Porter & Co.

THE BIG SECRET ON WALL STREET

The Busted IPO With 10X Upside

- We're With Druckenmiller on This Undervalued E-Commerce Giant
- Food, Sports, and Consumer Goods... It Delivers It All

FROM THE DESK OF PORTER STANSBERRY

#47
APRIL 5, 2024

The Big Secret

The under-the-radar e-commerce giant has developed the largest and most sophisticated logistics network in its market. Harnessing the power of cutting-edge robotics and AI technologies, it continuously finds new ways to get more products to more consumers faster than any of its competitors

The Busted IPO With 10X Upside

We're With Druckenmiller on This Undervalued E-Commerce Giant

Food, Sports, and Consumer Goods… It Delivers It All

B.K. was weeks away from life-changing wealth – when he decided to throw it all away.

In 2014, the Harvard dropout had spent the previous four years building a thriving online marketplace. Similar to eBay, the business allowed third parties to buy and sell a wide range of merchandise. Within three years of its founding, the business was making more than $1 billion in sales and was profitable.

B.K.'s investors urged him to partially cash out through an initial public offering ("IPO"). But as the IPO date neared, B.K. couldn't shake the nagging feeling that he had fallen short of his founding vision for the company – which he described in a 2018 *Business Insider* interview:

> *"We don't believe that a company should exist or that a company should be created to strive for a 5% or 10% better customer experience… Our vision, our goal, what we aspire to, is to create a customer experience that's 100 times better…. I had this moment of clarity where [I asked myself], 'Is this really living up to that mission?' … Not even close. We're still a long ways away."*

So at the 11th hour, just as the IPO documents were about to be sent to potential investors around the world, B.K. pulled the plug – walking away from a nine-figure windfall, more wealth than the average person could achieve in several lifetimes. He later said it was the hardest decision he'd ever made.

After canceling the IPO, he began retooling the business to deliver his vision of a revolutionary customer experience. B.K. started by addressing the biggest customer pain point at the online marketplace he previously founded: product delivery. This required a massive investment into building the largest logistics and delivery network in the country. In the process, he transformed the business from a marketplace into an e-commerce juggernaut.

By 2021, the business had displaced its larger and most established rivals with record-fast delivery speeds and unmatched levels of customer service. B.K. had built a company that lived up to his vision, as the country's dominant e-commerce company. And seven years after turning down a personal fortune, he went ahead with the IPO in early 2021.

The company raised $4.6 billion in a public offering priced at $35 per share. On its first day of trading, the shares opened at $63.50, or 81% above the IPO price. B.K.'s 10.2% stake in the company was worth over $10 billion, making him, on paper, one of the world's richest men (and more than 100 times what he'd have earned if he'd gone public in 2014).

But the victory was short lived…

The buying frenzy priced the business to a market capitalization exceeding $100 billion during the first day of trading. With the $12 billion in sales it generated in 2020, the shares commanded an outsized 8x price-to-sales ratio. For perspective, even at today's near-record high valuations, the S&P 500 trades for just over 2x price-to-sales. And despite the success it had achieved as the fastest-growing, most dominant e-commerce company in its home country, it had yet to reach profitability.

The early exuberance quickly turned to profit taking.

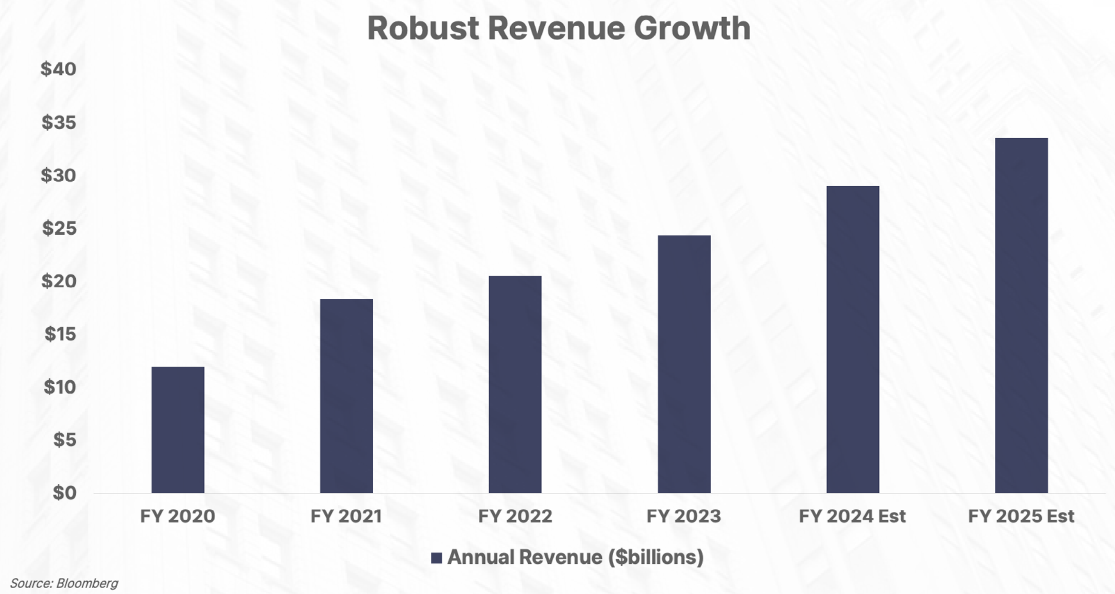
Within two months of the IPO, shares fell 50% from their peak of $69 to below the original offering price of $35. B.K.'s business had become what's known on Wall Street as a "busted IPO" – meaning anyone who bought into the offering was down on their position. Selling begot selling as investors cut their losses, further pressuring shares.

Even the company's pre-IPO investors began unloading their stakes to protect their profits. This included the company's single largest shareholder – Japan's Softbank Vision Fund, which had invested $2 billion in 2018 at a $9 billion valuation. SoftBank owned more than 35% of the company at the time of the IPO. But after selling billions of dollars worth of stock over the last three years, it owns 22% today.

The persistent selling by the company's largest shareholder, plus by countless others who saw their early gains evaporate, caused a rout in the stock price. From their peak, the shares have lost 70% of their value and now trade around $18.

However, over that same time period, the business itself went in the opposite direction. The company used the $4.6 billion in IPO proceeds to make high-returning investments, including building the most advanced logistics hub in all of Asia. Fueled by cutting-edge robotics and artificial intelligence ("AI"), the company's automated logistics network has transformed the business into a cash-flow juggernaut. Last year, the business produced a record $1.4 billion in net income and $1.8 billion in free cash flow.

Meanwhile, the company is growing rapidly. Since 2017, revenues have increased 10-fold from $2.4 billion to $24.4 billion last year. Analysts currently estimate the business will expand nearly 40% over the next two years to reach $33 billion by 2025.



It's also developed several offshoot delivery and streaming businesses that have become the dominant leaders in their markets.

With the share price collapsing and the business results improving, the stock now trades at a compelling 1.3x price-to-sales ratio. For comparison, that's a 40% discount to Amazon's 3.4x valuation – for a business growing twice as fast.

While selling by large investors like Softbank have weighed on the share price, there's one legendary investor taking the other side of the trade. Hall of Fame fund manager Stanley Druckenmiller, who was an early private investor in the business, went on a buying spree during its post-IPO slump. He's bought over 10 million shares over the last three years, making it the second largest position in his $3.1 billion portfolio.

In this issue, we're betting with Druckenmiller on this burgeoning e-commerce giant.

A Company Its Customers Can't Live Without

The company we're recommending is **Coupang (NYSE: CPNG)**, founded by Bom Kim in 2010.

A decade after Bom Kim pulled the plug on his first IPO, he started in 2014 to transform Coupang into an e-commerce company. It is now South Korea's e-commerce leader, with 25% market share. Although Coupang primarily operates in South Korea, the business is headquartered in Seattle, where it taps into high-tech talent for optimizing its AI-powered logistics network (more on this later).

The South Korean economy offers a particularly attractive e-commerce market. The country has the second-highest rate of e-commerce adoption globally, behind China. So even though it only ranks as the 13th largest economy in the world by GDP, its e-commerce market is the fifth-largest globally.

Last year, the business generated $24.4 billion in revenue. Coupang became profitable in Q2 2022, and it produced $1.4 billion in net income last year.

In addition to its thriving e-commerce segment, Coupang has also created several additional business lines in recent years. This includes the 2018 launch of Fresh, now the largest online grocery delivery service in South Korea. In 2019, it introduced Coupang Eats, the third-largest restaurant delivery service that is quickly closing in on the number-two spot. And in 2020, the company started Coupang Play, now the largest domestic streaming service in South Korea.

Additionally, Coupang's early forays into international expansion have begun to catch on. The company entered the smaller Taiwan market in July 2021, where its revenue trajectory has exceeded the growth rate in its home market of South Korea. This includes a doubling revenue in each of the last two quarters, while at the same time, Coupang mobile app has become the most downloaded in the island nation for both Apple iOS and Android devices.

