Apple Inc's acquisition of Lions Gate Entertainment Corp.

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Abstract

This dissertation intends to analyze the potential acquisition of Lions Gate Entertainment Corporation by Apple Inc. Apple is putting a notable amount of resources into competing in the entertainment market, and this acquisition would significantly improve its competitiveness in the industry.

An analysis of the industry and the individual companies is provided, to substantiate the deal's rationale.

Valuations are done of the individual companies and the synergies created by the merger to work out the transaction details. By finding the value of the merged entity with synergy effects, the combined enterprise value suggests the maximum bid that Apple can offer for the target. The intrinsic enterprise values of Apple and Lions Gate are approximately \$3 trillion and \$5.2 billion, respectively. The proposed merger creates \$1.65 billion in net synergy value. The recommended bid price for each share is as follows: Apple will pay a 30% premium over market prices for each of Lions Gate's share classes, which equals a bid price of \$18.2 for Class A and \$17.0 for Class B. The total purchase price adds up to \$3.9 billion.

The recommended transaction will be structured as a friendly takeover, as the acquisition will create value for shareholders of both companies. Apple will finance the takeover with 100% cash to signal confidence in the merger and the vast amount of excess cash on its balance sheets. By 2024, the acquisition will create value for Apple shareholders with a positive accretion yield.

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Keywords: Mergers & Acquisitions, Apple Inc, Lions Gate Entertainment Corp., Streaming, Entertainment, Synergy

Resumo

Esta dissertação pretende analisar a potencial aquisição da Lions Gate pela Apple. A Apple tem investido uma quantidade notável de recursos para competir no mercado do entretenimento, e esta aquisição melhoraria significativamente a sua competitividade na indústria.

Forneço uma análise do setor e das empresas individuais que fundamentam a lógica do negócio.

São feitas avaliações das empresas individuais e das sinergias criadas pela fusão para definir os detalhes da transação. Ao encontrar o valor da entidade fundida com os efeitos das sinergias, o valor combinado da empresa sugere o preço máximo que a Apple pode oferecer para o alvo de aquisição. Os valores empresariais intrínsecos da Apple e da Lions Gate são de aproximadamente US$ 3 triliões e US$ 5,2 biliões, respetivamente. A fusão proposta cria US$ 1,65 biliões em valor líquido de sinergia. O preço de oferta recomendado para cada ação é o seguinte: a Apple pagará um premium de 30% sobre os preços de mercado para cada uma das classes de ações da Lions Gate, o que equivale a um preço de oferta de US$ 18,2 para a Classe A e US$ 17,0 para a Classe B. O preço total de compra totaliza US$ 3,9 biliões.

A transação recomendada será estruturada como uma aquisição amigável, pois a aquisição criará valor para os acionistas de ambas as empresas. A Apple financiará a aquisição com 100% em dinheiro para sinalizar confiança na fusão e a grande quantidade de caixa excedente no seu balanço.

Título: Aquisição da Lions Gate Entertainment Corp pela Apple Inc

Autor: Ole Christian Raaen Jakobsen

Palavras-chave: Fusões e Aquisições, Apple Inc, Lions Gate Entertainment Corp, Streaming, Entretenimento, Sinergia

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1 Introduction

The market for streaming content online has exploded in recent years, overthrowing traditional cable TV and theaters worldwide. During the pandemic, consumers have gotten used to quickly accessing any movie, tv-series or other entertainment they desire from their own homes. The competition in the market to attract consumers is intense, and with heaps of alternatives to choose from for customers, streaming sites must constantly focus on improving their services. This has caused much consolidation in the market, where companies use M&A to obtain content libraries and intellectual property to offer the most desirable product.

Apple, the world's most valuable company, is a leader in most consumer technology categories and has brand recognition worldwide. At the end of 2019, Apple TV+ was launched, starting Apple's entry into the streaming market. Unlike most of the company's other products, Apple TV+ is far from a leader in the streaming market, lagging way behind its peers. Even with highly regarded new movies and tv-shows and low prices, consumers are unwilling to subscribe to the service.

Lions Gate is a traditional entertainment company producing movies and tv-shows. The company has several highly regarded movie franchises and tv-shows. Lions Gate has struggled in recent years when the industry has moved towards streaming, and its stock has fallen drastically. This would be an excellent target for Apple to acquire, as it would improve its streaming service by obtaining Lions Gate's backlog of content and getting the rights to all future movies and tv-shows.

Here is an overview of the dissertation. First, a literature review examines the relevant theory and academic papers on firm valuation and mergers & acquisitions. Following the literature review is an analysis of the industry and the individual companies in the proposed transaction. In section 5, the rationale behind the transaction is discussed. Section 6 shows the results from the valuation of the respective companies and explains how the forecasting was done. Afterward is the valuation of the merged entity, showing the estimated synergy effects. In the end, there is a recommendation on how Apple should execute the transaction.

2 Literature review

2.1 Mergers & Acquisitions

2.1.1 Overview

Mergers and acquisitions (M&A) are transactions between two companies combining in some form (Corporate Finance Institute, n.d.). The two most cited reasons for M&A transactions are faster growth and synergies (Gaughan, 2015). Growth is essential to the long-term survival of a company. A company can grow through internal organic growth or external growth. Capron & Mitchell (2012) defines three options to grow:

- Build- internal development
- Borrow- licensing/alliances
- Buy- M&A

The authors argue that combining these strategies is optimal for a company in the long term and that companies relying on only one, a 'one-trick pony', will eventually fail. M&A remains a favorite growth strategy for businesses worldwide, even though academics are divided on the actual benefits to the acquiring firm (Das & Kapil, 2012).

The main motive behind M&A transactions is creating value. The value creation in M&A comes from positive net acquisition value (NAV), where the combined value of the two firms in the transaction is higher than the firms separately, accounting for acquisition premium and expenses (Gaughan, 2015). Brouthers, Van Hastenburg, & Van Den Vem (1998) divided the motives for M&A into three categories: improved economic performance, personal benefits for managers, e.g., prestige or increased remuneration, and increased market power. Companies that conduct M&A are trying to obtain both tangible and intangible benefits (Hassan, Ghauri, & Mayrhofer, 2018). Tangible benefits include revenue increase and capturing specific markets, while examples of intangible benefits are brand reputation or access to new technology or patents.

M&A transactions are often categorized into different types (Gaughan, 2015). Horizontal M&As are transactions where rival companies that compete within the same industry merge. One reason to do a horizontal merger is increased market power, where the companies gain market share and pricing power. However, if the transaction has an anticompetitive effect, can the deal be opposed by the government based on antitrust violations (Stillman, 1983). Vertical

M&As are deals where companies have a buyer-seller relationship. Companies do vertical mergers to control the supply chain (Bhuyan, 2002). When companies that compete in different industries and don't have a supplier-distributer relationship merge, it's a conglomerate merger. The main reason for conglomerate M&As is diversification, where companies reduce the volatility of the conglomerate's total cash flows by investing in a variety of industries (Gaughan, 2015).

In M&As, there is a distinction between friendly and hostile takeovers. A friendly takeover must be approved by the management team and shareholders of the target company. In a hostile takeover, the acquiring company makes a tender offer directly to the shareholders of the target, without the approval of the board of directors. Each shareholder decides whether to approve the offer for their shares (Schnitzer, 1996). The management of the target has several possible actions and strategies to resist takeover attempts. There are strategies that the management implements prior to an actual takeover attempt, called pre-offer takeover defenses. This can be strategies like a staggered board or the poison pill provision. Post-offer takeover defenses include share repurchases, litigation, and asset or liability restructuring (Ruback, 1988).

2.1.2 Synergies

2.1.2.1 Types of Synergies

Synergy is the reaction that occurs when two substances combine to create a greater effect merged than the sum of the two operating independently. In M&A, this translates to the additional value that is created when merging two companies (Gaughan, 2015). Damodaran (2005) classified synergies into two categories, operational and financial synergies. Operating synergies often take form as higher expected cash flows, while financial can show up as higher cash flows or lower cost of capital.

Operating synergies allow companies to increase the operating income from existing assets and increase growth. The operating synergies are categorized into four types (Damodaran, 2005). The merger can allow the firm to profit from economies of scale, getting more cost-efficient. Economies of scale are often a result of horizontal mergers. The gain in market power can give the firm greater pricing power, due to the reduction of competition in the market. If the two firms in the merger have different functional strengths, the merger can produce synergy by combining the firms. Lastly, higher growth in new or existing markets can be a result of the merger.

A firm can try to reduce its cost of capital by engaging in M&A activity, obtaining financial synergies. If a company has a lot of excess cash, without any profitable investment opportunities, it could create value by acquiring a company with high return projects but a lack of cash. Other financial synergies that could be achieved when combining two firms is greater debt capacity and tax benefits. Diversification is a controversial financial synergy, as a result of the possibility to investors to diversify more cheaply for themselves (Damodaran, 2005).

2.1.2.2 Valuing Synergies

To find the right price to pay in an M&A transaction, the acquirer needs to find an estimated value of the synergies. Damodaran (2005) claims that synergies can be valued by answering two questions:

1. What form is the synergy expected to take?
2. When will the synergy start affecting cash flows?

After finding the answers to these questions, Damodaran suggests a three-step valuation of the synergies. First, value the firms independently. Then combine the value of each firm, finding the estimated value of the combined firm without synergy. Lastly, build in the effects of synergy in the valuation of the combined firm. The value of synergy is the difference between the value of the combined firm with synergies and the value without synergy.

2.1.3 Acquisition Premium and Payment Methods

«*A premium is regarded as an overpayment that consumes the expected synergies over the performance that would need to be achieved in order even to sustain an acquired firm's market value*» (Sirower, 1997, as cited in Laamanen, 2007, p. 1359). Sirower & Sahni (2006) find that the average premium paid for targets is 36%, similarly to Laamanen (2007) that report premiums in the range between 30-50%.

The acquirer in M&A deals has several options on payment methods. Transactions may involve all cash, all securities, or a combination of cash and securities (Gaughan, 2015). Securities can be stock of the acquirer or debt. Tender offers are usually all cash because it's faster than the alternatives (Martin, 1996). When there is competition for a target company, the acquiring companies often use cash-finances tender offers to preempt the competition (Fishman, 1989, as cited in Martin, 1996). Martin also finds that firms with higher investments opportunities are more likely to choose stock financing, as it lowers the potential constraints on the managers by giving them increased flexibility. Hazelkorn, Zenner, & Shivdasani (2004) find that the market reaction is more positive for cash-financed transactions, because of the positive signal that the cash offer sends to the investors. Another factor that can affect the choice of financing is the firm's valuation of its own stock. If the firm thinks that their stock is overvalued, the logical choice is to offer a stock-financed offer.

2.1.4 Long-term Value Creation

There are a lot of studies about the success rate of M&As. Bruner (2004) finds that only 20-30% of all M&A transactions generate clear value creation for the acquirer, which is measured by earning returns significantly in excess of the opportunity cost of capital. However, Bruner argues that the definition of 'failure' in M&A deals is extreme. In reality are 60-70% of M&As associated with financial performance that at least compensates the investors for the opportunity cost, which should satisfy the investors.

Why do so many M&As 'fail'? Often is the problem simply that the acquirer paid too much for the target company (Eccles, Lanes, & Wilson, 1999). Eccles, Lanes, & Wilson (1999) find that even experienced acquirers can get too attached to a deal. The acquirer can overrate the present value of the synergies obtained by the merger, which can inflate their price ceiling. Sometimes can the strategic fit seem so perfect, that the acquirer feels compelled to execute the acquisition even though the number doesn't support the deal. Eccles et al. argue that companies should have organizational disciplines in place to rein in emotion in the negotiations and walk away when the target is overpriced. To conclude, «*Ultimately, the key to success in buying another company is knowing the maximum price you can pay and then having the discipline not to pay a penny more*» (Eccles, Lanes, & Wilson, 1999).

2.2 Valuation

2.2.1 Discounted Cash Flow Valuation

Since the 1970s, has the discounted cash flow (DCF) valuation method been viewed as the best practice for valuing assets (Luehrman, 1997b). DCF estimates the value of an investment based on expected future discounted cash flows. Today, two different methods are used in DCF valuation: the weighted average cost of capital (WACC) and adjusted present value (APV).

In DCF valuations, an essential part is to forecast the free cash flows to firm (FCFF) of the company being valued. FCFF is the cash flow available to all of the company's suppliers of capital, after all, operating expenses, taxes, and investments in working capital and fixed capital (Stowe, Robinson, Pinto, & McLeavey, 2002). All suppliers of capital include both equity and debt, so it is the cash flow available to both shareholders and bondholders. FCFF can be computed with several different equations. In this dissertation, the following equation is used:

$$Free\ cash\ flow\ to\ firm = EBIT * (1 - tax\ rate)$$
$$+Depreciation - CAPEX - \Delta\ Net\ working\ capital \qquad (1)$$

2.2.1.1 Weighted Average Cost of Capital

The weighted average cost of capital (WACC) is the discount rate used in DCF valuations. «*The WACC is neither a cost nor a required return: it is a weighted average of a cost and required return*» (Fernandez, 2010).

$$WACC = \frac{E}{E+D} * K_e + \frac{D}{E+D} * K_d * (1 - T_c) \qquad (2)$$

Where:

E = Market value of equity

D= Market value of debt

K_e = Cost of equity

K_d = Cost of debt

T_c = Corporate tax rate

2.2.1.2 Cost of Equity

The cost of equity is the rate of return that investors require for holding the firm's stock. The standard method to estimate the cost of equity is the capital asset pricing method (CAPM), introduced by Sharpe (1964), Lintner (1965), and Mossin (1966).

$$E(R_i) = R_f + \beta_i(ER_m - R_f) \tag{3}$$

Where:

R_f = Risk-free rate

β_i = Company's levered beta

$(ER_m - R_f)$ = Market risk premium

2.2.1.3 Cost of Debt

The cost of debt shows the cost to the firm of financing investments and projects by issuing bonds. The cost of debt is determined by some variables (Damodaran, 2002). The first variable is the risk-free rate, as the cost of debt increases when the risk-free is raised. The company's default risk is important, as the higher the probability of default is, the higher the cost of borrowing. Damodaran calculates the pre-tax cost of debt by adding a default spread to the risk-free rate. The default spread is found by either looking at a company's credit rating or interest coverage ratio. For this paper, the default spread is chosen according to Table 1.

If interest coverage ratio is			
greater than	≤ to	Rating is	Spread is
-100000	0.499999	D2/D	14.34%
0.5	0.799999	C2/C	10.76%
0.8	1.249999	Ca2/CC	8.80%
1.25	1.499999	Caa/CCC	7.78%
1.5	1.999999	B3/B-	4.62%
2	2.499999	B2/B	3.78%
2.5	2.999999	B1/B+	3.15%
3	3.499999	Ba2/BB	2.15%
3.5	3.9999999	Ba1/BB+	1.93%
4	4.499999	Baa2/BBB	1.59%
4.5	5.999999	A3/A-	1.29%
6	7.499999	A2/A	1.14%
7.5	9.499999	A1/A+	1.03%
9.5	12.499999	Aa2/AA	0.82%
12.5	100000	Aaa/AAA	0.67%

Table 1. Credit Ratings

2.2.1.4 Risk-Free Rate

In finance, the expected returns on risky investments are measured in relation to the risk-free rate, to find the expected risk premium. The risk-free rate cannot have default risk or reinvestment risk (Damodaran, 2002). The risk-free rate is important in valuation as it's used in the estimation of the cost of equity and the cost of debt. (Damodaran, 1999) concludes that long-term government bond rates are a good alternative for the risk-free rate in valuations.

2.2.1.5 Beta

The beta is the risk that the investment adds to the market portfolio (Damodaran, 2002). Kaplan & Ruback (1996) defines beta as a measure of systematic risk. There are different estimation methods for the beta, such as firm-based, industry-based, and market-based (Kaplan & Ruback, 1996). It's found that the industry-based and market-based performs best. To measure the levered beta for a company using an industry-based approach, the formula below is used. The levered beta accounts for the market risk that comes when the leverage is increasing (Damodaran, 2002).

$$\beta_L = \beta_u \left(1 + (1 - t)\left(\frac{D}{E}\right)\right) \tag{4}$$

Where:

β_L = Levered beta

β_u = Unlevered beta

t = Corporate tax rate

D/E = Debt to equity ratio

2.2.1.6 Terminal Value

To do an intrinsic valuation of a firm, it's necessary to forecast the expected future cash flows of the firm. The further in the future the forecast gets, the more difficult it gets doing accurate forecasts, due to the uncertainty of time. The terminal value is used to estimate the value of all cash flows in perpetuity. When calculating the growth rate of the terminal value, it's assumed that the growth is equal to or smaller than economic growth in the regions that the company operates (Damodaran, 2002). Damodaran outlines three alternatives when estimating the terminal value. First, is the liquidation of the firm's assets, which assumes that the firm ceases to exist and sells off its assets. Another method is using multiples, often using earnings or revenue in the last year of the forecast. The most common method is the stable growth model, assuming that the company has a stable growth rate in perpetuity.

2.2.2 Adjusted Present Value

The adjusted present value (APV) approach estimates the value of a company if it was financed only with equity and adds the net effect on firm value when considering both the benefits and costs of borrowing (Damodaran, 2002). One reason for choosing the APV approach over WACC is that the APV approach works more often, as it requires fewer restrictive assumptions (Luehrman, 1997a). Damodaran (2002) explains the process of APV valuation in three steps. As mentioned, the first step is estimating the value of the firm without leverage, using unlevered cost of equity and a stable growth rate. The second step is calculating the tax benefits of leverage. The tax benefit is decided by the corporate tax rate, discounted by the cost of debt. Last, is estimating the expected cost of bankruptcy caused by leverage. This is decided by the probability of default and the present value of bankruptcy costs.

2.2.3 Relative Valuation

An alternative to the intrinsic valuation is the relative valuation. The reason why relative valuation is popular, is that it can be done much faster and with less assumption than a DCF valuation. Furthermore, a relative valuation is easier to understand and present to clients (Damodaran, 2002). Relative valuation methods compare a company to a comparable to assess its value. Kaplan & Ruback (1996) defined three different comparable valuation methods: comparable company, comparable transaction, and comparable industry transaction. It can be difficult to find a sufficient sample size for the latter two methods, so the comparable company method is often used. Relative valuation depends on two assumptions. The comparable companies are assumed to have their expected future cash flows grow at the same rate and have the same level of risk as the company being valued. Also, the value of the company is assumed to vary in direct proposition with changes in the performance measure. (Kaplan & Ruback, 1996)

3 Industry Analysis

In recent years more and more consumers are cutting the cord to their cable tv subscription, transitioning to over the top (OTT) delivery of TV and video content online (NoCable, n.d.). The OTT services deliver content, usually through streaming or video on demand (Oracle, n.d.). There are plenty of possible reasons to change from cable TV to streaming. The consumer can watch the content anywhere and anytime it wants, as long as it is connected to the internet. Streaming provides optionality, and the intense competition between streaming services makes for unlimited quality content. In addition, most traditional TV content has transitioned to online streaming, such as tv-shows, sports, and news.

There are some distinctions between different categories of OTT services. This paper focuses on subscription video on demand (SVOD), similar to traditional TV, where the consumer pays for a subscription at a flat rate. Major players in this category are Netflix, Amazon Prime, Disney+, HBO Max, and Apple TV+. Another category is transactional video on demand (TVOD), which offers pay-per-view. Examples of providers are iTunes and other movie rental websites. Advertising-based video on demand (AVOD) is free to consumers and makes money through advertisement, namely the online video sharing platform YouTube (Bird, n.d.)

SVOD Market Overview

The SVOD market is the main focus in this case, as Apple TV+ is a subscription service and has similar strategies to the streaming market leaders. The market sees intense competition due to the increasing number of suppliers and the leaders' position, Netflix and Amazon Prime. The SVOD market has surged for some time and gained even more momentum in 2020, as consumers were forced to stay at home due to the Covid-19 pandemic. The revenues of the digital video segment in the U.S. increased by 31% in 2020, driven mainly by increased demand for SVOD services (MarketLine, 2021).

