TMR CAPITAL



## Performance

**TMR Long Bias Opportunities, LP**

| | Gross | Net | S&P 500 | Eureka Long Short HF Index |
|---|---|---|---|---|
| Oct 2019 - Dec 2019 | 0.5% | 0.0% | 9.1% | 4.9% |
| 2020 | 63.3% | 44.5% | 18.4% | 18.7% |
| 2021 | 13.3% | 8.9% | 28.7% | 10.3% |
| 2022 YTD | 14.2% | 10.9% | -4.6% | -3.5% |
| **Cumulative** | **112.3%** | **74.5%** | **55.4%** | **32.5%** |
| **Annualized** | **35.1%** | **24.9%** | **19.3%** | **11.9%** |

**TMR Long Short Opportunities, LP**

| | Gross | Net | S&P 500 | Eureka Long Short HF Index |
|---|---|---|---|---|
| Sep 2020 - Dec 2020 | 16.2% | 12.4% | 12.1% | 11.8% |
| 2021 | 19.2% | 14.1% | 28.7% | 10.3% |
| 2022 YTD | 10.5% | 8.0% | -4.6% | -3.5% |
| **Cumulative** | **53.1%** | **38.4%** | **32.2%** | **18.1%** |
| **Annualized** | **30.9%** | **22.8%** | **19.3%** | **11.1%** |

## Brace for impact

In our 1Q 2021 letter we talked about the beginnings of a regime change in market leadership where old economy stocks with durable businesses would vastly outperform fast growing unprofitable technology companies. In subsequent letters, we further discussed the reasons for this change. Chief amongst them was the enormous emphasis over the past decade (leading up to November 2020) on investing in “disruptive” but unprofitable consumer and technology companies with fast organic revenue growth perceived to be addressing large TAMs that would “change the world”. As a result, capital has flowed out of less exiting old economy businesses. We posited that the pendulum had swung too far and that there were several hard catalysts for a reversal. Such catalysts include structurally higher inflation leading to higher interest rates which might burst the speculative bubble stocks, and the transition from a world of insufficient aggregate demand to a world of insufficient aggregate supply for key commodities. The bubble stocks cracked in mid-February 2021, recovered somewhat throughout the year before making their next move lower beginning in November 2021 when Jerome Powell retired the word “transitory” when describing inflation, signaling the end of an era of loose monetary policy.

In our 4Q 2021 letter, titled “Dedication to Short Selling”, we illustrated the speculative excesses that had built up since the GFC, with significant acceleration from 4Q 2019 to mid-February 2021. Examples include Meme stocks, fast growing unprofitable technology and consumer companies and clean technology promotions and alleged frauds. Leading the charge is the explosion in speculation / short-term call option buying from retail investors.

Year to date 2022, we saw an acceleration of the key themes we highlighted in 2021. Many of the bubble stocks have had large drawdowns in 2022 and are down 50%-90% from their peaks in 2021. We believe many of them are structurally unprofitable, with some having no revenue and no viable business plan, and with growth set to slow more than expected we expect that this group can decline another 50%-90% like the Internet Bubble and Nifty Fifty. Remarkably, the major indexes such as the S&P have help up during the carnage in 2021 and 2022, with the S&P barely off its highs. However, in prior periods when bubbles deflated, the major indexes eventually fell 50%+ and we expect this time to be no different. While the generals (the major indexes) get shot last, they do eventually get shot.

Our philosophy continues to be ruthless pragmatism. Our strategies are uniquely built to thrive in periods of high volatility and macro uncertainty. We have more flexibility than other funds which enables us to be more opportunistic. We do not bucket ourselves into styles such as “growth” or “value”, a widely practiced method that we view as suboptimal to long-term returns, and we do not consider ourselves bulls or bears. Rather, we look for value (discount to intrinsic value, not necessarily low multiples of current earnings and book value) wherever we can find it, whether it be fast growing new economy companies or slower growing less exiting old economy businesses. Our dedication to short selling is more important now than ever, as our short portfolio is expected to preserve our capital as the equity bubble continues to deflate.

