

MBA AF 632 - Asset Management Practicum

UBER TECHNOLOGY INC.
(NYSE: UBER)

Price: \$69.85
Rating: BUY
Target Price: \$90.16



Most recent earnings call: 02.07.2024
Next earnings call: 05.08.2024

Valuation Metrics

Sector	Technology
Industry	Software - Application
Market Cap	\$142731.5M
52 Week Range	34.23 to 82.14
ROIC	4.74
P/E Ratio (TTM)	79.57
Beta	1.36
Price/Book	12.81
Price/Sales	3.88
Dividend yield	0
Projected upside	31%
1-Year Return	82.95%
3-Year Return	8.07%

Financial Metrics (TTM)

Net Revenue	\$37,281M
Net Income	\$525.8M
Gross Profit	\$14,830M
Interest Coverage	1.8
LT Debt/Capital	1.14
ROA	1.96%
ROE	20.35%
Earnings/Assets	5.53

DuPont Analysis

Tax Burden	9.18%
Interest Burden	57%
Operating Margin	2.98%
Asset Turnover	1.1
Leverage Ratio	0.78
Adjusted ROE	17.92%

Sales (In USD Billions)

Year	Q1	Q2	Q3	Q4	FY
2021	2.90	3.93	4.84	5.77	17.44
y/y	31.81%	35.51%	23.15%	19.21%	56.83%
2022	6.85	8.07	8.34	8.60	31.86
y/y	18.71%	17.81%	3.34%	3.11%	82.68%
2023	8.82	9.23	9.29	9.93	37.27
y/y	2.55%	4.64%	0.65%	6.88%	16.98%

Diluted EPS

Year	Q1	Q2	Q3	Q4	FY
2021	-0.06	0.58	-1.28	0.44	-0.32
y/y	88.88%	0%	-320.69%	0%	-
2022	-3.04	-1.33	-0.61	0.29	-4.69
y/y	-34.09%	9.87%	-128.57%	-118.03%	-1365.63%
2023	-0.08	0.18	0.10	0.66	0.86
y/y	127.59%	362.50%	144.44%	-80.00%	118.32%

Company Description

Uber Technologies, Inc. is a technology platform that uses a vast network, leading technology, operational excellence and product expertise to facilitate transportation and delivery services from point A to point B

Uber connects consumers with the independent providers of ride services for ridesharing services, and connect Riders and other consumers with restaurants, grocers and other stores with delivery service providers for meal preparation, grocery and other delivery services. It operates in 3 reportable segments i.e., Mobility, Delivery and Freight.

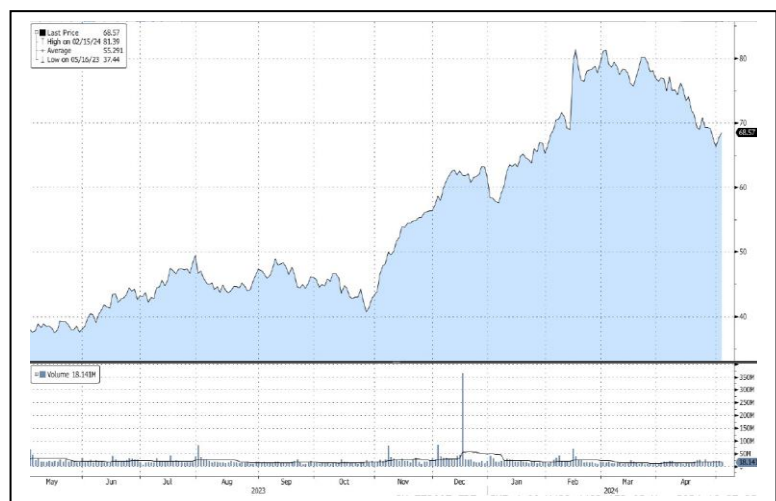
Uber has implemented several strategies to enhance its platform and improve customer experience. By integrating services like Delivery and Mobility, Uber aims to attract new users and increase engagement with existing ones, leading to a larger network scale and liquidity. Features such as the "Super App" view and membership programs like Uber One and Eats Pass streamline the user experience and offer exclusive benefits.

Industry Overview

The application software sector encompasses businesses primarily engaged in activities such as developing and implementing applications, system infrastructure software, digital interaction, analytics, cognitive/artificial intelligence (AI), automated data analysis, machine learning (ML), and enterprise content management, among other functions. This industry is divided into segments including highly customizable services, system services, open-source platforms, and software provided on a subscription basis (SaaS).

Application software companies generate revenue mainly from four segments; subscription, license, maintenance, and professional services.

