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Television Networks

August 2014

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Mergers & Acquisitions | Corporate Finance Advisory | Business Valuation

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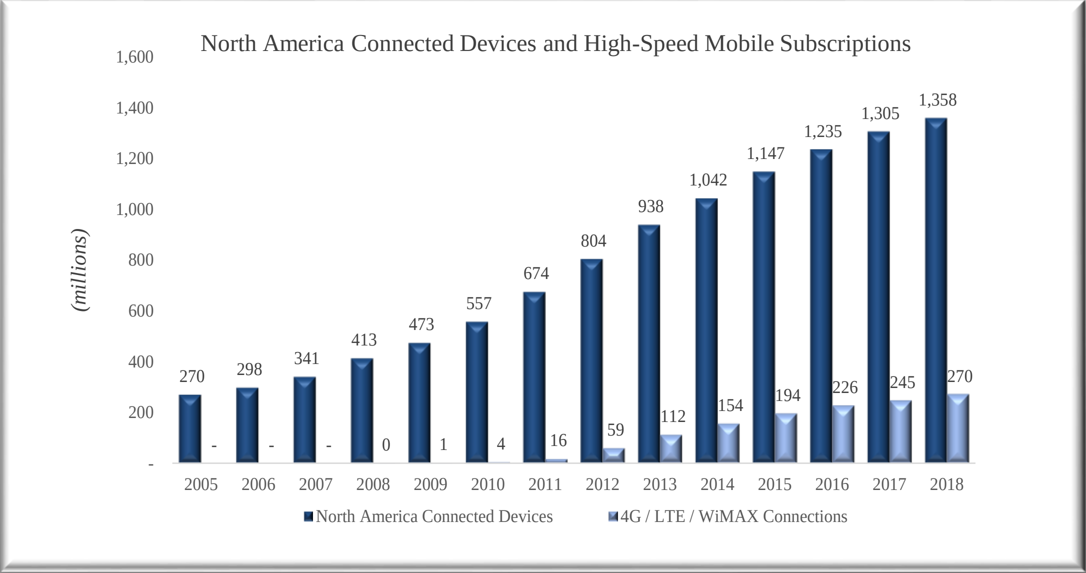
Industry Update – North American Pay TV

- **Pay TV penetration & subscriber counts continue to slide.**
  - Pay TV penetration has been on the decline since 2009; the first-ever yearly decline in subscribers occurred in 2013.
  - Operators have been able to maintain revenue growth through increased ARPUs and strong ad revenue, as TV remains the only way advertisers can currently reach a single mass audience.
- **Technological Change will force operators to dramatically change business model to accommodate new viewing preferences.**
  - The demise of Aereo has not restored investor confidence in television as a growth industry. Viewing preferences are moving to alternative screens, and to mobile.
  - Mobile media already accounts for more than 20% of all media consumption, and total U.S. broadband customers recently surpassed cable. Although there is considerable overlap between broadband and cable customers, these trends illustrate the changing industry dynamics as consumers increase purchases of internet-connected devices and subscribe to high-speed data packages in ever-larger numbers (see chart).
- **Increased M&A activity is on the horizon.**
  - To combat anticipated future declines in subscribers, operators will need to pursue business combinations that drive their enterprise to higher economies of scale.
  - We expect a corresponding increase in M&A activity as industry participants adapt to changing viewing habits.



Sources:
Leightman Research Group, August 2014
PWC Global Media & Entertainment Outlook, 2014
IHS Technology Market Monitor March 7, 2014
Business Insider, November 2013

Supreme Court / Aereo Ruling

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Aereo's business model represented a significant threat to the broadcast TV business.
For now, the Supreme Court ruling has preserved the current industry structure.

- **Background**
  - Aereo's business model incorporated inch-size micro antennas (one per user) connected to a server to deliver free broadcast TV programming over the Internet to subscribers.
  - The concern from broadcasters was that, if successful, Aereo would accelerate current trends and drive viewers to cancel cable subscriptions en masse and put at risk billions of dollars in retransmission fees.
- **The U.S. Supreme Court ruling & impact**
  - In late June, in a 6-to-3 ruling, the U.S. Supreme Court ruled Aereo liable for violating copyright law.
  - The case was sent back to the lower courts, but Aereo suspended operations shortly after the SCOTUS ruling, as the company had no "plan B" for operating post a negative ruling by the high court.
- **Analysis**
  - The case underscores the danger to any industry where its goods can be digitized. Had a the court ruled in the company's favor, many regional broadcasters could have ceased operations or moved to a pay-only model. Indeed, according to Bloomberg, prior to the Supreme Court ruling, both Fox and CBS threatened to take their channels to a pay-only model if Aereo stayed in business.
  - The current TV business model has been preserved through this ruling, but evidence continues to support a long-term industry shift in viewing patterns as consumer demand for à la carte pricing / viewing increases. Investors have already begun to discount the ability of networks to achieve returns representative of a growth industry, as illustrated on the following page.

