BABSON

BABSON COLLEGE FUND

HyreCar

HopSkipDrive

**HyreCar Corp. (HYRE)** – Airbnb on Wheels

**The Babson College Fund is initiating coverage on** HYRE with a buy rating and an $25 target price, a potential upside of 123%.

## Company Overview

*HQ: Suite 1650 355 South Grand Avenue*
*Los Angeles, California 90071*
*United States*

HyreCar, Inc. engages in the operation of a peer-to-peer car-sharing marketplace. Its services allow car owners to rent their idle cars to ridesharing service drivers. The company was founded by Anshu Bansal and Abhishek Arora in September 2014 and is headquartered in Los Angeles, CA.

## Investment Thesis

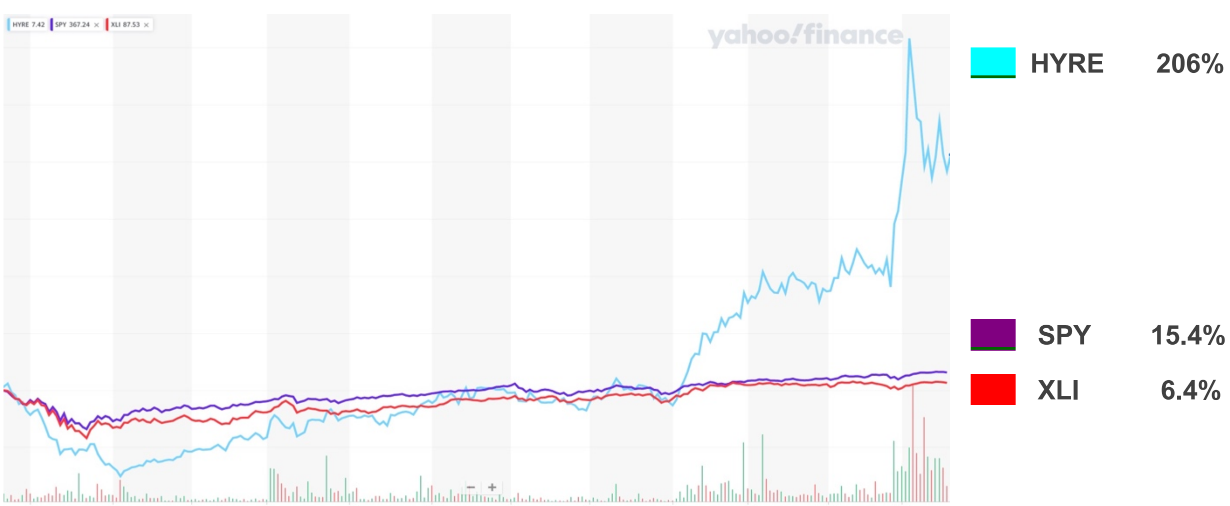
(1) HyreCar's Near-Term Path to Profitability
(2) HyreCar's Massive TAM
(3) Pandemic Recovery Play with a Hedge

## Valuation

The weighted average target price of $25 is derived from a DCF analysis (80%) and a CompCo (20%). The DCF is given higher weight since the only true comp (TURO) has not gone public yet.

| **Stock Rating \| Buy** | | | |
|---|---|---|---|
| Price Target | | | $25 |
| Current Price | | | $11.19 |
| Upside | | | 123% |
| Consensus | | | $18 |
| Recommended Weight | | | 150 Bps |
| Benchmark Weight (XLI) | | | not included |
| **Valuation** | | | |
| DCF Price Target | | | 28 |
| Bull Case | | | 32 |
| Bear Case | | | 24 |
| Comparables Price Target | | | 14 |
| Weight of DCF | | | 80% |
| Weight of Comp CO's | | | 20% |
| Weighted Price Target | | | 25 |
| Upside | | | 123% |
| **Key Statistics** | | | |
| 52-Wk Range | | $0.88 | $16.27 |
| Avg. Daily Vol (k) | | | 703 |
| Market Value (MM) | | | $224 |
| Ent Value (MM) | | | $587 |
| Shares Out (MM) | | | 23 |
| Beta 3y | | | 1.21 |
| % Short Interest of float | | | 4.3% |
| **Key Financials $M** | **2020E** | **2021E** | **2022E** |
| Revenue | 25 | 46 | 87 |
| Y/Y Growth | 59.4% | 80.5% | 91.6% |
| EBIT | (16) | 3 | 14 |
| EBITDA | (16) | 3 | 16 |
| UFCF | (16) | 10 | 27 |

