Hubert Horan: Can Uber Ever Deliver? Part Twenty-Two: Profits and Cash Flow Keep Deteriorating as Uber's GAAP Losses Hit $8.5 Billion

Posted on February 7, 2019 by Yves Smith

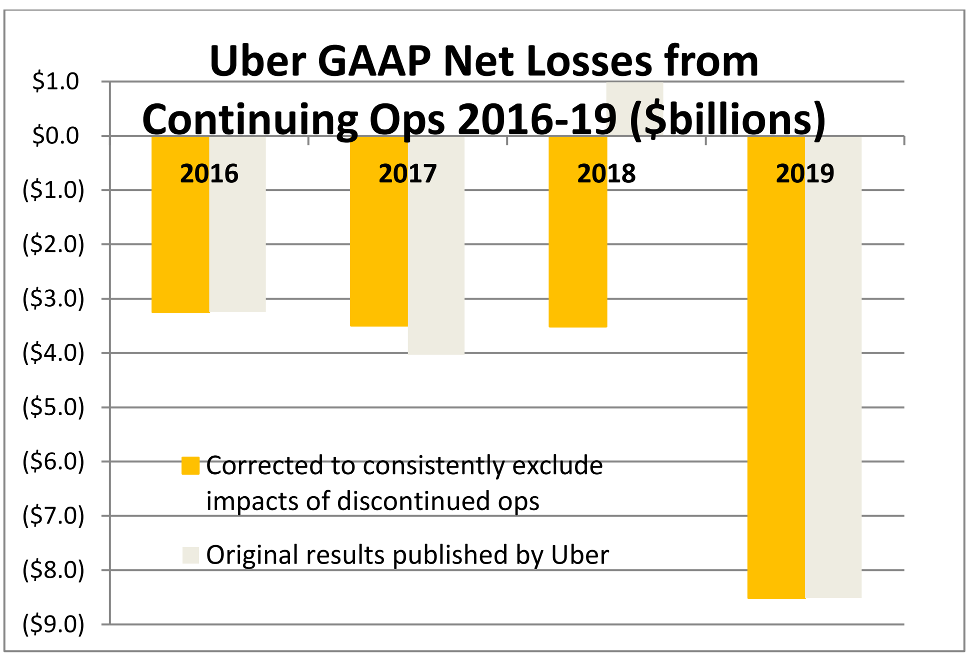
By Hubert Horan, who has 40 years of experience in the management and regulation of transportation companies (primarily airlines). Horan has no financial links with any urban car service industry competitors, investors or regulators, or any firms that work on behalf of industry participants

Uber's profit performance and cash burn had ben dismal for years and got worse in 2019

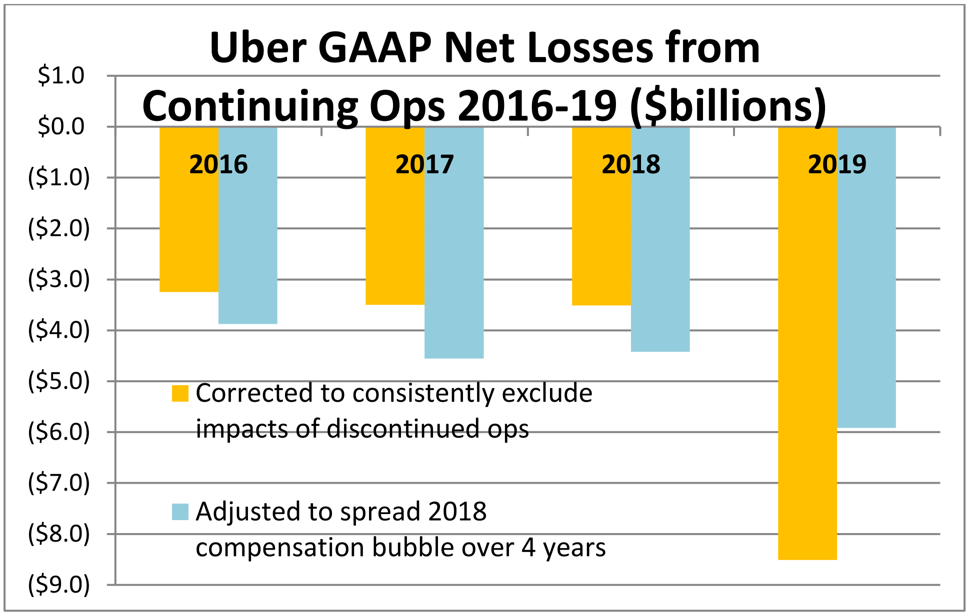
Yesterday Uber announced full year 2019 losses of $8.5 billion. This produced a negative 60% profit margin on total Uber revenue of $14.1 billion. Properly understanding Uber's deteriorating profit performance over time will require a couple simple accounting corrections.

