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Mergers & Acquisitions:

The Case Grupo Media Capital and PT Portugal

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Abstract

Over the last 2 years, Altice Group has been one of the most active telecommunication companies, making acquisitions in different countries, not only in the telecommunication sector but also in the media sector. According to the multinational company, the expansion into the media industry, in the countries where they have already telecommunication operations, brings many and important synergies to their overall operation.

After Altice have bought PT Portugal, some rumors came up about the possibility of Altice also entering in the media market in Portugal. Taking up these rumors I decided to study the potential acquisition of Grupo Media Capital by Grupo Altice, through PT Portugal.

Along the thesis, I explain relevant M&A literature, make a review on both sectors (media and telecommunication) and companies, and at the end also calculate the standalone valuation of both companies and the synergies that may arise from this deal. After all these procedures, I conclude that this is the perfect moment for PT Portugal to make an offer to Group Prisa (Grupo Media Capital major shareholder). Grupo Prisa should be willing to disinvest in their Portuguese position and taking into account my calculations, Grupo Media Capital share price is undervalued. PT Portugal should make an offer of €4.84 per share, if considering a premium composed by 75% of the cost reduction synergy and 25% of the advertising revenue synergy.

Sumário

Durante os últimos dois anos, o Grupo Altice tem sido uma das empresas mais activas na área das Telecomunições, fazendo aquisições em diferentes países, não apenas no sector das telecomunições mas também no sector dos media. De acordo com a empresa multinacional, a expansão para o sector dos media, nos países onde a empresa já tem operações na área das telecomunicações, pode trazer sinergias importantes.

Depois da Altice ter comprado a PT Portugal, surgiram rumores sobre a possibilidade da empresa entrar no sector dos media em Portugal. Com base nestes rumores, decidi

estudar a potencial acquisição do Grupo Media Capital pelo Grupo Altice, através da PT Portugal.

Durante a tese, explico os conceitos relacionados com M&A e faço uma revisão dos dois sectores e das duas empresas. No final, calculo o valor das duas empresas individualmente e das sinergias que possam ser geradas com este negócio. Depois de todas estas fases, concluo que este é o momento ideal para a PT Portugal fazer uma oferta ao Grupo Prisa (accionista maioritário do Grupo Media Capital). O Grupo Prisa poderá estar disposto a desinvestir da sua posição em Portugal e para além disso, segundo os meus cálculos, o preço das acções da Media Capital está subavaliado. A PT Portugal deverá fazer uma oferta de 4.84 € por acção, considerando um prémio que corresponde a 75% da sinergia de redução de custos e 25% da sinergia de receitas de publicidade.

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This was the most challenging semester of my students' life. Doing a full time internship at the same time as I was writing my master thesis was really tough but at the same time very rewarding. I had the possibility to work on the same area as my thesis and that brought me many synergies while I was doing this project.

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1. INTRODUCTION

The goal of this Dissertation in Mergers and Acquisition (M&A) is to study deeply two companies, demonstrating and explaining what are the main reasons justifying the consolidation between them. The companies that I covered are the Portuguese company Grupo Media Capital, that will be acquired, and PT Portugal, owned by Group Altice that will acquire. During the Dissertation I will explain theoretically and numerically why this deal makes sense and how it could be done.

I will start by the Literature Review, where I will provide the theoretical analysis of how to value a company, what are the most common approaches to do it, what kind of synergies may occur, what companies should consider for before entering in an M&A deal and much more. All of these topics will be supported with existing academic literature.

After the Literature Review, I will make a media and communication industry overview, not only illustrating what are the main changes and concerns on the industry nowadays but also the current trends. This introduction to the industry will be followed by the companies' profile. The objective of the companies profile is to show the company background, the company history, the previous year's financial indicators, performance and what are the strategies for the coming years.

Afterwards, I will calculate the value of each firm individually, by three different approaches, DCF, Market Multiples and Transaction Multiples. In this section I will apply all the Literature Review theoretical information in order to get the value of each company. Once the standalone valuations are done, I will find out what are the possible synergies that may occur with this deal and I will calculate them.

At the end, after the synergies calculation, I will suggest an acquisition offer that PT Portugal should do, based on the previous calculations and the company objectives.

2. LITERATURE REVIEW

2.1 Discount Cash Flow

Discount Cash Flow (DCF) has been used for the last 20 years as standard model and is seen as the most accurate and flexible method for projects and companies valuations (Mckinsey Company). For many specialists, as Luehrman (1997), DCF emerged as the best practice for valuing corporate assets. DCF method forecasts the future cash flows and then discounts them to their present value at a rate that reflects their riskiness.

The DCF method can be applied in several situations, for example to calculate the Company valuation (enterprise value), the Equity valuation and the Adjusted Present Value (APV).

