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DASHING TO IPO

Case Study and Teaching Note

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Abstract

This case study examines DoorDash, a US-based logistics company that went public on the New York Stock Exchange in December 2020. The case spans from the company's inception to its initial public offering, with a particular emphasis on the elements that propelled DoorDash to outpace competitors and secure a dominant market position. The study meticulously explores DoorDash's strategic approach, the underlying philosophy, financial metrics as well as the company's funding rounds and investors involved in its trajectory.

Keywords

DoorDash, Start Up, Execution, Venture Capital, Entrepreneurial Finance, IPO

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It was the day before DoorDash's highly anticipated initial public offering (IPO). Lisa Chen, an esteemed tech stock analyst, was eagerly awaiting the pricing announcement by DoorDash and its underwriters. At about 8pm, she sat by her kitchen window overlooking “The City”, as locals call San Francisco, when she received a push notification from the Wall Street Journal’s (WSJ) app: “DoorDash Prices IPO Above Expected Range”. She immediately read the press release put out by DoorDash and was stunned. The company demanded \$102 per share, 20% more than the upper limit of the initial pricing range of \$75 to \$85.

Lisa asked herself how the investment banks had determined this price and how it could be justified by rational future investors. While she had always been skeptical about whether delivery companies truly held lasting value, this was beyond anything she would have imagined. In the past days, she had thoroughly analyzed the numbers in DoorDash’s S-1 prospectus and concluded the initial price range was already too high.¹ Despite the heavy revenue growth during the Covid-19 pandemic, DoorDash was still not able to make profits. How would they be able to do so, if not in the perfect environment for delivery companies?

She again looked over the San Franciscan skyline, which was now shrouded in the Pacific fog. The veil of fog prohibited the view on the usually so lively Financial District and seemed to mirror the uncertain times that had befallen the world. Were the investment bankers seriously only betting on the hot IPO market and investors not wanting to miss out on a hype or had she overlooked something?

Foundation

The story of DoorDash began with four Stanford students, who wanted to build an application for small business owners **Exhibit 1**. The idea was to enable every merchant to deliver products to its customers and “*build the local, on-demand FedEx*”.² To get feedback on the app the four had built, they spent a lot of time talking to small business owners. One of them was Chloe. She was the store manager of a macaroon store in Palo Alto. Just as the students were about to leave the store, she showed them a booklet full of delivery orders and said: “*This drives me crazy. I have no drivers to fulfill them and I’m the one doing all of it.*”³ This was the light-bulb moment for the founders. They soon interviewed over two hundred small business owners across the Bay Area and kept hearing the same complaint: “*Deliveries are painful.*”

Believing to have found a problem to solve, the team started coding a website prototype. On January 12th, 2013, Palo Alto delivery was launched. The site basically only comprised of a landing page with PDF menus of local restaurants they had found on the internet and a phone number to place orders **Exhibit 2**. As Stanley Tang, co-founder of DoorDash, once put it at a talk at Stanford in 2014: “*It was super simple, ugly, and honestly, we weren't really expecting anything - we just launched it. What we wanted to see was just would we receive phone calls, and if we got enough phone calls, then maybe this delivery idea was worth pursuing.*”⁴ Nevertheless, it did not take long for the first customers to arrive. After only half an hour, the first order was placed already: Pad Thai to Alpine Road in Palo Alto.⁵

Five months after founding the venture and two months after launching their service, having completed just 217 deliveries, Palo Alto Delivery was accepted into the world-famous accelerator program of Y-Combinator (YC). But getting a foothold in the market was not easy at all. As Paul Buchheit, a partner at YC, noted in June 24, the company was struggling with

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user acquisition, resulting in slow growth. On July 16th however, he noted: “*Growing fast (up to about 35 orders/day from 19 two weeks ago)*”, showing they had figured it out.⁶ While most investors at YC’s Demo Day remained skeptical, the founders still managed to raise a pre-seed round. The popularity of the business grew rapidly, and it quickly developed into the place to order food on the Stanford campus. But not only there. Soon people across Palo Alto started using the service, leading to the founders being students during the day and delivery drivers during the night. “*We didn’t have much in the ways of a logistics operation, so we relied on Google Voice, the “Find my Friends” app, and our cars to fulfill orders. Our office was Stanford student housing. Our marketing was fliers on dorm bulletin boards.*”⁷ Payments were collected via a Square account, which was frequently shut down due to the suspicion of money laundering.⁸ Doing the deliveries themselves and talking to customers and restaurants taught the founders valuable lessons about how the whole delivery process worked.

Two months after being accepted into YC, the company was registered as DOORDASH, INC. in the state of Delaware and the name of the service was officially changed to DoorDash on June 21st. With the rebranding and the experiences gained in the fully completed accelerator program at YC, DoorDash’s rapid expansion began.

Company Overview

Value Proposition

DoorDash is a data driven logistics company, enabling merchants to deliver their products to consumers. In September 2020, it offered its service in more than 4,000 cities across the United States, Canada, and Australia. DoorDash uses a platform-to-consumer delivery model, bringing together three stakeholders on one digital platform: merchants, customers, and delivery drivers, so called “Dashers”.

Merchants are the businesses that provide the products and services that DoorDash delivers. These can include restaurants, grocery stores, convenience stores, and other retail establishments. Merchants partner with DoorDash to expand their customer base and offer delivery services to consumers who want their products delivered to their doorstep. DoorDash provides merchants with an online platform to receive orders and coordinates the delivery process. For a lot of merchants, it is not worthwhile investing into logistics technology and maintaining a fleet of delivery drivers. For them, DoorDash offers a flexible alternative to fulfill their deliveries. In September 2020, 390,000 merchants were available on the platform.⁹

Consumers are the individuals who use DoorDash to place orders for food or other products from the merchants on the platform. They are the end-users who benefit from the convenience of having items delivered to their homes or workplaces. Consumers use the DoorDash app or website to browse menus, place orders, make payments, and track the delivery of their orders. DoorDash is responsible for ensuring a smooth and efficient delivery experience. For consumers, DoorDash makes the delivery process much more convenient since they can view all the merchants available in one place and complete the order end-to-end. In September 2020, over 18 million consumers used the platform.¹⁰

Dashers are independent contractors or gig workers who provide delivery services on behalf of DoorDash. They pick up orders from merchants and deliver them to consumers. Dashers use the DoorDash application to accept delivery requests, navigate to the merchant and consumer locations, and manage the delivery process. They play a crucial role in ensuring that orders are delivered accurately and on time, making the entire service possible. In September 2020, over 1 million Dashers were delivering orders from the platform.¹¹

Business Model

DoorDash's business model is to generate revenue by collecting fees and commissions for the fulfillment of delivery orders.¹² Fees consist of a fixed delivery fee and a variable service fee, depending on the total dollar value of the order, and are paid by the consumers. DashPass subscribers do not pay any delivery and reduced service fees, but in turn pay for the subscription service. DashPass is a monthly subscription service for \$9.99, which spares consumers delivery fees for orders of \$15 or more. According to DoorDash, a "*DashPass membership pays for itself with just three orders per month*".¹³ Commissions are paid by the merchants and depend on an agreed-upon rate. However, they only apply for orders placed with partner merchants. DoorDash also offers orders from merchants that have not entered into contractual agreements with the company, representing about 5% of the gross order value of the marketplace (Marketplace GOV).¹⁴ This practice is criticized by merchants and under legal investigation from time to time. DoorDash collects the total dollar value of an order including tax and tips from the consumer and then distributes the shares to merchants and Dashers **Exhibit 3**. Furthermore, revenue is generated by DoorDash Drive. DoorDash Drive is a white-label service allowing merchants to deliver orders via DoorDash's delivery network, that have been generated through the merchants' proprietary sales channels. Merchants pay fees per delivery, depending on factors such as distance, order size, and other logistical considerations.

Strategy and Philosophy

Positioning

DoorDash started with meal deliveries in suburban and smaller metropolitan areas. Demand for meal deliveries was high and this type of delivery was suitable for scaling fast. The named areas had historically been underserved by merchants and platforms that enable on-demand delivery. Furthermore, these areas were more attractive for meal deliveries since it is

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more likely to deliver to families with a higher value per order and there is less traffic. Later, DoorDash also began to deliver in major cities. The second market established was Los Angeles in June 2014 and the first region outside of California was Boston, Massachusetts, in September that year.¹⁵ The first city to be served internationally was Toronto in Canada, in November 2015.¹⁶ In September 2019, DoorDash expanded beyond North America, starting operations in Melbourne, Australia.¹⁷

Next to other geographies and although being “*still in the very early stages of expanding beyond food*”, DoorDash expanded to other deliveries than meals.¹⁸ The first step has been to deliver groceries, but other goods followed soon. In September 2020, 2,500 partners including Walmart, Macy’s, CVC, and 7-ELEVEN were onboarded.¹⁹ ²⁰ With DoorDash Drive, the company made its platform available for merchants with existing point of sales systems in 2016, expanding its customer base and showing the true potential of its platform for the first time. Demand for the service was tremendous and merchants signaled a high interest in non-food use-cases. Some even wanted to deliver goods like mattresses and Christmas trees.²¹

Merchant first approach

A core part of DoorDash’s business strategy and philosophy is its merchant-first approach. This means the company puts the concerns of the merchants first and treats them as partners, making them to allies, not adversaries. DoorDash also supports the merchants with several additional services. These include the supply of data and analytics of customers and products, help with marketing strategies and customer acquisition, as well as payment processing, and customer support. This led to an increasing number of merchants, including national chains like California Pizza Kitchen, being present on the platform **Exhibit 4**. In September 2020, it had partnerships with 175 of the 200 major restaurant groups in the US

(88%).²² This allowed for strong network effects to be realized.

