Chinese, Japanese, and Media Stocks with Eric Schleien

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Dave: [00:00:43] All right, folks. Welcome to Investing for Beginners podcast. Tonight, we have a special return guest. We have Eric from the Intelligent Investing Podcast, who is also the founder of Granite State Management capital management, Brandon Granite State capital management.

Yeah. Okay. Here we go. Got it. All right, great. And he's back with us again, to talk to us about stocks and the markets and lots of great stuff. So Eric's a smart dude, and this is going to be a fun conversation. So I'm going to go ahead and turn it over to Eric and let's go ahead and have a

Eric: [00:01:12] Cool, well, it's nice to be back on how you guys have been.

Andrew: [00:01:15] I've been good. You know, I did want to ask you before we jumped in because I follow you on Instagram. And I swear, it's like once a week, you're putting on some really nice looking piece of steak, whether it's, you know, I, I think you mentioned my grass-fed or something like whatever it is and the way you're seasoning it, it, it reminds me that I need to, I need to up my red meat game, you know, I don't, I don't know if you've ever watched the show survivor. I know

Eric: [00:01:42] A long time ago.

Andrew: [00:01:44] Yeah. Okay. So basically, they have a bunch of people starving on an island, and then they have them compete, and they'll have them compete for food. So sometimes they'll show like Outback steakhouse on there and, you know, they'll get really emotional, they'll start crying and, you know, that's kind of how I feel every time. It's about my time to have a ribeye. So, you know the question I have for you, where are you getting these steaks, man?

Eric: [00:02:06] Well from several places, but my go-to is Costco, actually

Andrew: [00:02:11] Love Costco ribeye

Eric: [00:02:13] Yes. You know why Costco ribeye is So good. Good No, cause they blade tenderize. It it's the only, it's the only place that blade. Tenderizes their meat.

Dave: [00:02:23] Interesting.

Yeah. So that's why it's, so it kind of it's soft and tender when, when you cook it, even if you eff it up a little bit.

Andrew: [00:02:33] Yeah. Like a. That's actually my parents' secret too. When, when they, when they barbecue at home and, you know, I love, I love the different stakes at the different restaurants, but nothing beats at home. Costco,

Eric: [00:02:46] Costco. I mean, I buy it from whole foods too, and I think Costco's better. Most of the time.

Andrew: [00:02:52] That's interesting.

Eric: [00:02:53] Yeah. And cheaper.

Andrew: [00:02:57] Have you gotten the chance to get that that Waygu yet?

Eric: [00:03:01] You know, so not from Costco cause it's, I don't really feel like spending like a hundred dollars on steaks even though that's probably a good deal, but there's a, I'm in Philly where, at where I'm at, there's a local hot pot place called It's somewhat, the chubby is something, and they have an, A5 Wagyu hot pot you know, all kinds of steak, ribeyes and short rib.

And I mean, it's not, it's still expensive. You know, it's like $35 when you get these like super thin pieces of steak. I did it once, and I will tell you. I had never had a before until like a couple of months ago. Oh my God. It just literally melts in your mouth. The fat is like butter. It's unbelief. It's unbelievable. So yeah, if you can find a hot pot place that has a fantastic,

Andrew: [00:03:47] I would have never thought of that. Yeah. I know—To-do list.

Eric: [00:03:53] Well, I asked, I asked the waitress; I said, is this going to be a waste of money? Am I going to taste any difference? It's like a thin piece of thing in boiling water. She's like, oh yeah, you'll, you'll taste the difference. And, yeah. Interesting.

Andrew: [00:04:05] Well, you know, I guess kind of, kind of in that realm you had, we had talked before about. You know, international opportunities. Yeah.

Eric: [00:04:16] That was interesting; that was a great transition from Japan.

Andrew: [00:04:24] Talk to the average investor about what it's like to buy stocks. Cause you know, Dave and I are primarily US stocks guys. And we know there are taxes involved when you look at companies outside of the US, so maybe you can talk about some of those implications.

Eric: [00:04:38] Yeah. So for full disclosure, I am not a tax expert, so I'm not giving professional tax advice on the air on occasion you'll, you'll have some tax withholding, or there's some special thing, but for the most part, it's just, it's treating it as capital gains.

And if you do a current, when you convert to the yen, depending on how the US dollar conversion to yen goes, you might have some gain or losses. On the income. So you get like a currency sheet. So you have to declare income or losses for currency. But then you get 1099 with the capital gains on it.

So it's, it's relatively straightforward. I think there was one situation that Israel rata have a whole ridiculous tax form. But that's really been the only instance that I've been doing this for quite a while.

Andrew: [00:05:24] So there's no like, like let's, let's say it's Japan for whatever reason. Like there are no extra taxes from the Japanese government and the US now.

Eric: [00:05:34] No, I know. I hope not.

Andrew: [00:05:39] Dividends dividends and capital gains. And the same as you in the US

Eric: [00:05:42] the dividend, somebody you'll see on the 1099 and as a dividend withholding tax. So it might take a little bit out of the dividend. I don't know what the exact laws are for Japan. I know, like in Canada, I get that, but yeah.

Andrew: [00:05:56] Do you see opportunities out there? How do you, how do you parse focusing on, you know, US stocks versus international opportunities? Are you just always looking at the whole, the whole kind of pot?

Eric: [00:06:09] So always looking at the whole pot. Certainly, the lens that I'm looking at it is different. So like in Japan, Japan's weird where historically and still to this day, it's still pretty much like that. You know, corporate governance is really bad. And in Japan and South Korea, to an extent as well, companies aren't always being run for the interest of shareholders. Sometimes there's even, you know, in Japan, I, I might be getting this wrong. So I apologize if anyone Japan in Japan can correct me if I'm wrong about this.

