Uber

Investment Thesis

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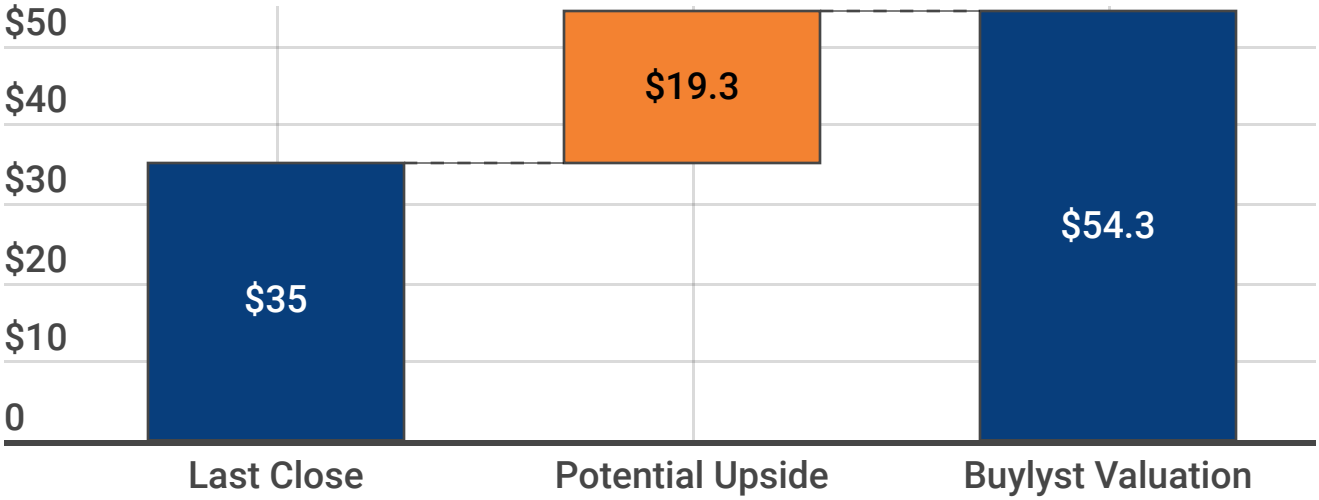
Investment Thesis Summary

Betting on Uber means betting on 3 vectors that (theoretically) amplify each other: 1) Ridesharing just makes logical sense - instead of owning a 2nd or 3rd car - for millions of people in reasonably densely populated areas of the world and 2) Bigger is better when it comes to profitability over the long-term, and 3) Cross-pollination between Mobility and Delivery among both drivers and riders will be, theoretically, a competitive advantage. #2 and #3, combined, should power the proverbial flywheel. The key risk is Driver or "Earner" supply - there are regulatory and technological (AVs) headwinds. All that considered, we believe Uber's stock still offers a substantial upside.

Potential Upside

As of April 6, 2021



Company Description

Uber Technologies is a technology provider that matches riders with drivers, hungry people with restaurants and food delivery service providers, and shippers with carriers.

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Positives +++

- **Competitive Advantage & Moat:** This is theoretical. 1) Size and 2) Cross-pollination between Mobility and Delivery are both competitive advantages compared to Lyft or Doordash. Common sense suggests that this is a "network effects" business - more driver supply means more riders because of less wait times, which further perpetuates the flywheel. In this thesis, we're ignoring the Logistics business.
- **Management Strategy:** Uber is all-in on the cross-pollination theory. That's their differentiator. They're investing in software to make it easier for both Drivers and Riders to jump between Mobility & Delivery. Lyft's strategy, in contrast, is Product Innovation, Customer Experience, and Brand Preference.
- **Growth Drivers:** 1) Global (partial) replacement of car-ownership with ride-sharing in cities and suburbs. 2) Subscription models like UberPass (yet to gain momentum) and 3) Autonomous Vehicles - but this could be a financial risk.

Negatives ---

- **Competition:** Formidable - Lyft and other local ride-sharing companies across the world, plus DoorDash and others on the Delivery side. It's maybe unfair that Uber cannot rely on any "tech" advantage in a product that they pioneered. But scale will matter - Uber has a big advantage there.
- **Key Risk:** The "black swan" is obvious - legislation risk. If Uber and Lyft are forced to employ their drivers, the business model goes out the window, as does any investment thesis about them written today. But the Prop 22 ruling was encouraging.
- **Other Risks:** It is difficult to imagine or quantify how much Autonomous Vehicles will affect profitability. But total autonomy (level 5) is probably >5 years away.

Related Research

Investing in Ridesharing

Investing in Uber/Lyft 2019

Lyft Valuation 2019

Investing in Urbanization

Uber Investor Day 2022

NYC Cabbies on Uber

California Prop 22

Massachusetts Gig Workers Ballot Initiative

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Ground Rules

Return Requirement

>50%
Upside

<5 yrs

Things you should know about this investment thesis:

1. What do we need to believe in to achieve our return requirement? That's what this thesis estimates.
2. Then we answer the question: "do we be believe it?"
3. In the Uber thesis, we've left out 2 businesses out of our estimates: Logistics and Advertising. These are still small businesses which are hard to model. Any upside from these businesses is gravy.
4. We've assumed no changes in Uber's business model - for example, if a subscription model takes over, we think it will be a positive change.

