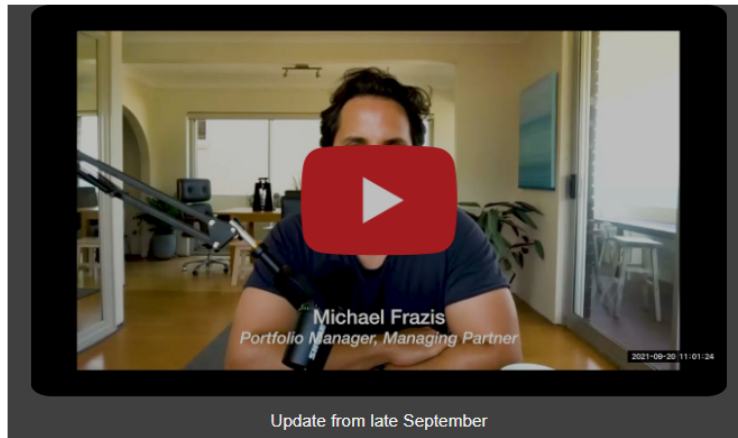


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FRAZIS

• CAPITAL PARTNERS •



October Investment Update

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Dear investors and well-wishers,

The fund contracted 7.5% in September, leaving us at +7% for the calendar year-to-date and 26% net IRR since inception.

The largest detractors of late have been our Asian positions, which have cost the fund >10% over the last three months. Chinese equities account for around 7% of the fund right now.

Growth stocks remained largely under pressure, but a handful of leading software names shot up to valuation highs.

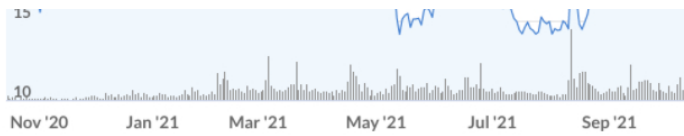
These periods aren't pleasant, but the good news is they do throw up some exceptional opportunities.

Opendoor

A recent purchase was Opendoor, which grew revenues at 59% over their last three reported months - which certainly qualifies as explosive.

Over the last year Opendoor is down -2%, and is down -40% from the highs of February. We initiated a position at ~\$18, about 50% down from the highs earlier in the year.





Opendoor price performance over the last twelve months

Opendoor operates in one of the few industries that has been relatively resistant to the inexorable logic of ecommerce and remained largely off-line, with other notable exceptions including autos and luxury fashion, which we took advantage of with Carvana, Cettire, and Farfetch.

Opendoor is the market leading 'iBuyer', using artificial intelligence and extensive amounts of data to price homes. Sellers simply upload a video of their home, fill out details, and receive a cash offer within 48 hours.

Opendoor does conduct an in-person external inspection and virtual internal inspection, and after purchase handles any required repairs.

Selling a house this way removes the pain and cost of dealing with agents (in the US there are buyers agents too), while avoiding the awkward experience of strangers and nosy neighbours traipsing through your living space.

Opendoor charges a 5% fee, which is more than competitive with other transactional costs.

	Typical Home Sale		Opendoor	
Seller Fees	5.5%	<i>Listing & Buying agent</i>	5%	<i>Service Fee; currently capped at 5%</i>
Staging / Home Prep Costs	0-1%		-	
Seller Concessions	0-2%	<i>Could include inspection, processing, transfer tax</i>	-	
Repair Costs	Variable		Variable	
Homeownership / Overlap Costs	0-1%	<i>Costs of owning two homes at once, temporary housing</i>	-	
Closing Costs	1%	<i>Title & Escrow, HOA, transfer tax</i>	1%	<i>Title & Escrow, HOA, transfer tax</i>
Total Costs (% on top of offer price)	6.5-10.5%+		6%+	

Source: Company data, Goldman Sachs Global Investment Research

The ~140 million homes in the US have a combined value of \$33.6 trillion, and each year there are around 5 million residential real estate transactions representing about \$1.9 trillion in value.

There is ~\$95 billion of US annual real estate commission up for grabs, before including other revenue opportunities like services associated with title, escrow, and mortgages.

Opendoor's market share is a fraction of 1%, and is coincidentally about where Carvana's was when we first bought it.

Many companies are falling over themselves to make the Carvana comparison, but in this case we think it apt. The market is just as large (in this case, larger), the value to customers just as clear, with strong fundamental economics, though as with Carvana a few years ago, profitability is some time away.

This is a scale game, and that means the market leader has a particularly strong advantage. Opendoor is currently the largest in the US and their closest competitor, Zillo, just announced they were suspending their iBuying.

