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Technology

Food Delivery Apps Are In A Race For Orders, Putting Uber And Grubhub Stock On Defensive



Food delivery apps are ramping up the competition to fill consumer orders and capitalize on funding flowing into the industry. (Dennis Nishi)



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BRIAN DEAGON

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A flood of capital is dishing up billions of dollars to the ravenous crowd of food delivery apps, a hotly competitive group dominated by four upstart companies that include Grubhub (GRUB) and Uber (UBER). But the extra portions aren't giving Uber or Grubhub stock a lock on the market.

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Grubhub and Uber Eats, as well as privately held DoorDash and Postmates, show an insatiable hunger for bigger turf to stay ahead of the pack. They're experimenting with self-driving cars, robots and drones — anything to get the lion's share of the business.

As a sign of the growing competition, Grubhub stock recently dropped 12% in reaction to its second-quarter earnings report. Revenue of \$325 million beat estimates but adjusted earnings missed views as Grubhub now expects lower profit in 2019.

"Competition from deep-pocketed players is the biggest headwind facing Grubhub," wrote Brent Thill, an analyst at Jefferies, after the Grubhub earnings report on July 30. "We continue to warm up to the story longer term given our view that the industry is large enough to support multiple winners, but short term we see continued competitive headwinds."

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These four market leaders control roughly 80% of the food delivery service business. But the food fight is far from over. Dozens of smaller companies hope to stake their claim and capture some of the billions of dollars in venture capital now there for the taking.

Grubhub Stock, Uber Stock And Future IPOs

Grubhub stock and Uber stock are the only two publicly traded food delivery apps — and the primary business of Uber is its ride-hailing service.

But you can look for more IPO stock news from this sector. An initial public offering of Postmates is expected this year, and likely will be followed by a DoorDash IPO. With the market still in the early stages, the opportunity remains open for investors to determine which food delivery apps are the best investments.

"All kinds of players are vying for market share," said Barry Friends, analyst at Pentallact, a market research and consulting firm that focuses on the food industry. "The really big ones are being super aggressive and spending a lot of money."

It's all showing up in the numbers. Last year, venture capital firms invested \$4.8 billion across 60 deals in food delivery service companies, according to PitchBook Data. That's more than triple the amount they invested in all of 2017.

DoorDash Raises \$2 Billion In Funding

DoorDash alone has raised \$2 billion in funding. That includes \$600 million this year, which put the value of DoorDash at \$12.6 billion.



Postmates announced its Serve delivery robot in December 2018. (Postmates)

And last September, Postmates raised \$300 million from Tiger Global Management. The company raised an additional \$100 million early this year, giving Postmates a valuation near \$1.85 billion.

They're gearing up for good reason. Just as more consumers watch shows on a big screen at home in lieu of going to the movies, they also dine out less and order in more, says market researcher eMarketer. Consumers also socialize and entertain more in the home than in recent years.

An early pioneer in the industry was Grubhub. Grubhub stock went public in 2014, but rivals quickly surfaced. Uber stock debuted with a blockbuster IPO in May.

Grubhub Stock Activity

In its IPO, Grubhub stock priced at 26. It hit a record high of 149.35 in September 2018, just before falling through its 50-day moving average. Grubhub stock since then has fallen about 60%. Grubhub stock on Wednesday dropped 7%, closing at 60.91, on one of the worst days in the stock market this year.

The Uber IPO price was 45. Uber stock now trades near 34.

Chief Executive Dara Khosrowshahi, in a conference call with analysts after Uber second-quarter earnings posted, was asked about competition.

"Right now the market is very, very competitive," said Khosrowshahi. "We see plenty of competition and significant capital investments but incredible potential."

Uber Eats revenue jumped 72% to \$595 million in the second quarter. The company said monthly active users on the Uber Eats platform jumped 140%, though it did not give a specific user number.

Expanding Market For Food Delivery Apps

The U.S. market for food delivery service reached \$34 billion last year, up 13% from 2017, research firm Euromonitor said.

Further, eMarketer says 38 million people in the U.S. will use food delivery apps this year, up 21% from 2018. By 2020, food delivery app usage will surpass 44 million people in the U.S. It's expected to reach 60 million by 2023, eMarketer says.

Analysts from KeyBanc Capital Markets who cover the likes of Grubhub stock say food delivery is becoming a regular part of dining habits for about half of the people who try it.

"This market has absolutely exploded in the last three to four years," said Pentallact's Friends.

"Smartphones and GPS and a marriage with other technologies have spawned an insane amount of innovation."

Grubhub Stock: A Challenging, Expensive Puzzle

While the money pours in, the food delivery service market remains a challenging and expensive puzzle for many involved. Billions of dollars have been invested in a quest to build services that move fresh food from one place to another. Many in the business wonder if the likes of DoorDash and Postmates will get the economics right.

