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Uber Technologies, Inc. (UBER)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. My name is Brent, and I will be your conference operator today. At this time, I'd like to welcome everyone to the Uber Second Quarter 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

It's now my pleasure to turn today's call over to Mr. Balaji Krishnamurthy, Head of Investor Relations. Please go ahead.

Balaji Krishnamurthy
Head of Investor Relations, Uber Technologies, Inc.

Thank you, Brent. Thank you for joining us today, and welcome to Uber's second quarter 2022 earnings presentation. On the call today we have Uber'S CEO, Dara Khosrowshahi, and CFO, Nelson Chai.

During today's call, we will present both GAAP and non-GAAP financial measures. Additional disclosures regarding these non-GAAP measures, including a reconciliation of GAAP to non-GAAP measures, are included in the press release, supplemental slides and our filings with the SEC, each of which is posted to investor.uber.com. As a reminder, these numbers are unaudited and may be subject to change.

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Certain statements in this presentation and on this call are forward-looking statements. Such statements can be identified by terms such as believe, expect, intend and may. You should not place undue reliance on forward-looking statements. Actual results may differ materially from these forward-looking statements, and we do not undertake any obligation to update any forward-looking statements we make today, except as required by law. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued today as well as risks and uncertainties described in our most recent annual report on Form 10-K for the year-ended December 31, 2021 and in the other filings made with the SEC when available.

We published our quarterly earnings press release, prepared remarks and supplemental slides to our Investor Relations website earlier today, and we ask you to review those documents if you haven't already. We will open the call to questions following brief opening remarks from Dara.

With that, let me hand it over to Dara.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

Thanks, Balaji. Uber delivered another strong quarter, with Gross Bookings at an annualized run-rate of $116 billion, an all-time high; EBITDA of $364 million, another all-time high and well above our guidance range; and positive free cash flow for the first time ever of $382 million.

Despite the uncertain global economic environment and considerable foreign-exchange headwinds, we've issued Q3 EBITDA guidance that shows strong incremental progression, and we remain confident in our ability to deliver healthy top and bottom-line growth, strong margin improvement and, yes, free cash flow, all the while continuing to responsibly invest in technical innovation, earner satisfaction and durable long-term growth.

As I've said before, we continued to benefit from a secular increase in the on-demand transportation of people and things as well as a shift back from retail spend to services spend, and we intend to continue capitalizing on these growth tailwinds in a profitable manner.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from the line of Ross Sandler with Barclays. Your line is open.

Ross Sandler
Analyst, Barclays Capital, Inc.

Q

Hey, guys. Nice job on the quarter. Just two questions. First, Dara, how would you characterize, like, the overall operating environment today versus pre-pandemic? You seem to be gaining category share, and a lot of the smaller competitors from private markets are retrenching. Even some of your larger competitors are struggling a bit. So, is life getting easier for Uber to be successful? That would be the first question.

And then the second question, Nelson, the 3Q guide assumes another solid incremental margin. Can you just flesh out where that's coming from? Is that just fixed-cost leverage that you expect to see over time? Or are you seeing more of markets kind of reach that top-20, above-target margin level that you had talked about at the Analyst Day? Thanks a lot.

Nelson J. Chai
Chief Financial Officer, Uber Technologies, Inc.

A

Hey, Ross, thank you for the questions. So it's Nelson. I'll go first in terms of the guidance. So what we're seeing is, we're seeing, first of all from a revenue margin perspective, a real uptick on the Delivery side, as we're just – the cost per transaction is just improving. And so we're doing a really good job as a team in terms of creating efficiencies there.

We're seeing gross profit improvement across both Mobility and Delivery, and then we are getting the fixed-cost leverage that you referenced. So that, yeah, and again the business is operating really well right now, and again we're really proud of the performance that we had in the second quarter. And so we expect to keep it up on the balance of the year regardless of the operating environment.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

All right. And then, Ross, as far as operating environment goes, listen, no one wishes for a tough economic environment or elevated inflation that's affecting so many of us, including Uber drivers. But at the same time, from a competitive standpoint, there's no question that this operating environment is stronger for us. We are able to in this environment, I think, show our capital discipline as you've seen in terms of the margin increase and free cash flow generation as well.

