

# VENTURECAP STRATEGIST

— Profit Alongside Founders, Patent Holders, and VCs —

## Fastlane to a Fortune

### How You Can Cash In On Uber... Before Its IPO

It only took seven years for Uber to evolve from a novelty to total ubiquity.

The ridesharing app is now available in 517 cities worldwide. It has more than 8 million users, who have used the app a total of 2 billion times thus far. And it currently provides over 150,000 rides per day in Los Angeles alone.

It's already wrecked havoc on traditional taxi service in many places around the world.

The reason is simple: The taxi industry was perfectly primed for disruption.

Outside of a few major cities like London and New York City, it's a huge hassle to get a cab. Not to mention much more expensive.

In our headquarters in Baltimore, for instance, the whole process is a disaster.

There aren't enough cabs to simply wave one down, which forces you to call a taxi service. After waiting on hold for 10 minutes, you're lucky if the car shows up at all. If it does, it's in atrocious condition. And the driver will take you on the longest route possible to run up the meter — or just turn the meter off and name his own price at the end of the trip.

We've all been there. But luckily, Uber has changed everything.

If you haven't used Uber before, it's a smartphone application that lets you request a driver on-demand. Among the benefits:

- The service runs 24 hours a day.
- It only takes a few seconds to place your request, and you can immediately see where your car is

and how soon it will get to you.

- Drivers are in control of their own schedules and they operate their personal vehicles — therefore, there are no expensive taxi licenses ramping up fare prices.
- The fare is deducted automatically from your credit card through the app. And tips are included. No need to fumble around with cash.
- And better yet, it's often cheaper than taking a cab. This alone expands the marketplace. It's Economics 101 — when you reduce the price of a product or service, demand for it increases.

Plus, by introducing a user-based rating system, Uber can instantly elevate the quality of the cars and drivers. It's like crowdsourced quality control. (After receiving poor ratings, drivers are quickly removed from the system.)

There's no question that Uber is on track to completely dominate the \$100 billion taxi and limousine industry.

But the opportunity goes much deeper than that.

You see, Uber isn't just a taxi company. It's an instant-delivery logistics company.

Uber has mastered on-demand public transport. It knows where people (and things) are, where they need to be taken, which drivers are available to get them there, and the cost of providing the service.

This distinction is vital.

It means Uber isn't limited to one industry. So it has the potential to disrupt several markets in the coming months and years.

Indeed, once you stop thinking of Uber as just a taxi

company, you'll quickly realize that its addressable market could vastly exceed \$100 billion.

## **\$100 Billion Is Just the Beginning...**

While identifying Uber's potential market opportunity, I'm immediately reminded of Amazon.com's stunning growth trajectory.

When Amazon began operations in 1995, the U.S. book industry stood at \$18.8 billion. Even if the company were able to capture half of that, a \$9.4 billion market opportunity wasn't enough to impress all investors.

But as you know, Amazon was able leverage its online retail business to disrupt several existing markets at once. The result?

Revenue last year alone reached over \$100 billion. And it's growing at over 35% per year.

In fact, Amazon's revenue increase in 2016 alone will be more than double the size of the entire U.S. book industry in 1995.

As with Amazon, it's impossible to put a real estimate on Uber's market opportunity.

Not only is it breaking into new markets (which I'll further break down in a moment), it's actually expanding the existing taxi and limousine market.

Just look at what happened in San Francisco, where Uber's headquarters are located.

## **Bay Area Behemoth**

When you look at Uber's current share of the taxicab market in San Francisco alone, it's already larger than the entire market was before the application started up.

And the trend will only build momentum from here.

A Satov Consultants poll found that 76% of respondents plan to boost their Uber usage in the next two years...

"Uber is currently doing to the traditional taxi model what Expedia did to travel agents and [what] Amazon did to the vast majority of book-stores," Satov concluded. "Uber has grown its market share faster than anything we've ever seen and completely destabilized incumbents. They already have more market than the taxi industry on a per ride basis which is astounding."

It's easy to see why.

Once taxis are made cheaper and more convenient to use, people will use the service more often.

In New York City, for instance, an increasing number of parents are trusting Uber to shuttle their kids around to their various activities. This practice will spread as Uber grows and increases its reliability within the parental community.

As people find more uses for Uber, the company could go on to double — or even triple — the current taxi and limousine market.

But what other markets is Uber poised to upend?

I expect that Uber's path of domination will occur over three pivotal growth phases...

## **Growth Phase #1: Reinforcing Its Transport Dominance**

We already know that Uber has mastered the traditional taxi experience. But the company is taking its on-demand transport abilities to the next level.

And it's happening right now over three distinct areas:

### **1. Carpooling**

Uber already offers carpooling services in more than 50 cities. It's gaining traction slowly, but the service is only two years old.

It will grow nicely once Uber irons out some kinks in the service and people catch on to the benefits over a traditional carpooling arrangement.

Like greater flexibility, for example. In a traditional carpool, you get picked up and dropped off at exactly the same time each day. With "Uberpool," riders get to choose when they travel each day. The carpool never leaves for home without them.

