

MarketWise, Inc. (MKTW)

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Domestic Financials

MarketWise, Inc. (NASDAQ: MKTW) operates a multi-brand platform of subscription businesses that provide financial research, software, education, and tools for self-directed investors. Founded in 1999 and headquartered in Baltimore, Maryland, MarketWise currently serves approximately one million paid, and nearly thirteen million free subscribers as of Q3 2021. The company's ~14 million self-directed investor customer base has more than doubled from Q3 2019 to Q3 2021.

Price (2/01/22) (\$):	5.98	Beta:	1.36	FY: Dec	2020A	2021E	2022E	2023E
Price Target (\$):	8.42	WACC (%):	11.93%	Revenue:	364,179	543,178	682,539	834,956
52WK H-L (\$):	\$4.84 - 16.97	M-Term Rev. Gr Rate Est (%):	24.30%	Growth (%):	33.8%	49.2%	25.7%	22.3%
Market Cap (Mil):	\$1,831	M-Term EPS Gr Rate Est (%):	24.92%	Op. Income (ex. SBC):	14,911	79,627	95,158	115,102
Insider Holding (%):	94.50	Debt/Equity:	0.5%	Growth (%):	(67.6%)	434.0%	19.5%	21.0%
Avg. Daily Vol (3M):	205,744	Net Debt/EBITDA (TTM):	0.34	Operating Margin (%):	4.1%	14.7%	13.9%	13.8%
Short Interest (%):	4.03%	ROA '21E:	33.4%	EPS (ex. SBC):	\$0.04	\$0.26	\$0.21	\$0.25
Yield (%):	0.00	ROE '21E:	5.3%	P/E (Cal):	162.4	22.6	28.5	23.6
ESG Rating:	BBB	ROIC '21E:	4.7%	EV/EBITDA (Cal):	97.0	20.6	17.2	14.3

M-Term: '22 - '26

(\$USD '000)

Recommendation

Providing institutional-quality, actionable content designed for self-directed retail investors, MarketWise, Inc. has grown to over \$500 million in annual revenue from just \$35,000 of invested capital to date. The company's brands include Stansberry Research, Tradesmith, InvestorPlace, Chaikin Analytics, Altimetry, and others. Since 2017, MarketWise has grown its editorial team from 8 to 88, expanded its primary customer brands from 5 to 12, and now offers over 160 products. The company's subscription-based platform has been profitable all 20 years of operation with revenue growth in 18 of those 20 years. MKTW's average customers are people at or approaching retirement age (57-75 years old) with investments between \$150k and \$500k. Catalyzed by stimulus checks and stay-at-home orders, the Covid-19 pandemic amplified the company's earnings as billings increased ~240%, paid subscribers ~180% to 965k, and Average Revenue Per User (ARPU) ~131% to \$772, from 2019 to Q3 2021. MarketWise boasts exceptional unit-economics with conversion rates that favor high-value subscribers. Annual net revenue retention has averaged 93% from 2018-2020 and ARPU has grown at a 26% CAGR over the same 3-yr period. Furthermore, Lifetime Value to Customer Acquisition Cost (LTV/CAC) is >5x, implying that customers are added at less than 1/5 of their lifetime value, compared with the median ~3.5x of the digital consumer subscription industry (Lazard 2021). As of Q3 2021, the conversion rate of free to paid subs was 5%, paid to high-value subs (>\$600 total spend) was 38%, and high-value to ultra-high value (>\$5,000 total spend) was 34%. Free, paid, high-value, and ultra-high value subs were 12.8m, 601k, 240k, and 123k, respectively as of Q3 2021. Because of baby boomer tailwinds, the company's appetite for acquisitions, and the benefits of the Sponsor's leadership, it is recommended that MKTW be added to the AIM Small Cap Fund with a price target of \$8.42, representing an upside of 40.8%.

Investment Thesis

- The Great Retirement.** Globally, financial wellness solutions have a TAM of roughly \$190 billion, with approximately 63 million self-directed investors in the United States as of 2020. While growth has been stimulated by Covid-19, baby boomers are the majority of MarketWise's customers (~51% paid subs). At approximately 10,000 individuals retiring in America every day, "The Great Retirement" proves to be a profitable tailwind for the company as over 5.5 million people are receiving Social Security benefits for the first time each year. Although baby boomers carry a significant amount of investible assets and have proven to seek investment education, MarketWise also recognizes the aging millennial generation as a significant opportunity for its future, seeing that 72% of millennials consider themselves self-directed investors. Over 10 million

new brokerage accounts were estimated to have opened in 2020, proving the market for self-directed investors is sizable and growing (17.1% paid sub CAGR through 2025).

