Conference call transcript

30 March 2022

QUICK COMMERCE DEEP DIVE CALL

Operator

Good day, ladies and gentlemen, and welcome to the Prosus quick commerce deep dive call. All participants will be in listen only mode. There will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please also note that this event is being recorded. I would now like to turn the conference over to Eoin Ryan. Please go ahead, sir.

Eoin Ryan

Thanks, Chris, and good afternoon everyone. Thanks for joining us today for the second call in a series of deep dive calls we're doing to help give a better understanding of our businesses and the key growth initiatives within them. Today we are moving to the food delivery segment and taking a deeper look at our initiatives in quick commerce. So on the call with me today I have our CEO of Food & Edtech, Larry Illg, and the CEO of iFood, Fabricio Bloisi. Larry will take us through the opportunity in quick commerce and Fabricio will show how that opportunity hits the ground in Brazil. As is the norm, we will go through a quick presentation and then we'll open it up for Q&A. So with that, I'll turn it over to Larry.

Larry Illg

Thanks, Eoin, and hello everyone. I look forward to talking to you today about food delivery and quick commerce, so let's hop in. Starting with slide two, we first invested in iFood in 2013 and crafted our global food thesis as we've helped management shape the company. That we're an operator of the business in this case and an investor in the case of other positions is very important. We get the benefit of getting our hands dirty in operations and seeing the business up close at the elbow of iFood management. That gives us an edge when making new investment decisions in other markets. Similarly, as investors we can see food delivery business models in all the variations unfold globally, and that makes us a better operator in Brazil. It's really the best of both worlds.

Speaking of iFood, Fabricio, the CEO, will give an update on the company later in the session with a specific focus on quick commerce. Now, on this slide itself our footprint today covers leadership positions in restaurant food delivery in the vast majority of the over 60 countries where our businesses operate. Our platforms did over 4 billion orders in calendar year 2021. In 2021 we also expanded beyond pure restaurant food delivery into central warehouse grocery with Oda and quick commerce with Flink.

Now shifting to slide three, when we met at investor day in 2019 we discussed the evolution of the food delivery sector from 3P marketplace to 1P from version 1.0 to 2.0 in this graphic. Then the most common questions were about the addressable market, investment requirements and long-term margin profile of first party as the model was largely unknown and unproven. There were also questions about right to play from leading marketplaces. We made the investment in 1P in iFood out of belief in superior consumer experience and the dramatic expansion of the addressable market. Fabricio will touch on this later, but we were methodical and disciplined in our rollout of 1P, and with good results.

We have been careful in our investment decisions. In the three years since we rolled out at iFood we have extended our leadership position and rolled out 1P where it makes sense in roughly one quarter of the cities where iFood operates. We brought the aggregate food delivery business to profitability in the process. It is worth noting that we've also expanded the 3P footprint for iFood in this period. We continued to be agnostic to business model and focussed on consumer experience to unlock market potential.

Now, as the food sector evolves further in 3.0 and quick commerce, we are getting many of the same questions and following the same approach we moved from 1.0 to 2.0. We believe there is a meaningful market opportunity in quick commerce and believe in restaurant food delivery platforms' right to play. But we will bring the same discipline to addressing the opportunity as we always have.

Now shifting to slide four. What is quick commerce? Quick commerce is a term that is being used for the delivery of a mid-size selection of 2,000 to 3,000 SKUs in ten to 20 minutes. And quick commerce addresses many use cases. There is a traditional convenience shopping trip that would involve milk, butter, soda or candy. It's a trip that many on this call would have done in the offline world through your local convenience store. There are occasions whose primary purposes are more closely aligned with meal occasions, be it ready to eat foods or delivering fresh ingredients to complete a recipe.

From a platform perspective it's often hard to make sense of an individual customer basket as it can be filling in a variety of needs that do not warrant a trip to the grocery store. And the same with restaurant food delivery. We are agnostic to the business model. In some cases we will use a marketplace. In others dark stores with own inventory will be superior. We will continue to be analytical and methodical in our rollout here.

Now to slide five. One of the questions we get most often is about the assortment that is available on quick commerce platforms. While the specific SKUs vary according to local market dynamics and consumer needs, the broader principles hold. Here you see an example of Flink and how they get to their typical basket. We invested in Flink in part because of the thoughtful and high disciplined approach Oliver and his team brought to consumers in markets we felt were underserved by food delivery platforms. We have met with dozens of quick commerce companies across the globe and made just one investment. Everywhere else we have focused on organic builds on the back of our restaurant food delivery platforms.

Let me go back to the Flink basket as an illustration. Compared to other markets, Flink's version of quick commerce will have a heavier emphasis on fresh goods. In many other geographies you will see a more traditional convenience store inventory that focusses on snack foods, soda and alcohol. In some markets where water is not always safe to drink out of a faucet we see bottled water taking a meaningful share. Or in a market like India you expect to see greater emphasis on chilled dairy. You will notice on the slide that the average order for Flink is over $28. This is much larger than you might observe in other markets. It is also growing nicely. In Germany, for example, the average order value has grown almost 20% in just the last six months.

