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DoorDash, Inc. (DASH)

Q2 2022 Earnings Call

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Co-Founder, Chairman & Chief Executive Officer, DoorDash, Inc.

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Youssef Squali
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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, and welcome to the DoorDash Quarter 2 2022 Earnings Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] And finally, I would like to advise all participants that this call is being recorded. Thank you.

I would now like to hand over to Andy Hargreaves, Vice President, Finance and Investor Relations. Andy, please begin your call.

Andy Hargreaves

Vice President of Finance and Investor Relations, DoorDash, Inc.

Thank you very much. Good afternoon, and thanks, everybody, for joining us on our Second Quarter 2022 Earnings Call. I'm pleased to be joined today by Co-Founder, Chair and CEO, Tony Xu; and CFO, Prabir Adarkar.

We'll be making forward-looking statements during today's call, including our expectations of our business and the Wolt business following our acquisition, the macroeconomic environment, financial position and operating performance, our market and local commerce opportunity, future financial results and guidance, our strategy with investment approach. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those described, and some such risks are described in our risk factors, including in our SEC filings, including Form 10-K and 10-Qs. You should not rely on our forward-looking statements as predictions of future events, we disclaim any obligation to update any forward-looking statements except as required by law.

During this call, we will also discuss certain non-GAAP financial measures. Information regarding our non-GAAP financial results, including a reconciliation of non-GAAP results to the most directly comparable GAAP financial measures, may be found in our investor letter, which is available on our IR website. These non-GAAP measures should be considered in addition to our GAAP results and are not intended to be a substitute for our GAAP results.

Finally, this call in its entirety is being audio webcast on our IR website. An audio replay of the call will be available on our website shortly after the call ends.

As in previous quarters, we'll go straight to questions. So with that, operator, please go ahead and take the first question.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And your first question today comes from the line of Deepak Mathivanan from Wolfe Research. Your line is open.

Deepak Mathivanan
Analyst, Wolfe Research LLC

Q

Great. Thanks for taking the questions. Maybe one for Tony and one for Prabir. Tony, given the state of the market and kind of competition, it feels like at least some levels of incentives has come out of the system, maybe perhaps from smaller players in kind of niche categories. Can you talk about whether you're seeing any benefits from favorable operating environment either on frequency or kind of customer acquisition right now?

And then maybe, Prabir, I know you don't want to guide for 2023 specifically yet, but maybe how should we think conceptually about the 2023 EBITDA band? As your profit ports become larger, do you still see kind of big investment areas that would maybe keep the profit bands at these levels, or can it gradually edge up? Thank you so much.

Tony Xu
Co-Founder, Chairman & Chief Executive Officer, DoorDash, Inc.

A

Hey, Deepak. It's Tony. Yeah. Look, on the first question, our business has been always very competitive ever since we founded the company nine years ago. And I think that what's been very impressive to us is just how resilient our business has been, both in light of competitive activities, both recent and in the years that we've been building DoorDash, as well as just the macro environment as we do see some consumer spending softening, but largely we've been not impacted by that downward pressure.

I really think that you see a lot of kind of the premise of your question reflected in our results. I mean, this is a quarter in which we beat top line as well as in bottom line, we grew results 25% GOV year-on-year, and we beat quite handily on the bottom line as well.

And this is on top of a lot of the types of things that we are investing in. One that I will call out is that while we're not seeing any elevated pressures from certain types of incentives from competitors, what we are doing is we are taking care of our audiences. We invested over $40 million of loan in the second quarter just to make sure that the Dashers who were on the road, doing the hard work, can keep the profits that they expect to keep given some of the rising costs of fuel.

And so we're not seeing any of the elevated pressures, we're seeing fairly normal activity on that side. And I think, as a result, given our industry-leading retention and order frequency, you continue to see our growth in our share gains.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Yeah. And Deepak, on your second question around 2023, we're not providing quantitative 2023 guidance today. We will provide 2023 guidance when we report Q4, which is on our normal cycle. But I will provide some sort of thematic context. The first thing I would say is, going into 2023, we do expect our core US restaurant business to grow and increase its contribution profit. At current course and speed, we plan to increase annual EBITDA by a modest amount. Note that this is after observing a full year of Wolt. So said differently, core DoorDash, ex-Wolt, will expand into 2023, even though the consolidated EBITDA won't grow meaningfully.

And the only caveat we'll make for this is this could change if we identify attractive growth opportunities. We continue to remain in investment mode and look for these opportunities that benefit our retention and order frequency. But at the current course and speed, we would expect annual EBITDA to grow by a modest amount.

