the food category can be larger than the ride category, and by the way it could be true. In China, it looks like it is larger than the ride category and that would be an enormous win for us. But today it is challenging and that there are many players that are well-funded, they are well operated and they are competing to win. So will there be consolidation? Yeah, I think, there will absolutely be consolidation.



Source: CB Insights

What You Need to Believe: Grubhub is Cheap on a Strategic Basis and Valuable to Adjacent Networks

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Precedent transactions @ 1.4x EV / GFS

Figure 9: Historical transactions in food delivery

year	Acquiree	Type	Acquirer	Country	GMV	Rev	EBITDA	Consideration (m LC)	Curr	EV/EBITDA	EV/GMV	EV/Sales
2019	Zomato UAE	#1 buying #2	DHER	UAE	131	21	NA	172	EUR	-	1.3x	8.2x
2018	DHERO DE	#1 buying #2	TKWY	Germany	622	103.5	NA	930	EUR	-	1.5x	9.0x
2018	10bis	B2B leader in Israel	TKWY	Israel	141	13.2	5.7	150	EUR	26.3x	1.1x	11.4x
2017	Hungryhouse	#1 buying #2	JE	UK	207	31	NA	240	£	-	1.2x	7.7x
2016	STD	Logistic platform #1 asset in Canada	JE	Canada	78	23.5	NA	110	CAD	-	1.4x	4.7x
2017	Carriage	Logistic platform in Kuwait	DHER	Kuwait	73	20.5	-3.5	126.7	EUR		1.7x	6.2x
2016	FoodPanda	EM food delivery assets with large exposure to SE Asia	DHER	Multiple	299	50.6	-45	240	EUR		0.8x	4.7x
2015	Menulog	Leader in Australia	JE	Australia	224.5	22		445	£		2.0x	20.2x
2015	Yemeksepeti	Leader in Turkey	DHER	Turkey	322	31.2	NA	500	EUR		1.6x	16.0x
2015	eFood.gr	Leader in Greece	DHER	Greece	NA	2.3		21.9	EUR			9.5x
2015	Talabat	Leader in MENA	DHER	MENA	NA	13.8		143	EUR			10.4x
2014	Pizza.de	Leader in DE	DHER	DE	NA	27.3		300	EUR			11.0x
2013	Seamless		Grubhhub	US		56		422	USD			7.5x

DoorDash last 3 funding rounds @ 1.5-1.7x EV / GFS

ZDNet | VIDEOS 5G WINDOWS 10 CLOUD AI

On-demand delivery startup DoorDash is now valued at $12.6 billion after securing $600 million in Series G venture funding, the company announced Thursday. DoorDash noted in its announcement that it's grown 60 percent since its Series F and now has annualized GMV of $7.5 billion as of March, an increase of 280% year-over-year.

MarketWatch | Latest Watchlist Markets Investing Barron's Economy Personal Finance Reti

BULLETIN First-quarter U.S. economic growth rate trimmed to 3.1% →

Amazon could order GrubHub for 'dessert' after Whole Foods main course

Skift Table | News | Megatrends

MCDONALD'S SPENT $50 MILLION ON TV ADVERTISING IN APRIL

Postmates Talked DoorDash Merger, Grubhub Acquisition

UberEats May Very Well Eat Grubhub

Jan. 3, 2019 11:41 AM ET | About: Grubhub Inc. (GRUB)

Source:UBS, Crunchbase

Cheap on Primary Valuation Metric

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Post April 2014 IPO: high 2.5x, low 0.4x, avg 1.1x, current 0.9x

Why this metric makes sense

the peer group actually has any EPS. We've been as guilty as the next observer of lazily resorting to a comparison of EV / revenue. This approach was always flawed, but those flaws are now amplified by the sector-wide push deeper into delivery. To illustrate our point, consider two operators, identical in every way except: operator A delivers all its orders and therefore has a commission rate of 30%; operator B delivers none of its orders and therefore has a commission rate of 15%. As online marketplaces, the consumer still pays the same order value, but the manner in which each operator converts that gross merchandise value (GMV) into revenue / earnings / cash flow is very different. Needless to say relying on EV / revenue to compare the two is nonsensical when one operator has a structurally higher revenue model. In our example, the identical operators A and B would trade on the same EV but on EV / Revenue, operator B would look twice as "expensive" as operator A (Exhibit 2).

For relative valuation commentary we will now use EV / GMV. We've already highlighted the structural flaws of EV / revenue. More importantly, the fundamental arbiter of value for an online marketplace is its ability to convert the transactions that pass across the platform into EBITDA and un-levered cash flow. Ideally, we'd look at EV as a ratio of EBITDA and cash flow - but as we've established, that's not always possible. Our decision is driven by the above flaw concerning structural revenue differences between operators. But also, more importantly, in the absence of earnings or cash flow, the next best measure - frankly, the *only* other measure - of value-creation is GMV.

