https://www.nakedcapitalism.com/2022/07/hubert-horan-and-izabella-kaminska-can-uber-ever-deliver-part-thirty-the-uber-files-are-not-the-uber-expose-you-are-looking-for.html

Hubert Horan and Izabella Kaminska: Can Uber Ever Deliver? Part Thirty: The "Uber Files" Are Not the Uber Exposé You Are Looking For

Posted on July 21, 2022 by Yves Smith

Yves here. Welcome back to Hubert Horan, and now Izabella Kaminska, another friend of the site, with their latest sightings of the ongoing Uber soap opera. Below they review the Uber Files expose, describing in detail how it fell short by ignoring Uber's inherently uncompetitive economics and how those provided the impetus for its lawbreaking and other aggressive behavior.

By Hubert Horan and Izabella Kaminska and cross-posted from Kaminska's site The Blind Spot. Neither author have any financial links with any urban car service industry competitors, investors or regulators, or any firms that work on behalf of industry participants

What the *gilet jaunes* protests in France could not achieve, a recently published exposé about ride-hailing unicorn Uber [1] is apparently on the verge of doing: getting French President Emmanuel Macron to resign.

According to French media opposition leaders [2] incensed by revelations that Macron had backed and facilitated the rollout of the Silicon Valley darling in its heyday period from 2014 to 2016, are now calling for the president's resignation.

And yet, the big mystery at the heart of the whole story is why should "revelations" that have been known for years reemerge in such dramatic form today? Even more inexplicable is how an investigation of this scale could miss the actual story at the heart of the Uber phenomenon: the fact that Uber's business model was patently suspect from the very beginning and should never have received the massive support from capital markets and the political and media establishment that it did.

Let's take a closer look at the details of the story but also at the media framing of the whole thing.

On Monday, July 11, *The Guardian* published a series of articles based on "The Uber Files", [3] a trove of over 100,000 emails, memos, and other internal Uber documents from between 2013 and 2017 that had been provided to the *Guardian* by Mark MacGann, one of Uber's top European lobbyists.

The lead headline framed the story thusly: "Uber broke laws, duped police and secretly lobbied governments, leak reveals". The story aimed to demonstrate that Uber knew it was breaking laws.

Soon after, another story on the same day introduced the leaker: "The Uber whistleblower: I'm exposing a system that sold people a lie." [4] In this story, MacGann admits that the claims he fed to politicians about benefits for drivers and cities had never been true and says he came forward to 'right some fundamental wrongs'.

Subsequent stories provided additional background on the Uber PR/lobbying programme MacGann had supported, including the crucial role played by David Plouffe, Barack Obama's former chief of staff [5] . Also, how Uber had paid prestigious academics to produce findings that would support their PR narratives [6] and how Uber PRs misled drivers about their potential earnings and worked to disrupt driver protests. [7]

The Missing Links

In some regards, *The Guardian* series represents a noteworthy breakthrough. Despite the significant media attention that Uber has courted throughout the years, this is the first time any mainstream media outlet has bothered to step back and attempt a "big picture" review of the gig economy giant.

Everything in *the Guardian* series is factually accurate and offers readers – especially those not following the saga closely – a good overview of Uber history.

But readers looking for a "big picture" evaluation of Uber will quickly realise that *The Guardian* series has failed to address a number of critical questions. These include:

- Can some of Uber's bad behaviour be partially justified by the positive contributions it made to the productivity of the urban car service industry and overall economic welfare?
- Were the hyper-aggressive approaches described in the series widespread within Uber or limited to a few out-of-control individuals? If there was bad behaviour that went far beyond what was legal, appropriate, or necessary, why was it never reined in?
- Was this bad behaviour critical to driving Uber's rapid traffic and valuation growth, or was it largely incidental?
- How do the false claims about the benefits Uber would create compare to what large companies routinely do to create positive public impressions and to increase political/media support? Why did these "lies" remain largely unchallenged?
- While the "Uber Files" ended in 2017, did false PR claims and other problematic behaviour stop after Dara Khosrowshani replaced Travis Kalanick? How did these post-Kalanick changes affect Uber's marketplace and financial performance?

Uber's Economic Reality

A point often overlooked in Uber media coverage is that in 12 years of operation the ride-hailing app is yet to produce a dollar of positive cash flow. As of the end of 2021, Uber's ongoing car and delivery services had produced GAAP net losses of $31bn. [8]

The other too frequently untold truth is that rather than being a beacon of transportation progress, Uber is actually a substantially less efficient, higher-cost producer of urban car services than the traditional taxi operators it has driven out of business. Uber's business model has never had any ability to profitably produce very large-scale operations at prices the market is willing to pay.

Uber's rapid growth and ability to drive competitors out of the marketplace have never had anything to do with superior productivity driven by technological breakthroughs. They were driven entirely by tens of billions in unsustainable and predatory subsidies provided by investors who had hoped that some combination of network and scale economies would allow Uber to achieve global dominance of the car service industry. [9]

The major problem with *The Guardian's* "Uber Files" series is that it totally ignores the economics of Uber's business model. Uber's massive losses are never mentioned. Nor does the series mention the staggering and totally unprecedented $20bn in investor funding, 2300 times the pre-IPO funding Amazon required. It makes no attempt to explain how Uber's investors thought they might eventually generate sustainable profits, much less returns on that level of investment.

In the grand scheme of things, Uber has contributed absolutely nothing to overall economic welfare. Thus there was never any tradeoff of bad behaviour versus benefits produced to consider. The short-term consumer gains it claimed to deliver (lower prices/increased service) were always unsustainable. In reality, the model did not improve the overall productivity of urban taxi services, which means its stock price never had anything to do with future profit potential. Uber's efforts to suppress driver compensation and steamroll local officials trying to enforce longstanding regulations were purely destructive. So too was its effect of driving more efficient competitors out of business, increasing congestion and diverting traffic that weakened local transit systems.

Ignoring economics and focusing on the actions of aggressive lobbyists and local managers in isolation makes it difficult for*The Guardian's* readers to understand what was motivating this behaviour or whether it was limited to a handful of irrational, out-of-control individuals.

The toxic behaviour makes much more sense, however, if one understands that Uber was always misselling its longer-term profit potential and its ability to provide the market with vastly more service at much lower prices. Uber isn't then just a company with poor-work culture. It's a company engaged in a confidence trick on society.

Consider all the elements of t*he Guardian's* stories in that framing, and you begin to see a highly integrated and rational strategy deployed from the outset:

- Deliberately disobeying longstanding laws and regulations.
- Using an unprecedented level of lobbying expenditures to convince politicians that those laws should not be enforced.
- Conducting massive propaganda-based PR campaigns based on manufactured narratives about how letting Uber do whatever it wanted would produce massive benefits for consumers, drivers, and the cities it served.
- Aggressively publicising how the combination of the monomaniacal culture Kalanick had created and the billions in investor cash Uber had raised could be used to obliterate the competition in order to convince politicians and the media that its eventual success was inevitable and any resistance would be futile.

Uber's investors were pursuing the stratospheric valuation growth that other unicorns had achieved. The foundation of companies like Amazon and Facebook were major productivity and product breakthroughs. Powerful network and scale economies allowed them to achieve dominant industry positions, and once dominant, they could readily exploit anti-competitive market power.

But Uber's business model lacked any material efficiency or productivity advantages from the beginning. It didn't have the huge scale or network economies that allowed other unicorns to "grow into profitability." Its corporate development strategy was to skip the difficult "build a foundation based on major productivity and product breakthroughs" phase of the development journey and move directly to impregnable industry dominance and the ability to exploit artificial anti-competitive market power.

It is absurd to argue that the toxic behaviours reported by *the Guardian* were due to aberrant behaviour by a few bad actors. Uber's investors wanted managers to pursue the company's meteoric growth at any cost and knew that this ruthless, hyper-aggressive behaviour was the only way to deliver it. [10] Uber's investors never uttered a word of complaintabout the terrible publicity this bad behaviour was generating until it threatened the huge returns the 2019 IPO was supposed to produce.[11]

As Uber's huge losses and cash drains demonstrate, its rational strategy to use predatory subsidies, PR, lobbying and its hyper-aggressive culture couldn't totally overcome economic reality. Perhaps due to drinking some of the PR Kool-Aid they were serving the public, Uber's investors seemed to think that anything that could be described as an "app-based network" would generate significant value, at least large enough to eventually produce positive cash flow. What's more, the presumption that Uber could use artificial market power to drive profitable growth was also incorrect; Didi had achieved a 95+% share of the Chinese car service market but has never generated meaningful profits.

A Political Coup, Not a Business Proposition

Uber's explicit political objective was to seize control of a portion of urban transport infrastructure from the voters and taxpayers that had long controlled it and totally destroy the public's ability to exercise any oversight over these services (including safety and insurance rules). Urban car services would only exist if capital accumulators could earn outsized investment returns.

No city government anywhere, following deliberative processes open to the public, voted to either suspend all pre-existing taxi regulations or to transfer control of local taxi service to private investors who could not be held accountable if promised levels of service, prices and jobs failed to materialise. But that's what Uber's massive lobbying and PR efforts accomplished.

Uber's investors seemed to believe that simply claiming to be a "tech company" that had produced an "app" eliminated the need to actually understand the industry they were trying to "disrupt."

They did not understand that the economics of quasi-public goods like urban transport were radically different to the discretionary consumer industries other tech companies had tried to disrupt. Uber's business model had not solved any of the longstanding problems that had made taxi service unpopular and economically marginal. Uber could never explain why even though taxis and all other forms of urban transport had required public ownership or tight regulation for over a hundred years, they would suddenly become an economic powerhouse worthy of nine-digit stock market valuations if converted to a pure laissez-faire private investor structure.

Uber is not the only company to make claims about the benefits it creates that ultimately do not withstand scrutiny. But Uber's hyper-aggressive lobbying and PR activities went way beyond what other Silicon Valley-financed startups were doing at that time.

The issue was not the specific claims about job creation and happy drivers that MacGann feels remorseful about. The bigger, much more serious PR/lobbyist "lies" were that Uber was a legitimate company that could eventually produce sustainable profits and broader economic benefits. Also, that Uber should be granted full laissez-faire freedoms, without any evidence that this could produce substantially more efficient taxi services than had existed previously. And that it should be free to operate without any accountability for actually producing the sustainable benefits for consumers and cities it promised, and without any protections for the companies and jobs destroyed by its highly predatory behaviour.

The narratives Uber was manufacturing were designed to conceal Uber's actual economics and to mislead investors and the cities whose taxi services had been decimated by Uber's pursuit of unicorn-like valuations.

These narratives created the widespread perception that Uber was a highly innovative and successful company that had revolutionised urban transport, and which could achieve the long-term growth and profit potential to justify its massive (currently $42bn) valuation. [12]

These perceptions remain powerful despite overwhelming financial evidence to the contrary and despite the fact that all of the narrative claims that created this perception are demonstrably false.

Empowering Uber's Counter-Narratives

By ignoring Uber's economics, *The Guardian* has allowed Uber PRs to undermine the series by claiming that all of the bad behaviour reported is down to a small number of aberrant people who no longer work there. Uber has further claimed the behaviour was inconsistent with board-level objectives and strategies, and that all of the problems from that era were solved when Dara Khosrowshani replaced Kalanick.

Uber does appear to have shaved off some of its rougher practices. For example, the use of Greyball technology to obstruct law enforcement has been eliminated.

But there's little evidence that the change in CEOs did anything to solve Uber's core problems. After four years, Khosrowshani has done nothing to solve the problem that Uber's business model is incapable of generating sustainable profits. And Uber is still manufacturing narratives designed to conceal Uber's actual economics and to mislead investors about its growth and profit potential. It continues aggressively lobbying to prevent any meaningful public oversight just as it did when MacGann worked there.

Ignoring economics also allowed Emmanuel Macron to undermine the series by arguing that he was only helping Uber to support innovation and job creation as any smart politician would. The more substantive criticism of Macron (and other openly pro-Uber politicians) is that he was aggressively working to help Uber drive existing French taxi operators out of business without any evidence this would actually produce meaningful benefits for French consumers, workers or cities.

He was not trying to ensure that a new competitor would have the "level-playing-field" opportunity to compete so that the "marketplace" could determine the outcome. He was working to rig the marketplace so a company with $20bn in financing (but no actual competitive advantages) could destroy operators who were willing to obey existing laws but had much less financing. Pro-Uber politicians like Macron cannot be judged independent of evidence about the economics of Uber and the urban transport business.