2.2 Company Valuation

2.2.1 Free Cash Flow to the Firm

Free Cash Flow to the Firm (FCFF) is the net amount of cash that the company has generated during the year, available for debt and equity holders, after deducting all the expenses, taxes, the changes in net working capital and the capital expenditures.

The way to calculate the FCFF is simplified with the following formula:

FCFF = Operating Cash Flow – Taxes – Changes in Net Working Capital – Capital Expenditures

The FCFF discount rate is typically the Weighted Average Cost of Capital (WACC). The WACC is the rate of return that the company expects to remunerate all the different types of investors, like bondholders (debt) and stockholders (equity).

$$\mathrm{WACC} = \frac{\mathrm{E}}{\mathrm{V}} * \mathrm{Re} + \frac{\mathrm{D}}{\mathrm{V}} * (1 - \mathrm{Tc}) * \mathrm{Rd}$$

2.2.2 WACC Parameters

$\frac{\mathrm{E}}{\mathrm{V}}$ (Equity/Total Value) = The % of the firm's capital structure that is comprised of Equity. This is based on the firm's market cap (stock price x shares outstanding).

$\frac{\mathrm{D}}{\mathrm{V}}$ (Debt/Total Value) = The % of the firm's capital structure that is comprised of Debt.

(1-Tc) = The tax adjustment for interest expense - interest paid on debt, reduces taxable income, and therefore reduces tax payments for the firm. The interest tax shield value depends on the firm's tax rate.

Rd = The required return of the firm's Debt financing

Re = The firm's cost of equity

Actually, the WACC is simple and easy to apply, it is just necessary to incorporate the weights of each source of financing with the corresponding cost. That's the reason why many managers and investors use the WACC to obtain their valuations.

However, the WACC has some important limitations according to Luehrman (1997). The fact that there is no change in the capital structure, this means that the capital structure of a new company project (a new factory, for example) should be the same as the company's existing structure. One way to avoid this problem is if the company calculates a different WACC for every year of projections until the company find a stable capital structure.

Rd (1-Tc) = after tax cost of debt

2.2.2.1 Equity Valuation

Free cash Flow to the Equity (FCFE)

The FCFE is a measure that indicates how much cash is available for the company's shareholders after all the expenses, reinvestments, interests and debt repayments.

FCFE = Net Income + Depreciation and Amortization – Net Capital Expenditures – Variation in Net Working Capital + Net Borrowing

2.2.2.2 Cost of Equity

As the debt holders, the equity shareholders also expect to obtain a certain return on their equity investment in the company.

The Cost of Equity is the rate of return required by the company shareholders in order for that investor to bear the risk of holding the company's shares. The return can take two different forms, dividends and capital gains. The two most common ways to calculate the Cost of Equity are the Dividend Discount Model (DDM) and the Capital Asset Pricing Model (CAPM).

The DDM discounts the value of the future expected dividends to achieve the stock value. According to Damodaran (2006), this first method has a big limitation, because it assumes that the dividends have a constant growth rate, and that is a difficult assumption to meet, given the earnings volatility. Moreover, is not possible to apply this method in companies that don't pay dividends. Due to these facts, this model is only used for mature companies, with low or constant growth rates.

$$\text{Stock Value (P)} = \frac{D}{k-G}$$

D = Expected dividend per share one year from now

k = Required rate of return for equity investors

G = Dividend growth rate (in perpetuity)

CAPM is the most commonly accepted method for the cost of equity calculation. Every company is able to calculate the cost of equity through this formula

$$Ke = rf + \beta\ (rm - rf)$$

2.2.2.3 Risk Free Rate

The risk-free rate represents the interest an investor would expect from an absolutely risk-free investment. However, to Damodaran (2008), "for an investment to be risk free in this environment, then, the actual returns should always be equal to the expected return." Most of the companies and investments are associated a certain level of risk, the only assets that "should" be risk free are the Government Bonds (country debt), because in most of the countries is not possible go bankrupt. So in risk free assets there is no default risk. The other requirement that Damodaran (2006) thinks it is necessary to be considered as risk free asset is that the asset should not have reinvestment risk, these are the zero coupon bonds, which do not depend on the rates that cannot be predicted.

2.2.2.4 Beta

The Beta coefficient, β, is a systematic risk measure, which represents the risk that affects all the investments. If a particular stock, for instance, has greater volatility than the general market, then it would be prudent for an investor to demand a greater return from that stock than the market return. The β of an asset, measures the market risk of that particular asset as compared to the rest of the market, and is calculated by comparing the historical return of an asset compared to the market return. A β lower than one, means that that asset is less volatile than the market. A β greater than one means that the asset is more volatile than the market.

2.2.2.5 Market Risk Premium

The Market Risk Premium (MRP) in absolute terms is the market return rate minus the risk free rate.

