

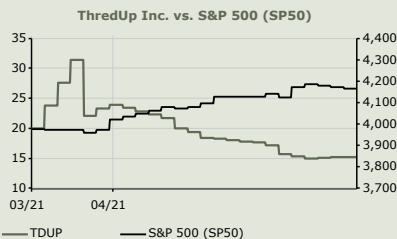
APRIL 20, 2021

**TDUP - \$15.26 OUTPERFORM**

Price Target (Current) \$20.00

Market Statistics	04/19/2021
Market Capitalization (\$MM):	\$1,388.1
Enterprise Value (MM):	\$1,604.7
Shares Outstanding (MM):	92.7
Avg. Daily Trading Volume (Shrs, 000s):	1,138.6
Short Interest/Float:	3.2%
Insider Ownership (% of Total Shrs Out):	1.0%
Dividend Yield:	0.0%
Stock Exchange:	NASDAQ

Price Performance	04/19/2021
52-Week Range:	\$14.23 - \$31.60
YTD % Change:	(23.7)%
YTD % Change Relative to Index:	(23.8)%
Implied Return to Price Target:	31.1%



Valuation Metrics (FYE Dec)	2020	2021E	2022E
EV/Sales	8.6x	7.6x	5.9x

Total Sales Growth			Adjusted EBITDA (\$MM)		
Period	Current	Previous	Period	Current	Previous
1Q20	45.9%		1Q20	\$(10.4)	
2Q20	18.0%		2Q20	\$(3.3)	
3Q20	2.1%		3Q20	\$(7.5)	
4Q20	(2.7)%		4Q20	\$(12.2)	
2020	13.6%		2020	\$(33.4)	
1Q21E	0.2%		1Q21E	\$(14.7)	
2Q21E	3.0%		2Q21E	\$(14.7)	
3Q21E	16.7%		3Q21E	\$(11.9)	
4Q21E	36.0%		4Q21E	\$(7.3)	
2021E	13.4%		2021E	\$(48.6)	
1Q22E	32.9%		1Q22E	\$(6.4)	
2Q22E	37.7%		2Q22E	\$(4.8)	
3Q22E	27.4%		3Q22E	\$(2.8)	
4Q22E	23.4%		4Q22E	\$(0.1)	
2022E	29.9%		2022E	\$(14.1)	

Source: FactSet, company reports, and TAG estimates.

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## THREDUP INC.

### Initiating Coverage of thredUP with an Outperform Rating and \$20 Price Target

We are initiating coverage on the shares of thredUP (TDUP) with an Outperform rating and a price target of \$20. In our view, the company's founder-led, proprietary platform has built a logistical competitive moat in the large and fastest growing segment of apparel retailing, the resale market, which is supported by powerful secular consumer trends including an increased focus on sustainability. thredUP's online platform provides a seamless resale shopping experience in what still remains a highly fragmented marketplace, making it easy to unlock value while cleaning out a closet or to purchase a quality branded resale product at a compelling price. We see the company's marketplace model as highly scalable, with the potential to generate leverage and margin expansion.

**Large market opportunity in the fastest growing segment in apparel retail.** thredUP is one of the largest resale platforms globally for women's and kids' apparel, shoes, and accessories. According to the GlobalData Market Survey, the resale market is expected to grow from \$7 billion in 2019 to \$36 billion by 2024, representing a compound annual growth rate of 39% over that timeframe. The growth in the secondhand market is expected to be driven by strong secular shifts including the emerging spending power of Millennial and Gen Z consumers.

**Proprietary platform delivers a competitive barrier to entry while providing a scalable single-SKU marketplace platform.** Operating a resale marketplace faces several complexities, including the management of a vast offering of single SKUs. The company's sophisticated engineering team uses algorithms to predict demand and pricing for individual items. The company generates operational efficiencies through its proprietary technology and automation.

**thredUP's online platform provides a seamless resale shopping experience in what remains a highly fragmented marketplace.** thredUP offers its 1.24 million active buyers value on a broad selection across a unique and ever-changing assortment, with an average of over 280,000 new secondhand items listed each week representing over 35,000 brands. With an average selling price of \$17, thredUP offers buyers up to 90% off original retail prices. Customer engagement is strong, with 80% of orders coming from repeat buyers.

**thredUP's propriety platform assists in unlocking a vast, untapped supply of goods, and makes it easy.** thredUP's platform enables its 428,000 active sellers to conveniently clean out their closets by filling a clean out bag and leaving it for mail carrier pickup, the ease of which is evidenced by the fact that 77% of supply comes from repeat sellers. The seller does not need to actively manage the process, as thredUP offers end-to-end resale services.

**Resale as a Service (RaaS) offers an incremental growth opportunity.** thredUP offers its unique resale services currently to 21 brand and retail partners. thredUP's RaaS offering allows partners to build brand awareness with an important customer demographic, while increasing share with participation in the resale market. thredUP gains access to incremental supply while expanding its reach.

**Scalable marketplace model offers platform for profitable growth.** As the marketplace platform scales, we expect the model to generate leverage and margin expansion. The company targets a long-range EBITDA margin of 20%-25% over time.

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## Investment Summary

We are initiating coverage on the shares of thredUP (TDUP) with an Outperform rating and a price target of \$20, supported by our comparable multiple and discounted cash flow analyses. In our view, the company's founder-led, proprietary platform has built a logistical competitive moat in the large and fastest growing segment of apparel retailing, the resale market, which is supported by powerful secular consumer trends including an increased focus on sustainability. thredUP's online platform provides a seamless resale shopping experience in what still remains a highly fragmented marketplace, making it easy to unlock value while cleaning out a closet or to purchase a quality branded resale product at a compelling price. The company's Resale as a Service (RaaS) platform offers the ability to partner with apparel retailers to increase their share of wallet while expanding thredUP's offering and reach. We see the company's marketplace model as highly scalable, with the potential to generate leverage and margin expansion, and the business's secular growth story can support long-term stock price appreciation, supporting our Outperform rating and investment thesis.

**Large market opportunity in the fastest growing segment in apparel retail.** thredUP is one of the largest resale platforms globally for women's and kids' apparel, shoes, and accessories. According to the GlobalData Market Survey, the resale market is expected to grow from \$7 billion in 2019 to \$36 billion by 2024, representing a compound annual growth rate of 39% over that timeframe. The growth in the secondhand market is expected to be driven by strong secular shifts including the emerging spending power of Millennial and Gen Z consumers, an increased focus on sustainability particularly among younger consumers, and a growing acceptance of the secondhand market.

**Proprietary platform delivers a competitive barrier to entry while providing a scalable single-SKU marketplace platform.** Operating a resale marketplace faces several complexities, including the management of a vast offering of single SKUs. The company's sophisticated engineering team uses algorithms to predict demand and pricing for individual items. Machine learning and artificial intelligence drive visual recognition of items as they are received, and the company has developed software to automatically select the optimum photo to maximize buyer engagement. This specialized capability allows thredUP to produce hundreds of thousands of photos per day without the expense of a professional photographer. The company generates operational efficiencies through its proprietary technology and automation, including visual recognition of items, supply acceptance and itemization, pricing and merchandising, photography, and storage and fulfillment. thredUP's three currently operating distribution centers can currently hold 5.5 million items, with plans to expand capacity to 6.5 million items by the end of 2021. The company can currently process more than 100,000 unique SKUs per day, with daily processing capabilities expected to expand over time. Since its founding, thredUP has processed over 100 million unique secondhand items. We see the company's proprietary, scalable platform as an important competitive advantage that cannot be easily replicated.

**thredUP's online platform provides a seamless resale shopping experience in what remains a highly fragmented marketplace.** As of the end of 2020, the company had 1.24 million active buyers on its platform. thredUP offers value on a broad selection across a unique and ever-changing assortment, with an average of over 280,000 new secondhand items listed each week representing over 35,000 brands across 100 categories and price points. With an average selling price of \$17, thredUP offers buyers up to 90% off original retail prices. Customer engagement is strong, with 80% of orders coming from repeat buyers. The shopping experience is fun and easy, with the average buyer visiting the website six times per month on average, offering customers a significant improvement over localized thrift-store offerings historically associated with the resale market. The company's personalization capabilities can customize offerings based on the time of year and location of the buyer. Quality is assured through the company's rigorous inspection process. Last year, thredUP listed only 59% of items received from sellers. Only 12% of items were returned last year, and only 2% due to quality issues. Lastly, thredUP offers buyers the satisfaction that

not only have they received a compelling value with their purchase, but they have also reduced waste.

**thredUP's propriety platform assists in unlocking a vast, untapped supply of goods, and makes it easy.** Unworn apparel stowed away in the back of consumers' closets represents a massive opportunity to unlock supply to the secondhand market, in our view. In 2020, the company processed over one million "clean out" bags through its platform, representing a small fraction of the estimated 16.9B pounds of apparel that is thrown away each year. thredUP's platform enables its 428,000 active sellers to conveniently clean out their closets by filling a clean out bag and leaving it for mail carrier pickup, the ease of which is evidenced by the fact that 77% of supply comes from repeat sellers. The seller does not need to actively manage the process, as thredUP offers end-to-end resale services, including managing item selection and pricing, merchandising, fulfillment, payments and customer service. thredUP allows sellers to clean out their closets and unlock value through cash payments or thredUP credits while providing the satisfaction of avoiding waste.

**Resale as a Service (RaaS) offers an incremental growth opportunity.** thredUP offers its unique resale services currently to 21 brand and retail partners, enabling them to leverage the company's platform. The supply chain and distribution models of traditional e-commerce and bricks-and-mortar apparel retailers are not designed for the demanding single-SKU inventory management logistics required by the resale marketplace. thredUP has devised several initiatives to drive incremental revenue from its RaaS partners including clean out services that enable them to sell worn, returned items through its marketplace. Its RaaS offering allows partners to build brand awareness with an important customer demographic while increasing share with participation in the resale market. thredUP can offer sellers credit with higher values than the cash option on accepted partner items. In addition, the company is able to cross list inventory of secondhand items on its partners' websites. Finally, thredUP also offers the ability to manage resale shops on quality, returned items that partners are not able to resell as new.

**Sustainability is in thredUP's DNA.** Sustainability has become more than a buzzword to today's younger consumers, it is an important table-stakes initiative to drive engagement with a brand. The company's contribution to sustainability is apparent to both buyers and sellers who can take incremental satisfaction in reducing waste by participating in the circular economy, while unlocking value in a cleaned-out closet or benefitting from the value of buying a quality resale item.

**Scalable marketplace model offers platform for profitable growth.** As shown in our long-range model at the end of this report, we estimate a topline CAGR of 21% between 2020 and 2028. We expect the model to drive operating leverage and higher margins as the business scales. We look for the company to continue to invest in its operating platform through the expansion and optimization of its distributed processing infrastructure and automation capabilities. We also see the potential for the offering to continue to grow by bringing on additional sellers, expanding the RaaS program, and increasing awareness of the thredUP brand. Through assortment enhancement and utilization of data enhancements to drive increased personalization, the company looks to generate increased conversion while increasing the lifetime value of existing buyers. Converting buyers into sellers is also an important feature and opportunity within the thredUP model to expand the assortment available. In addition, the company's 1.24 million active buyers represent less than 1% of the total US population. Through targeted, data-driven marketing efforts, thredUP looks to expand its active buyer base. The company also plans to invest in extending the RaaS offering, driving incremental supply and generating brand awareness. Unaided awareness currently stands at 13.8%, offering the opportunity to increase reach. As the marketplace platform scales, we expect the model to generate leverage and margin expansion. As shown in the exhibit below, the company targets a long-range EBITDA margin of 20%-25% over time.

## HISTORICAL AND LONG-TERM FINANCIAL TARGETS

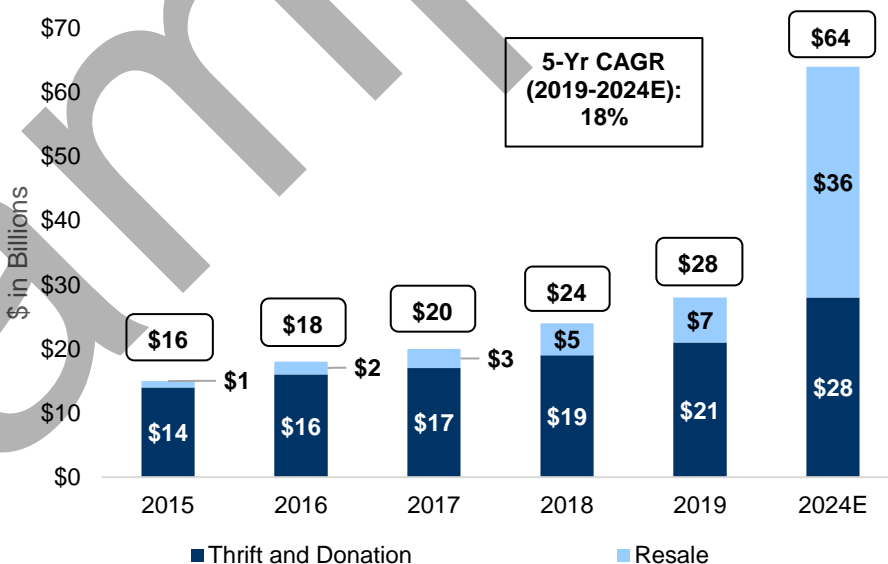
As % of revenue	FY19	FY20	FY21E	Long-Term Target
Gross profit	68.7%	68.9%	71.3%	75%-78%
Operations, product and tech expense	47.7%	52.5%	55.4%	30%-35%
Marketing	26.8%	23.5%	24.9%	15%-18%
SG&A	11.9%	14.0%	17.4%	7%-9%
EBITDA	(14.9%)	(18.0%)	(23.0%)	20%-25%

Source: Company reports and TAG estimates.

