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Uber Technologies, Inc. (UBER)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by and welcome to the Uber Q2 2021 Earnings Conference Call. [Operator Instructions] I would now like to hand the conference over to your speaker today, Balaji Krishnamurthy, Head of Investor Relations. Please go ahead.

Balaji Krishnamurthy

Head of Investor Relations, Uber Technologies, Inc.

Thank you, operator. Thank you for joining us today, and welcome to Uber Technologies' Second Quarter 2021 Earnings Presentation. On the call today, we have Uber CEO, Dara Khosrowshahi; and CFO, Nelson Chai. During today's call, we will use both GAAP and non-GAAP financial measures. And, additional disclosures regarding these non-GAAP measures, including a reconciliation of GAAP to non-GAAP measures, are included in the press release, supplemental slides in our filings with the SEC, each of which is posted at investor.uber.com. As a reminder, these numbers are unaudited and may be subject to change.

Certain statements in this presentation and on this call are forward-looking statements. Such statements can be identified by terms such as believe, expect, intend and may. You should not place undue reliance on forward-looking statements. Actual results may differ materially from these forward-looking statements, and we do not undertake any obligation to update any forward-looking statements we make today, except as required by law.

For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued today as well as risks and uncertainties described in our most recent annual report on Form 10-K for the year ended December 31, 2020 and in other filings made with the SEC when available.

Following prepared remarks today, we will publish the prepared remarks on our Investor Relations website, and we will open up the call to questions. For the remainder of the discussion, all second quarter growth rates reflect year-over-year growth and are on a constant currency basis unless otherwise noted. For July trends, we will be providing comparisons with July 2019 in addition to year-over-year trends. Lastly, we ask you to review our earnings press release for detailed Q2 financial review and our Q2 supplemental slide deck for a number of additional disclosures that provide context on recent business performance.

With that, let me hand it over to Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Thanks, Balaji. On our last call with you, we said that we would lean in to reignite driver and courier growth. We've done so aggressively, and we made significant progress, matching and balancing supply and demand market-by-market at the right times at the right places and at the right price is the key to our marketplace, and we do that better than anyone else in the world.

As a result of our driver-focused investments, everything from refreshed digital marketing to more attractive incentives to good old-fashioned phone calls to folks we haven't seen in a while, monthly active drivers and couriers in the US organically increased by 420,000 from February to July, and we gained an additional 110,000 active couriers from our Postmates migration. In particular, the number of Mobility drivers in the US ended the

quarter up 75% year-on-year in June. We also made several operational and product improvements to the onboarding process that led to nearly a quarter of new drivers signing up to both drive and deliver, and we cut courier onboarding time by over 90%.

We continue to see strong earner momentum early in the second half of the year, and we've been able to taper our short-term incentives as we hit our stride. The good news is that drivers increasingly want to get back on the road. In June, 60% of inactive drivers told us they intended to start driving again within a month. That's up from 40% in April, and 90% of drivers told us they expect to come back by September.

We're also beginning to see marketplace metrics revert to normalcy in several markets, with surge levels and wait times back to nearly normal in Miami, Atlanta, Dallas, Houston and Phoenix. But in major cities like New York, San Francisco and L.A., demand continues to outpace supply and prices and wait times remain above our comfort levels.

Our investment in the earner experience is a fundamental cross disciplinary and long-term initiative for our company; from doubling down on our app quality, to targeted and personalized reengagement campaigns, to completely redesigning our onboarding flow to make it easier and faster than ever to earn safely, to rolling out unique programs like free language learning from Rosetta Stone or free tuition with ASU. Our earner super app is unique in the depth and breadth of earnings opportunities we can offer drivers and couriers globally.

We have a lot of work to do, and it's on us to ensure Uber remains the most attractive and rewarding platform for on-demand work in the world. I also want to acknowledge the Delta variant. Thanks to the incredible effectiveness of the vaccines, we continue to see GB growth in our business from June to July, despite the impact of the new variants.

Where markets are recovering, our Mobility and Delivery businesses are emerging stronger together. As of last week, our total gross bookings in New York City, London and Paris, are over 30% higher than July 2019 as Mobility has made a nearly full recovery. Nelson will have more specifics, but we have confidence in our ability to manage through any scenario, just as we've done over the past 500-plus days.

Our ambition is to help people go anywhere and get anything. Whether they first came to Uber via Rides, Eats or Freight, consumers, merchants companies alike are increasingly getting used to doing more with Uber. During the pandemic, we've shown how each of our multiple business lines can provide a hedge against the others. But more exciting is how innovation in our product and brand is driving cross-pollination between our customer bases. In other words, our businesses do provide a hedge, but more importantly, strengthen one business can strengthen the others.

You're well aware by now that the Rides App is acting like a free marketing engine for our Delivery business. What may be less obvious is that Delivery is now increasingly driving consumer acquisition for Mobility. That's because in many markets, especially suburbs and smaller towns, Eats is sometimes the first way consumers engage with Uber. We've launched proactive efforts to convert these Eats first customers into Uber riders. And in Q2, over 20% of Mobility's first time riders in the US and more than 40% of first-time riders in the UK were existing Delivery consumers, with its contribution rapidly growing over the last year.

Over time, we expect our growing New Verticals business to increasingly benefit from and contribute to our platform. Already over 3 million consumers are ordering groceries, convenience items, alcohol and more on Uber's app each month, and this is before we've even fully addressed the US opportunity. Notably, consumers acquired through one of our New Verticals offerings spend more than twice as much as consumers acquired

through our restaurant delivery offering. We're beginning to broadly roll out Grocery powered by Cornershop in the US having doubled our footprint to more than 400 cities in the last few weeks and expect this to be the next pillar of growth for Uber.

