

## Instacart

# 3Q preview: Industry data constructive for 3Q into results, Oct mixed

Maintain Rating: NEUTRAL | PO: 30.00 USD | Price: 26.91 USD

## 3Q preview, what to look for on first public earnings call

Instacart will report its first quarter as a public company on 11/8. We think the quarter could be highlighted by stable to accelerating GTV growth, improving q/q take rates, and y/y margin leverage. We expect mgmt. to highlight strength in grocery relationships, any improvements in cohort trends given less reopening pressure, and recent announcements on expanding Enterprise partnerships & and programmatic advertising initiatives. We expect questions on growth vs gig competitors in grocery (Dash and Uber Eats), grocer loyalty program initiatives, cohort trends, and take rate drivers looking forward, including advertising growth rate expectations.

## Expect meet/beat 3Q, 4Q data mixed/stable vs Sept.

For 3Q, we project GTV/rev/EBITDA of \$7.44bn/\$736mn/\$124mn vs. Street at \$7.42bn/\$738mn/\$120mn. We project 5% y/y GTV growth (1pt decel vs. 2Q) which is in-line with Street, and 12% ad growth, which has upside potential. Recent results from Dash could be positive readthrough for Instacart, with US order growth accelerating to on improving cohort trends, and lower-than-expected Dasher acquisition cost in Q3 helped drive leverage. Online grocery spend per BAC aggregated credit and debit card data & observed sales on Instacart by Bloomberg Second Measure ("BSM") both indicate trends accelerated 2pts in 3Q vs. Street projecting a 1pt decel in CART GTV. Based on these trends, Dash's results, and that Q3 is Instacart's first public quarter, the Street is likely looking for some upside in Q3, possibly around 7% GTV growth, which we think is achievable. BSM data indicates MTD trends in October softened 2pts vs. September, as BAC card data suggests that consumer spending pulled back slightly in October, so we expect a 4Q growth outlook in line to slightly below 3Q growth rates. See details within this report for recent app user/usage trends.

## Maintain Neutral on uncertain competitive environment

While there is potential for modest 3Q acceleration given industry and card spending data points, we still expect less multiple expansion vs peers given Instacart's relative growth rates. While focused on smaller baskets, Dash and Uber will likely grow US grocery sales at over 50% in 2023 and 2024 (Dash indicated 100% y/y on 3Q call), and grocers like Kroger and Walmart are reporting higher y/y direct digital sales as they convert store customers Online. Our \$30 PO represents 11.4x 2024 EV/EBITDA, see our recent initiation ([note](#)) for views on Instacart's growth drivers and valuation vs peers.

| Estimates (Dec) (US\$)    | 2021A  | 2022A  | 2023E   | 2024E  | 2025E  |
|---------------------------|--------|--------|---------|--------|--------|
| EPS                       | (1.72) | (0.24) | (19.79) | 0.17   | 0.64   |
| EPS Change (YoY)          | 14.4%  | 86.0%  | NM      | NM     | 276.5% |
| Consensus EPS (Bloomberg) |        |        | (5.63)  | 1.03   | 1.38   |
| DPS                       | 0      | 0      | 0       | 0      | 0      |
| Valuation (Dec)           |        |        |         |        |        |
| P/E                       | NM     | NM     | NM      | 158.3x | 42.0x  |
| GAAP P/E                  | NM     | NM     | NM      | 158.3x | 42.0x  |
| EV / EBITDA*              | 160.6x | 29.2x  | 10.0x   | 7.7x   | 6.4x   |
| Free Cash Flow Yield*     | -2.9%  | 3.4%   | 6.2%    | 8.8%   | 10.2%  |

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 11.

06 November 2023

### Equity

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### Stock Data

|                                |                       |
|--------------------------------|-----------------------|
| Price                          | 26.91 USD             |
| Price Objective                | 30.00 USD             |
| Date Established               | 16-Oct-2023           |
| Investment Opinion             | C-2-9                 |
| 52-Week Range                  | 23.36 USD - 42.95 USD |
| Mkt Val (mn) / Shares Out (mn) | 7,440 USD / 276.5     |
| Average Daily Value (mn)       | 53.42 USD             |
| BofA Ticker / Exchange         | CART / NAS            |
| Bloomberg / Reuters            | CART US / CART.OQ     |
| ROE (2023E)                    | -86.3%                |
| Net Dbt to Eqty (Dec-2022A)    | -54.6%                |

GTV: Gross Transaction Volume

MAU: Monthly Active User

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Timestamp: 06 November 2023 04:00AM EST

# iQprofile<sup>SM</sup> Instacart

## iQmethod<sup>SM</sup> – Bus Performance\*

| (US\$ Millions)            | 2021A | 2022A | 2023E  | 2024E | 2025E |
|----------------------------|-------|-------|--------|-------|-------|
| Return on Capital Employed | -3.7% | 2.7%  | -55.2% | 1.9%  | 5.1%  |
| Return on Equity           | -5.9% | -0.8% | -86.3% | 1.6%  | 5.2%  |
| Operating Margin           | -4.7% | 2.4%  | -77.7% | 3.1%  | 8.1%  |
| Free Cash Flow             | (217) | 253   | 458    | 653   | 757   |

## iQmethod<sup>SM</sup> – Quality of Earnings\*

| (US\$ Millions)          | 2021A  | 2022A  | 2023E  | 2024E  | 2025E  |
|--------------------------|--------|--------|--------|--------|--------|
| Cash Realization Ratio   | NM     | NM     | NM     | 12.6x  | 3.6x   |
| Asset Replacement Ratio  | 0.8x   | 0.7x   | 1.1x   | 0.8x   | 0.7x   |
| Tax Rate                 | NM     | NM     | 24.1%  | 54.1%  | 27.5%  |
| Net Debt-to-Equity Ratio | -51.0% | -54.6% | -63.2% | -68.8% | -72.6% |
| Interest Cover           | NA     | NA     | NA     | NA     | NA     |

## Income Statement Data (Dec)

| (US\$ Millions)              | 2021A        | 2022A        | 2023E          | 2024E     | 2025E         |
|------------------------------|--------------|--------------|----------------|-----------|---------------|
| Sales                        | 1,834        | 2,551        | 3,004          | 3,250     | 3,490         |
| % Change                     | 24.2%        | 39.1%        | 17.8%          | 8.2%      | 7.4%          |
| Gross Profit                 | 1,226        | 1,831        | 2,234          | 2,417     | 2,603         |
| % Change                     | 39.5%        | 49.3%        | 22.0%          | 8.2%      | 7.7%          |
| EBITDA                       | 34           | 187          | 545            | 713       | 857           |
| % Change                     | -74.6%       | 450.0%       | 191.3%         | 30.8%     | 20.2%         |
| Net Interest & Other Income  | 14           | 9            | 62             | 43        | 31            |
| <b>Net Income (Adjusted)</b> | <b>(113)</b> | <b>(19)</b>  | <b>(2,606)</b> | <b>57</b> | <b>229</b>    |
| <b>% Change</b>              | <b>2.7%</b>  | <b>83.4%</b> | <b>NM</b>      | <b>NM</b> | <b>304.8%</b> |

