



Clear Secure Inc. (NYSE: YOU)

Recommendation: **SELL**
Price as of February 3rd: **\$34.07**
Target Price: **\$28.86**
Implied Downside: **15.29%**
Investment Horizon: **3 to 12 months**

Crimson Tide Capital

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A CLEAR Short



CLEAR®

Market Cap	\$5.19B
2/3 Close	\$34.07
52 Week Range	\$18.79 – 35.00

- ❑ CLEAR Secure Inc is a biometric identity verification platform operating at major airports and select stadiums across the US
- ❑ CLEAR declared bankruptcy in 2009, in 2010 the current CEO & CFO bought the company and reorganized it
- ❑ Recommendation: **SHORT** with a **PT of \$28.86**, representing a downside of **15.29%** from 2/3 close

Investment Thesis Introduction

1. CLEAR has already penetrated the US airport market, and additional market share gains will become increasingly difficult and expensive
2. The business model is unscalable and the more people that subscribe to CLEAR, the lower the value proposition
3. CLEAR will not be able to scale outside of airports

Catalysts

1. C+ replacement programs resuming pre-covid rollout
2. Retention rates of C+ decreasing from Frequent Flier roll off

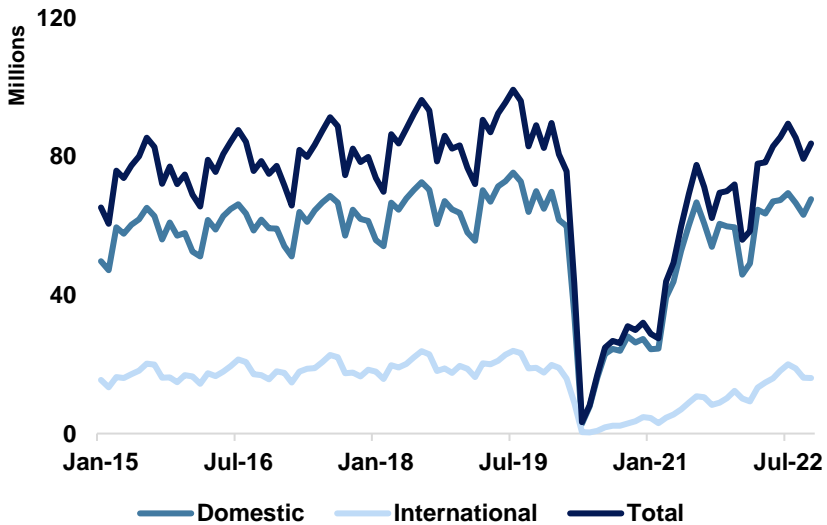


The Airport Identity Verification Industry

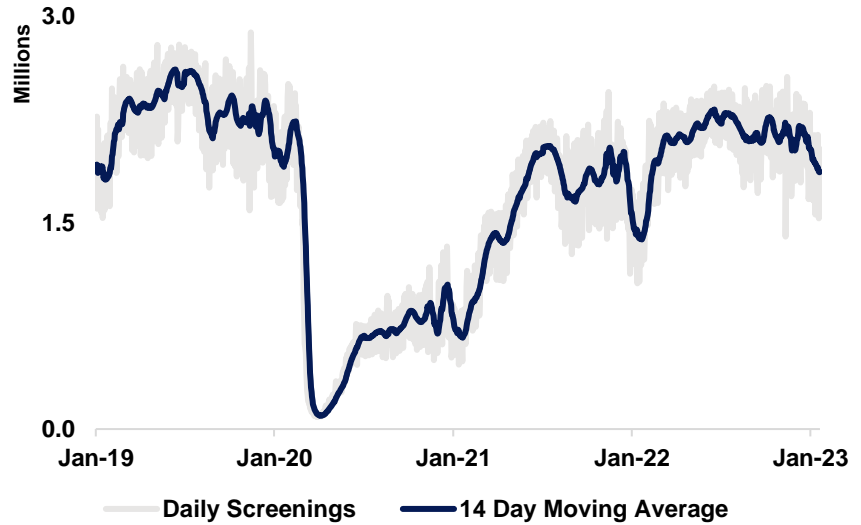


Standard ID	Mobile ID	Digital ID	Airside	CLEAR
				
All Airports	PHX, BWI, DCA	ATL, DTW	DFW	50 Airports
2001	2022	2021	2022	2010
	  	 		  

Total Daily Enplanements⁽¹⁾



Daily Security Screenings⁽¹⁾



(1) TSA.gov (2) Slide Data from Respective Company New Filings, and TSA



How Does CLEAR Make Money?

CLEAR has two "revenue streams"

CLEAR Plus⁽¹⁾



~99.9% of Revenue

Sports Stadiums



Health Pass



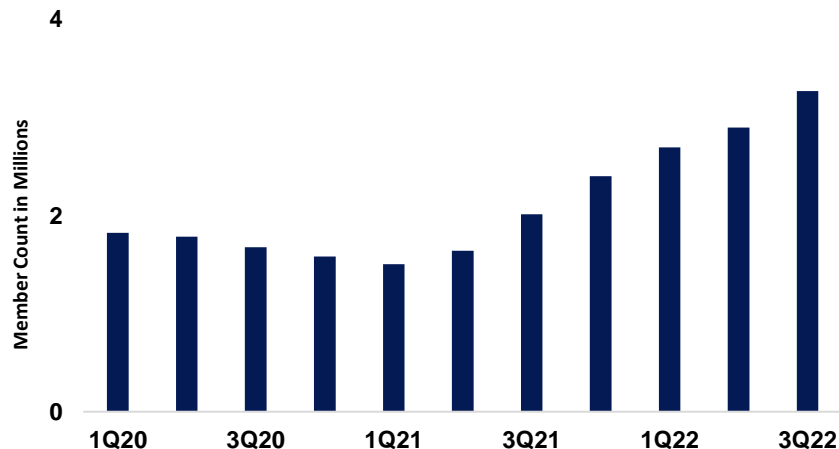
Venue/Company pays CLEAR for the right to use CLEAR technology, not the member

