MACRO OPS

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An Equity Note

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What's Inside:

- Reviewing DIBS latest investor conference presentation
- Highlighting the importance of DIBS's *Auctions* feature
- New investment idea: **AutoStore Holdings (AUTO)**
- Potential blended 10YR IRR of 25% in AUTO

Companies Mentioned:

- 1stDibs.com (DIBS)
- AutoStore Holdings (AUTO)

MO Equity Note: More Thoughts on DIBS & A New Norwegian Idea

From everyone at Macro Ops HQ, we want to wish you a Happy (belated) Thanksgiving to you and your family!

Let's get right to it this weekend.

First, we'll provide an update on DIBS. CEO David Rosenblatt and CFO Tu Nguyen presented at the 1st Annual Needham Virtual Consumer Tech/E-Commerce Conference this past week.

We'll discuss two nuggets in the presentation that boosted my confidence in Rosenblatt and the company's long-term competitive positioning.

Then, we'll head to Norway to uncover one of the country's fastest-growing businesses: **AutoStore Holdings (AUTO).**

AUTO is an Automated Storage and Retrieval System (ASRS). It uses patented robotic technology to provide 24/7 order fulfillment capabilities at a fraction of the storage space.

The company has led the cube storage movement since 1996. They've installed over 750 AUTO storage units globally for customers like Puma, Gucci, DHL, and Siemens.

AUTO boasts strong top-line revenue growth and 50%+ EBITDA margins. More importantly, the company sits at the intersection of various long-term value drivers.

AUTO is the ***clear market leader*** in this high-growth category and has *ample* runway for 30%+ revenue growth at 50% EBITDA margins.

We see a path towards $8-10B in annual revenue at 40%+ EBIT margins, offering a potential 25% 10YR blended IRR.

But first, it's 1stDibs.

Chop wood, carry water…

Thoughts From DIBS's Latest Investor Presentation

1stDibs (DIBS) is the world's leading online marketplace for the luxury design. DIBS is a first-mover in its space and caters to a fast-growing, deep-pocketed user base. The company has barely scratched the surface in active buyers. It should generate over 6x its current GMV over the next decade.

You can read our original write-up on the company here.

That brings us to today, where DIBS's share price hovers around all-time lows. So, what gives?

There are two reasons why customers haven't fully adopted the DIBS platform. Both of which David Rosenblatt answered in the company's latest investor presentation (which you can watch here).

More importantly, DIBS's latest *Auctions* offering addresses the heart of both issues to reduce buyer friction.

Let's break each reason down.

Reason #1: Prices Are Too High

DIBS sports one of the highest average order values (AOV) of any online marketplace at ~$2,500. Other marketplaces like Etsy (ETSY) and FarFetch (FTCH) generate AOV's of ~$30 and $568, respectively.

Higher AOV begets higher friction for the consumer. It's easier to part with $20 on an online tchotchke from ETSY than a $5,000 end-table from DIBS.

Like a rock smoothed from decades of rushing water, increased purchase frequency smoothes (and reduces) customer buying friction. The more people use the platform, the more they buy (regardless of dollar amount), the more comfortable they become with the entire process.

That explains why DIBS saw a 35% growth in active buyers but only a 16% growth in orders.

Let the water carve the rock …

Reason #2: People Don't Know The "Right" Price For Items

Rosenblatt noted that one of the reasons why consumers aren't buying on DIBS is because (and I'm paraphrasing) "buyers don't know if they are getting the right price."

Traditionally, DIBS's sellers would list the sale price, negotiate with potential buyers, and settle on a price. This is an intimidating process for first-time buyers and increases the *first-order* frequency.

For example, a first-time DIBS buyer might not know the *going rate* for luxury end tables. The knowledge imbalance between the seller and buyer becomes overwhelming, resulting in lost purchases.

The Power of Auctions: Reducing First-Time Buyer Friction

DIBS's auctions address both hang-ups for broader consumer adoption. First, the final auction sale price is set by the buyer, not the seller. This changes the way a first-time buyer sees a purchase interaction.

In an auction world, it's not the seller setting too high a price but a collection of buyers determining a "roughly right" range of values.

This price democracy offers a more enjoyable buying experience -- a buyer that wins an auction below what she thinks it's worth is happy because she found a *deal*.

Conversely, a buyer who overpaid for that abstract wall art leaves happy because he was willing to pay any price for that piece.

Auctions offer a less intimidating avenue to enter the world of luxury design shopping. Over time, auctions will reduce buyer friction, increase trust in the DIBS platform, and result in more active buyers placing more orders.

Currently, the stock sits around all-time lows. With the IPO lock-up over, we're seeking optimal entry points to get long.

