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DoorDash, Inc. (DASH)

Q4 2021 Earnings Call

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Youssef Squali

Analyst, Truist Securities, Inc.

Ross Sandler

Analyst, Barclays Capital, Inc.

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the DoorDash fourth quarter fiscal 2022 earnings call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer session. [Operator Instructions] Thank you.

Andy Hargreaves, Vice President of Investor Relations, you may begin your conference.

Andy Hargreaves

Vice President-Finance & Investor Relations, DoorDash, Inc.

Thanks. So, hello, everybody and thanks for joining us for our fourth quarter 2021 earnings call. I'm pleased to be joined today by Co-founder, Chair and CEO, Tony Xu, and CFO, Prabir Adarkar. We'd like remind everyone that we'll be making forward-looking statements during this call, including our expectations of our business, future financial results and guidance, strategy and statements regarding the recently announced acquisition of the Wolt transaction results.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those described in forward looking statements and some such risks are described in our risk factors including in our SEC filings, including Form 10-K. You shouldn't rely on our forward-looking statements as predictions of future events. We disclaim any obligation to update any forward-looking statements except as required by law.

During this call, we will discuss certain non-GAAP financial measures, information regarding our non-GAAP financial results including a reconciliation – a reconciliation of non-GAAP results to the most directly comparable GAAP financial measures may be found in our Investor Letter which is available on our IRS site. These non-GAAP measures should be considered in addition to our GAAP results and are not intended to be a substitute for our GAAP results.

Finally, this call, in its entirety, is being audio webcast on our Investor Relations website. An audio replay of the call will be available on our website shortly after the call ends.

And with that, we can go straight to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator instructions] Your first question comes from the line of Douglas Anmuth with JPMorgan. Your line is open.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Thanks for taking the question. I know you're focused on maximizing the long-term profit dollars. [indiscernible] (02:26) provided some more color on how to think about the near-term investment and loss levels in some of the new categories just relative to the profit and cash generation that you mentioned in the core restaurant business. Thanks.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

Hi, Doug. Thanks for the question. Yeah, that's right. We are focused on maximizing scale and the reason for that is because we operate in very large categories that are underpenetrated today. What I'll say is we're not breaking out the margins of the investments in our new categories other than to say that the US business is growing nicely and there's an increase in contribution margins both on a quarter-on-quarter and year-on-year basis. So, that increase in profit is what we're funneling into these investments and we're watching for core signals around retention and order frequency to make sure they hit on term thresholds.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Youssef Squali with Truist Securities. Your line is open.

Youssef Squali

Analyst, Truist Securities, Inc.

Q

Great, thank you very much. Two questions for me, please. One, did you guys see any benefits from Omicron during the quarter and how has January and early February trended versus your expectations? And second, can you maybe speak to recent trends in the competitive landscape? And do you believe as your main competitor has been talking about that you guys may have lost some share in the US, and if so, maybe just can – if you can flesh that out for us in terms of geos and product types where you feel you need to maybe regain some share? Thank you.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

Sure, maybe I'll start with the Omicron question and then Tony can chime in with the competitive landscape. On Omicron, specifically, the impact in Q4 even January has been relatively muted. It's not significant that I would call it out and certainly not significant when compared to the impact we saw from COVID in early in Q2. In fact, with every sort of successive variant, the impact on our business has basically diminished. And so, the Q4 outperformance, I wouldn't attribute that to Omicron. Tony, if you want to comment on the competitive landscape.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yeah. Hey, Youssef. We actually haven't noticed any share loss in any time period, you know, recently in the fourth quarter or for the year of 2021 and I think when you think about you know, maybe why this is, it really just breaks out into, I think, you know, basic math right, on new customers, we continue to be the leading acquirer of all customers that come into the industry for the first time. And then when you think about the possibility of new customer acquisition, especially just given how deep some of these channels are, they're really deeper than any other possible channel in which you can acquire new customers into the industry.

I think the second part of how you can gain share certainly is just, you know, what is the retention and order frequency of these customers and we continue to have leading, retention, and order frequency in the category. And, you know, this has always been our focus, by the way, which is to make sure that we build the best product, which you can see as demonstrated through these leading both new customer acquisition as well as, you know, retention metrics.

And as a result, when I think about it's just – this ties a little bit to I think the previous question that Doug was asking, just how large the core business opportunity is, in US restaurants, the fact that even as the share leader and you know, continuing to be the fastest growing part of the industry, we're only 5% of US industry sales. And I think when you look at all of our active users while we had a record quarter of 25 million monthly active consumers, we're a single-digit percentage of the population that we serve, and certainly as you start adding into some of these new categories, as well as international geographies, then there's the platform side of what we do with products like Drive and Storefront, I mean, we're a tiny, tiny, tiny fraction of the opportunity in front of us and that's why, you know, we're very excited in investing.