At the same time, because of our scale and because we've been making these investments for years, we're able to continue to invest in our new verticals business and relaunching UberX Share and investing in hailables, et cetera. So, we also continue to invest in top-line so that our top-line growth continues to be durable.

And in a different environment, the platform advantages that we brought, the scale advantages, the global advantages that we brought to some extent, sometimes were kind of out-shouted by just higher spend by competitors. So, in an environment where capital discipline becomes more important, I think the larger players,

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and we are the largest players, the most diversified players and we're definitely more diversified than anyone else as far as the kinds of businesses that we are and our global footprint.

And then the players who have true platform advantages, which again is Uber, really start coming to the fore. So, when we look at a competitive environment, this is the strongest we've felt competitively globally since Nelson and I probably started here. And hopefully, the overall environment will get better, and the competitive environment will continue as is.

Next question?

Operator: Your next question is from the line of Doug Anmuth with JPMorgan. Your line is open.

Douglas Anmuth
Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. Dara, there's obviously been a lot of discussion about increased incentives in the market, but it seems like you've been able to improve the driver experience and exercise discipline on incentives. So, hope you could talk more about how you're doing that.

And then, Nelson, perhaps you can just talk about some of the interplay here in driving the free cash flow above EBITDA in 2Q and just how you're thinking about the relationship of the two over the next couple years. Thanks.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

Sure. As far as incentives, et cetera go, you're absolutely right, which is we've been able to apply discipline here. And, listen, you can't spend your way to glory in any business. And what we've really started to focus on are three things. One is, what are the overall earning of drivers going to be? The second is, what is the driver onboarding experience? Because we're adding drivers very, very quickly to the platform. And then, what does the driver experience look like once they are on-platform? Can we retain them for longer, et cetera?

And I think the combination of all three, our onboarding process has improved significantly, including our being able to bring on new drivers to deliver for Eats first and then essentially move them over to driving people and working for Mobility where earnings levels are higher. So, our onboarding flows are much more efficient than they have been in the past, which allows us to essentially bring on more drivers at lower cost, convert a higher percentage of drivers who have shown an interest in earning on the platform.

Then you've seen us invest in our driver experience, chiefly with a number of new innovations including showing your destination up-front, showing your full fare up-front, new innovations like Trip Radar. And now we're rolling out a new Uber Pro loyalty program that gets drivers up to 2% to 6% off when they use our debit card for using – in buying gas. That's all about the driver experience as well.

And then on the incentive side, as a result of just onboarding experience getting better, drivers being able to earn multiple ways on Uber and overall utilization being at very, very high levels, that has resulted in high driver earnings. So, drivers at the US who are cross-dispatching are earning about $30 an hour, which is very attractive earnings. And drivers who are in Mobility only that tends to pay higher are making $37 per utilized hour as a result of the strong economics. This is all the while, our taking driver incentives down, as a percentage of overall bookings as we drive more efficiency through the system. So, right now, the machine is working, and we're a very, very competitive place to earn, and it's showing in the driver retention numbers.

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Nelson J. Chai
Chief Financial Officer, Uber Technologies, Inc.
A

Hey, Doug. On the question on cash flow, so if you recall back on Investor Day, I made the commentary that free cash flow trails adjusted EBITDA by about $1 billion annually. So, I'm not updating the number for you, but I would say that we do expect that we will outperform. As you see, just the EBITDA margin as a percentage of gross booking improved, so that obviously helps in terms of what flows through the bottom line.

But we are spending time in terms of looking a little bit more at our working capital and managing it. And then again, it is important to note it's not a direct correlation from EBITDA to cash flow because they're different financial statements, so cash flow is very much more of an annual thing. So, you pay out bonuses in Q1, as an example, you get the benefit of the crew bonus in the rest of the quarters.

