PitchBook

Ridesharing Gears Up to Go Public

A near $150 billion IPO primer

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Key takeaways

- Startups staying private longer has created a backlog of large companies set to go public in 2019, creating opportunity for public market investors as well as liquidity for founders, employees, and initial investors.
- Uber and Lyft will seek to receive high revenue multiples when they go to market, reflecting the trend of increasing valuations and multiples across VC-backed technology IPOs over the past few years.
- A few select investors, including two Japanese conglomerates, stand to benefit from the Uber and Lyft IPOs.

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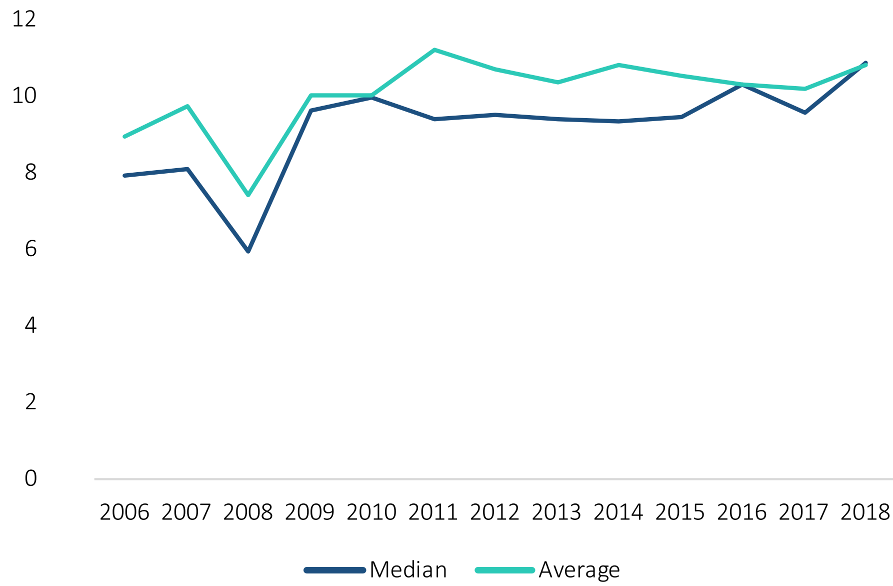
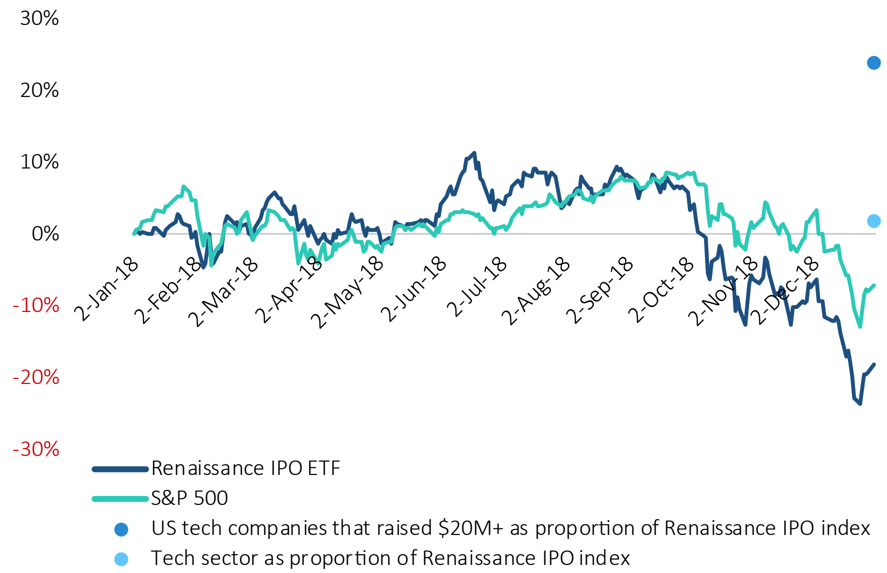
Median and average age (years) since founding of global VC-backed tech companies at time of IPO



Source: PitchBook

Venture-backed companies staying private longer has created a backlog of large companies set to debut on public exchanges in 2019, including ridesharing giants Uber and Lyft, which will be 10 years old and seven years old, respectively, in 2019. As the chart shows, the median age of VC-backed tech companies at time of IPO has risen to 10.9 years in 2018, up from 7.9 years in 2006. This trend has occurred for myriad reasons. Driven by boosted allocations toward PE and VC investors, capital available to technology startups has increased significantly in recent years, allowing them to stay private for longer. This has created a backlog of potential IPOs, especially unicorns, positioning many current investors to realize returns as these companies plan to go public in 2019 and 2020. Uber's IPO in particular would be noteworthy in size—the company could debut at a valuation in the range of $90 billion to $120 billion, which would make it one of the largest IPOs ever.

