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Uber Technologies, Inc. (UBER)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, everyone, and thank you for calling today's Uber Technologies Q1 2020 Earnings Conference Call. As a reminder, during today's session, all parties will be in a listen-only mode. Later, we will conduct a live interactive question-and-answer session. [Operator Instructions]

I will now turn the call over to our first speaker, Emily Reuter with Investor Relations. Ma'am, please go ahead.

Emily Reuter

Head-Investor Relations, Uber Technologies, Inc.

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

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

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

For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued today as well as risks and uncertainties included in the section under the caption Risk Factors in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K filed with the SEC on March 2, 2020, and in any subsequent Form 10-Qs and Form 8-Ks filed with the SEC.

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

With that, let me hand it over to Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Thanks, Emily, and thank you all for joining us today. It's been seven weeks since I updated you last on the state of our business. In that time, there have been some hopeful signs. Cities are beginning to open up or at the very least plan for recovery, early but promising results in clinical trials for potential treatments and vaccines, and perhaps most inspiring of all, global solidarity in support of those on the front lines.

But there remains a lot unknown. Clear that the cities, states and countries will take action to reopen at different speeds and in different ways, and there's a little consensus over the right way to do it. Given this backdrop, I want

to tell you how I'm managing Uber both through this crisis and for the long term. My objective is based on the old Wayne Gretzky quote, skate to where the puck is going, not to where it's been.

For Uber, that means tight focus in three key areas. First, while we have a very strong balance sheet, it's my job to ensure that remains the case, regardless of how fast or slow the recovery is. Accordingly, we're taking a hard look at our overall cost structure and our Other Bets to ensure our core business of Rides and Eats emerges stronger than ever.

We've significantly reduced our marketing incentive spend and deferred real estate CapEx for planned offices in Chicago, Dallas, and Mexico City. Careem, our wholly-owned subsidiary in the Middle East, took the difficult step of reducing its workforce by 31%. Yesterday, consistent with lower trip volumes and our hiring freeze, we announced a reduction in our customer support and recruiting teams by more than 3,700 employees. And this morning, we announced that we're merging our JUMP unit into Lime. With this deal, Uber customers will still have access to bikes and scooters through our app, resulting in an annual EBITDA savings of \$160 million in addition to meaningful CapEx savings.

All together, the actions we've taken and the actions we intend to take in the near future will result in a reduction of more than \$1 billion in annualized fixed costs versus our Q4 plan. Reaching profitability as soon as possible remains a strategic priority for us. We believe that disruption caused by COVID-19 will impact our timeline by a matter of quarters and not years.

Second, at a time when our Rides business is down significantly due to shelter-in-place, our Eats business is surging. We've seen an enormous acceleration in demand since mid-March, with 89% year-over-year gross bookings growth in April excluding India. And just last week, Eats crossed the \$25 billion gross bookings annual run rate.

Additionally, there's been a tremendous increase in restaurant sign-ups leading up to rapid improvement in selection in major markets like the US, as well as behavioral shifts like the willingness on the part of fine-dining establishments to sign up for delivery. We believe these trends are here to stay and will result in an expansion of the entire category.

Some of you will recall my commitment on our Q3 2019 call to invest aggressively only in markets where we're confident we can establish or defend a number-one or number-two position. Consistent with that strategy, on Monday, we announced Eats will exit eight countries. This move will allow us to redouble our efforts in markets with larger long-term potential and higher returns like the US.

Improving Eats margin and cost structure over time, just as we did with Rides, remains a key priority, and we're seeing improvements due to larger order sizes, improved courier efficiency, and more efficient marketing and customer acquisition.

Finally, I want to talk about what we're seeing in our Rides business today, and I won't sugar-coat it. COVID-19 has had a dramatic impact on Rides with the business down globally around 80% in April. Still, there are some green shoots driving restrained optimism. We've seen week-on-week growth globally for the past three weeks. This week is tracking to be our fourth consecutive week of growth.

Last week, we saw 9% trip growth and 12% gross bookings growth globally week-on-week. We believe that US is off the bottom. US gross bookings were up last week by 12% overall week-on-week, including New York City up 14%, San Francisco up 8%, Los Angeles up 10%, and Chicago up 11%. Perhaps more interestingly, gross

bookings in large cities across Georgia and Texas, these are two states that have started opening up significantly, are up substantially from the bottom at 43% and 50%, respectively.

Hong Kong is back to 70% of pre-crisis gross bookings levels. And in India, we began operating again in designated green and orange zones, which account for more than 80% of the country's 733 districts. In France, a survey of riders who were active before COVID shows two-thirds expect to take their next Uber ride within a month. 90% expect to do the same in less than three months, and 98% of all riders say they will take a trip again, suggesting pre-COVID usage will build back steadily.

Nevertheless, it's very early days. Our expectation is that the recovery will vary geographically and will be nonlinear, meaning we'll see some markets in recovery while others temporarily retreat. As the only truly scaled global player, we think this represents an advantage, both in terms of revenue coming in as well as operational insights we can apply across markets.