Source: Jefferies

Valuation Driven More by 3P Industry Market Penetration, Less by Company Specific Economics

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- Assuming stable market share, a 50% increase in industry market penetration = 54% higher valuation.
- Assuming stable market share, a ~50% increase in company EBITDA margin = 20% higher valuation.

GRUB Share Price Sensitivity (via 2023 exit, 9% discount rate)

% Restaurant penetration: Total industry	% Restaurant penetration: Off premise	Market share: 15%	20%	25%	33%
4%	12%	$45	$60	$76	$100
6%	18%	$70	$93	$117	$154
10%	30%	$113	$151	$189	$249
15%	45%	$170	$227	$284	$374

% EBITDA margin: Gross food sales	% EBITDA margin: Revenue	Market share: 15%	20%	25%	33%
4%	17%	$65	$86	$108	$143
6%	25%	$78	$104	$130	$172
8%	33%	$91	$122	$152	$201
10%	42%	$104	$139	$174	$230

Projection Assumptions and “DCF”

GRUBHUB™

- Online order penetration reaches 75% of delivery market, implying restaurant direct (eg pizza delivery franchisees) online sales grow by 40% in total over 5 years and 3P networks reach 90% penetration of remaining deliveries (ie phone ordering share declines from 50% to 10%).
- Grubhub market share declines by an additional 50% from its Q1 2019 level, ie from 30% to 20%.
- Take rate expands to encompass delivery rollout, but consolidated profitability declines as delivery initially dilutes margins.
- Other than debt service and payoff (Grubhub has 0.8x net debt / EBITDA), no free cash flow is assumed and no shares are repurchased despite ~$2B of cumulative EBITDA generated from 2019 to 2023, or $22 / share (~$10 share in net cash).

Period	*($ in 000s)*	2016	2017	2018	2019E	2020E	2021E	2022E	2023E
US Restaurant Market	Delivery	$33,000,000	$36,700,000	$43,181,462	$51,702,929	$58,564,357	$66,189,575	$72,808,532	$80,089,385
	% growth		*11%*	*18%*	*20%*	*13%*	*13%*	*10%*	*10%*
	Off premise	$235,000,000	$250,500,000	$263,025,000	$279,595,575	$290,779,398	$302,410,574	$314,506,997	$327,087,277
	% growth		*7%*	*5%*	*6%*	*4%*	*4%*	*4%*	*4%*
	Total restaurants	$766,000,000	$805,400,000	$833,100,000	$862,900,000	$888,787,000	$915,450,610	$942,914,128	$971,201,552
	% growth		*5%*	*3%*	*4%*	*3%*	*3%*	*3%*	*3%*
Online 3P Networks	Gross food sales	$4,248,105	$7,075,643	$13,557,105	$22,078,571	$30,145,833	$38,227,273	$49,509,802	$60,020,256
	% growth		*67%*	*92%*	*63%*	*37%*	*27%*	*30%*	*21%*
	% 3P penetration								
	Delivery	13%	19%	31%	43%	51%	58%	68%	75%
	Off premise	2%	3%	5%	8%	10%	13%	16%	18%
	Total restaurants	1%	1%	2%	3%	3%	4%	5%	6%
Grubhub	Market share	71%	53%	37%	28%	24%	22%	20%	20%
	Gross food sales	$2,998,100	$3,783,700	$5,056,800	$6,182,000	$7,235,000	$8,410,000	$9,901,960	$12,004,051
	Take rate	16.5%	18.1%	19.9%	21.4%	22.9%	23.6%	24.0%	24.0%
	Revenue	$493,331	$683,067	$1,007,257	$1,324,114	$1,658,180	$1,986,346	$2,378,338	$2,880,972
	% growth	*29%*	*27%*	*23%*	*31%*	*25%*	*20%*	*20%*	*21%*
	EBITDA	$144,646	$183,988	$233,742	$265,826	$325,575	$395,270	$475,294	$576,194
	% revenue	*29%*	*27%*	*23%*	*20%*	*20%*	*20%*	*20%*	*20%*
	EBITDA / GFS	4.8%	4.9%	4.6%	4.3%	4.5%	4.7%	4.8%	4.8%

Valuation					
EV multiple on	Driver	Multiple		Value	
	2023E	High	Low	High	Low
Gross food sales	$12,004,051	1.0	1.2	$12,004,051	$14,404,861
Revenue	$2,880,972	4	6	$11,523,889	$17,285,834
EBITDA	$576,194	14	18	$8,066,722	$10,371,500
FCF	$388,931	25	33	$9,723,281	$12,834,732
Discount rate			9.0%		
Present value			$8,520,130		$12,026,859
Shares outstanding			91,177		
Value per share			$93		

