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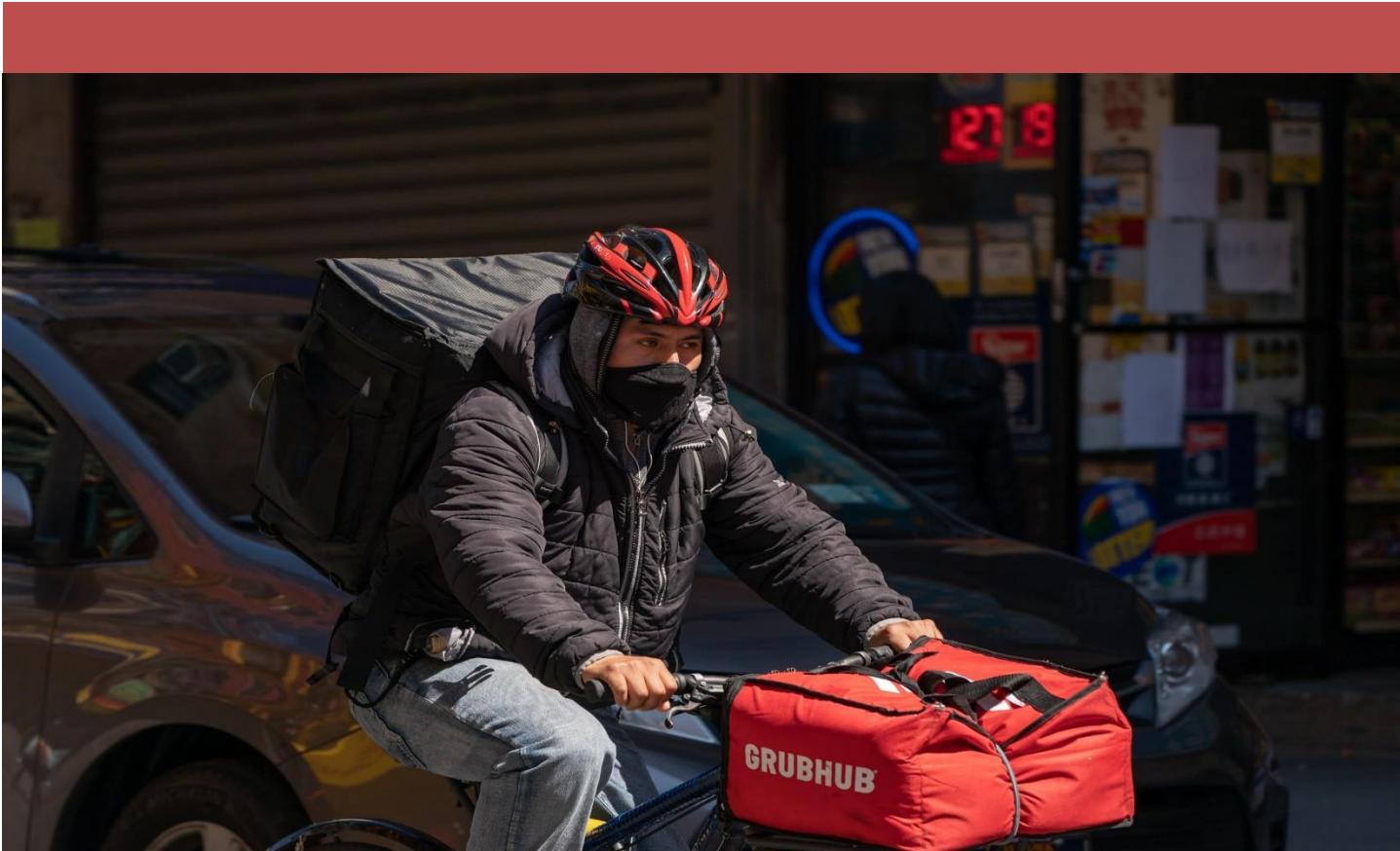
**Investment Analysis  
and Recommendation**

