

Finding Durable Moats is the Key to Finding Good Investments



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Background

Played poker full-time for a few years

Got into investing first as a side hobby

Self-taught investor, no Wall Street experience

Started Wiedower Capital in 2015

6 traits I look for in companies

1. Founder-led
2. Industry tailwinds at their back
3. Long runway for growth
4. Profitable
5. Safe balance sheet (cash > debt)
6. Durable competitive advantage

Why founder-led

They care more: “This company is my baby”

High insider ownership

Job security = able to focus on long-term

Why tailwinds / growth runway

Encourages me to invest for many years

I believe many world trends are inevitable:

E-commerce

Renewable energy

Healthy eating

Animal rights

Marijuana legalization

Why profitable / safe balance sheet

Long-term focus = inevitable I will own the company during a downturn

Profitable companies with lots of cash and little debt can take advantage of weaker competitors during downturns

Why durable moats are important

**A company is worth its future FCF
discounted back to today**

70%+ of total intrinsic value comes after year 5

2-5% of intrinsic value comes from next 12-months

**Thus, how long-lasting a company's moat is
matters far more than this year's financial results**

**Finding Durable Moats is the Key
to Finding Good Investments**

Case Study #1

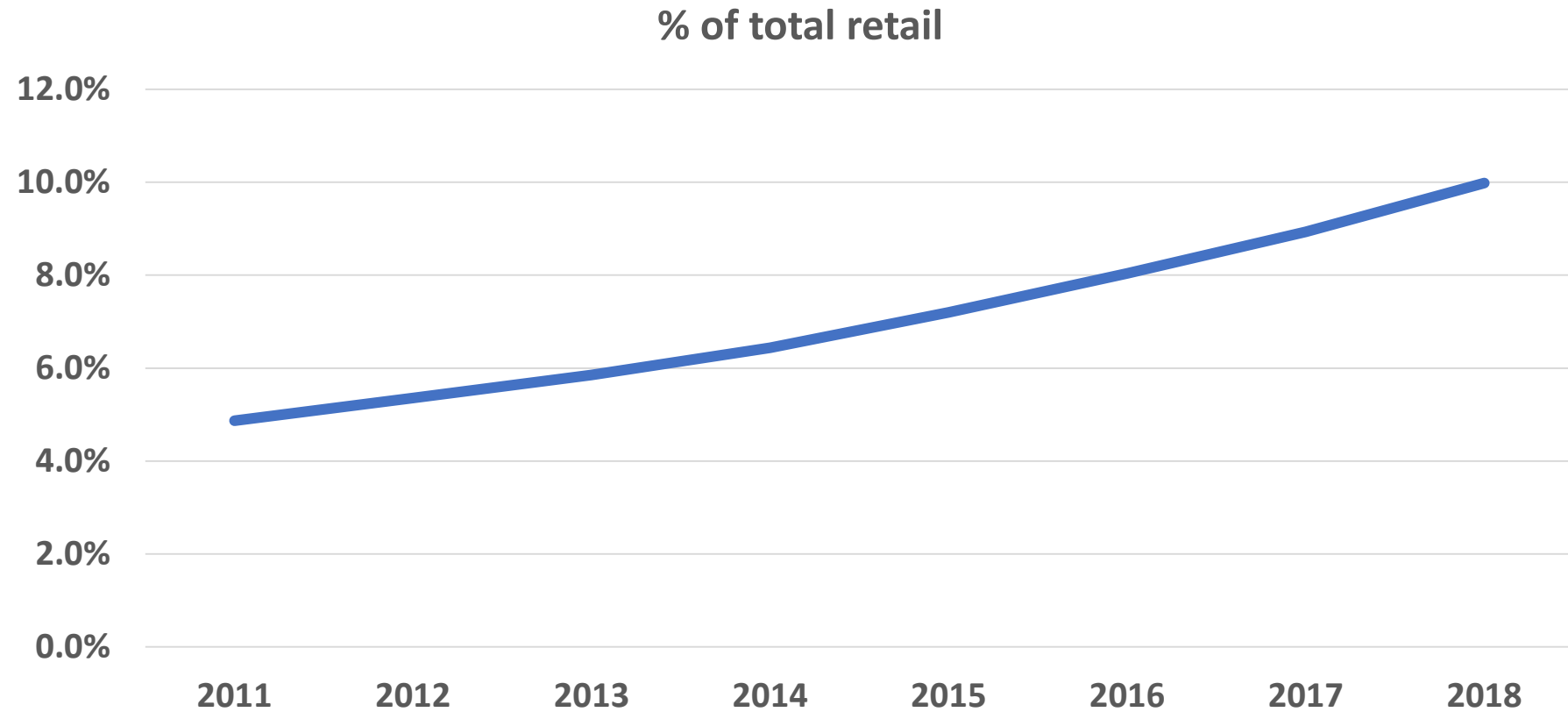
Amazon (AMZN)

