



Clear Secure Inc. (NYSE: YOU)

Recommendation: **SELL**
Price as of April 5: **\$24.07**
Target Price: **\$17.01**
Implied Downside: **29%**
Investment Horizon: **3 to 12 months**

Crimson Tide Capital

Team Members:

Cole Reynolds
Jacob Robb
Lucas Weldon

A CLEAR Short



CLEAR®

Market Cap	\$4.01B
4/5/2023 Close	\$24.07
52 Week Range	\$18.94 – 35.00

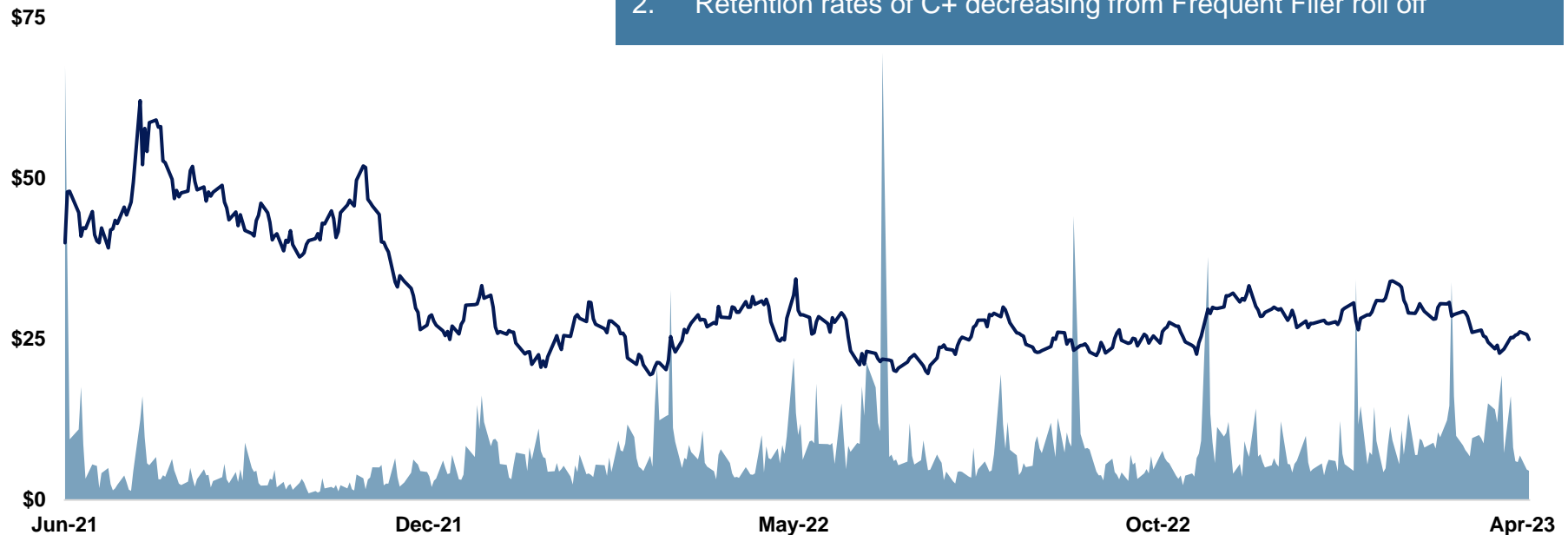
- ❑ CLEAR Secure Inc is a biometric identity verification platform operating at major airports and select stadiums across the US
- ❑ CLEAR declared bankruptcy in 2009, in 2010 the current CEO/CFO bought the company and reorganized it
- ❑ Recommendation: **SHORT** with a **PT of \$17.01**, representing a downside of **29%** from 4/5 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 post-covid rollout
2. Retention rates of C+ decreasing from Frequent Flier roll off



