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The Downside For Medallion Financial Only Just Beginning

Dec. 19, 2014 5:30 AM ET | 110 comments | About: Medallion Financial (TAXI)

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

Summary

- Expect dividend and share repo cuts, and near-term write-downs eventually accelerating into write-offs in excess of shareholders' equity.
- Price premiums of secondary market medallions over permit issuance cost have dropped to near zero in other markets and same result expected in all markets where supply caps eliminated.
- Cities and states overwhelmingly opting for freer taxicab markets/accepting ride sharing and courts rejecting "takings" argument.
- LTV of 40% for medallion loans provides false downside comfort when any excess collateral value above par currently is meaningless if medallion values go to zero.
- Near term write-down of ~$0.62/share expected to reflect current market Chicago medallions.

James F. Hickman - December 18, 2014 (For comments or questions, please email *info@hvmcapital.com*

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Executive Summary

Medallion markets are absorbing the sudden incursion of unconstrained vehicle-for-hire capacity that is lower-priced, higher-quality and offers better customer service. Cities and states across the

US have overwhelmingly opted for acceptance and regulation rather than elimination, and courts have rejected invocation of "takings"/eminent domain arguments for medallion/license[1] owner compensation after medallion values collapsed. If a ride sharing vehicle can earn as much or more than any medallion-bearing taxi, why would any buyer pay more than the minimal startup cost of new ride sharing vehicles-for-hire? They would not, and did not in Minneapolis, Milwaukee and San Diego. Medallions became superfluous and valueless - the end game in all markets - no longer conferring exclusive access to vehicle-for-hire markets. We suspect even "hail" markets, already losing share, will eventually succumb to ride sharing intrusion in some form.

Medallion Financial Corporation (NASDAQ:TAXI) has $689 million of managed loans collateralized by taxicab medallions (53% of total managed loans), and owns 150 Chicago medallions valued at $49 million but worth only $33 million at current medallion prices ($0.62/share write-down required imminently). Medallion Financial has a wholly owned, off-balance-sheet, FDIC-insured bank subsidiary, Medallion Bank, carrying $386 million of the $689 million managed loan portfolio, and the write-down exposure for the parent equals the book carrying value of the Bank, $128 million. The Bank has $147 million of equity, meaning it too is at risk of substantial bank equity deficit. In summary, $480 million of Medallion Financial assets ($303 million parent held medallion loans, $128 million investment in Medallion Bank and $49 million in owned medallions) are at risk of near-100% write-down if medallion prices go to zero, as we expect. The 40% loan-to-value for medallion loans reported in the September 2014 10Q at the parent level (Bank's LTV is not disclosed) is meaningless if medallion values go to zero.

The Company's headline dividend is not and has not been covered by earnings for almost three years, with 40% of $54 million in total dividends paid out since the end of 2011 representing asset liquidation and transfer of proceeds to shareholders. The Company has been engaged in share repurchases during the same period, including more aggressive buying in recent weeks to "support" the share price (e.g., 39% of daily volume on December 16). The headline appeal of a high dividend yield and share repurchases masks the unsustainable nature of the Company's payout and capital allocation policies. Paying out more than the cash generated by the operations of the Company is both unsustainable and starves the Company of vital growth capital, an assertion proven, in this case, by the need for two secondary equity offerings totaling $85 million and costing $5.3 million during the same three-year period, in an inexplicable and inefficient re-shuffling of shareholder capital.

Company efforts to diversify the portfolio, virtually irrelevant in the context of a medallion value collapse to zero as explained above, have increased exposure to "consumer loans" by 35% in the last twelve months to $482 million on Medallion Bank's books. This loan segment yielded 14.9% as of September 2014, suggesting the Bank is lending into the highest risk segment, hard loans, of consumer borrowing. Medallion Bank's consumer loans are secured by "recreational vehicles, boats and household improvements." Increased exposure to this segment is being undertaken while households are deleveraging and real wages are stagnant at 1996 levels. This segment is certainly more risky than medallion loans historically, and it is little comfort that the high level of credit risk taken on in hard lending is actually the relatively safer loan portfolio for Medallion Financial.

The Company has excessive concentration risk in a segment, medallion loans, undergoing secular transformation that we believe will end with medallions being worthless. The process is well underway. Over time, Medallion Financial will have to start raising its LTV ratio, writing down assets and cutting the dividend, and this process will accelerate into operating earnings declines and massive write-downs. Even if the Company does a strategic about face and tries to reduce medallion exposure - it has continued to acquire medallion loan portfolios as recently as July 2014 - we don't see how the Company escapes a traumatic financial reckoning.

Note from the Authors

Two years ago, it became apparent that the disparate group of medallion owners within regional markets, never mind nationally, lacked both understanding of the existential nature of the threat posed by ride sharing and the financial commitment to collectively confront it. It became abundantly clear that Uber, Lyft and others were going to enter medallion markets largely unchecked. We believed the impact would be catastrophic to the economics of medallion ownership in terms of day-to-day operations of taxicabs and medallion values. It took until late-2013 and into 2014 for the market share gains of the smartphone-based ride sharing companies to reach critical mass and the financial devastation to begin. The free-fall has commenced.

It was one thing for recent immigrants with their life savings tied up in a single medallion and driving 12-hour daily shifts not to grasp the oncoming competitive threat. But we could not understand how a well-regarded public company with more than its entire book value directly tied to the medallion market could stridently dismiss the threat, in words and strategic actions, as little more than a trivial, over-hyped fad. Medallion Financial has left itself and its shareholders exposed to an economic reckoning rarely observed in free-market economies - the collapse of an asset class propped up by decades of government-sponsored, monopolistic entry barriers with the sudden, unconstrained introduction of new supply. This company is bearing excessive concentration risk in an asset class flashing red with 53% of its entire managed loan portfolio exposed to medallion loans, and another 36% exposed to increasingly risky consumer loans. To be sure, the market has begun to discount more risk in the Company's share price as evidenced by a ~35%+ decline from peak (including dividends), but the magnitude of the problem is far from fairly reflected in the share price.

The Company cited ride sharing as a potential risk to medallion values for the first time in its second quarter 2014 10Q - on page 63 of the 67 page document, but later public comments by the Company President suggested he remained bewildered by declines in Medallion Financial's share price. He will have some explaining to do if, as we expect, the Company is soon forced to write down owned medallions and cut the dividend. We believe earnings and cash flow will decline and loans will be written down. Reported tangible book value was $10.85 (September 30), a $0.96/share dividend and a 20% share repurchase authorization have been cited by bullish supporters as evidence of share price cheapness and reasons to buy. In 2014, 23% of the distribution was return of capital through nine months, and 40% has been return of capital since 2012. But that's the least of the Company's problems. It is not hyperbole to suggest Medallion Financial's entire book value is at risk in the face of what is happening in the medallion market, and as the magnitude of the threat becomes clearer, investors will be reluctant to reach for the falling knife.

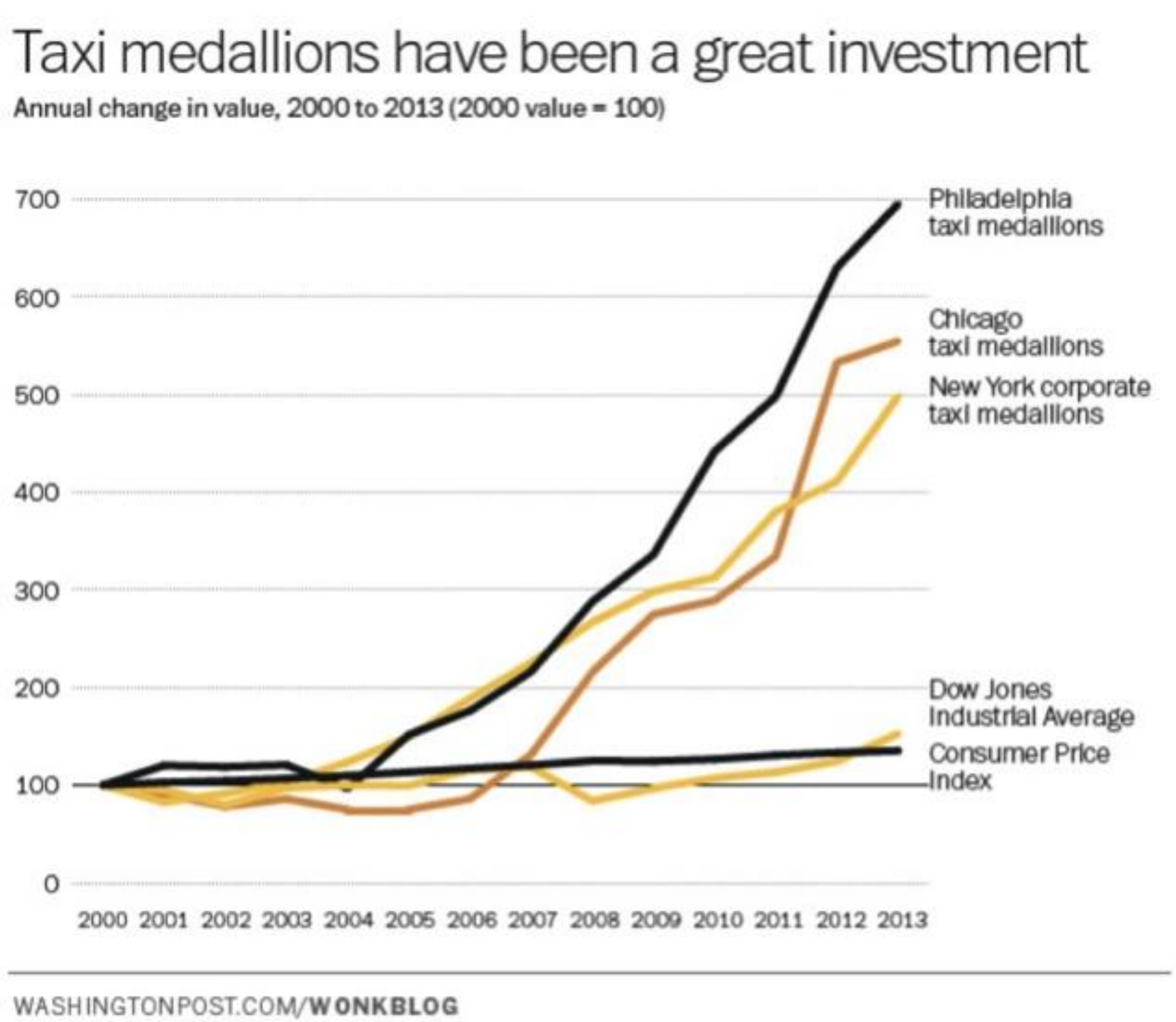
By way of example, imagine if city government capped building licenses issued at a level consistently below the number of building jobs out for bid at any given time - exactly analogous to the taxicab industry. All *licensed* contractors would get rich based purely on possession of a scarce building license. Possession of the license alone is the source of the wealth, as evidenced by high-and-steadily-rising prices of taxicab medallions in the secondary markets. If licenses were issued to anyone qualified to build, wealth would be disbursed across that larger population of builders and above-average wealth generation would be a function of superior overall value provided by the builder himself as determined by customers. The license would cease to have any value. The taxicab industry is undergoing this precise transition before our very eyes. What investors in companies like Medallion Financial do not yet grasp is that the intrusion of unlimited capacity and effective elimination of caps on the number of de facto taxicabs is not going to just cause a significant correction in the clearing price of medallions. It is going to eliminate the value of medallions altogether. Hence, a 40% loan-to-value reported by Medallion Financial in its Q3 2014 10Q filing, which still has not changed despite 20-30% price corrections observed already in their medallion lending markets, is not an adequate margin of safety against the risks posed. It is, in fact, an irrelevancy when the collateral is eventually going to a value near zero.

Medallion Markets' Halcyon Days are Over - Smartphone-based Ride Sharing Shakeup

Backdrop

Medallion-like permitting systems are a relic of the Great Depression and many circumstances unique to that era. A key element to the policy mindset was to ensure demand for a ride always exceeded supply to minimize the risk of cutthroat competition for fares. For decades since, local authorities in major metropolitan areas like New York (Exhibit 2), Chicago (Exhibit 3), Boston (Exhibit 4), Cambridge (MA), Miami, Philadelphia and San Francisco have constrained taxi supply despite rising populations and evidence of significant unmet need reflected in spiking medallion prices (see Exhibit 1). The regional taxicab medallion markets have been nothing short of local-government-sponsored monopolies. New supply had long been introduced sparingly and fares maintained at profitable levels, at least from the standpoint of a medallion owner. This dynamic has propelled medallion values upward by as much as 1,000% in some markets over the last 30 years. Returns on gold (3.7X),[2] the S&P 500 (~1.5X)[3] and every other liquid asset class have paled in comparison during the same 30-year period ending in 2013. In just the last 10 years, prices have risen almost without interruption in most cities using the medallion model by 3.5 to 7 times (see Exhibit 1), making taxi medallions a very safe asset to own or lend against, during that time.

Exhibit 1 Taxi Medallion Pricing in Various Cities Since 2000



(click to enlarge)

Chicago has more closely aligned medallion issuance with population growth over the decades than other major cities (130% versus 155% since 1930, respectively, in contrast with *0%* and 120% in New York City during the same period). As such, we believe Chicago is likely to see full medallion price depreciation more quickly than New York or Boston, and recent trends seem to be bearing out that hypothesis. Taxicab operating economics are at risk of declining more precipitously in Chicago given the relatively smaller excess market demand for rides - i.e., there is less market capacity to absorb new for-hire vehicle supply without major disruption.

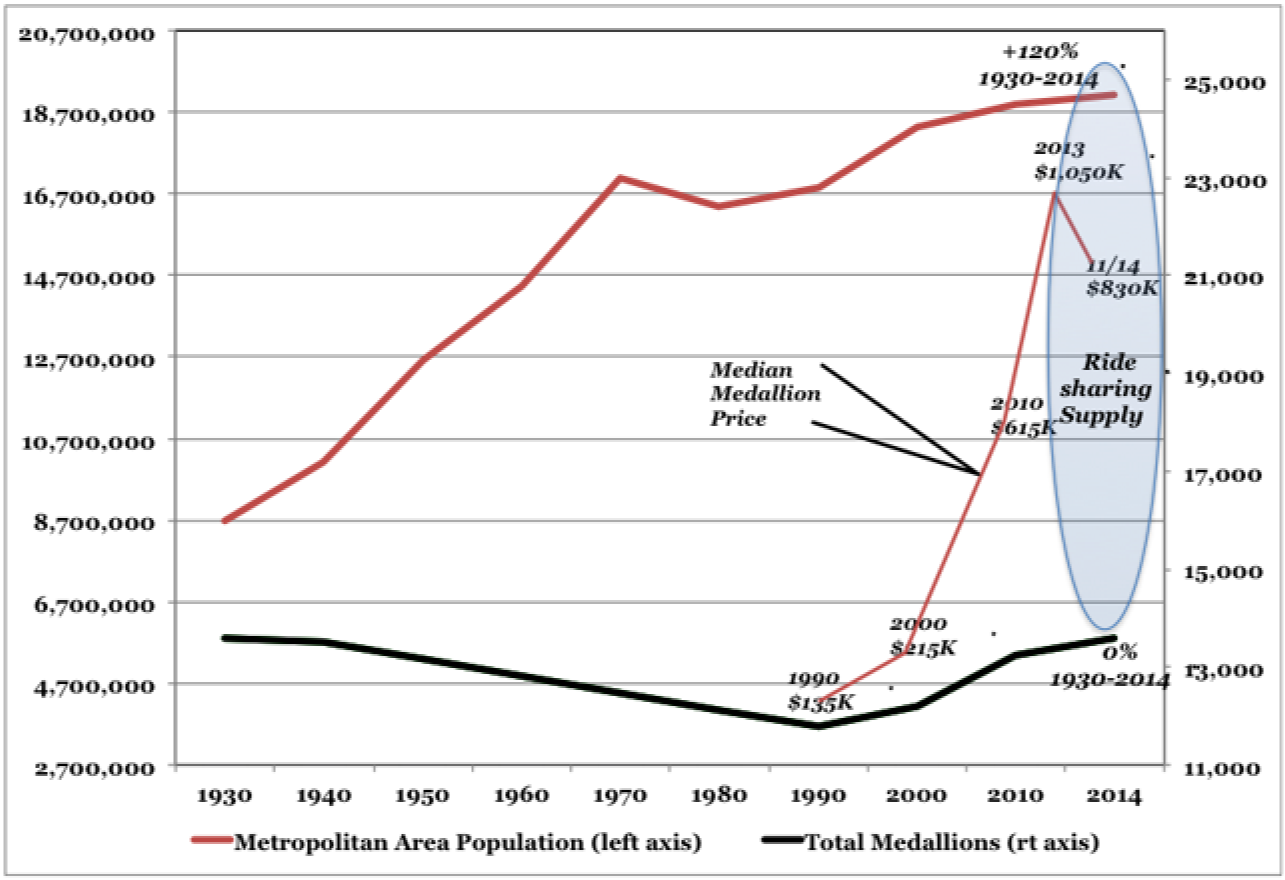


Exhibit 2 History of New York City Medallions versus Metropolitan Population *(click to enlarge)*

Source: Taxi and Limousine Commission, City-data.com, and industry sources.

