LVS ADVISORY

Investment Results	Full Year 2019	Full Year 2020	Year-To-Date 2021	Since Inception[1]
LVS Growth	**-**	**65.1%**	**6.9%**	**76.4%**
Benchmark: S&P 500 Total Return Index	-	*17.8%*	*1.6%*	*18.9%*
LVS Defensive	**9.3%**	**15.5%**	**5.0%**	**32.5%**
Benchmark: S&P Long-Only Merger Arb Index	*6.1%*	*4.7%*	*0.4%*	*11.5%*

Note: results presented gross of advisory fees and net of brokerage commissions. Investment results are as of February 28, 2021.
(1) LVS Defensive was incepted on January 1, 2019. LVS Growth was incepted on January 1, 2020.

March 3, 2021

Dear Investors,

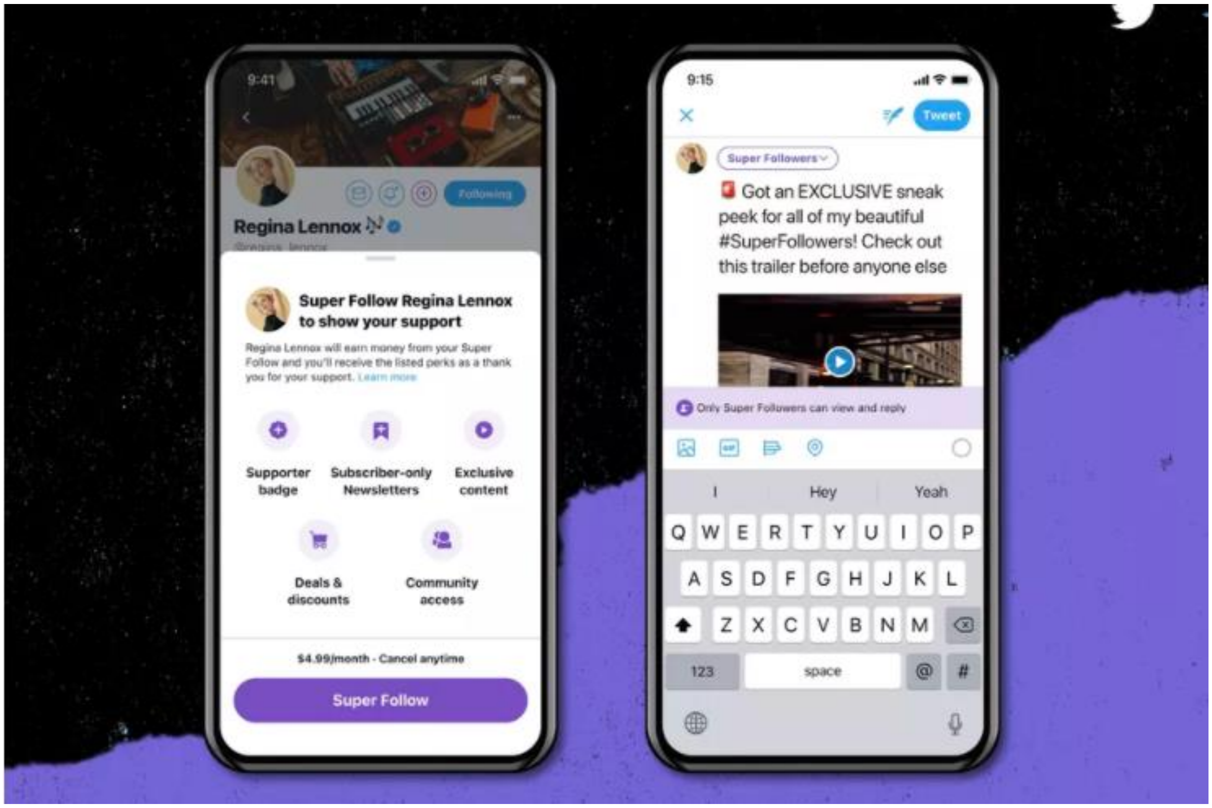
In this note, I will provide an update on Twitter and discuss our investment in the online dating industry.