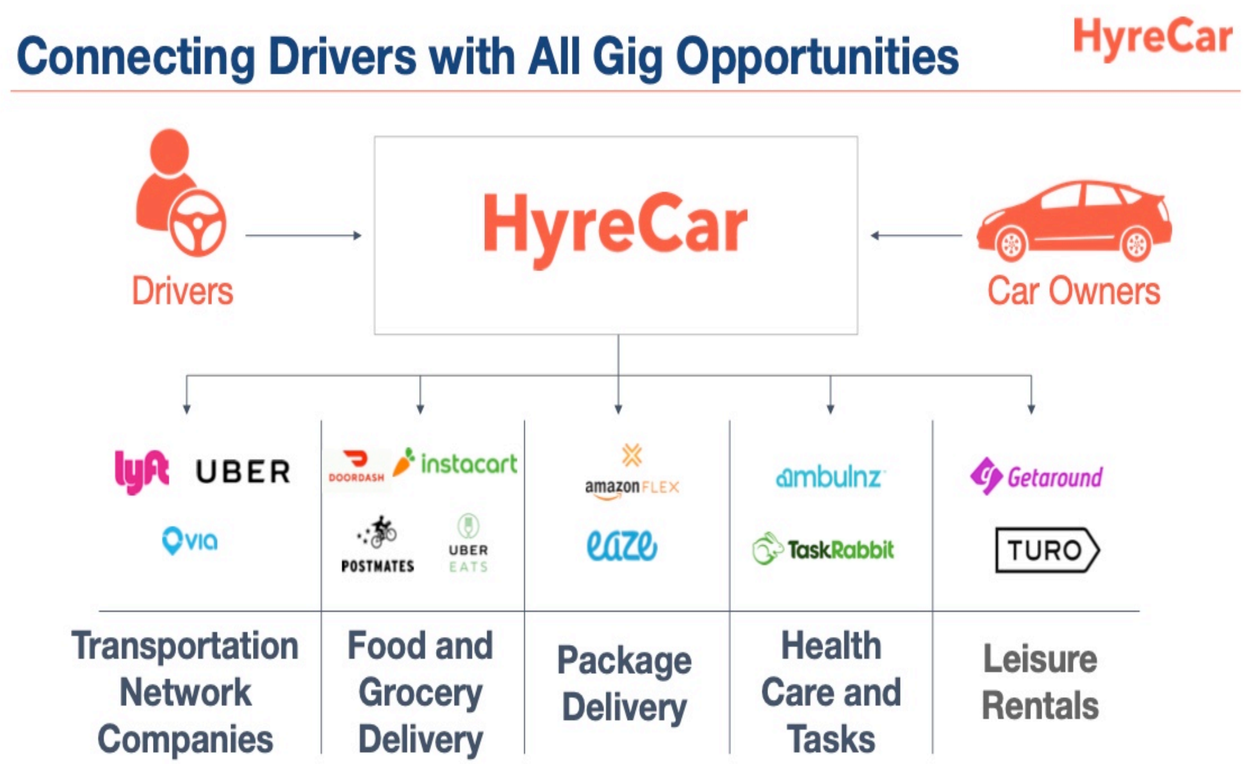
## Comparative Stock Price (YTD)



## What is HyreCar?

**HyreCar, Inc. is a Mobility as a Service (MaaS) platform for gig economy drivers to rent cars.** It began as a peer-to-peer car-sharing marketplace but recently scaled to include commercial fleets with thousands of cars. The platform supplies gig workers with the essential tool they need to earn an income in the booming gig economy: a reliable vehicle. It empowers car owners and fleet operators to rent their idle cars to ridesharing service drivers, while also acting as a hedge for car rental companies to monetize their fleets as they mature past the point of where they would normally be auctioned off.

Orignally focused exclusively on ridesharing companies, HyreCar pivoted during the early stages of the pandemic to ensure they were strategically positioned where the demand was. Delivery services like Instacart, DoorDash, and Amazon Flex exploded in volume as people sheltered in place. Ten years of delivery growth was pulled forward in just a few quick weeks. HyreCar not only grew during the pandemic, but they are exclusively positioned to hyperscale as rideshare bounces back to pre-pandemic levels.




**HyreCar is by far the lowest cost provider of cars to the gig economy (see below) and an engine of economic empowerment.** Cars are a tool for gig workers to earn income on their own terms and on their own schedule. The gig economy became incredibly important with millions of Americans laid off in March who needed jobs or who could not safely shop for food themselves. However, many potential drivers lacked a qualifying car. HyreCar's marketplace connects drivers who want to participate in the gig economy with a car at the lowest price, obtained with the least amount of friction. During the pandemic, some Instacart workers reported earning as much as $3000 a week shopping for and delivering groceries. Having access to a HyreCar also gives gig workers the ability to deliver packages through the Amazon Flex program. There are reports of some ambitious Amazon Flex drivers clearing $500 a day. HyreCar empowers a formally option-less class of worker to earn a better living during an economic catastrophe and enjoy a piece of the American dream.

| | HyreCar | AVIS | flexdrive | getaround |
|---|---|---|---|---|
| **Available US Markets** | **Nationwide** | **30 + Cities** | **26 + Cities** | **9 + Cities** |
| **Rental Length & Age Requirement** | **1-Day Minimum / 21+** | 24-Hour Minimum / 25+ | 7-Day Minimum / 25+ | 1-Hour Minimum / 21+ |
| **Service Limitation** | **No Limits** | Uber Only | Lyft Only | Uber Only |
| **Deposit** | **$0** | $0 | $250 | $150 |
| **Average Weekly Rates** | **Owners set pricing ~$200 per week** | $209/week + $0.10 - $0.30 per mile (Depends on location, taxes, and fees) | $209/week (Disqualified from Express Pay and driver bonuses)** | $5/hour + 3% booking fee of trip price + $.5/mile daily trip mileage overages |
| **All-In Cost*** | **$311** | $340 | $390 | $498 |

## Investment Thesis 1: HyreCar's Near-Term Path to Profitability

**Big Picture**: HyreCar's obsession with unit economics puts the company on track to achieve profitability in 2021. HyreCar already has more demand than it is capable of supplying. However, management expects recent national fleet agreements to supply volume past breakeven profitability in the near-term (Q2).

**HyreCar breaks even at 4,500 rentals per day, which its recent deal with AmeriDrive makes probable in Q2 2021.** While the company began with peer-to-peer rentals, in 2019 it pivoted to also partnering with dealerships and fleet operators. Dealerships can list their idle cars on HyreCar's platform, which prospective drivers rent. This move significantly grew the supply of cars in their marketplace. The company finished 3Q20 with approximately 3,000 rentals per day, representing 87% growth Y/Y. In early February, HyreCar partnered with the fleet operator AmeriDrive, which will put 6,000 cars on the platform in the next 18 months starting with 1,000 cars in 1Q21. The AmeriDrive deal sets up HyreCar for profitability in 2021 by surpassing the 4,500 rentals per day breakeven milestone.