It's way too early to make any hard projections, but let's consider the possibilities.

There are currently about 13.5 million carpoolers in the United States (or about 10% of the workforce). Let's assume that Uber can get half of those carpoolers — and also grow the market by 50%, so it would be catering to over 10 million riders.

With 260 workdays in a year, let's say riders take about 400 trips total on average (round-trip). At about \$6 per trip, that adds up to a \$24 billion market opportunity for Uber in the United States alone.

## First-Mover Advantage Sets Uber's Growth Trajectory to Light Speed

*By being the first company to truly disrupt the taxi industry, Uber benefits from two major advantages that should keep competition at an absolute minimum...*

### ADVANTAGE #1: King of the Hill

As a first-mover, Uber claims the early customers and the early drivers, plus the data that will allow the company to refine its services. Sure, there are Lyft and other rideshare services in the market, but Uber already has the critical mass that allows a scale business to thrive. This is the advantage that gave Amazon such an edge. In a scale business, the first mover to succeed builds a sustainable competitive advantage — one that cannot be overcome simply by investing money and creating a “me-too” product.

### ADVANTAGE #2: Cash Magnet

Uber was first to raise capital — and raised so much of it that little is left for competitors! Consider: Uber has raised over \$15 billion of real cash equity from various private sources — mostly venture capital firms. By comparison, Amazon raised “only” \$54 million before it went public. Google? Just \$25 million. Facebook? \$1.3 billion.

States provided 223 million trips. And the average ride costs between \$35 and \$65.

Uber already offers a similar service — but only for paying passengers. (Most paratransit trips are paid for by the government.) But Uber could easily become a paratransit contractor, at least for relatively high-mobility customers.

So let's mark this as a \$2 billion opportunity for Uber. Again, that's in the United States alone.

## Growth Phase #2: Breaking America's Car Addiction

The average American family owns two cars. Many own three. And those cars are often larger and more expensive than actually necessary.

For example, a family might invest in an expensive, gas-guzzling SUV because they “need” it to drive half the little-league team to an away game once a month. Or for the occasional trip to Costco or Home Depot.

But what if that changed, and millions of American families decided they only needed one, reasonably-sized car? They could replace their second car with an Uber.

They could grab an on-demand SUV for trips to the big-box store. Or a flexible carpool for commuting most days. Or a compact sedan for trips to the doctor. Or a sleek black car for a trip to a swanky restaurant.

I know. Americans are crazy about cars. Owning a vehicle is built into the American Dream.

But consider...

According to the American Automobile Association, the average cost of owning a car is \$9,513 per year. That's after gas, maintenance, insurance, depreciation in the value of the car, taxes, etc. That would get you 475 Uber rides at \$20 a ride, or four trips every three days.

Plus, millennials don't have as much of an attachment to automobiles as older generations. They're getting licenses at a later age, driving fewer miles, and buying fewer cars.

How big of an opportunity is this for Uber?

Well, there are 250 million cars on the road in the United States. Replacing just 10% of them — and capturing just half of the revenue that the owners previously spent on those cars — is a \$120 billion opportunity.

Again — that's only in the United States. Imagine the impact Uber will have in emerging markets, where car

## 2. Package Delivery

Uber recently started delivering packages. In New York, Chicago, and San Francisco, small businesses can offer same-day delivery of their products, just like Amazon and other giants can. The price is around \$6 per package.

Uber is already looking to expand that business to other cities. And it's the only company that can do it, because it already has a critical mass of cars and drivers on the streets.

This will be a game-changer in suburbs and smaller towns. And it helps Uber attract and retain drivers, because it represents a source of income during slow ridership times.

This could quickly become a billion-dollar business for Uber — and it could be much larger over time.

## 3. Paratransit

The transit industry for people with disabilities is larger than you may think.

In 2013, the various “paratransit” companies in the United

## Uber vs. Google

Google recently announced a carpooling program in San Francisco.

Should Uber investors be concerned that such a powerful company is staking a claim to the on-demand taxi market, right in its own backyard? Not at all...

For one, Uber is way ahead of Google when it comes to autonomous driving. That may come as a surprise. But Google isn't as dominant in the industry as you might think.

Even after years of testing — and over one million miles driven — Google operates only a few cars, mostly at low speeds in highly controlled conditions. By contrast, Uber has a fleet of Volvos that are already transporting passengers around the streets of Pittsburgh.

The problem is that Google's approach to autonomous vehicles is flawed. The system relies too much on data that Google has already collected. Anything unexpected that a car might approach — like a temporary work crew — has to be beamed back to Google's computers for processing.

But Uber equips the cars themselves with navigation intelligence. This allows them to be more flexible amid changing conditions.

Of course, Google certainly has an edge when it comes to road data, but Uber has a huge leg up on when it comes to knowing where people are — and where they want to go — which is absolutely vital for this type of service.

Google's strategy makes perfect sense — for Google. But it translates poorly into Uber's current and future business models. By the time Google is ready to challenge Uber on a large scale, it will be too late. Uber will already have the customers, drivers, and data.

ownership is already lower and less important.

## Growth Phase #3: Robo Uber

There's one "problem" with Uber's future revenue growth: Drivers.