While he has been a master at allocating capital and a successful and early adopter at using AI to drive efficiencies, Bom Kim's secret to success comes from a relentless focus on delighting customers with the best possible experience, as he explained at a 2021 investing conference:

> *"What takes you to the next level is to not settle because the customer will never settle. And to challenge yourself to say: How can we let the customer have it all? Because if the customer has it all, they can't live without you."*

This forms the basis of the Coupang overarching philosophy – and the reason Bom King abandoned his first IPO: to create a service so valuable, and so impactful on its customers' lives, that they ask: "How did I ever live without Coupang?"

In the world of e-commerce, delighting customers requires three key features: service, selection, and speed. Coupang found a way to win across all three metrics by following the Amazon playbook: spend years and billions of dollars building one of the most sophisticated logistics networks in the world.

But there was one key difference between the U.S. and South Korean markets that presented a massive extra challenge, which ultimately led to Coupang's greatest competitive advantage – and that helped catapult it to the next level.

The First Fully Integrated E-Commerce Platform

When Amazon began to evolve from an online bookseller to an e-commerce platform, it spent many years and billions of dollars investing in fulfillment centers. These are the critical warehouses that store inventory from third-party suppliers, providing a stockpile of products that make fast delivery times possible.

One area Amazon didn't need to invest in was the "last mile" delivery infrastructure, which moves products from fulfillment centers to customer doorsteps. That's because third parties like UPS, FedEx, and the U.S. Postal Service ("USPS") already operated a massive package delivery network. Amazon grew on the back of this established infrastructure, outsourcing last-mile delivery to these three carriers.

Amazon didn't begin building its own last-mile infrastructure until 2014. But even after a decade of investment, Amazon still relies on UPS and USPS to deliver millions of packages each year (it cut ties with FedEx in 2019).

In South Korea, there is no equivalent version of UPS, FedEx, or USPS package delivery. So Coupang had to build dozens of fulfillment centers, as well as create a last-mile delivery network from scratch.

While this extra investment presented a major short-term obstacle, it ultimately turned into a blessing in disguise.

Out of sheer necessity, Coupang created the world's first fully-integrated, end-to-end e-commerce platform. This included building its own custom-designed delivery vehicles, hiring thousands of full-time delivery drivers, and a supporting layer of other physical and digital infrastructure to seamlessly move packages from fulfillment centers to customer doorsteps. Coupang made these investments from day one, separating it from Amazon and other e-commerce companies that began building their infrastructure on top of third parties.

This gave Coupang full control over every aspect of the product journey, from the supplier to the customer's doorstep. As a result, Coupang can offer the ultimate level of customer service and convenience that its competitors have not been able to replicate.

For example, if a customer doesn't want delivery workers to wake sleeping babies with a doorbell, they can request a knock on the door instead. Or, if the customer isn't going to be home when a package will arrive, they can specify exactly where to leave the package – like behind a potted plant or under a stairwell.

And one thing Coupang will never do is leave a package at the front desk of an apartment complex. The company promises to personally deliver each item to the customer door. This extra level of convenience is only made possible because Coupang controls every aspect of the fully integrated delivery system, down to the individual drivers.

Each Coupang delivery worker carries a customized handset with a CRM (customer relationship management) interface that enables these hyper-personalized delivery preferences. Compare this with Amazon or any other e-commerce company, which can't control how a UPS driver or other third-party delivery worker handles their packages.

Coupang's end-to-end logistics network provides another benefit as well: since it delivers items in the original packaging to a customer's door, the company doesn't need to specially package goods for shipment through a third-party network. As a result, Coupang makes boxless deliveries for 85% of its orders. This eliminates the waste and hassle associated with customers having to dismantle and discard cumbersome cardboard shipping boxes. It also makes Coupang's return process the most seamless in all of e-commerce.

In the return process through Amazon and other e-commerce companies, customers must re-package the product, print out a shipping label, and go to their local post office. Coupang, on the other hand, allows customers simply to leave returned items on their doorstep. Just a few taps on the Coupang mobile app will alert a delivery worker to retrieve the unwanted item directly from the doorstep. And the refund is processed as soon as the item is retrieved.

These features make consumers' lives easier by eliminating virtually all of the friction associated with making a purchase or a return.

In Coupang's early days, investing in this superior customer service resulted in negative cash flows. Bom Kim was confident that delighting consumers would lead to profits in the long run. He sold investors on this strategy of spending aggressively for years without delivering any near-term profits. By 2018, four years after its transformation into an e-commerce company, Coupang had raised

$3.4 billion from some of the biggest venture-capital firms in the world including Softbank, Sequoia Capital, BlackRock, and Fidelity Investments.

This early funding allowed Coupang to build one of the most extensive distribution networks in South Korea. By 2018, this included over 50 fulfillment centers and thousands of delivery workers, helping Coupang to deliver 99.6% of its packages within 24 hours. This also enabled Coupang to expand its inventory selection to millions of different products.

One big advantage of building an e-commerce company in South Korea is the country's high population density. With 52 million people, its population is 16% the size of America's 330 million. But the total land mass only covers 1% of the area of the U.S. And because mountains make up two-thirds of South Korea's geography, most of its population congregates in a few large cities. As a result, it has one of the highest population densities in the world – making for much shorter distances between fulfillment centers and customer doorsteps.

The generous selection of its offerings, amplified by the speed and convenience of its deliveries, boosted Coupang into the number-one e-commerce player in South Korea by 2018, handling 1.7 million packages per day and generating $4 billion in annual revenue. Even more impressive, it reached this top position only four years after transforming itself from an online marketplace to an e-commerce delivery machine.

But it didn't stop there... backed by funding from its forward-looking VC investors, Coupang doubled down on wowing its customers by delivering more new features and benefits.

Finding New Ways to Delight Consumers

By 2019, Bom Kim noticed something strange in Coupang's delivery statistics... roughly a third of the company's orders were coming in between 10 pm and midnight.

This was a function of the country's hard-working culture. On average, South Koreans work 1,915 hours per year, one of the highest rates in the developed world. By comparison, American's work an average of 1,791 hours, with the French at 1,490 hours, and Germans at 1,349.

Long hours and late nights even extend to the country's school children. In South Korea, the average elementary-school student doesn't get home until 10 pm. This means many families don't have the downtime to begin planning for their next day until late in the evening.

Bom Kim spotted an opportunity for adding new levels of convenience for this industrious lifestyle, with the launch of Coupang's Dawn Delivery in January 2019. This service allows customers to order products as late as midnight and receive deliveries by 7 am the next day. Not even Amazon, the e-commerce speed king, has been able to replicate this seven-hour delivery window (Amazon's cut-off time for next day delivery is noon).

Achieving this delivery speed required even more investment into building out its logistics network. These investments allowed Coupang to expand its best-in-class customer experience into additional business lines.

Coupang first expanded beyond e-commerce by launching its Fresh grocery delivery business in 2018. It began with next-day grocery delivery, and as it grew its logistics network, Coupang was able to leverage faster speeds with its grocery delivery as well.

In May 2020, Coupang launched its Rocket Fresh Same-Day Delivery – living up to its name for orders placed before 10 am. While competing services might offer similar delivery speeds in smaller local markets, they couldn't match the scope of Coupang's product selection or the scale of its reach. Coupang became the only online grocery-delivery service that offered a selection of more than 8,500 products, delivered within 24 hours across the entire country.

By Q2 2023, within just three years of its launch, Fresh was processing nearly $3 billion in annual shipments, making Coupang the largest online grocery distributor in South Korea.

Coupang's advantage over its fellow online grocery rivals came from the fully integrated logistics network that it first built to serve its e-commerce business. Coupang was able to build its grocery-distribution system on top of the already massive logistics infrastructure it created for its e-commerce business. And that's the key competitive advantage that permeates Coupang's entire business.

Distribution as the Ultimate Competitive Advantage

Over the last decade, Coupang has amassed the largest e-commerce distribution network in South Korea. This includes more than 100 fulfillment warehouses across 30 cities, spanning nearly 20 square miles. For perspective, that's the equivalent of nearly 600 soccer fields, or larger than the area of New York's Central Park. This distribution footprint is larger than all of Coupang's domestic competitors combined, and puts 70% of the Korean population within seven miles of a Coupang logistics center.

