

## FaceDrive—Why Did This Struggling Ridesharing Company With ~\$1.5 Million in Annualized Revenue Pay \$8.2 Million for a Month of “Marketing” to an Opaque Entity in the British Virgin Islands?

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### Background: A Struggling Ridesharing Company with Limited Resources and No Defensible Competitive Edge

FaceDrive was founded in 2016 with the core premise of being an “eco-friendly” ridesharing app that allows riders to choose environmentally friendly vehicles with options for electric, hybrid, or gas-powered cars.

The company soft launched its app in Ontario Canada in late 2017, and has opened to several other Canadian locales in the following years. [[Pg. 21](#)] Currently the app only operates in Canada.

The stock has ridden the recent wave sweeping up seemingly anything tangentially related to electric vehicles, spiking about ~780% since it [came public via SPAC](#) in mid-September 2019. [Note price closed at \$2.04 on first day of trading].

Current prices afford the company a market cap of about ~C\$1.6 billion, despite consistent net losses and an obscene revenue multiple of ~1030x based on the run rate from last quarter’s revenue, which was only C\$388 thousand.

The ridesharing industry operates in an intensely price competitive near-duopoly, where incumbents Uber and Lyft have incurred cumulative multi-billion dollar cash burn in order to expand market share.

In comparison, FaceDrive has few users, minimal resources, and no sustainable differentiator should it somehow overcome the first two hurdles. (Uber or Lyft could simply add an electric vehicle option if it ever becomes popular.)

Likely seeing the writing on the wall, the company has pivoted with launches of multiple products, all of which show signs of struggle. These include:

1. A COVID-19 contact tracing app
2. A trivia app
3. An Uber Eats / GrubHub clone
4. An eCommerce Marketplace

Beyond its struggles for direction, Facedrive displays several worrying signs, including numerous related party transactions with its CEO and a highly unusual series of payments to an opaque newly-named entity in the British Virgin Islands.

We think FaceDrive is a story stock whose story is beginning to unravel. We anticipate a sharp repricing of shares in the immediate future and see de minimus overall value in the company's operations.

## Part I: Troubling Signs—Paying \$8.2 Million to an Opaque BVI Entity for a Month of “Marketing”, and Numerous Related Party Transactions

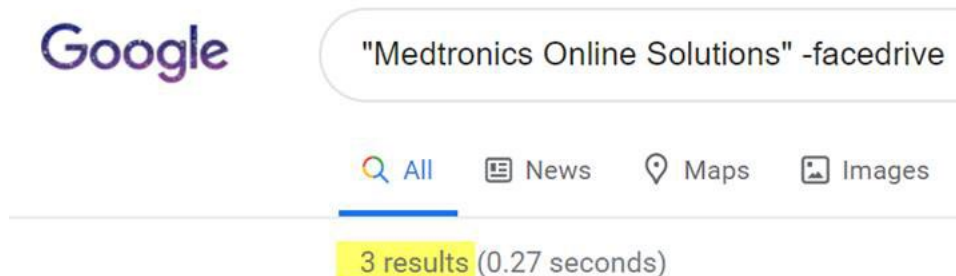
### FaceDrive's Unusual Deal With “Medtronics Online Solutions Ltd”, A Newly Renamed BVI Entity

In May 2020, FaceDrive [announced](#) it hired a company called Medtronics Online Solutions Ltd. to “perform marketing and strategic consulting services”. In the announcement, FaceDrive's CEO strongly suggested that the services were part of a global marketing campaign to expand visibility of the company's ridesharing platform, its core business:

“As Facedrive prepares for global expansion, it is more important than ever to get our ‘people-and-planet first’ message across to audiences not only in Canada, but in the United States and Europe, in the most efficient and effective way. With that in mind, I am excited to work with Medtronics, whose unique marketing strategy and proven global outreach **will help us ensure that our first-of-its-kind eco-friendly ride-sharing platform** reaches the widest audience possible with maximum impact,” said Facedrive CEO Sayan Navaratnam.”

The price for the “marketing and strategic consulting” services was steep. The company later [disclosed](#) that it had paid Medtronics 800,000 shares for its initial month of services, at a value of \$8.2 million, and an obligation to pay 105,000 shares each month for the next 7 months. The shares are subject to certain lock-up restrictions per the arrangement.

Neither announcement stated which jurisdiction Medtronics was located in, and finding it was no trivial task. Despite being described as having a global marketing presence, Google had only 3 results for the entity outside of the FaceDrive announcement (and all 3 results were actually related to/links to the announcement).



We located the entity in the British Virgin Islands, registered to nominee directors. [BVI Corporate records](#) show that the entity had been named Leacap Ltd. up until about a month before the FaceDrive contract, when it changed its name to Medtronics.