To-date, we've seen that the rebound is led by weekday nine-to-five trips, including commute use cases. For reference, in 2019, 80% of our gross bookings were delivered from trips in a user's home city, meaning people traveled around their own communities, and 95% from trips in a user's home country.

We expect that a recovery led primarily by commute trips will open up exciting new prospects for Uber for Business, as companies look to move their employees to and from offices, as well as partnership opportunities with transit agencies to move essential workers. We're aggressively pursuing both, and already working with MTA in New York to do the latter.

Now, a bit more on our Q1 performance. Our Rides business experienced strong momentum through February with the year-over-year gross bookings growth of nearly 20% for the two-month period, consistent with Q4 2019. As the lockdowns began to affect our business in mid-March, we experienced trip and gross bookings declines of nearly 40%. And despite this sudden deterioration, we were able to maintain strong Q1 take rate of 22.8% and Rides adjusted EBITDA margin of 23.5% of adjusted net revenue, clearly demonstrating the variable cost structure of our Rides business.

Our Rides focus has now turned to recovery, specifically on providing safe experience for drivers and riders as they start to move around the communities again. And as we publicly confirmed several days ago, we're working through plans to require drivers and riders to wear masks or face coverings when using Uber in certain countries, including the US. As a category leader, we intend to continue to set the standard for safety moving forward.

As the Rides business recovers, we believe we have a structural advantage for a number of reasons. Rides-only players have been disproportionately impacted. While our Rides bookings were down 80% in April, our total company is only off about 40%, helped significantly by Eats. Eats has also allowed us to maintain high engagement with our existing customers and to bring in new customers onto our platform. This positions us to have a faster recovery than Rides-only players.

We also have a profitable Rides business globally with many non-US markets that are higher margin, allowing us to cross-subsidize as necessary. Our marketplace will also enter recovery from a position of strength since we have a larger rider and driver base. Importantly, many drivers have spent their time on Uber during this period because we've been able to offer them an alternative source of work in food delivery.

Finally, we expect that shared rides will be less important in the near term. This is historically a sweet spot for our primary competitor in the US with around a 50% category position on shared rides.

Now, turning to Eats, which performed extremely well in Q1, generating \$4.7 billion gross bookings, up 54% year-on-year and accelerating net revenue to 124% growth year-on-year, while expanding take rate to 11.3% and significantly reducing EBITDA loss to \$313 million.

In addition to our core Eats product, we're seeing strong demand for grocery and convenience items. Given that, we've accelerated our plans, launching partnerships with supermarket chains and convenience stores around the world, allowing them to sell a limited menu of everyday essentials via our restaurant platform. From early March levels, grocery and convenience gross bookings increased 117% over the same period, while active store fronts increased 34%, including Carrefour, one of Europe's largest supermarket chains.

Finally, in the next few months, we expect to close our acquisition of Cornershop, one of the largest grocery delivery platforms in Latin America with operations in Chile, Mexico, Brazil, as well as Toronto. Given the expected stickiness of grocery post-COVID and our footprint in LATAM, we look forward to closing this transaction soon and creating an integrated product across the Cornershop, Uber, and Uber Eats apps.

While no one could have predicted the swift and intense impact that COVID would have had on our lives and our business, I'm incredibly proud of the quick and decisive action our team has taken to respond to the ever-changing environment.

And now, over to Nelson for more details on the numbers.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Thanks, Dara. Now, on to the GAAP results for Q1 2020 with comparisons year-over-year, unless otherwise noted. Our GAAP revenue of \$3.5 billion was up 14%. GAAP cost of revenues excluding D&A of \$1.8 billion decreased to 50% from 54% of revenue in Q1 of 2019. GAAP EPS was a loss of \$1.70 and compares to a loss of \$2.23 in Q1 of 2019. For the remainder of the call, unless otherwise noted, I will discuss key operational metrics as well as non-GAAP financial measures excluding pro forma adjustments such as stock-based compensation.

Our total global trips of 1.7 billion grew 7%. Global trips were driven primarily by growth in Eats, particularly in EMEA and Latin America. MAPCs were 103 million, up 11%. As a reminder, our MAPCs are calculated as an average during the three months of the quarter, and March is heavily impacted by the pandemic.

Total company gross bookings of \$15.8 billion grew 8%, or 10% on a constant currency basis. Adjusted net revenue, or ANR, was \$3.3 billion, up 19% on a constant currency basis. Our ANR take rate was 20.6% of gross bookings, up 180 basis points as both Rides and Eats improved take rates. Non-GAAP cost of revenues excluding D&A decreased to 46% from 50% of ANR. Insurance and payments as a percent of ANR improved quarter-over-quarter and year-over-year.

Turning now to non-GAAP operating expenses. Operations and support decreased year-over-year to 15% from 16% of adjusted net revenue, reflecting continued Rides support efficiency improvements, partially offset by a mix shift to Eats where we are making progress automating customer support, but where contact rates remain higher than Rides.

Sales and marketing decreased to 26% from 36% of adjusted net revenue versus Q1 2019. This decrease is primarily due to lower marketing and promotion spend, particularly in Rides. R&D remained flat at 15% of adjusted net revenue. G&A increased to 18% from 15% of ANR versus the year-ago quarter. Quarter-over-

quarter, our spend remained relatively flat, but increased as a percentage of adjusted net revenue due to the top-line pressure from COVID-19.