Uber PRs still claims it has vastly improved urban car services, even though the highly subsidised service and fares that fueled its initial popularity are distant memories, and anyone who has recently tried to take an Uber knows it is now charging much higher fares and providing much less service in most cities than traditional taxis used to.

But since *The Guardian* series has completely ignored the $31bn in losses and all other financial evidence, it has no way to respond to the false PR claims Uber has used to confuse its readers.

Other Minor Problems

Despite suggesting that the files MacGann gave *The Guardian* included new, shocking stop-the-presses Snowden/Manning-type revelations, almost all of the bad behaviour presented was publicly known when MacGann was still employed by Uber. [13]

Everyone in Silicon Valley knew that "Uber broke laws, duped police and secretly lobbied governments" in 2017. When Susan Fowler published her exposé of systematic sexual harassment at Uber in 2017, it was immediately accepted that Uber could be guilty of behaviour this bad. And while it was useful for *The Guardian* to remind its readers about some of the nasty behaviour that fueled its growth, it failed to supplement what was in MacGann's files with readily available evidence about the full scope of the bad behaviour that resulted from Uber's "meteoric-growth-at-any-cost" strategy.

The 2017 *Transportation Law Journal* article on Uber referenced earlier cites 88 different news reports directly critical of Uber's behaviour in the time period covered by "The Uber Files". These included numerous issues *The Guardian* did not mention including:

- Arbitrary cuts to driver compensation.
- Willfully false claims about driver earnings (that subsequently led to a $20mn FTC fine).
- Scheduling algorithms that sharply limited the flexibility it had promised drivers.
- Reneging on promises to share operating data with city governments concerned about congestion.
- Attempts to sabotage Lyft financing efforts.
- Spamming competitors with false orders.
- Harassment of critical journalists and legal foes.
- Lawsuits claiming Uber had stolen Waymo intellectual property.
- The systematic sexual harassment of female Uber staff.

- The theft of police reports about a customer who had been raped in an Uber vehicle.

What's more, while *The Guardian* series appropriately notes David Plouffe's role in developing Uber's huge lobbying programme, it has understated his importance. Contemporaneous news reports had not only noted how useful Plouffe's Democratic Party contacts were to Uber in the Democratic cities that were Uber's biggest markets, but also explained how Plouffe's work at Uber was a major departure from traditional tech industry lobbying practices.

Instead of just reacting to legal/regulatory challenges, Plouffe structured Uber's lobbying as a proactive political campaign. Tech companies had avoided avoiding major lobbying expenditures until they had achieved a sustainable market position, but Plouffe made lobbying one of Uber's top priorities while still extremely immature. Uber employed more lobbyists in Nevada than the entire casino industry and more lobbyists in California than Walmart, Bank of America or Wells Fargo.[14]

The "Uber Files" noted the importance of the contacts Plouffe had developed as Barack Obama's Chief of Staff. Although, oddly (especially for a UK newspaper), *The Guardian* did not mention similarly close ties between MacGann's direct superior, Rachael Whetstone, and Conservative Party leadership, as news reports at the time had. *The Guardian* mentions that Whetstone had previously lobbied for Google in Brussels but failed to note that she was the granddaughter of one of the key drivers of the UK libertarian movement who had funded the think tanks that had laid the groundwork for Margaret Thatcher's election, personally managed a major "rebranding" of the Conservative party, and was the godmother of one of Prime Minister David Cameron's children. [15]

The "lies" about benefits for drivers and job creation that MacGann acknowledges merely scratch the surface of what *The Guardian* could have told its readers about Uber's false PR narrative claims.

Subsidising Your Way to Self-Driving Fleet Fantasies

Uber's growth was not based on customers freely choosing its superior service in competitive markets as it claimed. It was driven by billions in subsidies that totally distorted customer choices and were explicitly designed to eliminate competition.

Uber's competitive success, meanwhile, was not based on the powerful cutting-edge technology it said would allow it to overwhelm incumbents in any market anywhere – it was based on those same predatory subsidies. This is why its efforts to enter markets like China and Russia were such disasters.

Other questionable Uber narrative claims included the following:

- That it should be free to ignore existing car services because laws applying to car services ordered by telephone could not possibly apply to car services ordered by smartphones.
- That it should be free to ignore existing labour laws governing car service drivers because it wasn't actually a transportation company but was merely a software company.
- That it deserved a unicorn valuation because its enormous scale and network economies would drive the costs of Ubers so low that they would massively displace car ownership and transit system usage.

- That it would introduce driverless taxis by 2018 and become a more powerful provider of autonomous vehicles than Tesla, Waymo, Mercedes, or Toyota.
- That these driverless taxis would massively improve its profitability even though the much higher cost and capital burden of these unproven vehicles dwarfed Uber driver compensation.
- That huge synergies between taxi services, food delivery, and scooter rentals would allow them to become the "Amazon of Transportation".
- That "flying taxis" would become a major contributor to future profits.

All that said, it's not fair to be too harsh. *The Guardian* has attempted a "big-picture" review of Uber that is still incredibly meaningful. They have correctly focused on bad behaviour and Uber's major investments in lobbying and PR. What they have reported is entirely accurate. It is the broader media's continuing reluctance to shine a light on the fundamental bad economics of the business that continues to exasperate us.

There is ample published evidence to support Uber's economic failure. *The Guardian's* failure to place the analysis in the context of Uber's competitive economics and financial performance – despite ample published evidence – has significantly limited the value of the exercise.

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[2] Uber : une enquête dévoile les méthodes brutales, voire illégales, de la plateforme, Le Point 10 July 2022, https://www.lepoint.fr/politique/le-deal-d-emmanuel-macron-avec-la-societe-uber-10-07-2022-2482816_20.php

[3] What are the Uber files? A guide to cab-hailing firm's ruthless expansion tactics, The Guardian, 10 July 2022 https://www.theguardian.com/news/2022/jul/10/what-are-the-uber-files-guide. The files were also shared with other news organizations including the Washington Post the BBC and theInternational Consortium of Investigative Journalists (ICIJ).

[4] Paul Lewis, Harry Davies, Lisa O'Carroll, Simon Goodley and Felicity Lawrence, The Uber whistleblower: I'm exposing a system that sold people a lie, The Guardian 11 July 2022https://www.theguardian.com/news/2022/jul/11/uber-files-whistleblower-lobbyist-mark-macgann

[5] Stephanie Kirchgaessner, Felicity Lawrence and Johana Bhuiyan, The Uber campaign: how ex-Obama aides helped sell firm to world, The Guardian 10 Jul 2022 https://www.theguardian.com/news/2022/jul/10/uber-campaign-how-ex-obama-aides-helped-sell-firm-to-world

[6] Felicity Lawrence, Uber paid academics six-figure sums for research to feed to the media, The Guardian 12 July 2022 https://www.theguardian.com/news/2022/jul/12/uber-paid-academics-six-figure-sums-for-research-to-feed-to-the-media. This understandably focuses on European academics who have supported pro-Uber narratives, but links to a detailed story on Uber PR's use of academics in the

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

[7] Felicity Lawrence, They were taking us for a ride': how Uber used investor cash to seduce drivers, The Guardian 12 July 2022 https://www.theguardian.com/news/2022/jul/12/they-were-taking-us-for-a-ride-how-uber-used-investor-cash-to-seduce-drivers

[8] Uber's historical financial results, and some of Uber's highly problematic reporting practices are summarized in Hubert Horan, Can Uber Ever Deliver? Part Twenty-Nine: Despite Massive Price Increases Uber Losses Top $31 Billion, Naked Capitalism, 11 Feb 2011

[9] I had initially laid out Uber's hopelessly uncompetitive economics in 2017 Hubert Horan, Will the Growth of Uber Increase Economic Welfare? 44 Transp. L.J., 33-105 (2017) and updated this analysis in Hubert Horan, Uber's Path of Destruction, American Affairs, vol.3 no. 2, Summer 2019, pp.108-133

[10] Uber's strategy never assumed that it had Amazon/Facebook growth economics but (incorrectly) presumed sufficient network/scale economies to generate positive cash flow. The presumption that it could use artificial market power to drive profitable growth was also incorrect; Didi achieved a 95+% share of the Chinese car service market but has never generated meaningful profits. Hubert Horan, Can Uber Ever Deliver? Part Twenty-Five: Didi's IPO Illustrates Why Uber's Business Model Was Always Hopeless, 2 August 2021

[11] Travis Kalanick was not sacked because of the torrent of bad publicity about bad behavior. He was sacked because his Board had become impatient with his refusal to pursue the IPO the shareholders needed to convert paper gains to real money. Hubert Horan, Can Uber Ever Deliver? Part Ten: The Uber Death Watch Begins, Naked Capitalism, 15 June 2017 and See Can Uber Ever Deliver? Part Seventeen: Uber's 2018 Results Still Show Huge Losses and Slowing Growth as IPO Approaches, 16 February 2019.

[12] The origins and lasting power of these powerful narratives are described at Hubert Horan, The Uber Bubble: Why Is a Company That Lost $20 Billion Claimed to Be Successful? ProMarket, 20 Nov 2019

[13] Mike Issac, Inside Uber's Aggressive, Unrestrained Workplace Culture, New York Times, 22 Feb 2017

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Hubert Horan: Can Uber Ever Deliver? Part Thirty-One: Uber's Legitimate Cumulative Losses Top $32 Billion; P&L Improvements Driven by Much Higher Fares and Multi-Billion Dollar Transfers From Drivers to Shareholders

Posted on August 5, 2022 by Yves Smith

Yves here. As Hubert Horan has explained from the outset of his series on Uber, the gig worker company has an inherently higher cost structure than traditional taxi companies. Yet it's managed to con investors and an uninquisitive financial press into believing that attaching an app to a taxi service somehow magically creates scale economies.

Uber's pricing advantage was illusory, the product of enormous investor subsidies. We predicted that Uber would eventually have to raise prices to a higher level than traditional taxis to cover its operating costs and attempt to provide an adequate return on the massive funding of losses. That is starting to happen.

But as we also pointed out, taxi services have low barriers to entry. Expect Uber's market share to erode as at least some riders reject the price gouging. Yet even at these higher fares, Uber is still losing money.

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 Released Its Second Quarter 2022 results on Tuesday August 2nd.

Uber's GAAP Net Income from ongoing operations was negative $1.1 billion in the first half of 2022, bringing its cumulative GAAP losses to $32.3 billion.

($ billions)	2019	2020	2021	IH22
Uber reported GAAP Net Income	($8.5)	($6.8)	($0.5)	($8.5)
Uber reported GAAP Net Margin	($0.6)	($0.6)	($0.0)	($0.6)
P&L impact of Discontinued Markets	$0.0	($1.6)	$3.2	($7.4)
Cumulative Discontinued Market impact since 2014	$7.1	$5.4	$8.7	$1.3
Impact of retiming of $4.6bn 2019 SBC expense	($2.9)	$0.0	$0.0	$0.0
Corrected Net Income --continued ops+ SBC adjust	($5.6)	($5.2)	($3.7)	($1.1)
Corrected Net Margin --continued ops+ SBC adjust	(39.4%)	(46.3%)	(38.4%)	(7.4%)
Cumulative Corrected Net Income since 2014	($22.3)	($27.5)	($31.2)	($32.3)
% total Uber expenses excluded as ITDA	25.4%	23.7%	(1.5%)	38.7%
% total Uber expenses--actual legitimate ITDA	4.7%	4.7%	5.0%	2.6%
Uber claimed "Adjusted EBITDA" margin	(19.3%)	(22.7%)	(4.4%)	3.6%
Legitimate EBITDA Margin	(31.8%)	(38.7%)	(16.3%)	(3.4%)

As has been discussed on multiple occasions in this series, Uber deliberately makes it very difficult for investors or other outsiders to understand current financial performance and trends.