Twitter update… that was quick!

Last month [I detailed our investment thesis on Twitter](). The write-up framed Twitter as a turnaround story that could significantly grow its revenue if it made a few changes to its platform and products. Betting on a company to change is always harder than betting on a company to continue executing an existing strategy but there is generally more upside if a company is able to successfully pivot and the market recognizes the success.

At an investor meeting last week Twitter announced significant changes to its product strategy that gave bulls everything we hoped for and more. The company disclosed plans to allow users to "Super Follow" accounts with subscription-based payments and micro-transactions. This builds on top of Twitter's recently launched tools to enable content creators to publish paid newsletters and improvements made to its advertising product.

The "Super Follow" feature is particularly exciting because it provides creators with new incentives to actively use Twitter and build a stronger relationship with their subscribers. This should lead to a step-change in user growth, platform engagement, and monetization from advertising and non-advertising sources. The graphic below is from the Twitter presentation and provides a preview of what the new feature could look like.



I have also had the chance to test the new live audio platform "Twitter Spaces" that is set to compete with Clubhouse and am genuinely impressed. Live audio rooms on Twitter are additive to the conversation already happening on Twitter and seamlessly fit into the existing browsing experience.

While it is very early, I am very confident that Twitter can compete and win against Clubhouse in live audio. Twitter already has the user base, has already figured out how to moderate conversations, and doesn't need to worry about burning capital or monetization (because Twitter is already monetized). The best part is that Clubhouse has done the painstaking work of proving product-market fit. This should be a home run for Twitter.

Twitter believes that it is on track to double its user base and total revenue over the next three years. This is way ahead of what analysts had projected before last week and could still prove to be quite conservative if the new products really take off.

Twitter's stock has rocketed higher in the short time we have owned it but we think the company is just scratching the surface of its potential. The stock still looks quite cheap to us relative to its long-term potential and we plan to stay the course.

Online dating… another exciting growth theme

In last month's note, I described my framework of looking for the "inevitable outcomes". The secular growth of the online dating industry fits this concept. The chart below elegantly tells the story. Before the internet, most people met their significant others through friends, family, or at in-person events. Today, the leading way people make romantic connections is through the internet and it's not even close.

