07-Nov-2023

Uber Technologies, Inc. (UBER)

Q3 2023 Earnings Call

Copyright © 2001-2023 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

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

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

OTHER PARTICIPANTS

Ross Sandler
Analyst, Barclays Capital, Inc.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

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

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Benjamin Black
Analyst, Deutsche Bank Securities, Inc.

Kenneth James Gawrelski
Analyst, Wells Fargo & Co.

Michael Morton
Analyst, MoffettNathanson LLC

Mark Mahaney
Analyst, Evercore ISI

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Brianna, and I will be your conference operator today. At this time, I'd like to welcome you to Uber's Q3 2023 Earnings Conference Call. Please note that this call is being recorded. All participants are in listen-only mode. After the speaker's remarks there will be a question-and-answer session. [Operator Instructions]

Thank you. I will now turn today's call over to Alax Wang, Head of Investor Relations. Please go ahead.

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

Thank you, operator. Thank you for joining us today and welcome to Uber's Third Quarter 2023 Earnings Presentation. On the call today we have Uber's CEO Dara Khosrowshahi and CFO Nelson Chai.

During today's call we'll 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

Copyright © 2001-2023 FactSet CallStreet, LLC

statements. And we do not underwrite any obligation to update any forward-looking statements we make today, except as required by law.

For more information on 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 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. Q3 marked another very strong quarter for Uber. The year-on-year trip growth accelerated to 25% from 22% in Q2, outpacing gross bookings growth for the third quarter in a row. Trip growth was powered by strong audience and frequency trends, as consumer activity remains robust heading into our busiest period of the year.

Notably, monthly trips per MAPC continue to steadily increase, matching our all-time high. At the same time, adjusted EBITDA exceeded our Q3 outlook. And our adjusted EBITDA margin exceeded 3% for the first time.

Simply put, the growth flywheel we built, coupled with rigorous cost discipline, is enabling us to generate strong leverage.

We're exiting the year with tremendous momentum and reliable execution. Our Q3 results and Q4 outlook demonstrate that Uber continues to drive profitable growth at scale. We remain focused on scaling GAAP operating income and free cash flow, while also making disciplined investments to appropriately fund growth initiatives that'll deliver long-term, sustainable financial value.

Finally, I want to recognize and thank Nelson for his immense contributions to the company and his partnership with me over the past five years. Looking ahead I'm thrilled to welcome Prashanth [Mahendra-Rajah] as our new CFO, starting tomorrow. And I'm confident that he'll continue to build upon the great foundation that Nelson has built.

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

Copyright © 2001-2023 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Ross Sandler with Barclays. Please go ahead.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

Hey, Dara. Just a couple questions on the Mobility business. Could you just flesh out a little bit more in detail what the drivers of the acceleration in Mobility gross bookings were in the third quarter? And as we look out over the next few years, what do you see as the biggest drivers of sustainable Mobility gross bookings growth, now that we've kind of caught up with the pre-pandemic trip volume and frequency? What do you see for UberX versus the new areas? Thanks a lot.

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

A

Yeah, absolutely, Ross. So in terms of Q3, listen, the quarter was strong across the board in every single geography, pretty much in every single product.

But a couple of geographies to call out are the Asia-Pacific regions and the LatAm regions. These areas accelerated pretty substantially on a year-on-year basis between Q3 and Q2 on big absolute numbers.

And some of those countries were kind of very early in penetrating. So for example, Japan and South Korea, our penetration rate is miniscule compared to where we are in the rest of the world. And some of the newer products that we're building out, for example, Hailable taxi, are very large parts of the marketplace, again, in a Japan, in a Taiwan, in a Hong Kong, and South Korea.

Then we got products like Moto, which are two wheelers, that are growing very, very quickly in Latin America as well, in Brazil, and a number of other LatAm markets.

So while the growth was pretty broad, I do think that the APAC and LatAm markets in particular were super strong, partially because of some of the newer products that we're rolling out.

And then if you look more broadly, like we had a very, very strong summer, augmented by travel. As you know, travel has been absolutely booming, leisure travel. And Uber has a very high penetration of call it the travel consumer. And then what we're seeing now, back to school is also going very, very strong. So that absolutely added to our Q3 strength and acceleration that frankly surprised us in terms of its strength.

In terms of the Mobility business and kind of the growth construct, how do we think about the Mobility business going forward multiyear? Kind of, we tend to look at the business from a business construct and then from a user construct. Right?

