



Bill Smead
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Engulf and Devour

Dear fellow investors,

As Amazon prepares to buy MGM Studios and announced an effort to put pharmaceutical stores all over the U.S., we are reminded of one of my favorite comedy movies, *Silent Movie*. Mel Brooks produced this movie as the third in a trilogy of comedies including *Blazing Saddles* and *Young Frankenstein*.

The film is produced in the manner of a 20th century silent film with intertitles instead of spoken dialogue; the soundtrack consists almost entirely of accompanying music and sound effects. It is an affectionate parody of slapstick comedies, including those of Charlie Chaplin and Buster Keaton. The film satirizes the film industry, presenting the story of a movie producer trying to obtain studio support to make a silent film in the 1970s.

Silent Movie was the story of making movies in Hollywood when corporate America was dominated by conglomerates. These were very large companies which were buying other businesses to continue profit growth rates and perpetuate their popularity in the stock market.

Brooks was spoofing a conglomerate by the name of Gulf and Western, which had purchased Paramount Pictures. The gentleman who was Chairman and CEO of Gulf and Western was Charles Bludhorn. Here is how the history of Gulf and Western is described:

Originally, the company focused on manufacturing and resource extraction. Beginning in 1966, and continuing throughout the 1960s and 1970s, the company purchased a number of entertainment companies, most notably Paramount Pictures in 1966, Desilu Productions in

1967, and a number of record companies including Dot Records (a subsidiary of Paramount Pictures at the time of purchase) and Stax Records. These became the nucleuses of Paramount Television and Paramount Records respectively.

Bludhorn had used the profits from his existing businesses and the popularity of stocks like his to give the appearance of growth, long after the excitement surrounding the original business had passed. In *Silent Movie*, Brooks called the company Engulf and Devour.

Amazon started out selling books via the internet and eventually attempted to sell just about anything which can be ordered online and delivered, regardless of whether there was a way to deliver it at a profit or not. Amazon and their CEO, Jeff Bezos, caught the imagination of investors and have astounded everyone from us to Charlie Munger, who calls Amazon “a force of nature.”

What most investors don't understand is that in the process of delivering almost anything online and creating the technology platform needed to support their own audacious efforts, Amazon stumbled on a massive excess of unused computing capacity. Thanks to the efforts of recently appointed CEO successor, Andrew Jassy, Amazon Web Services (AWS) was born and has spewed profits into a relatively profitless e-commerce business. Amazon used those AWS profits to engulf and devour almost every business which got in its way. Amazon moved into third party e-commerce with the

power of their membership in Prime services, then bought Whole Foods and pretended they would dominate the grocery business.

Amazon Prime made a huge push into direct-to-consumer streaming of Hollywood scripted movies and TV shows via the internet, joining Charles Bludhorn's ambitions of the late 1960s. They partnered with JPMorgan and Berkshire Hathaway in an endeavor called "Haven," which hoped to disrupt the healthcare business through the same kind of business momentum and technology genius which had blitzed everyone from bookstores to retailers to grocery stores. Now they seek to devour the pharmacy business.

Much like Gulf and Western, the opportunities available to Amazon other than AWS are proving success is very difficult. Groceries, a \$385 billion sales industry, looks very similar to what it looked like before Amazon bought the organic grocery chain with 450 mostly urban stores. Whole Foods had struggled to grow from 2014-2017 and the most recent Amazon quarterly earnings report shows that Amazon's stores (mostly Whole Foods) didn't grow in the last year. **The year 2020 was the best year the grocery business has ever had!** The industry Amazon sought to engulf and devour sustained all of us as an essential business in the worst pandemic since the 1958-1959 and 1918-1919 pandemics.

Could Hollywood, groceries and healthcare/pharmacy foretell for Amazon what Desilu and Paramount did for Gulf and Western? Is this era of conglomeration going to end as badly this time as the one did in the late 1960s? It was at the heart of two massive bear markets in 1968-

1969 and 1973-1974. Did Amazon engulf and devour AWS, or did they get lucky providing technology to highly-profitable customers from Netflix and ESPN to the very fragmented, highly-profitable and under-the-radar pornography industry?

Amazon is not the only conglomerate pyramiding monopoly power into other industries. Apple, Google, Facebook and Microsoft are doing it and seem to have the blessing of the "many politicians they have in their back pocket (Godfather)." The conglomerate era ended when the Nifty-Fifty bull market came crashing down in 1973-1974.

Finally, a little personal history. In 1990, I was with Oppenheimer in Seattle. Mel Brooks brought his movie production business public and stopped by our office in the late afternoon on a Friday after a roadshow luncheon. He walked by my office and my wife was with me for a date night. I introduced her to Mel Brooks and we told him how much we loved his movies. She thought he was a friend who looked like Mel Brooks and that I was kidding around. We laugh about that circumstance to this day. You'll be surprised to hear that Mel's production company didn't end up being a successful investment. Will Amazon's engulf and devour strategy be any different? Fear stock market failure. 🐦

Warm regards,



William Smead

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