Instacart

Looking for growth catalysts before adding to our basket; Initiate at Neutral

Initiating Coverage: NEUTRAL | PO: 30.00 USD | Price: 25.57 USD

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Equity

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Established leader in large and growing category

Grocery is not easy, and Instacart's large customer base (7.7mn MAUs), partnerships (1,400+ retail banners) and operational rigor (17%E 3Q EBITDA margins) position the company to benefit from secular shifts to eCommerce and subscription services. Key positives include: 1) attractive sector opportunity with just 13.5% Online grocery penetration; 2) leading market position with higher-margin large orders; 3) established profitability with margin expansion potential. We project 5% GTV growth in 2024 and 31% EBITDA growth to $713mn, reflecting ad growth and cost efficiencies. We look for catalysts to accelerate GTV growth toward sector levels to be more constructive.

Growth rates reflected in valuation; Initiate at Neutral

Recent data points (MAUs, BSM spend, shopper app DAUs) suggest stabilizing 3Q trends and we expect 5% GTV growth in 2H & 2024. This growth will likely trail primary comps including Amazon, DoorDash and Uber, which trade at 15x 2024 EV/EBITDA, vs. Instacart at 9x. Multiple expansion for Internet companies growing below market rates has been hard to find in 2023, and we Initiate at Neutral with a $30 price objective. Our PO is based on an equally weighted avg. of 3.5x GP & 11x EBITDA (1x rev growth), and is supported by our DCF (using 38% LT margins). See pg. 29 for scenario analyses.

Time savings and convenience for users, but added cost

Our proprietary survey of more than 1,000 grocery customers suggests fast delivery and time savings (convenience) are the top two reasons for using Instacart. Walmart was the top app for Online grocery, followed by Instacart, in line with market share data. A slightly higher percent (13%) indicated they plan to try Instacart vs. plan to stop using it (11%). Finally, for those that use Instacart, 45% indicate they would use it more, while 21% may use it less. Pricing and fees are the biggest negative. In our pricing analysis of four stores that mark up their prices on Instacart (40% of stores do not markup), items cost an average of 10-15% more, which could limit use of Instacart for some stores.

Return to in-store, competition among top risks

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) share gains by Walmart and Amazon impacting Instacart's growth/market share; 4) new regulations & changes in driver employment status; and 5) share lock-up expirations over the next six months. Amazon recently lowered its threshold for Prime free grocery delivery to $100.

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)			(0.86)	1.29	1.57
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	150.4x	40.0x
GAAP P/E	NM	NM	NM	150.4x	40.0x
EV / EBITDA*	149.7x	27.2x	9.3x	7.1x	5.9x
Free Cash Flow Yield*	-3.1%	3.6%	6.5%	9.2%	10.7%

* For full definitions of *iQmethod* SM measures, see page 46.

Stock Data

Price	25.57 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
Mrkt Val (mn) / Shares Out (mn)	7,069 USD / 276.5
Average Daily Value (mn)	NA
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 Transactional Value

GP: Gross Profit

TAM: Total Addressable Market

MAU: Monthly Active User

DAU: Daily Active User

BSM: Bloomberg Second Measure

LT: Long-term

iQprofile SM Instacart

*iQ*method SM – **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

*iQ*method SM – **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
Net Income (Adjusted)	**(113)**	**(19)**	**(2,606)**	**57**	**229**
% Change	**2.7%**	**83.4%**	**NM**	**NM**	**304.8%**

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)
Free Cash Flow	**-217**	**253**	**458**	**653**	**757**
% Change	**-121.4%**	**NM**	**80.9%**	**42.7%**	**16.0%**

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
Total Assets	**2,961**	**3,669**	**4,129**	**4,847**	**5,705**
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
Total Liabilities	**712**	**911**	**845**	**882**	**904**
Total Equity	**2,249**	**2,758**	**3,284**	**3,965**	**4,800**
Total Equity & Liabilities	**2,961**	**3,669**	**4,129**	**4,847**	**5,705**

* For full definitions of *iQmethod* SM measures, see page 46.

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	NA

Quarterly Earnings Estimates

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

Contents

Executive Summary

Instacart was founded by Apoorva Mehta (current Chairman), Max Mullen, and Brandon Leonardo in 2012 with the view that Online grocery shopping was a vast, still untapped, opportunity vs. other categories and could be a beneficiary of ongoing secular shifts to eCommerce and Online services. Since its founding, the company has built up a strong network of (1) 1,400+ grocery partners, (2) over 600,000 shoppers and (3) 7.7mn monthly active consumers (June), who placed over 66mn orders in 2Q'23.

We are constructive on the company's long-term fundamentals given a large total addressable market (TAM), consumer preferences shifting toward time savings delivery services, Instacart's market share leadership for larger baskets, and growth of advertising to drive ongoing margin improvement. However, we are also cognizant of macro risks facing Instacart as the consumer is the primary source of funding for the convenience of delivery – potentially up to an extra 20% cost vs. going to the store (through prices, consumer fees, and tips). Other risks include elevated churn for certain customer cohorts added during the pandemic could continue, and competition from both Walmart and Amazon in the grocery category. Also, Instacart has partnered with established grocers for delivery, including Costco, Kroger, and Publix, and these partners may choose to seek better economic terms or add additional delivery partners over time.

With estimated GTV growth at around 5% in 2H'23 and 2024, there is potential acceleration and upside as reopening pressure on COVID cohorts dissipates, which could drive multiple expansion for the stock. However, Instacart's growth will likely trail Walmart's Online grocery sales and primary comps including Amazon, DoorDash and Uber, which trade at 15x 2024 EV/EBITDA, vs. Instacart at 9x. Multiple expansion for Internet companies growing below market rates has been limited in 2023, and we Initiate at Neutral with a $30 price objective.

Investment Thesis & Risks

Positives include: 1) attractive sector opportunity with just 13.5% estimated grocery penetration in 2023, according to Incisiv; 2) strong market position for large, $75+ basket orders, which have higher profits (5x gross profit per basket); 3) deepening relationships with grocery partners who are adding more services over time; 4) potential for accelerating growth in 2024 as headwinds from declining COVID cohorts dissipate; and 5) margin expansion opportunity to 35%+ EBITDA margins through operating efficiencies and ad growth.

Risks include: 1) multiple compression if growth rates stay at 5% Y/Y and Instacart loses share in industry; 2) partner losses or changes in terms that pressure revenue growth or drive take rate compression; 3) new competition from Amazon (which is retooling its grocery strategy and just lowered its minimum basket size to $100 for free delivery for Prime members), Walmart (top Online grocery app), or first-party delivery services; 4) potential regulation on wages or contractor status; 5) expectations for high margins on future GTV growth, and 6) macro-economic slowdown that reduces customer willingness to pay for delivery. While Amazon Fresh had limited traction in our consumer survey, we expect Amazon to make another push at Online grocery over the next few years.

Low penetration suggests long runway for growth

Online grocery is a more nascent market relative to eCommerce at 15% penetration, per Department of Commerce data, and product categories like 66% for consumer electronics, 38% for apparel, and 23% for consumer foodservices (per Euromonitor). According to Incisiv, US consumers spent $1.12tn on groceries during 2022, and Department of Commerce data suggests total grocery was 15% of total national retail spending last year (ex. motor and fuel). The convenience and improving cost efficiencies of Online grocery should drive Online penetration expansion.

Survey & competitive analysis highlight convenience vs price

We conducted a survey of over 1,000 grocery customers & key takeaways include: 1) Online grocery spend rarely replaces full in-store shopping; 2) Top benefit for Online grocery is convenience; 3) Walmart is the most used grocery app while Instacart was second choice for grocery (above DoorDash, Amazon, etc.); 5) 36% indicated they used Instacart in the past 6 months, and a slightly higher percent (13%) indicated they may start using Instacart vs. plan to stop using (11%); 6) consumer friction primarily comes from pricing and fees. We also surveyed baskets of 10 items from a group of grocers that price higher on Instacart than their own sites/stores (40% of stores price the same on Instacart), including Target, D'Agostino, Rite Aid, and Safeway. We found that item prices on Instacart are generally 10-15% higher than in-store and their own Online sites (with Target marking up to 25% more on Instacart and 9% on Target.com), suggesting that stores are more than covering their Instacart fees (good for retailer retention, but could limit consumer use of Instacart for some stores).

Discount to peers could continue until growth accelerates

At 9x 2024 EBITDA, Instacart is valued at a discount to our peer group of gig-economy and eCommerce companies, which are valued at 15x on average. Our $30 price objective is based on an equally weighted avg. of 3.5x gross profit & 11x EBITDA, which is lower than the average multiples for our set of Primary Comparable Companies (gig-economy and eCommerce companies) valued at 3.9x 2024 gross profit and 15x EV/EBITDA. Our valuation is supported by our DCF that assumes $49bn GTV in 2033, up from an estimated $30.1bn in 2023, and 38% 2033 operating margins ex-SBC (up from 16.5% in 2023). See pg. 29 for our upside and downside cases.

Exhibit 1: Comparable companies

Our primary comps, gig-economy and eCommerce names, trade at 15x 2024 EV/EBITDA

Company ($bn)	Price 10/14/23	EBITDA Margin 2024	EBITDA Margin 2025	Sales Growth 2024	Sales Growth 2025	Gross Margin 2024	Gross Margin 2025	EV/Revenue 2024	EV/Revenue 2025	EV/GP 2024	EV/GP 2025	EV/EBITDA 2024	EV/EBITDA 2025	P/E 2024	P/E 2025	MtkCap ($mn)	EV ($mn)
Gig-economy																	
Uber	$43.48	13%	15%	17%	16%	41%	42%	2.2x	1.9x	5.3x	4.4x	17.0x	12.3x	28x	17x	$88,852	$96,079
DoorDash	$75.37	14%	16%	17%	17%	49%	50%	2.7x	2.3x	5.4x	4.6x	19.2x	13.9x	167x	46x	$29,643	$26,236
Upwork	$11.12	13%	16%	13%	14%	76%	77%	1.8x	1.6x	2.4x	2.1x	14.3x	10.4x	15x	11x	$1,500	$1,395
Meituan	$114.60	12%	15%	22%	19%	36%	37%	1.8x	1.5x	5.1x	4.1x	14.8x	10.1x	20x	13x	$90,878	$83,059
Median		13%	16%	17%	16%	49%	50%	2.2x	1.9x	5.3x	4.4x	17.0x	12.3x	28x	17x		
Average		13%	16%	16%	16%	55%	56%	2.2x	1.9x	4.4x	3.7x	16.9x	12.2x	70x	25x		
eCommerce																	
Amazon	$129.79	18%	19%	12%	12%	47%	48%	2.2x	2.0x	4.7x	4.1x	12.4x	10.3x	32x	24x	$1,339,141	$1,424,087
eBay	$41.79	31%	31%	4%	4%	72%	73%	2.4x	2.3x	3.4x	3.2x	7.8x	7.5x	10x	9x	$22,239	$25,793
Etsy	$63.17	28%	28%	9%	11%	71%	71%	3.0x	2.7x	4.2x	3.8x	10.9x	9.7x	16x	15x	$7,771	$9,031
Wayfair	$47.31	3%	5%	7%	8%	31%	31%	0.6x	0.6x	2.1x	1.9x	18.5x	13.0x	NM	NM	$5,486	$8,363
Chewy	$17.00	4%	4%	10%	10%	28%	29%	0.6x	0.5x	2.0x	1.8x	16.4x	12.3x	33x	21x	$7,316	$7,138
Median		18%	19%	9%	10%	47%	48%	2.2x	2.0x	3.4x	3.2x	12.4x	10.3x	24x	18x		
Average		17%	18%	8%	9%	50%	50%	1.8x	1.6x	3.3x	3.0x	13.2x	10.5x	23x	17x		
Comp Median		13%	16%	12%	12%	47%	48%	2.2x	1.9x	4.2x	3.8x	14.8x	10.4x	24x	16x		
Comp Average		**15%**	**17%**	**12%**	**13%**	**50%**	**51%**	**1.9x**	**1.7x**	**3.9x**	**3.3x**	**14.6x**	**11.0x**	**40x**	**20x**		
Instacart (BofAe)	$25.57	22%	25%	8%	7%	74%	75%	2.0x	1.9x	**2.7x**	2.5x	**9.1x**	7.6x	131x	38x	$8,628	$6,501
Instacart (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	2.7x	2.6x	9.8x	9.2x	18x	16x		
Average		6%	6%	2%	4%	21%	21%	0.7x	0.6x	3.9x	3.7x	12.0x	11.2x	20x	19x		
SaaS																	
Median		32%	33%	17%	18%	79%	79%	8.0x	6.6x	12.6x	10.3x	23.3x	20.0x	32x	26x		
Average		32%	33%	16%	17%	72%	72%	7.9x	6.7x	11.3x	9.5x	30.6x	23.6x	38x	30x		

Source: Bloomberg, BofA Global Research

BofA GLOBAL RESEARCH

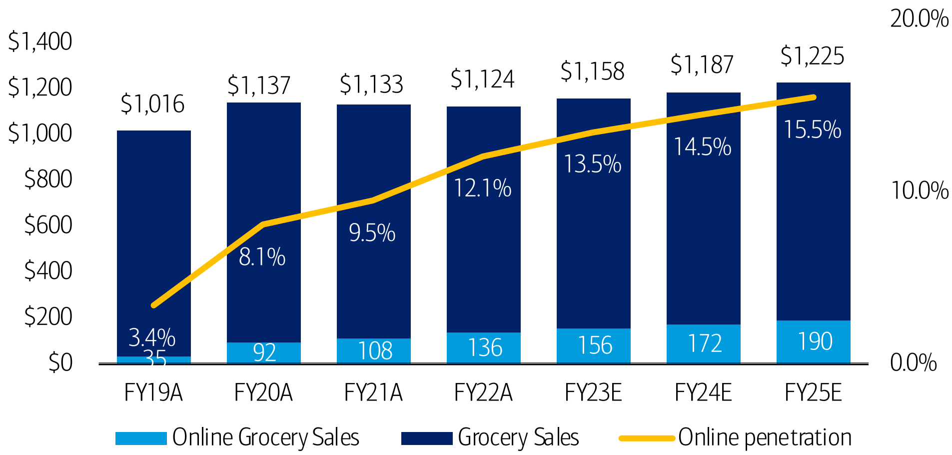
Investment Highlights

Large TAM that is still early for Online penetration

Instacart is targeting a $1.12tn grocery market in 2022, according to Incisiv. As a category, Online grocery penetration at around 13.5% in 2023 is relatively early in Online adoption, with Euromonitor suggesting Online penetration at 66% for consumer electronics, 38% for apparel, and 23% for consumer foodservices. Per McKinsey, Online grocery penetration could reach 35% over time with convenience and time savings expected to be the largest penetration drivers, and we expect delivery costs to come down over time. Total US grocery spend is expected accelerate to a modest 3% CAGR through 2025 while Online grocery sales are expected to grow at a 12% 3-yr CAGR, suggesting a healthy industry backdrop for Instacart.

Exhibit 2: Grocery TAM and Online grocery sales ($bn)

Per Incisiv, Online grocery penetration is projected to reach 13.5% in 2023, implying $156bn



Source: Incisiv, BofA Global Research

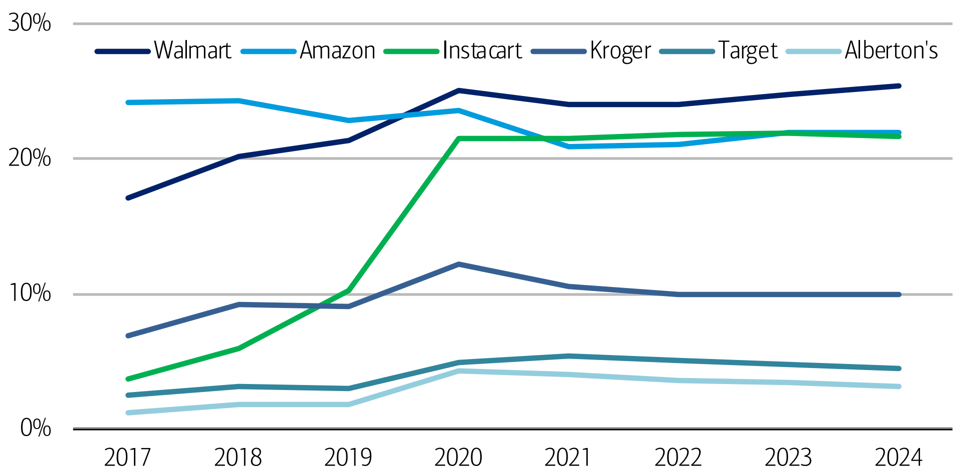
BofA GLOBAL RESEARCH

Strong share in Online grocery, top Online aggregator

eMarketer estimates Walmart is the largest US Online grocery delivery retailer with about 24% share in 2022, growing approx. 7pts since 2017. Instacart has second largest share at 22%, and Amazon is 3rd at 21% share per eMarketer, though we think Amazon's share could be lower.

Exhibit 3: US Online grocery sales, % share

eMarketer estimates Instacart had a 21.8% US Online grocery sales share in 2022

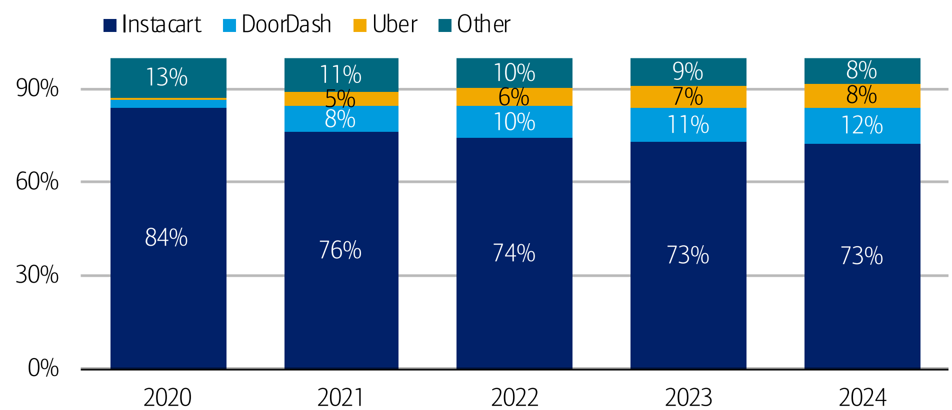


Source: eMarketer, BofA Global Research

BofA GLOBAL RESEARCH

For US third-party Online aggregators, competitors to Instacart include DoorDash and Uber, with smaller competitors including Gopuff, Getir, and Shipt (subsidiary of Target). Per eMarketer, Instacart has a large lead with 73% estimated market share in 2023 vs. the next largest competitor, DoorDash, at 11%. eMarketer estimates 2023 US grocery GMV on DoorDash and Uber at approximately $4.5bn and $3bn, respectively.

Exhibit 4: Third-party aggregator share of Online grocery sales
Instacart commands a 73% Online grocery share vs. other 3P aggregators



Source: eMarketer, BofA Global Research

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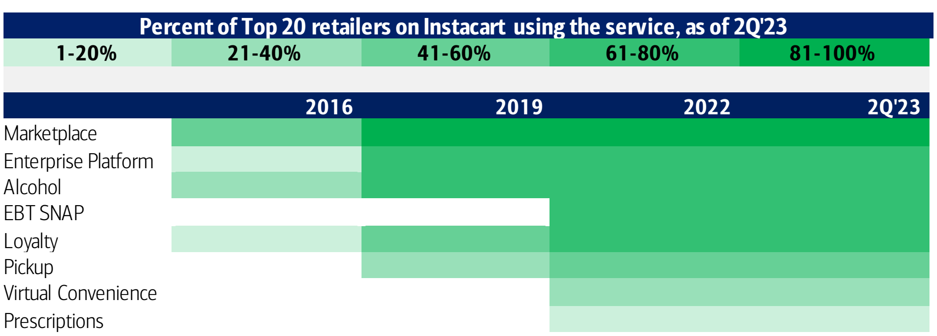
Expanding presence with retail partners

Instacart's grocer relationship are fundamental to the platform's success. Access to the Instacart Marketplace to add incremental sales is a strong selling point for grocers (per our checks), and Instacart has deepened its relationships with services that include Enterprise Platform (Website, ads platform, shopping insights), additional verticals like alcohol & prescriptions, integrated 1P loyalty programs onto the Instacart app, and in-store pickup. These relationships are important as they suggest grocers are growing their integration with Instacart over time and getting more value from the platform.

Exhibit 5: Adoption of services by Top 20 retailers
Use of additional services increasing over time



Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

Overall, 550 retail banners (about 40% of Instacart's 1,400+ partners) have adopted eCommerce storefronts through Instacart Enterprise Platform, which can also power fulfillment services, connected stores, ads & marketing, and data insights. Benefits for retailers using Instacart Enterprise Platform include better search, more intelligent replacement recommendations, more seamless checkout flows, and incremental sales with Carrot Ads. Partners include Publix, Sprouts, and Costco. Instacart acquired Rosie Applications in September 2022 to enable it to provide an eCommerce and mobile solution to capture long-tail small and medium-sized businesses ("SMBs"). We think deep tech-stack integrations with Instacart Enterprise Platform should help fortify long-term grocer relationships.

