11/06/2020: Earnings Report Galore & New Second-Leg Positions

Operators,

This was a **busy** week for the MO Portfolio. A handful of our businesses reported Q3 earnings this week, including:

- Cardlytics (CDLX)
- frontdoor, inc. (FTDR)
- Nintendo (NTDOY)
- Roku, Inc. (ROKU)
- Enlabs (NLAB)

As such, the bulk of this round-up will cover each company's earnings release. We'll see which companies are executing on their long-term strategies and if there's any changes to our long-term estimates of free cash-flows.

We'll also throw in a few classical trade set-ups that might trigger in the next week or two.

Let's get after it!

Cardlytics (CDLX) Q3 Earnings

CDLX reported Q3 results Monday. The company beat expectations on revenue and earnings:

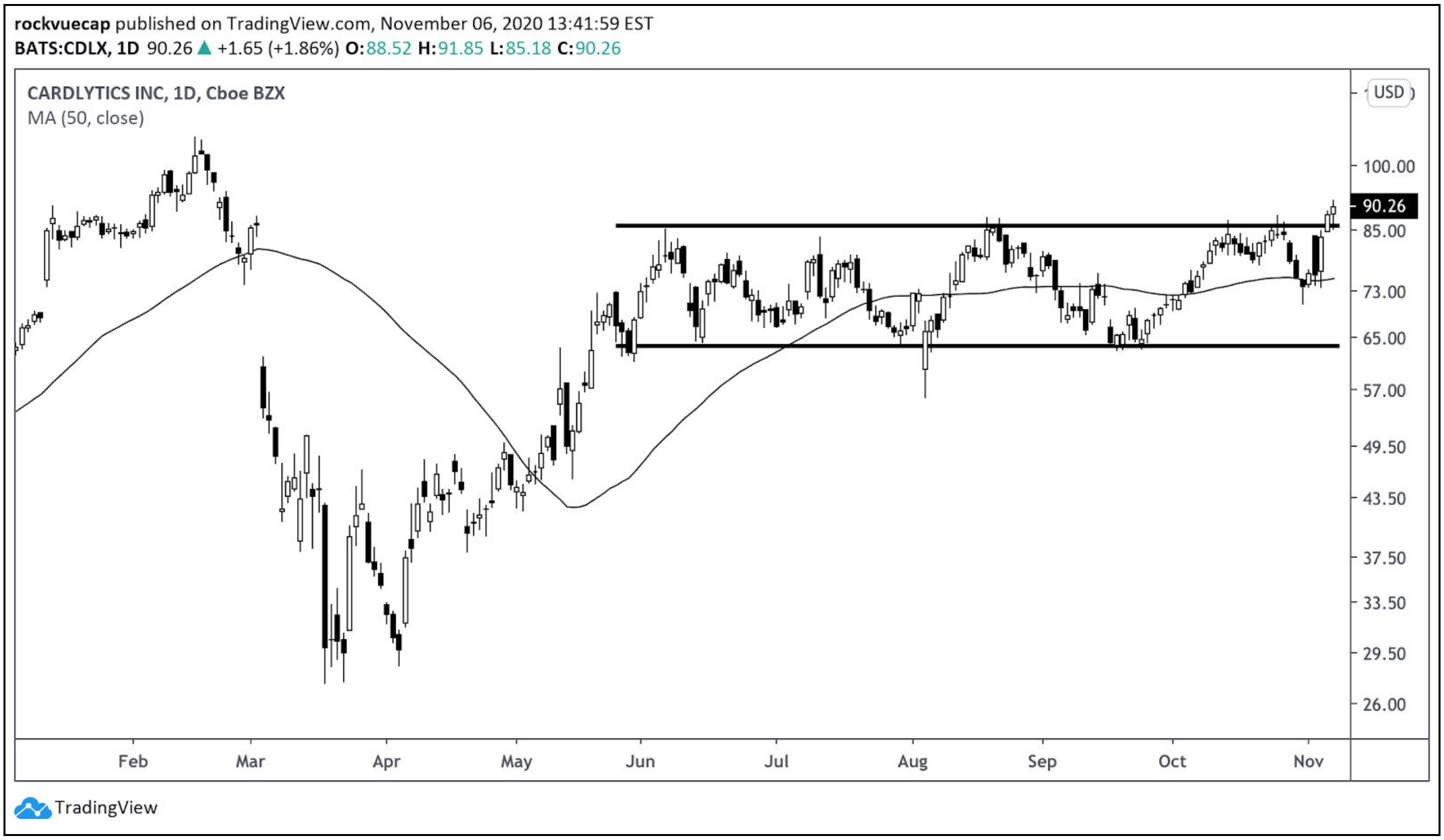
- Reported earnings: -$0.16/share vs. expected -$0.28
- Reported revenue: $46.1M vs. expected $38.8M