But my understanding is that, you know, a lot of people still look at it. Owning stocks is a form of gambling. And then in the Japanese market, specifically, some people tell us, buy stocks because the dividends are like these like interesting little gifts. There's no word for it. I don't remember the word, you know, where you might get like movie tickets or you, you get some little perk.

So there are certain like social benefits to where you can say, oh, I'm a shareholder, and so-and-so company is a pride to it. And then a lot of Japanese companies. They're being run for things other than shareholder value. So they might be being run for longevity and for, you know, the, you know, for honor, or there's a big, it's a big honor culture.

So there's a pride and honor of, you know, this is what we do. We've been in business for 673 years, and we own 19 golf courses and a fishery and, you know, but our main businesses and handbags or something. So you see a lot of weird stuff. Generally, the returns on capital or returns on equity are pretty low for a lot of these businesses because they own, say again, you have X, X of book value in the main operating business, then 10 X in real estate that doesn't have just been on the books for 800 years.

So you see situations like that all the time. So, the lens that I'm looking at, when I say buying Japanese stocks, I'm typically taking a basket approach. And I'm generally buying them really cheap, you know? So I

always think it's humorous. Occasionally I'll come across one of these write-ups saying, oh, you know, the is trading it.

It's a quality business. It's trading at 12 times earnings, and it's hovering right around cash. So you're, you know, Don't worry about it. Cause you know, you had your cushion for cash. I was like, well, do you know how many times I've owned a Japanese stock trading at the low net cash? Like those, those things can change pretty quickly.

And at that business ever has a, you know, a turn for the worst. You can easily see a stock trade below net cash in, in Japan.

But generally, you know, if you, it's interesting, if you look at, of course, this is backtesting whether if you look at like You know, during those few decades where Japan, the Japanese market went, nowhere, you know, if you had just bought, say a typical Ben Graham net-net stock approach in Japan, you would have compounded, you know, in the, in the low teens where the Japanese market did nothing.

So that's kind of interesting. I'd done pretty well in Japan. And again, mostly buying these businesses that are not very profitable. Not very interesting. Occasionally you'll get one pop like 75% in a day, and I'll, I'll sell into the volume. But I, I take a basket approach. There's there is one Japanese stock that I do own a larger position than that's larger than just the typical basket.

But in that case, you know, the management does have a good track record, and they've been very ethical and, and the stocks trading, it's a growth company trading at like five times earnings. And that's actually been one of my worst investments. I've owned it for a little over a year, and it's gone nowhere where my basket has done a lot better than that over the last few years. So.

Andrew: [00:09:32] How big is the basket. So, you know, people get a sense of the kind of this idea of digging in the trash and then finding really, really cheap stuff.

Eric: [00:09:40] I'd have to look. It might be like 30, 40% of the portfolios that I manage are in these, these basket of, you know, microcap, cheap stocks.

Andrew: [00:09:50] Like a number of stocks wise, are we talking like in the five to 10 or like 15 to 20 or for the basket? A hundred? Yeah.

Eric: [00:09:57] Maybe like, depending on the client maybe like tend to attend to 20 to 25. Yeah. So there's, there's still, there are things that I'm looking for. I'm not just indiscriminately buying that next. So there are things I'm looking for. So, for instance, with Japanese stocks, and I tend to look for businesses that are not burning a lot of cash. They don't have to be profitable, actually unprofitable, and that that tends to outperform profitably.

Then it's interesting enough, and companies that pay dividends underperformed companies that don't pay dividends from the basket approach. But you know, they're not burning a lot of cash. They're not selling stock. That's like a huge red flag. If you see a stock trading and below cash and they're selling stock and then typically too, Yeah.

So, you know, another red flag is said if they have a big a lot of their main operations might be in China. It doesn't mean anything inherently. But by avoiding, say, Japanese stocks, with large operations in China, I'm removing a lot of fraud risk, and I mean, if you look at China over the last few decades, right. You know, Look, the news cycle is always especially today, right? The news cycle is very clickbaity. It's always, how

can I have the most negative headline possible to get the most clicks? Yeah. So typically, when you read anything about China, it's usually pretty bad. I've just seen Chinese fraud where you can just get killed, and it looked optically cheap until they went to zero.

Dave: [00:11:24] So, I guess keeping in the far east, we talked a little bit about off-air before we came on about Charlie Munger and some of his thoughts on China. So why, what you want to do you want to touch on that? Sure,

Eric: [00:11:38] sure. that they're doing something corrupt and, and, and the truth is like, there's a lot of stuff that China does. That's, that's pretty bad.

But there's a lot of stuff that I've done. It's pretty good. Especially the, you know, it's become a lot more of a capitalistic society. There's been, I don't know the numbers, but the amount of people that have been taken out of poverty over the last few decades is staggering.

So China is in a much better position. Financially the people are, have a much better standard of living on average today. Then they did 30 or 40 years ago. And I think that trend is just continuing. But it's going to take time, right? I mean, they're, they're, they're much newer to market than the United States is.

So I think generally I, I agree with Charlie Munger that China has a great future ahead of it. But you'll also notice that Charlie's Most of his Chinese investments are done through a fund managed by Lu, who is, you know, known as Chinese he's she's Chinese and knows the culture and is able to, you know, have a much better peep on the ground.

Understanding of China. And I think you need more of that because, I mean, I have seen situations; I'll tell you a story, actually. So when was this? This might've been like 2000, I mean, like 2006, 2007. And I had invested in a company called China Media Express. And they had there; their business was, they made billboards for like buses, you know?

