MACRO OPS
TRADE - LEARN - EVOLVE

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THE LONG PULL: Three Special Situation Ideas (KIND, ARBN.SIX, INDEX.OM)

This week, I'm exploring three special situation/event-driven trade ideas.

One is a niche social networking site with an $800M market cap, $540M in net cash, a $250M buyback in place, and a clear path towards cash breakeven.

Another is a European building products company selling one of its divisions for cash for almost its entire market cap.

The third is a busted Swedish micro-cap biotech trading at $0.03/share with $0.05/share in net cash with plans to liquidate.

I want to cover and invest in more event-driven and special situations. Sized appropriately, these ideas add a diversified return stream that's (hopefully) uncorrelated from the market. Plus, it gives our longer-term thematic ideas room to run.

Basically, it gives us something to do that isn't stupid.

Let's get after it.

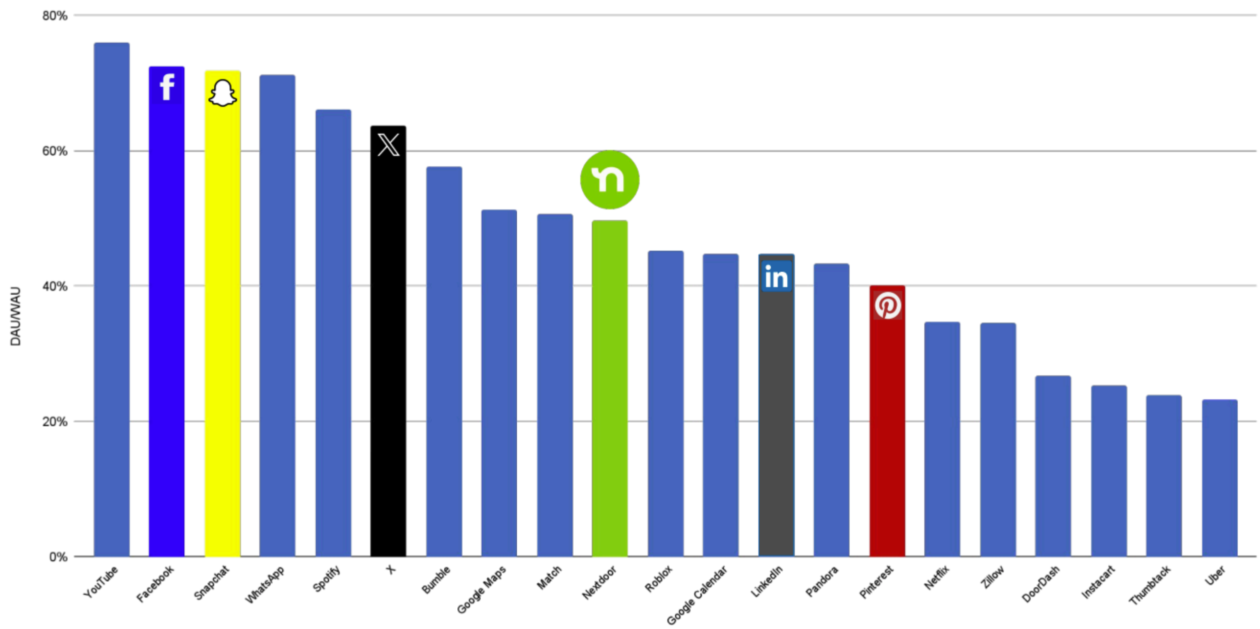
Nextdoor (KIND): Bill Gurley's Redemption Story?

KIND is a hyper-local social networking site. Users join based on their zip code and can only engage with others in that same zip code. I bet either you, your spouse, or your neighbor have used Nextdoor to complain about a loud dog or sirens late at night.

The network has 40M+ weekly active users (WAUs), 85M Verified Neighbors (or VNs), and penetrates 1 in 3 US households as of Q3 2023. There are other signs that KIND has a "healthy" network effect.

For instance, WAUs have increased by 50% over the past three years, time spent on the app has increased by 30% YoY, and ~50% of WAUs are active daily.

Nextdoor is one of the most frequently used consumer products



In fact, Nextdoor is one of the most frequently used consumer products in the US, ahead of Roblox, LinkedIn, Pandora, and Pinterest (PINS).

