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Equity Research

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U.S. Ride-Hailing

Unpacking Single vs. Shared Ride Unit Economics

INDUSTRY UPDATE

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The Key Takeaway: Investors were scratching their heads following UBER's profitability pull-forward and LYFT's failure to match that, coming out of earnings season a month ago. We think some of the explanation of this divergence comes down to LYFT picking up a meaningful percentage of shared-rides from UBER since mid-2019, some of which come with negative EBITDA. In this report, we unpack the difference in unit economics of single-ride vs. shared-ride in the US, and how the mix shift between these two impacts overall profitability. Key conclusions are as follows:

Single-Ride Looks Solid for UBER & LYFT: We estimate that both UBER and LYFT had profitable single-ride unit economics in 2019 in North America, with UBER a bit ahead of LYFT given its scale advantage (at 3% vs. 1% respectively, EBITDA/ride margin %). We estimate single ride is 87% of UBER's 2019 NA volume and over 100% of profits ($590m). For LYFT, we estimate single ride is 75% of US volume and generated nearly $100m of EBITDA, with profitability having turned positive in the back half of 2019.

Shared-Ride Is a Mixed Bag: In contrast, while "matched" shared rides are more profitable than single rides, the high mix of extraordinarily low margin "unmatched" shared rides brings overall profitability down in this category. We estimate shared rides are 13% and 25% of UBER and LYFT volumes respectively in 2019. We further estimate UBER purged around 190m shared rides in 2019, or about 89% of its unmatched shared ride volume (the lowest profit rides). LYFT picked up a bunch of this volume, which may be weighing on 2020 EBITDA to the tune of $250m+ all else equal.

UBER Ride Quality Increasing, LYFT Not as Much: UBER is growing its share of "rush hour" single-ride volume, which is one of the most profitable segments. We also looked at off-peak volumes, and found that LYFT has picked up significant market share of 8pm-5am shared ride volume, which may be lower quality rides/riders (all else equal).

Preliminary Thoughts on Coronavirus: While this note is not focused on Covid-19, we are taking a lot of inbound questions from investors. Despite UBER/LYFT both dismissing the impact last week, we think there will be a material impact as the virus spreads to more cities in the US and EU. LYFT's higher concentration of west coast US (we estimate roughly 25% of GBs are from California alone) could be a factor as SF-Bay Area (and less-so Seattle) volume drops. UBER's higher mix of corporate travelers should negatively impact volume for profitable airport and meeting/meeting routes. Our checks into food delivery category suggest UBER Eats and other players have already experienced an acceleration in growth from more consumers nesting in effected regions. Companies are setting up contactless delivery and unlike China/Meituan, we don't see restaurant or driver supply being negatively impacted (but are monitoring the situation).

PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 12.

Unpacking Ride-Hailing Profitability by Segment

After digesting 4Q earnings and the diverging message from both companies, we set out to answer the following questions:

-1) Why is the path to profitability between UBER and LYFT different especially with UBER's meaningfully losses from other segments and LYFT's NA rides concentration?

-2) What is the impact for each company of moving in/out of shared rides in 2019?

-3) Can LYFT execute shared-rides more profitably than UBER (as the company has stated)?

-4) Are the shared rides that shifted from UBER to LYFT profitable?

-5) Can we assess the quality (or lack thereof) of these volume shifts between companies?

Coming out of fourth quarter results, investors we speak with have frequently asked why Uber was able to pull forward its break-even target to 4Q20 while Lyft left its 4Q21 profitability goal unchanged. While we believe there are a number of factors contributing to this – primarily the greater scale and operational levers at Uber, and on the Lyft side the $55m incremental EBITDA headwinds after Magna ended its L5 autonomous venture subsidies – we believe there are also structural differences within the core ride-hailing businesses.

In order to analyse this thesis, we used existing company disclosures, plus some of our own assumptions, to create like-for-like core US ride-hailing P&Ls for both companies – to assess what might be going on.

FIGURE 1
UBER NA Rides Unit Economics

UBER	2018	2019	2020
Total Rides Gross Bookings ($m)	41,513	49,700	57,719
Total Estimated Rides Trips (m)	4,900	6,151	7,299
Reported Rides Adjusted EBITDA ($m)	1,541	2,071	3,064
Less: Pro-rated G&A and Platform R&D	(1,675)	(2,088)	(1,879)
Pro-Forma Rides Adjusted EBITDA ($m)	(134)	(17)	1,185
% Margin (as a % of GB)	*(0.3%)*	*(0.0%)*	*2.1%*
North America-Only Rides			
Gross Bookings ($m)	21,406	26,341	31,168
% of Total Rides GBs	*51.6%*	*53.0%*	*54.0%*
Rides Trips (m)	1,666	1,907	2,190
% of Total Rides Trips	*34.0%*	*31.0%*	*30.0%*
Pro-Forma Rides Adjusted EBITDA ($m)	66	283	1,585
% Margin (as a % of GB)	*0.3%*	*1.1%*	*5.1%*
Gross Bookings per Ride	**$12.85**	**$13.81**	**$14.23**
Adjusted EBITDA per Ride	**$0.04**	**$0.15**	**$0.72**

