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Uber Technologies, Inc. (UBER)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by, and welcome to the Uber Technologies, Inc. Q2 2020 earnings conference call. At this time, all participants' lines are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the conference over to your speaker today. Thank you. Emily Reuter, Investor Relations, please go ahead, ma'am.

Emily Reuter
Head-Investor Relations, Uber Technologies, Inc.

Thank you, operator. Thank you for joining us today, and welcome to Uber Technologies' second quarter 2020 earnings presentation. On the call today we have Dara Khosrowshahi and Nelson Chai. We also have Kent Schofield, and this is Emily Reuter from the Investor Relations team.

During today's call, we will present both GAAP and non-GAAP financial measures. Additional disclosures regarding these non-GAAP measures, including a reconciliation of GAAP to non-GAAP measures, are included in the press release, supplemental slides, and our filings with the SEC, each of which is posted to investor.uber.com.

Please note that we have also posted an updated 2020 Investor Presentation on our Investor page. I will remind you that these numbers are unaudited and may be subject to change.

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Certain statements in this presentation and on this call may be deemed to be 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.

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 included in the section under the caption Risk Factors in management's discussion and analysis of financial conditions and results of operations in our Annual Report on Form 10-K filed with the SEC on March 2, 2020, and in any subsequent Form 10-Qs and Form 8-Ks filed with the SEC.

Following prepared remarks today, we will open our call to questions. For the remainder of this discussion, all growth rates reflect year-over-year growth unless otherwise noted.

With that, let me hand it over to Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Thanks, Emily, and apologies to everyone about the technical difficulties to start with.

On our last earnings call in May, I said that we were planning for a non-linear recovery that varied geographically, and that's exactly what we've got, particularly across the US where the reopening has been uneven at best. And while we would have all hoped that by now we'd have a clear line of sight to the end of the pandemic, hope is not a strategy, and it's my job to ensure that Uber is well prepared for any scenario.

Before I get into details on our Q2 results, I want to recap some of the actions that we've taken so far and the trends that we're seeing today. In the early days of the crisis, we moved at Uber speed to stabilize our Mobility business and to capitalize on the enormous tailwinds behind Delivery. More than two-thirds of our cost of revenue and OpEx excluding stock-based comp are not fixed. Put simply, if a trip doesn't happen, most of the costs don't either.

That variable cost structure coupled with the tough decision on head count meant that our Mobility segment still generated $50 million in positive adjusted EBITDA profit in the quarter, despite a 73% year-on-year drop in gross bookings. Meanwhile, our Delivery segment saw massive acceleration, growing gross bookings 122% year on year excluding exited markets, while improving margins 59 percentage points.

It's become clear that we have a hugely valuable hedge across our two core segments. It is a critical advantage in any recovery scenario. When travel restrictions lift, we know that Mobility trips rebound. If restrictions continue or need to be reimposed, our Delivery business will compensate. And as a scale global player, we get the benefit of recovery whenever and wherever it happens, even if some cities and countries lag behind others.

We leveraged these two factors to grow total company gross bookings at constant currency from the Q2 bottom of negative 45% year on year to about minus 12% in the month of July, driven by Mobility being down 53% year on year and Delivery up 134% year on year.

The bottom line is that we've taken swift action on everything that's within our control, cutting more than $1 billion in annual fixed costs versus our Q4 plan, rapidly deploying new Mobility products to meet changing needs, and

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expanding delivery beyond food. We did this while innovating with safety to ensure that our core rides experience is ready for a customer's second first trip. And as a side note please, please, please wear a mask.

Regardless of the ultimate shape of the recovery curve, I'm confident that the work we've done has ensured that we're well positioned. Our actions have strengthened our foundation, brought renewed focus and energy to our core business, and have seen us operating and innovating more effectively than ever before.

Now a bit more on the Delivery business, at a roughly $30 billion annual gross bookings run rate at the end of Q2, our Delivery business alone is now as big as our Rides business was when I joined the company in 2017. We've essentially built a second Uber in under three years, with an accelerating growth profile, a global footprint, and an enormous TAM. And while some of the recent surge in Delivery is due to COVID, I believe we're witnessing a much more profound shift in consumer behavior that will last well beyond the pandemic.

Consumers are quickly becoming accustomed to the magic of having anything delivered to their door in half an hour, much like the magic of having a car show up in a few minutes. This is an opportunity that will be many times larger than even we expected and one that Uber is uniquely positioned to lead.

We've turned our natural advantages and a disciplined capital allocation framework into a number one or number two competitive position in the vast majority of our countries. In the US, year-on-year GB [Gross Bookings] growth accelerated to over 110%, with order volumes growing over 80% to nearly 100 million orders in Q2. We now have a strong position in the majority of the top 10 US markets, representing nearly half of the category bookings, and I'm happy to report that we made significant gains in New York City, with gross bookings growing 120% year on year in Q2 and 150% year on year in June. We're now number one in the outer boroughs, and we continue to narrow the gap in Manhattan.