The most prominent companies in the industry are mainly based in the United States, such as Netflix, Disney, and Amazon. The streaming services compete for subscribers worldwide. Figure 1 shows the reported market shares in the US streaming services in 4Q of 2021.

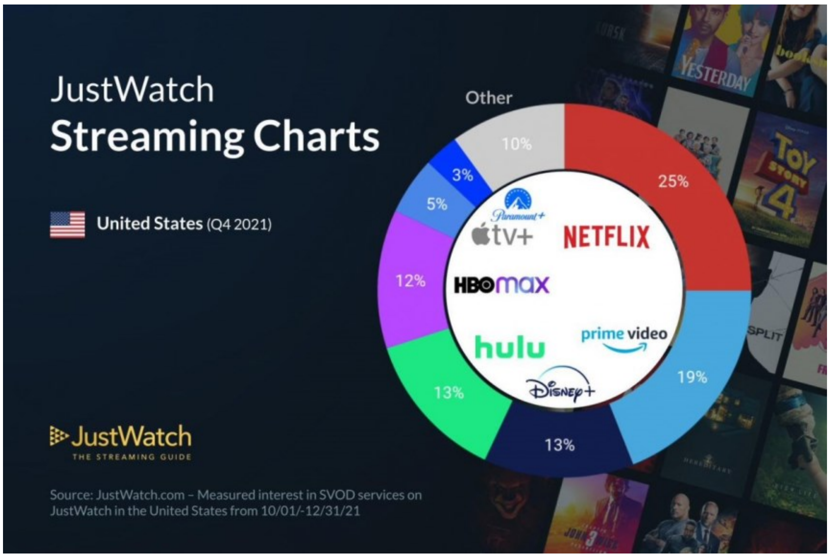

Figure 1. US Market Shares- Streaming Market. Source: JustWatch, 2022, as cited in (GSMArena, 2022)

Due to the intense competition in the industry, companies try different strategies to gain competitive advantages. Netflix and Amazon Prime Video have a broad library of movies, television shows, and documentaries, catering to a wide variety of consumer demands. Disney+ has another strategy, offering a narrower array of content. Disney has the advantage of owning several of the most valuable properties in the industry, namely Pixar, Marvel, and Star Wars. These properties are big draws for the streaming service and generate much sales revenue through cinema releases. HBO Max is another big upcoming player that launched in 2020. Through several mergers, has HBO Max attained an attractive line-up of content that will contend with the established market leaders in the streaming world.

In the end of April, a surprising event hit the industry. After Netflix released an earnings report announcing that its number of subscribers had fallen, its stock fell drastically (Sommer, 2022). On the 13th of May 2022, the Netflix stock price was down almost 70% year-to-date. It shows some of the difficulties the company faces, with only offering streaming service and no other reliable revenue generators. Netflix has the one of the most expensive services, it’s possible that consumers find alternatives with lower price and equal or higher quality content. This shows an opening for companies with lower market share but higher amounts of resources, to gain on the market leader.

3.1 M&A Activity

The streaming industry has experienced tremendous growth, with several big companies investing a lot of capital to succeed. To reach their goals, companies have used M&As as a growth strategy to attain subscribers. Following are some examples of the most significant M&A transactions in the streaming industry.

The M&A activity of The Walt Disney Company is the main reason behind the success of their entry into the streaming industry. In 2006 Disney merged with Pixar Animation Studios, an already established movie studio, and has continued dominating the animated movie market. In 2009, Disney acquired Marvel Entertainment. Since has Marvel productions dominated the global office and continue to be a big audience draw for Disney. Disney obtained even more highly regarded intellectual property in 2012 as it bought Lucasfilms, the home of the Star Wars series. Before launching Disney+ in 2019, Disney also acquired 21st Century Fox, expanding their library even more (High, 2019). This is an excellent example of how M&A transactions can be essential in succeeding in this industry.

The American telecommunications company AT&T has also used M&As to grow its presence in the streaming market. Through the acquisition of WarnerMedia, AT&T obtained the ownership of several big players in the media industry, namely HBO and Warner Bros (AT&T, 2016). As these brands are well known for high-quality television and films, AT&T has built a library that can compete with the leaders in the market. HBO Max was launched in 2020, betting that it would attract subscribers with the high quality of its content. AT&T has recently announced the spin-off of WarnerMedia and merger with Discovery Inc, continuing the pursuit of market-leading Netflix (Li, 2022).

Amazon Prime Video is another major player in the streaming industry. Like Apple, Amazon is a massive company with several other revenue generators that contribute to the company's success and use its streaming service to promote other services and further expose the Amazon brand. This gives the company much firepower to invest in their streaming service. To expand the library of its streaming service, Amazon acquired the classic movie studio MGM, obtaining the rights of several famous franchises, classic films, and modern content. With this move, Amazon obtained famous titles like the Rocky franchise and James Bond (Reuters, 2022).

3.2 Porter Five Forces Analysis

To analyze the competitive environment in the streaming industry, we use the model introduced by Porter (1979), the five forces analysis. The analysis looks at how five different forces influence a company and assess the profit potential.

Competition in the industry

The potential of profitability in an industry is massively dependent on the degree of competition. It's often reliant on if companies must compete with pricing strategies. In the SVOD market, where it's plenty of good alternatives for the consumers, and they often have more than one subscription, the streaming services need to have reasonable prices to compete. The low switching costs also lead to more price competition.

Potential of New Entries

A few factors determine the barriers for new entrants in the SVOD market. If the entrant doesn't produce its own video content, the entry barriers are high because of the significant investments needed to create new content or acquire existing. A few large corporations lead the market and own most of the desirable intellectual property. In recent years, it has been proved that it's possible to successfully enter the market if the company has the capital and content needed, such as HBO Max and Apple TV+. The low-cost switching makes it possible for new entrants to gain market share quickly after entering the market.

Power of Suppliers

Companies in the streaming industry need equipment like servers and storage hardware, and cloud services. There are plenty of technology companies that offer these services, diluting suppliers' power. A few huge companies make up the majority of the streaming industry, which gives the buyers bargaining power over the suppliers (MarketLine, 2021).

Power of Customers

The buyers in the industry are typically individual consumers or family households. The power of customers increases when the products are undifferentiated, and there are few switching costs. There are some differentiations in the streaming industry, as many services have exclusive rights to content. It's easy for consumers to switch streaming services, which increases their power. In conclusion, the companies need to offer an excellent service to attract and keep customers, as it's easy for the customer to switch to another alternative if they are not satisfied.

Threat of Substitutes

There are some substitutes in the SVOD market, such as traditional cable TV. As there are low switching costs in the industry, the threat of substitutes is high in the market. If the consumers find substitutes that they find more desirable, it's easy to switch. It can be different kinds of entertainment, such as physical products like books or comics. There is also a threat from free content, specifically from providers like YouTube or various social media platforms. When these providers' quality and wide variety of content increase, the threat to the streaming services gets bigger.

3.3 Key drivers

How do consumers choose streaming service? KPMG (2019) did a survey to research this question. The research found that most consumers subscribe to 2-3 streaming services, and the most crucial feature was the price. Other essential features were no advertisement, content, and accessibility of the service. The consumers prefer a broad mix of content and demand both older TV and movies and original content. Deloitte (2021) did similar research, where three critical factors for the consumers were found related to the streaming service's content. The most important was the broad range of content. Secondly, was to watch content not available anywhere else, and the third was to watch new and original content produced by the streaming service.

A new market trend that is starting to spread in the industry is the diversification of content offered. With all the leading players in the industry focusing heavily on attracting consumers with their content libraries of tv-shows and movies, some companies have started to look to other sources of entertainment, namely sports and gaming. An example of this is that Amazon finalized a deal worth about $1 billion per year to broadcast games of the NFL (Sherman &

Young, 2021). Netflix has also introduced measures to diversify, entering the mobile gaming market and exploring merchandising (MarketLine, 2021).

When the streaming market becomes saturated, it gets vital for streaming services to retain their subscribers. Obtaining intellectual property is seen as a key factor for success in the future. Consumers are attracted to recognizable franchises and titles. Disney has had great success with its acquisitions of highly identifiable and demanded franchises, especially with the acquisition of Marvel. Amazon has in recent years, had a big focus on obtaining valuable intellectual property, such as the Lord of the Rings tv-show and the acquisition of MGM (Kafka, 2022).

3.4 Outlook

According to MarketLine (2021), digital video accounted for about 66% of the digital media market value in the US in 2020. The digital media market consists of revenues generated by legal downloads or streaming of media content. The US digital media market is forecasted to grow with a CAGR of 5.2% between 2020 and 2025. AllTheResearch (2021) has done a specific forecast on the global SVOD market. According to the report is the SVOD market expected to grow with a CAGR of 19.7% between 2020 and 2027.

4 Company Analysis

4.1 Apple Inc

Apple is a multinational technology company that focuses on consumer electronics and online services. It has gone from mainly focusing on computers to being a leader in mobile devices and several different electronic consumer goods. Apple is currently a leader in the tech industry, having the highest revenues worldwide in 2021. Figure 2 demonstrates the distribution of Apple's income in 2021 by region, showing the international exposure of Apple's products and services.

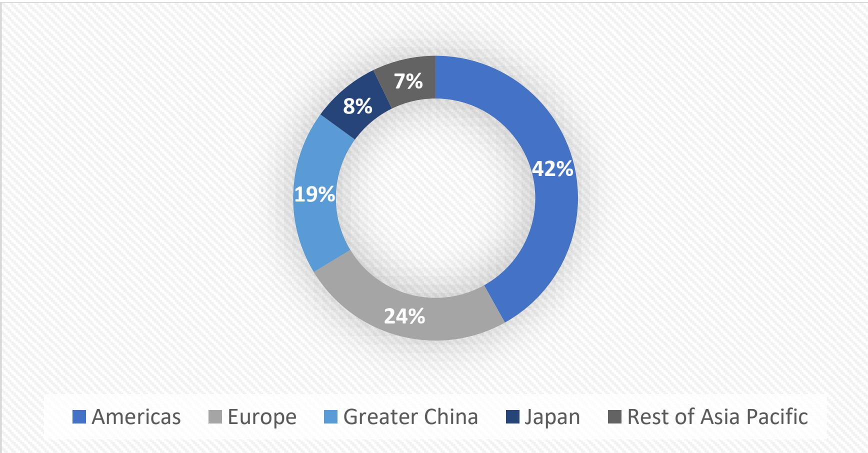

Figure 2. Apple revenue- by region

Apple offers a wide variety of products and services. The products and services are divided into five different segments:

- **iPhone** is the segment that generates the most revenue for Apple. It's one of the most recognized brands in the smartphone market and is competing with Samsung for the highest market share internationally (Counterpoint, 2022).
- When Apple was founded, its resources were focused on developing computers. **Mac** is still a significant generator of revenue for the company. Mac uses Apple's own operating system, while most of the competitors use Windows' operating system. Even with the intense competition against regular PCs, has the Mac segment increased its revenue in the past five years.

- **iPad** is the clear market leader in the tablet market. It has dominated the market since its release in 2010 (GlobalStats, 2022). It still has a high market share, even with the growing competition from big tech companies like Samsung and Huawei.
- **Wearables, Home and Accessories** include well-known products like AirPods, Apple Watch, Apple TV, and plenty more. The segment has experienced high growth in the previous years, with a CAGR of 24.5% over five years.
- **Services** is another high growth segment for Apple, which in 2021 accounted for 19% of the total revenue for Apple. The segment includes App Store, Apple TV+, Apple Music, and more. As the growth rates in the smartphone and computer markets stabilize, this segment will be an important area to increase growth in the future.

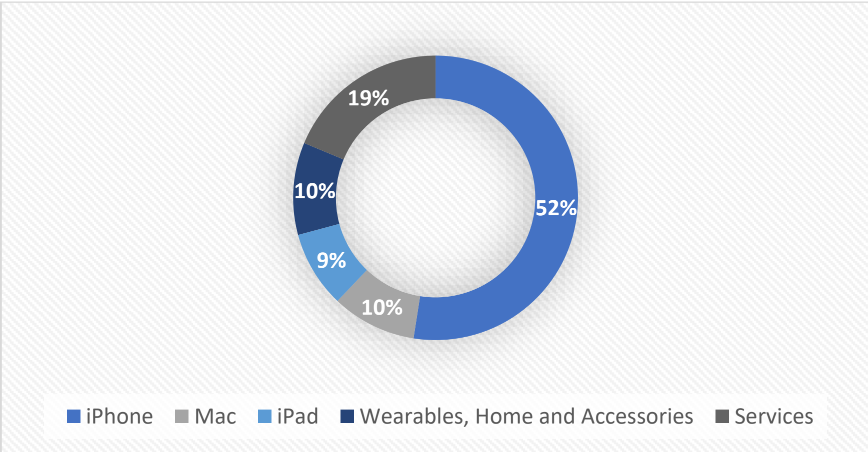

Figure 3. Apple revenue- by segment

4.1.1 Share price history

Apple went public via IPO in December 1980. Per the end of February 2022, it's the largest company in America by market capitalization, valued at around $2.7 trillion. Due to the increasing popularity of smartphones and the growth of the other Apple business areas, Apple stock has soared in the last ten years. Figure 4 shows the stock price development from 2012 until today. All stock price information is retrieved from Refinitiv Eikon (2022).

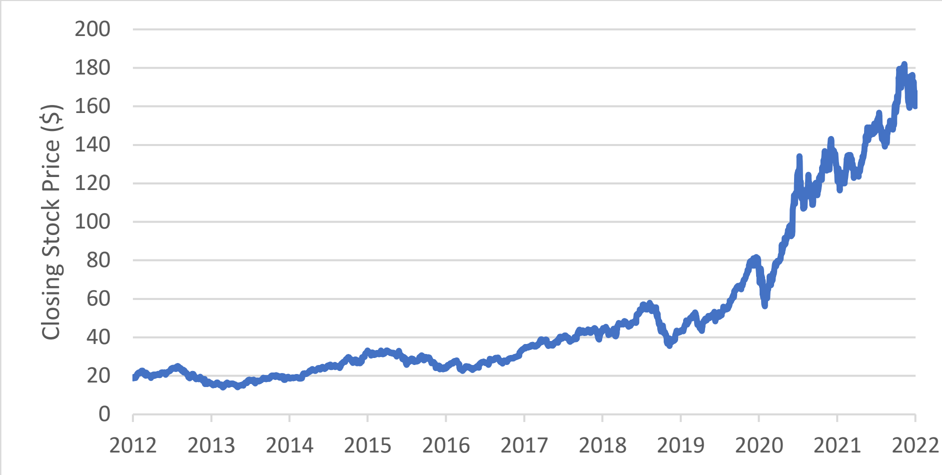

Figure 4. Apple- Closing stock price.

To contextualize the success of Apple stock, it's benchmarked against the S&P 500 index, which follows the 500 leading public companies in the US. In the previous five years, Apple had average yearly returns of 34.9%, with a volatility of 30.2%. Meanwhile, the S&P 500 annual returns were 13.4% and volatility of 19.1%. Figure 5 illustrates the indexed total returns of both Apple and the market index. It confirms that Apple stock has firmly beaten the market returns in recent years.

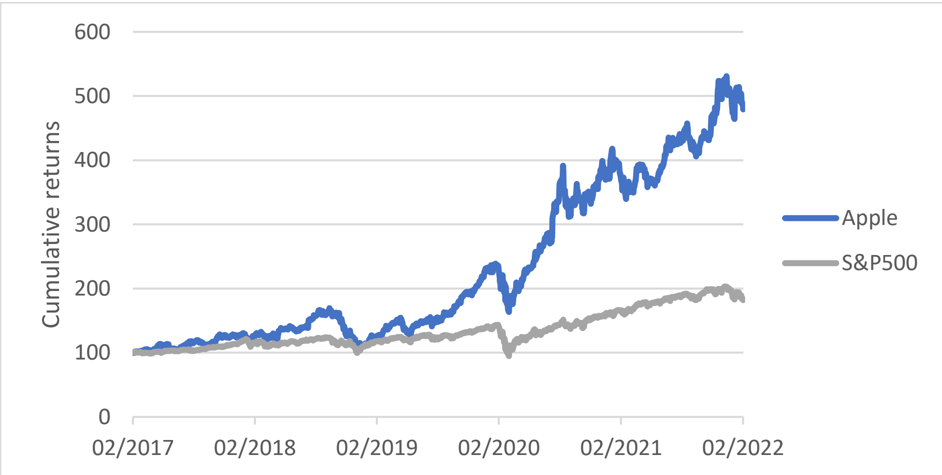

Figure 5. Apple|S&P500- Index

4.1.2 Ownership Structure

Table 2 shows the main shareholders in Apple Inc as of 28/02/2022. Apple has a free float % of 99.93% (Refinitiv Eikon, 2022). The table highlights that it's no major individual majority owner in Apple, mostly strategic investment funds.

Investor Name	Shares	Position
The Vanguard Group, Inc.	1,261.26M	7.73%
Berkshire Hathaway Inc.	887.14M	5.44%
BlackRock Institutional Trust Company, N.A.	675.69M	4.14%
State Street Global Advisors (US)	633.12M	3.88%
Fidelity Management & Research Company LLC	338.59M	2.07%
Geode Capital Management, L.L.C.	264.35M	1.62%

Table 2. Apple- Ownership structure

4.1.3 Financial Analysis

4.1.3.1 Revenue and Costs

Apple's sales have steadily increased for some time. The sales have grown with a CAGR of 9.8% for the five previous years. The Wearables, Home and Accessories, and Services segments are strong drivers for the revenue increases. Figure 6 shows the development of the sales revenues in the five last years. While stable growth between 2017-2020, the revenue increased by almost 35% in 2021. The revenues from the iPhone segment increased by nearly 40% from 2020 to 2021, which accounts for a big part of the revenue growth.

