Some things and ideas, December 2017

I feel like I do this once a quarter, but sorry for the lack of blog posts recently! I've been looking at a bunch of different things, but unfortunately nothing has struck me to blog about. I am saving up a few ideas for a (hopefully) fun end of the year post though.

Anyway, here are some things and ideas that have caught my eye recently.

- Tax reform
  - A quick thought on taxes: a lower tax rate is probably universally good for business, but if you're a "commodity business" (whether that's making actual commodities or just as a general term for describing a business without a competitive advantage), the drop in tax rate will be pretty quickly competed away. The real winners of tax reform are businesses that pay a high tax rate **and** have a competitive advantage that will let them keep the drop in taxes as excess profits.
    - One idea I like on tax reform (or even without it)? MSG Networks (MSGN; disclosure: long). They certainly have a competitive advantage (they have the rights to air the Knicks and Rangers, among others, locked up for ~20 years, and they have long term contracts with cable companies that gives them earnings visibility) that will let them keep the drop in tax rate, and they pay a full tax rate currently.
      - Plus, Disney just bought Fox's RSNs for ~12.5x earnings (I assume they

meant EBITDA). MSGN is highly levered and trades for ~8x EBITDA; the stock would need to ~double to approach the multiple Disney paid. I'd also guess that MSGN would be of a substantially higher quality than the majority of the Fox RSN's Disney is buying; most of Fox's RSN likely carry just one team in smaller market while MSGN carries two teams in a large market (larger market = more cable / satellite providers = more competition for subs = more leverage for an RSN). And even the YES network (probably the crown jewel of the Fox RSN portfolio and likely MSGN's best comp) comes with issues- the Yankees still own a minority stake with some voting / blocking rights.

        - I'm basically just copying my twitter account at this point, but one other likely winner of tax reform? The whole Liberty complex (which I'm long a shocking amount of). This is a hastily written tax bill that is filled with loopholes, and the Liberty team is widely renowned as the best at tax structuring and taking advantage of loopholes. Don't be surprised if the new bill allows them to use some very creative structures that create a lot of shareholder value / get deals done.
- Product Due Diligence
    - Two SPACs recently merged (or entered into agreements to merge) with online startups: Helios and Matheson (HMNY) did a deal with MoviePass, and mattress maker Purple is merging with Global Partner (GPAC). I don't have a position in either

stock, but I have experience with both companies a consumer that might be relevant. (**UPDATE:** HMNY wasn't a SPAC; it just issued shares and merged with MoviePass. My bad)

- **Movie Pass**: I got it at the beginning of November. I haven't used it once; I've found it to be awful.
  - First, the sign up was awful. It actually took a decent bit of effort to sign up, as the site kept crashing when I tried to use it.
  - Second, the app keeps crashing on me when I try to use it.
  - Third, in order to use the pass, you have to basically be in the movie theater (i.e. you can't order from the comfort of your own home). Assuming you don't feel like making multiple trips to the theater, that means you're going to need to buy a ticket to a movie when you get to the theater, so you can't buy movies that are going to sell out. That makes it tough to see any tent pole movie or to see movies at popular times (Friday and Saturday nights).
  - Of course, that's just been my (very NYC focused) experience. I've heard from people in less populous areas that it works great.
  - Only semi-related, but it's impossible for me to understand why movie theaters don't embrace MoviePass. I get you don't want to train consumers that movies are unlimited for $9.99/month or something, but MoviePass is paying full price for

tickets and a lot of the traffic they send is likely to seats / movies that probably weren't getting used anyway. Why not embrace that until the company can't subsidize anymore?

    - **Purple**: I got a Purple Mattress around Thanksgiving. My girlfriend and I both absolutely rave about it. It's been fantastic and the customer service has been great too (they've responded to several questions promptly). I like the mattress so much I'm tempted to get the sheets.

