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HyreCar, Inc.

Third Quarter 2018 Earnings Call

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CORPORATE PARTICIPANTS

Greg Falesnik, *Investor Relations, MZ North America*

Joe Furnari, *Founder & Chief Executive Officer*

Scott Brogi, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Howard Halpern, *Taglich Brothers*

Robert Giordano, *Network 1 Securities*

Joe Giamichael, *Private Investor*

Mike Grondahl, *Northland Securities*

Matt Shea, *Northland Securities*

Richard Ehrlich, *JH Darbie*

Charles Bloom, *Morgan Stanley*

PRESENTATION

Operator:

Good day and welcome to the HyreCar Third Quarter 2018 Results Call. Today's conference is being recorded. Following the presentation, we will open up for questions. To ask a question, please press star, zero on your telephone keypad. I beg your pardon, star, one on your telephone keypad. At this time, I would like to turn the conference over to Greg Falesnik, Managing Director, MZ North America, HyreCar's Investor Relations firm. Please go ahead, sir.

Greg Falesnik:

Thank you, Operator. Before we get started, I will read a disclaimer about forward-looking statements. This conference call may contain, in addition to historical information, forward-looking statements within the meaning of the Federal Securities laws regarding HyreCar, Inc. Forward-looking statements include, but are not limited to, statements that express our intentions, beliefs, expectations, strategies, predictions or any other statements relating to our future activities or other future events or conditions. These statements are based on current expectations, estimates and projections about our business based in part on assumptions made by Management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may vary and are likely to differ materially from what is expressed or forecasted in the forward-looking statements due to numerous factors discussed from time to time in this report and other documents filed with the SEC.

In addition, such statements could be affected by risks and certainties related to factors beyond the Company's control. Matters that make cause actual results to differ materially from these in the forward-looking statements include, among other factors, the loss of key Management personnel, availability of capital and a major litigation regarding the Company. In addition, this conference call contains time-sensitive information that reflects Management's best analysis only as of the date of this conference call. The Company does not undertake any obligation to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after the date of this conference call. Further information concerning issues that can materially affect financial performance related to forward-looking statements contained in this presentation can be found on the Company's periodic filings with the Securities and Exchange Commission.

At this time, I'd like to turn the call over to Joe Furnari, the Company's Chief Executive Officer. Joe, the floor is yours.

Joe Furnari:

Thank you, Greg, and thank you, everyone, for joining us today and I'd like to welcome everyone to our second earnings call as a public company. We are extremely excited to be here to provide a corporate update, our financial results, and for the first time, illustrate our vision for the future of mobility and ultimately show how we plan to monetize that vision today and in the future.

We reported another record quarter in Q3, up 224% over the same period last year. Since the beginning of 2016, we've shown 11 quarters in a row of sequential double digit top line revenue growth and most importantly, our gross profit was up 11 times to $1.5 million versus the same period a year ago, which provided us with gross margins of 54% in the third quarter of 2018 as compared to only 14% gross margins in the year-ago quarter. In addition, earnings per share loss narrowed to $0.15 per share, down from a loss of $0.28 per share over the same period last year.

Our growth is a function of major macro forces changing the way individuals consume transportation across the globe. In the not too distant past, the majority of miles traveled were in personally owned vehicles, households averaged 2.5 cars and those cars sat unutilized 96% of their useful lives. Billion-dollar industries grew up around this ownership model. As an example, 40% of all P&C insurance premium is personal auto-related, OEMs are forecast to show $15 billion in light vehicle sales in 2018 and 40 million cars were sold via independent franchise dealerships in 2017, but today the average changing (phon) disruption of technology is threatening that old model and the industries built around it.

With the rise of car sharing and ride sharing, the ownership model is being turned on its head. Households in urban areas are opting to drop their second car and supplement with on demand rentals as a use-base commodity. In a lot of cases, households have dropped vehicle ownership altogether, opting for ride sharing services and first-mile last-mile solutions for the urban mobility commute. This change doesn't mean households are travelling less. Millennials will still want to travel the same amount of miles as past generations; rather, consumption of travel is moving towards a new future and is called mobility as a service. Mobility as a service, or MOS, is defined as seamless intermodal transportation with the touch of a button; rent a scooter, rent a bike, call a car, rent a car, all connected to mass public transit, all moving in concert together.