In July we announced our intention to acquire Postmates, which achieved a $4 billion annualized gross bookings run rate in Q2. We believe this acquisition will continue to bolster our relatively smaller position in important cities like Los Angeles and across the US Southwest and offer greater restaurant selection while increasing order density, improving delivery efficiency, and reducing cost.

Non-US bookings accounted for 55% of Delivery volume. We're now in the number one position in a number of strategic high-spend markets, which account for over two-thirds of our international bookings, including Australia, Canada, France, Japan, and Mexico. In many other key markets, we have secured a number one position in larger anchor cities such as London and Taipei, from which we can expand nationally. This strategy allows us to gain competitive share while improving margins. We're now adjusted EBITDA profitable in two of our top five international GB markets and expect to make meaningful progress towards profitability, not only country by country, but for our entire Delivery portfolio.

In many of our international markets, much of our competition continues to come from aggregator incumbents who either don't want to enter the logistics of delivery or are struggling to do so. By contrast, we offer restaurants the best of both worlds, use your own couriers, or use Eats couriers whenever demand outstrips your in-house delivery capacity, as has increasingly been the case during lockdowns. In many markets, we've seen that restaurants with their own couriers actually end up calling Uber Eats couriers about 30% of the time, demonstrating the unique advantages that we bring and one that we believe will hasten the shift towards the delivery model.

Using our existing network, we're moving quickly into new delivery-as-a-service offering, which we see as a very high potential opportunity. We piloted partnerships delivering home goods, pet supplies, and pharmacy items. In

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other novel uses of our networks, our Uber Connect option lets consumers send small packages to friends and family via UberX drivers. It's a huge hit, particularly in Latin America, with 3 million trips globally since early June.

And just last month, following promising launches in Europe and Australia, we've expanded grocery in the US, this time in partnership with Cornershop. Cornershop has seen incredible traction in Latin America, and we're excited to bring its strong product and execution to the US.

The COVID crisis has moved food delivery from a luxury to utility. And as we add more use cases, our service will move from a utility to daily use. As such, we're ramping up our subscription efforts, including nationwide rollouts of Eats Pass, which combines free food and grocery delivery and eventually Uber PASS, which combines both Rides and Eats benefits in one monthly package.

All this activity has resulted in new customer acquisition, monthly active eaters, orders per eater, basket size, and eater retention all being up year on year and quarter on quarter, both globally ex-India and in the US. This translates into something simple, more, loyal and delighted eaters across the globe.

Finally, shifting to our Mobility business, which I would describe as a tale of 10,000 cities. Our Mobility recovery is clearly dependent on the public health situation in any given area.

Asia ex-India is in the recovery lead. We've seen gross bookings of Hong Kong and New Zealand at times exceed pre-COVID highs. European trends have also been encouraging, France, Spain, and Germany amongst others have improved to being down 35% or less year over year recently.

The US is lagging, with GB down around 50% to 85% in our top markets, with cities like New York leading in the recovery and some West Coast cities like San Francisco and L.A. still further behind.

Our global geographic footprint remains a huge advantage, and we're seeing evidence that confirms what we've always believed, that when cities move again, so does Uber. We've observed that workday commuting trips bounce back sharply after lockdowns lift, but it's not clear that weekend and social hour use cases return quickly too, confirming the critical role Uber plays in people's lives.

I'm also proud of the speed in which we reacted to extraordinary circumstances. Our longstanding focus on safety let us lead the industry with our door-to-door safety standards. A combination of new technology like mask detection, shared responsibility through enforcement of our community guidelines, education from health experts, and a partnership with leading brands like Clorox, Dettol, and Unilever. And thanks to our global scale, we've been able to purchase 30 million masks and other hygiene supplies for drivers, with more to come.

Our global scope not only provides diversification during uncertain times, it also allows us to lean in and invest more in technical innovation than our competitors. We recently focused on three areas.

First, we built new product for new use cases. Our hourly option lets you book one car for several hours, so that you can run errands without having to request a trip at each stop along the way. And our Uber for Business team has built a new shared ride solution, which matches only employees from the same company. Look us up if you want to get back to work safely and affordably with your coworkers.

Second, we're doubling down on adding new vehicle types like taxis. We've seen that taxi drivers have increased their time on Uber by 25% during the pandemic, and we believe we can help them find new sources of demand.

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We reached a big milestone with our taxi launch in Tokyo, and yesterday's acquisition of Autocab in the UK will deepen our taxi offerings.

We're also adding auto-rickshaws and motor bikes, since we expect many riders in emerging markets to shift from public mini buses towards these lower-cost options.

Third, we're becoming a key partner for transit agencies to help them deliver more efficient, accessible, and equitable service. In June, we announced our first-ever software deal to power on-demand transit in Marin County in California. And our acquisition of Routematch brings together Uber's expertise in on-demand mobility with Routematch's proven capability in the space.

