UNIT Monash: Week Ten Newsletter

Hey <<First Name>>!
Here is the rundown of your week 10 newsletter:

Tech IPOs have been the talk of the town this year, we have seen them breaking news and records left, right and centre. However, there is one tech IPO in particular that has sparked more speculation and intrigue than all the rest. We are of course referring to Uber and we believe such a monumental IPO deserves a segment unto its own, read below for the comprehensive deep dive into the highs and lows of Uber's big debut.

Weekly Market Wrap

Uber (NYSE: UBER)

(The Good, the Bad and the Ugly)

Uber has finally taken the leap into the stock market and in dong so has secured its place in history and our future finance textbooks.

Uber's IPO went down on May 9, here are a few key facts:

- Uber's listing was the 9th largest U.S. IPO of all time.
- Only two other U.S. IPOs were more valuable than Uber's - Alibaba raised $25 billion in 2014 ($167 billion valuation) and Facebook raised US$16 billion in 2012 ($104 billion valuation).
- Uber's debut has taken the spot as the 4th worst performing IPO this decade, with a 7.6 percent loss on the first day.

In the lead up to its IPO, Uber's valuation prospects began to demonstrate a decrease in optimism. In the last quarter of 2018, investment bankers sparked investor interest by floating a valuation for Uber's IPO of around $120 billion. Last month, Uber suggested to investors a valuation of $100 billion might be more appropriate. However, last week Uber set a much more conservative price range that would value the company at around $91 billion.

In its IPO, Uber broke away from the dual-class share structure famously found in Silicon Valley tech companies such as Facebook, Google, Snap, Lyft, Zoom and Pinterest; Instead Uber offered a single class of stock treating all shareholders equally. The dual-class share structure has typically been used to allow founders and early investors to maintain control of the company, however, due to Uber no longer being run by its founders this did not influence Uber's IPO. After Uber went public, its executives, directors and early investors owned only slightly more than 50 percent of the outstanding shares in the company.

On the day of the IPO, Uber sold 180 million shares at a list price of $45 per share, valued towards the lower end of its expected price range between $44 and $50 per share. Uber CEO, Dara Khosrowshahi, referred to Lyft's performance being the main factor that “led us [Uber] to be a bit more conservative” when pricing the shares, keeping in mind Lyft's stock plummeted 20% from its overstated list price of $72 a share. Uber's last private valuation was $76 billion, however, Uber is now valued at $69.7 billion on the public markets due to the drop in its share price from the $45 list price to $41.57 at close.

In response to the lower than expected performance of Uber's IPO, Uber CFO Nelson Chai has said, "I don't think that we're smart enough to try to judge the market. ... We weren't optimizing to have the best opening price or the opening day. We're really looking for how the stock continues to trade over time and that's what we're building for.”

The poor performance of Uber's IPO could have been contributed to by a variety of factors, let's discuss a few possibilities:

- Following the over excitement and subsequent blunder of Lyft's IPO, many of the more conservative and risk averse investors have become sceptical and were warded off from jumping on another ride-sharing IPO.
- Uber is currently operating a broken business model with no clear path to profitability any time soon. Uber has made losses of $3.04 billion on revenue of $11.3 billion year to date, with total operating losses over the last three years exceeding $10 billion.
- The timing of Uber's IPO wasn't ideal, the Dow Jones Industrial Average fell 300 points in response to Trump escalating trade tensions with China with an increasing of tariffs indicating that an agreement would take longer than expected. However, one thing to note is that despite other company's stock rebounding and beginning to stabilise, both Uber and Lyft's stock remained relatively lower.
- Uber's core business of ride-hailing appears to have plateaued, with the total value of rides in Q1 2019 falling 1 per cent compared to the previous quarter.
- Uber's reputation is still in recovery after being heavily scrutinised concerning its toxic culture, sexual harassment allegations and for openly operating in a legal grey area.
- A precisely timed strike days before the IPO by Uber drivers in 10 cities across the U.S. calling for passengers to boycott Uber until drivers were given a liveable wage and job security.