## Industry Dynamics

**Opportunity in both supply and demand.** As mass fashion is significantly larger than more premium product categories, it presents a larger market for players in the space, with fewer barriers to entry: according to GlobalData, the global mass fashion apparel industry totals \$2,093 billion, of which the US mass fashion apparel industry accounted for \$417 billion. This mass market estimate compares to the global luxury apparel market of \$300 billion, of which the US accounts for \$65 billion. Mass fashion is a significantly bigger market than luxury apparel. The secondhand clothing, footwear, and accessories market in the US was estimated to be \$28 billion in 2019, according to GlobalData, which consists of both resale and thrift of apparel, footwear, and accessories. Resale represents the fastest growing segment in the retail clothing market and is expected to grow from \$7 billion in 2019 to \$36 billion by 2024, a CAGR of 39%, according to GlobalData.

## US SECONDHAND MARKET SALES (2015-2024E)



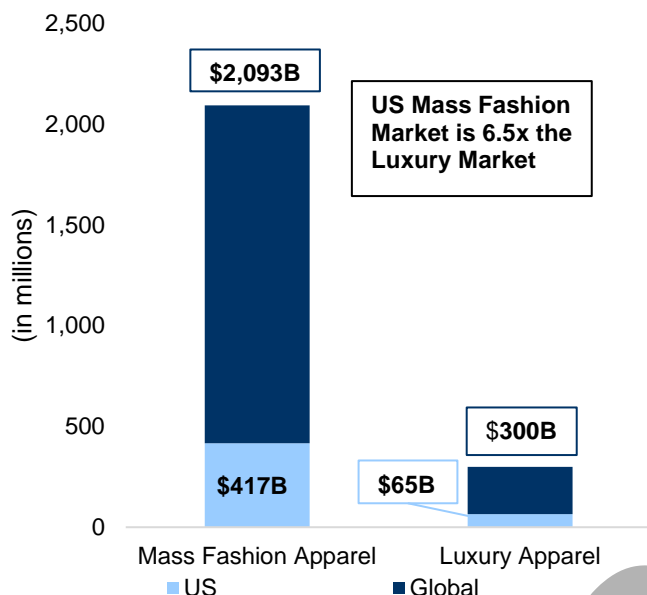
Source: Company reports, GlobalData and TAG Research

**Secondhand closet share expected to grow significantly.** The secondhand category has substantial potential for growth in terms of category demand, online penetration, and supply. The share of closet is expected to grow to 17% by 2029, second only to off-price at an estimated 19% of closet share, as mid-priced specialty brands, department stores, and value chains lose market share. The forecasted secondhand closet share compares to 3% in 2009 and 7% in 2019 as demand shifts and preferences accelerate growth according to thredUP's 2020 resale report. The subcategory also has room to grow digitally as only 25% of secondhand sales in 2019 took place through online channels, an increase from 11% of sales in 2015, but still leaving significant headroom, according to GlobalData. thredUP's product positioning addresses 90% of the total addressable market (TAM), as women's contributes



approximately 85% of the market and kids is nearly 10%. On the supply side, the company estimates that 16.9B pounds of apparel thrown away in the US annually could be recycled and reused, leaving thredUP with considerable opportunity to capture supply in a growing market. Given the strength of the company's digitally focused business model and its position in the high-growth resale market space, we view thredUP as well-positioned to capitalize on both near-term demand and long-term growth as it scales.

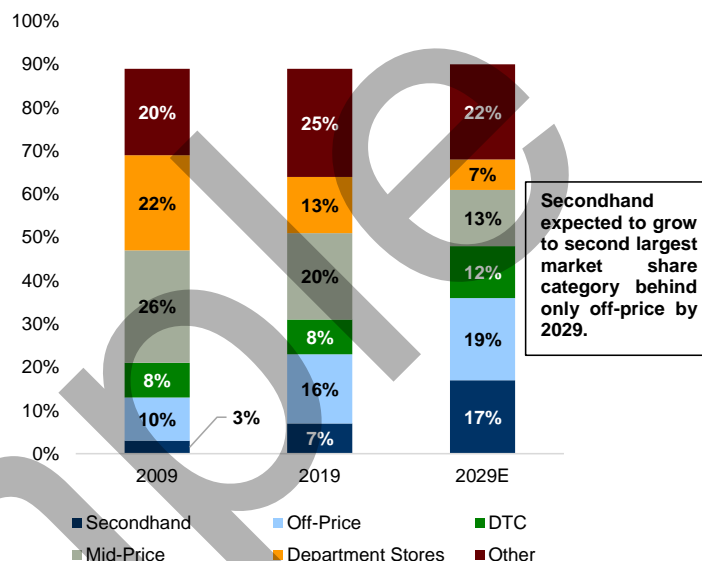
#### SIGNIFICANT MARKET POTENTIAL IN MASS FASHION



Source: Company reports, GlobalData and TAG Research.

\*Total addressable market figures represent 2019.

#### MAJOR CHANNELS AS % OF CLOSET SHARE



Source: Company reports, GlobalData and TAG Research.

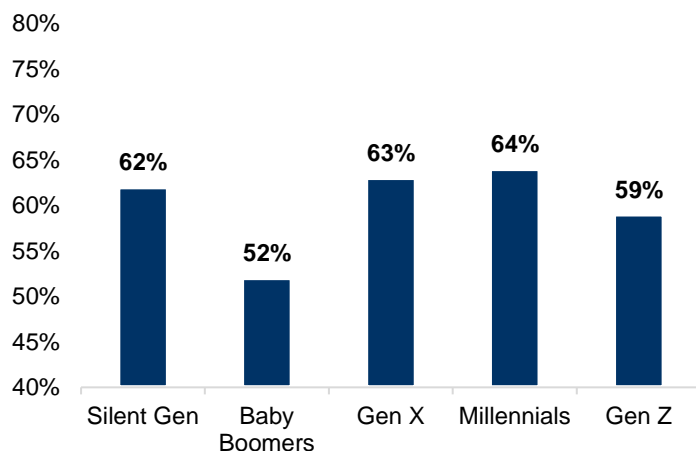
### Consumer Preferences and the Focus on Sustainability

**Shifts in consumer preference and behavior.** As younger consumers come of age and increase their earnings and spending power, values that drive consumer behavior are changing. Younger generations are embracing secondhand products faster than any other age group. GlobalData found that 40% of Gen Z and 30% of Millennials purchased secondhand in 2019, fourteen percentage points and nine percentage points higher than in 2016, respectively. Moreover, a shift towards more sustainable products and conscious consumerism across all age groups (but particularly among Gen Z and Millennials) is accelerating, with 43% of consumers in 2020 responding to a survey that they plan to buy more sustainable brands within the next five years, 2.4x greater than the response in 2019. In January 2020, 70% of women surveyed said that they have or are open to shopping secondhand, and an estimated 62 million women bought secondhand products in 2019, up from 56 million in 2018.

- > **Increasing consumer focus on sustainability.** Amid the generational shift, younger consumers are more inclined to purchase sustainable products as it aligns with their values and how they want to live their lives. However, the trend towards sustainability and thrift is gaining traction among all age groups, with over half of consumers in each age bracket indicating that they shop in secondary or used markets, though most prefer in-store to online for secondhand purchasing. Furthermore, around two-thirds surveyed by GlobalData indicated that they do not see a stigma in wearing secondhand clothing. The adoption of secondhand shopping tends to be faster among Millennials and Generation Z than any older age groups. In fact, approximately 90% of Gen Z shoppers

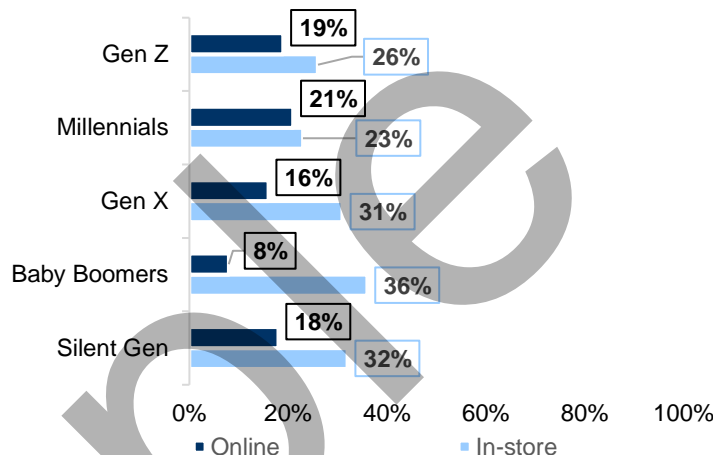
were open to shopping secondhand when facing budget constraints in 2019. In the same survey, GlobalData found that shopping secondhand was gaining share of wallet at the expense of fast fashion brands, department stores, and even some luxury brands. While only 18% of Americans have resold clothing, roughly 67% of those that have not are now considering it.

#### THE MAJORITY OF EVERY GENERATION HAS SHOPPED IN SECONDARY OR USED MARKETS



Source: First Insight, January 2020 and TAG Research.

#### SECONDARY SHOPPING ONLINE HAS TREMENDOUS OPPORTUNITY TO GROW



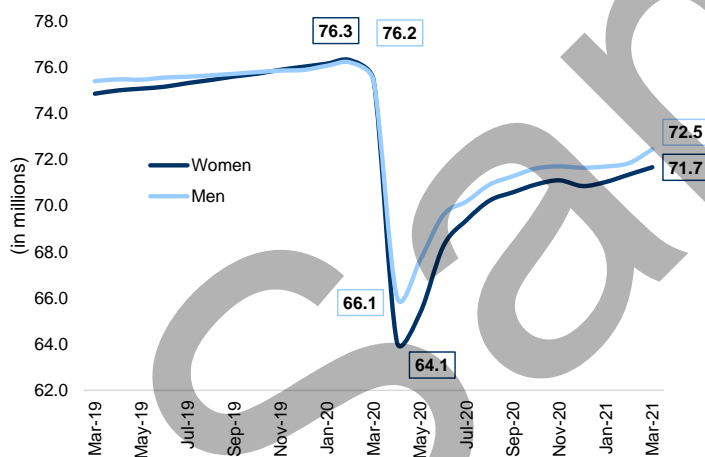
Source: First Insight, January 2020 and TAG Research. Survey response to the question, "Are you buying from the secondary/used market more online or in-store?"

### Impact of COVID-19

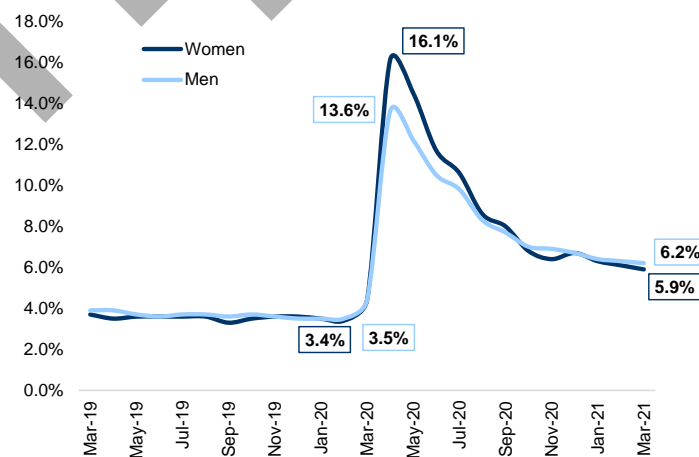
**COVID-19 and industry trends.** COVID-19 has accelerated the consumer shift to online shopping and e-commerce trends as brick-and-mortar stores were forced to temporarily close and then operate under traffic and operating hours restrictions. Additionally, and relatively unique to the secondhand market, while many consumers quarantined at home, they took time to go through their closets and clean out unworn clothes, increasing the potential product supply. Key category shifts have included the trend towards casual and activewear, with demand for dressier or more formal clothing dropping as the pandemic wore on.

Online secondhand sales were expected to grow 69% between 2019 and 2021 as consumers look for better deals, while the overall retail space was expected to shrink 15% during the same time, according to GlobalData. If one considers historical trends, resale tends to be more resilient than other distribution channels. After the Great Recession, resale revenue increased over 50% between 2008 and 2016, while during the same time, traditional department store sales declined 25%, according to Cascade Alliance. For thredUP, COVID-19 was a speed bump on its path to growth, as, consistent with most consumer discretionary companies, the company saw a moderation in revenue growth during the last nine months of 2020. Driving the slowdown, women were disproportionately affected economically, and the shift to working from home meant that many popular secondhand categories were less in demand. thredUP also saw reduced operational productivity in its distribution centers which affected its ability to process cleanout kits, maintain appropriate listings online and limit the offering, even as consumers went through their closets, clean out kits piled up and consumers shifted to shopping online. Over the course of 2020, TDUP still had over 200,000 unprocessed cleanout kits, on average, as DC staffing and processing capacity were limited, up from approximately 30,000 on average pre-COVID. As vaccine distribution is expanded and the economy begins to reopen, we believe thredUP is well positioned to experience an acceleration of growth, with recent data points indicating a pick-up in apparel sales.

- The COVID-19 impact on women.** Dubbed the “she-cession,” COVID-19 has had a disproportionate impact on women and their financial situation. Women accounted for 56% of job losses in 2020, according to McKinsey. Women left the labor force four times faster than men, according to the Center for American Progress and, according to the Brookings Institution, women were twice as likely to become unemployed than men during the pandemic due to the lack of available childcare. Estimates from the University of Texas posit that all the economic gains women have made in the last 25-50 years stand to be virtually wiped out by the pandemic. Moreover, recovery could be hindered as well—typically, the wage gap narrows during downturns, but after this economic setback, it is likely that the wage gap will be 2% wider, according to Bloomberg. Recent unemployment figures show an improvement in unemployment trends, though the White House has noted that the official unemployment figures do not account for the complexity of a pandemic, failing to capture how many more women than men have exited the labor force entirely since the pandemic began, noting that from February 2020 through March 2021, nearly 4 million workers dropped out of the labor force. Labor force participation for women ages 20 years old and over has declined 2.2% from February 2020, compared to 2.0% for men. According to the White House, the adjusted unemployment figures accounting for labor force dropouts and misclassification issues resulted in an overall unemployment rate of 9.5% in February 2021, with women coming in at 9.8% and men at 9.2%, though by the end of March, the adjusted unemployment rate came in at 9.1% for both men and women as women saw stronger employment in March.

**SEASONALLY ADJUSTED NON-FARM PAYROLLS BY GENDER (MAR 2019-MAR 2021)**


Source: FRED Economic Data and TAG Research.

