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Taxi Medallions Face Obsolescence

Jan. 9, 2015 12:46 PM ET | 44 comments | About: Medallion Financial (TAXI)
Disclosure: The author is short TAXI. **(More...)**

Summary

- Medallion Financial Corp. long investors have downplayed risks to taxi medallion economics associated with ride share ascension.
- Ride share drivers have revenue and cost advantages over medallion owner-drivers and leasing drivers.
- Nuanced changes to NYC regulation enforcement, so far, is commoditizing the old taxi medallion monopoly.

Ride Sharing is Structurally More Profitable than Taxi Driving - Hands Down

We previously published a detailed report about the risks to Medallion Financial (NASDAQ:TAXI) related to the rapid adoption of ride sharing. We wanted to elaborate on the evidence showing a significant earnings advantage for ride share drivers over taxi drivers. Another article claims the opposite. To understand the existential threat ride sharing poses to monopolistic taxi medallion economics, one must have a command over basic sharing economy concepts and critical differences in for-hire driver cost structures. To reach the wrong conclusion on the low-cost mode is to miss the crux of the threat to medallion values and loans they support, and the financial implications for Medallion Financial Corporation. Ride sharing drivers earn *substantially* more per hour than taxi drivers in every market, owing to several factors:

1. Ride share drivers choose their own hours, and are assisted in the maximization of trips per shift by robust, state-of-the-art technology matching increasing numbers of app-hailers with

nearest available drivers. They are not restricted to 12-hour shifts, in contrast to medallion-leasing drivers, who have to hunt for declining numbers of street-hailing fares. Many ride share drivers drive to supplement their income by earning returns on the sunk cost of a vehicle used personally. Drivers seeking to maximize their income can, and usually do, drive during the two rush-hour peak periods, resulting in significantly higher utilization rates or rides per hour driven. Medallion owner-drivers can do the same. However, medallion leasers, who generate 100% of the income associated with fleet medallions, are at a significant *revenue*disadvantage.

2. Redundant insurance is required, for now, of Manhattan ride sharing drivers, based on TLC's regulations (Uber and Lyft already provide it), but owner-drivers have to pay for it as well. Medallion leasers pay for it indirectly through medallion leases. This cost is a wash, and is only mentioned because it is cited in the other report as a cost advantage of taxi drivers.

3. Medallion lease fees represent the income for fleet medallions. In NYC, standard vehicle lease fees are $630/week for morning shifts and $737/week for afternoon - equal to the caps set by the Taxi and Limousine Commission. Eliminating this cost is a significant advantage to ride sharing drivers over medallion leasers, and not applicable in comparison to owner-drivers.

4. Medallion interest and principal payments are substantial for most owner-drivers. Interest alone using TAXI's last reported LTV of 40% and the average interest rate on NY medallions of 3.6%, applied to recent medallion values of $950,000 in NYC (most recent published mini-fleet transfer price per medallion), is $1,140/month. Even using a 40% LTV shows a significant advantage to ride share drivers over medallion owner-drivers. Assuming a 75% LTV typical of financing on purchases made at this price point suggests a $2,137/month hole for medallion owner-drivers not borne by ride sharing counterparts.

5. Ride sharing drivers are overwhelmingly operating dual-purpose vehicles. Few vehicles are newly purchased or leased for the sole purpose of generating ride sharing income. The primary way sharing economy companies massively disrupt established industries is by harnessing and monetizing idle periods for personal assets like cars, bedrooms and labor time, resulting in low incremental costs of supply. As such, only a portion of most ride sharing vehicle costs applies to commerce. In contrast, medallion leasers and owner-drivers have to modify their vehicles with partitions, medallions, roof lamps, meters and a uniform paint job. These requirements render the vehicles dedicated, single-purpose taxis. It's difficult and uncommon to pile the family into the

taxi for a vacation. Nearly 100% of vehicle costs are applicable to commercial use. This sharing economy reality represents a substantial cost advantage to ride sharing drivers over both medallion owner-drivers and leasers.

All of these factors favor ride sharing drivers. There is no economic factor favoring taxicabs versus ride sharing. Ride share drivers, on average, have a material earnings advantage on a per-hour basis over medallion owner-drivers and a bigger advantage over leasers. The Meyers article argues "if fares are falling," the only theoretical ways for a taxicab driver to earn more as a ride sharing driver "... are: 1) increased rider volume, which is unlikely given excess supply; 2) increased reliance on surge pricing, which is out of driver control... and 3) working longer hours to make up the difference." What about costs? Several cost items are critical to the contrasting economics of ride sharing versus taxi drivers, all redounding in favor of the former. The article later asserts "... they [ride sharing drivers] must pay for their vehicle, maintain it, and insure it...", inferring that taxicab drivers do not have to deal with those costs; when, in fact, vehicle cost and even maintenance are distinct cost *advantages* of ride sharing drivers, while insurance payments are actually a wash factor borne by all drivers, as explained above.