This is not an easy business model. There are two obvious critiques which kept us on the sidelines:

Firstly, there is the certainty of holding large amounts of inventory when the market turns. We have followed this industry for quite some time. The coronacrisis gives some confidence over the playbook: Opendoor suspended their purchasing, cleared inventory, and were ready to go when markets perked up once more.

Secondly, a bit of game theory: sellers know their own homes best, and will sell when the instant offer is above fair value, but go to market when it is not.

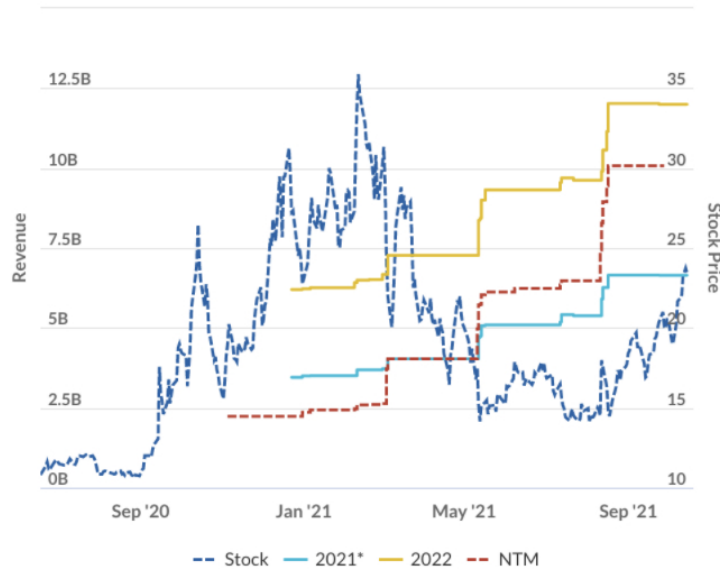
This is not an easy business model. There are two obvious critiques which kept us on the sidelines:

This is a real concern and perhaps why Zillow was having so much trouble. There is clearly customer value here, so there is almost certainly a price at which an instant cash transaction works.

Opendoor will need to generate additional revenues to really make the model sing. Fortunately there are plenty, such as offering mortgage services, allowing instant buying as well as selling, and all kinds of services associated with moving home.

After a fairly significant sell-off, this is a good time to be making new investments in these kinds of businesses.

Opendoor is trading at about 14x forward EV/Gross Profit, which is cheap for the growth. Upgrades have been fairly exceptional:



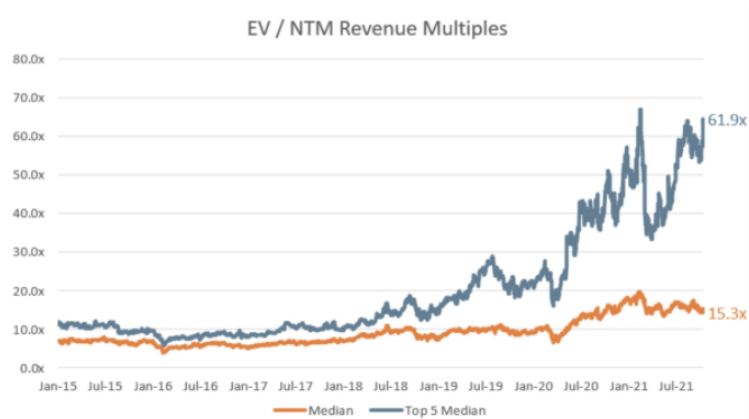
Analyst estimates for 2022 revenue have been upgraded from \$6.2 billion at the start of the year to \$12 billion today.

With Zillow suspending their own similar service, Opendoor could build an unassailable lead in data and scale, and outcompete anyone who decided to spend the vast amounts of capital required to reach scale. This is another parallel to Carvana - Carvana itself only recently reached profitability after a long journey. New competitors will need to go through the same extensive investment cycle while chasing the moving target of a better resourced and well-established competitor.

Outlook

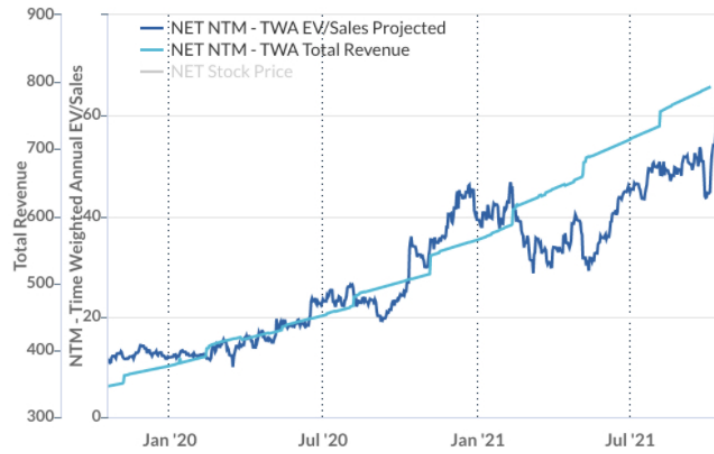
The recovery in travel and rise in bond yields that started earlier in the year was derailed by the Delta variant. This time, it is hard to see what could derail a recovery. There have been some signs of weakness in US employment data, and certainly in Asia, but the next move in interest rates does seem to be up.

