

A Note on QVC

One of the more important investing lessons I have learned so far is that a durable business and a durable security are not always the same thing.

Over the past several years, my investment in the parent company of QVC and HSN forced me to confront that distinction directly. What began as a cash-flow-driven equity investment gradually evolved into a lesson about leverage, capital structure, concentration, and the difference between enterprise value and equity value.

I began buying the equity in 2021. At the time, the company had generated roughly \$1.2 billion in free cash flow during 2020. I believed much of this cash generation would persist because the core customer base remained highly engaged. A substantial portion of revenue came from repeat customers, primarily women over 50 who still regularly watched linear television.

I recognized the company carried significant debt, but much of it did not mature until 2027–2028. Net debt at the time was approximately \$6.7 billion. My view was that the company had sufficient time to use ongoing cash flow generation to materially reduce the debt burden. In hindsight, I underestimated how quickly refinancing risk can dominate the market’s assessment of a levered equity long before maturities actually arrive.

One part of the business I disliked was Zulily. Unlike QVC and HSN, it lacked the same customer strength and appeared structurally weaker. However, because it sat within the broader corporate structure, owning the equity meant accepting exposure to it as well.

Ultimately, Zulily proved to be a major drag on the enterprise and resulted in a multi-billion dollar goodwill impairment when it was sold. While I was relieved to see it removed from the structure, the broader issue was that the company’s leverage left little room for operational deterioration elsewhere.

Additional operational shocks reinforced the problem. The Rocky Mount distribution center fire in late 2021 disrupted fulfillment and customer experience during a period when the business already had limited flexibility. In a conservatively financed company, such an event likely would have been manageable. In a heavily levered structure, however, operational disruptions carried much larger consequences for equity holders.

Over time, additional pressures—including rising sourcing costs, weaker consumer demand, and broader deterioration in market sentiment toward levered consumer businesses—further compressed the margin for error embedded in the equity.

The larger mistake, however, was concentration. In effect, I transformed what should have been a limited-risk position into a portfolio-defining one. Over time, the position grew to roughly half of my invested capital. I averaged down repeatedly as the stock declined, believing the lower price increased the attractiveness of the opportunity.

As evidence of structural strain increased, my analysis increasingly focused on where value would reside within the capital structure should survival ultimately require restructuring. I

increasingly favored the firm's long-dated senior secured bonds and began accumulating them at distressed prices. However, I failed to adjust my allocation accordingly. The equity remained the dominant exposure because its potential upside appeared substantially larger.

In hindsight, I correctly identified the stronger security but sized the weaker one more aggressively.

Part of this mindset came from internalizing ideas from investors such as Warren Buffett, who has often expressed a preference for lower prices when accumulating positions in businesses he understands well. I applied that principle too mechanically. A declining price in a highly levered equity is not always an opportunity; sometimes it reflects increasing fragility within the capital structure itself.

At the time, much of the broader market appeared fully valued, reinforcing my willingness to continue concentrating capital into the position.

In hindsight, I confused conviction with position sizing discipline. Concentration can amplify insight, but it can also magnify analytical blind spots. Going forward, I do not intend to allow a single position to dominate my portfolio to that extent again. While I remain skeptical of excessive diversification, the experience reinforced the importance of ensuring that no single error can permanently impair capital.

Ultimately, the company entered a restructuring process that reinforced an important distinction: a business can retain meaningful enterprise value while the common stock is nonetheless overwhelmed by leverage.

The investment case became fundamentally different from the original equity thesis. I was no longer underwriting a clean deleveraging through retained cash flow. Instead, I was evaluating claims, collateral, recovery values, and the relationship between enterprise value and funded debt.

The distinction proved important. Even as the common equity collapsed, the enterprise continued to retain meaningful value. The restructuring disclosures implied substantial post-reorganization enterprise value despite severe impairment to existing shareholders.

The business and the security had become two very different things.

Whether the bonds ultimately succeed is secondary to the broader lesson. The experience forced me to think less like a pure equity investor and more like a security analyst. I had initially focused on the durability of the business. I should have spent equal time thinking about the durability of the claim and whether the equity itself contained an adequate margin of safety.

None of these lessons are novel. Most have been articulated far more clearly by better investors long before me. They simply become more durable once experienced personally.

Investing has a way of turning abstract principles into permanent ones.