8/22/20: GAN, NTDOY, CDLX, POWW + Technical Setups

We have **a lot** to cover, so let's get after it! Here's a breakdown of what we'll cover in our *Round-up*:

- Gan, Ltd. (GAN) Investment & Recent Volatility
- Nintendo, Inc. (NTDOY) Investment & Chart
- Re-entry on Cardlytics, Inc. (CDLX)
- Ammo, Inc. (POWW) Earnings Analysis
- Potential Trade Set-ups

New Long: Gan, Ltd. (GAN)

We established a starter position in Gan, Ltd. (GAN) on Monday at an average price of $24.76/share. GAN provides back-end SaaS solutions for online casino and sports betting websites. It's a fantastic business with near 100% incremental margins and minimal cap-ex.

The company recently uplisted to the NASDAQ around $12/share. Connor Haley of Alta Fox Capital wrote about GAN in his Q1 2020 letter. Haley notes that GAN handles everything from designing the interface, player-account management, regulatory reporting, payment processing, integrating casino games, and betting lines. Talk about a sticky business!

GAN projected $100M in revenue in the next three years. That's 5x 2022 revenue for a fast-growing, sticky business strapped into a long-term growth industry. We think shares are worth considerably more in the next 3-5 years than what's priced today.

Roller-Coaster Volatility

Owning GAN was a rollercoaster this week. The company released news of its Penn National partnership before earnings. This sent shares skyrocketing 7%+ in pre-market hours. The enthusiasm was short-lived as the company reported its loss of its large client, FanDuel, after-hours.

Surface-level the earnings report looked bad. They lost a big customer and lost $0.33/share. But if you look closer, this was bound to happen. Sahara Investing (a great follow on Twitter) laid out the thesis perfectly back in May:
GAN lost the sports platform but kept the casino side (the more profitable segment). Connor thought about this in his Q1 letter and offered good insight as to why this isn't a big deal (emphasis mine):

> *"While bears have focused on heavy FanDuel concentration, our analysis of the industry suggests that investors are inappropriately lumping sports and internet casino concentration into one risk factor. The reality is more nuanced. The experience of sports betting operators in Europe over the last decade suggests that the outsourced internet casino business will be much stickier and is harder to replicate than the outsourced player-account management function.* ***While FanDuel may migrate portions of their outsourced business in-house over time, GAN is likely to remain an important partner for FanDuel in many states, particularly on the internet casino portion of their business****"*


Sahara
@saharainvesting

GAN currently provides FanDuel with both a casino *and* a sports platform. But they make way more money on the casino side ($6.9m vs $3.0m in FY19).

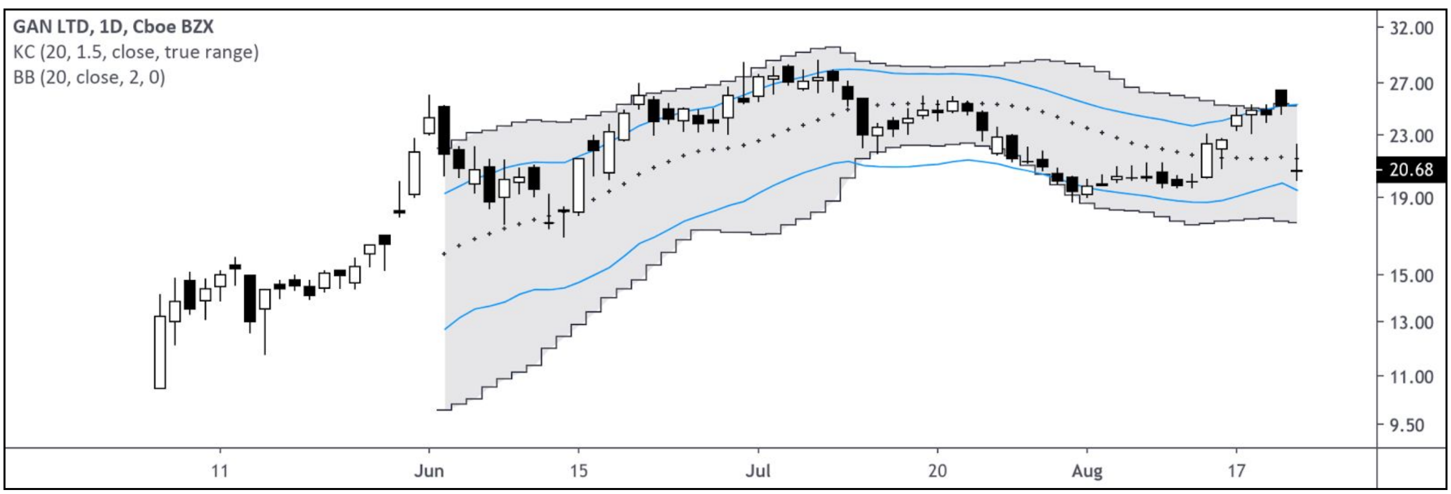
FanDuel will very likely move away on the sports side over time. However, I am extremely confident they will stay on casino.

