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Immersion Investment Partners, LP
Q2 2021 Partners Letter
July 2021

Dear Partners,

As we commence our inaugural letter, we wish to thank you for entrusting us to manage your investment capital. With most of our liquid net worth invested in the fund, please know our interests, and the interests of our families, are aligned with yours.

We want this letter to serve as a guidepost and reference as to what Immersion is doing on a daily, weekly, monthly, and yearly basis. This letter conveys our beliefs, goals, and a framework for what we look for in an investment. We anticipate, but do not promise, that future letters will be shorter. You may notice an absence of macroeconomic discussion – this is intentional. We have found through our years of investing that macro analysis is almost always negative. The nicest way to describe macro analysts is to call them "not optimistic", and there is little to no edge in data that is easily available to everyone. We are much more concerned with the fundamentals of individual businesses, the management teams that run those businesses, and how those businesses and teams are executing on their goals through any macro environment.

Please note that we do not intend to disclose every position in the partnership. We view the portfolio (the research and positions) as intellectual property and while we very much appreciate you discussing our fund, we do not want to commoditize ourselves by having all of the names in the fund publicly listed. *Limited Partners are welcome to inquire about our positions via phone or email.*

Immersion Guiding Principals

1. Long term thinking.
    a. The average holding period of an NYSE stock today is just one year. Our competition is very short-term oriented, and as such, they focus on short term results which affords us buying opportunities as they discard excellent businesses at exactly the wrong time.
    b. Executing on a strategic initiative is time consuming. Investor impatience leads to overly-discounted stock prices for businesses that may ultimately generate significant earnings growth in the future.
    c. Unnecessary trading increases costs and reduces returns.
    d. Outcome: We will analyze investments through a three-to-five year window, which will have the dual benefit of minimizing trading and tax costs and maximizing returns.
2. Smaller is better.

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   a. Investing in high-quality, small, publicly-traded companies can lead to life-changing returns. These smaller businesses tend to have nimble, entrepreneurial management teams unencumbered by the bureaucracy of large organizations. Due to their size, they tend to have a better opportunity to grow the business at an accelerated rate for a long period of time. Additionally, these high-quality businesses tend to attract the attention of strategic and financial buyers, which can create value for shareholders.
   b. Intentionally capping capital contributions into the partnership allows us to deploy assets into our best ideas, regardless of size, without owning an entire company.
   c. Outcome: We limit ourselves to companies trading for less than a $5 billion market capitalization and pay extra special attention to companies without investment banking coverage and which are excluded from major market indices.
3. Think like a business owner.
   a. Develop a firm understanding of businesses and the industries in which they operate.
   b. Outcome: The companies held in the partnership are businesses that we would buy outright if they were private companies. They exhibit traits correlated to strong returns for equity holders – growth, profitability, and are competitively advantaged.
4. Prudent concentration maximizes returns.
   a. An overly-diversified portfolio is a byproduct of poor incentives, poor conviction, and shoddy due diligence. Extensive due diligence allows us to confidently allocate significant amounts of capital to our best ideas and hold that conviction through normal market volatility.
   b. We are not closet indexers, and do not subscribe to the asset gathering mantra of "more is better". Rather than invest a little in everything, we invest a lot in a little. Academic study has shown that 90% of diversification benefits can be achieved from portfolios with fewer than 20 stocks.
   c. Outcome: We will limit the total number of holdings to 20 names.
5. Don't anchor.
   a. Always evaluate the business and its stock price relative to the outlook for future performance. A stock at $40 may be cheaper than when it was at $5 and a stock at $5 may be more expensive than when it was at $40.
   b. Stock price analysis without understanding developments in the underlying business is useless.
   c. Outcome: Price movement will not determine whether we buy or sell.
6. Weigh returns relative to risk.
   a. Significant return potential does not necessarily correlate to good outcomes for our partners. A thorough analysis of downside risk needs to be factored into potential investments and position sizing.

   b. Outcome: Our largest positions will not necessarily be the ones where we see the most upside but rather where we see significant upside *and* a low likelihood of a negative outcome.
7. Management is the driver of performance
   a. Knowing management, including incentives, temperament, career history, and personal lives informs us of their competence and character and will dictate how a company performs.
   b. A great management team can elevate a mediocre product or service to wonderful results, but a mediocre management team can destroy a great product or service with disastrous results.
   c. Outcome: Knowing management and their motivations, strengths, and weaknesses will allow us to make better investment decisions.

These maxims are foundational to our process, but as the investment landscape evolves, so will our guidelines. Any good investor or business operator has conviction in their beliefs, but conviction can quickly turn into stubbornness, which translates into poor returns. What good is a foundation if the ground underneath it cracks or shifts?

Immersion's Goal

To generate significant returns. In our view, there are two primary ways by which to accomplish this task: growth and multiple re-rating. Dividends are a peripheral concern for us and we do not view them as a significant source of return. This is a topic of discussion that deserves an entire letter by itself.

1. Growth in the underlying business.
   a. Growth is the number one driver of returns. We will generate significant returns over time by selecting good companies with strong growth potential and purchasing them for the right price.
2. Other investors assigning a higher value for each dollar of earnings.
   a. Also known as a "multiple re-rating". Over time as a company executes and grows larger, gaining the attention of large institutional investors and investment banking analysts, new investors are willing to assign a higher share price per dollar of earnings. This generally occurs because of market mechanics (more liquidity, index inclusion, etc.) and there is a perceived better understanding and higher degree of certainty in the business.

Each of these factors helps us achieve high returns. For example, a business can grow earnings 20%/year and the multiple can remain stagnant. Alternatively, a low or no-growth business trading at 15x earnings can re-rate to 30x earnings if the market anticipates a value-unlocking event or a change in the fundamentals of the business. If we had to choose one of these over the other, we would choose #1. A good business can sustain significant earnings growth for years, even decades; however, a stock's earnings multiple cannot increase indefinitely.

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A combination of #1 and #2 is the optimal outcome and can supercharge returns. A company growing earnings 20%/year that re-rates from 15x earnings to 30x earnings over five years results in a 5x increase in the stock price, yielding a 38% annualized rate of return.

Ultimately, we are looking for multiple ways to win – continued growth, more analyst coverage, uplisting to a larger exchange, value unlock through an acquisition or spin out, etc.

How do we get a high-quality, growing business at a price where the stock could re-rate higher or a long-term wealth compounder at a Ben Graham price?

We do believe the market is generally efficient, and as such, we look for stocks that are mispriced due to a misclassification, misunderstanding, and/or structural flaw in the markets. Accordingly, we view our stocks as falling into one (or more) of the following five investment buckets….

Ideal Immersion Setup (IIS)

1. **The Underdog**

   The Underdog is overlooked and underappreciated by most investors. Generally, there are surface level reasons for being dismissed, which are transitory and serve as an impediment to ownership. For example, The Underdog is too small for many institutional investors to even consider and/or does not belong to a major market index such as the Russell 2000. This generally correlates to thin or no analyst coverage and little-to-no institutional ownership. Ultimately, this issue is corrected through a combination of continued growth, improved liquidity, and/or increased analyst coverage.

2. **The Babushka Doll**

   The Babushka Doll has a hidden asset (or assets) inside of it that could be worth significantly more than the value being assigned to it by the market. The typical Babushka Doll takes the form of a large, legacy, no-growth business presently dominating the financials on the outside, but it contains a small, scrappy, subsidiary growing rapidly on the inside. Babushka Dolls are often overlooked investment opportunities because they do not screen well on surface level quantitative statistics of growth and/or profitability. Aligning ourselves with a management team willing to dedicate resources towards unlocking the value of the "hidden asset" can generate significant returns.

3. **The Social Pariah**

   The Social Pariah is perceived to be a toxic asset by investors because the business is either misunderstood and/or suffering from transitory issues. Often The Social Pariah is labelled toxic for good reason but a change in that perception, due to better performance, management turnover, etc. can result in significant stock price appreciation.

4. **The Ugly Duckling**

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The Ugly Duckling is a fundamentally good business which is not readily apparent in the financials due to significant investments in people and capital, which are masking underlying profitability. The Ugly Duckling is usually a sub-scale business early in its lifespan and growing rapidly. Over time, as the business grows up, investors will come to appreciate The Ugly Duckling and afford it a higher value per dollar of earnings. The Ugly Duckling, of course, turns into the swan.

5. **The Doubted Champion**

   The Doubted Champion is a simple but effective investment. This type of business is one that is growing rapidly and exhibits strong financial characteristics (margins, returns on capital, etc.) but the market does not expect its performance to sustain. In other words, its further growth may be overly discounted. If we can correctly identify a Doubted Champion, we will be handsomely rewarded when the market realizes that the business can continue growing at an accelerated rate for far longer than originally anticipated.

A stock that falls into one of these five buckets can only be found by creatively sourcing ideas and performing extensive due diligence. Almost by definition, you cannot use a quantitative stock screening tool to find an IIS and we do not believe that simple quantitative screens are an intelligent or sustainable way to generate returns. Data has become commoditized, and it is simply not sufficient to run a screen and spit out a list of companies to buy. To uncover multi-year compounders, you have to piece together the information yourself, both the quantitative aspects of the business and qualitative factors that indicate future outperformance.

Portfolio Update

At the end of June, the partnership held 11 names, with the top five positions making up 83% of market value. Subsequent to the end of the quarter, we began purchasing a sub-$100 million market cap Ugly Duckling investment. We will begin to disclose performance starting with our 3rd quarter letter. Limited Partners invested in the fund as of June 1 will receive performance with their quarterly statement.