Prior to 2019, Uber had shut down its failed operations in China, Russia and Southeast Asia in return for a debt or equity position in the larger local company (Didi, Yandex, Grab) that had driven it out of business As discussed in Part 19 of this series,[1] Uber improperly included the claimed gains from discontinuing these operations in its 2018 Net Income from Continuing Operations. This created the false impression that its ongoing marketplace activities had achieved a $5 billion profit improvement in 2018.

The chart below shows the corrected GAAP Net Losses, with the impacts of discontinued operations excluded on a consistent basis. Uber has lost $18.5 billion in the last four years.



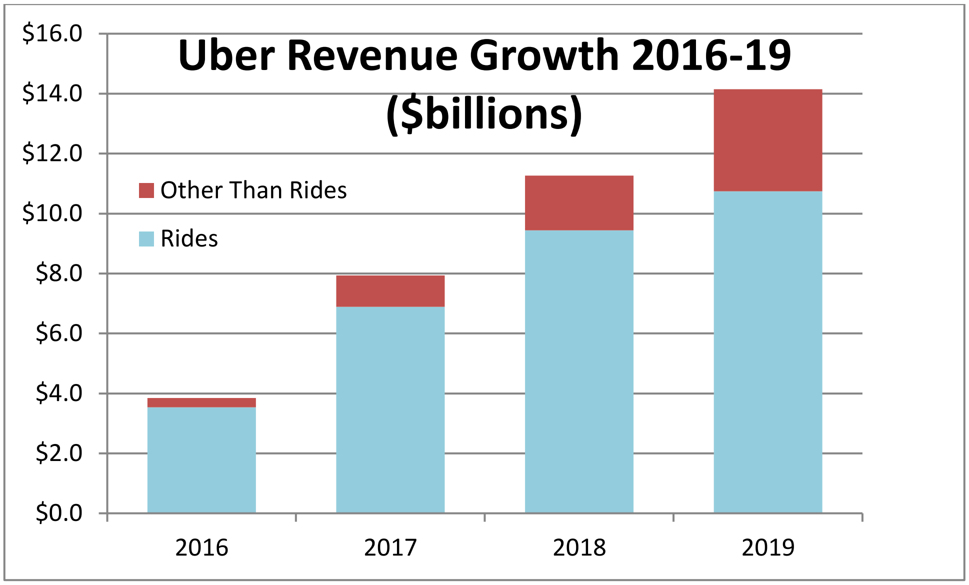
Uber’s May 2019 IPO converted longstanding promises that stock issued to employees would someday have significant value into reality. Following GAAP rules, Uber recognized $4 billion in stock-based employee expense this year, but this was obviously compensation for work employees had done over many years. The chart spreads the $4 billion in suddenly recognized compensation expense over four years, on the basis of each years’ total expenses excluding stock based compensation.



With this adjustment one can see that Uber’s profitability hadn’t worsened by $5 billion in 2019, but it did deteriorate by perhaps $1.5 billion. Its underlying 2019 profit margin was roughly negative 42%, instead of the negative 60% shown in the annual report. But Uber has clearly failed to improve the profitability of its business over the last four years. 4th Quarter 2019 GAAP losses were 23% worse than 4th Quarter 2018, a comparison that was not significantly affected by the stock-based employee compensation or other major accounting issues.

The year-over-year profit decline appears to have been driven by declines in the share of gross passenger payments retained by Uber (23% to 22%) and by declines in both gross passenger payments per trip (the sum of rides plus food orders, which fell from $9.54 to $9.41) and Uber retained revenue per trip (from $2.16 to $2.05).

