

Twitter Thread by Plant



Plant

@plantmath1



I have started a position in \$SSPK.

-

SPAC - \$SSPK Silver Spike Acquisition Comp

They are merging with WM Holdings, Inc who owns Weedmaps. Founded in 2008. Lead by CEO Chris Beals. Former life-sciences attorney (important - will come in later).

Started a new position today. Will be working on my first in-depth write-up.

— Plant (@plantmath1) December 16, 2020

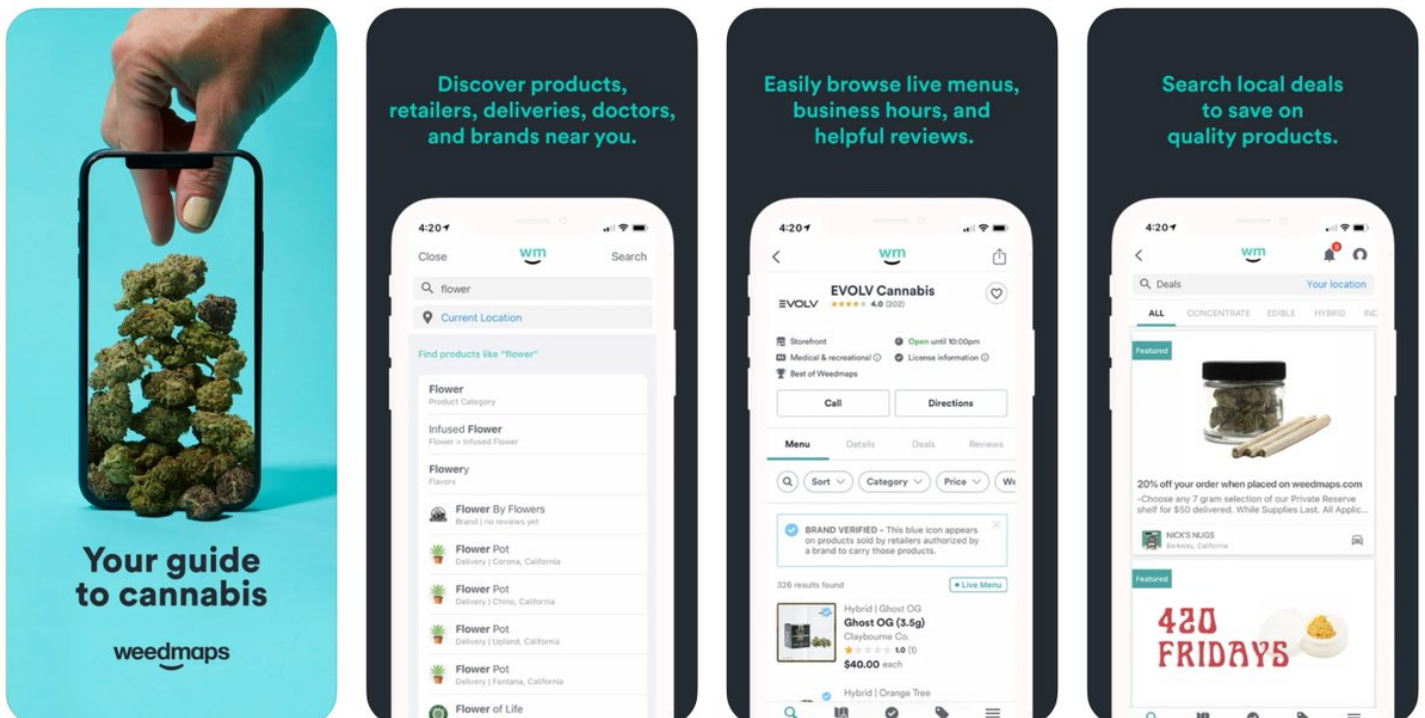
Basic Description:

The business is a two-sided marketplace which serves customers and sellers of marijuana products.

Who are they?

On the consumer side, <https://t.co/sHZKPFCY7I> which is a marketplace for standardized marijuana products.

Weed Maps is the world's largest base of cannabis users with over 10M MAUs, 90% of which are cannabis users, and a stunning 70% are DAILY users.