We sold out of one position during the quarter – At Home Group (HOME). At Home was the subject of a takeover offer by private equity firm Hellman & Friedman (H&F), who agreed to acquire the company for $36 per share (later raised to $37). We believed that the deal underpriced At Home on both current and future operating results. Shortly after initiating our position, H&F changed the process from a shareholder vote to a tender offer, drastically increasing the chances that H&F would succeed. We believed that there was still some hope, given that two of the largest shareholders (value-oriented hedge funds) cumulatively owned nearly 24% of the company. We decided to draft a letter and presentation that would be distributed to the broad investing public. Shortly before publishing these materials, one of the two large shareholders sold their entire stake representing nearly 7% of the company. With such a large shareholder out of the picture, we felt that we no longer had the numbers to defeat the tender offer presented and sold out of our position. By the initial tender deadline on July 20th, 57% of shares were tendered and the

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acquisition was consummated on the 23rd. Debating the merits of the transaction at this point are fruitless but we wanted to share with you our unpublished presentation to give you further insight into the work being done at II.

Holding	IIS	Weight (%)
Basic-Fit	Ugly Duckling	31%
Branded collectibles	Social Pariah	15%
Telecom & Fintech	Babushka Doll	14%
eDreams ODIGEO	Ugly Duckling	13%
Entertainment	Underdog	10%
Housing	Underdog	6%
Undisclosed	Doubted Champion	3%
Restaurant software	Ugly Duckling	3%
Energy beverages	Doubted Champion	2%
Undisclosed	Social Pariah	2%
Cash	N/A	1%

As of June 30, 2021

Below you'll find our research on Basic-Fit, eDreams ODIGEO, and At Home.

We look forward to many letters to come!

Sincerely,

David Polansky

Tim Delaney

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Basic-Fit (BFIT.AS)

Basic-Fit is the largest fitness company in Europe, operating a chain of low-cost fitness clubs across the Netherlands, Belgium, Luxembourg, France, and Spain. The typical Basic-Fit gym is mid-size format (<2,000 sq. meters), no frills, and cost 20 euro/month (15/month in Spain). Members can exercise at any Basic-Fit gym of their choosing (many of which are 24/7) at any time and have access to the Basic-Fit app, which includes training programs, virtual group lessons, nutritional programs, and a personal trainer finder.

At the end of June, Basic-Fit served just over 2 million members across 973 locations. The company aspires to reach 5 million people by 2025 and believes its existing geographies can support 2,000 Basic-Fit locations.

Basic-Fit is managed by former professional tennis player and entrepreneur, Rene Moos. After retiring from tennis, Moos founded and operated several fitness facilities, which became HealthCity in 2004 through a merger. In 2010, HealthCity acquired the Basic-Fit brand (32 locations at the time) and separated the two businesses shortly thereafter in 2013. Basic-Fit went public in 2016 on the Amsterdam Euronext exchange. Moos owns approximately 16% of the company worth 380 million euro at the current market capitalization. We expect that this makes up the vast majority of his net worth and closely aligns him with shareholders.

Industry

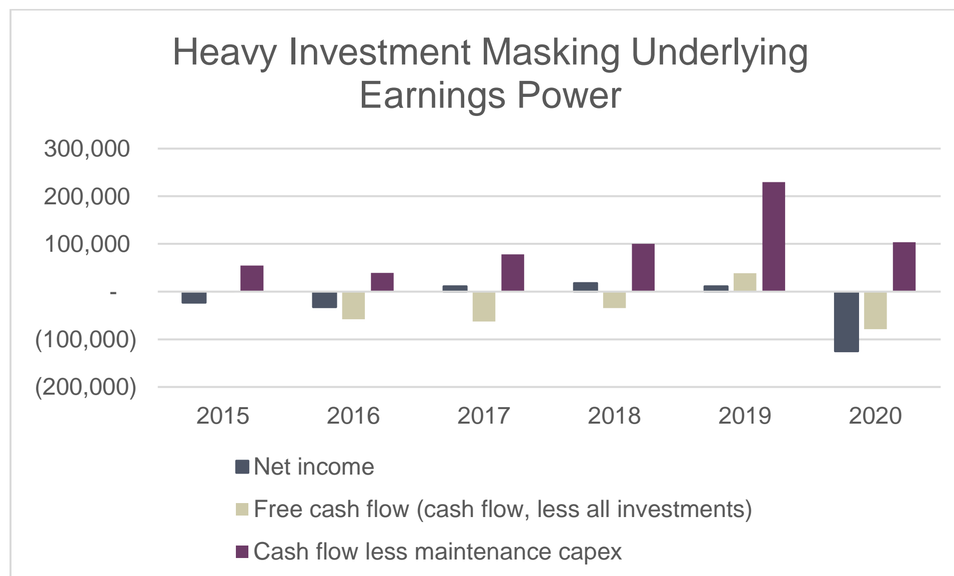
Pre-COVID, the fitness club industry in Europe was a mid-single digit grower, with particularly rapid growth in the low-cost budget end of the market that Basic-Fit serves. Although Basic-Fit is the largest operator in Europe it commands less than 2% revenue share of the market and 8% unit share in its core geographies, highlighting the industry's significant fragmentation. At the end of 2019, the top 30 operators generated just over a quarter of the industry's revenue. However, this figure has slowly moved up over the last several years, with the share of the top 30 operators moving from 21% in 2015 to 26.5% in 2019. Additionally, average member fees per month have been trending down from 42 euro in 2015 to 38 euro in 2019. We attribute this to an increasing mix of budget fitness centers, which have been gaining in popularity relative to high-end concepts.

There is ample whitespace for continued growth in the European fitness industry. The percentage of Europeans with a gym membership has steadily grown since 2015 but is still only 8% of the population, whereas 20% of the United States population belongs to a gym. Gym membership penetration in Basic-Fit's core geographies is 14%, on average. If these geographies close the gap relative to the U.S., which we believe is occurring, we estimate that Basic-Fit can double its membership count.

Why is this stock mispriced?

Basic-Fit is a growth company trading at a value price. Our opportunity to invest in this terrific, owner-operated business at a discount stems from two dynamics (1.) COVID-19's impact on fitness clubs within Europe and (2.) significant reinvestment masking strong unit-level economics.

1. COVID-19-related government lockdowns have had an acutely negative impact on Basic-Fit and the entire fitness industry. Basic-Fit's clubs were shut down for 41% of 2020, resulting in a 27% decline in revenue (vs. a 35% decline for peers) and a 118mm euro operating loss vs. a 54mm profit in 2019. COVID's impact continued to be felt in the 1st half of 2021, with lockdowns in the Netherlands, Belgium, and France keeping BFIT's clubs closed for 81% of the period. Revenue fell 71% and club-level EBITDA was roughly flat vs. 96.5mm in the first half of 2020. COVID's impact has prompted the company to do two equity raises, one in June 2020 and one in April 2021, as well as a convertible bond issuance in June 2021, cumulatively raising 641mm euro.
2. Basic-Fit has a simple but powerful economic model. It builds out mid-size format clubs, markets them, and brings them to maturity, which management believes is 3,300 members, then reinvests those cash flows back into building out more locations. Each club costs 1.2mm euro to build and generates roughly 330,000 in normalized owner earnings (cash flow, less maintenance capital expenditure) for a 27% unlevered cash return. Clearly investment in building out its physical footprint is the proper use of capital and management is behaving accordingly, nearly tripling location count over the past five years. While positive for long-term cash flow generation, this heavy investment obfuscates the business' underlying profitability. Basic-Fit, even pre-COVID, almost never generates positive net income or free cash flow and growth capital expenses (costs for building out new locations) have averaged a whopping 42% of revenue for each of the last six years. In addition to tapping internal cash flows for investment, Basic-Fit also relies on debt to fund its investments and is levered 3.2:1 on depressed 2020 EBITDA.



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Basic-Fit (BFIT) **Unit economics** *(EUR 000s)*	
Members per mature club	3,300
Average revenue per month	20
Annual membership revenue	792,000
Other non-member revenue	20,000
Total club revenue	812,000
Lease expense per club	150,000
Wages per club	125,000
Depreciation	150,000
Other operating expenses	100,000
Club-level overhead	525,000
Club-level operating earnings	287,000
% revenue	*35%*
Taxes	57,400
Tax rate	*20%*
Club-level net income	229,600
% revenue	*28%*
Net income	229,600
Depreciation	150,000
Maintenance capex	(50,000)
Owner earnings	329,600
% revenue	*41%*
Unlevered cash return	**27%**

Outlook and Valuation

From the scenario laid out above, it is easy to see how Basic-Fit could be mispriced. From a layman's perspective, the company has historically been barely profitable and burned cash, it is debt-laden, and COVID lockdowns are decimating revenue and forcing management to effect dilutive capital raises. This is a fair assessment but overlooks a path towards normalized profitability and the company's growing reinvestment runway. Lockdowns are lifted and vaccination rates are rising throughout the EU. That is to say, we expect improving operating trends sooner rather than later. In this scenario, we believe that the company's current footprint is capable of generating 244mm euro in normalized owner earnings, implying a valuation of less than 12x on today's 2.86B euro enterprise value. Needless, to say, if the market is valuing the current business at less than 12x current earnings power, it is deeply discounting the potential for future growth. In that regard, we believe that management's target for 2,000 is reasonable if not conservative. 2,000 units in BFIT's key geographies will yield a mere 15% unit share (vs. 8% today) and is well-supported by numerous factors, including the trend towards budget fitness centers, increasing consolidation amongst the largest operators (with BFIT being *the* largest), and continued convergence of EU gym membership penetration with the U.S. Based on management

commentary surrounding new unit cadence, we believe BFIT will have ~2,000 by the end of 2025. Assuming 2,000 locations and underlying unit-level earnings grow of 3%, annualized, gets us to ~660mm euro in run-rate owner earnings, or 4.3x the current EV. Planet Fitness, the leading U.S. gym operator, trades for nearly 30x forward cash flow. Similarly, F45 Training, a franchised gym concept which recently IPO'ed in the U.S., trades for 80x normalized cash flow. We believe that Basic-Fit should at least trade in a similar range to these peers, given similar unit economics and a superior growth runway in the EU (higher industry fragmentation and lower penetration of gym memberships). For the sake of argument, we will discount BFIT 50% vs. Planet Fitness due to two factors – BFIT is European and it is not a franchising model. A valuation of 15x yields a market value of 145 euro per share, nearly 4x the current price.