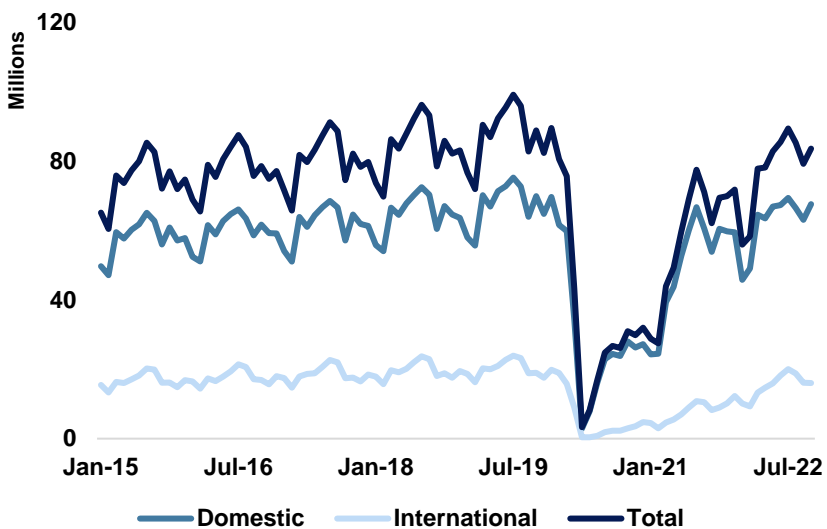
Stock Chart from Yahoo Finance

The Airport Identity Verification Industry

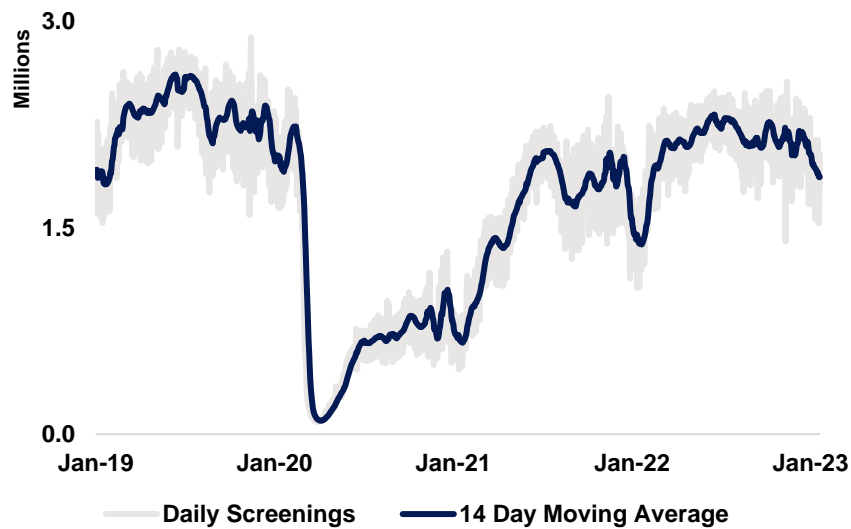


Standard ID	Mobile ID	Digital ID	Airside	CLEAR
				
All Airports	PHX, BWI, DCA	ATL, DTW	DFW	46 Airports
2001	2022	2021	2022	2010
	  	 		  

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



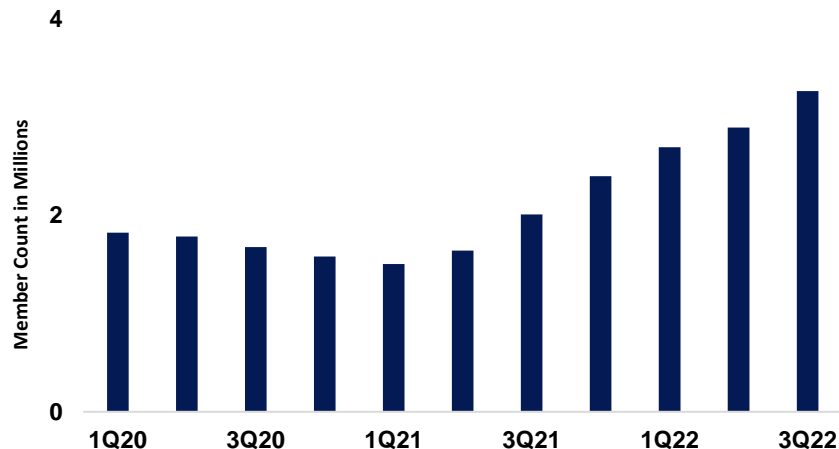
Venue/Company pays CLEAR for the right to use CLEAR technology, not the member