Our Q1 2020 total adjusted EBITDA loss of \$612 million were a \$257 million improvement year-over-year.

Now I'll provide additional detail on our segments. Rides gross bookings of \$10.9 billion declined 3% on a constant currency basis, led by the US, but due to the COVID-19 impact taking hold in March, offset by positive growth in Latin America and EMEA.

Rides ANR of \$2.5 billion grew 6% on a constant currency basis, with take rate of 22.8%, which improved both year-over-year and quarter-over-quarter due to rationalization of incentive spend mainly in the US. Importantly, global Rides gross bookings and ANR on a constant currency basis, and excluding shared rides, were growing in the mid-20% and high-20% respectively during the months of January and February. Rides adjusted EBITDA of \$581 million or 23.5% of ANR. In the months January and February, Rides was producing a record 30% adjusted EBITDA margin.

Eats gross bookings of \$4.7 billion grew 54% on a constant currency basis, driven by continued tailwinds from stay-at-home orders in the US and international markets. Eats ANR of \$527 million, up 124% on a constant currency basis, due to a mix shift towards small- and medium-sized restaurants driving higher basket sizes, coupled up courier payment efficiencies, mainly in the US.

Excluding Eats India, which we've divested to Zomato in January of this year, Eats take rate was 11.6%. This represents a significant 150 basis point improvement quarter-on-quarter, which puts us well on our path to achieving our 15% long-term take rate target. Importantly, we are confident these take rate improvements are structural improvements.

Eats adjusted EBITDA loss was \$313 million or negative 59.4% of ANR. That does represent a 50% or \$148 million quarter-over-quarter improvement. Given this large improvement quarter-over-quarter, we expect Eats adjusted EBITDA losses in Q2 to be similar to Q1, which would be another year-over-year improvement, despite Eats gross bookings likely coming in well above our plan. Furthermore, we expect adjusted EBITDA margins to continue to improve in Q3.

Uber Freight grew ANR to \$199 million and adjusted EBITDA loss of \$64 million. Our Other Bets segment had ANR of \$30 million and an adjusted EBITDA loss of \$63 million. Of course, given the deal we announced today with Lime, the vast majority of these losses will move off of our P&L.

ATG's adjusted net EBITDA was a loss of \$108 million. And our Q1 2020 corporate G&A and platform R&D, \$645 million, which represents the G&A and R&D not allocated to one of our five segments increased 14%.

In terms of liquidity, we ended the quarter with approximately \$9 billion in cash and cash equivalents and short-term investments, with access to over \$2 billion from our revolver. Since then, we have paid \$900 million of the \$1.5 billion in Careem and Cornershop commitments for 2020 that we discussed on our March 19 call. We expect 2020 CapEx to be in the \$550 million to \$600 million range.

In January and February, we produced a Rides segment EBITDA margin of 30% of ANR, a 22% year-over-year improvement over Q1 2019's margin of 8%, by focusing on efficiency and cost savings across the Rides P&L. In Eats, we continue to make progress demonstrated by our quarter-over-quarter segment EBITDA margin

improvement of 46% as a percentage of ANR. We will continue to make progress towards our Eats long-term profitability targets.

And finally, while a lot remains unknown, you can expect us to continue to focus on liquidity, exercise prudent financial discipline, and take actions to maintain our position of strength. Our goal remains the same, returning our growth to business and achieving profitability for all of our stakeholders, which we are now planning to achieve on an adjusted EBITDA basis on a quarterly basis in 2021.

With that, now I'll open it up to questions.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

All right. Operator, can we get started?

QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] Our first question comes from Brian Nowak with Morgan Stanley.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC



Thanks for taking my question. I have two. Just the first one, Dara, I wanted to kind of pick your brain a little bit on the way you think about new business opportunities and the way the business overall can emerge and change post-COVID and into 2021. You talked a little about grocery and essentials. Maybe talk to us about other opportunities you see and other investments you need to make to really capitalize on those.

And then the second one just around safety for riders and drivers, maybe talk to us about how you think about using technology and innovation to really improve the safety of the rides for everyone. Thanks.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.



Sure, Brian, absolutely. So, in general, as far as new business goes, there is a silver lining to this unbelievably tragic COVID virus, which is the business that we have of Eats and the category in general just looks like it is going to be substantially increased and some would say by multiples. And we had already signed up an agreement to buy the majority of Cornershop, which is a very big grocery player in LATAM as well.

And so we know the grocery segment. We've got a great team from Cornershop who is working on grocery and essentially we're going to bring Cornershop in when that deal closes and, hopefully, give the Cornershop audience the significant kind of exposure that our Rides app and our Eats app brings on a global basis. We haven't closed yet, so we don't have specific plans, but you can imagine the opportunity there.

So, as far as new opportunity goes, the new opportunities aren't a stretch. The big opportunity that we thought Eats was just got bigger. You can see that from the acceleration of our Q1 growth rates, which actually beat our own internal plans, and Q2 growth rates are substantially increased. And then with grocery, we've already started with some essentials as it relates to Eats. We've got grocery coming in. And then we're developing some new

services such as Uber Connect and Uber Direct, where retailers can send packages and also we can send P2B packages as well.

