NAMES IN THE NEWS

Market Report – Titan Investment Management LLC

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Walt Disney Co. (DIS):

While most tend to think of theme parks and Mickey Mouse when Walt Disney is mentioned, the real brands of Disney are ESPN, Disney+, and movie studios. This underlying shift in consumer content from theme parks and rides to digital content and streaming officially took shape in 2019. While Disney+ officially launched in November 2019, the underlying pieces began to form in 2016.

In August 2016, Disney acquired BAMTech (a streaming service for sports) to create ESPN+ and set the stage for streaming sports. Over the next 3 years Disney not only learned how to more efficiently stream, but realized their untapped value of content needed to be monetized. The end of this 3 year period also coincided with its distribution agreement with Netflix coming to an end. From November 2019 to the latest quarterly report Disney+ membership has risen to 116M. To put this in perspective, it took Netflix 7 years to reach this number of subscribers, with a current base of 209M.

As Disney shifts from a traditional cable and theme park company to digital content and theme parks financials are set to improve. Consider that operating margins for traditional media has hovered around 30%, but more seasoned firms in streaming (Netflix) are on path to achieve operating margins north of 30%. Disney not only gets the synergy from an existing value of content, but also the ability to develop content around flagship brands such as Disney Studios, Marvel, Lucasfilms, and PIXAR. Thus, the stage is set for Disney to not only move into a higher margin revenue channel, but also a channel that will be the fastest growing asset on the balance sheet.

The risk with Disney comes down to the parks. COVID-19 has obviously been a disaster for travel and leisure with Disney theme parks being no exception. Disney has been operating under a self-imposed 35% capacity limit to soften any chance of creating a hotspot for COVID. However, the Q3 financials indicate park revenue at 66% of its 2019 level. Obviously price increases could be a part of this equation, but the near doubling of revenue compared to capacity seems to indicate capacity levels are higher than 35%. Regardless of what the actual capacity limit is at the time, the outlook is positive from a financials perspective. Not only are guests spending substantially more, but as COVID becomes a daily part of life, the parks will move to 100% capacity.

Lastly, the combination of streaming and theme parks is a fantastic business hedge to have in place as the world goes through the ups and downs of COVID. If COVID turns into a variant that forces an economic shutdown, Disney+ will thrive. However, if COVID disappears the theme parks will thrive. Take the latter scenario with a Disney+ monthly cost of $7.99 and it seems highly unlikely subscriptions will be cancelled over $96/year.