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 Need to 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 costs 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

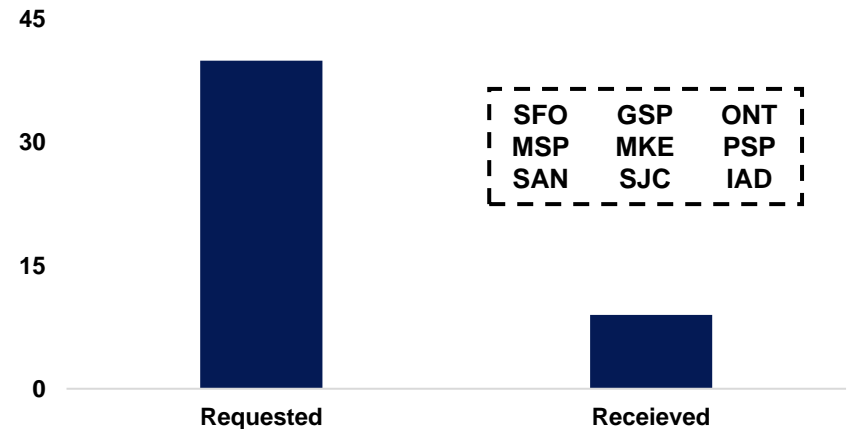
Allowed us to understand CLEAR's market penetration at a traveler level not just an airport count level