But that said, you know, in terms of how we view the future besides staying disciplined in terms of how we make investments, it's first and foremost starts with making sure that we have the best product which is going to offer the best combination of selection, quality, affordability and service. And so long as we continue doing that, I think the scoreboard will continue taking care of itself.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

And just to just to add to Tony's points, Youssef, to answer your question directly, over the last 12 months, we've gained two points of share over two points of share according to third party data sources and specifically with respect to Q4, we believe we would gain share as we grew faster than our peers based on their publicly reported numbers for the US businesses.

Youssef Squali

Analyst, Truist Securities, Inc.

Q

Great. Thanks for the color.

Operator: Your next question comes from Ross Sandler with Barclays. Your line is open.

Ross Sandler

Analyst, Barclays Capital, Inc.

Q

Hey guys, two questions. So, is there anything unique about the experience thus far in Canada and Australia, that gives you confidence that once the Wolt comes into the fray, that you'll be able to run the same playbook

successfully. I think there's some skepticism in the investment community that the what you see in the US is replicable in these international countries. So, maybe just talk a little bit about that.

And then Prabir, your sales and marketing expense was actually down a bit quarter on quarter, in contrast to GOV being up nicely. So, I think the letter mentioned customer acquisition being a little bit more efficient. Can you just elaborate a little bit on that? Is that some of that retention you're talking about kicking in, or anything else on marketing efficiency? Thanks a lot.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yeah, why don't I take the first question on some of our performance and progress internationally, and then I'll have Prabir to take the second question on sales and marketing expenses. You know, with respect to our international progress, I mean, we're super-excited in what we've seen, and that's where we're only continuing to invest more there.

And again, it starts with how do we find product market fit and then how do we actually scale up our investments, you know, appropriately given what we're seeing? And what we see is, you know, increased, you know, selection that we're offering customers, better quality of experience, more – greater and greater affordability levels especially with our investments through programs like DashPass and better service levels. As a result, we're seeing higher order frequencies, higher retention, increased engagement with some of our new categories as well in these countries. And so, that's really what we're seeing from customers and frankly, their voice as well as their – how they choose to spend their dollars is really what informs us and guides us.

And so, we're only seeing progress there and I think, those inputs are what has translated into certain outputs, such as our revenue growth, order growth, category share growth, all of these things. So, I think, once we've nailed these inputs, that's why you're seeing the growth of the investments behind them and that's why we're also really excited about the Wolt partnership because we'll get to do this on a bigger scale across over 20 countries.

And, Prabir, you want to take [indiscernible] (22:48)?

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

Yes. Just to finish up that point, I mean, there's obviously been category share growth that Tony alluded to, but in addition, I mean, we stay super disciplined when it comes to these investments. That's what's allowed us to grow the US business and we're applying the same rigor to whether it's new categories or international, and we are seeing margin improvements. And so that then allows us to invest more with greater confidence. So, let me just conclude that point.

And on your question on sales and marketing, the reason why sales and marketing declined was because our driver acquisition – our Dasher acquisition costs were lower quarter-on-quarter. As we've said in earlier quarters, we'd fixed the undersupply situation that we faced earlier in Q2, and we find ourselves well supplied, and we expect to be well supplied in 2022. And the big reason for that is because the people that generally become Dashers are a very different audience than the types of people that the other gig economy competes are – companies are competing for.

So, specifically, I think we had said over 90% of Dashers said that they have no plans to drive for rideshare and only 4% say they prefer to drive rideshare compared to food delivery. And so, the reasons for that is because you

don't need a car to Dash. You can Dash on a scooter, you can Dash on a bike. It tends to be safer because you're not sharing your personal space with another human being.

So, as a result of that, it's a very different audience that we can go after and because we find ourselves well supplied through those Dashers acquisition costs and the resulting sales and marketing costs declined quarter-on-quarter.

Operator: Your next question comes from the line of Deepak Mathivanan with Wolfe Research. Your line is open.

Deepak Mathivanan

Analyst, Wolfe Research LLC

Q

Hey, guys. Thanks for taking the questions. Two questions from us. So, first, Tony, in 2021, you guys launched a lot of new offerings and expanded across many verticals. The pace of innovation was pretty strong. But as we think about 2022 and maybe even 2023, what are one or two main initiatives you feel is ready to graduate and kind of become more meaningful on financial KPIs in the next like 12 to 24 months?

