Uber

Investors ride more than one cab with stakes in Uber and rivals

While car-booking companies battle for supremacy, investors hedge their bets

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SEPTEMBER 22, 2017 by Leslie Hook in San Francisco

The rivalry between Uber and Lyft is so great that venture capitalists considering making an investment in Uber used to be told they would have to sign a legal agreement not to invest in its car-booking rival, before Uber would even give them a peek at its financials.

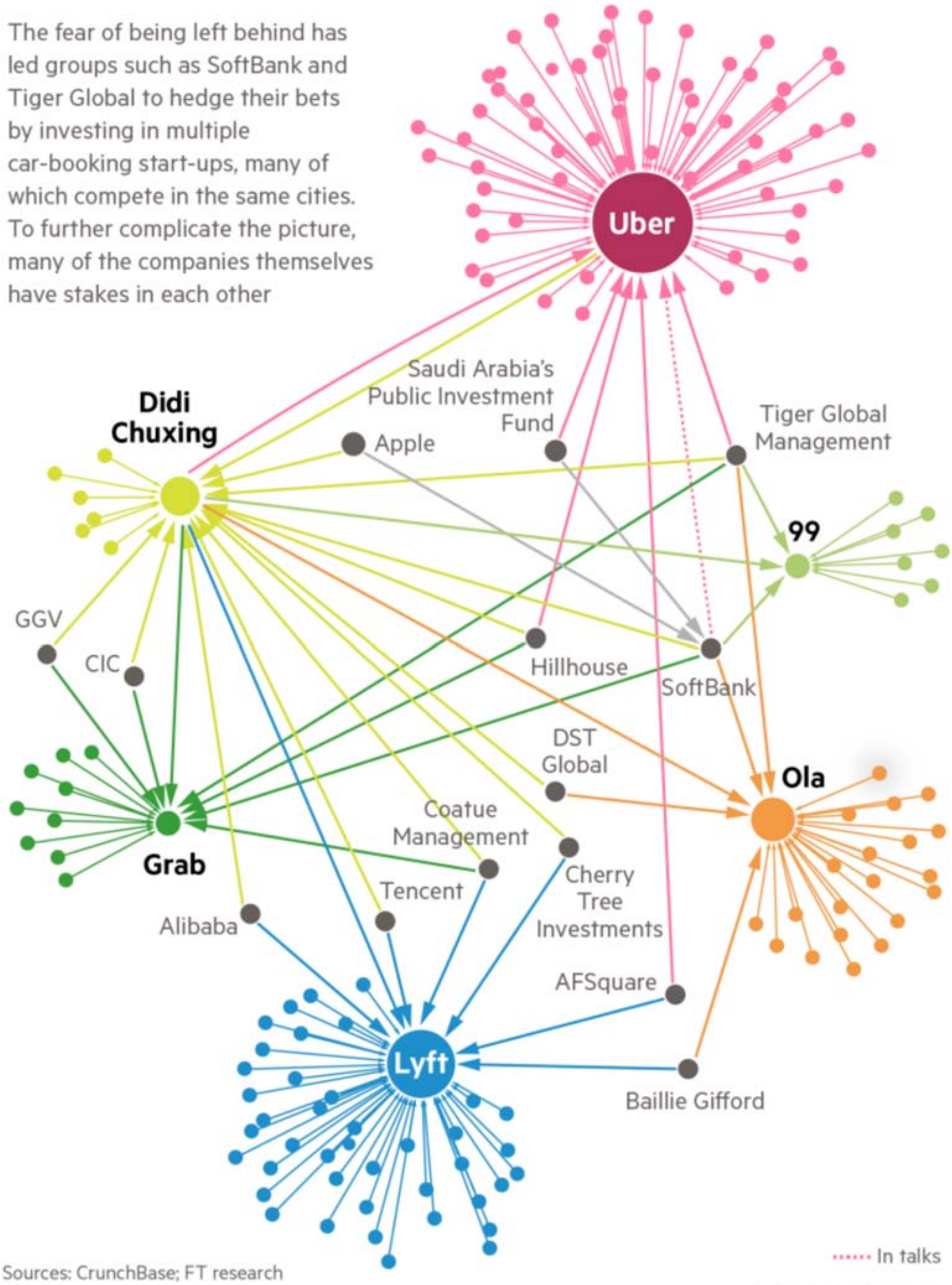
That was in 2014, when Uber was the belle of the investor ball and was trying to make life difficult for Lyft, which was trying to raise money around the same time.

That spirit of bitter competition still persists, but after a period when investors were forced to pick sides, something surprising has happened: more and more are now investing across the car-booking sector — even in direct competitors.