Source: Barclays Research estimates, Company Documents

FIGURE 2
LYFT Core Rides Unit Economics

LYFT	2018	2019	2020
Total Gross Bookings ($m)	8,054	11,538	13,972
Total Estimated Rides Trips (m)	619	863	1,022
Reported Adjusted EBITDA ($m)	(947)	(679)	(462)
Add Back: Losses from Express Drive	80	90	80
Add Back: Losses from Scooter	120	246	160
Add Back: Autonomous Investments	200	200	200
Pro-Forma Rides Adjusted EBITDA ($m)	(547)	(142)	(22)
% Margin (as a % of GB)	*(6.8%)*	*(1.2%)*	*(0.2%)*
Gross Bookings per Ride	**$13.00**	**$13.37**	**$13.67**
Adjusted EBITDA per Ride	**($0.88)**	**($0.16)**	**($0.02)**

Source: Barclays Research estimates, Company Documents

We've created comparable P&Ls for both companies' US core ride-hailing. We exclude any "other bets" and layer in pro-rata corporate costs to see a fully-loaded EBITDA margin. On this metric, Uber generated an estimated $283m in EBITDA in 2019 on ~$26bn in gross bookings, while Lyft was slightly negative (-$142m on $11.6bn in GBs). On a per-ride basis, this implies Uber made $0.15/ride, while Lyft lost -$0.16.

In more detail:

- **UBER**: We estimate NA rides GB mix at 53% of total, with above-average margin compared to the overall segment as the NA market has rationalized. Our adjusted EBITDA is further refined to incorporate 85% of the corporate/unallocated overhead and platform R&D.
- **LYFT**: We adopted a similar approach to Lyft. We adjusted gross bookings to exclude the impact from Express Drive (disclosed) and scooters/bikes (estimated). For adjusted EBITDA, we add back estimated losses from Express Drive, scooters/bikes, as well as investments in autonomous.

Net/net, we believe on a like-for-like core NA ride-hailing basis, UBER has a structural margin advantage, having higher – and positive – core ride-hailing margins in 2019, while Lyft lags a bit. We do note, however, that Lyft was likely very close to break-even in 2019 under this framework (positive in 2H).

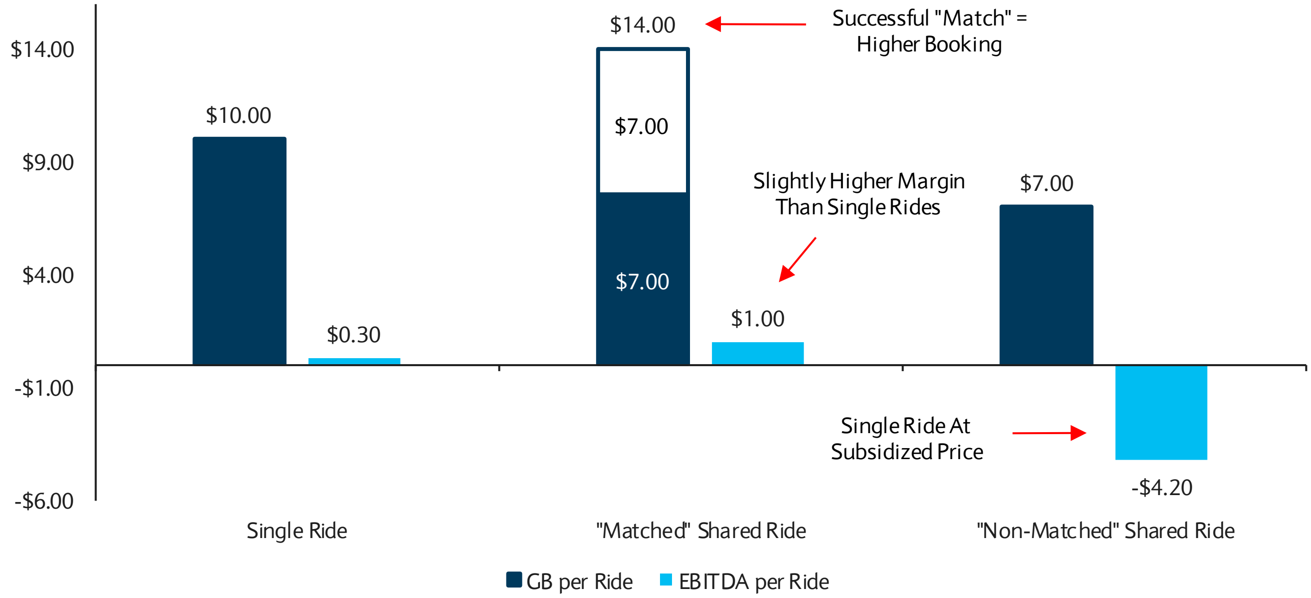
Shared-Ride vs. Single-Ride Unit Economics

The mix of shared-ride vs. single-ride volume can have a meaningful impact on the overall profitability of UBER or LYFT in a given market. Further, within shared-rides, the mix of “matched” vs. “unmatched” rides can have a meaningful impact on unit economics (as unmatched shared-rides have massively negative EBITDA). The reasons why UBER reversed course in 2019 and moved away from heavy shared rides promotion was a function of the “match” rate limiting the profitability potential of that product. At the same time, LYFT’s CFO recently stated that “matched” shared trips can have higher margins than regular single-rider trips. (note: a “matched” ride is where multiple passengers pay along a single route).

