HyreCar, Inc.

Second Quarter 2018 Earnings Conference Call

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CORPORATE PARTICIPANTS

Joe Furnari, *Founder & Chief Executive Officer*

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CONFERENCE CALL PARTICIPANTS

Daniel Carlson, *Tailwinds Research*

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Michael Mortensen, *West Park*

PRESENTATION

Operator:

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to the HyreCar, Inc. Second Quarter 2018 Earnings Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the call will be opened for questions. If you have a question, please press the star key, followed by the digit one on your touchtone phone. If you would like to withdraw your question, please press the star key, followed by the digit two. If you are using speaker equipment, please lift the handset before making your selections. This conference is being recorded, today, August 13, 2018 and the earnings press release accompanying this conference call was issued at the close of market today.

On our call today is HyreCar, Inc.'s Founder and CEO, Joe Furnari, and Greg Falesnik, Managing Director of MZ North America, HyreCar's Investor Relations Firm.

I will now turn the call over to Greg to read a disclaimer about forward-looking statements.

Greg Falesnik:

Thank you, Operator. Before we get started, I will read our 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 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 and uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may, 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 the report and other documents which we filed with the SEC.

In addition, such statements could be affected by risks and uncertainties related to factors beyond the Company's control. Matters that may 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 any major litigation regarding the Company that may arise. 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 arrives after the date of this call. Further information concerning issues that can materially affect financial performance related to forward-looking statements contained in this presentation can be found in the Company's periodic filings with the SEC.

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

Joe Furnari:

Great. Thank you, Greg, and thank you, everyone, for joining us today. I would like to welcome everyone to our first earnings call as a public Company. We're extremely pleased to be here to provide a corporate update, our financial results and, ultimately, how we will deliver value over the long term to our shareholders.

On June 29, we successfully completed our IPO and began trading on NASDAQ under the symbol HYRE which raised gross proceeds of $12.6 million through the sale of approximately 2.5 million shares at a price of $5 each. Given our asset light business model, this capital is expected to last us well over a year even if we assume the lack of operational execution. Luckily, and as expected, we have performed tremendously and continued the momentum we established in our business as we've become a much more mature company and a critical piece of the massive opportunity that exists in the car sharing market today.

Before we discuss financial results and the progress we're making on our operational initiatives, I'd like to remind everyone of our core mission which is to build roads to financial freedom, one driver, one vehicle, one road at a time. We plan to achieve our mission by growing our platform for both drivers and owners to connect. The marketplace allows car owners to rent their idle cars to ride sharing service drivers by conveniently sourcing vehicles from individuals and small fleet owners such as dealerships, part-time drivers may easily enter and exit the growing ride sharing market. Accordingly, our business model provides us with the opportunity to satisfy fluctuating transportation demand in cities all around the United States by enabling ride sharing drivers, many of whom do not own qualifying vehicles, to participate.

We're the only company doing this to scale across the United States today. The demand is obvious as all ride sharing companies have one thing in common: growth is limited to their driver and vehicle supply. HyreCar is supplying both to these companies, Uber and Lyft in particular, eliminating bottlenecks to growth and helping to enable the continued strong growth profile of the industry.

Now, let me take a moment, for those who are new to our story, to summarize the basic tenets of our business proposition. Our model is based on a proprietary car sharing marketplace developed to: number one, enrol vehicle and owners and drivers, facilitate the matching—number two, facilitate the matching of vehicle owners and drivers; and number three, log rental activity for said vehicle owners and drivers. This allows both owners and drivers of vehicles to generate income and participate in the mobility of the service industry, or MoT. All transactions related to the rental, including but not limited to, background checks, rentals, deposits and insurance costs are run securely through the HyreCar platform. Drivers and owners access their rental or car dashboards through a unique login. Drivers can easily initiate, terminate or extend the rental through the platform while owners can manage their car or fleet of cars through the platform.