More importantly, the company grew its Monthly Active Users (MAUs) near 30% YoY to 161M. This is the most important metric to track for our long-term bull thesis. More users on the CDLX platform makes the platform more attractive to advertisers. Which in turn makes it more attractive to other banks.

In other words, MAU growth helps CDLX reach critical mass for network effects to set in.

Another encouraging note from the earnings report is ARPU growth. ARPU bottomed around $0.18 last quarter before rebounding to $0.29 in Q3. Remember, ARPU was around $0.52 before COVID. If CDLX can reach that figure again (which we think they can), they'll make *significantly* more cash-flow per user than before.

So far the market seems to agree with our sentiment of Q3's earnings. The stock is up roughly 7.50%. We added another leg to our investment after the stock broke above a key resistance level (see chart below):



Conclusion: Q3 reaffirmed our bull thesis as the company continues to execute on its plan to grow MAUs and ARPU. These are the two most important metrics to track the long-term bull case. We'll update next quarter.

You can read the company's Q3 earnings release here.

frontdoor (FTDR) Q3 Earnings

FTDR reported Q3 earnings on Wednesday and results were solid. The company grew revenue 8% to $440M, customer retention expanded to 76% and FTDR expanded their on-demand offering to 35 new cities. Here's a few more stats:

- Q3 EARNINGS PER SHARE $0.57
- SEES Q4 2020 REVENUE $315 MILLION TO $325 MILLION
- SEES FY 2020 REVENUE $1.46 BILLION TO $1.47 BILLION
- Q4 REVENUE VIEW $317.8 MILLION -- REFINITIV IBES DATA
- FY2020 REVENUE VIEW $1.46 BILLION -- REFINITIV IBES DATA

The company's also estimating $270M in FY 2020 EBITDA. Here's CEO Rex Tibbens on FTDR's ability to increase retention rates to 76% (emphasis mine):

> *"I am also pleased to report that our efforts to increase customer retention are working despite the challenging external circumstances. Customer retention is now at 76%, and our home service plan*

> *growth was up 4% in the third quarter. We will continue to monitor how the challenging near-term environment could impact our customer retention,* ***but we believe we are taking the right steps on our journey to move the retention rates into the 80% range.****"*

Like we anticipated, a strong housing market will provide great tailwinds into 2021. Another thing to note is the increased amount of service requests from home service warranty users during COVID. This has both good and bad consequences.

On the good side it increases the customers' willingness to renew their warranty plan. On the bad side it increases the short-term cost of servicing that customer's request. More customers using their warranties benefits FTDR over the long-term, but we won't see it in the income statement this (or next) quarter.

I'll let Rex take it from here (emphasis mine):

> *"As I mentioned earlier, COVID-19 has resulted in an increase in service requests, primarily in the appliance trade, as our customers spend more time at home.* ***On one hand, we view the elevated service request levels as long-term tailwinds since customers, who utilize their plan, tend to renew at a meaningfully higher rate****. We also expect higher direct-to-consumer demand as the pressures causing elevated levels of service requests also drove a 20% increase in web searches for the term, home warranty, in the third quarter.*
>
> *On the other hand,* ***higher service requests are impacting our near-term results****, which Brian will speak to shortly. At this point, we expect an elevated level of appliance service requests to continue at least through the end of the year. Additionally, we expect industry-wide availability challenges for appliances and parts to continue through early next year based on what we're hearing from our suppliers."*

The stock broke above its inverse H&S resistance line this week. In other words, we're seeing bullish fundamental confirmation in the stock chart:

You can read the full earnings report [here](#).

Nintendo (NTDOY) 1H Earnings

It's hard to tell which of our portfolio companies had the best earnings report. But if we had to guess, we'd choose NTDOY. Here's what the company did during the first half of the year:

- Net sales increased 73% to $7.3B
- Operating Income ***Tripled*** to $2.77B
- Digital sales reached 47% of platform sales (up vs. 36%)
- Mobile sales rose 34%

One of our core thesis tenants was the business' ability to generate more online/digital sales and grow its Nintendo Switch base. And they've done exactly that. So far they've sold $12.53M in Switch hardware. They're on pace to do ~$24M in Switch sales this year (above their $19M expectations).