Vehicles in the MOS future are autonomous, connected, electric and shared, what most people in the transportation sector refer to as ACES. The MOS future is massive; car sharing and ride sharing alone are expected to hit trillion-dollar marks over the next 15 years. Most insiders I've spoken to agree the ACES future is still five to 10 years from reaching critical mass and in the meantime, there are still drivers behind the wheel of cars.

This is our vision for today: monetizing underutilized assets with demand from ride sharing drivers, while also laying the groundwork for the ACES future, inhibiting (phon) the business model when that future does arrive. I explain this because it is important to have a context as we lay out our vision providing color around partnerships, news announcements and key events in the past quarter.

We're continuing to see strong demand for rental vehicles and we have a large imbalance of demand over supply. Over 30,000 driver leads hit our website in September while only a fraction of cars were posted to the marketplace. This imbalance creates a tremendous opportunity for us and we're literally sprinting at full speed to match the demand. The next leg of our growth is securing supply channels and we've taken strategic steps to seize the opportunity. First and most importantly on this front is our establishing the commercial division within HyreCar, specifically focused on institutional supply for the platform. The commercial division was established in early Q3 with the announcement of our DriveItAway partnership, led by longtime industry veteran John Possumato. The HyreCar DriveItAway partnership has a simple mission: establish dealer-based shared mobility as the main source of the fleet on the HyreCar platform. Our seamless turnkey solution is a first for auto dealers to participate in the gig and sharing economies. This partnership has proven an all-around win for HyreCar and our customer eco-system. Number one, car dealers tap into additional revenues and establish leadership in the MOS future. Number two, drivers have temporary vehicles with a unique path to vehicle ownership. Number three, HyreCar sees increased lifetime value of customer and reliable rental inventory.

We now have a backlog of over 200 multi-location dealerships interested in adding cars to the marketplace which unlocks thousands of vehicles coming online and available, and addresses our supply concerns. Dealers, once they understand the HyreCar value proposition, are overwhelmingly positive. For example, unprecedented in an industry, one dealership recently devoted a 14-car showroom, lounge area and dedicated service facility exclusively to HyreCar ride share drivers. In addition to deep relationships DriveItAway has brought to the table, have reinforced our commitment to the core mission, partnerships like PassTime, (inaudible), NIADA, all announced in the third quarter and all sourced through the DriveItAway partnership, provide the eco-system for dealers success on our platform. Speaking engagements at industry conferences like the NIADA, (inaudible), JD Power, Auto Finance Summit, Used Car Week and dozens of trade articles are cementing our position as thought leaders in the dealer-focused MOS space and key advisory role and Board member appointments like Brian Allen and Brooke Skinner show the bench talent we're collecting. It's an exciting time because we're literally making industry first news every week and we're seeing tremendous action with this partnership.

Before I go further, I want to introduce a key strategic hire for this quarter. Scott Brogi took on the CFO role in late Q3 and will be speaking shortly to our financial results. Scott joined us prior to facilitating a successful acquisition of his online educational company and has experience with both public and private companies growing revenue from $10 million to $100 million in various financial roles. His M&A experience ties well under our corporate strategy and I'm hopeful we will be using his skills in that arena by the end of the year.

With that intro, Scott, I'd like to turn the call over to you so you can highlight some of the financial metrics from this past quarter. Scott?

Scott Brogi:

Thank you, Joe. In the third quarter of 2018, we increased revenue by 224% to $2.7 million compared to $0.8 million in the third quarter of 2017. Sequentially this represents an 18% increase when compared to revenue of $2.3 million in the second quarter of 2018. Revenue growth was driven primarily by more car supply on the platform and activation referral commissions. We increased gross profit more than 11 times to $1.5 million in the third of 2018 from $0.1 million in the third quarter of 2017 as the dual impact of higher revenue and lower relative insurance costs started to scale. Sequentially, this represents a 50% increase when compared to gross profit of $1 million in the second quarter of 2018.

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 on insurance and pricing optimization across geographic specific locations.

Total operating expenses were $3.2 million in the third quarter of 2018 compared to $1.4 million in the same quarter of 2017. The increase in operating expenses was primarily due to higher marketing, sales and administration cost to support dramatically higher revenues.