So you'll see us continue to do it. I do expect that we'll do better than the $1 billion target. Free cash flow is actually a GAAP number, as you will, so it's not like adjusted in and out. And so again, we will continue to update this over time when it makes sense, but we're really proud. And we knew we would get there because think about all of the steps we took during the pandemic. And if you think about all the platform moves now to be asset-light.

Additionally, the other thing is we were doing some build-out on real estate like Mission Bay in some of the years past. So, most of that stuff is behind us now, and so as you think about the business in the current operating platform, this should be a really, really strong cash flow generator, which I think you probably heard from Dara and myself over the past couple of months.

Douglas Anmuth
Analyst, JPMorgan Securities LLC
Q

Great. Thank you, both.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.
A

Next question?

Operator: Your next question is from the line of Brian Nowak with Morgan Stanley. Your line is open.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC
Q

Thanks for taking my question. Good morning, guys. So, I had a couple questions. Dara, and also I wonder, could you just update us a little bit on sort of where are you in the US when it comes to average rider wait times versus where you have been in the past, versus where you're targeted to be? Anything on sort of conversion rates? Your riders are going and search and actually book a trip. How are those metrics? Anything on supply as well I'd be curious to hear. And the new update on Uber One, 10 million users, helpful. What are we seeing in terms of frequency and spend per user on the Uber One user base? Thanks.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.
A

Sure. Yeah, as far as the experience, the metrics in terms of surge, wait times, those experience metrics continue to move in the right direction. We're not where we want to be, but they're certainly moving in the right direction, which is now kind of surged trips in the US in July, we're in the teens, about 14%. We actually have a graph in our

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supplementals, 14% of trips, and that's coming down from the 20s. So, surge continues to move in the right direction. And then US wait times are running at an average of 4.5 minutes now and they were in the 5 to 6 minute timeframe. So, from that standpoint, that is a very, very nice improvement. Again, we have more work to do ahead of us, but all of the experience metrics are moving in the right direction.

Conversion is stable now. We're looking to increase it over a period of time. Conversion is stable. And when we look at supply – the supply situation continues to improve, where the number of new driver sign-ups in the US were up 76% on a year-on-year basis. So, we have a very strong flow of new drivers who are signing up, coming on to earn.

And over 70% of them have said that inflation and what they're seeing right now in terms of the cost of groceries, the cost of living, plays a part in that decision for them to come on to the platform. And as you know, Uber is an unrivaled platform in terms of flexibility, being able to earn when you want, where you want. And right now, the earnings levels are quite attractive, and as we continue to work on our experience, the driver experience, better customer service, more information, we think that driving for Uber will continue to be a really attractive alternative.

So, right now, the marketplace looks strong. September for us is a very, very big month. The summer-month demand stays stable, and then September in Q4, it really takes off. So, while right now the experience metrics are moving in the right direction, the team is very, very focused on September plus back-to-school and making sure that the experience remains the best ridesharing experience out there.

Nelson J. Chai
Chief Financial Officer, Uber Technologies, Inc.

A

Membership?

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

As far as membership goes, we're very positive in terms of the trends that we're seeing. We are now at about 10 million members, very excited about Uber One. Uber One has now been launched in seven markets globally, and about 23% of our overall Gross Bookings come from members. That's 32% for Delivery. Membership now is more focused on Delivery at this point.

Over a period of time, we're going to kind of bring in the Mobility benefits as stars as well. And generally, we're seeing increased engagement as a result of being a member. Members have about 2.7 times of Gross Bookings on Uber than non-members. So we think it's a pretty significant engagement lever, and it's a pretty significant LTV lever as well. So we definitely like what we're seeing with membership.

I would add to that for us, what we have with Uber is, we first bring in customers. And of course we've got the greatest front ends in terms of both rides and Eats, so we can bring on more new customers than other model line platforms. We then cross-sell customers, and then once we cross-sell customers, we move them into membership as well. So, the strategic ability to cross-sell, the strategic ability for us to drive Gross Bookings per audience is just structurally advantage for us, and membership is a piece of that strategy.