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



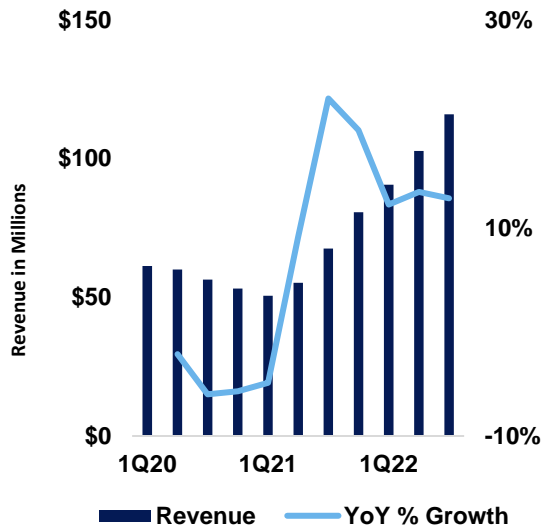


Travel Rebounds & CLEAR's Financials Look Worse

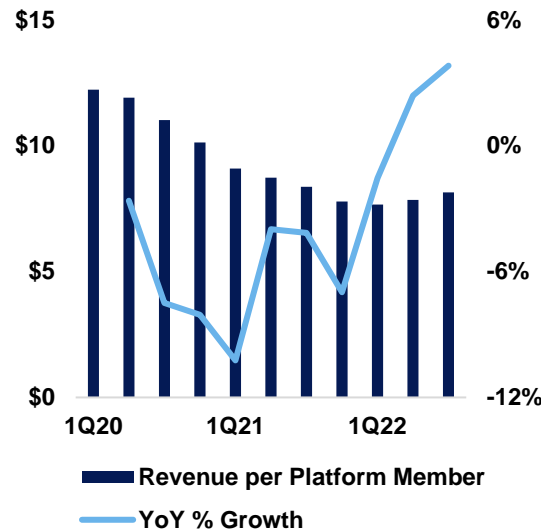
Financial Tear Sheet

(in Millions except per share data)	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22
Revenue	61,288	59,978	56,375	53,155	50,558	55,178	67,558	80,659	90,539	102,723	115,919	128,253
YoY % Growth		-2.1%	-6.0%	-5.7%	-4.9%	9.1%	22.4%	19.4%	12.2%	13.5%	12.8%	10.6%
Operating Expenses	113,131	37,701	45,693	53,200	63,609	92,924	100,154	112,199	108,770	115,845	181,619	160,264
Margin (%)	184.6%	62.9%	81.1%	100.1%	125.8%	168.4%	148.2%	139.1%	120.1%	112.8%	156.7%	125.0%
EBIT	(51,843)	22,277	10,682	(45)	(13,051)	(37,746)	(32,596)	(31,540)	(18,231)	(13,122)	(65,700)	(32,011)
Margin (%)	-84.6%	37.1%	18.9%	-0.1%	-25.8%	-68.4%	-48.2%	-39.1%	-20.1%	-12.8%	-56.7%	-25.0%
Net Income	(41,943)	22,346	11,143	8,454	(13,128)	(38,099)	(32,787)	(31,157)	(18,794)	(12,323)	(65,559)	(18,760)
Margin (%)	-68.4%	37.3%	19.8%	15.9%	-26.0%	-69.0%	-48.5%	-38.6%	-20.8%	-12.0%	-56.6%	-14.6%
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	79,279
Cash & Market Securities				154,039		206,128	673,248	615,335	633,487	673,669	671,387	704,749

