Short
GrubHub (GRUB) – Long/Short

DeSouza, Parkerson, Parkerson and Suvak, MII, Friday, February 17, 2017

grubHub® happy eating

Investment Summary

GrubHub faces significant industry headwinds, with new and old competitors alike seeking to expand their businesses in an increasingly competitive space. More specifically, the cost-effectiveness of Amazon Restaurants and UberEATS, as well as the entry of localized competitors, will see GrubHub's margins decline in the future, with no foreseeable competitive advantage to command higher prices relative their competitors. Overall, in zip codes where GrubHub competes with both Amazon Restaurants and UberEATS, revenue has already begun to decline in the first three quarters of 2016 after peaking in 2015 Q4.

Company Description

GrubHub is a food delivery service that operates in most major cities in the U.S. It links diners with local restaurants through an online delivery service. Founded in 2004 and having merged with Seamless (1999) in 2013, the company operates websites for ordering and for viewing restaurant menus, as well as a system tailored to serving the needs of said restaurants.

Industry Analysis

Our investment thesis relies heavily on the fact that the industry in which GrubHub operates and competes will become oversaturated, commoditized and, thus, necessitate the decline in margins and profits of the company. Therefore, we have decided to use a Porter's Five Forces analysis, among other things, to examine the nature of the industry, its future, and GrubHub's place in it.

Porter's Five Forces

Power of suppliers (strong): Businesses in the food delivery industry face restaurants that have high power. Food deliverers only provide the delivery service, and in some cases only provide an interface through which customers can place orders and restaurants can fill orders, so they are beholden to restaurants to produce the food they deliver to the end customer. These restaurants have the ability to partner with any of the major food delivery services, with fairly low switching costs.

Power of buyers (very strong): There are many substitutes and customers face low switching costs. There is no reason for customers to be loyal to any particular delivery service, which our VAR (detailed below) demonstrates. More specifically, customers are highly sensitive to the markup associated with each delivery service, meaning competitors in the space compete only on price, a negative sign for long positions in the industry.

Threat of new entrants (very strong): There are few barriers to entry in this space. The capital required to develop a food delivery service is minimal, with software being the primary component. Delivery drivers, furthermore, are responsible for their own cars and restaurants make the food. As well, GrubHub only recently added its own fleet of drivers, where before it relied solely on restaurants themselves to deliver. New entrants to the market only need to have a website for orders, agreements with restaurants, and a logistics management system to coordinate drivers with restaurants. Only the logistics management system could prove to be a significant cost driver, meaning the industry is fluid and open.

Threat of substitutes (very strong): The threat of substitutes is very strong because there are many alternatives to food delivery. People can eat-in at the restaurant, order for pick-up, or avoid restaurants altogether by eating at home. Our data and VAR confirm this reality: Amazon Restaurants and UberEATS have cut into the market share of GrubHub – signaled by the stagnant revenue growth in localities where the company competes with these two firms – with the majority of respondents confirming that the threat of substitutes is a very real one. Examining our graphs in the exhibit section, one can clearly see the stagnant revenue of the company in localities where GrubHub competes with both Amazon and Uber. Furthermore, 82%

of respondents to our survey had both an Amazon Prime account and the Uber app, and 55% and 66% respectively reported that they would be willing to try Amazon Restaurants and UberEATS. This indicates that the market is beginning to shift in the direction of our thesis.

Industry rivals (very strong): The food delivery space is becoming increasingly competitive with newer entrants to the industry expanding their networks nationwide. In addition to companies that focus exclusively on food delivery such as Order Up and Eat24, Amazon has its Amazon Restaurants program, Square has Caviar Delivery, and Uber is beginning to develop UberEATS, leading to very strong rivalries in the space.

It is important to note, first and foremost, that success in the food delivery industry relies on timely deliveries to customers, an extensive network of participating restaurants across a large geographic area, customer brand awareness and, perhaps most importantly, the lowest markup costs to attract consumers. With the development of GrubCentral, an interface through which consumers can place orders and restaurants can quickly view, sort and fill orders before delivery through either in-house or third-party drivers, GrubHub does have a high rate of on-time delivery and customer satisfaction (over 90% each). However, this point is moot in an environment where customers are highly sensitive to price increases caused by the markups for such third-party services as GrubHub.

Now, no one denies, and there is much evidence to support the idea, furthermore, that "The Food Delivery Sector Isn't Slowing Down Anytime Soon." This would seem to support the idea that GrubHub is uniquely positioned to take advantage of potential growth opportunities. However, in the medium- to long-run, the very fact that this sector will continue to grow rapidly - potentially from $30 billion ($26 billion of which is completely dominated by pizza deliveries) to $210 billion by 2020 - necessitates that hungry startups will be eager to take a slice of the pie. Specifically, Amazon Restaurants and UberEATS, two companies that have achieved much stronger brand recognition and customer loyalty than GrubHub, continue to make ventures into the space. Nearly half of all U.S. households (GrubHub is almost exclusively based in the United States) have at least one Amazon Prime account, which comes with free delivery service of food, while Uber is, for obvious reasons, more than uniquely positioned to take advantage of some combination of a delivery service and intermediate transport to take-away restaurants. Our data analysis shown in the exhibits confirms this. In locations where GrubHub competes with neither of these two companies, revenue growth is cyclical and very pronounced, while revenue growth in localities where the company does compete with these two firms is stil cyclical but stagnant, signaling the beginning of a decline. More broadly, many individual restaurants themselves have plans to develop their own delivery fleets to local and regional customers, which would eventually render third-party services - which, in the presence of in-house drivers, would only raise costs for consumers and restaurants alike - obsolete. The NPD Group, a highly respected research institute for many industries, strongly recommends that restaurants develop their own delivery services and eventually move away from third-party actors like GrubHub, as they see this as more profitable in the long-run and more attractive to Gen Z and Millennial consumers, the largest target market (51% of the population). Bonnie Riggs of the Group writes: "If delivery fits a restaurant operator's business model and is operationally feasible, now is the time to consider adding it as an option for customers… It's one way to stay competitive…"

Undoubtedly, in this vein, GrubHub has succeeded over the past few years due to the first mover advantage. There are no other significant competitive advantages the company holds, other than the number of restaurants on offer (over 40,000), which is highly fluid amongst all competitors in the space. The company has already seen its net income and market share eaten into by competitors, especially during 2016, where growth in those areas has slowed considerably. Although GrubHub will likely be able to retain its increasing revenues in the short-term, there is no competitive advantage for the company to hold onto moving into the medium- and long-term.

BUSINESS MODEL

GrubHub delivers value to customers by delivering food after orders have been processed through the company's online platforms, specifically through its newly developed product GrubCentral, as well as older products Orderhub and Boost. The company, first and foremost, provides a delivery service to its customers by offering them a selection of restaurants to order from through an online platform, and then either deferring the delivery service to the restaurant or providing its own delivery drivers. Beyond this, though, the company operates its websites together with a mobile app for increased convenience, a Corporate Program that attempts to help restaurants and like-businesses address inefficiencies in food ordering and associated billing, as well as an "Allmenus" and "MenuPages" site that allows customers to scan approximately 380,000 menus from across the United States. As mentioned before, as well, the company uses OrderHub, Boost and, most recently, GrubCentral, in order to convenient link the ordering of food by customers with the processing of said orders by restaurants.

The company has only one business segment. GrubHub generates revenue when diners place an order through the company's website or mobile application, and in connecting with a new restaurant. GrubHub operates in 1,000 U.S. cities and London, with the largest markets located in Boston, Chicago, Los Angeles, New York, Philadelphia, San Francisco and Washington, D.C.

For a firm to be placed on GrubHub's website, restaurants pay a commission to GrubHub when an order is processed through the GrubHub website or mobile application, leading to a markup in prices for consumers and profit for the company. Restaurants can pay the minimum (rumored around 5% commission) or the maximum (rumored around 15% commission) to the company in order to influence its ranking on the website, with higher commissions earning higher rankings on the app. The average commission paid is about 13.5%. Along these lines, the success and number of food deliveries to customers, as well as the number of connections to restaurants that GrubHub secures, drive revenues. There has only been one revenue stream in the company's history, furthermore. Revenue streams do not appear to evolve beyond their current function. Primary revenues, as stated, are derived from consumers ordering food with the company, as well as the commission paid to GrubHub by restaurants for being on the company's website.