One thing powering this growth in order value is ready to eat meals. I'll touch on the strategic value of ready to eat meals in a moment, but Flink has established an exclusive partnership with Eat Happy Sushi among other ready to eat meal providers. Eat Happy is the market leader in Germany present in two of the biggest grocery chains and now available in 80% of Flink hubs.

Moving on to slide six. I often get a question about addressable market and how big this can be. The closest offline analogy we have to online quick commerce is your corner convenience store. It is far from perfect as a comparison as quick commerce can cover other areas of retail like grocery, pharmacy, pet food etc. While not perfect, it's useful to give an indication of TAM. The narrowest view of the online opportunity would be that it can capture roughly 10% of the offline convenience store activity. That would point to a roughly $50 billion opportunity on the low end.

As evidenced by the Flink example, the category is much broader than your corner 7-Eleven and can attack more meaningful revenue pools in broader grocery. It's worth noting that convenience offline is the most profitable area of grocery retail. So we are applying a meaningful revenue and profit pool. We will cover this in greater detail, but our restaurant food delivery businesses have a very strong right to play here.

Moving on to slide seven. Many of you have heard me say previously that food delivery had some of the best consumer cohorts and NPS we've ever seen. These are even better. Consumers love the product offering. Now, the natural reaction is that of course consumers love when you delivery merchandise at a loss and do it quickly. That's where we've been especially careful. We have not invested in companies whose sole value proposition lies in discounts. Yes, price is a factor in quick commerce, but we emphasise selection, quality and convenience, and find that our core food delivery customers are willing to pay for those.

Shifting to slide eight, while we don't play in the US, this chart shows a pretty good example of why food delivery companies are paying attention to quick commerce. There is a very high degree of consumer overlap. Consumers who are willing to pay for convenience are willing to pay for it in all of its forms. Even as just a defensive measure restaurant food delivery companies have to address the quick commerce space or they run the risk of disruption. Just as 1P food delivery companies have taken share from 3P, the same can be true here.

To make that more tangible, recall the sushi example for Flink. A sushi meal occasion on Flink could have easily been a sushi meal occasion on a restaurant food delivery platform. Restaurant food delivery companies have a very strong right to play in quick commerce. Where many native quick commerce companies are spending billions of Dollars on customer acquisition in an effort to identify the good customers in a sea of discount hunters, food delivery companies already have a sense of who the good customers are. They have already been acquired and loyal behaviour has been established. In that case it really is just a matter of cross-selling through your existing product and introducing it to an existing loyal customer base.

Now to slide nine. One of the most common questions I get asked is about the operational complexity and specifically about the promise of ten to 15 minute delivery. It seems too good to be true. The reality is that the build out of quick commerce is far easier than the journey we went on from food 1.0 to 2.0 from third party food delivery to 1P. On that journey we had to turn third party marketplaces like iFood from a marketing and pricing focus to an operations and logistics focus. These businesses had to be completely retooled. Some marketplace operators and their investors had to learn this the hard way.

Why is quick commerce easier? I find the graphics on slide nine a helpful illustration. On the left-hand graphic go back to the early 2000s when 3P food delivery was king. There marketplace platforms served as marketing engines and sent consumer leads to a restaurant. The restaurant's own drivers delivered the food in a hub and spoke fashion, picking up the food from a known restaurant and delivering it in a defined, well-known neighbourhood.

The middle graphic points to the complexity of 1P. In that context a delivery driver could start at a pizza restaurant, go to one house, then have to figure out where to park and pick up the food at a sushi restaurant, then go to a different house, potentially in an adjacent neighbourhood, and then on to a taco shop. It's a very challenging logistics problem to solve, especially given the perishable nature of inventory. And batching orders to save cost is a real challenge.

By comparison, quick commerce in the graphic on the right by dark store is much closer from a logistics standpoint to third party food delivery. There you are sending a driver from a perfectly designed starting point, a store you designed and optimised for picking time. The driver executes in a hub and spoke fashion, travelling a neighbourhood they know very well, back and forth. It's simpler and you can get efficiencies and order batching that are harder in a 1P restaurant food delivery model.

Further, you can be very thoughtful on where you place the store when it comes to dark stores. Ideally you are placing the dark store in the middle of an area where your best consumers live, in an area of high density. It will not be expensive main street retail but perhaps less expensive neighbourhood warehouse locations where the site selection optimises price versus delivery times.

Now going back to the promise of ten to 15 minutes. The optimal end game is where you charge a premium to deliver in this timeframe and consumers can opt to pay. For many orders consumers will be indifferent between ten and 30 minutes. The latter allows you to optimise for batching and delivery cost versus speed.