## TMR Long Bias Opportunities, LP Highlights

We continue to be overweight slower top line growing lower valuation multiple companies in financials, consumer discretionary, energy, materials and industrials while being underweight unprofitable fast growing new economy companies. However, given the carnage in fast growing unprofitable technology stocks, we believe that babies are being thrown out with bathwater despite the well-deserved re-rating of the entire sector / factor. Thus, we have a medium size position in WIX, a fast-growing unprofitable technology stock that we believe has strong unit economics that will become clear once the business stops reinvesting for growth (which happens through the income statement instead of the typical growth capex on the cash flow statement).

**Long WIX**

**Company Overview**

WIX is an Israeli SAAS company that was started in Tel Aviv in 2006. It has been listed on the Nasdaq stock exchange since 2013. In 2021, WIX generated 57% of their revenue from North America and 26% from Europe.

WIX was founded on the belief that the Internet should be accessible to everyone to develop, create and contribute. WIX is a leading global cloud-based development platform for millions of registered users worldwide, pioneering a new approach to web development and management that provides an easy-to-use yet powerful cloud-based platform of products. WIX offers their solutions through a freemium model where users can register, build a website and have it hosted for free for an unlimited amount of time. They become paying subscribers when they connect their own domain to the website and unlock additional functionality. WIX has 222 million registered users and nearly 6 million premium subscribers. WIX's core product consists of three web editors: WIX ADI, intended for fast website creation, the WIX Editor, intended for full website creation targeted at users with basic, average or above average technological skills, and Editor X, intended for advanced users such as design professionals.

WIX is evolving from a website builder to a comprehensive web creation and business solutions platform. WIX offers a variety of additional services to further complement and enhance their users' needs, most notably Ascend by WIX, which was launched in the fourth quarter of 2018, offering their users access to a suite of approximately 20 products or features enabling them to easily connect with their customers, automate their work, and grow their business, including capabilities to manage all of their customer interactions, capture leads, build relationships, take payments, and run email, social, and video campaigns to promote their business, all in one place. Additional services also include WIX Logo Maker, which allows users to generate a customizable, high-resolution logo in minutes using artificial intelligence, WIX Answers, a support infrastructure enabling users to help their users across multiple channels, and WIX Payments, a payment platform that helps users receive payments from their users through their WIX website. WIX also offer several vertical-specific applications that business owners can use to operate mission critical aspects of their business online, such as selling goods, taking reservations and scheduling and confirming appointments. These applications provide WIX registered users a custom front-end for users of their website, as well as a robust back-end management dashboard. WIX has developed these software applications for businesses in specific verticals, including retail and online stores, service providers, hotel and property management, music, photography and restaurants, among other verticals. These vertical applications are integrated into WIX's website templates or can be installed on any existing website and set up with minimal effort by the user and without the need to write code.

Other complementary services include the App Market, which was launched in 2012 and offers registered users the ability to easily install and uninstall a variety of free and paid web applications that WIX developed themselves or identified and selected through third-party developers for inclusion in the App Market, based on user needs and demand. These web applications add additional functionality and are easily integrated into registered users' websites with one click, without the need for any coding, and include social plug-ins, online marketing and customer relationship management tools, contact forms and transactional and payment processing capabilities. Additional complementary services include, among others, the WIX Arena, an online marketplace which brings users seeking help in creating and managing a website, together with talented web experts and the WIX App, a native mobile application enabling users to manage their websites and WIX operating systems on the go.

In April 2008, WIX launched the WIX Editor, which enabled the creation of a digital presence in Flash format, and in October 2008, WIX launched a premium subscription offering. By April 2012, a month after WIX released the advanced HTML5 Editor, which greatly improved their service offering and support for mobile devices, WIX had reached 20 million registered users. In October 2013, WIX launched a further enhanced mobile product. In October 2015, WIX launched a new redesigned WIX Editor, which is based on a complete restructuring of the platform's codebase, developed using Facebook's React Technology. This newly designed editor offers a significantly leaner codebase, better modularization and improved testability. In 2016, WIX launched WIX Artificial Design Intelligence, or WIX ADI. This solution was designed specifically to eliminate the most significant challenges of building websites – time, design and content creation – and enables a user to create a complete, personalized webbsite in minutes. In 2017, WIX launched WIX Code, a new development platform that enables users to build more advanced websites and WIX applications. In 2018, WIX launched several additional products that enable users to manage and grow their businesses, most notably Ascend by WIX.

