



11/27/2020: POWW, JIN and Revisiting A Pure-Play on Sushi Demand

Another week and another new all-time-high for our portfolio. I can't stress enough how little we should focus on the price movement of our stocks.

There's only two things that matter:

1. The fundamentals of our portfolio companies
2. Sticking to our process on swing trades

Both factors divorce price from the equation, allowing us to get a **raw picture** of how well we're doing. Remember, stocks *do* go down. And if we seek confirmation in price action during those times we'll feel worthless. That we'll have to change our strategy.

So we focus on what we *can* control and let the rest fall away. Our focus is the tree trunk, not the leaves.

This week we'll touch on a couple developments with Ammo, Inc. (POWW) and Jumbo Interactive (JIN). We'll end by revisiting a pure-play on sushi demand, Kura Sushi (KRUS).

POWW Files Mini-IPO

POWW filed an [amended S-1 registration](#) for a \$15M NASDAQ uplisting on 11/19. The company plans to issue 7.15M shares of stocks if the NASDAQ accepts their registration. If POWW fails to list on the major exchange, they will not issue those additional shares.

In typical POWW fashion, the stock **barely** moved on the news. Yet with each passing week the chart looks more bullish (see below):

rockvuecap published on TradingView.com, November 27, 2020 11:35:02 EST
 OTC_DLY:POWW, 1W 2.5600 ▼ -0.0100 (-0.39%) O: 2.2900 H: 2.6100 L: 2.1800 C: 2.5600



TradingView

The stock continues its tight rectangle consolidation. A breakout above resistance would *also* trigger a breakout above the 200MA. This is a **very bullish** scenario. We'll keep you posted if/when that happens.

JIN Gets British Approval

This morning JIN announced that it secured a software operating license in the UK. The new license allows JIN to expand its backend lottery SaaS product to British lotteries, which they'll do through their subsidiary Gatherwell.

Getting UK license approval is a **big deal** as it reiterates the company's land and expand growth strategy. It also helps that the British lottery market is **massive**. There's [168K registered lottery charities](#) with a combined 77B euro in revenues.

Finally, the long-term chart looks poised for an upside breakout (see below):

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ASX_DLY:JIN, 1W 13.83 ▼ -0.41 (-2.88%) O:13.98 H:14.43 L:13.58 C:13.83



TradingView

We'll look to add to our initial position on a closing upside breakout.

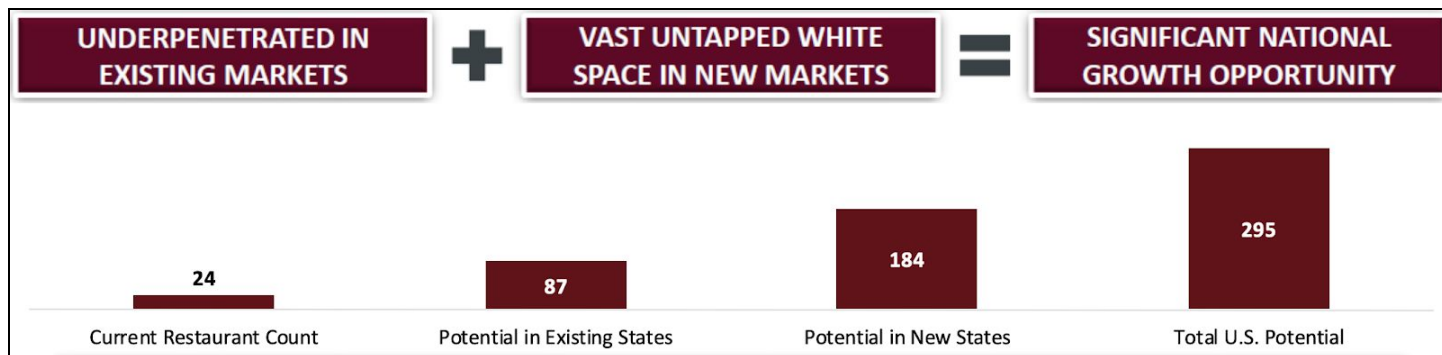
Revisiting Kura Sushi (KRUS): Pure-Play Sushi/COVID-19 Turnaround

KRUS is a revolutionary fast-casual sushi restaurant. The company IPO'd July 2019 after spinning-off its parent company, Kura Sushi Japan (2695.JP). We first wrote-up the company in June 2020, which you can read [here](#).

