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Uber Technologies, Inc. (UBER)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and welcome to Uber Q2 2023 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I will now turn the conference over to Alax Wang, Head of Investor Relations. Please go ahead.

Alaxandar Wang
Head-Investor Relations, Uber Technologies, Inc.

Thank you, Sarah. Thank you for joining us today, and welcome to Uber's second quarter 2023 earnings presentation. On the call today, we have Uber CEO, Dara Khosrowshahi; and CFO, Nelson Chai.

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. 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. 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

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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 Form 10-K and in other filings made with the SEC.

We published our quarterly earnings press release, prepared remarks and supplemental slides to our Investor Relations website earlier today and we ask you to review those documents if you haven't already. We will open the call to questions following brief opening remarks from Dara.

With that, let me hand it over to Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Thanks, Alax. For most of our history, profitable wasn't the first thing that came up when you asked someone about Uber. In fact, many observers over the years boldly claimed that we would never make any money. And I understood why they felt that way. The easy availability of capital over the past decade obscured the poor unit economics of many businesses. But we knew they were wrong about Uber, as did many of our investors who backed us over the years.

We reached two important milestones this quarter, which demonstrates the significant transformation we've undergone towards profitable growth: our first-ever GAAP operating profit of $326 million and our first quarter of free cash flow over $1 billion, all the while delivering record platform engagement, strong top-line growth and a new all-time high of $15.1 billion in total earnings for drivers and couriers on the platform.

As we've said before, when it comes to fulfilling our mission and building a generational company, profitability is a means and not merely an end. There are very few businesses that can deliver both strong growth at our scale and continue to expand margins. We remain focused on scaling GAAP operating income and free cash flow while also making disciplined investments to appropriately fund growth initiatives that'll carry us into the future.

I also want to take a moment to thank Nelson, who we announced will be leaving Uber on January 5, after overseeing a smooth transition as we search for a new finance leader. Nelson has been a huge part of Uber's transformation over the past five years, taking us public, steering the company to profitability through unprecedented times, establishing credibility and trust with our investor base and building a phenomenal team along the way. Nelson has been a trusted advisor for me personally, and I know that I speak for the entire company, that we're grateful for everything he's done to establish such a strong foundation for our path forward, and I will sorely miss hearing Nelson unplugged during our all-hands meetings.

With that, let's open the call to questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Brian Nowak with Morgan Stanley. Please go ahead.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for taking my questions. I have two. The first one just on multiyear Mobility bookings growth. Dara, could you just sort of talk us through how we should be thinking through the key drivers of driving single-digit versus double-digit multiyear rides bookings, is it users, is it frequency, is it pricing? What is sort of the mental schematic that we should be thinking through to sort of keep that growing double-digits?

And then, the second one, throughout the quarter, I know you did some interviews and podcasts around improving matching and conversion of the network. I'd be curious to hear about how you're using large language models now to better analyze the network. And how do you think about the potential to use them going forward to even drive higher matching across the overall network?

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

A

Yeah, absolutely. Great questions, Brian. So, in terms of Mobility growth and the formula there, I'd say, listen, it comes down to basics, which is it comes to audience, frequency and price. And our audience – our overall MAPC growth has been 12% on a year-on-year basis for the platform. With Mobility, it's actually even stronger than that. And where frequency has consistently increased in terms of transactions per MAPC, 9% year-on-year.

And if you think about audience and frequency, we think that we should be able to grow audience at strong either high-single digits, low-double digits as we introduce a host of new products out there and as we continue to expand internationally as well. And frequency continues to increase and it's not quite at all-time highs even at this point and in terms of 5.6 uses per month.

And if you look at certain markets like Brazil in Mobility alone, the frequency is over 7 times a month. So, we think we've got many, many years of increasing frequency. Again, as we add more product into the service and generally the world goes more on-demand and then, on top of that you add inflation or pricing growth, call it normalized pricing growth as well, we think we have a base business that can grow in the double-digits. Again, audience even if you say single-digits, frequency single-digits, plus price in the single-digits, you get to a double-digit growth rate for the base business.

