02/27/2021: A Few SPACs That Have Our Attention (Part 1)

Good morning Operators,

No matter how hard I try, I can't shake the SPAC fever. I'm *not* saying I want to invest in every SPAC going public. Far from it. Yet amongst the dumpster-fire, there are pockets filled with reputable businesses with attractive long-term profiles.

SPACs, for those unfamiliar, are blank-check companies. Their goal is to find a private company, engage in a reverse-merger with the SPAC, to create a new public entity. Think of a SPAC as a checking account or a box of cash. Pre-deal, you're buying a pack of money, hoping that the SPAC executives believe a great business.

Not every SPAC is garbage. But we could see a day when Mr. Market throws the baby (in this case, a *good* SPAC merger) out with the bathwater. In that world, it's crucial to have a backlog of potential targets in mind to act quickly and deploy capital into those names.

Over the next two weekends, we're examining some of our favorite SPACs and SPAC mergers. Target companies reside in myriad industries, from private aviation and gaming software to 3D software, digital banking, and more.

Here's this weekend's list:

- Altimeter Growth Corp / 2 (AGC/AGCB)
- FG New America Acquisition Corp (FGNA)
- Aspirational Consumer Lifestyle Corp (ASPL)

Let's get after it.

Altimeter Growth Corporation / Altimeter Growth Corporation 2 (AGC/AGCB)

Altimeter Capital is one of the most successful Silicon Valley investment companies in the last twenty years. The firm, run by Brad Gerstner, has backed some incredible companies like Uber, Facebook, Expedia, Roblox, and StockX in the private stage.

Gerstner's public stock-picking ability isn't too shabby either. For example, a portfolio of equally-weighted Gerstner picks (rebalanced quarterly) would've returned 29.52% ***per annum*** since 2010. WhaleWisdom, a website that tracks hedge funds' performance and holdings, ranks Gerstner's public market fund in the 99th percentile of professional hedge funds.

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If you want to get a glimpse into Gerstner's mind, I highly recommend listening to his podcast with Patrick O'Shaughnessy (link here). Here's Gerstner's investment approach in a nutshell:

Brad's Approach to Investing

📈 Make great bets in great companies and allow them to compound

🎯 Focuses on opportunities with a big prize if everything goes right

💯 Essentialism: Does a few things and does them well

😀 Concentrated investing with 75% of public portfolio in top 4/5 ideas

⏳ Thinks long term and avoids indexing to short term horizons

We're profiling Gerstner because he recently launched two SPACs: Altimeter Growth Corporation (AGC) and Altimeter Growth Corporation 2 (AGCB). Gerstner serves as Chairman and CEO of both companies.

Both SPACs are in the process of finding companies to take public. Gerstner's objective is to "invest in and help bring a world-class technology company to the public markets." Knowing Gerstner's track record, these two SPACs are worth a spot on the watchlist.

What Makes Altimeter Growth Different?

There are three reasons why Altimeter is a great SPAC sponsor candidate:

1. Expertise in Software and Internet Companies
2. Opportunistic & Flexible Mandate
3. Long Term Investment Horizon

Altimeter has a long history of investing in software and internet-based businesses. They're experts in the space and have an enviable network of industry connections.

Second, the firm has a history of investing in both private and public markets. In other words, Altimeter's comfortable bringing private companies to public markets because they've done it before.

Finally, Altimeter has a long-term investment horizon demonstrated by its decades of public and private market investment history. They say in the SEC filing (emphasis mine): *"Altimeter believes that only a few companies deserve premium multiples and that a long investment horizon, supported by rigorous analysis, is key in*

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creating outsized returns. As such, ***Altimeter aims to be a lifecycle investor in select high conviction companies.****"*

Usually, I wouldn't highlight these claims. I'd discount such words in most other SPAC filings. But Gerstner and the team have a demonstrated history of doing what they say. That's worth something.

