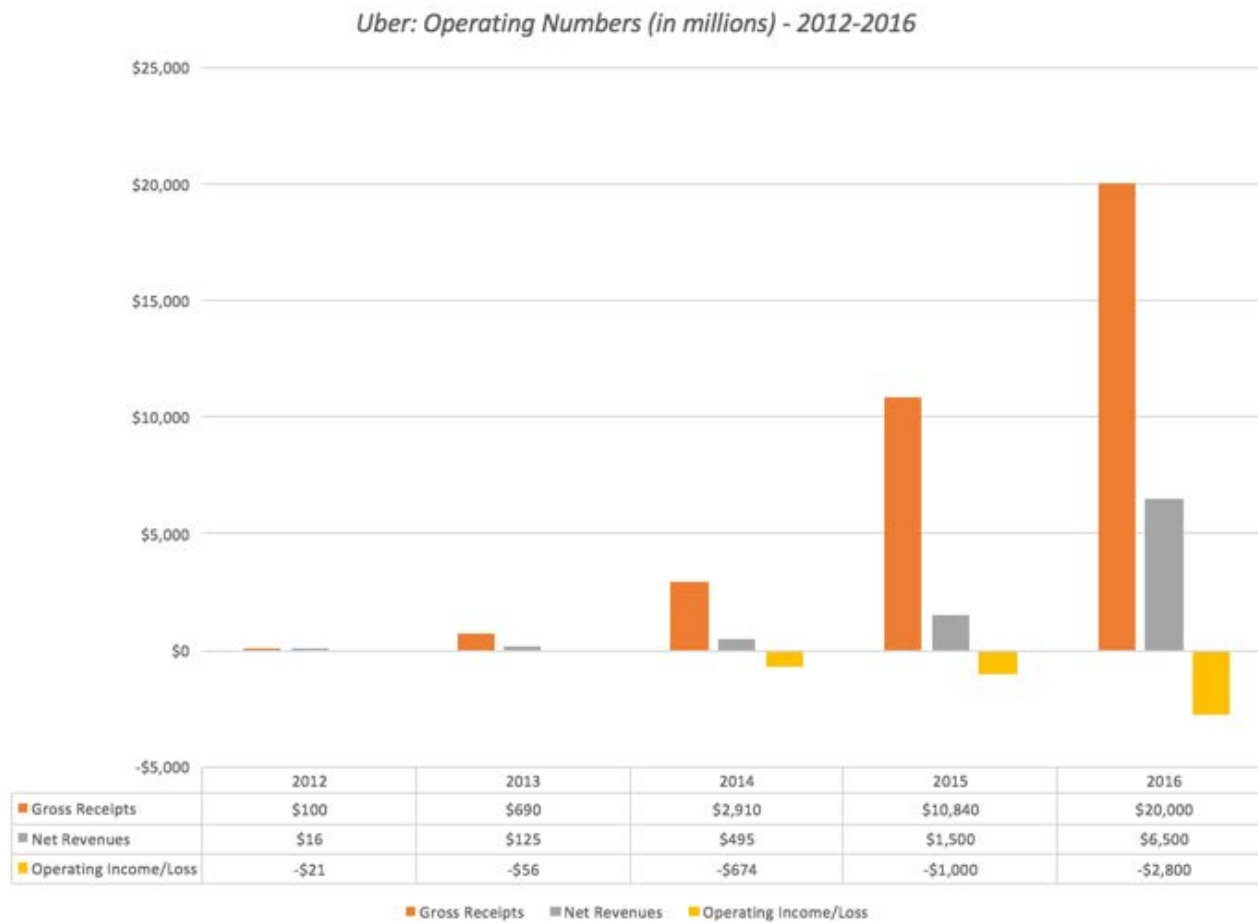




UBER'S BAD WEEK: DOOMSDAY SCENARIO OR JUST PR FIASCO?

Shame and scandal, cash flows and value!

