

Clear

Consumer Sentiment Survey Results

We surveyed 402 adults in the U.S. to determine the strength of the Clear brand, utilization trends, AmEx platinum benefit penetration, and overall consumer sentiment. Detailed survey results can be found [here](#). Overall we are incrementally constructive on better than expected Clear+ membership trends, high customer satisfaction rates, and complementary relationship relative to TSA Pre Check. Amex Platinum penetration rates were higher than expected underscoring very strong uptake over past year in win-backs, and potentially high percentage of overall sub growth LTM; potentially setting up tough comps for this year. On industry trends, TSA foot traffic data suggests that travel demand has fully recovered and is back to pre-pandemic levels while Clear app download data suggests moderating pace of downloads after strong LTM in Clear+ bookings, coupled with lapping Health Pass strength. On a separate note the firm announced a new partnership with LinkedIn to verify users, and we sense the path towards Platform monetization is improving, with possible upside to our conservative Platform estimates longer term. We are also updating our model slightly, as our opex estimates were on the conservative side near term. Maintain Neutral; price target goes to \$30.00.

- **Sample says high Clear+ membership rates for \$80k+ annual income demographic.** To skew towards business travel, we implemented a new annual income minimum of \$80k for our respondent set this year in addition to familiarity with the Clear+ brand, and within our sample of 402 respondents, we found that 393 were current Clear+ members. The sample indicates very high penetration rates of 94%, which came in much higher than expected. We also note that almost all of them were “win back” customers that re-initiated their memberships presumably following a pandemic related freeze in travel plans, implying recoveries in travel demand.
- **Customers are happy, a positive sign for retention.** When we conducted the first iteration of this survey in April 2022, we saw that 91% of members planned to renew their Clear+ membership, 90% of respondents were satisfied with service, 85% of respondents were satisfied with pricing, and 58% had cyber-security concerns. This year, 98% of respondents were moderately or very satisfied with service, 98% of respondents were moderately or very satisfied with pricing, and 65% had cyber-security concerns. We see positive trends in satisfaction with the service and pricing, the benefits of which may flow through as low attrition rates. Though security has become a larger concern, we also note that out of our total respondent set of 402, 400 said that they would sign up for facial recognition at the airport security gate, if offered.
- **AmEx platinum penetration higher than expected.** When we conducted the first iteration of this survey in April 2022, we had a cohort of 101 current Clear+ members, out of which 62% were using AmEx Platinum credit card benefits to pay for Clear+ while 22% were AmEx Platinum card users that were not using it to pay for their Clear+ membership. When we conducted the survey this

Neutral

YOU, YOU US

Price (17 Apr 23):\$26.66

▼ Price Target (Dec-23):\$30.00

Prior (Dec-23):\$33.00

Applied and Emerging Technologies

Paul J Chung ^{AC}

(1-212) 622-5552

paul.j.chung@jpmorgan.com

Bloomberg JPMA CHUNGP <GO>

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Key Changes (FYE Dec)

	Prev	Cur
Adj. EPS - 23E (\$)	0.56	0.48

Quarterly Forecasts (FYE Dec)

Adj. EPS (\$)	2022A	2023E	2024E
Q1	(0.04)	0.06	0.16
Q2	(0.00)	0.09	0.18
Q3	0.05	0.15	0.24
Q4	0.14	0.18	0.26
FY	0.16	0.48	0.83

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top)			
		6M	1Y	3Y	5Y
Value	74	77	86		
Growth	6	14	87		
Momentum	6	3	71		
Quality	78	78	75	78	97
Low Vol	75	87	92		

Sources for: Style Exposure – J.P. Morgan Quantitative and Derivatives Strategy; all other tables are company data and J.P. Morgan estimates.

See page 11 for analyst certification and important disclosures.