1:48 PM · May 2, 2020 · Twitter for Android

1 Retweet and comment 6 Likes

The long-term thesis remains intact and we remain invested. This is a good place to talk about trade management and stop-loss placements. I'm not a Bollinger Band trader by any means. But when it comes to analyzing volatility and expected ranges, there's nothing better.

Here's what the Bollinger Bands tell us about GAN's move: **it's normal.**



The stock is well within its normal trading range. Our initial stop-loss of $19.15 looks good.

New Long: Nintendo, Inc. (NTDOY)

Continuing with our gaming theme, we bought an initial stake in Nintendo (NTDOY) on Tuesday. Our average entry price was $62.71. Initial stops are set at $54.

You can read our original thesis on the company here.

I love everything about this trade. Fundamentals, technicals, and long-term industry tailwinds. It has it all. And not much has changed in the business since we first wrote that piece.

Let's review NTDOY's latest earnings report. To make a long story short, they killed it. Here's some highlights:

- Revenue growth: 108%
- Gross Margins: 60%
- Operating Margins 40% (1000bps expansion!)
- Net Income Margin: 30%
- $11B in cash against $3B in total liabilities

Operating margins ballooned on the heels of reduced SG&A spend (nearly $200M less). Check out the Operating Cushion improvement over the last five quarters:

Gross Profit Margin %	48.5%	47.7%	43.7%	61.4%	59.1%
SG&A Margin %	32.5%	23.1%	14.6%	(1.9%)	18.7%

NTDOY went from 16% operating cushion to 41% YoY. **That's nuts.**

Things look *even better* when you look at the short-term liquidity picture. The company's generating more cash at a faster rate than last year -- by a wide margin. Check out the figures below:

Avg. Cash Conversion Cycle	92.94	88.39	(2.76)	20.11	16.94
Avg. Days Sales Outstanding	40.51	35.26	31.27	62.50	31.42
Avg. Days Outstanding Inventory	137.81	113.33	44.81	78.07	57.23
Avg. Days Payable Outstanding	85.38	60.20	78.83	120.46	71.72

It's rapidly reduced its cash conversion cycle and DSO. This means more cash in the bank and less time waiting on receivables.

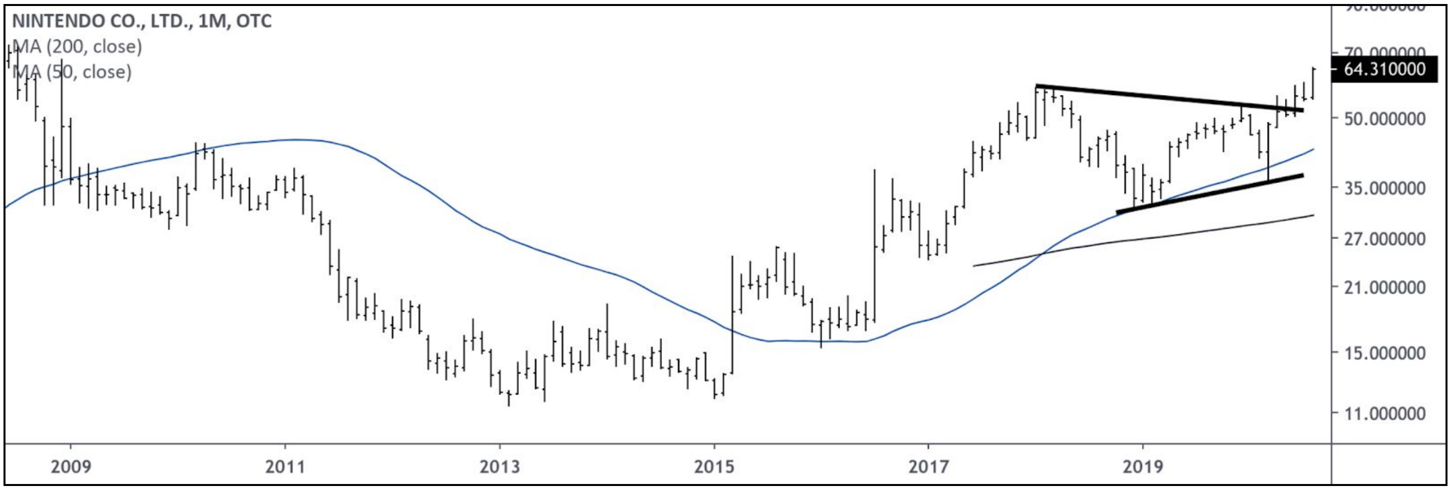
All this translates into a robust 37% ROC for the most recent quarter.