Immaterial % of Revenue

CLEAR has 3 Strategic Partnerships⁽²⁾

	5-100% discount for SkyMiles members	Revenue Share agreement with Delta	Delta owns 9.56% of CLEAR
	5-100% discount for MileagePlus Members	No Revenue Share agreement with United	United owns 3.33% of CLEAR
	100% discount in statement credit	CLEAR receives a credit on their corporate expenses from Amex for each CLEAR member	

Estimated C+ Members



Based on C+ members paying an average 25% discount

(1) CLEAR Website (2) CapIQ



Why and How Did We Find the Data Used in Our Pitch?

Key KPIs Are Neglected by CLEAR

- ✗ CLEAR does not report most user metrics including number of active C+ subscribers
- ✗ CLEAR does not report the ARPU of each C+ Subscriber
- ✗ CLEAR does not report anything about their cost or revenue share agreements in airports
- ✗ CLEAR does not break out stadium revenue or cancelled stadium partnerships
- ✗ CLEAR does not break out information relating to Health Pass or autonomous stores

Calculating the Predicted Number of C+ Members

CLEAR Does NOT Report # of C+ Members⁽¹⁾

Quarterly Revenue	\$115,910,000
Quarterly C+ Price	\$47.25
Assume a 25% Discount	\$35.44
Estimated C+ Members	3,271,083

(1) Based on Q3 of 2022

Using the TranStats Database

Department of Transportation database, giving monthly traveler numbers by airport and airline

What Did This Let Us Do?

We collected all airports C+ was in back to 2012 and this let us **build C+ market penetration by airport across all US travelers** using a timeline of CLEAR airports made with Wayback machine

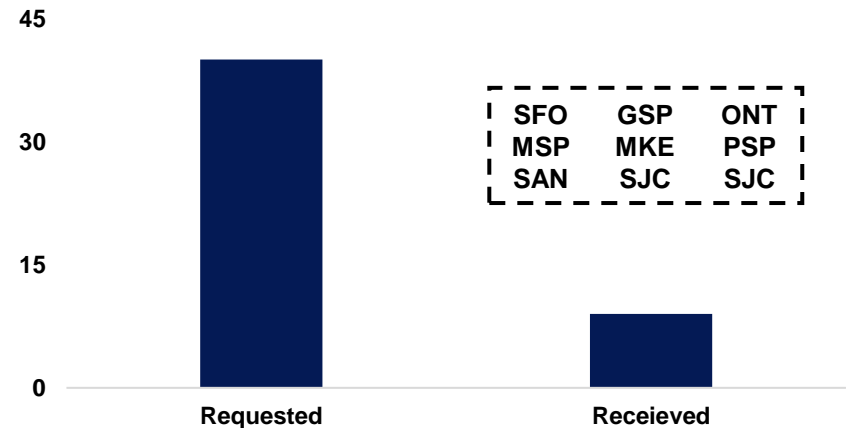
Allowed us to understand CLEAR's market penetration at a traveler level not just an airport count level

Collected DAL, UAL, AAL traveler numbers by hub

Let us understand how an airline-built program to replace C+ could impact C+'s membership base