Deepak Mathivanan
Analyst, Wolfe Research LLC

Q

Okay. Thanks, Tony. Thanks, Prabir.

Operator: Thank you. Your next question comes from the line of Lloyd Walmsley from UBS. Your line is open.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Thanks for taking the question. Two, if I can. In the letter, you guys talked about being a logistics-led marketplace. I guess how much room do you all see over the next few years to reduce cost per order? What are some of the key drivers to kind of get there and, like, where is the lowest hanging fruit?

And then, a second one would just be, you've talked in the past about how you don't try to beat EBITDA, you really try to kind of come in, in the range. And if you beat it, it's because there just weren't attractive investment opportunities. Like, was there, like, something changing in the marketing landscape or any reason you guys let it flow through? Or just a function of some of the kind of inflation coming through as a surprise and you didn't have time to reinvest it. Anything you can share there would be great. Thanks.

Tony Xu
Co-Founder, Chairman & Chief Executive Officer, DoorDash, Inc.

A

Yeah. Hey, Lloyd. It's Tony. I'll take the first question, and maybe Prabir can take the second part of the question. With respect to efficiency gains from logistics, I think this has been a hallmark of the DoorDash story and also of the Wolt story, now that we've officially closed that partnership, in which, if you think about the gain that we're playing or the business that were in, we're really in the game of building a minimum efficient scale business. That's the type of business when you're talking about a hyper-local business where order density is the most important metric. And in order to achieve that, you kind of have to do two things: one of the things you talked about in your question, which is really around high quality logistics efficiency; and the other is high quality retention and order behavior from customers without discounting and that sort of activity. And DoorDash has really achieved both.

And on the part around gaining extra logistics efficiency, we continue to find areas of opportunity. I mean, we certainly have been leaders in our space up to this point, but I still see massive room to keep increasing the selection on our platform and improve logistics quality on our platform, the affordability of our service, and certainly our customer service levels.

On logistics, more specifically, whether it's working on efficiency improvements at the store as well as how we think about how we should – ought to assign orders, especially now that we're entering multiple categories of deliveries in addition to restaurant deliveries, I think there is a long room to go. And we're seeing that both in our numbers in the most recent quarter as well as in the quarters leading up to this point.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

And Lloyd, on the second part of your question, first I'll talk about Q2, and then I'll talk about sort of general philosophy. In terms of the Q2 performance and EBITDA, it was really a matter of two factors. The first is subtotals. As we described in the letter, as a result of consumer price inflation, our subtotals were higher because of higher item prices. And that then translates into higher commission dollars as well as higher service fees, both of which benefited revenue and drop through to EBITDA. So that's what drove the upside in Q2 in terms of EBITDA.

In terms of general philosophy, I'll say EBITDA is a function of really two things. First, it's the margin expansion that we continue to drive in our US restaurant business. That's one. And the second is the level of investment we make, which is discretionary, by the way, but the level of investment we make in our new verticals and in our international businesses. That level of investment varies from quarter-to-quarter based on the signals we see. And you can see that volatility in our historical trends, where some quarters we produce more EBITDA than others, because depending on what we see in terms of retention and order frequency, we might invest more or less. And so, our EBITDA range is really meant as a guardrail, but where we land within that range base depending on the level of investment.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Okay. Thank you.

Operator: Thank you. Your next question comes from the line of Youssef Squali from Truist Securities. Your line is open.

Youssef Squali
Analyst, Truist Securities, Inc.

Q

Great. Thank you very much. And, guys, congrats on a really impressive quarter all things considered. My question is around Wolt contribution. Can you maybe speak to the contribution that you're baking in into the 2022 top and bottom line, how to think about growth there considering kind of what's going on in Europe?

And just broadly speaking, maybe, Tony, can you address the issue about, how do you kind of take a relatively subscale business in Europe that's across multiple geographies and kind of grow it meaningfully for it to become a big part of the business? Your position in the US has been quite the opposite. You've been market leader, market dominant, and in the single market. So any help there would be great? Thank you.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

So maybe I'll start, and then Tony can chime in. The Wolt business grew over 50% year-on-year, and that's in stark contrast to what we've seen with other companies that operate in this similar geographic region. And really it all comes back down to two things, the fundamentals of the Wolt business in terms of its industry-leading retention and growing order frequency. And what we have seen is, as long as you create a product that has high retention and order frequency, it ultimately translates into better growth, because you're retaining your customers better. And that benefit compounds versus alternatives where you end up losing customers because of poor retention.