A key part of the marketplace is the differentiation between alcohol/tobacco and cannabis. Cannabis is **not** a standardized product so Weedmaps compiles millions of data points from strain traits, user feedback, effects, etc., to suggest the best products for the user.

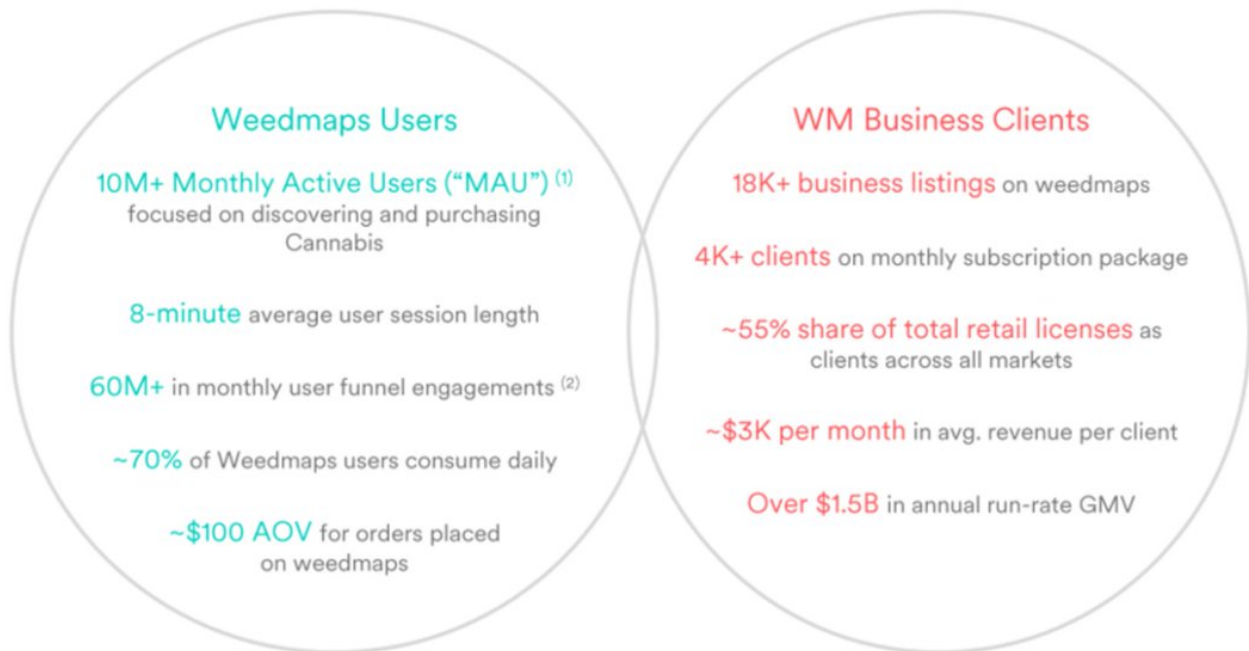
Weedmaps is operating at a 1.5B GMV run rate. With cannabis illegal on the Federal level, they do not currently take a percentage of this GMV but stated that they plan to with Federal legalization.

Currently 18k business listings on the marketplace. Average order value (AOV) ~\$100, compared with average cannabis retailers \$50-60, showing how they are more than standard retail.

On the business side, they provide a “Business-in-a-Box” (BiaB) SaaS solution for retailers, most importantly compiling all regulation requirements (state, county, city) in real-time to ensure compliance.

They claim there are no direct competitors who can support cannabis businesses in this space. Most of their clients were doing all record keeping on pen and paper because other ecomm platforms and record software cannot meet regulatory requirements.

They have ~4k clients on the monthly subscription service (\$500/mo). They plan to build out their platform to include CRM, loyalty programs, and premium analytics. With new features they will increase the price.



⁽¹⁾ MAU, or Monthly Active Users, is defined as the number of unique users opening our mobile app or accessing our website over the course of a calendar month.
⁽²⁾ Engagements is defined as any interaction by a user of our website or mobile applications with a brand, retailer or product on our platform.

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I would expect average business revenue to steadily increase over time as the product suite is extremely compelling.