HyreCar runs an intentionally very lean operation, which can grow the bottom line non-linearly. The company turned down its invitation to the Y Combinator to instead be taken over by current CEO Joe Furnari, who incidentally was the company's first customer. Furnari eschewed the cash-burning nature of high-growth venture-backed startups and instead focused on nailing down unit economics and an asset-light model as the company grew. As a result, **the company's path to profitability is simpler than other early-stage tech companies.**

Our conversations with CEO Joe Furnari reflect the company's obsession with survival. Joe highlighted concerns about unprofitable tech companies failing in the event of a valuation regime switch in financial markets causing liquidity to dry up. To keep costs low, the company has only 40 employees, is not growing headcount until necessary, and uses its capital very carefully. Their goal is to be capable of surviving a downturn to remain successful in 5-10 years.

**By focusing on survival during this downturn, HyreCar is even better positioned for the recovery than they were before the pandemic.** Management's focus on survival was on full display during the pandemic. The company demonstrated its antifragility by growing revenue 42% so far this year while Uber and Lyft reported 70-80% declines in ridesharing. HyreCar used the pandemic to take advantage of a supply gap in cars specifically positioned for rental to the gig economy. This 60,000-car fleet disappeared from the pool due to Hertz's bankruptcy, which freed up 45,000 cars, and by Fair discontinuing its gig leasing business, which removed the other 15,000 cars.

HyreCar was not fazed by the pandemic halting rideshare because rideshare drivers quickly pivoted to where the demand was: Instacart, Amazon Flex, and food delivery. The company made agreements with dealerships to position the company well for a reopening and demonstrated its growth readiness with both the AmeriDrive deal and its performance during the pandemic. This signals to other large-scale operators that HyreCar offers a strong opportunity to fill the gap Hertz's bankruptcy left.

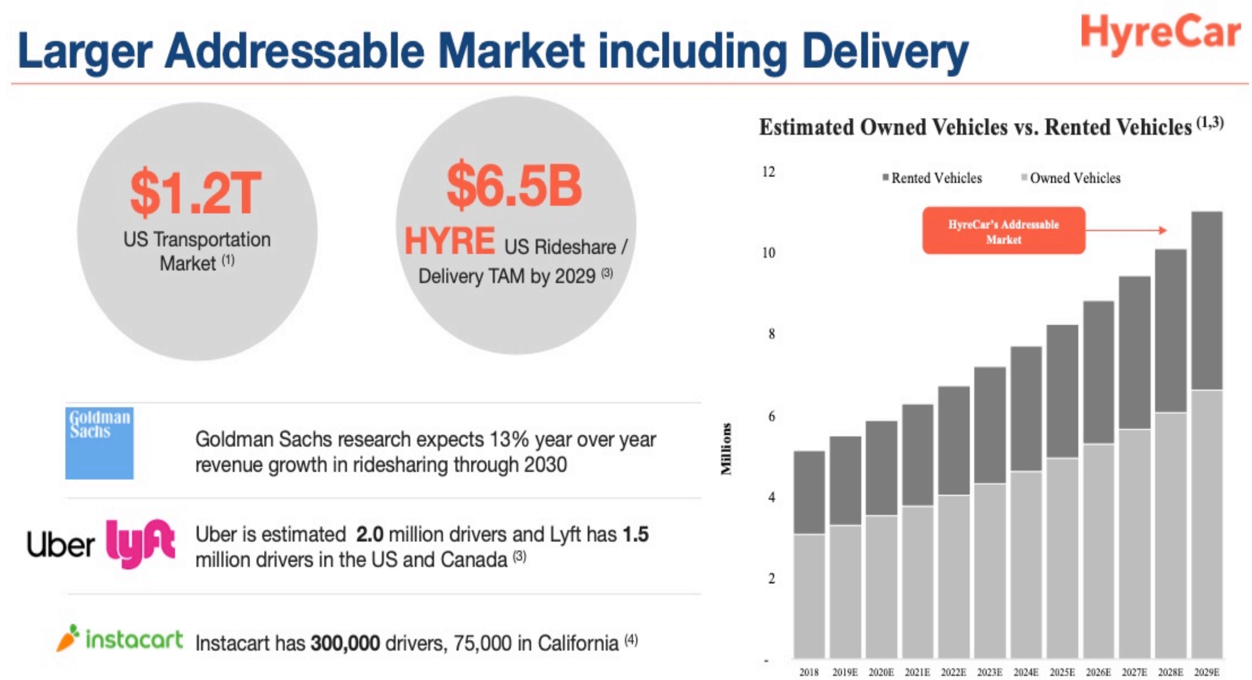
Finally, HyreCar already has excess demand to rent the new supply of cars on the platform. Management informed us that **they already have more customers than they have cars to give them.** This is with exceedingly limited marketing and advertising, as most of the employees are focused on onboarding more dealerships. In fact, the company has so much demand that they sold certain leads over this past year. This excess demand exists at a time when ridesharing is functionally broken until lockdowns are lifted and all growth has come from delivery. Management said on their 3Q20 earnings call that "car supply is the main gating factor to growth." As HyreCar continues to add cars on the platform, the company not only has the opportunity to be profitable, but to grow and scale non-linearly over the next several years.

### BCF EDGE: AmeriDrive Deal Signals to Fleet Operators HyreCar Ready to Scale

As the virus fades, rideshare will bounce back in a major way as people venture out from quarantine. This provides a major growth runway for HyreCar to scale its operations and fill in the gap left by the 60,000 cars that used to be in the rideshare pool. After listening to the recent HyreCar management call, the most important piece of information is that previous to the AmeriDrive deal, the largest fleet on the platform was 300 cars. Now that HyreCar has scaled its fleet 2X with just one major deal, it enables them to be taken more seriously by other suppliers. They are currently in talks with Cox Automotive, which operates a large family of dealerships, to further grow the fleet. We believe there is an extremely high probability of another major deal to fill in the supply gap since Fair left the marketplace and the Hertz fleet was liquidated under bankruptcy proceedings.