Underpinning all of this is our membership program. Just a year ago, we began to roll out Uber Pass in earnest and now drives 30% of delivery GBs in the US and roughly 25% globally. Consumers who regularly engage with both Mobility and Delivery now account for nearly half of our total company gross bookings. For these consumers, in particular, a pass is a no-brainer, and we see a long runway for increased adoption.

We're also seeing the benefits of cross-platform synergies for merchants and other businesses. Uber remains the largest global on-demand delivery platform outside of China, with more than 750,000 monthly active merchants on our platform. And our leadership position continues to grow. We're now the category leader in 8 of our top 10 delivery markets with clear number 2 positions in the US and the UK. We're proud that Uber Eats, Postmates and Cornershops has helped many small businesses offset the loss of in-store traffic during the lockdowns. But as cities reopen, these merchants are discovering that delivery demand is additive even as in-store traffic comes back.

Merchants have increasingly embraced their ads offerings to drive significant demand amplification at a reasonable cost. Our original goal was to exit this year with \$100 million of ads run rate revenue, but we now expect to surpass that goal and to end 2022 with at least \$300 million in run rate revenue in high-margin ads.

Beyond last-mile delivery, Uber is increasingly powering first and middle mile logistics with Uber Freight. Notably, roughly 50% of our Freight volumes come from grocery and consumer staples shippers. Freight has successfully disrupted the freight brokerage market with our innovative technology and is now one of the largest digital freight brokers globally, excluding China. We believe there's a large opportunity to be the preferred end-to-end logistics partner for shippers. 80% of shipper decision-makers manage both full truckloads, as well as last mile shipping and almost 60% of survey customers have last mile needs.

With the pending acquisition of Transplace, we have the potential to create the first end-to-end digital logistics platform that could one day power the movement of goods all the way from point of production to the consumer. While none of us can predict the macro future or the effect of the Delta variant going forward, we continue to see Uber gaining momentum as we expand our services and footprint and become a bigger part of the daily local habits of millions of consumers, earners, merchants and shippers all over the world.

We see the path to sustainable and improving EBITDA profitability in the next 6 months, but it's our growth potential over the next 5 to 10 years that has me and the team excited and hungry to Uber on.

Now over to Nelson.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Thanks, Dara. As Dara mentioned, we are, of course, still seeing impacts from the virus. However, on balance, we continue to make good progress with total gross bookings growing from June to July. Mobility gross bookings were at a \$39 billion run rate in July with gross bookings up 6% month-over-month and 83% recovered versus July 2019.

US and Canada Mobility gross bookings were up 7% month-over-month and 76% recovered versus July 2019, while trips were up 9% month-over-month. EMEA and LATAM were nearly fully recovered on a gross bookings

basis versus July 2019, while APAC was a mixed bag with New Zealand, Hong Kong and Japan growing versus July 2019, but India, Australia and Taiwan impacted by ongoing or new lockdowns.

Delivery gross bookings were at a \$51 billion run rate in July, with gross bookings up 4% month-over-month, up 56% year-over-year and up over 260% versus July of 2019. Delivery has remained relatively steady since March, even as cities reopened. We are witnessing very healthy trendlines in major markets like Sydney, New York and London, with Paris as an outlier where we have seen some modest pullback.

Next, a word on M&A. Our business has a huge amount of organic momentum and we will always aim to have the vast majority of our growth be organic. Indeed, our Delivery business has organically grown at a greater than 100% compound growth rate over the past 4 years.

At the same time, we do not hesitate to leverage M&A where appropriate, including both acquisitions and divestitures. Just as we divested several assets last year that, along with cost rationalization, helped improve our cost base by over \$1 billion. We have also made several attractive acquisitions. For instance, our acquisition of Careem has led the markets in the Middle East turning into some of our most profitable markets, operating well above our Mobility long-term margin targets.

More recently, our acquisition of Postmates has helped us establish a number one position in L.A., the second largest delivery market in the US, while allowing us to execute organically to establish category leadership in New York City at the same time. We have now largely completed the integration process and expect to deliver on our synergy targets that we laid out at the time of the acquisition.

Turning to our balance sheet. The past several months have been eventful for Uber's equity investment portfolio, as several of our portfolio companies took steps to become publicly traded entities, including Didi, Zomato, Grab, Aurora and Joby. At the end of Q2, our equity stakes portfolio was carried at nearly \$15 billion or over \$7 per Uber share.

As we have previously noted, some of these stakes are more strategic and others are more financial, with Didi being the clearest example of the latter for us. As we emerge from our post-IPO lockup restrictions, we will evaluate some of these positions as long as the market is reflecting a reasonable value for them. And as we have said previously, we don't intend to run an investment firm, but we have sufficient liquidity to ensure that we have the flexibility to maintain those positions with the aim of maximizing value for Uber and our shareholders.

Finally, turning to outlook. We were very clear in the spring that our Mobility marketplace in the US was not delivering the magical experience we have all taken for granted, as consumer demand returns faster than drivers as markets opened up. We emphasize that it was not okay and we would proactively invest to reenergize supply. As expected, these efforts impacted our margins and adjusted EBITDA in Q2. At the same time, we told investors that we have the levers available to achieve total company quarterly adjusted EBITDA profitability later this year. We remain committed to it.

The good news is driver supply has been growing, and our marketplace dynamics are improving. Drivers on our platform are earning more than other alternatives. Our gross bookings continue to grow, and in July, our margins are already improving, benefiting from our investment in Q2 to accelerate the flywheel. In July, new driver additions on Uber in the US grew 30% month-over-month. That's right, 30% month-over-month even as we pulled back on incentives and improved our margins. As our investments taper, we expect Mobility to show strong leverage in the back half.

For context, in major markets like Australia, Canada, France and UAE, where supply has organically recovering without significant investment from Uber, our Mobility EBITDA margin in Q2 exceeded long-range targets, ranging from 46% to 67% of revenue. In the US, our take rate in Miami, Atlanta, Dallas, Houston and Phoenix has nearly reverted to pre-COVID levels in July. We expect our Delivery business to continue to improve its bottom line while growing at scale.