Looking at 2H, the company's upping their revenue, operating income and Nintendo Switch hardware guidance. Our bull thesis remains intact as long as the company continues to grow its online sales, Switch penetration and executes on new product/game development.

If you want more information on the NTDOY earnings release, check out [@DomsPlaying thread](#) on Twitter. You can also check out the earnings report [here](#).

Roku (ROKU) Q3 Earnings

Like every other company in our portfolio, ROKU crushed earnings. Here's the high level figures:

- Quarterly revenue increased 73% YoY to $452M
- Generated $0.09 in EPS
- ARPU increased to $27 (up 20% YoY)
- Expects Q4 Gross Margins Between 50-60%

The market ***loved*** the report, sending shares up 12.57% to $253. This quarter shouldn't surprise anyone given COVID lockdown restrictions. ROKU is one of the biggest winners from shutdowns and cord cutting.

Founder/CEO Anthony Wood commented on the quarter, saying (emphasis mine):

> *"Advertisers reassessed their TV upfront advertising commitments and moved significant portions of their investments to connected TV platforms like Roku.* ***Advertising with Roku gave marketers significant incremental reach over linear TV*** *as well as advanced capabilities to target their advertising and to measure its effectiveness.*
>
> *Streaming is stoking innovation and giving greater choice, value and control to consumers. Despite the ongoing uncertainty caused by the pandemic,* ***Roku's long-term prospects are strong and our outstanding financial and operational performance in Q3 shows the inherent leverage in our business model.****"*

Our long-term thesis is simple: **Roku will become the operating software for streaming and televisions like iOS for iPhone and Android for Google.** Over time, every TV will have the Roku software built-in. This quarter reaffirmed that thesis.

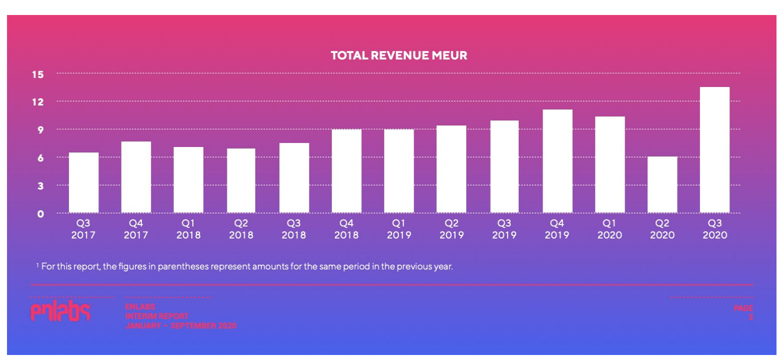
We're looking for a pullback to add to our position.

We recommend reading Anthony Wood's [Q3 Shareholder Letter.] We're thrilled to back someone like him.

Enlabs (NLAB) Q3 Earnings

NLAB's Q3 was a "transformational" one for the company. Here's what happened:

- Compulsory bid on Global Gaming
- Migration of Optibet Latvia to EnPL
- Acquisition of Shogun Group
- Ukraine adopted a new gaming law
- Launched virtual sports vertical



- Launched new casino content from Oryx and Leander

These efforts led to 35% revenue growth, 30% EBITDA margins and a 281% increase in EPS. Not to mention a 79% increase in the number of gaming customers to 67,320.

One of the most exciting parts about NLAB's quarter was their optibet.lv integration to the company's new gaming platform. This brings one of NLABs largest revenue generators to the company's newest technology. Here's CEO George Ustinov's comments on the new integration (emphasis mine):

> *"Our vision then was equally simple and ambitious – to build a modern iGaming platform from scratch that would support multi-brand, multi-geography regulated business. And we were tasked to use a lean team of less than 30 professionals.* ***And we pulled it off!*** *Today,* ***more than three quarters of Enlabs' iGaming business is run on the EnPL****. Enlabs is a customer-first company running on* ***world class proprietary software****. It feels like we have achieved a solid balance between being sales and tech oriented."*

The stock closed the week up at 2%. NLAB's market position looks stronger than ever. Despite that, the **company trades at 5.5x our estimate of 2024 EBITDA**. That's absolutely nuts. We're looking for pullbacks to aggressively add to our position.

