Lack Of Disclosure And Commentary Again Biggest Takeaways From Medallion Financial's Earnings

Aug. 6, 2015 10:59 PM ET | 16 comments | About: Medallion Financial (TAXI)
Disclosure: I am/we are short TAXI. **(More...)**

Summary

- Medallion Financial continues to avoid disclosure or commentary on the taxi medallion crisis.
- The company uses last-sale and sets Chicago medallion prices above average transfer prices for the first time.
- An accounting quirk adds $0.08 to the benchmark NII, but does not affect the bottom line.
- Unrealized, non-cash appreciation in controlled subsidiaries adds $0.41 without any disclosure.

Medallion Financial (NASDAQ:TAXI) reported second-quarter earnings on August 4 of $0.33 per share (see Table 1 at the bottom of the report), above general expectations. Despite the conspicuous crisis reflected in every trend, in all corners of the taxi medallion ecosystem, and its exposure to the asset class, TAXI again provided little data and no discussion on the subject in its press release. The company's medallion exposure is roughly 175% of book value, 50% of managed assets, and nearly 100% of earnings per share after properly accounting for operating leverage. The little disclosure provided did show a spike in delinquencies greater than 90 days, and further increases in the LTV ratio - 40% to 75% in nine months. Total medallion delinquencies at Medallion Bank increased $17 million in the quarter (disclosed separately in Call Report), but TAXI did not disclose total delinquencies or troubled debt restructurings (TDRs) at the parent level in the press release. Investors have no idea what happened in the quarter on the most important risks facing TAXI, and yet, the stock is up 10% as if the storm has passed.

Lack of Disclosure and Commentary on Ominous Trends

It is striking to observe TAXI blithely emphasizing its rising exposure to sub-prime, high-yield consumer and commercial loans while Rome burns in the taxi medallion markets. The introduction of free market-based competition into long-protected taxi market monopolies threatens to render the taxi medallion a superfluous piece of tin - a relic. What once conferred exclusive permission to operate is no longer necessary to transport passengers at or below the taxi price point. The trends supporting this conclusion are undeniable. Since Uber commenced operation in 2011:

- Mike Levine of Yellow Cab in Chicago filed a federal lawsuit in 2012, alleging Uber was illegally operating, and if allowed to continue, would destroy the taxi business. The lawsuit is ongoing.
- In 2012, Boston Cab, the largest taxi operator in Boston, filed a similar lawsuit in federal court, alleging Uber violations and predicting a similarly dire impact if allowed to continue. The lawsuit is ongoing.
- In 2013, Cambridge, MA issued a cease and desist order to Uber, but the state quickly reversed it, conferring official legitimacy on Uber et al.
- In 2014, Chicago issued permits to Lyft and Sidecar, officially conferring regulatory legitimacy on ride sharing.
- In 2015, Massachusetts drafted legislation to regulate ride sharing.
- From 2012 to 2014, a wave of similar battles began to emerge across the country, in which medallion owners, taxi operators and regulators sought to block Uber.
- In 2014, data began to show a material financial impact on the taxi industry across the country, reflecting increasing public preference for Uber et al over traditional taxicabs. Politicians and the court system began to show a pattern of embracing the innovation.

  o Prices for medallions and other forms of licenses/permits began to slide, financing dried up and the number of medallion sales declined.

  § Chicago prices down 60%.

  § NYC down 40%.

  § Boston down 60%.

  § Philadelphia down 70%.