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Paul J Chung
(1-212) 622-5552
paul.j.chung@jpmorgan.com

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18 April 2023

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Price Performance



	YTD	1m	3m	12m
Abs	-2.8%	8.6%	-13.1%	-6.2%
Rel	-10.9%	2.6%	-17.1%	-0.8%

Company Data

Shares O/S (mn)	151
52-week range (\$)	35.00-18.79
Market cap (\$ mn)	4,028.34
Exchange rate	1.00
Free float(%)	95.9%
3M - Avg daily vol (mn)	1.37
3M - Avg daily val (\$ mn)	38.0
Volatility (90 Day)	52
Index	S&P 500
BBG BUY HOLD SELL	2 3 0

Key Metrics (FYE Dec)

\$ in millions	FY22A	FY23E	FY24E	FY25E
Financial Estimates				
Revenue	437	571	653	731
Adj. EBIT	14	56	102	144
Adj. EBITDA	33	77	126	171
Adj. net income	24	74	130	145
Adj. EPS	0.16	0.48	0.83	0.92
BBG EPS	0.07	0.37	0.57	0.85
Cashflow from operations	168	154	192	263
FCFF	137	123	159	227
Margins and Growth				
Revenue growth	72.3%	30.5%	14.5%	11.8%
EBIT margin	3.3%	9.8%	15.6%	19.6%
EBIT growth	(122.5%)	290.3%	82.4%	41.2%
EBITDA margin	7.7%	13.5%	19.4%	23.4%
EBITDA growth	(165.4%)	130.8%	63.7%	35.4%
Net margin	5.5%	12.9%	19.9%	19.9%
Adj. EPS growth	(137.3%)	200.7%	74.7%	10.5%
Ratios				
Adj. tax rate	8.0%	0.7%	2.0%	20.0%
Interest cover	NM	NM	NM	NM
Net debt/Equity	NM	NM	NM	NM
Net debt/EBITDA	NM	NM	NM	NM
ROE	8.4%	22.5%	30.2%	25.2%
Valuation				
FCFF yield	3.4%	3.0%	3.8%	5.4%
Dividend yield	-	-	-	-
EV/Revenue	10.4	7.8	6.5	5.5
EV/EBITDA	136.4	57.4	33.8	23.7
Adj. P/E	167.9	55.8	32.0	28.9

Summary Investment Thesis and Valuation

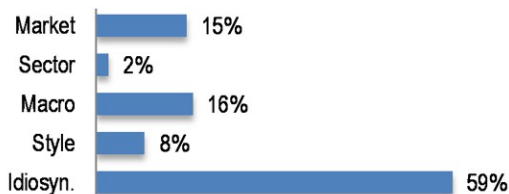
Investment Thesis

YOU is trading at elevated earnings multiples, which reflects the firm's tremendous growth prospects, potential ramp in operating leverage, clean balance sheet (\$704mm in net cash/no debt or \$4.60 net cash per share) as well as the unique differentiated nature of the business. We think many investors will be looking further out on more normalized EBITDA margins, to the future to determine the fair value of this stock. Note on an EV/Sales basis the stock is trading at ~6.3x our 23 sales, which is premium to other consumer subscription peers. We expect YOU to perform inline with our coverage universe over the next 6-12 months.

Valuation

Our revised Dec 2023 price target of \$30, prev. \$33, is based on an assigned 2026 EV/EBITDA multiple of 22x, or around ~6x sales, discounted back two years at ~11%, which computes to a pegged fair value of \$30 per share based on a ~157million share count. The forward EV/EBITDA multiple of 22x is a premium to other consumer subscription peers and reflects the relative strength in top line, pace of operating leverage and better than expected FCF growth.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.55	0.50
Sect: Technology	-0.06	0.14
Ind: Software & Serv	-0.10	0.15
Macro:		
Credit Spread	-0.39	-0.18
US Dollar	0.21	0.13
Economic Surprise	0.00	0.13
Quant Styles:		
Size	-0.28	-0.28
Quality	-0.29	-0.23
Growth	0.03	0.17

Source: J.P. Morgan Quantitative and Derivatives Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