According to the CEO, GrubHub's major customers are educated women in their 20s and 30s who live in urban areas. Popular culture would have us believe, though, that the primary target market is teenagers and college students looking for late-night food. Recent advertising campaigns from the company, including a script-less one that aired during the most recent Super Bowl, implying that the company believes in its appeal to the younger generation, Millennials. In any case, the company targets both Generation X and Millennials with the most rigor.

GrubHub uses cash to develop better technology and improve its online platforms. The company also spends money to market its products, consisting of 25% or more of revenue since 2013. These costs have been increasing in nominal value, therefore, by a significant amount, in line with the growth of the company's revenue, which is in the order of 165% from 2013 to 2015. The company clearly views, in line with the nature of the industry and its competitiveness, that advertising is the main way to maintain market share by exposing themselves to customers and continuing to penetrate the growing food delivery market. Other purchases have included software, drivers, partnerships with restaurants and market share through advertisement.

As implied above, most major expenses are tied up in the subcategories "Sales and Marketing" (25% of costs in 2015) and "Operations and Support" (30% of costs in 2015), the latter of which is dominated by "expenses related to restaurant delivery services, higher payment processing costs related to the growth in orders, and an increase in internal and external customer service and operations support personnel costs to support higher order

volume." Historically, the largest costs have come from sales and marketing. Major expenses have shifted over to operations and support as the company has begun to support restaurants with a delivery service and a more advanced software program for customers to order from and for restaurants to manage orders from.

The company consults three key metrics to evaluate its business: "Active Diners, Daily Average Grubs and Gross Food Sales." Active Diners includes any restaurant that has received an order from a customer in a year, Daily Average Grubs includes the number of orders being placed by customers, and Gross Food Sales obviously encompasses the revenue earned from the sale of food. Payment processing costs associated with Active Diners and Gross Food Sales increased 29% from 2014 to 2015 while Gross Food Sales itself grew 32%, while customer service and operations personnel increased by 37% during the same period to accommodate the increase in Daily Average Grubs by 24%. In other words, the company is only barely able to increase revenues faster than the costs associated with earning such revenues, and in some cases is not even able to. This reflects the nature of the industry, where industry members can only compete on price as software and market penetration converge on one another between firms. Thus, if GrubHub's revenues were to grow simply a few percentage points slower than they currently do at their astronomical levels, the company would face declining profits and investor sentiment, leading to a likely decline in stock price.

The company makes use of a fairly simple sales process, in terms of its actual day-to-day business operations. A customer places an order through either GrubHub's online website or mobile application. A GrubHub driver or restaurant driver, depending on the size of the restaurant and its location, will pick up the food order and then deliver it to the customer. The customer will pay for the food delivery at a higher price than the restaurant's menu price on the company's website when they place the order. in this vein, the speed of delivery, price of delivery, number of restaurant options, and availability of GrubHub services are all factors that contribute to the success or failure of the business model.

This business model is therefore sustainable due to its low operating costs; however, it will not be sustainable if restaurants begin their own delivery services. The company is able to make a profit through its margins at the moment as it dominates the market and currently, at least, continues to expand its market share. However, according to the NPD Group, the future for the delivery industry lies in the hands of restaurants that have the capital and customer base to staff their own delivery service, reducing the need for higher prices and attracting more customers in the process. In other words, the business model is not sustainable due to the threat of other third-party competitors - such as UberEATS and Amazon Restaurants that will have much more attractive business models to consumers in terms of price, availability and brand recognition - and due to the threat of restaurants establishing their own foothold in the delivery market. Competitors have similar business models, with companies in the space finding it increasingly difficult, if not impossible, to differentiate themselves from one another.

THESIS & KEY POINTS

1. GrubHub faces increasing competition from name-brand companies with established customer bases.
   A. Amazon Restaurants and UberEATS are significant threats to GrubHub's share of the food delivery market, particularly among customers without an affiliation to a particular service. For new customers and customers without a preferred service, Amazon Restaurants and UberEATS represent easier options for food delivery because many people have an account with Amazon or Uber. In fact, over half of U.S. households currently hold an Amazon Prime account, which guarantees free delivery of food for members in any region of the country, an attractive proposal for consumers that are driven to companies in this space primarily based on prices. Uber, furthermore, is of course omnipresent, particularly amongst the target demographics of GrubHub, that being Millennials and Generation X. This, even further, is supported by our

survey data. Over 80% of respondents to our survey have Amazon or Uber accounts. These account holders represent constant and increasing risks to GrubHub's market share because they can switch services instantly with very low, or perhaps even negative (in the sense that prices for menu items decrease) switching costs. This is also true for GrubHub's target market of urban, college educated, 20-30 year old women.

2. Individual restaurants are developing direct-to-customer delivery services.

   Due to the advent of food-delivery middlemen, fast casual restaurants are increasingly looking to bring food delivery in-house. Delivery services take a significant chunk of revenue from restaurants. GrubHub charges cheaper rates than competitors at 13.5%, but this is still extremely expensive for restaurants on tight margins. Thus, it makes sense for restaurants to fund their own delivery services rather than pay middlemen for delivery, as this would not only reduce costs by substituting the costs of GrubHub's software service with the wages of part-time drivers, but it would also increase the attractiveness of individual restaurants to consumers driven by patterns of price-minimizing behavior. This is confirmed by the NPD Group, an expert in the food delivery industry, among many others. As restaurants develop these services and therefore take back market share from third-party organizations like GrubHub, companies like GrubHub will continue to see their margins decline as revenues are unable to be sustained in terms of their current high growth.

3. The industry is becoming commoditized, so competition will devolve to price wars resulting in compressing margins.

   It is impossible for food delivery middlemen such as GrubHub to provide value-added services to customers ordering food. The nature of the business is such that the company only provides a software service and, in larger cities and for particular restaurants, an actual delivery service. There is thus no way to differentiate one's company from other competitors. As the industry solidifies and new entrants expand nationally, food delivery will become commoditized from the viewpoint of the consumer. The only way for food delivery services to differentiate themselves will be on price. Essentially, the food delivery space will be a race to the bottom, not only an unattractive proposition for a long thesis, but a more than attractive industry for a short.

4. Should the industry turn to automation, GrubHub lags behind Amazon and Uber specifically, among other third-party competitors.

   In response to shrinking revenues, the industry will probably look for more cost-efficient, automated delivery systems. Unfortunately for GrubHub, both Amazon and Uber have an advantage in automated transportation, in consumer bases and, perhaps most importantly, in reputation and brand. Amazon is developing drones for delivery and Uber has self-driving cars. Admittedly, these technologies are several years away, though it is important to note that GrubHub would have to commit significant time and resources to catch-up with its competitors. In other words, GrubHub may be able to continue competing for the coming few years, but in the medium- to long-run they will be wiped out by the technological sophistication of much larger companies with much more attractive brands and business models. They will eventually be forced out of the space. Our data once again confirm this reality, as GrubHub's revenue growth remains stagnant – and perhaps even declining due to its apparent cyclical nature – in