Moving to slide ten and talking a little bit about profitability. We've looked at pretty much every investment opportunity in the quick commerce space globally. I believe we have an unparalleled view on the sector and how it's evolving. It's a generalisation, but we typically see the model breaking even at the store level at around 500 orders per day. Competitive dynamics, inventory mix will matter, but generally 500 is a good number. While the space is still early, we've seen stores get to much higher numbers, in excess of 1000 orders per day in certain cases, and deliver strong store level profitability. Back to Flink, their top 20 most mature stores are already doing 560 orders a day on average, and as mentioned they are growing order value as well.

We have conviction that this opportunity will be large and profitable. You might ask, why aren't we seeing the profitability now? The short version is that we have many of the stores on the left of the curve on this chart. The financial picture that you might see is the sum of all of our stores. So we're getting all the early pain now, spending capex and working capital against low order volumes and working our way up the curve.

On slide 11 more on profitability. As we looked at our operators around the world we found that they are taking many logical steps to improve profitability. In the interests of time I won't go through the laundry list here, but just a few examples worth calling out. I mentioned earlier, Flink has increased AOVs in Germany by nearly 20% in six months. And many of the operators we see are focussed on building direct supply agreements and some have white label approaching 20% of sales and nearly 50% gross margins. In a number of markets delivery fees and advertising are already being implemented. So again we're taking a sober, disciplined approach to building and working our way up the curve with a focus on serving customers in a fashion that is sustainable economically long term.

Now to the last of my slides, slide 12. Our leading food delivery companies are pursuing this opportunity across their footprints. As we were in the buildout of 1P, we are not seeking scale for scale's sake. Rather we are seeking to serve our consumers well and in an economically efficient fashion. We are being methodical and disciplined in our approach. Delivery Hero identified the opportunity here early and has been quite thoughtful on how to build out their quick commerce footprint.

While this model arrived relatively late in India versus the rest of the world, Swiggy is a market leader and Instamarts are a competitive differentiator. It is important to remember that this is still a local game. Some efficiency in inventory acquisition and branding come with a big national presence, but this model does not need to be big at a national level to work. Local scale and density matter, and that is our focus. Fabricio will clover in more depth, but iFood addressed the broader grocery opportunity first through their grocery marketplace and is now specifically addressing quick commerce. I'll hand over to Fabricio to tell more. Fabricio, over to you.

Fabricio Bloisi

Thank you, Larry. Good afternoon everyone. Good morning everyone. Good afternoon. I am Fabricio. I'm the founder of Movile and partner of Prosus for many years, more than ten years since Prosus invested in Movile. And I am the CEO of iFood, a company we built together over the last few years. Just introducing iFood and myself, if you go to slide 14, iFood has been growing a lot over the last few years. You can see here the last yearly number we made public. We have grown a lot over the last few years. But more than quick growth, iFood became a part of Brazilian life. It's not only a food delivery company. It's one of the biggest e-commerce companies, one of the biggest and most innovative internet companies of Brazil. You can see here on the right iFood brand in Copacabana beach, or in the skies of San Paulo with drones, or even pushing how we believe that the best companies of the world will lead through a strong ESG push contributing to the society.

So iFood today is part of life of 40 million unique buyers over the last one year, around 298,000 active restaurants and transacting tens of billions of Reals per year. Talking about the iFood journey, as Larry said in his first slides, we were a 3P player four or five years ago. Four years ago we decided to become strong in 1P. This was the big subject in this kind of call two or three years ago. Can a 3P player become 1P? Is it going to be profitable? And the very good news is that our 1P transition worked very well. Today we deliver one third of our orders. It's already a profitable business unit and it's growing. It was very important for us to invest in 1P as a transformative trend that we saw in the market. So when we talk about iFood we're talking about first a 3P player, then a 1P player. But we keep transforming ourselves, and grocery is the transformation thesis for last year and this year.

If you move to slide 15 you can see what our focus was last year. We decided to go first on groceries and we started investing in grocery marketplace. In one year we grew from R$150 million to R$400 million per month in grocery sales together with many first class partners as Carrefour, GPA, many grocery stores. So we enabled tens of thousands of merchants to sell groceries through the iFood platform. In just one year doing grocery as a priority we became one of the top ten biggest grocery players in Brazil, and we are still starting. I'm sure we're going to keep growing a lot.

But the nice thing to tell you today is that this is a journey, and as 1P was our bet three years ago, grocery marketplace last year, our bet today is quick commerce. And we are quite confident on what we have. If you go to slide 16 you can see that we just started quick commerce by July last year, so a little more than six months ago the first stores. Right now we have 62 stores making a promise to deliver in 15 minutes. You can see here in the right some pictures of some store in Rio de Janeiro. And I'm sure this is just the start of our journey and we are going to keep growing this store base substantially. And I'm going to tell you why in the next slides.

If you go to slide 17 you can see a bit of our performance over the last seven months. We have two or three other competitors in the market. We were late to enter in the quick commerce, meaning this ten or 15 minute delivery. In August we had just around 10% of market share. In February, just seven months later, we have around 40% market share. And we are growing fast, and we are just beginning to see our growth. The reason that makes me excited is not only the left chart on slide 17 but the right chart that shows we are just in 20 cities today in the quick commerce offer, when the iFood grocery marketplace is in 1,200 cities and the whole iFood is in 1,700 cities.

