December 7, 2020

Shona Brown, Director
L. John Doerr, Director
Jeffrey Housenbold, Director
Jeremy Kranz, Director
Alfred Lin, Director
Stanley Meresman, Director
Maria Renz, Director
c/o Keith Yandell Chief Business and Legal Officer
DoorDash, Inc.
South Tower, 8th Floor
303 2nd Street
San Francisco, CA 94107

Dear Messrs. Doerr, Housenbold, Kranz, Lin, and Meresman, and Mses. Brown and Renz:

We are alarmed at DoorDash's recently disclosed plan to adopt a dual-class voting structure without the kind of sunset provision that has been put in place at companies such as Groupon, EVO Payments, and Bloom Energy. In addition to denying public investors an accountable governance structure through which to monitor and protect their investment, DoorDash's dual-class plan will prevent the company from being included in multiple major indexes compiled by S&P, including the S&P 500. Moreover, the high concentration of voting power in a single executive that will result from DoorDash's current plans seems especially unwise given the troubling disclosures contained in the prospectus.

We urge the board of directors to reconsider this decision and adopt the one-share, one-vote structure utilized successfully by the vast majority of public companies and which DoorDash itself currently employs as a privately held firm. At the very least, we urge the board to adopt an appropriate near-term sunset provision for the dual class structure, such as three, five, or seven years.

The CtW Investment Group works with union-sponsored pension funds to enhance long-term stockholder value through active ownership. The funds the Investment Group works with have over $250 billion in assets under management, and are substantial public market investors.

Dual-Class Creates Misalignment of Control and Economic Exposure

DoorDash proposes to grant founders Tony Xu, Stanley Tang, and Andy Fang 20 votes for every one vote that would be held by future public shareholders, enabling the founders to exercise 79% of the voting power at the company despite their owning only about 11.6% of DoorDash shares.[1] This arrangement imposes a significant gap between those who exercise control over the company, and those who have economic exposure to the consequences of that control. Moreover, an agreement between the three founders will allow CEO Xu to exercise their full combined voting power, an extraordinary degree of control for a single individual who will personally own only about 2.6% of shares outstanding.[2]

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[1] DoorDash Prospectus on filed on Form S-1/A on Nov 30, 2020, pg. 247. This total voting share for the insider founders includes 3.8% based on Class A shares and 75.1% based on Class B (super voting) shares.
[2] Ibid. Xu is listed as owning 14,885,415 Class B shares or 2.6% of total Class A & B shares.

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Dual-Class Exacerbates Concerns over Disclosures

This extraordinary degree of concentrated voting authority only exacerbates our concerns with a number of sparse, if not inadequate, disclosures in the prospectus. First and foremost, DoorDash acknowledges a material weakness in internal controls over financial reporting that has not been remediated.[3] This is an astonishing admission for a company that is headed to an IPO, particularly a company that has chosen to effectively allocate more than 75% of voting rights to the individual ultimately responsible for ensuring and attesting to the adequacy of those controls.[4] Without much more detail concerning, and ideally full remediation of, its flawed internal controls, we cannot avoid concluding that DoorDash is not ready for the increased scrutiny and accountability that are inherent in a public market listing. DoorDash further demonstrates that it is unready for the public markets in its misleading description of the public outcry over its former tipping policy. The company insists that the incident was essentially a tempest in a teapot: its prior policy "had the unintended effect of causing some people to be under the misimpression that not all tips were being received by Dashers."[5] This is at best misleading: as a number of *New York Times* reports detailed, consumer and public anger at DoorDash, as well as public policy efforts to compel changes in its pay practices, stemmed from the entirely accurate impression that when a customer left a tip, this amount was subtracted from the base pay which DoorDash guaranteed for the delivery.[6] In other words, rather than providing extra money to a driver – unambiguously the way the word "tip" is used in a labor services context – tips were used to curtail DoorDash's labor expenses. Given that DoorDash has changed its policy and notes the continued risks to its reputation from this incident, the company's insistence on pretending it did nothing wrong suggests, at a minimum, that it has not yet developed the thick-skin necessary to endure on the public markets. Of more concern is that this misleading disclosure may indicate that DoorDash retains a cavalier attitude regarding this material issue, hardly reassuring given the company's internal controls weakness.

Technology Companies Increasingly Move Away from Unlimited Dual-Class Structures

A decade ago, IPOs for companies opting for a dual-class structure often did not include sunset provisions or other qualifications (such as collapsing dual-class into one-vote, one-share if the founders' ownership drops below 10%). Since 2010, however, it has been increasingly common for such companies to include provisions that ensure that the dual-class set up is temporary. For instance, between 2010 and 2012, Groupon, MaxLinear, and Yelp each went public with sunset provisions of five, seven, and seven years respectively, and each has subsequently seen its dual-class structure successfully convert to one-share, one-vote.[7] In the past year, EVO Payments, Bloom Energy, and Smartsheet all launched IPOs with dual-class structures that sunset in three, five, and seven years, respectively.[8] By failing to include a reasonable sunset provision, DoorDash risks making itself an outlier among its peers, which may lead to investment risk.

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[3] DoorDash Prospectus, pg. 46.

[4] The voting agreement appears to only apply to the Class B shares, not to the 3.8% of Class A shares the three founders will hold following the IPO.

[5] DoorDash Prospectus, pg. 31.

[6] Andy Newman, "My Life as a Cab-dodging, Tip-chasing, Food App Delivery Man" *New York Times*, July 21, 2019; Andy Newman, "DoorDash Changes Tipping Model After Uproar From Customers" *New York Times*, July 24, 2019.

[7] See CII's List of Companies with Time-Based Sunset Approaches to Dual-Class Stock (https://www.cii.org/files/2-13-19%20Time-based%20Sunsets.pdf)

[8] Ibid.

Empirical Research Indicates Dual-Class Harms Long-Term Shareholders

Several recent studies have examined the question of how dual-class voting structures affect valuations and premiums, particularly at highly innovative companies. These studies find that in the immediate aftermath of an IPO, dual-class structures are associated with higher premiums, increased innovation, and greater value creation, but that after about six years the relationship reverses, and dual-class firms underperform thereafter.[9] These findings reinforce our belief that the appropriate governance structure for long-term investors is the one-share, one-vote system, and that DoorDash is imposing unnecessary and uncompensated investment risk on potential shareholders both by switching to a dual-class structure and by failing to commit to one-share, one-vote by a certain date.

DoorDash has successfully operated as a private company for 6 years with a one-share, one-vote structure. There is, at best, an ephemeral, short-term advantage to a dual-class structure coupled with significant downside risks to the company and its owners. We believe it is incumbent upon the board to remedy this situation and conform to the standards of other recent technology companies entering the public markets. DoorDash's board of directors can reassure potential shareholders that it understands that going forward both the board and management must be accountable to public shareholders by agreeing to retain its existing one-share, one-vote structure following the IPO, or, at the very least, adopting a sunset provision that commits the company to revert to one-share, one-vote within the next three to seven years.

If you have any questions or would like to discuss the concerns expressed here, please contact Dieter Waizenegger at dieter.waizenegger@ctwinvestmentgroup.com.

Sincerely,

Dieter Waizenegger
Executive Director, CtW Investment Group

[9] Martijn Cremers, et al., The Life-Cycle of Dual Class Firms, November 2017 (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3062895) ; Lucian Bebchuk and Kobi Kastiel, The Untenable Case for Perpetual Dual-Class Stock, April 2017 (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2954630) ; Lindsay Baran, et al., Dual Class Share Structure and Innovation, May 2018 (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3183517)