We believe we have a significant competitive advantage over others who may attempt to enter the market in the future with our commercial auto insurance policy that covers both vehicle owners and drivers. The insurance policy is specifically designed to cover the period of time in which a driver's operating an owner's vehicle, but not while transporting riders on a ride sharing platform such as Uber and Lyft. During the periods when drivers are actively operating on a ride sharing platform, the insurance defaults to state mandated insurance provided by the ride sharing company. When the rider is over, these drivers need affordable insurance in their name which is difficult to economically obtain since they do not own the car. To our knowledge, we are the only provider of this car matching service which is made possible by this proprietary insurance product.

Given the above model, let me take a minute to describe how we monetize the HyreCar platform. Revenue is generated by taking fees out of each rental transaction when a driver rents a car from an owner. In essence, HyreCar acts as a third quarter mediator between the parties. HyreCar derives revenue from both the driver’s and owner side of the transaction. Each rental transaction consists of daily, weekly, or monthly rental vehicle rates which HyreCar takes a 15% fee from, direct insurance cost and a 10% HyreCar fee. HyreCar earns revenue of approximately 25% of the rental rate, gross fees from the insurance premium and other potential revenue from referrals and other fees. Accordingly, these amounts will be recognized as the GAAP reportable revenue by HyreCar.

I would now like to highlight some of the financial metrics from the second quarter of 2018. As noted earlier in the call, these metrics can also be accessed via the financial presentation on our Investor Relations website. In the second quarter of 2018, we increased revenue by 260% to $2.3 million compared $0.6 million or $600,000 in the second quarter of 2017. Sequentially, this represents a 33% increase when compared to revenue of $1.7 million in the first quarter of 2018. Revenue growth was driven primarily by increases in daily active renters on the platform and an increase in referral income from activations of drivers on to our car sharing platform.

In the second quarter of 2018 we increased gross profit by approximately 14 times to over $1 million compared to $72,000 in the second quarter of 2017. Sequentially, this represents a 154% increase when compared to gross profit of $0.4 million in the first quarter of 2018. Gross profit was driven primarily by an increase of pass through insurance cost to our drivers and a significant reduction in insurance premiums charged by (inaudible) in this quarter. Gross profit margin in the second quarter of 2018 increased significantly to 47.4% compared to 11.4% in the same year ago quarter. 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 as expected as we realize economies of scale and insurance and pricing optimization across geo-specific locations.

Total operating expenses were $4.2 million in the second quarter of 2018 compared to $0.8 million in the same quarter of 2017. The increase in operating expenses was primarily due to noncash stock based compensation of $1.9 million recognized in the quarter and onetime professional fees associated with our recently completed IPO.

Net loss in the second quarter of 2018 totaled $5 million or $0.92 per share compared to a net loss of $800,000 or $0.19 per share in the same quarter of 2017. The increase in net loss primarily is due to two non-cash line items: noncash stock based compensation recognized in the quarter and, number two, non-cash interest expense incurred in the second quarter from a conversion of our 2018 bridge note into common stock during the IPO. Of note, non-cash stock based comp and converted interest expense in the second quarter totaled $3.7 million out of the $5 million net loss that was realized. Most of the stock based expense and all of the non-cash converted interest expense are related to the IPO and were onetime expenses. Sequentially, net loss adjusted for these noncash related expenses in the second quarter of 2018 totaled $1.3 million or $0.24 per share compared to a net loss adjusted for noncash related expenses of $1.5 million or $0.28 per share in Q1 of 2018. These measures are non-GAAP measures but we believe they provide a better indication of the Company's ability to self-sustain operations. 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 which we expect to achieve by the second quarter of 2019.

Cash at June 30, 2018 totaled $11.9 million as compared to $200,000 at December 31, 2017. The substantial increase in cash was 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 a $5 per share. With this raise, the ability to reuse (inaudible) and increasing revenues through normal course of business, we believe the substantial doubt about the Company's ability to continue as a going concern has also been alleviated.

Now turning towards guidance which was first provided on July 31, 2018, guidance remains unchanged and we are expecting revenues for the full year ending December 31, 2018 to be at least $10 million, an increase of at least 213% when compared to revenue of $3.2 million for the full year ending December 31, 2017.

