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Gwin Myerberg: 00:05 Hello and welcome to the P/V podcast with Southeastern Asset Management, where our global investment team will discuss the topics that are most top of mind for clients from our Business, People, Price point of view. We at Southeastern are long-term, concentrated, engaged, value investors, and we seek to own high-quality businesses, run by capable people at a discounted price-to-intrinsic value or P/V. I'm Gwin Myerberg, global head of client relations and communications, and I'm joined today by Mason Hawkins, our CEO and chairman, Ross Glotzbach, our President and Head of Research and Staley Cates, our Vice-Chairman.

Gwin Myerberg: 00:43 Today we're going to be discussing the media and telecom industries, an area where we've had a long investment history at Southeastern. Staley, could you start us out with a quick overview of the different aspects of the media industry and how media has become more intertwined with the telecom industry with respect to distribution and consumption?

- Staley Cates: 01:03 Sure. Starting with media, if you break that into a content side and a distribution side, we've had an affinity for both at different times. That would include on the distributions side some cable holdings over the years, as well as DirecTV. On the content side, we've owned Disney, some other things on that side. As you say, it has gotten intertwined with telecom, which is where we have several holdings, our largest one at CenturyLink. Taking that first and then kicking it over to Ross to talk about our current media views, we would say that the overarching thing here is that distribution wins. By that I mean linear TV will probably keep dropping, and, it is as certain as we sit here, it's a Netflix world.
- Staley Cates: 01:56 We don't really push back against those assumptions. We would say that however that plays out, that if we have the right metropolitan fiber to the business and we have the right coax and/or fiber to the home via the cable companies, they are going to win. They are going to be the toll road of whatever this ends up looking like. To take the CenturyLink part, CenturyLink is a stock that's incredibly cheap because of its legacy association, which is landlines and some of the dying parts of telecom. That is a very small part of the valuation of that company. We've talked about that on previous webcasts. Really, the whole show there is the metropolitan fiber, which is going to win under pretty much any Internet access and/or content scenario that we can come up with.
- Gwin Myerberg: 02:47 Ross then, do you want to talk a little bit more about media, the history and the industry in our view today?
- Ross Glotzbach: 02:53 Media has gone through a whole lot of cycles, and there have been a lot of formerly incredible businesses in media that are now not even businesses anymore. That kind of volatility and change in cycles benefits the long-term value investor because you can take a bottom-up look at different stocks and pick the winners and avoid losers. Something like this ongoing content versus distribution debate or even these new kinds of delivery methods, it's not actually that new. When it comes to

the media side of things - something like Netflix versus a more traditional form of content company - of course Netflix is going to get theirs, but they're also riding on a lot of content distributed or created, really, by these content companies themselves.

- Ross Glotzbach: 03:56 To Staley's earlier point about we don't have to play if we don't know what it's going look like in five to ten years, that can often be pretty relevant in both of these industries. We have a hard time seeing how some of this stuff looks, quite honestly. If it's some of the cloudier, more legacy businesses, we need a lower price, better multiple. If it's some of the more winning parts of the value chain, you'll see a common thread of broadband through a lot of our telecom or distribution investments, where we feel much better about that, and we are willing to pay a different price for that. It all depends on each industry, but over the long run, that benefits actual stock picking.
- Gwin Myerberg: 04:44 Ross, you talked about a number of cycles within the industry, can you talk a little bit more about those cycles and how we've seen the industry evolve over our history of investing there?
- Ross Glotzbach: 04:55 Sure. A lot of the debate always gets down to which you want to be in - content or distribution. We would say over the very long run the right answer has been both, but we would also say that things change as time goes on. It's really been a good place to be overall if you're a concentrated, long-term, engaged, value investor. We've certainly invested in many companies in this industry, including Disney when it was out of favor. A few worth going into that illustrate the cycles and things that work and don't work in different time frames - maybe one would be a Knight Ridder, which was a long-time holding of ours in the newspaper industry. We, looking ahead in the mid-2000s, saw some tougher times coming for the newspaper industry. We got engaged with management at Knight Ridder, and they ended up selling the company.

