An Equity Note

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Companies Mentioned:

➢ Fix Price Group (FIXP.LSE)
➢ AutoStore Holdings (AUTO)
➢ Wheels Up (UP)

MO Equity Note: FIXP Q4 Earnings, Latest AUTO Tegus Call, & Revisiting UP

Happy Saturday!

We've got a lot to cover this weekend. First, discuss trades made during the week and any stop-loss adjustments on open positions.

Then, we'll examine FIXP's latest quarterly figures, dissect AUTO's latest Tegus call, and revisit our Wheels Up (UP) thesis.

Grab your favorite hot beverage and dig in.

Weekly Portfolio Updates

This week, we bought two stocks: **Ammo, Inc. (POWW)** and **Carvana (CVNA)**. We risked a total of 75bps between both trades: POWW at 50bps and CVNA at 25bps.

Each trade triggered an oversold reversal on the weekly time frame. We placed our stop-losses a tick below last week's lows and will manage the trade from the weekly chart.

We took profits in a few short positions:

- BTCUSD: +32bps
- ARKK: +25bps
- RTY: +6bps

Speaking of shorts, we still have a small GME short after taking multiple 25% profits. We're moving our stop-loss to $116.91, locking in a +6bps profit (assuming no gap ups) on the remaining position.

We also took profits on another 50% of our soybean long position for +49bps. We're moving our stop on the remaining ~7% notional position to 14.40. If hit, we'd exit the trade with another +21bps of profit.

Finally, we exited our second short trade in BTCUSD for a ~50bps loss on Friday.

Now, let's check in on some familiar names.

Fix Price Group (FIXP) Q4 & 2021FY Update

FIXP is Russia's largest fixed-price retailer, with over 4,200 stores throughout the Motherland. The stock has been down 20%+ since our write-up, which you can read here.

What has happened since then? Ukraine invasion.

I won't opine on the geopolitical situation between Russia and Ukraine – it's better left for *much more competent* people. But I can discuss FIXP's latest news during the month, of which there's plenty.

FIXP is a better business today than when we first wrote about the company. For example, this month, the company announced that it would equip all new stores with self-checkouts.

Self-checkouts reduce the number of employees needed per store and create a better customer shopping experience.

Second, FIXP noted that they would invest RUB 3.8B to construct a new distribution center (DC). CEO Dmitry Kirsanov explained, *"This new DC will become operational in Q1 '23, and we'll serve them with the central and southern federal districts, boosting our ability to keep store shelves full for years to come."*

Additionally, the company announced a RUB 4B share buyback program, which it will exhaust over the next six months.

Finally, FIXP announced a **solid** Q4/FY 2021 earnings report. Here are some highlights:

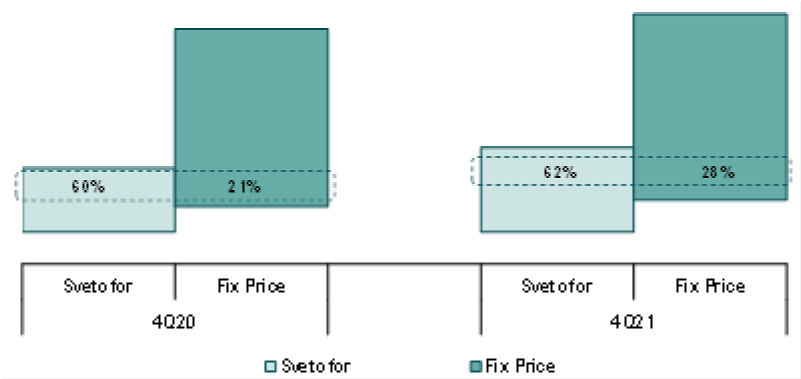
- **151 net store openings in Q4**
- **737 net store openings in 2021**
- **14.5% Q4 revenue growth / 21% 2021FY revenue growth**
- **7.2% LfL 2021 sales growth**
- **Loyalty cardholders now generate 47% of total sales**

In other words, the company grew revenue double digits during an Omicron invested quarter while generating 20%+ FY revenue growth.

