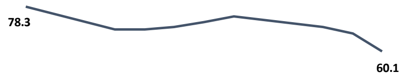
Monday, April 15, 2019

Embedded Expectations Analysis
Lyft, Inc. (LYFT:USA)

Despite historical unprofitability, market expectations for LYFT are for a material expansion and positive inflection in Uniform ROA

Lyft, Inc.

Sector:	**Industrials**
Sub-Industry:	**Trucking**

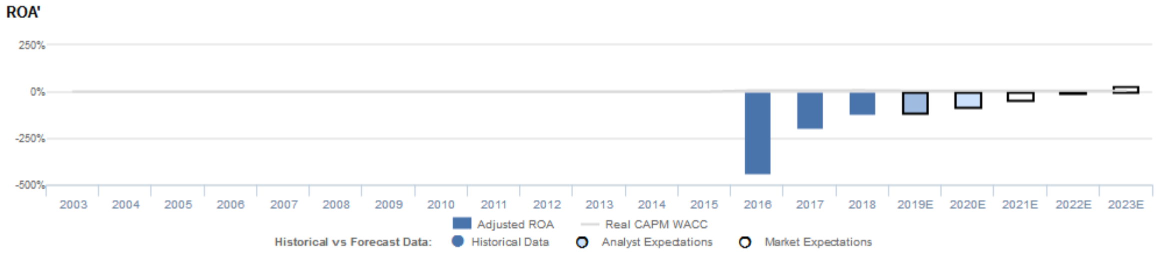


Market Cap.:	**$17,441.4mn**
Stock Price:	**$61.01**
52 Wk High/Low:	**$88.60 / $59.75**

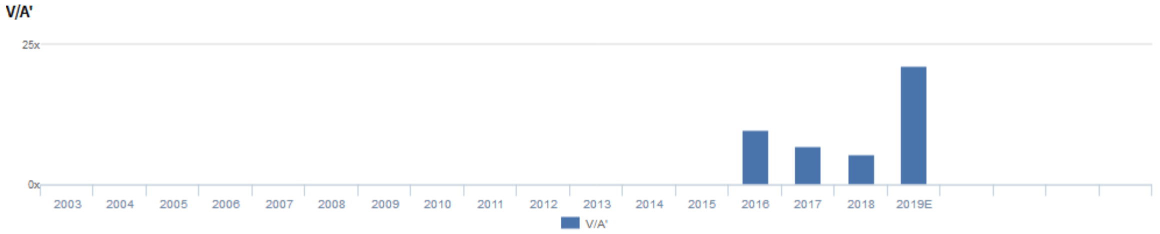
1-Qtr Earnings Momentum:
($1,052.6mn)
1-Qtr Earnings Momentum ROA' Impact:
(13,943.2bps)

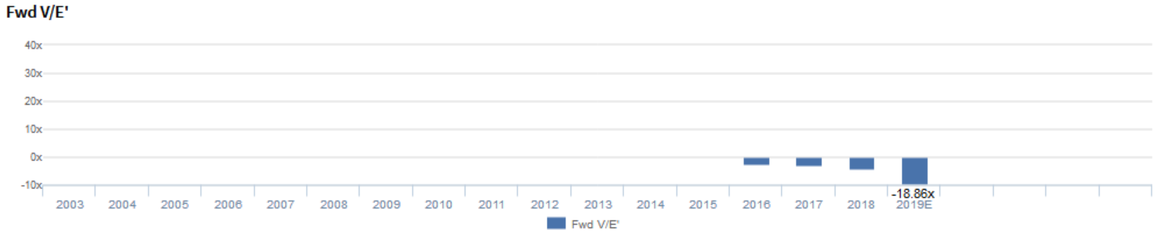
- Lyft, Inc. (LYFT:USA) currently trades well above corporate averages relative to UAFRS-based (Uniform) Assets, with a 21.2x Uniform P/B. At these levels, the market is pricing in expectations for Uniform ROA to materially expand, and inflect positively, improving from -117% in 2018 to 32% in 2023