Exhibit 6: Grocer website and delivery partners

Costco, which represents an estimated 10.7% of US grocery sales in 2022, leverages Instacart to power its website

US Grocery Sales	Est. Market Share	Website powered by:	Main delivery partners:
Walmart	22.0%	Walmart	Walmart, Instacart (select markets)
Costco	10.7%	Instacart	Instacart
Kroger	9.7%		Instacart, Boost (1P), Shipt
Albertsons	5.8%		Instacart, DoorDash, Uber, FreshPass (1P)
Ahold Delhaize USA	4.9%		Instacart
Sam's Club	4.7%		Instacart, Sam's Club
Publix	4.1%	Instacart	Instacart
H-E-B	3.5%		Instacart, Shipt, Favor Delivery (1P)
Dollar General	2.7%	DoorDash	DoorDash
Dollar Tree	2.5%	Instacart	Instacart
Target	2.0%	Target	Instacart, Shipt
Whole Foods Market	1.6%	Amazon	Amazon
Amazon Physical ex. WFM	0.1%	Amazon	Amazon
Other	25.7%		

Source: Incisiv, Bloomberg, Visible Alpha Forbes, company reports, BofA Global Research

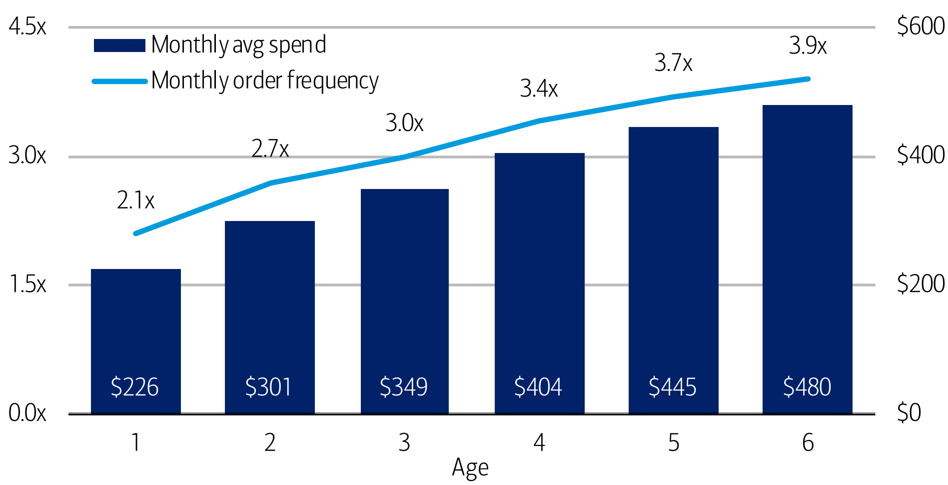
BofA GLOBAL RESEARCH

Cohorts spend more as they age

According to Instacart data, user orders increase from an average of 2.1x per month on the platform in Year 1 of using the service to 3.9x in Year 6 (86% increase). Simultaneously, company data indicates that average monthly spend more than doubles from $226 in Year 1 to $480 in Year 6. On a per order basis, data implies that Instacart's marketplace is capturing a higher basket size as customers mature, increasing from $108 in Year 1 to $123 in Year 6.

Exhibit 7: Average monthly spend and order frequency by cohort age

Cohorts 6 years old order from Instacart 3.9x per month, spending on average $480/mo



Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

Y/Y increases in user economics are illustrated in data showing annual GTV by cohort, which has increased each year for every cohort since 2017, except for the 2020 cohort. For example, the aggregate 2017 cohort increased spend on the platform by 3.5x by Year 6. The 2020 pandemic cohort is the only one to decrease aggregate annual GTV on Instacart, declining to 0.85x the level of 2020.

Exhibit 8: Annual GTV by cohort, indexed to Year 1

Each cohort on Instacart, except the 2020 cohort, have increased spend Y/Y on the platform

Cohort	2017	2018	2019	2020	2021	2022
2017	1.00x	1.73x	1.74x	3.00x	3.26x	3.52x
2018		1.00x	1.49x	2.42x	2.67x	2.81x
2019			1.00x	2.18x	2.36x	2.43x
2020				1.00x	0.95x	0.85x
2021					1.00x	1.29x
2022						1.00x

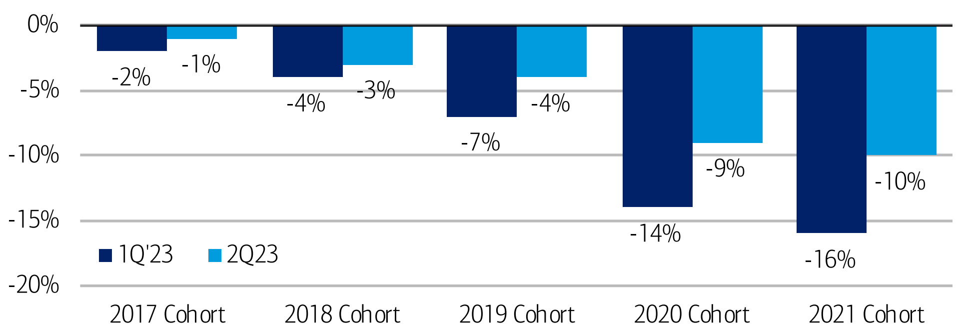
Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

We note that reopening trends from COVID (return to in-store shopping) is having a negative impact on cohorts in 2023. Per Instacart, GTV by cohort declined Y/Y across all cohorts in 1Q'23, though Y/Y trends improved in 2Q'23. We expect the 2021 cohort to be down Y/Y in 2023.

Exhibit 9: Y/Y change in GTV, by cohort

Y/Y declines in GTV moderated in 2Q'23 across cohorts



Source: Company reports, BofA Global Research

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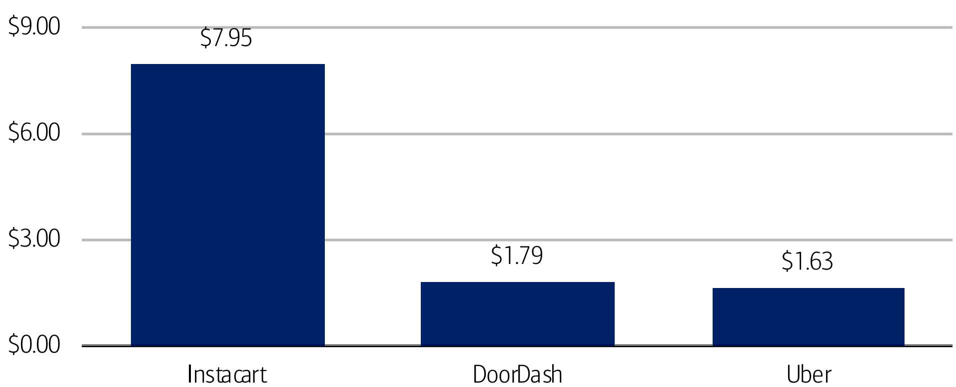
Strong share of large basket sizes = better economics

Instacart's has a leading share of Online basket sizes over $75 at approx. 75% share per YipitData, which provides attractive unit economics. Instacart has indicated that large basket sizes have disproportional profitability and generate and up to an estimated 5x gross profit vs. smaller baskets of peers. Versus peers, Instacart's higher gross profit per order is aided by larger basket sizes; in 2Q'23 Instacart generated $7.95/order vs. DoorDash at $1.79 and Uber at $1.63 (including Mobility).

Exhibit 10: Gross profit per order

In 2Q'23, Instacart generated $7.95 in gross profit per order vs. $1.79 for DoorDash and $1.63 for Uber



Source: Company reports, BofA Global Research

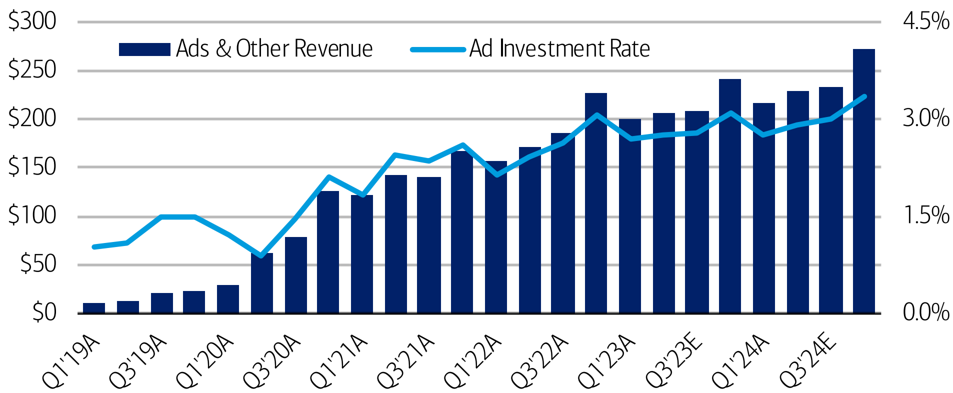
BofA GLOBAL RESEARCH

Advertising growth should drive margin expansion

According to PWC, Consumer Packaged Goods advertising is a $200bn+ addressable market though only $50bn of that is Online (implying 25% penetration and 1.5% Instacart share as of 2022). Instacart Ads launched in 2017 to target this opportunity, and ad spend has grown to 2.8% of GTV as of 2Q'23 (vs. Uber at less than 1% of GTV). Instacart's long term target is to grow GTV to 4-5% of total ad spend as other delivery platforms (notably, Meituan and Amazon) have reached an est. 5% ad spend on GMV.

Advertising growth is expected to be from: 1) new features and measuring tools capturing incremental usage from existing customers; 2) expanding advertisable GTV on Instacart and growing share of high-investment rate categories like alcohol and personal care; 3) growing advertiser base; and 4) increasing off-marketplace monetization through Carrot Ads (Instacart-powered advertising on retailers' 1P sites), and increased fees from SaaS and connected store solutions.

Exhibit 11: Ad & Other revenue ($mn), as a percent of GTV
In 2Q'23, Instacart generated $206mn in ad revenue (2.8% of GTV)



Source: Company report, BofA Global Research estimates

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In 1H'23, Instacart generated $406mn in ad revenue, representing 2.7% ad spend as a percent of GTV (ad investment rate). Despite representing only 28% of total net revenue, we estimate advertising could have generated an outsized 58% ($162mn) of total EBITDA based on hypothetical 40% ad margins (comparable with advertising peers). Using our 2025E ad revenue estimate of $1.1bn, we estimate advertising could contribute $425mn of EBITDA, a 44% increase from 2022.

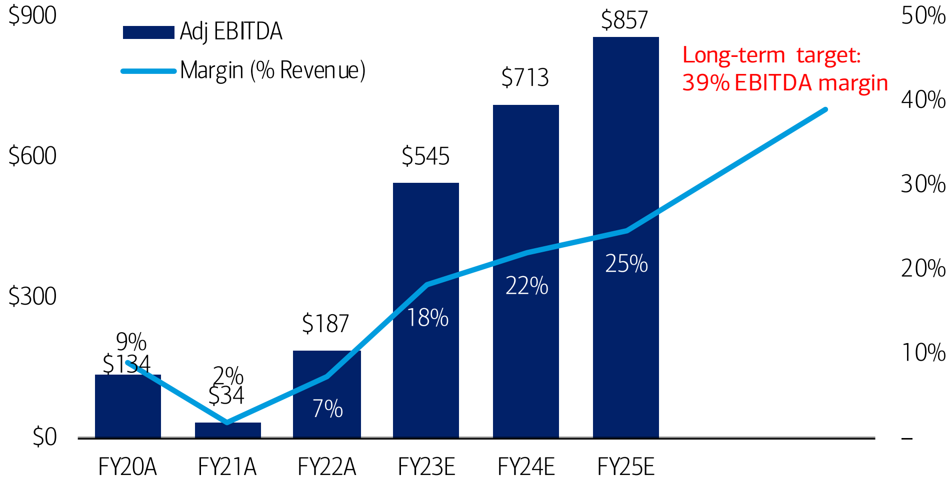
Profitable business model with more leverage ahead

On a GAAP basis, Instacart has been Net Income positive since 2Q'22. Last year, Instacart generated a 17% GAAP margin (or 3% margin on EBT, which excludes a $357mn net benefit from taxes), while EBITDA margins grew to 7.3% (5.5pt Y/Y expansion). Improving Shopper efficiencies through batching and growth in Instacart's advertising business have been key drivers of increasing margins.

From here, non-GAAP margins are expected to expand, driven by increased revenue take rate (Shopper pay efficiencies and advertising growth) and leverage on opex items (including leverage on Shopper acquisition costs and R&D). Though we expect GAAP Net Income to be negative over the next three quarters due to large SBC expenses related to the IPO, we expect the company to be GAAP earnings profitable in 2H'24. For EBITDA, Instacart's long-term EBITDA margin target is 4-5% of GTV and 39% of revenue, with gross margin expansion (4pts in GAAP gross margin) and efficiencies with non-GAAP opex (16pts of leverage) driving higher profitability.

Exhibit 12: Adjusted EBITDA ($mn)

We project $545mn in EBITDA for 2023E, implying 18% margins (+11pts Y/Y)



Source: Company reports, BofA Global Research estimates

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Investment Risks

Pandemic unwind continues with pressure on GTV growth

GTV on Instacart's platform quadrupled in 2020 to $20.7bn as the pandemic shifted grocery spend Online, with Online grocery penetration expanding 4.7pts Y/Y in 2020 to 8.1% per Incisiv data. The return to in-person shopping has been a headwind on Instacart's business that could continue for longer than expected. Instacart has also noted that macro uncertainties have also led to consumers purchasing fewer items per bag as users pull back on more discretionary items. The pandemic unwind is particularly pronounced with Instacart's largest cohort, the 2020 Cohort, which contracted on an annual basis in 2022 and was down in 1H'23.

Exhibit 13: Cohort GTV, indexed to starting year
As of 2022, annual GTV generated from the 2020 Cohort was 0.85x vs. Year 1

Cohort	2017	2018	2019	2020	2021	2022
2017	1.00x	1.73x	1.74x	3.00x	3.26x	3.52x
2018		1.00x	1.49x	2.42x	2.67x	2.81x
2019			1.00x	2.18x	2.36x	2.43x
2020				1.00x	0.95x	0.85x
2021					1.00x	1.29x
2022						1.00x

Source: Company reports, BofA Global Research

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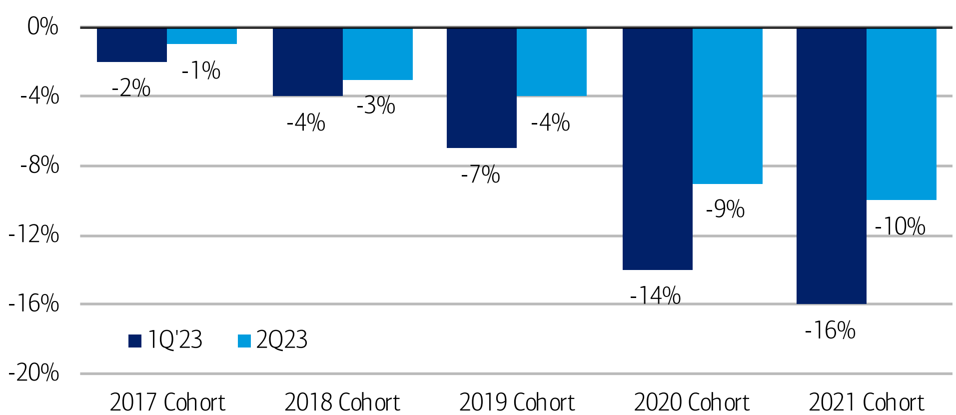
On a quarterly basis, GTV from all listed cohorts declined Y/Y in 1Q and 2Q'23, which is a departure from prior, pre-pandemic spending trends.

Exhibit 14: Y/Y growth in total GTV, by cohort
2020 Cohort GTV trends contracted 14% in 1Q'23 and 9% in 2Q'23



Source: Company reports, BofA Global Research

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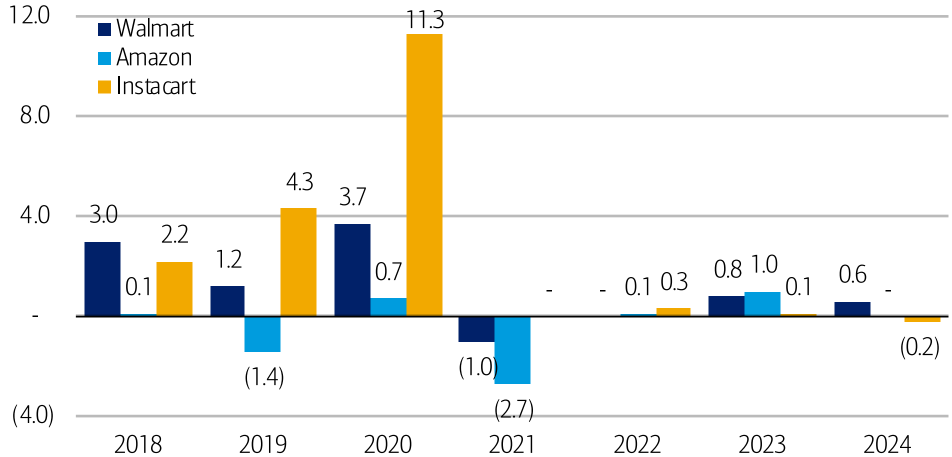
Lack of Walmart/Amazon exposure could drive share loss

Instacart's partnership with Walmart, the leader in Online grocery, has grown over time but is still limited (in trials). Instacart Marketplace has an offering from about 200 Walmart stores on its site, a relatively small subset of the 4,600+ stores in the United States. Growth of the partnership could be a catalyst for Instacart, but Walmart seems focused on expanding its internal delivery capabilities. Amazon is a competitor to Instacart (Whole Foods ended its Instacart partnership in 2019 after Amazon acquired the grocer in 2017, Instacart's only partner loss). We estimate Whole Foods and Amazon Fresh make up a much smaller grocery share of 1.7% but an outsized representation in the Online delivery market. eMarketer estimates Amazon (incl. WFM and Fresh) had a 21% Online grocery share as of 2022. While the company has struggled in grocery, Amazon seems intent on expanding its share, recently reducing the free shipping minimum order value to $100 from $150.

Lack of exposure to growing grocery businesses such as Walmart and Amazon could drive share loss at Instacart. In C2Q, Walmart's reported Online GMV was up 24%, well above the grocery industry average as Walmart increasingly gets its customers to buy Online (overall Walmart sales were up 6% in C2Q). For 2023, eMarketer projects Walmart Online grocery share to expand 80bps Y/Y (to 24.8%) and Amazon Online grocery share to expand 1pt Y/Y (to 22.0%), both above Instacart's projected market share expansion of 10bps Y/Y (to 21.9%). Our estimate for 5% Instacart GTV growth in 2024 suggests potential further share losses in the industry.

Exhibit 15: Y/Y Change in Online grocery market share (pts)

After a significant COVID benefit to market share, eMarketer estimates Instacart will only gain 10bps Y/Y of market share in 2023



Source: eMarketer, BofA Global Research

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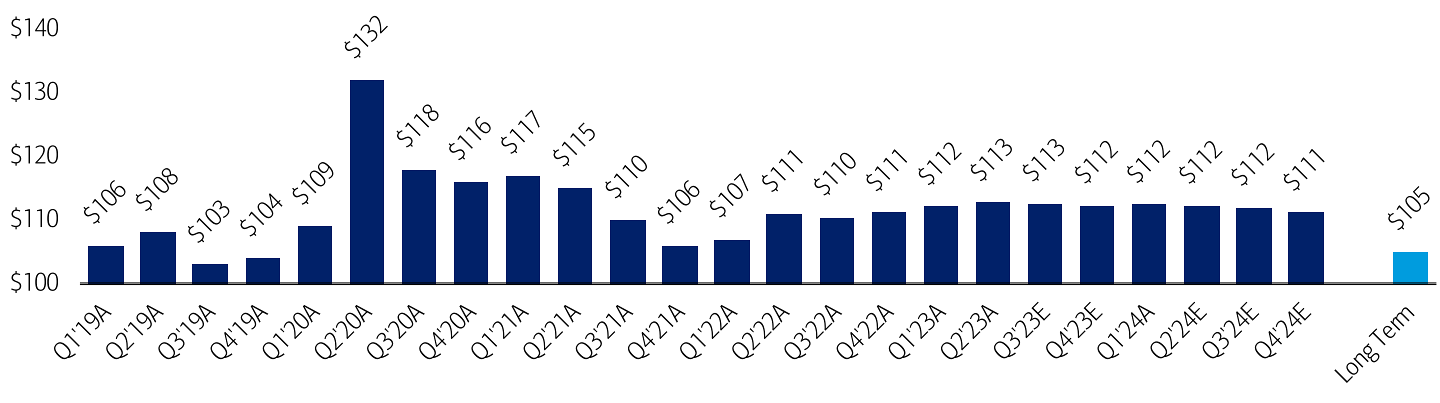
Basket deflation could pressure GTV growth

In 2Q'23, average order value growth decelerated 3.3pts vs. 1Q to +1.5% Y/Y, which compares to Food at Home inflation decelerating 4.1pts to 5.9% Y/Y for the quarter. Management expects moderating inflation to continue to impact AOV growth, and other headwinds from fewer items per order, shift to lower dollar convenience orders (or lower priced substitutes) could increase the impact. Long-term AOVs could trend toward pre-pandemic levels with an increasing mix of non-grocery orders.