Public Records Request from Airports

CLEAR concessionaire agreements available via public records requests



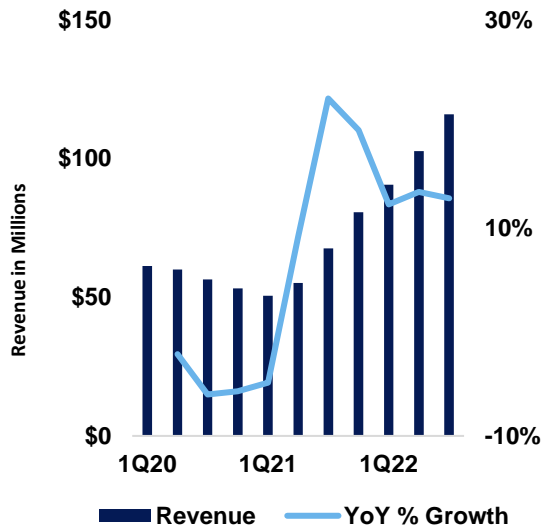


Travel Rebounds & CLEAR's Financials Look Worse

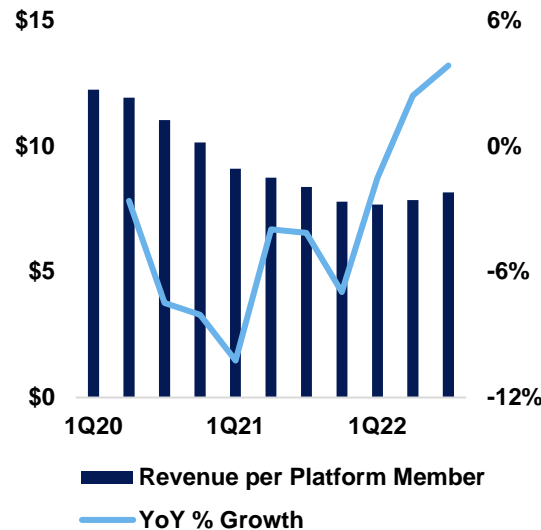
Financial Tear Sheet

(in millions except per share data)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Revenue	61,288	59,978	56,375	53,155	50,558	55,178	67,558	80,659	90,539	102,723	115,919
<i>YoY % Growth</i>		-2.1%	-6.0%	-5.7%	-4.9%	9.1%	22.4%	19.4%	12.2%	13.5%	12.8%
Operating Expenses	113,131	37,701	45,693	53,200	63,609	92,924	100,154	112,199	108,770	115,845	181,619
<i>Margin (%)</i>	184.6%	62.9%	81.1%	100.1%	125.8%	168.4%	148.2%	139.1%	120.1%	112.8%	156.7%
EBIT	(51,843)	22,277	10,682	(45)	(13,051)	(37,746)	(32,596)	(31,540)	(18,231)	(13,122)	(65,700)
<i>Margin (%)</i>	-84.6%	37.1%	18.9%	-0.1%	-25.8%	-68.4%	-48.2%	-39.1%	-20.1%	-12.8%	-56.7%
Net Income	(41,943)	22,346	11,143	8,454	(13,128)	(38,099)	(32,787)	(31,157)	(18,794)	(12,323)	(65,559)
<i>Margin (%)</i>	-68.4%	37.3%	19.8%	15.9%	-26.0%	-69.0%	-48.5%	-38.6%	-20.8%	-12.0%	-56.6%
Earnings Per Share						\$ (0.03)	\$ (0.23)	\$ (0.22)	\$ (0.13)	\$ (0.09)	\$ (0.44)
Cashflow From Operations			16,807	16,133	(335)	3,419	34,893	31,730	24,932	50,923	13,175
Cash & Market Securities				154,039		206,128	673,248	615,335	633,487	673,669	671,387

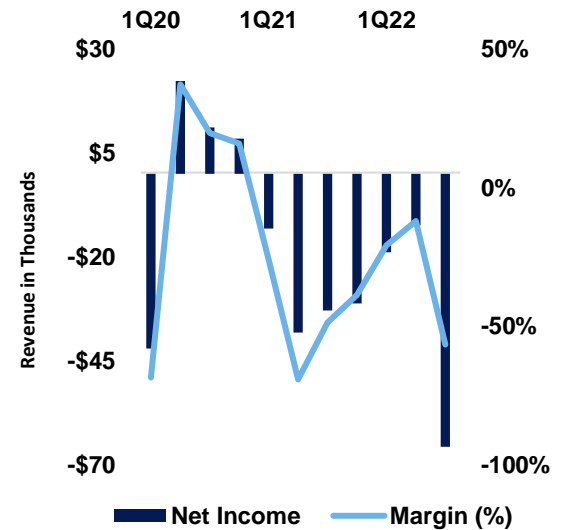
Revenue



Revenue Per Platform Member



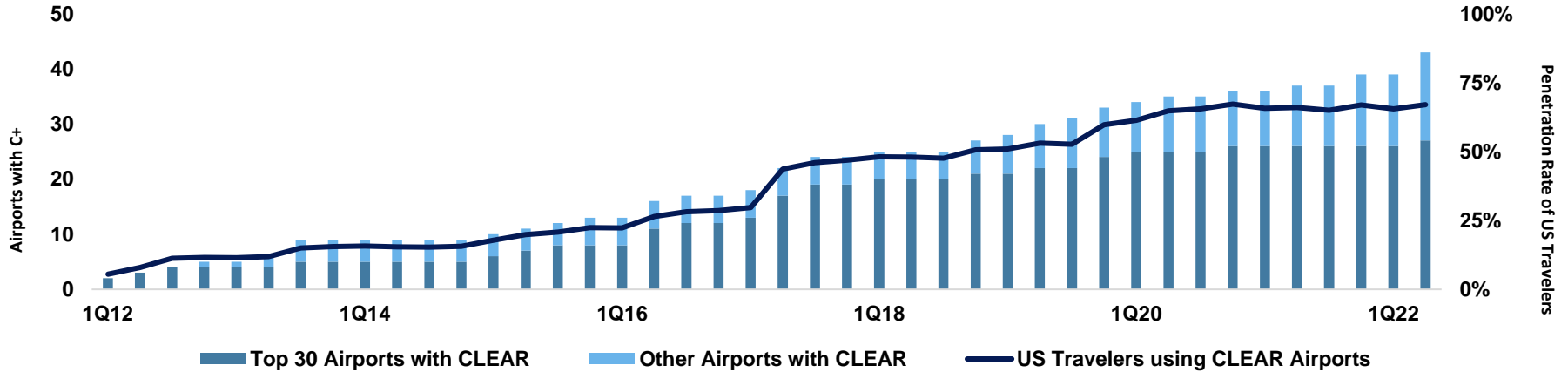
Net Income





C+ Member Growth is Becoming Increasingly Difficult & Expensive

CLEAR Has Already Expanded to the Highest Traffic Airports⁽¹⁾



Top 30 Airports average 5.2m travelers representing 63% of US travelers

CLEAR is in 43 airports as of 2Q22 with average traffic of 3.9m passengers

27 Major Airports = 59.72% US travelers
16 Other Airports = 7.34% US travelers

Those Likely to Buy CLEAR Have Already Bought it

Business Travelers⁽²⁾

Frequent Flyers⁽³⁾

44.1% of US travelers in 2019
35.7% of US travelers in 2021

12% of population represents
66% of flights in the US

Leisure Travelers are a Different Demographic

Survey finds 33% of consumers familiar with CLEAR brand, 31% having C+⁽⁴⁾

Higher S&M costs to penetrate more difficult customer demographics

Leisure Travelers are NOT CLEAR's Target Customer

Business/Frequent Flyers

Leisure Travelers

Price Agnostic

Price Sensitive

Traveling Alone

Traveling with Others

Time Sensitive

Time Insensitive

Leisure Travelers need more convincing, lowering efficiency of CLEAR associates

Requires more associates to keep the same level of service

CLEAR does 3-month free discounts, student and frequent flyer program discounts

Reduces the average price a C+ customer pays

(1) Traffic Data from TranStats, CLEAR Website (2) UNWTO Compendium of Tourism Statistics (3) BBC (4) JPM Equity Research