So if you like to see those buses and blocked advertisements, And why I invested in them is that you know, they were very profitable, you know, huge returns on equity. I'm talking like 40, 50% returns on equity, large growth rates. And they were significantly more profitable, and higher ROE is higher margins than all their competitors also traded to below net cash.

So I was like, this is a no-brainer. And there was a. Who was it? There was; there were some large other large investors that were well-known that were also invested in the company. So it made me feel a little bit better. And it just got weird. It was like, oh, why, why, why are the things trading on the cash what's going on here?

And I had called, you know, if you went to their website, they hit all their clients. And one of them was Coca-Cola. So I called Coke now investor relationships for Coca-Cola. And I didn't really know who to leave a message for, but I would just say, Hey, there's a company I'm invested in. Supposedly your client just wanted some, you know, more light on the relationship. Excuse me. And I'm the head of marketing for Coca Cola called me back. And she said, you know, we don't, we haven't heard of this company. But that doesn't inherently mean we're not working with them. It could be one of like our local, you know, Chinese bottling companies that work for them.

I will look into it and see if there's any sort of local Coca-Cola-related companies that might be working with them. She calls me back two weeks later. So it's, you know, no, I can't get in touch with anyone in China that knows this business. So I'm like, okay, that's strange. And I sold the stock right after I heard this.

I was like, you know that freaked me out. And then there was a Seeking Alpha article of some guy who, like, had gone to China and he was a shareholder, and he went to headquarters to like meet with the CEO. And he like walks in, and there's like a few people sitting around playing like ping pong, but like, no one's doing any work.

And he was just like, what? Or it was a pool or whatever, but he did not compute to him, like what was going on? Like how could this be a real business? Right. Anyway, it turned out the entire thing was a fraud. Then, to the point that they fake the cash in their bank account. So the cash wasn't even real.

Wow. Oh, wow. Yeah. So that's an extreme example, right. But. You see Chinese frauds all the time. And I actually did some research into Chinese net-nets, and I was thinking, well, maybe, you know, if you bought a basket, right, it takes it. You know, the fact is maybe you're going to pay to take on that risk because, you know, as value investors sometimes, right.

It just kind of like unprofitable in that S does better than profitable. And that nets, I thought maybe Chinese, and that's actually doing incredible, and you have a few frauds, but the other ones go up a thousand percent. Well, it turns out. That owning a portfolio of net-nets. If you exclude China, you do better.

So, right. So, so it's, it's just hard. I think if you're not on the ground, it's because there is still a lot of fraud. If you're not in China or speak Chinese or have connections in China, it just makes, it makes the game harder. And. I think there are other opportunities that aren't as hard and that you don't, you know, you don't get bonus points for making a harder investment.

So I avoid China, but I'm, but generally, I'm bullish on the country of China. I just, as an investor, don't invest in China.

Dave: [00:16:49] So, what do you think of, like the Alibaba's and the Tencent's in any of that kind of stuff? Are you, what are your thoughts on any of those companies?

Eric: [00:16:56] Yeah, I mean, they seem good. I don't know. You know, I'm actually reading, I'm actually reading a book right now on you know, the founder of Alibaba, but, you know, I don't know if that's going to help me or not, you know, what an investment, but I just think it's interesting, but I would imagine, right. Charlie speaks to Li Lu all the time.

I would imagine there's probably some insight that he has. Yeah. You know, when Charlie Munger said it's just a replacement for cash, of course. He's, you know, Charlie being Charlie, he's going to play, play it down. He's not going to just buy any random company's replacement for cash. Right. He's right. So obviously, there's something he likes about it.

Dave: [00:17:32] Yeah, exactly.

Andrew: [00:17:34] I remember reading a; this was less than 12 months ago, probably. And it was. Not just some small no-name Chinese company either. It was luck in Luckin coffee. Coffee. Yes. Yeah, yeah, yeah. Awful. You know the fraud that they had with that, and I guess there were some boots on the ground firm that was kind of checking in on, on.

Yeah, on the company's numbers. And they're like, there's no way, like, even just looking outside of these coffee restaurants, there's no way that with the flow of traffic, that, that they're going to anywhere near what they were reporting. So this is not just like a one or two-off thing. This is—a big thing.

And then what's says is that was one of the companies I saw a lot around the internet of people saying, you know, get in on this. This is the Starbucks of China, and it completely blew up. It's it's awful.

Eric: [00:18:24] Right? I mean, could you imagine if, like Starbucks, all of a sudden one day went away or McDonald's, it's like, that's not going to happen.

Andrew: [00:18:29] Right. Well, you know, everybody wants to call it the SEC the bad guy, but, but there are good things to having those kinds of regulations in place, which, you know, for me personally makes me kind of timid about going outside of the US but at the same time, like you're saying if there are countries where that's not a problem, like Japan. Yeah.

Eric: [00:18:52] You don't really, it's not as much. Yeah. I mean, with Japan specifically, You know, if you were committing financial fraud in Japan, it would be a very dishonorable thing. And there's, there is certain social clout by running a public company in Japan. So, but a lot of these companies, they're not, again, not being run for shareholders; they're being run for longevity.

Andrew: [00:19:12] time, like you're saying, if there are countries where that's not a problem, like Japan. Yeah.

Eric: [00:19:18] You don't really, it's not as much. Yeah. I mean, with Japan specifically, You know, if you were committing financial fraud in Japan, it would be a very dishonorable thing. And there's, there is certain social clout by running a public company in Japan. So, but a lot of these companies, they're not, again, not being run for shareholders; they're being run for longevity.