<u>KIND's Unkind Business Model</u>

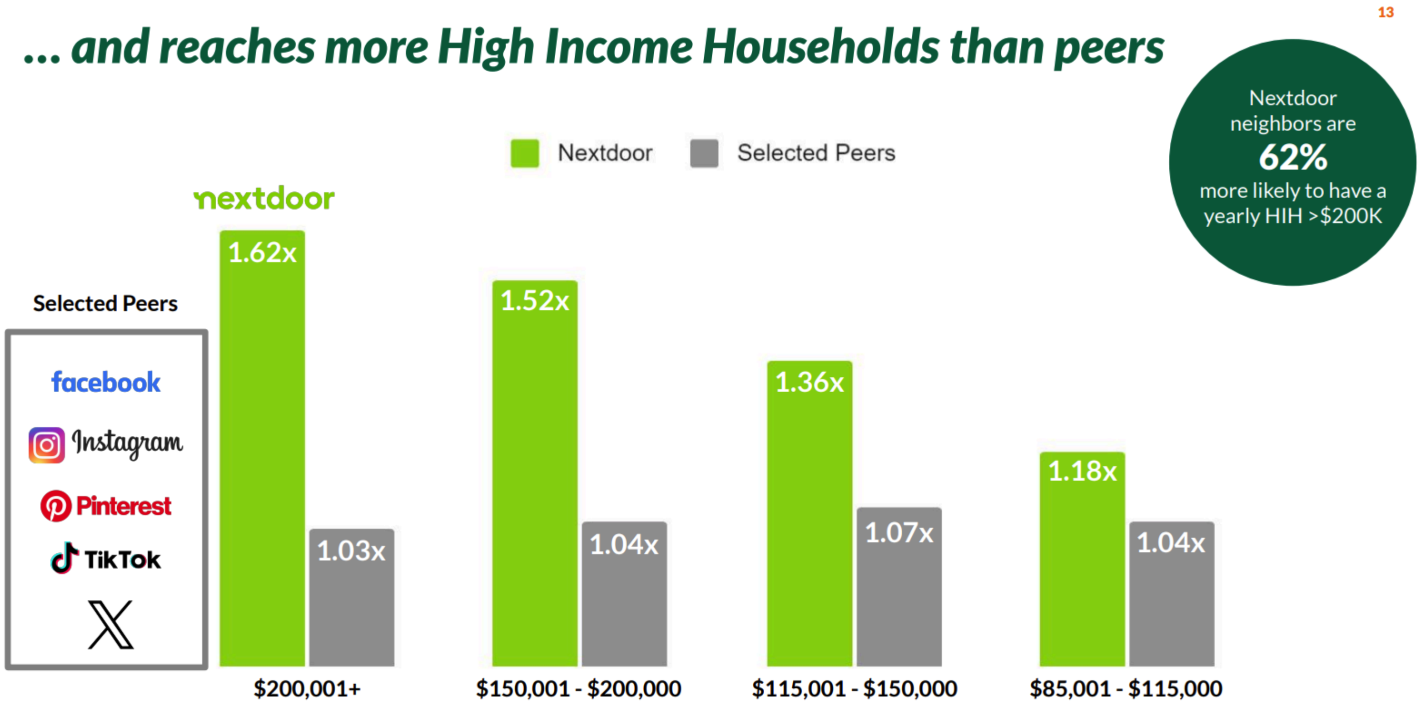
There are three main ways KIND makes money:

1) Nextdoor Ads (promote a deal, get more messages, or increase web traffic)
2) Sponsored Posts (company places an ad-native copy in the news feed)
3) Maps (local restaurants/stores can sponsor nearby offers on map feature)

The model makes sense. You have a hyperlocal network with verified first-party data (address and zip code). That information is valuable to advertisers.

It's also valuable because KIND users aren't necessarily on other platforms like Facebook, Twitter/X, or WhatsApp. According to the company, 90% of users who visit KIND at least once per month *did not* visit WhatsApp. 74% didn't visit SNAP, and 56% didn't visit Twitter/X.

KIND users, on average, also earn more money than peer-group user bases (see below).



So you've got a differentiated, higher-earning user base with verified first-party data that allows advertisers to more directly target ads to potential customers. So far so good.

But that's where the praise ends.

KIND's income statement looks like a ~~dumpster fire~~ typical VC portfolio company. The company grew revenues from $83M in 2019 to $218M in 2023 with 80-83% gross margins.