- In order to justify current valuations and meet market expectations, the firm must successfully expand its market share, fundamentally change auto buying trends, and become a leader in automated vehicle technology, while also overcoming margin and competitive pressures


ROA'


Asset' Growth

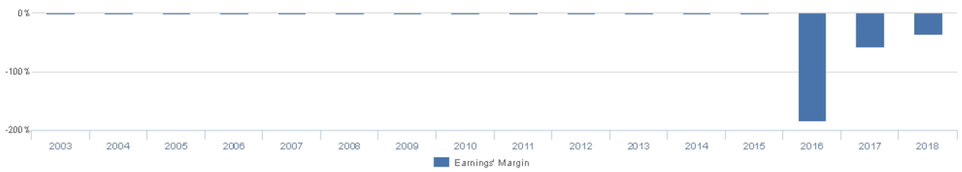

V/A'

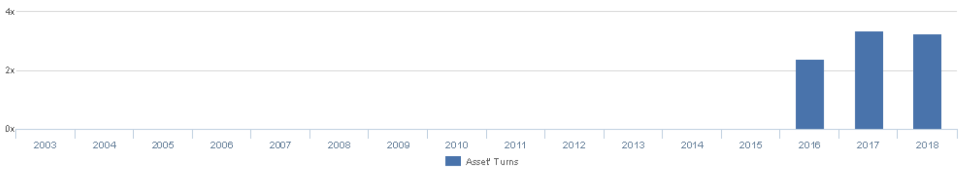

Fwd V/E'

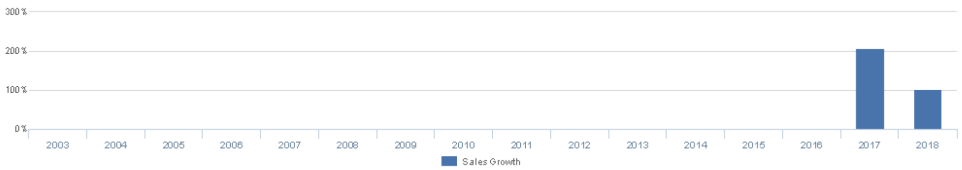
LYFT currently trades well above corporate averages relative to Uniform Assets, with a 21.2x Uniform P/B (V/A’). At these levels, the market is pricing in expectations for Uniform ROA to materially expand, and inflect positively, improving from -117% in 2018 to 32% in 2023, accompanied by 35% Uniform Asset growth going forward, as the company continues to invest heavily into platform and new market expansion.

As an early stage company, and peer-to-peer ride sharing service, LYFT has seen grossly negative, yet improving profitability. Uniform ROA increased from -438% in 2016 to -117% in 2018, as the firm has massively expanded its asset base, but LYFT still has a lot of ground to cover before becoming a profitable company. Meanwhile, as the firm has rapidly expanded its platform and entered new markets, Uniform Asset growth has been robust, ranging between 113%-116% over the past two years.

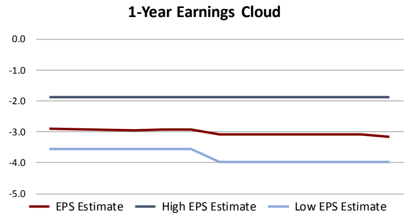
Performance Drivers – Sales, Margins, and Turns