So, when you put this all together, actually the core business and the opportunities in the core business look much bigger, and we don't have to look far for very substantial continuing growth going forward. That's how we look at it.

And then as far as safety for riders and drivers go, we have been leaders in safety. Safety has been an absolute priority at this company ever since I joined. We were leaders in terms of safety for riders and drivers previously. And now we're absolutely looking at, it's a combination of logistics and technology. We're shipping millions of PPE and masks, cleaning supplies, et cetera, to our drivers to make sure that that first drive and the second and continuing drives that our riders take are safe and they feel safe.

And we are looking at technologies such as, for example, our selfie technology where we make sure that the driver who's signed up is the actual driver who is driving. We can use that technology, for example, potentially to make sure that the driver is wearing a mask where appropriate. So we're absolutely exploring technology. And you need a combination of technology, logistics and local know-how in order to operate safely at the kind of scale that we do on a global basis. So we absolutely believe we're going to be the leaders in defining the safety of this platform going forward.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Great. Thanks.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You're welcome. Next question?

A

Operator: Thank you. Our next question comes from Justin Post with Bank of America.

Justin Post

Analyst, BofA Securities, Inc.

Good day. Can you talk about market share trends for Rides in your bigger businesses, obviously US, maybe Mexico and London, what you're seeing there and are there opportunities for you to take some share here in this environment? And then with travel, I know it's a important topic, airport trips. Can you talk about how important they are, or just remind us on bookings and then how important they are for profitability? Thank you.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Sure. In terms of share dynamics – and then Nelson will take the airport question – in terms of share dynamics, we did see early on in this year, we made certain adjustments to our model in California to really solidify our position as a platform and solidify our position in terms of independent work, our drivers getting more information, the payments going directly to drivers, et cetera. And that did result in some loss in category position in California markets. We haven't seen substantial changes since, and frankly, with the business being down so much, the data is pretty sparse.

A

In Mexico and the UK, nothing, I'd say the share in general has been pretty stable. There's lots of competitors out there, multiple competitors in both in the UK and in Mexico. But share trends, and I would say the aggressiveness of promotions, et cetera, were pretty stable going into COVID. We haven't seen things change significantly during this period. And I think some of you may have heard our competitors saying, in general, kind of promotions are down, couponing is down, and I think a lot of competitors are focused more on profitability. So we don't see much remarkable.

Coming out of this crisis, we do think we have an advantage because we are engaged with customers and millions and millions of eaters today. That engagement is substantial. With grocery and other products, we're going to increase that engagement. Already with our drivers, for example, about 40% of our drivers who are active with Rides have been cross-dispatched to Eats in the month of April, which is an all-time high. So the engagement that we have gives us a structural advantage coming back from the crisis without our having to spend a bunch of capital buying our way into category positions so to speak.

Nelson, do you want to talk about airports?

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Yeah. So, Justin, airports are important to us. But as Dara said in his prepared remarks, 80% of our gross bookings are actually delivered from the user's home. So, for us, airports are about 15% of our Rides gross bookings and about 16% of our Rides segment EBITDA. So it is important and we do expect that that recovery will take a little bit longer.

Justin Post

Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Next question?

Operator: Our next question comes from Ross Sandler with Barclays.

Ross Sandler

Analyst, Barclays Capital, Inc.

Q

Dara, you mentioned that Georgia and Texas cities are up 50% from the bottom. So I assume that means they're 20% of peak, now up to 30% of peak? Does that sound right? And how does the curve on the recovery in those opened cities look compared to Hong Kong at the same stage? And do you think that is Hong Kong, now that they're back to 70%, are they taking share from public transportation? Any color on that will be great. Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah. Ross, it's too soon to tell regarding the share from transportation. I'll start with Hong Kong. The recovery is about uneven. We've had certain weeks where Hong Kong was down 40% from peak, 50% from peak. Now it's definitely getting better. So time, so certainly the passage of time seems to be pushing trends in the positive direction.

I think it's too early to say whether or not there is share being taken from public transport. In talking to many of our U4B customers, they are expressing some consternation at bringing back their employees and using public transport. So I'd say, from a conversational basis, from feedback that we're getting especially from our U4B customers, it does seem like commute is going to be the use case that's going to lead. And I wouldn't be surprised if there's some share shift from transit. But it's too early to tell at this point.

I will also say that we believe that we can help transit come back. We absolutely believe in partnerships with transit agencies. You've seen us put transit on our app. But more and more, we're offering services to transit, for example, during off-hours for MTA between midnight and I think it's 5:00 AM, during hours when it just doesn't make sense to run a transit system and/or they might want to clean. So I do think that we can be a part of the solution. As to how cities get to move again, I think we'll be one of the early movers and we're certainly going to look to partner with transit going forward.

As far as Georgia and Texas, Nelson, do you know the particulars as to whether what percentage of peak they are? I mean, it's – I'd say they're smaller markets but the trends definitely look better. But, Nelson, anything to add there?

