

## An Equity Note

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- New idea: Mister Spex (MRX)
- Market Crash Shopping List (Part 1)

## MO Equity Note: Mister Spex (MRX) & Market Crash Shopping List (Part 1)

Happy Saturday!

What a week in markets. The MO Portfolio wasn't immune to the drawdowns as we dipped below -3% YTD. That said, we're thrilled with how we've managed the book.

We're selling stocks with crumbling charts, holding companies with improving fundamentals *and* technicals while accruing an ever-growing cash balance at the *exact* time we need it.

Here's what we have in store for you this weekend.

First, we feature a new German idea, Mister Spex (MRX). MRX is the better version of Warby Parker. The company should grow revenues 20%+ over the foreseeable future as it expands operating margins.

We see a potential 500% upside scenario at the current price.

Then, we highlight five stocks on our Market Crash Shopping List (Part 1): **1stDibs (DIBS)**, **American Eagle (AEO)**, **Block, Inc. (SQ)**, **Carvana (CVNA)**, and **Cricut (CRCT)**.

These are stocks we'd like to own at the right price and technicals.

There's a lot to get to, so let's get after it.

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### Companies Mentioned:

- Mister Spex (MRX)
- Warby Parker (WRBY)
- 1stDibs (DIBS)
- American Eagle (AEO)
- Block, Inc. (SQ)
- Carvana (CVNA)
- Cricut (CRCT)

## **Mister Spex (MRX): Europe's Easiest Way To Buy Glasses**

Mister Spex (MRX) is Europe's largest digitally native omnichannel retailer for eyewear products. The company sits at the inflection of three major structural tailwinds for eyewear.

Additionally, European eyewear sales sport one of any consumer product's lowest online adoption rates (10%). Online adoption should

rapidly increase as millennials and Gen Z enters their prime eyewear buying years in the coming decade.

Though a digitally native company, MRX invests heavily in building brick and mortar retail stores to better serve its customers. The strategy is working. The company captures 2x the market share in regions with physical stores while seeing a 22% increase in online orders.

MRX has experienced a 60% organic revenue growth CAGR since its founding in 2008 and is EBITDA profitable.

The company expects to generate mid-to-high 20% revenue growth while expanding EBITDA margins to the mid-double-digits.

Despite these attractive qualities, the stock is down 50%+ from its IPO price, thanks in most part to a *minor* downward revision in Q3 revenue and EBITDA guidance.

The share price decline creates an attractive value opportunity as the stock now trades for a fraction of what it could be worth in five years. And if MRX generates anything remotely close to its guided estimates, the stock likely has a 500%+ upside from here.

We begin this write-up with an overview of MRX's addressable market and its various tailwinds for growth. Then, we address the existing competition and MRX's position in the market.

Finally, we conclude with an overview of MRX's customer value proposition, its brick-and-mortar strategy, and what the business *might* look like over the next five years.

Excited yet? Let's dive in.

## Structural Tailwinds for Eyewear

There are three layers to MRX's potential TAM:

- German eyewear market: **EUR 6B**
- European eyewear market: **EUR 32B**
- Global eyewear market: **EUR 105B**

As of 2020, the company's captured ~2.5% of its core German eyewear market. In other words, there is significant room for revenue expansion.

We can distill MRX's TAM growth drivers into three levers:

- **Growing myopia prevalence**
  - By 2050 there will be 4.8B people with myopia
- **Digitally native cohorts entering prime eyewear buying years**

- 20 to 44-year-olds are going to start needing glasses
- For example, 74% of 45 to 59-year-olds wear prescription glasses
- **A growing trend in eyewear as fashion**
  - 69% of Millennials and 65% of Gen Z view glasses as part of fashion trends

MRX is at the inflection point between the above structural macro tailwinds *and* a rapid increase in online adoption rates in its industry.

## MRX and The Existing Competition

We can think of MRX and its competition along an X, Y-axis focused on digitization and fashion. MRX sits at the top right on the graph with Warby Parker. These are the most digitally native and most fashion-forward brands.

Then there are the less-digital, less-fashionable competitors like mom and pop shops. These are independent opticians and retail chains without a strong digital presence.