Finally, I'd like to touch on gross billings which is a non-GAAP term that we view as a way to assess our business. Gross billing on our platform has increased 185% to $5.2 million in the second quarter of 2018 compared to $1.8 million in the second quarter of 2017. We define gross billings as the amount billed to drivers and ancillary sources of income without any adjustments for amounts paid to owners, refunds or rebate. Gross billings include transactions from both our revenues recorded on a net and a gross basis.

Now I would like to turn to an operational update with some supporting statistics that we feel are important when looking at our business. We are now operating in 34 states and the District of Columbia so we have proven that our concept works across a multi-city footprint on a nationwide basis. We expect more to follow and we will update you on a regular basis as we enter additional territories. We're now adding new drivers and matching them with owner vehicles at a rapid clip with 4,900 new unique drivers added in 2017 and already this year 3,600 new unique drivers added this year. In the second quarter, we added 1,837 new unique drivers on the platform, an increase of 88% when compared to 978 new unique drivers added on the platform in the second quarter of 2017. Daily active rentals, which is the count of active rentals we have on the platform, averaged 696 in Q4 2017. In the second quarter of 2018, average daily active rentals increased 181% to 1,001, compared to 356 in the same year-ago quarter.

Now I would like to discuss our strategy on growth via M&A. 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 not only built their businesses, they have created an ecosystem of companies around them that cater to drivers, passengers, fleet owners, marketers and the (inaudible) 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. We look forward to updating the market as these opportunities come to fruition.

We've also continued to bolster our team as we grow. One notable addition, subsequent to the second 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 experience to HyreCar and currently serves as Chief Marketing Officer for cars.com. Her tenure at industry-leading technology companies has been focused on ensuring that their digital marketplaces are well trusted by both consumers and partners while enhancing the overall brand and image. That said, we are eager to leverage her experience as we gain critical mass and grow our peer to peer car and ride sharing platform. The goal is Q3 is to formalize a strategic advisory board as well. We have some really good people working behind the scenes with us so formalizing those partnerships will add value to the Company.

Finally, before wrapping up and proceeding to Q&A, I wanted to speak to some of our partnership we've recently secured. Our Lyft to driver activation portal, which allows us to generate incremental revenue per every new driver we activate on the Lyft platform, has grown 10x since we started the program last year. We're seeing this program accelerate as we put resources behind it and our expectation is a 6x sequential quarter-over-quarter increase in Q3.

Another key partnership established in Q2 was the addition of John Possumato and his program DriveItAway. Late last year we realized that the next leg up in our growth trajectory was SupplyBay. Driver leads on the platform were outpacing vehicles 10 to one so we needed an institutional solution to complement the peer to peer market source of vehicles. John Possumato and his DriveItAway program was the answer. Through John, we're in the process of establishing ties with the car dealer community across the country. DriveItAway has, for all intents and purposes, become the institutional supply for HyreCar and John is leading the charge. The team is tasked with one mission: get dealers signed up and posting cars to the HyreCar marketplace. This benefits HyreCar multiple ways but the primary benefit is this: more cars on the platform allows us to simply capture and satisfy the current demand that we already have from drivers. I mentioned before we currently have 10 driver leads for every one car owner so if we satisfy the current imbalance, we are 9x larger without doing anything more than what we're currently doing.

Our partnership with John then led to a strategic partnership with the National Independent Automobile Dealers Association, or the NIADA. This is a monumental partnership as the NIADA is among the nation's largest trade association. Clearly a large opportunity exists for us to help NIADA dealers implement a successful subscription model through the HyreCar platform. The pitch to NIADA members: our platform provides a turnkey, self-service, car sharing business for the dealer, combined with insurance coverage, training and built-in driver demand. This partnership dovetails nicely with John and his efforts to on-board dealer supply to the platform and we are still in the early innings but seeing good progress here.

In July, we announced a partnership with HopSkipDrive in Denver, a leading ride share service for (inaudible). This new partnership will allow Denver drivers to easily find and rent large capacity vehicles to drive for HopSkipDrive. The bigger significance of this partnership is that this is HyreCar's first official partnership with a TNC and it paves the way for additional TNC partnerships in the future.