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Yeah. No, I don't, Dara. Sorry, I don't. Maybe Emily can follow up.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

All right. Next question?

Operator: Our next question comes from Heath Terry with Goldman Sachs.

Heath P. Terry

Analyst, Goldman Sachs & Co. LLC

Q

Dara, obviously, you've made a lot of progress on this commitment to rationalizing markets where you're not number one, number two. Do you have any sense for your competitors that fall into that category, the markets where they're not number one, number two, to what degree you're seeing or expect to see sort of similar action out of them? I obviously know you're not in their head, but to the extent that using your gut and your industry knowledge, sort of what you expect to see on that front? And any sense of timing that you might have?

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah. Heath, from a macro standpoint, I would say rationalization both in the Rides category and in the food category has been the name of the game. All of these competitors have been burning money for a long time. We're really unique in the Rides category of scale in that we're global and in Rides, very, very profitable. Our EBITDA margins were running over 30% as a percentage of ANR in Jan, Feb.

And I think in the Eats category, in the food category, you were seeing a bunch of consolidation. There was a bunch of consolidation happening on a global basis where bigger players can not only provide better service for restaurants and consumers, but can provide a better service kind of on an economic basis that is sustainable.

I do think there's a question, which is this food delivery grocery category just got a lot bigger. There's a ton of new customers coming to this category. And what we've seen with the category is the biggest challenge is kind of new customer acquisition, then there's very high frequency, very high satisfaction of the product. So we think there's just kind of this booster in terms of the category.

My instinct is that the commercial and the capital kind of rationalization is still going to continue, but it is a big category and big categories that just got bigger tend to attract some capital. So my instinct is you'll see similar plays from other players. The markets seem to like rationalization and I think ultimately the markets are going to drive long-term behavior.

But the category got bigger and capital chases the category, and certainly growth is at a premium right now. So we'll see. It's hard to be absolutely predictive.

Heath P. Terry

Analyst, Goldman Sachs & Co. LLC

Great. Thanks, Dara. Really appreciate it.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You're welcome. Next question?

A

Operator: Thank you. Our next question comes from Doug Anmuth with JPMorgan.

Douglas Anmuth

Analyst, JPMorgan Securities LLC

Thanks for taking the question. Dara, you talked about the 40% of US and Canada drivers who have cross-dispatched to Eats in April. How do you ensure their loyalty as you come out of the crisis? And then, secondly, just wanted to ask you about your investments in ATG, what your thinking is there during this time. Thanks.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah. Doug, the loyalty of both our riders and drivers is based on the service that we provide them. And we want to make sure that our drivers feel safe. And I do think that in the recovery scenario, as these countries open up, our platform is going to be an incredibly important platform for people to start earning again.

A

So I think if we bring the volume, and we have a structural advantage in that our volume with Rides is not only going to come back and we don't know exactly how fast it's going to come back, but it's on the come-back trail, but having Eats just provides a structural advantage. And ultimately it's about the service that takes care of them in terms of safety and then it's the ability to earn again during a time when the economic damage to a lot of folks in need has been very, very significant.

And you also remember that we were consistently first in, for example, providing our drivers with help if they were diagnosed with COVID or they had to shelter at home. So I think we've consistently shown leadership and we're there for them and we're not going to stop them from working on any other platform or using any other platform. We're an open platform. But I think if we're consistent, we take care of them and we give them an opportunity to earn, I think we'll be just fine.

As far as our ATG investments, listen, I think this is from a long-term standpoint, ATG has always been a long-term investment. You could hypothesize that some people are going to feel safer with a car that is driven by a robot than a person. Our job, number one, is to make sure that they feel safe with a person driving. But the fundamental ATG technology, its relevance, the market size hasn't changed.

That said, in a market like this where capital is dear and we bring discipline to everything that we do, we are asking every part of the company, that includes ATG, to make sure that every dollar you spend is a dollar that brings a return and that's going to include the ATG Group as well as other groups.

Douglas Anmuth

Analyst, JPMorgan Securities LLC

Great. Thank you, Dara.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You bet. Next question?

A

Operator: Thank you. Our next question comes from Eric Sheridan with UBS.

Eric J. Sheridan

Analyst, UBS Securities LLC

Thank you for taking the question. Maybe a few on Eats. Dara, wanted to get your perspective as more supply comes into the Eats business, what you're seeing from a competitive dynamic on either driving demand on the user side and how sort of a more level-playing field of supply in some markets is playing out in terms of end-market demand and end-market share? And then what does that mean for the long-term profitability of Eats?

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Sure, Eric. In terms of supply, we are absolutely improving on the supply front both on an absolute basis and relative to our competitors as well. We've signed up Chipotle. We signed up Shake Shack. We've got Dunkin' on our platform as well. So there are big brands that are coming onto our platform that creates more demand. And the more choice we have, the more restaurants we have available per search, we see conversion going up.

A

So I think on the restaurant supply front, we are making progress. We are not satisfied. We think that there's significant progress to be made. And what's interesting is we're seeing the kind of acceleration in growth rates that we're seeing in April and it continues in May, if anything it's improving, despite my belief and I think the team's belief that we can do better on the supply front.