And then second question, maybe for Prabir, seems like MAU was up 20% last year and frequency was also up pretty nicely. But as we think about your guidance, 19% GOV growth at the high end for full year, how should we think about the assumptions for MAU growth frequency and AOV for this year? Thank you.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yeah. Hey, Deepak. On the first question – appreciate the comments on product innovation. We're always trying to accelerate that, especially when we hear signals from how we can serve customers better, whether they be consumers, merchants or Dashers. And so, we're constantly trying to increase the pace when we see that opportunity, and only until we find product market fit do we actually scale them into fairly large businesses. And I think we've had a track record of doing this now, whether it's certainly our core US restaurants business, then building products on our platform like DoorDash Drive, as well as Storefront.

We're the leading category player in the convenience category, in the pickup category. We've taken businesses pretty much from scratch in these new categories of convenience, grocery and other categories from zero into now \$1 billion-plus scale businesses that 14% of our monthly active users spend time in. And so, I think there's been a lot of progress to your point.

In terms of just focusing on one or two things, what we tend to do is, our investment philosophy is really – it starts with building the best product and so long as we like what we're seeing from a product market fit perspective, and we're constantly trying to make every detail right within each one of these categories, then do we stage-gate further investment into growing these, whether it be into new geographies, into more merchants. We've doubled the number of non-restaurant partners, for example, in our marketplace in 2021. But we have a lot of work to do.

And so, the way I think about it is, so long as we stick to our investment philosophy of making sure that we build the best possible product as measured by our retention and order frequency, and we stay disciplined in how we can scale them, not just with capital, but frankly, with the right leaders placed in these initiatives, as well as the right team allocated to those leaders, we'll be in a great spot.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

And then, Deepak, on your question around 2022 and obviously, the longer-term outlook, look, at its simplest, the goal is to increase MAUs and to continue driving up order frequency. We don't run the business on a one-year clock and we think about planting seeds for many, many years in the future. So, the way to think about it is these categories in the food category is relatively underpenetrated. In that core business, at our current run rate, we're less than, as Tony alluded to, 5% of total US restaurant sales. And so, even in core food, there's significant room for continued adoption and engagement increases.

Now you add to that these other categories that we've made initial forays into right, whether it's convenience, grocery, alcohol, pet food, retail and so on. These are massive markets that are also in lower – lesser penetrated compared to the food category. So, when you put these two things together, it's an exciting opportunity set ahead and basically signals that we're seeing in terms of early adoption and engagement as we transition from being food delivery app to basically all of your – serving all of your local commerce needs. It gives us confidence that we will sustain a healthy growth rate for a long period of time.

Deepak Mathivanan

Analyst, Wolfe Research LLC

Q

Got it. Okay. Thanks, Prabir. Thanks, Tony.

Operator: Your next question comes from the line of Andrew Boone with JMP Securities. Your line is open.

Andrew Boone

Analyst, JMP Securities LLC

Q

Hi, guys. Thanks for taking my questions. Two, please. One, can you just update on your progress on advertising and can that contribute to 2022? Or is it a longer-term initiative? And then secondly, on non-restaurant verticals. Where are you seeing traction with consumers? Is it grocery? Is it alcohol? Can you be a little bit more specific there? Thank you so much.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yes. Sure. I'll take both of those and feel free to add, Prabir. On the first question around advertising, we're seeing tremendous excitement pretty much actually from all of the stakeholders, from advertisers, from retailers, from restaurants, from consumers. And to me, what's really important is making sure that we can achieve two objectives, which sometimes can come at odds with one another. One is how do we offer the best return in – advertiser return in terms of their return on spend. And the second is, how do we make sure that we certainly not degrade, but ideally improve the consumer shopping experience?

And these are the two things that we're constantly focused on and so we're in no rush to monetize, although we're really excited by what we're seeing. But these are kind of our objective functions, if you will, when it comes to advertising. It's doing really well. It's off to a tremendous start. There is extraordinary demand. But I think staying disciplined, and again, building the best possible product to allow us to have these long-term sustained periods of growth is what – is how we think about this.

With respect to, I think, the new categories, we're actually seeing traction within each category and I think in some regard, this is probably not a surprise. I mean, just think about some of these categories, whether it's things that

you're stocking up in your pantry or grocery shopping or everything in between. I mean, these are the highest frequency possible categories when it comes to consumer spend and all we're really doing is, I think, adding to the incremental demand on one side by making sure that customers can get things delivered in minutes, not hours or days.

And then on the other side, we're enabling these retailers and merchants to be able to do it through their own channels, their own apps, their own websites. And so, I think for those reasons, that's why we're seeing this growth. I mean, I think as you saw in our Shareholder Letter, on an aggregate basis, about 14% of our monthly active shoppers have shopped in a category outside of restaurants. But that number is substantially higher than that in hundreds of markets already. And so -- and this is pretty universal across categories.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

And Andrew, just on your -- just to go back to the advertising question, we are expecting advertising revenues to grow in 2022, but we will invest those incremental profits into growth initiatives with the aim of maximizing long-term profit dollars.

