Uber Technologies (UBER) Q3 2023 Earnings Call Transcript

By Motley Fool Transcribing – Nov 7, 2023 at 11:00AM

UBER earnings call for the period ending September 30, 2023.

Uber Technologies (UBER -2.52%)

Q3 2023 Earnings Call

Nov 07, 2023, *8:00 a.m. ET*

IMAGE SOURCE: THE MOTLEY FOOL.

Contents:

Prepared Remarks:

Operator

Good morning. My name is Briana, and I will be your conference operator today. At this time, I'd like to welcome you to Uber's Q3 2023 earnings conference call. [Operator instructions] I will now turn today's call over to Alax Wang, head of investor relations.

Please go ahead.

Alaxandar Wang -- *Head of Investor Relations*

Thank you, operator. Thank you for joining us today, and welcome to Uber's third-quarter 2023 earnings presentation. On the call today, we have Uber's CEO, Dara Khosrowshahi; and CFO, Nelson Chai. During today's call, we'll present both GAAP and non-GAAP financial measures.

Additional disclosures regarding these non-GAAP measures, including a reconciliation of GAAP to non-GAAP measures are included in the press release, supplemental slides, and our filings with the SEC each of which is posted to investor.uber.com. As a reminder, these numbers are unaudited and may be subject to change. Certain statements in this presentation and on this call are forward-looking statements. You should not place undue reliance on forward-looking statements.

Actual results may differ materially from these forward-looking statements, and we do not underwrite any obligation to update any forward-looking statements we make today, except as required by law. 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 described in our most recent Form 10-K and other filings made with the SEC. We published our quarterly earnings press release, prepared remarks, and supplemental slides to our Investor Relations website earlier today, and we ask you to review those documents if you haven't already. We will open the call to questions following brief opening remarks from Dara.

With that, let me hand it over to Dara.

Dara Khosrowshahi -- *Chief Executive Officer*

Thanks, Alax. Q3 marks another very strong quarter for over. Year-on-year trip growth accelerated to 25% from 22% in Q2. And outpacing gross bookings growth for the third quarter in a row.

Trip growth was powered by strong audience and frequency trends as consumer activity remains robust heading into our busiest period of the year. Notably, monthly trips per MAPC continue to steadily increase matching our all-time high. At the same time, adjusted EBITDA exceeded our Q3 outlook and our adjusted EBITDA margin exceeded 3% for the first time. Simply put, the growth flywheel we built, coupled with rigorous cost discipline, is enabling us to generate strong leverage for exiting the year with tremendous momentum and reliable execution.

Our Q3 results and Q4 outlook demonstrate that Uber continues to draw profitable growth at scale. We remain focused on scaling GAAP operating income and free cash flow while also making disciplined investments appropriately fund growth initiatives that will deliver long-term, sustainable financial value. Finally, I want to recognize Shack Nelson for his immense contribution to the company and his partnership with me over the past five years. Looking ahead, I'm thrilled to welcome Prashanth as our new CFO starting tomorrow, and I'm confident that he'll continue to build upon the great foundation that Nelson has built.

With that, let's open the call to questions.

Questions & Answers:

Operator

Thank you. [Operator instructions] Our first question comes from Ross Sandler with Barclays. Please go ahead.

Ross Sandler -- *Barclays -- Analyst*

Hey, Dara. Just a couple of questions on the mobility business. Could you just flesh out a little bit more in detail what the drivers of the acceleration in Mobility gross bookings were third quarter? And as we look out over the next few years, what do you see as the biggest drivers of sustainable mobility gross bookings growth now that we've kind of caught up with the pre-pandemic trip volume and frequency what do you see for UberX versus the new areas? Thanks a lot.

Dara Khosrowshahi -- *Chief Executive Officer*

Yes, absolutely, Ross. So in terms of Q3, listen, the quarter was strong across the board in every single geography, pretty much in every single product. But a couple of geographies to call out are the Asia Pacific regions and the LatAm regions. These areas accelerated pretty substantially on a year-on-year basis between Q3 and Q2 on big absolute numbers.

And some of those countries were kind of very early in penetrating. So for example, in Japan and South Korea, our penetration rate is minuscule compared to where we are in the rest of the world. and some of the newer products that we're building out, for example, Hailable Taxi are very large parts of the marketplace again in Japan and Taiwan and Hong Kong, and South Korea. Then we got products like Moto, which are two-wheelers that are growing very, very quickly in Latin America as well in Brazil and a number of other LatAm markets.