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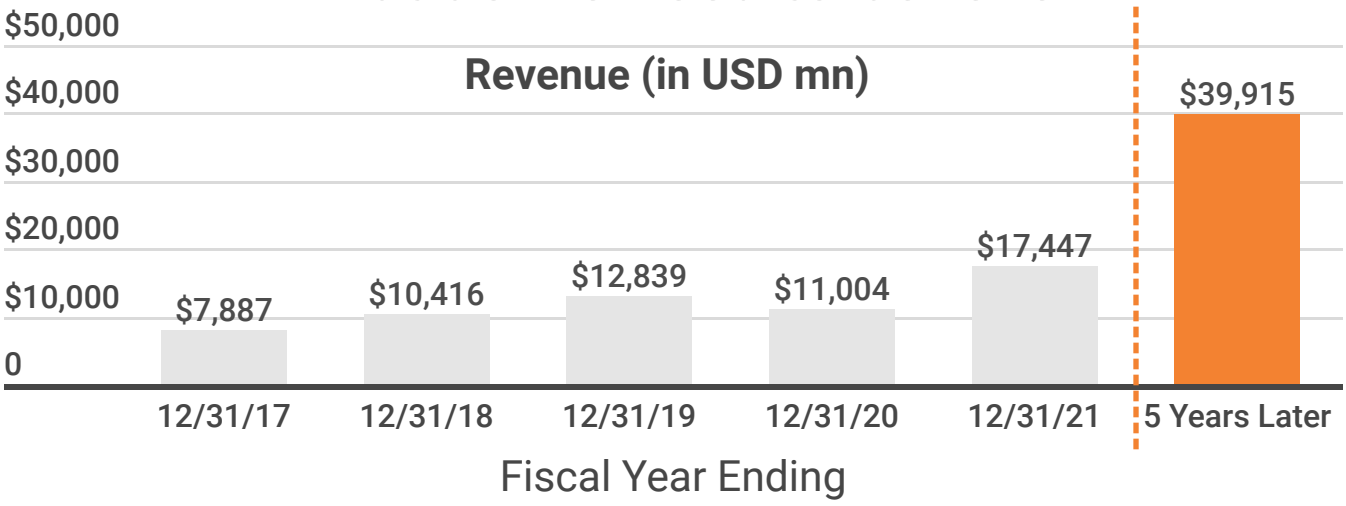
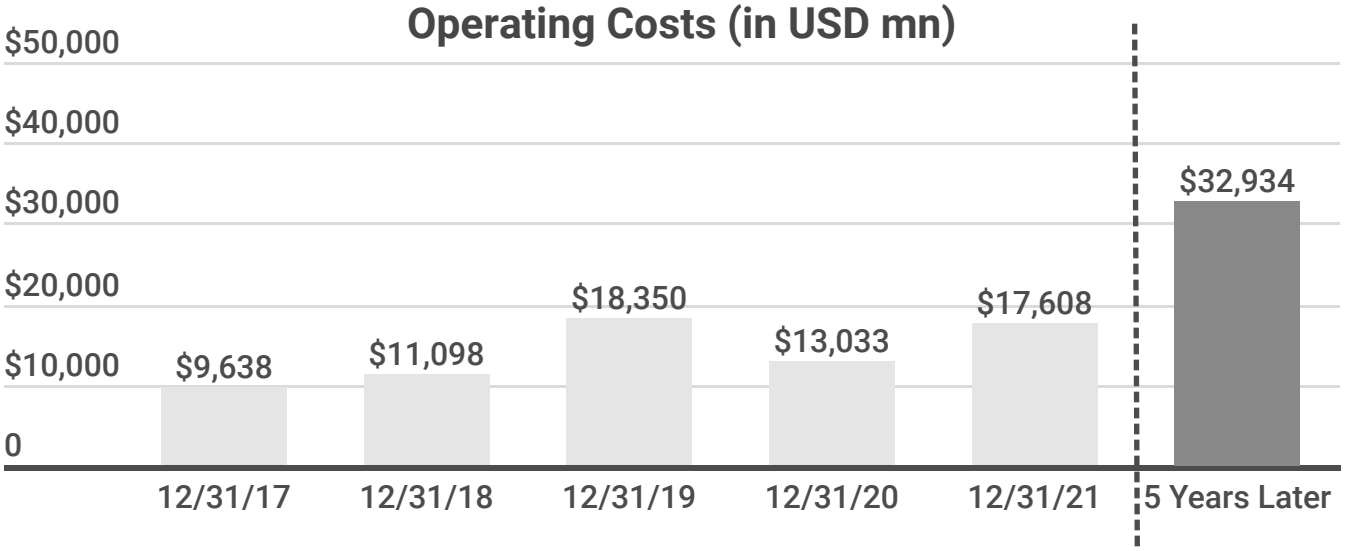
What do we need to believe?