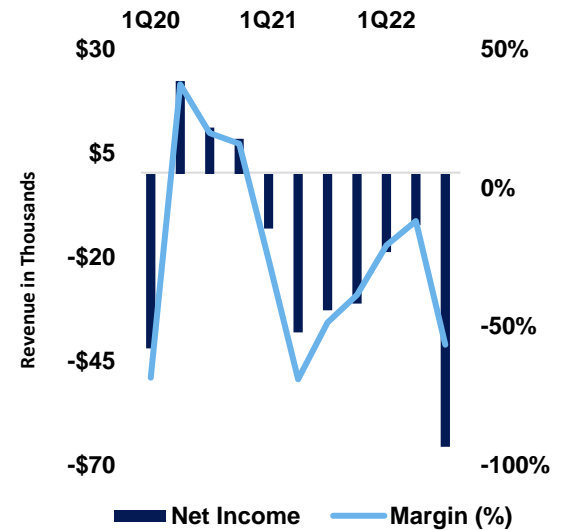
Revenue



Revenue Per Platform Member



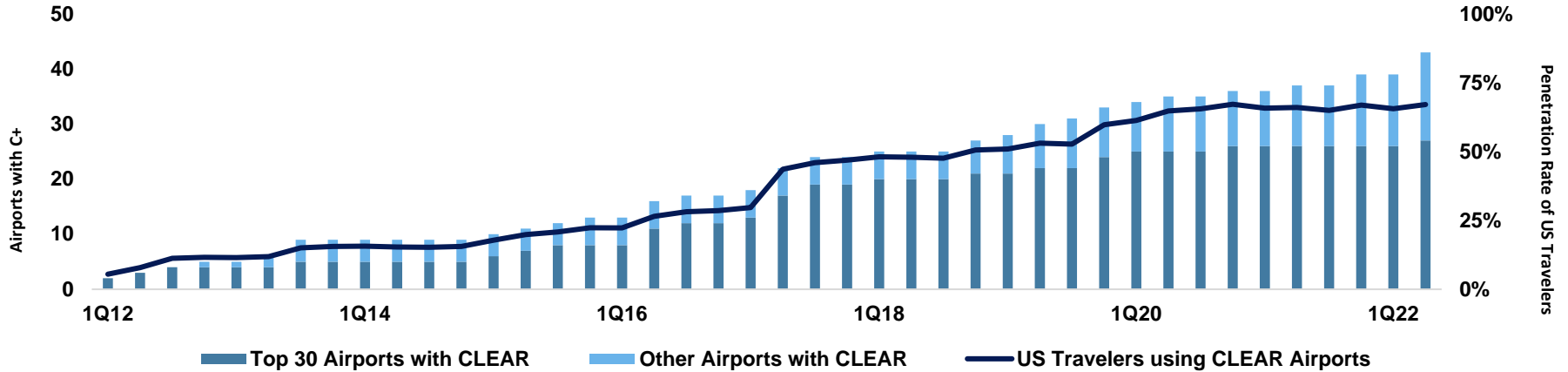
Net Income





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

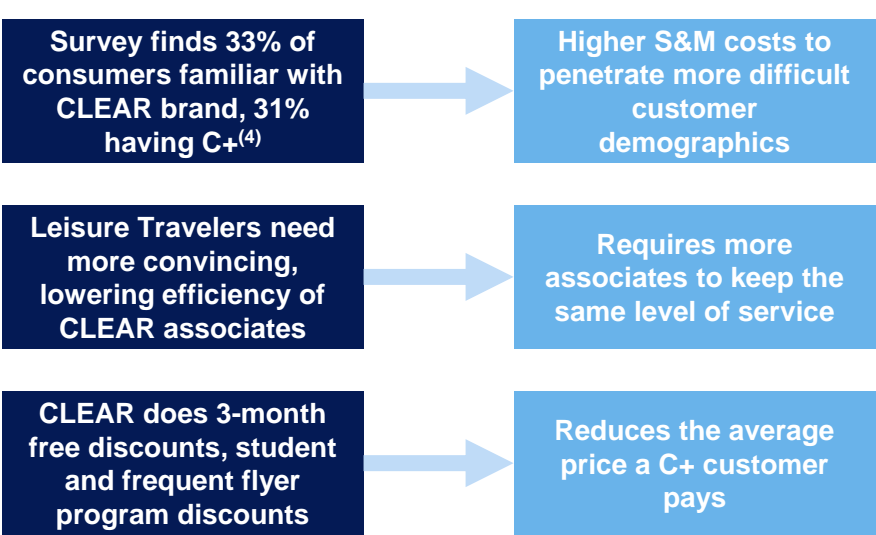
CLEAR is in 43 airports as of 2Q22 with average traffic of 3.9m passengers

**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



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

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

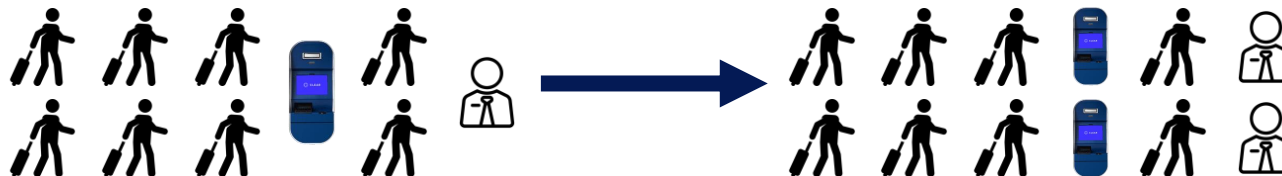


If Everyone has C+, No One has C+

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⁾

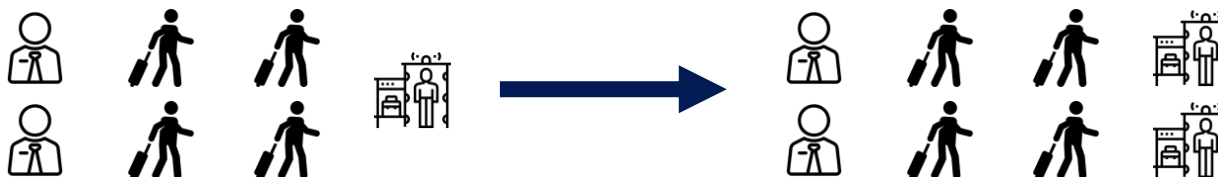
C+'s Marginal Cost of Providing the Same Service to member #1 & #100 is The Same Need to Hire More CLEAR Associates & Build More Kiosks