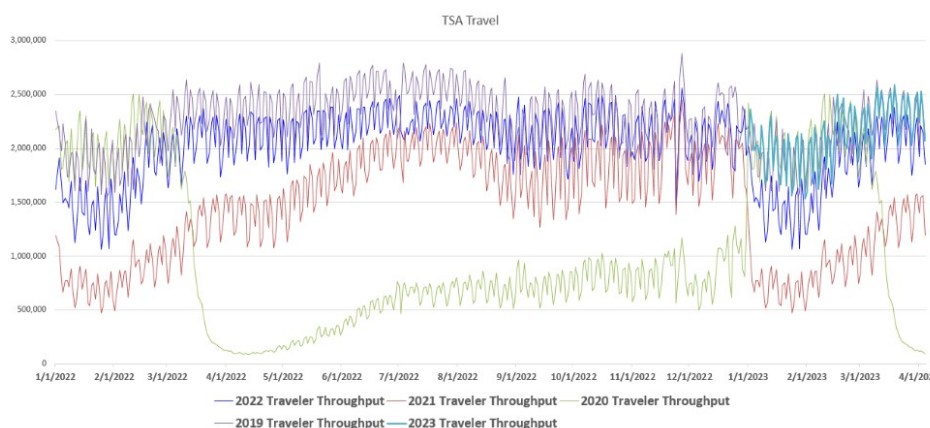
year, we had a cohort of 393 current Clear+ members, out of which all except one was an AmEx Platinum member and only 15 were not using their credit card benefits for their membership. Although we suspect that the sample skews towards the higher end this year (given income minimum), the survey data supports that a large driver of Clear + sub growth was driven by Amex platinum benefits over past year as most expected. Note from the 10K the firm is now reporting in Airport channel (66% of sub growth) vs. Online channel (34%) in which the latter includes Amex/reward partners which would imply around 982K sub growth over past 2 years from online channel.

- **Complementary relationship with other travel memberships.** Out of 393 respondents that had Clear memberships, 93% also had TSA Pre-Check and 36% also had Global Entry. Out of 391 respondents that had additional paid travel memberships, 81% had these memberships before signing up for Clear+ and 19% signed up after enrolling for Clear+. We see Clear+ as complementary to other travel memberships rather than substitution, potential benefit as Clear launches TSA Pre-Check enrollment and bundling opportunities.
- **A slow but steady travel recovery.** Out of 402 respondents, almost all plan to travel by air this year and 38% plan to travel 3-5 times. In our prior survey completed in April 2022, out of 322 respondents, 37 did not plan to travel in the next 12 months (11%), 55% expected to travel 1-2 times, and 25% expected to travel 3-5 times. We see a larger proportion of our sample anticipating travel in the next 12 months, improving the Clear+ value proposition.
- **Ambassadors spreading Clear+ awareness.** Out of 402 respondents that were familiar with Clear, most learned about it from a Clear Ambassador (40%). In our prior survey completed in April 2022, out of 322 respondents that were familiar with Clear, most learned about it via friends and family (30%) or via internet (27%). We note that only 14% had learned about it from a Clear Ambassador. This indicates more successful marketing efforts via brand ambassadors over the past year.
- **HealthPass support for membership conversion.** Out of the 130 respondents that had used HealthPass, 129 said that it helped them learn more about the Clear+ membership and 129 said that they signed up for Clear+ following a positive experience using HealthPass, denoting a ~99% conversion of HealthPass users to Clear+ memberships in our sample.
- **Platform gets a boost from LinkedIn partnership.** Clear announced this month, LinkedIn's ~200mm U.S. based members have the option to verify their identity with CLEAR for free, to enhance digital safety and trust. We think the partnership provides an avenue to upsell to Clear+ as a customer acquisition tool, but could also drive upside to our Platform estimates as other apps look to enhance identity verification and eliminate bots. We leave our Platform estimates unchanged and look for incremental data on monetization.