So, if I were to characterize our Eats business, we're not fully optimized on supply. We're still signing up a ton of restaurants. These restaurants need us and we want to make sure we're there for them. And right now, the trends in terms of supply look very, very good.

Now, I do think that the big brands and the national brands or the global brands are really important elements of our marketplace. I would make sure folks know that our small and medium restaurants still account for the vast majority of our volume and are a big part – are going to continue to be a big part of our volume going forward. So the big brands are kind of great customer acquisition vehicles. They are terrific food quality. They're safe. They

bring a lot of folks in. But small and medium businesses and restaurants continue to be a significant part of our business and our growth going forward.

In terms of the revenue margins, you've seen the trends, and I think we can continue to improve revenue margins. This is about generally SMBs have higher margins. We are improving our courier efficiencies. The more demand we have, kind of the more concentration we can have at market. We can batch more couriers, couriers kind of carrying more than one package, et cetera. And in general, better technology can improve our revenue margin as far as utilization goes as well. So I do think that the take-rate improvements that you have seen are going to continue and we're quite confident of that.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

And then the only thing I would add – the only other thing I would add is that you continue to see us exit non-performing countries, like we did yesterday, earlier this week and like we did in India. And so we're going to continue to optimize and work hard on our capital allocation model.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

And just to give folks a little more character on SMBs, SMB gross bookings grew at three times the pace of our non-SMB business from February to April. So, SMB is growing really, really quickly and our SMB self-service business grew at 70%, which is like five times the pace of non-SMB businesses over the same period. So this is SMB structurally, one is we're helping a lot of these restaurants stay in business during incredibly difficult times. So it's like we're doing good but it's also structurally good for the business going forward.

Eric J. Sheridan

Analyst, UBS Securities LLC

Q

Great. Thanks for all the color.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

You're welcome. Next question?

Operator: Thank you. Our next question comes from Mark Shmulik with Bernstein.

Mark Shmulik

Analyst, Sanford C. Bernstein & Co. LLC

Q

Thanks for taking the question. A couple, if I may. The first, you shared the stat around 40% of drivers being able to move over and support the Eats business. Any color in terms of the demand side and the customers, how many of those Uber ride sharing folks are now adopting and trying at Eats? And then anything around cost of acquisition that you could talk about would be great around any discount offers versus like pre-COVID levels, how much inbound demand are you seeing would be great.

And then for my second question, look, it's always tough to make head count reductions. It sounds like a lot of the folks have been in the recruiting and customer service departments. How much of that head count kind of comes back as demand comes back? And then are there any incremental efficiencies you see here with kind of the new way of doing business? Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah, absolutely. As far as demand side, I don't want to disclose any particulars, but we have been using the Rides platform, and we're getting more and more effective in using the Rides platform to cross-promote into Eats. You'll see that in some of the designs of our Rides app, which is they'll be right up front, Rides and Eats and other categories, for example, grocery could be another category, transit could be another category. So, on the product side, we're getting much better and I'd say we are in the early innings of continuing to cross-promote different kinds of services.

This is also going to be possible on Eats, again, grocery and some of the neighboring service as well. So we have seen substantial pick-up. A higher and higher percentage of our Rides customers are using Eats, and I think that we're generally in the early innings there. The one exception I would tell you is there are certain markets in Europe, for example, where restaurants have closed. So restaurant supply is well down. So, on those markets, you don't see as much of the cross-pollenization.

As far as the cost of acquisition trends go, we're seeing actually pretty hopeful trends. There's always a trade-off between cost of acquisition and then the amount of volume that you can bring in. So you can keep the same cost of acquisition and push volume, or you can optimize for acquisition costs.

In general, we are happy with our cost of acquisition. We continue to improve our technology there, our tracking there. We still think we have improvement ahead of us. And in general, we think we can be in a place where we are pushing for volume at the same customer acquisition cost or less and be able to improve revenue margins and EBITDA margins overall on our Eats business. It's just we're at a very good place. The teams are executing well, and the technology and the capabilities are getting better and better. If you look at Eats, for example, monthly active platform consumers are up 50% year on year since Q1 of 2019. And I don't think anyone on the team would say that we are doing as well as we can or should on the customer acquisition front.

Nelson, you want to talk about the head count and how much comes from back end or how much comes back as demand comes back?

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Yeah. No, I would be happy to. So, yes, we did make the move. And as everybody knows, those are tough decisions that have to be made. We do expect that, as business continues to grow, I don't think you'll see us adding back at that same level. As you know, the company's been very much focused on efficiency and what we call contactless service, and we've been seeing good marks there. And so you'll see us continue.

And then the only other thing I'd want to add is that we're continuing to look across our business and our platform for more efficiencies. And so you should make sure that as you get off the call that you hear that. I think the deal that you saw today that we did with Lime as well is also a good proxy. The reality is, the world has changed, right. And so we don't know when the recovery is going to be. We think we're very well positioned today.

It's incumbent upon us to make sure we come out of this even stronger and better positioned. It's not lost upon us. We are going to take the actions that we think are necessary that we continue to strengthen our core Rides and Eats businesses. And there's no sacred cows. And so we are going to look at everything across the whole platform. And so, that is something that is going on right now.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

All right. Next question?