We need to believe:

1. **Uber's revenue will grow by about 18% per year for 5 years. That about 129% in cumulative revenue growth.**
2. **With limited pricing power and sustained competition, Uber will need to rely mostly on volume (ridership) growth. Is this a plausible scenario?**



We need to believe:

1. **Gross Margin will be similar to the last 12 months at 46%.**
2. **R&D Expense will grow modestly at 5% annualized over 5 years.**
3. **Selling, General & Admin costs will grow at 7% annualized over 5 years.**

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Revenue Growth: Great Expectations

Financial Framework

Next 3 years: Expect growth and profitability acceleration

	FY 2018	FY 2021	FY 2024 (Expected)
Gross Bookings 3-year CAGR	**$58B**	**$90B** 22%	**$165B to $175B** 22% to 25%
Adjusted EBITDA (% of GB)	**-$1.8B** -3.7%	**-$0.8B** -0.9%	**~$5B** ~3%
Incremental Margin (Implied)		*~3%*	*~7%*

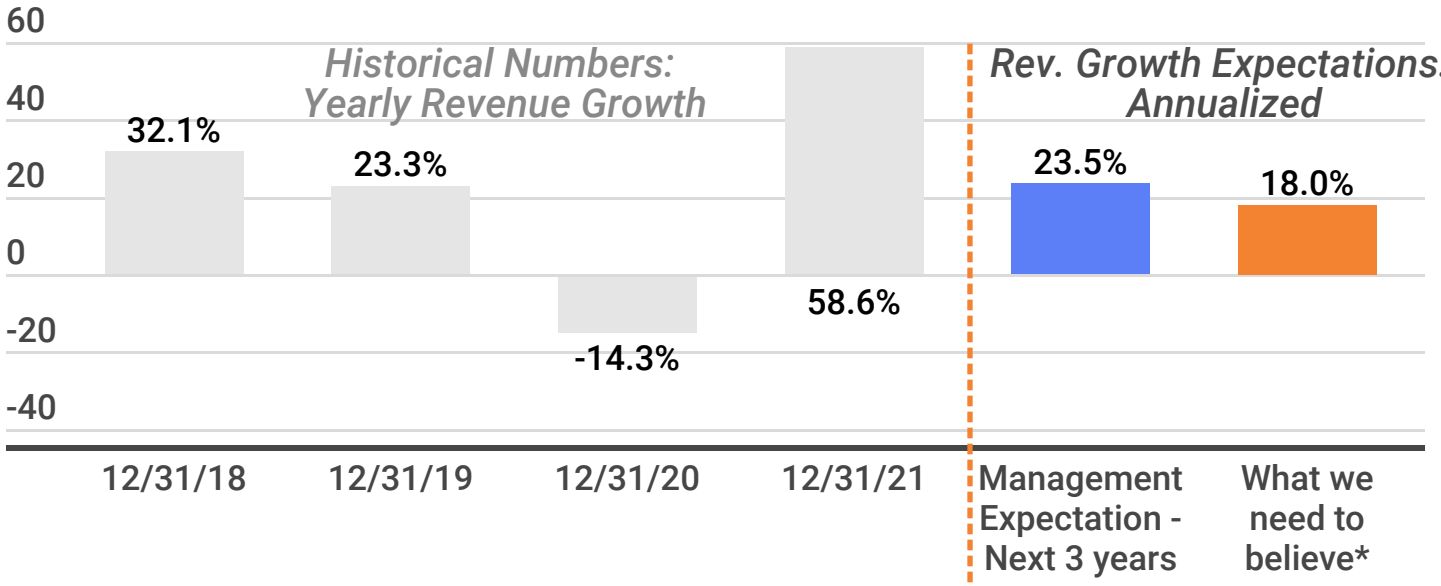
Revenue growth expected to **exceed** Gross Bookings growth

Committed to **healthy profitability expansion,** while opportunistically reinvesting excess profitability into longer-term growth initiatives