Exhibit 16: Average order value, $ in ones

AOVs expected to be lower than pandemic levels



Source: Company reports, BofA Global Research estimates

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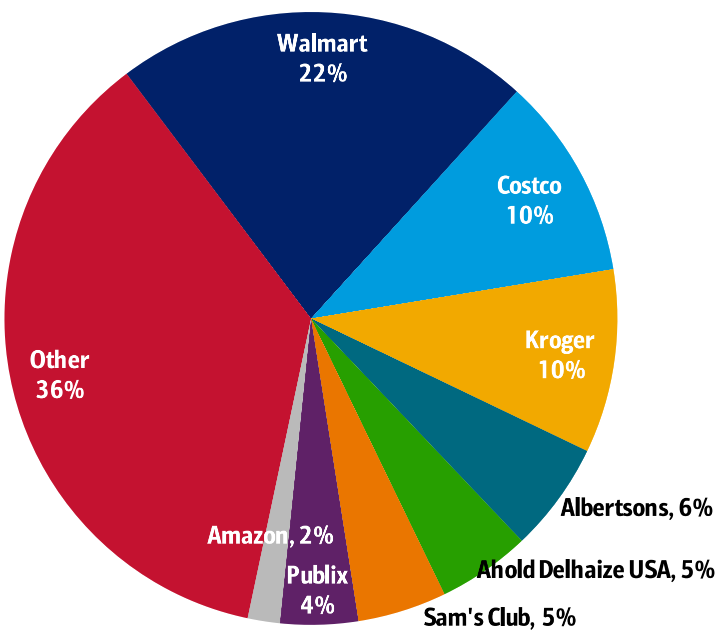
Uncertain labor and grocery regulation

Instacart's 600,000+ Shoppers are classified as independent contractors, potentially opening Instacart to new employment legislation (which is a risk for DoorDash and Uber as well) that reclassifies gig-economy workers as employees. Per the U.S. Bureau of Labor Statistics and data from Quickbooks, total employee costs are about 30% more expensive than an independent contractor's compensation, which could pressure transaction take rate if Shopper pay increases. The employment battle has been most pronounced in California, and the California Supreme Court is currently reviewing challenges to Prop 22, a 2020 ballot measure that retained app-based gig workers as independent contractors while giving them additional benefits, and an adverse ruling could impact Instacart. Separately, New York has enacted a minimum wage law for restaurant delivery workers and could enact similar legislation for other verticals.

Grocery partner concentration

Instacart has indicated 43% of 2022 GTV originated from three retailers (-2pts vs. 2020 and flat vs. 2021). While the company does not disclose their names, historical media reports suggest Instacart's top partners could be Publix, Costco, and Kroger. The Albertsons/Kroger merger could increase GTV concentration following the expected 2024 close.

Exhibit 17: Current US grocery market share
Top partners include Kroger, Costco, Albertsons and Publix



Source: Company reports, Incisiv, Forbes, Bloomberg, BofA Global Research estimates

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We see Costco and Albertsons/Kroger (post-merger) as Instacart's most important partners. Costco seems well integrated with Instacart given use of Instacart Enterprise Platform. However, while strong partners today, Kroger/Albertsons could have strategic changes post-merger as both have their own subscription programs. Any loss of a major partner could impact both GTV and sentiment on the stock.

Exhibit 18: Subscription services cost and member benefits
Instacart+ costs $99/yr vs. Walmart+ at $98

Subscription	Annual Fee	Free delivery threshold for groceries	Benefits	Grocers included
Instacart+	$99	$35	5% on eligible orders, family account, reduced service fees	1,400+
Walmart+	$98	$35	Walmart+ Travel, Paramount+, Free Shipping on Packages, fuel saving	Walmart
Amazon Prime	$139	$100	Prime Video, Amazon Music, Free Shipping on Packages, Rx savings, 1yr of free Grubhub+	Whole Foods, Amazon Fresh
DashPass	$96	Variable	5% back on pickups, reduced service fees, restaurant delivery	Multiple
Uber One	$100	$35	5% off eligible grocery orders, 10% off eligible Uber Eats deliveries, membership Mobility pricing	Multiple
Boost	$99	$35	Digital coupons, fuel savings	Kroger banners
FreshPass	$99	$30	5% back on select private brands, $5 monthly credit for annual subscribers, Starbucks perks	Albertsons banners
Shipt	$99	$35		Target, CVS, Walgreens, Petco, more

Source: Company reports, BofA Global Research

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Luxury convenience on top of an essential purchase

According to Instacart, 40% of retailers offer the same prices on Instacart's platform as in-store, which means nearly 60% of retailers mark up prices on Instacart, passing along merchant fees to the consumer. While Instacart encourages grocers to price the same in-store and on Instacart, grocers must ultimately trade-off between incremental volumes or potential margin compression. According to the Houston Chronicle, grocery store profit margins are limited at 1-3% on average, which suggests most will be unwilling to assume incremental fees.

In our pricing analysis of four stores that do markup prices (Target, D'Agostino's, Rite Aid, and Safeway), we found that item prices on Instacart can average 10-15% higher than in-store, with Target raising some prices as much as 25% (vs. 1P fulfillment by Shipt was 9% higher than in-store prices). In total, we found that higher prices, the addition of Instacart's service fee and 5% default Shopper tip can increase the cost of shopping on Instacart by over 20% for small baskets for non-Instacart+ subscribers (larger baskets could have less fees as a percent of total but still have 15%+ cost increase). Even with grocers that price the same as in-store, the total cost of Instacart may still be 10%+ higher, depending on basket size and Shopper tips.

Exhibit 19: Proprietary pricing analysis
Our pricing analysis indicates consumers pay an average of 28% more on Instacart vs. in-store

Store	Target	D'agostino	Rite Aid	Safeway	Average
In-store basket cost	$45.0	$95.7	$53.6	$65.5	$65.0
Instacart basket cost	$56.4	$105.4	$52.0	$73.6	$71.9
Difference ($)	$11.4	$9.7	($1.6)	$8.1	$6.9
Difference (%)	25%	10%	-3%	12%	11%
Service Fee (non IC+ member)	$5.6	$9.9	$7.8	$7.2	$7.6
5% Suggested Tip	$2.8	$5.3	$2.6	$3.7	$3.6
Total Instacart cost (ex. applicable taxes)	$64.8	$120.5	$62.5	$84.5	$83.1
vs. in-store prices	44%	26%	16%	29%	28%

Source: BofA Global Research

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Our data suggests that some retailers may be raising prices more than the merchant fee and may be generating higher unit profits on Instacart sales, though this may come at lower volumes on Instacart's marketplace as 40% of retailers offer in-store pricing.

Stock lock-up expiration dates

According to company data, after the first earnings release (likely in November), 11.3mn shares held by employees could unlock if the stock trades 120% above the IPO price for five of ten consecutive trading days, with at least one of the trading days occurring after the first earnings release. The lock-up period fully expires the earlier of 180 days after the IPO (March 17, per Bloomberg) or the opening of trading following Instacart's earnings release for the quarter ending December 31, 2023.

Exhibit 20: Ownership summary by type

According to Bloomberg, 34% of shares outstanding are owned by VCs

Ownership Type	10/08/23
Venture Capital	34.4%
Individual	25.4%
Hedge Fund Manager	24.9%
Other	8.1%
Investment Adviser	7.1%

Source: Bloomberg

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GLP-1's potential to lower basket sizes

Usage of the new weight-loss drugs (GLP-1) from Eli Lilly and Novo Nordisk could have downstream impacts on Instacart. Per BofA's Food & Beverage team, total caloric intake in the US could be reduced by 1-3% if usage of GLP-1s reaches 25-50mn users, assuming a 15-20% reduction in individual calorie intake (see note). This could translate to potentially smaller baskets on Instacart's platform, and Bloomberg reported that Walmart executives are already noticing a "slight pullback in overall basket" for food-shoppers taking GLP-1 drugs. According to John Furner, President CEO of Walmart US, baskets have "just less units, slightly less calories". While this could hurt core marketplace sales on Instacart, we note Instacart is expanding its pharmacy delivery capabilities.

Exhibit 21: Total calorie reduction in US given GLP-1 usage and efficacy

BofA's Food & Beverage team estimates total calorie consumption in the US could fall 1-3% if 25-50mn people take GLP-1s

		GLP-1 user's caloric intake reduction										
		12%	13%	14%	15%	16%	17%	18%	19%	20%	21%	22%
	5	-0.2%	-0.2%	-0.2%	-0.2%	-0.2%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%	-0.3%
Number of Obese	10	-0.4%	-0.4%	-0.4%	-0.4%	-0.5%	-0.5%	-0.5%	-0.6%	-0.6%	-0.6%	-0.7%
GLP-1 users	25	-0.9%	-1.0%	-1.0%	-1.1%	-1.2%	-1.3%	-1.3%	-1.4%	-1.5%	-1.6%	-1.6%
(mn)	50	-1.8%	-1.9%	-2.1%	-2.2%	-2.4%	-2.5%	-2.7%	-2.8%	-3.0%	-3.1%	-3.3%
	100	-3.6%	-3.9%	-4.2%	-4.5%	-4.8%	-5.1%	-5.3%	-5.6%	-5.9%	-6.2%	-6.5%

Source: UN FAO, Census Bureau, BofA Global Research

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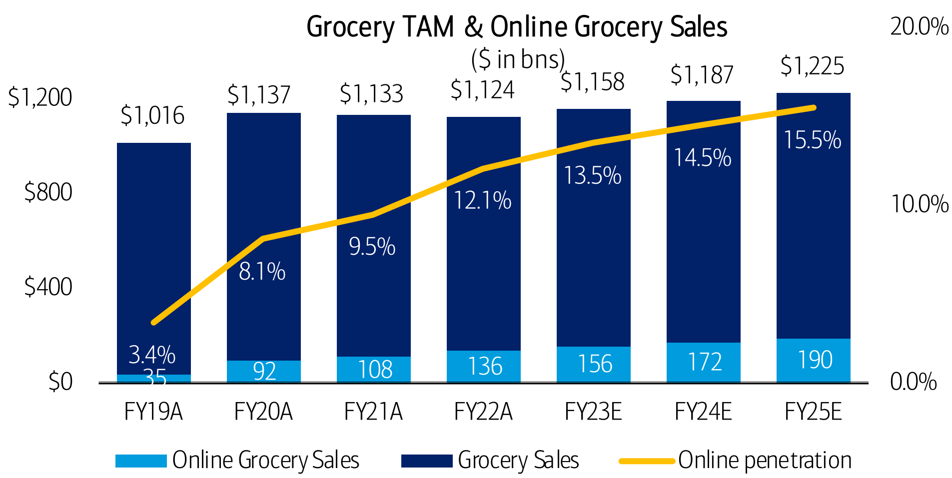
Online Grocery market overview

Instacart has a large total addressable market, with US grocery spend at $1.12tn in 2022 (-1% Y/Y), according to Incisiv. Grocery spend is expected to grow at a modest 3% CAGR through 2025, but Online grocery is expected to increase at a 12% 3-yr CARG as Online penetration increases. Incisiv estimates Online grocery penetration will grow to 13.5% in 2023.

Exhibit 22: Grocery TAM ($bn)
Per Incisiv, Online grocery penetration is projected to reach 13.5% in 2023, representing $156bn in sales



Source: Incisiv

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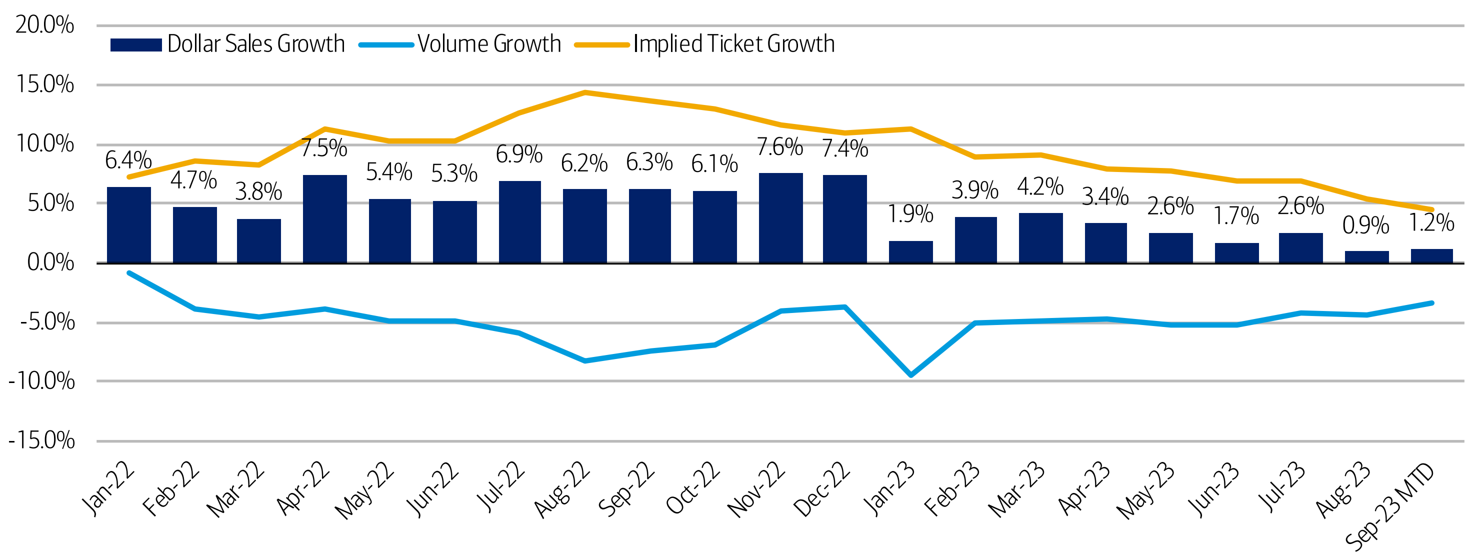
Nielsen data suggests that grocery sales have increased 2.5% Y/Y 2023YTD (unweighted), though decelerated to 1.2% Y/Y for the first two weeks of September (see Robby Ohmes' latest Food Retailers data update). Drivers of deceleration in 2023 are: (1) food-at-home inflation easing from its 40-year high at +13.5% Y/Y in August 2022 and (2) shoppers favoring value in private label which has also led to a deceleration in implied ticket growth.

Exhibit 23: Supermarket Y/Y growth for dollar sales and volume
Nielsen data indicates dollar sales growth at supermarkets increased +1.2% Y/Y in the first two weeks of September



Source: Nielsen, BofA Global Research

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At 22%E market share, Walmart is the largest grocer in the US with $247bn in grocery sales in 2022, while Costco generated $120bn in grocery sales, per Visible Alpha. The combined sales of Kroger and Albertsons post-merger is expected to represent 15.5% of the grocery market (pre-divesture of more than 400 stores in the merger). Costco is Instacart's largest exclusive partner by grocery market share (11%) and had $120bn in grocery sales in CY2022, though Costco handles deliveries over 1 Day.

Exhibit 24: US grocery market share data ($mn)

At almost $250bn in 2022 grocery sales, Walmart is the largest US grocer at a 22%E share, based off Incisiv data

US Grocery Sales ($mn)	2019	2020	2021	2022	3-YR CAGR	Est. Market Share
Walmart	192,428	208,413	218,944	247,299	9%	22.0%
Costco	82,201	100,452	109,150	120,173	13%	10.7%
Kroger	90,916	104,883	103,620	109,554	6%	9.7%
Albertsons	52,847	61,195	61,124	64,728	7%	5.8%
Ahold Delhaize USA	40,065	45,469	45,455	55,218	11%	4.9%
Sam's Club	35,328	42,148	46,822	53,027	14%	4.7%
Publix	32,309	38,423	40,651	45,602	12%	4.1%
H-E-B	28,000	31,200	32,800	38,900	12%	3.5%
Dollar General	21,636	25,907	26,259	30,155	12%	2.7%
Dollar Tree	23,611	25,509	26,321	28,332	6%	2.5%
Target	15,039	18,135	20,306	22,918	15%	2.0%
Whole Foods Market	17,039	15,580	16,397	18,134	2%	1.6%
Amazon Physical ex. WFM	153	644	678	829	75%	0.1%
Other	384,428	419,042	384,474	289,131	-9%	25.7%
Total Grocery Store Sales	**$1,016,000**	**$1,137,000**	**$1,133,000**	**$1,124,000**	**3%**	

Source: Company reports, Bloomberg, Visible Alpha, Forbes, Incisiv, BofA Global Research estimates

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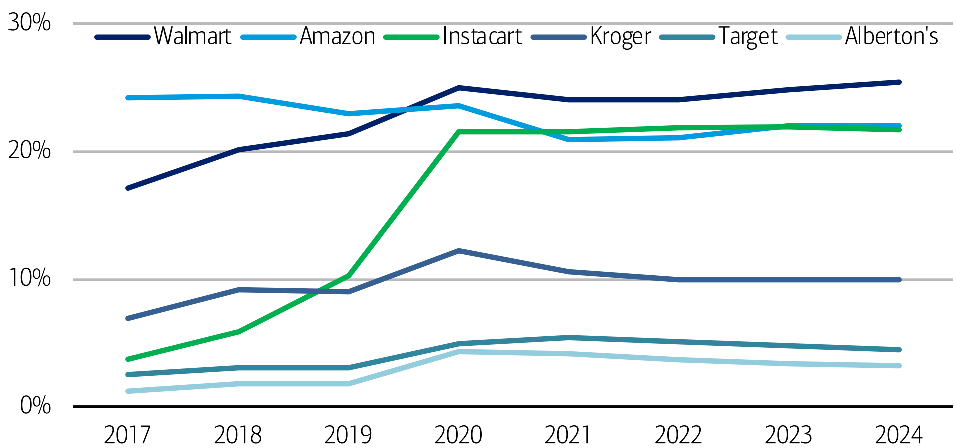
For Online grocery, Incisiv estimates Online penetration will increase 2023E to 13.5% vs. 12.1% in 2022, driving Online sales growth of 15% Y/Y (to $156.3bn). eMarketer estimates Walmart is the largest US Online grocery delivery retailer with about 24% share in 2022, gaining approx. 7pts of market share since 2017. Walmart US eCommerce grew a reported 24% Y/Y in 2Q, with grocery likely high-20%, as the company continues to invest heavily in its "stores as distribution centers" strategy, enabling pickup and delivery capabilities suitable for perishable goods.

Exhibit 25: US Online grocery sales, % share

eMarketer estimates Instacart had a 21.8% US Online grocery sales share in 2022



Source: eMarketer, BofA Global Research

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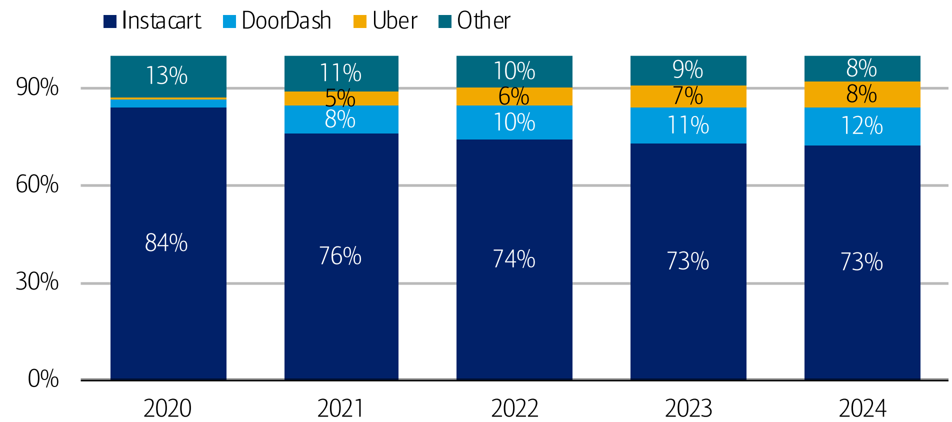
Focusing on just US third-party Online aggregators, key competitors to Instacart include DoorDash and Uber, while smaller competitors including Gopuff, Getir, and Shipt (a subsidiary of Target, which also fulfills orders for CVS, Walgreens, and Petco). Per eMarketer, Instacart has the lead amongst 3P aggregators, with a 73%E market share in 2023 vs. the next largest competitor, DoorDash, at 11%. eMarketer estimates US grocery GMV on DoorDash and Uber is approximately $4.5bn and $3bn, respectively.

Exhibit 26: Third-party aggregator share of Online grocery sales
Instacart commands a 73% Online grocery share vs. other 3P aggregators



Source: eMarketer, BofA Global Research

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Competitive overview

Walmart

Walmart generated $247bn in US grocery sales in CY2022 according to company filings, the largest grocer in the United States at an estimated 22.0% share. Company data indicates that US Walmart grocery sales grew at an 8.7% CAGR from 2019-2022 vs. industry at 3.4% with Walmart gaining share even among higher-income consumers as inflation pushes consumers to seek value deals. Walmart has also invested significantly in its omni-channel capabilities to drive Online grocery pickup or delivery and now has over 3,900 same-day delivery locations in the US. Walmart and Instacart have a limited partnership where Instacart fulfills Online orders for about 200 stores out of 4,600+ in the US, concentrated in a few test markets that includes Bay Area, parts of NY, and a few other East Coast cities.