The past performance of Uber isn't necessarily an indicator of what the future has in store for the company. Most of Uber's current investors are essentially betting that the company can find more markets to conquer and will use its scale to outlast competitors. Furthermore, Uber is taking definitive steps in a plan that involves future profitability and a more reputable brand.

Here are a few factors that may contribute to Uber's future success:

- Uber replaced co-found Travis Kalanick as CEO with Dara Khosrowshahi, whom has a solid reputation for compliance and regulation. Khosrowshahi has been undertaking the task of taking Uber public and is restoring its reputation.
- Uber has an edge over its competitors, it currently operates across an array of sectors while continuing to diversify its offering. Uber itself is the Uber for a lot more than ride-hailing. Uber Eats is Uber, but for takeout. Uber Freight is Uber, but for shipping. Jump is Uber, but for electric bikes and scooters.
- As Uber offers more products its overall audience is growing 33% on a year-on-year basis and transactions are growing by 36%.
- Uber is currently investing a large sum of money into self-driving cars. If Uber can beat its competitors in rolling these out to markets, it could greatly reduce costs and boost revenue.

**All monetary amounts are in USD*

Weekly Global Breakdown

Australia

The Australian share market finished the week marginally higher, as investors kept a close eye on the progression in trade talks, with trade tensions intensifying. The S&P/ASX 200 and broader All Ordinaries both ended the week up 0.25 per cent.

The mining sector was the only sector down on the ASX on Friday, with the utilities sector performing the strongest. This strong finish to the utilities sector was led by Spark Infrastructure and AGL energy, which were up 3.64 per cent and 2.14 per cent respectively. All of the big four banks closed the week higher, except for ANZ, which dipped 0.50 per cent to $27.50. Three out of the big four banks will be going ex-dividend in May, which will weigh on the market.

The ASX is poised for a positive start with the SPI futures pointing to a 29 point gain at open, on the back of renewed trade optimism.

US

Wall Street finished on a positive note after encouraging signs were coming out of trade talks. Trump initially spooked investors by hiking tariffs, yet hope was instilled in the minds of investors, with positive remarks coming from Chinese and US officials. The Dow Jones Industrial Average, S&P 500 and Nasdaq composite all increased 0.44 per cent, 0.37 per and 0.08 per cent respectively on Friday.

Even though there was renewed trade optimism on Friday, investors remain cautious that China may impose retaliatory tariffs on the US, which will result in investors selling off equities for safe haven assets. This will cause a stir in the market and will add to investor's fears of a downturn in global growth.

Asia

Chinese shares finished in positive territory, with investors believing that the US and China can make progression in trade talks, despite rising tariffs that escalated trade tensions. Investors are expecting China to introduce more policy support measures, which helped lift investor sentiment. Encouraging signs from trade talks and the potential of more stimulus has helped Chinese markets end on a positive note.

The Hong Kong's Hang Seng index suffered a drop of over 5 per cent for the week, despite the 0.8 per cent increase on Friday on the back of renewed trade optimism. The two largest economies will reconvene trade talks later on Friday.

Europe

Thyssenkrupp, a conglomerate focusing on industrial engineering and steel production, shares soared on Friday, along with defensive stocks performing strongly, helped lead to a positive finish to the week for European shares.

Germany's DAX was up 0.7 per cent, with Thyssenkrupp weighing on the market, finishing 28.2 per cent up. French and Italian stock were also up 0.3 per cent, however the pan-European index fell 3.4 per cent, rattled by rising trade tensions.

There are fresh worries for investors that trade talks have stalled, with investors remaining on alert about the mounting trade tensions. Investors are preparing themselves for more volatility as day two of trade talks kick off.

New to markets? Got Questions?

As we mentioned in previous emails - we started UNIT Monash with the vision of educating the student community in investing and trading to one day strive for financial independence.

We want to create a new concept of peer-to-peer communications about investing and trading. There's a lot of value in sharing experiences, having opinions and shedding light on new ideas. Feel free to get in contact with us via Facebook if you have any enquiries about investment, trading or our upcoming events or if you would like to provide any feedback.

Regards,
UNIT Monash

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