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Disclosure Insight® Report
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DoorDash, Inc. – DASH
Pre-IPO analysis: $0.00 Mkt Cap. $0.00 B

Independent Investment Research Focused on Public Company Interactions with the SEC.

Disclosure Insight®

DoorDash IPO: A Great Deal for Insiders Cashing-Out, A Bad Deal for You

Analyst Summary: Thumbs-down on the DoorDash IPO. This IPO is the latest in a series of insiders-cashing-out deals that all come to market using the same formula: Low floats/low liquidity; at least two classes of stock (in the case of DoorDash, it's three); and, no earnings. This is aided and abetted by a click-hungry financial media machine more than happy to shake the pom-poms on cue. Like many of these pieces of market manipulation to IPO lately, DoorDash is also saddled with a sizable array of internal controls uncertainties – enough to make us not trust the numbers. In our opinion, the deal structure, earnings outlook, and internal controls issues lead us to conclude DoorDash is, at best, viewed as a speculative gamble. Maybe it even works … for now. But be careful. You, the investing public, are the designated rubes in this cash-out game.

- **The low float, 11.5% of total Class A shares outstanding, creates a false sense of scarcity and an illusion of value.**
- **The insiders clearly still see value in retaining the shareholder vote – why don't you?**
- **If DoorDash cannot make income in the presence of a global pandemic, when will they?**
- **Internal control uncertainties open questions about the reliability of the numbers put forth in this deal.**

Clients are invited to contact us anytime, in total confidence, to discuss how to better assess the risks we identify here.

– ***John P. Gavin, CFA***

The Deal Structure Creates an Illusion of Value

Facts of Interest or Concern: When we first drafted this note a few days ago, DoorDash's expected valuation was in the range of $25 – $28 billion. As we go to print, it's now over $35 billion. But the deal itself is still projected to raise only a fraction of that, or about $2-4 billion. This is a low float IPO, with about 11.5% of the total Class A shares outstanding after the offering.

- **Class A:** 6,000,000,000 shares are designated as Class A common stock. Class A common stock to be outstanding after this offering: 286,343,071 shares. Class A common stock to be offered 33,000,000 shares (11.5% of total shares outstanding after offering)
- **Class B:** 200,000,000 shares are designated as Class B common stock. Class B common stock to be outstanding after this offering: 31,313,450 shares.
- **Class C:** 2,000,000,000 shares are designated as Class C common stock. Class C common stock to be outstanding after this offering: None.
- **Preferred:** 600,000,000 shares are designated as preferred stock. Preferred stock to be outstanding after this offering: None.
- **Class A, Class B, and Class C** common stock to be outstanding after this offering 317,656,521 shares

Our Take: **The low float creates a false sense of scarcity and an illusion of value.** CNBC and other financial news outlets won't call this a $2-4 billion deal. That's too boring. The formula for these low-float IPOs calls for Big Fat Valuations to get Big Headlines (and lots of clicks!). The unsuspecting are being whipped-up into a Fear of Missing Out frenzy. The deal size has already moved from $25 to $35 billion in only a few days. (For what?) That would make DoorDash the same approximate market capitalization as Allstate (ALL), Delta Airlines (DAL), Ebay (EBAY), Hershey (HSY), HP (HPQ), or Schlumberger (SLB).

This is rarely discussed around these offerings, but a low float also sets up investors for a potential liquidity trap later. That's fine when trying to drive up a share price. But that can also easily work against you later if the lack of liquidity makes it more costly to exit fast. Here's an illustration: Exxon's (XOM) trailing 10-day average trading volume was 29.9 million shares, nearly the size of the entire DoorDash float. You can easily get in/out of Exxon. That is not so assured with DoorDash.

Three Classes of Stock

Facts of Interest or Concern: DoorDash comes to market with not one, not two, but three classes of stock. This structure essentially leaves investors with no voice in governance. The following is from the Risk Factors Summary of the S-1:

- The multi-class structure of our common stock and the Voting Agreement between the Co-Founders will have the effect of concentrating voting power with Tony Xu, our co-founder, Chief Executive Officer, and a member of our board of directors, which will limit your ability to influence the outcome of matters submitted to our stockholders for approval, including the election of our board of directors, the adoption of amendments to our certificate of incorporation and bylaws, and the approval of any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction.