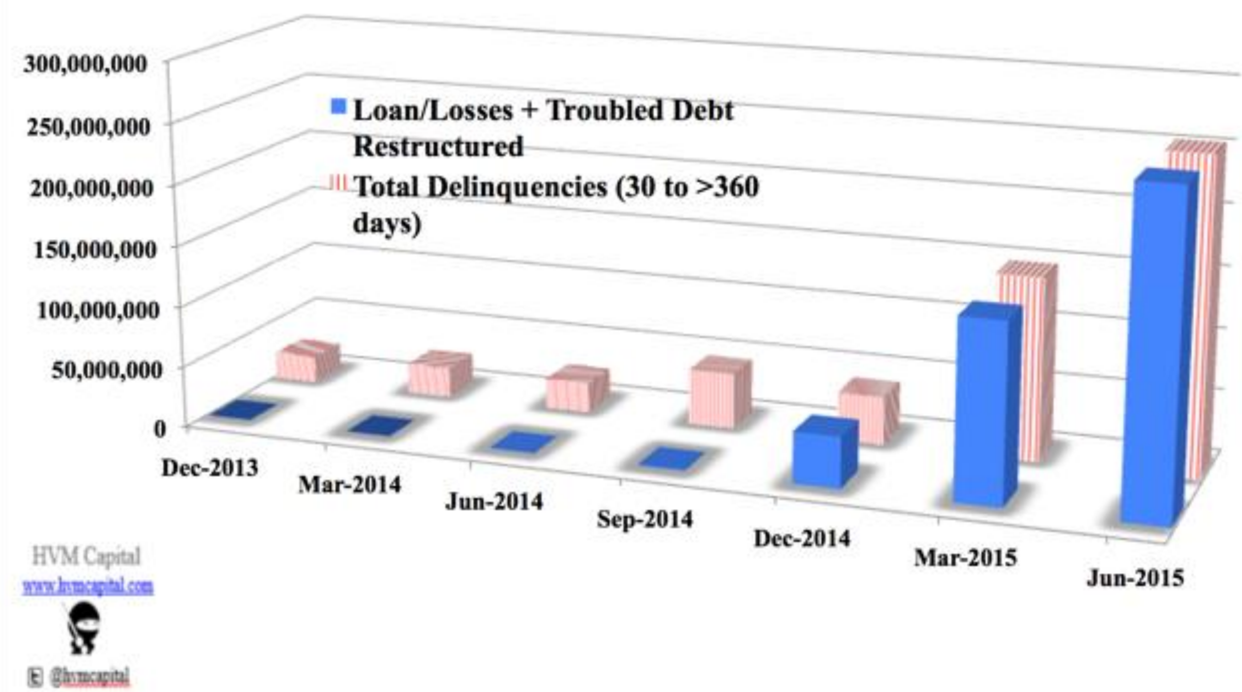
o Farebox and trips have materially declined, according to TLC data, in NYC, SF and Boston.

o Foreclosures have risen materially in Chicago, Boston and NYC.

o Delinquencies, TDRs, LTVs and debt service metrics have all deteriorated significantly between 2014 and 2015.

- In 2014, Capital One (NYSE:COF) began a withdrawal from the Chicagotaxi medallion lending market.
- In 2014, New York Community Bancorp (NYSE:NYCB) announced plans to divest its taxi medallion portfolio.
- In July 2015, the Toronto taxi industry filed a lawsuit against Uber. Previously, a court had rejected the city's attempt to block Uber.
- In 2015, four NYC credit unions (Melrose, Progressive, Montauk and LOMTO) filed a suit against the mayor and city of New York for failing to enforce regulations for ride sharing companies. The lawsuit is ongoing.
- In 2015, the New York City Council considered the passage of a bill to cap the growth of ride sharing companies while a congestion study was undertaken. The bill was tabled.
- Print publication Hackney Carriage News closed down in 2015, citing the impact of ride sharing on advertising revenue.
- In 2015, Red Cab of Brookline, MA (started in 1930) declared bankruptcy, citing growing competition from app-based companies like Uber.
- In 2015, Signature Bank (NASDAQ:SBNY) put 2/3rd of its Chicago medallion loan portfolio on its "watch list".
- In 2015, Transit Funding, a taxi medallion lender in Chicago, sues its partner Capital One for damages from market withdrawing.
- In 2015, Gene Freidman declared bankruptcy for multiple LLCs, in order to forestall seizure of 46 medallions.
- Credit union delinquencies have risen from $25 million to $254 million, and troubled debt restructured plus loan loss provisions have risen from $239,000 to $255 million in the one year ending June 2015 (see chart below).

Credit Union Medallion Loan Performance Trends



Aggregate totals for Montauk, Melrose, Progressive and Lomto credit unions.
Source: NCUA

Note: CU data is "Member Business Loans not Secured by Real Estate," which is almost 100% medallion loans.

The SEC's *Guidance Regarding Management's Discussion and Analysis of Financial Condition and Results of Operations - 2003* (MD&A) regardingrequired content of the MD&A states that "companies must identify and disclose known trends, events, demands, commitments and uncertainties that are reasonably likely to have a material effect on financial condition or operating performance."

