Podcasts, articles, and other things I found interesting

Some recent articles, podcasts, and other things that got me thinking:

- One of my favorite places to look for value in the stock market is publicly traded sports teams (I've previously discussed my investment in both MSG (disclosure: long) and BATRA (disclosure long)). My overarching theory with investing in sports teams is having them publicly owned / traded is just incredibly inefficient on a bunch of levels, and they generally trade well below their private market value. So I tend to pay attention when sports teams owners talk. Here are a few recent interviews / podcasts I found interesting:
  - This podcast with Houston Astros owner Jim Crane is well worth a listen. Around the 21:30 minute mark, he talks about the outlook for sports right. He seems pretty confident that the internet players will bid on rights going forward / the value of rights will continue to increase (a view I agree with).
  - Tilman Fertitta recently bought the Houston Rockets for $2.2B and did a bunch of interviews after doing the deal. It's tough not to be bullish on the future of the NBA when you listen to him lay out his rational for purchasing the team (or when you hear why Mark Cuban thinks Fertitta got a bargain).
    - Note that they have a long discussion on paying how he paid >30x EBITDA for the team. Forbes estimates the Knicks operating income at $141.2m; they'd be worth way over $4B at a similar multiple. I have several issues with all of the numbers in that analysis but actually directionally agree with the output, and as a simple check it is interesting (particularly given the whole of MSG trades for ~$4.2B EV currently).
  - Both owners in the interviews above are clearly aware that the cable TV contracts going forward might not be the same, but they see opportunities in streaming, international expansion, national / online sports betting, and (in Fertitta's case) cross selling with the rest of his empire. I'm with them that the opportunities for sports leagues as the games continue to expand far outweigh the risk from the cable TV bundle breaking.
    - One of the reporters on the Fertitta interview says something along the line of "I think the pressure on franchise valuations will be that the pool is increasingly limited to the ultra-ultra wealthy (i.e. multi-billionaires) instead of just the ultra-wealthy

(billionaires and hundred millionaires).” It’s a good question- at what point are these franchises so expensive that there simply aren’t enough people to bid on them and create a competitive auction? It’s a concern, but I don’t think it’s a game changer- given the way things scale with the internet, I think we’ll continue to see the ranks of the ultra-ultra wealthy increasing, and I don’t think valuations have come anywhere close to the point where the ability to have a competitive auction is chilled.

- I’m somewhat obsessed with cable and media recently, so I found this interview with the former TCI / AT&T Broadband CEO interesting. There’s tons interesting in here, but my three most interesting takeaways is he’s very bullish cable, he’s bearish on the major wireless companies, he thinks TWX / T will get done (disclosure: I am long some TWX and short some T, betting the deal goes through), and thinks the high costs of sports is killing the cable TV bundle.
  - Of course, it’s worth remembering that he used to be the CEO of TCI, so he’s probably predisposed to being bullish on cable, but I still think his thoughts on the increasing importance of the pipes are spot on.
  - Now feels like the right place to drop a quick discussion on CHTR’s CFO’s insider purchase this week. You didn’t think I’d let that one pass, did you? Obviously CHTR have been weak recently, but nothing about the share price weakness or Q3’s results change my overall feelings on Charter (disclosure: long): today’s price is too cheap and the chance to invest in a cable company just starting to hit the inflection point in its integration while simultaneously deploying the levered equity model to buy back their shares at an incredible rate is an interesting opportunity. Combine that with the increasing strategic importance of owning the pipes into a customer’s home, and Charter is a unique “punch-card” type investment.
- Speaking of sports rights, this article on ESPN dropping Monday Night Football (MNF) was interesting. I don’t doubt ESPN got sold a bit of a bag of goods with MNF (they were expecting good games, but it seems every game they have is awful), and I don’t doubt that they might lose their MNF rights. But if they do lose MNF, my bet is it’ll be because they mortgaged the whole company to keep the rights and still got outbid, not because they walked away. The fact is ESPN and Disney need the NFL. Remember how Altice caved to Disney in their last negotiations? And how CBS’s CEO said that it’s no coincidence blackouts end the Friday before football games? Replacing the NFL with some mishmash of college football and soccer doesn’t get you that leverage; if ESPN lost NFL rights, how much different are they than all the other also ran sports channels like FS1? Would Altice think twice about playing hardball with Disney (i.e. blacking them out) without MNF on ESPN? Disney’s cable properties start to look much more like Viacom if ESPN loses MNF.