- **Large and Proven Appetitive For Acquisitions.** Management has touted a “dramatic” increase in the number of inbound inquiries since the announcement of the company’s SPAC merger on March 2, 2021. With an excess of cash (34.7% total assets), a Capex-light business model, and a newly entered three-year \$150 million credit facility in Q3 2021, MarketWise has positioned itself as an advantaged acquirer heading into 2022. Over the past decade, the company has boasted a highly accretive track record of M&A activity. MarketWise has grown Tradesmith from \$1m to \$30m in annual billings since being acquired in 2013, Bonner & Partners from \$5m to \$110m from its 2014 acquisition, Casey Research from \$12m to \$25m (2015), InvestorPlace from \$28m to \$67m (2017), and most recently Chaikin Analytics in 2021. Following this track record of exceptional capital allocation coupled with the expertise of the Ascendant Digital Acquisition Corp, MarketWise is well-positioned to acquire and scale many new customers to newly established financial wellness solutions.
- **ADAC’s Depth and Expertise.** Ascendant Digital Acquisition Corp (ADAC) is led by CEO Mark Gerhard, who has been a significant leader in the video game industry for over a decade. Gerhard served as CEO and CTO at Jagex, the UK’s leading games developer best known as the makers of RuneScape, before joining PlayFusion as CEO and CTO. The value of ADAC’s team comes from their depth and expertise in data science, AI, and machine learning. Six of the seven team members each have decades of experience in consumer-facing businesses ranging from online retail to AI-based consumer software. Management has stated that ADAC’s focus on the “attention economy” has influenced the company to expand its team of data scientists and engineers. In its first public quarter, CEO Mark Arnold stressed the importance of being data driven and leveraging real-time feedback for campaign efficiency and using AI to improve MKTW’s efficacy.

Valuation

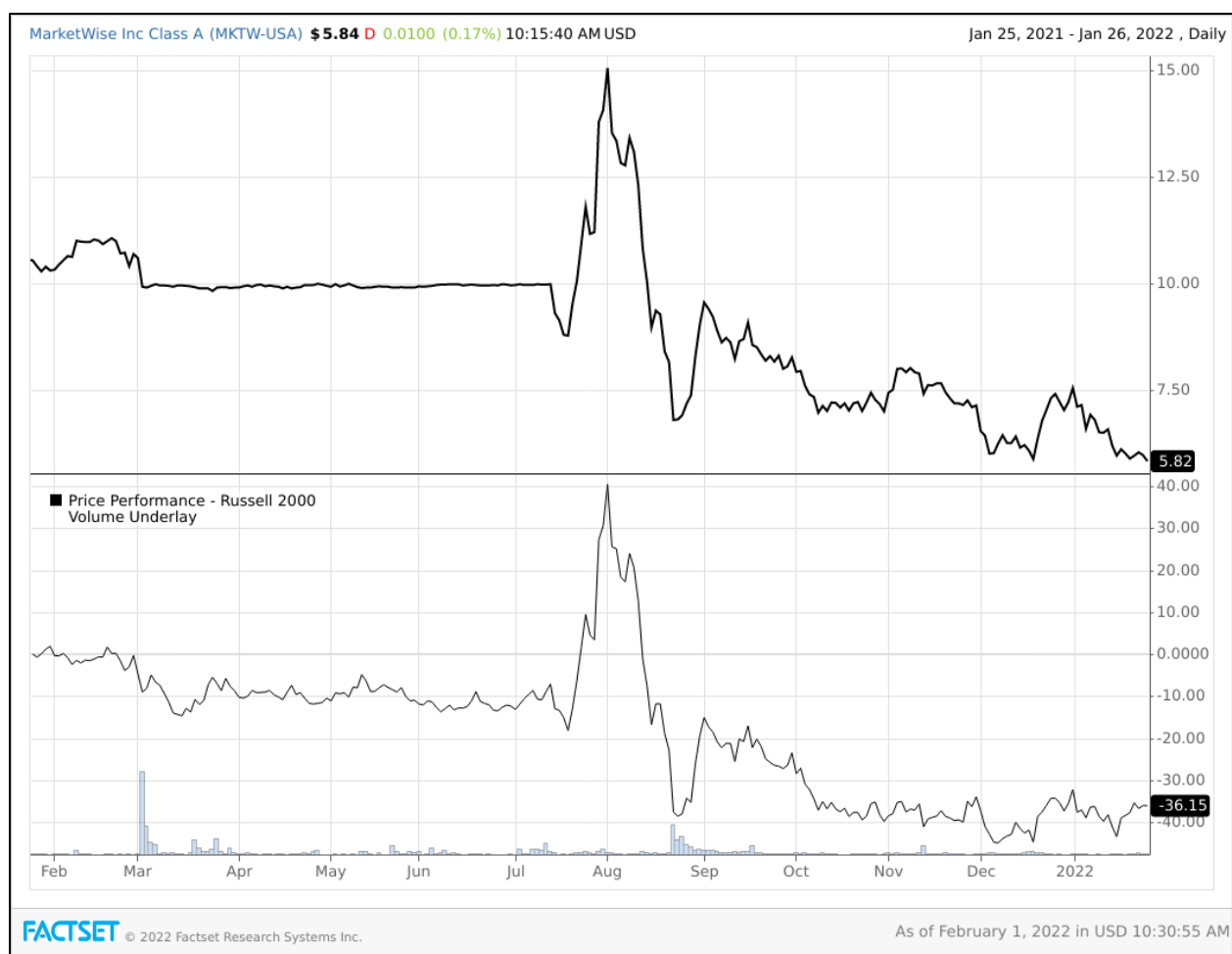
To reach an intrinsic value for MKTW, a 10-year DCF model was created. Using a terminal growth rate of 2.00%, a '21-'25 WACC of 11.93%, and a '26-'30 WACC of 9.50%, an intrinsic value of \$9.43 was reached. A sensitivity analysis of the terminal growth rate (+/- 25 bps) and WACC (+/- 50 bps) ranged from \$8.91 to \$10.03. Additionally, a 2021E Price / Operating Profit multiple was calculated using a weighted average peer multiple of 35.2x, resulting in a relative valuation of \$9.30. A 2021E P/E multiple was calculated using a weighted average peer multiple of 26.8x (excluding Tradeweb), resulting in a relative valuation of \$7.10. An EV/EBITDA multiple was calculated using a weighted average peer multiple 21.8x, resulting in a relative valuation of \$5.75. Finally, a 2021E 15x P/FCF multiple was calculated using an adjusted FCF/share forecast for 2021, resulting in a valuation of \$8.85. By weighing these models 40/15/15/15/15, a price target of \$8.42 was reached, representing a 40.8% upside. MKTW does not pay a dividend.