Amazon Overview

- E-commerce
 - ~50% of US e-commerce
 - Growing internationally
- Amazon Web Services (AWS)
 - ~33% market share globally

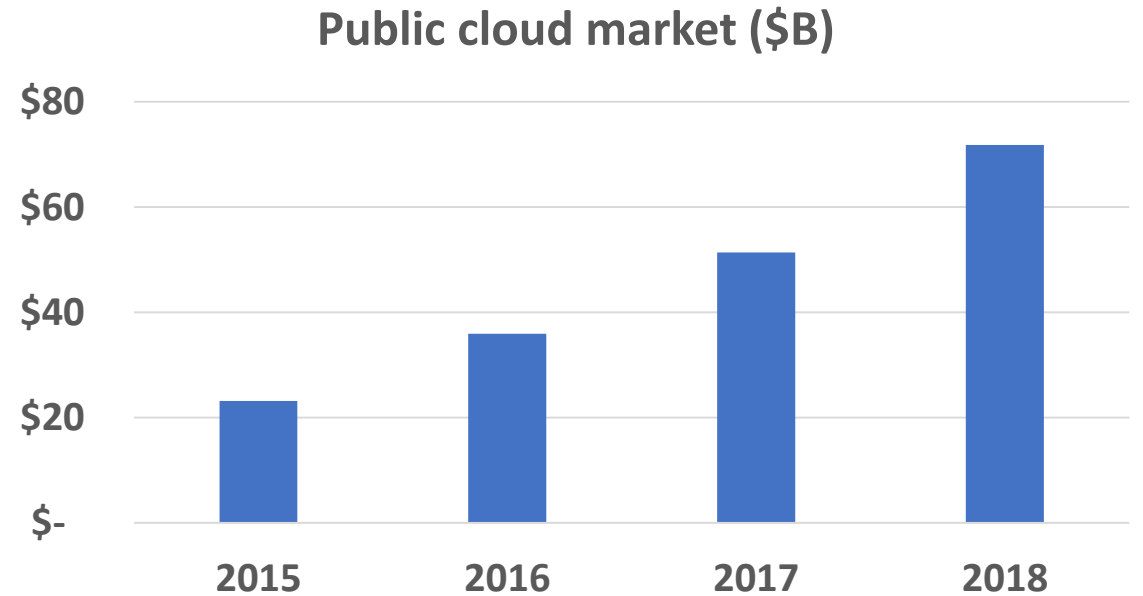
Amazon's Tailwinds

US e-commerce growth



Cloud computing

1. Local data centers → cloud
2. Demand for computing power



Amazon's Competitive Advantages

Barriers to entry

Massive physical infrastructure

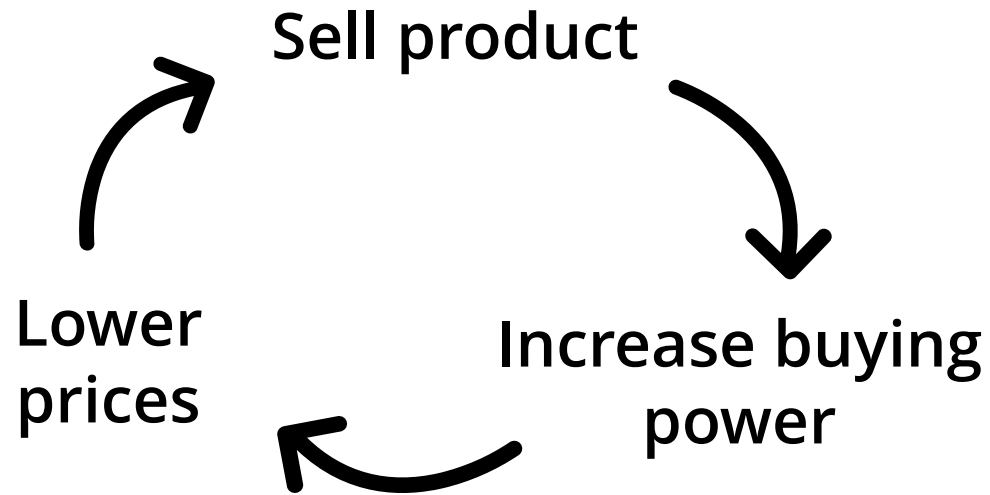
**Warehouses, data centers,
planes, trucks, last-mile delivery**