Chart Analysis: Breakout on Monthly Time-frame

NTDOY sports one of the best-looking long-term charts I've seen in a while. It has everything we want:

- Breakout from a well-defined resistance level
- Breakout above 50MA and 200MA
- Breakout on large volume

Check it out below:



Matthew Ball on Nintendo

Matthew Ball wrote a *fantastic* piece on Nintendo and its comparison to Disney (DIS). Here's some quotes that caught my eye:

> *"There is no other gaming company with more beloved and long-running IP, a stronger culture of creativity in storytelling, a deeper history of immersive/technological innovation, more resonant content brand, and so on."*

> *"...Although Nintendo operates a hardware platform like Microsoft's Xbox or Sony's PlayStation, 85% of Nintendo's software revenue comes from Nintendo's own titles. This is the reverse of industry averages. This makes Nintendo a sort of fifth type of company. They make hardware so that its development arm can make the games it wants to make, which also happens to be hardware that other developers can distribute their games through but mostly don't."*

Ammo, Inc. (POWW): Great Earnings, Bad Tape

POWW *finally* reported earnings. And they did not disappoint. The company grew revenue 115% and turned a *positive* 11% gross margin ($1.07M). This comes on the heels of four straight quarters of negative GM. The company lost $1.78M in operating income, a huge improvement from last quarter's $4.50 and last year's $3.65.

In five quarters the company reduced its EBITDA losses from -$2.6M to -$610K.

What does this mean? We could see positive operating profits in the next few quarters. Here's CEO Fred Wagenhals' take on the company (emphasis mine):

> *"We believe the planned capital investments deployed this year have positioned us well for the future and allowed us to capture the benefit of the* ***current hyper-demand environment,*** *although our adjusted EBITDA took a hit from the increased spending this year. In addition, we also continued to make headway within the military and law enforcement as conversations with various domestic and international government agencies progressed."*

Let's zoom out for a second. The company's quarterly report also fell on its FY annual report. Here's the FY figures for 2020:

- Total revenue increased 224% to $14.8 million compared to $4.6 million.
  - Proprietary ammunition revenue increased 17% to $3.0 million.
  - Standard ammunition revenue increased 154% to $3.6 million.
  - Casing revenue increased over 1,300% to $8.2 million.
- Net loss was $14.6 million compared to a net loss of $11.7 million.
- Adjusted EBITDA was $(7.8) million compared to $(4.8) million.

