

GRUBHUB™

NYSE: GRUB

Prepared for Wide-Moat Investing Summit 2019
Hosted by MOI Global

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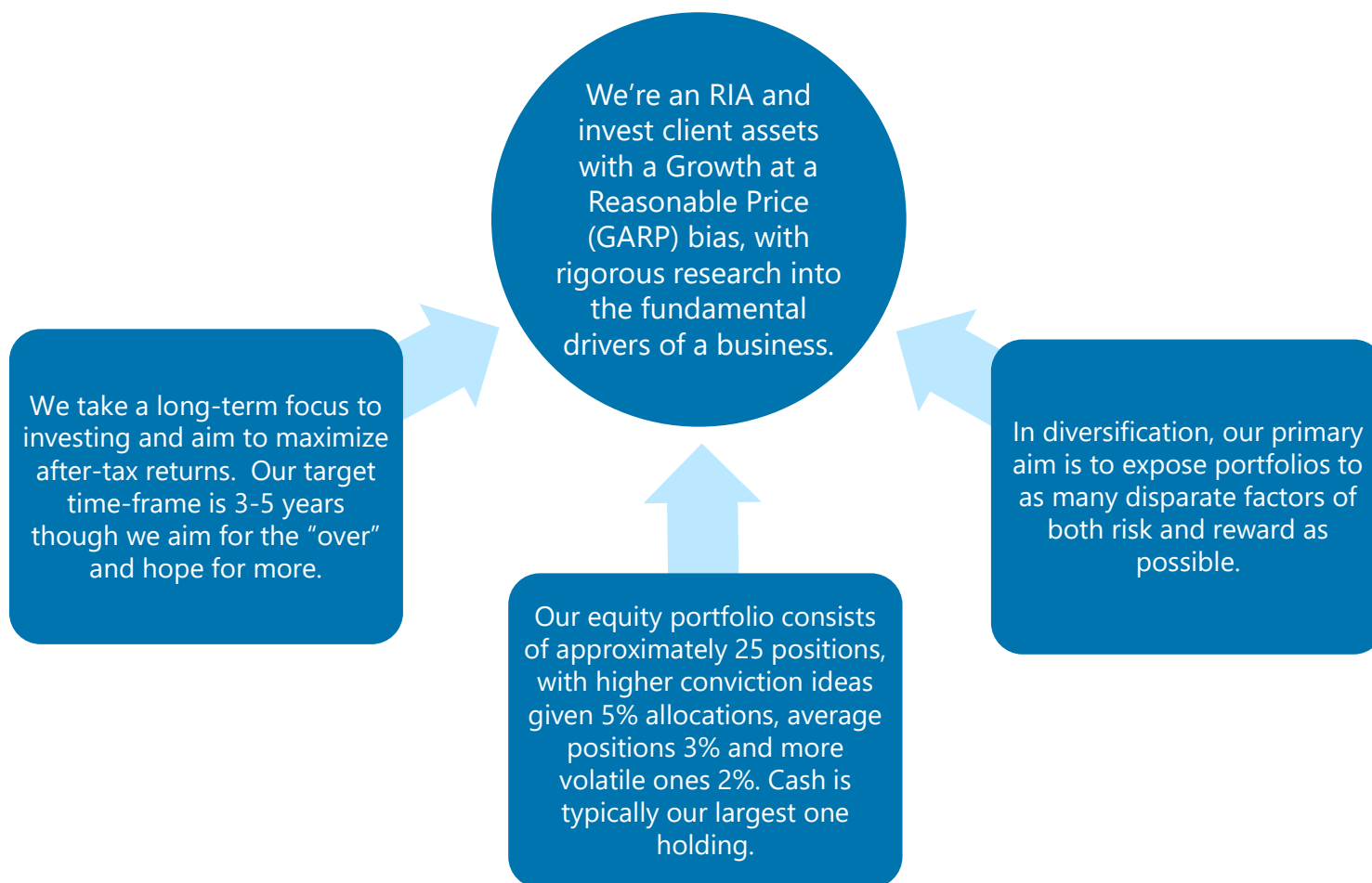
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Firm Overview



Fantasy Baseball's Post Hype Sleeper

ESPN recently defined the “post-hype sleeper” category as: “players with minor league pedigree who’ve failed in limited major league time.”¹

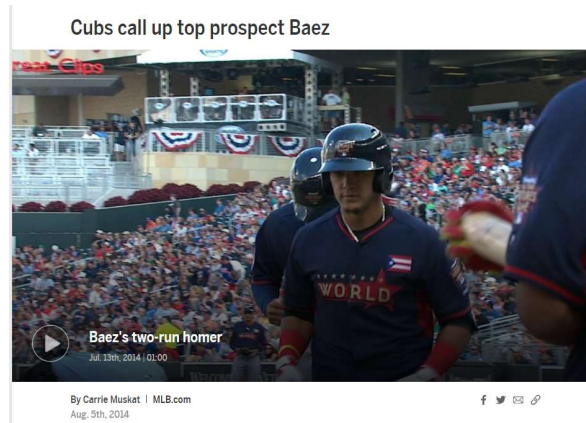


The screenshot shows the Fangraphs website header with navigation links: Player & Blog Search, Membership, Games, Blogs, Projections, Scores, Standings. Below the header is the article title "2014 Top 10 Prospects" by Marc Hulet, dated February 11, 2014.

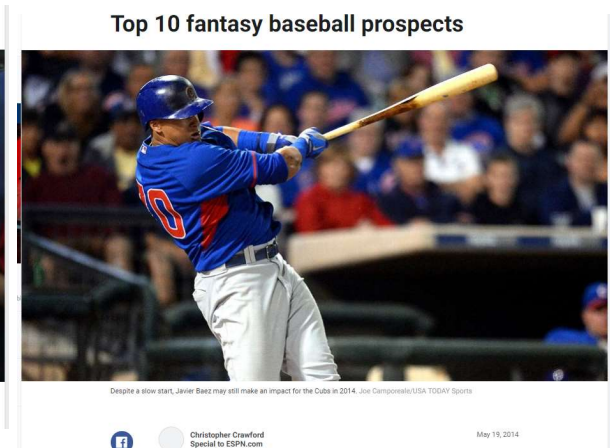
- Javier Baez was called up by the Chicago Cubs in 2014 to much hype, with an outstanding pedigree.
- He was in every prospect guru's top 10.

The Top 10

1. **Byron Buxton**, OF, Twins: Buxton combines plus athleticism, tools and projection with outstanding results at a young age to earn the distinction as the top prospect in all of baseball.
2. **Xander Bogaerts**, SS, Red Sox: Bogaerts gave baseball fans a glimpse of what makes him so special when he earned a promotion to the big leagues late last year at the age of 20. He also posted an OPS just short of .900 with a 18% walk rate in the playoffs.
3. **Oscar Taveras**, OF, Cardinals: An ankle injury was probably the only thing that kept Taveras from graduating from the top prospects list in 2013. If the Cardinals can find a spot for him in 2014 then he could be an impact contributor from the get-go.
4. **Javier Baez**, SS, Cubs: Baez's defense is surrounded by question marks — as is his ability to make consistent contact — but you can't find many players that consistently produce the kind of power that Baez does... Plus, he performed exceptionally well in Double-A considering his age and limited professional experience.