Net loss in the third quarter of 2018 totaled $1.8 million or $0.15 per share compared to a net loss of $1.3 million or $0.28 per share in the same quarter of 2017. The increase in net loss is primarily due to higher expense levels to support dramatically higher revenues. Sequentially, net loss in the third quarter of 2018 totaled $1.8 million or $0.14 per share, as we said, compared to net loss adjusted for non-cash expenses of $5 million or $0.92 per share in Q2 of 2018. Sequential quarter-over-quarter narrowing of our loss per share is expected to continue. This narrowing, coupled with revenue growth and margin expansion, provides a very clear line of sight towards being cash flow positive.

Cash at September 30, 2018 totaled $8.7 million as compared to $0.2 million at December 31, 2017. The substantial increase in cash is due to the gross proceeds of $12.6 million from the Company's IPO in June 2018 where we sold 2.5 million shares of common stock at a price to the public of $5 per share. With this raise, and due to increasing revenues through the normal course of business, as well as the ability to reduce cash burn if needed, we believe that substantial doubt about the Company's ability to continue as a going concern has been alleviated. Finally, the Company expects net revenue of $9.75 million to $10.25 million for the fiscal year ending December 31, 2018 and gross profit of $4.5 million to $5 million for the full fiscal year 2018.

Now I would like to turn the call back to Joe for an operational update with some supporting statistics that we feel are important when looking at our business. Joe?

Joe Furnari:

Thank you, Scott. We are now operating in 50 states in the District of Columbia. We've proven that our concept works across a multi-city footprint on a nationwide basis and we expect the recent expansion into all states will increase incremental revenues by at least 25% moving forward. In the third quarter, we grew rental days (phon) to 105,000, a 136% increase when compared to 44,527 in the third quarter of 2017 and a sequential increase of 13% when compared to 93000 in the second quarter of 2018. We are now also adding new drivers and matching them with vehicle owners that are rapid clip; 6,000 new, unique drivers added in the first nine months of this year as compared to 3,000 new, unique drivers added in the first nine months of 2017. In the third quarter, we added approximately 2,400 new unique drivers on the platform and increased 93% as compared to 1,200 new unique drivers added on the platform in third quarter of 2017. This represents a sequential increase of 32% when compared to 1,800 in the second quarter of 2018.

Again, our growth is a function of major macro forces changing the way individuals consume transportation. We're building this business with the MOS future in mind and I want to make take some time to outline our strategic vision for the business. We are asking ourselves a simple question: if autonomous, connected, electric and shared is the future then what does an autonomous future look like for HyreCar?

I like Lyft's view because they see three pillars of autonomy: number one, fleet managers of autonomous cars. Everybody talks about a self-driving car but nobody talks about self-maintaining, self-cleaning car. You'll still need to have fleet managers and the low cost maintainer of that fleet will have a distinct advantage. I'll touch more on this later. The second of three pillars is the autonomous technology itself. Lyft has created an open source platform for companies to collaborate, similar to Google's Android platform, versus other companies have taken the walled garden approach, similar to Apple's iOS platform. We see the autonomous technology becoming commoditized and sold as individual units as a simple plugin to their diagnostic (inaudible). The technology for autonomy will become cheaper and cheaper as more competition reaches the market, making the tech side of the business less profitable over time. The third pillar is the transportation network to orchestrate the connection of people, smartphones, pick-ups and destinations. Again, this technology has already become commoditized with many small TMCs popping up across the globe. This future is about five years out but we see pillar number one as the most important feat, owning the MOS future, and HyreCar is perfectly positioned to capitalize on this opportunity.

We are in a process of laying the groundwork to sit under the first pillar of autonomy as a fleet manager of connecting cars, building a dispersed network to service and maintain that fleet in the dealer space. For the next five years, our goal is to develop the HyreCar platform as fast as possible, all while keeping our eye on the goal of fitting into the MOS feature. We do this by pursuing a three-pronged approach.

Number one is expanding, expanding the dealer-based mobility platform to grow our fleet, which means tapping into an ever-growing source of vehicles in need of utilization through dealer networks. Number two, enabling, enabling technology and connected fleet by adding partnerships for vertical integration of services and horizontal integration of vehicle inventory. Number three, establishing, establishing insurance and financial solutions to grease the wheels of HyreCar owning the MOS feature. Viewing our partnerships, operating results and Q3 news announcements through the lenses of our three-pronged approach, I think it's helpful to add context to those releases.