The Uber Back Story



Uber, the Urban Car Service Company						
The Story						
Uber is an urban car service company, drawing in new users into car service. It will enjoy local networking benefits while preserving its current revenue sharing (80/20) and capital intensity (don't own cars or hire drivers) model.						
The Assumptions						
	Base year	Years 1-5	Years 6-10	After year 10	Story link	
Total Market	100 billion	Grow 6% a year		Grow 2.5%	Urban Car Service + New users	
Gross Market Share	1.50%	1.50%>10%		10%	Local Networking benefits	
Revenue Share	20.00%	Stays at 20%		20.00%	Preserve revenue share	
Operating Margin	3.33%	3.33% - 40%		40.00%	Strong competitive position	
Reinvestment	NA	Sales to capital ratio of 5.00		Reinvestment rate = 10%	Low capital intensity model	
Cost of capital	NA	12.00%	12%->8%	8%	90th percentile of US firms	
Risk of failure	10% chance of failure (with equity worth zero)				Young company	
The Cash Flows						
	Total Market	Market Share	Revenues	EBIT (1-t)	Reinvestment	FCFF
1	\$106,000	3.63%	\$769	\$37	\$94	\$(57)
2	\$112,360	5.22%	\$1,173	\$85	\$81	\$4
3	\$119,102	6.41%	\$1,528	\$147	\$71	\$76
4	\$126,248	7.31%	\$1,846	\$219	\$64	\$156
5	\$133,823	7.98%	\$2,137	\$301	\$58	\$243
6	\$141,852	8.49%	\$2,408	\$390	\$54	\$336
7	\$150,363	8.87%	\$2,666	\$487	\$52	\$435
8	\$159,385	9.15%	\$2,916	\$591	\$50	\$541
9	\$168,948	9.36%	\$3,163	\$701	\$49	\$652
10	\$179,085	10.00%	\$3,582	\$860	\$84	\$776
Terminal year	\$183,562	10.00%	\$3,671	\$881	\$88	\$793
The Value						
Terminal value	\$14,418					
PV(Terminal value)	\$5,175					
PV (CF over next 10 years)	\$1,375					
Value of operating assets =	\$6,550					
Probability of failure	10%					
Value in case of failure	\$-					
Adjusted Value for operating assets	\$5,895		VCs priced Uber at \$17 billion at the time.			

Potential Market	Market size (in millions)
A1. Urban car service	\$100,000
A2. All car service	\$175,000
A3. Logistics	\$230,000
A4. Mobility Services	\$310,000

Increases overall market to \$618 billion in year 10

Growth Effect	CAGR (next 10 years)
B1. None	3.00%
B2. Increase market by 25%	5.32%
B3. Increase market size by 50%	7.26%
B4: Double market size	10.39%

Network Effects	Market Share
C1. No network effects	5%
C2. Weak local network effects	10%
C3. Strong local network effects	15%
C4. Weak global network effects	25%
C5. Strong global network effects	40%

	Base	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Assumptions
Overall market	\$230,000	\$253,897	\$280,277	\$309,398	\$341,544	\$377,031	\$416,204	\$459,448	\$507,184	\$559,881	\$618,052	A3 & B4
Share of market (gross)	4.71%	6.74%	8.77%	10.80%	12.83%	14.86%	16.89%	18.91%	20.94%	22.97%	25.00%	C4
Gross Billings	\$10,840	\$17,117	\$24,582	\$33,412	\$43,813	\$56,014	\$70,277	\$86,900	\$106,218	\$128,612	\$154,513	
Revenues as percent of gross	20.00%	19.50%	19.00%	18.50%	18.00%	17.50%	17.00%	16.50%	16.00%	15.50%	15.00%	D3
Annual Revenue	\$2,168	\$3,338	\$4,670	\$6,181	\$7,886	\$9,802	\$11,947	\$14,338	\$16,995	\$19,935	\$23,177	
Operating margin	-23.06%	-18.26%	-13.45%	-8.64%	-3.84%	0.97%	5.77%	10.58%	15.39%	20.19%	25.00%	E2
Operating Income	-\$500	-\$609	-\$628	-\$534	-\$303	\$95	\$690	\$1,517	\$2,615	\$4,026	\$5,794	
Effective tax rate	30.00%	31.00%	32.00%	33.00%	34.00%	35.00%	36.00%	37.00%	38.00%	39.00%	40.00%	
- Taxes	-\$150	-\$189	-\$201	-\$176	-\$103	\$33	\$248	\$561	\$994	\$1,570	\$2,318	
After-tax operating income	-\$350	-\$420	-\$427	-\$358	-\$200	\$62	\$442	\$956	\$1,621	\$2,456	\$3,477	
Sales/Capital Ratio		5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	F
- Reinvestment		\$234	\$267	\$302	\$341	\$383	\$429	\$478	\$531	\$588	\$648	
Free Cash Flow to the Firm		-\$654	-\$694	-\$660	-\$541	-\$322	\$13	\$478	\$1,090	\$1,868	\$2,828	
Terminal value											\$56,258	
Present value of FCFF		-\$595	-\$573	-\$496	-\$369	-\$200	\$7	\$248	\$520	\$822	\$1,152	
Present value of terminal value											\$22,914	
Cost of capital	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	9.60%	9.20%	8.80%	8.40%	8.00%	G1

