

# STERN **purple** IAG

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**Price Target:**



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**I. What's a SPAC?**

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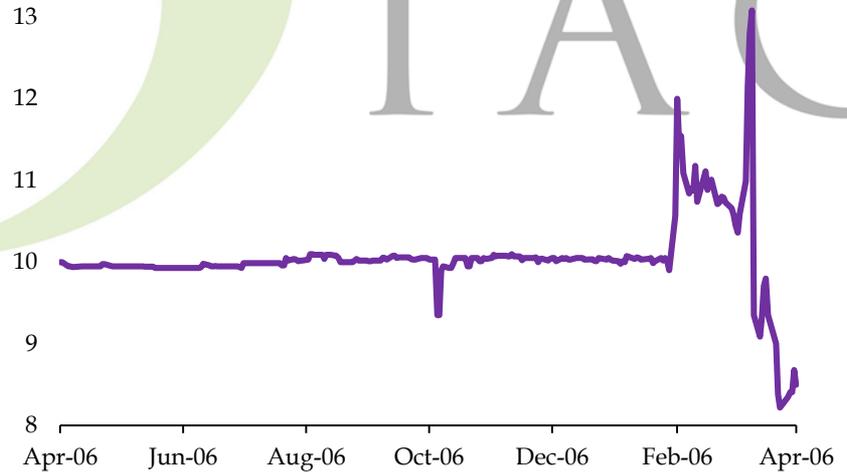
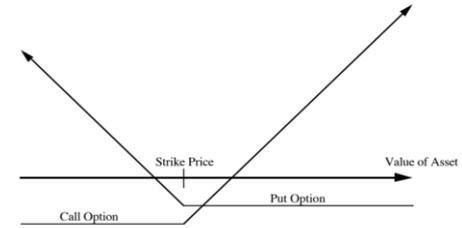
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## Special Purpose Acquisition Company (SPAC)

- A SPAC is an investment vehicle that raises funds through an IPO
- The SPAC has the intention of acquiring another firm in the near future after the IPO
  - if an acquisition is not made in a given period of time, the SPAC is shut down and the money is returned to investors
- Once the acquisition is made, the managers of the SPAC receive 20% of the equity in the firm
  - Think of this as a management fee
- The rest of the owners of the SPAC receive a proportional equity stake in the firm that is purchased
  - They usually receive this in the form of common stock and warrants

## What's a Warrant?

- Warrants are similar to options but they are issued by a company
- The proceeds from a warrant issue are a method of financing for a firm
- Why would a firm do this instead of just issue equity?
  - It allows a firm to raise money without diluting equity immediately





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# I. Company Overview

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## Purple Innovation

### A Differentiated Mattress Company

- Purple manufactures and sells mattresses, pillows, cushions, sheets, bed platforms, and other comfort products
- Net Revenue increased over 200% in 2017
  - 196.9m in 2017 Sales compares to 65.5m in 2016
- Gross Margin expanded from 32.8% to 44.9%
- Reached revenues of 65.5m in 2016 with no outside capital
- Very successful in [viral marketing](#)





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# I. Investment Thesis

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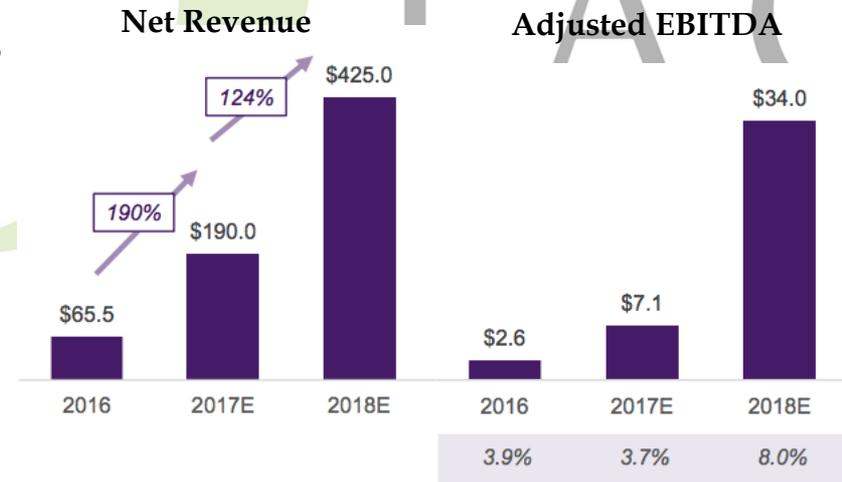
# Investment Thesis

