

# Should Uber acquire GrubHub?

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# Outline

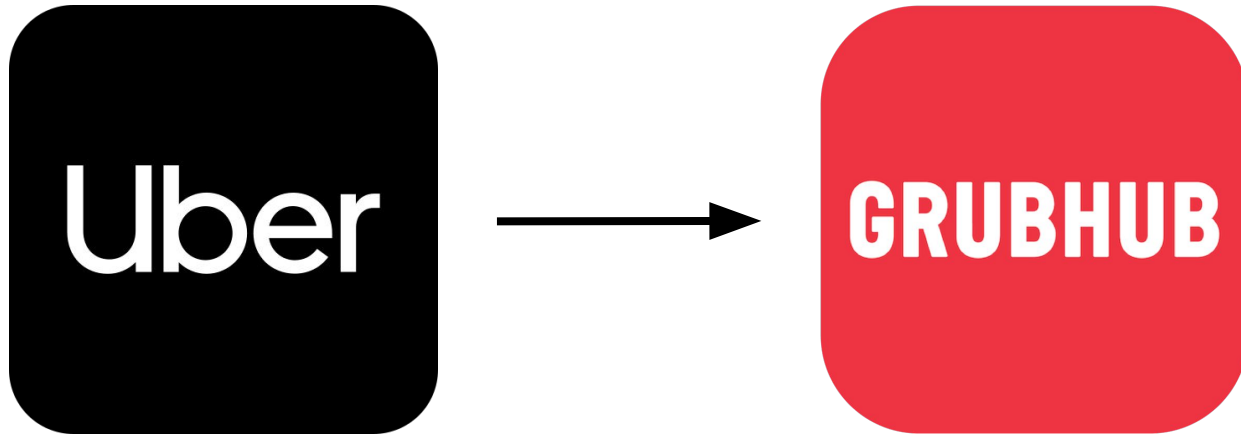
1. Purpose & Question
2. Company backgrounds
3. VRIO Analysis
4. Industry Positioning
5. NPV of acquiring
6. NPV of not acquiring/alternatives
7. Should they do it? (recommendations)

# Purpose

- During the pandemic, the food delivery business exploded as a result to COVID protocols as well as efforts to support local food businesses.
- Increase in number of available businesses on apps
- The longevity of the surge is unclear
- The food delivery industry is led by DoorDash owning 50% of the market share with the combination of UberEats and Postmates



In the face of COVID-19, should Uber acquire Grubhub to help establish dominance in the food delivery industry as more people order food for delivery instead of dining at a restaurant?



# Background (Uber)



- Founded in 2009
- Classified as a technology company
  - Originally offered only a transportation service
  - Now expanded with their food delivery service known as UberEats which was founded in 2014
- Uber IPO
  - May 19th, 2019
  - Brought in approximately \$8 billion in funds with a valuation of \$75 Billion
- Uber's Financials (from 2020)
  - \$11 Billion In revenue
  - \$16 Billion In expenses
  - -\$3 Billion in Free cash flow (Not good!)

# Background (Grubhub)



- GrubHub founded in 2004; Seamless founded in 1999
  - Merger of two companies in August 2013
- Features over 300,000 restaurants and partner with 265,000 restaurants
- GrubHub portfolio of brands:
  - GrubHub
  - Seamless
  - LevelUp
  - AllMenus
  - MenuPages
- Revenues: \$1.81 billion; Costs and Expenses: \$1.96 billion
- Although Grubhub's "active diners" increased by 24 percent during the first quarter of 2020, the company still reported a \$33 million loss.

# VRIO Analysis - Grubhub App

<b>V</b>	It is valuable because markup percentage and delivery fee is lowest among all delivery competitors.
<b>R</b>	All delivery competitors have their own app, which provides practically the same type of service. Grubhub features and partners with restaurants, so their offerings are more limited and they charge a smaller service fee.
<b>I</b>	
<b>O</b>	

## How Delivery Apps Drove Up the Cost of a Subway Order

I ordered two turkey sandwiches from a nearby Subway. Here are the details of how the costs worked out.

