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Uber Technologies, Inc. (UBER)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day. My name is Jerika, and I'll be your conference operator today.

At this time, I would like to welcome everyone to the Uber Q2 2019 Earnings Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there'll be a question-and-answer session. [Operator Instructions]

It is now my pleasure to turn today's program over to Mr. Kent Schofield. Sir, the floor is yours.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Thank you, operator. Thank you for joining us today and welcome to Uber Technologies' Q2 2019 earnings presentation.

On the call today, we have Dara Khosrowshahi, CEO; Nelson Chai, CFO; and this is Kent Schofield, Head of Investor Relations.

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 is included in the press release, supplemental slides and on filings with SEC, each of which is posted to investor.uber.com. I would 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 sections under the captions Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in our final prospectus filed with the SEC in connection with our IPO on May 13, 2019 as well as our first quarter Form 10-Q that was filed on June 4, 2019.

Following prepared remarks today, we will open the call to questions.

With that, let me hand it over to Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Thanks, Kent. We're proud of the progress we've made in Q2 2019 towards becoming the platform of choice for the movement of people and powering local commerce all around the world. During the quarter, we continued to produce strong growth in gross bookings across all of our platform offerings with overall growth of 37% year on year at constant currency, producing a \$63 billion annual run rate.

Adjusted net revenue or ANR was \$2.9 billion, up 12% year on year, excluding a driver appreciation award non-cash made in connection with our IPO. And on a constant currency basis, ANR accelerated nicely up 26%, powered by strongly monthly active platform consumers or MAPC growth of 30%.

Our MAPC growth has continued into the second half of the year and we're proud to announce that we passed 100 million MAPCs in the month of June. Note that we expect ANR growth to continue to accelerate beyond the 30% mark in constant currency during the back half of the year as we continue to grow MAPCs, increase multi-offering users, improve take rates sequentially and with the help of easier comps in the prior-year periods.

Our Q2 2019 adjusted EBITDA loss came in at \$656 million, a big improvement versus Q1 and handily beating our own internal plan due to strong execution of our teams across the businesses. The competitive environment and our position in the Ridesharing space continues to be stable to improve. We will take some of that improvement to continue to lead into our Eats business where we see plenty of competition and significant capital investment, but incredible potential.

While you often have to make trade-offs in life, we believe that we can continue to invest aggressively in growth while driving efficiencies from scale, by building great tech to improve effectiveness and from good old-fashioned focus on the bottom-line.

Our much improved core platform contribution of \$220 million in Q2 was driven by increased focus on products, service, tech and brand differentiation in the U.S. and Latin America Ridesharing categories, a more effective deployment of incentives, greater efficiency in shared rides and a focus on higher-margin products.

Our share ride teams are focusing more of their energy and tech capabilities in driving revenue share ride efficiency rather than simply discounting for volume. This is resulting in a mix shift into more profitable UberX volumes.

We'll continue to innovate in the shared ride space with exciting new product such as non-stop shared rides, much more sophisticated pricing algorithms and some pretty interesting innovations coming up in the second half of the year.

We're also ramping up our emphasis on consumer segmentation. Uber Rewards, which you will recall became available to 100% of U.S. rides and Eats consumers in March has seen great momentum. Enrolled users are about twice as likely to use both rides and Eats than unenrolled users.

Uber Rewards is just one part of a broader suite of loyalty products, including Uber Cash our Uber-branded credit card and ongoing experimentation with subscription products in rides and Eats.

Uber Comfort, our new premium economy offering, has been a hit and continues to roll out globally. And our Uber for Business solution suite grew quite strongly at 60% on a year-on-year basis.

Finally, our Uber Health platform that helps improve access to health care organizations grew at over 400% year on year this quarter.

Now, moving to Eats. Q2 2019 MAPC growth of over 140% helped drive 98% year-on-year gross bookings growth at constant currency to \$3.4 billion, while our take rate improved 240 basis points over our Q1 take rate.

We made significant progress in expanding restaurant selection with over 315,000 restaurant partners now on the platform at the end of the quarter.

We launched several Eats product features during the quarter, including pilots to test subscription pricing strategies with our most engaged users. We continue to work on improving restaurant onboarding efficiency by reducing friction, including point-of-sale integrations through partnerships such as Olo and custom integration via our own APIs.

And lastly, we enabled even more ways for restaurants to engage Eats customers through new options like Dine-in, Pick-up and ability to use their own delivery personnel. We continue to be the number one and number two player in the online foods delivery category in multiple geographies, including the U.S., Japan, France, Mexico, Australia and New Zealand. And in the back half of 2019, we'll continue to invest in our most strategic Eats markets, leaning on call marketing programs with partners such as McDonald's and Starbucks and accelerate our innovation in restaurant selection engine.

We continue to invest and innovate in our Other Bets segment, growing Q2 gross bookings by 160% year on year at constant currency to \$132 million. Uber Freight continued to see impressive growth and great progress in Q2 despite soft market conditions and NeMo trips grew triple digits quarter on quarter as we launched in 11 new markets, including Paris and Berlin, which have quickly become two of our best performing cities.