Then, on top of the base business, we have a number of new products out there. This is adding taxis. This is adding two wheelers, three wheelers, Uber Reserve, our enterprise product, Uber for Business and Uber for Health, for example, low-cost product when you look at UberX Share or high-capacity vehicles. That whole portfolio today is at a $8 billion gross bookings run rate. It's growing over 80% on a year-on-year basis. We said that going forward that would account for about 35% of our growth and certainly has grown a lot faster than the base business.

And then, on top of that, you have a number of international markets that historically we haven't been in or where we've got to shift our model, our traditional P2P model to different kind of models, whether they're license models,

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taxi models, et cetera. This is at Germany or Spain or Japan or Korea or Turkey, Argentina, a host of other countries out there, that pool of bookings is about $3 billion. It's growing well-over 100%.

So, when you add all that together, which is a base business where we're driving audience frequency, you get some pricing, you've got a portfolio of growth bets that are $8 billion growing over 100% and then you've got a portfolio of international territory countries that we're going into and continue to expand into and some big ones like Germany, you get to, I think, a growth formula that is in a solid double-digits. And then, combine that with the cost discipline that we've shown, we think that we can get very strong EBITDA growth for the foreseeable future in our Mobility business.

The second question, in terms of large language models and matching, et cetera, so there are many different kinds of artificial intelligence, machine learning, et cetera, out there. The large language models are more focused on texts and pictures, et cetera, kind of guessing what the next appropriate answer is. So, they are not as extensible at this point into problems like pricing, matching, routing. Now, those are platforms where we have been using machine learning, deep learning models for years and years and years. This is – it's over the past 10 years.

And as compute increases, as the amount of data that we have on the platform increases, as we combine our data pool, mobility delivery data pool and the availability of couriers and drivers all in a single pool to be able to dispatch them to different jobs, whether it's a job of driving someone or going shopping for someone or delivering food, we just think we have the greatest amount of data out there, the greatest possible number of combinations out there and I think the best team in the world in terms of our marketplace capabilities and our ability to continue to innovate on these machine learning models and it shows in our marketplace throughput.

Our ETAs are stronger than our competitors. Our pricing optimizes more efficiently in terms of total marketplace throughput. And as a result, we're able to grow our Mobility business while delivering significant value to our drivers as well. And it shows in the end in our category position, where we gained category position in 8 out of our top 10 markets. So we're very confident of the top-line growth. And the more data there is out there with the capabilities that we built-in-house, the happier we are so to speak.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks, Dara.

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

A

You're welcome. Next question?

Operator: Your next question comes from the line of Justin Post with Bank of America. Please go ahead.

Justin Post
Analyst, Bank of America

Q

Great. Thank you. Maybe one on Delivery and one on AV partnership. For Delivery, you're in the low double-digit growth. Obviously, non-restaurants is helping a lot there. But can you talk about the state of the restaurant market? Is the reopening hurting growth rates? Do you expect acceleration from here? And how do you think about penetration in that market?

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And then second, maybe give us some details on the partnership with Waymo, how you're thinking about AVs as far as costs long-term and maybe opening up the market to more riders versus potential competition from other companies. Thanks a lot.

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

Yeah, absolutely. So when we look at the delivery business, we're actually quite pleased with the trends there. Last quarter, we grew at about 12% constant currency. That accelerated to 14% constant currency this quarter. Certainly new verticals was a help, but we continue to drive higher frequency as a higher percentage of our bookings come from our members, as we improve the service, as we improve average delivery times to our consumers well and generally basket sizes are a positive there.

So again, you break down the growth in terms of audience, frequency and price, and all of those are positive factors in terms of our delivery business. And going forward, we expect growth consistent with what we saw this quarter or accelerating even from this quarter as well, depending on the marketplace, the competitive position, and how things shake out. But generally, we're quite confident of delivery top-line growth going forward.