**>200 million square feet of
fulfillment and data centers**

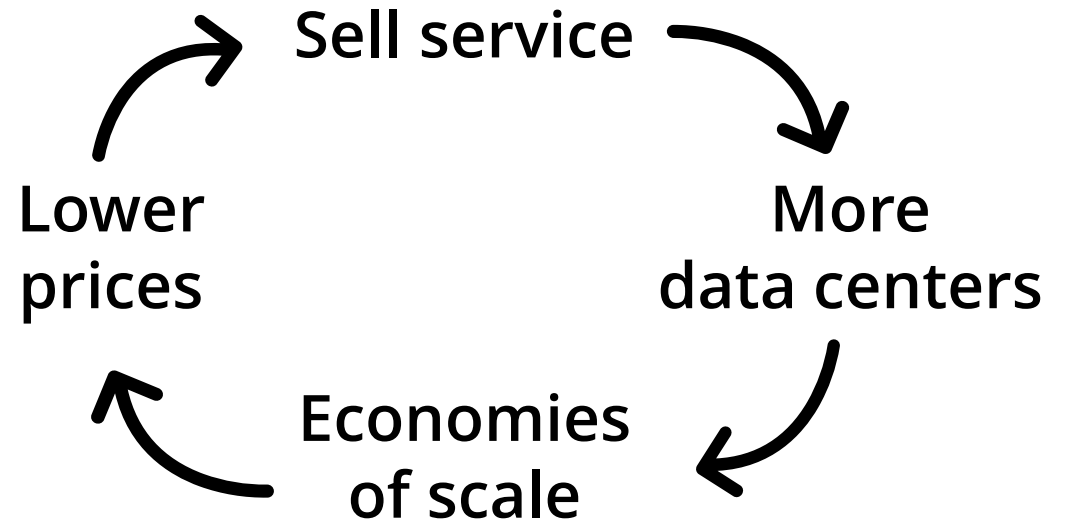


Scaled economies shared

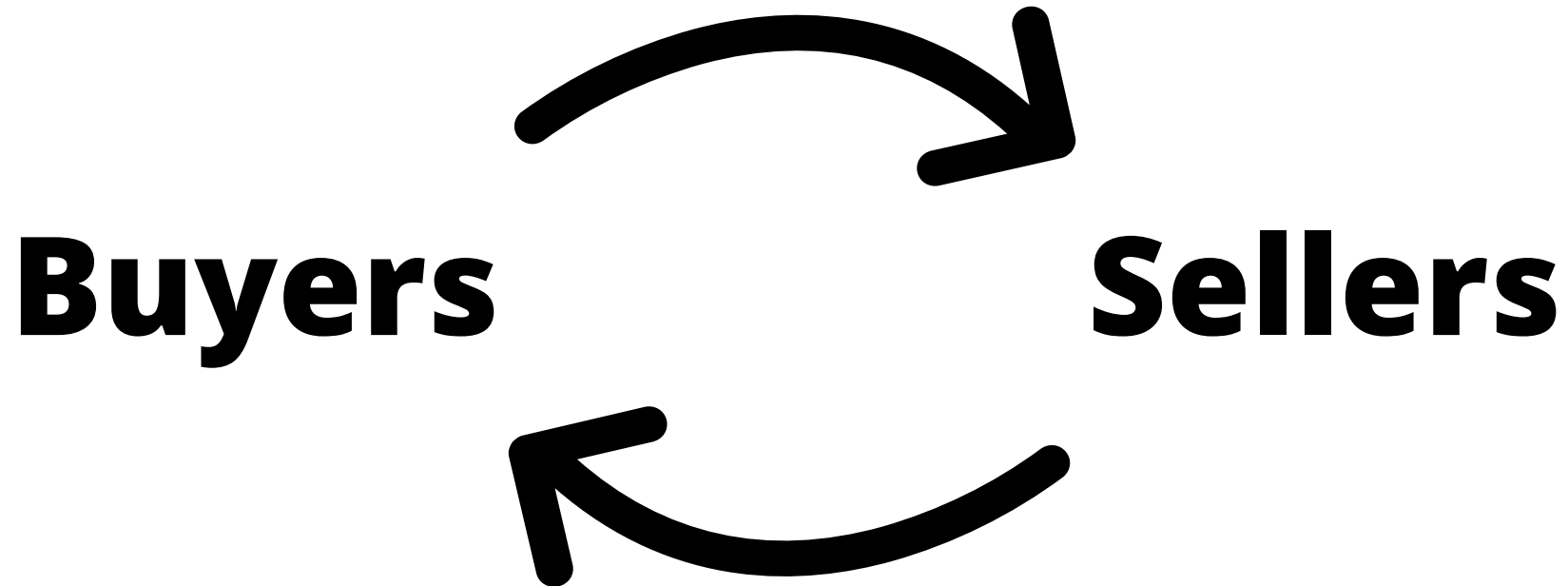
E-commerce



AWS



Marketplace network effects

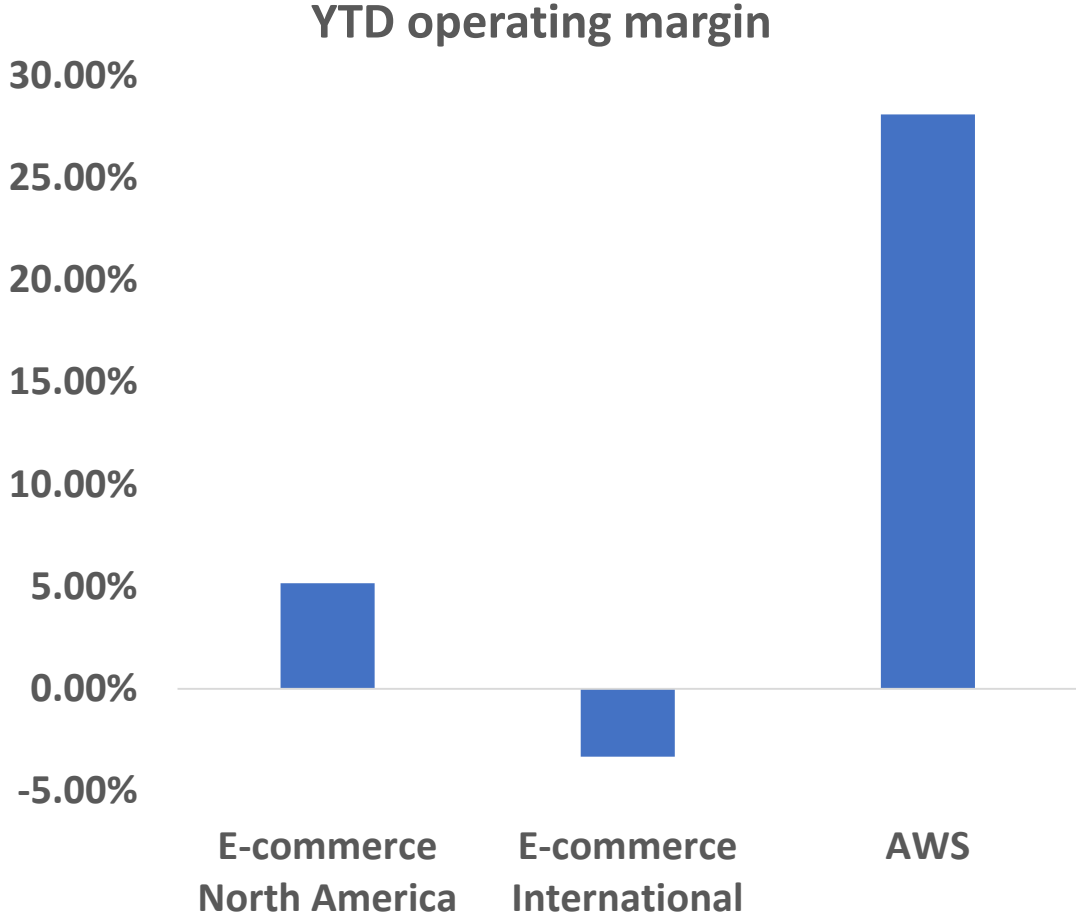


AWS switching cost

**Companies take 1-2+ years to switch
cloud providers**

**“we cannot easily switch our AWS
operations to another cloud provider”
(ZG 2017 10-K)**

How AWS benefits e-commerce



AWS subsidizing e-commerce = lower prices for longer

E-commerce competitors don't have a high margin business to subsidize their low margin e-commerce business with

**How durable
are Amazon's moats?**

Economies shared + network effects

Scaled economies shared and marketplace network effects get stronger with scale

=

Each year, Amazon's lead gets larger

AWS switching cost

This is a very durable moat

Really have to mess up for a customer to spend 1-2+ years switching to a competitor

