MACRO OPS
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An Equity Note

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What's Inside:

- DIBS reported strong earnings with growth in all major quantitative/qualitative KPIs
- WEW reported great earnings after lapping the COVID-19 hurdle
- New potential investment in GoPro (GPRO)

Companies Mentioned:

- 1stDibs.com (DIBS)
- Westwing AG (WEW)
- GoPro, Inc. (GPRO)

MO Equity Note: DIBS & WEW Earnings Recap + New Position in GPRO

We love online marketplaces at Macro Ops, and two of our favorites (1stDibs & WestWing) reported earnings this week.

Both names remain outside the portfolio as we wait for the technicals to confirm our fundamental theses.

That could soon change as both companies reported strong earnings bolstered by impressive growth in their respective KPIs.

This weekend we're diving into DIBS and WEW's earnings reports to unpack why we're still bullish and how we're thinking about adding these names back to our book.

Finally, we'll reveal our latest investment idea: GoPro (GPRO). GPRO is a well-known brand whose future remains wildly different from Mr. Market's consensus estimates.

As the name suggests, let's start with 1stDibs (DIBS).

1stDibs (DIBS): Strong Buyer Growth Precedes Buyer Frequency & New Online Auction Format

DIBS is the leading online marketplace for the luxury design consumer. Their mission is to win the $5,000 online purchase and become the default destination for luxury shoppers online.

The company sits in a beautiful niche insulated from competitors like Amazon (AMZN), Wayfair (W), and eBay (EBAY).

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

DIBS reported earnings on Wednesday (11/10) with growth across the board. Here are some financial highlights:

- Net Revenue increased by 22% YoY to $25.6M
- Gross Profit increased by 23% YoY to $18.1M
- Gross Margin hit 70.6%
- GAAP Net Loss of $6.6M compared to $1.4M

The company achieved solid growth in all major business KPIs. For example, they increased:

- GMV by 25% to $109M
- Number of Orders by 16% to ~37K
- Active Buyers by 35% to 72K

Looking ahead to Q4, the company estimates that it will generate ~$118M in GMV and $27M in revenue with -20% EBITDA margins.

DIBS ended the quarter with a strong balance sheet, holding $167M in cash against ~$32M in total liabilities.

Let's talk about Active Buyers and the Number of Orders.

Active Buyers Precedes Order Counts in Luxury Online Shopping

DIBS reported a 35% growth in active buyers but only a 16% growth in orders. Investors could draw one conclusion that customers are buying less frequently (i.e., fewer orders per active buyer).

But that's not the case with DIBS. Here's why.

DIBS serves an ultra-high-end luxury market where consumers routinely spend tens of thousands on furniture, jewelry, and art.

These are *significant* transactions that require trust, transparency, and familiarity with the platform that other online spaces (like AMZN or W) don't demand.

Such heightened trust and transparency result in less frequent purchases at the start of the customer's relationship.

Fortunately, each incremental purchase reduces the buyer's friction and increases trust in the overall platform. Over time, this *should* result in greater purchase frequency (i.e., a higher number of orders) across a more extensive active buyer base.

It reminds me of CDLX ARPU figures, where the company's massive increase in MAU's drastically reduces quoted ARPU in the short term.

Moreover, DIBS is executing on the metrics that matter for its long-term value creation. More buyers drive more sellers, which drives more buyers. The virtuous cycle continues.

New Feature: Live Auctions

DIBS released its newest feature, Live Auctions, and we're excited about its potential. With Live Auctions, DIBS customers can "experience the thrill of the (treasure) hunt!"

Live Auctions brings the fun and excitement of eBay auctions to the most beautiful items on the internet.

It's important to note that Auctions don't replace DIBS's traditional method of purchasing products (negotiations and buy-it-now).

Here are CEO David Rosenblatt's thoughts on Auctions (emphasis mine):

> *"Being able to offer both models on our site is a* ***significant step toward meeting our customers where they are and how they prefer to shop.*** *This new shopping experience adds a dynamic new way of collecting to our existing full price and negotiated price purchase options."*

This begs the question, "Why would consumers use DIBS Auctions versus other providers?" The company offers three reasons:

- ➢ **No Buyer's Premium:** Traditional auction houses charge an extra "premium" on the final price to the buyer
- ➢ **1stDibs Buyer Protection:** DIBS Auction connoisseurs also benefit from the platform's leading Buyer Protection program
- ➢ **Comprehensive Shipping Assistance:** Auction winners enjoy a white-glove shipping assistance experience as DIBS handles the delivery of each luxury item

Lock-Up End Date Around The Corner

The company's IPO lock-up period ends on November 15th. This is great for us spectators to watch price action from the sidelines while we wait for our entry point.