**UNEMPLOYMENT RATE BY GENDER (MAR 2019-MAR 2021)**


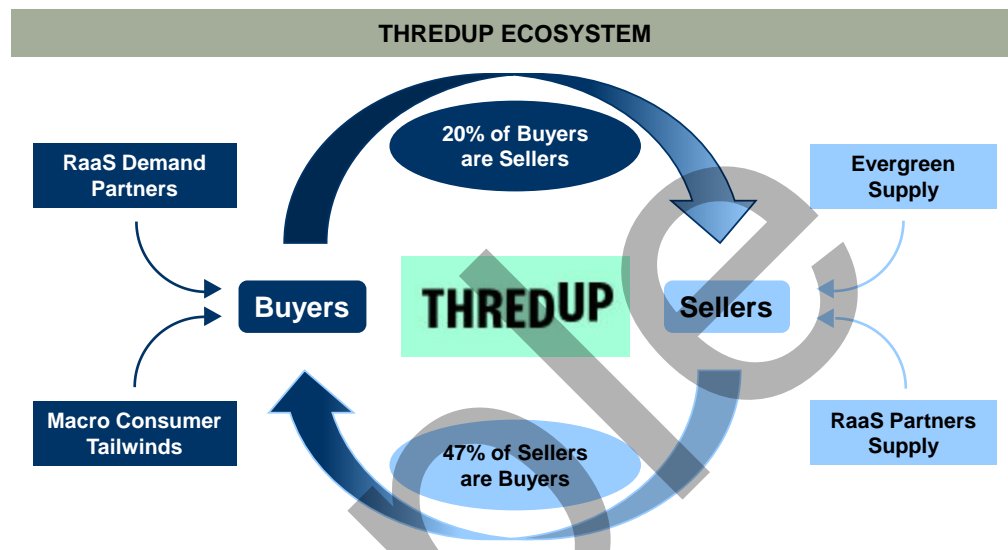
Source: FRED Economic Data and TAG Research.

## thredUP Overview: Standing at the Sweet Spot of Secular Demand Shifts

**The thredUP ecosystem.** thredUP is an online resale platform for women's and kids' apparel, shoes, and accessories. With over 35,000 brands across 100 product categories, thredUP's business model brings buyers, sellers, and brands together while ensuring optimum product quality, efficient delivery, and ease of payment. thredUP sells its products at up to 90% off the estimated retail price, with an average selling price of \$16.99. Approximately 60% of items sold are under \$15, with 35% between \$15-\$40, and the remaining 5% over \$40. The average basket has historically been four items per order, with an average order value (AOV) of \$68.95 in fiscal 2020. Repeat customers tend to purchase



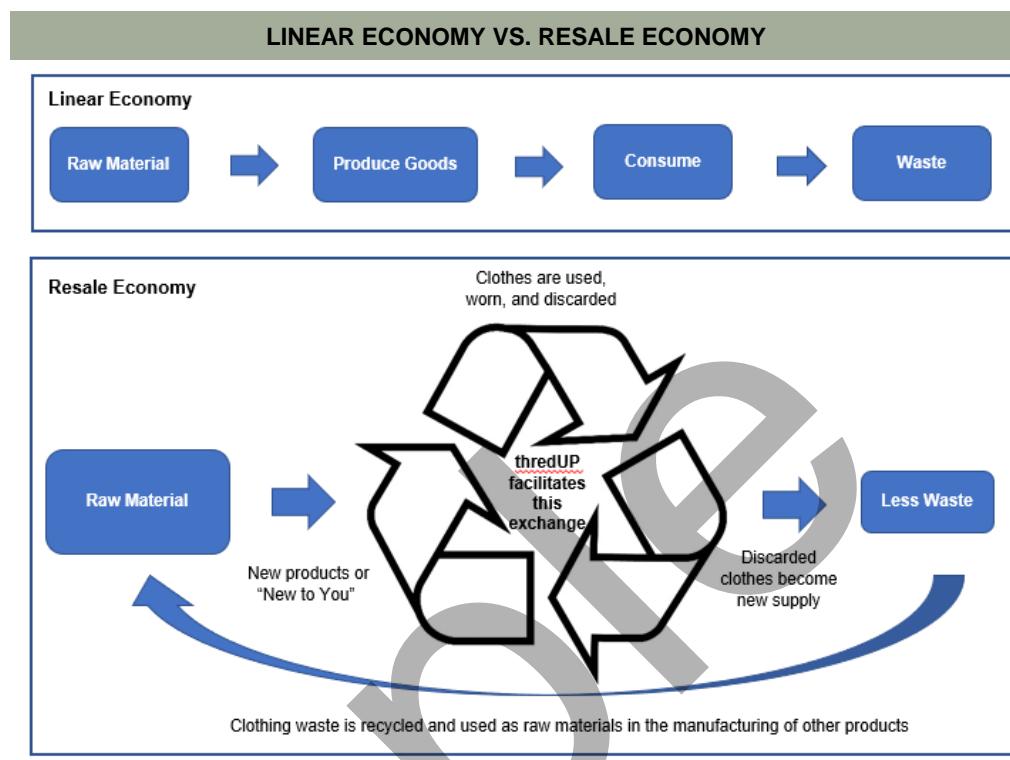
at a higher frequency than new customers (5x per year compared to 2x for new customers in 2020), with roughly 80% of orders coming from repeat buyers and 77% of supply coming from repeat sellers in 2020. The company tends to pay out 15%-20% on consignment with the average seller payout at 19% of the item sale price, but the payout ranges between 5% and 80% depending on the value of the item sold.



Source: Company reports and TAG Research.

\*Figures as of December 31, 2020

**Sustainability is in thredUP's DNA: the problem with waste and why resale is a solution.** The EPA estimated that in 2018, Americans threw away 17 million tons of textile waste, over 75% of which was apparel and footwear. Nearly 70% was sent to landfills and only 13% was recycled. According to thredUP, an estimated 64% of the 32 billion garments produced each year ends up in landfills. In the traditional or linear consumption model, raw materials are used to produce manufactured goods, which are then sold to consumers, who use the products and then dispose of them when they are finished. The resale economy disrupts this cycle by encouraging multiple useful lives of product, thereby reducing waste. The secondhand market, encompassing resale and thrift of apparel, footwear, and accessories, factors into this cycle as an option to make things "new to you," delivering newness to consumers without needing to manufacture new product and reducing the amount of waste. With resale, items tend to be sorted, processed, and curated for sale by the seller, while waste materials that are deemed appropriate for disposal can often be recycled and repurposed into raw materials for other products, which helps reduce the need for new raw materials and makes consumption more sustainable. Less than 1% of the resources used to make clothing are recaptured and reused to create new clothing. Therefore, clothing that is not resold can be downcycled into rags for industrial uses, building insulation, carpet padding, or other industrial needs according to a 2019 Green America report. thredUP's goal is to reuse as much of the items as possible and the company has partnered with other organizations that can reuse 95% of the rejected items, with less than 3% ending up in landfills.

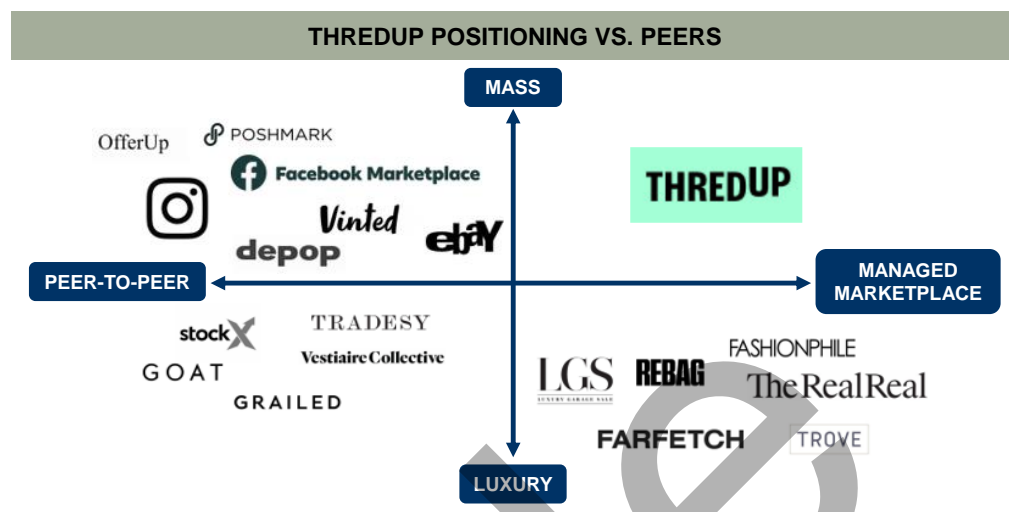


Source: Company reports and TAG Research.

**Competitive landscape.** thredUP competes against other apparel retailers, particularly those that operate at off-price or fast fashion price points, thrift stores, department stores, branded retail stores, DTC retailers, specialty retailers, online offerings, and other technology-enabled marketplaces.

Key secondhand marketplaces include eBay, Mercari, Poshmark, and The RealReal. Other large retailers include Amazon, Kohl's, and Walmart as well as off-price retailers such as Burlington, Ross Stores, and TJX. thredUP positions itself as a managed marketplace for mass fashion, differentiating itself from many of its peers that operate in the mass fashion segment but on a peer-to-peer network basis or from others that operate managed marketplaces for more premium, luxury products.

The addressable market in US apparel is six times the size at \$417 billion of the US luxury market of \$65 billion, according to GlobalData. thredUP's logistics strength and access to supply help it maintain its market positioning and take share along with the benefits of its buyer and seller experience, product quality and assortment, breadth of brand offering, along with convenience and price.



Source: Company reports and TAG Research.

### What sets thredUP apart?

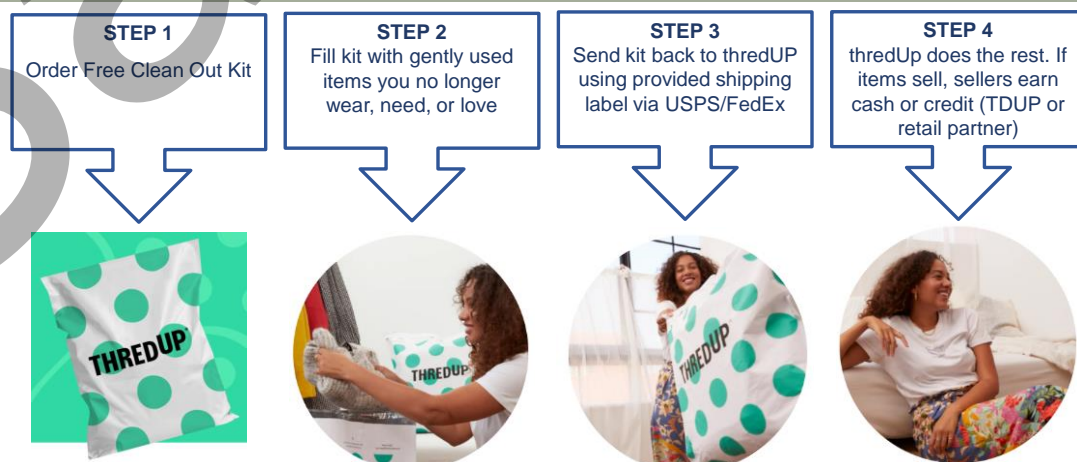
**Proprietary operating platform, software, and systems plus data science expertise.** thredUP designed its platform to minimize friction for buying and selling and adding enhancements to allow RaaS partners to be able to easily sell and connect to consumers on the platform. Its operating platform is driven by software and strong systems, allowing the company to collect billions of data points end-to-end as product moves across its marketplace to better anticipate customer needs, from managing item selection and pricing, to merchandising and fulfillment, along with payment processing and customer service. As the business grows, management sees an opportunity to extend the platform further.

- > **Operating platform.** Product enters the system once sellers submit their clean out kits. Upon receipt by thredUP, items are thoroughly analyzed for resale value, stored, and ultimately shipped to the consumer once purchased. Unlike other retail distribution centers, thredUP's logistics are built to handle significant volumes of single SKUs, as virtually every item that is processed is unique and comes from an individual seller. The current distribution center capacity can hold 5.5 million items collectively, with the ability to process over 100,000 SKUs every day. There are no barcodes on used products, so engineers developed a real-time database to identify, categorize, and value each item it processes. Moreover, these operations generate significant amounts of customer and product data that also help to enhance future inventory selection, expand margins, and improve productivity. As a result of the highly unique needs in the business, thredUP has designed a suite of custom-built applications to facilitate easy transfer of information and product at the individual unit level, including put away, storage, picking, and packing at scale, which has helped to reduce labor and fixed costs, while increasing storage density and throughput capacity.
- > **Algorithms driving the platform.** thredUP's proprietary algorithms predict the demand for an item and calculate a listing price. From there, the company's systems determine the seller payout ratio, optimizing sell-through and gross profit. Typical payouts range from 3%-15% for items listed at \$5.00-\$19.99, and up to 80% for items listed at \$200 and above.
- > **Data to leverage.** The technology investment and real time monitoring mean data collection for over 100 million unique secondhand items belonging to 35,000 brands and over 100 categories, as well as behavioral data from both sellers and customers along with transactional and pricing data. The dataset optimizes economic decisions, strengthens customer loyalty through personalized shopping experiences, and encourages efficient customer acquisition and engagement.