Page 1 of 4

**POST-INCORPORATION TRANSACTIONS**

**Change of Company Name or Add/Change of Foreign Character Name**

BVI Company No. : 1975800

Company Name : LEACAP LTD

Foreign Character Name :

Company Type 2 :  Segregated Portfolio Company  
 Restricted Purpose Company  
 Non-Profit Organisation  
 Private Trust Company

Type Of Company Name Change :  Only English Name  
 Only Foreign Name  
 Both English and Foreign Name  
 Retain English Name and Remove Foreign Name  
 Change English Name and Remove Foreign Name

Proposed Name: : Medtronics Online Solutions

Suffix: : Ltd

Date of Change: : 13/02/2020

## Medtronics Appears to Be Associated With OilPrice.Com, a Stock Promotion Site. But This Apparent Promotional Arrangement Has Unusual Features

LeaCap Ltd. is [associated](#) with oilprice.com, a website known for stock promotion. The site has issued at least 7 articles touting the glowing promises of FaceDrive and its stock since March. [\[1,2,3,4,5,6,7\]](#)

Stock promotion is generally regarded as unsavory, though it is not an uncommon practice. The deal with Medtronics is unusual for a number of reasons:

- 1. Size.** FaceDrive paid \$8.2 million to Medtronics in an initial payment. FaceDrive's entire operating budget over the last twelve months (LTM) was \$6.3 million, so the company paid 130% of its entire LTM operating budget for one month of services, with additional payments to follow. [\[Pg. 4, Pg.8, Pg. 4\]](#) Typically, promoters are paid in the 5 or low 6 figures. We have yet to see a promoter paid this much, and in such disproportion to a company's financials.
- 2. Opacity.** The newly-changed Medtronics BVI entity had zero online footprint, making it challenging to even identify. BVI requires users to pay in order to even search a company name. We ended up finding it purely through a guess (after checking every jurisdiction in Canada, India, et al).
- 3. Misleading Disclosure.** As shown above, the FaceDrive announcement suggested Medtronics is being paid to market its *platform*, not its stock. We view FaceDrive's disclosure as misleading. Furthermore,

OilPrice.com added a custom [disclaimer](#) to its FaceDrive articles that strikes us as a fig leaf meant to mirror FaceDrive's own dubious disclosure:

**"An affiliated company of Oilprice.com... has signed an agreement to be paid in shares to provide services to expand ridership and attract drivers in certain jurisdictions outside Canada and the United States."**

FaceDrive [doesn't currently operate](#) anywhere outside of Canada, and has barely made headway in its home market, as we will show.

Furthermore, the content is unmistakably promotional. On [Apr 21<sup>st</sup>](#), oilprice.com published an article about "6 Visionaries Shaping the Future of Transportation", which compared major public company CEOs such as Amazon's Jeff Bezos, Google's Sundar Pichai, Tesla's Elon Musk, Virgin's Richard Branson... and FaceDrive's Sayan Navaratnam.

**#2 Sayan Navaratnam**

While Branson, Bezos and Musk are busy with "fly-me-to-the-moon" sentiments, Sayan Navaratnam-- planning to join the other transportation gurus—is quietly making moves on a more Earthly scale.

Another article describes FaceDrive as part of the sustainability movement and [declares](#) "Buffet, Bezos And Blackrock Are Betting Big On This \$30 Trillion Mega-Trend". What does that have to do with recruiting drivers in Europe?

(It does not appear that Buffett or Blackrock have stakes in FaceDrive. Also, the name is spelled "Buffett" with two t's—a buffet is a self-serve style of casual dining.)

# Buffet, Bezos And Blackrock Are Betting Big On This \$30 Trillion Mega-Trend

By [Ian Jenkins](#) - May 28, 2020, 6:00 PM CDT



By the time giant high-tech, cash-burning companies like Uber catch on to the [\\$30-trillion-plus mega trend](#) of sustainable investing, their competition may have caught up.

OilPrice also shows the following [disclaimer](#) on its articles, which suggests that stocks have a habit of spiking then plummeting once it stops touting them:

“This communication is for entertainment purposes only... Frequently companies profiled in our alerts experience a large increase in volume and share price during the course of investor awareness marketing, which often end as soon as the investor awareness marketing ceases.”

We expect FaceDrive will follow a similar trajectory.

## **Related-Party Transactions—The Company Paid 24% of its 2019 Operating Budget to Related Parties Controlled by the CEO**

We found other troubling signs in FaceDrive’s brief history as a public company. Despite its modest size, FaceDrive has relied extensively on a network of companies controlled by its CEO. The company’s [2019 filing statement](#) detailed paying no fewer than 4 entities controlled by its CEO, providing everything from marketing, call center services, product development, and office space. [[Pg. 64](#)]

### **Non-Arm's Length Party Transactions**

Dynalync, a related company controlled by Sayanthan Navaratnam, the CEO, director and co-founder of Facedrive, provides consulting services and product development to Facedrive. Total expenses charged to Facedrive were \$390,700 for the three-month period ended March 31, 2019 and \$568,000 for the fiscal year ended December 31, 2018.