PERCEPTIONS

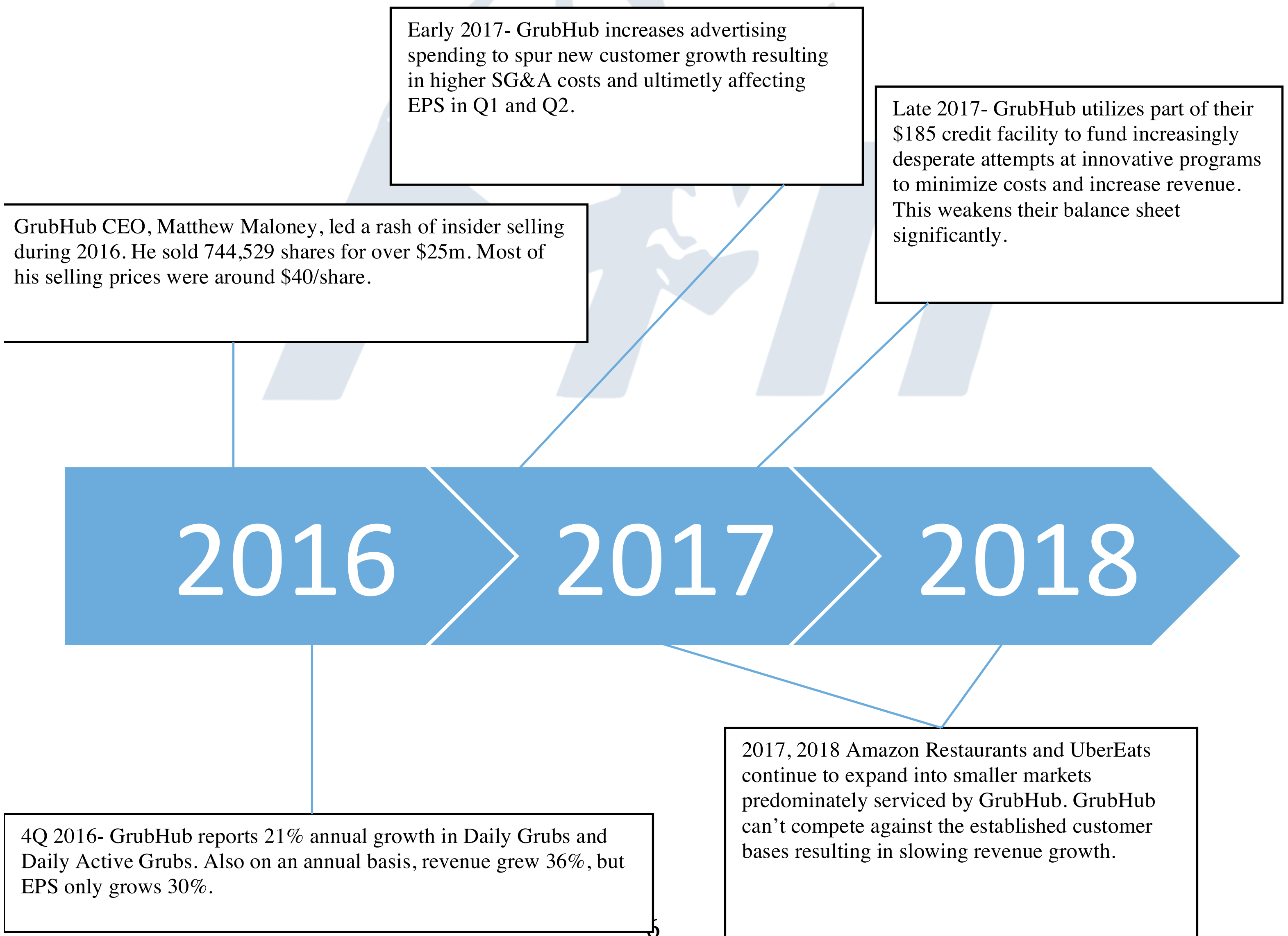
The market has mixed perceptions regarding GrubHub. Some sell-side analysts are excited about GrubHub's growth opportunities. A Morgan Stanley analyst upgraded GRUB in mid-January citing, "active diner growth… and gross food sales per active diner" as "bullish indicators… which are likely to lead to higher earnings power and upward revisions" (MarketWatch). In late December, a Canccord Genuity analyst was

optimistic that GrubHub had significant room for growth in the market "because, it's 'early in penetrating the potential, restaurant, and share-of-wallet opportunities in most of its markets, along with the ability for deliver and chain restaurants to extend the growth period'" (Midnight Trader).

On the other hand, there are concerns regarding political activism from GrubHub's CEO and the ability for Amazon and Uber to take market share. Over the past week, there was an increase of 3.53% float shares short. Morningstar rated GRUB as having no economic moat. The Motley Fool feels that GrubHub could expand in the short-term, but overall they feel that GrubHub has too many potential headwinds. An analyst with Monness, Crespi, Hardt & Co. echoed The Motley Fool's sentiments citing the current rate of active diner growth as unsustainable going forward (Barron's Next).

We feel that the bears have a better understanding of the changing dynamics in the food-delivery market. The bulls are vastly underestimating the appeal of Amazon and Uber in the space. GrubHub might have a first-mover advantage, but it has no competitive advantage. As Morningstar stated, there is no moat for GrubHub in this space. The only possible switching cost for consumers is the added time required to input their shipping and payment information into a new platform. Unfortunately for GrubHub, Uber and Amazon platforms that customers already trust and use will eventually eclipse the company's business model and product.

INVESTMENT TIMELINE



Many executives at GrubHub, including the CEO, have been consistently selling their shares. In 2016 CEO Matthew Maloney sold 744,529 shares for over $25 million. This insider selloff is a bad sign. GrubHub's management are the most knowledgeable people about the company, and they don't believe in it enough to hold their shares.

Signposts

The five most important signposts for this pitch are consumer discretionary spending, GrubHub's earnings, Amazon's earnings, Yelp's earnings, and Square's earnings.

The Bureau of Economic Analysis' data on personal spending is a key measure of consumer spending on discretionary items such as food delivery. In particular, Line 9, "Food and beverages purchased for off-premise consumption" will provide a glimpse into the state of the greater food delivery market. The next release date for the metric is on February 28.

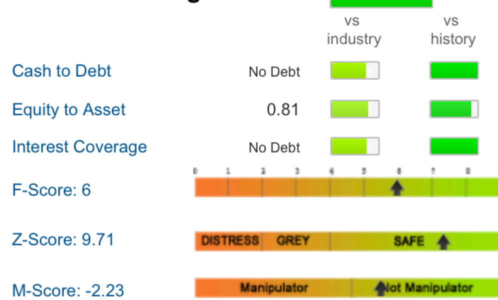
GrubHub, Amazon, Yelp, and Square's earnings are important to monitor in order to measure shifts in the delivery sector.

Risks

The largest risk to this investment is the strength of GrubHub's balance sheet is a definite risk. GrubHub has $225,000 of liabilities with $396,000 of current assets. In addition, they have access to a $185 million credit facility with a minimal interest rate. The company's financial health is rated 10/10 on GuruFocus, and our valuation model demonstrates the company's strength in this area. This could allow GrubHub to finance innovation for quite a while if they started to face significant headwinds.

There is also a risk, in line with this, that the company could differentiate itself somehow compared to its competitors, dig itself out significant market share, and set itself up for growth opportunities in the future. Although all of our theory and facts indicate that this will likely not be the case, it is clearly a risk that must be considered. This is especially important as the industry will continue to expand significantly, especially to 2020. This may allow companies like GrubHub - who took the "first mover advantage" - to continue to expand revenues in at least the short- to medium-term, which may buoy its stock price.

Valuation and Financial Information



Financial Strength : 10/10

		vs industry	vs history
Cash to Debt	No Debt		
Equity to Asset	0.81		
Interest Coverage	No Debt		
F-Score: 6			
Z-Score: 9.71	DISTRESS GREY SAFE		
M-Score: -2.23	Manipulator Not Manipulator		

Profitability & Growth : 6/10

		vs industry	vs history
Operating margin (%)	17.00		
Net-margin (%)	10.05		
ROE (%)	5.37		
ROA (%)	4.39		
ROC (Joel Greenblatt) (%)	253.21		
Revenue Growth (3Y)(%)	48.50		
EBITDA Growth (3Y)(%)	56.30		
EPS Growth (3Y)(%)	69.10		

Ratios

		vs industry	vs history
P/E(ttm)	63.89		
Forward P/E	33.22		N/A
PE(NRI)	63.89		
P/B	3.25		
P/S	6.51		
PFCF	52.76		
POCF	32.78		
EV-to-EBIT	33.99		
EV-to-EBITDA	23.91		
Current Ratio	3.59		
Quick Ratio	3.59		
Days Sales Outstanding	44.80		
Days Payable	12.93		

Our DCF model indicates a 40.3% downside, after many modest assumptions about revenue and cost growth that can be derived from our analysis of the company. Even in a lower-tax environment – we assumed a very sharp decline to 20% immediately – the company will be unable to sustain its current growth prospects in terms of top-line growth, and will see a decline in stock price as investors realize that firms in this space are simply unable to carve out an economic moat for themselves. With still an astronomical 26.4% growth projected as far as 2020 – an estimate that has not held true throughout the life of the company – GrubHub still sees a significant decline in stock price according to our model. This reinforces our short thesis as it confirms that the first-mover advantage GrubHub currently enjoys will not be enough to sustain this company in the medium- to long-term.