PV of cash flows during next 10 years =	\$515	
PV of terminal value =	\$22,914	
Value of operating assets	\$23,429	
Probability of failure	0.00%	G2
Adjusted value of operating assets	\$23,429	
Less Debt	\$0	
Value of Equity	\$23,429	

Capital Intensity
F: Status Quo: Sales/Capital = 5

Expense Profile	Operating Margin
E1: Independent contractor	40%
E2: Partial employee	25%
E3: Full employee	15%

Competitive Advantages	Slice of Gross Receipts
D1. None	5%
D2. Weak	10%
D3. Semi-strong	15%
D4. Strong & Sustainable	20%

Risk Estimates

- G1. Cost of capital at 75th percentile of US companies = 10%
G2. Probability of failure in next 10 years= 0%

Uber Valuation: September 2015

Uber, The Global Logistics Company (August 2016)

The Story

Uber is a logistics company, doubling the market size by drawing in new users. It will enjoy weak global networking benefits while seeing its slice of revenues slip (85/15), higher costs (with drivers as partial employees) and low capital intensity.

The Assumptions

	Base year	Years 1-5	Years 6-10	After year 10	Story link
Total Market	\$180,000	Grow 10.39% a year		Grow 1.5% a year	Logistics + New users - China
Gross Market Share	4.71%	4.71%>40%		40%	Peace treaty with Didi Kuaidi
Revenue Share	20.00%	20% -> 15%		15.00%	Lower revenue share
Operating Margin	-23.06%	-23.06% ->20%		20.00%	Cost pressures continue
Reinvestment	NA	Sales to capital ratio of 3.00		Reinvestment rate = 7.5%	Higher capital intensity model
Cost of capital	NA	10.00%	10%->8.00%	8.00%	At 75th percentile of US firms
Risk of failure	No chance of failure (with equity worth zero)				Cash on hand + Capital access

The Cash Flows

	Total Market	Market Share	Revenues (15% of Gross)	EBIT (1-t)	Reinvestment	FCFF
1	\$ 198,702	9.42%	\$ 3,650	\$ (479)	\$ 494	\$ (973)
2	\$ 219,347	12.82%	\$ 5,342	\$ (540)	\$ 564	\$ (1,104)
3	\$ 242,137	16.22%	\$ 7,264	\$ (516)	\$ 641	\$ (1,156)
4	\$ 267,295	19.61%	\$ 9,437	\$ (386)	\$ 724	\$ (1,110)
5	\$ 295,067	23.01%	\$ 11,882	\$ (127)	\$ 815	\$ (943)
6	\$ 325,725	26.41%	\$ 14,623	\$ 284	\$ 914	\$ (630)
7	\$ 359,568	29.81%	\$ 17,684	\$ 877	\$ 1,020	\$ (144)
8	\$ 396,927	33.20%	\$ 21,088	\$ 1,681	\$ 1,135	\$ 546
9	\$ 438,167	36.60%	\$ 24,859	\$ 2,731	\$ 1,257	\$ 1,474
10	\$ 483,693	40.00%	\$ 29,022	\$ 4,063	\$ 1,388	\$ 2,675
Terminal year	\$ 490,948	40.00%	\$ 29,457	\$ 4,124	\$ 309	\$ 3,815

