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**UBER'S PROFITABILITY:
THE ELEPHANT IN THE ROOM**

JOANA DOS SANTOS OLIVEIRA

Work project carried out under the supervision of:

Rui Silva

Euclides Major

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Abstract

Uber is a company that operates in 70+ countries and 10,500+ cities. The company is known for being a disruptive and ground-breaking enterprise all over the world and its global turnover in FY2022 will be around \$20 billion. However, profits and positive cash flows have been scarce; competition is ramping up, and the market is starting to become impatient with one of Silicon Valley's favourites. Is Uber's business model fundamentally broken? Or is it still a matter of scaling up to benefit from economies of scale? What about the IPO? Was it well-timed, and fairly valued?

Keywords

Profitability, Scale, Business Model, IPO

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Introduction

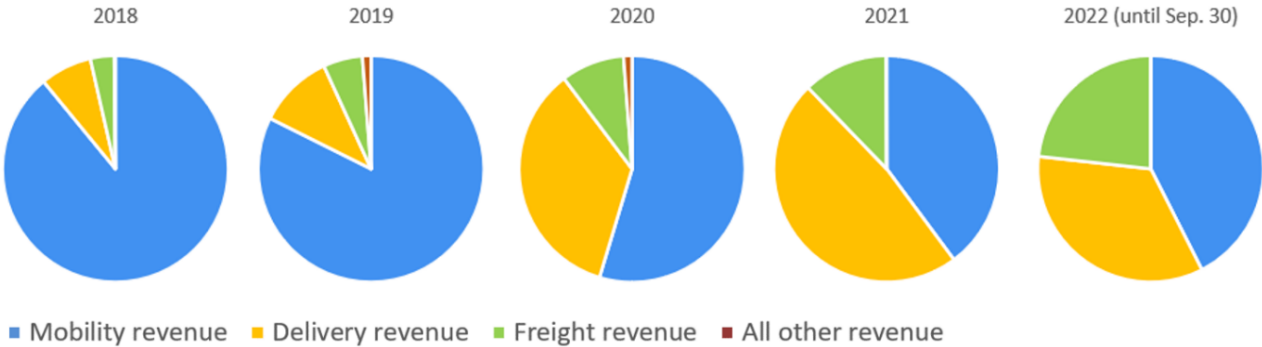
Uber first started as a platform which connects drivers and riders, intending to facilitate mobility. The idea was to request a ride by simply tapping your phone. For the first time, people were able to order a ride from the exact location they were standing in. You just need to go to Uber's app on your phone, specify a location and a destination, and wait for the software to pair you with a driver. As soon as a driver is selected, you receive information about them (their name, ranking based on the other users' feedback, photo, and their vehicle's license plate and description), and the cost of the ride in advance. This was a huge breakthrough when compared to the traditional taxis at the time, in which you wouldn't receive any information regarding the driver, and the fares were based on the path chosen by the driver (many times manipulated to increase the cost) or stop-and-go traffic. In addition to this, Uber's app has the option to share your ride with friends/family/colleagues, which enhances its safety compared to traditional taxis. Considering all these factors, it is no surprise that this innovative idea disrupted the entire private car hire industry.

Operating Segments and Sources of Revenue

Even though Uber started as a ride-hailing service, it didn't take long until it expanded into other business units. Currently, Uber has three operating segments and sources of revenue: (i) *Mobility*, its ride-hailing business, previously known as Rides; (ii) *Delivery*, its food and groceries delivery network, previously called Eats; and (iii) *Freight*, its freight transaction services provided to shippers. Nonetheless, the mobility segment continues to represent the primary source of revenue, as shown in **Figure 1** below, apart from 2021, where the global demand for mobility reduced, while the demand for delivery increased, due to the Covid-19 pandemic. In addition to the three operating segments mentioned previously, Uber's other

source of revenue, stated as “all other revenue” primarily includes its ATG “Advanced Technologies Group” business – a subsidiary focused on the development and commercialization of autonomous vehicle technology, which results from a 3-year collaboration agreement entered in 2019 –, and its New Mobility offerings and products, which provide users access to ride through a variety of modes, including dockless e-bikes and e-scooters. However, after the sale of its ATG business on January 19, 2021, to Aurora – an American self-driving vehicle technology company –, all other revenue values became insignificant.

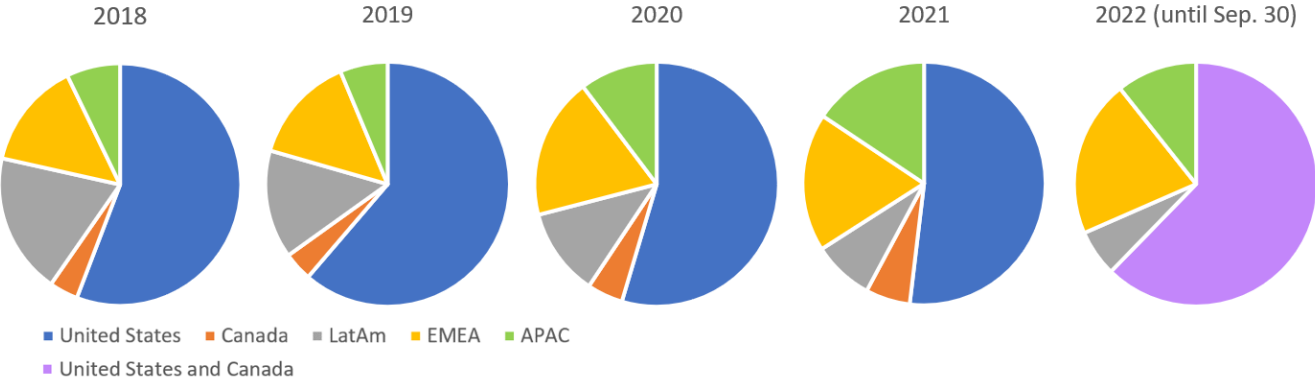
Figure 1: Revenue by segments from 2018 until 2022 (September 30).



Source: Uber Technologies Inc., Annual Reports

Currently, Uber operates in 10,500 cities across approximately 70 countries (Uber Technologies, Inc. 2022). The United States is Uber’s main source of revenue, representing more than 50% of all revenue, as shown in **Figure 2** below. LatAm used to come in second until 2019, however it was eventually surpassed by EMEA and APAC, the second place belonging to EMEA.

Figure 2: Revenue by geography from 2018 until 2022 (September 30).



Note: In 2022, there’s no separate revenue information regarding the United States and Canada.

Source: Uber Technologies Inc., Annual Reports

Operating Expenses

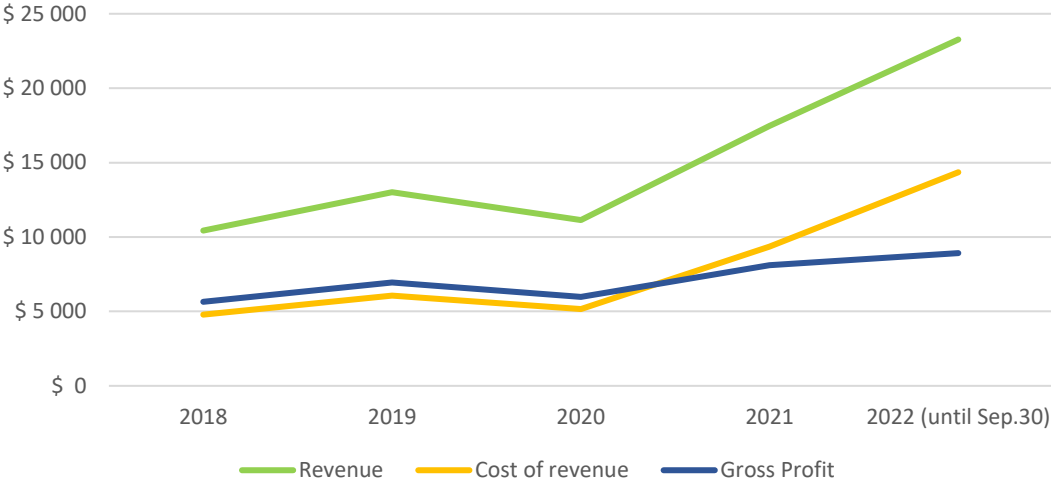
Uber’s operating expenses comprise (i) Cost of revenue – core platform insurance expenses, credit card processing fees, bank fees, data center and networking expenses, chargebacks losses, mobile device, and service costs –, (ii) Operations and support – compensation expenses, including stock-based compensation, for employees that support operations in cities –, (iii) Sales and marketing – compensation costs, including stock-based compensation, to sales and marketing employees, advertising costs, product marketing costs and discounts, loyalty programs, promotions, refunds, and credits provided to end-users who are not customers –, (iv) Research and development – compensation costs, including stock-based compensation, for employees in engineering, design and product development, as well as expenses associated with ongoing improvements and maintenance of existing products and services –, (v) General and administrative – compensation costs, including stock-based compensation, for executive management and administrative employees, allocation of certain corporate costs, occupancy, and general corporate insurance costs –, and finally (vi) Depreciation and amortization – depreciation on buildings, site improvements, computer and network equipment, software,

leasehold improvements, furniture and fixtures, and amortization of intangible assets. The three biggest chunks of operating expenses are the cost of revenues, sales and marketing, and general and administrative, which constitute an average of 39%, 21%, and 14% respectively of the total operating expenses in the last 5 years (**Exhibit 1**).

