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Media & Internet Landscape

David Hoeft: Thanks for joining us today. I'm David Hoeft, the Associate Director of Research, portfolio manager, and head of Tech Media and Telecom Investing here at Dodge & Cox. Joining me today is Roger Kuo, long time media analyst and portfolio manager. Welcome.

Roger Kuo: Thanks, David. It's nice to be here.

David Hoeft: So Roger, as you know, there are some fundamental changes in the underlying technology for media and internet companies. Moore's Law means that the cost of computing and bandwidth continues to be reduced on a pretty rapid trajectory. So what are our thoughts at Dodge & Cox in terms of the consequences for media and internet companies because of these changes?

Roger Kuo: Well, media and internet companies are reacting in a lot of different ways. First, they're investing in mobile companies, they're expanding internationally, they're investing in the internet and there's also been a lot of consolidation throughout the media and internet space.

David Hoeft: So these changes are obviously impacting the other side of the equation too, which is consumer media habits. So for instance, broadband penetration has increased. Faster, more affordable wire line and mobile internet access has led to greater time spent online. A direct consequence is that mobile data traffic is doubling every twelve months. What do you think is driving the growth?

Roger Kuo: You're right, David. Mobile internet use is growing actually far more quickly than desktop internet growth did. There are a number of key trends that are underlying this growth in mobile data traffic. First, there's been a proliferation of 3G and 4G networks that have the ability to support high throughput data services. There's been also a very significant distribution of inexpensive data-enabled devices throughout the world, particularly Android handsets and tablets. And then finally, there's been a development of a number of very popular applications, particularly in the gaming space and the video area as well as mobile messaging. Interestingly, low fixed line penetration together with vibrant mobile adoption means that in many markets throughout the world, particularly in emerging markets, the internet access will be primarily through mobile.

David Hoeft: Right. And so as you're pointing out, in many emerging markets mobile is already the preferred point of access to the internet.

Roger Kuo: That's right.

David Hoeft: As we're seeing, industry participants are investing differently to respond to these changes.

Roger Kuo: That's right. They're really trying to adapt to changes in consumer behavior and so content producers are licensing a lot more content online. They're trying to vertically integrate, to capture the entire value chain from content production to content distribution, and they're making continued investments, particularly in the internet space as well as in social media and e-commerce.

David Hoeft: So Roger, I'd also add that there are some limitations to the rate of change here. One in terms of thinking about content availability, two, thinking about the technological infrastructure to actually get the content to the consumers, and last but not least, that puts the media owners in the position of the classic innovator's dilemma. So although the value proposition to the customer is changing, it's not changing overnight. How do we at Dodge & Cox take advantage of this tectonic shift?

Roger Kuo: We're really trying to invest in companies that are aware of these trends and really taking advantage of those trends. And so one example Naspers, which is one of our largest investments in the International Fund. We also own it in the Global Fund and we've owned it since 2007 so it's a long time investment for us. Naspers has three core businesses. It started out its life as a primary print and publishing business based in South Africa. It expanded then into the pay-TV business and currently offers pay-TV service throughout Africa. And starting in the early 2000's the company started making a number of investments in the internet space, particularly with its investment in Tencent in the early 2000's. Importantly, we identified Naspers through our bottom-up research effort, although clearly these trends that we're talking about in our conversation also supported our investment in Naspers.

David Hoeft: And so, Roger, as you're pointing out, Naspers shareholders benefit directly from the company's investments in emerging markets Internet properties such as Tencent, which are exposed to online gaming, communications, as well as e-commerce.

Roger Kuo: That's right. Naspers is arguably the most successful emerging markets internet investor really in the world. In addition to its investment in Tencent, the company has made very significant investments in the leading Russian Internet company, Mail.Ru, as well as an investment in Allegro, which is the leading e-commerce platform in Eastern Europe. The company currently today has a broad portfolio of internet investments throughout the world, in regions ranging from Russia to Brazil to India and Southeast Asia.

David Hoeft: So to summarize, first, there are some fundamental changes that are going on in terms of the underlying technologies. Second, companies in the media and internet landscape are changing in response to both those technological shifts as well as shifts in consumer behavior. And third and finally, here at Dodge & Cox we're finding lots of opportunities to look seriously at media and internet investments.

Roger Kuo: That's right.

David Hoeft: Thanks very much for being part of the conversation today.

Roger Kuo: Pleasure to be here.

David Hoeft: Thanks for joining us.