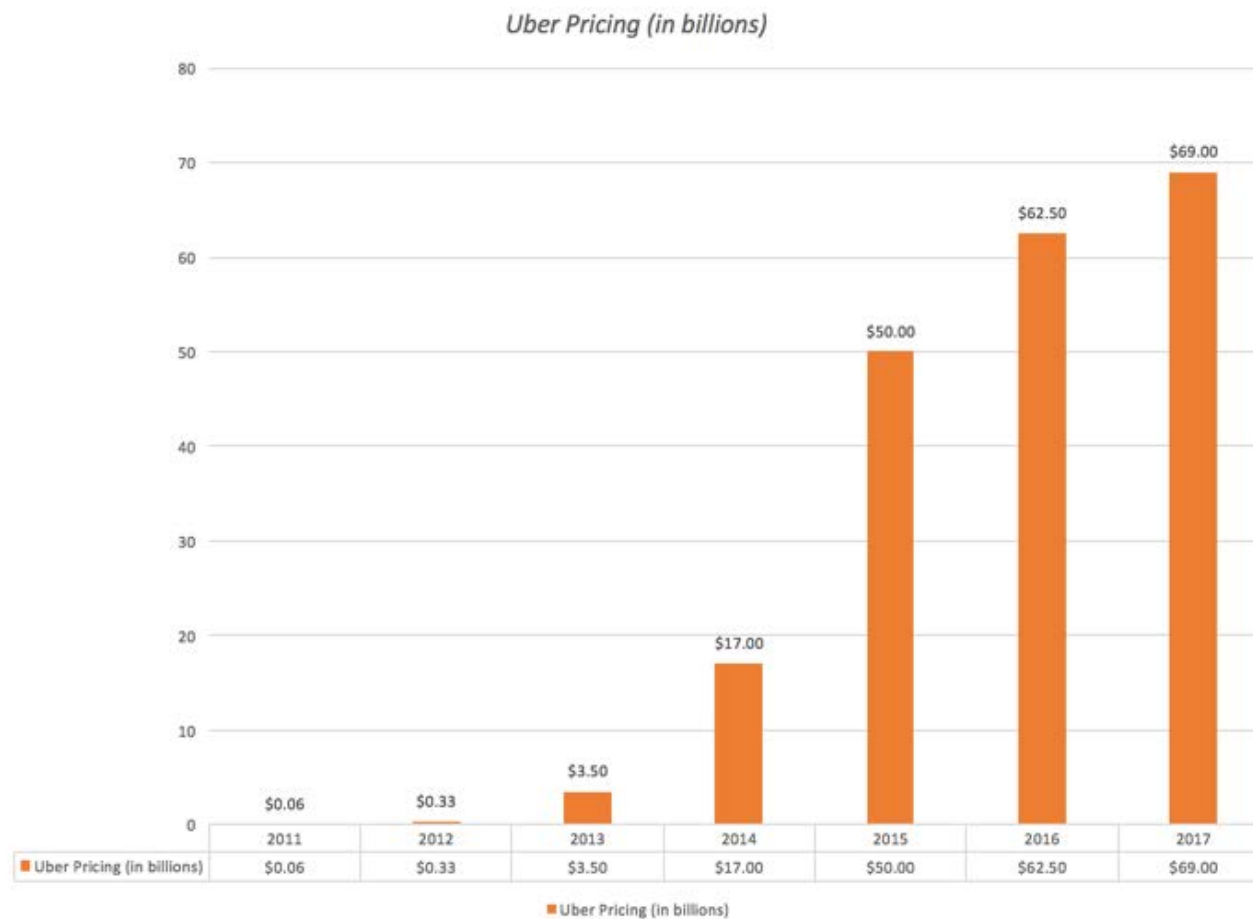
The Value

Terminal value	\$ 58,687		
PV(Terminal value)	\$ 23,904		
PV (CF over next 10 years)	\$ (2,442)		
Value of operating assets =	\$ 21,461		
Probability of failure	0%		
Value in case of failure	\$ -		
Adjusted Value for operating assets	\$ 21,461		
+ Cash on hand	\$ 1,500.00		
+ Cross holdings	\$ 5,000.00		
Value of all assets	\$ 27,961.46	VCs priced Uber at about \$62,500 million at the time	

Operating Update for 2016: More of the same?

