

Headlines

Plastic Straws and Starbucks - After an unprecedented plastic ban by its founding city, Seattle, Starbucks recently joined the “green” movement by pledging to remove all plastic straws from its stores by 2020. The strawless movement has gained substantial publicity through ongoing media coverage, government intervention and, most recently, corporate action. Starbucks’ efforts and commitment of over \$10mm to the cause illustrate the ability of responsible corporations to react and adapt to new trends and dynamic public opinion.

FAANG Stocks - The FAANG stocks represent the five largest, best performing publicly traded tech companies which include Facebook, Apple, Amazon, Netflix and Google. On July 26th, Facebook reported low quarterly earnings coupled with disappointing forecasts triggering a massive sell-off. As the largest single-day market cap loss in history, Facebook lost nearly \$120B which equates to almost a 20% drop in its stock value. With the possibility of more sell-offs coupled with impending change in Federal Reserve policy, we eagerly await the impact on and future of FAANG.

Tech Growth – The Race to \$1T Market Cap

There has been a lot of speculation as to which FAANG company, Apple or Amazon, would be the first to sustainably reach a trillion dollar market cap. On August 2nd, Apple became the first company to eclipse this milestone. The Catch 22 in this situation is the emphasis on sustainability.

With Amazon experiencing rapid expansion into many industries, most recently into online pharmacy through its acquisition of PillPack, this massive growth is leading to alarming disruption. Experts consider this mass expansion to be a “zero sum game” as Amazon’s stark growth siphons market cap from both existing and developing companies in the same industry, thus reducing the incentives for continued innovation.

As industry leaders like Apple and Amazon engage in unbridled growth, what is to become of the smaller companies in their wake?

Market Snapshot as of August 8, 2018

As of August 8 th	August 8 th	YTD% Δ	LTM % Δ
S&P 500	\$2,857.70	6.89%	15.51%
Gold	\$1,221.8	(8.07)%	(6.38)%
U.S. Crude Oil	\$66.94	13.28%	33.05%
10 Yr. T-Note	2.96%	55 bps	69 bps

M&A Focus – Inside the Acquisition of Fox

In June’s newsletter, we discussed the AT&T’s bombshell acquisition of Time Warner Cable and its amplification of a consolidation trend in both the tech and telecom industries. In its wake, the widely publicized bidding war between Comcast and Disney to acquire 21st Century Fox represents a particular instance in M&A where the true acquisitional “prize” is more than meets the eye.

Hulu’s current ownership structure consists of Disney, Comcast and 21st Century Fox, each with a 30% stake. Along with the acquisition of 21st Century Fox, the eventual buyer will also own a majority, control position in Hulu. This controlling interest in Hulu represents the most likely avenue for targeted growth efforts to compete with streaming giants of Netflix and Amazon Prime. While the focus of this transaction is largely around acquiring 21st Century Fox, the controlling interest in Hulu is a largely ignored, yet crucial component of this deal.

Investment Banking Terms:

Yield Curve – A line that compares the interest rates of equal quality bonds with differing maturity dates. It is used both as an indicator of economic expansion/contraction as well as a baseline for many banks’ lending rates.

Near Term Forward Spread – An alternative to the traditional yield curve, this is the difference between the current and future federal funds rate using the prices of futures, and is an indicator of the Fed’s outlook on monetary policy.

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