In sum, we're the global leader in ride sharing. We leverage our brand, our platform, and our technical capabilities to organically build a food delivery business as big as ride sharing. We're now leveraging ride sharing to expand into every mobility category. And we're leveraging food delivery to build a real-time logistics engine for all local commerce at Uber scale. And we're doing it right now in your city and across the globe.

Now over to Nelson for more details on the numbers.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Thanks, Dara.

Like Dara, I'm very pleased with our execution in an evolving environment. We continued to achieve adjusted EBITDA profitability in our Mobility business, quickly grew and improved our Delivery business margins, significantly tightened our cost structure, and increased our focus on our core businesses. And coupled with our strong cash position, we are well positioned to withstand continued uncertainty, while driving towards our stated profitability target.

I will now discuss key operational metrics as well as non-GAAP financial measures. All comparisons are year over year and on a constant currency basis unless otherwise noted. Year-over-year comparisons for total company Mobility and Delivery adjusted net revenue exclude the impact of our Q2 2019 driver appreciation award associated with our IPO.

Total company gross bookings declined 32%. Adjusted net revenue, or ANR, was $1.9 billion, down 37%. Our ANR take rate was 18.8% of gross bookings, up 53 basis points. Excluding the driver appreciation award, our take rate was down 140 basis points, as Delivery, which has a lower take rate, became a larger part of the business.

Non-GAAP cost of revenues excluding D&A decreased to 46% from 51% of ANR. The decrease was primarily driven by lower volumes in our Mobility business, resulting in a decrease in insurance and payment costs.

Turning now to non-GAAP operating expenses, which exclude pro forma adjustments such as stock-based compensation and restructuring charges, operations and support increased year over year to 19% from 16% of adjusted net revenue. However, it was down $89 million on an absolute dollar basis, reflecting mitigating actions taken in the second quarter offsetting loss of leverage on the top line.

Sales and marketing increased to 36% from 34% of adjusted net revenue but was down $284 million, as we saw lower marketing and promotion spend in our Mobility business.

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R&D increased to 22% from 16% of ANR and was down $33 million, primarily driven by a decrease in people spend. And G&A increased to 22% from 15% of ANR, but was down $9 million from a year ago.

Quarter over quarter, our spend decreased $148 million but increased as a percentage of ANR due to top line pressure from COVID.

Our Q2 2020 total adjusted EBITDA loss was $837 million.

Now I'll provide additional detail on our segments. Starting with Mobility, Mobility gross bookings of $3 billion declined 73% and ANR of $793 million declined 68%, while take rate of 26% improved both year over year and quarter over quarter due to rationalization of incentive spend. Despite a significant headwind to our top line performance, Mobility adjusted EBITDA was $50 million or 6.3% of Mobility ANR.

Now on to Delivery, we capitalized on the tailwinds related to stay-at-home orders, driving Delivery gross bookings to $7 billion, up 113% or 122% ex-India and other markets that we have exited. Delivery ANR of $885 million was up 163% due to mix shift towards small and medium-sized restaurants driving higher basket sizes coupled with courier payment efficiencies, mainly in the US.

Delivery ANR take rate was 12.7%, up 240 basis points year over year and up 140 basis points quarter over quarter, due to overall improvement in basket sizes and rationalization of incentive spend. Additionally, we realized the benefit from exiting India earlier this year and are seeing an additional 80 basis points benefit from business model changes in some countries to reclassify certain payments and incentives as cost of revenue.

Delivery adjusted EBITDA was a loss of $232 million or negative 26.2% of ANR. That represents an $81 million and 33% quarter-over-quarter improvement respectively.

On to Freight, which grew ANR to $211 million and adjusted EBITDA was a loss of $49 million. We are pleased with the progress in our Freight business as we continue to invest in technology to drive efficiency in the logistics industry. Through recent partnerships with Oracle and BluJay, our real-time pricing and booking API is now integrated into all major TMS providers, allowing shippers to create more a resilient supply chain in response to COVID and generating 200% quarter-over-quarter API revenue growth. Our machine learning algorithms enable more loads to be booked by carriers as bundles, reducing MP miles and improving utilization.

On to ATG and other technology programs, the adjusted EBITDA loss for the quarter was $91 million. Following a brief period of simulation-only development, we are pleased that Uber ATG restarted test track and public road operations for its self-driving vehicles in Pittsburgh this quarter after implementing a series of measures consistent with expert guidance to help mitigate the risk of spread of COVID-19.

Finally, Other Bets, this segment consists primarily of JUMP, which we divested to Lime in May. Lime is now available through the Uber app in 50 cities, and Lime recently won operating permits in key cities like Paris, Chicago, and Denver. After winding down our JUMP operations this quarter, we are no longer reporting this segment.

In Q2 2020, corporate G&A and platform R&D were $492 million, which represents the G&A and R&D not allocated to one of our segments, decreased 21%, due primarily to the layoffs we announced in May as well as lower accrued taxes associated with the decline in Mobility. As Mobility rebounds in Q3, we expect to see some absolute dollars grow modestly quarter on quarter.