Hmm.

Dave: [00:19:40] Great. So different, different ideas. Yeah.

Okay, so let's, I guess, let's kind of do a really rough segue. All right. Let's segue off of China and some of the fraud stuff. And let's talk about the recent merger with. Discovery and the Time Warner and AT&T and that fun stuff, I would admit, I don't know much about it, but it's supposed to be like, you might, so maybe you could shed a little light on that subject for us.

Eric: [00:20:08] Yeah, sure. So I'm also full disclosure. I'm a Discovery. Second time now around.

So I had originally bought Discovery communications Just a few years ago, I actually saw the only idea I've ever gotten from CNBC, and John Malone happened to be doing an interview a few years ago and was talking about how he thought, you know, Discovery was probably pretty cheap at the time I was trading at a really low, multiple to free cash flow and it was just being valued as a melting ice cube.

Right. You know, with all the cord-cutting and Discovery, legacy business being tied to cable. No, there was a, there was a concern I would just decline forever. But the thing that, the thing with discover that I liked originally, It's a very capital, light business. You know, it doesn't take, you know, you don't need to hire actors.

Right? You can film some animals in the forest or something like that. And GTA, you have like $500,000 in production costs. Are those zebra, zebra? Exactly. Don't give anyone any ideas. You know, I, I joke, but there's like, you know, some people I was just talking about a friend of mine the other day about this, where it's like, you can come up some really bad.

Like a government idea, there'll actually be someone who wants to initiate it. So I don't even want to joke about zebra units because there's going to be some radical animal rights activists that say, oh, that's a great idea. And we're in the whole Discovery phase. But with disco, yeah. So, you know, very capitalized business, and it just spits off free cash flow.

So that's what, and it was trading at a very, you know low, multiple, basically. Like it was going to just be declined, declining forever. And I also liked the fact that John Malone was a controlling shareholder. So that's why I bought it originally. The stock ran up a lot. I sold them to that run-up. I didn't sell it the high where it got into like the seventies.

There was the, you know, the big liquidation that had happened with that fund. But anyway, you know, on May 17th, discovering Warner media, which is owned by at and T. And announced they were going to be creating this global entertainment leader and combine. So the way the transaction would work is AT&T, but spinoff basically what shed, the Warner media assets and the Warner media and all Discovery would merge together.

This would create literally one of the largest content libraries in the world with the direct-to-consumer distribution.

Andrew: [00:22:23] So it was HBO. Bucketed into that.

Eric: [00:22:26] Yeah, yeah, yeah. Yup. Yup. Yup. So I, yeah, you have HBO, CNN, you got sports rights. You get like the DC brands, like Batman, Superman, Wonder Woman, all of that.

And what's interesting is the combined company, you know, they're, they're on target to spend together $20 billion and to get sort of the extent of that Netflix is guiding for 20, 21 17 billion. So it's kind of a big it's. I mean, it's a huge deal. If you're combining, you know, HBO max with Discovery plus you know, I, I honestly think this is like a, you know, literally, you know, total home run here.

I, I, I this is why I bought back into it now. I thought, what would happen? See, I thought I heard about it, and I, I assume the stock would shoot up a bit. And there was a temporary, I think like for the first day I went up, and it's now below the, you know, when they announced the stock has just sort of drifted down to the market actually, doesn't like this deal.

I'm not going to get into that if you'd like, like yeah, I think that is why do you think that is? Yeah, so I think that's; I think there are a few reasons. I think one of the reasons is time to completion. So they're estimated some take two years. To do this deal and, you know, so, so if you're an arbitrager on wall street, you know, this isn't something you can do in two months.

And if you're someone who even just has a big job on wall street to have a sort of this uncertainty for two years of what's going to happen. Cause a lot of things can happen in two years. I think a lot of people are not interested and maybe even be selling it because they don't know what's going to happen in two years.

There's also a possibility that it's like just a technical overhang from the 18 T shareholders. Cause they're not going to be getting their dividend from the new, the new entity. So what's possible is I think there's probably

some fear again, I don't know, but I then I'd say it's probable that there's a fear that once the merger happens, the AT&T shareholders might just indiscriminately sell the stock, which I'd be happy about it, but just buy more.

I kind of hope that happens. But I think that's a concern. And then I think probably the biggest one. Yeah.

Andrew: [00:24:35] To be clear. So from what it sounds like, cause I don't know the situation, it sounds like you have AT&T, and then they're spinning off this Warner thing, and then they, the Warner entity, is gonna take over Discovery. Every shareholder, you're getting shares.

Eric: [00:24:51] Yeah. So as a Discovery shareholder, you're getting shares and the Yeah. So, yeah, so you're gonna, you're gonna own a small percentage. Yeah. So let's see B at, and T shareholders are going to receive 71% of the new stock.

Okay. And discoveries going than the other, given the other.

Yeah. But I think, I think the third reason is, you know, it's going to be a highly leveraged business, and you know, they're looking I don't have the numbers in front of me, but they're, they're looking to. Do you leverage to, okay, so yeah, they're gonna, they're gonna look to the leverage deliver to three times EBITDA over time.

But I think there's probably some concern that you know, let's say Discovery plus ends up being a flop that the company's district to melting ice cubes that combined, I don't think this is the case, but you know, if there were two melting ice cubes combining now it's the gigantic melting ice cube.

And now they have all this debt. And I think the concern is that because the company has so much debt, I don't think that's a problem. Cause again, this company spit out so much free cash flow. I was a Discovery shareholder when they merged with scripts just like a few years ago. And with the script's deal, they had levered up to five times to get the deal Scripts, and they were projecting.