Yet somehow they managed to lose money every single year. Operating losses ballooned from $75M in 2019 to $173M in 2023.

Fiscal Years	Current/LTM	FY 2023	FY 2022	FY 2021	FY 2020	FY 2019
Revenues						
Total Revenues	**218.3M**	**218.3M**	**212.8M**	**192.2M**	**123.3M**	**82.6M**
Revenues	*218.3M*	*218.3M*	*212.8M*	*192.2M*	*123.3M*	*82.6M*
Finance Div. Revenues	-	-	-	-	-	-
Insurance Division Revenues	-	-	-	-	-	-
Other Revenues	-	-	-	-	-	-
YoY Growth %	2.61%	2.61%	10.70%	55.90%	49.34%	-
Gross Profit						
Cost Of Revenues	41.6M	41.6M	39.0M	28.8M	21.6M	13.7M
Gross Profit (Loss)	**176.7M**	**176.7M**	**173.8M**	**163.4M**	**101.7M**	**68.8M**
YoY Growth %	1.68%	1.68%	6.37%	60.66%	47.79%	-
Operating Income & Expenses						
Selling General & Admin Expenses	199.0M	199.0M	190.9M	161.1M	109.1M	101.0M
R&D Expenses	150.0M	150.0M	127.1M	97.1M	69.2M	42.6M
Depreciation & Amortization	-	-	-	-	-	-
Other Operating Expenses	-	-	-	-	-	-
Operating Income	**(172.3)M**	**(172.3)M**	**(144.2)M**	**(94.8)M**	**(76.7)M**	**(74.9)M**

I asked myself, *"how in the hell could they lose this much money with 80% gross margins??"* Spending 66% and 90% of revenues on R&D and SG&A will do it.

The company's stock, which went public via SPAC during the 2021 IPO/SPAC mania, fell **88% from its highs** to today's price of $2.15/share.

You won't find it in a stock screener.

Value guys wouldn't be caught dead holding this "VC trash," and the stock trades around its all-time lows.

Sentiment and positioning are entirely one-sided and bearish.

Nobody wants to touch this thing.

Why The Opportunity Exists

There are a few reasons why the opportunity exists. The first two are related to the income statement/business model, and the second is capital allocation.

First, KIND spends significantly more on R&D and SG&A than its peer group. Normalizing spending in these categories would unlock margins and free cash flow.

Here's KIND's R&D spending as a percentage of revenue versus its peer group (see below).

R&D Spending Comparisons			
Company	R&D	LTM Revenues	% of Revs
KIND	$142.00	$216.00	65.74%
SNAP	$1,910.00	$4,606.00	41.47%
PINS	$1,063.00	$3,055.00	34.80%
META	$36,911.00	$134,902.00	27.36%
GOOGL	$43,709.00	$307,394.00	14.22%
YELP	$332	$1,337.00	24.83%
VMEO	$102.00	$317.00	32.18%
GRND	$31.00	$242.00	12.81%
Average			26.81%
KIND Abv/Below Avg			245.22%

KIND's peer group spends ~27% of its revenues on R&D. You can argue that its peers have scale, and KIND should spend a disproportionate share of revenue on R&D in the early days. But 245% more?

Then there's SG&A spending with the same peer group comparisons.

SG&A Spending Comparisons			
Company	SG&A	LTM Revenues	% of Revs
KIND	$194.00	$216.00	89.81%
SNAP	$1,980.00	$4,606.00	42.99%
PINS	$1,301.00	$3,055.00	42.59%
META	$22,979.00	$134,902.00	17.03%
GOOGL	$43,078.00	$307,394.00	14.01%
YELP	$735	$1,337.00	54.97%
GRND	$66.00	$242.00	27.27%
Average			33.14%
KIND Abv/Below Avg			270.98%

KIND spends 271% more on SG&A as a percentage of revenue than their peer group. And again, you can argue that KIND has a different business model and customer acquisition strategy than its peers.

Maybe it needs to spend more money to attract new users in the hyper-local niche market. But if that were true, why did 90% of global VNs join organically in Q3 2023? And isn't the point of hyper-local network effects that you don't have to spend a ton on SG&A once the network hits critical mass?

This brings us to the second opportunity: staff.

