Some things and ideas: October 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. Writing earlier in the month is a particular challenge for an environment as wild as COVID; for example, if I link something from early April like "Apple tells staff stores closed until early May or "Equinox won't pay April rent," by the time I post those articles in late April the information is wildly out of date (people will be more concerned with Equinox paying May rent!) even though it's super interesting!

Premium / word of mouth

- I launched a premium YAVB in April (announcement / overview here), and we updated it (and the rest of the website) with version 2.0 in August. I've had a lot of fun doing the premium site so far; if you enjoy the free blog, I think you'll love the premium site, so I'd encourage you to subscribe.
  - The general goal of the premium site is to post one deep look at a company and/or investment idea each month, and then do a monthly general update post (kind of like this post, but with a heavier focus on investing specific things, individual investment updates, and my thoughts on them), but it's still a work in progress!

- Don't feel like subscribing? No worries! However, 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, 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 or an Italian soccer match during a pandemic.
  - 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 request 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 shout out:
  - Premium recommendation of the month: Find Me Value.
    - I'd encourage you to check out his sample posts to get a feel for what he does, but basically once per month find me value is going to put out a deck that will nearly instantly turn you into an expert on whatever he's publishing on. Are they always actionable? Probably not- sometimes it's just a good business at a reasonable price. But every deck is extremely well done and will make you a lot smarter. In particular, if you're invested in the telecom / media

    - space, you have to subscribe to Find Me Value.
    - One last mini-pitch for find me value: he was very early in picking up on the "cord cutting doesn't matter because cable is transitioning to broadband and that's a bonanza" shift, and a lot of people made a lot of money following him on that trade.
    - One mini-pitch to find me value: your podcast invitation is still open!

A new breed of activism

- In many ways, investing can be looked at as a strategic game where market participants need to adapt to each other and the overall environment as it evolves oveer time. So, in the ~1950s, markets are more inefficient, and simple strategies like buying really low multiple stocks or simply buying on insider information can massively outperform. However, as markets get more efficient, those strategies get competed away, and you need to evolve to newer strategies.
- Similarly, for decades, the activism playbook has been pretty simple: find a company with a bloated cost structure or bad management (or both!) and push for them to cut costs / fire management / return cash to shareholders. And it's worked! There were a ton of bloated companies run by bad management with inefficient capital allocation in the 80s / 90s / 00s. Today, however, that strategy has been largely picked over; there aren't many companies of scale that are obviously run so poorly that if the market even caught a whiff of the CEO leaving the stock would pop. Heck, even AT&T got an activist!
  - I do realize my friend Faux Greg Maffei would

    argue that by only calling out AT&T, I am missing a telecom firm or three in the "poorly run" company list.

- Why mention this? Dan Loeb is going activist at Disney and pushing them to cut their dividend in order to invest more in Disney+. I'm far from the first to mention this, but Loeb's move here is the complete opposite of the normal activist playbook. Normally, activists argue that their target should reduce investment into the business and return cash to shareholders; Loeb is arguing for Disney to return less cash to shareholders and increase investment. I wonder if this move marks the beginning of a new playbook for activists: buy companies with a lot of cash flow and push them to reinvest it into the business. I think it could make some sense on a lot of lines:
    - First, because no other activists are doing that playbook, the potential targets are much less picked over than the potential "cost cutting" activist targets, so there's the potential that there are a lot more juicy targets here.
    - Second, the potential upside to successful "invest in the company" targets are much, much higher than old playbook. The returns on capital from winning in a business with 0 incremental capital are incredibly high; if a company can successfully direct their cash into an online business with scale / a moat the investment will almost certainly perform better than anything shareholders could do with that money on their own. Perhaps an example would show this best: as I write this, Netflix is valued at ~$250B EV. Loeb is simply arguing Disney cuts it dividend to invest $2B/year more into Disney plus (increasing their investment from $1b/year to $3b). Say Disney invests $3b/year for five years and successfully builds a Netflix competitor. If it's valued like