The Ideal Altimeter Growth Candidate

Altimeter outlines their investment criteria in the filing. They're looking for:

- **A large and growing total addressable market (TAM):** "*We will prioritize our focus on investments in large and growing industries.*"
- **Differentiated Architecture:** "*We will focus on companies that solve real business problems, including data analytics and enabling the shift to cloud computing.*"
- **Multi-year "Compounders":** *"The majority of the value creation will come from fundamental growth rather than financial engineering."*
- **Favorable Unit Economics: "***Strong unit economics are necessary to achieve sustainable growth over time and a path to high margin profitability in the long-term."*
- **Strong Management Team**
- **Sensible Valuation: "***We have a deep understanding of both private and public market valuations and will aim to invest on terms that will provide significant upside potential while limiting downside risk."*

What Price Can You Pay For The SPACs?

Remember, pre-merger SPACs are simply cash boxes to take a private company public—Shares IPO at $10. AGC and AGCB trade at $12.52/share and $11.63/share. That means we can buy Gerstner's investing skill, team, and Altimeter network for a ~20% premium to the cash value.

That seems like a great trade given Gerstner's track record. If you're thinking about playing this trade, I'd recommend taking ~50-100bps positions in each and treat them like call options. Given Altimeter's high-profile success, there's a good chance *any* deal they announce will rocket the shares higher.

FG New America Acquisition Corp (FGNA): OppFi

OppFi is a proprietary financial technology platform that allows banks to provide credit access to the 60 million consumers who cannot access credit through traditional measures due to low credit or a lack of credit history. The company is going public via SPAC merger with FG New America Acquisition Corp (FGNA). As of writing (02/25), the SPAC trades at $10.16, or roughly its IPO price.

You can read the investor presentation here.

Lack of access to credit is a real problem. 8 out of 10 Americans live paycheck-to-paycheck, and 58% of Americans have <$1,000 in savings. OppFi sits in the middle between banks and the 60 million Americans that lack access to credit. In doing so, the company creates tremendous value for both consumers and banks.

Consumers love OppFi because they offer a five-minute credit application (80% done on mobile), instant access to fair/transparent credit, and an opportunity to build wealth while *improving* their credit score. Banks

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love OppFi because they get best-in-class mobile customer acquisition, OppFi's leading customer service, and access to alternative data underwriting algorithms.

The company's financials back up their above claims. Between 2015 - 2020, OppFi grew revenue at a 100% CAGR and net income at a 95% CAGR. They've also increased their customer base by an 82% CAGR since Q1 2017 (from 63K to 600K+).

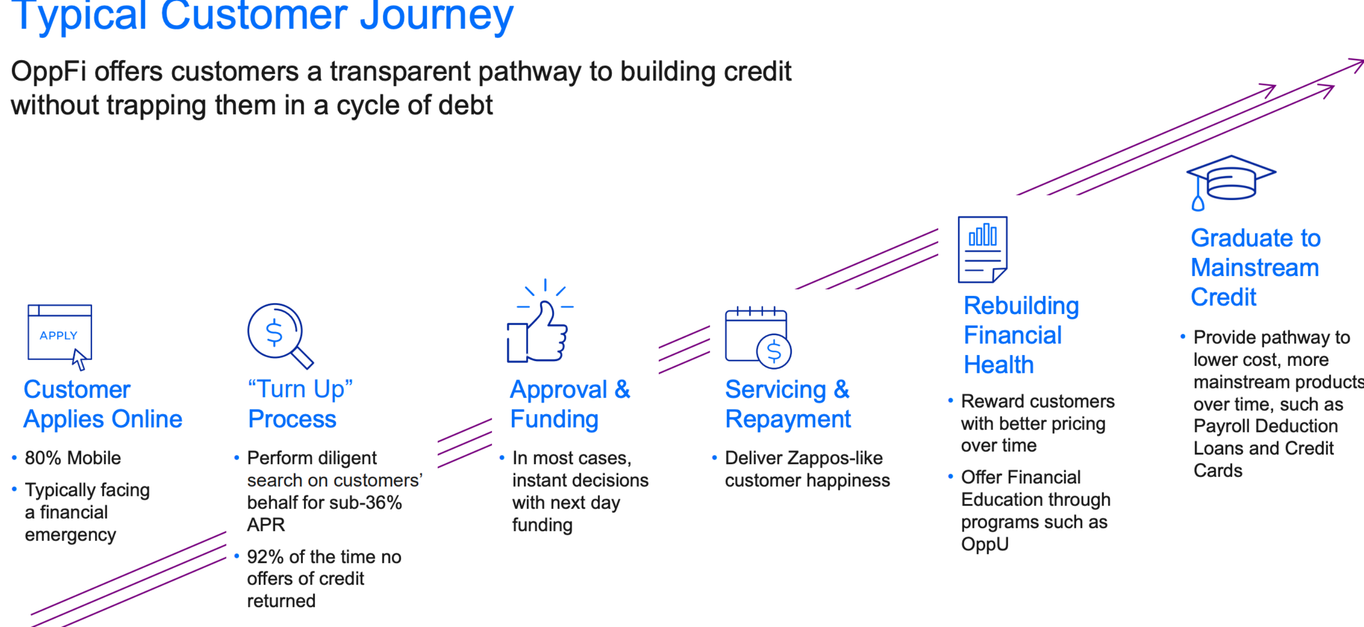
Once merged, OppFi will have an implied equity value of ~$800M and an Enterprise Value of $909M. FGNA plans to fund the merger through the cash in its trust, with net proceeds going to cash consideration for existing OppFi shareholders. The current OppFi owners will retain ~62% ownership in the company.

