Some things and ideas: March 2018

Some random thoughts on articles that caught my attention in the last month. Note that I try to write notes on articles immediately after reading them, so there can be a little overlap in themes if an article grabs my attention early in the month and is similar to an article that I like later in the month.

- Cable M&A coming?
  - FierceCable speculates Mediacom put up a for sale sign in a "glowing" Forbes profile (and glowing undersells it; it's such a puff piece it's borderline sickening)
  - If Mediacom really is for sale, it seems like Charter (CHTR; disclosure: long through Liberty) is the most likely buyer.
    - Comcast (disclosure: long) is busy with Sky / Fox
    - This is armchair psycology, but I've generally thought that when controlling shareholders with big personalities cash out, they generally want to cash out ("I don't want my fortune dependent on someone else managing it"). That likely rules out both Altice and Cable One, as both would likely be unable to finance full cash bids (Altice is undergoing a spin / div recap, so I'm not sure they're in a position to bid, and a bid would really stretch their balance sheet. Mediacom is around the same size as CABO, so an all cash bid from CABO is unfathomable (at a glance, combined company would be 6-8x levered, which I don't think banks would let them get to today)). Even if Mediacom was willing to roll some equity, my understanding is legacy U.S. players are way

more comfortable with rolling equity into Malone / Robert companies given their reputation in the cable industry (the "they're going to sell it to an old cable guy" line in this article on Cox sticks out / likely applies here).
        - With those three "unavailable", Charter is the only remaining bidder who makes sense.
    - I haven't fully studied Mediacom, but I would guess there are pretty nice synergies between Mediacom and Charter.
        - Charter's footprint fits well with Mediacom's
        - There are the obvious purchasing / overhead / TV card synergies.
        - Mediacom has already rolled out 1 Gig service to their entire footprint, so cash flow going forward should be pretty strong. Despite that rollout, broadband penetration is pretty low at Mediacom (~44% at YE17). Charter's penetration is ~48%; I'd guess they'd have a quick plan for significantly improving Mediacom's penetration.
- Netflix moving into weekly shows
    - Netflix has been making moves into weekly shows recently. To list just two, they signed Hasan Minhaj earlier this month and their Joel McHale show released last month. You can see the strategy pretty clearly: having a weekly show is incredible for user engagement and retention. On the engagement side, a weekly show is something you'll log in once a week for (and while you'll logged in, Netflix can give you a quick preview of all their other new offerings!). On the retention side, having a weekly show come out helps with the issue of "subscribe to Netflix when the new stranger things comes out, binge it, and then cancel" (I know that I only keep my HBO subscription year round because I love John Oliver; without him, I'd probably only subscribe during Game of Thrones season).
    - Just another example of Netflix / streaming

encroaching on the legacy cable bundle. The last bastion of the cable bundle remains live sports; if and when internet players start taking those rights, it'll be interesting to see how quickly the unravelling of the video bundling accelerates. The counter to this point is that the legacy cable channels face an existential crisis if they lose live sports, so expect them to bet the farm bidding on them in upcoming renewals. Either way, expect values for sports broadcasting rights to continue to go up (and, hopefully, the value of sports franchises with them!).

- Cable One Price Increases
    - Interesting thought on Cable One (CABO) earnings and its implications for the cable industry.
    - This relates to a worry with cable companies I've frequently had: as speeds get fast enough, do further speed increases stop mattering? Maybe customers are willing to pay up to get 100 megs, but does anything over that become extraneous / customers really don't care? That line of thinking has two issues for cable companies: first, it limits their price increase potential in the future, and second (perhaps more importantly) it makes them more vulnerable to continued improvements in competitive technology (particularly wireless).
    - Certainly a concern, but as a major Charter (CHTR; disclosure: long)) shareholder here are the two things I take comfort in. First, every time we get more "pipe", we find a way to fill it up. VR, AR, 8k TV, everything in the home connected to the internet, etc. are going to take up a lot of bandwidth, and having a cable (or fiber) connection in the home will remain the most consistent and cheapest way to get all of that. Second, CABO's broadband ARPU in 2017 was

~$64/user/month. Both Charter and Comcast have ARPU's in the low $50s. Some of that discrepancy is likely driven by video / voice accounting, but a major piece is almost certainly Cable One just being more aggressive on pricing. Given both Charter and Comcast are generally in markets with higher incomes than Cable One, I would guess both of the major cable companies have a significant amount of pricing power to tap before they run into similar issues.

  - Also note that most Netflix viewing inevitably winds up on a TV. Needing additional home based devices (versus doing everything on one small cell phone) bodes well for a super reliable / fast broadband offering (if everything was done on one device, what's the need for a cable offering? If people use multiple devices, paying one price for a cable / wifi offering that can cover all your devices makes a lot more sense).