**GRUBHUB INC.**

**7/24/2020**

**Benjamin Burnett**

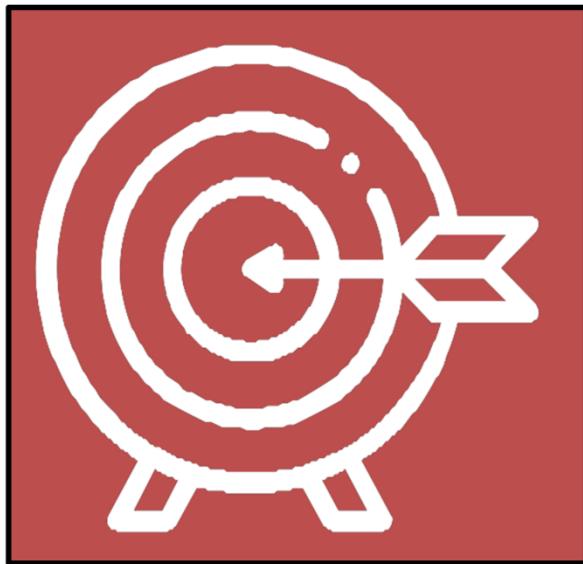
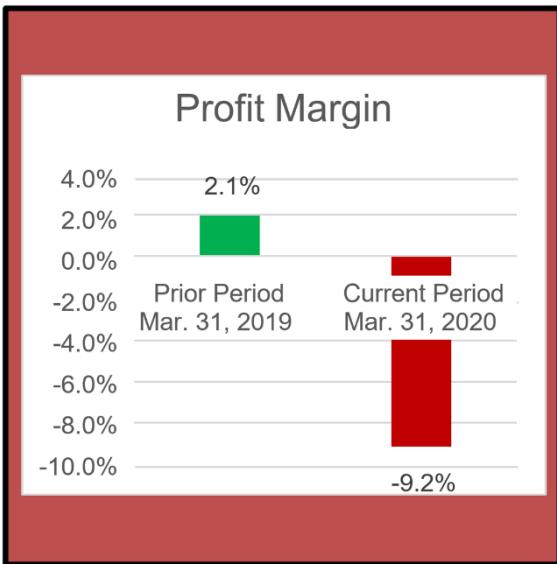




## Grubhub Overview & Risks

Grubhub Inc. is an online and mobile platform for restaurant pick-up and delivery orders, referred to as takeout. The Company currently connects more than 300,000 restaurants, of which more than 200,000 are partnered restaurants, with hungry diners in thousands of cities across the United States and is focused on transforming the takeout experience.

One risk factor to Grubhub is they could be materially and adversely affected by the outbreak of a widespread health epidemic or pandemic, including the recent COVID-19 pandemic. Such events could also significantly and adversely impact our industry in the short and long term, potentially resulting in significant changes to our restaurant inventory, diner behavior, or cost of providing delivery services, any or all of which could have a material adverse effect on our business, financial condition, and results of operations. In addition, the pandemic has resulted in, and may continue to result in, significant disruption of global financial markets, which could reduce our ability to access capital and could negatively impact our liquidity in the future (Burnett, 2020).



## Profit Margin

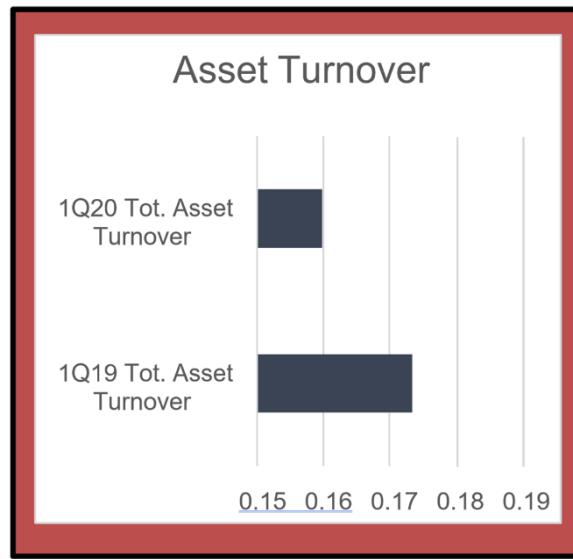
The profit margin for Grubhub Inc. is down from the previous year at -9.2%. While revenues were up 12.1% operating expense went up by 29.8% driven by the cost of doing business in a contactless environment.

Getting food delivery is often the only option for consumers during the COVID pandemic. Initially, fear may have an impact on sales because there could still be contact at the consumer's home during the drop off. Postmates was the first company to roll out contactless delivery. The food and grocery delivery company created a separate "Leave order at my door" option on its website and app. Uber Eats is providing customers the options to leave a note to drivers for a delivery to be left outside their homes or delivery places. Grubhub followed suit with many other delivery food services in the marketplace (Bhagat, 2020).

## A Delicate Balance

With two thirds of all restaurant workers currently unemployed (Pomranz, 2020), I recommend Edge Equity Investments to shift their investments from the restaurant industry to the takeout delivery services of Grubhub. There may be a great deal of restaurants that are not able to survive the pandemic as it continues into the fall of 2020. There is a significant chance that it will remain for several years as in the case of the 1918 Spanish Flu. If a vaccine is completed and ready for implementation by 2021, there is still going to be a supply issue as companies scramble to manufacture enough doses to keep up with the demand.

Just Eat Takeaway will acquire Grubhub for \$7.3 billion, increasing the share price of Grubhub in the near term (Conger et al., 2020). Buying stock at a premium in the near term is advisable. In the end, I project that you will see innovative growth and profits over the next three to five years.



## Total Asset Turnover

We typically use an annual turnover ratio to evaluate a company, but in this case, we compare profit margin, asset turnover, equity multiplier, and the return on equity using quarterly results.