## Investment Thesis 2: HyreCar's Massive TAM

**Big Picture***:* Hundreds of thousands of Americans in large cities want to drive for ridesharing or delivery companies but cannot because they lack a qualifying car. These industries have massive growth potential, and HyreCar's TAM will grow with them. HyreCar gives investors concerned by the cash burning of ridesharing and delivery companies an opportunity to invest in the industry through a company that is demonstrably on the road to profitability.




**The Mobility as a Service (MaaS) market is a giant and underpenetrated opportunity, and HyreCar is well positioned to capitalize on its growth.** MaaS is still in its early innings. Transportation was a $1.3 trillion industry in 2019, and was the second largest household expenditure after housing, double the size of healthcare and triple that of entertainment. Ridesharing, however, currently accounts for only 7% of total vehicle miles.

It is unlikely that this figure remains low; 57% of US respondents said they would give up ownership of cars for well-priced and convenient offerings in 2016. In 1Q16, Uber had completed a total of one billion trips. The company completed its next billion by the 3rd quarter of the same year and hit its 10 billionth trip two years later. In spite of this growth, **Uber estimates that 10-15% of their potential drivers do not own a qualifying car.** Lyft reported that there are 60,000 people in Chicago alone who want to drive for them but do not own a qualifying car. General Motors estimates that there are 160,000 potential drivers in Washington D.C., Baltimore, Chicago, and Boston who do not own a qualifying car. In other words, not only is the ridesharing market still in its early stages, many who wish to participate cannot because they lack a qualifying car. This is HyreCar's opportunity, and the market is only going to grow exponentially larger.

Beyond ridesharing, the delivery market exploded during the pandemic and provided new growth opportunities for HyreCar. TAMs in delivery platforms erupted in 2020. The pandemic forced many smaller restaurants to integrate delivery services. As a result, Uber Eats is now a $35 billion run rate business that experienced 130% y/y growth. Grocery delivery flourished as well. Instacart reported a 500% increase in order volume during the lockdown. Pre-pandemic, the expected revenues for all food delivery companies were $123 billion in 2020 and $164 billion by 2024; these figures have only grown. Nevertheless, Uber Eats has only penetrated 30% of restaurants in the United States. The food delivery industry drove HyreCar's growth in 2020 and should continue to play a significant role in the future. Management reports that 61% of HyreCar drivers are active drivers for both ridesharing and delivery service companies, so growth of both ridesharing and delivery will improve HyreCar's top line in tandem.

Car-sharing is a smaller but quickly growing trend that HyreCar participates in. Car-sharing had one million users in 2010, 10 million in 2017, and that figure is projected to increase to 36 million by 2025 according to Frost & Sullivan. While HyreCar supplies most of its cars through dealerships and fleet operators, growth in peer-to-peer rentals is highly beneficial, as HyreCar has more demand than supply to address it with.

**This thesis point does not even begin to address HyreCar's optionality.** HyreCar expects to earn additional revenue from a white-glove service for commercial clients. It will include a dedicated account manager, insurance subscription, telematics, and tickets, tools, and claims management. Dealerships on the HyreCar platform should be able to sign up through a completely automated onboarding process available by the end of 2021. Management expects this to drive gross profit margins higher and has already seen demand for this type of service in its negotiations with dealerships. Additionally, HyreCar has begun monetizing leads for users interested in buying a car. The company will announce a nationwide partnership for lead monetization in the near-term. In short, not only is this a wonderful underlying business in a growing market, but there are multiple untouched growth levers that management can pull.

### BCF EDGE: HyreCar Best Positioned Financially to Play MaaS

Uber, Lyft, DoorDash, and GrubHub lost a combined $8.6 billion over the past year. **While markets may be tolerant of cash-burning today, this is no guarantee that investors will not begin demanding profits in the future**. Such a regime switch could cause capital to dry up, putting cash burning companies in danger of surviving to a future where automation makes these industries less costly. Investing in **HyreCar allows one to bet on the future of MaaS with the added benefit of a near-term path to profitability.**

## Investment Thesis 3: Pandemic Recovery Play with a Hedge

HyreCar is uniquely positioned to benefit from a bounce back in rideshare volume as the global pandemic subsides with the roll out in vaccinations accelerating. As illustrated below, Uber and Lyft rideshare revenue has been effectively halved. The global pandemic drastically halted mobility as citizens sheltered in place and worked from home.

HyreCar is a hidden gem benefitting from this dynamic because the platform is agnostic. HyreCar simply supplies cars to gig workers, who then gravitate to where the demand is. For example, UberEATS food delivery revenue is up 130% over the course of the pandemic, Instacart has seen a 500% increase in demand resulting from the pandemic. It is because of this shift in demand that HyreCar was able to grow revenue during a uniquely challenging time for business at large. HyreCar is bullishly positioned to hyperscale as rideshare volume increases and gig workers using its platform shift to growth vectors.