Adjusted Present Value

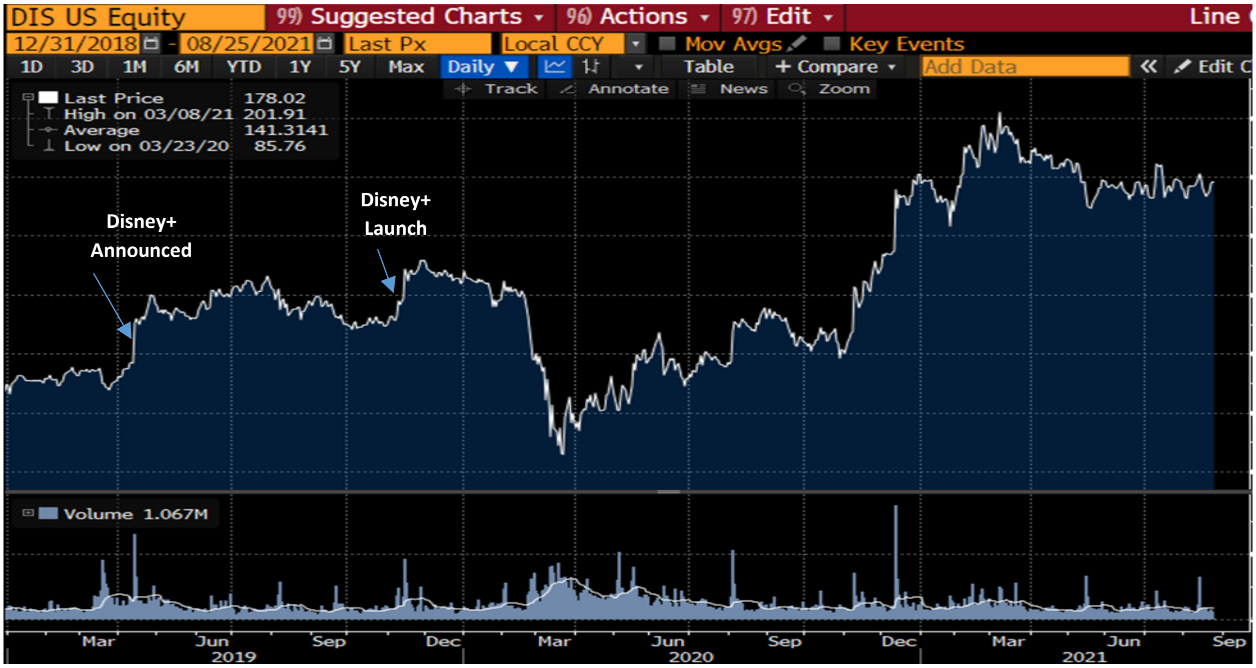
Equity SnapShot		**5YR CAGR**				
Growth	3.50%	**4.50%**				
Discount	7.99%					
Time		1	2	3	4	5
Discount Factor		0.9319689	0.864072	0.791477	0.725391	0.661776
Free Cash Flow		$4,514	$6,819	$12,098	$17,820	$20,587
Discounted FCF		$4,207	$5,892	$9,575	$12,926	$13,624
Terminal Value						$314,061
Enterprise Value		$360,285				**Terminal**
Outstanding Debt		$49,575				**Weight**
Equity Value		$310,710				87.17%
Shares Outstanding		1,817.1				
Share Price		**$170.99**				

Current Share Price	**$178.60**

	Sensitivity Analysis								
	6.99%	7.24%	7.49%	7.74%	7.99%	8.24%	8.49%	8.74%	8.99%
2.50%	$169.32	$160.29	$152.17	$144.82	$138.14	$132.04	$126.45	$121.31	$116.57
2.75%	$179.85	$169.73	$160.68	$152.54	$145.18	$138.48	$132.37	$126.77	$121.61
3.00%	$191.70	$180.29	$170.15	$161.08	$152.92	$145.53	$138.82	$132.70	$127.08
3.25%	$205.14	$192.17	$180.73	$170.57	$161.47	$153.29	$145.89	$139.16	$133.02
3.50%	$220.51	$205.64	$192.64	$181.18	$170.99	$161.87	$153.67	$146.25	$139.50
3.75%	$238.24	$221.04	$206.14	$193.11	$181.62	$171.40	$162.27	$154.04	$146.61
4.00%	$258.94	$238.82	$221.58	$206.65	$193.58	$182.06	$171.82	$162.66	$154.42
4.25%	$283.42	$259.57	$239.40	$222.12	$207.15	$194.05	$182.50	$172.24	$163.06
4.50%	$312.81	$284.11	$260.20	$239.98	$222.65	$207.65	$194.52	$182.94	$172.66

Upside/Downside Capture	
U/D Capture	2.2x
FV Discount	104.45%

The standalone valuation of Disney does not stand out as shares seem to be fairly valued. However, when you begin to break Disney up into parts and compare to peers, value is unlocked.



Prior to Disney+, DIS was valued ~$115/share, a ~$210B market cap and valuation. Currently DIS trades at ~$180/share, a $320B market cap and valuation. Assuming the parks and traditional media (ESPN) have not materially increased or decreased over the past 2 years, the implied valuation of Disney+ is $110B. For a platform that has 116M users paying $7.99/month that could be a fair price tag. However, looking at peers, NFLX quickly raises eyebrows.