Brian Nowak
Analyst, Morgan Stanley & Co. LLC

Q

All right. Great, thanks, Dara. You've been helpful.

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Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

You bet. Next question.

Operator: Your next question comes from the line of Mark Mahaney with Evercore ISI. Your line is open.

Mark S.F. Mahaney
Analyst, Evercore ISI

Q

Two questions, please. First, can you talk about the markets that are still lagging that are still in recovery phase and if there's anything you can do to get those markets back up? And that's on the Mobility side. And then secondly, just because we've talked so much about recession risk during this earnings season, are there any signs that you see in your businesses that – of your segments, particularly in the Delivery segment, of economic sensitivity? Lower ordering? Smaller basket sizes? Something that indicates that that part of the business is being impacted by macro? Thank you.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

I'll do the first one. Nelson will do the second one. In terms of Mobility markets that are still lagging, really, the only ones that I will point out are in the US. San Francisco, Los Angeles, Seattle are lagging nationwide recovery. Markets, if you can get more people in San Francisco, that would help. I think it has to do with some of these cities opened up, people going to work, et cetera.

But otherwise, the recovery for us has been pretty broad, and we've been very pleased in terms of the recovery on a global basis. When we look at use cases now, the travel use case is back very, very strongly. Uber for Business, our managed business, has doubled on a year-on-year basis as well. So companies are starting to travel as well. So the recovery is pretty broad. But there are a couple of cities, and especially West Coast cities in the US, where the recovery is still trailing. But when we look overall, everything is getting better, Mark, and we expect trends to continue to improve as we go back into the second half. Nelson, you want to talk inflation?

Nelson J. Chai
Chief Financial Officer, Uber Technologies, Inc.

A

Yeah. So, Mark, in terms of your second question, we actually haven't seen it, right? So, we obviously look at trade-down across our major countries. We actually look at cohorts depending on income levels, and we haven't seen any discernible trends, is what I would tell you. And we've seen more spikes and peaks more based on still COVID activity. So, recently in Japan, COVID spiked, and you saw demand spiked for Delivery. But – so it's been a little bit more about still the COVID trade recovery and things that happen there than we've seen impact on inflation at least so far.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

And to some extent, we could be seeing evidence where it's helping us in that it's a very significant consideration base for drivers coming on to the system. Over 70% of drivers say inflation has played a part in their decision to come on to the platform.

Mark S.F. Mahaney
Analyst, Evercore ISI

Q

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Thank you, Dara. Thank you, Nelson.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

You're welcome. Next question?

Operator: Your next question is from the line of Justin Post with Bank of America. Your line is open.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thanks. A couple, maybe just for Nelson. First on the margin improvement. Obviously, a big focus in the quarter. I was just wondering if you've pulled forward some of your margin improvement. Or are there really changes versus your $5 billion outlook? Are you trending above that in some areas? And then the second question on Delivery. I think we're looking for acceleration in the second half. Has that changed? And is that something, that behaviour is changing just because of the economy? Thank you.

Nelson J. Chai
Chief Financial Officer, Uber Technologies, Inc.

A

Sure, so the first question, regarding the 2024 targets. So, when we laid them out there, we had a lot of confidence in terms of our ability to hit them. And so, obviously, the performance hopefully should give you guys the confidence that we're going to at least hit them.

Yes, we've been working – we've been operating really well, and Dara started on it, across the company in terms of managing both growth, future investment and, importantly, margin and cash flow and EBITDA. And so the company's operating really well right now. And so I would tell you that we do expect that you'll continue to see us improve both the gross margins as well as the bottom line. You'll see us continue to refocus and invest in businesses for the future and continue to improve the bottom line, and you should expect that ramp will continue. And so we have a high degree of confidence in terms of our ability to go do that.