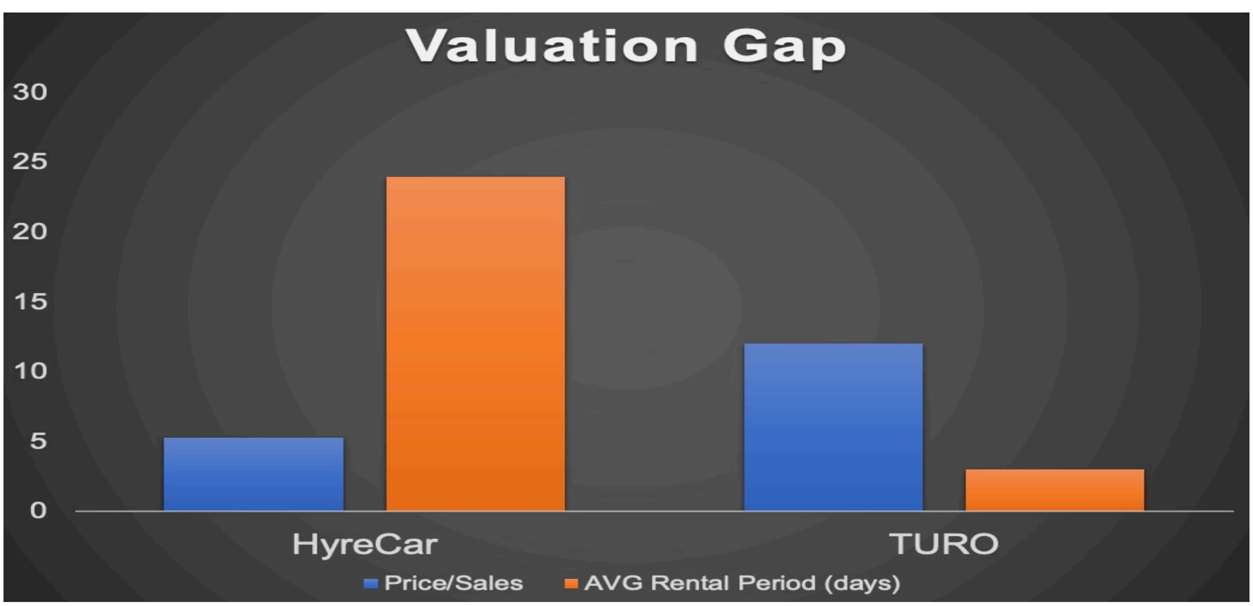
| | Q4 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Pandemic Change |
|---|---|---|---|---|---|---|
| LYFT Revenue | $1,017 | $956 | $339 | $500 | $570 | -44% |
| Uber Rideshare Revenue | $13,512 | $10,874 | $3,046 | $5,905 | $6,789 | -50% |
| UberEats Revenue | $4,374 | $4,683 | $6,961 | $8,550 | $10,050 | 130% |
| HyreCar Revenue | $4.8 | $5.8 | $5.6 | $6.8 | $6.8 | 42% |

Now let's look at what happened to a previous pool of 60,000 cars that were in a dedicated cohort to service the gig workers' needs that HyreCar can now scale into:


## Investment Catalysts

**1) Proof of Profitability:** HyreCar will likely achieve given the supply created by the AmeriDrive deal. This milestone will provide proof that the business can operate profitably and limit the perceived riskiness of the stock. While most investors are aware of the immense growth potential of the gig economy, many are on the sidelines because of the industry's challenging valuations for mostly unprofitable, cash-burning companies. By showing evidence of profitability, HyreCar can bring those investors off the sidelines. The CEO noted many dealerships want HyreCar to hit profitability milestones before listing cars. Once that barrier is passed, HyreCar will have less friction getting cars on the platform, unlocking a gate to growth.

**2) TURO IPO:** TURO is a car sharing marketplace with revenue growing 60% Y/Y. It is expected to IPO this year at a 12X revenue multiple according to the WSJ. As of its latest private VC funding round, TURO is valued at $1.2 billion, an 8X multiple given $153 million in estimated 2020 revenue. The 12X valuation upon IPO seems accurate given higher public market multiples. **This high-profile IPO will shine a spotlight on the strength of HyreCar and will act as a catalyst to propel it to a higher valuation.**



**3) White Glove Service Launch:** HyreCar is building out a white glove service for its commercial users. By the end of the year, management expects to offer an automated subscription-based model for commercial clients that includes a dedicated account manager, insurance subscription, telematics, and tickets, tools, and claims management. This is going to be gross margin accretive, as the alternative revenue from this service will hit gross profit. Management stated that completing this offering has been key in negotiations with dealerships. Once the project is complete, it will not only help add cars to the marketplace but also increase gross profit margins.

**4) COVID Vaccine:** Management stated that they likely would have hit 6,000 cars on their platform this year had it not been for COVID sending many dealers into hibernation. While their execution was no doubt impressive, the halving of rideshare volumes was a significant headwind. A successful vaccine rollout will lead rideshare to bounce back. A stronger economy makes dealerships more likely to enter into agreements with HyreCar. The company was made fortified by the crisis, and the opportunity for reopening will make the company even stronger.

**5) DILUTION is OVER!!:** HyreCar's recent share issuance has limited its recent bounce, but conversations with management indicate that dilution will be a future source of financing. Management has long been obsessed with survival and elected to fortify the balance sheet to make sure the company has the cash necessary to grow to profitability this year. Management does not expect to do anymore dilutive rounds in the future. Since the company has no debt and now enjoys a large injection of cash, the balance sheet looks extremely healthy as the company hits an inflection point. With valuations for rideshare and delivery tech companies growing frothier by the day, we expect investors to devote more capital to HyreCar, a company with the unit economics, balance sheet, and growth potential to satisfy a multitude of investors.

## Investment Risks

**1) Worldwide Economic Outlook:** The coronavirus outbreak has driven a slowdown in the global economy and generated a significant amount of uncertainty. I cannot predict the impact the pandemic will have on the company's business and as such, results may be adversely impacted. However, the gig economy demand has simply shifted from rideshare to food, grocery and package delivery. HyreCar is kind of the ultimate hedge against the pandemic because as demand shifts from one sector to the next the gig worker that rents a HyreCar will just shift what platform they use to maximize revenues for themselves. The actual car on the HyreCar platform is agnostic.

**2) Execution:** HyreCar needs to execute on its growth strategy, which involves the fairly typical operational risks tackled by high growth companies in swiftly advancing industries. In particular the risk such as failing to scale vehicle inventory fast enough to get enough cars on the HyreCar platform to reliably serve their markets.