They would get to about three and a half times leverage in two years. And then, once the merger closed, they had hit their leverage target in under a year, and the synergies were double what they originally projected. I mean, this is bigger, a bigger deal obviously, but I just don't think there's, I mean, Discovery plus has been, you know, a total home run as well for, for them.

So. You're getting a, a business very, very cheaply valued. You know, right now, the combined company would have, let me just take a look at my notes here, you know, would have the combined enterprise value of about 130 billion. And the, you know, the company is projecting in 2023 that they would have 14 billion in EBITDA.

So you're basically, You know, it's, it's, it's going to go for like a little over eight times enterprise value to EBITDA right now. And it's, it's a that's a pretty low valuation for a company that's actually growing, and we'll have synergies. You know, if you would value this. Yeah. So yeah, it's a little over eight, eight times enterprise value to EBITDA for 2023, you know, 12 times.

So, you know, if you just said, okay, I think this company should be worth 12 times EBITDA. You'd get about 75% upside. And let's say there were real synergies and, you know, the synergies were really great, and the valuation went to 15 times, you know, you're talking over 130% increase in the stock price.

You know, I do think it's interesting too. So John Malone, who's the major shareholder. You know, for your listeners who don't know who he is, you know, he is probably the best media investor in history. There's a book. He wrote a book about him called *Cable Cowboy*, which I highly recommend. But he is someone who has used debt over the years to do a lot of financial engineering.

And he likes to be in control of companies. He has actually come out in favor of the deal as a discover shareholder, and he's giving up control, so for Malone to give up control of something that he owns. He must love the deal. I, so I do put some weight on, on his press release that, and he wasn't interviewed on CNBC the other day as well, which I recommend checking out.

Dave: [00:28:04] So I guess along those lines, some of the things that I've heard. Certainly mirror everything you were saying. A couple of concerns I saw on seeking alpha the other day was concerned about AT&T's dividend being either cut or not being paid. And I think that was like rattling through seeking alpha, like an earthquake.

And then there were also comments about the CEO. Time Warner would be actually leaving the company. And the gentleman who runs Discovery would be the one taking over. And I think there was some concern that maybe he was not the right cowboy to lead the company, so to speak. So I guess, what are your thoughts on those two ideas?

Eric: [00:28:43] Yeah, well, I think he's extra done a pretty good job Discovery. But again, they're there, you know, Discovery plus has done a wonderful so far. You know, the companies, again, you know, lot, a lot of cash flow asset, light businesses. So maybe they find someone better when it didn't happen. But even if they don't, I think you're going to do pretty well.

Like it sounds, I think that's very asymmetric that there's a, there's a lot of ways to win here, and it's, it's priced like a melting ice cube. So I think that the thing is, it's so cheap that even if things just stayed the same, I would expect a higher valuation. And if the synergies work out. Oh, workouts better. Yeah, I mean, I think the valuation goes up.

Dave: [00:29:24] Yeah. I guess one of the things I wondered, too as you know, at and T bought, bought time Warner for what? 73 million, not that long ago. And now they're. They were kicking it out for 43 million. So, you know, it just seems like it's like one of those; it's like a basketball player that nobody really wants. They just seem to keep passing it between each other. So how, you know, how has that has any bearing on any of this?

Eric: [00:29:49] Well, I mean, sure. But I, I D I think the combination though, of, of what you're getting, I mean, you know, you look at Disney plus, right? I don't know if you've ever used Disney plus. Yeah.

It's pretty cool. Okay. So, you know, I use the trial and actually watched a lot of the old stuff from when I was a kid, but it's pretty cool. Well, just imagine how you, you turn on, you know, your, whatever it is, Discovery plus, and you have, you know, HBO, max and Discovery and wonder, I mean, it's pretty awesome content.

Again, they're spending; they're gonna be spending more on content than Netflix. So, and then there's not a lot left. I mean, you don't have, you don't have much left, so. I mean, I guess you could have a situation where we're Comcast could step in and, and, and say, Hey, we don't, we wanna, we want to buy this stuff.

Which would suck for what that would see. That would be bad for Warner media, you know, and actually, you know, in some, in some, some weird twisted away, if Comcast, if Comcast wanted to say step in by

Discovery, break off the deal. And then let look, Warner media struggle for a few years, then buy it for even cheaper.

That would be good, you know, but yeah, I mean, I think we're, I think we're in immediate needs someone like a discussion to merge with Discovery fine on its own right now, but it would be better, you know, some other content library.

Yeah, that's a good viewpoint. I, I like, I like your idea.

I'm going to probably check into Discovery and see what I think about it. So,

yeah. Yeah. And just to address your point with the 18 D dividend co too. So, you know, they're spinning off the war assets so that new entity is not going to have a dividend. So. I mean, at some point and AT&T will pay, I don't know about that.

They will fully cut their dividend, but even if they do it there, they'll pay it again and say, TMT, most people who are investing in that business are doing it for, you know, the income stream. So they're not going to change that after, you know, a hundred years or however long they've been around. But I think the real concern is.

Well, those AT&T shareholders than just dump the new stock because that's not going to be getting a dividend. I'd say a lot of them, probably. Well, I mean, there's a good chance. Yeah, that would be a buyer I buy from them at a lower price.

Andrew: [00:31:54] Yeah. It's a very good chance. It's a; it's a concept; Joel Greenblatt talks about what was his book? I think where a lot of times in spinoffs, the shareholders don't want whatever's being spun off, so they, sell it and it's a great buying opportunity.