## How the Business Works

- > **Finding out about thredUP.** The company relies on word of mouth, marketing, and business partnerships to drive customer awareness (though unaided customer awareness was only 13.8% as of January 2021 among women ages 18-65). With 80% of its orders coming from repeat buyers in 2020, 20% of its buyers also selling product on the platform, and 47% of sellers also buying products on the platform, customer retention is high, and thredUP relies on its customers to spread the word. Its marketing campaigns include paid and organic marketing through search, social media, influencers, television, direct mail, press coverage, partnerships, referral services, and celebrity collaborations. Lastly, the company's RaaS partnerships with retailers also helps to drive awareness through greater exposure to an established customer base.
- > **Consignment.** Sellers contact thredUP and request a Clean Out Kit, which is simply a large shipping bag that comes with a pre-paid shipping label (customers can also choose to receive an emailed pre-paid shipping label and use their own bag/box to ship items to the company). Sellers then clean out their closets, putting any items that they want to sell in the bag, and send it back to thredUP via the pre-paid label. The company processes the items and puts products that pass a screen on its website for customers to peruse and purchase, at a significant discount to the original retail price. ThredUP maintains high quality standards, with 59% of items received passing those specifications and listed for resale. Customers are notified of what items did not meet the required standards and can choose to have those items returned to them for a fee of \$10.99, or those items can be recycled for free. Standard processing times (time from when thredUP receives the items and decides whether they are suitable for resale) can take up to four weeks, but customers have the option to pay \$16.00 for expedited three-week processing. In 2020, 74% of total revenue came from consignment as compared to direct product sales. Direct product sales are revenues from products that thredUP purchased from sellers prior to inclusion in its marketplace, though the company began to shift away from product sales in mid-2019 towards consignment and the mix is expected to continue to trend towards consignment in the near term with direct product eventually representing 5% of sales (from approximately 25% of sales in fiscal 2020). Consignment tends to be much more profitable than direct product, with a gross margin of 76% in fiscal 2020 vs. 50% for direct product. Products that are not able to be resold are sent to recyclers to be turned into carpets and other products, which helps reduce waste.

### HOW IT WORKS: FOUR EASY STEPS FOR SELLERS



Source: Company reports and TAG Research.

- > **Retail as a Service (RaaS).** thredUP also works directly with brands and at the end of 2020, the company had partnered with 21 well-known retail brands. The company calls these partnerships Retail as a Service (RaaS). Brand partnerships allow companies a

number of opportunities to leverage the platform to increase foot traffic to stores, build better brand loyalty, and tap into another revenue stream (resale). The RaaS partnership also allows companies to become more sustainable, reach younger consumers, and better control brand equity through the resale market than they have been able to historically. Brands can leverage the technology and logistics that thredUP offers in several different ways to enter the resale segment, and thredUP is unique in its capacity and end-to-end services that it can offer partners to effectively manage a resale program. The RaaS platform generates foot traffic by allowing product sellers to drop-off clean out kits at partnering stores. In addition, when sellers send in their kits to thredUP, they can generate partner credit instead of cash, which can then be used at partnering stores and is often of higher value than the cash-out option. This store credit drives customer loyalty, increases brand awareness, and introduces consumers to more premium brands within the company's portfolio.

#### VARIETY OF OPTIONS FOR BUSINESSES TO ENGAGE WITH THREDUP

##### Clean Out Kit Distribution

Partners offer thredUP Clean Out Kits to customers. Sellers earn credit with higher value than cash option on accepted partner items.

##### Cash Out Marketplace

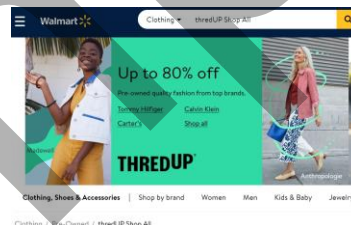
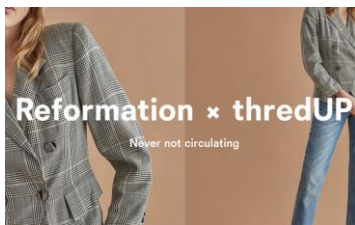
thredUP customers can turn earned supply credit into partner credit in thredUP's marketplace. Often, customers can earn bonus credit with partners.

##### Partner Listings

thredUP cross-lists inventory on secondhand items on partners' online platforms to increase exposure and sales.

##### Resale Shops, Worn Returns

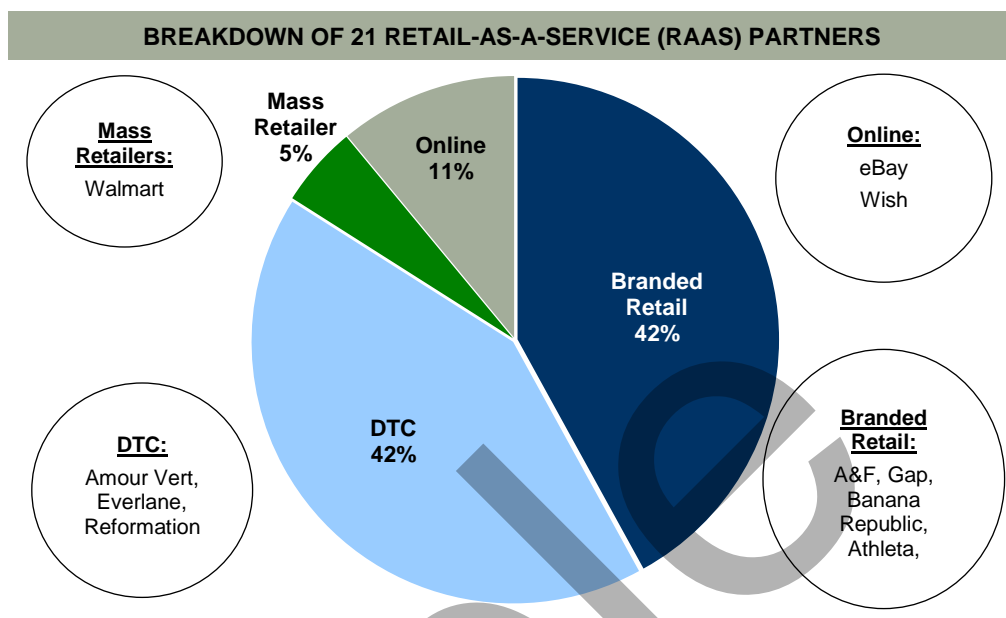
thredUP manages branded resale shops for partners and also resells returned, quality products that can't be sold as new (preowned items)



Source: Company reports and TAG Research.

**RaaS Partners.** The secondhand market allows some retailers to sell worn, returned inventory through the market that otherwise would have been thrown away, generating incremental revenue, or even expanding the product offering online in some cases. Looking ahead, thredUP will look to continue to expand its partnership offering with national retailers, fashion-focused e-commerce sites and online marketplaces, growing this segment further as it attracts more branded product, engages existing customers and attracts new ones, and delivers higher margin revenue while building better brand awareness with buyers. Partners include Abercrombie & Fitch, several Gap, Inc. brands (Athleta, Banana Republic, and Gap), Hollister, Macy's, Walmart, Reformation, Amour Vert, Polarn O. Pyret, and M.M.LaFleur, among others. While the company does not provide color on RaaS as a percent of sales, it is expected to be accretive to margins as the business scales.





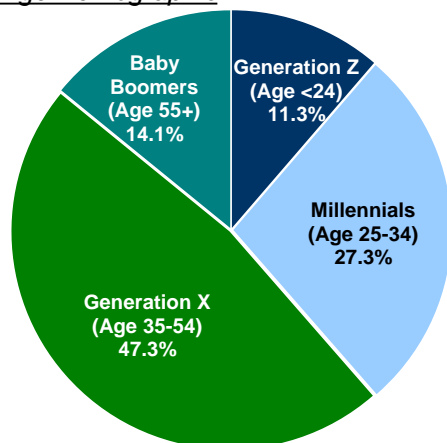
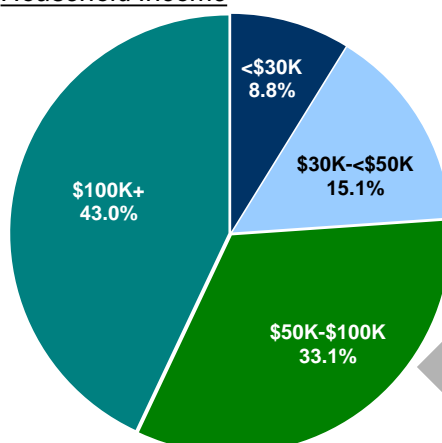
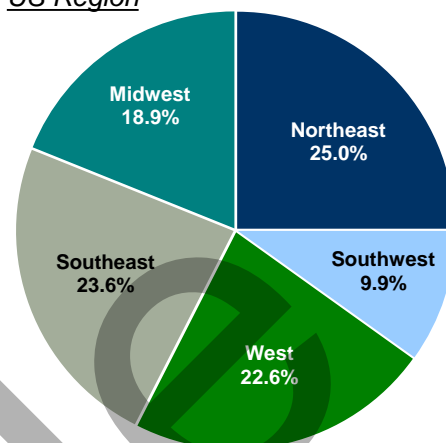
Source: Company reports and TAG Research.

- > **Styling.** The company also offers a small styling service in the form of a product called Goody Boxes, which it offers on its app and website as a way for customers to receive personally curated items shipped directly to them. Goody Boxes are a small slice of revenue (less than 10%), with a relatively low acceptance rate for items in the box but tend to serve to acquire customers and move them into the full marketplace and can also help re-engage lapsed customers. Customers fill out a style quiz, answering questions about sizes, fit preferences, body shape, style preferences (with optional references from the consumer to help the stylist visualize the customer's style), favorite brands, colors, occasions, item categories, price ranges, and optional subscription services. Based on the inputs, thredUP stylists curate items from available inventory and send to the buyer, who can return anything that they do not wish to keep.

### Buyers: Who are thredUP's customers?

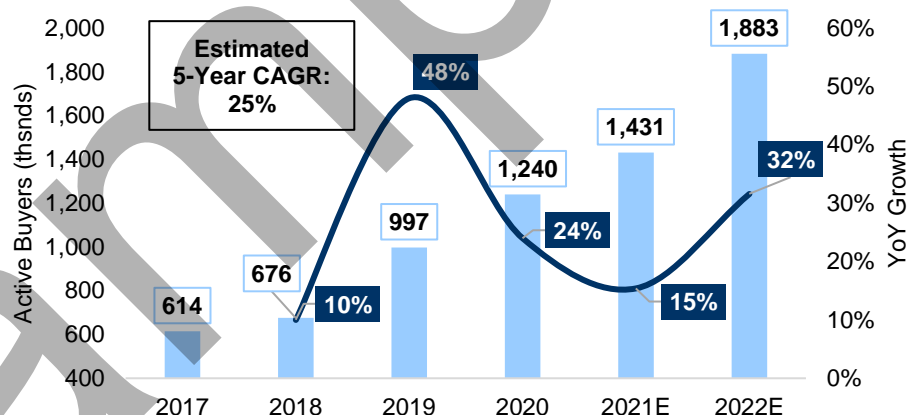
- > Nearly half of thredUP's buyers are Generation X (47%), followed by Millennials (27%), Baby Boomers (14%) and Generation Z (11%). Buyers tend to skew above the median income, with 43% making over \$100,000 in annual household income and over 76% making at least \$50,000. The company's geographic mix in the US is balanced, with the Northeast accounting for the greatest percentage of buyers at around 25%.

## PROFILE OF A BUYER

Age DemographicHousehold IncomeUS Region

Source: Company reports and TAG Research.

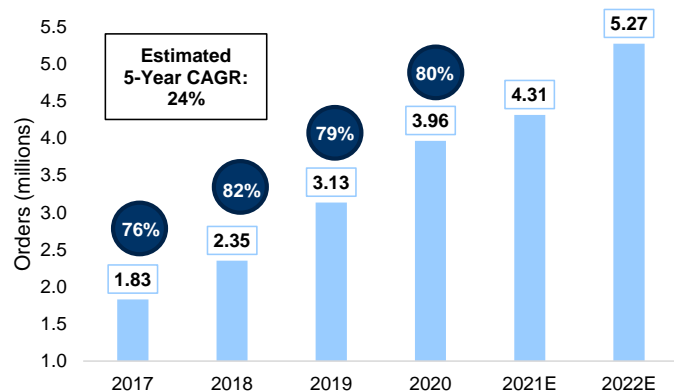
## ACTIVE BUYERS (2017-2022E)



Source: Company reports and TAG estimates.

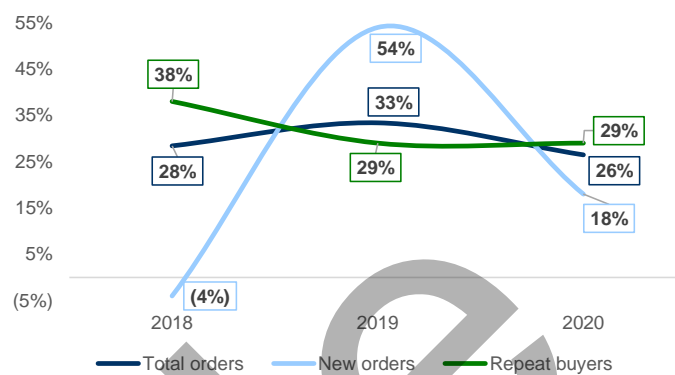
- > Average buyers made three purchases on average in 2020, broadly driven by existing buyers (five purchases on average) relative to new buyers (two purchases on average). Typically, each cohort of consumers sees a large spike in sales contribution, which drops off after the first year as one-time buyers roll off. Beyond the first year, the cohorts tend to spend about the same amount in successive years, which provides a solid base on which to drive new revenue growth from the next generation of buyers. thredUP spends very little on retention, usually less than 1% of revenue, which has proven to be a successful approach. In 2020, 58% of gross profit was driven by existing buyers, with 42% coming from new buyers. Of total fiscal 2020 orders, 80% came from repeat buyers.

### TOTAL ORDERS AND REPEAT BUYER PENETRATION (2017-2022E)



Source: Company reports and TAG estimates.

### GROWTH IN TOTAL ORDERS, NEW ORDERS, AND REPEAT BUYERS (2018-2020)



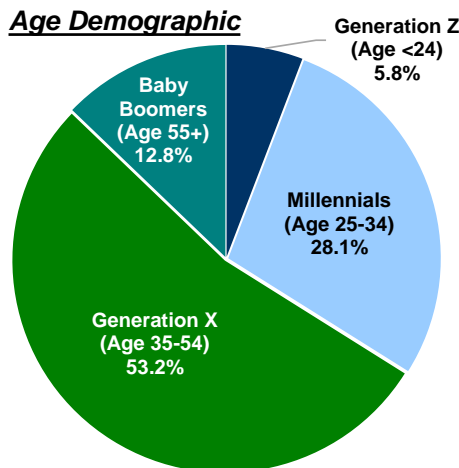
Source: Company reports and TAG Research.