Facedrive also engages DependableIT through Dynalync, a related company controlled by Sayanthan Navaratnam, the CEO, director and co-founder of Facedrive, to provide call center services to Facedrive. See "*Part III – Information Concerning Facedrive – General Development of the Business*". Total expenses charged to Facedrive for DependableIT's services are included in the expenses charged by Dynalync.

Decosta is a related company controlled by Sayanthan Navaratnam, the CEO, director and co-founder of Facedrive, provides marketing services to Facedrive. Total expenses charged to Facedrive was \$60,000 for the fiscal year ended December 31, 2018.

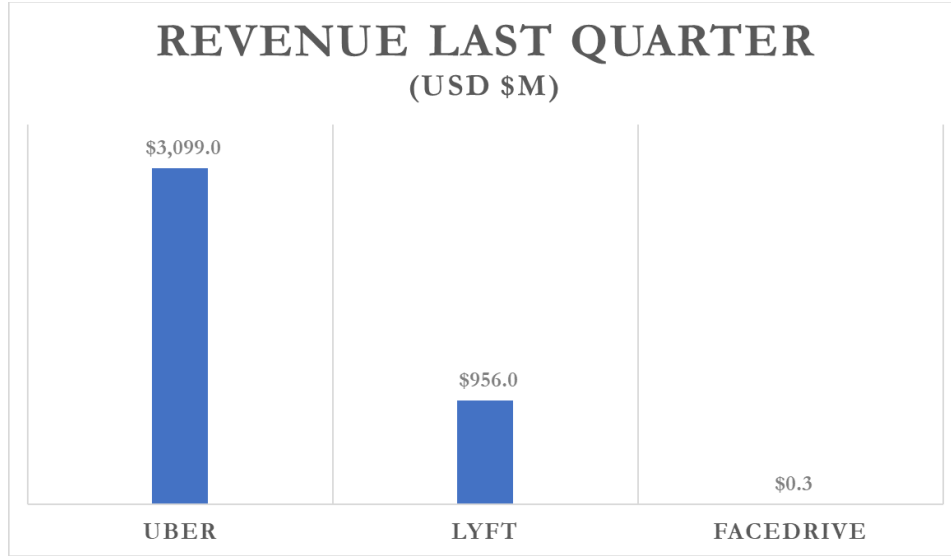
Connex is a related company controlled by Sayanthan Navaratnam, the CEO, director and co-founder of Facedrive, subleases offices space in Ontario to Facedrive. See "*Part III – Information Concerning Facedrive – Narrative Description of the Business – Platform Offerings – Facedrive Locations*". In addition, Facedrive was indebted to Connex in the aggregate principal amount of \$750,000 evidenced by a demand non-interest bearing promissory note. The indebtedness owing to Connex represents payment made by Connex on Facedrive's behalf for operating expenses and was repaid in Facedrive Class B Shares pursuant to a debt conversion agreement dated March 31, 2019.

In total, the company expensed \$1.26 million to related entity Dynalync, for R&D and operational support in 2019, representing over 24% of the company's entire annual operating budget. [\[Pg. 9\]](#)

In the first quarter of 2020, the company has thus far only expensed a minimal amount to related parties for office space. [\[Pg. 19\]](#) We will monitor these transactions to see if they re-emerge in subsequent quarters.

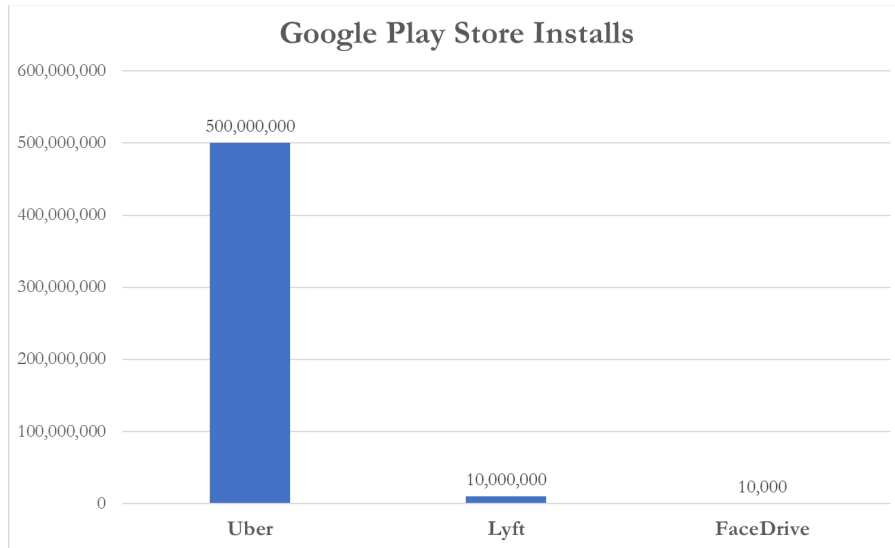
## **Part II: Swimming Against a Tidal Wave—How FaceDrive Compares to Rivals Such as Uber & Lyft**

In an industry with virtually no technological barriers to entry, ridesharing companies are locked in an arms race to establish the largest rider & driver networks as the only credible barrier to other competitors. After ~3 years of operation, FaceDrive is nowhere close to making a dent in terms of revenue.