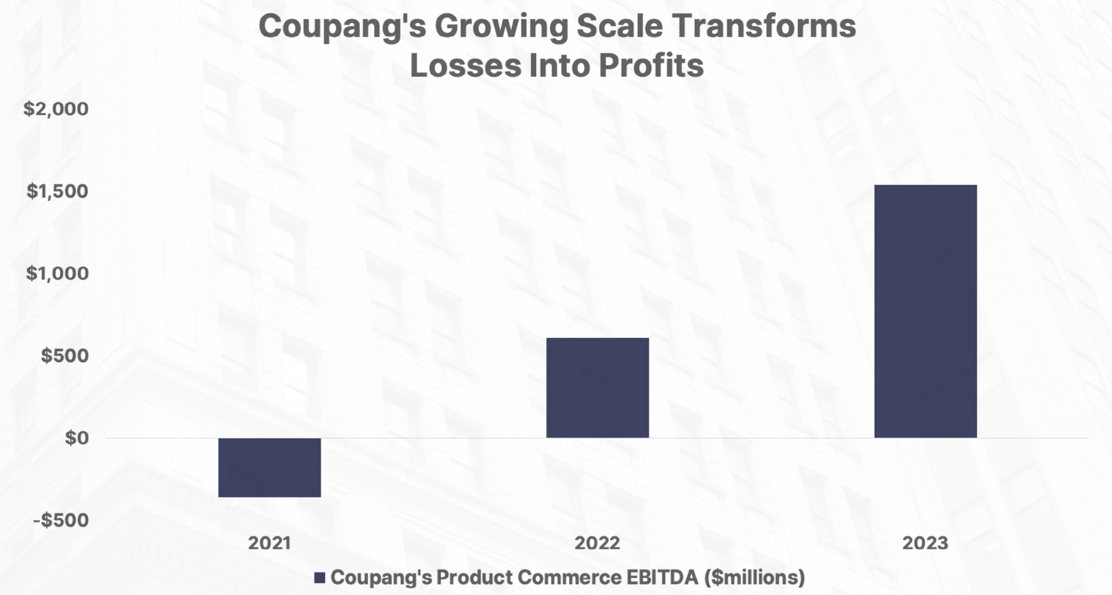
Coupang also invests heavily into optimizing every aspect of this network. The company strategically located its headquarters in Seattle, home of fellow distribution giants Amazon and Costco Wholesale. This allows it to draw upon the top tech and logistics talent in the world to engineer and optimize its delivery infrastructure.

These engineers help coordinate Coupang's 15,000-plus delivery drivers, the largest number of directly employed drivers in South Korea. Because Coupang has full control over this massive fleet, it can arrange a constantly revolving presence of trucks for distributing items for both the e-commerce business and Fresh food delivery. Harold Rogers, Coupang's chief administrative officer, explained how it all works in a 2022 interview with the *Seattle Times*:

> *"Our Coupang trucks are ubiquitous. They're everywhere. That's why we can get the order there at 6 a.m. That's why we can pick up the reusable Fresh bags, why we can pick up returns, because our delivery people are always running these circuits, they're always in your apartment building, they're always in your neighborhood… the same truck bringing me my shoes is also bringing me my lettuce, carrots, and milk."*

While the heavy investment required to create this omnipresent distribution network resulted in many years of consistent losses, they ultimately paid off by 2022. By unleashing powerful economies of scale, Coupang began generating positive EBITDA (earnings before interest, tax, depreciation, and amortization) in 2022 from its e-commerce and Fresh grocery-delivery business.

Coupang reports both e-commerce and Fresh grocery-delivery together under its Product Commerce segment. The chart below shows Product Commerce moving from negative $361 million in EBITDA in 2021 to $1.5 billion by 2023:



Coupang's other business segment is Developing Offerings. These include product lines that are not yet generating earnings, but that hold the promise of future profitability: Coupang Eats restaurant delivery, streaming service Coupang Play, and international markets.

Still, they still add tremendous value to the overall business. They provide a powerful draw to bring new customers into Coupang's ecosystem, including driving subscriptions to Coupang's premium WOW service.

Coupang's WOW is the equivalent of Amazon Prime, which offers a range of benefits like unlimited next-day deliveries, for a monthly fee of 4,990 Korean won (less than $4).

Coupang launched WOW in October 2018. Over 150,000 customers signed up within a week of its launch, a number that's since exploded to 14 million – more than 25% of South Korea's 52 million people.

The growth has come from Coupang continually introducing new benefits for WOW subscribers, all in pursuit of Bom Kim's grand vision to make it "the most valuable subscription in the world."

As with its e-commerce business, Coupang is playing the long game by investing hundreds of millions of dollars into one-of-a-kind WOW membership features. The biggest investments have come from the company's Developing Offerings business segment, including the Coupang Play streaming service.

Building the Biggest Streaming App

Coupang launched its Play video streaming service in December 2020.

Coupang Play broadcasts some of the most popular TV shows, movies, and live events in South Korea. The company also invests in producing its own exclusive content that viewers can't find anywhere else. This includes things like the Korean *Saturday Night Live* ("SNL"), which Coupang adopted and licensed from the popular American comedy-skit show. The company even hired *SNL* creator Lorne Michaels and producer Jennifer Danielson to oversee the Korean *SNL*.

Live sporting events provide another powerful draw. Coupang secures exclusive rights to broadcast some of the country's most in-demand live games across all major sports. This includes broadcasting the latest Super Bowl LVIII in February. The company also secured the sole rights to host, sell tickets for, and broadcast the two opening baseball games between the Los Angeles Dodgers and San Diego Padres for the 2024 MLB season.

Hosted in the capital city Seoul, the event marked the first time regular-season MLB games had ever been played in Korea. Tickets to both games sold out within an hour of going up for sale. And the only way to buy these tickets was to become a Coupang WOW subscriber.

But Coupang expanded on the usual sporting-event broadcasting experience.

Soccer (or better known as football overseas) is the country's most popular sport. Coupang has invested into delivering a one-of-a-kind viewing experience for K League fans, the country's professional football organization.

The company launched Coupang Play Picks for K League games in 2023. The typical K League broadcast covers the game itself and 15 minutes of advertisements during halftime. Coupang eliminated the ads and created a Preview Show, featuring interviews with coaches and managers of both teams. They also invite celebrity guests, like Korean World Cup winners and Korean-*SNL* stars (below), to provide an added layer of entertainment and gaming commentary. Plus, Coupang doubled the production staff and the number of cameras traditionally used, to deliver a more immersive viewing experience.

Building this outsized infrastructure in coordination with the K League's existing broadcasting operations was an uphill battle. As Coupang Play Picks producer Jae Ahn explains:

> *"The Preview Show is a format that has never been tried in Korea… I was continually being told, 'We've never done things this way.'"*

But the persistence paid off, and the service is now being described by one media outlet as "broadcasting of a level never before seen in Korea."

Coupang is not just bringing broadcasting to a new level, but it's creating entirely new sporting events that have drawn massive crowds. Last July, Coupang sponsored an exclusive football match featuring top players from each of the 12 K League teams. The event was the first in what will become the annual Coupang Play series.

And because Coupang created the event, it became the exclusive venue for ticket sales and broadcasting through its streaming service – all made available *only* to WOW subscribers. Coupang sold out all available seats, with nearly 110,000 WOW subscribers attending in-person and another 3 million tuning into Coupang Play for the live stream.

These innovations made Coupang Play the most downloaded app in Korea, across all categories, on both Apple and Android devices, in 2022 and 2023. And in January of this year, Coupang Play registered 8.05 million monthly active users – making Coupang Play the most popular domestic streaming service in South Korea, and the first ever to surpass the 8 million active-user mark.

So even though Coupang Play isn't yet profitable on a standalone basis, it's creating a powerful flywheel effect across the rest of the business. It drives more new subscribers into the premium WOW subscription service… and once these customers join, they begin spending money on other Coupang services – including the increasingly profitable Product Commerce segment.

The Flywheel Effect Perpetuates Growth

The same flywheel effect is at work in the company's food delivery service, Coupang Eats, another key business in the company's Developing Offerings segment.

Coupang Eats provides food delivery from local restaurants, similar to U.S. services like DoorDash or UberEats. In mid-2020, Coupang launched the delivery service in a test market in the Gangnam region of Seoul. Success in Gangnam prompted a nationwide rollout of Eats the following year. Sales exploded, growing faster than any other product launch in Coupang's history.

Coupang Eats is now the third-largest food-delivery platform in South Korea, with over 5 million monthly active users (MAUs). And as the fastest growing delivery service in the country, Coupang Eats is rapidly taking market share from its larger rivals.

A recent study from data analytics firm IGAWorks showed that Coupang Eats grew 64.7% year-on-year in February to reach 5.74 million MAUs. Korea's number-two food-delivery service, Yogiyo, reported a 16.6% decline to 6.03 MAUs over the same period. Given this trajectory, it likely won't be long before Coupang Eats displaces Yogiyo for the number-two spot.