Technology

DoorDash considers all its stakeholders as customers and is obsessed with their experience. By developing a proprietary logistics software, DoorDash can control the entire delivery experience, making it more efficient and thereby cheaper for everyone. DoorDash operates on the lowest level of detail and favors quality over speed of deliveries. To ensure the best experience for consumers, it for example reduces the biggest frustration with meal deliveries: incorrect orders **Exhibit 5**. An incorrect delivery can be as fast as it wants but will not satisfy the customer. Flawless orders are ensured by identifying and analyzing common errors with the help of Artificial Intelligence and then giving the merchants hints, tips, and a checklist to prepare the order. DoorDash even gives instructions on how to optimize food quality for off-premises orders. This helps the merchant as well and simplifies their process.

Acquisitions

To support its operations and broaden the customer base, DoorDash strategically acquired companies. Two important ones were Rikshaw and Caviar in 2017 and 2019 respectively. Just like DoorDash, Rikshaw was a YC-accelerator participant. Its mission was to connect businesses to a courier network and managing the logistics, enabling them to offer same-day delivery – fairly similar to DoorDash’s Drive offering. Rickshaw’s operations would eventually be ceased, and the team fully integrated into DoorDash, leading to Tony calling the transaction “*an acquihire*”.²³ Caviar, a premium meal delivery company, was acquired for \$410 million in a combined cash and preferred stock deal in 2019.²⁴ According to a DoorDash press release, the merger “*create[d] the most differentiated company in the industry.*”²⁵ Caviar was founded “*as the Uber for food*” by four students at the University of California, Berkeley, in

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2012.²⁶ It was already profitable after six months and two years later bought by Square for more than \$100 million.²⁷ Unlike Rikshaw, operations were not ceased, and the brand continued to exist using DoorDash's technology and delivery network.

Response to Covid-19

During the Covid-19 pandemic, DoorDash supported merchants and Dashers by providing them with personal safety gear and partially waving commissions.²⁸ This increased the stakeholders' loyalty with DoorDash and shaped the public perception of DoorDash.

Financials

Since its foundation, DoorDash has exclusively been growing in a significant manner. In 2019, the total number of orders grew by 217% to 263 million from 83 million in 2018 **Exhibit 6**.²⁹ The introduction of DashPass in August 2018 probably contributed to the growth. In the following year, growth continued: 543 million orders were placed in the first nine months of the year, compared to 181 million in the previous year. This again represented a growth rate of 200%. Next to adding new customers by entering new markets and increasing their engagement, Covid-19 has played a crucial role in this development. From the first to the second quarter in 2020, the order volume jumped by nearly 100% whereas the usual inter-quarter growth laid between 15% and 25%. This abnormal growth came with the first restrictions and stay at home orders put in place to condemn the outbreak of the highly contagious virus. In quarter three, growth was still prominent but normalized to 16% again. At the end of the quarter, DoorDash had delivered a total of more than 900 million orders since its foundation.³⁰ Since the average basket size did not change a lot and ranged at about \$30 over the years, revenues grew at roughly the same rate as the number of orders **Exhibit 7**. This culminated in having revenues of over \$1.9 billion in the first nine months of 2020.

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Despite growing revenues, DoorDash was still far from being profitable. In fact, the operating losses grew from \$210 million to \$616 million in 2019. Besides significant improvement of the gross margin (2018: 22%; 2019: 41%), operating margins stayed around -70%. This was caused by a much higher spend on sales and marketing, exposing the difficulties of a high growth startup: a lot of capital is needed to aggressively acquire customers and thereby market share. With the beginning of 2020, this dynamic changed dramatically. Since people did not really have other opportunities than ordering and it became near a necessity, they soon found themselves on platforms like DoorDash – not much marketing needed. This brought customer acquisition cost (CAC) down to \$11 in Q2 2020, averaging \$26.6 the five previous quarters and rising again to \$28 in Q3 **Exhibit 8**. In the first nine months of 2020, relative sales and marketing expenses had therefore more than halved, compared to the previous year (32%/76% of Revenue). This, among other cost cuts and a better gross margin granted DoorDash its first and only profitable quarter in the company's history until September 2020. Nevertheless, the one profitable quarter was not enough to offset the previous and following negative quarter, leaving DoorDash with a Net Loss of \$149 million when filing for IPO. Although CAC under normal circumstances is high, an analysis of DoorDash's customer cohorts looks promising **Exhibit 9**. It shows that once acquired consumers order more year-by-year, holding a high customer lifetime value (CLV). In the third quarter of 2020, DoorDash's revenue was mostly made with existing customers **Exhibit 10**. Close to 100% of revenues were generated in the US **Exhibit 7**.

Funding

Not counting the pre-seed funding during YC, the first investment into DoorDash was made by Khosla Ventures, Charles River Ventures, and other well-known figures in the VC industry.³¹ Khosla led the \$2.4 million seed funding round at undisclosed terms

Exhibit 11. Just before, DoorDash had begun to deliver from restaurants in nearby Mountain View, leading to a total of 70 restaurants available for orders on their website. Soon, more cities and restaurants followed and in May 2014, 1 in 6 households on the San Franciscan Peninsula had already used their service.³² With this track record and some help of YC, DoorDash was able to raise its Series A of \$17.3 million, led by Sequoia Capital, which had previously passed to invest, valuing the company at \$73.5 million.³³ Sequoia had previously gained experience in last-mile logistics with the Chinese delivery company Metituan. The investor brought in a new member to the board: Alfred Lin. The Series B was led by Kleiner Perkins and consisted of \$40 million, giving DoorDash a valuation of \$600 million in March 2015.³⁴ Having to give up less than 10% of the company shows the great leverage DoorDash had during that time. With John Doerr, Kleiner Perkins also had a seat at the board of DoorDash. By the end of 2015, DoorDash was already present in 250 cities in 22 markets across the US and Canada.³⁵ These numbers, however, did seemingly not meet investors' expectations and DoorDash had to accept a "down-round" in its Series C. The capital injection of \$127 million in March 2016, mostly coming from Sequoia, valued the company at only \$700 million. New investors were YC with its Continuity Fund and the Wellcome Trust.³⁶ The Series D finally made DoorDash a unicorn. Main investor in this round was the investment giant SoftBank Group with its Vision Fund, making it DoorDash's biggest shareholder.³⁷ Jeffrey Housenbold, one of the founding partners at SoftBank Investment Advisers justified the investment by "*DoorDash's technology advantages, exceptional management team and relentless merchant focus*" and continued: "*Food delivery is just the first chapter. Tony and team have a bold vision to create the world's best logistics company, [...].*"³⁸ Jeffrey also joined the board of directors. DoorDash ended up raising another \$250 million from Coatue Management and DST Global, valuing the company at \$4 billion only four months after the previous round.³⁹ With growing revenues, fresh capital continued to flow in, and valuations skyrocketed. The Dragoneer Investment Group, Darsana

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Capital Partners, T. Rowe Price, financed the Series F to G, giving DoorDash decacorn status. Valuations culminated with a \$400 million investment by Durable Capital Partners and Fidelity Management & Research Co., valuing DoorDash at \$16 billion.⁴⁰ Both investors are known to invest into companies close to going public. Until September 2020, DoorDash had received a total of about \$2.5 billion in funding.

Competition

When DoorDash was founded in January 2013, there had already been meal delivery services in the US. The first online meal delivery service emerged in 1995 with waiter.com. In 1999, Seamlessweb and Grubhub were founded and ultimately joined forces in 2011, after fighting to be on the top for several years. In the same year, Postmates was founded. UberEATS, formerly known as UberFRESH, joined them in August 2014. Smaller startups, like Caviar, entered the space as well. However, they usually only served major cities with a dense population and their value proposition often solely was to generate orders via their online platform, which then had to be delivered by the retailers themselves.

Nevertheless, competition among meal delivery companies is fierce. They do not only compete over customers, but also restaurants and delivery drivers. Next to price and delivery times, both are key factors for the attractiveness of meal delivery platforms, because they are creating strong network effects. Since the field is believed to be an at least “winner takes it most” market, the companies’ ultimate goal is to gain market share to become the biggest player or at least create an oligopoly.⁴¹ In October 2020, only three companies held 99% of the US delivery market **Exhibit 12**. This in part comes down to first consolidations. In July 2020, Uber had acquired Postmates for \$2.65 billion **Exhibit 13**.⁴² But even with the acquisition, UberEats could not prevent DoorDash from becoming market leader. DoorDash had kept gaining market

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shares over the years and finally overtook previous market leader UberEATS. In October 2020, DoorDash was clearly the dominant player owning 51% of the total US market, in rural areas partially even more. Equally, if not even more important than total market leadership, is dominating single markets. Network effects and thereby value for both merchants and consumers in one market are highest if a service is the clear leader.⁴³

But not only market shares have grown over time. The market it-self did too and is expected to continue to do so in the following years **Exhibit 14**. Especially the Covid-19 pandemic has given the meal delivery market a tremendous boost, growing by close to 60% from 2019 to 2020. Despite the growth of the food delivery market, it only made up a fraction of the money spend on off-premise dining, indicating a lot more potential for the future.⁴⁴ But the question is whether restaurants are willing to shift even more from dine-in to take-out. While take-out orders have been a lifeline for them during Covid, they are less profitable for restaurants with dine-in facilities, making too many off-premises orders unsustainable in the long-term.⁴⁵ Next to that, the restaurants do not have a lot of opportunity to differentiate online and thereby create a competitive advantage: they either have the best quality or are the cheapest.