There's also a chance that FIXP's latest quarter will be viewed as a "trough earnings season" going forward. Here's CFO Anton Makhnev's explanation (emphasis mine):

> *"You know what, Henrik, I would say that Q4 was the hardest [term] for us because this is when we felt the biggest impact from the COVID-19-related restrictions. And going forward, if we do not see any step-up in COVID-related restrictions, I don't think we will ever go back to those -- like last results of Q4."*

After the earnings call, I chatted with Steve Gorelik, portfolio manager at Firebird, about FIXP. Steve is one of the sharpest investors in the Eastern European space. You can check out my podcast with him here.



Anyways, Steve's opinion is that FIXP is a good business, yes. But that it faces stiff competition over the next five years.

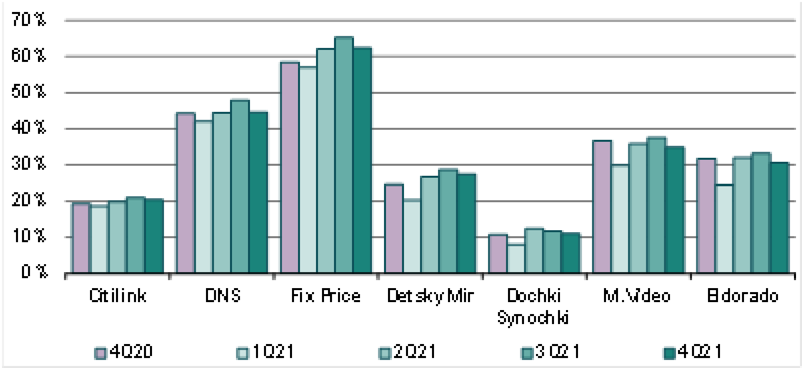
Russian retail is highly competitive. And if there is an enormous opportunity in fixed-price retail, others will try to capture that margin. Steve mentioned a couple of critical points for the FIXP bear thesis.

First, what percentage of FIXP's sales come from non-discretionary items? In other words, how well does the FIXP "treasure hunt" business model hold when consumers trade lower for discretionary goods?

Second, how will FIXP fare against competition from X5 Retail and Svetofor? Both companies anticipate opening 500+ fixed-price stores during the year. Will FIXP's unit economics and ROICs hold?

Steve also shared data from Sberbank showing FIXP losing *some* market share to Svetofor (see above).

That said, most of those surveyed still buy their durable goods at FIXP (shown below).



Let's shift to valuation. Currently, FIXP is trading for a ~10% FCF yield and ~9x 2025E net profits.

The company still expects to increase EBITDA margins over the next few years, reaching 20% by 2025.

That said, our unit economic model (and subsequent DCF) doesn't account for increased EBITDA margins *nor* increased revenue per store. You can check it out here.

In fact, our model assumes ~14% EBIT margins and 15% net profit margins over the next ten years.

Here's something interesting. **We can back the current stock price into a ~18% discount rate on our estimate of future FCFs.**

Maybe an 18% discount rate isn't high enough. Suppose we discounted future FCFs by 20%. That gets us a fair value of ~RUB 330/share or 25% below the current price.

We've got an alert set at ~RUB 330/share. We will put a starter long position on as a tracker with no stop-loss if triggered.

AutoStore (AUTO) Latest Tegus Call

I've noticed a considerable increase in the number of AUTO Tegus calls over the last month. This week's call featured a former AUTO investor and the AUTO USA Advisory Board member.

Let's dive in.

The expert noted that AUTO did things differently compared to its US counterparts. For example, AUTO works with integrators (read: intermediaries) who then work with the end customer. Most US firms, however, worked directly with the end consumer.

Initially, one would assume that the direct-to-consumer model would work better. The expert thought so too (emphasis mine):

> *"By the time I left Intelligrated, we were about 95-5, 95% direct, only 5% through integrators because in the U.S., most of the major buyers wanted to deal directly with the manufacturer, not necessarily with an integrator.*
>
> ***And so I've witnessed that and I thought, boy, this AutoStore model, I can't see it working well in the U.S****. And so I had a lot of conversations with* ***Karl Johan, he used to say, no, no, you'll see this works, and it did.***
>
> ***Their culture was such that everything that they did from product management, which I believe their product management is probably the best I've ever seen in the industry*** *because they made a product that an integrator could install it and support it."*

Why did it work? First, AUTO incentivizes its integrators to use/work with AUTO. They do this through higher-than-average margins for the integrator using AUTO's products.