A

Operator: Thank you. Our next question comes from Jason Helfstein with Oppenheimer.

Jason Helfstein

Analyst, Oppenheimer & Co., Inc.

I had two questions, I guess. On Eats, it looks like you're coming from a lower take rate than your peers. There's probably some mix issues when we look at consolidated. But just talk about what that means. You're kind of coming from low to higher, and a lot of them are going from higher to lower and kind of what that does with your positioning with the restaurants. And then has there been any discussions on, as cities try to deal with social distancing, particularly dense cities, is there things that you can do to work with them, et cetera, that could work out in your favor? Thank you.

Q

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

So I'll take the first one. I think Dara will take the second part of that. So, in terms of the margins, it is very difficult to look across the different Eats companies and compare, because as you know, many of them are either single geography or just a few. And as you know, we're global. And so we operate in over 50 countries. And so it's very, very difficult. And so, as you know, we've been taking the actions to improve our Eats profitability, including the actions we took earlier this week and took the actions we took in the beginning of the year when we took our India business and sold it into Zomato. And so it is very difficult to do that.

A

If you look peer-on-peer, and there are some places and some countries where we are over-indexed against some of the large chains. And so, that will tend to drive down the take rates versus a competitor that has more SMB. But as you heard from Dara's commentary, we're seeing tremendous growth as we continue to build up our SMB businesses, as well as our customers', as well as even some of the smaller higher-end businesses that are signing up now as a result of COVID-19.

And so, that really is driving the take-rate improvement that we're seeing and that we should continue to expect to see into the second and third quarter. We're seeing this. We're seeing higher basket sizes. We are taking some operational steps on courier efficiency. And this will all translate into us continuing to make progress against our longer-term Eats target margins.

Dara, do you want to cover the other part of the question?

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah, absolutely. I think as far as social distancing and working either with cities or states or countries, listen, we're going to be responsible. We want to be part of the solution and not part of the problem. And you've seen that, for example, with our app when there was shelter in place and someone tried to use the Uber app, we'd make sure that they really needed to use the Uber app.

A

We're now focused much more on PPE, making sure that our drivers have masks, shipping cleaning supplies, advising riders on the norms for them to ride as well, because we want everyone to be safe, riders wearing masks

or encouraging them to wear masks, encouraging them to wash hands, et cetera. So we're a very big platform. And as part of being a big platform, we're going to work with cities, states and our constituencies to make sure that we are helping educate the public, so that we can have a return to kind of the life that we all loved, but also do so in a responsible way. And we're absolutely going to be part of that solution.

And then, as far as transit goes, again, you can see some of the partnerships that we're striking with transit agencies. We are going to be there step-by-step and to be part, again, of turning these cities back on, but making sure that we're turning them back on in a safe way. All right. Next question?

Operator: Thank you. Our next question comes from Mark Mahaney with RBC.

Mark S. F. Mahaney

Analyst, RBC Capital Markets LLC

Q

Thanks. I wanted to ask about the extent to which this crisis has catalyzed new businesses opportunities for Uber. And Dara, I think you've talked about this a little bit in the past, but you've got this network built up and the extent of expanding it beyond Eats into more packages. And you're doing it for essential services, but are there other commercial opportunities in the existing catalyst that breaks out that opportunity for you? Thank you very much.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah. Mark, I think in these times of crisis, you have to keep things simple. We have an incredible opportunity. It's not a new opportunity but it just got a lot bigger, and it's called Eats. And we have Rides, which is the only global player, number one in basically everywhere that we operate, with margin.

So we're going to focus on that core because that core is really, really strong. And we think those two together can work incredibly well. There is a really interesting opportunity for Uber Eats business to get into grocery, both organically and with our acquisition of Cornershop. And then with both Rides and Eats, we are going to absolutely work on packaged delivery, because we just think it's going to be a much bigger part of retail in general going forward, and we can play our part.

So the good news is that the growth opportunity is in the core and we already have global scale in the core and we have great business leaders, great technical leaders in that core as well, and we're going to focus on that right now.

Mark S. F. Mahaney

Analyst, RBC Capital Markets LLC

Q

Okay. Thank you, Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

You're welcome. Next question?

Operator: Thank you. Our next question comes from Lloyd Walmsley with Deutsche Bank.

Lloyd Walmsley

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks. I just wanted to just get an update on some of the kind of Clavis markets and any progress you made pre-COVID. And then is there any change in how you think about those markets coming out of COVID that you can give us an update on?

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah. We were making strong progress on the Clavis markets. Germany was a great highlight and very growing at triple digits essentially pre-COVID. Argentina was a very promising market for us that was growing clearly. I'd say that our Clavis markets in general were growing about 70% on a pre-COVID basis. There's no reason to think that structurally post-COVID anything's going to change. I think Germany has done a great job of opening up their market, so to speak. And as these markets open up, we're going to open up with them and we're going to do so in a safe way.

Lloyd Walmsley

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

You're welcome. Next question?

Operator: Thank you. Our next question comes from Youssef Squali with SunTrust.