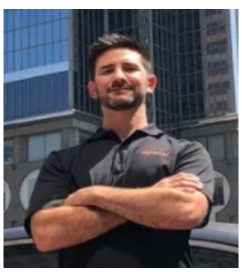
**3) Autonomous Vehicles:** Since autonomous vehicles are rapidly evolving, there is major risk to any firm depending on human drivers for revenue. However, it is likely to be ten to fifteen years in the future before full autonomy could happen, according to experts in the field. The flourishing autonomous vehicle industry could harmfully derail HyreCar if they are not able to innovate their technology platform fast enough to keep up with the pace of change during this rapidly evolving shift.

**4) Partners Becoming Competitors:** Business growth is notably intertwined on the success of Uber, Lyft, and other delivery platforms systems that compete with taxicabs and other delivery services. Although none have signaled this, Uber/Lyft could roll out their own app system to match drivers and car owners, which could adversely affect growth prospects for HyreCar. I believe that the TAM is too large for this to be anything other than a minor downside risk.

## HyreCar Management

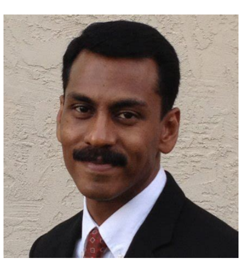
**Joe Furnari** is HyreCar's CEO. Prior to that, Furnari served as the company CFO. Previous to HyreCar, Mr. Furnari served as VP of Portfolio Management at The Palisades Group, LLC, where he managed a $5.2 billion portfolio of single-family residential whole loan pools. From October 2009 to April 2014, he served as Assistant VP of Securitized Products Valuation at Morgan Stanley, where he coordinated monthly independent valuations of securitized products. Joe owns a 3.74% stake in HyreCar worth approx. $7.4 million

**Scott Brogi** is the Chief Financial Officer of HyreCar. Brogi previously led finance and operations for Teaching Channel, Inc. Brogi has prior CFO experience and has held leadership roles at public and private companies across various sectors, including education, entertainment, healthcare and internet services. He began his career in corporate banking and finance with Chase Manhattan Bank, and afterwards, led finance and development for successful startups like AccentCare and Pictage. Brogi owns 1% of HyreCar worth approx. $1.81 million.



**Mike Furnari** oversees sales operations as the Chief Business Development Officer and has played an integral role in expanding the sales department and increasing gross merchandise sales on the platform. Mike participated in Seed, Series A, and Bridge fundraising rounds and is also the primary point of contact with fleet operators, Uber/Lyft, and other strategic external relationships. Prior to joining, Mr. Furnari was managing a small fleet of vehicles on the HyreCar platform before approaching the founders, in December 2015, to provide financing to the company. Mike owns a 3.76% stake in HyreCar worth approx. $7.4 million

**Grace Mellis** serves as Chairman of the Board of Directors. Ms. Mellis brings more than 25 years of management and finance expertise into her role as Chairman. She spent nearly a decade at JPMorgan Chase where she had the opportunity to work with Heidi Miller and Jamie Dimon on transformation and business expansion as a Managing Director and Head of International Strategy within the Corporate and Investment Bank. She was also a CFO for the Investor Services business covering Private Equity Funds, Asset Managers and Central Banks. Mellis owns 1.6% of HyreCar worth approx. $3.2 million.



**Jay Vijayan** is a key recent addition to the Board of Directors. Mr. Vijayan was the Chief Information Officer of Tesla, Inc. for four years. His team built and scaled Tesla's digital and information platform and systems from the ground up, fueling the company's hyper-growth phase. Prior to joining Tesla, he led the Business Applications Development Group for VMware Inc., during its significant accelerated growth phase when VMware scaled revenues from approximately $700 million in 2007 to nearly $4 billion in 2012. He is currently the Founder & CEO of Tekion Corp. Vijayan owns 0.21% of HyreCar worth approx. $0.5 million.

**Management Expertise:**

The management has not only a strong experience in the technology space and managing growing businesses, but also in M&A transactions and company integration. We are also confident that the management's compensation is strongly aligned with shareholders' interest. Insiders own 14% of HyreCar.

## HYRE AmeriDrive Deal 1/28

On January 28 HyreCar changed the game when it announced a new strategic partnership expected to significantly increase car supply on HyreCar's platform in key Southeast regions that have re-opened quicker due to less state government coronavirus regulations. Car supply has always been an issue for HYRE so getting a partnership with AmeriDrive to provide 6,000 cars is a huge growth milestone for the company. The formal partnerships involve four distinct entities, two remain undisclosed due to NDAs as of the announcement:

1) AmeriDrive Holdings: A leading automotive fleet manager and an existing HYRE fleet management partner, that will exclusively list fleets of cars onto the HYRE platform. The first phase of 1,00 cars will enter onto the HyreCar platform in Q1 and be deployed in growth markets in the Southeast that have seen a significant increase in demand from re-openings. The remaining 5,000 cars promised in the deal with roll out after Q1 during the next five consecutive quarters.

2) Cogent Bank Specialty Lending Unit: This bank will provide innovative financing and capital commitments to AmeriDrive to hyperscale vehicle supply. The deal targets used vehicles that are 2-4 years old with 50k-70k miles on the odometer. AmeriDrive has entered into agreements with a substantial vehicle supply associate that can provide over $65M in assets or 6,000 cars over the next 18 months to be placed on the HYRE platform to meet increased demand from gig workers.

3) An (undisclosed) partner is a national leasing company and a vehicle supplier to the auto rental business that has invested across multiple verticals in the automotive industry. Expect formal announcement to come.