AUTO's margins were so good, and the product was so efficient that competing sales managers would use AUTO's product over their in-house offering. Here's the expert's take (emphasis mine):

> *"But as a manager, he said, I prefer the AutoStore sale because a shuttle like that is very complicated. There's a lot of risk that things could go wrong. It usually takes over a year to install it and $25 million minimum.*
>
> *And he said AutoStore it's much easier to install. It's a much shorter time frame to install it. The price points are just right. And the margins that they make, he told me,* ***were higher than the margins that they had when they sold their own equipment because of the risk involved and the long duration of the project.*** *So he said AutoStore deal is one that he always thought was great because they got great margins and less risk."*

Warehouse automation is all about speed, efficiency, and reliability. Companies *must upgrade* their warehouse infrastructure *now* to compete in the everything-is-online world of same-day deliveries.

Currently, AUTO is the *only provider* that meets all the above criteria. Going back to the Tegus call (emphasis mine):

> *"So there are emerging technologies that, to your point, yes.* ***And in today's world, yes, that no one would give up AutoStore right now ever.*** *And the only way they'd ever do it is if something else showed up that they could use that was just as good or nearly as good. But yes.* ***And none of those new competitors that are evolving are there yet.***

> ***They don't have the level of reliability that AutoStore has****. And reliability is the name of the game because it's got to work, and it's got to work efficiently. And a lot of the new things that are being developed like fabric and Exotec and there's a couple of them, Attabotics that they're in the midst of development. They're not bulletproof yet. They're not real field-tested yet."*

AUTO is the fastest to market because they leverage integrators over direct-to-consumer relationships. In a D2C sales model, a company can only scale as fast as it can increase its internal resources (like salespeople, etc.).

However, if you build a business on integrators, **you can scale exponentially by leveraging the integrator's infrastructure.**

AUTO's former investor expands on this robust differentiation (emphasis mine):

> *"But with the model like AutoStore,* ***they have enabled their integrators to not only sell it, but to deliver it, but also to support it, so they can scale at a much faster rate because they're not limited by their own resources.*** *They have the resources of their integrators to be able to do it. What they're limited by is how many integrators can they have and how many can they train effectively, but they've learned how to do it very well. I'm very impressed."*

Think of AUTO as Usain Bolt with a 10-second head start in the 400m sprint. The company is better, faster, and stronger than its competition. Over time, yes, competition will increase, and technology will improve. But will it be too late?

Once AUTO captures most of its market, it can simply incrementally improve the product enough to keep competitors at bay (remember, switching costs!).

I think the market understands this, given the company's current valuation of 20x NTM sales.

But what about AUTO's 40% mid-term growth estimates? Are those realistic? Here's what the Tegus expert suggests (emphasis mine):

> ***"Actually, I think they're being conservative [regarding 40% annual growth over the next 5 years].*** *I think it's because* ***they are the right product at the right time right now. And they've just entered another space of grocery.*** *So they develop their systems now where they can deal in temperature environments, meaning cool environments and cold environments, which is the grocery and other industries, but particularly grocery."*

The current stock price assumes a ~45% growth rate and a 10x exit sales multiple. We're hoping the stock price continues to fall, allowing us to buy shares at ~10x NTM sales (even that is stretching it!).

Revisiting Wheels Up (UP)

It's been almost a year since I first wrote about Wheels Up (UP). This online marketplace connects private jet users with available private aircraft.

You can read our prior pieces on UP here and here. We last wrote about UP in August 2021. At that time, the stock traded for ~$8/share.

Today it trades over 50% lower at sub-$4/share.

What's happened with the business since August?

The company reported strong Q3 2021 earnings results in November. Here are the highlights:

- Revenue increased by 55% to $302M
- Quarterly Active Members grew 45%YoY to 11,375
- Quarterly Live Flight Legs increased by 52% YoY to 19,714
- The company lost $0.25/share during the quarter

UP *should* continue to lose money as it grows its passengers and available aircraft network. And while this is a complicated business, the bull thesis boils down to a few key variables (as I explained in the August report):