Revenue and Gross Profit Margin

Since 2020, Uber's revenue has been steeply increasing, accompanied by its cost of revenue, as shown in **Figure 3** below (values in **Exhibit 2**). However, its gross profit margin, which was stable from 2018 until 2020, has been gradually decreasing since 2020, as shown in **Figure 4** below (values in **Exhibit 2**). This is a reflection of a higher growth rate of the cost of revenue in comparison with revenue. The revenue's compound annual growth rate (CAGR) was 22% since 2018, while the cost of revenue's CAGR was 32%, leading to a gross profit margin CAGR of minus 8% (**Exhibit 3**). This contradicts Uber's plan that scaling up will lead to economies of scale, and consequently, profitability. However, one must acknowledge the uncertainty in the past years marked by a global pandemic, supply-chain crisis, and the imminent recession (also caused by an inflationary period).

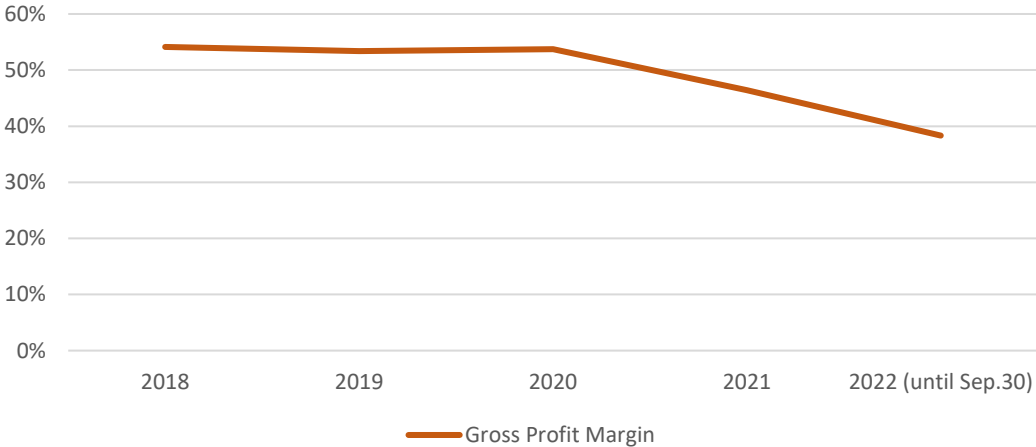
Figure 3: Gross profit evolution from 2018 until 2022 (September 30).



Note: All values are in millions.

Source: Uber Technologies, Inc., Annual Reports

Figure 4: Gross profit margin evolution from 2018 until 2022 (September 30).



Source: Uber Technologies, Inc., Annual Reports

Other Income or Expenses

By looking at Uber's consolidated statements of operation, one can observe the significance of other income in the net loss/income attributable to Uber (**Exhibit 4**). This being said, the analysis of the constitution of the other income seems relevant, as well as the comprehension of the item that had the greatest impact (**Exhibit 5**). In 2018, Uber realized a \$3.2 billion gain with the completion of two divestitures, the disposition with a retained interest of its Russia/CIS operations and the sale of its Southeast Asia operations (Uber Technologies, Inc. 2019). In 2019, the gain on extinguishment of convertible assets and settlement of derivatives increased by \$444 million caused by the conversion of Uber's 2021 and 2022 convertible notes and the settlement of the related derivative in connection with its IPO. In 2020, the company had a \$1.7 billion impairment of its investment in Didi (Uber Technologies, Inc. 2020). In the first quarter of 2021, Uber realized a \$1.6 billion gain on the sale of its ATG business to Aurora. In addition to this, in 2021, the firm had unrealized gains of \$1.6 billion, \$1.6 billion, and \$991 million on its Grab, Aurora, and Zomato investments respectively, which were partially offset by an unrealized loss of \$3 billion on its Didi investment (Uber Technologies, Inc. 2021). Finally in 2022 (until September 30), Uber recognized \$2.7 billion, \$2.4 billion, and \$1.8 billion net losses, and a \$747 million change of fair value on its Aurora, Grab, Didi, and Zomato investments (Uber Technologies, Inc. 2022). Accompanied by a \$106 million net loss on its other investments in securities accounted for under the fair value option.

Main Competitors

One might say Lyft is Uber's biggest competitor. Lyft is based in San Francisco and offers mobility – in the form of ridesharing, electric bikes and scooters, and rental cars – and food delivery services. Following Lyft, DiDi and OLA Cabs represent some of Uber's main

competitors. However, there is not any company that offers the same range of services as Uber (**Exhibit 6**), hence it seems opportune to present a competitive landscape by segment. Nonetheless, it sounds reasonable to analyze Uber's main competitors in the mobility and delivery segments, since these are the only segments where Uber is actually fighting for a dominant position in the market.

Starting with mobility, there is an intense level of competition in the ride-sharing industry. Lyft, Uber's main opponent, operates in 644 cities in the United States and 12 cities in Canada (Iqbal 2022). In addition to Lyft, it is also worth mentioning Didi and Ola Cabs. As of December 31, 2021, DiDi, a Chinese transportation services company, provides its services across over 400 cities in 18 countries, operating mainly in China and with a strong market position in Latin America (DiDi Global Inc. 2021). It is often called the "Uber of China". Ola Cabs, an Indian ridesharing company, conducts its business mainly in India. In 2018, the firm expanded into Australia and New Zealand, and in 2019 it started its operations in the United Kingdom. One might call it the "Uber of India". Even though Lyft is Uber's main competitor, Uber holds most of the ride-hailing market share in the United States (**Exhibit 7**). In May 2022, Lyft had a 28% share of rides in the US, while Uber had a share of 72% (Perri 2022).

Moving on to the food delivery segment, DoorDash, Uber Eats, Postmates and Grubhub are the top U.S. food delivery players. DoorDash dominates the United States food delivery market, with a market share of 53% in 2021, followed by Uber Eats (which acquired Postmates in 2020), with a combined market share of 31% (Ang 2022). DoorDash is in around 7,000 cities across the United States, Canada, Australia, and Japan (DoorDash s.d.). By looking at **Exhibit 8**, it's evident that DoorDash is "stealing" its competitors' market share. Postmates, Grubhub and others' market shares have been decreasing since 2018, as a result of the massive increase in DoorDash's market share. Regarding Uber, its market share has remained stable since 2018 (26%).

The key takeaway is that even though Uber operates in segments with low barriers to entry, and thus, with a high level of competition, its competitive advantage is its broad geographical presence and strong brand equity. As mentioned earlier, the company operates in 10,500 cities across approximately 70 countries (in **Exhibit 9** there's an illustration of Uber's worldwide presence).

Uber's Profitability: The Elephant in the Room

Fundamentally Broken Business Model?

The company's lack of expectations of making a profit remains to be a brainteaser for most investors. Many wonder whether Uber's business model is fundamentally broken. Its business plan relies on network effects, since the value of the platform increases with the number of drivers and riders using it, which turned out to be not as strong as expected due to the absence of customer loyalty. The fact that both drivers and riders can use multiple apps simultaneously with absolutely no switching costs, makes it extremely hard for a company to have a competitive advantage over the others.

Ever since its existence, Uber has been focused on scaling up by expanding to new markets, getting into more countries, and attracting more users to its network. In fact, the firm has been subsidizing drivers and riders to attract them to their network and keep their current users. Uber's client acquisition strategy is a typical example of the "Millennial Lifestyle Subsidy" era. A period characterized by investors constantly injecting money into their start-ups with the purpose to captivate customers quickly to grow their market share and justify their soaring valuations (Roose 2021). Companies were providing services with artificially and mysteriously low prices to build huge user bases. They were subsidizing customers in the form of incredibly generous and unprofitable offers to achieve enormous scale, and affording these losses by raising capital continuously. They believed that if they achieved a certain level of growth, they would be able to turn a profit someday in the future. However, for them to start making money, these start-ups that promised cheap on-demand services would have to manage to increase their prices without scaring their clients away. Their plan was to make the service attractive and affordable enough to entice customers, and then raise prices once they have already developed some kind of addiction. One might compare this strategy to a drug dealer's: to offer the first

dose to get them addicted and craving more. Uber is one of the most well-known examples of a revolutionary start-up which charged fees completely unrealistic to the actual cost of a ride. However, these subsidies previously paid to riders were transformed into drivers' subsidies when the company faced a driver shortage, especially after the Covid-19 pandemic. The overabundance of customers compared to the supply side alerted the company to the need to improve drivers' incentives. In April 2021, Uber announced the launch of a \$250 million driver stimulus in the United States to "get drivers back on the road" (Cinelli 2021). This stimulus fund among Dara Khosrowshahi, Uber's CEO, announcing a 10% pay raise in London and £500 bonuses for drivers' referrals represent some examples of drivers' subsidies (Murgia 2021). Moreover, on October 5th 2021, Andrew Macdonald, Uber's head of mobility, stated that the company has overcome the driver shortage it once faced (Bradshaw and Lee 2022). Macdonald declares this achievement resulted from cash incentives, platform improvements, and inflationary pressures forcing people to take on gig works for extra income.