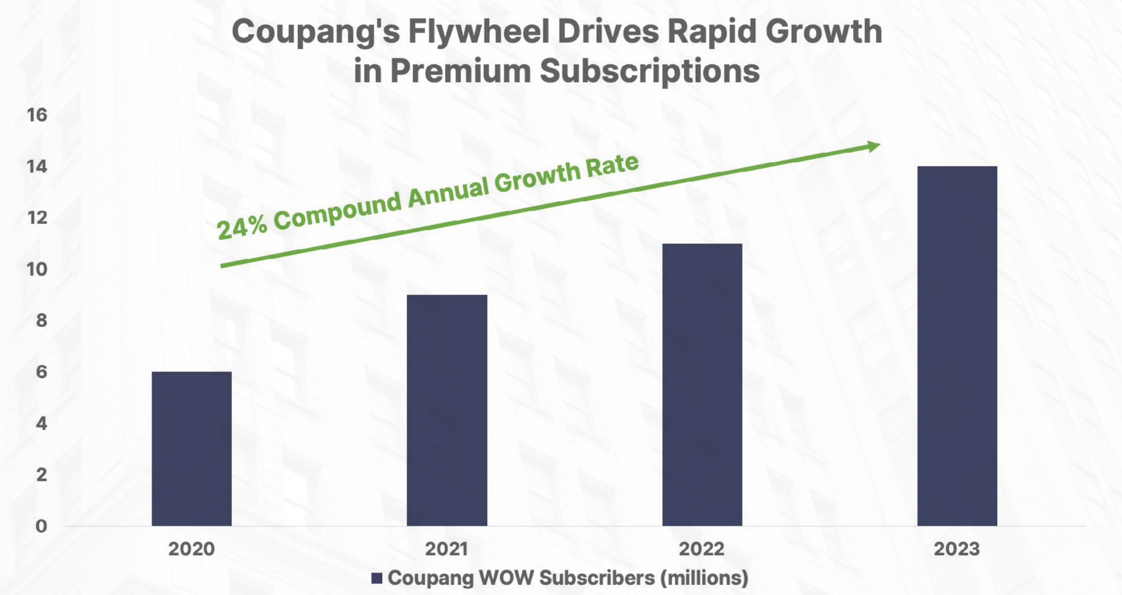
Meanwhile, South Korea's largest delivery service Baedal Minjok (Baemin) grew only 0.2% over the same period.

In April 2023, Coupang launched the Eats WOW membership savings program. This provided a 10% across-the-board discount for every Coupang Eats order for every WOW subscriber. Within one quarter of launching this discount, the company reported transaction volumes doubling in over 75% of the regions where they launched the savings program. Coupang Eats not only drives new WOW memberships, but it also drives more sales throughout the rest of the business. As the company explained in its Q1 2023 earnings call:

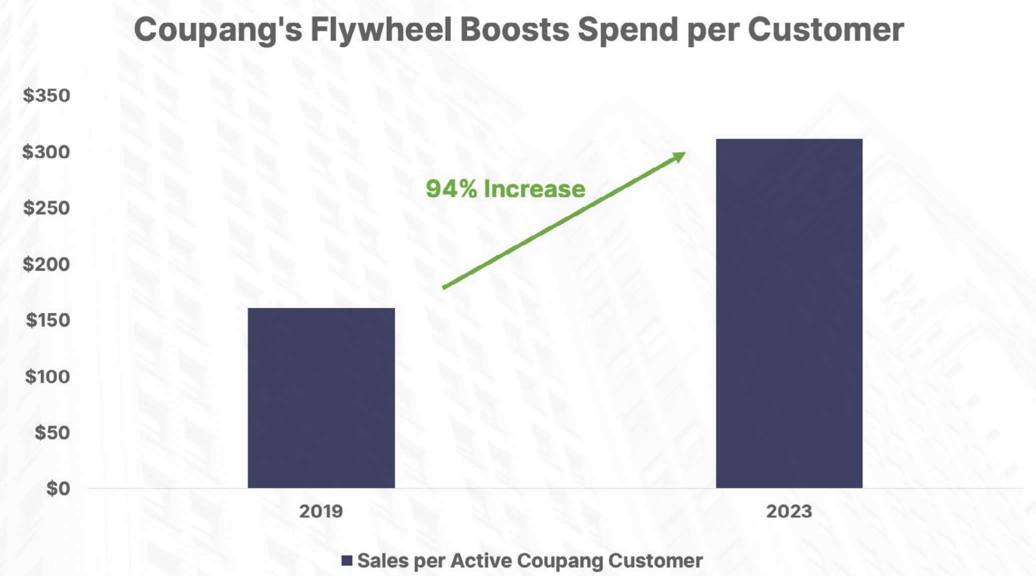
> *"We've observed that customers who purchase Eats, much like Fresh, have higher levels of spend and engagement on general merchandise offerings… members who purchased Eats spend over twice as much as WOW members who don't."*

We can see the impact of this powerful flywheel effect in Coupang's membership data. In the last several years since both Play and Eats were launched, the adoption rate of WOW subscriptions and the average spend per customer has surged higher.

From 2020 through 2023, Coupang's total active users grew from 15 million to 21 million, or a compounded annual growth rate ("CAGR") of 9%. Over the same period, WOW subscriptions have grown at more than twice that rate, from 6 million to 14 million, or a 24% CAGR.



The growth in WOW subscribers opens up additional benefits across Coupang's business, which in turn leads to more sales per customer. Since 2019 a customer's average spend per year has nearly doubled from $161 to $312:

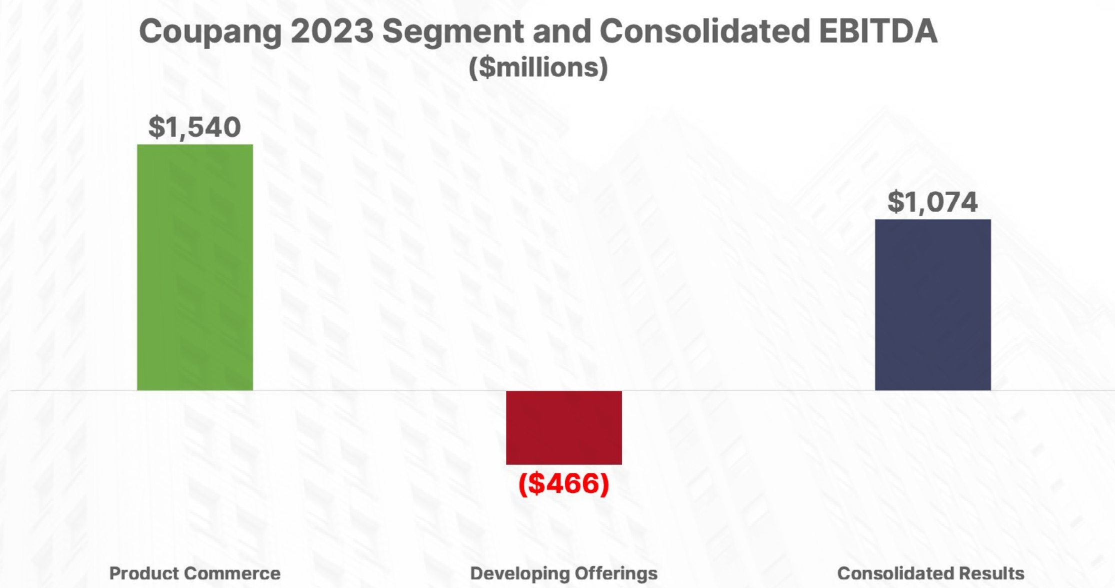


This growth in sales per customer has unleashed economies of scale, allowing Coupang to spread its operating costs over an increasing number of profitable transactions. This has played a big role in turning Coupang profitable, starting in 2022 and accelerating through 2023.

Last year, Coupang generated $1.4 billion in net income and $1.8 billion in free cash flow. Both metrics enjoyed a one-time boost from an $895 million adjustment in tax reserves – cash previously set aside to cover tax liabilities. Coupang was able to reduce this tax liability by offsetting its current income with prior operating losses.

We can dig into this one-time tax impact by analyzing the business through EBITDA, which provides a measure of the core operating business, without any impact from shifting tax rates. It's also worth noting that management anticipates that EBITDA will converge with free cash flow over the long run. As such, EBITDA should serve as a good approximation for the cash-generating capabilities of the business.

Last year, Coupang produced a record $1.07 billion in EBITDA across its entire business. Notably, these operating profits have come despite the drag from its Developing Offerings segment, which lost $466 million in EBITDA in 2023. Offsetting this loss, the Product Commerce business (which includes merchandise e-commerce and Fresh grocery delivery) generated $1.54 billion in EBITDA:



Relative to Coupang's $24.4 billion in sales, the $1.1 billion in EBITDA translates into a 5% EBITDA margin. Management projects a long-term EBITDA margin of 10%.

We see this as a realistic target. First, consider the already-profitable Product Commerce side of the business. The $1.54 billion in EBITDA was generated on $23.6 billion in sales last year, or a 6.5% EBITDA margin. That's more than double the 3.0% EBITDA margins generated in 2022, and thus the trend is moving quickly in the right direction.

Over time, the Developing Offerings should transform from an earnings drag into an earnings contributor. One thing we like about Bom Kim's investment strategy is his disciplined capital-allocation strategy. He's willing to play the long game and lose money over the short term if the investments made today have the potential to achieve profitability in the long run.