The cash burned by Uber’s operations and investment activities also worsened, going from $2.2 billion in 2018 to $5.1 billion in 2019. Uber still has huge cash reserves, having raised $13.6 billion in the last two years, including $8 billion from the IPO.



Revenue growth in Uber's core "Rides" business continues to slow down. Year-over-year growth of 95% in 2017 declined to 37% in 2018 and 14% in 2019. Uber's "Other Than Rides" businesses continue to grow rapidly (up 76% in 2018 and 85% in 2019). This allows Uber to site somewhat stronger overall revenue growth rates (42% in 2018 and 26% in 2019), although growth is still slowing. And Uber acknowledges all its newer business have much lower profit potential than "Rides", so the relatively faster growth of these lower margin businesses is undoubtedly contributing to the deteriorating overall profit picture.

For many years this series has argued that the market is fundamentally unwilling to pay prices that would cover Uber's actual costs, that after ten years it has demonstrated that it cannot "grow into profitability" and that there is no evidence that Uber's business model is capable of achieving the massive, multi-billion dollar improvements that would be required to achieve sustainable profitability anytime soon. There is no data in Uber's 2019 Annual Report that would cast any doubt on these arguments.

As with its IPO prospectus, Uber's 2109 8-K makes no attempt to lay out evidence showing a possible path to profitability, and provides none of the data outside analysts would need to understand whether at least some parts of the business are improving. Uber does not publish data that would allow investors to understand the actual unit revenue and unit cost performance of each business, or different markets served by each business. There is no data on market share or customer retention, or whether inventive or promotional programs are profitably improving either. There is no data on driver economics or driver retention/turnover rates. There is no data on driver or vehicle revenue productivity trends. There is no yield data, or Uber's ability to achieve yield premiums based on time-of-day, customer loyalty, or any form of market segmentation. There is no data on synergies between Uber's businesses, or anything that would allow investors to evaluate the economics of the company's "Amazon of Transportation" strategy.

Uber's communications appear focused on people who do not understand what "Profit" or "EBITDA" mean

Since its GAAP profitability results are so awful, Uber's financial releases and Dara Khosrowshahi's public statements have come to almost exclusively emphasize EBITDA measures. The problem is that none of these honestly measure EBITDA, and Uber aggressively misrepresents EBITDA as "profit."

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is a non-GAAP intermediate contribution measure that has no obvious relevance to Uber, and even if accurately calculated should be ignored by investors. EBITDA is sometimes used by companies with very large fixed assets, large intangible assets (such as goodwill acquired after a major merger) or significant debt financing to give outsiders a crude sense of a company's ability to meet its outstanding financial obligations. Uber has none of these characteristics.

More importantly, Uber's reported "EBITDA" numbers exclude billions of expenses other than interest, taxes, depreciation and amortization. Its primary EBITDA measure excludes the $5 billion in stock-based employee compensation. Its "Segment Adjusted EBITDA" measure also excludes all of the IT expense supporting the Uber platform, and the corporate expenses (accounting, lobbying, etc.) directly supporting all of its current operations.

Uber calls these measures "EBITDA" in the hopes of misleading outsiders who would normally expect a small and fairly consistent gap between true EBITDA and GAAP profitability, and misleading people who might assume that overall "EBITDA and "Segment Adjusted EBITDA" would have been calculated the same way. If Uber was not trying to mislead outsiders it could have labeled them as "Earnings Minus a Bunch of Compensation, Indirect Operating and Non-Operating Expenses" or "Segment Revenue Minus Short-term Variable Costs" rather than using a well-established accounting term that means something materially different.

Uber's presents "Segment Adjusted EBITAR" measures as a means of measuring the profitability of Uber's different business units. Uber works aggressively to misrepresent it as a "profit" measure even though in 2019 it excluded $8.8 billion (40%) of the expenses relevant to an actual profit calculation. The press release announcing 2019 results claimed "Rides Adjusted EBITDA delivered a $742 million profit" instead of the more truthful "delivered a $742 million contribution against costs not directly related to specific trips".

This series has highlighted Uber's ability to get the financial press to endorse and amplify its false narrative claims. While Uber's SEC filings have the actual definitions of each measure buried in footnotes, Uber knows that that almost no one in the financial press will dig them out and make sure readers accurately understand Uber's claims.