So while the growth was pretty broad I do think that the APAC and LatAm markets, in particular, were super strong, partially because of some of the newer products that we're rolling out. And then if you look more broadly, like we had a very, very strong summer augmented by travel. As you know, travel has been absolutely booming. These are travel, and Uber has a very high penetration of all the travel consumer.

And then what we're seeing now back-to-school is also going very, very strong. So that absolutely added to our Q3 strength and acceleration that frankly surprised us in terms of its strength. In terms of the mobility business and kind of the growth construct, how do we think about the mobility business going forward multiyear we tend to look at the business from a business construct and then from a user construct, right? So from a business construct, No. 1 driver for growth, and this is of the core UberX business that grew over 20% on a year-on-year basis, is about adding more drivers to the platform.

added -- we're now at 6.5 million earners on a form, up over 30% on a year-on-year basis. And this is a supply led marketplace as we add more drivers, the marketplace gets more liquid, ETAs come down, surge come down, that pushes essentially demand. So adding more drivers essentially drives the marketplace. Then on top of that base business, we have the new growth initiatives that we have, these are businesses that we've really built in the past five years, essentially from zero.

These are hail-ables products, taxi, three-wheelers, two dealers, our Uber for Business product that is actually seeing some strength now, which is great. Our UberX share and low-cost products such as high-capacity vehicles and then reserve as well. That collective is now $9 billion and is growing over 80% on a year-on-year basis. And then on top of that, you've got international markets with very big GDPs, where, as you know, we just weren't in those markets five years ago, and we've tuned our business model to be able to penetrate into those markets.

These are the Germany, Spain, Argentina that grew more than 150% on a year-on-year basis; Japan, South Korea, and Turkey. So really, you've got kind of a base business that's driven by supply. On top of that, you have a bunch of new products that are big billion annual run rate growing over 80%. And then you've got these international markets, which are big GDP markets that we've got very low penetration too.

So that's the business construct. And then the other way that we look at the business is actually from a consumer view, and that's about driving new audience, driving frequency, and then price as well. So if you think about audience, all of these new markets, the international markets that we're getting to, many of them are entirely new audiences. Or when we introduce taxi into a small village in the U.K., that's a new audience that comes onto our platform.

Then when we think about audience, we think about demographics. So for example, for the high-income consumer, we're introducing products like reserve, where you can pay more for higher reliability and we're seeing that reserve usage is actually incremental. And then for lower-income consumers, we're introducing like UberX share, how capacity vehicles, etc. So demographically, we're expanding internationally, we're expanding.

And then we also look at age. So like we introduced Uber for teens, for younger consumers, turns out teens tend to use Uber just as much as adults do, which is great. And we think they'll continue to use it as they grow up. So that's the audience kind of construct for us, which is global income level and age, and we have products specifically for all three of those.

And then when you get into frequency, only a third of our annual users use us on a monthly basis. So our job is to increase that one-third. Membership is a very, very big driver there. As you -- we got now 15 million Uber One members.

Members spent four times more than nonmembers as we penetrate into the membership frequency naturally increases. All of the use cases that we're introducing like reserve, drive frequency as well -- and then what we're also seeing is that users who use more than one product on mobility and delivery tend to spend more on the platform. They spend up to three times more, for example, in mobility, if they take two different products as well. That draws frequency as well.

And then price this year essentially has been flattish, and that's a good thing. But I think going forward, you can expect our services to grow price along with inflation as well. So if you're driving audience, driving frequency and then prices kind of ore price takers, so to speak, you get to a pretty good growth construct over the long term.

Ross Sandler -- *Barclays -- Analyst*

Thank you.

Dara Khosrowshahi -- *Chief Executive Officer*

You're welcome. Next question.

Operator

Our next question comes from Brian Nowak with Morgan Stanley. Please go ahead.

Brian Nowak -- *Morgan Stanley -- Analyst*

Great. Thanks for taking my questions. I have two sort of somewhat higher level, Dara. First of all, I want to ask you is sort of on the types of machine learning or data analytics that you've done on the platform so far.

Give us some examples of where you'd be able to improve matching, improve conversion on the platform. And where do you still see more opportunities to improve that as you kind of look into '24? And then the second one, there's been a lot written in the press about new potential product extensions, travel, you mentioned B2B, etc. As you look at these, which of these new potential products have you most excited that could move the needle over the next couple of years?

Dara Khosrowshahi -- *Chief Executive Officer*

Yes, absolutely, Brian. So I think on the ML front, it's actually hard to say where ML can improve because it's pretty much in every part of our business. Like we've been developing and using machine learning for many, many years now. Just a couple of examples might be like earner onboarding, right? You take that for granted.