Provider	Original Content	Cost	Devices	Users	Valuation
Disney+	Marvel, Disney Studios, PIXAR, LucasFilms, Hulu	$7.99/month	4	116M	$110B
Netflix	Increasingly original content	$17.99/month	4	208M	$240B

NFLX clearly has a larger user base as well as higher cost per month. Remember, DIS has already replicated in 2 years what it took NFLX 7 years to do in terms of subscribers. In addition, NFLX's subscriber growth was achieved by providing a monthly charge of $10.99 and leaning on DIS's proprietary content. NFLX is not only 64% more expensive, but is increasingly reliant on developing their own content from scratch.

Lastly, as more and more content providers come out with their own streaming platform, NFLX will feel the squeeze of content leaving the platform. This battle for content and users is incredibly apparent in 2021 as DIS has added 27.3M subscribers to Disney+ while NFLX has added 5.5M. Thus, as DIS acquires more and more subscribers it is almost a certainty that monthly subscriptions will increase.

Pulling all this information together highlights that DIS is growing at 5x NFLX in terms of new subscribers all the while DIS has a vault of original and new content while NFLX is spending hand over fist to keep up. Thus, an argument could easily be made that NFLX is incredibly overvalued or Disney+ incredibly undervalued.

Taking the latter approach and effectively putting the same price tag on Disney+ yields the following share price for Disney.

	Share Price	Market Cap
Titan's Projected Share Price	$170.99	$310.7B
Disney+ Estimated Value	*N/A*	*$110.0B*
Netflix Adjustment	*$547.83*	*$242.5B*
Titan's Adjusted Share Price	**$243.91**	**$443.2B**

A $243.91 implies a current upside of 36.6%. This valuation approach obviously comes with certain assumptions that need to be highlighted:

1) NFLX currently has 208M subscribers while Disney+ is only 116M. Disney's exceptional subscriber growth is obviously closing the gap, but is currently on pace to close this gap in ~2-3 years.
2) NFLX charges $17.99 versus Disney+ only charging $7.99. Prices need to be rasied and/or market share needs to be taken from NFLX for DIS to justify a higher valuation.

While the first point is quickly becoming a thing of the past given Disney+ growth (5x NFLX in terms of new subscribers), the second point deserves more attention. NFLX started streaming services at $7.99 and did not raise prices until April 2014. Over the past 7 years the monthly subscription has more than doubled from $7.99 to $17.99 while growing subscriptions. This is by no means an easy feet and why NFLX has done so well.

Provider	Original Content	Cost	Devices	Users
Disney+	Marvel, Disney Studios, PIXAR, LucasFilms, Hulu	$7.99/month	4	116M
Netflix	Increasingly original content	$17.99/month	4	208M
Paramount+	CBS, CBS Sports, Nickelodeon, MTV, Comedy Central, etc.	$9.99/month	3	42M
Peacock	All original content	$4.99/month	3	20M
HBO Max	TBS/TNT, HBO, Cinemax, CNN	$14.99/month	3	67M
Apple TV+	All original content	$4.99/month	3	N/A
Amazon Prime Video	All original content	$8.99/month	3	N/A

Fortunately, Disney+ is in a great competitive position. Not only does it have the most content as well as original content, but it is one of the cheapest streaming options available. This provides substantial evidence that Disney+ has plenty of runway to raise monthly prices without losing subscribers to lower prices.

Conclusion

The traditional metrics of valuation indicate that DIS is a fairly valued firm. However, when breaking the firm up into parts value is quickly unlocked. This sum of parts valuation comes with the underlying assumption that theme parks as well as traditional media have not dramatically fallen in terms of market cap. COVID-19 as well as cord cutting are the biggest threats facing these legacy revenue channels. However, park capacity is already moving in the right direction and consumers appetite for live news and sports has remained strong over the past 2 years.

