Uber Technologies (UBER)

$37.60 (As of 01/21/20)

Price Target (6-12 Months): **$40.00**

|	
Long Term: 6-12 Months	**Zacks Recommendation:** **Neutral**
	(Since: 11/21/19)
	Prior Recommendation: Outperform
Short Term: 1-3 Months	**Zacks Rank:** (1-5) **3-Hold**
	Zacks Style Scores: VGM:D
	Value: F Growth: D Momentum: A

Summary

Shares of Uber have underperformed its industry ever since it went public on May 10, 2019, mainly due to high costs. Akin to the past few quarters, high costs are likely to have dented the fourth-quarter performance. Results will be out on Feb 6. Frequent management changes and stake sell-off by Travis Kalanick are other setbacks. Kalanick also left the board on Dec 31, 2019. However, Uber is making substantial efforts to improve efficiency. It announced job cuts last year in July, September and October. Also, Uber sold its online food-ordering business in India to Zomato. Increase in ridesharing revenues is an added positive. The company's efforts to expand its global presence are also encouraging. In this regard, Uber's acquisition of the Dubai-based Careem has expanded its presence across the Middle East, North Africa and Pakistan.
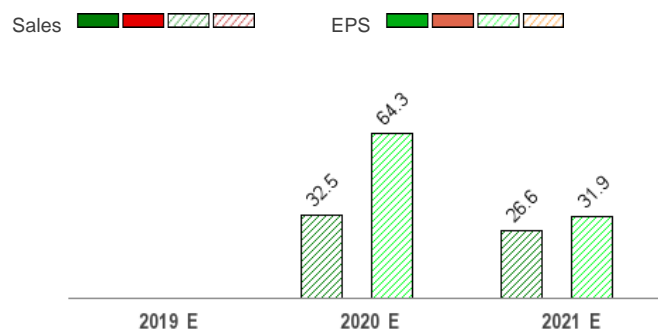
Price, Consensus & Surprise
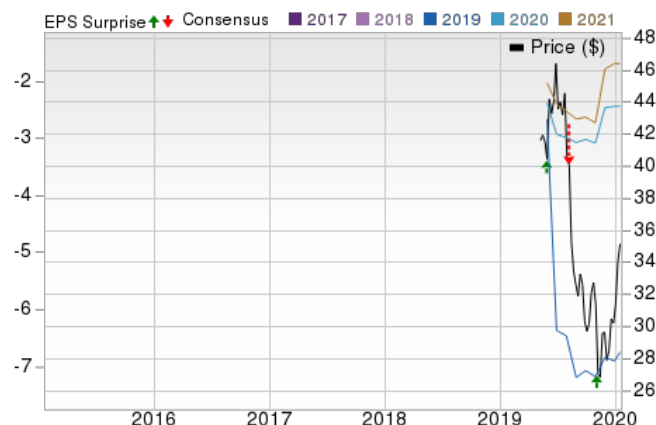
Data Overview

52 Week High-Low	**$47.08 - $25.58**
20 Day Average Volume (sh)	**21,292,068**
Market Cap	**$64.1 B**
YTD Price Change	**26.4%**
Beta	**NA**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Services**
Zacks Industry Rank	**Top 45% (115 out of 255)**
Last EPS Surprise	**18.1%**
Last Sales Surprise	**1.8%**
EPS F1 Est- 4 week change	**1.6%**
Expected Report Date	**02/06/2020**
Earnings ESP	**0.0%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**4.9**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	5,553 E	5,938 E	6,395 E	6,409 E	23,743 E
2020	4,187 E	4,501 E	4,837 E	5,154 E	18,750 E
2019	3,099 A	3,166 A	3,813 A	4,076 E	14,155 E

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-$0.38 E	-$0.32 E	-$0.29 E	-$0.23 E	-$1.64 E
2020	-$0.63 E	-$0.58 E	-$0.58 E	-$0.54 E	-$2.41 E
2019	-$2.26 A	-$4.72 A	-$0.68 A	-$0.69 E	-$6.75 E

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

Overview

Uber Technologies, based in San Francisco, CA, was incorporated in Delaware in July 2010. The company went public in May this year. Its IPO price was $45. Uber closed its IPO on May 14.