This scale-up goes hand in hand with Uber's well-known cash-burning addiction. Still and all, these ventures from the "Millennial Lifestyle Subsidy" era would have to eventually face the cold-hearted capitalism reality and start aiming for profitability. For Uber to become profitable it would have to set higher fares, and its ability to increase its prices is limited by its competition. Unsurprisingly, a market with no barriers to entry (no equipment nor employees needed) would attract a considerable number of competitors. Autonomous cars may be an option to save the company from this dead-end situation, however, the savings generated by cutting drivers' expenses may be offset by the massive amount of capital expenditure required. In addition to this, imitation by competition may also destroy any benefits created.

There are tons of discussions regarding how Uber expanded to new markets without proving the sustainability of its original business model – ride-hailing –, and how exorbitant it seems for the company to keep burning that much cash this late in its existence (**Exhibit 10**).

Nonetheless, the preferred discussion, which seems to be consensual amongst all interested parties, is concerning the inevitable arrival of the day when Uber must face the reality of building a sustainable business plan.

Drivers Of Profitability

Revenue-wise, Uber's business model is quite simple. It's a commission-based ride-sharing platform that serves as a middleman by linking clients and drivers. The platform's algorithm sets the price of each ride according to the length of the trip but also the supply and demand at the moment a ride is requested, i.e., fares are pricier in peak hours or when the weather is in adverse conditions. There are several modalities for different rides: UberX (default option – the most affordable), UberX Share (sharing the ride with up to one co-rider at a time), Uber Comfort (newer cars with extra legroom), Uber Green (rides in electric vehicles), UberXL (for groups up to 6) and Uber Black (premium cars). With this, Uber tries to personalize its broad range of offerings, and expand its clientele, by competing directly with limo rentals, and chauffeur-related options since Uber also provides the feature to book rides in advance. Regarding the non-ride-sharing business segments, the delivery and freight units have been gaining tremendous significance. In 2021, for the first time in the short history of Uber, delivery-related revenues (\$8.362 billion) were bigger than the core segment – mobility (\$6.953 billion) – (**Exhibit 11**), which can be explained due to the global pandemic and its imminent disruptions in normality, as mentioned previously in this report.

Although the company's strategy has been expanding geographically and through business units to achieve and take advantage of economies of scale, the biggest question mark lies in how successful will be the automation plans. Automation in the ride-sharing and food-delivery industries has the potential to make Uber one of the most valuable and important companies in

the world. In the medium-long term, revenues would scale up since prices could be more competitive, thus boosting demand, margins would substantially increase, and profitability would be a natural consequence. The quality of the services would also increase; in the ride-sharing business, all types of human error (or even crime) would cease to exist, and on the delivery segment, waiting times and delivery fees would decrease through economies of scale and network effects. Adding to this, the regulatory factor will also be one of the key drivers of Uber's profitability. On a global level, regulators will twist their noses at the idea of anyone being able to order a ride with a smartphone from a self-driving car, or order McDonald's from an automated drone that knows the exact address and contact information of the clients. Legally speaking, it will be a nightmare and represents a major challenge that Uber will face when the time comes (very similar to the ones it faced when the company started its operations, mainly in Europe). Also, and probably one of the most important factors when discussing automation's effects on Uber's success, self-driven cars would solve the biggest regulatory headache that the company faces since its inception: drivers wanting to be classified as employees instead of contractors – it's no secret that this represents the biggest operational risk that Uber faces.

Regarding the company's revenue mix by segment, it's very likely that it will change in the upcoming years. Ride-sharing, food delivery, and online freight brokerage are three business units somewhere between the embryonic and growth stages, but with different market expectations, risks, and value drivers.

In the **ride-sharing** business, an increasing number of people living in metropolitan areas, and the consequent decrease in vehicle ownership will reflect positively on how the sector will grow. On top of this, there are several markets that Uber still hasn't penetrated due to regulatory and legal issues, which are expected to be overcome in the future (if not all, at least some of them), and since the firm's brand is one of the most famous and valuable worldwide, operational implementation in new regions should be relatively smooth and quickly achievable.

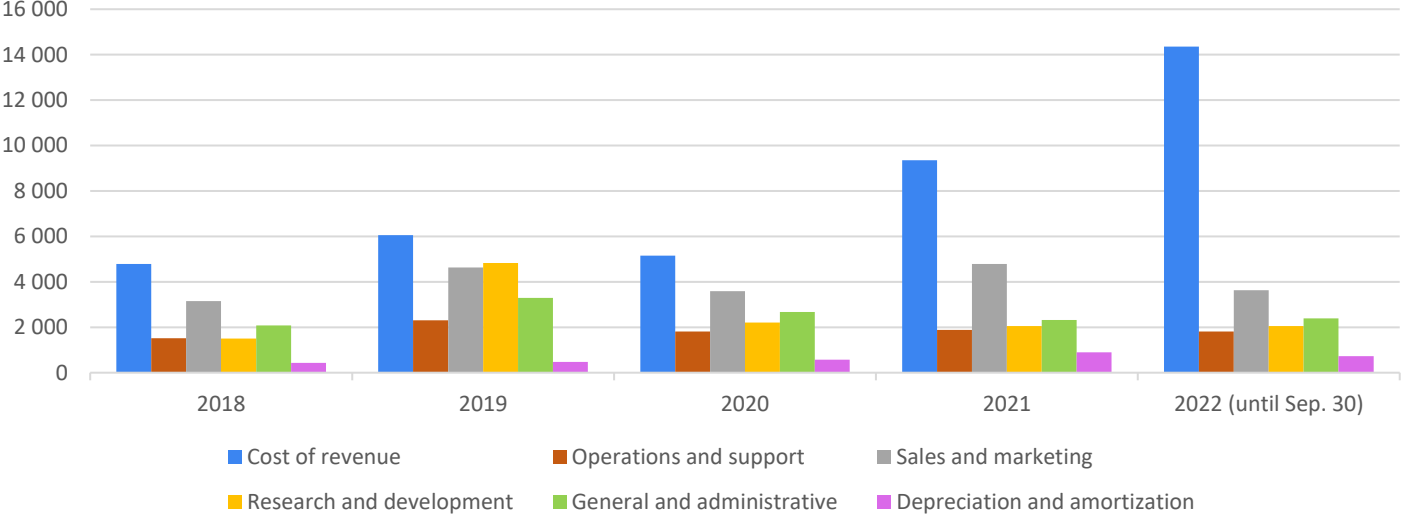
Moving on to the **food delivery** segment, its market more than tripled in value since 2017 reaching a global valuation of \$150 billion in 2021 (Ahuja, et al. 2021). Even though this growth is expected to slow down in the following years, delivery-related revenues have already represented the largest portion of Uber's top line (in 2021), and there's so much unexplored territory within the industry that the company can still take advantage of (like groceries or pharmaceutical products deliveries). For instance, Deutsche Bank estimates that the grocery delivery market will surge to \$120 billion by 2025 (Dalin-Kaptzan 2021), contrasting with a valuation of \$24 billion in 2021, thus representing a valuable opportunity for Uber to expand to this emerging trend. With the acquisition of Postmates by Uber in late 2020, the San Francisco-based start-up reaffirmed its position as one of the primary players in the food delivery industry in the US side by side with Grubhub and DoorDash (Ahuja, et al. 2021). Regarding the expansion to the Asian market, after the big divestments and spin-offs in Southeast Asia, China and India, Uber is trying to penetrate the grocery delivery market in these emerging regions, competing with Amazon and Coupang.

Last but not least, is the **freight segment**. In FY2021, freight-segment adjusted EBITDA was minus \$130 million, with operational expenses accounting for 108% of the segment revenues (Uber Technologies, Inc. 2021). While freighting is not particularly a tech-oriented industry, Uber is disrupting the business' modus operandi by adopting several algorithm-based solutions to increase operational efficiency. This shift in the sector boosted by Uber will be explained later in a more detailed analysis.

When we think about Uber and its business model, is quite hard to understand how come a virtually asset-free company that falls under the gig economy loses billions of dollars every year. Uber doesn't own cars. It is a real-time app that connects riders and drivers on demand and collects a fixed rate commission on each ride. Uber doesn't have the responsibility of paying drivers any type of fixed salary (yet), nor requires any type of physical infrastructure for

its business to operate. So how does Uber find a way to spend 22 billion dollars in one year? Going down on the company’s statement of operations for 2021, we observe that the largest chunk of expenses is the item “Cost of Revenue”, with an amount of \$9.351 billion, followed by “Sales and Marketing” (\$4.789B), “General and Administrative” (\$2.316B) and “R&D” (\$2.054) (**Exhibit 4**). This ranking has remained the same since 2018, except for 2019 where “Research and Development” occupied the second position right after “Cost of Revenue”, as shown in **Figure 5** below.