Our Delivery businesses outside the US and Canada was just shy of breakeven in Q2, while we are consciously leaned into the US to improve our category position. We expect to start [ph] left (15:35) delivering on our Postmates synergy targets in Q3 and deliver additional leverage through improving network efficiencies and lower incentive spend across our global footprint. We expect Freight to continue to grow and manage its investment levels for the balance of the year, and we will continue to manage our corporate overhead.

Pre-COVID, we used to provide guidance around our expected annual gross bookings and adjusted EBITDA, which we believe provides investors with some transparency on our near-term goal without being overly focused on quarterly fluctuations. With our business emerging from the pandemic, we believe this quarter is the right time to return to providing guidance, around near-term trends. However, there is still a reasonable amount of uncertainty in the world, and as a result, we will provide guidance for Q3 on this call. With that context, for Q3, we expect total company gross bookings to be between \$22 billion and \$24 billion and total company adjusted EBITDA to be better than the loss of \$100 million. And for Q4, we expect to achieve total company EBITDA profitability.

And with that, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from Ross Sandler from Barclays. Your line is open.

Ross Sandler

Analyst, Barclays Capital, Inc.

Q

Hey guys. Thanks for all the color on the guidance. Just a question on 3Q for the Rides business. Looks like your EBITDA is going to swing up about \$300 million to \$350 million to about \$500 million or so. So how should we think about the take rates in Rides in 3Q system-wide? You mentioned a few cities that are back into the pre-COVID levels, but how do we think about overall take rate? And then what level of driver incentives are baked into that EBITDA run rate? Thanks a lot.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

So Ross, as you heard in my prepared comments, we did give some update about what we're seeing in July. And you heard us talk, mention not only growth, but that margins are improving. So, if margins and take rates stay where they were just in July, so we just hold on, and then we've continued to grow our volume, as we expect, we'll be comfortably within the ranges that we're talking about there. So we're already seeing that pullback.

And I think you heard my stat that we increased new drivers on Uber platform in the US by 30% between July versus June. And that's as we pulled back on incentives, because again, when we did this, we knew we wanted to build long-term sustainable profitability and growth.

As you saw coming out of the pandemic, our marketplace wasn't operating efficiently or functioning correctly and you heard it in my comments, so we invested on the supply side to get our marketplace healthy again, and we're seeing the benefits of that today. So, we are able to pull back on incentives. If you just look at where we are in July and you run that forward, we should be able to achieve that kind of range that you're talking about, which is why you saw when we put out the guidance on Q3 on the bottom line. And also in the investor deck, there's a chart on that, which hopefully provides some simple ranges to help guide in terms of where we're getting to.

Balaji Krishnamurthy

Head of Investor Relations, Uber Technologies, Inc.

All right, next question.

Operator: Your next question is from Justin Post from Bank of America. Your line is open.

Justin Post

Analyst, BofA Securities, Inc.

Great. Thanks. I think there might be a little confusion on the investment levels at Uber versus frankly Lyft in the US. Can you explain why it might be a little bit different dynamics in the second quarter and why you may have a bigger profitability divot? And then maybe if you can, give us an organic update on Delivery, maybe ex Postmates or some of the acquisitions, just how you did organically in the quarter? Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yes, sure. Listen, we can't speak for Lyft. But I think on balance, we were super aggressive as it relates to driver acquisition levels. And when we compare the number of new drivers coming on to the platform quarter-on-quarter, month-on-month, the monthly active drivers directly against, at least the numbers that we heard from Lyft, our numbers are higher on a direct comparable basis.

So I think that, if you compare our numbers to Lyft, again, we're not privy to their numbers, we invested early and aggressively, and we're seeing very positive momentum as a result of that early investment, and we've been able to pull back as it relates to incentives. And revenue margins in July have come up significantly over Q2 and the momentum that we see in driver and career growth is continuing, if not strengthening. So that gives us a lot of confidence as it relates to Q4, Q3 in terms of revenue margins, take rate and in terms of EBITDA. And we think the Q2 investment that we made was the right investment. And it puts us in very, very good stead as it relates to Q3 and Q4.

As far as Eats goes, the vast majority of Eats' growth is organic. So broadly we are seeing monthly active eaters on a global basis, up about 40% on a year-on-year basis. We are seeing basket sizes up about 10% on a yearly basis. We're seeing frequency of orders up as well. So the organic growth rates for Uber Eats is well over 50%, and most of that is really about continuing to build up audience on a year-on-year basis.

We're obviously happy with the Postmates acquisition in terms of being able to drive synergy value and getting to a number one position in L.A. We're number one in New York as well. But it's really about the organic growth, and it's about active eaters, it's about basket size and it's about orders per eater, and all of those are running positive for Q2, and we think they'll continue to run positive for Q3 and Q4.

Justin Post

Analyst, BofA Securities, Inc.

Okay. Thanks, Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You're welcome. Next question.

A

Operator: Your next question is from Brian Nowak from Morgan Stanley. Your line is open.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Great. Thanks for taking my questions. I have two. The first one is on sort of the, Dara, the point around the investment in the drivers. I feel like we pay so much attention to these excess incentives, but when you're talking about marketing and onboard costs and background checks and vaccination, promotion and education. Can you just help us better understand a little bit, how big was the investment to bring on more drivers in the quarter? And how do we think about that throughout the course of the year? Just so we can sort of think about 2022, and hopefully, those costs are not as big of a burden.