The author claims he was told by a taxicab fleet management person "... the*average* taxi driver earns $60,000 annually after costs...". Credibility of sources is vital, and the tendencies of a taxicab fleet manager should be obvious, but corroborating their input is *more* important. That figure may be true for a small number of top earners working 12-hour shifts, 6 days a week, but the evidence suggests it most certainly is not true for the average driver. The BLS reported 2013 median income for Taxi Drivers and Chauffeurs in metropolitan NY of $33,410. We believe this figure includes some factors that skew it down slightly, but it is a better proxy for average taxi driver earnings. A fleet manager would only have knowledge of medallion-leasing and shift drivers, the lowest earners in the taxi-driving food chain, further undermining the veracity of the printed quotation. Medallion-leasing drivers start each shift in the hole by the leasing fee, amounting to $31,500-$36,850 per year, assuming a 50-week year and weekly medallion lease pricing - daily leases paid by shift drivers are even higher. Even if $60,000 *were* true, the math works out to earnings per hour of less than $18 ($60,000/65 hours/50 weeks). Most credible estimates suggest NYC yellow drivers earn less than $12/hour. Official uberX driver data is not available, but multiple estimates suggest it is above $20/hour, including one source (estimate of $24.83/hour net)somewhat hostile to Uber cited by Meyers. Nowhere is there a credible source claiming taxi drivers earn more per hour than ride sharing drivers, nor does an analysis of the respective business models support such a conclusion. Taxi drivers making more per year are only doing so by working significantly longer hours, and even that will be harder as trips per shift continue declining.

Why Extrapolating "77 years of history" in the Face of Conspicuous Secular Transformation is a Folly

The other report strongly emphasizes the long history of the existing taxi medallion monopoly system in NYC as reason to believe it will continue, without attempting to explain how ride sharing would be eradicated. The horse and carriage was around for over 200 years, and was still working fine when the automobile came on the scene. Decades of incumbent domination means nothing in the face of a superior solution. Historical taxicab regulation included two critical elements: 1) prohibiting non-medallion bearing taxis from picking up street hails, and 2) forcing 100% of ride-seeking consumers at this price point to street hail a taxi. ***Both*** were vital to steady earnings and soaring values of medallions. *The second is no longer true*, a regulatory, structural game-changer, eliminating exclusive access to the taxicab-riding public historically conferred by medallions. Customers now have choices they never had. In a world of wireless communication and smartphones, street hailing only survives to the extent people enjoy the sport of it, or the relatively rare occasion when plans change suddenly while standing on the street corner and taxicab availability appears ample. In a Huffington Post article otherwise critical of Uber, the author captured the broad baseline consensus: "I'll say at the outset that I think Uber is a 10x improvement on existing cabs." New Yorkers have always been early adopters of better mouse traps, and ride sharing wins on price, comfort, customer service, convenience and technology-based efficiency of pairing drivers with customers. It only loses modestly, for now, on time to destination, unlikely to be true as more ride sharing supply enters the networks. Street hail is expected to remain part of the NYC landscape. However, street hail's already decreasing and ultimately much smaller numbers are simply not likely to be sufficient to sustain ride supply shortages, in our opinion, and even if we are wrong, the new equilibrium price will continue to decline until ride sharing maximizes its share of street hails.

Boston and Chicago Effectively Lost Already, and NYC Medallion Monopoly Economics will Ultimately Collapse

Taxicab-equivalent supply caps have already been eliminated in New York and other major cities. The only question is can and will any of these cities reverse course and eliminate the new supply already in the markets? ***If not, the economic value historically concentrated in a finite number of owners will all get disbursed across the much larger number of suppliers.*** New suppliers will keep entering until the cash flow from driving has been competed to levels no longer economically attractive. Nothing facile or fallacious about it - just a clean economic argument. In Massachusetts and Illinois, official acceptance has already been conferred. As we have clearly stated, NYC will be last to fall, but mini-fleet medallion prices have fallen 30% already, meter revenue is down, taxis are idle and ride sharing is soaring in popularity. At the end of the day, NYC politicians have to weigh the political and practical consequences of telling New Yorkers that the new ride sharing choices they have been rapidly embracing are not good for them and the old monopoly system must be restored. Other than increasingly flaccid safety arguments and revenue generation for an increasingly unpopular Mayor, basic economics and common sense tell the voting public that monopolies are good for the relatively few suppliers at the expense of consumers and non-owning drivers.[1] We do not see the genie going back into the bottle.

In addition, increasingly common and casual suggestions of ride share companies mistreating their drivers belies a total ignorance of basic economics and the fact that non-owners, both employees (in this case medallion-leasing drivers) and customers, are the ones who suffer in markets where quantities of a good or service in demand are capped.[2] When markets are free, mistreated employees walk, as they have routinely and seamlessly done between Uber and Lyft in these early years, and uncompetitive practices cease. As to the author's use of a study arguing that supply cap regulation of taxicabs is actually a public good, the overwhelming majority of economic, scholarly articles on the subject of taxicab regulation argue that thoughtful deregulation is the optimal public policy.

[1] Essentials of Economics, Krugman, Wells and Graddy, Chapter 4, Controlling Quantities, pg. 119.

[2] Ibid.

About this article

Emailed to: 1,068 people who get TAXI real-time alerts and 525,816 people who get Investing Ideas daily.

Tagged: Investing Ideas, Short Ideas, Financial, Credit Services

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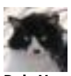
- 
  Deja Vu
  , Contributor
  Comments (1354)| + Follow| Send Message

  One of the classic studies about rent seeking in business school was about taxi medallions. I'm glad that bunch of rent seekers are being busted.
  I agree with your article 100%.