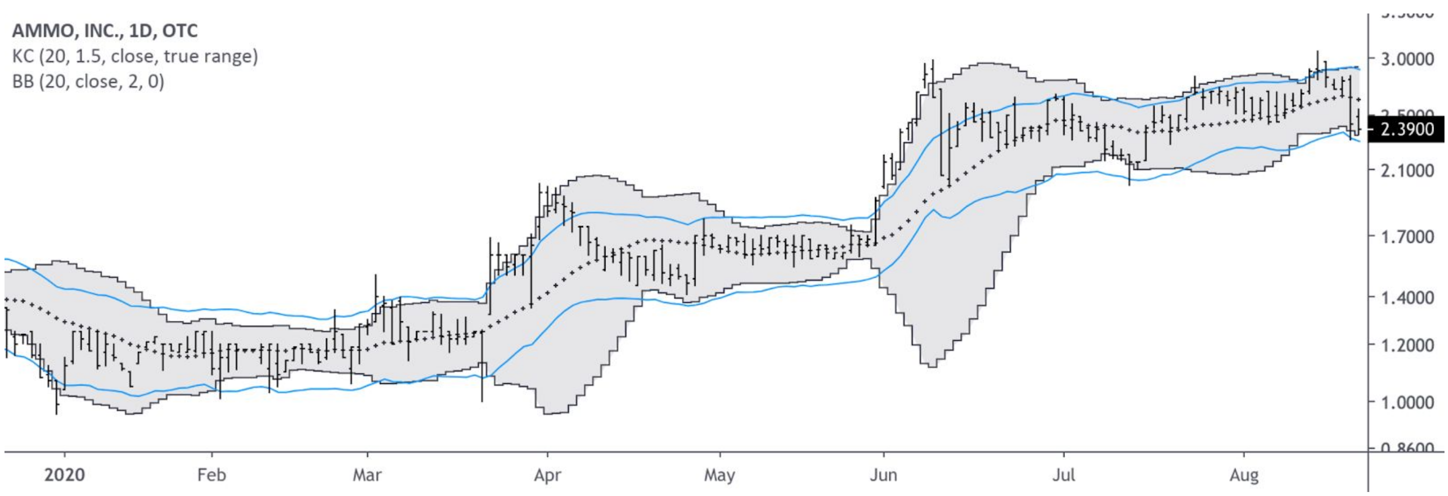
The last three years of revenue growth is insane: 52%, 135%, and now 224%. Looking forward, the company expects 2021 revenue growth of 184%.

A company growing top-line revenue over 130%/year shouldn't trade at <3x sales. But that's what would happen if POWW hits that figure at the current market cap.

Chart Analysis: Tape Not Confirming Earnings

The tape isn't confirming the bullish earnings report. Prices slipped and closed below the 50MA on the daily time-frame. And the weekly chart painted a bearish engulfing candle.

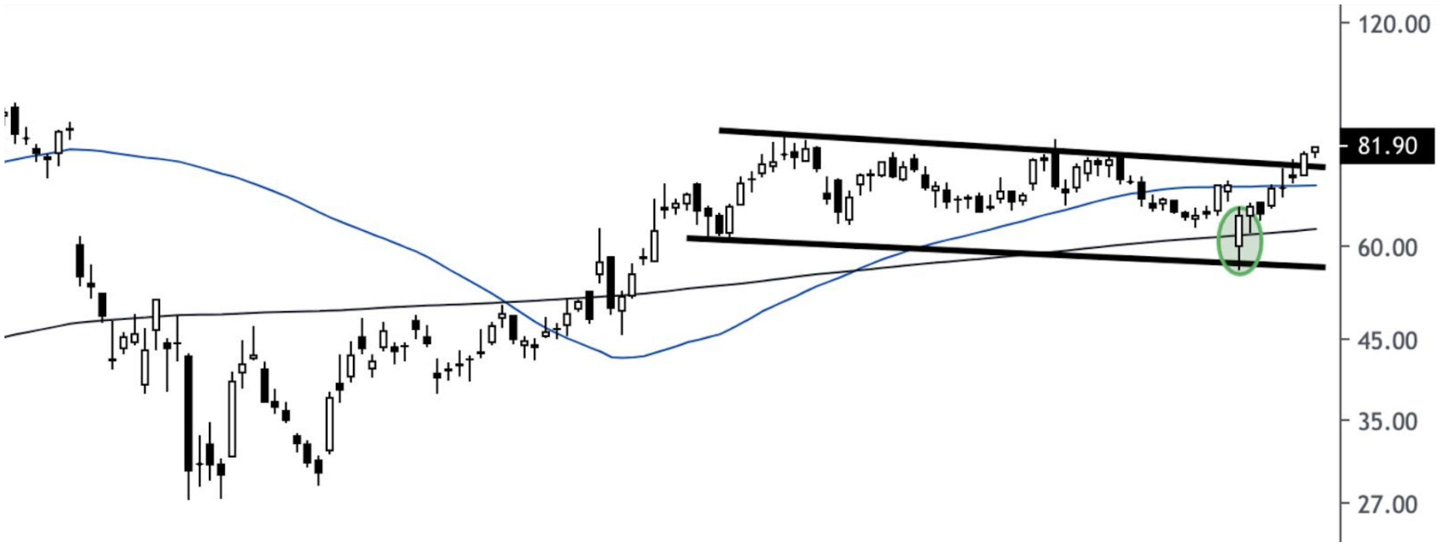
That said, the stock remains well within its normal trading volatility. Check out the chart below:



Our average cost basis on this position is around $1.84. We're in solid profit territory and looking for a reversal off the bottom of this range.