## Strong Growth Trajectory

- The company has grown revenues more than 200% over the last year and expects growth of 124% next year
- Adjusted EBITDA is expected to grow close to 5x 2017 levels in 2018
- While online is growing very quickly at about 50% every year, it still only represents 7% of the entire \$20bn bedding industry. Purple accounts for less than 1%.
- Additionally, Purple mattresses are being tested in Mattress Firm stores in certain regions and have done very well
- Future growth will come from two places:
  - Continued market share

## Future Growth

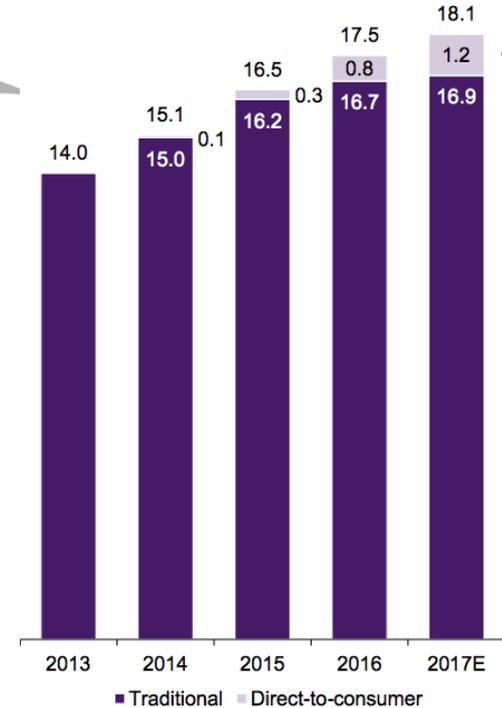
- Increased penetration of online DTC Sales
- Increase in Purple Market Share, both in retail and online.
- Increase in size of US Mattress Industry



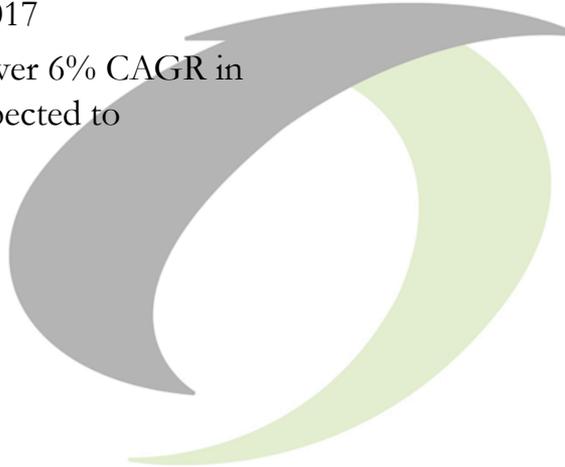
## Investment Thesis

### US Mattress Industry: Growing, Stable, Increase in DTC

- DTC revenues grew by 60% in 2017
- The entire market has grown at over 6% CAGR in the last 5 years and this rate is expected to continue over the next 5