Q

And then secondly, on Uber Pass, appreciate the color on the volumes. Talk to us a little bit more about areas you think you've had some success in driving adoption of Uber Pass, and in your mind, still low-hanging fruit areas to drive more adoption of that for riders as the Rides recovery continues? Thanks.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yes. So in terms of driver acquisition spend, the heaviest driver acquisition spend and incentive spend that we think we will see and we saw was in Q2. We really had to take action very quickly because the marketplace was not at a place that we considered healthy and we wanted to lean in to get wait times down, to get surge levels down. And all of those metrics in general as far as surge and wait times are moving in the right direction. And in a bunch of cities, southern cities, etcetera, they're actually back to normal.

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And the vast majority of the spend, as it relates to driver acquisition, is really incentives. It's about putting dollars in front of drivers, in our top 20 cities, drivers for Mobility are making over \$40 an active hour, including just earnings and tips as well. So, the good news is we're now in a good place where we're able to pull those investments back. If you look at July, volume growth will add about \$200 million in EBITDA. Take rate improvements will add about \$150 million in EBITDA, which gives us a lot of confidence as it relates to our Q3 numbers.

And we're running positive, and these numbers aren't theoretical, they're based on actual July numbers. So I think from that standpoint, the investments were big, but the investments were well worth it, and we're on the positive side of the ledger, so to speak.

As far as Uber Pass goes, the most important factor for Uber Pass for us is, what is the retention rate. And what we're seeing is after some optimization, building up the product, etcetera, the retention rate for our cohorts that are with us more than 6 months we have found 98% retention rate on a month-on-month basis. So now that we have really perfected the product, driven the savings, etcetera, we can now lean in to member growth. The vast majority of member growth is going to be organic. It's putting the product in front of both our riders and drivers. We think the Mobility business coming back is going to be a big benefit.

And you've heard us talk about how users who use both Mobility and Delivery account for more than 50% of our gross bookings on a global basis. So now that we have the retention we can step on the gas in terms of acquisition, but we're really going to take advantage of that 100 million monthly active platform customers and put what's a great product in front of them and we think that we'll get a significant amount of organic traction there.

Brian Nowak*Analyst, Morgan Stanley & Co. LLC*

Great. Thanks Dara.

Q

Dara Khosrowshahi*Chief Executive Officer & Director, Uber Technologies, Inc.*

Sure.

A

Balaji Krishnamurthy*Head of Investor Relations, Uber Technologies, Inc.*

Next question please.

A

Operator: Your next question is from Mark Mahaney from ISI. Your line is open.

Mark Mahaney*Analyst, Evercore ISI*

A question on the drivers. You mentioned those two numbers about the drivers up 75% year-over-year in June and up a couple hundred thousand from February to July. Of those drivers, can you tell how many of those are absolutely new drivers to the platform versus lapsed drivers or people who didn't drive during the COVID crisis and have come back?

Q

Dara Khosrowshahi*Chief Executive Officer & Director, Uber Technologies, Inc.*

Yes, Mark, we can. And the majority of drivers who are coming back to the platform are what we call resurrected drivers. They've driven with us in the past, the number one reason why they had not driven is because of safety concerns, vaccines, COVID, etcetera. As vaccination rates go up, we are seeing the resurrected drivers come back. So because of the size and scale of the business, we can reach into our database, and we're getting real momentum in terms of those resurrections coming back. So, I think all the signs are quite positive.

A

Mark Mahaney*Analyst, Evercore ISI*

And one quick follow-up question, please. Any comments, updated comments on the regulatory outlook and particularly on the State of Massachusetts?

Q

Dara Khosrowshahi*Chief Executive Officer & Director, Uber Technologies, Inc.*

Yes. I think in the state of Massachusetts, listen, the, we think the right answer is our IC+ model, all right, which is independent contractor with benefits. Our drivers love it. Prop 22 has proven to be incredibly popular with California drivers. The vast majority of drivers prefer IC+ over employment, full-time employment. And with Massachusetts, we are, I think that voters in California voted for it because they had driver support. I see no reason why voters in Massachusetts are going to be any different. We absolutely prefer a legislative outcome in

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Massachusetts. But if we can't get there, we'll take it to the vote. And based on what happened in California, we're quite confident.

Mark Mahaney

Analyst, Evercore ISI

Okay. Thank you.

Balaji Krishnamurthy

Head of Investor Relations, Uber Technologies, Inc.

Sure. Next question.

Operator: Your next question is from Doug Anmuth from JPMorgan. Your line is open.

Douglas Anmuth

Analyst, JPMorgan Securities LLC

Thanks for taking questions. I just wanted to clarify on driver supply, I think, a few months ago, kind of your expectation was that things would kind of return to normal in the third quarter, by the end of the third quarter. Is that kind of still what you're expecting here given your trajectory and the tapering that you've mentioned? And then second on profitability, is that overall and Delivery profit in the fourth quarter? Just wanted to clarify there? Thanks.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

On the fourth quarter, it's total company EBITDA profitability. And then EBITDA – in the third quarter guidance was total company as well. So that includes all aspects of the business. But if you – on my prepared comments, I just talked to the fact that we'll continue to make progress and improvement on Delivery. And we'll – and again, we expect our EBITDA profitability of our Mobility business to continue to improve. And again, we're pretty confident in terms of how we're doing it, which is why we put out the guidance for Q3.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Doug, I think if you look in the supplemental slides, you'll also see that our Delivery business outside of the US is an inch away from EBITDA profitability. So again, this isn't a theory where we're executing on it quite effectively. And we're confident in our stance, overall profitability.

And then lastly, you did mention something about driver supply returning. So what I would say is that, you heard us both make comments in the prepared remarks that, again, we invested heavily in Q2. We're seeing the benefits even in July, which we talked about. The margins are improving. We're adding more drivers, and we've pulled back on incentives. And what I would suggest is that our ability to achieve those numbers is really just based on take rates where they are in July playing forward for the rest of the quarter.