## Free Cash Flow Data (Dec)

| (US\$ Millions)                        | 2021A          | 2022A      | 2023E        | 2024E        | 2025E        |
|--|----------------|------------|--------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | (73)           | 428        | (1,724)      | 66           | 229          |
| Depreciation & Amortization            | 16             | 34         | 50           | 73           | 91           |
| Change in Working Capital              | (192)          | 124        | (66)         | (23)         | (71)         |
| Deferred Taxation Charge               | 0              | (373)      | (595)        | 84           | 103          |
| Other Adjustments, Net                 | 45             | 64         | 2,848        | 514          | 470          |
| Capital Expenditure                    | (13)           | (24)       | (55)         | (61)         | (63)         |
| <b>Free Cash Flow</b>                  | <b>-217</b>    | <b>253</b> | <b>458</b>   | <b>653</b>   | <b>757</b>   |
| <b>% Change</b>                        | <b>-121.4%</b> | <b>NM</b>  | <b>80.9%</b> | <b>42.7%</b> | <b>16.0%</b> |

## Balance Sheet Data (Dec)

| (US\$ Millions)                       | 2021A        | 2022A        | 2023E        | 2024E        | 2025E        |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents                    | 1,146        | 1,505        | 2,076        | 2,729        | 3,486        |
| Trade Receivables                     | 832          | 842          | 839          | 882          | 956          |
| Other Current Assets                  | 417          | 393          | 290          | 292          | 294          |
| Property, Plant & Equipment           | 28           | 38           | 92           | 113          | 136          |
| Other Non-Current Assets              | 538          | 891          | 832          | 832          | 832          |
| <b>Total Assets</b>                   | <b>2,961</b> | <b>3,669</b> | <b>4,129</b> | <b>4,847</b> | <b>5,705</b> |
| Short-Term Debt                       | 0            | 0            | 0            | 0            | 0            |
| Other Current Liabilities             | 592          | 795          | 750          | 783          | 802          |
| Long-Term Debt                        | 0            | 0            | 0            | 0            | 0            |
| Other Non-Current Liabilities         | 120          | 116          | 95           | 99           | 102          |
| <b>Total Liabilities</b>              | <b>712</b>   | <b>911</b>   | <b>845</b>   | <b>882</b>   | <b>904</b>   |
| <b>Total Equity</b>                   | <b>2,249</b> | <b>2,758</b> | <b>3,284</b> | <b>3,965</b> | <b>4,800</b> |
| <b>Total Equity &amp; Liabilities</b> | <b>2,961</b> | <b>3,669</b> | <b>4,129</b> | <b>4,847</b> | <b>5,705</b> |

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 11.

## Company Sector

Internet/e-Commerce

## Company Description

Instacart is the largest Online marketplace for grocery delivery and pick-up in the United States, with more than 7.5mn monthly active customers and 1,400+ retail banners that represent about 85% of the US grocery market. Instacart also offers adjacent services for retail customers through Instacart Enterprise Platform, an end-to-end tech technology solution that powers first-party Online storefronts, and Instacart Ads.

## Investment Rationale

Investment Rationale

Instacart is a leading grocery platform TAM with a strong established ecosystem of grocers, shoppers and subscribers, with competitive barriers. Online grocery penetration is expected to expand to close to 30% given the time savings and convenience of buying online, enabling significant growth for leading grocery platforms. However, COVID unwind will likely weigh on growth rates and we look for catalysts to accelerate GTV growth toward sector levels to be more constructive.

## Stock Data

Average Daily Volume 1,985,090

## Quarterly Earnings Estimates

|    | 2022   | 2023    |
|----|--------|---------|
| Q1 | -1.15A | 0A      |
| Q2 | 0A     | 0A      |
| Q3 | 0A     | -19.59E |
| Q4 | 0.91A  | -0.20E  |

## 3Q preview

Instacart will report its first quarter as a public company on 11/8. We think the quarter will be highlighted by stable to accelerating GTV growth, improving q/q take rates, and y/y margin leverage. We expect management will highlight strength in grocery relationships, any improvements in cohort trends given less reopening pressure, and recent announcements on expanding Enterprise partnerships and improvements to programmatic advertising. We expect questions on growth vs gig competitors in grocery (Dash and Uber Eats), grocer loyalty program initiatives, cohort trends, and take rate drivers looking forward, including advertising growth outlook. See our recent initiation ([note here](#)) for more on our views on Instacart.

Recent industry and spending data suggests results can meet/beat Street expectations. Online grocery spend per BAC aggregated credit and debit card data and Bloomberg Second Measure observed sales on Instacart both indicate y/y trends accelerated 2pts in 3Q vs. Street projecting a 1pt decel in Instacart GTV. For October, BSM observed sales in October (through 10/29) indicate a decel to trends, consistent with BAC aggregated card data trends softening in October ([see most recent BofA on USA for daily trends](#)) while Sensor Tower data indicate app trends were mixed in October.

DASH reported 3Q earnings on 11/1, with Rev/EBITDA of \$2.16bn/\$344mn above the Street at \$2.10bn/\$255mn. Overall, it was a very strong quarter with beat & raise across the board with US restaurant orders accelerating despite fears of consumer spending pressure. Read on Instacart from Dash results includes 1) better than projected order growth that could signal pandemic unwind is moderating, and 2) Sales & Marketing was down significantly q/q due to lower Dasher incentives, which could also read through to Shopper acquisition costs this quarter (we project 20bps q/q deleverage for Instacart's non-GAAP S&M). Based on grocery spending data we outline below, Dash's results, and that this is Instacart's first public quarter, investors are likely looking for some upside in 3Q, possibly around 7% GTV growth, which we think is achievable.

For 3Q we estimate GTV/rev/EBITDA of \$7.44bn/\$736mn/\$124mn vs. Street at \$7.42bn/\$738mn/\$120mn. We expect transaction take rate to expand 30bps q/q to 7.1% and generate \$528mn in transaction revenue, an improvement vs 2Q q/q take rate compression due to 1x payments to retailers, higher promotional spend, and driver acquisition costs. We project ad revenue to grow 12% y/y to \$208mn (2.8% ad investment rate), which, assuming a 40% EBITDA margin on ad revenue, would make up an outsized 67% (\$83mn) of our projected \$124mn in overall EBITDA.