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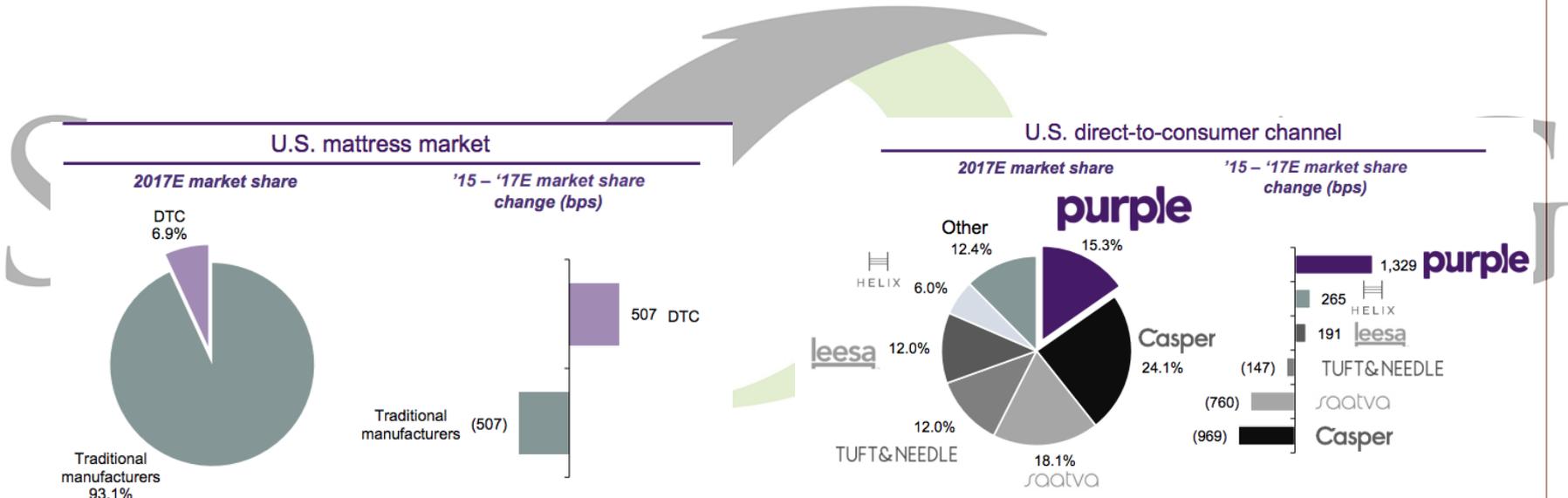
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# Investment Thesis

DTC is stealing Market Share from Traditional

Purple is stealing Market Share from the rest of DTC



## Entrance into Mattress Firm

- Mattress firm has 3500 US stores with \$3.6bn in annual sales and 25% of the Mattress Industry
- Pilot program consists of 51 stores, all of which have had very positive feedback and will likely lead to a nationwide deal for Purple
- Purple management believes the Mattress Firm opportunity alone will lead to \$1bn a year in business. This is not too “in the clouds” as in some of the pilot stores, **Purple made up for over 30% of sales.**
- “It’s a much better value than anything else we have in the price range, we sold out of all our Purples in the first month” – Washington DC
- “Exceptional for the price” - Washington DC
- “We sold so many we were once backordered for 3 weeks.” – Washington DC
- “Purple accounts for about 30% of sales” – Austin
- “We’ve sold 10 in 4 weeks. ~33% share of total sales. The interest and feedback has been pretty overwhelming” – Sacramento

## Investment Thesis

### The firm's products are innovative and protected by patents, continuing to expand offerings

- The firm has 76 granted and pending patents
- The contents of the mattress is unique and patent protected, while all other competitors continue to just use different combinations of memory and polyurethane foam, steel coils, and latex foam
- The entire manufacturing and packaging process is completely proprietary and very efficient, ready for scale
- The company has constantly released new products and has plans to introduce various different types of mattresses to reach different portions of the market
- The company is completely vertically integrated, from innovation, to manufacturing, to very effective marketing
- **The company's mattress has fantastic reviews, a loyal following, great feedback from retailers, and is taking market share in both DTC and retail locations.**