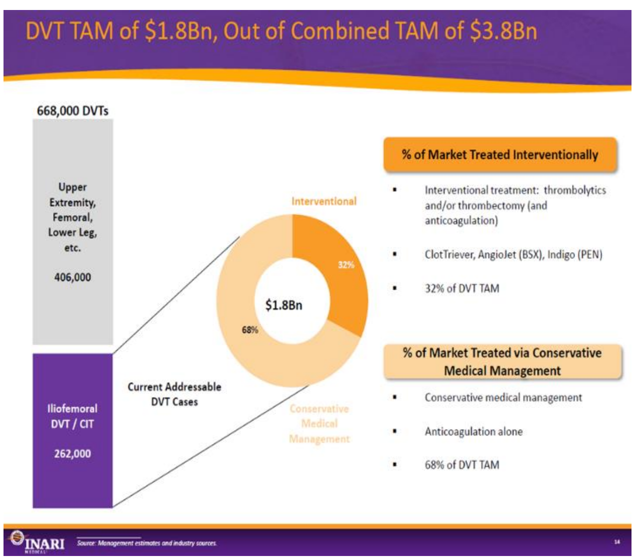
In addition, these legacy revenue channels also diversify the business from a cyclical economy as well as COVID shutdown. In the event things continue to reopen, parks will do extremely well while Disney+ exhibits robust growth; another COVID shutdown would hurt parks, but result in Disney+ growing at a supercharged rate. Price and sentiment matter for any investment. Thus, Titan Investments will monitor this firm closely for any near term opportunity and/or upside catalyst in the near future.

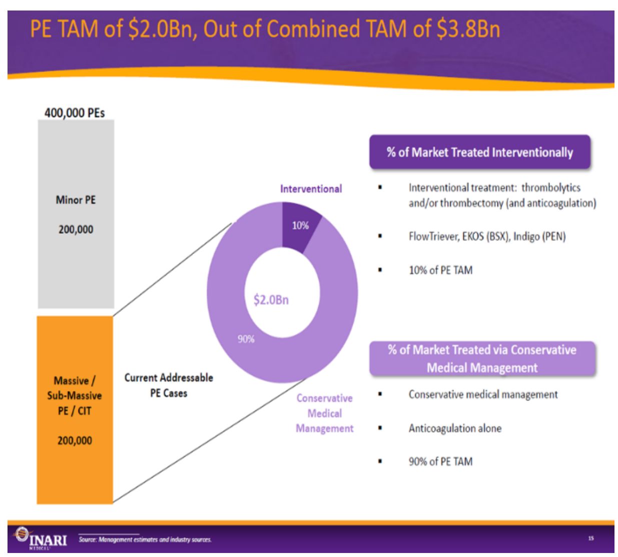
<u>Inari Medical (NARI):</u>

Deep Vein Thrombosis (DVT) and Pulmonary Embolism (PE) had historically been an area of healthcare that had relied on fairly stale methods of treatment. Thrombolytics (clotbusters) go all the way back to 1933 when it found a certain cocktail of drugs could dissolve a clot. Fast forward to the present and clotbusters are used as a method of treatment for DVT and PE. However, this stale method of treatment can result in a host of side effects for multiple parties:

- Clotbusters are fairly ineffective at treating clots formed overtime. The bulk of DVT builds up over time and rarely forms in a short time period.
- Clotbusters lead to bleeding complications. This is specifically found in the brain as the capillaries are so small and thin, which could lead to dire circumstances.
    - In addition, if the patient requires surgery for any health reason it may not be an option as blood would have a hard time clotting.
- Clotbusters are incredibly expense (~$5,120 for Alteplase) for 4 treatments in two legs. This does not even count the prolonged ICU stay and potential complications.
- Clotbusters almost always require the use of an ICU bed. Hospitals because of low staff and COVID are constantly dealing with the risk of running out of ICU beds.

Thus, whether you are the patient, hospital, or insurer clotbusters are not an optimal form of treatment. This is where NARI comes into play offering the only mobile catheter to treat DVT (ClotTriever) and PE (Flowtriever).