Re-Entry on Cardlytics (CDLX)

We re-entered CDLX last week. As you can see on the chart below, we got stopped out after the gap-down on earnings.



The company still fits right in our digital transformation theme. There's also strong hands with Cliff Sosin owning nearly 15% of the company. Price broke out of its long-term bull flag channel above the 200MA and 50MA.

You can check out our original thesis here.

Classical Trade Set-ups: We're Back Baby!

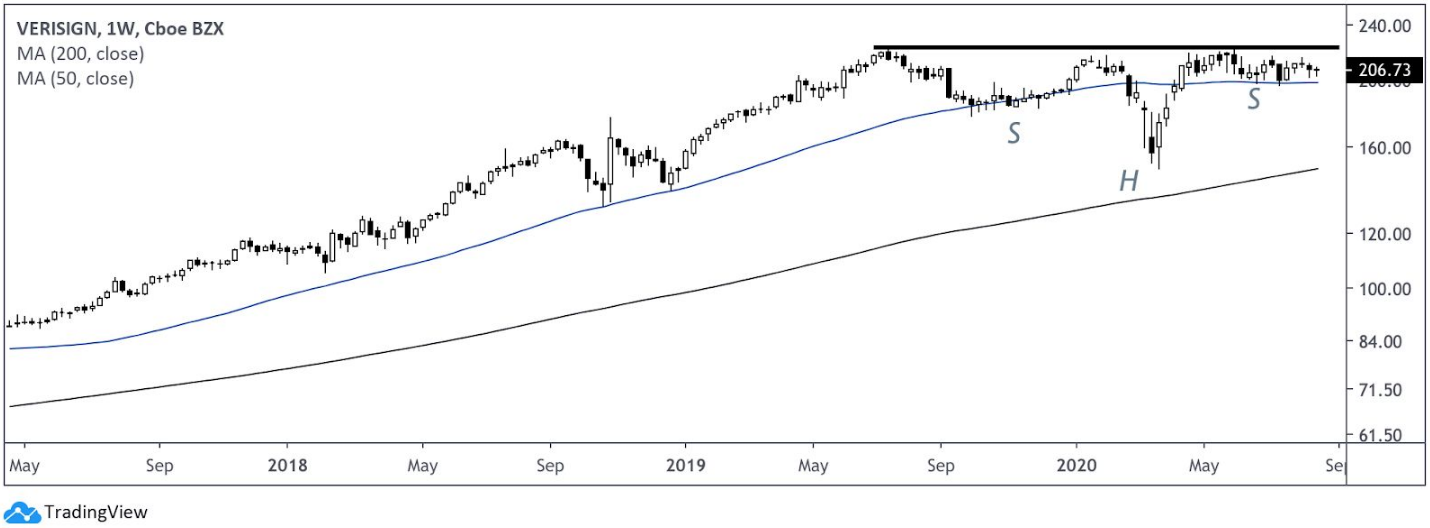
We heard. We listened. And we're back. There are a couple of changes with the classical trade alerts. First, you'll get them here, in the weekly portfolio review. Second, we're only going to cover the entries, initial stop-losses, and profit targets.

This frees up more of my time to focus on our core holdings and diving deeper into our thematic investment pillars.

Let me know what you think of the new format.

Verisign (VRSN): Inverse Head & Shoulders

rockvuecap published on TradingView.com, August 22, 2020 09:34:22 EDT
BATS:VRSN, 1W 206.73 ▼ −1.43 (−0.69%) **O:**207.82 **H:**209.14 **L:**202.80 **C:**206.73



- 3% Breakout: $229.35
- 1.50% Breakout: $226.01
- Stop-Loss: $195.76
- Profit Target: $296.77
- Reward/Risk: 2.34x