But actually, now what we're using is we're using machine learning technology to like computer vision to essentially allow the machines to recognize documents more to reliably transcribe them accurately so that your on-boarding experience and the time to onboard could be reduced drastically, errors can be reduced as well. So essentially, machines can read these documents better than humans can. That's one example. On the productivity front, we're rolling out GitHub Copilot for software developers.

We have already seen, because of investments that we've made in our tooling, our average software developer is much more productive now than they were two years ago, and we think that GitHub Copilot will improve productivity and hopefully will reduce mistakes on the platform as well. So they will have ML algorithms debug developer code before that code kind of is tested, etc. So we think that's -- that can increase the productivity of our business as well. We're pretty excited about conversational support.

So these are large language-based tools that essentially help our customer service agents. They will go through customer history that get details about the particular issue that the customer might be calling about or chatting about, and we'll be giving recommendations on what to do based on our policies all around the world. Humans have to kind of go through all these kinds of policies. Now machines do, they give humans a recommendation.

And eventually, then machines are going to be talking with our customers on the front line as well. And then on the delivery marketplace and the mobility marketplace, we've been using advanced machine learning algos for routing, for matching, for pricing, all of these algos generally improve on a year-on-year basis and accrue hundreds of millions of dollars of either incremental bookings that call it VC neutral or an improved chain algorithms to reduce, let's say, cost per transaction on the delivery space. So these are just some of the areas where ML is working out. And listen, for us, ML is a powerful technology, period.

But because we're the largest player in the world, we are gathering more data for more customers across a wider range of behaviors than anybody else. So we think in a world where ML becomes more important Uber becomes competitively stronger, so to speak, because of the set of data that we have that's really unmatched and unrivaled, including customers who are engaging both in the mobility and the delivery marketplace. So it's pretty powerful. In terms of the other use cases that we're seeing, listen, Uber for Business is something that's very, very promising.

We continue to penetrate into the corporate space. It's great to see companies now get their travelers on the road again and we definitely saw an uptake there. But with Uber for Business, we're also looking at verticals like health and transit as well that are very, very healthy and hold a ton of promise. For me, travel is something that's very much in my heart because of my old Expedia days.

And we've talked about travel being a very, very strong kind of signal for Uber and travelers typically using Uber because of our global footprint. Kind of perspective here. In 2022, nearly 700 million trips globally were taken by consumer that's out of their primary city, which is pretty amazing. And every quarter, about 20% of our users took a domestic trip outside of their primary cities.

So our users, they're high-income earners, they tend to travel a lot and that becomes a good kind of segment for us to target. We've done so in the U.K. where we're quite optimistic about our travel business in the U.K. and some of the early signals that we see, for example, in the U.K., you can book trains and buses, 60% of train and coach users and 25% of our flight users are now repeat users on Uber as well.

So they try the product because we have a big audience. But more importantly, they're coming back to the product, which is great. So we got multiple avenues for growth, and travel and business are just one among many honestly.

Brian Nowak -- *Morgan Stanley -- Analyst*

Great. Thanks, Dara.

Dara Khosrowshahi -- *Chief Executive Officer*

OK, next question.

Operator

Our next question comes from Eric Sheridan with Goldman Sachs. Please go ahead.

Eric Sheridan -- *Goldman Sachs -- Analyst*

Thanks so much. And first, thanks to Nelson for all the insights and conversations over the years. Thanks. I wish in you best going forward.

Maybe, Dara, I think two bigger picture ones for you. One on Uber One. As it continues to scale globally and the base of subscribers continues to build, what are some of the early learnings that have now translated into scale about how you're thinking about bringing that subscription to market more globally than in the early years and what that might mean for the business in the years ahead? That's number one. And then on driver supply.

We were in a very different position a year ago where you were using a lot of incentives on driver supply. As we come out of that period and things have normalized, how are you thinking about optimizing driver supply for efficiency cost, maybe even insurance. So we should be thinking about that as an initiative going forward?

Dara Khosrowshahi -- *Chief Executive Officer*

Sure, Eric. So as far as Uber One goes and lessons learned there, honestly, the Uber One customer behavior has been pretty darn consistent in that Uber One consumers spend four times the amount that nonmembers do monthly basis. And retention is more than 15% higher for members versus nonmembers. That pattern has remained.

There were some question as to, hey, as we expand the user base, is that four x going to come down to a three x, for example, but that hasn't happened. The four x and the 15% retention have continued. The focus now for us with Uber One, I'd say is threefold. One is keep expanding geographically.