  9 Jan, 01:05 PMReply! Report AbuseLike6

- 
  dbt01
  Comments (592)| + Follow| Send Message

  what this author repeatedly fails to address is that Medallions make up only 20% of TAXI's profits. TAXI is essentially a subprime bank. Making TAXI the anti-Uber or the short of TAXI as a synthetic UBER long is simply barking up the wrong tree. TAXI should change their name, business description, and stock as they have essentially morphed in the last few years away from Medallions to subprime/high interest loans on RV's and boats. Maybe TAXI should become SUBP or something similar.
  Re the $60K/yr that a cabbie makes; I would guess much of the tip income is simply not reported. Just sayin.

  9 Jan, 01:12 PMReply! Report AbuseLike2

-

User14783102
Comments (45)| + Follow| Send Message

The profits from wherever they come will be immaterial. Similarly, Whether uber or new taxi medallion issuance is the cause of price declines is immaterial. Medallions & Medallion loans are huge pieces of the balance sheet at both taxi and medallion bank. If medallion values drop enough, creditors of the company or regulators of the bank may have a problem. A regulatory or credit default even if technical could have extremely negative effects very quickly.

Management needs to shore up the balance sheet immediately and hold more cash in the event medallion values fall further. Suspending the dividend temporarily might be a smart move. Increasing their debt capital would be wise as well. The buyback should be suspended until medallion values stabilize.

9 Jan, 01:57 PM Reply ! Report Abuse Like 2

- **dbt01**
  Comments (592)| + Follow| Send Message

  the medallion market is so illiquid with so few medallions sold, what is to stop TAXI from buying a few to prop up prices? Kind of like a stabilizing bid in the stock market. 3 Medallions sold in Chicago in the last 60 days for example.

  9 Jan, 02:14 PM Reply ! Report Abuse Like 0

- 
  James Hickman
  , Contributor
  Comments (235)| + Follow| Send Message

  Author’s reply » User14783102 is exactly right. More to come on "20%" red herring.

  9 Jan, 02:30 PM Reply ! Report Abuse Like 1

- **Bc127654**
  Comments (30)| + Follow| Send Message

  40% LTV makes me sleep well being long Taxi, thanks for that update. Let me know when Taxi faces significant defaults or stops diversifying its business away from medallions.

  9 Jan, 01:17 PM Reply ! Report Abuse Like 1

- 
  Peter Stevens
  Comments (141)| + Follow| Send Message

The problem I see is that medallions are SOLD by a rent-seeking city (and typically monopolized by a connected minority). Of course, not paying for the license leads to a more profitable business. Eventually, the government (and special interests) will interpose itself on the new model.

There is much risk here, undecided who wins.

9 Jan, 01:27 PM Reply ! Report Abuse Like 2

- 
  bixbubba
  Comments (254) | + Follow | Send Message

  At least in Chicago (don't know about NYC) the medallions are given away by the city in a lottery when they add new ones.

  9 Jan, 02:30 PM Reply ! Report Abuse Like 0

- 
  James Hickman
  , Contributor
  Comments (235) | + Follow | Send Message

  Author's reply » Another good point, bixbubba. In our original report, we cite the case precedent on invoking "takings" clause. In Minneapolis, taxi permit owners pressed this argument in the courts and were rejected (and permits went from $150K to the price of permits), but like Chicago, they issued permits at a nominal price. In NYC, by contrast, auctions have taken advantage of secondary market prices, making the takings question potentially more interesting there, which could mitigate TAXI's exposure (as we clearly point out in our report).

  In 2012, when New York City was in the process of approving 2,000 additional medallions and 18,000 HAIL licenses, medallion owners filed a lawsuit alleging that such licenses "would so diminish the value of current medallions as to constitute a 'taking'." The Court found, "This argument is unavailing, for overlapping procedural and substantive reasons."

  10 Jan, 05:17 AM Reply ! Report Abuse Like 0

- 
  Larry Meyers
  , Contributor
  Comments (1006) | + Follow | Send Message

  The takings argument is irrelevant to Medallion Financial.

  The ONLY questions are whether owners continue to make payments on loans from the company. They are. There is zero evidence that cash flow has been materially impacted and even if it were, medallion owners would continue to make payments, as I discussed in my original article.

James, you have made several assertions in your article that have no data or evidence to support them. Please address.

10 Jan, 12:48 PMReply! Report AbuseLike0

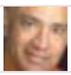
- dbt01

  Comments (592)| + Follow| Send Message

  Re UBER pay vs TAXI pay; I would guess all the UBER pay, including tips is tracked electronically via the app. Hence a higher UBER estimated pay scale. Taxi's are usually paid in cash including the tip in cash. The metered fair gets reported but who is to say they report all the tips as income?

  You have to think real world my friend. You are simply not doing that

  9 Jan, 01:29 PMReply! Report AbuseLike0

- 

  Roger 007

  Comments (12)| + Follow| Send Message

  I thought that you were not allowed to tip the UBER drivers. Am I mistaken?