WIX derives most of their revenue from monthly, yearly and multi-yearly premium subscriptions for their website solutions. WIX also generates revenue from additional paid services and solutions, including from Ascend by WIX, third-party domain registrations and from revenue sharing agreements with Google and with other third-party developers for applications sold through the App Market (WIX is entitled to a share in 30% of net revenues from the sale of every third-party application purchased through the App Market). WIX also generates revenue from payment processing fees derived from WIX Payments and one-time purchases from WIX Logo Maker.

WIX revenue is divided into two segments:

- **Creative Subscriptions (75% of Revenue, 92% of Gross Profit)**: revenue is generated from the sale of monthly, yearly and multi-year premium subscriptions for WIX's website solutions, including vertical solutions when purchased in a bundled subscription, as well as from the sale of domain name registrations. Website solutions are offered through a freemium model in which users can register with an e-mail address and build, launch and manage a digital presence for free, for an unlimited amount of time. WIX's premium subscriptions are currently offered in two tiers of premium subscription plans: (i) Website and (ii) Business & ecommerce. The plans within each tier are offered at various price points depending on functionality and capabilities. All premium subscription plans offer registered users the ability to brand their website with their own domain name. Premium subscriptions can be purchased at any time and include additional solutions such as WIX ad removal, access to Google Analytics and payments solutions for Business and online commerce sites. Users can also purchase a domain name registration from WIX who is an ICANN accredited domain registrar, through a third party to which WIX connects their users, or independently. For those users who purchase a domain from WIX or a third party through WIX, WIX typically offers yearly and multi-year packages, with the first year given for free.

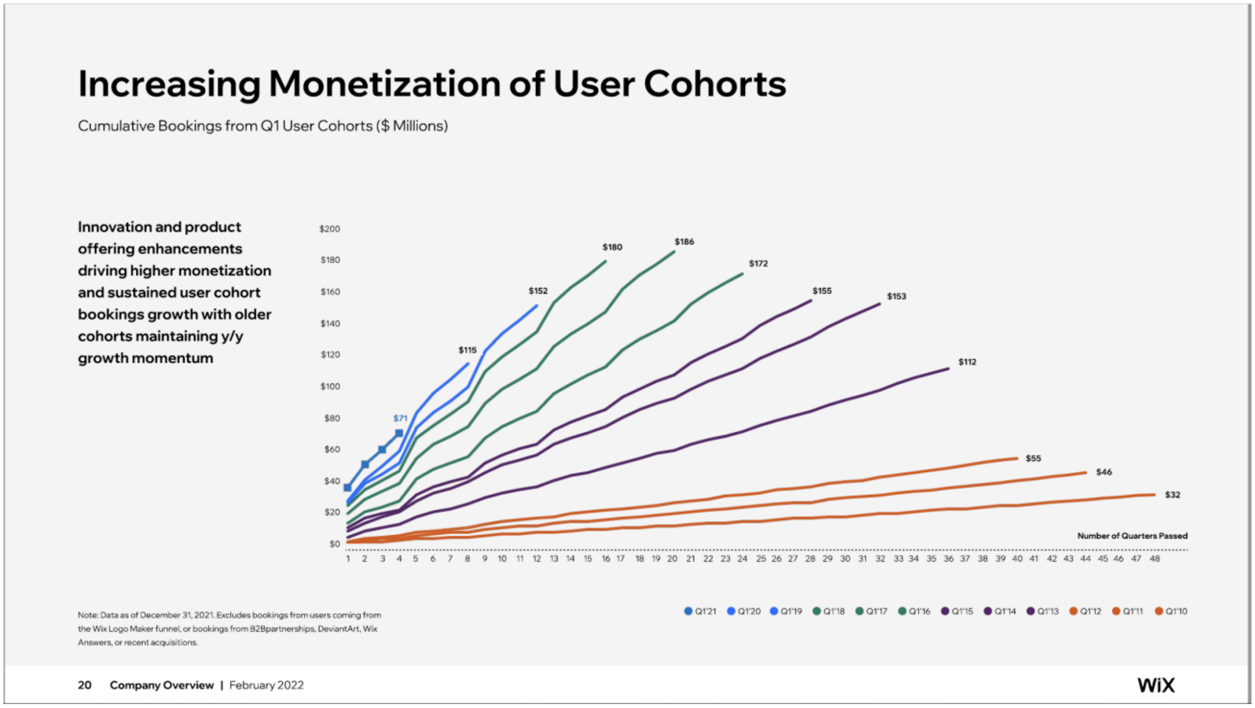
- **Business Solutions (25% of Revenue, 8% of Gross Profit)**: WIX generates revenue from applications that are developed internally and by third parties, and sold both through WIX's own App Market or elsewhere on their platform, various applications such as Google's G-Suite, which is WIX's most frequently sold application, as well as Ascend by WIX. Other components of Business Solutions Revenues include the sale of payments services through Payments by WIX, Paid Ad Campaigns, shipping labels, WIX Answers, WIX Logo Maker and DeviantArt.