And we just introduced Uber One into a couple of more markets as well. So now we've got 15 million members across 18 countries. Number two is really focused on Uber One retention. And when you look at the Uber One benefits, the benefits are typically monetary in nature.

So you get discounts on your food, you get delivery for free. You get cash back on mobility. What we want to do going forward is also provide benefits that are nonmonetary in nature, let's say, advanced matching upgrades to different cars or head of the queue matching when you get into an airport where there aren't that many cars around. Those are more nonmonetary benefits that we think that our members will very much appreciate.

And the design spec there is to drive member retention. Retention levels are high but they can always get higher, and we always want to make sure that we're not kind of driving just member growth, we also want to drive retention as well. And the third area is really optimizing around our mobility use case. Delivery already members account for more than 40% of bookings with mobility, it's in the mid-teens.

It's much earlier in terms of penetration. And I think we can do a lot more in terms of the member experience for mobility users and just continuing to optimize that. Turning to the driver supply question. Our supply position is the best that it's been.

We've got over 6.5 million earners. And I would say those earners are actually earning this quarter, $15.9 billion, which is up 23% on a constant currency basis. So we're really proud of our being one of the largest earnings, if not the largest earnings platform in the world in a flexible way and the fact that earnings are actually going up faster than gross bookings, which is something that we're proud of. And at the same time, we're driving the bottom line and free cash flow for investors that's super attractive as well.

That said, we are optimizing around our earners costs. So we don't have to lean into incentives the way that we did previously. So if you look at our incentive spend for earners, it's down about 41% on a year-on-year basis. Globally, it's down about 50% in the U.S.

because with the liquidity of the marketplace kind of natural earnings levels are high at about $33 per utilized hour across the U.S. It's $50 here in New York City per utilized hours. So earning levels were high. That allows us to take incentives down.

But we're also working on parts of on-boarding efficiency. When we run a background check, for example, for a driver, and running it back around check. If we qualify a driver, if we know that driver is highly, highly interested running a background check, if we don't think we can qualify, let's say, that earner delaying the background check that again delays expenses as well. So across the business up bringing earners on, not just incentives, we're looking to optimize the cost there and so far, so good.

Operator

Our next question comes from Ron Josey with Citi. Your line is open.

Ron Josey -- *Citi -- Analyst*

Great. Thanks for taking the question. I wanted to ask a little bit more about the non-X gross bookings now at that $9 billion run rate growing 80%. Are any of these new offerings, talk to us about how these new opportunities creating demand? And any other product specifically seeing greater demand versus others, meaning reserve comfort, green, UberX, things along those lines?

Dara Khosrowshahi -- *Chief Executive Officer*

Yes, absolutely. So these products are definitely creating demand, and they create demand in different ways. So for example, hailables or taxi product, if you look at the number, the percentage of new customers coming in from hailables, it's about twice the percentage of gross bookings that taxi represents. That's because in a bunch of markets, actually, the only way we can penetrate into those markets is through taxi.

Japan as an example. We have a very, very small, high-end peer-to-peer business. But we're going in partnering with taxis in Japan. We actually just joined the taxi association in Japan as well.

Taxi essentially our brand-new supply introduced us to a whole new audience in Japan. And actually, the tourists coming into Japan as well kind of supports the local economy. So that's an entirely new audience. That's true in many parts of

Argentina, in Turkey, where these new business models essentially are bringing new audience.

The other one that I will point out to are low-cost products. So if you look at UberX share, for example. It is taking some trips away from our UberX business do see kind of lower income move to UberX share faster. So we think that's providing them relief based on kind of the economic hardships and all the inflation that we're seeing there.

So we're absolutely seeing a higher penetration of brag share for lower-income consumers but it's also introducing us to a new audience as well. Same thing in Moto. These are two-wheelers in Latin America. And again, newer lower income audience that previously could afford Uber now can afford Uber as well.

So all of these either drive audience or frequency or both. And obviously, they're strategic in terms of our long-term growth formula.

Ron Josey -- *Citi -- Analyst*

Thank you, Dara.

Dara Khosrowshahi -- *Chief Executive Officer*

You're welcome. Next question.

Operator

Our next question comes from Doug Anmuth with J.P. Morgan. Please go ahead.

Doug Anmuth -- *JPMorgan Chase and Company -- Analyst*

Thanks for taking the questions. One for Dara and one for Nelson. Dara, what do you view as some of the primary compounding advantages you're currently achieving just across operational best practices? And where do you see the biggest opportunities going forward? And Nelson, you've improved profit significantly over the past year, incremental margin is now running at about 9% in 3Q. How are you thinking about key investments in hiring into '24?