Basic Information	
Company Name	GrubHub
Ticker	GRUB
Market Cap	$3,224.3
Enterprise Value	$3,092.8
Number of Shares	86.7
Days per Year	360

Note: Turn on iterative calculations

Note: All data taken from Guru Focus.

Income Statement

(In USD $MM)

		2015A	2016E	2017E	2018E	2019E	2020E
Revenue		$493.3	$672.6	$900.3	$1,182.5	$1,523.7	$1,925.2
Growth			*36.4%*	*33.9%*	*31.4%*	*28.9%*	*26.4%*
COGS		(214.2)	(305.5)	(426.9)	(584.4)	(783.5)	(1,028.5)
Gross Profit		**279.1**	**367.1**	**473.4**	**598.1**	**740.2**	**896.7**
Margin		*56.6%*	*54.6%*	*52.6%*	*50.6%*	*48.6%*	*46.6%*
SG&A		(160.1)	(214.9)	(278.7)	(354.2)	(441.2)	(538.2)
Operating Profit (EBIT)		**119.0**	**152.2**	**194.7**	**243.9**	**299.0**	**358.5**
Margin		*24.1%*	*22.6%*	*21.6%*	*20.6%*	*19.6%*	*18.6%*
Other Income (Expenses)		35.2	*48.0*	*64.2*	*84.4*	*108.7*	*137.4*
% of Sales		*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*
Interest Expense	Circ Break	0.0	0.0	0.0	0.0	0.0	0.0
Interest Rate	**0**	0.0%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
EBT		**83.9**	**200.2**	**258.9**	**328.3**	**407.7**	**495.9**
Taxes		(34.3)	(50.0)	(64.7)	(82.1)	(101.9)	(124.0)
Tax Rate		*40.9%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*	*25.0%*
Net Income		**$49.6**	**$150.1**	**$194.2**	**$246.2**	**$305.8**	**$371.9**
Margin		*10.1%*	*22.3%*	*21.6%*	*20.8%*	*20.1%*	*19.3%*
Growth			*202.7%*	*29.4%*	*26.8%*	*24.2%*	*21.6%*
EBITDA		**$154.2**	**$200.2**	**$258.9**	**$328.3**	**$407.7**	**$495.9**
Margin		*31.3%*	*29.8%*	*28.8%*	*27.8%*	*26.8%*	*25.8%*
Growth			*29.8%*	*29.4%*	*26.8%*	*24.2%*	*21.6%*

Balance Sheet

		2015A	2016E	2017E	2018E	2019E	2020E
Assets	Min Cash	$200.0					
Cash		$239.5	$200.0	$200.0	$200.0	$200.0	$200.0
Accounts Receivable		60.6	82.6	110.6	145.3	187.2	236.5
A/R Turnover		*8.1x*	*8.1x*	*8.1x*	*8.1x*	*8.1x*	*8.1x*
Inventory		0.1	0.1	0.2	0.3	0.4	0.5
Inventory Turnover		*2,142.0x*	*2,142.0x*	*2,142.0x*	*2,142.0x*	*2,142.0x*	*2,142.0x*
Other Short-Term Assets		96.1	131.0	175.4	230.4	296.8	375.0
% of Sales		*19.5%*	*19.5%*	*19.5%*	*19.5%*	*19.5%*	*19.5%*
Current Assets		**$396.3**	**$413.8**	**$486.2**	**$575.9**	**$684.4**	**$812.0**
Plant, Property & Equipment		$90.0	$92.6	$96.1	$100.6	$106.5	$113.9
Other Long-Term Assets		711.2	969.7	1,298.0	1,704.9	2,196.7	2,775.6
% of Sales		*144.2%*	*144.2%*	*144.2%*	*144.2%*	*144.2%*	*144.2%*
Total Long-Term Assets		**$801.2**	**$1,062.3**	**$1,394.0**	**$1,805.5**	**$2,303.2**	**$2,889.5**
Total Assets		**$1,197.5**	**$1,476.1**	**$1,880.2**	**$2,381.4**	**$2,987.6**	**$3,701.5**

Liabilities						
Accounts Payable	$7.6	10.8	15.1	20.7	27.8	36.5
A/P Turnover	*28.2x*	*28.2x*	*28.2x*	*28.2x*	*28.2x*	*28.2x*
Short-Term/Current Debt	0.0	85.3	240.3	426.9	644.3	888.2
Other Short-Term Liabilities	102.9	140.3	187.8	246.7	317.8	401.6
% of Sales	*20.9%*	*20.9%*	*20.9%*	*20.9%*	*20.9%*	*20.9%*
Current Liabilities	**$110.5**	**$236.5**	**$443.2**	**$694.3**	**$989.9**	**$1,326.3**
Long-Term Debt	$108.0	$108.0	$108.0	$108.0	$108.0	$108.0
Other Long-Term Liabilities	6.9	9.4	12.6	16.5	21.3	26.9
% of Sales	*1.4%*	*1.4%*	*1.4%*	*1.4%*	*1.4%*	*1.4%*
Total Long-Term Liabilities	**$114.9**	**$117.41**	**$120.6**	**$124.5**	**$129.3**	**$134.9**
Total Liabilities	**$225.4**	**$353.9**	**$563.8**	**$818.8**	**$1,119.2**	**$1,461.2**
Equity						
Common Stock	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Additional Paid-in Capital	805.7	805.7	805.7	805.7	805.7	805.7
Retained Earnings	168.5	318.6	512.8	759.0	1,064.8	1,436.7
Treasury Stock	0.0	0.0	0.0	0.0	0.0	0.0
Other Equity	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)
Total Equity	**$972.1**	**$1,122.2**	**$1,316.4**	**$1,562.6**	**$1,868.4**	**$2,240.3**
Total Liabilities & Equity	**$1,197.5**	**$1,476.1**	**$1,880.2**	**$2,381.4**	**$2,987.6**	**$3,701.5**
Check	0.0	0.0	0.0	0.0	0.0	0.0

Statement of Cash Flows

	2015A	2016E	2017E	2018E	2019E	2020E
Operating Cash Flow						
Net Income	$49.6	$150.1	$194.2	$246.2	$305.8	$371.9
Depreciation & Amortization	35.2	48.0	64.2	84.4	108.7	137.4
% of Sales	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*
Change in Working Capital		(16.4)	(20.6)	(25.3)	(30.2)	(35.2)
Accounts Receivable		*(22.0)*	*(28.0)*	*(34.7)*	*(41.9)*	*(49.3)*
Inventory		*(0.0)*	*(0.1)*	*(0.1)*	*(0.1)*	*(0.1)*
Other Short-Term Assets		*(34.9)*	*(44.4)*	*(55.0)*	*(66.5)*	*(78.2)*
Accounts Payable		*3.2*	*4.3*	*5.6*	*7.1*	*8.7*
Other Short-Term Liabilities		*37.4*	*47.5*	*58.9*	*71.2*	*83.7*
Change Other LT Liab		2.5	3.2	3.9	4.8	5.6
Operating Cash Flow		**$184.3**	**$241.0**	**$309.3**	**$389.1**	**$479.7**
Investing Cash Flow						
Capital Expenditures	($37.1)	($50.6)	($67.7)	($88.9)	($114.6)	($144.8)
% of Sales	*(7.5%)*	*(7.5%)*	*(7.5%)*	*(7.5%)*	*(7.5%)*	*(7.5%)*
Change Other LT Assets		(258.5)	(328.3)	(406.9)	(491.9)	(578.8)
Investing Cash Flow		**($309.1)**	**($396.0)**	**($495.9)**	**($606.5)**	**($723.6)**
Financing Cash Flow						