Our Take: You can call us old-school on this, but we remember a time when a shareholder vote had value. The insiders clearly still see value in retaining the shareholder vote – why don't you? Too many of these deals that have come public lately have at minimum two classes of stock. Again, DoorDash has three. These multi-class structures are designed for one purpose: To allow the founders/insiders to retain all voting control on the decisions that really matter. No chirping from you.

Taking it further, when we see three classes of stock come into play, as is the case with the DoorDash deal, we cannot help but look with contempt at this deal structure. Really? Two classes weren't enough for you people? The DoorDash insiders totally understand this concept. They want your money, but they don't want to be even remotely accountable to you for it. That's why they structured this deal as they did.

Ask yourself, why is it in *your* interest to turn over valuable capital but not retain at least some kind of basic voting right in *any* company in which you are investing? We get it, "That's how it's done", or, "Every IPO does it that way nowadays". But you aren't everyone and a shareholder vote is still a valuable asset. You put your or your clients' capital at risk. Management works for you. The Board is your voice. Your proxy vote is your voice with the Board. On all of this, the DoorDash IPO fails.

We generally view multi-class stock offerings as corporate governance garbage. They should be rejected. This will only stop when enough investors speak up and start rejecting these deal structures.

The good news is we are not just shaking our fists at clouds over this. Market institutions are already starting to reject these share structures. We see this in the DoorDash S-1 as a warning, cited below. It warns that the DoorDash multi-class share structure will not be chosen for addition to a wide array of indices, funds, and potentially other institutional portfolios. The company even warns you that, "could make our Class A common stock less attractive to other investors."

The following is from page 74 of the DoorDash S-1:

> We cannot predict the effect our multi-class structure may have on the market price of our Class A common stock.
>
> We cannot predict whether our multi-class structure will result in a lower or more volatile market price of our Class A common stock, in adverse publicity, or other adverse consequences. For example, **certain index providers have announced restrictions on including companies with multi-class share structures in certain of their indices**. In July 2017, FTSE Russell announced that it plans to require new constituents of its indices to have greater than 5% of the company's voting rights in the hands of public stockholders, and S&P Dow Jones announced that it will no longer admit companies with multi-class share structures to certain of its indices. Affected indices include the Russell 2000 and the S&P 500, S&P

MidCap 400, and S&P SmallCap 600, which together make up the S&P Composite 1500. Also in 2017, MSCI, a leading stock index provider, opened public consultations on their treatment of no-vote and multi-class structures and temporarily barred new multi-class listings from certain of its indices and in October 2018, MSCI announced its decision to include equity securities “with unequal voting structures” in its indices and to launch a new index that specifically includes voting rights in its eligibility criteria. Under such announced policies, **the multi-class structure of our common stock would make us ineligible for inclusion in certain indices and, as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to track those indices would not invest in our Class A common stock**. These policies are relatively new and it is unclear what effect, if any, they will have on the valuations of publicly-traded companies excluded from such indices, but it is possible that they may depress valuations, as compared to similar companies that are included. **Given the sustained flow of investment funds into passive strategies that seek to track certain indices, exclusion from certain stock indices would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors**. As a result, the market price of our Class A common stock could be adversely affected.

[Emphasis added by Probes Reporter]

No Earnings

<u>Facts of Interest or Concern</u>: The following is from “Risks Related to Our Business and Operations”, DoorDash S-1, page 22:

We have a history of net losses, we anticipate increasing expenses in the future, and we may not be able to maintain or increase profitability in the future.

