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Promiscuity runs rampant

Evan Lorenz writes:

It isn't every day a CEO pens a 10-page, 4,989-word letter to explain disappointing quarterly results. Then again, stocks typically don't fall 43% in a single trading session. The specimen under dissection is GrubHub, Inc., a *Grant's* pick-not-to-click (see the issue dated Sept. 20), although the analysis pertains to the greater unicorn herd.

Before Tuesday's swoon, GrubHub was valued at 27.4 times trailing earnings before interest, taxes, depreciation and amortization, the kind of multiple assigned to fast-growing companies with wide moats. Yet, on the Oct. 29 call, CEO Matt Maloney declared that delivery and nationwide coverage of restaurants are commodities. Nor does size confer economies of scale in food delivery. "Extremely large delivery/logistics companies can generate slim margins, but only because of the hub and spoke efficiencies they gain at substantial scale," the Grub letter explains. "The point-to-point nature of our business mostly eliminates that aspect of operating leverage."

Grub's answer to these competitive pressures is to invest in more giveaways that might lure customers to its apps. As a result, the delivery company has lowered its guidance substantially below the Street's estimates: Ebitda of $15 million to $25 million in the fourth quarter (vs. expectations of $79 million) and "at least $100 million" in 2020 (vs. $336.9 million).

A quick poll of the *Grant's* office turned up many companies offering delivery promotions, including an offer for no delivery fee plus $5 off an order on DoorDash and no delivery fee plus 15% off orders from Fusha, a local Japanese restaurant. Fusha is using Munch, an app which promises that it is "100% free and always will be for restaurants." For comparison, GrubHub took 23% of the sales placed on its platform in the third quarter as a fee. By not patronizing Grub, Fusha could save enough to offer that 15% discount and still save 8% per order.

The proliferation of promos is, according to Grub, making consumers more "promiscuous." However, promiscuity is not limited to the food-delivery space. Hail a ride in New York City on Uber, and invariably you find that your driver also moonlights for Lyft, and likely for Juno and Via, too. Wag Labs, Inc., a SoftBank Group Corp.-backed dog-walking startup, has lost share to competitor Rover.com and, according to Bloomberg, is looking to sell itself for "a knock-down price."

As for what this all means, we turn back to Grub's missive: "As discussed, we believe the easy wins in our industry are now a lot harder to find."

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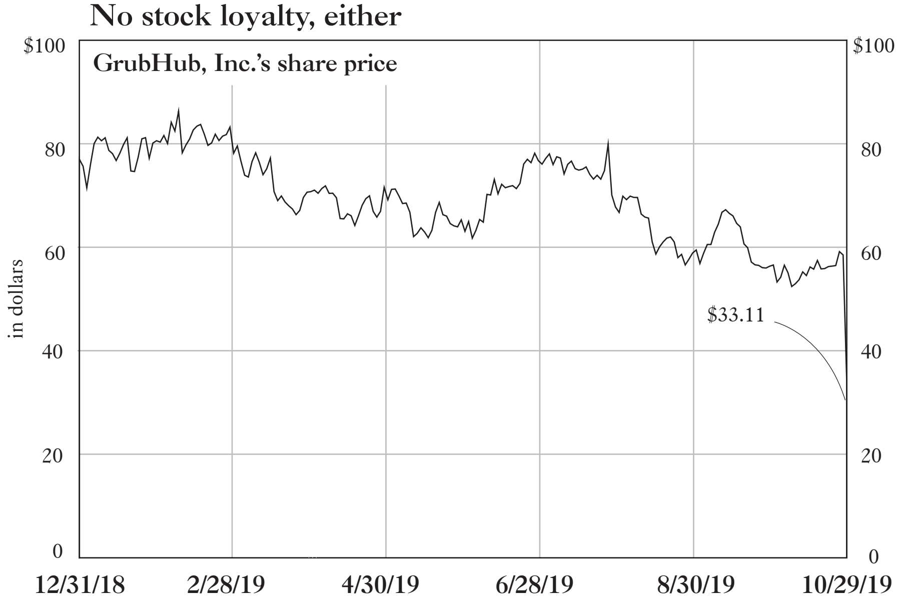
No stock loyalty, either



source: The Bloomberg