During the process, the company issued and sold 180 million shares of its common stock, generating net proceeds of approximately $8 billion after deducting underwriting discounts, commissions and offering expenses.

Uber has expanded its presence in multiple countries across the globe including the United States and Canada, Latin America, Europe, the Middle East and Asia (excluding China). Currently, it is trying to expand further.

Uber focuses on developing and supporting proprietary technology applications or platforms. These platforms should enable independent providers of ridesharing services, Eats meal preparation and delivery services to transact with riders (for ridesharing services) and eaters (for meal preparation and delivery services).

Driver partners offer ridesharing services to riders through a plethora of offerings based on vehicle type and/or the number of riders. Meanwhile, the restaurant and the delivery partners are responsible for offering meal preparation and delivery services, respectively.

EPS Hist. and Est.

Sales Hist. and Est.

These apart, Uber offers freight transportation services to shippers within the freight industry. The company is also responsible for leasing vehicles to third-parties who often utilize them for providing ridesharing or eats services through its platforms.
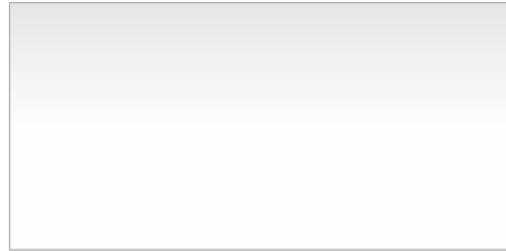
Following an organizational change in the third quarter, Uber started reporting through five segments, namely Rides, Eats, Freight, Other Bets, and Advanced Technologies Group (ATG) and Other Technology Programs.

In the third quarter of 2019, 75.9% of the company's revenues came from rides, its core business. Revenues from rides are derived mainly from fees paid by its driver partners for using Uber's platforms and other services. Meanwhile, Uber Eats and Freight contributed 17% and 5.7% to the top line respectively in the third qaurter. Uber Eats revenues are derived from restaurant and delivery partners. Other Bets, which includes revenues from Uber Freight and other immaterial revenue streams, and ATG and Other Technology Programs accounted for the remaining source of revenues. Uber's fiscal year coincides with the calendar year.
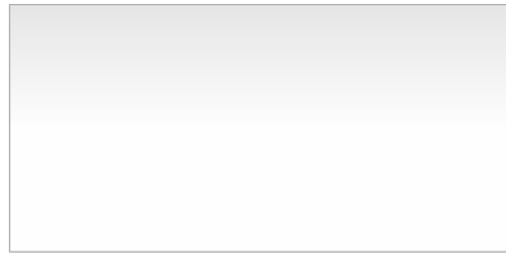
Reasons To Buy:

▲ We are impressed by Uber's efforts to expand its presence across the globe. In line with its expansion efforts, in October 2019, the company increased its market share in West Africa by virtue of a boat service in the Nigerian city of Lagos. Also, it started operating in Cordoba, Argentina in September 2019. Cordoba is the third Argentine city with Uber operations. This apart, the company's efforts to reward its drivers through the Uber Pro system are commendable. Additionally, the decision to buy a majority interest in South American online grocery provider Cornershop is aligned with the company's attempts to expand. The transaction is anticipated to close this year, subject to regulatory approval. Additionally, Uber's recently completed acquisition of the Dubai-based Careem for $3.1 billion as the company expands its presence across the Middle East, North Africa and Pakistan.

> Uber's efforts to expand its presence worldwide are commendable. Also, strong revenues from rides are likely to continue boosting the top line.