Specifically, MRX competes with the likes of:

- GrandVision
- Fielmann
- Online retailers
- Drug stores
- Mass and general retailers
- Independent Opticians

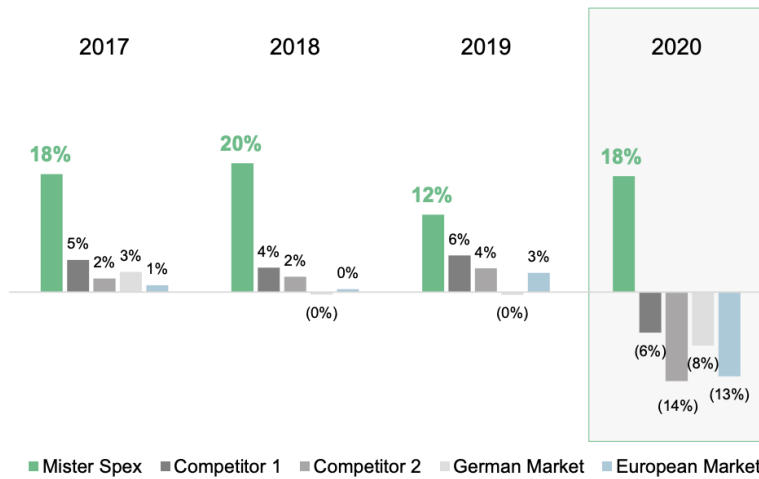
Existing competitors verified the disruptive nature of MRX's digitally-first business model. The company notes in the IPO Prospectus (emphasis mine):

*"In Germany, for example, the German Central Association of Opticians and Optometrists (Zentralverband der Augenoptiker und Optometristen – ZVA) published a position paper in July 2020 in an effort to sway public opinion stating that the trade with prescription glasses on the Internet could not guarantee a professional manufacture and individual fitting of prescription glasses."*

The best form of flattery, right?

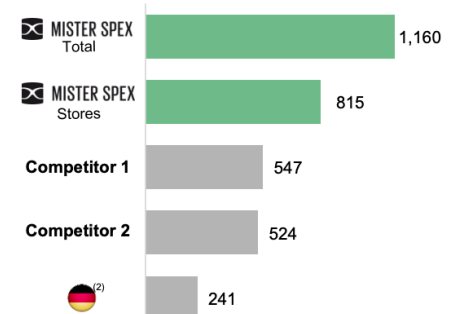
MRX has dominated its competition over the last four years. Check out the graphic below highlighting MRX's torrid revenue growth rates versus its nearest competitors.

### Revenue growth (%)



### Sales productivity

Number of eyewear products sold per employee, Germany, 2019<sup>(1)</sup>



The company sells more than 2x the number of eyewear products per employee than the next closest competitor. These advantages -- stronger average EBITDA margins and a more robust, digitally-first business model -- are what separate MRX from the pack. MRX *truly* believes this and said as much in its IPO prospectus (emphasis mine):

***"We believe that there is no competitor with a comparable offering: Our online-driven omnichannel approach combines the conveniences of online shopping and offline offerings, allowing us to respond flexibly to the different needs of our customers."***

One explanation for their industry-leading growth is the company's largest assortment of eyewear products in Europe.

## MRX Product Offering

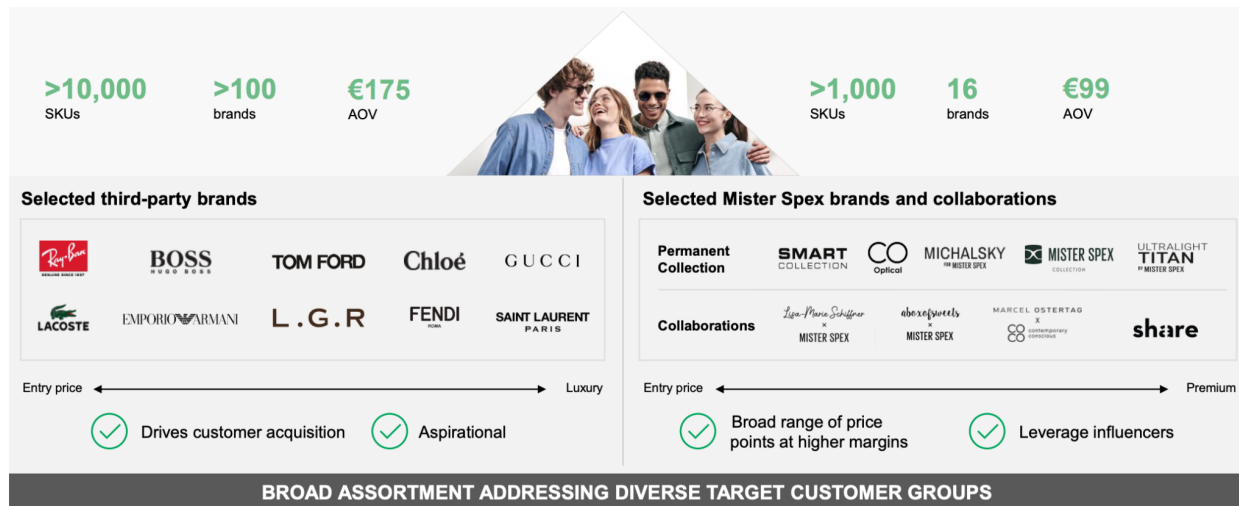
The company offers both own-brand and third-party eyewear products to create the largest assortment of eyewear in Europe.