For example, under the first category or first tenet of the strategy, expanding our dealer-based shared mobility problem, we have made tremendous progress this quarter. The headwaters of this expansion is the HyreCar DriveItAway partnership. As mentioned before, this partnership has a simple mission: establish dealer-based shared mobility as the means for growing HyreCar's fleet. The DriveItAway partnership led to a 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 us to help NIADA dealers implement a successful shared mobility model through the HyreCar platform.

Also under the same theme of expanding our dealer-based shared mobility platform, we continue to bolster our team as we grow. One notable addition in the third quarter was Brooke Skinner-Ricketts who we appointed as an Independent Director. Brooke is an industry veteran who brings nearly two decades of relevant marketing and automotive industry expertise to HyreCar and currently serves as a Chief Marketing Officer for cars.com. Additionally, Brian Allen, who is an automotive industry veteran and newly appointed Strategic Adviser to HyreCar, will help by educating dealerships on how to best leverage the emerging opportunities within the mobility of the service industry. Brian led the growth of the world-renowned Galpin Motors during the last 30 years of this tenure at Galpin Premier Auto Booth. A voice of authority and thought leader, Mr. Allen is a widely recognized technology advocate in the retail automotive sales and service industry. Again, all of these events can be categorized under the first tenet of our corporate strategy, expanding our dealer-based share mobility platform.

Under the second tenet of our corporate strategy, enabling technology and connectivity by adding partnerships for vertical integration services. The partnership with PassTime to offer advanced vehicle asset tracking and inventory management to vehicle owners strengthens our value proposition amongst automotive dealers. Signing dealers on to PassTime also provides us the first step towards multiple touchpoints of fleet connectivity which ties into our five-year vision and is consistent with the second tenet of establishing enabling technologies. The partnership with TIKD is another example of enabling technology. TIKD is a leading liability management solutions provider and we launched a pilot program to integrate their seamless ticket management experience into the HyreCar platform, making handling a ticket simpler for all involved and removing a burden from the mind of vehicle owners. By vertically integrating services like TIKD on our platform, we're better able to quickly scale inventory which in turn drives customer retention, reduces cost and, most importantly, increases revenue.

The third corporate strategy tenet is establishing insurance and financial solutions. The fount head of this insured tech initiative has always been Dave Haley and Peter Foley. We announced a joint venture with Dave and Peter in early October. In the near term, this JV allows the Company flexibility to reduce insurance risk, increase profit margins and provide tailored insurance solutions to the on-demand economy. Longer term, this initiative underpins the whole business on multiple fronts. We have been at the forefront of working with insurers in the insure-tech space to create new product tailored to the MOS movement. As they're driven by actuarial data and this market is changing and expanding rapidly, HyreCar's ability to guide our insurers based on our internal analytics is extremely valuable.

Along a similar line, we entered into an agreement with Shift Technology to leverage its proprietary AI-driven fraud detection solution to optimize HyreCar's insurance claims and deliver an exceptional customer experience, saving all parties time and money. This partnership also strengthens our risk underwriting and allows us better data through AI.

Now I'd like to discuss our strategy on growth via M&A. The M&A initiative spreads across all three of our corporate strategy tenets and we'll be aggressive in pursuing acquisitions that fit within the strategy. Part of the reason for going public was the relative ease of being able to, as a public company, roll up companies in the car sharing and ride sharing space. Uber and Lyft have not only been built their businesses, they have created an eco-system of companies around them that cater to drivers, passengers, fleet owners, marketers and the TMCs themselves. 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. Partnering as a first step makes sense from our perspective; post integration and implementation, we look forward to updating the market as these opportunities come to fruition. We've clearly been busy this quarter and had a lot of exciting things in the pipeline. I don't expect our rapid pace of operational execution to change anytime soon.

With that, I'd like to proceed with some closing remarks. In summary, consumption of travel is moving towards a new future and it's called mobility as a service. MOS is defined as seamless, intermodal transportation with a touch of a button. We see HyreCar perfectly positioned to capitalize on the MOS opportunity. We're in process of laying the groundwork to accommodate autonomy as a fleet manager of connected cars and we're building this first network of service and maintenance—network to service and maintain that fleet in the dealer space.

For the next five years, our goal is to develop the HyreCar platform as fast as possible, all while keeping our eye on the goal of fitting into the MOS feature. We do this by pursuing a three-pronged approach. Number one, expanding the dealer-based mobility platform to grow our fleet. Number two, enabling technology and connected fleet by adding partnerships for vertical integration; and three, establishing insurance and financial solutions to grease the wheels of HyreCar owning the MOS feature.