OppFi's Average Customer: A 60M Person Market

OppFi claims to serve the median US consumer. They're people that have a job, a bank account, median income, but no savings. Most of OppFi's customers are facing some financial emergency at the time of application.

Fortunately for OppFi, this median US consumer is a **huge** market. The company assumes 30% of that 60M qualify for an OppFi loan product (~18M consumers). That's a $27B+ market considering an average $1,500 loan installment product. At $27B, OppFi's tapped <1% of their total addressable market.

There are six steps to OppFi's typical customer journey:



There are a few exciting things to note about the customer journey. First, 80% of customers apply on their mobile devices. Second, 92% of the time OppFi can't find the customer a <36% APR credit product. Third, OppFi offers instant decisions with next-day funding. Fourth, OppFi *rewards* customers over time with better pricing on credit products.

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It's worth reiterating that customers **love** OppFi. The company has an 84 NPS rating, higher than Costco (76), USAA Insurance (71), and Vanguard (67). They have a 4.9/5 rating in Google, a 4.2/5 rating on Glassdoor, and a 4.9/5 rating on LendingTree.

What Makes OppFi's Offering Unique?

OppFi is a logical choice for the median consumer because it's the best choice on the market. Outside OppFi, there are four "solutions" underserved customers can use, all of which have terrible APRs:

1. Bank overdraft: 17,000% APR
2. Payday & Title Loans: ~300% APR
3. Lease-To-Own (LTO): ~200% APR
4. Earned Wage Access: ~130% APR

OppFi offers a cheaper, better product. The average APR on an OppFi loan is 30-160% APR. Customers usually take out $1,500 loans with payback periods of ~11 months.

The company's loans are simple interest, amortizing installments without balloon payments. There are also no late fees, no origination fees, no NSF fees, or prepayment penalties. Best of all, OppFi's loans report to all three major credit bureaus.

OppFi also leverages technology to perform 75% of their approval decisions. The company uses machine learning to look beyond the credit score and find other approval data like bank and income verification. This proprietary AI approval algorithm will only get better over time. The more applicants that pass through the system, the more data the algorithm has to train. In turn, this creates more advanced and accurate loan approval decisions, which spawns more customer growth and better data.

OppFi Loan Unit Economics

Let's walk through the average customer loan economics. An average loan is ~$1,500 at origination. The company realizes $1,657 in revenue from the loan (interest payments and amortization). OppFi then subtracts $692 in net write-offs, which assumes ~40% of the revenue gets written off. Next, they deduct $200 for the cost of acquiring the loan, $138 to service the loan, and $92 in interest expense.

That leaves us with $535 in lifetime contribution per loan. And given that the average customer takes out two loans, we get a 2.0x MOIC.