Dara Khosrowshahi -- *Chief Executive Officer*

Absolutely, Doug. So in terms of the compounding advantages, I'll go back to what I was talking about in terms of machine learning, which is becoming a much more important part of the business. So we're just -- we have more data points in terms of opportunities to match riders to drivers or eaters to restaurants to couriers. And for example, if you take a look at our driver upfront pricing, the change that we made, it had a huge benefit for drivers, right? Drivers can see where their destination is and as a result, can accept or not accept that trip based on destination and upfront price that they see.

It's a very, very powerful driver of the business. But it also is another opportunity for us to price out that trip. Previously, drivers are paid based on time and distance. Anyone can price based on time and distance.

So the amount of data that you have doesn't help you calculate a certain per-mile rate and a certain time rate as well. So there's zero kind of benefit to scale. Now in a world where drivers know their destination, we can price out that destination. We have more opportunities to price.

We have more drivers than anyone else in the marketplace. So we'll be able to price up that trip and match it to a particular driver based on a bigger data set than anyone else in the world. that advantage compounds as our machine learning kind of platform learns more about different trips, which ones are accepted, which ones are not accepted, which ones are canceled as well. So all of our marketplace mechanisms in terms of routing, in terms of matching, in terms of pricing, now are essentially point estimates that we can train on a larger database than anyone else.

If you look at payments, for example, we announced a great new partnership with PayPal and our ability to -- we're one of the largest players out there in terms of bookings, $35 billion in bookings in a quarter growing at a rate that most players our size aren't growing. So on the payment side, for example, we think we can secure a lower payment cost than other players, that's going to compound. If you look at parts of our business like detecting fraudulent activity, there are lots of rosters out there. They are being armed by machine learning, and we can detect patterns across a greater set of use cases, both in mobility and delivery so that we can identify, let's say, the bad folks from the good folks, differentiate them, and reject the bad folks and have them maybe try to steal from other platforms.

All of these different parts of the business are compounding in one way or the other. Many of them are powered by machine learning. And again, if you've got the most data in the world, your ML algos typically have an advantage over smaller players.

Nelson Chai -- *Chief Financial Officer*

So Doug, in terms of our ability to balance growth and profitability, as you know, since we're on public, Dara and I have been talking about our capital allocation process, we laid out our three-year targets last year. And if you look at the performance of the company, we've been in line with the top line and overachieved at the bottom every single quarter. And if you look at the guidance, again, it's very, very, very constructive, if you think about it. You heard Dark talk a lot about where the business is going and some of the growth, our mobility business, the gross bookings were up 30% in Q3.

And that's why we're continuing to invest in the businesses. So if you think about it, where we are today on both delivering the bottom line but investing for the future, we're starting to see some of these new growth initiatives scale new mobility products, sort of $9 billion gross bookings run rate. New verticals are at a $6 billion gross bookings run rate. So we're delivering the bottom line.

We're delivering free cash flow. We've delivered GAAP operating income, as we've talked about over the past three years while driving a lot of top-line growth. And so the business is in terrific shape as you think about how we're going into '24 and ond. And again, we are balancing our capital allocation model.

We probably do a little optimized to make sure we deliver on the bottom but we are able to fund certain growth initiatives. So we have a lot of confidence in terms of where we are. And as you heard from Dara's commentary on all the growth vectors we have, we're pretty bullish about where the company has had it.

Doug Anmuth -- *JPMorgan Chase and Company -- Analyst*

Thank you, both.

Dara Khosrowshahi -- *Chief Executive Officer*

Next question?

Operator

Our next question comes from Benjamin Black with Deutsche Bank. Please go ahead.

Benjamin Black -- *Deutsche Bank -- Analyst*

Great. Thanks for taking the question. You obviously scored a nice regulatory win in New York last week, but we still have the DOL on the EU platform directive, Prop 22 in California. So be great if you can give us sort of a lay of the land on the registry front? And do you feel comfortable operating sort of in any employment classification outcome? And then just quickly, there are concerns around the crisis in the Middle East we've heard from other travel companies.

Could you sort of help size your exposure there? And have you seen any impact to demand since the conflict began?

Dara Khosrowshahi -- *Chief Executive Officer*

Sure. Absolutely. So in terms of the regulatory framework, the first thing I'd say is we can operate under any regulatory framework. So we think the right framework is the framework that preserves flexibility for drivers and couriers, while providing them protections.