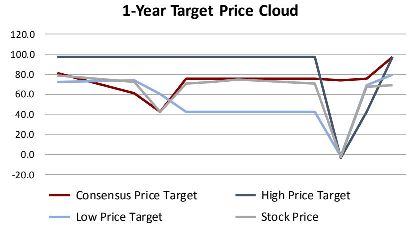

Earnings' Margin

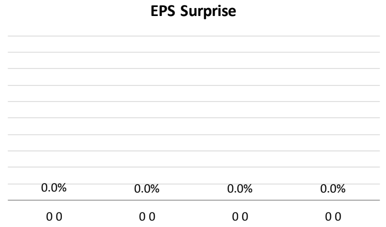

Asset' Turns


Sales Growth

Negative profitability has been driven by grossly negative Uniform Earnings Margin, despite improvements in Uniform Asset Turns. Uniform Margin has been consistently negative, even though there have been material improvements, increasing from -184% in 2016 to -36% in 2018. Meanwhile, Uniform Asset Turns have increased from 2.4x in 2016 to 3.3x-3.4x levels in 2017-2018. At current valuations, markets are pricing in expectations for Uniform Margin to continue to recover materially, and inflect positively, coupled with further improvement in Uniform Turns.







Company Profile:
Lyft, Inc. operates a peer-to-peer marketplace for on-demand ridesharing in the United States and Canada. It provides Ridesharing Marketplace, which facilitates lead generation, billing and settlement, support, and related activities to enable drivers to provide their transportation services to riders. The company also offers a network of shared bikes and scooters in various cities to address the needs of riders for shorter routes; Express Drive program, a flexible car rentals program which connects drivers who need access to a car with third-party rental car companies; and concierge for organizations to manage the transportation needs of their customers and employees. In addition, it integrates third-party public transit data into the Lyft app to offer various enterprise programs, including monthly ride credits for daily commutes, supplementing public transit by providing rides for the first and last leg of commute trips, late-night rides home, and shuttle replacement rides. The company was formerly known as Zimride, Inc. and changed its name to Lyft, Inc. in 2013. Lyft, Inc. was incorporated in 2007 and is headquartered in San Francisco, California.

Fundamental Analysis

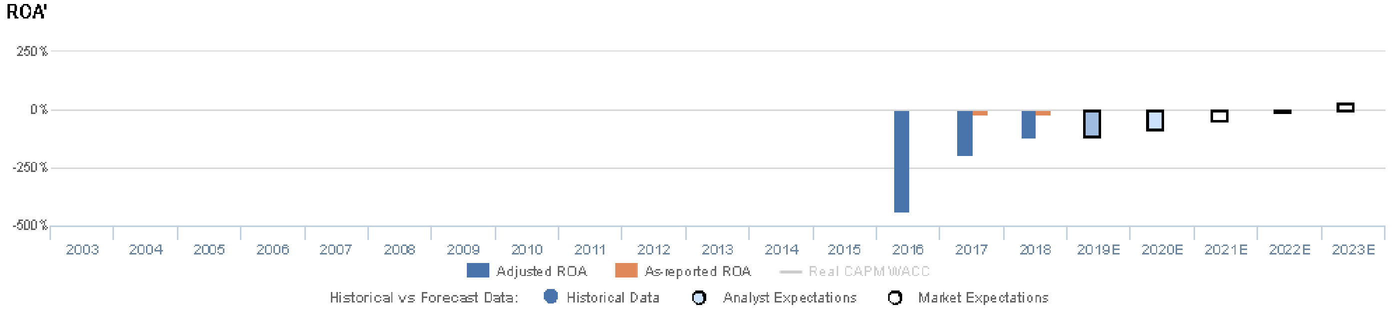
Valens' fundamental analysis of LYFT highlights that despite historically being a grossly unprofitable company, market expectations, at current lofty valuations, are for material expansion and a positive inflection in profitability.

Specifically, markets are optimistic that LYFT's popularity, market share, and ability to fundamentally alter transportation trends can help propel high profitability going forward. Additionally, the market believes ride-sharing services can change car buying trends among millennials and future generations, shifting revenues away from traditional car manufacturers to transportation alternatives.