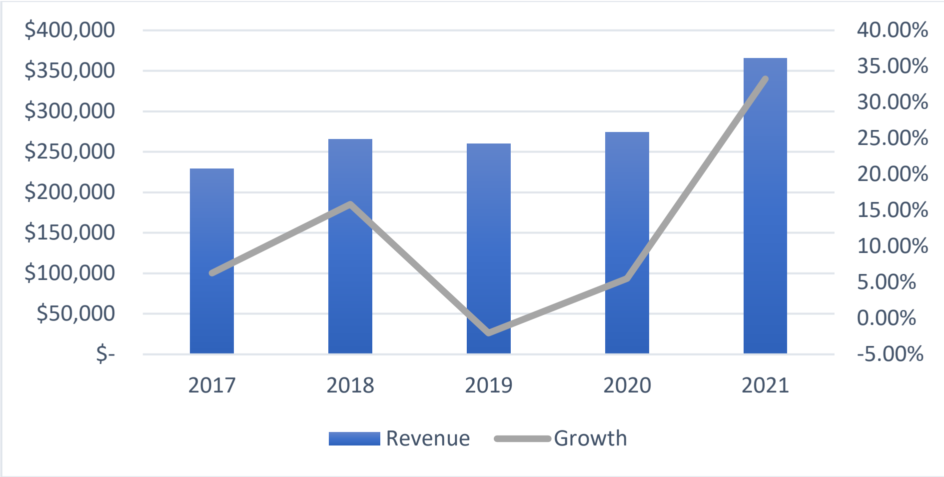

Figure 6. Apple- Revenue growth

Table 3 shows an overview of Apple's financial results. The gross margin has been relatively stable over the years, but it was improved in 2021. This is because the sales revenues have increased more than the cost of goods sold. With the high growth of the Services segment for Apple, it is natural that the gross margin will improve. The services bring less direct production costs and have higher gross margins. The segment had a gross margin of nearly 70% in 2021. The operating margin also improved in 2021. In my view, I find no other reason than that the sales had an abnormal increase in 2021, while the R&D and SG&A expenses followed its historical growth rate. The same reasoning can be used for the net income. The net margin is higher than 20% in all of the previous five years, which highlights the outstanding profitability of Apple.

in millions	2017	2018	2019	2020	2021
Sales	$ 229,234	$ 265,595	$ 260,174	$ 274,515	$ 365,817
YoY% Growth		*15.9%*	*-2.0%*	*5.5%*	*33.3%*
Gross Profit	$ 88,186	$ 101,839	$ 98,392	$ 104,956	$ 152,836
% of revenue	*38.5%*	*38.3%*	*37.8%*	*38.2%*	*41.8%*
Operating profit	$ 61,344	$ 70,898	$ 63,930	$ 66,288	$ 108,949
% of revenue	*26.8%*	*26.7%*	*24.6%*	*24.1%*	*29.8%*
Net income	$ 48,351	$ 61,031	$ 55,256	$ 57,411	$ 94,680
% of revenue	*21.1%*	*23.0%*	*21.2%*	*20.9%*	*25.9%*

Table 3. Apple- Financial results

4.1.3.2 Key Financial Metrics

	2019	2020	2021	Industry Median
Return on Equity (ROE)	55.90%	73.70%	147.40%	9.20%
Return on Invested Capital (ROIC)	22.90%	25.40%	42.60%	-
Profitability				
Gross margin	37.8%	38.2%	41.8%	40.1%
Operating margin	24.6%	24.1%	29.8%	6.6%
Net margin	21.2%	20.9%	25.9%	3.3%
Asset management				
Asset turnover	0.74	0.83	1.08	0.75
Inventory turnover	40.1	41.5	40.0	5.6
Days receivables	66.5	55.3	44.4	62.1
Days payables	115.2	95.3	83.2	74.3
Liquidity				
Quick ratio	1.50	1.33	1.02	1.01
Current ratio	1.54	1.36	1.07	1.61
Interest coverage ratio	17.9	23.1	41.2	4.6
Leverage				
Assets to equity ratio	3.74	4.96	5.56	2.4
Debt to equity ratio	1.19	1.73	1.99	0.07

Table 4. Apple- Key financial metrics

Table 4 highlights the key financial metrics of Apple. The ROE and ROIC are measures of the profitability of Apple for its stakeholders. The return on equity for Apple's shareholders is much higher than the industry median and has a positive trend. This is connected to the increase of debt and assets compared to equity. When looking at return on all invested capital, does Apple still have high returns, with an upwards trend. As discussed in the previous section, Apple's margins are solid. The gross margin is approximately at the industry median, while both operating- and net margins are higher than the industry.

Apple's liquidity ratios are at a healthy level, with a much higher interest coverage ratio than industry peers. Apple has increased its level of debt in previous years, highlighted by the upward trend in the debt-to-equity ratio. Both the debt-to-equity and assets-to-equity ratios are higher than the industry median.

4.1.4 Apple TV+

Apple is a leading consumer electronics player and offers a broad portfolio of products and services. Following the success of streaming services, Apple launched its streaming service in 2019. Apple TV+ is not a significant part of Apple's revenue generation, similar to Amazon

Prime Video. Apple already had success with its streaming device, Apple TV, as an alternative to traditional TV-boxes and Smart-TVs. Apple TV+ subscriptions have been offered to complement when consumers buy the Apple TV box.

Apple TV+ has followed a different strategy than competitors Netflix and Amazon Prime. Currently, the service only offers original content produced by the company. The service is being built more slowly than the norm in the industry. Apple focuses on quality over quantity and invests a lot to produce high-quality movies and TV shows.

The strategy of Apple TV+ has not yet paid off in the number of subscribers or market share. The service reportedly had less than 20 million subscribers in North America (MarketLine, 2021). Unlike its competitors, other than Amazon, Apple can afford not to succeed right away. The goal of the service is not only profit but also to promote the Apple brand and increase sales of its other products. However, Apple is still eager to succeed in the streaming market. Starting in 2022, Apple TV+ plans to release new content weekly and has invested in several high-level projects.

4.2 Lions Gate Entertainment Corporation

Lions Gate Entertainment Corporation is a North American entertainment company that offers a varied portfolio to consumers globally. Its portfolio includes movies, television, and subscription-based entertainment. Through its own productions and acquisitions, Lions Gate has built a library of 17,000 titles and one of the largest film and television franchises collections. Lions Gate is divided into three operating segments (Lions Gate Entertainment Corp, 2021) (Refinitiv Eikon, 2022):

- Motion Picture Group develops and produces the movies of Lions Gate and acquires North-American and international distribution rights. Its revenue comes from the theatrical distribution of motion pictures worldwide, video-on-demand sales or rentals for home entertainment and licensing its movie to linear television companies.
- Lions Gate Television consists of developing, producing, and worldwide distributing television productions, including television series, television movies, mini-series, and non-fiction programming.
- Media Networks segment consists of Starz Networks, which includes the domestic distribution of STARZ branded subscription video services through over the top (OTT) platforms and distributors and on a direct-to-consumer basis.

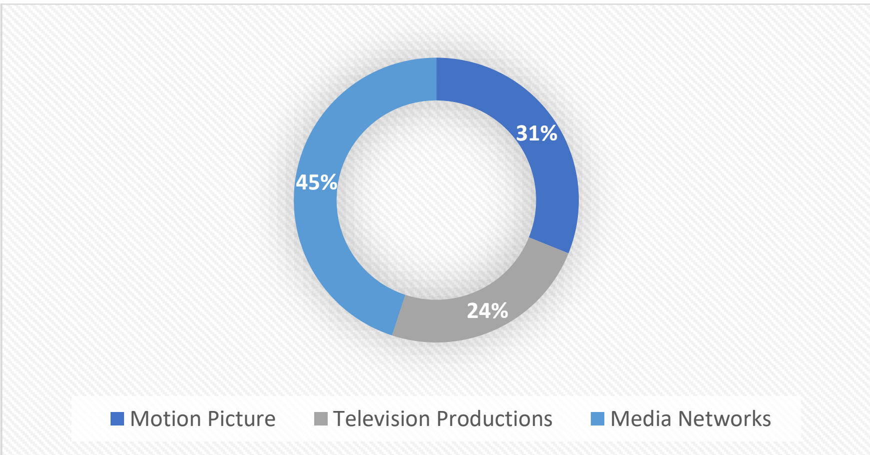

Figure 7. Lions Gate revenue- by segment

The media networks are the highest growing division of Lions Gate, driven by the increased demand for streaming services over traditional entertainment distribution. Similar to Apple TV+, STARZ is nowhere close to the subscriber numbers of its rivals like Netflix and Amazon Prime. By the end of the fiscal year of 2021, STARZ had almost 30 million subscribers worldwide, where 21 million of them were from the US. This shows that STARZ is mainly exposed in US versus internationally. Lions Gate does not have the same resources to produce the same amount of content like Netflix or attract the same talent as HBO or Disney. In my view, the service also struggles because of the low brand awareness outside of the US. These are some reasons why it would be helpful for Lions Gate to be acquired by Apple, to get access to extra capital and the exposure of the Apple brand internationally.

4.2.1 Share price history

Lions Gate had its initial public offering in November 1998. Per the end of February 2022, Lions Gate's market capitalization was approximately $3.3 billion. Figure 8 shows the Class A and Class B stock price development from 2012 to this year. The stock performed well between 2013 and 2015 but has dropped in recent years. In my view, this could be tied in with the rise of streaming services and the changes in market trends and customer demands. Lions Gate released several of its highest-grossing movies between 2012 and 2015, namely the highly regarded Hunger Games and Twilight movie franchises (The Numbers, 2022). After 2015, consumers have turned more towards streaming services, while the success of Lions Gate's theatrical releases has slowed down.

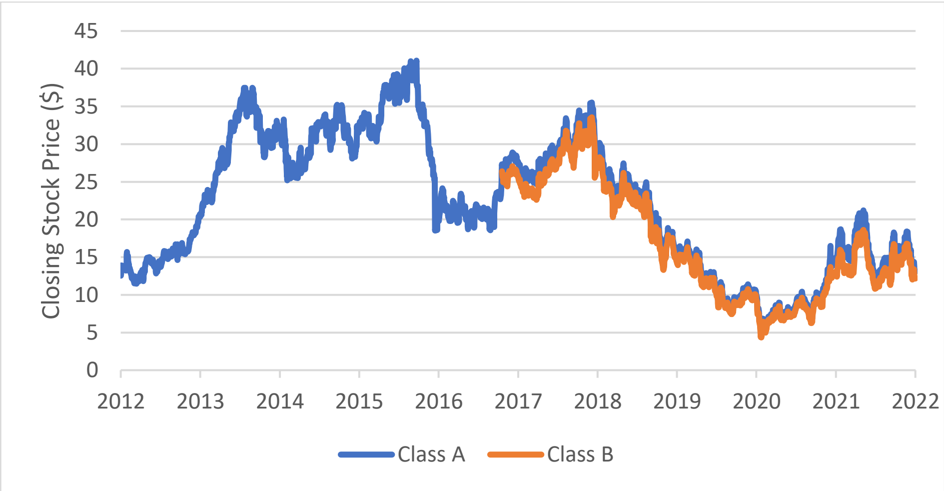

Figure 8. Lions Gate- Closing Stock Price

Figure 9 compares the cumulative returns of Lions Gate stock (A) with the S&P 500 market index. Lions Gate has decreased heavily the previous five years, while the market has almost doubled its value. Lions Gate has had yearly returns of -2.5%, This demonstrates the losses of Lions Gate shareholders in comparison to the general market.

Figure 9. Lions Gate|S&P 500- Index

4.2.2 Ownership Structure

Table 5 shows the main shareholders in Lions Gate Entertainment Corp as of 30/04/2022 (Refinitiv Eikon, 2022). Lions Gate has two different classes of shares issued, A and B. The Class A shares has voting rights, while Class B do not. As can be seen in the table with the main shareholders, MHR Fund Management, owns a significant stake in the company. The fund is led by the Lions Gate chairman Mark Rachesky (Vardi, 2013).

Class A			Class B		
Investor Name	**Shares**	**Position**	**Investor Name**	**Shares**	**Position**
MHR Fund Management LLC [Activist]	19.26M	23.1%	Shapiro Capital Management LLC	19.63M	13.8%
The Vanguard Group, Inc.	5.57M	6.7%	MHR Fund Management LLC [Activist]	15.11M	10.6%
Invesco Advisers, Inc.	5.46M	6.6%	The Vanguard Group, Inc.	10.74M	7.6%
Liberty Global PLC	4.05M	4.9%	BlackRock Institutional Trust Company, N.A.	7.37M	5.2%
BlackRock Institutional Trust Company, N.A.	3.95M	4.7%	Capital Research Global Investors	5.69M	4.0%

Table 5. Lions Gate- Ownership structure

4.2.3 Financial Analysis

4.2.3.1 Revenue and Costs

Lions Gate's revenues have had a CAGR of 7.5% for the past ten years. This shows solid growth long-term, but the revenue growth has stalled in recent years, as shown in Figure 10. Lions Gate had a revenue spike in 2013 following the release of its highest-grossing franchises. Lions Gate's revenues in 2021 decreased, primarily due to the motion picture and television productions that were negatively impacted by Covid-19. The media networks segment had positive revenue growth, showing the positive impact of lockdowns on streaming services subscriptions.

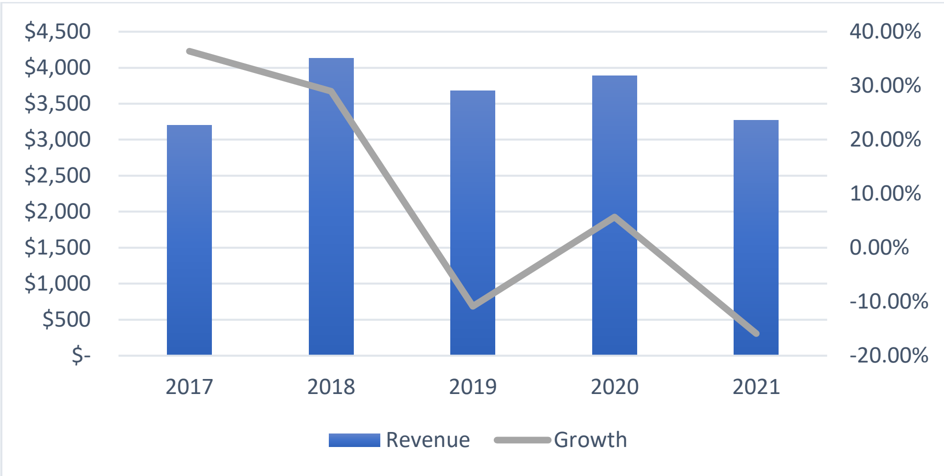

Figure 10. Lions Gate- Revenue growth

Table 6 shows an overview of Lions Gate's financial results. Lions Gate's gross margin has increased steadily over the past five years. This could be connected to the increasing impact of its media networks over the motion picture and television segments. Streaming services brings less direct production costs and costs of sales, which improves the company's overall gross margin. The company's operating margin has fluctuated between -1.1% and 5% in recent years.

in millions		2017		2018		2019		2020		2021
Sales	$	3,202	$	4,129	$	3,681	$	3,890	$	3,272
YoY% Growth				*29.0%*		*-10.9%*		*5.7%*		*-15.9%*
Gross Profit	$	1,298	$	1,819	$	1,675	$	1,752	$	1,616
% of revenue		*40.5%*		*44.1%*		*45.5%*		*45.0%*		*49.4%*
Operating profit	$	-36	$	184	$	-23	$	8	$	165
% of revenue		*-1.1%*		*4.5%*		*-0.6%*		*0.2%*		*5.0%*
Net income	$	-135	$	143	$	-324	$	-221	$	-33
% of revenue		*-4.2%*		*3.5%*		*-8.8%*		*-5.7%*		*-1.0%*

Table 6. Lions Gate- Financial results

4.2.3.2 Key Financial Metrics

	2019	2020	2021	Industry Median
Return on Equity (ROE)	-11.08%	-8.32%	-1.18%	4.6%
Return on Invested Capital (ROIC)	-4.60%	-3.20%	-0.50%	-
Profitability				
Gross margin	45.5%	45.0%	49.4%	61.7%
Operating margin	-0.6%	0.2%	5.0%	4.9%
Net margin	-8.8%	-5.7%	-1.0%	-0.5%
Asset management				
Asset turnover	0.42	0.48	0.40	0.53
Days receivables	91.1	64.1	68.3	38.2
Liquidity				
Quick ratio	0.65	0.65	0.69	1.08
Current ratio	0.84	0.87	0.70	1.78
Interest coverage ratio	1.2	0.6	1.3	1.7
Leverage				
Assets to equity ratio	2.88	2.99	2.97	1.94
Debt to equity ratio	1.22	1.20	1.19	0.44

Table 7. Lions Gate- Key financial metrics

Table 7 shows an overview of the key financial metrics of Lions Gate in the previous 3 years. Due to the company's negative earnings in recent years, the return on equity and capital is negative. Most of their margins are consistently below the industry median, which illustrates the company's weak performance.

Considering the weak financial results of Lions Gate, it is crucial to analyze the liquidity metrics to look at the company's financial health. Both liquidity ratios are way below industry standards, showing that Lions Gate struggles to cover its current liabilities with its current assets. The interest coverage ratio is also relatively low, which indicates that the company struggles to cover its interest expenses. All these metrics indicate that the company is not in good financial health and can struggle if its financial performance does not improve in the following years.

The interest coverage ratio relates to the amount of debt issued. Both leverage metrics show that the company is financed by mostly debt. Lions Gate has a higher debt to equity ratio than the industry median. Being financed by a significant portion of debt while having negative earnings can quickly lead to a high level of credit risk.

5 Deal Rationale

M&A transactions have been a considerable part of the value creation in the streaming industry. Several of the big players in the industry has experienced growth by acquiring companies with large content libraries and in-demand future projects.

Lions Gate has been struggling after the boom of streaming services. Big streaming companies have already acquired several similar production companies, such as MGM. Lions Gate has chosen the path of its own streaming service, STARZ. At the same time, having some success in the US, it is still lagging way behind the market leaders internationally. Apple has also not experienced much success in the streaming era yet, but still has much firepower and is determined to succeed. As the world's leading tech company and with excellent financials, can Apple afford to build its streaming service slower than most of its peers and also have the opportunity of making significant M&A plays when the opportunity arises.

Research on consumer preferences in the streaming industry has found the two significant demands of customers when choosing the streaming service, price and content. Apple TV+ is currently one of the cheaper streaming options, with a monthly cost of $4.99 and several promotions like free trials to attract customers. It is on the content part that Apple is weaker than its peers. Deloitte (2021) found three critical factors for consumers on the content of its preferred streaming service:

1. A broad range of content
2. Watch content not available anywhere else
3. Watch new and original content produced by the streaming service

In my view, does Apple TV+ only fulfill one of these factors, which is the third. Apple TV+ has produced several popular movies and tv-shows, with great reviews from critics, and won many rewards. This draws audiences to Apple TV+ to watch this content since it is unavailable anywhere else. The problem is to retain the customers. The switching costs between streaming services are low so that the consumer can watch its desired Apple content in a month and quickly switch to a competitor if they offer more desirable content. It is crucial to have a deep library with exclusive titles. Another market trend is the importance of intellectual property: Since Apple only has produced content for a few years, it does not have the big popular franchises or titles that will draw massive amounts of fans. Lions Gate owns several famous franchises and popular movies and tv-shows from the past 20 years.

To conclude, this deal would be a win-win for both parties. Apple's international exposure will help distribute Lions Gate productions to a global audience. Even with the weaker financial results in past years, Apple can afford to invest in the company. The content of Apple TV+ will get a lot broader and get some popular IP that will be exclusive to the service, with obtaining STARZ and the Lions Gate library. Apple TV+ will draw the audience with its low price and new original content and retain them with a great library of older movies and TV shows while also adding even more new content produced by Lions Gate.

6 Valuation of Individual Companies

6.1 Apple Inc

6.1.1 Forecast of Financial Statements

6.1.1.1 Revenue Forecast

To estimate the intrinsic value of Apple, it is needed to forecast the company's financial statements. The most important part of forecasting is to estimate the revenue projections accurately, as most of the other line items are based on the revenue. Since Apple has experienced high growth in the last years, a selected projection period of 7 years is used. At the end of the projection period, it is assumed that Apple will reach a stable growth period.
For this valuation, the revenue is forecasted by Apple's different business segments described in the company profile.

iPhone: Apple's smartphone brand has been its flagship in recent times and accounted for over 50% of the total revenues in 2021. The smartphone market is advanced, with little room for product improvements. The market's maturity makes it difficult for the companies in the market to achieve abnormal profits, highlighted by the 8.3% CAGR of iPhone revenue in the last 5 years. Compared to previous years, the growth rate is also really increased with the massive spike in iPhone revenue in 2021. MarketLine (2022) forecasts that the smartphone market will grow with an average growth rate of 4.2%, in line with typical growth rates for mature markets. Because of the near 40% growth of iPhone revenue between 2020 and 2021, the forecast assumes a 0% change in 2022 and follows the 4.2% annual growth rate from 2023 and the rest of the forecasting period.

Mac: Similar to iPhone, the market for PCs is matured. Mac revenue grew 8.3% annually between 2017 and 2021. The growth rate was also spiked by over 20% in 2021. As the growth is expected to be stable, the growth is assumed the be at the same level as between 2017-2020, when the growth was very consistent.

iPad: The iPad segment also grew hugely in 2021 compared to the years prior. Even though the segment has experienced growth in recent times, the growth is expected to slow down. There have been innovations in the PC market, where many companies offer computers with similar strengths as tablets, for example, touchscreens and attachable keyboards. In the forecast, the revenue of iPad is expected to regress towards the sales of 2020. MarketLine (2019) forecasts a negative growth rate of -0.4% in 2023 for the tablet market, which is also assumed for the iPad forecast.

