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DoorDash, Inc. (DASH)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Unverified Participant

Good afternoon, and thanks for joining us for our First Quarter 2022 Earnings Call. I'm pleased to be joined today by Co-Founder Chair and CEO, Tony Xu; and CFO, Prabir Adarkar.

We'd like to remind everyone that we'll be making forward-looking statements during this call, including our expectations of our business, financial position and operating performance, future results and guidance, our investment approach, strategy and statements regarding our acquisition of Wolt.

Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements, and some such risks are described in our risk factors, including in our SEC filings, including Form 10-Ks and 10-Qs.

You should not 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 of such non-GAAP results to the most directly comparable GAAP financial measures may be found in our investor letter, which is available on our IR website. 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 IR website. An audio replay of the call will be available on our site shortly after the call ends. As in previous quarters, we'll go straight into the Q&A portion.

So with that, operator, please take the first question.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Ross Sandler from Barclays. Your line is open.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

Hey, Tony and Prabir. I just had one high level and then one kind of more near term. So in the letter, I really liked how you laid out the philosophy around investing proceeds from the US restaurant profit pools into these new areas with precision. And I think some folks on the line here are a little worried that after Wolt closes and that philosophy holds up, you're just going to have a lot more areas by which you can reinvest those profit pools across all of Europe. So can you just maybe just talk about how that philosophy might change post Wolt?

And then the second question is based on the revenue margin and the overall commentary on take rate, it looks like you're having no problems navigating supply, and fuel inflation doesn't seem to be an issue. But any noticeable changes from all the inflation out there on Dash or cost per order either kind of in the first quarter or anything we should expect looking ahead? Thanks a lot.

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

A

Hey, Ross, it's Tony. I'll take the first one, and I'll let Prabir take the second one. So on the first one, well, I would say two parts. First is just our investment strategy with Wolt, and then secondly, just our investment philosophy in general.

Our aspiration is to build the largest global local commerce business. And we want to do that by building two assets. We want to build the largest local commerce marketplace where we'll bring everything inside the neighborhood to you. And we also want to build the largest local commerce platform where we're giving tools to the physical businesses so that they each can become their own digital powerhouses. And that's really why we're excited about teaming up with Wolt, because they share that same vision to build that truly global local commerce business as well.

And from our perspective, it's really going to take a similar investment philosophy in terms of how we've built everything else. So in the investment – shareholder letter, we gave an example of how we built effectively a new business from scratch in the last couple of years in the convenience category and kind of outline how we always start by first making sure that we build the best product possible, especially measured in terms of retention and order frequency. We have a maniacal focus on the unit map to get the unit economics to work, and then we start considering efficient ways to actually scale that business.

So while we are aggressive in how we run these experiments to be able to achieve those input outcomes, we're very disciplined about how we think about how to scale these businesses. And it's going to be no different as we think about the opportunity to team up with Wolt. We think the opportunity obviously is immense. I mean, if you look at this opportunity globally, in the restaurants category, in the US where even as the market leader, only 6% of total restaurant industry sales.

If you extend that into these other categories of restaurants or convenience or retail we're a significantly smaller percentage. If we add in the countries now that Wolt adds on top of that, which gets us to a combined portfolio of

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about 26 countries, we're almost unnoticeable percentage. And then even if you combine the – and then if you add on top of that the digitization that's happening on the merchant's websites and apps themselves, many of which we power through products like the DoorDash Drive or Storefront as well as other products. We're in the earliest innings, but the investment philosophy remains the same where there's a maniacal focus on building the best-in-class products, a maniacal focus on getting laser-sharp on the unit math so that, that's actually positive before we scale globally.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Hey, Ross. And just to add to that point before I move on to the second part of your question. If you recall, when we announced Wolt, one of the things that we were excited about was their unit economics and their retention. And so Wolt gives us a more efficient engine through which we can invest internationally. And that's why what we had communicated was even after integrating Wolt, we expect our EBITDA expectations for the year to be materially unchanged because we're essentially now redeploying capital that we would have deployed but through the Wolt engine, which is actually more efficient. So hopefully, that gets to the crux of your question.

On your supply question, we have not experienced supply shortages, and we feel good about our supply position looking ahead. Some stats to share with you, our Dasher cost as a percentage of our GOV were lower both quarter-on-quarter as well as year-on-year. If you recall last year in Q1, we were undersupplied due to bad weather as well as fiscal stimulus, and we began investing over the course of last year as well as this quarter, frankly, to continue to build a supply base so that we can address the demand that we had anticipated.

The second point, this is a little bit of a nuanced one. Our batch rates are down both quarter-on-quarter and year-on-year. And the reason I point to that is because in some occasions, if we find ourselves undersupplied, you may see batch rates go up. As a matter of fact, we actually had lower batch rates today than we were a year ago or even last quarter.