In terms of specifically what's going on right now, I mean, yeah, we're just – we're operating better, as we don't see any, on the Delivery side in the back half. I would tell you that if you asked me – this is just Nelson talking – you could see trends on the top on Delivery, but the margins will be there and the EBITDA will be there. So we have a high degree of confidence. You've heard us talk in the past about levers that we have. And so again, we'll pull the levers. So we're going to definitely – we will make the guidance that we put out there or at least that's our full intention.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

I think just one other factor for Delivery in the second half is obviously foreign exchange. That has moved against us since our last guidance, and when you look at the Delivery business in the US, for example, Uber Eats grew 25% overall in the US which grew 21%. So some of the slowdown in terms of delivery growth comes from foreign exchange, and it's in a number of those European markets, where we do see some of our competitors pulling back as well. But when we look overall at our Delivery business, that team is really executing and especially executing on the bottom-line improvement.

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Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

You bet. Next question?

Operator: Your next question is from the line of Eric Sheridan with Goldman Sachs. Your line is open.

Eric J. Sheridan
Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for taking the question. Maybe two topics. On Uber for Business, nice growth there. Any sense you can give us on some of the form of activity you're seeing broadly around Uber For Business and how that might be able to capitalize on either a return-to-work or return-to-business travel as you look out over the next 12 to 18 months?

And then second, with Eats, you invested a lot in diversification of the platform into new categories around convenience and grocery and alcohol. Can you talk about how that wider diversification of categories has maybe changed some of the velocity you've seen of shopping or changed some of the LTV of the users of Uber Eats? Thanks so much.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

Absolutely, Eric. So, as far as U for B goes, we're hugely optimistic, and actually we continue to invest in U for B sales force, et cetera. The LTV-to-cap ratios are very, very attractive in terms of bringing on new sales teams. And we're really selling to significant enterprise customers out there, both in the tech space and the non-tech space.

A lot of these enterprises, some of them are going back to returning to office, some of them are not, but they are getting on the road. So the champion use case that we're seeing with U for B is essentially the business traveler getting out on the road again. And obviously, a sales call over Zoom is one thing, but if the salesperson comes in to see you in person, it gives a different impression. And we're seeing our U for B clients invest in getting their teams on the road because, as you can imagine, especially in this kind of environment, revenue growth is becoming more dear. And so a lot of salespeople are hitting the road, and that's definitely, definitely helping the U for B business.

We are also actively up-selling our Eats product into U for B. So we're seeing some customers, for example, buy our vouchers product. What it may look like is, hey, you get a free lunch if you sit in this particular session to learn about, call it, some new enterprise software capabilities. And the Eats voucher becomes a way for customer acquisition. We're seeing similar kinds of deals with online gambling, et cetera, so lots of partnerships with us as it relates to U for B, and to some extent, on the advertising side as well.

As far as new verticals go, we're quite satisfied in terms of the growth of that team. It's at about a $4.5 billion run rate in terms of Gross Bookings. We are investing in this business, and despite investing in this business – and

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it's in the hundreds of millions of dollars – you can see the profitability that we've been able to drive with the Delivery business overall. It's really because of the scale and efficiency that we're bringing to bear.

And what we're seeing with new verticals customers is that Uber Eats customers who also order from new verticals tend to stay with us, tend to have higher frequency. And it's really a part of the power of the platform that we're having. If you ride with us, if you eat with us, if you drink with us, if you order groceries with us, we just become an everyday part of your life. You top that off with the membership program, and we think we have a relationship with customers that really can't be duplicated in industry on a global basis. That's what the strategy's all about, and we're quite optimistic about our progress to date.

Balaji Krishnamurthy
Head of Investor Relations, Uber Technologies, Inc.

A

Next question, please?

Operator: Your next question is from the line of Lloyd Walmsley with UBS. Your line is open.

Lloyd Walmsley
Analyst, UBS Securities LLC

Q

Thanks for taking the questions. A couple if I can. First, in the prepared remarks, you talked about feeling good on the 2024 guidance. I guess, in the interim, do you still feel good about Mobility bookings growth in 2023 that's higher than 2019? Or is the tenor kind of macro and the increased focus on profitability kind of takes that off the table as something you want to commit to?