In conclusion, I'd like to proceed with some closing remarks. In summary, we strongly believe that HyreCar's model is unique, disruptive and highly scalable. The asset light platform allows for little to no capital expenditures and our focus on institutional supply provides the next leg up in our growth story. We demonstrated strong adoption to-date as a result of our unique marketplace platform which matches drivers with car owners while insuring them in an economical way and only during the hours needed. I believe we have the right solution to alleviate the supply bottlenecks facing the ride share market today and the talented employee base to execute upon this unique opportunity. I look forward to continued execution and shareholder value creation over the long term. Operator?

Operator:

Thank you, sir. We will now begin the question-and-answer session. As a reminder, if you have a question, please press the star key, followed by the digit one on your touchtone phone. If you would like to withdraw your question from the queue, press the star key, followed by the digit two. If you're using speaker equipment, you will need to lift the handset before making your selection.

We will take our first question from Daniel Carlson with Tailwinds Research. Please go ahead.

Daniel Carlson:

Hey Joe, congrats on the progress you have made so far.

Joe Furnari:

Thanks, Dan.

Daniel Carlson:

Just a couple quick questions on the overall market. I saw that Avis has signed a deal with Lyft. Can you talk about what that means from your perspective?

Joe Furnari:

Sure. Lyft was the last of the big three rental car companies in the U.S. to jump into this space. Their presence definitely validates the market we've seen. I don't have a lot of information on the program but I think Avis still runs into the same problems that have plagued the Hertz and the Enterprise programs. Number one, they're only going to rent you 25 years of age or older, drivers. HyreCar is renting to 21 and up. The cost basis on the cars is really high and the mileage that are being put on the cars depreciates a new car asset faster than a typical rental which typically means that their traditional business models of buying new cars in bulk and then renting them out, selling them in the aftermarket for a profit, typically doesn't work in this case. Three, they have a pretty high operating cost. I mean, prepping, warehousing, and insuring and maintaining those vehicles in a brick-and-mortar type building versus HyreCar's asset light model where we're providing found (phon) revenue for dealers and individuals—if the car isn't rented, it sits on the dealer lot or in an individual's driveway. I think we have a low cost solution for drivers as well. Once more information on the program comes to market, I can comment further. This is all a lot of speculation at this point right now until we see it rolled out.

Daniel Carlson:

Yes, I got you. It makes sense. Then a question about what's going on with city regulators, I know there has been a lot of chatter in New York recently about what they are doing with Uber so can you just comment on how that effects the market?

Joe Furnari:

Sure. In NYC specifically, it's certainly a positive for the current operators in that market because if you got there—the regulators are essentially limiting vehicle supply and I think that ultimately increases wages for drivers and income for vehicle owners so higher rental rates is a good thing for this business as long as it's supported by higher wages for drivers which I think will be the ultimate consequence of this legislation. Specifically, for HyreCar, our business model isn't really affected by this ruling because we're not operating meaningfully in the city. There are some interesting M&A opportunities there and we're exploring that market right now.

Daniel Carlson:

Got you. That makes sense to me. The higher wages would drive more potential drivers to you guys, that's good. Then the last question, just about the stock, can you comment on the (inaudible) weeks since the IPO (inaudible)?

Joe Furnari:

Yes. I mean, I'm a little disappointed with the stock performance but I think, as you can see, from Company performance, there doesn't really seem to be a correlation between the two. At these levels, it looks like a great buying opportunity, in my opinion. I had a professor tell me in college once that the only thing a public company should be concerned about is shareholder value and I would add to that sustainable shareholder value. To maximize sustainable shareholder value means my team is solely focused on executing the business plan. We execute, shareholder values take care of itself.

Daniel Carlson:

That makes sense. Thanks, Joe. Keep up the execution. It was a good quarter. Thanks.

Joe Furnari:

Thanks, Dan.

Operator:

Thank you. We will take our next question from Robert Agriogianis with Agro Consulting.

Robert Agriogianis:

Hi, Joe. Congratulations on a great quarter. I actually have two questions. Can you give a little clarity? Earlier you had said that the demand for cars on the site outpaced cars that are available. Can you talk a little bit about that ratio and what it means to meet the current demand that you're currently seeing, if it does outpace the vehicles on the site and how big can that get? How fast can you grow the demand for cars?