All of the history cited above shows an unambiguous trend of rising stress on medallion owners and drivers since Uber et al arrived - a permanent change to the industry structure in which all of TAXI's medallion lending and operating history took place. But there is no mention of the subject in MD&A. Basic financial analysis suggests that the impact on medallion cash flows from the market entry of ride sharing would lead to the medallion loan portfolio pressure that has occurred, including rising delinquencies, defaults, foreclosures, medallion value declines and, concurrently, potential write-downs and earnings erosion for lenders like Medallion Financial.

These trends are well underway, and they are not subtle. TAXI did not mention ride sharing*anywhere* in its SEC filings until the second quarter of 2014, and it was ignored again in the second quarter press release. It is difficult to understand how the rise of Uber et al and the known trends attending it fail to warrant mention in the MD&A.

Medallion Valuation

Here are the guidelines set forth in TAXI's most recent 10Q for valuing medallions:

Medallion loans and the asset-based portion of the commercial loan portfolio are primarily collateral-based lending, whereby the collateral value exceeds the amount of the loan, providing sufficient excess collateral to protect us against losses. Collateral values for medallion loans reflect recent sales prices and are typically obtained from the regulatory agency in a particular local market. Collateral values for asset based loans are confirmed **through daily analysis of funds availability based on cash collection and receivables agings, confirmations obtained from a borrower's underlying customers, and field examinations by us or third parties engaged by us. We rely on the integrity of the collateral value benchmarks obtained by the applicable regulatory agencies** and other third parties. If these benchmarks are artificially influenced by market participants we could suffer losses. A significant downward movement in collateral values would have a negative impact on our valuation analysis and could result in a significantly lower fair market value measurement of our portfolio.

We require an objective benchmark in determining the fair value of our portfolio. If the benchmarks that we currently use are deemed to be unreliable, we will need to use other intrinsic factors in determining the collateral values for our loans.

The company deemed the last individual medallion transfer in Chicago to be a reasonable proxy for fair market value. According to International Financial Reporting Standards 13, fair value is "The price that would be received to sell an asset... in an orderly transaction between market participants at the measurement date." The trends described above reflect a market in distress. Chicago medallions are readily available at $150,000, according to taxi medallion brokers, owners and attorneys, but lenders refuse to lend at that price. The $150,000 July transfer we earlier reported was recently confirmed. Instead, lenders have sought to "support" artificially higher prices, brokering transaction at prices from $238,000 to $290,000, in which 100%

financing has been provided - including transfer fees. As we previously reported, there is a pending sale of another 14 foreclosed medallions in Chicago at $238,000 by Montauk and LOMTO credit unions, in which 100% or near-100% financing is being provided, including financing of transfer fees (full report to follow). This policy has had the effect of delaying any loan portfolio write-downs in the expectation/hope that the market will recover. If we know about this transfer negotiated in the second quarter and others like it, so does TAXI management, yet it used $248,000 to mark its owned medallions and calculate LTV ratios - a price the company could not hope to realize if it had to sell medallions today, unless it too offered 100% financing.

Earnings Quality

Other than the Chicago medallion write-downs, we did not expect TAXI to have any difficulties hitting earnings expectations in the second quarter. That said, there were a couple of quality concerns outside of taxi medallions.

What we did expect to see, however, is continued deterioration in earnings quality as measured by underlying taxi medallion loan performance trends. During the quarter, 90-day delinquencies for the combined medallion loan portfolio increased from $2 million to almost $9 million, total delinquencies increased by $17 million for Medallion Bank (disclosed separately by the bank), and the consolidated medallion LTV ratio rose to 75%, from 70% in Q1 and 40% in Q3. Nothing was disclosed on troubled debt restructurings (Medallion Bank rose only modestly), *total* medallion loan delinquencies or non-accruals (the bank was up $4 million). We will publish an update when these critical metrics become available in the 10Q.