And we think the penetration in these markets is very low. So in many of our developed markets there are significant markets there, we wired up anywhere from 20% of restaurants to call it 40% of restaurants in a particular market. So if you think about just all of the inventory out there, these restaurants in the marketplace, they've got loyal clients, they're servicing their local communities, and we think as we wire them up, then naturally more people want delivery because it's another way of staying connected. It's another way of getting great food whenever you want on an on-demand basis. So we think that with the very early penetration into the total restaurants in our major markets being, call it, a range of 20% to 40%, we've got a long, long runway ahead of us.

In terms of AVs, it's very, very early, and we are quite excited about the partnership with Waymo. We think they are best-of-breed in terms of their technical capabilities and their ambition to build in this business. It really is too soon to tell at this point what the economics are going to look like. We're quite focused on building out the product and really working with Waymo and our other autonomous partners because we do think we'll have a – we're developing our portfolio partners out there to have essentially a routing layer between when demand comes into the network to be able to determine on a real-time basis whether or not we should route that demand to a person or to one of our autonomous partners, including Waymo or others, Aurora and trucking for example, we have many delivered partners out there.

That dynamic routing system should allow us to deliver a great service for the eater or the rider or the shipper and, at the same time, shift demand towards an autonomous player but it's demand that they can service well. The pickup is really close to you, the drop off is really close to you, the O&D fit, the capabilities that you built out. So we're at the very, very early-stages of building that technology, and we think we'll continue to build on our partnerships, whether it's Waymo or Serve or Aurora or Motional or Nuro or Volvo or Cartken. There are many, many players out there and we really want to build and support a large autonomous ecosystem.

Justin Post
Analyst, Bank of America
Q

Great. Thank you.

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

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Next question? You're welcome.

Operator: Your next question comes from the line of Mark Mahaney with Evercore ISI. Please go ahead.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay. Thanks. One on Uber One. And could you talk about the kind of product innovations that you're currently working on, you're thinking about for the next year or two to take the adoption of that to a higher level? I know you're rolling it out into more international markets. Can you talk about maybe – is there a lead market where the Uber One – in North America where the Uber One penetration is of users, so we could think about where that could go globally?

And then briefly on the Mobility revenue take rate, it looks like it was a record high 29.3%. Is that sustainable? Is that – is there a reason to think that that just kind of continues to move higher because of operational efficiencies? Thank you very much.

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

A

Nelson, you want to take, take rate first?

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

A

Yeah, so first of all, Mark, yeah – if you – the reported take rate was 29.3%, but if you adjust for the UK merger model change which happened a year ago, the underlying take rate was actually 21.1%. It was actually down versus Q1. So on the underlying basis the take rate decreased by 30 basis points if you actually boil through it all, and it's largely because we made some supply investments in some international markets, particularly LatAm and APAC.

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

A

And then as far as Uber One goes, I'd say one area that we're quite excited about in addition to now expanding into 15 markets is the introduction of Uber Cash for our Mobility business. We think that Uber Cash is a better product for the consumer. One, the discount that we offer is higher because it creates more incrementality for the consumer out there. But it also allows the consumer to essentially earn cash on rides but then spend it across the platform. They can spend that cash on Mobility, Delivery. If they earn on a business trip, for example, they can spend the money on a personal trip, which is pretty cool. So it's a very, very flexible way of spending, and we think it's a win-win. It's a win for the consumer because they could spend across the platform versus apply their discount just to, let's say, that mobility trip. And it's a win for Uber because what we observe is that it drives increased incrementality as far as a membership benefit goes.

Some of the other areas in which we're working on membership is creating more benefits that aren't just, let's say, discounts in nature, to create, for example, upgrade into a comfort or an upgrade into a black or advantaged pickup in airports. So we think it's experiential benefits can really lock in that membership as well. And then we're also working on some technical capabilities, for example, upselling members from a monthly membership to annual memberships that drive long-term retention. They don't necessarily drive the number of members or the, let's say, gross bookings penetration near-term, but long-term, they set up the membership platform to create longer retention, so to speak, over the platform.

