BUY THE RIVER

# THE CASE

# Overview

You stepped into your office on the 30th floor one sunny morning in March 2023. You were excited but also nervous about tackling your latest deal as an investment banking analyst.

As an equity capital markets analyst covering the technology sector, you had recently been assigned to work on one of the hottest initial public offerings (IPOs) of the year: Instacart's planned IPO, set to make it the first significant venture-backed tech company to hit the US public market since December 2021.

With the company set to go public in September, **your task is to determine the price range to put on the cover of the prospectus that would be used to market the IPO to investors**. Your main focus was on building a **5-year DCF model** to assess the company's current financial situation and incorporating senior bankers' insights to determine a reasonable share range for Instacart's IPO.

# Company History

Instacart, a California-based grocery delivery company, was founded in 2012 by Apoorva Mehta, Brandon Leonardo, and Max Mullen to create a more convenient grocery shopping experience. Initially serving young urban dwellers and affluent families, the company later expanded to a broader customer base. Through its Instacart Marketplace app, users could order groceries and other goods from various retailers, with deliveries fulfilled by personal shoppers. Instacart generated revenue from delivery fees, transaction fees from retail partners and customers, advertising fees, price markups, and Instacart+ subscription fees.

The online grocery delivery industry had earlier seen failures like Webvan and HomeGrocer during the dot-com bubble due to high investment in warehouses and delivery networks, low internet adoption, and rapid, unsustainable growth. In contrast, Peapod survived by sourcing from local stores and focusing on sustainable expansion. Instacart adopted a similar model, sourcing groceries from local retailers rather than maintaining warehouses and relying on gig drivers for delivery.

This approach enabled the company to thrive, especially during the COVID-19 pandemic.

Instacart’s strength lay in its extensive partnerships with national and local retailers, including Albertsons, ALDI, Costco, CVS, Kroger, Loblaw, Publix, Sam’s Club, Sprouts, and Wegmans. These partnerships ensured same-day, contactless delivery for customers. The company’s user-friendly app further simplified the shopping experience, allowing customers to chat with shoppers in real time to accommodate preferences. During the pandemic, Instacart expanded its offerings to include beauty products, electronics, and pet supplies, enhancing its one-stop shopping appeal.

To further optimize the shopping experience, Instacart introduced generative AI features like “Ask Instacart,” which provided personalized responses to customer queries and recommended items. By Q2 2023, over 70% of customers purchased items recommended through the app.

Instacart also launched **Instacart Health**, a platform promoting nutritious eating by enabling employers to send food and supplies, provide nutrition lists, and fund fresh foods for clients. This initiative aligned with post-pandemic health trends, positioning Instacart for further growth through new partnerships and increased online penetration.

# IPO Process

When a company decided to go public, it would first advertise its interest to underwriters, either privately or through a public statement. The company would then host a “bake-off,” where multiple investment banks competed for the underwriting role through interviews. Once underwriters were selected and an agreement was reached, due diligence began. The company and underwriters would prepare IPO documentation, including the S-1 registration document and prospectus, detailing key financials.

During this phase, underwriters would start marketing the IPO to gauge demand and set an appropriate share price. A board of directors would be appointed if not already in place, and systems for quarterly financial reporting would be established. Finally, the company would issue its shares on the scheduled IPO date.

The IPO market faced a significant downturn in 2022, with a 44% decline in global IPO deals from January to September compared to the previous year.

Total IPO proceeds dropped 94%, from $155.8 billion to $8.6 billion, due to high inflation, rising interest rates, and overall economic uncertainty. This cautious investor sentiment hit the tech IPO market particularly hard, with Intel's spinoff of Mobileye being the only US tech IPO to raise over $100 million in 2022. By year-end, many late-stage startups like Slash, Checkout.com, and Klarna had slashed their valuations by as much as 85%.

While the tech IPO market had thrived in 2020 and 2021, investor preferences had shifted toward companies with stable balance sheets that could withstand economic uncertainty and prolonged high interest rates.

# Market Opportunity

One of the main drivers of growth for Instacart was the explosion of the global online grocery market, which was valued at $286 billion in 2021, and expected to reach over $2.1 trillion by 2030.