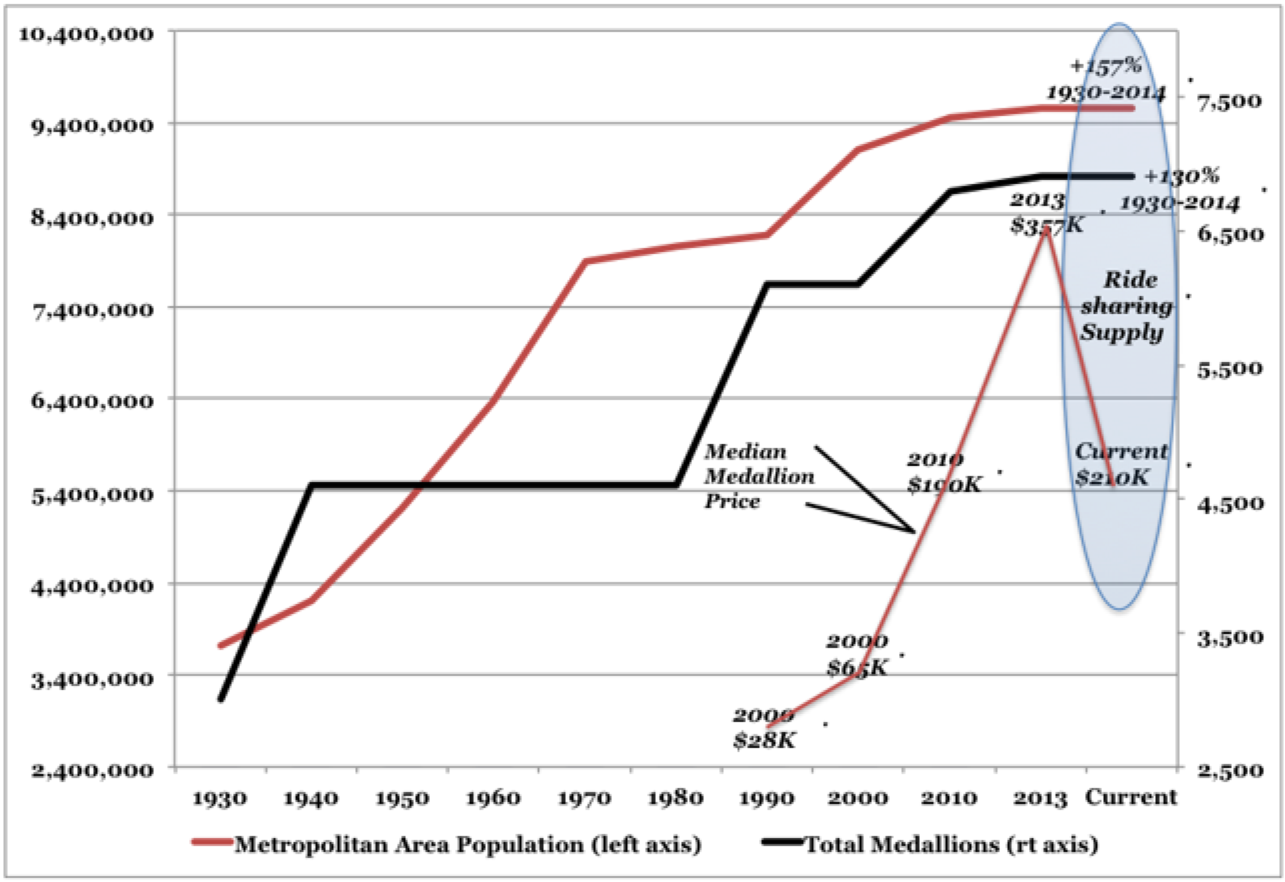


Exhibit 3 History of Chicago Medallions versus Metropolitan Population*(click to enlarge)*

Source: Chicago Dispatcher, City of Chicago Business Affairs & Consumer Protection, index from Venturebeat, and industry sources.

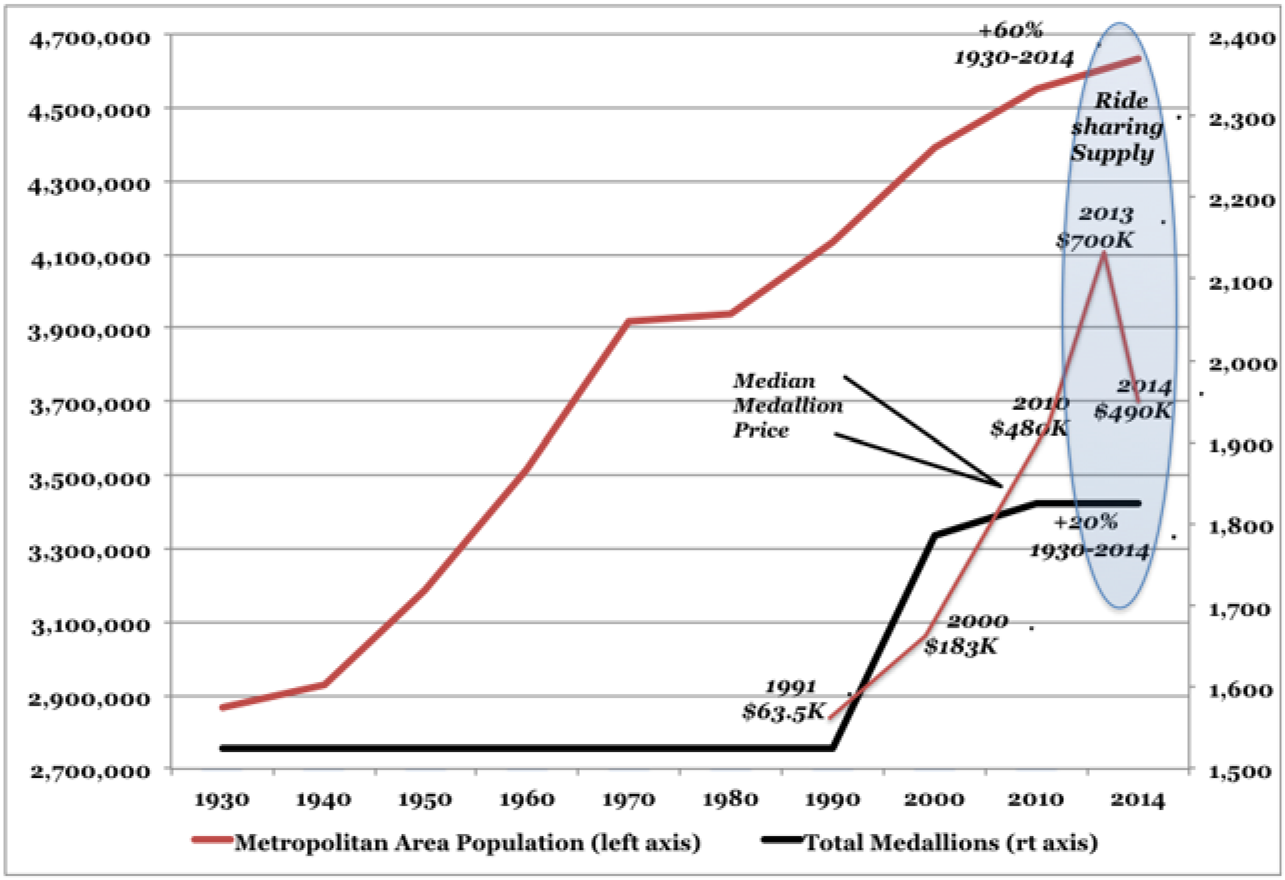


Exhibit 4 History of Boston Medallions versus Metropolitan Population*(click to enlarge)*

Source: Hackney Carriage Unit, Chris Berdick, Boston Magazine, 2004, City-data.com, and industry sources.

Three years ago Uber, Lyft, Sidecar and other so-called smartphone-based ride sharing, transportation network companies turned these government-sponsored monopolistic/oligopolistic markets upside down. For an industry with ironclad, government-backed entry barriers in place for decades, the introduction of unconstrained new supply has proven more than a little disruptive, and the ultimate effects are yet to be fully realized. By mid-2014, values of taxi medallions in all markets, including NY, Chicago, Boston, Newark, Philadelphia and Cambridge started declining at a pace and magnitude rarely seen historically. Price trends have been steadily upward since the collapse of the technology bubble in 2001, including during and after the financial crisis. As market participants grapple with the full implications, the facts on the streets are pointing to the collapse of a historically high-entry-barrier market and the attendant supply scarcity.

In New York City, a medallion investor historically has been able to lease out medallions nearly 24/365 as 50,000 drivers competed for 13,437 total medallions in the city (up only 14% from 11,787 medallions in NY in 1996, and that level was actually *lower* than 1937 owing to natural attrition). As a result, percentage utilization in the mid-to-high-90s has been the historical norm, yielding an estimated average 3% - 7% pre-tax cash-on-market-value return per year on a $1 million medallion, while the underlying value of the medallions, as noted, has risen in double digits without downside volatility for over a decade. Similar economics, albeit on lower medallion prices, have been evident in other medallion-based cities.

Those quaint times are likely gone forever. Uber/uberX, Lyft, Sidecar and others have flooded markets with readily available rides that are not only cheaper than incumbent taxis - sometimes by 20% to 40% - but offer superior customer service, ride-hiring and payment convenience, quality and reliability of vehicles. Taxi drivers are losing riders to the new entrants. A "leaked" Uber investment presentation indicated the company grossed $26 million in NYC during December 2013,[4] and by mid-2014, Uber had intimated publicly that the company's overall annualized growth rate was almost double what it had been at the end of 2013, suggesting Uber probably approaches or exceeds 20% market share in mighty New York, the most protected medallion market in the country. Revenue growth per taxicab in Boston has been +10.5%, +5.1% and -15% in 2012, 2013 and 2014 (through September), respectively. In both Boston and NY, meter revenue was down by an estimated 13-15% by mid-2014 because of fewer trips per shift.[5] Excess taxi driver supply (e.g., 3-4 drivers per medallion in New York and Boston), long supporting 24/365 utilization of leased medallions, is rapidly being absorbed by the new competitors. In fact, even regularly-working drivers have abandoned medallion leasing in large numbers to join Uber and Lyft networks, resulting in a 50%+ increase in idle shifts for medallion leasers in some markets, according to local sources. Drivers have begun paying medallion lease fees late and evidence has just recently emerged of drivers pushing to renegotiate lease payment terms (usually drivers pay certain daily or weekly sums to medallion owners). Actual declines in medallion leasing fees have been reported in Chicago, Boston and San Francisco.[6]

Uber's Rapid Traction

Uber completed a private round of investment valuing the company in excess of $40 billion. Whether that price tag is in irrational exuberance territory or not is not our concern, but suffice it to say, Silicon Valley and the highly discerning venture capital world is asserting Uber is a major player for the long haul. A "leaked" investor presentation deck on Uber published by Business Insider is a far cry from a tax filing or audited financials, but it seems to offer a credible proxy on the traction of the startup. By the end of 2013, Uber was on pace to generate over $300 million in gross sales in the metropolitan NY market, generating over $26 million in December 2013. We estimate the total NYC market to be roughly $2.3 billion annually, based on total trips and average fares. Uber will reach some equilibrium-level of market share, but we believe it likely exceeds the approximate 13.5% observed in December given the month-over-month growth rate trajectory of 19% observed in metro-NY at that time. Indeed, public comments by Uber in the summer of 2014 suggested the entire company was tracking at $2 billion annual gross sales at that time. That figure compares to an annualized level of gross revenue for all of Uber, per the leak, in December 2013 of $900 million. A full year later during which Uber's brand recognition and market penetration has accelerated, market share is likely now above 20% in New York City. It is notable that Uber NYC was only launched in May 2011!

It is also instructive to note that uberX has become the dominant service in the Uber service-offerings universe. The uberX share of total Uber gross sales in metro NY went from 10% in January to 43% by the end of the year, largely at the expense of the higher priced UberBlack. The latter went from 80% to 30% over the period. This high sensitivity of demand to price could bode well for Sidecar's innovative, lower cost Shared Rides service, matching vehicles already heading in the direction of a customer's specified destination. Sidecar suggests this service is priced at 33% - 50% below its own base rideshare livery service, 60% below Lyft's "1.5X Prime Time" pricing, and 70% below Uber's "2X Surge" pricing, for comparable trips. Uber has a similar service, UberPool in San Francisco and Paris, also launched in NYC on December 4, 2014. Lyft is also a player in NY, while Sidecar is in ten major metropolitan markets, but not yet NY. Lyft claimed to TechCrunch in December 2013 to be experiencing gross sales growth of 6% per week.

In San Francisco, where Uber was born, taxi ridership dropped by 65% according to local authorities.[7]

In May 2014, a spokesman for the Boston Taxi Drivers Association union claimed ride sharing, led by Uber, had taken 35% to 45% market share.[8]

These seismic shifts in the cash-generating capability of medallions have slowed medallion sales to a trickle in the historically liquid secondary markets and financing for the few purchases taking place has ground to a virtual halt. Dry primary and secondary medallion auctions have recently occurred in Philadelphia and Chicago. New York City was forced to scale back primary auction plans for 2015 from 550 medallion sales to 200.[9] It was reported that 58 prospective buyers withdrew bids citing various reasons, including wariness of new competition from ride sharing.[10]

The result? Medallion prices are plunging. From peak to current prices, as measured by "over-night" published, signed P&S, auction "ask" or local broker quotes, the trends are as follows:

· NY values (74% or $510 million of Medallion Financial's medallion loan portfolio) are down by 21% from $1,050,000 to $830,000 based on TLC published November numbers, and by 24% based on street asking price ($800 thousand) for "individual" medallions.[11]

· Chicago values are down by 21.8% from $375,000 to $293,000 of the official published November sales and by 44% to $210,000 asking street price.[12]

· Boston values are down by 32% from $700,000 to $475,000 street asking price.[13]

· Cambridge values are down 26% from $540,000 to $400,000 (street asking price).[14]

· Philadelphia values are down 21% from $495,000 to $390,000.[15]

Why and How Medallion Values Fall to Zero

Medallion owners are coping with precipitous declines in medallion values accompanied by reduced access to original financing and refinancing, and deteriorating cash flow from operating taxicabs. Medallions, like all asset classes, are priced on the basis of market perception of future free cash flows generated. Scarcity and desirability can combine to push values up despite the absence of any ongoing cash flows - think of fine art. Medallion values have been pushed higher owing to both factors. Bubble formation often involves extrapolation of rising price trends that cease to be supported by any realistic forecast of cash flows. Saying medallions are in bubble territory gives bubbles a bad name. All bubbles burst, but most leave some residual, intrinsic value - medallions are likely to leave no residual value.

Medallion markets are experiencing the relatively recent introduction of unconstrained, lower cost, and higher-quality supply after decades of ironclad supply constraints enforced by regulation. Market participants, by definition, are slow to come to terms with the existence of a bubble. Medallion owners and, to a lesser degree, buyers - the latter are far fewer in number but have not yet completely disappeared - are proving no exception. Scarcity has been completely eliminated with the introduction of unconstrained new supply at virtually *zero* marginal cost. Falling meter revenues, fewer fares per trip/declining taxicab ridership, and increasing idle shifts as drivers migrate to the ride sharing companies are putting pressure on medallion leasing fees, and that trend shows no signs of abating. Adaptation to radical change is very difficult for market incumbents, especially those in a market with decades of stable, predictable behavior. Drivers committed to taxis, even if there is greater earnings potential in a ride sharing network, are going to continue to lose fares and cash flow to ride sharing companies. As cash flow continues to decline, drivers will be forced to adapt by either negotiating lower fees paid to medallion owners or joining more lucrative ride sharing networks. This process continues until there is no margin to support medallion-leasing fees at all. The last gasp for medallions occurs when protected sanctuaries like airports and street hails finally yield to ride sharing in some form. In short, the free cash flow associated with medallion ownership is steadily being eroded, with an attendant decrease in the net present value of medallion ownership, accompanied by gradual recognition that scarcity is no longer an attribute of the asset class. The ultimate bottom is a secondary market premium over minimal costs to operate vehicles-for-hire of zero on the day that medallions offer no cash-generating exclusivity - no value - at all.

As these trends persist, medallion owners will become increasingly tardy on loan payments. At some point, likely sooner rather than later, more debtors will be compelled to walk away from medallions and default on loans (five defaults in NYC in last three months is historically unusual).

Relief Unlikely from Regulators, Legislatures or Courts

Almost every city told the ride sharing companies they must wait until the impact of their designs is studied and evaluated, but they boldly and brazenly entered markets anyway. In recent weeks, Uber has gone from media darling to villain, with every misstep - and there have been a few - receiving broad media attention, including bans in multiple countries for failure to comply with regulations including India, France, Thailand, Spain, Netherlands and Belgium. Uber and other ride sharing companies are involved in various legal actions with multiple taxi medallion ownership groups, as well as several regulatory groups including California, Oregon, Nevada and Florida - along with the aforementioned sovereigns. In some US markets, citations have been issued to drivers and vehicles impounded. But the bottom line is ride sharing is advancing at stunning speed and taking market share in every major US metropolitan market, including NYC, Chicago, Dallas, Los Angeles, DC, San Francisco, Philadelphia, and Boston, and showing every sign of permanence. Uber is purportedly launching in at least one new city somewhere in the world every day, and now reaches 64% of all Americans.[16] The ultimate regulatory response remains to be seen, but it will be very difficult to put this genie back in the bottle. We expect when the dust settles, cities, some combination of states and courts will compel ride sharing companies to more fully submit to regulations essentially requiring them to do things they claim to be already doing (e.g., background checks, vehicle inspections and insurance provision). Forcing ride share companies to comply with basic safety regulations is no victory at all for medallion owners and taxicab operators as it officially confers legitimacy and acceptance of ride sharing in the eyes of courts and regulators, without any substantive relief on the cost/fare advantage or the unconstrained supply. Between now and that seemingly inevitable outcome, medallion price and taxicab operating profit pain will get*far* worse. We do not see any realistic scenario in which outright supply quotas return:

· Medallion auctions have produced meaningful windfalls for cities in the past (NYC raised over $200 million by auctioning off over 200 medallions in early 2014), but the auction spigot has dried up with the emergence of ride sharing (56 bidders recently withdrew from a NYC auction and auctions failed or delayed in multiple cities), and ongoing revenue at risk for local governments has not been adequate to compel legislators to push out the well-received new ride options (we estimate that less than 50 one thousandths of one percent of the NYC annual budget is funded by annual medallion fees).[17]

· Ride sharing has become extremely popular with consumers making it politically problematic to turn back now in defense of an outdated monopoly.

· The arguments prompting the creation of medallion systems, primarily those related to safety, are harder to make years into the presence of ride sharing in multiple markets.