Rosenblatt seems to agree. He mentioned during the conference that he bought an additional $300K in stock, increasing his already ~5.50% ownership in the company. Remember, Rosenblatt takes a modest salary, so his *true* earnings potential lies in the company's long-term stock performance. It's great seeing him buy here.

Alright, onto AUTO.

AutoStore Holdings (AUTO): Spaces Redefined

AUTO is the world's leading cubic storage automation company with nearly 30 years of experience and over 667 installations to date.

The company helps customers turn bulky, antiquated fulfillment centers into fast-moving, highly efficient autonomous machines. To do this, AUTO combines three differentiated components:

- Bins
- Grids
- Ports

AUTO **vertically** stacks its 2x1x1 bins, saving companies hundreds of square feet in warehouse space (which reduces rent costs). On top of these bins is a two-dimensional aluminum grid. The grid enables AUTO's robots to move in any direction to retrieve any container.

My first question was, "That's cool. But how do they get the bins at the bottom?" The answer is genius.

AUTO's robots automatically determine which items in each bin are "hot" (i.e., best sellers). These best-sellers stay near the top so the robots can quickly access those items.

Other, less popular items get sent to the bottom of the stack. From here, an AUTO bot can extract each higher bin until they retrieve their desired box. Then, other robots can help displace the containers the previous robot needed to move.

Words don't do it justice. Just watch this video.

Anyways, once the robot finds the correct bin, it transports it to the port, where a warehouse worker can seamlessly collect and ship the item while documenting inventory.

AUTO: Sticky Business w/ Massive Scale Advantage

AUTO is a highly sticky cog in any company's order fulfillment system. So much so that the company has *never lost a customer* since its founding. Let's shift to AUTO's massive scale advantage against its competition.

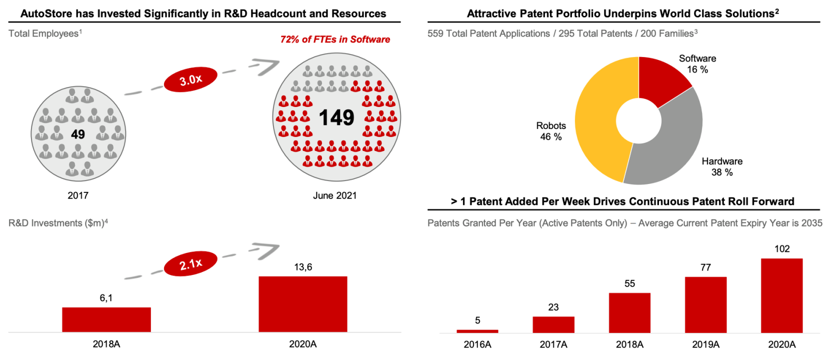
The company boasts over 500 customers with 667 warehouse installations and 22,000 robots. To put that in perspective, AUTO's next closest competitors (Ocado and Attabotics) sport a **combined** 15 installations.

There are three main benefits to AUTO's massive scale. First are **operational benefits**. Given its size, AUTO can support more customers than its competition. The company offers up to 650 picks per hour (robot picks), over 1 million SKU capacity, and 90% space utilization.

Then there are the **data benefits.** Since AUTO has more robots and installations than competitors, it can gather more data than other companies. This data leads to better performance and less downtime. For example, AUTO's robots sport a 99.9% picking accuracy and 99.7% uptime.

Finally, AUTO's scale allows them to **hire more engineers to further invest in R&D.** Since 2017, AUTO's increased its R&D department 3x, from 49 to 149. The company owns

295 patents with another 559 pending. At the current rate, AUTO is granted more than one patent *per week* for its technology.



It's hard to overstate the impact of AUTO's scale advantages against its peers. The more money AUTO invests in its technology, the harder it is for competitors to match its customer value proposition.

This, of course, leads to more customers choosing AUTO for their warehouse fulfillment needs, thus restarting the R&D investment cycle.

AUTO's Revenue Model: New Customers, Existing Customers, Repeat Revenue

AUTO deploys a land-and-expand business model. The company *lands* by building the initial cubic storage infrastructure and robot deployment. From there, AUTO has a few levers it can pull.

First, the company can expand with its customer on the initial site via site extensions. Swedish online retailer Boozt.com (BOOZT) is a great example. The company grew from 21 installations in 2017 to 470 by 2021.

The second way AUTO grows revenues is through new site developments. Regional supermarket H.E.B., for example, added two new sites in 2020 and 2021.

Finally, AUTO can generate high-margin revenue through its software subscription service and spare parts business. Think of the spare parts business like TransDigm (TDG), where various AUTO customers can shop for parts from other AUTO customers.

AUTO's land and expand model works well. 70% of the company's 2017 customers have returned to place additional orders. This doesn't include revenue from new customers onboarded since 2017!