And then the last point, I'll make is our cost to acquire new Dashers, so our cost to acquire every new Dasher is the lowest it's been in the last four quarters. So all that to say, we feel really good from a supply standpoint, not just because we invested in advance in order to address this demand, but because we don't compete with rideshare for Dasher. This is a completely different pool of people.

A

Operator, next question.

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

Youssef Squali
Analyst, Truist Securities, Inc.

Q

Great. Thank you very much. Hi, guys. So just couple of questions for me. One, could you maybe just talk about – I know you haven't closed on Wolt yet. But considering their geographic footprint, et cetera, can you maybe just talk about how that business has performed, just given the war headwinds, et cetera, and how has it been tracking relative to your own growth?

And then in the letter, Tony, you talked about how you guys continued to see opportunities to increase contribution margin as a percentage of marketplace GOV in the US marketplace, I think. Can you just help us

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think through how much higher can these get over time, say, over the next year or two as you keep – as you need that money to invest in all these new initiatives that you've highlighted in the letter? Thank you.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Thanks for the question, Youssef. So on the Wolt question specifically, the deal is on track to close in the second quarter. We can't comment on Wolt's performance before the deal is closed. But in connection with the closing of the transaction, we'll provide more detail and come back to the Street with specifics. So stay tuned for that.

Now on your question around US contribution margins, we haven't disclosed the exact contribution margin in the US restaurant business, but let me try to answer your question in sort of qualitative terms, which is the first thing is we have driven increasing margins in our US restaurant business, while growing category share. And the reason that's important is because it's easy to do one or the other, which is either grow margins or grow category share, but what's remarkable is the progress that we've made in actually growing both. And looking into the future, there's multiple levers that are available to continue doing so without hurting growth.

First, as we continue to drive up the efficiency of the logistics network, that will help our margin structure in the US. Second, as we continue improving the quality of the delivery experience, that will help with customer support costs as well as refunds. And then finally, there's leverage in certain parts of cost of sales as well as sales and marketing, which will help the margin structure.

Now beyond this, as our ads business scales, this is an incremental tailwind to the margin structure. So all of these things will come together to help the margins for the US restaurant business grow and fund not just other things, but reinvestment in the core US restaurant business because our objective is we're not running the US restaurant business to harvest margins. We're still investing in US restaurants in order to build scale and continue to grow category share.

Youssef Squali
Analyst, Truist Securities, Inc.

Q

Great. Thanks for the color, Prabir.

Operator: Your next question comes from the line of Steven Fox from Fox Advisors. Your line is open.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Hi. Good afternoon. I was just wondering, since you mentioned the unit economic changes on the convenience business and some of the other categories you're going into, can you compare and contrast those sort of unit economic curves looking at maybe using the US restaurants as a baseline and how maybe some of these new categories could be different as you sort of reach some ideal scale? Thank you.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Yeah. I mean, you have to remember that these are – it's like comparing a 2-year old to a 10-year old. So it's kind of hard to compare that apples-to-apples. But I'll say that in a matter of two years, given that we've got line of sight to at least breakeven unit economics in our 3P convenience business, it's quite remarkable. And you may pair that with the fact that we are number one in the convenience space, and this is just in a matter of two years.

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Over time, there's things that we will do to continue driving up those margins. So I don't want to provide a forecast to where the margin structure gets to, because you've got to walk, crawl, run. And so we're right now at the walk stage. We're getting to, to break even. And then in the future, we'll continue driving up margins. Today, the vast majority of the margin comes from the US restaurant business. Other areas are sort of margin consumers, so to speak. But over time, as they hit maturity, you start to see us generate more and more profits in these other areas.

Steven B. Fox
Analyst, Fox Advisors LLC

Q

Great. That's helpful. Thank you.

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

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Great. I have two. First, kind of sticking to the unit economic question. In the letter, you talked about convenience looking to generate a positive variable profit in the second half. Can you just help us contextualize that? And is this a big flip over the last year or so? And what is – actually, what you see driving that flip to variable profit contribution in the second half?

And then the second one, there were some press reports about slowing hiring at DoorDash recently. Is this accurate? Can you talk about what you're seeing causing you the slow hiring or maybe just shifting priorities ahead of Wolt? Anything you could share there would be great. Thanks.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Great. Maybe I'll take the first and Tony can take the second, Lloyd. So on the question around 3P convenience, you have to remember when we started this category, it was a – we knew there was demand for it because we saw what consumers were searching for, right? And that demand was further amplified by COVID. But what we didn't completely appreciate was exactly how different and unique this area is compared to restaurants. And so that's the learning curve we've been on that has now gone to the other side of as we turn the curve and profitability.

So simple things like our Dashers need to go into stores to pick and pack. We need a different way to understand the inventory position inside the store and how do you guide the Dasher when they're inside the store. The basket sizes tend to be lower. So this is where our operational sort of execution-focus and product-focus muscle really shone, because it allowed us to take this problem that look unique relative to restaurants and actually create products around it in order to make the math work even with lower basket sizes and picking and packing requirements. So that's what I'd say now. There's certainly a lot more we can do in terms of further cart up-sells as well as other things, including advertising attached, by the way, to drive up the unit economics. And we're super early given that it's only two years old.