And I do think on drivers supply, the other thing that I would add is, it's not just a question of money. Listen, short term, we have to lean in as it relates to incentives and driver earnings are definitely high. And obviously, driving is a very flexible way to earn. But I would also underlie the operational and the tech improvements that we have made. So for example, now, we're testing the capability to bring on drivers. Usually when someone wants to drive

a person, we have to do background checks, etcetera, and not just in the state that you live, in other states as well. We can onboard drivers very quickly to deliver food.

And as we process all of the regulatory checks that we have to be very careful that we do on the ground in each state, we can then move them over to driving for the Mobility business as well. And that has allowed the onboarding flows, the CRM campaigns that we are driving. The incentive technology has allowed us to move from a period of heavy spend and adding drivers to much less heavy spend, so to speak, and adding both couriers and drivers at the fastest pace that we have for the year. I mean, July looks really good. And if August and September are anything like July, we will be in very, very good shape.

Douglas Anmuth

Analyst, JPMorgan Securities LLC

Great, that's helpful. Thank you.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Sure.

A

Balaji Krishnamurthy

Head of Investor Relations, Uber Technologies, Inc.

Next question.

A

Operator: Your next question is from Brent Thill from Jefferies. Your line is open.

Brent Thill

Analyst, Jefferies LLC

Thank you. Any color just as it relates to pricing trends for the second half and how we should think about that? And Dara, on the Eats business, if you could just comment on the frequency. I know you had mentioned on the last call that there's perhaps a slowdown in terms of frequency. How are you thinking about that now as you look forward?

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yes. I'll start with the second first, which is we actually have not seen a material decrease in frequency as it relates to our Delivery business. And we think it's just because a higher portion of our delivery customers are using the Pass. So we always thought that could be an offset, but we weren't sure of the relative offset between Pass because as nonmembers become Pass members and they have free trials, and especially if they – when they graduate into paid membership and the next 6 month cohort that has that 98% retention, the number of orders per eater and riders and rides per rider goes up materially.

A

So the question for us was, well, is the positive momentum of membership going to outdo, let's say, the negative of cities open up. And so far, that is the case. So that orders per eater has stayed very consistent. And people are going out, which is great. But we do think that orders per eater, there will be a tailwind in terms of orders per eater as we continue to drive membership.

As far as pricing trends in the second half, we are seeing in July and early August, we are seeing pricing ease. It's still up year-on-year, but the pace of the price increases looks like it's easing as we get into a more normalized supply situation, which we think is a great, is a real positive for the marketplace.

Brent Thill

Analyst, Jefferies LLC

Great. Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You're welcome.

Operator: Your next question is from Deepak Mathivanan from Wolfe Research. Your line is open.

Deepak Mathivanan

Analyst, Wolfe Research LLC

Hey, guys. Thanks for taking the questions. Just a couple ones. So first on Eats EBITDA, given the high incremental margins on this business, below the revenue margins, how much are you reinvesting into the business right now on nonfood and some of these other categories? And what are the trends, underlying trends in terms of profitability of the core food business?

And then second question, just a follow-up on the Rides' take rate. In addition to US growing, you also saw European markets recover during second quarter where the impact of driver incentives is somewhat low. So, is the 280 basis point sequential decline in take rate predominantly from US, can you give some color on kind of quantifying it by geographical regions?

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yes. As far as Delivery goes, we are spending a fair amount as it relates to Grocery and New Verticals, etcetera. Grocery and New Verticals account for about 5% to 6% of our overall GBs, and it's growing at pretty healthy rates. But we think that we can get to Delivery EBITDA profitability by the end of the year, including Grocery as well. So yes, we're leading into those parts of the business. But really, the Delivery story for us is, as a larger percentage of our delivery customers are repeat customers. Our, the incentives that we have to put into the marketplace, the marketing spend that we have to spend into the marketplace comes down. Generally, in the US and other markets as the marketplace becomes more efficient and we get kind of more frequency in the marketplace, we're able to drive the cost per trip down because couriers can batch – we can batch two or three deliveries per courier.

The time that they have to be on the trip reduces as we add more restaurants into the marketplace, etcetera. So the combination of marketing efficiencies that we get and cost per trip efficiencies that we get allow us to continue to invest aggressively in growing our Delivery business, but at the same time, improving our margins as well and investing into the Grocery business.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Regarding your question on the take rates, you're right. In APAC and Latin America, we're not expecting any take rate changes, if you will. So much of the investment was in the US and Canada, and there was actually some in Europe as well in order to get drivers back and help build supply.

Deepak Mathivanan

Analyst, Wolfe Research LLC

Got it. Thank you so much.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Sure.

Operator: Your next question is from John Blackledge from Cowen. Your line is open.

John Blackledge

Analyst, Cowen & Co. LLC

Great. Thanks. Two questions. First, on the Delta variant. Could you talk about Mobility trends in the recent weeks in areas where Delta variant has spiked? And also Delivery trends along the same lines. And then on Delivery, my second question, how is Uber differentiating versus other competitors in grocery and other, across different geos? And what's kind of the goal in the US, given that the US has several scale players in that market? Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yes. I think as it relates to Delta variant trends, where we have seen shutdowns, we see significant changes as it relates to the pattern of the business. So for example, if you look at our supplemental deck, Australia and Sydney, for example, where city shuts down, we see Mobility, obviously, take a hit, but we see essentially the opposite happen in the Delivery side of the business, that's a hedge that we talk about. And even net of the head Mobility and Delivery tend to be up pretty significantly on a year-on-year basis, certainly if we compare to 2019 volumes as well.

Where we don't see – where there aren't shutdowns, it's really hard to tell, it's, people still want to go out and there may be slight changes in behavior but they're not material changes in behavior and kind of the underlying growth that we see in the business takes over. So certainly, the July trends that we saw relative to June were pretty encouraging. But no one can predict what's going to happen with Delta going forward. But so far, we're hedged and the trends that we're seeing are pretty good.