2018 percentage increases in US closing prices



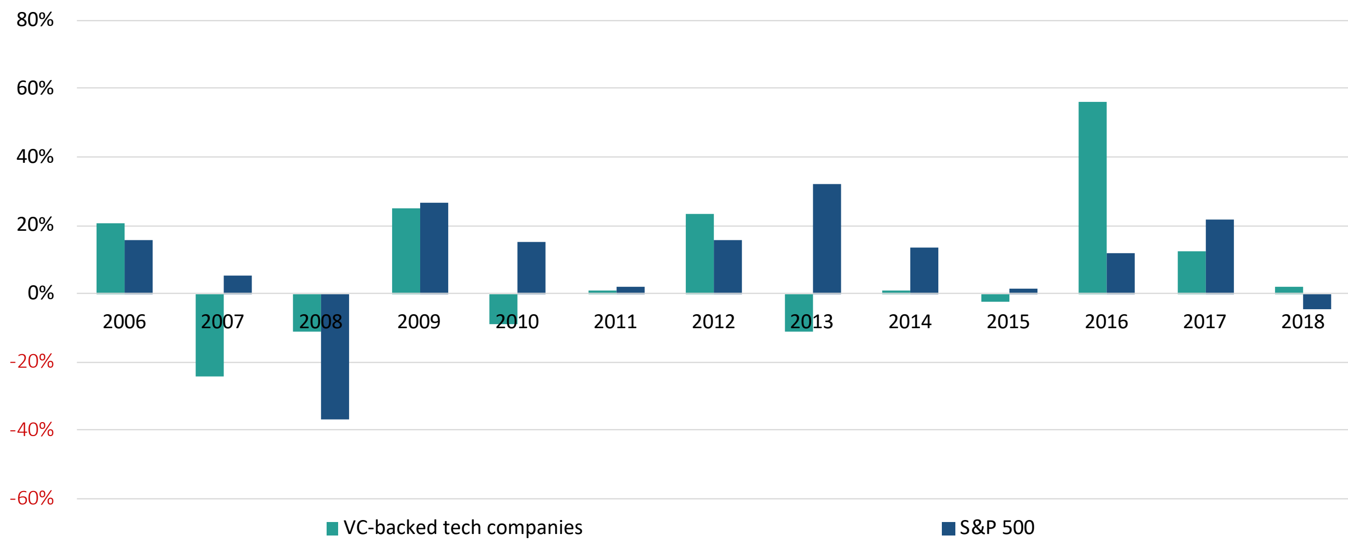
Source: Yahoo Finance & Renaissance Capital
*Data downloaded on February 14, 2019; date range from January 1, 2018 to December 31, 2018

Identifying trends in 2018's IPO market could provide insight into what to expect for 2019. Overall, 2018 was a strong year for newly priced IPO activity despite weakness and volatility in the public markets. 2018 saw an uptick in tech valuations with median valuations of VC-backed tech IPOs rising by 139.3% YoY to $613.1 million. After a strong performance in 2017, overall IPO activity in 2018 underperformed compared to the broader public equity market. According to Renaissance Capital, the underperformance was largely driven by weakness in the fourth quarter of 2018, which saw an outsized impact from public market softness, particularly in the energy and industrial sectors, as well as companies exposed to China.[1] Despite this, technology IPOs outperformed, showing a 2.2% gain for the year. American tech companies that had raised over $20 million were a bright spot, trading up 24% for the year, as compared to the roughly flat returns for the S&P 500 technology sector.

Although there have been only a few listings so far in 2019, the trend appears to be continuing upward, as evidenced by companies such as Qualtrics being acquired at stiff revenue multiples (greater than 20x) before going public. However, the latter half of the year saw increased volatility and choppiness in public markets. In the fourth quarter of 2018, the S&P 500 dropped 14% during the fourth quarter, the worst quarterly return in over seven years, more than offsetting the 9% gain

1: "2018 IPO Market Hits a 4-Year High Despite Bad 4Q," Renaissance Capital, January 2, 2018 in the first three quarters of the year. Markets ended the year on edge, driven by geopolitical uncertainty around trade tensions with China, Brexit-related fears, interest rate increases from the Federal Reserve, and moderating economic growth. Overall, market uncertainty holds broad implications for venture-backed startups considering going public in 2019.

