Competing with Amazon: where others fear to tread

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Conventional wisdom suggests that you should never bet against Amazon (and this has been shown to be true in many instances). Value investors have little truck with conventional wisdom, though. Real value lies in identifying less obvious businesses and sectors, away from the crowd, that have the potential to produce excellent returns in the medium to long term.

This means thinking differently. Rather than starting from the premise that Amazon is unassailable, we ask whether Amazon has chinks in its armour or vulnerabilities that can be exploited to find value. After all, even a behemoth like Amazon can't be everywhere, doing everything, right? France's media sector offers a good example.

David and Goliath

France remains a tough nut to crack for online video on demand services (VoD). Netflix closed its Paris office last summer, and Amazon Prime VoD has yet to get its claws into this market. The French media is, to a much larger extent than in the UK, prescribed by regulators, and the broadcasting market is subject to a level of cultural protection which would feel unusual here. In this environment, we liked the look of media business M6 Group, which has a 9.6 per cent viewer share in France.

It is easy to assume that VoD from Amazon and Netflix will crush generalist channels or groups like M6. But we saw this as a real David and Goliath opportunity. M6 is relatively nimble, compared to TF1 and France 2, and has a good record in showing programmes the French consumer wants to see.

Its populist approach attracts advertisers which means that it has a niche that is not likely to be commercially attractive for Amazon to attack. All of this had us interested after the share price had fallen 40 per cent over a 12-month period and it first appeared on our value screens.

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It faced headwinds to be sure. But we felt the market may have overreacted to the initial Netflix threat and possible disruption of Amazon. We assessed its long-term sustainability, felt that the price was a genuine discount to its underlying business, and were impressed by the low levels of debt on its balance sheet, its conservative management and its long-term track record. In addition, it has a history of rewarding shareholders by returning cash via regular and special dividends.

We first bought M6 in June 2012 and it was a 5 per cent position by the end of 2012. Over our holding period the share price has more than doubled and we have actively trimmed along the way. We still like M6 – it remains a 2.3 per cent position in the portfolio.

M6 is a prime example of the type of opportunity a value investor lives for: a high-quality business with long-term viability that has been disregarded by the market because of bad news, (apparent) competition from behemoths and temporary headwinds.

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View of the Day