He does this using small investments with limited risk to test the thesis. When these investments don't show return potential, he cuts them without hesitation, as he described on Coupang's Q1 2023 earnings call:

> *"And of these [Developing Offerings] opportunities, we invest only in those that we believe will generate significant free cash flows in the future. Efforts that demonstrate potential to achieve both a meaningful customer experience and significant free cash flow in the future earn their way to more significant investments. And as you point out, we've also unflinchingly discontinued investments that have not demonstrated the potential to achieve these objectives in the past."*

The best example of this disciplined investment approach can be seen in one of Coupang's other key Developing Offerings initiatives beyond Eats and Play – international expansion.

International Expansion: the Next Leg of Growth

Coupang made its first move into international markets starting with Japan and Taiwan in 2021.

By Q1 2023, the company closed its Japan operations when they didn't show the returns Coupang expected. At the same time, the company ramped up its investments into Taiwan as the results showed the promise for profitability, as management explained on its Q1 2023 earnings call:

> *"In our international initiatives, we shuttered our operations in Japan, where we weren't producing the returns we'd hoped for. In contrast, we like what we've been seeing in Taiwan, which is showing the same signs of transformative potential that we saw in Korea when we launched Rocket Delivery. While it's still early and we will remain disciplined capital allocators, investing more only if the underlying metrics validate our convictions, we're excited about the potential we're seeing."*

The following quarter, as the company ramped up its investments into Taiwan, Coupang became the most downloaded mobile app in the country. On Coupang's most recent earnings call, for Q4 2023, management noted that the number of customers and sales doubled over the prior two quarters. This growth trajectory exceeds the pace of adoption that Coupang achieved in South Korea at a similar point in its history.

Coupang also expects to reach profitability in Taiwan faster than it achieved in its home market, as management noted on the Q4 2023 earnings call:

> *"In Taiwan, we're able to leverage the advanced technology, learnings, and processes, among other assets, that we've developed over many years. We expect that to enable us to reach profitability in Taiwan faster than we did in Korea."*

And therein lies the final key piece of the Coupang success story, and one that the market has largely ignored so far. That is, Coupang has become one of the biggest beneficiaries of the AI revolution – unlocking massive cash-flow-boosting efficiencies across both its existing business, as well as the new business lines it's entering.

The Hidden AI Winner

Well before the November 2022 launch of ChatGPT that kickstarted the AI frenzy across financial markets, Coupang was investing heavily into AI technologies to turbocharge its operational efficiency.

One of the biggest AI investments Coupang made was the construction of its $255 million Daegu fulfillment center, located 150 miles south of Seoul. The 10-story facility, opened in March 2022, holds a volumetric footprint equivalent to 45 soccer stadiums – making it the largest fulfillment center in Asia.

More important than its sheer size is the cutting-edge robotics and automation technology throughout the factory. This includes more than 1,000 automated guidance vehicles ("AGV") that operate on machine-learning AI software. The AGVs scan barcodes on the walls and factory floors, autonomously moving about the factory floor to sort and deliver packages from bulk sorting areas all the way to the final assembly line.

Driverless forklifts transport and organize heavy, high-volume products. Smaller AGVs stock individual items into portable shelves (shown below), which can then be automatically sorted and moved from point A to B.

On the final assembly line, where products get sorted before delivery, hundreds of robots deliver packages to their human workers, who prepare the packages for their final destination.

These AGVs save human workers from the back-breaking labor of moving hundreds of thousands of packages each day, reducing manual workloads by nearly 65%. And the autonomous factory has delivered a major boost for Coupang's bottom line.

The labor-saving investments into automation have delivered cost savings that Coupang can pass along to its consumers. As one example, consider one of the major cost centers for e-commerce companies: the losses incurred from returned items.

In Q2 2022, thanks to the AI efficiencies gained from its newly automated Daegu factory, Coupang reported a 30% year-on-year decline in losses on returned items. Coupang management used these learnings to "act as a test bed and an advanced base to spread our 'high-tech DNA' to other logistics centers."

The company has since rolled out AI tools across its entire logistics network. This includes a machine-learning algorithm that factors in things like seasonal shopping trends, weather, and region-specific customer-ordering patterns to calculate the optimal inventory levels across its more than 100 fulfillment centers. It uses the same data to constantly optimize the routes across its 15,000 delivery workers to reduce delivery times and costs.

By Q1 2023, these operational efficiencies began making a major impact in the company's financials. That quarter, Coupang produced a 570-basis-point (bps) improvement in net income margins – from negative 4.1% to 1.6%. The gains came almost entirely from operational efficiencies, as management explained on the Q1 2023 earnings call:

Porter & Co.

> *"The majority of the nearly 600 bps improvement in profit margin this quarter came from operational improvements in Product Commerce, not benefits from advertising, Eats, or WOW membership. It was also not driven by one-time cost-cutting measures like layoffs. And more importantly, we achieved these profit improvements without sacrificing the customer experience. In other words, without raising prices to increase margins, rolling back benefits, or compromising service levels."*

These operational investments have helped Coupang position itself as the low-cost industry leader. A recent study by consultancy KPMG showed that Coupang has a 25% to 60% price advantage compared to major competitors for its top-selling items.

Coupang is passing these operational-efficiency savings onto its premium WOW subscribers, beyond just offering the lowest-cost items. It offers things like rock-bottom-minimum free shipping thresholds, including its $11 minimum order for free Fresh grocery deliveries – the lowest in all of South Korea. And other benefits like free Coupang Eats deliveries, with market-leading 10% discounts on orders across the board.

By finding new ways to delight consumers, Coupang continues cementing itself as the leading e-commerce player in South Korea. And it's using the learnings from its home country to expand into promising international markets like nearby Taiwan.

For investors, the bottom line is that Coupang is now an increasingly profitable business, with an ever-expanding competitive moat, and a long growth runway of future growth opportunities. Best of all, because of the post-IPO weakness in its share price – which we address below – the market is offering the business at an attractive price that could deliver market-crushing returns going forward.

Delivering 10x Returns Over the Next Decade

Since Coupang's 2021 IPO, the share price has fallen 50% from its original offering price of $35 per share. The company raised $4.3 billion at that $35 share price, and has put the money to excellent use over the last three years. Investors buying into the business today get the full benefit of that cash at a 50% discount. Even better, investors buying shares today are getting the benefit of the growth and returns Coupang has realized from investing that cash over the last several years. Growth that has not been reflected in the price of CPNG shares.

Coupang made excellent use of this capital, establishing one of the largest and most sophisticated e-commerce logistics networks in all of Asia. It also grew Fresh into the number-one online grocery seller in South Korea, established Play, the country's number-one streaming service, and Eats, the soon-to-be number-two food-delivery platform. Finally, it found a promising new market for international expansion in Taiwan.

Meanwhile, the growing scale of the business plus the investments made into cutting-edge robotics and AI-powered technologies have transformed Coupang into a cash-flow juggernaut – producing more than $1 billion per year in profits and cash flows. And it's built up an impressive war chest of $5.2 billion in cash on its balance sheet.

At $18 per share, Coupang trades at a market capitalization of $31 billion and an enterprise value ("EV") of $29 billion. That puts its current valuation at an attractive 1.3 EV-to-sales ratio. For a frame of reference, Amazon currently trades at a 3.4 EV-to-sales ratio. But Coupang is growing twice as fast as Amazon, with revenue increasing 40% annually over the last five years, compared with Amazon's 20% annual growth over the same period.

Looking ahead, Coupang has a long runway of growth. It is already the dominant e-commerce leader in South Korea, but Bom Kim has set his sights on a much larger market: all commerce in South Korea, excluding sales of automobiles and fuel. This represents a total addressable market of roughly $500 billion, or more than twice the size of the $200 billion e-commerce market in South Korea.

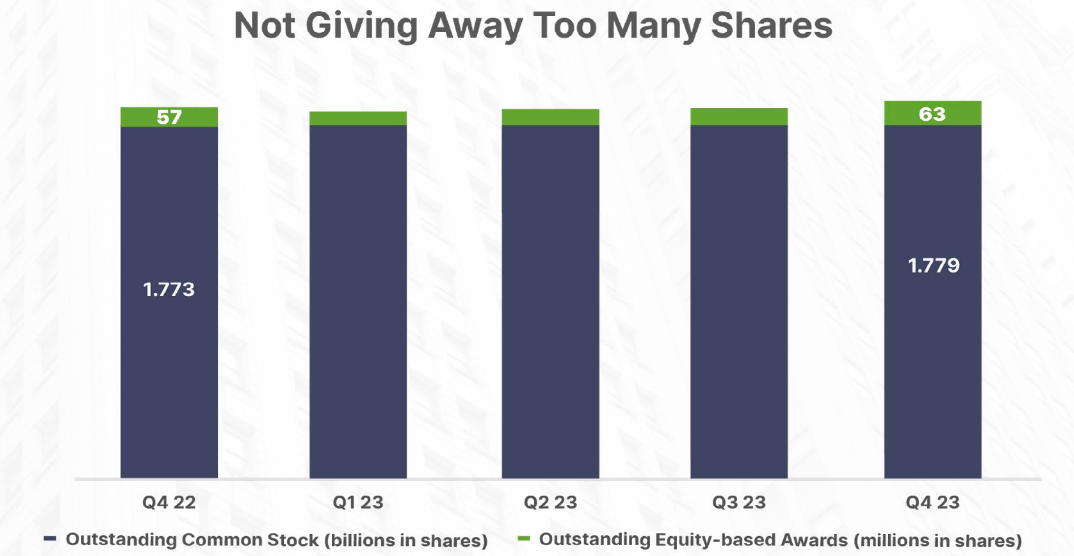
The company has already made significant progress expanding outside its core e-commerce business, with the Fresh grocery delivery, Play streaming service, and Eats restaurant delivery. Despite this progress, the company only owns a single-digit share of that $500 billion consumer market in South Korea.

