https://www.nakedcapitalism.com/2021/08/hubert-horan-can-uber-ever-deliver-part-twenty-five-didis-ipo-illustrates-why-ubers-business-model-was-always-hopeless.html

Hubert Horan: Can Uber Ever Deliver? Part Twenty-Five: Didi's IPO Illustrates Why Uber's Business Model Was Always Hopeless

Posted on August 2, 2021 by Yves Smith

Yves here. Uber is serving to demonstrate how long misguided financial backing can keep a fundamentally and hopelessly unprofitable, cash flow negative business going. Another example has been most US shale gas plays, but their money spigot is finally running dry.

By Hubert Horan, who has 40 years of experience in the management and regulation of transportation companies (primarily airlines). Horan has no financial links with any urban car service industry competitors, investors or regulators, or any firms that work on behalf of industry participants

Programming Note: On August 4th Uber plans to announce its second quarter 2021 earnings, and the forthcoming Part 26 of this series will summarize those results and the current state of Uber's economics.

One of the central arguments in this series is that Uber's business model and the economics of "ridesharing" were always completely hopeless. There was no way to produce the ongoing, sustainable profits from urban car services needed to justify tens of billions in investments from capital markets. None of the massive corporate valuations Uber or any of the other ridesharing companies have achieved have anything to do with technological or efficiency breakthroughs or powerful network/scale economies that created major marketplace competitive advantages or sustainable consumer benefits.

On June 30th, Didi Chuxing, the "Uber of China" went public for the first time (as Didi Global), issuing 316 million American Depositary Shares that are now traded on the New York Stock Exchange, but these shares quickly lost over half their original value after the Chinese government announced moves to rein in its tech industry.

This Part 25 post will focus on how the financial results reported in Didi's IPO prospectus. They confirm our previous findings about the terrible economics of ridesharing. This post will also discuss how the growth and survival of the ridesharing industry has been the direct result of national economic policies towards the tech industry. Beijing's recent announcements represent an explicit rejection of a move to a US policy approach that the Chinese tech industry had been aggressively pushing for.

The Didi and Uber Business Models Are Virtually Identical

Didi Chuxing illustrates an ideal execution of the Uber business model. That model started with raising a massive cash war chest from investors and using it to subsidize extremely rapid growth in customer volume and market share. Uber had long claimed that it would inevitably achieve global dominance because its ridesharing business model was so powerful that it could easily overwhelm competitors in any market it entered. But Didi adopted an extremely aggressive version of Uber's massively funded subsidies approach and forced Uber to abandon China in humiliating fashion. [1]

Didi thus achieved the impregnable home market position that Uber had hoped for but never achieved and has had a market share over 92% for the last five years. Like Uber, Didi's believed the combination of home market dominance and the network power of its "platform" would allow it to easily enter a wide range of other markets beyond ridesharing.

Didi also enjoyed several other advantages. Chinese cities are much more attractive to car service operators because of their much higher density of demand and low car ownership rates. This supports higher revenue and utilization rates than US operators can achieve.

The impacts of Covid-19 were also much smaller in China. Didi's ridesharing revenue only declined 8% in 2020, while Uber's declined 43%. Unlike Uber, Didi did not have to deal with the long-established local regulatory regimes and did not suffer from any major, self-inflicted governance or "cultural" crises. [2]

Didi's IPO Prospectus Claims Cannot Hide That a Business That Cannot Make Money With a Market Share of 90+% Is Not a Viable Business

But despite enjoying much more favorable conditions than Uber, Didi remains unable to generate operating profits.

The prospectus for its June IPO reported GAAP net losses of $2.3 billion in 2018, $1.5 billion in 2019 and $1.6 billion in 2020. [3] Thanks to those favorable conditions Didi's operating margins have not been as bad as Uber or Lyft's, but it has clearly is not demonstrating any of the steady margin improvements needed to eventually "grow into profitability." Prior market growth depended on massive subsidies. Even with the complete absence of competition it cannot charge customers the full cost of its service, and core market growth was plateauing prior to the pandemic.

Didi's IPO prospectus emphasized how international and non-ridesharing markets would drive long term growth, just as Uber's IPO prospectus had. But the data in the prospectus shows Didi has not been able to use its powerful home market position as a springboard to international growth—only 2% of its revenue is earned outside China. Nor has its ubiquitous app "platform" led to profitable expansion into other businesses. [4]. Didi was unable to expand from ridesharing into food delivery because the Chinese market was already controlled by companies owned by Alibaba and Tencent.

Didi's IPO prospectus, like Uber, did not hesitate to use indefensible accounting data. It emphasized "adjusted EBITDA" over GAAP profitability, allowing it to hide a half-billion in compensation expense. [5] It claimed a 2020 "profit" by including equity received after the disposal of unwanted assets as "operating income." Its future "total addressable market" potential included all the maximum worldwide potential of all the food delivery and foreign ridesharing markets it had never penetrated.

It claimed profits would increase as it introduced driverless taxis even though it has not developed any AV technology and there are no prospects that driverless vehicles will be allowed to roam Chinese cities in the foreseeable future. It used a "flywheel" graphic cribbed from Uber's prospectus (that Uber had cribbed from Amazon) to infer powerful scale and network economies that can't be seen in any of the operating or financial results.

Beijing's Open Displeasure Collapses Didi's Valuation

Didi's US IPO raised $4.4 billion, valuing the company at $67 billion. Because of strong demand, Didi increased the number of shares available by 10% and sold them at the top of its expected price range. Didi's US-traded stock reached a high of $16.40 the day after the IPO but has fallen over 50 percent in the four weeks since.

Over the last year, Beijing had been openly working to rein in the growing power of its big tech companies and the plutocrats who run them. Ant Group (Alibaba) was forced to scrap an October 2020 IPO that was expected to raise $37 billion and value the company at over $300 billion, reportedly on the direct instructions of Xi Jinping. Major investigations of antitrust and governance rules were initiated and Alibaba founder Jack Ma, who had openly criticized Beijing's efforts to regulate Alipay, his financial services company, has largely disappeared from public view. [6]

Beijing announced a major antitrust investigation of Didi and openly expressed concerns about upcoming Didi's IPO but Didi ignored these signals. [7]

In the week after the IPO, new cybersecurity tax avoidance and other investigations were announced and Didi's app was removed from Chinese app stores. Beijing's policy offensive rapidly expanded and investigations have begun at a wide range of tech companies. US investors suddenly realized that it could not value Chinese companies the same way it valued US firms and over $400 billion has been wiped off the valuations of Chinese tech companies traded in the US. [8]

Softbank, which owned 22% of Didi, needed the proceeds of the IPO to cover major recent losses from investments such as WeWork. The collapse of Didi's stock price cost Softbank roughly $4 billion and shrank the value of Uber's 13% shareholding in Didi by about $2 billion. Uber took a second hit when Softbank began selling one-third of its stake in Uber in order to replace some of the cash its Didi stock was supposed to generate. [9]

What Should National Policies Towards the "Tech Industry" Be?

One interpretation widely publicized in the western business press is that the Chinese Communist Party was so obsessively concerned with anything that might ever pose any threat to its absolute political authority that it was willing to terrify foreign investors and impose huge costs on the Chinese entrepreneurs whose huge innovations had made the Chinese people much richer. But without discounting the CCP's desire to protect its hegemony, it may be useful to look at Beijing's actions from a different angle.

Beijing's attitude towards its rapidly growing tech industry reflects its understanding of the longer history of tech industry growth in the US, and the impacts of US policies toward the tech industry. US policies have three major components—direct industry oversight, the links to national macroeconomic policy, and the influence of the industry over the Federal Government.

With one major exception, direct government oversight of the tech industry is essentially non-existent. Laissez-faire is the guiding principle and once tech companies reach a certain size they are largely free to ignore any laws and regulations they find inconvenient. Governmental bodies designed to protect broader public interests (antitrust/competition, labor and consumer protections, etc.) may nominally still exist but have been largely gutted. The major exception is national security, where the government can ensure that tech companies support its data collection and surveillance programs.

US macroeconomic policy prioritizes the ongoing appreciation of equity values and a number of other similar asset classes. This has crippled the ability of capital markets to evaluate and price risk and has broken the link between corporate values and the creation of economic welfare benefits. No one cares what causes stock prices to go up as long as stocks go up, and the higher up they go the better.

Since it is far easier to boost stock prices by eliminating competition and exploiting workers and consumers than by developing new technologies or management processes that improve efficiency and quality, innovation declines while predatory value extraction increases. The financial world becomes dominated by artificially manufactured narratives, a far easier way to pump stock prices than complicated analysis of economic fundamentals.

This focus on equity appreciation is also largely divorced from any industrial policy considerations. As long as the stock market keeps rising it does not matter if massive investment has been funneled into the production of cat videos or if an excessive focus on short-term stock prices have crippled the semiconductor and aircraft manufacturing industries.