Other trends suggesting acceptance and regulation are the more likely outcome than elimination and protection of caps include:

· Illinois governor Pat Quinn vetoed a state law seeking to place greater restrictions on smartphone-based ridesharing companies (override considerations were abandoned in late November), and the city of Chicago issued "transportation network provider" licenses to Lyft and Sidecar, conferring total compliance legitimacy, an action advocated by Chicago mayor Rahm Emanuel.[18]

· Outgoing Massachusetts governor Deval Patrick proposed in December 2014 to regulate ride sharing companies, with a spokesperson saying, "The Patrick administration is committed to ensuring the public safety and at the same time supporting innovation in transportation."[19] The Boston City Council has expressed initial inclination to better regulate ride sharing, with no talk of banning. Councilor Sal LaMattina captured the general tone when he said he uses Uber and likes being able to track his daughter's progress on his smartphone when she uses it.[20] Boston Mayor Marty Walsh formed a Taxi Advisory Committee, including representatives from the ride sharing companies, and has emphasized input from the public. He has generally been in favor of proper regulation to ensure safety - again, acceptance under regulatory requirements already being observed by the ride sharing companies, not enforcement of caps.

· Federal Election Commission filings indicate Uber usage by Congress and their staffers for fares below $100 increased from 100 during the 2012 election cycle to 2,800 during the 2014 cycle, while taxi rides dropped from 2,800 to 1,800 in the same periods (see Exhibit 5).[21] It appears the government sponsors/regulators historically protecting the taxicab industry are not only reluctant to interfere with an innovation enthusiastically embraced by voting constituents, they are adopting it themselves!

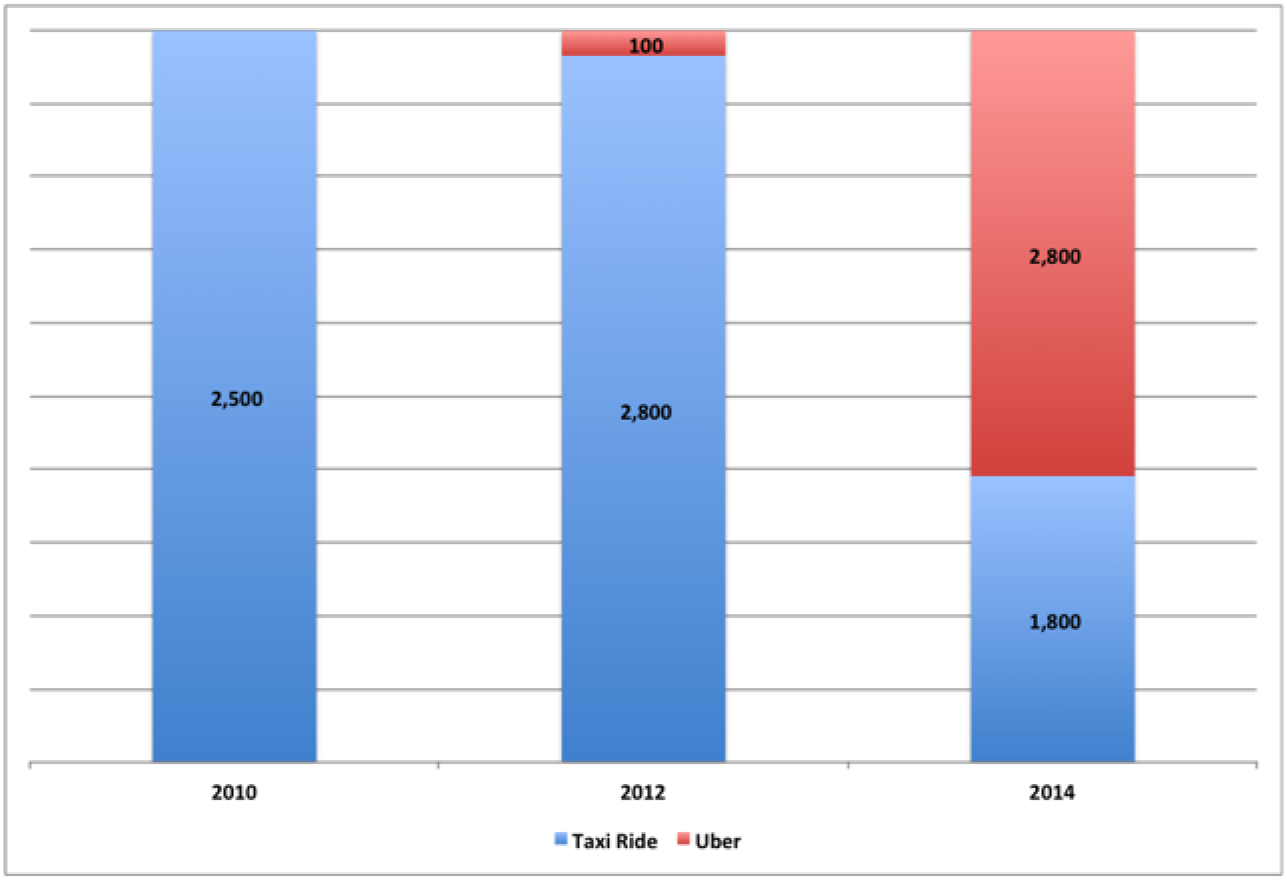


Exhibit 5 Uber Taking Share from Taxicabs Among Congress and Staff During Election Cycles *(click to enlarge)*

Playing Politics

Uber quickly recognized the importance of politics in overcoming decades of bureaucracy, inertia and entrenched, moneyed interests at the local level in places like New York, Boston and Chicago. The company consistently responds to unfavorable regulatory actions, wherever they arise, with robust political-lobbying and grass roots campaigns launched almost instantly through its massive user base and formidable lobbying arm. The latter includes David Plouffe, former senior political strategist-extraordinaire for President Obama and primary architect of the improbable 2008 presidential campaign, along with scores of former statehouse aides and insiders from both parties and an estimated 161 dedicated lobbyists across all 50 states, according to a recent Washington Post essay. Uber has been known to have unfavorable regulatory actions overturned within days.

When the government coalition of supporters includes Virginia Governor Terry McAuliffe (D), Kentucky Senator Rand Paul (R) and the Republican National Committee, it is fair to say the lobbying and public relations battle is going the way of ride sharing.

Elimination of Taxi Supply Constraints in Other Cities Drove Secondary Market Medallion/Permit Price Premiums to Zero - Legal Arguments Invoking "Takings Clause" and Eminent Domain Failing in Court

In 2007, the U.S Federal District Court in Minnesota held that medallion owners "do not have a property interest in the value of the taxicab vehicle license on the secondary market because the issuance of the license does not entitle them to that value, nor does it provide for its legal protection. The license allows its holders to drive a taxi in the City. It does not guarantee that the City would indefinitely limit the number of taxi licenses issued."[22] In 2009, the U.S. Court of Appeals for the Eighth Circuit unanimously upheld the 2007 ruling and declared taxi licenses do not "provide an unalterable monopoly over the Minneapolis taxi market."[23] In rejecting the coalition's "takings clause" argument, the Court further held that the "property interest that the taxicab-license holders may possess does not extend to the market value of the taxicab licenses derived through the closed nature of the City's taxicab market." The coalition then petitioned the U.S. Supreme Court, which rejected the appeal without comment in February 2010.[24] Do you know what the current secondary market value of a taxicab license in Minneapolis is today? Zero, after an estimated peak near $24,000 in the mid-2000s.[25] There is no secondary market and for less than $1,000 in fees, an individual can enter the taxicab business.

In 2013, a Milwaukee County Circuit Court declared unconstitutional the city's law imposing a cap on the number of taxicabs.[26] In July 2014, the city's Common Council voted unanimously to completely lift the cap on how many taxicabs may operate in the city, implementing the Court's ruling. Permits issued in a manner equivalent to a medallion system had been fetching $150,000. There is no longer any secondary market for taxicab permits in Milwaukee. The local permit holders are vowing to block the cap lift by suing.

On November 10, 2014 the City Council of San Diego removed the cap on taxicab medallions (993), with arguments centering on taxicab drivers beholden to medallion owners earning too little (less than minimum wage, according to often cited study).[27] Values dropped from $140,000 to the $3,000 charge for the permit.

Short of a legal decision equating local governments' "allowing" new competition enter medallion markets with takings/declaring eminent domain (the argument made in Minneapolis appeal), an argument that has gained no traction in the courts so far, and forcing municipalities, many with already stretched financial resources to compensate medallion owners for the attendant drop in the price of those medallions, we do not see a scenario in which medallion values hold up at even small fractions of recent prices.

The trend is clear. Local regulators have responded angrily at the brazen flouting of their authority and rules, but legislators, courts and the court of public opinion have consistently favored opening up long-closed taxicab markets. Arguments in favor of protecting regulations artificially constraining supply and public access to services strongly in demand, regardless of their merit, are struggling to gain traction. Even back in 1993, almost two decades before ride sharing technologies hit the streets, the case for eliminating supply caps demonstrated its public policy, legal, cultural and popular appeal. In August of that year, the U.S. District Court in Colorado upheld then-existing laws constraining new taxi license issuance (50 years had passed since the last license had been issued to a new cab company), ruling against the Institute for Justice and its minority entrepreneur clients seeking to operate a new taxicab company. The Colorado legislature took up the matter before the appeals process got underway, leading to the governor of Colorado signing legislation officially opening up the market in June 1994.[28] In Minneapolis, Milwaukee and San Diego, caps are gone and medallions/licenses ceased to have meaningful value, while Boston and Chicago are both signaling an inclination to accept and regulate ride sharing. In New York City, the Taxi and Limousine Commission has been relatively aggressive in efforts to protect its authority in response to ride sharing. Few politicians have spoken out publicly for or against. But the ride sharing apps have already gained stunning market share and the practical challenges of eliminating smartphone-based ride-for-hire applications, when consumers have already adopted in large numbers and the most dire safety warnings of status quo advocates have largely been defanged by several years of ride sharing in the market, leads us to the conclusion that it too will succumb to regulation in lieu of elimination - and that ultimately means no value for medallions.

We do think invocation of the "takings" clause argument may receive more serious treatment by courts in markets where cities auctioned medallions and realized values reflected in secondary markets. It is a high bar to prevail with this argument as evidenced in at least two adjudicated cases:

· Minneapolis did not *auction* licenses at prices set in secondary markets (it remains to be seen if that distinction matters), but the US District Court of Minnesota decision made an argument and cited precedent we expect to be hard to overcome in *any* attempt to press the "takings" assertion:

"In this case, the Court finds that the license holders do not have a property interest in the value of the taxicab vehicle license on the secondary market because the issuance of the license does not entitle them to that value, nor does it provide for its legal protection. The license allows its holders to drive a taxi in the City. It does not guarantee that the City would indefinitely limit the number of taxi licenses issued. Even under the former ordinance, the City was required to conduct a hearing at least every 24 months to determine whether "public convenience and necessity" warranted additional licenses. (Compl. Ex. E at fmr. sec. 341.270(a)). Furthermore, the City, as a law-making entity, is free to amend ordinances as it sees fit. Like the trucking authority holders in the *Rogers Truck Line* case[29], the taxicab vehicle license holders do not have a constitutionally protected freedom from competition."[30]

· In 2012, when New York City was in the process of issuing 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 "This argument is unavailing, for overlapping procedural and substantive reasons."[31]

Street Hails in NYC as Protected Sanctuary for Taxis - Can Entry Barriers Hold Up?

We believe the New York medallion market will prove more resilient than other cities before fully succumbing to the rise of ride sharing for three primary reasons. First, no taxi medallion system is more tightly regulated than that of NYC, making the entry barriers more formidable. Second, the gap between demand for and supply of taxis is greater in NYC than any other major city, as evidenced by the disparity in growth rates of population and medallions issued over the full history of its medallion system. As a result, the market should be able to support more new supply per capita than other cities before an economic collapse in taxicab operating economics and medallion values. Third, the regulatory protection of "street hails" as the exclusive domain of medallion-bearing taxis is expected to provide some level of insulation, at least temporarily, for that particular hiring mechanism, accounting for approximately half of all fares historically (we suspect that share is lower now owing to success of ride sharing). Violations of that regulation have been common for decades, and in the end, assuming it remains a market sanctuary for medallion holders through the ride sharing market-entry onslaught, we suspect the ride sharing companies will brazenly flout that regulation too, and ultimately knock off that sacred cow as well. We continue to believe NYC will experience a slower medallion market decline, but the evidence so far suggests it is not proving as resilient as we initially expected. Uber alone has captured an estimated 20% market share, maybe more,[32] and NYC medallion values and taxicab profits have tracked the declines observed in other cities.

Implications for Medallion Financial Corporation

Medallion Financial Corporation is a specialty finance Company with a market capitalization of $253 million and $1.3B in managed loan assets, up 13% since the end of 2013 (see Exhibit 6). The Company reported $0.27 per fully diluted share in earnings in the third quarter (on 25.118 million fully diluted shares outstanding), $0.72 through nine months, and $1.16, $1.21 and $1.09 in 2013, 2012 and 2011, respectively. As an investment company, Medallion Financial is bound to pay out 90% of its pre tax income to maintain that designation and avoid taxation at the corporate level.

The managed loan portfolio includes **$689 million of total loans collateralized by taxicab medallions** (74%/$510 million in New York City) - $303 million of which is carried on Medallion Financial's books. The footnoted loan-to-value (LTV) was 40% for these loans, as of the September 2014 10Q. Not knowing the precise methodology used for calculating "fair value," we cannot question the accuracy of the LTV reported at that time. We do find it curious that the LTV has barely unchanged since the end of 2013 (38%) despite medallion prices down over 20% - 30% in every market. We believe the downside risk in medallion prices greatly exceeds the implied margin of protection (see discussion below). The Company's exposure to the remaining $386 million carried on the books of Medallion Bank (LTV not reported) is $128 million, the value at which the bank is carried on the balance sheet, equal to 20% of tangible assets and 47% of tangible book value. The Company also carries 159 owned medallions in Chicago on its balance sheet at $49 million, for a total direct exposure to medallions of $480 million. Medallion Financial also holds $72 million in commercial loans earnings a weighted average interest rate of 11.5%.

Reported book value is $278 million. If the medallion market entry barriers are effectively eliminated, the marginal cost of supply equals the cost of a vehicle, driver's license, smartphone and a clean background check and drug test, medallions will cease to have *any* meaningful value, in our opinion. In such a scenario, Medallion Financial's and Medallion Bank's entire medallion loan portfolios would fall to fair value of zero, a $480 million write-down for the parent, and a $386 million write-down for the bank, less fair value of any additional collateral or personal guarantees attached to individual loans, significantly in excess of book value for the respective entities. This is the scenario currently playing out across medallion markets.

The Company uses Medallion Bank, a FDIC-insured bank, as an off-balance-sheet financing vehicle to underwrite medallion-based and other loans. Medallion Bank is significantly more leveraged (debt to equity ratio of 5.5:1) than Medallion Financial (1.2:1). The pro forma combined debt to equity ratio is 3.9:1. As indicated, Medallion Bank has $386 million or 43% of its assets in medallion loans. The balance of its loan portfolio includes $462 million, or 52%, in "consumer loans" secured by boats, RVs and small home-improvements, earning a weighted average interest rate of almost 15% (see discussion of consumer loans below), and $43 million in "commercial loans" yielding 4.6%.

Recent Share Price Performance and Future Prospects

Annualized total returns for Medallion Financial shares exceeded 29% during the three years ending 2013, but the shares are down over 35% from the peak close in December 2013 and 20% year-to-date, adjusted for dividends. In addition to arguing the ride sharing implications for Medallion Financial are overblown, stock bulls cite the dividend yield, share repurchases and tangible book value as reasons to own the shares (see respective discussions below).

The balance sheet is not healthy enough nor the diversification of the loan portfolio and earnings stream sufficient to absorb a decline in medallion values to near zero. The process is expected to begin with a rising loan-to-value ratio, decelerating earnings growth, rising nonaccrual bookings for late and non-payment and loan write-downs in the coming quarters, accelerating into a downward spiral of declining earnings, dividend elimination and write-offs threatening the entire book value of the Company and its unconsolidated bank subsidiary, Medallion Bank. The share price is not discounting the possibility of such a scenario.

Chicago Medallion Write-downs Imminent?

As noted, Chicago is a market with less excess ride demand, at least relative to New York City and Boston, and therefore greater near-term vulnerability to a more precipitous collapse in taxicab operating cash flow and medallion values. The Chicago medallions owned and booked at $49 million (17.5% of total book value plus associated leasing income of $1.7 million in 2013), will decline dollar-for-dollar with further declines in medallion values in Chicago. As stated, our sources are reporting street asking prices in Chicago of $210,000, and those levels are not getting any bids! At $210,000, Medallion Financial's Chicago medallion holdings would have a fair value of less than $34 million that would require a $0.62/share write-down. In a city that has already issued Class A licenses to Lyft and Sidecar (for drivers averaging less than 20 hours per week),[33] and where the policy response is clearly pointing to acceptance and regulation rather than elimination, how much longer will medallion buyers see *any* value in a medallion conferring for-hire rights available to ride sharing drivers at a total cost of $10,000 per *company*? Again, there is no credible argument we have heard for medallions holding *any* value once unlimited new supply bearing a marginal cost per vehicle of near zero is officially allowed.

Have Decades of Stability Created Blinders to Impact of Secular Changes in Medallion Market Supply Dynamics?

Protracted periods of stability in financial markets lead to riskier behavior and rising underlying instability, an insidious dynamic known as Hyman Minsky's Financial Instability Hypothesis. Sometimes the inevitable correction comes suddenly and precipitously. Medallion Financial appears to have grown complacent from decades - almost twenty years as a public entity - lending against a singularly attractive asset class, taxicab medallions. In June 2014, announcing the acquisition of a medallion loan portfolio from a specialty finance company in Chicago, Medallion Financial President Andrew Murstein stated in a press release "In the history of the company there have been virtually no losses on the medallion loans that management has originated." The Company made a similar acquisition of Newark Funding Corp., a Newark, New Jersey taxi medallion loan brokerage company in July. The result is substantial-and-increasing exposure to, and failure to recognize any significant threat from ride sharing, never mind the magnitude of that threat created by the first major *supply* shock in the *history* of medallion markets.

The Company's current gross revenues break down as follows:

Medallion loans and leases 48%
Commercial loans 23%
Consumer loans 29%

Source: September 30, 2014 Medallion Financial Corp. 10Q.

The stability of medallion markets remains critical to Medallion Financial's financial health. We believe its entire tangible book value is at risk of being wiped out by write-offs of potentially 100% of its managed medallion loan portfolio. In addition, with borrowing costs on acquired deposits averaging less than 2.5%, calculated from Medallion Bank FDIC Call Report filing (overall borrowing costs for Medallion Financial reported as 2.68% in Q3), interest rate risk and compression of interest rate spreads is also a meaningful risk to Medallion Financial's earnings and cash flows.