4) An (undisclosed) partner is a prominent national automotive retail chain with after-market auto services and parts that will be integral to HyreCar scaling by managing vehicle maintenance and other innovative services for cars on the platform.

**The key to the deal is the scalability**. When you do peer to peer rentals there are numerous issues inherent in the model. For example, if a gig driver wrecks a personal owner's vehicle, they will want a full replacement or full body shop renewal. When it is a national fleet supplier, they will patch it up and get it back on the road as soon as possible so that the car is bringing in revenue.

On an informative call with IR and HyreCar CEO Joe Furnari, he expressed that the way HyreCar is thinking about these commercial accounts is providing a service level tier that's white glove service; when they started in 2016, it was peer to peer and that was it. Now they have evolved to commercial fleet accounts that provide different levels of service. They're selling subscriptions on a monthly basis that give the fleet owner a white glove service, dedicated account manager, dedicated operations manager, in-market account executives that are there, an insurance subscription, telematics, and tickets and claims management.

## The Smart Boston Money = Peter Lynch:

Portolan Capital management is now almost the third largest shareholder in HyreCar, adding almost 500k shares as of the most recent 13F filing. They quintupled their position. On the call with the HyreCar CEO and IR head we learned that Portolan was seeded by Peter Lynch, who has taken a great interest in HyreCar. George McCabe, who is the managing director of Portolan Capital Management was formerly a research analyst at the Lynch Foundation where he performed research and analysis on numerous public and private companies across broad industry groups and made portfolio allocation decisions and recommendations. He served in that role since from July 2001 to December 2004 when he launched Portolan Capital Management, LLC with the help of famous investor Peter Lynch.

| OWNER NAME | DATE | SHARES HELD | CHANGE (SHARES) | CHANGE (%) | VALUE (IN 1,000S) ▾ |
|---|---|---|---|---|---|
| LYNROCK LAKE LP | 12/31/2020 | 1,234,689 | -457,960 | -27.056% | $13,779 |
| G2 INVESTMENT PARTNERS MANAGEMENT LLC | 12/31/2020 | 973,805 | -115,925 | -10.638% | $10,868 |
| VANGUARD GROUP INC | 12/31/2020 | 673,024 | 273,765 | 68.568% | $7,511 |
| PORTOLAN CAPITAL MANAGEMENT, LLC | 12/31/2020 | 638,574 | 490,846 | 332.263% | $7,126 |
| FRIESS ASSOCIATES LLC | 12/31/2020 | 562,704 | -62,444 | -9.989% | $6,280 |
| BLACKROCK INC. | 12/31/2020 | 312,582 | 1,264 | 0.406% | $3,488 |
| INVENOMIC CAPITAL MANAGEMENT LP | 12/31/2020 | 214,674 | -49,284 | -18.671% | $2,396 |
| WHITE PINE CAPITAL LLC | 12/31/2020 | 211,961 | -75,477 | -26.259% | $2,365 |
| TWO SIGMA INVESTMENTS, LP | 12/31/2020 | 193,276 | 193,276 | New | $2,157 |
| SAGE RHINO CAPITAL LLC | 12/31/2020 | 188,000 | 0 | 0% | $2,098 |
| EAM INVESTORS, LLC | 12/31/2020 | 177,110 | 177,110 | New | $1,977 |
| GRANITE POINT CAPITAL MANAGEMENT, L.P. | 12/31/2020 | 164,030 | 164,030 | New | $1,831 |
| RENAISSANCE TECHNOLOGIES LLC | 12/31/2020 | 156,222 | 14,763 | 10.436% | $1,743 |
| NORTHERN TRUST CORP | 12/31/2020 | 127,374 | 94,913 | 292.391% | $1,421 |
| P.A.W. CAPITAL CORP | 12/31/2020 | 120,000 | 120,000 | New | $1,339 |

## Valuation

### Comparative Company Analysis

The CompCo analysis uses six companies that align with HyreCar's business model: Lyft, Uber, Delivery Hero, Avis, and DoorDash. They align well with the MaaS space. The CompCo uses an equality weighted analysis of the peers' average LTM and NTM: EV / EBITDA, EV / Revenue, and EV / EBIT, EBITDA, and EBIT projections (see DCF analysis) and the current share price, applied to Base Case revenue. These metrics led to a stock price of $14, which represents an upside potential of 25%. HYRE is currently trading at a discount to peers.

Since the market is forward looking and coronavirus has distorted financial numbers, I used NTM EV/Revenue for the valuation. All these comparable companies are in growth mode and are valued on the basis of forward sales multiples. However, using the 2021 revenue projections combined with the average of the four street analysts covering HyreCar, I believe a stronger comparison is TURO, which is currently valued at 12X Revenue vs. 5X for HyreCar. TURO has the exact same business model as HyreCar, which is asset lite, however I believe HyreCar is the more valuable company since the average days of a rental on TURO is 3 days versus 24 days on the HyreCar platform. This will allow HyreCar to enjoy greater margins in the long run than TURO as the customers are almost ten times as sticky.