One Wall Street Journal writer accepted Khosrowshahi's Segment EBITAR/profit conflation at face value, reporting "Uber last year made money on its rides when unrelated costs were excluded, he has said" [2].

Another Wall Street Journal reporter's article about Uber's third quarter earnings emphasized that Khosrowshahi "is more upbeat about 2021, expecting to turn a profit" did not mention the $1.9 billion quarterly loss until the fifth paragraph, and did not mention that "profit" did not actually meant "profit" until much later. It also repeated Uber's claim that "ride-hailing.is its only profitable business unit before interest, taxes, depreciation and amortization" without explaining that "ride-sharing EBITDA" also excluded significant employee compensation costs and all of the IT and other corporate costs needed to support ride-hailing. [3]

The Wall Street Journal reporter covering Thursday's earnings release was even more incompetent. Even though the officially reported annual loss had skyrocketed to $8.5 billion, her story was headlined "Uber Moves Closer to Profitability as Revenue Climbs" [4}

Khosrowshahi's promise of profitability by the end of 2020 should be considered in the light of all of Uber's earlier predictions of "profits just around the corner"

In the analysts' conference call on 2019 results, Dara Khosrowshahi promised that the 4th Quarter of 2020 would be Uber's first "EBITDA positive quarter." He claimed Rides would achieve 45% EBITDA margins and Eats would achieve 30% margins.

In 2015 Travis Kalanick predicted that Uber's North American operations would be profitable by 2017 [5] Several months after becoming CEO in 2017 Dara Khosrowshahi said that his goal was for Uber "to nearly break even in 2018 and be profitable by 2019" ahead of its planned public offering. [6]

Uber studies in 2018 used in discussions with prospective lenders delayed breakeven expectations by a year. "Under that same likely "base case" scenario, Uber management believed it could turn profitable by 2020, when it would make $1.5 billion in EBITDA. …Uber is banking on net revenue growth more than making up from the rise in expenses." [7]

Uber avoided making any statements about future P&L improvements in its SEC-scrutinized IPO prospectus, but made a variety of claims in its IPO roadshow, including that future growth "will generate a profit margin of 7% as a percentage of all gross bookings" [8}.

Following the dismal performance of the IPO the promised breakeven was pushed back another year (to 2021) and new "Segment Adjusted EBITDA" based claims emerged about the profitability of its core "rides" business. Khosrowshahi's conference call claim advances this deadline by one quarter.

Needless to say, Uber has not explained whether its "EBITDA positive quarter" will be based on honestly calculated EBITDA, or a calculation that excludes 40% of expenses. Needless to say, Uber has not documented how many billions in P&L improvements would be required. Needless to say they have not explained where these billions would come from, or why Uber hadn't achieved any of them in the last four years.

[1] "Can Uber Ever Deliver? Part Nineteen: Uber's IPO Prospectus Overstates Its 2018 Profit Improvement by $5 Billion" Naked Capitalism, April 15, 2019

[2] Brown, Eliot, "Uber Wants to Be the Uber of Everything—But Can It Make a Profit?" Wall Street Journal, May 4, 2019

[3] Somerville, Heather, "Uber Books Another Quarterly Loss as Revenue Climbs" Wall Street Journal Nov 4, 2019

[4} Rana, Preetika, "Uber Moves Closer to Profitability as Revenue Climbs" Wall Street Journal Feb 7, 2020

[5} Newcomer, Eric and Cao, Jing, "Uber Bonds Term Sheet Reveals $470 Million in Operating Losses" Bloomberg, June 29, 2015

[6] Efrati, Amir, "Uber Narrowed Loss in Q4: Full Financial Breakdown", The Information, February 13, 2018; Efrai, Amir, "Uber's Three Paths to Becoming Profitable" The Information, May 14, 2019

[7] Efrati, Amir, Uber's Confidential Documents Show Path to $90 Billion IPO, The Information, January 7, 2109

[8} Efrati, Amir, "Uber Makes Big Promises in IPO 'Road Show" The Information, May 3, 2019; also see Part 19 of this series