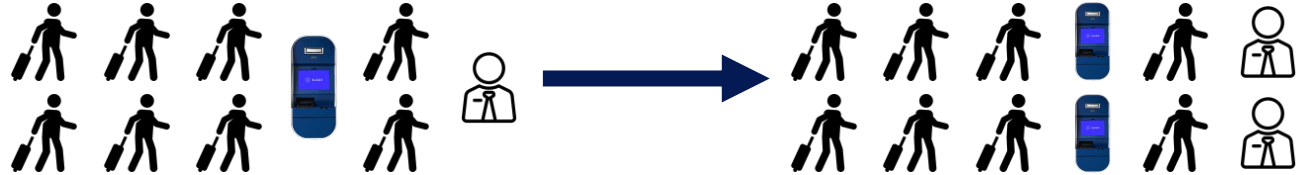


If Everyone has C+, No One has C+

The Two Bottlenecks of C+ CLEAR Associates/Kiosks

Customer's must be escorted by a CLEAR associate to the front of security screening line once identity is verified⁽¹⁾

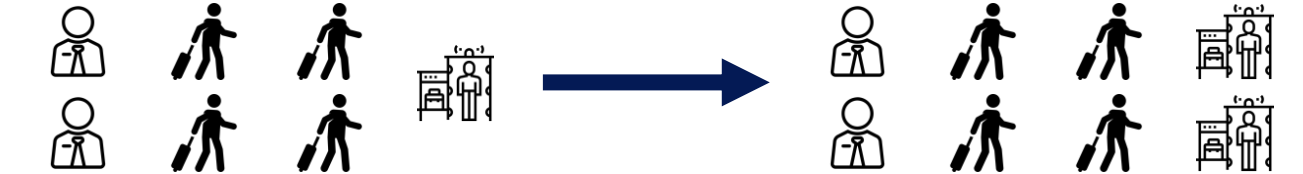
C+'s Marginal Cost of Providing the Same Service to member #1 & #100 is The Same Need to Hire More CLEAR Associates & Build More Kiosks



Security Screening Lanes

All passengers/bags must be screened for prohibited items

Need to Pay for More Security Lane Space

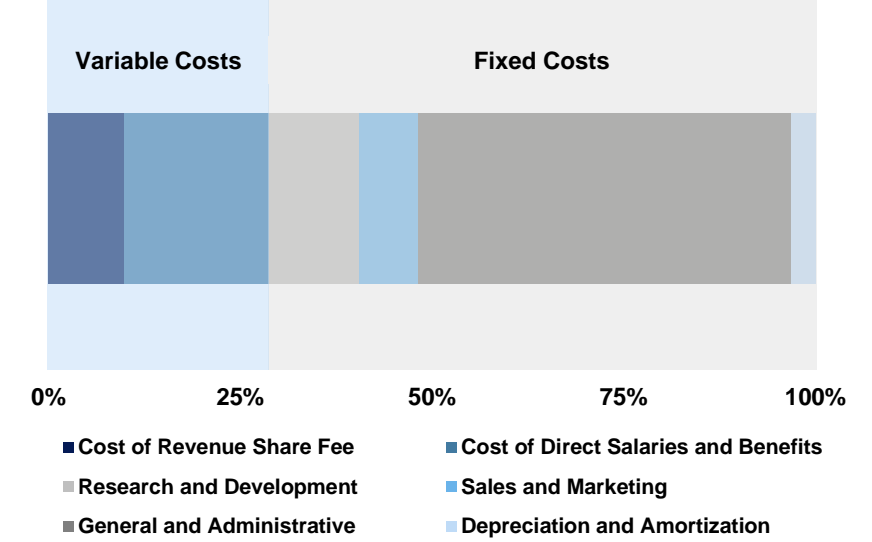


Eventually Airports will run out of space for C+ or must start cannibalizing general security lines

Airports Have All the Power in Negotiation⁽²⁾

Minimum Annual Guarantee	CLEAR pays airports minimum amount every year	Minimum Annual Guarantee Ranges from \$120k to \$1.5m⁽³⁾
Percent of Revenue	Airports get % of revenue from C+ in geographic area	Revenue shares currently range from 10% to 15%+
Charger Per Verification	Airports get revenue per unique ID C+ member per month	Recent deal with ONT charges \$.75 per unique verification