Net Investment Income Worse than it Looked. Net Investment Income was down $600,000 sequentially despite benefiting from an accounting quirk. Medallion Bank paid a $5 million dividend to TAXI, the same as the last two quarters, and up from $3 million in the prior year. But the bank's earnings were down $2.5 million sequentially and $2.2 million y/y to $4.2 million. TAXI invested $2 million back into the bank during the quarter, for a net cash payment from the bank of $3 million. But for reporting purposes, it had the effect of shifting $2 million to NII, or $0.08 per share, from "unrealized gains on controlled subsidiaries." It should be noted this accounting had no effect on TAXI's bottom line. Investors regard NII as the most important indicator of operating health and sustainable earnings for lenders. The effect of this accounting made a $2.6 million, or $0.11 per share, sequential drop in NII look like a more modest $600,000, or $0.02 per share.

Unrealized Gains in Controlled Subsidiaries Saves the Quarter. A $10 million gain in "net change in unrealized appreciation in other controlled subsidiaries," excluding Medallion Bank, was more than 2.5 times the highest contribution observed for that line in any recent quarter. The company said nothing about this $0.41 per share unrealized, non-cash gain, despite the fact that it was the difference between badly missing and beating earnings expectations.

Dividends. TAXI declared a $0.25 per share dividend in the quarter. As we pointed out in our first report, TAXI has not generated enough cash from operations to fund the 90% earnings payout required of Regulated Investment Companies for nearly four years. That is why historically, it has had to issue additional equity and increase borrowings to fund its cash obligations. The table below shows the cash earnings per diluted share have been below the dividend in every recent quarter except the first quarter of 2015, when significant asset sales occurred. We continue to believe the deterioration in taxi medallion cash flows and values will undermine TAXI's access to outside capital and force a dividend cut.

Conclusion

TAXI gave skittish investors what they wanted - an upside earnings surprise when heightened risk was priced into the stock. But the stock price rise in the subsequent trading days is tenuous, in our opinion, given the lack of press release disclosure on the most critical risk factor - taxi medallion loan performance in the midst of declining cash flows and values. Nothing has been disclosed to provide the investor any comfort implied by the spike in share price. In the first quarter, the same pattern played out. TAXI reported solid headline numbers, and the press release was uniformly positive and optimistic, with no disclosure or commentary on critical taxi medallion risk factors. Only weeks later did investors learn that medallion loan restructurings in the quarter were $7.5 million, and total medallion delinquencies had reached all-time highs during the quarter.

Medallion Financial Quarterly Earnings Trends

Medallion Financial Corp. Selected Consolidated Statement of Operations	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
(Unaudited)	Three Months Ended June 30	Three Months Ended March 31	Three Months Ended December 31	Three Months Ended September 30	Three Months Ended June 30
(Dollars in thousands, except per share data)					
Total investment income	$10,838	$11,831	$10,779	$11,379	$9,875
Total interest expense[2]	2,343	2,212	2,261	2,222	2,085
Net interest income	$ 8,495	$ 9,619	$ 8,518	$ 9,157	$ 7,790
Total noninterest income	110	56	74	136	108
Salaries and benefits	2,975	3,343	4,372	2,906	2,965
Professional fees	367	412	571	70	294
Occupancy expense	219	230	210	207	189
Other operating expenses	714	786	774	882	647
Total operating expenses	4,275	4,771	5,927	4,065	4,095
Net investment income before income taxes[(1)(4)]	4,330	4,904	2,665	5,228	3,803
Income tax (provision) benefit	-	-	-	-	-
Net investment income after income taxes	4,330	4,904	2,665	5,228	3,803
Net realized gains (losses) on investments	324	7,899	(4,556)	(193)	(685)
Net change in unrealized appreciation (depreciation) on investments	(5,634)	(3,309)	3,491	(1,723)	681
Net change in unrealized appreciation in other controlled subsidiaries ex-Medallion Bank [1]	10,167	(4,125)	3,988	700	(223)
Net change in unrealized appreciation on Medallion Bank (FDIC Call Reports) [1]	(1,101)	1,699	2,540	2,682	3,529
Net unrealized appreciation on investments	3,432	(5,735)	10,019	1,659	3,987
Net realized/unrealized gains on investments	3,756	2,164	5,463	1,466	3,302
Net increase in net assets resulting from operations	$ 8,086	$ 7,068	$ 8,128	$ 6,694	$ $ 7,105
Net increase in net assets resulting from operations per diluted common share	$ 0.33	$ 0.29	$ 0.33	$ 0.27	$ 0.28
Cash earnings perdiluted share	$ 0.19	$ 0.52	$ 0.11	$ 0.21	$ 0.15
Distributions declared per share	$ 0.25	$ 0.25	$ 0.24	$ 0.24	$ 0.24

[1] Per FDIC Call Reports.