Hubert Horan: Can Uber Ever Deliver? Part Twenty-Three: Uber's Already Hopelessly Unprofitable Economics Take A Major Coronavirus Hit

Posted on August 10, 2020 by Yves Smith

By Hubert Horan, who has 40 years of experience in the management and regulation of transportation companies (primarily airlines). Horan has no financial links with any urban car service industry competitors, investors or regulators, or any firms that work on behalf of industry participants

Last Thursday, Uber announced a first half 2020 GAAP loss of $4.7 billion with a GAAP net margin of (-81%). Uber's "official" full year 2019 result was a GAAP loss of $8.5 billion with a (-60%) margin, but these were based on problematic accounting that make it impossible to properly evaluate Uber's financial performance over time. After necessary adjustments that were documented in Part 22 [1], the more meaningful full year 2019 result was a GAAP loss of $5.9 billion with a (-42%) margin. Uber has now lost $23.2 billion in the past four and a half years.

Uber burned $4 billion in cash in the first half of 2020. As of June 30th, it had $7.8 billion in unrestricted cash and short-term investments on hand. Uber's full year 2019 cash burn was $5.1 billion.

For readers who have followed this series' depiction of Uber's awful economics and financial results over the past four years, these headlines may seem no more surprising than "Francisco Franco is still dead." [2] Nothing has happened to change the fact that after ten years the market has always been fundamentally unwilling to pay prices that would cover Uber's actual costs, that it was always less efficient than the traditional taxis it drove out of business, that its only "efficiency improvement" was to push driver compensation to minimum wage levels, and that its growth depended entirely on unsustainable predatory subsidies.

But if anyone still thought that Uber could somehow magically reverse its multi-billion dollar losses, the coronavirus should have put their fantasies totally to rest. The coronavirus has crushed the major drivers of urban car services demand, including business travel and discretionary urban entertainment (clubs, restaurants, etc.). Their customers remain highly concerned about the health risks of all forms of public transportation.

While many industries have been devastated by the coronavirus it is critical to distinguish between those that clearly had a strongly profitable business model prior to the pandemic (United Airlines, Disneyland, Major League Baseball) and a company like Uber that had been incapable of generating positive cash flow under ideal economic conditions. There needs to be discussion about how to best restructure airlines, tourist and entertainment industries because they have contributed to overall economic welfare in the past, and clearly can in the future. Uber has only served to reduce overall economic welfare, and society has nothing to gain from efforts to "save" Uber.

2nd quarter Uber revenue in its core "rides/mobility" business fell 74% ($3,056m to $790m) from the 4th quarter of 2019, the last quarter with no coronavirus impacts. Echoing issues discussed in part three of my airline series [3] there is no prospect of any type of robust "V-shaped" urban car service revenue recovery and demand may remain seriously depressed for years.

2nd quarter Uber revenue in its “Eats/delivery” business doubled but the economics of these services were always substantially worse than Uber’s hopeless car service business. Uber only reports segment financial performance on an “adjusted EBITDA” basis that (in the 2nd quarter) excluded 38% of actual Uber expense from its “profitability” calculation. But 2nd quarter “Eats/delivery” had an “adjusted EBITDA” 25 margin points worse than car services, even after the big coronavirus driven boost in food delivery demand. And since Eats’ year-over year “adjusted EBITDA” improved by only $54 million (from negative $286 million to negative $232 million) even though revenue doubled, this business is clearly not “growing into profitability.”

Food delivery is hypercompetitive (DoorDash, GrubHub, JustEat, Deliveroo), neither customers nor restaurants can afford the true cost of the service, and none of these companies have ever been sustainably profitable. Uber has never presented a plausible argument it will suddenly become the first company to realize returns from investments in this business.

Coverage of these results in the business and tech industry press was a bit less fawning than the coverage Uber received a few years ago. The fact that Uber has always been unprofitable and is still facing major legal challenges to its labor practices is now at least mentioned in all stories. But none of the dozen or so stories published on Friday [4] even raised the issues of whether (or how) Uber revenue might suddenly recover, or how Uber could quickly achieve cash breakeven. The question of whether the coronavirus shock had significantly increased the risks to Uber’s viability and survival was totally ignored.