- The recent Lord & Taylor / WeWork deal made me think a bit about the department stores again. They look so darn cheap when you look at them just on a real estate basis. Consider Hudson's Bay (HBC); Land & Buildings lays out a pretty credible case that their real estate is worth 3-4x their current share price (driven mainly by the huge value of Saks Fifth Avenue). I love to buy into companies trading for less than the value of their assets (I was talking to an investor the other day and he asked me if I invested in anything other than holdco's trading at a discount, and I'm not sure if he was truly asking, teasing me, or making fun of me), so I feel like department stores at a discount to their real estate value are right up my alley, but so far I'm staying away for a few reasons.
    - First, I worry that the insiders' view of the real estate is dramatically different than outsiders. Remember, Hudson got that Saks property when they bought Saks for $2.9B, or less than the appraised value of Fifth Avenue. And in the WeWork deal, Hudson issued convertible preferreds that convert at C$12.42, or below the appraised value of the Saks property alone, while also using proceeds from the sale to pay down debt. Both of those transactions don't provide me a ton of confidence that the real estate value people are counting on is actually there or, even if it is there, investors will realize that value before management dilutes the heck out of them in a desperate attempt to turn around the retail operations. The Hudson Bay L&T sale is particularly instructive- using proceeds from a huge sale to dilute shareholders and pay down debt versus buy back shares trading for less than real estate value speaks volumes to the value they see in the company.
        - A related thought which I've had since the JCP / Ackman days- if it was just one department store looking to downsize and sell their real estate, I think the thesis would make sense. But when every department store (JCP, M, SHLD, etc.) is looking to sell their real estate at the same time, the market simply has too much supply to handle and prices are almost certainly coming way down.
            - You can see some of this in a "hindsight" evaluation of real estate values. For example, Starboard estimated the value of Macy's Herald Square location at $1,830/SQF (see p. 8). The Lord & Taylor building was a really nice comp for Herald Square and just went for $1,250/SQF.

    - Speaking of the how much cash from the real estate properties will ultimately flow through to investors question, it doesn't seem like any analysis I've seen adjusts for taxes, sales costs, etc. on these companies extremely low basis real estate. With good structuring / tax planning, that's probably

not an issue, but it's worth keeping in mind that there is a chance that there is significant friction to realizing that real estate value.

- Finally, I'm worried that every time it seems someone who isn't an insider gets a look at one of these companies' financials, they tend to run away screaming. Sears Canada was a complete disaster worth more dead than alive, but even dead it couldn't pay off its unsecured creditors. Nordstrom shelved plans to go private when lenders would only lend to them at distressed levels; given how wide open credit markets are now, the rates lenders were offering speaks volumes to the outlook they saw for the business. Both Nordstrom and Sears Canada are obviously different than the big American departments stores (Nordstrom doesn't have as much owned land, and Sears Canada is a different country), but they're a clear sign that people who get internal looks at these companies think they are much worse off than bullish outsiders. Another clear sign is the lack of private equity interest- companies with big real estate assets, low multiples, and declining cash flows should be catnip for a private equity play. That there hasn't really been a whiff of interest speaks to the outlook knowledgeable insiders see for the sector.
    - Of course, maybe there's a contrarian play given no one wants to touch these stocks. But one of the lessons I've learned over the past few years is that if a company is willing / trying to sell itself and logical strategic and semi-strategic acquirers want nothing to do with it, there's probably something wrong with the company. I think that analysis applies to whole sectors as well.
- Having said all that… dang these things are cheap. Take Macy's (M), for example. Their LTM Adj. EBITDA is ~$3B; with under $1B in annual capex and an EV of ~$11.2B, it's trading at <6x unlevered FCF without giving any credit for their real estate assets. Just wildly cheap when you combine that earnings level with the value of Macy's real estate (though earnings would certainly come down if the real estate was separated out and Macy's needed to start paying rent).
    - Just as one example, take the Herald Square property. We know the L&T building went for $1,250/SQF. Let's say WeWork was drunk on Softbank money and overpaid by 25%, and Herald Square is actually worth $1k/SQF. Herald Square alone would be worth >$2B, which would bring Macy's EV to approaching $9B. And there would still be plenty of other real estate left in the company.
    - Again, the company looks super cheap when you look at it that way. But consider what insiders are doing- so far this year the company has directed all of their