Wearables, Home, and Accessories: The WHA segment of Apple is more difficult to forecast as it includes many different products. Apple has invested a lot of resources in R&D to be able to create new revenue generators since its established products compete in mature markets. The segment has experienced stable high growth, with a CAGR of 31.5%, which highlights the success of the introduction of popular products like AirPods and the Apple Watch. The segment is expected to reach a stable state in the future. The stable state is assumed to be an annual growth of 7%. The reasoning behind the high growth rate is Apple's brand and market power and its effort and resources put into creating new innovations and products.

Services: This segment is similar to the latter, with several services generating revenue. The segment has also had a lot of growth and is an essential priority of Apple to generate abnormal profits in the future. A stable state of a 7% growth rate is also assumed here. Like the WHA segment, the annual growth slowly regresses to a stable growth rate during the forecasting period.

The detailed revenue forecast is in Appendix 13.

6.1.1.2 Cost Forecast

The first cost item to forecast is the cost of goods sold (COGS). The COGS is forecasted by the gross margin. The gross margin of Apple has been quite stable around 40% for the previous 10 years. Apple has only reported the individual COGS for products and services since 2019. For the products, the chosen gross margin for the forecast was the average of 2019-2021, as the gross margin was fluctuating. For services the gross margin used in the forecast the level of 2021, because the gross margin was constantly improving. As the percentage of revenue from services are increasing more than products, do the forecast assume an increasing gross margin over the forecast period, as the services segment brings less COGS.

To forecast the operating margin of Apple, assumptions is being made for the SG&A and Research & Development (R&D) line items. Both items are being forecasted as a percentage of the projected revenue. The SG&A costs has been at very stable level compared to revenue, so the 5-year average was used. The R&D costs has been increasing since 2012, as Apple focuses on new innovations. The R&D has been stabilizing since 2019 at above 6% of the revenue, so the 3-year average was assumed for the forecast. As a result of stable SG&A and R&D costs and improving gross margin, will the assumed operating margin of Apple also improve slightly during the forecasting period.

6.1.1.3 Balance Sheet Items

To forecast the FCFF, the depreciation & amortization and CAPEX needs to be estimated. Both are estimated as a percentage of revenues. The average percentage of revenue of the previous 3 years is used in the forecast for both items. Similarly, the forecasted net working capital is forecasted as a percentage of revenue. Net working capital is the current assets, excluding cash and marketable securities, less current liabilities. The net working capital is assumed to be -8.2% of the revenue.

6.1.2 Cost of Capital

When valuing a company, the forecasted free cash flows are discounted by estimated cost of capital. The weighted average cost of capital (WACC) is used in DCF valuation as the discount factor. The inputs needed in WACC estimation is cost of equity and cost of debt.

Cost of Equity is estimated with the CAPM model. As described in the literature review, the CAPM use the company's beta, the risk-free rate and market risk premium. The detailed beta estimation can be found in Appendix 9. The risk-free rate used is the 10-year treasury rate in the US, retrieved at 2.35% (CNBC, 2022). The market risk premium was retrieved from Damodaran (2022) data, where the equity risk premium was recommended to be 4.24%.

Cost of Debt shows the cost of financing via debt for Apple. In this valuation, the method used to find the cost of debt is adding the risk-free rate with an estimated default spread. The default spread was found by using the credit rating retrieved from Refinitiv Eikon, where Apple has an AA credit rating. As shown in Table 1, in the literature review, an AA rating equal a 1% spread. With a risk-free rate of 2.35%, the estimated cost of debt is 3.35%.

Table 8 shows the estimation of the WACC of Apple. The cost of equity and cost of debt are weighed by the market values of equity and debt. The tax rate used is the same as in the forecast.

Risk-free rate	2.35%
Beta	1.18
Market risk premium	4.24%
Cost of equity	**7.35%**
Credit spread	1%
Cost of debt	**3.35%**
MV- Debt/Equity	0.04
Tax rate	21.0%
WACC	**7.15%**

Table 8. Apple- WACC

6.1.3 DCF Valuation

The estimation of FCFF are presented in Appendix 14, with assumptions. The terminal growth rate used to find terminal value is the estimated GDP growth in the US in the last year of the forecasting period. The expected US GDP growth rate for 2028 is 3.7% (CBO, 2021).

The results of the DCF valuation is presented in Table 9. The forecasted free cash flows is discounted by the estimated WACC. The estimation find an enterprise value exceeding $3 trillion. The equity value is higher than enterprise value, as cash and marketable securities exceed Apple's total debt.

DCF Valuation ($m)	
PV of FCFF	$ 582,669
Terminal value	$ 3,966,753
PV- Terminal value	$ 2,446,228
Enterprise Value	**$ 3,028,898**
Cash & Marketable Securities	$ 190,516
Debt	$ 119,488
Equity Value	**$ 3,099,926**
# shares Q1 2022 (millions)	16,392
Share Value	**$ 189.11**

Table 9. Apple- DCF

To find the variability of the DCF model, a sensitivity analysis was done, which is shown in Table 10. By estimating the fair share value when changing WACC and terminal growth rate, a range of possible share values is found. The analysis finds a range of share prices between $167.5 and $218.1.

		WACC						
	$ 189.11	6.40%	6.65%	6.90%	**7.15%**	7.40%	7.65%	7.90%
	2.95%	196.51	183.29	171.74	161.58	152.55	144.49	137.24
	3.20%	209.08	194.01	180.97	169.59	159.57	150.67	142.72
Terminal growth rate (g)	3.45%	223.78	206.40	191.54	178.69	167.47	157.59	148.82
	3.70%	241.20	220.89	203.76	**189.11**	176.45	165.39	155.65
	3.95%	262.17	238.06	218.05	201.16	186.72	174.24	163.34
	4.20%	287.91	258.74	234.98	215.25	198.60	184.37	172.06
	4.45%	320.25	284.12	255.37	231.95	212.50	196.09	182.05

Table 10. Apple- Sensitivity analysis

6.1.4 Relative Valuation

For the relative valuation, the chosen metrics are forward P/E, EV/EBITDA and EV/sales. The results are presented in Table 11. The comparable companies are chosen are similar companies to Apple, multinational tech companies. According to the forward P/E metric, Apple is undervalued in todays' market, while the two others suggest that the company is overvalued. The full list of comparable companies used, and detailed estimation can be found in Appendix 21.

Multiple Valuation- Apple			
Metric	**Apple**	**Peer Average**	**Share Value**
Forward P/E	29.0x	32.5x	$ 187.8
EV/EBITDA	20.6x	18.4x	$ 151.6
EV/Sales	6.8x	5.6x	$ 128.5

Table 11. Apple- Multiple Valuation

6.1.5 Summary Valuation

Figure 11 shows an overview over the different valuations of Apple INC. The market price was $156.8 on 26th April. The DCF valuation shows significant upside, while the multiple valuation gives an ambiguous valuation. When looking at different financial analysts' view on Apple, it's shown that they see upside in Apple's stock price. In conclusion, the valuation indicate that the stock is undervalued.

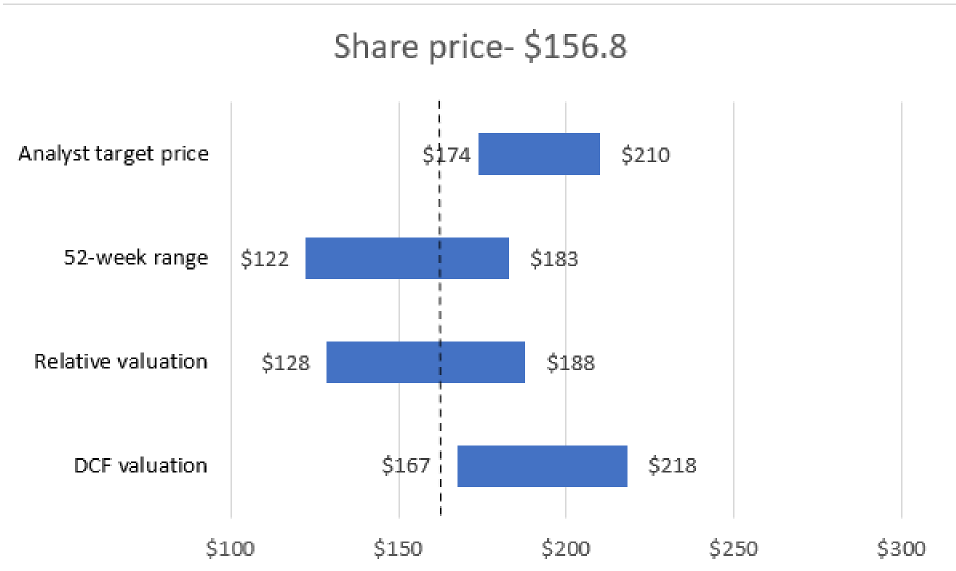

Figure 11. Apple- Valuation Summary

6.2 Lions Gate Entertainment Corporation

6.2.1 Forecast of Financial Statements

6.2.1.1 Revenue Forecast

The forecast of Lions Gate's revenues is projected similarly to the Apple valuation. The projected period is seven years. Each business segment's growth is forecasted individually. The fiscal year of Lions Gate ends in March each year, which means that the actual results of the first 3 quarters are used when estimating the financial results of the fiscal year of 2022. The expected results of FY2022 is included in the table of historical financial statements in Appendix 6.

Motion Picture: The motion picture segment of Lions Gate has struggled in recent years due to the shutdown of cinemas in the pandemic. Even before the shutdown, the company struggled because of few commercially successful movies. The expected revenue for FY2022 is an improvement over the previous year. The forecast assumes that the revenue from motion pictures will revert to the pre-pandemic level through 2025. Afterward, the expected growth rate is obtained from MarketLine market reports on the U.S. movies and entertainment outlook.

Television Productions: The television segment has experienced massive growth in the first three quarters of FY2022, and analyst estimates in Refinitiv Eikon expect this to be indicative of the performance in future years and not revert to the level of previous years. Therefore, the expected growth rate for 2023-2028 is the average of 2017-2021. As the company will focus on streaming, most of the television productions will be released straight to the streaming service, contributing to media networks' revenue.

Media Networks: The increasing popularity of streaming has been in recent years has been covered already in the paper. Since 2017, the media networks segment, which includes STARZ, has been the highest growing segment of Lions Gate. However, since 2019 has, the growth slowed down. A possible reason is the high degree of competition from the most prominent players in the industry like Netflix, Amazon Prime, and Disney Plus, which capture most of the customers. The growth rate assumed for the whole forecast is an average of the historical growth rate of the segment and the MarketLine projection for the industry. This results in a lower growth rate for Lions Gate than the rest of the streaming industry, which is natural when looking at previous years.

Intersegment Eliminations: The expected percentage of revenue in FY2022 was used for this line item. Almost 15% of the revenue from the three business segments is subtracted due to intersegment eliminations.

6.2.1.2 Cost Forecast

The COGS is forecasted by the gross margin. The gross margin of Lions Gate has been quite stable around 45% for the previous 10 years. Therefore, the assumed gross margin for the entire forecasting period is the average of the previous 5 years, 44.9%. The SG&A costs has been at very stable level compared to revenue, so the 3-year average was used.

By using a top-bottom approach the estimated EBIT margins of the forecasting period. As all cost items are fixed percentages of revenue, is the EBIT margin stable at 2.3% from 2023 and onwards.

6.2.1.3 Balance Sheet Items

Both the depreciation & amortization and CAPEX are estimated as a percentage of revenues. The average percentage of revenue of the previous 3 years is used in the forecast for both items. Similarly, the forecasted net working capital is forecasted as a percentage of revenue. The net working capital is assumed to be -1.2% of the revenue.

6.2.2 Cost of Capital

The same method is used as for Apple.

Lions Gate has a weak credit rating of B from Refinitiv Eikon, which highly increases the cost of debt. Table 12 shows the results of WACC estimation of Lions Gate.

Risk-free rate	2.35%
Beta	1.55
Market risk premium	4.24%
Cost of equity	8.91%
Credit spread	5%
Cost of debt	7.75%
MV- Debt/Equity	0.134
Tax rate	21%
WACC	7.43%

Table 12. Lions Gate- WACC

6.2.3 DCF Valuation

The estimation of FCFF are presented in Appendix 16, with assumptions. The terminal growth rate used to find terminal value is the estimated GDP growth in the US in the last year of the forecasting period. The expected US GDP growth rate for 2028 is 3.7% (CBO, 2021).

The results of the DCF valuation is presented in Table 13. The cash and equivalents and minority interest are added to enterprise value, and debt is subtracted to find the equity value.

DCF Valuation ($m)	
PV of FCFF	$752
Terminal value	$7,390
PV- Terminal value	$4,475
Enterprise Value	$5,227
Cash & Marketable Securities	$529
Minority Interest	$254
Debt	$3,334
Equity Value	$2,675
# shares Q1 2022 (millions)	225
Share Value	**$11.9**

Table 13. Lions Gate- DCF

Table 14 shows the results of the DCF sensitivity analysis. The analysis gives a range of share prices between $9.17 and $15.45.

		WACC						
	$11.9	6.68%	6.93%	7.18%	**7.43%**	7.68%	7.93%	8.18%
	2.95%	12.88	11.21	9.74	8.44	7.28	6.23	5.28
	3.20%	14.42	12.54	10.90	9.46	8.17	7.02	5.99
Terminal growth rate (g)	3.45%	16.20	14.07	12.21	10.60	9.17	7.90	6.77
	3.70%	18.29	15.82	13.72	**11.89**	10.30	8.89	7.64
	3.95%	20.75	17.88	15.45	13.37	11.57	10.00	8.61
	4.20%	23.71	20.30	17.47	15.08	13.03	11.26	9.71
	4.45%	27.33	23.22	19.87	17.08	14.72	12.70	10.95

Table 14. Lions Gate- Sensitivity Analysis

6.2.4 Relative Valuation

For the relative valuation, the chosen metrics are EV/EBIT, EV/EBITDA and EV/sales. The earnings-based multiples could not be used because of the negative earnings of Lions Gate. The results are presented in Table 15. The EV/EBIT and EV/EBITDA metrics indicates a lower share price than the DCF and the market, while the EV/Sales is a lot higher. Most of the peers had a lot higher sales than Lions Gate in 2021, which could explain the high relative share value. The full list of comparable companies used, and detailed estimation can be found in Appendix 22 .

Multiple Valuation- Lionsgate			
Metric	**Lionsgate**	**Peer Average**	**Share Value**
EV/EBIT	26.6x	29.5x	$ **10.3**
EV/EBITDA	3.9x	12.4x	$ **8.1**
EV/Sales	1.9x	3.5x	$ **39.4**

Table 15. Lions Gate- Multiple Valuation

6.2.5 Summary Valuation

Figure 12 shows an overview over the different valuations of Lions Gate Entertainment Corp. The multiple valuation gives a huge spread. The EV/Sales metric is probably not as useful, as the comparable group had a lot higher multiple than Lions Gate, while the other two metrics are closer to the real stock price and DCF valuation. The DCF valuation indicates that the stock are a little overvalued, while the analyst target prices sees an upside in the Lions Gate stock.

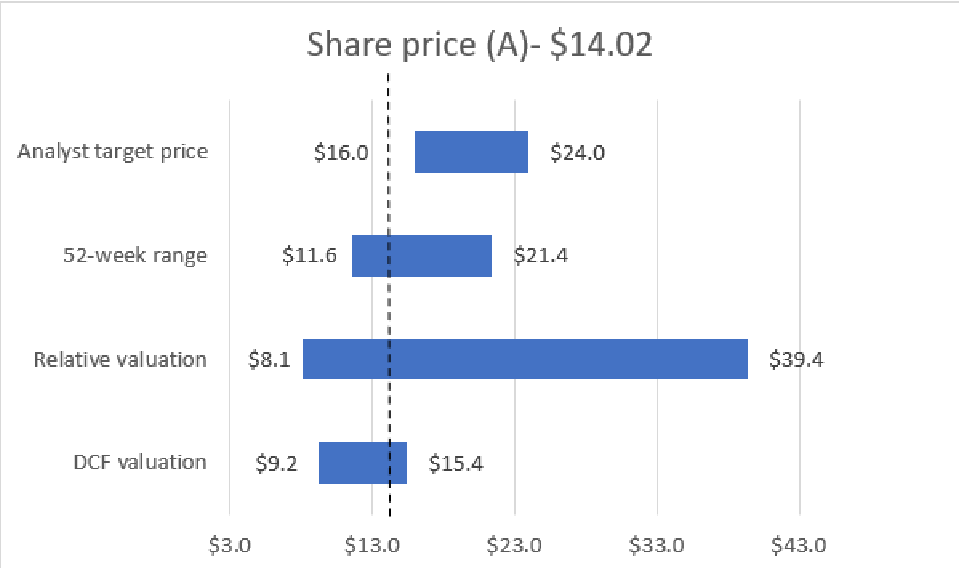

Figure 12. Lions Gate- Valuation Summary

7 Valuation of Merged Entity

7.1 Merged Entity Without Synergies

Figure 13 displays the enterprise values of the individual companies and the merged entity, without synergies. The chart highlights the big difference in value between the companies. Apple has an enterprise value above $3 trillion, while Lions Gate's enterprise value is only $5.2 billion. The enterprise value of the merged entity, without synergy effect, is $3.034 trillion. To compute the enterprise values, the DCF valuations that was estimated in the previous section is used.

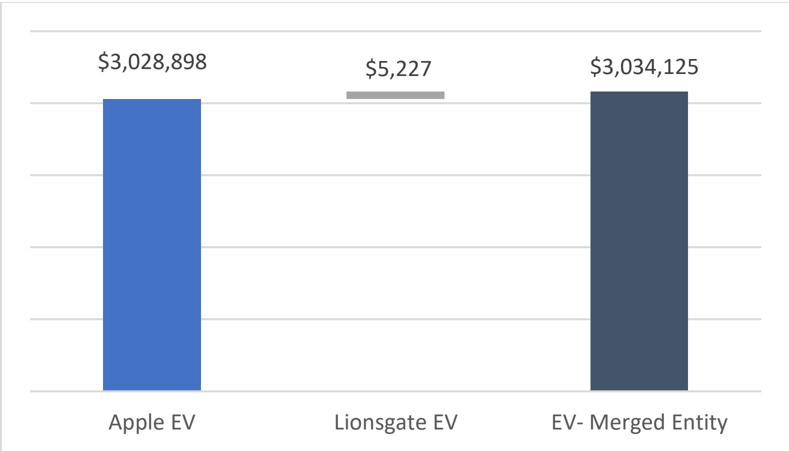

Figure 13. Merged Entity- no synergies

The financial statements can be found in appendices.

7.2 Merged Entity With Synergies

Synergy is the main goal when acquiring a company. The merging of Apple and Lions Gate will create value by improving the content of Apple TV+, while also capture cost synergies that are created by combining the two firms. The acquisition will also increase Apple's market power in the entertainment and streaming market.

7.2.1 Revenue Synergy

Revenue synergies are difficult to quantify in M&A deals, and many companies struggle to capture its revenue synergy targets. According to Chartier, Liu, Raberger, & Silva (2018) revenue synergies take longer to capture than cost synergies. The merger of Apple and Lions Gate will create revenue synergies by the improvement of Apple TV+, as outlined in the deal rationale. The estimation of revenue synergies can be found in Appendix 23 and 24. Table 16 outlines the final estimated revenue synergies, which reaches a conservative goal of 1% in 2026e.

	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Revenue Synergy	-	13	25	35	45	46	48
Synergies Realization	0%	34%	61%	80%	100%	100%	100%

Table 16. Revenue Synergy

7.2.2 Cost Synergies

As noted, cost synergies are often easier to capture quickly compared to revenue synergies. Therefore, the synergy realization will increase steadily until 2024e, when the cost synergies are 100% realized. The cost synergies will affect two cost line items: cost of sales and selling, general and administrative (SG&A) expenses. The cost of sales synergy target is set to 0.5% of Lions Gate's forecasted COGS. As the productions of Apple and Lions Gate are combined, economies of scale will lower the COGS of the merged entity. Lions Gate has a lot higher SG&A costs than Apple. Joining the highly valuable Apple brand and marketing department should decrease the combined marketing expenses. Therefore, the synergy target is set at 3% of Lions Gate's forecasted SG&A costs. The merger will make some personnel redundant, which also create synergies by reducing costs.