The video thumbnail shows a baseball player in a blue uniform with "WORLD" on the front, standing on a field. The title is "Cubs call up top prospect Baez". Below the video is the text "Baez's two-run homer" and "Jul. 30th, 2014 | 01:00". The source is attributed to "By Carrie Muskat | MLB.com" and "Aug. 9th, 2014".



The image shows a baseball player in a blue uniform swinging a bat. The title is "Top 10 fantasy baseball prospects". Below the image is the text "Despite a slow start, Javier Baez may still make an impact for the Cubs in 2014." and "Joe Camporeale/USA TODAY Sports". The source is attributed to "Christopher Crawford" and "Specialist to ESPN.com" and "May 15, 2014".



Fantasy Baseball's Post Hype Sleeper

- But Baez produced negative value as measured by WAR in his first 50+ major league games, earning a demotion to the minor leagues.
- In his first full season on the major league roster, he was deployed as a utility man at every position, in various roles.
- Well after the hype subsided, in 2018 Baez broke out to produce MVP-type numbers.

Season	Team	G	PA	HR	R	RBI	SB	BB%	K%	ISO	BABIP	AVG	OBP	SLG	wOBA	wRC+	BsR	Off	Def	WAR
2011	Cubs (R)	3	12	0	2	0	2	0.0%	16.7%	.167	.400	.333	.333	.500	.371	113				
2011	Cubs (A-)	2	6	0	0	1	0	0.0%	33.3%	.000	.250	.167	.167	.167	.157	-10				
2012	Cubs (A)	57	235	12	41	33	20	3.8%	20.4%	.263	.378	.333	.383	.596	.432	170				
2012	Cubs (A+)	23	86	4	9	13	4	5.8%	24.4%	.213	.200	.188	.244	.400	.288	76				
2013	Cubs (A+)	76	337	17	59	57	12	6.2%	23.1%	.261	.310	.274	.338	.535	.391	145				
2013	Cubs (AA)	54	240	20	39	54	8	7.9%	28.8%	.344	.333	.294	.346	.638	.435	180				
2014	Cubs (AAA)	104	434	23	64	80	16	7.8%	30.0%	.250	.322	.260	.323	.510	.354	108				
2014	Cubs	52	229	9	25	20	5	6.6%	41.5%	.155	.248	.169	.227	.324	.248	54	0.8	-11.1	-2.7	-0.8
2015	Cubs (R)	4	15	0	3	1	1	6.7%	0.0%	.083	.417	.417	.533	.500	.499	208				
2015	Cubs (AAA)	70	313	13	49	61	17	6.7%	24.3%	.203	.402	.324	.385	.527	.402	144				
2015	Cubs	28	80	1	4	4	1	5.0%	30.0%	.118	.412	.289	.325	.408	.315	97	0.3	0.0	1.5	0.4
2016	Cubs (AAA)	4	15	1	3	1	1	0.0%	26.7%	.200	.300	.267	.267	.467	.316	88				
2016	Cubs	142	450	14	50	59	12	3.3%	24.0%	.150	.336	.273	.314	.423	.316	94	2.8	-0.4	7.4	2.2
2017	Cubs	145	508	23	75	75	10	5.9%	28.3%	.207	.345	.273	.317	.480	.326	98	3.8	2.6	4.5	2.4
2018	Cubs	160	645	34	101	111	21	4.5%	25.9%	.264	.347	.290	.326	.554	.366	131	3.9	28.0	3.6	5.3
2019	Cubs	70	304	17	45	46	2	5.3%	30.3%	.254	.358	.282	.319	.537	.352	118	1.0	8.0	8.5	2.6

The Post-Hype Sleeper in the Market

1. A big following and a lot of momentum based on what could be in the future.
2. Internal metrics of the company's performance all continue moving in a positive direction.
3. Despite intrinsic value rising, the pace of advance is slower than what investors were looking for, or some kind of headwind emerges.
4. Momentum evaporates and leads to a sharp, rapid plunge in the company's share price.
5. The momentum overshoots to the downside, while business performance continues moving forward.
6. The stock is not cheap enough to be a deep value investment, and it too recently burnt momentum/growth investors to attract their interest.
7. The stock price has leveled off into a range of apathy for an extended period of time.

GRUB: The First Wave of Hype Falls Flat

- GrubHub Stock from IPO to January 2016
- Priced at \$26, begins trading at \$40, registers a high of \$47.95 one year later.
- Loses nearly 2/3rds of its value and making a low at \$17.77 within a year.



GRUBHUB

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GRUB: The First Wave of Hype Falls Flat

From the January 2016 low to the September 2018 high, Grubhub soared 8.4x. On its way, GRUB had two individual days alone from Amazon headlines where the stock dropped over 15%. Four -15% days total.



The path is not linear. There's always another chance!

- For the long-term investor, position management affords us the right to be patient and to say "NO!" to FOMO. I first planned to present this in the Spring of '16 before the stock "got away" and again in 2017!
- Today GRUB again sits over 50% off its all-time high established just a few short months ago:



Position Management for the Long-Term

At the MOI Global Ideaweek Conference in St. Moritz I spoke about position management. Two key concepts:

1. "Imposed patience"-when your timeframe is long, you can afford to be late. Don't buy the full position right away, buy a part and learn what drivers move the stock, get an appreciation for the fault lines and analyze the information. In the transition from observer to owner you take what is a backward looking narrative and start watching the world in a hypothesis-->test mode. Apply incrementally new information in a Bayesian way to update your subjective probabilities.
2. There's incredible value in knowing when you are right and wrong. In building position slowly, around this notion of hypothesis→test, identify the keys that will help you know you are right or wrong. Soros quotes: "It's not whether you're right or wrong, but how much money you make when you're right and how much you lose when you're wrong." "I'm only rich because I know when I'm wrong." "Go for the Jugular."

Grubhub + Seamless = The Start of Something Big

- Grubhub and Seamless, the two founders of the online food delivery business, formerly competitors, announced their merger in May of 2013 creating one large, national player. This set Grubhub on an imminent path to IPO.
- "We are excited to combine the strengths of these two dynamic organizations in an industry that is rapidly gaining traction. We believe the merger will enhance the products we are able to offer both our diners and restaurants/ GrubHub and Seamless share a common goal to generate more business for local takeout restaurants while providing the best possible service to diners. By combining our complementary restaurant and diner networks, we are well positioned for continued growth in a massive market." – Matt Maloney, CEO



The Pure Marketplace

Grubhub and Seamless both started as pure online marketplaces, built to connect diners with restaurants for a fee. The original order flow:

1. Diner places an orders online at Grubhub.
2. Restaurant receives a fax detailing the order.
3. Restaurant receives an automated call to confirm the order number in the fax.
4. Restaurant delivers the food to diner when ready.