Walmart also owns Sam's Club, which generated $53bn in grocery and consumable sales in 2022, representing an estimated 4.7% grocery market share in the US. Sam's Club is a membership-only warehouse and competes more directly with Costco, Instacart's largest exclusive partner by US market share (~11%). Sam's Club is more integrated with Instacart than Walmart stores, with the partnership starting in 2018. As of March 2019, Instacart expanded to all Sam's Club locations.

Amazon

We estimate Amazon's Whole Foods Market generated $18.1bn in US revenue in 2022, representing 1.6% grocery share (ex. Fresh). While smaller than many brick-and-mortar peers, eMarketer estimates that Amazon Online grocery channels (including Amazon Fresh) represented an outsized 21% Online share in 2022. Amazon recently lowered the free grocery delivery threshold to $100 (from $150, which was up from $35). We expect grocery to be a future investment area for Amazon, and share gains by Amazon could be a headwind for Instacart.

Uber

Uber Eats launched grocery delivery in July 2020 and now offers convenience, alcohol (through Uber's app Drizly), and retail selections in 30+ countries. According to the company, Uber is partnered with many retail banners that overlap with Instacart such as Albertsons, Kroger, Meijer, and more. Per mgmt., Uber historically concentrated much more on convenience orders with small shopping carts of $20-$30, but has recently increased focus on grocery delivery. For example, Uber One, Uber's new subscription program for $100/yr, provides free deliveries on grocery orders over $35 and 5% off eligible grocery orders. eMarketer estimates Uber's share of Online grocery sales among third-party aggregators has expanded from 1% in 2020 to an estimated 7% in 2023, implying about $3b in grocery sales on the platform. Uber has indicated that non-restaurant delivery run rate is $6bn, with grocery representing the biggest category.

DoorDash

DoorDash's New Verticals business encompasses grocery, convenience, DashMart (DoorDash's 1P grocery/convenience offering), alcohol, and retail. Grocers on the platform include Sprouts, Aldi, Lowe's Markets, Albertsons and more. On a unit economics basis, DoorDash mgmt. noted on the 2Q'23 earnings call that convenience is now profitable while grocery and DashMart have seen step margin improvements vs. last year. eMarketer data estimates that DoorDash will represent 11% of US digital grocery sales by 3P delivery platforms in 2023, suggesting about $4.5bn in grocery sales for the year. Media reports suggests free grocery delivery on DashPass is subject to change depending on the order, location, and other factors.

1P Delivery

Albertsons' FreshPass, Kroger's Boost, and Target's Shipt, are examples of first-party delivery programs that large retailers are building, and often include many other perks like fuel savings, coupon clippings, or savings on private brands. 1P delivery programs are more suited for large grocers given the scale and density required to operate delivery programs. We think Instacart's large audience and potential to act as a demand generator for incremental sales volumes make it unlikely that a retailer would drop Instacart as a partner (to date, only one partner has dropped Instacart, which was Whole Foods after Amazon acquired them in 2017), but grocers could try to negotiate lower fees. For Shipt, Target acquired Shipt in 2017 to accelerate same-day delivery in Target stores, but Shipt also acts as a 3P aggregator for companies such as CVS and Walgreens. Despite Target's investment in Shipt, we note that Target is also available on Instacart, suggesting value in Instacart's marketplace for incremental sales. Another notable 1P deliverer is FreshDirect, which is owned by Ahold Delhaize (parent to Food Lion, Stop & Shop, and Giant) but only operates in the tri-state area. FreshDirect does not have storefronts and does all fulfillment Online.

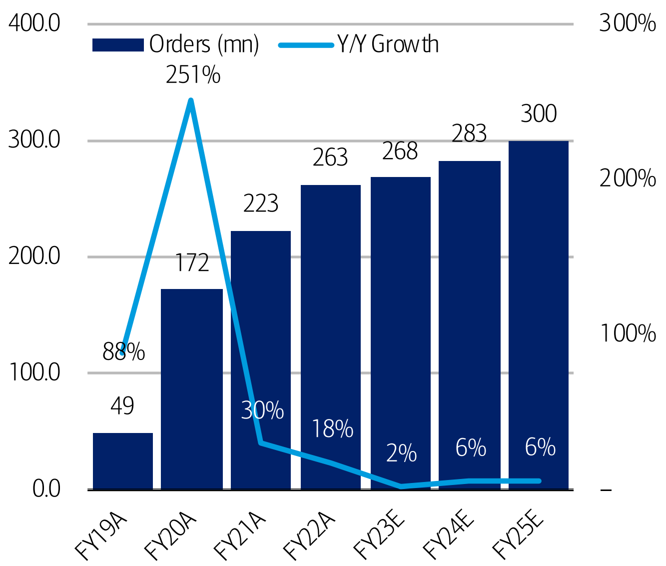
Other 3P Aggregators and Recipe Kits

Instacart also competes with other 3P aggregators like Gopuff, Getir and Shipt, as well as recipe kit subscriptions like Blue Apron, Hello Fresh, and Hungryroot. Most recently, the Wonder Group announced plans to acquire Blue Apron for $103bn after Blue Apron's revenue declined 14.5% Y/Y in 2Q'23. Recipe kits deliver pre-picked groceries to consumers and provide instructions for cooking a meal.

Financials

Instacart's key financial metrics include Orders, Average Order Value ("AOV"), Gross Transaction Value ("GTV"), Transaction Take Rate, Ad Investment Rate, Total Net Revenue, GAAP Net Income, and Adjusted EBITDA. We project GTV and revenue to grow at a 5% and 11% 3-yr CAGR through 2025E, respectively, with outsized revenue growth vs. GTV driven primarily by take rate expansion through Shopper pay efficiencies and advertising growth. The company has already demonstrated that the business model can be profitable with positive GAAP Net Income for the past five quarters (since 2Q'22) and, while we expect stock-based compensation to be a near-term headwind to GAAP profitability, we expect positive GAAP earnings in 2024 and 2025. For EBITDA, we project margins to expand from 7% in 2022 to 25% in 2025E, driven by growth in high-margin advertising revenue and leverage in R&D/S&M.

Exhibit 27: Orders (mn) and Y/Y growth
We project Orders to growth 2.1% in 2023E to 268mn



Source: Company reports, BofA Global Research estimates

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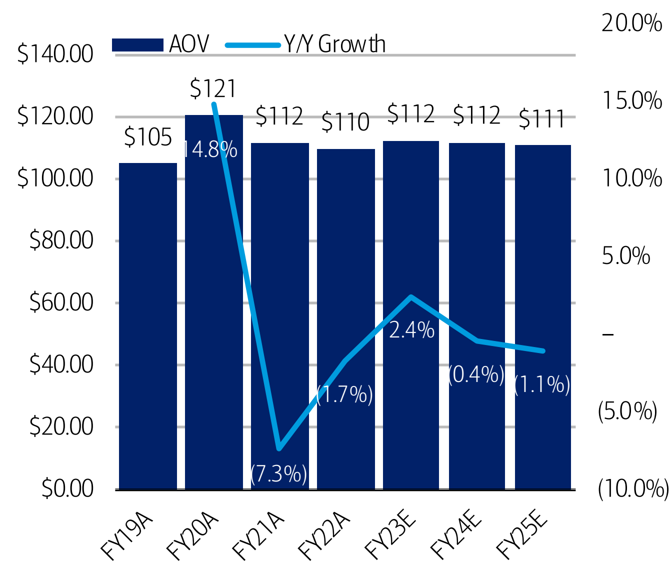
Exhibit 28: AOV ($ in ones) and Y/Y growth
We project AOV to grow 2.4% Y/Y in 2023E to $112.45



Source: Company reports, BofA Global Research estimates

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Orders

On Instacart, an order is considered a complete transaction to purchase goods for delivery or pickup from a single retailer on Instacart. This includes orders placed through Instacart Marketplace or placed on retailer's 1P storefront powered by Instacart Enterprise Platform (roughly 80% of GTV is from Instacart's 1P Storefront). Order growth benefited from COVID with growth peaking at 251% Y/Y in 2020, but, in 2023, growth has slowed to single-digit rates. Looking ahead, we expect a 5% 3-yr CAGR for order growth, which is expected to come from growing the number of active customers on the platform (7.7mn monthly customers as of 2Q'23). Converting customers to Instacart+ members should also help drive incremental order growth, as the average Instacart+ subscriber orders 4.1x per month vs. 2.1x for non-subscribers.

Average Order Value ("AOV")

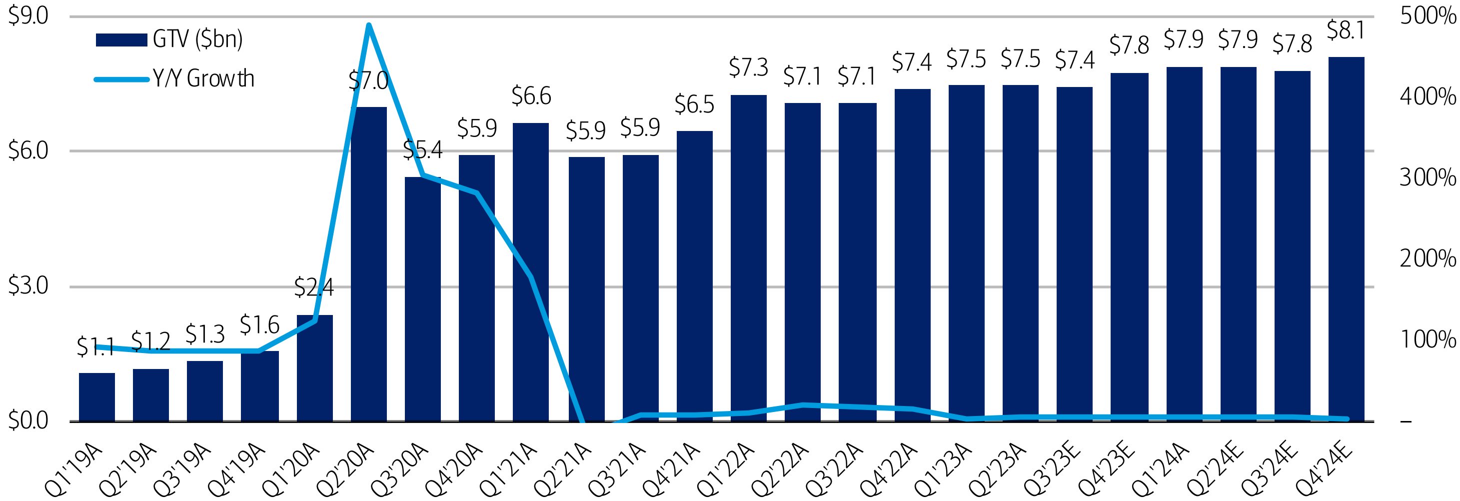
Average order value is calculated by total GTV in a given period divided by total orders in such period. AOV is a proxy for average basket size but also includes applicable taxes/fees and Shopper tips. According to YipitData, Instacart captures approximately 75% share of Online grocery baskets valued $75 or more. Over time, AOV could see modest pressure driven by a return to pre-COVID grocery spend levels, dissipating food inflation, and new use cases on Instacart such as smaller-basket sized convenience orders. In 2Q'23, AOV reached $112.70 (+1.5% Y/Y) and we project AOV to decline modestly to $110.77 by 2025E.

Gross Transaction Value ("GTV")

Gross transaction value is the cumulative value of the products sold on Instacart Marketplace and Instacart Enterprise Platforms based on prices shown on Instacart, plus applicable taxes/fees and Shopper tips. We expect future GTV growth to be driven by an increase in orders from new and existing customers, slightly offset by declines in AOV.

Exhibit 29: Gross transaction value and Y/Y growth by quarter ($bn)

We project GTV to reach $30.1bn in 2023E (+5% Y/Y, 11pt deceleration vs. 2022)



Source: Company reports, BofA Global Research estimates

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Transaction Take Rate

Transaction revenue is the value of products sold (inclusive of taxes/fees/tips) and payment revenue, net of retailer & customer fees and contra-revenues including Shopper pay (by far the largest contra-revenue), incentives & promotions, and appeasement & refunds. Transaction take rate is the percentage of transaction revenue generated from GTV and excludes advertising revenues. Transaction revenues in 2022 reached $1.8bn, representing a 6.3% transaction take rate (1.2pts Y/Y). Transaction take rate dipped from 7.5% in 1Q'23 to 6.8% in 2Q (drivers included an increase in contra-revenue customer acquisition spend and some 1x payments to retailers) and we expect a rebound to 7.1% in 3Q. Future transaction rate drivers are expected to be generally flat in aggregate, though efficiencies coming from refund/appeasement optimization and a decrease in Shopper earnings as a percent of GTV. Shopper pay improvements are expected from faster picking and increased batching, which require Instacart to pay less on a per order basis, though the Shopper still earns more from multiple orders per trip.

Advertising and Other Revenues

This consists primarily of advertising revenue, with modest amounts of Other enterprise revenue, such as SaaS fees from Instacart's Enterprise Platform. In 2Q'23, Instacart's ad revenues (ad investment rate) represented 2.8% (+40bps Y/Y) of GTV. Ad revenue is expected to increase faster than overall GTV and reach 4-5% of GTV in the long-term.

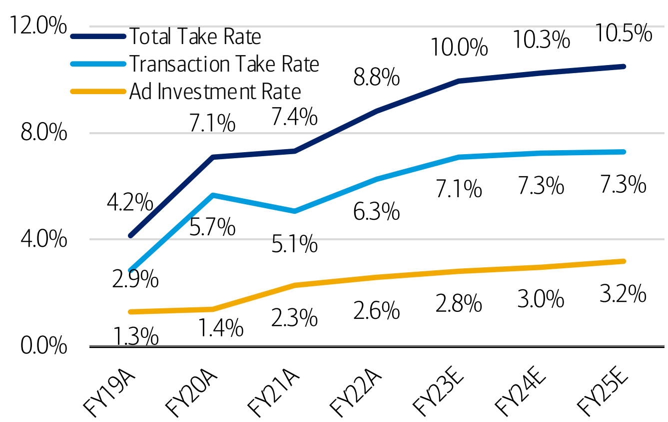
Growth is expected to be driven by: 1) new features and measuring tools capturing incremental usage from existing customers; 2) expanding advertisable GTV on Instacart and growing share of high-investment rate categories like alcohol or personal care; 3) growing advertiser base; and 4) increasing off-marketplace monetization through Carrot Ads (Instacart-powered advertising on retailer 1P sites). We project advertising revenues to reach 3.2% of GTV in 2025E, and 4-5% over the long-term.

Total Revenue

We project total revenue to grow at an 11% 3-yr CAGR through 2025E to reach $3.49bn. Revenue growth is expected to outpace GTV growth due to total take rate expansion led by Shopper pay optimization (less contra-revenue) and growth of advertising spending above GTV growth.

Exhibit 30: Take rate by segment

We project total take rate to reach 10.5% in 2025E, up from 8.8% in 2022



Source: Company reports, BofA Global Research estimates

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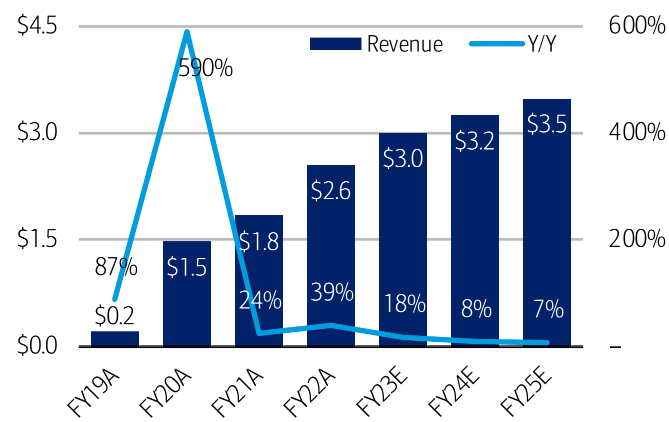
Exhibit 31: Total revenue ($bn)

We project revenue to reach $3.5bn in 2025E, implying an 11% 3-yr CAGR



Source: Company reports, BofA Global Research estimates

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Estimated order economics

The table below shows our estimates for a typical Instacart order at $113. The largest expense is the pass-through of payments to retailers for the value of the goods, which we estimate at $95 per basket. This leaves gross revenue per order of $18, before contra-revenue Shopper payout and promotions/discounts, which we estimate adds up to $10 per order. This leaves transaction revenue per order at $8.11 (or 7.2% of order value), and we add 2.7% ad revenue, yielding $11.16 in total revenue per order.

Exhibit 32: Sample unit economics of Instacart order

We estimate Instacart generates approx. $2 of EBITDA per order

Illustrative Unit economics	$ estimate	Notes
Total Basket Size	$113	Includes Tips, fees, etc.
Less: pass-through payments, Plus: consumer/merchant fees	-$95	BofA estimate
Gross Revenue per Order	$18	Before Shopper Payout
Less: Shopper Payout and Promotions, Discounts, Refunds	-$10	BofA estimate
Transaction Revenue per Order	$8.11	Represents Gross Revenue net of Shopper Payout
Advertising Revenue per Order	$3.04	
Total Revenue per Order	$11.16	Includes Advertising

Illustrative Unit economics	$ estimate
Total Revenue per Order	$11
Cost of Revenue per Order	-$2.7
Gross Profit per Order	$8.5
Less: Ops & Support per Order	($0.94)
Less: S&M per Order	($2.52)
Less: R&D + G&A per Order	($2.98)
Opex per Order	-$6.44
EBITDA per Order	$2.02

Source: BofA Global Research estimates

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Based on our 2023E gross margin and EBITDA margin estimates, we estimate about $8.50 in gross profit per order and about $2 in EBITDA/order, above Instacart's closest comp, DoorDash, on an absolute dollar basis at $0.50 (and $0.68E for standalone Dash).

Cost of Revenue

Cost of Revenue includes third-party payment processing fees, expenses related to payment chargebacks, hosting fees, insurance costs attributable to fulfillment, and compensation costs to employees primarily involved in fulfillment. Long-term, Instacart is targeting 78% GAAP gross margin (22% cost of revenue) vs. our estimate for 74% margins in 2023E. Future leverage should come from advertising growth, the optimization of customer fees and appeasements, and continued fulfillment efficiencies.

Operating expenses

Operations & Support

These expenses consist of compensation expense for employees who support operations, cost of customer and Shopper support, cost to attract and onboard new Shoppers, and allocations of various overhead costs. Long-term, Instacart targets Adjusted Operations & Support (ex. SBC and D&A) costs of ~7% of revenue (vs. our projection at 8.4% in 2023E).

Research & Development

These expenses primarily consist of compensation costs for engineers, third-party consulting fees, and allocations of various overhead and occupancy costs. R&D historically trended higher as a percent of revenue as Instacart grew into demand during COVID. Long-term, Instacart targets Adjusted R&D at 11% of revenue (vs. our projection of 17.0% in 2023E).

Sales & Marketing

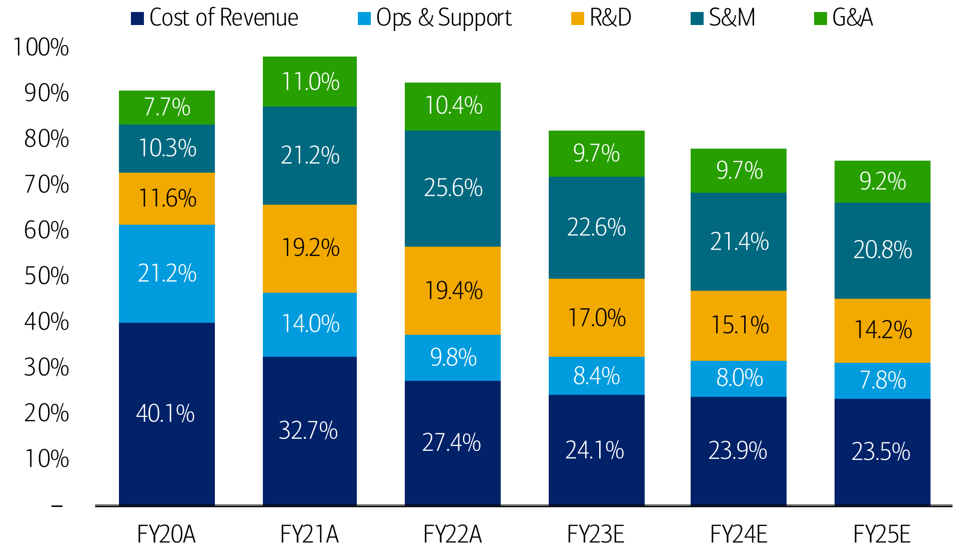
These expenses primarily consist of advertising expenses, compensation costs for sales and marketing employees, third-party consulting fees, and allocations of various overhead and occupancy costs. Adj. S&M as a percent of revenue increased to 25.6% in 2022 from 21.2% in 2021 due to significant investments in brand spend. Going forward, marketing spend is expected to fall as a percent of revenue as repeat customers contribute a larger percent of volumes. Long-term, Instacart targets Adjusted S&M to fall to 16% of revenue (vs. our projection of 22.6% in 2023E).