So for sure we are using data and AI to select the best places, the best cities where we can make an offer that the customer demands but also that has good economics. But the good news is that we have a lot of space to grow, a lot of demand to understand what the user needs and to offer new quick commerce stores. So we are growing well and I think we have a lot of space to grow ahead. Our current focus is to get to 50 cities, and then we will stop again and check how much we should invest and where we should grow on quick commerce.

So why I believe quick commerce is important, if you go to slide 18 you see a little about that. The retention we have when we do a quick commerce offer like a dark store delivering in 15 minutes is very high. You can see on the left of slide 18 that we have around 81% retention. And also the frequency we have on that is very high, around ten transactions per month. Just for comparison you can see here the regular grocery. There is smaller retention, a smaller frequency. Many people ask me, what is the right model? Is it only food? Is it quick commerce or grocery marketplace? And I don't think this question makes sense. I think we have a market when we include grocery of hundreds of billions of Dollars, and we need many different solutions for different customers.

I have clear demand for food delivery, clear demand for grocery and clear demand for quick commerce from my best customers. The customers that order more often have a clear demand for this product, so at the same time a leading food delivery player like us offering quick commerce allows us to cross-sell to our best customers and supply to them what they want from us. But at the same time it's also a defensive move, because if we don't offer that or we are very slow in rowing that, some people can offer this to my best customers. So for us doing that very well is very important to make iFood bigger and better for our customers.

If you go to slide 19 you can see a little more about that. We started with a promise of 15 minutes delivery and there was a lot of questioning. The big question: is it possible to deliver in 15 minutes? How is the economics of that? That is what I want to tell you in the next few slides. In just six months our average delivery time today is 10.5 minutes in February, and hopefully it's going to go a little smaller. I'm quite excited about that. What we have here is our effect from our customers, the customer that can order bread or drinks or something and receive in ten minutes. They think, I trust in this platform. I trust in receiving what I need quite fast. And we get a very high level of fleet utilisation frequency because of this great experience.

To highlight the second point, that is breakage. How many things in the order are missing or we have to change the item? And we are doing just 1.5% of breakage in our delivery. This is very important to highlight because when I do marketplace I have a 1,200 city coverage with many partners that are very good for bigger shop baskets. The breakage used to be much higher, around ten times higher to be honest. So when I can offer a service that can deliver in ten minutes with a very high quality in terms of low breakage, we have a very happy customer that completely believes the brand and wants to buy more and more often. You can see the result at the far right with a very high NPS of around 70.

Many people ask, do people have these demands? My answer is a clear yes. Where we offer that to our customers, they have the demand. The experience is clearly more sophisticated with a quick delivery and low breakage. I believe we're going to see a lot of growth on that over the next two or three years of growth. It's important to highlight we entered in this business just seven or eight months ago, so we are still early stage. We don't have a mature offer yet. We are going to expand in cities but the journey for the customer and to expand what iFood is makes complete sense, and this is going to be an important part of the iFood service.

I was talking about slide 19. If you go to slide 20 I'm sure there will be some question about that, how I see profitability and economics of this business. Today we do an average of 220 orders in our stores. This number doesn't tell very much because many of the stores are just like three or four months old. We just have a few that are six or seven months old. With some of our older stores – older means seven months in this case – we are already at 500 daily orders per day. What we see at scale is every store in average are going to do around 600 deliveries per day. And as Larry said, at this scale we believe it's going to be a profitable and good business.

I just want to remind you, many people were questioning is 1P something that's going to be profitable someday? And today 1P is critical to our growth and our services and it's a profitable business. I think this is going to go through the same journey and it's going to be more mature in one and a half to two years. What we see is a path to increase AOV. So as users buy more often they tend to buy more things and to have a bigger basket. So we believe at scale you have a bigger basket. Today many of our offers have free delivery or very cheap delivery. With time we are going to start to charge around R$8 to R$10, and that's what we believe the customers can pay. They pay today R$7 to R$8 in foods. We are not charging it today because it's a very new service that we introduced six months ago. So it's time to let people experience it for the first year and then increase the delivery fee.

And we have the highest demand we always saw in terms of ads. Many partners, for example, that sell products to the end user, grocery products, they really want to advertise through our quick commerce stores. Today we are doing 1.5% of the GMV in ads. We put here more than 3%. I can see a scenario of 4% of the GMV in ads. And this will improve substantially the profitability of this business. So it's not my focus today to be profitable in these stores, but it will be in one year and a half. And the data we have today we think this is going to happen.

Just to remind you, the iFood team has made many cycles over the last few years, as I said the 3P and 1P marketplace and now quick commerce. So we have some experience in starting a new service, losing some money in the beginning, scaling it, optimising the economics and making it profitable after two, three or four years. We are not a company with the mind-set of let's just invest too much money and see what happens. So I'm quite confident that this is a quite good cash to have a good product with good economics in two years.