In the background, Grubhub would collect an approximate 12% take rate in exchange for facilitating the transaction and processing the payment. Demand was highly incremental to the average restaurant and cuisines extended well beyond the historical delivery genres of “pizza and Chinese food.”



GRUBHUB



Own the customer, build your TAM

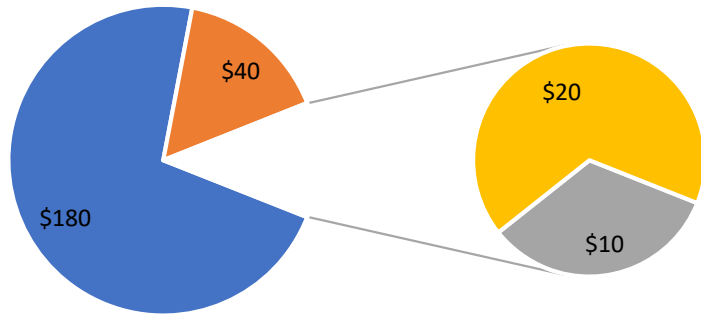
In building its business, Grubhub removed two crucial pain-points in the food delivery process for consumers.

1. Consumers often didn't know the delivery options in their area and what each had to offer. Grubhub gave a platform where restaurants could share this information and strategically purchased Menupages in order to improve their own access and awareness to this crucial piece of the puzzle in an effort to drive its salesforce in the right direction.
2. Calling in an order was prone to error and in high-volume restaurants, subject to repeated busy signals. For a diner to painlessly click in their order online and know reliably that it will arrive without error was a big change.

Grubhub's success on these two fronts conferred important power on the company as a source of demand generation for restaurants. While most expected Grubhub's take rate to compress over time, it actually rose as the company added in the capability for restaurants to offer more take rate in exchange for a higher listing in a diner's search.

A large TAM

\$250 Billion TAM Breakdown



- Unpenetrated Food Away From Home
- Unpenetrated Takeout and Delivery
- Other Digitized Orders
- Online Platforms



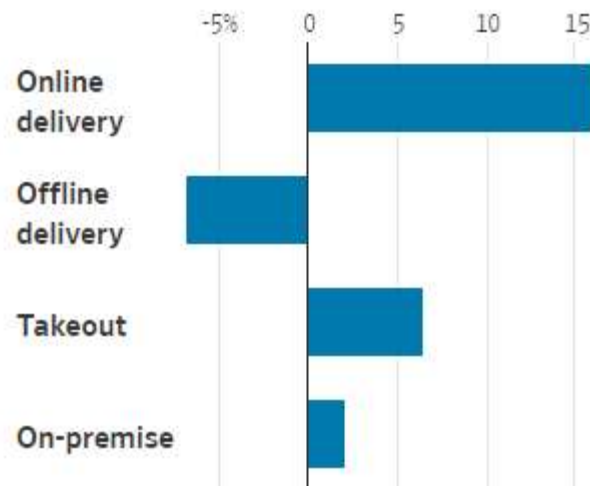
And a growing TAM

When Grubhub started, its opportunity was converting phone orders to online. So successful was Grubhub in removing key delivery frictions that in the process, the diner appetite for delivery grew alongside the company itself. Meanwhile people are consuming increasing amounts of food away from home. The food away trend is even more pronounced with younger generations:

Delivering Growth

Online delivery is the fastest-growing sales channel for the restaurant industry.

2018 sales, change from a year earlier

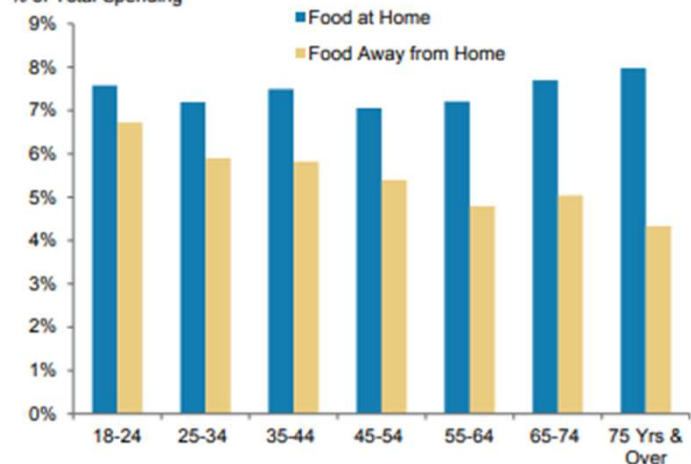


Note: Based on estimates
Sources: NPD, Cowen & Co.

Exhibit 24:

Food at home vs. away from home

% of Total Spending



Source: Bureau of Labor Statistics, Morgan Stanley Research

Success has its downsides

Grubhub has had some challenges with frustration from the diner base:

A big challenge to GrubHub's post-IPO growth? Fax machines

Why Restaurants Hate GrubHub Seamless

March 1, 2016 • Restaurant/Bar News

“We do it the old-fashioned way, with the fax, the safest way,” said Gus Aigy, manager of Bagels on the Ave in Astoria, N.Y. “[GrubHub] told me I could have [a tablet] if I wanted, but I stick with the fax and the phone call.”

“If I stop using them, tomorrow I close the door.”

Grubhub charging us even when our customers don't order: restaurant owners

By Kevin Dugan and Lisa Fickenscher

May 19, 2019 | 5:35pm | Updated

The suit, filed by Munish Narula, owner of Tiffin Indian Cuisine in Philadelphia, claims the charges for phantom orders have been going on “for at least seven years,” and are widespread across the company’s 115,000 restaurant partners.

Behind the hidden fees, according to the lawsuit and restaurant sources, is Grubhub’s practice of setting up brand new phone numbers for restaurants it contracts with. It displays its phone numbers on its Web site and app instead of the restaurant’s actual number.

City Council to investigate Grubhub's restaurant-killing fees

By Kevin Dugan and Lisa Fickenscher

June 9, 2019 | 10:29pm | Updated

“I would imagine that restaurants are not making 20 percent profit on the gross sales,” Gjonaj said. “But if there’s a provider that’s charging up to 20 percent and higher, then this could potentially undermine an entire industry.”

<https://nypost.com/2019/05/19/grubhub-is-charging-us-even-when-our-customers-dont-order-lawsuit/>
<https://nypost.com/2019/06/09/city-council-to-investigate-grubhubs-restaurant-killing-fees/>
<https://tribecacitizen.com/2016/03/01/why-restaurants-hate-grubhub-seamless/>
<http://fortune.com/2014/04/09/a-big-challenge-to-grubhubs-post-ipo-growth-fax-machines/>

GRUBHUB



Why restaurants love Grubhub

- Before Grubhub, the default in the average town was for a delivery pizza and Chinese food presence with little else. Now any restaurant can partake.
- A form of advertising that only has cost if an order is made.
- Provably high incrementality of orders –in terms of the diners a restaurant can reach, the frequency with which diners eat from a given restaurant & the AOV, comfortably covering the take rate.
- Phone orders are wrought with error, lead to frustrated diners, with errors fixed at the restaurant's expense.
- Empower customers to orders and dine how they want it, when they want it.
- Delivery orders carry lower overall cost against them than front of the house.
- Can turn over inventory faster & push promotions to get rid of excess supply.
- Share best practices & empower restaurants w/ data.