Drivers take 80% of the revenue that Uber generates. In fact, it's a pass-through arrangement so the drivers' share of the revenue never shows up on Uber's earnings sheet.

But what if the company didn't have to pay drivers at all?

That's exactly what will happen once fully autonomous cars become widespread in the next five to 10 years.

Heck, Uber is already launching a fleet of fully autonomous cars in Pittsburgh. It will soon have 100 modified Volvo X-90s driving around the city. The company also recently struck a \$300 million deal with Volvo to develop the technology even further.

At first, each of these autonomous cars will have a chaperone in the vehicle — ready to take control if trouble arises. That's just prudent at this stage. And regulatory battles will certainly cause delays.

But the trend toward fully autonomous cars is unstoppable.

At that point, will Uber just collect the other 80% of revenue?

It's possible. But it may also lower prices — likely by over 50% — which will only expand the market further.

In fact, a fully autonomous fleet would more than quadruple Uber's available market.

At that point, it will seem crazy to own a car at all.

Ultimately, when the shift to autonomous cars fully takes shape, Uber will be the company best positioned to take advantage of the revolution. It will have the technology. It will have the customer base. It will have the experience.

What we're talking about here is an available market size in the trillions. Yes, Uber could be the first trillion-dollar company.

And the fact that it's operating without any strong competitors will only accelerate its trajectory going forward.

## Uber's Endless Market Domination

Uber's current and future business opportunities certainly justify a stock price far in excess of current valuations.

It's already worth more than all of its rival car companies — combined.

But without an IPO, how can you invest in Uber's quest for domination?

By investing in a publicly traded fund that holds Uber stock.

There are at least seven such funds right now — and I've completed an in-depth screening of each one.

The **BlackRock Focus Growth Fund (MCFOX)** came out on top — for three main reasons:

1. Of the seven funds, MCFOX has the largest percentage of its assets in Uber, at 3%.
2. The fund holds the best set of other investments, too. We're talking about companies like **Alphabet Inc. (GOOG)**, **Amazon.com (AMZN)**, and **Facebook Inc. (FB)** — all companies that we believe still have plenty of growth in them, even though they're already stock market giants. Other companies we like a lot in the MCFOX portfolio include **Constellation Brands Inc. (STZ)**, **Activision Blizzard Inc. (ATVI)**, and **UnitedHealth Group Inc. (UNH)**. As a bonus, MCFOX also has exposure to Palantir Technologies, a privately held big-data company that we also believe is an outstanding growth story.
3. There's more than one way to invest in the fund, depending on your personal financial situation and the opinion of your financial advisor.

Now, with 3% of MCFOX's assets in Uber, it may take a fairly large investment to get meaningful exposure.

But since the fund also invests in larger companies, you can shift some of your large-cap growth allocation to the fund.

So if you already have exposure to companies like Google and Amazon, consider funneling some of that money to MCFOX instead. (Of course you should always carefully consider your tax situation and suitability for the fund, so check with your financial advisor.)

Once you've decided how much capital to allocate to the fund, the next step is to decide how to buy it.

There are three ways to buy MCFOX — but only two ways that I suggest. **Please note:** While MCFOX is the best way to invest in Uber ahead of its IPO, is **NOT** currently an official recommendation of *VentureCap Strategist*. Please [go here](#) to see our complete portfolio of recommendations.

**Method #1 (Recommended for Most Subscribers):** The first way to invest is through class C shares (MCFOX). This is how most people will want to buy the shares. You can purchase MCFOX through just about any brokerage or financial advisor. Or you can create an account directly with BlackRock on its website.

This class of shares doesn't have an upfront fee, or "load," but it does have a 1% fee if you redeem your shares within the first year. It also has a "distribution fee" in addition to a service fee, which will increase the fund's expenses.

Of course, we're looking for returns that will make those fees (1% per year) seem insignificant, so this is a good way to get into the fund.

**Method #2 (Recommended for Some Members):** It is possible to invest directly in Focus Growth Institutional Class (MDFOX). It doesn't come with a 1% fee or a redemption penalty. But most investors have to invest a minimum of \$2 million to own this class.

If you've got enough money that you want to invest \$2 million in the fund, you can use this method.

However, if you don't have enough to invest directly, BlackRock has partnered with several financial advisors — including some large ones — to make these Institutional Class shares available to investors with more modest means. Ask your financial advisor to see if you're eligible. If so, this is a slightly better alternative than the MCFOX shares above.

**Method #3 (Not Recommended):** This last method is not recommended for most people. MAFOX is the "front-end load" version of the Focus Growth Fund. It has an upfront sales charge as high as 5.25%. Not only is that very high, it also prevents all of your money from going to work for you. Avoid this method of purchasing shares unless you've got \$1 million to invest in the fund — in which case the sales charge is zero. If you're investing between \$1 and \$2 million, this is actually a good way to get in the fund. But for investments over \$2 million, the second method (MDFOX) is better since it avoids a 0.25% service fee.

Ahead of the tape,



Louis Basenese  
Investment Director, *VentureCap Strategist*