The required market risk premium will depend on the type of investor. Investors have different risk tolerance and investing styles. According to Markowitz portfolio theory, rational investors only accept additional risk if they expect agreater return.

There is a difference between the Equity Risk Premium and Market Risk Premium. While the first only refers to stocks, the second refers to all financial instruments. Generally Equity Risk Premium is higher than Market Risk Premium.

$$MRP = rm - rf$$

2.2.2.6 Cost of Debt

Some firms, in order to grow, meet the daily operations and built new projects, in those cases it is necessary to raise debt to finance the investments.

The cost of debt is the effective rate that the companies pay on its current debt. The cost of debt reflects not only the risk free rate but also the default risk of the company, so this rate will increase when these two inputs increase, Damodaran (2002). Typically the cost of borrowing comes up as the form of after-tax returns, because the interest expenses are deductible.

2.2.2.7 Discount Rate

As we have seen, the discount rate is the critical ingredient in the DCF valuation. Damodaran (2006) argues that errors in estimating the discount rate or mismatching of cash flows and discount rates can lead to huge errors in valuation. The discount rate should be in line with both the riskiness and the type of cash flow discounted. So, as we have seen before, if the cash flows being discounted are cash flows to equity, the appropriate discount rate is a cost of equity. In case of cash flows to the firm, should be the cost of capital.

2.2.3 Adjusted Present Value

For Luehrman (1997), the WACC has never been the best approach for handling the financial side effects, for the reasons covered before. For him, all the discount cash flows methods differ in some details, most particularly in how they treat the value created or destroyed by the financial movements as opposed to operations.

In the Adjusted Present Value (APV) approach, the firm value is calculated in four steps. The first one is equal in almost all of the different methods, which is, the preparation of the forecasted cash flows. The second is to discount the cash flows and the terminal value (see 2.2.4) at an appropriate discount rate to the present value. The third step is the assessment of the financing side effects, which are analyzed separately from the cash flows. The last but not least, is the addition of all the pieces together, the present value of the cash flows (unlevered) and the effect of the debt on the firm value.

$$\text{APV} = \text{NPV base-case} + \sum \text{PVs of financing side effects}$$

The third step is clearly what makes the biggest difference among the discounted cash flows valuation methods. In this case the company will pay debt using the unlevered cash flows. So, the company will have significant tax reductions on the interest component of these payments (Interest Tax Shields). Under the APV method, the tax savings from the deductibility of interest expense are discounted to present at a rate of return corresponding with the risk of receiving the tax benefit. However, the companies also have to take into consideration the effects of borrowing and the probability that the firm will go bankrupt, creating the costs of bankrupt. The expected costs of bankrupt include direct and indirect costs. The direct costs are usually related with legal costs and deadweight costs (related with inefficiencies), the indirect costs take into account the cost that arise from losing customers or reputation, for example. (Damodaran)

2.2.4 Terminal Value

The Discount Cash Flows methods usually forecast the cash flows for the next few years (explicit period). This period should be long enough until the company reaches a steady state, with low cash flows variations for the next years. Most of the times companies cannot estimate the cash flows forever. To account the cash flows beyond that point in time, a value is assigned to them; this value is known as the terminal value. This value has to be estimated carefully because it will comprise the firm activity for a long period of time. At this point, the firm growth rate should be stable and in line with GDP growth rate and inflation. According to Young (1999), the terminal value is the most important element in any valuation estimate and it's very difficult to get a good estimation of it.

We can calculate the Terminal Value through the following formula:

$$\text{TV} = \frac{Cash\ Flow\ (t+1)}{r-g(stable)}$$

2.2.5 Relative Valuation

The Relative Valuation is an alternative method to get the firm valuation. The value of a company is compared to the values assessed by the market for similar or comparable companies. To McKinsey&Company (2005), observing and comparing the competitors results can be very useful. They argue that in some cases, companies may change their own strategy based on the competitors results, trying to create more value and be more competitive.

If a manager's objective is to find the company precise value, one way is to identify the comparable companies and obtain the market values for them. As Damodaran (2006) suggests, comparing assets that are not exactly similar can be a big challenge. To compare the values of similar firms in the market, we need to standardize the values in some way by scaling them to a common variable. This process of standardizing can be done using a common variable, which will lead to create price multiples. Damodaran (2006) differentiate three different types of variables that can be used as common variable: earnings, book values and revenues.

Regarding the earnings multiples, the most common is the price-earnings ratio, this multiple shows the price based on the current earnings, before interest, taxes, depreciation and amortization. Actually, to get a good valuation of the company it is better to use an enterprise multiple, because it takes into account the company debt and other liabilities such as provisions. When changes occur in the capital structure, for example a company that raises equity finance and uses these funds to repay the loans, this would result in lower earnings per share but a higher P/E ratio. However the enterprise value multiple will not be affected by this change in the capital structure. A lower enterprise multiple can be indicative of undervaluation of the company. This multiple is very useful for cross border M&A situations because it ignores the distorting effects of individual countries' taxation policies.

