

Lyft Inc (LYFT)

December 12, 2024



Overview

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Current Share Price:	\$15.08
Market Cap	\$6,260 MM
Free Cash Flow (TTM)	\$641 MM
EBITDA (TTM)	\$118 MM
PEG Ratio (5 years)	1.87 (5 yr)
Recommendation	Buy



Company overview

Lyft is a software company founded in California in 2012 that manages a ride-sharing app present in the United States and parts of Canada. They offer the ability for regular people to become drivers and make money by giving people's lifts. The company profits mainly via revenue share of each ride booked in their platform, but is expanding also via advertisement (in app and in vehicle) and micro mobility services in urban settings

Investment Thesis

Lyft is still growing at a fast pace in terms of top line, bottom line, driver and rider acquisition while offering a high quality service. The company has been severely punished by the market these past few years but has been silently growing YoY, which will make the company extremely profitable as their margins improve

Outcomes and Opportunities

The company has consistently improved its revenue over the past years, growing from \$1,185M in 3Q23 to \$1,523M in the current quarter. This has been the consequence of a boost in total bookings (i.e. total money spent on rides in the platform)

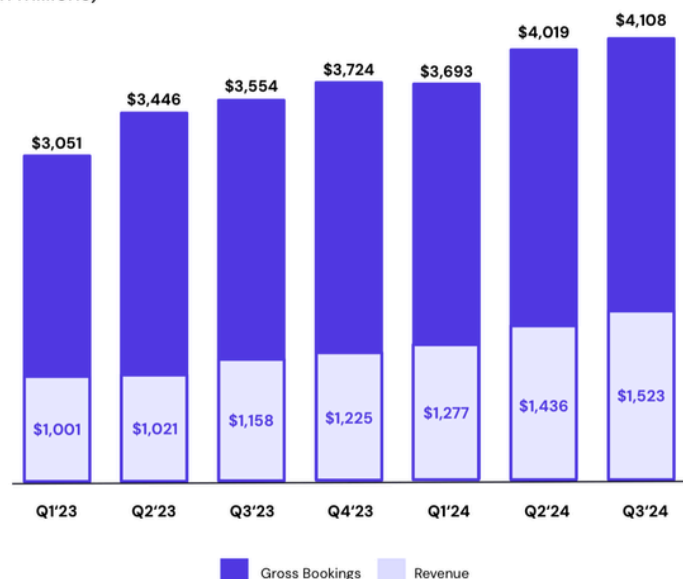
Their EBITDA has grown from \$92M to \$107M YoY (even though margins stayed the same, at 2.6%) and their Free Cash flow has achieved \$242M in this quarter, compared to a negative \$30 last year, showcasing their solid growth in scale through EBITDA and profitability through FCF

Lyft also reached a peak in total rides booked, brokering 216M rides in the past quarter, up 16% YoY. This comes from a total of 24.4M active users (riders) recorded in 3Q24, another record, up 9%

Management's focus on cautionary scale, only operating in the United States and Canada have been paying off. According to the CEO, Canadian rides have doubled YoY (though numbers haven't been disclosed) and that Toronto is the 6th biggest market for the company.

Gross Bookings

(in millions)



Q3'24 Gross Bookings: \$4.1 billion, +16% YoY

Outcomes and Opportunities

The company has been pushing for investments in the autonomous vehicle space, especially in their partnership with MobilEye, one of the leaders in self-driving technology. Starting in 2025, Lyft plans to deploy autonomous Toyota Sienna minivans, equipped with May Mobility's self-driving technology,

Lyft's Price Lock feature, allowing commuters to lock in a price for a ride they do frequently and repetitively, will allow Lyft to greatly improve their customer loyalty and create a regular inflow of income. This effort to improve confidence in user-base is key to improve their market penetration and allows them to create a powerful data-base of consumer habits that could be exploited in other future endeavors

Ride cancelling has reduced 50% YoY with features such as priority queueing (where a rider pays a higher price to get a reduced waiting time), improving matching algorithms and rewards to drivers. This caused Lyft to spend more to benefit the drivers for their time but this is partially offset by the consumer satisfaction and loyalty that they build and the priority queue revenue.

Their Subscription packages Lyft pink (\$9.99/m) and Lyft Pink All Access (\$199/yr) are improving their consumer loyalty and increase revenue per user, representing a new income source for the company while advancing management's strategy of bringing in high value loyal customers to their base.

Lyft is growing while balancing their debt intelligently. In 3Q24 they reported a debt reduction of 34% YoY.