Andrew Boone

Analyst, JMP Securities LLC

Q

Great. Thank you.

Operator: Your next question comes from the line of Eric Sheridan with Goldman Sachs. Your line is open.

Eric J. Sheridan

Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much. Maybe just dovetailing with some of what we've talked about so far, as you move into more categories and you think about more product evolution over the long-term, I think in the Shareholder Letter, there was a comment about retention and frequency in LTV. How should we be thinking about the long-term margin structure or the long-term LTV-to-CAC in this business now, versus maybe the pre-pandemic period when you IPO-ed a couple of years ago? And how would you frame what you've learned over the last couple of years with respect to that? Thanks.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yes. Thanks for the question, Eric...

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

Thanks for the question. Just to -- let me take that question. The first thing I'd say is, what we shared in the letter was meant to be a framework for how we think about how we manage the business. So today, we're not managing the business to a certain margin. We're not trying to increase margins quarter-on-quarter. We're not trying to manage from an absolute amount of EBITDA. Instead, what we do is we invest and we invest in areas, we start small and we look for signals along two dimensions. The first is product market fit. So, we alluded to the fact that 14% of our MAUs use verticals outside of food. That's a signal of product market fit. We're looking forward to frequency signals. We're looking forward to the impact of initiatives and actions we take on retention on the core platform whether it's related to the core platform.

If we see product market [ph] mixed signals (20:32), that's one criteria that's been met. The second is, are we making progress on unit economics and we have a view for each business, what target unit economics need to be in order to meet our return thresholds. And so we're looking for steady progress. When we've seen both of these things, like we have with our new verticals, like we have with our international business and with our platform business, that's when we start scaling up our investments. And so that's the framework we generally use versus trying to target a certain margin.

The reason we included that example in the Shareholder Letter was to provide a case study of how we think about it because if you were trying to grow margins period-on-period, a product like DashPass would never come to be. It just wouldn't because on each order, DashPass has lower unit margins. But as we said from the beginning, if you're optimizing for long-term profit dollars, and we have confidence in the increasing order frequency of the DashPass program, as a result, the total dollars we can generate per user on the platform are higher compared to the alternatives.

And so, I'm not avoiding the question legitimately because we aren't running the business to certain target margins, but we're happy with the progress we're making on maximizing long-term profit dollars.

The one thing that gives me further confidence or sort of room for upside is the advertising opportunity, where the advertising opportunity only grows as our users and our engagement goes. And today, compared to year ago with 20% more MAUs compared to several years ago, with three, four times size of our business, and these individuals are engaging with us, not just in the restaurant vertical, because all of these different other verticals and over multiple services within the app, which then gives us a tremendous opportunity to not just create new business lines, but also generate advertising revenue with a healthy ROAs.

And so, I think of that as upside to the model. It's not something that you should make in certainly in the near term because we need to be very careful about how we – if we not just enable advertising ROAs, but do so in a way that doesn't degrade the consumer experience.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

The only thing I'd add to what Prabir said is really, I think the latter part of the question around what have we learned kind of during the pre-COVID – kind of post-COVID era of behavior. Is just the resilience of the category and how I think we've put to rest I think this question of what happens to demand as diners go back and eat inside restaurants? Well, I think clearly, takeout and delivery, as shown by our performance, not just in the fourth quarter but also in 2021, just in an aggregate is that they're complementary. It's very possible to eat inside of a restaurant and get delivery because we eat three times or more maybe per day, and that's over 100 shopping moments per month.

And then you start adding in these other categories, then you just ask yourself the question, well, is it complementary to go inside shopping malls or other types of stores and maybe get it delivered online or over the Internet. And I think that's kind of what we've seen certainly in the restaurant delivery business, and we're starting to see that in all of our other categories.

Operator: Your next question comes from the line of Bernie McTernan with Needham & Company. Your line is open.

Bernie McTernan

Analyst, Needham & Co. LLC

Q

Great. Thanks for taking the question. I've seen some examples on the app when I ordered dinner, for example, it might push me to order ice cream from another local store. I imagine new categories like grocery and alcohol and convenience are probably incrementally less time-sensitive. So there's probably even a greater opportunity for Dashers to go to multiple stores for the same customer, but is that a substantial opportunity, either from a cost efficiency perspective or higher GOV or maybe some potential advertising opportunity?

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Hey, it's Tony. Yes, I'll take the question. I think it's a really good point and I think this kind of really is very exciting for us, because it's the thesis we've had since really day one of the company which is this business, anything last mile and local commerce is really about building greatest order density. That's why we started with restaurants, right? It has the highest count of stores across every category of local retail restaurants who that is. And it has the highest frequency of use, which is what gives you the possibility for the highest order density.