Comments (16)

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- Frederick Steier
, Contributor
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Let’s examine the claims in this article, one by one, so that we are not accused of making blanket dismissals.
1) Why should the company make any comment about a “medallion crisis” when its portfolio continues to perform at levels vastly exceeding everyone else’s?
2) A total of $17 million in delinquencies represents about 2.4% of the entire $700 million portfolio.
3) The claim of the article is that there is a "lack of disclosure in the press release", yet few companies provide details in an earnings press release, so the author saying that the company didn’t provide much color is meant to infer that some hideous Boogeyman hides in the 10-Q, which I’m fairly confident is not the case.
4) The author lists a series of third party struggles with medallions, yet NONE OF THEM HAVE ANYTHING TO DO WITH THIS COMPANY! They are confined to other companies. It is an incorrect inference that if bad things are happening elsewhere, they must eventually affect the company.
5) Despite what is going on elsewhere, the author undermines his own argument because despite all these unfortunate circumstances, this company has negligible delinquencies, and ZERO LOSSES.
6) The author continues to harp on Chicago transfers in the high -$200,000 range, some of which the company financed, when those have been the range of almost every recent transfer. He infers that outlying $150,000 transfers are actually the norm when the are not. Management has discussed how medallions are marked to market and the claim that it is using last sale as its benchmark is incorrect. Medallion value appears to be written down to an average of the last six months worth of transferws, which is conservative given that the illiquid market skews prices lower.
What is the correct mark to market in an illiquid market? The company wrote them down to the average selling price of the first half of the year! What more does the author want?
More to come…
7 Aug, 07:53 AMReply! Report AbuseLike3

- 03FOSTER

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I prefer Uber. Every time I have to go to the airport Uber transportation is superior to a local cab. Still I have sympathy Medallion holders who have just made an unlucky investment since I would think that it is very hard for cities to regulate Uber. The fact is that Uber is a "Disruptive Technology" that is growing fast. There is a reason TAXI is yielding close to 12%....the real risk☐ that earnings going forward will not cover the dividend. It will take some time for TAXI to wean itself off the Medallion lending segment. In the meantime the stock will stay under pressure.

7 Aug, 09:20 AMReply! Report AbuseLike0

- 
  tavit8
  Comments (11)| + Follow| Send Message

  Frederick, the company has lent over $670 million (representing over 50% of their entire managed portfolio) secured by medallions. You don't think the fact that medallion pricing has dropped 40-70% warrants a comment from management? The industry is in crisis, it's not going to go away by burying your head in the sand.

  7 Aug, 01:06 PMReply! Report AbuseLike1

- 
  Frederick Steier
  , Contributor
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  I think that is a non-issue.

  Let's remember the author's primary conceit, from his December articlem has nothing to do with "quality of earnings" issues or management commentary.

  The 12/19/14 article ssaid....

  "Expect dividend and share repo cuts, and near-term write-downs eventually accelerating into write-offs in excess of shareholders’ equity."

  Neither have occurred, and in fact, both are increasing.

  "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? "

  We have learned that in this company's markets, uberx is the competitor to taxicabs and that they do not earn more than taxis, and the "startup cost" is not the only cost, but in fact, ongoing costs eat up more than half of earnings.

  The author's statements that dividends are not covered by cash earnings is not in line with how BDCs operate. Realized and unrealized gains are part of every quarter's accepted earnings statements for any and all BDCs.

Why should management comment on matters that clearly are having a negligible effect on them, and more than they already have in public statements in public filings and elsewhere?

7 Aug, 09:04 PM Reply ! Report Abuse Like 1

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James Hickman
, Contributor
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Author's reply » Frederick,
"Neither have happened."
TAXI has written down those Chicago medallions by $0.38 per share since our December report. And as we have carefully documented, the actual fair-market-value of medallions today is another $0.63 per share lower.

On our prediction of dividend and share repurchase cuts, and your assertions about "how BDCs operate."