**Positives** for the quarter could include: 1) advertising revenue upside into seasonally strong Q4; 2) GTV acceleration and cohort data suggesting post-pandemic headwinds on cohort trends are moderating; and 3) S&M leverage on less-than-expect Shopper acquisition costs.

**Negatives** for the quarter could include: 1) signs of competitive pressure from other delivery companies and grocer customer loyalty initiatives; 2) continued pressure on pandemic cohorts from shift back to in store shopping; 3) pressure on basket sizes from weakness in discretionary spend; and 4) expectations for a beat as first quarter of results post IPO.

We think GTV growth will likely be a driver of investor sentiment, as investors see volumes and growth as a measure of Instacart's long-term positioning with partners. There is potential for acceleration in 2024 on easier comps as reopening pressure on COVID cohorts dissipates, but October data from BSM and BAC credit and debit card data suggest stable to slight deceleration vs 3Q. We expect growth in 3Q and 4Q to remain around mid-single digits (5-7% y/y)



**Exhibit 1: BofA vs. Street**

For Q3'23E, we project GTV/rev/EBITDA of \$7.44bn/\$736mn/\$124mn vs. Street at \$7.42bn/\$738mn/\$120mn.

|   | Q3'23E          |                 |              | FY23E           |                 |               | FY24E           |                 |               |
|---|-----------------|-----------------|--------------|-----------------|-----------------|---------------|-----------------|-----------------|---------------|
|   | BofA            | Street          | Variance     | BofA            | Street          | Variance      | BofA            | Street          | Variance      |
| <b>Drivers</b>                            |                 |                 |              |                 |                 |               |                 |                 |               |
| Orders                                    | 66.0            | 65.7            | 0.3          | 268.1           | 267.6           | 0.5           | 283.1           | 282.2           | 0.9           |
| Y/Y                                       | 3.0%            | 2.5%            | 0.5          | 2.1%            | 1.9%            | 0.2           | 5.6%            | 5.5%            | 0.1           |
| AOV                                       | \$112.7         | \$112.9         | -\$0.2       | \$112.4         | \$112.4         | \$0.1         | \$112.0         | \$111.7         | \$0.3         |
| Y/Y                                       | 2.0%            | 2.2%            | (0.2)        | 2.4%            | 2.4%            | 0.1           | -0.4%           | -0.6%           | 0.2           |
| <b>GTV</b>                                | <b>\$7,438</b>  | <b>\$7,418</b>  | <b>\$20</b>  | <b>\$30,145</b> | <b>\$30,066</b> | <b>\$79</b>   | <b>\$31,698</b> | <b>\$31,511</b> | <b>\$187</b>  |
| Y/Y                                       | 5.1%            | 4.8%            | 0.3          | 4.6%            | 4.3%            | 0.3           | 5.2%            | 4.8%            | 0.3           |
| Transaction Revenue                       | 528             | 528             | 0            | 2,149           | 2,152           | (3)           | 2,298           | 2,295           | 3             |
| Take Rate                                 | 7.1%            | 7.1%            | (0.0)        | 7.1%            | 7.2%            | (0.0)         | 7.3%            | 7.3%            | (0.0)         |
| Y/Y                                       | 9.6%            | 9.5%            | 0.1          | 18.7%           | 18.8%           | (0.2)         | 7.0%            | 6.6%            | 0.3           |
| Advertising and Other Revenue             | 208             | 208             | 0            | 855             | 858             | (3)           | 952             | 957             | (5)           |
| Ad Investment Rate                        | 2.8%            | 2.8%            | (0.0)        | 2.8%            | 2.9%            | (0.0)         | 3.0%            | 3.0%            | (0.0)         |
| Y/Y                                       | 12.0%           | 11.8%           | 0.2          | 15.6%           | 16.0%           | (0.5)         | 11.3%           | 11.4%           | (0.2)         |
| <b>Total Revenue</b>                      | <b>\$736</b>    | <b>\$738</b>    | <b>-\$2</b>  | <b>\$3,004</b>  | <b>\$3,022</b>  | <b>-\$18</b>  | <b>\$3,250</b>  | <b>\$3,293</b>  | <b>-\$43</b>  |
| Y/Y                                       | 10.2%           | 10.5%           | (0.2)        | 17.8%           | 18.5%           | (0.7)         | 8.2%            | 9.0%            | (0.8)         |
| <b>Non-GAAP</b>                           |                 |                 |              |                 |                 |               |                 |                 |               |
| Adj. Cost of Revenue                      | 179             | 190             | (11)         | 724             | 754             | (30)          | 777             | 828             | (51)          |
| Adj. Gross Profit                         | 557             | 548             | 9            | 2,280           | 2,268           | 12            | 2,472           | 2,465           | 8             |
| % margin                                  | 76%             | 74%             | 1            | 76%             | 75%             | 1             | 76%             | 75%             | 1             |
| Adj. Operations & Support                 | 58              | 58              | (0)          | 252             | 254             | (2)           | 259             | 259             | 1             |
| Adj. Research & Development               | 128             | 128             | 0            | 511             | 511             | (1)           | 489             | 499             | (10)          |
| Adj. Sales & Marketing                    | 174             | 174             | 1            | 680             | 676             | 3             | 696             | 693             | 3             |
| Adj. General & Administrative             | 72              | 77              | (5)          | 293             | 293             | (1)           | 315             | 314             | 0             |
| Total Adj. Operating Expenses             | 433             | 437             | (4)          | 1,735           | 1,735           | 0             | 1,760           | 1,765           | (5)           |
| <b>Adj. Income (Loss) from Operations</b> | <b>\$124</b>    | <b>\$111</b>    | <b>\$13</b>  | <b>\$545</b>    | <b>\$533</b>    | <b>\$12</b>   | <b>\$713</b>    | <b>\$700</b>    | <b>\$13</b>   |
| % margin                                  | 16.9%           | 15.1%           | 1.8          | 18.1%           | 17.6%           | 0.5           | 21.9%           | 21.2%           | 0.7           |
| <b>Adjustments</b>                        |                 |                 |              |                 |                 |               |                 |                 |               |
| D&A                                       | 13              | 12              | 0            | 50              | 49              | 2             | 73              | 65              | 8             |
| SBC                                       | 2,650           | 2,659           | (9)          | 2,831           | 2,810           | 21            | 498             | 401             | 96            |
| Other non-GAAP adjustments                | 4               | 6               | (2)          | (2)             | 8               | (10)          | 41              | 55              | (14)          |
| Other income (expenses), net              | (632)           | (747)           | 115          | (610)           | (719)           | 108           | 35              | 3               | 31            |
| <b>GAAP Net Income</b>                    | <b>-\$1,910</b> | <b>-\$1,819</b> | <b>-\$91</b> | <b>-\$1,724</b> | <b>-\$1,616</b> | <b>-\$109</b> | <b>\$66</b>     | <b>\$175</b>    | <b>-\$109</b> |
| % margin                                  | -259%           | -246%           | (13)         | -57%            | -53%            | (4)           | 2%              | 5%              | (3)           |
| <b>Adj. EBITDA</b>                        | <b>\$124</b>    | <b>\$120</b>    | <b>\$5</b>   | <b>\$545</b>    | <b>\$553</b>    | <b>-\$8</b>   | <b>\$713</b>    | <b>\$709</b>    | <b>\$3</b>    |
| % margin                                  | 16.9%           | 16.2%           | 0.7          | 18.1%           | 18.3%           | (0.2)         | 21.9%           | 21.5%           | 0.4           |

Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

At 10x 2024 EV/EBITDA, Instacart's valuation tails our comp average at 16x. However, Gig economy peers like DoorDash, Uber & Meituan are growing sales roughly 2x the rate of Instacart.