- Gwin Myerberg: 06:10 One question I'd ask you on that, you talked about Knight Ridder and the newspaper industry - Graham Holdings has been a long-term holding of ours too, and of course, the Washington Post. How do you think about the newspaper industry and the move from print to online there?
- Ross Glotzbach: 06:26 Well, I would say Graham Holdings was one where, as we look at it today, certainly the media parts are a minority of the value, which is interesting and something that the market likely misses about this one because it doesn't do conference calls, it's covered by zero big firm analysts and all that, which we love because the company is focused on growing value per share. Originally, the large newspaper headlines there - it was called the Washington Post company when we invested in it. We also invested in it back in the 1990s. When we went back in the mid-to-late 2000s, the newspaper cloud was overhanging it. We thought that the Washington Post would be a valuable, somewhat more unique property than maybe some of Knight Ridder's or others more regional properties.
- Ross Glotzbach: 07:18 I will say, we were also somewhat wrong in how quickly it deteriorated. But, the good news was when you partner with good people, who are able to take a longer-term view, and they were growing other parts of their business, and they also saw the losses themselves, so they decided to sell the company, the Post and the building separately, but the Post itself went to Jeff Bezos at a price that at the time they sold it was a very good price. It's not something I think that they regret in retrospect because an asset like that in these times just fits better with private, longer-term ownership. They were able to use that money to buy in shares and do other good things at discounted prices. It's a good example of how partnering with the right people in one of these businesses that know when to move on from one of these assets can be a real help.
- Gwin Myerberg: 08:20 Mason, it'd be great to hear from you about some of the partners that we've had in the media industry over

time. Who have been some of the best partners you've seen?

Mason Hawkins: 08:30 John Malone is nonpareil. We've had various leaders at Disney that provided opportunity, as well as great stewardship. There have been a lot of smaller commitments over the years that really were equally mispricing and good management opportunities for Southeastern. In the media ring, there's really very little comparison to what Dr. Malone has done.

Gwin Myerberg: 09:06 Staley, you talked about CenturyLink and both you and Ross talked a little bit about content versus distribution and consumption. We've recently increased our exposure to the telecom space in the US, in Europe and in Asia. Can you talk about that? Is that a top-down view on that industry? How do you view these companies separately?

Staley Cates: 09:30 It does look like a top-down decision because, you're right, we've added across geographies meaningfully here recently. But, it actually really is a function of either specific misunderstandings about a company or temporary problems at those companies. Millicom is an extremely confusing one with a Swedish shareholder base that's listed there, but reporting in US dollars, while being a Latin American business.

Mason Hawkins: 10:04 With exposure to Africa.

Staley Cates: 10:08 Yeah, exactly. On the way out of Africa but to confuse that one even more. Bharti Infratel is one in India where it's really a function of market dislocation there by the carriers, but that was less a macro telecom bet and really their own specific situation. Vocus is another one where the headline business has thrown people off and a lot of the noise around the National Broadcast Network (NBN) in Australia, but there is solid metro fiber with a good, new management team and a good owner oriented board there in charge. It would go on and on, but these are basically very company specific situations, rather than a new, greater affinity for telecom.

- Gwin Myerberg: 10:53 We own fiber, satellite and cable businesses. How do you look at those businesses separately? Or is it inaccurate to look at them that way? Is it a case where the market looks at companies as one thing and really it's something else?
- Ross Glotzbach: 11:10 What the common thread is through all these businesses, we feel, is advantaged broadband delivery for the specific end customers that are being targeted here. At CenturyLink, like Staley has already mentioned, the main show there are their metro fiber rings, which have an extremely strong competitive position, growing however data is consumed – be it wireless or cable. It's got to get on to the big internet, and CenturyLink is the gatekeeper for that. When you look at something like a Comcast, which is primarily residential, a lot of folks would view that as, "oh no, it's a dying cord cut business." But, the vast majority of the value is actually broadband, then differentiated content and then things that don't even matter in this discussion, like Universal Theme Parks.
- Ross Glotzbach: 12:10 Then, finally on satellite just because we do have ViaSat in Small-Cap and SpeedCast in Asia, satellite is always going to be a niche. The best satellite people will tell you they can't compete with fiber, and they don't to compete with fiber. We wouldn't want them to either. They're just finding these unique markets, be they in-flight Internet, government applications, oil and gas, houses that are somewhat off the grid. That's where those guys can really play and create a lot of value, we feel, as those management teams have.
- Mason Hawkins: 12:50 I might add it's hard to run a cable to a ship or to an airplane.
- Gwin Myerberg: 12:55 I will ask you, you've mentioned cord cutting already but looking at the telecom industry, a lot of the questions we get are what impact will 5G have on that industry. How do you look at that with CenturyLink or other players?