However, the core of the market's optimism rests on LYFT's ability to become a leader in automated vehicles, which would allow their business model to be sustainable over the long-term, by reducing wage costs and other current margin headwinds, or lead to a buyout opportunity. In order to do so, LYFT would have to fend off competitive pressures from ride-sharing rival Uber and traditional car manufacturers, as well as avoid the commoditization of automated vehicle technology.

Overall, in order to justify current valuations and meet market expectations, the firm must successfully expand its market share, fundamentally change auto buying trends, and become a leader in automated vehicle technology, as well as overcome margin and competition pressures.

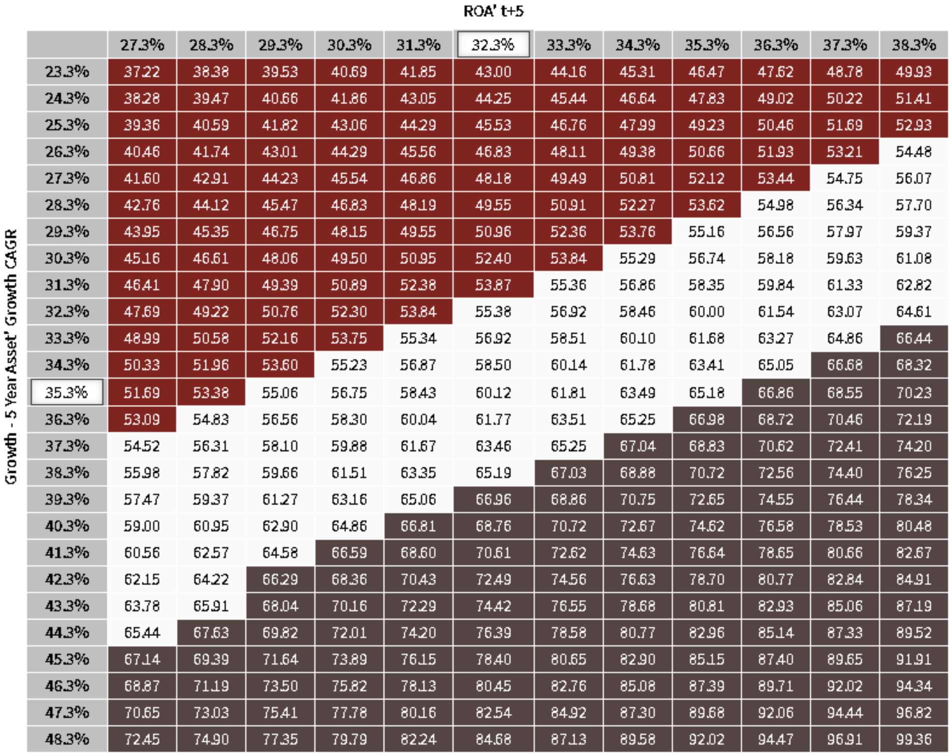
UAFRS VS As-Reported



Uniform Accounting metrics also highlight a significantly different fundamental picture for LYFT than as-reported metrics reflect. As-reported metrics can lead investors to view a company to be dramatically stronger or weaker than real operating fundamentals highlight. Understanding where these distortions occur can help explain why market expectations for the company may be divergent.

As-reported metrics significantly overstate LYFT's profitability. For example, as-reported ROA for LYFT was -18% in 2018, materially higher than Uniform ROA of -117% that year, making LYFT appear to be a much stronger business than real economic metrics highlight. Moreover, since 2017, as-reported ROA has remained at -18% to -21% levels, while Uniform ROA has consistently been below -100%, making the firm appear to be much closer to profitability than is accurate.