Basic-Fit (BFIT) Valuation *(EUR, 000s)*			
Share price	37.00		
Shares	66,000		
Market cap	2,442,000		
Add: Net debt	419,845		
Enterprise value	2,861,845		
	Current	CAGR	YE2025
Owner earnings per club	330	*3%*	376
Clubs	973	*17%*	2,000
Total club-level owner earnings	320,701	*21%*	752,982
Less: tax-effected overhead	(61,649)	*8%*	(88,704)
Total owner earnings	259,052	*23%*	664,278
Multiple	11.0x		4.3x
	Base	Bull	Bear
Justified multiple	15	20	10
Target EV	9,964,173	13,285,564	6,642,782
Target Market Cap	9,544,328	12,865,719	6,222,937
Target price per share	145	195	94
+/-	*291%*	*427%*	*155%*
Years	4.5		
CAGR	**35%**	**45%**	**23%**

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Risk

Our thesis hinges on two factors: (1.) eventual recovery from COVID and (2.) continued location openings at high rates of return. Thus, the primary risks to this investment not working are that COVID has permanently driven consumers out of gyms, thus forever impairing Basic-Fit's operating results, and the company cannot open and scale new locations as successfully as it has done in the past.

Mitigants:

1. Gauging consumer intent is difficult and predicting how they will actually behave is even harder, but we have reason to believe that people will return to Basic-Fit locations. Compared to the United States, it is difficult for Europeans to have effective home workouts because their living spaces are materially smaller. The typical home size in Basic-Fit's core markets is less than half that of the United States. Because of this, European's are more likely to perceive fitness centers as essential compared to Americans. Our thesis was tested last summer when the lockdowns were lifted in Basic-Fit's core markets. The company saw sign-ups rebound rapidly heading into the summer and new joiners quickly surpassed 2019 levels in June, July, August, and September. We also got the following disclosure from management on the first-half report – "At the end of the period, we had 2.01 million memberships, which means that in a matter of several weeks we regained the memberships that we lost during the five months that our clubs were closed this year. Before the rebound in memberships started in the second half of May, we reached a low point of 1.75 million members. After the reopening of our clubs in Belgium and France on 9 June, we experienced record joiner growth rates for the group. We also benefitted from lower than usual churn rates since reopening." Given this disclosure, we do not think it's overly optimistic to assume a reversion to pre-COVID unit economics.
2. The whitespace for new location is ample. The industry is highly fragmented and fitness center membership is a growing trend in Europe but still underpenetrated compared to other developed regions. If Basic-Fit cannot effectively open new gyms in its current markets, we believe there is plenty of opportunity in other European countries. If the opportunity to grow was not already significant, we believe that COVID will be a net benefit to Basic-Fit's reinvestment opportunity. While BFIT's financials have been impacted, the company has had relatively open access to the capital markets, whereas many small competitors do not have the same access to debt and equity financing. This has hampered the industry's ability to invest in new locations and, where there have been closures, BFIT has the opportunity to take over leases at favorable terms. At a minimum, the specter of COVID is likely to deter serious new entrants to the fitness market for the foreseeable future. This dynamic dramatically reduces the competitive threat to BFIT for both new members and leasable space, ensuring that BFIT can retain a high return profile on new locations.

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eDreams ODIGEO

eDreams ODIGEO, S.A., based in Spain, is a leading Online Travel Agency (OTA) specializing in leisure travel. Through its five brands – eDreams, GO Voyages, Opodo, Travellink, and Liligo - eDreams offers flights, hotels, car rentals, travel packages, and ancillary services (seats, baggage, insurance, etc.) across 45 regions, covering 80% of the global travel market. The eDreams platform sells flights from 650 airlines and rooms from 2.1 million hotels, serving nearly 20 million customers per year. Though eDreams' reach is global in scope, today it is largely a European operator, generating roughly 80% of revenue and profit from the region. eDreams is the largest flight OTA in Europe (2x the size of the next-largest player) and second-largest globally.

eDreams differentiates itself on several fronts: (1.) Its scale allows it to offer the widest selection of travel options at low prices, (2.) eDreams is a digital leader, with over 50% of bookings completed on a mobile device, and (3.) eDreams sells a subscription service called Prime, which offers discounts and priority customer service for travelers. We believe that these factors make the company uniquely poised to take advantage of the rebound in European leisure travel as the continent emerges from COVID lockdowns.

COVID marked the biggest challenge to ever face the travel industry. eDreams' fiscal 2021 (ending March 31) saw bookings fall 70%, to 3.2mm vs. 10.8mm in fiscal 2020. Revenue fell 79%, to 111mm euro, and adjusted EBITDA swung into negative territory, with a 38mm euro loss vs. 115mm profit in fiscal 2020. Nonetheless, eDreams fared significantly better than its peers and is exiting COVID on very strong footing. The declines in airline bookings it experienced were less severe than the industry overall, resulting in 6 percentage points of market share gains. Mobile penetration improved substantially, and Prime memberships doubled nearly doubled from 556,000 members at the end of fiscal 2020 to 1,009,000 at the end of May 2021 (the Prime program now has 1.2mm members as of the end of June). Impressively, eDreams was the only publicly-traded OTA to not issue any stock or debt during the crisis.

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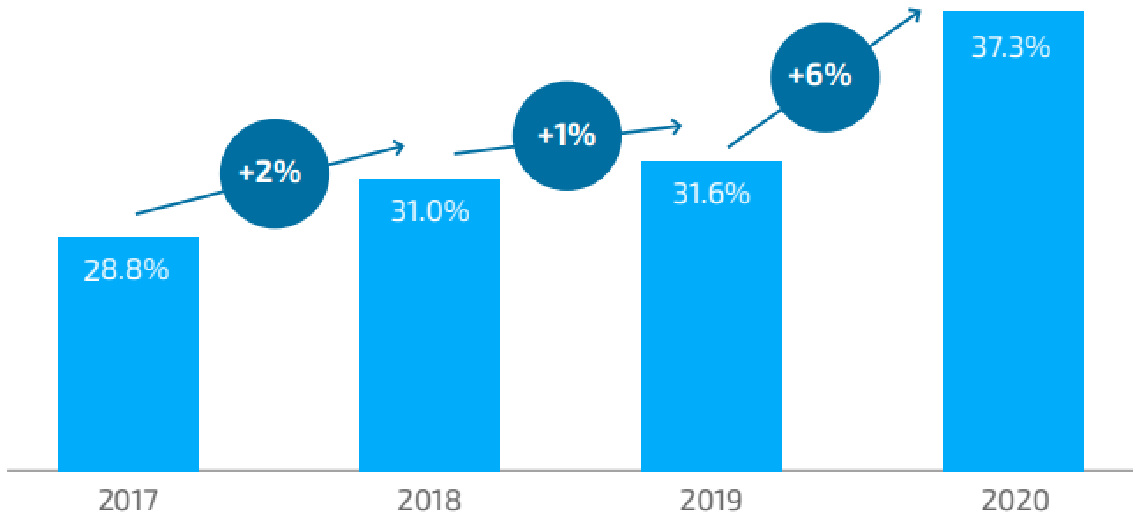
eDO ahead of the airline industry

REGION	Q1	Q2	Q3	Q4	March 2021
eDO Total	(87)%	(62)%	(65)%	(70)%	(62)%
IATA Europe	(97)%	(77)%	(79)%	(81)%	(83)%
eDO vs IATA	9ppt	15ppt	14ppt	11ppt	21ppt