Travel Industry Data

TSA foot traffic data suggests a return to normalcy. Foot traffic in 1Q23 was ~190mm, down 4% sequentially from ~198mm in 4Q22, though up 19% y/y from 1Q22 and flattish compared to pre-pandemic 1Q19 levels. This suggests travel demand has mostly normalized and we can expect minimal pandemic related impacts.

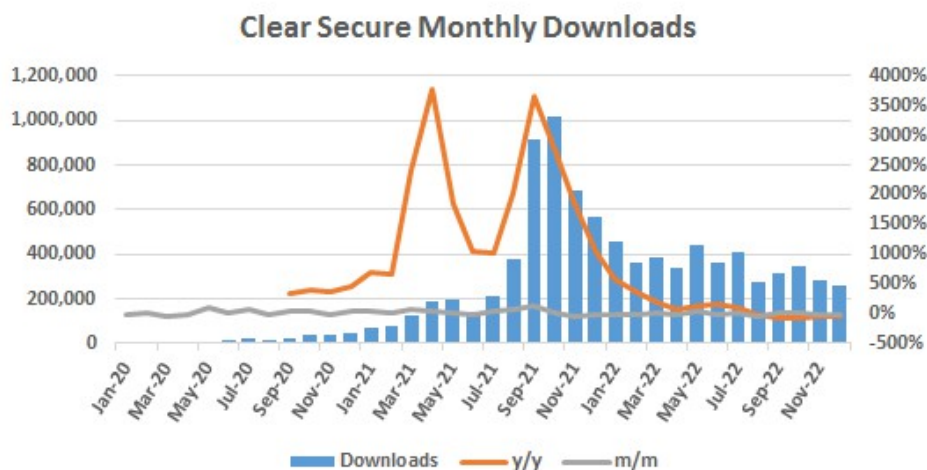
Figure 1: TSA Foot Traffic



Source: TSA

Clear app downloads saw a spike in March. App download data from Apptopia highlights a slow decline in pace of downloads through 1Q with a spike in March. Compared to downloads since January 2020, we see that new downloads are relatively depressed, potentially indicating that travel recovery tailwinds are behind us and growth going forward may be more moderate. Monthly average users have also seen a steady decline since 4Q21.