Some analysts and industry experts remain skeptical of the business model used by food delivery services. They question whether the system is sustainable, given that the companies take commissions of 20% to 30% on every order that restaurants fill. That matters in an industry with 10% to 15% operating margins and high fixed costs, including rent and staffing.

Early on, restaurants were quick to sign up with food delivery apps to reach more customers. Big food chains such as McDonald's (MCD), Burger King parent Restaurant Brands (QSR) and Chipotle Mexican Grill (CMG) are among those partnering with the food delivery providers.

Grubhub stock got a lift when it recently announced a partnership with Dunkin' Brands (DNKN), the 14th largest U.S.-based franchise. Last year, Grubhub teamed up with fast-food behemoth Yum Brands (YUM), the parent of Taco Bell, KFC and Pizza Hut. Another Grubhub partner is Shake Shack (SHAK).

Benefits For Uber Stock In Partnerships

Uber stock benefited when it announced partnerships with Starbucks (SBUX) and White Castle, among others. But Uber Eats recently lost an exclusive partnership it had with McDonald's, which switched to DoorDash. Chipotle also has teamed with DoorDash.



Uber plans to use the AirRobot 200 drone to deliver food in San Diego, Calif. (AirRobot)

Yet growing competition and cost concerns are emboldening many restaurants to seek lower rates from food delivery services. They want a lower commission on food orders while asking their delivery partners to spend more on marketing and promotional discounts.

Among rivals to Uber and Grubhub, DoorDash has been among the most aggressive and successful in expanding operations and market share.

Market researcher Edison Trends says that as of February, privately held DoorDash edged ahead of its peers to take the lead in food delivery spending across the U.S., with 28% market share. It was followed by Grubhub at 27% and Uber Eats with 25%.

"Some of the growth at DoorDash is their own secret sauce, but I do know they have a very quantitative approach to marketing their data across different states," said Hetal Pandya, co-founder of Edison Trends.

New Means Of Food Delivery Services

Already the sector is evolving. Most orders now are placed on smartphones, though many still are managed through PCs.

Automation is growing. Food delivery apps are testing drones, robots and self-driving cars as ways to gain an edge over competitors.

Uber expects to begin its first consumer tests of delivering food by drones this summer. It's part of a pilot program with the City of San Diego and the Federal Aviation Administration. Drones and robots could save food delivery providers money by eliminating the need to pay drivers and providing faster delivery to customers.



Domino's is preparing to roll out Nuro's unmanned R2 cars to deliver pizza in Houston. (Dominos/Cover Images/Newscom)

Among the available drone delivery options are flying them to designated safe landing zones where waiting couriers would pick up the delivery for the last leg of its destination.

Also experimenting with new forms of delivery is Domino's Pizza (DPZ). It's partnering with Nuro, a company that's building a fleet of driverless robot cars that will deliver pizza to select Houston residents.

Postmates recently unveiled a sidewalk robot, called Serve, which will debut in Los Angeles later this year. Postmates also plans to test the robots in San Francisco and Vancouver. The low-profile Postmates delivery vehicle can transport 50 pounds and go 30 miles on a single charge.

Other Trends Affecting Grubhub Stock, Uber Stock

Another trend in food ordering and delivery is the emergence of "ghost kitchens" or virtual restaurants. Unlike typical eateries with a counter and place for patrons to sit, ghost kitchens only make food for takeout and delivery. These businesses have no dining room and function as delivery-only operations. They align tightly with online food delivery apps.

The primary advantage remains cost. Operating costs stay lower with no dining room or servers. They often locate in lower rent areas, thus saving even more.

There have been a few casualties. Amid the intense competition, Amazon (AMZN) recently said it would close its four-year-old Amazon Restaurants service after failing to gain much traction. Amazon founded the service in 2015 to offer consumers delivery from nearby restaurants. It grew to more than 20 markets.

But Amazon is not abandoning food delivery services. Amazon recently led a \$575 million investment round in European food delivery startup Deliveroo.

The latest funding round for Deliveroo values it at about \$3.5 billion, according to reports. That is up from about \$2 billion after its previous funding round in September 2017. Participants in the funding round included existing investors such as T. Rowe Price Group and Fidelity Management. Deliveroo competes with Uber Eats and other services in the U.K.

Uber, Grubhub Stock Analysis

The IBD Stock Checkup Tool shows that Grubhub has a weak IBD Composite Rating of 46 out of 99, reflecting a combination of fundamental and technical factors. It has an even weaker Relative Strength Rating of 23, showing it has lagged most stocks in the past 12 months.

Technically, Grubhub stock is currently in a consolidation phase. The stock is trading below its 50-day and 200-day moving averages, a big negative.

So is Uber stock a buy? Not based on current technical and fundamental attributes. The shares are about 28% off all-time highs, pulling back sharply in the current market correction and well below any potential new buy point. It has a weak IBD Composite Rating of 31. This year, analysts expect a net loss of \$6.17 a share, as Uber continues to burn through cash.

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