Nathan Mitchell

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Great. Thank you. This is Nate Mitchell on for Youssef. Dara, you've alluded to this in some of your remarks, but curious if you could comment maybe more specifically on how this new environment changes your positioning with the TfL. Thank so much.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Well, we don't think that there's going to be a significant change with the TfL. We're going to have our day in court. We're confident of the changes that we made to the service. We think that we are setting a bar for safety. We have been setting a bar for safety, and I think we're improving on our own bar for safety. And now with COVID, we're going to keep upping the ante so to speak in terms of safety.

We have a great partnership with the National Health Service to help while people are in need of help. It's tough to tell as to whether COVID is going to delay things one way or the other, but I don't think it substantially changes the relationship. And we are confident of our position and I think that we'll have our day in court and we like our chances. Next question?

Operator: Thank you. We have a question from John Blackledge with Cowen.

John Blackledge

Analyst, Cowen and Company

Q

Great. Thanks, guys. Two questions. On Eats, do you think the level of growth in April is sustainable as we round through the year, potentially given people's concerns about eating out and despite a looming bad macro environment? And then on grocery, with the pandemic, online grocery demand has seemingly been pulled forward a couple of years, as you alluded to, Dara. How are you going to address grocery delivery in the US, just given existing platforms and deals they have with large grocers? Thank you.

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

A

Yeah. So, in terms of the Eats growth and is it sustainable, listen, it's very difficult to predict what's happening in these markets. It certainly does seem to be sustainable over this period. If anything, the trends with Eats are getting better. And the trends that we described in April were trends during periods in which some big European markets in terms of restaurants, et cetera, were closed.

So we're optimistic of trends in the category. And we think that the capability of the team is only improving as well. We're very happy with the execution that we see. So is the category – did the category just get much bigger? Yes. Did millions of millions of new customers essentially try out the category? Yes. And are we in a superior position to be one of those services that they try and then continue to engage with? Yes. So I think we're in a great position. But I think it'd be foolish to try to predict particulars in terms of growth rates. We are optimistic as it relates to Eats.

In general, on the grocery side, Cornershop is our big play there. We've announced that acquisition. Cornershop is quite focused in Latin America. You know that we have a very big Rides business in Latin America. So, Latin America can be not only a big market but also a high margin market as well.

And I think in the US, right now, just the category is so big that we think that there's going to be room for more than one player. And we have very big scale in terms of audience. We're in many of these cities already. So we just have the infrastructure to be able to get started in these cities if we choose to get started in these cities in a very low cost way versus someone kind of starting up in the category.

We saw kind of very, very strong early signs from grocery just with essentials. And I do think it's something that can scale and we can be one of the scale players, but we're going to do so in a careful way. We're not going to buy our way into share. We're going to earn our way. And I think we're in a pretty good position to earn our way.

John Blackledge*Analyst, Cowen and Company*

Q

Thank you.

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

A

You're welcome. Operator, can we have one more question, please?

Operator: Yes, sir. We have a question from Brian Fitzgerald with Wells Fargo.

Brian Fitzgerald*Analyst, Wells Fargo Securities LLC*

Q

Thanks, guys. So my question is around this. To what degree are you seeing franchises allocate national advertising budget and spend to yourselves and the food delivery industry as a means to advertise shifting

budgets supporting the medium and the industry? Case in point, for context, McDonald's requires I think 4% or 5% of gross sales to be spent on advertising. So, that is something that I think would subsidize you guys and support you guys. So, that's my question. Thanks.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah, Brian. It's a good question. I'd say, in general, the category – it makes a lot of sense. I mean, the national players are smart. They're incredible marketers. I mean, they built this incredible brand. And you can expect them to allocate brand to where the growth is. So I would absolutely not be surprised to see a McDonald's or a Chipotle or other national brands focus their advertising more on delivery. I don't think it's a hard sell right now. And I think that it's going to benefit them and it's going to benefit the category as well.

I do think that, for us, advertising in general on Eats especially is a pretty interesting category. When I was in the olden days, when I was running Expedia, advertising and travel turned out to be a very fast-growing category that was incredibly high margin. You've seen leading players like Amazon that have built product search and then built advertising on top of product search as well. And I think that we've got the same opportunity with Eats.

So, when we talk about the revenue margin opportunity for Eats, that's really a revenue margin opportunity for the pure play and we think that there's an advertising opportunity with Eats as well, just as you see MCAPs in super markets, you could see MCAPs in the Eats feed for example. So it's early, but we have seen this play run before and we have an excellent engineering team who can build pretty fast. And we're quite optimistic as far as the advertising opportunity inside of the Eats product and then eventually it might go to the Rides product as well.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

So, with that, I think that's it. I would like to thank everyone for joining us. This is extraordinary time, so we appreciate the time. And again, I do want to thank everyone at Uber, all the employees. I think this has been a very, very tough time, but I think that we as a company have risen to the occasion. There's a lot of hard work ahead of us, but I know that as a company we're more than up for it.

So, thank you very much for joining. We'll talk to you next quarter and stay safe.

Operator: That does conclude the conference call. You may now disconnect.

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