Source: IATA Economics & Company Data
Note: For the Q4 calculation, information presented for March is based on FY21 vs FY19 year-on-year variations

eDO Market Share evolution in the European OTA Airlines market



Source: Company data, Phocuswright Travel Market Report 2020-2024

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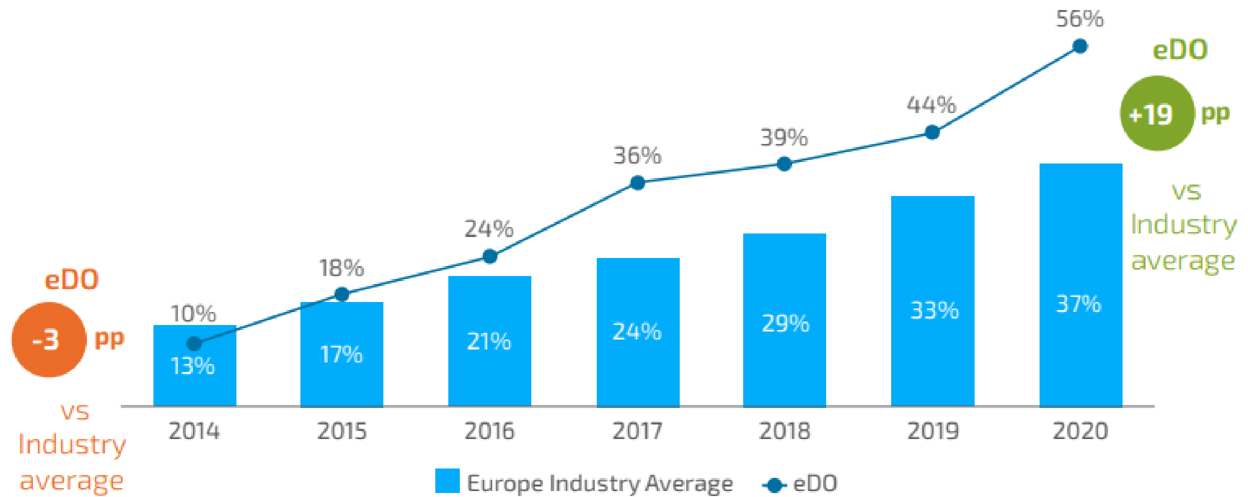
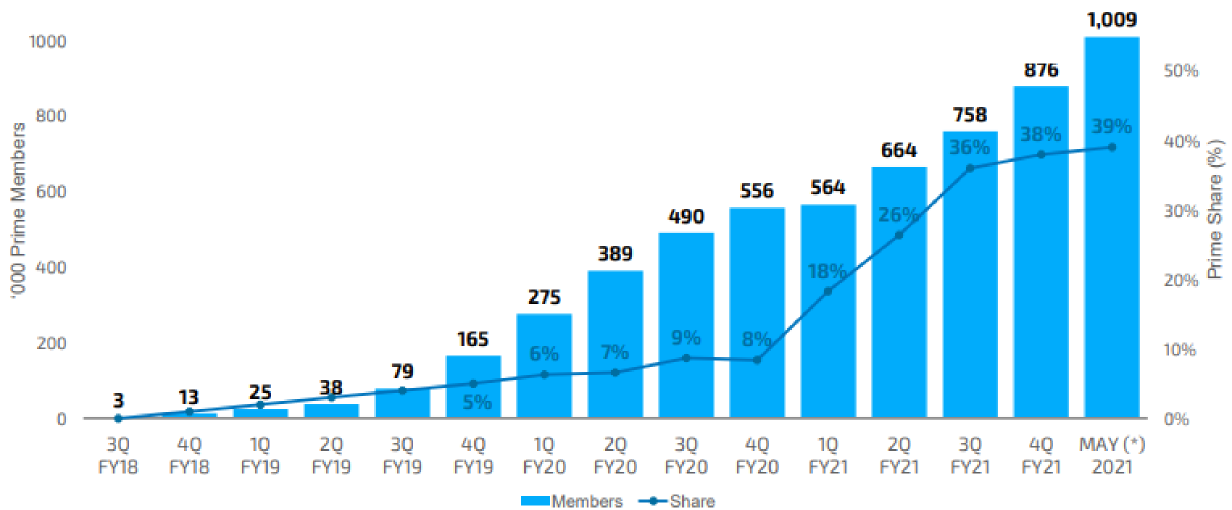
Strong growth in mobile bookings well ahead industry average



Source: Phocuswright Travel Market Report 2020-2024

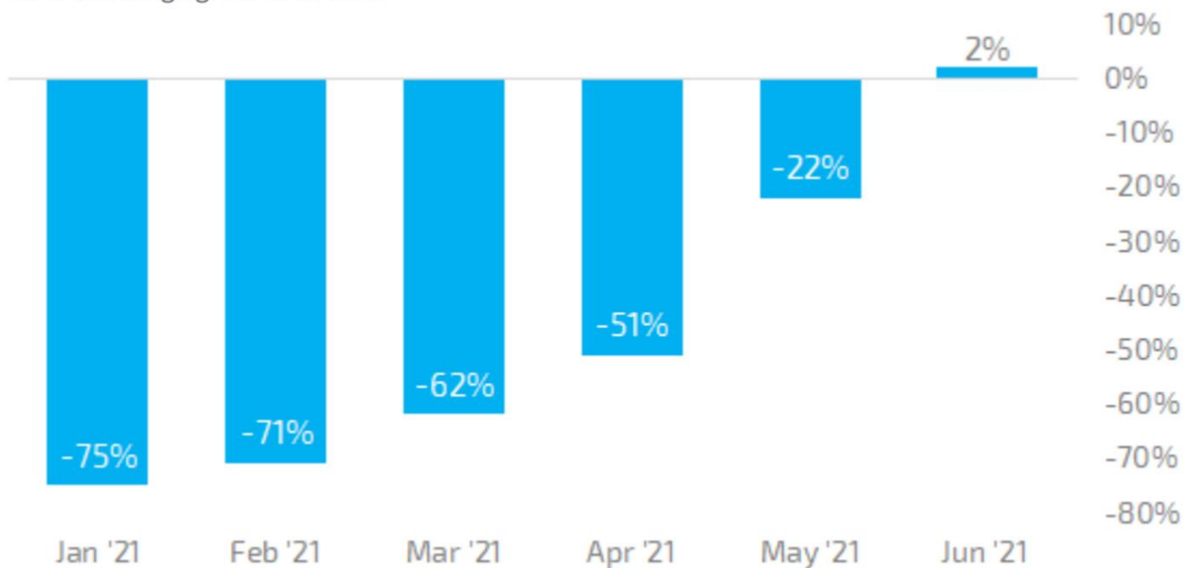


Examining the European reopening vis-à-vis the U.S., you will find Europe is a solid 6-8 weeks behind in “normalizing”. The reasons vary, but it is generally attributed to a combination of vaccine manufacturing and distribution issues, as well as political missteps/mistrust. However, things are going directionally well, in a meaningful and quantifiable way. We are starting to see a higher rise in vaccinations in Europe and while concerns abound for the new Delta Covid variant,

there has not been a significant increase in hospitalizations in Western European countries, and the will of the people is to continue to "get back to normal" as soon as possible. While there may continue to be outbreaks and new measures, we don't believe we will be going back to pandemic level lockdowns. The following link allows you to view the data by country and by region. As you can see, vaccination rates are improving dramatically, and severe negative outcomes are down:

https://vaccinetracker.ecdc.europa.eu/public/extensions/COVID-19/vaccine-tracker.html#uptake-tab

With Europe emerging from COVID lockdowns, we are seeing an increase in leisure travel as people are looking to finally leave their homes for new destinations. EDR is a direct beneficiary of this trend and is poised to take full advantage of it. As the chart below shows, June 2021 bookings actually eclipsed pre-COVID bookings levels. This is about a powerful a confirmation as any that a reversion to pre-COVID leisure travel trends is upon us.



Source: eDream ODIGEO

Despite these positive developments, eDreams' stock trades at a discount on almost every conceivable financial metric, attributable partly to residual COVID fears surround the COVID delta variant but also to eDreams' poor history. Long story short, EDR is a "broken IPO" stock. New management, including current CEO Dana Dunne, came onboard a year after the IPO and began executing on its mobile and Prime membership strategy, which really began to take shape when COVID hit. Regardless, these are problems of the past and eDreams future looks very bright.

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OTAs – Perceived as a trash business, but not for eDreams

eDreams faces several challenges and misperceptions about its business, chief among them is the belief that OTAs are a terrible business, offering little value to the consumer, and face significant competitive challenges driven by Google.

We don't disagree with the above assertions for most OTAs, however, these apply primarily to U.S. operators. In the U.S. the big four airlines, Delta, Southwest, American, and United, dominate the U.S. air travel market with 65-70% of market share. Thus, the U.S. airlines do not need to negotiate on price with OTAs and it is easier for end customers to book directly with them. However, in Europe there are over 50 major airlines with the largest 4 making up just 30% of market share. Adding in regional airlines, EDR has over 220 European airlines on their platform. European consumers must heavily rely on OTAs to navigate a sea of choices and make the appropriate purchase decisions. These market dynamics give European OTAs a better value proposition vs. their American counterparts.

Breaking the Parasitic Relationship of Third-Party Search

Almost every OTA has to contend with the Google customer acquisition funnel, a pay for play model, where OTAs pay Google for advantageous listing placements on the Google search engine. Being the point of entry for travel bookings, Google now has access to the customer demand and the end product, and effectively commoditizes OTAs, forcing them to compete strictly on price. Even worse, Google's travel metasearch can bypass OTAs entirely, allowing consumers to book directly with the airline or hotel. The problem for OTA is two-fold, it increases industry competition and raises customer acquisition costs. These issues are mostly unavoidable for OTAs. EDR developed the Prime loyalty program in part to bypass third-party search engines altogether, ending this parasitic relationship with Google, lowering customer acquisition costs, and capturing the customer in their own ecosystem (thus thwarting the commoditization of their product). Thus, the Prime program drastically improves the lifetime value of a customer.

Loyalty goes both ways – the key to eDream's success

Prime is a subscription service that costs approximately €50 per year (ranges from 40 to 60 depending on geography). For their annual payment, the consumer receives discounts on every flight, deals on lodging, and exclusive customer service. In return, EDR lowers their customer acquisition cost (CAC), receives a recurring revenue stream, and has control over its customer.

First launched in the 3rd quarter of 2018 with just 3,000 subscribers, Prime now has over 1.2mm members. The program added over 150,000 members in the month of June alone. Originally, management estimated the program would hit 2mm subscribers at the end of 2022. At the current rate of signups, they will hit 2mm subscribers by the end of calendar 2021.

EDR uses the subscription fees to lower the cost of flights, making it more attractive for people to join, thus increasing subscribers and further lowering the cost of flights. This is the definition of a

flywheel. The more subscribers they have, the cheaper they can price flights, which will draw in more subscribers.