Years of non-enforcement of routine laws and regulations under laissez-faire, and the ability of a handful of tech companies to achieve unprecedented sizes produced an outcome where both political parties strongly support the interests of the tech industry. This effectively blocks policies (e.g. tax rules, labor laws) that could materially hurt the tech industry. It also means that it is virtually impossible to address externalities created by these policies. These include things like the rapid growth of inequality, the destruction of traditional channels of political discourse and the rights of individuals to privacy and to control their personal data. It also includes the awful, widespread fallout that would result if (when?) the Everything Bubble created by these policies bursts.

Beijing may have come to believe that a system where the Jeff Bezos' Mark Zuckerbergs and Travis Kalanicks of the world were given unfettered freedom to flaunt any rules they didn't like may not have been producing efficient outcomes for the rest of society. It is one thing to allow investors who have developed major product and efficiencies to become rich, but a quite different thing if those investors suddenly capture previously unimaginable levels of wealth without actually improving overall economic welfare.

Jack Ma demanded that Beijing's regulators back off so that Alibaba would have Amazon's freedom of action and so he could pursue Bezos' level of wealth. Beijing seems to have decided that this was the point where it needed to start sending signals, and when Didi blew off its concerns about the IPO it realized those signals needed to be stronger and clearer.

The tech industry plays a much different role in the economy in China than in America. When US tech companies were boosting their wealth and power into the stratosphere they were following a path that finance and other industry had already laid out. In China the Communist Party retained strong control over banks and most other major industries. The tech industry represents the breakthrough case where private capital accumulators could achieve enough power to circumvent or thwart central government policies they didn't like, and industry leaders clearly wanted to entrench a US-type approach. This was the point where Beijing had to decide whether to reestablish some type of meaningful control, or allow the tech industry to pursue increasing US-style laissez faire freedom,

For better or worse, the CCP sees itself as the manager of the Chinese economy, and the political survival of the CCP depends on the perception that it has done a good job and dealt effectively with problems. Beijing is fully aware that inequality in China has been skyrocketing while productivity growth has been stagnating. [10] A growing perception that the benefits of economic growth are no longer being widely shared could do much more to undermine that authority of the CCP than any criticisms from tech titans ever could. If China's IPO bubble bursts, the CCP would need to move rapidly to ensure damages did not spread throughout the economy.

As the manager of the Chinese economy, the CCP appears concerned that giving greater control of the tech industry to more independent, less accountable people could undermine its ability to manage other parts of the economy. Much of the power and growth of the "tech" industry stems from the Alibaba and Tencent financial payments companies. Beijing may be fearful that increased power and independence could limit Beijing's ability to control its currency and trade policies, or to fix problems with its fragile shadow banking system or to funnel capital to industries (such as semiconductors or Belt and Road investments) deemed to be major development priorities.

Beijing's recent statements have noted the importance of developing and controlling "big data" [11] and have raised "national security" concerns about Chinese companies doing IPOs abroad. It is not clear why control of Didi's information about ridesharing users or sending Didi's financial reports to the SEC would be major policy/security issues, but it was also not clear why the Trump Administration saw the Tik Tok and WeChat apps as a major threat. In both countries economic policy issues can quickly become very murky once diplomatic and national security policies enter the mix.

Beijing clearly had no desire to go further down the US laissez faire path where private capital accumulators would steadily more powerful. It presumably believes that the benefits of reigning in its tech industry clearly outweigh costs and risks.

The situation will continue to evolve, and it is foolish to try and reduce it to a good-versus-evil narrative. The owners of Didi, Tencent and Alibaba are not heroically resisting encroaching Beijing bureaucrats who are fighting to stifle economic innovation. Beijing's announced investigations directly focus on longstanding tech industry abuses but it is wildly premature to predict that Beijing's new policies might turn out to be a major boost for competition and Chinese consumer welfare.

Uber and Didi are Direct Products of These National Policies

It is one thing to document the terrible economics and financial results of companies like Uber and Didi. The more important question is to explain how companies with years of staggering losses can continue to be seen as innovative and successful, and how they can continue to extract billions from investors despite the complete absence of evidence that they could ever become sustainably profitable.

To date this series has emphasized Uber's construction of artificial narratives and their ability to manipulate the mainstream media into enthusiastically promulgating them. [12] As noted, Didi's IPO prospectus closely followed the narratives highlighted in Uber's prospectus. But the US policies toward the tech industry, described above, put that process into a broader context.

When Travis Kalanick blew off every inconvenient law and regulation, he was completely in line with the laissez faire policies that that national elites wanted. It represented a major break from how traditional taxi operators and local regulators worked, but the people who ran the New York Times and the Wall Street Journal believed that taxi service would be substantially improved if government oversight was completely eliminated. It did not matter that those laws and regulations had been established under legal and democratic processes. Uber was not manipulating the media into favoring something contrary to its interests or core beliefs—they were simply providing the narrative explanation as to why Uber fit the approach they already thought was best.

Uber's investors were not only single-mindedly focused on personal enrichment but were focused on achieving corporate valuations wildly beyond what anyone could have ever imagined for a taxi company. Instead of stopping and asking for evidence as to how this might be possible, those elites became fanatical supporters. The sole objective of business was to create massive equity values. No one cared whether some of those personal gains might come from suppressing driver wages or openly destroying competitive alternatives. No one cared whether capital has been misallocated from much better uses. Both political parties were in full agreement that Uber was a wonderful company.

Uber has continued to survive despite terrible economics because it was the poster child for the elite policies that demonized any government oversight of business and lionized the monomaniacal pursuit of capital accumulation. Membership in those elites required fully supporting those policies, just as membership in Chinese elites requires a full commitment to support the policies of the Communist Party. Despite $25 billion in losses, no one from those elites can admit that Uber might have massively reduced overall economic welfare, because that would require admitting that their overall worldview was badly flawed, and their status as elites might have been illegitimate.

Didi was following Uber's exact business model and exact IPO approach because it believed that the Communist Party would gradually reduce its control over the economy and would allow the Chinese tech industry to expand under the US policy approach. Given what happened to Alibaba last year, and the events of the past month, that seems to have been a serious miscalculation.

———

[1] The Uber business model is documented in detail in Hubert Horan, Will the Growth of Uber Increase Economic Welfare? 44 Transp. L.J., 33-105 (2017) https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2933177and in Hubert Horan, "Uber's Path of Destruction" American Affairs, vol 3, no 2, Summer 2019, pp.108-133. https://americanaffairsjournal.org/2019/05/ubers-path-of-destruction/. The TLJ article explains the importance of global dominance at p. 46 and the Uber China debacle (where Uber lost over $1 billion) at p. 99.

[2] For the story of the awful publicity in 2017 generated by Uber's cultural and governance problems see Can Uber Ever Deliver? Part Ten: The Uber Death Watch Begins, June 15, 2017

[3] Didi prospectus filed June 29, 2021 with the SEC https://www.sec.gov/Archives/edgar/data/0001764757/000104746921001227/a2243300z424b4.htm

[4] David Trainer, Didi Chuxing: Different Country, Same Bad Business Model, Forbes Jun 23 2021. This was the only article I found in the US business press focused on Didi's dubious economics

[5] Can Uber Ever Deliver? Part Nineteen: Uber's IPO Prospectus Overstates Its 2018 Profit Improvement by $5 Billion, April 15, 2019

[6] Jing Yang and Lingling Wei,China's President Xi Jinping Personally Scuttled Jack Ma's Ant IPO, Wall Street Journal, Nov 12, 2020. Ma's personal wealth was estimated as nearly $60 billion at the time.

[7] Julie Zhu, Pei Li, China's IPO-bound Didi probed for antitrust violations, Reuters Jun 17, 2021

[8] China Orders 25 Tech Giants to Fix Raft of Problems, Bloomberg News, July 30, 2021; Juliet Chung Justin Baer and Dawn Lim, Investors Lost Hundreds of Billions on China in July, Wall Street Journal, 30 July 2021

[9] Deirdre Bosa, Jordan Novet, Uber shares drop as Softbank plans to sell shares to cover Didi and other losses, CNBC Jul 28, 2021. Uber had acquired a 17% share in Didi in exchange for abandoning its failed Uber China venture. Its share fell to 12% after selling shares in order to cover losses.

[10] For a good discussion of how these inequality and productivity problems create a huge problem for the Chinese government see Matthew Klein and Michael Pettis, Trade Wars Are Class Wars, Yale University Press, 2020, pp 101-130.

