

Rentrack (RENT) – Mark Cuban is Selling Shares Hand Over Fist. I’m Joining Him.

Date: April 15, 2014

Note: this write-up was sent out to [my network](#) on the morning of 9-Apr when RENT was trading at \$55 / share. It has since fallen to \$46.50. If you are an accredited investor / buysider and want to get on my VIP research list, email me at analyst @ this domain.

I am in the middle of diving into my 7th [investment theme](#) – a theme I call “cord shaving” (you can read about it [here](#)). Inside of this theme is an interesting little company called Rentrack.

Rentrack measures TV and movie engagement and then sells this data to movie studios, TV networks / stations and advertisers / ad agencies. RENT currently has 2 divisions, but is trying to sell the second ([source](#)):

1. Advanced Media and Information (AMI) which is a recurring fee-based business model with 3 units:
 1. Box Office Essentials: Box office ticket sales
 2. TV Essentials: TV viewership information
 3. OnDemand Everywhere: measures performance of on demand content
2. Home Entertainment (HE) which includes DVD distribution services and data measurement on home video rentals

The HE division has been in a structural decline for years (revs have gone from \$82MM in 2009 to \$45MM in 2013); it’s a rather lousy business to boot (gross margins of 28% in 2013). Given these two characteristics, I’m not certain that Rentrack will be able to find a buyer – EBIT has come down from \$11.4MM in 2011 to just \$7.1MM in 2013 (note: it’s unclear to me if management is properly allocating overhead to that EBIT number). If a buyer does step in, any number over \$30MM would be a big surprise to me – in any event, it’s now considered a “discontinued operation” per their 20-Mar-14 press release ([source](#)).

For investor purposes, RENT is now a media information pure-play focusing on box office data, TV viewership data and on demand data.

RENT’s box office business is a decent little business. Decent is probably an understatement; it’s a monopoly (it became a monopoly after the Dec-09 acquisition of Nielsen EDI). Using a call center, RENT contacts over 85,000 movie theaters in 36 countries and reports global box office ticket sales to the seven major Hollywood studios, plus +650 theater customers. I suspect it’ll stay a monopoly as building reporting capabilities on RENT’s scale is an incredibly difficult task and it’s not a big enough market for anyone else to bother (revenues in this segment were just \$18MM in 2011, \$21MM in 2012 and \$24MM in 2013; low teens annual growth has been driven by price increases and new clients – particularly in China).

RENT’S TV Essentials unit combines consumer viewership information with other databases

(purchase behavior / customer segmentation data / marketing data / advertising data) to provide intelligence on TV viewers. This data helps TV networks optimize their ad inventory and it helps advertisers and advertising agencies make better ad purchasing decisions. TV Essentials is currently tracking the viewing patterns from more than 29MM televisions in 13MM households.

RENT's OnDemand Everywhere reports help content providers analyze the performance of on demand content. The Company has partnered with every operator that offers VOD programming and is ingesting information from over 107MM televisions in North America.

The common thread between RENT's TV Essentials business and their OnDemand Everywhere business is how the Company sources their information: by buying it from cable, satellite, and telco partners. You see, it isn't RENT's data... they have no proprietary claim to it. RENT is simply buying TV viewership data on multi-year (2 – 4 year) contracts, combining it with data they buy from marketing companies, and delivering reports to customers. **Let me repeat this very important point: none of this data is proprietary to Rentrack; they simply operate as a middle-man between data warehouses and add a reporting layer on top.** The company confirms this in their K under the 'Risk Factors' section:

[...] data providers may be reluctant or ultimately decide not to grant us adequate access to their digital transaction data, which is a key component of our systems. The owners of the data may also impose greater restrictions on the use and reporting of data, which may make it difficult to realize fully the opportunities we anticipate for our products and related services ([source](#)).

Also critically important: RENT's access point for capturing their TV Essentials data is the set-top box (for OnDemand, the access point is the [headend](#) of cable operators) – Bill Livek, CEO, describes the importance of set-top box integration during their [2Q11 conference call](#):

[...] we recently hosted our third annual Industry Insight Forum where we discussed the state of TV measurement in the Twenty-First Century. The theme of the meeting, The Data Revolution, focused on granular and stable and segmentation insights that **only set-top box data intelligence can provide.**

This brings me back to one of the key points in my ["cord shaving" theme](#): set-top box makers are about to be disrupted. As Apple, Amazon, Google and others attack the television service market, the market share of the incumbent set-top box makers will inevitably decline. This shift will likely impact the data RENT receives and marginalize the usefulness of Rentrack's reports. Once investors put these pieces together, they'll begin to question the sustainability of the torrid growth of RENT's TV Essentials business (the business unit that has recently gotten the [sell side giddy](#)):

FISCAL YEAR ENDED MARCH 31

Numbers in thousands, except per share amounts

2013

2012

2011

MAJOR COMPONENTS OF REVENUE

Box Office Essentials	\$ 23,949	\$ 21,046	\$ 18,255
OnDemand Essentials	\$ 12,562	\$ 11,143	\$ 10,537
TV Essentials	\$ 17,599	\$ 9,226	\$ 5,792
AMI Division	\$ 54,110	\$ 41,415	\$ 34,584