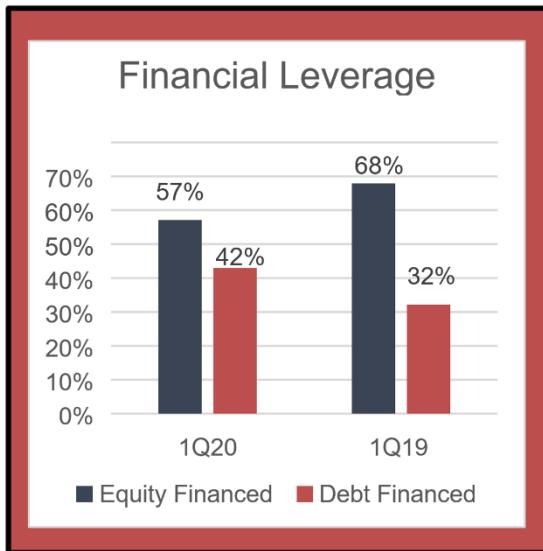
Grubhub has an average asset turnover when compared to other companies in the industry. Grubhub is a service-based industry with a higher current asset ratio to property and equipment of 408% compared to McDonalds ratio of 19%. Having higher current assets than fixed assets makes total asset turnover efficiency less indicative of how Grubhub performs over a period.

What Edge Equity Investments should consider is how in the last quarter ending March 31, 2020 Grubhub has shifted the focus to cash and equivalents by 49%. Instead of having fixed assets as overhead, Grubhub is focused on matching customers to restaurants at the expense of the restaurant paying a fee.

## Asset Picture going Forward

Uber had their sights set on taking over Grubhub, but the deal fell through partly due to a squabble over price and regulatory concerns (Conger et al., 2020).

Just Eat Takeaway might be considered a white knight company for galloping in and making the friendly takeover offer at a 27% premium of \$75.15 per share (Conger et al., 2020). Grubhub is at a pivotal point in its business model. If it follows rivals like Uber Eats and Door Dash Inc., it will convert its accumulated cash and short-term assets into a logistics fleet of vehicles and workers' salaries. It may be difficult for Grubhub to focus on both core competencies of connecting consumers to restaurants and managing a fleet of vehicles and drivers. Rental car companies make considerable profits on the resale of fleet vehicles; that may not be an option for Grubhub if it increases its assets on this front.



## Equity Multiplier

In the past year we see an 11% shift in financial leverage from debt financed to equity financed. The biggest change in current assets over the same period came from the category of cash. It goes from 189.7 million to 560.7 million for a 196% increase in just one year. While this raises the equity multiplier from 1.47 to 1.75, the underlying story is why the company may be holding on to the extra cash.

Keeping cash on hand makes it attractive for another company to merge or acquire Grubhub. Restaurants are in a precarious position right now because of the pandemic and must rely on delivery. They have a longer history with doing delivery than they do with creating marketplaces online to connect customers with those deliveries. This plan takes capital, and cash on hand at 560.7 million is a lot of capital.

## Return on Equity

I believe the return on equity will change from the negative trend that we see to a positive one within the next year. Food delivery services like Grubhub could see stock increase of up to 100% over the next year. While its competitors turn their attention to increasing their logistics footprint, Grubhub will actively shed its own.

Think of Grubhub as the search engine for delivery in the same way that Google is the search engine for what you want at precisely the moment you want it. Several competitors strive to be the dominant food search platform and have the logistics to deliver the food efficiently. If it succeeds, Grubhub will go the way of Jeeves or AOL, but if Grubhub focuses on its core competency of matching customers to food delivery as easily as you search for information on Google, it will succeed as the dominant takeout delivery platform.

# Investment recommendation to clients of Edge Equity Investments

**GRUBHUB™**

## Recommendation

Delivery can be the largest expense in an online food order, amounting to around 25% of an order's overall cost, Grubhub says. When an online service does the delivery, it passes along the expense. Just Eat Takeaway's belief that the future of its business lies in having restaurants handle the delivery part themselves, avoiding the costs of building fleets of drivers and cyclists to transport meals to customers (Haddon & Oliver, 2020).

Edge Equity Investments should purchase Grubhub stock. While Uber Eats and Door Dash Inc. are starting to acquire more territory throughout the US and turning a profit, Grubhub's parent company Just Eat Takeaway will move the company in the opposite direction of having restaurants deliver their own food and focus on the profit margin they charge restaurants for the order. To squeeze out competition, Just Eat Takeaway could lower the profit margin long enough for Uber Eats and Door Dash Inc. to end up dealing with an aging fleet of equipment and a workforce who demand higher cuts of the company's profit.

## Limitations

The recommendation to purchase Grubhub Inc. stock is only a recommendation. Before purchasing stock, refer to the prospectus and your company's tolerance for risk. Stocks are not guaranteed to rise in price, and there is a possibility they could lose some or all the capital invested. The calculations used to determine this purchase recommendation were only a small part of the considerations for investing in a company. Please refer to the notes portion of the most recent 10-Q filing for non-GAAP calculations. The portion of the 10-Q used for this recommendation was derived from an unaudited company submission.

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