Source: http://www.supremecourt.gov/opinions/13pdf/13-461_l537.pdf

Channel Returns Beginning to Lag the Broader Economy

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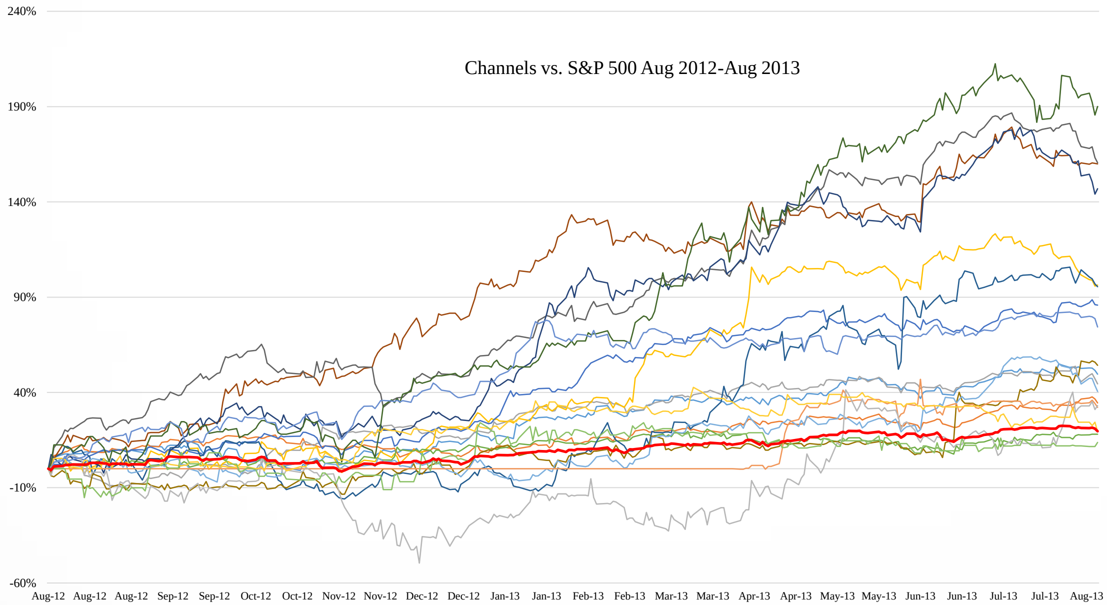
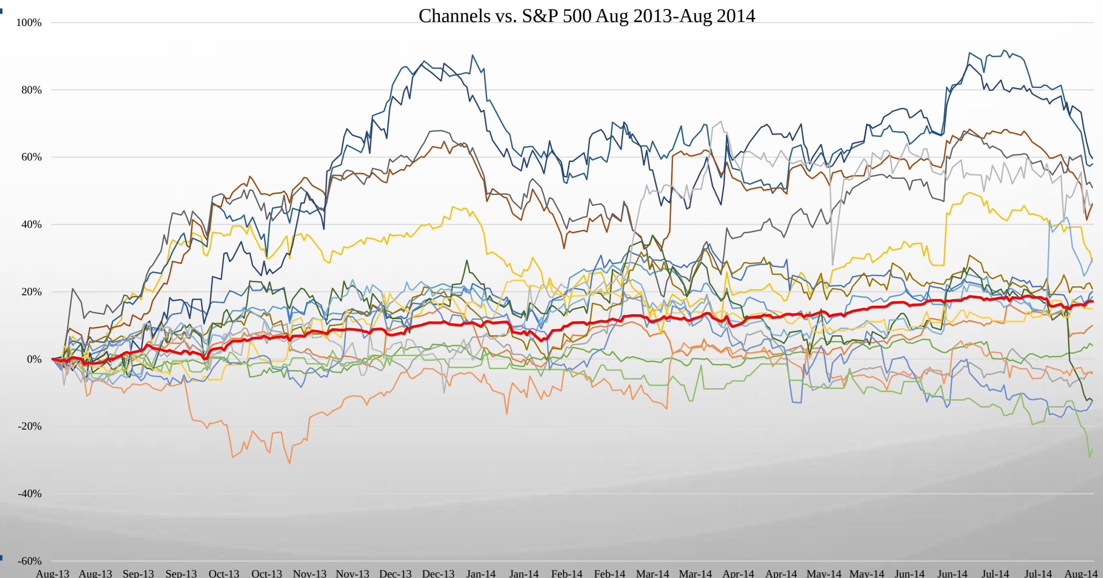


In the trailing twelve months preceding August 2013, channel returns far exceeded the broader economy, represented by the S&P 500 (red line).