Uber | Investor Day 2022 181

Source: Uber Investor Day 2022 Presentation

Revenue Growth Context



*Annualized Revenue Growth over the next 5 years

Source: Company Filings, Buylyst Estimates

the buylyst

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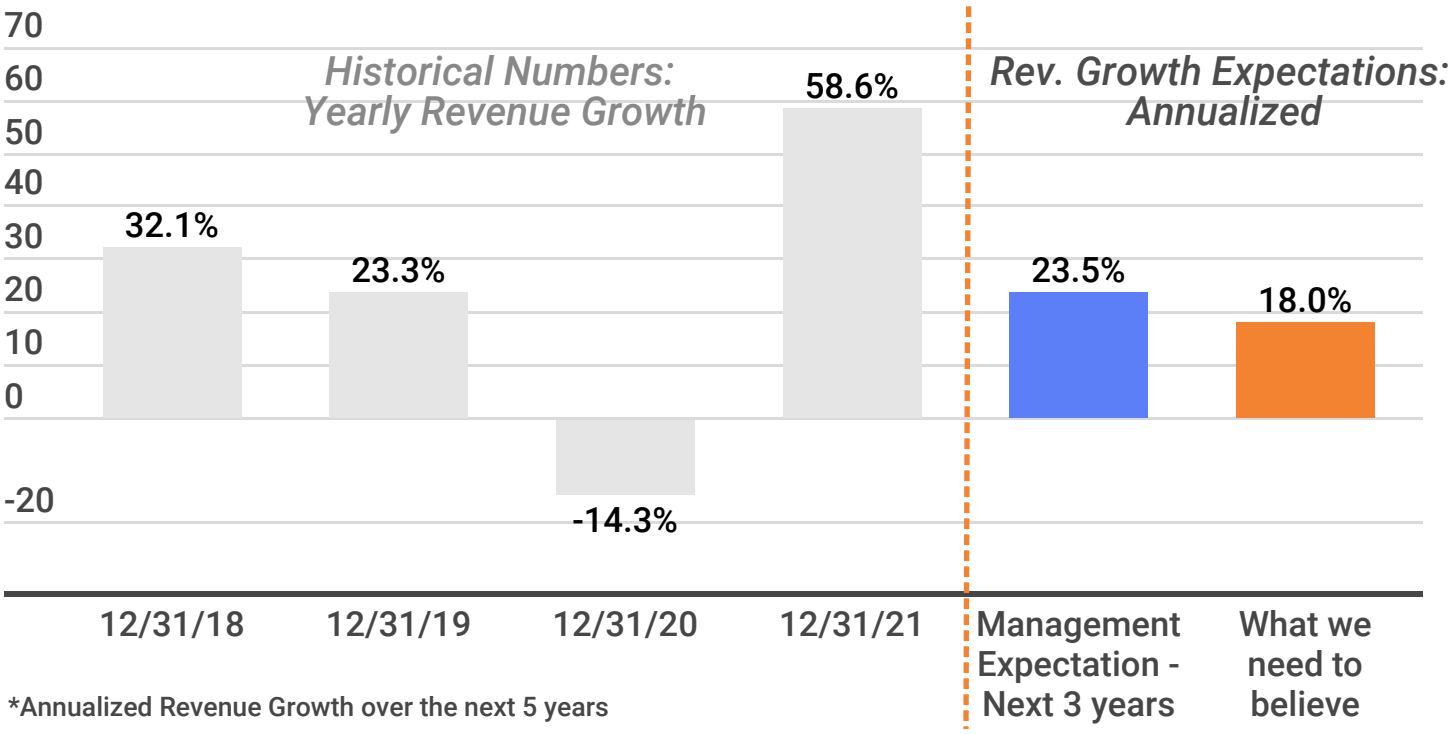
Revenue Growth: Context



*Annualized Revenue Growth over the next 5 years
Source: Company Filings, Buylyst Estimates

We've taken the mid-point of Management's expectations of Gross Booking Value (GBV) growth of 22-25%. GBV is basically the sum-total of all the trip and order amounts that users of Uber and Uber Eats place on the apps. Uber's Revenue is a slice of that (usually 20% but more on that later). If we assume that Uber's slice of GBV (or "take rate") remains roughly the same, then GBV growth expectations translate to revenue growth expectations. In fact, Management expects revenue growth to **exceed** GBV growth, which means they expect higher Take Rates. The chart above shows their GBV (or revenue) growth expectations compared the last few years, and compared to our expectations. More on our expectations (what we need to believe over the next 5 years) in the following pages.

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Revenue Growth: Components

Uber's Revenue

Gross Booking Value (GBV) = **Active Users** X **Spend/Trip**

X

Take Rate (Uber's cut from driver revenue) ← **18.9%**

Average over last 12 months

Uber's Management expect that GBV will increase by 22-25% (annualized) over the next 3 years. The also assume that Take Rates will remain stable. On our side, we estimated that we need to believe that Uber's revenue will grow by 18% (annualized) over the next 5 years. This seems congruent with Management's great expectations. Of all the variables listed above, we believe we can hold Spend/Trip fairly constant over time. Distances and appetites will probably not change much. We believe that the number of Active Users will probably grow, but we're not so sure about Take Rates. Pricing power is in ridesharing/delivery is low.

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The Uber Revenue Growth Matrix

18.9% Average Take Rate over last 12 months

118 mn Last reported Active User count

Active User Growth (annualized) >>>

Growth in Take Rates (annualized)	15%	20%	25%	30%	35%
-10%	3.5%	8.0%	12.5%	17.0%	21.5%
-5%	9.2%	14.0%	18.8%	23.5%	28.3%
0%	15.0%	20.0%	25.0%	30.0%	35.0%
5%	20.8%	26.0%	31.3%	36.5%	41.8%
10%	26.5%	32.0%	37.5%	43.0%	48.5%

The numbers in GRAY within the matrix reflect revenue growth scenarios. They are a result of dialing up/down both Active User growth and Take Rate growth assumptions. Last time we wrote an Uber thesis, we had kept Spend/Rider and Take Rates constant; we focused only on Active User Growth. This time, we wondered how much we could dial down Take Rates to see how much Active User growth we'd need to get to our 18% revenue growth number. It turns out that if Take Rates fall by 5% annually, we'd need Uber's user base to grow by about 24%. That's at the upper end of Management's GBV growth estimate over the next 3 years.