[11] China's Didi Crackdown Is All About Controlling Big Data, Bloomberg News, July 8, 2021

[12] For the development and effectiveness of Uber's manufactured narratives see the TLJ article pp.76-90 and the AAJ article p. 115-117

https://www.nakedcapitalism.com/2021/08/hubert-horan-can-uber-ever-deliver-part-twenty-six-with-no-hope-of-real-profits-uber-and-lyft-double-down-on-fake-profit-metrics.html

Hubert Horan: Can Uber Ever Deliver? Part Twenty-Six: With No Hope of Real Profits, Uber and Lyft Double Down on Fake Profit Metrics

Posted on August 9, 2021 by Yves Smith

Yves here. Hubert weighs in after yet another dodgy Uber earnings report.

By Hubert Horan, who has 40 years of experience in the management and regulation of transportation companies (primarily airlines). Horan has no financial links with any urban car service industry competitors, investors or regulators, or any firms that work on behalf of industry participants

On August 4th, Uber announced its second quarter financial results. The first part of this midyear review was published last week as Part Twenty-Five. It examined the data in Didi's recent IPO, laid out the strong similarities between the terrible economics of Didi and the terrible economics of Uber, and discussed the increasingly divergent Chinese and American government responses to tech companies that have demanded total freedom from legal oversight despite their inability to produce benefits for the rest of society. It also pointed out short-term financial linkages, such as Softbank selling off large portions of its Uber shareholding in order to cover losses from the collapse in Didi's share price. [A1]

Part Twenty-Six, following the format of past reviews, summarizes the highlights of newly published Uber financial results, and how those results were reported in the business press.

Part Twenty-Seven, to be published tomorrow, examines two major examples of pro-Uber propaganda published in the last months. Understanding Uber's propaganda approaches is critical to understanding how a company with eleven years of awful financial performance can continue to be seen as a successful and innovative company.

REVIEW OF SECOND QUARTER FINANCIAL RESULTS:
Uber P&Ls improperly comingle operating results with claims about the value of financial instruments unrelated to its ongoing operations and markets

As this series has documented repeatedly, Uber's accounting practices make it extremely difficult for investors to understand current financial performance and profitability trends.

Uber abandoned several overseas markets that had been financial disasters, including China, Russia, India and Southeast Asia. More recently it has also ditched all efforts to develop autonomous vehicles, and various other speculative longer-term business development opportunities. In each case, a larger market player benefitting from reduced competition gave Uber a consolation prize: some non-marketable debt and equity instruments.

Prior to 2017, Uber carefully segregated financial data about ongoing and discontinued operations. But when Uber was desperate to show strong profit improvements in its IPO prospectus, it inflated its 2018 P&L results by $5 billion based on its claim that the equity received from Didi Chuxing in 2016 in return for shutting down Uber China had massively increased in value. This claim was unverifiable since there was no market for Didi stock and Didi (like Uber) was massively unprofitable [A2] and Uber wrote off much of the claimed appreciation after the IPO.

While it is extremely difficult to identify the separate financial results of Uber's failed and continuing operations from the data in its SEC filings, this series has documented the accounting issues in detail and has restated its 2017, 2018, 2020 and now 2021 reports so that the results of continuing operations can be identified. [A3]

Uber had a negative 38% profit margin in the first half of 2021

To make sense of Uber's 2021 results, it is necessary to split out huge ($3.7 billion) claimed gains from securities from discontinued markets from its marketplace performance in continuing markets. The table below incorporates that restatement of 2021 results with previously published restatements of 2016-2020 results.

($ billions)	2016	2017	2018	2019	2020	1H21
Uber reported GAAP Net Income	($0.4)	($4.0)	$1.0	($8.5)	($6.8)	$1.0
Uber reported GAAP Net Margin	(9.6%)	(50.8%)	8.8%	(60.1%)	(60.8%)	15.2%
P&L impact of Discontinued Markets		($0.5)	$5.8		($1.6)	$3.7
Corrected Net Income --continued ops+ SBC adjust	($3.6)	($4.6)	($6.3)	($5.6)	($5.2)	($2.6)
Corrected Net Margin --continued ops+ SBC adjust	(94.5%)	(57.4%)	(55.9%)	(39.4%)	(46.3%)	(38.4%)

Uber's published financials suggest that its business is subject to multi-billion dollar up and down swings that have no relationship to any observable market changes. In reality, its business has produced huge negative margins over the last five and a half years that have declined somewhat but have been largely steady.

In the first half of 2021, Uber's continuing operations had a negative 38% net margin, restoring loss levels Uber had experienced in 2019 prior to the pandemic. As discussed in Part Twenty-Four, Uber massively cut costs and eliminated activities not directly supporting their core taxi and food delivery businesses in 2020, but could not cut enough costs to match the pandemic driven revenue collapse.

Uber's reported 2021 results were distorted by the inclusion of a claimed $1.4 billion gain in the value of Didi stock it holds, and a $2.0 billion value in Aurora securities received when Uber finally abandoned the autonomous vehicle business. That Didi gain was based on Didi's value the day after its IPO, which happened to be the last day of Uber's second quarter. As discussed in Part Twenty-Five the value of Didi stock has since fallen 50%, which undermines the credibility of Uber's published claim that it earned GAAP profits in the second quarter and suggests that Uber's third quarter P&L results may be seriously depressed.

As previously noted in this series, it is impossible to estimate the separate profitability of ridesharing and food delivery, or how the profitability of each business is changing over time from the very limited data Uber includes in its SEC filings.

But despite major flaws in the metric used (discussed below), food delivery appears to be a financial disaster that significantly reduced Uber's GAAP net income. Even after excluding large chunks of relevant costs, the contribution margin of food delivery was negative 10% in the first half of 2021 and was 30 margin points worse than ridesharing.

Uber is still cash negative although major cost cutting has slowed the cash drain

After having declined by $4.7 billion in 2020, Uber's cash position declined by another $937 million in the first half of 2021. Uber now has $6.4 billion in cash on hand. This is an $8.2 billion decline from the peak $14.6 billion on hand immediately following the 2019 IPO. It is highly likely that the elimination of long term activities in 2020 such as autonomous vehicle development significantly reduced cash drains and the increased food delivery activity made them worse, but Uber does not provide investors with sufficient data to develop reasonable estimates. It also does not provide investors with sufficient data to understand the cash flow of its operations in different international markets.

Uber Cash Flow ($ millions)	2016	2017	2018	2019	2020	1H21
Net cash used-operating/investing	($4,771)	($1,905)	($2,236)	($5,111)	($5,614)	($1,101)
Net cash from financing	$6,194	$1,015	$4,640	$8,939	$1,379	($190)
Change in cash position (after currency adjust)	$1,398	($998)	$2,381	$3,858	($4,676)	($937)
Cash on hand end of period	$6,826	$5,828	$8,209	$12,067	$7,391	$6,454

Uber aggressively uses its fake "Adjusted EBITDA profitability" measure to distract attention from its terrible actual profitability.

As this series has noted multiple times, the "Adjusted EBITDA" metric Uber highlights in its quarterly financial releases is not an honest measure of anything an investor might actually care about. It is not a measure of any type of profitability, and it does not even measure EBITDA.

A legitimate EBITDA metric would only exclude interest, taxes, depreciation and amortization from total expenses, and would also need to only show results from ongoing operations. As the table below indicates, legitimate ITDA expenses at Uber are only about 5-6% of total expense, so legitimate EBITDA closely tracks GAAP net income.

($ billions)	2016	2017	2018	2019	2020	1H21
Legitimate ITDA expenses	$0.7	$0.4	$1.4	$1.1	$0.8	$0.4
Legitimate ITDA as % total expense	16.2%	3.7%	13.2%	4.7%	4.7%	6.5%
Legitimate EBITDA Contrib--continued ops	$0.3	($3.6)	$2.4	($7.4)	($5.9)	$1.4
Legitimate EBITDA Margin	(2.0%)	(51.8%)	(43.9%)	(31.8%)	(38.7%)	(32.9%)
Uber reported "Adjusted EBITDA" margin	(65.5%)	(33.3%)	(16.4%)	(19.3%)	(22.7%)	(12.7%)

Uber excludes additional expenses from "Adjusted EBITDA", including its very large stock-based compensation expenses, and its COVID response initiatives that would not be excluded from any legitimate EBITDA measure, because they are not exceptional one-time costs, and can vary widely from period to period. Uber's "Adjusted EBITDA" metric gives it the ability to manipulate how much (fake) profit it earned each period, and allows it to mislead investors about how fast Uber is approaching profitability and how far it has to go.

Uber's "Segment Adjusted EBITDA", its fake measure of the separate profitability of its ridesharing and food delivery businesses is even worse. "Profitability" is calculated after removing another $2 billion in expenses, including the costs of developing and maintaining its app and IT systems and corporate G&A. This allows Uber to claim that its ridesharing business is already "profitable" even though it is cash negative.