Physical infrastructure

**Extremely hard to replicate
in a reasonable period of time**

**Billions of dollars + many years to build
logistics network and data centers**

Case Study #2

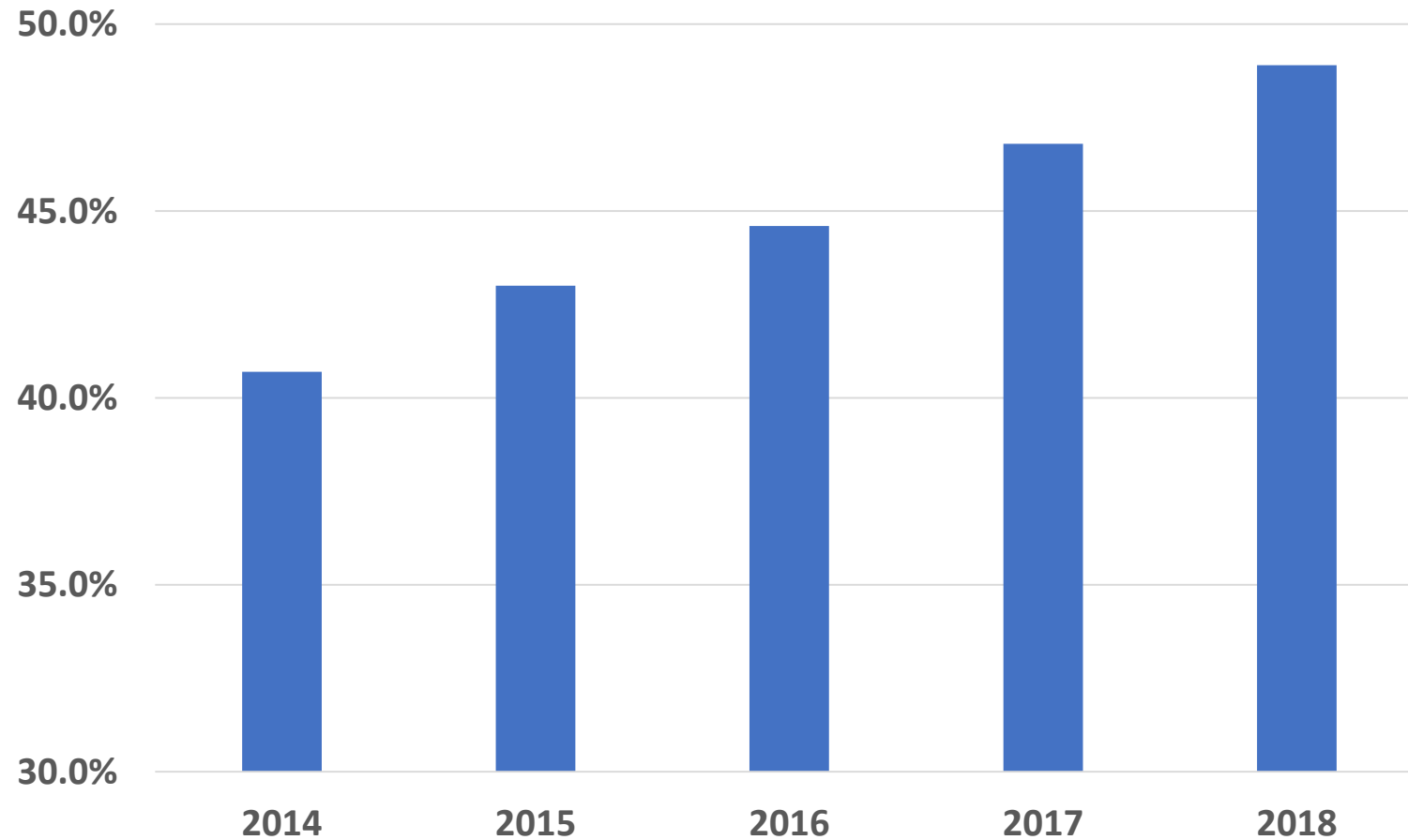
Facebook (FB)

Facebook Overview

- Owns 4 of the largest social media and messaging services in the world:
 - Facebook (2.2B users)
 - Instagram (1B users)
 - WhatsApp (1.5B users)
 - Messenger (1.3B users)