Valuation Matrix – Relationship of ROA', Asset' Growth, and Valuation



ROA' t+5

Growth - 5 Year Asset' Growth CAGR

	27.3%	28.3%	29.3%	30.3%	31.3%	32.3%	33.3%	34.3%	35.3%	36.3%	37.3%	38.3%
23.3%	37.22	38.38	39.53	40.69	41.85	43.00	44.16	45.31	46.47	47.62	48.78	49.93
24.3%	38.28	39.47	40.66	41.86	43.05	44.25	45.44	46.64	47.83	49.02	50.22	51.41
25.3%	39.36	40.59	41.82	43.06	44.29	45.53	46.76	47.99	49.23	50.46	51.69	52.93
26.3%	40.46	41.74	43.01	44.29	45.56	46.83	48.11	49.38	50.66	51.93	53.21	54.48
27.3%	41.60	42.91	44.23	45.54	46.86	48.18	49.49	50.81	52.12	53.44	54.75	56.07
28.3%	42.76	44.12	45.47	46.83	48.19	49.55	50.91	52.27	53.62	54.98	56.34	57.70
29.3%	43.95	45.35	46.75	48.15	49.55	50.96	52.36	53.76	55.16	56.56	57.97	59.37
30.3%	45.16	46.61	48.06	49.50	50.95	52.40	53.84	55.29	56.74	58.18	59.63	61.08
31.3%	46.41	47.90	49.39	50.89	52.38	53.87	55.36	56.86	58.35	59.84	61.33	62.82
32.3%	47.69	49.22	50.76	52.30	53.84	55.38	56.92	58.46	60.00	61.54	63.07	64.61
33.3%	48.99	50.58	52.16	53.75	55.34	56.92	58.51	60.10	61.68	63.27	64.86	66.44
34.3%	50.33	51.96	53.60	55.23	56.87	58.50	60.14	61.78	63.41	65.05	66.68	68.32
35.3%	51.69	53.38	55.06	56.75	58.43	60.12	61.81	63.49	65.18	66.86	68.55	70.23
36.3%	53.09	54.83	56.56	58.30	60.04	61.77	63.51	65.25	66.98	68.72	70.46	72.19
37.3%	54.52	56.31	58.10	59.88	61.67	63.46	65.25	67.04	68.83	70.62	72.41	74.20
38.3%	55.98	57.82	59.66	61.51	63.35	65.19	67.03	68.88	70.72	72.56	74.40	76.25
39.3%	57.47	59.37	61.27	63.16	65.06	66.96	68.86	70.75	72.65	74.55	76.44	78.34
40.3%	59.00	60.95	62.90	64.86	66.81	68.76	70.72	72.67	74.62	76.58	78.53	80.48
41.3%	60.56	62.57	64.58	66.59	68.60	70.61	72.62	74.63	76.64	78.65	80.66	82.67
42.3%	62.15	64.22	66.29	68.36	70.43	72.49	74.56	76.63	78.70	80.77	82.84	84.91
43.3%	63.78	65.91	68.04	70.16	72.29	74.42	76.55	78.68	80.81	82.93	85.06	87.19
44.3%	65.44	67.63	69.82	72.01	74.20	76.39	78.58	80.77	82.96	85.14	87.33	89.52
45.3%	67.14	69.39	71.64	73.89	76.15	78.40	80.65	82.90	85.15	87.40	89.65	91.91
46.3%	68.87	71.19	73.50	75.82	78.13	80.45	82.76	85.08	87.39	89.71	92.02	94.34
47.3%	70.65	73.03	75.41	77.78	80.16	82.54	84.92	87.30	89.68	92.06	94.44	96.82
48.3%	72.45	74.90	77.35	79.79	82.24	84.68	87.13	89.58	92.02	94.47	96.91	99.36

Glossary

Asset' – Net Asset' is calculated as Net Working Capital + Long Term Non-Depreciating Operating Assets (including Land and Non-Depreciating Operating Intangible Assets, excluding Goodwill and other acquisition-related Intangible Assets) + Inflation-Adjusted Net PP&E + Net capitalized R&D + Net Capitalized Leases + Net Depreciating Operating Intangible Assets

Earnings Call Forensics™ – Valens Equities analysis includes a powerful proprietary process for studying and evaluating representations made by management during quarterly earnings calls and other public events. Valens uses tools and systems that other sell-side firms and credit agencies have been either unwilling or unable to use. Their reluctance to use these technologies often stems from their fear of endangering their relationships with management teams.