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In terms of liquidity, we ended the quarter with approximately $7.8 billion in unrestricted cash, cash equivalents, and short-term investments, with access to over $2 billion from our revolver, providing us with ample liquidity to withstand the recovery ahead.

Given the unique circumstances affecting our business in Q2, I'll provide a few contexts around our expectations for Q3 performance. We expect a Mobility ANR take rate of 22% to 24%. As Mobility recovers from the lows of Q2, we are back to strategically investing in the business, including some incentive as drivers return to the platform. Where we land within this range will largely depend on the slope of the recovery in the US relative to the rest of the world and the resulting business mix.

Given Delivery's large margin improvement quarter over quarter, we expect Eats adjusted EBITDA absolute dollar losses in Q3 to be in line with Q2. We expect adjusted EBITDA margins continue to improve in Q4.

We expect stock-based compensation in each of Q3 and Q4 to be $200 million to $250 million after a decline in Q2 due to May's reductions in force.

All in all, despite the headwinds that COVID-19 has created for our business, we have a Mobility business that still achieved profitability on an adjusted EBITDA basis despite being down significantly in the quarter. We are have a Delivery business that is quickly improving in all respects both on the top line and on an adjusted EBITDA margin basis. We took decisive action on costs across the entire company, removing over $1 billion in annualized costs, including reducing the corporate G&A and platform R&D by over $150 million quarter over quarter. And we have a strong balance sheet to weather a bumpy recovery. All this taken together gives us continued confidence in our ability to achieve quarterly adjusted EBITDA profitability sometime in 2021.

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

Emily Reuter

Head-Investor Relations, Uber Technologies, Inc.

Operator, can we please take questions?

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Ross Sandler with Barclays.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

Hey, guys, just a question on the food business. So I think there's been a lot of debate in the industry as to whether or not pure-play delivery companies like yours can turn a profit, and thanks for the additional details in those slides. It looks like that's happening in France and Belgium, but not yet anywhere else. So I guess what are you doing in those two markets that is allowing for that profitability curve to move up, and where do we stand on that curve in the US?

And, Nelson, you said it's going to be improved in 4Q. So just from a timing perspective, when should we expect the food side of the business to get to that breakeven? Thank you.

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

A

Ross, as far as the debate goes, we stand firmly on the belief that pure-play delivery companies can and will be profitable, and we think it's a pretty easy answer. But we don't think the debate is worthwhile, so to speak, it's only a question of when and it's only a question of what the long-term margins will be. We have laid out a long-term marketing profile of 50% of ANR, and about 33% EBITDA. We wouldn't be doing it unless we felt confident.

To be clear, Belgium is actually one of our smaller countries internationally, and we had said that we're profitable in two of our top five international countries, and there are a number of other countries that we are also profitable in. So we also wanted to make the point with investors that we're profitable in countries that count. So it's not just France and Belgium, it's other countries.

And listen, I think as far as what we're doing, it's a combination of factors. The revenue margins are healthy. You've got a business that is either in CP1 or CP2, so that you can get real liquidity on the Delivery side in the marketplaces and you can bring cost per transaction down. And in many of those markets, we have a very big Eater base, so that we don't need to lean into new Eater acquisition as a percentage of our overall Eater base quite as much as let's say in Japan that's growing at 300% – 400%, where we've got less than 5% of restaurants signed up where you're really leaning into new Eaters and new restaurants as well.

But when we look from a structural basis at the margins of the business, you fast-forward a couple years from now, we think we will be profitable in the vast majority of the countries in which we operate. If we're not profitable, it's specifically because we're trying to achieve something strategically, whether it's a growth target or we try to expand the number of categories that we're in, et cetera. So we land firmly on the one side of the debate and we have a lot of data internally and very high confidence in the teams to win that debate in the end. Could we get the next question?

Operator: And your next question comes from the line of Eric Sheridan with UBS.

Eric J. Sheridan
Analyst, UBS Securities LLC

Q

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Thanks for taking the question, maybe two, if I can. First, in parts of the world where Rides has begun to recover, curious if you could give us any granularity on whether the marketing efficiencies are coming through in the business, and with this maybe the incremental ride is more profitable than it was in a pre-COVID world, either due to competitive intensity or some of the changes you've made in the business.

And then in the parts of the world where you have the Eats asset and the Rides business, how have some of the cross-marketing efforts gone to bring people into the Eats side of the portfolio and generate a higher LTV of those users? Thanks so much.

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

A

Hi, Eric. It's difficult to generalize. Every single market is different and unique based on the competitive factors. That said, the actions that we took end of Q1-Q2 on the cost side we believe have structurally improved the profitability of our Mobility business. So all things being equal, we talked about in January for the first two months our Mobility business had a 30-plus percent EBITDA margin. During those months, the Mobility business would actually deliver a higher EBITDA margin even than 30%.