  9 Jan, 07:02 PMReply! Report AbuseLike0

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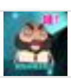
  bixbubba

  Comments (254)| + Follow| Send Message

  First off: tips are "included" in the fare, whatever that means, so there is a "tip" being tracked by the app. Second, extra cash tips are not forbidden, but they are said not be required. Third: in some cities, they are de facto required. In SF now, it is said you need to "tip five to get five". In other words, you wont get a five star rating unless you tip a fin. If your rating isnt high, you wont get a car when its busy.

  9 Jan, 07:08 PMReply! Report AbuseLike0

- 

  Keubiko

  , Contributor

  Comments (1976)| + Follow| Send Message

  Interesting article. It's hard to disagree with what you have written.

  The key here, in my view, is that Uber / Lyft etc has taken off so fast and regulators, being slow moving regulators, are just starting to get their heads around it.

  It will be fascinating to see how it plays out. Some cities may choose to drop the hammer, others may welcome it. NYC and to a lesser extent Chicago are special markets so what happens in those cities could make or break Medallion.

Given the economic disadvantage of taxi owner/operators the question may come down to whether or not a city like NYC wants a regulated taxi market, or not. If the former they would have to take steps to ensure the industry is somewhat viable.

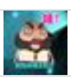
I could see a scenario where we still have a regulated taxi business in a market like NYC but the cost of medallions has to drop so much that they are not terribly valuable.

All things being equal, a driver (uber or taxi) that is permitted to take street hails should earn some amount more than one that is not - so a medallion in such as scenario could have some value, but not a ton. In other words it may be that medallions are not obsolete, just their value may go down a lot (e.g. to $100K??).

I originally had a look at TAXI as a potential contrarian long - I though Medallion Bank might be a hidden asset but it looks like their financial services business (including the bank) are predominantly in the taxi market. I haven't done a deep dive but it seems they are providing financing and funding to taxi companies, possibly (likely?) the same ones that are leasing the medallions from them. A bit like vendor financing - reminds me of Nortel in the late 90s loaning money to startup telcos to buy their gear.

But I haven't done a deep dive. On the sidelines for now.

9 Jan, 01:43 PMReply! Report AbuseLike0

- 
  Keubiko
  , Contributor
  Comments (1976)| + Follow| Send Message

  >>So sad that SA pays for negative articles to those who have short positions.<<

  Yes, I'm sure the 1 cent per click will make the author quite wealthy. Maybe he can go to the movies by himself.

  They pay for positive articles to those who have long positions as well, so why not get cracking and earn $10 or $20 yourself?

  9 Jan, 02:12 PMReply! Report AbuseLike9

- 
  bixbubba
  Comments (254)| + Follow| Send Message

  Uber, etc. are still an open experiment. In the short run, its going to be hard for regulators to shut them down, because the public doesn't understand the purpose of medallions. Sometimes lessons have to be re-learned, and history has to repeat itself. If you dont regulate an industry that has virtually zero barriers to entry for individual wage seekers, then you drive prices down to the bare minimum, and you will eventually get what you pay for: inadequately insured, inadequately trained, and inadequately safe transport. I could be wrong, but this seems inevitable to me. Whether this lesson will be learned in time to save TAXI's balance sheet: I have no idea. But if I could short Uber's allegedly $40B valuation, I think I would.

9 Jan, 02:35 PM Reply ! Report Abuse Like 6

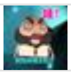
- 

  Larry Meyers
  , Contributor
  Comments (1006) | + Follow | Send Message

  Could not have stated it better.

  There's a reason the Haas Act was passed.

  9 Jan, 02:45 PM Reply ! Report Abuse Like 1

- 

  Keubiko
  , Contributor
  Comments (1976) | + Follow | Send Message

  Great points bixbubba.

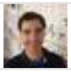
  9 Jan, 02:59 PM Reply ! Report Abuse Like 1

- 

  James Hickman
  , Contributor
  Comments (235) | + Follow | Send Message

  Author's reply » Thoughtful comment. I would short Uber too! Couple of things, more regulation is coming for ride sharing. Mass puts new regulations into practice Jan 16, Chicago has also opted for regulation, but it seems pretty anemic. Uber and Lyft are happy about both. Regulation means acceptance, not elimination, and generally does not involve much more cost. That is a huge problem for existing taxis that still bear the costs associated with the high medallion prices - high medallion leasing fees, and high interest expense on financed medallions. The new competition does not bear those costs and also benefits from sharing economics (only part of vehicle expenses applies directly to commerce). Fares get competed down and higher cost taxis go cash flow negative first. This pressures medallion lease fees (already down in NYC and Chicago), and at some point debt service on financed medallions. The ability to refi lower priced medallions disappears when equity is negative. So, taxi drivers are forced to walk from medallions, eventually, but can continue driving their cars for ride sharing company. This process is why Medallion Financial's balance sheet, as you correctly point out, is at risk, but earnings too (we will post shortly on that subject). Price elasticity of demand for taxis is quite high, but Uber ramped up its revenue very fast in NYC when its price was higher than taxis (granted, much of early revenue from black cars), showing the buy decision relates to other factors (like cleanliness of vehicle, convenience of hire, certainty of ride and customer rating of driver and car). Free markets generally yield better products and services than markets heavily protected by regulation. I hope you're wrong about the quality of the product in the end. I also think the electronic, real time, GPS record and cashless nature of transactions in ride sharing proves a structural safety enforcer - for riders and drivers (one of most dangerous professions in the country). Thanks for the thoughtful comment.

