JAG CAPITAL MANAGEMENT LLC

TWO MINUTE DRILL
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TIMELY INSIGHTS FROM JAG'S RESEARCH TEAM

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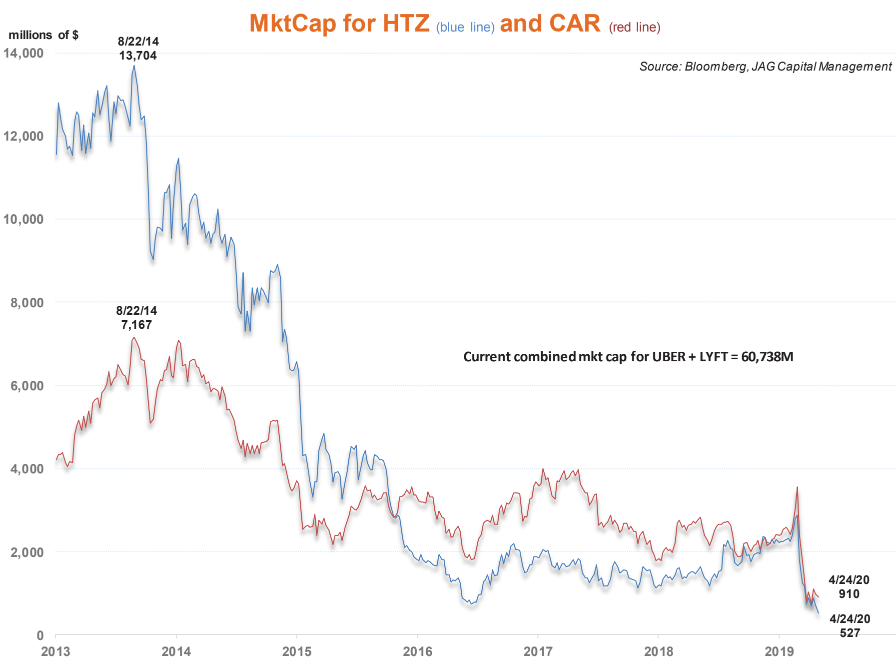

The COVID-19 crisis has compressed years of technological disruption into the space of just a few months. Taken as a whole, it is likely that businesses and consumers will reap long-term benefits from the Mach-speed innovation we have seen in videoconferencing, tele-medicine, ecommerce, biotechnology, and streaming media since January.

Unfortunately, the march forward comes at a price. For example, the COVID lockdown has magnified long-standing business model challenges for shopping malls and retail stores. Oil producers are suffering mightily from a simultaneous supply glut and demand collapse. Restaurants which lack the ability to offer delivery or pick-up services are finding it nearly impossible to generate revenue without paying customers. And travel-related companies cannot generate revenue without travelers.

At the time of this writing, rental car company Hertz (HTZ) is reportedly contemplating a bankruptcy filing. Car rentals have fallen off a cliff over the past several weeks, as a direct consequence of the 90% decline in business and pleasure travel. **Although COVID-19 may be the "straw" that breaks Hertz's back, this chart shows that both HTZ and Avis (CAR) have been in decline for years. In large part, the demise of the rental car industry is due to the concurrent rise of ride-hailing services Uber Technologies (UBER) and Lyft (LYFT).** The combined market capitalizations of HTZ and CAR total less than $1.5 billion, down precipitously from $20 billion as recently as 2014. Meanwhile, the combined market caps of UBER and LYFT are more than $60 billion.

In our opinion, the current crisis increases the risks of permanent impairments to certain businesses, especially within the travel, dining, and energy industries. While it is true that many of these stocks appear cheap based upon traditional valuation metrics, we advise caution. After all, both HTZ and CAR have been fundamentally inexpensive stocks for years. With the full benefit of hindsight, it is now apparent that they were cheap for valid reasons.

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