Like DoorDash, other meal delivery companies also began to unlock additional revenue streams by offering deliveries beyond meals to grow further anyways. Most of them started with the closest goods to meals, groceries. The grocery delivery market grew at a similar pace as meal deliveries and promises better margins than meals **Exhibit 14**. Other goods even hold higher potential for margins, which is why the platforms try to leverage their software for the delivery of these as well. By doing so, they also began competing with “ready to eat” meals from companies like HelloFresh and Blue Apron as well as other delivery services like Amazon. Delivery platforms have often replaced the term “two-days” delivery by “instant” on websites.

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Next to low margins, the consistently high CAC are the main problem of the industries' business model. Spend on customer incentives, promotions, and vouchers for delivery fees has its price and differentiation against other platforms is hard to achieve. Mergers can ease the competitive pressure and inherently give companies an advantage with economies of scale.

IPO

DoorDash states two main reasons for going public in its S-1 prospectus. The first one is to increase capitalization and gain better financial flexibility, to further grow its business. Proceeds of the IPO will be used for general corporate purposes, including working capital, operating expenses, and capital expenditures, as well as for acquisition or investment in businesses, products, services, or technologies. The second stated reason is to create a public market for Class A common stock, enabling access to public equity markets.

The company's first attempt to go public was in the beginning of 2020. In February, it had confidentially filed for IPO with the United States Securities and Exchange Commission (SEC).⁴⁶ But the Covid-19 pandemic had put downward pressure on the previously booming IPO market in the US, which is why the plans of going public were postponed. Over the next few months, the economy recovered, and the number of IPO activity picked up again **Exhibit 15**. Eventually, 2020 became the most successful year for IPOs in the US ever **Exhibit 16**. On November 13th, DoorDash filed again for IPO and officially unveiled its S-1 prospectus to the public. Underwriters of the IPO were several investment banks, including Goldman Sachs, and J.P. Morgan as lead underwriters, Deutsche Bank, UBS and many more. The prospectus lists many risks that could potentially adversely affect DoorDash's business. Key risks include the potential re-classification of gig workers as employees, which could significantly impact DoorDash's business model by necessitating benefits like health insurance

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and retirement plans. Legislative evaluation to this issue varies across nations and states. Additionally, commission caps, introduced in some US states during the pandemic, are being considered for retention post-pandemic.⁴⁷ Dividends are not planned to be paid soon.

As of September 30th, 2020, DoorDash had 253,343,071 Class A shares and 31,313,450 Class B shares outstanding.⁴⁸ Class B shares have a 20-times higher voting power than Class A shares. Biggest Class A shareholders were Softbank and Sequoia, holding 24.9% and 20.4% of DoorDash's shares **Exhibit 17**. Class B shares were exclusively held by the founders. Voting power therefore was still in the hands of the founders. When going public, DoorDash will issue 33,000,000 new Class A shares and keep the dual share class system as a public company. Voting power will therefore again remain with the founders, holding 75.1% of it. The price range for the shares was initially set to \$75 - \$85 by the underwriting investment banks.⁴⁹ However, it was soon elevated to an upper limit of \$95.⁵⁰ One day before the supposed listing, the price was raised again to \$102 per share.⁵¹ The IPO share price is now 20% higher than the upper limit of the initial price range and values the company at \$32.4 billion based on common shares outstanding and \$38.7 billion on a fully diluted basis – more than double the value of the last funding round five months ago.

Is DoorDash's stock really creating that much excitement? And is the price justifiable based on the company's fundamentals or should future shareholders be concerned with the risks associated with its business?

Synopsis:

This case study examines DoorDash, a US-based logistics company that went public on the New York Stock Exchange (NYSE) in December 2020. The case begins by explaining the story of DoorDash's foundation. It then gives a detailed overview of the company. The overview consists of five sections: Value Proposition, Business Model, Strategy & Philosophy, Financials and Funding. This overview helps the reader understand, what contributed to DoorDash's success and why DoorDash became market leader in the food delivery market. The development of this market and DoorDash's competitors are discussed in the following chapter. The case ends by explaining DoorDash's aspirations of going public at the NYSE. Conditions, circumstances, and structure of the company's initial public offering are outlined.

Case Objectives:

By covering the company's history from foundation to IPO, students can delve into and analyze various facets of a startup's life cycle. This includes exploring the potential and context of the venture, evaluating the founders' execution, recognizing the significance of selecting the right investors, understanding how to strategize against competitors, and gaining insights on important considerations when going public.

Intended Audience:

This case study is intended to be used for class discussions at business schools. Suitable courses include Entrepreneurial Finance & Venture Capital, Corporate Finance, Entrepreneurship, as well as Entrepreneurial Strategy and Corporate Strategy.

1. How do you evaluate the context and the opportunity?

The founders identified a lack of delivery services for merchants in suburban and rural areas. While consumers wanted to order deliveries and merchants also wanted to offer this service, there were no drivers to fulfill them. For the merchants, employing own drivers was not economically viable since the usage of the drivers would be too low and the drivers therefore too expensive.

Value proposition

DoorDash's value proposition is to handle the last-mile delivery for merchants that cannot afford own delivery operations. Via DoorDash's platform, consumers can order goods from local merchants that are then purchased and delivered by DoorDash. The fulfillment was initially taken care of by the founders and later gig-workers, creating a three-sided market: merchants, consumers, and drivers (so called Dashers). For merchants, the service allows to deliver their goods and serve consumers off-premises. Consumers can now conveniently order their favorite goods at home. Dashers can work flexibly decide when and how much they want to work. In the beginning, only meals from restaurants were delivered. Later, other goods could be ordered as well. The platform was later also opened for deliveries of sales generated outside of DoorDash's platform.

Target Market

DoorDash targeted a huge market. The initial target group was everybody living in suburban and smaller metropolitan areas. With 53% of Americans above the age of 12 living in these areas in 2010, DoorDash's initial target group consisted of about 147 million people **Exhibit 1 TN**. But this not necessarily equals the total addressable market (TAM). The TAM considers factors like interest in or likelihood to use a particular product or service, accessibility,

purchasing power, and the specific needs that the product or service addresses. However, these factors were in favor of DoorDash. In 2013, about 58% of Americans ate at least one take out or home-delivered meal per month **Exhibit 2 TN**. Next to that, accessibility to DoorDash's platform was given, since 74% of Americans used the internet in 2013 **Exhibit 3 TN**. When ordering meals with delivery companies, consumers pay high mark ups compared to a restaurant visit **Exhibit 4 TN**. Nevertheless, people of each income level order meals with those companies and purchasing power does not seem to significantly influence the use of delivery services **Exhibit 5 TN**. These numbers show that DoorDash had a significant TAM to capitalize on. Furthermore, the target group was later expanded by also catering more densely populated areas and by using the technology to deliver other goods than meals.

Business Model

For each delivery, DoorDash collected a fixed fee from the consumer. The business model was then partly changed to partnerships with the merchants, enabling the collection of fees from consumers and commissions from merchants. Furthermore, the subscription service DashPass was introduced. While subscribers pay lower or no delivery and service fees, they bring in revenue by paying for the subscription. With DoorDash Drive, merchants pay a fixed delivery fee, depending on factors like distance and order size.

Competing Solutions

While there have already been competitors in the meal delivery market when DoorDash was founded, they focused on different geographical areas and mostly relied on a different business model. In a broader sense, DoorDash was also competing with dine-in facilities, other types of convenient food like frozen and ready to eat meals **Exhibit 6 TN**.

Team

The founding team consisted of four Stanford students and although they did not have any experience in the logistics business, it was a great fit for the endeavor. Andy Fang, Stanley Tang, and Evan Moore were Computer Science students in their bachelors. Tony, the CEO of the company, was doing an MBA at Stanford, having previously graduated in Industrial Engineering and Operations Research at Berkeley. Next to their studies, they had all already gained relevant work experience, having worked for technology companies like Facebook, eBay and Square. Tony had additionally collected experience in the restaurant business, working in his parents' restaurant in his childhood. His entrepreneurial spirit could be observed early on when he started a lawn-mowing business at the age of nine.

2. How do you evaluate the founders' execution? How did DoorDash become market leader?

The founders launched their service with a website only consisting of a landing page and a phone number to place orders. To keep track of the deliveries, they relied on free-to-use services like Google Voice and the FindMy app on iPhone. Payments were collected via Square. This showcased their ability to work with limited resources and strong problem-solving skills investors are looking for in founders.

Positioning

The four initially focused on meal deliveries in sub-urban and smaller metropolitan areas. This decision was made because of the observation that these markets were underserved by on-demand delivery companies and meal deliveries were suitable for scaling fast. Focusing on rural areas and not competing in major cities turned out to be a great decision. It allowed DoorDash to focus on its strengths and consolidate its position. The company could undisturbedly grow

and capture whole markets, realizing the highest network effects for merchants and consumers. Expansions to other destinations, first outside of the Palo Alto region, then outside California and later to Canada and Australia respectively were carried out very cautiously. According to the growth of market share (in the US), the strategy of capturing whole markets one by one seemingly worked.

Merchant first approach

Next to a different geographical focus, a strong differentiator towards its competitors was the partnership with merchants. Unlike its competitors, DoorDash did not treat the merchants as a simple necessity, but as a crucial part of their service and even put their concerns first. Next to providing the merchants with valuable data and insights about their customers and products, DoorDash offered various supporting services like marketing and customer support. These practices resulted in a high number of merchants being present on the platform. The partner approach also allowed DoorDash to collect commissions from restaurants. Instead of putting the full burden of delivery cost on one side (consumer or merchant), they can be shared.

