Forward thinking. Finding value.

**Blog Post: More on the disruptive forces of technological change**

It is important to keep in mind that one of Charles Darwin's great insights on evolution also applies to capitalism: *"It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change."* It's better to be a disruptor than the disruptee, or at least be quick to adapt when major shifts occur.

Long-time Pender holding Syntel, an India-centric provider of IT services, falls into the adapt category as they make their own journey from a people-centric model to IT automation, while helping their clients to navigate through the disruptive forces that are reshaping their own industries. Notably, the need to adapt is not new for Syntel. This is the fourth time that management has pivoted their business model since the company was founded in 1980. In addition, Syntel has faced a challenging cycle that began in late 2016 after some large clients cut back on IT spending, but we are cautiously optimistic that the business has bottomed. Syntel's automation (Syntbots) and digital efforts are showing encouraging momentum. Going forward, we believe companies are likely to spend more of their overall budgets on IT as the world goes increasingly digital. We remain hopeful that the company is returning to a more familiar historical pattern of under promising and overdelivering. After a challenging few years, the stock has been hitting fresh 52-week highs in early 2018.

We also bought stakes in Discovery Inc, a global original video programing leader in real life entertainment with properties like Discovery, HGTV and the Food Network. The market is currently valuing Discovery as a disruptee, but we are not convinced. Demand for video has exploded across the world as smart devices proliferate, allowing consumers to view their content anytime from anywhere. Yet, wide valuation gaps exist between different media companies implying that content delivered in the direct-to-consumer model is many times more valuable than content delivered through the historical linear TV model. When the facts change and consumers change their behaviour, well-led companies adapt. The narrative may change in the coming years now that Discovery has combined with Scripps and will soon launch direct-to-consumer services similar to Netflix. Instead of focusing on the crowded scripted/fiction series and movie markets (like Netflix, Amazon and Disney), Discovery has ambitions to become the centre of direct-to-consumer gravity for nonfiction content. In our view, the market has priced in a near zero probability that such a pivot could be successful. On the other hand, while we believe the odds of a successful pivot are definitely not 100%, they are much higher than zero. In the meantime, Discovery remains a very cheap free cash flow machine, with substantial upside optionality if the company's initiatives are successful. Widespread recent insider buying is also an encouraging indicator.

Read more on this topic in my March 2018 Commentary.

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