And if you can start with the highest order density, then you have a lot of optionality. Optionality to do some of the things that you describe, bring other types of things, and I think hopefully being useful to consumers and different kinds of merchants, which therefore provide more flexible work opportunities for Dashers. It also provides opportunities to do, I think, some of the things you described around logistics efficiency.

But to us, it's just, again, it goes back to, how do we become more and more useful in people's lives, right? How do we solve more jobs for a consumer as we think about every shopping occasion they have? And again, while we have impressive order frequency, it's a small fraction of actually how much shopping that actually takes place, right?

So, we have a lot of work to do, I think, to solve even more jobs. And I think the same is true for merchants in – not only in helping them build their channels, but doing other types of jobs for them. That's why we have our Platform Services business. And I think together, if we can do these two things, we'll provide the greatest number of work opportunities for Dashers as well. And so, you're absolutely right in I think a lot of the assumptions behind the question. But to us, it just starts with how do we build the best possible experience in solving the most number of jobs.

Bernie McTernan

Analyst, Needham & Co. LLC

Q

Great. Thanks, Tony.

Operator: Your next question comes from Michael McGovern with Bank of America. Your line is open.

Michael McGovern

Analyst, BofA Securities, Inc.

Q

Hey, guys. Thanks for taking my question. I was just wondering if you could dig a little bit more into the chart about DashPass order mix versus contribution profit per active consumer. I thought it was pretty surprising and interesting to see that there's such a wide variance of DashPass order mix and also the contribution dollars. So I was wondering what causes some cohorts to lag? And then is it kind of just a function of time to get those lagging cohorts up to that close to \$25 mark of contribution profit per active consumer? Thanks.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

Hey, thanks for the question, Mike, and it's a good opportunity to explain exactly what the chart is because we've got a few questions ahead of the call. So each dot on the chart is a quarterly cohort. So, each – this quarterly cohort starting from 2019 all the way through to the third quarter of 2021. And along the X-axis is the percentage of the orders from that cohort that are DashPass orders.

On the Y-axis is the – in-quarter the Q4 2021 contribution profit per active user in that quarter for each of these cohorts. And as you can see, there's this positive correlation where the higher the DashPass order mix, the higher the contribution profit per MAU. And it goes back to the answer I gave to Eric to his question, which is, with DashPass, we're making a trade-off to accept lower unit margins in exchange for significantly higher order frequency. And so, as the order frequency increases, you generate more orders and those orders translate into greater cumulative contribution profit for each user.

Now to your question around what drives the variance, it's largely time. On the left side of this chart are basically newer cohorts, the right side of the shop are the older cohorts. And so generally, as time goes by, people – consumers get increasingly habituated. They started using the product and DashPass starts making financial sense because once you start placing more than 2 to 2.5 orders, the product pays for itself. And so what you see is over time, as you – as consumers save more money, they start using and they're opting DashPass, that then further drives up their order frequency.

Michael McGovern

Analyst, BofA Securities, Inc.

Q

Got it. That's really helpful. And I guess, one quick follow-up on order frequency. I was just wondering – and on the 14% of customers that are now trying non-restaurant ordering for the first time, or excuse me, just using it, do you expect that restaurant and non-restaurant can exhibit similar order frequency trends long term? Or do you think that eating and ordering from restaurants is fundamentally a higher order frequency kind of market?

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

In general, people's activity on our app resembles how they operate in their daily lives, right? So, if you think about – this question came up sort of a few quarters ago when we went public around the mix between national brand restaurants versus local restaurants and frankly, it replicates what you see in the industry. Similarly, with areas such as convenience and grocery and alcohol and pet food, essentially, over time, as people's awareness of DoorDash builds and as our selection builds in the [ph] neighbourhoods (29:49) that they live in, their behavior offline and online will converge.

Today, it's lower because that level – we're still making progress in terms of the selection quality, affordability paradigm, in order to hit the sweet spots that more and more consumers start becoming aware of DoorDash as an on-demand way to actually get access to these verticals that are adjacent to food delivery and the ones that they use. So, short answer to your question is, over time, I expect the order frequency to basically limit how people shop in their daily lives.

Michael McGovern

Analyst, BofA Securities, Inc.

Q

Got it. That's great. Thanks so much.

Operator: Your next question comes from the line of Lloyd Walmsley with UBS. Your line is open.

Lloyd Walmsley

Analyst, UBS Securities LLC

Q

Thanks. I have a couple, if I can. First, just thanks for sharing the updated cohort data. If we just focus on maybe the narrower subset of users added during the pandemic, do you see consistent frequency and retention on those newer cohorts compared to older cohorts and in particular, in markets that have reopened more than others? And anything you can kind of share on how you think that's going to play out over the rest of this year in terms of the cohort behavior and what's embedded in the guidance?