The second variable is the book value, where the company's managers are willing to calculate the Price to Book value, which indicates how much the shareholders are paying for the net assets of the company and provide investors a way to compare the market value of the firm.

Lastly, the revenues (sales) multiple, is the multiple that is less affected by accounting choices. For equity investors, this ratio is the price/sales ratio, where the market value of equity is divided by the revenues generated by the firm. For firm value, this ratio can be modified as the enterprise value/to sales ratio, where the numerator becomes the market value of the operating assets of the firm. This kind of multiple just makes sense to use when the comparing firms that are operating in the same sector. Independently of the type of multiple, J. Liu, D. Nissim and J.Thomas (2000) found that forward-looking multiples reflect value better than historical accounting information.

Although some specialist don't consider relative valuation the best method to use, Damodaran (2002) notes that almost 90% of equity research valuations and 50% of acquisitions use multiples and comparable firms.

2.2.5.1 Comparable Firms

A comparable firm to Damodaran (2006) is a company with cash flows, growth rate, and risk similar to the firm that is being valued. Comparable firms should be in the same sector of the firm that is being valued, which can be a problem due to the fact that outside of United States, there just a few number of public firms in each sector. According to Koller et al (2010), his method is based on collecting all the companies within the same industry (by industry classification) and then narrow the list by comparing the size, the profitability, the growth profile, the return on investment and the debt profile of each company against the one being valued. It is important to refer that all of these characteristics together are more important than the industry where the company is included.

2.2.5.2 Transaction Multiples

In addition to the market multiples, the other common multiples valuation methodology is the M&A multiples or transaction multiples. M&A multiples use mergers and acquisition transactions to value the target company. In order to determine relevant transactions, we should look to transactions where the target company being acquired or merged is a peer of the company that we are considering to value.

According with Valuation University there are some important factors that should be checked to make sure that the transaction is relevant, such as, the business & industry where the peer company is integrated, the geography, the size (market cap) and time.
Furthermore, is also important to know what is the type of transaction that is being considered. For example, if the transaction that was chosen happened because of a bankruptcy, but “my” company is not in any risk of bankruptcy, it will not be relevant.

Companies can make minority or control acquisitions (more than 50% stake) in other companies. In the case of control acquisitions, companies will have some advantages that would not happen in minority stakes transactions. They will be able to define the capital structure and they can change the management team if they think that they will gain synergies with this. Usually the bidder in control transactions pays a control premium related with the expected synergies that might arise due to the control of the target.

2.3 Mergers & Acquisitions

2.3.1 M&A Background

Companies have two main ways of growing. They can grow internally, launching new products or services and increasing their sales, or they can grow merging/acquiring other companies. Merger refers to situation when companies with similar size, decide to go forward as a single company. This is known as “merger of equal”. This type of deal doesn’t happen very frequently, but on the deal terms some target acquired make as a condition to call that as a merger of equal, because sometimes the term acquisition is seen with negative connotations. Whether the purchase is considered as a merger or an acquisition could depend if the purchase is friendly or hostile and also how it is announced.

2.3.1.1 Historical Information

M&A activity is characterized in different periods by the level of business volume. Martynova and Renneboo (2008), also agree with the previous sentence, for them M&As come in "waves" and have chosen six major periods 1890–1903, 1910–1929, 1950–1973, 1981–1989, 1993–2001, and 2003–2007. In their research they show that the end of these periods coincides with a crisis or a recession.

2.3.1.2 Recent Activity

2015 was one the biggest years ever for mergers and acquisitions, almost reaching the numbers of 2007. According to IMAA (Institute for Mergers, Acquisitions and Alliances), in 2015, around the entire world, companies announced over 44000 transactions with a total volume of 4.5 trillion USD, an increase on value of 16% compared with 2014. Some of the biggest deals of 2015 were in the health care and in technology industry. Within Media and Telecommunications sector occurred the second biggest deal of the year, on May. Charter Communications, a U.S. telecoms and broadband provider, announced it would buy Time Warner Cable in a deal valued at $55 billion. The merger expanded Charter's footprint in the U.S. by 84,000 square miles, vastly increasing its customer base.

2.3.2 Synergies

There are some reasons for companies to make acquisitions, some of them are strategic movements in order to protect or increase their market share, to access new markets, or to gain access to new resources/capabilities and to diversify their portfolio. The other reasons, most of the times are potential synergies that might be created when a firm makes an acquisition.

Synergies are the additional value that is created by combining two firms, building opportunities that would not been available to the firms operating independently. That's why one of the most popular sentences in M&A is: "one plus one is equal to three".