As it relates to differentiating in Delivery, listen, I think the differentiator that we have is the audience and the Uber platform, right? So, we actually were late in the delivery game. We were one of the latest players to build up a delivery business. We built it based on the Uber brand. The marketplace matching technology that we have, the pricing technology, routing, etcetera, three quarters of essentially the elements of what is a Ride and what's a Delivery and, ultimately, what's going to be a Grocery, three quarters of the elements that we're building in our stack are common elements that our engineers are coding.

So we essentially get to have engineers working on common elements. We got bigger data sets than anyone else. We're able to train our algorithms over much larger data points – global data points versus our competitors which allow us to build a matching, routing, incentives marketing engine that is more personalized and just has greater capabilities than anyone else.

At the same time, we have op teams on the ground in every single market. We understand the regulatory marketplace, the overheads that we have are much lighter than our competitors. It all translates into cost of customer acquisition is lower, lifetime value is higher because of the higher frequency counts that we have with our customers and overheads are lower.

So lower cost of customer acquisition, higher lifetime value, lower overheads and greater tech capabilities, that's the differentiator. We built, Eats is now number one and eight out of the top 10 markets. And we think Grocery, we're off to a great start internationally. In the US, Instacart is a really strong competitor. I think in the US, we're going to be practical. We're going to build out our merchant base, and we're going to lean in on the Rides and Eats audience to build up Grocery in the US, but it's a bigger audience than anyone else has. So we think that's a great asset to have.

John Blackledge

Analyst, Cowen & Co. LLC

Thank you.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You're welcome.

A

Operator: Your next question is from James Lee of Mizuho. Your line is open.

James Lee

Analyst, Mizuho Securities USA LLC

Great, thanks for taking my questions. Can you give us an update on competition with Didi given their issues with the regulatory bodies in China? Are you seeing them, any pullback from their perspective on the international operations? I know you guys are competing within South America and EMEA, any update would be helpful? Thanks.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

So as you know, it's happened very recently and quickly. So we actually really haven't seen anything material, if you will. Obviously, we compete with them, particularly in some parts of Latin America. We had a strong second quarter and continue to have – do well as we're into July. We actually haven't seen anything, what I'd call material changes. There's always kind of fluctuations market-by-market or city-by-city, but nothing and nothing that I could attach to the broader questions surrounding Didi.

A

Balaji Krishnamurthy

Head of Investor Relations, Uber Technologies, Inc.

Next question, please.

A

Operator: Next question is from Brad Erickson from RBC Capital Markets. Your line is open.

Brad Erickson

Analyst, RBC Capital Markets LLC

Q

Hi there. Thanks for taking questions. Just one more on the driver incentives. I guess, can you just talk about the confidence level that you can continue to taper here? I think your main competitor here in the US said they're going to keep those investment levels fairly high for the foreseeable future. And so I guess, just wondering how conservative are your expectations there as we look at what's contemplated into the Q4 guide and the profit target? And then the second one is just can you remind us just what's built in also to that profit target regarding advertising? Thanks.

Nelson J. Chai*Chief Financial Officer, Uber Technologies, Inc.*

A

So, there isn't much more from a run rate standpoint on advertising. It's really coming from Mobility recovery. And so if you listen to my commentary, I really did center it, and the variability is really around the Mobility recovery or the continue to recovery. We did notice that Lyft did increase some of their incentive spend both in June, but particularly in July.

And as you heard from our commentary, based on the results in July, our business is quite strong, and our margins have come back. And again, as I reiterated a few times on this call already, as we think about getting to the guidance that we gave you, it's really around not increasing our take rates, if you will, between now and the end of the quarter. It's just maintaining where they were today as in this point in time in Q3 and then some expected increase on the volume side.

So again, obviously, we can't predict the future, but we feel pretty good about what's going on now, and it's happening today in the marketplace where they are investing. As Dara mentioned, we invested early and often to build back our marketplace. And you do get the benefits of the flywheel. You did hear my comments about in July, how we added 30% new drivers, but that really [ph] incremental, incremental spend, (43:20) we're spending a lot more on incentives. And so we just got the flywheel going and we're getting the benefits from it. I'm not going to comment on what Lyft did and what they're going to do. But again, we feel pretty comfortable where our marketplace.

Dara Khosrowshahi*Chief Executive Officer & Director, Uber Technologies, Inc.*

A

And I think the other factor that I would also point out, Brad, is the incentives was the fastest lever that we could pull. But the improvements that we have made in terms of onboarding flow, the CRM campaigns that we're sending to resurrected drivers. We've done a bunch of testing and learning in terms of what incentives work and which ones don't.

All of that is resulting in greater efficiency in terms of our being able to add incremental drivers at a lower cost and our being able to hold on to drivers because earnings are really high. The other factor that I would add is that, again, based on what we can see our spend versus Lyft's spend, our base, we went in more aggressively. So, I think that when we say we can taper, it's off of a more aggressive base and if they're putting in incentives it's probably off of a lower base. So there may not be that much of a difference, but the biggest factor is we now have the machine working.

And listen, in July, we pulled back incentives and driver acquisition and courier acquisition looked really, really strong. So all we're giving you is, giving you the facts and our capabilities are getting better. And we're getting smarter about how we're spending. And that's what gives us a lot of confidence going into Q3 and Q4.

Brad Erickson

Analyst, RBC Capital Markets LLC

Great. Thanks.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Sure.

A

Operator: Your next question is from Edward Yruma from KeyBanc Capital Markets. Your line is open.

Edward Yruma

Analyst, KeyBanc Capital Markets, Inc.

Hey guys. Thanks for taking the question. I wanted to ask a question about rewards. I know you guys continue to innovate the program. I guess, how successful have you been in terms of driving incremental usage either on the Eats side or on the Rides side and maybe more importantly, getting a consumer to use both sides of the app?