Weedmap's BiaB includes a suite of products:

- Weedmaps: Access to the Weedmaps marketplace
- wm ads: Providing sponsored listings in the marketplace (common in marketplaces)
- wm deals: Promotions to attract new buyers
- wm orders: Software to manage POs
- wm dispatch: Regulatory compliant software to manage deliveries
- Some states require real-time GPS tracking of orders, some require delivery drivers to wear body cameras – weedmaps BiaB manages these requirements depending on their location
- wm store: Off marketplace e-comm for cannabis shops (Shopify clone)
- wm retail: On-site regulatory compliant POS systems and software (Square clone)
- wm exchange: Background marketplace for wholesale sellers and retail buyers
- wm dashboard: Analytics

Our "Business-in-a-Box" SaaS Solution Drives Commerce for Our Clients

wmh

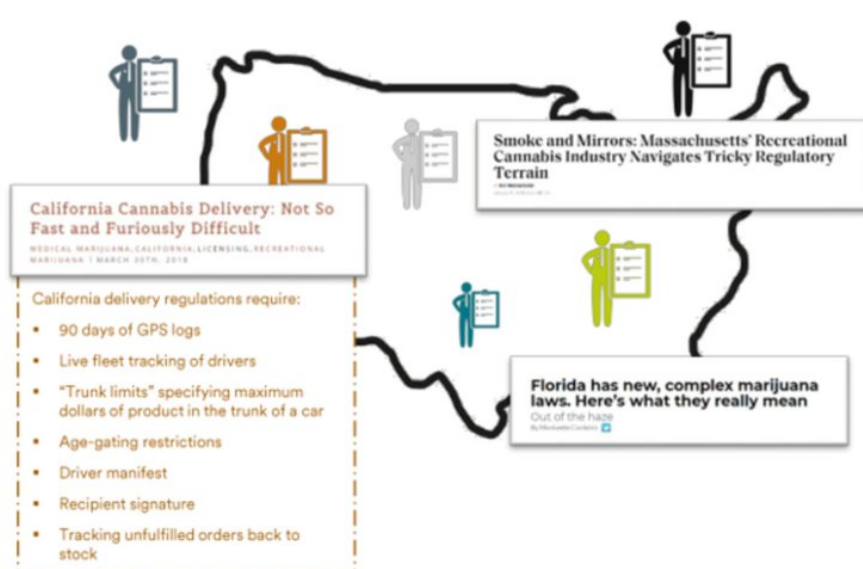


On compliance, they have developed methods to quickly convert changes to regulation from their government relations team into the software. It can't be stressed enough that regulation is an important moat for Weedmaps.

WMH Makes the Complex Simple: Enabling Scalable Compliance

wmh

Regulations vary widely by state and across local cities and counties within each state, creating significant compliance hurdles to achieve scale



WM Business Solutions Have Built-In Compliance

- GPS logs capability
- Fleet tracking and routing software
- Age-gating functionality
- Track-and-trace compliance reporting
- METRC Integration
- Transaction record retention
- Detailed tax engine

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Financials:

Weedmaps has grown revenue at a 40% CAGR from 2015 to 2019 while maintaining gross margins 93-95% and being EBITDA positive every year.

We have historically grown Revenue at ~40% with 90%+ Gross Margins and positive EBITDA

(FY18 growth deceleration reflected the uncertainty surrounding the start of legal adult rec-use in California)

(\$ in millions)

FYE 12/31	FY15	FY16	FY17	FY18	FY19	FY14-19 CAGR
Total Revenue	\$43	\$61	\$90	\$101	\$144	40 %
Growth	56 %	43 %	48 %	13 %	42 %	
Gross Margin	40	56	84	95	137	41
Margin %	94.5 %	92.5 %	93.8 %	93.8 %	95.1 %	
Operating and Other Expenses	(28)	(47)	(65)	(79)	(131)	48
EBITDA	\$13	\$10	\$19	\$15	\$6	(4)%
Margin %	31.1 %	17.1 %	21.1 %	15.2 %	4.3 %	
Capital Expenditures	1	3	3	2	5	23
% of Revenue	1.9 %	5.2 %	3.5 %	2.1 %	3.6 %	

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At FY19 year end, Weedmaps had to cut off many accounts that did not meet California's marijuana compliance requirements which accounted for nearly 30M in revenue. Adjusting out these accounts would reduce FY19 revenue from 144 to 115M.