### Sellers: Where does thredUP get its product?

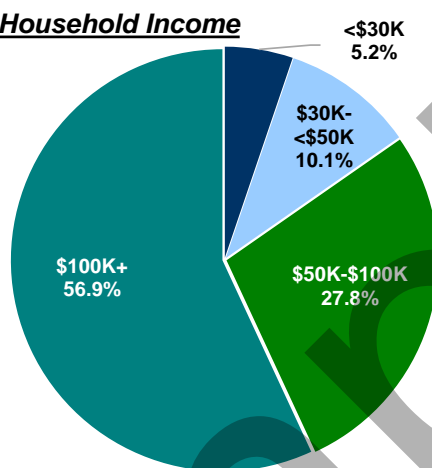
- On the other side, sellers skew slightly older (only 6% are Generation Z) though still predominately Generation X (53%) and Millennials (28%). They tend to be wealthier (57% earn over \$100,000 in household income; nearly 85% make at least \$50,000) and tend to be a bit more concentrated in the coastal areas of the US. Sellers represent a diverse base for thredUP, which allows for minimal supplier power and therefore favorable payouts.

#### PROFILE OF A SELLER

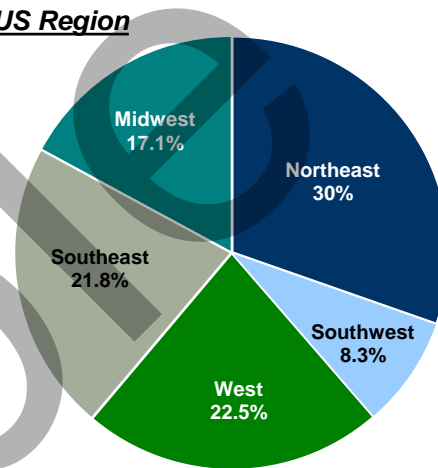
##### Age Demographic



##### Household Income



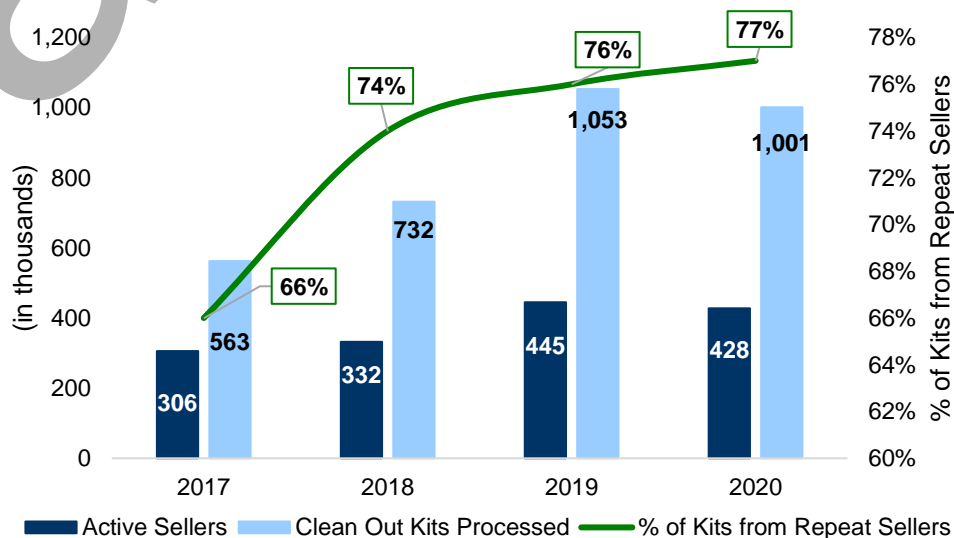
##### US Region



Source: Company reports and TAG Research.

- thredUP's ability to attract new customers and create an effective marketplace entirely depends on its ability to attract good product and keep sellers engaged. The ease of the process, the "feel good factor" to optionally donate your proceeds to one of several charity partners, along with the payouts and credit options all drive high seller retention. Approximately 77% of clean out kits sent in fiscal 2020 were from repeat sellers.

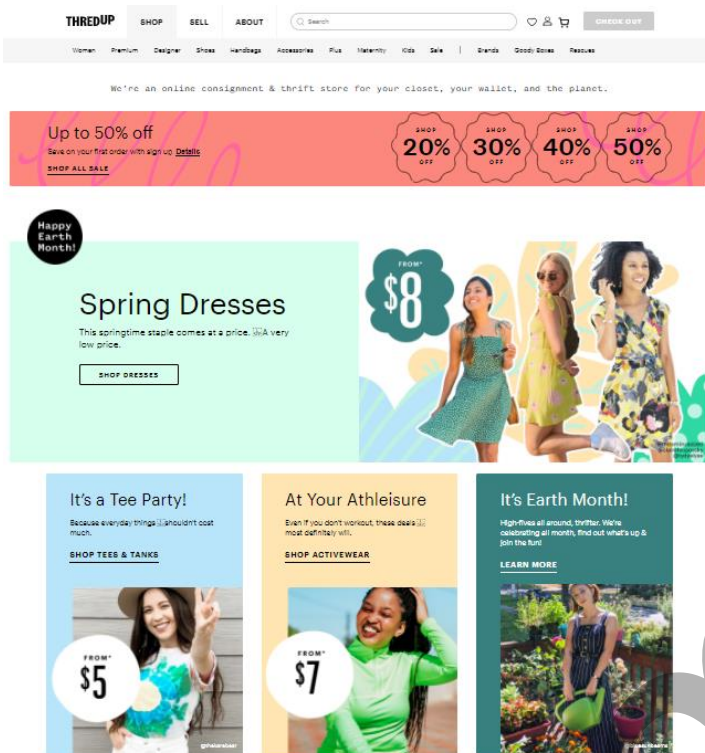
#### ACTIVE SELLERS DRIVE SUPPLY



Source: Company reports and TAG Research.

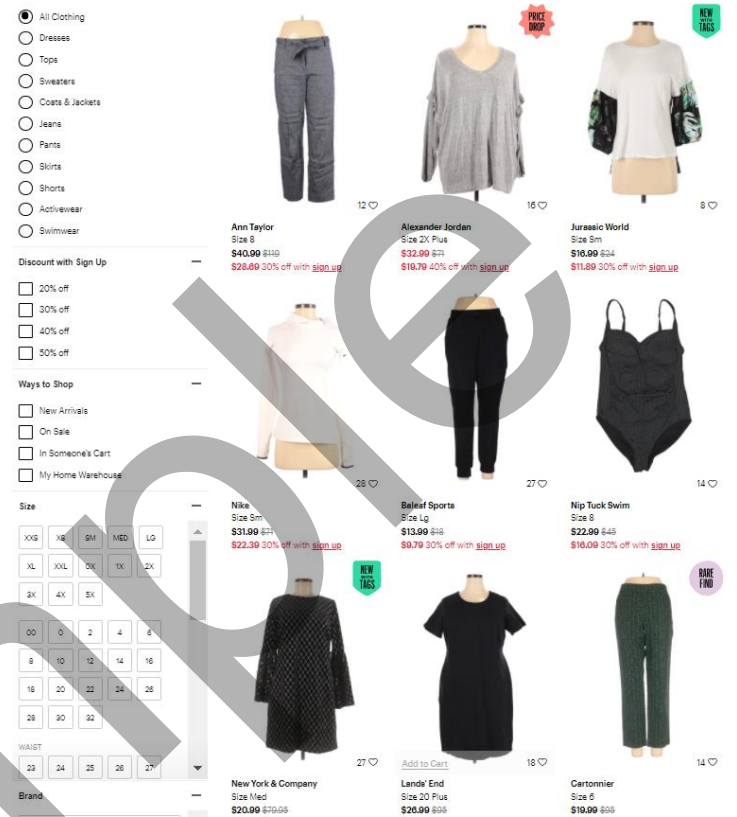
## The thredUP Experience

### THREDUP.COM HOMEPAGE



Source: Company website and TAG Research.

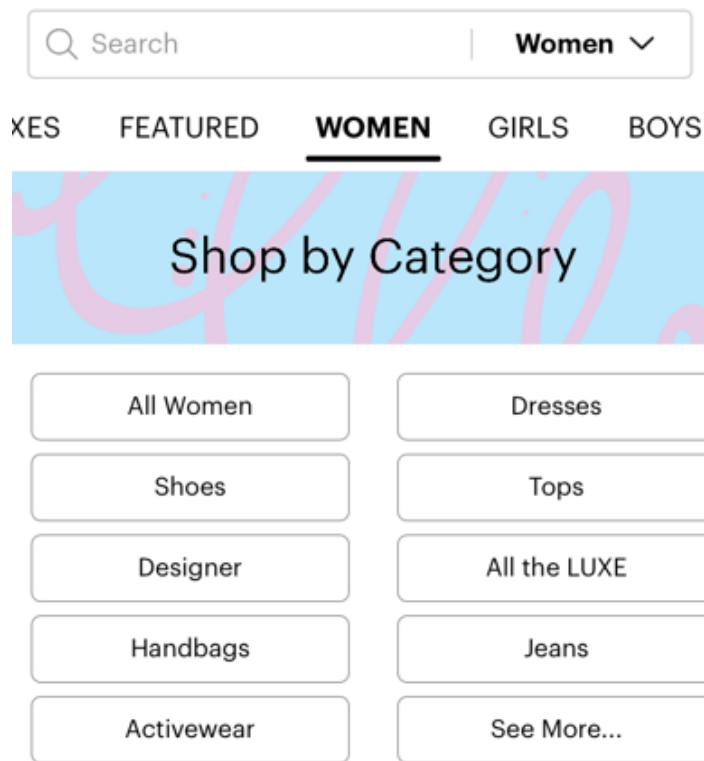
### SHOP BY CATEGORY, BRAND, CONDITION, SIZE, ETC.



Source: Company website and TAG Research.



## THREDUP MOBILE APP

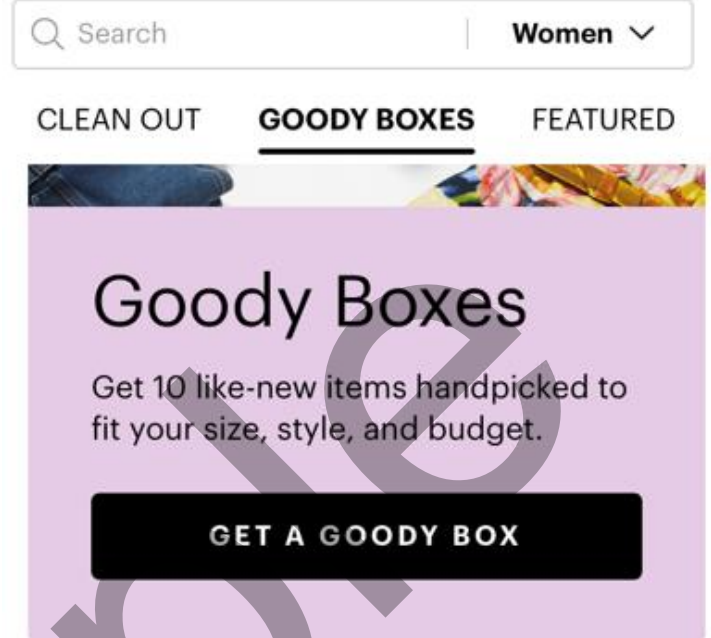


## SUGGESTED BRANDS



Source: thredUP mobile app and TAG Research.

## GOODY BOXES ON THE MOBILE APP



## Pay for what you keep

Your \$10 styling fee will be applied to items you keep.



Source: thredUP mobile app and TAG Research.

## CLEAN OUT KIT ON THE MOBILE APP

 | **Women** ▾

[SALE](#) [BLOG](#) **[CLEAN OUT](#)** [GOODY BOXES](#)
**HEADS UP**

We're experiencing unusually long processing times due to high volume and reduced staff. It will take 3 weeks to process your kit if you send it now.

Lighter closet. Fresher style.  
Brighter planet.



Home Favorites Shop Account Cart

Source: Company

## CLEAN OUT KIT OPTIONS ON THE MOBILE APP

**SELL****DONATE****1. Label or Bag**

Print labels instantly and use on any box. Bags may take up to 2 weeks.

**FREE**  
Email Shipping Label

**FREE**  
Mail a Bag

**2. Items We Don't List**

We only list 40% of items in the average kit.

**FREE**  
Recycle Items

**\$10.99**  
Return Items to You

**3. Processing Time**

Standard processing takes up to 7 weeks.

**FREE**  
Standard Processing

**\$16.00**  
3-Week Processing

Your kit is free!

**BACK****NEXT**

Source: Company

## Long-Term Strategy to Support Significant Profitability

**Long-term profitability targets.** Given the growth potential of the secondhand space, the relatively limited competition in the mass apparel managed marketplace, the significant competitive advantages thredUP has developed via its data analytics, distribution centers, and business partnerships, we see significant potential in the business's long-term model. Revenue is estimated at \$342 million in 2023 (a CAGR of 22% from 2020), driven by attracting new buyers, converting them to repeat purchasers, and driving increased orders through active buyers. Since the bulk of thredUP's sales are driven by repeat buyers (80% in 2020), the conversion from new buyer to repeat purchaser is critical. Other opportunities for acceleration include further RaaS penetration, expansion into non-apparel categories or other product categories, and international expansion. Critical to thredUP's ability to attract new

customers and retain existing customers is its capacity to expand supply and merchandise by acquiring more products through clean out kits and other channels, which is supported by its distribution centers and processing capabilities. Ultimately, we expect profitability to expand as the business scales, with a long-term EBITDA margin target of 20%-25%.

thredUP is not currently profitable, but the company anticipates increasing profitability by growing gross margins from 69% in 2019 and 2020 to 75%-78% in the long-term as the business scales. It sees greater operating leverage coming into play as sales ramp and its distribution centers are increasingly efficient, lowering operations, product, and technology costs from 48% of sales in 2019 and 52% in 2020 to 30-35% over time. Marketing spend is expected to decline from 27% in 2019 to 15%-18% of sales, and SG&A is expected to fall from 12% of sales to 7%-9% as sales grow and fixed costs leverage. These line items imply EBITDA margins improving to 20%-25% in the long term compared to the current negative margins. To meet these targets, thredUP looks to scale operations, its network, and products.

