Liberty day follow up and some other stuff

Some follow ups from the Liberty Investor Day and some other stuff I liked

- Liberty Investor Day
  - As mentioned, I went to the Liberty Investor Day yesterday. It was good meeting up with a bunch of you; sorry if we had messaged back and forth and we didn't manage to connect! I didn't realize the event was going to fill up and had lounged around in the overfill area in the morning and ended up not getting a seat in the auditorium, and I was kind of sick of standing so I left at the lunch break and webcasted the second half / ate a burrito.
    - Humorously, Mario Gabelli was standing next to me in the overflow room for a decent part of it. I would've guessed launching an ETF dedicated to Liberty would get you a reserved seat!
  - I thought the Q&A portions were fantastic, and I loved this interview Malone did with David Faber.
    - If you've followed Liberty for a while, I don't think there were many new takeaways.
      - Though I'm sure fellow Charter (disclosure: long) holders were smiling at Malone confirming how many people are interested in buying them!
    - The one thing that was surprising to me was the whole team seemed cautiously bullish on video / legacy media networks (not outright bullish, but certainly much more positive than the market / the average media investor). Remember, Malone was early recognizing the threat Netflix posed, he says Netflix's position is now pretty much unassailable, and the whole Liberty team has a pretty close up view of the turmoil in media / cord cutting through their board seats at Charter and ownership of different media assets. So I'm surprised to hear them being cautiously optimistic on video, but that certainly seemed to be one of the themes of the day. Consider:
      - QVC was really the focal point of the morning session. It had, by far, the longest presentation, and if you went to the overflow room their set up took up ~1/3 of the space.
      - Both Liberty and the Charter team expressed bullishness on Charter's ability to add video subs as the legacy Time Warner packages roll off
      - Malone called Discovery "a cash flow monster" (or something along those lines), suggested he'd buy it if he wasn't blacked out, and scolded the market for taking a short term view of the Scripps deal.

        - Of course, Malone could just be talking his book- what director / major shareholder wouldn't express confidence in a deal he backed?
- Liberty / Malone's actions back up their words when it comes to this video bullishness too. Discovery is buying Scripps and is generally a huge share repurchaser, and QVC is a mammoth share repurchaser as well. In general, Liberty's capital allocation seems to be increasing their ownership of the legacy bundle.
    - And you can see Malone's not alone in this bullishness; almost every large legacy player seems to be a buyer in some form (whether it's of other companies or of their own stock). Both Viacom and Discovery bid for Scripps. Comcast, Verizon, and Disney are all making runs at Fox. Most of the other legacy media companies (AMCX, CBS) have pretty active / serious share repurchase programs going on.
    - It's so interesting to hear these "bullish cable video" arguments because they are so contrarian. Discovery, QVC, and the whole "legacy media" sector all trade for very low multiples and produce gobs of cash; if Malone / Liberty is right and the future isn't draconian, all of those stocks could be huge home runs given their low multiples.
    - Still, I wonder if their views are a bit tainted. One thing I always worry about is when a group who has made all of their money in one world (in Malone's case, gaining scale has always created synergies / value in the past, but maybe he's running an old world playbook as the world falls apart?) confronts new and disruptive models.
        - As one small example, the investor day had one slide that laid out the old "subscribing to all the streaming services is just as expensive as subscribing to cable" argument (the WSJ laid that argument out here a few months ago). I think that slide / argument has some truth to it, but it also misses out on the time cost of commercials in the traditional cable bundle versus none if you just go streaming. That's a serious cost that results in a much different user experience and it's kind of apples to oranges to compare the two for that and a host of other reasons.
        - Looking at Discovery / Scripps specifically- maybe it's just because I don't watch any of their networks, but it just feels to me like almost every network in Discovery / Scripps portfolio is easily replaceable. For example, why

do I need the Food Network when I can connect directly with hundreds of chefs on youtube?

- I just wonder how many people would actively pay for these channels if they weren't part of the bundle, and my personal believe is channels people wouldn't actively search out / pay for or that can be easily replicated are in the worst position going forward (though when I put it like that it sounds pretty obvious!).