Figure 2: Clear App Downloads



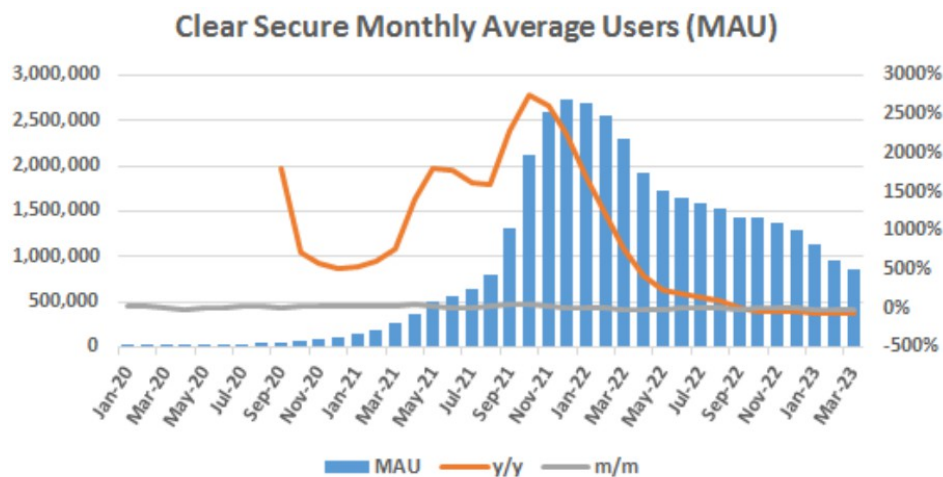
Source: Apptopia

Paul J Chung
(1-212) 622-5552
paul.j.chung@jpmorgan.com

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Figure 3: MAU



Source: Apptopia

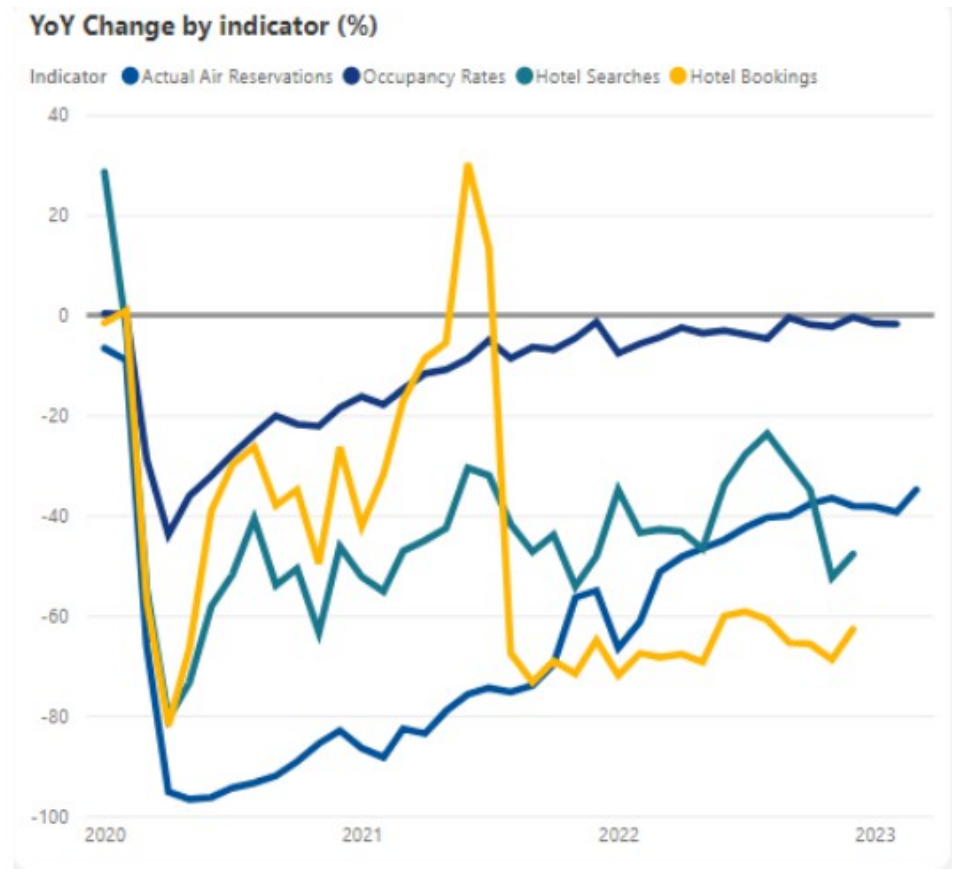
Overall North America travel recovery may still have some room to grow. Data compiled by the United Nations World Tourism Organization (UNWTO) suggests that while occupancy rates are back to pre-pandemic levels, actual air reservations remain muted (down -37% from 2019 levels) and there are fewer than half as many hotel bookings vs 2019 levels. We think that there may still be some tailwinds to come as airlines increase their number of flights and expand occupancy.

Paul J Chung
(1-212) 622-5552
paul.j.chung@jpmorgan.com

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Figure 4: North America Travel Indicators vs. 2019 Levels

