Catch a Lyft or Call an Uber?

Back in March a company called **Lyft Incorporated** listed on the NYSE and last week it was joined on the public markets by its more famous and larger competitor **Uber**. Like **Amazon** in the late 1990's both companies have listed without ever having made a profit, just a string of losses as they build an idea into a business and a brand. The question is are they worth considering as an investment or are they a warning sign the world's equity markets are near the end of a long bull run? Let's first look at **Lyft.**

Lyft, based in San Francisco is a transportation network company that developed and operates the Lyft mobile app offering car-rides, scooters and a bicycle sharing system. Lyft operates in 640 US cities and 9 Canadian cities and is growing fast. So far so good. Lyft was launched in the summer of 2012 by a couple of computer programmers as "Zimride" and changed its name to Lyft a year later. Lyft grew extremely fast as the ride-sharing concept quickly gained traction, but the company has never turned a profit. According to *Bloomberg* **Lyft** grew revenue 250% in 2016 but lost US$600m and by 2018 the revenue had grown to US$2.15b and the loss for the year a cool US$911m. Obviously, such a company can only survive if it has shareholders with deep pockets which **Lyft** certainly does (Japanese e-commerce and internet company Rakuten owns 11%, General Motors 6.6%, and US fund Fidelity 6.5%). Like many such businesses **Lyft** has conducted several rounds of private fundraising to fund its growth which has enabled it to grow large enough to market to the public despite its ongoing losses so far.

Lyft Inc listed in March after selling 32.5m shares at US$72.00 to investors raising US$2.34b (about 2 and a half years cash at the 2018 loss rate) and the company was valued at US$24.3b. The shares popped to US$88.60 shortly after but have slide back to US$51.09 at Friday's close. Last week **Lyft** reported first quarter "earnings" which saw revenue up 95% on Q1 2018 and "adjusted losses" of US$211m. Better still they forecast 2019 revenues to come in around US$3.3b with an adjusted operating loss of near US$1.15b! This is clearly not the sort of investment for the faint of heart. Also last week **Lyft's** major competitor **Uber Technologies Incorporated** listed publicly.

Uber sold 180m shares to the public at US$45.00 each, raising US$8.1b, and was valued at US$82b, the largest IPO since **AliBaba** went public in 2014. However, day one was a dud with the shares trading weaker to close at US$41.43 per share. **Uber,** like **Lyft** makes big losses and has done so for several years. In 2018 **Uber** lost around US$3b on revenue of US$11.3b and had accumulated losses of around US$8b by the end of last year. **Uber** is a bigger broader company than **Lyft** and also has Uber Eats and freight operations. The big question is can **Uber** or **Lyft** find a path to profitability before they burn through the cash and/or investors begin to lose faith in a path to profitability. There are numerous issues and uncertainties that these types of companies must overcome to be successful. That's not to say they won't. Twenty years ago, **Amazon** listed against a similar background.

Amazon listed in May 1997 selling shares at US$18 each barely two years after its launch as an online bookstore. The company continued to lose money but turned its first profit in late 2001 of US$5m on revenue of US$1b, a miniscule profit margin, but a profit, nonetheless. **Amazon** has gone from strength to strength and in many ways is the role model for businesses like **Lyft** and **Uber** that heavily prioritise growth for years with profitability just a pesky issue for the future. The key here is retaining investors belief so these types of companies can continue to raise capital. Another question is do these types of listings indicate the equity markets bull run is reaching an end? Three years after **Amazon** listed the tech-wreck arrived in March 2000. **Amazon** shares peaked at over US$100 and fell over 90% to under US$10 in the tech meltdown but twenty years later sell for around US$1900. Whether the equity market is about to fall or not is a mug's game but what is certain is that longer-term the business performance of **Lyft** or **Uber** will be the main driver of their share prices – the question is can they deliver on the hype?

The companies mentioned above are named to further the discussion. This should not be construed to be personalised advice nor a recommendation to invest in these companies. Please contact Kinnell & Co. regarding how best to take advantage of the trends discussed above.

MICHAEL KINNELL
021 711 375
michael@kinnellandco.co.nz

www.kinnellandco.co.nz

Kinnell & Company Limited
4 Beach Road, RD44
Urenui 4377