Let's consider what today's buyers are getting:

There are 15.26MM diluted shares (that's 12.2MM shares per the last Q plus ~3MM options that are no longer anti-dilutive given the recent climb in the stock), which values the Company at \$840MM. Take out the \$20MM of surplus working capital and the enterprise value of RENT is \$820MM. Let's then assume the HE division fetches \$20MM in a sale. That means the market is valuing the continuing operations at \$800MM. So for \$800MM, you get:

- A small box office reporting monopoly with \$27MM in annual revenues and \$6MM in direct call center costs (from there you have to assign corporate overhead).
- Two TV reporting segments doing approx. \$50MM in revenue that (1) rely on partners for their existence, and (2) which face a new level of competitive threat (it's not just Nielsen, Kantar and TiVo any more... it's now Amazon, Apple, Google, and the entire IP TV movement).

\$800MM seems like a steep price to pay for those assets given today's uncertain landscape, doesn't it?

It appears I am not the only one that believes RENT's price has become disconnected with its fundamentals: **in the last three weeks Mark Cuban has been selling his Rentrack shares hand over fist.** Before I get to the details let me first provide some background...

Mark Cuban has been a long-time owner of Rentrack stock. He started buying in 2004 ([source](#)) and amassed an 8.7% stake in the Company by September 2011 ([source](#)). His thesis for buying was fairly simple:

I think the company is the leading provider of national and local data for the TV industry. I see it as a business with significant upside, so I increased my investment ([source](#)).

Kudos to Mark. He was right. But today it's clear he no longer sees "significant upside". In fact, I'd argue he sees significant downside based on his recent trades:

- On 26-Mar-14, Cuban shorted 25k shares of RENT at \$62.08 ([source](#)).
- He also sold one tranche of calls on 200k shares at a strike of \$50 (expire 17-Oct-14).
- He also sold a second tranche of calls on 200k shares at a strike of \$55 (expire 17-Oct-14).

- On 27-Mar-14, Cuban shorted 25k shares of RENT at \$60.49 ([source](#)).
- From 28-Mar-14 to 2-Apr-14, Cuban shorted 50.274k shares near \$60 ([source](#)).
- On 2-Apr-14, Cuban sold one tranche of calls on 100k shares at a strike of \$50 (expire 17-Oct-14).
- On 2-Apr-14, Cuban sold a second tranche of calls on 100k shares at a strike of \$55 (expire 17-Oct-14).

Over the course of a week, Mark Cuban sold a bit over 100k shares of stock and additionally sold in-the-money call options on 600k shares of stock. He only held 772,900 shares, so in one fell swoop he effectively **de-risked 91% of his ownership in Rentrack**.

It's not often you see an extremely smart guy with a long ownership history sell hand over fist like this. **It's enough to convince me to join him.**

Post Script: One other thing that bothers me about Rentrack – executive compensation seems out of whack. Management is going to have a hard time convincing me why they deserve between \$5.1MM - \$6.3MM in annual comp (majority is stock options but still, it's a large number for the size of the Company):

2013 Summary Compensation Table

The following table summarizes information regarding compensation for the three fiscal years ended March 31, 2013, 2012, and 2011, earned by individuals who served as chief executive officer, chief financial officer, and the three other most highly compensated executive officers of Rentrack during fiscal 2013.

Name and Principal Position (1)	Year	Salary	Bonus	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation	All Other Compensation (4)	Total
William P. Livek Chief Executive Officer	2013	\$199,650	\$125,000	\$ 0	\$ 0	\$100,000	\$ 82,409	\$ 507,059
	2012	181,500	100,000	304,986	1,448,939	100,000	82,018	2,217,443
	2011	165,000	75,000	0	1,854,588	100,000	65,527	2,260,115
David Chemerow Chief Operating Officer and Chief Financial Officer	2013	\$199,650	\$125,000	\$ 0	\$ 0	\$100,000	\$ 24,618	\$ 449,268
	2012	181,500	100,000	233,945	748,222	100,000	18,454	1,382,121
	2011	165,000	75,000	0	2,781,882	100,000	11,890	3,133,772
Amir Yazdani Exec. Vice President & Chief Information Officer	2013	\$157,590	\$36,000	\$381,899	\$935,990	\$89,884	\$10,089	\$1,611,452
	2012	153,000	0	0	164,814	52,500	9,776	380,090
	2011	150,000	5,200	0	0	70,000	7,761	232,961
Ron Giambra President, Theatrical Worldwide	2013	\$267,825	\$ 0	\$ 0	\$935,990	\$237,141	\$ 6,006	\$1,446,962
	2012	260,024	0	0	164,814	180,000	3,790	608,628
	2011	254,925	0	0	0	138,963	416	394,305
Cathy Hetzel Corporate President	2013	\$272,950	\$100,000	\$ 0	\$935,990	\$104,378	\$ 7,926	\$1,421,244
	2012	265,000	75,000	0	164,814	0	8,191	513,005
	2011	215,270	65,000	0	0	0	6,887	287,157

Source: http://www.renttrak.com/downloads/Renttrak_2013_Proxy_Statement_Final.pdf