Two ongoing accounting problems are Uber's deliberate comingling of results from active/ongoing and failed/discontinued operations and its emphasis on a bogus "Adjusted EBITDA Profitability" which does not measure either EBITDA or Profitability and provides no meaningful information about changes in Uber's financial performance. As a result this series has always compared Uber's published results with properly stated results limited to ongoing operations and with legitimate measures of EBITDA. [1]

Legitimate EBITDA is GAAP Net Income minus interest, tax, depreciation and amortization expense. Since 2015, these have typically accounted for less than 5% of Uber's total expense. The expenses Uber excludes from Net Income to produce its bogus "Adjusted EBITDA Profitability" measure often account for a quarter of Uber's total expenses, and in the first half of 2022 accounted for over 38%. ***There is nothing wrong with including an EBITDA number in financial reports but misstating it by $8 billion is a different matter.*** This misstatement allows Uber to mislead gullible investors and journalists into thinking that it is now "Profitable". Actual EBITDA in the second quaretr of 2022 was negative 3.4%, not the positive 3.6% it has been ballyhooing. [2]

In most cases, when Uber shut down a failed operation, such as its autonomous car development unit, or major operations in markets such as China, Russia and Southeast Asia, the operator that had driven Uber out of the market gave Uber some non-tradeable securities in return for exiting the market faster. In 2016, 2018 and 2021, Uber inflated its profitability by a combined $12 billion, based on its (unverifiable) claim as to how much those securities (in companies that had never generated any profits) had appreciated.

Because Uber wanted to juice published earnings prior to its IPO and in the depts of the pandemic, it had to maintain the fiction that these securities were "investments" Uber had pursued as one of its core strategies for generating shareholder returns. In addition to misleading investors about its actual 2016, 2018 and 2021 financial performance, this practice produced wild, inexplicable year-to-year fluctuations in bottom-line profit numbers, making it impossible for outsiders to understand actual underlying trends in financial performance over time. [3]

Why Hasn’t Uber Tried To Explain Clearly the Reasons for the Big Reduction in Uber Losses?

While Uber is still far from breakeven, the recent improvements in financial performance were highly significant. As will be discussed below, total revenues now exceed pre-pandemic levels, its Net Margin has improved from negative 40% in 2019 to negative 11%, and in its thirteenth year of operations it finally produced its first dollar of positive cash flow.

But Uber’s recent financial release made no attempt to explain exactly what Uber did to achieve these improvements, and as a result none of the news stories about Uber’s second quarter results could tell readers what explained the big changes or whether they had any potential to drive ongoing profit improvements.

In addition to using bogus EBITDA “profitability” numbers and conflating numbers from ongoing and discontinued markets, Uber’s financial reports never included the critical data other large public companies routinely report that would allow outsiders to understand P&L changes. It is impossible to tell whether revenue changes are volume or pricing driven. It is impossible to understand the relative impact of rides and delivery service on profit shifts, or the relative profit performance of Uber’s different geographic markets. Uber’s reports provide no information about efficiency gains and no unit cost data below the aggregate international corporate level.

Prior to the pandemic this was because Uber never wanted its investors, drivers or the cities it served to understand how horrible its economics were, and that its extremely rapid growth was not going to produce sustainable profits. During the pandemic Uber never wanted its investors, drivers or the cities it served to understand how devasting the demand collapse had been. Companies that had developed strong business models with proven ability to drive profitable growth proactively worked to educate the investment community about the drivers of their competitive and financial strength. Uber relied instead on a constantly changing set of artificial narratives, knowing that a pliant business press would never critically scrutinize them.

Perversely, Uber’s longstanding non-communication/miscommunication practices have prevented outsiders from understanding that it has recently achieved major, substantive improvements. Because it used paper gains from untradeable securities to misstate the results of current performance in past years, it was forced to publish current financial results much worse than its underlying current performance warranted. Its official GAAP Net Income was negative $8.5 billion, but $7.4 billion of this was from the paper losses on these securities. If properly limited to ongoing operations, Uber lost “only” $1.1 billion in the first six months of this year but news reports emphasized the horrible official losses. Since Uber had never helped reporters understand their underlying economics, they could see that “revenue was up” but had no way of understanding what had caused it, or how significant it was. [4]

As Uber’s results improve it would be nice to be able to analyze how much was due to gains in ridesharing versus delivery, and to have enough detail to evaluate whether the recent growth was just a one-time rebound from depressed pandemic levels or resulted from underlying improvements that might continue into the future. But Uber does not want investors, journalists, drivers or the cities it serves to establish an independent ability to understand what drives its profit performance. It doesn’t even break down the trip data needed for any analysis of unit costs and unit revenues below the aggregate grand total. But the crappy data Uber does publish provides some very powerful clues.

Uber's Big Recent Gains Were Driven by Huge Fare Increases and Driver Compensation Cramdowns That Transferred Billions from Drivers to Shareholders.

The table below compares the limited revenue and unit revenue data Uber discloses for the second quarter of 2022 to the comparable quarters of last year and 2019.

Revenues are already significantly higher than their pre-pandemic peaks, driven by price increases that were largely in place by the summer of 2021. Versus 2Q19, gross customer payments per trip were 54% higher in 2Q21 and 65% higher in 2Q22. Total gross customer payments increased $13.3 billion per quarter ($29.1bn minus $15.8bn). Assuming 12% of this increase is due to the higher trip volumes, this implies that Uber extracted $11.7 billion more out the marketplace per quarter. This was substantially better revenue performance than it had ever achieved while rapidly growing prior to the pandemic.

Again, Uber chooses to withhold the data needed to better explain these huge pricing shifts but the biggest fare increases appear to be on the ridesharing, not the delivery side. Ample evidence has been reported in the press about massive increases in Uber taxi fares, including hard data from firms that process business expense charges. [5] In 2022 Uber increased its share of gross ridesharing payments by 32% (20.1% to 26.6%) while its share of gross delivery payments increased only 7%. [6] It is unlikely that Uber could have achieved comparable price increases in delivery markets which are much more competitive, and where Uber's market position is much weaker.

The biggest recent change is that in the last year Uber significantly increased the share of each customer dollar that it retained, while the share retained by drivers (and restaurants) was comparably reduced. In the past year Uber increased its share from 18% to 28%. These are probably the most important numbers in the quarterly release and demonstrate an effective wealth transfer of $2.8 billion from labor to capital in just three months, which would produce an $11 billion impact if extrapolated to a full year.

Despite extremely tight labor markets, and the fact that drivers are fully aware that Uber customers are paying dramatically higher fares, and face huge pressures to cover skyrocketing fuel costs, Uber actually reduced the driver/restaurant share of total revenue per trip by 6% in the last year. Meanwhile the Uber shareholder portion of revenue per trip increased by 66%.

	QE 19.06	QE 21.06	QE 22.06	22vs19	22vs21
Monthly Active Platform Consumers	99	101	122	23%	21%
Trips	1,677	1,511	1,872	12%	24%
Revenue ($millions)					
Gross Customer Payments	$15.8	$21.9	$29.1	85%	33%
Uber Revenue	$3.2	$3.9	$8.1	155%	105%
Driver Revenue (Gross minus Uber)	$12.6	$18.0	$21.0	67%	17%
Uber Share of Gross Payments	20%	18%	28%	38%	55%
Revenue per Trip					
Gross Customer Payments/Trip	$9.40	$14.49	$15.53	65%	7%
Uber Revenue/Trip	$1.89	$2.60	$4.31	128%	66%
Driver Revenue/Trip (Gross minus Uber)	$7.51	$11.89	$11.22	49%	(6%)

These big fare increases and the huge shift of revenue share from drivers to the company overwhelmingly explain how Uber has been able to substantially narrow its profitability problem. Other factors play a role (pandemic cost cutting, the rapid collapse of pandemic travel restrictions) but cannot explain the magnitude of recent financial shifts.

In 2019, when pre-pandemic demand was at its peak, Uber was producing negative 40% Net Income margins; Uber revenue per trip averaged $1.89, but Uber's operating expenses per trip were $5.16. Two years into the pandemic the gap between revenue and operating expense per trip was $2.60 versus $3.39, as pandemic cost cutting and the initial stage of fare hikes could not keep pace with lost demand.

The very recent huge revenue increases were only partially offset by the cost of increased operations. Total Uber revenue increased 105% year-over year while operating expenses increased 72%. Uber revenue per trip increased 66% while operating expense per trip increased 39%. The gap between revenue and operating expense per trip has been narrowed to $4.39 versus $4.69 so Uber is still losing significant sums–$1.1 billion in the first half of 2022. Its second quarter operating margin was negative 8.8% and its net margin was negative 11.4%. [7]

	QE 19.06	QE 21.06	QE 22.06	22vs19	22vs21
Total Operating Expense ($m)	8,651	5,117	8,786	2%	72%
Total Operating Expense/Trip	$5.16	$3.39	$4.69	(9%)	39%
Uber Operating Margin	(40.1%)	(30.2%)	(8.8%)		
Uber GAAP Net Income Margin	(39.4%)	(19.5%)	(11.4%)		
Margins exclude discontinued operation; 2019 margins are for full year					

Uber Has Completely Abandoned Its Original, Failed Corporate Strategy, and Has Reverted to a Lousier Version of What Traditional Taxis Had Been Doing for Years

Uber's corporate development prior to the pandemic was entirely based on hyper-aggressive volume growth that sought to dominate and substantially expand global car service markets. It offered substantially more car service at much lower prices than traditional taxi operators had offered. Its approach was explicitly modelled on unicorns such as Amazon where a popular market entry provided the foundation for dynamic growth fueled by scale/network economies and synergies that facilitated rapid, profitable expansion into a wide range of similar businesses and markets. Uber's financial strategy was entirely focused on achieving huge ongoing valuation growth, based on capital market perceptions that its rapid volume growth signaled the same type of economics that other highly publicized unicorns had demonstrated.

As this series has documented in detail, that strategy never had any hope of producing sustainable profits. Unlike other unicorns, it was actually less efficient than the traditional taxis it was driving out of business, its rapid growth and popularity was driven by billions in predatory subsidies that were always unsustainable, and it never had the significant scale/network economies needed to "grow into profitability." The enthusiasm of capital markets reflected the power of artificial narratives Uber had manufactured, and the refusal of Wall Street and the business press to critically examine its various claims or its actual financial results.

Today, Uber is offering much worse service at much higher prices than the traditional taxi industry that it had "disrupted". [8] Traditional taxis were unpopular because the only way they could keep fare revenues and costs aligned was to limit service to the densest, highest demand neighborhoods (maximizing revenue utilization and avoiding empty backhauls) and rationing service during big demand peaks. After entering the market Uber significantly increased service during peaks and to lower demand neighborhoods. It lost a fortune and has now retrenched to the much narrower service areas Yellow Cab had served. In its early years Uber aggressively promoted that its policy of not showing drivers trip destinations would prevent them from avoiding trips to neighborhoods that Yellow Cab drivers had avoided. Uber just announced that it has totally abandoned that policy, and drivers will have the full ability to refuse any rides that drivers think won't be worthwhile, [9] Today, Uber offers the same poor service as traditional taxis, but must charge enormously higher fares because of its much higher cost structure.

Usually, companies that have achieved big financial gains are anxious to publicize how they achieved them and how they are likely to drive ongoing improvements, but in this context perhaps Uber has good reason to downplay, if not conceal the reasons for its recent progress. It is loathe to say anything that might acknowledge the complete dismal failure of its original, longstanding business model. It is probably even more reluctant to acknowledge that it is adopting much of Yellow Cab's more efficient operating model. Using algorithmic manipulation and other more extreme forms of market power to transfer wealth from workers to shareholders is a widely used technique for boosting P&L results, but companies never want to say that out loud, especially in cases like Uber where it has become the overwhelmingly most important source of profit improvement.

After Many Years in the Financial Wilderness, Has Uber Actually Turned the Corner Towards Real Profitability?

While further, marginal P&L gains may be possible, the big fare and revenue share gains that drove the big gains in the last year do not appear sustainable. None of it was due to any new, more efficient practices, unless you consider the retrenchment back to the narrower Yellow Cab era service areas to be an efficiency enhancing innovation. Much higher fares and reduced service suggests limited potential for demand growth beyond the one-time rebound from depressed pandemic levels. Other similar industries (hotels, airlines, car rentals) have gotten the market to accept the combination of inferior service and much higher fares given the chaos created by much higher inflation and pandemic disruptions, but it is hard to believe that these recent market conditions are sustainable, or that customers would be happy paying steadily higher fares.

