Some things and ideas: January 2020

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 in 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 all of these, and I hope that the output is generally of interest / high quality. If it is 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!
    - This isn't meant to be a threat or anything! It's just frustrating to spend lots of time on something that you think is decently high quality and consistently see viewership numbers that would rival a local high school's newspaper or a North Korea / South Korea soccer match.
    - And a big thank you to everyone who reached out expressing how much they liked the blog. Honestly it means a lot to me!
- One thing I realized after putting this up for a few months: it's kind of rude for me to be asking people to share my blog without highlighting some other blogs I enjoy. So here's a special shoutout to some fellow

bloggers whose posts I enjoyed this month:

  - Woodlock 2019 letter
  - Concentrated Compounding 2019 letter
  - The Highly Confident Turnaround CEO

Podcast:

- I went on the Value Hive podcast last month; you can find it here.

Monthly Pondering: already posted

- I'm going to take a pass on this month's monthly ponderings. I originally had written about "blind valuation games" as this month's pondering, but I wanted my grumpy thoughts from a jet lagged investor to have three points, not two, so I stole it for that post. I'm going to count that as this month's pondering (got to be careful I don't ponder too much!).

Books on fraud: The Informant

- In my August links, I recommended some books on fraud. I read The Informant this month, and I wanted to throw it out there as a recommendation. It's a good story; in particular, for an investor I think the look at the internal politics of a giant company are really interesting. It is a bit dated (it's from the 90s) and it's probably 100 pages too long (the reporter clearly did an insane amount of work on this, but he feels the need to give readers every single little detail he's dug up), but overall worth. If you're looking for a fraud book and have already read my four favorite recommendations (Billion Dollar Whale (1MDB), Smartest Guys in Room (Enron), Bad Blood (Theranos), and Wizard of Lies (Madoff)), I think Informant is worth it!
- I also tweeted my two highlights of the book: the company execs falling for the Nigerian letters scheme, and a 30+ year old bounty scandal in the NFL.

Gold star continuation

- I introduced the "Gold Star" process in my August 2019 blog link and followed up on it in September. My goal is to continue to do this going forward: every month, I want to read 40 10-Ks, hit the most recent earnings call for those companies (if they have them), build out their basic financials, and read anything else about the company that's relevant. Basically, I want to get a base level understanding of the company.. Many of these will be new companies for me, but some will be brushing up on old favorites. The hope is the process helps to me to maintain the balance of reading broadly while learning about new companies and ensures I'm a bit more structured in my work.
    - I didn't quite get to 40 this month. Looks like I read ~26. A little disappointing as I felt like I was pretty focused during my work hours and worked a decent bit, but I did dive a bit deeper into a few companies (and obviously I read a lot of other stuff too!) so overall relatively happy with my output even if it didn't quite reach my target.
    - If you have thoughts on any of the companies I mention in this, I'd love to hear them. Or if you have suggestions for companies I should look at next month, I'm always open to suggestions (I tend to hit ~75% of the companies people ask me to look at, and I'll try to get back to you with thoughts on them if I have any / if I remember or you remind me).
- This month's 10-Ks
    - MUSA (written up as a short here; liked the thesis but ultimately didn't agree. No opinion but would probably lean more long than short TBH)
    - MCEM (inspired by this OTC write up)
    - HWCC (inspired by this 13d. I don't see it; earnings probably depressed currently but if you

look at average earnings over a full cycle not sure why this would be worth a big premium to book value / seems pretty commodity)

- AMCX (all those media posts don't happen without a lot of 10-K reading!)
- DISCA (ditto; post pending)
- TGNA (ditto ditto; disclosure: long)
- HABT (interested after YUM acquired them; the multiple YUM paid is far higher than most small cap restaurant companies so curious if there was anything really unique about them)
- PLYA (disclosure: long)
- VCTR (really interesting, and pretty cheap pro forma for their recent deals. But not sure I want to be long an asset manger, not sure how much I trust the pro forma numbers, and I'm the almost acquisition of Harvest raises some red flags for me)
- DENN (like the capital allocation and business model; just seems relatively fairly valued)
- VVI (mainly struck by how their 10-k was basically an advertisement for the TRIP bull thesis; earnings calls too!)
    - On VVI specifically: I like the Pursuit assets, but tough to value them given all the recent acquisitions and growth capex. Don't think I love the GES assets. Probably need to do more work here / will revisit in the future.
- SMIT (this announcement was interesting)
- DRTT (this VIC write up spurred interest; flipped through form 10 plus analyst day. Not sure why they decided to U.S. list given expense.)
- MLP (this write up spurred interest; I've always been interested in land banks)
- SIX (MERL, which owns Legoland, went for 11.7x EBITDA, and I think SIX is a better business. A