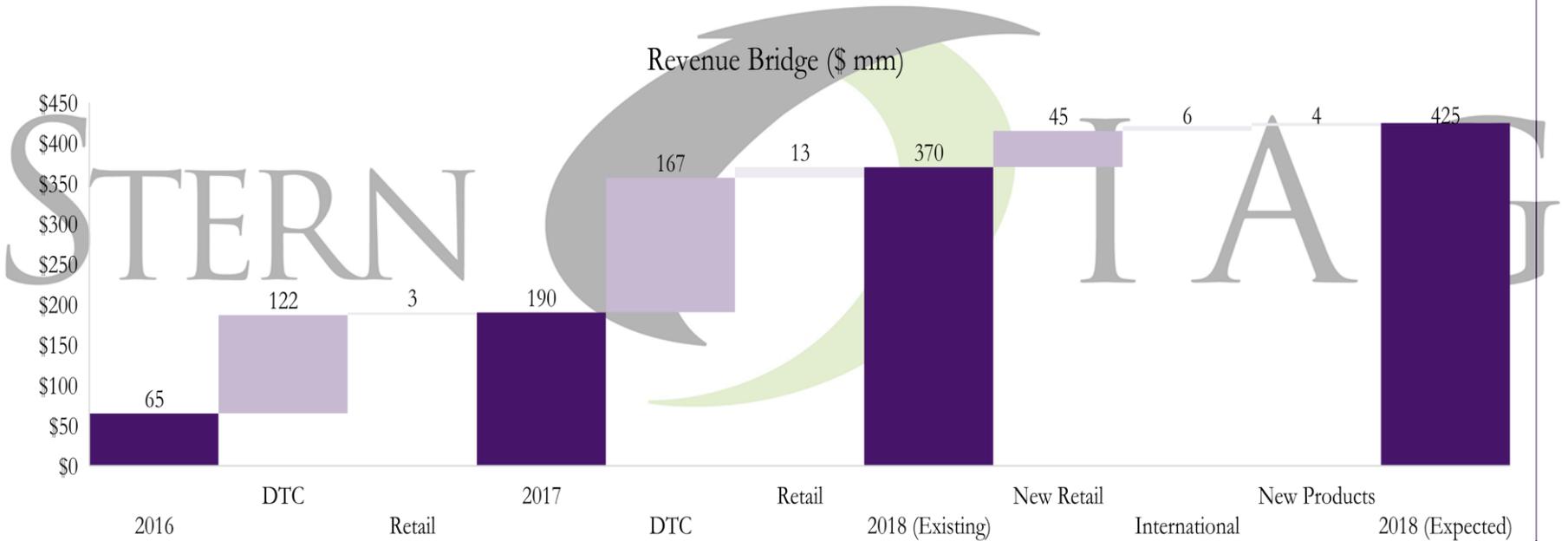
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**II. 2018E & Valuation**

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## 2018E & Valuation

### 2018E Revenue Build



## 2018E Revenue Build

- Key 2018E assumptions:
  - Growth in the existing business slows down to 82%, from 193% in 2017. This represents the low end of management guidance, and only an approximate ~3% increase in DTC market share in 2018 (vs. 7-8% increases in 2016 and 2017)
  - Adding further conservatism is the fact that in 2017, Purple operated with a backlog at almost all times, creating multi-week delays for consumers getting their mattress and depressing sales. (Today Purple is no longer capacity constrained and in fact has manufacturing capacity for a 50% higher revenue figure.)
  - New retail forecasts at the midpoint of \$45mm, reflecting the very positive early results from the Mattress Firm pilots
  - Other revenues at the low end of management guidance at \$5mm

## Comparable Valuation

- At current multiples, we believe that Purple is cheap in the absolute. Purple is also cheap relative to comparable companies, despite significantly higher growth. In fact, at its current price, Purple is available at a discount to its traditional mattress competitors. This low price provides significant downside protection.
- Casper, one of Purple's primary competitors, raised private capital in 2017 at a \$750mm valuation, which we estimate at ~2.3x TEV/forward revenue (a big premium to Purple, despite slower growth and inferior economics).
- Given Purple's hyper-growth and wide consumer presence, this is a company that has attracted private equity interest. We understand that the company has received numerous inbound private equity inquiries, indications of interest, and even term sheets. This "private market put" provides further potential downside protection.