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

A

Yeah. I think the other thing I'd add before I take the question, Lloyd, on hiring is just – I think it's important to realize, especially when you're talking about the immense opportunity in something like convenience or grocery, which is a hundreds of billions of dollars – more than a trillion opportunity globally, it's a very long runway in terms

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of how we think about this. To be candid, I was very impressed by how our teams were able to do all the things that Prabir said, and on top of that, build new catalog that is item-based that has tens of thousands, to hundreds of thousands of items per store instead of hundreds of items inside of a restaurant menu, rebuild search into an item-based experience first before a store-based experience.

I mean, there's a lot of things that the team built, and they were able, in parallel, to move the unit economics. And I think it's a huge testament to the team in terms of the work that they did in both moving the top and the bottom line of building a better product that customers would be using over and again and then also making moves on the profitability front.

On hiring, I guess the first thing I would say is you got to be careful with what you read because it's probably either not in context or just not accurate. We're hiring at actually still very aggressive rates, multiples in fact, of what I believe has been reported. But in general, let me talk a little bit about hiring maybe in the context of just our investment philosophy because it's very similar.

If you look at the history of DoorDash or how perhaps or where we came from and maybe how we have enabled this continuous, efficient process of inventing and in a disciplined way of scaling the business, it really came from the fact that we had a lot of constraints early on in the business. I mean for the first six and half years of the business, we had a fraction of the financing of some of our peers. And so there is no ability to hire huge teams or spend a lot on marketing, spend anything on discounts or subsidies. We had to invent and win by building a superior product. Gain profitability in the right way is not by doing unnatural things that hurt the customer experience, but by doing the things that would increase selection, that would improve the service quality of our deliveries, that would offer more value in the form of DashPass and other programs and improve our customer support.

And all of these things is what led us to have industry-leading retention, which has yielded, I think, some of the numbers that we've shown in the shareholder letter, all-time highs in our monthly active users, even as, thankfully, customers are now finally returning back inside restaurants, all-time highs in our DashPass subscriber base, all-time highs in our order frequency across cohorts. So building the best product as well as gaining efficiencies from operations and scale economies for marketing, that's really how the business has been built.

Now when I apply that same investment philosophy towards something like hiring, it can't just be to hire aggressively. It has to also be to invest in systems of how we can reapply systems that we've built for one category and make that – give us leverage into categories b, c, d, e, and f. And all of these ways of how we actually architect a system designed towards building the best customer experience and having the most efficient P&L.

Operator: Your next question comes from the line of Doug Anmuth from JPMorgan. Your line is open.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. I have two. First, I was just hoping you could talk about whether the inflationary pressures seen by your restaurant partners are changing the way they interact with or utilize DoorDash? And then second, also I was hoping you could talk about the response from Dashers to your Dash rewards program. And any commentary kind of way of framing how much that's costing you? Thank you.

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Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Hey, Doug. Maybe I'll start with the first here. Our average order values have increased slightly as a result of inflation. Obviously, we pass on the large portion of that to our merchants, so they benefit as well. Given that they are experience price increases in the cost of food. And all that's unique, well, this would also have a positive impact on our margins.

Now, the one thing, I would say is, the reality is we've seen cost inflation for over a year now, right, with chicken prices and other things. And so it's hard to tell exactly what impact inflation is having on order volume and on consumer engagement specifically because we don't have the counterfactual.

Having said that, when you step back and you look at the results in the quarter and the fact that monthly active users are at all-time highs, the fact that DashPass members are at all-time highs and order frequency is at all-time highs, it speaks to the resilience of the platform. And the fact that the product has consistently gotten better and better and better in terms of selection, in terms of quality, in terms of affordability, and that leads to more consumer adoption, habituation and an increasing usage over time. And then on your second – sorry. Tony, do you want to add something to that?

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

A

Yeah. So Doug, I'll just chime in. I think your question was also if we're seeing any behavior on the merchant and the Dasher front. I would say a couple of things. But inflation is definitely a concern we certainly are taking very seriously, and we're doing that by making sure that all of our audiences are taken care of first. And that – and one of the things we've been fortunate to see – I'll echo a little bit of what Prabir said, and I'll take your question on merchants and Dashers, which is, is just the resiliency of the core business of US restaurants where I think it's because when I take a look at all the possible areas where consumer could spend, and consume, eating is still the one of the largest and certainly the highest frequency categories where people eat three times a day, 90 times a month. If you start looking at some of the other categories we now participate in, that's well over 100 shopping occasions per month. And when we have built the largest marketplace, with the most retained and also the most engaged user base, it just gives us the most shots on goal in the face of something like inflation.

