

Health Care Equipment & Supplies

5-Sep-2019 D

SmileDirectClub (SDC)

Develops and sells at-home teeth straightening systems.

Investment Rating: 9 = Underperform

Offering Data (in mil, except per.	chara)
Olicing Data (in mil, except per .	sinarcj
File Date	16-Aug-2019
Expected Offer Date	11-Sep-2019
Price Range	\$19.00 - \$22.00
Shares Filed (% insider)	58.5 (0%)
Deal Size	\$1,200.0
Use of Proceeds	Bonuses, obligations
Capitalization (in mil. except ber	share)

Supremieron (in mil, except per oburc)	
Price (at midpoint)	\$20.50
Shares Outstanding	388.1
Market Value	\$7,956.4
Enterprise Value	\$8,015.7

IPO Underwriters	(*bookrunner)
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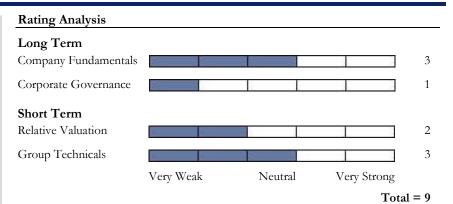
J.P. Morgan*	Citi*
BofA Merrill Lynch*	Jefferies*
UBS Investment Bank*	Credit Suisse*
Guggenheim Securities	Stifel
William Blair	Loop Capital Markets

Corporate Data

Employees	5,000
Year Founded	2014
Headquarters	Nashville, TN
Website	www.smiledirectclub.com

Income Model			FY Ended Dec	
(\$ in mil)	2018A	2019E	2020E	2021E
Sales	\$423.2	1.00		
Gross Profit	289.3			
EBITDA	-16.9			
EBIT	-45.6			
Net Income	-74.8			
EPS	-0.19	-		-
Gross %	68.3%			

Balance Sheet	Actual	Adjusted
(\$ in mil)	6/30/19	6/30/19
Cash	\$149.1	\$506.2
Working Capital	184.9	542.0
Total Assets	542.5	897.3
Total Debt	208.4	208.4
Shareholders' Equity	199.2	554.0



Investment Highlights

Founded in 2014 as a direct-to-consumer website selling clear, plastic teeth aligners from Align Technologies (Invisalign), SmileDirectClub has rapidly expanded to become one of the largest providers of clear teeth aligners in the US, having served over 700,000 customers to date. The company offers its aligners for \$1,895, which it claims is up to 60% below traditional orthodontic treatments, and provides access to treatment regardless of location (only 40% of US counties have orthodontists). Additionally, the company has opened over 300 SmileShops globally, including in CVS and Walgreens locations, where customers can do the aligner fitting with a technician, if they choose. Now, the company hopes to continue its rapid growth by adding more SmileShops (20 per month through year-end 2019), expanding internationally (entered Australia in the 2Q19), and adding products (e.g. Nighttime Aligners).

SmileDirectClub's growth has been very impressive to date, and its move to all inhouse manufacturing has led to significant gross margin improvement. However, because the clear aligners are not differentiated in any substantial way, the company has had to increase spending on sales and marketing to stay ahead of a growing pool of competitors, making the path to profitability unclear. Although the management team has experience running direct-to-consumer businesses, this deal is structured to enrich the founding family and insiders and leave control in their hands, and the proposed valuation does not give new investors anything to smile about.

Bull Insights

- Large potential TAM includes 124mm people in the US, 500mm globally
 - Grew sales from \$21mm in 2016 to \$423mm in 2018 (+84% in MRQ)
- Gross margin jumped 12 points to 78% in the 1H19

Bear Insights

- Large losses due to high marketing costs (56% of 1H19 revenue)
- Negative free cash flow due to financing, which carries delinquency risk
- Unclear technological moat; numerous new competitors
- Insiders will receive IPO proceeds and retain supervoting shares
- Valuation appears expensive at 6.5x 2020 EV/sales

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