To simplify the analysis, we lay out the basic unit economics of each of these three trip types in Figure 3 below.

FIGURE 3

Illustrative Unit Economics of Single Ride vs. “Matched” and “Non-Matched” Shared Rides



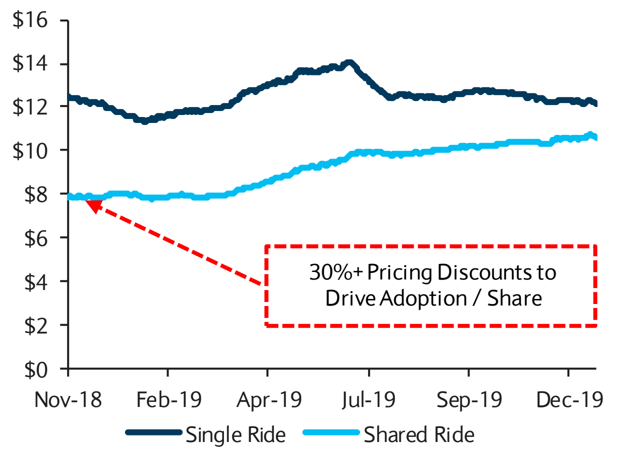
Source: Barclays Research, Company Documents

A key reason why UBER pulled away from Pool last year was because the volume of matched shared rides in 2018 and early 2019 was not enough to make up for the losses on unmatched shared rides. Basically users would go into the app and hit the Pool button, and get 50% or more discount vs. an UberX trip, only to not match with another rider. As a result, UBER was fulfilling these trips at half-price and still paying the driver the normal per-minute/mile rate, and hence negatively impacting profitability. We estimate that UBER walked away from as many as 192m rides in 2019 that were these empty calorie unmatched shared rides.

We also had our Barclays data science team look into our assumptions on real ride-hailing data from Chicago to assess what the difference in pricing has been for single-ride vs. shared-ride trips over time. Illustrated below, shared-ride promotions were very heavy in late 2018 and early 2019, when UBER was aggressively promoting Pool (we’d note that UBER has 75%+ market share hence this combined dataset is likely reflecting UBER trends more than LYFT). The level of promotional activity came down through 2019.

FIGURE 4

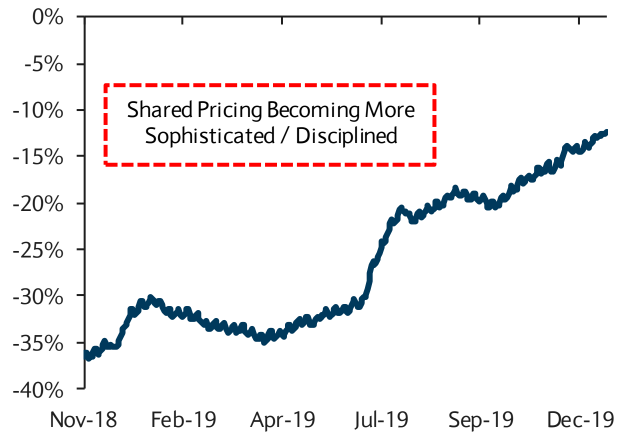
Shared vs. Single Ride Pricing in Chicago (combined UBER & LYFT data)



Source: Barclays Research, City of Chicago Data Portal. 30d Trailing Average

FIGURE 5

Average Shared vs. Single Ride Discount in Chicago (combined UBER & LYFT data)

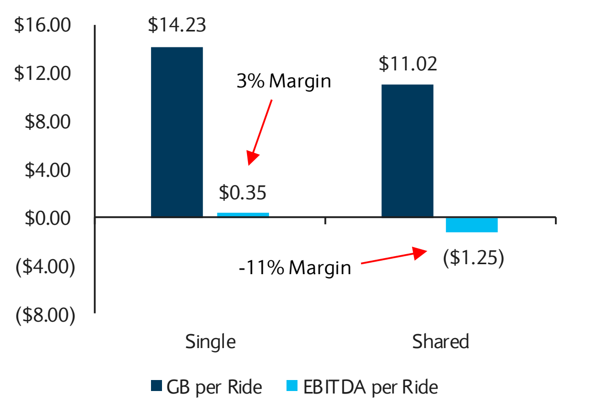


Source: Barclays Research, City of Chicago Data Portal. 30d Trailing Average

If we take these illustrative unit economics above and apply to the mix of rides in 2019 for UBER and LYFT in our model, we can get a better sense of the actual unit economics for the aggregate single-ride vs. shared-ride for each company (Figures 6 and 7 below).

