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The Friday Filter

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Skin in the game

One thing that Covid 19 has highlighted is a general lack of leadership and common sense, together with broadly misaligned incentives. This has only affirmed our preference for investing in companies run by sensible people who are large co-shareholders and proven value creators. We want to partner with people who have skin in the game.

This is explicitly stated in the guiding principles of our Baobab Partners Manifesto (also attached):

- We have a strong preference for owner-managed businesses where management have a significant equity stake and are aligned, long-term thinkers. We like to partner with the right people.
- We seek humility and integrity in all of our partners, especially the management teams we invest in. Cultural alignment is as important as financial alignment.

While value investing may be out of favour in the short-term, by partnering with talented people who are incentivized to build long-term value, we think the odds are stacked firmly in our favour over a longer investment horizon.

Looking through our domestic and global portfolios, the bulk of our investments are in companies where management have significant skin in the game. Admittedly not all management that have skin in the game are great allocators of capital and it does not guarantee investment success. When we find one that is, we get excited as we look to partner with someone we are confident is a long-term value creator. These become the core ownership stakes within our portfolios that we hope to own for a long time.

Our most recent global purchase is a good example where we are partnering with a proven value creator at an opportune time and attractive entry point. Barry Dilller is not as well-known as Jeff Bezos or Warren Buffett, but we hold him in similarly high regard. He has compounded returns at a very high rate over a long time via his media and internet investment company, IAC Holdings (IAC). Well-known companies that IAC has grown over the years include Expedia, TripAdvisor and Live Nation (formerly Ticketmaster). They have recently spun off $30 billion Match Group, the global dating business and owner of Tinder. After the spinoff IAC is smaller, has a sizeable cash balance and a new generation of disruptive companies under the stewardship of Diller and his team.

IAC's largest business is ANGI Homeservices, an online marketplace that seeks to match homeowners with contractors and other service people. The market for maintenance/home improvement jobs is enormous and done mostly offline. As the market leader ANGI is looking to remove the friction from this market, making it easier for consumers that would include fixed pricing. A consumer browses for their required service, schedules and purchases the quality guaranteed service from a vetted professional at a convenient time and at a fully transparent price. While the consumer benefits and potential demand are clear, the matching supply of service professionals may be more challenging. Our base assumption is that online adoption will grow within this very large market and that ANGI will be a leading player given their dominant position.

Having emerged from the Match separation with a large cash balance, IAC used $1 billion to opportunistically purchase 12% of MGM Resorts in August. MGM is a leader in gaming, hospitality and leisure with a strong position in Las Vegas, plus other regional properties and two in Macau. While Las Vegas is suffering under current conditions, this provided the opportunity to buy the asset at a very attractive price. Having followed the online gaming space closely, they saw the opportunity to "own a meaningful piece of a preeminent brand in a large category with great potential to move online" (Barry Diller & Joey Levin, IAC Shareholder Letter August 2020). IAC plan to work closely with MGM to take advantage of this opportunity.

Over and above a large cash balance, IAC also provides exposure to a number of other businesses such as Vimeo, Care.com, Dotdash, Turo and a number of smaller digital businesses. Vimeo is a cloud-based video software platform that is mostly used by creative professionals where businesses use Vimeo to create, host, distribute and monetise their videos. IAC bought Care.com in February for $ 500 million, an online marketplace that connects care providers to households. Care.com is the market leader in a large, growing market that is supported by an ageing population needing elderly care, and working parents needing childcare. Dotdash is an online publisher with over 90 million monthly users. While insignificant to the investment case at a $ 250 million purchase price, Turo is again a leader in a potentially fast-growing market. It is the largest car sharing platform in the world, a market that tries to help car owners share their idle cars in the same way Airbnb allows them to share their homes.

IAC presents monthly revenue growth numbers below for its various businesses, reflecting strong growth despite the pandemic.

Revenue growth through the pandemic -

	Y/Y Growth								
	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	July '20	Aug '20	Sep '20
ANGI Homeservices									
Marketplace Revenue	25%	27%	3%	-2%	20%	18%	10%	15%	12%
Advertising & Other Revenue	7%	8%	4%	4%	1%	0%	-2%	-1%	2%
Total North America Revenue	21%	23%	3%	-1%	16%	15%	7%	12%	10%
Europe Revenue	3%	-3%	-27%	-28%	-7%	8%	-5%	2%	-5%
Total ANGI Homeservices Revenue	**19%**	**21%**	**1%**	**-2%**	**15%**	**14%**	**7%**	**12%**	**9%**
Vimeo									
Total Revenue	**30%**	**34%**	**29%**	**46%**	**52%**	**43%**	**40%**	**43%**	**48%**
Ending Subscribers	29%	29%	31%	35%	39%	16%	17%	19%	20%
Dotdash									
Display Advertising Revenue	17%	17%	12%	-5%	-13%	-6%	3%	9%	15%
Performance Marketing Revenue	70%	65%	96%	114%	121%	87%	69%	70%	72%
Total Revenue	**31%**	**29%**	**30%**	**23%**	**17%**	**16%**	**22%**	**27%**	**29%**

IAC's stake in ANGI and MGM (both listed), Care.com and their cash holding equate to the bulk of our recent purchase price, thus providing a strong valuation underpin and significant optionality given their other fast-growing businesses. We do not expect that all of the IAC holdings will be home runs, but history tells us that they are very likely to be successful in some of their ventures, potentially very successful. What we do know is that when they are successful, they will share that success with shareholders as they have done in the past. Thus we have a strong valuation underpin, but significant optionality and multiple ways to win.

IAC is a conglomerate of businesses with a long growth runway ahead of them, but also provides an opportunity to partner with an exceptional owner with plenty of skin in the game.