Finally, in our Advanced Technologies Group, we unveiled our first production car capable of self-driving with Volvo's newest XC90 SUV. Direct from the factory, the platform is designed with a chassis ready to integrate into ATG's self-driving system.

And now on to Nelson for some details on the numbers.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Thanks, Dara. During Q2, our GAAP revenue was \$3.2 billion, up 14% year over year. Our GAAP cost of revenue excluding D&A of \$1.7 billion increased from 55% from 48% of revenue in Q2 of 2018. GAAP EPS was a loss \$4.72 which was impacted by a \$3.9 billion stock-based compensation charge due to restricted stock units that vested as part of our IPO and compares to a loss of \$2.01 in Q2 of 2018.

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 our \$299 million driver appreciation award and the \$3.9 billion stock-based compensation charge both related to the IPO.

First, our total company global trips of 1.7 billion grew 35% year over year. Growth was driven principally by international growth in rides and Eats.

MAPCs grew 30% year over year to 99 million. We continue to see strong new MAPC additions to the platform via Uber Eats and NeMo.

Total company gross bookings grew 31% to \$15.8 billion and on a constant currency basis grew 37% year over year. Continued solid growth in Ridesharing gross bookings growth across all our regions led by the U.S. and Latin America.

Eats gross booking growth was driven by strong year-over-year growth in U.S. and Canada and APAC, despite the significant amount of capital that is poured into the space.

Adjusted net revenue or ANR, excluding the driver appreciation award, was \$3.2 billion, which was up 26% on a constant currency basis. Core platform ANR, excluding the driver appreciation reward, was \$3 billion or up 22% on a constant currency basis. Core Ridesharing ANR was up 17% year over year and Eats ANR was up 56% year over year, and they were up 20% and 60% year-over-year respectively on a constant currency basis.

Our core platform ANR as a percentage of gross bookings was 19% versus 21% in Q2 of 2018, primarily due to Eats, which has a lower take rate than Ridesharing, growing as a larger percentage of the core mix and the year-over-year increase in use of Ridesharing incentives, particularly in the U.S. and Latin America.

We did increase our core ANR take rate to 19% versus 18% in Q1 this year, reflecting more favorable economic conditions in U.S. Ridesharing industry and improved share rides efficiency. And the new service fee structure in Uber Eats in the U.S., which was launched at the end of Q1, which drove a significant quarter-over-quarter take rate improvement to 10.2% from 7.8%.

Non-GAAP cost of revenues excluding D&A increased to 47% from 43% of ANR and was flat with Q2 2018 at 9% as a percentage of gross bookings. Cost of revenue was flat as a percentage of gross bookings as improvement in insurance and payment costs were offset by an increase in cost of revenue due to Freight's and NeMo's gross or merchant model, where Freight partner payments and NeMo's scooter hardware and field costs are included in our cost of revenue.

Now turning to non-GAAP operating expenses. Operations and support increased to 14% from 13% on an adjusted net revenue and remained flat at 2.9% of gross bookings since the second quarter of last year, reflecting Eats' higher support contact rates offsetting efficiencies in ride support.

Sales and marketing increased to 31% from 26% of ANR and increased to 6.2% from 5.7% of gross bookings versus the second quarter of 2018. This increase was primarily due to increased consumer promotion, as well as increased advertising and marketing head count. However, promotion expense was down quarter over quarter, particularly in the U.S., which helped drive the sequential improvement in the second quarter of 2019 from the first quarter 2019.

In July, we put in place a more centralized structure for our global marketing team in an effort to quickly and efficiently build a more consistent external brand narrative across audiences, products and regions. As part of this, we made the difficult decision to let go around 400 marketing personnel, about 1.5% of our total head count.

Now on to core platform contribution margin. As a reminder, our core platform contribution margin as a percentage of core platform ANR and demonstrates the margin that we generate after direct expenses related to our Ridesharing and Uber Eats businesses. What it does not include is indirect unallocated R&D and G&A expenses, including ATG and other technology programs and our Other Bets segment.

Our core platform contribution margin in Q2 was 8% as a percentage of ANR. While this is down versus the year ago, strong execution against our internal plans, improvements in shared rides efficiency and improved dynamics in certain markets led to an impressive 1,200 basis point improvement quarter over quarter versus the first quarter of this year.

R&D remained flat at 14% of ANR and decreased to 2.9% from 3% of gross bookings in the second quarter of 2018. G&A decreased to 14% from 15% of ANR and decreased to 2.8% from 3.3% of gross bookings in the second quarter of last year. While we continue to invest in the systems and the infrastructure needed to be a public company, we are seeing leverage across our platform.

In Q2 2019, adjusted EBITDA loss was \$656 million. We handily beat our internal EBITDA plan due to strong execution of our teams across the business. We know we have a lot more work to do here. And we continue to focus on balancing investment and profitability improvements.

In terms of liquidity, we ended the quarter with approximately \$11.7 billion in unrestricted cash and cash equivalents and \$13.7 billion in both restricted and unrestricted cash and cash equivalents. We received \$1 billion in aggregate proceeds from the Toyota, DENSO and SoftBank in July of 2019, so this will be reflected on our Q3 2019 balance sheet.