Figure 5: Evolution of Uber’s operating expenses from 2018 until 2022 (September 30).



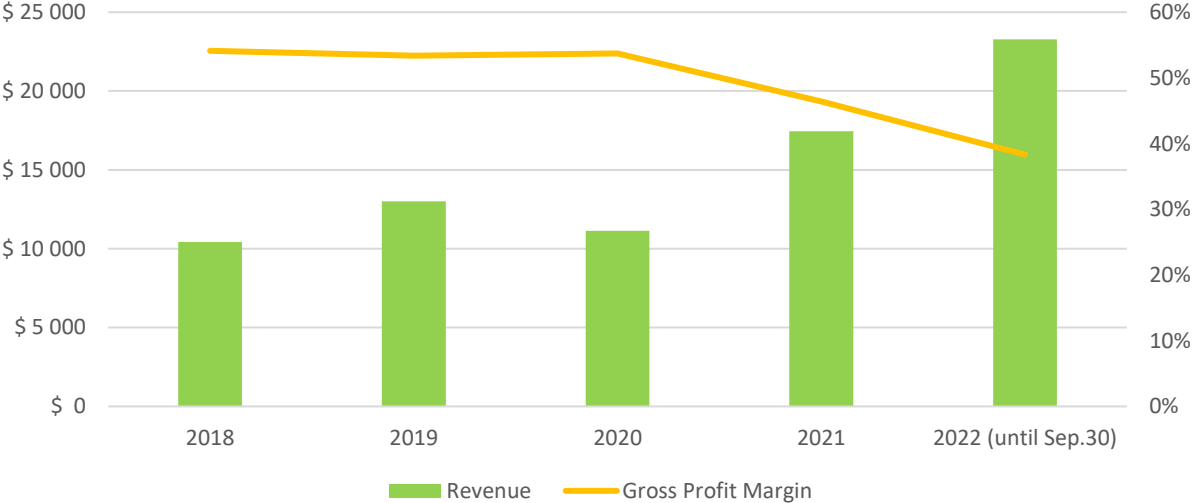
Note: All values are in millions.

Source: Uber Technologies, Inc., Annual Reports

The premise for several of Uber’s expansions in the past has been the fact that the company will scale up and eventually benefit from economies of scale, reducing costs and achieving profitability. Even if these plans become successful, one needs to wonder how feasible these economies of scale are since revenues are growing but gross profit margins keep shrinking, as shown in **Figure 6** below. Since Uber is a commission-based business model, its operating leverage is very little, limiting the potential for improvement in profitability as the company

grows. While there's a fixed component on the firm's cost structure like R&D, operational support and administrative expenses, the bulk of the company's expenditures remains highly linked to the revenue.

Figure 6: Revenue and gross profit margin evolution from 2018 until 2022 (September 30).



Note: All values are in millions, except percentages.

Source: Uber Technologies, Inc., Annual Reports

Is Freight the Key to Profitability?

Uber started its freighting operations in 2017, when the road freight market in the US was approximately worth \$700 billion, with just 10% being managed by brokers, and the remaining by trucking companies (Durant 2019). While the digital freight brokerage market was only worth \$1 billion in 2017, it is expected to surpass \$21 billion by 2026, making this sub-sector highly appealing for a company that's still aiming for positive results such as Uber. The freight division of Uber acts as an autonomous business segment and has already raised more than \$1 billion from external sources (Ron 2022), signaling that investors trust and believe in the value proposition of innovating the freighting industry and its archaic processes.

Uber for Freight (UFF), which is the denomination that Uber chose for its freighting operations, represents an attempt to “uberize” a dull and somewhat predictable industry (Davis e Lucido s.d.). It is the combination of technical expertise in online brokerage, and willingness to disrupt an established and consolidated industry like freighting. Through algorithm-based applications, Uber aims to efficiently match shippers’ loads with drivers. Does this sound familiar? If it does, it’s because it is quite literally a parallel shift from what Uber did in mobility and delivery segments, to the freighting industry. UFF has the purpose of removing the need for human dispatchers, decreasing throughput time, and reducing costs, by acting as an intermediary. While on a traditional brokerage model there’s still the need for shippers to call a dispatcher and request an updated price, with UFF the software would calculate the spot market price by taking into consideration the supply of locally available trucks and current demand. Then, if there’s a match based on load requirements, the driver will pick up the commodities at a certain location and time, and deliver them to the final receiver.

While this is certainly innovative and possibly profitable technology, it’s not groundbreaking or unique. Uber’s competitors go from mature companies like C.H. Robinson and Amazon to tech start-ups like Cargomatic and Convoy (Durant 2019). Uber might find an edge due to its big network and “superior” data on traffic allowing quicker and more efficient routing, but it will probably not be enough to establish a competitive advantage over its competitors.

By November 2021, Uber Freight acquired Transplace for \$2.25 billion (Uber Investor 2021). Since this investment represents Uber’s third-biggest acquisition ever (Tracxn 2022), the company makes a bold and clear statement that its freight unit might be a key solution for its long-term objective of achieving profitability. This acquisition coincided with a period marked by a worldwide supply chain crisis, unprecedented volatility in commodity prices, and global geopolitical instability. The company’s plan of combining the leading shipper network with the

largest digital network of carriers might reveal highly lucrative since the freight industry is one where taking advantage of operational synergies is one of the main key drivers of profitability.

The freight industry is especially appealing to new players with innovative technologies due to its persistent operational inefficiencies. According to a study conducted by McKinsey, “there’s a 30 percent chance the truck next to you on the highway is empty” (Ron 2022), revealing that there’s still an enormous amount of deadweight loss on an industry that screams for innovation and technological dynamism. This is one of the main reasons why Uber can transform this sector by adopting a gig economy ecosystem throughout the whole value chain. One of the main roles of the company in the transformation of the trucking industry will also be related to the inability of freight companies to hire and maintain workers. The average age of a truck driver in the US is 55 years old (Ron 2022), and the industry has been struggling in maintaining human capital. Because of this, Walmart, for instance, is paying its truck drivers up to \$110.000 in their first year of joining the company (Kelly 2022). Therefore, Uber’s main objectives also consist in minimizing empty miles and transforming the industry into a friendlier and safer one for drivers.

Overall, it feels that the whole supply chain disruptions that became a reality since the pandemic are the main drivers for this “uberization” of the freighting industry. In a world that’s full of uncertainty business-wise, a company that brings trust, accuracy, precision, and transparency to a sector that still uses paper, phone and fax in its communications will very likely thrive. While UFF already has advanced and user-friendly app technology due to its parent company, logistics technical expertise, industry relationships and in-depth knowledge still need to be gathered and become part of the company’s operations for it to be successful. That’s where M&A enters the scene. Diving into the unknown by only growing organically might be disadvantageous, especially in a high-paced business such as digital brokerage for transportation. This is why one of the core strategies of Uber to become the leader in the

freighting industry will consist of not only horizontal but also vertical expansion and integration through the whole value chain.

When A Lossmaking Giant Goes Public

Uber's IPO was one of the most anticipated offerings in the history of financial markets. The entrepreneurial spirit of the San Francisco-based company alongside its irreverence and uniqueness of its business model are some characteristics that make Uber an investor's favorite. Uber was always successful when raising capital in private markets. It became the most valuable start-up in the world in 2015 at a \$50 billion valuation (**Exhibit 12**), after issuing equity to big industry names such as Goldman Sachs, Jeff Bezos, and Saudi Arabia's sovereign wealth fund (the Public Investment Fund) (**Exhibit 13**).

In 2019, the company's management decided it was finally time to go public; "Uber's coming out party", to quote the most iconic market analyst, Aswath Damodaran (Damodaran 2019). It was the first time investors or curiosity seekers could glance at the numbers, statements, and future strategies of the Silicon Valley venture. A 285-page prospectus report was issued by the firm, labelling itself as a personal mobility company (instead of just car services), and highlighting that its Personal Mobility SAM (Serviceable Available Market) represents a \$2.5 trillion market opportunity in 57 countries (the countries where Uber operated at the time) (**Exhibit 14**); while its Meal Delivery SAM and Uber Freight SAM represent a \$795 billion and a \$700 billion market opportunity, respectively (Uber Technologies, Inc. 2019).