Short-Term Borrowings		$85.3	$154.9	$186.6	$217.4	$243.9
Short-Term Debt Repayments		0.0	0.0	0.0	0.0	0.0
Long-Term Borrowings		0.0	0.0	0.0	0.0	0.0
Long-Term Debt Repayments		0.0	0.0	0.0	0.0	0.0
Stock Issuance		0.0	0.0	0.0	0.0	0.0
Stock Repurchases		0.0	0.0	0.0	0.0	0.0
Dividend Payment	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Growth Rate		3.0%	3.0%	3.0%	3.0%	3.0%
Financing Cash Flow		**$85.3**	**$154.9**	**$186.6**	**$217.4**	**$243.9**
Net Change in Cash		**($39.5)**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Beginning Cash		$239.5	$200.0	$200.0	$200.0	$200.0
Net Change in Cash		(39.5)	0.0	0.0	0.0	0.0
Ending Cash	**$239.5**	**$200.0**	**$200.0**	**$200.0**	**$200.0**	**$200.0**
Free Cash Flow	$60.5	**($124.8)**	**($154.9)**	**($186.6)**	**($217.4)**	**($243.9)**
Margin		*(18.6%)*	*(17.2%)*	*(15.8%)*	*(14.3%)*	*(12.7%)*
Growth		*(306.3%)*	*24.1%*	*20.4%*	*16.5%*	*12.2%*

Valuation Output

(In USD $MM except per share data)

Firm	
Enterprise Value	$1,817.1
Debt	$108.0
Cash	$239.5
Equity Value	$1,948.6
Terminal Value Type	Perpetuity

Per Share		
Number of Shares		86.700
Target Share Price		$22.48
Current Share Price		$37.67
Upside/Downside		(40.3%)

Terminal Growth

WACC	0.5%	1.5%	2.0%	2.5%	3.0%
9.5%	$22.35	$24.43	$25.67	$27.10	$28.74
10.0%	$21.14	$22.96	$24.04	$25.26	$26.66
10.5%	$20.05	$21.66	$22.60	$23.66	$24.86
11.0%	$19.07	$20.49	$21.32	$22.25	$23.29
11.5%	$18.18	$19.45	$20.18	$20.99	$21.90

Exit Multiple

WACC	9.0x	9.5x	10.0x	10.5x	11.0x
9.5%	$25.67	$25.67	$25.67	$25.67	$25.67
10.0%	$24.04	$24.04	$24.04	$24.04	$24.04
10.5%	$22.60	$22.60	$22.60	$22.60	$22.60
11.0%	$21.32	$21.32	$21.32	$21.32	$21.32
11.5%	$20.18	$20.18	$20.18	$20.18	$20.18

Assumptions

WACC	
Equity Value	$3,224.3
Total Debt	108.0
Risk-Free Rate	3.0%

Terminal Value	
Multiple	10.0x
Growth Rate	2.0%

Beta	1.20
Equity Risk Premium	6.5%
Debt Interest Rate	5.0%
Tax Rate	40.9%

Operating Model

	2015A	2016E	2017E	2018E	2019E	2020E
Revenue	$493.3	$672.6	$900.3	$1,182.5	$1,523.7	$1,925.2
Growth		*36.4%*	*33.9%*	*31.4%*	*28.9%*	*26.4%*
COGS	(214.2)	(305.5)	(426.9)	(584.4)	(783.5)	(1,028.5)
Gross Profit	**279.1**	**367.1**	**473.4**	**598.1**	**740.2**	**896.7**
Margin	*56.6%*	*54.6%*	*52.6%*	*50.6%*	*48.6%*	*46.6%*
SG&A	(160.1)	(214.9)	(278.7)	(354.2)	(441.2)	(538.2)
Operating Profit (EBIT)	**119.0**	**152.2**	**194.7**	**243.9**	**299.0**	**358.5**
Margin	*24.1%*	*22.6%*	*21.6%*	*20.6%*	*19.6%*	*18.6%*
Cash Taxes	(34.3)	(50.0)	(64.7)	(82.1)	(101.9)	(124.0)
NOPAT	84.7	102.1	129.9	161.8	197.1	234.6
D&A	35.2	48.0	64.2	84.4	108.7	137.4
D&A Margin	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*	*7.1%*
Capex	(37.1)	(50.6)	(67.7)	(88.9)	(114.6)	(144.8)
Capex Margin	*(7.5%)*	*(7.5%)*	*(7.5%)*	*(7.5%)*	*(7.5%)*	*(7.5%)*
Net Working Capital	53.1	71.9	95.6	124.8	159.7	200.5
NWC Margin	*10.8%*	10.7%	10.6%	10.6%	10.5%	10.4%
Δ NWC	-	(18.8)	(23.7)	(29.2)	(34.9)	(40.7)
Unlevered Free Cash Flow	**82.8**	**80.7**	**102.8**	**128.1**	**156.3**	**186.4**
Margin	*16.8%*	*12.0%*	*11.4%*	*10.8%*	*10.3%*	*9.7%*
Growth		(2.5%)	27.3%	24.7%	22.0%	19.3%
Discounted Free Cash Flow		**$73.0**	**$84.1**	**$94.8**	**$104.6**	**$112.9**
Discount Factor		0.90x	0.82x	0.74x	0.67x	0.61x

Terminal Value

Perpetuity	
Final Year Free Cash Flow	$186.4
Terminal Growth Rate	2.0%
Final Year Terminal Value	$2,224.8
Present Terminal Value	$1,347.7

Multiple	
Final Year EBITDA	$495.9
Multiple	10.0x
Final Year Terminal Value	$4,959.1
Present Terminal Value	$3,003.9

WACC

Cost of Equity	

Risk-Free Rate	3.0%
Beta	1.20
Equity Risk Premium	6.5%
Cost of Equity	10.80%

Cost of Debt	
Debt Interest Rate	5.0%
Tax Rate	40.9%
Cost of Debt	3.0%

WACC	
Equity Weight	96.8%
Debt Weight	3.2%
WACC	10.5%

Growth

	2015A	2016E	2017E	2018E	2019E	2020E
Revenue		36.4%	33.9%	31.4%	28.9%	26.4%
EBIT		27.9%	27.9%	25.3%	22.6%	19.9%
EBITDA		29.8%	29.4%	26.8%	24.2%	21.6%
Net Income		202.7%	29.4%	26.8%	24.2%	21.6%
Free Cash Flow			24.1%	20.4%	16.5%	12.2%

Profitability

	2015A	2016E	2017E	2018E	2019E	2020E
Gross Margin	56.6%	54.6%	52.6%	50.6%	48.6%	46.6%
EBIT Margin	24.1%	22.6%	21.6%	20.6%	19.6%	18.6%
EBITDA Margin	31.3%	29.8%	28.8%	27.8%	26.8%	25.8%
Net Margin	10.1%	22.3%	21.6%	20.8%	20.1%	19.3%
Free Cash Flow Margin		(18.6%)	(17.2%)	(15.8%)	(14.3%)	(12.7%)
Return on Assets	4.1%	10.2%	10.3%	10.3%	10.2%	10.0%
Return on Equity	5.1%	13.4%	14.8%	15.8%	16.4%	16.6%
ROIC	4.6%	11.4%	11.7%	11.7%	11.7%	11.5%
FCF Conversion		(83.2%)	(79.8%)	(75.8%)	(71.1%)	(65.6%)

Efficiency

	2015A	2016E	2017E	2018E	2019E	2020E
Total Asset Turnover	0.41x	0.46x	0.48x	0.50x	0.51x	0.52x
Receivable Days	44.2	44.2	44.2	44.2	44.2	44.2
Inventory Days	0.2	0.2	0.2	0.2	0.2	0.2
Payable Days	12.8	12.8	12.8	12.8	12.8	12.8
Cash Conversion Cycle	31.6	31.6	31.6	31.6	31.6	31.6

Liquidity

	2015A	2016E	2017E	2018E	2019E	2020E
Current Ratio	3.59x	1.75x	1.10x	0.83x	0.69x	0.61x
Quick Ratio	2.72x	1.20x	0.70x	0.50x	0.39x	0.33x

Leverage

	2015A	2016E	2017E	2018E	2019E	2020E
Debt/Equity	11.1%	17.2%	26.5%	34.2%	40.3%	44.5%
Total Leverage	0.7x	1.0x	1.3x	1.6x	1.8x	2.0x

Market Cap-Based

	2015A	2016E	2017E	2018E	2019E	2020E
Price to Earnings	65.0x	21.5x	16.6x	13.1x	10.5x	8.7x
Price to Book	3.3x	2.9x	2.4x	2.1x	1.7x	1.4x
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF Yield		(3.9%)	(4.8%)	(5.8%)	(6.7%)	(7.6%)

