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The Most Important Moat

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Saber's Investment Strategy

Saber's strategy is to make concentrated investments in high-quality, well-managed businesses at attractive prices.

Simple, but not easy.

Key Question to Consider

Is the product or service a good deal from the customer's point of view?

Are These Products Undervalued?

- **VRX** – Is the toenail fungus ointment for $3,000 a tube good value?
- **ESPN** (Disney) – Is $7 per month per subscriber (for 87 million subscribers) collectively good value?
- **Costar** – Are the massive price increases at Loopnet the result of a great value proposition or the result of owning the gas station during a time of a supply shortage?
- **Gillette** – How many blades do you really need on one razor?

Companies With Undervalued Products/Service

- **Heska** – Saving vets significant amounts of money for the same basic machine that Idexx provides at a much higher price level
- **Dollar Shave Club –** Cheaper razors with a more convenient delivery method
- **Trader Joes –** Great quality at lower prices than Whole Foods
- **Apple's iPhone –** Even if you don't factor in the carrier subsidies, the iPhone is likely undervalued
- **Costco** – Continually passes on it savings to customers by keeping gross margins artificially low
- **Tencent** – WeChat is an incredible value proposition for its users

Distribution Advantage – This Time is Different

Distribution advantages have deteriorated for big, profitable incumbent companies:

- Costs of distribution have declined
- Companies can sell directly to the consumer much easier
- Products can scale faster
- Social Media has leveled the playing field for smaller companies with no advertising budget
- Consumers have many more choices now

Brands – This Time is Different

Is that brand really a brand?

- Does the company have a true brand that offers a valuable product?
- Or is it a highly profitable incumbent whose high margins are due to an overpriced product and an eroding “shelf space” distribution advantage?

Large market share and well-known products don’t necessarily equal a moat.

The Opportunity Bezos Capitalized On

"The balance of power is shifting toward consumers and away from companies. The right way to respond to this if you are a company is to put the vast majority of your energy, attention and dollars into building a great product or service and put a smaller amount into shouting about it, marketing it."

- Jeff Bezos

Summary Points

Is the company offering good value for its customers?

Be Wary Of:

- **Brands** – don't assume a company has one just because it has large market share
- **High profit margins** – still a great attribute, but much less of a moat in today's world
- **Toll Road Businesses** – also still a great asset, but only if customers "driving" across it are happy
- **Incumbents with Perceived Competitive Advantages** – barriers to entry are much lower, distribution is cheaper, middleman is often not essential anymore, easier to get to scale, lower advertising costs, which all lead to much more consumer choice

Questions/Comments?

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Thank You!