## Exhibit 2: Comp table

Instacart trades at 10x 2024 EV/EBITDA vs. comps at 16x

| Company (\$bn)        | Price<br>11/03/23 | EBITDA<br>Margin<br>2024 | EBITDA<br>Margin<br>2025 | Sales<br>Growth<br>2024 | Sales<br>Growth<br>2025 | Gross<br>Margin<br>2024 | Gross<br>Margin<br>2025 | EV/Revenue<br>2024 2025 |      | EV/GP<br>2024 2025 |       | EV/EBITDA<br>2024 2025 |       | P/E<br>2024 2025 |     | MtkCap<br>(\$mn) | EV<br>(\$mn) |
|-----------------------|-------------------|--------------------------|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|------|--------------------|-------|------------------------|-------|------------------|-----|------------------|--------------|
| Gig-economy           |                   |                          |                          |                         |                         |                         |                         |                         |      |                    |       |                        |       |                  |     |                  |              |
| Uber                  | \$48.03           | 13%                      | 15%                      | 17%                     | 16%                     | 41%                     | 42%                     | 2.4x                    | 2.1x | 5.8x               | 4.9x  | 18.6x                  | 13.4x | 31x              | 20x | \$98,140         | \$105,367    |
| DoorDash              | \$91.98           | 15%                      | 18%                      | 17%                     | 16%                     | 49%                     | 50%                     | 3.3x                    | 2.9x | 6.8x               | 5.7x  | 21.5x                  | 16.0x | 196x             | 66x | \$36,627         | \$33,220     |
| Upwork                | \$11.40           | 13%                      | 16%                      | 13%                     | 13%                     | 76%                     | 77%                     | 1.9x                    | 1.7x | 2.5x               | 2.2x  | 14.8x                  | 10.8x | 16x              | 12x | \$1,537          | \$1,432      |
| Meituan               | \$111.00          | 12%                      | 15%                      | 21%                     | 19%                     | 36%                     | 37%                     | 1.9x                    | 1.6x | 5.4x               | 4.3x  | 15.7x                  | 10.6x | 21x              | 14x | \$95,468         | \$87,649     |
| Median                |                   | 13%                      | 16%                      | 17%                     | 16%                     | 49%                     | 50%                     | 2.4x                    | 2.1x | 5.8x               | 4.9x  | 18.6x                  | 13.4x | 31x              | 20x |                  |              |
| Average               |                   | 14%                      | 16%                      | 16%                     | 15%                     | 55%                     | 56%                     | 2.5x                    | 2.2x | 5.0x               | 4.3x  | 18.3x                  | 13.4x | 81x              | 32x |                  |              |
| eCommerce             |                   |                          |                          |                         |                         |                         |                         |                         |      |                    |       |                        |       |                  |     |                  |              |
| Amazon                | \$138.83          | 19%                      | 19%                      | 12%                     | 12%                     | 47%                     | 48%                     | 2.4x                    | 2.1x | 5.0x               | 4.4x  | 12.8x                  | 10.9x | 30x              | 23x | \$1,434,673      | \$1,519,619  |
| eBay                  | \$40.56           | 31%                      | 31%                      | 4%                      | 4%                      | 72%                     | 72%                     | 2.4x                    | 2.3x | 3.3x               | 3.2x  | 7.6x                   | 7.3x  | 10x              | 9x  | \$21,584         | \$25,138     |
| Etsy                  | \$65.20           | 27%                      | 28%                      | 7%                      | 10%                     | 71%                     | 71%                     | 3.1x                    | 2.8x | 4.4x               | 4.0x  | 11.4x                  | 10.2x | 17x              | 15x | \$7,807          | \$9,068      |
| Wayfair               | \$50.05           | 4%                       | 5%                       | 4%                      | 8%                      | 31%                     | 31%                     | 0.7x                    | 0.6x | 2.3x               | 2.1x  | 19.1x                  | 13.5x | NM               | NM  | \$5,903          | \$8,780      |
| Chewy                 | \$21.13           | 4%                       | 4%                       | 9%                      | 10%                     | 29%                     | 29%                     | 0.7x                    | 0.7x | 2.5x               | 2.3x  | 20.4x                  | 15.4x | 38x              | 26x | \$9,108          | \$8,930      |
| Median                |                   | 19%                      | 19%                      | 7%                      | 10%                     | 47%                     | 48%                     | 2.4x                    | 2.1x | 3.3x               | 3.2x  | 12.8x                  | 10.9x | 24x              | 19x |                  |              |
| Average               |                   | 17%                      | 18%                      | 7%                      | 9%                      | 50%                     | 50%                     | 1.9x                    | 1.7x | 3.5x               | 3.2x  | 14.3x                  | 11.4x | 24x              | 18x |                  |              |
| Comp Median           |                   | 13%                      | 16%                      | 12%                     | 12%                     | 47%                     | 48%                     | 2.4x                    | 2.1x | 4.4x               | 4.0x  | 15.7x                  | 10.9x | 26x              | 17x |                  |              |
| Comp Average          |                   | 15%                      | 17%                      | 12%                     | 12%                     | 50%                     | 51%                     | 2.1x                    | 1.9x | 4.2x               | 3.7x  | 15.8x                  | 12.0x | 45x              | 23x |                  |              |
| Instacart             | \$27.63           | 22%                      | 24%                      | 9%                      | 9%                      | 76%                     | 77%                     | 2.2x                    | 2.0x | 2.9x               | 2.6x  | 10.1x                  | 8.3x  | 24x              | 16x | \$9,321          | \$7,194      |
| Instacart (BofAe, PO) | \$30.00           | 22%                      | 25%                      | 8%                      | 7%                      | 74%                     | 75%                     | 2.5x                    | 2.3x | 3.4x               | 3.1x  | 11.4x                  | 9.5x  | 156x             | 45x | \$10,276         | \$8,149      |
| Grocery               |                   |                          |                          |                         |                         |                         |                         |                         |      |                    |       |                        |       |                  |     |                  |              |
| Median                |                   | 6%                       | 6%                       | 2%                      | 4%                      | 23%                     | 23%                     | 0.7x                    | 0.7x | 2.8x               | 2.6x  | 10.1x                  | 9.4x  | 18x              | 16x |                  |              |
| Average               |                   | 6%                       | 6%                       | 2%                      | 4%                      | 21%                     | 21%                     | 0.7x                    | 0.6x | 3.9x               | 3.7x  | 12.1x                  | 11.3x | 21x              | 19x |                  |              |
| SaaS                  |                   |                          |                          |                         |                         |                         |                         |                         |      |                    |       |                        |       |                  |     |                  |              |
| Median                |                   | 33%                      | 35%                      | 17%                     | 18%                     | 79%                     | 79%                     | 9.3x                    | 7.8x | 13.9x              | 11.6x | 24.0x                  | 20.6x | 32x              | 26x |                  |              |
| Average               |                   | 33%                      | 34%                      | 16%                     | 17%                     | 72%                     | 72%                     | 8.5x                    | 7.2x | 12.3x              | 10.4x | 30.4x                  | 23.8x | 38x              | 31x |                  |              |