- High growth in business: Uber generated more than \$20 billion in gross billings in 2016, doubling its 2015 numbers.
- Hefty share of billings: Uber's share of this revenue was \$6.5 billion (which represents its net revenues) but it reported its gross billings from UberPool, its car pooling service, as revenues.
- But losses continue: The revenue growth has been dazzling but the losses continued to mount as well. Uber reported a loss of \$2.8 billion for 2016, but that number would have been worse (closer to \$3.8 billion) if losses in its defunct China operations had been counted.

Uber: The pricing game



One Big Reason: The Competition

- Some have adapted: Lyft, which has long been viewed as the weaker competitor, reported an [increase in market share in the US ride sharing market in 2016](#) and may be first to turn a profit in this business.
- Some have matched Uber in capital raising: Didi Chuxing, with a pricing of \$50 billion, showed the [capacity to raise capital](#) and burn through it just as fast and recklessly as Uber has.
- Others are using local advantages: Ola, has [played to local advantages](#) to establish a beachhead against Uber in India.

Uber's extracurricular activities

- ❑ The Google/Waymo Legal tangle: Anthony Levandowski, the employee that Uber hired away from Google/Waymo, was accused of stealing and bring Google's electric car secrets to Uber.
- ❑ Travis and the Uber driver: A minor, but still telling episode, where Travis Kalanick was caught on video arguing with an Uber driver about whether Uber was squeezing drivers with its low fares.
- ❑ Sexual harassment: Susan Fowler, an ex-engineer at Uber, chronicles her mistreatment at the company and how Uber ignored her complaints.

The Holder Report

- Uber hired Eric Holder and Tommy Albaran to examine culture and practices at Uber and make suggestions for creating a more inclusive culture.
- Their report chronicled bad behavior at the company and made 47 recommendations, with this one leading:
 - ▣ **Uber's board of directors "should evaluate the extent to which some of the responsibilities that Mr.Kalanick has historically possessed should be shared or given outright to other members of senior management"**