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Plausible Revenue Growth Scenarios

Uber's Take Rate decreases by 5% per year

18.9% → -5% annualized for 5 years → **14.6%**

Monthly Active Platform Users

118 mn → +24% annualized for 5 yrs → **346 mn**

Uber's Take Rate stays the same

18.9% → -5% annualized for 5 years → **18.9%**

Monthly Active Platform Users

118 mn → +18% annualized for 5 yrs → **270 mn**

Can Uber get to 346 million active users in 5 years? In other words, can the number of Active Users triple in 5 years? If we assume Take Rates stay the same, then that "required" number of Active Users shifts down to 270 million. Still high but more believable. See next page.

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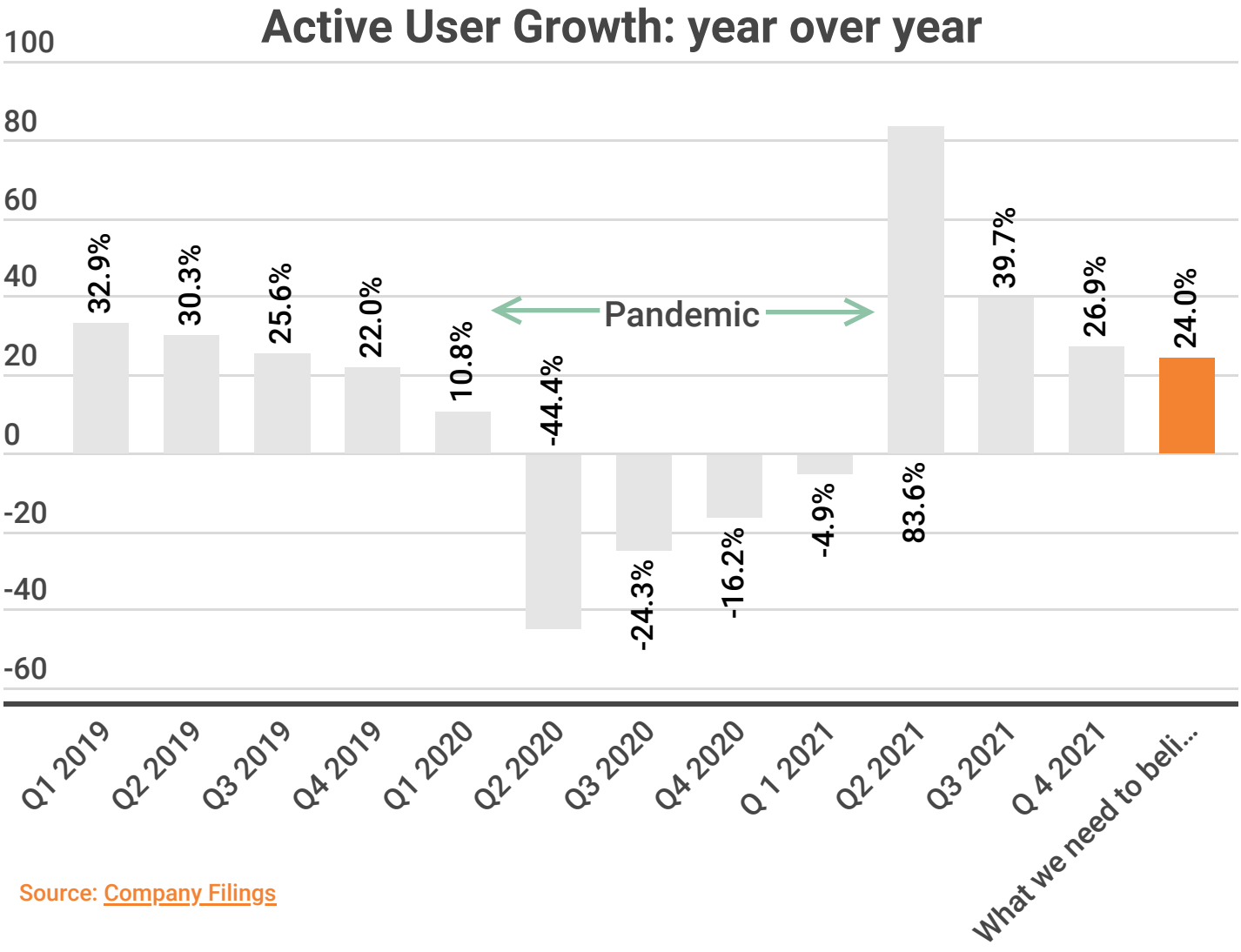
User Growth Context



Source: Company Filings

Given this historical context, a 24% growth expectation for Active Users looks believable. But remember that number assumes a 5% per year decline in Take Rates. **If Take Rates remain stable, we need to believe just an 18% annualized growth in active users.**

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Revenue Growth: TAM

Mobility TAM **$5T+**

All passenger vehicle and public transport trips in 175 countries

Delivery TAM **$5T+**

Global spend on retail restaurants, home delivery, takeaway, drive thru, dine-in

Grocery spend in markets serviced

Uber | Investor Day 2022

1. Please see Uber's S-1 for more details on Mobility, Food Delivery and Freight TAM definitions.

How do we make sense of this TAM? First of all, we're almost certain that there is a massive estimation error in the numbers from Uber's presentation. So, let's discount it. Let's say that Uber is wrong by a factor of 50%. So, let's say that a combined TAM of $5 trillion is a more reasonable number. Based on our estimates, we need to believe that Uber can consistently generate about $40 billion in revenue per year (for us to consider buying the stock). That's about 0.8% of the TAM. If the TAM is $1 trillion, which is a much more believable number, Uber would need to corner about 4% of that market. This is utterly believable given Uber's dominant status. Getting to 350 million riders and foodies looks very achievable based on these estimates.