Because of its much narrower business focus, Lyft's 2021 margins have been slightly better than Uber's, but profitability is still not on the horizon.

Lyft has very little exposure to non-US markets, so its 2021 results reflect the strongest possible short-term rebound from 2020 pandemic impacts. Because it was also not attempting to expand into a wide range of new businesses like Uber was, it was less distracted by painful restructuring efforts after the pandemic hit. Since Lyft did not experience any of Uber's disastrous failures in overseas markets or new business ventures, its P&Ls are not distorted by combining any claimed securities valuation changes with the results of ongoing operations.

Lyft's first half 2021 net margin was negative 49%, versus negative 42% in the second half of 2019 (the strongest comparable per-pandemic period) and versus negative 38% for Uber's continuing operations in the first half of 2021. Its ridership volumes, revenues, operating expenses and total expenses are all down 29-30% in 1H21 versus 2H19, suggesting that Lyft shrank costs closely in line with the market declines. It did appear to reach cash breakeven in the second quarter.

Lyft's financial releases also emphasize "adjusted EBITDA profitability" so they can claim faster progress towards "profitability" than Uber, even though their GAAP net margins are lower. Lyft's "adjusted EBITDA" metric excludes stock-based compensation expenses (about 15-20% of total Lyft expenses). Since these compensation expenses increase rapidly when revenue grows, excluding them allows Lyft to claim that second quarter revenue gains had a much larger "profit" impact than they actually did.

The financial press ate up Uber and Lyft's fake profit claims and totally ignored the central economic issues

Uber and Lyft's emphasis on fake profit measures successfully got the business press and Wall Street analysts to misrepresent their performance to their readers, and to completely ignore the questions of how Uber or Lyft could achieve the coming improvements in "adjusted profits" that their executives were promising, and what it would take for Uber and Lyft to actually achieve sustainable profitability.

Every mainstream publication falsely implied that the specific "adjusted EBITDA profitability" metric Uber and Lyft's used was widely used and understood. The Wall Street Journal even offered the blatantly dishonest explanation that it merely "entail[ed] stripping out expenses such as asset write-downs that executives and many investors consider to be outside a company's fundamental operations." [A4]

None explained how it compared to GAAP profitability, and almost none of the stories about Lyft even mentioned its GAAP losses, focusing instead on how "Lyft has just won the race to profitability ahead of its ride-hailing rival Uber, but there are hopeful signs that the latter is not far behind." [A5].

Reporters buried mentions of Uber's claimed $1 billion GAAP profit deep in their stories. They seemed to understand that an increase in the value of Didi equity issued in 2016 had nothing to do with the true GAAP profitability of Uber's core businesses, but never made that point directly, and since Uber had not provided them with a coherent measure of actual profit they placed even greater emphasis on the fake "Adjusted EBITDA" measure. [A6]

Grant's Interest Rate Observer, which (unlike the mainstream business press) has always had an excellent grasp of Uber's terrible economics, found that none of the Wall Street analysts that follow the industry seemed to have a clue about Uber's actual financial performance. Grant's noted that "After a projected $715 million adjusted EBITDA loss for 2021, analyst consensus calls for that line-item to swing to a positive $1.43 billion next year, then more than double to $3.47 billion in 2023. Free cash flow, penciled in at minus $1.8 billion this year, will swing to positive $553 million in 2022 and then quadruple to $2.36 billion the year after, if Wall Street is on the beam. Overall, 39 of the 44 analysts tracked by Bloomberg rate the stock "buy" or its equivalent, while the Street-wide average target price sits at $69 per share, about 60% above current levels." [A7]

There is no evidence Uber's investment in food delivery could ever be profitable

Unlike ridesharing, media stories about food delivery do highlight the central economic issues. Readers are told that no one in the industry has ever made money, recent growth depended on unsustainable levels of discounting and no one expects the lockdown-driven demand spike to continue.

Food delivery is much more competitive than ridesharing, neither Uber or other incumbents have any discernable competitive advantage and (as Uber has demonstrated) there are no meaningful barriers to new competitive entry. Even though they serve half the market and have the longest experience, Doordash margins have continued to decline, and at the height of pandemic only earned 90 cents out of each $36 customer order. Grubhub is refocusing on online services for restaurants; its CEO said that food delivery “is and always will be a crummy business” and that delivery/logistics was a commodity service that was “hard to leverage even with technology and scale.” [A8]

As noted, even by Uber’s dubious “segment adjusted EBITDA” metric food delivery margins remained negative ((10%) in the first half of 2021) and much worse (30 margin points) than ridesharing. This suggests that Uber’s food delivery is significantly cash negative, and the gap between current performance and true profitability is much larger than it is in ridesharing.

Contra Grubhub, Uber is doubling down on delivery logistics. They appear to believe they can find a technological solution to productivity and service problems that no one else has been able to discover. They also seem to believe they will find new ways to exploit the Uber app and brand even though there is still no evidence of operational synergies or pricing power large enough to have a material P&L impact.

Billions in venture capital failed to “disrupt” traditional food delivery economics. Rather than admit these investments have failed these companies will keep searching for ways to extract value from consumers and suppliers via consolidation or exploiting market or political power. Grubhub resulted from the rollup of 12 independent companies. Uber was unable to acquire Grubhub but did acquire Postmates and Drizzly. The food delivery companies, desperate to limit the power of their “gig” drivers, were major backers of California Proposition 22 and similar moves in other states. No one has ever explained why a low-value added supplier should expect to capture a much bigger share of the customer dollar (30% app charges) when the restaurant who was providing the product the customer actually cared about could only earn 3-5% margins, but abuses of restaurants have become legion. [A9]

Uber was highly unprofitable in 2019 and things haven’t gotten any better

In 2019 the GAAP profitability of Uber’s ongoing businesses was negative 40%, At that point Uber was flush with IPO cash, most customers believed Uber was a terrific service with good prices, and many drivers may have been frustrated with pay and conditions but saw it as a decent employment option. Uber had cutting edge technology that could tie all the pieces together and efficiently balance the supply of vehicles with the demand for rides. But as this series has discussed in detail, all of that depended on large and seemingly inexhaustible levels of subsidies. And absolutely no one could lay out a plausible path from 2019 market conditions and 2019 subsidy levels to sustainable profitability without subsidies.

The pandemic obliterated ridesharing demand. While a major rebound is visible in second quarter 2021 results and will presumably rebound further, a full recovery to 2019 market conditions isn’t on the horizon. The business and entertainment-related ridesharing trips in the relatively dense (and relatively wealthy) large urban neighborhoods that were the heart of Uber’s biggest markets are unlikely to return to pre-pandemic conditions anytime soon.

The crisis led to decisions that both hurt and helped Uber’s economics. Believing that the stock market would focus on raw volume and ignore profitability, Uber made a major new commitment to food delivery. This allowed it to trumpet the fact that current trip volumes are only 20% below late 2019 levels but it seriously weakened profitability and cash flow, and there is no evidence Uber could ever earn money in this business.

On the other hand, Uber aggressively eliminated costs that weren’t supporting near-term revenue generation, including all of its hopeless investments in future businesses such as autonomous vehicles. But there has never been evidence of operating scale economies in ridesharing. As revenues increase second quarter 2021 levels, costs will as well.

The disruption of 2019 market conditions also disrupted operational efficiency. Lower demand means lower vehicle utilization and driver earnings potential. If drivers can't cover their daily costs, they won't show up. The driver shortage triggers enormous pricing surges—July 2021 prices were 50% higher than December 2019 prices. [A10] But this doesn't solve the underlying problem because drivers know it has become much harder to make money driving for Uber. The combination of the surge pricing sticker shock and the increased awareness that cars might not be available when needed drives away customers, so the downward spiral continues.

In the second quarter Uber announced that it would spend $250 million on bonuses in the hopes of keeping the driver shortage from getting out of hand. Car availability improved somewhat but many drivers said they would only drive when bonus or surge pricing conditions held. But Wall Street was spooked by the big P&L impact—the share of gross customer payments retained by Uber fell from 22% to 16%, the lowest level since Uber began publishing its financial results in 2016. Uber statements suggest that the bonuses have only helped car availability in the states that had terminated unemployment assistance.

Uber's challenge isn't the pandemic, it is the end of the infinite subsides needed to prop up a failed business model

Uber's operating crisis has seriously, perhaps fatally, undermined the narrative that its stakeholders had accepted for so many years. Customers have begun to doubt their longstanding view that they could rely on Uber to provide service at good prices whenever they wanted. If current prices persist, they will begin to realize that Uber now costs more than the traditional taxi companies they drove out of business. Neighborhoods that traditional taxis could not serve profitably will begin losing service since Uber will not be able to serve them profitably either.