Security Screening Lanes

All passengers/bags must be screened for prohibited items

Need to Pay for More Security Lane Space



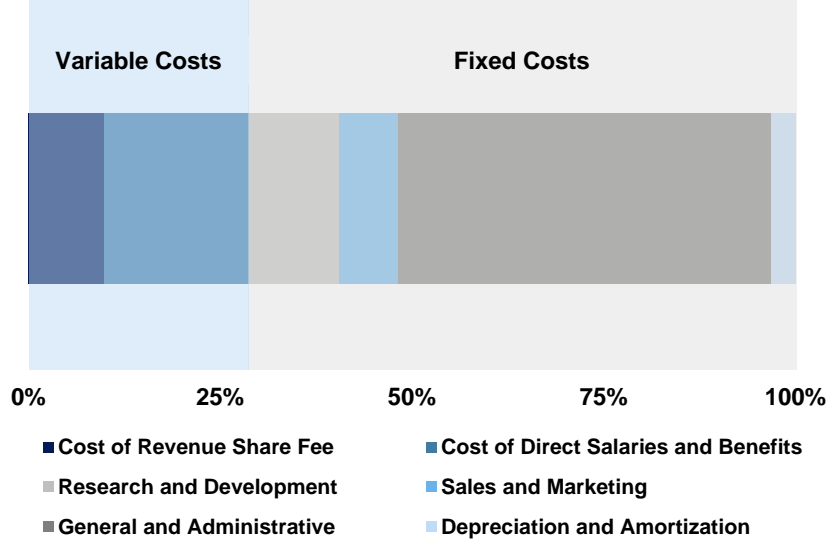
Eventually Airports will run out of space for C+ or must start cannibalizing general security lines

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

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

TTM Costs Per Member⁽⁴⁾



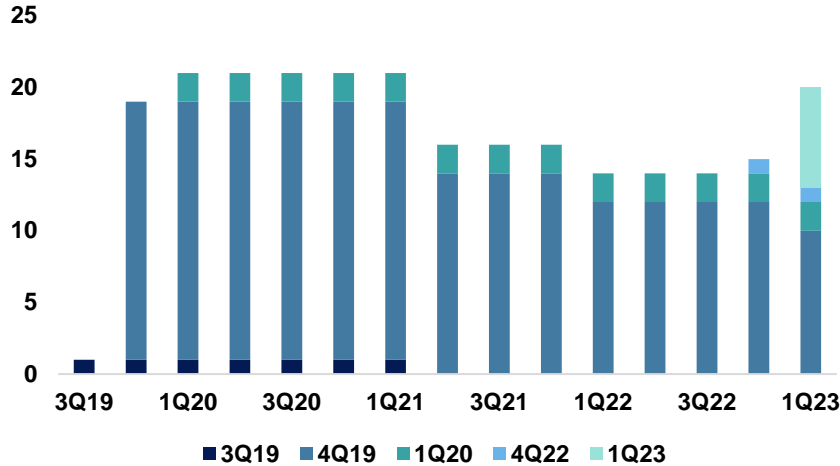
(1) Asking a CLEAR Associate (2) Public Records Requests (3) Includes MSP, SLC, SFO, SAN (4) Company Filings



