Some things and ideas: August 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.

Offline to online advertising

- In my post on GGP (disclosure: long GGP heading into the merger; has flipped BPR / BPY with the merger finished), I mentioned “clicks to bricks” and how online retailers are increasingly moving to physical store space as a form of customer acquisition.
  - The information had an interview with Indochino’s CEO that put some really interesting numbers to the clicks to bricks thesis (the headliner is probably “our lifetime value is now over 20% higher for a retail customer versus an online customer,” but there are a few other interesting ones).
- Thinking of opportunities for using the physical world to drive online / digital is an interesting topic and a place where I think investing alpha could be hiding if you can find novel new ideas (either for acquirers who can buy undervalued physical assets and use them to drive an online product, or for investors who can recognize a new revenue / profit source early). Some examples:
  - The most obvious one is Disney (DIS, disclosure: short a little against a FOX long) using their theme parks to drive subscriptions to DisneyFLIX (their upcoming DTC product / Netflix competitor).

Disney could easily bundle a one month free trial to DisneyFLIX with every ticket to a Disney park; I would guess the adoption rate for that would be off the charts.

- Another interesting one: using tickets to sporting events to drive sports gambling in the future. What if you bought a ticket to the Knicks game, and included was a $5 credit to gamble on the game on a sports app (either one owned by the Knicks or the official Knicks partner site)? That would likely drive massive amounts of downloads / trials for a sports betting app, and probably yield some pretty lucrative new customers.
- Both of those may seem expensive ($5 for free to everyone who walks in a Knicks game?!?!), but consider that Blue Apron is paying almost $100/customer (to fund a way less profitable business model!) and I think it becomes clear that they'd be incredibly cheap forms of customer acquisition!
- Could a DTC service use a movie exhibitor like AMC (disclosure: long) to drive signups for their service (after I started writing this, news on Amazon looking at Landmark Cinema broke)? You could either use the ticket itself (hey, you bought a ticket to see Black Panther; here's a free week of DisneyFLIX to see all the rest of the Marvel tickets) or just use the movie studio's perks program (either just marketing to the perks members, or giving them direct access to the DTC program). It makes sense some sense (if you're going to see Black Panther or signed up for the movie studio's perks program, the level of interest in a DIS service is probably pretty high), though there are quite a few hurdles here (the "studios can't own theaters" ruling is obviously a big one, though it seems like that

will go away soon).

- I’ve talked about my respect for Amazon and their forward thinking plenty of times on this blog. Thinking about the “offline to online” advertising model gives another (positive) lens to view their Whole Foods acquisition through.

Facebook dating

- I’m long Match through IAC, so I’ve been following Facebook’s foray into dating pretty eagerly. Earlier this month, we got our first looks into the Facebook dating app. I have to say: as a Match long, I’m pretty happy with the Facebook dating app; the more I study it, the less of a threat I think it is to any piece of the Match ecosystem (particularly Tinder, which is the big worry)
- Again, it’s early, but one thing that stands out is Facebook is pushing people to whatsapp and messenger once they match. One of the great things about online dating is the other person doesn’t get your intimate details until you give it to them; if FB is immediately rolling into messenger or whatsapp, the other person is immediately getting access to your last name and anything that’s public on your Facebook profile. That’s a nightmare for matches gone wrong. That may seem a small thing to a lot of my readers (which skew male and older), but a lot of young people, particularly women, are (rightly) hesitant to give out personal info until they’re more comfortable with matches.
    - It can also be frustrating having a wave of matches overwhelm your communications. Say you match with ten people and are messaging all of them in messenger; your inbox is suddenly overwhelmed with dating messages and it can become more difficult to message friends.
    - Of course, I could be off here; some people might

love the immediate messenger connection- I know some people use tinder and just immediately try to flip their match to Instagram or some other form of communication. But my gut and experience with online dating tells me that the immediate connection is an issues.