**Investment Highlights**

**WIX has a wide but underappreciated moat.** The average WIX subscriber pays $221 per year for their website platform. This is a very small percentage of an entrepreneur's costs compared to the hassle of changing website platforms. From this low base, WIX can increase ARPS by double digits YoY as WIX focuses on higher value users such as website design firms. Furthermore, having an online presence has now become a necessity.

WIX has historically strong cohort retention with many cohorts having over 100% subscription retention. For example, as observed in the first quarter 2010 user cohort, there is a similar number of active subscriptions in such cohort at the end of 2018 as the number that existed when the cohort was acquired 36 quarters ago. This demonstrates WIX's strong renewal rates and ability to replace terminated subscriptions with new subscriptions from the same cohort. More recent cohorts show similar strong renewal rates.

In addition to strong retention and consistent net subscription additions, WIX has significant pricing power. Innovation and constant product offering enhancements drive higher monetization and sustained user cohort bookings growth.




WIX's freemium business model gives it a cost advantage on customer acquisition as it wins over half of its new subscribers each quarter from its base of registered users at no additional cost. A majority of WIX's premium subscriptions are generated from free traffic to their website, primarily through search engine optimization or direct traffic, meaning visitor traffic that reached their website, WIX.com, via unpaid search results or by typing the URL of their website in their browser. When it comes to website development, WIX is twice as big as its nearest competitor enabling WIX to reinvest more into R&D. WIX's economies of scale, superior customer acquisition cost advantage and investment in R&D have created a significant competitive advantage over the many smaller web editor tools available.

WIX's greater scale and cost efficiency also leads to a data / user information advantage. WIX continues to be run by an owner operator (CEO and Co-Founder Avishai Abrahami who owns 3.1% of the business) who uses the data advantage to continue to innovate and disrupt. For example, WIX added more e-commerce functionality during COVID in response to strong user demand.

**Market perception of tough comps from 2020's unusually strong COVID-driven growth is misplaced.**
WIX's stock price fell almost 30% after its Q4 results as its revenue growth of 16.2% were below consensus and management declined to provide full-year guidance due to macro volatility (specifically COVID). The market interpreted the lack of 2022 full year revenue guide as a sign that 2022 could see slower than expected growth. Our view is that Q1 2022 will be the most difficult quarter in terms of YoY comparable because Q1 2021 was unusually strong. Growth should accelerate after lapping Q1 2021 and FY 2022 growth should return to historical standards. Zooming out, the long-term potential for WIX is intact over a multi-year holding period and Covid and comps are a quarter-to-quarter issue. For context, WIX revenue in 2021 is up 166.8% compared to 2019.