- Amazon paying $250m for the rights to a Lord of the Rings prequel show
  - We discussed this a bit on our podcast this week, so I'm semi-cheating / marketing my other stuff mentioning it, but the deal is somewhat related to the Discovery / Scripps discussion above so I wanted to follow up on it.
  - Every burgeoning video channel needs something that viewers demand / crave watching to drive subs. Netflix has Stranger Things, the Marvel TV universe, House of Cards, and Orange is the New Black (jesus, what an embarrassment of riches!). HBO has Game of Thrones. AMC has Walking Dead (for now). Bezos knows that; it's why he ordered Amazon to get its own Game of Thrones.
    - The issue is there just aren't many properties out there that can reach that level of appeal. Lord of the Rings is clearly one.
    - You know what another one is? Live sports rights. It's why I find it so funny when people wonder whether the tech players are going to bid on sports rights. Amazon just paid $250m for the rights to a TV show- I would bet they're going to spend another $250m on the first season alone. That's ~$500m for maybe 10 hours of content. The NHL's current deal is for $200m/season. That's legitimately thousands of hours of content per year (100s of games, highlights, per and post game, etc.).
      - Sure, this is a bit apples to oranges (and NHL's deal was signed before the sports rights boom and is certainly undervalued, so I'm cherry picking). Lord of the Rings is relatively ever green content, while live sports rights are generally consumed in the moment and then relatively worthless. But live sports has plenty of advantages- it can't be binged (so you can't sign up, watch the show, and then cancel your subscription) and it probably monetizes a lot better (live viewing and natural breaks create for much better advertising possibilities).
      - If you keep your eyes open, you can already see big internet companies dipping their toes into sports broadcasting (see chart in middle of

that article).

      - YouTube [signed a deal](#) with the Hockey World League, Amazon and Twitter have aired NFL Thursday games, and Facebook has stuck a few deals with MLS and MLB.
    - If you believe all of the above, the WWE is an obvious long term winner. It's always looked expensive on a trailing basis (which has unfortunately always kept me away), but it is probably decently cheap if you think about how that business scales over the next ten years (tapping deeper into international market, multiple bidders, increased monetization through social).
- Speaking of sports broadcasting, here's a decent podcast on the subject: the [Looming Battle Among Tech Giants for Sports Content](#).
  - In addition to sports rights, the podcast talks about eSports, which I've long been a huge bull on. Honestly, I think you have to be pretty closed minded not to be. The argument against them seems to be "who wants to watch other people play a video game; that's a joke." Seriously? Watching sports, at its core, is watching other people throw a ball around, and watching poker was massively popular despite the fact it's basically just watching other people play cards. We love to watch people compete at the highest levels, and eSports is no different. Plus, eSports has tons of advantages on normal sports- the games can be played much more easily (I can't just go play baseball without 21 other people and renting a field, but I can just go play League of Legends or Call of Duty whenever I want) which should ramp up engagement, injuries are much less common so the star players are less likely to miss time (sports tend to be star driven), and games can be tailored to improve viewer experience (a huge limitation on normal sports, which are limited by little things like the laws of physics).
    - This [WSJ article](#) has some great quotes and data on eSports.
    - Despite being a massive eSports bull, I haven't had any investments that touch on eSports, unfortunately. Really the only way to play eSports in the public markets is to buy one of the gaming companies, and I've never been completely comfortable with them (which is unfortunate, because they've all been absolute killers).
      - My issue with the gaming companies is I'm not sure that they are the ones who create the games that ultimately dominate eSports / barriers to entry are so low. I worry about things [like PUBG, which got developed](#) for less than $5m and is a massive hit. Or consider t[his article on how a PUBG copycat](#) has displaced Tencent's Honour of Kings as the hottest game in China. If it's that easy to create hit games, can we really be sure that today's big publishers will be the dominant ones five years from now?