Even before the pandemic, drivers had become increasingly aware that Uber work is lousy, can only produce worthwhile income under limited conditions, and Uber was never interested in ensuring the economic interests of their "partner-drivers" were met. Drivers are fully aware of Uber's desperate fights against any legislation that would increase drivers' rights and are aware of how quickly Uber retracted increased driver autonomy (right to refuse trips, rights to set fares, etc.) after Proposition 22 passed. Drivers knew that Uber's $250 million in bonuses would do nothing to permanently improve pay. Drivers are increasingly realizing they have much better employment options. [A11]

The pandemic operational crisis has killed the narrative claim that Uber's wonderful technology could efficiently balance supply and demand. The pandemic driven restructuring also killed the investor narrative that Uber had numerous profitable expansion opportunities beyond ridesharing and would eventually become the Amazon of Transportation.

The question of how 2019's gap between negative 40% margins and profitability has become more difficult. Anything that could be done in the near-term to address the needs of customers or drivers would make the negative margins even worse. There are no magical software or big data or other technological breakthroughs waiting in the wings that will dramatically reduce costs or boost productivity. Uber have already used market power to massively suppress driver compensation and to eliminate service and safety regulations that might have limited returns to capital.

Uber had never "disrupted" urban car service economics. It can no longer provide the subsidies to keep drivers and customers happy. As noted, Uber's cash position has fallen by over $8 billion since the 2019 IPO. While it still has $6 billion on hand, a company that has lost $28 billion in the last 5 ½ years cannot expect to be able to raise significant new equity, and Softbank, its most important investor, has been desperately selling Uber shares to cover its own liquidity problems. Consolidation is not an option. Scale/network economies have always been limited, and Didi has proven that even a 90+% market share won't produce significant pricing power.

None of the journalists covering Uber's second quarter results asked how Uber could ever become sustainably profitable, and none of the executive presenting those results suggested they had any idea how that might be done. But the answer is simple. The path to Uber profitability does not exist.

[A1] Can Uber Ever Deliver? Part Twenty-Five: Didi's IPO Illustrates Why Uber's Business Model Was Always Hopeless, August 2, 2021

[A2] "Can Uber Ever Deliver? Part Nineteen: Uber's IPO Prospectus Overstates Its 2018 Profit Improvement by $5 Billion" April 15, 2019

[A3] Can Uber Ever Deliver? Part Twenty-Two: Profits and Cash Flow Keep Deteriorating as Uber's GAAP Losses Hit $8.5 Billion, February 7, 2020; Can Uber Ever Deliver? Part Twenty-Four: Uber Loses Another $6.8 Billion, February 16, 2021. The restatements of pre-2019 results also spread Uber's stock-based compensation expense over a four-year period. GAAP rules required Uber to nearly $5 billion in in the third quarter of 2019, when its IPO was completed, even though these expenses were obviously not related to third quarter 2019 operations but to operations over a longer period of time.

[A4] Preetika Rana, Lyft Reaches Earnings Milestone as Demand Recovers, Wall Street Journal, Aug 3, 2021

[A5] Chris Nuttall, Lyft and Uber's fork on road to profit, Financial Times, August 5, 2021

[A6] Kate Conger, Uber shows signs of pulling out of its pandemic slump, New York Times, Aug. 4, 2021

[A7] Almost Daily Grants, August 5, 2021

[A8] Heather Haddon and Preetika Rana, DoorDash and Uber Eats Are Hot. They're Still Not Making Money, Wall Street Journal, May 28, 2021, Tricia McKinnon, Why DoorDash & Other Delivery Apps Struggle with Profitability, Indigo Digital, March 16, 2021

[A9] These include contracts limited their pricing freedom, premium charges for high app listings and the creation of false websites and phone numbers to prevent customers from contacting them directly Maureen Tkacik, Restaurants are barely surviving. Delivery apps will kill them, Washington Post, May 29, 2020

[A10] Preetika Rana, Uber, Lyft Prices at Records Even as Drivers Return, Wall Street Journal, Aug. 7, 2021

[A11] Faiz Siddiqui, You may be paying more for Uber, but drivers aren't getting their cut of the fare hike, Washington Post, June 9, 2021; Preetika Rana, Uber, Lyft Sweeten Job Perks Amid Driver Shortage, Lofty Fares, Wall Street Journal, July 2, 2021; Whizy Kim, Let's Talk About The Real Reason Ubers Are So Expensive Now, Refinery29.com, July 7, 2021 https://www.nakedcapitalism.com/2021/08/hubert-horan-can-uber-ever-deliver-part-twenty-seven-despite-staggering-losses-the-uber-propaganda-train-keeps-rolling.html

Hubert Horan: Can Uber Ever Deliver? Part Twenty-Seven: Despite Staggering Losses, the Uber Propaganda Train Keeps Rolling

Posted on August 10, 2021 by Yves Smith

Yves here. We are sadly seeing far too many real world demonstrations that propaganda can very successfully sell shit sandwiches. Sorry for being so crude, but being polite minimizes the disservice being done to the public at large…bizarrely often with its active cooperation. As P.T. Barnum put it, ""Every crowd has a silver lining." And no one want to admit they've been had, even when that fact becomes undeniable (except of course for bankers, who get had on a cyclical basis but because everyone got had all together, so no one is blamed).

By Hubert Horan, who has 40 years of experience in the management and regulation of transportation companies (primarily airlines). Horan has no financial links with any urban car service industry competitors, investors or regulators, or any firms that work on behalf of industry participants

This half year Uber review has been split into three pieces.

Last week's Part Twenty-Five examined the data in Didi's recent IPO, laid out the strong similarities between the terrible economics of Didi and the terrible economics of Uber, and discussed the increasingly divergent Chinese and American approaches to tech companies. [1]

Yesterday's Part Twenty-Six, [2] following the format of past reviews, summarizes the highlights of the second quarter Uber financial results released on August 4th. Uber's continuing operations had a GAAP net margin of negative 38% while Lyft's was negative 49%.

In order to prevent investors and the business press from understanding these results, Uber improperly combined the results of its ongoing, continuing operations with claims about valuation changes in securities of companies operating in markets they had abandoned. To further confuse matters, Uber and Lyft both emphasized a bogus, easily manipulated metric called "Adjusted EBITDA profitability" which does nor measure either profitability or EBITDA.

Part Twenty-Seven returns to an important question this series has discussed on multiple occasions—how can a company that has produced eleven years of horrendous financial results and failed to present any semi-coherent argument as to how it could ever achieve sustainable profitability, still be widely seen as a successful and innovative company? One aspect of that was discussed in Part Twenty-Six: the mainstream business press reports of Uber's financial results are written by people who have difficulty reading financial statements and do not understand concepts such as "profitability."

The primary driver of the huge gap between Uber's positive image and its underlying economic reality was its carefully crafted and extremely effective propaganda-based PR program. This series has documented the origins and results of this program in great detail over the years. [3] In the years before objective data about Uber's terrible economics became widely available, these accounts were designed to lead customers and local officials into believing that Uber was a well-run and innovative company producing enormous benefits that justified its refusal to obey existing laws and regulations and its pursuit of monopoly power.

Uber propaganda is still being produced since the company needs to give potential investors and the general public some reason to believe that a company with its problematic history and awful financials still has a promising future. Major examples of Uber's two main PR techniques were published in major mainstream publications in recent weeks.

The Soft and Fuzzy Mainstream Media Endorsement of Uber PR Talking Points

One Uber approach was to get a seemingly independent reporter from a high-status mainstream publication to write a story that made no attempt to present factual data or competing views, but simply repeated unsubstantiated Uber PR talking points. On July 16th, the New York Times printed 4000 words by Maureen Dowd, one of its top opinion writers to a fluff piece profiling CEO Dara Khosrowshahi. [4]

Nowhere in those 4000 words did Dowd explain to her readers Uber's enormous ongoing losses and cash drains, explain what Khosrowshahi planned to do to eventually earn profits in the ridesharing business, or explain how Uber's major expansion into food delivery might ever work. While the story emphasizes Khosrowshahi's personality and notes that he was hired to address "cultural problems" that existed under Travis Kalanick, Dowd never explains what those problems were, or what Khosrowshahi did to fix them. Nor does the article mention anything Khosrowshahi has done in the past three years that improved Uber service, efficiency or profitability. In fact there isn't a iota of new information about Khosrowshahi or Uber in the entire story.