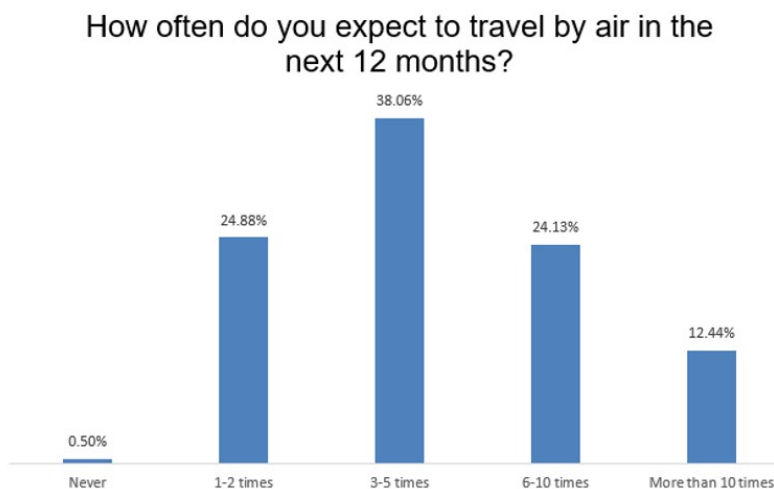


Source: UNWTO

Key Slides Preview: Full Slides ([Link](#))

Figure 5: Expected Travel trends

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- In our prior survey completed in April 2022, out of 322 respondents, 37 did not plan to travel in the next 12 months (11%), 55% expected to travel 1-2 times, and 25% expected to travel 3-5 times.



Source: J.P. Morgan

Figure 6: Complementary Service

- Out of 393 respondents that had Clear memberships, 93% also had TSA Pre-Check and 36% also had Global Entry.



Source: J.P. Morgan

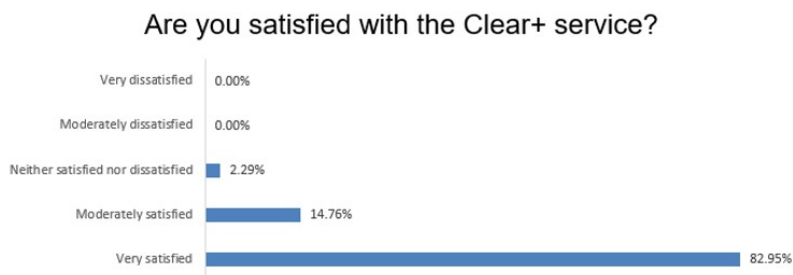
Paul J Chung
(1-212) 622-5552
paul.j.chung@jpmorgan.com

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Figure 7: Customer Satisfaction

- Out of 393 current Clear+ members, all except one respondent plans to renew membership
 - 98% of respondents were moderately or very satisfied with service
 - 98% of respondents were moderately or very satisfied with pricing
 - 65% had cybersecurity concerns
- In our prior survey completed in April 2022:
 - 91% planned to renew membership
 - 90% of respondents were satisfied with service
 - 85% of respondents were satisfied with pricing
 - 58% had cybersecurity concerns

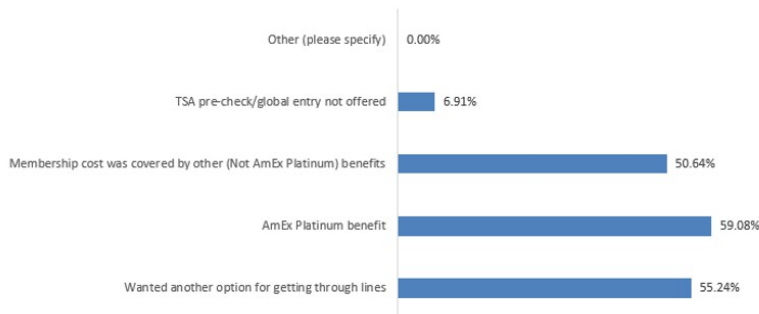


Source: J.P. Morgan

Figure 8: Clear + Subscription Reasons

- Out of 391 respondents that had additional paid travel memberships, 81% had these memberships before signing up for Clear+ and 19% signed up after enrolling for Clear+.
- 59% of customers signed up for Clear+ as an additional travel benefit due to AmEx platinum benefits.

Why did you sign up for Clear+ in addition to your additional travel membership(s)? Check all that apply.