- Sina activism
  - There was a recent case of activism at Sina (SINA, disclosure: long) that I thought was pretty interesting for a variety of reasons
    - The basics of the story is Sina owns a controlling stake in Weibo (WB; disclosure: short) that's worth way more than its market cap. A hedge fund, Aristeia, ran an activist campaign to get some directors on Sina's board and force them to close the valuation gap. Sina won the fight and then immediately "doubled down" and issued their CEO super voting preferred stock that puts him completely in control of the company.
  - Obviously the story is an awful example of entrenchment. But it's a story that should spark a bit more thought on both Chinese companies and controlled companies.
    - **On Chinese companies**: I know tons of investors who are buying the Chinese tech companies, particular the large growth companies, with visions of world domination. And I can certainly understand the vision: I think Tencent (disclosure: short a little against a tiny Naspers long) in particular

is interesting though I haven't done any deep work on any of them. But while these companies seem unstoppable when times are good and the companies are growing like gangbusters, it'll be interesting to see how investors are treated if the companies ever stumble. Remember that investors often don't own direct economic interest in the Chinese companies, and if you look hard enough you can already see examples of the Chinese companies using their complex structure and control to shift assets away from outside shareholders.

- **On controlled companies**: We've been in a historic bull market, and often the last "cheap" looking companies are companies that have controlling shareholders. For example, I know a lot of investors who've taken stakes in BBX now that it trades for a discount to its BXG stake (Clark Street Value had a nice write up here), and I obviously love a lot of different pieces of the Liberty complex (which is controlled through super voting shares by John Malone). Can there be opportunity in these controlled structures? Absolutely. But the SINA example should reinforce how quickly things can go south when the controlling shareholder decides they want to take minority shareholder's money.
    - Some quick thoughts on BBX- I've followed it for a while and am always tempted by it. My issue is the management team is insanely overpaid and if you put any multiple on their salaries it eats into a ton of the discount to BXG.

        - I also have so many questions on capital allocation at BBX. I mean, instead of buying back shares over the past few years at a discount to what they just IPO'd BXG for, they were investing $57m into retail novelty candy. That investment was on the heels of burning >$20m in operating losses to build out a gourmet chocolate business in FY15/16 (you can see their brands here), which I'm sure will let them compete with the Hershey's and See's of the world.
        - There's also some really weird transactions at BBX: p. 59 of their 10-Q details a very strange transaction where a borrower put up $5m of BBX preferreds (which carry a 5% interest rate) as security for a $5m loan from BBX which carries a 5% interest rate. It's small and I'm sure there's an explanation for it, but that is a very strange shuffling of money.
        - I've got a lot of other thoughts on the company and am always happy to connect offline if you're interested.
    - Speaking of controlled companies, I'd be remiss if I didn't mention Liberty Tax here, since the story is so bonkers. Here's the news article that

broke the story, here's a director resignation in follow up, and here's a recent Bloomberg story with some more info on the fall out.

- Some articles I liked
    - A Chess Novice Challenged Magnus Carlsen
        - I definitely found the article interesting and entertaining, but if you told me it was a paid advertisement for the subject of the story / the chess novice (Max Deutsch) I would not be surprised. The story absolutely fawns on Max and pulls a ton of tricks to build suspense and make it sound like Max could win.
            - For example, the article notes that Magnus's career winning percentage is 62.5% and uses that as evidence Max could win. What an awful use of statistics; just because an NBA team only wins 50% of theirgames does not mean they're vulnerable if they play a high school JV team.
            - When describing the game, the story notes, "After eight moves, using his own limited chess ability, the unthinkable was occurring: Max was winning". I've plugged the game into a chess calculator and found the board was basically a toss up; just another example of the author playing games with reality to build up drama in the story.
            - I know a ton of people who mocked Donald Trump for thinking he could become a chess grandmaster in a year or two. Is this story that different at its core?

        - I love the thoughts on the power of deep learning in the story but this was just a laughable example of some combination of hubris and self-marketing.
- More households are getting online solely through mobile devices
    - Couldn’t let a post pass without putting something cable / teleco related up!
- How to get rich playing video games online
    - The “streamer” lifestyle is insane.
    - It’s interesting to see how the industry slowly evolves, and the article has some really interesting looks at it.
    - The more I see articles like the more interested I am in the video game sector. Video game stocks have had an incredible run, but as fan / user engagement advances I see companies with increasing moats (from both user data and pure scale when it comes to investing in games and hiring talent) and potential expand into plenty of adjacent areas.
    - I wish Twitch was public!
- CBS Research Guru David Poltrack Sees “Bright Future Ahead” For Broadcast TV
    - One of the toughest things as an investor is that every management team is always bullish on their industries’ long term prospects. As an investor, it’s your job to figure out which teams are right and which ones are deluding themselves.
    - That said, you'd need to be pretty self delusional to think people are going to watch more linear television in five years than they do today.