Damodaran (2005), differentiate the synergies into two different types: operational and financial synergies.

2.3.2.1 Operational Synergies

The operational synergies are those that allow the combined firm to increase the operational income from existing assets. Damodaran (2005) explain some examples of operational synergies. They are the following: economies of scale that may arise; the greater pricing power, due to the competition reduction (when firms are operating in the same business); the combination of different functional strengths; and finally the higher growth in new or existing markets (very common in Western companies with emerging markets firms). Among these four possible types of operational synergies, I consider that the most likely to happen in the case of the PT Portugal and Media Capital deal is the combination of different functional strengths.

2.3.2.2 Financial Synergies

Financial synergies relate to the improvement in the financial part of a combined business. Damodaran (2005) also clarifies some possible scenarios. A situation that occurs very often is the combination of a company with excess cash but limited project opportunities and the other with high return projects and limited cash. This is the case of Media Capital, with good projects but limited cash. Furthermore, the debt capacity can increase, which allows the acquired company to borrow more money with better conditions. Tax benefits also may arise, either taking advantage of tax laws to write up the acquired company's assets or from the use of net operating losses to shelter income.

2.3.3 Procedures before the Acquisition

M&A deals are supposed to add value to the acquiring firm but in some occasions end up hurting the company shareholders. Before making an offer, companies should study thoroughly the integration process. To Robert Sher, the CEO of the company CEO to CEO, companies should first answer a few questions:

- Does the company have sufficient management capacity to take on the integration process?
- Is the target company culture compatible with our company culture?
- Is the deal in line with our corporate strategy?
- Can the company afford the deal price and still have a return on the investment that passes the hurdle rate?

- Along with all the business costs and risks, is this acquisition the best choice for the company?

If managers feel comfortable in those five areas, then they should proceed with the acquisition process.

The next important step is to prepare the announcement and the price offer for the deal. According to Mark Sirower (2006), managers should prepare carefully the moment of the announcement of the acquisition. The author states that negative initial reactions are persistent and indicative of negative future returns, while a positive start is no guarantee of future success. Moreover, is very tough to reverse negative start. So, the deal announcement and price offer should be strictly thought and studied.

"If a CEO is enthused about a particularly foolish acquisition, both his internal staff and his outside advisers will come up with whatever projections are needed to justify his stance." By Warren Buffett, 1997

2.3.3.1 Premium

The premium in a merger or acquisition is defined as the difference between the offer price and the market price of the target before the announcement of the transaction, Kenneth Ferris and Barbara Petitt (2013).

Kengelbach and Roos (2011) found that the average premium was 36 percent during the period between 1990 and 2010 and Mark Sirower (2006) also alerts that the price paid matters a lot and justify it with numbers, showing that the average premium paid by the companies with initial negative results is around 38.4% and only 30.7% for the positive group.

Robert G.Eccles (1999) also agrees that many failures occur, though, simply because the acquiring company paid too much for the acquisition. In his ideas, the key success in buying another company is to know the maximum price that the acquiring firm can pay and then have the discipline not to pay a "penny" more.

The paid premium, most of the times results due from the improvement on the acquired company's management, which becomes more efficient through the new management team and also the synergies resulted from the deal.

2.3.3.2 Value of Control

It is important to make the distinction between the synergy value apart from the value of control. The value of control is the value that the acquirer believes that can be created by managing the target firm more efficiently Damodaran (2005). In order to achieve the value of control is necessary to calculate first the value of the target firm, with the current management and then revalue it, assuming better management, and compare with the first estimation.

2.3.3.3 Methods of payment

After the valuation process and the deal agreement, companies have to choose how they will pay for the acquisition.

Companies have different options to do it. The most common form is through cash and common stock. Many times, companies make mixed proposals, for example 70% of common stock and 30% of cash. According to Robert Bruner, stock based deals are associated with negative returns to the buyer’s shareholders, while cash based deals are associated with positive returns. Mark L. Sirower and Sahni (2006) agrees and shows that in their studies, only 12% of the cash deals, outperformed stock deals. Some people understand that when companies announce an acquisition through shares payment, it could be taken as a sign that managers believe that the shares are overpriced.

Following Robert Bruner studies, common stock is used as a payment method either when managers are facing a friendly deal (merger), the buyer´s stock price is relatively high, the buyer ownership is not concentrated, the deals are big in size and when the buyer has lack of cash. Furthermore, the premium paid is larger when an acquisition is financed with stock rather than cash, Damodaran (2005).

2.3.4 Regulation

According to Ericsson (2014), the regulation in the media industry is very complex and will suffer big changes in a near future. With increasing of mobility and accessibility to contents via mobile phones, people expect to have the same contents while traveling as when they are at home.