Price Change (%)



Investment Thesis

Uber is a major player in both the ride-sharing and food delivery industries, recognized for its strong brand and large customer base. This reputation gives Uber an edge in winning customer trust and expanding its reach. Despite some ups and downs in the market, Uber has managed to grow its main business.. These efforts have boosted its revenues and market share. Uber is also investing in cutting-edge technologies like self-driving cars and AI to improve routes and deliveries, setting the stage for future growth and more efficient operations.

However, Uber has struggled with profitability, consistently reporting losses that raise doubts about its financial health over the long term. Operating in a tightly regulated field, Uber often faces legal issues in different countries, which can affect its business operations and profitability. Although Uber has been successful in increasing its revenue year after year, it spends a lot on marketing and sales, which continues to be a concern. Managing these costs will have significant impact on turning its growing revenue into actual profits. Uber's financial statements also show it uses a lot of cash in its operations, but for now, it has enough money on hand to keep things running and support its strategic plans. This is something to watch closely, as ongoing cash shortages could lead to more borrowing or other moves that might decrease the value of Uber shares.

Uber's ability to gather and use data gives it a significant advantage in setting prices and enhancing user experiences, standing out from smaller rivals. Yet, companies like DoorDash and Lyft present strong competition in specific areas like food delivery and affordable ride services, which could chip away at Uber's market share.

In conclusion, Uber offers an investment opportunity that comes with considerable growth possibilities but also significant risks. It might be a good fit for investors who are comfortable with risk and are looking at the long-term potential. Investors should keep a close eye on Uber's financial status, how it handles competition, and any new regulatory challenges. Monitoring these factors will be crucial in deciding whether investing in Uber continues to be a wise choice.

Porter's 5 Forces

1. Rivalry Among Existing Players:

Uber is part of a fiercely competitive ridesharing and delivery market, contending not only with global rivals but also with numerous local providers. The operational costs across companies in this industry are similar, making it difficult for Uber to cut expenses in a way that would provide a competitive advantage. This high level of competition demands constant innovation and efficiency improvements from Uber.

2. Threat of New Market Entrants:

Entering the ride-sharing and delivery industry requires substantial investment in technology, yet the business model can be easily replicated, leading to a medium barrier to entry. New entrants face the challenge of establishing credibility in the market, which requires investing heavily in marketing to gain a competitive edge.

3. Bargaining Power of Suppliers:

In Uber's operational model, drivers are the primary suppliers, who can switch platforms with relative ease due to low switching costs. While there's a movement towards unionization among drivers, which could give them more leverage, it's not having a significant impact at the moment. This is because drivers still have the freedom to choose between different platforms based on their preferences and needs.

4. Bargaining Power of Buyers:

Uber's customers hold significant influence since they have various alternatives available, such as other ride-sharing services, taxis, and public transportation. Their sensitivity to pricing strengthens their ability to negotiate, prompting Uber to carefully plan pricing strategies and focus on retaining customers, particularly during economic downturns.

5. Threats of Substitute Products or Services:

The threat from substitute transportation services is high due to the low cost for customers to switch from Uber to other options such as local taxis or public transportation. To mitigate this risk, Uber must continuously invest in enhancing service quality and engaging in promotional activities to maintain its customer base.

Risks

- Uber faces ongoing legal battles and regulatory scrutiny regarding the classification of its drivers as independent contractors. Adverse rulings or new legislation could increase operating costs and disrupt its business model.
- Discontent among drivers regarding working conditions and earnings could lead to increased driver turnover, strikes, or further legal action, impacting Uber's ability to maintain a sufficient supply of drivers.
- Negative publicity surrounding Uber's treatment of drivers may harm its brand reputation and affect customer loyalty, potentially leading to decreased demand for its services.
- Uber operates in a highly competitive industry with rivals like Lyft and emerging threats from other transportation modes and technologies. Intense competition could pressure pricing and market share.
- Economic downturns or fluctuations in consumer spending may reduce demand for ride-hailing services, impacting Uber's revenue and profitability.
- Uber's classification as a technology company affects its tax liabilities; potential changes could lead to increased taxes, impacting fares and operations, while criticism for tax practices adds further uncertainty for investors.
- Uber faces increased operational risks as it expands globally, particularly in regions like Asia where competition from traditional taxis is high and alternative payment methods are prevalent, limiting its market penetration and driver recruitment efforts.
- The business model is heavily reliant on maintaining a secure and efficient technology infrastructure. Cybersecurity threats such as malware, ransomware, or data breaches could damage the company's reputation and operational capability.
- There are ongoing liabilities related to traffic accidents and other safety incidents involving platform users. These incidents could lead to significant financial liabilities and impact the company's reputation and operational capabilities.