We view the Prime subscription program not as a way to generate substantial near-term profits for shareholders, but as a tool to grow the business. New Prime members provide revenue and cost savings through lower customer acquisition costs. Once subscribers pay the fee, they develop a sunk cost mentality, improving the likelihood that upon their next travel search, they will bypass third-party search and go directly to eDreams, decreasing customer churn. The dollars not spent on reacquiring the customer (along with the Prime membership fee itself) can then be reinvested back into marketing to grow the membership base and lower flight costs for current members. This helps maintain the virtuous cycle described above. And the results are clear, Prime members visit EDR 50% more and have a much higher conversion rate, which translates to Prime members having 2-3x more bookings than non-Prime members.

The Leadership

Dana Dunne joined as the COO of EDR in 2012, and became CEO at the end of 2015. Prior to Dana taking over as CEO there were a series of unfortunate events which revolved around a disappointing IPO, a botched acquisition attempt, and an all-around failed business strategy. This lead to the prior CEO stepping down.

Dana is a former McKinsey alum and was the Chief Commercial Officer of easyJet PLC where he oversaw 50 million customers per year for the 4th largest airline in Europe. Since 2015, Dana has pivoted the focus of the company to better technology and customer service, instituted and grew the Loyalty program, and has offered a broader swath of offerings to its customers. He openly discusses his belief that EDR is a technology company, and not an OTA.

Valuation

It took a few years to transform the culture and business model from a pedestrian OTA to what it is becoming today. We were able to see the progress being made by Dana and his team prior to COVID, and since travel was basically stopped, we are presented with the opportunity to purchase this Ugly Duckling at a steep discount to its peers.

Most OTAs trade at high-teens EBITDA multiples, yet eDreams has consistently been trading in the low teens. As the market begins to recognize virtues of eDreams' business model, we believe the stock will be afforded a higher multiple. At the very least, it should be priced at least in line with its peers. We use 2019 as a "normalized" figure, given the horrible, and likely non-recurring, nature of 2020 financial results. Assuming a peer multiple, there is greater than 85% upside to the stock at current levels.

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(local currency; mm)	EV	2019 EBITDA	EV/EBITDA
eDreams	1,200	100	12.0x
Peer median (ex-OTB)			*18.6x*
Booking Holdings	90,591	5,814	15.6x
Expedia	31,021	1,315	23.6x
TripAdvisor	5,471	243	22.5x
Trivago	850	46	18.6x
On The Beach	512	4	126.3x
LastMinute	388	38	10.3x

eDreams Valuation	
Peer multiple	18.6x
2019 EBITDA (mm)	100
Target enterprise value	1,860
Add: cash	12
Less: debt	492
Target equity value	1,380
Shares (mm)	110
Target price per share	12.55
Current price per share	6.70
+/-	*87.3%*

Source: Capital IQ

Multiple Ways to Win

In addition to multiple expansion, it is easy to argue that eDreams would be a takeover target for a larger company looking to consolidate or enter the European market. However, regardless of a possible M&A event, eDreams has plenty of runway to continue growing, particularly with the flywheel that management has created.

This is a textbook Ugly Duckling opportunity. You have a company that is trading below peers because of former managements' mistakes, not receiving any credit for its new business model because it is in a hated industry, and whose ultimate profitability profile is not readily apparent in the current financials.

IMMERSION INVESTMENTS

Risks

Should the COVID Delta, or another variant, cause lockdowns in Europe, we would expect eDreams to be punished. In addition, eDreams does carry a high amount of debt, and should they fail to execute their strategy, the company could be forced to dilute shareholder to pay off that debt if they find they are unable to roll it. That said, eDreams weathered the initial crisis without having to raise debt or equity capital. Even on severely depressed Q4 operating levels, which saw a 74% y/y decline in revenue, EDR was still operating at roughly cash flow breakeven. The implication being that even if the operating environment doesn't immediately rebound, which has occurred, with bookings already back to pre-COVID levels, eDreams wouldn't face an imminent liquidity crisis.

There are few barriers to preventing competitors from creating a similar offering to eDreams' Prime subscription business. TripAdvisor recently announced a subscription service for hotel bookings called TripAdvisor Plus. eDreams' ability to retain its differentiation will come down to its speed and first mover advantage. We view management as capable and creative enough to navigate potential threats to this business but that is not a guarantee.

IMMERSION INVESTMENTS

At Home Group Tender Offer by Hellman & Friedman

June 2021

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The report includes forward-looking statements, estimates, projections, and opinions on HOME. Such statements, estimates, projections, opinions, and conclusions may prove to be inaccurate and are inherently subject to significant risks and uncertainties beyond Immersion Investments’ control.

At Home Group – Summary

1. *We believe there is not enough value being allotted to shareholders to warrant approval for the tender offer of $37/share by PE firm Hellman & Friedman.*

2. *Poor incentives and a generous golden parachute for C-suite executives potentially creates a conflict of interest between shareholders and management.*

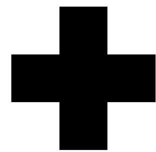
3. *Regardless of the methodology applied, the valuation of HOME should warrant at least a premium of 24% over the $37/share being offered. Further, we believe that the long-term potential of the business could lead to a value many multiples of the current share price.*

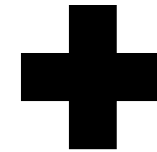
4. *Should shareholders refuse to tender their shares, we believe they will make more money in the short and long term.*

Source: Company Filings

At Home Group - Overview

Leading off-price retailer of home décor items





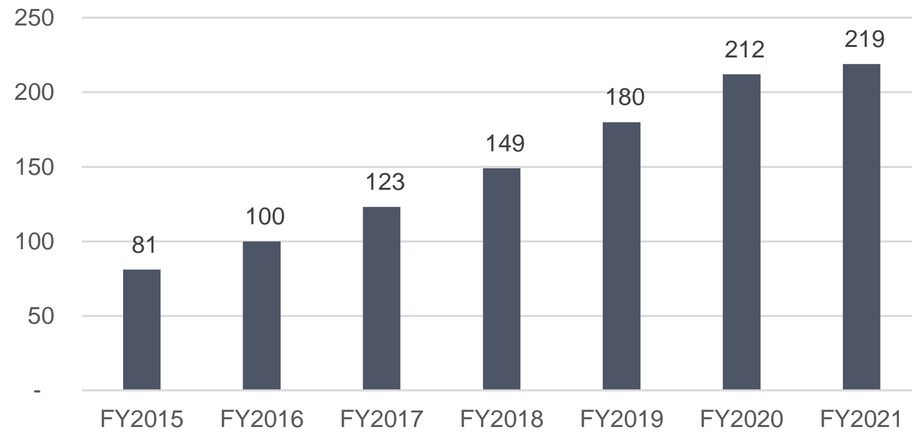
Source: Company Filings

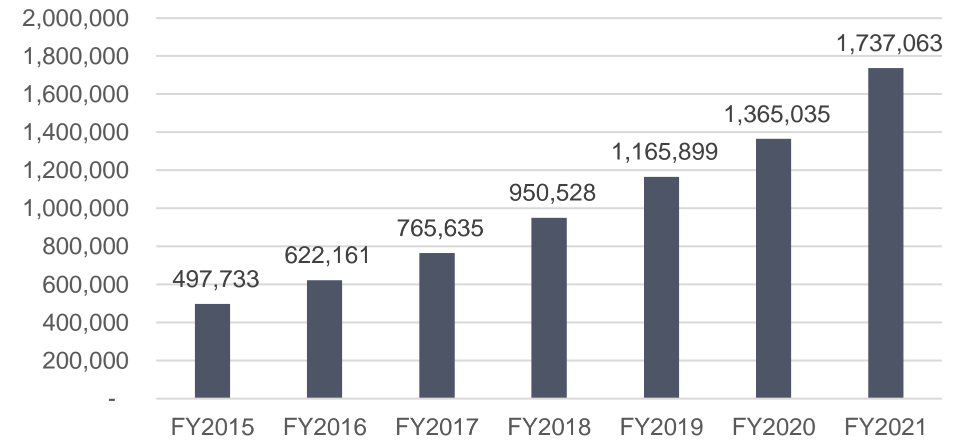
At Home Group - Differentiators

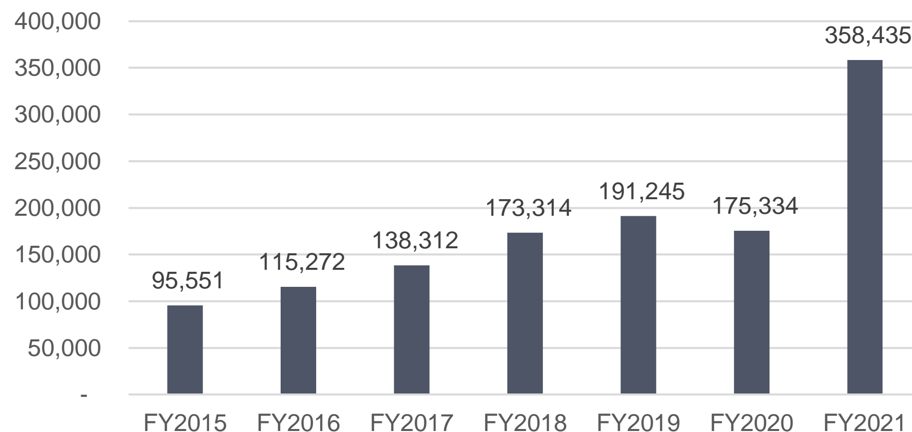
Scale	Unique Experience	Affordable Everday Purchases
105,000 square foot concept dedicated solely to 50,000+ SKUs of home décor products	Self-service warehouse-like model similar to Home Depot and Ikea	Employs everyday low price strategy (think Walmart). Average price point is $15 and basket size of $70
15x more square feet dedicated to each product category vs. competition	Constantly refreshing inventory to entice shoppers - turns over ~50% of SKUs per year	Majority of sales from "accent décor" items (bedding, candles, holiday accessories, etc.)