TTM Costs Per Member⁽⁴⁾



MSP already enacting a 250bps Rev share increase for more lanes⁽¹⁾

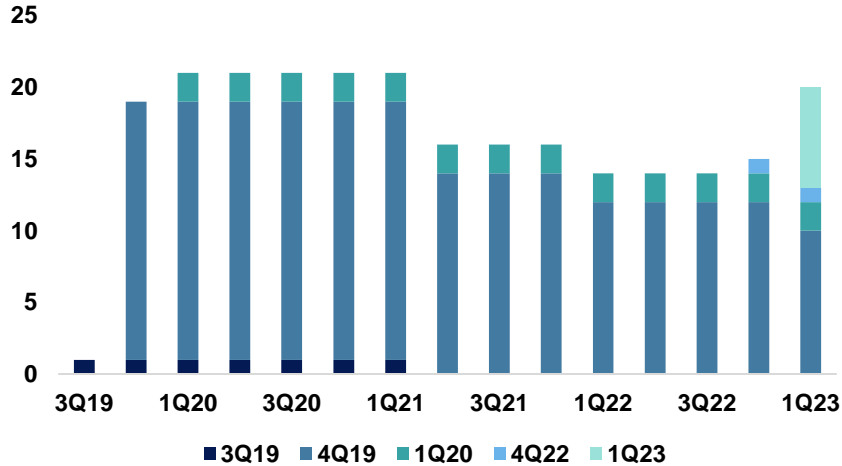
(1) Asking a CLEAR Associate (2) Public Records Requests (3) Includes MSP, SLC, SFO, SAN (4) Company Filings



CLEAR has Failed to Scale Outside of the Airport

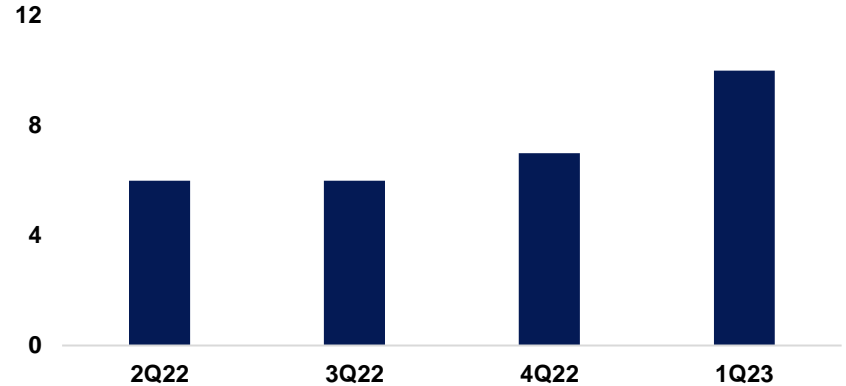
A Stadium Strategy Lacking Direction⁽¹⁾

Stadium Partnerships by Cohort



Stadium Strategy Clearly Not Mutually Beneficial⁽¹⁾

Total Canceled Stadiums



Increasing Stadium Partnership Cancellations indicates either a lack of profitability for CLEAR or issues for stadium operators

CLEAR Envisions Replacing Credit Cards⁽¹⁾

Point of sale industry is a much more competitive landscape compared to airport duopoly with TSA

zippin **AIFI** Two start-ups working towards **walk out retail with extensive VC funding** who also have a presence in the stadium space

amazon go Amazon’s take on the **just walk out retail model with 30 current locations**

Apple **Google** Contactless Pay rolled out to nearly every credit card system in stores/restaurants across US

With Economics That Don’t Make Sense

Biometric Payment



\$12,500 Per Kiosk⁽¹⁾

Would Require Every Customer’s Biometrics

Would Require Mass Installations in Stores Across the Country

Credit Card Readers



Starting at \$10

Accepts Debit Cards, Credit Cards, & Mobile Payments

Utilized by 10.7m Merchants in the US⁽²⁾

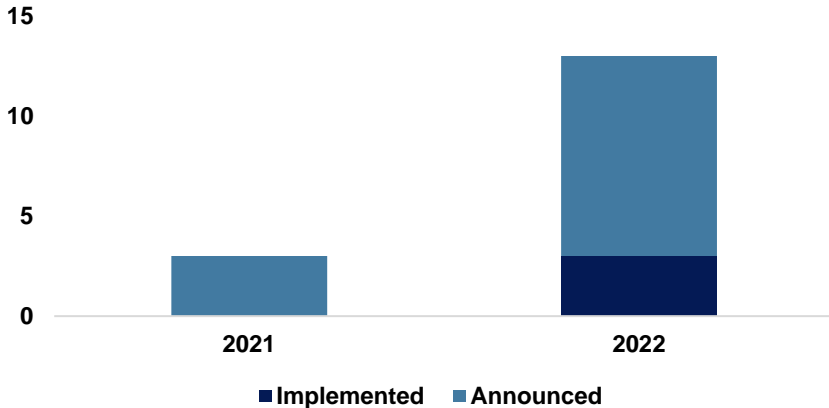
(1) CLEAR Website & Wayback Machine (2) Former Senior Director of Sales & Operations at CLEAR



C+ is in Danger of Being Replaced by Programs for Everyone

Increase in States Testing Mobile ID Programs⁽¹⁾

States with Apple Mobile ID Programs



Available at 11 airports representing 19.27% of US travelers⁽²⁾

Delta Sync: Designed to Replace CLEAR⁽³⁾ Managing the Customer from Curb to their Seat



Bag Drop



Security



Boarding



Flight



Using the Passenger's Face as their verification, tracking from bag drop all the way to in flight entertainment

Why Didn't Delta Partner With CLEAR to do this?