Given its ongoing losses, Uber had made numerous previous attempts to force drivers to accept smaller shares of customer payments. Given the market power created by its dominant share of the industry, many attempts succeeded in the short-term but after a point tended to collapse once driver frustrations reached a boiling point. [10}

The August 4threlease of Lyft's second quarter 2022 results further complicates any attempt to understand Uber's improved performance. There is very little meaningful difference between the two ridesharing services, and through 2021 there was no evidence of major differences in competitive or financial performance. [11]

But Lyft has experienced substantially less revenue growth in 2022 than Uber. Lyft achieved 30% greater revenue year-over-year in the second quarter while Uber achieved 105% revenue growth. Lyft revenue relative to volumes grew 12% while Uber grew 66%. This suggests that Lyft achieved only a small portion of the price increases that Uber was able to impose. Lyft does not report gross customer payments so it is impossible to tell whether they were able to capture a significantly higher share of those payments from drivers, as Uber had, but the lower rate of overall revenue growth suggests that they did not.

While Uber achieved major improvements in GAAP Net Income, with margins improving from negative 38% for full year 2021 to negative 7.4% for the first half of 2022 (after adjustments to only show results for ongoing operations), Lyft's GAAP Net Income margin remained flat at negative 31%. Uber's operating costs rose more slowly than the growth in revenue, but Lyft's operating costs did not.

These comparisons underscore how important big fare increases and the big shift of payment share from drivers to the company was to Uber's reported financial improvements, but it begs the question of how Uber would have been able to achieve pricing and driver share shifts this huge during the first half of 2022 while Lyft could not. Customers and drivers can shift between Uber and Lyft with relative ease. While their response to pricing and compensation changes might not be instantaneous, it is hard to believe those changes would not be readily noticed, and harder still to believe that they market would continue to passively accept fare and driver compensation differences this large. While the post-pandemic revenue rebound has been beneficial for everyone, Lyft results cast doubt on the idea that the underlying economics of ridesharing have fundamentally improved in ways that puts the industry on a path to robust, growing profitability.

The Real Issue Is Corporate Valuation, Not Quarterly Results

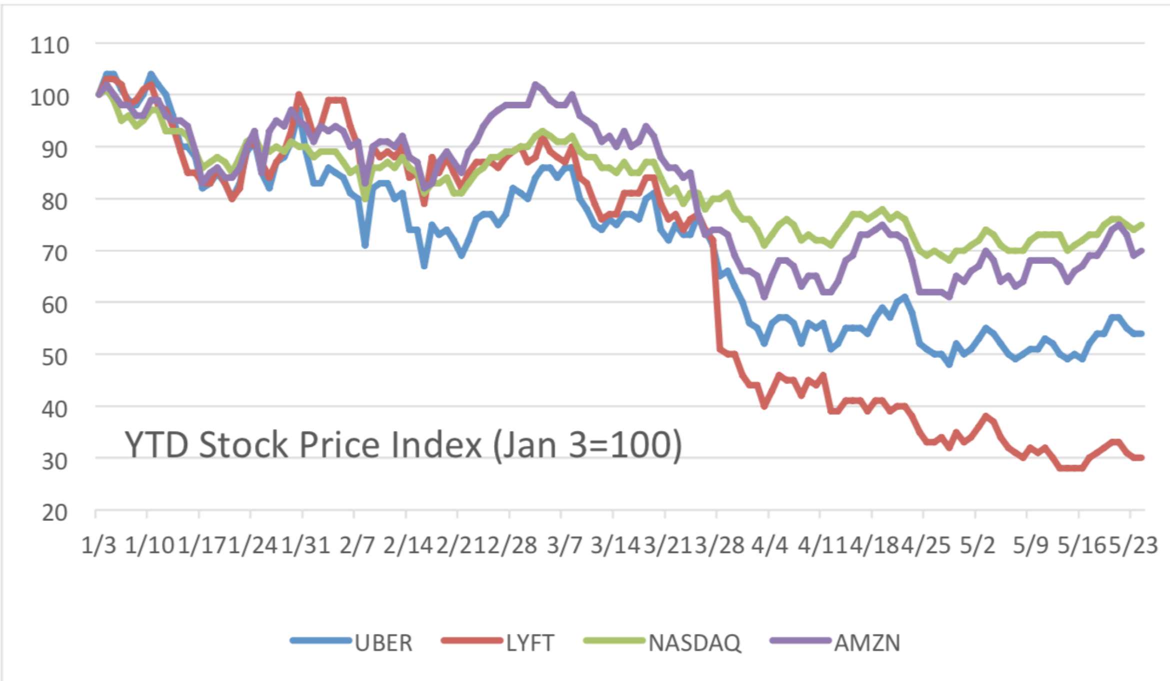
As this series has discussed at length, Uber and Lyft have remained largely immune to economic gravity because their hugely successful PR/propaganda campaigns created the widespread impression that it was a hugely innovative and powerful company, and that its robust top-line revenue growth meant that it had the potential to realize years of Amazon/Facebook type valuation growth.

There was always a robust market for the stock. Some people may have fully bought into the narrative claims suggesting years of profitability. Others many have been simply wagering that Uber's broad market popularity would, like Tesla and other companies, ensure strong equity appreciation regardless of near-term P&L performance.

Uber's IPO demonstrated the power of this dynamic. The new financial information disclosed in the IPO prospectus clearly laid out the horrible financial results and offered no coherent explanation (aside from vapid claims about becoming the "Amazon of Transportation") as to how Uber might reverse these losses, much less produce the many years of rapid, highly profitable growth needed to justify the stratospheric valuation it was pursuing. Short sellers correctly wagered against Uber's visions-of-sugarplums valuation objectives but no one in the market was challenging the broad market consensus that future robust, profitable growth justified a substantial 11-digit valuation.[12] $32 billion in GAAP losses through year 13 certainly demonstrates that its stock market valuation never had anything to do with evidence of future streams of profits.

In concept, recent events should have created even stronger valuation headwinds for Uber and Lyft, including the growing recognition that the market had massively overvalued "tech" companies who were focused on top-line revenue growth but not profits, the end of macroeconomic policies that had financed wanton speculation, huge fuel price spikes and the growing likelihood of recession.

The stock price index table below shows price declines since the beginning of 2022 through the end of July for the Nasdaq composite index, Amazon, Uber and Lyft. Amazon and the Nasdaq index values have fallen 25-30%. But this demonstrates the impact of these broader recession/inflation/market correction factors on companies with proven business models that had produced strong profits for years. A wide range of companies (e.g. Crypto, Web3, Decentralized Finance) whose valuations were entirely narrative driven have been completely decimated.



These trends, and other evidence in recent months suggested that Uber and Lyft might suffer because of the market's increasing focus on sustainable profits. [13] But the stock market's immediate response to this week's earning announcements is to assume that the bubble conditions of 2016 remain fully intact. Both stocks rose on the news that the post-pandemic recovery of top-line revenue exceeded analysts' expectations, and that both companies achieved "Adjusted EBITDA Profitability." The markets were not responding to structural changes Uber made to increase profitability, since Uber didn't explain what changes it had made, and Uber's public narrative remains wedded to pre-pandemic narrative claims about its unicorn-like economics and becoming the "Amazon of Transportation."

Even if Uber continues to marginally improve profitability, logically this should have no impact on its valuation. A marginally profitable, slow-growth taxi company is not worth the $45 billion Uber was valued at on July 29th or the $62.5 billion it was valued at on August 4th. The conventional wisdom driving corporate valuations and market bubbles are incredibly resilient but can burst overnight. If these valuations significantly change it will likely have nothing to do with changed rideshare marketplace conditions or financial performance, but could easily result from broader, larger market corrections.

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[1] Uber Part Twenty Nine (February 11, 2022) presented a more detailed version of this table showing financial results from 2014 through the end of 2021. That table, and the 2019 column of this table, also adjust published results to spread stock based compensation expense realized immediately after Uber's 2019 IPO across a longer time period. In this case Uber was following proper accounting practices; it could not report these as current expenses until the day they actually vested, but this produced third quarter 2019 Uber P&L numbers wildly out of line with all other time periods.

[2} News media coverage has increasingly emphasized Uber's GAAP Net Income results while downplaying, if not dismissing Uber's efforts to focus on "Adjusted EBITDA Profitability." For example, "Uber has long been criticized based on the way it calculates its adjusted profits. The company's definition of EBITDA includes an unusually large list of exclusions and is widely seen as an inaccurate measure of the company's overall profitability." Andrew J. Hawkins, Uber's seeing positive cash flow for the first time ever, The Verge, 2 Aug 2022

[3] For a graph contrasting the wild volatility of Uber's "official" profit numbers, with the clear pattern produced by numbers corrected to only show results from ongoing operations, see Uber Part 24, February 16, 2021.

[4] Daniel Howley, Uber beats revenue expectations, stock soars despite $2.6B loss, Yahoo Finance, 2 Aug 2022, Jackie Davalos, Uber Soars After Beating Estimates as Ridership Defies Inflation, Bloomberg, 2 Aug 2022;

[5] 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 Street Journal, 4 October 2021, Tom Dotan, Uber and Lyft prices are staying stubbornly high, despite drivers returning to the ride-hailing platforms, Business Insider November 11, 2011; Jeanette Settembre, Uber 'taking advantage' of unsafe NYC with astronomical fares, New York Post April 15, 2022; Henry Grabar, The Decade of Cheap Rides Is Over, Slate, May 18, 2022; Preetika Rana, Uber and Lyft's New Road: Fewer Drivers, Thrifty Riders and Jittery Investors, Wall Street Journal, May 27, 2022; Tom Dotan and Nancy Luna, Leaked memo shows Uber raising prices for rides in one major US metro area to help drivers deal with high gas prices, Business Insider, Jun 16, 2022. Also see Uber Part 29 for an independent study of fare increases in Chicago based on the city's new ridesharing database.

[6]Uber Technologies, Inc., Q2 2022 Earnings Supplemental Data, Aug 2,2022, p15-16.

[7] Consistent with the previous P&L table, all profitability and margin data has been corrected so they only reflect the results of ongoing operations, and in the case of 2019 have been adjusted to spread the cost of post-IPO stock awards over four years. Because of this anomaly the 2019 margins in the table reflect full year 2019 results, not second quarter (when the stock awards were issued).

[8] Asher Schechter, “Uber Has Higher Prices and Worse Service Than the Taxi Industry Had Ten Years Ago”, ProMarket, July 28, 2022

[9] Ashley Capoot, Uber unveils new features, including one that lets drivers choose the trips they want, CNBC, Jul 29, 2022

[10} A major 2016 Uber effort to cram down driver compensation was discussed in the very first post in this series (November 30, 2016) as was Uber’s need to retreat after it could no longer get enough drivers to meet customer demand (see Part Eleven, December 12, 2017). Once driver compensation has been pushed to minimum wage levels, and significant numbers of drivers are forced to sleep in their cars, there is little further potential to force them to accept smaller and smaller shares of customer payments.

[11] Part Twenty Nine provided a detailed comparison of results for the two companies through the end of 2021.

[12] The investment banks bidding for Uber’s IPO work initially promised a $120 billion valuation, the IPO was finally priced to achieve $90 billion but only achieved $65 billion. Can Uber Ever Deliver? Part Nineteen: Uber’s IPO Prospectus Overstates Its 2018 Profit Improvement by $5 Billion, April 15, 2019; Can Uber Ever Deliver: Part Twenty: Will the “Train Wreck” Uber/Lyft IPOs Finally Change the Public Narrative About Ridesharing?, May 30, 2019

[13] Ryan Vlastelica, Uber Misses Out on Reopening Trade as Investors Crave Profitability, Bloomberg 1 Aug 2022

https://www.nakedcapitalism.com/2023/02/hubert-horan-can-uber-ever-deliver-part-thirty-two-losses-top-33-billion-but-uber-has-avoided-the-equity-collapse-most-tech-startups-experienced.html

Hubert Horan: Can Uber Ever Deliver? Part Thirty-Two: Losses Top $33 Billion But Uber Has Avoided The Equity Collapse Most "Tech" Startups Experienced

Posted on February 27, 2023 by Yves Smith

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 cumulative losses from its actual, ongoing operations top $33 billion

Uber's published results, which were released February 8th, showed a GAAP loss of $9.1 billion for full year 2022 (a negative 29% net margin) and positive net income of $0.6 billion (+7% net margin) in the fourth quarter. Free cash flow in the fourth quarter (net cash flows from operating activities less capital expenditures), was negative $303 million. At the end of 2002 Uber had $4.3 billion of cash on hand.