TAXI did not generate enough cash flow to pay its distribution in 2012, 2013, 2014 and Q2 (did in Q1 because it actually had an asset sale, which involves "cash") - that is why the SEC required them to stop calling it a dividend and call it a distribution. And that is why, by definition, "funding" of those distributions had to come from outside of operating cash flow. If the harvesting of BDC investments is materially out of line with the cash obligations of the enterprise, then outside capital is perpetually required. That works fine as long as asset values continually rise, as they did prior to the medallion crisis, even if just on paper. I believe the historical access to third party capital (successful secondary offerings in 2012 and 2013) will become more difficult because 50% of the assets, 175% of the BV and nearly 100% of EPS (properly accounting for operating leverage) is exposed to an asset class in unabated crisis and in decline. If so, RIC status will have to be abandoned (it should be), and dividend and share repo cut to levels commensurate with the actual cash flow of the company. The market is signaling this precise outcome.

See earlier reply to your same question about why the company should be more forthcoming in press release. Few would agree with your characterization as "negligible" the medallion loan quality trends including:

* Medallion Bank's medallion loan delinquencies went from 0.9% of its outstanding loan balance to 5.4% in 3 months,
* TAXI restructured $7.4 million of "troubled" medallion debt in Q1 (Q2 not yet disclosed),

* TAXI total delinquencies reaching all-time high in Q1 (Q2 not yet disclosed) and
* TAXI LTV ratio going from 40% to 75% in 9 months being.

8 Aug, 12:01 PMReply! Report AbuseLike0

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James Hickman
, Contributor
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Author’s reply » Frederick,
In order:
1) SEC requirements for MD&A content quoted in article. There is no MD&A exemption from discussing material shifts in ones single biggest asset class based on "relative impact so far" as you seem to suggest.
2) Actually, $17 million is the increase in delinquencies and non-accruals at Medallion Bank alone, and now equals 5.4% of outstanding medallion loans at Bank from 0.9% - in 3 months. That spike should be alarming to TAXI investors, if not to you, and warrants discussion.
3) See 1) and the absence of an earnings conference call where questions are asked and critical detail not written in press release emerges, warrants more disclosure in presser for company whose stock is down 50% from highs and 15% in roughly 6 months.
4) Are you really suggesting, in CAPITAL LETTERS no less, that massive defaults and foreclosures across the industry and subsequent flood of medallions for sale to cover liens would not have implications for TAXI?
5) You emphasize point-in-time static metrics, while ignoring fact that Medallion Bank delinquencies + non-accrual went from 0.9% of Bank medallion loans to 5.4% in last three months. TAXI went from 0 to $7.4 million in troubled debt restructurings (TDRs) in Q1 - TDRs forestall foreclosure and we need 10Q to know Q2 #. And TAXI LTV has gone from 40% to 75% since September - but you keep suggesting they are immune to what is happening in medallion markets.
6) Average Chicago medallion prices from the last 6 months does not reflect fair-market-value in a market where peak-to-trough prices have dropped 60% in just over a year, local brokers, owners and attorneys all attest to $150K - the trough - being the street asking price but TAXI and others won't lend at those levels. The company is marking to price level that is only producing transfers based on fleet-owning buyers receiving 100% financing, including transfer fees. If that is "harping" I am guilty as charged.

8 Aug, 12:01 PMReply! Report AbuseLike0

- simbaman
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Mr. Hickman states the following:

"TAXI did not generate enough cash flow to pay its distribution in 2012, 2013, 2014 and Q2 (did in Q1 because it actually had an asset sale, which involves "cash") - that is why the SEC required them to stop calling it a dividend and call it a distribution. And that is why, by definition, "funding" of those distributions had to come from outside of operating cash flow."

While the observations that cash earnings in 2012, 2013, and 2014 were below distributions is (technically) factually correct, the actual data he presents in this article demonstrates this is an insignificant matter!

Specifically, (his own) data indicates that over the past 15 months TAXI had cash earnings totaling $1.18 per share and declared distributions totaling $1.22 per share. Thus, the actual negative"gap" over the span of 1 1/4 years is a MINISCULE $0.04 per share (slightly less than $1 million).

Against this TINY differential, TAXI currently has cash on hand of $50 million and additional borrowing capacity of another $60 million.

In stark contrast to the author's clear inference that, going forward, this is a serious problem/defect for TAXI, a balanced look at ALL the relevant information makes it unquestionably clear that this is a NON-ISSUE!