Legend:

CBS	Scripps	AMC
Sinclair	Starz	Corus Ent
Media General	Lin Media	Nexstar
Crown Media	Gray Television	Entravision
Journal Comm	Hemisphere Media	Spanish Broadcasting
TVA group	Saga Comm	Asian Television
S&P 500		



Since mid-2013, the majority of channel returns have been equivalent to or below the S&P 500.

TV Network Market Multiples – North America

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As expected from the charts on the previous page, Industry EBITDA multiples have declined since spring (from 12.0x to 10.8x), but remain relatively generous compared to other economic sectors. However, if these broad market trends continue, EBITDA multiples may approach single-digit levels in 2015.

		LTM				EV/LTM		
Company	**State**	**Revenue**	**EBITDA**	**Market Capitalization**	**Enterprise Value**	**Revenue**	**EBITDA**	**EBITDA Margin**
CBS Corporation	New York	14,910.0	3,706.0	31,340.6	37,599.6	2.5x	10.1x	25%
Discovery Communications, Inc.	Maryland	5,933.0	2,432.0	23,578.4	30,738.4	5.2x	12.6x	41%
Scripps Networks Interactive, Inc.	Tennessee	2,623.2	1,125.3	11,155.1	12,715.6	4.8x	11.3x	43%
AMC Networks Inc.	New York	1,877.2	620.4	4,389.9	6,938.7	3.7x	11.2x	33%
Sinclair Broadcast Group, Inc.	Maryland	1,634.1	546.3	2,919.5	5,646.3	3.5x	10.3x	33%
Starz	Colorado	1,690.8	443.7	3,070.2	4,166.2	2.5x	9.4x	26%
Corus Entertainment Inc.	Ontario	796.9	277.4	1,958.5	2,739.1	3.4x	9.9x	35%
Nexstar Broadcasting Group, Inc.	Texas	544.7	184.5	1,381.6	2,441.9	4.5x	13.2x	34%
Media General, Inc.	Virginia	462.1	132.6	1,412.1	2,245.4	4.9x	16.9x	29%
LIN Media LLC	Texas	702.0	173.3	1,222.0	2,144.3	3.1x	12.4x	25%
Gray Television Inc.	Georgia	382.4	117.9	608.8	1,751.1	4.6x	14.9x	31%
Crown Media Holdings Inc.	California	390.8	296.7	1,255.3	1,611.0	4.1x	5.4x	76%
Entravision Communications Corp.	California	232.4	73.8	380.6	705.5	3.0x	9.6x	32%
Journal Communications Inc.	Wisconsin	405.6	85.1	481.6	637.5	1.6x	7.5x	21%
Hemisphere Media Group, Inc.	Florida	99.6	38.1	506.5	603.3	6.1x	15.8x	38%
Spanish Broadcasting System Inc.	Florida	147.5	42.5	35.1	408.2	2.8x	9.6x	29%
TVA Group, Inc.	Quebec	437.3	47.3	213.9	276.6	0.6x	5.8x	11%
Saga Communications Inc.	Michigan	129.9	34.3	212.3	232.4	1.8x	6.8x	26%
Asian Television Network Intl. Ltd.	Ontario	26.9	3.4	49.1	42.0	1.6x	12.4x	13%
Min					42.0	0.6x	5.4x	11%
Max					37,599.6	6.1x	16.9x	76%
Median					2,144.3	3.4x	10.3x	31%
Mean					5,981.2	3.4x	10.8x	32%

TV Network Transaction Multiples

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The median EBITDA transaction multiple decreased slightly from 17.1x in Q2 to 14.2x at the beginning of August, but remains attractive compared to other economic sectors.