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Right now, membership is in the high-20s as far as gross bookings penetration across the platform, and Delivery is in the mid-30s. But in Taiwan, for example, members account for significantly higher than 50% of our gross bookings. So that's really our aim across the company on a global basis is getting to that 50% level. We are far from it, but we know that it can be done because we're doing it today in Taiwan, and it's really about continuing to expand globally and draw penetration across our user base.

Mark Mahaney
Analyst, Evercore ISI

Q

Thank you, Dara. Thank you, Nelson.

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

A

You're very welcome. Next question?

Operator: Your next question comes from the line of Ross Sandler with Barclays. Please go ahead.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

Hey, guys. On the topic of improving profitability, the incremental margin for Mobility continues to look pretty solid. As we look ahead towards Uber getting closer to that double-digit EBITDA margin target, what are the main drivers from here? Is that a function of just bringing the markets that are still a little bit below average, closer to that average? Is it layering in some of these new services? Any additional color on that would be helpful.

And then, second question is around new travel options. So, in the UK, you guys have recently added the ability to book train and bus tickets and a few other things. What's the early learnings from these efforts? And how do you view the longer-term opportunity around some of these new things outside of the core Mobility and Delivery business? Thanks.

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

A

Ross, I'll take the first one on Mobility profitability. And so, as you know, we continue to march up the margin expansion and we have over the previous quarters. We'll continue to do it. It may not be a straight-line march, because there are some times where we'll make offensive investments in some either new products or new geographies. There are also going to be quarters where, if you think about our profitability margin, we might invest a little bit more in drivers, but sometimes insurance pops up as well as some other consumer incentives.

But as you know, we are committed to continuing to march the Mobility profile up. It's really simple in terms of we are really levering our fixed-cost base. As you know, we're really focused hard on both containing our fixed costs, getting leverage on all the variable cost items, including insurance. And then, what we're doing is we are seeing some adoption of some really good new products like Reserve and some of these other areas. And so, what that really results in is margin expansion.

And you should expect that the company will continue to maintain that kind of cost discipline and margin expansion. Yes, there will be some markets where we have to continue to build on the expansions, particularly in some of the big growth markets like a Germany and some other markets out there. But you should expect over time that those margins will continue to march up like they have been over the past period of time.

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

A

And if you look at our efforts in the UK, it's really borne out of two different trends that we observed. One is that, generally, we just want to wire up every single vehicle in the world that's available to move people or things around and you saw our efforts in terms of transit, for example, buses and subways and/or taxis that we used to compete with. Now, we think we can – we should have every single taxi on Earth on the platform. So, that was one trend that we have been focused on, not just in the UK, but around the world.

Second was, this to some extent is from my previous experiences, you look at tour operators in the UK that are providing, for example, coach transport to airports, et cetera, travel is a very important ecosystem for us, both in terms of pickups and drop-offs and we have a very significant audience of international travelers and UK travelers and we said, hey, why can't we go after this tour operator market?

And essentially, we are building up services that we think rival traditional tour operators with what I will call the Uber Delight. We already know who you are. We know your identity. We know your payments. Tony West, the General Counsel, was saying last week he was in the UK and he booked a Eurostar ticket beautifully effortlessly on the app. And frankly, early on in our experimentation with travel and the tour operator market, we're a little worried that, would these additional products on the app distract the user from the mainline use case from I want to get from Point A to B, I want to go to [indiscernible] (00:23:01) et cetera, just get me there?

And what we're seeing more recently is that with the power of machine learning, we can offer the right product to the consumer at the right time, so when we know it's your morning commute on a Tuesday morning, we don't offer you the Eurostar, but when we think that you might be open to new and different ways of using Uber and we want to be your kind of the operating system for everyday life, not just for you to go to work, but to be that travel companion as well, we will extend those services, offer those services. We've now expanded into flights as well and we're actually seeing engagement with users being higher than we thought and we're not seeing cannibalization of the base business.

So, we're quite hopeful about business. And again, that tour operator market in the UK is a very, very large market that we can go after. Early signal is positive.

Next question?

Operator: Your next question comes from the line of Doug Anmuth with JPMorgan. Please go ahead.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. Can you talk about the expansion of up-front fares and up-front destination and just the improvements that you're seeing for both drivers and riders at this point?