The regulatory board responsible for the Media segment in Portugal is ERC (Entidade Reguladora para a Comunicação Social), that defines and implements licenses and other regulatory action. The ERC protects consumers' rights and they also promote a competitive market for communications, while also developing new technology to ensure the efficacy of the media sector. Along with the Portuguese Competition Authority, ERC, main goal is to ensure compliance with the competition rules in Portugal. The Authority has substantial independence with regard to the government and other state bodies, and so it has regulatory, supervisory disciplinary powers to, among others, decide on notifications of mergers and acquisitions. There are several cases where the Competition Authority didn't allow the deal conclusion.

3. INDUSTRY and COMPANY OVERVIEW

3.1 Media Industry

According to a dictionary definition, media refers to the "means of communication that reach large numbers of people, such as television, newspapers, magazines and radio". The media industry includes several different types of subgroups, such as publishing, radio, television, technical production, digital media and entertainment.

3.1.1 Changes in Media Industry

Media is currently undergoing a series of dramatic transformations as the traditional power structures in the industry are challenged by digital technologies.

New forms of content creation have been understood as potentially disruptive elements, with user-generated content (UGC), from podcasts to blog posts and YouTube videos creating critical mass, or going "viral", challenging the established content creation methods of large studios and television channels. Some years ago the costs of media production and distribution were much higher, creating extremely high barriers to the entry for anyone from outside this market. Today, barriers to entry are much lower, enabling users to challenge dominant culture and exposure to advertising. As a result, the overall media industry is facing a significant battle between old and new models.

The traditional media industry value chain was simple and linear as it is possible to observe in the figure below:

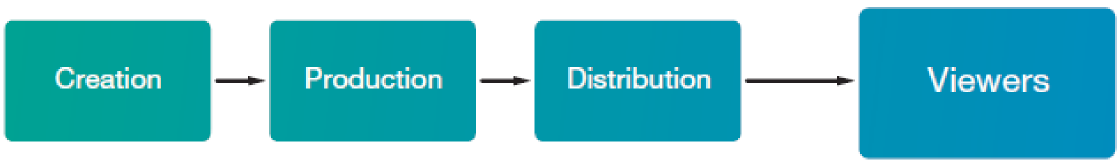


Figure 1. Traditional media industry value chain

According to the article "ICT & the Future of Media", the increased usage of ICT (Information and Communications Technology) has led to a complex process, because nowadays, producers are able to generate direct sales and creators can directly distribute their work online.

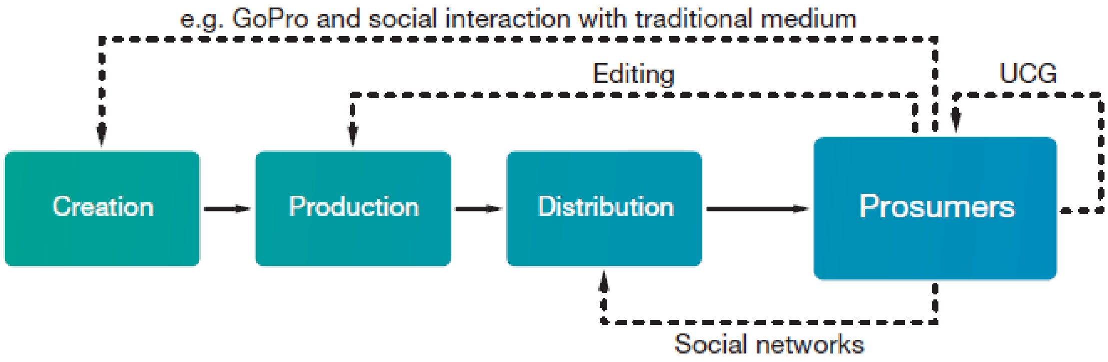


Figure 2. Actual media industry value chain

3.1.2 Advertising

Advertising remains a key element in the business models of media companies – it represents a fundamental link between private entities and consumers. With new technologies, many tools were created to avoid advertising. Consumers are able to be more selective and choose what they really want to see, being more difficult for the companies to reach their targets. Therefore, many companies have to apply a cross-media advertising, using more than one way of advertising. A study by Klausch et al. (2010) involved of 2,569 advertising campaigns in The Netherlands showed that about 40% were cross-media campaigns. Around 33% of these campaigns used two media, 17% used three and 7% used four. The remainder used more than four media.

Media economist, Robert Picard, argued in 2003 that the traditional media needed to prepare for the ‘‘gradual erosion’’ of their financial base because of new media pressures and declining advertising revenue. This is actually happening, during the last years newspaper advertising revenues decreased around 30%, and we have a clear example in Portugal, the “Diário Económico” newspaper stopped being printed, due to low revenues and now it just operates with digital format.