And then secondly, on grocery at the time of the IPO, I think there were still some question marks around the unit economics and scalability of grocery. As you guys have progressed and learned in that category, how do you feel today about your ability to generate attractive unit economics and kind of how is that informing how you go to market on the grocery side? Thanks.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

Great. So the first thing, let me just say is that the retention pre-COVID versus COVID, right, when we were in the middle of COVID in 2020, retention spiked. It was at all-time highs, right? And then from there on, in 2021, you start to see a slow normalization to retention, especially as vaccination rates increased and in-store dining resumed.

We're at a point now where – and by the way, in 2021, early on in 2021, we were bolstered by the effect of stimulus payments that had an upward impact on both retention and order frequency. Where we're at today is still better than pre-pandemic levels. But the retention has now normalized where it's slightly above pandemic levels, but not substantially. Order frequency is substantially higher compared to pre-pandemic levels as well as 2020 levels, but that's because of continued improvements to order frequency, both within the DashPass cohorts as well as the non-DashPass cohorts.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yes. Look, on the second question around grocery. I mean, here's like the way we think about it, right? I mean when you look at our portfolio of priorities, we have the US core business of restaurant delivery. We have these new categories, one of which you're referencing grocery, platform services, international and advertising. The way we think about them is really, how are we doing against their life stage, right? Obviously, a lot of these businesses performed actually quite recently, a product like grocery, for example, is only about 12 to 14 months old.

We love the trajectory of the business, both top and bottom line, but it's still in its earliest innings and so right now, the focus continues to be making sure that we keep improving the product experience, the selection of partners that we can bring on and the inventory from these partners, the quality of the experience itself, the affordability of these deliveries as well as the service levels. And so that's really the focus right now on grocery.

And again, like the way we think about making these investments is in a fairly disciplined way of making sure that we find product market fit before we actually scale these things out. And so, when we do scale these things out, they tend to already have very, very robust unit economics and cohort performance.

Lloyd Walmsley

Analyst, UBS Securities LLC

All right. Thank you.

Q

Operator: Your next question comes from the line of James Lee with Mizuho. Your line is open.

James Lee

Analyst, Mizuho Securities USA LLC

Great. Thanks for taking my question. My question is on DashMart. Maybe can you guys talk about the expansion plan maybe for FY 2022 and what are the key learnings so far? And just curious, what do you need to see for this business to scale? Will you consider M&A or partnership to expand this segment? Thanks.

Q

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

Yeah, hey, James, it's Tony. So on DashMart, we really like what we see. Again, like this is another one of these newer initiatives, about 1.5 years old. And what we're learning, I think, are benefits really for – starting with a couple of audiences, and I'll talk about how it translates into the third audience.

So first, for consumers, a lot of these DashMarts are just bring selection of inventory into geographies where, frankly, didn't previously exist, whether literally never existed or the hours of operation has now opened pretty wide to 24/7 now, which is a big improvement for what consumers are seeking.

I think with respect to merchants, this is a critical infrastructure for a lot of them either to expand into new geographies or to increase into different hours of operations. And so what we see is really DashMart's on a fairly long investment time horizon. Again, staying disciplined around finding product market fit before we choose to scale these things out. But what we're seeing is, quite a lot of demand for them and I think it really speaks to, again, what we're trying to create at DoorDash, which is really the largest local commerce app or marketplace where we're bringing incremental demand and the largest local commerce platform, where we're building tools and infrastructure, obviously, starting delivery with products like DoorDash Drive.

But if you think about all the other products and services that merchants need to build in order to compete digitally in today's economy, well, it certainly expands far beyond just logistics. And so, DashMarts are really a form of infrastructure to store inventory, to possibly enter new geographies and certainly expand their hours of service. And so, we plan on investing in this line of work for a really long time for those reasons.

And obviously, if we can build both a marketplace and a platform with DashMart, I think it will provide tremendous work opportunities for Dashers. But, again, the investment philosophy stays the same, given how young Dash Marts are, it's making sure that we have great product market fit and then we'll continue to scale them.

James Lee

Analyst, Mizuho Securities USA LLC

And one quick follow-up question, Tony here. When you look at the non-restaurant business, in general, two parts to this question, when you look at user behavior, do they tend to be more recurring in nature? Are they more impulsive? And also second, for your non-restaurant business in general, can you be profitable over time without advertising?

Q

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

So, on the non-restaurant category what we're seeing is pretty much quite a lot of different kinds of use cases. Are there people who just shop for impulse purchases for whatever the occasion might be? Yes. But predominantly, we're seeing people come back for, I think, a lot of use cases. I mean, where the recurring behavior is looking for that middle of the week run now being solved by somebody else, right?