And then also, where you are in fully rolling out the new shared rides experience for UberX Share in particular? Thanks.

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

A

Absolutely. So in terms of up-front payers, it's a process in terms of expansion, and we're very, very happy generally with our direction there. The most important factor is getting to up-front destinations for the driver, so

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that they know they have all the information that they need in order to accept that trip or not accept that trip. It's driving cancelations – driver cancelations, which are, I think, the single worst experience for a rider; when you ask for an Uber, the driver accepts, you've been waiting for four minutes or five minutes and then the driver cancels, that's a very, very negative experience because you have to start the cycle all over again.

Cancels are down significantly because again, the drivers who accept your trip accept it knowing much, much more. So from that standpoint, we see up-front prices as being a significant positive for the consumer experience. There are still things that we have to figure out. So for example, the up- front price and why we're offering a particular up-front price to a driver is something that we still have to work on, whether if sometimes we will provide higher up-front price if the driver has a long pick up time, so has to drive for 10 minutes for a pickup instead of two minutes for a pickup. We work that into the up-front price, but I don't feel like we're transparent enough in communicating that to the driver.

We also have opportunities to improve our pricing in up-front pricing. So for example, if you take a trip to a place where the suburbs, where you're less likely to have a ride back or you're more likely to deadhead back, to work that into the up-front price in an algorithmic way. So we're getting a lot of visibility into driver acceptance rate or non-acceptance rate, and we are using that to power algorithms to more smartly price a trip. And then what we really have to do is communicate why we're pricing a trip at a certain price more effectively to drivers. So we're very, very optimistic.

The marketplace metrics when we look at ETAs, when we look at conversion rates or – and driver cancels are all moving in the right direction, and it's about building better algos and improving our pricing going forward and that's something that is core to, let's say, the skill set of our marketplace team.

In terms of UberX Share, we are quite positive in terms of the momentum for UberX Share. We are now expanding X in terms of the markets that we're in. We're now in over 50 markets. In New York, I'm taking this call from New York, we do 100,000 weekly UberX trips every single week. So that product is expanding, and we are showing match rates of over 40% in certain cities in a Vancouver or in a Toronto, which is incredibly promising in terms of UberX Share's being able to drive efficiency in terms of kind of distance efficiency that then we can translate to the consumer.

The more data we get about routes and about which routes we have a high probability of matching and which routes we don't have a high probability of matching, we can improve our pricing. So for example, 30% of trips now are covered by what we call hot routes. A hot route is an up-front discount versus a post-match discount based on the likelihood of matching. So I would say it's early, but the more combinations we have, the more matches we have in terms of the marketplace, the stronger X Share product becomes.

Our US competitor – our significant US competitor, Lyft is out of that market, so we think to some extent this is a great opportunity for us to build out liquidity in shared trips, and it lowers prices for consumers which is great and it obviously lowers our environmental footprint and reduces congestion in cities as well, which we think long-term is a very, very good reason to continue to invest in the product.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Thank you, Dara.

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

A

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All right. Thank you. Next question?

Operator: Your next question comes from the line of Eric Sheridan with Goldman Sachs. Please go ahead.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Thanks for taking the question. Maybe a multi-parter on the advertising initiatives. As they continue to scale, what are some of your key learnings with respect to the type of advertiser, the different industry verticals that are most attractive to coming in and allocating ad budget across your ad impressions?

And how do you see the scaling of ad impressions when they're measured by top of the funnel, bottom of the funnel, sort of brand versus conversion advertising and how they might scale given the differences of engagement between the Mobility business and the Delivery business and the different consumer behavior you might see on those platforms? Thanks.

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

A

Yeah, Eric, that's quite a mouthful. So, first of all, I would say in terms of our ad business overall when you add it all up, our run-rate is exceeding about $650 million, and we're making very strong progress towards the $1 billion target that we have in 2024.

