



## **MSc FINANCE CAPSTONE PROJECT**

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### **Public Project Summary**

For my capstone project I have chosen to do startup valuation for an automotive peer to peer car sharing company called Ryde Inc. Ryde launched its services in Los Angeles, California, USA in January 2<sup>nd</sup> of 2018 and is currently operating in Southern California. Ryde focuses on creating experiences with luxury and exotic cars for all car lovers. Ryde's mission is to give people easy and quick access to a car of their choice wherever they go. Ryde wishes to be the first to introduce autonomous and electric cars at large scale in shared economy market.

The deliverables of this projects include, competitive landscape, pricing model, growth model, startup valuation and company pitch deck for next capital fundraising. During the course of 3 months, I have done extensive research in areas of peer to peer services, car sharing, car rental and innovations in auto industry. The market Ryde is targeting is a growing each year and is expected to grow to a global market value of 16.5 Billion USD in 2024. Ryde has well-funded competitors like Turo and Getaround but the market is still young hence Ryde has a chance to be a big market player in the coming years.

Conventional car rentals in US brought in a staggering revenue of 38 Billion USD in 2017. Car rental companies showed the highest Revenue Per Unit per month in 2017 with a RPU of \$1091. It also showed the lowest annual growth rate since 2008 financial crisis, to be 0.06% from 2016 to 2017. Comparatively the car sharing market brought in 2 Billion USD in 2017. The car sharing market has shown an increasing pattern in its annual growth in the last 6 years since Uber and Turo were introduced. Car sharing market is expected to grow a cumulative annual growth rate (CAGR) of 34.8% according to research done by Global Market Insights Inc. This growth is led by the willingness of people to use durable goods like cars to create another income stream for themselves.

This makes the market opportunity for Ryde to enter just ripe. The sharing economy users are increasing by 20% each year and it is predicted to increase more as the shared economy is introduced to more countries. There are 1.3 Billion cars in the world, 300 million in US. A

research paper on Infrequent/Idle cars concludes that only 27% cars are daily used. This means the 73% of the time cars are sitting idle, and Ryde can put these idle cars to work for their owners.

Pricing and Revenue models for the business are based on the different tier levels of the cars. Since Ryde is specializing on high value cars the pricing has to be competitively lower than the conventional renters of luxury cars and its peer to peer competitors. The revenue model is a haircut model offering more earnings to car owners than its competitors. Ryde has direct competitors in peer to peer (sharing economy) like Turo & Getaround. Indirect competitors include conventional rent a car global companies like Hertz, Enterprise, Avis and Sixt. Car manufacturing companies like Mercedes Benz and BMW have both invested in their own car sharing services operating in Europe and US. Turo acquired the Mercedes Benz car sharing website as part of their investment deal with Daimler in 2017. Following are details on the two direct competitors.

1. **Turo** is a car sharing marketplace where travelers can rent from a community of local car owners.

Since its national launch in March 2012, Turo has built a community of over 2 million owners and travelers. Owners are able to make hundreds – or even thousands – of dollars a month by simply and safely renting out their cars. Backed by top-tier investors, including August Capital, Google Ventures, Shasta Ventures, Canaan Partners, and Trinity Ventures, Turo is currently available in 2100+ cities and 300+ airports throughout the United States. Turo raised seed of 5.1 Million USD in 2011.

2. **Getaround** is an on-demand car sharing community.

Rates start at \$5/hour including insurance and no membership fees. Car owners conveniently share their cars earning \$500-\$1000 a month. Based in San Francisco and launched at TechCrunch Disrupt in 2011, Getaround is a community marketplace for people to list and rent cars. They operate in 8 cities across North America, including Chicago, Washington D.C.,

Portland, and growing. They have patented technology and partnerships with automakers, such as Audi, Mercedes-Benz and Toyota. Getaround raised 3.5 Million USD in seed in 2012.

Based on the market growth and annual growth of its competitors, it is recommended for Ryde to grab the market head on and expand as early as possible. I used the bottoms up approach and market assumptions to come up with feasible, achievable yet ambitious targets for the next 10 years of operations. I forecasted growth for each year in the first 10 years of operation until 2027 using the developed growth model. I also projected all three financial statements for Ryde using the projected growth of its sales and expenses. I inserted the key drivers of growth (target bookings, target cars, target cities) into the Income Statement along with key expenses like marketing, payroll adding overhead and other costs.

Income statement starts with counting total sales for each year. Then total direct costs (which includes host payments ~ the payments made to car owners, and parking lot costs). It then calculates company's gross margin. Ryde's forecasted gross margin is 25%. The indirect costs include labor, insurance, bank fees, overhead, marketing and incentive costs. And finally, it goes on to calculate the EBITDA followed by EBIT and Net Income. The Balance Sheet balances out and the Cash flow statement is extensive calculating cash from operation, investing activities and financing activities followed by Free Cash Flow and Cumulative Net financing Need.

The EBITDA from Income Statement and Free Cash Flow from Cash Flow Statement are used to value the startup company. I used two different valuation methods: Discounted Cash Flow and Enterprise Value. For multiples and industry (historical and expected) growth rates, I turned to damodaran and used the software industry. The Enterprise Value using the Gordon growth model gives the best valuation for the company. I have made recommendation to how much and from whom the company should raise its next capital funding.

Finally, I have delivered a pitch deck starting with brief description of Ryde, its mission, the current problems in market, Ryde's solution, business model, current progress, competitors, expected growth plan and lastly the capital required to achieve its growth plan.