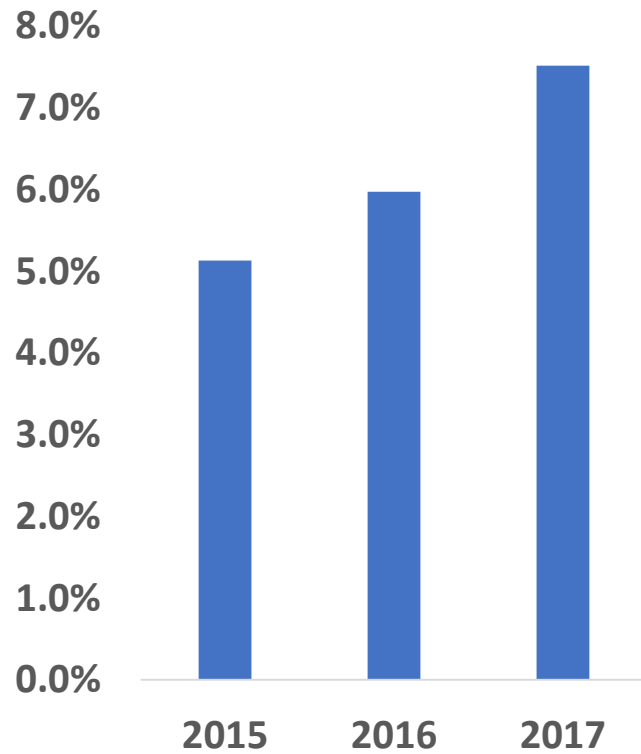
Facebook's Tailwinds

Internet penetration

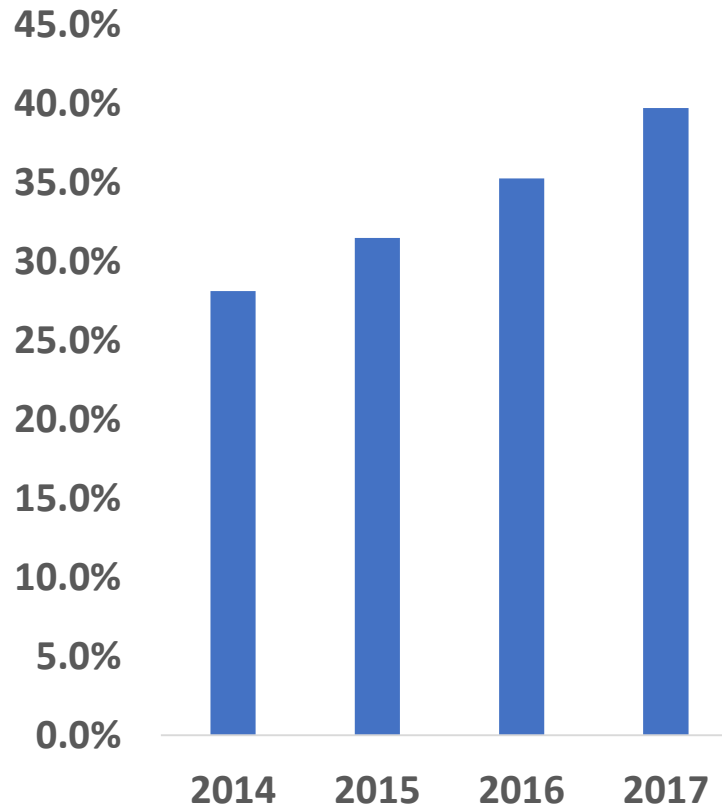


Digital ad spend

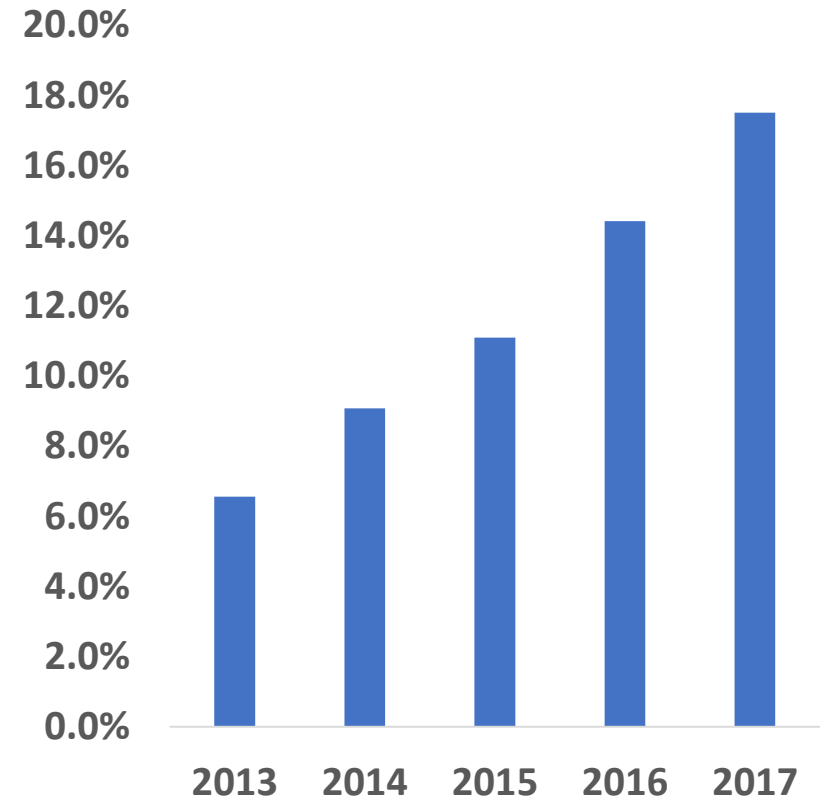
Total ad spend growth



Digital ad % of total



FB market share of digital



Facebook's Competitive Advantages