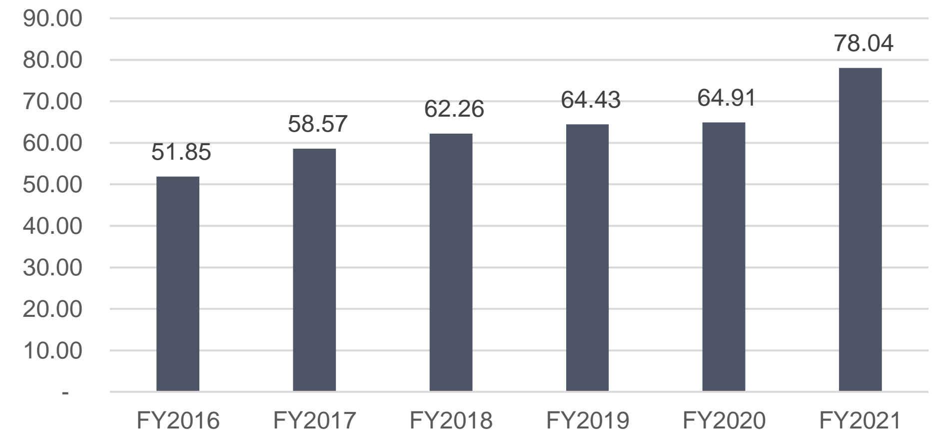
Source: Company Filings

At Home Group – History









Source: Company Filings; "Sales per square foot" estimated

The Investment Case for HOME

1. **Excellent unit economics**
2. **Improving brand awareness**
3. **Share gainer in a growing category**
4. **Defendable business**

See legal disclaimers above

Unit Economics

Management states 2-year payback period and our conservative "owner earnings" figure shows strong ROI

Stores reach maturity in less than 5 years

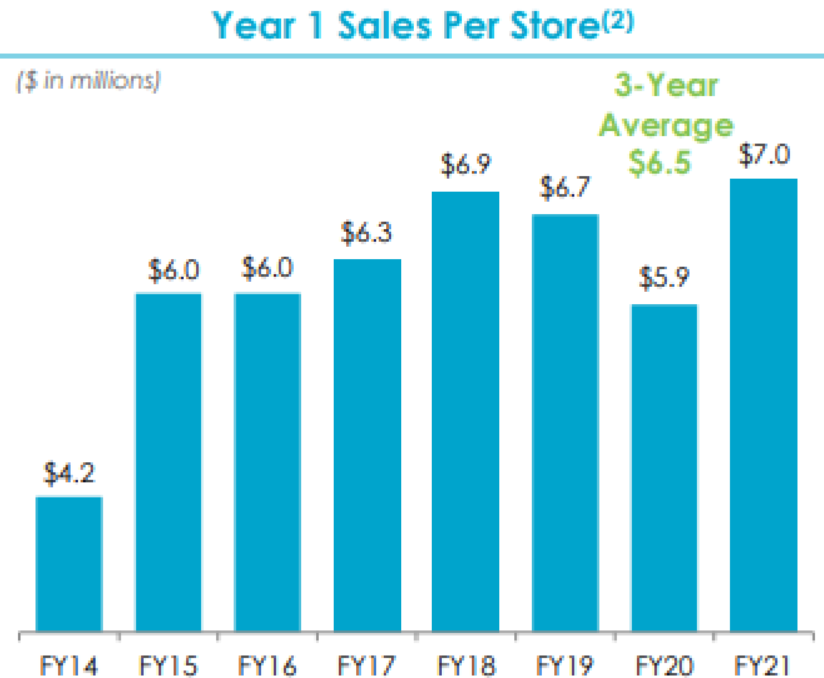
(USD 000s)	*Year 1*	*Maturity*
Sales	6,500	10,000
EBITDA	2,000	3,500
Margin	*31%*	*35%*
Owner Earnings	1,000	2,000
Margin	*15%*	*20%*
Average net investment	4,000	4,000
ROI	**25%**	**50%**

Owner earnings based on our estimates. Equals net operating profit after tax, plus D&A, less maintenance capital expenditure. All other figures based on company disclosures. "Average net investment" is the average cost of a 2nd generation and new build location, as disclosed in the At Home April 2021 Investor Presentation