Capital Allocation Policy Difficult to Comprehend

Capital allocation has been inexplicable in recent years for Medallion Financial. In the last three years, the Company's cash operating earnings have not been sufficient to cover the dividends paid. Of the $54 million of dividends paid since the end of 2011, 40% represented return ***of*** capital (see discussion below) or payout in excess of earnings in that time. During this same period the Company was also buying back shares *and* issued $85 million in two secondary offerings, an entirely inefficient, circular shuffling of investor capital. The aggregate cost of the two secondary offerings was $5.3 million. The dividend should be reduced to a sustainable level based on cash earnings, in our opinion, and raised in line with earnings growth going forward. We do not believe the headline 8.5%-9% dividend yield or the share repurchases are understood by many investors, in this sense, and with fundamentals breaking down in its core business, we do not see how the Company can possibly grow its cash earnings to levels actually covering these distributions. In short, the current dividend and share repurchases are not sustainable, in our opinion. Issuing more equity to cover cash shortfalls will be a lot harder as the deterioration of medallion markets continues to play out.

Consumer Loan Market - Chasing Yield with Credit Risk Mounting

If medallions become worthless in NYC, Chicago and Boston with unlimited supply of for-hire vehicles becoming the new normal, we believe what happens in the rest of Medallion Financial's portfolio will not alter the inevitable outcome - the Company will suffer massive write-offs that will wipe out shareholders' equity. But an examination of the diversification strategy suggests rising risk as well. Medallion Financial has set a strategic course to diversify its loan portfolio by allocating more capital to consumer loans (consumer loan balance is up 35% in twelve months compared to a 6.5% increase in medallion loans) and commercial loans.

Interest rates earned in consumer lending at Medallion Bank average near 3X and 4X those of medallion financing for Medallion Financial and Medallion Bank, respectively. Medallion Bank averaged 14.9% interest on its $462 million "Consumer loans" portfolio in Q3 2014, and has increased the size of that portfolio from $341 million a year ago, in contrast to larger banks reporting flat to lower consumer loan balances in that period. Clearly, Medallion Bank is finding high-margin opportunities to lend money to consumers, and the question is at what risk? Medallion Bank's consumer loan portfolio (and smaller commercial loan portfolio) is far riskier than medallion financing has been *historically*. The growth of the consumer loan portfolio has brought greater credit risk to the enterprise, and the benefit of reduced*concentration* risk is small in comparison.

Exhibit 6 Medallion Financial Corporation Loan Portfolio at September 30, 2014

(Dollars in thousands)	September 30, 2014 Interest Rate [1]		Investment Balances	Percentage of Portfolio	September 30, 2013 Interest Rate [1]		Investment Balances	Percentage of Portfolio
Medallion loans								
New York	3.61 %	$	204,662	16%	3.54 %	$	198,739	18%
Chicago	4.97		39,538	3%	4.95		41,244	4%
Boston	4.69		27,435	2%	5.12		22,532	2%
Newark	5.36		24,727	2%	5.83		20,211	2%
Cambridge	4.83		5,981	0%	5.28		5,355	0%
Other	6.58		837	0%	6.35		3,291	0%
Total medallion loans	4.06		303,180	24%	4.08		291,372	26%
Commercial loans								
Secured mezzanine	12.25 %	$	54,265	4%	12.48 %	$	51,572	5%
Asset based	5.66		3,071	0%	5.39		7,073	1%
Other secured commercial	9.92		15,041	1%	9.29		11,923	1%
Net commercial loans		$	64,256			$	63,061	
Investment in Medallion Bank and other controlled subsidiaries, net	10.57 %	$	127,708		12.21 %	$	102,377	
Equity investments	0.61 %	$	5,836		0.89 %	$	5,653	
Net equity investments		$	7,828			$	6,386	
Net investments		$	503,294			$	463,369	
Medallion Bank investments (unconsolidated)								
Consumer loans	14.94 %	$	462,005	36%	15.92 %	$	341,273	31%
Medallion loans	3.82		385,617	30%	3.81		346,639	31%
Commercial loans	4.63		43,312	3%	4.94		66,242	6%
Total Loans	8.40	$	1,266,491	100%	8.12	$	1,116,094	100%

1 Represents the weighted average interest or dividend rate of the respective portfolio as of the date indicated.

(click to enlarge)

Source: September 2014 Medallion Financial Corp. 10Q.

Household and Corporate Deleveraging has been Shrinking Demand for Credit

The private sector and consumers are deleveraging and real household income is in a third year of near-zero growth. Consumer loans are also far more correlated with broader capital market trends than medallion loans. Not only is median household income not growing in real terms (notwithstanding the effect of plunging gasoline prices on CPI in the last several months), it hovers near 1996 levels. US household debt has declined without interruption since the financial crisis from 98% of GDP in the first quarter of 2009 to 81% at the end of April 2014. Non-financial corporate business debt has also been declining from a cycle-high of 45% of market value in 2009 to below 38% at the end of April. A smaller consumer-borrowing universe is producing greater competition among banks seeking to grow earnings. As a result, according to the Office of the Comptroller of the Currency in its 2014 spring report, "underwriting standards appear to be easing, volume of new-issue covenant-lite leveraged loans are surging."[34] Remembering Minsky, market stability begets riskier market behavior and the attendant rise in instability is often ignored or not perceived until the instability reaches a critical state and markets are disrupted.

How Risky are Consumer Loans Yielding 15%?

Consumer loans generally have lower and less volatile default rates historically when compared to credit cards, mortgages and commercial loans,[35] but Medallion Bank is earning interest typical of hard loans, a segment to which borrowers resort when conventional lending channels are not available - by definition, a riskier lending universe. Moreover, just as reduced lending standards and artificial inflation of housing values ended the multi-decade streak of rising property values with a crash, the unprecedented monetary policy of the Federal Reserve is having a perverse effect on risk assets, including consumer loans. Hence, historical consumer delinquency rates may not hold up in the uncharted territory created by unprecedented easy money. The FICO score breakdown of the Medallion Bank lending universe is not published, but we believe multiple factors point to the likelihood that Medallion Bank's rapidly-expanding consumer loan portfolio bears significant credit risk (and rising at least over the last twelve months). These factors include:

· Average aggregate interest rates near 15% in Q3 when the US 10-year bond is yielding 2.5% (less than half its historical average), suggests a lower credit-score borrowing universe.

· The 35% increase in consumer loans may be fueled by declining lending standards at Medallion Bank:

o Bank of America, Wells Fargo and Citi Group (industry proxies) all have greater loan portfolio diversification (average roughly 15% exposure to comparable consumer loans), earn significantly lower interest rates on those loans (even credit card interest is nearer 9-10%) and reported lower consumer loan balances in the last twelve months.

o A year-over-year decline in average rates in the consumer loan portfolio of 1% when the US 10-year is off only 0.25%, a potential indication of aggressive lending - offering lower rates without a commensurately lower borrower risk profile.

o US households continue to *deleverage*, as evidenced by declining debt as a percentage of GDP, suggesting the overall consumer lending opportunity set has been steadily declining.

The OCC warnings suggest many banks have resumed riskier lending practices in order to grow profits in the short term, and we believe Medallion Financial, through Medallion Bank, is participating in this trend. The downside catalyst is not as readily evident as that in the medallion loan space, but consumer loans are another area increasing Medallion Financial's risk profile and yet the Company continues to pursue it aggressively.

Two Secondary Offerings Since 2012

Medallion Financial executed a 2.9 million shares secondary offering in the fourth quarter of 2013 priced at $16.40/share (peak daily close was $17.74/share, at the end of November 2013) as well as a 3.5 million shares secondary in May 2012 at $10.72. The Company's press releases for the respective closings suggest the cost to execute these offerings, commissions, underwriting discounts and offering expenses, was $2.9 million and $2.4 million, respectively.

Dividend is not Being Covered by Cash Earnings - 40% of Payout Since 2012 a Return of Capital

As mentioned, Medallion Financial is bound to pay out 90% of its pretax income as a regulated investment company and remain exempt from US federal income tax on any gains, investment company taxable income or net operating income. The Company is paying a "dividend" of $0.96/share, yielding between 8.5% and 9% on the recent share price trading range ($10 - $10.75/share) that warrants greater scrutiny by investors. We do not believe the difference between return *of* capital and return *on* capital is well understood based on market commentary on Medallion Financial's dividend yield. The latter is sustainable and part of one's total return on investment, the former is not, making the headline "dividend yield" of Medallion Financial misleading in this sense. Moreover, the Company has doubled down on this financially unsustainable trend through its share repurchase program. High dividends and share repurchases are justifiably welcome by investors generally as bullish signs of Board and management confidence in their business and share price. But when this spending has to be financed through secondary offerings, $50 million only twelve months ago and another $35 million in May 2012, borrowing and asset sales, they amount to slow liquidation of the Company's assets, and the signal raises serious questions about prudent allocation of scarce capital by the Board of Directors and senior management.

In 2014 (through September), 2013 and 2012, respectively, 23%, 46% and 53% of the dividend was actually a return of capital - liquidating or borrowing against assets, some of which were recently gathered through the second secondary offering since 2012, and distributing the proceeds to shareholders, thereby reducing each investor's cost basis in the stock. A cumulative 40% of the $54 million in total dividends paid out since and including 2012 was return of capital. These amounts are clearly labeled "Return of Capital" on the "Consolidated Statements of Changes in Net Assets." That means of the dividends paid out since 2012, $22 million has been nothing more than drawing down assets and sending the proceeds to investors, from whom $85 million was sought and received during the same period.

The Company's cash earnings have not covered the dividend in any of the last four years. A glance at the book value of Medallion Financial since 2011, up over 60%, gives a pretty favorable first impression of value creation, but when one understands that almost 120% of that increase was directly attributable to secondary offerings ($85 million) and unrealized, non-cash appreciation in passive investments ($37 million), the unsustainable nature of payout policy becomes obvious (see Exhibit 7). Medallion Financial's core operation is earning a spread between the money it borrows and the money it lends. Passive, non-cash, unrealized gains are not core, operating gains even though they may one day be realized. A prudent payout policy would be to undertake special dividends if and when such gains are realized, rather than paying out cash not generated by operations for four straight years. But for selling more shares to the public, borrowing or asset sales, Medallion Financial would not have been able to pay this dividend or repurchase shares dating back at least to 2011.

Shareholders' Equity - December 31, 2011	**$171,504**	
Attribution of Change in Equity:		
Investment Income from Operations 2012-2014	$33,434	
Cash Distributions:		
Distribution of Investment Income from Operations	-$32,060	*Sustainable.*
Additional Distribution (Return of Capital)	-$21,715	*Reduced book value - unsustainable.*
Investment Income from Ops less Cash Distributions	-$20,341	*Net reduction of book value - unsustainable.*
Non-operating, unrealized, non-cash increases/(decreases) in investments:		
Medallion Bank	$22,071	*Non-cash.*
Other	$15,352	*Non-cash.*
Equity issued on secondary market	$85,080	*Sustainable???*
Other (net)	$4,365	
Net Change 2011 to September 30, 2014	**$106,527**	
% from equity issuance + Non-operating, unrealized, non-cash investment increases	***119%***	
Shareholders' Equity - September 30, 2014	**$278,031**	

Source: SEC filings (September 2014 10Q and annual 10Ks).

Exhibit 7 Medallion Financial Distributing Cash from Borrowings, Asset Sales and Secondary Offerings 2011-2014 *(click to enlarge)*

Companies that pay out more than their cash earnings starve the business of growth capital, requiring the periodic issuance of shares on the secondary market to pay the dividend shortfall, share repurchases and, with what is left, fund growth. That has been the Medallion Financial pattern.

Weaker operating results, obviously, will create incrementally greater pressure to cut the dividend. A high dividend yield, especially in a yield starved capital markets environment, creates support for share prices, particularly among retail investors, who may not realize a high yield is the market's signal that the dividend is not sustainable.

Share Repurchases

Share repurchase, and retirement, is another mechanism for returning cash to shareholders. Medallion Financial has had an active share repurchase program in place since 2003, and in July 2014, the Board of Directors increased the authorization to $20 million shares ($16.8 million remaining as of December 8, 2014). Share repurchases are commonly used to ensure stock is available for employee stock option plans, as well as a tool to support the stock price and signal the market that management is bullish on a company's operating and share price prospects. Medallion Financial management has been publicly vocal about its share repurchase activity in recent weeks, issuing 8Ks with regularity, presumably to alert investors of its attempts to "support" the share price. It is hard to argue with the optics of a company treating its own stock as the best investment opportunity for scarce capital. But a company into a fourth year of having to finance a dividend exceeding its cash earnings, and less than twelve months removed from issuing $50 million worth of new shares, a share repurchase, like the dividend itself, is not sustainable and definitely not the most prudent allocation of scarce capital, especially when shareholders' equity is threatened by competitive changes in the core business - the latter conclusion management obviously disputes.

Tangible Book Value as Source of Share Price Support

Medallion Financial shares are trading near tangible book value of $10.85, including $1.94/share in the book value of 159 Chicago medallions purchased and held on the balance sheet that are particularly vulnerable to near-term impairment. Share price will draw support from this basic valuation parameter until investors start to worry about write-downs or earnings vulnerability. Our analysis of the medallion market suggests, barring a reversal of the status quo trends - continued presence of unconstrained new taxicab-equivalent supply in formerly supply-constrained medallion markets and effectively no state, local or legal action to push the existing new supply back out of markets or, eventually, keep it out of markets still protected (e.g., "street hails") - demand for medallions will disappear and prices will go to approximately zero. Medallion Financial's total tangible shareholder's equity is $273 million, and it has $480 million of direct medallion price exposure. Medallion Bank (carried at $127 million) has $147 million of bank equity and medallion loans of $386 million. What happens to loans made by Medallion Financial and Medallion Bank at 75% LTV for new loans (and some at 90%), or even "40% LTV" on a weighted average basis for just the former (Medallion Bank LTV is not published, and we suspect higher than 40%) when the "V" drops to something between a small fraction of values observed in recent years and zero? They get written down (less fair value of any additional collateral or personal guarantees attached to individual loans) and Medallion Financial does not have the capital to withstand such an outcome.

Loan to Value (LTV) in Taxicab Medallions

As indicated, Medallion Financial is exposed to $689 million in medallion-secured loans, $303 million of which are included on the balance sheet, and the balance are held by Medallion Bank, off-balance-sheet. Medallion Financial disclosed the LTV on its medallion loan portfolio to be 40% at the end of September in a range from 0 - 96%. LTV for Medallion Bank is not disclosed. Our spot check of 2014 medallion loans made by Medallion Financial identified two Boston medallion loans originated in 2014 at ~90% LTV, and three other Boston medallion loans near 75% (the industry convention). That is 5 out of the 14 loans made in Boston during the first nine months of 2014 now below or nearly-below par based on street asking prices on medallions. One of three medallion loans in Cambridge, Massachusetts was made for $431,000 or 80% loan to purchase price of $540,000.[36] Street asking price in Cambridge is as low as $400,000 currently[37]. If spot checks indicate one third of original loans made in Boston and Cambridge occurred at 75% to 90% LTV, it stands to reason that Medallion Financial offered those terms more broadly across the original loan portfolio in 2013 and 2014. It is critical to understand that a portfolio LTV of 40% is a weighted average. It certainly suggests that medallion values have to drop a lot further from current levels before *most* of Medallion Financial's medallion loan par values are at risk of write-downs, but significant collateral value cushion for one loan does not protect another loan from being written down. Each loan stands alone and those below par have to be written down. We expect to see a rise in LTV, rising nonaccruals (for underperforming loans) and write-downs beginning within the next two quarters.

In an interview published in February 2014, Medallion CEO Andrew Murstein stated, "The taxi business is as strong as it's ever been, despite Uber, because people in major cities will still go and stick their hands in the air. Uber is nothing more than a terrific black car company."[38] By June, the Company added ride sharing to its 10Q risk disclosures. But then in December, Murstein was at a loss to explain the market's concern over ride sharing relative to his Company, "We can't understand why the stock is trading down."[39] This is a striking example of hubris, and helps explain why the company recently made medallion loans at 90% LTV and is buying medallion loan portfolios from other lenders, despite three years of market intelligence demonstrating historically-impregnable entry barriers in the ridesharing market have been materially breached by the smartphone-based companies. Uber has claimed double-digit market share, likely in excess of 20%, in only three years since being launched in Medallion Financial's biggest medallion-lending market (NYC). The CEO dismissing Uber as competitively irrelevant is quite remarkable when, in fact, ride sharing represents an existential threat to an asset class representing collateral on 53% of Medallion Financial's loan portfolio.

Medallion Financial turned over 70% of its publically disclosed loan portfolio since the beginning of 2013. Certainly much of that activity was in refinancing, but total medallion loans increased modestly in 2013 and are up 6.5% through September (up 9% through June before pulling back modestly). As indicated, the Company does not disclose the LTV for Medallion Bank. As medallion values consistently rose 12% - 15% per year in NYC between 2007 and 2013, for instance, the overall portfolio LTV declined significantly. But loans originated in 2012 and 2013, near peak values, are far more vulnerable to the declines now being observed.

Medallion Financial will soon have to incorporate lower medallion values into its LTV calculation, perhaps as soon as its Q4 2014 filings. As that ratio rises, the perception of risk associated with the stock will rise with it. It's a long way from 40% LTV to 100%, but remember these are weighted averages. Every individual loan value below par will have to be written down. As indicated, Medallion Bank may have even less cushion, which means the write-downs there could be larger sooner. But the end game is the biggest concern - a potential 100% value surrender for medallions in Chicago, New York and Boston, even accounting for fair value of any additional collateral or personal guarantees attached to individual loans, means Medallion Financial's book value turns negative. The comfort provided by a headline LTV of "40%" in this loan category does is false. The risk here is existential.