7.2.3 Financial Synergies

One of the potential financial synergies that can be captured in a merger is tax benefits. Since both companies are based in the US, I do not think that the merger will cause significant tax benefits. Cash slack is when a company with much excess cash acquires a cash-poor company with many investment opportunities. While Apple has much excess cash, Lions Gate has access to capital and is producing a lot of movies and TV shows. Therefore, there is not considered any cash slack synergy in the transaction. The considerable difference in size between the companies leads to no increased debt capacity for the merged entity.

7.2.4 Transaction Costs and Integration Fees

In an M&A transaction, it will occur costs and fees in connection with the transaction. The transaction costs are connected to the fees paid to investment banks for facilitating the merger. The one-time transaction fees are assumed to be at 1% of the target's enterprise value. The integration process post-merger is essential to capture the synergy effects of the merger. Allocating enough resources for integration is vital for M&A success (EY, 2019). The integration costs are assumed to be 2.5% of the target's enterprise value, divided over 3 years.

7.2.5 Valuation

As highlighted in the literature review, the main goal is to create value by combining two firms into one. The present value of net synergies estimates the value created by the merger. The net synergy is the value of synergies, with the transaction and integration costs excluded. The synergy value was estimated by incorporating the synergy effects in Lions Gate's FCFF forecast and computing the enterprise value. The present value of synergy is the difference between Lions Gate's enterprise value without synergy and the value with synergy. The present value of synergies is $1.8 billion. The present value of net synergies is found by excluding the present value of the transaction and integration costs at $139 million. Figure 14 details the result of the synergy valuation. Appendix 24 shows the estimation of the enterprise value with synergies.

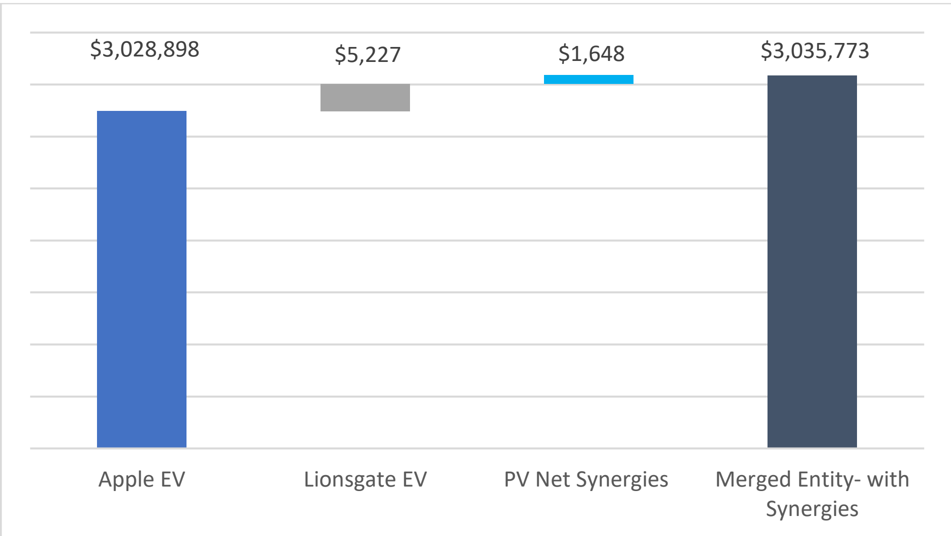

Figure 14. Merged Entity EV- with synergies

The maximum bid that Apple can offer for Lions Gate can be estimated with the present value of synergy computed. Apple cannot offer more than Lions Gate's equity with the present value of net synergies added. Lions Gate's equity value with synergies is $4.32 billion, which equals a share value of $19.2. The implied premium is 37.1% over the Class A shares. If Apple bids more than $19.2 per share, it will not capture any value in the transaction. This gives Apple a given range for its bid, between the current market price of the shares and the maximum premium. The detailed estimation of the maximum bid is in Appendix 26.

8 Transaction Details

8.1 Type of Transaction

The proposed transaction would be a friendly takeover. Lions Gate has struggled with a falling stock price and negative earnings in recent years. The company lacks the resources needed to turn around the situation and is struggling to adapt and compete in the streaming market. Therefore, the shareholders will be better off selling the stock at a premium price. That is why it is reasonable to think that Lions Gate will accept the takeover bid from Apple, and the companies do not have to engage in a difficult and expensive hostile takeover situation.

Lions Gate has an activist owner with a significant stake in the company, Mark Rachesky, the chairman of the company. That makes it essential for Apple to convince him that the best choice for the shareholders and the company is to accept an acquisition offer. As he has a big stake in the company and is the chairman, he probably has the trust of many of the other shareholders. If he accepts Apple's bid, it could make it easier to persuade other shareholders. Rachesky runs an investment firm with approximately $5 billion in assets under management (MHR, n.d.). The fund's strategy is to invest in distressed and undervalued middle-market companies. The DCF shows no significant upside for Lions Gate, and with the financial issues the company has had, it is difficult to imagine how it can quickly recover and increase its stock price. With a significant premium over market prices and the continuing distribution of former and future Lions Gate productions, it is reasonable that he would agree to the takeover bid.

8.2 Bid Price

In the previous part, the maximum bid price that Apple can offer was estimated. Including the present value of synergies, excluding the transaction and integration costs, resulted in a max price of $19.2 per share. The minimum bid is the market price of Lions Gate Entertainment Corp stocks. The company has two share classes, where Class A has voting rights and Class B do not. On the 26th of April the market prices of the Class A and Class B shares was $14.02 and $13.05, respectively.

For the shareholders to accept a takeover bid, the transaction premium must be sufficient to persuade them to accept selling their shares. The recommended premium is 30%. The premium should be sufficient as the takeover is friendly and the weak performance of Lions Gate's stock in recent years. Table 17 shows the details of the recommended bid.

Transaction Details				
Share class	**Class A**		**Class B**	
Market price 26/04/22	$	14.02	$	13.05
Premium	$	4.2	$	3.9
Bid value	$	18.2	$	17.0
Shares outstanding (millions)		83		142
Total value ($m)	$	1,513	$	2,409
Purchase price ($m)	**$**	**3,922**		

Table 17. Transaction Details

Applying a premium of 30% over market values, Apple will offer $18.2 per share for the Class A shares and $17.0 per share for Class B. As Lions Gate has 83 million Class A and 142 million Class B shares outstanding, the total purchase price will be $3.92 billion.

8.3 Value Capture

Figure 15 shows the estimation of the value that the shareholders of Apple capture in the transaction. The value captured by acquirer shareholders can be viewed as the difference of the target's value to the bidder, which is the intrinsic value plus the net synergies, and the price paid. The figure shows that Apple will capture $410 million in the transaction.

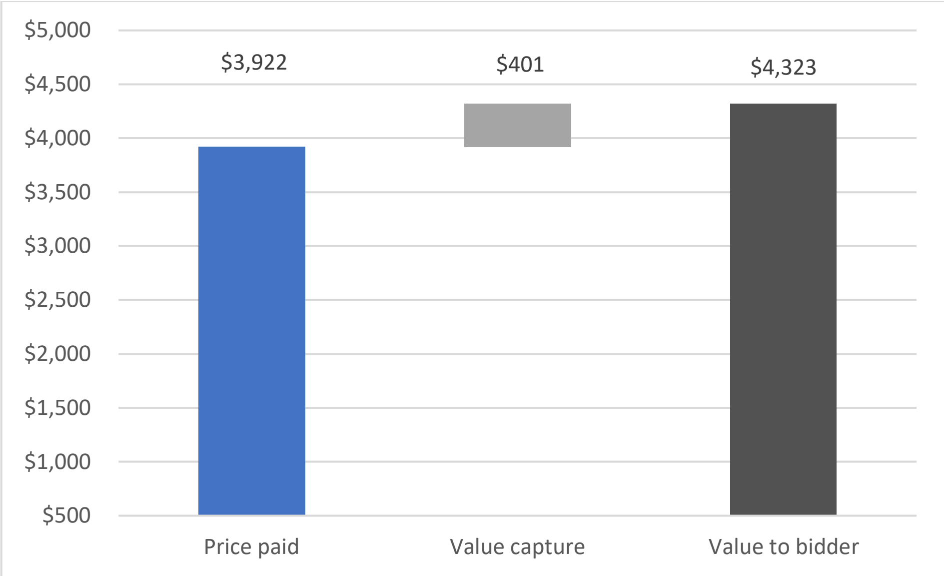

Figure 15. Value capture.

8.4 Payment Method

The literature review outlined the choice of which payment method that could be used in a M&A deal. In this transaction, Apple will make an all-cash takeover offer. The use of cash will signal great confidence to the market and does not dilute the stakes of the shareholders. The valuation indicated that Apple's stock is underpriced, which also is a reason to choose cash as payment. Apple's balance sheet shows that the company has $34.9 billion in cash and cash equivalents, which greatly exceed the purchase price of Lions Gate. This means that Apple does not have to issue any debt or shares to complete the deal, and the transaction only accounts for approximately 11% of its cash reserves.

8.5 Accretion/Dilution Analysis

The accretion/dilution analysis is a commonly used tool in M&A transactions. It's used to analyze the earnings per share after a merger. Appendix 30 highlights the results of the accretion/dilution analysis. As Lions Gate is a small company in comparison with Apple and not nearly as profitable, the merger will not have a significant impact of the overall earnings per share. The analysis shows only a marginal accretion the years following the merger. Nevertheless, the transaction creates some value for the Apple shareholders and strengthens the company's position in the entertainment market.

8.6 Transaction Risks

Other potential buyers

With the share price of Lions Gate falling in past years, other entertainment companies could also view this as a good opportunity to buy low on an asset that would be a lot more worth to them. As mentioned, the successes of previous M&A transactions in the industry make this look like a good deal. Netflix is not well-known for making acquisitions like this and probably does not have the financial strength to compete with Apple in this deal. Netflix is more dependent on licensing titles and producing a lot of its own content. Disney+ has experienced great success with previous M&A deals, but I view Lions Gate as outside of their strategy. Disney's content is more skewed against younger audiences and focuses on animated movies and comic-book-related content. In my view, Amazon is the biggest potential competitor for Apple to acquire Lions Gate. Amazon and Apple are in similar financial situations and have much capital to spend on acquisitions. However, Amazon is in the process of acquiring film studio MGM for $8.5 billion. The deal was delayed because of problems with antitrust laws in the US and Europe (Reuters, 2022). As the deal passed, I think it is unlikely that Amazon also would try to acquire Lions Gate.

Antitrust

M&A transactions has to be cleared by antitrust law. The laws are in place to make sure that mergers don´t give a company too much market power, which harms the free trade in the market. The Herfindhal-Hirschmann Index (HHI) is a tool that’s used to measure the market concentration after a merger (Department of Justice, 2018). If the merged entity makes the market too concentrated, trade commissions often challenge the transaction. The Amazon-MGM merger is an example of the merger being quite big and had trouble being cleared by the Federal Trade Commission (FTC). The FTC ultimately cleared the Amazon deal, which indicates that the Apple-Lions Gate merger should not face any antitrust challenge. Apple has a much lower market share than Amazon in the streaming market, and Lions Gate is less valuable than MGM.

8.7 Alternative Targets

When looking for a strategic acquisition, it is important to find several alternatives to consider in the process. The same rationale for why Apple should acquire Lions Gate can be used for similar production companies. The traditional movie studio MGM would be an ideal target, but it has already been acquired by Apple's direct competitor Amazon. There are not many other big production companies that are not already owned by big streaming services. One alternative is A24, a more modern American independent studio that produces movies and television. A24 has experienced substantial critical and commercial success since it was launched in 2012. The company is private, and there has been news that it has explored a possible sale with an asking price between \$2.5 billion and \$3billion (Donnelly, 2021). Compared to Lions Gate, A24 produces more niche content, while Lions Gate is more mainstream. Since the two companies' output is quite different, I do not see them as direct alternatives, and Apple could target both in the future.

9 Conclusion

This dissertation has analyzed the proposed acquisition of Lions Gate Entertainment Corporation by Apple Inc, determining if it is a good transaction for Apple to target and recommending how the transaction should be executed.

The market for movies and tv-shows has gone through a massive transformation in recent years, moving from traditional cable TV and theaters to VOD streaming services. The increasing competition in the streaming market has led to much consolidation, and several companies have created value by growing with M&A.

Apple TV+ needs to do something to increase its competitiveness and draw consumers to the service. By acquiring Lions Gate, Apple would obtain a lot of what is lacking from its service. Lions Gate's extensive library of recognizable IP and future productions, compiled with Apple's high-quality new content, will make Apple TV+ more attractive to consumers. The financial issues of Lions Gate will not be an issue, as Apple has solid financials and a big difference in company size. The operating efficiency of Apple should help decrease the operating costs of Lions Gate, which is shown in synergy estimation.

The valuations of the companies merged, without adding synergy, give an enterprise value of \$3.034 trillion. Estimating the assumed synergy effects and transaction costs gives a net synergy value of \$1.65 billion. Apple will offer to buy Lions Gate's shares at 30% above market prices. This equals a total purchase price of \$3.9 billion. The equity value of Lions Gate with synergies is \$4.3 billion. The captured value for Apple in the transaction is \$401 million, which is the difference between the maximum bid and the actual purchase price.

A vital part of the deal is for Apple to convince the chairman and the biggest shareholder to accept the bid, which would likely result in a friendly takeover. Apple will finance the deal with cash, as it has a massive amount of excess cash on its balance sheet. There are some minor risks in the transaction, such as other potential bidders and antitrust laws. Nevertheless, these will probably not affect the acquisition, as explained in the text.

In conclusion, this acquisition could increase Apple's market power in the streaming industry. It gains an extensive content and IP library, which has been shown by market surveys to be desired by consumers. The financial firepower and brand strength of Apple will put the company in a prime position to take over the market in the coming years.

10 Appendices

Appendix 1 Apple- SWOT Analysis

Strengths	Weaknesses
• R&D • Distribution Channels • Financial Performance	• Lawsuits
Opportunities	**Threats**
• Strategic Initiatives • Strategic Acquisitions • Launch of New Products	• Dependence on Network Providers • Intense Competition • Cyberattacks and Security Vulnerabilities

Source: MarketLine

Appendix 2 Lions Gate- SWOT Analysis

Strengths	Weaknesses
• Direct Content Distribution Rights • Licensing Authority • Profitability	• Low Liquidity • Decline in Revenue
Opportunities	**Threats**
• Territorial Expansion • Acquisition of Spyglass • Global Media Industry	• Competition • Foreign Exchange Risk • Films and Television Programs Piracy

Source: MarketLine

Appendix 3 *Apple- Income Statement*

Income Statement ($m)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Sales										
Products								$ 213,883	$ 220,747	$ 297,392
YoY%									*3.21%*	*34.72%*
Services								$ 46,291	$ 53,768	$ 68,425
YoY%									*16.15%*	*27.26%*
Net Sales	**$ 156,508**	**$ 170,910**	**$ 182,795**	**$ 233,715**	**$ 215,639**	**$ 229,234**	**$ 265,595**	**$ 260,174**	**$ 274,515**	**$ 365,817**
YoY%		*9.20%*	*6.95%*	*27.86%*	*-7.73%*	*6.30%*	*15.86%*	*-2.04%*	*5.51%*	*33.26%*
Cost of Sales										
Products								$ 144,996	$ 151,286	$ 192,266
YoY%									*4.34%*	*27.09%*
Services								$ 16,786	$ 18,273	$ 20,715
YoY%									*8.86%*	*13.36%*
Total Cost of Sales	**$ 87,846**	**$ 106,606**	**$ 112,258**	**$ 140,089**	**$ 131,376**	**$ 141,048**	**$ 163,756**	**$ 161,782**	**$ 169,559**	**$ 212,981**
YoY%		*21.36%*	*5.30%*	*24.79%*	*-6.22%*	*7.36%*	*16.10%*	*-1.21%*	*4.81%*	*25.61%*
Gross Profit	**$ 68,662**	**$ 64,304**	**$ 70,537**	**$ 93,626**	**$ 84,263**	**$ 88,186**	**$ 101,839**	**$ 98,392**	**$ 104,956**	**$ 152,836**
Gross Margin	**43.9%**	**37.6%**	**38.6%**	**40.1%**	**39.1%**	**38.5%**	**38.3%**	**37.8%**	**38.2%**	**41.8%**
Operating Expenses										
R&D	$ 3,381	$ 4,475	$ 6,041	$ 8,067	$ 10,045	$ 11,581	$ 14,236	$ 16,217	$ 18,752	$ 21,914
YoY%		*32.36%*	*34.99%*	*33.54%*	*24.52%*	*15.29%*	*22.93%*	*13.92%*	*15.63%*	*16.86%*
SG&A	$ 10,040	$ 10,830	$ 11,993	$ 14,329	$ 14,194	$ 15,261	$ 16,705	$ 18,245	$ 19,916	$ 21,973
YoY%		*7.87%*	*10.74%*	*19.48%*	*-0.94%*	*7.52%*	*9.46%*	*9.22%*	*9.16%*	*10.33%*
Operating Income	**$ 55,241**	**$ 48,999**	**$ 52,503**	**$ 71,230**	**$ 60,024**	**$ 61,344**	**$ 70,898**	**$ 63,930**	**$ 66,288**	**$ 108,949**
YoY%		*-11.30%*	*7.15%*	*35.67%*	*-15.73%*	*2.20%*	*15.57%*	*-9.83%*	*3.69%*	*64.36%*
EBIT Margin	**35.30%**	**28.67%**	**28.72%**	**30.48%**	**27.84%**	**26.76%**	**26.69%**	**24.57%**	**24.15%**	**29.78%**
Interest Income	$ 1,088	$ 1,616	$ 1,795	$ 2,921	$ 3,999	$ 5,201	$ 5,686	$ 4,961	$ 3,763	$ 2,843
Interest Expense	$ -	$ -136	$ -384	$ -733	$ -1,456	$ -2,323	$ -3,240	$ -3,576	$ -2,873	$ -2,645
Other Income (Expense)	$ -566	$ -324	$ -431	$ -903	$ -1,195	$ -133	$ -441	$ 422	$ -87	$ 60
Income before tax	$ 55,763	$ 50,155	$ 53,483	$ 72,515	$ 61,372	$ 64,089	$ 72,903	$ 65,737	$ 67,091	$ 109,207
Tax Expense	$ 14,030	$ 13,118	$ 13,973	$ 19,121	$ 15,685	$ 15,738	$ 11,872	$ 10,481	$ 9,680	$ 14,527
Net Income	**$ 41,733**	**$ 37,037**	**$ 39,510**	**$ 53,394**	**$ 45,687**	**$ 48,351**	**$ 61,031**	**$ 55,256**	**$ 57,411**	**$ 94,680**
Profit Margin	**26.67%**	**21.67%**	**21.61%**	**22.85%**	**21.19%**	**21.09%**	**22.98%**	**21.24%**	**20.91%**	**25.88%**

Source: Refinitiv Eikon (2022), (Apple Inc, 2021)