KIND (probably) has too many employees. The company could fire 70% of its employees while maintaining peer average revenue-per-employee metrics (see below).

Rev/Employee Comparisons			
Company	Total Employees	LTM Revenues	Rev/Employee
KIND	704	$216.00	$0.31
SNAP	5,289	$4,606.00	$0.87
PINS	4,014	$3,055.00	$0.76
META	67,317	$134,902.00	$2.00
GOOGL	182,502	$307,394.00	$1.68
YELP	4,900	$1,337.00	$0.27
GRND	202	$242.00	$1.20
Average			$1.13
KIND Abv/Below Avg			-72.89%

These are all rough hypotheticals. Maybe KIND needs these employees to run a boots-on-the-ground marketing strategy. You know, *do things that don't scale.* But KIND *has* scaled. It has 40M+ WAUs, half of which use the app daily and spend more time on it than last year.

Now for the capital allocation opportunity.

The board fired former CEO Sarah Friar and replaced her with KIND's former co-founder Nirav Tolia. Then, the company added $150M to its buyback program, bringing the total amount to $250M or 20% of the market cap (almost 100% of EV).

KIND trades at a $785M market cap as of the time of this writing. They have $530M in net cash with no long-term debt. They have $66M in capital leases, but I treat those as operating expenses (if you add them as debt, you still get $464M in net cash).

The stock trades at $2.15/share with $1.45/share in cash. So call it ~$255M in EV.

A $250M buyback would add ~$1/share in value without changing anything else about the business (see below).

Buyback Accretion	Pre Buyback	Post Buyback
Market Cap	$785.00	$785.00
Shares	365	249
Stock Price	$2.15	$3.16

But can KIND do better with a new CEO in place and a board hungry to reach breakeven? Yes.

Nirav has a chance to strip KIND of all its fat and make it a lean, profitable niche networking app. As a thought exercise, here's what KIND's income statement would look like if its R&D and SG&A spending were more in line with its peer group (see below).

Reworking KIND Income Statement	2023	2024	2025	2026
Revenue	$216.00	$228.00	$263.00	$299.82
COGS	$40.90	$41.04	$47.34	$53.97
GP	$175.10	$186.96	$215.66	$245.85
% Margin	81.06%	82.00%	82.00%	82.00%
SG&A (peer average)	$71.59	$75.57	$87.17	$99.37
R&D (peer average)	$57.91	$61.12	$70.51	$80.38
Operating Income	**$45.60**	**$50.27**	**$57.98**	**$66.10**
% Margin	21.11%	22.05%	22.05%	22.05%
Net Interest Income	$23.00	$23.00	$23.00	$23.00
EBIT	**$68.60**	**$73.27**	**$80.98**	**$89.10**
EV/EBIT	3.55	3.33	3.01	2.74
Capex	$1.20	$2.00	$2.50	$3.00
Free Cash Flow	**$67.40**	**$71.27**	**$78.48**	**$86.10**
FCF Yield	27.65%	29.24%	32.20%	35.32%
EV/FCF	3.62	3.42	3.11	2.83

The company goes from losing hundreds of millions of dollars to **generating** $65-70M in annual free cash flow.

I want to stress that I don't think that's *exactly* what Nirav will do on Day 1. Instead, I want to reveal how much room KIND has to cut expenses and operate on a lean budget, much like [Twitter/X after Elon bought it.]

KIND can go from losing $170M a year to breaking even within 6-12 months if it wanted to. Meanwhile, the stock trades like that's not even a possibility.

Combine that potential reality with the company's 20% buyback, and you can quickly see how this stock trades *much* higher.

Finally, Bill Gurley/Benchmark is one of KIND's most prominent and earliest investors. And he's [bullish on Nirav rejoining the company](#).

KIND, like UBER, is a public investment for Bill. And like any other investor, Bill has an ego/status to maintain. He's a hero for investing in Uber and seeing it through to profitability.

The VC industry is now obsessed with breakevens and positive free cash flow.

KIND feels like an investment Gurley will point to and say, *"See! VC isn't bad. These companies actually do make money and return it to shareholders."*

Here's how we're thinking of structuring the trade.

How To Structure The KIND Trade

We'll enter KIND on a weekly close above its 200MA. This coincides with a breakout from its compressed Bollinger band upper bound (see below).

We'd place initial stop losses around $1.66/share.

