Forbes Middle East

Uber Starts Investor Roadshow With Lower-Than-Expected Valuation But A Fresh $500 Million From PayPal

Uber Technologies Inc., the on-demand ride-hailing Goliath, revealed in its highly anticipated updated S-1 that it will price its initial public offering at $44-$50 per share for a market valuation of as much as $84 billion, well below expectations of at least a $100 billion valuation

While it's still likely to be the year's biggest IPO, the price point is lower presumably as a result of competitor Lyft's disappointing performance following its March IPO, according to Michael Ramsey, a senior mobility analyst at Gartner.

"Though Uber has a greater market share than Lyft, their businesses are ultimately very similar. With Uber's underwriters on the hook, you don't want to be able to not sell the stock and have a failed IPO," Ramsey told *Forbes*.

Selling 180 million common shares, Uber plans to raise up to $9 billion ahead of its public debut on the New York Stock Exchange in May.

The company's offering is being led by Morgan Stanley, Bank of America and Goldman Sachs, and on Friday the bankers, along with Uber's management, will begin marketing the stock to potential investors, pitching the shares prior to setting the final price on May 9.

PayPal Holdings Inc., however, has already agreed to purchase $500 million of Uber's stock at the IPO price in a private placement, according to the amended S-1. PayPal has supported San Francisco-based Uber's payment capabilities since 2013 and is the company's lead payment-processing partner in the U.S. and Australia. This new investment is part of a deal to extend the companies' global partnership to explore future payment collaborations, including the development of a digital wallet for Uber, according to a PayPal spokesperson.

Though bankers maneuvering to lead Uber's IPO indicated last year that it could be valued as high as $120 billion, the company's offering at $84 million is still set to be among the ten largest U.S. IPOs of all time as well as the biggest on a U.S. exchange since Alibaba Group Holding Ltd.'s in 2014.

The IPO comes at a time when a slew of other high-profile consumer tech companies have made their public debuts, including Pinterest, Zoom Video Communications and of course, Uber's ride-hailing rival Lyft, which raised $2.34 billion in its initial offering, the biggest so far this year. Lyft IPO'd at a $20.5 billion valuation but had dropped to a market value of $16.1 billion as of Thursday.

Asad Hussain, an analyst at Pitchbook, believes the lower-than-expected price point for Uber and Lyft's current stock price plunge are "indicative of investor hesitance to invest in highly capital-intensive, deeply unprofitable and untested business models at this late stage of the economic cycle."

Ramsey echos this sentiment stating, "Neither Lyft or Uber have a shortage of capital and both are disruptive businesses, but it's not clear they can actually move to profitability. They've taken a very Amazon-like approach, scaling quickly, but right now they're essentially asking investors to 'trust us.'"

In the updated filing, Uber provided a range for its Q1 performance and noted an expected net loss between negative $1 billion and $1.11 billion. The company asserts that the loss is primarily due to its huge spending on incentives and promotions for its drivers. To keep drivers working for Uber, rather than say Lyft, the company shells out significant capital, a move that Ramsey believes will ultimately force Uber to raise the cost of its rides.

According to Friday's filing, Venture capital firm Benchmark, Uber's second-biggest shareholder, intends to sell the most shares into the public offering. That could net the firm up to $287 million.

The SoftBank Vision Fund as well as Uber cofounders Garrett Camp and Travis Kalanick also plan to sell part of their holdings.

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