

Instacart

Off-platform advertising expands to Caper Carts; BSM Observed Sales decelerates

Maintain Rating: NEUTRAL | PO: 31.00 USD | Price: 23.27 USD

Instacart to begin testing advertising on Caper Carts

Instacart announced that its off-platform advertising is expanding to Caper Carts, interactive smart carts enabled with cameras and sensors that can detect items in the basket and perform self-checkout. Caper Carts will display personalized advertising on an interactive screen based on the customer's real-time shopping behaviors and contents in the cart. The new advertising feature will be piloted at Bristol Farms stores in Southern California before rolling out to additional retail partners "in the months ahead", with Bloomberg noting that Instacart already has Caper Carts deployed at Kroger, ShopRite, and Fairway Market. While advertising revenue is primarily generated on-platform, Instacart underwent several initiatives in 2023 to expand its off-platform presence with Roku and the Trade Desk, and aims to ramp up presence of Caper Carts in 2024 to "thousands" of smart cart deployments by year-end. Advertising opportunity remains a core part of the Instacart profitability growth thesis given a strong (50%+) contribution to EBITDA profitability.

Bloomberg Second Measure Sales decelerate 3pts in 4Q

Bloomberg Second Measure (BSM) data indicates Observed Sales on Instacart's platform (99.7% correlation with gross transactional value since 4Q'20) declined 5.7% y/y in 4Q'23, a 3.4pt deceleration vs. 3Q'23 on a 4.5pt easier comp. This compares to Instacart's guide for 5-6% growth, stable with 3Q, and BAC aggregated debit and credit card data through November suggesting slight improvement for the Online grocery industry (see [latest Online spending note and see the BofA on USA note for an explanation of the methodology, disclaimers and limitations with BAC aggregated credit and debit card data](#)). We note that the historical spread between BSM data and Instacart GTV has consistently ranged 8-11pts below reported GTV for the last 7 quarters, and the 4Q estimate from BSM at -5.7% would put the 6% y/y Street growth estimate at the high end of this range.

SNAP EBT comps a key potential GTV factor in 2024

The US government reduced SNAP benefits by 30% in February 2023, and, as the first Online grocery delivery platform to widely accept SNAP EBT, Instacart continues to face the most negative headwinds vs peers. In comparison, DoorDash began accepting benefits in mid-2023 and Uber Eats will start accepting SNAP EBT in 2024. Even Kroger, which reported delivery sales grew a strong 20% y/y for the quarter ended Nov 4, only began accepting SNAP EBT on its delivery platform in October. Per Instacart management, the toughest comps on a y/y basis are expected in Q4'23 and Q1'24, but Instacart's GTV comp set up should improve by 2Q'24.

Maintain Neutral on Instacart

While we see Instacart as positioned to benefit from increasing secular demand for grocery delivery and the stock attractively valued at a relative 50%+ EV/EBITDA valuation discount to US gig economy comps, we continue to see a difficult competitive set up in grocery in '24, and more near-term estimate upside at Buy rated DoorDash (DAH, \$98.46, C-1-9) and Uber (UBER, \$58.81, C-1-9).

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Stock Data

Price	23.27 USD
Price Objective	31.00 USD
Date Established	8-Nov-2023
Investment Opinion	C-2-9
52-Week Range	22.13 USD - 42.95 USD
Mrkt Val (mn) / Shares Out (mn)	6,433 USD / 276.5
Free Float	7.2%
Average Daily Value (mn)	36.30 USD
BofA Ticker / Exchange	CART / NAS
Bloomberg / Reuters	CART US / CART.OQ
ROE (2023E)	-83.5%
Net Dbt to Eqty (Dec-2022A)	-54.6%

GTV: Gross Transactional Value

SNAP: Supplemental Nutritional Assistance Program

EBT: Electronic Benefit Transfer

BSM: Bloomberg Second Measure

Price objective basis & risk

DoorDash (DASH)

Our PO of \$103 is based on our Core US Restaurant analysis, which estimates \$2.6bn in Core US Restaurant EBITDA in 2024E. We apply an EBITDA multiple of 16x, given DASH's higher restaurant growth and profit profile vs. Peers, which gives us an enterprise value of \$41bn. Adding 0.3x New Verticals GOV (at \$16bn for 2024E) and \$2bn in cash gets us to \$46bn Market Cap, and divided by 450mn shares gets us to our PO of \$103.

Risks are 1) slowing industry growth in 2021, which puts premium valuations at risk, 2) DASH potentially facing tougher comps than competitors, 3) entrenched incumbents in adjacent categories (including Amazon), 4) regulatory battle, which is not over yet, despite Proposition 22.

Instacart (CART)

Our PO of \$31 is based on a 50/50 weighting of 3.5x EV/Gross Profit and 11x EV/EBITDA, multiples which are at a discount to the eCommerce and Gig Economy peer group given lower relative growth expectations. Our PO is based on a fully diluted share count of 337mn and is supported by our DCF analysis.

Downside risks are 1) potential that reopening impact on cohorts (returning to in-store shopping) continues for longer than expected, 2) loss of any grocery partners, 3) grocery share gains by Walmart and Amazon impact Instacart's growth/market share, 4) new regulations and changes in driver employment legislation.