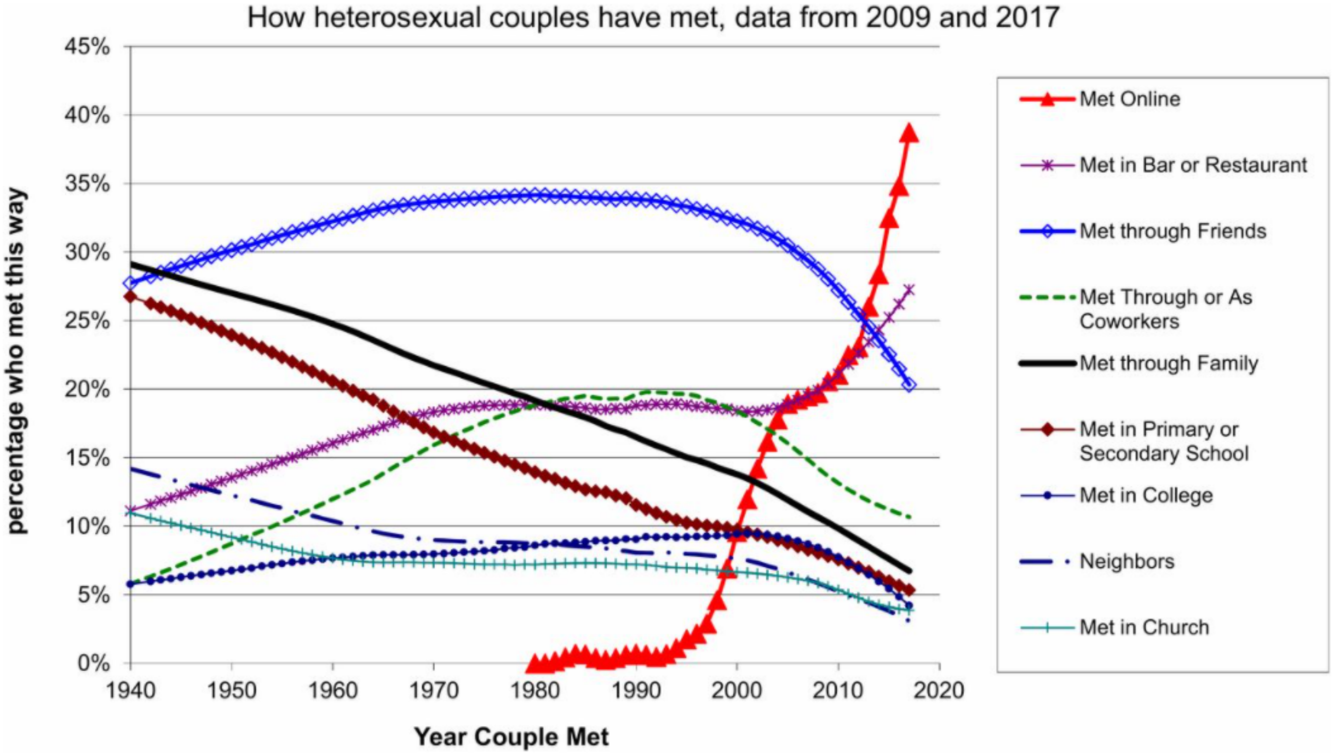


Chart Source: PNAS.org.

Although we don't yet have the data, this trend has almost certainly been accelerated by the Covid-19 pandemic where meeting online first is the safest option. However, the chart above doesn't tell the full story. Although most daters are using online apps such as Tinder, Hinge, and Bumble, most people are not yet paying to use the apps.

Bumble, which filed to go public in February, noted in its IPO prospectus:

"Despite addressing the most basic human needs—intimacy, romance and human connection—only 16% of online dating users in North America are paying to use online dating apps and only 15% of freemium mobile app users are paying to use freemium mobile apps. In contrast, the majority of American households pay for monthly subscriptions to entertainment and commerce offerings: almost three-fourths of U.S. households pay for a video streaming service and almost 60% have an Amazon Prime membership."

There is plenty of room for both adoption growth and improved monetization. Younger demographics are mobile native and overwhelmingly prefer using online dating apps. Online dating has a lower (but rising) penetration rate in developing countries. Finally, there is an increasing willingness for consumers to subscribe to online services and make in-app purchases.

