Some things and ideas: September 2019

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.

A request: I'm just going to start blanket including this request at the start of each month's post. One of the reasons frequency of posts / podcasts / other public stuff can fall off is because I look at them and wonder: "Is it really worth my time doing these for this small an audience?" A lot of work goes into pretty much everything I do publicly, and I hope that the output is generally of interest / high quality. If the work is of interest and there's someone you think would like this blog / the podcast, please share it with them. It would mean a lot; positive feedback / increased readership is what keeps the public posts coming!

Podcast: Chris and I will be releasing a podcast Weds or Thursday; our schedules didn't allow for concurrent blog / podcast posting this month but hopefully you won't hold that against us!

Monthly value theory ponderings: jealousy

- I wanted to follow up briefly on something i touched on in the idea of intrinsic reward from investing mentioned in last month's blog post as well as something I mentioned on last month's podcast. Over time, I've come to feel that perhaps the most dangerous thing an investor can feel is jealousy.
  - I think Charlie Munger has several riffs on how

    jealousy is dangerous for any human, all of which I increasingly agree with over time

- Let me first define what I mean be jealousy. I think there are two types of jealousy in investing: AUM jealousy, and returns jealousy.
    - AUM jealousy would be something along the lines of "I'm definitely smarter than that guy; how is he running $50m while I'm only running my personal account?"
    - Returns jealousy would be "Darn it, I'm up 10% on the year, and the index is up 15% and all my friends are up 20%". Again,
- Why do I think jealousy's so dangerous? Well, first, it just takes up a bunch of headspace that would be more productive devoted to other things. But I think the main reasons are that it encourages arrogance and excessive risk taking.
    - On the arrogance side, thinking "I'm a way better investor than this person" is dangerous. It's entirely possible it's true, but I've found a lot of times when I dismiss someone like that it's because they're telling me something I don't want to hear, and ignoring them makes me ignorant of some risk I'm taking. For example, a natural inclination when you tell someone one of your top ideas and they say, "I don't know; XXX is a big risk" is to dismiss that person as a dumb dumb who just doesn't get "it". I promise you it would be better to look into that risk; you don't need to convince him the risk is reasonable, but you should probably make sure you fully understand it yourself. Similarly, it's entirely possible that you are way smarter than the guy running $50m, but that doesn't mean you can't learn anything from him or he's not better than you in other areas. Perhaps he's a better salesman, and you need to learn from him how to pitch yourself and your fund

better (something I'm personally working on!). Perhaps he's better at seizing opportunity than you, so his returns are better than yours because he's really ready to swing at fat pitches.

    - On the excessive risk taking side, I feel like I've seen tons of people take extra / careless risks because they were behind some internal benchmark, whether that was the indices 3 year trailing returns, a bunch of rival fund's returns for the years, or simply an internal "I want to compound money at this rate" benchmark.
        - Here's a dirty secret of people who post really strong one year numbers: sometimes it's because they've done really solid work and they're getting what they deserve. Sometimes it's because they're taking on huge risks that they may or may not be cognizant of. I think the most frequent return profile for funds that end up suffering a blow up is +30% one year, +50% the next year, and then down 75%+ in year three because they were taking some mammoth risk that they didn't realize.
- Anyway, why do I mention this? Because we're approaching the end of the year, and I hear wildly different things from a bunch of friends I talk to when I ask them how everything's going with the year. Some of them feel like everyone is doing well but them ("I'm flat for the year, and it feels like everyone is up 40%"). Some of them feel like everyone is having a hard year ("I'm flat on the year, and it feels like everyone I talk to is down 20%, the market sucks, value is dead, etc."). Some of them think fundraising is impossible in this environment ("How do I differentiate myself in a world where the indices are up double digits every year?" This one hits very close to home!). I think all of those feelings are pretty dangerous, as they can lead

to a lot of excessive risk taking or risk avoidance (if you think everyone is way ahead of you, why not just double down and try to catch up? If the market sucks and everyone is blowing up, why not just raise a bunch of cash?). The most important thing is to stick to your process (assuming your process is good!) and trust that, in the long run, it will work out well