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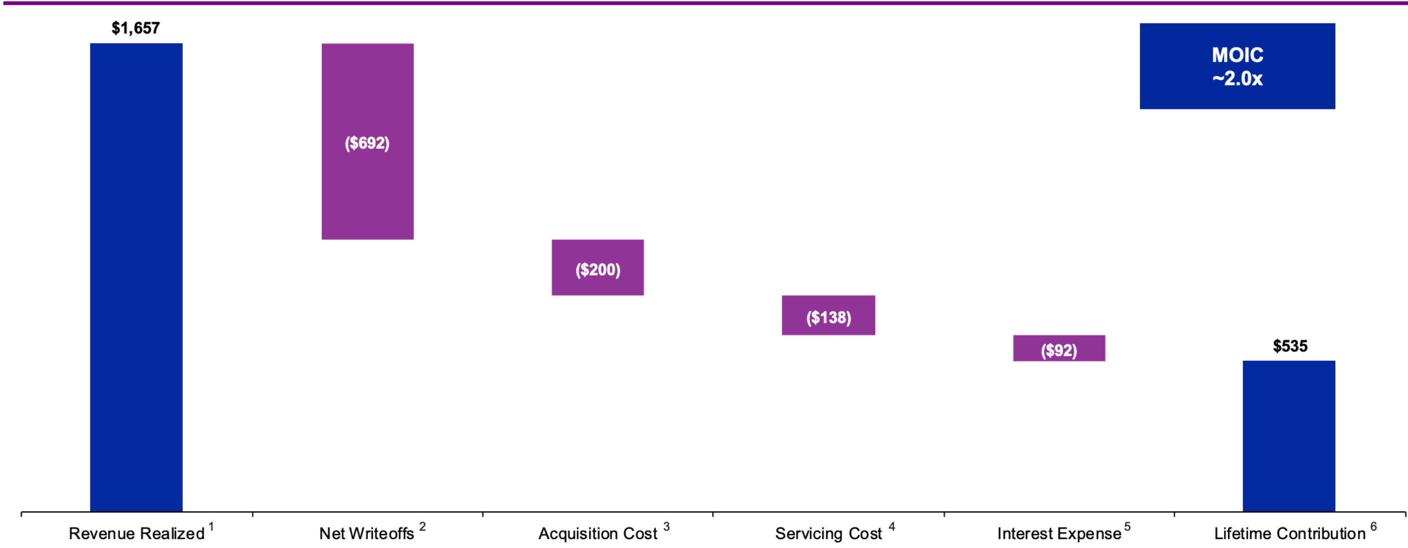

Over time OppFi's "Acquisition Cost" should decline as the company expands its customer base and offers more refinancing products (which have zero incremental costs).

Thinking About Valuation: OppFi Is Cheap

In 2019 OppFi generated $268M in revenue, $97M in EBITDA, and $53M in net income. At its current price (~$10/share), investors can buy OppFi for 15x current earnings, which seems radically cheap given the company's 380% net income growth since 2017.

OppFi's pitch deck has projections out to 2023 for revenue, EBITDA, and net income. The company anticipates ending 2023 with $875M in revenue, $254M in EBITDA, and $127M in net income. In other words, OppFi's assuming 35% annual revenue growth, 30% EBITDA margins, and 15% net income margins.

At $10/share, we can buy OppFi for 1x EV/Sales, <4x EV/EBITDA, and 6x P/E (16% yield). There are obvious risks with OppFi like their net write-offs, their competitive advantage versus the thousands of startups in this space (not to mention the dominant banking players), or the fact that they provide loans to high-risk borrowers.

That said, at 15x current earnings and 6x 2023 earnings, you're not paying much for the business. And it's shown a history of tremendous growth, loving its customers and treating its employees well. Plus, it barely penetrated its $27B addressable markets. OppFi doesn't have to win the entire space to make shareholders a ton of money.

Investors can play this company in three ways. First, you can buy the common SPAC equity (FGNA). Second, you can purchase the warrants (FGNA/W). Finally (and our preferred method) is to buy the FGNA units (FGNA.U). One share of FGNA.U gives you one common equity share and ½ a warrant.

Aspirational Consumer Lifestyle Corporation (ASPL): Wheels Up

"Once you fly private, 'going back to commercial is like going back to holding hands,'" - Warren Buffett

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What if flying in a private jet was as easy as booking an Uber? Enter, Wheels Up. Wheels Up connect potential private-flight customers with an available fleet to create a luxury marketplace for private, first-class travel. The company sits at the heart of an antiquated industry ripe for disruption with a digital, Uber-like product.