Just my last slide. I hope you have questions that we can answer. We started with 70 stores. This is small comparing with Swiggy and Delivery Hero, but we grow ten times in seven months. We are going to expand using iFood data during this year, so it means we know the customer, we know where they live, we know who wants to have better service of receiving items in ten to 15 minutes, and we are using this data in our existing customer base to scale that through 2022. Our expectation is that we have the demand in Brazil to have more than 300 stores, and we are going to keep growing to around that number. To be honest my goal is not to have a specific number or to spend and just measure how much we are spending, but to really understand where is this demand, where I can deliver, where I have high frequency and good customer experience required in this service. That's where I believe we will be by next year expanding quick commerce. So I'm quite confident that this is a good direction and hope that I can after this introduction answer some of your questions. Thank you, Larry and Eoin, and I hope to answer questions from everyone.

Operator

Thank you very much, sir. Ladies and gentlemen, if you wish to ask a question, please press * and then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you wish to withdraw the question, please press * and then 2 to remove yourself from the queue. Our first question is from Lisa Yang of Goldman Sachs. Please go ahead.

Lisa Yang

Hello. Thank you very much for taking my questions. A very interesting presentation. My first question is quite general. We've seen Instacart last week mark down their valuation by 40% to reflect the reality of the market but also to attract talent. I'm just wondering how that move makes you think about the valuation of your company. Is that something you would be willing to do? That's the first question.

The second one is on Brazil more specifically. Obviously Uber has left recently the market, so I'm just wondering if you have seen any major benefit from that exit. Where are you in terms of market share right now? And what does that mean for profitability of the business, and also how much you can potentially reinvest behind that quick commerce in cities, and where do you see the profitability in the next two years?

The third question is on the quick commerce business. Could you maybe give us any sort of colour to where you think the EBITDA to GMV margin could be achievable in the dark stores in the longer term? And what's the merchandise margin as well pre and post promotions? Thank you.

Larry Illg

Thanks for the question, Lisa. Why don't I start and then I'll hand over to Fabricio to give some colour on what he's seeing on the ground in Brazil. On the Instacart part, to be honest I don't have a lot sensible to say here. While we observe the US market, we don't operate locally. I'm based personally in the US. I think the interesting thing about the announcement is how I suspect as an outsider they are seeing some of the same cross-over from grocery to quick commerce to restaurant food delivery. And frankly it speaks to consumers that are agnostic to platforms or business models. They just want what they want when they want it. That was one of my take-aways from their announcement.

On Brazil specifically I'll hand that question off to Fabricio to talk about what he's seeing in the market from a competitive standpoint. But my lens on that, operations in Brazil, is that we've always been focussed on building our own company and satisfying our own consumer needs. While obviously we have an eye towards competition, for us our story starts and ends with the consumer experience. So competitors come in and out over the years or they change their business model, but ultimately our story will be told by how we operate.

And then on margins, globally what we see for quick commerce obviously the story is still unfolding real time, but my expectation is that we'll see EBITDA margins for the sector – I guess it depends on your profitability lens, but I think the standard lens that people seem to be gravitating to is EBITDA as a percentage of GMV. It's probably going to end up somewhere north of 5% but below 10%. Not all that inconsistent with what we've seen of the hybrid models in restaurant food delivery. Fabricio, do you want to offer any other colour on what you're seeing locally in Brazil from a competitive standpoint?

Fabricio Bloisi
Hello Lisa. You made a three part question. On Instacart, we are so much focussed here on operating the business I believe we are in a ten to 20 year transition or wave where people are going to order much more food and then groceries and other products at home. So we are much less spending time with the current market oscillating. We focus on keep growing. I think we have so much to grow, so are not focussed on this valuation or we don't have any comment on that.

Uber left the market. I am quite happy that iFood has the very best evaluation with the customers, with the restaurants, with the delivery comparing to other players here. So I think we already have a quite high market share. And I think Uber leaving is not going to change dramatically our market share or our growth because we already have this big position today. Margins, what could be achieved there? Like the 5% Larry just said, but I think it's too early to say a specific number. I think we have one or two years to get much more scale. But I'm confident it's going to be a good business after let's say two years.

Operator
Thank you. Then the next question is from Miriam Josiah of Morgan Stanley. Please go ahead.

Miriam Josiah
Great. Thanks for the presentation. Three questions from me. I firstly wanted to get a better understanding of how you're thinking about inflation, the environment that we're seeing at the moment and the impact on consumer behaviour here. On the one hand, it is grocery category which you would expect to be pretty resilient, but then this is slightly more convenience driven than your typical grocery shop. So how are you thinking through consumer sensitivity to pricing and delivery fees? Do you think that the assortment is wide enough to facilitate trading down for the consumer? Anything you can share on that would be great.