9 Jan, 07:28 PMReply! Report AbuseLike0

- 
  kitstricker
  Comments (93)| + Follow| Send Message

  "If you don't regulate an industry that has virtually zero barriers to entry for individual wage seekers, then you drive prices down to the bare minimum"

  Great comment.

  This is exactly what happens when society over-fishes or hunts a species to extinction.

  "inadequately insured, inadequately trained, and inadequately safe transport"

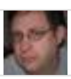
  Not in complete agreement here, brands count..Quality will drive someone to choose say lyft over uber. The winner here will do it by providing the best overall (and safe) experience. Quality can be enforced because the drivers need the app.

  9 Jan, 10:37 PMReply! Report AbuseLike0

- 
  Larry Meyers
  , Contributor
  Comments (1034)| + Follow| Send Message

  None of which has ANY impact on Medallion Financial. The only issue is whether loans will continue to perform. They will because taxi driver cash flow will not change by any material amount.

  9 Jan, 10:56 PMReply! Report AbuseLike0

- 
  Larry Meyers
  , Contributor
  Comments (1034)| + Follow| Send Message

  Readers should pay CLOSE attention to what this article claims, and then how those claims get supported (they don’t).

  What I see is a short seller who fails to make his case (again).

  As a reminder, in your original article, you indicated that taxi drivers would leave medallion fleets to drive for ride-share.

  That assertion was debunked by my article: http://seekingalpha.co...

The author has backed off that entire thesis. It is telling that instead of directly challenging my assertions, he concocts an entirely new theory which – and this is critical – SPEAKS NOTHING TO THE VALUE OF MEDALLION FINANCIAL.

The new thesis is that 1) so much supply will come from Average Joe Drivers (AJDs), that they will take away so much revenue from taxi drivers that owners will not be able to make their payments, and 2) There is a "substantial cost advantage" to ride share drivers.

In both cases, the author offers statements with no data whatsoever to back these assertions.

ν "Ride-share drivers set their own shifts". So what? How does that impact taxi revenue?

ν Ride share has "State of the art technology"! So what? That is no match for a street hail. Hand up, in cab.

Unsupported Claim: "During peak periods, medallion lessors are at a greater revenue disadvantage due to surge pricing. "

Based on what data? None.

There is no evidence that taxi income declines during surge periods. If anything, surge pricing occurs BECAUSE TAXI USAGE IS MAXIMIZED, requiring rideshare to fill the gap. Leasing companies are thus very happy. The "revenue disadvantage", if one exists, is irrelevant.

Unsupported Claim #2 "Drivers seeking to maximize their income can, and usually do, drive during the two rush-hour peak periods".

Based on what data? None.

Unsupported Claim #3: "Many ride share drivers drive to supplement their income by earning returns on the sunk cost of a vehicle used personally."

Based on what data? None.

Unsupported Claim #4: Owner-drivers have to pay for insurance, but you claim the insurance cost for Uber drivers "is a wash".

Based on what data? None.

In fact, Uber drivers lie to their carriers. Those that don't are beholden to Uber's shady arrangement with its subsidiary, and an offshore insurance company. How long before an Uber driver kills someone and – oops – turns out Uber's insurance wont' cover them?

Unsupported Claim #5: "Eliminating lease fees is an advantage to the Uber driver. "

You have no data to support a claim that Uber drivers, particularly in NYC where this matters most, are using cars they already have.

-- You claim interest payments are substantial for owner-drivers. First, you fail to define "Substantial". That's a vague description that means nothing without context. Second, interest payments are an investment in an appreciating asset.

-- You also artificially inflate the cost of a medallion interest payment by referring to a higher LTV than Medallion Financial offers, which is the point of your article. MEDALLION ONLY CARES ABOUT ITS LOANS.

Unsupported claim #6: "Few vehicles are newly purchased or leased for the sole purpose of generating ride sharing income."

Based on what data? None.

-- You neglect the cost of maintenance for the rideshare driver. Even if they own their car, they are still running it into the ground earlier than they otherwise would driving for Uber.

Not only does that result in significantly higher maintenance costs (not borne by lessors), but there is also more rapid depreciation on the vehicle.

CONCLUSION: There is NOT a "substantial cost advantage" to ride share drivers. You've offered statements with no data whatsoever to back these assertions. From this, you leap to the broad, unsupported conclusion that "There is no economic factor favoring taxicabs versus ride sharing."

There are, all of which were discussed in my article, most of which you failed to challenge.

The greatest economic factor is the ownership of an appreciating asset.

Regarding other assertions:

1) I do not "claim" to have spoken to a fleet manager. I did speak to two of them. You have only offered anonymous "sources", which you rightly point out, casts their assertions in doubt.

2) The BLS data is faulty. First, it does NOT include self-employed workers, which is what all owner-drivers are, and what most lessors are. So it omits a massive portion of the workforce. It also doesn't include tips.

Thus, the best reliance we have is on actual fleet managers. I'll go with what the people who have actually worked the cab business for 30 years say, over "anonymous sources" and faulty government data.

3) You say "most credible estimates" regarding taxi driver income, yet you only link to a single magazine article that doesn't source its data, either. Most assertions without data to support it.