And when I translate that into our other two audiences at merchants and Dashers, merchants, they continue to see DoorDash as a way to actually gain sales even though consumers are going inside their stores, which is fantastic. And that's because dining in is very complementary to actually order and delivery. I mean, when you're dining in, you're looking for that experience to maybe see people you haven't seen in a while in person, and that's very complementary to ordering delivery because, again, you eat multiple times a day, 20 to 25 times a week.

And then on the Dasher front, what we've done is we definitely recognize that inflation is impacting Dasher earnings. And that's really what we wanted to solve for. It was the right thing for us to do given that we had a very fortunate position of having a US restaurants business that's not only grown 250% over the last couple of years, but that have materially also increased its profitability such that we can choose to reinvest those cash flows into serving all of the audiences. And that's what we did. We gave out two programs. One was a 10% cash back on fuel expenses, and the other was a bonus program that was tied to the distancing which Dashers would be driving. And the results so far have been very, very satisfying where 90% of Dashers are really, really excited about the benefits that we've offered so far.

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Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

And just to offer a little more color to what Tony just described, Doug. Look, we chose to absorb the cost of these Dasher benefits in order to preserve earnings. Maybe we could have chosen to pass on the cost to consumers, and that would have had an impact on growth due to consumer price elasticity. But instead, we chose to absorb the program costs.

So let me explain why we did that. When we keep consumer prices unchanged and if we ensure that Dasher earnings are preserved, that enables us to maximize growth because having adequate supply ensures that the consumer quality is preserved, which then drives the growth flywheel in a slightly different way, right?

So then there's the question of, well, how do you fund it? And as Tony pointed out, the US restaurant business is very profitable, and we use the profits from the restaurant business for two things. First, as we previously talked about, to invest in new areas in international and so on. The second is to reinvest back in the core restaurant business. So we're growing scale and generating growth in that core restaurant business. Historically, we've taken these efficiencies, and we have used them to lower consumer prices, lower merchant commissions, increase Dasher earnings.

Today, because of gas prices, there's this unique need for Dashers. And so we're allocating more investment to actually help increase Dasher earnings. If gas prices revert in the future, we'll revisit that. So in short, absorbing these costs is basically net-neutral to our EBITDA expectations.

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

Michael McGovern
Analyst, BofA Securities, Inc.

Q

Hey, guys. Thanks for taking my question. I wanted to see if you would double-click into the metric that Q1 2022 was the largest quarter for new consumer acquisition since Q1 last year despite lower sales and marketing as a percent of revenue. What's driving this? And are these – I was curious, if these customers are still primarily coming from the restaurant category? Or are they coming more frequently for non-restaurant for the first time? Thanks.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Yes. Thanks, Michael. Let me take this question. Yeah. So if you look back, Q1 2021, so Q1 last year was elevated in terms of customer acquisition as a result of fiscal stimulus. Ignoring that quarter, if you look at every other quarter up to Q1 2022, we've acquired more customers than we did. And that just speaks to the fact that we're still underpenetrated in this category, and there's more customers to be acquired.

And then the last thing I'll say is the majority of our business is the restaurant business. And so a lot of these customers join and place their first order on restaurants, but we're seeing an interesting mix change where now we've got a decent number of customers joining to actually use some of our other categories, not just restaurants. And so it's too early because they're small percentages we're talking about. But over time, as DoorDash gets known for being your destination for all things local commerce, the source of what product these customers use when they first join DoorDash will undoubtedly change.

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

Deepak Mathivanan
Analyst, Wolfe Research LLC

Q

Great. Thanks for taking the questions. Two questions from us. First, maybe can you unpack the drivers of sustained frequency gains, DashPass adoption and the nonfood convenience categories is very strong. But how does it look between subscribers versus non-subscribers. Now with consumers kind of going back to pre-COVID lifestyles, are you seeing differences in maybe the type of orders in terms of time when it's placed and basket sizes?

And then, Prabir, just a financial question. can you elaborate on the insurance reserves impact on first quarter cost of revenues? Is that some kind of accrual adjustment? Or is there any change in underlying unit economics? Thank you.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Go ahead, Tony. [ph] And Deepak (00:27:31) I can pick up the insurance.

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

A

Yes, I'll take the first question, Deepak, and then Prabir, he'll handle the question on insurance. The reasons for the frequency gains are really coming from the improvements in our product. I mean there's certainly, in parts, some of the order frequency gains came from increasing contributions from our DashPass subscriber base. But if you – when you step back, I think a couple of points still are very, very important.

Number one, dining in and ordering delivery are very complementary. In fact, we saw this at almost every phase of the pandemic. There were various geographies in various parts of the world, including the US where certain states had reopened more aggressively perhaps than some others, where we saw that in the past couple of years, and certainly, we're still seeing that in the first quarter of this year and even currently where people are not substituting eating in with eating out.