					($MMs) (USD millions)				Implied Enterprise Value to:	
Closed Date	Target/Issuer	Headquarters	Business Description [Target/Issuer]	Buyers/Investors	Transaction Value	Revenue	EBITDA	Implied Ent. Value	Revenue	EBITDA
Jul-14	Bell Media Inc., Family Channel Business	Canada	Family Channel Business comprises family children channel, Disney junior (English), Disney junior (French) and Disney XD. The asset is located in Canada.	DHX Media Ltd.	160.5	76.5	25.5	160.5	2.1x	6.3x
Jan-14	Current TV, LLC*	United States	Cable networks with approximately 60 million subscribers	Al Jazeera Sports (nka Be In Sports)	500.0	100.0	20.0	500.0	5.0x	25.0x
Dec-13	Belo Corp.	United States	Belo Corp. owns 20 television stations, including ABC, CBS, NBC, FOX, CW, and MyNetwork TV affiliates, as well as their associated Web sites in 15 markets and two regional cable news operations.	Gannett Co., Inc.	2,190.0	719.2	261.6	2,184.9	3.0x	8.4x
Aug-13	Fisher Communications, Inc.	United States	Fisher Communications, Inc., owns and operates 20 network-affiliated television stations, in the western United States. Its television stations reach 4.5 million households.	Sinclair Broadcast Group, Inc.	373.6	171.1	31.5	354.7	2.1x	11.3x
May-13	Outdoor Channel Holdings, Inc.	United States	Outdoor Channel Holdings' The Outdoor Channel segment operates a national television network that provides traditional outdoor related lifestyle programming and other outdoor related lifestyle programming.	Kroenke Sports & Entertainment	265.0	79.9	9.2	213.8	2.7x	23.3x
Mar-13	NBCUniversal Media, LLC	United States	NBCUniversal Media, LLC, operates in four segments: Cable Networks, Broadcast Television, Filmed Entertainment, and Theme Parks.	Comcast Corporation	16,722.0	23,812.0	4,290.0	39,996.5	1.7x	9.3x
Nov-12	New Frontier Media Inc.	United States	New Frontier Media, Inc.'s Transactional TV distributes branded adult entertainment pay-per-view (PPV) networks and video-on-demand (VOD) content through electronic distribution platforms, including cable television and direct broadcast satellite operators.	LFP Broadcasting LLC	33.5	41.5	0.3	20.0	0.5x	69.1x
Oct-12	Quebecor Media Inc.	Canada	Quebecor Media Inc.'s Broadcasting segment operates general-interest and specialized television networks; and is engaged in publishing and movie distribution businesses in Canada.	Quebecor Inc.	506.7	4,423.6	1,423.6	9,407.5	2.1x	6.6x
Oct-12	Score Media Inc.	Canada	Score Media Inc.'s primary asset, theScore Television Network, is a national television service providing sports news, information, highlights, and live event programming.	Rogers Media Inc.	151.3	46.7	4.2	151.2	3.1x	34.4x
Oct-12	New Vision Television, LLC	United States	New Vision Television, LLC operates a network of large and medium market television stations in the United States.	LIN Television Corporation	406.4	119.6	23.1	395.2	3.3x	17.1x
Jul-13	Astral Media Inc.	Canada	Astral Media Inc., a media company, engages in television broadcasting, radio broadcasting, out-of-home advertising, and digital media businesses in Canada.	Bell Media Inc.	3,422.0	1,033.4	333.6	3,401.8	3.3x	10.2x
Dec-11	McGraw-Hill Broadcasting Company, Inc.	United States	McGraw-Hill Broadcasting Company, Inc. operates nine television stations, which include four ABC affiliated and five Azteca America affiliated stations.	Scripps Media, Inc.	212.0	95.3	5.1	212.0	2.2x	41.5x
Min						41.5	0.3	20.0	0.5x	6.3x
Max						23,812.0	4,290.0	39,996.5	5.0x	69.1x
Median						109.8	24.3	374.9	2.5x	14.2x
Mean						2,559.9	535.6	4,749.8	2.6x	21.9x

- *Note: Current TV Al Jazeera values estimated based on published reports of $500M purchase price, estimated revenue per subscriber figures and industry standard margins*

- **Pay TV continues to grow, but growth is largely a result of increased ARPUs and advertising revenue.**
  - Growth from increased subscriber fees is unsustainable, and the heavier reliance on advertising will translate into higher volatility during future economic downturns.
  - Television does remain the single medium available to reach a mass audience, so it is unlikely that, absent an economic downturn, advertising revenue will face near-term weakness.
- **The demise of Aereo is unlikely to result in sustainable gains for broadcasters.**
  - A rally in the TV sector followed the Supreme Court's ruling on Aereo, but this was short-lived.
  - In our 19-company representative sample, the average stock prices is now down more than 14% from the highs that followed the Aereo ruling, as investors realize the development does not change the long-term trends away from the current TV business model.
- **Despite difficulties, the valuation metrics for the TV industry remain above those of other economic segments.**
  - Average multiple of 10.8x EBITDA for publicly traded companies and 21.9x (median: 14.2x) for disclosed transactions illustrates the relatively high value investors are still placing on the industry.