Eric: [00:32:11] Yeah. The problem, the problem by just doing spinoffs though, and discriminately is ever since that book came out. The spin-up opportunity has been mostly arbitraged away.

You know, if you had just been doing spinoffs since then, you actually haven't done so well. So, and a lot of the spinoffs also, this is what the other thing, too, some of the spinoffs that are cheap is they're actually intentionally spinning off the junk. Right. You know, in this case, there's, there are certain tax benefits to buy by having a water meter to spin out.

So they don't have to pay taxes on it. It's a, what's it called? A reverse. Morris trust or something like that. And

Andrew: [00:32:46] I guess in your case, if they do spinoff Warner and you look at it, and it's like, wow, they did put a lot of junk in here. You can only sell it because it was, you know, you got shares, and you kinda got your payout because you got the premium as the company got bought out.

Eric: [00:33:02] Yeah. Again though, I mean, there's going to be so much cash flow coming from these two businesses. That I don't think you'll, you'll do bad. You may not hit it out of the park, but I, I think you're, I think your downside's pre pretty like a, not investment advice, but in my opinion, I think the downside is pretty limited here. There's also a chance that in a few years that then a new entity gets bought by someone else.

Andrew: [00:33:24] Yeah. I mean, we see a lot of consolidation. There's a lot of interesting things happening in the media industry. And I think if people are interested in it, The history of the media industry. Like I'm reading a book about Sumner Redstone right now and by a calm and it's, it's fascinating.

Just, you know, just a couple of decades ago. Well, maybe more, a couple, but I mean, that used to be like the growth industry. And if you think of like, how. We look at the FAANGS now. It's kind of how the cable operators were back then. And that's just; it's funny seeing that kind of life cycle. And so, you know, as you look around at all of the different changes in media, are there any other opportunities you like, whether related to media or media technology or anything of that nature?

Eric: [00:34:07] Yeah. And I'm before I answer that, I'll just leave with one thing too, where while cable, right. Legacy cable is slowly in decline; you know, the future is the subscription business. Hmm. You know, this is an opportunity for Discovery and Warner media to sort of supercharging that together and have some, you know, real synergistic relationship.

But that, but that future is, is in the subscription business. And in terms of other technologies, that, I mean, podcasting is it, and we're on a podcast. We are in the very early innings of podcasting. I think people might listen and watch old podcasts. You know, say 30, 40 years from now, the way that we watch, you know, like silent films, you know, whether that was like the big thing back then.

So whatever, whatever we're doing right now, we'll look back at 20, 30, 40 years and be like, wow, this was, this was literally at the beginning. They had no idea what was about to come. But I think if you are in the podcasting business you were, you were writing some industry growth for many, many, many years to come.

So I am personal, my largest personal position. So I own it for my clients too. But from my personal accounts, even a larger position, it's in liberated syndication whose main business is Libsyn podcast host. And that is a really interesting situation going on right there. So I could talk about that if you'd like.

Andrew: [00:35:23] Give us the elevator pitch of somebody who doesn't know much about podcasting, like why would they be interested in a company like this?

Eric: [00:35:31] So you have a business with a very, very sticky business with about 80,000 podcasters on it. One of the original podcasting hosts. So they have that first-mover advantage.

It is being run in a very, very efficient and capable manner. Oh, there's just been a big management shakeup. They're finding a new CTO right now, but salaries have come down a lot. There's an activist who shook things up and had the CFO and CEO removed from the company who were basically stealing from the company.

It was, it was a very just, and you're basically paying a very low, I don't remember the exact number offhand, but it's, it wasn't much more than ten times free cash flow for a company. That, you know, could potentially be growing at 30, 40%, you know, for the next ten years. So you're, you're paying very little for a high growth stock.

Andrew: [00:36:19] It's like a pure-play on bike acetate.

Eric: [00:36:22] Totally. Yeah. They also do own a pair of networks too, which does like website hosting, but their main businesses are Libsyn

Dave: [00:36:33] so what makes podcasting so appealing?

Eric: [00:36:36] Well, funny you ask on a podcast, you know, it's yeah. I mean, look at this, right. We're on a show right now, you know, so, you know, Andrew and Dave, how, how do you describe your show?

Like, what's your, what's your show description?

Dave: [00:36:50] Andrew.

Andrew: [00:36:51] Just a couple of guys who taught themselves how to invest and are trying to teach other people how to get started.

Eric: [00:36:57] And the target audience is mostly for, for more beginners. Right? So if I was someone who was interested in investing, you know, maybe a beginner just starting off, but also intelligent, like the vibe I get is like, you also, aren't intelligent beginners, you have high-level conversations as well.

So. There's this very, very niche, specific audience. That's listening to your show. And, you know, if you want to turn on the radio, you know, you kind of have to catch it when it's on. It might be sort of tailored more to the masses. Right? So a lot of these, like, you know, Dave Ramsey's and Susie Orman and more like financial planning, but you'll have a very specific thing you do.

And, you know, on my show, you know, well, shameless plugging, Intelligent Investing Podcastadvanced investors. And there's this very specific niche of, I would say, highly sophisticated value investors that tend to listen to my show. So what's really cool is you can micro-target and build these little communities around your show, which is not possible to do with radio, but it's harder.

So there's, there's a more personalized aspect to podcasting. It really brings power to anyone that has a message to share. And the other cool thing is that it's, it's totally a meritocracy. You know, I don't have to be signed up to some big network to have my message share, but you know, if I keep sharing episodes and no one listens, you know, maybe I, I gotta either step up my game, or they're not very good.