What were Uber's actual legitimate 2022 results and how did they compare to past periods? As has been discussed on multiple occasions in this series, Uber deliberately makes it very difficult for investors or other outsiders to answer those seemingly simple questions. Uber's reported net income is distorted by the inclusion of claimed valuation shifts in untradeable securities that have nothing to do with the performance of Uber's actual, ongoing operations. Instead of focusing on GAAP net income, Uber emphasizes a bogus "EBIDTA profitability" measure designed to make results look better by excluding billions in expenses that would not be excluded from a legitimate EBIDTA metric.

After Uber went public, its published earnings were inflated by roughly $7 billion due to the claimed appreciation of Didi equity it received after the collapse of Uber China ($2 bn) Grab equity received after Uber abandoned Southeast Asia ($2.2 bn) and Aurora equity received after Uber abandoned its autonomous vehicle development efforts ($1.7bn). Those claimed "profits" were fictitious. None of those companies demonstrated any potential to earn sustainable profits. Only Didi achieved the scale and market penetration to justify serious investor attention, and its equity value subsequently collapsed. [1]

This forced Uber to reduce GAAP earnings between 2020 and the third quarter of 2022, even though the paper losses were just as irrelevant to Uber's actual business performance as the earlier $7 billion profits. But earnings inflation returned in the fourth quarter as Uber claimed that its Didi stock appreciated by $773 million. Uber made no effort to explain exactly how a company that had been delisted from exchanges, been blocked from adding new customers and abandoned by investors in the US could be confidently judged to generated this much corporate value since September. [2] More importantly Uber made no effort to explain why speculative numbers of this magnitude should be included in the headline numbers provided to investors about Uber's current profitability.

As shown in the table Uber's 2022 GAAP Net Income from ongoing operations was negative $2.1 billion, producing a net margin of negative 7.4% and bringing a legitimate calculation of its cumulative GAAP losses to $33.3 billion. Any analysis of Uber's financial performance over time needs to be based on these restated numbers. The distortion of fourth quarter results (not shown in the table) was especially problematic, as the claimed $773 million Didi appreciation allowed Uber to announce that it had become profitable. [3]

($ billions)	2019	2020	2021	2022
Uber reported GAAP Net Income	($8.5)	($6.8)	($0.5)	($9.1)
Uber reported GAAP Net Margin	($0.6)	($0.6)	($0.0)	($0.3)
P&L impact of Discontinued Markets	$0.0	($1.6)	$3.2	($7.0)
Cumulative Discontinued Market impact since 2014	$7.1	$5.4	$8.7	$1.6
Impact of retiming of $4.6bn 2019 SBC expense	($2.9)	$0.0	$0.0	$0.0
Corrected Net Income --continued ops+ SBC adjust	($5.6)	($5.2)	($3.7)	($2.1)
Corrected Net Margin --continued ops+ SBC adjust	(39.4%)	(46.3%)	(38.4%)	(7.4%)
Cumulative Corrected Net Income since 2014	($22.3)	($27.5)	($31.2)	($33.3)

As this series has discussed, Uber's public reports to investors downplays GAAP profitability and emphasizes a bogus "Adjusted EBITDA Profitability" metric which does not measure either profitability or EBITDA and does nothing to help investors understand changes in Uber's financial performance.

The interest, tax, depreciation and amortization expenses excluded in a legitimate EBITDA calculation have typically accounted for less than 5% of Uber's total expense. In order to produce numbers that make Uber's results look much better than they really are, Uber's bogus "Adjusted EBITDA Profitability" usually excludes a quarter of Uber's total expenses. This improved the "profitability" Uber emphasizes by $9.6 billion in 2022 and by $16.5 billion over the last four years. In addition to distortions caused by expenses unrelated to current, ongoing operations, Uber excludes stock based compensation ($1.8 billion in 2022) and the cost of legal and regulatory settlements ($732 million in 2022). The bogus metric allowed Uber to highlight an "adjusted" 2022 profit margin of 5.4% when actual, legitimate EBITDA was negative 2.4%.

% total expenses excluded as ITDA-Uber	25.4%	23.7%	(1.5%)	26.6%
% total expenses excluded as ITDA-legitimate	4.7%	4.7%	5.0%	3.2%
Expenses improperly excluded from EBITDA	$4.7	$3.4	($1.2)	$9.6
Uber claimed "Adjusted EBITDA" margin	(19.3%)	(22.7%)	(4.4%)	5.4%
Legitimate EBITDA Margin	(31.8%)	(38.7%)	(16.3%)	(2.4%)

In addition to "Adjusted EBITDA Profitability" Uber's public reports try to distract investors attention from actual profit performance by heavily emphasizing top-line revenue growth. In 2022 Uber's revenue data became seriously distorted by a $3.4 billion UK-only accounting change required when drivers were reclassified from 'independent contractors" to employees. [4] Uber failed to provide the information that would allow investors to understand how these accounting changes affect overall profitability. It does not say how big the UK market is compared to its overall revenue base, although based on the size of its "Europe, Middle East and Africa" region (15-18% historically) it appears to be roughly 3-5%. Uber does not explain why this $3.4 billion increase in 2022 UK revenue is appropriate given that it is more than 100% of Uber's prior revenues in the entire "Europe, Middle East and Africa" region. Since Uber had been fighting these changes tooth and nail one could reasonably assume that the net P&L impact is negative, but Uber failed to document any of the offsetting "Cost of Revenue" expenses. Perhaps a full and transparent accounting of these impacts could resolve these issues but Uber apparently doesn't want investors to know what the net P&L impact of driver reclassification is and wanted to be able to highlight artificially inflated 2022 revenue growth numbers.

Uber's deliberately opaque and misleading financial reports have always been designed to prevent mainstream business media reporters from understanding Uber's actual performance, so that their stories are limited to Uber's preferred PR narratives. Stories about Uber's February 8th announcements emphasized Uber's top-line revenue growth and endorsed Uber claims that this "strongest quarter ever" and that it had done a much better job than other tech companies in "staving off the downturn" while ignoring the multi-billion dollar accounting adjustments behind the revenue growth numbers. Stories highlighted that Uber had been "profitable" in the fourth quarter, without explaining the huge distortions in all "Adjusted EBITDA Profitability" numbers or that the alleged fourth quarter number had been totally driven by the claimed appreciation in untradable Didi stock. None of the stories in major business publications mentioned Uber's reported 2022 loss of $9.1 billion or any other GAAP numbers. [5] There is no way to say whether the problem is that Wall Street Journal and New York

Times reporters and editors are financially illiterate, or whether they are deliberately trying to mislead their readers.

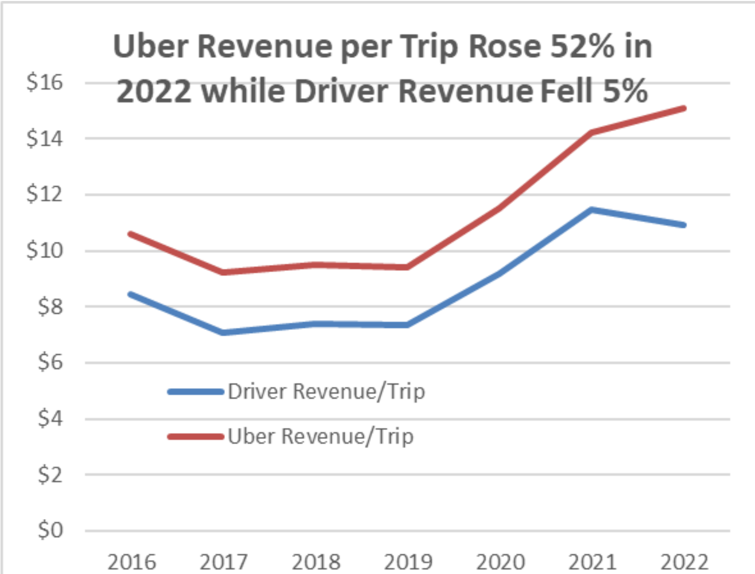
Uber reduced losses by capturing billions that had previously gone to drivers

As the adjusted numbers show, Uber has significantly reduced its losses. Its GAAP net income from ongoing operations, which had been negative $5.6 billion in 2019 are now only negative $2.1 billion. Net margins have improved from negative 39% to negative 7%.

Investors would want to understand what has driven these improvements and whether those improvements might continue and allow the company to achieve sustainable profits in the near future. But Uber's reporting is designed to prevent investors from answering those questions, and Uber's does not provide investors with any explanation of recent changes or how those changes might future P&L prospects. To what extent were recent changes the result of one time events or accounting changes versus productivity or marketing improvements that might be ongoing? Uber doesn't even allow investors to understand how demand volumes and prices in its different businesses and regions have changed, or how pricing changes have affected demand growth.

The two biggest recent changes in Uber's economics are major price increases since the onset of the pandemic, and Uber's ability to capture a much larger portion of customer payments since early 2022. In the years prior to the pandemic Uber's strategy was based on extremely aggressive prices and capacity growth designed to fuel the extremely strong top-line traffic and revenue growth it believed that investors were focused on. As this series had discussed in detail, this produced massive losses and there was no evidence that Uber had any idea how to produce sustainable profits under this strategy. When the ridesharing business was devastated by the pandemic, Uber was forced to put greater emphasis on the much lower margin delivery business, and to refocus on reducing ridesharing services and raising fares.

The data Uber provides is limited to aggregate revenue and trip volumes (rides plus delivery combined). This obviously masks margin and competitive differences between the two businesses and accounting issues such as UK driver reclassification, but this is all an outside observer has to work with.



	Uber Take Rate					
	20%	**23%**	**22%**	**22%**	**20%**	**19%**	**28%**

Pre pandemic total customer payments per trip had averaged roughly $9.50, with Uber getting a little over $2 (22%) and drivers getting a bit more than $7 (78%). 2021 customer payments per trip were 51% higher than 2019 levels, but Uber revenue/trip increased only 34% as the portion of low margin delivery trips increased and because Uber needed to give a higher share to drivers (81%) in order to keep service levels from collapsing.

But as ridesharing demand was recovering in 2022, Uber managed to increase its revenue per trip by 52% ($4.17 vs $2.74 in 2021) while forcing drivers to accept less revenue per trip (down 5% from $11.46 in 2021 to $10.93). During 2022 Uber implemented “upfront” pricing schemes that uncoupled driver payments from customer fares. Drivers no longer had any way of knowing what customers were paying or what share of the steadily increasing customer fares they were getting. This allowed Uber to improve its margins by charging the highest fares it thought passengers would pay, while paying drivers the lowest rates it thought it would take to get them to accept trips.

Drivers were only getting 72% of each customer dollar in 2022 while Uber’s share had increased to 28%. Drivers would have received $6.5 billion more in 2022 if fares were still being split on the pre-pandemic 78%/22% basis, while the additional $6.5 billion in revenue was pure profit for Uber and was crucial to offsetting higher costs in other areas. This wealth transfer does not reflect the total decline in driver take-home pay per trip, since they have been facing huge increases in fuel and vehicle costs.

It is difficult to see how Uber could achieve the similarly large margin improvements in the next few years that would be needed to produce meaningful, sustainable profits. This would require both getting customers to pay higher and higher fares and getting drivers to accept smaller shares of customer payments. Marginal gains are always possible but it is difficult to see 2022 magnitude gains (improving Uber take rates by more than 6 points) occurring again. Continued market growth would do very little for Uber's P&L if the share of customer payments remains constant. There is no evidence that Uber has any way to improve operational efficiency enough to boost its P&L by billions.

The chaos of the pandemic (and pandemic recovery) masks the questions of when customer resistance to higher fares and driver resistance to low payments reach the critical points usually seen in competitive markets. Compared to the traditional taxis they replaced Uber has cut driver compensation and is now offering riders much less service at higher fares. Multiple stories report the magnitude of fare hikes in selected cities and growing driver discontent [6] but (by design) Uber's refusal to publish basic pricing and demand data limits the awareness that its reduced losses depended on reduced customer and driver welfare.

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The collapse of "tech" equity has had little impact on the demand for Uber stock

The central issue affecting Uber's future health and viability is whether it can maintain a robust demand for its equity. Quarterly P&L results are relevant to stock prices, but the link is indirect. It is more important to understand the factors that have driven the major recent collapse in the valuation of a wide range of "tech" companies similar to Uber.