Most stories emphasized top-line volume numbers instead of GAAP profits or cash flow. None made any mention of the impact of the revenue collapse on Uber’s drivers, who comprise roughly 80% of Uber’s business model but are not included in its financial reports.

A couple stories noted that the ridesharing collapse had been ugly, but most tried to obscure this issue by emphasizing the “pivot to delivery” as a “bright spot” and highlighting Dara Khosrowshahi’s claims that with Eats, the company “had built a second Uber in under three years” and “ha[s] secured the path forward.” None addressed the question of whether Uber could ever earn sustainable profits from food delivery. [5] None of the stories mentioned that recent Uber narrative claims such as the profit potential of driverless cars, or that it would soon become the “Amazon of Transportation” were totally absent from its presentation about 2nd quarter earnings.

Several reporters cited Khosrowshahi’s new claim that Uber would achieve “EBITDA profitability” by the end of 2021. None of these reporters appeared to understand that this measure was neither “profitability” or “EBITDA” [6]. None made any effort to document how Khosrowshahi hoped to achieve these multi-billion dollar improvements, or mentioned Uber’s failure to achieve any of its past profitability promises or to otherwise evaluate the credibility of its newest promise. A couple articles noted a previous Uber’s promise to remove $1 billion in “fixed costs,” but failed to note that Uber has never publicly explained where these cost cuts would come from, or that nothing in its 2nd quarter financial release provided any evidence of progress against that target. None considered how long it might take to exhaust Uber’s remaining cash given highly depressed demand, or whether a company reporting these results would be able to attract new financing.

[1] In order to boost reported profitability prior to its IPO, Uber improperly reported its internal estimate of non-marketable securities it received in exchange for shutting down failed overseas operations as profits from ongoing, continuing operations. After its IPO it recorded the full value of employee stock

based compensation in its 2nd quarter 2019. While this was in accordance with GAAP, this was compensating employees for work performed over multiple years. These adjustments and Uber's historical P&L data are shown in Can Uber Ever Deliver? Part Twenty-Two: Profits and Cash Flow Keep Deteriorating as Uber's GAAP Losses Hit $8.5 Billion, Naked Capitalism February 7, 2020.

[2] https://gfycat.com/flattautcoral

[3] Hubert Horan: The Airline Industry Collapse Part 3 – Recovery Expectations Were Always Dreadfully Wrong, Naked Capitalism, August 4, 2020. One should also note that the exact magnitude of the coronavirus demand shock will vary between companies depending on their cost structure. This will be larger for companies (including United Airlines, Disneyland, Major League Baseball) who have a large base of semi-fixed costs that cannot be quickly reduced when revenue unexpectedly collapses. Uber's business model also allowed it to shift most of the coronavirus financial pain to its drivers, who immediately lost almost all their income.

[4] Examples (all published August 6th) include Danielle Abril, Everything to know about Uber's second-quarter earnings, Fortune, Preetika Rana, Uber Ridership Fails to Recover as Pandemic Drives Another Big Loss, Wall Street Journal, Sara Ashley O'Brien, Uber's delivery service is now bigger than its rides business, CNN, Amir Efrati, At Uber, Food Delivery Surpasses Rides, The Information, Kirsten Korosec, Alex Wilhelm, Uber's delivery business is now larger than ride-hailing, Techcrunch, Aarian Marshall, Uber's Now a Food Delivery Company—and It's Still Losing Money, Wired, Lizette Chapman, Uber's Quarterly Sales Tumble, Ending a Decade of Growth, Bloomberg Lora Kolodny, Uber ride-sharing revenue plummets, food delivery more than doubles, CNBC, Kate Conger, Uber's Revenue Craters, as Deliveries Surge in Pandemic, New York Times.

[5] None of the news coverage of Uber's earnings release mentioned any of the economic problems with the food delivery but I found one commentator that did. Jamie Powell, Food delivery: if not now, then when? Financial Times Alphaville, August 7, 2020

[6] Uber's "EBITDA" measure excludes significant costs other than interest, taxes, depreciation and amortization. See Uber Part 22. Prior to the pandemic Khosrowshahi had promised that Uber would achieve "EBITDA profitability" by the end of this year, and (as with the revised claim) none of the stories reporting that promise explained what his plan for achieving that consisted of, or whether those promises were credible.