Malone and Maffei: Still got it (even if their SPAC doesn't) $LMACA $SCOR

At the beginning of the year, Comscore (SCOR) announced a "strategic investment" from Charter, Qurate, and Cerberus ("the buyers"). The buyers bought $204m in convertible preferred stock, and in exchange Comscore got cash to pay off basically all of their debt as well as an agreement with Charter (and Comcast!) for "long-term data rights to help accelerate the path to more accurate measurement."

I was a little surprised that the deal was seemingly met by yawns when it was announced. I saw a few Qurate shareholders who said, "Ugh, I was hoping for more capital returns!" but aside from that I can't really remember anyone talking about it. Again, kind of surprising; this is a small deal, but it's a relatively distressed media investment that involved Starboard on one side (they had most of Comscore's debt) and Charter, Qurate, Cerberus, and (kind of) Comcast on that other. That's a group that normally gets the media sector of fintwit buzzing!

Anyway, when the deal was announced, I was busy with some other stuff, but I had it circled to revisit with clearer eyes in a few months. I spent some time on it over the weekend, and I had one overarching takeaway. The takeaway? The old guy's (and by old guys, I mean Malone and Maffei!) still got it! This is an incredibly advantaged investment, with downside protection, huge upside, and a significant catalyst.

Just at a glance, you can tell that the SCOR deal was probably a winner. It's early, so I'm hesistant to rely too fully on share price, but the buyers put $204m into preferred shares that convert at $2.47/share. SCOR shares are currently at ~$3.20/share, so the buyers are already 30% in the money on their converts. In addition, the preferred shares pay a 7.5% annual dividend and are higher in the capital structure than the common, so all in I'd guess the buyers are up >50% on their investment in less than three months. Not bad!

But the devil here is really in the details. Long time Malone followers will remember his rescue package for SiriusXM in the financial crisis; the exact details escape me but effectively Malone gave them rescue financing that was quickly paid off (with interest!) and in exchange he got ~40% of the company for roughly free.

The Comscore deal isn't quite that good, but it's still excellent. Not only did the buyers get the convertible preferreds (which are currently deep in the money), but buried in the press release is that the buyers "can request a one-time dividend recapitalization transaction after January 1, 2022 of up to 3.0x LTM Adjusted EBITDA."

Truthfully, that provision is why I originally started looking at the company. I thought that the dividend would go to all equity holders, so you could be looking at some return of capital in the near future that might catch the market off-guard. That's not the case; if you read the shareholder agreement definition of special dividend (see p. 26), you can see the buyers are entitled to request a special dividend of up to 3x SCOR's LTM adjusted EBITDA. As long as the total dividend is <$100m, the dividend goes entirely to the preferred shareholders.

SCOR's EBITDA for 2020 was $32m. Their guidance for 2021 calls for around $25m to $30m in EBITDA. Assuming that's right, the pref buyers will have the right to call for a special dividend of $75m to $90m in early 2022 that will go exclusively to them. That's between a third to almost half of the buyers' original investment coming back if and when they call for the special dividend. Not bad!

Just to sum this up, the buyers put in $204m for convertible preferred shares. That cash went to paying down the majority of SCOR's debt, instantly making the prefs the top of SCOR's cap structure (providing significant downside protection). The prefs were convertible at a reasonably low price / valuation (providing tons of upside optionality), and had a special dividend kicker that would let the buyers get almost half of their cash back within a year (providing more downside protection and juicing their IRR).

I'll say it again: old guy's still got it!

So the SCOR investment was great... but why am I mentioning it now?

Well, partly because SCOR is just kind of interesting on its own. If you've done any work on them and want to swap thoughts, I'm interested and my DMs are reasonably open!

But I mainly wrote this because I wanted to use this post to bring it back to my favorite current topic: SPACs!

A few months ago, the SPAC market was absolutely on fire.

Basically every trust was trading ~10% above trust value, and SPACs with unique sponsors were trading for much larger premiums. Liberty did a SPAC (LMACA), and it instantly traded >25% above trust, creating hundreds of millions of value for Liberty shareholders (at least on paper).

Since then, the tide has come out on SPACs. The vast majority of SPACs are trading around trust value; a few with premium sponsors might trade a few % above trust but almost none are trading for the big premiums we saw a few months ago. Deals are being met with much more skepticism; a few months ago basically any announced deal would see a big pop if they projected attractive financials 10 years out; today the market is absolutely shooting first and asking questions later and few deals are seeing big pops.

But the current washed out SPAC market creates opportunity for investors to pick pre-deal SPACs with teams that they believe in and make downside protected bets on them. Consider again Liberty's SPAC. As I write this, the stock is trading for ~$10.20/share, a 2% premium to trust (the units, which include a part of a warrant, are trading for ~$10.80). Liberty obviously has a history of value creating M&A; the Sirius deal in the crisis, the SCOR deal I detailed here, and many, many others. If you buy the stock today at $10.20, you're effectively risking ~2% while waiting for Liberty to find and announce a deal. If they find a deal that creates a ton of value, the shares should pop and you'll make a nice profit. If they don't find a good deal (or can't find a deal at all), you'll eventually be able to redeem for trust and get almost all of your money back. Heads, you win; tails, you don't lose much.

Before wrapping this up, I just want to drive one point of this home: it's probably better to pay 1% or 2% above trust to get a really good sponsor with unique deal flow than it is to just by a vanilla SPAC sponsor at trust value. Either can work, and yes your downside is more protected buying a vanilla sponsor at trust.... but I just think the odds of a unique / value creating deal are way higher with a unique sponsor. Again, consider the recent investment in Comscore; that's a hugely advantaged deal. I would guess just about anyone who was offered that deal would make the investment; the structure just provided too much downside protection. But Charter / Qurate got the deal because they brought something else to the table (their relationships, Charter's data, etc.). One of the issues with most SPACs is they are simply a pile of money, and they have no synergies with the companies they buy. Without synergies, the way most of them will win deals is simply by being the highest bidder for a company. LMACA has the potential to be different; they can buy a company and simultaneously offer value creating opportunities through their relationships with different media companies. Say, for example, Liberty wanted to buy a sports gambling company; they could instantly offer the seller contacts and access to people in the baseball world, Formula 1, and almost every major media company through their investments in the Braves, Formula 1, and Charter. That's unique, and it can get Liberty invited to processes that a vanilla SPAC would never here off (or get Liberty a huge edge in bidding since they can create so much value through their relationships!).

Anyway, there are plenty of other examples of interesting SPAC sponsors trading around trust (I mentioned some others in "a few more SPAC trades"). But with LMACA trading around trust at the same time I was digging into the SCOR investment, I thought the combination was too good not to highlight it!