Following Uber's lead with taxicabs, hundreds of venture capital funded US startups in the last decade constructed narratives about how their innovative technologies would allow them to "disrupt" established industries such as car selling, real estate, logistics, fashion, and investing. Those narratives highlighted how they were following the model established by the successful unicorns of the previous decade (Google, Amazon, Facebook) including a strict initial focus on hyper-aggressive top-line revenue growth (in the expectation that profits would follow later), richly valued IPOs and strong ongoing equity appreciation.

Over the past 18 months all of the narrative claims those post 2010 startups made have fallen apart. None of these vaunted disruptive new technologies have created powerful competitive advantages in the industries they were trying to "disrupt". The overwhelming majority of these companies have never earned a dollar of legitimate profits and none have produced healthy, sustainable profits. None had the powerful scale or network economies that might have justified their excessive focus on top-line revenue growth.

The bubble sustaining the demand for the equity of these narrative-driven startups burst in late 2021. By the end of 2022, the value of 23 of these companies had fallen more than 85% and another 14 companies experiences stock price declines of 75-84%. [7] The Ark Innovation ETF, which explicitly tracks these types of startups was down 80%. Softbank, the largest investor in these types of startups (including Uber) lost $5.9 billion in the fourth quarter of 2022. [8]

The overall stock market was declining during this period as investors recognized that the Federal Reserve's shift away from near-zero-interest rate policies would increase the risk of equities. At the end of December the S&P 500 was down 20% from its 2021 peak; thanks to a recent uptick due to speculation that the Fed would slow down interest rate increases it was down 17% as of February 24th.

The much larger collapse of these narrative-driven "tech" companies demonstrates the market's growing awareness that it could no longer shrug off the much greater risk of companies that had never demonstrated compelling competitive advantages or any near-term prospect of earning sustainable profits. This also led the market to begin rejecting other risks that had not been properly priced, including SPACs and crypo-related companies, and even seriously began marking down the inflated values of strongly profitable pre-2010 unicorns such as Meta, Facebook and Google. [9]

But the growing awareness that pre-2022 equity values of 'tech' startups were driven by a "consensual hallucination" created by artificially manufactured narratives and the illusion that Federal Reserve policies had eliminated normal startup risks has not yet affected the market for Uber stock. As of the end of 2022 Uber was down 61% but is up 35% since then so it is only down 47% as of February 24th. This was a substantially smaller decline than seen at the bulk of the other narrative-driven "disrupters". Ark Innovation is still down 75% while Uber's declines are in line with companies with long histories of strong profitability like Amazon (down 47% as of February 24th), Alphabet (down 40%) and Meta (down 55%).

Even though Uber is still structurally unprofitable, and no one has laid out a public argument as to how it might achieve sustainable profits, Uber is still valued as a $67 billion company. All the Wall Street analysts following Uber are predicting this value will materially increase; none think Uber's economics are in anyway comparable to the many other narrative-driven "tech" disrupters (e.g. Carvana, OpenDoor, Snap, Zoom, DoorDash, Rocket) whose corporate value has completely collapsed.

The stock market's evaluation of Uber vs Lyft has dramatically diverged

On February 9th Lyft announced a full year 2022 net income of negative $1.6 billion (versus negative $1.1 billion in 2021) and fourth quarter 2022 net income of negative $588.1 million (versus $283.2 million in 4Q21). Lyft reported $1.8 billion cash on hand at the end of 2022.

The stock market's valuations of Uber and Lyft had followed parallel paths until mid 2022 and it is not clear why such a radical divergence occurred. Lyft's stock price was down 83% from its 2021 peak at the end of December. There was no 2023 bump; it was still down 85% on February 24th. There is no meaningful difference between the underlying economics of the two company's ridesharing operations. But the market clearly began valuing Lyft in line with the many collapsed "tech" disrupters, while believing that Uber's future prospects were substantially better, and much more comparable to the vary large scale profitable tech companies.

		price at	2021 Peak	YE22	vs 21 pk	Feb-24	vs 21 pk
SPX	S&P 500	4791.00	Dec-21	3839.00	(20%)	3970.04	(17%)
AMZN	Amazon	175.98	Nov-21	103.13	(41%)	93.5	(47%)
META	Meta	379.38	Aug-21	148.97	(61%)	170.39	(55%)
UBER	Uber	63.18	Feb-21	24.73	(61%)	33.4	(47%)
LYFT	Lyft	66.34	Mar-21	11.02	(83%)	10.2	(85%)
ARKK	Ark Innovation	156.58	Feb-21	31.37	(80%)	38.44	(75%)

Business press reports on Lyft's earnings report noted that Lyft issued unexpectedly pessimistic revenue guidance for the first quarter of 2023, even though it had beaten Wall Street revenue and profit estimates for the fourth quarter. None of these reports attempted to explain why the market's much more negative view of Lyft had developed six months ago, or attempted to explain the increasingly divergent valuations in terms of anything Uber was doing better, or in terms of likely near-term P&L performance differences. If one carefully restates earnings to adjust for accounting anomalies and irrelevant items, one would see that Uber margin gains have been stronger than Lyft's but none of the industry observers have done that and none have offered any public explanations as to what has been driving Uber's better performance. [10]

There has been some speculation that Uber is now in position to drive Lyft out of the market and benefit from vastly less competition. Lyft CEO Logan Green noted a weak current pricing environment given Lyft's need to "remain competitive within the industry." This suggests that Uber may have been keeping fares down, not only to boost its top-line traffic numbers but to increase pressure on Lyft.

While this is a topic that has not even been hinted at in the business press, few things excite the stock market more than the elimination of competition, and this might explain some of the current divergence in Uber/Lyft valuations. But Uber can't realize those kind of gains (e.g. big increases in market power over consumers and drivers) unless Lyft approaches the verge of liquidation, and there's no evidence that's a near-term possibility. To the contrary, Lyft will presumably do everything possible to fight for survival, producing market share battles which would hurt both company's dismal margins.

Lyft has always been a distant number 2 to Uber, but there's never been evidence that passengers have any willingness to pay higher prices just to ride with the bigger company. It is possible that Uber has figured out ways to get wealthier customers to pay higher fares, or to get drivers to accept lower compensation while keeping them from realizing that they are getting an increasingly lousy deal, but those would not seem to be things that Uber could increasingly exploit to maximize pressure against Lyft.

Any investor expectations that Uber could buy Lyft and merge them out of the market would appear unrealistic at this point. Unless Lyft thought the risk of liquidation was imminent, they would demand an extremely high acquisition price. Unlike the situation when companies like Google and Facebook bought out competitors, Uber is not in a position where it is flush with profits and can pay for acquisitions with extremely valuable and rapidly appreciating stock. And antitrust authorities would fully recognize the purely anti-competitive nature of any Uber-Lyft merger and would recognize that Uber has none of the popular support that companies like Google and Facebook enjoyed when they pursued anti-competitive mergers.

[1] The issues with Didi's profitability--despite massive market advantages it had versus Uber (95%+ market share, much lower car ownership rates, cities that were much larger and denser), were discussed in Can Uber Ever Deliver? Part Twenty-Five: Didi's IPO Illustrates Why Uber's Business Model Was Always Hopeless, August 2, 2021

[2] Some speculative uptick in demand for unlisted Didi equity is possible but Beijing did not lift the ban on adding new users until January and the potential relisting in Hong Kong remains hypothetical. Silva, Marco, DiDi Global: Get Out While You Still Can, Seeking Alpha, Nov 15, 2022; Huang, Raffaele, Didi Wins Approval to Restart New User Registration for Ride-Hailing Service, Wall Street Journal, Jan 16, 2023. Uber had announced its intention to dispose of its Didi stock, but it is unclear how this could be done without crashing the values, especially in the absence of a healthy exchange-based trading. Briançon, Pierre, Uber Considering Shedding Its Stake in China's DiDi Global, Barrons, 15 December 2021;

[3] Uber Part Twenty Nine (February 11, 2022) presented a more detailed version of this table showing financial results from 2014 through the end of 2021. That table, and the 2019 column of this table, also adjust published results to spread stock based compensation (SBC) expense realized immediately after Uber's 2019 IPO across a longer time period. In this case Uber was following proper accounting practices; it could not report these as current expenses until the day they actually vested, but this produced third quarter 2019 Uber P&L numbers wildly out of line with all other time periods.

[4] If drivers are employees, everything passengers pay should be included as "Uber revenue" and all regular and incentive payments to drivers should be included as expenses under "Cost of Revenue". If Uber, as it has long claimed is merely a passive intermediary providing software that helps independent drivers find customers, then only Uber's cut of passenger fares (what drivers are paying for Uber's software and brand support) should be included as "Uber revenue" and all other driver expenses (vehicles, fuel, hourly pay) are irrelevant to Uber's corporate P&L. Uber said the impact of the UK accounting change on its reported revenue by quarter was $200 million, $893 million, $1.1 billion and $1.2 billion. Driver reclassification also means that Uber is liable to collect value added tax (VAT) on passenger fares that small-scale independent drivers would not be required to collect. The UK fined Uber $732 million in 2022 for its past failure to collect VAT. As with the changed revenue accounting, Uber's SEC reports are designed so that it is impossible for investors to figure out what the net P&L impact of driver reclassification will be going forward

[5] Browning, Kellen, Uber Reports Record Revenue as It Defies the Economic Downturn, The New York Times, Feb 8, 2023; Needleman, Susan, Uber Shares Rise After Ride-Hailing Company Reports Revenue, Profit Growth, Wall Street Journal, Feb 8, 2023

[6] Jeanette Settembre, Uber 'taking advantage' of unsafe NYC with astronomical fares, New York Post April 15, 2022; Henry Grabar, The Decade of Cheap Rides Is Over, Slate, May 18, 2022; Asher Schechter, "Uber Has Higher Prices and Worse Service Than the Taxi Industry Had Ten Years Ago", ProMarket, July 28, 2022; Lee, Timothy B. What Shocked Me Most When I Became a Lyft Driver for a Week, Slate Dec 22, 2022 ("How much passengers were charged, how much I took home, and that somehow this company is still in business"); Salam, Erum, Uber drivers strike in New York after company blocks raises and fare hikes: City agency approved raises for drivers by 7.42% per minute and 23.93% per mile but company filed lawsuit, The Guardian Jan 5 2023; Sherman, Len, Uber's New Math: Increase Prices And Squeeze Driver Pay, Forbes, Jan 6, 2023; Hu, Winnie and Ley, Ana, Uber Drivers Say They Are Struggling: 'This Is Not Sustainable', New York Times, Jan 12, 2023; Rodgers, Sophie, Uber and Lyft used to be much cheaper than taxis. Now cabs are leveling the playing field, Crains's Chicago Business, Jan 27, 2023; Wehner, Greg, New York Taxi union to strike against Uber and Lyft at LaGuardia airport, Fox Business, Feb 23, 2023

[7] Companies whose December 2022 equity values were 95% or more below their 2021 peaks include Carvana, Vroom, Fubo TV, Opendoor, Upstart, RealReal, Redfin and Blue Apron; 94-90% down: Affirm, Lending Tree, Beyond Meat, Virgin Galactic, Pelaton, Teledoc Health, Good RX, and Roku; 85-89% down: WeWork, AMC,Twilio, Snap, Robinhood, Zoom, Rivan Automotive; 84-80% down Draft Kings, Lyft, Rocket, Palantir, Zillow, SoFi Technologies, Cloudflare and Door Dash; 70-79% down :Spotify, Grab, Warby Parker, Car Gurus and Pintarest. Wolf Richter's Wolf Street blog has been tracking these "Imploded Stocks" that had been inflated due to market-wide "consensual hallucination"

[8] Fujikawa, Megumi, SoftBank Loses $5.9 Billion in Quarter as Investments Suffer, Wall Street Journal, Feb 7, 2023

[9] Thompson, Derek, Why Everything in Tech Seems to Be Collapsing at Once, Atlantic, Nov 17, 2022; Goswami, Rohan, Tech's reality check: How the industry lost $7.4 trillion in one year, CNBC, Nov 25, 2022; Richter, Wolf, 2022, Year of Face-Ripping Bear-Market Rallies that Got Crushed, Wolf Street, Dec 30, 2022; Richter, Wolf, The Most Astounding IPO Hype-and-Hoopla Show Ever Ends 2022 in Tears, Wolf Street, Dec 26, 2022; Waters, Richard, Investors look for bottom of tech sector downturn, Financial Times, Jan 19, 2023

[10] Sumagaysay, Levi, Lyft stock closes lower than $10 for the first time; three-quarters of its valuation has been wiped away this year, Marketwatch, Dec 28, 2022; Bellan, Rebecca, Lyft shares get crushed on weak guidance for first quarter, Techcrunch Feb 9, 2023; Feiner, Lauren, Lyft shares tank 30% after company issues weak guidance, CNBC, Feb 10th 2023

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Hubert Horan: Can Uber Ever Deliver? Part Thirty-Three: Uber Isn't Really Profitable Yet But is Getting Closer; The Antitrust Case Against Uber

Posted on August 9, 2023 by Yves Smith

Yves here. Hubert Horan continues with his long-running series on Uber, showing that after 13 years, Uber is getting close to break even. Needless to say, all the billions invested to fund among other things billions in losses will not be recouped. But many of the promoters successfully relied on greater fool theory.