**<u>WIX's unit economics are misunderstood.</u>** WIX's stock price has decline dramatically partly because of increased marketing expense which the market views as evidence of increased competition and structurally higher and thus lower ROI customer acquisition costs going forward. We viewed the significant step up in sales and marketing as a rational long-term strategic move by management to better capture the surge in demand from Covid and higher expected revenue per subscriber. Furthermore, we believe that WIX continues to maintain its discipline and ROI focus around marketing. When WIX spends on marketing, it takes one year to nearly fully recoup its original marketing costs in ongoing bookings. Five years after the initial marketing spend WIX does nearly 6x the marketing cost in cohort bookings.


While WIX currently has negative EBIT, the market is unjustifiably bucketing WIX in the same category as loss making "growth" companies that have negative unit economics and are thus structurally unprofitable. We believe WIX can earn steady state 30% GAAP operating margins given a large part of WIX's sales and marketing is "growth capex" and as WIX achieves economies of scale with G&A and R&D which are currently 13.4% and 33.5% of revenue respectively. A large part of WIX's marketing is growth capex because WIX's strong renewal rates and ability to replace terminated subscriptions with new subscriptions from the same cohort.

WIX's operating losses are also partly mitigated by large deferred revenue balances which increases FCF. WIX has negative incremental capital invested in the business due largely to large deferred revenue balances from its subscription based business model effectively generating float as the business continues to grow.

Another reason WIX's unit economics are misunderstood is that WIX has grown a new business, its Business Solutions unit, from nearly nothing in 2015 to $319.4 million in 2021 representing 25% of total revenue. However, the gross margins for Business Solutions are only 21.9% vs. 76.7% gross margins for

Creative Subscriptions. Over time as Business Solutions scales, the long run operating margins should converge towards the steady state operating margins of the Creative Subscriptions business.

**A well run SAAS business is a great business to own at the right price.** With much attention recently on "growth" and "value" factors, with "growth" or "innovation" stocks being down 50%-80% from their peak, it's important to remember that stocks are still ownership pieces of businesses and well-run enterprise software companies can be great businesses with high ROCE (normalized for "growth capex" on the income statement) and the ability to continue to earn high ROCE on incremental capital employed. The SaaS business model allows subscribers and other customers to use the SaaS software with an annual or monthly subscription, rather than a one-time fee. Delivered online thanks to cloud computing, this type of pricing model allows startups and other businesses in the SaaS industry to generate monthly recurring revenue while focusing on new features, new products, better service, and other benefits that offer lifetime value to both new customers and existing users. 83% of WIX's premium subscribers have annual or multi-year subscription packages providing visibility into WIX's future revenue. The recurring revenue model also increases retention rates. Subscription based business models such as many SAAS businesses generate large amounts of deferred revenue which reduces the capital needed to grow the business by enabling them to collect cash up front. WIX and many other SAAS businesses have negative working capital largely due to the large, deferred revenue balances which generates float as the business grows. In addition, SAAS businesses are asset light, and the growth capex occurs on their income statement. Like many of the large technology platform companies, WIX can run with no equity capital.

**WIX is an attractive takeout candidate.** The drawdown in "growth" stocks was well justified but in certain cases the market also threw the baby out with the bathwater. The drawdowns are similar to the internet bubble and the extremely low valuation multiples that some high quality enterprise software companies trade at will draw attention from private equity firms such as Vista Equity and Thoma Bravo which specialize in software. Thoma Bravo's recent acquition of Anaplan for 14x NTM Revenue, compared to WIX's 3x NTM Revenue multiple (although WIX and Anaplan are not direct competitors), may help set a valuation floor for enterprise software stocks. The 14x NTM Revenue multiple is a huge premium to the 7.8x SAAS industry average.

**WIX's valuation upside is substantial.** WIX trades at extremely depressed valuations implying WIX will no longer grow. WIX traded at a low of 4.0x NTM Revenue during the depth of Covid in March 2020. WIX then traded at an all-time high 15.4x NTM Revenue post Covid. With many "growth" stocks down 50%-90% from their all-time highs WIX was not spared despite its strong future growth prospects and attractive unit economics. WIX now trades at 3x NTM Revenue. A reversion to the mean to 6.5x 2022 Revenue (still a discount to the current SAAS industry average of 7.8x) implies 118.1% upside.