And where we're at in terms of the investment cycle, the Wolt markets are relatively new both in terms of merchant adoption as well as user adoption. As an example, even in its oldest markets, adoption levels are less than 10% of the population, and that says to us that there's a lot of room to grow just as you grow your footprint within these countries as well as you grow the merchant selection and grow the consumer base. And so that's driving the investment we're making, and we'll continue investing as long as we see strong signal on retention and order frequency.

Tony Xu
Co-Founder, Chairman & Chief Executive Officer, DoorDash, Inc.

A

Yeah. And on the second part of the question, I think it's important to start with maybe some historical context and go down memory lane, not just – just a few years ago, DoorDash was certainly not the market leader. And DoorDash especially five, six years ago was quite capital constrained relative to any of its peers by a pretty far margin.

And so how was it possible that a "subscale company" was able to rise to market leadership? Well, it really was mastering the order level execution of the business. And again, this is a hyper-local business where order density and achieving minimum efficient scale through leading in retention order frequency, which is really measured in whether or not you build a superior product of selection, quality, price, and service, and then on the other end whether or not you have the most capital efficient logistics operations.

And I think when I look at the elements that caused DoorDash to rise to market leadership, I find very similar kind of characteristics in the Wolt business, which is what excited us about their business not only today, as Prabir mentioned, far outgrowing some of their European peers, but maybe much more excited are we in their potential. Because when I compare the foundation of what they've built and I look at the opportunity ahead of them, I mean, even in their oldest markets, Wolt is less than 10% penetrated. On a global basis, both DoorDash and Wolt in our non-US markets are less than 5% of restaurant sales and outside of restaurants less than 1% of non-food spend.

And so when I compare the foundation that Wolt has built on one hand and on the other hand compare it to the opportunity ahead, it's exactly what Prabir said, which is that it's absolutely the right time to invest. And I think you already see evidence of this as Wolt has become a market leader in many of their markets already.

Youssef Squali
Analyst, Truist Securities, Inc.

Q

That's great. Thank you. And, Prabir, did you quantify the contribution to the $51 billion to $53 billion in GOV from Wolt?

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

We don't break out the guidance between Wolt and DoorDash, but when we do report earnings, we will split out organic versus Wolt's contribution.

Youssef Squali
Analyst, Truist Securities, Inc.

Q

Got it. Thank you, both.

Operator: Thank you. Your next question comes from the line of Bernie McTernan from Needham. Your line is open.

Bernie McTernan
Analyst, Needham & Co. LLC

Q

Great. Thanks for taking the question. We've noticed a lot of groceries in the marketplace doing delivery and online ordering in-house in addition to being opened up to third-party marketplaces like yourselves. So they are a competitor but also a partner. Can you talk about some of the advantages that you have for customer acquisition and retention relative to them?

And then also with the 50% growth in Wolt this past quarter for GOV, 50% higher, probably, than some of the other European delivery operators, can you just remind us whether it's market growth or just pure market share gains in terms of what's driving this growth?

Tony Xu
Co-Founder, Chairman & Chief Executive Officer, DoorDash, Inc.

A

Sure. Maybe I'll take the first question and I'll let Prabir take the second question. So, I'm not sure if this touches exactly the spirit of your question, but we view all merchants, including grocers, as partners. I mean, if you think about the mission of the company, the mission of the company is to, on one hand, build the largest local commerce marketplace, where we're driving incremental demand to all of these retailers, whether they be restaurants, grocers, convenience stores, other types of retail stores; and then, on the other hand, build the largest local commerce platform where we give the tools, whether it's logistics as a service in the form of DoorDash Drive or ordering as a service in the form of DoorDash Storefront to all of these retailers so that they can build their own digital operations.

So we really view in equal parts our mission to help grow, on one hand, which is to bring that incremental demand, and on the other hand, empower them to do it on their own. In fact, we see these customers and these different channels to be quite different. I mean if you think about it, if a customer is quite used to and knows exactly what they want to order from a particular retailer, it probably makes quite a lot of sense for them on that occasion to actually order directly from the retailer. But the greatest privilege that we have in this business is that people eat 20 to 25 times a week and they shop even more times than that on top of that when you consider their non-food spend. And so for other occasions, maybe when they're not exactly sure what it is that they're looking for, but they want to buy something from the neighborhood, that's where the DoorDash marketplace really comes in hand. And so, we really view the retailer, the merchant, whether it's a grocer or other type of store, as our partner. And we have two ways in which we help them.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

And then, Bernie, on your second question around Wolt's growth, it's really driven by two things. It's MAU growth that was aided by some customer acquisition, but also just by higher retention compared to the other players in the market. And then second, order frequency growth. As Wolt brings on more selection, both in the restaurant as well as the non-restaurant category, we've seen some of the same things which we saw in the US, where order frequency at a cohort level has continued to grow. And both of those things, particularly in the face of some of the more extreme COVID reversion that you saw in Europe, has led to the 50% year-on-year growth that we cited.