FIGURE 6

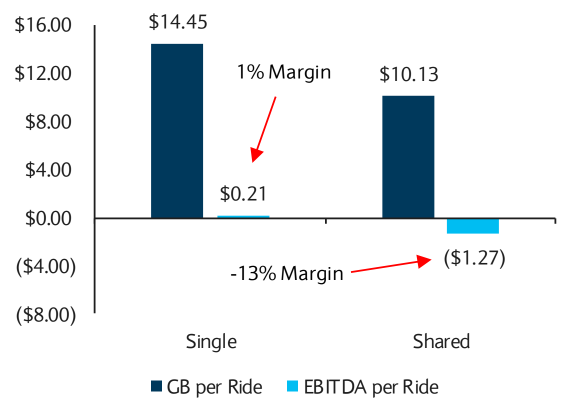
UBER US Rides Single vs. Shared Unit Economics (FY19E)



Source: Barclays Research, Company Documents

FIGURE 7

Lyft Single vs. Shared Unit Economics (FY19E)



Source: Barclays Research, Company Documents

We estimate that the basic unit economics for each ride are nearly similar, with UBER benefitting from increased scale to spread fixed costs over more volume (a small advantage). But as we discuss below, from 2018 to 2020, the mix of single ride vs. shared-ride are changing for both, which is likely capping some of the EBITDA upside at LYFT.

Shared-Ride Mix Determining Path to Break-Even

We've seen a marked divergence in the mix of single vs. shared rides between Uber and Lyft, respectively (Fig 8 & 9 below). Using the NYC Taxi and Limo Commission trip volume data as a rough proxy for total domestic trip mix, we've seen a notable decline in shared trip volumes at Uber, with shared volumes down from ~26% of mix in 2018 to just 8% in 4Q19. Uber's shared trip volumes declined -44% in FY19 - with a more marked -67% decline in 2H19.

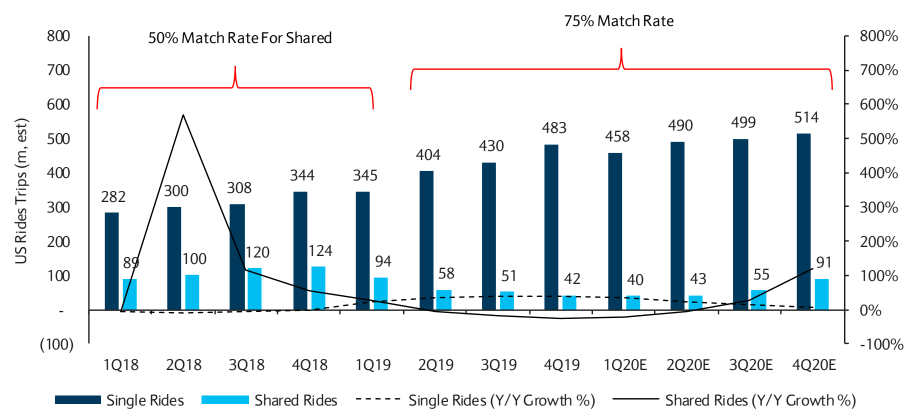
There has of course been some embedded shift to single rides, as some users may have opted to use UberX in the absence of a shared ride option. Overall trip volumes at Uber have continued to grow – +10% in NYC in FY19 – despite this headwind from the purposeful pullback in shared.

UBER has characterized the move away from roughly half of their Pool volume as "cutting out the low calorie" rides. We interpret this as cutting back on the unmatched rides in Pool, and keeping the profitable matched shared rides. This is having a positive impact on the company's ride-hailing EBITDA profile in 2019 vs. 2018 (among other efficiency gains).

Looking forward, we expect Uber may see its shared trip volume growth turn positive in 2H19, but the messaging from the company remains one of "profitable growth" which we interpret as growing matched shared rides and not going back to low calorie unmatched.

FIGURE 8

Uber Trip Volume Mix and Y/Y Growth

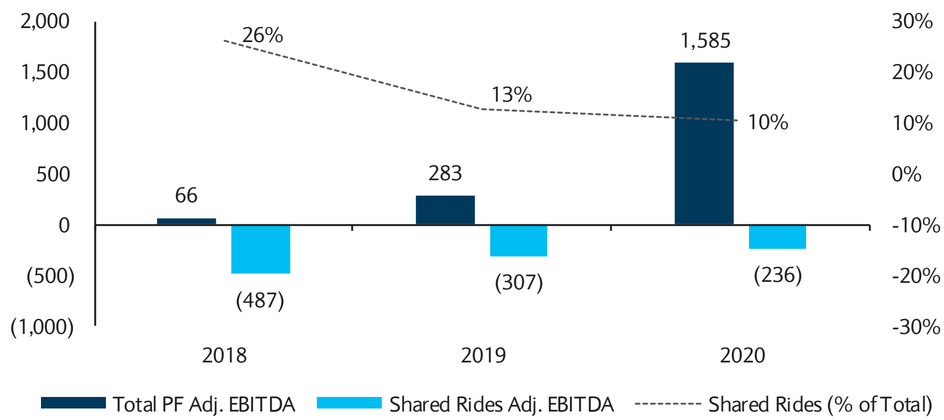


Source: Barclays Research, Company Documents, NYC Taxi and Limo Commission

Illustrated in Figure 9 below, we estimate that shared rides were a ~$310m EBITDA headwind in 2019 for UBER, capping overall NA rides EBITDA under $300m. As Uber's mix stabilizes in the high single digit/low double digit range in 2020, we see a much clearer path to profitability.