Now I will wrap up by providing guidance and comments for the first time as a public company. For 2019 gross bookings, we expect constant currency growth of 31% to 35% year over year, which translates to an estimated range of \$65 billion to \$67 billion. Based on June month-end rates, our constant currency growth represents about \$64 billion to \$66 billion in reported gross bookings.

We continue to see the rideshare markets remain stable for the balance of the year and monitor closely the competitive dynamics. The Eats market will continue to be competitive, as competitors have raised funds to invest in growth in this fast-growing category. We will continue to invest, including in the fourth quarter of 2019, when seasonal courier costs increase and expect to see continued strong growth for the balance of the year.

As a reminder, competitive intensity for our platform most directly impacts take rates and sales and marketing expense. That being said, we expect adjusted net revenue growth rates to improve in the back half of the year.

For 2019 adjusted EBITDA, we expect the loss of a range between \$3.2 billion and \$3 billion.

As we are a newly public company, we're also providing additional guidance. For Q3 2019 stock-based compensation, we expect an expense of \$450 million to \$500 million. And we expect our Q3 2019 basic and diluted weighted average share count to be 1.7 billion to 1.725 billion shares.

This full-year EBITDA guidance reflects continued investment in Eats, Other Bets, ATG and our infrastructure. We believe the profitability of the rides business will prove out. In fact, in the second quarter, if we take our rides contribution and deduct all of the corporate overhead which includes the unallocated expenses and tech supporting the entire company excluding ATG, the loss would have been approximately \$100 million in the quarter.

Now, back over to Dara, for the wrap up of the call.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Thank you very much, Nelson. We're pleased with our progress this quarter. We hope to deliver more for you. And, with that, let's open up for questions.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Great. Thanks, Dara. Operator, we are now ready for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Justin Post with Bank of America Merrill Lynch.

Justin Post

Analyst, Bank of America Merrill Lynch

Q

Great. Thank you for taking my question. I guess Dara looking at the results, your bookings and riders close to in-line, but large beat on the profitability. How are you thinking about balancing the ability to drive the top-line bookings versus drive the bottom-line? How do you balance that? And then, when you think about some of the new competitors entering in London, could that make that decision different going forward? And how do you feel about the London situation right now? Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Hey, Justin. Good question. Listen, I think you know that the balance between the top and the bottom-line is more of an art rather than a science. So, if I told you that we had kind of the scientific formula that we're solving for here, we'd be lying to you. That said if you look at our trip growth on a year-on-year basis, trip growth was 37% Q3 of 2018; 37% Q4; 36% Q1; 35% Q2. So, it's just at these kinds of scale, it's rare to find this kind of growth.

And we do think that as we look at our marketing spend, our incentive spend, how we can leverage the business going forward, we think that there's the opportunity to scale our expenses or be more efficient with our incentive spend or be more efficient with our marketing spend, really double down on less smaller kind of projects and doubling down on the channels that are really working for us. So, we actually think that, if we do our jobs right, there are always trade-offs to be made in life, but I think that we can make the trade-offs where we can scale expenses and/or get far more efficient in our marketing and incentive spend, while improving the bottom-line of the company.

And listen, we're very confident that this company at maturity can be cash flow positive and the team is focused on being able to drive big time growth at the top-line, while getting more efficient on all parts of the business.

I think as far as the London competition goes, listen, London is a great market for us. We are trying our best to be excellent partners with TFL, the regulator there, and intend to continue to build our business in a constructive way.

The new competition that we're seeing in London are frankly competitors that we're familiar with. We've been competing against those players in Paris for many, many years. Our position in Paris is very, very strong. It's quite a constructive market for us. So, with a category like Ridesharing, we're going to have multiple competitors in every country that we compete in. We're going to have multiple competitors in large markets like Paris and London. But so far, we're not seeing anything in London that's a surprise or unexpected that we're not seeing in 20 other cities all around the world.

Justin Post

Analyst, Bank of America Merrill Lynch

Great. Thanks, Dara.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Sure.

A

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Operator, next question, please.

A

Operator: Your next question comes from the line of Heath Terry with Goldman Sachs.

Heath P. Terry

Analyst, Goldman Sachs & Co. LLC

Great. Thanks. Dara on the last earnings call, you talked about earning – or about the market share in ride hailing sort of reaching a point of a stability. I'm curious, as you look at the competitive markets and the rate of growth on some of your main competitors particularly in markets like the U.S., what's it take to get to that point of stability? Is it just a matter of time? Is it a matter of more investment? And sort of how do you – whether it's bookings or revenues across the space, sort of how do you think of what qualifies a stability?

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah. I think it's – listen, when we look at the Ridesharing category, our top competitor in this category is car ownership and other ways of getting around. And when I look at how we are faring against car ownership, we're faring very well. And we continue to invest in products, continuing to improve the efficiency of our Pool product. You've seen us bring in transit choices, a whole other host of ways that people can get around their city, so that this younger generation that is coming of age unlike myself has zero need to own a car.

