

Uber goes public: everything you need to know about the biggest tech IPO in years

After almost a decade of disruption, Uber is finally going public. The company is the highest valued tech IPO since Facebook and Alibaba, and it's part of a wave of Silicon Valley "unicorns" to go public this year, including Airbnb, Zoom, and Slack. While today's debut represents a new chapter for the money-losing, scandal-prone Uber, it also likely signals the end of an era of cheap rides for millions of drivers and riders across the globe.

Here's everything you need to know about Uber's big day.

What's the deal with Uber's valuation? It's up, it's down...

Late last year, the expectation was that Uber would go public at a whopping \$120 billion, nearly double the company's valuation in a fundraising round from August 2018. That would have made Uber more valuable than General Motors, Ford, and Fiat Chrysler – Detroit's "Big Three" automakers – combined.

But as the public offering neared, that valuation began to slip. Earlier this week, Uber said it expected to price its initial public offering between \$44 and \$50 per share, finally settling on the low end of \$45. At that price, the company will be valued at about \$75.46 billion, which still makes it one of the most valuable companies ever to go public, but that's a 38 percent drop in its estimated valuation from October 2018.

What happened? A bunch of things, most notably the experience of main rival Lyft since it went public in late March. Since

then, its stock has fallen more than 25 percent. Lyft also reported losing a staggering \$1.1 billion in its first quarter earnings, which the company chalked up to 2019 being a “peak loss” year.

Expect the same from Uber. The ride-hail company already loses somewhere around \$800 million a quarter, and it is significantly larger than Lyft, with a global reach and numerous side businesses like food delivery and freight.

When asked by CNBC if 2019 will also be a year of peak losses for Uber, CEO Dara Khosrowshahi said that was the “intent.” Uber already loses obscene amounts of money; it will be interesting to see how the markets react to accelerated cash losses later this year.

Wait, what’s the deal with Travis Kalanick?

Okay, very quickly because this is kind of petty: Uber’s co-founder and former CEO Travis Kalanick was not invited by Khosrowshahi to help ring the bell at the New York Stock Exchange this morning, which some see as a major snub.

If you’ll remember, Kalanick was the face of the company during Uber’s *annus horribilis* in 2017 when self-inflicted scandals began piling up like for-hire vehicles on the 101 freeway. He was ousted in mid-2017 and replaced by Khosrowshahi, but he remains a major player in the company as a board member and a minority shareholder.

Kalanick wanted to help ring the bell today, but Khosrowshahi reportedly said no. It seemed like a move designed to emphasize Uber’s future rather than its past. But, of course, all anyone could think was “*drama!*”

Asked about Kalanick’s absence on the dais, Khosrowshahi told CNBC that those spaces were reserved for “longtime employees

who have been with us thick and thin, and drivers and couriers who use our service. That's what the dais should honor." That said, he also praised Kalanick for his "genius" and noted that the ex-CEO was still there to celebrate and rub elbows with executives and investors.

Okay, so Uber's public now. What does that mean for me?

Most of the sums we're talking about are huge, abstract, and don't mean much to the average person. Assuming you aren't Jeff Bezos (unless you are; hi, Jeff!) or Kalanick, Uber going public isn't going to result in some influx of billions of dollars into your bank account.

To answer that question, though, it depends on what type of person you are. Are you a person who uses Uber frequently or semi-frequently? If so, Uber's IPO will likely mean more expensive rides in the near future.

Uber's IPO is likely to mean more expensive rides in the near future

But, you may ask, isn't Uber in a price war with Lyft? And shouldn't that mean cheaper, not more expensive, fares? Perhaps in some markets, Uber will slash prices to poach riders from Lyft, but that's not likely to last very long. Both companies are now public and will face pressure from big investors and shareholders every quarter to stem their losses.

As previously mentioned, both Uber and Lyft are huge money losers. In 2018, Uber reported an operating loss of \$3 billion on revenue of \$11.3 billion, and its accumulated deficit reached nearly \$8 billion at the end of last year.

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Both Uber and Lyft have been subsidized over the past decade by venture capitalists and other private investors who have been willing to bet on the ride-hailing upstarts and whose funding allowed the experiments to grow with low fares. The companies used this cash influx to decimate the incumbent taxi industry and grab huge amounts of market share. But as public companies, that stage of their lives ends now.

There are other enormous pressures. Hundreds of Uber drivers went on strike this week ahead of the IPO in an effort to highlight poor pay and unsatisfactory working conditions. They argue that Uber's business model enriches the company's executives at the expense of low-paid drivers who are classified as independent contractors, making them ineligible for the benefits of full-time employment.

Just ahead of its IPO, Uber said in a regulatory filing it had reached settlements with the majority of the 60,000 drivers who filed arbitration complaints over their employment status. The settlements should cost between \$146 million and \$170 million.

Uber doles out cash incentives to drivers to keep them on its platform, hurting its bottom line even further, as well as rider discounts. In the company's S-1, it said it increased driver incentives and promotions in the first quarter to maintain its competitive market position, and it noted that it expects its driver relations to get worse.