FIGURE 9

Uber's Pullback in Shared Rides Has Helped Its Path To Profitability



Source: Barclays Research, Company Documents, NYC Taxi and Limo Commission

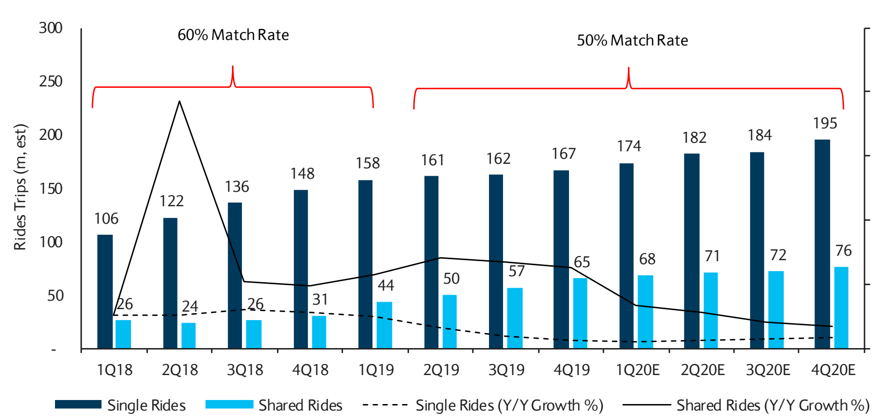
Data from the NYC TLC suggests Lyft took market share in 2019, largely from its efforts to grow its shared volumes (+84% for FY19), as its single ride trip volumes (+18% y/y) lagged that of Uber (+29%), while overall volume growth outperformed (+29% vs. +10% for Uber). While at face value this outperformance could be interpreted as positive, we worry that Lyft's faster – albeit still decelerating – gross booking growth is being driven by growth in lower margin trips at a time when investors are focused on a path to profitability.

The company doesn't disclose the % of shared rides that are matched vs. unmatched, but we would expect that some of the volume that LYFT picked up in 2019 was unmatched given the growth of those trips, discussed below.

Looking forward, we expect shared trip mix will likely stabilize in the 25-30% (of mix) range.

FIGURE 10

Lyft Trip Volume Mix and Y/Y Growth

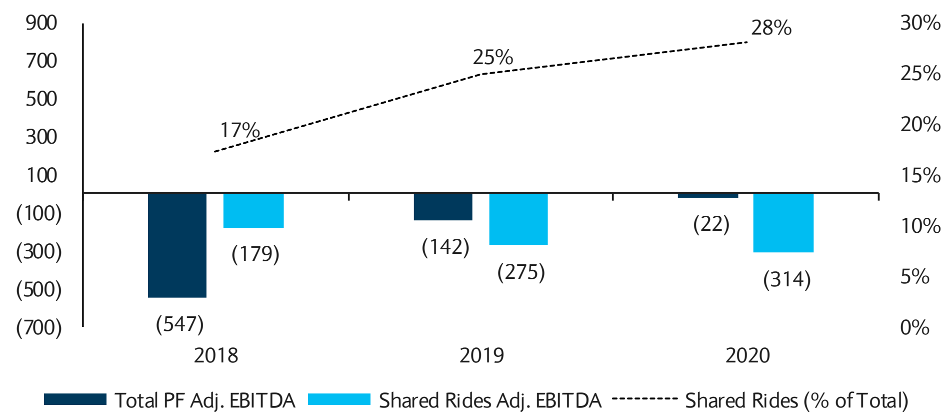


Source: Barclays Research, Company Documents, NYC Taxi and Limo Commission

In contrast, Lyft's continued shift towards lower margin shared rides – while a positive from an overall gross bookings/market share perspective – is an added impediment to reaching break-even. Add in the relatively smaller scale, and it's not tough to understand why Uber was able to pull forward its profitability target to 4Q20, while Lyft left its 4Q21 target unchanged.

FIGURE 11

Lyft's Mix Shift Toward Shared Is a Clear EBITDA Headwind



Source: Barclays Research, Company Documents, NYC Taxi and Limo Commission

LYFT has recently made statements that its matched shared rides volume has higher margin than single ride, which, as illustrated above in Figure 11, makes sense. The question is whether the volume Lyft picked up from UBER was matched or unmatched shared trips. Given UBER's scale in most markets, including NYC, and the company's claims that is has the best matching technology (a claim that LYFT makes as well), we are somewhat skeptical that LYFT's incremental volume since mid-2019 is matched shared ride. Its logically more likely that the vast majority of the volumes LYFT picked up in 2019 are the rides that UBER didn't think would ever be profitable (unmatched shared-rides). Illustrated below in Figure 12 we think LYFT picked up $1B+ in GBs and a -$600m EBITDA drag from these lower-calorie trips. The flip-side is that LYFT's remaining business must have massively improving margins to offset these losses.