About Us

Bardi Co.

Bardi Co. is an transnational boutique investment bank headquartered in Los Angeles with affiliate offices in Florence, Italy and Hong Kong.

Our senior advisors have more than 80 years combined experience analyzing industries and structuring domestic and cross-border transactions for both bulge-bracket investment banks and fortune 500 companies.

The Firm specializes in Buy-Side and Sell-Side Mergers & Acquisitions advisory, Private Placements and Business Valuation with focus on the following sectors:

- Media and Entertainment
- Health, Medical, and Wellness
- Specialty Food and Beverage
- Apparel and Accessories
- Manufacturing, Engineering, and Aerospace
- Hospitality and Gaming

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Robert Phillips

Robert Phillips has extensive experience in the financial services industry, including both buy- and sell-side M&A, corporate finance advisory and business valuation. In his career, he has advised both Fortune 500 Corporations as well as middle-market companies in a variety of assignments, ranging from acquisition and strategic advisory to business valuation. While at McGladrey Capital Markets and in-house M&A for Sony Pictures, Robert valued over 100 companies based in North America, Latin America, Asia, Europe, and the Middle East, in industries ranging from media and entertainment to construction, distribution, healthcare, and manufacturing. He has managed valuation, due diligence, and deal processes for nearly half a billion in aggregate M&A value, working closely with target company CEOs and CFOs to build detailed projections and estimate value on both a stand-alone (financial) and strategic basis. Robert holds the Series 24, 7 and 63 FINRA licenses, a B.S. in Biology and an M.S. in Genetics and Molecular Biology from the University of Hawaii, as well as an M.B.A. from the University of California, Irvine, where he was the recipient of the Graduate School of Management and Kennedy Fellowships.

Chris Manfre`

Chris Manfrè's experience includes serving as a financial advisor and strategic consultant to both domestic and international corporations as related to merger, acquisition, divestiture, joint venture, corporate restructuring, and financing transactions. Chris began his financial services career with Standard & Poor's CVC in Los Angeles and before joining Bardi Co., led the corporate valuation practice at Marshall & Stevens in the Los Angeles office. Prior to his career in finance, Chris served as a military officer in the Italian Army, overseeing various NATO operations in the Balkans. Chris holds a Laurea Magistralis from Università di Firenze, in Florence, Italy, an M.B.A. from the Drucker School of Management, and an M.A. in Economics from Claremont University. In addition, Chris holds the Series 24, 28, 7, 79, and 63 FINRA Licenses, is an active member of the Italy-America Chamber of Commerce and a visiting professor at Loyola Marymount University in Los Angeles, where he teaches economics and business valuation at the MBA level.

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Kevin Ghorm

Kevin Ghorm has extensive corporate finance, valuation, and M&A experience. Prior to Bardi Co., Kevin worked for Sony Pictures in the in-house M&A division, where he focused on the acquisition of television networks and production companies around the world. Prior to Sony, Kevin worked as an investment banker at Donaldson, Lufkin & Jenrette, Credit Suisse First Boston, and Lehman Brothers. His valuation experience includes evaluating and managing corporate finance and M&A transactions in media & entertainment, healthcare, technology, telecommunications and manufacturing. In addition, Kevin has analyzed a variety of private equity-related transactions with an aggregate deal value of over $2 billion. Kevin holds the Series 24 and 7 FINRA licenses, a B.A. in Politics from Princeton University and an M.B.A. from the University of North Carolina at Chapel Hill, where he was the recipient of the prestigious Richard Jenrette fellowship.

Pete Andreyev

Pete Andreyev has held management and executive positions with General Electric, IBM, and Hitachi. He has also served on the boards of six companies, including four as chairman and prior to joining Bardi Co., was the Vice President of Asia Pacific for both IBM and Hitachi Global Storage Technologies. Pete is globally recognized as an expert in conducting business in the Asian Pacific region. For the past fourteen years, he has lived in Japan, Taiwan, and mainland China. His expertise makes him a sought-after speaker for conferences and events, and he has authored numerous published articles. Pete has conducted business in Australia, China, England, France, Germany, Hong Kong, India, Ireland, Japan, Malaysia, New Zealand, Philippines, Scotland, Singapore, South Korea, Spain, the United States, Taiwan, Thailand, and Viet Nam. He holds a B.S. in Electrical Engineering from the University of Notre Dame and an M.S. in Management from Stanford University.

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