4) As for Uber estimates, you link to the same Felix Salmon article I do. At best, Uber drivers earn $24.83 per hour? Nope. That was ONE driver in the article working only

21.8 hours per week. In fact, Salmon concluded Uber drivers only make $20,000 per year. OH, and that’s before costs.

I could go on and on, and I will, with another article next week.

But for now, readers should pay CLOSE attention to what this article claims, and then how those claims get supported (they don’t). What I see is a short seller who fails to make his case (again).

9 Jan, 02:41 PMReply! Report AbuseLike4

- 
  James Hickman
  , Contributor
  Comments (240)| + Follow| Send Message

  Author’s reply » I'm not being paid. This is not a SA PRO article.

  9 Jan, 03:00 PMReply! Report AbuseLike0

- 
  Larry Meyers
  , Contributor
  Comments (1034)| + Follow| Send Message

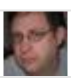
  James, you've made a ton of assertions in your article with NO data to support them. Comment?

  9 Jan, 03:03 PMReply! Report AbuseLike2

- 
  dbt01
  Comments (592)| + Follow| Send Message

  he said he talked to a guy. Isn't that enough?

  9 Jan, 03:30 PMReply! Report AbuseLike6

- 
  Larry Meyers
  , Contributor
  Comments (1034)| + Follow| Send Message

  James, you've made a ton of assertions in your article with NO data to support them. Commentary?

  9 Jan, 03:33 PMReply! Report AbuseLike0

-
  kata
  Comments (670)| + Follow| Send Message

  Can you tell me why anyone actually needs Uber? I call a cab and by the time I get to the curb, its there waiting. I use my cell phone to do it. Its less expensive than Uber and licensed and by now, I know a lot of the drivers. Its a private car service right here in my neighborhood in NYC.

I could just hail a yellow cab but I want to be sure a car is available when I want it and I don't have to have to wait if the weather is bad or when shifts are changing. Uber looks interesting if you live somewhere that has no cab service but really, NYC?

9 Jan, 03:46 PMReply! Report AbuseLike2

- 
  Larry Meyers
  , Contributor
  Comments (1034)| + Follow| Send Message

This doesn't make sense, either, James.

"At the end of the day, NYC politicians have to weigh the political and practical consequences of telling New Yorkers that the new ride sharing choices they have been rapidly embracing are not good for them and the old monopoly system must be restored."

No, they don't. People are free to choose rideshare or a taxi. There's no need to eliminate taxi medallions in order for rideshare to be utilized.

Furthermore, you dismiss revenue generation for the city as a "flaccid argument", but you fail to say why or support the statement.

Nobody is going to be permitted to mess with city revenue. Politicians won't permit it. They will do whatever it takes to maintain those medallion values, short of banning Uber...which they might do anyway, as other cities have done.

You present ZERO evidence that any public policy initiative threatens medallions. LIke the rest of your thesis, it's all speculation with zero data.

9 Jan, 09:05 PMReply! Report AbuseLike0

-
  reed89
  Comments (4)| + Follow| Send Message

Why not give the Murstein's a call and ask about the status or health of the company? Oh yes, someone did and they were quoted in the article as saying they can't understand why the stock price is down as the company is doing very well indeed. The loans on medallions currently out still bring in what they did when the loan originated. New ones will sell for less but they are not bothered by that. It is currently less of their business than other things. Oh, and my own small opinion is that people will never stop hailing cabs in NYC. It is part of the atmosphere of the place and not everyone is into apps.

10 Jan, 01:06 AMReply! Report AbuseLike0

- 
  Larry Meyers
  , Contributor
  Comments (1034)| + Follow| Send Message

  If you insist on using logic to undermine the short selling nonsense then...oh, well, that's exactly what you should be doing.

  10 Jan, 01:47 AMReply! Report AbuseLike0

- 
  Larry Meyers
  , Contributor
  Comments (1034)| + Follow| Send Message

  Still no answers from the author --

  Several assertions have NO data to support them.

  10 Jan, 06:48 PMReply! Report AbuseLike1

- Bc127654
  Comments (30)| + Follow| Send Message

  Which guys?

  10 Jan, 10:02 PMReply! Report AbuseLike0

- Bc127654
  Comments (30)| + Follow| Send Message

  You are correct. Also medallions are still way above loan values correct?

  10 Jan, 10:05 PMReply! Report AbuseLike0

- 
  Larry Meyers
  , Contributor
  Comments (1034)| + Follow| Send Message

  Far, far above.

  11 Jan, 02:25 AMReply! Report AbuseLike0

- Bc127654
  Comments (30)| + Follow| Send Message

  Larry, you seem reasonable and unbiased. Do these medallion owners personally guarantee the loan, like a mortgage? Even if medallion values drop by 60% to where

TAXI is upside down on it's loan book, I still can't see wholesale "walking away" from loans. These people are still earning money and likely value a credit score. I'm in TAXI for between 11 and 12 and at this point feel pretty good sitting on a company with a 10+% earnings yield. Companies have to stop making a lot of money before they face "financial ruin."

11 Jan, 08:29 AMReply! Report AbuseLike0

- 

  Larry Meyers
  , Contributor
  Comments (1034)| + Follow| Send Message

  Yes, they personally guarantee the loans. And you are correct, for all the reasons I've stated in my earlier article, there is no walking away from any medallion loan, no matter how good or bad business may be.