similar multiple would imply a ~$50/share price versus today's ~$38, and an activist is making noise here. Plus their 10-K seems to suggest they trade well below replacement value despite possibly having a bit of a flywheel / moat from their scale! But it seems like the operations are a bit of a mess and the China issues are confounding; given how levered it is, probably need a cheaper price or more visibility)

    - One other SIX thing: they've used a "Project $X" plan, which targets a certain EBITDA figure by a certain date. For example, project 750 targets $750m in EBITDA by 2020. I wonder if this has something to do with the company's recent issue: a pure EBITDA target can encourage some really awful things (cutting expenses to hit numbers short term at the expense of the long term, investing in big capital projects at negative IRR that contribute positively to EBITDA, looking for acquisitions that will boost EBITDA even if it's not a good use of funds, etc.)

- OI (attracted by the mess caused by their asbestos liabilities; similar to SIX, fair value is probably higher but a lot of that is driven by pretty serious leverage).
- BHF (Greenlight's letter laying out how it trades at 31% of book and is buying back shares attracted me; also, the parallels to VOYA (mentioned in the letter as well) a few years ago are interesting. The combination alone probably makes it attractive. In fact, the set up seems pretty ideal: strong equity market provides fee tailwind + management incentivized to return capital + trading at really low multiple, but I went through the 10-K and it is really difficult to get

comfortable with the accounting and the assumptions. Einhorn's a much better financial investor than me, so I'll bet it works out, but for me this was a pass).

- CVI (have invested in them in the past; look pretty cheap here)
- DK (CVI peer; interesting SOTP argument)
- DKL (if you're gonna look at the parent, might as well look at the sub)
- LK ("Chinese Starbucks"; seems impossible to justify valuation and I question viability of model long term, but pretty tight float and high SI keeps me away)
- VLEGA (buying some fairways out of bankruptcy and seems pretty clearly undervalued, but don't think the controlling family cares about minority shareholders and capital allocation will be suboptimal).
    - Another worry (to get a little more specific for anyone who follows this name and wants to discuss it): the company's net income in 2019 was ~$26m. They got $31m in patronage dividends from their Wakefern investment. Doesn't that kind of imply their core business is earning nothing and most / all of their value is basically the Wakefern investment? That's not a disaster; Wakefern is probably worth more than what they trade for. But not by much, and I'm not sure how they could ever extract that value.
- PBPB (Three new / different 13-Ds from three different investors (Ancora, Vann Trust, 180 Capital) in just over a month has to be some type of record.)
    - I did love that their director bios' disclosed their favorite sandwiches. I've always loved proxies / bios disclosing their

director's favorite stuff; WING's was a source of amusement a few years ago.
        - Their comments on people turning down free cookies in their loyalty program also hurt me deeply. I honestly almost typed up a three paragraph rant on it.
        - Found this bit of consumer / behavioral psych interesting
        - It is quite cheap, and I think there's an argument there's a lot of overhead to cut out here (there's no way it should be public, and their board is paid way too much for the company's current size). But with stores closing, SSS declining, and probably some brand deficit to make up going forward, I couldn't get comfortable with it.
    - Microcap media company I don't want to disclose
    - Microcap alternative asset manager I don't want to disclose (sorry for the secrecy, but I use this section to track myself and keep myself honest so I need to post the stuff I'm researching, yet some names just can't be disclosed!)
    - LEE (if you buy all of Berkshire Hathaway (BRK)'s newspapers and your stock near doubles as a result, of course I'm going to check your 10-K out).
        - I posted some valuation thoughts in this thread if you're interested. I'd guess it trades for 1x FCFE, which obviously is attractive, but when you start thinking about required debt paydown and what the business looks like in three or four years I think it looks decidedly less so...