But when we look at the competitive landscape, every single country is different. There are some countries where we're leaning into improved driver supply. There are some countries where some competitors are leaning in as well. But generally, when we look at our profit profile coming out of the crisis, we see it as constructive overall as it relates to the whole portfolio.

As far as the cross-marketing with Eats has gone, listen, I think the story of Eats tells a tale, which is we've basically taken this business from single-digit billions to a $30 billion run rate. It's all been organic. It has been on top of the Mobility platform that we've had. It's a technical platform. It's an operations platform, and it's also a brand that we've built off of.

We did mention in the last quarter that we have seen increasing cross-dispatch rates between our Rides drivers, so to speak, who are moving over to delivering for Eats. We especially see that in markets that have more of a suburban profile. And those cross-dispatch percentages will remain elevated, although as we see the Mobility business come back, you're seeing more of our drivers coming back and driving just on Mobility. So the cross-dispatch is the magic on the supply side. And then on the demand side, new Eater acquisition remains very healthy. The number of Eaters that we have per month remains healthy, and LTV is increasing actually pretty significantly because basket sizes are up. The number of orders per Eater are up, and retention rates are up.

So when you put the combination of all three of those, higher basket size, higher retention, higher number of orders per Eater, and then you've seen our revenue margins come up, actually all four of those factors point to a much, much significantly increased LTV on an Eater basis. So like every single one of those trends is healthy, and we haven't seen any signs of slackening or weakening on any of those trends.

Eric J. Sheridan
Analyst, UBS Securities LLC

Q

Thanks so much, Dara.

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

A

You're welcome. Next question? Can we get the next question?

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Operator: And Brian Nowak, your line is open.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Great, thanks for taking my questions. I have two. The first one, Dara, on Delivery-as-a-Service moving beyond Eats and people, curious to just hear about one or two of the key strategic steps and investments that you think of being the most important to overcome that you think are really going to just help determine the timing of that business scaling and sort of your timing of when you can really realize that opportunity of Delivery-as-a-Service.

And then the second one on Eats, just so we can sort of understand the underlying health of this business, any help on how fast the number of Eaters or Delivery MAPCs [Monthly Active Platform Consumers] is growing right now? And how do we think about Eats bookings trends into the third quarter? Thanks.

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

A

Sure, Brian. As far as the kind of the strategic pillars that we need in order to expand into adjacent categories, it really is about supply and demand. So on the supply side now, we have over 10,000 partners who have partnered up with us. These are grocery stores, marketplaces, essential stores, et cetera. And you first have to establish a supply into the marketplace.

And frankly, with the environment being what it is, with home delivery just becoming an everyday use case for every single category, we're not having a problem building out the supply on a local basis.

Once you build up the supply, then you've got to build up the demand, and that's really where consumer habits come into play. And consumer habits are actually difficult to change.

So we are merchandising these new categories on the app in different ways. We have actually pretty useful experience on the Mobility app, where we have been upselling what we call R2E, Riders to Eaters. So we are having some experience as to how do you introduce a new product to an audience without cannibalizing that audience? We've been doing it for more than a year on the Rides to Eats side.

So we're going to use the same exact experience on the Eats app in order to introduce Eaters into the new categories. So you might see some services that allow you to pick grocery as a separate category. You'll see grocery appearing as a new category on the Rides app. You'll also see essentials, et cetera, show up in the flow essentially, as someone searches for food in their neighborhood on the app.

So there are multiple, multiple ways in which we're starting to introduce this new category in order to make sure that an Eater who comes to Eats finds the food that he or she is looking for but also realizes, oh wow, look, I can get pharmacy, I can get groceries, I can get everyday essentials in 30, 40 minutes with this app, and it's a very differentiated use case from what's available elsewhere.

It will take time, but I think you've seen the evidence of our moving from Rides to Eats, building up the Eats business. We're going to use the same exact learnings to build the adjacent categories.

Now, our also acquiring the majority of Cornershop, which has been grocery, which has been focused purely on grocery, has a great entrepreneurial team, has built a great business in Latin America, moving over all of those learnings to their unique learnings in terms of picking and packing, et cetera, getting a team that's solely focused

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on groceries, so you already have a best-of-breed solution. And then introducing that best-of-breed solution to the millions of Riders and Eaters that we have is a great shortcut that was made possible as part of that acquisition.

Nelson, do you want to answer the second question as far as growth trends?

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

Yeah. Sure. So in terms of the growth trends, our MAPCs are up 70% in the second quarter year over year, accelerating in July. The new Eaters in the second quarter were up over 50%. We're seeing double-digit increases in basket sizes.

And if you think about stay-at-home orders, we are one of the reasons that's driving our take rate improvement is just higher basket sizes. And so we are seeing good trends and seeing good trends even in July.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC
Q

Great, thanks.

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

All right, next question, please?

Operator: And your next question comes from the line of Mark Mahaney with RBC.