The traditional print, radio and television advertising that companies were used to do, are now being changed for new approaches using creative applications within a vast number of interactive media channels now available. Grupo Media is an example of this change, creating different applications that are connected with TV programs, such as Mais Futebol application, Love on Top (Reality Show) application and TVI player, which allows consumers to watch TVI channels in live stream.

3.1.3 Digital Space

Millions of consumers of digital media, entertainment and information have found their lives revolutionized by the power at their fingertips. Digital media is changing people's life, nowadays we are able to check the news everywhere and watch a TV channel in our way home. It is integrated in much of what we do, improving our productivity and facilitating how we interact and communicate. According to Magna Global study (2015), digital media advertising is expected to grow by double-digits in 2016, around 16% to $149 billion, driven by mobile advertising, video formats and social formats. Global digital advertising revenues will reach 31% market share globally in 2016, where mobile advertising accounts for 30% of total digital advertising and is expected to reach 55% in 2019. In 2014, digital media was already the first media category in 13 of the 73 markets analyzed by Magna Global, including the UK, Australia, Canada, Germany, China, Sweden and the Netherlands. This number is expected to grow to 23 in 2018. Furthermore, some studies argue that digital media will catch up television advertising in some few years.

3.1.4 M&A in the Media sector

During 2014, many deals were announced in the Entertainment, Media & Communications (EMC) sector. According to by Price Waterhouse Coopers (PwC), this shows that M&A in EMC will continue to be active as market participants take risks to position themselves for the future EMC marketplace, which focuses on subscriber stickiness, efficient and well optimized networks, creating and maintaining rights regarding compelling content.

In 2015, two of the biggest deals happened in the EMC sector. Altice Group acquired Cablevision for $17.7 billion and Charter Communications, a U.S. telecoms and broadband provider, announced it would buy Time Warner Cable in a deal valued at $55 billion. Both of the deals are on the cable sector.

3.1.5 Portugal Macro Overview

Below I present a table with the main characteristics of the Portuguese economy in the last two years, to have an idea of how Portugal is doing and to connect it to the deal proposed in this work.

Table 1. Portuguese economy data

Measure	2014	2015
Population (Mn)	10.4	10.4
GDP per capita (€)	16.7	17.2
GDP (€ bn)	173	179
Economic Growth (GDP, annual var. %)	0.9	1.5
Consumption (annual var. %)	2.3	2.7
Investment (annual var. %)	2.8	3.7
Retail Sales (annual var. %)	1.1	1.9
Unemployment Rate (%)	14.1	12.7

Source: http://www.focus-economics.com/countries/portugal

Advertising in Portugal

In Portugal, the television advertising market has been affected by the recent economic problems. According to a study made up by PwC on the Entertainment and Media Outlook in Portugal, the total television advertising business decreased 13% in 2009, recovered slightly in 2010 but dropped again in 2011 and 2012. The study refers 2013 as the worst year in terms of advertising in television. Since 2014 the sector is getting better and is expected to grow, in volume, 7.6% from 2014 until 2017, in total. After that the market will increase more slowly.

According with Magna Global study, advertising in general will increase 4.6% in 2016, which is a bit more than 2015 due to the big events that will happen this year, such as the European Football Cup, in France, and the Olympic Games, in Brazil.

Although the expected growth in the television advertising, this growth is limited since this activity is controlled and regulated in Portugal by ERC (Entidade Reguladora para a Comunição Social) in terms of time. Commercial channels as TVI (Media Capital main channel) are not allowed to do a daily average higher than 9 minutes per hour of advertising, and cannot exceed a maximum of 12 minutes per hour. This situation might be good to Grupo TVI because if demand increases, and offer is limited the time slots, price of advertising will increase and thus revenues may increase.

3.2 Company Profiles

3.2.1 Grupo Media Capital

Grupo Media Capital SGPS SA is a Portugal-based company and one of the biggest players in the Portuguese media industry. Grupo Media Capital was established as a publisher of print media in 1992. In the following years the company acquired a few publications, for example the “Independent”. The Group’s biggest investment occurred in 1997 with the acquisition of Rádio Comercial and Rádio Nostalgia. In 1998, the Group made a strategic investment in television broadcasting by acquiring a 30% interest in TVI. In 2001 with the acquisition of Nicolau Breyner Produções (NBP), the group consolidated their position in the television market. 2004 was an important year, with the company going public, listing the company’s shares on Euronext Lisbon. On November 2005, Grupo Prisa became the largest shareholder of Grupo Media Capital. In 2008, Media Capital acquired Plural Espanha that, along with NBP, originated Plural Entertainment, one of the major content producers in this sector in Iberia.

Media Capital Segments

Media Capital structure comprises five segments: Television, Audiovisual Production, Music and Entertainment, Radio, and Digital.