Sports media update: A core tenet of the monthly update: continued highlights of the increasing value of sports rights (mainly because of my love of MSG (disclosure: Long)).

- Steve Cohen is Mets' Godsend
  - I wanted to highlight this for two reasons.
  - First, Cohen grew up a Mets fan. The article quotes plenty of people who sugegst he's overpaying for the Mets (I'm not 100% sure he overpaid, but bear with me). This wasn't about money; this was about passion. I can't help but think of MSG here; how many long suffering Knicks / Rangers fans grew up in New York and would love to buy the Knicks and Rangers?
  - Second, if Cohen "saves" the Mets, he's going to be a hero to all Mets fans. He's already getting articles calling him a Godsend and the deal hasn't completed! If you bought the Knicks or Rangers, you would be a hero in NY instantly. That press alone is worth quite a bit to many of the potential buyers; saving the Knicks would probably wipe away a lot of past transgressions in the public's eyes...
- SEC leaving CBS in 2023; likely for ESPN
- With football ratings on rise, NFL officials look to raise broadcast TV fees
  - The NFL is red hot once again and ready to score a huge payday
- Fwona takes axe to emissions in quest for sponsors
- NBA's Adam Silver says cable TV model is broken amid ratings decline
  - There's a hole in my life. The Warriors are gone
  - Injury plagued NBA draws fewer viewers
- Giants owner says sports betting has big influence on NFL ratings
- Nike MLB deal worth more than $1B
- Premier league brings record number of UK sign ups to amazon prime
  - In my post on sports rights, I said "How many people would sign up day one if the NFL announced the only way to watch their games going forward

would be through the NFL plus app?" This is a sample size of 1, but it certianly lends a lot of credence to the thesis that sports rights can drive a lot of sign ups / engagement.
- A "Johnathan Daly" account spends all its time defending Knicks owner James Dolan
    - Sell the team
- Soccer is the future of sports in america
    - Diversify or die: the NHL has a demographic problem
- Financing sports stadiums could count as helping the poor

Other things I liked

- Spotify and the limits of infinite
    - SPOT in early talks to buy the Ringer (obviously price dependent, but overall I think it'd be a smart strategic move)
    - Spotify, the Ambient media company
- Scuttleblurb business update (love this service)
- Buffett protege raises $340m ahead of London listing
    - A bit of a misleading headline, as I think she's just on the board and this will be run by someone else, but still interesting.
    - Also, I think Ackman raised his SPAC in London as well. Both Ackman's SPAC and this one are targetting U.S. based businesses. That makes me curious; why does it seem finance "celebrities" target London for their SPACs, not the U.S.?
- Brookfield's bet on malls looks riskier than ever (disclosure: long BAM, BPY)
- Walmart's secret weapon: the superstore
- There's no reason Hulu shouldn't be Netflix today
    - I wonder what 10 years from now we'll say something similar about. Apple Music + Podcasts should have been Spotify? YouTube should have been

    - Twitch?
    - Cable lost, but streaming may be bleeding out
    - Netflix released more originals in 2019 than all of TV in 2005
    - CBS all access hits 10m subs
    - CBS bets big on Star Trek Picard to boost streaming
    - MGM leads 2020 media acquisition targets
    - How big a hit is the Witcher?
- 5G broadband is a threat to cable companies but execs aren't worried
- Peak private equity fears are spreading
    - PE starting 2020 with more cash than ever before
- How Starwood Property stays a step ahead (STWD)
- Trump unloads on Fox News, predicts beginning of end
    - I mentioned this in my post on Fox, but this is one of the big risks for Fox News that makes me worried about the sustainability of the franchise (this tweet highlights it too).
- IRS sent a letter to 3.9m people. It saved some of their lives.
    - Yes, I know 700 lives saved out of 3.9m isn't huge. But I'm a sucker for anything where a small investment (and honestly, a letter doesn't really qualify as an investment it's so small) has an enormous impact (what's bigger than saving a life?).
- LSU is winning the weight rooms arms race with real time data
- The Rock, From strength to Strength
    - Adam Sandler's everlasting schtick
- My quarterly review of the most important KPI in the stock market: cute puppy photos in Chewy's shareholder letter