Therefore, in FY20, the anticipated 39% growth in 2020 to 160M is among the adjusted cohort, and only 11% if you use FY19 actuals. It is impressive they returned ~40% growth while exiling a large percentage of their customers.

FY20 Financial Performance

Heading into FY20, we targeted ~40% Revenue growth (vs. FY19 Adj. Revenue) and \$20M EBITDA

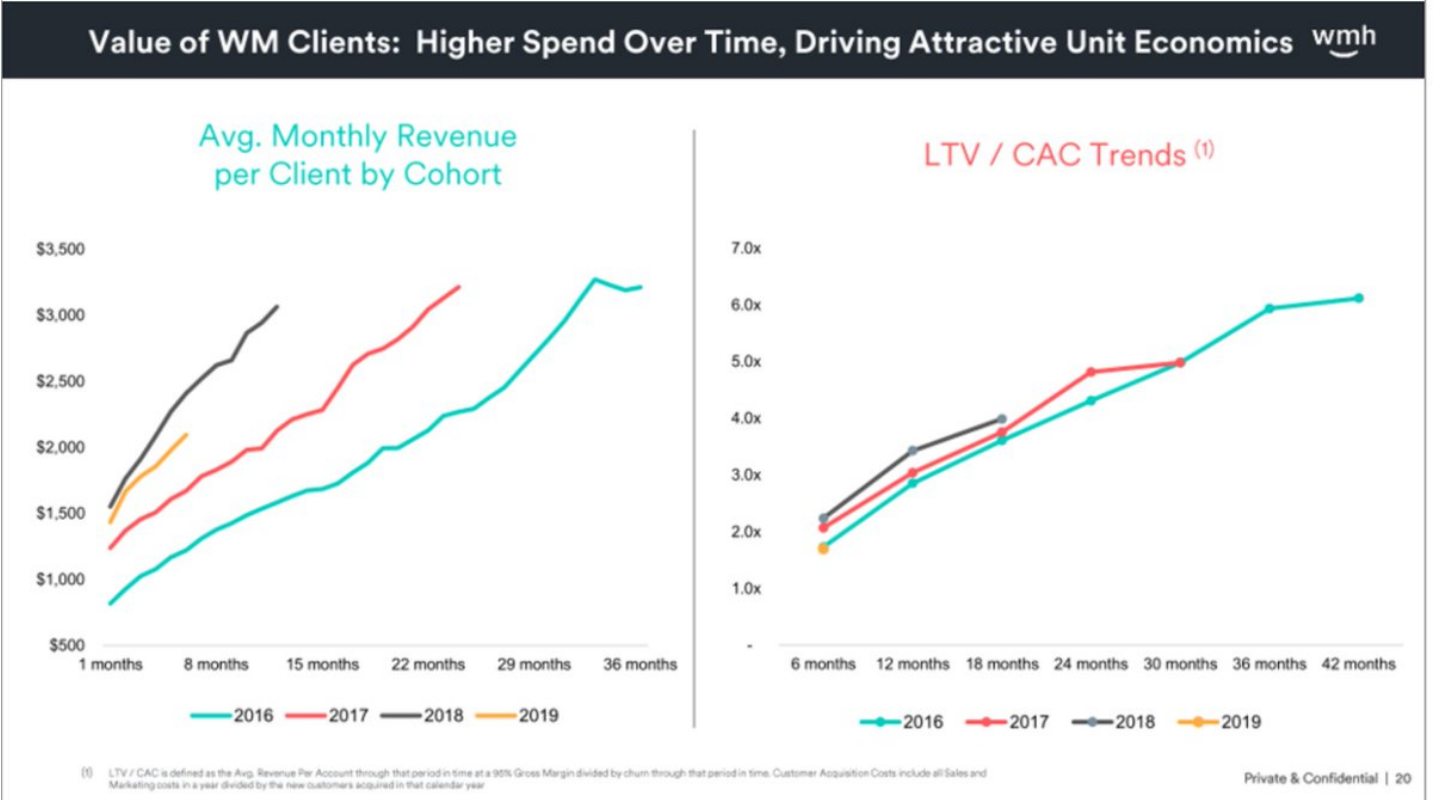
(FY19 adjusted to exclude Revenue from non-compliant CA-based accounts removed from the platform at FY19 year-end)