Borrowing Costs and Margin Compression when Rates Rise

According to Medallion Financial's 10Q Notes, "Medallion Bank began raising brokered bank certificates of deposit during 2004, which were at our lowest borrowing costs." Low costs indeed. Medallion Bank's average interest expense over the last six quarters has been 2.4%, including the amortized portion of capitalized brokers' fees. Brokers' fees average 0.2% on deposits raised and are amortized over the life of the respective pools of deposits raised. Another risk cited in the OCC spring 2014 report is that of extrapolating historically low borrowing costs during a bank's strategic planning and portfolio construction process. As noted by the OCC, some banks have reached for yield to boost interest income with decreasing regard for interest rate or credit risk. Banks that extend asset maturities to pick up yield, especially if relying on the stability of non-maturity deposit funding in a rising rate environment, could face significant earnings pressure and potential capital erosion depending on the severity and timing of interest rate moves.

The average maturity of Medallion Bank's loan portfolios in medallion and consumer loans is unknown, but Medallion Financial has reduced the average length to maturity in its medallion loan portfolio. If the Bank has done the same, the interest rate risk cited by the OCC would be less of a concern. That is a significant "if" however, given the dramatic rise in consumer loans over the last twelve months despite the challenging supply demand trends in that category. We would not be surprised to see longer average maturities for both medallion and consumer loans at Medallion Bank versus Medallion Financial as part of the cost of winning business in a shrinking credit environment. In any event, the spread Medallion Bank and Medallion Financial have enjoyed in recent years across the respective loan portfolios is vulnerable to significant decline as interest rates rise, even if maturities have been shortened.

Conclusion

We do not whimsically suggest public companies with long histories of financial stability and outstanding shareholder returns are at risk of financial collapse. Nor do we entirely fault Medallion Financial management for failing to appreciate the seriousness of the threat to their business after decades of "muscle memory" lending against an asset class without rival. But the medallion market is undergoing legitimately catastrophic change with the introduction of unconstrained supply brought by ride sharing. It has become clear that the one factor that might have at least mitigated the impact, legislative or legal action blocking the upstarts from flooding markets with new supply, has, and in our estimation, will continue to opt for acceptance and regulation rather than *attempt* to eliminate. Putting the proverbial genie back in the bottle is unlikely. One does not have to speculate as to the impact of eliminating enforced caps on taxicab supply, the precedents exist in Minneapolis, Milwaukee and San Diego. Values of medallions or license/permit equivalents did not drop 10%, 30% or even 70% … they went to zero (in the case of San Diego, to the $3,000 cost of the permit). Public comments already presented by Medallion Financial President Andrew Murstein bookending calendar 2014, sandwiched around a perfunctory risk citation buried in SEC filings beginning in Q2 2014, suggest Medallion Financial remains in denial about the seriousness of the threat to earnings, dividends and shareholders' equity:

"Uber is nothing more than a terrific black-car company." February 28, 2014

"In the event Street Hail Livery licenses and increased competition from ridesharing and car service apps materially reduce the market for taxicab services, income from operating medallions and the value of medallions serving as collateral for our loans could decrease by a material amount." 10Q beginning June 30, 2014

"We can't understand why the stock is trading down." December 1, 2014

The market dynamics for medallions, and less importantly, consumer loans, represent a multi-front problem for Medallion Financial:

· Little to no growth for medallion loan origination in the near-term, representing 53% of the total loan portfolio, soon followed by initial write downs of medallions and medallion loans and a dividend cut.

· Rising risk for a consumer loan portfolio representing 36% of the total managed loan portfolio and up 35% in last twelve months.

· Covenant and capital requirement violation risk at the parent and bank subsidiary levels, respectively.

· Acceleration in number of underperforming loans followed by defaults and full write-offs as asset class is wiped out altogether (unless cities and states reverse policy course).

· Potential for entire Medallion Financial book value to decline into significant deficit.

We believe senior management will continue to artificially "support" the stock through its authorized share repurchase program (the Company represented 39% and 25% of the share volume on December 16 and December 8, respectively)[40]. Seeking to reassure investors and project confidence is understandable, but Medallion Financial needs to reassure investors by way of prudent strategic action. To the contrary, management has and continues to misallocate scarce capital in the face of market-based existential threats, evidenced by:

· The inexplicable re-shuffling of shareholders' capital:

o *40% of dividend payouts* were not covered by earnings and constituted return ***of*** capital since the end of 2011 and

o Share repurchases transferred even more assets to shareholders during same period yet

o Two secondary offerings totaling $85 million and costing $5.3 million were required in same period to absorb the cash shortfalls and gather growth capital from capital remaining.

· The acquisition of medallion loan portfolios rather than disposition of them and general ambivalence as the core loan asset class is falling apart.

· Chasing hard-loan-equivalent consumer loan business when warning signals are flashing about risk therein.

There is little the Company can do to stave off the inevitable, at this point, other than a strategic about face and sell-off of medallion loans - if it can find buyers. The only question remaining is how long will it take for the full reckoning to run its course. In the end, we expect acceptance and regulation, including whatever ends up left of the hail segment, rather than a practically unenforceable attempt to eradicate smartphone-based ride sharing commerce from the streets, against the will of the population and long-suffering drivers. Allowing markets to determine when new supply is necessary in lieu of hard caps will render medallions superfluous and valueless.

Author: James F. Hickman - see his profile at:www.linkedin.com/in/jamesfhickman/
Gordon Gossage contributed to this report - see his profile at:www.linkedin.com/in/gordongossage/
For comments or questions, please email info@hvmcapital.com

To download PDF version: www.hvmcapital.com/taxi.pdf

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[1] "Medallion", "license" and "permit" are used interchangeably as there is no legal distinction.

[2] Source
[3] Source
[4] *LEAKED: Internal Uber Deck Reveals Staggering Revenue And Growth Metrics*, Alyson Shontell, Business Insider, November 20, 2014.

[5] Local taxicab operating sources.

[6] Ibid.

[7] Source
[8] *Taxi drivers say Uber threatens their livelihoods*, Martine Powers, Boston Globe, May 22, 2014.
[9] Source
[10] *Yellow taxi industry loses 58 prospective buyers in auction for medallions*,Daily News, Jennifer Fermino, December 10, 2014.
[11] Local NYC medallion brokers and medallion owners.

[12] Multiple Chicago taxicab medallion brokers.

[13] Local Boston medallion brokers and owners.

[14] Local Cambridge medallion owners.

[15] Local Philadelphia medallion brokers.

[16] *Uber's Global Expansion in Five Seconds*, Ellen Huet, Forbes, December 11, 2014.

[17] Based on published NYC Taxi and Limousine Commission fee schedules and a $70 billion NYC budget.

[18] Source

[19] Source

[20] Source

[21] Federal Election Commission filings, per Hamilton Place Strategies, hamiltonplacestrategies.com.

[22] Minneapolis Taxi Owners Coalition, Inc. v City of Minneapolis, US District Court, District of Minnesota, Civil No. 07-1789, October 29, 2007.

[23] Minneapolis Taxi Owners Coalition, Inc. v City of Minneapolis, US Court of Appeals, 8th District, No. 08-1789, July 14, 2009.

[24] Source

[25] Source

[26] Ghaleb Ibrahim v. City Of Milwaukee, April 2013, Source

[27] *Driven to Despair: A Survey of San Diego Taxi Drivers*, San Diego State University and the Center on Policy Initiatives, May 2013.

[28] Source

[29] Rogers Truck Line, Inc. v. United States, 14 Cl. Ct. 108, 112 (1987)

[30] Source

[31] Taxicab Service Association, et. al. v. Michael R. Bloomberg, as Mayor of the City of New York, et. al. (Supreme Court of the State of New York, 2012).

[32] Estimated based on leaked Uber presentation published by Business Insider, later comments by Uber sources on revenue run rates (Source), divided by NYC taxicab market revenues calculated from TLC 2014 Annual Report.

[33] *Chicago issues ride-sharing licenses to Lyft, Sidecar*, Chicago Tribune, John Byrne, November 18, 2014.

[34] *Semiannual Risk Perspective*, Spring 2014, Office of the Comptroller of the Currency.

[35] Federal Reserve Bank

[36] Baton Moise Cab Inc., OKE Auguste Cab, Inc., God-Will, Inc., Johnson Holding, Inc., Loren Cab, Inc. and Eureka Cab, Inc., respectively, source Carriage News, UCC website and Medallion Financial SEC filings.

[37] Industry sources.

[38] *If Uber Is Killing Taxis, What Explains the Million-Dollar Medallions?*,Bloomberg Businessweek, Technology, Joshua Brustein and Caroline Winter, February 28, 2014.

[39] *As Uber rises, yellow-taxi-medallion stock plunges*, Crain's New York Business, Andrew J. Hawkins, December 1, 2014.

[40] Company 8K and Bloomberg.com.

Comments (110)

Track new comments

- 
  rg3922ch

Comments (18)| + Follow| Send Message

That is a big ax to grind for a short position. Thanks for the knife in the backs of real investors, by trying to skew the market for your gain.

19 Dec 2014, 07:36 AMReply! Report AbuseLike7

- 
  James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author’s reply » rg3922, stock market declines 1/3 of the time, including 2 distinct declines in excess of 50% since 2000. If your investment horizon is 50 years, buy and hold should work fine, but S&P is up 0.3% real compounded in the last thirty years, plus about 2% in dividends. Street is built around long-only - driven by investment banking, M&A and commissions. Shorting is no different than buying except it is riskier, costlier and has less upside potential. You should listen closely to the bear case for any stock you own or are thinking of owning, weigh the risks and rewards. Long investors write about why they like stocks all the time, how is that different than a short investor explaining the bearishness? Judge the arguments.

20 Dec 2014, 10:21 AMReply! Report AbuseLike1

-
  joeeckhardt

Comments (200)| + Follow| Send Message

Cities who do nothing to stop or regulate this will be sorry in the future.

19 Dec 2014, 07:38 AMReply! Report AbuseLike2

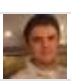
- 
  James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author’s reply » I totally agree with your comment and believe regulation will be the answer. That means acceptance of the new capacity, and secondary market premiums will go away if the scarcity of the licenses and exclusive rights into profitable markets they once conferred is eliminated.

20 Dec 2014, 10:21 AMReply! Report AbuseLike0

- 
  Nick Rokke

, Contributor

Comments (44)| + Follow| Send Message

Very nice in-depth article. I also wouldn't touch medallions right now - I understand these were needed in the pre-internet era to ensure you were getting into a reputable car and not about to be kidnapped, but with Uber and Lyft you can see the reviews of your driver before you get in the car. From a free market stand point I hope cities allow Uber and Lyft to go in and disrupt the cab market. And as this trend continues there will be less of a need for medallions and as that need decreases so will the price. So if TAXI wants to stay relevant they need to either buy lawyers to stop Uber & Lyft or find a new business model. Neither prospect is going to be good for the stock price.

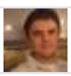
19 Dec 2014, 09:57 AMReply! Report AbuseLike1

- 
  dbt01

Comments (592)| + Follow| Send Message

yeah because online reviews are never faked, right?

19 Dec 2014, 11:29 AMReply! Report AbuseLike2

- 
  Nick Rokke

, Contributor

Comments (44)| + Follow| Send Message

It's probably easier to fake a medallion than pass Uber's criminal background check tied in with a driver profile picture...there's going to be a small element of risk either way.

I don't have a daughter yet, but I prefer my wife takes Uber cars. It's a much better experience and the driver's are of a higher caliber than taxis where I live.

19 Dec 2014, 11:53 AMReply! Report AbuseLike2

- 
  James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author’s reply » I know first hand of taxi drivers who joined Uber network, were kicked out of Uber soon thereafter for poor user ratings, but remain active taxi drivers. There is risk to getting into cars with strangers and everyone has to be careful. We are not advocates of Uber or any ride sharing company, and think medallion owners in cities that auctioned medallions at high secondary prices are not dealing fairly, so far, with medallion owners. We are just reporting the facts, the trends and the implications and think there is an investment opportunity in the process.

20 Dec 2014, 10:21 AMReply! Report AbuseLike0

-
  gordongossage

Comments (38)| + Follow| Send Message

Full disclosure: I contributed to this article written by James Hickman. Please refer to the disclaimer on short positions at the end of the article.

Ride Sharing Safety

There are many sentences in traditional and social media suggesting that Uber drivers are less safe per ride compared to medallion cab drivers. I believe that the overwhelming percentage of these sentences are sourced either directly or recycled indirectly from the very talented taxi industry lobbyist the Taxicab, Limousine & Paratransit Association (TLPA). 1

The TLPA's membership consists of 1,100 owners and managers of passenger transportation companies. They've created an excellent campaign and web site: Who's Driving You? 2 The campaign provides how-to materials to use to stop Uber and Lyft. There are lots of FAQs referencing scary anecdotal stories. However the TLPA includes no hard data.

If you can find hard data from the TLPA or ANYWHERE proving that Uber drivers commit more crimes per ride than medallion taxi drivers, please post here.

On the other hand, the study below proves that crime in For Hire Vehicles went down 20% in Chicago after Uber entered the market. 3

A recent study by Richard Wright, Erdal Tekin, Volkan Topalli, Chandler McClellan, Timothy Dickinson and Richard Rosenfeld provides suggestive evidence that a move towards an electronic economy and away from a cash economy reduces crimes like robbery and assault. Uber offers a transportation service that depends entirely on a cashless, electronic payment system. Therefore, we might expect that, as riders and drivers have joined the Uber network, crimes in taxicabs have been reduced.

In order to study the impact of Uber's network on crime in taxis, we assembled a dataset of taxi crimes and used a simple econometric model to estimate the impact of Uber on crime in taxicabs. The results are suggestive and potentially large – the entry of Uber in Chicago appears to have significantly reduced the crime rate in taxicabs, which was otherwise quite stable. Compared to the 300 days before Uber entered, the rate of taxicab-located crimes decreased by 20% in the 300 days after Uber entered.

This result holds true for other windows of time, and it does not simply represent an overall downward trend or seasonality in taxicab crime for which Uber might be a proxy. Furthermore, there is no corresponding bump in crimes committed in non-taxi automobiles to suggest that the crime is simply moving to other kinds of cars.

1. http://bit.ly/1Chq91Q
2. http://bit.ly/1Chqba3
3. References for Chicago study material:

http://bit.ly/1Chqba5- present/ijzp-q8t2

http://cnb.cx/1Chq91V

http://bit.ly/1Chqba7

http://bit.ly/1Chqbaa

21 Dec 2014, 03:33 AMReply! Report AbuseLike0

- 
  WTJ

Comments (106)| + Follow| Send Message

"...fake..." a NYC medallion?
as you say "..."where I live..."

2 Jan, 01:42 AMReply! Report AbuseLike0

- Regarded Solutions

, Contributor

Comments (17060)| + Follow| Send Message

This could have been sold as a book at Barnes and Noble.

19 Dec 2014, 11:18 AMReply! Report AbuseLike2

- 
  RWMostow

  Comments (1469)| + Follow| Send Message

  RS-

  Absolutely. It took 3 cups of coffee for me to get thru this post (literally).

  Happy Holidays!

  Long: TAXI

  -rwm

  19 Dec 2014, 01:41 PMReply! Report AbuseLike1

-
  rswwalker

  Comment (1)| + Follow| Send Message

  Uber and Lyft are e-car services, not taxis and as such cost a lot more then taxis when travelling within the city or town. If travelling between cities, towns or airports, then Uber and Lyft may provide better prices. Uber and Lyft will not replace taxis but may replace the traditional black car services. This is what a lot of people miss when looking at these.

  19 Dec 2014, 12:08 PMReply! Report AbuseLike1

- 
  Time & Model

  , Contributor

  Comments (149)| + Follow| Send Message

  Thanks for the write up.

  >> Share repurchases are commonly used to ensure stock is available for employee stock option plans, as well as a tool to support the stock price and signal the market that management is bullish on a company's operating and share price prospects. <<

They are also used to reduce share count. Since November 24, 2014, the company has repurchased 2.2% of its stock for about $10.19 or at a 8% discount to shareholder's equity per share. This implies greater dividend paying potential.

Also, keep in mind that if the company didn't pay out more in dividends than it had in CFO it would probably be in violation of Regulated Investment Company rules: "To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to obtain RIC tax treatment we must distribute to our shareholders, for each taxable year, at least 90% of our "investment company taxable income," which is generally our ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses."

They account for Medallion Bank as a fully controlled "equity investment." This means they record net income from Medallion Bank in terms of equity appreciation, Medallion Bank net income, *not* dividend income.

E.g., in the most recent quarter, Medallion Bank paid Medallion Financial $4 million in dividends but had $6.7 million in 'net increase in net assets resulting from operations.' It is likely that Medallion Financial would need to pay out dividends in proportion to the $6.7 million rather than the $4 million dividend to remain in compliance with the 1940 Act, ceteris paribus. This would be the reason why CFO is below total dividend payouts. Good luck.

19 Dec 2014, 12:50 PMReply! Report AbuseLike2

- 
James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author's reply » Thanks, T&M. I respect your work. Company has issued more shares than retired in last 4 yrs. Purchased 1.58 mm since 2003, issued 6.4 million since 2012. As a RIC, have to distribute 90% of pre tax income, as defined under the Code. Medallion Bank dividends are part of that calculation, not the unrealized, non cash change in its book value, recorded below the "after tax" line. Would expect periodic secondaries when high payout ratio mandated by the structure, but 40% of payout being return of capital, plus buying back shares, exacerbates any cash flow needs for growth, requiring larger secondaries. Inefficient and hard to explain, in my view. Small matters relative to risk of writing down medallion loans and medallions to near zero.

20 Dec 2014, 10:21 AMReply! Report AbuseLike0

- 

Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

James, I've gone over the financials. The company pays out most of its operating earnings, and not as you allege. Return of capital depends entirely on which entity the money actually flows from, not because the company isn't paying from earnings themselves.

29 Dec 2014, 03:42 AMReply! Report AbuseLike1

- 

James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author’s reply » Larry,
Cash flow is the key. If cash payouts in form of dividends and share repurchases exceed cash earnings, as they have since 2012, then those payments have to be funded from the balance sheet - return of capital - through asset sales, borrowing or equity-raising. This is true regardless of why the pay-outs exceed cash flow, and it is not a sustainable payout policy over the long term, except when asset sales, borrowing and equity-raising to fully pay the dividend and share repurchases is part of the business model. Do you agree with that? Look at Consolidated Statement of Operations (Net Investment Income After Taxes - 90% of that number must be paid out to maintain RIC status), and compare to actual distributions. Additional "income" is non-cash, unrealized changes in equity investments. This point really pales in comparison to the thesis laid out in the article.