Source: Bloomberg, BofA Global Research

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## 3Q data update

### Grocery leader recent reports:

Kroger reported 12% digital sales growth for the quarter ended Aug 12, with identical sales ex. fuel up 1.0%. This compares to 15% digital sales growth in F1Q. For Delivery only, sales increased 24% y/y for the most recent quarter vs. 30% in 1Q. The company highlighted that digitally engaged households increased 1.2mn vs. last year with Kroger Boost loyalty program helping drive above-industry growth.

Albertson reported 19% digital sales growth for the quarter ended September 9, with identical sales up 2.9%. This compares to 22% digital sales growth in F1Q. Per the company, productivity increases in the quarter were partially offset by the continued investments in capex/opex to support the expansion of digital and omnichannel capabilities.

Walmart reported 24% y/y growth in digital sales in the quarter ended July 28, with overall sales up 6%. Including 3P with an est. 10% take rate, we estimate digital sales grew 28% y/y last quarter, and for C3Q, BofA analyst Robbie Ohmes estimates 15% growth. Walmart is seeing an internal customer shift to digital ordering, driving share gains in Online grocery, but overall sales growth is more similar to Instacart.

### BAC Card Data

BAC aggregated credit & debit card data suggests Online grocery spending (card not present) in 3Q declined 3% y/y, a 2pt acceleration vs. 2Q at -5%. Trends improved throughout the quarter, starting July at -4% y/y and improving to -2% y/y in September, though 3Q trends still underperformed overall eCommerce spend at +1% y/y. For October, BAC card data indicates consumer spend softened during the month, with data through 10/28 suggesting total card spending decel'd 40bps vs. September (daily unweighted average). See [BofA on USA](#) for an explanation of the methodology, disclaimers and limitations with BAC aggregated credit and debit card data.

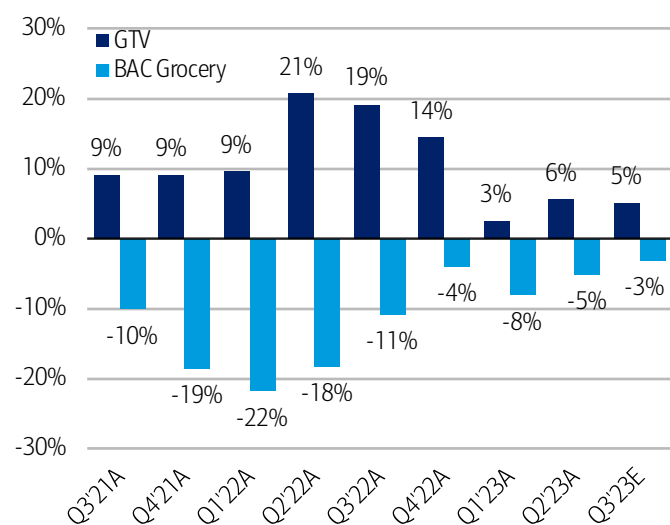
### Bloomberg Second Measure

Bloomberg Second Measure credit & debit card data ("BSM") spend has been a relatively consistent at 8-11pts below actual Instacart reported GTV for the last 6 quarters. For 3Q, BSM data indicates observed sales (GTV) on Instacart declined 2% y/y, a 2pt improvement from 2Q. On a monthly basis, trends through 10/29 suggest October growth decelerated about 2pts vs. September, averaging -4.7% y/y.

For Instacart, Street projects 5% y/y GTV growth in 3Q'23, a 1pt deceleration vs. 2Q. BSM data suggests that Instacart GTV trends could have upside to estimates. However, slightly softening from BSM suggests 4Q guidance could have some deceleration, especially if management chooses to include some conservatism for an uncertain macro environment.

**Exhibit 3: GTV vs. BAC Online (card not present) grocery card spend trends (Y/Y)**

BAC card data suggests 3Q Online grocery spend accelerated 2pt vs. 2Q

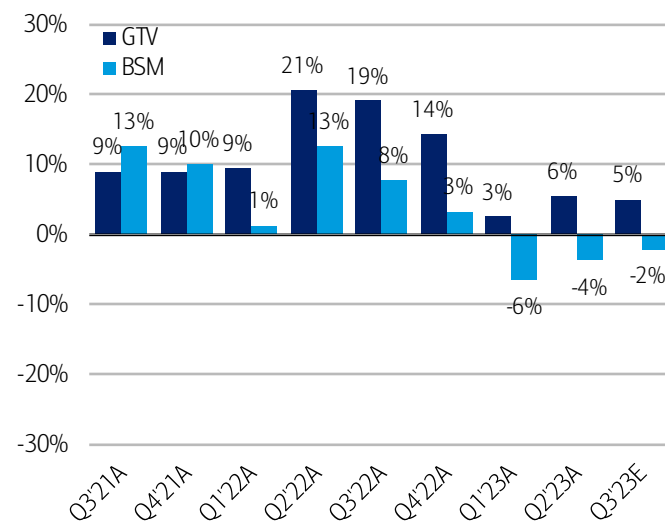


Source: Company reports, BAC Internal Data, BofA Global Research

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**Exhibit 4: GTV vs. BSM observed sales trends (Y/Y)**

BSM card data suggests Instacart observed sales accelerated in 3Q



Source: Bloomberg, Company reports, BofA Global Research

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**Exhibit 5: Y/Y trends per Bloomberg Second Measure**