Joe Furnari:

Yes. Good question. Great question, actually. If I look back, last month the site generated about 18,000 driver leads last month and that's compared to about 750 new cars listed last month. There's a major supply side crunch on the platform right now and that's why we're announcing the partnerships that we're announcing like NIADA and DriveItAway. I mean, DriveItAway in particular gives us access to a tremendous dealer network and we're beginning to add those cars on the platform and so to touch on what that means, I mean, simply meeting the demand that we currently have with vehicles in those areas, I mean, you see a 9x, 10x growth potential there without us really doing anything. It's a good problem to have. We just need to execute at this point and I think that's—you're going to start to see news events coming out, announcing that progress. Stand by there.

Robert Agriogianis:

As far as—and I understand that and thanks for that answer but as far as continued growth for people looking for cars, eventually there's got to be a crossover, right? I mean, you can't go from 20,000 to 50,000 and not have the cars so I guess all you can do is keep adding, right? Partnerships?

Joe Furnari:

Yes, I mean, at this point, we are seeing an insatiable demand across the country, not only in the primary markets but also in the secondary and tertiary markets. It's just a matter of—that's why I like the dealer aspect of what we are doing because you have dealers in markets like Pittsburgh where we have—I think we have—last I checked, we had two cars available but we're having 60 to 100 new applicants every single month coming on board. We go to DriveItAway and John, he leverages this black book and we onboard dealers and that's exactly what we're doing right now.

Robert Agriogianis:

Great. The second question was, can you tell us a little bit, is Getaround a competitor of yours? Just a little clarity on the difference between that company and yours?

Joe Furnari:

Getaround is very similar to Turo, they are peer to peer car sharing marketplaces. Getaround does it a little bit different. It's almost like the Zipcar model where it's a keyless entry. They have a small pilot going and I don't even know if it's still active right now or, up in San Francisco where they were trying to rent cars to Uber and Lyft drivers but for the most part, Getaround is a peer to peer marketplace.

Robert Agriogianis:

Not a competitor, it sounds like.

Joe Furnari:

Not a competitor at all at this in point, or anybody I would think would be meaningful competitor at this point.

Robert Agriogianis:

Great. Thank you, Joe.

Operator:

Thank you. Once again, as a reminder, that is star, one if you would like to ask a question.

We will take our next question from Michael Mortensen with West Park.

Michael Mortensen:

Hey, Joe. Thanks for taking my call. Listen, I have two questions. First question is regarding the exchange of the bridge loan for the common shares. Can you tell us a little bit about that? Are they free trading or are they locked up or what's your place there?

Joe Furnari:

With the bridge note holders, they converted into common and you can actually see, that's the one-time amortization of the debt discount expense that's hitting our revenues this quarter but that's why I would consider that one-time. That's not going to happen moving forward. In terms of free trading, yes, they were free trading and so I think that's probably one of the reasons why the stock is down a little bit. Does that answer the question?

Michael Mortensen:

Yes, pretty much. There were no warrants given with that bridge in those common, were there?

Joe Furnari:

They did have 50% warrant coverage but they haven't—they had a five-year expiration on those, at 125%, I believe, above conversion so around $3.18 or so.

Michael Mortensen:

Wow, so there's probably a lot more shares outstanding. How about Turo? Are you familiar with the—of course, large player in your game, Turo? Are they—what type of comparison could you give us to your Company and theirs as far as revenues are concerned?

Joe Furnari:

I'm not sure about revenues. I know, just from a business model perspective, Turo is peer to peer car sharing. Their business model is focused on car rentals and for leisure, whereas HyreCar, because of the nature of the proprietary insurance, we're focused on ride sharing drivers because we are renting cars and generating insurance in the name of the driver. That's a unique in the market. It's not being done right now and so that's the main business difference there.

Michael Mortensen:

Okay. Thank you very much.

Operator:

Thank you. That does conclude today's question-and-answer session. I would like to turn the conference back over to Mr. Joe Furnari for any additional or closing remarks.

Joe Furnari:

Yes. Thank you, guys. Thank you, all, for joining the call. We appreciate it.

Operator:

Thank you and that does conclude today's conference. Thank you, all, for your participation. You may now disconnect.