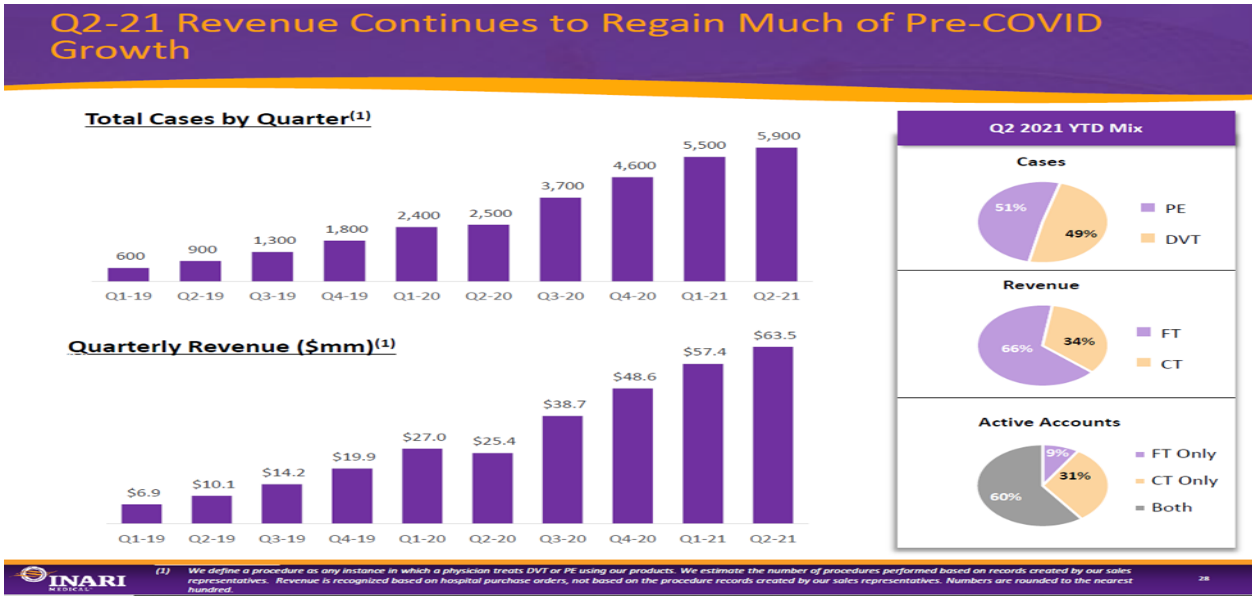


The total addressable market (TAM) for NARI is currently $3.8B. As of 2021, management is on pace to capture ~$250B or 6.5% market share. A good portion of procedures are still using clotbusters to both the patient and hospital's detriment, but also provides a runway of growth for management.

Management is currently conducting FLASH (evaluating FlowTriever's safety and effectiveness at treating PE). 230 patients have enrolled across 17 US sites and the interim results are incredibly impressive:

- Procedure Outcomes – 0 days in ICU, 46min average procedure time, and less than 5% adjunctive therapy.
- 30-day Follow-ups – 0.4% mortality rate, 6.7% readmission rate, and statistically significant improvements in all metrics used to measure heart health and blood flow.

While studies are important and provide foundational research for doctors to move away from clotbusters, what is actually taking place in hospitals is where NARI shines.



The number of cases has grown nearly 10x on a QoQ basis. The 10x increase in cases has also seen little slippage in terms of revenue per case. Thus, the ability to grow margins is significant as management acquires more and more market share.

Lastly, the COVID strain on hospitals will be a tailwind for NARI. Hospitals do not have the luxury of occupying ICU beds with thrombolytic patients while the demand for ICU beds stemming from COVID is on the rise. Both the ClotTriever and FlowTriever have shown to drastically reduce ICU bed use and in FLASH's results cut it down to 0.

