



Deal Logic Careem/Uber

WHU Finance Society

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Date: 01.11.2019
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Abstract

Confirmed in March 2019, Uber plans to acquire its Middle Eastern rival Careem in a deal worth USD 3.1bn. The transaction value is expected to be a record for a Middle Eastern tech startup exit and among the highest globally for ride-hailing mergers and acquisitions. As part of this deal, which is expected to close in early 2020, Uber will acquire Careem's mobility, delivery and payments business across the greater Middle Eastern region, which includes operations in Egypt, Jordan, Pakistan, Saudi Arabia and the UAE. After pulling out of major markets like China and selling its business in Southeast Asia to Grab last March, Uber has been seeking new avenues of growth.

The deal is particularly relevant to Uber, whose ability to be a competitive global player had been called into question after the company sold its operations in China, Russia and Southeast Asia to local rivals following heavy losses. While the deal will help the San Francisco-based company expand its footprint in the Middle East and Pakistan, customers may be experiencing rising fares in the future, given Uber's monopoly status in the region, being the only option for ride-hailing apps.

Uber sought to reach an agreement before the company began its "roadshow", meeting with public-sector investors before their IPO in May. The deal allows Uber to claim dominance in a growing region for ride-hailing outside the US. Uber operates in more than 70 countries but faces strong competitors in Latin America and India as well as stringent regulations in Europe.

The Dubai-based Careem is among the Middle East's most successful startups. Careem quickly became popular across the Middle East, particularly in countries like Egypt and Pakistan, in part because it introduced the option for riders to pay by cash rather than just credit card. It was launched in the region in 2012, three years before Uber.

Careem was valued at about USD 2bn in the recent round of financing and is active in 98 cities. The investors include the Chinese competitor Didi Chuxing, the Saudi investor Kingdom Holding of Prince Al-Walid bin Talal, the Japanese e-commerce company Rakuten, as well as Daimler.

Careem's ride-hailing service is more popular among women compared to alternatives in the region. In Saudi Arabia for example, an important market for Careem, women were not allowed to drive a car themselves until mid of 2018. But the company itself has been in the news of late, making its aspirations to evolve into an everyday lifestyle app much more overt. In recent months, Careem expanded into new markets across the region as well as tier two cities. Careem also leveraged the existing infrastructure built out for its ride-hailing service to launch online delivery for goods and services with initial efforts focused on foodservice. It also launched peer-to-peer, closed loop and prepaid credit transfer services to its consumer base. More recently, it introduced a rewards program, giving its 33 million users points on all rides. Growing its business this rapidly, Careem went on to nearly double its valuation, pressuring Uber to increase its bidding price.

Careem aspired to mimic what Grab and Go-Jek have been doing in Asia, but it has been facing competition from existing local players that offer similar services as well as Uber itself. While the two are now joining forces, Careem and Uber will operate their respective regional services and independent brands, meaning Careem will likely continue its strategy toward becoming a super app. The acquisition by a global brand like Uber may help accelerate some of those plans for Careem while at the same time enabling Uber to take some of these local lessons to other countries where it already operates.

All values in USDm, except Price, Initial (USD) & Price, Paid (USD)

Summary

Target	Careem Networks FZ LLC
Acquirer	Uber Technologies, Inc.
Date, Announ.	26.03.2019
Date, Effective	Pending
Deal Attitude	Friendly
Consideration	Cash, Convertible Corporate Debt
%Held/%Acq.	0/100
Deal Value	3,100.0
Price, Initial	n/a
Price, Paid	n/a
Total Fees	n/a
Premium*, 1d	n/a
Premium*, 1w	n/a
Premium*, 4w	n/a

* Pre-bid (%)

Sources: Capital IQ, Bloomberg

Synopsis

- Uber agreed to acquire Careem from Al Tayyar Travel Group Holding Company, Kingdom Holding Company and others
- The consideration consists of USD 1.7bn in convertible notes and USD 1.4bn in cash. Al Tayyar Travel will receive USD 473.7mn
- Careem will become a wholly-owned subsidiary of Uber, preserving its brand
- Careem and Uber will operate their respective regional services and independent brands
- As of June 10, 2019, Minister of Economy of the United Arab of Emirates unconditionally approved the transaction
- The transaction is expected to close in the first quarter of 2020

LTM Trading Multiples

	Target	Acquirer	Industry†
EV/Sales	n/a	4.0x	1.4x
EV/EBITDA	n/a	n/m**	8.0x
EV/EBIT	n/a	n/m**	13.3x
EV/FCFF	n/a	n/a	n/m
P/E	n/a	n/m**	12.1x

† Of Target, SIC Code: 412

**Uber is not profitable, deeming profitability multiples not meaningful

Rationale

- Uber will acquire all of Careem's mobility, delivery, and payments businesses across the greater Middle East region, ranging from Morocco to Pakistan, with major markets including Egypt, Jordan, Pakistan, Saudi Arabia, and the United Arab Emirates
- The strong regional presence of Careem in the greater Middle East region enables for market access in those regions, where Uber was struggling to increase market share with its own products

Financial Advisors

Target	Fees	Acquirer	Fees
Jefferies LLC	n/a	n/a	n/a

All values in USDbn, except EPS

Recent News*

- **2019/02** Egypt's top administrative court lifts a ban on operations by ride-hailing companies Uber and Careem, which have faced fierce opposition from traditional taxi drivers
- **2018/12** The ride-hailing giant Careem is now in the delivery business as the company seeks new verticals in its ever-increasing fight against other services in the Middle East
- **2018/12** Dubai is to launch a company with Careem, the regional rival to Uber, to manage the ride-hailing system for all taxis operating in the Gulf's commercial hub
- **2018/10** Mideast ride-hailing app Careem raises USD 200mn to expand, expects more funds