Bernie McTernan
Analyst, Needham & Co. LLC

Q

Great. Thanks for taking the questions.

Operator: Thank you. Your next question comes from the line of Brian Nowak from Morgan Stanley. Your line is open.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Thanks for taking my questions, guys. I have two. Just the first one, the gross margins in the quarter were a little weaker than we thought, at least. Could you just sort of talk to us about some of the puts and takes on gross margins of the business? And how should we think about the gross margins of the Wolt business sort of going into the back half and maybe even this longer term, 2023? Thanks.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Hey, Brian. It's Prabir, so let me start on both of your questions. So, first, our cost-of-sales increase that we saw on a year-on-year basis was really driven by two things, the DashMart and insurance costs. On DashMart, as we've launched more and more DashMart, the costs associated with those orders impacts cost of sales. So roughly half of the increase in cost of sales as a percentage of GOV is driven by DashMart.

The other half, roughly, is driven by increasing insurance costs, which was in line with our expectations. I pointed to our comments from last quarter, where we said we'd experienced an increase in insurance results due to the outside impact of a few large claims. And we began to take actions to improve the safety on our platform starting last quarter, but it takes a while for these changes to reflect on our claims data. And so, as we previously discussed, we expect insurance costs to increase in the near term.

On the whole though, both the DashMart cost increase as well as the insurance cost is reflected in the guidance we've provided. And so, it's not incremental to the guidance. It's already reflected in there.

In terms of gross margin for Wolt, really, Wolt is a combination of, as I view it, so three distinct pieces. There's investments that are going into Japan and Germany. These are brand-new markets that were launched less than two years ago where we have to get the flywheel going in terms of selection and quality and price. You've got investments in Wolt market, which is the equivalent of our DashMart's Wolt's first-party distribution business. And we've got the rest, what I call core food delivery. Core food delivery has had consistent increase in gross margin levels. And as we continue driving efficiency and the order density at the local level, we start seeing the same type of efficiency in terms of Dasher costs kick in to produce increasing levels of gross margin. Japan and Germany in Wolt markets remain in investment mode, and we continue to work on coverage, selection, quality and price there.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

That's very helpful. Thanks, Prabir.

Operator: Thank you. Your next question comes from the line of Eric Sheridan from Goldman Sachs. Your line is open.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for taking the question. Maybe two, if I can. First, Tony, I know you're talking a lot in the shareholder letter about not seeing anything yet on the consumer spending behavior patterns. But I think one of the questions we all get a lot from investors is, you're seeing some large companies already say how they would run their business differently if the consumer spending environment did change. Is there any sense you can give us of how you're sort of game planning out different economic scenarios for the business and how you might change investment philosophies or growth philosophies for the company if you did hit a rougher patch in terms of consumer spending and went through the platform?

And then, maybe an additional question on grocery and convenience and some of the new categories. Can you give us a little bit of a sense of folks who use multiple products across the platform, what that might mean in terms of LTV, or how you're thinking about leaning in and promoting different category expansion. On a per customer basis, what that might do for the year in economics longer-term? Thanks so much.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Yeah. Eric, it's Prabir. Maybe I'll start with the first one around how we're going to manage the business and EBITDA impacted growth versions. And Tony can talk about the impact from some of our new categories.

So maybe the first place to start is our core US restaurant business is growing and continues to generate significant cash flow. And historically, we've taken that cash flow and invested the vast majority of it in order to grow our scale in these large and under-penetrated categories in which we operate. Again, as I said earlier, these investments are discretionary. And so, that means the reason we're investing is because we continue to see strong signals of product market fit, as well as improving unit economics.

Just to give you an example, on any given day if I look at the top 10 stores on DoorDash in terms of sales, DashMart shows up there, and that's a strong signal of product market fit. To the extent that we don't see continued improvements in terms of unit economics or continued improvements to retention and order frequency, we will alter the pace of our investment. We've been very disciplined in terms of capital allocation so far, and we'll continue to do so going forward.

Tony Xu
Co-Founder, Chairman & Chief Executive Officer, DoorDash, Inc.

A

Yeah. And I think I would – if there's – I'll add a little bit in terms of just my view on the macro environments, and then I'll hit your second question about the multi-category customer.