CLEAR has Failed to Scale Outside of the Airport

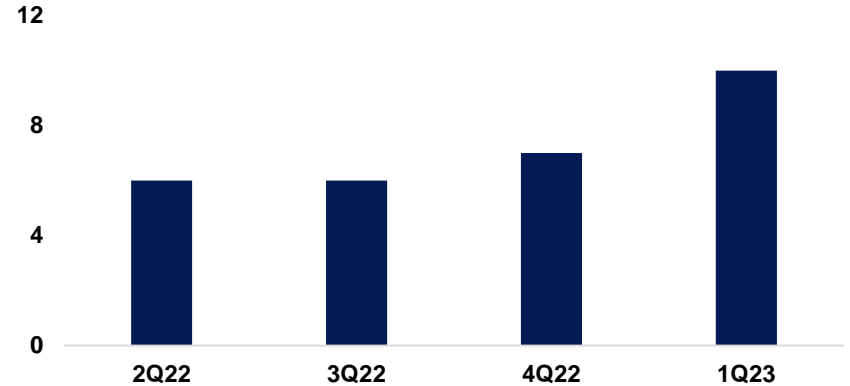
A Stadium Strategy Lacking Direction⁽¹⁾

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⁾

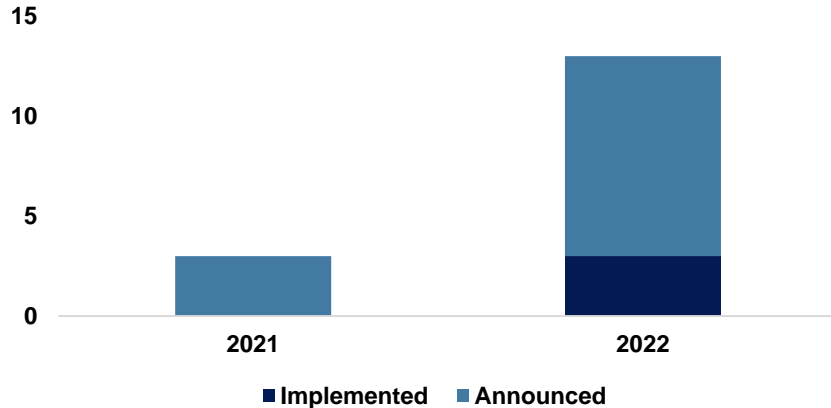
(1) CLEAR Website & Wayback Machine (2) Former Senior Director of Sales & Operations at CLEAR



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?



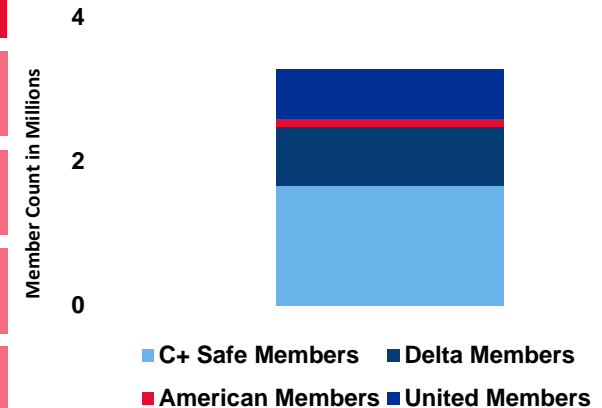
Delta wants to provide this to ALL Delta travelers, not just C+ travelers and this enables them to own the personalized data

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

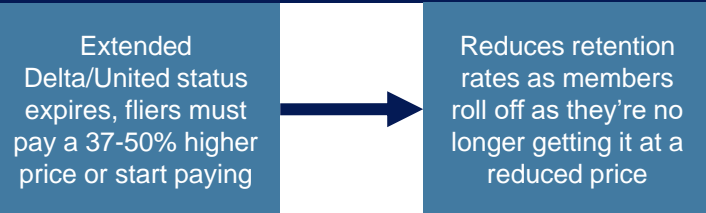
AMERICAN EXPRESS Platinum Cardholders receive a credit for C+, unless they cancel their card, they won't cancel C+

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

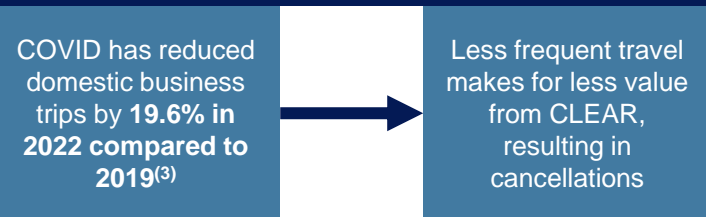
Total Cumulative Enrollments	The total number of free & paid accounts on the CLEAR platform Inflated by members who have quit paying or have never paid for C+
Total Cumulative Platform Uses	Number of individual engagements across CLEAR products Inflated by free services and records platforms that don't 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

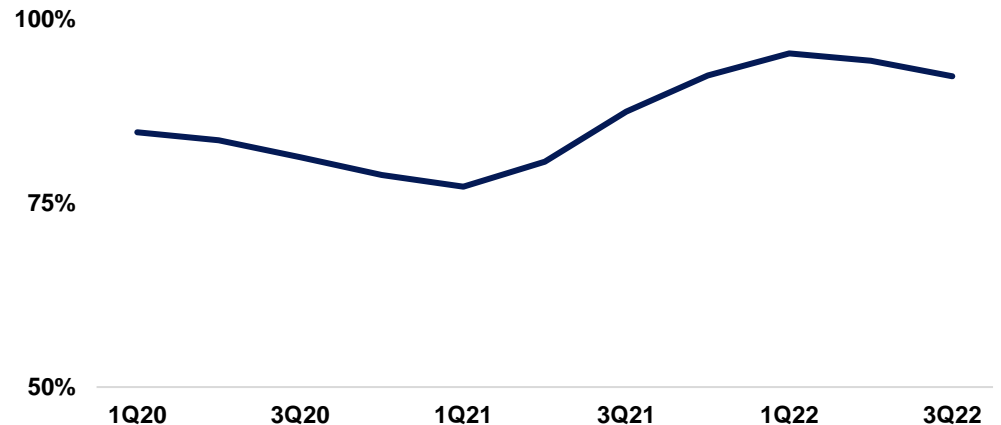
Frequent Flyer's Status Expiring



Reduced Business Travel



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...