Per our earnings results, we're showing a clear path to profitability. Expanding net revenue margins and expanding gross profit margins reaffirm our call for operational cash flow profitability in Q2 of 2019. Aiding this is our strong revenue and gross profit expected throughout the remainder of the year, with revenues expected to range between $9.75 million and $10.25 million and gross profit expected to range between $4.5 million and $5 million in 2018.

The last thing, I think we've turned a corner here. A big debt of gratitude goes out to all of you that have stuck with us while we weathered the storm and you know who you are. With that, I'll turn it over to the Operator. Operator?

Operator:

Thank you. If you would like to ask a question, please signal by pressing star, one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star, one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

We will go first to Howard Halpern with Taglich Brothers.

Howard Halpern:

Congratulations. Great quarter.

Joe Furnari:

Thank you, Howard.

Howard Halpern:

First question, I guess, some near term questions, I guess. Of the 200 dealerships that you have engaged in, how many are running pilots and what size pilots and what timeframes do you expect those pilots to take?

Joe Furnari:

Sure. A lot of the dealers are starting with five cars and we're actually actively encouraging that because we want them to get acquainted with the technology and learn the ins and outs of the business and so what we've seen is that those early adopters of our pilot programs, which we really didn't start until mid-July, really, onboarding dealers, you're starting to see those pilots now and those early adopters are starting to add more cars.

I believe our largest dealer is up to about 75 cars right now and that's really the expectation is—and why we've shifted the focus towards the dealer community because it’s a lot easier to service that one dealer with 75 cars than it is to service 75 individuals.

Howard Halpern:

Okay. With that shift, along with your rollout into all 50 states, have you actually increased your sales team and do you expect to have add additional personnel to support that growth for next year?

Joe Furnari:

Yes, great question. Specifically, the expansion into the additional states, the nature of our platform as a technology platform means that we don't have to have a physical presence in those states and we can roll it out relatively quickly. We have a tremendous backlog of drivers looking to drive in those states and that's what I said in the press release yesterday, this is a perfect showcase for our dealers to jump in in those states and really showcase the growth, or exhibit the growth that we think they have the potential to see there. I'm excited about that.

In terms of just the overall sales team support in the business, I don't see a large OpEx there. I see us starting now to leverage technology and so I think we've reached critical mass. I think I said that last quarter as well. We've reached critical mass with that team to the point now where technology leverages and those individuals are able to handle more leads or they move down in funnel and close leads that are closer to becoming a transacting customer. I don't see much and I think Scott will provide some guidance in the future on where we see OpEx, etc.

Howard Halpern:

Okay. Also, touched on this just a little bit with your rapid growth, what are you doing in terms of the time it might take and the investment it might take to build your customer service infrastructure going forward to support everything that you're doing in the macro sense?

Joe Furnari:

Well, another key hire besides Scott was Henry Park. Bringing in Henry to run the operational piece of the business is huge because building scale into these processes, we've really—we've literally been building this rocket ship as it's been in flight and so bringing Henry in to really shore up that piece of the business has been a key initiative there.

Howard Halpern:

Well, lots of good work and I look forward to the news that will be coming forth.

Joe Furnari:

Okay. Thank you, Howard.

Operator:

Again, press star, one to ask a question.

We will go next to Robert Giordano with Network 1 Securities.

Robert Giordano:

Joe, once again, congratulations. Having been with you from the outset, the amazing growth that you've managed, the way you've grown personally, I would like to just double down for one minute on Howard's question because it's one that you know that you and I discussed almost from the beginning, the leveraging of the sales force. There was a question in some people's minds as to whether this is really going to be a body count business or a technology business. Could you be just a little bit more specific on the ratios? I remember initially you had about 17 sales people. How does that number compare now, particularly against the enormous growth that you have achieved? I think it really—you can drive home the point that this is indeed primarily a technology play with that analysis.