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yes. So on average, the Pass customer is the number of trips, rides and food orders per customer on a monthly basis increases more than 50% on pre Pass, post Pass. So the added incrementality is pretty significant. We see a lot more crossover. And if you look at our supplemental slides, the percentage of our total gross bookings now come from Mobility and Delivery cross-platform users is close to 50% in the US and the UK as well.

A

So the Pass is really working. And the most important factor on the Pass is that 98% retention rate. It's a really strong product that's sticky, and that gives us the confidence to be able to lean in and grow the number of Pass members that we got.

Edward Yruma

Analyst, KeyBanc Capital Markets, Inc.

Got it. And do you think that, that helps keep the customer loyal to your platform versus shopping or other platforms from a price perspective?

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

It certainly shows up in the orders per month. It's our belief that it's not purely price. We really invest in the customer service. There's certainly savings. But listen, this is a well-worn path. Amazon Prime, I think, talked a bunch of players after the value of high-frequency type of interactions. And we're not inventing anything here.

A

The good news for us is our past structurally, because of the delivery benefits, because of the rides benefits now, because of the grocery benefits, just structurally our Pass can offer more than any other Pass out there. And the upside that we can see from frequency is just structurally higher than any other player out there. So, we think our Pass is the upside from it in terms of our business and the retention just a structurally different place versus any of our competitors.

Edward Yuma

Analyst, KeyBanc Capital Markets, Inc.

Great. Thank you.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You're welcome.

A

Operator: Your next question is from Tom White of D.A. Davidson. Your line is open.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Hi, Tom.

A

Tom White

Analyst, D.A. Davidson & Co.

Great, hi. Thanks guys for taking my question. I just was hoping you could comment maybe on your expectation for staying EBITDA profitable after the fourth quarter. And maybe whether you really think you should. And I guess, specifically, I'm talking about your growing businesses in Grocery and other delivery categories, how are you thinking about weighing investing in those long-term, very large opportunities versus trying to cater to public equity investors who would like to see some near-term profitability?

Q

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

So Tom, when we talk about getting to EBITDA profitability in Q4, our expectation is that will continue and it'll be sustainable and growing as we continue to move forward into 2022. So, we believe we'll have enough to invest along some of those other new verticals [ph] and in those (48:30) areas and reinvest back in. But we recognize the fact that one of the things we did, if you think about the approach we took this quarter, we invested ahead to build up our healthy marketplace, so we can then get our margins back, have our businesses healthy and growing and profitable as we move towards EBITDA profitability. It's pretty important for the company and for Dara, for myself that we just sustainably build our business and continue to grow our bottom line as well.

A

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

The other thing, Tom, just mathematically, the other factor that I would point to is our Mobility business is a [ph] \$60-plus (49:07) run rate without COVID. And we're seeing a number of markets back above 100% of 2019 levels. At [ph] \$50 (49:19) billion, the Mobility margins as a percentage of gross bookings can be 10%-plus and already is 10%-plus at a bunch of markets. So the earning power today, without kind of growth on our Mobility business, it's really, it's a \$5 billion earnings power today.

A

Delivery business, we have markets that are 5% of gross bookings today. So the earnings power of that business is another \$2.5 billion. While running overheads at, call it, \$2 billion on a run rate basis. So the earnings power of this company is very, very significant. That allows us to invest in new businesses. It allows us to invest in new verticals, high-capacity vehicles, pool, rental, reserve. It allows us to invest in grocery, etcetera.

And because of the scale of our business and because of the membership program, etcetera, that I talked about, we can invest aggressively and we can be EBITDA profitable, and we expect to increase margins for the foreseeable future. And in a tough way, COVID kind of prepared us for this. We had to sharpen our kind of operating muscles. But this is not a race to profitability and then, oh my God, what are we going to do? This is a race to profitability and just keep growing and growing and growing. That is absolutely our goal, and I think we've got the earnings power to do it.

Tom White

Analyst, D.A. Davidson & Co.

Great. Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You're welcome.

Operator: Your next question is from Steven Fox from Fox Advisors. Your line is open.

Steven B. Fox

Analyst, Fox Advisors LLC

Hi, thanks good, afternoon. I was just wondering if you can follow-up on a couple of comments, that one in particular as well as the comment about being practical when considering category expansion in the US. It seems like category expansion has a better return on your investment, and you could be aggressive while still protecting profits. So any longer-term thoughts on how to think of not just groceries but also the Drizly acquisition coming and other categories, as you invest into next year? Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yes. I think on the long term, I'd just point to Uber Eats. Listen, this is not made-up theories, right? We built, we were late in the delivery game. We built up Uber Eats using the engineering platform that we built on Mobility, putting a bunch of our great product people, engineers against it. We built up Freight organically. We're making a big acquisition, but that's another business that we built.

Grocery and Drizly are very, very close to our Delivery business in terms of use cases. They cover the fast and frequent. People want their [indiscernible] (52:04) fast. They want grocery fast, and they're also frequent use cases as well. So we are going to use the family of apps that we have to essentially cross-promote one service to the other at the right time, targeted to the right person using ML algorithms. They'll all have the same identity. They'll have the same payment characteristics. We'll have fraud engines, routing engines, pricing engines, all of them running against a bigger dataset than anyone else can. So just if this is a play that we've run a bunch of times, and we're very, very confident that we can do the same for grocery and other categories as well.

Steven B. Fox

Analyst, Fox Advisors LLC

Great. And just to clarify, you said these new categories of 5% to 6% of Delivery bookings or total company bookings? I wasn't clear on that. Thanks.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Delivery bookings.

A

Steven B. Fox

Analyst, Fox Advisors LLC

Thanks very much.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You're welcome.

A

Operator: Next question is from Jason Helfstein from Oppenheimer. Your line is open.

Jason Stuart Helfstein

Analyst, Oppenheimer & Co., Inc.

