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Taxi Trips And Farebox Declines Accelerate Starting June 2014

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Disclosure: The author is short TAXI. **(More...)**

Summary

- Transportation Network Company market share gains accelerate starting June 2014 measured by declining trips and farebox (meter revenue) for NYC taxi medallions.
- 5-month trailing average trips down 16% and farebox down 12% since NYC spring 2013 peaks.
- Normal first quarter seasonal upticks severely depressed.
- March 2015 versus March 2014 shows trips down 15% and farebox down 9% (snow-aided).

(Part I of two part series - Part II, Taxi Farebox Declines a Harder Hit to Medallion Owner Bottom Lines available here)

Taxi & Limousine Commission data through March 2015 obtained through a Freedom of Information Law (FOIL) request shows a continued steep decline in taxi trips and farebox (meter revenue) that began in June 2014. The March data shows acceleration in trip and farebox declines throughout the second half of 2014 and into 2015. Trips and farebox (meter revenue) in March were down almost 15% and over 9%, respectively, versus the same month in 2014 (see Exhibit 1 below). These figures compare to widely publicized data in a February 6, 2015 report from Medallion Financial Corporation's (NASDAQ:TAXI) investment banker, Sandler O'Neill (SO) that showed a full-year aggregate farebox per medallion decline of 5%. The data shared by

SO compared full 12-month data for 2014 versus 2013, muting the accelerating market share gains by Uber and others commencing mid-year. The average year-over-year farebox comparison in the first half of calendar 2014 was negative 3.7% while the second half average was negative 6.6%, and the last two months of the year averaged negative 8%. No matter how the data is cut, the impact is significant and still accelerating (see Exhibit 1).

Exhibit 1 NYC Trips and Farebox Trends through March 1, 2015

(all data on per medallion basis)	Average Trips Per Day	Average Farebox per Day (incl. credit card tips and cash tip estimate)	Average Trips Per Day - Trailing 5-month Average	Average Farebox per Day (including cc tips and cash tip estimate) - Trailing 5-month Average
Average Monthly YoY Comparison 2010 - 2012	2.1%	6.2%	NA	NA
1st Half 2014 Average Monthly YoY Comparison	-6.4%	-3.7%	NA	NA
2d Half 2014 Average Monthly YoY Comparison	-9.0%	-6.6%	NA	NA
August (seasonal low) to Feb/March Average Since 2010	14%	15%	0%	2%
August 2014 to Feb/March 2015	7%	7%	-4%	-4%
5-months Ending March 2015 / March 2014	-10%	-6%	NA	NA
March 2015 / March 2014	-15%	-9%	-10%	-6%
Since June 2013 (peak trips)	-13%	-9%	-16%	-12%
Since May 2014 (month before Uber spike)	-10%	-9%	-11%	-8%

Source: TLC.

Why Gross TLC Data Must be Adjusted to per Medallion Basis

Collecting NYC taxi industry gross revenue and total trips is the first step to understanding the current state and trend of earnings from which individual medallion owners service debt on those medallions. The industry pie is being split among more medallions since NYC added 398 between November 2013 and March 2014. As such, the declines in gross industry data *understate* the declines per individual medallion borrower. Debt service coverage is the singular concern for medallion lenders and that is, by definition, a per medallion metric. All figures presented herein have been adjusted to a per medallion basis, based on TLC data for trips, farebox and medallions.