When Dowd is not talking about superficial nonsense such as his taste in videogames, or things he did on dates with his wife, she uncritically quotes Khosrowshahi repeating phrases from Uber's talking points. These include the aspiration to become the "Amazon of Transportation" (even though the story separately notes that many of the businesses key to that strategy have been shut down) and someday find a way to get "a piano delivered to your home in an hour and a half," the claim that Uber would be doing great but for the pandemic, the claim that Proposition 22 passed in California because Uber's drivers supported it (The $200 million spent to defeat the measure are not mentioned) and that complaints from drivers are all coming from the 10% of them who aren't bright enough to figure out Uber's systems (and the complaints have nothing to do with pay or conditions). Khosrowshahi says he hopes recent moves toward greater regulatory enforcement "doesn't destroy what we built" but Dowd never asks him to explain what it was he thinks Uber built, or explain why the New York Times readers would be better off if Uber didn't face increased oversight.

Using Bogus "Academic" Analysis to Create the False Impression that Uber PR Claims Are Backed by Rigorous, Independent Research

A Wall Street Journal editorial on July 30th, "How Uber and Lyft Can Save Lives" [5] illustrates one of Uber's other prominent propaganda techniques. Instead of getting a credible mainstream reporter to push narrative claims, this technique gets academics from established schools to publish a technical article finding that Uber creates great benefits. These articles are not peer reviewed and rely on proprietary Uber data, so it is impossible to replicate the analysis.

The purpose of these academic papers is to allow other pro-Uber publications to repeat simplified (and sometimes overstated) versions of the "Uber creates great benefits" claim in a way that falsely implies that the finding was the result dispassionate academic research that received rigorous independent scrutiny.

The WSJ editorial's opening:, "The value of ride-sharing apps has been proven in the marketplace and residents of areas poorly served by old-fashioned cabs have a particular reason to be grateful."

It is unclear whether the claim that "The value of ride-sharing apps has been proven in the marketplace" demonstrates whether the editorial board of the WSJ is willfully dishonest or is simply incapable of reading financial statements, but it certainly indicates their willingness to serve as a PR mouthpiece for Uber. The WSJ also ignores the fact that the service improvements they laud depended on massive predatory subsidies, and that those benefits have largely disappeared as Uber desperately tried to reduce its negative cash flow.

The next sentence in the editorial highlighted the great benefit the study had found: Uber "has decreased US alcohol-related traffic fatalities by 6.1% and reduced total US traffic fatalities by 4.0%." Presumably the number lives saved by taking Uber instead of driving a private car while drunk is greater than zero. But nothing in the underlying academic paper, published by the National Bureau of Economic Research[6] documents any claim that Uber significantly reduced fatalities, much less the Journal's claim that they have been accurately measured thes benefits to one decimal place.

The paper's findings are based on a simple regression of Uber activity against fatalities that wasn't done properly. The data used for the independent data isn't Uber's activity and there's no correlation between the proxy used and actual Uber activity data. You can't test the validity of the derived regression coefficient by applying it against ridesharing data from different points in time to see if accurately predicts fatalities.

The paper absurdly assumes that every Uber trip replaced a private automobile trip, and that there were no Uber trips that would have previously been made with a traditional taxi or public transit (or wouldn't have been taken at all but for Uber's low fares). By 2019 Uber drivers operated roughly 1% of all automobile trips in America; at least half of these simply replaced taxi or transit trips. The paper makes no attempt to explain how shifting (at most) 0.5% of all automobile trips to Ubers could have reduced alcohol related deaths by 6%. [7]

The authors had no interest in increasing anyone's understanding about the causes of traffic fatalities or how they could be reduced. Both total traffic fatalities and alcohol related fatalities have been in decline for many years, due to a large number of factors (e.g. safer cars and highways, enforcement of drunk driving laws, reduced drinking, better health care for accident victims). But the paper makes no attempt to analyze how the impact of these different factors on fatalities or explain why their estimate of the impact of Uber makes any sense in the broader context. It also makes no attempt to use available data to break down aggregate measures by driving factors that are critical to any accident analysis such as trips to work/school vs trips for entertainment, big cities vs suburban vs rural, or short trips vs long hauls. The NBER authors are claiming that a simple one variable regression that ignored every alternative causal factor could pinpoint the impact of Uber (measured in hundreds) on fatality rates (measured in tens of thousands) out of a total trips (measured in hundreds of billions).

As further confirmation that the authors were acting as Uber advocates and not as independent researchers, they conclude the paper with bogus estimates of the "consumer surplus" and "producer surplus" Uber has created. Both completely ignore the fact that claims that companies have enhanced welfare aren't legitimate if the company isn't sustainably viable and are especially bogus if that company lost $28 billion in the last 5 ½ years. And neither used conceptually valid ways to measure surplus.

This isn't even the first time that Uber's PR department convinced mainstream media outlets to trumpet the "Uber saves lives" claim based on indefensible analysis.[8] This case also follows a pattern I have documented with other examples of this type of Uber propaganda [9] where papers not only failed to analyze their nominal subjects (e.g. comparative taxi operating productivity, the labor market for taxi drivers, changes in consumer welfare since Uber's entry, or factors affecting driver welfare), but were not written to provide any value to people who might be interested in those subjects.

---

[1] Can Uber Ever Deliver? Part Twenty-Five: Didi's IPO Illustrates Why Uber's Business Model Was Always Hopeless, August 2, 2021

[2] Can Uber Ever Deliver? Part Twenty-Six: With No Hope of Real Profits, Uber and Lyft Double Down on Fake Profit Metrics, August 9, 2021

[3] The origins, structure and promulgation methods of Uber's propaganda based PR programs are documented see Hubert Horan, Will the Growth of Uber Increase Economic Welfare? 44 Transp. L.J., 33-105 (2017) pp.76-90 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2933177and in Hubert Horan, "Uber's Path of Destruction" American Affairs, vol 3, no 2, Summer 2019, pp. 115-117, https://americanaffairsjournal.org/2019/05/ubers-path-of-destruction/and in a four-part series that began with Hubert Horan, The Uber Bubble: Why Is a Company That Lost $20 Billion Claimed to Be Successful? Promarket, November 20, 2019, https://promarket.org/the-uber-bubble-why-is-a-company-that-lost-20-billion-claimed-to-be-successful/

[4]Maureen Dowd, Dara Khosrowshahi, Dad of Silicon Valley, New York Times, July 16, 2021. Incredibly, this stands as only the second worst example of this genre of Uber propaganda masquerading as MSM reporting. See Can Uber Ever Deliver? Part Fourteen: The New Yorker Lays Out the Template for Pro-Uber Propaganda, April 3, 2018

[5] Editorial, How Uber and Lyft Can Save Lives, Wall Street Journal July 30, 2021

[6] Michael L. Anderson, Lucas W. Davis, Uber And Alcohol-Related Traffic Fatalities, National Bureau of Economic Research, http://www.nber.org/papers/w29071

[7] Very detailed data on automobile usage and traffic fatalities can be found at https://www-fars.nhtsa.dot.gov/. In 2017 there were roughly 220 billion automobile trips taken. Uber does not release detailed operating data but reasonable estimates based on data from its SEC filings suggest it operated 2.5 billion ridesharing trips in 2018. Between 2016 and 2019 the number of fatal crashes in America was between 33,294 and 33,749 and 28-30% of those were alcohol-related.

[8] In the prior case Uber claims of that it had reduced drunk driving crashes by 6.5% were uncritically reported (for example, Issac, Mike, Hard-Charging Uber Tries Olive Branch, New York Times, Feb 1, 2015) but it later came out that the supporting research was just a simple consumer survey conducted by a nonprofit that Uber had paid to produce favorable findings. Paul Bradley Carr, MADD Still Insists Uber Cuts Drunk Driving Rates (Forgets To Mention Hundreds Of Thousands Of Dollars It Receives From Uber), Pando Daily, August 2, 2016

[9]Hubert Horan, Uber's "Academic Research" Program: How to Use Famous Economists to Spread Corporate Narratives, Promarket, December 5, 2019 https://promarket.org/ubers-academic-research-program-how-to-use-famous-economists-to-spread-corporate-narratives/

https://www.nakedcapitalism.com/2021/11/hubert-horan-can-uber-ever-deliver-part-twenty-eight-uber-still-unprofitable-but-reduces-losses-by-squeezing-drivers-and-restaurants.html

Hubert Horan: Can Uber Ever Deliver? Part Twenty-Eight: Uber Still Unprofitable, But Reduces Losses by Squeezing Drivers and Restaurants

Posted on November 8, 2021 by Yves Smith

This is Naked Capitalism fundraising week. 333 donors have already invested in our efforts to combat corruption and predatory conduct, particularly in the financial realm. Please join us and participate via our donation page, which shows how to give via check, credit card, debit card, or PayPal. Read about why we're doing this fundraiser,, what we've accomplished in the last year,, and our current goal, supporting the commentariat

Yves here. If you haven't see it already, Mother Jones devoted a full article to Hubert Horan's relentless documentation of Uber's irredeemable business model: The man who called bullshit on Uber. It's about as good as you get from this sort of piece: positive plus generally accurate on Hubert's thesis and supporting evidence. It also credits Naked Capitalism!