Here was our original thesis (emphasis mine):

*"KRUS is a patent protected, technology-first sushi restaurant. The company offers high quality sushi at low prices thanks to robotic rice makers, automated dishwashers and a conveyor-belt delivery system. Such technology enables KRUS to offer lower prices while maintaining strong operating margins. KRUS flies under-the-radar of most investors IPOing around \$150M. Its parent company has over 30 years of success in Japan. **We think KRUS can grow into a 300-store empire generating \$50M in annual FCF.**"*

KRUS' grown from 8 restaurants in 2015 to 25 in 2020. Their plan is to grow store count 20%-per-year for the next five years. This is where things get exciting. The company has a path towards 300 US stores (see below):



The great thing about restaurant stocks is that you *know* how an investment will win: **store growth + same store sales growth.**

Mr. Market values KRUS at \$141M today (11/27). But what would their sales and income look like *if* they reached 300 stores? Luckily we can use their Japanese parent company as a proxy. Kura Sushi Japan does 40% gross margins, 5% operating margin and 6% FCF margin.

Now, the company generates ~\$2.57M/store in revenue (\$64M / 25 stores). If we assume they hold that average across 295 stores we get \$750M in revenues. And if KRUS operates like its parent company, they'll generate \$300M in gross profit, \$37.5M in operating income and \$45M in FCF.

In that reality the company looks **screaming** cheap (3.13x steady-state FCF & 0.18x sales).

The COVID Crisis: Can The Company Survive?

The above scenario looks great and all. But what about COVID? What about KRUS' main differentiating technology: **high tech conveyor belts**. California banned all conveyor belts amidst COVID. Will those ever come back?

We can't answer those questions with any degree of certainty. But what we can do is look at the balance sheet to see if the company has the liquidity to survive a lengthy compression.

At the end of the recent quarter KRUS had \$9M in cash with no long-term debt. However, they did have \$58M in capital lease obligations. Here's KRUS CEO Hajime "Jimmy" Uba's take on the company's liquidity situation from the latest earnings call (emphasis mine):

*"In terms of liquidity, I would like to reiterate how fortunate we are to have entered this challenging time with a **capital position that can sustain our company and our growth plans**. As of the end of the quarter, we had **\$9 million in cash on hand and no debt**. We have also **increased our revolving line of credit to \$35 million from Kura Sushi Japan**, along with an extension of the **payback period from 1 year to 5 years.**"*

Kura Sushi Japan is an incredible partner during this challenging time. The stronger, larger parent company provides KRUS with flexible credit terms and ample liquidity should KRUS need it.

The company started drawing down its credit facility for its planned 2021 Cap-ex program. Again this is a signal of strength, not weakness. KRUS isn't drawing down because they need cash to keep the lights on. Rather to expand and invest in new stores.

We should also note that the company continues to see increased demand for its sushi. Check out what's happening at KRUS' New Jersey location (emphasis mine):

*“We saw another example of this with our recent new restaurant opening in Fort Lee, New Jersey subsequent to the end of the quarter, **where sales levels have reached 50% to 60% of our pre-pandemic system AUV in spite of New Jersey's 25% seating capacity limitation.**”*

Reading The Tape

KRUS is forming a bullish ascending triangle on the weekly time-frame (see below):

rockvuecap published on TradingView.com, November 27, 2020 12:37:44 EST
BATS:KRUS, 1W 17.11 ▼ -0.80 (-4.47%) O:15.06 H:18.45 L:15.00 C:17.11



TradingView

KRUS has all the makings of a great COVID-19 turnaround play:

- Strong balance sheet
- Sustained online-ordering demand
- Aggressive store expansion
- Solid unit economics

We'll add a starter position if prices break above the \$19.37 resistance level.

Classical Trade Setups

Long Adtran, Inc. (ADTN): Inverse Head & Shoulders

rockvuecap published on TradingView.com, November 27, 2020 21:32:57 EST
 BATS:ADTN, 1D 12.85 ▲ +0.35 (+2.8%) O:12.68 H:13.24 L:12.60 C:12.85



TradingView

Long Focus Financial Corp (FOCS): Inverse Head & Shoulders

rockvuecap published on TradingView.com, November 27, 2020 21:34:27 EST
BATS:FOCS, 1W 40.63 ▲ +1.07 (+2.7%) O:39.00 H:40.80 L:38.02 C:40.63