Getting into a “s***** business”

“I’m running my delivery-based business with the explicit goal to break even. That’s not fun for me, and normally I’d say that’s the dumbest business you could ever be in. Why run a break-even business? That’s a pain in the butt.”

- Grubhub went all-in on turnkey delivery making 3 RDS acquisitions in 2015, commencing its own investment plan and hiring Stan Chia from Amazon to run operations and logistics.
- Maloney’s vision was that if delivery could run at break-even, then Grubhub could continue to earn its marketplace margin on the “demand generation” piece.

Apr 20, 2016, 11:07am | Views: 30,547

Why GrubHub Is Building What Its CEO Calls 'A S***** Business'



Brian Solomon Forbes Staff

GRUBHUB

<https://www.forbes.com/sites/briansolomon/2016/04/20/why-grubhub-is-building-what-its-ceo-calls-a-s-business/#17ebf0021124>



Adding a third side to the marketplace

- Delivery is a three-sided marketplace, connecting diners (first side) to restaurants (second side) via an independent contractor driver (third side).
- The marketplace take rate is ~15%, while the take rate for Grubhub's turnkey delivery is ~30% plus a \$2 delivery fee.
- Think of this 30% as two separate pieces—15% for the demand generation piece, 15% for delivery.
- If Grubhub could squeeze its delivery cost structure into 15% of the AOV, they could achieve "economic parity" between marketplace & delivery as measured by EBITDA/order.
- **Economic parity = leaving the platform agnostic, the diner indifferent and the restaurant empowered to choose the model that best fit its own needs.**

The Quest for “Economic Parity”

The introduction of EBITDA per order parity was important in setting expectations, because as delivery increases as a percent of gross food sales (GFS), revenue grows faster than before (due to the 2x take rate), while margin is suppressed. EBITDA per order thus gave us analysts a way to track the company’s progress on monetizing orders, in contrast to modeling out revenue and margin assumptions that would now be dis-anchored from past trends.

Business Model:	Self-Delivery	Grubhub Delivery
Average Order Size	\$30.00	\$30.00
<i>Commission Paid by Restaurant</i>	<i>15.0%</i>	<i>30.0%</i>
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
<i>Profit Margin</i>	<i>76%</i>	<i>31%</i>

- 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

Making a “s***** business” YUMmy

- In Grubhub’s Q4 2017 earnings report in February 2018, management declared its achievement of “economic parity” between marketplace and delivery.
- In addition, Yum! Brands, owner of KFC, Pizza Hut and Taco Bell invested \$200m in exchange for a ~3% equity stake with the two set to rollout a nationwide partnership with Grubhub providing delivery services to Yum’s subsidiaries and its franchisees.
- Grubhub was able to leverage the Yum platform in order to expand their delivery business from first tier cities to second and third tier cities.
- As Maloney explained, “by leveraging our chain partnerships, where they[Yum] have a lot of footprint and a lot of excitement where they can see more growth, we can kind of create those anchor tenants and then we fill out the mom-and-pops as we continue to expand our market coverage in these nascent markets.”



Rollout the Yum

Yum, with its big brands and marketing prowess accomplish the following for Grubhub:

1. Help with customer acquisition by introducing new diners to the platform
2. Support brand marketing for Grubhub alongside the Yum brand names with paid marketing on TV and a branded presence in each of the restaurants.
3. Bring enough demand in order to justify the cost of operating a delivery network in cities that don't have the same scale and density of New York and Chicago.

"It's impossible to think about just the economics of the Yum! deal without thinking about the value of the advertising that we're getting, the value of the cobranding that's not explicit, that's more implicit, the new diners that we're getting, the value of the — the value of just having the brands on the platform and driving new diners. And so you need to take all that into consideration, and we still think that — we still feel really good that over time, even in the kind of short to medium term, you're not going to see a detrimental impact to EBITA per order related to the Yum! deal or other deals." – Adam Dewitt, CFO



Yum's Perspective:

Customers are also loving the new way to get their favorite Taco Bell products. Feedback has been positive plus the strength of our partnership with Grubhub has allowed for real-time feedback and learnings to continue to elevate the customer experience to even higher levels. Delivery is now live in over 4,000 Taco Bell restaurants in the U.S. and opportunistic market expansion should increase restaurant coverage over time. Additionally, click-and-collect functionality is available on all tacobell.com and Taco Bell app while they're also testing this functionality through Grubhub.

And as we've only got about 200 stores at the moment, which are actually going through the Grubhub marketplace, it's not having a massive impact on our business. But I think the point you made is we are **excited by the incremental customers** we're seeing come through that marketplace. But obviously, the vast majority of the business is still coming through our Pizza Hut traditional business.

David W. Gibbs, YUM! Brands, Inc. - President, COO & CFO [16]

I think Grub is another example of us leveraging our scale in the world of technology with the Yum!'s presence in the United States, all the restaurants that we have. We -- obviously, we're a coveted account for all of the different aggregators. We did a thorough RFP. We selected Grub for a variety of reasons, but we didn't want just commercial terms. We wanted a partnership with them so that we could learn from them, have a front seat at what's going on with the aggregators. We knew we could help teach them something. And that's exactly how it's played out. We got great commercial terms. We got a Board seat at Grub. Artie Starrs, President of Pizza Hut U.S. business, is on that Board and bringing a lot to their Board and learning a lot from them. And I think we've approached this differently than most restaurant companies because of our scale. We made a couple of hundred million-dollar investment in it.

So we know that aggregators are going to be part of the solution. Rather than be scared of them, we embraced the idea of working more closely with one of them on a solution in the U.S. And as we've talked about, we launched Taco Bell Delivery through Grubhub in the first quarter very successfully. We're happy with how that's gotten out of the gates. We're about to do the same with KFC in the fall, and we're even talking about some potential ways to use Pizza Hut on the Grubhub platform. **The aggregators tend to have sticky customers**, and Grubhub has a slightly different demographic than some of our brands do. So if we can tap into some customers that maybe we're not reaching today through that platform, that's a win for us.

The Grubhub logo consists of the word "GRUBHUB" in white, uppercase letters on a red rectangular background.

First two excerpts from YUM Q1 2019 Call 5/1/2019. Third excerpt from YUM at Bernstein Strategic Decisions 5/29/2019.



A Third Pillar of the Strategy

- With the YUM deal, Grubhub also became a white labeled, outsourced delivery and technology partner. LevelUp acquisition made this clear.
- Whereas Grubhub gets compensated for “demand generation” in marketplace or delivery, with a large chain partner Grubhub gets a take rate but also builds the website, the app and handles delivery.
- Grubhub is looking to digitize order flow, not just do delivery. This means the brand’s own app, building rewards into the platform, handling pickup in addition to marketplace and turnkey delivery orders.