Risks

- **Liquidity Risk.** Past ~\$9.50/share, insiders (~94%) will begin to see benefits from liquidation. Neither the MKTW Members nor the Sponsor are restricted from selling their shares; sales of a substantial number could significantly reduce the company's market price.
- **Covid-19.** MKTW’s rapid billings growth might only be attributable to the unique circumstances provided by the pandemic, including excess government stimulus and stay-at-home orders.
- **Ad Rate Hikes.** CAC may increase as companies put money back into advertising channels that saw depressed ad rates following dramatic sales and marketing cost cutting during the pandemic.

Management

Mark Arnold was appointed CEO of MarketWise in 2017 after four years as Director of Business Development for MKTW’s premier brand, Stansberry Research. Dale Lynch was appointed CFO in December 2019 after serving more than six years as Farmer Mac’s EVP, CFO, and Treasurer.



Source: FactSet

Peer Valuation

Company	Ticker	Market Cap (Mil)	FY '21 P/CF	FY '21 P/OP	FY '21 P/E	FY '21 EV/EBITDA
MarketWise, Inc.	MKTW	\$1,831	8.5	24.0	20.0	20.6
FactSet Research Systems Inc	FDS	\$16,204	29.7	34.9	41.4	24.9
S&P Global	SPGI	\$102,220	22.8	27.1	36.3	20.7
Envestnet Inc	ENV	\$4,073	42.9	58.1	29.0	27.1
Tradeweb Markets Inc	TW	\$21,171	29.3	65.0	69.5	29.1
Activision Blizzard, Inc	ATVI	\$64,110	33.2	22.6	23.7	20.0
Ubisoft Entertainment	UBSFY	\$7,202	9.5	3.1	3.8	8.7
Peer Average			27.9	35.2	26.8*	21.8

*Excludes Tradeweb

Source: FactSet

Peer Fundamentals

Company	Ticker	Revenue (Mil)	ROIC (%)	ROE (%)	Gross Margin (%)	Op. Margin (%)
MarketWise, Inc.	MKTW	\$509	4.7%	5.3%	88.9%	28.1%
FactSet Research Systems Inc	FDS	\$1,628	26.7%	42.2%	66.3%	29.8%
S&P Global	SPGI	\$8,076	60.8%	323.7%	71.9%	51.5%
Envestnet Inc	ENV	\$1,131	8.2%	15.2%	69.4%	7.2%
Tradeweb Markets Inc	TW	\$1,033	8.3%	8.2%	-	29.5%
Activision Blizzard, Inc	ATVI	\$8,918	14.9%	18.4%	72.1%	35.0%
Ubisoft Entertainment	UBSFY	\$2,644	-	15.8%	85.4%	18.0%
Peer Average		\$3,905	23.8%	70.6%	73.0%	28.5%

Source: FactSet (TTM)