Appendix 4 Apple- Balance Sheet

Balance Sheet ($m)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Assets										
Current assets:										
Cash and cash equivalents	$ 10,746	$ 14,259	$ 13,844	$ 21,120	$ 20,484	$ 20,289	$ 25,913	$ 48,867	$ 38,052	$ 34,940
Marketable securities	$ 18,383	$ 26,287	$ 11,233	$ 20,481	$ 46,671	$ 53,892	$ 40,388	$ 51,713	$ 52,927	$ 27,699
Accounts Receiveables	$ 10,930	$ 13,102	$ 17,460	$ 16,849	$ 15,754	$ 17,874	$ 23,186	$ 22,926	$ 16,120	$ 26,278
Inventories	$ 791	$ 1,764	$ 2,111	$ 2,349	$ 2,132	$ 4,855	$ 3,956	$ 4,106	$ 4,061	$ 6,580
Vendor non-trade receivables	$ 7,762	$ 7,539	$ 9,759	$ 13,494	$ 13,545	$ 17,799	$ 25,809	$ 22,878	$ 21,325	$ 25,228
Other currents assets	$ 9,041	$ 10,335	$ 14,124	$ 15,085	$ 8,283	$ 13,936	$ 12,087	$ 12,329	$ 11,228	$ 14,111
Total current assets	**$ 57,653**	**$ 73,286**	**$ 68,531**	**$ 89,378**	**$ 106,869**	**$ 128,645**	**$ 131,339**	**$ 162,819**	**$ 143,713**	**$ 134,836**
Non-current assets:										
Non-current marketable securities	$ 92,122	$ 106,215	$ 130,162	$ 164,065	$ 170,430	$ 194,714	$ 170,799	$ 105,341	$ 100,887	$ 127,877
Property, plant and equipment (PPE)	$ 15,452	$ 16,597	$ 20,624	$ 22,471	$ 27,010	$ 33,783	$ 41,304	$ 37,378	$ 36,766	$ 39,440
Other non-current assets	$ 10,837	$ 10,902	$ 12,522	$ 14,431	$ 17,377	$ 18,177	$ 22,283	$ 32,978	$ 42,522	$ 48,849
Total non-current assets	**$ 118,411**	**$ 133,714**	**$ 163,308**	**$ 200,967**	**$ 214,817**	**$ 246,674**	**$ 234,386**	**$ 175,697**	**$ 180,175**	**$ 216,166**
Total Assets	**$ 176,064**	**$ 207,000**	**$ 231,839**	**$ 290,345**	**$ 321,686**	**$ 375,319**	**$ 365,725**	**$ 338,516**	**$ 323,888**	**$ 351,002**
Liabilities and Shareholders' Equity										
Current liabilities:										
Accounts payable	$ 21,175	$ 22,367	$ 30,196	$ 35,490	$ 37,294	$ 44,242	$ 55,888	$ 46,236	$ 42,296	$ 54,763
Other current liabilities	$ 11,414	$ 13,856	$ 18,453	$ 25,181	$ 22,027	$ 30,551	$ 33,327	$ 37,720	$ 42,684	$ 47,493
Deferred revenue	$ 5,953	$ 7,435	$ 8,491	$ 8,940	$ 8,080	$ 7,548	$ 5,966	$ 5,522	$ 6,643	$ 7,612
Commercial paper	$ -	$ -	$ 6,308	$ 8,499	$ 8,105	$ 11,977	$ 11,964	$ 5,980	$ 4,996	$ 6,000
Current debt	$ -	$ -	$ -	$ 2,500	$ 3,500	$ 6,496	$ 8,784	$ 10,260	$ 8,773	$ 9,613
Total current liabilities	**$ 38,542**	**$ 43,658**	**$ 63,448**	**$ 80,610**	**$ 79,006**	**$ 100,814**	**$ 115,929**	**$ 105,718**	**$ 105,392**	**$ 125,481**
Non-current liabilities:										
Long-term debt	$ -	$ 16,960	$ 28,987	$ 53,329	$ 75,427	$ 97,207	$ 93,735	$ 91,807	$ 99,304	$ 109,875
Other non-current liabilities	$ 19,312	$ 22,833	$ 27,857	$ 37,051	$ 39,004	$ 43,251	$ 48,914	$ 50,503	$ 53,853	$ 52,556
Total non-current liabilities	**$ 19,312**	**$ 39,793**	**$ 56,844**	**$ 90,380**	**$ 114,431**	**$ 140,458**	**$ 142,649**	**$ 142,310**	**$ 153,157**	**$ 162,431**
Shareholders' equity:										
Common stock	$ 16,422	$ 19,764	$ 23,313	$ 27,416	$ 31,251	$ 35,867	$ 40,201	$ 45,174	$ 50,779	$ 57,365
Retained earnings	$ 101,289	$ 104,256	$ 87,152	$ 92,284	$ 96,364	$ 98,330	$ 70,400	$ 45,898	$ 14,966	$ 5,562
Accumulated other income(loss)	$ 499	$ -471	$ 1,082	$ -345	$ 634	$ -150	$ -3,454	$ -584	$ -406	$ 163
Total equity	**$ 118,210**	**$ 123,549**	**$ 111,547**	**$ 119,355**	**$ 128,249**	**$ 134,047**	**$ 107,147**	**$ 90,488**	**$ 65,339**	**$ 63,090**
Total liabilities and shareholders' equity	**$ 176,064**	**$ 207,000**	**$ 231,839**	**$ 290,345**	**$ 321,686**	**$ 375,319**	**$ 365,725**	**$ 338,516**	**$ 323,888**	**$ 351,002**

Source: Refinitiv Eikon (2022)

Appendix 5 Apple- Cash Flow Statement

Cash Flow Statement	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Cash Flow-Operating Activities ($ Millions)										
Net Income/Starting Line	41,733	37,037	39,510	53,394	45,687	48,351	59,531	55,256	57,411	94,680
Depreciation/Depletion	3,277	6,757	7,946	11,257	10,505	10,157	10,903	12,547	11,056	11,284
Depreciation	3,277	6,757	7,946	11,257	10,505	10,157	10,903	12,547	11,056	11,284
Deferred Taxes	4,405	1,141	2,347	1,382	4,938	5,966	-32,590	-340	-215	-4,774
Non-Cash Items	1,740	2,253	2,863	3,586	4,696	4,674	4,896	5,416	6,732	7,759
Other Non-Cash Items	1,740	2,253	2,863	3,586	4,696	4,674	4,896	5,416	6,732	7,759
Changes in Working Capital	-299	6,478	7,047	11,647	405	-4,923	34,694	-3,488	5,690	-4,911
Accounts Receivable	-6,965	-1,949	-6,452	-3,124	476	-6,347	-13,332	3,176	8,470	-14,028
Inventories	-15	-973	-76	-238	217	-2,723	828	-289	-127	-2,642
Other Assets	-3,162	1,080	167	-179	1,055	-5,318	-423	873	-9,588	-8,042
Accounts Payable	4,467	2,340	5,938	5,400	2,117	8,966	9,175	-1,923	-4,062	12,326
Other Liabilities	5,376	5,980	7,470	9,788	-3,460	499	38,446	-5,325	10,997	7,475
Cash from Operating Activities	50,856	53,666	59,713	81,266	66,231	64,225	77,434	69,391	80,674	104,038
Cash Flow-Investing Activities ($ Millions)										
Capital Expenditures	-9,402	-9,076	-9,813	-11,488	-12,734	-12,451	-13,313	-10,495	-7,309	-11,085
Purchase of Fixed Assets	-8,295	-8,165	-9,571	-11,247	-12,734	-12,451	-13,313	-10,495	-7,309	-11,085
Purchase/Acquisition of Intangibles	-1,107	-911	-242	-241	--	--	--	--	--	--
Other Investing Cash Flow Items, Total	-38,825	-24,698	-12,766	-44,786	-33,243	-33,995	29,379	56,391	3,020	-3,460
Acquisition of Business	-350	-496	-3,765	-343	-297	-329	-721	-624	-1,524	-33
Sale/Maturity of Investment	112,805	124,447	208,111	121,985	111,794	126,465	104,072	98,724	120,483	106,870
Purchase of Investments	-151,232	-148,489	-217,128	-166,402	-143,816	-160,007	-73,227	-40,631	-115,148	-109,689
Other Investing Cash Flow	-48	-160	16	-26	-924	-124	-745	-1,078	-791	-608
Cash from Investing Activities	-48,227	-33,774	-22,579	-56,274	-45,977	-46,446	16,066	45,896	-4,289	-14,545
Cash Flow-Financing Activities ($ Millions)										
Financing Cash Flow Items	125	-381	-419	-750	-1,570	-1,874	-2,527	-2,922	-3,760	-6,685
Other Financing Cash Flow	125	-381	-419	-750	-1,570	-1,874	-2,527	-2,922	-3,760	-6,685
Total Cash Dividends Paid	-2,488	-10,564	-11,126	-11,561	-12,150	-12,769	-13,712	-14,119	-14,081	-14,467
Cash Dividends Paid - Common	-2,488	-10,564	-11,126	-11,561	-12,150	-12,769	-13,712	-14,119	-14,081	-14,467
Issuance (Retirement) of Stock, Net	665	-22,330	-44,270	-34,710	-29,227	-32,345	-72,069	-66,116	-71,478	-84,866
Sale/Issuance of Common	665	530	730	543	495	555	669	781	880	1,105
Repurchase/Retirement of Common	--	-22,860	-45,000	-35,253	-29,722	-32,900	-72,738	-66,897	-72,358	-85,971
Common Stock, Net	665	-22,330	-44,270	-34,710	-29,227	-32,345	-72,069	-66,116	-71,478	-84,866
Issuance (Retirement) of Debt, Net	--	16,896	18,266	29,305	22,057	29,014	432	-7,819	2,499	12,665
Short Term Debt, Net	--	--	6,306	2,191	-397	3,852	-37	-5,977	-963	1,022
Long Term Debt, Net	--	16,896	11,960	27,114	24,954	28,662	6,969	6,963	16,091	20,393
Total Debt Reduction	--	--	--	--	-2,500	-3,500	-6,500	-8,805	-12,629	-8,750
Cash from Financing Activities	-1,698	-16,379	-37,549	-17,716	-20,890	-17,974	-87,876	-90,976	-86,820	-93,353
Net Change in Cash	931	3,513	-415	7,276	-636	-195	5,624	24,311	-10,435	-3,860

Source: Refinitiv Eikon (2022)

Appendix 6 Lions Gate- Income Statement

Income Statement ($m)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022e
Sales											
Net Sales	**$ 1,588**	**$ 2,708**	**$ 2,630**	**$ 2,400**	**$ 2,347**	**$ 3,202**	**$ 4,129**	**$ 3,681**	**$ 3,890**	**$ 3,272**	**$ 3,653**
YoY%		*70.58%*	*-2.87%*	*-8.77%*	*-2.18%*	*36.38%*	*28.97%*	*-10.86%*	*5.69%*	*-15.90%*	*11.66%*
Cost of Sales											
Total Cost of Sales	$ 908	$ 1,391	$ 1,369	$ 1,316	$ 1,415	$ 1,904	$ 2,310	$ 2,005	$ 2,138	$ 1,656	$ 2,019
YoY%		*53.08%*	*-1.52%*	*-3.91%*	*7.56%*	*34.52%*	*21.32%*	*-13.17%*	*6.59%*	*-22.53%*	*21.90%*
Gross Profit	**$ 679**	**$ 1,318**	**$ 1,261**	**$ 1,084**	**$ 932**	**$ 1,298**	**$ 1,819**	**$ 1,675**	**$ 1,752**	**$ 1,616**	**$ 1,635**
Gross Margin	**42.8%**	**48.7%**	**47.9%**	**45.2%**	**39.7%**	**40.5%**	**44.1%**	**45.5%**	**45.0%**	**49.4%**	**44.7%**
Operating Expenses											
D&A	$ 4	$ 8	$ 7	$ 7	$ 13	$ 63	$ 159	$ 163	$ 198	$ 189	$ 177
YoY%		*93.02%*	*-21.69%*	*1.54%*	*98.48%*	*381.68%*	*151.98%*	*2.77%*	*20.99%*	*-4.65%*	*-6.24%*
SG&A	$ 652	$ 1,036	$ 994	$ 855	$ 944	$ 1,162	$ 1,352	$ 1,281	$ 1,435	$ 1,189	$ 1,315
YoY%		*58.83%*	*-4.03%*	*-14.02%*	*10.41%*	*23.11%*	*16.33%*	*-5.26%*	*12.02%*	*-17.14%*	*10.60%*
Other operating expenses	-10	24.1	39.6	11.7	0	108.7	124.6	253.6	111.6	73.2	$ 83
Operating Income	**$ 33**	**$ 249**	**$ 220**	**$ 211**	**$ -25**	**$ -36**	**$ 184**	**$ -23**	**$ 8**	**$ 165**	**$ 59**
YoY%		*665.85%*	*-11.45%*	*-4.49%*	*-111.88%*	*45.20%*	*-606.34%*	*-112.40%*	*-135.96%*	*1910.98%*	*-64.08%*
EBIT Margin	**2.05%**	**9.19%**	**8.38%**	**8.77%**	**-1.07%**	**-1.13%**	**4.45%**	**-0.62%**	**0.21%**	**5.04%**	
Interest Income	$ 3	$ 4	$ 6	$ 3	$ 2	$ 6	$ 10	$ 12	$ 9	$ 6	$ 39
YoY%		*42.86%*	*50.00%*	*-53.33%*	*-32.14%*	*236.84%*	*62.50%*	*15.38%*	*-26.67%*	*-34.09%*	*571.26%*
Interest Expense	$ -78	$ -94	$ -66	$ -53	$ -55	$ -115	$ -194	$ -199	$ -191	$ -182	$ -175
YoY%			*-29.27%*	*-20.69%*	*4.57%*	*109.84%*	*68.14%*	*2.68%*	*-3.82%*	*-5.12%*	*-3.75%*
Other Income (Expense)	$ 8	$ -3	$ 25	$ 53	$ 44	$ 11	$ 148	$ -98	$ -29	$ -7	$ -9
Income before tax	$ -34	$ 156	$ 185	$ 213	$ -34	$ -134	$ 149	$ -308	$ -203	$ -17	$ -85
Tax Expense	$ -	$ -	$ -	$ -	$ 8	$ 0	$ 6	$ 15	$ 18	$ 16	18.99
Net Income	**$ -34**	**$ 156**	**$ 185**	**$ 213**	**$ -41**	**$ -135**	**$ 143**	**$ -324**	**$ -221**	**$ -33**	**$ -104**
YoY%		*-554.07%*	*18.37%*	*15.36%*	*-119.36%*	*226.15%*	*-206.31%*	*-325.91%*	*-31.65%*	*-85.07%*	*215.17%*
Minority Interest	$ -	$ -	$ -	$ -	$ 8	$ 0	$ 6	$ 15	$ 18	$ 16	$ -

Source: Refinitiv Eikon (2022)

Appendix 7 Lions Gate- Balance Sheet

Balance sheet ($m)	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Assets										
Current assets:										
Cash and cash equivalen	$ 64	$ 62	$ 26	$ 103	$ 58	$ 322	$ 378	$ 184	$ 318	$ 529
Accounts receiveables	$ 785	$ 787	$ 907	$ 892	$ 760	$ 1,054	$ 1,087	$ 744	$ 619	$ 601
Inventories	$ -	$ -	$ 1,275	$ 1,382	$ 21	$ 286	$ 274	$ 316	$ 324	$ 14
Pre-paid expenses	$ 15	$ 10	$ -	$ -	$ 26	$ 26	$ 34	$ 149	$ 46	$ 41
Other currents assets	$ -	$ -	$ 9	$ 3	$ 3	$ 3	$ -	$ 2	$ 1	$ 2
Total current assets	**$ 863**	**$ 860**	**$ 2,217**	**$ 2,379**	**$ 868**	**$ 1,690**	**$ 1,773**	**$ 1,394**	**$ 1,308**	**$ 1,187**
Non-current assets:										
Property, plant and equip	$ 10	$ 9	$ 15	$ 27	$ 43	$ 166	$ 162	$ 155	$ 278	$ 218
Goodwill	$ 327	$ 323	$ 323	$ 323	$ 535	$ 2,701	$ 2,741	$ 2,834	$ 2,834	$ 2,765
Intangibles	$ 12	$ 7	$ 3	$ 1	$ 1,469	$ 3,776	$ 3,630	$ 3,544	$ 3,237	$ 3,798
LT investments	$ 1,500	$ 1,414	$ 182	$ 438	$ 464	$ 372	$ 165	$ 26	$ 40	$ 32
Note receivable	$ 25	$ 23	$ -	$ -	$ 289	$ 433	$ 435	$ 327	$ 231	$ 241
Other non-current assets	$ 51	$ 126	$ 112	$ 124	$ 166	$ 60	$ 63	$ 129	$ 24	$ 66
Total non-current assets:	**$ 1,925**	**$ 1,901**	**$ 635**	**$ 913**	**$ 2,967**	**$ 7,507**	**$ 7,195**	**$ 7,015**	**$ 6,643**	**$ 7,120**
Total Assets	**$ 2,788**	**$ 2,761**	**$ 2,852**	**$ 3,292**	**$ 3,834**	**$ 9,197**	**$ 8,968**	**$ 8,409**	**$ 7,951**	**$ 8,306**
Liabilities and Shareholders' Equity										
Current liabilities:										
Accounts payable	$ 371	$ 314	$ 333	$ 333	$ 355	$ 573	$ 447	$ 531	$ 491	$ 504
Other current liabilities	$ 229	$ 254	$ -	$ -	$ 684	$ 672	$ 689	$ 556	$ 594	$ 716
Current debt	$ -	$ -	$ -	$ -	$ 703	$ 445	$ 1,276	$ 566	$ 422	$ 473
Total current liabilities	**$ 600**	**$ 568**	**$ 333**	**$ 333**	**$ 1,742**	**$ 1,690**	**$ 2,412**	**$ 1,652**	**$ 1,508**	**$ 1,693**
Non-current liabilities:										
Long-term debt	$ 1,117	$ 858	$ 1,096	$ 1,315	$ 877	$ 3,976	$ 2,650	$ 2,994	$ 2,761	$ 2,861
Deferred income tax	$ -	$ -	$ -	$ -	$ -	$ 440	$ 92	$ 57	$ 37	$ 40
Minority interest	$ -	$ -	$ -	$ -	$ 91	$ 94	$ 103	$ 131	$ 170	$ 221
Other non-current liabilit	$ 982	$ 979	$ 839	$ 802	$ 275	$ 483	$ 555	$ 657	$ 818	$ 698
Total non-current liabiliti	**$ 2,099**	**$ 1,837**	**$ 1,935**	**$ 2,117**	**$ 1,242**	**$ 4,993**	**$ 3,399**	**$ 3,838**	**$ 3,786**	**$ 3,820**
Shareholders' equity:										
Common stock	$ 713	$ 673	$ 744	$ 831	$ 886	$ 2,520	$ 2,649	$ 2,790	$ 2,881	$ 2,959
Retained earnings	$ -542	$ -310	$ -158	$ 14	$ 8	$ 11	$ 517	$ 209	$ -17	$ -83
Accumulated other incom	$ -81	$ -7	$ -1	$ -2	$ -43	$ -16	$ -10	$ -80	$ -206	$ -83
Total equity	**$ 90**	**$ 357**	**$ 585**	**$ 842**	**$ 850**	**$ 2,514**	**$ 3,156**	**$ 2,919**	**$ 2,658**	**$ 2,793**
Total liabilities and shareho	**$ 2,788**	**$ 2,761**	**$ 2,852**	**$ 3,292**	**$ 3,834**	**$ 9,197**	**$ 8,968**	**$ 8,409**	**$ 7,951**	**$ 8,306**

Source: Refinitiv Eikon (2022)

