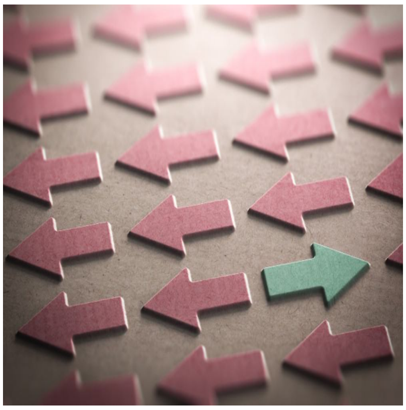

Uber May Have a GE Problem

Description

In barely four months on the public markets, many of the risks in **Uber Technologies**‘ (NYSE: UBER) business have revealed themselves: The company is losing billions of dollars a year; its growth is rapidly slowing; it's losing domestic market share to rival **Lyft**; its Uber Eats business has been eclipsed by DoorDash; California is trying to make it treat drivers like employees rather than independent contractors, and the stock is down about 25% from its $45 IPO price, a sign that investors may already be losing faith.

However, one issue with Uber has been largely ignored since the company went public in May. Its financial reporting is among the most confusing of publicly traded companies as it offers a plethora of company-specific metrics. While the company supposedly provides additional metrics like "core platform revenue" to better explain its business and performance, often these metrics seem designed to obfuscate the company's true results or misdirect attention from the challenges Uber faces.

The Uber of number games

A look at Uber's second-quarter earnings report shows how difficult it is to assess the company's performance. Revenue in the quarter was up 14%, but adjusted net revenue, which is revenue minus excess driver incentives and referrals, increased only 12%. On the other hand, adjusted net revenue in constant currency and excluding a $298 million driver appreciation award in connection with the IPO was up 26%, and gross bookings increased 31%.

Which figure provides the best picture of the business's growth at this point? It's hard to say, especially when Uber has made just two reports as a public company.

Uber also includes company-specific metrics like monthly active platform consumers, what most companies would just call "monthly users," and trips, which helps show how much its services like ridesharing, Eats, and micromobility are being used.

Uber investors will also want to keep track of the take rate, or the percentage of adjusted net revenue divided by gross bookings, a metric that shows how much of its bookings Uber keeps before subtracting its own costs. The company also highlights core platform contribution profit and margin, which is core platform revenue minus direct costs. Core platform contribution margin divides that number by adjusted net revenue to get a percentage.

Outside of its core platform, Uber also reports Other Bets, which included new and emerging businesses, primarily Uber Freight and New Mobility, which includes bikes and scooters.

On the bottom line, it gets even more complicated. Uber highlights its adjusted EBITDA loss, which reached $656 million in the most recent quarter, but its net loss in the period came in at $5.24 billion due in part to $3.9 billion in stock-based compensation expense associated with the IPO. Operating loss in the period was actually worse at $5.49 billion, as it excludes an amount of $398 million in other income having to do with a gain on the extinguishment of convertible debt.

Sometimes, complicated financial reporting is the result of a complicated business. **Alphabet**, for instance, added its own Other Bets category at the same time it changed its name from Google to Alphabet to reflect the fact that the company was branching into businesses outside of its core search operations like smart home, autonomous vehicles, and telecommunications. **Amazon** similarly added a separate reporting segment for Amazon Web Services, its cloud computing juggernaut, to show that AWS now represents a significant portion of its business. Companies often become more complex as they age, and Uber, despite its relative youth, has quickly added layers of complexity, acquiring minority stakes in international ridesharing companies like Didi, Yandex, and Grab, and adding complementary businesses like Eats, Freight, and micromobility.

However, some of the complexity simply looks like a way to distract from the weaknesses of the business. The phrase “Excess driver incentives” gives the impression this is something of a bonus given to drivers, but the reality is, these are payments to the driver beyond what the customer pays. In the case of Uber Eats, excess driver incentives distort the underlying performance as the restaurant pays part of the driver’s earnings. In the second quarter, for example, excess driver incentives meant that Uber Eats reported net revenue of $337 million, or 43% lower than its reported revenue of $595 million. In other words, Uber Eats’ adjusted revenue growth, which seems to be a better representation of the food delivery business, grew only 53% instead of the 72% reported without adjustments.

Uber’s lack of clarity in its financial reporting isn’t surprising for a company that has grown as aggressively as it has as well as one that has seen the high-profile ousting of its founder. The sprawling financial reporting is also befitting for a company that doesn’t seem to be able to explain its own mission statement.

While there may be a fair explanation for some of Uber’s confusing reporting, the overall picture bears resemblance to one company whose complexity and opaque financial reporting helped drive its recent collapse: **General Electric** (NYSE: GE).

Bad company

GE’s long demise has been well documented. The stock, which was the most valuable in the country only about 20 years ago, has lost 69% of its value over the last three years, it’s on its third CEO in as many years, and it has been kicked out of the Dow Industrials. Bloated with debt, the company has been forced to sell several of its businesses, including its biopharma unit, which brought in $21.7

billion, and it recently gave up majority control of **Baker Hughes**, the oil services company.

GE made a number of mistakes along the way, including taking on too much debt, entering disparate industries like healthcare, aviation, and energy, and banking through GE Capital, which nearly brought it to ruin during the financial crisis. But a sore point for GE investors for a long time has been the company's abstruse financial reports and accounting tricks to embellish results, which include a number of adjustments for things like restructuring, revaluations, and insurance reserves, so much that the connection between earnings under generally accepted accounting principles (GAAP) and adjusted earnings often seems tenuous at best. The company also separates its industrial segment results from the rest of the business.

Massaging earnings this way has also led GE to chase Wall Street estimates rather than managing its own business for long-term success. The result has been a disaster both for the company and investors as many of the problems it tried so hard to mask have been revealed in recent years, and its lack of transparency has left it exposed to attacks from short-sellers like Harry Markopolos, who savaged the company last week.

What it means for Uber

It may be a stretch at this point to draw parallels between Uber and GE. One is a century-old industrial conglomerate and the other a transportation start-up entering its next phase, but GE's recent unraveling clearly paints a cautionary tale for companies that become overly reliant on far-flung metrics and overly complex financial reporting. In addition to its confusing metrics, Uber, like GE, may also be too comfortable taking on debt as the company shows no signs of profitability, but it just issued a $1.2 billion loan offering to fund its acquisition of Careem, a Middle Eastern ridesharing service, just months after its IPO. For now, Uber is flush with cash following its IPO, but the company is already on track to pay $600 million in interest this year, which will make turning a profit even more difficult, and with billions of dollars in annual losses, its current cash pile could disappear quickly.

The transparency in Uber's reporting will be tested over the coming quarters as well as the business itself, but investors should demand numbers that accurately reflect the underlying performance of the business, not the results as management wishes they were.

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