The Ominous Trends for Taxi Medallions

TLC data through March 2015 unambiguously shows the trend in declining market share for taxis has not abated. Not only was the 15% negative comparison between March 2014 and March 2015 the worst year-over-year decline, by far, in the last five-plus years, but the recovery

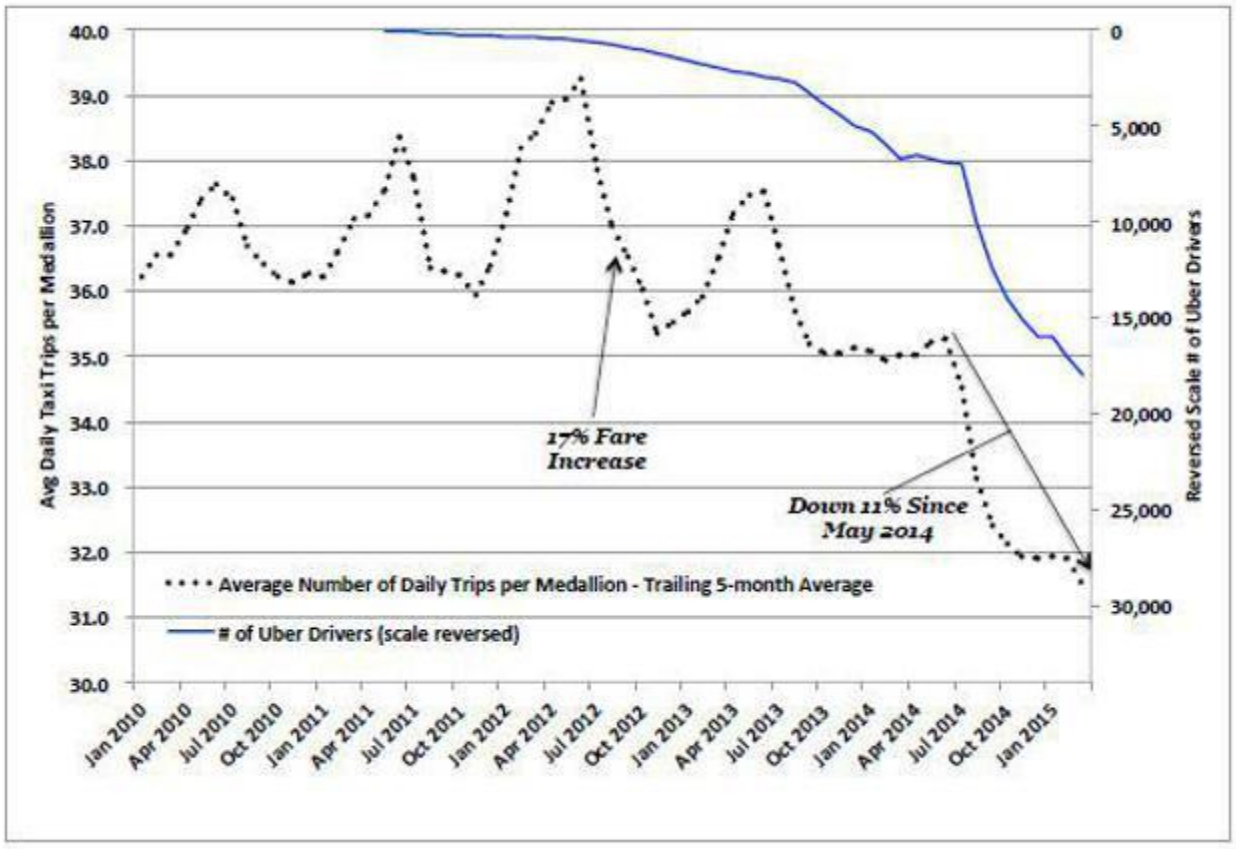
normally observed from August seasonal lows (when locals flee the inner city heat) to March, is also way down. It should be pointed out, February and March year-over-year comparisons are complicated by winter weather. February 2014 was a much heavier snow month relative to 2015, with two significant storms (8" and 10") making for an easier and thus stronger 2015 comparison for taxi trips and farebox (minus 6% and minus 2%, respectively). March 2015 was a significantly heavier snow month than the prior year, making for a more challenging comparison for taxis reflected in the actual comparison. As such, we averaged the two months when calculating the seasonal changes discussed herein. Farebox has been 15% higher, on average, in February/March versus August since 2010, but is up only 7% this year. Trips are up only 7% from August compared to 14% on average since 2010.