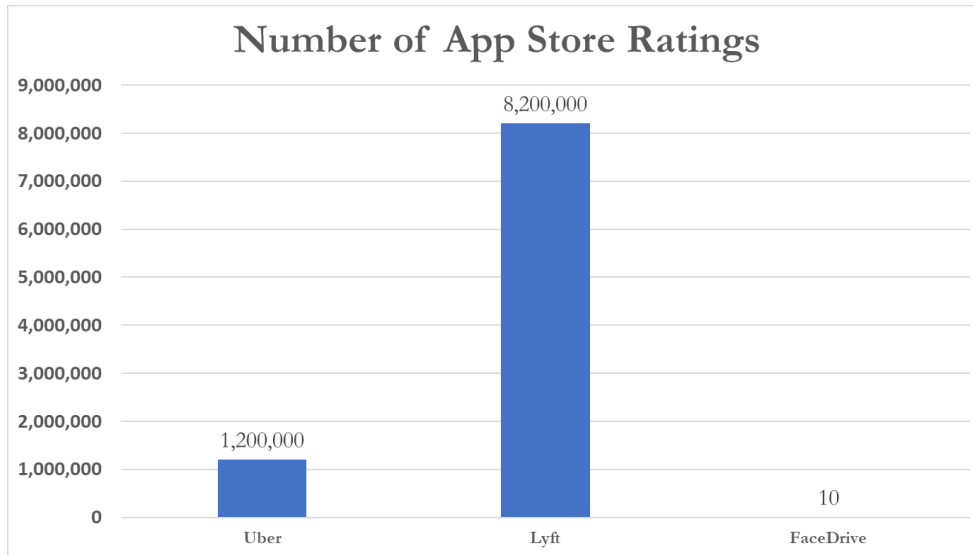


### Minimal Android and iOS Installs Relative to Rivals

We can get another glimmer into how FaceDrive is faring in this war by tracking downloads on Android's Google Play store and the Apple App store. On Google Play, the largest market, [Uber](#) has 500+ million installs, [Lyft](#) has 10+ million, and [FaceDrive](#) has over 10+ thousand.



On the App Store, which doesn't display installs but does show number of ratings, we see Uber with 1.2 million ratings, Lyft with 8.2 million, and FaceDrive with 10.

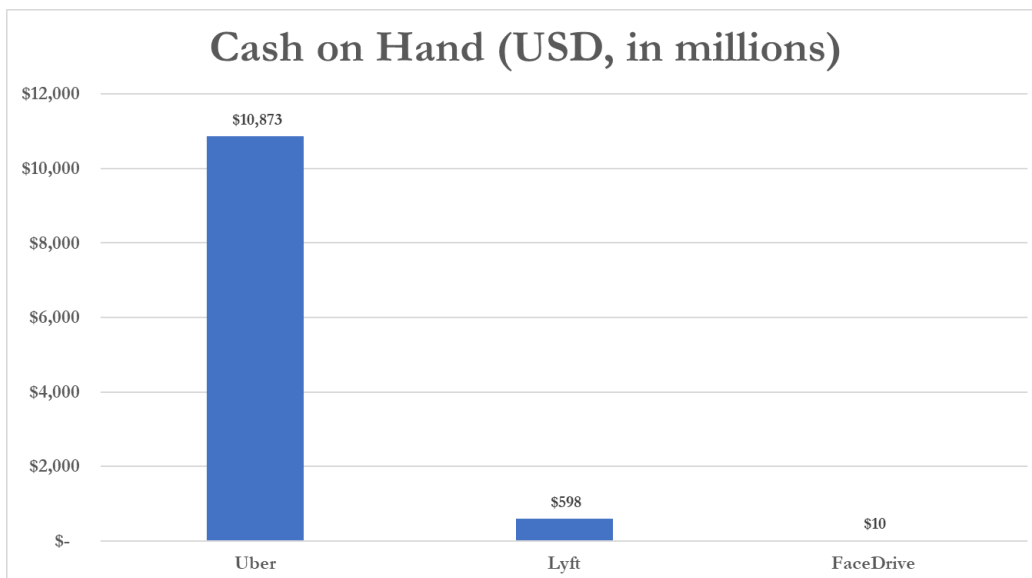


### Cash Poor: FaceDrive Has US\$10 Million Compared to Uber's US\$10.8 Billion

FaceDrive clearly has a lot of catching up to do, which in the ridesharing industry requires substantial cash resources. The path to winning new drivers and riders often requires cash incentives or lower rates.