With Wheels Up, customers can book private aircraft flights by-the-hour through a seamless mobile app experience. Once booked, the flyers simply drive to their assigned airport, find their jet and pilot, and take off.

Customers love Wheels Up. The company has connected ~150K passengers to their network of ~1,500 private jets. Wheels Up ranks #1 for on-demand private aviation providers and has 3x as many flights as its closest competitor. They're the number one searched brand online for "private aviation." Finally, Wheels Up sports an 87 NPS rating, one of the highest we've ever seen.

The company generated $690M in 2020 revenue with plans to hit $1B by 2021. They should get there if government officials lift COVID-related traveling restrictions. For example, extrapolating Wheels Up's 2H 2020 revenue on a run-rate basis gets us $802M in FY sales. Wheels Up will merge with SPAC Aspirational Consumer Lifestyle Corporation (ASPL). Post-merger, the company will trade under the ticker symbol "UP."

As of writing (02/26), Wheels Up trades at a $2.7B market cap ($10.93/share x 248.5 shares) and $2.32B Enterprise Value. By 2023 the company expects to do $1.4B in revenue and $58M in EBITDA. That means we can buy the business for ~1.65x EV/2023E Sales and 40x EV/2023E EBITDA.

Ken Dichter: The Man Behind The Company

Ken Dichter is the founder/CEO of Wheels Up. Before Wheels Up, Dichter founded Alphabet City Sports Records with celebrity/entrepreneur Jesse Itzler. If you don't know who Jesse Itzler is, you should watch his podcast interview with Joe Rogan. Alphabet City Sports Records created and sold songs that fans heard at sports games. Dichter and Itzler sold the company to SFX Entertainment in 1998 for $4.3M in cash and stock.

It was after selling Alphabet City Sports Records that Dichter found the aviation bug. In 2001, again with Itzler, Dichter founded Marquis Jets. Marquis Jets was the first fractional card jet program. In other words, members owned a *piece* of the jet which entitled them to a certain number of uses. By 2007 the company found its groove. Marquis Jets did $700M in revenue with 3,500 customers.

Warren Buffett's NetJets, a Berkshire Hathaway subsidiary, bought Marquis Jets in 2010 for an undisclosed sum.

Everything Dichter touches doesn't turn to gold. But it sure does feel like that. After the Marquis Jets sale, Dichter tried his hand at a tequila business, *Tequila Avion.* The brand won 'Best Tequila In The World' and 'Best White Spirit In The World' at the 2012 San Francisco World Spirits Competition. I mean, come on.

Heck, Dichter even sponsored (through Wheels Up) the horse *American Pharaoh* in 2015. You know, the horse that won the Triple Crown.

This brings us to Dichter's latest endeavor: Wheels Up.

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Wheels Up: Creating A Harmonious, Win-Win Marketplace

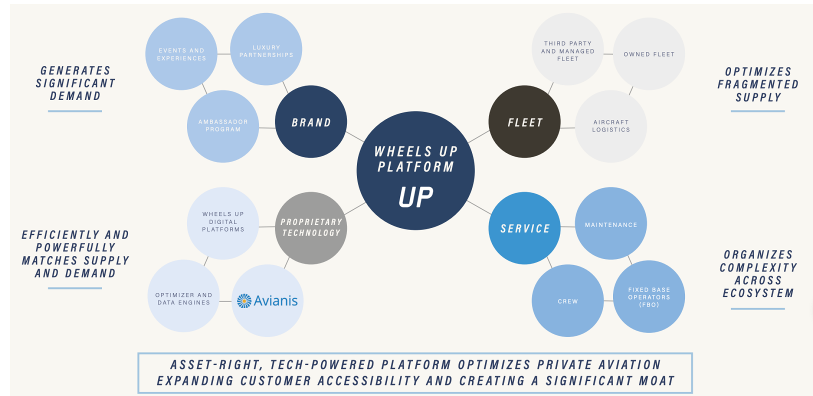
Wheels Up has a simple business model. They connect those that want to fly private to a massive base of unutilized private aircraft. But here's the crazy part: both sides of the marketplace are **incredibly** underutilized. There are two reasons for this:

1. 90% of people who can afford to fly private don't (based on McKinsey 2020 study)
2. The average private plane sits idle 97% of the time (2019 FAA data)

Let's start on the demand (flyer) side. There are a few reasons to believe that consumers will travel private more than they did in the past. First, experiences account for 65% of total consumer discretionary spending. Traveling private to a vacation destination is quite the experience (I assume).