General & Administration

These expenses primarily consist of compensation costs for administrative employees (including financing and accounting, HR, and legal), third-party consulting costs, and allocations of various overhead and occupancy costs. G&A is expected to increase on an absolute dollar basis but stay in line with 2022 as a percent of GTV basis at around 1%. As a percentage of revenue, Instacart targets Adjusted G&A to fall to 8% in the long-term (vs. our projection of 9.7% in 2023E).

Exhibit 33: Expenses as a percent of revenue, non-GAAP

We project total adjusted expenses to reach 75% of revenue in 2025E



Source: Company reports, BofA Global Research estimates

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GAAP Net Income

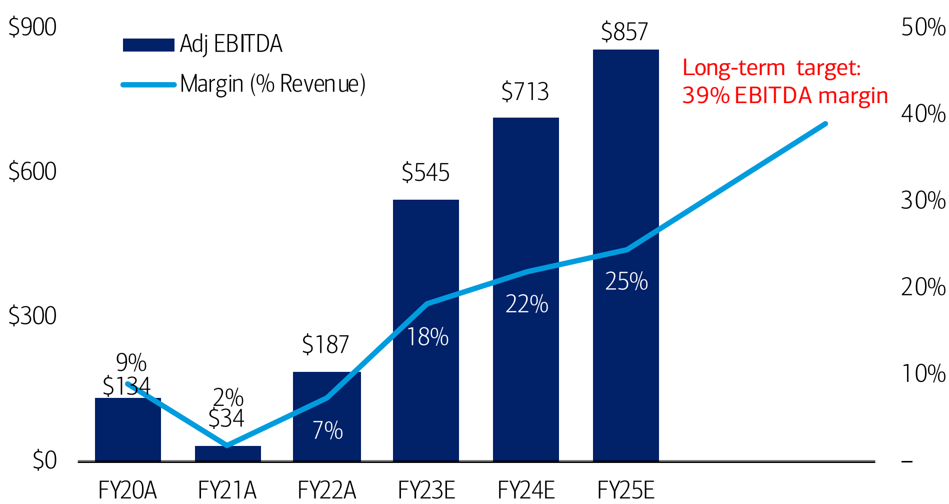
On a GAAP basis, which includes D&A and stock-based compensation, Instacart has been Net Income positive since 2Q'22. On a GAAP basis, we project Net Income to turn negative in 3Q'23E (and full year 2023) due to an estimated $2.65bn SBC headwind related to Instacart's IPO. However, we think SBC will moderate and Instacart will be GAAP net income positive by 2H'24.

Adjusted EBITDA

Instacart has been EBITDA profitable since 2020, most recently reaching 15% margins in 2Q'23 (+10pts Y/Y, -7pts Q/Q). Margin should continue to expand on an annual basis driven by increased take rate (Shopper pay efficiencies), high-margin advertising growth, and leverage on opex items (including Shopper acquisition costs normalizing vs. history, scaled R&D). Instacart's long-term EBITDA margin target is 4-5% of GTV and 39% of revenue.

Exhibit 34: Adjusted EBITDA ($mn)

We project $545mn in EBITDA for 2023E, implying 18% margins (+11pts Y/Y)



Source: Company reports, BofA Global Research estimates

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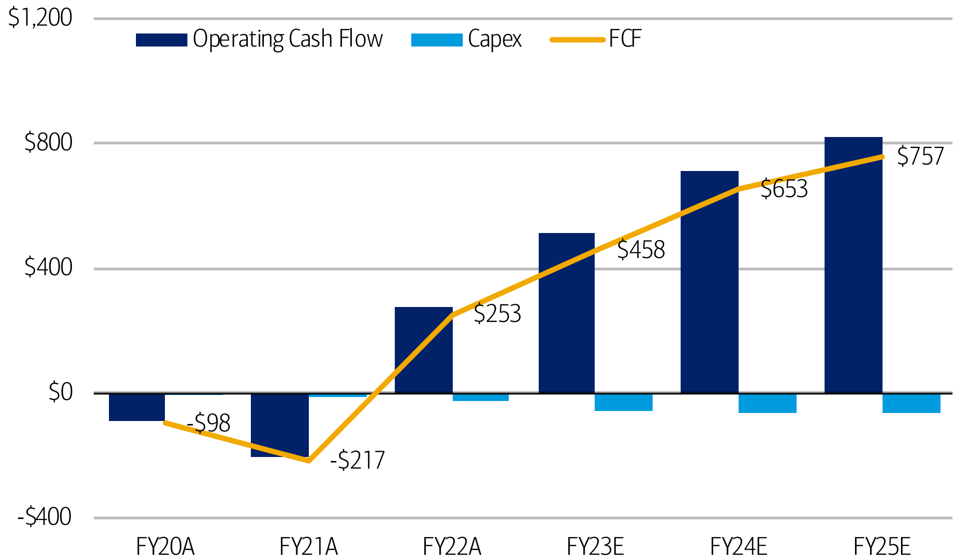
Free cash flow & liquidity position

Instacart generally has some working capital headwinds as accounts receivables grow, though we expect this to become diminish. Instacart does note that EBT SNAP (Electronic Benefit Transfer / Supplemental Nutritional Assistance Program) and alcohol, two growth areas for the company, may result in longer collection cycles. Capex investments are relatively small at approx. 2% of revenue. We project Instacart will generate $458mn in cash in 2023E, $653mn in 2024E, and $757mn in 2025E.

Exhibit 35: Free cash flow

We project Instacart will generate $458mn in cash in 2023E, implying a 15% margin



Source: Company reports, BofA Global Research estimates

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Long-term target model

Instacart's long-term targets as follows: 6.5-7.5% Transaction Take Rate; 4-5% Ad Investment Rate; 78% GAAP Gross Margin on revenue; 7% Adj. Operations & Support; 11% Adj R&D; 16% Adj S&M; 8% Adj G&A; and 39% Adj EBITDA (representing 4-5% of gross transaction value).

Exhibit 36: Instacart long-term model

Instacart targets 4-5% Adj EBITDA margins on GTV, or 39% margin on revenue, in the long-term

	GVT			Revenue		
Instacart long-term model	2023E	Long-term	Bridge (at mid)	2023E	Long-term	Bridge
Transaction take rate	7.1%	6.5-7.5%	-0.1%			
Ad investment rate	2.8%	4-5%	1.7%			
Total take rate	10.0%	10.5-12.5%	1.5%			
Gross margin (GAAP)	7.4%	8-10%	1.6%	74%	78%	4%
Adjusted Operations & Support	0.84%	0.75%	-0.09%	8%	7%	-1%
Adjusted R&D	1.7%	1.3%	-0.4%	17%	11%	-6%
Adjusted S&M	2.3%	1.8%	-0.5%	23%	16%	-7%
Adjusted G&A	1.0%	0.9%	-0.1%	10%	8%	-2%
Adjusted EBITDA	1.8%	4-5%	2.7%	18%	39%	21%

Source: Company reports/ BofA Global Research

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Valuation

We are initiating coverage on Instacart with a Neutral rating and a $30 price objective, based on an equally weighted multiple analysis using 3.5x EV/Gross Profit and 11x EV/EBITDA, supported by our DCF model. Our multiples reflect a discount to peers given growth rates will likely trail primary comparable companies. Positives for Instacart vs. comps include the early stage of the Online grocery industry, established business model profitability and positive cash flow, and potential future operating leverage. Negatives include share loss vs. the Online grocery industry in 2023 (smaller-cap companies growing at a lower rate than peers, such as Pinterest and Expedia, have not performed as well in 2023), slower growth than the gig-economy sector, competition vs. eCommerce leaders Amazon and Walmart, and a concentrated partner base for supply (groceries).

Comparable Company Analysis

Our Primary Comparable Companies include larger gig companies (DoorDash, Uber, Upwork, and Meituan) and eCommerce companies (including Amazon, eBay, Etsy and more). We also show grocery and SaaS multiples for reference. Our grocery comps include Walmart, Costco, Target, and Kroger while our SaaS comps include Salesforce, Shopify, Microsoft, ServiceNow, and Workday. The average multiples for our set of Primary Comparable Companies are 2024E EV/GMV at 0.8x, 2024 EV/Sales at 1.9x, 2024 EV/Gross Profit of 3.9x, and 2024 EV/EBITDA of 14.6x. Instacart currently trades at 0.2x 2024 GTV (BofA projections), 2.0x 2024 Net Sales, 2.7x 2024 Gross Profit, and 9.1x 2024 EV/EBITDA, below comp group averages.

Exhibit 37: Instacart comparable companies

Instacart primary comparable companies trade at 2024 EV/Gross Profit and EBITDA of 3.9x/14.6x vs. Instacart at 2.7x/9.1x

Company ($bn)	Price 10/14/23	EBITDA Margin 2024	EBITDA Margin 2025	Sales Growth 2024	Sales Growth 2025	Gross Margin 2024	Gross Margin 2025	EV/Revenue 2024	EV/Revenue 2025	EV/GP 2024	EV/GP 2025	EV/EBITDA 2024	EV/EBITDA 2025	P/E 2024	P/E 2025	MtkCap ($mn)	EV ($mn)
Gig-economy																	
Uber	$43.48	13%	15%	17%	16%	41%	42%	2.2x	1.9x	5.3x	4.4x	17.0x	12.3x	28x	17x	$88,852	$96,079
DoorDash	$75.37	14%	16%	17%	17%	49%	50%	2.7x	2.3x	5.4x	4.6x	19.2x	13.9x	167x	46x	$29,643	$26,236
Upwork	$11.12	13%	16%	13%	14%	76%	77%	1.8x	1.6x	2.4x	2.1x	14.3x	10.4x	15x	11x	$1,500	$1,395
Meituan	$114.60	12%	15%	22%	19%	36%	37%	1.8x	1.5x	5.1x	4.1x	14.8x	10.1x	20x	13x	$90,878	$83,059
Median		13%	16%	17%	16%	49%	50%	2.2x	1.9x	5.3x	4.4x	17.0x	12.3x	28x	17x		
Average		13%	16%	16%	16%	55%	56%	2.2x	1.9x	4.4x	3.7x	16.9x	12.2x	70x	25x		
eCommerce																	
Amazon	$129.79	18%	19%	12%	12%	47%	48%	2.2x	2.0x	4.7x	4.1x	12.4x	10.3x	32x	24x	$1,339,141	$1,424,087
eBay	$41.79	31%	31%	4%	4%	72%	73%	2.4x	2.3x	3.4x	3.2x	7.8x	7.5x	10x	9x	$22,239	$25,793
Etsy	$63.17	28%	28%	9%	11%	71%	71%	3.0x	2.7x	4.2x	3.8x	10.9x	9.7x	16x	15x	$7,771	$9,031
Wayfair	$47.31	3%	5%	7%	8%	31%	31%	0.6x	0.6x	2.1x	1.9x	18.5x	13.0x	NM	NM	$5,486	$8,363
Chewy	$17.00	4%	4%	10%	10%	28%	29%	0.6x	0.5x	2.0x	1.8x	16.4x	12.3x	33x	21x	$7,316	$7,138
Median		18%	19%	9%	10%	47%	48%	2.2x	2.0x	3.4x	3.2x	12.4x	10.3x	24x	18x		
Average		17%	18%	8%	9%	50%	50%	1.8x	1.6x	3.3x	3.0x	13.2x	10.5x	23x	17x		
Comp Median		13%	16%	12%	12%	47%	48%	2.2x	1.9x	4.2x	3.8x	14.8x	10.4x	24x	16x		
Comp Average		**15%**	**17%**	**12%**	**13%**	**50%**	**51%**	**1.9x**	**1.7x**	**3.9x**	**3.3x**	**14.6x**	**11.0x**	**40x**	**20x**		
Instacart (BofAe)	$25.57	22%	25%	8%	7%	74%	75%	2.0x	1.9x	**2.7x**	2.5x	**9.1x**	7.6x	131x	38x	$8,628	$6,501
Instacart (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	2.7x	2.6x	9.8x	9.2x	18x	16x		
Average		6%	6%	2%	4%	21%	21%	0.7x	0.6x	3.9x	3.7x	12.0x	11.2x	20x	19x		
SaaS																	
Median		32%	33%	17%	18%	79%	79%	8.0x	6.6x	12.6x	10.3x	23.3x	20.0x	32x	26x		
Average		32%	33%	16%	17%	72%	72%	7.9x	6.7x	11.3x	9.5x	30.6x	23.6x	38x	30x		

Source: Bloomberg, BofA Global Research

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To value Instacart, we take an average multiple of EV/Gross Profit and EV/EBITDA, and apply discounts to comp group for lower growth at 3.5x/11x. Our PO includes cash raised from the IPO and is based on a fully diluted share count of 337mn.

Exhibit 38: Relative analysis

Our $30 PO is based on an equally weighted multiple analysis using a 3.5x Gross Profit and 11x EBITDA multiple

Metric ($mn)	2024E	Multiple	Weighting	Value
GTV	$31,698			
Revenue	$3,250			
Gross Profit	$2,417	3.5x	50%	8,460
EBITDA	$713	11.0x	50%	7,839
GAAP EPS	$0.17			
Enterprise Value				**$8,149**
(+) Cash				2,126
(-) Debt				-
Equity Value				**$10,276**
Share Count				337
Valuation				**$30**
Current Px				$25.57
Upside/(Downside)				17%

Comp. Avg.	Metric (2024)
0.8x	EV/Bookings
1.9x	EV/S
3.9x	EV/GP
14.6x	EV/EBITDA
40x	P/E

Source: Bloomberg, BofA Global Research

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Using Instacart's long-term EBITDA margin guidance of 28pprox.. 40% of revenue and a 10x EBITDA multiple implies a valuation of $13bn. Our sensitivity analysis is based on hypothetical EBITDA of 30-40% EBITDA margins on revenue and 6x-14x multiple, which implies an EV range of $5.9bn vs. $18.2bn.

Exhibit 39: Hypothetical EBITDA and sensitivity analysis

Our 2024 revenue at a 40% EBITDA margin and 10x multiple implies an Enterprise Value of $13bn

Hypothetical EBITDA	
2024 Revenue	**$3,250**
EBITDA margin	40%
Hypothetical EBITDA	**$1,300**
2024 EBITDA multiple	10.0x
Enterprise Value	**$12,999**

Sensitivity Analysis (EV)						
		EBITDA Multiple				
		6x	8x	10x	12x	14x
EBITDA	30%	5,850	7,800	9,750	11,699	13,649
Margin	35%	6,825	9,100	11,374	13,649	15,924
	40%	7,800	10,400	12,999	15,599	18,199

Source: BofA Global Research

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Scenario analysis: Upside case

We see an upside case valuation of $48 per share assuming GTV growth accelerates to 8% Y/Y to $32.6bn in 2024 and 10% Y/Y to $35.8bn in 2025, as well as 2.6% EBITDA margin in 2025 on GTV. Applying a 15x 2025 EBITDA multiple (similar to DoorDash) would yield a valuation of $48 per share.

Exhibit 40: Upside scenario valuation

Our upside scenario implies $48 per share

Upside Scenario Valuation	2023	2024	2025
Total GTV	$30,145	$32,557	$35,813
Growth rate		8%	10%
EBITDA Margin on GTV	1.8%	2.3%	2.6%
Total EBITDA	$545	$749	$931
Multiple on EBITDA			15.0x
Enterprise Value			$13,967
Cash			$2,126
Market Cap			$16,093
Shares			337
Upside scenario valuation			$48

Source: BofA Global Research

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Scenario analysis: Downside case

We see a downside case valuation of $18 per share assuming GTV growth at 2% Y/Y to $30.7bn in 2024 and 2% Y/Y to $31.4bn in 2025, as well as 2.1% EBITDA margins on GTV in 2025. Appling a 6x 2025 EBITDA multiple (near historical trough multiples for companies losing share to a large competitor, such as eBay or Expedia) would yield a valuation of $18.

Exhibit 41: Downside scenario valuation

Our downside scenario implies $19 per share

Downside Scenario Valuation	2023	2024	2025
Total GTV	$30,145	$30,748	$31,363
Growth rate		2%	2%
EBITDA Margin on GTV	1.8%	2.0%	2.1%
Total EBITDA	$545	$600	$659
Multiple on EBITDA			6.0x
Enterprise Value			$3,952
Cash			$2,126
Market Cap			$6,078
Shares			337
Downside scenario valuation			$18

Source: BofA Global Research

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Discounted Cash Flow analysis (assumptions that support PO)

Our PO is supported by our discounted cash flow analysis. Our DCF assumes Instacart GTV reaches $49bn in 2033, implying 13% Online market share. Our DCF assumes a 12.1% consolidated take rate in 2033 (which is near the high-end of Instacart's long-term target of 10.5-12.5%) and operating margin ex-SBC to reach 37.5% in 2033. We assume a WACC of 12.6% to arrive at a terminal value of $11.1bn based on a Beta of 1.5 (average of Uber, DoorDash, and Lyft's adjusted Beta). Accounting for future share growth, our DCF suggests an enterprise value of $8.0bn.

Exhibit 42: Discounted Cash Flow analysis

Our DCF suggests Instacart's GTV will grow to $49bn by 2033, implying a 13% market share of Online grocery

Instacart DCF	FY22A	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	
Total Grocery sales	**1,124,000**	**1,158,000**	**1,187,000**	**1,225,000**	**1,261,750**	**1,299,603**	**1,338,591**	**1,378,748**	**1,420,111**	**1,462,714**	**1,506,595**	**1,551,793**	
Y/Y growth	-1%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	
Online Penetration	12%	14%	15%	16%	17%	18%	19%	20%	21%	22%	23%	24%	
Online Grocery sales	**136,004**	**156,330**	**172,115**	**189,875**	**208,189**	**227,430**	**247,639**	**268,856**	**291,123**	**314,484**	**338,984**	**364,671**	
Y/Y growth	26%	15%	10%	10%	10%	9%	9%	9%	8%	8%	8%	8%	
Implied IC market share	**21%**	**19%**	**18%**	**18%**	**17%**	**16%**	**16%**	**15%**	**15%**	**14%**	**14%**	**13%**	
Instacart DCF	**FY22A**	**FY23E**	**FY24E**	**FY25E**	**FY26E**	**FY27E**	**FY28E**	**FY29E**	**FY30E**	**FY31E**	**FY32E**	**FY33E**	**Terminal**
GTV	**28,826**	**30,145**	**31,698**	**33,241**	**34,903**	**36,648**	**38,480**	**40,404**	**42,424**	**44,546**	**46,773**	**49,112**	
Y/Y	16%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	
Transaction revenue	**1,811**	**2,149**	**2,298**	**2,427**	**2,548**	**2,675**	**2,809**	**2,950**	**3,097**	**3,252**	**3,414**	**3,585**	
Take Rate	6.3%	7.1%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	7.3%	
Y/Y	44%	19%	7%	6%	5%	5%	5%	5%	5%	5%	5%	5%	
Ad & Other revenue	**740**	**855**	**952**	**1,064**	**1,187**	**1,319**	**1,462**	**1,616**	**1,782**	**1,960**	**2,152**	**2,357**	
Take Rate	2.6%	2.8%	3.0%	3.2%	3.4%	3.6%	3.8%	4.0%	4.2%	4.4%	4.6%	4.8%	
Y/Y	29%	16%	11%	12%	12%	11%	11%	11%	10%	10%	10%	10%	
Total Revenue	**$2,551**	**$3,004**	**$3,250**	**$3,490**	**$3,735**	**$3,995**	**$4,271**	**$4,566**	**$4,879**	**$5,212**	**$5,566**	**$5,942**	
Take Rate	8.8%	10.0%	10.3%	10.5%	10.7%	10.9%	11.1%	11.3%	11.5%	11.7%	11.9%	12.1%	
Y/Y	39%	18%	8%	7%	7%	7%	7%	7%	7%	7%	7%	7%	
Gross Profit	**1,831**	**2,234**	**2,417**	**2,603**	**2,811**	**3,035**	**3,275**	**3,532**	**3,809**	**4,105**	**4,412**	**4,740**	
% margin	71.8%	74.4%	74.4%	74.6%	75.3%	76.0%	76.7%	77.4%	78.1%	78.8%	79.3%	79.8%	
Non-GAAP Operating income	**62**	**(2,335)**	**101**	**284**	**405**	**541**	**681**	**837**	**1,012**	**1,206**	**1,410**	**1,637**	
% operating margin	2.4%	-77.7%	3.1%	8.1%	10.8%	13.5%	15.9%	18.3%	20.7%	23.1%	25.3%	27.5%	
Tax	13	0	21	60	85	114	143	176	212	253	296	344	
Tax Rate	21%	0%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	
NOPAT	**49**	**(2,335)**	**79**	**224**	**320**	**427**	**538**	**661**	**799**	**953**	**1,114**	**1,293**	
Margin %	1.9%	-77.7%	2.4%	6.4%	8.6%	10.7%	12.6%	14.5%	16.4%	18.3%	20.0%	21.8%	
Adjustments to Cash Flow	167	2,760	487	410	417	436	453	473	489	504	520	532	
% of revenue	6.5%	91.9%	15.0%	11.7%	11.2%	10.9%	10.6%	10.4%	10.0%	9.7%	9.4%	9.0%	
Free Cash Flow	**216**	**425**	**567**	**635**	**737**	**863**	**991**	**1,135**	**1,288**	**1,456**	**1,635**	**1,825**	**19,578**
% margin	8.5%	14.2%	17.4%	18.2%	19.7%	21.6%	23.2%	24.9%	26.4%	27.9%	29.4%	30.7%	
PV of FCF	**-**	**$401**	**$474**	**$472**	**$486**	**$506**	**$516**	**$525**	**$529**	**$531**	**$529**	**$525**	**$5,631**