Cost	Grubhub	DoorDash	Postmates	Uber Eats	Restaurant
6-inch Turkey Breast Sub (x2)	\$11.98	\$14.78	\$14.78	\$14.78	\$12.58
Delivery fee	\$1.99	\$1.99	\$2.99	\$3.99	
Service fee	\$1.29	\$1.20	\$2.42	\$2.22	
Sales tax	\$1.20	\$1.29	\$1.33	\$1.26	\$0.63
Misc.				\$3	
Total cost	\$16.46	\$19.26	\$21.52	\$25.25	\$13.21
Markup	25%	46%	63%	91%	

February 2020

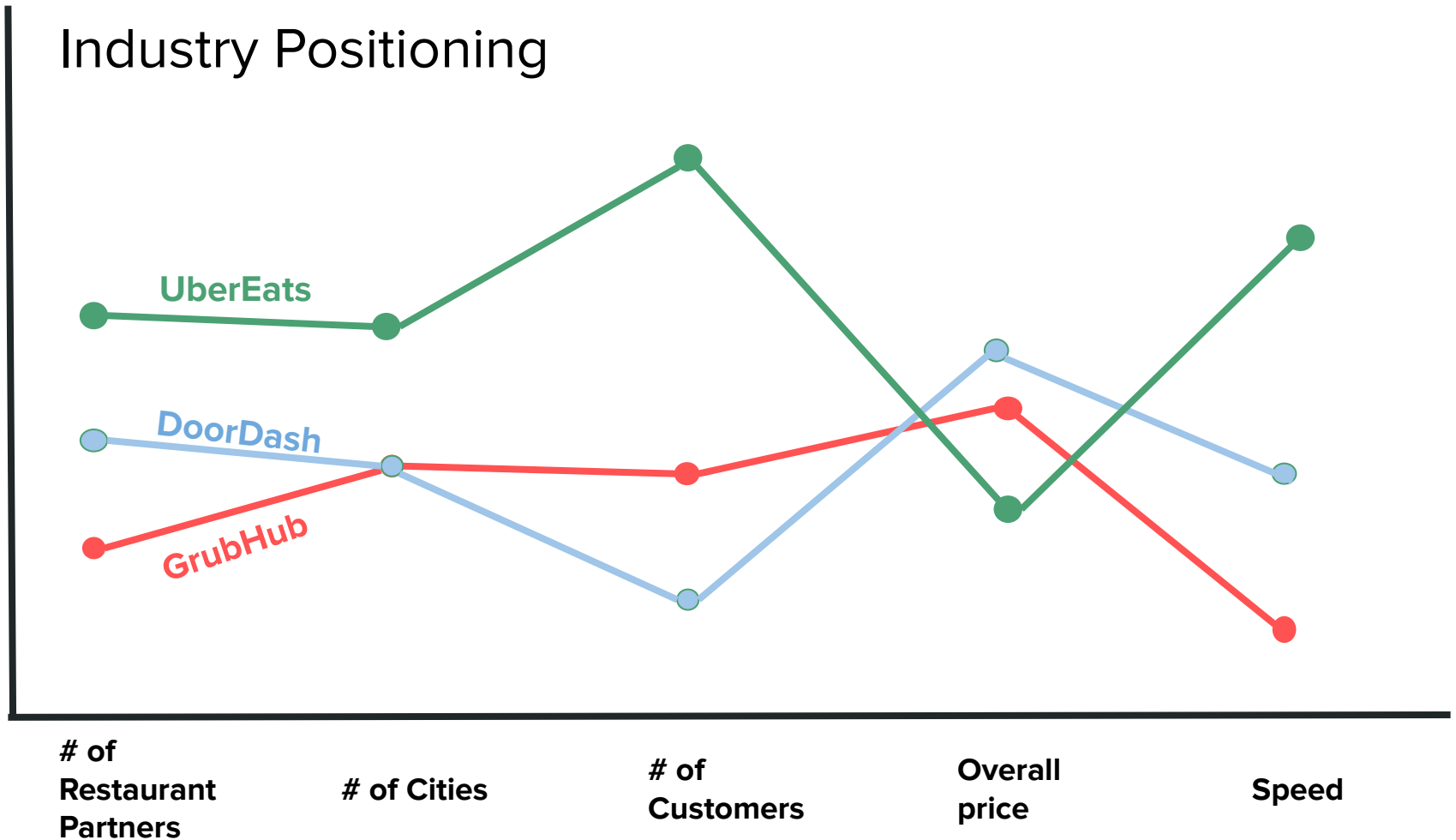
# Meal Delivery - U.S. Customer Overlap

How many **customers** also used a **competitor** in the first quarter of 2021?