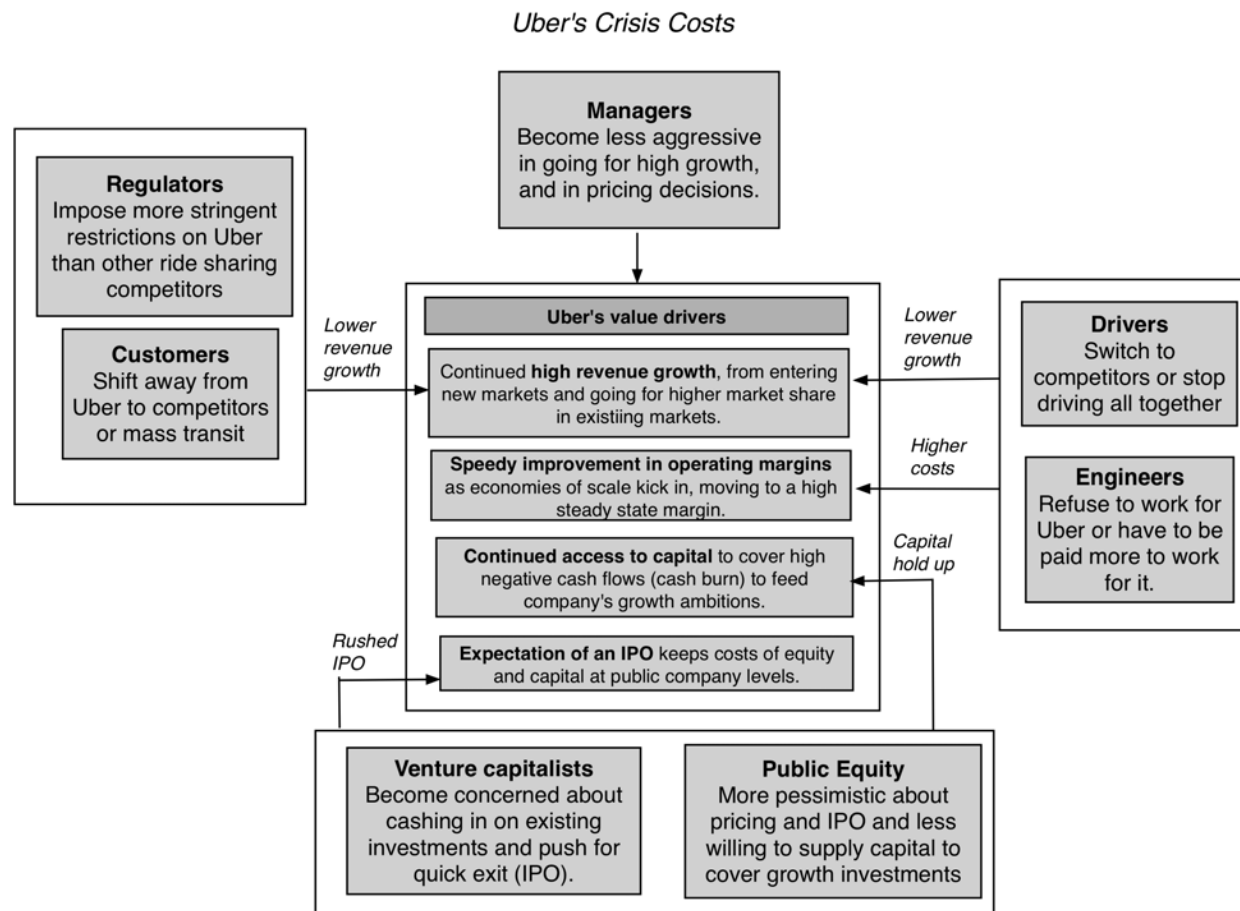
An Eventful week

- Travis Kalanick [announced that he was taking a break](#) from his role as CEO "to work on Travis 2.0 to become the leader that this company needs and that you deserve".
- It was in a follow-up meeting with Uber employees that Arianna Huffington chaired, with the intent of making Uber a more welcoming environment for women, that David Bonderman quipped about how having more women as directors would make it "much more likely there'll be more talking" at meetings.
- No announcements were made about interim CEOs and it looks like Uber will be run by a committee of Kalanick's lieutenants.
- Update: Today, Travis Kalanick announced that he had resigned, opening up the CEO position for a "new hire".

What now?

- In a *story break*, you learn something about a company that renders your story moot and makes your valuation irrelevant (perhaps making it zero). This is the take that some have taken with Uber, when they have argued that the most recent news stories have [doomed the company](#) by breaking its story.
- In a *story change*, the news that you acquire can lead to you significantly expanding or contracting the story that you were telling about the company, with the former increasing value and the latter reducing it. My story for Uber dramatically expanded from the urban, car service company, with a value of \$6 billion in June 2014, to a global logistics company facing challenges in turning revenues to profits, with a value of \$23 billion, in September 2015.
- In a *story shift*, your basic story stays unchanged but with shifted contours. With Uber, that is what transpired, at least for me, between September 2015 and September 2016, where notwithstanding all of the news about the company, the story remained mostly unchanged, with perhaps higher revenue growth and lower profitability offsetting each other to leave value unchanged at about \$25 billion.

The Potential for damage..



Uber's Operations

The Operations			
	Drivers	Customers	Regulators
<i>Primary Motive</i>	To earn a living with Uber supplying customers/fares.	Car service that is cheap, convenient and quick	Public safety and control of how car service is offered
<i>Priors (before news)</i>	Consider Uber to be a ruthless player that care little about their interests.	Trust the company to be efficient and responsive.	Consider Uber a rule breaker but are afraid of Uber user backlash, if restricted.
<i>Posteriors (before news)</i>	Not surprised by news since it fits their preconceptions of the company.	Think less of the company culture but views on efficiency/ service unaffected	Added ammunition in fight against Uber, but still wary of user backlash from over reaction

Uber's business

The Business		
	Managers	Engineers
<i>Primary Motive</i>	Build a great company & cash out on holdings	Build a foundation for the great business & make a good living
<i>Priors (before news)</i>	Result-driven firm, with high tolerance for bad behavior	Access to significant resources with focus on results (at any cost)
<i>Posteriors (before news)</i>	Result-driven firm, with consequences for observable bad behavior	Worry about social & financial effects of working at a corporate outlaw.