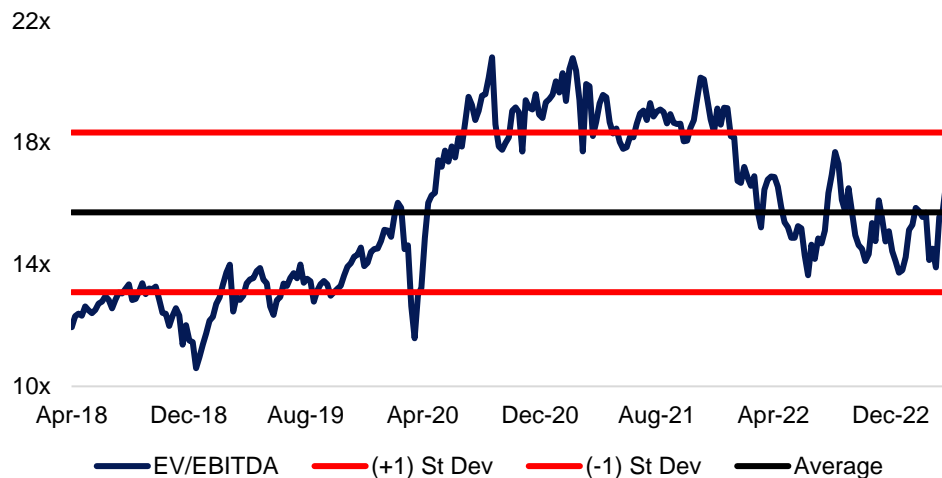
Projections Snapshot⁽¹⁾

YOU Financials	2020A	2021A	2022E	2023E	2024E	2025E	2026E
Revenue	230,796	253,953	430,637	548,264	643,704	717,124	785,085
YoY Growth (%)		10.0%	69.6%	27.3%	17.4%	11.4%	9.5%
Operating Expenses:							
Cost of revenue share fee	33,191	37,206	54,621	67,121	82,204	93,442	103,337
Cost of direct salaries and benefits	40,524	67,730	103,486	120,563	140,737	155,750	169,577
Research and development	32,038	47,490	64,571	78,783	90,119	94,961	94,210
Sales and marketing	16,381	35,200	41,867	54,826	64,370	69,920	74,583
General and administrative	118,168	168,902	257,345	227,564	253,583	267,850	286,090
Depreciation and amortization	9,423	12,358	19,012	27,284	33,151	38,008	43,180
EBIT	(18,929)	(114,933)	(110,266)	(27,878)	(20,460)	(2,806)	14,108

Recommendation: SHORT
Target Price: \$17.01
Implied Downside: 29%
Investment Horizon: 3 to 12 months

Valuation

Forward EV/EBITDA Valuation	
Forward EV Multiple	18.3x
2024E EBITDA	79,837,127
2024 EV	1,461,019,431
(+) Cash	704,749
(-) Debt	130,109
(-) Minority Interest	219,856
Equity Value	1,461,374,215
Diluted Shares Outstanding	85,893,063
Current Value	\$17.01
Current Price	\$24.07
Implied Downside	-29%

NASDAQ EV/EBITDA Historical Multiples⁽²⁾

Sensitivity Table for Projected Downside

EV/EBITDA Multiple vs Estimated EBITDA					
	16x	17x	18x	19x	20x
\$85,000	-36%	-30%	-26%	-22%	-18%
\$82,500	-38%	-32%	-28%	-24%	-20%
\$80,000	-40%	-34%	-30%	-26%	-23%
\$77,500	-42%	-36%	-33%	-29%	-25%
\$75,000	-44%	-38%	-35%	-31%	-27%

(1) Company Filings (2) Bloomberg