So, obviously, we've been looking, right, in terms of how the tough macroeconomic headwinds that, I think, is hitting a lot of industries, how that might apply to us. We've been searching for this for many quarters now. And I think, so far, the reason why largely we've been less impacted is because, well, one, our product is dynamic. It's been constantly improving. If you look at selection for instance, in the 12 months leading up to the end of the second quarter, we've added 80,000 net new stores onto the platform. We've made improvements to many quality metrics in terms of our delivery experiences, whether it's speed or accuracy and other types of improvements. We made many improvements to the shopping experience to lower the friction for consumers. And so, I think that's one point.

The second point is, I think we still have to remember that relative, especially, to other maybe categories of commerce or e-commerce, we are still very early in our penetration, even as the market leader, just take the US, as one example, we are less than 8% of total restaurant industry sales. If we compare that to other categories of commerce, it is much earlier in its evolution.

And then, the final thing I would just add is just if you study macro – or as we've been looking at macroeconomics, I think there's only been a couple years in history in which food spend has actually declined due to challenging macroeconomic pressures. And I think that's just because it is less of a discretionary spend relative to other categories of spend. But that said, to Prabir's point, we're equal opportunity growth investors that are very disciplined. DoorDash historically hasn't had a lot of resources, and so we take very seriously every dollar of spend. And as you so on the second quarter, if we don't think that there is a great investment to be made over the same time period to generate a great return, we're not going to take that investment. And so that's true with all new projects, that's true with marketing investment, that's true with engineering and product investments, that's true with head count, that's really true for every line item in the P&L.

All right. Moving on to your second question which I think was about the impact of consumers shopping in multiple categories. Well, one, this is just part of the mission of the company is to make sure we bring everything inside the neighborhood, not just from restaurants. And two, the last disclosure we made was I think in the fourth quarter where we said that about 14% of our customers are now shopping in these non-restaurant categories. And we are seeing higher retention order frequency activity from these customers who are engaging in multiple categories. And I think this makes quite a lot of sense as we're solving now different jobs and tasks for the customer. But that said, look, we still have to earn every inch. We have a long ways to go in terms of the product experience in each one of these categories before we'd be satisfied with that behavior.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

Operator: Thank you. The next question comes from the line of Andrew Boone from JMP Securities. Your line is open.

Andrew Boone
Analyst, JMP Securities LLC

Q

Hi. Good afternoon. Thanks for taking my questions. I know you guys talked earlier about the logistics benefits you guys are running through the platform. But can you double click on the drivers of Dasher cost savings you guys highlighted in a letter? And then we haven't talked about Drive in a while. Can you provide an update there? Is there any change that you're seeing in terms of enterprise adoption now that we're beyond peak COVID? Thanks so much.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Hey, Andrew. Maybe I'll start with the Dasher cost question and then Tony can take the one on our platform services. So in terms of Dasher cost, I mean at the end of the day, right, there's multiple components of this including, as Tony alluded earlier, how stores operations in terms of how quickly they get the Dasher in and out. So there's opportunities to continue optimizing that. There's opportunities to continue dispatching from closer and closer Dasher. By the way as the density of your network increases, as you get more orders occurring within a certain neighborhood, within a certain store, you've got the ability to not just batch but you've got the ability to get the Dasher to the store quicker than you otherwise might have. And so there's really – if you think about the sources of opportunity, it's really reducing the amount of time it takes for a Dasher to get to the store and reducing the amount of time that a Dasher spends in the store. And we continue to work both those levers and that's what's resulted in the improvement in terms of Dasher cost that we have seen.

The second thing I'll say, which is really just to clarify, last year was anomalous in terms of Dasher cost because we were operating in a very expensive labor environment that's fueled by fiscal stimulus. So in some ways, Dasher cost this year just, at least in my mind, normalizing back to historical levels versus ending incremental. So last year was elevated; this year isn't.

Tony Xu
Co-Founder, Chairman & Chief Executive Officer, DoorDash, Inc.

A

Yeah. And with respect to the second question around our platform services products, such as Drive, we see continued excitement for the stores. But I mean in many ways, our platform services business experiences similar seasonality as our marketplace business where the second and third quarters are generally more muted in activity. And that's mostly because as customers are back out, many of whom are taking advantage of the good weather as well as perhaps lost vacations from the two years of COVID, and now eating out again or visiting retail stores again that these stores have to make sure that their in-store activity is protected and taking care and the customer service levels are exceptional before they invest aggressively in their off-premise business.

