Uber

EU Approves Platform Work Directive

Maintain Rating: BUY | PO: 91.00 USD | Price: 77.47 USD

11 March 2024

Equity

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EU approves provisional agreement for platform workers

Today, the European Union confirmed the provisional agreement of the Platform Work Directive that aims to ensure minimum working standards according to employment status, and regulate digital platforms that use algorithms to make human resource management decisions (allowing workers to contest automated decisions). The proposed text allows each national government in the EU to determine its own employment status for platform workers based on "a legal presumption of employment in [the country's] legal systems, to be triggered when facts indicating control and direction are found". The directive will go to the EU Parliament for approval in April, and if approved member states will have two years to legislate and implement national laws.

Gig platforms likely to push for IC+ model across Europe

Today's directive effectively pushes the lawmaking to individual EU countries (a better outcome for industry vs EU-wide mandate of employment vs. contractor status), requiring countries to introduce relevant national legislation by mid-2026. Given that most EU countries already have laws and regulations on worker status, we believe many countries will use the directive to codify existing practices rather than change worker classification drastically (largely maintaining the status quo). While this could create regulatory overhang on a country-by-country basis (and elevate legal costs), Gig-Platforms have two years to push national governments toward a "Independent Contractor Plus" (IC+) model that has been adopted in several US states and cities. IC+ models are less costly for the platforms than FTE status, while allowing workers to retain the benefits of independent contractor status (which most prefer) while also receiving expanded (though not full) benefits like minimum earnings & sick leave.

For Uber, added costs likely to be passed to consumers

In 2023, Uber generated 27% of revenue from the EMEA region, and if we assume 50%+ of EMEA revenues are from the EU, we estimate about 12-15% of total bookings could be generated by the EU member states (largest EMEA country for Uber is UK, no longer in EU). This would translate to roughly $26bn-$33bn of 2026E Uber gross bookings, and if we assume a 7-12% increase in driver costs (75% of total costs) related to national legislation passed in accordance with the Platform Work Directive, we estimate roughly $1.4bn-$3.0bn in annual incremental expenses. However, any earnings impact could be offset by a 5-10% increase in fees to consumers, and we would expect Uber to pass through cost increases, as the company has done in other regions.

EU's stance has some similarities to Dept. of Labor rules

As the approved text maintains the status quo regarding worker classification being "decided country-to-country and court-to-court", we don't see material incremental risk to Uber's high-30% to 40% EBITDA CAGR target thru 2026. Furthermore, the EU's stance reduces some uncertainty, and seems similar to the recent Department of Labor "rule" that ultimately leaves states to determine employment status of platform workers (see DOL note), in which case the IC+ model is becoming increasingly popular. Maintain Buy on Uber and DASH.

Stock Data

Price	77.47 USD
Price Objective	91.00 USD
Date Established	14-Feb-2024
Investment Opinion	C-1-9
52-Week Range	29.22 USD - 82.14 USD
Mrkt Val (mn) / Shares Out (mn)	159,422 USD / 2,057.9
Free Float	96.1%
Average Daily Value (mn)	1677.36 USD
BofA Ticker / Exchange	UBER / NYS
Bloomberg / Reuters	UBER US / UBER.N
ROE (2024E)	20.8%
Net Dbt to Eqty (Dec-2023A)	60.1%
ESGMeter™	High

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Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2. **12669500**

Timestamp: 11 March 2024 09:43PM EDT

Price objective basis & risk

DoorDash (DASH, C-1-9, $128.77)

Our PO of $139 is based on a Total Revenue multiple based on a comp group consisting of FANG stocks + Uber. Our Comp group trades at 4.8x 2025E Revenue, with a 21% Average EBITDA Margin and 14.5% average Revenue growth for 2024+2025. With DASH at an 18% margin and 17.5% growth, we select a multiple that is at a slight premium to the peer group average, given the above average growth (DASH at 17.5% avg during 2024-2025, comps at 14.5%). Our multiple implies an EV of $59bn, or $62bn Market Cap inc. Cash, and we get to $139 PO based on 440mn shares (reduced by 10mn shares for incremental buybacks).

Risks are 1) slowing industry growth in 2021, which puts premium valuations at risk, 2) DASH potentially facing tougher comps than competitors, 3) entrenched incumbents in adjacent categories (including Amazon), 4) regulatory battle, which is not over yet, despite Proposition 22.