International expansion also offers a future source of growth. Coupang has successfully deployed its e-commerce model in Taiwan, where sales have doubled in each of the last two quarters. At half the size of South Korea, with a population of 24 million, Taiwan boasts many of the same characteristics that helped propel Coupang's business model: high population density, wide-scale e-commerce adoption, and similar levels of per-capita income.

Finally, Coupang will also benefit from the rising tide of overall economic growth in its home country. E-commerce alone is projected to grow roughly 7% per year through 2030, while the overall retail-commerce market is expected to grow 4%. We expect the company will continue expanding at above-market rates by continuing to take share from its competitors, as it's done for the last decade.

Adding it all up, we've put together three different bull case scenarios for Coupang over the next 10 years – summarized in the table on the next page. We assume revenue growth will slow from its previous pace of 40% annually to somewhere in the range of 12% to 20% as the company matures. We also expect Coupang will reach its target of 10% EBITDA margins, and that EBITDA will continue to converge with free cash flow ("FCF"). If Coupang achieves these targets, we expect the business will trade at a 25x FCF multiple.

Finally, there's the question of share count. As part of attractive compensation packages, many fast-growing tech companies routinely issue generous amounts of stock to employees that dilute existing shareholders. But one thing we like about Coupang is that Bom Kim manages the business with low rates of share-count dilution. Share count is one of the first issues mentioned on the company earnings calls, and also makes up the first slide of its investor presentation:



Given that Coupang is accumulating excess cash on its balance sheet, we see the potential for Coupang to eventually transition from issuing shares to repurchasing them. We assume 1% annual share dilution through 2025, followed by 1% annual share-count reductions via buybacks starting in 2026. This brings the share count to 1.75 billion by 2033, down 6% from its current level of 1.85 billion.

The following table contains all of these assumptions for Coupang's business by 2033, resulting in a range of returns between 483% and 985% over the next decade:

Upside Scenarios for Coupang by 2033

Annual Revenue Growth Rate	Revenue ($billions)	Free Cash Flow at 10% Margin ($billions)	Market Cap at 25x FCF Multiple ($billions)	Share Price (1.745 billion shares)	Total Return from $18	Compounded Annual Return
12%	$73	$7.3	$183	$104.98	483%	19.3%
15%	$93	$9.3	$232	$133.18	640%	22.2%
20%	$136	$13.6	$341	$195.34	985%	26.9%

We believe these estimates may turn out to be conservative. Coupang has established an incredible track record since transforming its business model in 2014. Within the span of a single decade, it has emerged as South Korea's leading e-commerce company. It also launched several successful offshoot businesses in grocery delivery, restaurant-food delivery, and streaming that have rapidly taken market share from larger, more entrenched competitors.

Most important, Coupang has consistently optimized the efficiency of its world-class logistics network. This includes harnessing the power of AI and robotics to unleash a massive upgrade in its profitability.

Founder and CEO Bom Kim has shown great prowess in allocating the company's capital – exiting unprofitable business lines and doubling down on those that show returns. We're confident that over the next decade, Coupang will continue finding new ways to win in both its existing businesses and in yet-undiscovered markets.

As such, we believe revenue growth exceeding 20% per year is within the realm of possibilities. We're also optimistic that the company could find additional ways to unlock operational efficiencies, or enter new high-margin industries with cash-flow margins that exceed 10%. Alternatively, if Coupang runs out of investment opportunities, it may instead funnel a large portion of excess cash into share buybacks. In either of these scenarios, there's significant potential for a total return that exceeds 10x over the next decade.

In any event, we see high odds that Coupang will deliver market-beating returns from here.

Action to Take: Buy Coupang (NYSE: CPNG) up to $25 per share.

New to the *Big Secret* Portfolio? Start With Our Top 3 "Best Buys" Today

Our goal at Porter & Co. is to bring you world-class investment research, focused on "inevitable" businesses that you can buy and hold forever. This is the surest and safest path to building permanent wealth.

While we don't believe in timing the market, we do keep a constant eye out for bargains. In each edition of *The Big Secret*, we highlight three current portfolio picks that are at an attractive buy point. In addition to today's recommendation, we suggest you focus on these:

1. Burford Capital (NYSE: BUR) is the leading global provider of litigation finance, managing a $7.1 billion portfolio of assets. Burford funds lawsuits and when it wins, it takes a cut of the payout. These cases can turn small investments into supersized pay days. Burford's diversified portfolio provides the company many shots on goal to capture the outsized winners. When courts fully reopened in 2023, Burford's backlog of came to trial and reached final judgment. Burford expects these trends to persist, but they are already showing up in its business with net income surging 55% to $610 million in 2023. Plus, there's additional upside from a multibillion-dollar ruling in Burford's favor, that's not priced into shares today. We break down the latest on Burford in today's portfolio update.

2. Franco-Nevada (NYSE: FNV) – the **"Gold Digger" That Gets Paid to Do Nothing** – is the leading gold royalty company. Franco-Nevada provides financing for mining companies to do the capital-intensive work of pulling rocks out of the ground, in exchange for a percentage of the mine's output. As a result, Franco-Nevada is highly capital efficient, generating 56% free cash flow ("FCF") margins. Its world-class management team has established one of the best track records in the industry. FNV shares have sold off since October, when the Panamanian government shut down a large copper mine that is one of the company's largest royalty assets. The Cobre Panama mine contributed 20% of Franco-Nevada's revenue and 16% of net asset value in 2023 but FNV shares have dropped by 17% since August, effectively pricing in a total loss of the mine. Meanwhile, with the price of gold at all time highs, the rest of Franco-Nevada's portfolio is firing on all cylinders. As a result, the shares trade near their lowest valuation on record. (We provided more details of the latest developments in a recent **Portfolio Update**.)

3. Philip Morris (NYSE: PM) owns the international rights to Marlboro, the world's leading traditional tobacco brand. Over the last decade, the company has invested heavily in less-harmful alternatives to traditional tobacco products. These investments have made Philip Morris the global leader in less-harmful nicotine consumption, including its hit IQOS and ZYN brands. Unlike most traditional tobacco companies suffering from declining sales, Philip Morris' smoke-free business is delivering double-digit revenue and earnings growth. The company is incredibly capital efficient, with 40% operating margins and a 24% average return on capital. It's also a recession-proof business, and trades at an attractive valuation of just 14x earnings, with a 5.8% dividend yield.