Thanks. Just two quick ones. One, just how are you thinking if unemployment benefits are extended, would that change your third quarter outlook? And then number two, I think kind of SoftBank's position on your stock has been causing headaches for many. Any thoughts about how that could get resolved? Thanks.

Q

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Well, so first of all, in terms of our guidance is really just based on what we think is going to happen, to the extent benefits are extended, we will manage it. As you know, we've made really good strides right now in the current environment with the current plans in place. So no, we don't see any changes irrespective if benefits get extended or not. We do see benefits in terms of folks coming back to drive when the benefits do expire. But that's more of an upside, if you will.

A

In terms of SoftBank, it's hard for me to comment on SoftBank. There, we have a good relationship with them. They're an investor. There's lots of stuff you read about what they're doing regarding some of their holdings, particularly given what's going on in China. I think much of it is done already. But again, they don't really call us for advice on how they're going to trade and what they're going to go do. But you know again I think we're fine with whatever they end up doing, so.

Jason Stuart Helfstein

Analyst, Oppenheimer & Co., Inc.

Thanks.

Q

Operator: Your next question is from Nikhil Devnani from Bernstein. Your line is open.

Nikhil Devnani

Analyst, Sanford C. Bernstein & Co. LLC

Hi. Thanks for taking my question. A couple, if I may. First, in the markets where you've invested aggressively, and you've seen driver supply improve, did you see market share gains follow against either competitors or

Q

alternatives in those regions? And then secondly, in terms of the users that you're adding, any way to dimension how many of these are new to Uber altogether or just older users reactivating? Thank you.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Yes. So in terms of the supply question again, yes. There's nothing in terms of our we gaining, our, what I would say is our, we call it category position, you guys call it market share. It's very healthy in actually every region of our Mobility businesses. And it's either been stable to where it was in Q1 or has improved slightly in every major market. And again, whether it has to do with investment on bringing drivers back or just the competitive nature of the marketplaces or other factors, if it's, it is what it is, I can't draw a conclusion between different marketplaces. The team is actually doing quite well in executing given the pandemic and then, and people coming back.

Balaji Krishnamurthy

Head of Investor Relations, Uber Technologies, Inc.

A

What was your second question? I'm sorry, I missed it.

Nikhil Devnani

Analyst, Sanford C. Bernstein & Co. LLC

Q

No worries. The second question was just on the users, the MAPC growth, any way to dimension, how many of these are new users to Uber altogether, how many are just reactivating older users?

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yes. I'd say the majority of both our driver growth and new user growth tends to come from resurrections. Again, we've got the deepest database that any company has. So we can reach into that database, and we reach into that database with essentially CRM campaigns. So it's very, very cheap to bring back those resurrected drivers.

The second most significant area of growth is essentially the Rides business thrown to Eats. And then now the Eats business actually thrown to Rides and mixing new customers essentially that don't use the other product. And then the third channel is essentially new customers to the platform itself. So it's in that order. And listen, we have active, we have active initiatives in all three and we can always do better. But certainly, the momentum that we're seeing is positive in all three.

Balaji Krishnamurthy

Head of Investor Relations, Uber Technologies, Inc.

A

Operator, we have time for...

Nikhil Devnani

Analyst, Sanford C. Bernstein & Co. LLC

Q

Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Sure.

Balaji Krishnamurthy

Head of Investor Relations, Uber Technologies, Inc.

...let's take the last.

A

Operator: Thank you. Your last question is from Youssef Squali from Truist Securities. Your line is open.

Youssef Squali

Analyst, Truist Securities, Inc.

Great. Thank you very much. I have one question for Dara and one question for Nelson. Dara, can you maybe speak to driver supply and incentives in states that have ended federal employment benefits recently versus those that did not? How much of maybe the pullback that you're seeing may be at least partially driven by that?

Q

And then, Nelson, with profitability, a couple quarters away now, literally around the corner. Can you maybe revisit long-term margins of the business across both Rides and Eats that you've shared with us pre-COVID arguably, obviously, you're in a much, much better financial situation with all the cost savings, et-cetera. So obviously, ex-Grocery and ex-Freight, two areas still of investment. If you can maybe just provide some color on that, that would be great.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

So I'll go first. So we aren't updating any of our long-term margins today. We want to get through the pandemic and can come out. And then we understand that is something that investors want. And so we will address that in the near, shortly after. I think Dara gave you at a very high level, the math as he went through it, and he used as a percent of GBs and he used 10% of gross bookings for Mobility and 5% for Delivery. And so I can't suggest that's not a good guidepost. But again, we will formally take a look at it as we get through the pandemic. What we wanted to do is just make sure we navigate the recovery that's going on, particularly in terms of creating equilibrium in our marketplace, which is what we've been able to do through Q2 and starting to see the benefits in Q3.

A

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yes. And, Youssef, to answer your question on driver incentives. We have been leaning in to driver incentives broadly in Q2. We have been able to pull back from driver incentives broadly in Q3, and we have been able to continue to acquire and/or resurrect new drivers broadly in July even as we pull back incentives just because the machinery and the targeting is working so much better.

A

In states that have ended UI, our marketplace balance in general is in a much healthier condition than states that have not ended UI. There's additional factor that's coming in, in the Delta variant now, which may throw things off. But it does seem to be a positive to us. We don't know if it's because of UI or other factors, but it seems positive. And our driving – kind of driver incentive efficiency improvement has happened in states where UI has ended as well as states where UI continues.

Youssef Squali

Analyst, Truist Securities, Inc.

Okay. Thank you both.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You bet.

Balaji Krishnamurthy

Head of Investor Relations, Uber Technologies, Inc.

We can wrap it up, guys.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

All right. Thank you, everyone, for joining us. And a lot of hard work from the team in Q2, and we see some pretty positive signals as it relates to Q3 and Q4. So thanks very much for joining us.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.

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