Tidefall Capital LP
Q1 2023
April 25, 2023

	Q1 2023	**Since Inception** *(Jan 21, 2020)*	**Since Inception** *CAGR*
TIDEFALL LP *(Net)*	6.2%	203.9%	41.6%
S&P *(TR)*	7.5%	30.0%	8.6%
TSX *(TR)*	4.6%	26.1%	7.5%

What's old is new again. Two of our prior investments moved down significantly since our sale and we have begun re-entering the positions, with the bull case still intact.

With the Nintendo Switch entering its seventh year, investors are growing fearful of the upcoming console cycle. Contrary to recent press reports, we are confident that the next generation of the Switch will remain backwards compatible. When combined with world class IP, a unified hardware strategy and an expanding online network, Nintendo is likely to experience a smooth transition.

The Switch has now shipped 122 million units, outselling the PS4 and more than doubling the sales of the Xbox One. Nintendo is increasingly moving to an iPhone-like upgrade cycle where developer and customer buy-in is more assured. Switch online memberships launched in late 2018 and have already increased to 36 million accounts, providing over a billion dollars in extremely high margin, recurring revenue. The recent success of the Super Mario Bros movie, which despite having just tepid reviews from critics, has become the highest grossing video game adaptation of all time and is likely to end up with box office revenue inline with a Marvel film. This is just a small selection of Nintendo's massive library of characters and helps demonstrate the unrivaled level of IP that is hidden at the company. We expect more video adaptations will follow and bring additional demand for consoles and in person experiences such as the recently unveiled Super Nintendo world at Universal Studios. The shares today trade at 11x trailing earnings, ex-cash which we believe does not reflect the Disney-like flywheel qualities that are emerging.

We exited Match Group in early 2021 after shares tripled from the 2020 lows. Like many covid beneficiaries Match was unwise with its capital allocation during this tech bubble and embarked on a massively overpriced and distracting acquisition in South Korea that ultimately led to the CEO abruptly 'resigning'. Despite weak execution, Match's core dating apps, Tinder and Hinge, continue to strengthen and speak to the importance of scale in the industry. After years of dominance in English speaking countries, Hinge is now officially expanding internationally and is quickly moving up the app store rankings. The demand is certainly there; for example, in November, Hinge became the number three most downloaded app in the Nordics despite having only fully launched in just Sweden. Bumble is the app most directly feeling the heat and in late 2022, they rolled out their 'Compliments' feature which lets men write to women prior to matching, directly contradicting their long time marketing of only allowing women to make the first move.

Tinder currently produces 6x the revenue of Hinge but we expect this gap to narrow. Hinge is by far and away the best relationship focused dating app. Its tagline 'designed to be deleted' strongly resonates with its users who are older and have higher incomes than those of Tinder. We believe that the market is underestimating the network effects of Hinge and the online dating industry in aggregate. Match currently trades at 16x 2023 estimates, an attractive price if growth can continue at even a fraction of its prior level. Although not required for our Match thesis to succeed, we also believe investors may be missing a potential upside surprise.

In late 2022, the EU Digital Markets Act entered into force, targeting gatekeepers to ensure 'fair competition and more choice for users'. Most legal analysts expect that mobile platforms will move to offer third party app stores by the full application of the Law in March 2024. It is our view that rather than risk users flocking to third party app stores, Apple and Google may unexpectedly announce a global change in app store commission rates that reduce app stores fees from today's 30% to a more sustainable number. Match Group is one of the highest app store payers in the world with $600m spent on fees last year. As a proportion of revenue, Match's app fees are significantly higher than the larger players like Spotify and Netflix which are primarily web based signups, meaning Match Group would be disproportionately positively affected by any app store policy reduction.

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