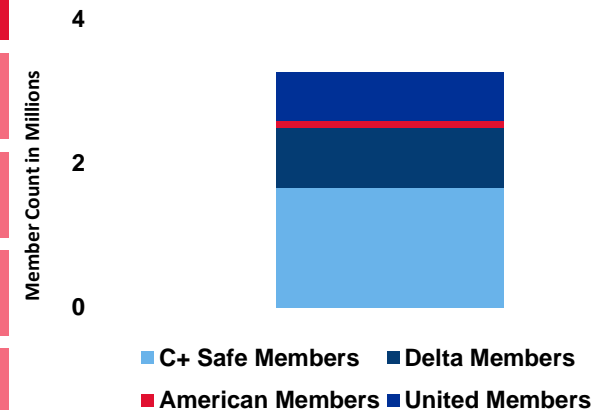
Delta wants to provide this to ALL Delta travelers, not just C+ travelers and this enables them to own the personalized data

What Could Happen to C+'s Member Base if Delta Sync/Other Airline Programs Expand at Hub Airports?

At Least ~40% of CLEAR's Member Base is at Risk⁽⁴⁾

Breaking Down the At-Risk Member Base

Delta	United	American Airlines
Hub Traffic is ~8.5% of all US traffic	Hub Traffic is ~6.9% of all US traffic	Hub Traffic is ~9.5% of all US traffic
Delta has a Partnership with CLEAR	United has a Partnership with CLEAR	American has no partnership with CLEAR
Assume 3x Membership Penetration	Assume 3x Membership Penetration	Assume 1/3x Membership Penetration
C+'s Members are 25.5% Delta	C+'s Members are 20.8% United	C+'s Members are 3.2% American



CLEAR loses their easiest to retain members, representing ~49.4% of lost revenue

(1) Apple (2) TranStats (3) Delta at CES (4) TranStats & Respective Company Filings



C+ Retention Rates will Decrease in FY 2023 as Fliers Roll Off

Retention Rates are Artificially Inflated⁽¹⁾...

DELTA Extended 2020 Frequent Flyer Status through January 2023, regardless of status earned

UNITED Extended 2020 Frequent Flyer Status through January 2024, regardless of flights

AMERICAN EXPRESS Platinum Cardholders receive a credit for C+; unless they cancel their card, they won't cancel C+

CLEAR's Retention Rate % is the Only KPI that Matters⁽²⁾

Total Cumulative Enrollments	The total number of free & paid accounts on the CLEAR platform Inflated by members who have quit paying or have never paid for C+
Total Cumulative Platform Uses	Number of individual engagements across CLEAR products Inflated by free services and records platforms that don't generate profit
Net Member Retention	Cancellations net of win backs in TTM divided by the average C+ members within the same 12-month period The only KPI that gives insight to what matters: C+ Member Count

High Retention Members Start to Roll Off

Frequent Flyer's Status Expiring

Extended Delta/United status expires, fliers must pay a 37-50% higher price or start paying



Reduces retention rates as members roll off as they're no longer getting it at a reduced price

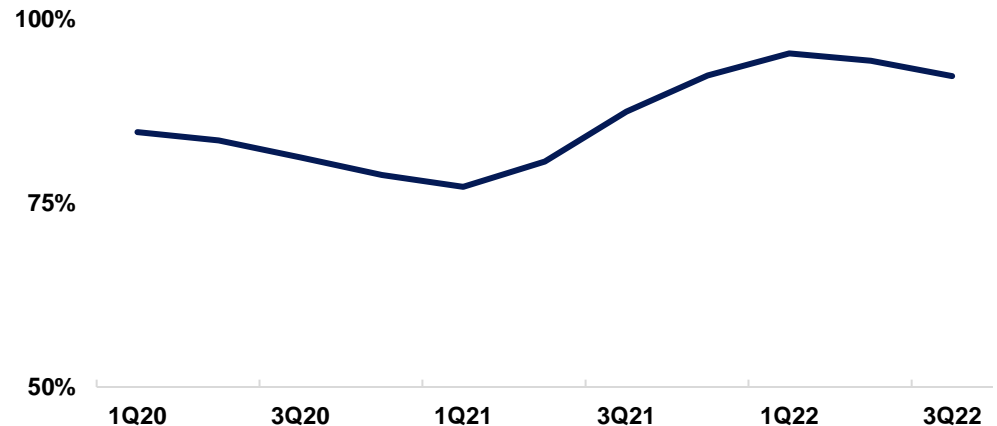
Reduced Business Travel

COVID has reduced domestic business trips by 19.6% in 2022 compared to 2019⁽³⁾



Less frequent travel makes for less value from CLEAR, resulting in cancellations

Retention Rates have Begun to Decline⁽⁴⁾



Retention Rates will decline next year because as of Jan 17th, C+ announced price increases of 40-60% for Delta/United fliers and Amex members

(1) Respective Company Websites (2) Q3 2022 Shareholder Letter (3) US Travel Association Forecasts



Risks to Our Thesis & Catalysts

CLEAR's Bull Case

- CLEAR's member mix changes from fliers paying a discounted to full price as the % of leisure travelers increases
- The TSA decides to **suspend Mobile ID/Digital ID trials and instead leans into CLEAR** as the provider of identity verification services
- **Airlines outsource identity tracking to CLEAR** to collect the data on their passengers and help manage solutions like Delta Sync
- **Biometric retina scans become mainstream**, and demand for CLEAR's products increases, driving revenue and enabling the platform to scale outside of the airport

Our View

- These customers cost **more to acquire and have a lower retention rate, hurting CLEAR in the long run**
- The TSA is incentivized to make the travel experience faster and safer for everyone, unlike **CLEAR who is only incentivized to make it better for their member**
- Airlines want to **control their customers data** to effectively use it and would **look to cut out a middleman if possible**
- **Major technology companies are using Facial ID today** with Apple, Google, Samsung all using them as a part of their wallet systems and passwords, with an already entrenched moat