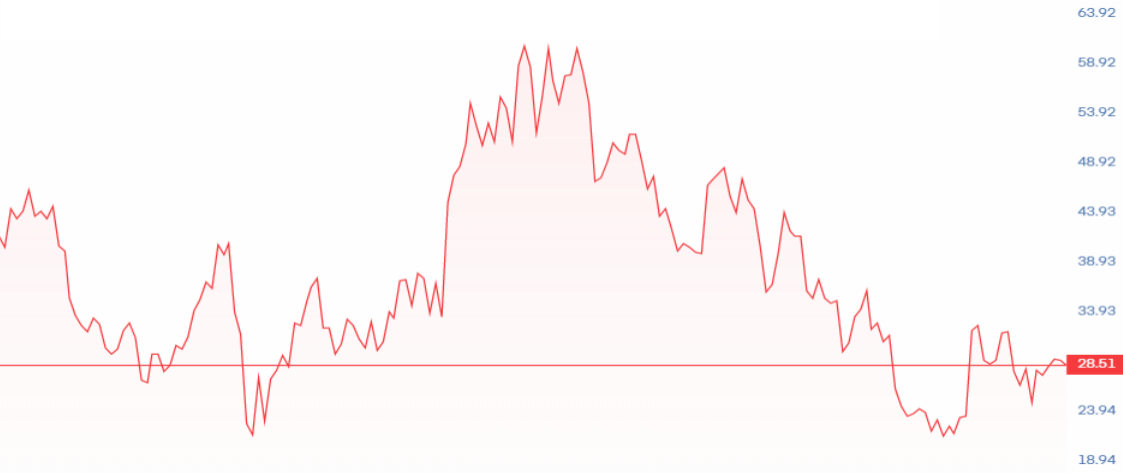
This storytelling report exposed Uber's ambitions to take over the ride-hailing industry while expanding and transforming the company's other business units by mainly investing in automation. The company revealed its ambition to add autonomous vehicles, delivery drones, and vertical take-off and landing vehicles to its network. Despite the overly optimistic nature

of this report, Uber makes a daunting statement to investors on page 27: “We expect our operating expenses to increase significantly in the foreseeable future, and we may not achieve profitability.” (Uber Technologies, Inc. 2019). Indeed, profitability has been the big “elephant in the room” since Uber’s inception and first scale-ups. The accumulated deficit of over \$7.9 billion up to 2018, and the incredible pace at which the company “burns” cash every year solely on operations (**Exhibit 10**) did not seem relevant enough to the analyst community that glorified Uber’s IPO as “the next big thing”.

Regarding the IPO itself, Uber went public on May 10th of 2019 at a valuation of \$82.4 billion and raised a little over \$8 billion (Merced and Conger 2019). Underwriters consisted of a syndicate of 29 banks led by Morgan Stanley and Goldman Sachs (Peterson 2019). Uber’s IPO price was \$45 a share, a lower bound position in the analysts’ range of \$44-\$50 (Reuters 2019). Its equity market value was also lower than the more optimistic expectations, with some underwriters claiming that a \$100-\$120 billion valuation would be fair and reasonable (Isaac, Merced and Sorkin 2019). The IPO valuation was somewhat anchored to the last private round series in August 2018 led by Toyota with a half-billion-dollar investment, and valuing Uber at \$72 billion (Bensinger e Dawson 2018). Uber’s first two days of trading were marked by an 18% drop in the stock price (Yahoo Finance s.d.). The market very quickly gave a reality check to the most frenzied and exaggerated investors, with Uber following the same path as its main competitor, Lyft, in post-IPO disappointment. In just one day of trading, Uber’s IPO was already a record breaker, with investors’ losses of \$655 million, representing the biggest loss ever on NASDAQ or NYSE (Pflanzer 2019). After several months where the share price has been highly volatile, as shown in **Figure 7** below, Uber’s stock bottomed at \$21.33 per share in March 2020, resulting in a 51% decrease compared to the IPO’s price. At the moment this report is being written (November 2022), Uber’s share price floats at around \$30, which means that investors who still hold Uber shares from the IPO lost about 33% of their investment. The

overall market disbelief in a company that doesn't have profits nor positive cash flows in sight proved to be reckless to the "next big thing", and it's the ultimate proof that tech companies cannot solely rely on empty promises and ultra-optimistic prospectus when going public.

Figure 7: Uber's stock price fluctuations until November 2022.



Source: Trading212.

Teaching note

Substantive issues

Uber is a company that operates in 70+ countries and 10,500+ cities. The company is known for being a disruptive and ground-breaking enterprise all over the world and its global turnover in FY2022 will be around \$20 billion. However, profits and positive cash flows have been scarce; competition is ramping up, and the market is starting to become impatient with one of Silicon Valley's favorites. Is Uber's business model fundamentally broken? Or is it still a matter of scaling up to benefit from economies of scale? What about the IPO? Was it well-timed, and fairly valued? Uber's future success depends on several factors that one could deem to be unrealistic and quite far from the present. This teaching note analyzes the feasibility of Uber achieving positive profits from different angles and provides frameworks for an effective and unbiased analysis.

Pedagogical Objectives

- Introduction of the motives for Uber to be an unprofitable and cash-burning venture, and its implications for the company's future.
- Exploration of different ways of transforming Uber's business model into a sustainable and profit-oriented one.
- Analysis of Uber's IPO: valuation, timing, and objectives.

Opportunities for Student Analysis

This case could work as a McKinsey-type case study interview. It should be mainly focused on Uber's main objective which is achieving profitability and positive cash flows. An exploration of Uber's path from its inception until today should be made especially considering the very popular yet disappointing IPO.

Uber never really had positive operating results. Its net income was positive in 2018 solely because of its non-recurring divestitures in Russia and Southeast Asia. Other than that, the company's operating and net incomes have been quite negative, and right now, no one believes anymore that it's a matter of scaling up until the lowest point of the LRAC is reached. Word in the street is that Uber's business model is a loser on a structural basis, and that is not sustainable until massive advancements in technology (mainly in automation) occur.

Students should start the analysis by focusing on the company's different segments and the respective business model of each unit. However, the business model of the company's core segment (ridesharing) will outweigh the remaining in this analysis due to its importance and for the sake of simplicity.

The class should acknowledge the main sources and drivers of expenses. With this, students should ramify costs on a fixed-variable basis, analyze the company's operating leverage, and understand if the company can still be profitable without any structural change in the business model, solely by continuing to expand and scaling up. Even though the conclusion might be twofold, the instructor should emphasize what analysts and consultants have been saying in the past years: that there's a need for a fundamental modification of the corporate business plan.

Regarding the business model and its possible changes, one can't avoid talking about the subsidizing model that Uber has developed to capture market share. The trade-offs of the strategy of lowering the price to increase the demand for its services, and weakening

competition like taxis and even public transport, with the purpose of gaining market share and retaining customers should be carefully analyzed. Students should also link the effectiveness of this strategy with the price elasticity of demand for Uber rides. This last metric varies between regions and is based on the number and quality of the substitutes, the loyalty to the brand, and the respective variation in price. As an example, the instructor could state that in 2016, in the US, when Uber had ca. 75% of the market, Steven Levitt (highly renowned economist) conducted research on Uber's price elasticity jointly with Uber, and the conclusions were that they were relatively inelastic (doubling fares reduced demand by around 40%) (Creighton 2016). This research happened in the aftermath of some controversial policies of Uber related to its surging fares – up to 10 times on New Year's Eve. It is my understanding that Uber, by the nature of the products and services that it offers, has some pricing power, and the algorithm tries to fully take advantage of it. One can look at subsidizing as a strategy of expansion, or as delaying the inevitable. This type of expense falls under the "Sales and Marketing" Alinea, but also creates a downward pressure on total revenues since the final consumer price (even without any discount) is often lower than what the company would require for it to be profitable. At this point, the analysis should focus on Uber's ability to continue raising cash (either in the form of debt or diluting equity) to fund the "subsidies".

The class should also make proposals and discuss if some of Uber's costs could be "saved". Expenses like credit card and insurance fees seem a bit out of Uber's control (except in the sense that these costs can be reduced with the company's expansion through economies of scale), but things like consumer support and driver background checks are more dependent on Uber's policies. Regarding customer support, can't Uber outsource even more its support division? Isn't the majority of complaints received by Uber every day solvable by updating its app or by creating a FAQ section? Students should discuss ways of optimizing these types of expenditures. And in terms of driver background checks, even if check requirements are getting

stricter year by year, isn't there any system that could fully automate this? This is especially important because all these expenses are included in "Cost of Revenue", which represented an average of 51% of total revenues (**Exhibit 15**), and 39% of total operating expenses in the last 5 years (**Exhibit 1**).

Moving on to R&D expenses, students should acknowledge its importance since Uber's R&D is almost exclusively focused on automation. The instructor should reinforce that automation is the main key driver for the hopes of a profitable Uber and discuss with students what would change if automated cars became such a reality. The main one should be if the automated cars would be owned by Uber and the company would have its own fleet of cars or be bought by individuals or companies (planted with Uber's software) and still work on a commission basis. Points to discuss could be the changes in the company's business model (Could prices be lower? Who would own the cars? How would fueling or charging the cars work?) and Uber's financial capacity to shift from its relatively light balance sheet to a capital-intensive business (If the new business requires that Uber owns cars, how could this be funded? Would the market have a positive view on this, thus reducing the company's cost of capital?). Still discussing automation, is investing in R&D and trying to find solutions organically cheaper and better than M&A? Worth noting that the autonomous division Advanced Technologies Group (ATG) had a \$7.25 billion valuation in 2019 (Somerville 2019).

