Twitter Thread by Matt Willes

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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/np5UPBmjnu



> 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



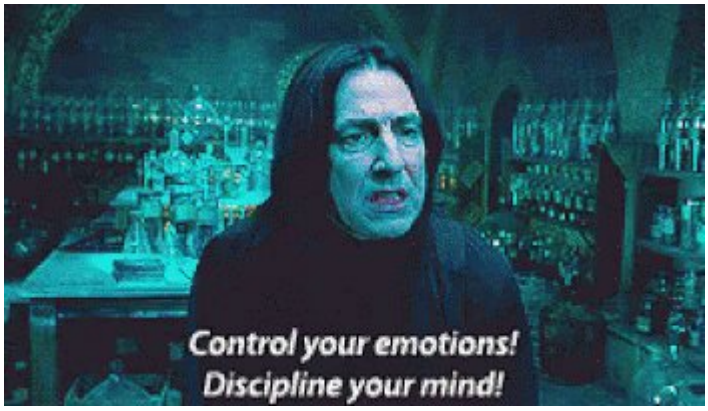
> Sounds similar to your former portco Acima.
>
> For others, Acima just agreed to sell to Rent-a-Center for $1.65bn or ~1.3x revenue per the article. https://t.co/Ihm3TeURsQ
>
> — Irish Capital (@IrishCapMGMT) January 12, 2021

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!



@threadreaderapp unroll