Fancl Corp (4921.JP): Rectangle

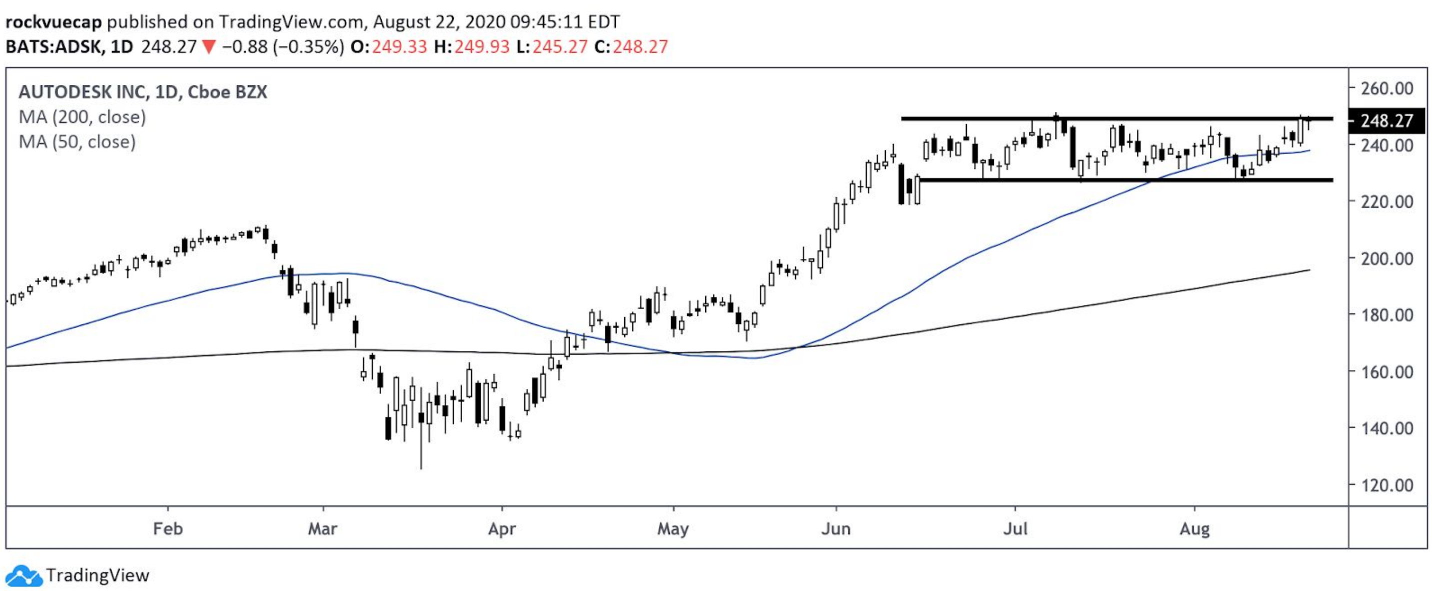
rockvuecap published on TradingView.com, August 22, 2020 09:37:53 EDT
TSE_DLY:4921, 1M 3170 ▼ −80 (−2.46%) **O:**3070 **H:**3315 **L:**2815 **C:**3170

- 3% Breakout: $3,399.00
- 1.50% Breakout: $3,349.50
- Stop-Loss: $2,815
- Profit Target: $4,525.00
- Reward/Risk: 2.20x

PLDT, Inc. (PHI): Cup and Handle

- 3% Breakout: $29.68
- 1.50% Breakout: $29.25
- Stop-Loss: $27.64
- Profit Target: $31.49
- Reward/Risk: 1.39x

Autodesk, Inc. (ADSK): Rectangle



- 3% Breakout: $256.22
- 1.50% Breakout: $252.49
- Stop-Loss: $238.82
- Profit Target: $270.20
- Reward/Risk: 1.30

Previous Week's Portfolio Round-Up

Red Violet Reported Q2 Earnings

Here's the quick-and-dirty highlights:

- Net loss narrowed to $2.5M (down 35%)
- Adjusted EBITDA rose 155% to $0.9M
- Adjusted Gross Profit increased 7% to $4.5M
- Adjusted Gross Margin increased 5% to 63%
- Generated $1.8M in operating cash flow
- New idiCORE users: 50
- New FOREWARN users: 4,300

RDVT delivered strong results during the trough of the COVID pandemic. The company offered reductions in minimum monthly contract charges to a few businesses. Even going as far as eliminating monthly charges.

This plays into the long-term nature of RDVT and their customers. They want to partner with customers over decades, not quarters. Concessions like this is another way to ensure a healthy partnership. These concessions are transitory and have declined since April.