Last but not least, the focus of the class discussion should shift to the company's IPO. Students should be aware that Uber was always extremely successful in raising private capital, and its IPO was set to be a record-breaker for the positive. The opposite happened. Return-wise, it was a disaster, and more than 3 years after the first trading day, the market remains sceptic about Uber's profitability prospects. The class should dive into Uber's enormous valuation, the context in which the company became public, and the timing of the IPO. For instance, the IPO was the beginning of the end of the subsidizing model – public investors won't tolerate the

amount of loss-making that the company has been incurring. With this in mind, the IPO can be seen as a pivotal point where the company shifts from a market share expansion strategy to now aim for sustainable profits. Questions like the following should be raised to boost discussion in class: How affected was Uber's valuation by Lyft's disappointing IPO months before? Did Uber's exaggerated valuation reflect an overestimation of automation technology and its feasibility in the present? And now, very simply put, why did Uber become public? Why would a billion-dollar loss-making service provider want more scrutiny and coverage if never had problems raising capital?

Suggested Discussion Questions

1. Provide Uber's bull and bear case. Describe two hypothetical scenarios (one for each case), where the conditions for Uber's success or failure are included.
2. Why do you think Uber became public? In your opinion, was it a good move?
3. Describe the term "Technological Leverage", and how it can be applied to Uber.
4. If you were a management consultant that was hired by Uber to develop a strategy to make the company cash flow positive and profitable in 5 years, what would be your main recommendations?

Possible topics to answer the suggested questions

1. Bull case and bear case.

- Bull case

- Automation was unexpectedly faster and easier, and Uber had a combination in its business model between a commission-basis system where individuals could own the cars and Uber's own fleet of cars.
- Uber managed to gain a regulatory edge over its competitors due to its vast research on automation, and the consequent reduction in accidents and human crimes.
- As competition drifted, Uber gained pricing power and its market share increased abruptly.
- Due to the market's positive sentiment toward the company, funding for this new type of operation was cheaper and widely accessible.
- Uber becomes one of the biggest companies in the world.

- Bear case

- Automation drags for several years, and it's simply not feasible nor viable for automated cars to operate on ride-sharing.
- Due to political conservatism, ride-sharing companies are harmed by regulations in several countries, and Uber is forced to classify its drivers as employees, increasing costs enormously.
- Uber was never able to gain an edge over its competitors as the switching costs remained very low, and the competition continues to increase as new technologies arise.
- Uber's cost of capital increases substantially, and the company is not able anymore to raise cash to cover massive losses.
- Uber dies.

2. Reasons for IPO

- Uber wanted to affirm itself as a big tech player, therefore increasing its analyst coverage and funding channels.
- Big pay-outs to private shareholders and management team.
- Easier to attract human capital as stock-based compensation becomes accessible.
- Show the “world” how dependent its business is on automation’s success, and attract investors to fund the company’s research.

3. Technological Leverage

- Leveraging technology is the practice of optimizing the use of digital tools in the workplace to help an organization succeed.
- Uber’s app and its user-friendly features could be used in several other business ideas.
- Another interpretation is that Uber is leveraged on the idea that technology will make automation possible and therefore profitability can arise.

4. At students’ discretion.

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Appendices

Exhibit 1: Operating expenses items as a percentage of the total expenses from 2018 until 2022 (September 30).

	2018	2019	2020	2021	2022 (until Sep. 30)	Average
Cost of revenue	36%	28%	32%	44%	58%	39%
Operations and support	11%	11%	11%	9%	7%	10%
Sales and marketing	23%	21%	22%	22%	15%	21%
Research and development	11%	22%	14%	10%	8%	13%
General and administrative	15%	15%	17%	11%	10%	14%
Depreciation and amortization	3%	2%	4%	4%	3%	3%
Operating expenses	100%	100%	100%	100%	100%	

Source: Uber Technologies, Inc., Annual Reports

Exhibit 2: Gross Profit and Gross Profit Margin from 2018 until 2022 (September 30).

	2018	2019	2020	2021	2022 (until Sep.30)
Revenue	\$ 10 433	\$ 13 000	\$ 11 139	\$ 17 455	\$ 23 270
Cost of revenue	4 786	6 061	5 154	9 351	14 352
Gross Profit	5 647	6 939	5 985	8 104	8 918
Gross Profit Margin	54%	53%	54%	46%	38%

Note: All values are in millions, except percentages.

Source: Uber Technologies, Inc., Annual Reports

Exhibit 3: Revenue, cost of revenue, and gross profit margin compound annual growth rates (CAGRs) since 2018.

	2019	2020	2021	2022 (until Sep.30)	CAGR
Revenue growth rate	25%	-14%	57%	33%	22%
Cost of revenue growth rate	27%	-15%	81%	53%	32%
Gross Profit Margin growth rate	-1%	1%	-14%	-17%	-8%

Source: Uber Technologies, Inc., Annual Reports

Exhibit 4: Uber Technologies, Inc., Consolidated Statements of Operations since 2018.

	2018	2019	2020	2021	2022 (until Sep. 30)
Revenue	\$ 10 433	\$ 13 000	\$ 11 139	\$ 17 455	\$ 23 270
Costs and expenses					
Cost of revenue, exclusive of depreciation and amortization shown separately below	4 786	6 061	5 154	9 351	14 352
Operations and support	1 516	2 302	1 819	1 877	1 808
Sales and marketing	3 151	4 626	3 583	4 789	3 634
Research and development	1 505	4 836	2 205	2 054	2 051
General and administrative	2 082	3 299	2 666	2 316	2 391
Depreciation and amortization	426	472	575	902	724
Total costs and expenses	13 466	21 596	16 002	21 289	24 960
Loss from operations	(3 033)	(8 596)	(4 863)	(3 834)	(1 690)
Interest expense	(648)	(559)	(458)	(483)	(414)
Other income (expense), net	4 993	722	(1 625)	3 292	(7 796)
Loss before income taxes and loss from equity method investments	1 312	(8 433)	(6 946)	(1 025)	(9 900)
Provision for (benefit from) income taxes	283	45	(192)	(492)	(97)
Loss from equity method investments	(42)	(34)	(34)	(37)	65
Net loss including non-controlling interests	987	(8 512)	(6 788)	(570)	(9738)
Less: net loss attributable to non-controlling interests, net of tax	(10)	(6)	(20)	(74)	(2)
Net loss attributable to Uber Technologies, Inc.	\$ 997	(\$ 8 506)	(\$ 6 768)	(\$ 496)	(\$ 9 736)

Note: All values are in millions, except percentages.

Source: Uber Technologies, Inc., Annual Reports

Exhibit 5: Constitution of the other income/expense (net) from 2018 until 2022 (September 30).

	2018	2019	2020	2021	2022 (until Sep. 30)
Interest income	104	234	55	37	66
Foreign currency exchange gains (losses), net	(45)	(40)	(128)	(67)	(76)
Gain on business divestitures, net	3 214	-	204	1 684	14
Gain from sale of investments	-	-	-	413	-
Unrealized gain (loss) on debt and equity securities, net	1 996	2	(125)	1 142	(7 797)
Impairment of debt and equity securities	-	-	(1 690)	-	(182)
Change in fair value of embedded derivatives	(501)	58	-	-	-
Gain on extinguishment of convertible notes and settlement of derivatives	-	444	-	-	-
Revaluation of MLU B.V. call option	-	-	-	-	180
Other, net	225	24	59	83	(1)
Other income (expense), net	4 993	722	(1 625)	3 292	(7 796)