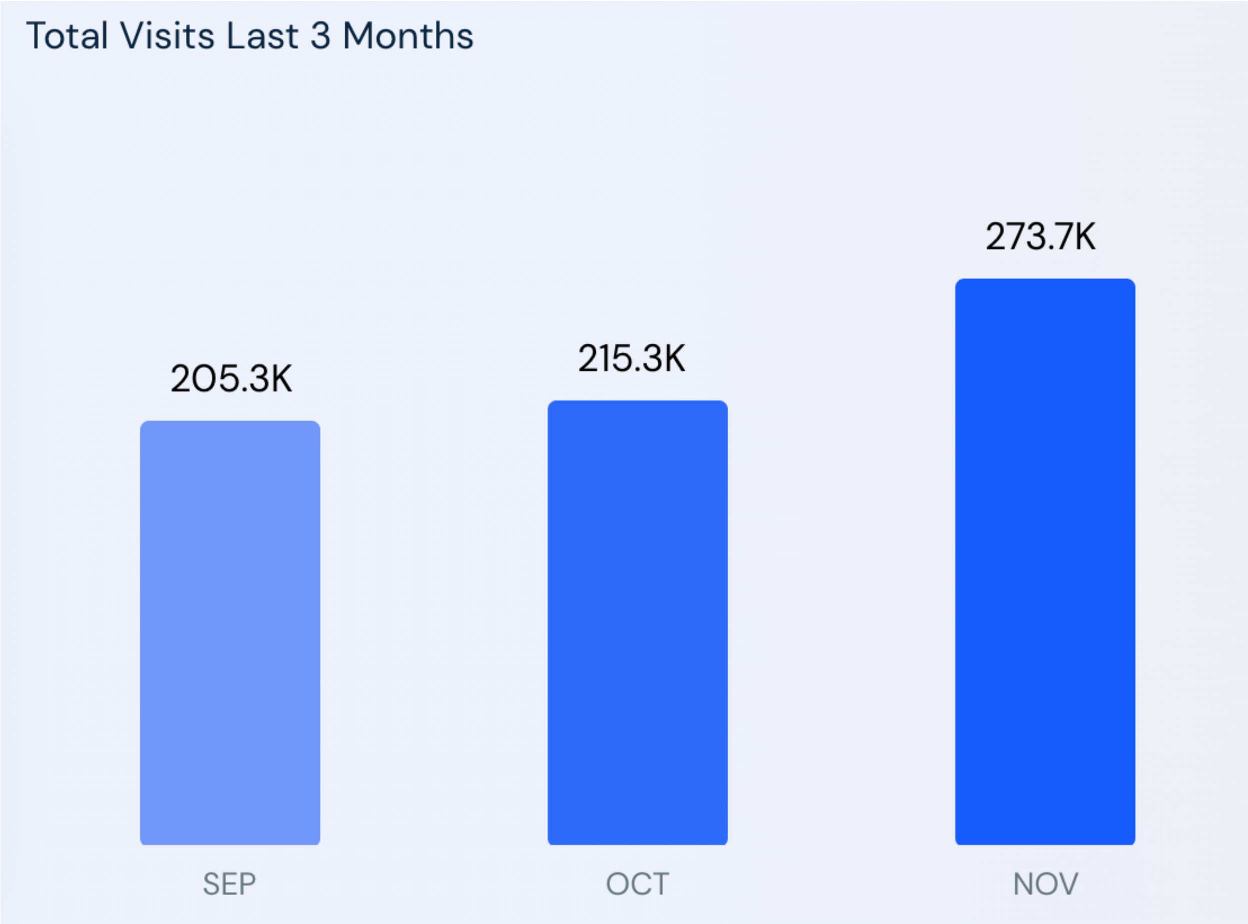
"Though a complex business, the investment thesis boils down to three key metrics: Live flight legs, active members, and available aircraft supply.
The more aircraft UP gets on its platform, the greater number of flights it can provide to its members. In turn, greater availability of flights will reduce average flight costs and drive an influx in new active members on the UP marketplace. Of course, more active members increase the demand for more supply and the flywheel repeats."

You can buy UP for 0.39x NTM sales, down from 1.18x in September 2021. The company should grow revenues by ~20% over the next five years and turn EBITDA profitable by 2025.

Let's shift to the balance sheet. Currently, UP has ~$535M in cash with no long-term debt. The only significant liability on the balance sheet is unearned revenue (which they generate from annual membership fees).

UP burned $124M in 2020 and will likely end 2021, burning an additional $150M. Let's assume a ~$150M burn rate. That gives the company ~3.5 years to build its network and turn profitable before needing more capital.

Website usage data also shows an increase in traffic over the last three months (see below).



We'll continue to monitor the company and technicals over the coming weeks as the company reports Q4 earnings in early March.