So from a business construct, number one driver for growth, and this is of the core UberX business that grew over 20% on a year-on-year basis, is about adding more drivers to the platform.

Copyright © 2001-2023 FactSet CallStreet, LLC

We added – we're now at 6.5 million earners on our platform, up over 30% on a year-on-year basis. And this is a supply-led marketplace. As we add more drivers, the marketplace gets more liquid, ETAs come down, surge come down. That pushes essentially demand. So adding more drivers essentially drives the marketplace.

Then on top of that base business we have the new growth initiatives that we've got, that we have. These are businesses that we've really built in the past five years, essentially from zero. These are Hailables products, taxi, three wheelers, two wheelers.

Our Uber for Business product that is actually seeing some strength now, which is great. Our UberX Share and low-cost products, such as high-capacity vehicles. And then Reserve as well. That collective is now $9 billion and is growing over 80% on a year-on-year basis.

And then on top of that, you've got international markets with very big GDPs where, as you know, we just weren't in those markets five years ago. And we've tuned our business model to be able to penetrate into those markets. These are the Germanies, Spains, Argentina that grew more than 150% on a year-on-year basis, Japan, South Korea, and Turkey.

So really you've got kind of a base business that's driven by supply. On top of that you have a bunch of new products that are big, $9 billion annual run rate, growing over 80%. And then you've got these international markets, which are big GDP markets that we've got very low penetration to. So that's the business construct.

And then the other way that we look at the business is actually from a consumer view. And that's about driving new audience, driving frequency, and then price as well. So if you think about audience, all of these new markets, the international markets that we're getting into, many of them are entirely new audiences. Or when we introduce taxi into a small village in the UK, that's new audience that comes on to our platform.

Then when we think about audience, we think about demographics. So for example, for the high-income consumer, we're introducing products like Reserve, where you can pay more for higher reliability. And we're seeing that Reserve usage is actually incremental. And then for lower-income consumers, we're introducing like UberX Share, high-capacity vehicles, et cetera.

So demographically we're expanding. Internationally we're expanding. And then we also look at age. So like we introduced Uber for teens for younger consumers. Turns out teens tend to use Uber just as much as adults do, which is great. And we think they'll continue to use it as they grow up.

So that's the audience kind of construct for us, which is global, income level, and age. And we have products specifically for all three of those.

And then when you get into frequency, only a third of our annual users use us on a monthly basis. So our job is to increase that one-third. Membership is a very, very big driver there, as you – we got now 15 million Uber One members. Members spend four times more than non-members. So as we penetrate into the membership, frequency naturally increases.

All of the use cases that we're introducing, like Reserve, drive frequency as well. And then what we're also seeing is that users who use more than one product on Mobility and Delivery tend to spend more on the platform. They spend up to three times more, for example, in Mobility if they take two different products as well. That drives frequency as well.

Copyright © 2001-2023 FactSet CallStreet, LLC

And then price this year essentially has been flattish. And that's a good thing. But I think going forward, you can expect our services to grow price along with inflation as well.

So if you're driving audience, driving frequency, and then price is kind of – we're a price-taker, so to speak, you get to a pretty good growth construct over the long term.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

Thank you.

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

A

You're welcome. Next question?

Operator: Our next question comes from Brian Nowak with Morgan Stanley. Please go ahead.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks for taking my questions. And I have two sort of somewhat higher levels, Dara.

First one I want to ask you is sort of on the types of machine learning or data analytics that you've done on the platform so far. Give us some examples of where you'd be able to improve matching, improve conversion on the platform. And where do you still see more opportunities to improve that as you kind of look into 2024?

And then the second one, there's been a lot sort of written in the press about new potential product extensions, travel, you mentioned B2B, et cetera. As you look at these, which of these new potential products sort of have you most excited that could move the needle over the next couple years? Thanks.

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

A

Yeah, absolutely, Brian. So I think on the ML front, it's actually hard to say where ML can improve, because it's pretty much in every part of our business. Like we've been developing and using machine learning for many, many years now.

Just a couple of examples might be like earner onboarding. Right? You take that for granted. But actually now what we're using is we're using machine learning technology to – like computer vision to essentially allow the machines to recognize documents more reliably, transcribe them accurately, so that your onboarding experience and the time to onboard could be reduced drastically. Errors can be reduced as well. So essentially, machines can read these documents better than humans can. That's one example.

