

# 4Q Results Disappoint; Uber Feels Competitive Pressure as Growth Slows

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## Key takeaways

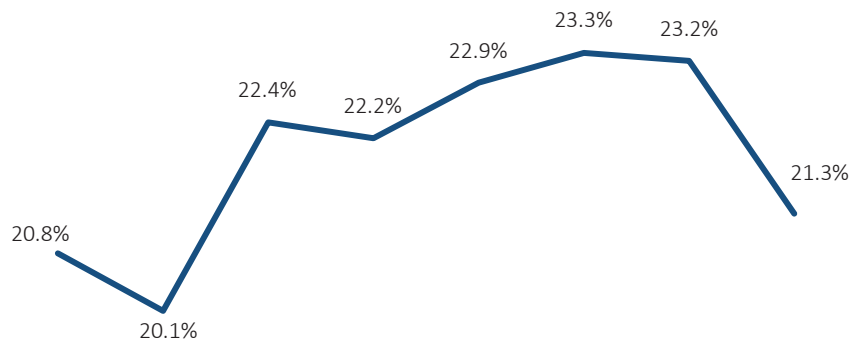
- Net revenue growth decelerated sharply in the quarter to 25% year over year (YoY) from 38% in 2Q, likely due to increased ridesharing competition both domestically and internationally. In response, Uber is investing heavily in its fast-growing Uber Eats business, as well as freight brokerage and micro-mobility solutions, as it pivots away from pure-play ridesharing to become a Mobility-as-a-Service (MaaS) platform.
- We reiterate our view that Uber's strategy of pivoting away from being a pure-play ridesharing provider toward delivery, freight brokerage, and micro-mobility makes the company more difficult to value, creating uncertainty for investors.
- Mixed results from 4Q 2018 could cast a cloud over Uber's forthcoming IPO. We believe that fast-growing competitor Lyft could present a more compelling opportunity for public equity investors interested in investing in the US ridesharing market.

As Uber continues its march toward becoming a public company, investors are taking a close look at its financials in the months leading up to its potential IPO. The company recently released its financial results for 4Q 2018, which showed mixed performance. Gross bookings showed growth, coming in at \$14.2 billion, up 31% YoY and 11% QoQ. However, net revenue (bookings less drivers' compensation and promotional discounts) of \$3.02 billion rose just 25% YoY, with the rate of YoY growth falling sharply from 38% in 3Q. Moreover, revenue was only up 2% QoQ. Although pro-forma net losses of \$768 million improved somewhat from \$939 million in 3Q, on an operational basis, the company's profitability suffered, with adjusted EBITDA loss margin widening in the quarter to -5.9% of gross bookings from -4.1% the previous quarter, though showing improvement over the -7.2% margin seen in the fourth quarter of the previous year. According to US News, Uber Eats, the company's food delivery platform, generated \$2.5 billion in bookings in the quarter, up 19% QoQ. Uber Eats now represents 18% of total bookings and is expected to deliver \$10 billion in gross bookings in 2019, up 67% from 2018.

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### Uber's net revenue as proportion of gross bookings



1Q 2017 2Q 2017 3Q 2017 4Q 2017 1Q 2018 2Q 2018 3Q 2018 4Q 2018

This chart is a PitchBook synthesis of Uber's financials as published originally by CNBC, The Financial Times, and The Wall Street Journal.

\*As of December 31, 2018

Much of the disappointment surrounding Uber's 3Q results centered around the company's slowing growth profile—and this quarter's results are a continuation of that trend. Uber's take rate—the commission it receives as a percentage of gross bookings—continued its downward trend in 4Q, coming in at 21.3%, down from 23.2% in 3Q and 22.2% in 4Q 2017. In our view, this underperformance was driven by the company's pivot toward auxiliary services as well as increased competitive pressures.

Last quarter, the company attributed the increase in spending to "competitive markets" such as the US, India, and the Middle East. In international markets, Uber is seeing stiff competition from companies such as Careem and Ola. Promotions to attract delivery and ridesharing drivers in these markets likely put downward pressure on the company's take rate. Legislation could also begin having an impact on the company's take rate—New York City recently passed a law enacting a minimum wage for ridesharing drivers, as well as a \$2.75 tax on rides in Manhattan. These are blows for Uber—New York City is Uber's largest market, representing an estimated 9% of gross bookings in 2017. If additional cities in the US enact similar legislation, Uber's take rate could see additional downward pressure. Moreover, Uber has been facing pressure domestically from Lyft, which is outgrowing Uber considerably—the company is reportedly approaching 40% market share in the US, up from 35% in early 2017. By targeting smaller cities, Lyft is portraying itself as a pure-play ridesharing provider, in contrast to Uber's approach of pivoting toward MaaS.

The company's investments into micro-mobility, autonomous driving, and food delivery also had an impact on the company's financials. As growth in the company's core ridesharing service continues to decelerate, Uber has continued to pivot away from pure-play ridesharing toward food delivery, micro-mobility, and freight brokerage. The company has also been making investments into autonomous vehicle technology. All of these efforts are part of Uber's strategy to become a dominant MaaS platform, providing a one-stop shop for urban transportation. In the near term, these efforts have negatively affected the company's margin profile. As we noted in our last quarterly update, Uber Eats' stellar bookings contribution likely implies that core ridesharing bookings growth has slowed significantly. Historical Uber Eats contribution to gross bookings was not made available, but we estimate that it was likely in the range of \$1.2 billion in 4Q 2017, meaning that 4Q 2018's contribution of \$2.5 billion likely more than doubled over the previous year. Meanwhile, gross bookings excluding Uber Eats, which includes the freight unit but could be seen as a proxy for the core ridesharing business, appears to have grown just 21% YoY. So although Uber Eats has helped bolster growth in gross bookings, it has had a negative impact on the company's take rate margin, and consequently its net revenue growth. Moreover, the company's investments in micro-mobility, autonomous vehicles, and freight brokerage likely contributed to the company's EBITDA loss margin, which widened to -5.9% of gross bookings this quarter.

Overall, the mixed results this quarter could cast a cloud over Uber's forthcoming IPO. Although it creates opportunities, we reiterate our view that Uber's pivot to becoming a one-stop shop for MaaS creates uncertainty around Uber's margin structure, which makes valuing the company ahead of its upcoming IPO more difficult. Although Uber has the resources to significantly disrupt markets such as food delivery, micro-mobility, and freight brokerage, investing in these spaces creates additional uncertainty for investors valuing the combined business, especially when compared to a more pure-play ridesharing provider such as Lyft. As such, ahead of both companies' forthcoming IPOs, Uber and Lyft represent two fundamentally different investment propositions—the former represents investing in a global MaaS platform, while the latter represents investing into the US ridesharing industry. We believe that Lyft could present a more compelling opportunity for public equity investors interested in investing in the US ridesharing market.