Comparable Valuation

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## Returns Table

- The table on the next slide lays out our potential returns for our Purple investment. We believe that our potential returns for our Purple investment range from 5x in a Base Case to 10x in a Bull Case. Returns are driven by growth and the low entry price, which provides significant downside protection in our Bear Case.
- **Base Case:** 25% CAGR for direct-to-consumer (premium to online market growth), \$450mm in sales at retail (the company believes that simply Mattress Firm alone is a \$1bn opportunity) and international/other at 20% of US DTC (lower than traditional US mattress comps), driving 34% overall growth (below management's 3-5 year outlook for 35-50%+ growth)
- **Bear Case:** 15% overall revenue CAGR, starting from the low end of management guidance
- **Bull Case:** premium to the Base Case, within management's 3-5 year growth outlook

## 2018E & Valuation

### Returns Table

FYE 12/31 \$ in mm, except per share			Base Case			Bear Case			Bull Case		
	2016	2017E	2018E	2023E	'18-'23 CAGR	2018E	2023E	'18-'23 CAGR	2018E	2023E	'18-'23 CAGR
Direct-to-Consumer	66	186	350	1,068	25%	350	704	15%	350	1,570	35%
Retail		6	45	450	58%	15	30	15%	45	600	68%
International & New Products			5	214	112%	5	10	15%	5	392	139%
<b>Total Revenue</b>	<b>66</b>	<b>192</b>	<b>400</b>	<b>1,732</b>	<b>34%</b>	<b>370</b>	<b>744</b>	<b>15%</b>	<b>400</b>	<b>2,562</b>	<b>45%</b>
Implied US market share	0.4%	1.3%	2.6%	8.3%		2.4%	4.0%		2.6%	11.9%	
<b>EBIT</b>	3	(2)		260			60			384	
EBIT Margin	5%	-1%		15%			8%			15%	
17 - '23 Inc. Margin				17%			11%			16%	
Net Income (25% tax rate)	2	(2)		195			45			288	
<b>Adj. EPS</b>	<b>\$0.03</b>	<b>(\$0.03)</b>		<b>\$2.99</b>			<b>\$0.77</b>			<b>\$4.42</b>	
<b>Target Multiple</b>				<b>20.0x</b>			<b>15.0x</b>			<b>25.0x</b>	
<b>Target Price</b>		<b>\$10.71</b>		<b>\$59.79</b>			<b>\$11.57</b>			<b>\$110.55</b>	
<b>Implied Warrant Value</b>		<b>\$0.40</b>		<b>\$15.57</b>			<b>\$0.04</b>			<b>\$28.79</b>	
<b>Implied TEV</b>	551	551		3,896			670			7,205	
TEV/Revenue				2.2x			0.9x			2.8x	
TEV/EBIT				15.0x			11.2x			18.8x	
				<b>Base Case</b>			<b>Bear Case</b>			<b>Bull Case</b>	
<b>5-year returns</b>											
<b>MoM</b>				<b>5.6x</b>			<b>1.1x</b>			<b>10.3x</b>	
<b>IRR</b>				<b>41%</b>			<b>2%</b>			<b>59%</b>	

We think Purple is a very high quality business, with incredibly high growth potential, trading at a cheap valuation and an extremely compelling investment for the near-term and long-term based on the following points:

1. Product quality and marketing strength, which will drive organic growth
2. The online mattress industry is growing 40-50%, providing a market tailwind
3. A Mattress Firm partnership could triple sales by itself
4. Cheap absolute and relative valuation
5. Private equity has shown interest in this company, providing a “private equity put”
6. Insiders own ~82% of the company pro forma, aligning interests



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**Thank you**

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