Source: J.P. Morgan

Clear (Neutral; Price Target: \$30.00)

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Risks to Rating and Price Target

We could become more constructive regarding YOU for any of the following reasons:

Platform sales accelerate faster than expected. Use cases for health pass adoption increases driven by enterprise demand for vaccination requirements

TSA pre-enrollments and re-enrollments accelerate faster than expected, and CLEAR takes more market share

Clear Plus subs see better than expected bookings growth on increase in travelling

Clear expands internationally and adds more airports domestically faster than expected

We could become less constructive regarding YOU for any of the following reasons:

Competition could emerge, though at present none offers the full lifecycle solution of CLEAR. Clear's main competition are the many incumbent federal, state, and enterprise solutions based on ID cards. Idemia and Telos were awarded TSA PreCheck contracts, alongside CLEAR, but they lack airport presence of the same reach. Credit card companies and mobile phone solutions can be used to authenticate identity to some extent, but they currently lack the physical infrastructure, enrollment process, and independently-authenticated biometric information needed for the access services that CLEAR is focused on.

CLEAR's brand and operations could be significantly harmed by a security breach, by a cyberattack, or by misuse of members' private information.

CLEAR operates in a regulated environment and is subject to federal, state, and other rules and regulations. The firm's ability to operate might be severely constrained by a change in regulations.

Apple Wallet on the iPhone that supports digital ID could present increasing competition challenges across airports and venues

Paul J Chung
(1-212) 622-5552
paul.j.chung@jpmorgan.com

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Clear: Summary of Financials