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Most Compelling Earnings Call Forensics™ Inflections – Companies where Earnings Call Forensics™ (ECF™) has identified large shifts in management sentiment from quarter-to-quarter. The ECF™ Ratio above highlights the rate of incidence of Highly Confident and Excitement markers relative to Highly Questionable markers. The higher on the list a name appears, the larger the recent inflection between their two most recent ECF™.

Most Compelling Long Ideas – The most compelling long ideas based on all five proprietary value drivers: ROA', Asset' Growth, V/A', V/E', and TSRr. These are companies that Valens maintains a positive outlook on, relative to current market valuations. The higher on the list a name appears, the more positive Valens' opinion of the name is, based on our fundamental factors.

ROA' – ROA' is a cleaned up Return on Asset ratio, used to understand the operating fundamentals of the company. ROA' is Earnings' divided by Asset'. Earnings' is calculated as Net Income + Special Items + Interest Expense + Depreciation and Amortization Expense + R&D Expense + Rental Expense + Minority Interest Expense + Pension Charges + LIFO to FIFO adjustments + Stock Option Expense + Purchase Accounting Cash Flow Adjustments - Non-Operating (Investment) Income - Asset Life Based Charge on Depreciating Assets. Asset' is Net Asset', or Net Working Capital + Long-Term Non-Depreciating Operating Assets (including Land and Non-Depreciating Operating Intangible Assets, excluding Goodwill and other acquisition related Intangible Assets) + Inflation Net PP&E + Net Capitalized R&D + Net Capitalized Leases + Net Depreciating Operating Intangible Assets.

ROA' Momentum – ROA' momentum is Valens' metric to understand the change in projected ROA' and earnings momentum. This metric analyzes what the first forecast year projected ROA' was one month ago, and what the projected ROA' is today. This helps in identifying companies where analyst expectations for fundamentals are improving, and companies where analyst expectations for fundamentals are growing more negative.

TSRr – Total Shareholder Returns (TSR) Relative are traditionally known as the capital gains of the stock, adjusted for any stock splits or similar action, plus dividends, over some period of time. No adjustments are made to the well-known standard calculation. TSRr calculates the TSR relative to the performance of the S&P 500 in the USA, or some other major market index if more relevant when examining companies in other countries.

V/A' – V/A' is a cleaned up Enterprise Value to Net Asset ratio, used to understand the multiple on Net Asset that the debt and equity markets value the company at. Generally, businesses that produce higher ROA's and have no credit concerns or other reasons to believe they are not "going concern" businesses trade at higher V/A'. V is Enterprise Value', defined as Market Cap + Minority Interest + Adjusted Book Debt - Excess Cash. A' is Net Asset', or Net Working Capital + Long-Term Non-Depreciating Operating Assets (including Land and Non-Depreciating Operating Intangible Assets, excluding Goodwill and other acquisition related Intangible Assets) + Inflation Net PP&E + Net Capitalized R&D + Net Capitalized Leases + Net Depreciating Operating Intangible Assets.

V/E’ – V/E’ is a cleaned up Enterprise Value to Earnings ratio, used to understand the value the debt and equity markets ascribe to the company’s cash flows. V is defined as Enterprise Value’, which is Market Cap + Minority Interest + Adjusted Book Debt - Excess Cash. E’ is defined as Earnings Prime. Earnings Prime is calculated as Net Income + Special Items + Interest Expense + Depreciation and Amortization Expense + R&D Expense + Rental Expense + Minority Interest Expense + Pension Charges + LIFO to FIFO adjustments + Stock Option Expense + Purchase Accounting Cash Flow Adjustments - Non-Operating (Investment) Income - Asset Life Based Charge on Depreciating Assets.

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