By Hubert Horan, who has 40 years of experience in the management and regulation of transportation companies (primarily airlines). Horan has no financial links with any urban car service industry competitors, investors or regulators, or any firms that work on behalf of industry participants

Uber's 3Q financial gains were exclusively due to extracting wealth from drivers and restaurants, not market or performance improvements

Uber's third quarter financial results, released on November 4th, included an operating loss of $572 million (a negative 12% operating margin) and an official GAAP loss of $2.4 billion (a negative 50% net margin).

As noted numerous times in this series, Uber's financial reports do not properly segregate the fluctuating value of the securities it received after shutting down failed and abandoned businesses from the marketplace results of its ongoing operations. [1] As documented in Part Twenty-Six, its second quarter GAAP net income numbers had been inflated by a sudden June $1.4 billion gain in the value of the Didi Chuxing stock Uber held. The subsequent collapse of Didi's stock value in July and August drove $2 billion of Uber's third quarter GAAP net loss. [2] These were entirely paper gains and losses and had no impact on Uber's cash flow or operating results.

Uber reduced its operating loss by $616 million versus the second quarter. This was entirely explained by a $618 million gain from increasing its share of gross customer payments from 18% to 21%. Uber's operations continued to produce negative cash flow ($338 million). [3] Once again, Uber's reduction in operating cash drain versus the second quarter–$614 million—was entirely explained by its ability to pocket a higher share of the customer dollar, at the expense of drivers and restaurants. None of these operating P&L and cash flow gains had anything to do with improvements in efficiency, competitiveness or service.

Uber's claim that the operating P&L gains demonstrate the profit leverage of pandemic demand recovery is refuted by its own data. Both its gross revenues and operating expenses increased 6% versus the second quarter, so the increased volumes had no material impact on profitability. This is another confirmation that Uber has never had significant scale economies. In contrast to other unicorns that rapidly "grew into profitability" Uber's extremely strong pre-pandemic volume growth led to higher losses, and Uber has never disclosed any productivity data demonstrating powerful scale economies.

Uber's gross volumes increased 9% versus the second quarter but gross customer payments per trip declined 3%. All of Uber's P&L gains came from increasing the revenue it retained per trip by 14% and forcing drivers and restaurants to accept smaller shares. Uber service levels collapsed in the first quarter when drivers could not survive in a lower demand environment with the pay Uber was offering. $250 million in bonuses restored some of the lost driver supply in the second quarter but hurt Uber's P&L. With stronger demand in the third quarter, Uber jacked up passenger fares but shared none of the increases with drivers. [4] The $618 million gain Uber's shareholders achieved was a direct wealth transfer from its workers and suppliers.

The wealth transfers achieved by taking a larger share of each passenger dollar is a longstanding Uber practice and explains the vast majority of the margin improvements Uber ever produced.

In 2016, the very first article in this series documented how P&L gains that Uber attributed to increased efficiency were entirely explained by the same type of reductions in the driver share of gross revenue seen in the most recent quarter. [5] Unlike true efficiency improvements, the ability to improve margins by squeezing workers and suppliers has sharp limits and cannot drive long-term profit improvement. In 2016-17 Uber managed to push driver take home pay well below the already dismal pre-Uber levels, to (and sometimes below) minimum wage levels. When Uber's multiple 2018 crises hit, it was forced to rescind many of the reductions in the drivers' share of passenger fares.

Nothing in Uber's 3Q results suggests any progress towards achieving longer-term sustainable profitability

To understand the recent financial results, one should put them in the context of the three most important questions for anyone following Uber:

(a) Whether it ever plans to implement the business model that fueled its initial growth and was central to its 2019 IPO prospectus

(b) Whether pre-pandemic demand conditions might fully return and how even somewhat improved market conditions could affect profitability and

(c) Whether it could ever achieve the sustainable and rapidly growing profitability that could justify its current valuation ($89 billion at the close of business on November 5th) or the even larger valuations it had long been pursuing.

Uber's original business model. Uber's historic growth was fueled by the promise that it could provide much higher quality, more reliable and lower cost car services than the traditional taxi operators it drove out of business. Uber would massively increase jobs, wages and the overall quality of urban transport. Efficiency gains driven by its powerful technology would drive many years of ridesharing growth, which would massively reduce urban congestion and pollution and eventually displace car ownership. It would be operating robotaxis by 2018. The popularity of Uber's low prices and expanded service would make its app platform globally ubiquitous and facilitate profitable growth beyond ridesharing, allowing it to become the "Amazon of Transportation". Dara Khosrowshahi's hiring restored Uber's focus on this business model and eliminated the "cultural" distractions that arose under Travis Kalanick.

As this series has documented in detail, nothing in Uber's original model had any basis in economic reality. It was always less efficient than the traditional operators it had bankrupted. Its popularity was entirely due to massive, predatory subsidies. Uber's large passenger base was totally unwilling to pay the true cost of the service. Uber had none of the growth economics critical to the large valuations of other unicorns.

Uber's original business model was completely dead prior to the pandemic, as the massive subsidies that fueled growth and a strong brand image produced over $28 billion in losses.

When pandemic made its financial crisis even worse [6] those subsidies were significantly reduced, and all the investment in future growth and new businesses other than food delivery (AVs, "Amazon of Transportation" expansion) was terminated, although Uber's public statements continue to suggest that the original model remains completely intact.

Uber told investors that it had developed a service vastly superior to what the Yellow Cabs of the world had offered and had many years of profitable growth ahead. But Uber is now operating a Yellow Cab calibre service and its much higher prices precludes meaningful growth.

Recovery to pre-pandemic conditions. There is clear evidence that demand has improved in 2021, but the percentage gains Uber touts were relative to catastrophic levels. Dozens of other industries (airlines, hotels, restaurants, schools, public transit, etc.) experienced similar devasting demand drops when Coronavirus hit and are similarly hoping that substantial parts of their pre-2020 revenue base eventually return.

The critical difference is that those industries previously earned healthy profits so restoring 2019 demand could plausibly restore 2019 profits. Since Uber was losing billions pre-pandemic, increased external demand alone cannot solve Uber's problems.

Additionally, there is little prospect that pre-2020 car service economics will fully return. Both the travel and entertainment patterns in Uber's major markets and the labor market conditions that allowed Uber to call on hundreds of thousands of drivers willing to accept precarious work with poor compensation have fundamentally changed.

Future path to sustainable, growing profits. Uber's focus on short-term actions to reduce cash drains is understandable. But none of Uber's recent moves to reduce its cash drain are scalable, and thus cannot serve as the basis for sustainable profitable growth. It cannot demand that drivers and restaurants accept smaller and smaller shares of customer payments. Driver supply has increased from weak first-quarter levels, but drivers know the $250 million in increased bonuses were temporary and driver supply will shrink when they are reduced. [7] Political pressures to protect driver rights and to limit the fees delivery services charge restaurants won't stop Uber from pursuing purely extractive income gains but will make them more difficult.

Many businesses have been able to impose major price increases given current economic chaos. But there is growing awareness that Uber fares have massively increased in many cities, to levels far higher than Uber's Yellow Cab predecessors ever charged, and Uber service has deteriorated to the levels that made Yellow Cab type operators deeply unpopular and ripe for "disruption." [8]

Prior to the pandemic Uber found major fare increases were quickly offset by traffic losses, and as awareness of Uber's significantly reduced value proposition increases, there is no reason to think similar losses won't occur. Deliberately shrinking the ridesharing business to only serve higher yielding customers would make operations less efficient and reduce profitability even more.

The economics of Uber's food delivery (nearly half of Uber's total business) are far worse than ridesharing. Uber Eats faces a cutthroat environment including a competitor with a much larger market position. The restaurants delivery services depend on remain crippled, major cities are considering new laws to protect restaurants from the delivery services' most exploitative practices, and there is little reason to think that consumers use of delivery services will remain at lockdown levels, especially after the huge subsidies for these services disappear. [9]

Uber's future existence depends entirely on finding the sustainable, growing profits that could justify a massive unicorn-level valuation. Additional short term cost cuts and price increases might well improve margins a bit. But current shareholders will not tolerate a plan that just gets Uber to or slightly above breakeven, and if Uber's share price collapses, the company is unsustainable. Nothing in Uber's 3Q results suggests Uber is making any progress towards a plan that could produce sustainably stronger profits.

Instead of developing a new strategy to drive profits and corporate valuation, Uber focuses on narrative claims designed to deceive the mainstream media

As this series has extensively documented, one of Uber's greatest strengths—perhaps its single greatest competitive advantage—is its proven ability to construct favorable PR narratives and to get the mainstream business press to uncritically promulgate them.