Income Statement - Annual						Income Statement - Quarterly					
	FY21A	FY22A	FY23E	FY24E	FY25E		1Q23E	2Q23E	3Q23E	4Q23E	
Revenue	254	437	571	653	731	Revenue	130	136	149	156	
COGS	(37)	(56)	(83)	(96)	(108)	COGS	(19)	(20)	(22)	(23)	
Gross profit	-	-	-	-	-	Gross profit	-	-	-	-	
SG&A	(272)	(425)	(387)	(407)	(428)	SG&A	(92)	(95)	(98)	(103)	
Adj. EBITDA	(51)	33	77	126	171	Adj. EBITDA	12	15	21	29	
D&A	(12)	(16)	(22)	(25)	(28)	D&A	(6)	(6)	(3)	(6)	
Adj. EBIT	(64)	14	56	102	144	Adj. EBIT	6	9	19	23	
Net Interest	0	12	18	31	38	Net Interest	4	4	5	5	
Adj. PBT	(64)	26	74	133	181	Adj. PBT	10	13	23	28	
Tax	(0)	2	(1)	(1)	(22)	Tax	(1)	0	0	0	
Minority Interest	-	-	-	-	-	Minority Interest	-	-	-	-	
Adj. Net Income	(64)	24	74	130	145	Adj. Net Income	10	13	23	28	
Reported EPS	(0.77)	(0.77)	0.09	0.43	0.57	Reported EPS	(0.03)	0.00	0.07	0.05	
Adj. EPS	(0.43)	0.16	0.48	0.83	0.92	Adj. EPS	0.06	0.09	0.15	0.18	
DPS	-	-	-	-	-	DPS	-	-	-	-	
Payout ratio	-	-	-	-	-	Payout ratio	-	-	-	-	
Shares outstanding	150	151	154	156	157	Shares outstanding	154	154	154	155	
Balance Sheet & Cash Flow Statement						Ratio Analysis					
	FY21A	FY22A	FY23E	FY24E	FY25E		FY21A	FY22A	FY23E	FY24E	FY25E
Cash and cash equivalents	280	39	169	328	555	Gross margin	-	-	-	-	-
Accounts receivable	5	1	1	2	2	EBITDA margin	(20.2%)	7.7%	13.5%	19.4%	23.4%
Inventories	0	0	0	0	0	EBIT margin	(25.0%)	3.3%	9.8%	15.6%	19.6%
Other current assets	368	701	728	783	831	Net profit margin	(25.1%)	5.5%	12.9%	19.9%	19.9%
Current assets	653	742	898	1,113	1,388	ROE	(162.2%)	8.4%	22.5%	30.2%	25.2%
PP&E	45	58	68	76	85	ROA	(12.2%)	2.6%	6.6%	9.9%	9.3%
LT investments	-	-	-	-	-	ROCE	(162.2%)	4.6%	16.9%	23.2%	20.0%
Other non current assets	115	238	238	238	238	SG&A/Sales	107.1%	97.1%	67.8%	62.3%	58.6%
Total assets	813	1,038	1,204	1,426	1,710	Net debt/equity	NM	NM	NM	NM	NM
Short term borrowings	0	0	0	0	0	P/E (x)	NM	167.9	55.8	32.0	28.9
Payables	9	8	9	8	9	P/BV (x)	-	-	-	-	-
Other short term liabilities	256	390	481	573	697	EV/EBITDA (x)	NM	136.4	57.4	33.8	23.7
Current liabilities	265	397	490	581	706	Dividend Yield	-	-	-	-	-
Long-term debt	0	0	0	0	0	Sales/Assets (x)	0.5	0.5	0.5	0.5	0.5
Other long term liabilities	9	129	129	129	129	Interest cover (x)	-	NM	NM	NM	NM
Total liabilities	273	527	619	710	835	Operating leverage	(2764.2%)	(169.4%)	951.6%	569.4%	349.3%
Shareholders' equity	278	291	365	496	655	Revenue y/y Growth	10.0%	72.3%	30.5%	14.5%	11.8%
Minority interests	262	220	220	220	220	EBITDA y/y Growth	(212.9%)	(165.4%)	130.8%	63.7%	35.4%
Total liabilities & equity	813	1,038	1,204	1,426	1,710	Tax rate	(0.3%)	8.0%	0.7%	2.0%	20.0%
BVPS	-	-	-	-	-	Adj. Net Income y/y Growth	(240.0%)	(137.5%)	208.2%	76.5%	11.6%
y/y Growth	-	-	-	-	-	EPS y/y Growth	(242.2%)	(137.3%)	200.7%	74.7%	10.5%
Net debt/(cash)	(280)	(39)	(169)	(328)	(555)	DPS y/y Growth	-	-	-	-	-
Cash flow from operating activities	70	168	154	192	263						
o/w Depreciation & amortization	12	16	22	25	28						
o/w Changes in working capital	118	124	59	36	77						
Cash flow from investing activities	(403)	(360)	(31)	(33)	(37)						
o/w Capital expenditure	(28)	(31)	(31)	(33)	(37)						
as % of sales	11.1%	7.2%	5.5%	5.0%	5.0%						
Cash flow from financing activities	503	(49)	0	0	0						
o/w Dividends paid	-	-	-	-	-						
o/w Net debt issued/(repaid)	-	-	-	-	-						
Net change in cash	170	(240)	123	159	227						
Adj. Free cash flow to firm	42	137	123	159	227						
y/y Growth	(244.2%)	229.5%	(10.3%)	29.7%	42.4%						

Source: Company reports and J.P. Morgan estimates.

Note: \$ in millions (except per-share data). Fiscal year ends Dec. o/w - out of which

Paul J Chung
(1-212) 622-5552
paul.j.chung@jpmorgan.com

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- **Potential Investment Banking Compensation:** J.P. Morgan expects to receive, or intends to seek, compensation for investment banking services in the next three months from Clear.
- **Non-Investment Banking Compensation Received:** J.P. Morgan has received compensation in the past 12 months for products or services other than investment banking from Clear.
- **Debt Position:** J.P. Morgan may hold a position in the debt securities of Clear, if any.

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Clear (YOU, YOU US) Price Chart



Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jul 26, 2021. All share prices are as of market close on the previous business day.

The chart(s) show J.P. Morgan's continuing coverage of the stocks; the current analysts may or may not have covered it over the entire period.
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