So while there's some seasonal kinds of activity happening in that business, I think the COVID highs in terms of the excitement to invest and continue to accelerate the momentum behind e-commerce for all these retailers across any category remains just as high as ever.

And so that's something that we expect to continue to help grow our platform services business, whether they're large merchants like some of the ones you mentioned who participate with products like DoorDash Drive or smaller merchants that really need help getting online for the first time and growing their kind of same-store sales off-premise with products like DoorDash Storefront.

And so our focus right now is making sure that those products can be easier to use and that we can build products to help teach the playbooks that we've used to build a successful digital marketplace in our own right such that these businesses can do it on their own.

Andrew Boone
Analyst, JMP Securities LLC

Q

Thank you.

Operator: Thank you. Your next question comes from the line of Ron Josey from Citi. Your line is open.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the question. Maybe two, please. The chart and the note in the letter that talks about existing consumer order rates, 2022 is trending higher than previous years and suggesting that these users in 2022 are more engaged. I'm sure – can you just talk about the drivers here? Is it greater repeat rates, adoption of newer verticals, impact to DashPass? I'm sure it's all the above. And so maybe the bigger question is just, are these newer users, these newer cohort of users, talk about how that compares to the prior cohorts. Are they just doing more?

And then maybe, Prabir, as a quick follow up, you mentioned just a strong cash flow generated from the U.S. Restaurant business. Any way to provide some guideposts or insight in terms of that profitability of that U.S. Restaurant business? Thank you.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Hey, Ron. So let me start with the second one first. On the U.S. Restaurant profitability, we haven't provided any disclosure to break that out other than to say that it continues generating more contribution profit and has improved both in terms of its net revenue margin as well as its contribution profit as a percentage of GOV on a year-on-year basis. So we're happy with the progress there and, as we've said previously, it's a valuable funding source that we use to make investments in these new categories that we're growing.

In terms of your question around on the order rate chart, really, by the way, the purpose of that chart was to demonstrate the fact that the order rate trends were similar to what we've seen historically and to make the point that increased inflation as well as potentially weakening consumer spending has not had an adverse impact relative to old cohort, and so it's hard for us to untangle the impact of consumer spending from ordinary core seasonality.

But taking a step back, in terms of the 2022 cohorts, we're happy with the quality so far. Remember, we run our sales and marketing to a payback period, and we've been operating within the same payback period for quite some time now. And so what's driving that is not just enhanced order frequency, which has continued growing on a year-on-year basis, as a result of improvements in selection, quality and price as well as the new categories that we're adding but also improvements in terms of the core margin structure of the product. And so the core product has gotten more profitable in part due to subtotals but also in part because of improvements in terms of Dasher cost, the quality of our orders, which improves our customer support costs and so on. And that coupled with the order frequency has contributed to better LTVs and roughly the same payback.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Prabir. Appreciate it.

Operator: Thank you. Your next question comes from line of Ross Sandler from Barclays. Your line is open.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Two for me. Prabir, the 30% retention stat for Wolt, is that comparable to the 48% for core DoorDash? I know they don't have a subscription business built out yet and some of their markets are little bit younger. So could you just walk us through that? And how does that 30% compare to some of the EU competitors that they face in their home markets? And do you think the gap is just wide between that 30% and the competition as it is between the 48% and your US competition? And then the second question is just you guys gave a good overview of how the consumer is holding up. I'm just curious, is the frequency for DashPass kind of stand-alone holding up as well as non-DashPass? I know there's a mix shift towards DashPass which is driving up frequency. But could you just talk about those two kind of separately? Thanks.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Yeah. Ross, maybe I'll start, and Tony can chime in. So first, on the 30% retention, I'm not sure what the 48% is that you're referring to. But the 30% is month-12 retention. And if you actually compare that to DoorDash versus Wolt on an apples-to-apples basis, it's pretty comparable, in fact in some markets it's even higher. So we feel good about the retention stat, certainly compared to our data. And when you look at our data using third-party sources, we understand that our retention is better than everybody else in the category. In terms of the European competitors, there isn't an exact apples-to-apples source that compares market to market. But based on what we're seeing in terms of competitors in the UK and other markets that are covered, the 30% actually compares favorably.

On the question of DashPass; DashPass frequency as well as order frequency of our Classic product, you really need to look at it on a cohort level. Yes, you've got mix shift between as you get more DashPass subscribers, the blended order frequency grows. But even on a cohort level, the underlying order frequency has continued to grow. And what's driving that is these new categories. We're seeing people adopt new categories. Tony referred to the 14% adoption rate at the end of Q4, which has continued to grow in Q1 and Q2, and that's driving order frequency and frequency growth at the cohort level.