Technology

DoorDash is a technology enabled company. In fact, the platform-to-consumer model would not have been possible without technology. If Dashers did not have a smartphone, they would not be able to flexibly accept orders and work independently. DoorDash's proprietary logistics system lets the company control the entire process from placing the order, over the preparation to delivery. To achieve operational excellence and simplicity for all its stakeholders, it uses various types of cutting-edge technology. One specific example is the implementation of Artificial Intelligence to reduce the number of incorrect orders, increasing customer satisfaction.

Acquisitions

To broaden and diversify its offering, DoorDash strategically acquired companies like Rikshaw and Caviar. Rikshaw supported DoorDash to gain traction with the establishment of DoorDash Drive, helping the company leverage its platform and gain even more market share. With the acquisition of Caviar, DoorDash was able to reach premium delivery consumers.

Response to Covid-19

DoorDash capitalized a lot on the Covid-19 pandemic. Next to gaining a lot of customers during that time, DoorDash built strong connections with merchants and Dashers, providing them with personal safety gear and partially waving commissions.

3. Identify the most important funding rounds. Discuss the investors and their contribution to DoorDash. Would DoorDash be as successful as it is without them?

DoorDash raised a total of \$2.5 billion in 12 rounds from various investors. The first and one of the most important funding rounds for DoorDash was the pre-seed round, when being accepted into the accelerator program of Y-Combinator (YC). YC, arguably the most successful startup incubator worldwide, significantly facilitated DoorDash's subsequent funding rounds. The credibility and validation provided by YC's backing helped DoorDash to attract VC heavyweights Khosla Ventures and Charles River Ventures (CRV) as seed investors. Khosla, based in Silicon Valley, belongs to the most successful VC firms in the world and Boston based CRV is a very well-known VC firm too. Having these investors onboard, helped to get Sequoia to invest into DoorDash, which had initially passed, when it had the opportunity to invest. With the Sequoia investment, Alfred Lin became a board member. Having been COO and CFO of Zappos (an online shop for shoes and fashion) and being and being current board member at Airbnb, he brought a lot of experience in logistics and platform businesses to the table.

Furthermore, Sequoia was already invested in Uber and therefore had experience in the “Gig-Economy”. Following Sequoia, Kleiner Perkins joined the group of world-class investors and John Doerr was added to the board. His experience of having served on the boards of companies like Google and Amazon from their beginnings, made him an ideal partner for the current stage of growth at DoorDash. Nevertheless, the “Valley of Death” had not been fully cleared yet and DoorDash had to accept a down-round led again by Sequoia. Without Sequoia still believing in DoorDash, Softbank most likely would not have invested. Softbank’s investment made DoorDash a unicorn, starting the hype around DoorDash. The new capital allowed for significant growth, making DoorDash market leader and paving the way for investors focused on growth equity. As funding rounds increased in size, there was a discernable transition towards the engagement of institutional investors. This trend reached its peak with the involvement of T. Rowe Price and Durable Capital Partners (DCP), both known for bringing private companies to the stock market. DCP’s pre-IPO investment may have boosted the confidence in DoorDash’s stock when going public. As demonstrated, most investors did not only contribute to DoorDash’s success by bringing in capital but also knowledge and expertise. Furthermore, they raised the credibility of DoorDash as a company. It is highly unlikely, DoorDash would be as successful without them.

4. Why is it problematic that DoorDash and UberEats share the same shareholders?

DoorDash and Uber (and thereby UberEats) share several shareholders: Sequoia Capital, Softbank, and Dragoneer Investment Group. Their partly major investments in both companies may raise concerns about DoorDash’s corporate governance due to potential conflicts of interest. Since the investors have internal and confidential knowledge of both companies and hold seats in both companies’ boards, they could use their information advantage to influence the companies’ decisions to serve their own interests.

Prioritizing their interests over those of other shareholders would affect the fair and equitable treatment of shareholders. This is especially problematic, since DoorDash continuously gained market share off its competitor UberEats. Apparently, SoftBank even brought the two companies together and initiated talks for a potential merger, following its DoorDash investment.¹ This could be seen as unfair influence and an attempt to realize own advantages.

5. What are Pros and Cons of going public for a company like DoorDash? What were DoorDash’s reasons for going public? Did the company achieve its objectives?

Going public offers several advantages, including access to substantial capital for expansion and strategic initiatives, increased liquidity through open-market share trading, and heightened visibility and credibility that attract customers, partners, and top talent. However, there are drawbacks to consider, such as the extensive regulatory requirements and reporting obligations that can be both time-consuming and costly. Additionally, going public may result in a loss of control for the founders and early investors due to shareholder voting rights. Lastly, the pressure to meet quarterly market expectations can lead to short-term decision-making misaligned with long-term strategic goals.

DoorDash had two main reasons for going public. The first reason was to increase capitalization and gain better financial flexibility. Proceeds of the IPO should be employed for general corporate purposes and to further grow the company. The second main reason was to increase liquidity for its Class A shares. The company achieved both of its main goals. It sold all its offered shares at the desired price and the stock can now freely be traded at the NYSE. While DoorDash now must comply with more regulations and may face short-term pressure, the founders did not lose control over the company due to the dual share class system.

6. Give your opinion on the IPO price of DoorDash's shares. Are investors buying value or hype? Explain your reasoning with appropriate calculations.

Due to DoorDash's current lack of profitability upon going public and uncertainty surrounding its future profitability, coupled with its indication in the S-1 prospectus that it does not plan to distribute dividends in the near term, both the Dividend Discount Model (DDM) and Discounted Cash Flow (DCF) analysis are not suitable for assessing DoorDash's value. Therefore, a comparable analysis based on multiples will be used. As comparable companies Grubhub, Postmates, and Just Eat Takeaway are chosen. To compare them, two multiples based on the equity value of the companies are utilized. The first multiple is obtained by dividing the equity value by the number of orders and the second multiple is obtained by dividing the equity value by the number of restaurants, **Exhibit 7 TN**.

DoorDash Valuation_{Example} = Multiple * Multiple Item = Result

$$\text{DoorDash Valuation}_{\text{Merchants}} = 14,097 * 390,000 \approx (\$)5.5\text{bn}$$

$$\text{DoorDash Valuation}_{\text{Total Orders}} = 34 * 543,000,000 \approx (\$)18.5\text{bn}$$

Price per Share_{Example} = Valuation / Share outstanding = Result

$$\text{Price per Share}_{\text{Merchants}} = \$5,497,684,364 / 317,647,059 = \$17.31$$

$$\text{Price per Share}_{\text{Total Orders}} = \$18,612,566,961 / 317,647,059 = \$58.60$$

The resulting prices of \$17 and \$59 per share indicate investors are buying more hype than value. While a higher valuation than competitors may be justified due to DoorDash's market dominance, \$102 per share seems too high as IPO price.

7. Give your thoughts on the dual share class structure. Focus on its impact on DoorDash’s corporate governance as well as implications for the share price.

A dual share class system where the management holds the biggest voting power (in this case 75.1%) can lead to governance issues due to conflicts of interest. The lack of control by non-management shareholders grows the potential for excessive compensation and privileges granted to officers. Additionally, it may foster the adoption of an inefficient capital structure, hindering the organization's overall financial performance. It may also mean an inability of shareholders to influence critical decisions such as the timing of sales, acquisitions, or divestitures, potentially leading to deficient outcomes. Moreover, the absence of control over the timing of dividends or distributions might result in unforeseen financial constraints. Lastly, the inability to prevent irrational acts of the management may harm the company's long-term prospects and stability. The prevalence of these risks usually results in non-voting shares or such with lesser voting power trading at a discount, making them cheaper than those with full voting power.

8. Note on what happened:

On December 9th, 2020, DoorDash’s stock went public on the New York Stock Exchange (NYSE) and started trading as DASH (NYSE: DASH). With the initial price trading price set to \$102 by the underwriting investment banks, it immediately reached astronomical highs. On the first day, shares traded at up to \$195.5 and closed at \$189.51 each, 86% above the IPO price **Exhibit 8 TN**. Accordingly, the company had a market capitalization of \$72 billion at the end of the first day of trading. This shows that DoorDash left a lot of money on the table.

¹ The S-1 prospectus is a document that needs to be filed with the U.S. Securities and Exchange Commission (SEC) when going public in the US.

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¹⁰ Ibid.

¹¹ Ibid.

¹² While there are other revenue streams, they are not material.

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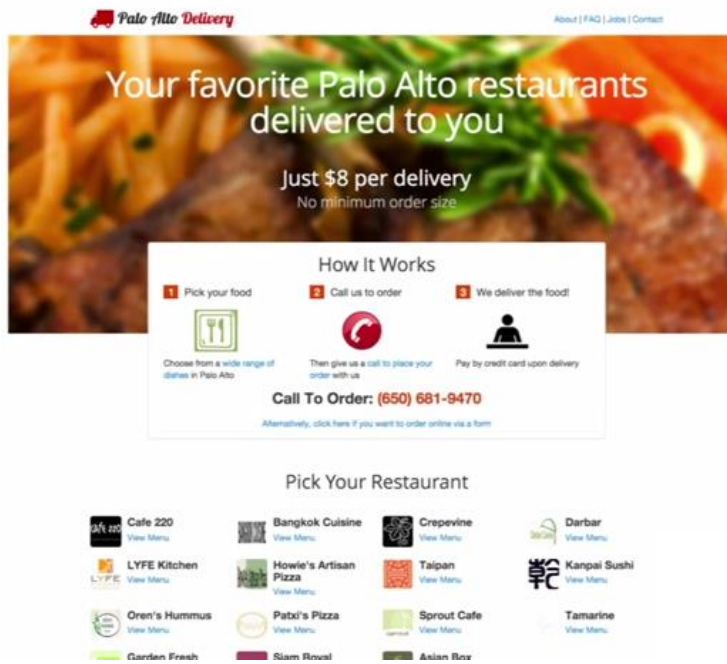
Exhibit 1 (The Founders)

Tony Xu was born in China and emigrated to the US with his parents in 1989, at the age of five. His father had been accepted as a graduate student in Aerospace Engineering and Applied Mathematics at the University of Illinois Urbana-Champaign, where he would later work as a post-doc researcher. Despite having been a medical doctor in China, the US did not recognize his mother's degree. To make a living, both parents initially took jobs in local restaurants, where Tony would also earn his first money at an early age, washing dishes. His first own business he started at the age of nine, mowing his neighbors' lawns. Upon finishing high school, he started his bachelor's in Industrial Engineering and Operations Research at the University of California, Berkeley, which he completed with distinction. He then worked for McKinsey & Company, eBay, and PayPal, before pursuing his MBA at Stanford in 2011. During his post-graduate studies at, he would also intern at Square, a payment provider.