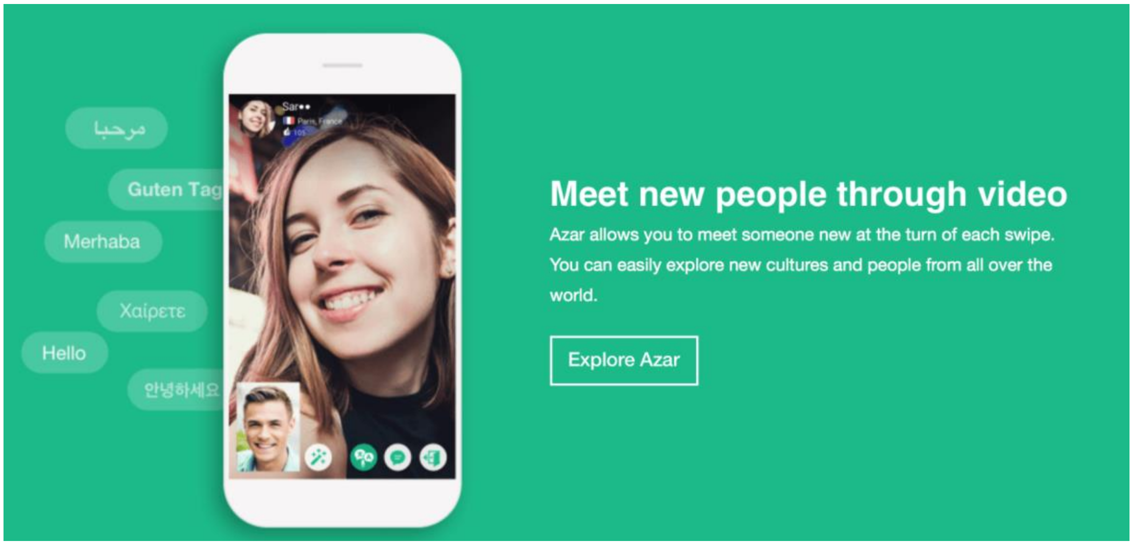
Many investors think the major online dating companies are relatively tapped out in terms of how much more they can grow, but we think the industry has a lot more potential and should be an exciting area of investment for many years to come.

Match Group makes a surprising acquisition

We own shares of Match Group in our Growth Portfolio. Match is the undisputed global leader in online dating and owns a portfolio of 14 marquee dating platforms including Tinder, Hinge, OkCupid, PlentyofFish, Match.com, and more. Similar to the dynamic discussed in our stock pitch on online gambling company Flutter Entertainment, Match Group's multi-brand strategy allows it to capture multiple market segments while benefitting from shared overhead and technology expenses (enabling higher margins). In short, Match Group is an extremely well-run business operating in an attractive industry.

One under-appreciated aspect of investing in well-run companies is the ability for the operators to consistently find new avenues for growth and market extension. Match Group has once again raised the bar on its growth potential with its recently announced acquisition of Hyperconnect.

Hyperconnect is a video-based social networking and entertainment company that operates two flagship apps popular in Asia: Azar and Hakuna Live. Azar is a leading video and audio chatting app which has very strong technology around instant voice and text foreign language translation. Hakuna Live is an interactive, social live streaming app that enables group video and audio broadcasts and is monetized with virtual gifting and tipping. Hakuna Live has strong technology around augmented reality filters and video streaming. The two apps have over 550 million cumulative app downloads since launch and are extremely popular in South Korea and Japan.



Hyperconnect isn't a dating company, it's a social networking and entertainment company and this deal marks Match's expansion to other forms of online social interaction. Match's CEO stated that the "social discovery" market could be twice as big as the online dating market and believes this acquisition gives the company an exciting new growth opportunity. The acquisition also provides Match with a beachhead in Asia, a market where it has historically been under-indexed.

However, the more interesting implication is what Match could do with Hyperconnect's technology in its existing dating apps. Historically, online dating has primarily been a photo and chat-based experience, but last year Match started testing video features on its Plenty of Fish platform and subsequently introduced video features on Tinder. Given the timing of the Hyperconnect deal, Match has likely figured out that adding video and other interactive features to its mobile app experience can make the user experience more engaging and open the door to new paid features.

This makes complete sense when you think about how engaging (and addictive) a platform like TikTok is. Now imagine a dating platform that is as entertaining as TikTok but as good as connecting people as Tinder. What could that be worth?

Podcast appearance discussing the online dating industry

I recently jumped on The Motley Fool Industry Focus podcast (click here to listen or click here to read a transcript) to talk about the online dating industry. We covered the Bumble IPO, how Match and Bumble performed during the Covid-19 pandemic, and more.

Until next time

Thank you for your continued interest in LVS Advisory. We have several exciting projects ongoing and I can't wait to discuss them in future updates.

Best regards,

Luis Sanchez

Luis V. Sanchez CFA

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