Most importantly, **68% of AUTO's total intake comes from eCommerce orders**, which provides a strong tailwind for sustained revenue growth.

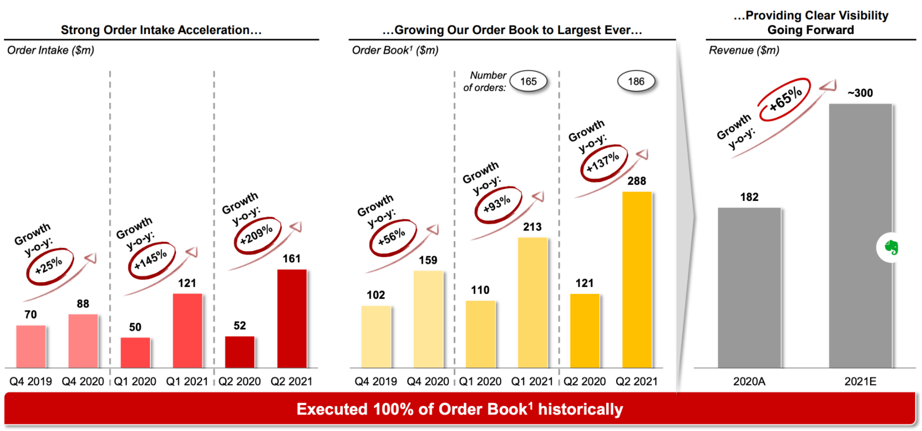
We know *how* the company generates revenue. But let's get specific.

AUTO's revenues flow through two segments:

- ➢ Order book
- ➢ Order intake

The higher the order book, the more orders are available for AUTO to intake, which translates into higher dollar revenues.

Here's how it looks below.



Record order books translate to sustained (and record-breaking) revenue growth.

AUTO's Torrid Revenue Growth Pace

Historically, AUTO's revenues have grown at a ~47% CAGR since 2010. Remarkably, the company's outdoing its historical growth rates over the last year.

For example, AUTO increased revenue by 69% YoY in Q1 and another 103% YoY in Q2.

More importantly, AUTO's growth comes without margin compression. The company's maintained ~50% EBITDA margins and ~84% FCF conversion over the past year.

Yet all that's in the rearview mirror. What does the future hold?

No Brakes On AUTO's Growth Train

AUTO has a couple levers to pull for sustained 40-50% top-line revenue growth. First, the company boasts a $3.4B order book. AUTO's existing customers generated an additional 53% YoY growth in order book backlog.

Collectively, the company has ~2,000 projects from 1,800 customers already in the works.

Then there's AUTO's partnership with SoftBank (the investment company bought a 40% stake in AUTO this year). SoftBank's strategic investment enables the company to penetrate the highly profitable APAC region. AUTO also has access to over 200 of SoftBank's portfolio companies. 79% of which generate revenues inside the APAC region.

Finally, AUTO is locked in a large lawsuit against Ocado Group (OCADO) for patent infringement.

A win for AUTO would likely result in hundreds of millions of dollars in infringement payments made from OCADO to AUTO over the next few years. **Not to mention eliminating one of AUTO's strongest competitors.**

What Could AUTO Look Like In 10 Years?

So what could AUTO look like by the end of the decade?

The management's target is ~40% organic revenue growth and historical 40-42% EBIT margins. Let's also assume multiples compress towards some roughly normal range between 3-7x sales and 15-30x EBIT.

The result is a business doing between \$8-\$10B in revenue, \$5-\$7B in gross profit, and \$3-\$4B in EBIT.

Applying our normalized multiples gets us between \$15-\$38/share in shareholder value or a 25% 10YR IRR on a blended basis.

AUTO is one of the few businesses that occupy the Rule of 100 club is **65% revenue growth + 52% EBITDA margins.**

The company has a massive scale advantage against its competition, with over 44x as many warehouse installations.

Over time, AUTO should leverage scale advantages to increase revenue, deepen its patent-protected moat, and capture an even greater share of its \$230B end market.

Finally, the company could see a *significant* positive catalyst should it win the Ocado lawsuit. A win against Ocado would force OCADO to play by AUTO's rules, giving AUTO a portion of all future Ocado revenues.

Hypothetical 10YR IRRs	
Invest Date	2021
Exit Date	2031
Hold Period (y)	10
Year 10 Share Price	
Base Case	\$15.80
Bear Case	\$2.41
Bull Case	\$29.92
10 Year IRR	
Base Case	24.88%
Bear Case	-4.69%
Bull Case	56.05%
Blended IRR	25.41%

But most importantly, **it would signal a step-change in the customer value proposition, leaving only AUTO as the most logical choice for an industry set to explode with growth.**