His fellow founder Evan Moore was an MBA classmate. Andy Fang and Stanley Tang were computer science undergrads when founding the company. Like Tony, all of them had interned at companies in Silicon Valley. Andy and Stanley had spent a summer at Facebook and Evan had worked at VEVO, a music video platform.

Source: LinkedIn, Medium, S-1 prospectus

Exhibit 2 (PaloAltoDelivery.com Website)



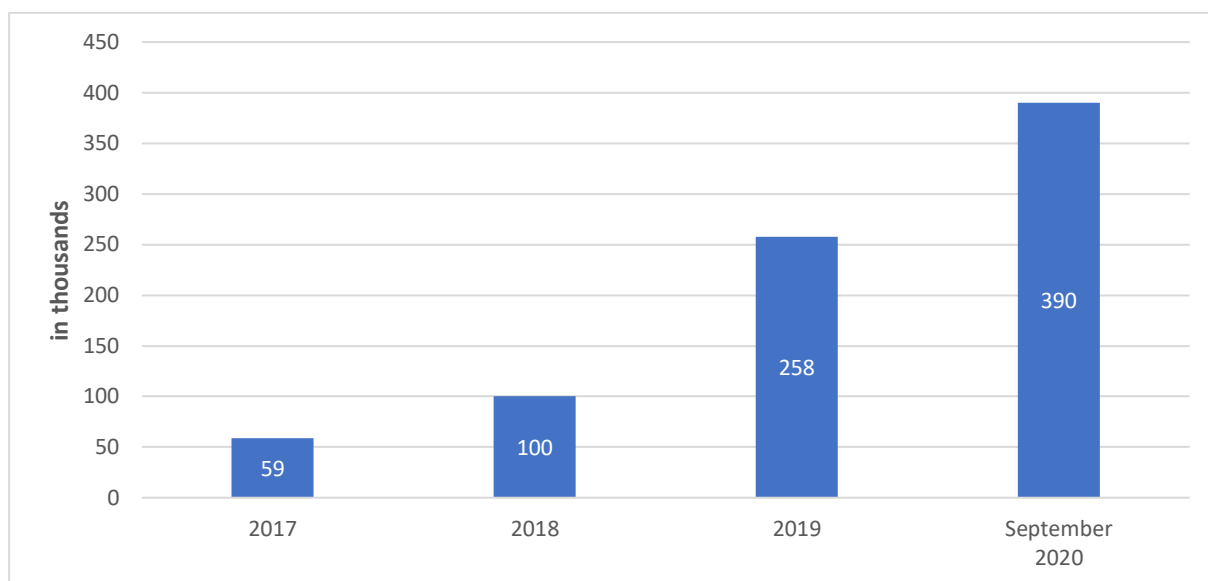
Source: [Rap Genius](#)

Exhibit 3 (Economics of an Order)



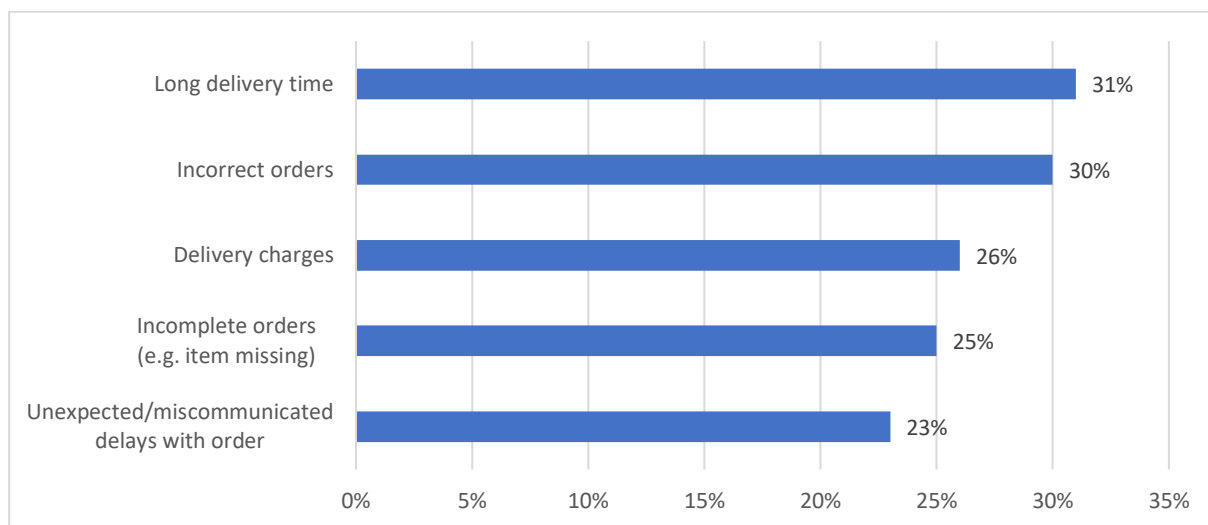
Source: S-1 Prospectus

Exhibit 4 (Number of Merchants present on DoorDash’s platform)



Source: [Business of Apps](#), S-1 Prospectus, own illustration

Exhibit 5 (Top 5 Frustrations with online Food Delivery in the US)



Source: [Deliverect](#), own illustration

Exhibit 6 (Number of total Orders with DoorDash)



Source: S-1 Prospectus, own illustration

Exhibit 7 (Income Statement DoorDash)

in million, except for %	Year Ended December 31st		Nine Months Ended September30	
	2018	2019	2019	2020
Revenue*	291	885	587	1916
<i>% Growth</i>		204%		226%
thereof United States	282	877	579	1912
thereof International	9	8	8	4
Gross Profit	63	362	234	1017
<i>% Gross Margin</i>	22%	41%	40%	53%
Sales & Marketing	135	594	445	610
<i>% Growth</i>	-	340%	-	37%
<i>% of Revenue</i>	46%	67%	76%	32%
Research & Development	51	107	73	112
<i>% Growth</i>	-	110%	-	53%
<i>% of Revenue</i>	18%	12%	12%	6%
General & Administrative	78	245	179	337
<i>% Growth</i>	-	214%	-	88%
<i>% of Revenue</i>	27%	28%	30%	18%
Depreciation & Amortization	9	32	16	89
<i>% Growth</i>	-	256%	-	456%
<i>% of Revenue</i>	3%	4%	3%	5%
Total OPEX	273	978	713	1148
Operating Income / (Loss)	-210	-616	-479	-131
<i>% Operating Margin</i>	-72%	-70%	-82%	-7%
Interest (Net)	6	18	14	-16
Other Expenses (Net)	0	-68	-67	0
Provisions for Income Tax	0	1	1	2
Net Profit / (Loss)	-204	-667	-533	-149
<i>% Growth</i>	-	-227%	-	72%
<i>% Profit Margin</i>	-70%	-75%	-91%	-8%