Average return of stock 1 year after IPO

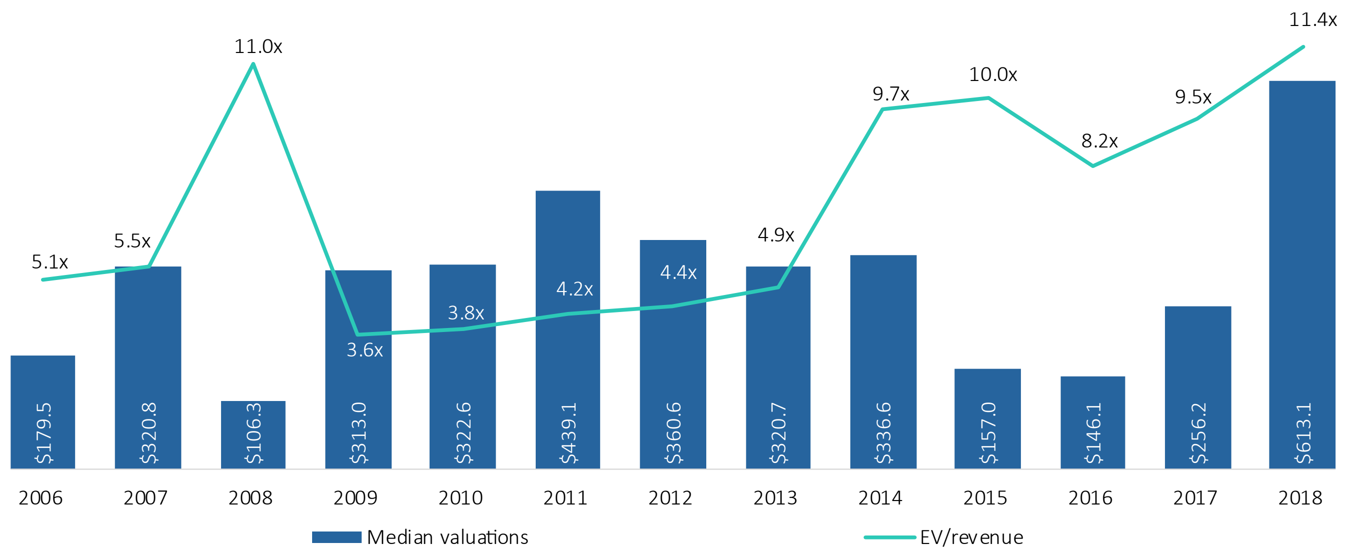


Source: PitchBook & Yahoo Finance

Investors will likely be keeping a close eye on both ridesharing companies' stock price performances immediately after their IPOs. Interestingly, it appears that VC-backed technology companies tend to underperform relative to the S&P 500 in their first year on the public market. The S&P 500 has averaged a 9.2% gain since 2006, while formally VC-backed tech companies in their first year following their IPO have averaged 6.5% over the same period.

Nevertheless, public equity performance immediately after IPO matters little to Uber and Lyft—both ridesharing companies will be more focused on actually going to market and the amount of capital they are ultimately able to raise from investors. Given current trends in the technology space, both Uber and Lyft should be able to fetch premium pricing for their businesses.

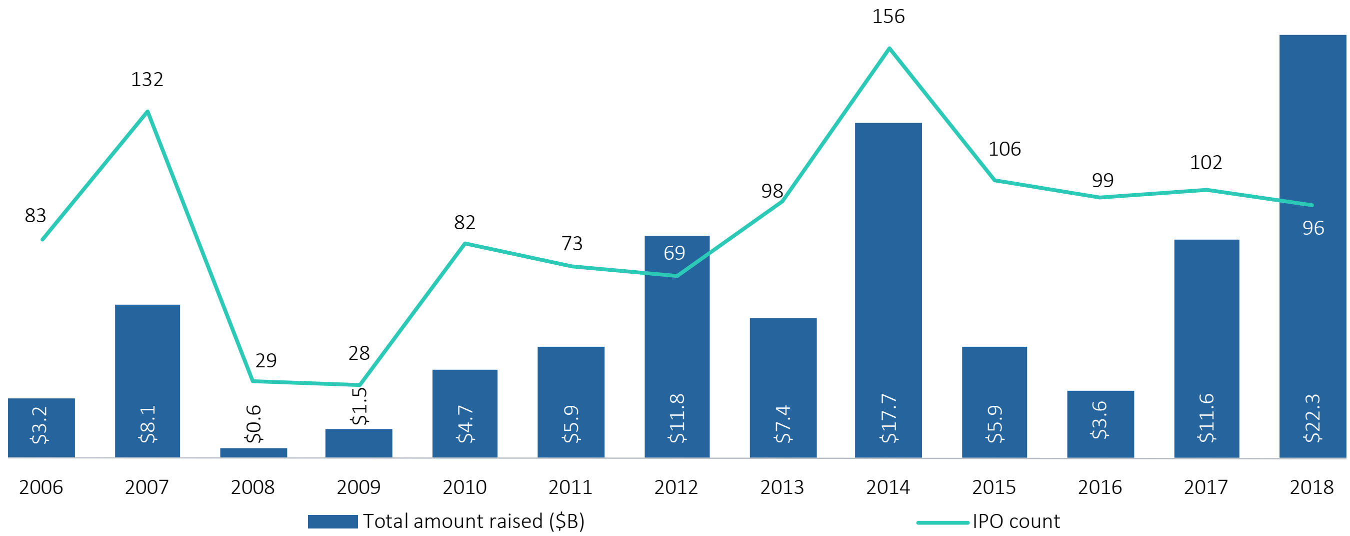
Median valuations ($M) and EV/revenue (TTM) ratios of global VC-backed tech IPOs