The second point, I would say is we're constantly making improvements to the product. So we're constantly increasing selection, whether that's restaurants, grocery stores, convenience stores, pharmacy stores, alcohol stores, retail stores, et cetera, we're increasing the quality of the deliveries by maniacally getting rid of defects, we're improving affordability, part of which is coming from DashPass, and we're continuously investing in customer support to make sure that we always can delight customers and meet their increasing expectations. So that's really why order frequencies are growing.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

And specifically on that, Deepak, the DashPass user order frequency has grown, and you've also got an increasing mix towards DashPass. So those two things sort of act in concert with each other.

And on your question on insurance reserves, we experienced an increase in the average claim amount driven by the outsized impact of a few very large claims. As a result, we adjusted our reserves both for existing claims as well as the future claims by $35 million, which had about a 30 basis point impact to cost of sales. Even though the

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insurance cost increased, it's a relatively small portion of our cost of sales, certainly compared to other line items like payment processing or customer support and is lower than what you might see in rideshare.

And so long way of saying this is an area where we haven't – because it's been a small cost, we haven't focused on it, but it also represents an opportunity where we have begun now to put in place new processes to control these costs in the long term. The last thing I would say is in the near-term, we expect insurance costs to remain elevated in the near-term because it takes a while for these changes to reflect in our claims data, but we're going to manage within the EBITDA range.

Deepak Mathivanan
Analyst, Wolfe Research LLC

Q

Makes sense.

Operator: Your next question comes from the line of Brian Nowak from Morgan Stanley. Your line is open.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Thanks for taking my questions, guys. I have two. The first one, Tony, I know you always put a maniacal focus on efficiency and improving the process. Maybe just sort of qualitatively, can you talk to us about a couple of the biggest low-hanging fruit areas you still see room for improvement in the core US restaurant delivery business? That's the first one.

Then the second one, the point about 3P convenience reaching positive variable contribution, was that sort of in line with what you all thought at the start of the year? Or is that ahead of schedule? And if it is ahead of schedule, any reason why we're not raising full year EBITDA? Is it just too small? Are you going to reinvest? I mean, tell us about that a little bit. Thanks.

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

A

Yes. Hey, Brian, there's still a large room to go in terms of finding more and more efficiency. And really, there's kind of two general ways I think about this. The first is how do we just find the next level of product market fit, which certainly would grow our retention and order frequency even further, thereby give us even more leverage on the sales and marketing side of the P&L – overall P&L.

And then the second is really efficiency from operations. Take, for example, the wait times we still see at stores, I mean, especially given some of the labor challenges that you're seeing at whether it's restaurants or whether it's grocery stores or convenience stores, everyone in the service industry is certainly feeling this. That makes wait times as well as inventory management have higher variance.

Being able to manage that variance and being able to lower those wait times and increase or improve the accuracy, I should say, of the inventory management, I think, are all areas. But really, you can find efficiency in every line item. But the two general approaches I generally think of this is how do we build the next level of product such that our consumers love it even more, which gives us lots of sales and marketing leverage. And then on the other side, it's really finding efficiency on the cost front.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

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And then on your question, Brian, on 3P convenience and why not raise the guide, it's a small portion right now. And then secondly, any profits we generate, as I mentioned earlier, we reinvest in trying to drive scale and growth so that we maximize long-term profit dollars.

Operator: Your next question comes from the line of Ronald Josey from Citi. Your line is open.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the question here. I wanted to ask maybe a bigger picture on DashPass just given the importance in greater overall frequency of usage. And we're seeing more categories being added here and available on the service, and that talks to the value. But I want to understand a little bit more how do you prove the value here to members. In surveys that we've run – one of best parts of why people order or have DashPass is because it saves money. The same amount of folks on the other side say it's too expensive. So can you talk to us a little bit about the value on DashPass and marketing there?

And then in the letter, Tony, you talked about first-party commerce and under penetration here. Wanted to hear a little bit more about what you're doing in terms of drive and how that might help answer those questions. Thank you.

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

A

Sure. I can start and feel free – and Prabir, if you want to chime in on some of these. But I think the first question around DashPass and value, I kind of take this in two parts. One part, you kind of answered, I think, in your question, which really came in the form of savings, right? And I think that makes a lot of sense, especially for users that are discovering our product multiple times a month or possibly multiple times a week. I think – and we'll continue to make those investments.

But the other thing I would say is that, we also want to improve the product for DashPass itself by making sure that we can offer either exclusive or preferred types of product experiences that are only made available through DashPass, as well as the fact that we're introducing so many more categories.

I know that, overall, customers who've ordered – who are ordering outside of our restaurants category, the last number we announced is around 14% in Q4. But in certain markets, that number is much, much higher than that, and you see a lot of that coming from DashPass buyers and subscribers. And remind me your second question again.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Actually, before you move on to the second question, Tony, just a couple of things to add, Ron. I mean, you're exactly right. So far, the program has been about delivering savings to consumers. And that's fine because we had to start somewhere and that felt like a natural place to start.