Proof positive of this: while TAXI has not done a capital raise in more than 20 months, the Company presently has robust capital and cash positions!!

8 Aug, 02:18 PMReply! Report AbuseLike2

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James Hickman
, Contributor
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Author's reply » simbaman

"a balanced look at ALL the relevant information make it unquestionably clear that this is a NON-ISSUE"

The context of 2012, 2013, 2014 and the last 4 quarters you highlight, all of which were periods in which the distributions exceeded the cash flows is a full and balanced look at "ALL relevant information." In contrast, seizing on a single asset sale generating a one-time $0.32 per share gain, but still was insufficient to cover the cash distribution during your very selective window of last-twelve-months.

The point wasn't about historical capital access. Indeed, we pointed out that historical appreciation in asset values provided ready access to capital markets, explaining the current cash balances. The marketing is a discounting mechanism, and the question is will capital access have the same historical low cost to TAXI going forward when 50% of assets, 175% of book value and 100% of EPS are supported by an asset class in decline and crisis.

8 Aug, 05:43 PMReply! Report AbuseLike0

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  simbaman

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  Sorry, but that's not an answer to the fact that... as already pointed out.. over the past FIFTEEN MONTHS the net cash drain from distributions in excess of "cash earnings" has been a miniscule 4 cents per share (less than $1 million).

  In addition, asset sales at an investment company such as Medallion Financial are NOT one-time events, notwithstanding your desire to classify it as such, in order to support a concern you have essentially INVENTED, and which is refuted by TAXI's capital base, $50 million cash position and (formally in place) $60 million borrowing capacity!!

  9 Aug, 11:02 AMReply! Report AbuseLike2

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  James Hickman

  , Contributor

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  Author's reply » TAXI is structured as a BDC and RIC in order to tax efficiently pass value created through business development investing along to shareholders. And we believe to access capital at lower cost than would otherwise be the case for a company making the types of risk investments TAXI makes. Medallion Bank is fully taxed, so is not part of that tax efficiency model, but it is the engine of both internal operating cash flow AND outside capital raising, both debt and equity.

  The income contribution of those non-Medallion Bank investments has not yet reached the point of justifying the RIC business structure, as dividends have been minimal from non-Medallion Bank subsidiaries, and realized gains from sales of investments has been a net loss of $3.4 million since 2012 , inclusive of the only meaningful realized gain in that time, $7.9 million booked in Q1. That is why we call the Q1 gain "one-time" – not because they are not in the business of investing, collecting dividends and sometimes selling investments, but because they have little history of profitable asset sales.

But our bigger point, which you still don't seem to understand, is that the RIC requirement to pay out 90% of income, including non-cash income, has created a significant misalignment of cash flow – cash obligations exceeding cash generated from operations – requiring outside capital to fund that cash flow deficit in the form of secondary offerings of stock and debt raising, OR, possibly the premature sale of assets that are still appreciating in value and might have been better retained as part of the BDC (little evidence of that so far, as pointed out above). The company has had ready access to low cost outside capital throughout its public history, because of the appreciation in value of its assets – mostly Medallion Bank – and the solid security of the collateral on its loans – mainly medallions historically, and still 50% of assets today.

Medallions are in crisis, and there is nothing "INVENTED" about the concern/risk that increasing stress on 50% of the asset base, 175% of book value and 100% of EPS does not lead to much slower appreciation and even declining net asset value (we think NAV will decline based on our thesis about taxi medallion markets) and reduced access to outside capital to bridge the operating cash flow deficit experienced since 2012. In turn, reduced capital access could lead to elimination of RIC status and a massive dividend cut. As we have pointed out, the LTV ratio of 75% and changes to regulations in Illinois and Massachusetts to legitimize ride sharing, both explicitly trip Article VI, "Events of Default, Termination Events" of the Omnibus Loan Agreement with DZ Bank.

10 Aug, 06:09 AMReply! Report AbuseLike0

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WTJ
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Mr. Hickman,
If you believe Medallion Financial is practicing anything but full disclosure,
why haven't you made an SEC or Justice Department complaint?