And for example, our settlement with New York AG and the DOL provides for earners to be able to earn flexibly on the platform with minimum earnings and other protections as well, insurance protections that we think is the right framework going forward. It's the same framework that voters voted for in Prop 22 in California. And if I look big picture, generally, the world is moving toward this model, which is earned flexibly with benefits such as minimum earnings and other benefits out there that are important on a state-by-state basis or on a country-by-country basis. And for us, it's really entering into dialogue with all the constituencies to get to the right solution there.

There are some markets where drivers or employees, for example, fleets with which we do business. This is in some of our European businesses, European end markets. They are employees of fleets. We contract with these fleets, and these fleets are on our platform as well.

And those markets are profitable as well. The price to the end consumer is higher and drivers, frankly, missed the flexibility that they have in markets where independent contractor plus model is the right model going forward. So if I zoom out the regulatory framework that we see is not about whether or not we're in a market or not, whether or not we do business there or not. It's about whether or not our earners have flexibility to work on our platform, the way that they want to work on our platform, when they want to work on our platform, where they want to work on our platform and what the price is to the end consumer.

And generally, I would say that across the world, this -- there are absolute exceptions. Most countries, most states are moving in the direction of flexibility, plus benefication. And then in terms of the Middle East. So the Middle East is about -- represents about 2% of our overall gross bookings of the business.

it's a relatively small part of our business. Now certain parts of the Middle East quite profitable. So it's a very attractive geography to us. Generally, we are seeing some weakness in a couple of countries in the Middle East, Egypt, for example, is one that I would point out.

But we don't operate in Israel. We don't operate in the West Bank, so we're not affected in any way directly. And any weakness that we see in the Middle East is very, very small compared to the rest of the business. We were a little worried.

Will companies cut back on travel? Will people come back general on travel? And actually, with our Uber for Business segment, we're seeing travel spend up, whereas some of the company that we contracted with were saying either no travel or travel when necessary, now let's kind of use your judgment and we're seeing a bit of acceleration in our room for business, which is quite encouraging going forward.

Benjamin Black -- *Deutsche Bank -- Analyst*

Thank you so much.

Dara Khosrowshahi -- *Chief Executive Officer*

You're welcome.

Operator

Our next question comes from Ken Gawrelski with Wells Fargo. Please go ahead.

Ken Gawrelski -- *Wells Fargo Securities -- Analyst*

Thank you so much. And let me reiterate. Thanks, Nelson, for the partnership over the years. Two questions, if I may.

First, you talked about just broadening out a little bit on the macro side. I know you just talked about the Middle East specific exposure. But you could talk -- could you talk a little bit more broadly. Some of your travel-related peers have seen macro weakness more broadly than the Middle East into October.

Why do you think ride share growth quarter to date hasn't been impacted? And then I guess maybe the bigger picture question there is how do you think more broadly about the economic sensitivity of the business? And then the second question, please, is if active driver growth continues to outpace trip growth, how do you think about balancing a potential take rate opportunity versus expanding use cases and growing the addressable market? Thank you.

Dara Khosrowshahi -- *Chief Executive Officer*

Yes. So in general, listen, we've been looking for pockets of consumer spending weakness across our platforms, both our mobility platform and delivery platform. We read the news. We watch CNBC just like anyone else.

And frankly, we haven't found it. I think part of the reason is that when you look at consumer spend, one, the U.S. consumer is incredibly strong. And two, I think within the consumer spend bucket, if you look at spend on services versus spend on retail, spend on services is still not back to where pre-pandemic spend was.

So we do think that there -- the tailwind that we've seen in terms of spend on services continues, it could continue going forward. It's very difficult to predict. And what we have seen with Uber is that Uber is a local type of product. So I do think that consumers during periods of elevated perceived risk, they sometimes pull back on higher, call it, higher spend product, whether it's renovating their house or booking a big vacation during uncertain times that they may not, but they'll treat themselves to break food Sushi delivered to them or they still go out to restaurants.

They still go see their friends. So I think the local nature of our business makes us relatively resistant to macro uncertainty because it's usually the big, the large price product that get priced out first. In terms of active driver growth, we are -- active driver growth is absolutely growing faster at this point than trips. We generally want to keep take rate as low as possible because we think that's the right thing to do long term and kind of is the -- allows us to compound for a much longer time period.

Now incentives are of our take rate. And as we said, incentive spend has been down pretty substantially on a year-on-year basis. And so that is a tailwind on our take rate. But otherwise, what we want to do is to maximize long-term free cash flow growth, maximize long-term earnings per share at the lowest take rate that we can because it drives us to be more efficient as a business going forward.

So we try not to kind of push take rate opportunistically because the cycle is going to move the other way and when it moves the other way, it's really going to hurt if you're not structured with a low-cost base.