Over time, now that we've got the program at scale and it's something that both merchants and consumers recognize the value, and you can start layering in benefits that extend beyond just dollar savings, right?

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So think of that as exclusive items. The restaurant wants to market something specifically to these consumers. We can do exclusive items with DashPass. We can provide exclusive access to certain restaurants that might be more farther away compared to restaurants that are in our vicinity. We can do segmented offerings.

We launched our DashPass student plan, and this is a way of tailoring the benefits to a certain segment of the population to make it more interesting for them. We can add selection so that, maybe you don't eat from restaurants today. And as a result, the savings opportunity isn't available to you. But if we add in grocery and convenience stores, now you might have other use cases for which DashPass is actually beneficial. So there's things we can do within DashPass in order to tailor the benefit depending on who the audience is, and we're just getting started.

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

A

And Ron, it's Tony. Second question was actually about Drive and kind of the digitization of kind of the first-party experience, right? And so you asked – first of all, the premise is absolutely right. I mean, I think, if there's any positive from COVID, it's that, every physical business was effectively forced or compelled to become a digital operations almost somewhat overnight.

And as a result, I think the major lesson everyone learned is that digital sales can complement their in-store business and in-store activity. And in fact, those who've invested very aggressively in their e-commerce operations, I think, have really, really benefited and continued to have shown strength.

And so that – and that's what we're seeing in terms of the merchants demand and willingness to work with us to effectively transform their business models into becoming digital operations.

And so, Drive, obviously, has played a big part of that where it's effectively now diversified from starting with large enterprise restaurants only to now serving everyone from non-restaurants, convenience stores, pet stores, liquor stores, grocery stores, retail stores, and it has a large runway, both in the US as well as globally, but it also has a big runway in serving small businesses as well.

And that's really why we built Storefront, because a lot of these small businesses aren't even able right now to have online ordering systems that will talk or seamlessly integrate into their back of house systems and Storefront really does that.

And our latest product that we've introduced as part of our platform services business, actually, it was an acquisition called Bbot. That product really helps manage the in-store operation and becomes a bit of the operating system inside these restaurants.

And so, there's a lot of work we have to do in order to build an end-to-end system to really power the first-party digital operations of these businesses, but it's an opportunity that you're absolutely right, exists within restaurants, outside of restaurants and globally.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

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

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Andrew Boone
Analyst, JMP Securities LLC

Q

Thanks for taking my questions. I have two, please. So the first is from the letter, it feels like convenience is starting to get to scale. The question is really, what's the next category that you guys are really excited about that you think can – that you can lean into and invest behind and kind of get to that same kind of variable contribution margin breakeven and kind of velocity?

And then the second question is more bigger picture. Understood that as you guys see larger opportunities, you're investing there, but can you just remind us in terms of the framework of how you think about allowing margin expansion to flow through to the model just overall? So how do you think about kind of growth versus profitability? Thanks so much.

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

A

Hey. It's Tony. I'll take the first question and maybe Prabir can take the question on the economics and how we're going to reinvest those back into the model. On the first, look, all of these categories are pretty enormous, right? Restaurants in the US is $800 billion. I mean if you looked at grocery and convenience, they add to over $1 trillion in the US. Outside of the US, it's much larger than that.

And then if you include the other categories of pets, alcohol, pharmacy, retail, we get to an even larger number. And so I think when the opportunity is that large, we don't think that much about which one of them is going to get there first. We instead just think about what's the right amount to invest and when to do it, right? And that really goes back to the investment philosophy that we kind of outlined from how we've launched businesses in the first place, which – and this is true for all of the businesses at DoorDash, whether it was the restaurants marketplace, the platform business with products like Drive or Storefront or the convenience business or all the – or the ads business that we're launching, the international markets, which really is how do we build the best possible product to actually meet or ideally exceed the customer expectations and keep doing that and then how do we actually line by line work down the costs so that we can achieve positive unit math before we consider a sale.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Yes. And on the margin flow-through question, we're running the business with the objective of maximizing scale so – and in the long-term we maximize profit dollars, right? And so as Tony alluded to, these categories that we're operating in, they're very large, they're very underpenetrated today, and that's why we're investing to build scale. And what we look for is this combination of strong signals of product market fit as well as a path to attractive unit economics.

So let me give you an example. We cited the third-party convenience example. If you look at our DashMarts today and look at all the stores on DoorDash and any given day the most popular stores in terms of orders, off the top 10, the majority are DashMarts. That's a signal of strong product market fit because that's the customer speaking, right? And you see that in the data.

And so these signals of product market fit, coupled with progress that we see in unit economics, this is what gives us confidence to continue investing because the belief is that it will lead to solid growth for many years to come.