Enterprise Value-Based

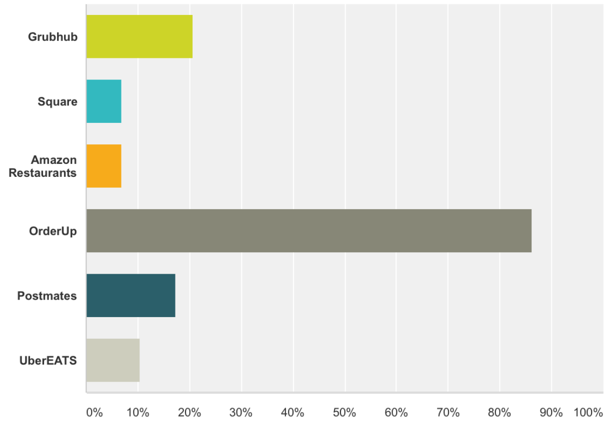
	2015A	2016E	2017E	2018E	2019E	2020E
EV/EBITDA	20.1x	15.5x	11.9x	9.4x	7.6x	6.2x
EV/Revenue	6.3x	4.6x	3.4x	2.6x	2.0x	1.6x

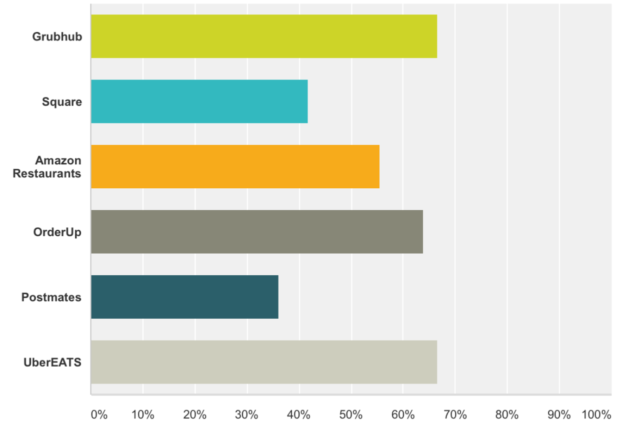
VAR Exhibits

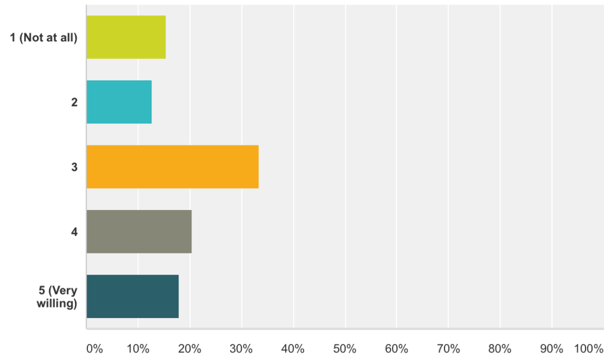
We conducted a survey via SurveyMonkey to better understand how consumers interact with the food-delivery industry. 39 people responded to our survey. The data is minimal and probably skews toward a younger demographic, but it highlights the penetration of Uber and Amazon into the Millennial market. Of the 39 respondents, 82% (32 respondents) stated they had an Amazon Prime account and 82% had an Uber account.

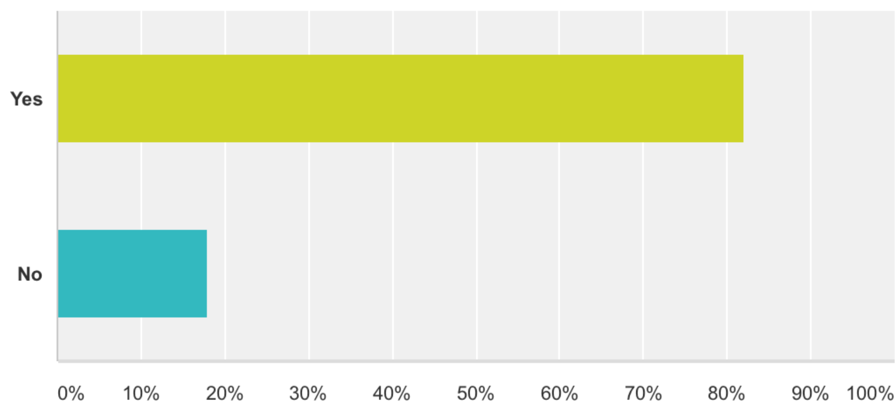
It is interesting to note that in our data, OrderUp was far and away the most used food-delivery service with 86% (25) of respondents. Only 20% (6) of respondents had used GrubHub and 25% (10) of respondents had never used any delivery service.

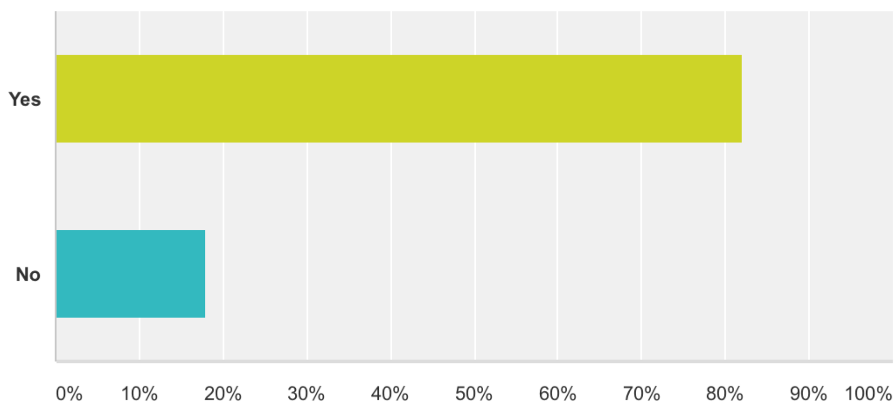
Roughly an equal amount of respondents stated they would be willing to try GrubHub (66%), OrderUp (63%), or UberEATS (66%). 55% stated they would try Amazon Restaurants. It is possible there are fewer people willing to try Amazon's service because they are less familiar with the service.


Q1
Which of the following businesses have you used?
Answered: 29 Skipped: 10
Grubhub
Square
Amazon Restaurants
OrderUp
Postmates
UberEATS
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%


Q2
Which businesses would you be willing to try?
Answered: 36 Skipped: 3
Grubhub
Square
Amazon Restaurants
OrderUp
Postmates
UberEATS
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

