



08/29/2020 - GUI, IBKR, FTDR, RDVT & Trade Set-ups

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*:

- New Investment in Guillemot (GUI.FR)
- IBKR Continuation Breakout
- FTDR Reversing Higher
- RDVT Close To New Breakout
- Classical Trade Setups

New Long: Guillemot (GUI.FR)

Guillemot Corporation (GUI) designs, manufactures, and sells interactive entertainment hardware and accessories. GUI offers digital hardware and peripherals under the Hercules brand name; PC and console gaming accessories under the Thrustmaster brand name; and DJ solutions for various connected devices under the DJUCED brand name.

There's a lot to like about GUI:

- Fits our gaming/esports thematic
- Trades around 2x NTM Sales & 8.8x NTM EBITDA
- Guillemot family owns 72% of the company

The thesis is simple: **more people playing video games means increased demand for GUI's products.** These products include joysticks, racing steering wheels and pedals, gamepads and headsets.

A Killer Second Half of 2020

GUI released their 1H 2020 results in late July and absolutely killed it. Check out a snippet from their PR release:



| Unaudited data (in millions of euros) 1 st January 2020 - June 30, 2020 | 2020 | 2019 | Variation |
|---|-------------|-------------|---------------|
| Second trimester | | | |
| Thrustmaster gaming accessories ranges | 26.4 | 11.3 | + 134% |
| Total Thrustmaster | 26.4 | 11.3 | + 134% |
| Hercules digital peripherals | 1.4 | 0.6 | + 133% |
| OEM (*) | 0.3 | 0.3 | - |
| Total Hercules | 1.7 | 0.9 | + 89% |
| Total | 28.1 | 12.2 | + 130% |
| First semester | | | |
| Thrustmaster gaming accessories ranges | 38.9 | 23.6 | + 65% |
| Total Thrustmaster | 38.9 | 23.6 | + 65% |
| Hercules digital peripherals | 2.3 | 1.6 | + 44% |
| OEM (*) | 0.3 | 0.3 | - |
| Total Hercules | 2.6 | 1.9 | + 37% |
| Total | 41.5 | 25.5 | + 63% |

The company increased revenues 63% in the first half of 2020. Most of their sales come from the Thrustmaster division (which sells gaming accessories). Thrustmaster grew 134% during the 2nd trimester of 2020.

What's the reason behind such rapid growth? One can point to the general increase in gamers and hours played. But it's also a function of the *type or game* played.

GUI's main products include joysticks for flying simulators and [racing](#) wheels/pedals for racing simulators. These two types of games have taken off over the last six months. Check out Microsoft's latest [flight simulator](#). Companies are *literally running out* of flight simulator joysticks.

Operating Profits & Valuation

The company's expecting positive operating profits at the end of the year. That's a huge turnaround considering they lost roughly \$2M in operating income last year.

Next let's think about valuation. We have short-term tailwinds in flight/racing simulators. We've also got long-term tailwinds as more people entertain themselves at home (thanks COVID). GUI should end the year with ~40% revenue growth.

Let's assume they average around 17% top-line growth over the next four years. We'd end 2024 with \$167M in revenue and \$19M EBITDA. The company currently trades around 2.4x sales and near 9x EBITDA. Our model assumes EBITDA margin compression (from 15% to 11%),

What's a fair multiple to pay for a strong growth, double-digit EBITDA margin gaming accessory company? 10-12x? At that range we get \$190M - \$228M in EV. After adding cash and subtracting debt we get \$173M - \$211M in shareholder value (>70% upside).



Risks: Commodity, Competition & Stalled Growth

Video game hardware isn't a great business. Anytime you hear the word "hardware", think "commodity". There's loads of competitors (Logitech, Turtle Beach, SPEEDLINK). So how does GUI compete? Licenses.

The company has production licenses with Microsoft, Sony, Ferrari, Gran Turismo and Sparco. This is **key** if the company's going to maintain revenue growth and margins.

Another form of competition includes the Guillemot's family interest. The family owns 73% of GUI. But they also own over 8% of Ubisoft, a much larger company. The family could spend more time on Ubisoft as it moves the needle farther than any gains in their GUI investment.

Chart Analysis & Trade Parameters

GUI is one of the prettiest long-term base breakouts I've seen in a while. Check out the monthly chart:



Price broke out of a 17-year long rectangle basing pattern and put up a strong monthly candle close.

Let's talk about position sizing. Alex's Trifecta Lens gave us warning signals this week. We're pumping the brakes on increasing exposure while strategically adding to our thematics.