- 3P Products: >10K SKUs, EUR 175 AOV
- Own-brand: >1K SKUs, EUR 99 AOV

MRX differs from its US peer, Warby Parker (WRBY), which sells *only* own-brand products.

Which is the better offering?

Most eyewear purchases are *non-discretionary*. When making non-discretionary purchases, consumers tend to care more about assortment than brands. In other words, since the customer *must* buy glasses, they'd rather see all available options.



MRX drives higher engagement and more customers through its channels by offering more SKUs. Selling third-party products also insulate MRX from competitors as they see the company not as a threat but as another distribution channel.

We see confirmation of this through EssilorLuxxotica's 11% investment in the company (which they raised during the IPO from 8%).

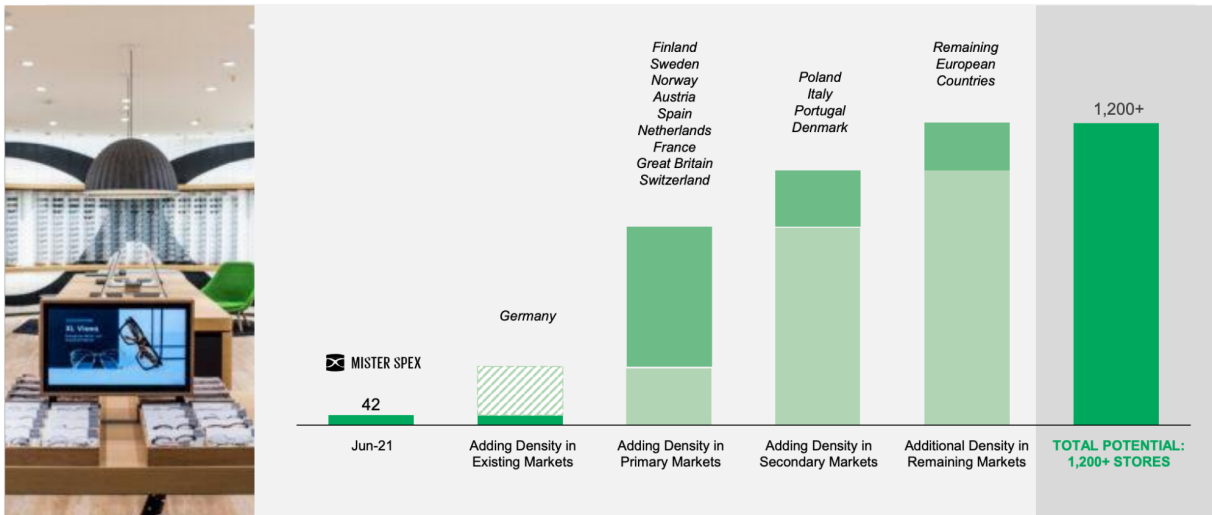
The company wants to expand its share of prescription lenses sales, which makes sense. Prescription lenses are one of the highest margin products in all eyewear. On average, prescription eyewear commands 70%+ gross margins and over 20% EBITDA margins.

MRX isn't resting on its purely digital laurels, however. The company is aggressively building retail stores to capture more market share and convert more users to higher-paying customers. Let's see how they're doing it.

## Benefits of Brick and Mortar Stores

MRX has 48 brick and mortar locations throughout Germany with plans to reach 200 over 3-5 years. Looking beyond the company's homeland, MRX sees another 1,000+ store locations throughout Europe.