FCF to repurchasing debt, not repurchasing shares that are supposedly trading for a discount to just a fraction of their real estate value.

- Greenlight's Q3 letter came out, and Einhorn talked about his "bubble" short basket that includes Amazon, Tesla, and Netflix. Shorting is a tough business, and I think Einhorn's done some awesome stuff in the past. But I feel like if your short basket leads you to short all three of Amazon, Netflix, and Tesla over the past few years, you probably need to reassess your mental models. Valuation is obviously important, but things like ability to scale / operating leverage, owning customer relationships, and "outsider" type founders / management teams all matter as well (and have some interconnection that can create a lollapalooza type effect), and to be short all three of those companies over the past few years should raise serious red flags / cause some serious introspection on if you are putting too much weight on valuation versus those other factors.
    - Perhaps that paragraph is a true contrarian indicator. I don't follow any of those companies super closely (though I have laid out the case for Netflix being cheap previously), but as an anecdote I will say each of those companies seems to be increasingly important to me and the people in and around my life (I basically only buy things on Amazon, I don't watch a ton of TV but when I do I basically only watch HBO and Netflix, and if I ever get a car a Tesla would be top of mind). When I think about that level of increasing importance, the track record of their CEOs, and the potential opportunity for all of these companies versus today's market cap, I wouldn't be thrilled to be short any or all of them. But that's just a 30k foot view; I haven't done serious work on any (and I find the Tesla bear cases in particular pretty compelling).
- This article on Disney's terms for showing Star Wars with movie theaters was a really interesting look at the complex negotiations between movies theaters and studios.
    - I've been pretty open that I'm a complete bagholder on AMC (disclosure: long), and one thing I think I overestimated is AMC's ability to use their new size to (slightly) bring down film costs going forward. I think I overestimated that potential in two ways- 1) after looking at the numbers a bit more, I don't think that there's any real benefit to scale in buying films from studios and 2) even if there was, an increasing reliance on "tent-pole" movies probably means that studios' power in movie negotiations continues to increase.
- Lennar (LEN / LEN.B; disclosure: net long) has two classes of stock: their class B shares, which get 10 votes per shares, and their class A shares, which have one. The class B shares trade for a ~15% discount to class A shares. The class B shares are pretty illiquid (~2/3 of them are owned by the Miller family, and in total there are ~31m class B shares versus ~203m class A shares), but it seems pretty

strange to me that the class B shares would trade for such a discount to the class A shares despite greater voting rights. Anyway, Lennar just announced a big merger while also quietly announcing a class B dividend for each A and B share outstanding. I think this benefits the B shares in a few ways:

- The stock dividend adds ~5m class B shares, which increases the B share count by ~15% and so should increase liquidity.
- Between the new class B shares and the A shares issued for the merger, the Miller family’s voting power comes way down, which opens the door for an activist to step in and force the collapse of the shares at some point.