* Prior To Deal
Sources: Capital IQ, Financial Times, TechCrunch, Reuters, Bloomberg

Company Description

- Careem provides private car booking services
- The company enables customers to order a car online or through its mobile application, allows customers to track their rides in real-time, pay with credit cards, and access receipts online
- It serves individuals, businesses, and large corporations in Dubai and Abu Dhabi, United Arab Emirates; Doha, Qatar; Riyadh, Saudi Arabia; Boston, Massachusetts; and San Francisco, USA
- Careem was founded in 2012 and is based in Dubai, United Arab Emirates

Key Management & Ownership Structure



Mudassir Sheikha
CEO
Since 2012



Ankur Shah
CFO
Since 2015

Current shareholders

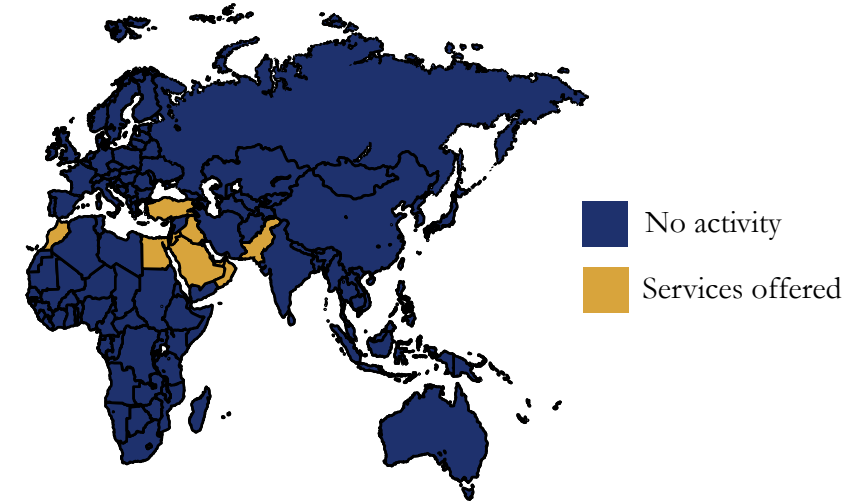
Saudi Technology Ventures

Didi Chuxing Technology

Coatue Management

Daimler AG

Geographical footprint



Product overview



Car services



Bus services



Business service packages



Careem NOW: Food delivery for individuals



Careem NOW for Business: Food delivery for firms



Careem PAY: Mobile payment platform

All values in USDbn, except EPS

Recent News*

- **2019/01** Starbucks is teaming up with Uber to start delivering coffee in 6 of the biggest US cities
- **2018/12** Uber resuming self-driving car testing in Pennsylvania
- **2018/11** Uber losses top USD 1bn in run-up to IPO
- **2018/11** Uber launches US subscription service in five cities
- **2018/03** Uber proposals value company at USD 120bn in a possible IPO

Company Description

- Uber develops technology applications that enable independent providers of ridesharing, meal preparation and delivery services to transact with end-users through its core platform and other bets
- Its driver partners provide ridesharing services through a range of vehicles; restaurant and delivery partners provide meal preparation and delivery services
- Uber Central enables companies to request, manage, and pay for rides for their employees or customers; Uber Health enables healthcare professionals to arrange rides for patients
- Uber also provides freight transportation services; leases vehicles to third-parties that use the Uber services; and provides access to rides through personal mobility products
- Uber was founded in 2009 and is based in San Francisco, USA

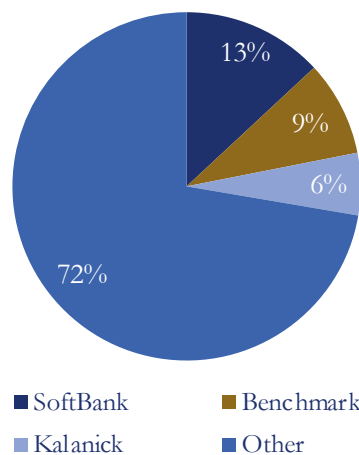
Key Management & Ownership Structure



Dara Khosrowshahi
CEO
Since 2017



Nelson Chai
CFO
Since 2018

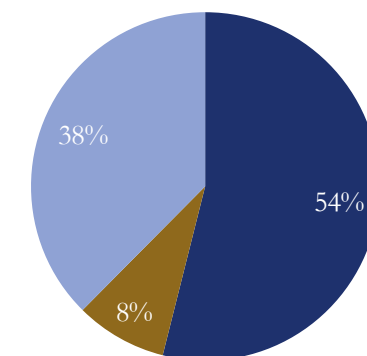
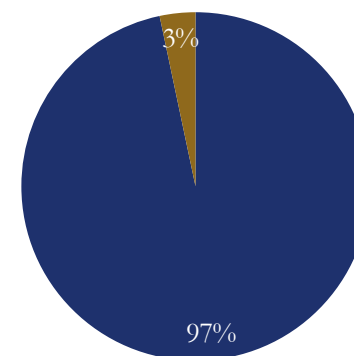


Key Financials

	2017A	2018A	2019F	2020F	2021F
Sales	7.9	11.3	13.9	18.4	24.1
% growth	106.3	42.1	23.6	32.1	31.1
EBITDA	(3.4)	(2.4)	(3.1)	(2.7)	(1.3)
% margin	(42.4)	(21.5)	(22.2)	(14.9)	(5.5)
NI	(4.0)	1.0	(3.5)	(3.3)	(2.2)
% margin	(50.8)	8.8	(25.3)	(17.7)	(9.1)
EPS	(9.5)	1.3	(3.0)	(1.9)	(1.3)

Sales Split

FY2018



* Prior To Deal

Sources: Capital IQ, WSJ, Reuters, TechCrunch, BBC News, Bloomberg

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