The dividend under existing earnings levels, revolving debt capacity and cash on balance sheet is not in danger of imminent cuts (next couple of quarters), even though it should be cut given the fact that it exceeds cash earnings and the operating threats discussed. Eventually, if our thesis plays out, it will have to be cut. As important as the dividend is to many of the retail investors who own the stock, our thesis, and the only important question on whether TAXI is going down more or if it's all overblown, is whether or not new supply of for-hire vehicles is going to be forced back out of markets by regulators. If not, the exclusive rights to cash generating activities - driving for-hire vehicles in cities - historically conferred by taxicab medallions/licenses disappears, and no rational investor will be willing to pay a premium in the secondary market for a superfluous license. If you are an owner-operator, paying interest on debt incurred to purchase a license that no longer has any equity value, and your profitability is declining, or, you are paying a medallion leasing fee, at some point you will be forced to eliminate these costs in order to compete in a market where other participants do not bear them. They are pretty easy to eliminate. Medallion loans will stop performing and have to be written down. Do you agree with that logic?

29 Dec 2014, 09:42 AMReply! Report AbuseLike0

- 
  Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

The logic is correct, but the thesis is incorrect.

Your thesis is based on flawed assumptions, logic, and lack of supporting evidence.

New supply on the market naturally means medallion revenue (both lease and own) would be expected to decline. One comment below shows only a 3-5% decline, if he is to believed.

So let's say we have tens of thousands of new vehicles come on-line. UberX now claims they are less expensive than taxis. 97% of all taxi rides originate in Manhattan or the airports. They operate in a protected hail-only zone that gives taxis a time advantage over Uber, etc.

So from the demand side, taxis have that immediate advantage.

On the supply side, Uber drivers must buy or lease their own vehicle, and pay insurance, which is not cheap in NYC (Gasoline is a wash). Medallion drivers do not.

UberX now claims they are less expensive than a taxi.

Your thesis assumes that UberX will make up for its time disadvantage with lower prices, which may very well be true. It also assumes that drivers view Uber as a worthwhile income source -- despite collecting less than taxis do, and at higher cost. Does Uber permanently take some market share? Probably. But if Uber continues to screw over the labor -- as it did by promising the 20% discount would not be permanent but then made it so, and by promising a $90K income which has turned out to be less than half of that -- the labor pool will dry up.

Further, your thesis assumes that the revenue impact on medallion drivers will be so great that they stop driving cabs and, presumably, they move to Uber. Hasn't happened. Some tried it and returned. Why would they Uber when they have to shoulder all the extra expense for LESS than they make driving a cab?

There are 4 drivers for every cab in NYC. Fleet medallion owners collect their daily leasing fees and cabs are at near-full lease usage. Therefore, there's no reason for those medallion values to decline.

The owners of medallions will not walk away from their equity investment, and their only means of living. This is why i said you don't understand the taxi business. 94% of drivers are immigrants who came here and for whom the cab they own IS their livelihood. They won't walk away from it.

The thesis is flawed because it makes a facile assumption that just because new supply comes on the market, current values will decline. Not so. As for Uber Black, both 50K livery black cars and taxis have co-existed for decades. No threat there, either.

You also provide no evidence of driver revenue declines or number of drivers who have permanently left cab driving. It's all speculation.

Also, please clarify the following comments:

1) You said in a comment above, "Uber has already taken 20%+ market share in Manhattan, trips per shift/meter revenue and, of course, medallion prices, down already." Later, you said, "Income versus a year ago is not the same as market share. Nowhere did we say taxicab income is down 20%." The first comment seems to suggest that meter revenue is down 20%. Are you stating that revenue IS or IS NOT down 20%. If not, how much do you estimate and with what data?

2) I requested the specific names and contact information for the medallion brokers. Please provide me with that contact information so that I may verify your claims for my rebuttal article.

3)I and at least one other poster have asked you for more specifics on who or what HVM Capital is, and your position there. Please respond.

29 Dec 2014, 02:03 PMReply! Report AbuseLike1

- 
  WTJ

[Comments (106)](#)| + Follow| Send Message

Thank you for a refreshing comment.

My eyes are so tired (LITERALLY) of reading the tomes
that find this, that or the other reason to dump this well-run financial.

It's VERY OBVIOUS to anyone
who's ever lived or worked most of their life in Manhattan,
that yellow medallion cabs are just as entrenched
as the NYC subway system.

I particularly like your mention of the co-existence
of black car livery for several decades.

I recall a surge of them sometime in the 80's (?)

NYC Law firms,
worried about the safety of their female employees
who were seasonally required to work late,
and with a new "East side Rapist" in the news regularly,
invested in the fleets.

These weren't the first to co-exist
and compete with medallion cabs, however.
Radio Car Services existed as long as I can remember.
(and I remember Robert Wagner as my Mayor)

Most of the radio dispatched cabs were based in the boroughs,
but they picked up FROM Manhattan as well.

Occasionally they had a problem in the 70's
when the Medallion cab drivers
(then members of the Electrical Workers Union)
would catch a dispatched cruising for hails rather than answering a call.

Point is, NYC has ALWAYS had non-medallion competition
and yellow cabs never lost money because of it.

I see no difference in "Uber" or
the "We're not Yellow. We go anywhere" services.
One has to be "app'd" from a smart phone.
The other can be called from ANY phone.

BTW:
All honor to Medallion Financial Board Member,
Mario Cuomo,
who died this New Year day.

2 Jan, 02:33 AMReply! Report AbuseLike1

- 
  Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

100% correct.

2 Jan, 03:50 AMReply! Report AbuseLike3

- 
  James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author’s reply » WTJ,
I lived in Manhattan for 14 years (mostly midtown to upper east side and a couple of years on upper west side). The thesis is not that taxis get eliminated, but that the profitability of medallion ownership gets squeezed and the exclusive access to cash generating markets they historically conferred goes away, rendering the medallion itself superfluous. As such, the secondary market premiums for medallions, created historically by the artificial supply constraints imposed by local government, will disappear. Taxis will remain on the road! As the clearing price for a ride-for-hire continues to drop, trips/shift continue to decline for taxis not utilizing services like Uber taxi (Uber just started charging $2 per trip for this service) and idle shifts continue to rise because the excess driver supply has dried up, there won’t be enough cash flow for taxi drivers to pay the extra costs not borne by ride sharing drivers, mainly exorbitant medallion leasing fees. Eventually, the same will be true for interest expense on high-priced medallions that will then be worth less than the debt balance. A host of factors

including price, convenience, ride certainty, comfort, safety, customer service – Angie’s List-like, real time ratings of drivers, the vehicle AND passengers (taxi driving is one of most hazardous jobs in the US) – vehicle cleanliness and time to destination, add up to a superior ride sharing value proposition. The difference between black, livery cab/any form of radio car dispatch is that ride sharing is providing most of the value proposition of those services at a price point now below the traditional taxi. The clean distinction at the heart of independent coexistence you cite is no longer – just ask either side.

3 Jan, 09:57 AMReply! Report AbuseLike0

- 
  WTJ

Comments (106)| + Follow| Send Message

Sorry James,
Your less than succinct reply just doesn't wash.
You "lived" in Manhattan for 14 years?
"...mostly midtown..."?
Alright, I won't question THAT any further,
but now that you're a grown-up,
why not leave Boston and return to get an adult's view of Manhattan.
Give itup.
You're outed.

5 Jan, 01:14 AMReply! Report AbuseLike0

-
  dkellison

Comments (3)| + Follow| Send Message

I agree with rg3922ch. Was beginning to wonder if I would finish reading before lunch! And then it all became clear. The Contributor is short TAXI. But, to be fair to all investors, only time will tell. I remember when Jet Blue came out like gangbusters until maintenance, and other overhead brought them down to the same level as rest of the airlines. How long before Uber drivers will start feeling the same drain on their income. You always have to be evolving. I think Medallion is smart enough to realize the position they are in for the future.

19 Dec 2014, 01:34 PMReply! Report AbuseLike5

- Jon Moser

  Comments (2)| + Follow| Send Message

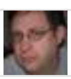
  Having worked with and within the industry off and on from 1982 to 2011, simply ASSUMING I had a good feel for it, I bought shares of TAXI in April of this year. In reality, I had no clue about the present context in which Medallion Financial is doing business.

  But as time passed, it continued to become increasingly clear that a sea change was taking place in the cab business.

  This article served to seal the deal for me. It wasn’t that the authors’ extensive elaboration of the situation told me much I didn’t already know, but putting it all together in one place did have an impact. Thus, I sold all of my shares in TAXI today, licked my wounds and hopefully learned my lesson.

  The fact that these guys are short TAXI was disclosed, so their bias was made clear, and I don’t hold that against them. It’s hard to argue with the facts and reasoning that they presented.

  19 Dec 2014, 01:34 PMReply! Report AbuseLike0

- 

  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  James,
  Your thesis is interesting, but I'm afraid it is seriously flawed. I don't think you understand TAXI's business model. I will be publishing a rebuttal shortly.

  19 Dec 2014, 04:38 PMReply! Report AbuseLike3

- 

  James Hickman

  , Contributor

  Comments (67)| + Follow| Send Message

Author’s reply » Look forward to your piece, Larry. Just out of curiosity, is TAXI a client of "Asymmetric"? As I made clear, the thesis might be off in extent of downside if hail or even airport enclaves preserved for medallion owners, but equilibrium price would still be small fraction of prices observed historically. Thesis could be wrong if supply caps enforced - putting genie back in bottle - but accept and regulate prevailing over elimination. Made these points clear. No "serious" flaws. I don't "understand" TAXI's business model? Talking about RICs? Diversification into Consumer and Commercial? Use of leverage? Please, enlighten me.

20 Dec 2014, 10:21 AMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  Not a client, and I appreciate you being open to another perspective. Hope to publish shortly.

  20 Dec 2014, 01:48 PMReply! Report AbuseLike0

-
  User14783102

  Comments (43)| + Follow| Send Message

  I am curious why you focus on the impact of UBER/Lyft vs the selling of more medallions (both yellow and green) by NYC? In respect to NYC this appears to me to be more of the issue. I would suggest that UBER/Lyft are just new names given to the longstanding existent black car services.

  19 Dec 2014, 05:06 PMReply! Report AbuseLike3

- 
  Time & Model

  , Contributor

  Comments (149)| + Follow| Send Message

I tend to agree with this stand point although one could make the case that the fall of medallion prices appears roughly correlated with the price cutting at UberX which began in June 2014. I believe there are some 1800+ medallions set to come on the market.

20 Dec 2014, 04:51 PMReply! Report AbuseLike1

-
  User14783102

  Comments (43)| + Follow| Send Message

  The 2011 law authorized 2,000 more yellow medallions and 18,000 green medallions. Those sales began in Nov 2013 with the sale of 200 yellow and 6000 green. More yellow and green were sold in 2014 with more to come next year.

  It is fun to attribute the decline in NYC medallions to Uber and lyft type services and to speculate on rewriting rules established over the course of centuries, but maybe it is far more boring and simply reflects the increased supply due to recent auctions as well as the market pricing in the future availability.

  21 Dec 2014, 11:49 AMReply! Report AbuseLike2

- 
  Lowcarb

  Comments (49)| + Follow| Send Message

  Pages and pages of talk and yet the author barely touches on the real reason that Medallions will continue to be strong in NYC. It is an island! There can not be unregulated, unrestricted access to Manhattan. Traffic congestion will not allow it. Thousands of UBERS would only result in everyone sitting in traffic instead of doing what you hire a taxi to do. Get you to your destination.

  The uber take over will not happen in Manhattan. If it were to happen the quality of service for everyone and the ability of anyone to make a profit would evaporate.

  20 Dec 2014, 08:59 AMReply! Report AbuseLike2

- 
  James Hickman

  , Contributor

  Comments (67)| + Follow| Send Message

Author’s reply » Uber has already taken 20%+ market share in Manhattan, trips per shift/meter revenue and, of course, medallion prices, down already. Removing artificial supply constraints and allowing free market supply/demand dynamics to determine the number of for-hire vehicles in the market, with the cost of marginal vehicle equal to roughly zero, means the formerly finite and scarce permits cease to have secondary market value – why would you need a medallion? Some of the new supply was already on the road prior to ride sharing, but if congestion results, it won't last long because utilization and revenue per vehicle will decline and push out supply, just as it did in decades following initial issuance of 13,595 medallions in 1937 (to 11,787). Those were organic, market driven declines.

20 Dec 2014, 11:11 AMReply! Report AbuseLike0

- 
  Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

James, you refer in your footnotes to "local medallion owners and brokers". can you provide specific names? Also, did you call management and ask about any of your concerns, and if not, why not?

20 Dec 2014, 01:49 PMReply! Report AbuseLike3

- 
  Time & Model

, Contributor

Comments (149)| + Follow| Send Message

>> Removing artificial supply constraints and allowing free market supply/demand dynamics to determine the number of for-hire vehicles in the market, with the cost of marginal vehicle equal to roughly zero, means the formerly finite and scarce permits cease to have secondary market value – why would you need a medallion? <<

James, it is worth pointing out that the barriers to entry *were not* removed in NYC. The medallion owners have a monopoly on street hailing in Manhattan. Also, Uber in NYC is a black car company. I.e. you get on the phone to have someone pick you up -- literally, it is exactly the same thing as the old black cars.

According to the TLC, there are some 144,000 licensed black car drivers. I understand that there are maybe 40,000 or 50,000 black cars (I have seen the stats but couldn't find the link before I posted this comment). These existed before Uber. This is the market in which Uber is licensed. Uber's products will likely win that market but the black car companies have existed along side taxis for decades. For your thesis to be correct, you'd have to explain why the dynamic between yellow cabs and black cars would change. An example of a theory about why Uber is different than its older peers would be that Uber's marketing has been literally world class (while I think the CEO is far from perfect and very bad at PR, he is a really good marketer). But given the number of livery apps which have played the NY market in the past (there were British taxi apps there pre-Uber) I don't personally think the technology angle is going to cut it.

Where do you get that market share figure from?

20 Dec 2014, 04:47 PMReply! Report AbuseLike1

- 
  James Hickman

  , Contributor

  Comments (67)| + Follow| Send Message

  Author's reply » Basic search for medallion brokers in Chicago will get you some names. I reached out to CFO Larry Hall weeks before publication and he did not respond.

  20 Dec 2014, 05:29 PMReply! Report AbuseLike0

- 
  WTJ

  Comments (106)| + Follow| Send Message

  Lowcarb,
  How true and hilarious!

  I was about to mention that
  the most important commodity in Manhattan is TIME.
  The need for spontaneity is as necessary as breath in this borough.

  Every wasted second adds to the stress that MUST be dealt with to enjoy this city at the center of the universe.

Why waste time playing with your Uber app, waiting and hoping you can find it in the sea of traffic?

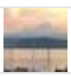
The odds are so much better to simply stand out from the curb of the nearest North-South Ave or major cross street and simply raise your hand.

The silliest thing about these diatribes against NYC medallion cabs
is that the promoters have never lived or worked in Manhattan.
They have no idea what it's about.

There's no way you can explain it,
but they should realize that something is very unusual about a city where the wealthiest people from all over the world offer extravagant sums to live.

Trying to opine about it's transportation system without this experience
is truly silly no matter what part of an orifice figures come from!

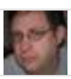
2 Jan, 06:34 AMReply! Report AbuseLike2

- 
  SeattleGoldMiner

  Comments (933)| + Follow| Send Message

  The author of the article DID live in NY City for over 10 years, so he should be more familiar with the "on the ground" perspective. fyi

  3 Jan, 01:04 AMReply! Report AbuseLike0

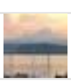
- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  Living in NYC means nothing. The question is how well he knows the taxi business.

  3 Jan, 01:06 AMReply! Report AbuseLike1

- 
  SeattleGoldMiner

  Comments (933)| + Follow| Send Message

If you follow the comment thread you will note that what I said was in response to the prior comment which said:

"The silliest thing about these diatribes against NYC medallion cabs
is that the promoters have never lived or worked in Manhattan.
They have no idea what it's about.

There's no way you can explain it,
but they should realize that something is very unusual about a city where the wealthiest people from all over the world offer extravagant sums to live.

Trying to opine about it's transportation system without this experience
is truly silly no matter what part of an orifice figures come from!"

3 Jan, 01:19 AMReply! Report AbuseLike1

- 
  James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author's reply » As I mentioned in reply to your earlier comment, I lived in Manhattan for 14 years. A small time-to-destination advantage observed in the relative early days of ride sharing, along with habit and waning government protection, are the only advantages of taxis over ride sharing. Whatever time advantage still exists is significantly smaller than just 6 months ago as drivers continue to migrate to ride sharing. Just 6 months ago, lines of would-be drivers were routinely being turned away because there weren't enough taxis. Today, you are actually seeing idle taxis. To have eliminated the entire driver supply overhang (with modest help from jobs growth generally), the absolute key to medallion ownership economics historically because it facilitated near 24/365 leasing of medallions, in such a short time is stunning. The premium on immediacy and efficiency in the Manhattan ecosystem is not the reason street hails have long been the dominant hiring modality, it's because regulation left riders no other choice but to street hail since radio dispatching was eliminated in 1987 (I was there too). That's no longer true with the influx of ride sharing. Ride sharing uses GPS to deliver the nearest vehicle to the customer – Uber promises less than 5 minutes, on average, Lyft is less than 7 minutes (anecdotal evidence indicates 4 and 6 are pretty typical, respectively). Longer wait times, of which customers are alerted real time, are a proxy for how difficult and time consuming it will be to hail a taxi. Also, that same unique Manhattan culture is characterized by early adoption of new technology and better mousetraps generally, and a preference for free markets. Government imposed monopoly taxi systems couldn’t be more repugnant to a New Yorker, except you, apparently. The first time I tried Uber was after 20 minutes of trying to find a taxi in a torrential downpour to take me from midtown to Penn Station to make a scheduled train. I signed up and had a car in 15 minutes, and was happy to pay a “surge” price for the certainty. I was picked up on bustling 8th Avenue and despite my nervousness about finding each other, it was seamless, with virtual real time communication between me and driver the whole time, and my ability to track his vehicle on my smartphone. A very New York value proposition, I would say.