    Netflix, Disney will have invested $15B in order to build a business valued at $250B. That's a >16x return on their money in 5 years. What investment do shareholders have that could rival those returns?
  - Third, I think this form of activism might be a little easier for management teams to stomach. When you come in all fire and brimstone and say "this company does a bad job with shareholder's money," management is probably going to be a little sensitive. And if you successfully get them to return money to shareholders, that naturally shrinks the company. In this new model, you're telling management they're doing such a good job with shareholder money you'd like them to keep more of it, and you'd like them to grow the company bigger. If I'm a management team, I hear that and have dreams of growing into a global behemoth (and my position getting all the perks / accolades to match!), and I'm really excited by this new activist!
- Anyway, nothing crazy new here. But I like Loeb's investment, and I like all the new possibilities that evolve from it. Investing is a game that's always evolving, and activism is a subset of investing. There's no reason it shouldn't evolve as well!

Tiffany / LVMH: bad behavior rewarded?

- TIF and LVMH recut their merger from $135 to $131.50 this week. This was a pretty big win for event investors; many (myself included) believed that LVMH had an incredibly weak argument to break the TIF deal that amounted to "in light of the pandemic, we overpaid for the asset and would like to pay less." TIF's court

filings against LVMH argued this to devastating effect.

- So why do I mention this deal? It's not to take a victory lap; if anything, with some hindsight benefit, this should have been a way bigger position given how good TIF's case was (my buddy Matt Turk of BMY CVR podcast fame had a >20% position in TIF and would tell anyone who wasn't huge in it they were a dumb dumb). I mention this because LVMH getting a price cut bothers me. They're going to save ~$400m because they filed a lawsuit that had basically no merit; that seems unfair.
- Here's my issue: TIF was incentivized to take a small price cut. The upside to fighting the lawsuit versus taking the deal was effectively nothing ($135/share if they won the lawsuit versus $131.50/share if they settled and avoided the hassle and tail risks of a court case). If I'm a buyer going forward and I don't like an acquisition I make for any reason whatsoever, doesn't the LVMH case show me that I should just file a lawsuit to break the deal, consequences be damned? Sure, I'll take a small reputation hit and incur some court costs, but versus the possible savings from a deal recut those consequences are pretty small.
    - Maybe I'm being too snarky here. If you plan on doing any other mergers, you don't want to threaten to break every deal for any reason because then no one will deal with you. But, even if you do a lot of acquisitions, I think LVMH shows you should be willing to claim MAC and try to recut a deal much more aggressively. Again, upside you save hundreds of millions on a recut; downside you go to court, close the deal on terms, and get a bit nicer gift basket from your lawyers at Christmas time.
- I could be being too outraged here. I don't know. But it seems to me, going forward, sellers need to include "false MAE claims penalties" in their merger docs. If TIF's merger contract had said, "if you sue us for an

MAE and the judge decides there wasn't a MAE, you need to pay us $145/share instead of $135," that would make this "MAE claim as leverage for a price cut" a lot tougher to use, and ensure that buyers only used it when they really thought something had gone wrong.

Follow up from Netflix last month

- In last month's links, I discussed how Netflix turned Cobra Kai into a hit and how I thought that was a great sign of their moat. My wife and I finished Cobra Kai this month, and I jokingly tweeted that Netflix should do a spinoff show centered on Chubbs / Stingray.
  - Well, I thought it was a joke; no one appears to have liked it.
- So why mention that failed attempt at humor? I think it further illustrates Netflix's moat / the moat from commanding attention. This is exactly why the Marvel Universe is so valuable: people are obsessed with it, and Marvel can spin out any character into a movie and people will want to watch it (and then go buy merchandise and visit theme parks based on it!). The fact that Netflix movies and shows get more eyeballs than anyone else is a huge edge when it comes to all sorts of things; for example, they can pay more for content and amortize it over more eyeballs. But as the world gets more and more into spinoffs and universes, I think Netflix's scale will also be instructive for spinning out more hits / universes. AMC is currently trying to launch the Walking Dead Universe; I think that'll be a tough slog for a bunch of reasons. But Netflix has the data, the money, and the scale to launch tons of universes for all of our favorite shows. The war for our attention is only to get more and more fierce; the fact Netflix has all of our attention currently is a

huge moat for launching properties that will command our attention tomorrow (if two shows are launched of the exact same quality, but one of them is in the Stranger Things Universe and the other is a "start up" universe, I guarantee the Stranger Things show will pull in way more attention simply because of the built in fan base).