- The other big (and related) question to me is how sustainable the games and leagues are. In real life, we rarely see new sports rise- UFC is the only “new” sport I can think of in the past twenty years, and the major sports leagues have been remarkably consistent over time. Compare that to video games, where games tend to fall off in popularity over time (some classics like StarCraft and Street Fighter are still played, but they certainly aren’t the focus of online gaming anymore).
    - I guess the question I’m asking here is- once eSports get big, will a few sports rise to global dominance / lock in and become the accepted gaming standards (so just like we have basketball, football, and baseball today, maybe we play Overwatch, League of Legends, and Starcraft as our main video games for the next fifty years) or will new dominant leagues pop up every few years?
        - Remember, people love being able to compare things, so I think there’s a lot of momentum that pushes to some type of lock-in at some point. It means we can celebrate stars, compare strategies and stats across eras, and do a whole host of other stuff. Plus, marketers and broadcasters would love that because that gives them stability in the ecosystem. On the other hand, given how easy it is to create new and creative games, it’s tough to believe that we would ever lock in like that.
        - If you really believed in something like that lock in, the math would be unbelievable. Consider that the NFL is probably worth ~$100B (just assuming the average team is worth $3B and there are 32 teams). EA’s EV is ~$30B; if they created just one globally dominant eSport their ownership in that alone could be worth today’s market cap, to say nothing of the monetization from actually selling the game and all of their other franchises (eSports will almost certainly monetize even better than normal sports, since you’ll watch on a

connected device that will allow for tons more data and interaction).

- Finally, I enjoyed this article on [virtual restaurants].
    - Five thumbs up for “Lettuce Entertain You Enterprises”
    - In general, I’m surprised we haven’t seen restaurants overall get disrupted more by technology (why has ordering on an iPad failed to catch on?), and I’m really surprised virtual restaurants haven’t sprung up / gained traction sooner.
        - Setting up with a focus on takeout / delivery allows for smaller stores, more out of the way locations / lower rent, and building with a focus on optimizing delivery in mind. All of this results in lower costs, which generally leads to taking share.
        - Maybe it’s my NYC focused mindset (I’m a heavy grabhub / seamless user), but it seems like the trend is towards consumers ordering more delivery, not less.
        - The combo of the two points above makes it seem like virtual restaurants should’ve have exploded / taken share several years ago.
            - To use an example, if I look at the pizza industry from a really high level, chains like Papa Johns were destined to take share from local guys simply because the chains were set up to cater exclusively to home delivery versus mom and pops that have in restaurant dining. It’d be surprising if the same didn’t hold true across other restaurant types.
            - Why wouldn’t an exclusively delivery focused sushi be able to deliver sushi cheaper than a normal restaurant that also delivers? And doesn’t an exclusively delivery place also come up with something like the [insulated delivery box] that further improves their delivery experience / quality (I know my delivery sushi is always getting squashed or touching the wasabi; truly first world problems but also problems that are easily fixable by a restaurant exclusively focused on delivery).
    - Grubhub’s stock (GRUB) has been on a tear over the past two years and I always kick myself for missing it. I’m a heavy user (pun semi-intended) so I knew the product, and I had several friends who loved the stock so I understood the story well (It looked expensive from a distance, but NYC was highly profitable and subsidizing most other markets losing money as they attempted to gain local scale. Downside was shut the new markets down and run NYC for cash; upside the other markets start to work and it’s a home run).
        - I was always worried about Amazon / Uber moving in and poaching customers by using heavy discounts to lure them and justifying it as a way to get more volume on the rest of their infrastructure.
        - I also thought GRUB was making a strategic mistake by not moving into logistics and controlling the food delivery (GRUB made the restaurant responsible for food delivery, though I haven’t looked at them in a

while so maybe that’s changed).

- Some other articles I liked / found interesting
    - Trump Jr’s deadlift
        - I’m embarrassed by how many times I watched that video and then how deep in the Trump Jr fitness articles I went.
    - Parking spaces that could make you rich
    - Bagholder GE analyst
    - Big money debt collectors