On the productivity front, we're rolling out GitHub Copilot for software developers. We have already seen, because of investments that we made in our tooling, our average software developer is much more productive now than they were two years ago. And we think that GitHub Copilot will improve productivity and hopefully will also reduce mistakes on the platform as well.

So they will – we'll have ML algorithms debug developer code before that code kind of is tested, et cetera. So we think that that can increase the productivity of our business as well.

Copyright © 2001-2023 FactSet CallStreet, LLC

We're pretty excited about conversational support. So these are large language-based tools that essentially help our customer service agents. They will go through customer history. They would get details about the particular issue that the customer might be calling about or chatting about. And will be giving recommendations on what to do based on our policies all around the world.

Humans have to kind of go through all these kinds of policies. Now machines do. They give humans the recommendation. And eventually then machines are going to be talking with our customers on the frontline as well.

And then on the Delivery marketplace and the Mobility marketplace, we've been using advanced machine learning algos for routing, for matching, for pricing. All of these algos generally improve on a year-on-year basis and accrue hundreds of millions of dollars of either incremental bookings [ph] that call it VC Neutral (14:14) or can improve matching algorithms to reduce, let's say, cost per transaction on the Delivery space. So these are just some of the areas where ML is working out.

And listen, for us ML is a powerful technology, period. But because we're the largest player in the world, we are gathering more data from more customers across a wider range of behaviors than anybody else. So we think in a world where ML becomes more important, Uber becomes competitively stronger, so to speak, because of the set of data that we have that's really unmatched and unrivaled, including customers who are engaging both in the Mobility and the Delivery marketplace. So it's pretty powerful.

In terms of the other use cases that we're seeing, listen, Uber for Business is something that's very, very promising. We continue to penetrate into the corporate space. It's great to see companies now get their travelers on the road again. And we definitely saw an uptake there.

But with Uber for Business, we're also looking at verticals, like health and transit as well, that are very, very healthy and hold a ton of promise. For me, travel is something that's very much in my heart because of my old Expedia days. And we talked about travel being a very, very strong kind of signal for Uber and travelers typically using Uber because of our global footprint.

Kind of perspective here. In 2022, nearly 700 million trips globally were taken by a consumer that's out of their primary city, which is pretty amazing. And every quarter, about 20% of our users took a domestic trip outside of their primary city.

So our users, they're high-income earners. They tend to travel a lot. And that becomes a good kind of segment for us to target.

We've done so in the UK, where we're quite optimistic about our travel business in the UK. And some of the early signal that we see for example in the UK, you can book trains and buses. 60% of train and coach users and 25% of our flight users are now repeat users on Uber as well. So they try the product because we have big audience. But more importantly, they're coming back to the product, which is great.

So we got multiple avenues for growth. And travel and business are just one amongst many, honestly.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks, Dara.

Copyright © 2001-2023 FactSet CallStreet, LLC

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

A

You bet. Next question?

Operator: Our next question comes from Eric Sheridan with Goldman Sachs. Please go ahead.

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

Q

Thanks so much. And first, thanks to Nelson for all the insights and conversations over the years. Thanks. I'm wishing the best going forward.

Maybe, Dara, I think two bigger picture ones for you. One on Uber One. As it continues to scale globally and the base of subscribers continues to build, what are some of the early learnings that have now translated into scale about how you're thinking about bringing that subscription to market more globally than in the early years? And what that might mean to the business in the years ahead? That's number one.

And then on driver supply, we were in a very different position a year ago where you were using a lot of incentives on driver supply. As we come out of that period and things have normalized, how are you thinking about optimizing driver supply for efficiency, cost, maybe even insurance? So we should be thinking about that as an initiative going forward? Thanks so much.

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

A

Sure, Eric. So as far as Uber One goes and lessons learned there. Honestly, the Uber One customer behavior has been pretty darn consistent, in that Uber One consumers spend four times the amount that non-members do on a monthly basis. And retention is more than 15% higher for members versus non-members.

That pattern has remained. There was some question as to, hey, as we expand the user base, is that 4x going to come down to a 3x, for example? But that hasn't happened. The 4x and the 15% retention have continued.

The focus now for us with Uber One I'd say is threefold. One is keep expanding geographically. And we just introduced Uber One into a couple of more markets as well, so now we got 15 million members across 18 countries.

Number two is really focus on Uber One retention. And when you look at Uber One benefits, the benefits are typically monetary in nature. So you get discounts on your food. You get Delivery for free. You get cash back on Mobility.

