

Twitter Thread by [Matt Willes](#)



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[@SkolCapital](#)



Today, a mezz thread!

Also, the answer to a few questions including:

Yesterday's Value That Company!

Also, Why am I so dumb?

Finally, Why listen to me? ■■■■■

Here we go!



A few years ago, I get a call from an acquaintance (we have several mutual good friends). He's running a fast growing consumer finance company and needs cash...

It isn't "I need \$5 Million by Friday" but it's close...



How fast are they growing? By the time we are negotiating the deal a week or 10 day later, the ask is up to \$10 Million...



We did a little time travel yesterday on Value That Company, and I put you back in my shoes 3 years ago...

(Answer shortly)... <https://t.co/mNFNGgHiMI>



It is time... For reasons that will be clear tomorrow, we are going into the archives for the first 2021 edition of Value That Company!

Today: Consumer Finance

TTM: 217 M Rev; 12.7 M EBITDA

Prior year: 97 M Rev; -4.4 M EBITDA

2 yr ago: 23 M Rev; -2.9 M EBITDA

More details: <https://t.co/rn8lbARa4V>

— Matt Willes (@SkolCapital) January 12, 2021

The business is fascinating, but also extremely sensitive to assumptions, underwriting, etc...

Management is good, but also very aggressive which I'm not sure I love...

Worse, we don't have the time to really dig into the numbers as extensively as I'd like... <https://t.co/np5UPBminu>



Ok, stealing my thunder from tomorrow, BUT:

5% of customers never make even 1 payment: 100% loss rate

24% default before maturity: 15% loss rate

32% payoff < 90 days: 7% avg ROI

11% payoff > 90 days: 91% ROI

28% go full term: 121% ROI

— Matt Willes (@SkolCapital) January 12, 2021

Value That Company Answer:

I get comfortable enough with the numbers to estimate the company is worth at least \$100 Million ...

Will I lend \$10 Million (this was a big deal so I partnered with some friends) into \$100 M equity value? Sure

Then the CEO asked if I'd do equity?



I politely decline, and go close the mezz deal ...

The company continues growing, and refinances me out within a year.

I get a 36.9% IRR ... a good deal all the way around.



But, oh wait, there is more! Turns out Matt is an idiot for not taking equity.

Yesterday, [@IrishCapMGMT](#) correctly identified the company on everyone's favorite valuation game.

The company just sold for \$1.65 Billion less than 3 years later... <https://t.co/trYKMEJaJB>



Sounds similar to your former portco Acima.

For others, Acima just agreed to sell to Rent-a-Center for \$1.65bn or ~1.3x revenue per the article.

<https://t.co/lhm3TeURsQ>

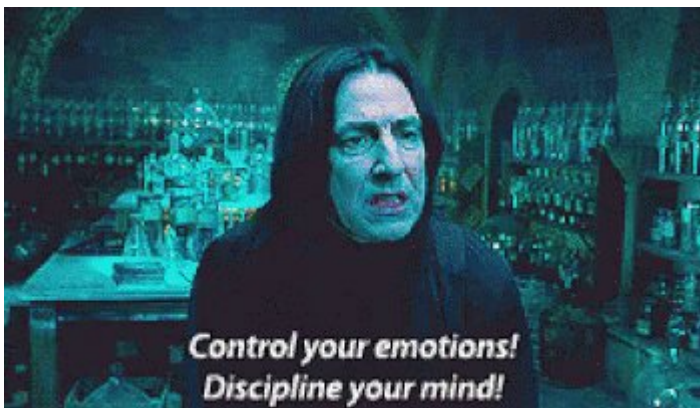
— Irish Capital (@IrishCapMGMT) [January 12, 2021](#)

Based on these deal metrics, the correct valuation when I was looking at it was \$88-200 Million (basically where I was)... take a midpoint of \$150 Million and I could have done a 10x in less than 3 years



So, do I feel bad? Maybe, but I'd make the exact same decision again. Here are a few reasons:

1) Circle of Competence/Discipline - This deal was a success for me because I stayed disciplined within what I know. I don't like/try to avoid risks I don't understand



2) An honest congratulations to all involved (I have at least 3 friends and a former next door neighbor in the equity) ...

Why should their success diminish mine?



3) I believe there is still risk in this business that I don't understand. The unit economics make no sense for the borrower (I've told my children to NEVER finance something in the store). Will a new administration/CFPB care?

IDK, but I'm unwilling to take the risk...



4) I haven't looked at the financials for Rent-A-Center but I actually think this is a good deal for them. It's a way to modernize their business while staying within their competence...

(I won't be investing, though - see #1)

Final) Thank You for following along as I take this Twitter journey. I confess that I love it!



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