	Grubhub	DoorDash	Uber Eats	Postmates
Grubhub	—	42%	22%	10%
DoorDash	24%	—	21%	8%
Uber Eats	26%	43%	—	11%
Postmates	29%	43%	27%	—



# Industry Positioning



**Competitive Scope  
*Within Industry***

Broad

**Cost  
Leadership**

**Differentiation**

Narrow

**Focused  
Low-Cost**

**Niche**

Cost

Uniqueness

**Source of  
Competitive Advantage**

# Strongest Opportunities

	UberEats	GrubHub
<b>Top Markets</b>	<ul style="list-style-type: none"><li>- Miami</li><li>- Atlanta</li><li>- Dallas-Fort Worth</li><li>- DC</li><li>- Chicago</li></ul>	<ul style="list-style-type: none"><li>- New York</li><li>- Philadelphia</li><li>- Chicago</li><li>- Boston</li><li>- Jacksonville</li></ul>



# NPV of Acquiring

- GrubHub
  - Current stock price = \$72.39
  - Purchased in June 2020 by Just Eat Takeaway for \$75.15 per share
    - Stock price at time of acquisition was about \$59.05 - sold at ~27% premium
    - Cost of acquisition = \$7.3 billion
- Based on those numbers, current expectation for GrubHub purchase price
  - $\$72.39 * 1.27 = \$91.94$
  - $\$91.94 * 93.3 \text{ million shares} = \$8.577 \text{ billion}$

# NPV of Acquiring - Continued

								<==History	Forecast==>						
WACC	11.20%	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026		
		Revenue Growth Rate	36.3%	38.5%	47.5%	30.3%	38.7%	21.6%	15.5%	21.0%	15.4%	24.0%	25.0%		
		Cost of Revenue (Excluding Depr)	-7.7%	-7.1%	-7.6%	-8.5%	-8.8%	-7.8%							
CV g	4.00%	Gross Profit	107.7%	107.1%	107.6%	108.5%	108.8%	107.8%							
		Operating Expenses	82.9%	83.0%	86.9%	91.6%	100.5%	108.2%							
Shares Outstanding	93.3	EBITDA	24.9%	24.1%	20.7%	17.0%	8.3%	-0.4%	9.6%	11.4%	18.2%	24.5%	24.5%		
		Depreciation and Amortization	7.7%	7.1%	7.6%	8.5%	8.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%		
		Operating Income	17.1%	17.0%	13.1%	8.4%	-0.5%	-8.2%	1.8%	3.6%	10.4%	16.7%	16.7%		
		Tax Rate	38.5%	40.9%	-10.4%	3.6%	30.7%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%		
		NOPLAT	10.5%	10.0%	14.5%	8.1%	-0.3%	-7.2%	1.6%	3.2%	9.1%	14.7%	14.7%		
		Net Non-Operating Losses (Gains)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
		Accounts & Notes Receivable	11.6%	12.3%	14.0%	11.0%	9.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%		
		Unbilled Revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
		Inventories	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
		Other Current Assets	1.0%	2.5%	1.0%	2.7%	1.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%		
		LT Investments & LT Receivables	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
		Net Fixed Assets	5.3%	9.4%	10.5%	11.9%	20.8%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%		
		Other Long-Term Assets	0.9%	0.9%	0.9%	1.4%	2.0%	2.7%	2.7%	8.0%	8.0%	8.0%	8.0%		
		Accounts Payable	3.7%	3.2%	7.4%	8.9%	8.2%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%		
		Other Short-Term Liabilities	21.0%	19.2%	17.6%	12.6%	10.0%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%		
		Other Long-Term Liabilities	25.7%	23.3%	12.0%	6.4%	2.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%		
		IC / Sales	1.84	1.56	1.64	1.62	1.30	0.89	0.75	0.66	0.56	0.50	0.42		
													0.35		
						Model Share Price	\$	71.51							
						Current Share Price	\$	72.39							