FIGURE 12

Unless Lyft Markedly Improved Match Rates for Shared Rides It Picked Up from Uber, It "Acquired" Loss-Making GBs…

Source: Barclays Research, Company Documents, NYC Taxi and Limo Commission

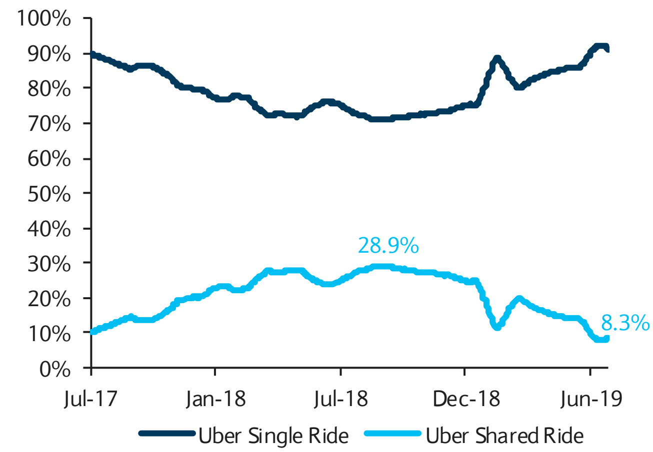
Quality of Rides Also a Factor

The last point we'd make is that certain dayparts in ride-hailing have higher profit pools than others. A matched shared ride during peak commuting hours when pricing increases, is likely the most profitable ride that either UBER or LYFT could fulfill. On the other end of the spectrum, an unmatched shared ride at non-peak dayparts (like early am or late pm) is likely a very unprofitable ride.

With this as a backdrop, we had our Barclays data science team analyze the Chicago trip data to determine whether UBER and LYFT are seeing mix shift to more or less profitable routes, across day parts.

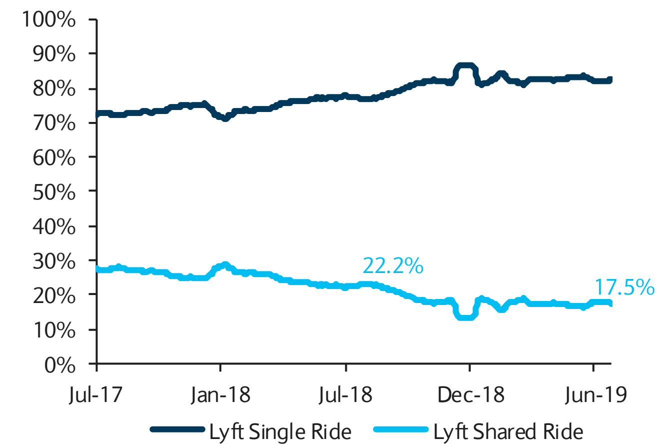
Illustrated below in Figure 13, it appears that UBER is moving more towards rush hour single rides (a very profitable cohort) in 2019, which is likely a signal of higher quality mix.

FIGURE 13
Uber Mix of Rides During Rush Hour (NYC)



Source: Barclays Research, NYC Taxi and Limo Commission

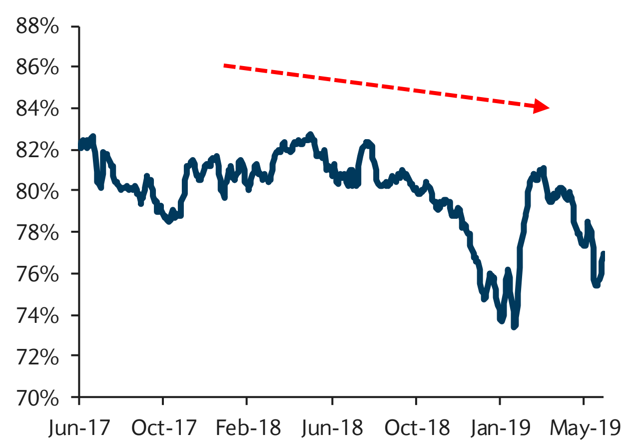
FIGURE 14
Lyft Mix of Rides During Rush Hour (NYC)



Source: Barclays Research, NYC Taxi and Limo Commission

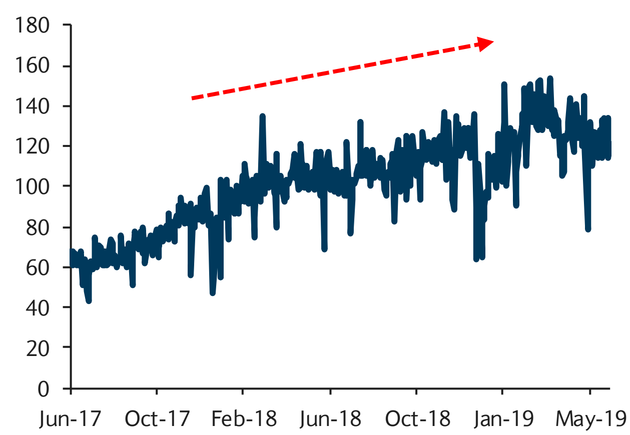
LYFT's mix of rush hour is largely unchanged, and has relatively low market share in NYC so we don't draw any conclusions from their data. Lyft has been taking share from Uber for a couple years, and rush hour ride volumes have been increasing (Fig 16) hence this is likely a solid growth vector for the company.