**HYRE CompCO**
**Summary of Trailing and Forward Looking Multiples**
*($ in millions, fiscal year ending December 31)*

| | LTM Multiples EV / Revenue | LTM Multiples EV / EBITDA | LTM Multiples EV / EBIT | NTM Multiples EV / Revenue | NTM Multiples EV / EBITDA | NTM Multiples EV / EBIT |
|---|---|---|---|---|---|---|
| **Hyre Compco** | | | | | | |
| Median Multiples | 8.9x | -21.9x | -28.5x | 6.4x | -48.5x | -32.7x |
| Average Multiples | 11.6x | -49.9x | -95.7x | 7.4x | -5.3x | 152.1x |
| **Selected Multiples** | 11.6x | -49.9x | -95.7x | 7.4x | -5.3x | 152.1x |
| LTM Financial Results | 23 | (15) | (15) | 37 | (2) | (4) |
| Implied Enterprise Value | 267 | 743 | 1,425 | 272 | 11 | (564) |
| | - | - | - | - | - | - |
| Implied Enterprise Value | 267 | 743 | 1,425 | 272 | 11 | (564) |
| Plus: Cash Balance as of Valuation Date | 7 | 7 | 7 | 7 | 7 | 7 |
| Less:Minority Interest | - | - | - | - | - | - |
| Less: Preferred Stock | - | - | - | - | - | - |
| Less: Interest Bearing Debt as of Valuation Date | - | - | - | - | - | - |
| **Estimated Value of Common Equity (Controlling Interest Basis)** | 273 | 750 | 1,432 | 279 | 18 | (557) |
| **Concluded Value of Common Equity (Controlling Interest Basis)** | **279** | | | | | |
| Numer of Diluted Share Outstanding | 20 | | | | | |
| Intrinsic Value of Stock | **$14** | | | | | |
| Current Share Price | $11.19 | | | | | |
| **Upside Potential** | **25%** | | | | | |

## Discounted Cash Flow Analysis

**Discounted Cash Flow Analysis**
*($ in millions, fiscal year ending Decemeber 31)*

| Perpetuity Growth Rate | |
|---|---|
| Cumulative Present Value of FCF | $73.1 |
| PV of Terminal Value | $513.5 |
| **Enterprise Value** | **$587** |
| Less: Total Debt | |
| Less: Preferred Securities | - |
| Less: Noncontrolling Interest | 0.2 |
| Plus: Cash and Cash Equivalents | 36.5 |
| **Implied Equity Value** | **$623.3** |
| Shares Outstanding | 22.5 |
| **Implied Share Price** | **$ 27.66** |
| **Current Price** | **$ 11.19** |
| Upside/Downside | **147%** |

I took a blended terminal value approach, taking the average of a 25x 2025 FCF multiple and the Gordon Growth approach using a 3% terminal growth rate. I believe this to be highly conservative. If HyreCar becomes the top player in the industry, assuming no growth in gig economy rentals, they would average 45,000 rentals per day. This would make HyreCar a $406 million run-rate business at current prices. The upside potential in this growing market is monumental, but our conservative approach to valuation provides a margin of safety. These estimates yield a base case target price of $27.66, or 147% above the current price of $11.19.

## Revenue Build

| | | | | Projected | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017A | 2018A | 2019F | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| Revenue/rental | | | | 24.73 | 25.00 | 26.00 | 27.00 | 27.50 | 28.50 |
| Rentals/day | | | | 2,800 | 5,000 | 9,210 | 13,419 | 15,460 | 17,500 |
| Rental days | | | | 1,022,000 | 1,825,000 | 3,361,480 | 4,897,959 | 5,642,730 | 6,387,500 |
| Revenue | 3.22 | 9.78 | 15.85 | 25.27 | 45.63 | 87.40 | 132.24 | 155.18 | 182.04 |
| **Total Revenue** | **$3.2** | **$9.8** | **$15.9** | **$25.27** | **$45.63** | **$87.40** | **$132.24** | **$155.18** | **$182.04** |

The revenue build assumed HyreCar's revenue per rental would grow from $24.73 over the TTM to $28.50 in 2025. I believe this is reasonable as management explained that the company's pricing power has historically followed demand. When demand for ridesharing bottomed in spring, the company's revenue per rental fell with it. As the ridesharing market grows, pricing power should come with it. I project an average of 5,000 rentals per day in 2021 as the AmeriDrive cars ramp. I believe this to be conservative as it does not incorporate any new deals into the estimate. I expect rentals per day to hit 17,500 in 2025, which is at the lower end of management estimates.

I expect gross profits to rise to 50% in 2021 and stay there. This is in-line with management's expectations, as greater efficiency in insurance and the rollout of the white-glove service are both gross margin accretive. I forecast operating margins to rise to 6% in 2021 and hitting 20% in 2024. This trend makes sense given how asset light the business is, leading to non-linear margin growth through operating leverage as the business scales past breakeven.

## WACC

I used CAPM to assign a discount rate. The company has no long-term debt, so we only solved for the cost of equity. I used a 1.1% risk-free rate, a 5.23% equity risk premium, and HYRE's 3-year adjusted beta of 1.21. To be conservative, I added a small cap size premium, leading to a 10.43% discount rate.

**Weighted Average Cost of Capital Analysis**
*($ in millions)*

| WACC Calculation | |
|---|---|
| ***Target Capital Structure*** | |
| Debt-to-Total Capitalization | - % |
| Equity-to-Total Capitalization | 100.00% |
| ***Cost of Debt*** | |
| Cost of Debt(1) | - % |
| Tax Rate | - % |
| **After-tax Cost of Debt** | **- %** |
| ***Cost of Equity*** | |
| Risk-free Rate(2) | 1.1% |
| Market Risk Premium(2) | 5.23% |
| Beta(2) | 1.21 |
| Small Cap Size Premium | 3.00% |
| **Cost of Equity** | **10.43%** |
| **WACC** | **10.43%** |

(1) The only debt is a $2 million PPP loan in forgiveness process
(2) Obtained from Factset 3YR adjustetd

## Disclosures

The Babson College Fund (BCF) is an academic program in which selected students manage a portion of the Babson College endowment. The program seeks to provide a rich educational experience through the development of investment research skills and the acquisition of equity analysis and portfolio management experience. Please visit http://cutler.babson.edu for more information.

**Definition of Ratings**
**BUY:** Expected to outperform the S&P 500 producing above average returns.
**HOLD:** Expected to perform in line with the S&P 500 producing average returns.
**SELL:** Expected to underperform the S&P 500 producing below average returns.

### References

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Thomson/Reuters Eikon
Bloomberg Terminal
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