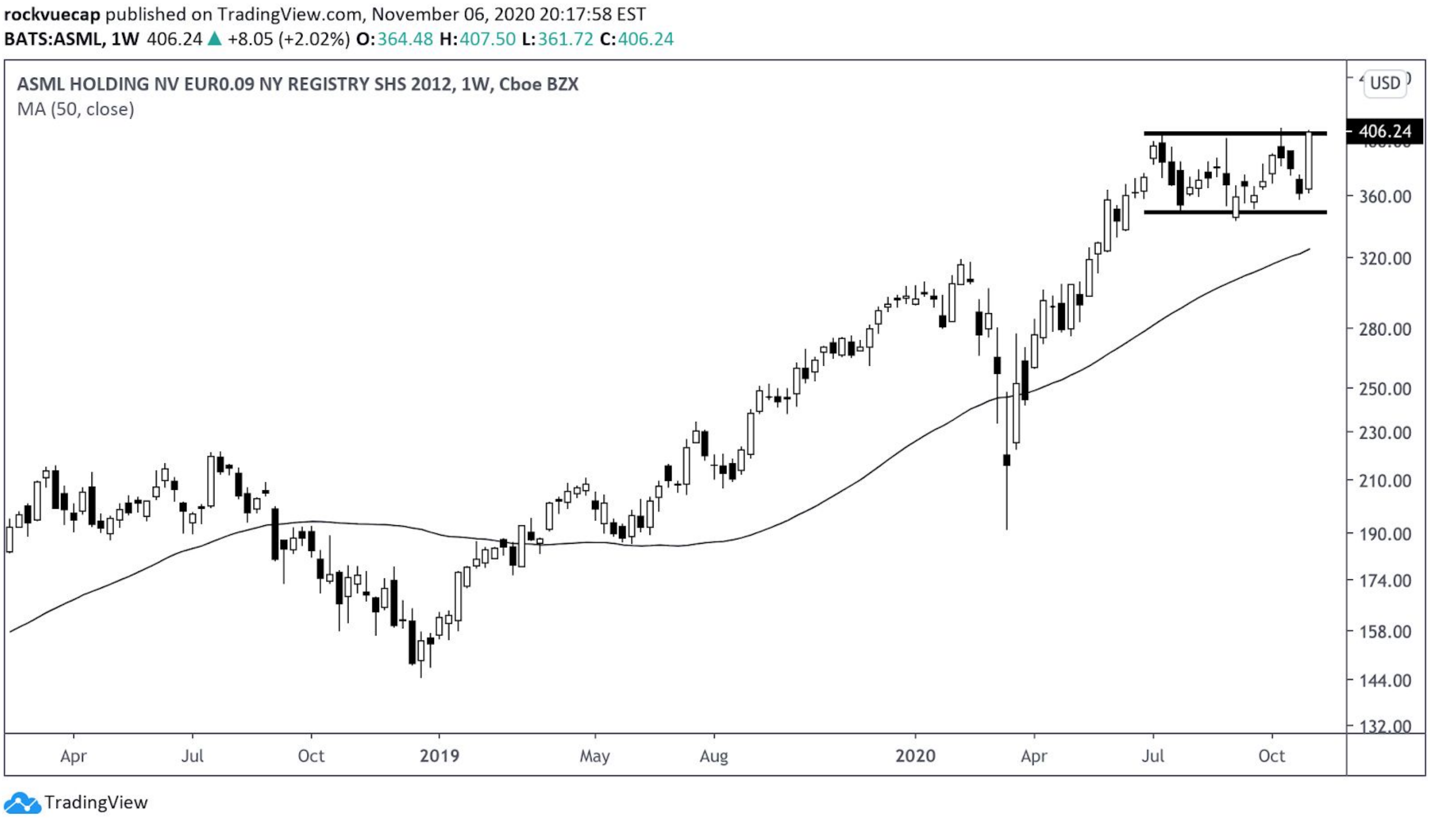
You can read the earnings report here.