▲ With every passing day, the market for driverless or self-driving cars is gaining prominence and Uber aims to become a key player in this space. To this end, on Jun 12, 2019, Uber announced that it will partner with Volvo to build autonomous vehicles for delivering food from restaurants. The companies declared that the car will begin public testing in 2020. Notably, this third-generation version of Uber's self-driving car has significant improvements in its safety features, which includes backup steering, braking, and battery power systems. Per Modor Intelligence, the autonomous delivery robot market is expected to witness a CAGR of more than 49.5% between 2019 and 2024. Moreover, self-driving cars are expected to reduce the number of accidents caused by automotive vehicles in the United States. These cars will also bring down the costs for paying drivers borne by companies like Uber. In an effort to further solidify its position in the autonomous vehicle market, in January 2020, the company entered into a partnership with South Korean carmaker Hyundai Motor Co. to develop flying taxis for Uber Elevate, the aerial division of the former. The air taxis (with a capacity to carry up to four passengers) will ply at a height of around 1,000-2,000 feet to avoid traffic congestion. While the company will conduct demonstration flights this year, it will launch commercial operations in 2023.

▲ In a bid to trim losses, Uber sold its online food-ordering business in India to Zomato in January. The unit had performed dismally ever since its launch in India in 2017. Other measures to cut costs and improve efficiencies include the trimming of its workforce. In October 2019, Uber reduced its headcount by roughly 350 employees. In September 2019, the company slashed 8% of its workforce (435 employees). In July, it had laid off staff in the marketing department to the tune of 400 people. Apart from improving efficiencies, the company aims to drive its bottom line in the face of mounting losses through the aforesaid measure. Moreover, improvement in revenues from rides (up 19% in third-quarter 2019) is a positive for Uber as bulk of its top line (75.9% in the third quarter) comes from this avenue. Revenues from this segment are expected to have increased in fourth-quarter 2019 as well. Additionally, with consistent focus on financial discipline, the company now expects an improvement of $250 million in its 2019 adjusted EBITDA. The company hopes to be profitable by the end of 2021.

Reasons To Sell:

▼ Uber is spending significantly toward promotions and driver incentives as it competes with rivals like Lyft for higher market share. This, in turn, is hurting Uber's bottom-line growth. Evidently, Uber collected $37 billion in fares in 2018, out of which 81% went to the drivers. In fact, total costs and expenses soared 72.3% year over year in the first nine months of 2019. In fact, during second-quarter 2019 earnings release, the company had warned of huge losses to persist through 2019 since this will be its "peak investment year". Although the losses have come down ($1.16 billion in the third quarter compared with $5.24 billion in the second), it is nevertheless quite substantial when compared year over year (third-quarter loss of $1.16 billion is up 18% year over year). Loss of license to operate in London is an added negative for Uber.

▼ Management uncertainty often shakes the confidence of investors in a stock and Uber is no exception. Close on the heels of the IPO lock-up expiration (wherein the stock hit a record low), the company's chief product officer Manik Gupta resigned and left the organization on Dec 13, 2019. Sadly enough, the company has a history of frequent management changes. In June 2019, post the company's announcement regarding its leadership overhaul, its erstwhile chief operating officer (COO) Barney Harford and chief marketing officer Rebecca Messina quit the company. Jill Hazelbaker is now looking after the ride-hailing giant's marketing operations in addition to the company's functions in relation to policy and communications. Moreover, the COO position has been eliminated, with Andrew Macdonald being promoted to the position of senior vice president of Global Rides and Platform. However, if these changes in management fail to yield the desired results, the Uber stock might be hit severely.

▼ With Uber losing money massively (loss of more than $7 billion in the first nine months of 2019), the divestiture by the company's co-founder and former CEO Travis Kalanick is a further dampener for the stock. Kalanick sold his entire stake in Uber worth nearly $3 billion. He also quit the board on Dec 31, 2019. Evidently, shares of the company have been down significantly ever since its trading debut on May 10.

> The company is incurring huge losses due to escalating operating expenses.