Secondly, I guess we've seen a lot of platforms now perhaps shifting away from just focussing on ten minutes to 30 minutes to an hour delivery. Can you talk about any plans you may have to address larger baskets and potentially looking at same day delivery as the end point rather than just quick commerce? How important is that less than 15 minute delivery time? And if you do plan to address the larger baskets, how do you need to adapt the model to do that? And then finally, you mentioned the need for food delivery platforms to address grocery. How are you thinking about the reserve for standalone platforms like Flink? Do they need to get into food delivery? Are there any plans already to do this? Thanks.

Larry Illg

I can take those. To your first question on inflation, obviously that's one of the big themes of the day. To the surprise of nobody we're seeing that start with fuel prices, which is obviously an important input cost for our drivers as well as wage costs increasing. So that's something we're seeing in many of the markets we operate around the globe. I think you touched on some of it in asking the question. We find that grocery is resilient. And specifically in this context with quick commerce but also with restaurant food delivery we find that a convenience minded customer is willing and able to pay for that convenience. So we haven't really seen meaningful impact in how our consumers are consuming the product and the frequency they're ordering and willingness to pay thus far. But time will tell.

On your second question on delivery time and how important ten to 30 minutes is, I think specially the popular press has gotten fixated on ten minutes. There are running jokes that somebody is going to go to nine minutes and then eight minutes. I think there are very few use cases where ten minutes is vital. I think where the sector evolves is for those cases where somebody absolutely needs something in ten minutes there will be a willingness to pay for it. You will see platforms increasingly charge for it. Otherwise there is not a lot of difference between ten minutes and 20 and 30 for most consumer use cases. I think there is a focus on timing in that some of the analytic work that our teams are doing is to figure out what the real consumer sensitivity is as indicated by their willingness to pay for that kind of speed.

And then to your last question on the need for grocery companies to consider food, I think this is where I find the Flink example. And we've seen this on other platforms with ready to eat coming into play. And the meal occasion, some of the meal occasions that we're seeing on quick commerce platforms – I mentioned the Flink sushi example – that could have been a restaurant food delivery offering from one of the leading platforms in the same markets they operate. But it happened to come through Flink.

I think there is a lesson here, probably speaking about the consumer internet where the moment you fall in love with your business model over what consumers need and the need that you're filling, you create a competitive opening for somebody to serve your best customers. And in our case what we're seeing across the world is the lines are blurring between what is a native restaurant food delivery company, a quick commerce company and a grocery company. I think you're going to see different variants of this across the world across the different inventory mixes and business models. I hope that answers your question.

Fabricio Bloisi

I will try to give some more colour on what Larry said. Your first question is great about inflation and how is the impact of that. Just remember not only food inflation but wage inflation, gas inflation, delivery guys also spend on gas. So the pressure on inflation is high, very high, and it is something that we really can sense from all the customers. I want to remind you we are in the middle of a circular transition. People are going to order more food delivery and grocery and delivery of regular items.

So what I think today is that we may have a smaller growth rate due to this inflationary pressure, but how we are handling that is putting an enormous focus on optimising costs and trying to manage prices in a way that we can deliver the best price for the customers. Specifically, for example, on grocery and on larger baskets the customer really needs the best price possible. And we have this offer also inside iFood because the demand for that was never higher. But I don't think this is an iFood thing or a Brazilian thing. This is a global problem today. We will have to optimise the platforms to deliver the best for the customer in terms of price.

Your second question is about ten minutes to 30 to a full day. Remember that we are exactly the opposite. We started doing grocery in a full day or next day delivery. Our grocery marketplace started doing full day or next day. Then we reduced it to 30 minutes to an hour. Then we offered in the last six months the 15 minutes quick commerce. So today we have the full offer. We don't do ten minutes officially today. We promise 15, and 30 to an hour, and next day. I said that when I was talking. People ask what the right model is. It's not a question on the right model. You are talking about a country the size of Brazil. Some people can pay for a ten to 15 minute delivery. Some people want to wait for next day and get a higher basket with a smaller price. We have to offer everything. And I think starting with the next day and going to the 15 minutes creates a very good portfolio for our customers today.

Operator
Thank you very much, sir. The next question is from Christopher Johnen of HSBC.

Christopher Johnen
Thanks, guys, for taking my questions. First I would want to focus on iFood again. You shared some views on north of 5% EBITDA to GMV but below 10% for quick commerce. That's very helpful. Maybe you could talk a bit about the targets you have on a breakeven per dark store level and maybe a bit of a view on capex on top of what you already provide on the slide. And then the second question is probably for Larry. Delivery Hero, kind of difficult, right? Your in price there is around 70. You have a stake north of 27%, so very little room to increase your stake here before moving into mandatory offer territory. I'm just wondering how you see that investment at this point. Anything you can say is appreciated. Thanks.

Larry Illg
Yes. So why don't I kick us off and Fabricio can say something sensible about iFood in the back. Obviously on the profitability again we're going to see how this plays out over time, but I do think that something north of 5% EBITDA as a percentage of GMV is a reasonable target. You asked about capex and what it costs to launch these things. It really does vary by geography and I think my standard rule of thumb is from a capex standpoint to launch a store, not even just with iFood but around the world, there is a local real estate and local cost component, but it is plus or minus $100,000 from a capex perspective and another $100,000 or so from a

working capital perspective that it takes to get one of these off the ground. That's typically how I've seen the model across the world.