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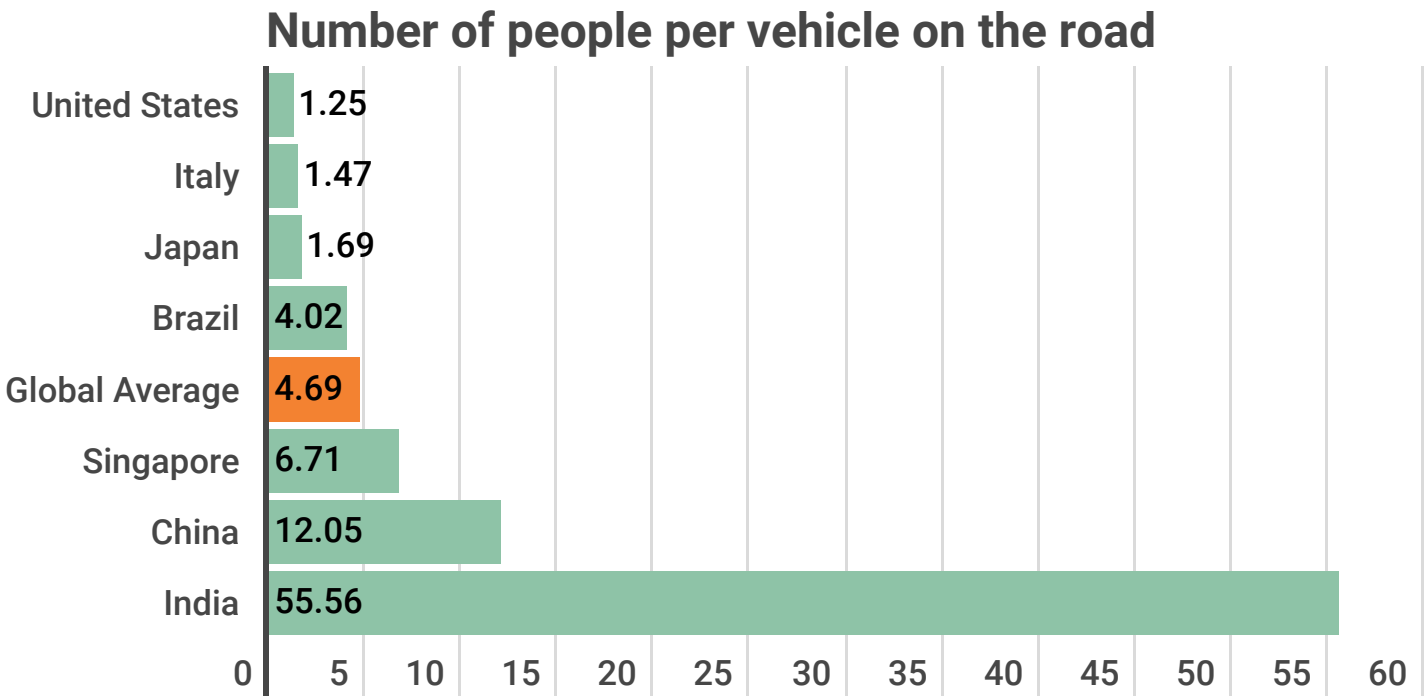
Revenue Growth: Untapped Market



Source: Our World in Data

Let's add to the the TAM discussion from another angle. Investing in any of these companies means assuming that they'll take "market share" from private passenger vehicle ownership because it just makes practical sense in reasonably densely populated areas. Cars - as they electrify - may become more commoditized...as a means to get from point A to point B. "Owning" a car could become a luxury, something nostalgic. What is the size of this market? Over the last few years, car companies have sold about 60 million passenger vehicles globally. Let's say about 30% of those are 2nd or 3rd cars or replacements. That leaves us 18 million cars globally. Let's assume about 4.7 passengers per vehicle (see chart above). That gives us about 85 million new potential riders every year. That's a reasonable TAM. How many of the 85 million would Uber snag every year?