- Four other points on Netflix (and I'll ignore Netflix raising prices since it's not that interesting to me and the consumer value proposition is still obviously massive)
    - Netflix confirmed on their last earnings call that their recommendation engine drives the majority of their viewing; I think that confirmation helps illustrate the moat I've been highlight in this and last month's posts.
    - Matthew Ball pointed out how CBS is licensing two of their shows to Netflix on one year deals. Again, I think this points to the power of Netflix's scale / distribution; if you have a show that's not on Netflix, it's increasingly difficult for the show to become a hit / culturally relevant. Other networks and starts ups are going to end up selling some of their library to Netflix just to jump start some attention. I think this would best be done if you were trying to start a universe; for example, AMC could try to sell a Walking Dead universe show to Netflix with the hope that it would attract fans into the broader Walking Dead universe. Note this is pretty close to what the CW has done with the Arrowverse; I don't think they've launched a Netflix original show (if you exclude Sabrina), but the popularity on Netflix has clearly been a mammoth draw driving those universes.
    - People love to equate views to box office (i.e. Bird Box did 40m views, the equivalent of a $800m box office if everyone had seen that in theaters).

I've always been pretty skeptical that's an apples to apples comparison; I don't think that's revolutionary to doubt! But I think the recent MGM / Bond saga proved it. MGM asked for $600m for the new bond film, and every streaming company turned them down. Note that every Bond film with Daniel Craig had done at least $600m in box office; if views seriously did equal box office, at least one streaming service would have looked at that equation and thought the deal was a bargain (I would guess Netflix would have gotten at least 75m views if they had bought Bond!). Clearly, views don't equal box office, and streaming services are looking at other stuff when approving / buying content (which is obvious, but worth highlighting when such a clear example comes out!).

- I'm not saying this because I think they should buy the film! Far from it! A high budget show like Stranger Things costs ~$5m/episode, so Netflix has to weigh spending $600m on Bond versus getting 10-15 seasons of Stranger Things like shows. I have no doubt that the later would have way, way higher returns on capital than the former.
- I also think that math shows why movie theaters or some type of pay per view service does have some place in the future; the economics of super high budget movies probably demands some type of onetime consumer payment. I could be wrong; perhaps Netflix wants to build out a Marvel Cinema type universe and sink $500m into some blockbusters.... but, if and when they do, I bet Netflix is going to want to make that huge bet on their own terms, using their own data on what stars to include, what theme to

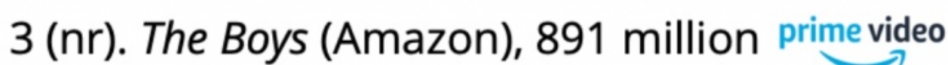
go on, and how the story evolves. Buying Bond gives them none of those options!!!!

- A lot of people will counter with "what about the $200m Netflix spent on the Irishman?" $200m is a lot less than $600m, Netflix got to craft the Irishman with some of their data (some hand in choosing script, producer, stars, etc.), and Netflix producing that got them a bunch of relationships with huge A list stars they could use for future projects. Plus it got them a ton of award nominations, which is huge for marketing and drawing eyeballs (Bezos once said that winning a Golden Globe helped them sell more shoes). Netflix just buying an already produced Bond film doesn't do any of that.

- Trever Scott shared this look at the most popular streaming shows in the U.S.; again it highlights Netflix's insane scale.