Network effects

Users

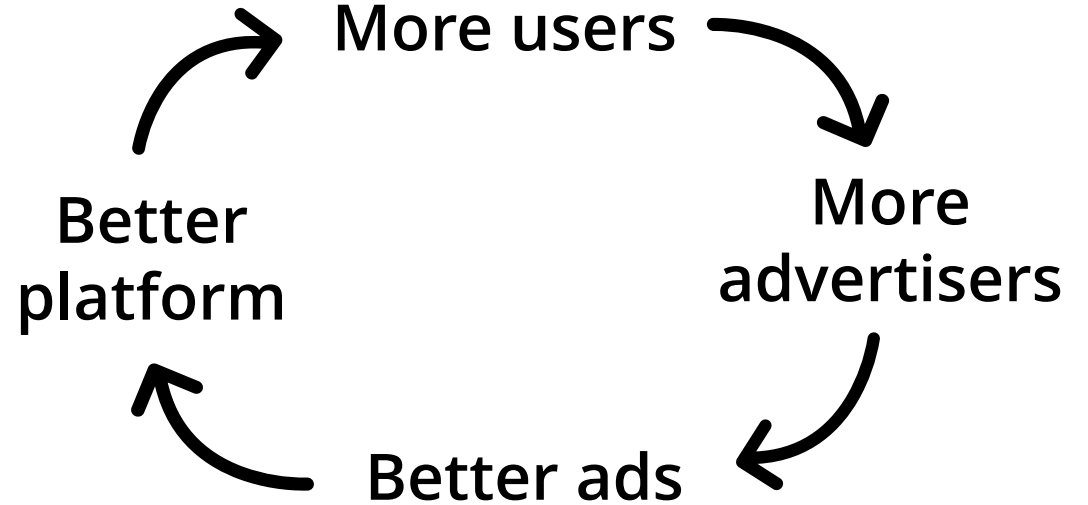
More users



Better
platform

Advertisers

More users

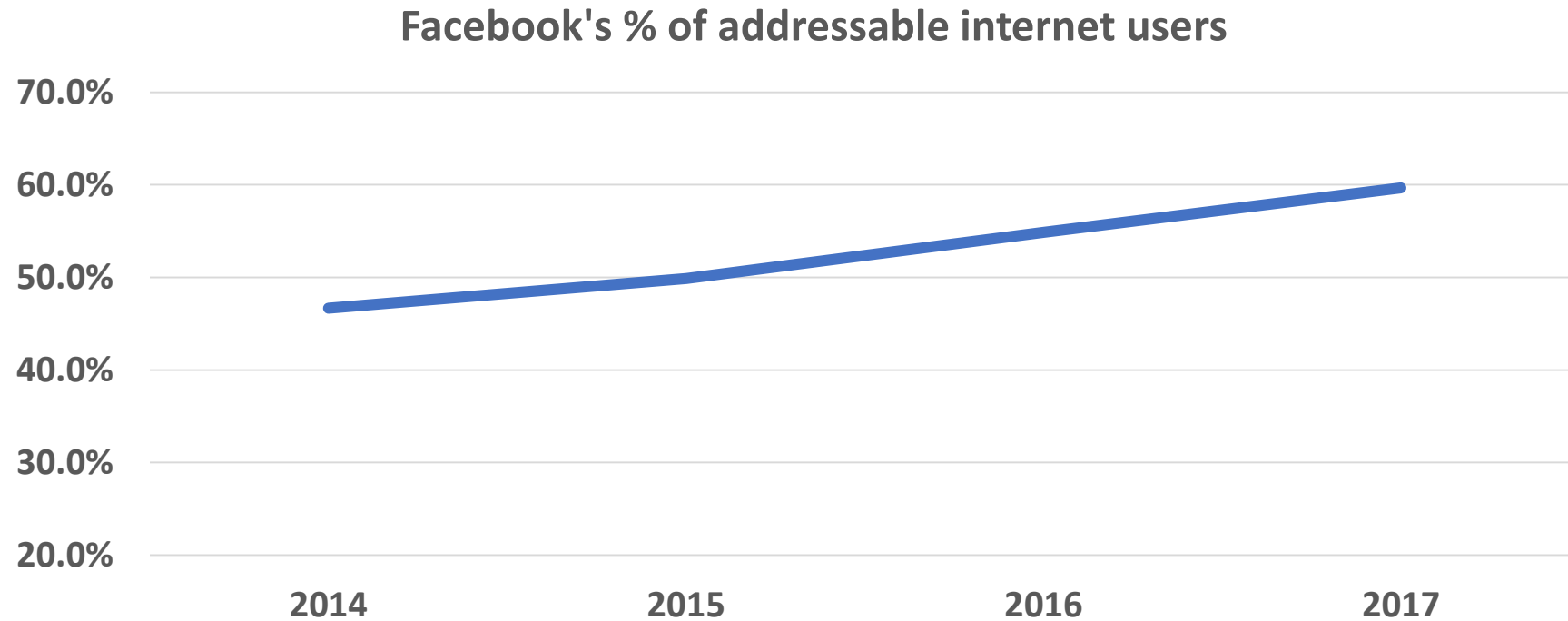


Better
platform

More
advertisers

Better ads

Scale



~60% of all Internet-connected humans on Earth use one of Facebook's platforms!