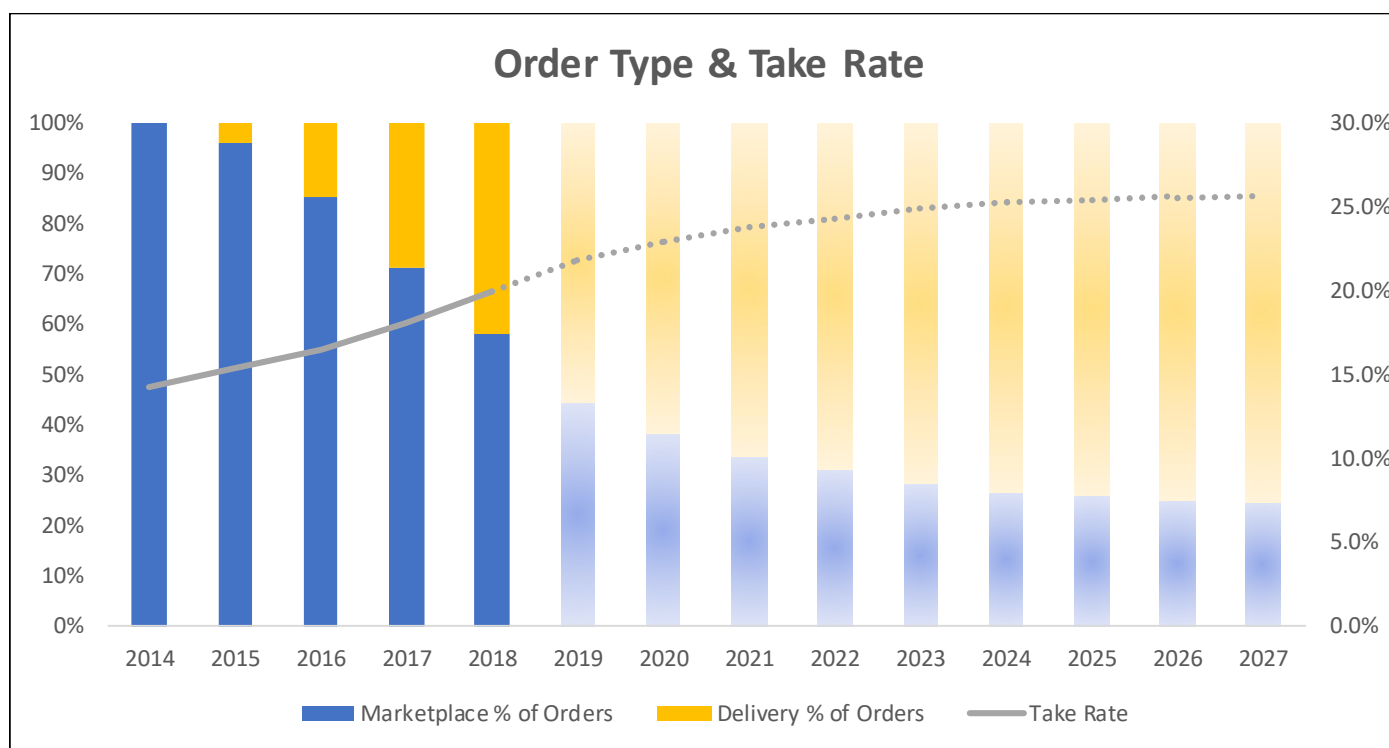
In summary, our "recipe" for re-balancing the deal with the devil that channels represent is to introduce a new vector (rewards) and make it a spectrum conversation, not an all-or-nothing one. This added leverage point gives operators the tools they need to engage in channels, but keep control of guest relationships and maintain higher margins. The formula will vary for each restaurant, but can be boiled down to:

- Distribute your menu in every customer channel.
- Intelligently broadcast rewards to more favorable channels.
- Track behavior across channels to determine guest profitability.

<https://www.foodnewsfeed.com/fsr/expert-insights/solving-digital-dilemma-it-s-give-and-take-restaurants>. Watch Seth Preibatsch give the talk with slides here: <https://www.youtube.com/watch?v=dRPOQzcTP58>

Delivery vs Marketplace

- Delivery has been growing in share of orders and will continue to do so, marketplace will always play an important role.
- Take rate goes up as delivery share increases, but also due to the capacity for restaurants to “pay” higher take for better listing position—this is true demand generation.



DoorDash Takes a Bite out of GRUB's Head Start (1/2)

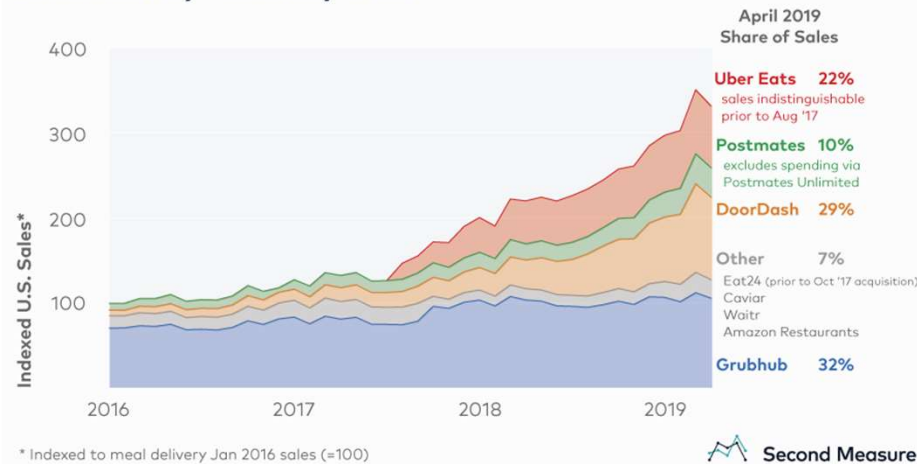
- From the beginning, Grubhub held marketshare in the face of emergent competition. Neither Uber's scale nor Amazon's entry dislodged it.
- DoorDash's 4 large fundraising rounds (\$535, \$250m, \$400m and \$600m respectively) by an investor roster including SoftBank, Coatue & DST changed the narrative & Mr. Market's sentiment towards Grubhub.
- With a huge influx of cash, a growth mandate blessed by Softbank with profitability an afterthought and a series of aggressive tactics, like selling non-partner restaurant food, skimming tips from drivers and positioning smartly in Google's new "delivery" console DoorDash was able to quickly take share.
- This raised concern about Grubhub's first mover and scale advantages and the captivity of customers to any of the delivery platforms.



DoorDash Takes a Bite out of GRUB's Head Start (2/2)

By some accounts, DoorDash overtook Grubhub in aggregate US market share during the month of March in 2019, at the very least it's close.