Here's the trade parameters:

- Entry: \$7.78
- Exit: \$4.50
- At-Risk: 100bps

Using monthly charts to place stop-losses automatically reduces the size we put on while ensuring we stay in a longer-term trend. The perfect recipe as we hit a potential high-vol scenario over the next few weeks.



Continuation Breakout: Interactive Brokers (IBKR)

IBKR continues to trend well since our original entry in early July. The stock looks like it wants to make another move higher on a continuation breakout. Check out the daily chart below:



We didn't get that **strong** Friday close. But we have all the pieces for a higher move:

- Symmetrical triangle formation above initial breakout
- Price above 50MA and 200MA
- Above-average volume on continuation breakout

Even if you don't add to your position on the breakout, use it to move your initial stop-loss. We have our stops trailing the 50MA around \$49. A shakeout at this point would give us ~\$3/share in profit.

Reversal Higher: frontdoor, inc. (FTDR)

FTDR made positive moves this week after putting in price support above our stop-loss area. The stock is trying to break out of a long-term inverse head-and-shoulders pattern. We bought our initial stake in mid-August around \$44/share.

The stock's put in a short-term bounce after trading to the bottom of its Bollinger Band. Friday's close above 200MA is a great sign for the week ahead. We're keeping an eye on our two remaining resistance levels: 50MA and H&S neckline.

Check out the daily chart:



Mortgage rates remain at historic lows. And if my local market (Annapolis, MD) is any indication of national home sales strength, FTDR is in great shape. More homeowners = greater pool of potential American Home Shield customers.

Approaching New Breakout: Red Violet, Inc. (RDVT)

Our data fusion business, RDVT, looks ready to breakout to new highs in the coming weeks. Check out the daily chart below:



Price remains above the 50MA and 200MA. In fact, you could justify a cup and handle pattern here (Will O'Neil's favorite pattern).

We're looking for a breakout above \$21.50 to add to this position. Be on the lookout for a trade alert this week if we hit that magic number!



Classical Trade Set-ups:

Here's what went down this week:

- FANCL (4921.JP) broke out of Rectangle
- PLDT (PHI) broke out of Cup and Handle
- ADSK attempted a breakout but failed

Fate Therapeutics (FATE): Ascending Right Triangle

rockvuecap published on TradingView.com, August 29, 2020 11:14:24 EDT
 BATS:FATE, 1D 35.98 ▲ +1.33 (+3.84%) O:34.96 H:36.63 L:34.76 C:35.98



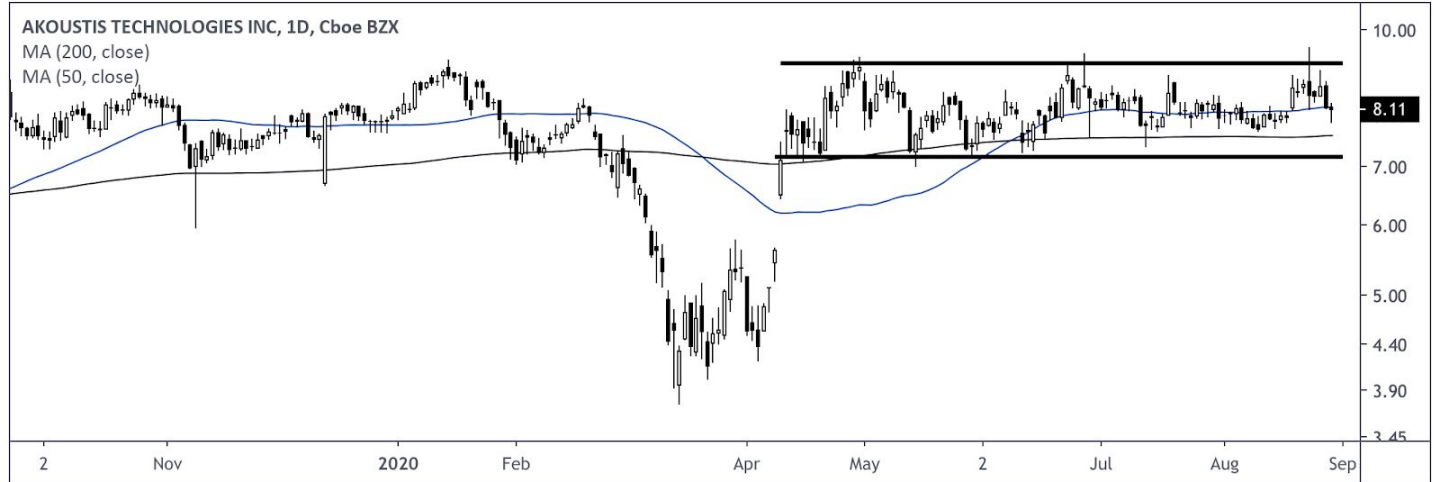
TradingView

- 3% Breakout: \$39.14
- 1.50% Breakout: \$38.57
- Stop-Loss: \$33.72
- Profit Target: \$48.45
- Reward/Risk: 2.04x