Uber's financing

The Financing		
	Venture Capital	Public Equity
<i>Primary Motive</i>	Cash out at higher price & record as winner.	Partake in the payoff from company going public.
<i>Priors (before news)</i>	Protect ownership stake in subsequent rounds until IPO exit	Supply cash in subsequent rounds until IPO exit.
<i>Posteriors (before news)</i>	Still believe in IPO but worry about timing, pricing & ownership	Worry about financial & public backlash from being investor in company.

Uber, The Global Logistics Company with a behavior problem (June 2017)

The Story

Uber is a logistics company, doubling the market size by drawing in new users. It will enjoy weak global networking benefits while seeing its slice of revenues slip (85/15), higher costs (with drivers as partial employees) and low capital intensity. *The extracurricular problems at the company, with it legal tangle with Google's Waymo division and accusations of condoning of sexual harassment will slow the company down in the near term but not damage it enough to alter its story significantly.*

The Assumptions

	Base year	Years 1-5	Years 6-10	After year 10	Story link
Total Market	\$200,000	Grow 10.39% a year		Grow 1.5% a year	Delivery & Moving + Ridesharing
Gross Market Share	10.00%	10%>40%		40%	Big player
Revenue Share	20.00%	20% -> 15%		15.00%	Lower revenue share
Operating Margin	-43.08%	-43.08% ->20%		20.00%	Cost pressures continue
Reinvestment	NA	Sales to capital ratio of 3.00		Reinvestment rate = 7.5%	More capital investment model
Cost of capital	NA	10.00%	10%->8.00%	8.00%	At 75th percentile of US firms
Risk of failure	5% chance of failure, if pricing meltdown leads to capital being cut off				Cash on hand + Capital access

The Cash Flows

	Total Market	Market Share	Revenues (15% of Gross)	EBIT (1-t)	Reinvestment	FCFF
1	\$ 220,780	13.00%	\$ 8,826	\$ (2,105)	\$ 775	\$ (2,880)
2	\$ 243,719	16.00%	\$ 11,309	\$ (1,983)	\$ 828	\$ (2,811)
3	\$ 269,041	19.00%	\$ 13,930	\$ (1,564)	\$ 874	\$ (2,438)
4	\$ 296,995	22.00%	\$ 16,661	\$ (820)	\$ 911	\$ (1,731)
5	\$ 327,853	25.00%	\$ 19,466	\$ 270	\$ 935	\$ (665)
6	\$ 361,917	28.00%	\$ 22,294	\$ 1,715	\$ 943	\$ 772
7	\$ 399,520	31.00%	\$ 25,080	\$ 3,511	\$ 929	\$ 2,583
8	\$ 441,030	34.00%	\$ 27,741	\$ 3,884	\$ 887	\$ 2,997
9	\$ 486,853	37.00%	\$ 30,173	\$ 4,224	\$ 811	\$ 3,414
10	\$ 537,437	40.00%	\$ 32,246	\$ 4,514	\$ 691	\$ 3,823
Terminal year	\$ 548,723	40.00%	\$ 32,923	\$ 4,609	\$ 484	\$ 4,125

The Value

Terminal value	\$ 69,920		
PV(Terminal value)	\$ 28,479		
PV (CF over next 10 years)	\$ (2,103)		
Value of operating assets =	\$ 26,376		
Probability of failure	5%		
Value in case of failure	\$ -		
Adjusted Value for operating assets	\$ 25,057		
+ Cash on hand	\$ 5,000		
+ Cross holdings	\$ 6,000		
Value of all assets	\$ 36,057	Most recent pricing put the price at greater than \$70 billion	

The Closing

- ❑ Uber has had a week from hell but the company is too embedded in our day-to-day lives to implode.
- ❑ Their behavior is shocking and may be even beyond the pale, for some, but most of their constituent groups are too invested in it (in one way or the other) to walk away.
- ❑ The biggest danger to the company remains on the investing side, where a pricking of the pricing momentum can cause the price to shrink back towards a more reasonable long term value that reflects not only the company's potential but also the challenges that it faces along the way.