And then on Delivery Hero, look, we're very supportive of the company and happy with our holdings. Obviously there has been a pretty significant market reaction that I think – this is my own perspective – is overblown. But we're very happy with the company's performance. I think Nicholas and his team have made sensible investments, including in quick commerce.

Fabricio Bloisi
I couldn't understand completely the first question. You said something to GMV, but I will try to answer what I got. The reality here in Brazil around $100,000 to invest. And as I said before, we are confident getting to 500 to 600 orders. And we are going in this direction. I'm not very worried that we are going to get this direction. It's going to be profitable and it can pay this level of investment that is not very high per store.

Operator
Thank you sir. The next question is from Andrew Ross of Barclays. Please go ahead.

Andrew Ross
Thank you for my question and good afternoon everyone. I've got three. The first one is about consolidation and the long term concentration you see in this market. When you think five or ten years out, is this going to be a winner takes most within a city for dark stores? Is it going to be three or four people or lots of operators? And what about globally? Are there global synergies as you see it, or are we going to get into a world where we have just a few big global players in dark stores? That's the first one.

The second one is about pricing. At least in London the pricing of food in dark stores is higher than supermarket direct. Can you talk a bit about how you drive that down and how the interplay with the TAM and the margin works on that pricing debate? And the third one is I think you talked about getting to 500 orders a day to make these stores break even. But does having lots of stores in the same city also make a difference? Do you get to a critical mass in an area where you start to get those local network advantages? I would be curious on what you've learnt in perhaps Flink's most mature cities. Thanks.

Larry Illg
Thank you for the questions, Andrew. I guess your first and third questions are in some ways related. In terms of consolidation and concentration in the space I think it's important to note how local the network effects are here. Unlike some other sectors of consumer internet where the strongest network effects are global in nature, this is a very local business. And we're fortunate that you can look at grocery retail in the offline world and see how local it is. You can have successful offline convenience stores that are single locations. Yes, there are some benefits to scale in the space, be they at a regional or national level. But really the strongest economic drivers are going to be local.

To your second question, you asked do we see this space getting down to winner takes all or winner takes most. Again we consider it mostly at the local level. I think if any of us thinks about our own grocery purchase across the various different formats I would imagine most of our grocery items come from a variety of different stores, local grocery stores, local convenience stores, other retailers etc. So I don't think the online version of this will look meaningfully different.

In terms of pricing, this is where we take a lot of comfort from looking at convenience transactions in the offline world. You are spot on that the actual item pricing, this is not a race to the bottom long term from a pricing perspective. I know where I live there are convenience stores right next door to grocery stores that have much lower prices, but still the convenience stores have a thriving business, either because they are open longer hours or often because they're just easier to access.

I think there is a lesson about consumers in that offline world. Yeah, people are willing to pay for convenience. There are classes of people who are willing to pay more just for speed and accessibility. What we're seeing is that translates to online. This also ties back to why I think our restaurant food delivery platforms have an edge. This is why it has been a focus for us on the back of these platforms, because we've already identified those customers that have a willingness to pay for convenience in the restaurant food delivery orders. It stands to reason that they would also be willing to pay on their online convenience transactions.

And then to your last question on orders per day, that's one of the pieces of the puzzle. Local network density is one of the things that I think many of the players in the space are figuring out now. What is the optimal mix? If you're looking at a city, what is the optimal number of stores to put in there? That's where having real analytic discipline and muscle comes into play. As you point out, you can drop in more stores and presumably shorten delivery time at some expense. There is a question of how much of that you can pass along to your customers.

That's a lot of the work in the case of iFood that Fabricio and his team are doing, figuring out as we insert another store in a neighbourhood where we know the neighbourhood from the restaurant side, we know who the consumers are, what is the impact of opening another store a few kilometres away when we get to a certain levels of scale? How does that change the economics of delivery? Do we shorten the delivery times by a few minutes, and how much of that incremental cost can we pass on to the customers? We're not in the case of iFood – and I know the same is true for Flink and our other companies – we are not starting with a preconceived notion of how this should end, but really taking a test and learn approach to how we're rolling out stores. I hope that covered your questions.

Fabricio Bloisi
I have a quick comment on that, a very quick comment. Pricing is so important, so my goal is to use technology to reduce pricing. If I can position better this store, or buy better, or through my scale because my store serves a wider area than a street store, because remember my store I pay a smaller rent also to this store, so I can have price benefits and I try to pass that for the customers using technology. And the second, remember the

customer acquisition cost I have because we already have a 40 million user marketplace is also much smaller. So I think we have some good elements to make the economics good quite soon.

Operator

Thank you sir. Then the next question is from Silvia Cuneo of Deutsche Bank. Please go ahead.