That's really the job that we're solving for a lot of these customers, right? Like when you think about the items in your pantry that get consumed the earliest or the items in your refrigerator that maybe perish the earliest, those are the things that actually – those are the types of things where you have to go back everything in a week, no matter how much you buy on a weekly basis, right? And those are the jobs where people have to do every single week. And so we are seeing certainly both. Although more of the behavior is recurring. And then I'll let Prabir take, I think, your second question, which is really around, I think, the business model.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

And James, we have not disclosed anything about the business model around non-restaurant verticals. And so no comment on that question.

James Lee

Analyst, Mizuho Securities USA LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Mark Mahaney with Evercore ISI. Your line is open.

Mark Mahaney

Analyst, Evercore ISI

Q

Okay. Thanks. Two questions. When you think about the number of DashPass members now, you have over 10 million out of, whatever, 25 million MAUs, what do you think are the obstacles to getting that penetration higher? I know it's high, 40%. But I would think given the value prop and the frequency of the activity that, that could get into 60%, 70%, maybe long-term. So what's – what are the biggest things you have to solve for in order to get that penetration higher? And then any quick updated comments on Prop 22? And I know there was a – the AG reversed or challenged the judge's decision earlier this month. Any updated thoughts on how that's going to play out or when we'll know? Thank you.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yeah. Prabir, do you want to take the first and I can take the second.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

Yeah. I'll take – why don't I take the first one and you take the second one. Okay. So Mark, on your question on the 10 million out of 40 million, yes, the 10 million was a milestone. We're happy with its 40% of our MAUs. But there's a lot of run way here, right? I mean, as you think about – with 25 million MAUs, we're a small fraction of the US population. Now add in the other countries we operate in, whether it's Canada, Australia, Japan, Germany,

and we have access to over 500 million people. And so in the context of that 500 million people, I mean even if you adjust for that for adults and so on, the 10 million membership size is a small fraction.

So the path to get there is going to be back to the basics of selection, quality and affordability. So in selection, as we keep adding these new categories and new stores into these neighborhoods, that cross-sell percentage, the 14% will start creeping up and order frequency in these new verticals will increase.

Remember the point I made earlier about purchase behavior on our platform, ultimately mimicking or reflecting how human beings operate in their daily lives. So, over time, as that order frequency increases, the savings opportunity increases and DashPass starts making sense. So, even if it's someone that doesn't order enough restaurant delivery today; over time, DashPass may end up making sense for them because they use DashPass to order their convenience goods, or their grocery goods or their liquid purchases or their pet food or retail and so on so forth.

So, there's opportunity in that front and then there's opportunity for – to continue improving quality. Today we've made consistent improvements but still a reasonable number of deliveries are [ph] defective (41:05), and so we've got a bunch of work to do to make the product reliable 100% of the time so that if you're a DashPass member, the experience truly feels special.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yes. And Mark, with respect to your second question on Prop 22, nothing has changed. I mean, we still think we're absolutely right on the law here. In fact, I think even the California Attorney General have supported us in this regard, that when 58% to 59% of the state population and voting population are saying that they pass something into law, that that should be legalized. I think it's just common sense that that's the right legal answer.

But I think even more importantly than this, just more broadly speaking, we feel the same way about this issue anywhere in the sense that drivers in this type of economy ought to be able to take wherever they want to work, whenever they want to work, and that flexibility is critical. I mean, that's what Prop 22 stands for, while giving them the protections that they deserve. And we – whether it's in the State of California or frankly, any geography globally, that's what we stand for, which is to support the Dasher. And the voters of California believe in this, the drivers believe in this and the California Attorney General believes in this.

Mark Mahaney

Analyst, Evercore ISI

Q

Okay. Thank you, Tony. Thank you, Prabir.

Operator: Your next question comes from the line of Brad Erickson with RBC Capital Markets. Your line is open.

Brad Erickson

Analyst, RBC Capital Markets LLC

Q

Thanks. Just a couple, I guess. First, between the different categories, all the different categories you have going here in the US and then obviously, Wolt coming on here later this year, hopefully, and then Canada and Australia, does all of that expansion, I guess, right in front of you, probably keep you from, say, exploring other international expansion, or should we assume other markets are sort of always under exploration?

And then second, as you think about the regulatory work likely to occur, if not – in the future, if not already in your – a lot of these international markets, talk about just kind of how prepared you feel you are in terms of personnel and the associated expense necessary to kind of support those works and hopefully, constructive dialogues? Thanks.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yeah, hey, it's Tony. I'll take both of those questions. With respect to the first, I think you're certainly right in saying that we have quite a lot on our plate, and we're constantly, again, trying to invent the best possible products. And again, when you think about the portfolio of initiatives of US restaurants, new categories or platform services, international markets and advertising there's a lot of work to go around. So, we always believe that we have to earn the right to serve customers in a second way by doing an excellent job in the first way. And so that's really what we're focused on.

