

Tidefall Capital Management LP
Q3 2020
October 15, 2020

	Q3 2020	YTD*
TIDEFALL <i>(after fees)</i>	25.40%	63.38%
S&P	8.93%	2.36%
TSX	4.73%	-6.15%

*Inception: January 21, 2020

Facebook is one of the most profitable businesses in history. Its content is free, its distribution is free and its value improves as more users join. Revenue is a function of ad rates which are derived from understanding its customer, a data point that improves over time due to advancing algorithms (assuming engagement and tracking stay constant).

There are very serious concerns with social media's effect on society and require updated government regulation but they are ultimately solvable. In addition, competition will remain fierce but with such a well developed ecosystem, new social media competitors are unlikely to be disruptive. WhatsApp has billions of users, Facebook Groups has created inescapable micro-communities and Instagram remains a vibrant network even after the ascent of TikTok. Facebook's ability to move their platforms into in-app commerce offers an exciting new vertical that is likely worth billions. Facebook is trading at 19x 2022 consensus estimates (ex-cash), the same multiple as the S&P.

Hinge has quietly become a second jewel in **Match's** crown. Positioned as an anti-Tinder, relationship focused app, it's consistently been gaining share against its closest competitor, Bumble. Hinge has now grown 10 fold since Match's initial investment in the company in September 2017. Its high income, urban millennial user base represents an attractive long term monetization opportunity. In the second quarter, Hinge's average revenue per user increased by 60% year over year to ~47 cents per day. The most important premium feature in any dating app, "*who likes you*", continues without a paywall, dramatically understating Hinge's potential profitability. Today, Hinge is estimated to have only 0.6% paid subscriber penetration of 25-34 year old singles in the North American and Western European market.

In late February, **Netflix** introduced a Top 10 row to its user interface. Although a simple change, it eliminated the paradox of choice for users and greatly diminished the common complaint that "*there's nothing good on Netflix*". The global distribution that Netflix is able to offer creators is unprecedented, unrivaled and allows for a massive flywheel effect. Netflix only has a slight lead in subscribers over Amazon Prime, but nearly 5x engagement. The Top 10 list is creating a global 'water cooler' effect; if you want to be a part of the conversation, you must have Netflix.

Valuation is a sticking point for many investors on Netflix. However, it's important to remember that founder Reed Hastings is playing a longer game than the hired executives at many of the new streaming competitors. At \$13 per month, with 2.5 hours per day of viewership, over two accounts, the cost of Netflix is less than 9 cents per hour.

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