Source: Company reports, Insiciv, BofA Global Research

Exhibit 43: Discounted Cash Flow analysis

Our DCF using a 12.6% WACC implies an Enterprise Value of $8bn

WACC Assumptions			
Equity Weight	100%	Expected market return	10%
Debt weight	0%	RfR (10yr Treasury)	4.8%
Cost of Equity	12.6%	Beta	1.5
Cost of Debt	0%	Terminal Growth Rate	3%
Cost of Debt (After tax)	0%	Tax Rate	21%
WACC	**12.6%**		
Valuation			
Sum of PV of FCF & Terminal	$11,125		
Discount for share growth	28%	Long Term growth rate 2.5%	
Implied Enterprise Value	**8,009**		
(+) Cash	$2,112		
(-) Debt	$0		
Implied Market Cap	**$10,121**		
Share count (2024E)	337		
DCF valuation	**$30**		

Source: Bloomberg, BofA Global Research

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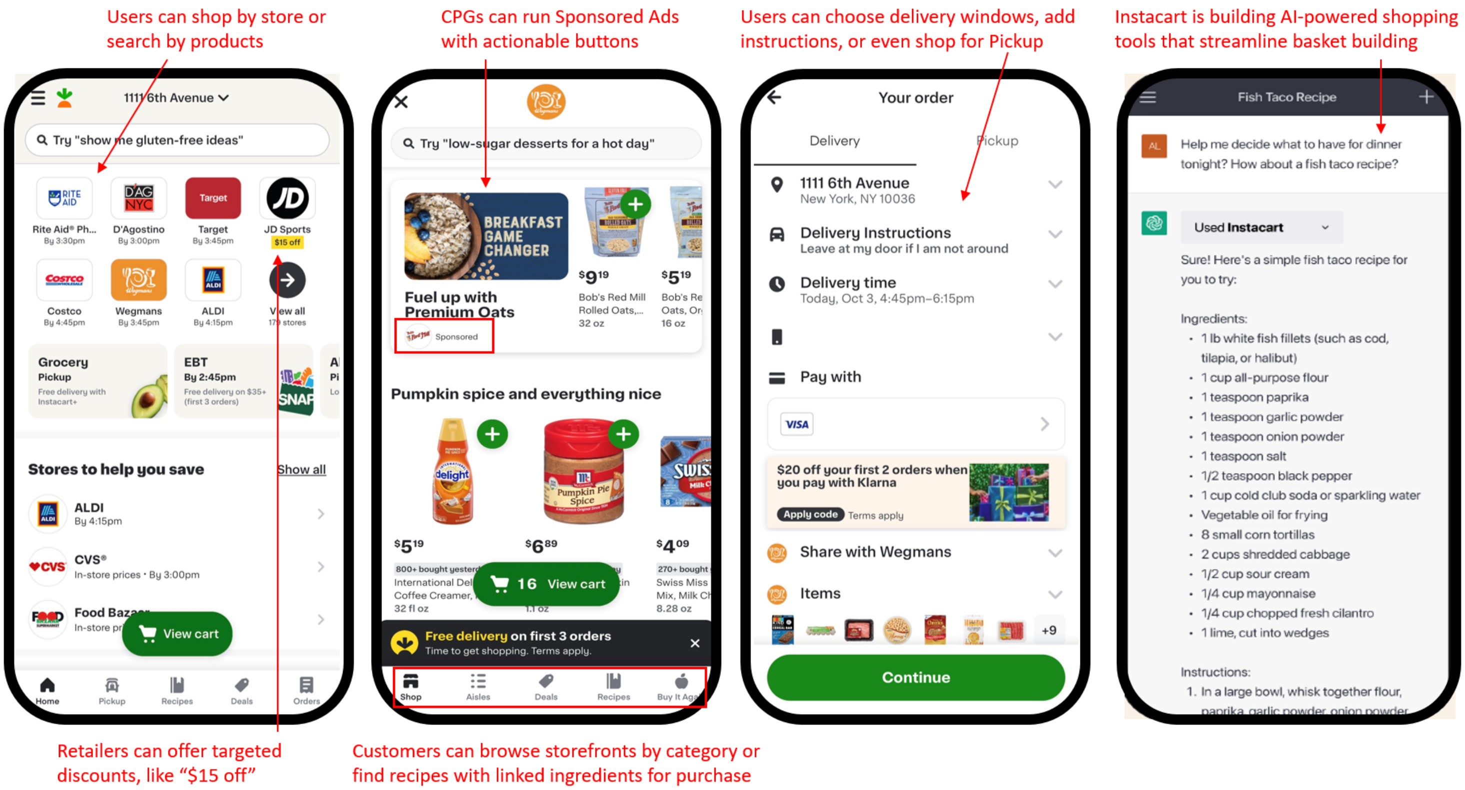
Company overview

Instacart was founded in 2012 with the view that Online grocery shopping was an untapped opportunity, and could be a beneficiary of ongoing secular shifts to online purchasing and delivery. The company has since grown its Online grocery delivery platform to include 1,400+ retail banner partners operating in the United States (97% of its revenue) and Canada. Adjacent to Instacart's Marketplace is Instacart Enterprise Platform, an end-to-end tech technology solution that powers Online storefronts for >550 partners, and Instacart Ads. The three-sided marketplace leverages over 600,000 Shoppers (independent contractors) who picked, packed, and delivered over 66.3mn groceries orders in 2Q'23, or about 110 orders per Shopper in the quarter.

Exhibit 44: Instacart consumer application
Examples of the Instacart consumer app



Source: Instacart app, BofA Global Research

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Growth Drivers

GTV and revenue growth is expected to come from: 1) expanding partnerships and use cases across adjacent retail categories, such as convenience and beauty; 2) growing advertiser base and advertisable GTV on- and off-platform; 3) Shopper pay optimization through increases batching to reduce contra-revenue (take rate driver); and 4) expansion to International markets outside of North America.

Employees

As of 2Q'23, the company employed 3,486 full-time employees, up from 2,216 at the end of 2020. Instacart has adopted a "Flex First" workforce model, which provides eligible employees the option to work fully remotely, in one of Instacart's offices, or a combination of both. In April 2023, certain employees elected to receive a cash bonus in lieu of SBC, and, a result, Instacart expects to recognize elevated cash expense through 2Q'24, which would have otherwise been recognized over the vesting period of the SBC.

Instacart Marketplace

Consumers primarily interact with the Instacart Marketplace, which is now the largest Online grocery marketplace in North America at $28.8bn of GTV in 2022. Consumers can build baskets from over 80,000 grocery stores operated by 1,400+ retail banners. In 2Q'23, consumers place 265mn orders on a run rate basis (+4% Y/Y), representing nearly $30bn in annualized GTV (+6% Y/Y). In 2Q'23, the average basket size was $113, and Instacart has close to 75% share of $75+ basket orders (according to YipitData), which is a key driver positive unit economics.

Instacart+

Users can subscribe to Instacart+ for $99/year. Instacart+ 5.1mn members (as of 2Q'23) represent approximately 66% of Instacart's 7.7mn monthly active customers. Benefits for subscribers include free delivery on orders over $35, 5% credit back on eligible pickup orders, and lower service fees. According to Instacart, the average Instacart+ member saves more than $30 per month. While unit economics of Instacart+ orders are less attractive in the first year, mgmt. members are 6-6.5x more engaged over a 5-year period vs. non-subscribers and drove 57% of total GTV, as of 1H'23. Per company data, Instacart+ subscribers spend $466/month (vs. avg platform spend at $323) and order 4.1x per month vs. non-subscribers at only 2.1x.

Instacart Marketplace drivers and projections

In 2022, Instacart processed 263mn orders (+18% Y/Y) at an average order value of $110 (-1.7% Y/Y). In total, Instacart generated $28.8bn in GTV on the platform (+16% Y/Y). Based on a 6.3% take rate, Instacart generated $1.8bn in transaction revenue in 2022. For 2023E, we project 268mn orders (+2% Y/Y) and an AOV of $112.45 (+2.4% Y/Y) to generate $30.1bn in GTV (+5% Y/Y). We estimate a 7.1% take rate, generating $2.15bn in 2023E transaction revenue. For 2024E, we project order growth to accelerate 4pts to 6% while AOV decelerates 2-3pts to flattish. GTV growth is projected to trend at 5% Y/Y to $31.7bn in 2024E and our $2.3bn transaction revenue projection is based on a 7.3% take rate.

Exhibit 45: Instacart transaction revenue drivers

We project 268mn orders in 2023E, representing $30.1bn in GTV

Drivers	FY19A	FY20A	FY21A	FY22A	Q1'23A	Q2'23A	Q3'23E	Q4'23E	FY23E	FY24E	FY25E
Orders (mn)	**49.0**	**172.0**	**223.0**	**262.6**	**66.6**	**66.3**	**66.0**	**69.2**	**268.1**	**283.1**	**300.1**
Y/Y Growth	*88%*	*251%*	*30%*	*18%*	*(2%)*	*4%*	*3%*	*4%*	*2%*	*6%*	*6%*
Q/Q Growth					*0%*	*(0%)*	*(0%)*	*5%*			
Average Order Value (in ones)	**$104.98**	**$120.56**	**$111.70**	**$109.77**	**$112.09**	**$112.70**	**$112.66**	**$112.35**	**$112.45**	**$111.97**	**$110.77**
Y/Y Growth		*14.8%*	*(7.3%)*	*(1.7%)*	*4.8%*	*1.5%*	*2.0%*	*1.1%*	*2.4%*	*(0.4%)*	*(1.1%)*
Q/Q Growth					*1%*	*1%*	*(0%)*	*(0%)*			
GTV ($mn)	**$5,144**	**$20,736**	**$24,909**	**$28,826**	**$7,465**	**$7,472**	**$7,438**	**$7,770**	**$30,145**	**$31,698**	**$33,241**
Y/Y Growth	*87%*	*303%*	*20%*	*16%*	*3%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*
Q/Q Growth					*1%*	*0%*	*(0%)*	*4%*			
Transaction Revenue ($mn)	**147**	**1,182**	**1,262**	**1,811**	**559**	**510**	**528**	**552**	**2,149**	**2,298**	**2,427**
Transaction Take Rate	2.9%	5.7%	5.1%	6.3%	7.5%	6.8%	7.1%	7.1%	7.1%	7.3%	7.3%
Y/Y Growth		*704%*	*7%*	*44%*	*60%*	*13%*	*10%*	*4%*	*19%*	*7%*	*6%*

Source: Company reports, BofA Global Research estimates

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Shoppers

For picking and delivering customer orders, Instacart leverages 600,000+ independent contractors referred to as Shoppers. Shoppers are compensated on a fee-per-batch basis and customer tips. Shopper Pay is a contra-revenue and further optimization gains through batching and time efficiencies are expected to decrease pay as a percent of GTV (therefore expanding transaction take rate), though absolute dollar earnings for Shoppers is expected to increase given tips. Assuming a 5% tip (default rate on the Instacart app), a Shopper earned about $5.65 per order in tips based on Instacart's average order value in 2Q. According to mgmt., Shopper earnings are competitive with other gig platforms and above hourly grocery store earnings.

Instacart Ads

On a run rate basis, advertising revenue reached nearly $825mn (+20% Y/Y) in 2Q'23, translating to 2.8% of Instacart's GTV. Launched in 2019, Instacart's advertising is more mature than gig-economy peers (Uber at less than 1%E of GTV) and has grown to 5,500+ Consumer Packaged Goods ("CPG") brands on the platform. Management targets ad revenue at 4-5% of GTV in the long-term and growth of advertising will likely be a key factor in long-term EBITDA growth.

Instacart Ads drivers and projections

In 2022, Instacart generated $740mn in ad & other revenue (+29% Y/Y), representing a 2.6% ad investment rate as a percent of GTV. We project ad investment rate to increase 20bps Y/Y to 2.8% in 2023E and generate $855mn. For 2024E, we project $952mn in ad revenue as the investment rate increases to 3.0%.

Exhibit 46: Instacart transaction revenue drivers

We project $855mn in ad revenue for 2023E, implying a 2.8% ad investment rate

Drivers	FY19A	FY20A	FY21A	FY22A	Q1'23A	Q2'23A	Q3'23E	Q4'23E	FY23E	FY24E	FY25E
GTV ($mn)	**$5,144**	**$20,736**	**$24,909**	**$28,826**	**$7,465**	**$7,472**	**$7,438**	**$7,770**	**$30,145**	**$31,698**	**$33,241**
Y/Y Growth	*87%*	*303%*	*20%*	*16%*	*3%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*
Q/Q Growth					*1%*	*0%*	*(0%)*	*4%*			
Ads & Other Revenue ($mn)	**67**	**295**	**572**	**740**	**200**	**206**	**208**	**241**	**855**	**952**	**1,064**
Ad spend as a percent of GTV	1.3%	1.4%	2.3%	2.6%	2.7%	2.8%	2.8%	3.1%	2.8%	3.0%	3.2%
Y/Y Growth		*340%*	*94%*	*29%*	*28%*	*20%*	*12%*	*6%*	*16%*	*11%*	*12%*

Source: Company reports, BofA Global Research estimates

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Instacart Enterprise Platform

About 40% of Instacart's 1,400+ retail banners (approx. 550) use Instacart Enterprise Platform, an end-to-end technology solution, and the Platform drove approx. 20% of GTV in 1H'23. Key components of the Enterprise Platform include eCommerce, fulfillment, connected stores (Caper Carts, Scan & Pay, etc.), ads & marketing, and data insights. Benefits for retailers include better search, more intelligent replacements, more seamless checkout flows, and incremental sales with Instacart Ads. Partners include Costco, Publix, Sprouts, and The Fresh Market. For small and midsized businesses (SMBs), Instacart acquired Rosie Applications in September 2022, which enables Instacart to provide an eCommerce and mobile solution for long-tail customers.

Revenue from Instacart Enterprise Platform is not explicitly broken out, but revenue from features like Carrot Ads and Connected Stores is included in Ad & Other Revenue. Instacart believes capturing more fees from retailers on solutions like Eversight, Caper, and Storefront Pro can be incremental to Instacart's 4-5% long-term advertising investment rate target.

Carrot Ads

Launched in 2021, Carrot Ads allow retailers to integrate Instacart Ads on retailers' 1P Online storefronts and apps. Carrot Ads can enable retailers to generate incremental revenues and increase the profitability of Online orders by displaying both display ads and Instacart's Sponsored Ads. Carrot Ads also give grocers and CPG brands access to closed-loop measurement and insight tools to better measure ROI thresholds.

Caper Cart

Acquired in 2021, Instacart has launched Caper Carts in select stores help customers navigate stores and scan items as they shop (eliminating need for checkout). The AI-powered smart carts are equipped with scales, sensors, and touchscreens that can be managed remotely in real-time by retailers, providing auditing and insight tools for associates.

Eversight

Eversight, acquired in 2022, provides a Pricing-as-a-Service solution for grocers and CPG companies. The platform is also able to give personalized recommendations and promotions to customers in real-time based off an individual's estimated price sensitivities, highlighting more affordable options to customers that are estimated to be more price conscious.

Storefront Pro

Retailers can further customize their storefronts by integrating loyalty programs and advanced merchandising capabilities. Instacart augments these solutions for SMBs through Rosie (acquired in 2022) to tailor solutions for local and independent retailers.

3Q Data Update

Card Spending Data

BAC aggregated credit and debit card data suggests Online grocery spending (card not present) in 3Q declined 3% Y/Y, a 2pt acceleration vs. 2Q. Trends improved throughout the quarter, starting in July at -4% Y/Y and improving to -2% Y/Y in September, though 3Q trends still underperformed overall eCommerce at +1% Y/Y. We expect to see modest improvement to Online grocery spend in the rest of 2023 and into 2024 as reopening headwinds dissipate, though we note continued headwinds include: 1) inflation continuing to impact food spend; and 2) the resumption of student loan payments impacting discretionary spend (potentially shifting spend offline or to lower-prices private brands).

For Instacart, we project 5% Y/Y GTV growth in 3Q'23, a 1pt deceleration vs. 1Q. BAC aggregated card data on online grocery spending and Instacart GTV trends are 97% correlated (since 4Q'20), and we could see upside to our GTV projection if trends accelerate.

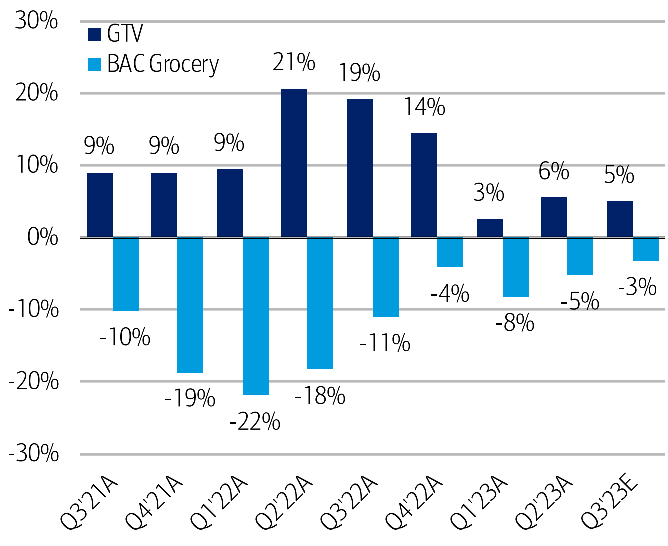
See the BofA on USA note for an explanation of the methodology, disclaimers and limitations with BAC aggregated credit and debit card data.

Bloomberg Second Measure

Bloomberg Second Measure credit & debit card data ("BSM") and GTV trends are 99.7% correlated since 4Q'20, and the quarterly spread in growth has been a relatively consistent at 8-11pts for the last 6 quarters. For 3Q, BSM data indicates observed sales (GTV) on Instacart declined 2% Y/Y, up 2pts from -4% Y/Y in 2Q. Data suggests spending on Instacart may have accelerated in 3Q and there is potential for a few points of GTV upside in the quarter if historical spreads hold up.

Exhibit 47: GTV vs. BAC Online grocery card spend (card not present*) trends (Y/Y)

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



*Card not present is largely online but could include purchases made over the phone

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

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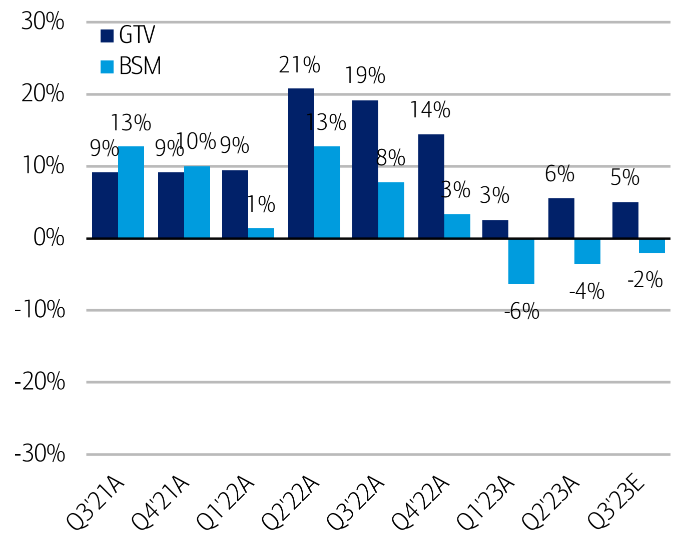
Exhibit 48: GTV vs. BSM observed sales trends (Y/Y)

BSM card data suggests Instacart observed sales accelerated in 3Q



Source: Bloomberg, Company reports, BofA Global Research

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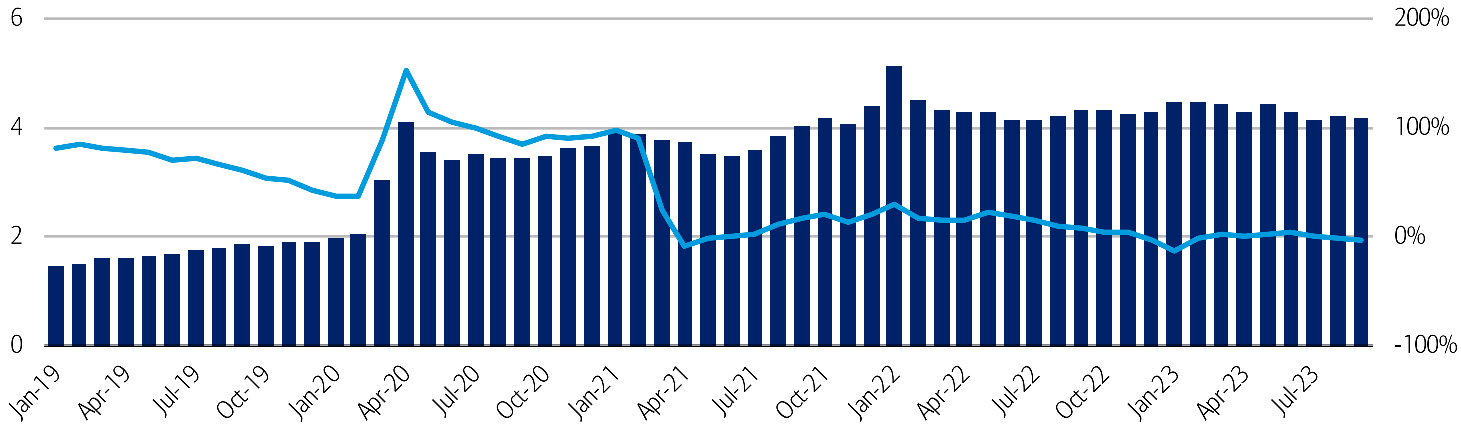
Consumer app metrics

According to Sensor Tower data, there were 4.16mn worldwide Monthly Active Users on Instacart's mobile app in September, which was down -4% Y/Y. This is 19% below a peak of 5.1mn MAUs in January 2022, and below Instacart's reported 7.7mn monthly active users (ST data is mobile only). Data suggests MAUs used Instacart an average of 9.6 times in September (+2% Y/Y). Downloads (DLs) were 6% lower Y/Y, but, at 774k, are still elevated vs. pre-pandemic levels. DLs peaked in April 2020 at 2.8mn as COVID drove users to Online grocery channels.