3 Jan, 10:01 AMReply! Report AbuseLike0

- 
  WTJ

Comments (106)| + Follow| Send Message

Thank you for repeating my reply,
but it wasn't necessary.
It's pretty obvious that the author is up to no good.

Just because someone claims to have "lived in Manhattan"
("midtown" at that) for 14 years,
doesn't mean he was a participant.

He's obviously not much more than twice that number of years,
and I don't think the observations of a 14 year old
is serious investment data.

He quotes vague (or refuses to name) sources and gives impossible data.

The idea that he can determine how much MANHATTAN ridership share
that Medallion cabs have lost to Uber because an "inside source" at Uber
told him so is SILLY!

Without considering that,
and that this isn't the first input by the Boston clique
that's desperate to short TAXI and pump UBER,
ANYONE WHO'S REALLY LIVED AND WORKED IN MANHATTAN
can easily see the baloney.

I love to read different opinions of markets and corporate entities,
it helps me make better choices,
but this is rubbish without whitespace

and I have to wonder what the SA moderators were thinking when they accepted this article.

5 Jan, 01:39 AMReply! Report AbuseLike0

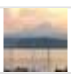
- 
  WTJ

  Comments (106)| + Follow| Send Message

  "...radio dispatching was eliminated in 1987 (I was there too). "

  NOT TRUE.
  Ask ANYONE who lives in Weschester,Bronx, Canarsie or Sheepshead Bay, Brooklyn Staten Island, Queens...
  The more you insult my eyes with your intentional lack of whitespace
  the more you stick your foot in it.

  5 Jan, 01:43 AMReply! Report AbuseLike0

- 
  SeattleGoldMiner

  Comments (933)| + Follow| Send Message

  Why don't you read his LinkedIn resume to learn the facts instead of repeating the same gibberish over and over. He was clearly an adult while he lived in Manhattan and is approximately 54 years old as of today.

  5 Jan, 03:22 AMReply! Report AbuseLike0

- 
  James Hickman

  , Contributor

  Comments (67)| + Follow| Send Message

  Author's reply » You are one angry old man. Yellow cabs, radio dispatch outside of Manhattan not core to the issue. http://nyti.ms/1F9Huwj

  5 Jan, 07:51 AMReply! Report AbuseLike0

- 
  WTJ

  Comments (106)| + Follow| Send Message

Angry, Yes,
I hate wasting time with the charade of a pretender.

5 Jan, 08:06 AM Reply ! Report Abuse Like 0

- 
  WTJ

Comments (106) | + Follow | Send Message

BTW
Perhaps there's no "radio" in the car, but they are still Call-for-hire.
and perhaps you can explain to the 3 million people who live in Brooklyn
and the other millions who live in Queens, Bronx and Staten Island why They aren't "core to the issue"?

5 Jan, 09:30 AM Reply ! Report Abuse Like 0

- 
  WTJ

Comments (106) | + Follow | Send Message

The icon picture is not a 54 year old man.

Gibberish?
In the last 54 YEARS,
I've LIVED,
voted, served on juries, sued in NY Supreme and civil Courts,
ran for office, served on NY County Committees,
and put myself through school
DRIVING NYC MEDALLION CABS and spent years hailing them.

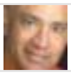
I've testified at TLC hearings and been involved with deals
for mini-fleets and Individuals.
I've hired Black Pearl Cabs, Radio-dispatch and Limos in Brooklyn, Queens, Bronx and Manhattan.

I think that my knowledge of the Taxi Industry here as well as my familiarity with the political support of Medallion Financial
makes me just a little bit knowledgeable.

Now you may not understand what the TLC or a mini or an Individual is,
but it certainly isn't gibberish.

I wouldn't think of questioning YOUR knowledge of the Moore theater's history or the Harvey family's fortune,
and I'm sorry that you're upset about my disdain for Mr. Hickman's subterfuge.

5 Jan, 10:12 AMReply! Report AbuseLike0

- 
  Roger 007

  Comments (9)| + Follow| Send Message

  Is it true that UBER has reduced their drivers payment by 20%?
  One UBER driver told me that, and they were not going to be driving for UBER anymore.

  20 Dec 2014, 04:32 PMReply! Report AbuseLike1

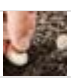
- 
  Time & Model

  , Contributor

  Comments (149)| + Follow| Send Message

  Yes, true story. They lowered their UberX fares to be more competitive with taxis. They said it was temporary but it became permanent.

  20 Dec 2014, 05:19 PMReply! Report AbuseLike1

- 
  Ryan Pearce

  Comments (22)| + Follow| Send Message

  In Orlando/Tampa the following changes were made after the original contract agreements (which started about 6 months ago):
  - Minimum pay of $20/hour removed (this was obviously a temporary measure to kickstart the area and was expected to be stopped eventually).
  - Client fare reduction of 20%
  - Uber increased its cut to 30%
  - Other minor benefits, such as referrals, were made less valuable.

So, if a driver originally spent, let's say, half of their fares in cost (assuming they found an old used car which was relatively fuel-efficient and still fit in the Uber minimum requirements for vehicles). Let's take $100 of fares for an evening:

Original net:
$100 in fares displayed to driver:
- $20 Uber cut
- $50 in vehicle depreciation, tank of gas (although this is now cheaper with recent oil spill), TOLLS, insurance, car wash, maintenance, etc.
Net to driver: $30 (then subtract all effective self-employment taxes, which are nasty).

Maybe on a good night they would make a bit more, but this seems all too typical (read: the drivers don't do all the math ahead of time).

Now after these changes the same $100 becomes $80 due to the Uber fare cut. The same moderate evening now yield the driver a net of:
80
- 24 (new 30% Uber fee)
- 50 (same costs to drive, ignoring change in gas prices)
Net for evening: $6.

For people who want to claim they make a lot more in a good evening, we'll put it at $200 of fares with other costs unchanged. The math works out to previously making $110 before tax, and making only $90 now before tax.

The old math worked out that most Uber drivers made less than minimum wage, and that's after they see their increased tax burden as a self-employed contractor. With Uber's new changes to get more market share, the drivers won't be able to even eat, much less make their car payments. It is unsustainable in its current form.

27 Dec 2014, 07:08 AMReply! Report AbuseLike3

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  James, any comment?

  3 Jan, 07:13 PMReply! Report AbuseLike0

Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

James, I'd like to be more direct. I wish to speak with the same exact sources that you spoke to, per the footnotes in your piece, so that my research is as thorough as possible. If you prefer to PM me the names and contact information, I would appreciate it.

20 Dec 2014, 07:58 PMReply! Report AbuseLike0

35402485

Comment (1)| + Follow| Send Message

James, you do make some valid points and I understand your agenda. Perhaps you are even subsidized by Uber's massive money machine. Nonetheless, there are some completely false statements contained in your thesis. In NYC medallion fares and yellow driver incomes are NOT down 20%. In fact, they are down only about 3% to 5% from a year ago, and this is attributable in part to the TNCs and also the "outer-borough" green cabs. How do I know this? My clients are major NYC fleet operators who can analyze trip/fare data easily via TLC TPEP information. The clients I work with represent about 20% of the entire NYC medallion market. The decline in fares you are citing stem from the existing black car and livery services. Those segments have felt the brunt of the TNCs presence. Equating that decline to medallion taxi fare declines is simply a false conclusion.

21 Dec 2014, 04:55 AMReply! Report AbuseLike2

James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author’s reply » I wish I was subsidized by Uber's massive money machine! We don't care about Uber, but objectively believe ride sharing is not going away, and monopolistic medallion prices will be set by free market supply demand dynamics. That conclusion came first, the short position second. You’ve made an important point about the impact on taxicab economics at this early stage of the market transformation that requires some clarification of concepts.

Income versus a year ago is not the same as market share. Nowhere did we say taxicab income is down 20%.

Our estimate of 20% market share in NYC, methodology disclosed in report for anyone to judge, is a year-end 2014 forecast. It is based, in part, on an in-house Uber presentation that showed uberX and taxi were the fastest growing segments, by far, and represented around $16 mm in December 2013, growing at 17% per month. That growth rate will obviously slow eventually, but it was just getting started and other indications suggest growth accelerated through 2014. Growing that $16 mm at the observed rate entering the year, it projects to uberX and taxi revenue over $100 million in December 2014 - that's just Uber. We made several adjustments to that starting point to get to an estimate of 20% market share (assumed growth rate did not persist at that monthly rate, some meaningful portion came out of black car/livery markets, and that some portion was an expansion of overall market, coming out of car rentals and other alternative transportation options). The estimated New York taxi market was around $2.3 billion in 2013, based on trips per year and average fares published by TLC. You will note that we cited meter revenue – not income - being down 13-15% in Boston and New York (NY was the low end of that range). That was based on a two-week period in October versus the prior year, not a cumulative year-to-date comparison and not a year-end estimate, and it came from a fleet operator in New York. Is the 3-5% number you cite based on year-to–date figures? Is it on a per taxi basis? What are medallion fees versus last year? Are your clients running the same number of taxis versus last year? Another factor that would explain part of the difference you report is overall growth of the market. One could have revenue down 5% but market share down by more owing to market growth.

Your input is really important and valuable. To me, it is more about the trend than the exact magnitude of the impact at this early stage. It’s also not about TNCs displacing taxis, but coexisting, with market forces determining supply rather than bureaucrats. The elimination of the scarcity of supply in the hail market and the exclusive access to it conferred by a medallion, means the secondary market premium observed historically for those medallions goes away.

21 Dec 2014, 10:59 AMReply! Report AbuseLike0

- willz1

  [Comments (6)](#)| + Follow| Send Message

  I don't want to get in the middle of this, interesting as it is, but it's possible there might be some Lyft money floating around as well.

  23 Dec 2014, 11:23 AMReply! Report AbuseLike0

- willz1

  [Comments (6)](#)| + Follow| Send Message

  When and where was HVM Capital incorporated?

  23 Dec 2014, 08:49 PMReply! Report AbuseLike0

- 

  Larry Meyers

  , Contributor

  [Comments (734)](#)| + Follow| Send Message

  I suggest you ask James directly and publicly. There's nothing at all out there about HVM.

  24 Dec 2014, 03:46 AMReply! Report AbuseLike0

- 

  mjk0259

  [Comments (737)](#)| + Follow| Send Message

  Neither Uber or Lyft benefit if taxi stock price declines.

  25 Dec 2014, 05:42 PMReply! Report AbuseLike0

- 

  WTJ

  [Comments (106)](#)| + Follow| Send Message

James,
Might I suggest that your "...in house Uber..." source
learn the difference between MANHATTAN and NYC?

"Uber has already taken 20%+ market share in Manhattan, trips per shift/meter revenue..."
This would be impossible to determine unless a massive manual audit of every trip on EVERY medallion driver's daily hand-written trip-ticket were done for the time claimed.

Some would even question a 20%+ market share in the outer boroughs where entrenched car services have loyal clientele who know prices and wait/availability times.

The idea ""Uber has already taken 20%+ market share in Manhattan...",
however is ludicrous.

I guess, I should thank you though.
The price of TAXI was low enough today that I bought a few more round lots,
however,
I detest contributions on SA that are anything less than honest
or a shill.

2 Jan, 11:05 PM Reply ! Report Abuse Like 1

- 
  James Hickman

  , Contributor

  Comments (67) | + Follow | Send Message

  Author's reply » If you read this somewhat daunting string of comments, you will see that 20%+ is a year-end 2014 estimate, as clearly stated in the report. Uber was doing \$8 mm in NYC (\$26 mm in metro-NY) in December 2013, growing at 17% per month. Uber riders have increased dramatically over the course of 2014, consistent with feedback from any player in the industry. Compounding that revenue over 2014 at that rate suggests over \$100 million/month of revenue by end of 2014. We discounted that level to account for some portion coming out of livery cab, black and other trans options and general uncertainty as to when Uber levels off. The NYC (not just Manhattan) 2013 taxicab market was roughly \$2.3 billion. Uber has taken 35-45% share in Boston, according to local taxi union, SF rides are down 65% because of ride sharing. But 20% in NY is ludicrous? We believe NY medallion secondary market prices will be last to fully succumb, for reasons clearly stated (strong TLC and existing regs, dominance of street hail and largest supply shortage going in). Is it your view that New York's monopolistic taxicab medallion system is uniquely impervious to basic supply demand economics? The New York Yankees of taxicab monopoly systems? And presumably you are in favor of that monopolistic structure? There is nothing "dishonest" about our estimate. It may be wrong, but the important point is that Uber and other ride sharing companies are big, getting bigger and are not going away in NYC (and Manhattan). If that is true, medallion operating economics are going to continue getting squeezed and economic rent/monopolistic secondary market premiums for medallions are going away. NY medallion prices are now down over 30%.

3 Jan, 10:26 AMReply! Report AbuseLike0

- 
  WTJ

Comments (106)| + Follow| Send Message

Great,
so once again,
you've bombed our eyes with a tiring lack of whitespace,
in an obvious effort
to obfuscate a valid source for:

"Uber has already taken 20%+ market share in Manhattan, trips per shift/meter revenue..."

5 Jan, 01:54 AMReply! Report AbuseLike0

- 
  WTJ

Comments (106)| + Follow| Send Message

BTW I don't care what YOU "believe".
You're an unproven source.

5 Jan, 01:56 AMReply! Report AbuseLike0

- 
  WTJ

Comments (106)| + Follow| Send Message

Larry,
According to the Washington Post article:

"Investors who can’t bet on Uber are betting instead on the death of taxi medallions"
by Emily Badger, December 19, 2014,

which discusses a 23-page report authored by
JAMES F. HICKMAN
warning of
"financial ruin" for Medallion Financial Corp."

and published by
"HVM Capital,
a small, opaque hedge fund
with no Web presence and
no history of weighing in on a publicly traded company."

"The last sentence of the report" reveals that HVM
"has sold short shares of Medallion Financial."

According to the Washington Post article,
HVM's chief investment officer is

JAMES F. HICKMAN,

5 Jan, 02:51 AM Reply ! Report Abuse Like 0

- 
  Larry Meyers

  , Contributor

  Comments (734) | + Follow | Send Message

  WTJ,
  First, may I suggest you keep your comments limited to the thesis. There's no need to be insulting to James personally.

  There are fatal flaws in James' thesis which I plan to address this coming week. I have found zero information on HVM Capital and would like James to let us know the state in which it is incorporated so further research can be done.

  5 Jan, 03:11 AM Reply ! Report Abuse Like 0

- 
WTJ

[Comments (106)](#)| + Follow| Send Message

Larry,
I have no rancor for anyone holding a short position and explaining why.
It's a very accepted, albeit adventurous way of earning good money!
If it's an honest presentation, I'll gladly learn from it,
but
obfuscations , pretensions to data that obviously isn't,
secret sources and identities
are a general waste of time AND insulting.

I've searched Mass, NY and Delaware so far- no HVM Capital
It's pure suspicion, but I wouldn't be surprised
if this is a "pending" incorporation.

There's an article (paid insertion?) in todays Boston Herald

http://bit.ly/14ddKxq

where
"Gordon Gossage, an analyst with HVM Capital
and an Uber and Lyft driver..."
is ranting, not unlike Mr. Hickman.

As I mentioned before,
there's nothing new about this,
the Uber fanatics,
particularly these fellows from Boston,
have been assaulting Medallion Financial on SA for some time now.

Usually they were just juvenile rude comments.
The rudest, off-topic one that I remember
had the username Charlie Ponzi ?
I believe this is the first ARTICLE from the Boston faction.

Normally, I'd laugh a snide grin at it,
but I'm very serious about my investment research
and

reading through so much adamant conjecture disguised as fact annoys me.

5 Jan, 09:13 AMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  Can you give me more color on these "fellows from Boston". You've referenced Boston several times.

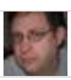
  5 Jan, 01:29 PMReply! Report AbuseLike0

- willz1

  Comments (6)| + Follow| Send Message

  Interesting article, but who and what is HVM Capital? Could not find any such entity. New kid on the block?

  23 Dec 2014, 07:25 AMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  Why not ask James directly?

  23 Dec 2014, 04:57 PMReply! Report AbuseLike0

- willz1

  Comments (6)| + Follow| Send Message

  I did, but no reply, yet. Won't hold my breath.

24 Dec 2014, 07:02 PMReply! Report AbuseLike0

- willz1

Comments (6)| + Follow| Send Message

P.S. Contributor to the article is a driver for Lyft.

28 Dec 2014, 02:32 AMReply! Report AbuseLike0

- willz1

Comments (6)| + Follow| Send Message

I will.

23 Dec 2014, 08:49 PMReply! Report AbuseLike0

- 
Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

James, who and what is HVM Capital? What is your position there?

24 Dec 2014, 09:31 PMReply! Report AbuseLike1

- 
WTJ

Comments (106)| + Follow| Send Message

Larry, I notice that he still hasn't answered that.
He's not the first Boston-based fellow
to bad mouth TAXI on SA in an attempt to save his short position.
There's a rats-nest of them and I can only assume it's part of Uber's now notorious bad behavior.
Sorry it's here, though. It's not worthy of an SA article.

5 Jan, 02:03 AMReply! Report AbuseLike0

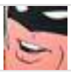
- 
  [Larry Meyers](#)

  , Contributor

  Comments (734)| + Follow| Send Message

  I disagree, WTJ. While I challenge the thesis, find it has numerous flaws, does not back up its assertions in a few instances, and is needlessly wordy, it is a perfectly acceptable piece for SA.

  5 Jan, 03:12 AMReply! Report AbuseLike1

- 
  mjk0259

  Comments (737)| + Follow| Send Message

  Best article I have seen here. Please write more.

  25 Dec 2014, 05:41 PMReply! Report AbuseLike1

- 
  Time & Model

  , Contributor

  Comments (149)| + Follow| Send Message

  mjk0259,

  If you think that you should brush up on your law and banking. That would better enable you to judge the articles worth.

  Best,
  T&M

  27 Dec 2014, 05:09 PMReply! Report AbuseLike2

-
  U2A Ventures

  Comments (200)| + Follow| Send Message

yeah i am having a hard time following the comments, makes sense now that you say that, some have been deleted, out of place comments.

28 Dec 2014, 08:47 PMReply! Report AbuseLike1

- 
  Time & Model

  , Contributor

  Comments (149)| + Follow| Send Message

  For clarification, I removed my own comment. I think the moderators then came in to try and make the remaining comment branch make sense. Somewhat hard to do without removing others. I stand by the comment but I wanted to give the author some time to respond to others inquiries. Perhaps he is on an extended vacation, you see.