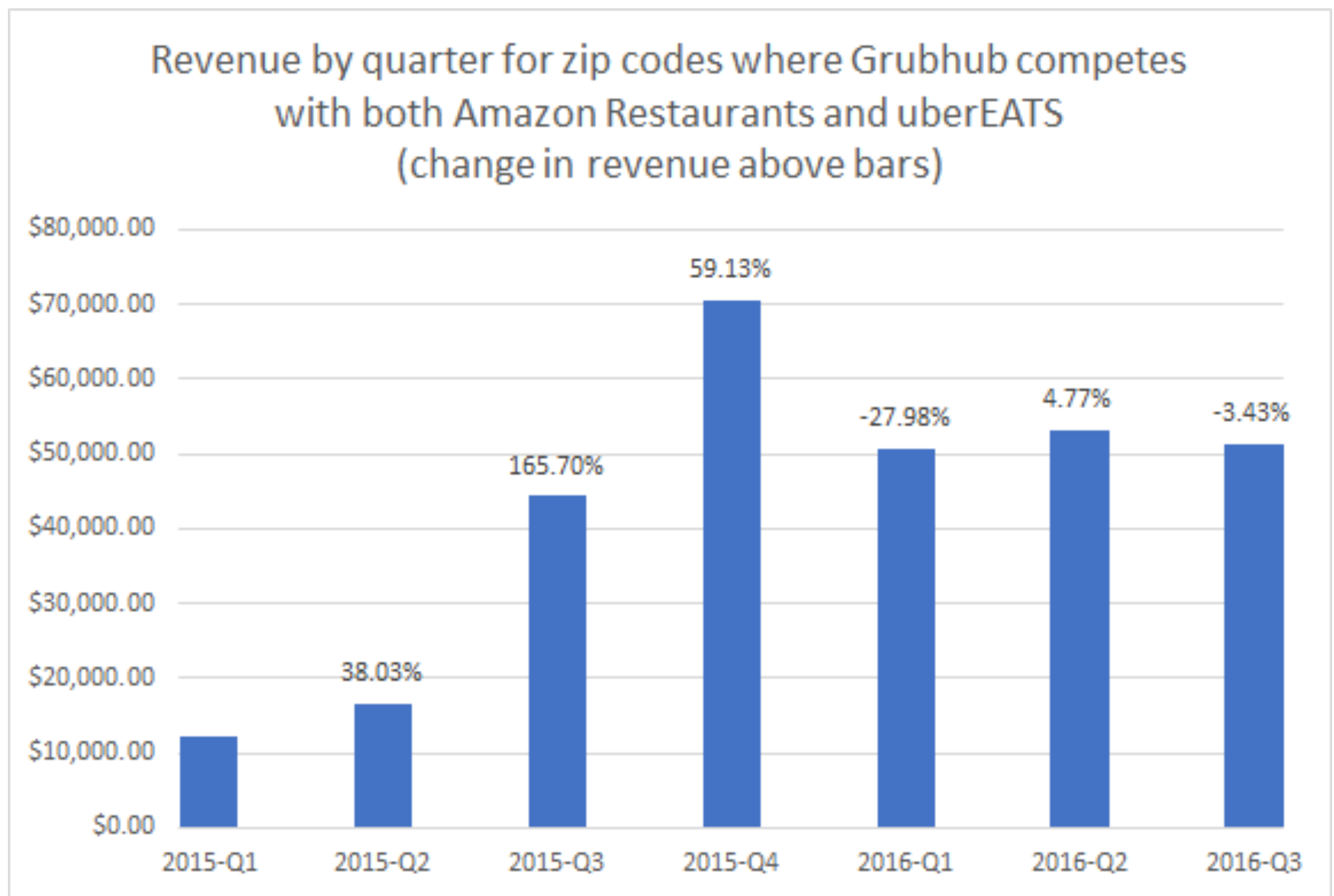

Q3
How willing are you to switch online food-ordering companies?
Answered: 39 Skipped: 0
1 (Not at all)
2
3
4
5 (Very willing)
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

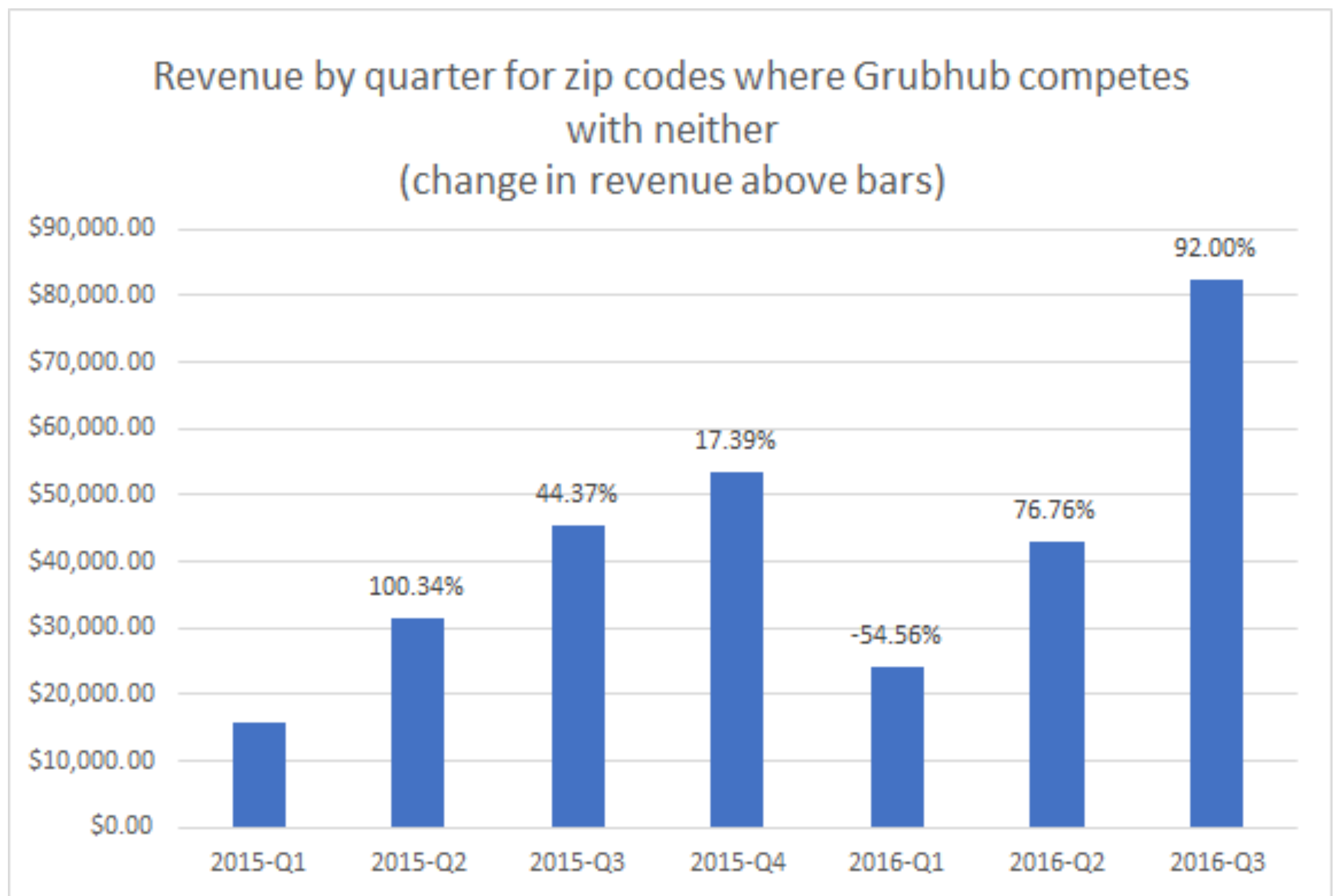

Q4
Do you have an Amazon Prime account?
Answered: 39 Skipped: 0
Yes
No
0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