Today, the vast majority of our ad business are SMBs, who are essentially bidding for higher position and higher productivity in the Uber marketplace. The return that they get on their ad spend ranges from 7 to 9 times return on ad spend. So this is very, very healthy spend that is significantly profitable that essentially allows small and medium businesses to build their business on the Uber platform, and something that we're quite excited about.

Some of the newer initiatives that we have now are one, generally extending our reach with enterprise customers. Enterprise customers do have different needs than SMB customers. Typically they're looking for more targeted advertisements or advertisements during certain times of day. For example, they might want a lot of help during breakfast and not as much help, let's say, during dinner time when they're busy anyway.

And so we are now in the process of building out tools that are specifically built for enterprise customers because as we look at enterprise penetration of their ad spend as a percentage of gross bookings and, call it, if we have a target about 2% of gross bookings in advertisement, enterprise customers right now are significantly lower than that number. And we think building out targeting tools both in terms of time but also customers, et cetera, for enterprises, can increase the enterprise penetration in our marketplace. We think it's a huge, huge opportunity for us.

Then we think the third area that we're focused on, our CPG advertisers, so we launched sponsored items in the last quarter, which enabled CPG advertisers to feature priority products within the Uber Eats app. This is a partnership we have with Criteo, and CPG spent billions of dollars in advertising, again highly targeted advertising for the specific products that they want to promote, again to a specific audience that's typically a grocery audience that is – that continues to grow.

And then certainly last but not least, we have a bunch of other products. But one that I'll mention is our journey ads. Journey ads essentially puts advertisers in front of our mobility customer. This is a very, very high-end

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customer. The engagement with the ads is pretty high at a 3% clickthrough, and we're pretty excited to introduce video advertising as well to this both mobility, Eats, new verticals audience as well.

So there's a portfolio of products that we're building. Highest penetration is SMBs, but we're really building now the full portfolio of the product including CPG advertisers, enterprise customers and then getting premium advertisers like Apple in front of our mobility business as well.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks for all the color, Dara.

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

A

You bet. Next question?

Operator: Your next question comes from the line of Deepak Mathivanan with Wolfe Research. Please go ahead.

Deepak Mathivanan
Analyst, Wolfe Research LLC

Q

Great. Thanks for taking the questions. One on Uber One and then another on new verticals. On Uber One, memberships and volumes continues to be growing steadily. Are you also starting to see now the benefits on contribution margin and profitability as some of the earlier cohorts kind of mature and habituation becomes a part of it?

How does profitability or maybe incremental margin so the subscriber base compare versus non-subscribers at this time? And then on the new verticals, you noted that it's about 10% of the bookings inside Delivery. Can you give some color on what categories are driving growth primarily right now? And where do you see or where does new verticals stand in terms of profitability with the core restaurants business? Thank you so much.

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

A

Absolutely. So in terms of Uber One, we're less focused on profitability generally as we are in driving engagement and retention of the Uber One product,. So Uber One members are profitable, but our profit margins from Uber One members are generally lower because we're delivering on discounts, let's say, delivery discounts or again cash back on their rides.

But their lifetime value is significantly higher because members spend four times the amount of non-members on a monthly basis and member retention is about 50% greater than non-member retention. So, at this point, we're not really focused on driving member margins. We want to essentially deepen the penetration of members as a percentage of total gross bookings, both across Delivery and Mobility. The good news is that these members are profitable. I would say we will get to focusing on profitability a year or two years from now, because right now it's much more about engagement and the general experience.

In terms of new verticals and the categories, the first new vertical category that we penetrated was the convenience category. This is the small shopping cart, $20, $30. And obviously, we have a bunch of convenience merchants out there. We're now much more focused on grocery. These are large basket sizes, appointment

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viewing, coming back every week. So, our grocery penetration continues to increase, especially as we add new grocers into the new verticals family.

The Uber audience, we've got the largest audience of any platform out there and we're finding that with our new verticals partners, 90-plus percent of the traffic that they see from Uber is unique and differentiated from their own proprietary traffic or whatever partner that they had before us. So, it's a huge new audience that comes in that is helping us penetrate into the grocery category that we're very excited about.