FIGURE 15
UBER Share of Total NYC Rush Hour Rides



Source: Barclays Research, Company Documents, NYC Taxi and Limo Commission

FIGURE 16
Total NYC Rush Hour Rides



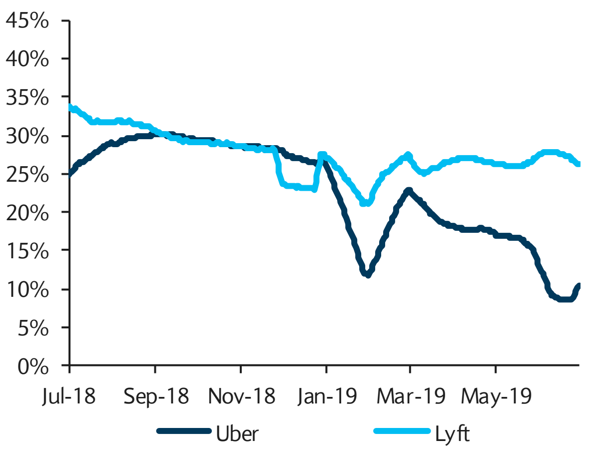
Source: Barclays Research, Company Documents, NYC Taxi and Limo Commission

Lastly, we looked at the mix of off-peak rides (8pm-5am) to see if there was a notable uptick in mix for UBER or LYFT. We found that LYFT's shared ride mix increased meaningfully in 2019 for off-peak rides. This leads us to question the quality of this mix shift to some degree. In a perfect world, LYFT wants to add more young business travelers to its base, yet we are seeing a lot of night and weekend lower-priced off-peak shared rides, which could be perceived as lower quality, all else equal.

Illustrated below in Fig 18, LYFT similarly is gaining significant market share in off-peak shared rides, which is likely one of the lower-profit cohorts.

FIGURE 17

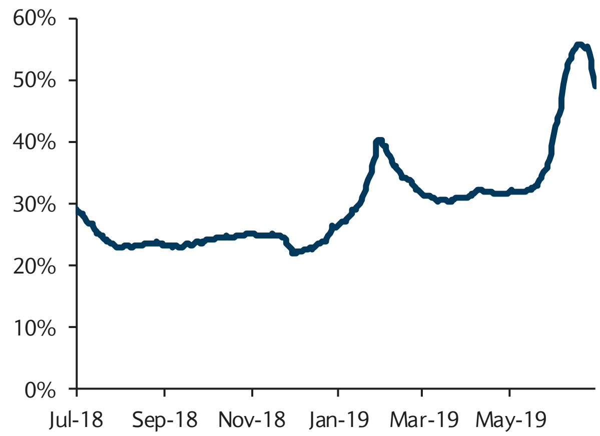
Off-Peak Shared-Ride Mix (% of Each Respective Company's Total, 8pm-5am)



Source: Barclays Research, Company Documents, NYC Taxi and Limo Commission

FIGURE 18

LYFT Market Share of Off Peak Shared Rides (% of Total NYC Shared Rides, 8pm – 5am)



Source: Barclays Research, Company Documents, NYC Taxi and Limo Commission

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Materially Mentioned Stocks (Ticker, Date, Price)

Lyft, Inc. (LYFT, 10-Mar-2020, USD 32.89), Equal Weight/Positive, CE/J

Uber Technologies Inc. (UBER, 10-Mar-2020, USD 28.97), Overweight/Positive, A/CD/CE/D/J/K/L/M/N

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Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (the "industry coverage universe").

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating

Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Underweight - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.

Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

Industry View

Positive - industry coverage universe fundamentals/valuations are improving.

Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

Negative - industry coverage universe fundamentals/valuations are deteriorating.

Below is the list of companies that constitute the "industry coverage universe":

U.S. Internet

Activision Blizzard, Inc. (ATVI)	Alibaba Group Holding Ltd. (BABA)	Alphabet Inc. (GOOGL)
Amazon.com, Inc. (AMZN)	Baidu, Inc. (BIDU)	Booking Holdings Inc. (BKNG)
Chewy, Inc. (CHWY)	eBay, Inc. (EBAY)	Electronic Arts, Inc. (EA)
Expedia Inc. (EXPE)	Facebook, Inc. (FB)	GoDaddy Inc. (GDDY)
Groupon, Inc. (GRPN)	GrubHub, Inc. (GRUB)	GSX Techedu Inc. (GSX)
IAC/InterActiveCorp (IAC)	JD.com, Inc. (JD)	Lyft, Inc. (LYFT)
Match Group, Inc. (MTCH)	MercadoLibre (MELI)	NetEase, Inc. (NTES)