Operator: Thank you. Your next question comes from the line of Jason Helfstein from Oppenheimer. Your line is open.

Jason Stuart Helfstein Q
Analyst, Oppenheimer & Co., Inc.

Thanks. I just want to dig a bit more into DashPass. With the economy reopening and kind of return to work progressing in a certain direction and increased use of ridesharing, is it making it customer acquisition of DashPass any less efficient or more challenging?

And then, secondly, I think you said that – you pointed out Dasher costs are down this year versus last year, but specifically and perhaps this month and last month, are you seeing the cost to acquire new Dashers come down even further? Thank you.

Prabir Adarkar A
Chief Financial Officer, DoorDash, Inc.

Hey, Jason. So first on the DashPass front, what I should say is we've not observed any impact on our DashPass sign-ups as a result of people going back to the office or increased ridesharing or anything like that. In fact, our DashPass subs have continued to grow both on a year-on-year basis, as well as on quarter-on-quarter basis to record high. So we feel good that DashPass is a key component of driving better affordability for our consumers, and the growth has been consistent and reliable. So that's great.

In terms of Dasher costs, the reduction in Dasher costs was really driven by two things. There's the Dasher cost per order, which I mentioned earlier, was really a normalization from the elevated levels last year because of increased fiscal stimulus. There also was, if you recall last year, increased advertising costs because everyone is competing for Dashers. And that environment's gotten a little bit better which has driven lower Dasher costs in Q2, and those Dasher costs continue to remain where they were in the last couple of months of the quarter.

Jason Stuart Helfstein Q
Analyst, Oppenheimer & Co., Inc.

Thank you.

Operator: Thank you. Your next question comes from the line of Douglas Anmuth from JPMorgan. Your line is open.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. I just wanted to circle back on profitability and just the EBITDA guide for the full year. Should we think about – the increase at the low-end there, should we think about that as the same dynamics that you suggested in 2Q in terms of driven mostly by inflation? And is that all coming on the Dash side of the business, or are we seeing any improvement perhaps in your outlook there for Wolt? Thanks.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Doug, can you clarify? Are you talking about Q3 or Q4?

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

The full year outlook for EBITDA.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Yeah. The full year outlook of EBITDA, I mean, we're bringing it up because we made progress here in the business both in terms of overall scale and increase relative to our expectations at the beginning of the year. If you remember, our guidance at the beginning of the year was, I think it was $49 billion or $50 billion at the top end. So that's gone up.

Second, we are seeing positive benefits in terms of subtotals, which we talked about earlier which results in more revenue and EBITDA. Third, Dasher costs are trending slightly better, and that's been driven by two things. There's product changes that have helped drive increased retention of our Dashers, as well as some of the macro factors such as rising cost of living and declining consumer savings that are helping increase the retention of our existing fleet.

So it's these various factors that have given us a little more confidence on EBITDA as a result of which we have increased the low-end of our guidance. And it's really a commitment to say that we're going to stay above breakeven.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Great. Thank you, Prabir.

Operator: Thank you. Your next question comes from the line of Nikhil Devnani. Your line is open.

Nikhil Devnani
Analyst, Sanford C. Bernstein & Co. LLC

Q

Hey there. Thanks for taking the question. Just on the Q3 guide, if we take Wolt out, looks like GOV is set to kind of step down sequentially for core DoorDash. So just wondering if you get there with the assumption that the July trends kind of hold roughly flattish through the quarter, or is there some further kind of softness embedded in that outlook?

And then, as a second question, just given all the macro concerns, have you seen any indications that consumers are trading down here in the types of restaurants that they order from? And any kind of color you can provide on the demographics of the customer base would be helpful. Thank you.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Sure. Maybe I'll take a crack at that. So the first thing I'll say is our Consumer metrics remain healthy. So if we look at what happened in Q2, our MAUs grew by double digits year-on-year, our frequency grew, our pace of consumer acquisition continued to remain healthy. And these signals provide a solid foundation for growth in the long term. With respect to the second half specifically, we expect normal core seasonality this year. So in general, we've experienced growth in Q4 and Q1. Sequential growth in Q2 and Q3 is usually muted as a result of summer seasonality. In fact, if you look at our Q2 to Q3 growth last year, you'll see that our GOV dipped a little bit and we're baking that into the guide.