Sources: NRA, Morgan Stanley, Chris Huskey, company reports

Valuation Summary

GRUBHUB™

Valuation Method	Value / Share	Upside vs Current	Notes
DCF (5 year projection) @ 20% market share	$93	45%	Assumes market share declines by 50% from 4/19; range of $63 - $134
Precedent transactions	$110	71%	1.4x enterprise value / 2020 gross food sales
Public comps in consolidated markets	$117	82%	6.5x multiple on 2020 revenue; average of DHER & TKWY
DoorDash last funding round	$133	108%	1.7x enterprise value / 2020 gross food sales
DCF (5 year projection) @ 30% market share	$140	119%	Assumes market share flat from 4/19; range of $94 - $201
Average	**$119**	85%	

Downside Valuation

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- If an acquiror could purchase a target for close to the lifetime value of its customers, this may present a more attractive scenario than said acquiror allocating capital to new customer acquisition organically (ie advertising).
- Acquiring Grubhub at its aggregated customer lifetime value equates to getting its existing technology infrastructure, installed base of restaurant relationships, and employees for free, while also paying nothing to increase its own incremental LTV / CAC efficiency going forward due to removing a material competitor for the next cohort of new customers.
- Assuming slower new customer growth than the prior five years and no premium paid for the company's remaining assets, downside in in a takeunder scenario is $50 per share, or 22% lower.
- At its current enterprise value of $6B, Grubhub is trading for ~1x the overall industry's EBITDA at full market penetration (assumed 30% versus OTAs at 50%), or 3x its own terminal EBITDA assuming its market share remains static.
- With high customer purchase frequency, expanding take rates, and steady free cash flow generation, the industry will likely garner 15-20x EBITDA multiples closer to maturity.
- For an industry evolving rapidly toward a monopoly / duopoly state, paying a small multiple of the industry profit pool to cement your participation in an eventual ~$100B end market is a compelling use of capital for existing food order competitors or adjacent internet marketplaces.

GRUB Share Price Sensitivity (via 2021 exit)

		2.0	3.0	4.0	5.0	LTV / CAC
		$93	$142	$188	$235	Lifetime value
10%	23,336	$22	$35	$47	$59	
20%	27,772	$27	$42	$56	$70	
30%	32,593	$32	$49	$66	$83	
40%	37,801	$37	$57	$76	$96	
Annual growth vs Q1 '2019	Active diners					

US Restaurants - "Off Premise"		Long Term Online Penetration		Take Rate		3P Online Industry Revenue		Steady state EBITDA Margin		3P Online Industry EBITDA
$300B	*	30%	*	15%	=	$13.5B	*	40%	=	$5.4B

Summary Thesis

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- Due to an earlier stage in the market lifecycle and a related lack of investor understanding, US food order networks are not recognized as high quality compared to their European / Asian peers, which operate in consolidated markets and with associated higher profit margins.
    - Grubhub is FCF generative and GAAP profitable since its public company debut five years ago.
    - Competitor activity is uneconomic, will not last forever, and associated venture funding appears to be drying out of the market.
    - Reported market share is misleading and penalizes the company for its higher quality business model focused on profitability.
- Internet giants are sidelined: Amazon launched restaurant delivery in 2015 and has negligible market share to show for it, and Google would need to build out an on the ground sales force to acquire 100,000 individual restaurant locations, an expensive and margin dilutive activity that it's already frustrated shareholders would try to prevent.
- Addressable market is large and unpenetrated despite providing an easier to use replacement versus the status quo with broader selection, higher accountability and better data collection.
    - Business model characterized by customer loyalty, repeat usage, and expanding wallet share for restaurants.
    - Company is viewed as a neutral partner to restaurants, providing them with tools to operate their own online marketing and customer acquisition / retention.
- Due to its valuable existing 2 party marketplace and associated profitability, Grubhub is positioned to be the low cost delivery provider for both consumers and restaurants as it can operate delivery at breakeven yet still capture its existing economics from the marketplace.
- Customer acquisition is cheaper than other internet marketplaces, LTV/CAC is compelling, and cohort purchase activity is trending positively.
- Founder led management team whose CEO sees value at the current stock price:

Filing Date	Trade Date	Ticker	Insider Name	Insider Title	Trade Type	Price	Qty	Owned	ΔOwn	Value
2019-04-30 18:33:32	2019-04-30	GRUB	Maloney Matthew M.	CEO	P - Purchase	$64.87	+15,416	89,118	+21%	+$999,982
2018-10-19 16:18:23	2018-10-17	GRUB	Maloney Matthew M.	CEO	S - Sale	$122.55	-3,125	59,170	-5%	-$382,969
2018-10-03 18:46:38	2018-10-03	GRUB	Maloney Matthew M.	CEO	S - Sale+OE	$136.78	-3,125	62,295	-5%	-$427,438
2018-09-21 16:35:39	2018-09-19	GRUB	Maloney Matthew M.	CEO	S - Sale	$143.50	-3,125	64,509	-5%	-$448,438
2018-09-05 21:00:21	2018-09-05	GRUB	Maloney Matthew M.	CEO	S - Sale+OE	$140.81	-3,125	67,634	-4%	-$440,014

Source:Openinsider.com

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