- Netflix's Secrets to Success: Six Cell Towers, Dubbing and More
  - The tech side of Netflix is often overlooked, so it's cool to get a look at it.
  - Just tying the "do further speed increases stop mattering?" angle from Cable One to this article, how much success Netflix is having reducing data usage worries me (as it should worry anyone who is long connectivity through spectrum / cable assets).
  - The part about Netflix knowing its subscribers better than they do is interesting, but nothing new for tech companies. It reminds me of "facebook knows you better than anyone else" and pulls back a bit on just how powerful the data advantage these big tech companies have is.
- One question I've been grappling a lot with recently: how does voice search impact brands? (these two articles provide a good overview for what I'm thinking)
  - As digital assistants get more and more prevelant

in our life, do brands even matter anymore? Or is it just SEO optimazation? And, if it's just SEO optimization, is that a huge advantage for brands that are already #1, or will online retailers just replace them with their own private label?

- The results have huge implication for some massive brands. Consider toothpaste; here's the current amazon search page for it. When you're out of toothpaste, you're not going to say "Alexa, order me Colgate / Crest / insert your brand here". You're just going to say "Alexa, order me toothpaste". On a desktop you may scroll through the amazon first page to find your favorite brand, but once you switch to voice Alexa's likely going to just send you whatever their bestseller is. Does that mean sales for the top brand in tooth paste (Crest) skyrocket? Or would Amazon just come out with their own private label and direct everyone to that unless specifically told otherwise.
- And the long term ramifications are insane. Maybe you and I care about brands because we grew up with them. But kids growing up with voice assistants will learn to trust the voice assistant results much more than we do; I doubt many brands can survive long term a generation of kids who treat all products as commodities and just order them by commodity name through search.
- One other thought: maybe Amazon should be very hesitant about rolling out too much of their private label stuff. The biggest long term threat to Amazon is probably anti-trust (I personally think a rational government would already be thinking a bit about how far is too far for Amazon). If your biggest threat is anti-trust, maybe looking to become the nation's biggest consumer brand as well isn’t great given the attention it’ll draw.
- If you don't think Amazon is taking private label seriously, go browse some of their private label stuff. Not only are they good quality, they are

offering "free samples" of a ton of them where you add-on order a single serving of it and they'll give you a full credit for the cost. Here, for example, are some roasted cashews they're offering a sample of. The cost is $2 (with free shipping), and they'll give you that $2 back in credit for your next order. That's a pretty decent cost- I'm guessing all-in after shipping they're paying $6/sample order (that's just a gut guess; no serious numbers behind it but likely directionally correct) to give you that. Amazon doesn't make that investment unless they're serious about making the private label a big brand.

- Amazon's internal number on Prime Video, revealed
    - Super interesting. I'll leave most of the takeaways to you, but consider this: a big piece of the Netflix short thesis is they'll never be able to recapture their content spend (content growth causes sub growth which causes more content growth in a never ending cash spend cycle). I don't think that's right, but even if you think Netflix would never recapture that spend as a standalone company, I think the odds are high a larger tech player (or maybe telecom?) would buy them and use Netflix as part of a bundle to lure people into a larger ecosystem. Would that purchase happen around today's price? No clue, but these docs give a further glimpse that getting a viewing sub is worth a lot to these large ecosystems.
- More on sports rights and team values
    - A core tenant of the monthly update: continued highlights of the increasing value of sports rights (mainly because of my love of MSG (disclosure: Long)).
    - Here's an article with a nice overview of Amazon, Facebook, and Google getting ready to enter the live sports rights world (nothing new, but a nice summary).
    - Facebook just signed an exclusive deal to stream weekday MLB games (their first exclusive U.S. sports deal).

- The Charlotte Hornets just signed an extension to their local TV deal that will see the annual rights fee "in the low-to-high $20 million range, up from about $14 million this season". This seems to be a renewal of a somewhat dated deal (I believe this is an extension of their 2008 deal but haven't been able to confirm), but for a team commanding league low ratings to get such a large increase in the face of continued cord cutting speaks well to the ongoing value of local sports rights.
- I think people will continue to pay up for NBA games / rights- NBA ratings continue to tick up, which is incredible in a world of cord-cutting / across the board ratings declines.
- Unrelated, but this article on taxes and trading athletes is interesting and shows the issue of rushing into a major overhaul of the tax system.
- The Carolina Panthers are for sale, and rumors are they'll sell for at least $2.5B, a premium to the most recent Forbes price. The auction has apparently attracted multiple billionaires. A big piece of my investment in MSG is that billionaires are desperate to own these trophy properties. We're obviously comparing apples to oranges when we're talking NBA versus NFL, but if a small market team like Carolina can attract interest from an international group of billionaires, imagine what a trophy franchise like the Knicks would do.
- Speaking of the NFL, here's an interesting interview with Roger Goodell (the commissioner). Obviously he's got a story to spin, but the tidbits about every network being interested in the Thursday night rights and that Pizza Hut paid gave them more money and more years to replace Papa John's as the NFL's pizza sponsor both suggest that the power of the sports brands is alive and well.