

Best Ideas 2020 Preview: Avid Technology

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It has been seventeen years since I began investing and nearly four years since I started my own business managing money. One thing I have found is that this line of work never gets dull. You never know when the next interesting investment opportunity finds you, sending you scurrying out into the world to learn everything you can. During my career, I have invested in many different companies and each one has given me an opportunity to learn about their corner of the world.

This year I had the opportunity to dig into Avid Technology, which competes, collaborates and co-exists with two companies that I admire – Adobe and Autodesk. It has always been my goal to learn about the best companies in each industry. Like Adobe and Autodesk, Avid Technology sells software. In Avid's case, it provides software editing tools that enable Hollywood storytellers and Billboard-100 musicians to create their masterpieces. The company has dominated this small niche market for a few decades. It essentially created this space in 1989. As a result, it belongs in the same category as other leading companies.

While researching this stock, I spoke to many in the media and entertainment industry (e.g. a podcaster, a documentary filmmaker, a producer at a news organization, film and TV editors). It was a privilege to learn about their lives. I also spent countless hours studying the career arc of famous directors. Thankfully many news reporters and passionate bloggers have chased down countless interviews over the years, and they are widely available over the web. These resources helped me understand the “plumbing” behind hit movies, shows and music. It was fascinating to learn how these great stories, which I have enjoyed over my life, were created.

Hollywood directors and editors are storytellers first and software/technology users second. When Avid introduced a system to edit movies on a computer, it was revolutionary. Digital editing was significantly faster and more efficient than Steenbeck editing tables. All the software innovation introduced since, has paled in comparison to the original invention of digital editing. Avid has competition, but it has been difficult for them to change the competitive dynamic. As a result, directors and editors have stuck with Avid's software/technology all these decades.

In my opinion, there is a confluence of a number of trends at this exact moment. First, there is an arms race for content production. The media and entertainment industry are exporting their content all over the world through the internet. Established and new players alike are investing heavily in scripted original shows and movies. Netflix's revenue in 2020 will likely exceed half of total global box office proceeds. Amazon, Apple, Hulu, and Disney + are all investing heavily into content.

Second, studios large and small are expected adopt cloud-based solutions into their workflow. Avid and its cloud-partner Microsoft are leading this charge. While cloud-based solutions are more expensive, they are considered superior. Adoption of Avid's cloud-based solutions will help it grow wallet share.

Third, Avid's pricing has bottomed and is in an established up-trend. While investors should study the pricing of its perpetual software, which dropped from 2006 to 2014, we believe they need to look forward. Avid's products are a fraction of the total production cost and they are innovating at an

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accelerated pace.