Source: Company Filings

Unit Economics

Directly from April 2021 Investor Presentation

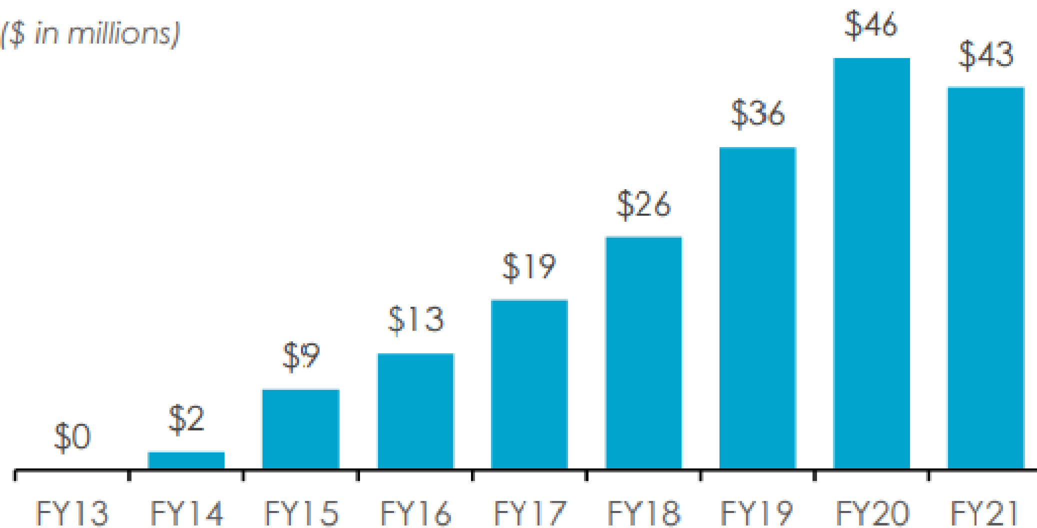


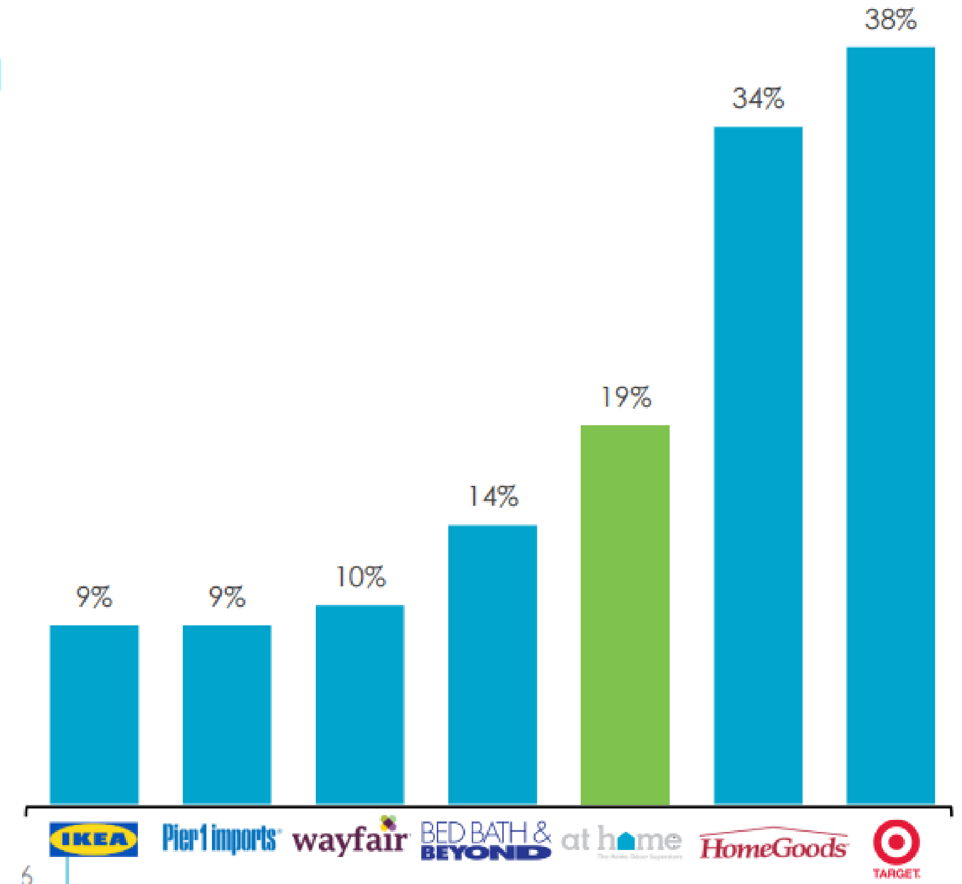
Source: Company Filings

Brand Awareness

Directly from April 2021 Investor Presentation

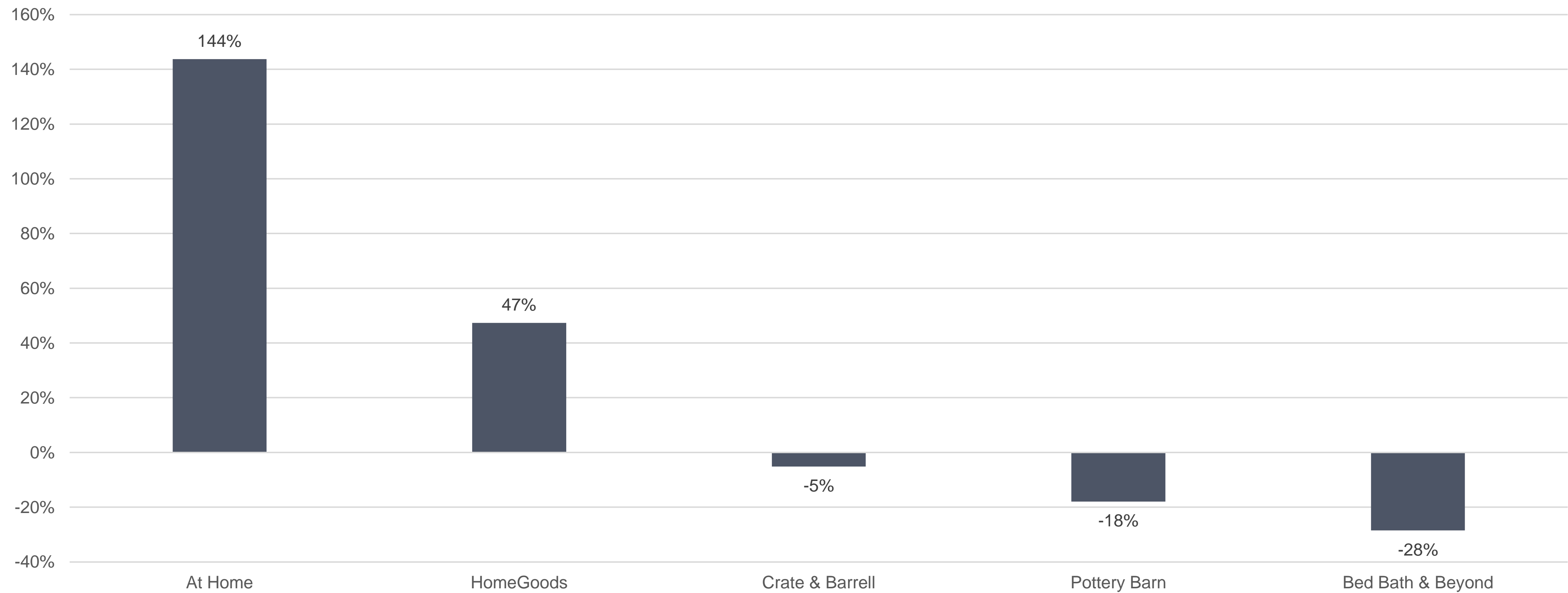
- Unaided brand awareness increased 400 basis points in Fiscal 2021





Source: Company Filings

Brand Awareness



Data queried on 6/14/2021; three-month trailing average; US-only search interest data from Google Trends

Source: Company Filings

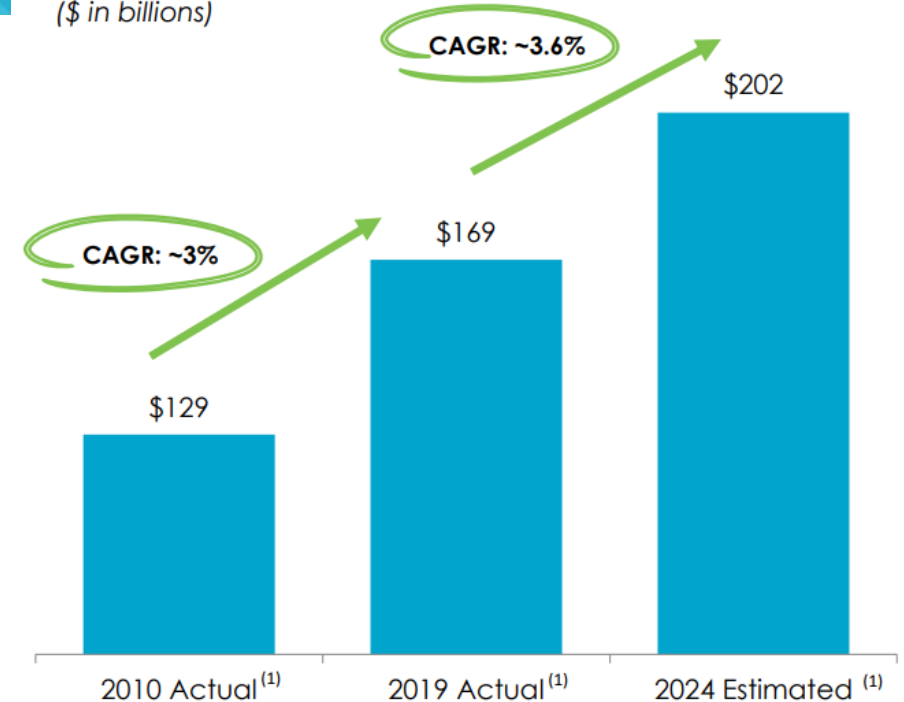
Market Share Gainer in Growing Market

Directly from April 2021 Investor Presentation

Taking Share in a Large, Growing, Highly Fragmented Industry With No Dominant Player

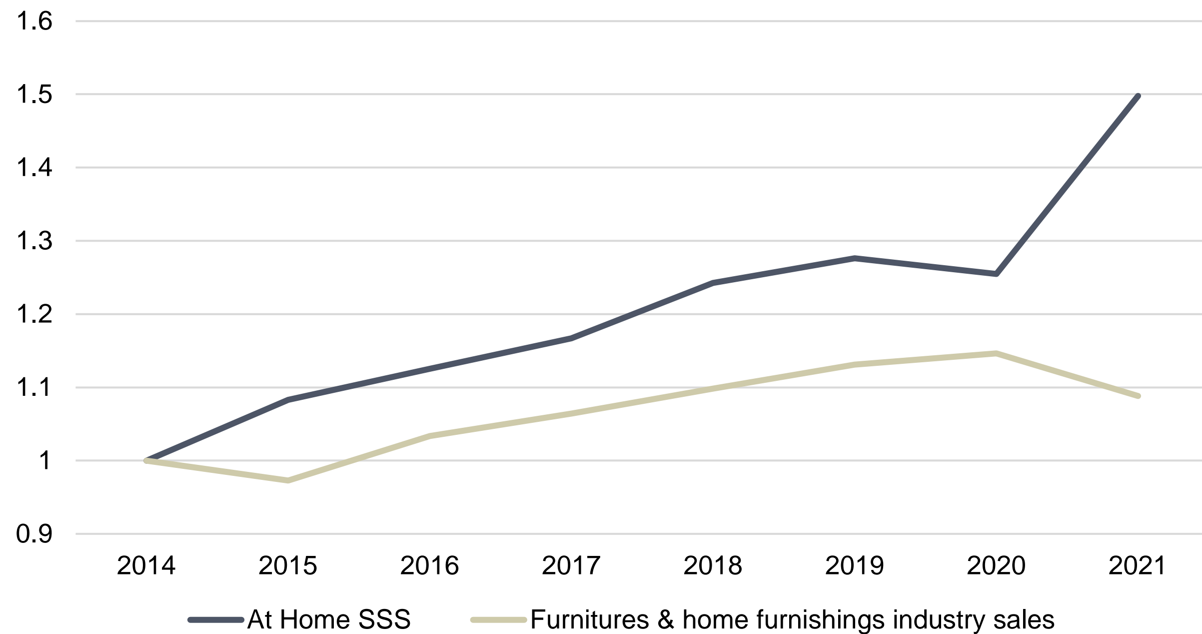
Industry growth rate is expected to accelerate[(1)]

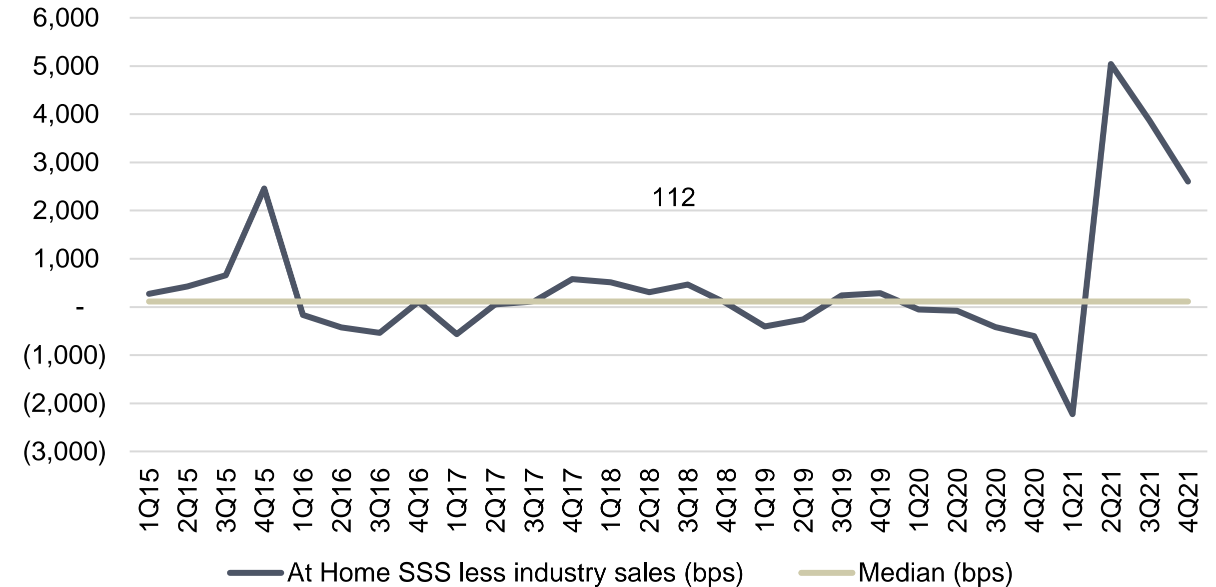
Two thirds of shoppers prefer to buy home décor in-store compared to online[(3)]