What we want to do going forward is also provide benefits that are non-monetary in nature. Let's say advance matching, upgrades to different cars, or head of the queue matching when you get into an airport when there aren't that many cars around. Those are more non-monetary benefits that we think that our members will very much appreciate.

And the design spec there is to drive member retention. Retention levels are high. But they can always get higher. And we always want to make sure that we're not kind of driving just member growth. We also want to drive retention as well.

Copyright © 2001-2023 FactSet CallStreet, LLC

And the third area is really optimizing around our Mobility use case. Delivery already members count for more than 40% of bookings. With Mobility, it's in the mid-teens. It's much earlier in terms of penetration. And I think we can do a lot more in terms of the member experience for Mobility users and just continuing to optimize that.

Turning to the driver supply question. Our supply position is the best that it's been. We've got over 6.5 million earners. And I would say those earners are actually earning this quarter $15.9 billion, which is up 23% on a constant currency basis.

So we're really proud of our being one of the largest earnings, if not the largest earnings platform, in the world in a flexible way. And the fact that earnings are actually going up faster than gross bookings, which is something that we're proud of, and at the same time, we're driving a bottom line and free cash flow for investors, that's super attractive as well.

That said, we are optimizing on our earners' cost. So we don't have to lean into incentives the way that we did previously. So if you look at our incentive spend for earners, it's down about 41% on a year-on-year basis globally. It's down about 50% in the US.

Because with the liquidity in the marketplace, kind of natural earnings levels are high at about $33 per utilized hour across the US. It's $50 here in New York City per utilized hour. So earning levels are high. That allows us to take incentives down.

But we're also working on other parts of onboarding efficiency. When we run a background check, for example, for a driver and running a background check. If we qualify a driver, if we know that driver is highly, highly interested, running a background check. If we don't think we can qualify, let's say that earner delaying the background check, that again delays expenses as well.

So across the business of bringing earners on, not just incentives. We're looking to optimize the cost there, and so far, so good.

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

Q

Thank you.

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

A

Next question. You're welcome.

Operator: Our next question comes from Ron Josey with Citi. Your line is open.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the question. Dara, I wanted to ask a little bit more about the non-X gross bookings, now at that $9 billion run rate, growing 80%. Are any of these new offering? Talk to us about how these new offshoots creating demand. And any product specifically seeing greater demand versus others, meaning Reserve, Comfort, Green over X, things along those lines? Thank you.

Copyright © 2001-2023 FactSet CallStreet, LLC

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

A

Yeah, absolutely. So these new products are definitely creating demand. And they create demand in different ways.

So for example, Hailables or taxi product, if you look at the number, the percentage of new customers coming in from Hailables, it's about twice the percentage of gross bookings that taxi represents.

That's because in a bunch of markets actually the only way we can penetrate into those markets is through taxi. Japan as an example. We have a very, very small, high-end, peer-to-peer business. But we're going in, partnering with taxis in Japan. We actually just went to taxi association in Japan as well.

And those taxis essentially are brand new supply, introduced us to a whole new audience in Japan. And actually for tourists coming into Japan as well, kind of supports the local economy. So that's an entirely new audience. That's true in many parts of Argentina, in Turkey, where these new business models essentially are bringing new audience.

The other one that I would point out too are our low-cost products. So if you look at UberX Share for example, it is taking some trips away from our UberX business. We do see kind of lower-income consumers move to UberX Share faster. So we think that's providing them relief based on kind of the economic hardships and all the inflation that we're seeing there. So we're absolutely seeing a higher penetration of UberX Share for lower income consumers. But it's also introducing us to a new audience as well.

Same thing in Moto. These are two-wheelers in Latin America. And again a newer, lower-income audience that previously couldn't afford Uber now can afford Uber as well.

So all of these either drive audience or frequency or both. And obviously, they're strategic in terms of our long-term growth formula.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thank you, Dara.

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

A

You're welcome. Next question?

Operator: Our next question comes from Doug Anmuth with JPMorgan. Please go ahead.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. One for Dara, and one for Nelson.

Dara, what do you view as some of the primary compounding advantages you're currently achieving just across operational best practices? And where do you see the biggest opportunities going forward?

Copyright © 2001-2023 FactSet CallStreet, LLC

And, Nelson, you've improved profit significantly over the past year. Incremental margins now running at about 9% in 3Q. How are you thinking about key investments and hiring into 2024? Thanks.