However, have no budget and no marketing budget and nothing fancy, just a microphone and a laptop. You know, I can have people subscribe to the show and listen to the episodes. And so can you, and I think it really breaks up any of the bureaucracy, the corporate bureaucracy of radio and TV, and really brings the power to the host.

And I think that does an incredible thing for society and listeners to send, tend to love it.

Andrew: [00:39:01] I'm a hundred percent advocate on podcasts. I mean, you know, I was a podcast listener before I became a podcast. Host, everything I'm saying is. It's amazing that the depth that a podcast can go into that, as you said, you won't see on mainstream because they're trying to appeal to so many people, whereas, Hey, there are other people like me who liked to really get into the nitty-gritty and get down and dirty.

But you know, for whatever reason, that's not something you would see on the news, because if there's. You know, a hundred people, ten people, might find that interesting 90 people wouldn't, so they're not going to give it air time. Right. But now you have podcasting; you have YouTube; you have all these different platforms now that are coming out, completely revolutionizing the way we do media.

And I think. I mean, I personally, I love it. You know, I love being able to kind of pick whatever I want to watch, whatever I want to listen to, and have a very specific Baylor, very tailor-made. And like you said, it's good for society because it gives a lot of value, you know? You turn, you turn on some random thing and hope.

To get a good investment idea. It can be hard sometimes, you know, but when you, somebody might be interested in China or Japan or, or, you know Discovery, like we've been talking about today and they could see that title on there, click on it and get way more information than they would have without the podcast is there. And that's how it can be so powerful.

Eric: [00:40:26] And to add to that, if someone who's a podcast host listens to this episode, which, you know, a lot of listeners and a lot of hosts are also podcasts listeners. Someone can make an episode saying, Hey, you know, Erickson, idiot about Discovery, and he's totally wrong about this.

And here's my view. That's kind of cool. You know, this is, there's a lot more of that, you know, back and forth, you know, we can post this thing on Twitter and then get comments and. Have a debate, right? Cause it's, it's a market, you know, I don't necessarily have the truth. Right. I'm just one guy on the internet and has an opinion.

And then has it has an idea. And clearly, when I buy stock, someone's selling to me, and they might have a different idea. So I think it provides more of a conversational intimacy more so than you would get with a radio. And certainly, more than you would get with TV.

Dave: [00:41:13] Yeah, absolutely. And you know, as somebody who is older in the room, so shuttles, shall we say I remember the days of radio and, you know, having a, you know, I'm this old that I remember I had to get up off the couch to go change the channel on the TV.

So I know you guys don't know what that's like, but I remember what that was like. It was; it was awful. And you only had three channels. And, you know, sometimes you had to move the rabbit ears on the TV to get the reception to come in. I mean, yeah, it was, it w it was the dark ages, for sure. But anyway, it's, you know, the opportunities to learn things.

I mean, that's how I got into podcasting. Listening was the opportunity to learn stuff. You know, I, love history and I came across this history podcast called the history of Rome by Mike Duncan, and that would just open my eyes to this. Whole podcasting thing and I was hooked, and I would listen to him at work.

I would listen to them in my car and listen to them. I was walking my dog and, you know, it just became a thing for me. And yeah, it's, there's so much opportunity for people to express their viewpoints to learn things. And that's what I really like about it.

Eric: [00:42:21] Yeah. And that's, yeah. That's awesome. Yeah, it worked. We're carving, you know, we're carving the future as, as, as, as a pod. I mean, we're all podcasts hosts here. Which I think is awesome. Right? It's like, there are no rules in a sense like we're literally creating the foundation. So it's cool to see how, how this is going to unfold over the next few decades.

It's my thesis. And you know, we're recorded. So we're on record. My thesis is in 20 years; someone could watch this conversation. Like if they only knew what was about to happen, you know, and they'll look at this as. You know, having to get off the couch to change the channel, you probably thought that was cool that you actually had a right.

Dave: [00:42:59] Oh yeah, no. Yeah. I mean, yeah, we had a black and white TV, and that was my first TV. And so when, when they, when they went to color, it was like, wow, this is a big deal. So yeah,

Eric: [00:43:09] I remember my, my grand, my grandfather talking to me about being able to watch the world series on TV. How cool that was. Yeah.

Dave: [00:43:19] Yep. Yep. I was, I was the one I worked in the restaurant business. I was talking to the employee once, and we were talking about some sitcom, and I said, I remember when it was on every Thursday night, she said it was on once a week.

She's like, how old are you?

Yeah, no, I agree. So how does this play into your idea with Libsyn? So I, you know, that really kind of where that took you.

Well, it was so, so it was one of these situations. So, Le, I look at a lot of very tiny businesses and micro-caps, and Libsyn was this really interesting situation because here it was trading at about one times earnings a few years ago.

This is the one; the stock was at one; it's now at around four. And you know, I saw all this growth ahead of it. And what was keeping it down. It was actually so as a spinoff it was spun out of a company called Fab universal, which was a Chinese business, which turned out to be a fraud. Speaking off, this goes full circle.

Eric: [00:44:20] And yeah, they had like kiosks where you could like get like movies and shows and watch stuff. And it turned out that the kiosks either weren't, some of them weren't real—a lot. Most of them didn't work. The entire business was made up. But they ha I don't even, but they happen to own the company that owned Libsyn.

So when they spun it out, Fabulous, versatile ended up going to zero. There was a whole lawsuit, and there's still litigation going on with the CEO and the CFO right now. And you know, how much did they know? And it was a pretty heated, public battle going on, but the activists, the management But it was, it was so ridiculous.