Appendix 8 Lions Gate- Cash Flow Statement

Cash Flow Statement	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Cash Flow-Operating Activities ($ Millions)										
Net Income/Starting Line	(39.1)	232.1	152.0	181.8	42.7	14.5	468.1	(299.6)	(206.4)	(34.5)
Depreciation/Depletion	3.0	3.0	6.5	6.6	13.1	63.1	159.0	163.4	197.7	188.5
Depreciation	3.0	3.0	6.5	6.6	13.1	63.1	159.0	163.4	197.7	188.5
Amortization	1.3	5.3	921.3	900.0	1,029.1	1,414.0	1,641.7	1,516.5	1,706.7	1,189.8
Amortization of Intangibles	1.3	5.3	921.3	900.0	1,029.1	1,414.0	1,641.7	1,516.5	1,706.7	1,189.8
Deferred Taxes	--	(87.9)	15.9	13.9	(85.1)	(163.4)	(299.5)	(23.6)	(0.9)	3.4
Non-Cash Items	610.9	1,047.3	108.6	59.7	44.9	132.9	96.0	170.9	146.2	168.5
Unusual Items	(10.0)	24.1	39.6	11.7	0.0	20.0	64.9	1.9	(5.4)	(44.1)
Equity in Net Earnings (Loss)	(8.4)	3.1	(24.7)	(52.5)	(44.2)	(10.7)	(148.2)	130.5	17.7	5.6
Other Non-Cash Items	629.3	1,020.1	93.8	100.5	89.1	123.6	179.3	38.5	133.9	207.0
Changes in Working Capital	(790.2)	(923.7)	(951.9)	(1,065.5)	(1,063.7)	(902.5)	(1,676.1)	(1,100.1)	(1,228.7)	(1,516.2)
Accounts Receivable	(256.2)	(4.9)	(93.5)	(14.0)	(144.9)	(83.0)	(8.6)	470.8	397.5	133.9
Other Assets	(651.4)	(891.7)	(950.1)	(1,011.2)	(1,080.2)	(1,096.7)	(1,523.6)	(1,469.9)	(1,545.3)	(1,616.7)
Payable/Accrued	29.6	(50.2)	17.6	(5.1)	28.9	152.9	(181.7)	41.0	(31.8)	32.7
Other Liabilities	87.9	23.1	74.1	(35.2)	132.5	124.3	37.8	(142.0)	(49.1)	(66.1)
Cash from Operating Activities	(214.1)	276.1	252.5	96.5	(19.0)	558.6	389.2	427.5	614.6	(0.5)
Cash Flow-Investing Activities ($ Millions)										
Capital Expenditures	(1.9)	(2.6)	(8.8)	(17.0)	(18.4)	(25.2)	(45.9)	(43.8)	(31.1)	(35.0)
Purchase of Fixed Assets	(1.9)	(2.6)	(8.8)	(17.0)	(18.4)	(25.2)	(45.9)	(43.8)	(31.1)	(35.0)
Other Investing Cash Flow Items, Total	(550.3)	7.1	0.2	(38.2)	(143.6)	(1,120.1)	338.5	(77.9)	(20.6)	3.9
Acquisition of Business	(553.7)	0.0	0.0	--	(126.9)	(1,102.6)	(1.8)	(77.3)	0.0	0.0
Sale of Fixed Assets	9.1	0.0	0.0	--	--	--	--	--	--	--
Sale/Maturity of Investment	0.0	6.4	9.0	14.6	0.0	0.0	393.7	48.0	0.0	4.1
Purchase of Investments	(1.0)	(3.6)	(17.3)	(22.7)	(16.0)	(20.6)	(53.4)	(48.6)	(20.6)	(0.2)
Other Investing Cash Flow	(4.7)	4.3	8.4	(30.0)	(0.8)	3.1	0.0	0.0	--	--
Cash from Investing Activities	(552.2)	4.5	(8.6)	(55.2)	(162.1)	(1,145.3)	292.6	(121.7)	(51.7)	(31.1)
Cash Flow-Financing Activities ($ Millions)										
Financing Cash Flow Items	(4.3)	(31.8)	(23.1)	(20.1)	(24.2)	(47.8)	(31.1)	(811.1)	(9.1)	(33.4)
Other Financing Cash Flow	(4.3)	(31.8)	(23.1)	(20.1)	(24.2)	(47.8)	(31.1)	(811.1)	(9.1)	(33.4)
Total Cash Dividends Paid	--	--	(6.9)	(33.4)	(47.4)	(26.8)	0.0	(57.4)	0.0	0.0
Cash Dividends Paid - Common	--	--	(6.9)	(33.4)	(47.4)	(26.8)	0.0	(57.4)	0.0	0.0
Issuance (Retirement) of Stock, Net	(73.6)	2.9	12.0	(138.0)	(67.1)	25.4	44.9	8.0	(0.9)	(0.6)
Repurchase/Retirement of Common	(77.1)	0.0	0.0	(144.8)	(73.2)	0.0	0.0	--	(2.6)	(2.2)
Common Stock, Net	(77.1)	0.0	0.0	(144.8)	(73.2)	0.0	0.0	--	(2.6)	(2.2)
Preferred Stock, Net	0.0	--	--	--	--	--	--	--	--	--
Options Exercised	3.5	2.9	12.0	6.8	6.1	25.4	44.9	8.0	1.7	1.6
Issuance (Retirement) of Debt, Net	825.3	(253.6)	(261.3)	225.6	274.5	899.3	(636.2)	361.2	(416.1)	271.9
Short Term Debt Issued	592.6	1,160.4	--	--	--	--	--	--	--	--
Short Term Debt, Net	592.6	1,160.4	--	--	--	--	--	--	--	--
Long Term Debt Issued	903.0	378.5	1,905.3	1,780.9	1,202.1	4,298.8	4,032.3	3,879.3	911.1	592.5
Long Term Debt Reduction	(670.4)	(1,792.6)	(2,166.5)	(1,555.3)	(927.7)	(3,399.5)	(4,668.5)	(3,518.1)	(1,327.2)	(320.6)
Long Term Debt, Net	232.7	(1,414.0)	(261.3)	225.6	274.5	899.3	(636.2)	361.2	(416.1)	271.9
Cash from Financing Activities	747.4	(282.5)	(279.3)	34.2	135.7	850.1	(622.4)	(499.3)	(426.1)	237.9
Foreign Exchange Effects	(3.2)	0.0	(1.3)	1.5	0.4	0.8	(3.2)	(0.3)	(2.9)	4.2
Net Change in Cash	(22.1)	(1.9)	(36.7)	77.0	(45.0)	264.2	56.2	(193.8)	133.9	210.5

Source: Refintiv Eikon (2022)

Appendix 9 Beta Estimation

A thorough explanation of how the beta was estimated for both companies follows:

I used both the regression and levered beta method to estimate the beta used in the WACC computations. For the regression I used monthly returns regressed against the S&P 500. For both companies I used total return index from 01/04/2017 to 01/04/2022. Using the regression tool in Excel, the beta was estimated by regressing the individual companies returns versus the market index. For the levered beta method, I found a group of comparable companies. By regressing every comparable company versus its respective market index, the levered beta of each company was found. Thereafter, I computed the unlevered beta of each company and found the average. By levering the average unlevered beta, the levered beta of Apple and Lions Gate was computed.

The beta used in the WACC estimation, was the average between the regression method and levered beta.

Apple - Beta	
Unlevered Beta- Peers	1.02
Market Cap (in billions)	2840
Debt (in billions)	125.6
D/E	0.04
Tax rate	13.30%
Levered Beta	**1.06**
Regression Beta	1.30
Average Beta	**1.18**

Lionsgate Beta	
Unlevered Beta- Peers	0.82813985
Market Cap	2,953,458,118
Debt	3,334,400,000
D/E	1.128981643
Tax rate	13%
Levered Beta	1.64
Regression Beta	1.45
Average Beta	**1.55**

Appendix 10 Peer Groups- Beta Estimation

Apple:

Since Apple operate in so many different segments, the peers are split into several groups. The table below shows which companies was chosen for each group.

	Smartphones & Tablets	Personal Computers	Home, Accessories & Wearables	Services
Samsung	x		x	
Amazon	x			x
HP		x		
Lenovo		x		
Alphabet			x	x
Microsoft				x
Spotify				x
Netflix				x

Lions Gate:

Company Name
Lions Gate Entertainment Corp
Walt Disney Co
Paramount Global
Netflix Inc
Comcast Corp
Warner Bros Discovery Inc

Appendix 11 Apple- Revenue by segment

Revenue by category	2017	2018	2019	2020	2021	CAGR 5Y
iPhone	139,337	164,888	142,381	137,781	191,973	**8.3%**
Mac	25,569	25,198	25,740	28,622	35,190	**8.3%**
iPad	18,802	18,380	21,280	23,724	31,862	**14.1%**
Wearables, Home and Accessories	12,826	17,281	24,482	30,620	38,367	**31.5%**
Services	32,700	39,748	46,291	53,768	68,425	**20.3%**
Total net sales	229,234	265,495	260,174	274,515	365,817	**9.8%**

Sources: (Apple Inc, 2021), (Apple Inc, 2020), (Apple Inc, 2021)

Appendix 12 Lions Gate- Revenue by segment

Revenues ($m)	2017	2018	2019	2020	2021	2022e
Motion Picture	$ 1,921	$ 1,822	$ 1,464	$ 1,671	$ 1,081	$ 1,196
Television Production	$ 837	$ 805	$ 921	$ 1,001	$ 832	$ 1,548
Media Networks	$ 457	$ 1,533	$ 1,461	$ 1,487	$ 1,563	$ 1,541
Intersegment Eliminations	$ -13	$ -31	$ -166	$ -269	$ -204	$ -633
Total	$ 3,202	$ 4,129	$ 3,681	$ 3,890	$ 3,272	$ 3,653

Sources: (Lions Gate Entertainment Corp, 2021), (Lions Gate Entertainment Corp, 2020), (Lions Gate Entertainment Corp, 2019)

Appendix 13 Apple- Revenue Forecast

Revenue growth by segment	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
iPhone	18.34%	-13.65%	-3.23%	39.33%	0.00%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
Mac	-1.45%	2.15%	11.20%	22.95%	0.00%	3.83%	3.83%	3.83%	3.83%	3.83%	3.83%
iPad	-2.24%	15.78%	11.48%	34.30%	-12.77%	-0.40%	-0.40%	-0.40%	-0.40%	-0.40%	-0.40%
Wearables, Home and Accessorie:	34.73%	41.67%	25.07%	25.30%	25.38%	19.26%	13.13%	7.00%	7.00%	7.00%	7.00%
Services	21.55%	16.46%	16.15%	27.26%	20.27%	16.95%	13.64%	10.32%	7.00%	7.00%	7.00%

Revenue by segment	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
iPhone	164,888	142,381	137,781	191,973	191,973	200,036	208,437	217,192	226,314	235,819	245,723
Mac	25,198	25,740	28,622	35,190	35,190	36,538	37,938	39,392	40,901	42,468	44,095
iPad	18,380	21,280	23,724	31,862	27,793	27,682	27,571	27,461	27,351	27,242	27,133
Wearables, Home and Accessorie:	17,281	24,482	30,620	38,367	48,106	57,370	64,901	69,444	74,305	79,507	85,072
Services	39,748	46,291	53,768	68,425	82,297	96,249	109,374	120,660	129,106	138,143	147,813
Total revenue	265,495	260,174	274,515	365,817	385,359	417,875	448,222	474,148	497,977	523,179	549,837
Growth		-2.00%	5.51%	33.26%	5.34%	8.44%	7.26%	5.78%	5.03%	5.06%	5.10%

Source: (Apple Inc, 2021) , (Apple Inc, 2020), (Apple Inc, 2019)

Appendix 14 Apple- FCFF Forecast

FCFF Forecast ($m)	2021a	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Revenue	$ 365,817	$ 385,359	$ 417,875	$ 448,222	$ 474,148	$ 497,977	$ 523,179	$ 549,837
COGS		$ 227,942	$ 244,603	$ 260,114	$ 273,338	$ 286,200	$ 299,765	$ 314,073
Gross Profit	$ 152,836	$ 157,416	$ 173,272	$ 188,109	$ 200,810	$ 211,777	$ 223,414	$ 235,763
OPEX	$ 43,887	$ 50,080	$ 54,306	$ 58,250	$ 61,619	$ 64,716	$ 67,991	$ 71,455
EBIT	**$ 108,949**	**$ 107,336**	**$ 118,966**	**$ 129,859**	**$ 139,191**	**$ 147,061**	**$ 155,423**	**$ 164,308**
Less: (EBIT*TaxRate)		$ 22,541	$ 24,983	$ 27,270	$ 29,230	$ 30,883	$ 32,639	$ 34,505
Plus: Depreciation & Amortization		$ 15,523	$ 16,832	$ 18,055	$ 19,099	$ 20,059	$ 21,074	$ 22,148
Less: CAPEX		$ 15,546	$ 16,858	$ 18,082	$ 19,128	$ 20,089	$ 21,106	$ 22,181
(Increase)/Decrease Net Working Capital		$ 1,606	$ 2,672	$ 2,494	$ 2,130	$ 1,958	$ 2,071	$ 2,190
FCFF		**$ 86,378**	**$ 96,630**	**$ 105,055**	**$ 112,062**	**$ 118,106**	**$ 124,823**	**$ 131,961**
PV FCFF		**$ 80,614**	**$ 84,165**	**$ 85,397**	**$ 85,015**	**$ 83,621**	**$ 82,480**	**$ 81,378**

Assumptions:		2022e	2023e	2024e	2025e	2026e	2027e	2028e
Revenue growth		5.3%	8.4%	7.3%	5.8%	5.0%	5.1%	5.1%
Gross margin- % of revenue		40.8%	41.5%	42.0%	42.4%	42.5%	42.7%	42.9%
EBIT margin- % of revenue		27.9%	28.5%	29.0%	29.4%	29.5%	29.7%	29.9%
Tax rate		21%	21%	21%	21%	21%	21%	21%
Depreciation & Amortization- % of revenue		4.028%	4.028%	4.028%	4.028%	4.028%	4.028%	4.028%
CAPEX- % of revenue		4.034%	4.034%	4.034%	4.034%	4.034%	4.034%	4.034%
BS- Net Working Capital		-31665	-34337	-36830	-38961	-40919	-42989	-45180
WACC	**7.15%**							
Terminal growth rate (g)	**3.70%**							

Source: Own calucations

Appendix 15 Lions Gate- Revenue Forecast

Revenue growth	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Motion Picture		13.2%	11.7%	3.20%	3.20%	3.20%	3.20%
Television Production		2.99%	2.99%	2.99%	2.99%	2.99%	2.99%
Media Networks		3.38%	3.38%	3.38%	3.38%	3.38%	3.38%

Revenues ($m)	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Motion Picture	$ 1,196	$ 1,355	$ 1,513	$ 1,671	$ 1,724	$ 1,780	$ 1,836
Television Production	$ 1,548	$ 1,594	$ 1,642	$ 1,691	$ 1,741	$ 1,793	$ 1,847
Media Networks	$ 1,541	$ 1,593	$ 1,647	$ 1,703	$ 1,761	$ 1,820	$ 1,882
Intersegment Eliminations	$ -633	$ -670	$ -709	$ -748	$ -771	$ -796	$ -821
Total	$ 3,653	$ 3,871	$ 4,093	$ 4,317	$ 4,455	$ 4,597	$ 4,743
Growth	**11.7%**	**6.0%**	**5.7%**	**5.5%**	**3.2%**	**3.2%**	**3.2%**

Source: Own calculations

Appendix 16 Lions Gate- FCFF Forecast

FCFF Forecast ($m)	2021a	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Revenue	$ 3,272	$ 3,653	$ 3,871	$ 4,093	$ 4,317	$ 4,455	$ 4,597	$ 4,743
COGS		$ 2,018	$ 2,134	$ 2,256	$ 2,379	$ 2,455	$ 2,534	$ 2,615
Gross Profit		$ 1,634	$ 1,738	$ 1,837	$ 1,937	$ 1,999	$ 2,063	$ 2,129
OPEX		$ 1,575	$ 1,650	$ 1,744	$ 1,840	$ 1,898	$ 1,959	$ 2,021
EBIT		**$ 59**	**$ 88**	**$ 93**	**$ 98**	**$ 101**	**$ 104**	**$ 108**
Less: (EBIT*TaxRate)		$ 12	$ 18	$ 19	$ 21	$ 21	$ 22	$ 23
Plus: Depreciation & Amortization		$ 177	$ 186	$ 196	$ 207	$ 214	$ 220	$ 227
Less: CAPEX		$ 37	$ 39	$ 42	$ 44	$ 45	$ 47	$ 48
(Increase)/Decrease Net Working Capital		$ -517	$ 3	$ 3	$ 3	$ 2	$ 2	$ 2
FCFF		**$ -331**	**$ 218**	**$ 231**	**$ 243**	**$ 250**	**$ 258**	**$ 266**
PV FCFF		**$ -308**	**$ 189**	**$ 186**	**$ 182**	**$ 174**	**$ 168**	**$ 161**

Assumptions:	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Revenue growth	12%	6%	6%	5%	3%	3%	3%
Gross margin- % of revenue	44.7%	44.9%	44.9%	44.9%	44.9%	44.9%	44.9%
EBIT margin- % of revenue	1.6%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Tax rate	21%	21%	21%	21%	21%	21%	21%
Depreciation & Amortization- % of revenue	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
CAPEX- % of revenue	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%	1.02%
BS- Net Working Capital	-44.8	-47.5	-50.2	-52.9	-54.6	-56.4	-58.2
WACC	**7.4%**						
Terminal growth rate (g)	**3.7%**						

Source: Own calculations

Appendix 17 Apple- Income Statement Forecast

	Historical					Forecast						
$m	2017	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Sales	229,234	265,595	260,174	274,515	365,817	385,359	417,875	448,222	474,148	497,977	523,179	549,837
COGS	141,048	163,756	161,782	169,559	212,981	227,942	244,603	260,114	273,338	286,200	299,765	314,073
Gross Profit	88,186	101,839	98,392	104,956	152,836	157,416	173,272	188,109	200,810	211,777	223,414	235,763
SG&A (-D&A)	-5,861	-5,802	-5,698	-8,860	-10,689	-10,082	-10,932	-11,726	-12,405	-13,028	-13,687	-14,385
R&D	-11,581	-14,236	-16,217	-18,752	-21,914	-24,476	-26,541	-28,469	-30,116	-31,629	-33,230	-34,923
EBITDA	70,744	81,801	76,477	77,344	120,233	122,859	135,799	147,913	158,290	167,120	176,497	186,456
Depreciation & Amortiza	-9,400	-10,903	-12,547	-11,056	-11,284	-15,523	-16,832	-18,055	-19,099	-20,059	-21,074	-22,148
EBIT	61,344	70,898	63,930	66,288	108,949	107,336	118,966	129,859	139,191	147,061	155,423	164,308
EBIT Margin	***26.8%***	***26.7%***	***24.6%***	***24.1%***	***29.8%***	***27.9%***	***28.5%***	***29.0%***	***29.4%***	***29.5%***	***29.7%***	***29.9%***
Interest Income	5,201	5,686	4,961	3,763	2,843	5,208	5,648	6,058	6,409	6,731	7,071	7,431
Interest Expense	-2,323	-3,240	-3,576	-2,873	-2,645	-4,039	-4,379	-4,697	-4,969	-5,219	-5,483	-5,762
Other Income (Expense)	-133	-441	422	-87	60	-	-	-	-	-	-	-
Income before Taxes	64,089	72,903	65,737	67,091	109,207	108,506	120,235	131,219	140,630	148,572	157,011	165,977
Tax Expense	-15,738	-11,872	-10,481	-9,680	-14,527	-22,786	-25,249	-27,556	-29,532	-31,200	-32,972	-34,855
Net Income	48,351	61,031	55,256	57,411	94,680	85,720	94,986	103,663	111,098	117,372	124,038	131,122
Profit Margin	*21.1%*	*23.0%*	*21.2%*	*20.9%*	*25.9%*	*22.2%*	*22.7%*	*23.1%*	*23.4%*	*23.6%*	*23.7%*	*23.8%*

