01/30/2021: January Month-End Portfolio Review

Good morning Operators,

What a wild week in markets! It seems like our portfolio went into hibernation mode the last month. Slow incremental churns higher. Nothing drastic. This week blew that out of the water.

During the month, our equity book peaked at +25% YTD gains. We gave back ~11% over the last couple of weeks and ended January at +14.18%.

Not bad.

Our top five contributors to this month's performance were (in order):

- Ammo, Inc. (POWW): +59.09%
- Antero Resources (AR): + 27.34%
- Kura Sushi (KRUS): +16.15%
- Frontdoor, inc. (FTDR): + 9.62%
- Grayscale Bitcoin (GBTC): +8.41%

Let's highlight a few developments from our top five gainers.

Ammo, Inc. (POWW)

We trimmed POWW this month as the stock reached ~25% of our portfolio as it climbed >$8/share. Some *Collective* members *cough* Kulok *cough* took advantage of the upside volatility and sold calls. I also like what I see from the recent pullback: low volume, low volatility (see below):

rockvuecap published on TradingView.com, January 30, 2021 08:56:05 EST
BATS:POWW, 1D 5.25 ▼ −0.15 (−2.78%) O:5.39 H:5.50 L:5.14 C:5.25

Lower volume into the 20MA means strong hands aren't selling their shares. We're looking for an excellent rebound off the 20MA to add to our position potentially.

Check out our original write-up here.

Kura Sushi (KRUS)

KRUS reported Q1 2021 earnings on January 11. The company did what we thought it would do during the COVID crisis (lower sales, operating losses, etc.). KRUS bolstered its balance sheet by extending payback periods from 1 to 5 years on its debt. Our restaurant is lucky to have its parent company as lender of the first (and last) resort. It allows them to create social payback structures and terms that other restaurants can't enjoy.

On a positive note, KRUS opened three new restaurants during the quarter. More importantly, California lifted its stay-at-home order, so people are free to dine again (albeit limited capacity).

The company is in the early-stage growth period as it expands stores nationwide. Remember, they're *only* in *seven* states (GA, FL, NJ, IL, TX, NV, CA) and the District of Columbia. KRUS has a *long runway* to grow its store-count at high double-digit ROIs.

KRUS looks expensive on an NTM basis at ~4x EV/Sales. But here's the thing — the company's forecasting $100M+ in revenue by FY 2022. Even after the 16% spike, you can buy KRUS for <2.5x 2022 estimated EV/Sales.

You can read our original write-up here.

frontdoor, inc. (FTDR)

FTDR is the largest provider of home service plans in the United States. They sport a network of more than 17,000 pre-qualified professional contractor firms that service more than 2.2 million customers.

CEO Rex Tibbens has a ruthless focus on technology in an otherwise boring industry (home service plans). FTDR's mission is to take the stress out of homeownership. Fridge break? Use frontdoor. Need a landscaper? Frontdoor has a massive network of contractors at the ready.

FTDR is creating a platform for homeowners to get *everything* they need, all from one place. This digital-first model allows the company to generate substantial free cash flow (~80% FCF conversion) at annuity-like rates.

After its near 10% climb, FTDR still trades for ~3x EV/Sales and 18.50x EV/EBITDA. You can read our original write-up here.

With our highest-returners out of the way, let's review our top-five detractors of the month.

Top 5 Detractors

Our top five detractors of the month were (in ascending order):

1. Red Violet, Inc. (RDVT): -14.21%
2. Centrus Energy (LEU): -12.19%
3. Nintendo, Inc. (NTDOY): -10.25%
4. Short Salesforce (CRM): -1.36%
5. Qualitas Controladora (Q, exchange: BMV): +0.54%

The rising tide did not lift all the ships. Our three worst performers lost a combined 36.65% in market value over the month. Let's focus on two names: **Red Violet (RDVT)** and **Nintendo (NTDOY)**

Red Violet (RDVT)

RDVT is a data fusion and analytics company providing cloud-based software for fraud detection, risk mitigation, due diligence, and marketing. Data fusion is a fancy way of saying, "we take a bunch of random data points and offer insights from connections our algorithm makes."

The company's business model is simple. They buy *vast* datasets, feed them into their (IP protected) machine learning algorithm, and provide real-time information/insights on businesses and people.

They offer this technology to customers in two forms: IDI and FOREWARN. IDI markets financial firms, insurance agencies, and collections facilities. FOREWARN attacks the real estate agent market by allowing agents to verify and pre-qualify potential homebuyers.