Uber, for example, has an accumulated deficit of over \$19 billion owing to large historical expenditures that propelled it to dominate new markets around the globe. [Pg. 4] It will likely burn substantially more cash before reaching profitability (if it ever gets there). Last quarter alone, Uber burned about \$850 million in cash. [Pg. 9]

As of the latest quarter, Uber and Lyft had war chests of about \$10.8 billion and \$600 million respectively. By comparison, FaceDrive's change purse consists of ~\$10 million, which includes the proceeds from its recent [financing rounds](#).

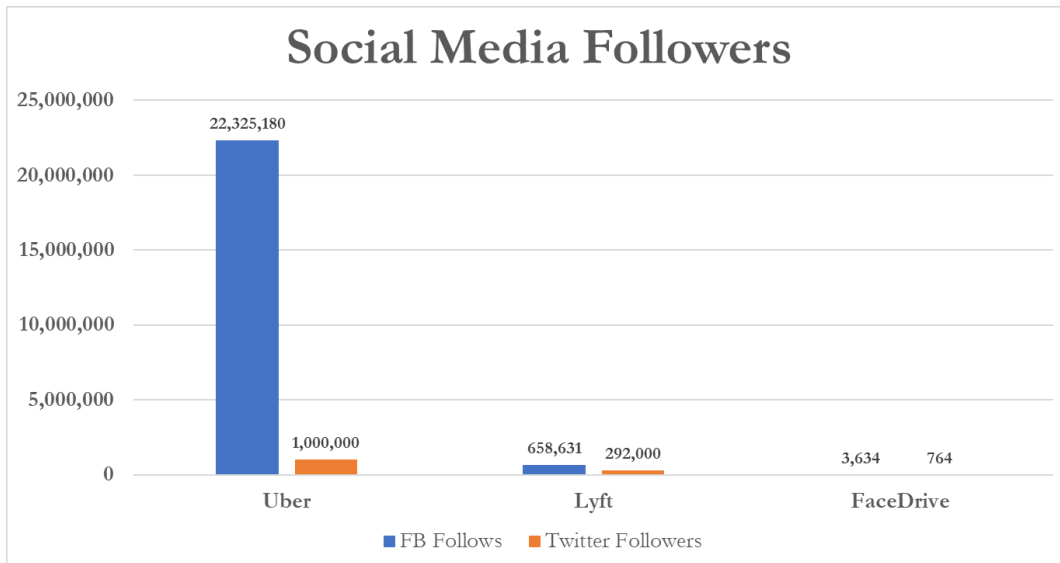




In the past 4 quarters, FaceDrive burned \$5.2 million in operating cash flow while generating only \$951 thousand in revenue. These numbers do not bode well.

### Virtually Non-Existent Social Media Presence, An Area the Company Should Excel

Despite its lack of userbase and lack of cash, FaceDrive seems well-suited for social media, where it could gain support for its stated mission of sustainability. However, we see that it has only 764 followers on Twitter and 3,634 follows on Facebook.



### FaceDrive Has Worse User Reviews than Rivals

Beyond its lack of revenue, lack of a user base, lack of cash, and lack of social media presence, FaceDrive has worse user reviews than rivals. App Store and Google Play ratings place it ranking significantly below Uber and Lyft. FaceDrive users regularly complain of being unable to get rides and poor/delayed customer service.

### App Ratings

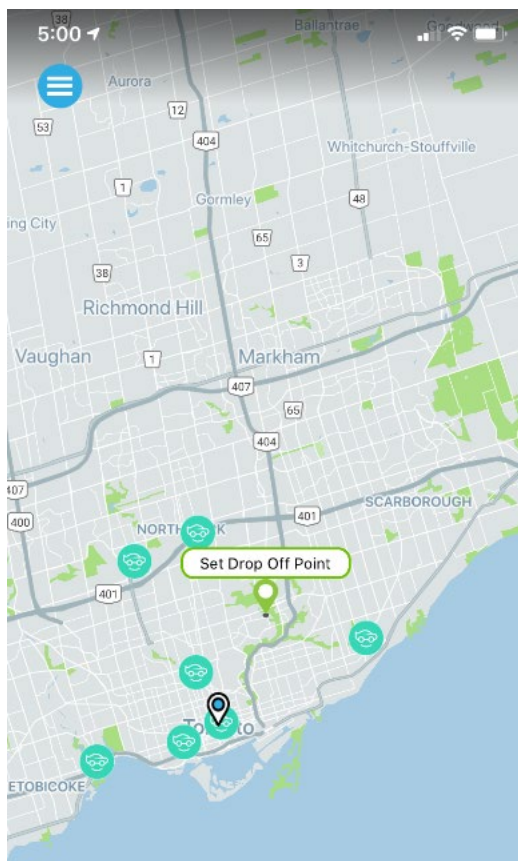
	Uber	Lyft	FaceDrive
App Store	4.7	4.9	4.4
Google Play	3.9	3.8	3.2

### FaceDrive Claims 13,000 Drivers, But the App Shows Almost No Drivers in Key Markets. We Estimate There Are Only About 500-600 Active Drivers

A March 2020 FaceDrive [investor presentation](#) boasts of 13,000 drivers registered on its platform. We suspect the number of active drivers is significantly lower, in the range of 500-600.

