Fair Value of Uber Estimated at $49 Billion

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The David S. Lobel Professor of Private Equity and Professor of Fina...
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Several months ago my colleague Will Gornall and I published our valuation framework of unicorns – highly valued VC-backed companies – and applied it to 135 U.S. unicorns. See https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2955455

We have now extended our analysis to re-value Uber given its recent deal with Softbank and the deal contract details that we have analyzed. Below is the summary of our result. Our bottom line is that the fair value of Uber is about $49 billion.

To value Uber, we used media reports as well as most recent Uber's legal filing (filed on January 17). According to reports, a consortium led by Softbank is buying $8b worth of Uber common and early preferred shares in a tender offer for about $34/share and $1.25b of Series G-1 shares for $49/share. Softbank is paying 42% more for each Series G-1 preferred share. From the legal filing, however, it is clear that these Series G-1 don't have many special features to make them worth more than the common or early preferred shares. Specifically, our valuation model suggests Uber's Series G-1 worth only $39, far less than the reported $48.77 price Softbank is paying, and Uber's common shares worth about $35, slightly above the tender price. As a result, the total value of Uber is about $49b - far less than the reported $68b.

One worrying possibility is that this deal has been designed to prop up the company's share price. I.e. Softbank overpays for Series G-1 and is given a discount on the tender offer. Supporting that view, some outlets (e.g. FT https://www.ft.com/content/51d97262-82da-11e7-94e2-c5b903247afd) have reported this deal structure is meant to "save other Uber investors from being forced to write down the value of their existing holdings".

That's worrying from a financial reporting standpoint - we don't want asset managers to mark their shares to a number that can be manipulated at will, it's important for that asset managers honestly recognize their losses. One reading of this deal is that this fundraising structure was designed to allow investment managers who put money into Uber to deceive their investors. If that is the case, Uber itself is exercising questionable judgment by facilitating this -- especially concerning given all of Uber's prior ethical issues.

This deal brings to mind the term "Horse rabbit stew", which is made from one horse and one rabbit. You shouldn't call that rabbit stew, and similar investment mana

shares, even Series G Uber shares, at Softbank's 48.77 Series G-1 price are
assumptions very different from our model.

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I'm going to cite this in my new paper! Thank you!

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