- If Facebook realizes that's a problem, I'm sure they'll address it. But here's a theory I have on (one reason) why it's so difficult for large companies to launch new apps in categories that are already dominated: if/when the app stumbles, it's extremely difficult to get new internal talent to commit to working on that product. Why would an engineer or product manager want to join the Facebook dating turnaround when they could go to something more successful and high profile (like Instagram stories (PS Instagram Stories success is wild))? The risk reward is really poor for them (them = the Facebook engineers / PMs who join the dating team to try to turn it around): if Facebook dating turns around, they'll get a pat on the back; if it doesn't, the fact they worked at Facebook dating becomes a bit of a black mark internally. I'm sure there are examples, but off the top of my head it's difficult for me to point to one app / product extension that a large tech player launched that was initially a failure but they kept investing in until it was a massive success. Apple Maps may be the best example, but it's still pretty spotty and most people I know still use Google Maps despite Apple's product coming installed on their iPhone.
- Anyway, this was a long way of getting to a short point: I think Facebook's dating product has a ton of flaws (particularly if they're trying to peel off younger people / Tinder's base), and if it launches with issues on day one I think the chance of it turning around and really competing in the dating space is very small.
- Semi-related: The Economist on "Modern Love" / Online dating and on how the internet has changed dating. WSJ

on the rise of slow dating (including the incredible anecdote of the guy who drank a whole pitcher of margaritas on a weeknight first date. Six stars for him).

Sports update

- 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)).
- Fight for Fox Local Sports Channels Could Shake Up Broadcasting (disclosure: long Fox)
    - My thoughts on Fox's RSN's rumored valuation versus MSGN (disclosure: Long MSGN)
- Cubs to Go Own Way in TV Venture
    - I believe the Sabres tried to launch their own RSN a few years ago and ultimately decided to stick with MSGN. Hockey is not baseball, and the Cubs name brand and fan base is obviously in a different stratosphere, but it is a very interesting decision to start a new network in today's TV / media landscape.
    - Also interesting: a radical pitch to save baseball
- Amazon and Twitter Want to Bring You More Sports
    - Former ESPN Exec headed to Amazon
- NBA signs deal with MGM (first major domestic sports league with an official betting sponsor)
- Chuck Schumer suggests federal framework for betting
- If sports gambling is legal, where does the money go?
- Sports teams investing in entertainment venues
- No Longer on the Ropes, WWE Has More Upside

The curious case of RMG Networks

- RMG Networks (RMGN) is a tiny little company that agreed to be acquired by their Chairman in early April, and the transaction has entered something of a bizarro world. I'm writing up a timeline below; I know a bit of it can be dry but anyone who follows corporate mergers will realize how insane the timeline has become. I’ve tried to include a description on what’s going on and how crazy it is versus normal M&A for anyone who doesn’t follow corporate M&A too closely (and there’s certain no shame in that!), but I won’t be offended if you’re not interested in breaking down a silly related party deal and you chose to skip this section! That said, all of this leads to a truly insane outcome where half of the board resigns in protest, so there are certainly some fireworks waiting at the end.

- Let’s start with the obvious: this deal was a take under. RMGN’s stock closed at $1.45 the day before the take private with the Chairman was announced in April, and the take private was priced at $1.27 per share. Related party take unders are a bit on the rarer side since shareholders tend to ask a lot of questions when an insider is buying a company on the cheap. Still, RMGN is a microcap with a track record of burning cash and part of the deal included the Chairman making a loan to the company to help keep it in business. Between the need for a related party loan and the deal including a go shop, I probably wouldn’t be thrilled with the proposal if I was an RMGN shareholder (which I am not) but I’d also probably suspect the deal was way better than the status quo.
- Speaking of the go shop- it seemed to be getting some interest! In May, the company extended the go shop end date, which they would only do if they were getting some interest. In early June, the company concluded the go-shop but announced they had received an alternative acquisition that would recap the company and that they thought could be a superior proposal to the current deal.
- That announcement was June 5th. RMGN then went completely radio silent until filing an updated proxy June 27th.

That is really weird. Alternative / superior proposals are generally resolved very quickly for a whole host of reasons, so for the company to just push out a proxy 3 weeks later w/out saying anything made me suspect something strange was going on. Sure enough, the background section of the merger revealed the company had been in ongoing negotiation with the superior bidder and that the Chairman had sent a letter on June 21 saying the company had "failed to comply" with the merger agreement by not keeping them up to date on the superior proposal's status.