Last Earnings Report

Uber Incurs Loss in Q3

Quarter Ending	09/2019
Report Date	**Nov 04, 2019**
Sales Surprise	**1.78%**
EPS Surprise	**18.07%**
Quarterly EPS	**-0.68**
Annual EPS (TTM)	**NA**

The company incurred a loss of 68 cents per share (or net loss of $1.16 billion, up 18% year over year) in the third quarter of 2019, narrower than the Zacks Consensus Estimate of a loss of 83 cents. Moreover, the amount of loss decreased year over year. Total revenues of $3,813 million beat the Zacks Consensus Estimate of $3,746.4 million and also rose 29.5% year over year.

Following an organizational change in the third quarter, Uber started reporting through five segments, namely Rides, Eats, Freight, Other Bets, and Advanced Technologies Group (ATG) and Other Technology Programs.

In the third quarter, majority (75.9%) of the company's revenues came in from Rides, which increased 19% to $2,895 million. Uber Eats revenues jumped 64% to $645 million while Freight revenues soared 78% to $218 million with gross bookings ascending 81%.

The company's total gross bookings of $16.46 billion increased 29%. Gross bookings from Rides improved 20% to $12.55 billion. Also, Uber Eats gross bookings of $3.66 billion were up 73%.

Total revenues grew 39% to $2,407 million in the United States and Canada. The same rose 24% to $534 million in Europe, the Middle East and Africa. While total revenues surged 31% to $345 million in the Asia Pacific region, it inched up 2% to $527 million in Latin America. Monthly active platform customers also grew 26% to 103 million.

Additionally, cost of revenues (excluding depreciation and amortization) at Uber, which competes primarily with Lyft (LYFT - Research Report) in the ride hailing market, rose primarily due to higher driver incentives. Total expenses on sales and marketing surged 41.8% to $1.11 billion in the reported quarter.

Uber exited the third quarter with cash and cash equivalents of $12.65 billion compared with $6.41 billion at the end of 2018. Long-term debt, net of current portion, at the end of the quarter was $5.71 billion compared with $6.87 billion at 2018 end.

Outlook

With adjusted net revenue growth of 33% in the third quarter, Uber anticipates this uptrend to continue in the fourth quarter. Additionally, with consistent focus on financial discipline, the company now expects an improvement of $250 million in its 2019 adjusted EBITDA to a loss of $2.8-2.9 billion. The company hopes to achieve EBITDA profit for the full year in 2021.

Recent News

Uber Sells Indian Eats business to Zomato – Jan 21, 2020

In a bid to cut back losses and emerge profitable on an EBITDA basis by 2021, Uber sold its Uber Eats operations in India to local rival Zomato. Uber now owns a 9.99% stake in Zomato in lieu of the sale of its Eats business in India. Uber received approximately $172 million worth of Zomato shares. Uber has been in talks to offload its loss-making Uber Eats India business (which started in 2017) since late 2018. Per the company, the ailing business is anticipated to have incurred a loss of $107.5 million in the August-December period last year. Uber will, however, continue to invest in India for expanding its local Rides business.

Uber Enters the Staffing Business – Dec 18, 2019

Uber has been testing its ability to match gig workers to jobs in Chicago and the company is now formally entering the business with a Miami-Dade launch. So, people looking for work can sign up to Uber Works (as it's called), where they can hope to make $11-16 an hour. Uber is partnering with traditional staffing companies for the jobs, which will "employ, pay and handle worker benefits."

Valuation

Uber shares are down 9.6% ever since going public on May 10, 2019. Stocks in the Zacks sub-industry are up 6% while those in the Computer and Technology sector are up 18.8% in the same period. Since May 10, the S&P 500 index is up 15.2%.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $40 price target reflects 11.7X 2020 sales.