- Staley Cates: 13:12 As always on this kind of answer, our answers are not our own vision or trying to look around the corner. These are just the rolling up of talking to management teams that are really good and that live in this stuff. The first thing we get back is that the 5G answers are very mixed. We do not see a consensus of either how it will work or that it will work beautifully. That's the first point. The second point is even if it does take off where we are, especially at CenturyLink, where I would submit it's probably the most relevant question, we think it's a beneficiary rather than a negative. 5G would mean a lot more locations and it would take fiber to those locations, and that would make the overall network worth more. We don't own AT&T; we don't own Verizon - those names where this would be a make or break assumption or forecast. We don't see that where we are now. I guess the only other immediate thing to us would be on Millicom. We mentioned that's Latin America, while they're exiting Africa. That is still a 4G growth situation. As smartphones begin to dominate, that is leading to tons of apps like Facebook and a lot more data usage, but interestingly that is still a 4G penetration effort.
- Gwin Myerberg: 14:38 Ross, we've seen a large amount of mergers and acquisitions (M&A) within the media space. Can you talk about the benefits and drawbacks to that and who may be the winners and losers there?
- Ross Glotzbach: 14:47 Sure. It's pretty early to tell exactly. By the time you listen to this podcast, things very well could have changed some. Given some of the other things I've been talking about, you can tell we usually prefer to be a seller rather than a buyer, and that's in almost any industry or any situation because the seller gets a premium. The seller knows more than the buyer. That's just good old fashion business right there. I will say there can be instances when buyers can make good deals. There are synergies in this business from time to time - actual synergies, not fake ones.
- Ross Glotzbach: 15:35 Then, I will say misunderstood deals and misunderstood track records can be a real good source

of ideas for us. On average, I will say, and this is again any industry, M&A usually destroys value, so we're very, very cautious when that kind of stuff is going on. But, if a company and the people at it that we know and respect have built up the credibility to do it, then that makes us take a harder look.

Gwin Myerberg: 16:09

One of our newer positions in the portfolio today is Comcast, which has been very much in the headlines around M&A. Maybe could you start by giving the case for the company and how you got comfortable with management team and capital allocation?

Ross Glotzbach: 16:24

Sure. Comcast again is one that we have owned before. We do feel like we have a good degree of familiarity with these assets and these people. Most people listening now will know we always break it down into Business, People, Price. The Business side of Comcast, you get two-thirds of the value that's their historical cable division. XFINITY is somewhat of a brand name that people know now. For that business, the big concern is cord cutting. Everyone says, "Why do people still in this day and age pay so much for cable TV subscriptions?" The fact is, if you look through to the costs in that business, the vast majority of the value of today's cable segment comes from two main things: that's the residential high-speed data broadband business and their small and medium business segment, where they deliver internet service to small and medium businesses.

Ross Glotzbach: 17:26

Those are both going about 10% in total. They're higher margin most likely than the traditional TV business. That's just setting that business up for growth for a very long time because in the vast majority of the places where they operate, it is just the most efficient way to get this crucial product, which is broadband. Then another third of the value is the NBC Universal assets. These have some businesses that are somewhat at risk, we would agree, to some cord cutting trends - some of their cable networks or broadcasting stations. But, more of the value of that business comes from things that are going to benefit, like their Universal Theme

Parks, which Comcast gets big credit for turning into a much better-run competitor to Disney than they used to be. Then, also the movie studio. As more and more content is demanded and consumed all over the place, that just makes movie libraries and the ability to create these big movies that people like even more valuable.

Ross Glotzbach: 18:36

That's the Business. To the People side of things and also some of the reasons for cheapness, Brian Roberts has just a great track record of growing value per share and doing actually smart deals and maybe more importantly not doing dumb deals historically. We've been there for some of them. We own both Comcast and Disney. When Comcast took a run at Disney that time we thought it was a smart opportunistic move, but at the same time they didn't go overboard and try to pay too much. Then fast forward a bit, in the financial crisis they struck a deal with GE to where they were almost just given NBC Universal. If you look at the actual price that they paid for those assets, it was just a great deal. Then, going even way further back, you look at something like their involvement in the MediaOne M&A fracas that broke out in the late 90s and we knew MediaOne well at the time as a shareholder. That was played well by Brian and they once again did not overpay but were able to extract some good value. AT&T broadband was another one where Comcast was able to come in and really fix those assets up and make a good deal there as well.