Now the core US restaurant business is profitable. It's growing, and the profit margins continue increasing. And we're using those profits from that core business to make these investments. So said differently, we're not trying

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to manage the business to increase margins or even the dollar amount of EBITDA because we're essentially reinvesting those profits in order to grow these other areas.

Now to the extent we don't see the right progress, whether it's product market fit indicators or the right progress from a margin perspective or a unit economics perspective for these new areas, we scale back. And that's the discipline that we'll run the core US business with up to this point that's allowed us to build a profitable core US business. And so we will flex and adjust depending on the signals we see, but the intent right now is to reinvest these profits, provided the signals are there, so that we can drive growth for many years to come.

Andrew Boone
Analyst, JMP Securities LLC

Q

Thank you.

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

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Thanks for taking the questions. Two, if I could. Tony, maybe a bigger picture question. Obviously, you haven't been a public company for very long, and you see periods like this where valuation gets compressed very quickly and capital becomes a little bit more constrained broadly in growth industries.

How are you thinking about the capital you have on the balance sheet as elements are playing offense and maybe accelerated things from a buy versus build decision and where you want to take the platform longer term versus using capital as a sort of fortress to sort of shore up and think about broader industry structures over the medium to long term? I'd love your perspective on that given the broader market environment we find ourselves in.

And then maybe to ask Ron's question a little bit differently, given the current labor environment for delivery folks, do you see companies that have been more reluctant to maybe embrace platforms like you either wanting to partner either directly on the platform or utilizing Drive? And we saw this in different hotel cycles with the OTAs over the years where periods of time of demand or labor constraint can lead people to make partnerships in digital. Could we see partners that have historically been reluctant to partner with you, maybe come back and think about platform dynamics to fulfill their business needs? Thanks.

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

A

Hey, Eric. Yeah, thanks for the questions. On the first one, I think the best way to always grow is from your own cash flows, right? And that's why we're in a very privileged position where we have a very cash-generating business in our US restaurant marketplace that really allow us to make most of our investments. And we also have a cash balance north of $4 billion, which, to your point, gives us quite a lot of flexibility. But I think it's really important to know when to use capital to your advantage and maybe when not to use capital to your advantage.

I think from a building businesses and products perspective, I think it's really important that we have to achieve product market fit first, right, before we deploy capital to actually scale those businesses. In fact, I'd argue we have to first find product market fit and then find efficient ways to grow that are unique to that product and then consider deploying capital to very, very aggressively scale that business. And that's kind of how we think about deploying capital from an organic perspective.

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I think from an inorganic perspective, I think the bar is just really high, right? M&A, as I'm sure you know, does not have a historical track record for success. And I think for us, we keep that bar very, very high and only really consider acting upon it if we see two things. One, obviously, if it's accretive to our business in terms of giving us the advantage of investing more efficiently in an area that we find very attractive for years to come. And secondly, if we find a team that we think is not only aligned on building the same thing the long run, but how we actually build it, right?

And this really is reflected in the example of Wolt, which again, should close the first half of this year, where saw in their business, world-class retention and order rate metrics that show that they built a product that is best in class and loved by really all of their audiences. And they did it with an incredibly capital-efficient P&L in many geographies, including very difficult to operate geographies. And they had a team that felt very similarly to how we wanted to build for the long run and what it is that we actually wanted to build.

And so I think that's really how we think about making these investments, whether it's organic or inorganic. But I really do think there are times where capital certainly is a privilege we have now. Given the fact that we built a cash flow positive business, as well as have a lot of money on the balance sheet with no debt. But when we deploy it is a very, very important decision that we take seriously.

Operator: Your next question comes from the line of Mark Mahaney...

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

A

I'm sorry. Prabir, sorry, I don't think we answered Eric's second question. Prabir, are you going to take that?

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Yeah. Yeah. The second question was really around partnerships. I mean just given the scale of our business now, whether it's the marketplace side or even the platform services side and the fleet that we have and the size of that fleet, with products such as Drive, they're getting more and more interesting, particularly in this era when the labor market is tight, particularly when it comes to the delivery space. Because everyone, Tony alluded to this in an earlier question around interest in Drive, it began simply with restaurants. And now it's sort of – it's all these different categories beyond restaurants that are all looking to reach customers on the same day, in fact, the same hour basis.

And this is particularly relevant outside of the US where these options don't exist, where it's actually unique and it's a unique customer experience. So we are seeing the success with Drive as well as the greater secular shift towards convenience drive increased conversations with partners outside of the restaurant category, in different categories that are actually interested in embracing same-day fulfilment.

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

A

Yeah. The only thing I'd add, Eric, is just that I think just as consumers are exhibiting the behavior where they're going back inside restaurants and seeing friends again and families again and eating together, and they're also ordering delivery at the same time, restaurants are noticing that, too. And as a result, I think the argument of incrementality, not just in terms of incremental customers, but actually incremental orders, is really starting to sink in.

