CtW Investment Group

March 21, 2019

Dear Potential Lyft, Inc. Investor,

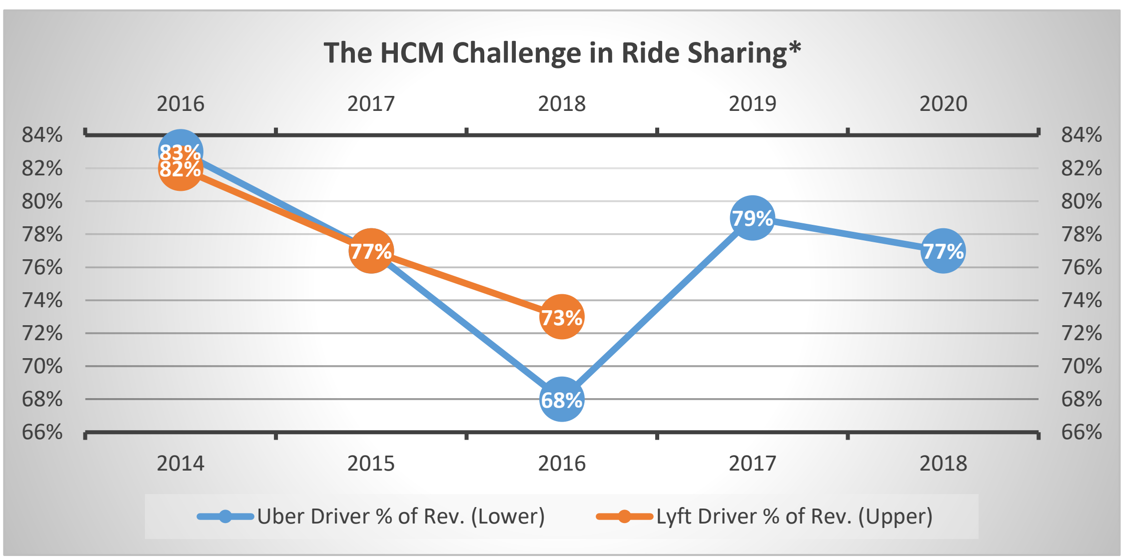
As you are deciding whether to invest in Lyft, Inc. (Nasdaq:LYFT) as it heads to its IPO, we urge you to consider the following questions:

1. Is Lyft's pay compression strategy sustainable?
2. How will the changing regulatory environment affect Lyft's operating costs?

Lyft faces a daunting challenge to persuade investors to attach a multi-billion dollar valuation to a company that has yet to turn a profit. Lyft spins its sustained losses as an indication of future profitability, but the company's business model reveals that Lyft faces an all-but-insurmountable barrier to positive earnings.[1] Lyft, like its rival Uber, charges prices for rides that do not cover the costs of rides, including the share of revenue retained by drivers. Absent a price increase, Lyft can only become profitable by reducing the drivers' share of revenue, either by simply charging drivers more to use Lyft's platform, or by increasing driver productivity and retention. So far, Lyft has chosen the first option, and has steadily reduced the share of its revenue going to drivers.

1. Is Lyft's Pay Compression Strategy Sustainable?

However, even Uber's financial data indicates that the market-dominant company cannot sustainably push driver pay low enough to ensure profitability. As the graph below illustrates, from 2014 to 2016, Uber was able to reduce its drivers' share of revenue from 83% to 68%, but in 2017 was forced to go into reverse by offering increased driver incentives, resulting in a driver pay share just under 80%.[2]



"This analysis was inspired by Hubert Horan, "Can Uber Ever Deliver? Part 18: Lyft's IPO Prospectus Tells Investors That It Has No Idea How Ridesharing Could Ever Be Profitable" www.nakedcapitalism.com

Over the past three years, Lyft has mimicked Uber's pay compression strategy[3], and IPO investors face the risk that the far smaller company will not be capable of sustaining low pay any longer than the market leader could. Moreover, while pay compression enabled Lyft to cut its losses to $911M (42% of revenue) compared to the $1.6B it would have lost in 2018 if it had maintained its 2016 driver share of revenue, Lyft's costs per ride nevertheless rose 7.5%, faster than gross bookings per ride (6.5%).[4]

2. How will the changing regulatory environment affect Lyft's operating costs?

Finally, potential investors in the IPO should note that the legal landscape is changing in ways that may further limit Lyft's ability to suppress driver pay. For instance, the California Supreme Court established a new test for employment status – the "ABC" test - in April 2018,[5] that clearly poses the possibility that Lyft may soon face significant increases in operating costs, including workers' compensation insurance and payroll taxes. This same "ABC" test has also been implemented in New York, New Jersey, and Illinois, and Lyft's current classification of drivers has been challenged in Massachusetts, Oregon, and Washington as well.[6]

In other jurisdictions, local and state governments have adopted or are considering a variety of regulatory changes to address concerns over driver pay, congestion, and pollution. For instance, New York City had passed minimum wage law for rideshare drivers that recently survived a procedural challenge by Lyft.[7] Last year, California passed legislation requiring transportation network companies to develop plans to meet new greenhouse gas emissions targets, and is considering a bill that would regulate access to ridesharing for disabled persons. San Francisco will be holding a referendum to consider congestion pricing as a mechanism to address traffic and pollution concerns, which would also have a negative impact on Lyft's operating costs.

If you have questions or would like to discuss these concerns further, please contact Richard Clayton, Research Director for the CtW Investment Group at richard.clayton@ctwinvestmentgroup.com.

Sincerely,

Richard Clayton
Research Director

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[1] Michael Hiltzik, "Lyft's IPO disclosure shows it's not close to profitability and has no good way to get there," *Los Angeles Times*, March 7, 2019.
[2] Johana Bhuiyan, "Drivers don't trust Uber. This is how it's trying to win them back." *Recode*, February 5, 2018.
[3] Lyft, Inc. Prospectus on Form S-1/A, filed with the SEC on March 18, 2019, page 83.
[4] Lyft, Inc. Prospectus on Form S-1/A, filed with the SEC on March 18, 2019, pages 74, 80, and 93.
[5] *Dynamex Operations West, Inc. v. The Superior Court of Los Angeles County*, filed April 30, 2018.
[6] Michael Waters, "Uber drivers are officially employees in New York State," *The Outline.com*, July 19, 2018.
[7] Bryan Menegus, "Judge gives Lyft something to worry about ahead of its IPO," *Gizmodo*, March 18, 2019.