Remember, **this is a trade**. Hard and soft catalysts should raise the share price over time.

Signals that we're wrong on the trade include:

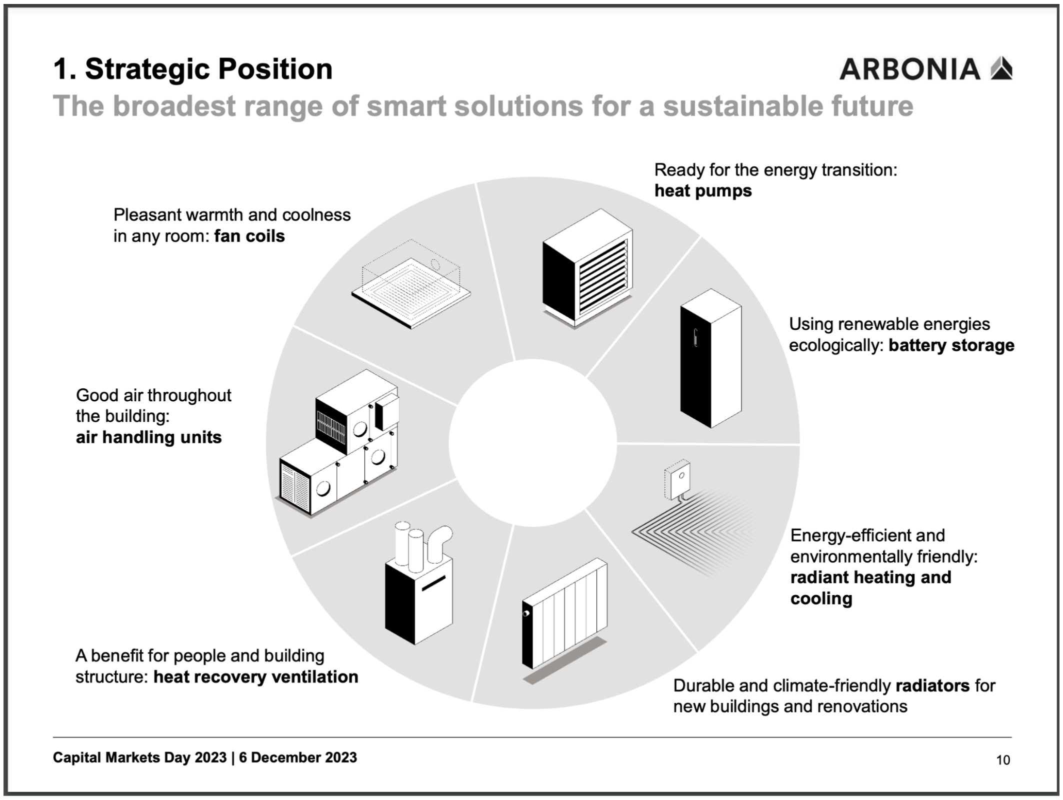
- ➢ Management reinvesting in their business through the income statement
- ➢ Management not spending the full $250M on buybacks
- ➢ Increase in operating losses over the next few quarters
- ➢ Steady decline in DAU, WAUs, and time spent on the app

Onto the next idea.

Arbonia (ARBN.SIX): Business Segment Sale For >100% of Market Cap

ARBN is a Swiss-based construction and building products comapny. The company has two business segments: **Climate** and **Doors**.

The Climate segment sells HVAC units, heat pumps, fan coils, battery storage units, radiators, and heat recovery ventilation.



ARBN is a leader in Climate solutions. It has a 15-20% market share in fan coils, is a market leader in radiators, and has Europe's broadest systems supplier.

The Climate business generates ~8-10% EBITDA margins through the cycle. For reference, Climate made $59M in EBITDA in 2022.

Then there's the Doors business, which sells, you guessed it, doors and panels. ARBN's Doors business is a European market leader, protected by "it's premium brand" and "high barriers to entry."

It's a decent business. Revenues have increased from $157M in 2016 to $553M in 2022 (mix between organic/acquisition). EBITDA margins also expanded during that time from 4.4% to 11.3%.

In 2022, the Doors segment generated $62M in EBITDA.

Here's why you should care.

ARBN Selling Climate For Nearly 100% of Market Cap

The company is selling its HVAC/climate business. Early estimates suggest **~$700M for the business.** ARBN's current market cap is $830M.