Adjusted Present Value

Equity SnapShot	5YR CAGR								
Growth 6.00%	#DIV/0!								
Discount 8.36%									
Time	1	2	3	4	5	6	7	8	9
Discount Factor	0.929368	0.863725	0.797149	0.725578	0.661989	0.601214	0.552333	0.507426	0.471016
Free Cash Flow	$12	$24	$58	$101	$138	$182	$222	$268	$324
Discounted FCF	$11	$21	$46	$73	$91	$109	$123	$136	$152
Terminal Value									$3,220
Enterprise Value	$3,983								Terminal
Outstanding Debt	$0								Weight
Equity Value	$3,983								80.84%
Shares Outstanding	49.9								
Share Price	**$79.82**								

Current Share Price	**$79.39**

	Sensitivity Analysis								
	7.36%	7.61%	7.86%	8.11%	8.36%	8.61%	8.86%	9.11%	9.36%
5.00%	$79.31	$73.18	$68.12	$63.87	$60.26	$57.14	$54.43	$52.05	$49.95
5.25%	$87.07	$79.47	$73.32	$68.25	$63.99	$60.37	$57.24	$54.53	$52.14
5.50%	$96.91	$87.24	$79.62	$73.46	$68.37	$64.11	$60.47	$57.34	$54.62
5.75%	$109.81	$97.10	$87.41	$79.77	$73.59	$68.50	$64.22	$60.58	$57.44
6.00%	$127.45	$110.03	$97.30	$87.58	$79.92	$73.73	$68.62	$64.34	$60.69
6.25%	$153.03	$127.71	$110.26	$97.49	$87.75	$80.08	$73.87	$68.75	$64.45
6.50%	$193.49	$153.36	$127.98	$110.48	$97.69	$87.92	$80.23	$74.01	$68.88
6.75%	$267.12	$193.91	$153.68	$128.24	$110.70	$97.88	$88.09	$80.38	$74.15
7.00%	$443.00	$267.71	$194.33	$154.01	$128.51	$110.93	$98.07	$88.26	$80.53

Upside/Downside Capture	
U/D Capture	12.3x
FV Discount	99.46%

The overarching assumption of this analysis is that NARI reaches 33% market share of their 3.8B TAM over the next 10 years. Management could obviously blow this out of the water, which would only lead to a higher share price. However, the last distinction that needs to be made with NARI is the number of shares outstanding. The difference between tradeable shares and total shares is significant, but the bulk of these non-tradeable shares are owned by venture capital firms.

- 4.6M shares – Donald Mildner: Early stage investor whose most recent action was to sell less than 1% of owned shares.

- 3.9M shares – Cooperative Gilde: Early stage investor whose most recent action was to sell ~22% of shares.
- 2.7M shares – US Venture Partners: Early stage investor who most recently sold the bulk of shares owned.
- 2.7M shares – CVF LLC: Early stage investor who most recently acquired entire position in shares.

These four entities make up 75% of the non-tradeable shares. There resulting actions were a mixed bag as you effectively had one VC firm leave while adding another. In addition, the selling by Cooperative and Mildner happened in February and March when shares were well north of $100.

Conclusion

It cannot be denied that NARI has brought innovation and modernization to an arena of healthcare that was in desperate need. PE is the #1 preventable death in the US and a medical device that can yield immediate benefits without the complications of thromboltyics is changing the landscape. NARI will definitely face competition, but the ClotTriever and FlowTriever are leading the pack in both effectiveness as well as mobility.

This competition along with ongoing studies will dictate NARI's market share, which will ultimately drive revenue and share price. With a long term projection of 33% market share of TAM, shares are fairly valued. However, at the rate NARI is growing it could exceed and/or reach this market share assumption quicker than thought. This scenario would yield more upside for shares and a catalyst for the share price to quickly rise above $100/share. Nonetheless, shares have been volatile; doubling from December to March only to fall 40% since March. Titan Investments has a sharp eye on this firm as any improvement in ongoing studies, procedures, and/or share depreciation will provide a point of entry.

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