DIBS looks like it's forming a large, inverse H&S basing pattern on the daily time frame (see chart below).

Here's how we're thinking about entries.

Potential Trade Setup

First, we're looking for a potential breakout from the inverse H&S base.

We'd also get a starting position should the stock trade back towards its $12 support level.

Alright, onto Westwing (WEW).

Westwing AG (WEW): Shattering Nearly Every Bear Thesis

Westwing AG (WEW) is Europe's leading online marketplace for higher-end home decor and furniture items. You can read our thoughts on WEW here and here.

The company reported earnings Thursday (11/11) and silenced nearly every investors' bear thesis.

Let's walk through each crux of the bear thesis to better understand the beatdown.

Bear Crux 1: COVID Was A One-Hit Wonder That Won't Translate to Sustained Revenue Growth

Reality: WEW *increased* revenue by 5% YoY to EUR 105M. In other words, the company lapped COVID by beating its COVID-high revenue water mark.

Bear Crux 2: COVID Brought More Customers To The Platform That Will Churn Out Once Things Normalize

Reality: WEW *increased* Active Customers by 36% YoY to 1.7M members.

Bear Crux 3: Own-brand Sales Is Hard and Won't Work For WEW

Reality: WEW increased its own-brand sales by 12% to 38% of total sales. The company is *firmly* on its way to hitting the 50% own-brand sales goal.

Yes, WEW suffered supply chain constraints like most companies, so EBITDA and FCF look abysmal. But looking towards FY2021, the company expects to generate between EUR 510M - EUR 550M in revenue with 8-10% EBITDA margins.

In other words, WEW will follow its banner COVID-19 year with 21%+ top-line revenue growth.

So, where does that put us today? The company closed Friday at EUR 25.04/share or a ~EUR 500M market cap. That means we can buy WEW today for <1x the company's estimate of current year revenues.

Remember, this is <1x sales for a company that:

- ➢ Shattered nearly every bear thesis
- ➢ Lapped COVID-19 with *even better* results
- ➢ Grew its own-brand revenue share to 38%

The current price ***screams “***too cheap.”

Here’s how we’re thinking about entries.

Potential Trade Setup

We don’t understand why investors sold WEW’s stock after earnings. But the stock rebounded sharply on Friday, offering a juicy mean reversion starter set up.

We’re considering buying on a breakout above Friday’s highs with a stop-loss below Thursday’s low (see below).

New Investment Idea: GoPro, Inc. (GPRO)

Everyone knows GPRO. The company makes famous action-wear cameras such as the *Hero* series. In fact, GPRO recently released its latest Hero 10 Black with tremendous success.

GPRO has what Dennis Hong calls a *cognitive reference* within every consumer’s mind. When people hear “action sports camera” or “wearable HD camera,” they think of *Go Pro*.

Yet despite this apparent competitive advantage, GPRO stock has delivered pitiful returns to shareholders. Since IPO, GPRO has returned -61.74%. Ouch.

There are myriad reasons for the underperformance, but most point to founder/CEO Nick Woodman. Historically, Woodman didn’t care much about the business. Instead, he leveraged his shares to buy a [mega-yacht.](#) You know, back before mega yachts didn't look like Bezos's missile defender.

Since then, Woodman's refocused his efforts on the business. The result is a world-class brand with a highly profitable core product expanding into a direct-to-consumer subscription offering.

GPRO now spends most of its time selling cameras directly to consumers. This results in higher profit margins on a per-camera basis and more substantial cash flow.

Additionally, GPRO implemented a new subscription service where camera owners pay monthly for GPRO's video editing software services suite.

So why do we like the name? There are two main reasons.

First, consensus estimates paint a dreary, no-growth future for the company. This stands counter to GPRO's latest earnings reports showing strong top-line growth and profit margin expansion.

Second, the stock is breaking out of a long-term bull wedge with support at key moving averages on daily and weekly time frames (see below).

There's plenty of due diligence to complete before adding this position to our book. But we'll keep you updated on our findings.

That's all I got this week! Remember that POWW reports earnings on the 15th. If you have any questions for management, please let me know to ask them during the conference call.

Your Value Operator,

Brandon