And then secondly, can you help us understand some of the sources of the big upside to Delivery incremental margins? Like how much was that reduced investment in new verticals or the ad business scaling or the competitive environment? Any further color you can give us to help understand that and kind of how that trends looking ahead. Thanks.

Nelson J. Chai
Chief Financial Officer, Uber Technologies, Inc.

A

So, Lloyd, yes, we did add the statement in there about 2024. Yes, we feel really good about how the business is operating today. Yes, we can't control the macro world, and so I don't really want to give you a GB guidance for Delivery for next year. But the business continues to grow well, and we are making investments. And again, we're not through the COVID recovery, number one.

Number two, the business continues to grow well, and so we have a lot of ramp left. And so Mac and the team feel really confident in terms of our ability to grow next year. And so again, we feel really good about our competitive position and how the business is operating today and the trends down the road because the platform is operating quite well.

What I would say in terms of Delivery, it's really all of above. So I would say that we're working really hard, and you heard my earlier comment about the fact that our revenue margins are improving because the team and we've worked through a lot in terms of improving just our courier efficiency or the cost per transaction. We've worked on all the different lines to try to find more efficiency, and we are doing a better job, if you will, about capital allocation in terms of promotion.

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And yes, you do get the benefit of the fact that some of the private competitors have gone away and some of the public competitors are getting the joke and understand now to be a durable company you have to make money. And so I think that is all positive if you think about it in terms of the margin structure and the profitability of our Delivery business down the road.

And so – and yes, we continue to ramp up our ads business. That's going quite well. So it's all of the above. And so I think we talked about it a lot at Investor Day and we'll continue to just execute our plan or over-execute our plan if you will.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.
A

And, Lloyd, just to go under the covers a little bit in terms of how we do this stuff. Usually when you're driving profitability, there's a trade-off with top line. But there's actually a lot of work going on algorithmically in terms of, for example, how do we price trips on the Delivery side per transaction? What percentage of trips do we batch? How quickly do our algorithms recalculate the most efficient route or the most efficient price to offer to a particular courier on a particular route?

All of those technical investments are able to drive cost per transaction down while keeping courier utilization at high levels and courier earnings at a high level. So there literally is no trade-off other than the time of the engineer kind of working on the algorithm.

It's the same thing when we talk about up-front pricing and up-front destination for drivers, which is, all things being equal, it is the number one kind of feature that they've been asking for. There's a lot of algorithmic work that has to go into pricing that trip properly, not only taking into account time and destination but where you're going, what the probability of getting a trip back to the center of town where you can get another trip, et cetera.

It's a bunch of that work on the technical side that allows us to improve profitability and/or experience without a trade-off in terms of top-line growth. That's where the magic happens, and that's what a lot of effort is going into. And that kind of effort is pretty hard to duplicate from competitors who kind of look at the service and say, well they are doing X, let's just do X as well.

Lloyd Walmsley
Analyst, UBS Securities LLC
Q

Thanks for the question.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.
A

Yeah. It really is, and the teams are working hard and I think that kind of under-the-covers work is underappreciated, and it's also very, very, very difficult to duplicate. So we love that kind of work.

Balaji Krishnamurthy
Head of Investor Relations, Uber Technologies, Inc.
A

All right. Next question.

Operator: Your next question is from Deepak Mathivanan with Wolfe Research. Your line is open.

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Deepak Mathivanan
Analyst, Wolfe Research LLC

Q

Great. Thanks for taking the questions. Dara, just wanted to ask about Uber Reserve. It seems like it's at a $2 billion run-rate already. What is the penetration in markets where it currently is available? And then how should we think about the scaling? You know that kind of the margins are higher on this. Can you also talk a little bit about that?

And then maybe one question for Nelson. It seems like Mobility Take Rates if you're calculating this correctly was down a bit quarter-to-quarter excluding the UK accounting and accrual change. I know there's a lot of moving pieces from fuel pass-throughs, et cetera, but can you parse that out a little bit? And how should we think about the underlying kind of comparable take rates? And then also flow-through into the EBITDA margins as a percent of bookings on the rates business?

