

Introducing the "Search for IP" Series

One of my core beliefs about the world moving forward is that "elite / must have" IP (intellectual property; here just using it to refer to unique stories and characters like Star Wars or James Bond) that appeals to a wide swath of people is going to become increasingly valuable as we move into an increasingly fragmented world. There are a lot of reasons for this belief, but two of the biggest are:

1. Companies, particularly large tech companies, are incredible at monetizing attention and they're only getting better. I think the best way to show this is to look at the difference between something that is watched over traditional broadcast / cable TV versus something that is streamed on an online service. Consider a football game aired on broadcast TV: truck companies advertise like crazy on those games because they know a bunch of potential truck buyers watch football games. However, under traditional broadcasting/cable TV, the truck company had to buy an advertising slot that reached all football viewers (i.e. all viewers see same ad), including the ones who were extremely unlikely to buy a truck. That's a waste- a better system would show likely truck buyers truck ads and non-truck buyers a different ad. Compare that broadcast model to a football game that streams over the internet: the company streaming the game knows a bunch about you (including where you are thanks to GPS, who you are thanks to your billing info, some financial information on you thanks to the credit check when they signed you up, etc.) and has the flexibility to dynamically insert different ads for each viewer, so the streaming company can offer the truck company to only advertise to people who actually

want / like trucks and give the people who don't like trucks a different advertisement. Advertisers are willing to pay much more for this type of targeted advertising (AT&T specifically mentioned this targeted opportunity as a reason for their Time Warner acquisition; if memory serves AT&T said in their trial were selling targeted ads for 4x the price of non-targeted ads), which presents streaming companies with a bunch of options (for example, they can cut the ad load in half and provide a better user experience will still making 2x as much advertising money due to the higher pricing).

2. On top of better advertising, companies increasingly have alternative ways of monetizing consumers that video can act as a gateway for. The classic example is Amazon Video, which Amazon gives away to Prime members as a lure to get in new Prime member and make Prime membership stickier (why? Because Prime members spend more than non-prime members, and the prime membership annual fee is quite profitable for Amazon as well!), but there are plenty of others. For example, Apple seems "primed" (pun intended; you're welcome) to pursue an Amazon Video-esque strategy of giving away original content in order to sell more devices / make their ecosystem even stickier. Outside of tech, I particularly like the Disney ecosystem: movies / TV lure people into the Disney universe, and they can then monetize consumer's passion for their IP through merchandise, theme parks, cruises, and a host of other ways. Even Snapchat is moving into the original programming game as it tries to keep teens logging on to its service.

That "elite IP gets increasingly valuable due to its draw" thesis is a big part of my investment in sports teams like MSG (disclosure: long, discussed here). It's also a driving force behind what I think are my two biggest investing "misses": passing on DreamWorks in early 2016 (which owned amazing IP

and was bought out for a huge premium a few months later) and WWE over the past two years (basically a sports league with tons of IP and incredible fans that was trading at ~10x EBITDA in early 2017 (and it was clear EBITDA was understated because their network contracts were dramatically undervalued). I even went to Wrestlemania and saw how crazy passionate the fans were but still sucked my thumb and didn't buy any for some reason).

Anyway, in last month's link post, I tried to think of different types of great IP (I defined great IP as something that could immediately lead a large swath of people to sign up for a streaming service, or something you could build an entire theme park around). That post got me thinking a bit more about my DreamWorks / WWE misses and eventually lead me to searching for public companies that have great IP with the ultimate goal of finding companies that have both great IP and are significantly undervalued (i.e. companies I'm likely to invest in!). My guess is that a lot of these IP heavy companies are going to trade at a relatively high multiple of trailing earnings, but the undervaluation will come because they haven't fully started monetizing the IP yet (i.e. a company with the rights to a fantastic set of books that haven't been converted to a TV show, so on a trailing basis you only see the results from the books but going forward they could see huge increases in earnings from licensing to a TV show).

When I started flipping through the companies, I realized something was missing: I wasn't really familiar with a lot of their IP. One of the things that attracted me to WWE was I had been a fan as a kid and understood a lot of the popularity / fan passion, but for a lot of these brands I'd never heard of them or really interacted with them, which makes it tough to judge just how strong the IP is. So I decided to do something new: I'm going to start an irregularly recurring series where I post overviews of publicly traded companies with interesting

IP and some thoughts on them. I have three goals for this series:

1. The write ups are interesting and enjoyable (of course!) for a broad swath of readers
2. If you have any experience with the companies or the IP (either as an investor or a fan) I mention, you'll slide on over to my DMs and we can swap thoughts
3. Idea sourcing: if you have any other examples of interesting companies with good IP I should be looking at, I'd love to hear them.

1. Just for some guidance here: in general, I'm looking for more under the radar type companies. Sure, Disney has great IP, but who doesn't know that? I want companies with the potential for serious mispricing / undervaluation / synergies to a big corporate buyer who can better monetize them. I think some of the really smaller video game companies are interesting in that regard (for example: Nintendo is on the very large end of what I'm talking about here, but I plan on doing some work on them and writing them up at some point as it's hard to think of a company with more untapped IP), but there are almost certainly plenty of others. (Note on video game companies: I don't just think it's the smaller ones that have a lot of opportunities for untapped IP potential here. I mentioned it in the September post, but many of the large video game companies have incredible IP that is yet to be fully tapped, though we are seeing the beginnings of "tapping" that IP with things like Netflix's Witcher show)
2. Related: the blog posts will likely be global. I have ~6 companies in mind that I want to write about currently, and all but one are located outside of the U.S.

So those are my goals for the series. I plan on posting the first "entry" into the series in early next week and then will continue to post ideas / entries irregularly as I work my way through some different companies. Again, if you have ideas of companies that could potentially fit into this framework, I'd love to hear them!