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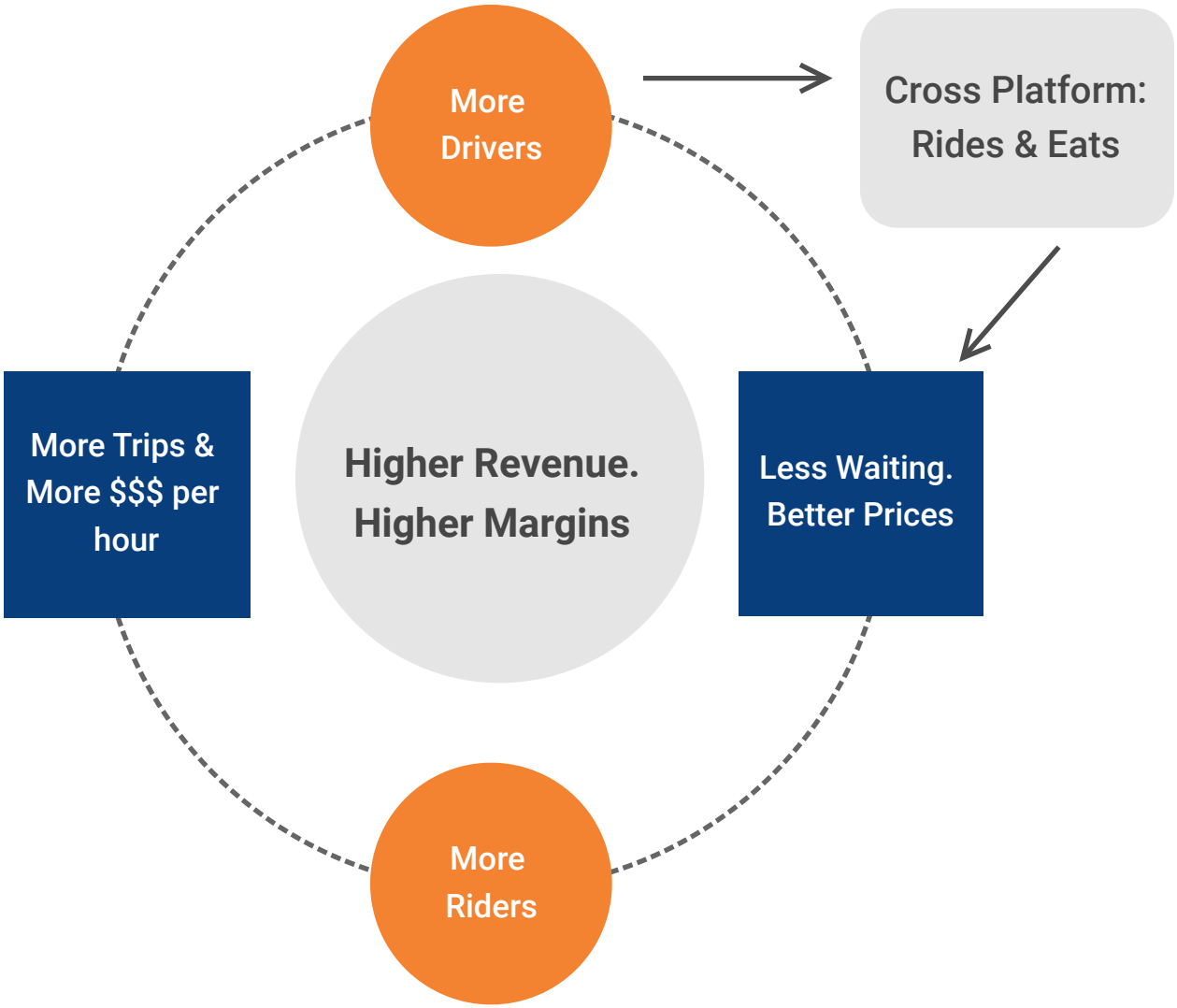
Revenue Growth: The Flywheel



We couldn't find an Uber flywheel (unlike Amazon's which is an obligatory part of Management 101 now), but Uber's management keeps talking about it. This is our best shot at depicting what management keeps talking about. They say their biggest advantage is their cross-platform appeal to drivers, which allows them to seamless switch between Mobility & Delivery. This increases driver supply, thereby reducing wait times, thereby generating better prices & experience for riders, thereby increasing active users on the platform. It's clear to us that this is a "network effects" business. The largest network will dominate.

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Key Risk: Driver Supply & Labor Laws

BUSINESS

Prop. 22 is ruled unconstitutional, a blow to California gig economy law

Uber Partners With Yellow Taxi Companies in N.Y.C.

This is the big thesis buster in any Ridesharing thesis. The ugly truth is that the business models will be turned upside down if they add labor costs of drivers to their Fixed Costs. Needless to say, our "revenue growth we need to believe" estimate would also be significantly higher. But, so far, evidence in the US - in California & Massachusetts - suggests that most regular people (not politicians) don't mind the arrangement that these companies have with their drivers - short-term, flexible contracts. This arrangement rests on the assumption that these gigs are temporary jobs for supplemental income. We assume this arrangement will continue because it makes the most sense for ridesharing - the instantaneous and volatile process of matching supply and demand of drivers with customers. Supply and Demand will be volatile. In a surprising turn of events, Uber struck a deal with New York City to be able to add the famous NYC yellow cabs in the Uber network. This looks like a win-win for Uber and cab drivers, who were normally on opposite sides of the fight.