Exhibit 49: Instacart consumer MAUs (mn) and Y/Y growth

Per Sensor Tower, consumer MAUs declined 4% Y/Y to 4.16mn in September



Source: Sensor Tower, BofA Global Research

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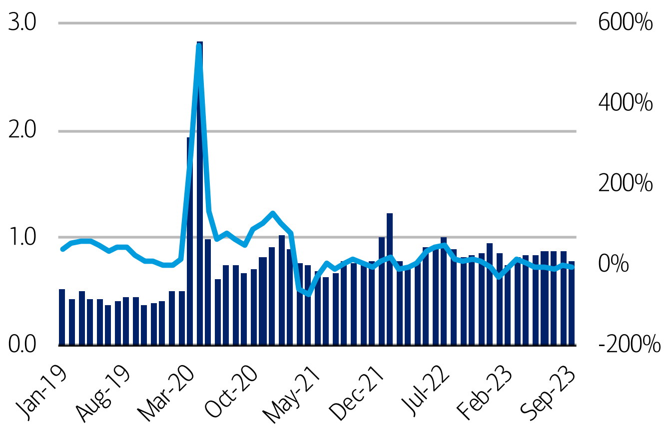
Exhibit 50: Instacart consumer Downloads (mn) and Y/Y growth

The consumer app reached 774k downloads in September (-6% Y/Y)



Source: Sensor Tower, BofA Global Research

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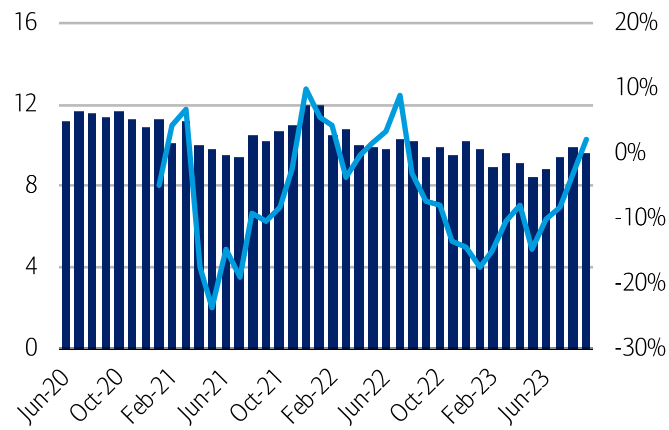
Exhibit 51: Instacart consumer Sessions per MAU and Y/Y growth

In September, consumers averaged 9.6 sessions per MAU (+2% Y/Y)



Source: Sensor Tower, BofA Global Research

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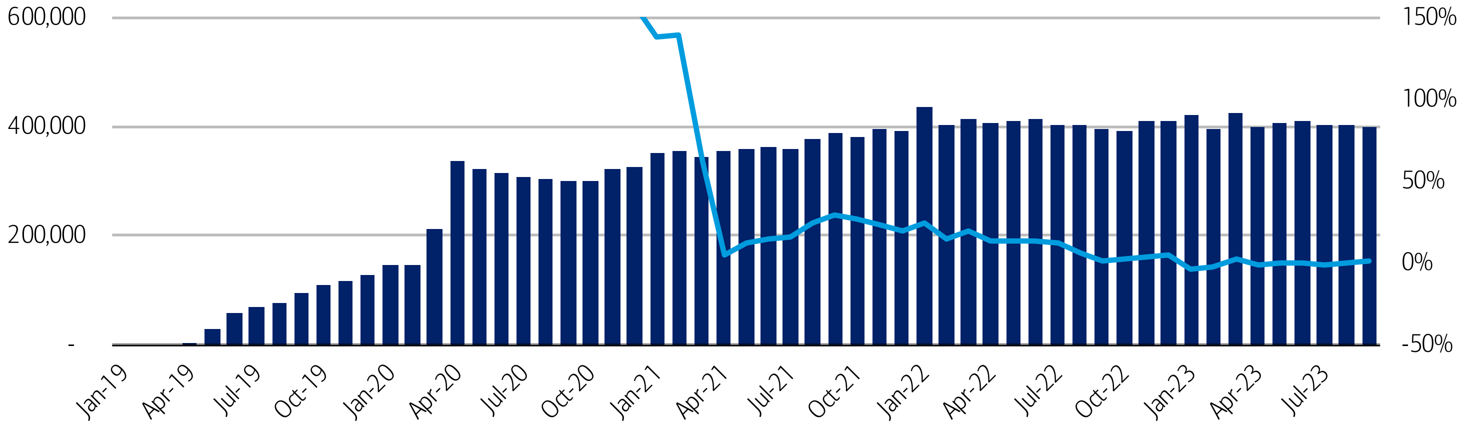
Shopper app metrics

According to Sensor Tower, there were 400k worldwide Daily Active Users (DAUs) for Instacart's Shopper app in September (+1% Y/Y). This compares to Instacart reporting 600,00+ Shoppers, so up to 60-70% of shoppers could be active in any given day. Data suggests Shoppers spent 12.2hrs in-app on average for the month of September, which is a decrease of 2% Y/Y. A decrease in time spent may be a byproduct of increased batches and faster picking times. DLs increased 10% Y/Y in September to 371k.

Exhibit 52: Instacart Shopper DAUs and Y/Y growth

Per Sensor Tower, Shopper DAUs increased 1% Y/Y to 400k in September



Source: Sensor Tower, BofA Global Research

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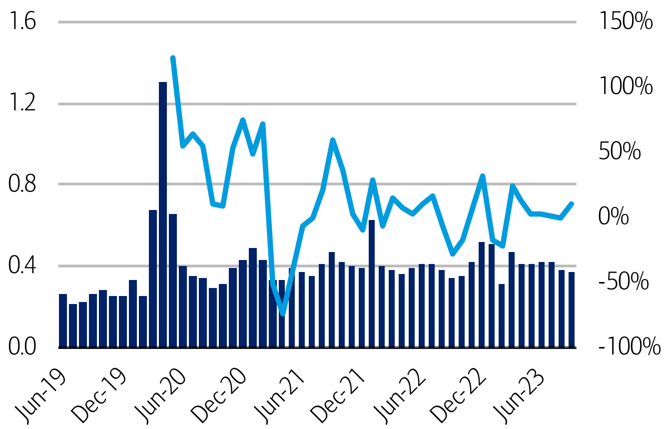
Exhibit 53: Instacart Shopper Downloads (mn) and Y/Y growth

The Shopper app reached 371k downloads in September (+10% Y/Y)



Source: Sensor Tower, BofA Global Research

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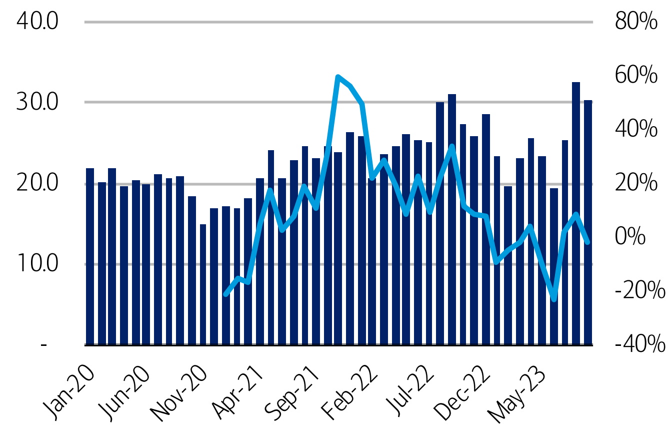
Exhibit 54: Instacart Shopper Hours per DAU and Y/Y growth

In September, Shoppers averaged 12.2 hours in-app (-2% Y/Y)



Source: Sensor Tower, BofA Global Research

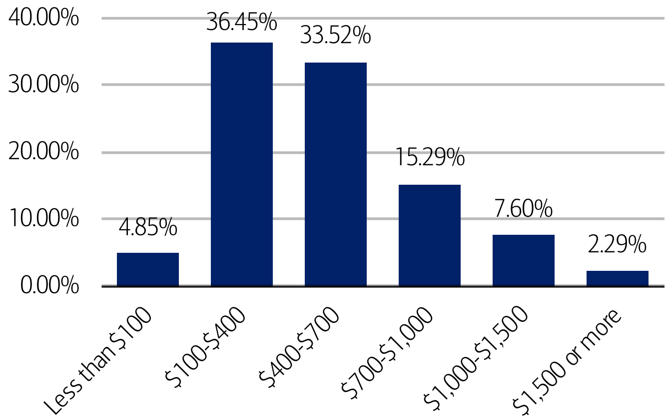
BofA GLOBAL RESEARCH

BofA Online Grocery Survey

We conducted a survey of 1,029 individuals in the US. 43% of our respondents shopped exclusively in-store, while 57% used either a combination of in-store and Online or Online-only for grocery. 5% of our respondents spent 100% of their grocery budget Online. Key takeaways include: 1) Online grocery spend is not replacing in-store shopping (most Online shoppers still shop in store); 2) Convenience and time savings are top two reasons for shopping Online; 3) Walmart is the most used grocery app while Instacart was second choice for grocery (above Dash, Amazon, etc.); 5) 36% indicated they used Instacart in past 6 months, and a slightly higher percent (13%) indicated they may start using Instacart vs. plan to stop using (11%); 6) consumer friction primarily comes from pricing and fees.

Exhibit 55: Per month, how much do you estimate your household spends on groceries (in-person and Online)?

36.5% of respondents indicated their household spends $100-$400 on groceries each month

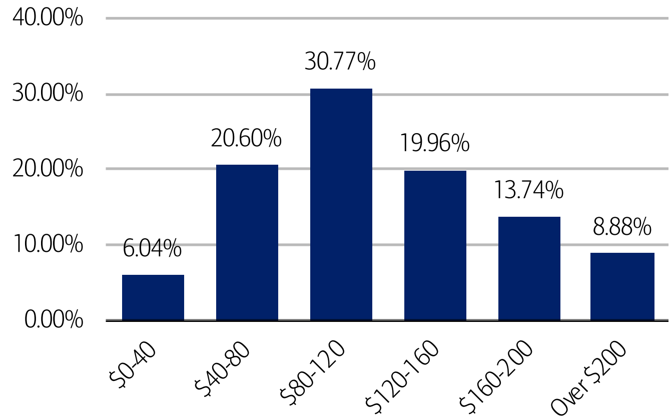


Source: BofA Global Research survey respondents

BofA GLOBAL RESEARCH

Exhibit 56: What is your average basket size when purchasing groceries?

31% of respondents indicated that they spend $80-$120 on groceries per basket



Source: BofA Global Research survey respondents

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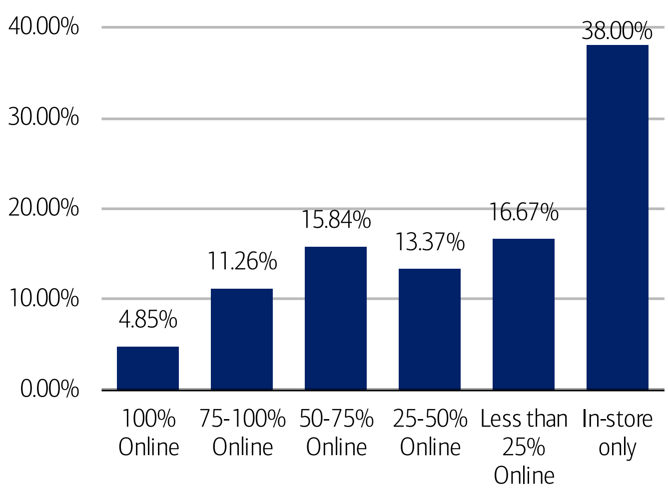
Exhibit 57: If you use Online delivery for groceries, what percent of your spend is Online vs. in-store?

Only 5% of respondents exclusively use Online to grocery shop, whereas 38% of respondents exclusively spend in-store

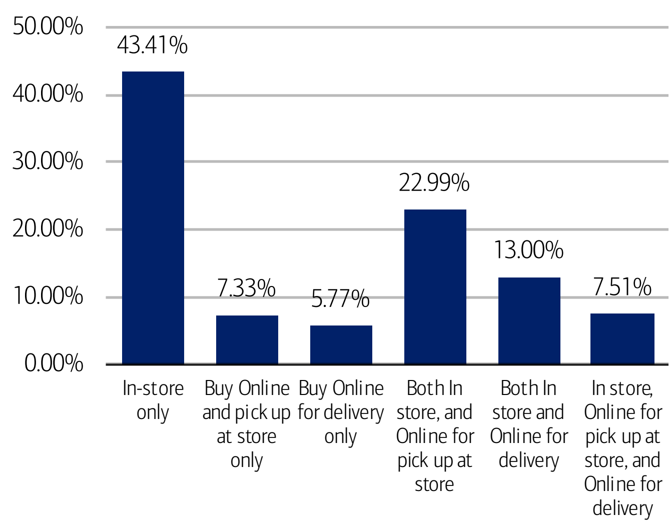


Source: BofA Global Research survey respondents

BofA GLOBAL RESEARCH

Exhibit 58: How does your household buy groceries?

Our respondents indicated preference for Online pick-up over delivery, though in-store remains the most popular channel

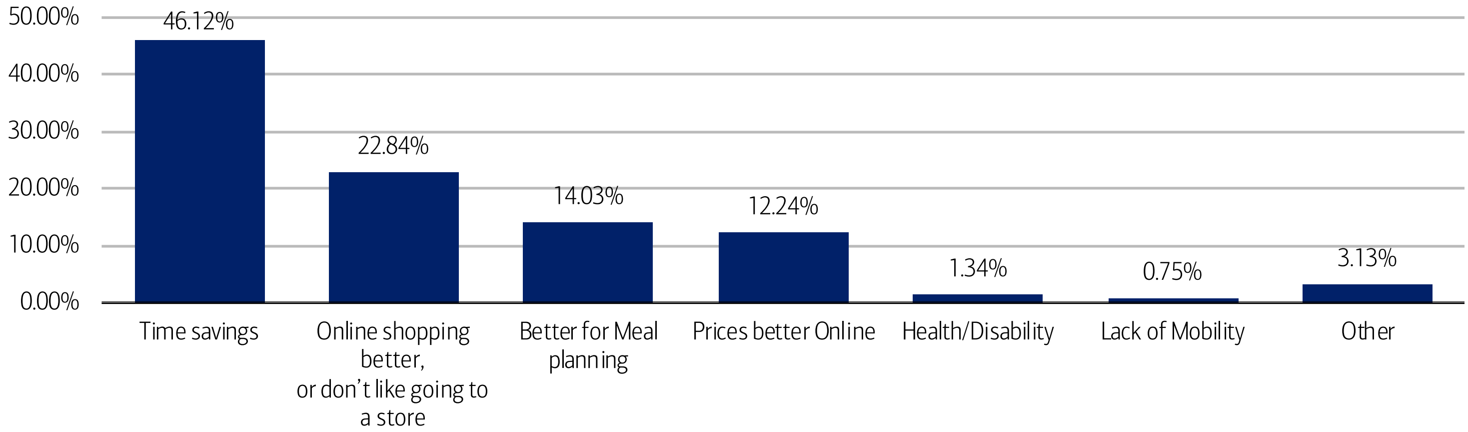


Source: BofA Global Research survey respondents

BofA GLOBAL RESEARCH

Exhibit 59: Why do you use Online grocery delivery services?

Of the respondents who indicated they use Online delivery services, 46% indicated that time savings was a key determinant



Source: BofA Global Research survey respondents

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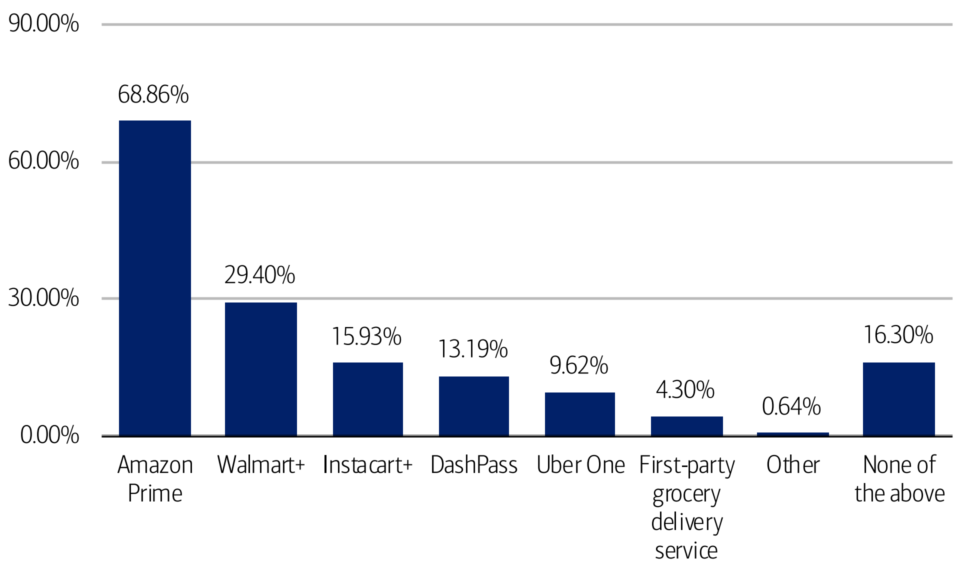
For Subscriptions, our respondents indicated that Amazon Prime is by far the most prevalent subscription service at 69%, followed by Walmart+ (29%) and Instacart+ (16%). Only 4.3% of the respondents indicated that they have a first-party delivery subscription (like Kroger's Boost). Despite Amazon Prime's popularity, our respondents suggest the Walmart app is the top choice for Online grocery delivery, followed by Instacart at roughly half of that. Only 17% respondents who indicated they used Instacart expected to spend more on the platform in the next 6 months, the second-lowest after Uber. 36% of respondents indicated they expected to spend more on Walmart in the next 6 months.

Exhibit 60: Do you or anyone in your household have a subscription to the following?

69% of respondents indicated that they or someone in their household have a subscription to Amazon Prime vs. 29% for Walmart+ and 16% for Instacart+



Source: BofA Global Research survey respondents

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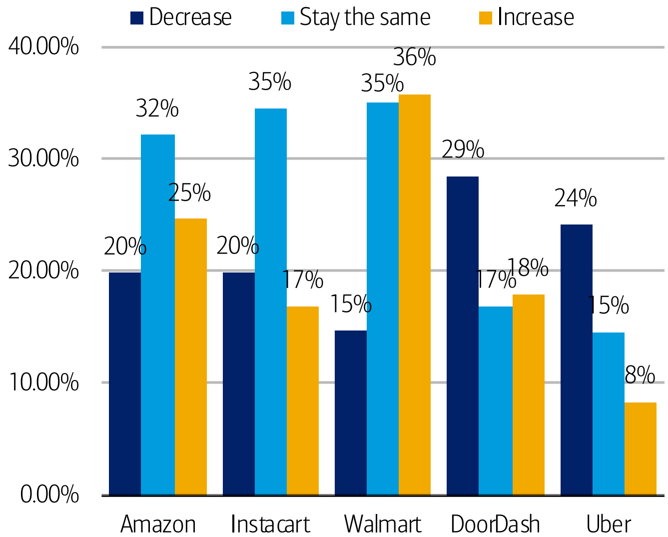
Exhibit 61: For use for Online grocery delivery only, do you expect your spend to decrease, stay the same, or increase on each of the following services in the next 6 months?