Uber (UBER)

Our SOTP applies an EV/2025E Revenue valuation of 3.0x for Mobility, 3.0x revenue for Delivery (implies 0.6x bookings), and 1.0x revenue for Freight, which are slight premiums to peers given potential network effects. Our SOTP valuation implies segment values of \$88bn for Mobility, \$48bn for Delivery, and \$6.1bn for Freight, which implies a Total Enterprise Value for Uber of \$141bn. Based on Net Debt of \$1.1bn and a realizable value of investments of \$3.9bn we estimate a target market cap of \$144bn. Our Price Objective of \$68 is based on 2.1bn shares outstanding.

Downside risks are 1) multiple compression given macro economic exposure, 2) slowing user/revenue growth due to competitive initiatives from Lyft or DoorDash, 3) new competition from self-driving technology companies, and 4) new regulations, fees, and/or minimum wages.

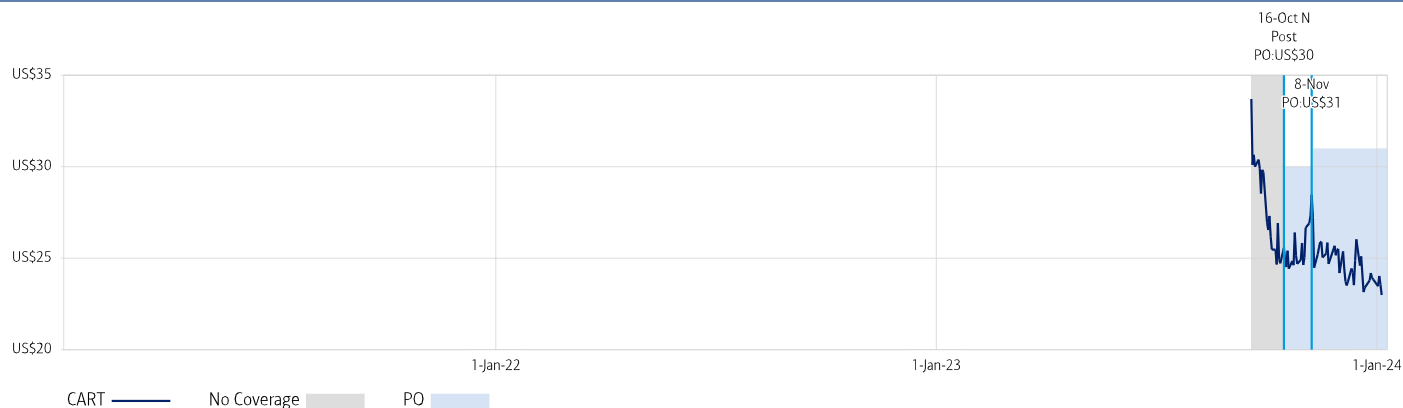
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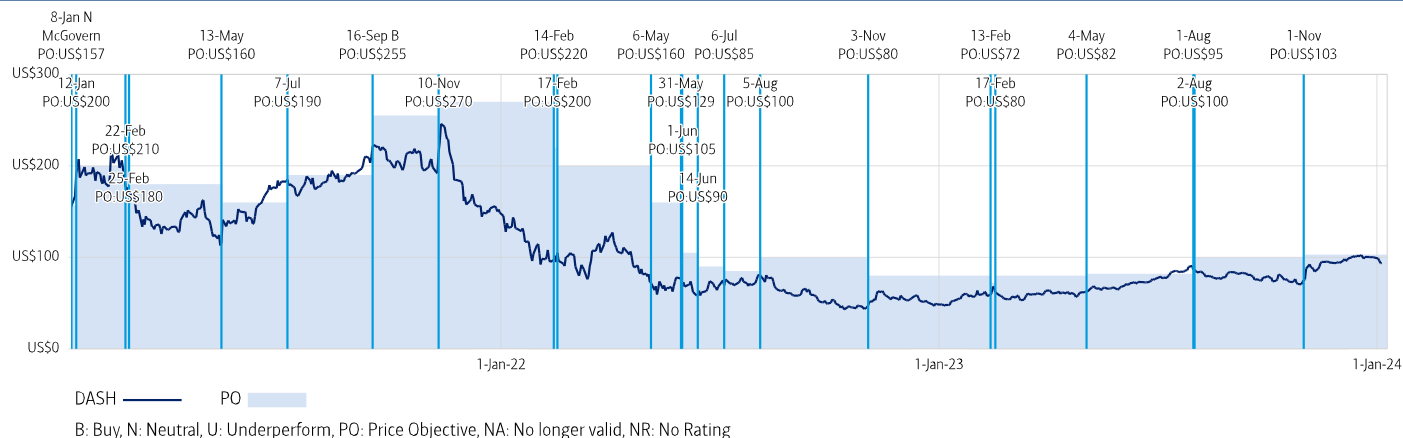
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Instacart (CART) Price Chart



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DoorDash (DASH) Price Chart



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Uber Technologies (UBER) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
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Sell	807	22.84%	Sell	383	47.46%

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