The most striking example of this is SoftBank of Japan, which is in talks with Uber over a deal worth more than $10bn that would be led by SoftBank's $93bn Vision Fund along with other investors. SoftBank has been a big backer of almost all of Uber's rivals, including Didi in China, Ola in India, Grab in Southeast Asia, and 99 in Brazil.

Investors in car-booking groups

The fear of being left behind has led groups such as SoftBank and Tiger Global to hedge their bets by investing in multiple car-booking start-ups, many of which compete in the same cities. To further complicate the picture, many of the companies themselves have stakes in each other



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SoftBank's deal with Uber would be structured so that, on paper, it would preserve the $62.5bn valuation at which the company raised money last year. But most of the shares would actually be sold at a lower price, through an auction in which current investors sell shares to the consortium. Those shares could transact at a price that implies a valuation between $40bn and $50bn, although the exact price has not yet been determined.

For Uber, the deal would alleviate pressure from some early investors who want to cash out. But even more importantly, the investment would prove that — despite all those stakes in rival companies — SoftBank is not Uber's enemy, and instead give it a stake in Uber's success.

As one Uber executive puts it: "Money in us is money that is not going to competitors."

The potential SoftBank investment hinges not only on the price but also on the question of how the board would be reconfigured in the wake of the deal. One of Uber's biggest investors, Benchmark, is suing the company's former chief executive, Travis Kalanick, in an attempt to force him to relinquish the three board seats he controls. The two sides will have to come to some sort of agreement in order for the

SoftBank-led investment to proceed.

> **Money in us is money that is not going to competitors**
>
> UBER EXECUTIVE

As those talks are under way, SoftBank is hardly the only one trying to play multiple sides in the race for car-booking dominance. Hillhouse, the Chinese investment fund, is invested in Uber, Didi and Grab, which is locked in a fierce price war with Uber in Southeast Asia. Tiger Global, the US investment firm, has stakes in five car-booking companies, including Uber and its rivals Ola and Grab.

Sometimes, these crossholdings can cause unexpected overlaps. Saudi Arabia's Public Investment Fund, which made headlines last year by investing $3.5bn in Uber, is one of the biggest backers of the SoftBank Vision Fund; the PIF's chief executive Yasir Al Rumayyan sits on the boards of Uber and SoftBank.

When SoftBank invested $5bn in Didi earlier this year, the deal was done through an arms-length special purpose vehicle, which allowed SoftBank to invite other investors in and helped mitigate any conflicts with its other holdings.

In a sign of how awkward these overlaps can become, the Vision Fund technically has restrictions on making car-booking investments — largely because of the Saudi Arabian stake in Uber. However, these restrictions can be waived and are not expected to be a problem for the Uber deal, say people familiar with the talks.

Yasir Al Rumayyan, chief executive of Saudi Arabia's Public Investment Fund, sits on the boards of Uber and its putative investor SoftBank © AP

Even stranger than the investors' crossholdings is the fact that many car-booking companies hold stakes in each other. Uber and Didi hold shares in each other as a result of the sale last year of Uber's China unit to Didi. The Chinese company's stake in Uber could even increase, because Didi is one of the consortium members in the SoftBank-led deal.

This comes despite the fact that Didi is increasingly encroaching on Uber's turf, for example by backing Taxify, an eastern European transport start-up that recently attempted to launch in London, one of Uber's key markets.

Taxify's service was halted two weeks ago by the regulatory authority Transport for London for not having the required licence. TfL decided not to renew Uber's London licence on Friday, saying it was not a "fit and proper" operator.

For Uber, holding stakes in local rivals has proven a graceful way to reduce its interest in markets where it has not done well — for example, it recently merged its Russian business with Yandex Taxi in exchange for a stake in the combined company — while still benefiting from their growth.

Max Wolff, chief economist at DTA, says he expects consolidation across the car-booking business to continue. "The barrier to entry isn't super high, but the market scale and scope required for profitability is really high," he says. "So that means you have to have consolidation."

As investors and start-ups make their moves across this complex global chessboard, a looming question is whether any single company will come to dominate ride-hailing around the world — or whether this business will naturally be more localised.

Both Uber and Didi have been playing the global game, Didi by investing in global transport start-ups and Uber by expanding into more than 62 countries. But analysts are growing sceptical that any single winner will emerge.

"There was a period of time when there was this vision that Uber was going to be a Coca-Cola of ride-share," says Mr Wolff. "And now it looks more like an airline model. The story is starting to look more regional."

Meanwhile as SoftBank and Uber continue to negotiate, there is a widely held belief in the investment community that SoftBank's long-term goal is to eventually roll up its disparate ride-hailing companies into some kind of conglomerate. The forces of consolidation may only be getting stronger.