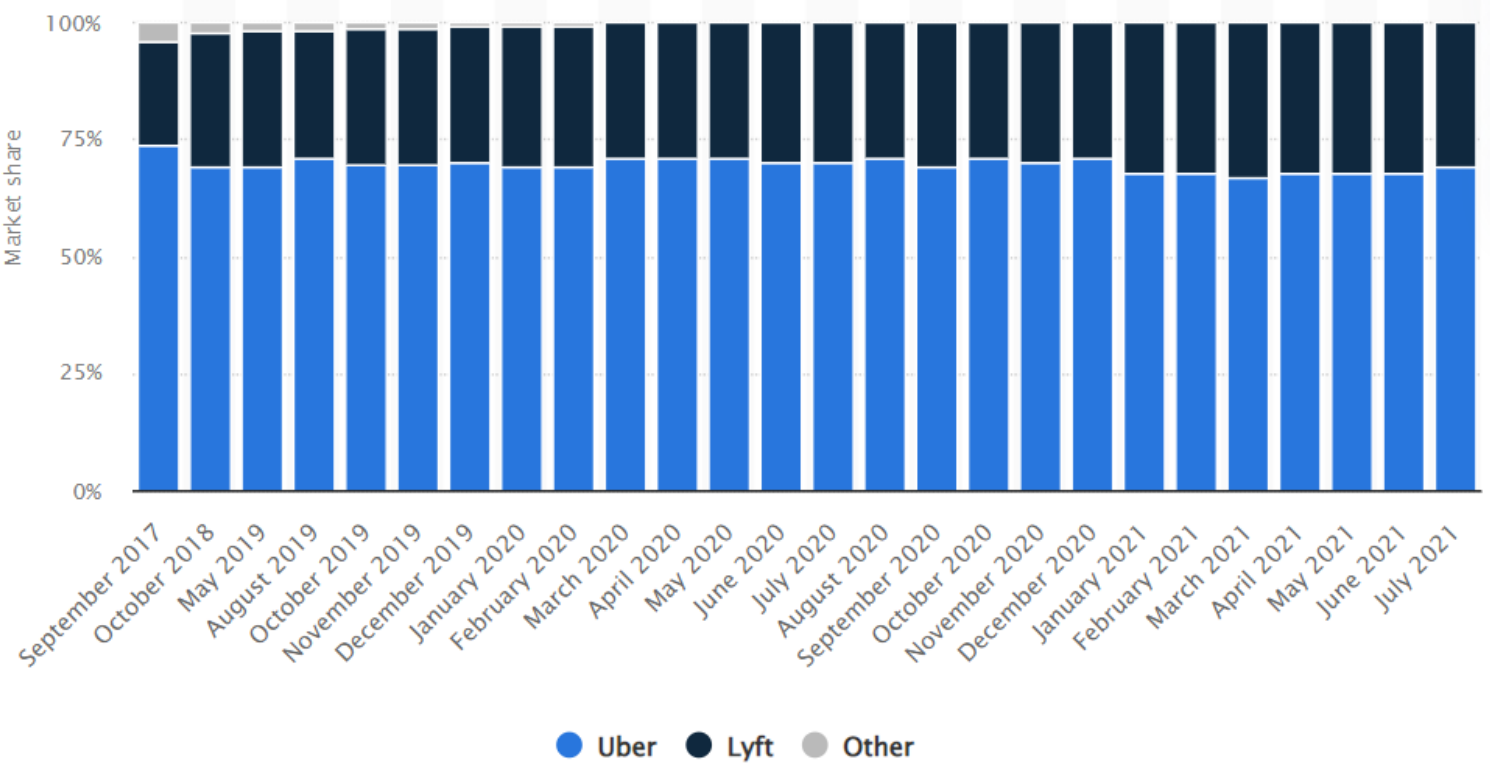
Note: All values are in millions.

Source: Uber Technologies, Inc., Annual Reports

Exhibit 6: Uber's main competitors and their segments.

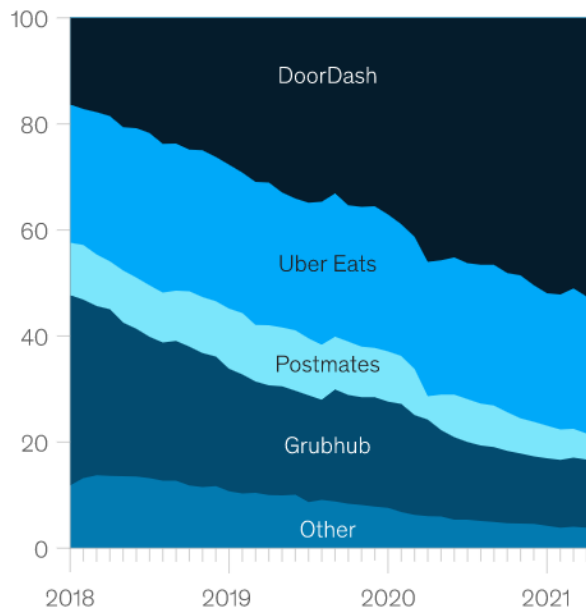
	Uber	lyft	DiDi	OLA
Ride-sharing	✓	✓	✓	✓
Food delivery	✓	✓	✓	
Freight	✓			
Electric bikes and scooters		✓		✓

Exhibit 7: Market share of the leading ride-hailing companies in the US from September 2017 until July 2021.



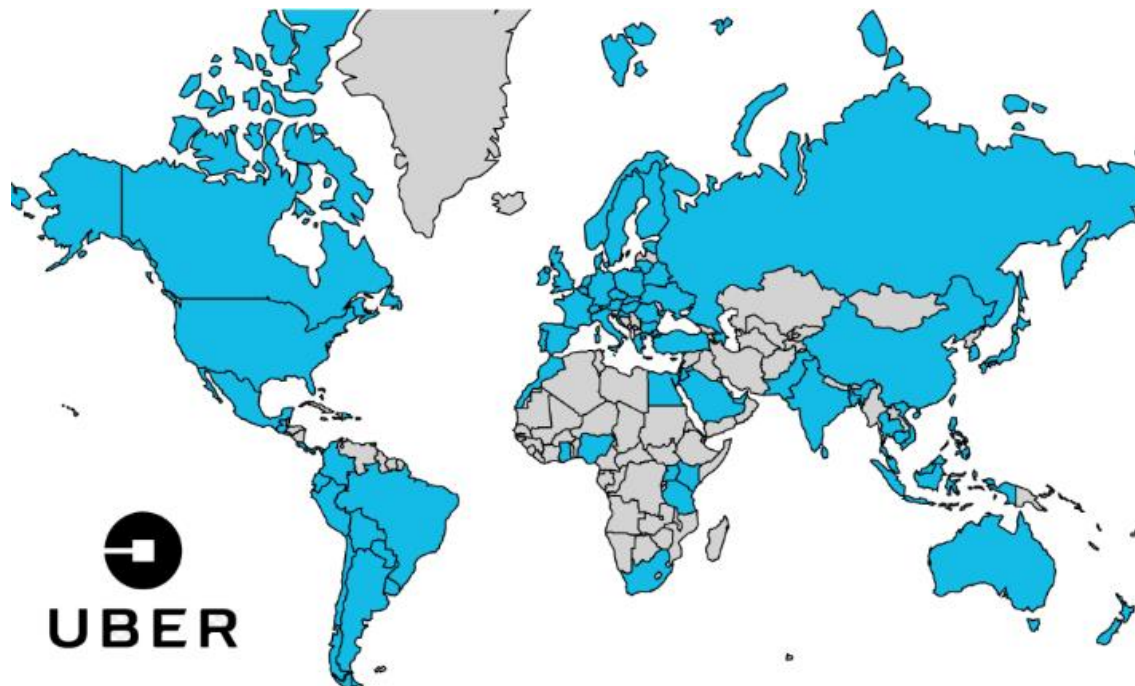
Retrieved from: <https://www.statista.com/statistics/910704/market-share-of-rideshare-companies-united-states/>

Exhibit 8: US monthly market share (in %) of DoorDash, Uber Eats, Postmates, and Grubhub.



Retrieved from: <https://www.mckinsey.com/industries/technology-media-and-telecommunications/our-insights/ordering-in-the-rapid-evolution-of-food-delivery>

Exhibit 9: Map illustrating Uber's worldwide presence (as of January 2022).



Retrieved from: <https://worldpopulationreview.com/country-rankings/uber-countries>

Exhibit 10: Uber’s annual operating losses, net losses, and accumulated deficit from 2017 until 2022 Sept. 30).

	Operating losses	Net losses (income)	Accumulated deficit
2017	\$4.1 billion	\$4.0 billion	\$8.9 billion
2018	\$3.0 billion	*(\$1.0 billion)	\$7.9 billion
2019	\$8.6 billion	\$8.5 billion	\$16.4 billion
2020	\$4.9 billion	\$6.8 billion	\$23.2 billion
2021	\$3.8 billion	\$0.5 billion	\$23.7 billion
2022 (until Sep. 30)	\$1.7 billion	\$9.7 billion	\$33.4 billion

* In 2018, the net income was positive primarily due to a \$2.2 billion gain on the sale of the company’s Southeast Asia operations to Grab Holding Inc.; a \$954 million gain on the disposal of the company’s Uber Russia/CIS operations; and a \$2.0 billion unrealized gain on the company’s non-marketable equity securities related to Didi (first quarter).