The company reported gross fees from rides of \$852,200 in Q1 2020, which implies about 6-7 rides per working day for 500-600 drivers, given the historical average fee of \$10/ride. [\[Pg. 20\]](#)

This estimate was corroborated by our field testing. In the key Downtown Toronto region we found the app regularly had only 2-4 drivers available. The most drivers we found in Downtown Toronto was 7, which appeared on 5:00pm on a Friday (rush hour).



FaceDrive support confirmed that all available FaceDrive drivers appear on the app's map.

We had an industry colleague attempt a short trip in Toronto but the app was unable to match them with a ride after a 10-minute wait. After the match failed, FaceDrive support called their phone to ask if they still wanted a ride. They described the experience as "very strange".

In our call with FaceDrive support the rep acknowledged that they do not have enough drivers in Downtown Toronto and that they often attempt to call in drivers from other areas, which increases wait times. He said in Scarborough they were more active, with 10-15 drivers on the road at any given time.

Our review of the app showed that London, Ontario also had around 10-15 drivers on the road. Ottawa, which the company [launched](#) in the beginning of July, generally had zero or one driver.

### **Part III: Off-road—FaceDrive's Numerous Business Pivots Suggest a Company Flailing Without Clear Direction**

Startups that struggle with their original idea will often undergo a "pivot" or a sharp change in business direction, in an effort to reinvent themselves and find a sustainable niche.

Given its hurdles in ride hailing, we were not surprised to see FaceDrive attempt to change course. However, rather than picking one project, the company has launched numerous disparate projects in the past several months, including:

1. A COVID-19 contact tracing app.
2. An Uber Eats/Grub Hub clone called FaceDrive Foods.
3. A trivia app.
4. An eCommerce marketplace.

None of these efforts appear to be succeeding.

## FaceDrive's Pivot to COVID-19 Contact Tracing App Developer—Emails With Partners Raise Questions About the Company's Claims of Advanced Progress

With COVID-19 curbing ride hailing near the beginning of the year, FaceDrive made a hard pivot.

On [April 20<sup>th</sup> 2020](#), the company announced that it had created an app to help with COVID-19 contact tracing. The language of the announcement strongly suggested that the app was already developed/created and was approaching a near-term release:

“FaceDrive...is pleased to announce that in collaboration with University of Waterloo, **has developed** (sic) “TraceScan”, a digital contact-tracing app designed to support nationwide efforts to slow the spread of COVID-19.”

“TraceScan **was created** in an effort to offer ongoing frontline assistance in response to the COVID-19 pandemic”

“The app is expected to release within the next 30 days.”

Despite these representations, we reviewed emails with the University of Waterloo professor leading the project that directly contradict FaceDrive's statements:

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**From:** William Melek <[william.melek@uwaterloo.ca](mailto:william.melek@uwaterloo.ca)>  
**Sent:** Sunday, May 17, 2020 12:15 AM  
**To:** [REDACTED]  
**Subject:** Re: Facedrive

Hi [REDACTED],

UW signed an MOU with Facedrive in the second half of April. The research agreement followed which is still work in progress. The company is working on the App development but I believe it may take longer than 30 days to release given that we are still working on developing the agreements and allocating the resources for the project.

Thanks

William

As of May 17<sup>th</sup>, almost a month after FaceDrive's above April 20<sup>th</sup> announcement, the professor stated that a Memorandum of Understanding (MoU) was in place, but no agreement had been formalized and resources still needed to be allocated to the project. Note that according to FaceDrive's April 20<sup>th</sup>

announcement, the “developed” app was set to be released around this time. Instead, there apparently wasn’t even an agreement in place to begin development.

Despite the apparent lack of an agreement, FaceDrive has continued to issue press releases suggesting significant progress.

On May 28<sup>th</sup>, the company [announced](#) that the University of Waterloo was working to enhance the TraceSCAN platform with AI, which it expected would be ready for testing in 30 to 90 days. Waterloo was also apparently developing Bluetooth-based wearables:

“Facedrive Health and Waterloo researchers are also developing Bluetooth-based wearables that will improve contact tracing accuracy and real-time monitoring of the recovery progress through measurement of specific vital signs.”

Despite this announcement, in late June, emails reviewed with the University of Waterloo showed that the contract appeared to still be unsigned, and that the new focus was on applications for the workplace.