BSM data indicates observed sales trends declined 4.7% y/y in October\* vs. -2.6% in September

| Oct-22 | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 | Sep-23 | Oct-23 |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 2.7%   | 5.8%   | 1.9%   | -13.0% | -3.7%  | -1.5%  | -2.5%  | -7.2%  | -1.2%  | -1.6%  | -2.2%  | -2.6%  | -4.7%  |

Source: Bloomberg Second Measure, BofA Global Research | \*Average weekly trends in October through 10/29

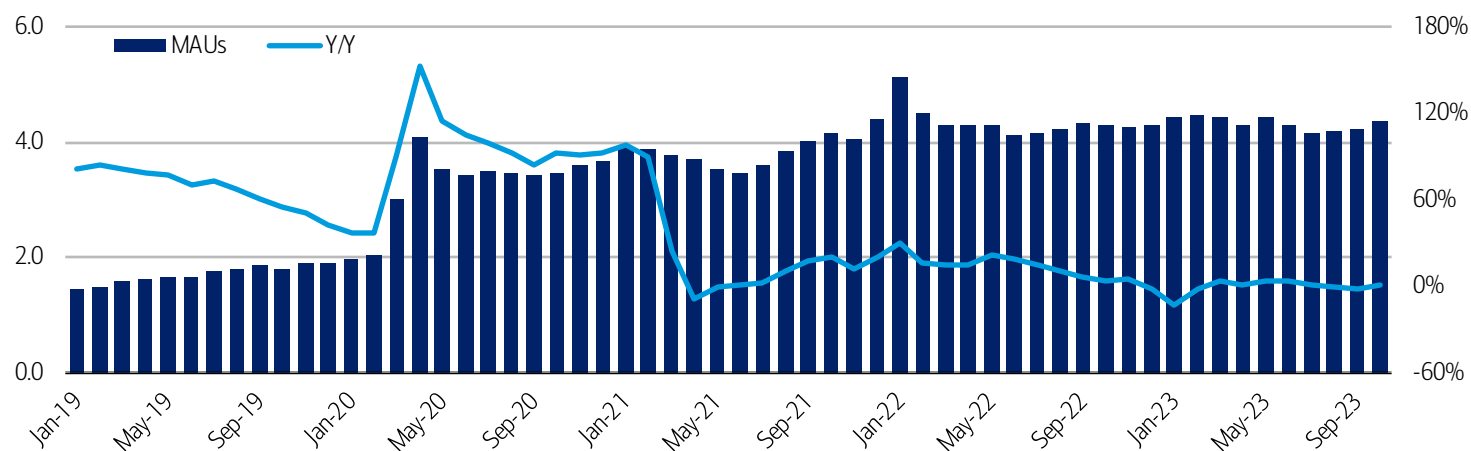
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**Consumer app metrics**

3Q average MAUs were 4.19mn, down 1% vs 3Q'22. According to Sensor Tower data, Monthly Active Users on the Instacart app reached 4.37mn in October, up 1% y/y and an acceleration vs. 3Q. Data indicates MAUs used the Instacart app an average of 9.5x in 3Q (-4% y/y) and 9.3x in October, flat m/m but a decline of 6% y/y. Downloads of 830k were flat y/y (6pt acceleration vs. September). Y/Y trends are generally better vs. early-2023 suggesting pandemic unwind is moderating, though lower than 1H'23 on an absolute basis.

**Exhibit 6: Instacart consumer MAUs (mn) and Y/Y growth**

Per Sensor Tower, consumer MAUs declined 2% y/y to 4.21mn in October



Source: Sensor Tower, BofA Global Research



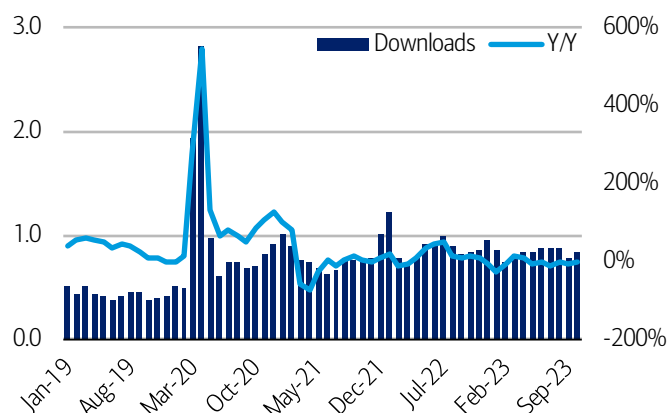
**Exhibit 6: Instacart consumer MAUs (mn) and Y/Y growth**

Per Sensor Tower, consumer MAUs declined 2% y/y to 4.21mn in October

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**Exhibit 7: Instacart consumer Downloads (mn) and Y/Y growth**

The consumer app reached 829k downloads in October (flat y/y)

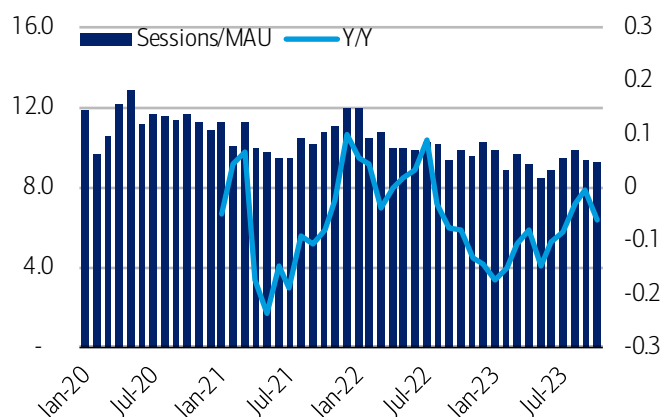


Source: Sensor Tower, BofA Global Research

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**Exhibit 8: Instacart consumer Sessions per MAU and Y/Y growth**

In October, consumers averaged 9.3 sessions per MAU (-6% Y/Y)



