



Here's Why Uber, Lyft, and Slack Aren't the IPOs Investors Dreamed About

Description

So much for **Uber** ([NYSE: UBER](#)), **Lyft** ([NASDAQ: LYFT](#)), and **Slack** (NYSE: WORK) being the initial public offerings investors dreamed about. All three stocks are languishing ever since their debuts despite high expectations.

Take ridesharing start-up Lyft. The stock is 43% lower since its IPO in late March. Slack isn't doing much better — shares are down 36% since it went public near the end of June. Uber's off 22% since May. All in all, it's a dismal showing for a group of Internet start-ups that have transformed the way we work and get around.

There are many reasons for investors to be disillusioned with these three. The companies may have amassed millions of customers and raised hundreds of millions of dollars, but profitability eludes them — as does a path to achieving it.

It doesn't help that sentiment is changing. Investors are growing weary of the narrative that profit doesn't matter. The idea of growing at all costs may have served them well as private enterprises. But with investors to answer to, profitability matters as much as growth. That is something all three haven't been able to deliver on yet, which is reflected in their performance as publicly-traded companies.

Profit eludes all three

Take [Slack](#), the seemingly fast-growing maker of a mobile communication app. It was able to beat Wall Street expectations for its first quarter as a public company, but its guidance for a wider-than-expected third-quarter loss and a decline in revenue for the full year has spooked investors. It was only a year ago that Slack had revenue growth of 100%. That's now forecast to be around 50% for fiscal year 2020. Investors are concerned that Slack is more of a flash in the pan that won't be able to keep competition from **Microsoft** at bay.

Then there's Uber. For its second quarter, it posted a wider per-share loss and lower revenue than expected. It had a record net loss of \$5.2 billion, with most of it due to its stock-based compensation costs. Excluding that expense, Uber reported a loss of \$1.3 billion, which is about 30% more than in

the first quarter. Revenue was up only 14% versus last year's second quarter, raising concerns about its ability to grow. The ride-hailing company recently laid off 400 people in its marketing department in an effort to reduce costs and increase efficiency.

Its rival [Lyft](#) had its own losses to deal with: \$644.2 million, or \$2.23 a share, in its second quarter, which was much wider than the \$1.58 a share that analysts were expecting. It did report revenue that was up 72% year over year.

Growth is always on their minds

During conference calls and media appearances following their quarterly earnings reports, executives of the three companies talked about profitability as a future goal but not something they were worried about now. In their minds, growth in fiercely competitive environments is still the No. 1 objective.

"We can push the company to break even if we really wanted to, frankly," said Uber CEO Dara Khosrowshahi in [an interview with CNBC](#). Meanwhile, Slack CEO Stewart Butterfield told [CNBC](#) that the company is investing its \$800 million in cash on growth. The idea is to create new features and draw more business to its platform. Lyft CEO Brian Roberts has been quoted as saying he thinks losses peaked last year, but has been vague when it comes to its break-even date.

Brushing off the need for profitability may have been OK a couple of years ago, but not in the current environment. Had these companies tapped the public markets before scandals, missteps, and executive departures plagued them (at least in the case of Uber and Lyft), the stocks may have performed better.

But with the economy showing signs of a [slowdown](#) and with these companies losing huge amounts of money, investor sentiment is shifting. It's the reason Uber, which was billed as the next **Alibaba**, didn't deliver in its IPO. (Alibaba holds the title for the biggest tech IPO ever, raising \$25 billion.) It's why Lyft is facing lawsuits since its IPO and why investors are questioning Slack's staying power. Profit — or a path toward it — matters more than growing at all costs.

CATEGORY

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1. NASDAQ:LYFT (Lyft, Inc.)
2. NASDAQ:MSFT (Microsoft Corporation)
3. NYSE:BABA (Alibaba Group Holding Limited)
4. NYSE:UBER (Uber Technologies, Inc.)

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