More importantly, prospective customers are taking a serious look at RDVT's product offering. The data fusion business is a high switching-cost game. It's hard to rip out that infrastructure once in place. Yet given the pandemic, many companies are reconsidering their non cloud-native platforms.

Here's CEO Derek Dubner discussing this idea (emphasis mine):

> *"We identified a cohort of customers who, for one reason or another, expressed resistance in the past to the idea of switching away from competitor products, perhaps just out of the burden of doing so, who were now open to hearing about how we can meet their needs and more efficiently. As a result of our efforts,* ***new customer applications in June exceeded pre-pandemic levels and July exceeded June.*** *This metric is a leading indicator of revenue in the next several quarters."*

These new customer applications flow through as new revenue in the coming months. In fact, Dubner thinks August will be a **company record** for revenue growth/generation. Here's his take (emphasis mine):

> *At this point,* ***August is tracking to not only be the strongest month-over-month revenue growth in our history, but also a record month for revenue****. I'm even more excited about our positioning given not only the improving economic conditions, but the secular tailwinds that I mentioned that present themselves in the short and long term.*

The company announced a new technology within their idiCORE platform: geospatial search. This feature allows users to search people, businesses and assets by geographical location. This has exciting implications for law enforcement and insurance investigators.

Let's look deeper into the financials. RDVT's platform revenue grew 11% YoY while service revenue declined 82%. We only care about the platform revenue as it's 100% incremental contribution margin and the core of RDVT's business. Platform revenues make up 97% of total revenue.

Service revenues declined due to the temporary hiatus in government collection programs.

So far the market seems to agree with our bull thesis. Price remains above the 200MA on the daily chart.

New Long: frontdoor, inc. (FTDR)

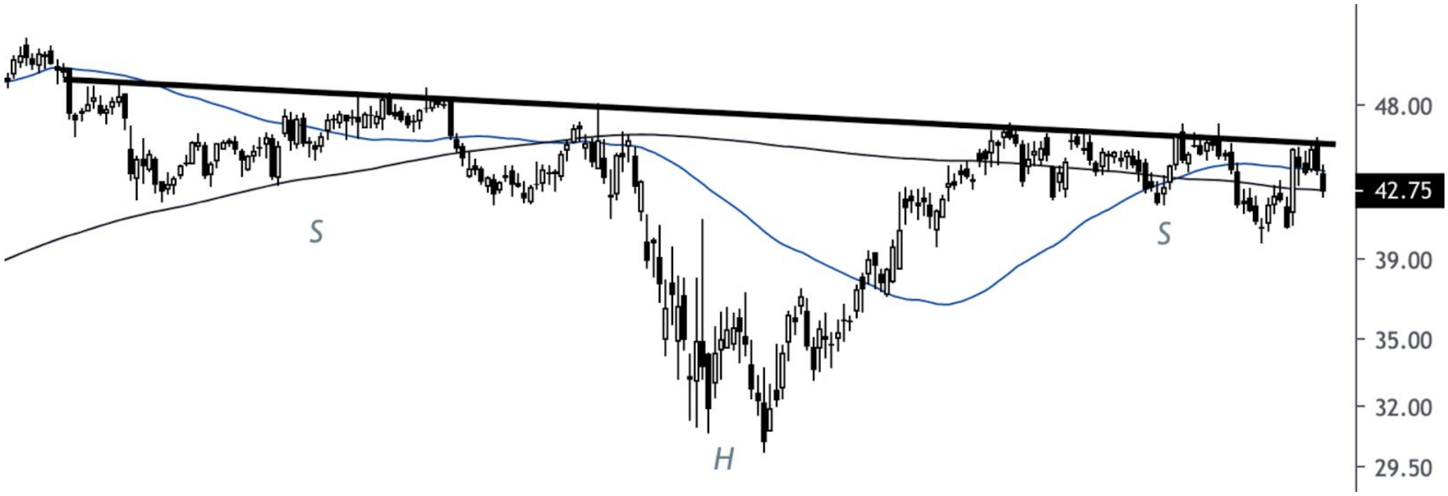
We entered a long position in frontdoor, inc. (FTDR) this week. FTDR has long been one of our favorite companies. We love the management team (Rex Tibbens), love the product (sticky home warranty/insurance) and love the secular drivers (residential housing).