#### HISTORICAL AND LONG-TERM FINANCIAL TARGETS

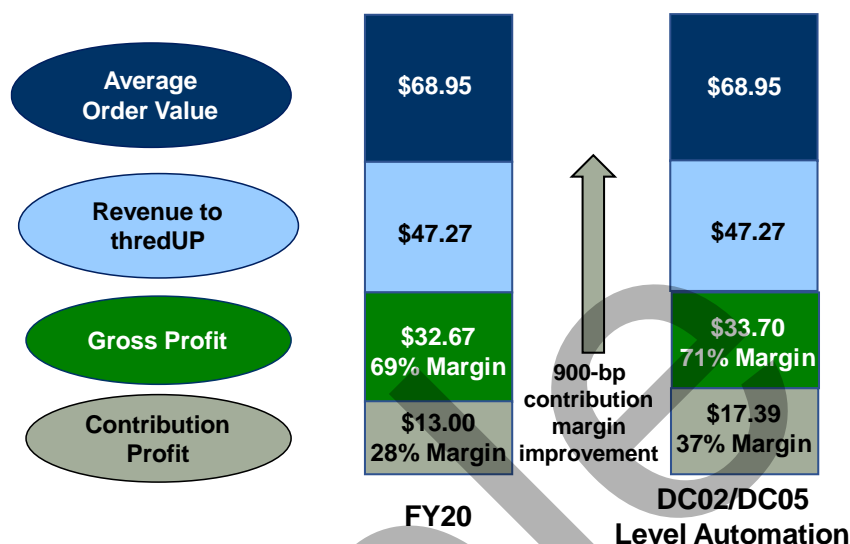
As % of revenue	FY19	FY20	FY21E	Long-Term Target
Gross profit	68.7%	68.9%	71.3%	75%-78%
Operations, product and tech expense	47.7%	52.5%	55.4%	30%-35%
Marketing	26.8%	23.5%	24.9%	15%-18%
SG&A	11.9%	14.0%	17.4%	7%-9%
EBITDA	(14.9%)	(18.0%)	(23.0%)	20%-25%

Source: Company reports and TAG estimates.

- > **Expanding the operating platform.** thredUP sees an opportunity to continue to invest in its operating platform, including building and expanding distribution centers and improving automation capabilities, distributed processing infrastructure, proprietary software, and systems and data science capabilities. As of December 31, 2020, thredUP operated three distribution centers (Arizona, Georgia, and Pennsylvania). The current distribution centers are capable of processing over 5.5 million unique items, with plans to increase item storage capacity to 6.5 million items by the end of 2021 without building additional distribution centers. Both capital expenditures and SG&A estimates already factor in the building of an additional distribution center in the next 18-24 months that would increase capacity to ten million items once it is ramped, including \$450 million in revenue capacity. The new distribution center facility is scheduled to be completed in fiscal 2022. While it is expected to be at least the same size as the facility in Georgia (270K square feet), it will also demonstrate higher contribution margin potential due to more automation and could even benefit from better scale dynamics should the company ultimately settle on a larger size before construction begins.

See the chart below for a comparison of the company's consolidated order economics for fiscal 2020 to what management believes it could hypothetically generate based on applying efficiencies from its DC02 and DC05 distribution centers, which have a higher level of automation and scale. With the addition of larger and more automated facilities, better operating efficiency can be achieved across the remainder of its distribution network. The company intends to expand facilities or add new facilities as the business scales, to help support the expected 22% topline CAGR between 2020-2023. Investments made to expand the operating platform and attract new customers should help drive operating leverage and higher margins as the business scales. The company tends to invest \$27 million to build a distribution center, which ramps up over the course of 1.5 years.

## ESTIMATED ORDER ECONOMICS IMPROVEMENT FROM AUTOMATION



Source: Company reports and TAG Research.

- > **Expand the buyer/seller network diversification.** thredUP's network of buyers, sellers, and RaaS partners is key to driving growth and scaling the business going forward. To increase the lifetime value of its existing buyers, the company looks to increase order frequency with a stronger category assortment. In addition, the model aims to drive greater conversion through improved personalization capabilities, as well as encouraging purchases across categories while improving retention within the thredUP ecosystem by encouraging buyers to become sellers on the platform as well, which drives greater value per customer. thredUP can also strengthen its product offering and generate revenue through its RaaS business. The company sees potential to extend its RaaS partnerships further to gain more traction online with consumers, though to date, management has not shared details regarding the segment's size or profitability beyond its expectation that it should be accretive to margins as the business scales and has potential with thousands of vendors.

For attracting new buyers, thredUP leverages its marketing and data insights to optimize marketing campaigns and allocate spend accordingly. These campaigns include paid and organic marketing through search, social media, influencers, television, direct mail, press coverage, partnerships, referral services, celebrity collaborations, and word of mouth. In 2019, thredUP spent 27% of revenues on marketing, which declined to 23% in FY20, and is expected to fall to between 15%-18% over the long-term. Driving the scale, management believes that increased product supply supports marketing efficiency. As of January 2021, unaided brand awareness for thredUP was 13.8% in the US, which shows significant opportunity for further expansion, driven by brand marketing, data-led insights, and consumer targeting.

- > **Increasing product selection and product categories.** Customer retention and activation depends on the strength and attractiveness of the offering. Key to obtaining more product is the ability to engage with sellers who are looking to clean out their closets or make some extra cash. thredUP finds new sellers through a variety of sources: converted buyers on its website, retail locations, RaaS partnerships, referrals, word-of-mouth, and marketing efforts, including media mentions. Expanding into new product categories and offerings gives sellers more opportunities to make money and leverage thredUP's platform, integrate the seller more fully into the thredUP network, and increase total market share in the large addressable market. Currently being a women's and kids' clothing, footwear, and accessory company, category expansion could include adjacent product areas within women's and kid's, though this is not expected to be a

significant growth engine in the near-term. Eventually, the company could expand to a men's offering. Management has pointed out that as men tend to wear out their clothes more than women and tend to buy clothes in the same few colors, there are unique challenges to resale in the men's category that makes it a less attractive opportunity, particularly given the overwhelming majority of apparel TAM in the women's category. Another opportunity is to promote independent, sustainable apparel brands that can appeal to the eco-friendly consumer who is looking to minimize her fashion footprint.

- > **International expansion.** thredUP has designed its business model to easily allow for category and client expansion, as demonstrated by the successful entry of RaaS partners and products, as well as new apparel categories. While currently offered only in the US, there is an opportunity for thredUP to expand overseas in the future.

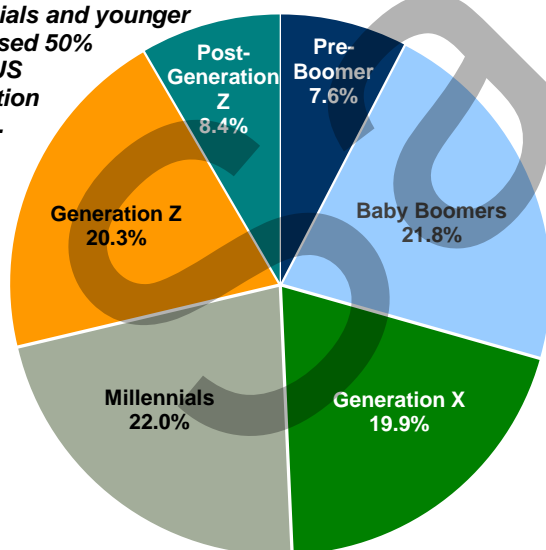
## Macro Considerations

The resale economy is driven by several demographic trends, an increasing focus on sustainability among consumers, as well as other key macroeconomic factors like unemployment, wage growth, consumer confidence, and some interest rate exposure.

- > **Demographics are shifting towards younger consumers.** Using US Census data, Pew Research Center found that Millennials had surpassed Baby Boomers as the largest living adult generation in the US in 2019 with 72.1 million people (vs 71.6 million Baby Boomers). Millennials and Gen Z are expected to account for nearly 70% of the North American population ages 20-65 by 2030, and more than 70% of the labor force participation, according to NGA Human Resources. This growth expectation is significant because younger generations tend to be more supportive of sustainability than older generations, boding well for a company operating within the sustainability sphere. Younger consumers also tend to be more tech-savvy and favor e-commerce, as compared to older consumers.

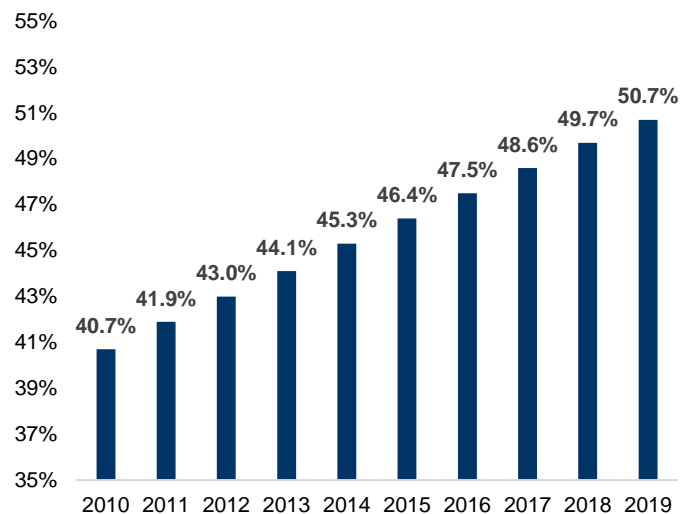
GENERATIONAL BREAKDOWN OF US POPULATION (2019)

*Millennials and younger comprised 50% of the US population in 2019.*



Source: Brookings Institution, 2020 and TAG Research.

MILLENNIALS AND YOUNGER % OF US POPULATION



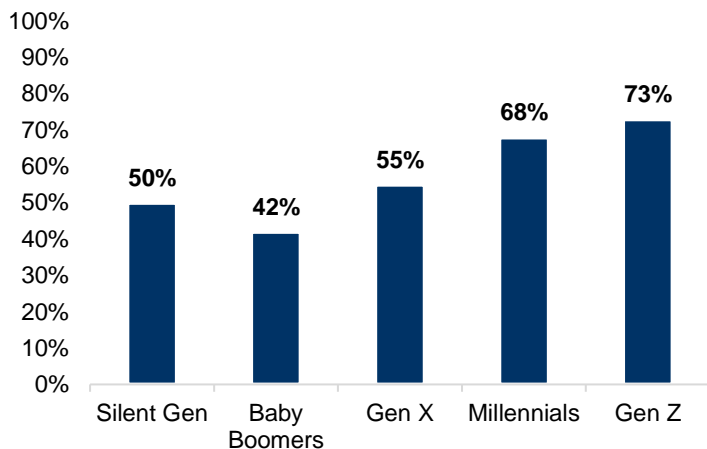
Source: Brookings Institution, 2020 and TAG Research.

**Sustainability matters to younger consumers.** As younger consumers become wealthier and a more significant proportion of the labor force, their interests and spending preferences are shifting overall consumption and demand. Millennials were overwhelmingly inclined to pay more for sustainable goods, even in 2015, according to Nielsen, and that trend is carrying forward, with 62% of Gen Z preferring to buy sustainable brands in 2019, according to First



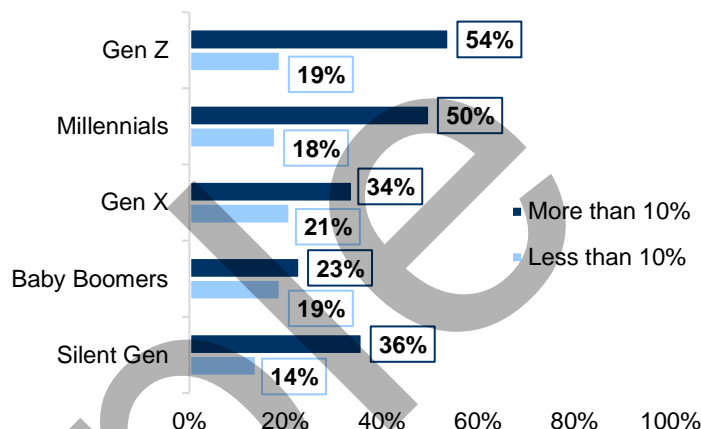
Insight. Both age groups were willing to spend an incremental 10% or more on sustainable products (54% of Gen Z and 50% of Millennials) compared to older generations, with resale and consignment models seeing strong support (over 45%) among Millennials, Gen Z, and even Gen X.

#### WILLINGNESS TO PAY MORE FOR SUSTAINABLE PRODUCTS BY GENERATION



Source: First Insight, January 2020. Respondents who answered yes to the question "Are you willing to pay more for a sustainable product?"

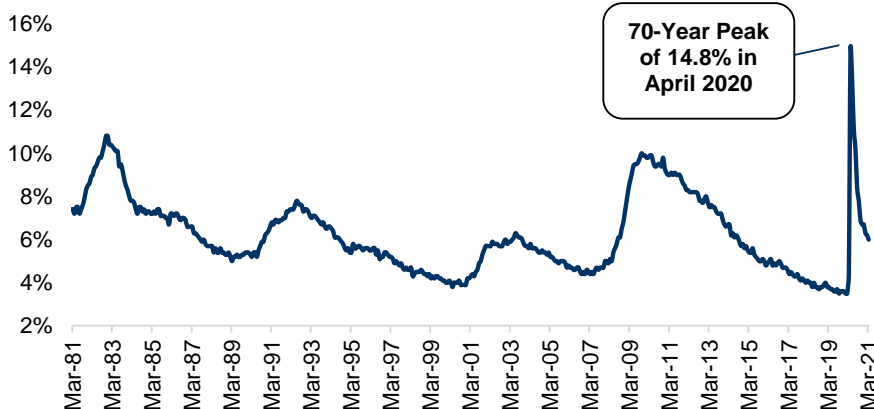
#### PREMIUM WILLING TO PAY FOR SUSTAINABLE PRODUCTS BY GENERATION



Source: First Insight, January 2020. Survey response to the question, "How much more are you willing to pay for a sustainable product?"