Classical Trade Set-ups

LONG M/I Homes (MHO): Rectangle

- 2% Breakout: $49.98
- Profit Target: $57.59
- Stop-Loss: $46.21
- Reward/Risk: 2.02x

LONG ASML Holdings (ASML): Rectangle

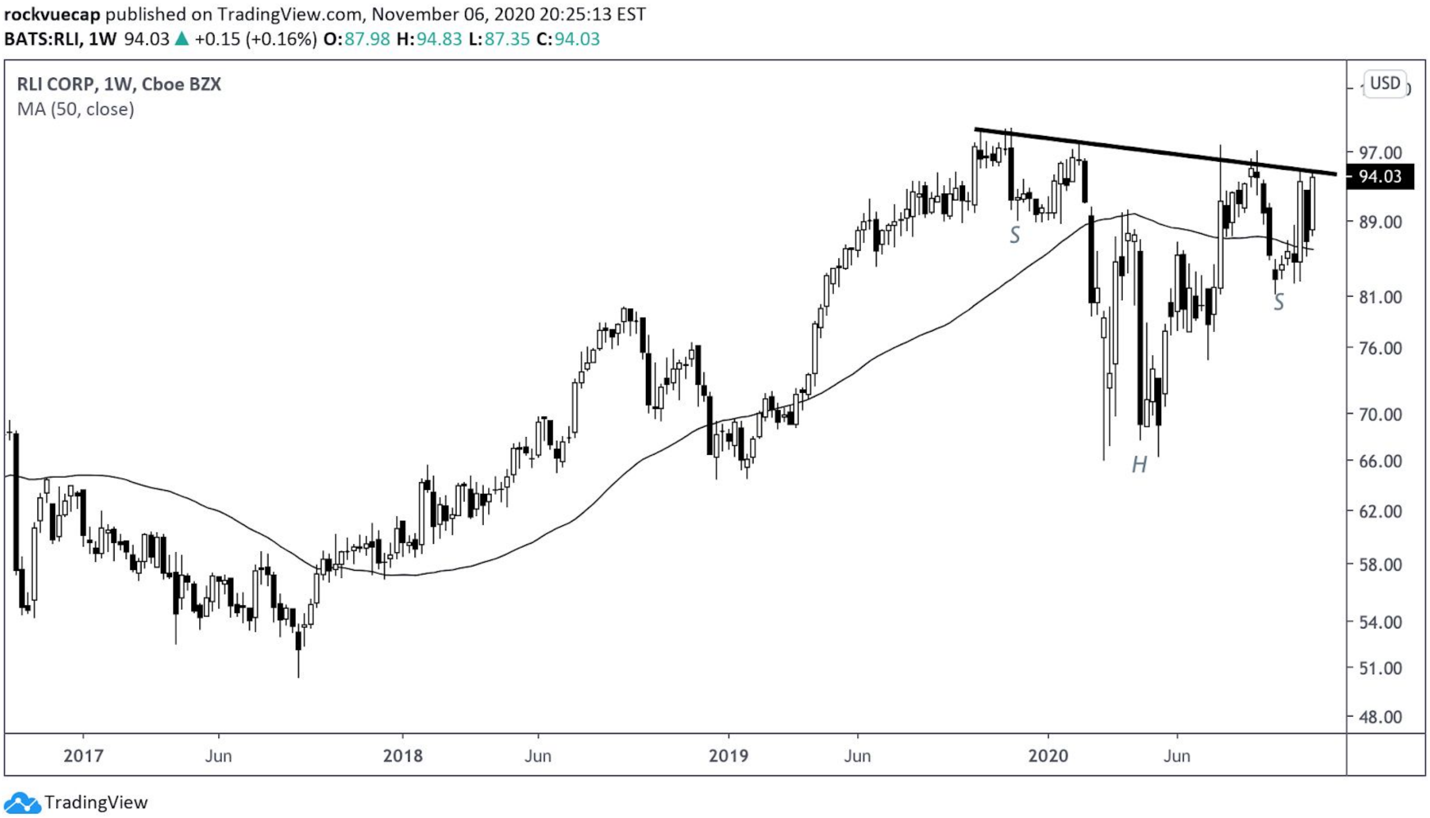


- 2% Breakout: $412.68
- Profit Target: $461.28
- Stop-Loss: $393.41
- Reward/Risk: 2.52x

LONG Central Garden & Pet (CENT): Symmetrical Triangle

- 2% Breakout: $44.52
- Profit Target: $51.90
- Stop-Loss: $42.65
- Reward/Risk: 3.94x

LONG RLI Corp (RLI): Inverse H&S



- 2% Breakout: $96.56
- Profit Target: $124.47
- Stop-Loss: $87.33
- Reward/Risk: 3.02x