Although we generated net income of $23 million for the three months ended June 30, 2020, we have incurred net losses in each year since our founding, we anticipate increasing expenses in the future, and we may not be able to maintain or increase profitability in the future. We incurred a net loss of $667 million and $149 million in the year ended December 31, 2019 and the nine months ended September 30, 2020, respectively, and, as of December 31, 2019 and September 30, 2020, we had an accumulated deficit of $1.2 billion and $1.3 billion, respectively. We expect our costs will increase over time and our losses to continue as we expect to invest significant additional funds towards growing our business and operating as a public company …

<u>Our Take</u>: If DoorDash cannot make income in the presence of a global pandemic, when will they? That’s no small thing. Ask yourself this: If DoorDash was already a public company on the day Pfizer first announced its new vaccine, how do you think the stock would have performed? More importantly, how does impact from an expected vaccine align with the story the company is pitching you on? It feels like there’s a rush to get this deal done before too many of us get vaccinated.

Internal Controls Uncertainties

<u>Facts of Interest or Concern</u>: DoorDash talks about internal controls uncertainties throughout its filing. The attorneys are clearly covering themselves on this one. The following is from the Risk Factors Summary section of the DoorDash S-1:

- We have identified a material weakness in our internal control over financial reporting and may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our consolidated financial statements or cause us to fail to meet our periodic reporting obligations;

Continued, next page

Further, the following is from page 14 of the DoorDash S-1:

> JOBS Act
>
> We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements that are otherwise applicable generally to public companies. These reduced reporting requirements include:
>
> - the requirement to present only two years of audited financial statements and only two years of related management's discussion and analysis in this prospectus;
> - an exemption from compliance with the auditor attestation requirement on the effectiveness of our internal control over financial reporting;
> - reduced disclosure about our executive compensation arrangements; and
> - an exemption from the requirements to obtain a non-binding advisory vote on executive compensation or stockholder approval of any golden parachute arrangements.
>
> We may take advantage of these provisions until we are no longer an emerging growth company. We would cease to be an emerging growth company upon the earliest to occur of: (i) the last day of the fiscal year in which we have more than $1.07 billion in annual revenue; (ii) the date we qualify as a large accelerated filer, with at least $700 million of equity securities held by non-affiliates; (iii) the date on which we have, in any three-year period, issued more than $1.0 billion in non-convertible debt securities; and (iv) the last day of the fiscal year ending after the fifth anniversary of this offering. We may choose to take advantage of some but not all of these reduced reporting burdens. We have taken advantage of certain reduced reporting burdens in this prospectus. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock.
>
> The JOBS Act permits an emerging growth company like us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies. We have elected to use this extended transition period until we are no longer an emerging growth company or until we affirmatively and irrevocably opt out of the extended transition period. As a result, our consolidated financial statements may not be comparable to the financial statements of companies that comply with new or revised accounting pronouncements as of public company effective dates.

Our Take: Make sure you get an understanding of when DoorDash's exemptions under the JOBS Act are expected to expire and whether management believes it will have its internal controls uncertainties resolved by then. We see a set up here that suggests investors could easily learn of serious accounting problems at DoorDash later. In fact, we expect it.

Now take a look at the more detailed internal controls disclosure language excerpted below. There's enough here to make us think the company already has serious accounting problems. But today the deal promoters and company management only call them internal controls issues. Why not? There's a deal to get done and, besides, most people ignore this boring accounting stuff anyway. Don't be most people. They are clear in telling you there's a lot of internal controls uncertainties here. Don't ignore it.

Facts of Interest or Concern: We searched through the entire filing to bore-in and get a sense of what's going on. It appears the core of the internal controls risk is summarized here (page 50 of the S-1) –

> We track certain operational metrics with internal systems and tools and do not independently verify such metrics. Certain of our operational metrics are subject to inherent challenges in measurement, and any real or perceived inaccuracies in such metrics may adversely affect our business and reputation.