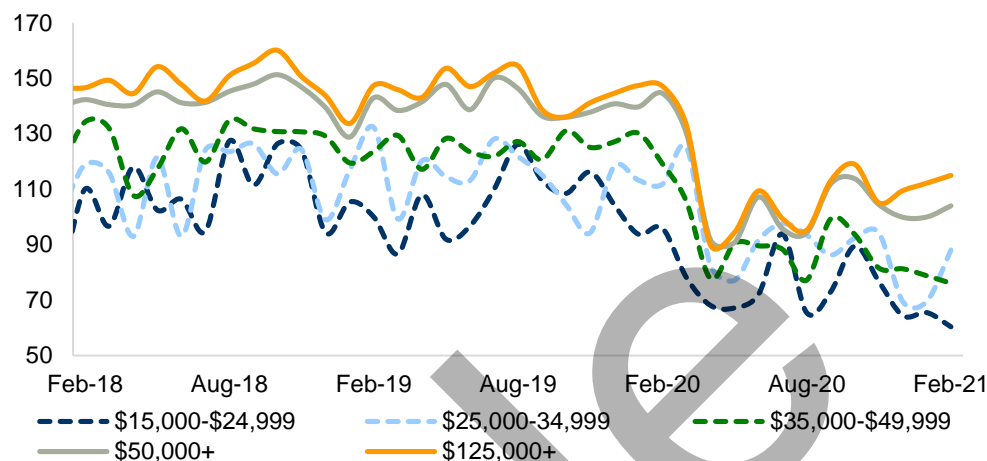
**Buying secondhand is garnering interest through different economic periods.** With rising preference for sustainability and an attractive value proposition, shopping secondhand can navigate both sides of a business cycle. When the economy is performing well and consumer confidence is high, thredUP appeals to customers with some cash to spend who want to treat themselves and want to buy sustainably. When the business cycle turns and money is tighter, secondhand still appeals. With products sold at up to 90% off the estimated retail price, consumers with little financial flexibility and limited income may turn to shopping thrift as opposed to buying at full price during periods of financial uncertainty. Two in three people who have never sold their clothes were considering resale to make money during the pandemic, and 80% of respondents said they were open to shopping secondhand when budgets shrink, according to the Global Data COVID survey as of April 2020. The same source found that 79% of consumers were planning to cut their apparel budget over the next twelve months, and 50% of respondents were cleaning out their closets more during the pandemic than they were before the pandemic, which aids supply.

#### US UNEMPLOYMENT RATE (MAR 1981-MAR 2021)



Source: FRED economic data and TAG Research.

### CONSUMER CONFIDENCE AMONG THREDUP'S CORE DEMOGRAPHIC (\$50K+) IS RECOVERING FASTER THAN OTHER INCOME BRACKETS POST THE PANDEMIC DIP



Source: FactSet and TAG Research.

## Valuation and Summary Financial Model

### Valuation Supported by Topline and Scale Potential

Based on our view of the runway for secular topline growth and supply unlock potential within the modern resale economy along with the ability for the company's marketplace model to significantly scale over time, we see long-term upside potential in the shares of thredUP. As such, the basis of our valuation rests primarily on a discounted cash flow analysis based on the company's long-range financial targets, along with a nearer-term application of comparable sales multiples. The combination of these two methodologies supports our initiation price target for the shares of TDUP of \$20.

### HISTORICAL AND LONG-TERM FINANCIAL TARGETS

As % of revenue	FY19	FY20	FY21E	Long-Term Target
Gross profit	68.7%	68.9%	71.3%	75%-78%
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EBITDA	(14.9%)	(18.0%)	(23.0%)	20%-25%

Source: Company reports and TAG estimates.

In the summary financial model found at the end of this report, we detail our annual estimates through 2028. Under that timeframe, as the business scales, we arrive at a 2028 gross margin of 76.5%, at the midpoint of the company's target range of 75%-78%. Our operations, product, and tech expense margin assumption of 32.3% is also near the mid-range of the company target of 30%-35% of sales. For marketing expense as a percent of sales, we assume 16.5% for 2028, again at the midpoint of the long-range target of 15%-18%. Likewise, our SG&A estimate of 8.0% of sales is also within the target of 7%-9%. Finally, our EBITDA margin estimate of 22.5% for 2028 also centers the company target of 20%-25%. These assumptions therefore inform our long-range discounted cash flow analysis, as detailed below.

## TDUP DCF ANALYSIS

\$ in millions	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Net income	(\$30.5)	(\$40.5)	(\$57.9)	(\$25.2)	(\$3.2)	\$17.0	\$46.2	\$82.4	\$124.2	\$170.4
Depreciation	4.3	5.6	7.2	9.1	9.1	11.2	13.7	16.6	19.8	23.3
Change in working capital	19.6	17.0	16.8	13.7	8.9	20.1	24.1	26.1	28.6	28.7
Charges / other	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditures	(7.7)	(15.1)	(25.3)	(13.0)	(25.3)	(27.3)	(28.6)	(28.8)	(30.2)	(32.3)
Free cash flow	(\$13.8)	(\$32.9)	(\$59.2)	(\$15.3)	(\$10.5)	\$21.1	\$55.4	\$96.2	\$142.4	\$190.1
Terminal value growth rate										2%
WACC										8%
Terminal value										3,666.6
Total cash flow			(59.2)	(15.3)	(10.5)	21.1	55.4	96.2	142.4	3,856.7
Number of periods to discount			1	2	3	4	5	6	7	8
PV of cash flow			(55.0)	(13.2)	(8.4)	15.6	38.2	61.5	84.5	2,124.1
Implied enterprise value										2,247.3
Less debt										(34.5)
Plus cash										64.9
Implied equity value										2,277.7
Diluted shares outstanding										116.5
Implied equity value per share										\$20

Source: Company reports and TAG estimates.

As shown above, our discounted cash flow analysis yields an implied equity value per share of \$20. We believe our long-range plan incorporates reasonable assumptions, with revenues growing at a CAGR of 21% from 2020 through 2028 to \$854 million, and our margin assumptions within the company's long-range plan above. We utilize a 2% terminal value growth rate, which yields an implied multiple of 19.1x on our 2028 EBITDA estimate of \$192.2 million, which compares to the one-year comparable group multiple of 20.0x and the three-year average of 17.1x (see comp chart below). For the digital only universe, the same multiples are 19.5x and 19.1x, respectively.

## SALES MULTIPLE ANALYSIS

Two-year forward sales estimate	\$290.2
EV / Sales multiple	7.6x
Implied enterprise value	\$2,208.9
Less debt	(34.5)
Plus cash	64.9
Implied equity value	\$2,239.3
Diluted shares outstanding	116.5
Implied equity value per share	\$19

Source: Company reports and TAG estimates.

On a nearer-term valuation methodology, our comparable sales multiple analysis leads to a similar implied valuation. As shown above, we apply a 7.6x multiple on our two-year forward sales estimate of \$290.2 million, arriving at an implied equity value per share of \$19. The 7.6x target multiple is the historical one-year average one-year forward sales-to-enterprise value multiple of what we see as thredUP's closest comparable companies in the digital resale space, as shown in the chart below.

## COMPARABLE COMPANY MULTIPLES

	P/E			EV/EBITDA			EV/Sales		
	1-year	3-year	5-year	1-year	3-year	5-year	1-year	3-year	5-year
<b>Digital Resale Retailers</b>									
Poshmark	NM	NM	NM	NM	NM	NM	11.9x	11.9x	11.9x
RealReal	NM	NM	NM	NM	NM	NM	3.3x	3.4x	3.4x
<b>Average</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>NM</b>	<b>7.6x</b>	<b>7.7x</b>	<b>7.7x</b>
<b>Digital-only Apparel &amp; Accessories</b>									
ASOS	50.1x	47.5x	53.1x	14.7x	16.6x	21.8x	1.0x	1.0x	1.4x
Farfetch	NM	NM	NM	NM	NM	NM	6.2x	5.2x	5.2x
Revolve	40.8x	36.4x	36.4x	24.4x	21.6x	21.6x	2.4x	2.2x	2.2x
Sitch Fix	NM	NM	NM	NM	NM	NM	1.9x	1.5x	1.5x
<b>Average</b>	<b>45.5x</b>	<b>42.0x</b>	<b>44.8x</b>	<b>19.5x</b>	<b>19.1x</b>	<b>21.7x</b>	<b>2.9x</b>	<b>2.5x</b>	<b>2.6x</b>
<b>Digital Retailers</b>									
Amazon	78.9x	73.9x	90.8x	24.6x	22.0x	21.5x	3.6x	3.3x	2.9x
eBay	14.1x	13.4x	14.4x	10.2x	9.9x	10.1x	3.7x	3.5x	3.6x
Etsy	77.3x	72.3x	NM	38.1x	32.3x	27.0x	10.1x	8.1x	6.1x
Mercari	NM	NM	NM	NM	NM	NM	5.6x	5.2x	5.2x
<b>Average</b>	<b>56.8x</b>	<b>53.2x</b>	<b>52.6x</b>	<b>24.3x</b>	<b>21.4x</b>	<b>19.5x</b>	<b>5.8x</b>	<b>5.0x</b>	<b>4.5x</b>
<b>Discounters, Off-Price, &amp; Mass Retailers</b>									
Burlington	52.7x	33.6x	29.1x	27.8x	19.4x	16.1x	2.5x	2.1x	1.7x
Kohl's	49.5x	20.1x	16.3x	8.7x	6.9x	6.2x	0.6x	0.7x	0.7x
Ross	30.5x	24.3x	22.6x	19.2x	15.8x	13.7x	2.5x	2.3x	2.1x
TJ Maxx	31.3x	23.6x	21.8x	19.4x	15.0x	13.0x	2.0x	1.7x	1.6x
Walmart	25.0x	22.2x	20.3x	13.0x	11.5x	10.3x	0.8x	0.7x	0.7x
<b>Average</b>	<b>37.8x</b>	<b>24.8x</b>	<b>22.0x</b>	<b>17.6x</b>	<b>13.7x</b>	<b>11.9x</b>	<b>1.7x</b>	<b>1.5x</b>	<b>1.3x</b>
<b>Total Average</b>	<b>45.0x</b>	<b>36.7x</b>	<b>33.9x</b>	<b>20.0x</b>	<b>17.1x</b>	<b>16.1x</b>	<b>3.9x</b>	<b>3.5x</b>	<b>3.4x</b>

Source: Company reports, FactSet and TAG estimates.

## Key Investment Considerations

- > **The business is not currently profitable.** thredUP generated an adjusted EBITDA loss of \$33.4 million in 2020, and we estimate an EBITDA loss of \$48.6 million in 2021. While we expect the company's marketplace model to be highly scalable as the business grows, our long-range valuation methodology is supported by a turn to profitability over time. Unforeseen requirements in infrastructure, marketing, and other topline growth investments could impair the model's ability to leverage expenses and drive margin expansion.
- > **Product supply requires ongoing engagement of existing sellers and continued growth of new sellers.** While the company's unique consignment model offers strong gross margin and working capital advantages, the model's pipeline of product supply does require ongoing participation of sellers looking to unlock value from cleaning out their closets. While we see a vast, largely untapped market supply opportunity as a unique competitive advantage to thredUP's business model, the supply of goods that it sells to consumers is ultimately somewhat beyond its control.
- > **Dual class share structure concentrates voting power to insiders.** The company has two classes of common stock, Class A and Class B. Shares of Class A common stock are entitled to one vote per share, while shares of Class B common stock are entitled to ten votes per share. The holders of outstanding Class B common stock own approximately 98.5% of the voting power of the outstanding capital stock following the completion of the initial offering. In addition, ownership is concentrated to insiders. Upon completion of the initial public offering, executive officers and directors beneficially own, in the aggregate, approximately 56.2% of the outstanding shares of common stock, representing approximately 63.3% of the voting power of outstanding shares of common stock.

## Other Investment Risks

- > **Buyer risk.** thredUP's business model depends on the company's ability to attract new buyers and retain existing buyers. Should it not be able to attract or retain customers, its business operations may be at risk.
- > **Supply risk.** The attractiveness of the thredUP product offering depends on the company's ability to accumulate new and recurring high-quality secondhand items, specifically by attracting new sellers and retaining existing sellers. Failure to appropriately manage supply could make customer retention challenging.
- > **Logistics risk.** The business bears risks from sourcing, itemizing, warehousing, and shipping product, and interruptions at any one of these stages could materially affect operations. Challenges to expanding distribution centers and retaining talent to manage the operations could be a risk as well to the company's ability to scale its operations.
- > **Financial risk.** thredUP is a relatively new company with no previous public listing. As such, the volatility of its stock is unknown, and there is limited operating history, which makes it difficult to forecast revenue, plan expenses, and evaluate business and future products. The company has a history of losses, and as operating expenses increase as the business scales, it may not be able to achieve or maintain profitability. Moreover, the recent rapid historical growth may not be sustainable in the future.
- > **Ongoing pressure from the COVID-19 pandemic.** COVID may continue to have an adverse impact on operations. The pandemic challenged the company's ability to process clean out kits, made it difficult to staff sites, and to hire and retain its distribution center workforce.
- > **Competition.** thredUP currently operates in a relatively niche category (managed marketplace for mass apparel) with limited competitors directly competing with its online platform. Its logistics, inventory management, and network of buyers and sellers all act as moats to deter new entrants. However, should existing competitors with infrastructure already in place decide to shift into the mass apparel segment or bring off-price operations online, thredUP would face increasing competitive pressure. We believe thredUP's brand recognition, ten-plus years of strengthening its buyer and seller relationships, and ongoing innovation to support greater inventory while continuing to deliver on positive consumer experiences should all help insulate it from peers who would try to enter the space.
- > **Challenges in expanding to new categories and new markets.** thredUP's product categories have strongly resonated with women and parents buying for children. If the service and experience it offers is not as valued by other target markets, the company may fail to meet growth expectations. There is risk that new product categories may not resonate with current and future consumers, notably if thredUP expands into men's, as well as within new markets as the company could look to expand internationally.