Second, COVID made people realize how much they loved traveling and how much they miss it when they can't. That missing/longing for future travel creates massive pent-up demand for private jet services.

The final demand catalyst also relates to COVID. Consumers might choose wellness/health over the cost of economy/traditional flight. In other words, if given the option (or ability), more people will decide to *pay up* to fly private due to health concerns.



Now for the supply (aircraft operator) side of the equation. The aircraft operator market is highly fragmented. The top 10 operators control 8% of industry capacity. And 1,800+ operators control <10 aircraft. Given the industry's analog-centric booking process, matching demand with unutilized supply was nearly impossible (not to mention expensive).

Wheels Up's bet is that if consumers had an easy, comfortable booking experience for private aviation, they would choose to fly more private miles than before. If that's true, not only does it expand the private aviation market for consumers, it also creates revenue opportunities for aircraft operators with 97% idle times on their crafts.

The Main Drivers: Members & Fleet Size

There are only two things that matter to the Wheels Up thesis: members and fleet size. Together, these drivers create self-reinforcing feedback loops (i.e., network effects). The company highlights the network effect in the slide below:

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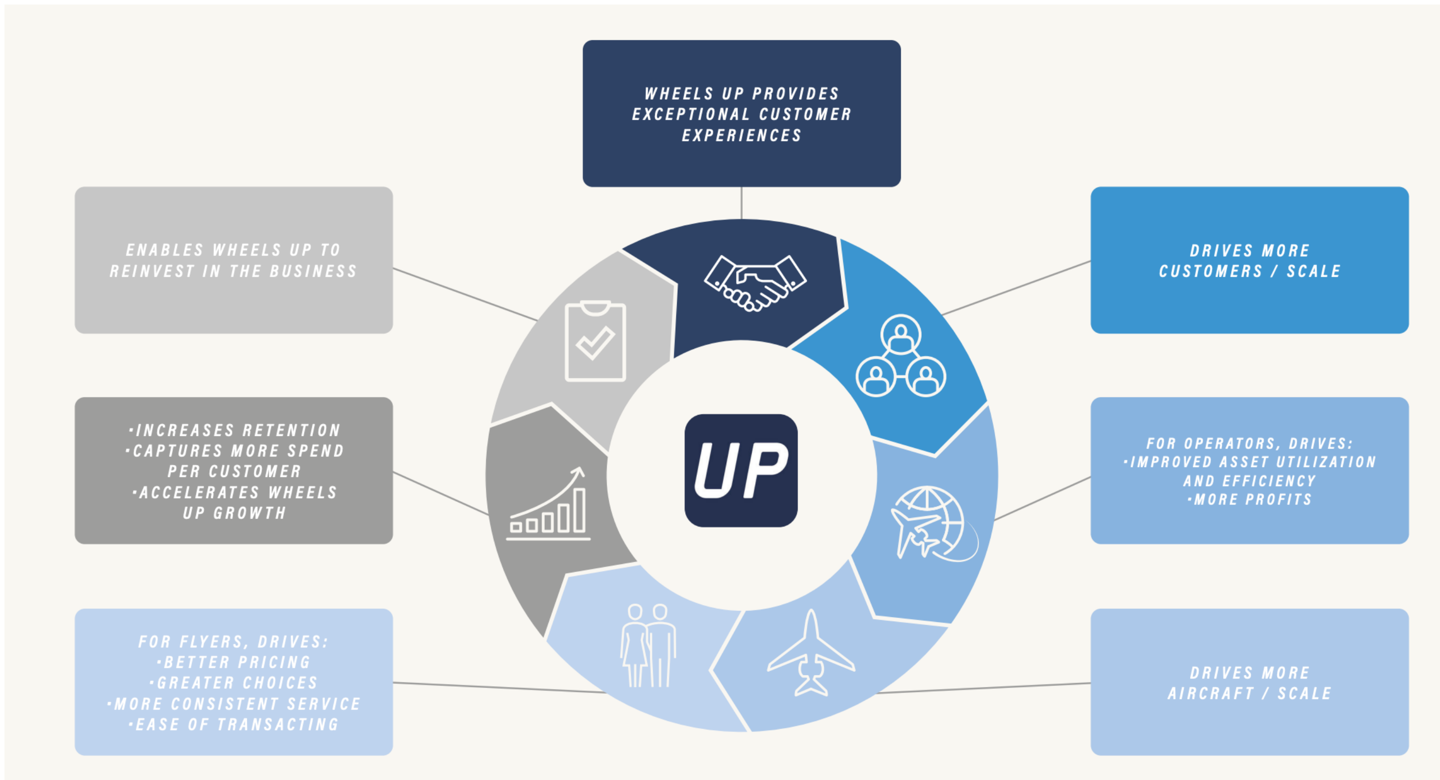