Fuelled by the onset of the COVID-19 pandemic, the number of users on the Instacart platform nearly doubled from 2019 to 2020, from 5.5 million to 9.6 million, while Instacart's market share nearly tripled during this period.

In 2023, Instacart had a 21.8 per cent market share and was a household name in the grocery delivery industry, competing with retail giants such as Amazon and Walmart, as well as other food delivery apps such as Uber Eats and DoorDash.

# Competitors

Instacart's main competitors in the US included DoorDash, Uber, Lyft, and Pinterest.

DoorDash was a consumer technology company focused on local commerce. It was founded in 2013 and generated about $6.6 billion in annual revenue as of 2022. The DoorDash app allowed merchants such as local businesses to showcase their offerings, and products were delivered through contractors ("Dashers") or direct customer pickup. DoorDash operated in more than 25 countries around the world and offered a broad range of products from restaurants, pet stores, grocery stores, convenience stores, etc. DoorDash had produced negative net earnings over the past few years due to expenses such as higher customer acquisition costs.

Like DoorDash, Uber connected consumers with merchants through contractors and provided a wide product range in over 25 countries. Uber was founded in 2009 and generated about $32.0 billion in revenue in 2022. Like DoorDash, Uber had also experienced negative earnings over the last few years due to high costs.

Lyft, like Uber, was a transportation company that operated through a mobile app and provided a ridesharing service, mainly operating in the United States and Canada. Lyft was expanding into restaurant delivery, which posed a direct threat to Instacart. Lyft's annual revenue in 2022 was about $4.1 billion.

Pinterest was also a consumer technology company. The company was founded in 2009 and encouraged users to create a life for themselves through personalization. The platform was used to find personalized content that resonated with its users and inspired them to create beyond what they saw online. The company generated $2.8 billion in 2022.

# Financial Summary

Key projections for a 5-year DCF model:

- **Revenue Growth**: 18% (2023), 8%, 7%, 5%, and 3% through 2027.
- **COGS as % of Revenue**: 24.22%, decreasing by 100 basis points annually.
- **Operations & Support**: Decrease by 100 basis points per year.
- **R&D**: Flat as a percentage of revenue.
- **Sales & Marketing**: Increase by 100 basis points annually.
- **G&A**: Decrease by 200 basis points annually.
- **Depreciation & Amortization**: Flat at 1.33% of revenue.
- **Tax Rate**: 21%.
- **CapEx**: $55M (2023), $60M (2024), $65M (2025-2027).
- **Working Capital**: Increase at the same rate as revenue growth.

# Funding Rounds

Before going public, companies often fund their operations by raising capital through multiple private funding rounds. Instacart relied on venture capital investors to fund its operations during the early stages of the business. Instacart raised $2.69 billion in capital prior to the IPO through various funding rounds.

# Conclusion

Now it’s time to analyze the data. You would provide a brief overview of Instacart and its operations, highlighting key trends in the current IPO market that Instacart needed to consider. The next step involved calculating the valuation based on both DCF and comparable company analyses, using both to determine a price range recommendation for Instacart's IPO. Finally, you would need to provide an overall “go/no go” recommendation on whether Instacart should go public and discuss the pros and cons of doing so at this valuation.

# Keep in mind

- Use Both Valuation Methods – Your IPO price must be based on both DCF analysis and comparable company multiples. Neither method alone is sufficient.

- Choose Comparables Wisely – Use DoorDash, Uber, Lyft, and Pinterest.

- Factor in Market Conditions – The IPO market was unstable in 2022–2023. Explain how economic trends and investor sentiment impact Instacart's valuation.

- Justify Your Price Range – Clearly show how your DCF and comps align to support your IPO valuation. Explain key drivers and risks.

- Calculate the implied share price using Excel, present your findings clearly in your presentation, and pitch your analysis on March 1st. Your 10-minute pitch should be well-structured, concise, and focused, followed by a 5-minute Q&A session—judges prioritize sound reasoning over complex jargon.

# CONTACT US

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