Mark S. F. Mahaney
Analyst, RBC Capital Markets LLC
Q

Thanks. I wanted to ask about the Rides use cases and the recovery that you're seeing in those. I saw that slide you had about workday commutes, social airport, in Hong Kong, New Zealand, and other markets. Do you think that's generally representative of what you could see?

And I guess I want to – what I'm trying to get at is as we go through kind of a structural change in work-from-home, there's the possibility that we will just have fewer work commutes structurally going forward. So just comment on that, addressing that risk, that that part of your business is just going to be structurally under pressure for the next couple of years as we just commute less. And then what data you've seen so far that either supports or refutes that, that suggests that commute Rides can come back quickly. Thanks.

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

Yeah, Mark, we've been desperately looking for trends to identify ways in which the future would be different from the past. And frankly, we haven't come up with any.

So workday is back, workday commute is back. Workday commute in a couple of these markets, Hong Kong, New Zealand, Sweden, is already – was already at certain points above kind of pre-COVID highs.

So while the hypothesis of stay-at-home is a strong one, it's especially strong in tech corridors. The reality that we're seeing is that as cities open up, then people get back to work. And that's the only pattern that we can

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discern at this point. We talked about travel continuing to be weak, although even travel into France, airport trips are looking like they're bouncing back.

We'll be watching this closely. Obviously, it will be very interesting for us to see if people aren't going to commute as much as they did in the past. My belief, however, is that if they move from a big city to a smaller city, well, we're going to expand into the smaller cities. And if they don't go to work, people will kind of get out of their house. And Uber is going to be a consistent utility, a consistent way of folks to have access to mobility without having to pay thousands of dollars for a car, and will be kind of an increasing and improving use case in people's lives. It may change the exact use cases by place, but we haven't seen any signs now that there would be any kind of permanent damage to the business. I'd say on the contrary, based on some markets that have come back and have opened up, we've seen the business bounce right back.

Mark S. F. Mahaney
Analyst, RBC Capital Markets LLC

Q

Okay, thanks a lot.

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

A

You're welcome, next question?

Operator: And your next question is from the line of Justin Post with Bank of America.

Justin Post
Analyst, BofA Securities, Inc.

Q

Thank you for taking my question. I guess, Nelson, maybe you could help us understand the difference between the profitable delivery markets and the overall business with margins down 26%. What are the big differences competitively, or is it just maturity of the markets?

And then second, maybe you can give us a California, this may be for Dara, AB5 legislation and court update and kind of how you're thinking about the ballot initiative rollout and advertising and how you think that rolls out here over the next three months. Thank you.

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

A

So, Justin, I'll start and then Dara will do the second question. Really, we've seen improvement across the overall Delivery space, and you heard it in our upfront comments and you see it in the press release. And if you think about what are the markets that are doing quite well, we have a very strong market position. It's a market that does have a very high propensity of 3P business, and the take rates are strong.

And it's really that straightforward, and we're doing a better job in terms of operating the business and getting better courier efficiency. And so we are seeing that play out. And we're even hearing in India, which you know in past calls we would call out because of how challenging it is, even in a market like India today, the unit economics are improving, as we see through our investment in Zomato.

So I think what you're seeing right now, at least in this COVID world, is the margins are improving. There's more reliance, there's more stay-at-home, there's more small businesses, and it really is driving better unit economics because of the basket sizes and improving the take rates. And again, we believe that as we continue to do it, we

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will lean into certain marketplaces as we try to grow and take advantage of the growth, and you're seeing the tremendous growth we're having. But we are confident in terms of our profitability path in this business over the next couple years.

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

As then far as AB5, Prop 22, listen, I think the point of Prop 22 for us is that we do think that there's a better way. The vast majority of drivers who drive either on our platform or on Lyft or couriers, et cetera, do so on a part-time basis, do not want to be employees, and value the flexibility that they get using our platforms. And what we've offered with Prop 22 we think is the best of both worlds, which is the flexibility that the vast majority of drivers want to use platforms like ours, along with protections, social protections, wage protections, healthcare, et cetera, which we think now is an expectation of society, and it's completely appropriate to this new way of working.

So when we look at Prop 22, it makes all the sense in the world. It is actually what drivers want. We've got more than 75,000 drivers that are already supporting the campaign. And again, on a 4-to-1 margin, drivers prefer to remain independent, so we think it makes all the sense in the world.

Now, the ballot initiative is moving. We think we've got a great message. We've got terrific supporters in the community as well who actually care about drivers versus labor unions and politics. They actually are taking into account the wants and needs of drivers and safety, ridership safety, prices, availability of mobility to a wide swath of the cities. And we think it's a better position and we're confident in our position as far as the ballot campaign goes.

In the courts, obviously it's going to be up to the judiciary to determine whether AB5 applies to us. We have made significant changes to our business models. Riders pay drivers directly. Drivers have a full understanding of the ride before they make a decision to accept a ride or not accept a ride. Drivers can set their own price. We even have a product, a subscription product with drivers, where they can buy a subscription from us and secure a number of leads. And essentially that driver then secures leads and gets 100% of the payment of any ride that they provide and they can accept Rides or not accept Rides. It's completely up to them. We're essentially out of the transaction. We're a subscription provider of leads to those drivers.