Source: Own calculations

Appendix 18 Apple- Balance Sheet Forecast

	Historical					Forecast						
$m	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Current assets:												
Cash and cash equivalents	20,289	25,913	48,867	38,052	34,940	34,940	34,940	34,940	34,940	34,940	34,940	34,940
Marketable securities	53,892	40,388	51,713	52,927	27,699	27,699	27,699	27,699	27,699	27,699	27,699	27,699
Accounts Receiveables	17,874	23,186	22,926	16,120	26,278	27,682	30,018	32,197	34,060	35,772	37,582	39,497
Inventories	4,855	3,956	4,106	4,061	6,580	6,931	7,516	8,062	8,529	8,957	9,410	9,890
Vendor non-trade receivables	17,799	25,809	22,878	21,325	25,228	26,576	28,818	30,911	32,699	34,342	36,080	37,919
Other currents assets	13,936	12,087	12,329	11,228	14,111	14,865	16,119	17,290	18,290	19,209	20,181	21,209
Total current assets	**128,645**	**131,339**	**162,819**	**143,713**	**134,836**	**138,693**	**145,110**	**151,099**	**156,216**	**160,919**	**165,893**	**171,154**
Non-current assets:												
Non-current marketable securities	194,714	170,799	105,341	100,887	127,877	127,877	127,877	127,877	127,877	127,877	127,877	127,877
Property, plant and equipment (PPE	33,783	41,304	37,378	36,766	39,440	39,463	39,489	39,516	39,545	39,575	39,606	39,640
Other non-current assets	18,177	22,283	32,978	42,522	48,849	62,544	80,080	87,564	95,747	104,695	114,479	125,177
Total non-current assets	**246,674**	**234,386**	**175,697**	**180,175**	**216,166**	**229,885**	**247,445**	**254,956**	**263,168**	**272,146**	**281,962**	**292,694**
Total Assets	**375,319**	**365,725**	**338,516**	**323,888**	**351,002**	**368,578**	**392,555**	**406,056**	**419,384**	**433,065**	**447,855**	**463,848**
Current liabilities:												
Accounts payable	44,242	55,888	46,236	42,296	54,763	57,688	62,556	67,099	70,980	74,547	78,320	82,311
Other current liabilities	30,551	33,327	37,720	42,684	47,493	50,030	54,252	58,191	61,557	64,651	67,923	71,384
Deferred revenue	7,548	5,966	5,522	6,643	7,612	8,019	8,695	9,327	9,866	10,362	10,886	11,441
Commercial paper	11,977	11,964	5,980	4,996	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Current debt	6,496	8,784	10,260	8,773	9,613	-	-	-	-	-	-	-
Total current liabilities	**100,814**	**115,929**	**105,718**	**105,392**	**125,481**	**121,737**	**131,503**	**140,617**	**148,404**	**155,560**	**163,129**	**171,136**
Non-current liabilities:												
Long-term debt	97,207	93,735	91,807	99,304	109,875	125,471	133,634	138,229	142,767	147,424	152,459	157,903
Other non-current liabilities	43,251	48,914	50,503	53,853	52,556	55,120	56,860	54,224	52,833	52,241	51,768	51,436
Total non-current liabilities	**140,458**	**142,649**	**142,310**	**153,157**	**162,431**	**180,591**	**190,494**	**192,453**	**195,599**	**199,665**	**204,227**	**209,339**
Shareholders' equity:												
Common stock	35,867	40,201	45,174	50,779	57,365	60,524	64,834	67,260	69,656	72,115	74,774	77,648
Retained earnings	98,330	70,400	45,898	14,966	5,562	5,562	5,562	5,562	5,562	5,562	5,562	5,562
Accumulated other income(loss)	-150	-3,454	-584	-406	163	163	163	163	163	163	163	163
Total equity	**134,047**	**107,147**	**90,488**	**65,339**	**63,090**	**66,249**	**70,559**	**72,985**	**75,381**	**77,840**	**80,499**	**83,373**
Total liabilities and shareholders' equit	**375,319**	**365,725**	**338,516**	**323,888**	**351,002**	**368,578**	**392,555**	**406,056**	**419,384**	**433,065**	**447,855**	**463,848**

Source: Own calculations

Appendix 19 Lions Gate- Income Statement Forecast

$m	Historical 2017	2018	2019	2020	2021	Forecast 2022e	2023e	2024e	2025e	2026e	2027e	2028e
Sales	3,202	4,129	3,681	3,890	3,272	3,653	3,871	4,093	4,317	4,455	4,597	4,743
COGS	1,904	2,310	2,005	2,138	1,656	2,019	2,134	2,256	2,379	2,455	2,534	2,615
Gross Profit	1,298	1,819	1,675	1,752	1,616	1,634	1,738	1,837	1,937	1,999	2,063	2,129
SG&A (-D&A)	1,162	1,352	1,281	1,435	1,189	1,315	1,369	1,447	1,526	1,575	1,625	1,677
Other operating expenses	109	125	254	112	73	83	95	101	106	110	113	117
EBITDA	27	343	141	206	353	236	273	289	305	315	325	335
Depreciation & Amortizatio	63	159	163	198	189	177	186	196	207	214	220	227
EBIT	-36	184	-23	8	165	59	88	93	98	101	104	108
EBIT Margin	*-1.1%*	*4.5%*	*-0.6%*	*0.2%*	*5.0%*	*1.6%*	*2.3%*	*2.3%*	*2.3%*	*2.3%*	*2.3%*	*2.3%*
Interest Income	6	10	12	9	6	39	41	44	46	47	49	51
Interest Expense	-115	-194	-199	-191	-182	-175	-185	-196	-206	-213	-220	-227
Other Expense (Income)	11	148	-98	-29	-7	-9	-	-	-	-	-	-
Income before Taxes	-134	-149	-308	-203	-17	-85	-56	-59	-63	-65	-67	-69
Tax Expense	-0	-6	-15	-18	-16	-	-	-	-	-	-	-
Net Income	-135	143	-324	-221	-33	-85	-56	-59	-63	-65	-67	-69
Profit Margin	*-4.2%*	*3.5%*	*-8.8%*	*-5.7%*	*-1.0%*	*-2.3%*	*-1.4%*	*-1.4%*	*-1.4%*	*-1.4%*	*-1.4%*	*-1.4%*

Source: Own calculations

Appendix 20 Lions Gate- Balance Sheet Forecast

$m	Historical 2017	2018	2019	2020	2021	Forecast 2022	2023	2024	2025	2026	2027	2028
Current assets:												
Cash and cash equivalents	322	378	184	318	529	529	529	529	529	529	529	529
Accounts receiveables	1,054	1,087	744	619	601	671	712	752	793	819	845	872
Inventories	286	274	316	324	14	16	17	18	19	19	20	21
Pre-paid expenses	26	34	149	46	41	46	48	51	54	56	57	59
Other currents assets	3	-	2	1	2	2	2	2	2	2	2	2
Total current assets	**1,690**	**1,773**	**1,394**	**1,308**	**1,187**	**1,263**	**1,307**	**1,352**	**1,397**	**1,425**	**1,453**	**1,483**
Non-current assets:												
Property, plant and equipment (PPE)	166	162	155	278	218	218	218	218	218	218	218	218
Goodwill	2,701	2,741	2,834	2,834	2,765	2,765	2,765	2,765	2,765	2,765	2,765	2,765
Intangibles	3,776	3,630	3,544	3,237	3,798	3,798	3,798	3,798	3,798	3,798	3,798	3,798
LT investments	372	165	26	40	32	32	32	32	32	32	32	32
Note receivable	433	435	327	231	241	241	241	241	241	241	241	241
Other non-current assets	60	63	129	24	66	66	66	66	66	66	66	66
Total non-current assets:	**7,507**	**7,195**	**7,015**	**6,643**	**7,120**	**7,120**	**7,120**	**7,120**	**7,120**	**7,120**	**7,120**	**7,120**
Total Assets	**9,197**	**8,968**	**8,409**	**7,951**	**8,306**	**8,383**	**8,427**	**8,471**	**8,516**	**8,544**	**8,573**	**8,602**
Current liabilities:												
Accounts payable	573	447	531	491	504	563	596	631	665	686	708	731
Other current liabilities	672	689	556	594	716	799	847	896	945	975	1,006	1,038
Current debt	445	1,276	566	422	473							
Total current liabilities	**1,690**	**2,412**	**1,652**	**1,508**	**1,693**	**1,362**	**1,444**	**1,526**	**1,610**	**1,661**	**1,714**	**1,769**
Non-current liabilities:												
Long-term debt	3,976	2,650	2,994	2,761	2,861	3,365	3,383	3,401	3,419	3,430	3,441	3,453
Deferred income tax	440	92	57	37	40	40	40	40	40	40	40	40
Minority interest	94	103	131	170	221	221	221	221	221	221	221	221
Other non-current liabilities	483	555	657	818	698	576	506	435	363	319	274	227
Total non-current liabilities	**4,993**	**3,399**	**3,838**	**3,786**	**3,820**	**4,202**	**4,150**	**4,097**	**4,043**	**4,010**	**3,976**	**3,941**
Shareholders' equity:												
Common stock	2,520	2,649	2,790	2,881	2,959	2,985	3,000	3,015	3,030	3,039	3,049	3,059
Retained earnings	11	517	209	-17	-83	-83	-83	-83	-83	-83	-83	-83
Accumulated other income(loss)	-16	-10	-80	-206	-83	-83	-83	-83	-83	-83	-83	-83
Total equity	**2,514**	**3,156**	**2,919**	**2,658**	**2,793**	**2,819**	**2,834**	**2,849**	**2,864**	**2,873**	**2,883**	**2,893**
Total liabilities and shareholders' equity	**9,197**	**8,968**	**8,409**	**7,951**	**8,306**	**8,383**	**8,427**	**8,471**	**8,516**	**8,544**	**8,573**	**8,602**

Source: Own calculations

Appendix 21 Apple Relative Valuation

Company Name	Market Cap (usd)	Forward P/E (Daily Time Series Ratio) (FY1)	Historic EV/Revenue, FY (FY0)	Historic EV/EBITDA, FY (FY0)
Apple Inc	2,920,527,161,360	29.03	6.77	20.60
Intel Corp	212,709,750,000	14.79	2.77	6.43
Samsung Electronics Co Ltd	388,902,228,596	10.00	1.55	5.06
Amazon.com Inc	1,723,099,825,583	82.91	3.56	34.65
Microsoft Corp	2,364,586,640,055	33.76	11.76	24.23
Alphabet Inc	1,888,540,843,538	24.57	6.96	19.68
	Average	**33x**	**6x**	**18x**

Source: Refinitiv Eikon

Appendix 22 Lions Gate Relative Valuation

Company Name	Market Cap (usd)	Historic EV/Revenue, FY (FY0)	Historic EV/EBITDA, FY (FY0)	Historic EV/EBIT, FY (FY0)
Lions Gate Entertainment Corp	2,953,458,118	1.94	3.92	26.60
Walt Disney Co	215,326,313,164	5.43	41.52	99.99
Fox Corp	20,796,871,439	1.84	7.74	8.58
Paramount Global	20,237,578,446	1.11	7.13	7.81
Netflix Inc	95,749,900,152	9.32	13.80	36.34
Comcast Corp	205,717,992,149	2.76	9.21	15.23
Warner Bros Discovery Inc	49,915,282,252	2.04	3.47	11.97
	Average	**3x**	**12x**	**30x**

Source: Refinitiv Eikon

Appendix 23 Synergy Estimation

Synergies	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Revenue:							
Synergy Realization	0%	33%	70%	90%	100%	100%	100%
Motion Picture	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Television Production	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Media Networks	2%	2%	2%	2%	2%	2%	2%
COGS:							
Synergy Realization	0%	65%	100%	100%	100%	100%	100%
Synergy	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
SG&A:							
Synergy Realization	0%	65%	100%	100%	100%	100%	100%
Synergy	3%	3%	3%	3%	3%	3%	3%

Source: Own calculations

Appendix 24 DCF- with synergies

DCF with Synergies ($m)	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Revenues							
Motion Picture	1,196	1,357	1,518	1,678	1,733	1,788	1,846
Synergies- Assumption	0.0%	0.2%	0.4%	0.5%	0.5%	0.5%	0.5%
Television Production	1,548	1,597	1,647	1,698	1,750	1,802	1,856
Synergies- Assumption	0.0%	0.2%	0.4%	0.5%	0.5%	0.5%	0.5%
Media Networks	1,541	1,604	1,670	1,734	1,796	1,857	1,919
Synergies- Assumption	0%	1%	1%	2%	2%	2%	2%
Intersegment Eliminations	- 633	- 673	- 714	- 754	- 779	- 804	- 830
Total Revenues	3,653	3,885	4,122	4,356	4,499	4,643	4,791
Revenue Synergy	0.0%	0.3%	0.7%	0.9%	1.0%	1.0%	1.0%
COGS	2,019	2,127	2,245	2,368	2,443	2,521	2,601
Synergies- Assumption	0.0%	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%
Operating Expenses							
SG&A	1,315	1,342	1,404	1,480	1,528	1,576	1,627
Synergies- Assumption	0.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Other Operating Expenses	83	95	101	106	110	113	117
EBITDA	236	320	373	402	419	432	446
D&A	177	186	196	207	214	220	227
EBIT	59	135	177	195	205	212	219
NOPAT	47	106	139	154	162	167	173
D&A	177	186	196	207	214	220	227
CAPEX	37	39	42	44	45	47	48
Changes WC	- 517	3	3	3	2	2	2
FCFF	- 331	255	297	319	332	343	354
PV FCFF	- 308	221	239	240	232	223	214
Terminal Value							9,832
PV Terminal Value							5,953
Enterprise Value	7,014						
PV Synergies	1,787						

Source: Own calculations

Appendix 25 Transaction and Integration Cost Estimation

$m	2022e	2023e	2024e
Integration Costs	$ 35	$ 35	$ 35
Transaction Fees	$ 52		
Total	**$ 87**	**$ 35**	**$ 35**
PV	$ 81	$ 30	$ 28
PV transaction and intergration costs	**$ 139**		

Source: Own calculations

Appendix 26 Max Bid Estimation

Lionsgate EV	**$**	**5,227**
PV of synergies	$	1,787
PV transaction and intergration costs	$	-139
Net Debt	$	-2,552
Equity Value	$	4,323
Max bid	**$**	**19.2**
Implied Premium		*37.1%*

Source: Own calculations.

Appendix 27 Merged Entity- Forecasted Income Statement

	Forecast						
$m	**2022e**	**2023e**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**
Sales	389,011	421,760	452,344	478,504	502,476	527,822	554,628
COGS	229,961	246,730	262,359	275,706	288,643	302,286	316,675
Gross Profit	159,050	175,029	189,985	202,798	213,833	225,536	237,953
SG&A (-D&A)	11,397	12,276	13,134	13,885	14,556	15,264	16,011
R&D	24,476	26,541	28,469	30,116	31,629	33,230	34,923
Other Operating Expenses	83	95	101	106	110	113	117
EBITDA	123,094	136,116	148,281	158,692	167,539	176,929	186,902
Depreciation & Amortization	15,699	17,018	18,251	19,306	20,272	21,294	22,375
EBIT	107,395	119,098	130,030	139,386	147,266	155,635	164,527
Interest Income	5,247	5,689	6,102	6,455	6,778	7,120	7,482
Interest Expense	- 4,213	- 4,565	- 4,893	- 5,176	- 5,432	- 5,703	- 5,989
Other Income (Expense)	- 9	-	-	-	-	-	-
Income before Taxes	108,420	120,223	131,238	140,664	148,612	157,052	166,020
Tax Expense	- 22,768	- 25,247	- 27,560	- 29,540	- 31,209	- 32,981	- 34,864
Net Income	85,652	94,976	103,678	111,125	117,404	124,071	131,155

Source: Own calculations

Appendix 28 Merged Entity- Forecasted Balance Sheet

$m	Forecast 2022	2023	2024	2025	2026	2027	2028
Current assets:							
Cash and cash equivalents	35,469	35,469	35,469	35,469	35,469	35,469	35,469
Marketable securities	27,699	27,699	27,699	27,699	27,699	27,699	27,699
Accounts Receiveables	28,353	30,730	32,949	34,853	36,591	38,427	40,369
Inventories	6,947	7,533	8,080	8,548	8,976	9,430	9,911
Pre-paid expenses	46	48	51	54	56	57	59
Vendor non-trade receivables	26,576	28,818	30,911	32,699	34,342	36,080	37,919
Other currents assets	14,867	16,121	17,292	18,292	19,211	20,183	21,211
Total current assets	139,956	146,417	152,451	157,614	162,344	167,345	172,637
Non-current assets:							
Non-current marketable securities	127,877	127,877	127,877	127,877	127,877	127,877	127,877
Property, plant and equipment (PPE)	39,681	39,707	39,734	39,763	39,793	39,824	39,858
Goodwill	2,765	2,765	2,765	2,765	2,765	2,765	2,765
Intangibles	3,798	3,798	3,798	3,798	3,798	3,798	3,798
LT investments	32	32	32	32	32	32	32
Note receivable	241	241	241	241	241	241	241
Other non-current assets	62,610	80,146	87,630	95,813	104,761	114,545	125,243
Total non-current assets	237,004	254,566	262,077	270,289	279,267	289,082	299,814
Total Assets	**376,960**	**400,983**	**414,527**	**427,902**	**441,610**	**456,427**	**472,450**
Current liabilities:							
Accounts payable	58,251	63,152	67,730	71,645	75,233	79,028	83,042
Other current liabilities	50,829	55,099	59,087	62,502	65,626	68,929	72,422
Deferred revenue	8,019	8,695	9,327	9,866	10,362	10,886	11,441
Commercial paper	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Current debt	-	-	-	-	-	-	-
Total current liabilities	123,099	132,947	142,143	150,013	157,221	164,843	172,905
Non-current liabilities:							
Long-term debt	128,836	137,017	141,630	146,186	150,854	155,900	161,356
Deferred income tax	40	40	40	40	40	40	40
Minority interest	221	221	221	221	221	221	221
Other non-current liabilities	55,696	57,366	54,660	53,198	52,561	52,041	51,663
Total non-current liabilities	184,793	194,644	196,551	199,645	203,676	208,202	213,280
Shareholders' equity:							
Common stock	63,509	67,834	70,275	72,686	75,154	77,823	80,707
Retained earnings	5,479	5,479	5,479	5,479	5,479	5,479	5,479
Accumulated other income(loss)	80	80	80	80	80	80	80
Total equity	69,068	73,393	75,834	78,245	80,713	83,382	86,266
Total liabilities and shareholders' equity	**376,960**	**400,983**	**414,527**	**427,902**	**441,610**	**456,427**	**472,450**

Source: Own calculations

Appendix 29 Merged Entity- WACC Computation

Apple:	
Unlevered Beta	1.14
Enterprise Value	3,028,898
Market Cap	2,840,000
Lionsgate:	
Unlevered Beta	0.82
Enterprise Value	5,227
Market Cap	2,953
Combined Unlev. Beta	1.14
Total MV Equity	2,842,953
Total Debt	122,822
Levered Beta	1.18
Risk Free	2.35%
Market Risk Premium	4.24%
Cost of Equity	7.35%
Cost of Debt	3.35%
WACC	**7.15%**

Source: Own calculations

Appendix 30 Accretion/Dilution Analysis

Accretion/Dilution ($m)	**2022e**	**2023e**	**2024e**	**2025e**	**2026e**	**2027e**	**2028e**
Acquirer- Net Income	85,720	94,986	103,663	111,098	117,372	124,038	131,122
Pro Forma Net Income	85,652	94,976	103,678	111,125	117,404	124,071	131,155
Pro Forma Shares O/S	16,392	16,392	16,392	16,392	16,392	16,392	16,392
Acquirer- EPS	5.229	5.795	6.324	6.778	7.160	7.567	7.999
Merged Entity- EPS	5.225	5.794	6.325	6.779	7.162	7.569	8.001
Accretion/Dilution in $	- 0.004	- 0.001	0.001	0.002	0.002	0.002	0.002
Accretion/Dilution %	**-0.079%**	**-0.010%**	**0.014%**	**0.024%**	**0.027%**	**0.026%**	**0.026%**

Source: Own calculations

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