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Driver Supply: Context

90%
DoorDash workers worked less than 10 hours per week

>$40/hour
Average Earnings of Uber Drivers when on the road in big US cities

85%
Lyft Drivers who drive more than 10 hours per week

The point of these stats is that most Drivers and Dashers treat these gigs as just that - gigs to supplement income from their day-jobs. In the US, the thorn in the model is Health Insurance. If Drivers/Dashers want to make Uber or Lyft or DoorDash their main job, what happens? These companies don't want that extra cost, so they're positioning themselves as sources of supplemental income. Both Uber and Lyft do offer some Healthcare plans in the US, but the real cost of that is hard to estimate at this point. Obviously, the dream scenario for both these companies is Autonomous Vehicles - no Healthcare, no Liabilities. But then they'd need to own their fleet. That would change the cost structures of these firms. Net-Net, we believe and Autonomous Fleet would be positive for Uber, Lyft and DoorDash.

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Valuation Summary: What we can believe

It's worth reiterating that The Buylyst Valuation is **NOT a prediction**. It is merely a scenario which we can believe. We back solve into growth expectations that are baked into the current stock price and then ask ourselves, "do we believe in it?". Based on data, insights and subjective analysis, we either agree or disagree. What we "can believe" may differ from what we "need to believe to buy the stock".

Apply 20X Multiple on Free Cash Flow

Valuation Estimate: $54.3 per share

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Valuation Scenario we need to believe in...

Cash Flow | Valuation Notes

Cash Flow Item (USD million)	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	5 Years Later
Revenue	7,887	10,416	12,839	11,004	17,447	39,915
- Cost of Goods Sold	4,160	4,786	6,061	5,154	9,351	21,393
- R&D Expense	1,201	1,505	4,836	2,205	2,054	2,621
- Sales, General & Admin.	4,787	5,233	7,925	6,249	7,105	9,965
- Other						
+ Depreciation & Amortization	510	426	472	575	902	1,046
= EBITDA	-1,751	-682	-5,511	-2,029	-161	6,981
- Maintenance Capital Expenditure	829	558	588	616	298	345
= UNLEVERED CASH FLOW	-2,580	-1,240	-6,099	-2,645	-459	6,635
- Increase in Working Capital	-1,910	-890	500	-732	-1,682	0
- Cash Interest Expense	61	124	332	412	449	0
- Cash Taxes	153	289	133	82	87	1,327
DISCRETIONARY CASH FLOW	-884	-763	-7,064	-2,407	687	5,308
- Growth Capital Expenditure	0	0	0	0	0	0
FREE CASH FLOW TO SHAREHOLDERS	-884	-763	-7,064	-2,407	687	5,308

Download data

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Cash Flow | Valuation Notes

Cash Flow Item ($ million)	Notes
Revenue	Assumeda 18% CAGR - based on our estimate of "revenue growth we'd need to believe to buy the stock".
- Cost of Goods Sold	Assumed same gross margin as last 12 months of 46%
- R&D & Cost of Labor	Assumed a 5% CAGR over next 10 years
- SG&A	Assumed a 7% CAGR over next 10 years
- Other	
+ Depreciation & Amortization	Assumed a 3% CAGR over next 5 years
= EBITDA	
- Maintenance Capital Expenditure	Assumed a 3% CAGR over next 5 years
= UNLEVERED CASH FLOW	
- Increase in Working Capital	Assumed no benefit from working capital changes
- Cash Interest Expense	Assumed that debt will be paid down over 5 years
- Cash Taxes	Assumed a 20% Cash Tax Rate
DISCRETIONARY CASH FLOW	
- Growth Capital Expenditure	Assumed all Capital Expenditure is Maintenance.
FREE CASH FLOW TO SHAREHOLDERS	

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Our previous Uber Thesis

URBANIZATION
Updated on 11/12/2021

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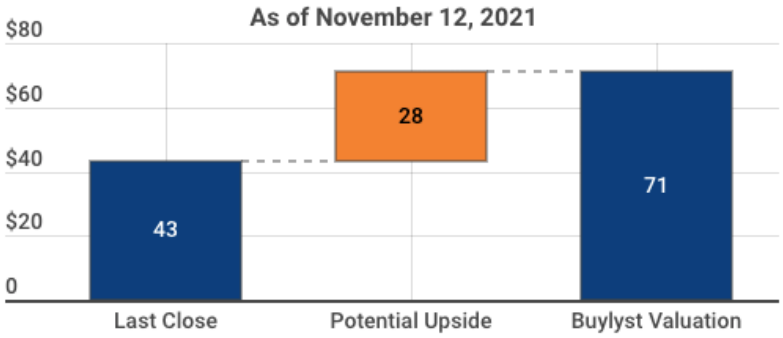
Company Description

Uber Technologies is a technology provider that matches riders with drivers, hungry people with restaurants and food delivery service providers, and shippers with carriers.



Investment Thesis Summary

Betting on Uber means betting on 3 vectors that (theoretically) amplify each other: 1) Ridesharing just makes logical sense - instead of owning a 2nd or 3rd car - for millions of people in reasonably densely populated areas of the world and 2) Bigger is better when it comes to profitability over the long-term, and 3) The theory that cross-pollination between Mobility and Delivery among both drivers and riders will be a competitive advantage. However, it's hard to base the thesis on any competitive advantage in its technology (which it pioneered) or its "product" offering.

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