**Potential for 1,200+ stores across Europe**



Why build stores in the first place? There are a couple of reasons. First, MRX increases its market share by ~2x in regions that have retail locations. Second, regions with brick and mortar stores buy 22% more products *online* than non-store regions. In other words, MRX generates a retail flywheel where each store attracts more customers, buying more products offline and online.

Brick and mortar stores also allow MRX to steal market share from smaller, independent opticians. Here's how. Eye exams are a routine part of ordering new prescription lens (for example, this week I needed an eye exam to order new contacts).

MRX *does* offer a fully online eye exam for customers. But remember, most prescription lens consumers are older (44-59+) and don't want to do eye exams online. The older customer cohort chooses the local optician retailer without a physical store.

What happens when MRX adds a retail location to that customer's region? It adds another option for the customer:

- A) Visit the local independent optician and pay more with fewer options
- B) Visit Mister Spex and choose from 10,000+ SKUs while paying ~30% less than you would at the independent optician

The choice is clear. The customer chooses MRX.

Let's discuss unit economics before moving to management. MRX's Head of IR, Frank Bohme, outlined the unit economic breakdown:

- EUR 300K initial capex to build the store
- ~EUR 1M in revenue by the end of year one
- ~3-4 months to reach breakeven

- 20% ROICs by year 2-3

The company wants to aggressively build more stores, and they have enough cash to build ~636 stores before needing more capital.

Alright, onto management.

## Management

Dirk Graber founded Mister Spex in 2007. He still runs the company today. Investors will likely highlight Graber's lack of insider ownership as a negative. I thought so, too. But when I asked Frank about Graber's lack of ownership, his answer changed my viewpoint entirely (emphasis mine, paraphrasing):

*"[Graber] started the company and initially had majority ownership. However, over time, he gave more and more equity to his employees. **He wanted to create a sense of entrepreneurship and ownership within the business.** To [Graber], he was more focused on creating a successful, durable business, not becoming independently ultra-wealthy. **He cares more about the long-term health and future of the business than any personal fortunes.**"*

I love that. When I asked about company culture, Frank reaffirmed the founder's vision. Frank noted that employees love working at MRX.

*"The company isn't for those that want to coast,"* Frank suggested, *"If you want to do that, go to one of the larger incumbents."* MRX plays to win.

## The Path Ahead & Valuation

MRX trades at an unassuming EUR 386M market cap or EUR 238M Enterprise Value. The stock is down over 50% from its July 2021 IPO high of ~EUR 24/share (or ~EUR 800M market cap).

Why the major sell-off?

During Q3, the company revised its revenue and EBITDA guidance downward. MRX initially estimated 20% revenue growth and adjusted to 17-19%. Additionally, the company revised EBITDA guidance from EUR 6M+ to EUR 4-5M.

However, today's prices are too low, given the company's potential growth drivers. For example, **MRX trades at ~1x NTM revenues and ~15x NTM EBITDA** (assuming run-rate from Q3 2021 figures).

The company expects to grow revenues mid-20% over the next five years, landing us at ~EUR 487M by 2025.

By that time, MRX expects to generate substantially more revenue from its prescription eyewear segment, which should expand its gross and EBITDA margins.

Currently, the company anticipates a ~10% improvement in gross margin (to reach 59%) and a 6x improvement in EBITDA margins (to 12%).

It's important to remember that the German eyewear market alone is worth over EUR 6B. Even if we assume the company generates 20%+ top-line growth over the next five years, it will only capture ~8% of *that* market share -- notwithstanding the broader European market.

The most important questions to ask at this point are:

- **What should we *expect* to see given our above assumptions?**
- **What should we *not expect* to see given our above assumptions?**

We should *expect* to see the company take incremental market share from independent opticians, expand gross margins as they capture a more significant percentage of prescription lens sales, and generate higher EBITDA margins as they sell higher-margin products.

We should also expect to see more store openings. The company has EUR 190M in cash on the balance sheet. We *should* see that get put to use.

Now, what *shouldn't* we see?

We shouldn't see a decline in market share to independent opticians. We shouldn't see a reduction in new customer growth rates since the company only has a 3% current market share. Finally, we shouldn't see lower AOVs as opening new stores generates average sales higher (and more frequent).

What's the size of the prize if we're right?