User switching cost

No comparable platform =

The option is Facebook vs no Facebook

**Facebook is the default way to prove
your identity online**

Advertiser switching cost

**Facebook, Instagram, WhatsApp,
Messenger operated as one ad platform**

One platform = simple and efficient

Barriers to entry

Government regulation **entrenches incumbents** due to **compliance expense**

Facebook growing its security and content review teams to 20,000

**How durable
are Facebook's moats?**

Ability to keep advertisers

**Facebook has the most users +
Best ad targeting =**

Advertisers won't leave if users are there

**Facebook's durability is dependent on
keeping its user base**

Ability to keep users

**Every generation is different:
Taste in music, movies, etc**

Gen Z not as active on Facebook

Ability to keep users

Millennials through baby boomers are on Facebook en masse

Gen Z very active on Instagram

A generation not using a Facebook service is a very long-term risk (after Gen Z)

Case Study #3

Tesla (TSLA)

Tesla Overview

- **Leading the inevitable change to electric vehicles:**
 - Model S: best-selling large premium sedan
 - Model 3: best-selling mid-sized premium sedan
 - Model X: high-end large SUV (sells well, but not #1)
 - In development: crossover SUV, semi-truck, new sports car
- **Vision is to own the entire solar energy stack: solar roofs to capture the energy + Powerwalls to store it and power the house and Tesla cars**

Does Tesla have any moats?

- Network effects: very little
- Scale: much smaller than other automakers
- Switching costs: no customer lock-in
- Brand name: less name recognition than competitors

**Tesla does have some
advantages though...**

Cars transitioning to software

Tesla is **only tech-first automaker**

All their cars built as one piece of software

EVs are different

**Fewer parts + different supply chain +
different manufacturing process**

**Tesla is 100% focused on EV manufacturing,
others are just learning it**

Better car buying experience

Modern, luxurious stores

**No sleazy car salesmen
(don't work on commissions)**

No negotiating on price



Better car owning experience

Over-the-air updates

Mobile repair service

Controls the customer experience

**Tesla owns their dealerships, repair shops,
and charging stations**

**The big automakers don't control most of
their customer interactions**

**How durable
are Tesla's advantages?**

All their advantages can be copied

There's no reason other automakers can't:

Transition supply chain and manufacturing

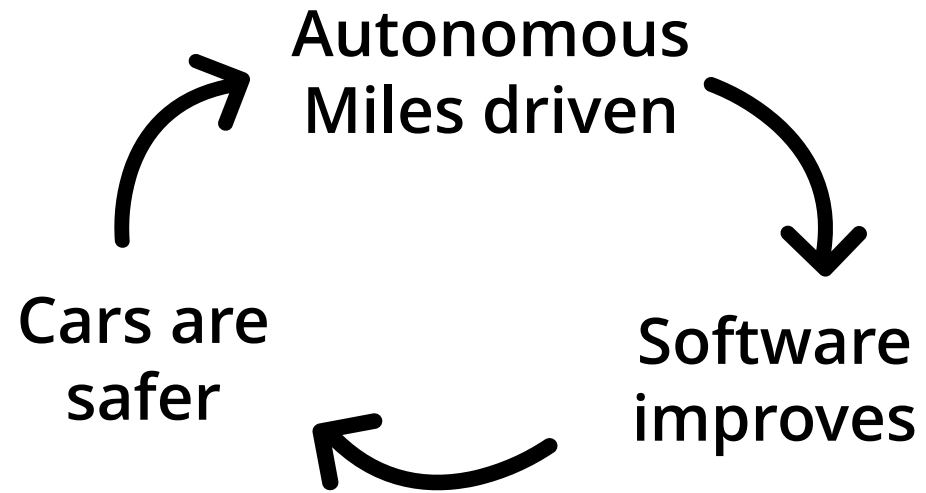
Improve dealership model

Focus more on software

Easier said than done?

**Potential for
stronger moats?**

Self-driving network effects



Solar energy

Customer lock-in via owning
the entire solar energy stack:

Solar roof

Powerwall

Car



Conclusions

- Tesla has the softest moats, but also the most upside
 - Especially if they build stronger moats via autonomy or packaging solar energy solutions
- Facebook has many strong moats, but they are the most susceptible to consumer preferences
- Amazon has the most durable moats
 - Scale of their physical infrastructure is the most durable moat: impossible to replicate without tens of billions of dollars and many years to build out

Why I don't own Tesla

**Autonomy uncertainty:
Major risk and major opportunity**

**Would be more interested if:
Consistent profitability
Debt load decreases**

Why I don't own Amazon

Since I've been following, the stock hasn't been cheap enough

Would love to own it at the right price

Has one of the strongest and most durable moats I'm aware of

Why I do own Facebook

I think the user risk is a much longer-term risk than others do (10-20+ years)

Trust Zuckerberg is a very high-quality CEO

Tons of recent negative headlines that I don't think affect the company long-term have made the stock very cheap

Questions?

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