More passengers drive improved utilization of unused aircraft, which leads to increased profits for aircraft operators. Increased profits and utilization times drive more planes onto the platform.

More aircraft on the platform means better pricing, greater choice, and more consistent booking service for passengers, which leads to increased passenger retention and more significant spending per customer (read: Wheels Up revenue). More revenue allows the company to reinvest into the business to create even better customer experiences, etcetera.

What Makes a Wheels Up Member

Wheels Up has three types of members:

- Business
- Core
- Connect

Members pay initiation fees and annual dues. Core members, for example, pay a $17,500 initiation fee and $8,500 in annual dues. Membership guarantees access to the King Air 350i and all cabin class offerings, as well as the full suite of member benefits and partner offerings. They also pay the per-hour charge to fly.

Wheels Up has 9,181 members as of 2020. They've grown members at a 44% CAGR since 2014. The other important thing to note is that members can pre-pay for flights, giving pre-paid members certain benefits like priority boarding or preferential aircraft selection.

40% of members bought pre-flight annual blocks for a total of $530M in block revenue (i.e., float).

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The Wheels Up Aircraft Fleet

The company has ~1,500 planes at its disposal through a mixture of owned/leased (170), managed (160), and third-party aircraft (1,200+).

Managed aircraft pay Wheels Up a monthly management fee and make their aircraft available to fulfill Wheels Up member/customer flights. As of 2020, it had 55% of its fleet owned/leased, 20% managed, and 25% third-party. By 2025, Wheels Up wants its third-party network to account for 45% of its total fleet, which allows the company to scale rapidly without much capital investment.

There is a give-and-take when you increase the percentage of third-party aircraft on your platform. Owned/leased aircraft generate >30% flight margin (flight margin being flight revenue minus direct flight costs). Managed and third-party aircraft generate between 10-20% of target flight revenue. The goal, of course, is to make up that lost margin in volume.

Keep It Simple: It's Members, Users, & Flights That Matter

Wheels Up is a simple company to track because three things matter to its revenue and cash flow: **members, users, and flights.** If the company can increase those three figures, the revenue and earnings will follow.

Margins should expand over time as the company spends less in marketing for those revenue dollars. S&M spend as a percentage of flight and membership revenue has declined from 25% in 2015 to a shade over 5% in 2020.

Private aviation is a large market **if** you make it easy for those that *can* fly private *to* fly private. Moreover, the membership (i.e., Netflix) model is better for passengers and aircraft owners. Membership models increase revenue visibility and give aircraft owners a chance at maximizing their fleet utilization across a wide range of potential customers.

The company expects to do >$2B in revenue by 2025 generating $201M in EBITDA (~10% margin). That's <12x EBITDA at the current stock price.

There are myriad risks associated with Wheels Up:

- They fail to capture the supply side of aircraft and hemorrhage passenger growth
- Competition from Blade steals membership on the demand side
- People choose to travel Economy because they're "just dying to get outside"
- Larger airlines copy Wheels Up with their existing fleet of aircraft

Yet at 1.65x next year's revenues, Dichter turning Wheels Up into *yet another* piece of gold is an attractive bet.

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