Catalysts

Retention Rates Declining

1st Half of 2023

- **One – Two Punch of:**
 - Less Frequent Flier Members
 - Price Increases for Frequent Flier Program Discount
- Retention rates roll on a trailing twelve-month basis, so should see **impact after 2 quarters**
- With Retention Rate being the **only KPI that gives insight into C+ member numbers, downward movement will be reacted to by market**

Elevated S&M Expenses

Summer of 2023

- **CLEAR ramps up S&M expenses** to try and recapture a part of lost members and gain new members
 - Fliers take more convincing because they're now not getting a discount from frequent fliers
- Continuing **rollout of Mobile ID/Delta Sync** across the US
- Possible announcement of United/American acceleration of programs to compete with Delta Sync

Market Expects Lower Growth

Beyond 2023

- Realization that **airport growth is slowing**, and will now have to come from additional spending to acquire customers
- CLEAR is trying to build solutions for problems that don't exist
 - Growth **outside of the airport is not a reality**
 - Health Pass has largely failed
 - CLEAR coming into conflict with larger tech companies that can outspend them on R&D

It's a CLEAR Short...

Projections Snapshot⁽¹⁾

YOU Financials	2020A	2021A	2022E	2023E	2024E
Revenue	230,796	253,953	425,718	518,517	558,747
YoY Growth (%)		10.0%	67.6%	21.8%	7.8%
Operating Expenses:					
Cost of revenue share fee	33,191	37,206	53,996	63,461	71,342
Cost of direct salaries and benefits	40,524	67,730	102,341	113,168	121,949
Research and development	32,038	47,490	64,999	82,963	89,399
Sales and marketing	16,381	35,200	41,375	50,512	50,287
General and administrative	118,168	168,902	255,124	215,935	221,725
Depreciation and amortization	9,423	12,358	17,904	20,741	22,350
EBIT	(18,929)	(114,933)	(110,022)	(28,263)	(18,305)

Valuation

Base Case	
2024E Revenue	\$ 558,747
2024E Multiple	4.15x
Enterprise Value	\$ 2,317,960,371
(+) Cash	\$ 329,077,000
(-) Debt	\$ -
(-) Minority Interest	\$ 238,652,000
Equity Value	\$ 2,408,385,371
Diluted Shares Outstanding	83,449,155
Current Value	\$ 28.86
Current Price	\$ 34.07
Downside	15.29%
P/V	1.18

Variance Table

YOU Variance Table	4Q22	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24
Revenue									
Model	116,537	126,072	127,703	130,818	133,925	135,710	137,425	140,990	144,621
YoY Growth	44%	39%	24%	13%	15%	8%	8%	8%	8%
Street Consensus	124,737	122,661	131,910	145,714	152,604	146,489	156,722	173,645	181,564
YoY Growth	55%	35%	28%	26%	31%	16%	23%	33%	36%
Variance	-7%	3%	-3%	-10%	-12%	-7%	-12%	-19%	-20%
Operating Loss									
Model	(12,969)	(7,804)	(8,074)	(8,444)	(3,940)	(4,172)	(4,406)	(4,707)	(5,020)
Street Consensus	(11,907)	(13,147)	(10,554)	(11,705)	(15,117)	(10,218)	(4,939)	(4,227)	(10,211)
Variance	9%	-41%	-23%	-28%	-74%	-59%	-11%	11%	-51%

Revenue Multiple Valuation

CLEAR TEV/LTM Multiple	5.44x
SP500 TEV/LTM Multiple	2.57x
Current Premium	2.87x
30% Compression	4.58x
45% Compression	4.15x
60% Compression	3.72x
100% Compression	2.57x

Recommendation: SHORT
Target Price: \$28.86
Implied Downside: 15.29%
Investment Horizon: 3 to 12 months

(1) Company Filings

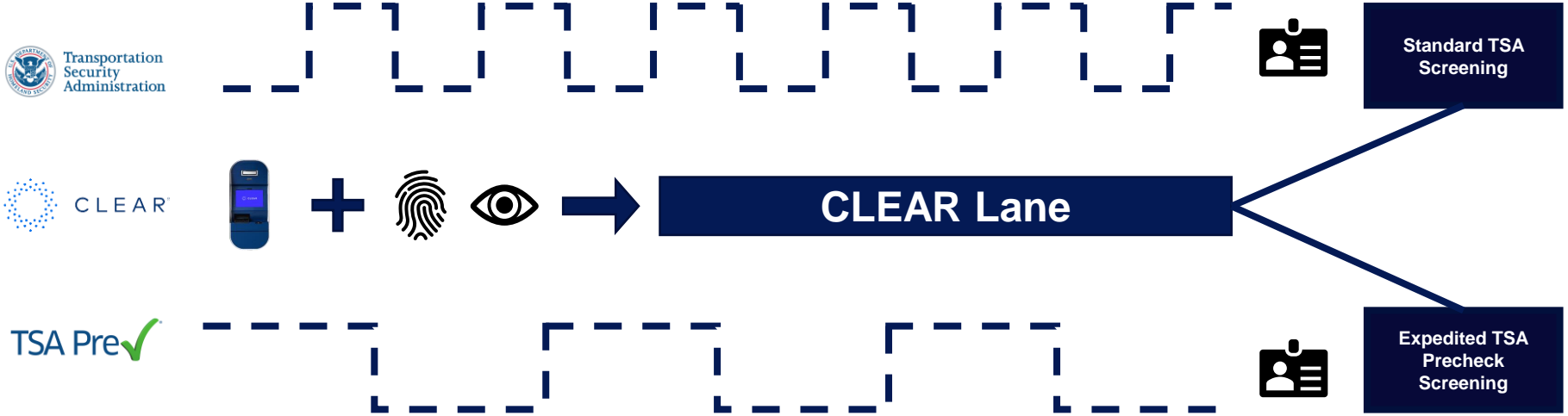
Appendix

Crimson Tide Capital – SHORT: CLEAR Pitch



Everyone's Favorite Part of Traveling...