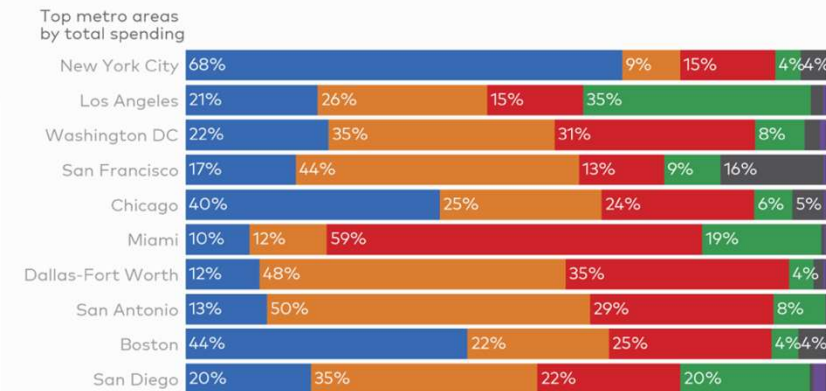
Meal Delivery - Monthly Sales



Aggregate market share hardly matters and need not be suggestive of inevitable profitability. Local profit share wins:

Meal Delivery - April 2019 Share of Sales

GrubHub DoorDash Uber Eats Postmates Caviar Amazon Restaurants



DoorDash gets the benefits of being private, out of the spotlight. It's one thing to grow share, another to make \$\$.



<https://secondmeasure.com/datapoints/food-delivery-services-grubhub-uber-eats-doordash-postmates/>



Market Share is Half the Story

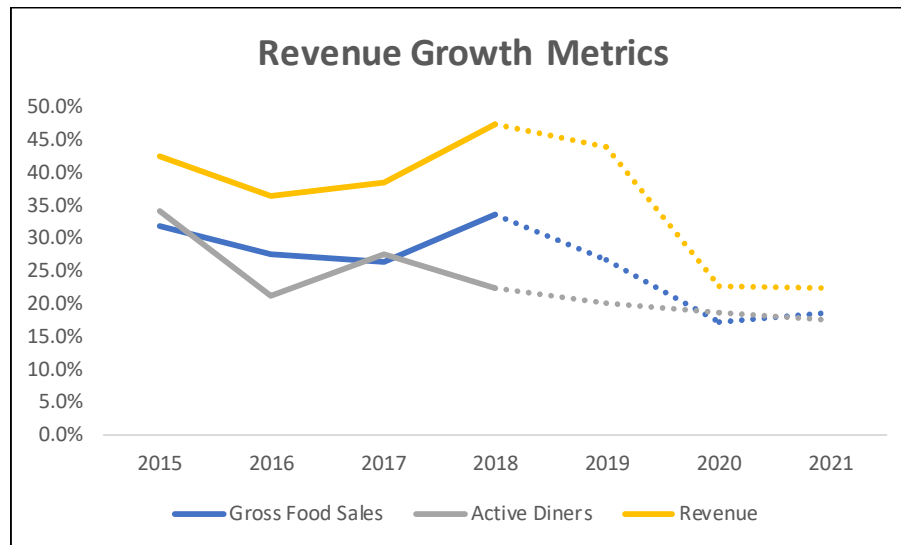
There are four important reasons why aggregate market share is misleading:

1. The market is growing rapidly and even in seemingly losing share, Grubhub is growing alongside the delivery market itself.
2. A lot of the growth is coming from Tier 2 and 3 cities, where DoorDash launched first, meanwhile core existing markets remain far more stable than aggregate market share data would have one think.
3. DoorDash services “non-partner” restaurants whereby the company earns no take rate and marks up menu prices at the diner’s expense in order to cover the cost of the delivery. Many of these restaurants don’t know they are listed on DoorDash nor do some of them want to be.
4. An unknown but meaningful portion of DoorDash’s “market share” comes from non-restaurant deliveries, most notably their Walmart This is a good “last mile logistics” business, but is not comparable to GFS at Grubhub.



Signs of competition are extrinsic, not intrinsic

“If we wanted to grow at a slower pace, if we wanted to grow similar to what we are doing in the first quarter or the second quarter last year, we could add \$20 million to \$30 million EBITDA right now, but this is the right choice for the business long term, right. We have — as I mentioned in the call, we’ve accelerated our DAG growth every quarter for the last 5 quarters with a couple hundred basis points consecutively for the third quarter and fourth quarter.” – Matt Maloney



No signs of competition showing up yet in:

- Pace of new diner adds
- Churn
- Order frequency
- Take rate
- Growth trajectory of marketplace or delivery

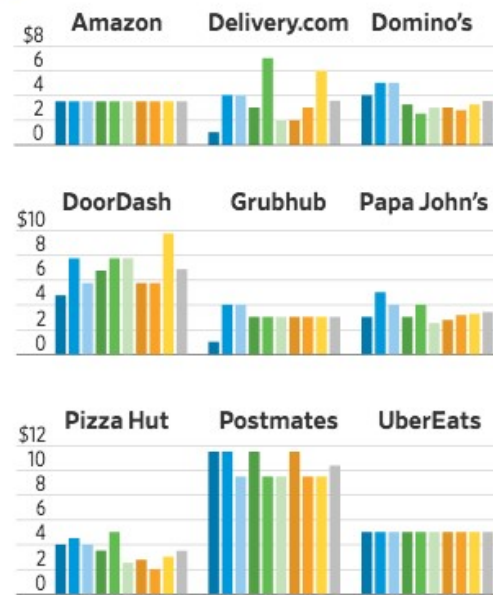
Differentiating vs Competition

Cha-ching

Food delivery fees are all over the map, with some services charging diners a pretty penny.

Delivery fees on a \$25 order*

■ New York ■ San Francisco ■ Los Angeles ■ Chicago
■ Boston ■ Philadelphia ■ Houston ■ Dallas
■ Denver ■ Average



*As of November 2017

Amazon Restaurants in US is shutting down

Sarah Perez @sarahintampa / 1 week ago

Comment

- Capital alone is not enough to compete, nor is scale.
- Grubhub is the only player in the industry who has a marketplace, a pickup and a delivery offering.
- Focus on consumers via transparency & lowest fees
- Chains get all the attention, but the long-tail is the key point of value in the industry. Outsourced marketing, tech and sometimes logistics for the mom & pops.
- After Eat24 acquisition Grubhub curtailed promotional behavior inducing orders. Competitors rely heavily on customer promotions to maintain relevance.