IMPORTANT DISCLOSURES CONTINUED

Peloton Interactive, Inc. (PTON)	Pinduoduo Inc. (PDD)	Pinterest, Inc. (PINS)
Revolve (RVLV)	Shopify (SHOP)	Snap, Inc (SNAP)
Spotify Technology S.A. (SPOT)	Stitch Fix (SFIX)	Take-Two Interactive Software (TTWO)
Tencent Holdings Ltd. (TCEHY)	Trip.com Group Ltd. (TCOM)	Tripadvisor Inc. (TRIP)
Twitter, Inc. (TWTR)	Uber Technologies Inc. (UBER)	Weibo Corporation (WB)
Wix.com Ltd. (WIX)	Yelp, Inc. (YELP)	Zillow, Inc. (ZG)
Zynga Inc. (ZNGA)		

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Barclays Equity Research has 1620 companies under coverage.

45% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 49% of companies with this rating are investment banking clients of the Firm; 74% of the issuers with this rating have received financial services from the Firm.

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16% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 30% of companies with this rating are investment banking clients of the Firm; 62% of the issuers with this rating have received financial services from the Firm.

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To see a list of companies that comprise a particular industry coverage universe, please go to https://publicresearch.barclays.com.

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IMPORTANT DISCLOSURES CONTINUED

IMPORTANT DISCLOSURES CONTINUED

Lyft, Inc. (LYFT / LYFT)

USD 32.89 (10-Mar-2020)

Stock Rating: **EQUAL WEIGHT**

Industry View: **POSITIVE**

Rating and Price Target Chart - USD (as of 10-Mar-2020)

Source: IDC, Barclays Research

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
11-Feb-2020	53.94		60.00
30-Oct-2019	44.11		51.00
08-Aug-2019	62.10		63.00
04-Jun-2019	59.17	Equal Weight	55.00

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Link to Barclays Live for interactive charting

CE: Barclays Bank PLC and/or an affiliate is a market-maker in equity securities issued by Lyft, Inc..

J: Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities by Lyft, Inc. and/or in any related derivatives.

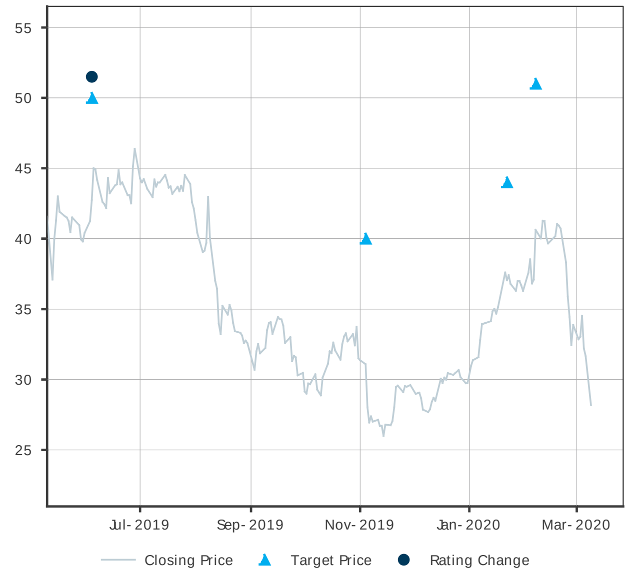
Valuation Methodology: Our $60 PT is based on a 4x EV/revenue multiple on our FY20 estimate.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Decelerating booking growth, high cash burn, and limited capital reserves may make it more challenging to fund incremental growth investments. Lyft's lower utilization and scale may also be a structural disadvantage. An upside risk is that Lyft's single-service, US market focus may enable it to take share and achieve above peer level ANR growth, potentially driving upside to estimates and the stock.

IMPORTANT DISCLOSURES CONTINUED

Uber Technologies Inc. (UBER / UBER) | Stock Rating | Industry View
USD 28.97 (10-Mar-2020) | **OVERWEIGHT** | **POSITIVE**

Rating and Price Target Chart - USD (as of 10-Mar-2020)



Source: IDC, Barclays Research

Link to Barclays Live for interactive charting

Currency=USD

Publication Date	Closing Price	Rating	Adjusted Price Target
07-Feb-2020	40.63		51.00
22-Jan-2020	37.04		44.00
04-Nov-2019	31.08		40.00
04-Jun-2019	42.75	Overweight	50.00

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

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Valuation Methodology: Our $51 PT is based on a 4x EV/revenue multiple on our 2021E revenue estimates plus an estimated $12B of minority equity stakes (Didi, Grab, Yandex Tax and Zomatoi).

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Limited valuation support suggests multiple could re-rate lower given high cash burn in event broader equity markets decline. Decelerating gross bookings growth, despite modest 2% market penetration, may suggest anticipated long runway of market penetration may not fully materialize. Take rate declines may not inflect as quickly as expected, pressuring margins and contributing to negative estimate revisions. Global scale may not be as meaningful for a localized business. Market share losses in some countries may persist.

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