**From:** William Melek <[william.melek@uwaterloo.ca](mailto:william.melek@uwaterloo.ca)>  
**Sent:** Monday, June 29, 2020 1:26 AM  
**To:** [REDACTED]  
**Subject:** Re: Facedrive

Hi [REDACTED]

Thanks for the email. Actually, we changed the scope of this project with Facedrive to focus on contact tracing within the workplace. We are negotiating a new agreement with the company now that the focus of the project has shifted a bit.

Thanks

William

The change of focus to the workplace is likely because FaceDrive was earlier competing for a contract from the government of Canada to be the country’s official COVID-19 tracing app. In mid-June, the government [announced](#) that it selected its own [Federally-backed project](#) for the task, closing the door to a major potential opportunity for FaceDrive.

The company continues to tout its app. This week, Facedrive [announced](#) that its wearables were available on the Microsoft App store “by invitation only”. What this means is that the app is not accessible to the general public, making it very difficult to assess its functionality.

We have reached out to the University of Waterloo professor for an update on the project this week but have not heard back as of this writing.

We have also reached out directly to FaceDrive’s CEO to ask for clarification on (i) the status of the company’s contact tracing app; (ii) whether it is actively being used; (ii) where it is released; (iii) whether

the wearables are able to be purchased; (iv) who manufactures the wearables, and; (v) whether a contract is or ever was in place with the University of Waterloo.

We have not heard back as of this writing, but **we hope the CEO provides the market more clarity on what exactly they have developed and when** given the claims and relatively vague details provided in company press releases.

## FaceDrive Foods—An Uber Eats/GrubHub Clone with No Credible Shot at Success

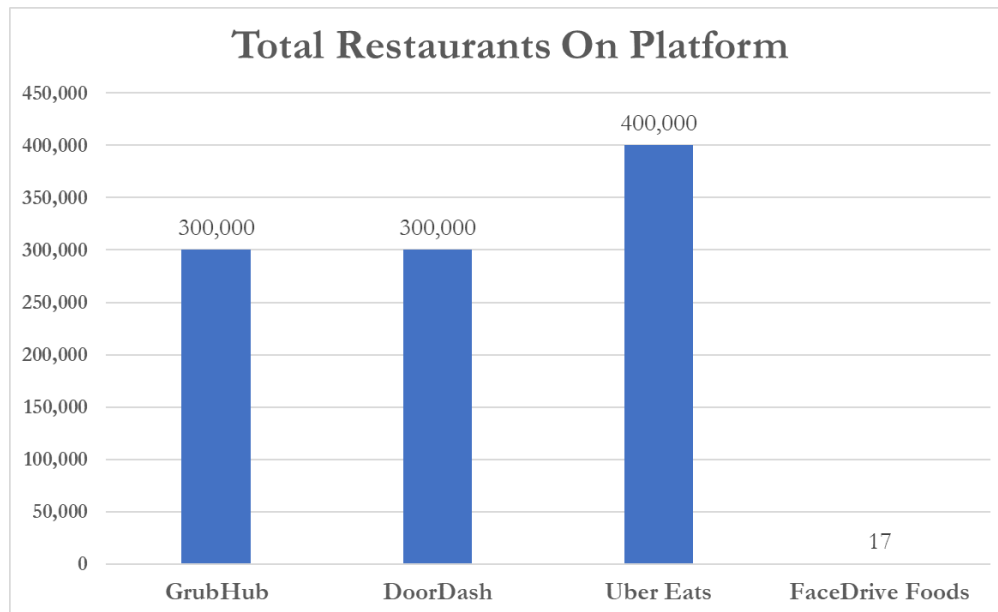
Rather than focusing on tackling just one resource-intensive highly competitive market like ridesharing, FaceDrive recently entered a second—food delivery.

FaceDrive launched “[FaceDrive Foods](#)” around [May of this year](#) in an attempt to compete with Uber Eats. (FaceDrive Foods is alternately referred to as [Eats by FaceDrive](#) on its website, without clear explanation for the mixed branding).

One of the benefits of having a large, vibrant, user network, is that new complimentary services can be offered to the existing user base. This is probably why Uber launched Uber Eats, which tapped into its large existing network of drivers and users to monetize transportation in a different way.

This is also probably why FaceDrive, with its lack of an existing significant network, should not be launching a food delivery service.

Unsurprisingly, FaceDrive Foods/Eats by FaceDrive appears to be struggling. We found a total of 17 restaurants offered on its platform. Here is how it compares to the primary apps in this steeply competitive market:



The company has also made a rather big deal out of an acquisition of certain assets of bankrupt Foodora, a failed food delivery service in Canada.

FaceDrive has issued [multiple](#) announcements about what it termed the “[major](#)” acquisition of Foodora assets, which seem to consist mainly of marketing lists purchased from the company out of bankruptcy. Terms of the [deal](#) show that FaceDrive paid \$500,000 for the customer and restaurant lists of the failed company and can now market to them “subject to customer consent and opt in”.