Source: Sensor Tower, BofA Global Research

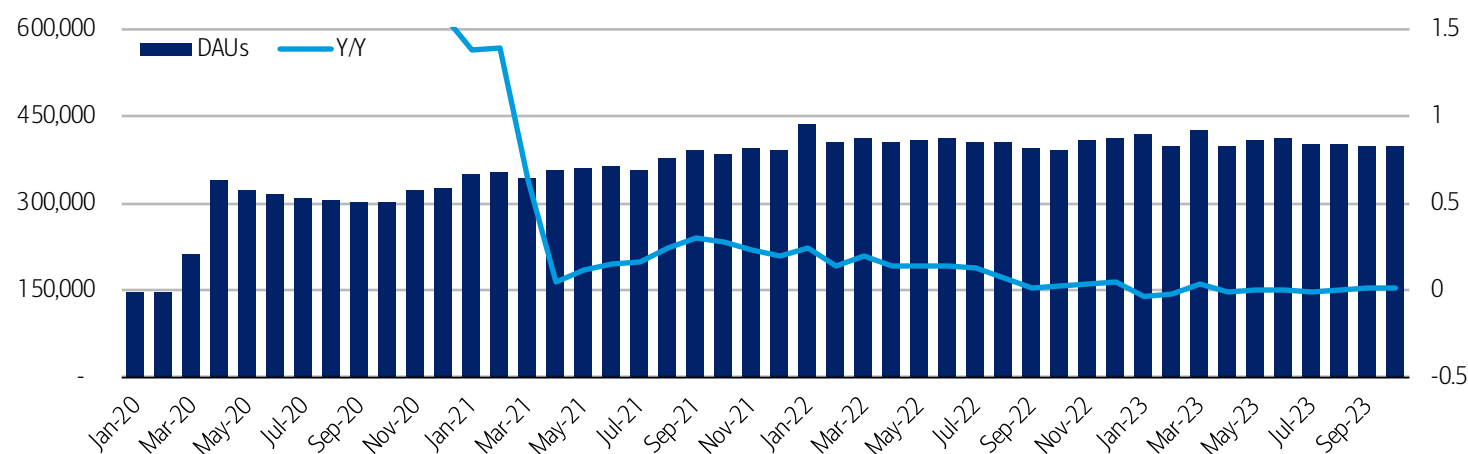
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**Shopper app metrics**

According to Sensor Tower, Daily Active Users on Instacart's Shopper app were 402k on average in 3Q, flat y/y. In October, there were 398k DAUs (+1% y/y), compared to Instacart reporting 600,000+ Shoppers, so up to 60-70% of shoppers could be active in any given day. Data indicates Shoppers spent an average of 26.3hrs in-app for the month of October, a decline of 4% y/y (and vs. -2% y/y for 3Q). DLs increased 8% y/y in October to 378k.

**Exhibit 9: Instacart Shopper DAUs and Y/Y growth**

Per Sensor Tower, Shopper DAUs increased 1% Y/Y to 396k in September



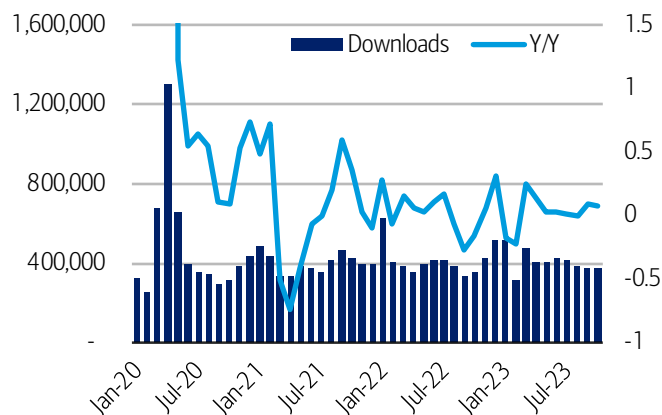
Source: Sensor Tower, BofA Global Research

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**Exhibit 10: Instacart Shopper Downloads (mn) and Y/Y growth**

The Shopper app reached 375k downloads in October(+7% Y/Y)

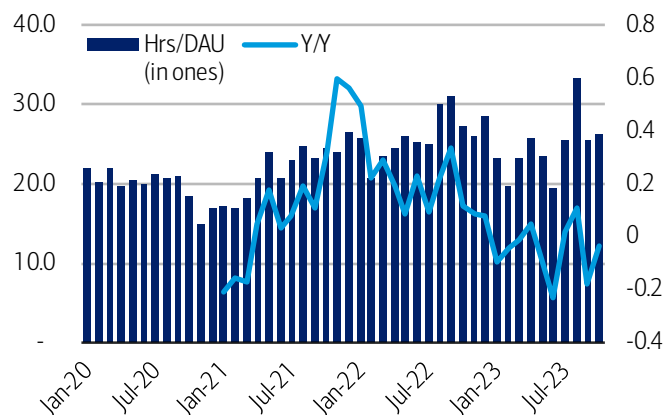


Source: Sensor Tower, BofA Global Research

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**Exhibit 11: Instacart Shopper Hours per DAU and Y/Y growth**

In October, Shoppers averaged 25.4 hours in-app (-7% Y/Y)



Source: Sensor Tower, BofA Global Research

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## Valuation

Our valuation is based on a 50/50 weighting of 3.5x EV/GP and 11x EV/EBITDA, which is a discount to peers at 4.2x/16x given relative growth rates. Our valuation arrives at an Enterprise Value of \$8.1bn, which implies a blended EV/EBITDA multiple of 11.4x. Including net cash of \$2.1bn, we arrive at an Equity Value of \$10.3bn. Our \$30 PO is based on a fully diluted share count of 337mn.

**Exhibit 13: Valuation**

Our \$30 PO implies a blended 11.4x EV/EBITDA multiple

| Metric (\$mn)           | 2024E    | Multiple | Weighting | Value           | Comp. Avg. | Metric (2024) |
|-------------------------|----------|----------|-----------|-----------------|------------|---------------|
| GTV                     | \$31,698 |          |           |                 | 0.9x       | EV/Bookings   |
| Revenue                 | \$3,250  |          |           |                 | 2.1x       | EV/S          |
| Gross Profit            | \$2,417  | 3.5x     | 50%       | 8,460           | 4.2x       | EV/GP         |
| EBITDA                  | \$713    | 11.0x    | 50%       | 7,839           | 15.8x      | EV/EBITDA     |
| GAAP EPS                | \$0.17   |          |           |                 | 45x        | P/E           |
| <b>Enterprise Value</b> |          |          |           | <b>\$8,149</b>  |            |               |
| (+) Cash                |          |          |           | 2,126           |            |               |
| (-) Debt                |          |          |           | -               |            |               |
| <b>Equity Value</b>     |          |          |           | <b>\$10,276</b> |            |               |
| Share Count             |          |          |           | 337             |            |               |
| <b>Share Price</b>      |          |          |           | <b>\$30</b>     |            |               |
| Current Px              |          |          |           | \$26.91         |            |               |
| Upside/(Downside)       |          |          |           | 11%             |            |               |

Source: Bloomberg, BofA Global Research

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## Price objective basis & risk

### Instacart (CART)

Our PO of \$30 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.