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

Mark S.F. Mahaney
Analyst, Evercore ISI

Q

Thanks. Could you just touch on latest thoughts on ad revenue or – yeah, over time – and I think that's still very early stages, but anything on timing? And then, on the average order frequency reaching a new high, can you provide any detail on how wide of a gap you're seeing between average order frequency for people who just start and then they will become DashPassers and then they become mature, they've been on DashPass for 6 months, 12 months, et cetera? Like how wide is that gap? Maybe would help us think about the curve of usage in the future. Thanks a lot.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Sure. Hey, Mark. So first on ad revenue, we haven't disclosed the size of that business. It's still young and nascent, and there's room for it to grow. Yes, I will say it is an attractive opportunity for us just given the size of our user base, the frequency of interactions on our platform as well as the number of services that are available. And we said that we've not been in a rush to monetize our focus.

We need to make sure we balance delivering an appropriate return to advertisers with the consumer experience. It would be a negative if consumer experiences impacted or conversions impact in any way. And certainly, over the coming time periods, I mean, as this business scales, we will use these incremental profits to invest into growth and to strengthen the core US business as well as our other initiatives beyond restaurants.

On your question regarding order frequency, it's a tough question to answer because we're continuing to see growth across cohorts. So, let's take DashPass as an example. Once a user joins DashPass, over time, their order frequency for that cohort just has continued increasing. So that spread just continues to widen. And so, I'm not trying to avoid the question. It's an imprecise question. It will be a different story if these order frequencies remain static, but the reality is you've got growth taking place at a cohort level.

Mark S.F. Mahaney
Analyst, Evercore ISI

Q

Okay. Thank you, Prabir.

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

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

Thanks guys. A couple of quick ones. DashMarts are, essentially, the micro-fulfillment centers. I think the last time we checked, they were carrying around 2,000 SKUs. Can you talk about the kind of trajectory of growth in terms of locations or SKU base that you're running at DashMart?

And then, we just got back from marketing around Europe, and we got asked every meeting how is the US, North American consumer versus European. Looking at Wolt versus North America, any dynamics to call out there with respect to the strength or the price sensitivity of the consumer geographically?

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

A

Hey, Brian, it's Tony. I'll take the question on DashMarts, and then maybe Prabir can follow on the second question around kind of geographic differences in terms of what we're noticing.

On DashMarts, the way I think about this is the problem to solve isn't how many SKUs to offer inside of a DashMart or whether to build DashMart. The problem really to solve is how do we actually build the best convenience and grocery delivery experience. And when you look at where the penetration levels are today and just take, for example, the US relative to where they could be, I think there's a massive gap.

If anything, the penetration levels today in convenience and grocery delivery is fairly low and has largely stagnated post-COVID. And I think that suggests that the customer actually prefers perhaps either buying online, picking up in store or perhaps just shopping inside the store altogether. And so, what we're trying to solve is how do we build an experience that can work for both consumers, grocers, retailers as well as Dashers.

And the way we think about it is for consumers, how do we build an experience that can give them exactly what they ordered, that can do it at a price point that matches their expectations with greater convenience.

And if we can figure that out, which is going to require lots of invention such as figuring out inventory management built from the ground up as well as merchandising, getting the right SKUs and selection to the point of your question as well as doing it more conveniently.

Then I think that, that's a service that grocers and retailers or alike will want as well. And that's something that we can help them with as they think about how can they add effectively another use case to their already very successful buy online, pick up in store use case and make that incremental for them and have these warehouses that are actually optimized for delivery. So that's really what we're trying to do with DashMarts.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

And then on your international question, I know that you aimed at Europe, but just as a point of reference, I'm not sure if it's a price sensitivity question, to be honest with you. At least based on our analysis, if you look at outside the US and exclude UK for a second, the levels of penetration in terms of food delivery are quite low, right, whether it's European countries, whether it's Australia, Japan or whatever.

And the reason for that is because it was – a couple of things. One is the number of restaurants that are available are low. So it's a selection problem, first and foremost. Second, the quality of the experience is easy. And what I mean by that is some of these countries, food delivery is essentially lead gen, which means that it's the restaurant that's actually fulfilling the order and consumers don't have visibility into whether the order is going to be delivered, who to call if it's late. And that just leads to poor consumer experience that then ultimately leads to lower adoption.

So I think the opportunity is there as long as we address these fundamental building blocks of selection, quality and affordability in these countries, whether it's Europe or Australia or Japan. That is very early in terms of their development along these dimensions.

Brian Fitzgerald
Analyst, Wells Fargo Securities LLC

Q

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Got it. Thanks, guys. Appreciate it.

Operator: There are no further questions at this time. I'll turn the call back over to the DoorDash team.

Unverified Participant

Thank you, Jewel, and thank you, everybody for the questions and your time today. We look forward to being in touch with many of you soon. Have a good evening.

Operator: This concludes today's conference call. You may now disconnect.

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