Uber is already raising prices in one key market: New York City. A new minimum wage law and a new "utilization rate" approved by the city forced the company to hike fares in order to account for the time drivers spend looking for passengers. Other cities are exploring ways to lift pay for drivers, and that could mean more pressure on Uber to raise fares.

Why is this such a big deal?

Good question! Let's do a little reality check, shall we? How many people actually use Uber? Uber customers took 5.2 billion "trips" over the course of last year, though Uber has some nuances to how it counts these journeys. An UberPool carpool in which three customers share a ride but pay separately qualifies as three trips for the company. Uber Eats deliveries also count within trips.

Image: Center for a Digital Future

But Uber's growth is also tapering off. This chart from the Center for a Digital Future helps explain this problem. Most age groups in the US report slight increases in their use of ride-hailing services like Uber and Lyft between 2016 and 2018. Only the 25–34 group logged a decline of about 0.6 percent, but they are still the demographic with the highest usage at 27.3 percent. That's growth, right?

Not quite. Even for the age group that loves these services the most (25–34), 72.7 percent of them do *not* use Uber or Lyft regularly. In that same study, 85 percent of all Americans use these services rarely or not at all. Uber's revenue growth is slowing, year over year. And transportation network companies like Uber are only a fraction of the total number of vehicle miles traveled in the US at less than 2 percent.

But that is changing rapidly, especially in key markets like cities. Uber and Lyft have long argued that ride-hailing apps have the potential to make cities better by ameliorating traffic and reducing personal car ownership. But there is a growing body of research that suggests the opposite is taking place.

The latest study, published last Wednesday in the journal *Science Advances*, underscores how Uber and Lyft are

responsible for 40 percent of the increase in traffic congestion in San Francisco. And a study last year found that ride-hailing apps put 2.6 new vehicle miles on the road for each mile of personal driving removed, for an overall 160 percent increase in driving on city streets.

But who cares about traffic and profitability? Isn't Uber going fully driverless?

Uber has not given any predictions on when it may be profitable, but some investors are counting on fleets of self-driving vehicles making that possible. Driverless cars could eliminate some costs of paying drivers. But the technology is still really new. And even when they are completely self-driving, Uber will still have expenses for the technology and possibly the cars themselves.

"There is no driverless car path to Uber profitability, which is why the S-1's arguments are vague if not incoherent," Hubert Horan, a consultant with 40 years of experience in the management and regulation of transportation companies who wrote a 17-part examination of Uber's financial situation for *Naked Capitalism*, told *The Verge*. "The initial deployment of driverless cars, if it ever happens, would seriously increase Uber's costs, and the S-1 clearly shows that Uber lacks the capital needed to become a major player in this brave new world."

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Don't forget that Uber was responsible for the only death caused by a self-driving car. The fatal crash in Tempe, Arizona, in March 2018 was a huge setback for Uber and the entire autonomous driving industry. Still, Uber is pursuing fully driverless cars, and it's raising huge sums of cash off of the potential to deploy a giant fleet of robot taxis. The company recently spun off its self-driving unit after nabbing

a \$1 billion investment from Japanese conglomerate SoftBank, Toyota, and automotive component supplier Denso.

On Thursday, *The Information* reported that Uber has been in talks with Nuro, the developer of self-driving delivery vehicles, about using its purpose-built autonomous vehicles to help automate Uber's food delivery service.

"Stage one for autonomy is about growth and safety," Khosrowshahi said on CNBC this morning. "So first, it's got to be safe. Then autonomy is going to bring down costs per mile, which, essentially, is going to open up another stage of growth for us, I think. That profit time is well out, but I think the growth is well worth it."

Calling Uber's profit from self-driving cars "well out" is a bit of an understatement. Fully driverless cars aren't expected to be commercially ready, let alone profitable, for years, if not decades. In the meantime, Uber will continue to hemorrhage cash, propped up by investor cash and the \$8 billion it expects to raise through its IPO. (Khosrowshahi called it "a very significant runway.")

Photo by Spencer Platt / Getty Images

So what's next? Should I buy this stock or what?

Uber needs to get right with cities. It will be tough going, given the company's history of bulldozing its way into urban areas without permission, decimating the highly regulated taxi business, and then asking for forgiveness later. City officials are rightly skeptical of Uber's recent peace offerings, including its offer to steer more riders toward public transportation by adding subway and bus schedules as well as ticket-purchasing power into its app.

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Cities could quickly turn the table on Uber through tighter regulation and stricter controls on driver wages because Uber is especially vulnerable in cities. In 2018, the company derived 24 percent of its gross bookings from five metropolitan areas: Los Angeles, New York City, and the San Francisco Bay Area in the US; London in the UK; and São Paulo in Brazil. That's some pretty incredible leverage, and it helps explain why Uber is bending over backward to placate cities by supporting major policy shifts like congestion pricing and driver wage increases.

If the company continues to steal riders from public transportation and mistreat drivers, cities could use that leverage to put more pressure on Uber, which could affect stock prices, which could incur shareholder wrath... you can see how this plays out, right? Uber is diving into unknown waters with its IPO today, and it seems very likely that the service we have come to know and love (or at least tolerate) won't ever really look the same ever again.

<https://www.theverge.com/2019/5/10/18564197/uber-ipo-stock-valuation-pricing-fares-drivers-public-market>