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

Absolutely, Doug. So in terms of the compounding advantages, I'll go back to what I was talking about in terms of machine learning, which is becoming a much more important part of the business.

So we're – just we have more data points in terms of opportunities to match riders to drivers or eaters to restaurants, to couriers.

And for example, if you take a look at our driver upfront pricing, the change that we made. It had a huge benefit for drivers. Right? Drivers can see where their destination is. And as a result, can accept or not accept that trip based on destination and upfront price that they see. It's a very, very powerful driver of the business.

But it also is another opportunity for us to price out that trip. Previously, drivers are paid based on time and distance. Anyone can price based on time and distance. So the amount of data that you have doesn't help you calculate a certain per-mile rate and a certain time rate as well. So there's zero kind of benefit to scale.

Now, in a world where drivers know their destination, we can price out that destination. We have more opportunities to price. We have more drivers than anyone else in the marketplace. So we'll be able to price out that trip and match it to a particular driver, based on a bigger dataset than anyone else in the world.

That advantage compounds as our machine learning kind of platform learns more about different trips, which ones are accepted, which ones are not accepted, which ones are canceled as well.

So all of our marketplace mechanisms in terms of routing, in terms of matching, in terms of pricing, now are essentially point estimates that we can train on a larger database than anyone else.

If you look at payments, for example, we announced a great new partnership with PayPal. And our ability to – we're one of the largest players out there in terms of bookings, $35 billion in bookings in a quarter. Growing at a rate that most players our size aren't growing. So on the payment side, for example, we think we can secure lower payment costs than other players. That's going to compound.

If you look at parts of our business like detecting fraudulent activity, there are lots of fraudsters out there. They are being armed by machine learning. And we can detect patterns across a greater set of use cases, both in Mobility and Delivery, so that we can identify, let's say, the bad folks from the good folks, differentiate them and reject the bad folks. And have them maybe go try to steal from other platforms.

All of these different parts of the business are compounding in one way or the other. Many of them are powered by machine learning. And again, if you got the most data in the world, your ML algos typically have an advantage over smaller players.

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

So, Doug, in terms of our ability to balance growth and profitability. As you know, since we went public, Dara and I have been talking about our capital allocation process. We laid out our three-year targets last year. And if you

Copyright © 2001-2023 FactSet CallStreet, LLC

look at the performance of the company, we've been in-line at the top line and overachieved at the bottom every single quarter. And if you look at the guidance again, it's very, very, very constructive, if you think about it.

You heard Dara talk a lot about where the business is going and some of the growth. Our Mobility business, the gross bookings were up 30% in Q3. And that's why we're continuing to invest in the businesses.

So if you think about it, where we are today on both delivering the bottom line but investing for the future, we're starting to see some of these new growth initiatives scale. New Mobility products sort of $9 billion gross bookings run rate. New verticals are at $6 billion gross bookings run rate.

So we're delivering the bottom line. We're delivering free cash flow. We've delivered GAAP operating income as we've talked about over the past three years, while we're driving a lot of top-line growth.

And so the business is in terrific shape, as you think about how we're going into 2024 and beyond. And again, we are balancing our capital allocation model.

We probably do a little optimize to make sure we deliver on the bottom. But we're able to fund a certain growth initiative, so we have a lot of confidence in terms of where we are. And as you heard from Dara's commentary on all the growth vectors we have, we're pretty bullish about where the company's headed.

Doug Anmuth
Analyst, JPMorgan Securities LLC

Q

Thank you, both.

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

A

You bet. Next question?

Operator: Our next question comes from Benjamin Black with Deutsche Bank. Please go ahead.

Benjamin Black
Analyst, Deutsche Bank Securities, Inc.

Q

Great thanks for taking the question. You obviously scored a nice regulatory win in New York last week. And we still have the DOL, the EU platform directive, Prop 22 in California. So would be great if you can give us sort of a lay of the land on the regulatory front. And do you feel comfortable operating sort of in any employment classification outcome?

And then just quickly, Dara, clearly concerns around the crisis in the Middle East. We've heard that from other travel companies. Could you sort of help size your exposure there? And have you seen any impact to demand since the conflict began? Thank you.

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

A

Sure, absolutely. So in terms of the regulatory framework, the first thing I'd say is we can operate under any regulatory framework. So we think the right framework is a framework that preserves flexibility for drivers and couriers, while providing them protections.