- That was June 27. The company then went completely radio silent again until they filed a new proxy on July 27. The new proxy contained all sorts of info
    - Negotiations with the superior bidder remained ongoing
    - On July 10th the Chairman sent another letter saying the company was failing to meet the merger agreement by not updating them on the status of the superior bid.
    - On July 16th, the company realized they had forgotten to pay interest on the loan the Chairman made as part of their go private deal and paid that interest plus the penalty.
    - On July 19th the company's special committee countered the Chairman's letter by saying (in effect), "your deal requires you to get financing to complete it; where's your financing bro?". The Chairman responded by again accusing the company of being in breach of the merger agreement and accusing the company of being in breach of the financing agreement for forgetting to pay interest on the loan.
- Ok, all of this is leading up to the grand finale. On August 1st, the Chairman sends a long letter to the board

which basically says the special committee is determined to go with the other bid, whatever the cost, and is ignoring both the merger contract and the fact that the Chairman's bid is better. Even more astonishingly, the chairman notes that part of the reason the Committee is interested in the other bid is how conditional the Chairman's bid is, and he has made several efforts to remove the conditions form the bid that the special committee is ignoring.

- The special committee responds by holding a meeting later that day and declaring the alternative bid a superior bid. They immediately take their recommendation to take the alternative deal to the full board. The full board consists of six people: the three people on the special committee, the Chairman, and two others. The Chairman abstains from voting on the superior proposal, all three members of the special committee vote for it, and the other two members of the board vote against it. So the vote is 3-2 in favor of the alternative deal, but the company bylaws say that voting on the deal "requires the affirmative vote of a majority of the directors present at any meeting of the Board at which there is a quorum" so the vote does not pass. The next day, all three members of the special committee resign from the board.
- I wrote this almost immediately after all of the director resignations came out on August 6; as I go to post this on August 30 it looks like the whole deal will have a happy ending for shareholders. The Chairman agreed to bump his bid to $1.29/share in exchange for the company agreeing to stop talking to Hale.

Papa John rips top execs; dishes on frat club behavior

- The Papa John's situation has truly jumped the shark. The allegations the Papa (as I like to call him) makes in his 61-page (!!!) letter are completely insane (and

almost certainly false). My personal favorite is the allegation Papa’s Chief Legal Officer asked Papa multiple times to help her hook up with Rick Pitino, but there are plenty of other crazy ones.
- The independent committee responded to the letter with a PR that includes plenty of pretty crazy allegations against the Papa, many of which I do believe. I particularly like the one where the board decided they needed a new spokesperson and advertising strategy, and the Papa responds by producing his own commercials that he still stars in. Fantastic stuff.
- Speaking of crazy board disagreements, this resignation letter over at Helios and Matheson (Moviepass’s parent) contains some pretty awesome allegations.

Other stuff I liked

- How Hollywood is racing to catch up to Netflix
- Via their MVNOS, Comcast and Charter eye mobile business (disclosure: long CMCSA and CHTR)
- The Videogame Industry Reaches for the cloud
- Why one of the biggest Mall Owners is Doubling Down on Malls
    - I can’t believe “Billy” thought it was a good idea to release this interview. He admits to spending money on sending videographers into customers’ homes for five days to figure out why they go to malls; he also mentions launching services to target the Chinese billionaire tourist crowd. Maybe I don’t know enough Chinese billionaires, but I have trouble believing they go on vacation and frequent the local mall. Just a thought, but if you need to videotape people in their homes for five days to figure out why they are going to malls but can actively think up services for Chinese billionaire tourists, maybe you’ve lost touch with your target audience.

- Who killed the Great American TV bundle
- Matt Ball on HBO's future; part 1 and part 2, and Part 4 of his Netflix Series
- Will Netflix's movies finally be ready for their close up?
    - Why Netflix dramas sag midseason
- Disney's Streaming Service Starts to Come Into Focus
- Scotts Miracle-Gro CEO lays into cannabis unit over quarterly results: 'Those bastards are gun-shy as s--- right now'
    - I am a complete sucker for profanity and blow ups on conference calls.
- Taylor Swift Stands to make music business history as a free agent
- Spotify's playlist for global domination
- Spotify is on a collision course with the major record companies. Here's why.
- The 30% tax
- Posting instragram sponsored content is the new summer job
- DAU/MAU is an important metric to measure engagement, but here's where it fails
- Why Barry Diller believes in cultivating creative conflict
- This multibillion dollar corporation is controlled by a penniless yoga superstar
    - Money quote: 'On a three-axis chart of holiness, capitalism, and lumbar flexibility, he occupies a point beyond anyone else on Earth"
    - See also: The billionaire yogi behind modis rise
- Why battling bugs is a booming business
- Bronte Capital on Xero
- Warren Buffett's biggest wins and losses
- The Michael Milken project
- How the Rock became the most bankable story in China (disclosure: I love the Rock)
    - Also: The Rock's Treveling Gym Has 40k of Workout

Equipment