Operator

Our next question comes from Michael Morton with MoffettNathanson.

Michael Morton -- *MoffettNathanson -- Analyst*

Hi. Thank you for the question. Wanted to talk a little bit about the new growth opportunities in mobility. In the past you've spoken about aspiration for reserve penetration of like total airport trips.

And I'd love to know if we're seeing the product in the market for some time now. How you see this opportunity, how large it could get reserves as a percentage of airport bookings? And then looking outside of travel and airport bookings, maybe the impact you think reserve could have on the other aspects of the mobility business? And then just a second question, a quick one. On your advertising product, you've really made a lot of progress since rolling this out. And I would love to learn some more about how you believe your offering meets the needs from large enterprises.

It seems like there's a lot of demand for the large sophisticated enterprises, but they are more demanding when it comes to advertising solutions and the product has historically been overweight to kind of SMBs. So any update there would be great as well.

Dara Khosrowshahi -- *Chief Executive Officer*

Yes, absolutely. So in terms of reserve, listen, reserve is a very, very promising product continues to grow at significant rates. But it's still pretty early in terms of reserve development. We typically now account for one out of the four legs of the airport.

If you go to the airport, you get picked up and then you come back and you get picked up, etc., we typically only cover one out of those four legs. So we think that increased penetration at airport is absolutely a significant opportunity for us, and we're very early in that penetration. I do think that reserve as a product, while it's very good at picking up at your home, dropping off at the airport, or picking up at your hotel and getting you to the airport on your way back, I think we can do a lot more in terms of experience for the rider who is arriving in the airport. We have you put in your flight information so that the driver knows when you're arriving.

We automatically account for delays, etc. You can upload the information from your Hulu calendar onto our product, etc. So there's a lot that we've done. There's some hyper optimization to be done in terms of arrivals and generally for airport pricing algorithms whereas we were pricing generally for the market, now we're focused on really the airport experience.

And I think the airport experience in terms of finding where the pickup area is, the pricing, the supply that we have in airports is something that -- it's best of breed. But frankly, I think we can improve on. We are seeing some reserve usage for other types of use cases going out to dinner, etc. And there, we think it's about optimizing the premium that reserve represents UberX versus the reliability.

And there is a trade-off there. If you want the 99.9% reliability in reserve, the premium over UberX on Demand will be quite high. And on a market-by-market basis and kind of on a consumer segment by consumer segment basis, we're trying to optimize what's that trade-off between price and reliability that can maximize our reserve volume. And again, we think there's a lot more optimization to be done there.

In terms of advertising for large entities, I think your question is spot on in that the majority of our ad revenue at this point is SMBs, etc. It's a pretty simple pay for audience and pay for additional business model. The return on ad sales are excellent. Return on ad sales are on average, anywhere from 7 to 10 times your spend.

So this is a very profitable endeavor for our product for our partners, which is great. We are building out more sophisticated technology for our larger advertisers that, frankly, will also offer to our smaller advertisers. They may be, for example, among other products, the ability to target new customers and then being able to track those new customers when they become repeat customers. For grocery products, for example, is to integrate their membership and loyalty programs into Uber Eats so that their loyalty, their loyalty consumers can go direct or they can grow at and kind of in that way, they get to build the relationship with those loyalty members as well.

We are working increasingly on building out tool sets that can help larger advertisers measure the incrementality of the advertising and not just the return on ad sales of that advertising as well. And then we're also helping our larger advertisers with dayparts. They may, for example, we've had certain larger advertisers. We really want to promote breakfast and want to go over promote breakfast because it's something we're introducing, and we allow kind of daypart targeting as well.

So all of these are relatively newer tools, and we think those tools are going to get a higher penetration of the larger advertisers, both in our Uber Eats business, but just as importantly, CPG advertisers for our grocery business. And of course, we got into the branded business in our mobility segment and our delivery segment as well. So we think we're well on our way to $1 billion plus, which was a target for our ad business that we set a few years ago. And we continue to be very, very pleased with our progress.

And there's a lot of potential in this business. So we're not nearly even midstream in terms of its development.

Michael Morton -- *MoffettNathanson -- Analyst*

Thank you.

Dara Khosrowshahi -- *Chief Executive Officer*

Next question. I think we got one more.

Operator

Our next question comes from Mark Mahaney with Evercore. Please go ahead.

Mark Mahaney -- *Evercore ISI -- Analyst*

OK. Thanks. Two questions, please. You talked about this net headcount.