The newest area of new verticals that we're pretty excited about are also add-ons now. So, these are in circumstances where we see you order from a restaurant and we know that we have other merchants close to that restaurant, especially – and that courier essentially can go and pick up your food at the restaurant and then go pick up the add-on. We offer those add-ons to you.

So, depending on the circumstance, it might be an add-on from a 7-Eleven. It might be wine from a liquor store or for me, which was – this was my experience last week, it was ice cream and great ice cream from a small shop nearby. Those add-ons really are an entrée into sort of new verticals world and what we're seeing is, as people order add-ons, one is this incremental volume into the platform, seeing couriers picking up the two packages, so it's pretty easy and quite delightful for the consumer, but at the same time, it introduces the consumer into this new family of products, which now is responsible for the highest percentage of our audience ordering new verticals on each, which is about 13%.

We think we have a long way to go there on new verticals. From a profitability standpoint, we have a couple of countries that are already profitable in new verticals, but, overall, we're losing money on the overall portfolio. But you can see in our overall Delivery business, we're able to significantly improve margins as we take the scale of the business that we're achieving, the cost control of the business, reducing cost per transaction as the marketplace gets more liquid, we can invest some of that money into new verticals and at the same time, we can increase overall margins. So, right now, we think we have a pretty good balance there and we don't expect that to change.

All right. Can we have the next question?

Deepak Mathivanan
Analyst, Wolfe Research LLC

Q

Thank you, Dara.

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

A

You're welcome.

Operator: Your next question comes from the line of Nikhil Devnani with Bernstein. Please go ahead.

Nikhil Devnani
Analyst, AB Bernstein

Q

Hi. Thank you for taking my questions. Dara, helpful to hear the comments on frequency and Mobility and see the slide on engagement per ride type. When you look at that slide, it seems like clearly greater usage amongst kind of the lower-cost rides. So, do you feel that you need to bring the overall cost to the service down to keep driving

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frequency higher? Or do you think that just the new ride types and supply improvements can kind of get you there, even if prices are going up with inflation?

And then, maybe a second question on profitability. Incremental margins keep beating. When you think about this business beyond 2024, is there any reason we shouldn't be holding you to that 7% or better framework still or is that something we can continue to anchor to? Thank you, both.

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

So, I'll start on the incremental margins. So, look, we remain committed to at or above the 7% incremental margins that we've laid out previously. We are going to continue to balance it with continued investments in some of the gross initiatives that folks are asking about.

If you look at the midpoint of our Q3 guidance, it implies 9% incremental margins. And if you think about how we performed, so we're halfway through the three-year plan we talked about last February. And as you know, we've overachieved against those every quarter. And so, you should expect that we will continue to do quite well against that framework. But, yes, you should expect at least 7% incremental margins for the foreseeable future.

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

Yeah, Nikhil, in terms of your – the frequency question, in typical Uber fashion, I'd say we want both, in that, one, generally it's, as we find that as we increase the choice, the various ways of transportation to consumers, regardless of whether it's low-cost or high-cost, we drive engagement. The average customer who uses more than one product on Uber spends significantly more than the customer who, let's say, only orders UberX. So I think that there's one set of activity that we have, which is just get you to buy multiple products, whether it's multiple mobility products or a combination of mobility delivery products. That drives engagement and frequency on the platform.

The second area that we have is membership. And just mathematically, as we increase the number of members that we have, as we increase membership retention and a higher gross bookings penetration of members on the platform, members book more. They spend 4 times more, and the frequency is significantly higher. So mathematically, we will just get higher frequency as well.

And then the third for us is low-cost. And if you look at our low-cost products, high-capacity vehicles, Moto, which are two-wheelers, UberX Share, all of those products have very high frequency. They become a part of everyday life for people. Often they become the primary source of commute for some of our audience, and therefore, we do think that low-cost can be a significant differentiator but a significant driver of increasing frequency around the globe. But I think it's all of above, and that's why we're quite confident that we can keep increasing audience and frequency and price to some extent on a comparable product-to-product basis over a long period of time.