But look, I mean, it doesn't mean that we're not scanning for opportunities. We're always looking for opportunities regardless, especially when we have such a robust core business that's producing positive cash flow and with very healthy balance sheet, it gives us lots of opportunities to be opportunistic and go on the offensive.

I think with respect to your second question around regulatory preparation, yes, I mean, this is – this has been something that's been a part of DoorDash really since 2013 when the company was founded. And this is – these beliefs that we've had since day one of making sure that workers should be able to have this new standard where they get the flexibility that they're telling us over and over again with their words as well as with their feet, and also the protections that we believe they deserve.

And frankly, just like expire – outdated laws that deserve to be expired, and we think the productive way in doing this is that governments and businesses such as ourselves should work together across any geography to make sure that this actually happens from the perspective of the worker, not from any other perspective. And so that's what we're working really hard on, and we have best-in-class teams to get that work done.

Brad Erickson

Analyst, RBC Capital Markets LLC

Q

Got it. Thank you.

Operator: Your next question comes from the line of Brian Fitzgerald with Wells Fargo. Your line is open.

Brian Fitzgerald

Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. A couple of questions. On the marketplace side of things, non-restaurant partners doubled in 2021. Clearly, you have a lot of runway there and you have a focus on product/market fit for scaling, but how do you think about ways to grow partners on the platform? And then any dynamics to call out with respect to the different commission points you launched earlier in 2021, 15%, 25%, 30% as cohorts of partners experience or use that model? Or are they moving up to the different commission points.

Tony Xu

Co-Founder, Chairman, Chief Executive Officer & Director, DoorDash, Inc.

A

Yeah. I'll take the first question and then maybe Prabir can take the second on the kind of different tiers of commission points. With respect to the first of adding more selection in these new categories, a lot of it is just

doing the work quite candidly. I think what has been really attractive to all of these customers is, well, I mean look at what we're bringing. We're bringing the largest on-demand audience for local commerce that has the highest frequency of shopping. That's an incremental use case both from their physical activities, their own digital activities and other -- any other previous digital partnerships that they've signed.

And so, as a result of that, actually, we're seeing quite a lot of excitement where people are starting to think of DoorDash not just as lunch and dinner, but really everything inside the neighborhood. So, we're actually seeing quite a lot of progress and -- but that doesn't mean that there isn't work to be done. I mean we have to build a lot of products now that make sense for categories outside of restaurants, right?

Everything from the catalog to the in-store shopping process, to how we think about customer support, to think about how do we support people not just again on our channel, but also their own channel. So, there's a lot of work to be done but I would say that the excitement from partners has been tremendous. I think some of those names you've seen in the press and things like this, and we expect adding a lot more partners to come.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

Brian, and on the question about the pricing tiers, just as a reminder, this was aimed at SMB restaurants, not larger restaurants and predominantly those that are coming through our self-serve channel. So, a small fraction of those have actually opted into the pricing tiers versus the prior pricing. And of the number there that opted in, the majority have picked the two higher tiers, which was in line with what we expected and kind of makes sense given the value that we drive at the higher pricing tiers.

Brian Fitzgerald

Analyst, Wells Fargo Securities LLC

Q

Got it. Thanks guys.

Operator: Next question comes from the line of Jim Sanderson with Northcoast Research. Your line is open.

James Jon Sanderson

Analyst, Northcoast Research Partners LLC

Q

Thanks for the question. Just wanted to follow-up a little bit more on DashPass, and wondering if you could help us to understand how the new DashPass members were recruited if this is primarily through credit card marketing programs. And then going forward, as you try to expand these types of programs internationally, if your client acquisition strategy for DashPass is going to have to adjust away from credit cards. Just a little bit more texture on how that growth has developed.

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

Yes. The vast majority of the DashPass members are through our own channels and the minority are through credit card channels.

James Jon Sanderson

Analyst, Northcoast Research Partners LLC

Q

And then are the percentage or share of DashPass members that pay full membership, is that changing over time?

Prabir Adarkar

Chief Financial Officer, DoorDash, Inc.

A

No, it's relatively consistent. But again, it depends on -- you'll remember that one of the ways we get people activated on DashPass is through our free trial period. So depending on the intensity of our marketing efforts, that free -- the trial versus paid mix changes, which is very consistent.

James Jon Sanderson

Analyst, Northcoast Research Partners LLC

Q

All right. Thank you.

Operator: There are no further questions. This does conclude today's conference call, and thank you for your participation. You may now disconnect.

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