Uber's Share Gains Appear to have Accelerated Since Middle of 2014

Following a meeting between its editorial staff and senior New York City Uber officials in early February, the Daily News reported Uber drivers were making 100,000 trips per day in NYC including Uber Black (less than 15% of Uber NYC, in our estimation), up from just over 34,000 trips per day in September. That is a 200% increase in roughly four months. Certify, one of the largest travel and expense software providers in the US reported Uber had gone from a 9% share of expensed business trips in NYC during Q1 2014 to 21% in Q1 2015. The figures from both sources in conjunction with the TLC data indicate/corroborate in addition to taking meaningful and accelerating share from taxis, Uber is significantly increasing the size of the traditional for-hire market at the taxi price point.

Tracking 5-month moving averages for trips and farebox can smooth out some of high seasonal volatility, but it also mutes the current state of affairs during a protracted downward trend, like that being observed currently. For trips, the 5-month moving average ending in March of each calendar year since 2010 has been equal or slightly higher than the median for that calendar year. As such, the 5-month moving average as of March is a good proxy for *directional*impact of new for-hire vehicle supply.

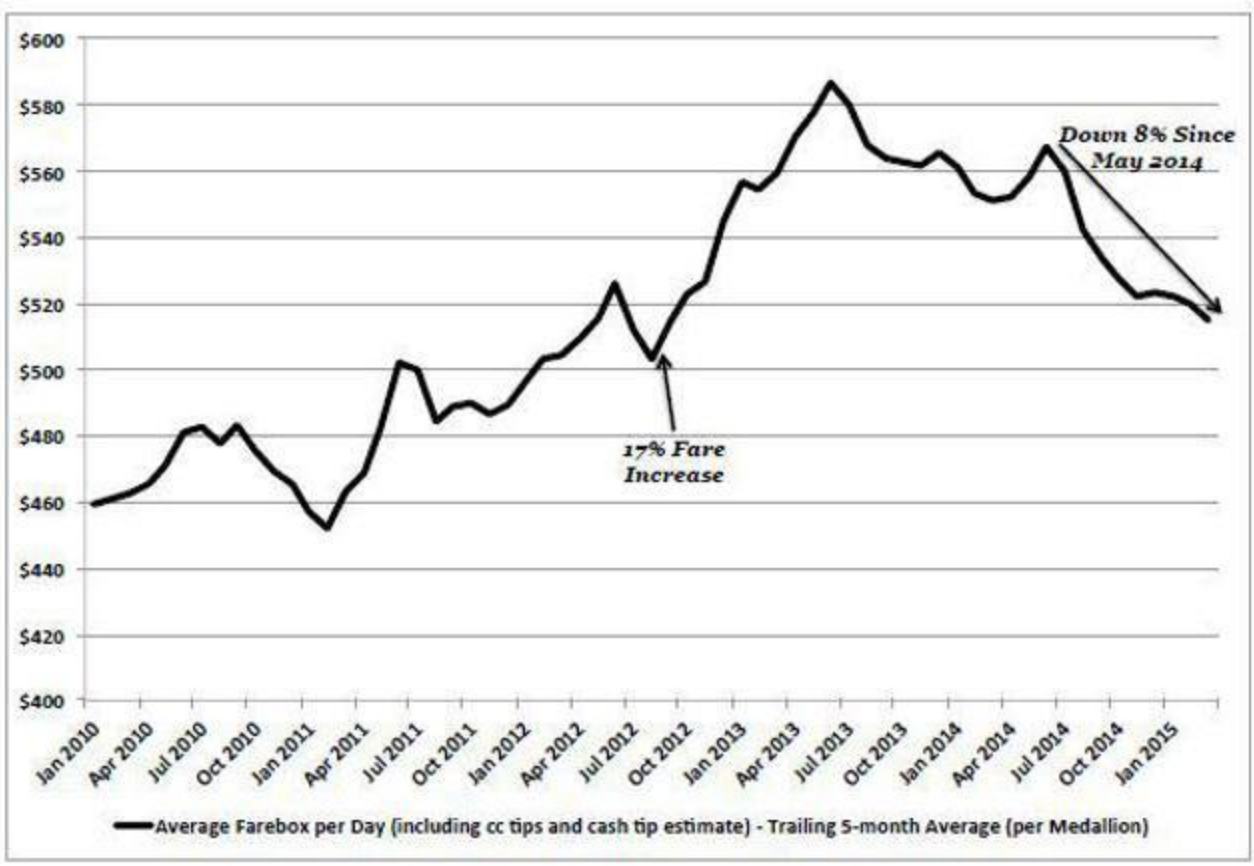
Exhibit 2 NYC Daily Trips per Medallion – Trailing 5-Months and Uber Driver Network