## Analyst Certification

I, Justin Post, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Internet Coverage Cluster

| Investment rating   | Company               | BofA Ticker | Bloomberg symbol | Analyst            |
|---------------------|-----------------------|-------------|------------------|--------------------|
| <b>BUY</b>          |                       |             |                  |                    |
|                     | Alphabet              | GOOGL       | GOOGL US         | Justin Post        |
|                     | Alphabet              | GOOG        | GOOG US          | Justin Post        |
|                     | Amazon.com            | AMZN        | AMZN US          | Justin Post        |
|                     | AppLovin              | APP         | APP US           | Omar Dessouky, CFA |
|                     | DoorDash              | DASH        | DASH US          | Michael McGovern   |
|                     | Electronic Arts       | EA          | EA US            | Omar Dessouky, CFA |
|                     | Expedia               | EXPE        | EXPE US          | Justin Post        |
|                     | LegalZoom             | LZ          | LZ US            | Michael McGovern   |
|                     | Match Group           | MTCH        | MTCH US          | Curtis Nagle, CFA  |
|                     | Meta Platforms Inc    | META        | META US          | Justin Post        |
|                     | Pinterest             | PINS        | PINS US          | Justin Post        |
|                     | RH                    | RH          | RH US            | Curtis Nagle, CFA  |
|                     | Roblox Corp. Class A  | RBLX        | RBLX US          | Omar Dessouky, CFA |
|                     | Squarespace, Inc.     | SQSP        | SQSP US          | Michael McGovern   |
|                     | Take-Two Interactive  | TTWO        | TTWO US          | Omar Dessouky, CFA |
|                     | Uber                  | UBER        | UBER US          | Justin Post        |
|                     | Udemy Inc             | UDMY        | UDMY US          | Curtis Nagle, CFA  |
|                     | Vivid Seats           | SEAT        | SEAT US          | Curtis Nagle, CFA  |
|                     | Wayfair               | W           | W US             | Curtis Nagle, CFA  |
|                     | Zillow                | ZG          | ZG US            | Curtis Nagle, CFA  |
|                     | Zillow                | Z           | Z US             | Curtis Nagle, CFA  |
| <b>NEUTRAL</b>      |                       |             |                  |                    |
|                     | ACV Auctions          | ACVA        | ACVA US          | Curtis Nagle, CFA  |
|                     | Airbnb                | ABNB        | ABNB US          | Justin Post        |
|                     | Booking Holdings Inc  | BKNG        | BKNG US          | Justin Post        |
|                     | Bumble                | BMBL        | BMBL US          | Curtis Nagle, CFA  |
|                     | Digital Turbine, Inc  | APPS        | APPS US          | Omar Dessouky, CFA |
|                     | Duolingo              | DUOL        | DUOL US          | Curtis Nagle, CFA  |
|                     | eBay                  | EBAY        | EBAY US          | Justin Post        |
|                     | Etsy, Inc.            | ETSY        | ETSY US          | Curtis Nagle, CFA  |
|                     | Instacart             | CART        | CART US          | Justin Post        |
|                     | Overstock.com Inc     | OSTK        | OSTK US          | Curtis Nagle, CFA  |
|                     | Playtika              | PLTK        | PLTK US          | Omar Dessouky, CFA |
|                     | Snap                  | SNAP        | SNAP US          | Justin Post        |
| <b>UNDERPERFORM</b> |                       |             |                  |                    |
|                     | Chewy Inc             | CHWY        | CHWY US          | Curtis Nagle, CFA  |
|                     | Lyft, Inc.            | LYFT        | LYFT US          | Michael McGovern   |
|                     | Opendoor Technologies | OPEN        | OPEN US          | Curtis Nagle, CFA  |

## US - Internet Coverage Cluster

| Investment rating | Company      | BofA Ticker | Bloomberg symbol | Analyst           |
|-------------------|--------------|-------------|------------------|-------------------|
|                   | Peloton      | PTON        | PTON US          | Curtis Nagle, CFA |
|                   | Redfin Corp  | RDFN        | RDFN US          | Curtis Nagle, CFA |
|                   | Shutterstock | SSTK        | SSTK US          | Curtis Nagle, CFA |

**IQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

**IQmethod<sup>SM</sup>** is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of IQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

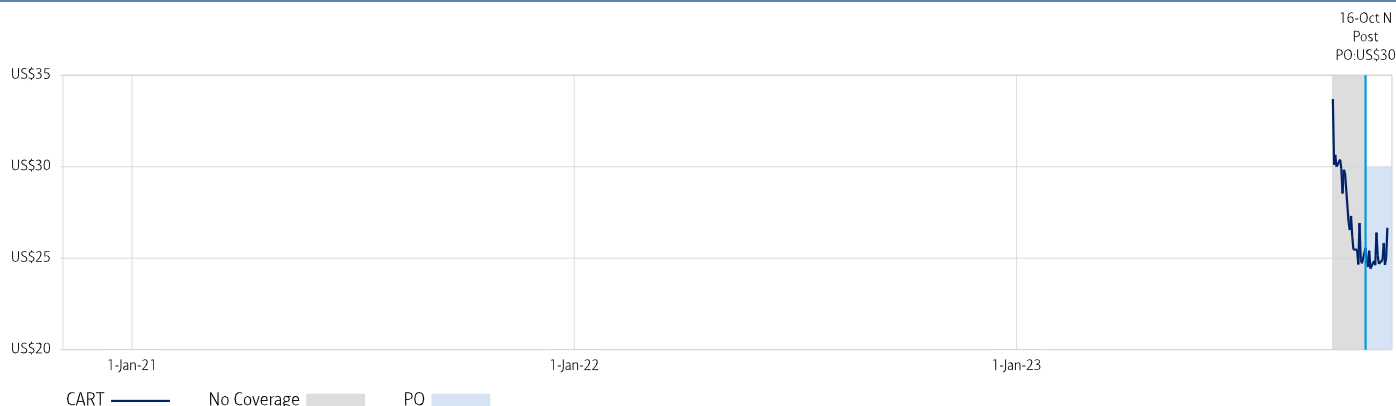
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# Disclosures

## Important Disclosures

### Instacart (CART) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Technology Group (as of 30 Sep 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 204   | 51.52%  | Buy                                      | 104   | 50.98%  |
| Hold              | 95    | 23.99%  | Hold                                     | 45    | 47.37%  |
| Sell              | 97    | 24.49%  | Sell                                     | 27    | 27.84%  |

### Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships <sup>R1</sup> | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy               | 1869  | 53.48%  | Buy                                      | 1046  | 55.97%  |
| Hold              | 828   | 23.69%  | Hold                                     | 461   | 55.68%  |
| Sell              | 798   | 22.83%  | Sell                                     | 370   | 46.37%  |

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster <sup>R2</sup> |
|-------------------|---|--|
| Buy               | ≥ 10%   | ≤ 70%  |
| Neutral           | ≥ 0%  | ≤ 30%  |
| Underperform      | N/A   | ≥ 20%  |

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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The issuer is or was, within the last 12 months, an investment banking client of BofA and/or one or more of its affiliates: Instacart.

BofA or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Instacart.

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