



# 10/30/2020: JIN Reports, Revisiting HSKA, New Short Ideas and MO Watchlist

Operators,

What a week! We're *finally* seeing some volatility back in markets. This makes sense given everything that's happening: COVID, election, massive earnings season. Can't forget that full moon and Halloween too! As long term holders of great businesses, we welcome the volatility. Seth Klarman got it right when he said volatility is the friend *not the enemy* of a prudent investor.

In short, we can use volatility to buy great businesses at prices that offer attractive returns (18-20%+ CAGRs) on a 3-5 year basis. We'll cover a few ideas that popped up on our radar this week, as well as any important portfolio news.

Here's what we got:

- Jumbo Interactive (JIN) Reported Q1 Earnings
- Revisiting Heska (HSKA) After Monthly Breakout
- A Few Names We'd Like To Add On Further 10% Decline
- Some Short Ideas (Not Named TSLA) in Classical Trade Section

Let's get after it!

## Jumbo Interactive (JIN) Reports Q1 Earnings

JIN reported Q1 2021 earnings this week and results were solid. The company reported a mere 2% revenue decline in Q1 to \$22.3M, which is still impressive given the COVID epidemic. JIN's also coming off a very high first quarter last year when their Powerball reached \$150M (outlier).

Despite the revenue decline, JIN reported an 80bps *increase* in margins on ticket sales (rev/ticket sales).

As we mentioned in a [previous round-up](#), JIN signed a 10YR agreement with Tabcorp and a 10YR binding term sheet with Lotterywest. There's clear visibility into the revenue runway into 2030.

Finally, management remains *very* excited about their SaaS-based Internet offering. Here's CEO Mike Veverka on the Q1 results and outlook for the full year (emphasis mine):

*"We now have our 2 largest clients 100% operational, Mater Lotteries and the Endeavour Foundation, which became operational this month, ahead of target. Our other 3 clients are due for completion later this year."*



***The underlying growth we are witnessing is not just a COVID thing. It has been going on for years. Jumbo's consistent innovation has delivered more features and a better player experience. In past years, we have delivered growth through features such as the Lotto Party, super combos and charity games. This year, we've been focusing on advanced data analytics to deliver growth.***

***By understanding our customers more by analyzing data, we are able to give them a better experience, which in turn builds more engagement and loyalty. This has really been evident in the low jackpot weeks when we've managed to keep our customers engaged. Advanced data analytics has also helped us find the small things, which often make a huge difference.”***

All signs point to an exceptional business continuing its dominance. Yet you wouldn't see that if you looked at the share price. The weekly chart gives us a higher probability of further price declines. *This is what gets us excited!* A business executing its strategy, deepening customer relationships while its share price falls.



The company trades roughly 27x P/E and 17x EV/EBIT. We're hoping the stock sells off another 10-20% so we can buy around 10-12x EV/EBIT. **The stock currently trades <10x our estimate of 2023 EBITDA.**

## Revisiting Heska, Inc. (HSKA)

HSKA is back on our radar after posting a *strong* monthly close and breakout from consolidation. I first wrote about the company in April (read [here](#)). HSKA operates a razor-razor blade model. They sell their veterinary lab equipment at low margins and subsequently sell the lab test consumables at higher margins.

At that time, HSKA traded <4x sales. EV/Sales now stands at 5.4x. We still think HSKA has a long runway for growth and >5x EV/Sales seems reasonable.