Akoustis Technologies (AKTS): Rectangle

rockvuecap published on TradingView.com, August 29, 2020 11:18:03 EDT
 BATS:AKTS, 1D 8.11 ▼ -0.03 (-0.37%) O:8.16 H:8.25 L:7.85 C:8.11

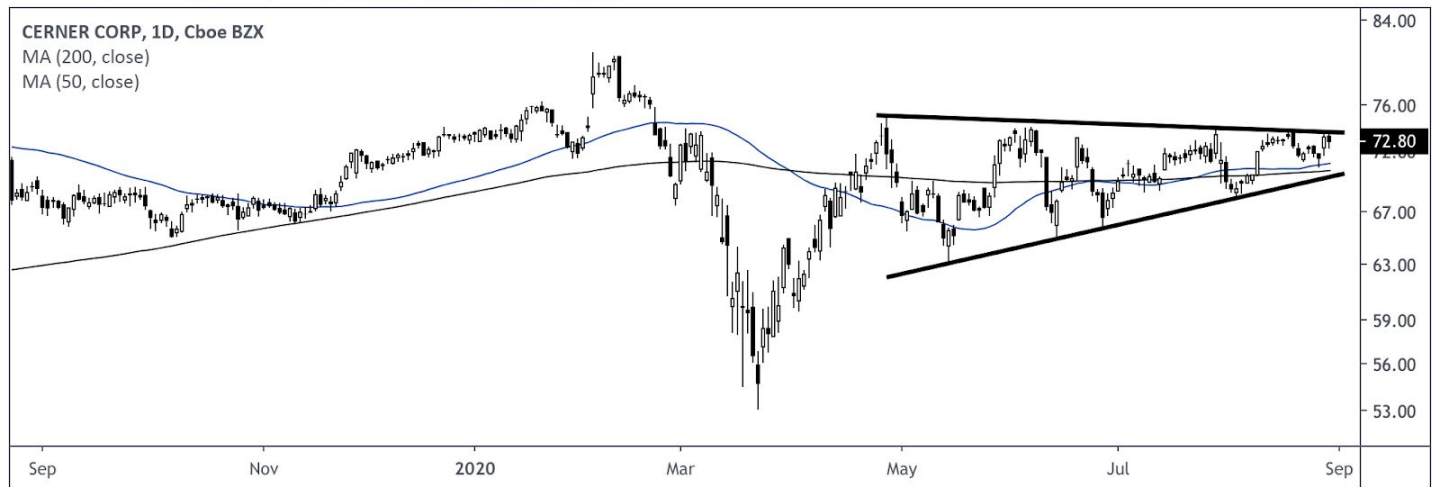


TradingView

- 3% Breakout: \$9.42
- 1.50% Breakout: \$9.29
- Stop-Loss: \$8.10
- Profit Target: \$11.17
- Reward/Risk: 1.59x

Cerner Corp (CERN): Symmetrical Triangle

rockvuecap published on TradingView.com, August 29, 2020 11:20:09 EDT
 BATS:CERN, 1D 72.80 ▼ -0.44 (-0.6%) O:73.28 H:73.42 L:72.22 C:72.80



TradingView

- 3% Breakout: \$75.90
- 1.50% Breakout: \$74.80
- Stop-Loss: \$70.56
- Profit Target: \$85.44



- Reward/Risk: 2.51x

Aduro Biotech, Inc. (ADRO): Symmetrical Triangle

rockvuecap published on TradingView.com, August 29, 2020 11:22:57 EDT

BATS:ADRO, 1W 2.81 ▼ -0.01 (-0.35%) O:3.09 H:3.09 L:2.68 C:2.81



TradingView

- 3% Breakout: \$3.44
- 1.50% Breakout: \$3.39
- Stop-Loss: \$2.67
- Profit Target: \$5.31
- Reward/Risk: 2.67x