So we think we've got a great road as it relates to Prop 22, and we also think we have a very strong position, which is based on fact and based on how we've changed our product in the courts as well. And time will tell whether or not the legislature or the voters and the courts agree with our position.

Justin Post
Analyst, BofA Securities, Inc.
Q

Great, thank you, maybe one follow-up. On the California market share situation, have some of the changes – and I know we talked about it on the last call – impacted maybe US market share in the last quarter?

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

We think that some of the changes were a headwind as it relates to our market share in California. For example, acceptance rates for drivers went down in certain circumstances if a driver didn't want to pick someone up or drop someone off at a certain area. So we do think that our category position in California did get hurt as a result of the changes. Now volumes are down, so it didn't have a significant effect on our overall trip volume. When we look at our category position on a nationwide basis in the US, it's pretty flat since January, no significant change.

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Justin Post
Analyst, BofA Securities, Inc.

Q

Great, thank you.

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

A

You're welcome. Next question?

Operator: And your next question comes from the line of Richard Kramer with Arete Research.

Richard Kramer
Analyst, Arete Research Services LLP

Q

Arete Research, thank you very much, a couple questions. First of all, can you give us a sense of your outlook for the competitive environment in the US market as you bring Postmates onboard and ramp up new services but also see competitors that may have quite a bit of capital to deploy in aggressive incentives in the states? And I'm just curious about your comment about resuming incentives in Rides. And how do you see the incentive environment in the US playing out over the next few years? And then I'll have a follow-up after that. Thank you.

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

A

Hi, Richard. I'll start with Rides and I'll finish on Delivery. Listen, I think on the Rides market, what we've seen, the pattern that we've seen as it relates to competitive environment is ourselves, our largest competitor has transitioned from focusing on incentives to buy or establish share or category position to focusing on service and focusing on brand and focusing on technology to establish category position. We think that's healthy competition, and we like our position as it relates to brand and service and what kind of a service our technology can deliver. I don't expect it to change.

I do think that in the early parts of the recovery in the US, we are seeing less drivers on balance come back onto the platform than elsewhere in the world. That could have something to do with unemployment checks. So we will be putting some incentives into the market. Nelson talked about revenue margin trends in Q3 versus Q2 in the Mobility segment. That's because we intend to lean in a little bit to make sure that we have the right kind of liquidity in the US markets.

Outside of the US, competitive position, again, there are certain flare-ups but we're very confident. And overall you see our Mobility profitability in Q1, even in a very tough quarter. We think our profitability profile will improve in Q3-Q4. We don't see any change there.

As far as the Delivery segment goes, listen, the US is a very competitive market. Obviously, you've got DoorDash, you've got Grubhub, but then you've got Amazon in the marketplace. You've got grocery players, et cetera. This is a broad market. We don't define it as just food. As I said in my prepared remarks, we're really thinking about overall local commerce. And we see lots of competition, but also we see a very large category, a historic kind of demand wave behind us. And we think within a competitive environment, we can have constructive margin profiles going forward.

Richard Kramer
Analyst, Arete Research Services LLP

Q

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Okay, thanks, and then just a quick follow-up on that. I'm just looking at excess driver incentives, they went up a bit this quarter even though obviously you had very strong revenue growth. Can you give us a reflection of the way you're thinking about excess driver incentives for low-value local deliveries and balancing that with the ability to batch those deliveries and still have them available in a short timeframe? Apologies for the dog barking in the background.

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

No worries. Nelson, you want to talk through that?

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

Yeah. Sure. So look, I think that as you know, you saw from the top line that our top line grew tremendously, and you saw me go through the statistics before. So it's not surprising on an absolute basis you're going to see that number go up.

We are doing a better job in terms of courier efficiency in other parts of the country. Some of them are a little bit business model changes. So there have been a few countries where we've gone onshore and have seen the benefit of that in our courier efficiency.

We will continue to focus on driving that ability of the business. We don't manage the business for the next delivery. And we are trying to work with our tech teams to continue to allow us to batch more efficiently. But ultimately, we want to make sure we provide the best experience we can for the end user.

So you'll see us continue to innovate, continue to work on it. It is an area that as we looked at Postmates, actually they do a very, very good job of. It's something that when we looked at what they were doing, it's something that we think they do very well. And so I think you'll see us continue to do a better job in terms of optimizing both batching and continuing on courier efficiency.

Richard Kramer
Analyst, Arete Research Services LLP
Q

Thank you.

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

And, Richard, sometimes when we see a significant dislocation in demand, and this is a dislocation that was positive, when COVID happened we saw huge spikes in demand in many, many markets. We just had difficulty catching up in terms of couriers available and the dependability of the network.