Uber successfully got major financial outlets to badly misrepresent the 3Q results they published and to make no attempt to understand the actual causes of the P&L gains. Uber's PR efforts also successfully blocked any media analysis or discussion of the bigger picture questions Uber faces, including the collapse of its original business model, its failure to keep any of its IPO prospectus promises about future growth and its failure to articulate a plan that might produce the sustainable profits needed to justify its valuation.

The starting point of this willful media misrepresentation is its active support for Uber's efforts to mislead investors as to whether it is actually profitable and to how much money its ongoing ridesharing and food delivery businesses are actually losing.

The mainstream press has continually told its readers that Uber's "adjusted EBITDA profitability" is a legitimate profit measure when it doesn't measure profitability or even EBITDA. [10] Uber claimed an $8 million 3Q "adjusted EBITDA profit" (a "profit" margin of 0.001%). Although many ledes also noted the Didi driven net loss, every major news report highlighted that Uber was now "profitable" that its 3Q results were a major breakthrough for the company, and that the breakthrough had been driven by pandemic recovery driven demand growth.

The Wall Street Journal headline was "Uber Reaches Income Milestone as Rides Recover, Delivery Grows." Barron's was "Uber Posted Its First Profitable Quarter." The Financial Times was "Uber delivers first adjusted profit but Didi stake hits earnings." Bloomberg's headline was "Uber Gains After Posting First Adjusted Profit on Ride Recovery." Yahoo was "Uber Reaches First Profitable Quarter." Reuters was "Uber makes first operating profit as driver shortage eases." [11]

Preetika Rana's Wall Street Journal reporting provides the most egregious example of willful misrepresentation. She falsely claimed that Uber's metric only "excluded interest, taxes, depreciation and amortization" and was intended to help investors by "stripping out expenses such as asset write-downs, gains from investments and stock-based compensation that executives and many investors consider to be outside a company's fundamental operations." Rana failed to quote any investors who actually believed that the $6 billion in stock-based compensation Uber has excluded from this metric since the IPO, or the additional $5 billion in IT platform and corporate expense excluded from the "Segment Adjusted EBITDA Profit" measure of its ridesharing and food delivery profitability were expenses outside Uber's fundamental operations.

Uber's reduced 3Q operating losses were legitimately newsworthy, but every MSM story uncritically accepted Uber's false explanation of what caused it. Uber's <pandemic recovery will solve our profit problems> narrative is designed to lead people to think that further pandemic recovery would continue to drive strong profit improvements, and to distract attention from Dara Khosrowshahi's failure to articulate a plan for achieving longer-term profitability. "Things honestly are great. As the world is opening up, so is our business…All signals right now are pointing to green." [12]

The failure to identify the real cause (Uber's capture of over $600 million in income previously paid to drivers and restaurants) is perhaps understandable given how aggressively Khosrowshahi's pushed the pandemic recovery theme, and because the very limited data in Uber's financial releases makes it very difficult for a reporter (or investor) to independently analyze underlying business performance or trends. But all of the stories cited above reported the pandemic/demand explanation as if it was a fact the reporter had independently investigated and confirmed, instead of simply reporting them as unverified claims that Uber's management had made. [13]

None of the stories highlighting "profitability" mentioned that Uber's operations have still never generated any positive cash flow. None of the stories that presented the pandemic recovery explanation bothered to note that ridesharing volumes still remained significantly below 2019 levels, failed to tell readers that the partial recovery in aggregate Uber volumes was depended on much less profitable food delivery trips, and failed to point out that Uber had been losing billions before any pandemic related demand declines.

Uber customers are now paying much higher fares for a service notably inferior to what Uber previously provided. Uber is still producing lousy financial results. Even if they can manage to squeeze customers, workers and suppliers further and produce an actual breakeven P&L, it still has no plan for producing the large and sustainable profits needed to justify its valuation. Thus Uber management continues to hammer on fake profitability metrics and deliberately misleading narratives. But one should not underestimate the role of the mainstream business media in preventing investors from understanding Uber's actual economic performance.

---

[1] Uber's problematic accounting practices were documented in Part Thirteen: Even After 4Q Cost Cuts, Uber Lost $4.5 Billion in 2017, 16 February 2018 and Part Twenty-Two: Profits and Cash Flow Keep Deteriorating as Uber's GAAP Losses Hit $8.5 Billion, February 7, 2020.

[2] Part Twenty-Six: With No Hope of Real Profits, Uber and Lyft Double Down on Fake Profit Metrics, 9 August 2011. Uber received Didi stock when it shut down its failed China operations in August 2016. Uber's second-quarter results had also been inflated by claimed valuation increases in Aurora, which acquired Uber's failed autonomous vehicle division, and Uber's third quarter GAAP results would have been even worse without the ability to claim paper gains in (largely untradeable) external securities as corporate profit. Issues related to Didi's previously inflated and now depressed corporate value were discussed in Part Twenty-Five: Didi's IPO Illustrates Why Uber's Business Model Was Always Hopeless, 2 August 2021.

[3] Total cash on hand increased by $3.3 billion but this was due to $3.9 billion in securities sales and term loan proceeds, not proceeds from marketplace operations.

[4] Lizette Chapman, Uber to Spend $250 Million to Boost Number of U.S. Drivers, Bloomberg 7 April 2021, Andrew J. Hawkins, Uber and Lyft have a driver shortage problem, and it's costing them a lot of money, The Verge, 7 April 2021, Faiz Siddiqui, You may be paying more for Uber, but drivers aren't getting their cut of the fare hike, Washington Post, June 9, 2021

[5] The impact of labor to capital wealth transfers on Uber margin improvements in the first half of 2016 were documented in Part One – Understanding Uber's Bleak Operating Economics, 30 November 2016; impacts in the second half of 2016 in Part Six: Latest Data Confirms Bleak P&L Performance While Stephen Levitt Makes Indefensible Consumer Welfare Claims, 2 January 2017

[6] Part Twenty-Three: Uber's Already Hopelessly Unprofitable Economics Take a Major Coronavirus Hit, 10 August 2020.

[7] Preetika Rana, Uber, Lyft Sweeten Job Perks Amid Driver Shortage, Lofty Fares, Wall Street Journal, July 2, 2021, Jessica Bursztynsky, Why many Uber and Lyft drivers aren't coming back, CNBC, Jul 4 2021, Johana Bhuiyan, Carly Olson, Uber and Lyft drivers strike over pay, gig-work conditions, Los Angeles Times, 21 July 2021, Rebecca Bellan, How Uber plans to rebound from massive Q2 losses stemming from driver incentives, TechCrunch, 5 August 2021

[8] Kate Conger, Prepare to Pay More for Uber and Lyft Rides, New York Times, May 30, 2021, Winnie Hu, Patrick McGeehan and Sean Piccoli, You Can't Find a Cab. Uber Prices Are Soaring. Here's Why, New York Times, June 15, 2021, Whizy Kim, Let's Talk About The Real Reason Ubers Are So Expensive Now, Refinery29.com, July 7, 2021, Preetika Rana, Uber, Lyft Prices at Records Even as Drivers Return, Wall Street Journal, Aug. 7, 2021, Bobby Allyn, Lyft And Uber Prices Are High. Wait Times Are Long And Drivers Are Scarce, NPR, 7 August 2021, Laura Forman, At Uber and Lyft, Ride-Price Inflation Is Here to Stay, Wall Journal, 4 October 2021, Kim Mackrael, Uber and Lyft Thought Prices Would Normalize by Now. Here's Why They Are Still High., Wall Street Journal, 30 October 2021

[9] Heather Haddon, DoorDash and Uber Eats Are Hot. They're Still Not Making Money, Wall Street Journal, May 28, 2021, Maureen Tkacik, Restaurants are barely surviving. Delivery apps will kill them, Washington Post, May 29, 2020, Helen Rosner, The Fight to Rein in Delivery Apps, New Yorker, 5 October 2021

[10] Uber's use of "Adjusted EBITDA" to deceive reporters and investors was discussed in detail in Part Nineteen: Uber's IPO Prospectus Overstates Its 2018 Profit Improvement by $5 Billion" April 15, 2019

[11] These stories were all published on November 4.

[12] Uber CEO on earnings: We expect profitability to increase in Q4, Dara Khosrowshahi Interview with Jim Cramer, CNBC, 5 Nov 2021

[13] A rare MSM exception, where traditional journalist norms were properly observed, was Kate Conger's New York Times report, where headlines did not highlight Uber's claimed "profitability" and the explanations of 3Q changes were correctly portrayed as just the views of management. Non-mainstream outlets put the Didi impacts in proper context, explained Uber's 3Q results in light of twelve years of huge losses, and (to use the example of TechCrunch) were openly critical that "a company of Uber's scale and age for still forecasting with kids-table metrics like adjusted EBITDA instead of grown-up stats."