Charter and share buybacks mini-rant

- Building on my tweet / sneak peek earlier this month, a mini-rant on my largest position, Charter (disclosure: long through LBRDA and GLIBA). Long time readers / cable followers will remember you can effectively track Charter's share repurchases by following the form 4s filed monthly by A/N. Basically, A/N has agreed to sell a proportionate amount of their shares back to Charter so that their ownership stake doesn't creep up as Charter buys back shares, and once a month they'll file a form 4 selling their shares back to Charter at ~the average price Charter bought shares back.
- So, for example, here's September's form 4, which should true up A/N for August's repurchases. Factoring in the prefs that A/N owns (which don't show up under ownership in the form 4), I estimate that form 4 means Charter bought back ~1.7% of their shares in August at an average price of $391.68.
- For bulls like me who think intrinsic value is way higher than the current share price (I think the company's share price should start with a "6" sometime in 2021; perhaps sooner if the market gets more excited about the mobile initiative), those repurchases are fantastic.... but they're also frustrating. Why? Charter continues to be a momentum buyer of its own shares, as their repurchases appear to increase as their share price increases. Remember: Charter started the year off with it's share price below $300, and if you track their

share repurchases they were barely buying back shares (for example, here's their form 4 from February relating to their January repurchases). In fact, I estimate that as Charter's shares approached $400 over the past two months, Charter repurchased roughly as many shares as they did combined in Q4'18 and Q1'19, when their shares were consistently trading in the high $200s / low $300s.

- That's frustrating. A huge piece of Charter's share price rise this year has simply been them delivering on what they consistently promised over the past several years: massively cutting 2019 capex as the merger integration reaches its endpoint. Why couldn't they have been aggressive in repurchasing shares when the stock was way lower before giving guidance? Or, since the company traditionally hasn't given guidance, why not just skip the 2019 capex guidance and aggressively repurchase shares lower until the stock market caught up?
    - I know the company has argued they didn't want to let leverage drift higher while they invest in the mobile product, so a decent piece of their flexibility for repurchases is tied to the mobile ramp. I 100% understand that, but it still feels like there were some unforced errors in the execution of the repurchase plan (in particular, the binge buying when the Softbank / Altice for Charter rumors were in the air and the stock approached $400 in summer 2017). In the long run, it won't make a mammoth difference for the company, but I do think that they cost themselves a decent bit of long term, per share value by not executing on the repurchase program better.
- I'll caveat all this by noting it's possible I'm wrong. Charter could be buying back more shares from A/N than their agreement requires them to do. Traditionally, A/N has sold in exact proportion to the share repurchase, so I doubt something has changed here, but just wanted to

put that caveat out there.

- While I'm feeling feisty, I'll go ahead and throw one more thing out here: readers know I'm basically a Malone / Maffei fanboy at this point, but my one criticism of them would be they tend to get less aggressive with repurchases as their share prices decline. Pick just about any of their companies, and you can probably find several examples of repurchases that track Charter's: higher repurchases as the business performs well, lower repurchases as things get rockier only to ramp up as business picks up and the share price rises.

"Gold Star" followup

- In last month's post's "intrinsic reward" section, I mentioned I was going to start each day off by reading investigating a new company: reading its 10-k, most recent earnings call and other transcripts, putting together a valuation model, etc. Below I've got a list of all the companies I investigated this month as well as some quick thoughts or highlights from reading their filings. Two things that jumped out to me:
  - First, I liked the process overall, and think I'll generally keep it going. It could get a bit restrictive when I wanted to spend a day diving into something other than a new company, but in general it was nice to wake up each day and say "I'm looking at new company XXX today." I found I was generally curious to open the new 10-k ~90% of the time, and it helped structure my day and keep me a bit more focused.
    - Speaking of 10-Ks, I tried to vary the process up by starting with either the 10-K, the earnings calls, or the valuation model. By the end of the month, I would exclusively start with the 10-K. Nothing crazy detailed (when I'm valuing a company, I spend most of

the time in the footnotes of the 10-k, but when I am learning I just read the first half), but I found that reading an earnings call or transcript before reading the first half of the 10-K (the intro, the MD&A, and the risk factors) was completely worthless. Something of an old lesson remembered here

