

BROADCASTING VALUATION IN AN INTERNATIONAL ENVIRONMENT

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I. Standard Valuation Techniques

- a. Income – See Model
 - i. Economic Overview
 - (1) Geography and Population
 - (2) Economic Characteristics
 - (3) Media Market Growth Trends
 - (4) Regulation
 - ii. Industry Overview
 - (1) Regulation
 - (2) Market Structure/Competition
 - iii. Strategy and Start-Up Costs
 - (1) Business Strategy
 - (2) Construction and Related Costs
 - iv. Revenue Projections for the Entire Market
 - v. Company Financial Projections
 - (1) Revenue Share
 - (2) Operating Expenses
 - (a) Staffing Issues/Assumptions
 - (b) General and Administrative
 - (c) News
 - (d) Production and Programming
 - (e) Sales
 - (f) Technical
 - (g) License Fees
 - (h) Depreciation and Amortization
 - (i) Capital Expenditures
 - (3) Financial Analysis
 - (a) Net After-Tax Cash Flow
 - (b) Discount Rate
 - (c) Present Value Income Stream

- (d) Terminal Value
- (e) Valuation, Return on Investment, Sensitivity Analysis
- b. Market
 - i. Analysis of Sales of Similar Businesses
- c. Cost
 - i. Cost to Replicate, Rather than Acquire, the Subject Business
- d. Reconciliation of Valuation Techniques

II. Challenges to Standard Valuation Techniques

- a. Rapidly Changing Technology
- b. Global Macroeconomic Uncertainty
- c. Efficiency – Margins
- d. Labor and Talent Risks
- e. Political Risks
- f. Internet
- g. Local Factors and Customs
- h. Cable and Alternative Delivery System (“ADS”) Threat/Opportunity to Television Broadcasters
- i. Cost of Imported Programming
- j. Managing Extraordinary Growth
- k. Foreign Exchange Risk

III. Strategies for Enhancing Value for Traditional Broadcasters

- a. Leverage Your Brand Name
- b. Internet Services/E-commerce
- c. Economies of Scale
- d. Your Distinct Competencies and Strategies

IV. Sensitivity Analysis on Operational Matters

- a. Perceived Risk

Discount Rate	Indicated Value	Cash Flow Multiple	Percent Change
8%	\$138 million	16.8	+18%
10%	117 million	14.2	N/A
12%	99 million	12.1	-15%
14%	86 million	10.5	-26%
16%	75 million	9.1	-36%
18%	66 million	8.0	-43%

b. Bad Debt Management

Bad Debt Percent	Indicated Value	Cash Flow Multiple	Percent Change
2%	\$23 million	15.0	+5%
3%	117 million	14.2	N/A
4%	109 million	13.3	-7%
5%	103 million	12.5	-12%

c. Accounts Receivables Management

Average Accounts Receivables Lag	Indicated Value	Cash Flow Multiple	Percent Change
30 days	\$117 million	14.3	N/A
60 days	113 million	13.7	-3%
90 days	104 million	12.7	-11%
120 days	99 million	12.0	-15%

Table 1

Projected Hypothetical Operating Performance With Increased Competition
(Dollar Amounts Shown in Thousands)

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>Year 8</u>	<u>Year 9</u>	<u>Year 10</u>
Market Revenues	\$101,175.0	\$107,751.4	\$114,755.2	\$122,214.3	\$130,158.2	\$138,618.5	\$144,856.3	\$151,374.8	\$158,186.7	\$165,305.1
Station Market Revenue Share	24.4%	25.2%	26.0%	26.8%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Projected Station Revenues	\$24,686.7	\$27,153.4	\$29,836.4	\$32,753.4	\$35,142.7	\$37,427.0	\$39,111.2	\$40,871.2	\$42,710.4	\$44,632.4
Operating Profit Margin	33.3%	35.9%	38.5%	41.1%	43.7%	45.0%	45.0%	45.0%	45.0%	45.0%
Operating Cash Flow	\$8,220.7	\$9,748.1	\$11,487.0	\$13,461.6	\$15,357.4	\$16,842.2	\$17,600.0	\$18,392.0	\$19,219.7	\$20,084.6
Less: Depreciation/Amortization	<u>10,939.6</u>	<u>14,270.4</u>	<u>11,860.2</u>	<u>10,428.9</u>	<u>10,672.6</u>	<u>9,552.7</u>	<u>8,337.0</u>	<u>8,371.4</u>	<u>8,388.7</u>	<u>8,406.0</u>
Taxable Income	(\$2,718.9)	(\$4,522.3)	(\$373.2)	\$3,032.7	\$4,684.8	\$7,289.5	\$9,263.0	\$10,020.6	\$10,831.0	\$11,678.6
Income Taxes	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>41.2</u>	<u>2,915.8</u>	<u>3,705.2</u>	<u>4,008.2</u>	<u>4,332.4</u>	<u>4,671.4</u>
Net Income	(\$2,718.9)	(\$4,522.3)	(\$373.2)	\$3,032.7	\$4,643.6	\$4,373.7	\$5,557.8	\$6,012.4	\$6,498.6	\$7,007.2
Add Back: Depreciation/Amortization	<u>10,939.6</u>	<u>14,270.4</u>	<u>11,860.2</u>	<u>10,428.9</u>	<u>10,672.6</u>	<u>9,552.7</u>	<u>8,337.0</u>	<u>8,371.4</u>	<u>8,388.7</u>	<u>8,406.0</u>
After-Tax Net Income	\$8,220.7	\$9,748.1	\$11,487.0	\$13,461.6	\$15,316.2	\$13,926.4	\$13,894.8	\$14,383.8	\$14,887.3	\$15,413.2
Capital Expenditures	\$2,550.0	\$2,550.0	\$2,550.0	\$2,550.0	\$2,550.0	\$2,550.0	\$2,550.0	\$2,550.0	\$2,550.0	\$2,550.0
Net After-Tax Cash Flow	\$5,670.7	\$7,198.1	\$8,937.0	\$10,911.6	\$12,766.2	\$11,376.4	\$11,344.8	\$11,833.8	\$12,337.3	\$12,863.2
Present Value Net After-Tax Cash Flow	\$5,406.8	\$6,239.2	\$7,042.2	\$7,816.5	\$8,313.7	\$6,735.1	\$6,105.8	\$5,790.0	\$5,487.6	\$5,201.4
Cumulative Present Value Net After-Tax Cash Flow	\$5,406.8	\$11,646.0	\$18,688.2	\$26,504.7	\$34,818.4	\$41,553.5	\$47,659.3	\$53,449.3	\$58,936.9	\$64,138.3
Cumulative Present Value Net After-Tax Cash Flow	<u>\$64,138.3</u>									

Table 2

Valuation of Hypothetical Television Station (Income Approach)

(Dollar Amounts Shown in Thousands)

Year 10 Operating Cash Flow	\$ 20,084.6
10x Cash Flow Multiple	\$200,846.0
Less: Remaining Basis	<u>41,230.1</u>
Capital Gain	\$159,615.9
Capital Gains Tax	\$ 63,846.4
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Future Terminal Value	\$200,846.0
Less: Capital Gains Tax	<u>63,846.4</u>
After-Tax Terminal Value	\$136,999.6
Terminal Discounted to Present Value @ 10%	\$ 52,819.3
Plus: Cumulative Present Value Net After-Tax Cash Flow	<u>64,138.3</u>
Valuation of Station (Income Approach)	<u>\$116,957.6</u>
Value as a Multiple of Year 1 Operating Cash Flow	14.2