Nikhil Devnani
Analyst, AB Bernstein
Q

Great. Thank you.

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

You're welcome. Next question?

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Operator: Your next question comes from the line of Lloyd Walmsley with UBS. Please go ahead.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Thanks. Two questions if I can. First, just looking at kind of your leverage ratio, it looks like it will be set to fall under 3 times post next quarter based on the guide. Is that a magic number? Or is there a magic number for you all or ratings agencies after which you can actually start to return capital? How should we be thinking about that?

And then second one, can you just give us your updated thoughts on the competitive dynamics in the US rideshare market with competitor prices changing? Any impact on share or unit economics to flag out? And then there've been some reports on reduced booking fees of late. Anything to that? Or how should we think about that? Does that play into this competitive dynamic in the US market? Thanks.

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

A

So I'll handle the first question. So you've heard us on previous calls, our first goal is to make sure that we have adequate cushion on our balance sheet. We've been clear about that from day one that we always have ample liquidity, which we do. You're starting to see the ramp on the free cash flow. That started last year that you obviously saw this quarter and that we expect to continue for the out quarters.

We have talked in the past about continuing to make progress towards investment-grade, so that is important to us. It is not a gating item, for which we're going to talk about capital return on that, because we do know that, as you think about in the coming quarters and years, that we will continue to ramp in terms of our available free cash.

And so we will evaluate returning excess capital to shareholders as our cash flows ramp over the next few quarters and as we further monetize our equity stakes. So again, I just want to be clear that it's not a gating item. But we do – we are going to continue to work towards investment-grade, Lloyd. And as you know, we've – that's how we've managed from the start because it is important to make sure you have a very strong balance sheet, and we think it's a huge competitive advantage, our cost of capital versus anybody that wants to compete against us.

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

A

And then in terms of share and booking fees, first of all, on the booking fees, I think there's some kind of report from a Yipit I think it was in terms of booking fees. That data, from what we can tell, is inaccurate. So we have updated booking fees and generally re-balanced booking fees based on our insurance cost.

Our booking fees cover a number of areas, but insurance costs are a significant portion of that, now we've taken booking fees up in certain markets, for example, Los Angeles where due to the tort environment and [ph] certain of these as (00:45:17) we think of these [ph] tort warriors (00:45:20) insurance costs are significantly higher than they are pretty much anywhere else in the country.

We increase booking fees, and then in certain other markets, where we have seen effective tort reform, et cetera, at Georgia or Virginia, we're able to take prices down for consumers, which is exactly what you want, which puts a higher percentage of, let's say, the earnings in driver pockets, which is terrific. So that was a rebalancing and certainly wasn't as material as the report that we saw.

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I wouldn't expect any significant movement from that rebalancing. It's just – it kind of creates more efficiency in the marketplace because we're reflecting the true cost of a trip versus averaging over significant volumes nationwide. So we think kind of the de-averaging of our platform generally for these costs is able to drive higher marketplace throughput at the right efficiency which is a goal of that rebalancing.

In terms of our share, listen, Lyft is – was not competitive in terms of pricing 9 to 12 months ago, they've taken some tough actions, and they are competitive in pricing now. Generally, our pricing is cost quite comparable to Lyft, and that has resulted in a, I'd say, a constructive competitive marketplace. Our category position in terms of gross bookings share continues to be at or close to all-time highs, but we have a competitor there who's a tough competitor, who now is competing effectively, and we think the US is going to be a two-player market for some periods to come.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

All right.

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

A

Thank you very much.

Operator: This concludes the question-and-answer session. I will now turn the call to Dara Khosrowshahi for closing remark.

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

All right, everyone. Thank you very much for joining us, and a big huge thank you to the Uber team and especially Nelson for taking us from – through some big ups and big downs and through our first-ever profitable quarter in terms of GAAP operating income. Nelson and I get to talk about it, but it's the result of the work of thousands of employees here at Uber who are the true heroes. So hopefully more to come. Lots of challenges ahead of us, but thank you to the team and a big thank you to Nelson.

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

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