Yet again, he does the job the business press has failed to do: carefully parsing Uber financials and explaining what they say. Hubert highlights one factor driving margin improvement which may not have gotten the attention it deserves; Uber using data about individual driver and passenger behavior to tailor prices so as to better fleece them.

Hubert argues that Uber has taken all of its margin-improving tactics as far as they go (save perhaps restructuring UberEats) and projecting more increases would be a mistake.

Please also stay tuned for his review of anti-trust issues.

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.

After $33 Billion in Losses Over 14 Years, Uber is Finally Approaching GAAP Breakeven

Uber claimed its first ever quarterly GAAP profit when it released its second quarter and first half financial results on August 1. [1] The claim was a bit of stretch as the reported $394 million second quarter profit ($237 million for the first half) was entirely explained by an alleged $386 million second quarter gain ($707 million in the first half) in the value of untradable securities they hold in companies like Didi, Grab, and Aurora that have nothing to do with their ongoing operations. Readers of this series will know that Uber has aggressively used claims like this to justify misleading claims about its corporate financial performance ever since 2018 when it inflated published net income numbers by $5.8 billion just prior to its IPO. [2]

	2018	2019	2020	2021	2022	1H23
Uber Net Income, as reported	$1.0	($8.5)	($6.8)	($0.5)	($9.1)	$0.2
Uber Net Margin, as reported	8.8%	(60.1%)	(60.8%)	(2.8%)	(28.7%)	1.3%
Income from Discontinued Ops improperly included	$5.8	$0.0	($1.6)	$3.2	($7.0)	$0.7
Uber Net Income from Continuing Operations	($6.3)	($5.6)	($5.2)	($3.7)	($2.1)	($0.5)
Uber Net Margin from Continuing Operations	(55.9%)	(39.4%)	(46.3%)	(21.4%)	(6.6%)	(2.6%)

Even if the recently published numbers must be taken with a few grains of salt, Uber has achieved noteworthy loss reductions and margin improvements in the last two years. Year over year Uber achieved a $932 million improvement in net income and an 11.4% improvement in net margin. [3]

Lyft has also reduced losses but is still some distance from breakeven, losing $1.13 million in the second quarter and $300 million in the first half. [4]

Net Margin From Continuing Operations	2017	2018	2019	2020	2021	2022	1H23
Uber	(44%)	(43%)	(60%)	(46%)	(21%)	(7%)	(3%)
Lyft	(67%)	(45%)	(75%)	(76%)	(35%)	(36%)	(15%)

The biggest question for investors is whether they can count on similarly strong net income and net margin improvements in the coming years and demonstrate the strong and sustainable profit growth needed to justify huge corporate valuations. The fact that Lyft has emerged from intensive care and Uber can now walk upright does not mean that either company's finances are now fully healthy.

Answering this question is made more difficult by Uber's refusal to present a coherent explanation for its strong margin improvement, or why it has produced stronger margins than Lyft. Its financial reporting prevents investors from analyzing even the most rudimentary performance issues (e.g., how much of revenue growth was due to increased volume versus higher unit prices?). Uber's claim that the financial improvement was driven by revenue growth makes no sense. The fact that its much more robust pre-pandemic revenue growth led to multi-billion-dollar losses demonstrated Uber's lack of significant scale economies. Expanding unprofitable operations just increases total losses. Only major changes could have driven these margin changes (both absolute and relative to Lyft) but Uber doesn't want to discuss them openly.

Similarly, Lyft's only explanations were that "[t]he rideshare market is growing" and "[o]ur customer obsession is paying off."

The Four Factors That Drove Uber's Margin Improvements in the Last Two Years

Uber's first action to address the combination of ongoing losses and the financial devastation of the pandemic was to abandon the ridiculous long-term development projects that it had been pursuing under both Travis Kalanick and Dara Khosrowshahi, including efforts to become a leader in the development of autonomous vehicle technology, and efforts to develop urban transport services beyond its core car service market (scooters, flying cars, transit services). Uber abandoned some hopelessly unprofitable overseas markets and shrank back to being a pure car service and food delivery company (plus a tiny freight operation), eliminating major cost centers that had no hope of generating revenue on any reasonable timeframe. Lyft had wasted much less money on these highly speculative long-term projects, although it is still working to unwind its failed scooter investments. But firing 24% of its staff at the end of 2022 clearly provided an important P&L boost.

The second factor as documented in the table below, is that starting in early 2022, Uber began keeping a larger share of gross customer payments and giving a smaller share to drivers. Until the 2020 pandemic demand collapse Uber took roughly 22% of gross customer payments. It restored that rate in the second half of 2021 but then increased its take rate to 28-29%. This was not because Uber was providing an increasing portion of what customers valued. Uber simply figured out how to transfer over $1 billion in revenue per quarter from drivers to Uber shareholders.

	2016	2017	2018	2019	2020	2021	2022	
Uber Take Rate (% gross revenue retained)	20%	23%	23%	22%	20%	19%	28%	
	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23
Uber Take Rate (% gross revenue retained)	21%	22%	26%	28%	29%	29%	28%	28%

The third factor, the delinking of passenger fares and driver compensation was a major driver of this labor to capital wealth transfer. Prior to 2022, driver payments were a function of what passengers paid, with adjustments for incentive programs and peak period demand. Uber has developed algorithms for tailoring customer prices based on what they believe individual customers would be willing to pay and tailoring payments to individual drivers so they are as low as possible to get them to accept trips.

This is fundamentally different from Uber's pre-pandemic price discrimination, where it could apply Surge Pricing during periods of high customer demand (or driver shortages) but any customer in a given zone requesting the same trip at the same time would see the same price, and drivers would receive the same payment for those trips. Now different passengers/drivers making the same trip can see very different fares/payments. System average revenue per trip goes up, average driver payments per trip go down. Airlines have decades of experience changing fares depending on demand but have no ability to discriminate between passengers booking the same flight at the same time. [5]

The fourth factor is that Uber has significantly cut back service on the big service expansion that made them so popular prior to the pandemic. This made it much easier to get rides during peak demand periods and to the lower demand neighborhoods that traditional taxis had served poorly, but this approach hemorrhaged cash. Uber has reverted to the more economical traditional taxi approach, focusing on the narrow area of cities with the densest demand. [6] This increases the total (Uber plus driver) revenue potential of each driver shift, making it more likely that drivers, even if receiving a smaller share of customer payments, will find it worthwhile to spend time driving for Uber.

Thus 6-7% of Uber's 11% net margin improvement appears to come from the algorithmic price discrimination changes and the service cutbacks that allowed it to increasing its take rate from 22% to 28-29%. The balance appears to reflect the elimination of the costs associated with hopeless markets and businesses.

Uber stock outperformed Lyft in 4Q22 and 1Q23 due to the appearance that Uber was gaining revenue share from Lyft. Although this cannot be fully analyzed using public data, it suggests that Uber had done more algorithmic price discrimination and reductions in service scope than Lyft. Lyft had difficulty both in matching Uber prices and convincing drivers to serve Uber customers. But average revenue pre trip fell for both companies in 2Q23 as Lyft seemed to be stemming its revenue share declines.

Most of the Potential P&L Gains from Uber's Recent Moves Have Been Exhausted

Unfortunately, the large improvements that resulted from higher take rates and the elimination of totally unproductive expenses were (like Lyft's huge staff cuts) one-time improvements that cannot drive larger margin gains going forward.

While many on Wall Street think suppressing driver wages even further and transferring that wealth to capital would be a splendid thing, Khosrowshahi has stated that he does not think increasing take rates above 30% would be a good thing. [7] He understands that if drivers are angered/alienated beyond a certain point or feel that they will not earn enough money to cover basic costs, they would stop driving and Uber's ability to meet customer demand could quickly collapse, and that service collapse could spook investors expecting steady profit growth. He also understands that Lyft's new senior executives have become much more focused on maintaining pricing parity and Uber efforts to squeeze drivers further could quickly push drivers towards Lyft and give them a service advantage.

It is hard to believe that Uber (or the Uber/Lyft duopoly) could continue to increase both prices and traffic volume. Given the chaos of the pandemic and the return of inflation, customers in many service industries simply accepted whatever higher prices were offered. But unless the laws of supply and demand have been permanently reversed, they cannot use higher prices to drive ongoing revenue growth without choking off traffic growth.

Uber's early meteoric growth was based on extreme predation. It offered hopelessly uneconomic prices and capacity to grow demand and eliminate competition, and its ruthless behavior ensured that no competitor (other than Lyft) could survive if they tried to challenge them. But even if Uber's successful predation gives them more leeway to sustain supra-competitive prices (and service reductions) without risk of market discipline, Uber will still struggle with the conflict between higher fares and lower (or negative) growth.

The only remaining opportunity to significantly reduce expenses that are not producing financial returns would be a major restructuring of Uber Eats. While Uber's food delivery operations helped keep the lights on during the pandemic, Uber remains trapped with a weak position in an industry that Is fundamentally unprofitable and where the pandemic fueled demand for home delivery has dissipated. As noted, this cannot drive further margin gains at Lyft.

Everything Uber Has Done to Improve The P&L Contradicts its Narrative Claims About the Potential for Long Term Equity Appreciation

The combination of these challenges could fatally undermine the investor support that has sustained Uber's stock price. As this series has documented at length Uber's greatest accomplishment was its ability to construct narratives about its underlying strengths and huge future equity appreciation potential. The narrative claims developed under Kalanick about using innovative technology to disrupt backward industries, and using low fares and expanded capacity to pursue global industry dominance convinced investors to think that Uber had the same economics and same long-term equity appreciation potential as unicorns like Amazon. Thus, investors expected Uber to rapidly covert early losses into years of robust volume and profit growth in its core business, and then profitably expand into many related businesses. In the 2019 IPO Khosrowshahi distracted attention away from Uber's uncompetitive economics and awful financial results by doubling down on go-go growth narratives. Investors were told that Uber is a highly dynamic company with great long-term prospects that would become the "Amazon of Transportation."

Uber's reluctance to explain how it improved margins and established a P&L advantage versus Lyft is because the explanation directly contradicts these corporate narratives, and because the explanation would help investors see that the recent rate of margin gains is not sustainable.

Uber has abandoned everything that got the market to enthusiastically support them 10 years ago. Uber is now just a much higher cost version of the traditional operators they vilified as an "evil taxi cartel". Their fares are now higher than traditional taxis used to charge, they no longer offer a lot more cars in peak periods and they no longer serve neighborhoods throughout each city. Uber has completely abandoned its original "megagrowth driven by much more service at much lower prices" strategy but still tells investors that robust growth will drive future equity appreciation. Every Uber attempt to mimic Amazon's expansion beyond its core market has also failed.

From a narrow P&L perspective Uber's recent moves to cut service and raise prices are sensible, but if openly discussed investors could realize that the entire corporate growth narrative was always a sham. Investors would stop seeing Uber as a dynamic fast-growing "tech" company and would realize it was simply a player in the economically difficult and slowly growing urban car service industry. Investors applauded Uber for introducing innovative technology that "disrupted" a backward industry and brought huge benefits to consumers and cities.

It does not want those investors to see that the Uber's "innovative technology" is focused on the algorithmic exploitation of both customers and drivers. It does not want investors to see that none of its recent P&L gains were due to true productivity improvements and thus these gains cannot be extrapolated into the future.