Nelson J. Chai
Chief Financial Officer, Uber Technologies, Inc.

A

Sure. So I'll answer the first one – no, the second question first on the take rate. So yes, it was down in the quarter. As you know, we don't really focus on take rate. We give it to you because you guys focus on it, and it's more of an annual thing. The two big things was the surcharge definitely had an impact, and so that was probably 100 basis points. And then the other one is really just less surge. So you've heard us talk about the fact that we've invested in our marketplace. The health of our marketplace is better now. And so when there's less surge, it actually impacts the take rate, and so the combination of both was really what happened in the quarter. I don't know – I don't think that you should think about a big shift in terms of take rates going forward. I think where we are historically makes sense. But again that's really just what happened in the quarter.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

A

And then as far as Reserve goes, we're super-excited about the product. It's one of our fastest-growing products. And yes, margins on Reserve on average are higher. It's more of a premium product and part of our strategy here is to segment our customer base. We've got the largest customer base looking for Mobility services generally, and our ability to take segments of that customer base and then build product for those segments is really another scale advantage that we have that we bring to bear.

In terms of reservations, it's single-digit percentage of our total trips in the markets in which it has launched. We are continuing to launch Reserve in many, many markets, and it's a combination of reserving premium cars but also we are offering Reserve for X as well. And it's just a great experience. Like I've used it when I go to dinner with my wife. And instead of us hustling down to meet the car, that the driver can wait for 15 minutes and it's not a problem as well.

So we're seeing real consumer delight as it relates to Reserve. Drivers make more money. Drivers can anchor their day, it's that first morning drive and they know they are going to get to the airport and they'll get an airport drive back, et cetera. So it's working as a business in terms of margins. It's absolutely driving consumer delight, and it's our fastest-growing product right now and it's growing at scale. And drivers love it as well because their earnings are higher and again it's an anchor for them during their day that they can pre-plan. So team's doing a great job, and we'll keep rolling it out globally.

Balaji Krishnamurthy
Head of Investor Relations, Uber Technologies, Inc.

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Next question, please?

Operator: Your next question comes from the line of James Lee with Mizuho. Your line is open.

James Lee
Analyst, Mizuho Securities USA LLC

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Great. Thanks for taking my questions. I'd like to get some update maybe on regulation. For example, in Massachusetts, can you talk about maybe the conversation you are having with regulators, what the key issues you guys are working on to reach a settlement since ballot is no longer available. And also in the UK, when do you expect your peers starting to adopting the worker class so the regulation is more equally implemented in the industry? Thank you.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

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Sure, absolutely. So, as far as Massachusetts goes, listen, we're constantly in dialogue with legislature, with labor representatives often in the US in many states as well. The polling as it related to ballot showed us clearly winning. And the reason for that is that voters know what drivers want, and drivers want the flexibility of independent contractor status, along with benefits as well. And that's what we call this IC+ model, which is independence plus benefits, whether those benefits include minimum earnings or some kind of healthcare or accident insurance, et cetera.

Those benefits are benefits that we then negotiate on a local basis, on a state-to-state basis, and we are absolutely happy and open to get to a negotiated settlement if we get there. If we don't get there, we're confident we'll take our next shot at the ballot, and we're confident in our chances. But the most important thing is that this new model, this IC+ model, is overwhelmingly what drivers want. In California, drivers are very, very happy about the outcomes there. In Washington, we got to a good negotiated outcome as well, and we continue to have dialogue all across the US.

In terms of the UK, we are having, at this point, I believe that our competitors are properly charging VAT as we have been, as it pertains to the model. So we're on a level playing field there. But we think as far as worker designation, there's still more work to do. Worker designation, again, it looks like the IC+ model that we talked about. We stepped up and designated drivers in the UK as workers. We think it's the right thing to do. It's also good for business, because it makes driving for Uber more attractive, and we need more drivers in the UK, so it makes a heck of a lot of sense. We think it is inevitable that our competitors will have to do the same. This is a ruling that came straight from the Supreme Court, and we think it's the law of the land, and it's a matter of time before our competitors come into play.