Source: Company Filings

Market Share Gainer in Growing Market



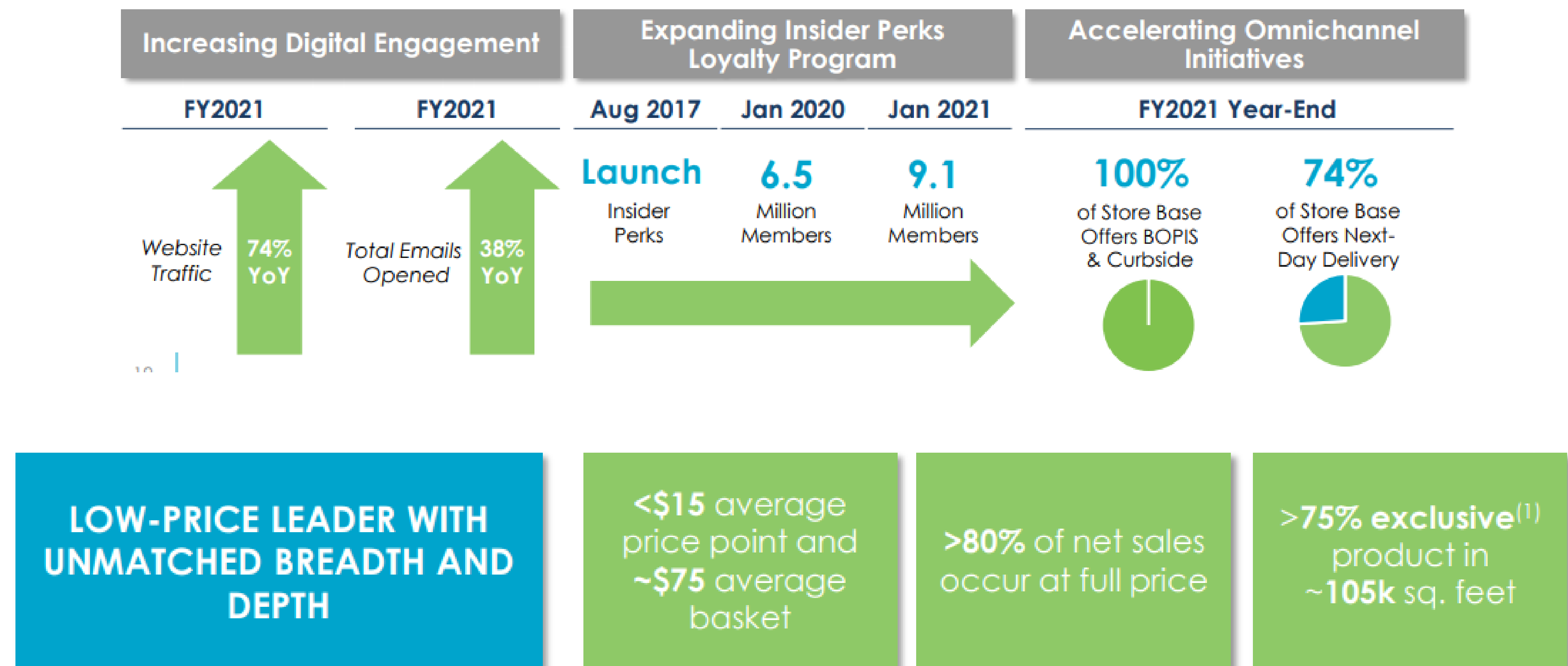


Source: Company Filings; Census Bureau

Defendable Business

Directly from April 2021 Investor Presentation

- Low cost structure creates customer savings
- Streamlined store and distribution center operations
- Enjoyable self-help shopping experience enabled by low store labor model
- Highly sophisticated merchandising/sourcing teams



Source: Company Filings

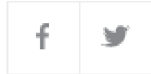
Hellman & Friedman Tender Offer

RETAIL JUNE 16, 2021 / 10:30 AM / UPDATED 25 MINUTES AGO

At Home accepts Hellman & Friedman's sweetened $2.43 billion offer

By Reuters Staff

2 MIN READ



HOME H&F Tender Offer

(USD 000s)	
Announcement date	*5/6/2021*
Ammended offer date	*6/16/2021*
Purchase price/share	37.00
Share count	70,000
Market capitalization	**2,590,000**
Less: cash	(150,547)
Add: debt	309,592
Enterprise value	**2,749,045**

Takeout Valuation Relative to Peers

Comparable companies taken directly from April Investor Presentation

	EV/Sales (NTM)	EV/EBITDA (NTM)
HOME	1.4x	8.7x
Takeout premium/(discount) vs. HF&D peers	**-24%**	**-25%**
Takeout premium/(discount) vs. High Growth peers	**-48%**	**-55%**

Home Furnishings & Décor:	EV/Sales (NTM)	EV/EBITDA (NTM)
Median	*1.9x*	*11.5x*
TJX	2.0x	16.1x
WSM	1.9x	11.5x
RH	4.6x	16.2x
MIK*	1.0x	6.0x
TCS	0.8x	6.4x
BBBY	0.6x	10.0x
W	2.1x	42.0x

High Growth Retailers:	EV/Sales (NTM)	EV/EBITDA (NTM)
Median	*2.8x*	*19.2x*
OLLI	3.0x	18.9x
TSCO	2.2x	18.3x
GO	1.1x	17.2x
FND	3.5x	25.7x
FIVE	4.1x	27.6x
EYE	2.3x	19.4x
ULTA	2.6x	18.9x
BURL	2.9x	24.4x

Consensus estimates; data as of 6/14

*acquired by Apollo at a 47% premium; deal closed in April 2021

Source: Company Filings

Takeout Valuation in the Context of LT Targets

Throughout the latest Investor Presentation, management vigorously reiterated its belief in the long-term goal of reaching 600 units…

Expand Store Base

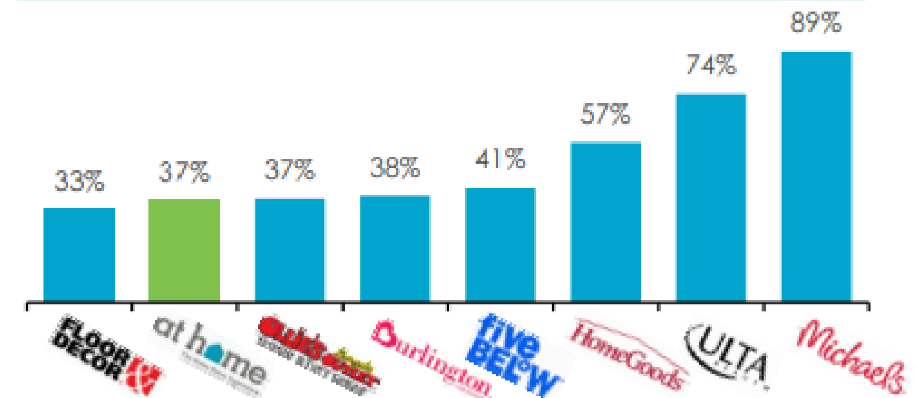
Significant Whitespace Opportunity with Track Record of Successful New Store Openings Across Markets

Long-Term Opportunity to Grow Our Store Base by ~ 3X

600+ total store potential nationwide[1]

White space opportunity targeting 600+ stores with compelling new store-level economics

Penetration Shows Significant Whitespace



Source: Company Filings

Takeout Valuation Relative to Earnings Power

…And at 600 stores, we believe H&F is acquiring At Home for <4x long-term earnings power.

Scenarios:	Revert to FY2019 Economics	Current	5 Years	600 Units
Store count	226	226	343	600
Average sales per store	6,919	8,000	9,500	10,000
Store-level NOPAT	1,204	1,520	1,805	1,900
Margin	*17%*	*19%*	*19%*	*19%*
Total sales	1,563,758	1,808,000	3,258,500	6,000,000
Total store-level NOPAT	**272,094**	**343,520**	**619,115**	**1,140,000**
Tax-effected Corporate overhead	150,121	144,640	228,095	300,000
Margin	*10%*	*8%*	*7%*	*5%*
Underlying earnings	**121,973**	**198,880**	**391,020**	**840,000**
Enterprise Value of H&F Deal	*2,749,045*			
EV/Underlying earnings	**22.5x**	**13.8x**	**7.0x**	**3.3x**

- *All figures in USD thousands, except "Store count"*
- *NOPAT = net operating profit after-tax. Calculated as sales, less cost of goods sold, operating expenses, and depreciation and amortization, less taxes.*
- *Current store count as of May 1, 2021 per the 10-Q*
- *'600 Unit' state estimated to be reached in 9 years; assumes 11.5% compound annual growth*
- *Average sales per store assumes 2.5% compound annual growth for 9 years*

Source: Company Filings; Immersion Investments Estimates

Concluding Thoughts

We believe the H&F tender offer does not adequately compensate shareholders for control. No matter how one calculates 'fair value', At Home is being acquired at a significant discount on both a relative and absolute basis.

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IMMERSION INVESTMENTS

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