Another method to think about valuation is what if WIX went into runoff mode. WIX's expected future bookings from existing cohorts over the next ten years is $15.7 billion (based on current cohort behavior). A 30% steady state FCF margin equals $4.7 billion cumulative FCF over the next ten years compared to WIX's current $4.4 bn TEV providing investors with a margin of safety. dfsds

Building a longer-term seven year operating model, assuming:

- 19.7% revenue CAGR, below its historical growth rate, driven by an 8.1% premium subscriber CAGR and a 10% ARPS CAGR. In addition to strong retention and consistent net subscription additions, WIX has significant pricing power. Innovation and constant product offering enhancements drive higher monetization and sustained user cohort bookings growth.
- 30% long run EBIT margin with even greater FCF generation driven by low capital intensity and OWC being -45% of revenue largely driven by large, deferred revenue balance. WIX's already high 61.5% gross margins (which are weighed down by the growth of the lower gross margin Business Solutions unit) should revert to 74% which would be closer to WIX's historical gross margin of 80%+ before Business Solutions.
- 20x TEV/EBIT results in 378.2% upside for a 36.7% IRR.

**Catalyst**

**M&A** -- WIX is an attractive takeout candidate. The drawdown in "growth" stocks was well justified but in certain cases the market also threw the baby out with the bathwater. The drawdowns are similar to the internet bubble and the extremely low valuation multiples that some high quality enterprise software companies trade at will draw attention from private equity firms such as Vista Equity and Thoma Bravo which specialize in software. Thoma Bravo's recent acquition of Anaplan for 14x NTM Revenue, compared to WIX's 3x NTM Revenue multiple (although WIX and Anaplan are not direct competitors), may help set a valuation floor for enterprise software stocks. The 14x NTM Revenue multiple is a huge premium to the 7.8x SAAS industry average.

**Sheer value** – No matter how you value WIX – reversion to the mean valuation multiple, runoff, long-run operating model or precedent transactions – WIX's valuation is depressed.

**Easier comps** -- Market perception of tough comps from 2020's unusually strong COVID-driven growth is misplaced. WIX's stock price fell almost 30% after its Q4 results as its revenue growth of 16.2% were below consensus and management declined to provide full-year guidance due to macro volatility (specifically COVID). The market interpreted the lack of 2022 full year revenue guide as a sign that 2022 could see slower than expected growth. Our view is that Q1 2022 will be the most difficult quarter in terms of YoY comparable because Q1 2021 was unusually strong. Growth should accelerate after lapping Q1 2021 and FY 2022 growth should return to historical standards. Zooming out, the long-term potential for WIX is intact over a multi-year holding period and Covid and comps are a quarter-to-quarter issue. For context, WIX revenue in 2021 is up 166.8% compared to 2019.

**Margin expansion** – WIX's gross margins and operating margins should expand as its new business unit Business Solutions scales and its margins converge to the long run operating margins of Creative Subscriptions.

**Conclusion**

At 3x NTM Revenue, WIX trades at less than half of the SAAS peer group despite continued strong fundamentals, strong growth and high ROCE prospects and despite the entire SAAS sector being on the verge of massive consolidation from strategics and PE buyers that have recently paid more than four times WIX's trading multiple to acquire other SAAS businesses. Sentiment in SAAS is at an all-time low just as the sector is about to inflect from easier comps post COVID.

We continue to hedge our long portfolio by shorting IWO (Russell 2000 Growth), QQQ and SPY. We covered our ARKK short at a substantial profit and replaced it with QQQ and SPY shorts. While ARKK has declined significantly, QQQ and SPY are still near all-time highs. As alluded to above, the generals get shot last. Catalysts include inflation eating into corporate profit margins which are at all-time highs and multiples contraction from higher inflation and a more hawkish Fed. Our hedges reduce our net market exposure and provide us with the right factor bias over the next 6-18 months. Higher inflation and interest rates would have a disproportionately negative affect on these ETF's since they are comprised of a large percent of long duration assets.