(\$ in millions)

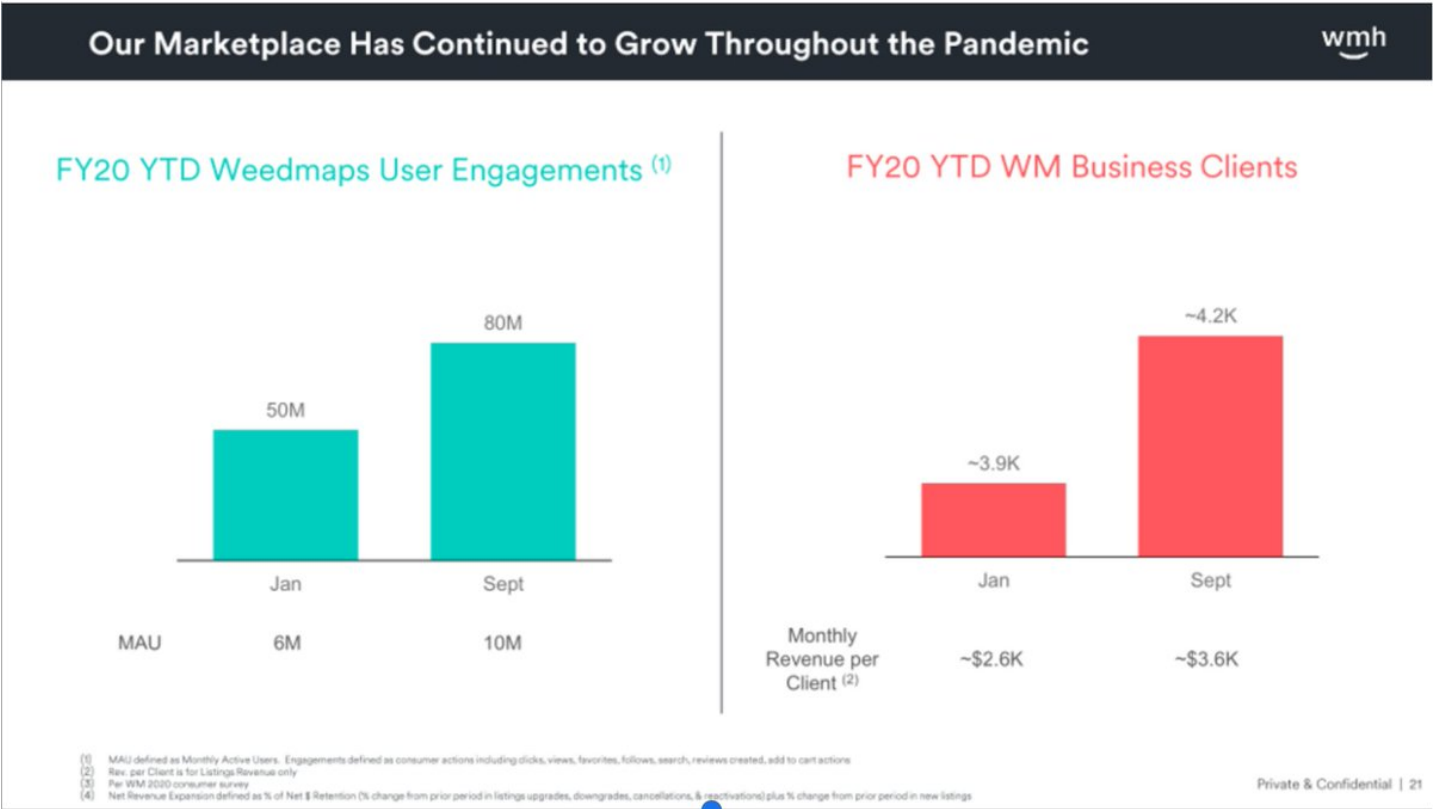
	FY19		FY20	
	Actuals	Adj. for Account Cut-Off	YTD through Q3	FY20E
Total Revenue	\$144	\$115	\$117	\$160
Growth vs. FY19 Actuals			12 %	11 %
Growth vs. FY19 Adjusted			42 %	39 %
Gross Margin	137	--	112	153
Margin %	95.1 %	--	95.2 %	95.6 %
Operating and Other Expenses	(131)	--	(80)	(118)
EBITDA	\$6	--	\$32	\$35
Margin %	4.3 %	--	27.3 %	21.9 %

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This is a situation where a company is using data to actually improve sales (not just talk about AI). On the left chart below, you can see how customers have been spending more, faster. Important to watch 2019 over time post cut-off.