Let's use Warby Parker as a comparable. Let's assume MRX generates mid-20% revenue growth and reaches double-digit EBITDA margins by 2025. What would an investor pay for this business?

Currently, you can buy WRBY for 5x revenues for roughly the same top-line growth rates and EBITDA margin expansion. Let's use a 5x sales multiple. That gives us a ~EUR 2.43B Enterprise Value. Add back the ~EUR 150M in net cash, and you get ~EUR 2.6B in shareholder value (or EUR 78/share).

**That's over 560% upside from the current stock price.**

## Concluding Thoughts

MRX is an easy-to-understand business operating in a high-margin, non-discretionary industry. The company has a leading customer value proposition, weak competitors, and a growing omnichannel presence that will likely go unmatched.

As millennials enter their prime eyewear buying years, which option will they choose?

Will they use a local, independent optician lacking the convenience of an omnichannel experience with a limited product assortment? Or will they use the company with a digital-first customer journey, the widest variety of glasses possible, all for prices ~30% cheaper on average than the competition?

The choice is clear. It's just not reflected in the current market price.

Now for our stock shopping list ...

## Stock Shopping List: Bargains Galore!

The stock market is cruel, and many investors felt cheated this week.

We're doing our best to sit on our hands, stay mostly in cash, and not do anything stupid. Sure, there are cheap stocks out there. But nearly every chart remains in a strong downtrend. Reversals should be met with heightened suspicion.

One significant benefit of such downtrends is that it allows us to cultivate a shopping list of our favorite beaten-down stocks. We did something similar in [late March 2021](#).

This week's shopping list features names we've previously researched, as well as ones on our Active Research Watchlist (companies we want to study).

Please note that we will miss a few names on these lists. But that's not the point. We'll add to this list over time as opportunities arise.

Get your grocery cart ready.

### 1stDibs (DIBS)

DIBS is the world's leading online marketplace for luxury design items. You can read our original write-up [here](#), as well as follow-on write-ups ([here](#) and [here](#)).

The stock has been down 56%+ since its IPO in June 2021. As a public company, DIBS posted 30%+ top-line revenue growth 70% gross margins during its two quarters. It also added new products and features to its platform like NFTs and Auctions).

DIBS currently sports a market cap of \$355M and a \$188M Enterprise Value. In other words, you can buy the business for ~1.6x NTM revenues.

The company should grow revenues at a ~20% CAGR over the next few years and reach EBITDA profitable by 2023. Apparently, nobody likes waiting for profitability now. But that's okay for DIBS.

DIBS has ample cash reserves to sustain the business, shifting from losses to profits. We also remain highly confident in CEO David Rosenblatt's ability to create one of the most potent online marketplaces for luxury goods.

We'll wait for a base breakout before buying our initial stake.

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TradingView

## American Eagle (AEO)

AEO is a leading retailer for teens and tweens, specializing in denim and women's underwear via Aerie. You can read our write-up [here](#).

The AEO thesis is simple. Aerie -- the leading women's underwear brand with 30+ consecutive quarters of growth -- is *likely* worth more than the entire AEO Enterprise Value. Here's what I wrote in the write-up:

*"In other words, you can buy AEO for 20x just the American Eagle apparel EBIT while getting its Aerie business for free. What's included in the Aerie business? A leading apparel company in a fast-growing demographic with 28 consecutive quarters of top-line revenue growth and 16%+ EBIT margins."*

Aerie should generate over \$2B in revenues over the next few years, and there's a chance that AEO spins Aerie as a standalone enterprise. If they do, it will unlock tremendous value for AEO shareholders.

Today you can buy AEO for ~\$4.6B Enterprise Value (including capital leases). We outlined our thoughts on valuation in the company write-up:

*"Suppose someone pays 4.5x sales for Aerie? That gives us a \$5.4B valuation at the current sales figures. If they hit \$2B in sales, a \$9B valuation. Even a more conservative, 15x EBIT at that \$2B revenue mark gets us over \$5B in shareholder value."*

Finally, let's turn to the charts. AEO is resting on its 200MA on the weekly timeframe. We could see it hold support and offer a decent mean-reversion starter long.

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TradingView

## Block, Inc. (SQ)

SQ helps sellers run and grow their businesses more efficiently with its integrated ecosystem of commerce solutions, business software, and banking services. The company possesses one of the stickiest closed-loop ecosystems since Apple (AAPL) and delights its customers with easy-to-use payment collection methods.