- Second, I wonder if I should actually expand the process. Honestly reading a new 10-K every day isn't that much, and I found the time spent here was the most productive of my day. My worry is that, in general, if I'm really diving into something, it's going to be a full week dive, so having to carve out ~4 hours for a new company could get in the way of that, but I'm thinking about trying to expand this to two new companies a day (or maybe 10 a week) going forward (perhaps this should just be 10 10-Ks a week).

- Here's the companies I tracked
  - August 31- SGRY (seems interesting. not sure I understand reimbursement and healthcare outlook enough).
  - September 2- CTG (because of the offer to buy them out at $6/share)
  - September 3- TURN (solid recent stock picking, but really hard to get over expense burden)
  - September 4- IWG (interesting both because of WeWork IPO (IWG owns Regus); kicking myself because I had looked at them when Brookfield's (disclosure: long BAM) bid failed and shares have basically doubled since then)
  - September 5- DLTH (shares sold off on CEO jumping to Under Armour)
  - September 6- LL (13-D filed hinting at a take private bid from the founder; interesting because he's not only founder but also leases 29 stores to LL (see p. 12 of 10-k), so I'd guess he's still

very close to the business)

    - As several people pointed out, the story / trading here got real weird a few days after I looked at it.

- September 9- NICK (subprime lender undergoing a bit of a turnaround; CEO's 2019 letter is worth a read for some background. Interesting because it trades at <70% of book, and management's big payouts come on increasing BVPS over a three year period (see p.17 of the proxy). Ultimately decided it wasn't worth the headache; if a subprime lender can't earn its cost of capital during relatively good economic times, what are they odds they could do it in bad times?)
    - Also spent time on CLUB (took the weekend off to go to LSU / Texas, so did an extra company plus a write up to catch up).
- September 10- TGE (cheap, I've got it at a 10%+ dividend yield and maybe 7x cash flow to equity, and Blackstone just made an offer to take minorities out at $19.50/share and it seems like they could bump. Really interesting situation; need to continue working on the industry to understand asset outlook better).
    - Also, to finish the catch up from the weekend, did a smaller company that I don't want to mention publicly (simply too small / levered).
- September 11- PLAY (cheap, really aggressive share repurchases during quarter above current price and seems like they'll continue. I could see parallels between PLAY and Buffalo Wild Wings a few years ago- feels ripe for an activist to step in and shut down new unit growth until they get their stuff together, and it would be a prime private equity target given the low multiple + cash flow + brand name + potential growth story if you can

right ship and grow units again. Also you could potentially look to franchise units if you wanted to go a completely different route).

- September 12- another super small levered company I won't mention publicly
- September 13- DLHC (share repo announcement caught my eye; disclosure: long a very small tracking position))
- September 14- skipped to catch up on a bunch of transcripts from the BoA Media Conference (cable companies, networks, etc.)
- September 15- PLYA (disclosure: long a very small tracking position; I had actually looked at this previously (part 1 and part 2), but had stopped following it after they exchanged their SPAC warrants and I got even more bearish on SPAC companies (as part 1 notes, I was already pretty bearish). Humorously, one of the reasons I was interested in PLYA was LMB and TWNK had both been such huge SPAC winners, and both companies have had really rough runs sine that post).
- September 16- FRGI (persistent insider buying from a financially sophisticated board member at prices decently higher than current)
- September 17- finished up FRGI and took most of day "off" to be in court to join the RAIT creditor committee (disclosure: we're creditors and a member of the creditor committee)
- September 18- SFIX (super interesting; not sure I'll have enough conviction to ever get involved. I like CEO, but not sure the market for paying full price for clothing is that big and doesn't seem like there's a ton of operating leverage here)
- September 19- SPG (the mall company. Pretty cheap and I tend to think the "death of malls thesis" is overblown for Class A malls)