Weedmaps MAU has exploded this year, from 6M to 10M in 8 months.

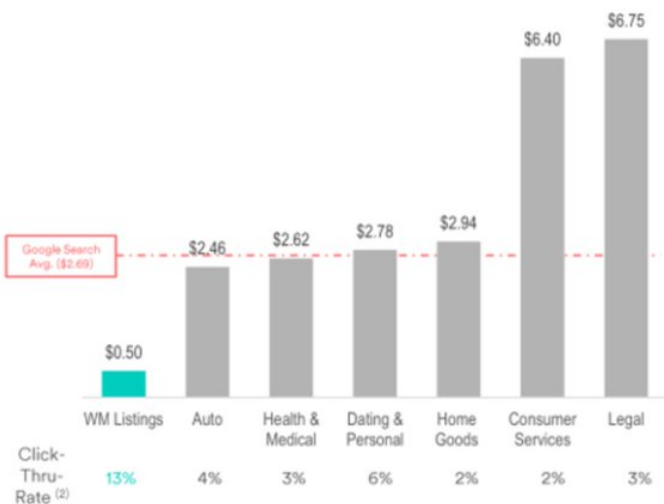


wm ads has a long runway for price adjustments. Average CPC is only \$0.5 compared to \$2.5 in other industries.

We Have Significant Runway for Pricing Growth

wmh

WM Cost per Click vs. Google Industry Benchmarks ⁽¹⁾



Estimated Marketing Spend as % of Revenue for WM Clients vs. Traditional Businesses ⁽³⁾



(1) Cost per Click, WM information from internal calculations. Google industry information sourced from Wordstream and represents Google Search network CPC information by industry. Note, Google Search Avg. represents all industries, not just those shown.
 (2) CTR is defined as Click-Through-Rate. WM CTR is defined as the total number of homepage banner carousel impressions divided by the number of clicks on the homepage banner carousel. Google industry CTR information sourced from Wordstream and represents Google Search CTR by industry.
 (3) WM information per third-party survey done for WM. Marketing budget as percent of other industries from revenues per Jun 2020 Gartner CMO Survey and Feb 2020 Deloitte CMO Survey

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On projections, they anticipate 40% CAGR through 2023 *with no new states legalizing*. I definitely anticipate new states legalizing by 2023 and expect more upside. Similar thesis to \$DKNG. Projecting constant 92-95% gross margins. Reminder: They are profitable!

FY20-23 Projected Financial Performance

wmh

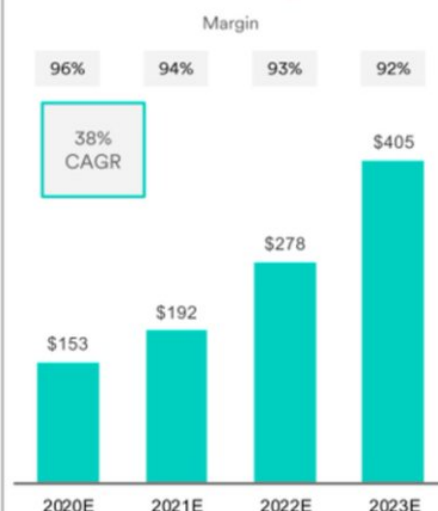
We expect to generate profitable growth (consistent with our historical performance) through continuing to scale our marketplace across all regions and driving deep client engagement across our BiaB platform

(\$ in millions)

Revenue



Gross Margin



EBITDA ⁽¹⁾



(1) Excludes Stock-Based Compensation

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Valuation:

\$SSPK is trading at roughly a \$386M cap and will own 17% of the entity yielding a full 2.2B market cap. The SPAC math is odd but I am taking the most conservative figure. There is a 6 month lock-up.