*Revenue without Caviar

Exhibit 7 (Income Statement DoorDash) – continued

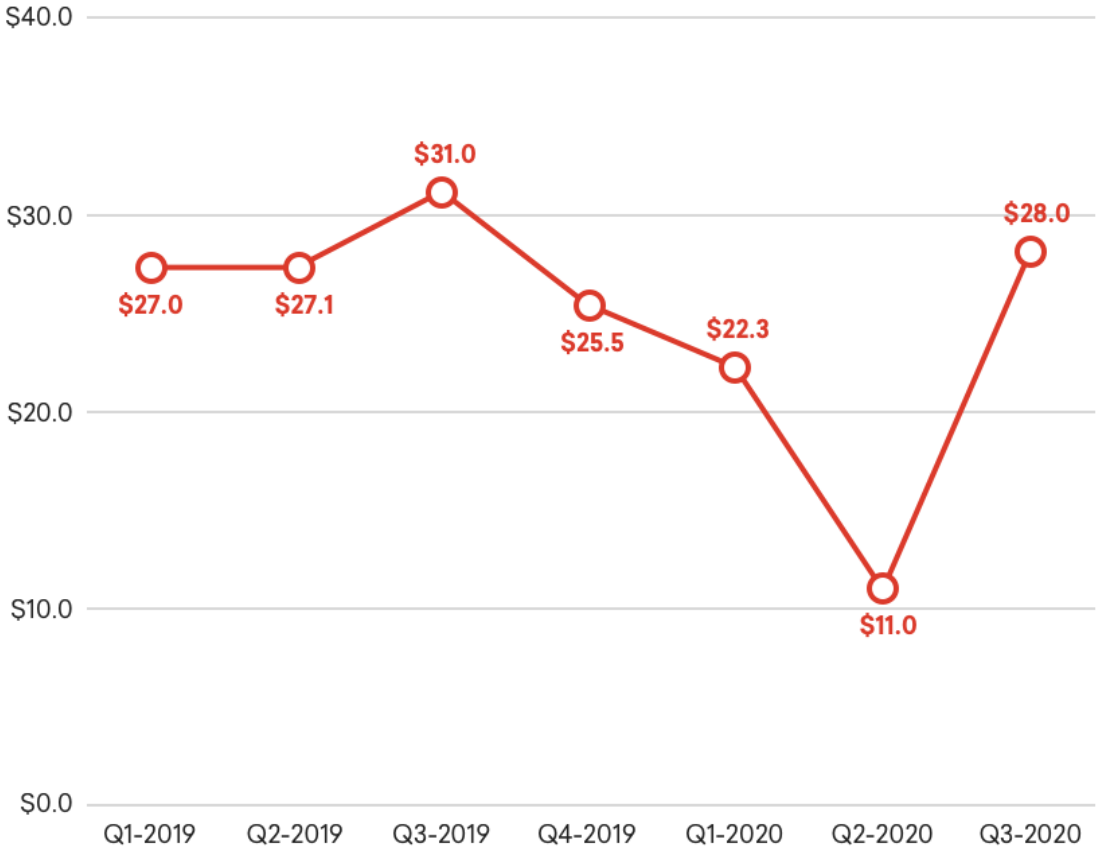
in million, except for %	2019				2020		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Total Number of Orders (in Millions)	50	61	70	82	103	204	236
<i>% Growth</i>	-	22%	15%	17%	-	98%	16%
Marketplace GOV (in Million \$)*	1560	1880	2097	2502	3083	6150	7252
<i>% Growth</i>	-	21%	12%	19%	-	99%	18%
Revenue**	135	215	239	298	362	675	879
<i>% Growth</i>	-	59%	11%	25%	-	86%	30%
Cost of revenue	98						
Gross Profit (in Million \$)	31	88	100	116	148	327	469
<i>% Growth</i>	-	184%	14%	16%	-	121%	43%
Gross Margin	23%	41%	42%	39%	41%	48%	53%
Net Profit / (Loss)	-191	-190	-152	-134	-129	23	-43
<i>% Growth</i>	-	1%	20%	12%	-	118%	-287%
Net Margin	-144%	-88%	-64%	-45%	-36%	3%	-5%
Adj. EBITDA (in Million \$)	-144	-103	-125	-103	-70	79	86
<i>% Growth</i>	-	28%	-21%	18%	-	213%	9%
Adj. EBITDA Margin	-108%	-48%	-52%	-35%	-19%	12%	10%

*Marketplace GOV represents the total dollar amount of orders

**Quarterly revenues may not add up due to rounding errors

Source: S-1 Prospectus, own illustration

Exhibit 8 (Development of DoorDash’s Customer Acquisition Cost)



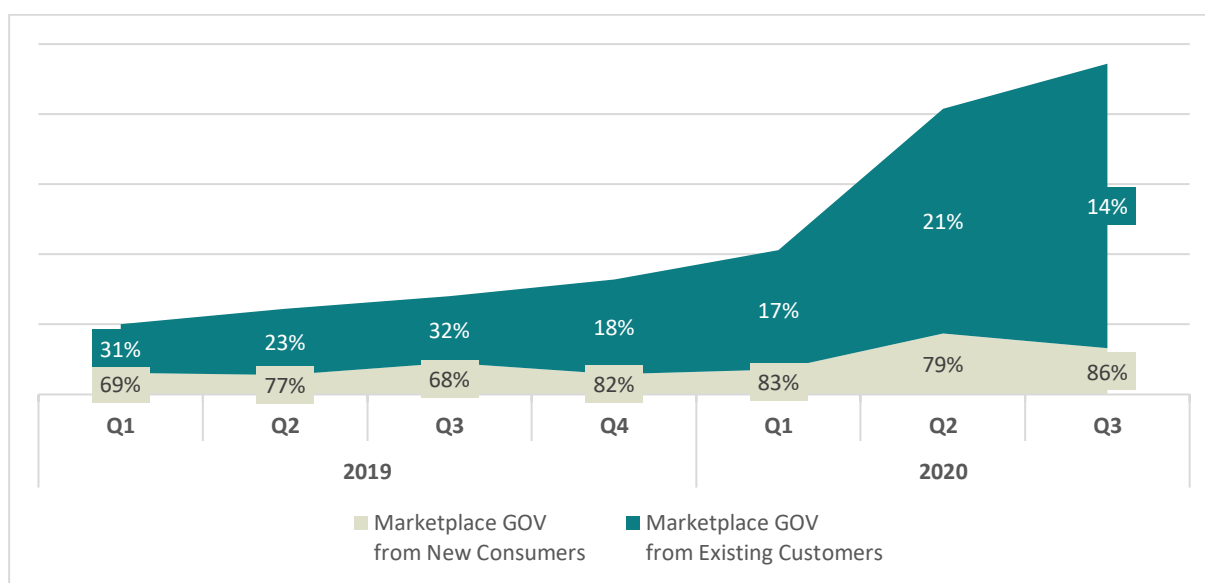
Source: [Goodwater](#)

Exhibit 9 (Cohort Analysis DoorDash)

Marketplace GOV by Cohort, Indexed to Year 1				
	Year 1	Year 2	Year 3	Year 4
2016 Cohort	1.00x	1.38x	1.39x	1.57x
2017 Cohort	1.00x	1.48x	1.62x	
2018 Cohort	1.00x	1.65x		

Source: S-1 Prospectus

Exhibit 10 (Revenue Share by Customer Segment)



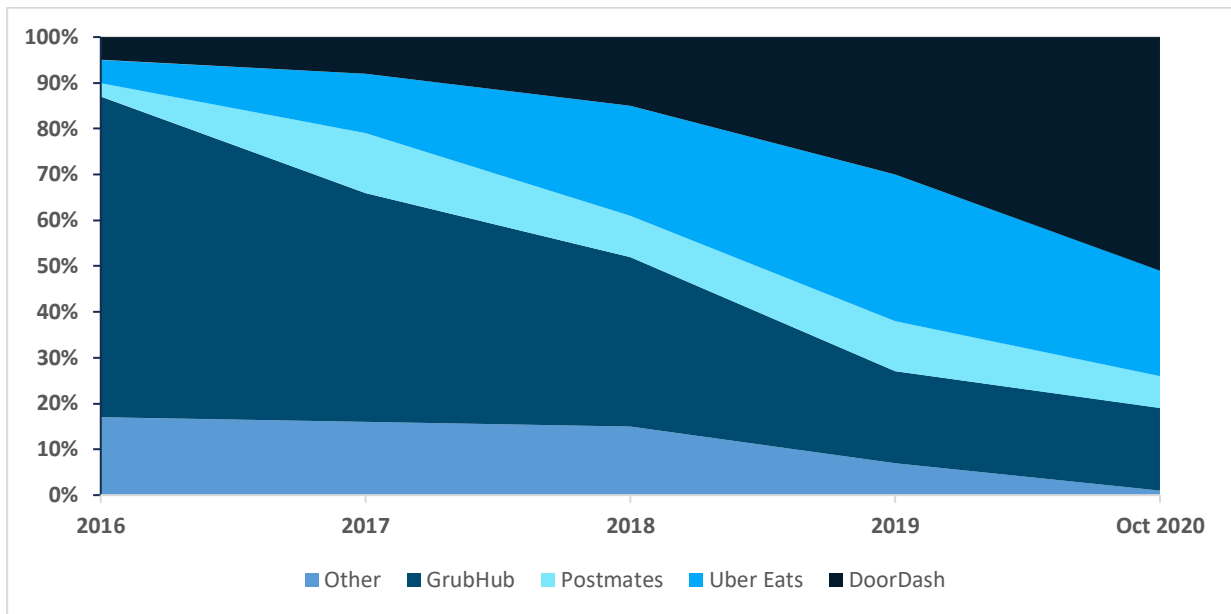
Source: S-1 Prospectus

Exhibit 11 (Funding Rounds & Valuations)

Series	Year	Month	Amount (US-\$)	Valuation (US-\$)	Lead Investor
Pre-Seed	2013	March	120.000	-	Y-Combinator
Seed	2013	October	2.400.000	-	Khosla Ventures
Series A	2014	May	17.300.000	71.550.000	Sequoia Capital
Series B	2015	March	40.000.000	600.000.000	Kleiner Perkins
Series C	2016	March	127.000.000	700.000.000	Sequoia Capital
Series D	2018	March	535.000.000	1.400.000.000	SoftBank Vision Fund
Series E	2018	August	250.000.000	4.000.000.000	Coatue, DST Global
Series F	2019	February	400.000.000	7.100.000.000	Dragoneer Investment Group, Temasek Holdings
Series G	2019	May	600.000.000	12.600.000.000	Darsana Capital Partners
Series G (Extension)	2019	November	100.000.000	15.000.000.000	T. Rowe Price
Series H	2020	June	400.000.000	16.000.000.000	Durable Capital Partners

Source: [Crunchbase](#), S-1 Prospectus, DoorDash Press Releases, own illustration

Exhibit 12 (Market Shares for Meal Delivery in the US)



	2016	2017	2018	2019	Oct 2020
DoorDash	5%	8%	15%	30%	51%
GrubHub	70%	50%	37%	20%	18%
Uber Eats	5%	13%	24%	32%	23%
Postmates*	3%	13%	9%	11%	7%
Other	17%	16%	15%	7%	1%

*Acquired by Uber in December 2020

Source: Second Measure by Bloomberg, own illustration

Exhibit 13 (Headlines Food Delivery Industry)

The New York Times

Uber Buys Postmates for \$2.65 Billion
 The ride-hailing company's core business has struggled in the pandemic, so it is betting on the growth of its Uber Eats division.