Source: PitchBook

Although potential valuations for Uber and Lyft at IPO are high, they are consistent with market trends in the technology space, where revenue multiples have seen an upward trend. In 2018, the median trailing EV/revenue multiple for technology companies at the time of IPO rose to 11.4x across 45 deals, up from 9.5x the previous year. In our July 2018 report entitled Uber May Pick Up Investors, Along With Riders, in Its IPO, written in collaboration with Morningstar, we assigned Uber a fair value estimate of $110 billion. Since then, according to media reports, Uber received proposals from multiple Wall Street banks valuing the company at up to $120 billion at the time of its IPO. Assuming an IPO occurred early in 2019, such a valuation would represent 8.5x forward revenue (based on Uber's expected revenue of $14.2 billion in 2019). Such a valuation would also represent 10.6x trailing revenue, a reasonable figure when compared to the median of 11.4x in 2018 across all VC-backed technology IPOs. Meanwhile, Lyft could garner a valuation in the range of $20 billion-$25 billion, which at the high end would represent an estimated trailing revenue multiple of 10.9x, putting the faster-growing Lyft at a premium to Uber.

Capital raised by global VC-backed tech IPOs



Source: PitchBook

As the data shows, IPOs during bear markets tend to receive lower valuations and raise less capital as compared to IPOs during bull markets. Tied into this, fewer companies attempt IPOs as access to capital dries up—in 2008, just 29 VC-backed technology companies went public, significantly fewer than 132 in the previous year. Exceptions to this rule include high-quality companies raising large amounts of capital at high valuations such as Visa, which saw a very successful IPO in 2008. Nevertheless, companies such as Uber and Lyft are somewhat insulated from bearish market sentiment having an impact on their IPOs due to their large scale and maturity—the median valuation of a tech IPO in 2008 was just $106 million, while Uber and Lyft could have a combined valuation in excess of $100 billion. As such, they are unlikely to be beholden to market forces in the same way smaller companies would be. As the company's capital needs shift, Uber is at a critical point of inflection where it needs to go to market now, and a choppy economic environment doesn't affect that decision because public markets represent the best way for the company—as well as founders, employees, and investors—to achieve liquidity. We believe Lyft, which is reportedly launching its roadshow in mid-March, will be eager to beat the dominant ridesharing player to market so as not to be burdened by Uber's likely lower valuation multiple and associated scrutiny surrounding its slowing growth profile, numerous corporate controversies, and somewhat unfocused growth strategies.

In the case of Uber and Lyft, Japanese investors are poised to benefit significantly from these public offerings, representing one of the first windfalls from a number of major investments these companies have made in mobility. SoftBank in particular appears to be well positioned to benefit from continued innovation in the future of mobility. The conglomerate is the largest shareholder of Uber following its $9 billion secondary transaction in January 2018 and now reportedly owns more than 15% of the ridesharing giant. Meanwhile, Japanese online retailer Rakuten owns more than 10% of Lyft. SoftBank has also made major investments in the future of autonomous vehicles with its $2.3 billion investment into GM's autonomous vehicle division Cruise, its $940.0 million into autonomous delivery robot startup Nuro, and its announced mobility-focused joint venture with Toyota. Overall, these investments have positioned SoftBank as a leading investor in the space, on the forefront of the future of mobility.

For additional coverage on Uber's recently unveiled 4Q 2018 results, please see our note entitled 4Q Results Disappoint; Uber Feels Competitive Pressure as Growth Slows. To summarize, net revenue growth decelerated sharply in the quarter to 25% 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. Overall, we believe Uber's mixed results in the quarter could cast a cloud over the ridesharing giant'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.

	Uber	Lyft
Total capital raised to date	$19.9 billion	$4.9 billion
Valuation at last financing round	$72.0 billion	$24.3 billion
Potential valuation at date of IPO	$90 billion-$120 billion	$20 billion-$25 billion
Top investors	SoftBank, Benchmark Capital	Rakuten, Andreessen Horowitz, GM, Fidelity
2018 revenue	$11.4 billion	$2.3 billion (estimated)
Revenue multiple TTM range	7.9x-10.6x	8.7x-10.9x

Source: PitchBook & Morningstar