- September 20- MIXT (very cheap SaaS like company)
- September 21+22- wanted to do more work on MIKT, so did that plus caught up on Communicopia transcripts (similar to BoA media from September 14th; all media and cable companies)
- September 23- MED (MLM company that's growing like crazy (~50%/year) yet still trades cheaply wit a high short interest. Don't love model, but combo of relative cheapness and growth is interesting. worth some more work)
- September 24- NWPX (found from this write up; some pretty interesting stuff in their 10-k)
- September 25- Peloton S-1 (maybe it's just the "value" investor in me, but I can't believe the market for a $2k+ bike, particularly among people with income <$75k/year. I also can't believe that the valuation of Peloton is approaching $10B; I get there's a lot of optionality in monetizing the brand and subs but I have no clue how to get to that high a valuation. I'm also a bit skeptical of their CLTV calcs).
- September 26- VSI (getting bought by FRGA (FKA as TAXA), which I am very long) and GNC (as a VSI comp; it's decently cheap, business isn't as bad as you probably think (SSS are down <3% for the first half of the year), and they've got a decent franchise fee stream.... but it's legit terrifying to think about investing into GNC, and the management team may be delusional)
    - The most frequent question I get on FRGA is: why are they buying all of these crappy businesses, and aren't you worried about that strategy? The answer to the later question is absolutely! The answer to the former is (I think) some combination of 1) they are buying VSI really cheaply, 2) if you squint, you can see some greenshoots in

all of their businesses financials (for example, VSI's sales are cratering, but by far the largest decreases are in sports nutrition, which is almost certainly their lowest margin segment), 3) there's probably a lot of upside from closing underperforming stores (both because the underperforming stores lose money, and because it may boost profitable stores nearby) and 4) there's likely a lot of easy cost cutting / margin boosting opportunities (for example, VSI's EBITDA margins are currently ~5%, and both their history and GNC's results suggest this should easily be a HSD or even double digit margin business)

    - September 27- RMNI (former SPAC; decently quickly growing SaaS like business. Not sure I understand competitive dynamics here).
    - Spetember 28- OEC (big spate of insider buys (managers, board, CFO, CEO))
    - Septermber 29- caught up on BAM / Dell investor days, and watched some football in the afternoon (Go Saints!)
    - September 30- planning to go through the DVD 10-K this afternoon (Nascar Track, the other big NASCAR tracks have gone private this year).
- For what it's worth, here are the five most interesting companies / companies I want to dive further into: FRGI, PLYA, MIKT, MED, SGR
    - Why those five? Some combination of really cheap, interesting story, accrettive growth, somewhat messy financials, and sophisticated insider buying.

Books

- I read Investing Against the Tide this month. I

generally don't read "how to invest" books anymore; I think once you're past the beginning stage, your time is better spent reading business history books, learning about companies, or just doing something else as most of the how to invest books are pretty repetitive, but I got suckered into this one for some reason. I think this book would be fine to read if you were just starting a PM role running billions of dollars of mutual fund money, but if that's not you I would probably pass. Not because it was bad or anything, I just don't think the lessons of "I had my global team of analysts met with 500 companies a year, and I would call them up for a quick download whenever I looked at something new" are going to be applicable to many investors.

    - If you're looking for a how to invest book, I would stick with You Can be a Stock Market Genius, which I've long considered the best book for think about how to get an edge in the stock market (I know I'm far from alone in that feeling).