1 (2). *Cobra Kai* (Netflix), 2.17 billion minutes viewed NETFLIX

2 (1). *Lucifer* (Netflix), 1.42 billion NETFLIX



4 (3). *The Office* (Netflix), 843 million NETFLIX

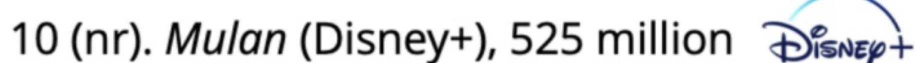
5 (7). *Criminal Minds* (Netflix), 675 million NETFLIX

6 (8). *Shameless* (Netflix), 639 million NETFLIX

7 (nr). *Away* (Netflix), 631 million NETFLIX

8 (7). *Grey's Anatomy* (Netflix), 616 million NETFLIX

9 (4). *The Legend of Korra* (Netflix), 541 million NETFLIX



Satellite internet versus cable

- I got several pings from people looking at the SpaceX filing for high speed internet. 1G speeds with <20 ms latency sounds pretty good. A lot of people were wondering if that was a threat to cable.
- Personally, I think the answer is clearly no. I view that through a few lenses
    - First, you have to assume that this is a real claim / possibility and not just spacex using an FCC filing to raise money (similar to elon’s 1m robo taxis by 2020 claim).
    - Second, SpaceX will be fighting history. Satellite internet is, in effect, an internet overbuilder. And cable has dealt with those before- Verizon FIOS + Google Fiber being the headliners. All of those overbuilder efforts fail. It’s just a notoriously difficult business. Cable has the best, most reliable, faster wire already running into your house. If you’re a competitor trying to sell against cable, you literally need to go door to door to people and say “hey, we’re going to offer you the exact same product; will you switch to us”. The success rate of the is pretty low.
        - To be fair, satellite is a little different as an overbuilder because you can amortize the cost of a satellite over a much larger base (i.e. Verizon fios can only be amortized on customers on the block they overbuild; a satellite could be amortized over a whole state or country or even world). But you still need to go door to door to get people. You’ll still need to ship them some device for receiving the satellite signals. You’ll need to overcome fears of reliability issues (which I think

will be real; how quickly would you switch from satellite back to cable when there's a thunder storm and your internet goes intermittent because of cloud interference?).

    - Third, what SpaceX is promising will be a far inferior product by the time it rolls out. SpaceX is targeting 1G speeds. Cable is already there. By the time spacex is going to people with 1G speeds, cable will be rolling out 10G symmetrical speeds from Docsis 4.0. So satellite will be going door to door trying to get people to switch from a proven reliable internet into something unknown and offering an inferior product as well.
    - One bonus piece: cable is increasingly taken share in the wireless market. That creates an extra barrier for satellite- you need to not only knock someone off their home internet (and maybe video), but wireless as well. That's an incrementally tougher sell / switch / cost savings you need to overcome (remember, you can save a lot of money by switching from your wireless provider to cable, and I think that amount increase over time as cable offloads more on to their network. Even if you want to switch to SpaceX, doing so means you'll need to transfer wireless / lose those savings too!)
- For years, the worry of cable has been getting invaded by some other competitor. Generally the worry has been fixed wireless, but space worries have existed as well. But markets have increasingly shown that going denser / closer to your customer (like with cable) is the answer, and cable owns the best / densest product.
    - That said, satellite internet will be great for rural places across the world!
- Update: I wrote this midmonth, and I saw this article on SpaceX advertising for their public beta a few days ago.

I think that article reinforces basically every point I made above; SpaceX is offering an inferior service (at best, 150 Mb/s, which is roughly equal to cable's lowest tier service) with blackouts and at a higher price ($100/month plus $500 for the equipment).

Podcasts:

- I launched the Yet Another Value Podcast in August. They've been a blast so far. You can follow on Spotify, iTunes, or YouTube. This month's pods:
    - Minion Capital (aka Shomik Ghosh) on Shopify and VC investing $SHOP
    - Edwin Dorsey from Bear Cave on Short Selling and Celsius $CELH
    - A threesome so nice, we did it twice: talking $BMYRT with @given2tweet and @Biohazard3737
    - Mostly Borrowed Ideas on $ETSY
    - Rational Research on Nordstrom and Tile Shop
    - Ryan O'Connor on Nintendo

- As always, if you have recommendations for the podcast, I'm all ears (pun intended). The most helpful would be to hear people you'd like to hear on the podcast (again, all puns intended), but any suggestion is always welcome!
    - And don't be scared to recommend yourself if you think you'd be a good guest! I can't interview every person with a trading account, but if you'd be a good interview I'm happy to consider anyone!