Lyft's focus on making a better product to their users, implementing conveniences and features to attract/retain users, while increasing the revenue brought by each user will allow them to expand their market share steadily without burning their cash reserves

Competitive Position and Industry

Lyft has approximately 24% of the ride sharing market share according to Statista. Uber, their bigger competitor and owner of the other 76% of the market, has been also growing rapidly their services in ridesharing and delivery in the US and abroad. Lyft's hesitance in expanding to other countries years ago might be something that will come to bite them, as they will continue to see resistance in breaking into new markets as well as growing their presence in the US market.

Lyft's focus on user experience and implementing new features in their platform such as the subscription services, priority queue and, in the future, autonomous driving are creating a loyal user-base that may be the key to increase their market share. Furthermore, if the company expands further into Canada without burning much cash, which is not a far reach, their user base can growth substantially without having to fight for the US market share



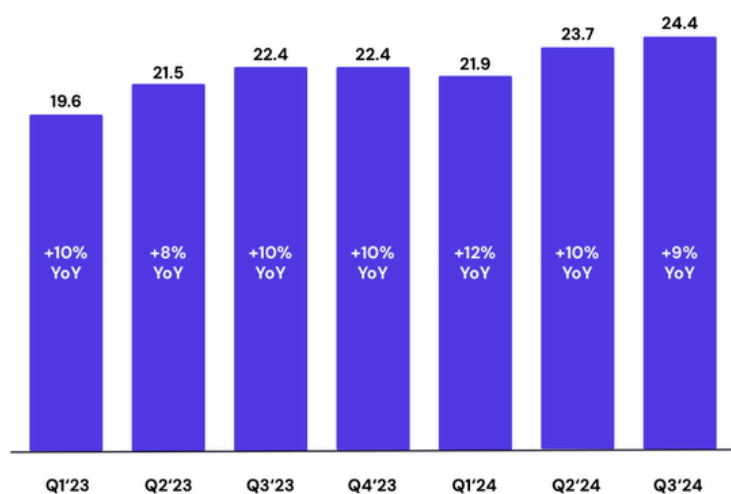
Risks

Lyft's extreme determination to improve their platform, subsidize drivers to make their services better than Uber's and implement measures to make the platform more attractive might make them burn more cash in the long term than expected if they don't find a way to achieve these results naturally, However, these recent expenditures have created tools to increase consumer loyalty and even with them the bottom line has been healthy

If Lyft fails to break into new markets or even increase its market share position in the US they will eventually face stagnant growth in gross bookings, making increasingly difficult for the company to match the projected 8% FCF growth. However, with the huge markets they still have to explore outside the US and the platform changes they have been implementing to increase US market share, I believe this is a manageable risk we can tolerate with caution with a bigger WACC than the one calculated

Active Riders

(in millions)



Q3'24
Active Riders:
24.4 million,
+9% YoY and an
all-time high

Earnings Overview

Income Statement Overview

(MM, \$)	TTM	2023
Revenue	5,406	4,403
EBITDA	118	-188
Net Income	-65	-340

Balance Sheet Overview:

Current Ratio: 0.75. Elevated by Convertible Bonds, that hyperinflate the liabilities but charge a low interest rate

- Debt to Equity Ratio: 189%, higher than average; it is an asset-light business and still paying off debt raised to grow the company in earlier years

Debt to FCF: 1.9, it would take less than 2 years if the company used its FCF to pay off their debt. The company is trading at a negative Net Debt, meaning it has enough cash reserves to pay off their obligations

Cash Flow Statement Overview

(MM, \$)	TTM	2023	
CF from OPs	739	-98	
Free CF	641	-248	
	2024	2025	2026
Expected FCF	630	680	734

Valuation

EV/FCF analysis: LYFT: 7.4 /// UBER: 33

Method Used: Reverse DCF and DCF valuation

Assuming it's FCF in the TTM of 641Billion USD, a 0% FCF growth over the next 10 years, a terminal growth rate of 1.5% and an conservative discount rate of 14% per year (above its calculated WACC 11.5%), the stock should be trading at \$11.44, implying a downside from today's price

Using these conservative assumptions, the company is currently valued in a FCF increase of around 5% CAGR for the next 10 years, which, considering the strengthening of the Lyft brand, platform and customer base as well as bottom line growth, seems very low

Using these same assumptions and assuming a very conservative FCF growth of 8% CAGR, and 14% WACC the company should be valued at around

\$19.00

Conclusion: Buy

Lyft's solid platform with great new features, a solid user growth, their efforts to increase consumer satisfaction and creating a solid user base while focusing on profitability will put the company in a solid position for healthy growth, even though the market seems to be overlooking their opportunities in fears of competition from its bigger brother