

INSIDE iOpportunity

With
Michael Lippert



Discovery

Comcast's planned purchase of NBC, announced in December, and Scripps' acquisition of The Travel Channel in November, have put cable networks in the spotlight. The premiums paid for these networks, we believe, will enhance the valuation of other cable networks, including Discovery Communications.

Baron iOpportunity Fund began buying Discovery in April, 2009, when the stock was trading at a little over \$17. At the end of the year, Discovery had climbed to about \$32. The company (1.5% of the portfolio as of 12/31/09) is best known for the Discovery, TLC and Animal Planet channels.

In the U.S., Discovery enjoys two income streams that have continued to grow: subscriber fees paid by its affiliate cable providers and advertising revenue. With cable viewing and advertising both continuing to rise relative to broadcast TV, these revenue sources, we think, will continue to be strong. And Discovery's joint venture with Hasbro, Discovery Kids channel, is expected to develop a third revenue stream, licensing, that we also think has long-term potential.

Internationally, Discovery has also been doing well. With margins running in the mid-30s, compared to the mid-50s in the U.S., we think there's significant room for growth. As the number of viewers increase, we think advertising will as well.

(Baron iOpportunity Fund invests in companies that we believe will benefit from innovations and advances in technology. In this column, Portfolio Manager Michael Lippert discusses developments that he believes will be important in the months to come.)

Current and future portfolio holdings are subject to risk. 🏠