Industry Analysis Zacks Industry Rank: Top 45% (115 out of 255)

Top Peers

Lyft, Inc. **(LYFT)**	**Outperform**
Amazon.com, Inc. **(AMZN)**	**Neutral**
salesforce.com, inc. **(CRM)**	**Neutral**
Microsoft Corporation **(MSFT)**	**Neutral**
Oracle Corporation **(ORCL)**	**Neutral**
Snap Inc. **(SNAP)**	**Neutral**
Tesla, Inc. **(TSLA)**	**Neutral**
Expedia Group, Inc. **(EXPE)**	**Underperform**

Industry Comparison Industry: Internet - Services / Industry Peers

	UBER Neutral	X Industry	S&P 500	LYFT Outperform	MSFT Neutral	TSLA Neutral
VGM Score	D	-	-	C	C	D
Market Cap	64.14 B	888.14 M	24.43 B	14.28 B	1,270.20 B	98.63 B
# of Analysts	9	2.5	13	4	14	7
Dividend Yield	0.00%	0.00%	1.75%	0.00%	1.23%	0.00%
Value Score	F	-	-	F	D	F
Cash/Price	0.21	0.15	0.04	0.23	0.11	0.06
EV/EBITDA	24.57	5.60	14.00	-12.60	20.79	60.75
PEG Ratio	NA	2.35	2.06	NA	2.61	1.86
Price/Book (P/B)	4.07	3.06	3.39	4.78	11.98	14.33
Price/Cash Flow (P/CF)	NA	20.62	13.69	NA	26.21	86.71
P/E (F1)	NA	27.54	19.00	NA	31.08	86.12
Price/Sales (P/S)	4.91	2.69	2.68	4.37	9.78	4.04
Earnings Yield	-6.41%	1.36%	5.26%	-4.19%	3.22%	1.16%
Debt/Equity	0.46	0.09	0.72	0.12	0.69	1.64
Cash Flow ($/share)	NA	0.14	6.94	NA	6.35	6.31
Growth Score	D	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	NA%	23.67%	10.60%	NA	16.25%	NA
Proj. EPS Growth (F1/F0)	64.32%	19.18%	7.57%	41.09%	12.80%	6,192.24%
Curr. Cash Flow Growth	-140.11%	0.09%	14.00%	32.66%	19.70%	-713.59%
Hist. Cash Flow Growth (3-5 yrs)	NA%	16.08%	9.00%	NA	11.99%	50.43%
Current Ratio	2.82	1.74	1.23	1.49	2.85	1.08
Debt/Capital	32.21%	9.94%	42.99%	10.73%	40.81%	63.38%
Net Margin	-63.57%	-5.73%	11.15%	-76.34%	31.66%	-3.39%
Return on Equity	-209.48%	-4.28%	17.16%	NA	39.14%	-13.42%
Sales/Assets	0.47	0.62	0.55	0.71	0.48	0.79
Proj. Sales Growth (F1/F0)	32.46%	14.45%	4.05%	28.27%	11.33%	25.43%
Momentum Score	A	-	-	A	A	F
Daily Price Chg	7.03%	0.00%	-0.27%	3.14%	-0.36%	7.19%
1 Week Price Chg	3.29%	1.06%	2.29%	1.00%	3.57%	6.77%
4 Week Price Chg	23.52%	4.49%	2.13%	4.99%	5.79%	28.68%
12 Week Price Chg	15.98%	6.62%	6.99%	9.84%	16.57%	73.04%
52 Week Price Chg	NA%	-12.93%	21.25%	NA	57.55%	83.06%
20 Day Average Volume	21,292,068	62,542	1,415,064	4,087,759	18,916,950	14,898,958
(F1) EPS Est 1 week change	1.63%	0.00%	0.00%	0.09%	0.00%	0.00%
(F1) EPS Est 4 week change	1.63%	0.00%	0.00%	0.09%	0.12%	1.90%
(F1) EPS Est 12 week change	22.69%	-4.09%	-0.34%	19.43%	2.61%	29.13%
(Q1) EPS Est Mthly Chg	0.32%	0.00%	0.00%	0.00%	0.22%	-55.42%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures