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Uber Technologies, Inc. (UBER)

Q1 2019 Earnings Call

CORPORATE PARTICIPANTS

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

OTHER PARTICIPANTS

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Heath P. Terry

Analyst, Goldman Sachs & Co. LLC

Ross Sandler

Analyst, Barclays Capital, Inc.

Mark A. May

Analyst, Citigroup Global Markets, Inc.

Mark S. F. Mahaney

Analyst, RBC Capital Markets LLC

Kunal Madhukar

Analyst, Deutsche Bank Securities, Inc.

Masha Kahn

Analyst, HSBC Securities USA, Inc.

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

David G. Dillon

Executive Director, SMBC Nikko Securities America, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Kristine, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Uber Technologies, Inc. Q1 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] Thank you.

Kent Schofield, Head of Investor Relations. You may begin your conference.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Thank you, Kristine, and thank you for joining us today. Welcome to Uber Technologies' Q1 2019 earnings presentation. On the call today we have Dara Khosrowshahi, CEO; Nelson Chai, CFO; and this is Ken Schofield, Head of Investor Relations.

During this 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 slide and our filings with the 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, including in the sections under the captions Risk Factors and Management Discussion and Analysis of Financial Condition and Result of Operations and our final prospectus filed with the SEC in connection with our IPO on May 13, 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.

Kent, thank you. Welcome, everyone, to our first earnings conference call as a public company. We're very excited. Our IPO earlier this month was an important moment for Uber. It was a culmination of nearly a decade of work to build a network, product, technology and operational excellence that powered global platform today. It's also the result of more recent changes, including our adoption of a world-class governance standards, an update to our cultural values and a shift towards long-term partnership with cities, regulators and the millions of people and organizations who use our technology to earn income or grow their business every day.

While I'm proud of what we've achieved with our IPO, I told our team that it is ultimately just one moment in a much longer journey. We have an even greater duty to create long-term value for investors, our customers, our employees and our many stakeholders. We'll do this by making the Uber platform a one-stop shop for the movement of people and powering local commerce around the world at a massive scale, over 700 cities in 63 countries.

Today, we're pleased to report another quarter of strong growth, demonstrating the continued success of our platform strategy. Q1 2019 gross bookings grew 34% year-on-year on a reported basis and 41% year-on-year on a constant currency basis and excluding divestitures, producing an annualized run rate of \$59 billion. Our Monthly Active Platform Consumers, or MAPCs, grew an impressive 33% year-on-year to 93 million. However, those 93 million MAPCs represent only 2% of the population in the 63 countries where we operate our ridesharing products and an even smaller percent of the population in those countries where they use Uber Eats. We believe our platform model allows us to acquire, engage and retain customers with a cost as well as efficiency and effectiveness advantage over our rivals, typically monoline competitors. These efforts are just getting started as we penetrate into a \$12 trillion total addressable market.

Now, on to Q1 2019 platform updates. In ridesharing, Q1 gross bookings grew 22% year-on-year and 29% on a constant currency basis and excluding some divestitures. Some ridesharing highlights: part of our commitment to increasing driver engagement and satisfaction, we launched Uber Pro, our driver rewards program, in 15 cities (sic) [10 cities] (04:48) in Q1 and now have expanded across the U.S. Among other things, we're helping drivers to lower their operating costs with gas and car maintenance discounts. We're also providing access to tuition-free college education at Arizona State University Online for qualifying drivers or if they choose a member of their family.

Meanwhile, we're growing our partnerships with Hertz, Fair, Localiza and other vehicle suppliers to enable more drivers to use Uber if they don't have access to a vehicle, which is one of the biggest inhibitors for potential drivers to earn on our platform.

For riders, we've launched Uber Rewards across the U.S. to recognize and reward our most loyal consumers. Leveraging the breadth of our platform consumers can earn points using ridesharing and Eats towards benefits that make their everyday Uber experience even better, including price protection for specific routes, priority pickups at airports and free Eats deliveries. Consumer satisfaction with Uber Rewards has been over 85%.

In ridesharing marketplace tech, we implemented a new dispatch optimization model, that's able to use a 10 times denser graph that allows us to dramatically increase the potential rider and driver pairs to enable lower ETAs. In the U.S., our gross bookings category position on a dollar basis has been stable at 70, plus or minus 2 percentage points versus our largest competitors since Q1 of 2018. In Q1 of 2019 specifically, our category position was stable at 69%. We've more recently seen signs of competition becoming more focused on brand and products versus incentives, which is a trend that has continued into Q2 2019 and we think which is a healthy trend for the business.

In Latin America, our category position has been stable since the beginning of the year and we've seen a stabilization of competitive intensity as well. We continue to maintain what we estimate to be a large per trip efficiency advantage over our largest competitor in the region and we've improved our competitive response to new rollouts by other players in the market. We're also in the early stages of rolling out Eats in the region, which will allow us to uniquely capitalize on the synergies between the two offerings as we're the only company in LATAM that offers both rides and Eats.

Now, on to our Eats business, which grew 109% year-on-year during Q1 to \$3.1 billion in gross bookings and at 117% on a constant currency basis excluding divestitures. This growth is impressive on its own, but even more so that Q1 2019 represents year-over-year growth over Q1 of last year, which is a quarter at which we believe Eats became the largest online meal delivery player outside of China.

Our 2018 goal of improved restaurant selection was achieved with 220,000 restaurants on the platform at the end of 2018, and we continue to add selection at an aggressive pace. We'll continue to improve restaurant selection, including the launch of self-service sign up portals, as well as our new aggregator business model that allows restaurant to use their own couriers to deliver to consumers.

In the U.S., we continue to see great expansion of our platform into suburban markets that are often times earlier in their engagement cycle with ridesharing. We have a strong category position in Eats in Japan, which we think will be a spearhead for our ridesharing business, and we continue to make category position gains in EMEA. Last and certainly not least, we expanded our Starbucks partnership to seven large U.S. cities and now have begun international pilots.

Now, a bit about our Other Bets segment, which grew Q1 gross bookings by 230% year-on-year to \$132 million. Uber Freight continued to make rapid progress in building our logistics on-demand platform throughout Q1, with growth for the quarter exceeding 200% year-on-year. More and more large global enterprise shippers are beginning to benefit from Uber Freight's vast carrier network, transparency, real-time pricing and more with many notable new customers joining Q1, such as CVS, Cisco, Petco and Huntington. To better support our enterprise shippers and further integrate into their supply chains, we've announced a strategic partnership with SAP, providing customers seamless access to the Uber Freight network, enabling real-time booking and on-demand freight capacity 24 by 7.

Now onto New Mobility, the quarter began with the release of a new version of the JUMP e-bike in January, featuring next-generation hardware that improves connectivity, is more durable and has a swappable battery. New Mobility gross bookings grew strongly quarter-over-quarter, as we carried out continued expansion across

the U.S. for both bikes and scooters and our first movement into European market, a focus that has continued in Q2. We also launched our first public transit product in partnership with the City of Denver which has shown early positive results, as well as furthering the expansion of Uber's platform of non-ridesharing products.

Lastly, on our ATG group, Toyota, DENSO and SoftBank Vision Fund agreed to invest \$1 billion implying a \$7.25 billion valuation for Uber ATG on a post-money basis, which we expect to close in July 2019. This investment and expanded commercial partnership will further deepen ATG-Toyota collaboration and add DENSO's expertise for next-generation autonomous vehicles. The investment and agreement is a great recognition of the progress that our team has made today. Our in-house efforts remain focused on the commercialization of autonomous vehicles within our network. This includes developing our own autonomous driving software and hardware stack, but it also includes making our network ready to deploy other partners autonomous technologies of which Toyota and Daimler have already been announced.

Now, I'll pass it on to Nelson to cover the Q1 financials and some details.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

Thanks, Dara. Now, on to Q1 2019, which, as a reminder came in at or near the high end of the financial ranges we provided last month in our prospectus. Our GAAP revenue of \$3.1 billion was up 20% year-over-year. Our GAAP cost of revenues, excluding D&A of \$1.7 billion, increased to 54% from 45% of revenue in Q1 of 2018. Our GAAP EPS was a loss of \$2.26 per share compared to a gain of \$1.84 in Q1 of 2018, which benefited from a \$3.2 billion gain attributable to the Grab and Yandex transactions that closed during that quarter. As a reminder and per the language in our prospectus, we expect a large stock-based compensation charge in Q2 associated with restricted stock units that vested in conjunction with our IPO.

For the remainder of the call I will discuss key operational metrics, as well as non-GAAP financial measures, excluding pro forma adjustments unless otherwise noted.

First, our total company global trips of 1.5 billion grew 36% year-over-year excluding our Q1 2018 divestitures in Southeast Asia and Russia. Growth was driven by Eats and Eats-related trips growing globally in excess of 80% year-over-year and by strong ridesharing performance particularly in Latin America. MAPCs grew 33% year-over-year to 93 million, we continue to see strong new MAPC additions to the platform via Uber Eats and NeMo. Total company gross bookings grew 34% to \$14.6 billion. On a constant currency and ex-divestiture basis, bookings grew 41% year-over-year.

As a reminder, we report our businesses as two segments: Core Platform, which includes ridesharing and Uber Eats; and Other Bets, which includes Freight, our logistics platform, New Mobility, which are our bikes and scooters. ATG, our autonomous driving effort, is included in research and development.

Adjusted net revenue or ANR of \$2.8 billion was up 14% year-over-year. ANR was up 18% on a constant currency basis. Core Platform ANR of \$2.6 billion was up 10% year-over-year. Core Platform ANR was 14% year-over-year on a constant currency basis. Ridesharing ANR is up 10% year-over-year. Eats ANR was up 31%, and they were up 14% and 32% year-over-year again on a constant currency and ex-divestiture basis.

Our ANR, as a percentage of gross bookings, declined 400 basis points year-over-year to 18% primarily due to Eats which has a lower take rate than ridesharing growing as a percentage of the core mix. In particular, in India where increased incentives to consumers, drivers and restaurants drove nearly half of the year-over-year decline

in Uber Eats take rate to 8% from 12% a year ago. Additionally, an increase in the use of ridesharing driver incentives, in particular in the U.S. and Latin America, to compete with other companies in the category.

In Q2 2019, we expect Core Platform ANR as a percentage of gross bookings to improve sequentially from Q1 due in part to increased rationality in U.S. ridesharing industry that Dara mentioned earlier, and new Uber Eats service and small basket fees launched in the U.S. at the end of the quarter. We expect these benefits to continue into the back half of 2019 and result in ANR year-over-year growth rates to accelerate.

Non-GAAP cost of revenues, excluding D&A, increased to 50% from 42% of ANR, and was flat at 9.4% with Q1 2018 as a percentage of gross bookings. Cost of revenue was flat as a percentage of gross bookings as improvements in insurance costs were offset by an increase in cost of revenues due to Freight and NeMo's growth or merchant model where freight partners' payments and NeMo's scooter hardware and fuel costs are included in cost of revenue.

We continue to make progress on payments and are realizing efficiencies through our efforts. Additionally, we have expanded our launch of Uber Cash, our closed-loop digital wallet to Mexico and Brazil in an effort to provide a more seamless payment experience and help our customers save more money. On the insurance front, we launched a way for drivers to file an incident report in-app through a series of simple steps where they provide information and upload photos. This allows Uber and our insurance partners to respond promptly and more effectively to provide support to drivers and riders.

Turning to operating expenses. Operations and support increased to 16% from 15% of adjusted net revenue and decreased to 3% from 3.4% of gross bookings versus Q1 of 2018. The decrease as a percent of gross bookings was primarily due to improved platform leverage, which more than offset Eats growing as a percentage of our mix. Although, we view it as a long-term operational execution opportunity for Eats, the online food delivery industry has higher support contact rates than ridesharing.

Sales and marketing increased to 36% from 26% of adjusted net revenue and increased from 6.9% from 5.8% of gross bookings in Q1 2018. This increase as a percentage of gross bookings was primarily due to increased consumer promotions as well as increased advertising and marketing head count. Similar to improving incentive trends we discussed in the U.S. and LATAM in ridesharing, we expect to deploy fewer consumer promotions in Q2 of 2019, resulting in sales and marketing as a percentage of gross bookings and ANR to decline in Q2 of 2019.

Now on to Core Platform contribution margin. As a reminder, our Core Platform contribution margin is a percentage of ANR and demonstrates the margin that we generate after the direct expenses related to our ridesharing and Uber Eats businesses are deducted. What it does not include is indirect unallocated R&D SG&A expenses including ATG and other technology programs.

During Q1 2019, we invested on our ridesharing category leadership through product improvements and competitive pricing relative to competitors that we continue to try to use capital to mitigate our efficiency and effectiveness advantages. Due to this investment, our Core Platform contribution in Q1 was negative 4% as a percent of ANR, down from positive 18% in Q1 of 2018. We remain confident in the long-term models leverage because in our top five countries, our gross bookings during Q1 2019, our Core Platform contribution margin ranged from negative 10% to positive 54%, even as each remains in investment mode in all these countries. Given improving competitive dynamics in U.S. ridesharing and relative stability in LATAM, we expect contribution margins to improve sequentially in Q2 2019 and for the remainder of the year.

R&D increased to 15% from 14% of ANR and decreased to 2.8% from 3.1% of gross bookings in Q1 2018. The decline year-over-year as a percentage of gross bookings was primarily due to lower ATG, external engineering and equipment spend more than offsetting continued R&D head count additions.

G&A increased to 15% from 14% of adjusted net revenue and decreased to 2.8% from 3.2% of gross bookings in Q1 2018. The decline year-over-year as a percentage of gross bookings primarily relates to the timing of litigation spend in legal and tax reserves to continue to invest in the systems and infrastructures needed to be a public company during the first quarter.

Our Q1 2019 adjusted EBITDA loss was \$869 million. We've been consistent in our communication that 2019 will be an investment year with our focus on our global platform expansion, long-term product and technology differentiation. In terms of liquidity, we ended the quarter with approximately \$5.7 billion in unrestricted cash. The net IPO proceeds will be captured in our Q2 2019 financials and we expect to receive \$1 billion in aggregate proceeds from Toyota, DENSO and SoftBank in July of 2019.

As a reminder, at the end of March, we reached an agreement to acquire Careem, a ridesharing, delivery and payments company operating in Middle East, North Africa and Pakistan for \$3.1 billion, consisting of \$1.4 billion of cash and \$1.7 billion in convertible notes. The acquisition of Careem is subject to applicable regulatory approvals and expected to close in January of 2020. We look forward to starting our regular quarterly cadence with you.

Dara?

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

All right. Thank you, Nelson.

Sometimes simplicity is a beautiful thing and while the canvas that we operate against and seem complex our story is simple. We're the global player. We are the largest player in personal mobility. Our brand, our technology, our operational platform all give us structural advantages versus the monoline players. We have a generational and demographic wave behind us and our job is to grow fast at scale and more efficiently for a long, long time. And while the markets that we compete in are and will remain competitive, we like what we see. Our IPO was an important step in our evolution but just a step. Our teams are focused, motivated, talented and very, very determined to prove Uber's value to our shareholders.

With that, we're ready for some Q&A.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Thanks, Dara. Operator, you can open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from line of Brian Nowak from Morgan Stanley. Your line is open.

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Q

Thanks for taking my questions. I've two. Just the first one on rideshare MAPCs. Can you sort of talk to us big picture about what you think the biggest hurdle you have to overcome to continue to drive fast rideshare MAPC growth in terms of your oldest markets in the U.S. whether it's price, density and how do you do that, what are your strategies in place to kind of continue to grow MAPCs?

Then the second one on Uber Rewards, any color on early learnings there, comments on frequency of users that are using that product and how do you think about pushing that more globally over time? Thanks.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Sure. Just as far as our core rideshare market, I think as it relates to audience or MAPCs, first of all, there is a natural expansion that is happening. You look at, one is, there's expansion from the city cores to the city suburbs. That is naturally happening. For example, in New York City now, over 50% of our rides don't originate or end in Manhattan and that was very much not true three, four years ago. So, you see there's kind of a natural expansion from the cores into the suburbs.

The second for us is that you've got kind of the newer millennial generation that is not particularly interested in owning a car. I think the stats are something like 26% of 16-year-olds got their licenses and that compares to double what it was just 20, 30 years ago. So, we do have this urbanization happening on a global basis. We've got this generational wave that is just not interested in car ownership and in all of that absolutely helps us.

Then I think that you look at our other businesses that we're growing in including Eats and our scooter business, the New Mobility business, 50% of our Eats customers actually don't use rides. So, whereas the rides business is a very strong audience creator for the Eats business. Now, as Eats extends especially into some of these suburbs, Eats is finding new customers for us which, first of all, are going to be customers for Eats, but these are customers that then we can upsell into the rides business as well.

And then the scooter business for us, e-bikes and scooters, are finding yet another generation of usually younger customers who are in the center of cities. And what we're finding is that with our New Mobility product we're actually – of the customers who use our NeMo products, they are typically underpenetrated in terms of using a rides product. So, it's a whole new customer base. Sometimes they have used our rides product that we're kind of reactivating them. Sometimes they weren't using rides at all. So, it's reaching into yet another customer segment and it's also reaching into a different type of trip, a trip that's typically less than five miles.

And then you see it's also penetrating into transit and other areas with our marketplace strategy, which is really getting into every single use case that you would want as far as transportation and usually cheaper use cases. So, this is POOL. This is a Express POOL and then these are transit partnerships that we have. They're for folks who want to spend \$4 or \$5 or even \$1 or \$2 per ride. So that's all within a country.

And then also keep in mind that we have six target countries: Germany, Argentina, Japan, South Korea, Spain and Italy. These are countries that we believe that we can open up. We think that Uber is a terrific service in those countries and we think that there's a regulatory opening in those countries, so to speak. It will take some time. Those countries will represent a 20% increase in population or MAPC potential. And there are many, many other countries that either we're not in or we had to get out of Finland, Norway, Slovakia, the Czech Republic, et cetera. So, all of this kind of increases the overall population, et cetera. So, I think on the MAPC side, there isn't one silver bullet but there are many, many levers and we have teams working at each of these levers to continue to increase MAPCs not just for the rides business, but the overall Uber platform as well.

And the second question was about Rewards, is that right?

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Yeah, yeah.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah. Was it about the Rewards [ph] you're saying (25:43)?

A

Brian Nowak

Analyst, Morgan Stanley & Co. LLC

Yeah.

Q

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah. I think in terms of Rewards on the consumer side, we're going pretty aggressively in the U.S. and we're seeing very good early signal and we're seeing very high consumer satisfaction. The other great thing about Rewards is that it knits our various services together. You've also seen that we have a subscription product on the ride side and you can anticipate are being more aggressive in tying in our different products across our subscription products as well. So, we're very happy with the early results from Rewards, but it is early and we think that's a product that we can optimize pretty significantly going forward. And we're certainly looking at launches outside of the U.S. although we haven't announced anything yet.

A

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Thanks, Brian, for the question. Operator, next question.

A

Operator: Your next question comes from line of Heath Terry from Goldman Sachs. Your line is open.

Heath P. Terry

Analyst, Goldman Sachs & Co. LLC

Great, thanks. Just a couple of things. You made the point in the press release of continuing to see signs of less aggressive pricing by some of your ridesharing competitors. Just curious to the extent that you can elaborate on that. How universal that is in terms of geography? How much of that is in the U.S. versus some of the other more important markets to you?

Q

And then on the Eats side of the business, obviously with headlines about competitors raising more money in this space, Dara, curious about your view on how or what type of consolidation is going to happen within the Eats category and to what degree Uber potentially takes part in that in some way?

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Sure. I think on the competitive front, listen, there is no universal, every single country is different and we'd be here for half an hour if we describe the competitive position in every country. I think some important ones, in the U.S., if you listen to the Lyft conference call, for example, they talked about competing more on brand. And I think that competing more on brand and product is, call it, a healthier mode of competition than just throwing money at a challenge. So, we have seen that pencil out into the market, so to speak, and we are obviously operating independently. But I say, we like what we see on the competitive front in the U.S. which is our largest market.

In South America, in Brazil, Mexico, et cetera, we certainly saw competitive entry by DiDi and some other players, and we're seeing it stabilize at this point. And so, again, will things get better or worse, we can't predict. But I think that sitting here today versus where we were three months ago, we're always uncomfortable in our chairs, but we're less uncomfortable, so to speak, and I think we have more of a handle on the competitive situation and I think we feel net better. Now, that can get worse or better, but I'd say today, we feel better on the competitive front overall on a global basis.

I think as it relates to Eats and the landscape there in food delivery, listen, there's a lot of capital coming in because it is a huge category. And there are some folks I believe that the food category can be larger than the rides category. And if that's true – and by the way, it could be true. In China, it looks like it is larger than the rides category, that would be an enormous win for us. But today it does – it is challenging and that there are many players that are well-funded, they're well operated and they're competing to win, but we're the biggest player outside of China. We love our team. We love our technology and the platform that we have and the ability of our rides business to, one, has built a brand that is very, very recognizable but also move riders from eaters is considerable. And I will tell you that we are very, very early in the stages of exploring the many, many ways in which our rides business can help continue to build our Eats business and vice versa by the way.

So, will there be consolidation? Yeah. I think there will absolutely be consolidation. We are not in a hurry and that I think that whether consolidation happens sooner or later, we will be kind of the biggest player on a global basis. We like our competitive chances. We love the advantage that we have as it relates to the platform. So, we will play a consolidating part if it makes sense for our shareholders from a long-term perspective. But it's kind of a plan B because our plan A which is an organic plan is a great plan and we feel very strongly about it.

Heath P. Terry

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you, Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Welcome.

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

Ross Sandler

Analyst, Barclays Capital, Inc.

Q

Great. Two questions from me guys. So, on the rides incentives issue, so you've mentioned that they've come down a little bit. I guess, the question is, as those come down on the riders' side and as prices or fares increase, how sensitive are GV volumes and GV growth rates in rides to increasing prices? And are you seeing anything new in the current quarter relative to the first quarter on rides' GV growth?

And then the second question is on Eats. So, I think there's a perception out there that the Eats take rate is coming down because some of your larger QSR deals, but Nelson you mentioned India. So, can you parse the Eats take rate compression between India and maybe other factors like building out selection? And any update on the Eats business post the pricing changes in March? Thanks.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Sure. So, hey, this is Nelson. In terms on the rides side, we haven't really, right? And so, the only place that we are watching is New York. And as you know, there're mandated pricing moves that have happened and we've been passing it on. So, we have seen that increase. It's been less about a category position story for us but pricing has increased. And I think it probably does have ultimately some impact in terms of how gross bookings grow in the category there, but our position is quite strong there. Beyond that we haven't seen that too much.

Regarding your question about Eats, yeah, India is an investment market for us, right? And so, there's two things going on there. It's growing very, very quickly. There're two competitors that are very aggressive on there, including ourselves. We are doing well on holding our own, but it is a net market in that we are funding both the eater, the courier as well as the restaurant in terms of building the business. As I mentioned in my prepared remarks, if you think about a 400-basis-point difference in terms of our take rates year-over-year in Uber Eats, it is still half of it. And the other half is really about increasing restaurant selection, increasing incentives for our restaurant partners and that was the difference between how we're going there.

But in terms of how the business is going out, it continues to grow well. As Dara mentioned, it's more of a market-by-market situation. It's growing very, very quick, fast as you saw from our results. And we continue to do well, but I would say that there are certain markets where there are well-funded competitors that are growing and you see in the U.S. where we have a competitor that's well funded and growing quite quickly. And we are going fast as well, but they are growing their category position faster than us.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

But we should also expect, Nelson, correct me if I'm wrong, which is our take rate for Eats is on the way up...

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Correct.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

...for the balance of the year versus the other way. So, this should be the low watermark and then you should see take rate for Eats increase over the balance of the year.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

And then your last question was on the new service fees, and so they've just started but they've been well received. We haven't seen any impact on the business. As Dara said, you'll see the take rates improve through the balance of the year and you should see the ANR increase as well as you think through the balance of the year in terms of the growth rates.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

And, Ross, just to your first question around rationalization in a competitive environment. You alluded to this, but just to clear, it impacts take rate, it impacts sales and marketing as you think about driver and rider side and all that. But I just want to be clear on that side. Thank you for the question, Ross. Operator, next question.

Operator: Your next question comes from the line of Mark May from Citi. Your line is open. Mark May, your line is open. If you're on mute, please unmute.

Mark A. May

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Can you hear me? Okay. You touched on this a minute ago, but I think New York City is the top five market, I believe, for you and there had been some very recent changes there. So, just curious if you could comment on how, if at all, the recent changes in New York City including the new fees and the limits on growing supply if that's impacted the growth in the market at all recently? And if so, how we should think about that?

And then secondly, more of a housekeeping question. Regarding the guidance on sales and marketing leverage for Q2, is that on a bookings or an ANR basis and would you expect that to persist in the second half? Thanks.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Yeah. Sure. I'll take the first question, Nelson will take the second question. In terms of New York City, listen, our business is pretty darn resilient. And the changes made in New York City, while we don't think that they are consumer-friendly and the cabs, et cetera, we certainly don't think that they're driver-partner friendly, our business has proven out to be pretty resilient. So, it has translated into pretty substantial price increases to the consumer, to the rider. We have seen that affect trip volumes definitely because there is some price sensitivity as it relates to any product and ours is not accepted. But overall, if you look at the dollar growth rate in New York, it's still a healthy city for us.

We do think we're still proponents of comprehensive reform in terms of congestion pricing, kind of more market-based regulation. We do want to be constructive here. And a city with too much traffic and lots of cars standing still doesn't serve us, doesn't serve our riders, doesn't serve our drivers as well. So, our service has certainly shown its resilience. We think the environment can get better, but New York continues to grow for us and continues to grow at a healthy pace on a dollar volume standpoint.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

And then, Mark, it's Nelson. On your second part of the question, yes, we expect that our Core Platform ANR as a percent of gross bookings to improve sequentially. And then, we do expect as we think through the back half of

2019, we're going to see those benefits continue as well as an acceleration year-over-year of our adjusted net revenue.

Mark A. May

Analyst, Citigroup Global Markets, Inc.

Q

Sorry, I was referring to sales and marketing leverage.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Yes. That leverage it will be against both, but really the point was about our gross bookings.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

And Mark, here's a little bit to the prior question in that. As you think about sales and marketing, you think about promotions to the rider and you think about rationalization. Generally, that has an impact there as well.

Mark A. May

Analyst, Citigroup Global Markets, Inc.

Q

Thank you.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Thank you, Mark. Operator, next question.

Operator: Your next question comes from the line of Mark Mahaney from RBC. Your line is open.

Mark S. F. Mahaney

Analyst, RBC Capital Markets LLC

Q

Great. Thanks. Two questions. One, Dara, I think you touched briefly on synergies between ridesharing and Eats. Can you talk a little bit more about the strategy to try to generate more of those synergies over time? And then, Nelson, could you talk about any new insights you have in terms of getting leverage against insurance costs, which seem to be a material component in the COGS? Any new insights there? Thank you very much.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Sure, Mark. I don't want to give away too much in terms of competitive strategy going forward, but suffice it to say that we are starting to experiment in ways in which we can upsell our ride customers to Eats deal in a way that to be plainspoken isn't annoying in a way that is beneficial to our riders. And we are seeing some very, very encouraging early signal. Usually, if you've got a core product and obviously, you can imagine that our app has a relatively limited space to promote other things to do other than get a ride, usually there is a plus or minus to your putting in a promotion to do something else. And what we found is that with rides and Eats, we've got very talented tech and product team, and we're seeing early signal where essentially you can have very little, if any, cannibalization of a ride and throw a significant amount of potential demand onto the Eats side. And these are very early experimentation results and again, are very much we won, but are showing a signal that that creates a good amount of excitement for us in-house.

There are also ways for us to tie the businesses together as it relates to loyalty program, which we're pretty early on and as it relates to subscriptions, as it relates to promotions, et cetera on the backend, which again, we're fairly early in the experimentation stage. So, I think that – I don't want to give away too much, but there's a whole host of activity that the teams are focused on. And really what we're looking to do is significantly increase the percentage of our MAPCs that use both products. And when we see customers using more than one product, their engagement with the platform more than doubles. So, not only does engagement with Uber increase, but the engagement with our individual products increases as well. So, it's kind of a win-win-win.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

And then, Mark, on insurance, there's not a step function improvement, I would say, it's more grind on that. And so, what we've done over time is the team has built a great actuary book. And so, what that enables us to do is a couple things. Now, first of all, you shouldn't see quarter-to-quarter noise in our accruals and that's actually pretty important. It allows us also to go in and work with a lot of the national carriers in our transit business, so that is helpful. You heard in my prepared comments how we're leveraging technology and data to help in terms of incident response times. And so, a great way to also help outcomes is make sure you have really good fast incident response which we're doing. And then, the one thing I would tell you is that over time, insurance, while there is a little bit of a service in the U.S. to offset, it's largely impacting the U.S. rideshare business. So, it'll continue to become a smaller part of the overall P&L as other parts of the business continue to grow quickly.

So that would be my takeaway. And so, I think you'll see us continue to grind out productivity out of insurance.

Mark S. F. Mahaney

Analyst, RBC Capital Markets LLC

Q

Thanks, Nelson. Thanks, Dara.

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

Kunal Madhukar

Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks for taking the question. This is Kunal for Lloyd. Two if I may. One, what are the nuances associated with the markets that are currently generating over 50% contribution margins? And if you're already getting more than 50% contribution margins in one market, how do you see that kind of – how do you see contribution margins in the future in other markets?

And second, with regard to lower costs that'll open up the TAM. What are the key elements to getting pricing lower absent a shift to autonomous? Is POOL really growing in the ride mix enough to lower the price meaningfully? Or are there other pathways to lowering the pricing? Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Sure. Absolutely. On contribution margin?

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Yeah. So, I'll start on the contribution margin. So, I think in the markets where we have high contribution margin, we have very strong category position. We have good take rates. And so what I mean by that is the adjusted net revenue percent of gross billings that tends to be higher. And then in those markets, believe it or not, there is competition, but we've done a good job in terms of how the market has evolved. And so we have very, very strong position from that standpoint.

What you'll see over time is, as the markets continue to evolve, you'll see us continue, particularly in the rideshare side, focus more on contribution. And you'll see us get more efficient. And so, we'll get the scale benefits of just our global scale versus everyone else's to deploy technology and operations. You'll see us continue to grind out some of the productivity metrics we're going to work on in things like insurance and things like payments and other things.

And then, as Dara and I mentioned, the one wildcard is going to be market-by-market what happens from a competitive position. And so, while we feel comfortable sitting here today and looking into the next couple of quarters, those things can change. But as we see through those things that will happen and then the last part of it, because again, this is a core contribution metric, is how Eats continues to evolve. In the specific market where you mentioned that we have a very strong market position, we have a good Eats business as well. And again, while we're not going to disclose where that place is, there are markets where we, again, we have good core contribution margins across the globe and you'll see us continue to give you more highlights as the quarters continue here.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

And I guess, the other way that I'd put it is, the markets with high contribution margins, we don't consider it to be outliers. The outliers was the U.S. where our company went through some very, very significant challenges as it related to brand and what has frankly been a strong competitor in Lyft.

And so, the U.S. is an outlier as far as the scale business that hasn't yet achieved very strong contribution margins. There are markets like Latin America where we've got a competitor come in more recently, but from a structural standpoint, actually this is a business that we believe can be a very significant contribution margin positive. And the one outlier is in the U.S., and in the U.S. we suffer some brand damage. That's very unusual. That's going to take some time to repair. And now, I think in the U.S. we're in a competitive position with the other player where the competition is going to be more healthy. It's going to be based on brand and products and technology, which we think is the right place to compete versus throwing money of the problem.

I think on the other question as to low cost et cetera, listen, I think that there are many different ways in which we take on low cost. First of all, as it relates to the pool product, what we're really focused on is being more efficient and increasing the match rates as it relates to each trip, and it means being smarter about which trips we match. And then also the introduction of Express POOL that essentially adds waiting and then adds walking to the equation in order to increase the match rates as well. Historically, we have price pool quite aggressively in order to create liquidity in the marketplace in order to create the opportunity to match. Now, actually I'd say the majority of the work is and in improving our matching capabilities versus using pricing to increase liquidity.

Beyond POOL and Express POOL, we're investing in high-capacity vehicles either we call it Uber Shuttle or Uber Bus that we've launched in a number of markets. This is about taking matching to the next level, 10 riders in a single vehicle, 15 riders in a single vehicle. We think we will do this ourselves. Over a long-term we may also partner up with governments, do kind of public-private partnerships to be a part of the transportation solutions of the cities in which we operate.

Beyond that are having public transport, we talked about the integration in Denver. We've integrated London public transit into our app as well. And while that's not strictly our product that we will be marketing, it's another essentially search or another occasion by which users will come to our app to learn what's the best way to get from point A to B. And as every user every day in every city is opening up our app in the morning when they want to get to some place, then good things are going to happen over a period of time. So, we don't think there's any kind of magic lever here, but we are putting more against these different modes of transportation.

And then you add to that, e-bikes, scooters bolster our own products and through partnership with Line and we're looking at partnering with other players as well. You just have a whole transportation ecosystem on one app, all your information, fully integrated with the loyalty program beneath it, we think that's a very, very powerful product, but it will take time for all this to come together.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Thank you, Kunal. Operator, next question.

Kunal Madhukar

Analyst, Deutsche Bank Securities, Inc.

Q

You're welcome.

Operator: Your next question comes from line of Kahn, Masha from HSBC. Your line is open.

Masha Kahn

Analyst, HSBC Securities USA, Inc.

Q

Hi. I'm interested in your payments strategy. You mentioned you're introducing payments wallet in emerging markets. Are these cash products you mentioned going to be used only for Uber ecosystem or can it be used for remittances and outside Uber platform? Can you just talk a little bit about that?

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Sure. So, the start of our payments is really on productivity right now. And so, 87% of the transactions that happen on Uber are done with a swipe. And so, what we're doing right now is the team is really focused on trying to drive down some of the costs. And you're going to see those benefits. And those are both in terms of core process improvements. We've improved some of our cash collections in arrears, fraud prevention. There's all sorts of different operating things as we continue to focus on productivity. And so that's going on right now and we're seeing the benefits now and you'll continue to see the benefits throughout the year and moving forward.

The second thing we did launch and which I mentioned is a closed-loop wallet. And this is really to help in certain markets like Brazil, which is really a cash market for us, and it really helps in terms of lot of cases because in the U.S., we really worry about riders. In Brazil, we have to really focus on drivers' safety. And so, because there are incidents with drivers they're getting robbed or they're getting carjacked. And so, the more and more you can move away from cash is beneficial, additionally, we do see that if you have Uber Cash credit on your account, you will use our service additionally.

The last thing is really just we are evaluating how open we own in terms of the wallet, which I think was your question. And I would say that's an opportunity we're looking at now. You did notice that PayPal invested as part

of our IPO, and so we are talking to a number of different partners and we are going through that owned process internally now [ph] of how open we want to be (50:04). You can envision that with a company that is growing as Dara said now, the run rate of the business is approaching \$60 billion a year in terms of billings this year. There's a lot of opportunity that we see ahead on it. And so, we're just working through that now. The real takeaway right now is just to focus on the productivity side, which we're getting and you'll see in our results.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

A

Thank you, Kahn, for the question. Operator, next question.

Operator: Your next question comes from the line of Youssef Squali from SunTrust. Your line is open. Youssef, if you're on mute, please unmute. Your line is open.

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yeah. Sorry, apologies for that. Dara, you mentioned a couple times now that competition is more going to be focused on brand and products. Maybe you can flesh that out a little bit. Brand competition could also be pretty expensive proposition. So, maybe if you can just help us understand what you mean exactly by that that'll be helpful.

And also, if maybe you can just give us an update on those six markets where it's been more difficult to do business in, particularly in Germany. I think the last time you mentioned that, you had started making some headway there. So, any help there would be helpful. Thanks.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Sure. When I talk about brand and product, really it's shorthand for talking about the quality of the service. What are your average ETAs? What are your ETAs, kind of P90 ETAs? How do you make sure that every single customer interaction is a great interaction? What's the quality of the vehicles and your driver partners? Are they happy? Are they hospitable? How is your pricing? How consistent is your pricing? How are your match rates, et cetera? So, really kind of when you think about our services, there's a cost to customer acquisition. How are you bringing customers into the funnel? We think we have an advantage because we essentially are acquiring customers across multiple verticals.

Second is, how long are your customers staying with you? How loyal are they? We think that with our loyalty programs, with subscriptions, with payments, with wallets, we have now all the tools again against a multitude of different products that we can offer on one consumer, so that we think that we've got kind of a structural loyalty advantage over the other players. And then, we're constantly iterating and improving our experience and our technology in order to make sure that its best of breed in terms of your ETAs, your pricing, your routing, how quickly do you get from point A to B and all the different choices that we offer you as well. So, we think that's a great area for us to compete in. And, listen, the Uber brand is a brand that everybody knows all around the world and we've already built two multibillion dollar services on the Uber brand and we think Freight will be a third. So, we like competition as it relates to kind of brand product technology and we think that over the long-term are being the bigger player, are being the global player and are being the multi-product player is going to put us in a very good position where competition is not just about dollars. Now, if it is about dollars, we're going to push back as hard as anyone pushes us as well.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

I think the six countries are...

A

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Yeah. The six countries, I'd highlight – listen, each of these countries is unique in its own way. Germany, for us, has been a country that has been a significant investment. I've been to Germany already three times. We are kind of growing in Germany the right way. It takes longer to build a service, to some extent based on the regulations there. But we are very happy with the growth rates in Germany. We're very happy with the quality of the service there. And we think that the regulations are headed in the right direction, so that we can build a larger service and in a way that ultimately is better for the cities. Germany has regulations, for example, of return to base where if a private hire driver takes you out to the airport, he or she has to come back to base empty. That doesn't make any sense, especially in a country like Germany that is such a leader and in all the environmental issues that they play in. So, hopefully over a period of time, they will recognize that.

A

In Japan, which is the largest taxi market in the world, we are launching in partnership with taxi. And we're building out our product suite as it relates to taxi partners. We're going out and having really good discussions with taxi partners, and we're signing up taxi partners and kind of building a service the organic way, and we are optimistic about the potential of Japan as a market and the potential of taxi as a partner there. There're some kind of creative ways in which we're working with taxi, which we think can result in a pretty good [ph] thought (55:21) services there as well. The Olympics are clearly a consideration for the government. And again, I think that we can play a constructive part in building out a great business there.

Argentina is another market for us that is showing us very, very strong signal. And I think is one of the absolute bright lights in South America, and it's mostly a cash market at this point, but we think has a ton of potential. There are some markets. Italy is very slow in developing. Spain, Barcelona for example has taken a step back. So, all of these markets have their positives and negatives, but I think that overall, they're going to be a net positive. And when I look at five years forward, I think that they will be real contributors into our ecosystem.

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

Thanks, Dara.

Q

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

You're welcome. Next question.

A

Operator: Your next question comes from the line of David Dillon from SMBC Nikko. Your line is open.

David G. Dillon

Executive Director, SMBC Nikko Securities America, Inc.

Thank you. Really nice improvement on the Freight side, the 200% growth. Can you share the number of trips there? I know you gave some information on the carriers and the drivers and the shippers, but is there any additional metrics you can provide there if possible?

Q

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Actually, no. We're not giving that kind of information out. But, look, we've seen good signal there. We're pretty confident in terms of the ability to grow out there. We're seeing it just because we see all the same-store sales that we're getting with these national shippers. We continue to build out our routes. And as you know, the key to building a good Freight business is building kind of supply/demand across routes, which we're building. We're not optimized yet. We're not big enough yet, but we're seeing very, very good traction there.

And then, look, we'll look forward to talking more about Freight. Again, we've been in the business a little over a year-and-a-half or so. And again, we think that we'll continue to grow – the growth will continue to exceed 200% for the year.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

A

Just to add a little bit of color. In general, if you look last year Freight was, probably, the overall logistics business was in an undersupply position. This year, there's more supply out there. There are more trucks out there. So, pricing has come down. So, the real focus of the Freight team now is to really focus on bringing in demand and going out and signing up the enterprise shippers. And that sales team is just really, really knocking it out of the park. They are bringing in a lot of names and usually – well, not usually, almost without exception, when we bring in a new name, we service them very well. We've won a bunch of kind of shipper of the year awards, et cetera, and then we build the business. So, you're going to see our sales team out there. They're knocking on doors and fortunately the doors are opening at this point.

Nelson J. Chai

Chief Financial Officer, Uber Technologies, Inc.

A

Yeah. And the only thing I'd add is that one of the real win points for us is just it's a very manual business if you know the Freight business. And so, we're able to automate it. And so, the enterprise shipper is like that. So, whether the shipping creation stats like 87% of the time it's done electronically, the pricing is done almost 80% electronically and even the booking is done almost 80% electronically and so that wins. And so, we're seeing those benefits out there and as Dara mentioned, the sales team has been going after it. And so, we're seeing good signal right now.

Kent Schofield

Head-Investor Relations, Uber Technologies, Inc.

Great. Thank you, everyone. Great. Thank you for the questions today and thank you, everyone, for joining us. And we look forward to catching up with you soon. Thank you.

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

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