Biotech & Health

DoorDash is buying Caviar from Square in a deal worth \$410 million

FORTUNE

osedickey / 10:16 PM GMT+2 • August 1, 2019

Comment

TECH · GRUBHUB

Grubhub to be acquired for \$7.3 billion as food delivery wars heat up

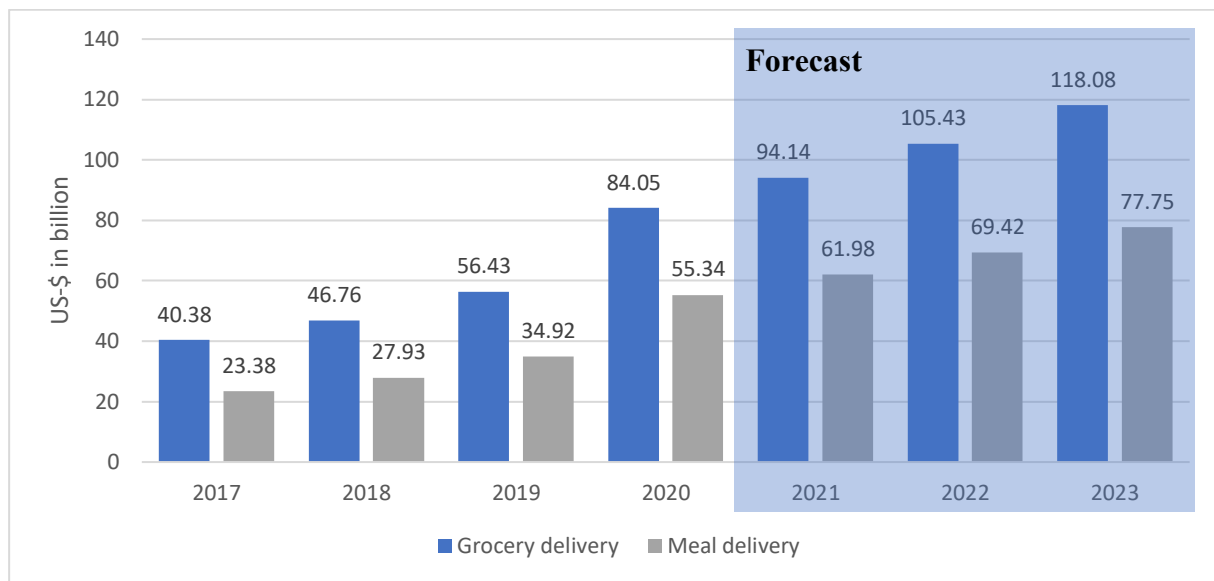
BY LIZETTE CHAPMAN, NATALIA DROZDIAK AND BLOOMBERG

JUNE 11, 2020, 12:06 AM GMT+2

Facebook Twitter LinkedIn Email

Source: [New York Times](#), [Tech Crunch](#), [Fortune](#)

Exhibit 14 (Meal & Grocery Delivery Market in the US)



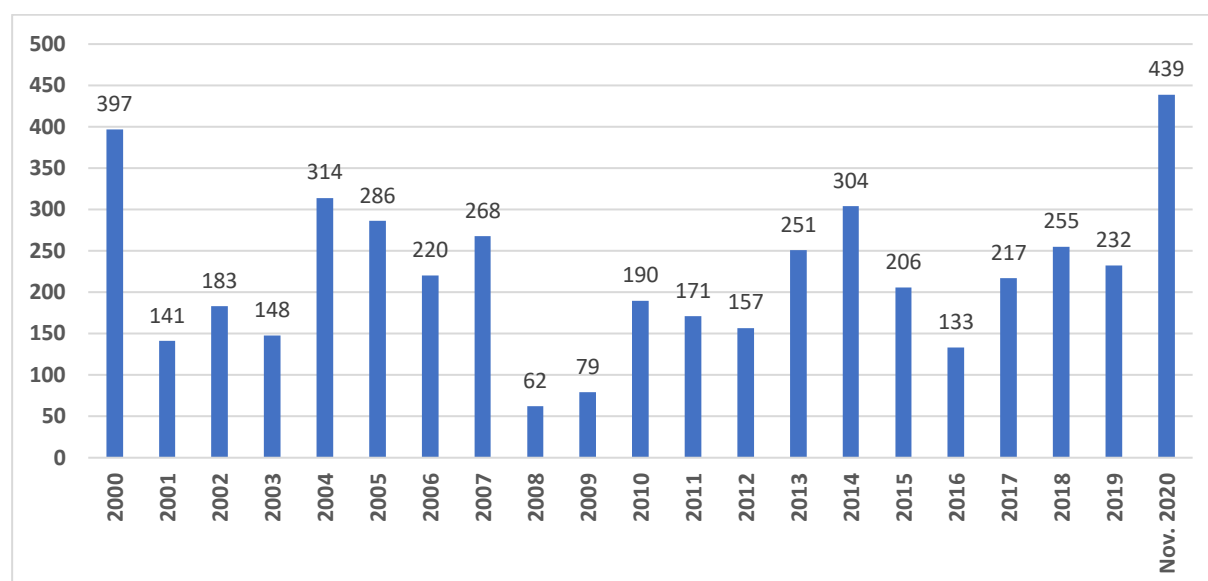
Source: [Statista](#), [Acumen Research](#), own illustration

Exhibit 15 (S&P 500)



Source: [Yahoo Finance](#)

Exhibit 16 (Number of IPOs in the US per Year)



Source: [Stock Analysis](#), own illustration

Exhibit 17 (Cap-Table of DoorDash)

Name	Number of Shares Beneficially Owned		Percentage of Shares Beneficially Owned (%)				Percentage of Total Voting Power After the Offering
			Before the Offering		After the Offering		
	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock	Class A Common Stock	Class B Common Stock	
Executive Officers and Directors:							
Tony Xu ⁽¹⁾	—	14,885,415	—%	41.6%	—%	41.6%	29.7%
Christopher Payne ⁽²⁾	2,692,640	—	1.1	—	*	—	*
Keith Yandell ⁽³⁾	494,785	—	*	—	*	—	*
Shona Brown ⁽⁴⁾	25,980	—	*	—	*	—	*
L. John Doerr ⁽⁵⁾	6,056,525	—	2.4	—	2.1	—	*
Andy Fang ⁽⁶⁾	—	13,511,765	—	39.3	—	39.3	27.7
Jeffrey Housenbold ⁽⁷⁾	—	—	—	—	—	—	—
Jeremy Kranz ⁽⁸⁾	—	—	—	—	—	—	—
Alfred Lin ⁽⁹⁾	—	—	—	—	—	—	—
Stanley Meresman ⁽¹⁰⁾	69,215	—	*	—	*	—	*
Maria Renz	—	—	—	—	—	—	—
Stanley Tang ⁽¹¹⁾	—	13,412,235	—	39.1	—	39.1	27.6
All executive officers and directors as a group (13 persons) ⁽¹²⁾	10,947,195	41,809,415	4.2	100.0	3.8	100.0	75.1
5% Stockholders:							
SVF Fast (Cayman) Limited ⁽¹³⁾	62,973,485	—	24.9	—	22.0	—	6.9
Entities affiliated with Sequoia Capital ⁽¹⁴⁾	51,777,269	—	20.4	—	18.1	—	5.7
Greenview Investment Pte Ltd. ⁽¹⁵⁾	26,597,250	—	10.5	—	9.3	—	2.9

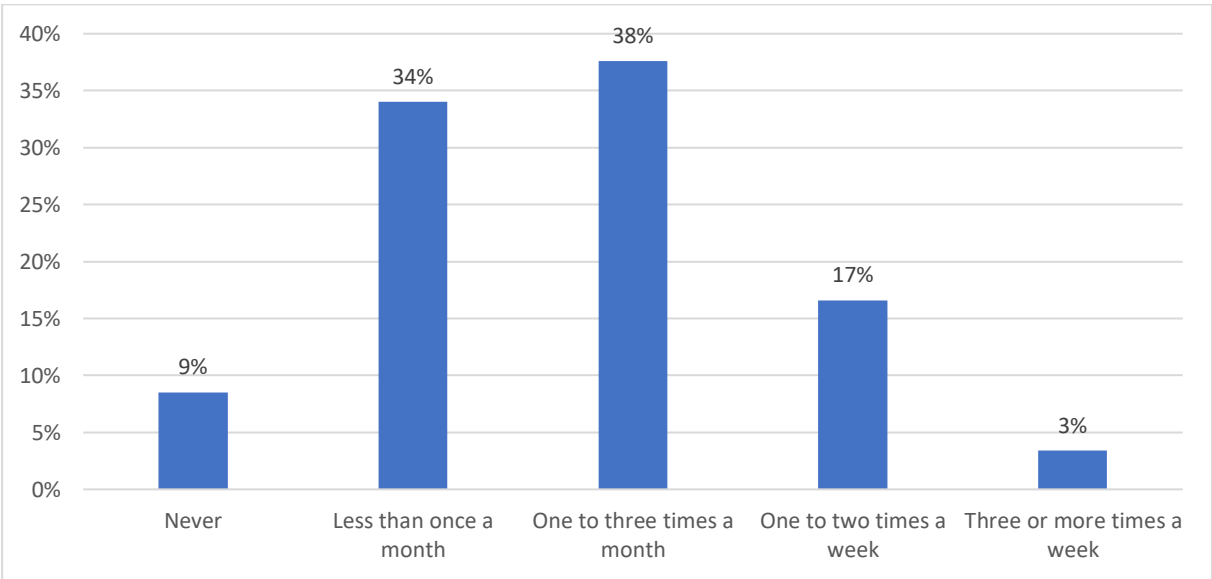
Source: S-1 Propectus

Exhibit 1 TN (Population and Households by Location of Residence; Census 2010)