  James Hickman vastly overstates the case regarding rideshare threat. I debunked his original thesis and I find this article to be filled with assertions that have no evidence or data to support them.

  I have an article that will appear tomorrow that points out why everything he says in this article is also wrong.

  11 Jan, 09:16 PMReply! Report AbuseLike0

- User14783102
  Comments (45)| + Follow| Send Message

  In the NYT articles, New York City Taxi Medallion Prices Keep Falling, Now Down About 25 Percent, the source, Mohammad Kamran, a taxi broker, makes a very interesting statement.

  “I have offers from people who want to sell their medallions for one-sixty, one-fifty, but there is no lending.”

  Initially, I focused on the price part of that, but the lack of lending is almost more important. It suggests that lenders are unwilling to extend credit. That seems eerily similar to how at the end of a real estate bubble, credit markets freeze. Clearly, Medallion financial recognized this with their shift towards consumer loans. It is unclear if they actually began to decrease the medallion portfolio.

  User Bc127654 writes that "Companies have to stop making a lot of money before they face "financial ruin," but this is not true for a finance company or bank with a leveraged balance sheet. If their creditors or regulators declare them in default due to asset write downs on the balance sheet, they are finished. If you are investing in TAXI, your only investment thesis must be that the balance sheet can sustain the decline in medallion prices. This is a yes or no issue and the result is the company bouncing back to 13-16$ per share or down to 1$ pending restructuring.

11 Jan, 10:14 AM Reply ! Report Abuse Like 2

- dbt01

  Comments (592) | + Follow | Send Message

  How you can make such absurd statements when the taxi business is only 20% of their profits is obscene.

  11 Jan, 08:31 PM Reply ! Report Abuse Like 0

- paradox1

  Comments (7) | + Follow | Send Message

  Uber has cut fares in 48 cities in response to slow seasonal demand. For an Uber driver view of the world you might check out the blog by therideshareguy.com.

  See especially the comment stream and draw your own conclusions.

  Small long pos. in TAXI.

  12 Jan, 12:38 AM Reply ! Report Abuse Like 0

- 

  Larry Meyers

  , Contributor

  Comments (1034) | + Follow | Send Message

  James, you appear to have no comment regarding the TLC's data showing a mere 2.3% decline in average daily farebox for 2014.

  http://exm.nr/1vhGHzL

  This would appear to destroy your thesis that "unconstrained new supply" would destroy the company.

  What is your reaction to this data?

  Also, we've been arguing for some time over just how much cab drivers make in NYC. Now we know that it is almost $200,000, which represents ten times what the average driver's debt service is.

  What is your reaction to this data?

  10 Feb, 06:04 PM Reply ! Report Abuse Like 0

- 

  James Hickman

  , Contributor

  Comments (240) | + Follow | Send Message

Author’s reply » Sorry for the tardy reply, Larry, had a busy day.

From TAXI's well-remunerated investment banker, no less, that shows aggregate taxi revenue "down 7.6%" in NYC from the peak reached in spring of 2013, and clearly still trending downward as of November 2014, and DECLARE VICTORY!

Moreover, the 7.6% is based on a moving 5-month average, which means the first month in the most recent 5-month average was July 2014, the first month of uberX's 20% price reduction, to below taxi prices. It was at that same time that one of the largest fleet management garages, and surely others, started "losing money because of idle shifts."

The impact of Uber in terms of stealing drivers began earlier in 2014, but the more dramatic impact of taking trips from taxis in non-peak hours owing to cheaper prices only began in July, and has accelerated since. Hence, the 5-month moving average understates the going-forward ride share market share run rate which we have estimated is at least in double digits, recently reinforced by 1) the public comments of the president of the Committee for Taxi Safety, David Beier ("a fifth of ... cars off the road"), 2) NYC's largest medallion owner, Gene Friedman's acknowledgment that medallion lease fees have been dropped below TLC caps for the first time in years owing to the driver shortage, 3) the 30% drop in medallion prices and, of course 4) the seven NYC medallion foreclosures since September.

Citing this latest TLC taxi data as grounds for being comforted by the NYC medallion market's capacity to absorb the exploding new supply of ride share vehicles is the equivalent of saying "great news, we're only down 7 runs in the first inning!"

Why would one cite aggregate revenue data - not adjusted to a per medallion basis which is the only relevant statistic - and only show full year 2014 versus full year 2013 when TAXI's own investment bank analyst himself showed the accelerating trend of declining taxi revenue per medallion? Understating TAXI's debt by 4X, understating TAXI's medallion loan portfolio by 2X and understating TAXI's medallion-based earning exposure by 5X.

Ride share has taken taxi revenue per medallion down almost 8% through November 2014 according to Sandler O'Neill, and that number is well into double digits when recalibrated on a per medallion basis AND adjusted for the most recent months rather than weighted down by including the first months of uberX becoming cheaper than taxis. The trend is accelerating.

The TLC data is an unambiguous affirmation of ride share's material and continuing impact, at this early stage in NYC. Proceed at your own peril with the approach of "nothing to see here, all is well and I love my 10% yield"

And finally, Mr Meyers:

"I have repeatedly stated that no matter how bad business is, owner-drivers will not walk away from their loans."