Ross Glotzbach: 20:01

That brings us to the main reason for cheapness, which is this whole Fox/Sky/Disney drama that Comcast has entered into. We know those Fox assets pretty well. I think there's some good quality stuff in there. We also know Sky very well. We owned it previously before itself. The market looks at this, especially US-based investors and say, "Wow! Why are you bidding for this number one satellite company when something like Dish Network trades at this low EBITDA multiple (earnings before interest, tax, depreciation and amortization)? Why would you want to take on some of these Fox assets when cable networks are dying?" And, then, "Why would you want to enter into a bidding war of any

kind?" That's the question we would always ask anybody.

- Ross Glotzbach: 20:55 I think there are, most importantly, lots of pieces still to play out here. Again, we will see what happens, but we just look to the track record. We also think that Sky is a better business than a lot of people think that it is because of the unique content, some non-earning assets in different countries that are going on there, in addition to their core business in the UK. That makes the price that they've put on the table for Sky ... It's not looking like a great bargain by any means, but at the same time strategically important, and we can see how the math works. And, more importantly, getting to the Price part of Business, People, Price, when we appraised Comcast's assets - any value dilution or anything like that from any of these scenarios, most importantly, now that they have once again shown their discipline and walked away from all of Fox - we just can't see any way that they destroy enough value for the stock to actually be worth \$35 a share. We think it's worth much more than that when we just do a good old some of the parts.
- Ross Glotzbach: 22:06 Again, just as bottoms of appraisers, our value for the two-thirds that's cable is not that different than the quality cable companies out there trading for, nor is the value for NBC Universal all that different from a mix of quality theme park, movie studio and the cable networks trading out there today. We look at all that, we think this is a temporary market freak out. A year or two from now, people won't be concerned about this, but today's short-term focus world, where it's hard to look different from the index, you don't want to wake up and read a headline tomorrow that makes you look dumb, nobody wants to own this in the meantime, so that's our opportunity.
- Gwin Myerberg: 22:49 You talked about the value of the Sky assets. Obviously here recently, Comcast has walked away from the Fox bidding war with Disney you referred to, are you happy with that outcome?

- Ross Glotzbach: 23:00 I guess the best outcome would have been if Disney hadn't topped us or some kind of other way that we would've won it for the initial price. When the deal was originally announced we thought, "Wow! Disney is getting a deal for these assets, as did the stock market." I think there's still a lot of things left to play out on this one. I think we don't want to prognosticate too precisely in this situation because you can't. That's usually the case with most great value investments - that we can't bet on exactly what is going to happen because, if it was just a sure lock, it's not cheap.
- Ross Glotzbach: 23:42 We are willing to bet on the track record, bet on the existing value of these assets, and the worst-case scenarios are already off the table - that they would pay something like hundred billion dollars for this, get too leveraged and overpay. That's not happening.
- Gwin Myerberg: 23:58 It gets back to, like you said, the history of management not doing dumb deals.
- Ross Glotzbach: 24:02 Yes, and we don't think that's going to happen. One other thing on that people front that we do feel is important, maybe a little under-recognized and speaks to our research network here, is that if you look at the board of Comcast, there are some high quality and relatively new board members on there, two of whom are great SAM long-term partners. One was David Novak, at YUM! brands. Another was Ed Breen at DuPont. Those guys get value per share through and through. They're not going to be on board with dumb stuff either. Their wanting to join that board and work with Brian Roberts speaks a lot about him. That's another important thing that we think people are missing.
- Gwin Myerberg: 24:53 Thank you, Ross, Staley and Mason for sharing your insight. Thank you to all our listeners for tuning into the first episode of the P/V podcast with Southeastern Asset Management. We hope you enjoyed it, and we look forward to speaking with you again soon. If you have any questions or you'd like to share topics that you

would like to see us cover in future episodes, please feel free to send us an email at podcast@SEasset.com.



Southeastern Asset Management
6410 Poplar Avenue, Suite 900
Memphis, TN 38119
+1 (901) 761-2474

southeasternasset.com