Copyright © 2001-2023 FactSet CallStreet, LLC

And for example, our settlement with the New York AG and the DOL provides for earners to be able to earn flexibly on the platform with minimum earnings and other protections as well, insurance protections. That we think is the right framework going forward. It's the same framework that voters voted for in Prop 22 in California.

And if I look big picture, generally, the world is moving towards this model, which is earn flexibly with benefits such as minimum earnings and other benefits out there that are important on a state-by-state basis or on a country-by-country basis. And for us it's really entering into dialogue with all the constituencies to get to the right solution there.

There are some markets where drivers are employees, for example, fleets with which we do business. This is in some of our European businesses, European markets. They are employees of fleets. We contract with these fleets and these fleets are on our platform as well.

And those markets are profitable as well. The price to the end consumer is higher. And drivers frankly miss the flexibility that they have in markets where our independent contractor plus model is the right model going forward.

So if I zoom out, the regulatory framework that we see is not about whether or not we're in a market or not, whether or not we do business there or not. It's about whether or not our earners have flexibility to work on our platform the way that they want to work on our platform, when they want to work on our platform, where they want to work on our platform, and what the price is to the end consumer.

And generally, I would say that across the world, there are absolutely exceptions, most countries, most states are moving in the direction of flexibility plus benefits and protections.

And then in terms of the Middle East. So the Middle East is about – represents about 2% of our overall gross bookings of the business. So it's a relatively small part of our business.

Now, certain parts of the Middle East are quite profitable, so it's a very attractive geography to us. Generally, we are seeing some weakness in a couple countries in the Middle East. Egypt, for example, is one that I will point out. But we don't operate in Israel. We don't operate in the West Bank. So we're not affected in any way directly. And any weakness that we see in the Middle East is very, very small compared to the rest of the business.

We were a little worried. Will companies cut back on travel? Would people cut back generally on travel? And actually with our Uber for Business segment, we're seeing travel spend up, whereas some of the companies that we contracted with were saying either no travel or travel when necessary. Now it's kind of use your judgment. And we're seeing a bit of acceleration in our Uber for Business business, which is quite encouraging going forward.

Benjamin Black
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks so much.

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

A

Next question? You're welcome.

Operator: Our next question comes from Ken Gawrelski with Wells Fargo. Please go ahead.

Copyright © 2001-2023 FactSet CallStreet, LLC

Kenneth James Gawrelski
Analyst, Wells Fargo & Co.

Q

Thank you so much. And let me reiterate, thanks, Nelson, for the partnership over the years. Two questions if I may.

First, you talked about – just broadening out a little bit on the macro side. I know you just talked about the Middle East specific exposure. But you could talk – could you talk a little bit more broadly? Some of your travel-related peers have seen macro weakness more broadly than the Middle East into October. Why do you think rideshare growth quarter to date hasn't been impacted?

And then I guess maybe the bigger picture question there is, how do you think more broadly about the economic sensitivity of the business?

And then the second question, please, is if active driver growth continues to outpace trip growth, how do you think about balancing a potential take rate opportunity versus expanding use cases and growing the addressable market? Thank you.

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

A

Yeah, so in general, listen, we've been looking for pockets of consumer spending weakness across our platforms, both our Mobility platform and Delivery platform. We read the news. We watch CNBC just like anyone else. And frankly, we haven't found it.

I think part of the reason is that when you look at consumer spend, one, the US consumer is incredibly strong. And two, I think within the consumer spend bucket, if you look at spend on services versus spend on retail, spend on services is still not back to where pre-pandemic spend was.

So we do think that there, the tailwind that we've seen in terms of spend on services continues. It could continue going forward. It's very difficult to predict.

And what we have seen with Uber is that Uber is a local type of product. So I do think that consumers during periods of elevated perceived risk, they sometimes pull back on higher – call it, higher spend product, whether it's renovating their house or booking a big vacation during uncertain times. They may not.

But they'll still treat themselves to great food, sushi delivered to them. Or they'll still go out to a restaurant. They'll still go see their friends. So I think the local nature of our business makes us relatively resistant to macro uncertainty, because it's usually the big, the large price product that got priced out first.

In terms of active driver growth, we are – active driver growth is absolutely growing faster at this point than trips. We generally want to keep take rate as low as possible, because we think that's the right thing to do long term. And kind of is the – allows us to compound for a much longer time period.

Now, incentives are a part of our take rate. And as we said, incentive spend has been down pretty substantial on a year-on-year basis. And so that is a tailwind on our take rate.