Joe Furnari:

Right. Yes, I mean, that's a good point is that we had at 17 and now I think it's up to 22 and so I mean, I think given the growth versus that growth in sales force, you can see that, really, what we're doing or what we're trying to do is leverage technology. We've seen a tremendous increase in leads and with that tremendous increase in driver leads, I mentioned 30,000 leads, we're still able to service all of those leads from a sales perspective and we've only—the growth rate is probably 3X since June but we've only added five heads on the sales team. Technology is really kicking in there. Just an example, we are implementing an auto-dialer and a brand new CRM has enabled us to make 250, 300 calls a day whereas before there were 70 calls per day. It's a good example of technology really enabling us to leverage the personnel that we have in the office.

Robert Giordano:

Wow, and the other corollary side of this, in the beginning, the argument for you dealing with individual owners was that they could accept an ROI that was lower than what you would have to have if you were operating as a fleet, yet now it seems to be just the opposite proposition. Is the take to the fleet owner about the same as it would have been to the individual driver, or how is it now that you've been able to overcome that initial hesitancy you had in looking at fleet models, which initially you rather dismissed?

Joe Furnari:

Well, the fleet, bringing in dealerships to manage the fleet, essentially what we're doing is bringing in the professionals. These are the guys that, on a cents per mile basis, can maintain a car better than anybody and so by going after the dealerships to rent those vehicles on our platform, you have a very solid partner with reliable inventory that is a low cost maintainer of that fleet and those are the types of partnerships we're trying to build here.

In some cases, given our—we have a couple of different programs through DriveItAway, Path to Ownership and that Path to Ownership is actually increasing our daily rate which obviously provides, as we are taking a percentage of it, obviously provides more revenue opportunities. I think that's how we've been able to position it to the dealers and I think the dealers, the results speak for themselves. The dealers are happy.

Robert Giordano:

Once again, wonderful results.

Operator:

We will go next to Joe Giamichael, a Private Investor.

Joe Giamichael:

Hi. Thanks, gentlemen. Congratulations on the quarter. You'd previously given guidance regarding when you believe you'll be able to reach cash flow breakeven. Can you just remind us what the timeframe was and do you still feel that that's an accurate projection?

Joe Furnari:

Yes, I do. Q2, end of Q2 2019. I think that we're seeing revenues ramp and I think that, over the next three quarters, that's very conservative, that we would be able to get the cash flow profitability and you can actually see that in the narrowing of EPS and some of those other metrics, widening of the gross profit margin. We expect those gross profit margins to continue to grow through different initiatives with insurance, matured insurance in those partnerships so revenue growth, expanding margins and so—and a keen eye, with Scott at the helm, on managing OpEx. I think those three ingredients are the recipe for success.

Scott Brogi:

Yes, I think—this is Scott. I would just add that now that we've got gross profit up over a certain level where it's kind of a $6 million run rate coming out of this quarter and that will step up again sequentially next quarter, that we have a significant amount of resources that we can put against getting to cash flow breakeven as quickly as possible for 2019.

Joe Giamichael:

Got it. That’s great, and just looking at the current balance sheet, and with the simple extrapolation of the path that you're giving, you should—I would assume you're more than well enough capitalized to reach that and even have some excess capital at this point.

Joe Furnari:

Yes, no, great question but certainly as we step through each month where you've got top line growth and you've got an expanding gross profit margin, again, we were up about a little over 600 basis points quarter-over-quarter from 47.4% in Q2 to 54% in Q3, it's just pushing that much more into the gross profit margin that we can spread that against.

Joe Giamichael:

Got you. Thanks and just one last question. Joe, you did a really good job expressing the dealership role on the call and in the last press release, you mentioned having more than 200 multi-location dealers ready to join the platform. Can you—I know you have talked a little bit about the beta in the Q&A earlier, but can you tell us what you think that means to you in terms of potential supply and then in addition, what does ready to join mean? Are they actively in the process of adding cars now outside of the beta that you mentioned earlier?

Joe Furnari:

Yes, I mean, it's a longer sales process or on-boarding process to get a dealer on board versus an individual and so we are continually adding. I think if you look at what we had in Q2, late Q2, we had one or two new dealerships. We're up over about 25 to 30 dealerships now and that’s continuing to grow. In terms of cars, we have about 250 cars available and expectation is that dealer number and the cars number doubles in Q4, so by the end of Q4 we should be double that. The great part about the dealer is they always have more cars behind the cars that they're renting and so we hit some speed slots in there where you’re renting all of their cars and they’re fully utilized, at that point, it's very easy for them to go out and add more cars. Those numbers that I'm giving are pretty conservative in terms of what we expect from the dealer side.