Transaction Summary

- SSPK to merge with WM
 - Pro forma Enterprise Value of \$1.4B
 - 6.8x FY21E Revenue, 4.7x FY22E Revenue
 - 28.0x FY21E EBITDA, 17.5x FY22E EBITDA
- \$325M PIPE raised at \$10.00 per share:
 - Including investment from funds managed by AFV Partners, the Federated Hermes Kaufmann Funds and Senvest Management LLC
 - Also includes a \$35M commitment from Silver Spike Capital
- 100% rollover by WM management
- WM holders subject to a 6-month lockup

Cash Sources & Uses

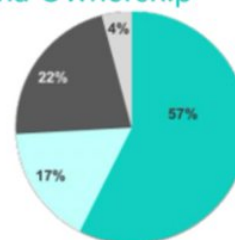
SSPK Cash-in-Trust	\$250
PIPE Proceeds	325
Existing Cash	10
Total Cash Sources	\$585
Cash to Balance Sheet	\$100
Cash Consideration to WM Holders	450
Fees & Expenses	35
Total Cash Uses	\$585

Valuation

Illustrative Share Price	\$10.00
Pro Forma Shares Outstanding	150
Post-money Equity Value	\$1,498
Plus: Debt	–
Less: Cash	(100)
Post-money Enterprise Value	\$1,398
FY21E \$205M Revenue	6.8x
FY22E \$300M Revenue	4.7x
FY23E \$440M Revenue	3.2x

Pro Forma Ownership

- Existing Shareholders
- SSPK
- PIPE
- SPAC Sponsor



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At 2.2B, they are trading at 11x 2021 revenue. As a SaaS/Ecomm product, I consider this to be a very fair valuation growing at roughly 40%.

Risks:

There are many. I'll categorize into:

- 1) Regulatory
- 2) Glassdoor
- 3) Recent reviews

1) Regulatory - I am not sure if Federal legalization is a benefit or risk. If legalized, business opens up nationwide, but competitors will come into the space. That said, local laws will still remain and be an important moat.

2) In 2019, when they had to remove a chunk of California vendors, they had layoffs. You can see the impact on their Glassdoor reviews if you sort by chronological. I hope it doesn't have long lasting impact. Also some reviews about poor behavior. Watching this like a hawk.

3) Recent reviews - They apparently removed delivery in Canada. This has caused a spike in bad reviews on their site. Watching this closely but Canada is an important market.



colton pierce

★★★★★ December 15, 2020



13



No more deliveries, weedmaps has practically become useless cause thats all people used it for so it was a good run weedmaps, lots of high times cause of you, but i guess they dont want people on there app, goodbye weedmaps, deleting thale app till i hear there are deliveries again otherwise, its useless. Btw i would have givin 0 stars if i could have but at one point i reviewed it as 5, hows how far something can fall



Johnnathen Evans

★★★★★ December 12, 2020



20



Used to be amazing, now all local deliveries have moved on and the site is useless unfortunately. Finding a legal storefront or the OCS page was never an issue, I was using this service to avoid storefronts and licensed distributors in all reality. Sad it's gone.



Grave Gaming

★★★★★ December 9, 2020



16



New updates ruined the app, you can't search by price anymore, the entire deals Section is ruined, and you can't find half the places selling, this is garbage and the person responsible for these changes needs to be removed from the Development team and FAST Will be Uninstalling until Weedmaps is re...

[Full Review](#)



S Francis Nusbaum

★★★★★ November 27, 2020



24



Always fun, fast when ordering online and you can skip trying to figure out what you want and look at your own pace and own time. then pick it up or have it delivered

I like the play into MJ through a SaaS/E-Comm/Marketplace lense. I am not comfortable investing in the growers because I don't have experience to know the brands. Until we have full financials and more data, I am starting with a smallish 2% position.

The valuation is very reasonable and I see a lot of upside from here, on valuation alone. Could easily trade to 20x sales, a double from here. With a 40% CAGR and I think this could be a 10-15B company in a few years.

I haven't seen any discussion on this name, so I hope it was helpful. This is my first long thread so feedback would be appreciated. [@JonahLupton](#) [@TheMarkCooke](#) [@jablamsky](#) [@StockMarketNerd](#)