Uber (UBER, C-1-9, $77.47)

Our $91 PO is based on 25x FCF. We think a 25x 2025 FCF multiple is reasonable vs FANG average (per Bloomberg ests) of 23x, given Uber's superior 39% 3-year EBITDA growth outlook (vs 20% for FANG 2-year avg). Our Uber PO price would represent 23x 2025 EV/EBITDA and 40x GAAP earnings, we think some premium to the FANG group is warranted due to lower capex and faster growth expectations for 2026.

Downside risks are 1) multiple compression given macro economic exposure, 2) slowing user/revenue growth due to competitive initiatives from Lyft or DoorDash, 3) new competition from self-driving technology companies, and 4) new regulations, fees, and/or minimum wages.

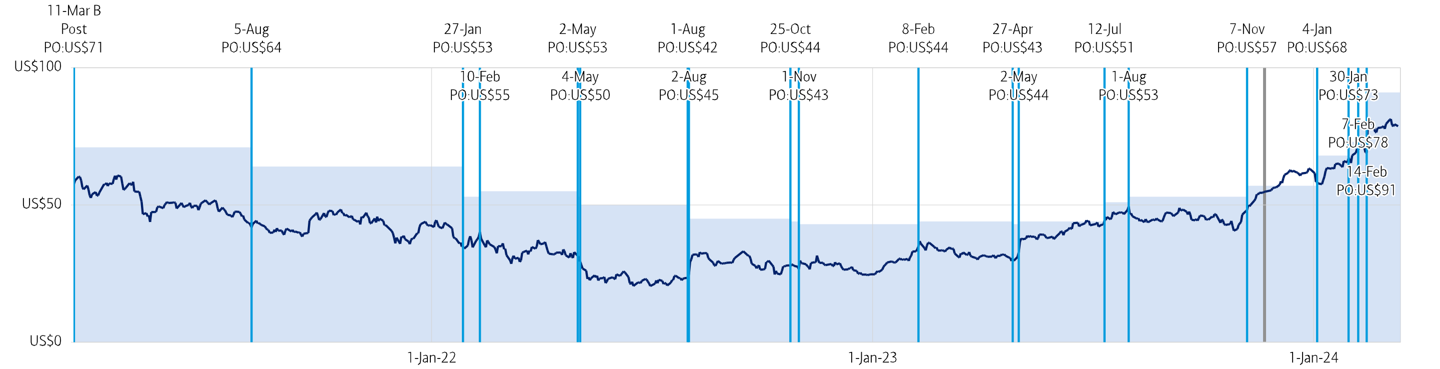
Analyst Certification

We, Justin Post and Michael McGovern, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Disclosures

Important Disclosures

Uber Technologies (UBER) Price Chart



UBER ——— Restricted ▇ PO ▇

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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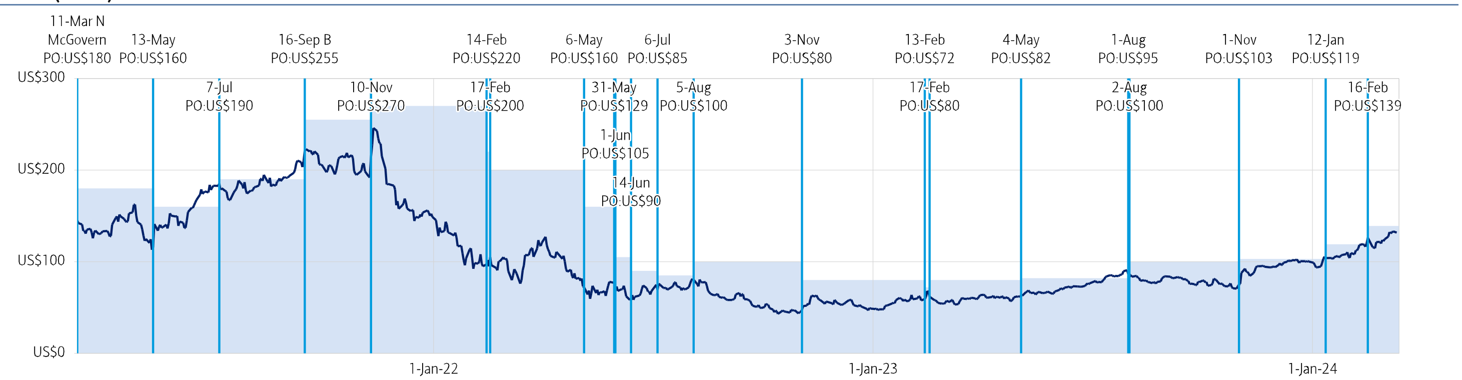
DoorDash (DASH) Price Chart



DASH ——— PO ▇

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
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