## TMR Long Short Opportunities, LP Highlights

Our long portfolio is consistent with the TMR Long Bias Opportunities LP reviewed above. Our short portfolio has begun to perform well starting in December and continuing into 2022. Fundamentally, we believe there is over 70% downside to our short portfolio with several shorts expected to go bankrupt. In addition to company specific catalysts, we believe that the large increase in supply of speculative stocks in 2020 and early 2021 has begun to overwhelm demand. Whether it be more SPACs, meme stocks or alleged frauds, in previous stock market bubble bursts such as 2000, eventually supply overwhelmed demand causing the speculative areas of the market to fall by over 80%. We continue to believe that the retail favorites represent the best opportunity for short alpha and there is still plenty of supply of these types of stocks. Our short portfolio includes clean technology promotions, stocks that are heavily promoted to retail investors, and brick-and-mortar retail companies that trade at low multiples of current earnings but are likely massively overearning and longer-term continue to be in structural decline.

We continue to maintain strict position sizing limits on our individual shorts consistent with our risk parameters. Our short portfolio continues to be highly diversified. However, from a factor perspective many of our shorts are correlated (a conscious decision) to the Goldman Sachs Unprofitable Tech index and the ARKK ETF.

In recent communications we wrote the following:

"We are looking forward to the markets correcting such that our long and short positions will deliver the results we expect, taking advantage of the fundamental research that defined their value and rationale for portfolio inclusion."

The markets have begun to see what we see in our longs and shorts. We are in the early innings.

This material does not constitute an offer or the solicitation of an offer to purchase any interests in TMR Partners LP ("**TMR Partners**") and/or TMR Partners Long Short Opportunities, LP ("**TMR Long Short**"), both Delaware limited partnerships (each a "**Fund**" and collectively, the "**Funds**"), which such offer will only be made via a confidential private placement memorandum (the "**Memorandum**") pertaining to such Fund. An investment in the Funds is speculative and is subject to a risk of loss, including a risk of loss of principal. There is no secondary market for interests in the Funds and none is expected to develop. No assurance can be given that the Funds will achieve their objective or that an investor will receive a return of all or part of its investment. All statements herein are qualified in their entirety by reference to the relevant Fund Memorandum, and to the extent that this document contradicts that Memorandum, the Memorandum shall govern in all respects. All Fund investors must be verifiable accredited investors.

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In the case of both TMR Partners and TMR Long Short, the performance data discussed herein reflect the deduction of: (i) an annual asset management fee of 2.0%, charged quarterly; (ii) a performance allocation of 20%, taken annually, subject to a "high water mark;" and (iii) transaction fees and other expenses actually incurred. Results were achieved using the investment strategies described in the Memorandum.

Results are compared to the performance of the S&P 500 Index and the Eurekahedge Long Short Equities Hedge Fund Index (collectively, the "**Comparative Indexes**") for informational purposes only. The Fund's investment program does not mirror any of the Comparative Indexes and the volatility of the Fund's investment program may be materially different from the volatility of the Comparative Indexes. The securities included in the Comparative Indexes are not necessarily included in the Fund's investment program and criteria for inclusion in the Comparative Indexes are different than criteria for investment by the Fund. The performance of the Comparative Indexes reflects the reinvestment of dividends, as appropriate.

This material contains certain forward-looking statements and projections regarding market trends, investment strategy, and the future asset allocation of the Funds, including indicative guidelines regarding position limits, exposures, position sizing, diversification, and other indications regarding the Funds' strategies. These projections and guidelines are included for illustrative purposes only, are inherently predictive, speculative, and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The guidelines included herein do not reflect strict rules or limitations on any Fund's investment program and that Fund may deviate from the guidelines described herein. There are a number of factors that could cause actual events and developments to differ materially from those expressed or implied by these forward-looking statements, projections, and guidelines, and no assurances can be given that the forward-looking statements in this document will be realized or followed, as described. These forward-looking statements will not necessarily be updated in the future.

**PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.**