It will use the proceeds to pay shareholders and reduce debt (though management didn’t explicitly say how much to either bucket).

ARBN has $266M in long-term debt on the balance sheet against ~$25M in cash and short-term investments.

Let's rework the balance sheet to show what it would look like post-sale.

Assets:

- ➢ Cash: $725M
- ➢ AR: $181M
- ➢ Inventory: $245M (discount that at 50% and you get $115M)
- ➢ Total Current Assets: **$1,021M**

Liabilities:

- ➢ Long-term debt: **$266M**

ARBN has a clean balance sheet besides the large long-term debt. There are no other significant liabilities (no pension liabilities or substantial AP).

Now, management said they would reduce debt and return cash to shareholders (I assume via buybacks or a special one-time dividend).

Let's assume they use the $700M to fully extinguish their debt ($266M) and the rest to buy back stock ($700 - $266 = $434 ... divided by 12.01 equals **36M shares).**

Here's how the balance sheet would look then ...

Assets:

- ➢ Cash: $25M
- ➢ AR: $181M
- ➢ Inventory: $245M (discount that at 50% and you get $115M)
- ➢ Total Current Assets: **$321M**

Liabilities:

- ➢ Long-term debt: **$0**

At this point, the company would have a $830M market cap with a $509M EV.

However, we assumed they'd take the remaining $434M and buy back stock. This would reduce the share count from 68.54M to 32.40M.

So now you have $830M divided by 32.4M shares, which gets you ~$26/share versus the current share price of $12.01.

Finally, we must determine the value of the remainco Doors business.

What's The Remainco Worth?

As of 2022, the Doors segment generated $553M in revenue and $62M in EBITDA (~12% margins). Again, you're getting this business for free post-climate sale.

It's probably not worth as much as the Climate business. Doors seems more cyclical with less opportunity for add-on service revenues. HVAC is a better, more durable business than door/panel installation.

Still, 7x run-rate EBITDA sounds about right for a business that's grown revenues and expanded margins from mid-single digits to 10%+.

That would get us **~$430M in market value for Doors.**

Here's another way to think about ARBN's future value.

Suppose they paid down all debt ($266M) and used the rest to pay a special dividend. $434/68.4M shares would be ~$6.34/share in dividends or 53% of the current stock price.

If they did that, your effective cost basis for the remainco would be ~$5.67/share or $387M for a business doing $60M+ in EBITDA at low double-digit margins (~6x EBITDA) with an immediate case for multiple re-rating.

There are lots of ways to win with this transaction. But they all depend on management doing the right thing with the sale proceeds.

I prefer a buyback. Reduce the share count so that each incremental remaining is worth much more. Special dividends are also taxed as ordinary income, which reduces the value of the dividend versus the buyback.

Finally, the busted biotech idea.

Index Pharmaceutical Holdings (INDEX.OM): Potential Liquidation

There are many distressed/deep value plays in biotech. Just ask Kulok. He'll tell you and probably 3-5x your money while you're at it!

Anyways, INDEX is one to watch for smaller accounts that can invest in Swedish stocks.

INDEX is a $14M market cap biotech company with $29M in cash and no debt for an enterprise value of -$14M.

Yesterday, INDEX announced that it would stop its Cobitolimod Development program. Basically, it means that they're exploring a liquidation. Either that or some merger/reverse merger. The company said that "*liquidation is considered in parallel at every step of the review.*"

The easiest way to unlock value is to liquidate the business and return cash to shareholders. **You pay ~$0.03/share to acquire $0.05/share in cash.**

The worst case scenario is the company reverse merges with another biotech to continue the dream of developing new drugs.

Also, I love the chart. It's bombed-out but forming an excellent base.

Conclusion: Making Event-Driven/Special Sits A Recurring Theme

This is the first *Long Pull Report* dedicated to event-driven and special situation trades. And I loved writing it. I love ideas that just *work* without much brain power. You can explain ARBN on the back of a napkin to your 5-year-old niece.

KIND has a straightforward path towards breakeven and shareholder returns.

And INDEX can close shop *today,* return cash to shareholders, and generate a 60%+ return.

Let me know if you like this topic/format. Going forward, I'd love to make Event-Driven and Special Situations a recurring theme in these *Long Pulls*.

See y'all next week.

Your Value Operator,

Brandon