I will also say that the UK business remains healthy. UK margins are solidly profitable. Our competitive share in the UK is as strong as it's been, so the UK business continues to operate well. And in the UK it's really actually more about the rider experience. We need more drivers out there, and that's really the focus. It's about making sure that the marketplace is balanced, and I think that the regulatory situation and the competitive situation are definitely headed in the right direction.

Balaji Krishnamurthy
Head of Investor Relations, Uber Technologies, Inc.

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Operator, we'll take one last question, please.

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Operator: Your final question comes from the line of Brad Erickson with RBC Capital Markets. Your line is open.

Brad Erickson
Analyst, RBC Capital Markets LLC

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Hi. Thanks. Just a follow-up on the Mobility side. You mentioned the driver incentives continuing to come down. It certainly seems like the labor environment's flipped on what's starting to be a tailwind for you. So I guess, first, do you see those incentives continuing to fall?

And then secondarily, what effect, if any, do you see any of that having on pricing here going forward? Or are there any other levers you're looking to pull on pricing, given any recent tendencies riders are showing elasticity wise? Thanks.

Nelson J. Chai
Chief Financial Officer, Uber Technologies, Inc.

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Yeah. So as you know, we're in 70 countries, which means we're in 10,000 marketplaces, so to make that macro statement is hard. Certainly in the US in the second quarter, that's what we saw. But again, we do operate our markets on a market-by-market basis, and we've done a really, really great job, and Dara highlighted earlier about bringing more supply on in drivers.

We also continue to work to make the driver experience better, and you probably saw some of the product enhancements that we rolled out last week. And so that all helps. And so yes, when we lower incentives either through surge or just because we planned, pricing does improve for the end user, which is great, and so we like that marketplace. But again, I would tell you that there are certain marketplaces those markets start up and come out of COVID that you should expect there to be some incentives, so as with San Francisco or Boston which are two markets that are lagging, if you will, on the COVID recovery, you should assume that there's going to be some incentives to help drive the supply in the marketplace there.

And then vice versa, as markets get overheated. And so we continue to manage that supply. We do a really good job at it. The team does a great job. And we do think over time pricing will continue to improve because our marketplace continues to improve in terms of how it's operating. But again, it's too hard to make the blanket statement.

Dara Khosrowshahi
Chief Executive Officer & Director, Uber Technologies, Inc.

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And, Brad, the other thing that I would remind you of is that we don't manage incentives and our revenue margins as an output metric. We're really managing for Gross Bookings growth, the marketplace experience, ETA surge and then ultimately EBITDA margins of course. And the EBITDA margins guidance that we gave you for Q3 shows very, very healthy margins going forward, and the revenue margin number that we get to, it's almost like it's an output, it's an accidental output because we're managing to a bunch of other metrics.

And a lot of what happens in revenue, margin is algorithmic by nature, and it's designed to balance the marketplace while delivering strong incremental profitability for shareholders as well. So we consider incentives and revenue margins a tool. But right now, the trends as it relates to that tool continue to be positive.

We are looking forward to Q4 in September. Back-to-school, we're going to have a lot of demand, so we are preparing ourselves for that increase in demand. And so we are going to continue being in the marketplace to

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make sure that drivers come on to the platform, stay on the platform because Q4 is going to be a great quarter for us, and it's going to be a great quarter for them as well.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

All right. With that...

Brad Erickson

Analyst, RBC Capital Markets LLC

Q

Okay. Thank you.

Dara Khosrowshahi

Chief Executive Officer & Director, Uber Technologies, Inc.

...you bet, with that thank you for joining the call and a big thank you to the Uber teams. Nelson and I get to talk about this stuff, but it's the result of a lot of hard work from our teams globally. So a big thank you from Nelson and I to the Uber teams. Lots of work ahead of us. Appreciate you joining the call, and we'll talk to you next quarter.

Operator: Ladies and gentlemen, thank you for participating. This concludes today's call. You may now disconnect.

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