Joe Giamichael:

Okay, great. Thank you very much. Congratulations on the quarter.

Joe Furnari:

Thanks, Joe.

Operator:

We will go next to Mike Grondahl with Northland Securities.

Matt Shea:

Hey, guys, this is Matt Shea on for Mike today. First of all, just congrats on the great quarter, love the execution.

Joe Furnari:

Thank you.

Matt Shea:

My first question is, I know you guys do (inaudible) things with insurance, just kind of wondering how those initiatives are going and if you have any color on how the cell captive initiative is looking?

Joe Furnari:

Yes, I am staring at a business plan as we speak. We are right there. They are in the process of completing a feasibility study and then we turn that on relatively quickly. I think there's still analysis that needs to be done as to the types of risks that we want to insure in that captive but then also there's a whole ‘nother business side to it where we have new products that we are innovating with our partners in that joint venture and so those are really exciting as well because they really—they potentially ramp our revenue. Again, feasibility study first and then by the end of the year you're going to have more news on the progress there.

Matt Shea:

Okay, great, and then last question, any color on when we can expect the mobile application and then any kind of exciting functionality that will come with the relaunch of that?

Joe Furnari:

Yes, really good question there. We, over this last quarter, we brought in an app development team in-house so we have three mid- and senior-level developers in-house working on that right now. They launched the beta a couple of weeks ago and that app is—the app from the driver side is really key for a couple of reasons. One, it just makes it seamless to rent a car and get into a car but also the risk underwriting pieces of the business, of that app and what it unlocks in terms of facial recognition, real-time ID verification, all of it ties into risk underwriting and with the hope of data collection and making sure that our loss runs from the insurance side are well managed and we're keeping those loss runs low.

I'm excited about the app. That will roll out in phases. I don't have a timetable on that. Like I said, the beta rolled—so I can—reach out to me, I can let you guys know, and then also that will be a press release as well. I'll come back to you on that, the timetable of that rollout.

Matt Shea:

Okay, great. Thanks, guys. Talk soon. Congrats, again, on the quarter.

Joe Furnari:

Thanks.

Operator:

We will go next to Richard Ehrlich with JH Darbie.

Richard Ehrlich:

Hey, Joe. Hey Scott. How are you?

Joe Furnari:

Good, Richard.

Scott Brogi:

Good, Richard.

Richard Ehrlich:

Great, great quarter. I would like to commend you guys for controlling cash. Most companies, most small companies that go public with $10 million to $15 million dollar raise, you see that cash really get depleted after a few quarters but it seems like you're really controlling yourself and revenues are going down buster (phon) so congrats. I've a question. You're really talking a lot about your dealership which seems to be exploding right now. If you get into—you have around 250 cars with the dealerships right now; what do you expect to have in 2019 towards the end of 2019? Are you looking—because you're saying you should double within one quarter, what are you looking to really get from these dealerships? Are we talking about 1,000, 2,000 or are you talking about 10,000 cars?

Joe Furnari:

Yes, I mean, we are talking—so my hope would be 10,000 cars. I mean, my hope would be 20,000 cars because if you get a couple of these large dealer groups in, the Group of 20, of those 20 top dealerships, you get one or two of those guys in and it's a game changer. I'm looking to add a tremendous amount of cars. Literally, this division was established in July and so we're really trying to—we are trying to get a hold on what those metrics are moving forward and what the expectation is from a dealership when they add those cars. Scott and I actually had—we are talking about how to communicate that growth and give those updates to the Street on a consistent basis and so I think when we come up with is one month—or every month, giving an update through via a press release to the Street to show the growth and as we get more comfortable with those dealers saying that they are going to put on 500 cars and they are going to put on a 1,000 cars, then I have those metrics and I can continue to take those metrics.

I will give you an example. If I put 1,000 cars in a line, I put 1,000 cars in Chicago, Jersey, PA, if I put cars in those regions, we're going to rent them. That's just the nature of how much demand we have right now. There's an overwhelming demand and so I'm running as fast as possible. I just don't—it's so binary, right?

They can put on five cars; if they like it, they can put on a 1,000 cars. They put on five cars, they can just—and they don’t like it, they're off at that point. Just, long story short, I'm going to start to put out press releases on a monthly basis on the progress of the commercial division and you'll have more going forward with that.