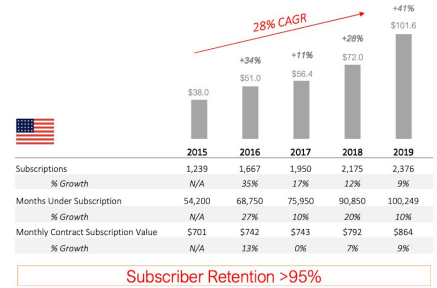
The company's 2023 goals are ambitious:

1. Double customers and geography sold
2. Double product and revenue streams served
3. Continue to grow Core business ~12%/year

~90% of Heska POC Lab Consumables on Long-Term Subscription <sup>(1), (2), (3)</sup>



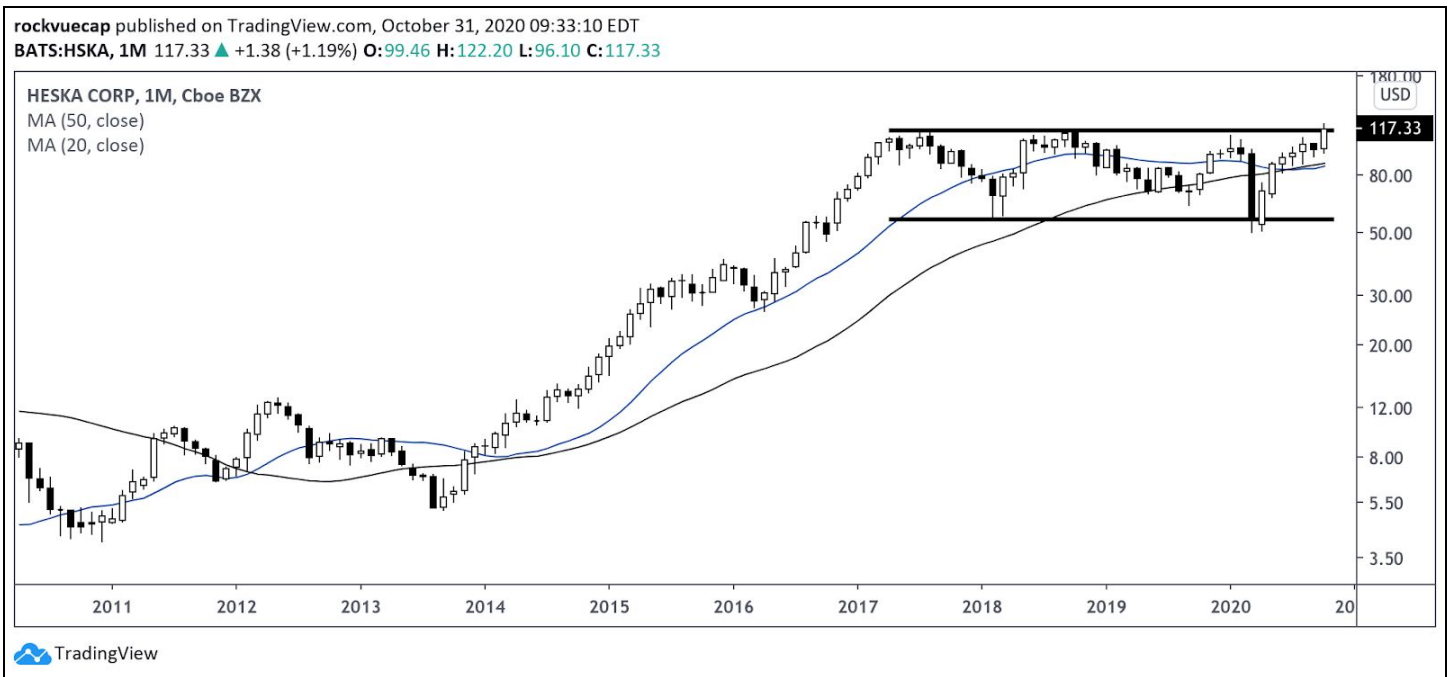
Minimum contract subscription value (\$MM)<sup>3</sup>



HSKA expects 2020 revenues to fall between \$175M and \$185M (unchanged prior to COVID). They also expect to install over 30,000 veterinary lab analyzers by 2023 (lot of razor blades!)

More importantly, the company continues to take global market share. They're #3 in the US, #3 in Canada, #1 in Germany/Spain and #2 in France.