GRUBHUB

<https://www.wsj.com/articles/grubhub-expands-pact-with-yelp-aiming-for-cheaper-deliveries-1521451921>
<https://techcrunch.com/2019/06/11/amazon-restaurants-in-u-s-is-shutting-down/>



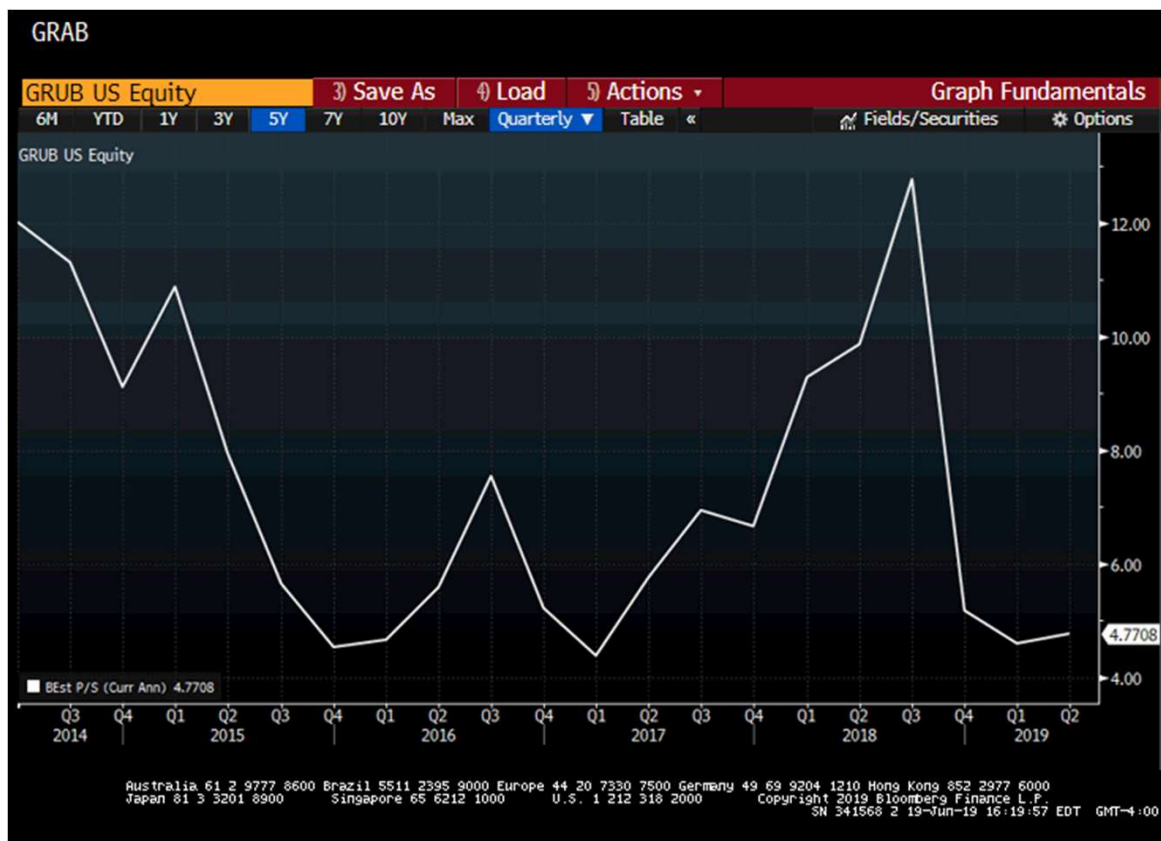
The Fulcrum of the Thesis

- Market share and competition are a side show. The real question to answer is: “will Grubhub get to economic parity (thus leveraging the O&S line) between marketplace and delivery orders?”
- The launch in tier two and three cities happened alongside DoorDash’s ascent and analysts were challenged to figure out whether the EBITDA per order decline across the business was the result of operating nascent markets sub-scale or the influence of competition driving down core economics.
- Dewitt suggests “EBITDA per order could be \$2 tomorrow” if profit were the goal.

“We expect adjusted EBITDA and EBITDA per order to increase throughout the year as we gain efficiencies in the newer delivery markets, start to get increasing leverage from the recent marketing and technology investments and achieve general operating leverage as we continue to grow. As a result, we expect to exit the year generating EBITDA per order much closer to our third quarter 2018 rate of \$1.57 than our fourth quarter '18 rate of \$0.98. If you take our 2019 order volume and apply the third quarter of 2018 level of EBITDA per order, it implies that the business would generate \$40 million to \$50 million in EBITDA above our full year guidance for 2019. So when considering 2020 and beyond, we believe the base EBITDA from where we’ll continue to grow should be closer to that figure than our full year 2019 guidance.”

Sizing up the Value – P/S

This is the lowest price to estimated sales in the company's history since going public. The Q4 2015 P/S dip below 5x coincided with skepticism surrounding the initial launch of the delivery business.



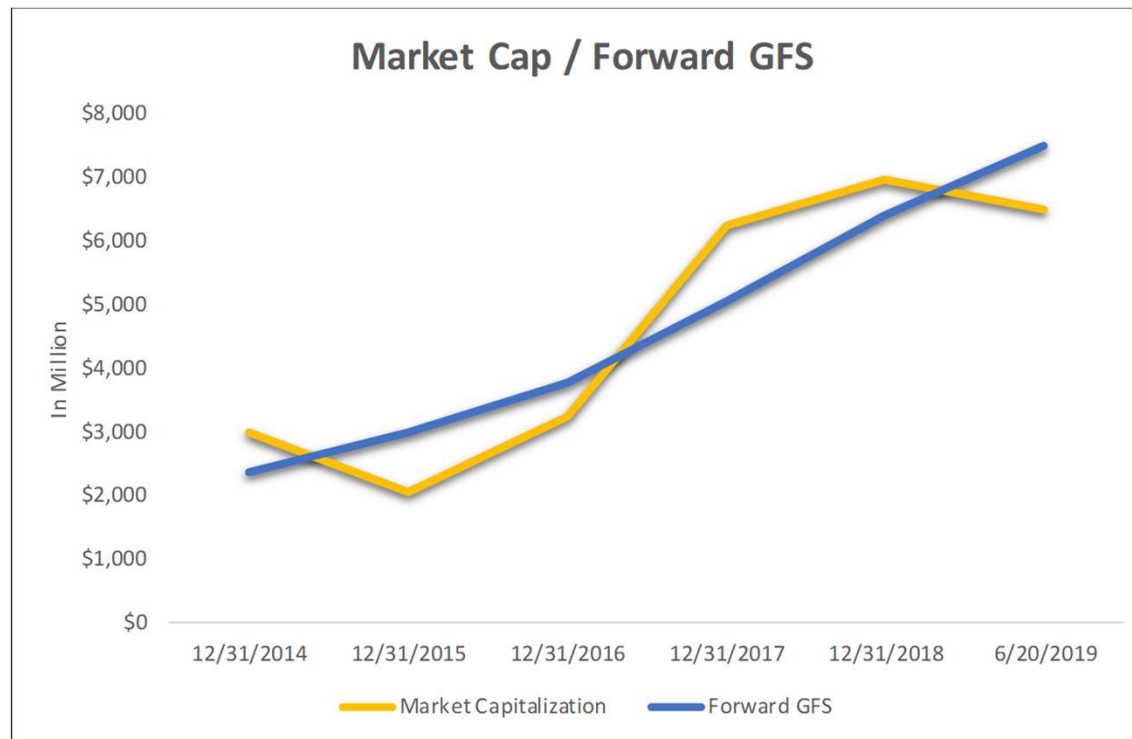
With a 10% WACC and 5% terminal growth, 4.7x P/S tells us the market thinks this is a 20% net margin company. That may be reasonable on margins, but according to consensus GRUB will grow top line 35.8% in 2019, 26.6% in 2020, 22.1% in 2021. Even if results come in lower, these growth rates far exceed what's implied by a 5% perpetual growth rate.

