HyreCar Trades Lower on Earnings, Creating Buying Opportunity

Streetwise Reports 11/12/2018

COMPANIES MENTIONED

- HyreCar

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Daniel Carlson of Tailwinds Research enumerates the reasons he believes this company that facilitates the leasing of cars to Uber and Lyft drivers is undervalued.

Source: Daniel Carlson for *Streetwise Reports*

Thursday afternoon HyreCar reported earnings. Remarkably, the stock traded down after its earnings call. I say "remarkably" because, in my (too) many years of experience, I have never heard an earnings call with so many analysts/investors gushing to management over its progress and seen the shares trade dramatically lower afterwards.

Thus, before I tell you why I think you should own HYRE, perhaps it's best to understand the possible reasons that no one seemed to want to buy it. At least on Friday. So, without further ado, the five possible reasons why HYRE is down:

1. The market is down and all small caps are for sale. No further explanation needed; it's a tough time in microcap land.
2. Traders expected a strong number and guidance. The old "buy on rumor, sell on news" strikes again? Quite possible as the stock had rallied from below $2 to $2.60 going into the earnings report. This business is easy to model out and the nice incremental growth shouldn't have been a big surprise.
3. Tax loss selling. Pretty much everyone is under water in this stock. And, most people have gains in larger tech names. As people sell the FANGs, and they are doing that of late, they are booking gains and this is a candidate to sell for a loss to offset said profits.
4. ETON Pharmaceuticals prices Monday night. Why is this important for HYRE? It's a lot of the same brokers/investors in these names and not everyone is sitting on a pile of cash. Frequently, investors need to sell something to pay for their next idea. And, since HYRE is at a loss (see point 3), it's a likely candidate for source of funds for ETON.
5. The company's guidance for Q4 showed the business may have stalled. This is certainly not the case, but if you look at the company's 2018 gross profit guidance of $4.5–5.0 million, and subtract out the $3.0 million generated in the first nine months, you have Q4 guidance at $1.5–2.0. At the low end, that's a flat Q4 versus Q3. Now, I'm 100% positive they show an incremental gain that is in double digits, but their being conservative in guidance could be weighing on the shares.

There you have what I consider to be the five most likely reasons HyreCar shares traded down after their earnings. Four of them are really beyond the control of the company, and the fifth is simply not the case and I'll refute it in a minute. But, let's first talk about all the positive things going on that were revealed on the earnings call.

Growth is strong and supply of vehicles is accelerating

Based on the midpoint of guidance for 2018, Q4 revenues will be $3.3 million. This would represent a 22% increase over the third quarter, which is a modest acceleration from the 18% increase in the second quarter.

This growth is being driven by the dealer community, which is really starting in mass adoption of the HyreCar platform.

> *"We now have a back log of over 200 multi-location dealerships interested in adding cars to the marketplace, which unlocks thousands of vehicles coming online and available." ~ CEO Joe Furnari*

The revenue ramp is being further accelerated by HyreCar's strategic partnership with the National Independent Automobile Dealers Association, or the NIADA. This is a monumental partnership, as NIADA is among the nation's largest trade associations. A large opportunity exists for HYRE to help NIADA dealers implement a successful shared mobility model through the HyreCar platform.

For most dealers, the acceptance of HyreCar's platform has been very positive. They typically start with a handful of cars and most have already, or plan to, increase the number of vehicles on the system. This is creating a large supply of vehicles and, since they are fleets of vehicles, not individual owners, they are high margin customers.

HyreCar has the drivers to meet supply

For most companies, supply of product is not the issue, it's developing end-market demand. In the case of HYRE, those tables are reversed. The company has a large and growing database of drivers searching for cars; what it lacks is a sufficient supply of vehicles.

This lack of supply also extends beyond HyreCar. Uber and Lyft have more demand for drivers than they can fulfill. Which plays right into HYRE's role in this industry. It is currently the largest independent activator of Lyft drivers in the United States.

Thus, as the dealer network really revs up, HyreCar will be able to suck up the vehicles and get them leased and on the road.

Margins are strong, profitability is just around the corner

Gross profit margin in the third quarter of 2018 increased significantly to 54%, compared to 14% in the same year-ago quarter, and over 600 basis points from 47% sequentially in the second quarter of 2018. Margin expansion was driven by a significant reduction in insurance premiums, a reduction in refunded revenue and increased referral income.

> *"Over the long-term further margin expansion is expected as we realize economies of scale in insurance and pricing optimization across geographic specific locations." CFO Scott Brogi*

On the earnings call, the question came up about prior guidance to cash flow positive in the first half of 2019. Furnari stuck with that guidance, saying that, by the end of Q2, they would be generating positive cash flow from earnings. With more than enough money to get them there, this is a big deal.

Expect an acquisition soon

CEO Furnari touched on the potential for an acquisition in the earnings call. He specifically stated that, being able to roll up acquisitions was a primary reason they went the public route instead of the path of raising money privately.

"We see multiple bolt-on businesses in this space that would not only complement our platform, but add immediate accretive value to the business and shareholders." ~ CEO Furnari

This is the time of a landgrab in the ridesharing industry. The market is young and growing quickly. In a few years the winners and losers will have been decided. If HyreCar wants to be a big winner, it will need to grow rapidly. Acquisitions are the best way to do this, and I expect to see one soon.

HYRE, a buying opportunity

At this time, I believe HyreCar is a great opportunity. With a market cap of approximately $25 million, the company is trading at 2.5 times 2018 revenues and around 5 times gross profit. For a company that is experiencing over 100% year over year growth, this is a very low multiple.

To put this in more perspective, realize that Uber's implied IPO valuation on 2018 revenues is 12x and Lyft's is 7.5x. Add in the fact that, unlike its larger rideshare peers, HYRE has enough cash to make it to positive cash flow, which is just around the corner, and it becomes rather compelling.

The markets may be weak. HyreCar may be suffering tax loss selling. It could stay here for a while longer. However, with the mobility-as-a-service industry just getting going, with Uber and Lyft booming and looking to become public, and with a dirt cheap valuation, it's time to consider buying HYRE.

Daniel Carlson is the founder and managing member of Tailwinds Research Group and its parent company DFC Advisory Services, which is a licensed registered investment advisor (CRD # 297209). Tailwinds is a microcap focused research company that provides research on and consults to over 20 emerging growth companies in the technology and life sciences arenas. DFC Advisory Services is an RIA that manages money dedicated to investing in the companies covered by Tailwinds. For more information on these two companies and their track record, please see www.tailwindsresearch.com. Prior to founding these two entities, Dan spent many years working with small public companies, having been CFO of two public companies and helping finance many others. A 1989 graduate from Tufts University with a degree in Economics, Dan's formative years in business were spent as an equity trader, first on the Pacific Coast Stock Exchange then on the buyside at several multi-billion dollar firms.

This article was submitted by Tailwinds Research. For more information on Tailwinds Research or on HyreCar, please visit www.tailwindsresearch.com.

Tailwinds is engaged by HyreCar and owns stock in the company. For a complete list of disclosures, please click here.

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