## Founder-Led Management Team with Strong Retail and Technical Experience

- > **James Reinhart: CEO, Director, and Co-Founder.** Mr. Reinhart co-founded thredUP and has served as CEO since 2009. Prior to thredUP, he helped develop the Pacific Collegiate School and co-founded the Beacon Education Network to help serve low-income students in California's central coast. He has an MA from Harvard Kennedy School, an MBA from Harvard Business School, and a Bachelor of Arts in History from Boston College.
- > **Christopher Homer: COO, Co-Founder.** Mr. Homer co-founded thredUP and has served as the COO since September 2020. Prior to serving as the COO, he served as Chief Technology Officer from June 2009 to September 2020. Before thredUP, he was a



midmarket solution advisor at Microsoft Corporation. He holds an MBA from Harvard Business School and a BS in Mechanical and Aerospace Engineering from Princeton.

- > **Anthony Marino: President.** Mr. Marino has been President of thredUP since January 2018. Prior to becoming President, he was Chief Marketing Officer from August 2013 to January 2018. Before thredUP, he was CEO and on the board of the Virgin Hotels Group Ltd. (a high-end hotel developer which he founded), a managing partner at Virgin Group Ltd., (a consumer conglomerate and investment group), and principal at Venrock, a VC firm. He holds an MBA from Harvard Business School and a BA in Politics and American Studies from Princeton.
- > **Sean Sobers: CFO.** Mr. Sobers has been CFO of thredUP since October 2019. Prior to thredUP, he was CFO of Quantenna Communications, Corporate VP of Finance of Cadence Design Systems, and held senior finance roles at a variety of technology and content management companies. He holds a BS in Accounting from University of Southern California.
- > **Natalie Breece: Senior VP, People.** Ms. Breece has been Senior VP of People since October 2019. Prior to this role, she was VP of People and director of talent acquisition, as well as a recruiting manager for thredUP. Before thredUP, she was a recruiting manager for several companies and served as a university recruiting manager for Tegna, as well as campus recruiter for Nestle. She holds an MBA from Ottawa University and a BA in organizational psychology and marketing from The University of Arizona.
- > **Daniel DeMeyere: Chief Product Officer.** Mr. DeMeyere has been Chief Product Officer since February 2019, previously serving as VP of Engineering, director of engineering, and one of thredUP's full stack engineers. Before thredUP, he was a web development consultant at Global Notion. He holds a BS in computer science and engineering from Michigan State University.
- > **Alexis Ghorai: Senior VP, Operations.** Mr. Ghorai has been SVP of Operations since November 2019, previously serving as Chief Financial Officer and SVP of Financial Planning and Analysis. Before thredUP, he was an operations consultant and advisory board member at Marchi Thermal Systems, President of the CDS division of Advanced Integration Technology, and co-founded Flow Systems, a manufacturer of high purity gas delivery systems. He holds a BS in Chemistry from the University of Michigan.
- > **Allison Hopkins: Chief People Officer.** Ms. Hopkins has been Chief People Officer since September 2020, previously serving as COO from June 2019-September 2020, and serving as Chief People Officer from June 2016-October 2019. Prior to thredUP, she served as founder and CEO of Core Elements, an HR and internal communications company, as well as various leadership roles at Eat JUST, Palo Alto Networks, and Netflix.
- > **Alon Rotem: Chief Legal Officer and Secretary.** Mr. Rotem was recently appointed as Chief Legal Officer in February 2021 but served as Secretary since March 2017. He also concurrently served as General Counsel from January 2017 to February 2021. Prior to thredUP, he was General Counsel for Rocket Lawyer Inc., as well as an associate at both Goodwin Procter and Ropes & Gray. He holds a JD from UC Berkeley and a BS in Managerial Economics from UC Davis.
- > **John Voris: Chief Systems Officer.** Mr. Voris has been Chief Systems Officer since September 2020 and previously served as Head of Operations Innovation from May 2019 to September 2020. Between September 2019-March 2020, Mr. Voris held a consulting role with Rent the Runway. Prior to thredUP, Mr. Voris worked as SVP of Manufacturing Engineering at Space Exploration Technologies, Director and SVP of Operations Engineering at Netflix, and Director of Automation at Shutterstock. He holds a BS in Industrial Engineering from California Polytechnic State University.

## thredUP Ownership Overview

thredUP has a dual class share structure with Class A shares (13.8MM outstanding as of April 16, 2021) receiving only one vote per share, and Class B shares (78.9MM outstanding) receiving ten votes per share. We note that dual class share structures have become increasingly prevalent over the past several years with many new IPOs (particularly those that operate in or adjacent to the tech industry) utilizing them. Class B shares are not actively traded and are almost entirely held by the Board of Directors and the executive team. As a result, current directors and executives effectively have outsized control over matters requiring shareholder approval (e.g., large acquisitions). As of the initial offering, all prior shareholders had their prior shares converted to Class B, with those holders accounting for approximately 98.5% of the voting power following the IPO. Class B shares automatically convert to Class A shares (on a 1:1 basis) when transferred in almost all cases. Additionally, all Class B shares will convert to Class A shares once either: 1) the holders of at least 66.67% of Class B shareholders elect to convert the Class B common shares to Class A common shares; or 2) the company reaches the seventh anniversary of the date of the prospectus (or March 3, 2028). Major Class B shareholders include: 1) GS Investment Strategies with 10.8 million shares; 2) Trinity Ventures with 10.7 million shares; 3) Redpoint Ventures with 10.7 million shares; 4) Highland Capital Partners with 10.7 million shares; and 5) Upfront Ventures Management with 10.1 million shares. Among Class A shares, insiders currently account for 0.88% of total shares outstanding of thredUP while institutional investors account for another 50.33% of the total. The remaining 48.8% consist of individual investors and institutional investors exempt from 13-F disclosures (less than \$100 million AUM and/or based internationally in most cases). See below for a table of the top shareholders for Class A shares.

### OWNERSHIP SUMMARY

<b>Institutions (Top 5)</b>	<b># of Shares Outstanding (Thousands)</b>	<b>% of Shares Outstanding</b>
Massachusetts Financial Services Co.	1,893	13.7%
Fidelity Management & Research Co. LLC	1,800	13.0%
T. Rowe Price Associates, Inc. (Investment Mgmt.)	1,652	12.0%
Adage Capital Management LP	1,100	8.0%
Park West Asset Management LLC	500	3.6%

Source: Company reports, FactSet, and TAG Research.

	1Q19	2Q19	3Q19	4Q19	2019	1Q20	2Q20	3Q20	4Q20	2020	1Q21E	2Q21E	3Q21E	4Q21E	2021E	1Q22E	2Q22E	3Q22E	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
	MAR	JUN	SEP	DEC	TOTAL	MAR	JUN	SEP	DEC	TOTAL	MAR	JUN	SEP	DEC	TOTAL	MAR	JUN	SEP	DEC	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL
INCOME STATEMENT HIGHLIGHTS																										
Consignment revenue	16.4	22.0	27.3	32.0	97.8	35.3	34.9	33.7	34.2	138.1	40.5	41.9	47.9	52.5	182.9	60.1	62.6	64.9	67.8	255.3	322.4	399.8	492.7	597.1	711.6	833.8
Product revenue	16.7	18.1	18.6	12.6	66.0	13.0	12.4	13.3	9.2	47.9	7.9	6.8	6.8	6.5	28.1	4.3	4.6	4.9	5.1	18.8	20.0	20.0	20.0	20.0	20.0	20.0
Total revenue	\$33.1	\$40.1	\$46.0	\$44.6	\$163.8	\$48.3	\$47.3	\$46.9	\$43.4	\$186.0	\$48.4	\$48.8	\$54.8	\$59.1	\$211.0	\$64.4	\$67.1	\$69.8	\$72.9	\$274.1	\$342.5	\$419.9	\$512.7	\$617.2	\$731.7	\$853.8
Total gross profit	21.0	27.6	32.5	31.4	112.5	32.6	33.0	32.8	29.7	128.1	33.8	34.6	39.3	42.6	150.4	47.8	49.4	51.5	53.5	202.2	253.0	313.6	386.8	468.7	559.1	653.5
Operations, product and technology	16.0	18.8	20.3	23.1	78.2	24.8	21.3	24.9	26.8	97.7	27.4	28.7	30.3	30.5	116.9	31.2	32.0	32.0	33.3	128.6	144.2	168.4	195.3	222.8	249.5	275.0
Marketing	9.2	9.4	13.4	12.0	44.0	12.8	10.6	10.3	9.9	43.7	14.2	13.2	13.4	11.8	52.5	15.0	14.8	14.8	12.9	57.5	69.5	81.0	93.8	108.5	124.2	140.0
Sales, general and administrative	3.9	4.7	4.9	6.0	19.5	6.9	5.6	5.5	7.0	26.0	8.5	9.1	9.4	9.7	36.7	10.2	9.7	9.8	9.7	39.4	41.0	46.1	51.1	55.4	62.0	68.1
Total operating expenses	29.0	32.8	38.6	41.1	141.6	44.5	37.5	41.7	43.7	167.4	50.1	51.0	53.1	52.0	206.2	56.5	56.5	56.6	55.9	225.5	254.7	295.4	340.3	386.6	435.7	484.5
Operating income (loss)	(\$8.0)	(\$5.3)	(\$6.1)	(\$9.7)	(\$29.1)	(\$11.8)	(\$4.5)	(\$8.9)	(\$14.0)	(\$39.3)	(\$16.3)	(\$16.4)	(\$13.8)	(\$9.4)	(\$55.8)	(\$8.6)	(\$7.1)	(\$5.1)	(\$2.4)	(\$23.3)	(\$1.7)	\$18.2	\$46.6	\$82.1	\$123.4	\$169.0
Adjusted EBITDA	(\$6.9)	(\$4.2)	(\$4.9)	(\$8.4)	(\$24.3)	(\$10.4)	(\$3.3)	(\$7.5)	(\$12.2)	(\$33.4)	(\$14.7)	(\$14.7)	(\$11.9)	(\$7.3)	(\$48.6)	(\$6.4)	(\$4.8)	(\$2.8)	(\$0.1)	(\$14.1)	\$7.4	\$29.4	\$60.3	\$98.7	\$143.2	\$192.2
Interest expense	0.3	0.4	0.4	0.4	1.4	0.3	0.2	0.4	0.4	1.3	0.5	0.5	0.5	0.5	2.1	0.5	0.5	0.4	0.4	1.9	1.6	1.1	0.4	(0.2)	(0.8)	(1.4)
Other income, net	(0.4)	(0.0)	0.2	0.3	0.1	0.3	0.0	(0.1)	(0.3)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Income taxes (benefit)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (loss)	(\$8.7)	(\$5.7)	(\$6.3)	(\$9.8)	(\$30.5)	(\$11.8)	(\$4.7)	(\$9.4)	(\$14.7)	(\$40.5)	(\$16.8)	(\$16.9)	(\$14.3)	(\$9.9)	(\$57.9)	(\$9.2)	(\$7.6)	(\$5.6)	(\$2.9)	(\$25.2)	(\$3.2)	\$17.0	\$46.2	\$82.4	\$124.2	\$170.4
Diluted EPS	(\$0.85)	(\$0.55)	(\$0.61)	(\$0.96)	(\$2.97)	(\$0.13)	(\$0.05)	(\$0.10)	(\$0.16)	(\$0.44)	(\$0.18)	(\$0.18)	(\$0.15)	(\$0.11)	(\$0.62)	(\$0.10)	(\$0.08)	(\$0.06)	(\$0.03)	(\$0.27)	(\$					

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**ADDENDUM****Important Disclosures:**

Valuation Method for Target Price: Price-to-Earnings, enterprise-value-to-EBITDA, P/E to growth, price to free cash flow, and discounted cash flow analysis.

Investment Risks: Telsey Advisory Group's (TAG's) equity research department covers consumer-focused sectors including apparel manufacturers, cannabis, children's and teen retailers, consumer electronics retailers, cosmetics, department stores, discounters, footwear, home furnishings retailers, home improvement retailers, internet, luxury goods, office supply retailers, off-price retailers, restaurants, specialty apparel retailers, sporting goods retailers, and supermarkets. Risks across or specific to one or more of these sectors include volatility of commodity costs, consumer spending, currency, rising interest rates, weaker consumer confidence and unemployment rates. Additionally, access to capital, supply chain disruptions, commodity costs, private label distribution, currency, geopolitical uncertainty, unfavorable government regulations, lack of appropriate real estate sites, and the use of the World Wide Web to sell merchandise represent unique industry risks.

**Analyst Certification**

The Research Analysts, Dana Telsey, Joshua Herrity, Robert Rosenhaus and Alexis Cooper, who prepared the research report hereby certify that the views expressed in this report accurately reflect the Analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

**Company Specific Disclosures**

TAG has acted as a manager or co-manager of a public offering of securities by ThredUp Inc. in the last 12 months.

TAG received compensation from ThredUp Inc. for investment banking services in the last 12 months.

**ThredUp Inc. Rating History as of 04/19/2021**

powered by: BlueMatrix



\* Telsey with ratings are effective as of 09/11/14

**Ratings Distribution & Investment Banking Disclosure**

Rating	Count	Ratings Distribution	Count	*Investment Banking
OUTPERFORM	45	57.69%	6	13.33%
MARKET PERFORM	32	41.03%	0	0.00%
UNDERPERFORM	1	1.28%	0	0.00%

On 09-11-2014 TAG launched a three-tiered rating system of Outperform, Market Perform, and Underperform to evaluate its stocks under coverage. Price targets continue to be used in conjunction with the new rating system.

**Ratings Definition and Distribution**

Our recommendation system is based on a stock's expected total return relative to the industry universe over the next 12 months.

We divide stocks under coverage into three categories, each defined by a prospective rate of return:

**Outperform** – the stock is expected to outperform the average total return of the industry universe over the next 12 months.

**Market Perform** – the stock is expected to perform in line with the average total return of the industry universe over the next 12 months.

**Underperform** – the stock is expected to underperform the average total return of the industry universe over the next 12 months.

Disclosures required by United States laws and regulations

See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

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