TradingView

Long Guidewire Software (GWRE): Ascending Triangle

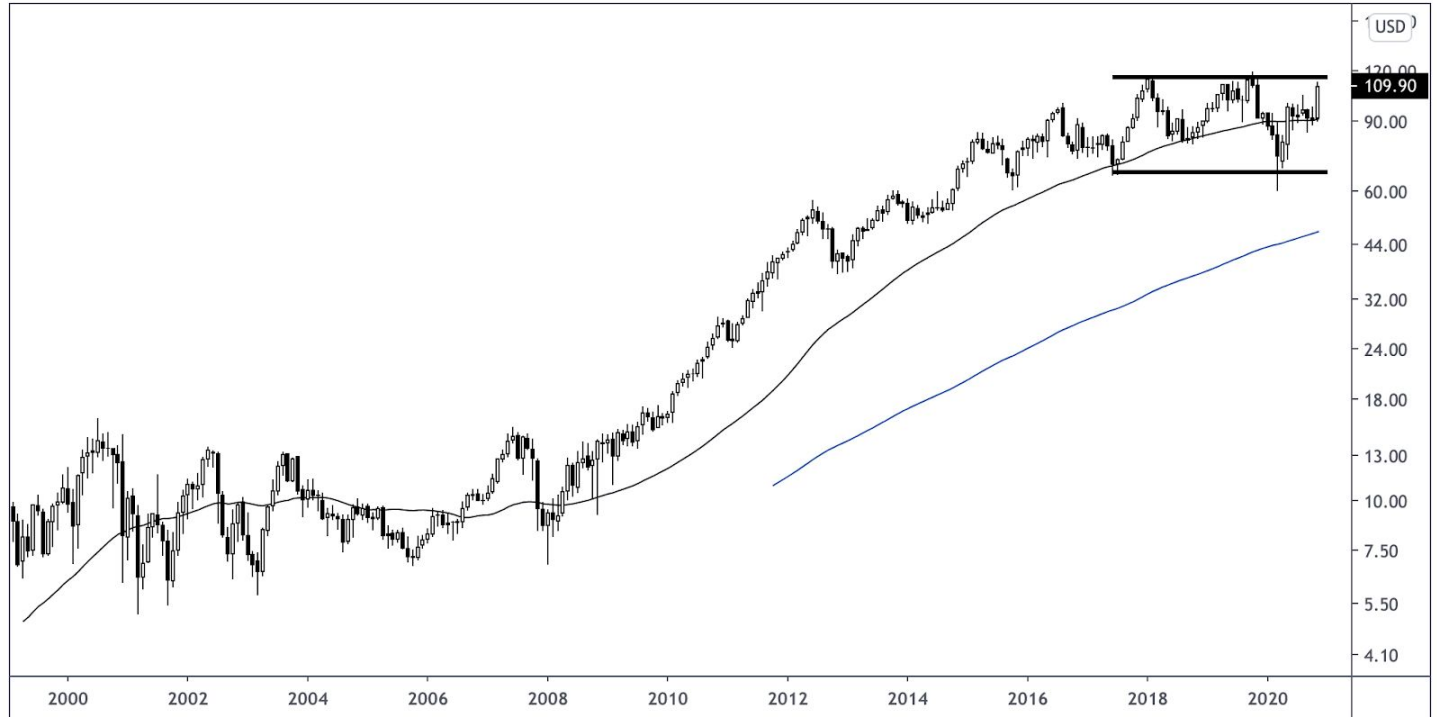
rockvuecap published on TradingView.com, November 27, 2020 21:35:11 EST
 BATS:GWRE, 1W 122.71 ▲ +3.29 (+2.75%) O:118.07 H:122.82 L:117.25 C:122.71



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Long DollarTree (DLTR): Rectangle

rockvuecap published on TradingView.com, November 27, 2020 21:35:44 EST
 BATS:DLTR, 1M 109.90 ▼ -1.83 (-1.64%) O:91.53 H:112.93 L:89.79 C:109.90



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Long Keurig Dr. Pepper (KDP): Inverse Head & Shoulders

rockvuecap published on TradingView.com, November 27, 2020 21:36:27 EST
 BATS:KDP, 1W 30.76 ▲ +0.43 (+1.42%) O:29.96 H:30.77 L:29.65 C:30.76



TradingView

Long Pegasus (PEGA): Rectangle

rockvuecap published on TradingView.com, November 27, 2020 21:37:13 EST
BATS:PEGA, 1D 132.21 ▲ +1.72 (+1.32%) O:130.79 H:133.22 L:130.74 C:132.21



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