Portfolio Update

The Big Secret on Wall Street PORTFOLIO

ENERGY & COMMODITIES	Ticker	Description	Purchase Date	Cost Basis	Closing Price	Yield	Income Received	Total Return	Status	Risk Rating (1 - 5)
EQT CORPORATION	EQT	U.S. Gas-Focused E&P	06-02-2022	$48.87	$36.76	1.29%	$1.07	-22.60%	Buy Under $50	4
BWX TECHNOLOGIES, INC.	BWXT	Nuclear Power Equipment	12-22-2022	$58.05	$101.14	0.91%	$1.16	76.23%	Buy Under $110	3
BITCOIN	BTCUSD	Cryptocurrency	05-11-2023	$27,011.85	$67,752.70	0.00%	$0.00	150.83%	Buy Under $50,000	4
PEABODY ENERGY	BTU	Coal Mining	06-22-2023	$21.29	$23.33	1.29%	$0.23	10.64%	Buy Under $25	4
CNX RESOURCES	CNX	U.S. Gas-Focused E&P	09-28-2023	$22.82	$23.91	0.00%	$0.00	4.78%	Buy Under $30	3
BATTLESHIP STOCKS										
CREDIT ACCEPTANCE CORP	CACC	Consumer Finance	07-28-2022	$560.28	$535.20	0.00%	$0.00	-4.48%	Buy Under $600	3
NOVO NORDISK	NVO	Pharmaceuticals	10-27-2022	$53.30	$123.96	0.50%	$1.40	135.20%	Hold	2
WINMARK CORPORATION	WINA	Specialty Apparel Stores	09-15-2022	$217.60	$335.59	0.95%	$17.00	62.04%	Hold	1
FRANCO-NEVADA CORP	FNV	Precious Metals Streamer	05-11-2023	$154.77	$119.13	1.14%	$1.38	-22.14%	Buy Under $125	2
PAYPAL	PYPL	Payment Processor	07-20-2023	$73.02	$64.54	0.00%	$0.00	-11.61%	Hold / Stop Loss at $50	3
FOREVER STOCKS										
DOMINO'S PIZZAS INC	DPZ	Restaurants	02-27-2023	$300.00	$482.86	1.25%	$6.35	63.07%	Hold	3
DEERE & COMPANY	DE	Agricultural Machinery	08-31-2023	$410.94	$407.11	1.44%	$2.82	-0.25%	Buy Under $450	3
DIAGEO PLC	DEO	Alcoholic Beverages	12-14-2023	$145.72	$145.81	3.44%	$0.00	0.06%	Buy Under $160	3
DANAHER	DHR	Medical Technology	03-21-2024	$253.69	$241.90	0.45%	$0.00	-4.65%	Buy Under $270	3
PROPERTY & CASUALTY INSURANCE										
W.R. BERKLEY	WRB	P&C Insurance	05-25-2023	$56.10	$86.61	0.46%	$1.33	56.76%	Buy Under $62	2
PROGRESSIVE CORPORATION	PGR	P&C Insurance	06-08-2023	$131.08	$209.24	0.19%	$1.05	60.43%	Buy Under $160	2
CHUBB LIMITED	CB	P&C Insurance	06-08-2023	$191.60	$252.23	0.16%	$3.44	33.44%	Buy Under $220	2
SKYWARD SPECIALTY	SKWD	P&C Insurance	06-16-2023	$24.66	$37.56	0.00%	$0.00	52.31%	Buy Under $35	2
EXPONENTIAL GROWTH										
TELLURIAN INC.	TELL	U.S. LNG Exporter	06-16-2022	$3.82	$0.58	0.00%	$0.00	-84.82%	Hold	5
EVOLUTION AB	EVVTY	Casinos & Gaming	11-30-2023	$103.77	$121.42	1.78%	$0.00	17.01%	Buy Under $145	4
INMODE	INMD	Medical Devices	01-11-2024	$20.19	$19.83	0.00%	$0.00	-1.78%	Buy Under $25	5
BURFORD CAPITAL	BUR	Litigation Finance	02-08-2024	$14.37	$15.71	0.80%	$0.00	9.32%	Buy Under $20	4
CELSIUS HOLDINGS	CELH	Energy Drinks	03-07-2024	$89.56	$79.47	0.00%	$0.00	-11.27%	Buy Under $100	5
COUPANG	CPNG	E-commerce	04-04-2024	$18.32	$18.32	0.00%	$0.00	0.00%	Buy Under $25	4
HIGH YIELD										
PHILIP MORRIS	PM	Tobacco Maker	07-14-2022	$89.62	$90.10	5.77%	$7.68	9.11%	Buy Under $105	1
VIPER ENERGY	VNOM	Oil and Gas Royalty	09-01-2022	$29.68	$38.34	5.95%	$2.24	36.73%	Buy Under $34	3
BLACK STONE MINERALS	BSM	Oil and Gas Royalty	02-16-2023	$15.90	$16.59	11.45%	$1.90	16.29%	Buy Under $18	2
SABA CAPITAL INCOME & OPPORTUNITIES FUND	BRW	High Yield Bond Fund	03-16-2023	$8.01	$7.33	13.92%	$1.14	5.74%	Buy Under $9	3
OAKTREE SPECIALTY LENDING CORP	OCSL	Specialty Investments	03-30-2023	$18.57	$19.32	11.39%	$2.27	16.26%	Buy Under $22	2
BETTER THAN THE MARKET										
CAMBRIA SHAREHOLDER YIELD	SYLD	Yield Focused ETF	01-05-2023	$70.49	$72.16	2.15%	$1.82	4.94%	Buy Under $65	2
WATCHLIST										
SHERWIN-WILLIAMS	SHW	Specialty Chemicals	NA	-	$329.86	2.93%	-		Buy Under $150	
ULTA BEAUTY	ULTA	Specialty Retail	NA	-	$448.64	0.00%	-		Buy Under $350	
NIKE	NKE	Athletic Footwear & Apparel	NA	-	$89.07	0.00%	-		Buy Under $75	
HOME DEPOT	HD	Home Products Stores	NA	-	$357.68	2.34%	-		Buy Under $240	
PAYCOM SOFTWARE	PAYC	Application Software	NA	-	$197.76	0.76%	-		Buy Under $150	
THE HERSHEY COMPANY	HSY	Consumer Luxury Staples	NA	-	$195.95	2.80%	-		Buy Under $165	

CLOSED POSITIONS	Ticker	Description	Purchase Date	Cost Basis	Sell Price	Yield	Income Received	Total Return	Status
HOVNANIAN ENTERPRISES	HOV	Homebuilder	06-30-2022	$42.79	$36.50	0.00%	$0.00	-14.70%	Sold Sept. 29, 2022
ACTIVISION BLIZZARD	ATVI	Video Games	03-02-2023	$77.71	$90.99	0.00%	$0.00	17.09%	Sold July 11, 2023
AMERIGO RESOURCES	ARREF	Base Metals	03-30-2023	$1.21	$0.91	8.84%	$0.04	-21.90%	Sold Oct. 12, 2023
DREAM FINDERS HOMES, INC.	DFH	Homebuilder	04-27-2023	$14.89	$20.69	0.00%	$0.00	38.95%	Sold Oct. 12, 2023
QURATE RETAIL, INC.	QRTEP	8% Cumulative Preferred Stock	01-19-2023	$40.64	$29.28	27.32%	$6.00	-13.19%	Sold Oct. 12, 2023
ANNALY CAPITAL MANAGEMENT	NLY	Real Estate Investment Trust	02-02-2023	$24.12	$17.78	19.80%	$1.30	-20.90%	Sold Oct. 12, 2023
MICROSTRATEGY INC.	CUSIP: 594972AC5	2025 Convertible Bond	10-13-2022	$758.00	$1,371.14	0.55%	$7.50	81.88%	Sold Nov. 9, 2023
ALTRIA	MO	Tobacco Maker	07-14-2022	$41.63	$42.03	9.33%	$4.74	12.35%	Sold Nov. 30, 2023
HALL OF SHAME									
ICAHN ENTERPRISES	IEP	Specialty Investments	12-08-2022	$50.65	$20.63	38.78%	$4.00	-51.37%	Sold May 25, 2023
ALTISOURCE ASSET MANAGEMENT	AAMC	Asset Management	07-06-2023	$58.00	$10.02	0.00%	$0.00	-82.72%	Sold Aug. 17, 2023

Burford's Business Is Booming – and 2024 Looks Strong

Burford Capital (NYSE: BUR) posted a strong 2023 fourth quarter to wrap up a record year for the leading litigation-finance company. Revenue tripled last year to reach $1.1 billion, while earnings per share soared to a record $2.74. Meanwhile, there's still major upside potential in BUR shares from a positive ruling in a multibillion-dollar case that's not yet fully reflected in the stock price. In addition, Burford is tweaking its business structure in a way that will make the company more profitable.

With courts around the world fully reopened in 2023, Burford's backlog of cases postponed during the COVID-era shutdowns began proceeding to final judgments. The company expects this trend to continue with a growing number of case closings in 2024 and 2025.

Recall from our **initial recommendation** in February that Burford won the largest judgment awarded against a foreign country in the history of the U.S. legal system – a $16.1 billion ruling against Argentina for nationalizing YPF SA, the country's largest oil company, and wiping out its shareholders.

Burford's contingency fee for the case is $6.2 billion. In all likelihood, some kind of settlement deal will work the final payment down to a fraction of this figure. Analysts estimate a settlement deal will likely bring Burford's payout to between $2 - $3 billion. For perspective, the company's total market value today is just $3.5 billion. So clearly, there's significant upside even if it recovers only 50% of the YPF judgment.

But the YPF resolution is not a done deal. The Argentine government is appealing the case, and the ruling on that decision is expected in the second half of 2024. Argentina's new President, libertarian Javier Milei, recognizes that Argentina expropriated YPF illegally and that the obligation should be paid.

Milei realizes that in order for Argentina to tap the international debt market and conduct business with the private sector, it must be trusted to pay its debts. If Argentina fails to pay this judgment, or a lesser settlement amount that satisfies all parties, it would further hurt the country's already-tarnished reputation to outside investors. Making Argentina a suitable jurisdiction for attracting international capital is a critical imperative for Milei's vision to turnaround the country's struggling economy. Argentina's annual inflation rate soared 211% in 2023. The country has defaulted on its debt nine times, including three times in the last 25 years.

Regardless of what happens next, YPF has already been a big win. For one, Burford already recovered $236 million from selling a portion of its potential stake in the judgment to several hedge funds. Even without receiving another dime, Burford has already secured a triple digit return on the case.

Plus, Burford is benefitting from the massive exposure from its successful litigation of the case. The record-setting YPF judgment has resulted in more than a 400% increase in article mentions of Burford or litigation finance in 2023 from the prior year. Burford is becoming widely recognized as the market leader in litigation finance, which should set the stage for growing demand in the future.