NAV follow up

- A quick follow up to my quickie idea on NAV.
- First, it ended up working out well. It was a small position, but a win is a win so I'll take it. Sometimes it's better to by lucky than good; I suspect this was 5% good and 95% luck!
    - Why 5% good? One thing I underplayed that I came to appreciate overtime was that Traton may have been the only buyer for NAV, but NAV was the only strategic option for Traton. If a deal hadn't happened today, Traton almost certainly would have been back a year from now. Everyone knew this was the right end game, and it made more sense for the deal to happen now. Sometimes egos and conflicting agendas prevent deals that should happen now from happening, but fortunately this was not one of those times!
- Second, several people pinged me to point out the MHR's history is substantially worse than I discussed. My partner Chris (and several others!) pointed out that MHR was the driving force keeping the hyper obvious Leap / MetroPCS merger from happening for years, a decision that probably destroyed billions in value. I apologize to all for not sufficiently hammering MHR (trust me; it's deserved!).

Other things I liked

- The observer effect interview with Daniel Ek (Spotify CEO)
- Audio's opportunity and who will capture it
- Software is eating the markets
- Owning my image
- The oracle of Lincoln
- The scarcity of industrial land
- Interview with ANGI CEO on Boyar podcast

- A corporate sleuth claims a hedge fund took her data
- Dying in a leadership vacuum
- Netflix's thinking on ending things
- Hulu gets sidelined in Disney's global streaming ambitions
- Media execs are finally accepting the decline of cable TV
    - Come for the good article, stay for the Underpants Gnome argument
- NBC's cable channels were a crown jewel; now they're an albatross
- Bond insurance returns to muni market in a big way
    - Recall I wrote up AGO last month; with the stock trading at a fraction of book, I'm not sure if increased business is a bad or good thing!
    - U.S. States face biggest cash crisis since the great depression
- Pressure on NYC real estate worries investors
    - counterpoint: Manhattan emptied out, but big tech is moving in
- Problems at Vista Equity Partners
- Pro Sports teams haven't made for good public companies, but SPAC principals remain undeterred
- EV startups are Wall Streets hot thing. No revenue? No problem
- IAC traded love for luck with Care.com
- Utah Jazz sold for $1.6B
- Bruce Flatt betting CEOs will end work-from-home
    - I loved that the strategy for Atlantis is pulling a Kardashian birthday
- TV ratings for many sports are down, but don't read too much into it
    - I think I agree, but there are a lot of new and ever increasing entertainment options. Sports will always have a fan base, but I worry that the base will get smaller and smaller....
- With nowhere to go, teens flock to among us

    - I'm obviously not a teen, but I can tell you the game is fun / addictive. A group of ten friends and I play once a week and the calls of "just one more" generally take us pretty late into the night.
    - Obviously going "viral" is random, but there is something interesting to Among Us's formula that I think future games trying to break out can study. Quick play, relatively low stakes, a group component, a small sense of suspense, etc.
- Levi's, Hilfinger push a new kind of Online Shopping. It looks a lot like QVC
    - I've written a ton on QRTEA (including a full podcast!), but I think this article effectively captures a lot of the bull and bear case. Your bull case is it's cheap and clearly there's a place for qurated online video sales going forward. Your bear case is that brands (and celebrities / sales people) have all the tools they need to do that video directly (i.e. without QRTEA).
- Google's internal data show engineers find it harder to code from home
    - I mentioned this in my August links, but I think the initial boom in productivity from work from home was temporary and over time the need to get back in the office would grow, particularly for newer employees who would never feel connected to a company in an exclusively WFH culture. I think the Google data backs that up.
- A research project gave homeless people $7.5k/year- the results were "beautifully surprising"
    - I can't claim to be an policy expert in... well, anything, but it does seem a lot of waste and problems could be solved with a universal basic income of some form.