With a strong balance sheet and a founder-led CEO in place, HSKA could look *much different* in three years than it does today. And the tape is showing signs of that too (see below):



HSKA scored a [70.5 on the MOCS rating](#). That places it firmly in the “Investable” category. Remember, anything over 65 is worth investigating.

## Our “10% Decline” Wishlist

Like we mentioned earlier, we *love* seeing markets decline like this. It gives us a chance to buy great businesses at cheap prices. Here's our short-list of names we'd add to the book if we got another sustained lower leg in the markets:



- Jumbo Interactive (JIN)
- Gan, Ltd. (GAN)
- [Travelsky Tech \(0696.HK\)](#)
- Global Payments (GPN)
- [Enlabs \(NLAB\)](#) \*\*\*
- [Micron \(MU\)](#)
- Nintendo (NTDOY) \*\*\*

\*\*\* = Highest priority additions due to highest MOCS rating and discount to IV

We'll alert the Collective as soon as we make any moves with the above names. Also, look for a GPN write-up to hit your inbox soon. It's a pick-and-shovel company for electronic payment processing around the globe.

## Classical Trade Set-ups

### SHORT Physicians Trust (DOC): Rectangle

rockvuecap published on TradingView.com, October 31, 2020 09:56:49 EDT  
 BATS:DOC, 1D 16.86 ▼ -0.07 (-0.41%) O:16.86 H:16.96 L:16.60 C:16.86



TradingView

- 2% Breakdown: \$16.25
- Profit Target: \$14.10
- Stop-Loss: \$17.18
- Reward/Risk: 2.31x



# LONG JD.com (JD): Cup and Handle

rockvuecap published on TradingView.com, October 31, 2020 10:01:02 EDT

BATS:JD, 1D 81.52 ▼ -1.52 (-1.83%) O:82.08 H:82.35 L:80.27 C:81.52



TradingView

- 2% Breakout: \$86.27
- Profit Target: \$98.41
- Stop-Loss: \$79.15
- Reward/Risk: 1.70x



## LONG Yeti, Inc. (YETI): Inverse Head & Shoulders

rockvuecap published on TradingView.com, October 31, 2020 10:04:05 EDT  
 BATS:YETI, 1D 49.48 ▼ -2.77 (-5.3%) O:51.99 H:52.35 L:48.65 C:49.48



TradingView

- 2% Breakout: \$55.15
- Profit Target: \$65.02
- Stop-Loss: \$51.20
- Reward/Risk: 2.50x



## SHORT Alynlam Pharmaceuticals (ALNY): Head & Shoulders

rockvuecap published on TradingView.com, October 31, 2020 10:08:20 EDT  
 BATS:ALNY, 1W 122.97 ▼ -0.35 (-0.28%) O:130.08 H:132.00 L:119.29 C:122.97



TradingView

- 2% Breakdown: \$117.81
- Profit Target: \$72.60
- Stop-Loss: \$132.34
- Reward/Risk: 3.11x



## LONG Arcturus Therapeutics (ARCT): Ascending Triangle

rockvuecap published on TradingView.com, October 31, 2020 10:13:04 EDT  
BATS:ARCT, 1D 54.08 ▼ -0.90 (-1.64%) O:54.37 H:54.97 L:51.10 C:54.08



TradingView

- 2% Breakout: \$65.71
- Profit Target: \$99.77
- Stop-Loss: \$56.54
- Reward/Risk: 3.72x





## SHORT EHang Holdings (EH): Descending Triangle

rockvuecap published on TradingView.com, October 31, 2020 10:26:41 EDT

BATS:EH, 1D 7.95 ▼ -0.24 (-2.99%) O:8.20 H:8.38 L:7.91 C:7.95



TradingView

- 2% Breakdown: \$7.63
- Profit Target: \$4.95
- Stop-Loss: \$8.37
- Reward/Risk: 3.65x