Richard Ehrlich:

Right. Almost within a short period of time (inaudible) dealerships, the 100-pound gorilla here is still a car rental companies. I've discussed that with you, I've asked questions about that. Are you trying to develop any partnerships within car rental companies or even get a—some type of investment with a car rental agency to go with you, because it happened to ZipCar and ZipCar was acquired and the car rental agencies are just not going to sell their hands too long if this model is really taking off. They are going to get into the business somehow, some way. What have you done with the car rental agencies and what's your plan there?

Joe Furnari:

Yes. Good question. You have rental car agencies, you have OEM's, the Fords and the GMs of the world, you have dealerships, massive dealerships, and then you had some of the private Silicon Valley companies like Turo; all four of those industries are in play at this point. We're pursuing, through—we’re pursuing avenues through all four. I can't give you specific updates but I can tell you, as soon as I have something that's news worthy, it will hit the wire, because Richard, you're right. Sorry, sorry, Richard, one last one, because you're right, that is the obvious path there in those partnerships and so it's a big initiative over there and in terms of our corporate tenets, we're talking about M&A or the establishing or enabling, all those types of partnerships all flow into our corporate tenets there. Thank you for asking that. I'll make sure I get the news announcement out soon.

Richard Ehrlich:

Right, right. Well, I’m one of your biggest fans. I’m also one of your biggest critics at times, always make you guys accountable but great job. One last question is that, you kind of hear that Uber and Lyft are still on plan to go public sometime in 2019. You are one of the few—you could be the only ride sharing company at this point that’s public at such a minuscule valuation and if anyone wants to try to leverage or take advantage of Uber and Lyft going public, they can actually try to do it through you because you’re a beneficiary. I think you're one of the largest, or maybe the largest Lyft independent companies, provider of Lyft, is that correct?

Joe Furnari:

We are the number one activator of Lyft drivers in the United States, independent activator of Lyft drivers in the United States right now.

Richard Ehrlich:

Wow, that’s exciting. I just think that that’s such a huge selling point for you guys and with your stock depressed, I don't think it's to be depressed too much longer, because you just knocked the cover off the ball with this quarter, but I just think this is a huge opportunity here and with the correct marketing, you guys will do great. Congratulations, I'm really happy and keep it going.

Joe Furnari:

Thanks, Richard. Bye-bye.

Operator:

We will go next to Charles Bloom with Morgan Stanley.

Charles Bloom:

Hi. Good afternoon. Great work. A simple question about the dealership. The dealership initiative is a big component of where your growth is, why would the dealers sign up? Could you talk a little bit about what makes it a great deal for them?

Joe Furnari:

Sure. I mean, what we're seeing is that the dealers right now are being told that within the next 10 years they can go out and they can buy dealerships, but in the next 10 years they need to get their money out because the business model is going to hit a wall, and so we are coming to them and saying, listen, here is a turnkey franchise solution for you to participate in mobility as a service. Put five cars on the platform, see the revenue, right, and really, a lot of dealers, the one push back we get is, well, is there really enough demand to ramp-up to 1,000 cars? Our answer is, absolutely, let me show you. With these pilots, that's what we've been doing and the feedback has overwhelmingly been positive there for the type of the utilization rates on those cars, the revenue that they're seeing, and then on the back-end now they're starting to ramp up inventory.

I think it's that, to bring on a dealer and tell them, all right, your traditional business model is going to peter out over the next 10 years. Here is a way for you to participate in the future, here is—you're renting to gig economy workers, you're renting to the shared economy and so that is a powerful proposition and a lot of them are starting to buy into that.

Charles Bloom:

Thank you. That's a great answer. Keep up the good work

Joe Furnari:

Thank you.

Operator:

At this time, I would like to hand the call back over to Joe Furnari for any additional or closing remarks.

Joe Furnari:

Again, thank you for joining us today and we look forward to continuing to update you on our progress. I think we've covered a lot of really good questions there. Thank you for asking the questions. Again, we look forward to, I think—I mentioned this in my conclusion of the prepared remarks but we went public because we wanted to show the Street this growth. We wanted to show the Street that that there was J-curve growth out there for individual investors, retail investors and small family offices, for you to participate in this growth or in this market versus the VC's out there and so that's why we went public. We are showing you that growth and I appreciate all of you sticking with us. Thank you.

Operator:

That does conclude today's conference. We thank you for your participation.