The company's coming off a solid Q2 earnings report. Some highlights include:

- 7.5% Top-Line Revenue growth
- 52% GM (200bps improvement QoQ)
- $82M in Operating Income (19% margin)
- $80M in Free Cash Flow

FTDR generated a 34% ROIC for the quarter, well above its prior two quarters of sub 20%.

The charts show a potential breakout from a **massive** inverse head and shoulders (see below):



We initiated our position right above the 200MA and placed our stops around $39.50. We want to give the stock enough room to move before its potential breakout. 200MA doing well as support here.

Revolve, Inc. (RVLV) Reported Q2 Earnings

RVLV reported earnings Wednesday and absolutely crushed it. Take a look at some highlights:

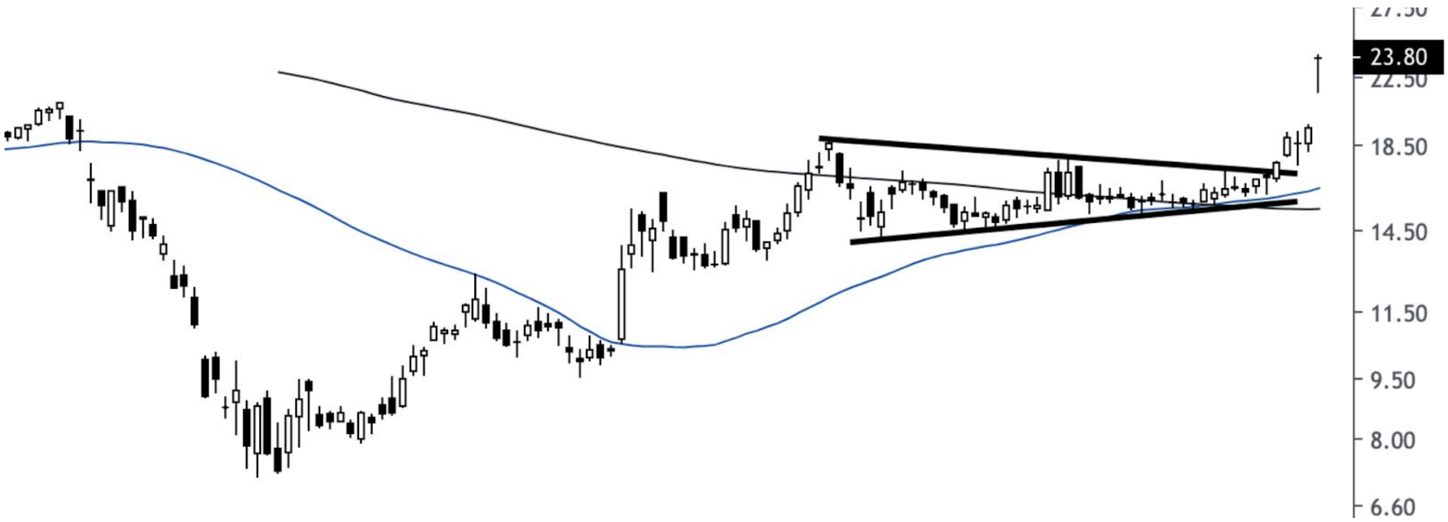
- Record EPS of $0.20 (vs. estimate of $0.03)
- Record $54M in FCF
- $150M in assets against $120M in total liabilities
- Active Customers grew 13%
- Inventory churn grew 30%

In short, they did everything right. A 30% growth in inventory churn allowed RVLV to generate more cash to shore up its already strong balance sheet. It also positioned the company to take advantage of future inventory, stocking up on what *will* trend in the coming quarters.

Here's Co-Founder Michael Karanikolas on the inventory situation (emphasis mine): "*With the better-than-expected sales trends, we have rapidly moved from a mode of trying to reduce inventory receipts at the beginning of the second quarter to now* ***pursuing inventory opportunities to make sure we have the right mix and right level of inventory in the second half of the year and as we enter 2021.*** *Aside from the strong Q2 financial results, I am encouraged by the innovation and positive impacts that are moving our business forward.*"

When the world opens back up, RVLV should see an increase in dress purchases. These are high-price, high margin products that saw huge declines as people stayed indoors. Over time, this shift should result in higher average revenue/margin per customer.

The market loved this report. The stock bolted 23% after-hours and stayed there during the next trading day. Check out the chart below:



We'll look to move our stop-loss to breakeven on this trade and let it run. We're expecting normal pullbacks after this volatile move.