- GrubHub's As Is Valuation

# NPV of Acquiring - Continued

WACC	11.20%						<=History	Forecast=>						
CV g	4.00%								2021	2022	2023	2024	2025	2026
Shares Outstanding	93.3													
		2015	2016	2017	2018	2019	2020							
Revenue Growth Rate			36.3%	38.5%	47.5%	30.3%	38.7%	21.6%	15.5%	21.0%	15.4%	27.0%	29.0%	
Cost of Revenue (Excluding Depr)		-7.7%	-7.1%	-7.6%	-8.5%	-8.8%	-7.8%							
Gross Profit		107.7%	107.1%	107.6%	108.5%	108.8%	107.8%							
Operating Expenses		82.9%	83.0%	86.9%	91.6%	100.5%	108.2%							
EBITDA		24.9%	24.1%	20.7%	17.0%	8.3%	-0.4%	9.6%	11.4%	18.2%	24.5%	26.0%	28.0%	
Depreciation and Amortization		7.7%	7.1%	7.6%	8.5%	8.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	
Operating Income		17.1%	17.0%	13.1%	8.4%	-0.5%	-8.2%	1.8%	3.6%	10.4%	16.7%	18.2%	20.2%	
Tax Rate		38.5%	40.9%	-10.4%	3.6%	30.7%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	11.9%	
NOPLAT		10.5%	10.0%	14.5%	8.1%	-0.3%	-7.2%	1.6%	3.2%	9.1%	14.7%	16.0%	17.8%	
Net Non-Operating Losses (Gains)		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Accounts & Notes Receivable		11.6%	12.3%	14.0%	11.0%	9.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	
Unbilled Revenue		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Inventories		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other Current Assets		1.0%	2.5%	1.0%	2.7%	1.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	2.6%	
LT Investments & LT Receivables		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Net Fixed Assets		5.3%	9.4%	10.5%	11.9%	20.8%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	16.7%	
Other Long-Term Assets		0.9%	0.9%	0.9%	1.4%	2.0%	2.7%	2.7%	8.0%	8.0%	8.0%	8.0%	8.0%	
Accounts Payable		3.7%	3.2%	7.4%	8.9%	8.2%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	
Other Short-Term Liabilities		21.0%	19.2%	17.6%	12.6%	10.0%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	
Other Long-Term Liabilities		25.7%	23.3%	12.0%	6.4%	2.1%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	
IC / Sales		1.84	1.56	1.64	1.62	1.30	0.89	0.75	0.66	0.56	0.50	0.41	0.34	
						Model Share Price	\$	91.67						
						Current Share Price	\$	72.39						

- GrubHub realistic target price
- Based on this expectation of growth
  - Value of acquiring = \$91.67 \* 93.3 million shares = \$8.552 billion

## NPV of Acquiring - Continued

- Value of GrubHub acquisition - Cost of acquiring
- \$8.552 billion - \$8.577 billion = -\$25 million
- This negative value makes GrubHub a bad acquisition for Uber
  - Potential synergies between UberEats and GrubHub not enough to offset this negative value
- Verdict - Do Not Acquire Grubhub



# Alternatives

1. Diversify
2. Acquire Another Competitor
3. Invest Within
4. Do Nothing



# Diversification



(current valuation: \$39 billion)

- Value has doubled twice since the start of the pandemic



(current valuation: \$14 billion)

- Owned by Target, mostly grocery delivery
- Includes some local grocers and liquor stores



(current valuation: \$8.9 billion)

- Sells most essentials- home, health, food

# Competitor Acquisition



# Invest in Profitability

- Increase revenue
  - In-app ad placements
  - Increase Rider fares
- Decrease costs
  - Strengthen “supplier” relationships
  - Invest in autonomous vehicles (Eliminates their BIGGEST cost: The Drivers)

## Take No Action

- Uber Eats faces potential future losses by acquiring
- Poor current cash flows
- Before the pandemic, Uber was consistently increasing revenues each year



# Final Decision

In the face of COVID-19, Uber **should not** acquire Grubhub to help establish dominance in the food delivery industry as more people order food for delivery instead of dining at a restaurant.

Instead, Uber should do nothing as we expect a return to their increasing revenues as the world recovers from the pandemic and more people return to using Uber for rides.

Q&A