GRUBHUB



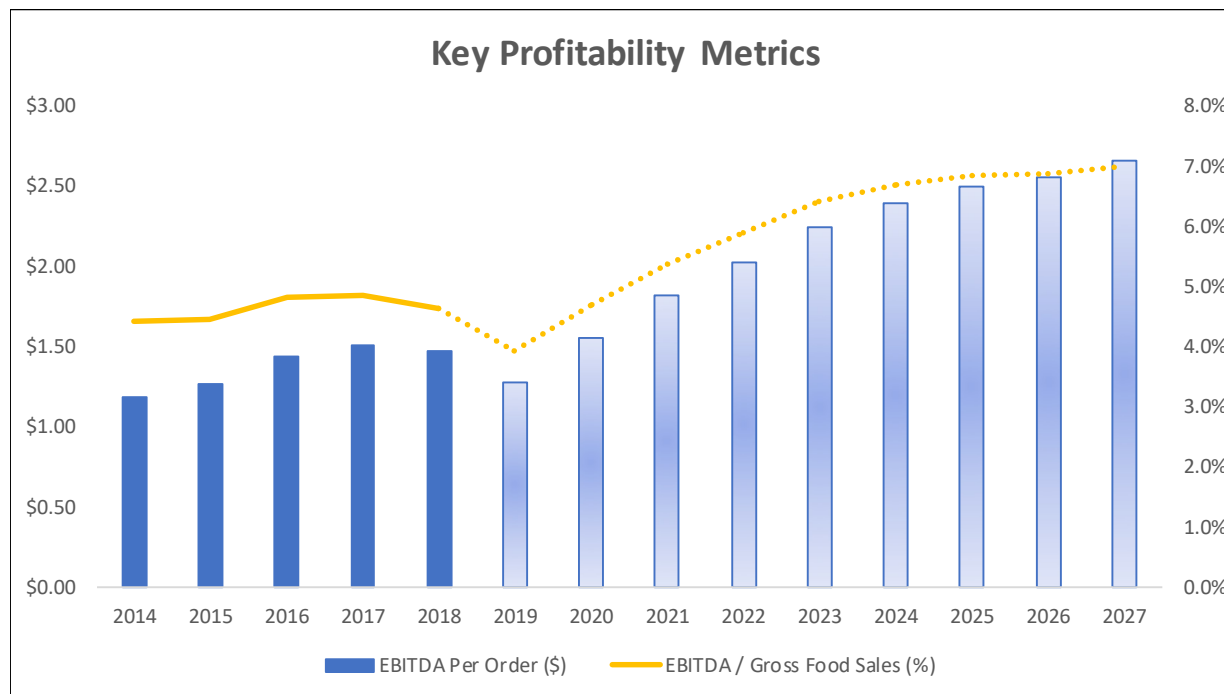
Sizing up the Value Mkt Cap / Forward GFS

- Market cap to forward GFS hovers around a 1:1 ratio with EBITDA/GFS at roughly 4.5%.
- At a 1:1 ratio, returns should follow the growth in GFS.
- The ratio should push and trend above 1:1 if EBITDA/GFS improves.



EBITDA/Order & EBITDA/GFS

- EBITDA/Order is under pressure this year with the nationwide rollout of the YUM deal in tier 2/3 markets. It will recover in 2020 as utilization improves and localities reach demand and driver equilibrium and continue its ascent thereafter.
- Operating leverage in the model gives room for EBITDA/GFS to scale as the business scales. We see a path to 7% within 8 years.



O&S Assumptions and DCF

- O&S will scale initially as each market matures, but long-run management has been explicit in their intent to use cost savings in order to drive down fees.

Operations and Support Margins																
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Marketplace O&S / Marketplace Revenue	22.1%	24.9%	24.6%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Delivery O&S / Delivery Revenue	n/a	n/a	n/a	139.7%	90.7%	75.3%	72.8%	74.0%	72.0%	71.0%	70.0%	69.3%	69.3%	69.3%	69.3%	69.3%
Marketplace O&S / Marketplace GFS	3.2%	3.4%	3.5%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Delivery O&S / Delivery GFS	n/a	n/a	n/a	51.7%	33.3%	27.4%	26.4%	25.3%	24.5%	24.1%	23.7%	23.4%	23.3%	23.2%	23.1%	23.1%
Marketplace Take Rate	14.5%	13.5%	14.2%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Delivery Take Rate	n/a	n/a	n/a	37.0%	36.7%	36.4%	36.3%	34.2%	34.0%	33.9%	33.8%	33.7%	33.6%	33.5%	33.4%	33.3%
AOV	\$ 25.13	\$ 25.77	\$ 26.79	\$ 28.39	\$ 29.89	\$ 31.04	\$ 31.78	\$ 32.42	\$ 33.07	\$ 33.73	\$ 34.40	\$ 35.09	\$ 35.79	\$ 36.51	\$ 37.24	\$ 37.98
AOV % Growth		2.5%	4.0%	6.0%	5.3%	3.8%	2.4%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%

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

Discrete Projection Period	DCF Values				
	Today	5 yrs	6 Yrs	7 Yrs	8 Yrs
Gross Food Sales	\$ 5,314	\$ 13,158	\$ 14,427	\$ 15,599	\$ 16,706
Revenue	\$ 1,098	\$ 3,387	\$ 3,735	\$ 4,056	\$ 4,348
Sales & Marketing / Revenue	22.2%	13.5%	12.0%	12.0%	11.7%
EBITDA / GFS	4.2%	6.7%	6.8%	6.9%	7.0%
Price Per Share	\$ 72.15	\$ 85.72	\$ 101.13	\$ 114.50	\$ 129.02

GRUBHUB



How to know if we're wrong:

1. Churn will rise in profitable, early cohorts.
 2. Management will burn margin on further delivery market expansion without ever reaching "economic parity" across the board.
- So far there is no evidence of the former and no reason to believe management will pursue the latter.
 - For a competitor to induce churn in Grubhub's customer base, they need to meaningfully reduce either friction and/or cost for the user.

Booking, An Analogy

- Booking Holdings was at a similar revenue run-rate in 2006 (consensus expects 36% top line growth for Grubhub this year, vs 17% growth for Booking in 2006).
- Both face(d) questions about competition from well capitalized players & industry incumbents alongside concerns about high take rates.
- Each earn the majority of their economics off a fragmented customer base (Booking: independently owned boutique hotels; Grubhub: independent restaurant landscape).
- **Grubhub is superior in how the company owns the customer with its presence at the top of funnel where search and discovery commence, while operating in an area where the frequency of interaction with the company is far more regular.**
- Booking merely removes friction, Grubhub offers demand generation as an added layer and thus should earn superior economics in the very long run.
- Booking grew revenue ~24% CAGR since 2006—a span of 12 years.
- If Grubhub's high growth time period could meet Bookings, even if at a much lower rate, the returns to long-term holders would be incredibly attractive.
- **This goes to demonstrate just how important the company's ability to extend its high growth period before reaching terminal value will be in driving long-term returns.**

GRUBHUB™

NYSE: GRUB

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