Sources: Uber Technologies Inc., Annual Reports

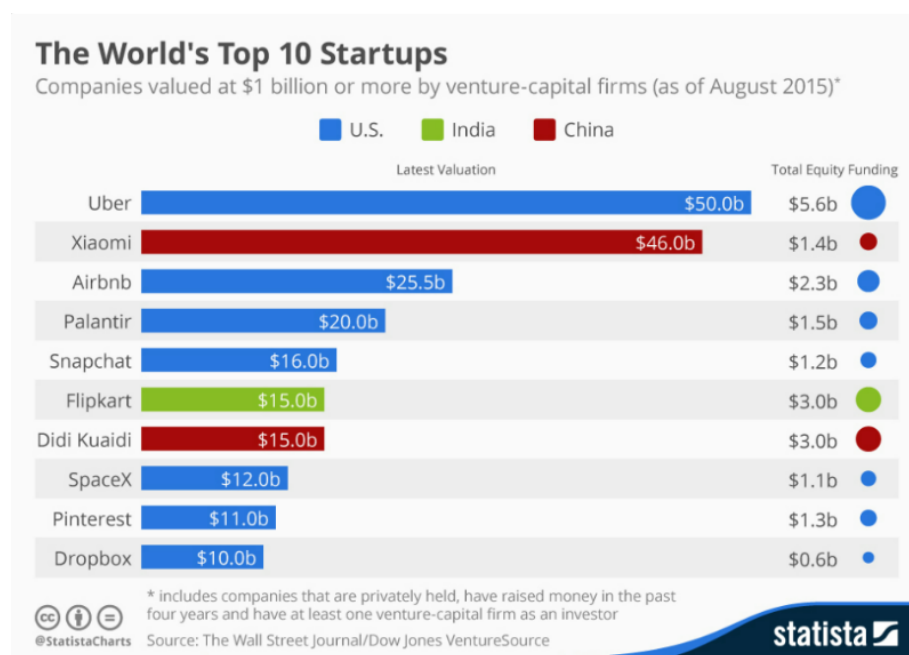
<https://www.sec.gov/Archives/edgar/data/1543151/000119312519103850/d647752ds1.htm> (page 27)

Exhibit 11: Uber’s revenue by segments from 2018 until 2022 (September 30).

	2018	2019	2020	2021	2022 (until Sep. 30)
Mobility revenue	9 288	10 707	6 089	6 953	9 893
Delivery revenue	772	1 401	3 904	8 362	7 970
Freight revenue	356	731	1 011	2 132	5 407
All other revenue	17	161	135	8	-
Total revenue	\$ 10 433	\$ 13 000	\$ 11 139	\$ 17 455	\$ 23 270

Source: Uber Technologies, Inc. Annual Reports.

Exhibit 12: The world's top 10 startups (August 2015).



Retrieved from: <https://www.statista.com/chart/1967/startups-valued-at-one-billion-or-more/>

Exhibit 13: Uber funding rounds.

Date	Round	Amount	Investors
Sep 13, 2017	Secondary Market	\$ 8,700,000,000	<ul style="list-style-type: none"> Softbank General Atlantic Didi Chuxing Dragoneer Investment Group Tencent TPG (formerly Texas Pacific Group) Sequoia Capital
Apr 19, 2017	Venture	Undisclosed amount	<ul style="list-style-type: none"> Axel Springer

Date	Round	Amount	Investors
			<ul style="list-style-type: none"> • GSV Ventures
Jul 01, 2016	Debt Financing	\$ 1,150,000,000	<ul style="list-style-type: none"> • Barclays PLC • Citigroup • Goldman Sachs • Morgan Stanley
Jun 01, 2016	Series G	\$ 3,500,000,000	<ul style="list-style-type: none"> • Saudi Arabia's Public Investment Fund • Sbt Venture Capital
May 23, 2016	Series G	Undisclosed amount	<ul style="list-style-type: none"> • Sbt Venture Capital
Feb 01, 2016	Private Equity	\$ 200,000,000	<ul style="list-style-type: none"> • Letterone Holdings SA
Aug 19, 2015	Private Equity	\$ 100,000,000	<ul style="list-style-type: none"> • Tata Opportunities Fund • Tata Capital
Jul 31, 2015	Series F	\$ 1,000,000,000	<ul style="list-style-type: none"> • Bennett Coleman And Co Ltd • Microsoft • Microsoft Corporation • 408 Ventures • AppWorks Ventures • MSA
Feb 18, 2015	Series E	\$ 1,000,000,000	<ul style="list-style-type: none"> • Accelerate It Ventures

Date	Round	Amount	Investors
			<ul style="list-style-type: none"> • Foundation Capital • Hds Capital • Times Internet • Glade Brook Capital Partners • Brand Capital • Dinesh Moorjani • Light Street Capital Management • Square Peg Capital • Sway Ventures • Warburg Pincus • Lead Edge Capital
Jan 21, 2015	Debt Financing	\$ 1,600,000,000	<ul style="list-style-type: none"> • Goldman Sachs
Dec 16, 2014	Series E	\$ 600,000,000	<ul style="list-style-type: none"> • Baidu
Dec 04, 2014	Series E	\$ 1,200,000,000	<ul style="list-style-type: none"> • Lone Pine Capital • New Enterprise Associates • Qatar Investment Authority • Sherpa Ventures • Valiant Capital Partners • Glade Brook Capital Partners

Date	Round	Amount	Investors
			<ul style="list-style-type: none"> • Jack Abraham • Razmig Hovaghimian
Jun 06, 2014	Series D	\$ 1,400,000,000	<ul style="list-style-type: none"> • Fidelity Investments • Blackrock • Google Ventures • Kleiner Perkins Caufield Byers • Menlo Ventures • Sherpa Ventures • Summit Partners • Wellington Management • General Atlantic
May 01, 2014	Series F	Undisclosed amount	
Aug 23, 2013	Series C	\$ 363,000,000	<ul style="list-style-type: none"> • Google Ventures • Benchmark • Tpg Growth • Uber • Shawn "Jay-Z" Carter
Dec 07, 2011	Series B	\$ 37,000,000	<ul style="list-style-type: none"> • Menlo Ventures • Benchmark

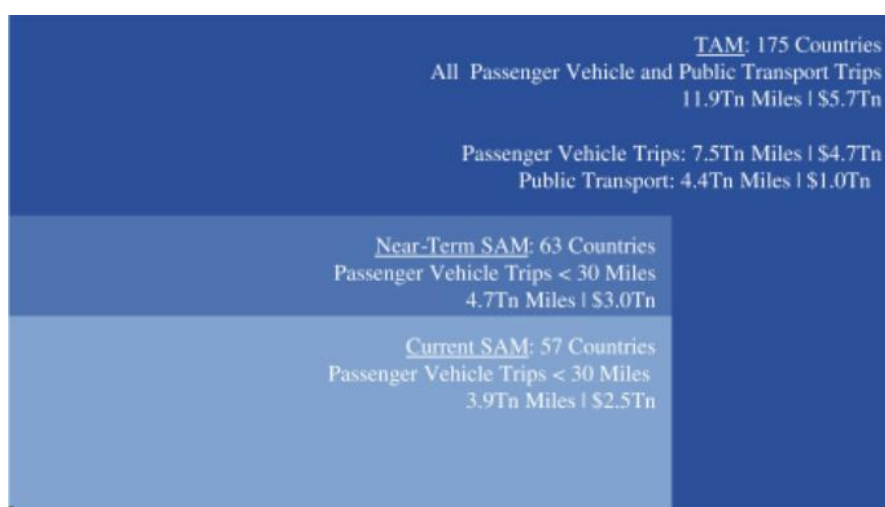
Date	Round	Amount	Investors
			<ul style="list-style-type: none"> • Crunchfund • Data Collective • Goldman Sachs • Jeff Bezos • Jeff Kearl • Nihal Mehta • Signatures Capital • Summit Action Fund • Troy Carter • Stance • Eniac Ventures
Feb 14, 2011	Series A	\$ 11,000,000	<ul style="list-style-type: none"> • Benchmark • Alfred Lin • First Round Capital • Innovation Endeavors • Lowercase Capital • Scott Banister • Sequoia Capital
Oct 15, 2010	Angel	\$ 1,250,000	<ul style="list-style-type: none"> • First Round Capital

Date	Round	Amount	Investors
			<ul style="list-style-type: none"> • A Grade Investments • Adam Leber • Afsquare • Alfred Lin • Babak Nivi • Bechtel Ventures • Bobby Yazdani • Cyan Banister • Data Collective • David Sacks • Dror Berman • Founder Collective • Gary Vaynerchuk • Jason Calacanis • Jason Port • Jeremy Stoppelman • Josh Spear • Kapor Capital • Kevin Hartz • Khaled Helioui

Date	Round	Amount	Investors
			<ul style="list-style-type: none"> • Lowercase Capital • Mike Walsh • Naval Ravikant • Oren Michels • Scott Banister • Scott Belsky • Shawn Fanning • Bullet Time Ventures
Aug 01, 2009	Seed	\$ 200,000	<ul style="list-style-type: none"> • Travis Kalanick • Garrett Camp

Retrieved from: <https://www.startupranking.com/startup/uber/funding-rounds>

Exhibit 14: Uber Personal Mobility SAM (Serviceable Available Market), 2019.



Retrieved from: <https://www.sec.gov/Archives/edgar/data/1543151/000119312519103850/d647752ds1.htm>
(page 11)

Exhibit 15: Cost of revenue as a percentage of revenue from 2018 until 2022 (September 30).

	2018	2019	2020	2021	2022 (until Sep.30)	Average
Revenue	\$ 10 433	\$ 13 000	\$ 11 139	\$ 17 455	\$ 23 270	
Cost of revenue	4 786	6 061	5 154	9 351	14 352	
Cost of revenue (as a % of revenue)	46%	47%	46%	54%	62%	51%

Source: Uber Technologies, Inc., Annual Reports