So in those situations, sometimes we will take up incentives to make up for the dislocation. Then the marketplace tends to start to get into some kind of equilibrium. And then you can start taking incentives down.

So when we look at courier incentives, cost per transaction, now that we see more of an equilibrium, now that more restaurants are joining our service, so that we can batch more, we see cost of courier kind of moving in a constructive direction.

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Richard Kramer
Analyst, Arete Research Services LLP

Q

Okay, thank you.

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

A

You're welcome. Next question?

Operator: And your next question comes from the line of Benjamin Black with Evercore ISI.

Benjamin Black
Analyst, Evercore ISI

Q

Great, thank you. You guys mentioned hitting profitability sometime in 2021. I'm just curious to hear. What do you need to see to get comfortable in actually calling a quarter? Is it faster cadence of the Rides recovery, or is it narrowing losses on the Eats side?

And then secondly, could you talk a little bit about your restaurant mix? How sticky have the SMB restaurants been on your platform during the recent reopenings? And relatedly, how should we think about Delivery revenue margin for the next couple quarters? Thank you.

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

A

Yeah. So I'll start, and I'll let Dara handle the back half of that question. So in terms of our path to profitability and our confidence, it is a number of different things.

We believe we have enough things at our disposal. You saw us take decisive action in the second quarter. You saw us narrow our focus as a company in terms of our core businesses. At the end of the day, the single biggest driver of what quarter next year is really going to be on the COVID recovery and its impact on our Mobility business.

And so we have different scenarios out there depending on what outcome happens in terms of does the market recover or does it stay where it is today, which is roughly down 50%? Does it actually start improving? Let's say it's down 25%. Does it actually get to down 10%, or does it actually get back to 2019?

And depending on where that recovery comes, that will really dictate the timing of 2021. And so as we get a little bit more visibility, it seems like, particularly here in the US, things have only gotten murkier and not clearer over the past few weeks here. But as that comes, we'll have a better view in terms of which quarter we think we'll get profitability.

We are going to continue to build out and improve the economics of the Delivery business. We will continue to invest in it, but we are going to continue [ph] to include (00:51:40) the investment there. And then you saw us take the decisive cost action. So again, we will get a better sense as we have a better sense on the COVID recovery.

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

A

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Yeah. And as far as the restaurant stickiness, so we did see some restaurant churn in April. And frankly, that was because some restaurants went through incredibly – unfortunately, some of them went out of business or closed essentially.

Since then, when you look at May, June, July, we have seen restaurant retention rates that have been very, very high all around the world, really historical highs. I think that we've been just in a much, much higher percentage of our restaurant business. You can see the dollars in gross bookings that we do in restaurants has gone up significantly on a year-on-year basis.

We're introducing tools that restaurateur can use, whether they want to launch their own site. We've introduced notifications for Restaurant Manager so that they can – if an order comes in that isn't accepted, et cetera, they know that there's more business out there for them.

So the engagement that we have with our restaurants has gone up. And as a result, the stickiness of our services with our restaurants is really close to all-time highs, if not at all-time highs. Was there a third question that you asked? Did we miss one?

Benjamin Black
Analyst, Evercore ISI
Q

It was more along the lines of the revenue margin for the Delivery business over the next couple quarters, just given favorable mix shift in the US restaurants.

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

I think that we don't want to say quarter to quarter, but we've seen our take rates improve pretty consistently. We think that the take rate path is a positive path, so we see upside as it relates to our take rate. We talked about net revenue margin, long-term revenue margins of 15% for the Delivery business, and we're confident we can achieve those margins and potentially higher margins going forward.

You should note that Q4 from a seasonality basis has – it's kind of pressurized on take rates. So on a year-on-year basis, we see kind of see Q4. Q4 year on year the trends are going to be – should be positive. But from Q3 to Q4, there's usually some seasonality in Q4 as relates to revenue margins.

Benjamin Black
Analyst, Evercore ISI
Q

Excellent, very helpful. Thank you.

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

You bet. Next question?

Emily Reuter
Head-Investor Relations, Uber Technologies, Inc.
A

Operator, can we take the last question, please? Hello, operator, can we take the last question, please?

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Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

It looks like we're missing the last question. All right, everyone, thank you very much for joining us in Q2. It was a tough quarter, but I am just incredibly proud of how the teams executed. I think that we pivoted in a big way. We took some tough action as it relates to cost. We say goodbye to some dear, dear, colleagues of ours, but we have secured the path forward. And while we can't predict the road to recovery, we've got a business that is just moving in an incredibly positive direction as relates to Delivery and on the Mobility side. We are seeing the bounce-back where countries are bouncing back. I think we've proven to you again and again that we can deliver and that when cities open up, Uber opens up, and we're very hopeful of what we see going forward within the context of a very, very tough environment.

It has been, the hopeful look forward is only possible because of the incredibly hard work of our employees and the drivers and couriers who are out there on the front lines. So many, many thanks to everyone involved. And thank you, everyone, for joining us.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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