David Kim of Scuttleblurb wrote an excellent two-part piece on SQ, in which he highlighted the company's "Super App" tendencies (emphasis mine):

*"Like PayPal, Square has been adding more products on each side of its network to spur engagement, with that engagement reinforcing the cross-side nfx between merchants and consumers. **Both companies are converging to a super app of financial services for consumers and a commerce platform for merchants.**"*

SQ continues to add features, making it virtually impossible for customers to switch providers. Here's why. SQ is the *foundation* for most small businesses. It's how they collect invoices, send estimates, do payroll, and more. Add checking/savings accounts, Square Loans, and there's no reason for the business owner to switch.

The stock is down nearly 60% from its 2021 highs and sits at a \$55B Enterprise Value. In March 2021, SQ traded for 7x sales. Today, you can buy it for 3x.

Check out the company's estimates for the next five years below.

Actuals & Forward Estimates	12/31/21 E	12/31/22 E	12/31/23 E	12/31/24 E	12/31/25 E	CAGR
Revenue	17,625.93	18,569.58	22,203.60	29,817.76	37,453.69	20.7%
% Change YoY 	85.6%	5.4%	19.6%	34.3%	25.6%	
EBITDA 	988.52	1,071.68	1,625.27	2,421.22	2,971.93	31.7%
% Change YoY 	108.5%	8.4%	51.7%	49.0%	22.7%	
% EBITDA Margins	5.6%	5.8%	7.3%	8.1%	7.9%	9.1%

If you told me I could buy SQ for <20x 2025E EBITDA, I'd think you're lying. But that's where we are today.

However, the stock is in a fierce downtrend below the 50D and 200D moving averages on the weekly chart.

## Carvana (CVNA)

CVNA is the easiest way to buy a car online, period. The company's online marketplace makes it seamless for customers to find the vehicle they want, pay for it, and have it shipped to their house. Additionally, customers can sell their vehicles to CVNA without leaving their homes.

I know there are a ton of red flags with the company, including:

- Massive long-term debt issues
- CEO/Founder has a prior criminal history
- Losing gobs of money and will likely heavily dilute shareholders over the next few years

That said, the stock is down 64% from its August 2021 highs and trades at a \$15.6B Enterprise Value. Currently, you can buy the company for *exactly* 1x NTM sales, with the company estimated to grow revenues at a 30%+ CAGR over the next five years.

CVNA *should* hit EBITDA breakeven by the end of this year. But again, we should expect shareholder dilution as the company tries to meet its debt obligations and cover current operating losses.

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TradingView

## Cricut (CRCT)

CRCT designs and markets a creativity platform that enables users to turn ideas into professional-looking handmade goods in the United States, Europe, and internationally. The company went public in March 2021, and the stock is down ~60% from its highs.

CRCT operates three business segments: **Hardware Devices, Subscriptions, and Accessories/Materials**. It's a classic razor/razor-blade business model. They sell the hardware devices for cheap then charge a high margin on the software subscription needed to use the hardware.

Customers love CRCT products, as evidenced by its 0-to-5.7M customer growth rate since 2014.

The company is different from most of its 2021-IPO peers because it's profitable (with a *history* of profitability). CRCT's grown top-line revenues from \$74M in 2014 to \$959M and commands 20%+ EBIT margins.

There's still a long runway for organic growth. At 5.7M users, CRCT has captured 4% of its Active Creator Market (~85M users between the US and Canada).

One of the most exciting aspects of CRCT is its customer acquisition model. The company notes that the gross profit on its hardware machine *mainly covers* its CAC.

What about valuation? Currently, you can buy CRCT for **<3x NTM Sales and ~20x NTM FCF**. The company estimates that it will generate *at least* \$1/share in normalized earnings by 2023. Assuming a modest 30x P/E for the business (given its growth and margin profile), the stock's nearly a double from the current share price.

Another thing to like about CRCT is its balance sheet. The company boasts \$224M in net cash with no long-term debt.

There's also a chance that the stock found support around \$18-\$19/share, offering a potential double-bottom long trade.

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Cricut, Inc., 1D, NASDAQ O20.99 H20.99 L18.97 C19.17 -1.24 (-6.08%)  
 EMA (200, close, 0) 27.67  
 MA (50, close, 0) 23.40