At one time, the CEO was paying himself, you know, with like option grants and incentives. It was going to be like 50% of the income was going to go out of his pocket, which even then it was still was so cheap, like, cause it was a good business. But his name was Chris Spencer. So I'm getting Chris Spencer off getting the CFO, CFO.

Who's also making an egregious salary, getting them off. I think the stock is still super cheap, and there's the overhang, you know, they just file an eight K, which was a total mess. Nothing to be expected, but again, these microcaps, you know, any bit of news can send the stock one, one or the other.

So the stock sold off, you know, basically what happened. They had a restatement and said, Hey, you know, last few years, the financials are gonna be a little bit different, but if you've been following the story, you already knew that was going to happen. And there's also the new CFO who just resigned. So people got freaked out by that, but again, you know, here's a guy coming in to, you know, be the, you know, I don't, I don't know what the full story is because you could imagine here's the CFO, he kind of comes in to take the place of this old, you know, horrible CFO.

And now his entire job is like doing financial restatements. I mean, that's gotta be miserable, and I don't know if that's necessarily what he signed up for. So, people, I think, got freaked out by that. But, and then there's also the Chinese, Chinese shareholder. Who's in jail right now who owns a little over 30% of the stock that he got through the Fab universal spinoff.

So the company is now arguing that those shares were obtained illegally because it was for a fraudulent company. So they're asking a judge to cancel the shares. I don't know if they're going to win that lawsuit, but if they do, that's instant, you know, a little over 30% of the shares outstanding go away overnight, which is.

Right, you know, completely accredited to shareholders. So another one of these situations, there's a lot of ways that you can win a ton of uncertainty, and you're getting a high growth stock at, at a, at a super low, you know, free cash flow multiple.

Andrew: [00:46:51] It honestly, it does sound scary, though. And I would I would. Be worried about, you know, you talked about like melting ice cubes. This one sounds like a boiling pot water show. I guess that's why we diversify. And you got gotta, if, if I think if you want to get something really, really cheap, you have to be able to weather some adversity. And so if, if this is stuff that's already expected, You're going to get it in at a low price. And then that's where you can get the double triple, quadruple ten baggers from something that people found out it's not as bad as it seemed.

Eric: [00:47:25] Yeah. I mean, there was even a comment there were some comments online of, you know, oh, well the, they just did this pipe deal to raise some money, to make an acquisition. They just bought advertise cast, and people were annoyed that it was a pipe deal. And I was like, well, why didn't, you know, Why did the activists do the pipe deal and know what's a type deal. Can you explain that just for a second?

It's just a private raise of capital as opposed to just, you know, selling equity and people, you know, someone, someone online recently was accusing the activists of, you know, self-dealing and all this stuff. It's like, well, no, you can't really be selling equity. When you don't even know what the financials are, You know, so, so you know, that's not the that was not the ideal situation, but you know, the thing's a mess right now. So they got to clean up the numbers once they clean that up. I mean, here's what I think will probably happen.

They'll clean it up, grow the business, and then they'll sell it to sell it, you know? Cause that, that company, again, you know, would you have 80,000 people. Using it, you have a larger company that can, can cut the costs, dramatically know, improve the cost structure. That would be ripe for a buyer, but they're not going to; I don't think they would sell it and told me they cleaned the numbers up, get a new CEO to show a few years of growth, and then sell it.

That's what I would do. But you're looking right now at a $4 stock and even in normal evaluation for No, those kinds of companies, you know, it would probably be like seven or $8. They could probably give us out right now if they want to sell it right now. But if they grow the company for a few years, you know, you're, you're potentially looking at, you know, 15 point dollars stock. And I mean, I got one, so.

Andrew: [00:49:10] That's the key thing, right? If they

Eric: [00:49:13] versus, I mean, these were statements aren't going to be gigantic. It, it, it, a lot of it is just had to do with taxes and deals, CFO, not accounting for taxes properly, and all that. No, I mean, they're a very profitable company. They're a wonderful business.

Yeah. There's no question. They're profitable. Yeah. If I made it seem like that, that's not, that's not the issue. These are very minute technicalities of just, what do we owe in taxes? They're a very profitable business. Okay.

So it's like, it's a, it's what Mohnish Pabrai proprietor would say in a low-risk concert highlights, low risk, high uncertainty

Dave: [00:49:49] Heads, I win tails. I don't lose that much.

Eric: [00:49:51] Yeah, yeah, yeah, exactly.

Dave: [00:49:56] So, Eric, thank you very much for joining us tonight. So for any of those out there that would like to learn more about you and kind of what you do, where can they go to find more about you?

Eric: [00:50:07] They can go to a G S C m.co, which is my website for Granite State Capital management. They can also just contact me either through Twitter or Instagram. Very active on both. And if you're into steak, you'd like my Instagram as well. And both my handles is Eric Schlein tric, S C H L E E N.

You know, people, people don't always know how to spell it. If you want to put it in the show notes. I will for people. I appreciate it. Yep. Absolutely. I'm very available, and I respond to all messages. So even if you just have a question or, Hey, can you, can you talk to me about blah, blah, blah. I'm not going to give you stock advice, but I'm always happy to answer investment-related questions.

Dave: [00:50:46] Awesome. Well, again, I thank you very much for coming to talk to us and spending some time and helping educate us on investing abroad, how to avoid fraud in China, and more information about Time Warner and Discovery, as well as Libsyn and all that. Just all the great knowledge you share with us. Plus Andrew's comments about the steak. That was okay for podcasts.

Eric: [00:51:07] So my pleasure. Thanks a lot. It's been fun. Yeah.

Dave: [00:51:10] You're welcome. Thanks, Eric.

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