Copyright © 2001-2023 FactSet CallStreet, LLC

But otherwise, what we want to do is to maximize long-term free cash flow growth, maximize long-term earnings per share at the lowest take rate that we can, because it drives us to be more efficient as a business going forward.

So we try not to kind of push take rate opportunistically, because the cycle's going to move the other way. And when it moves the other way it's really going to hurt if you're not structured with a low-cost base.

Kenneth James Gawrelski
Analyst, Wells Fargo & Co.

Q

Thank you.

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

A

You're welcome. Next question?

Operator: Our next question comes from Michael Morton with MoffettNathanson. Please go ahead.

Michael Morton
Analyst, MoffettNathanson LLC

Q

Hi, thank you for the question. Wanted to talk a little bit about the new growth opportunities in Mobility.

In the past, Dara, you've spoken about aspiration for a Reserve penetration of total airport trips. And would love to know, after seeing the product in the market for some time now, how you see this opportunity? How large it could get? Reserves as a percentage of airport booking? And then looking outside of travel and airport bookings, maybe the impact you think Reserve could have on the other aspects of the Mobility business.

And then just a second question, quick one. On your advertising product, you've really made a lot of progress since rolling this out. And I would love to learn some more about how you believe your offering meets the needs from large enterprises.

Seems like there's a lot of demand for the large sophisticated enterprises. But they're more demanding when it comes to advertising solution. And the product has historically been overweight to kind of SMBs. So any update there would be great as well. Thank you so much.

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

A

Yeah, absolutely. So in terms of Reserve, listen, Reserve is a very, very promising product. Continues to grow at significant rates. But it's still pretty early in terms of Reserve's development.

We typically now account for one out of the four legs of the airport. If you go to the airport, you get picked up, and then you come back, and you get picked up, et cetera. We typically only cover one out of those four legs. So we think that increased penetration at airport is absolutely a significant opportunity for us. And we're very early in that penetration.

I do think that Reserve as a product, while it's very good at picking you up at your home, dropping you off at the airport, or picking you up at your hotel and getting you to the airport on your way back, I think we can do a lot more in terms of the experience for the rider who is arriving in the airport.

Copyright © 2001-2023 FactSet CallStreet, LLC

We have you put in your flight information, so that the driver knows when you're arriving. We automatically account for delays, et cetera. You can upload the information from your Google Calendar onto our products, et cetera.

So there's a lot that we've done. But there's some hyper-optimization to be done in terms of arrivals and generally for airport pricing algorithms. Whereas we were pricing generally for the market, now we're focused on really the airport experience. And I think the airport experience in terms of finding where the pickup area is, the pricing, the supply that we have in airports is something that it's best-of-breed, but frankly I think we can improve on.

We are seeing some Reserve usage for other types of use cases, going out to dinner, et cetera. And there, we think it's about optimizing the premium that Reserve represents over UberX versus the reliability. And there is a trade-off there.

If you want 99.9% reliability in Reserve, the premium over UberX on-demand is going to be quite high. And on a market-by-market basis and kind of on a consumer segment-by-consumer segment basis, we're trying to optimize what's that trade-off between price and reliability that can maximize our Reserve volume. And again, we think there's a lot more optimization to be done there.

In terms of advertising for large entities, I think your question is spot-on in that the majority of our ad revenue at this point is SMBs, et cetera. It's a pretty simple pay-for-audience and pay-for-additional-business model. The return on ad sales are excellent. Return on ad sales are on average anywhere from 7x to 10x your spend. So this is a very profitable endeavor for our partners, which is great.

We are building out more sophisticated technology for our larger advertisers that frankly we'll also offer to our smaller advertisers. They may be, for example, amongst other product, the ability to target new customers. And then being able to track those new customers when they become repeat customers.

For grocery products, for example, if they integrate their membership and loyalty programs into Uber Eats, so that their loyalty consumers can go direct or they can go through Eats, and kind of in that way they get to build the relationship with those loyalty members as well.

We are working increasingly on building out tool sets that can help larger advertisers measure the incrementality of the advertising and not just the return on ad sales of that advertising as well. And then we're also helping our larger advertisers with dayparts. They may – for example, we've had certain larger advertisers who really want to promote breakfast and want to go over-promote breakfast, because it's something that they're introducing. And we allow kind of daypart targeting as well.