- Anyway, something about this paragraph in the book jumped out at me. The author mentions looking at ten year data so that he can look through a full business cycle valuation of a business. Honestly I think that's something most investors do (at least I do). When I first come across a company, my first instinct is to pull up a five years financial summary and a long term chart. I'm not doing technical analysis or anything (another thing I disliked about the book; it recommends technical analysis!); I'm just looking at how the stock has performed, if the stock is cheaper or more expensive than it's historically been, if the company's results are relatively steady or a bit more cyclical, etc.
    - My worry here is that by doing that i'm instinctively biasing myself in one way or the other towards the company. So, say I'm looking at two companies: company A's stock has gone up 6x over the past ten years, and company B's stock is

flat. Aside from that share price performance, the companies are exactly the same. I'd be more likely to think company A is a "compounder" with a good business, while I'd view company B with a more skeptical eye.... this despite the fact I just said they're the exact same business outside of their stock charts!

- My other worry is that anchoring to historical valuations can cause you to miss inflection points. One of the big areas that investors have found success in is what I've previously referred to as "pulling an Adobe": making some income statement investments that temporarily cause your valuation and financials to look crazy but that deliver huge long term gains. My worry is that if you instinctively anchor to historical valuations, you will inherently bias yourself against investing in anything that is investing through their income statement or reaching an inflection point towards higher growth. An example might be helpful here: today MSFT trades for ~30x P/E. I don't have any view on the stock; however, it's certainly expensive compared to its last ~10 years valuation. In 2016-2017, it traded for ~20x P/E, and in 2012-2013, it traded for about 12x. If you have bought in the 2012/2013 range, you almost certainly would have sold in 2014 at 15x.... and over the next five years watched in semi-horror as the business inflected upward and the multiple skyrocketed. Maybe selling at 15x was the right move, maybe it wasn't, but I would guess being anchored to a historical multiple would serve as a huge drag that would have given you a blind-spot to a business inflecting positively upward that deserved a higher than normal multiple.

Sports media 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)).

- NBA considers vehicle to bring new investors to soaring team values
  - NBA owners support investment fund
- Even billionaires not rich enough to buy NFL teams
- The team poised to play spoiler in the postseason (on the Braves)
- Former ESPN chief skipper on the future of cable sports, and role of streaming
  - Found his thoughts on RSNs interesting

Other things I liked

- Tracking Chewy's (CHWY) most critical KPI (following up on last quarter's tracker)
- Former OSTK CEO message to employees (incredible read)
- Arby's parent to acquire Jimmy John's
  - You'll notice in the stocks that I researched this month restaurants are way over represented. I think there's a reason for that: a ton of restaurant stocks are trading very cheaply (~6x EBITDA, double digit cash flow to equity multiples) and I think would make tempting roll up opportunities for a variety of acquirers given some overhead and back office synergies, operational improvement potential, etc. I mentioned RRGB (disclosure: long) and JAX (disclosure: long) recently, but I think several others (including some I researched this month) fit the bill well too.
- 1994 interview with Bill Gates
  - I tweeted this out already, but I was really impressed with how clearly he saw the future before the internet was really up and running.
- Ryan ToysReview is this generation's mickey mouse
  - It blows my mind how popular Ryan is. I doubt the

brand is super sustainable (it's tough for me to believe he's as popular when he's 32 or something), but I wonder if it speaks to some type of longer term risk to the larger media companies. With absolutely no cost to distribution, do things that bubble up more naturally challenge all the legacy brands?

- WSJ on WeWork IPO background
- Streaming services draw new subs with old time Rock-n-Roll
  - Concerts are more expensive than ever, and fans keep paying up
- Blackstone crosses largest ever real estate fund
  - How private credit fueled the private equity boom
  - KKR has quietly built an investment banking contender
- How CEO's experience at buyout firms affects corporate policies
- Interview with Bob Bakish (viacom)
  - The Slow-Burning Success of Disney's Bob Iger
- Hollywood Reporter on the Rise of TV shows going to movies
- The grandmaster diet: how to lose weight while barely moving (interesting article on the training regimen for grandmaster chess players)
- That expensive Japanese whiskey may be mostly scotch