A

That said, within our category of Ridesharing, we are going to have multiple competitors. We and Lyft are big-time competitors here and have been for some period of time and for now we are seeing generally category positions that are stable. And we're focused on improving profitability in this market and many other markets around the world. And based on what we read, Lyft seems to be focused in a similar way. But as you know competitive environments can change. But the big picture is we want to be there anyway you want to get around your city and I think we're well on a path to do so in a profitable way.

Heath P. Terry

Analyst, Goldman Sachs & Co. LLC

Great. Thanks, Dara.

Q

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Thank you...

A

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

You're welcome.

A

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

...for the question. Operator, next question.

A

Operator: Your next question comes from the line of Brian Nowak with Morgan Stanley.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Thanks for taking my question. I have two. The first one on the U.S. Eats. I'm curious to hear about sort of any impacts at all from elasticity associated with that service fee. And how do you think about potentially rolling it out to other markets in the back half or into next year. And then, India Eats, I remember last quarter you called it out as one of the headwinds to overall ANR. Is there any update on India Eats in the quarter? And how do you think about strategic options to improve your ability to more profitably grow in that market? Thanks.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah. I think on the U.S. and elasticity as it relates to the service fee, we're constantly testing and learning. What we found is as you can see from the take rate improvement. This is two quarters in a row where you're seeing very, very substantial take rate improvement on the Eats side. The team is executing well. They're focused. There is due to be some elasticity. But what I can tell you is that from improvements that we are seeing in our take rate from a revenue standpoint and from a profitability standpoint are significantly in excess of any business that we might be losing on the top-line, and of course, this is within the context of the top-line of our Eats business growing bookings at 90-plus-percent on a year-on-year basis.

A

So, we think that at this scale and at these kinds of top-lines, the kind of trade-off decisions that we're making are the right trade-off decisions, and frankly they are not too difficult to make. We will look at taking some of these learnings in different markets. Every single market is its own, has its own character, has its own competitive environment. So, at this point, we can't point to a specific plan or a rollout plan. There are certain markets where we'll introduce the fees and there are certain markets where we won't. And we'll be pretty disciplined and data driven in our approach to every single market.

In terms of India, it's a big market. On the rideshare side in India, we're very happy with the results there, both in terms of category position, the top-line and especially the bottom-line. And we're taking some of those lessons and extending them into the Eats category. Right now, the market is very, very competitive. There are few very strong competitors there.

Generally, I would tell you that we want to be the number one or number two in every single market. Right now in India, we're the number three. And so, the team knows there is a big lift ahead of them, but we're in the game. And I think India – what's great about India is we have a local team there. We've got a great engineering team there where we're kind of a local company in India. We've proven our ability to win in rides and my expectation is the same on the Eats side.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Great. Thanks Dara, and thank you for the question.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Sure.

A

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Operator, next question please.

A

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

Ross Sandler

Analyst, Barclays Capital, Inc.

Hey, guys. Just one clarification and then a question around that. So, if we back out the 287 million shares for the drivers in 2Q, your rides net revenue or adjusted net revenue was \$2.6 billion and take rate 21.3. So, just want to clarify that's actually accurate and the right way to handle that 287 million shares. And then if so, that take rate is up 150 or so sequentially and you mentioned that it's going to go up in the back half. So what's driving up the rides take rates, is it the U.S., is it Brazil getting less bad, any color on what's happening with rides take rates both in 2Q and back half of this year? Thank you.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Hey Ross, I think you've gotten the numbers right. Nelson correct me if I'm wrong.

A

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Yeah, that's right.

A

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

I think, listen, on the take rate, we don't want to get into particulars as far as market by market. But I think the characterization which is the competitive environment in most of the markets in which we're competing with are stable or improving or our competitive tactics are improving. I think that's a generalization that is true in most of the markets out there in the rides category. And that is translating into take rates that are an improvement quarter on quarter. And if things remain the same, we think those trends are healthy and we'll take them.

A

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Thank you, Ross, for the question. Operator, next question, please.

A

Operator: Your next question comes from the line of Lloyd Walmsley with Deutsche Bank.

Lloyd Walmsley

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks. So, two if I can. First, Dara, you mentioned some interesting innovations coming in the second half. Is there anything you can share with us on kind of where those might fall or any specifics there would be great. And then just secondly, SoftBank is in the process of raising its second Vision Fund, they continue to put money into competitors. So, just wondering what kind of dialogue you might have with them to try to bring about more of a healthy market in the space. Anything you could share there would be great.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah, Lloyd I would – the marketing team would kill me if I steal their thunder as far as innovation goes on the Pool side. But on the shared ride category, listen, one of the keys with shared rides is you have to create matching efficiency and we were the pioneer in shared rides to begin with. We were the pioneer in shared rides – the products in shared rides where you walk and wait in order to create greater matching efficiencies and you should expect more of that pioneering and innovative spirit in shared rides going forward. We're already experimenting in high-capacity vehicles for example Uber Bus, Uber Van to kind of take sharing from two or three people on the back seat to 10 people in a van, which we think benefits riders, it benefits cities, it benefits the environment. And there's a whole lot of technical kind of innovation and investment that has to go into matching.

It's a category that because of our volumes and basically every single market that we compete with on the ride side, we're the largest player. Shared rides tends to be a category where our network effects are amplified. So we want to invest technically behind those network effects. And I think you'll see kind of more matching tech coming up in the back half of the year that we think will hopefully take us to kind of the next growth phase of shared rides.

I think as far as SoftBank and the Vision Fund 2.0, we're as awe inspired as everyone else as far as SoftBank's ability to raise capital and put that capital to work. And I said it the first time, which is I'm really happy that SoftBank is a partner of ours. I'm even slightly happier now that SoftBank is a partner of ours, because a partner that's global, that has that much capital is someone that you want to have with you. And SoftBank has been a great partner. And I think they'll continue to be a good partner going forward.

We are sensitive as to industry dynamics, so when we talk to SoftBank, we talk about things that are relevant to us. And we leave the investment up to them.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Thanks, Lloyd, for the questions.

Lloyd Walmsley

Analyst, Deutsche Bank Securities, Inc.

Q

All right, thanks.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Operator, next question, please.

Operator: Your next question comes from the line of Ron Josey with JMP Securities.

Ronald V. Josey

Analyst, JMP Securities LLC

Q

Great. Thanks for taking the question. I wanted to ask a little bit more. I think, Dara, you talked about increased consumer promotions this quarter – sorry, more effective deployment of incentives this quarter. Just wanted to understand a little bit more, particularly as you talked about promotion's been down and some sequential improvement. So just any information around promotions and incentives should be helpful. Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah. I think it's – we don't want to get into too many details, because you're entering into competitive categories. But I knew that there were two factors going on.

One is, there's always spend that is kind of on the inefficient side of incrementality. Kind of the next dollar that you put to work, the incremental return tends to be worse. And we've got our engineers and marketing folks always looking for the least efficient incremental spend. And then testing and learning their way into more efficient types of spend going forward. So you've got kind of engineers and marketers rinsing and repeating there.

And I do think that we are coming with types of incentives that are designed not just to drive volume for the next week, but they're designed to drive volume for the next month or two months. And increasingly investing more in programs like our loyalty program, both Uber Pro on our drivers' side, but then Uber Rewards, which are designed to essentially invest money for loyalty that carries over for not months but hopefully years.

So it's a continuing process. At the same time, we are seeing the competitive environment in general be more constructive. And listen, that always helps as well. The combination of better science, better marketing and a more constructive environment we think makes for a decent to hopefully better-than-decent second half for us.

Ronald V. Josey

Analyst, JMP Securities LLC

Q

Thank you, Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

You're welcome.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Thanks, Ron, for the question. Operator, next question, please.

Operator: Your next question comes from the line of John Blackledge with Cowen.

John Blackledge

Analyst, Cowen & Co. LLC

Q

Great. Two questions. First, just curious about the pricing environment in the U.S., thoughts on ability to raise price and/or potential for raising price as we [ph] run (32:32) through the year on the Ridesharing side.

And then just second on the marketing team change, just any early thoughts on how it may impact brand spend or customer acquisition spend? Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Hey, John. As far as the pricing power and pricing in general in the U.S., we're constantly testing and learning in terms of pricing. I do think that we have pricing power as a category.

As to what's the best way to exercise that pricing power one way or the other, I think is – remains to be seen. And we don't want to talk too much about kind of what our intentions are going forward. But I think as a service, we have pricing power. And I think it will inure to our ability to grow this business for many, many years to come.

As far as marketing and what we're doing, listen, the – part of the design around the restructuring of the marketing team was really looking at where we came from. Really the marketing team grew organically. And based on kind of the history of how Uber grew up, Uber was very decentralized from a local base, as businesses essentially, business leaders and city leaders who were their own CEOs.

And over a period of time, as businesses grow as they become more consistent, it makes sense to centralize some of the capabilities. And the decentralization, that served us very, very well early on in our development as a company, to some extent hurt us is as we think about how we tune our marketing teams for the next five years.

A significant amount of marketing as you can imagine happens for example online, on big online global systems, Google, Facebook, Twitter, Snapchat, et cetera. These are all essentially technical global platforms. And to have a bunch of local teams, all of whom are starting from square one, engaging with these technical global platforms in their own ways and reinventing the wheel didn't make sense.

So the reorganization is about improving effectiveness and it's about thinking about where we're going to be for the next five years of the company versus where we come from.

And I think, listen, my expectation is that our marketing spend – I can't speak for the second half of the year – but our marketing spend for the next few years is actually going to both increase and be more effective as a result of the changes that we're making in the marketing organization.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Great. John, thanks for the question. Operator, next question, please.

John Blackledge

Analyst, Cowen & Co. LLC

Q

Thank you.

Operator: Your next question comes from the line of Mark Mahaney with RBC Capital Markets.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Mark, are you online? You might be on mute. Operator, why don't we go ahead and then come back to Mark. Can we go to the next question, please?

Operator: Yes. Your next question comes from the line of Brad Erickson with Needham & Company.

Brad Erickson

Analyst, Needham & Co. LLC

Q

Hi. Thanks. I think there's a fair amount of work being done at the city and local government level around the world to understand I guess the effect of mobility platforms are having on broader transportation in those cities. So, relative to some of those works that are ongoing and the conversations you all are having with those cities and local governments, how should we think about any impact, either positive or negative, if and as supply of TNCs are controlled in more cities here going forward?

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Listen, I think that it's – every conversation that we're having with every city is different, so it's difficult to give you a global answer. In general, what I can tell you is that the great news is that, we're actually having dialogue and constructive dialogue with many of the cities and many of the transportation authorities in these cities.

So, if you look at London for example, we have a Clean Air Plan and a plan to actually fund electrifying our fleet, which is obviously great for the environment, I think it's great for London, it's great for consumers and it's great for us, and that's as a result of terrific dialogue with the city. We are now in dialogue with multiple transit operators and we have a transit product that's live, that is actually feeding demand into public transit, which we think is again a good thing for us, it's a good thing for the city and it's certainly a great thing for public transit as well.

We are now having active dialogue in terms of sharing our data. Obviously, we don't share any personal data for riders, but sharing aggregated traffic data that will allow cities to design more effectively for the next five years in a smarter, better way. So, I think the dialogue that we're having, this dialogue will turn into what we think are constructive results. There are some cities with whom the dialogue unfortunately, we think is not constructive, New York is one of them. But I think that the majority of these conversations are positive and we want to be a partner and the best partner for cities going forward as it relates to their transportation solutions for the next 10 years.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Great, Brad. Thank you for the question.

Brad Erickson

Analyst, Needham & Co. LLC

Q

Helpful. Thanks.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Operator, next question please.

Operator: Yes. Your next question comes from the line of Mark Mahaney with RBC Capital Markets.

Mark S. F. Mahaney

Analyst, RBC Capital Markets LLC



Okay. Thanks. Sorry about that. Hey, could we just talk about – Dara, could you talk a little bit about two regulatory fronts, New York City, what's happened to demand, the profitability of the Uber platform in New York City over the last couple of months as these series of changes have been introduced. And then just comment on the likelihood or the outcome materiality with these – the pending legislation in California about changing people from contract to full-time employees and what kind of impact that could have? You could address both of those please. Thanks, Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.



Yeah. Sure, Mark. So, listen, I think a lot of the changes that have been introduced or potentially introduced in New York City, we just don't agree with. The city is essentially introducing another medallion system. And if you've read any of the articles in the New York Times that system is right for abuse by people in power and it's happened in the past and the city could be setting itself up again.

If you look at our business in New York, it's pretty healthy and it continues to grow. The problem is that we are growing fastest in areas of the city where you've got consumers who can afford significantly higher prices and the price increases that we have had to put forward in the city, while areas like East New York or Wakefield, Bronx or Central Harlem, are not growing because our consumers there can't afford the increases in prices. And as a result, we're making kind of mobility unavailable to them.

So, I think, anyone who thinks that the changes, that – who tells you that the changes in New York City are good is for malarkey, frankly. And even de Blasio appointed TLC Commissioners, they acted over the objection of the City Council and drivers and editorial boards and community groups and even a former TLC chair and transit expert. So, we think – frankly, we don't get it. But we are doing our best in New York City.

I think one of the issues that we hold dear as it relates to Uber and our system is that, Uber has always been an open-labor system. We've always been available to anybody, who wants to find labor on our system, make money on our system, any which way they can. And the new rules could potentially restrict where, when, how drivers can work. And we just don't think that's good for New Yorkers.

As far as California and AB5, listen, if AB5 passes, it will simply be a codification of existing law. It doesn't immediately transform drivers into employees. It just changes kind of the legal test in the court. We think that there's a better way forward.

The fact is that, our drivers consistently tell us that the reason why they value Uber is they value their freedoms, they're their own boss, they run their own business, they can drive for us or not drive for us, whenever they want, however they want.

And we do think that there's a better path forward that would allow drivers to keep their independent status. But as a counter protections that frankly we think are good protections.

These are like minimum earnings and benefits and a voice and kind of decisions as it relates to the system that would affect their livelihood. So, we think there is win-win there. And we're having dialogue with various parties to hopefully get to a win-win. And we think that will be the way forward. So, stay tuned. We're hoping that the dialogue is a constructive dialogue, but it's early.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Thank you Mark for the question.

A

Mark S. F. Mahaney

Analyst, RBC Capital Markets LLC

Okay, thank you, Dara.

Q

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Operator, next question please?

A

Operator: Your next question comes from the line of Michael Graham with Canaccord.

Michael Graham

Analyst, Canaccord Genuity LLC

Thank you. I just wanted to ask on public transit again. You mentioned launching in London and Boston. Any update on rider engagement with that part of the platform, either in those cities or in some of the places you've been a little bit longer. And is this a city relations thing primarily and a rider convenience thing? Or is there a business opportunity there as well, in a direct way? Thanks.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah. Michael, it's very early. But what we're seeing which is super encouraging is that transit options and frankly more options, more transportation options in our app increase engagement with the Uber app. So, it's more transit, more bikes and scooters, even in certain cases like, Uber Bus et cetera all of these additions, for example taxi is a very, very fast-growing category for us in certain parts of the world as well.

A

As we add in more transportation options, we become a factor in a larger percentage of the population's transportation decisions. We have a great product and technical team that can build these solutions in an artful simple way that over a period of time learn about you and can personalize the choices for you. So, the transit option is just one way in which we are increasing our relevance to a greater number of consumers on a global basis and we are seeing a higher engagement in the apps specifically with London and in some other areas where we've grown transit. And listen, we think it's good for consumers, we think it's good for us and we think it's good for mass transit and the city as well. So, this one's a win-win-win, but it's pretty early and we think there is going to be a lot of kind of testing and learning going forward as we build these products.

Michael Graham

Analyst, Canaccord Genuity LLC

Okay. Thank you.

Q

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Great. Thanks, Michael. Operator, next question please?

A

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

Benjamin Black

Analyst, Evercore Group LLC

Q

Hey, thanks for the question. I'm just wondering if you could give us an update on the six focus countries. Where are you seeing meaningful traction, where's there incremental work to be done, what does the competitive environment look like in some of these countries? Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah. Sure. We can certainly give you a quick tour around the countries. Listen, Argentina is a very strong market for us. Buenos Aires continues to be one of our biggest and fastest growing markets in the world. And we think that there's a good constructive regulatory momentum in the country and we hope to build on that momentum.

Germany is another great market for us. We are building our business in Germany in the right way as it relates to rideshare. What's interesting is that, we've launched our JUMP bikes in Berlin and they've been spectacular. They've been a huge hit in the city. I think that bike ridership in the Europe is more prevalent and we're certainly seeing it with our product as well. And what you'll see with us in Germany is an expansion into more cities both on the ride side and on the bike side as well. And listen, we're actually – we're getting into Germany with Freight as well. So, Germany we think is going to be a pretty interesting market for us.

Japan and Korea are a couple of other markets. These are taxi-heavy markets. We think that regulatory, the regulatory environment in both markets is continuing to improve although we have a long way to go to build the rides, big rides business. I will tell you that our Eats business in Japan is doing incredibly well. And in Japan, I think we will be an Eats first and then rides second business which is terrific. It goes to some of the flexibility that we have in our model as far as introducing the Uber brand into the market and then expanding the definition of what Uber means to consumers in that market.

Spain has had good parts and bad parts. Barcelona, the regulations in Barcelona and a couple of the eastern regions were not great. But honestly, the rest of Spain is doing incredibly well. We're growing well there in the ride category. And we're starting to invest in Eats as well, and so that's going well.

So I think most of the story around these markets are strong. Italy is an area where we haven't really developed a big business there. But I'll take where we are. And I'd say five of the six countries, these are some pretty big countries, they're all going to take a lot of work, but they're all showing promise in different ways.

Benjamin Black

Analyst, Evercore Group LLC

Q

Great. Thank you.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Benjamin, thank you for the question.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Thank you.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Operator, next question, please?

A

Operator: Your next question comes from the line of Justin Patterson with Raymond James.

Justin Patterson

Analyst, Raymond James & Associates, Inc.

Great. Thank you very much. Maybe a big picture one. Dara, you've been involved with a variety of Internet businesses over the course of your career. Could you talk about how scaling Uber differs from traditionally online businesses? And how we should think through the timeline toward rethink – those financial benefits?

And then as a quick follow-up, can you provide an update around how you're thinking about opportunities around payments? Thanks.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Sure. I'll take the first. And, Nelson, maybe you can talk on the payments side. Listen, I think that there are ways in which Uber is a unique beast and then ways in which it's like any other business. I think that there is a meme around, which is, can Uber ever be profitable? I've certainly heard that meme along with others.

And I'll tell you, we have a business in the rides area that has a 20-plus-percent take rate, which is a very, very strong take rate. And a business at scale, the way we are a global business at scale that has network effects with a 20-plus-percent take rate, I believe has the potential. And if we execute, should turn out to be a spectacular business long-term. And I think that the same goes for Eats. And we're making bets in a lot of other categories that carry with them incredible potential.

So it's hard to compare Uber to other businesses, because it's a unique entity. It's one of those rare brands in the world.

I think what's very interesting about Uber is that we're a digital and physical business. And so the connectivity between the digital and the physical world and local regulatory bodies and the presence that we need in every single city and the difference in kind of local customs, all of those are amplified as it relates to this business. That makes it all the more interesting and to some extent also it makes for pretty interesting barriers for entry once you build the business.

So I think that myself and our team are well prepared. But I think we're very, very early in this incredible journey. But, Nelson, you want to talk on payments?

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Well, and the only thing I'd add on that is if you've listened to the script, at the end of the script when I talk about our rides contribution in the second quarter. And so we had a very strong second quarter on the rides contribution.

A

And again, if you again deducted from that what we call our corporate overhead, which is all the unallocated corporate overhead and tech supporting the entire company, excluding what we invest in ATG, the loss would've been \$100 million.

So it should give you a little bit of sense of the path to profitability on the rides business. And then obviously, we'll have plenty of dialogue on some of the other bets we're making, whether it be in Eats or in Freight or in NeMo or around autonomous. But it should give you guys a sense of kind of the path we're moving. And we talk about healthy growth in the market environment.

Your second question on payments, we continue to make good progress. I would say the team has done a very, very good job in terms of reducing some of the payment card fees. A lot of it is working with our partners. And we've been able to reduce some of the things. And it literally has been better than we would have expected, both on a quarter-on-quarter and a year-on-year basis.

As we move towards the next phase of the payments, we are going to be testing, broadening out some of the capabilities, particularly in Latin America. And again, we think this will have beneficial impact, particularly in terms of driver retention, as we offer more tools to allow them to kind of operate every day and also try to take cash out of some markets like Brazil, where we think that also provides some safety benefits.

Justin Patterson

Analyst, Raymond James & Associates, Inc.

Great. Thank you.

Q

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Thank you for the questions, Justin. Operator, next question, please.

A

Operator: Your next question comes from the line of Jason Helfenstein (sic) [Helfstein] (51:35) with Oppenheimer.

Jason Helfstein

Analyst, Oppenheimer & Co., Inc.

Thanks. So just two questions. Anything you can share to help us understand the early impact of the loyalty program and its impact on repeat usage and retention?

Q

And then just around Eats, do you expect to deploy batching and other dynamics to improve Eats delivery efficiency in the near-term? Or is that something more longer-term, given the complexity to do that? Thanks.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah. Jason, as far as our loyalty programs go, we are definitely observing what I call interesting behavior with our consumers. We're really looking for increased retention, increased spend. So we're seeing both.

A

I think that identifying causal versus correlative behavior, it's harder and it takes time. But as you can expect from the expansion of our loyalty program in the U.S. and into other markets, you should assume that we're expanding it, because we like what we see.

As far as Eats batching goes, we're batching our orders now. And we're using kind of the efficiency in the marketplace. And I think that you should expect to see more batching going forward, as we create increased matching the same way that we build Pool over the past couple of years.

Jason Helfstein

Analyst, Oppenheimer & Co., Inc.

Thanks.

Q

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Great. Thanks, Jason. Operator, next question, please.

A

Operator: Your next question comes from the line of Masha Kahn with HSBC.

Masha Kahn

Analyst, HSBC Securities USA, Inc.

Hi, thanks for the opportunity. I wanted to ask you about some news reports about you going to grocery delivery, if you could comment on that. And the other one from an Eats perspective, what makes it very interesting as a country from your economics perspective like which countries you like better than the others. Could you may be characterize some of the aspects of what makes Eats a good business in certain markets? Thank you.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah. Masha, as far as grocery, I don't want to comment too much other than we have said in the past that we are going to look at additional categories that can take advantage of the fulfillment network essentially that we are building and can give our couriers and drivers higher utilization and higher work, especially during non-peak times as it relates to driving. So, grocery could be one of those categories hypothetically. And once we have something to announce, we'll definitely tell you about it. But it's something that we could take a look at. Nelson, you want to talk on...

A

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Sure. It tends to be more on the city by city than just straight country. And a lot of it just has to do with how fast we're in there and then our competitive position. So, what I would say is that, you heard us talk about a 10.2% take rate, if you will, for Eats in the second quarter. If you look at the top five cities around the world where we are those take rates range between 8% and 16%. And so, you'll see – we do have some markets and somebody asked earlier about India where you have a very, very low or negative take rate. But again, we think it can be an attractive business in a lot of those different parts of the market. And so, in most of the markets we're in and we have some where we have very, very strong category position those tend to be the ones where you'll see that – those kinds of high take rates and contribution.

A

Masha Kahn

Analyst, HSBC Securities USA, Inc.

Okay. Thank you.

Q

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Masha, thank you for the question. Operator, we'll go ahead and take our last question.

Operator: Your last question comes from the line of David Dillon with SMBC.

David Dillon

Analyst, SMBC Nikko Securities America, Inc.

Q

Hi. Thank you for the question. Just following up on that [ph] EG (55:12). You had a nice expansion there on the take rate despite the more competitive pricing environment you're talking about and new competitors coming to market. And just kind of triangulating that with what you said about Japan and nice growth there, would you expect that take rate to be sustainable here or possibly continue to expand in the back half of 2019?

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Yes. It's Nelson. We hope so, right? And so, again, we put in the service fee in the U.S. at the end of the first quarter and so think there will be a bit of a tailwind as we continue in the back half of the year. Obviously, we'll continue to watch India. So, if you think about the fact that our take rate was 10.2%, ex India we probably would've been another 100 basis points or so. The one thing that we do watch is there is seasonality in the fourth quarter, particularly it has to do with drivers and couriers. And so, we will have to watch out in terms of what impact it is. But we do think over time that we'll be able to continue to improve in terms of our take rates.

David Dillon

Analyst, SMBC Nikko Securities America, Inc.

Q

Thank you for fitting me in. Appreciate it.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Thanks David.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

So, with that, thank you everyone for joining us. I wanted to give a special thank you to all of our Uber employees all around the world. This is our first full quarter as a public company. We're entering a different phase now. Uber, from an execution basis, I think that everyone is putting their best foot forward and I think it certainly showed this quarter with revenue accelerating and bottom-line getting better. And I think the team would be not satisfied with anything but these kinds of results going forward. So, thank you again for joining us and we'll talk to you next quarter.

Operator: This concludes today's conference call. You may now disconnect.

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