Yes, he has stated that repeatedly, despite the economic illiteracy it belies (negative cash flow and negative equity COMPEL default, it's not a choice) and the fact that the assertion has already been proven false by the seven NYC medallion defaults and foreclosures that have already occurred.

10 Feb, 07:22 PMReply! Report AbuseLike0

- 

  Larry Meyers

  , Contributor

  Comments (1034)| + Follow| Send Message

As expected, your rebuttal fails to address the salient points.

You spin the data into five month averages, in an attempt to dodge the facts that destroy your thesis.

Revenue was down 2.3% in 2014 despite "unconstrained new supply", a YOY improvement from the year before.

You continue to make claims regarding "idle shifts" yet have failed to present a *single quoted source* or *name a single fleet company* that has "15-20% idle shifts and 50% defection to rideshare".

A 2.3% decline in revenue is hardly evidence of such claims being accurate.

There is ZERO evidence of rideshare causing any material disruption. You repeatedly quote David Beier, who was running for office and would say anything to get the taxi union endorsement. You repeatedly quote Freidman, who owes back taxes to the city and would cry poor to get out of his pickle.

These are the best examples of your thesis playing out?

Your claim of adjusted double-digit declines has nothing behind it. Where are the numbers? The data? The calculations? The sourcing? Shouting something from the rooftops to gin up a crowd isn't proof of much.

You don't seem to want to understand that no matter how bad business gets, a driver will not walk away. There is no scenario under which negative cash flow exists, except in a short seller's fantasy.

Again I point to the 2.3% decline despite exponential growth in rideshare.

You want to talk per medallion basis?

Signature Bank. Zero losses.

Medallion Financial. Zero losses.

7 NYC foreclosures. Prove that these were the result of rideshare.

If these arguments are truly the best you can offer to support your short thesis, any objective analysis would advise that you are dead wrong.

I look forward to collecting my dividend from you this week.

10 Feb, 08:29 PMReply! Report AbuseLike0

- 

James Hickman

, Contributor

Comments (240)| + Follow| Send Message

Author's reply » Larry,

The Sandler O'Neill (SO) analyst calculated the 5-month moving average, not me, and he did so, appropriately, because of the seasonality/volatility month to month. Looking at annual totals mutes the trend and magnitude of what is happening - the impact accelerated post July after the uber price cut to below taxi price point. SO is a bigger BULL than you, why would you say I am "spinning?" "Down 7.6% from peak in spring 2013" is a direct quote from the SO report, from which you based your entire article.

Uber was growing fast during 2013 and early 2014, but most of that business came from blacks and gypies - because of the similar price point. Once UberX price cut, ride share had it all on taxis. Garage GMs won't go on the record, and anyone who has called them knows that to be true. Friedman is bombastic, likes his celebrity and basically doesn't care what TLC says or does. He hates them. He speaks his mind. If you go down the list I provided and call, you will get the same answers "15%" on the low end, "20%" on the high end for idle shifts.

You accused me of making up data when I said NY meter revenue was "down 13%" for the two weeks in November v same two weeks a year earlier. The TLC data PROVES that anonymous source was accurate. Down "7.6%" for the five months ending November 2014 v same five month in spring 2013 - take the last month only and it is easy to see that 13% was in the right ball park. These are TLC numbers, per SO, your new favorite analyst. It is worse now in Feb 2015.

Anyone can google ride-share and find countless articles quoting industry insiders citing ride-share as the primary culprit in the pain in taxi markets. Any fleet-management garage will corroborate. Why do you insist otherwise? It exposes you as either dishonest or completely blind to the conspicuous facts that aren't even in dispute, except according to you.

"2.3%" decline is aggregate revenue does not adjust for the new medallions that we know were issued in November, Feb and March. Again, Sandler O'Neill says 5% decline per medallion for total 2014 v total 2013, and clearly all that decline happened from July onward, with the trend showing no sign of leveling. Either you don't understand that 2.3% is the wrong number to use, or you deliberately use it to try to downplay the magnitude of the impact.

You'll get your dividend this quarter and maybe next, until it is cut when you will decry "no one saw it coming."

10 Feb, 09:29 PM Reply ! Report Abuse Like 0

- 

  Larry Meyers

  , Contributor

  Comments (1034) | + Follow | Send Message

  James, again, you can spin the data any way you see fit. The facts remain the same. UberX drivers increased fourfold to 16,000, to the point where they now outnumber yellow cabs, and yet aggregate revenue was down only 2.3%.

  Even using the 5 month moving average, total revenue is down 7.6% from the peak in spring of 2013 to the end of 2014...the period where rideshare growth showed exponential growth even beyond 4x. If after all that a 7.6% total, and 4.1% YOY, and 2.3% aggregate, is the total impact, your thesis still blows up.

  That kind of decline doesn't impact cash flow in any meaningful way. So what's going to happen next? Another 4x increase to 64K UberX drivers? I think not. At this point, they are cannibalizing each other.

  And all this speaks to the aggregate, not even to the specifics of the company, which underwrites conservatively and has zero losses.

  A medallion owner with $200,000 in gross annual average earnings is going to work that medallion as many hours as he needs to, and has 10-12x gross necessary to meet debt service.

  You want me to go down your list and call? Fine. I will. PM me the numbers and I'll be the first to admit if they confirm it, because that's not even close to the fleets I speak to.