

## Twitter Thread by Flywheel Research



**Flywheel Research**

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**1/12 Valuing a Disruptive Businesses: Naked Wines (\$WINE) Case Study. In my intro last week, I promised examples of using ROIIC & reinvestment rate to value disruptors. \$WINE is an eComm D2C wine model with SaaS-like outcomes. EXCELLENT DISCLOSURE makes it a good case study**

It began as an online wine retailer with many SKUs/low loyalty, but then pivoted at a pivotal moment when a top exec realized a cohort of consumers were super loyal – those that enjoyed supporting independent winemakers. [@\\_inpractise](#) Feast your eyes on this glorious disclosure:

Naked Wines is forecast to report approximately zero EBIT this year. As we will see, the company is not worth zero, nor does it mean Value Investors are allowed to cavalierly toss it in the “too hard” pile. Here’s a way to value Naked Wines with discipline:

Variable (1): \$WINE discloses Standstill EBIT, boosted by COVID. Loyalty of \$WINE’s “angels” makes EBIT stickier than some other eComms. Astute SaaS observers will note revenue retention (I assume ~78% on avg) is below B2B SaaS (95-130%). My standstill NPV implies 6.3x EV/EBIT.

Variable (2): A disclosure triumph. If slides could talk, “we reject simpleton requests to under-invest & produce 123% IRR for shareholders that truly like value creation.” Value investors, note what the V stands for in LTV. PV it. I assume payback holds 5 yrs, then slow decay

Variable (3): Do they have a chart for fixed costs along with a medium-term guidance that seems logical? Yes...yes, they do! They target fixed cost growth to be half of revenue growth.

Variable (4): As for the full maturity stub, be very careful with double-counting the value already within your high IRR CAC spend valuation in (2), but this is the smallest component in my appraisal of \$WINE’s value, so let’s use our time wisely.

My output: (1)+(2)-(3)+(4) = 303m + 486m - 130m + 53m = 713m EV. This implies a warranted multiple of 6.3x EV/GP on current year. If you tend to viscerally avoid researching zero EBIT companies, consider that the high IRR CAC spending program (2) is largest part of my value!

123% IRR (2016 cohort actual) AS MUCH AS POSSIBLE PLEASE. Even insufferably holier-than-thou value investors wielding “doesn’t make any money” gibberish (I’m guilty) might agree that \$WINE chooses to spend. Or would we rather they under-invest to make our models simpler?

“So, great, one scaling small cap gives you enough detail to value it. Congratulations, champ. Wake me when you’ve found a way to replicate this on other names,” says Mr. Dinosaur Value Guy, irritated after a call with a decade-long client asking for a \$200m redemption.

Cheer up, Dino, and WAKE UP, we can replicate this on many names. Your valuation discipline is rightfully non-negotiable. See that meteor in the sky that looks like a [@blackrock](#) hellbent on creative destruction? Let’s do something about it: <https://t.co/Wyr7F0EQK7>

12/Upcoming research: Value Investors, I write provocatively to rattle some cages that need it, including my own. But a simple cheap stock can still be attractive in this market, especially with catalysts. Next is a cheap global #1 with 40-50% market share w/ 2 catalysts. /end

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