Only 17% of respondents who use Instacart expects spend to increase on the platform in the next 6 months



Source: BofA Global Research survey respondents

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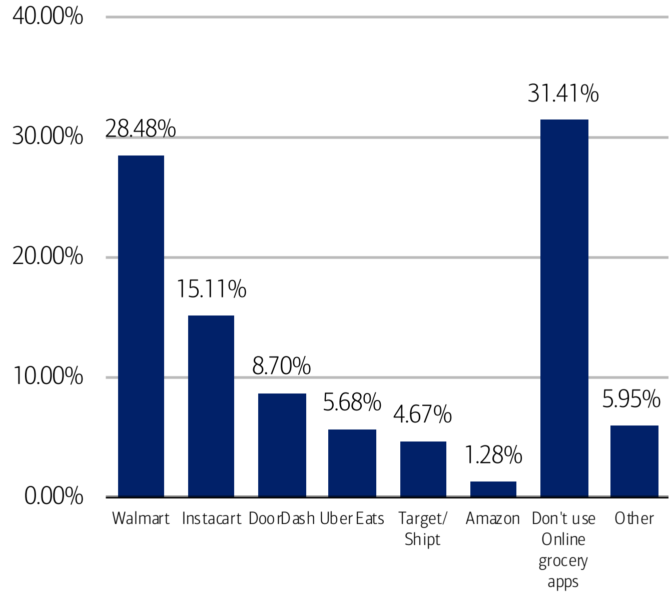
Exhibit 62: Which Online grocery delivery app is your top choice?

29% of survey respondents indicated that Walmart is their top choice for Online grocery delivery, vs. 15% for Instacart and just 1.3% for Amazon



Source: BofA Global Research survey respondents

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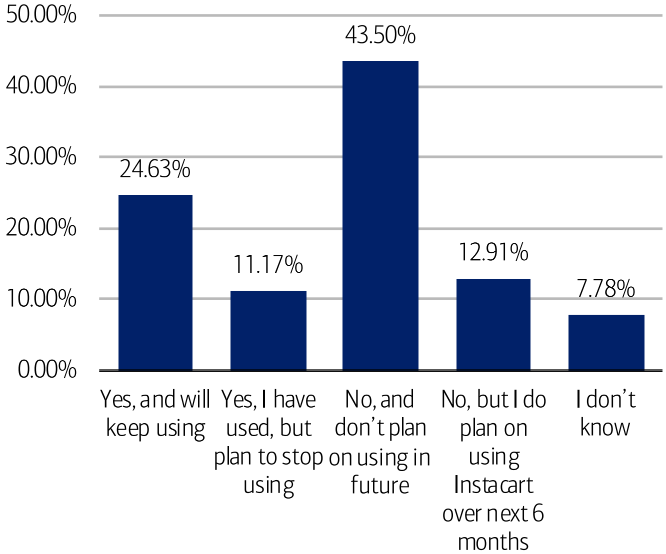
On Instacart specific questions, 43.5% of respondents indicated that they do not currently use nor plan on using Instacart, whereas 25% indicated that they use Instacart and will continue do so vs. 13% who do not use the platform but plan on starting. Respondents who use Instacart indicate that fast delivery speeds and convenience were the top reasons for using the platform. The primary concern for Instacart users were prices and fees on the platform, followed by shopper accuracy and delivery speeds. Our survey responses indicate a significant step up in Instacart penetration at the $120-$200k income cohort, with usage rate increasing approx. 20pts to 52% vs. income cohort $75-120k. However, data suggests Instacart penetration was 28% in lowest income cohort, potentially signaling Instacart may have broad appeal. We note these penetration rates seem high, though, and could be skewed by the sampling of our respondents (skews toward heavier Online users, female, homeowner, & suburban).

Exhibit 63: Have you or anyone in your household used Instacart in the past 6 months?

37% indicated they used Instacart in past 6 months; a slightly higher percent (13%) indicated they may start using Instacart vs plan to stop using (11%)

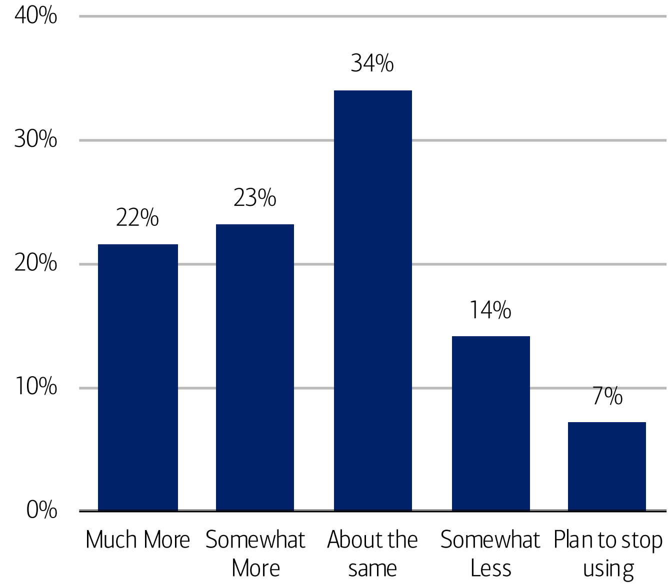


Source: BofA Global Research survey respondents

BofA GLOBAL RESEARCH

Exhibit 64: If you use Instacart, do you plan on using more or less frequently in the next 6 months?

Of those that use Instacart, 45% plan to use more and 21% less



Source: BofA Global Research survey respondents

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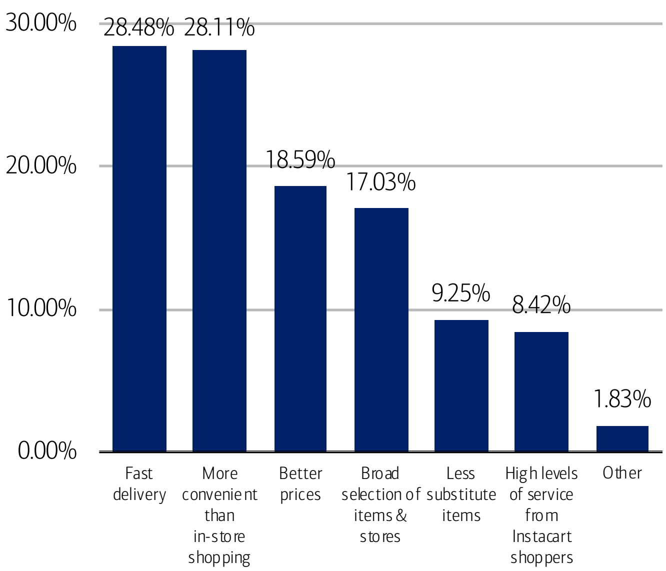
Exhibit 65: Why do you use Instacart?

Fast delivery and convenience were the top reasons why our respondents used Instacart.

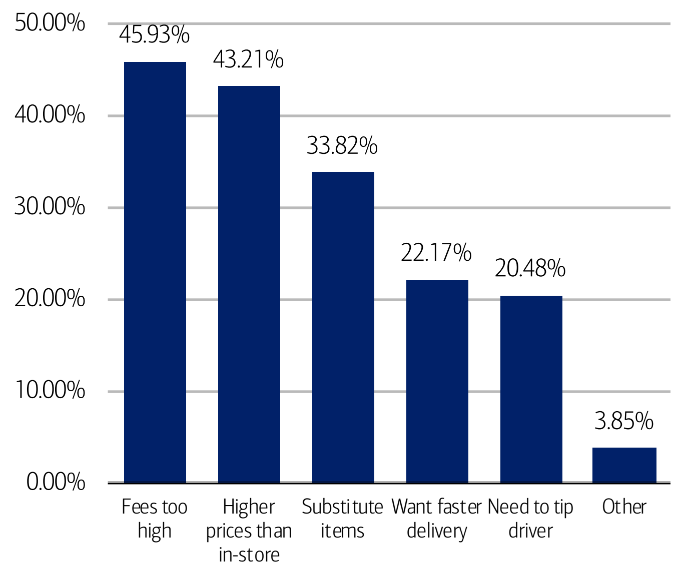


Source: BofA Global Research survey respondents

BofA GLOBAL RESEARCH

Exhibit 66: What are your biggest concerns on using Instacart?

Fees and prices are consumers largest concerns with Instacart, followed by lack of substitute items

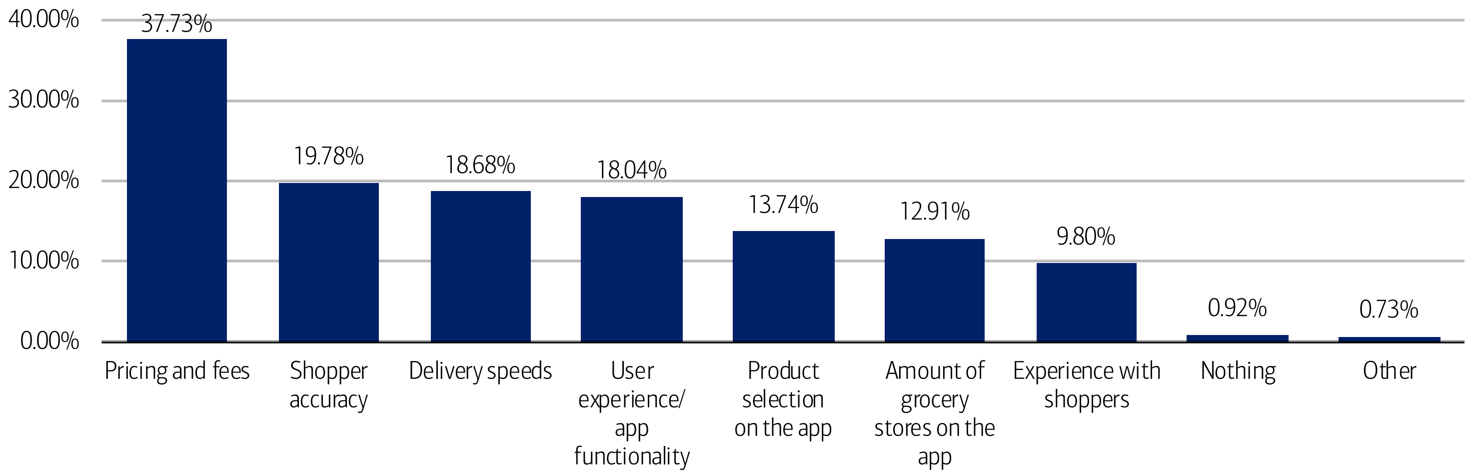


Source: BofA Global Research survey respondents

BofA GLOBAL RESEARCH

Exhibit 67: What would you improve about Instacart?

Respondents indicated that pricing & fees and shopper accuracy are the main aspects they would improve about Instacart

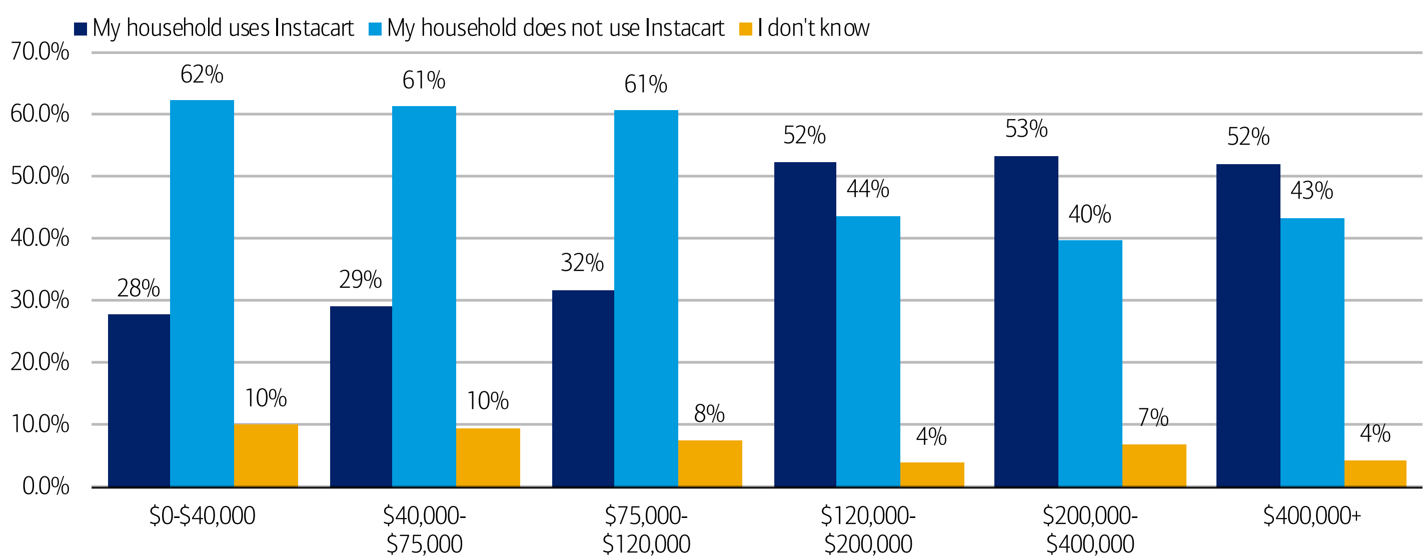


Source: BofA Global Research survey respondents

BofA GLOBAL RESEARCH

Exhibit 68: Instacart penetration by income cohort

More than 50% of respondents whose household earned >$120k uses Instacart vs. approx. 30% for respondents whose household earns <$120k



Source: BofA Global Research survey respondents

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Income Statement model

Exhibit 69: GAAP income statement

We project 2023E revenue/EBITDA of $3.0bn/$545mn

Drivers ($mn)	FY19A	FY20A	FY21A	FY22A	Q1'23A	Q2'23A	Q3'23E	Q4'23E	FY23E	FY24E	FY25E
Orders (mn)	**49.0**	**172.0**	**223.0**	**262.6**	**66.6**	**66.3**	**66.0**	**69.2**	**268.1**	**283.1**	**300.1**
Y/Y Growth	*88%*	*251%*	*30%*	*18%*	*(2%)*	*4%*	*3%*	*4%*	*2%*	*6%*	*6%*
Q/Q Growth					*0%*	*(0%)*	*(0%)*	*5%*			
Average Order Value (in ones)	**$104.98**	**$120.56**	**$111.70**	**$109.77**	**$112.09**	**$112.70**	**$112.66**	**$112.35**	**$112.45**	**$111.97**	**$110.77**
Y/Y Growth		*14.8%*	*(7.3%)*	*(1.7%)*	*4.8%*	*1.5%*	*2.0%*	*1.1%*	*2.4%*	*(0.4%)*	*(1.1%)*
Q/Q Growth					*1%*	*1%*	*(0%)*	*(0%)*			
GTV ($mn)	**$5,144**	**$20,736**	**$24,909**	**$28,826**	**$7,465**	**$7,472**	**$7,438**	**$7,770**	**$30,145**	**$31,698**	**$33,241**
Y/Y Growth	*87%*	*303%*	*20%*	*16%*	*3%*	*6%*	*5%*	*5%*	*5%*	*5%*	*5%*
Q/Q Growth					*1%*	*0%*	*(0%)*	*4%*			
Transaction Revenue	**147**	**1,182**	**1,262**	**1,811**	**559**	**510**	**528**	**552**	**2,149**	**2,298**	**2,427**
Transaction Take Rate	2.9%	5.7%	5.1%	6.3%	7.5%	6.8%	7.1%	7.1%	7.1%	7.3%	7.3%
Y/Y Growth		*704%*	*7%*	*44%*	*60%*	*13%*	*10%*	*4%*	*19%*	*7%*	*6%*
Q/Q Growth					*5%*	*(9%)*	*4%*	*4%*			
Ads & Other Revenue	**67**	**295**	**572**	**740**	**200**	**206**	**208**	**241**	**855**	**952**	**1,064**
Ad Investment Rate	1.3%	1.4%	2.3%	2.6%	2.7%	2.8%	2.8%	3.1%	2.8%	3.0%	3.2%
Y/Y Growth		*340%*	*94%*	*29%*	*28%*	*20%*	*12%*	*6%*	*16%*	*11%*	*12%*
Total Revenue ($mn)	**$214**	**$1,477**	**$1,834**	**$2,551**	**$759**	**$716**	**$736**	**$793**	**$3,004**	**$3,250**	**$3,490**
Total Take Rate	4.2%	7.1%	7.4%	8.8%	10.2%	9.6%	9.9%	10.2%	10.0%	10.3%	10.5%
Y/Y Growth	*87%*	*590%*	*24%*	*39%*	*50%*	*15%*	*10%*	*5%*	*18%*	*8%*	*7%*
Income Statement ($mn)	**FY19A**	**FY20A**	**FY21A**	**FY22A**	**Q1'23A**	**Q2'23A**	**Q3'23E**	**Q4'23E**	**FY23E**	**FY24E**	**FY25E**
GAAP Cost of Revenue	**232**	**598**	**608**	**720**	**177**	**189**	**201**	**203**	**770**	**833**	**888**
COGS %	*108%*	*40%*	*33%*	*28%*	*23%*	*26%*	*27%*	*26%*	*26%*	*26%*	*25%*
Y/Y Growth		*158%*	*2%*	*18%*	*1%*	*4%*	*10%*	*13%*	*7%*	*8%*	*7%*
GAAP Gross Profit (Loss)	**(18)**	**879**	**1,226**	**1,831**	**582**	**527**	**536**	**589**	**2,234**	**2,417**	**2,603**
Gross Margin	(8%)	60%	67%	72%	77%	74%	73%	74%	74%	74%	75%
Y/Y Growth		*NM*	*39%*	*49%*	*77%*	*20%*	*10%*	*2%*	*22%*	*8%*	*0%*
GAAP Operations & Support	**189**	**324**	**262**	**252**	**67**	**61**	**151**	**75**	**355**	**284**	**298**
% of Total Revenue	88%	22%	14%	10%	9%	9%	21%	10%	12%	9%	9%
GAAP Research & Development	**127**	**194**	**368**	**518**	**127**	**130**	**1,879**	**240**	**2,376**	**797**	**768**
% of Total Revenue	59%	13%	20%	20%	17%	18%	255%	30%	79%	25%	22%
GAAP Sales & Marketing	**90**	**158**	**394**	**660**	**161**	**166**	**467**	**205**	**999**	**783**	**816**
% of Total Revenue	42%	11%	21%	26%	21%	23%	63%	26%	33%	24%	23%
GAAP General & Administrative	**132**	**278**	**288**	**339**	**77**	**51**	**580**	**130**	**839**	**453**	**436**
% of Total Revenue	62%	19%	16%	13%	10%	7%	79%	16%	28%	14%	12%
Total Operating Expenses	538	954	1,312	1,769	432	408	3,078	651	4,569	2,317	2,318
Income (Loss) from Operations	**(556)**	**(75)**	**(86)**	**62**	**150**	**119**	**(2,542)**	**(62)**	**(2,335)**	**101**	**284**
Other Income (Expense)	-	-	12	(8)	-	3	-	-	3	-	-
Interest Income	25	5	2	17	14	20	13	13	59	43	31
Income (Loss) Before Provision for Income Taxes	**(531)**	**(70)**	**(72)**	**71**	**164**	**142**	**(2,529)**	**(49)**	**(2,273)**	**144**	**315**
Provision for (Benefit from) Income Taxes	-	-	1	(357)	36	28	(619)	7	(548)	78	87
Tax rate	0%	0%	-1%	-503%	22%	20%	24%	-14%	24%	54%	28%
GAAP Net Income (Loss)	**-$531**	**-$70**	**-$73**	**$428**	**$128**	**$114**	**-$1,910**	**-$56**	**-$1,724**	**$66**	**$229**
% margin		-5%	-4%	17%	17%	16%	-259%	-7%	-57%	2%	7%
Undistributed earnings to preferred stockholders	-	(44)	(44)	(421)	(128)	(114)	-	-	(242)	-	-
Net income (loss) to common stockholders	(531)	(114)	(117)	7	-	-	(1,910)	(56)	(1,966)	66	229
Weighted-average shares outstanding											
Basic	55	58	66	72	72	72	98	285	132	301	322
Diluted	55	58	66	78	72	72	98	285	132	332	355
Diluted share count growth (Y/Y)		*6%*	*14%*	*19%*	*1%*	*0%*	*35%*	*190%*	*68%*	*152%*	*7%*
EPS											
Basic EPS	$ (9.70)	$ (2.01)	$ (1.72)	$ 0.09	$ -	$ -	$ (19.59)	$ (0.20)	$ (19.79)	$ 0.20	$ 0.71
Diluted EPS	$ (9.70)	$ (2.01)	$ (1.72)	$ (0.24)	$ -	$ -	$ (19.59)	$ (0.20)	$ (19.79)	$ 0.17	$ 0.64
Adjusted EBITDA	**-$454**	**$134**	**$34**	**$187**	**$169**	**$110**	**$124**	**$142**	**$545**	**$713**	**$857**
% of GTV	(8.8%)	0.6%	0.1%	0.6%	2.3%	1.5%	1.7%	1.8%	1.8%	2.25%	2.58%
% of Total Revenue	(212%)	9%	2%	7%	22%	15%	17%	18%	18%	22%	25%
Free Cash Flow	**-$507**	**-$98**	**-$217**	**$253**	**$61**	**$159**	**$163**	**$74**	**$458**	**$653**	**$757**

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

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
BUY				
	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
	Meta Platforms Inc	META	META 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
	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
NEUTRAL				
	Airbnb	ABNB	ABNB US	Justin Post
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, 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
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Pinterest	PINS	PINS US	Justin Post
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
UNDERPERFORM				
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA

*iQ*method SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt – Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM 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.

iQdatabase® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

Disclosures

Important Disclosures

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

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	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 [R1]	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%

[R1] 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.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster[R2]
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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