Meanwhile, Burford's portfolio of cases grows larger – from $4.6 billion in assets in 2020 to $7.1 billion in 2023. Burford's growing scale enables it to take on more types of cases – and to take risks on potential homeruns like the YPF case. These complex cases take longer to play out, but can yield higher returns if successful.

On top of that, Burford is restructuring its business to capture a higher percentage of the profits its portfolio produces. In the early days of Burford's history, limited access to capital markets forced the company to raise capital through hedge funds. In this structure, Burford charged investors a 2% annual fee on assets, plus 20% of profits. This meant it gave up 80% of the profits from its cases to investors.

Over the past several years, Burford has gained wider access to U.S. financial markets, including its 2020 listing on the New York Stock Exchange. In 2021, it received its first bond ratings from ratings agencies Moody's and S&P. As a result, Burford can now raise much cheaper capital from the U.S. bond market. Burford estimates that the price of financing cases with debt at current interest rates only equates to giving up 20% of its profits from cases – a game changer versus the 80% upside from hedge fund financing.

Given these more favorable economics, Burford is shifting towards financing the majority of cases from its own balance sheet. Last year, 77% of the cases it originated were self-funded, up from 62% in 2021. This number should steadily increase going forward, providing a tailwind to the company's returns on capital.

Burford currently trades cheap at less than 6x earnings. It also has the potential for a near-term surge in earnings from a successful resolution of the YPF case, plus the growing number of other case resolutions it expects in 2024 and 2025. And because Burford is increasingly financing these cases from its own balance sheet, Burford will keep more of the earnings.

Burford has become the blue chip leader in litigation finance. With an increasingly profitable business model, a growing caseload and a dirt cheap valuation, we're making Burford one of our top three "Best Buys" today. We'll be replacing Oaktree Specialty Lending Corporation (Nasdaq: OCSL) in the current list.

We continue to recommend **Burford Capital (NYSE: BUR)** at up to $20 per share.

PayPal CEO Leads a New Path to Profits

Alex Chriss became **PayPal's (Nasdaq: PYPL)** CEO six months ago, and he's already begun to refocus the online payment processor on achieving profitable growth.

As **we highlighted** in our most recent PayPal update, Chriss stepped in as CEO in late September and noted that PayPal was too bureaucratic, making it challenging to innovate and release new products with speed.

Between 2015 and 2022, management sunk $13 billion into acquisitions that have yet to contribute to its bottom line. The company's cross-functional divisions made it challenging for it to focus on the critical components of how to improve its product. As a result, shares of PYPL have dropped 77% since August 2021.

Chriss's first move was to reorganize PayPal's business structure into three divisions – Consumer, Small Business, and Large Enterprise – giving each group authority to innovate within its own ecosystem. In addition, he brought in three new top-level executives to lead those divisions, and made several mid-level management changes, hiring product-oriented operators that understand how to get products in front of potential merchant-clients in order to drive sales.

PayPal's vision for the next few years includes a dynamic and personalized advanced advertising platform that will transform how shoppers and merchants engage with each other.

Currently there is no way for merchants to target individual shoppers, as opposed to targeting segments of buyers. PayPal has a deep reserve of merchant data from processing $400 billion worth of transactions annually. It is now beginning to leverage this valuable data trove, by developing dynamic individual customer profiles. These profiles use a shopper's past purchase history to predict that buyer's future buying behavior. The platform also engages with users to determine which advertisements and promotions they'd like to receive.

For example, let's say a shopper purchases a bicycle. PayPal knows from past purchases that this customer wears a size 12 shoe, he likes the color blue, and he is a male. PayPal delivers this prior-transaction information to a merchant, which can launch targeted promotions to drive a targeted offer to this customer. So in this case, a merchant could target the bike buyer and offer him a deal on blue, size-12 cycling shoes or a blue cycling helmet.

In this new paradigm, both consumers and merchants win. Rather than getting inundated with irrelevant ads, consumers get targeted with a promotion that's relevant to them and they are rewarded for making the purchase with future cash-back offers. Merchants, meanwhile, can measure the return on their investment, which is significantly better than the old paradigm, when they could not. In addition, with this new initiative, merchants only pay for a promotion when it converts to a sale.

PayPal will improve upon this advanced ads platform over the course of 2024 and into 2025. While this is PayPal's toughest platform to integrate, it holds the most potential for merchants and shoppers because merchants generate more sales by targeting PayPal's 400 million users. Meanwhile, PayPal users can access a dynamic ad platform, tailored to them, where they can find the best deals on their favorite merchandise.

However, there are several near-term initiatives that PayPal has already begun to implement.

As we mentioned in our latest PayPal update, one of Chriss' first initiatives is Project Leap – an effort to quickly roll out new product innovations to reduce friction at the point-of-sale. We got an update on Project Leap's progress during a recent call with the company.

One of the first key products is Fast Lane, which is aimed at improving the guest checkout experience. Currently, when a shopper enters the checkout page at an online merchant, he needs to log in or enter his credit card information and shipping address – an added step that drives some shoppers to abandon their carts.

Fast Lane requires no username or password, eliminates the need to share credit card info with merchants, creating a more seamless experience for shoppers. Released to its 35 million merchants worldwide in the first quarter, Fast Lane is already driving higher conversion rates, near 80%, for registered users. This is a 40% higher checkout conversion rate than non-registered guests. Currently, 60% of PayPal transactions are done through a guest checkout experience, but by reducing the checkout time by 40%, it will encourage more guests to become registered shoppers.

Another new product is Smart Receipts, which will send a receipt that enables shoppers to track their order and receive a personalized advertisement with cash-back offers. Smart Receipts enables PayPal to engage with consumers post-purchase to increase the probability of future PayPal transactions.

By improving its platforms for both large, enterprise businesses and small businesses, PayPal incentivizes guests to become registered PayPal users, who have trackable shopping profiles versus guest users who do not.

There's also a long-term plan to build an advanced ad platform for shoppers and merchants that will increase the value of being on PayPal's network.

It's important to note that PayPal's transformation is a long-term initiative that won't start gaining momentum until later this year and into 2025.

We are keeping close tabs on the transformation underway and will continue to monitor the situation. Trading at $65, the stock remains a "hold" today, with a suggested stop loss at $50.

Mailbag

In *The Big Secret on Wall Street* mailbag, Porter answers letters from readers. He cannot offer individual investment advice, but can respond to general questions.

Please email us at **mailbag@porterandcompanyresearch.com** to have your questions answered. We'd love to hear from you!

> *Today's first letter is from T.P., who writes:*
>
> *"Hey folks,*
>
> *Really enjoy the service thus far. Forgive my ignorance or if this has already been addressed, but would you kindly explain the key differences between the*

Battleship Stocks and Forever Stocks sections of the portfolio? Understanding the distinction will help me with position sizing between stocks in these two sub-portfolios.

Thanks!"

Porter's comment: Thanks for writing in, and great question.

Forever Stocks are the businesses that transcend time. When thinking about whether a business meets this criteria, a simple question I like to ask is: "Will my grandkids be using the company's products?"

Will my grandkids eat Domino's Pizza (NYSE: DPZ) or Hershey (NYSE: HSY) candy bars? The answer is yes.

Forever Stocks – like Domino's and Hershey – have such valuable brands and such timeless business models that their businesses rarely fail to grow sales and earnings, outside of recessions. Their economic moats are so well-established that it's virtually impossible to conceive of another company encroaching on their market share.

Battleship Stocks, on the other hand, are economically resilient and tend to hold up better than most businesses during economic or financial shocks. Outside of PayPal (Nasdaq: PYPL), which was not public in 2008-2009, the Battleship Stocks in The Big Secret portfolio outperformed the S&P 500 by an average of 47.5% during the Great Financial Crisis.

In Battleship Stocks, we look for durable business models with solid balance sheets, like discount retail franchisor Winmark (Nasdaq: WINA) – which tends to see an influx of consumers trading down to lower price goods during recessions. Or drugmaker Novo Nordisk (NYSE: NVO), whose diabetes and weight loss drugs remain in demand regardless of what happens in the economy.

However, there is nothing inherent in the Battleship business model that transcends time. In theory, any company could replicate Winmark's discount-retailer model or Novo Nordisk's drug-making business (once its drug patents expire). While it would be difficult for a company to replicate these businesses over a short period, they are not necessarily immune to long-term competitive threats.

Forever Stocks are more than merely battleship-like. They are economic juggernauts with virtually impenetrable competitive moats. These businesses do not face eventual extinction because of technological

> ***change, shifting consumer preferences, or fluctuations in the world's economy. They are as close to a "sure thing" as exists in the financial world.***
>
> ***While I can't comment on individual position sizes, when presented the opportunity to invest in Forever Stocks at reasonable prices, we urge subscribers to buy these businesses aggressively – and to never sell these positions. Over time you should seek to see this segment of your portfolio grow relative to all other portions.***

Porter Stansberry

Porter & Co.
Stevenson, MD

P.S. If you'd like to learn more about the Porter & Co. team, you can get acquainted with us **here**. You can follow me (Porter) on **X** here: **@porterstansb**