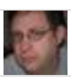
  29 Dec 2014, 01:10 AMReply! Report AbuseLike0

-
  Bc127654

  Comments (9)| + Follow| Send Message

  I think this might be a costly short. Try getting a cab in New York. You'll find most are occupied. Long TAXI. Time will tell. I like getting paid to wait though.

  29 Dec 2014, 01:37 AMReply! Report AbuseLike1

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  James, please clarify the following comments:

  1) You said in a comment above, "Uber has already taken 20%+ market share in Manhattan, trips per shift/meter revenue and, of course, medallion prices, down already." Later, you said, "Income versus a year ago is not the same as market share. Nowhere did we say taxicab income is down 20%." The first comment seems to suggest that meter revenue is down 20%. Are you stating that revenue IS or IS NOT down 20%. If not, how much do you estimate?

2) I requested the specific names and contact information for the medallion brokers. Please provide me with that contact information so that I may verify your claims for my article.

3)I and at least one other poster have asked you for more specifics on who or what HVM Capital is, and your position there. Please respond.

Thank you.

29 Dec 2014, 03:49 AMReply! Report AbuseLike1

- 
  dbt01

  Comments (592)| + Follow| Send Message

  I urge others to do their own DD. The chances of medallion values going to zero are, in fact, zero.

  29 Dec 2014, 09:16 AMReply! Report AbuseLike3

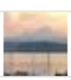
- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  Agreed.

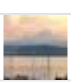
  29 Dec 2014, 01:17 PMReply! Report AbuseLike2

- 
  SeattleGoldMiner

  Comments (933)| + Follow| Send Message

  What is the cost to borrow?

  30 Dec 2014, 09:35 PMReply! Report AbuseLike0

- 
  SeattleGoldMiner

  Comments (933)| + Follow| Send Message

Buyback is putting some pressure on those with puts as it looks like some January Puts (which may not pay off if the company keeps buying stock through expiration) are being rolled to February and that the biggest bets on a price decline have been placed for February 20 (7.50 and 10 strikes) and May 14 (10 strike) Puts.

31 Dec 2014, 03:45 PMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  Agreed. Buyback should make those puts blow up.

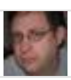
  31 Dec 2014, 05:28 PMReply! Report AbuseLike1

- dbt01

  Comments (592)| + Follow| Send Message

  bought another 1000 shares today. now have 2000

  31 Dec 2014, 09:13 PMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  James,
  Fair warning -- I am publishing next week. I've asked you privately and publicly for the contact information for the contact information for the medallion sources you refer to in footnotes 5, 6, 11-15, and 37. If you won't provide them, I will note that in the article, which may call your credibility into question.

  2 Jan, 06:36 PMReply! Report AbuseLike1

- dbt01

  Comments (592)| + Follow| Send Message

You have given him more than enough time. Let the chips fall where they may. Those have have done their DD know what is what.

3 Jan, 05:27 AMReply! Report AbuseLike1

- 
  James Hickman

  , Contributor

  Comments (67)| + Follow| Send Message

  Author’s reply » Larry,
  Protecting is the only way to retain good sources. I will respond privately to elaborate. But for public consumption, medallion brokers in each city are easy to find and a few conversations should corroborate asking prices available that still are not attracting buyers. NYC is now down over 30%.

  3 Jan, 10:56 AMReply! Report AbuseLike0

- Daedalus4

  Comments (4)| + Follow| Send Message

  There seems to be a lot of emotion on both sides here. As someone new to the name it seems like their medallion loan portfolio is relatively safe (great initial LTVs and personal guarantees help with that) but won't the stock as an ongoing business be fundamentally challenged? I can't imagine the book of business for medallion loan origination will do anything but decline and that has got to have a material negative impact on the stock.

  I also can't imagine the NPV of a medallion is positive right now. Imagine starting up as a new driver and your choice is medallion + the access that it brings or Uber--there's now way that the math of the former is better right?

  3 Jan, 05:21 AMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

On the contrary.

There is no value proposition to Uber. It costs a lot of money to work for Uber, which is where Hickman has it wrong. He claims there is "minimal start up cost". The cost of the vehicle to buy or lease, cost to maintain when you drive 70K miles per year and insurance in NYC, all add up to significant cost.

Meanwhile, you earn less as an UberX driver working a fare than you do as a taxi driver, according to Uber itself. More cost. Less revenue. Why bother?

Even if medallion loan origination declines, so what? The company is a specialty lender with a lot of underwriting experience. Medallion loans only earn about 4% anyway.

8 Jan, 03:41 PMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

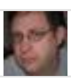
  Comments (734)| + Follow| Send Message

  My rebuttal:

  http://seekingalpha.co...

  (Free beginning at 418 PM PT on Tuesday)

  6 Jan, 04:04 AMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  I have authored a long thesis for TAXI, which addresses the flaw's in Hickman's analysis here at SA:

  http://seekingalpha.co...

  7 Jan, 03:35 PMReply! Report AbuseLike0

- 
  James Hickman

  , Contributor

Comments (67)| + Follow| Send Message

Author’s reply » There are significant problems with this “rebuttal” and it falls short of credibly challenging our thesis. The first of a series of digestible treatments of the main assertions in this article is pending SA approval.

8 Jan, 03:24 PMReply! Report AbuseLike0

- dbt01

Comments (592)| + Follow| Send Message

the problem with your article and the rebuttal are that you both fixate on TAXI as a medallion company. Looking deeper into the company, they are essentially a subprime loan company. 60% of their profits come from loans for RV's and boats and such. The whole medallion thing you both are arguing over is 20% of their profits.

8 Jan, 03:45 PMReply! Report AbuseLike0

- 
Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

Actually, it isn't an argument. In an argument, both sides have merit to their position. Hickman's thesis does not have merit because it's primary assertion is false -- that if you can earn as much or more driving for rideshare, then why drive a taxi?

But to your point -- the problem is the public's perception of TAXI. It is perceived as a medallion lender because of its name and because it has a lot of principal in medallion loans.

Nor is it "subprime". The consumer loans are not detailed enough to tell us what the FICO scores and other credit criterial are, so it is a false conclusion to assume they are "subprime". Given that they have less than 2% losses, I'd say they are quite definitely "prime".

8 Jan, 06:32 PMReply! Report AbuseLike0

- 
James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author’s reply » Larry, you still don't understand my thesis. A bit more complicated. But you really don't understand sharing economics or the cost structures of the respective modes. See new report tomorrow.

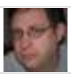
8 Jan, 08:28 PMReply! Report AbuseLike0

- dbt01

Comments (592)| + Follow| Send Message

I worked for a subprime company in the day, and interest rates of 15%-20% qualify as subprime. I don't care what the FICO score is or what they call it, I call it subprime. The company should change its name

8 Jan, 09:11 PMReply! Report AbuseLike0

- 
Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

Your thesis is quite clear, James. It is also faulty. The costs are very clear in both models and they weigh heavily against rideshare. Your entire thesis is built on the notion that drivers will abandon taxis, and the evidence runs counter to that.

And by that I mean, actual evidence of real fleet owners, not the anonymous people who claim to have contacted, who won't go on record.

By the way, I'd like some more background on you personally.

Who are you? What credentials do you have in economic analysis? Public policy? Investment? Who and what is HVM Capital?

8 Jan, 09:30 PMReply! Report AbuseLike0

- 
Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

Interest rate does not determine client quality, nor is the converse necessarily true.

In my business, interest rates are routinely in the teens or higher, and the credit quality of the borrower is prime.

8 Jan, 09:31 PMReply! Report AbuseLike0

- 
James Hickman

, Contributor

Comments (67)| + Follow| Send Message

Author's reply » Yes, my thesis is quite clear, but you clearly still don't understand it. Real fleet owners are part of the public debate, they don't casually open the books to anyone, and what you were told serves their political and business interests. That's why real, critical analysis has to be undertaken rather than taking dubious statements from a tendentious party at face value. The anonymity of a source creates justifiable doubt, but when the input can be verified AND independent and appropriately skeptical analysis comports and sometimes corroborates the input, we go with it. You have a different approach.

You're right about one thing, the costs are clear in respective modes, which begs the question, why do you remain unaware? In share economies, idle time for personal assets is monetized. You don't understand that, or you wouldn't keep repeating that ride share drivers "have to buy or lease cars." Do you think Airbnb network participants are building hotels? Do you think TaskRabbit network participants are learning new skills? You keep saying ride share drivers are buying new cars. You fundamentally don't understand this critical cost factor. Moreover, taxi drivers do bear the full cost of vehicles, one way or the other (shift drivers pay for the vehicle as well as the medallion). How can you possibly argue that vehicle costs are an advantage, much less a significant advantage of taxi drivers? You also cite insurance as a cost disadvantage to ride share drivers when that is a cost borne by taxi drivers as well in NYC (ride share drivers don't have to pay for livery insurance outside of NYC which makes it yet another advantage of ride share in cities like Boston and Chicago).

In NYC, and other markets, how can the market value of an industry go from being 100% concentrated in the finite hands of 13K+ medallion owners, to being disbursed over a free-market-driven population of suppliers, without the original 13K+ losing value? It is basic economics, yet you say "it's just a correction."

See fuller treatment in report being released this morning.

9 Jan, 08:15 AMReply! Report AbuseLike0

- gordongossage

Comments (38)| + Follow| Send Message

Short interest in Medallion Financial has increased 137% in the past month, accelerating the increase of 67% in short interest in the past 3 months. We are obviously not the only investors who believe TAXI will drop in the short term.

See: Medallion Financial Corp Short Interest Update by Mathew Donald published on 1/13/15

Medallion Financial Corp (NASDAQ:TAXI) has a short ratio of 4.36 , which means that the counter should take 4.36 days to cover the total short interest. A high short ratio indicates a high build-up of short positions in the counter whereas a low short ratio implies that there are fewer short positions. The average daily volume for the last 20 days is 256,161 shares. The volume traded during the last 20 days is 1.02% of the total outstanding shares.

The 1-month %change in short interest is 137.27%.The shares have witnessed a change of 67.4% in short interest in the past 3 months. The total monthly shares shorted are 0.07 times the total common shares outstanding.

Medallion Financial Corp (NASDAQ:TAXI) concluded the market session with a depreciation of 0.2% or 0.02 points in its share value. During the day, bullish momentum boosted the stock to a high of $9.94 but the rally soon fizzled out and the stock ended the day at $9.81. The first transaction was executed at $9.82 and the lowest price hit was $9.77. Volume during the volatile session remained fairly strong at 129,420 shares.

The 52-week high price is $14.7499 and the 52-week low is $9.165. The market cap of the counter is valued at $247 million and there are close to 25,163,000 shares in outstanding.

http://bit.ly/1u3NsEC

13 Jan, 02:51 PMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

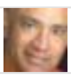
  Thank you Gordon. You have provided us with a perfect example of a logical fallacy.

  Argumentum ad populum aka ""If many believe so, it is so."

  There are many reasons why a stock is bought or sold. Perhaps all the media that the overblown story of taxi medallions received gave many unsophisticated investors a bad idea.

  It will also make for a delightful short squeeze at some point.

  13 Jan, 07:26 PMReply! Report AbuseLike0

- 
  Roger 007

  Comments (9)| + Follow| Send Message

  According to the New York Times, Councilman David G. Greenfield introduced a bill that would cap surge pricing at 100 percent of normal rates.
  How is that going to affect TAXI?

  14 Jan, 11:46 AMReply! Report AbuseLike0

- 
  James Hickman

  , Contributor

  Comments (67)| + Follow| Send Message

  Author’s reply » Roger, it would clearly be a negative and eat into the substantial earnings advantage that ride share drivers have over taxi drivers in NYC. But you would still be talking about a ride share driver earning more than 2X (price doubles, cost stays the same) what a taxi driver earns during the periods of maximum demand.

  14 Jan, 12:45 PMReply! Report AbuseLike0

- 
  Larry Meyers

, Contributor

Comments (734)| + Follow| Send Message

Yet another assertion with ZERO data to back it up.

During surge pricing periods, it is Uber's network that is maxed out.

Therefore, any price advantage it had is now gone.

The consumer will choose the lower priced, more convenient, faster open of HAILING A TAXI.

If taxis are at maximum utilization as well, THEY DON"T CARE what an Uber driver makes. As long as the cabbie is cash flowing, he makes his loan payments or the fleet manager does.

14 Jan, 02:09 PMReply! Report AbuseLike0

-
gordongossage

Comments (38)| + Follow| Send Message

My comment states:

Short interest in Medallion Financial has increased 137% in the past month, accelerating the increase of 67% in short interest in the past 3 months. We are obviously not the only investors who believe TAXI will drop in the short term.

1) Let’s examine the logic supporting and not supporting that my comment is a perfect example of a logical fallacy.

1a) It is not logical to conclude that a 137% increase in short interest provides no useful information to a holder of TAXI, because there are many reasons why a stock is bought or sold.

1b) The standard description of the value of monitoring short interest is incorrect. Therefore the standard description below is incorrect. Which sentences in this description are incorrect?

A large increase or decrease in a stock's short interest from the previous month can be a very telling indicator of investor sentiment. Let's say that Microsoft's short interest increased by 10% in one month. Such a significant shift provides good reason for investors to find out more. We would need to check the current research and any recent news reports to see what is happening with the company and why more investors are selling its stock.

2) Our report is not the only reason many short sellers have shorted TAXI.

2a) Before our publication on December 19, 2014, there had been months of short selling by many investors other than us. The evidence of this trend was the steep increase in short interest months before December 19, 2014. What other evidence exists to prove there has been an increase in short selling over the past several months?

2b) I pointed out that there was a 67% increase in short interest in the 3 months ending December 31, 2014. Approximately 87% of the quarter's short selling was due to information other than our report.

3) We are obviously not the only investors who believe TAXI's near term prospects and earnings will drop, causing TAXI's stock price to drop in the near term. For months before our report many short sellers came to this conclusion by examining:

3a) SEC filings

3b) Research by KBW and Sandler O'Neill. These companies are two out of the three book runners for TAXI's secondary financings over the past three years of $85 million costing $5 million.

3c) Information in investment chat rooms including Seeking Alpha and Yahoo Finance. Due to TAXI's thin research, the percentage of all analysis contained in these chat rooms is very, very high, especially compared with stocks covered by many institutional analysts.

3d) News reports on TAXI and the effect of Uber, Lyft and Sidecar on TAXI's future prospects and stock price

3e) Our report

4) Despite the merits of an analysis indicating a stock price decline, a short squeeze could occur.

4a) This is a true statement.

4b) However, this statement has no bearing on the reasons why there is so much short selling of TAXI or the merits of our report’s analysis.

5) Argumentum ad populum aka If many believe so, it is so

5a) This is a true statement.

5b) The ad populum fallacy is the appeal to the popularity of a claim as a reason for accepting it. The number of people who believe a claim is irrelevant to its truth.

5c) Short selling evidenced by a sharp increase in a stock's short interest from the previous month can be a very telling indicator of investor sentiment.

5d) It is a true statement that just because many believe the price of TAXI will drop precipitously in the near term does not mean these short sellers will be either right or wrong in the near term.

5e) It is a true statement that each TAXI holder reading these Seeking Alpha threads and analyzing other public information should make their own decision whether to buy, sell or hold TAXI.

6) All the media have

6a) Overblown the impact of ride sharing on the price of taxi medallions countrywide as evidenced by the 30%+ drop in Chicago, Boston and other cities.

6b) Overblown ride sharing’s impact on New York medallion prices.

6c) Failed to recognize that the drop in New York medallion prices must then be due to other factors instead of ride sharing.

7) Negative opinions on a stock’s near term performance and short selling are primarily done by unsophisticated investors who misunderstand the evidence from the five sources of information listed in Statement 3.

7a) Short sellers, including investors on the list published by Activist Shorts Research, are unsophisticated.

7b) Activist short selling campaigns are usually based on illogical and false statements of facts and statements of opinions that the company has severe near term risk in performance and stock price

7c) Our negative opinions of TAXI expressed in our report and comments are unsophisticated, illogical and false.

8) Our report and comments are useless to all of you reading them when deciding whether to buy, hold or sell TAXI.

I’ve made thirty Statements of Facts and Opinions in this comment.

Which of these thirty statements do any commenters agree or disagree with?

14 Jan, 05:19 PMReply! Report AbuseLike0

-
  gordongossage

  Comments (38)| + Follow| Send Message

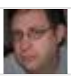
  For those who really, really think that New York medallion drivers make more per hour than New York UberX drivers, here's a real study released today.

  Refute this study logically and coherently or please stop claiming the opposite conclusion.

  Let's stick to the FACTS.

  http://bit.ly/1AUBUWC

  22 Jan, 02:46 PMReply! Report AbuseLike0

- 
  Larry Meyers

  , Contributor

  Comments (734)| + Follow| Send Message

  Rideshare drivers are going to lose their vehicles because they are lying to the state DMV. That's another wee little issue that James doesn't acknowledge.

  He naively believes that the "rideshare revolution" goes in one direction. It doesn't. There are multiple problems and this is just one.

  http://bzfd.it/1AUJwsc

  "There’s another problem: To qualify for a personal insurance policy in California, a car must be registered with the Department of Motor Vehicles as being for personal use, not commercial use. To get personal insurance, drivers purchasing new vehicles they plan to use for UberX often lie on official state forms that ask whether the vehicle will be driven commercially, according to registration documents, drivers, and auto dealers. Working with lenders, Uber has developed leasing and loan programs that have guided drivers to register Uber vehicles for personal use only.

The DMV says that is improper. “There’s not a shade of gray on it,” said Andrew Conway, branch chief of registration policy at the DMV. “If you use the vehicle for commercial purposes, even occasionally, it has to be registered as commercial.”
He added that anyone who registers Uber cars as personal vehicles is “making a false statement on the report of sale, knowingly.”

22 Jan, 03:17 PM Reply ! Report Abuse Like 0

- 
  James Hickman

, Contributor

Comments (67) | + Follow | Send Message

Author’s reply » Uber has its hands full with litigation in CA and several other jurisdictions, as we discussed in this very report. TAXI has no exposure to CA.