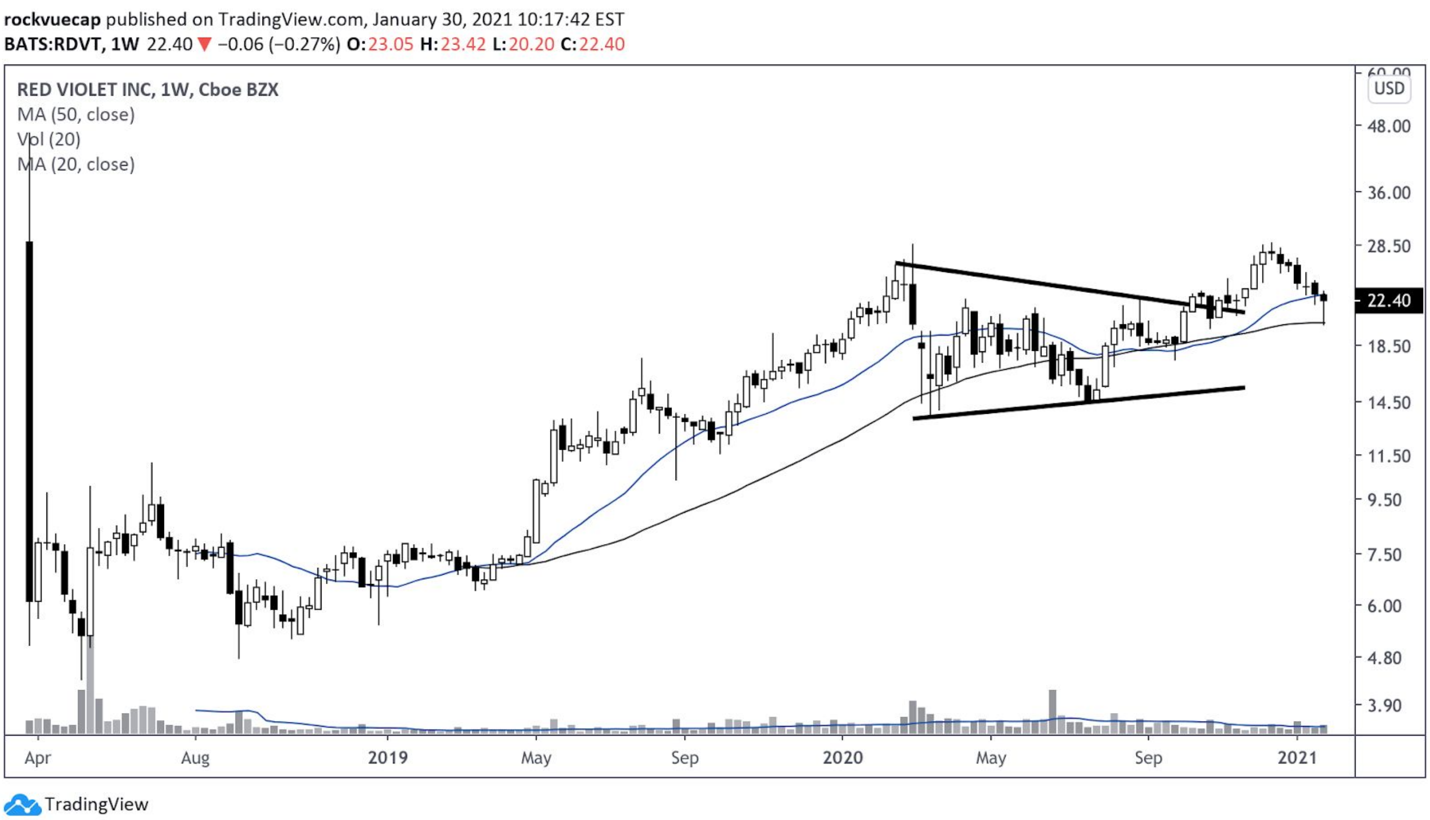
FOREWARN is early in its penetration rates, with <10% of real estate agents using its service.

Coupled with the long runway for both IDI and FOREWARN is RDVT's scalable business model. The company generates ~100% incremental gross margins on its revenue after covering its fixed data costs. As they grow, gross margins should expand from ~60% now to 90% by 2025.

That translates into EBIT margin expansion from 3% in 2020 to 39% by 2025 as operating expenses hover around 60% of revenue.

If we're roughly right on our ~~estimates~~ guesses for the next five years, the current stock price allows us to buy RDVT at ~13x average 5YR FCF estimates.

I don't know why the stock lost ~$23M in market value this month. I am, however, loving the weekly chart (see below):



We sold 25% of our position during the month to free up cash for other ideas. Should the stock rebound and resume its upward trend, our existing cost basis would put the company back in our top five largest positions.

You can read our original write-up [here](#).

Nintendo, Inc. (NTDOY)

The company reports earnings Monday, February 1st. We're expecting strong growth in profits and revenues as the company continues to meet excess COVID and holiday demand.

You couldn't *buy* a Nintendo Switch during Christmas in the US. News reports attribute the share price fall to "renewed virus concerns". These are silly assumptions. NTDOY has one of the most robust IP portfolios globally, an exceptional balance sheet and fanatical users converting to higher-margin online subscriptions.

We didn't add to our position as it's already ~9% of our book. First-time buyers would've had a field day this week. Friday's close offered a chance to buy the business at ~18x earnings or 14x ex-cash earnings.

The stock ended the week resting on its 20MA and at the mid-point of its Bollinger Bands (see below):

You can read our original write-up here.

Portfolio Watchlist Gets Longer

We continue to add to our (long) list of potential additions to the MO portfolio. One of the biggest lessons Alex and I learned from 2020 was the power of selectivity. This means saying "no" more often than not. While frustrating at times (who loves saying no to ideas), it's the only way we ensure the highest barrier for companies to pass into our portfolio.

This prudence in what we allow into our book will generate significant future returns. Even if we can't see those fruits today.