10 Aug, 04:19 PMReply! Report AbuseLike1

- gordongossage
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Readers with in-depth knowledge of fair value valuation:

Is the method used by TAXI to increase Medallion Bank's value by $10,600,000 described in FASB 820 or somewhere else in FASB regulations?

On page 40 of the 10Q:

Unrealized appreciation on subsidiary investments [Medallion Bank]

$12,500,000 on 6/30/2015 up from $1,900,000 on 3/31/2015

On page 39:

"...Board of Directors had previously determined that Medallion Bank had little value beyond its recorded book value. As a result of this valuation process, we had previously used Medallion Bank's actual results of operations as the best estimate of changes in fair value, and recorded the results as a component of unrealized appreciation (depreciation) on investments. In the second quarter of 2015,

we became aware of external interest in Medallion Bank and its portfolio's assets at values in excess of their book value. We incorporated these new factors in the Medallion Bank's fair value analysis and the Board of Directors determined that Medallion Bank had a fair value in excess of book value.

We also engaged a valuation specialist to assist the Board of Directors in their determination of Medallion Bank's fair value, and this appreciation of $10,600,000 was thereby recorded in the 2015 second quarter as a component of unrealized appreciation (depreciation) on investments, in addition to Medallion Bank's actual results of operations for the quarter..."

I'm certainly not a fair value expert!

However it seems kind of squishy to determine that fair value is now estimated above book value solely due to two reasons:

1) "...becoming aware of external interest..."
2) "...engaged a valuation specialist..."

Can these reasons be used according to a specific clause in a FASB regulation? Please cite.

If these reasons are allowed,according to FASB, is it ok not to cite the sources of each reason?

Thanks guys

11 Aug, 08:04 AMReply! Report AbuseLike1

-
  gordongossage
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Jay and other readers:

I know there is some missing data to determine how TAXI calculated 40% LTV on 9/30/2014 and 75% on 6/30/2015. However is there a set of values that are explicitly cited by TAXI combined with estimates of other values possibly used by TAXI (but not cited) to arrive at this substantial change in LTV?

Could any of you describe a reasonable scenario for change in weighted LTV over the trailing nine months due to change in the market price for medallions?

Jay, you cite the 40% medallion price drop in New York, 60% in Chicago and 60% in Boston. What specific values and dates are you using for these percentages?

The mix of cities within TAXI's loan portfolio is disclosed for the parent company. However I believe that this mix is not cited for Medallion Bank. Is that true?

I realize its just a scenario, but what if it is assumed that the Bank subsidiary has the same mix as the parent?

For this scenario, what would be reasonable estimates for medallion loans paid off and origination of new loans?

What other estimates would be necessary in these scenarios?

Again, if a scenario like this was estimated what would the LTV be on 6/30/2015?

Can any readers supporting or questioning the 75% LTV on 6/30/2015 provide scenarios to buttress your beliefs?

Thanks all.

11 Aug, 09:15 AMReply! Report AbuseLike0

- Jayanta D.
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I can no longer remain silent. BDC/RIC as a matter of normal business will sell assets. I doubt most critics even know how many companies are in the portfolio. If one does not know that info, then how would one know how much any company has gained? The author implies that sales are premature, but how does he or anyone know what is premature and what isn't? He cannot possibly know. Nobody can foresee the future so management makes a sale when it is deemed to.

As simba says the entire shortfall is barely a blip yet Hickman presses the case as if it were more significant than it really is.

I also don't care for the misinformation that medallion loans are 100% EPS. They are not.

11 Aug, 03:01 PMReply! Report AbuseLike1

- Davrob
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Originally, this author said his short selling position was all about uber taking over New York yet all I see are thousands of Uber cars and very little change to the taxi medallion portfolio where everyone else seems to be flipping out. Uber cannot grow forever. It will stop growing sooner rather than later.

11 Aug, 03:50 PMReply! Report AbuseLike1

- b0ilingfr0g

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Consider that the very same thing Uber is using to their advantage (ostensibly), the low barrier of entry, will be the very same thing that eats them alive. They can call their serfs "Driver-Partners" all they like, and drag out every minority on the payroll to claim Uber is lifting them from poverty, but facts are facts. Since Uber has made a mission statement of not following the rules, why should anyone else? I'll wager Uber's team of lawyers will be quick to enforce laws when it's in Uber's favor, but for the rest of the industry, not so much.