We called several restaurants on the list and found that deliveries through FaceDrive have been minimal.

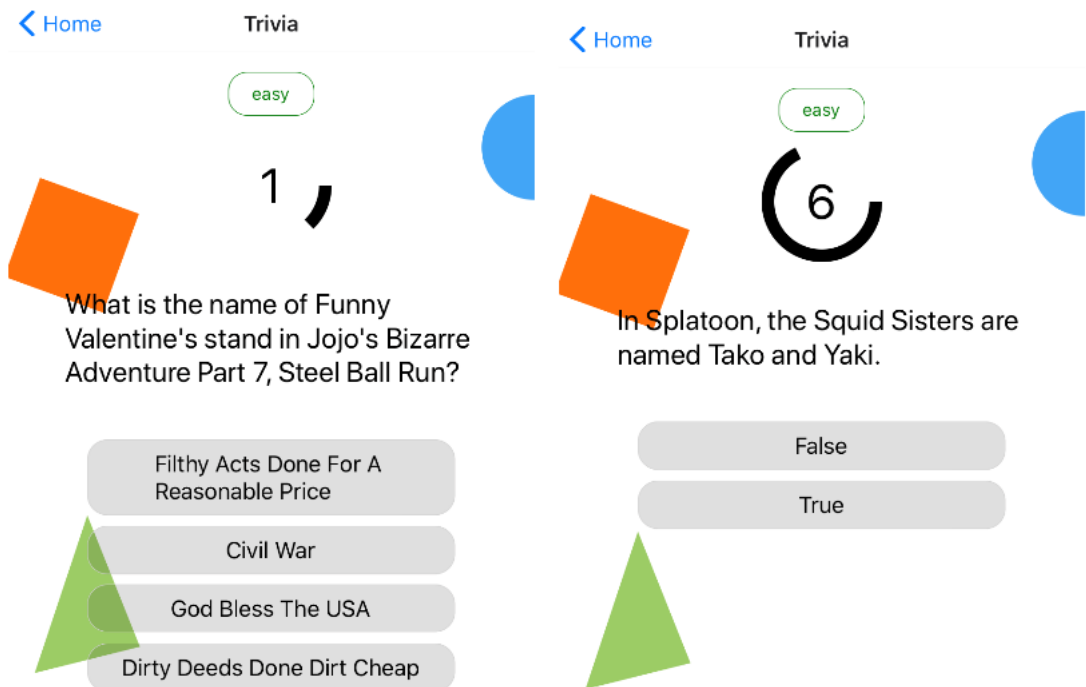
## FaceDrive’s Newly Launched Trivia App Somehow Managed to Rack Up Dozens of 5-Star Reviews Before it Even Launched

On June 17<sup>th</sup> the company announced the [launch](#) of a trivia app in order to “encourage building connections and practice social distancing” during COVID. It is a [separate app](#) from FaceDrive requiring its own download.

As of this writing, the app had 2 reviews on the Apple App store, and about 150 reviews on Google Play.

About 1/3 of the apps ratings on [Google Play](#) were from June 11<sup>th</sup>—six days before the [announced](#) launch of the app. All were 5 stars. On July 11<sup>th</sup>, the app gained another burst of 17 reviews, all but one of which were 4 stars, including reviews from users such as “Justin Bieber” and “Tom Hanks”.

We tried the app and found the questions to be fairly unusual:



It is unclear what the monetization plan for the trivia app might be if it ever manages to establish a significant userbase.

## FaceDrive's New "MarketPlace"—An eCommerce Store That Once Again Seems to Spread the Company Thin, with Little to Show For It

In May 2020 FaceDrive [launched](#) the "highly anticipated" FaceDrive [MarketPlace](#), which seems to largely sell hoodies and hats branded with FaceDrive and a brand called "Bel Air" for ~\$100. We can't imagine these are hot sellers.



HOODIE(WHITE) + HAT – COMBO #1  
~~\$110.00~~ \$100.00



♥ HOODIE(BLUE) + HAT – COMBO #1  
~~\$110.00~~ \$100.00



♥ POLO SHIRT + HAT – COMBO #2  
~~\$100.00~~ \$90.00 ♥

With limited engineering resources, including a historical reliance on outsourced product development, it seems that Facedrive lacks focus.

### Conclusion: A Frothy Market Lifts Many Tides, But We Don't Expect This to Remain One of Them

We do not think Facedrive's core ride hailing business is viable. We have doubts about the veracity of the company's claims relating to its COVID contact tracing app. The trivia app, Uber Eats clone, and marketplace strike us as ill-conceived side projects. With about a year of cash on its books FaceDrive will have some time to attempt other pivots, but we think this "story" stock is heading toward a hard repricing.

### Disclosure: We are short shares of Facedrive

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