The second point I'll make is the macro environment continues to remain uncertain, and so we haven't seen any impact from weakening consumer spend at least so far in Q2 but we're accounting for that uncertainty because it could have an impact on normal core seasonality and the bounce back that you see in Q4. And so that's what we're baking into our guidance.

And could you repeat the question on macro?

Nikhil Devnani
Analyst, Sanford C. Bernstein & Co. LLC

Q

Yeah. Just any indication that consumers might be trading down on the types of restaurants they order from and just a reminder what your demographics look like for the customer base? Thanks.

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Yeah. What I'll say on that point is, at least based on the data we've seen so far, we haven't seen anything that would point to a particular income tier or people shifting from certain types of restaurants to another. In fact, I think we said in the letter the subtotals increase because of higher item prices, but that was offset by fewer items per order as consumers responded to inflation. So it's less that they're shifting away and adjusting their buying behavior from other restaurants, they're just spending the same amount just buying fewer things. And that just goes to show you how resilient the category is, convenience and delivery and dining in has become a stable part, a repeatable part of people's lives, and we're seeing that in the data.

Operator: Thank you. Your next question comes from the line of Michael McGovern from Bank of America. Your line is open.

Michael McGovern
Analyst, BofA Securities, Inc.

Q

Hey, guys. Thanks for taking my question. I want to dig a little bit into the Gas Rewards program. Just curious, I notice you listed gas – the program as one of the contributing factors to Dasher cost per order actually being down. So I was wondering. Is there a potential impact on Dasher supply or Dasher cost per order when the Gas Rewards program ends? And then secondly, is there a chance that that could be extended beyond August 31 if there is a potential supply impact from that? And are the savings from that ending in August currently being baked into guidance for Q3 and for the full year?

Prabir Adarkar
Chief Financial Officer, DoorDash, Inc.

A

Hey, Michael. It's Prabir. Maybe I'll take a stab at your question. Yeah. We spent over $40 million on the gas savings program and received very positive feedback from Dashers. The commentary I think you're referring to is it's not that Dasher cost per order reduced, but what ended up happening is the retention of our existing fleet improved. And that improvement in that retention of the existing fleet was driven by three things. It's the product changes that we've made in order to help retention. It's the Gas Rewards program that frankly defrayed the increase in fuel costs for Dashers. And third, the macro factors that we talked about around declining consumer savings and rising inflation.

And so it's the combination of these three things that we believe improved the retention of our existing fleet that then resulted in us needing fewer new Dashers and therefore acquiring a greater portion of our Dashers organically than we otherwise would. That then translate into lower DAC costs. In terms of renewing the program, it's too early to say right now. We have assumed that we will continue to operate the current Dasher program through the end of August, and we'll make a call depending on where gas prices are as well as other things. At the end of the day, it might be a cheaper way to obtain Dashers, but we will see as we make progress here in the quarter.

Michael McGovern
Analyst, BofA Securities, Inc.

Q

All right. Great. Thank you very much.

Operator: Thank you. Your next question comes from the line of Mark Mahaney from Evercore ISI. Your line is open.

Mark Mahaney
Analyst, Evercore Group LLC

Q

Hey. I wanted to ask about whether you're seeing any pressure from competitors in nonurban markets either on the restaurant supply acquisition side or consumer incentives? And since the Amazon/Grubhub deal was sort of announced, does that show up in any of the metrics that you track? Thank you very much.

Tony Xu
Co-Founder, Chairman & Chief Executive Officer, DoorDash, Inc.

A

I can leadoff, and then feel free to chime in here, Prabir. So far, we haven't seen impacts, whether it's recent competitor announcements or moves to invest in certain types of geographies versus other types of geographies in the numbers. But obviously, we're taking stock of what's happening.

But I think it's important to remember, regardless of what's happening in the external environment that our focus is making sure that we continue building the best products. I mean, at the end of the day, the customer, whether it's for our platform or someone else's, they're going to judge all of us on the combination of the selection of places we deliver from, the quality of that delivery experience in terms of speed, timeliness and accuracy, the affordability of the platform and the customer service level.

And it's that combination, I think, that so far has been evidenced by our performance with leading retention order frequency that has separated us from the pack. And we have to just keep making sure that we stay ahead on that dimension. At the end of the day, it's that combination that ultimately is going to judge us or anyone else. And even if you offer the product for free, if that combination isn't where it needs to be for the customer, I'm not sure it's going to matter.

Mark Mahaney

Analyst, Evercore Group LLC

Q

Okay. Thank you, Tony.

Operator: Thank you. This concludes today's conference call. I would like to thank our speakers and thank you all for joining us today. This now concludes the call. You may now disconnect.