Growth stocks have divided into two camps. Borrowing a chart from @jaminball, software has divided into two camps. The vast bulk of companies have gone through a 25% contraction from 20x to 15x EV/Sales. A small group of leaders have actually expanded.



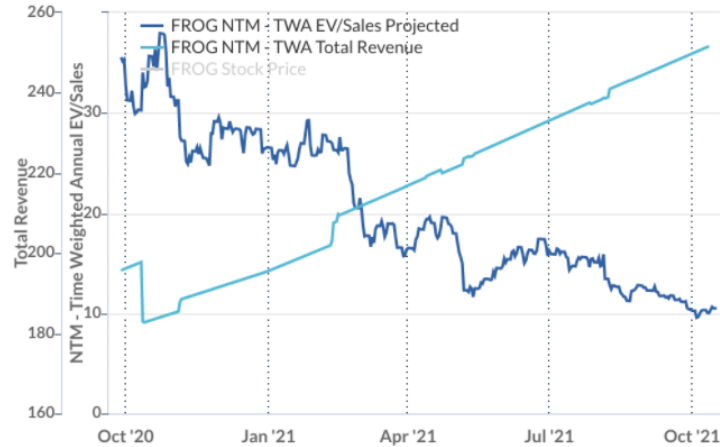
Cloudflare for example, which we nearly bought a number of times but couldn't make

Cloudflare for example, which we nearly bought a number of times but couldn't make the forward returns work, is now trading at 88x 2021 EV/Sales. We were forecasting multiple contraction, instead it expanded:



With rising rates we still believe this is one of the most exposed parts of the market, though so far price action suggests the opposite.

Ofcourse, things can change. JFrog offers tools for developers and was one of the hot IPOs of last year, peaking at 38x sales. It's now trading for a little over 10x, after decent execution and revenue growth.



The price chart is a lot uglier than Cloudflare's, but even now, we'd suggest forward returns are likely to be higher.

We made a small investment in Upstart which is now up about ~2.3x in a very brief period of time. The multiple has moved from 20x EV/Trailing 12 month sales a few months ago to 50x today.



An example of what can happen when multiples reach those kinds of highs is Zoom,

which peaked at almost 150x EV/Sales only to collapse to 20x today.



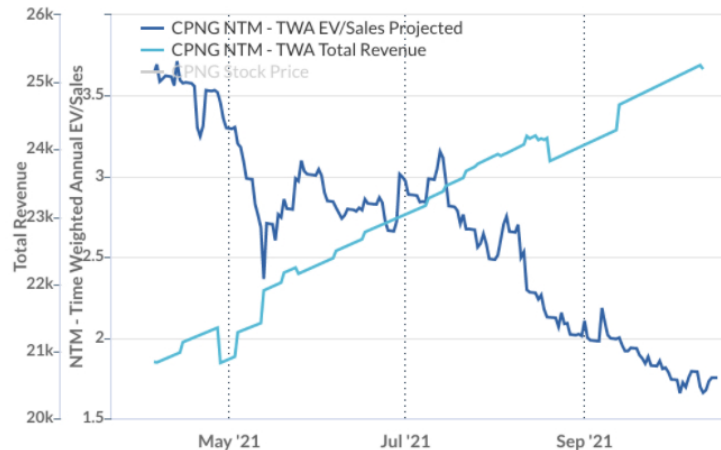
Zoom 2 year EV/Trailing 12m Sales

The stock sell-off hasn't been anywhere near as bad, but it wouldn't surprise us if some of these companies look like this in a year or two.



Zoom stock price

Finally, we added heavily in recent days to Coupang, the South Korean leader in e-commerce. The stock has halved since IPO amidst heavy Softbank selling, and is now trading at 14x this quarter's EV/Gross Profit - not bad for a company growing at 70%.



Best wishes
Michael

I'll host a webinar next Monday at 11am, feel free to [register here](#) and send through

any questions or topics you'd like me to address.

If you'd like to invest with us, you can access our investment portal and fund documentation through the button below, or simply reply to this email and we'll be in touch.

Invest

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