Silvia Cuneo

Thank you very much for taking my questions. The first one is on the B2B opportunity, if you could talk a little bit about how you are thinking about this area. We have heard some analysts looking at companies in the region which might see iFood joining in as a competitor in this space. I was just wondering what your thoughts around it are. And then secondly, just returning to the quick commerce and the unit economics, I'm just wondering how you are thinking about what one of your peers commented at an industry conference that probably 15 minutes might be too stretched to operate profitably while 30 might be more doable. Do you think this could be to the different country exposure? Thank you.

Larry Illg

Thanks for the questions, Silvia. I apologise. It was a little faint on my end. I will try to answer your questions. On the B2B opportunity I'm sure that there is something there in a lot of our markets, but the primary focus for us at this stage is on the consumer opportunity. But it stands to reason that if you have local warehousing and local inventory and local logistics that there are a number of adjacent opportunities that can be built on the back of it. You can build advertising. You can build B2B. But as it stands right now we're solving for the consumer experience and economics at the store level based on that.

On the second question about folks' commentary about how important 15 minutes is versus scheduling, I think Fabricio touched on that before and I touched on it a little bit in terms of how much easier dark store convenience is to deliver than 1P food delivery. Frankly the harder questions about local logistics came three years ago when people would ask, how could you do 1P food delivery given the complexity of that setup? You place an order and you can get it to the consumer in 30 minutes. That is a much more challenging analytic and logistics exercise than dark store convenience which is a hub and spoke model.

I think the real question is how far down from a timing perspective do you need to stretch the model where it matters to consumers and where they're willing to pay. Can you do it in 15 minutes profitably? Sure. In ten minutes? Sure. It's really just a matter of how much consumers will be willing to pay for that speed. And that will be the driver of profitability. And what inventory do you need to have available? That's a lot of the work that our teams are doing now to figure out how much does it matter and how much are consumers willing to pay. As I mentioned a couple of times, our food delivery platforms have a leg up in this exercise because we have indications of what consumer willingness to pay for selection and convenience is. And I think we have time for one more question.

Operator

Thank you, sir. Ladies and gentlemen, then the last question is from Monique Pollard of Citi. Please go ahead.

Monique Pollard

Hello. Afternoon. Thank you for taking my questions. The first question I had was on slide 18 of the presentation. You've got an 80% quick commerce retention rate. I think that's versus a 30% overall retention rate. I'm just wondering how to think about that. Is that just because those are existing customers on the platform, or is that a retention rate of orders, not of customers? I just wanted to check. I also wanted to understand if you could just give a couple of details to help us with the unit economics on the dark store model a bit more. How many drops per hour, for instance, can riders do particularly once you get to scale, and how many orders can pickers pick? Then the final question I had was the employee model of the riders. A quick comment. I would assume at the moment as you're pushing towards scale but not at scale you need to employ those riders versus having them on a contract basis. Maybe you can just provide some details on the model that you have to use for employment of the riders.

Larry Illg

Good questions, Monique. I think actually, Fabricio, you are probably better suited to answer these on slide 18 and then some of the early indications on delivery frequency and picking times.

Fabricio Bloisi

Sure. Let me try to address the three. First on 80% retention on slide 18, I think your question is good because it highlights what we see is not a new customer that is using for the first time his mobile phone and the retention is super high. What I see here is that we have more demand from more mature customers that already do their e-commerce and their food delivery. And these more mature customers have a very high retention because his life fits with this kind of service.

We see this 80% related not solely to the service is better, but also the service delivers something for our customer that has a super high demand. I tried to address that when I said some of our best customers are very willing to keep buying because they don't have time, because they have requirements to receive at home in ten to 15, 20 minutes. They order and they keep ordering. That's how I see the retention is so dramatically high. And it connects to what I said. If we don't offer that, some other company would address the demand for these customers. So that's why I think it's really important to offer quick commerce.

On the second thing, drops per hour, I don't know this number exactly because I don't have one number. What I can tell you is it is higher than food delivery because the ranges of delivery are much smaller. So for example in food delivery we do 8km or 9km distance. Here most of the deliveries are 1.5km. Many are 1km, up to 2km – sometimes 3km. So the driver can deliver and come back much faster than when you are doing food delivery, so it's more efficient. You are asking about the employee model, if you are hiring all the delivery people. No, in iFood we have 200,000 delivery partners working with the food delivery. And we use these delivery partners to do these deliveries. Therefore we use the same hiring structure we do in food delivery. I was thinking here four to five deliveries per hour is possible. Let's say four. If I include deliveries, more close to two to three. That would be some range in terms of delivery per hour.

Larry Illg

With that I think we've run out of time. Thank you for listening in and thank you for your questions. Obviously we have a lot of work to do here, but we are excited about the opportunity. I appreciate your time today, and thank you again for the thoughtful questions.

Fabricio Bloisi

Thank you everyone. It was a pleasure to be here.

Operator

Thank you, sir. Ladies and gentlemen, that then concludes this event and you may now disconnect.

END OF TRANSCRIPT