Location of residence	Number	Percent
Total U.S. resident population age 12 or older	276,900,000	100%
Urban	92,450,000	33
Suburban	146,700,000	53
Rural	37,720,000	14
Number of households	126,400,000	100%
Urban	43,770,000	35
Suburban	65,000,000	51
Rural	17,660,000	14

Source: [U.S. Department of Justice](#)

Exhibit 2 TN (US consumers' frequency of eating takeout or home-delivered meals 2013)



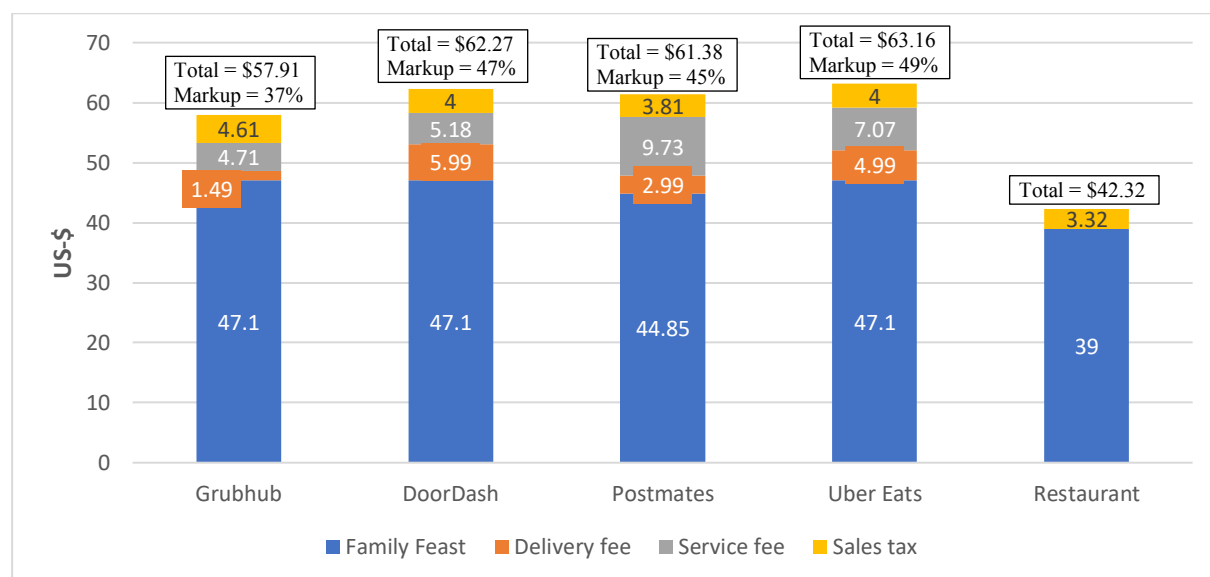
Source: [Statista](#), own illustration

Exhibit 3 TN (Computer and Internet Use for Households in 2013)

Total households (in thousands)	Household with a computer			Household with Internet use	
	Total	Desktop or laptop computer	Handheld computer	With some Internet subscription	With high-speed Internet subscription
116291	83,80%	78,50%	63,60%	74,40%	73,40%

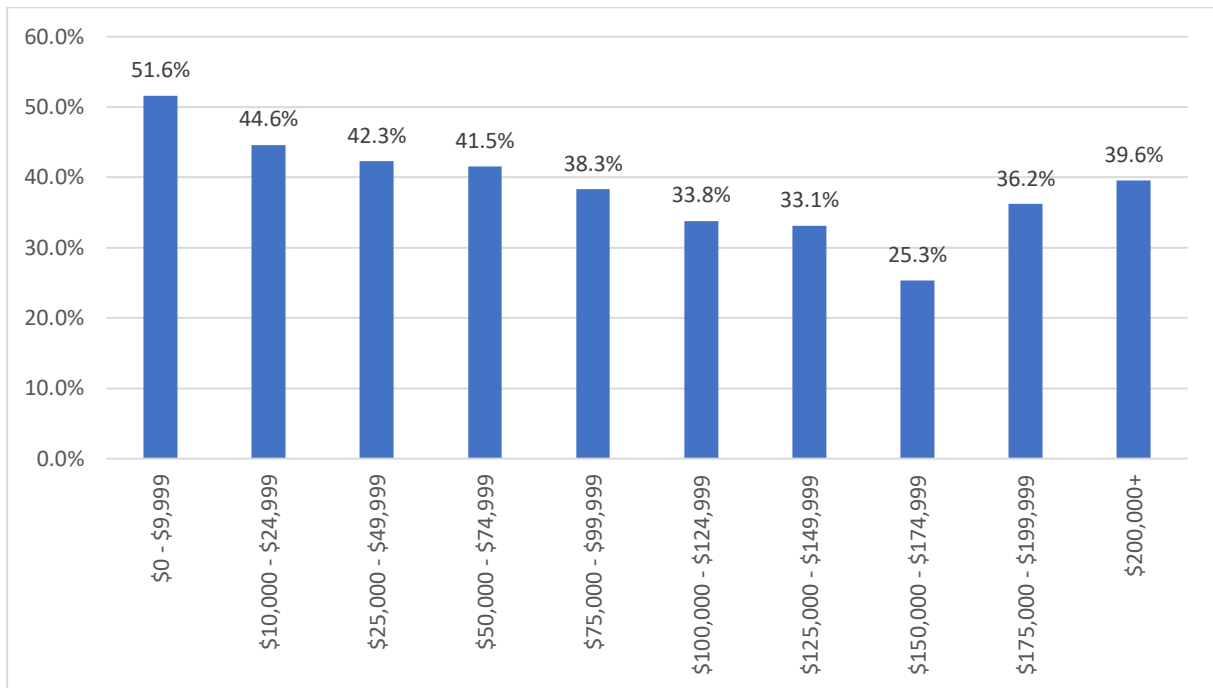
Source: [U.S. Census Bureau](#)

Exhibit 4 TN (Markup Charges by Meal Delivery Companies)



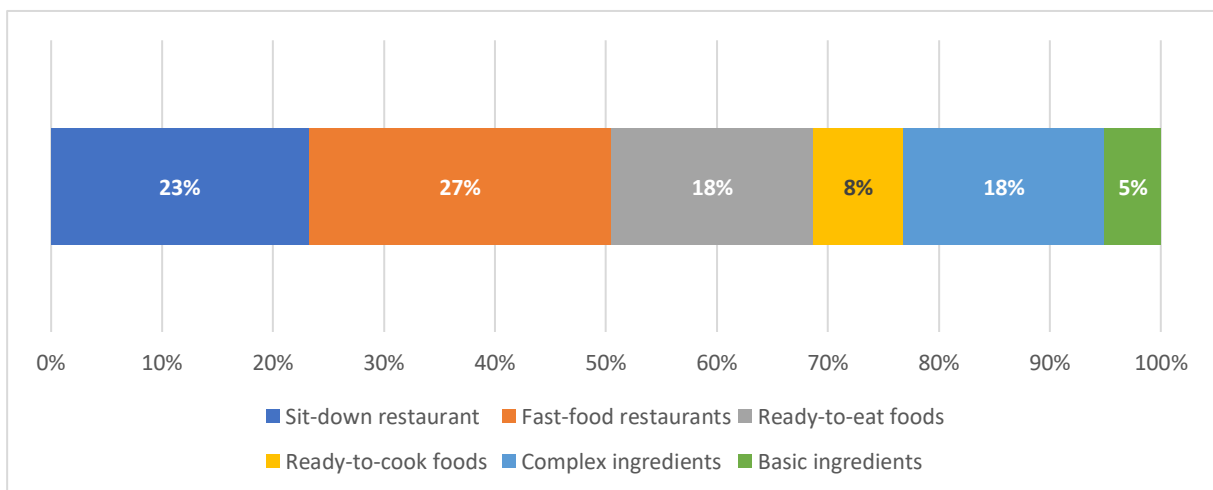
Source: [New York Times](#), own illustration

Exhibit 5 TN (Percent of each Income Level having used a multi-restaurant Delivery Website/App in the past 90 Days)



Source: [Zion and Zion](#), own illustration

Exhibit 6 TN (Household Expenditures by Food Convenience Type in 2010)



Source: [U.S. Department of Agriculture](#), own illustration

Exhibit 7 TN (Multiples)

Company	Date of Data	Valuation	Merchants	Total Orders (9 Months)	Equity/Merchants	Equity/Total Orders
Grubhub (acquired by Just Eat Takeaway)	Valuation: 11.06.2020 Merchants: 30.09.2020 Orders: 30.09.2020	7300000000	245000	183196400	29796	39,85
Postmates (acquired by UberEATS)	Valuation: 06.07.2020 Merchants: 01.12.2020 Orders: 01.12.2020	2650000000	600000	45000000	4417	58,89
Just Eat Takeaway	Valuation: 30.09.2020 Merchants: 12.08.2020 Orders: 30.09.2020	1672000000	207000	408300000	8077	4,1
Average for Multiple					14097	34

Source: [Companiesmarketcap](#), [Grubhub](#), [Grubhub II](#), [Business of Apps](#), [Just Eat Takeaway](#), [Just Eat Takeaway II](#), [Just Eat III](#), [Uber](#), own illustration

Exhibit 8 TN (DoorDash Share Price)



Source: [Yahoo Finance](#)