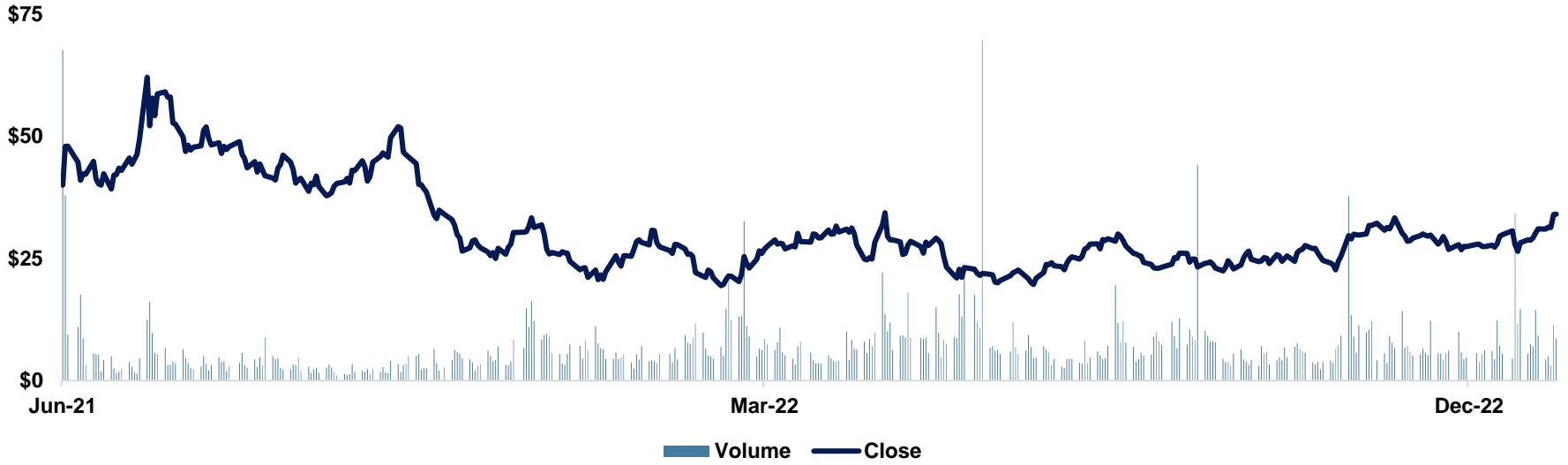
Airport Security Process



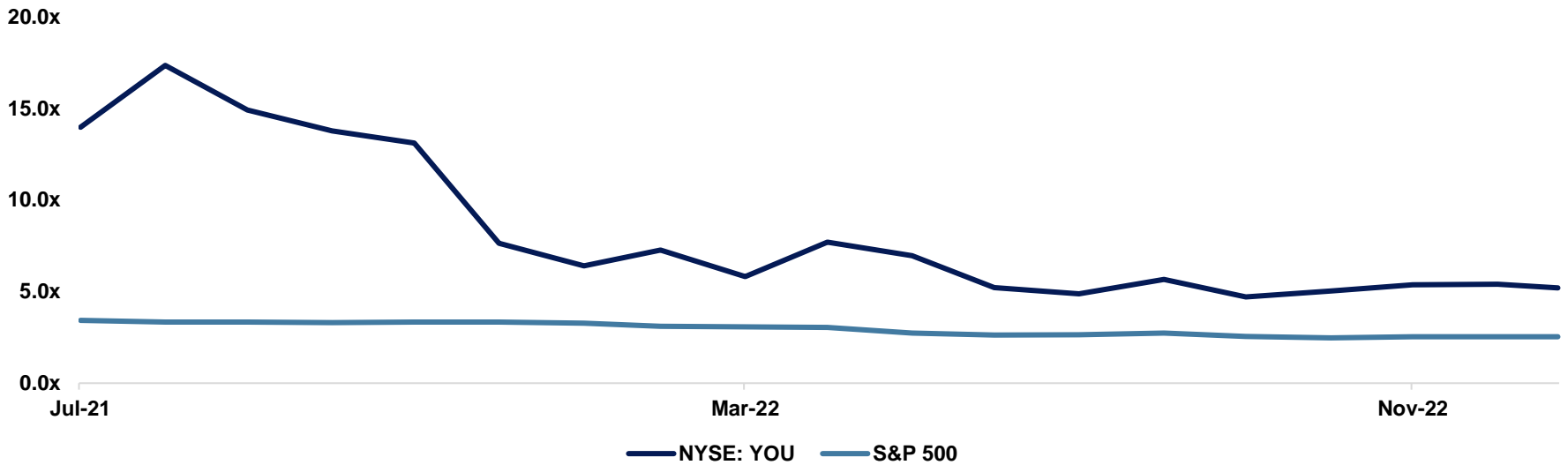


Lower, But Not Low Enough

Stock Chart⁽¹⁾



Revenue Multiples⁽²⁾



(1) Yahoo Finance (2) CapIQ