Going forward Uber must deal with the enormous tension between the things it has done to get the company closer to breakeven, and the narratives it uses to maintain strong demand for its stock. As documented in Part 32, the residual power of Uber's growth narrative was strong enough to sustain its share price in 2022 when the value of a wide range of narrative-based "tech" startups that had never demonstrated sustainable profitability fell by 60-90%. [8] These tensions emerged when Uber's share price actually fell after it announced its first ever operating profit because investors realized revenue had grown much less than a growth company like Uber should have achieved. [9]

Some analysts suggested that the Lyft-to-Uber revenue share shifts of recent quarters would trigger a Lyft doom-loop, and a much higher Uber share price could be justified by its inevitable capture of the entire Uber-plus-Lyft market. This was always wildly improbable. Both companies had survived despite years of huge losses; there was nothing to suggest Lyft was anywhere near total collapse. Lyft would only be willing to be bought out at huge price that rewarded Lyft's currently underwater investors. Any such merger would be so blatantly anti-competitive that the antitrust authorities would have to challenge it. And Lyft's recent efforts to stem the revenue share losses eliminates any near-term doom-loop threat.

The Antitrust Case Against Uber

Since this series began in 2016, I have argued that Uber's growth strategy had always been explicitly based on anti-competitive predatory behavior. Uber owned none of the vehicles used to serve customers and required very few capital assets, but investors provided a staggeringly unprecedented level of initial funding ($13 billion by 2015; $18 billion by 2018). This funding was used to overwhelm markets with car capacity at fares that came nowhere close to covering actual costs. It was also used to mount massive PR and lobbying programs designed to distract attention from the massive losses these subsidies created. Uber worked aggressively to convince markets (and journalists and politicians) that its meteoric growth was based on huge technological advances that had transformed a backward industry, and that its Amazon-like economics would drive years of strong equity appreciation.

Even though Uber was openly pursuing global market domination, and its $33 billion in losses clearly demonstrated that it was substantially less efficient than the thousands of taxi operators it had driven out of business, no one made any attempt to argue that Uber had violated the antitrust laws prohibiting predatory competition. This was because predation cases, which were common before 1970 became extinct after courts embraced Chicago School claims that there was no rational basis for companies to even consider predatory behavior.

As with many aspects of the Chicago School's efforts to nullify antitrust protections, the underlying academic arguments included important caveats and depended on the industry/market contexts of the examples cited, but the courts methodically converted these arguments to simplistic, ironclad prohibitions against enforcing the written statutes, independent of any case-specific evidence.

A key 1975 paper by Areeda and Turner's [10] plausibly claimed that that predatory pricing "seems highly unlikely" because of the huge costs and risks of major price wars in an established industry with established production economics but recognized there was still might be cases of companies "not competing on the merits". But the 1986 Matsushita case created the general rule that predation cases shouldn't be taken seriously ("predatory pricing schemes are rarely tried, and even more rarely successful.") and since competitive harms weren't sustainable they could be dismissed because they didn't pose lasting risks to consumers. The 1993 Brooke case (about predatory efforts by large tobacco companies to eliminate competition from generic brands) established a total prohibition of predation cases by establishing the insurmountable demand that plaintiffs had to prove there was a "dangerous probability" that the company engaging in predation could fully recoup its losses through supra-competitive prices that future market entry could not discipline. [11]

Among many other flaws, the Chicago School efforts to rewrite the antitrust statutes implicitly assumed that every company had somewhat similar production economics, that corporate valuations were a direct function of its near-term P&L results and that barriers to new competitive entry in every industry were reasonably low. Predatory behavior would be rare and economically irrational under these conditions because any attempt to use a major price war to kill off competitors would be enormously costly to the predator, investors would have little interest or ability to fund large losses during the price war, and even if it temporarily succeeded new competition could quickly emerge to discipline the predator.

Section 2 of the Sherman Act and the Robinson-Patman Act were explicitly designed to prohibit what Uber actually did. It was pricing far below cost in order to drive smaller companies out of business while it pursued industry dominance. It not only had no efficiency advantages over the smaller companies but actually had huge cost disadvantages. It had none of the massive scale or network economies that have justified temporary below-cost pricing in other cases. As opposed to the electronics and tobacco companies in the previous court cases the staggering magnitude of Uber's financing advantage made it easy to win a predatory battle, and created a massive barrier to any future competitor that did not have eleven-digit levels of funding. Secure in its dominant market position, Uber has already reduced capacity and raised prices to levels much worse than consumers experienced before Uber's market entry. In addition to the massive misallocation of capital, Uber's predation imposed other significant external costs, including reduced productivity and innovation due to the elimination of competition, the destruction of a previously viable portion of transport service in hundreds of cities, and the losses of drivers whose compensation has been reduced to minimum wage levels.

A recently published draft of a forthcoming law journal article by Matthew Wamsley and Samuel Weinstein attempts to lay out an approach by which Uber could be sued on antitrust grounds. [12] A useful summary of the issues and arguments was published by Business Insider. [13] Wamsley and Weinstein clearly understand that Uber were clearly engaged in the type of predatory behavior prohibited by those statutes, however they also pragmatically recognize that because the courts reviewing antitrust cases have been overwhelmingly captured by Chicago School ideology "there does not yet appear to be any realistic chance that Brooke Group will be overruled." So instead of attempting to overturn the cases that gutted laws against predation, the article shows that a strong case against Uber can be made while strictly observing the criteria established in Matsushita and Brooke.

In order to get around the "companies have no rational basis to pursue predation" argument, the article correctly demonstrates that Uber's predation was never intended to generate near-term P&L gains, but successfully supported Uber's original investors' central objective of maximizing the value that their shares could achieve once the company went public.

The relevant economic actors in Uber and other "tech" startup cases are the venture capital firms that participated in early funding rounds. Their investment approach was totally different from the shareholders of most established companies in the mid/late 20th century. These VC firms provided Uber's funding, controlled Uber's Board, and directed Uber's strategy. They could achieve fabulous riches just by getting to the IPO that allowed them to convert the hypothetical value of their investments into cold hard cash. The narratives Uber's original owners and executives promulgated pumped up demand for the IPO by creating the false narratives about Amazon like economics and long-term equity appreciation potential, that meant investors could ignore the dreadful financial numbers in the S-1. [14]

Benchmark Capital invested $9 million in Uber's Series A. After Uber's IPO its return on this investment was $5. 8 billion. Travis Kalanick cashed in $1.4 billion in shares after the IPO while still holding shares worth an additional $5.3 billion. Thus the Matsushita test of rationality has clearly been met, even though neither Benchmark (the largest initial investor) nor Kalanick (the CEO) had done anything to establish a company that had any hope of strong sustainable profits. Benchmark and Kalanick had not only met the Brooke test of clearly recouping the initial losses from predation but had achieved returns from predation that John D. Rockefeller and the Standard Oil Company could have only dreamed of.

My only quibbles with Wamsley and Weinstein's article is that it missed a few points that would have made their case even stronger. They included very little of the available P&L data that demonstrates the magnitude of the predation, and that none of the predation-fueled growth was part of a plausible plan to generate sustainable profits. They did not seem to be aware of magnitude and power of Uber's PR/propaganda efforts which would be key to demonstrating that Uber's early investors had a highly rational plan to create the investor perceptions that allowed them to recoup the costs of their predation after the IPO. [15] Their point that the early-stage investor funding financed the predation would have been stronger if they had quoted numbers showing the massive size of that war chest, or if they had pointed out that Uber's investors provided 2300 time the pre-IPO funding of Amazon, whose growth strategy was not based on predation. They incorrectly assumed that Kalanick was ousted by the Board because of bad publicity from various scandals, when the real reason was Kalanick's failure to implement the IPO as quickly as the early-stage investors wanted. [16] They incorrectly claimed that Uber's "network economies" could be a partial explanation of why Uber grew so fast and why no one has attempted to compete with them. But Uber never had any of the "Metcalfe's Law" type network economies that other "tech" companies exploited [17] and no one wanted to try and compete with a company that still has over $6 billion in cash on hand and a proven track record of ruthlessly attacking any and all challengers.

Again, none of these quibbles undermines the core argument that Uber clearly pursued the type of predatory behavior that Section 2 of the Sherman Act and the Robinson-Patman Act were explicitly designed to prohibit, and that this can be demonstrated in a way that overcomes Matsushita-type objections that predation is irrational and cannot materially harm consumers, and overcomes Brooke-type requirements showing returns to predation that fully recoup the losses incurred.

I have absolutely no expectation that anyone will pursue an antitrust case against Uber on these grounds, but it is useful to point out that Uber's entire corporate development strategy violated the law, and Uber would have failed long ago had anyone enforced the law.

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[1] Preetika Rana, Uber's Business Is Finally Making Money After Years of Losses, Wall Street Journal, 1 August 2023, Uber 10Q statement for second quarter 2023 Available at https://investor.uber.com/financials/default.aspx

[2] Can Uber Ever Deliver? Part Nineteen: Uber's IPO Prospectus Overstates Its 2018 Profit Improvement by $5 Billion, Naked Capitalism, 15 April 2019; Can Uber Ever Deliver? Part Twenty-Nine: Despite Massive Price Increases Uber Losses Top $31 Billion, Naked Capitalism, February 11, 2022, presented a more detailed version of this table showing financial results starting in 2014. The problem with including the hypothetical impacts of securities received when failed operations were discontinued is that it creates wild swings in reported Uber Net Income, making it extremely difficult for outsiders to understand how the performance of Uber's ongoing operations is changing. Data in these tables from 2019 (and earlier) also adjust published results to spread stock-based compensation expense realized immediately after Uber's 2019 IPO across a longer time period. In this case Uber was following proper accounting practices but adjustments required to accurately show financial trends over time.

[3] All expense and net income numbers in this discussion exclude the impacts of discontinued operations.

[4] Lyft Announces Results for Second Quarter 2023, https://investor.lyft.com/news-and-events/news/news-details/2023/Lyft-Announces-Results-for-Second-Quarter-2023/default.aspx

[5] Airline pricing is completely transparent; frequent flyers and internet booking sites would immediately if airlines tried to force some customers to pay higher fares than others for the same service. In contrast Uber passengers have no way of knowing if the fare they are shown is "fair". And Uber has worked aggressively to prevent drivers from using tools that would allow them to see what other drivers are being paid, or when Uber is surging fares in specific areas.

[6] First discussed in this series at Can Uber Ever Deliver? Part Two: Understanding Uber's Uncompetitive Costs, Naked Capitalism, 1 December 2016

[7] Interview of Khosrowshahi by Ben Gilbert and David Rosenthal, www.acquired.com, 12 June 2023

[8] Can Uber Ever Deliver? Part Thirty-Two: Losses Top $33 Billion But Uber Has Avoided the Equity Collapse Most "Tech" Startups Experienced, Naked Capitalism 27 February 2023

[9] Christina Falso, Uber shares dip after mixed second-quarter results. Here's what the pros are saying, CNBC, 1 August 2023 Yiwen Lu, Uber Posts 14% Rise in Revenue as Growth Slows, New York Times, 1 August 2023,

[10] Phillip Areeda & Donald F. Turner, Predatory Pricing and Related Practices Under Section 2 of the Sherman Act, 88 Harv. L. Rev. 697 (1975).

[11] Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 589 (1986); 14 Brooke Grp. Ltd. v. Brown & Williamson Tobacco Corp., 509 U.S. 209, 224 (1993).

[12] Wansley, Matthew and Weinstein, Samuel, Venture Predation (May 3, 2023). Journal of Corporation Law, Forthcoming, Cardozo Legal Studies Research Paper, No. 708, Available at SSRN:

https://ssrn.com/abstract=4437360. While Uber is the primary example cited the article also discusses the predatory behavior of similar companies such as WeWork and Bird.

[13] Adam Rogers, The dirty little secret that could bring down Big Tech, Business Insider Jul 18 2023, https://www.businessinsider.com/venture-capital-big-tech-antitrust-predatory-pricing-uber-wework-bird-2023-7

[14] Can Uber Ever Deliver? Part Nineteen

[15] I first described Uber's manufactured narratives in Can Uber Ever Deliver? Part Three: Understanding False Claims About Uber's Innovation and Competitive Advantages, Naked Capitalism 2 December 2016. They are more fully documented 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/

[16] The Board rebellion that led to Kalanick's ouster is described at Can Uber Ever Deliver? Part Ten: The Uber Death Watch Begins, Naked Capitalism, 15 June 2017

[17] These network economies are when the value of a service to individual users increases significantly as more and more people use the service. Classic examples are Ebay and Facebook. Uber users care about the availability of car service at attractive prices when they need a ride but do not care about the size of Uber's overall user base.