Source: TLC and *An Analysis of the Labor Market for Uber's Driver-Partners in the United States*, Jonathan V. Hall1 Alan B. Krueger, January 22, 2015

As evidenced in Exhibit 2 above, the decline trend in NYC taxi trips steepened with the spike in the Uber driver network (note the right axis is reversed to better illustrate the inverse correlation between Uber network and declines in taxi trips). Since May 2014, the point at which the Uber driver network began to grow exponentially, the 5-month moving average of daily taxi trips is down 11% while farebox is down 8% (see Exhibit 3). Since the June 2013 post-taxi-fare-increase-peak, taxi trips are now down 16% and farebox is down 12%.

Exhibit 3 NYC Daily Farebox per Medallion - Trailing 5-Months



Source: TLC.

The disparity between the negative 9% year-over-year farebox comparison for March and the 15% drop in trips relates to the fact that higher-fare airport hires remain better protected for taxis, for now, and ride share drivers still find the inner city more attractive. It is estimated that wait times for airport pickups at JFK average just over 60 minutes, and veteran taxi drivers with whom we have spoken indicate the higher-earning taxi drivers work Manhattan, not the airports.

Conclusion

The evidence continues to show an acceleration of Uber's market share gains in New York City, and the company has announced plans to nearly double the footprint again in 2015. NYC boasted the largest driver supply surplus and deepest taxi supply shortfall entering the Uber era. Moreover, ride share drivers are mostly part-time. The weighted average hours per week of an Uber driver calculated from the Hall Krueger report is roughly 30 hours per week. Hence, the widely publicized fact that the Uber driver network surpassed the number of NYC medallions by

the end of 2014 misses the key point that medallioned taxis are on the road 60-70 hours per week - twice the weighted-average of an Uber driver. Many Uber drivers, however, concentrate their work around the two most lucrative, peak-demand periods of each day, a profit-per-hour-enhancing luxury unavailable to medallion leasers and owner-operators leasing to second drivers. In addition, the unmet for-hire demand in NYC related to the structural supply shortages has proven to be significant. These variables resulted in a relatively tepid market share ramp for Uber from 2013 through the first half of 2014. But in that time, the yellow cab driver surplus was erased as evidenced by reports of driver shortages and lease reductions to below TLC caps from big fleet management garages like 55 Stan, Freidman (owns and around 300 and manages roughly 900 medallions), Yellow Cab and multiple other industry sources. Ride share is now nearly 9 months into that early summer 2014 inflection point, during which Uber has demonstrated exponential growth in its driver network, while Lyft, Gett and others are also ramping up in NYC. The impact on yellows has increased accordingly.

The operating leverage for medallion owner operators and lease drivers to relatively small drops in meter revenue is substantial, with every 10% drop in farebox representing an approximate 18% (using fully-levered income but before accounting for likely lease income reductions) and 21% hit to net pretax income, respectively. A more detailed examination of taxi medallion cash flow economics and sensitivity to farebox declines is being published as*Taxi Farebox Declines a Harder Hit to Medallion Owner Bottom Lines* published as Part II of this series.