Being net headcount being down roughly 1% sequentially and looking for ways to demonstrate further operating leverage going forward. Are you at a point now where you can roughly keep headcount flattish or just growing low single-digit percent for the foreseeable future? And then secondly, you talk about in the next earnings call, I think over next quarter, you're going to provide an update on returning capital to shareholders. Could you -- I know you'll make that announcement then, but what are the options, a reasonable range of options that investors should think about with that? Thanks a lot.

Nelson Chai -- *Chief Financial Officer*

So in terms of the headcount, yes, Mark, we do believe that we can continue to move forward with flat or very small incremental headcount. And so that's what we are planning as we go forward. As you know, we've pretty -- we've had pretty steadfast since 2019 in terms of where the headcount has been. And we continue to get that operating leverage, and you're seeing in the bottom line.

And so the team is pushing hard to try to maintain that discipline because, again, we continue to try to deliver. While we're investing, by the way, in the growth that you heard Dara outlined before, so we certainly can. In terms of capital returns, so as you know, I'm handing the ton over to my able new partner over here, who's going to -

- who's kind of stepping in tomorrow as CFO. So it's certainly one of the first priorities that he and Dara are going to walk through.

He's fortunate because he's getting a business that's in great shape, as you know. As you know, we are now eligible for S&P inclusion. And so it's really a matter from a corporate action perspective of an opportunity. We're well on our way to investment grade as well.

So he'll get that benefit as well. And so he also understands the fact that capital return is something that's come up from investors. We've been pretty workmanlike in terms of two years ago, we talked about getting the EBITDA profitability. Last year, we talked about getting to free cash flow.

This year, we talked about getting to GAAP operating income at some point. And as you know, especially based on where our projections are, will be GAAP operating income for the full year. And so we know next year capital return will be a big question. And I know if you look at his background, he has a lot of experience in terms of doing it.

You know the forms, whether it's buybacks or dividends, I think that you will look at the full suite and has a lot of experience in his past life doing it. So I'm confident that when he addresses investors in February, which I believe will be the next time that he'll be ready to at least give a perspective on that for investors.

Mark Mahaney -- *Evercore ISI -- Analyst*

Thank you, Nelson. Wishing you all the best.

Nelson Chai -- *Chief Financial Officer*

Thank you very much, Mark.

Operator

This will conclude our question-and-answer session. I will now turn the call back to Uber's CEO, Dara Khosrowshahi, for any closing remarks.

Dara Khosrowshahi -- *Chief Executive Officer*

All right. Thank you, everyone, for joining us in this quarter. Huge thanks to the Uber team who keeps delivering with flatter down headcount, which is pretty amazing. They're working pretty hard.

Thank you to our partners, our restaurant partners, earners without whom we wouldn't be able to deliver any of these services. And then a big thank you again, we said it before, but I'll say it again, to Nelson, who has been an incredible partner on this journey. I think Nelson was saving the best for last, and this is definitely the best. So thank you, Nelson, for everything you've contributed to the company.

We wouldn't be here without you.

Nelson Chai -- *Chief Financial Officer*

So first of all, I should say this. So I'm really, really proud of the collective work that we've all done over my five years. The company is really, really well-positioned to continue to grow at scale to deliver increasing profitability and free cash flow. My hope is the company continues to maintain the discipline that's allowed us to deliver against our commitments.

And I do want to thank Dara for his partnership and all of Uber because it's really given me an incredible opportunity, and I'm very proud of the work we've done together and to come into a company that's the verb and leave in such good shape, I think, is about all you can ask for. So again, I thank you. And I really thank Dara a lot for his partnership because we've been great partners over the five years.

Dara Khosrowshahi -- *Chief Executive Officer*

All right. Thank you, everyone. Thank you.

Operator

[Operator signoff]

Duration: 0 minutes

Call participants:

Alaxandar Wang -- *Head of Investor Relations*

Dara Khosrowshahi -- *Chief Executive Officer*

Ross Sandler -- *Barclays -- Analyst*

Brian Nowak -- *Morgan Stanley -- Analyst*

Eric Sheridan -- *Goldman Sachs -- Analyst*

Ron Josey -- *Citi -- Analyst*

Doug Anmuth -- *JPMorgan Chase and Company -- Analyst*

Nelson Chai -- *Chief Financial Officer*

Benjamin Black -- *Deutsche Bank -- Analyst*

Ken Gawrelski -- *Wells Fargo Securities -- Analyst*

Michael Morton -- *MoffettNathanson -- Analyst*

Mark Mahaney -- *Evercore ISI -- Analyst*

More UBER analysis

All earnings call transcripts