So all of these are relatively newer tools. And we think those tools are going to get a higher penetration of the larger advertisers, both in our Uber Eats business but, just as importantly, CPG advertisers for our Grocery business. And of course, we got the Branded business in our Mobility segment and our Delivery segment as well.

So we think we're well on our way to $1 billion-plus, which was our target for our ad business that we set a few years ago. And we continue to be very, very pleased with our progress. And there's a lot of potential in this business. So we're not nearly even midstream in terms of its development.

Michael Morton
Analyst, MoffettNathanson LLC

Q

Copyright © 2001-2023 FactSet CallStreet, LLC

Thank you.

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

A

All right. Next question. I think we got one more?

Operator: Our next question comes from Mark Mahaney with Evercore. Please go ahead.

Mark Mahaney
Analyst, Evercore ISI

Q

Okay. Thanks, two questions, please.

You talk about this net head count being down roughly 1% sequentially and looking for ways to demonstrate further operating leverage going forwards. Are you at a point now where you can roughly keep head count flattish or just growing low single digit percent for the foreseeable future?

And then secondly, you talk about in the next earnings call, I think, or next quarter, you're going to provide an update on returning capital to shareholders. Could you – I know you'll make that announcement then. But what are the options, a reasonable range of options, that investors should think about with that? Thanks a lot.

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

A

So in terms of the head count, yes, Mark, we do believe that we can continue to move forward with flat or very small incremental head count. And so that's what we are planning as we go forward.

As you know, we've pretty held – we've held pretty steadfast since 2019 in terms of where the head count's been. And we continue to get that operating leverage. And you're seeing in bottom line.

And so the team is pushing hard to try to maintain that discipline. Because again, we continue to try to deliver, while we're investing, by the way, in the growth that you heard Dara outline before. So we certainly can.

In terms of the capital returns, so as you know, I'm handing the baton over to my able new partner over here, who's going to – who's kind of stepping in tomorrow as CFO. So it's certainly one of the first priorities that he and Dara are going to walk through.

He's fortunate because he's getting a business that's in great shape, as you know. As you know, we are now eligible for S&P inclusion. And so it's really a matter from a corporate action perspective of an opportunity. But we're well on our way to investment grade as well, so he'll get that benefit as well.

And so he also understands the fact that capital return is something that's come up from investors. We've been pretty workman-like in terms of two years ago we talked about getting to EBITDA profitability. Last year we talked about getting to free cash flow. This year we talked about getting to GAAP operating income at some point. And as you know, especially based on where our projections are, we'll be GAAP operating income for the full year.

And so we know next year capital return will be a big question. And I know, if you look at his background, he has a lot of experience in terms of doing it. You know the forms, whether it's buybacks or dividends. I think that he will look at the full suite and has a lot of experience in his past life doing it.

Copyright © 2001-2023 FactSet CallStreet, LLC

So I'm confident that when he addresses investors in February, which I believe will be the next time, that he'll be ready to at least give a perspective on that for investors.

Mark Mahaney
Analyst, Evercore ISI

Q

Thank you, Nelson. Wishing you all the best.

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

A

Thank you very much, Mark.

Operator: This will conclude our question-and-answer session. I will now turn the call back to Uber's CEO, Dara Khosrowshahi, for any closing remarks.

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

All right. Thank you, everyone, for joining us in this quarter. Huge thanks to the Uber team who keeps delivering with flat-or-down head count, which is pretty amazing. They're working pretty hard. Thank you to our partners, our restaurant partners, earners, without whom we wouldn't be able to deliver any of these services.

And then a big thank you, again – we said it before, but I'll say it again – to Nelson, who has been an incredible partner on this journey. I think Nelson was saving the best for last, and this is definitely the best. So thank you, Nelson, for everything you've contributed to the company. We wouldn't be here without you.

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

So first of all, I should say this. So, look, I'm really, really proud of the collective work that we've all done over my five years. The company is really, really well positioned to continue to grow at scale, deliver increasing profitability and free cash flow. My hope is the company continues to maintain the discipline that's allowed us to deliver against our commitments.

And I do want to thank Dara for his partnership and all of Uber, because it's really given me an incredible opportunity. And I'm very proud of the work we've done together. And to come into a company that's [ph] the verb (48:36) and leave in such good shape I think is about all you can ask for.

So again I thank you. And I really thank Dara a lot for his partnership, because we've been great partners over the five years.

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

All right. Thank you, everyone.

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

Copyright © 2001-2023 FactSet CallStreet, LLC

Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Thank you, Nelson.

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

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.