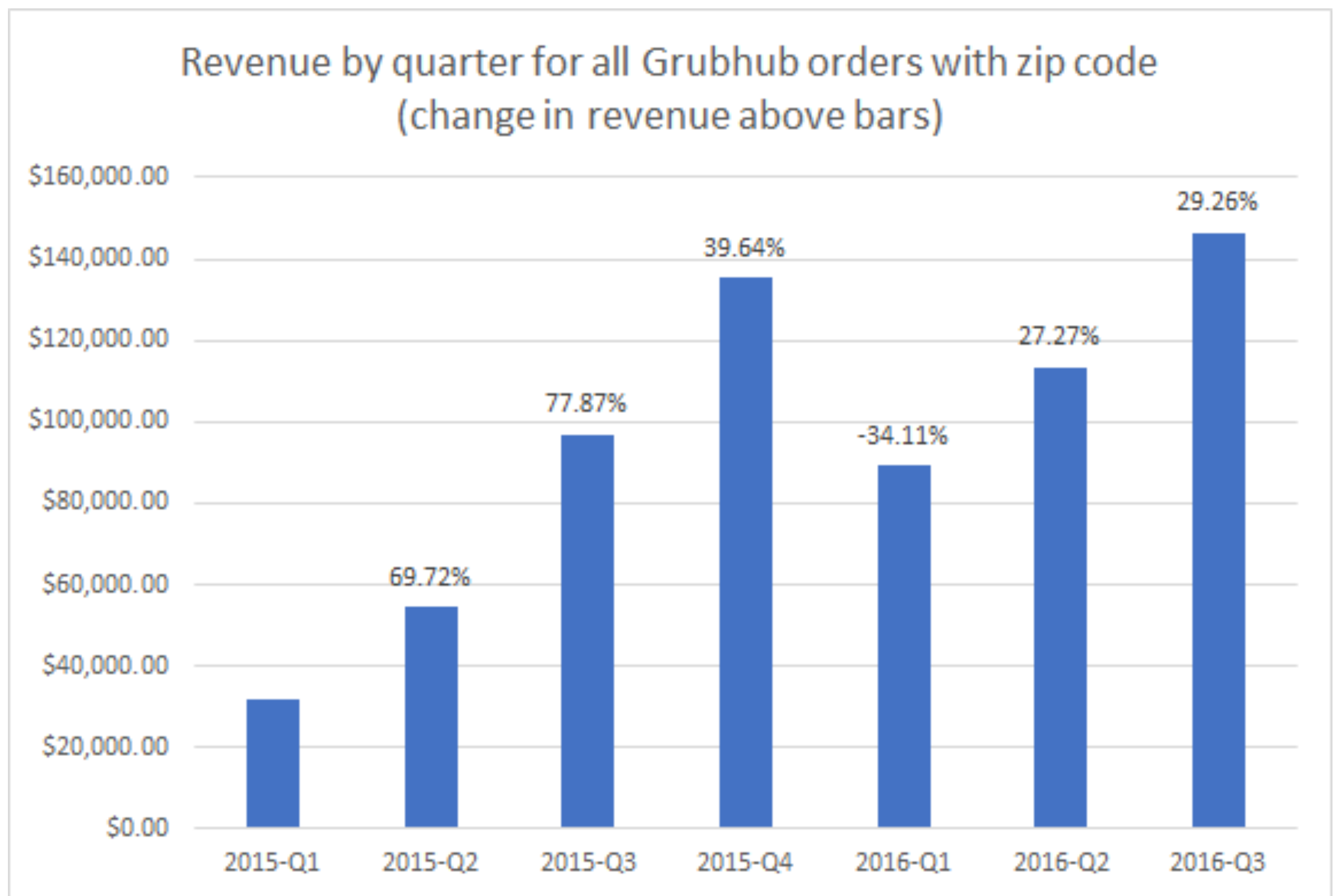


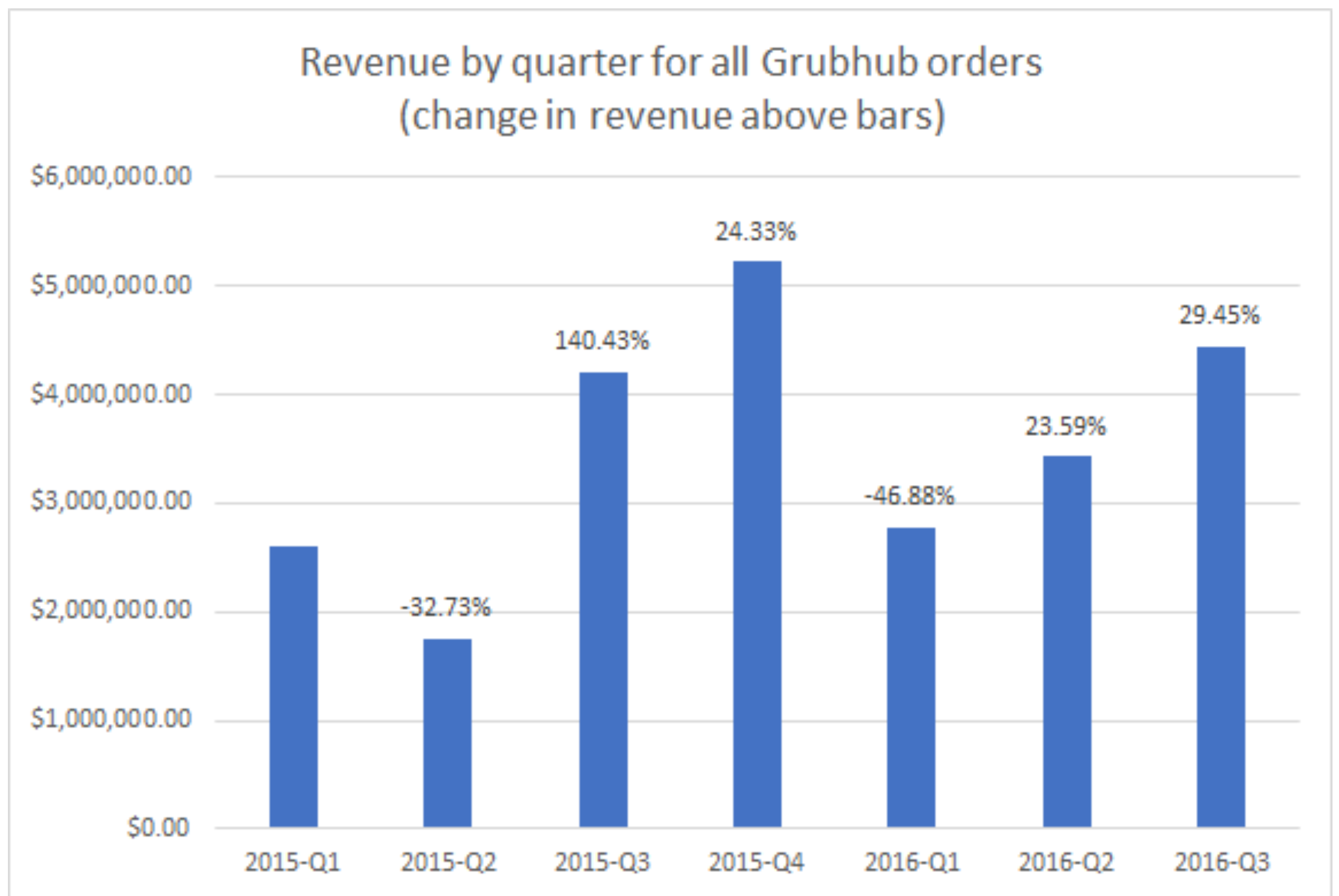
EXHIBITS

These graphs come from our data analysis, all of which is included in our submission. We examined the zip codes in which Amazon Restaurants, UberEATS and others compete in, and compared this with the data we were given for GrubHub that had zip codes in order to ascertain revenue growth patterns in those areas. We also examined the data overall as a whole to examine such changes, as we firmly believe that the stock price is currently being buoyed by revenue growth and the expectation of future revenue growth, as we have laid out in our pitch throughout. All the raw analysis we performed, as well as the code in R, is included. Once examined, it is easy to see the difference in revenue growth patterns between where GrubHub competes with fast-growing food delivery services like Amazon and UberEATS (or at least those with potential to do so) against where they do not compete with such companies. This indicates that our thesis – to short GrubHub due to increased competition, stemming primarily from the inability of companies in this space to develop a long-term competitive advantage that extends beyond the first-mover advantage – is indeed already beginning to play out.


Revenue by quarter for zip codes where Grubhub competes with both Amazon Restaurants and uberEATS (change in revenue above bars)
$80,000.00
$70,000.00
$60,000.00
$50,000.00
$40,000.00
$30,000.00
$20,000.00
$10,000.00
$0.00
38.03%
165.70%
59.13%
-27.98%
4.77%
-3.43%
2015-Q1
2015-Q2
2015-Q3
2015-Q4
2016-Q1
2016-Q2
2016-Q3


Revenue by quarter for zip codes where Grubhub competes with neither
(change in revenue above bars)
$90,000.00
$80,000.00
$70,000.00
$60,000.00
$50,000.00
$40,000.00
$30,000.00
$20,000.00
$10,000.00
$0.00
100.34%
44.37%
17.39%
-54.56%
76.76%
92.00%
2015-Q1
2015-Q2
2015-Q3
2015-Q4
2016-Q1
2016-Q2
2016-Q3


Revenue by quarter for all Grubhub orders with zip code
(change in revenue above bars)
$160,000.00
$140,000.00
$120,000.00
$100,000.00
$80,000.00
$60,000.00
$40,000.00
$20,000.00
$0.00
69.72%
77.87%
39.64%
-34.11%
27.27%
29.26%
2015-Q1
2015-Q2
2015-Q3
2015-Q4
2016-Q1
2016-Q2
2016-Q3


Revenue by quarter for all Grubhub orders
(change in revenue above bars)
$6,000,000.00
$5,000,000.00
$4,000,000.00
$3,000,000.00
$2,000,000.00
$1,000,000.00
$0.00
-32.73%
140.43%
24.33%
-46.88%
23.59%
29.45%
2015-Q1
2015-Q2
2015-Q3
2015-Q4
2016-Q1
2016-Q2
2016-Q3