We track certain operational metrics, including our merchant, consumer, and Dasher counts and key business and non-GAAP metrics such as Total Orders, Marketplace GOV, Contribution Profit (Loss), Contribution Margin, Adjusted EBITDA, and Adjusted EBITDA Margin, with internal systems and tools that are not independently verified by any third party and which may differ from estimates or similar metrics published by third parties due to differences in sources, methodologies, or the assumptions on which we rely. Our internal systems and tools have a number of limitations, and our methodologies for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including the metrics we publicly disclose. If the internal systems and tools we use to track these metrics undercount or overcount performance or contain algorithmic or other technical errors, the data we report may not be accurate. While these numbers are based on what we believe to be reasonable estimates of our metrics for the applicable period of measurement, there are inherent challenges in measuring how our platform is used across large populations. For example, the accuracy of our operating metrics could be impacted by fraudulent users of our platform, and further, we believe that there are consumers who have multiple accounts, even though this is prohibited in our Terms of Service and we implement measures to detect and prevent this behavior. In addition, limitations or errors with respect to how we measure data or with respect to the data that we measure may affect our understanding of certain details of our business, which could affect our long-term strategies. If our operating metrics are not accurate representations of our business, if investors do not perceive our operating metrics to be accurate, or if we discover material inaccuracies with respect to these figures, we expect that our business, reputation, financial condition, and results of operations would be adversely affected.

Risk Factors Summary from the S-1

The following is presented as a supplement, without analytical commentary.

Risk Factors Summary, as disclosed on the DoorDash, Inc. S-1, amended November 30, 2020:

- Our business is subject to numerous risks and uncertainties, including those highlighted in the section titled "Risk Factors" immediately following this prospectus summary. These risks include the following:
- We have a limited operating history in an evolving industry, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful;
- We have a history of net losses, we anticipate increasing expenses in the future, and we may not be able to maintain or increase profitability in the future;
- We may not continue to grow on pace with historical rates;
- If Dashers are reclassified as employees under federal or state law, our business, financial condition, and results of operations would be adversely affected;
- We face intense competition and if we are unable to compete effectively, our business, financial condition, and results of operations would be adversely affected;
- If we fail to retain our existing merchants and consumers or acquire new merchants and consumers in a cost-effective manner, our revenue may decrease and our business, financial condition, and results of operations could be adversely affected;
- If we fail to cost-effectively attract and retain Dashers or to increase the use of our platform by existing Dashers, our business, financial condition, and results of operations could be adversely affected;

- We rely on merchants on our platform for many aspects of our business, and any failure by them to maintain their service levels or any changes to their operating costs could adversely affect our business;

- We are subject to claims, lawsuits, investigations, and various proceedings, and face potential liability, expenses for legal claims, and harm to our business based on the nature of our business;

- Our business is subject to a variety of U.S. laws and regulations, including those related to worker classification, Dasher pay, and pricing and commissions, many of which are unsettled and still developing, and failure to comply with such laws and regulations could subject us to claims or otherwise adversely affect our business, financial condition, or results of operations;

- We expect a number of factors to cause our results of operations to fluctuate on a quarterly and annual basis, which may make it difficult to predict our future performance;

- Systems failures and resulting interruptions in the availability of our website, mobile application, or platform could adversely affect our business, financial condition, and results of operations;

- The COVID-19 pandemic, or a similar public health threat, could adversely affect our business, financial condition, and results of operations;
- We have identified a material weakness in our internal control over financial reporting and may identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls, which may result in material misstatements of our consolidated financial statements or cause us to fail to meet our periodic reporting obligations;

- The trading price of our Class A common stock may be volatile, and you could lose all or part of your investment; and

- The multi-class structure of our common stock and the Voting Agreement between the Co-Founders will have the effect of concentrating voting power with Tony Xu, our co-founder, Chief Executive Officer, and a member of our board of directors, which will limit your ability to influence the outcome of matters submitted to our stockholders for approval, including the election of our board of directors, the adoption of amendments to our certificate of incorporation and bylaws, and the approval of any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction.

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Notes: **The SEC reminds us that its assertion of the law enforcement exemption should not be construed as an indication by the Commission or its staff that any violations of law have occurred with respect to any person, entity, or security**.

New SEC investigative activity could theoretically begin or end after the date covered by the latest information in this report, which would not be reflected here. The SEC did not disclose the details on investigations referenced herein. All we know is that they somehow pertain to the conduct, transactions, and/or disclosures of the companies referenced above. Companies with undisclosed SEC investigations are maintained on our Watch List of companies with undisclosed SEC investigations.

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