Within the Television segment, Grupo Media Capital owns TVI (“Televisão Independente”), the main TV channel in Portugal and audience leader since 2005. TVI’s offer has consistently leaded the prime time, with 50 soap opera and 17 series broadcasted over the past 11 years. Besides TVI, also TVI 24, the 24 hours news channel (cable channel, which is now in Angola, Mozambique and Cape Verde) increased its relevance amongst Portuguese consumers.

Regarding the Audiovisual Production sector, Plural Entertainment is one of the leading companies in its sector in Iberia, producing essentially drama in Portuguese language and entertainment, in Spanish.

Media Capital Radios (MCR) owns a consistent and diversified brand portfolio that reaches a wide variety of targets. In this group are included Radios such as, Rádio Comercial, M80, Cidade FM, Smooth FM and Vodafone FM, among others.

Media Capital Music and Entertainment (MCME) is the business unit for the music business. MCME activities include recording, publishing, events and artist management, being the latter operated under the brand Spot.

The Digital segment has been increasing exponentially during the last years, not only in Portugal but also all over the world. Media Capital Digital (MCD) has been investing in the last years presenting a multiplatform offer, with commercial proposals that include TV online and mobile, and investing in Maisfutebol and TVI 24's apps to tablets and mobile.

Grupo Media Capital shareholders structure is divided into 3 different parts. The biggest shareholder is Grupo Prisa, throught its subsidiary, Vertix SGPS SA, with 94.69% of the company's total capital. NCG Banco, S.A., a financial institution founded in Galicia on September 14, 2011, (as a result of Novacaixagalicia banking activity spin-off), owns 5.05% of capital structure. The remaining 0.26% is free float.

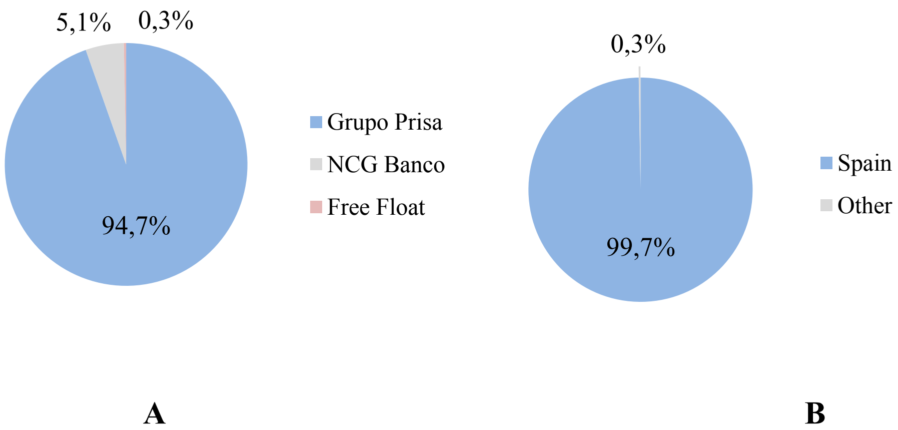


Figure 3. Grupo Media Capital shareholders structure: A - by investor type; B – by country

Consolidated Results

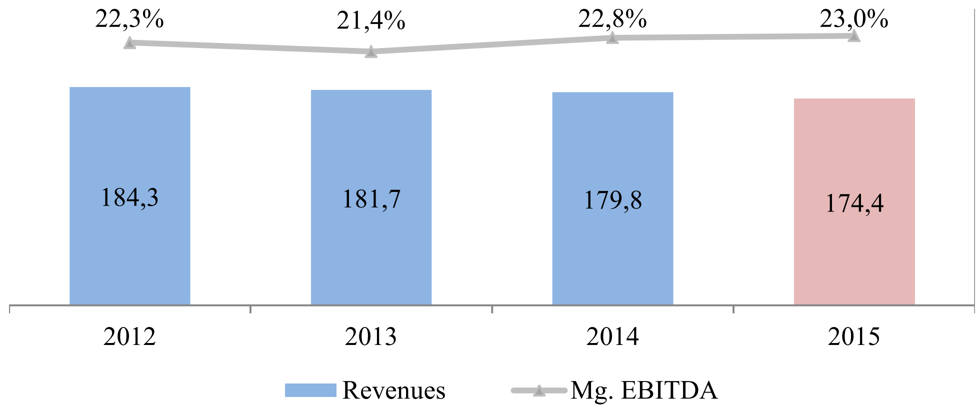


Figure 4. Grupo Media Capital Revenues (in € Mn) and Margin EBITDA.

Media Capital total revenues have been slightly decreasing since 2012, achieving a consolidated operating revenues of €174.4 million in 2015, less 3% than 2014 and less 5,4% comparing with 2012. In terms of Mg. EBITDA, the company is getting better since 2013.

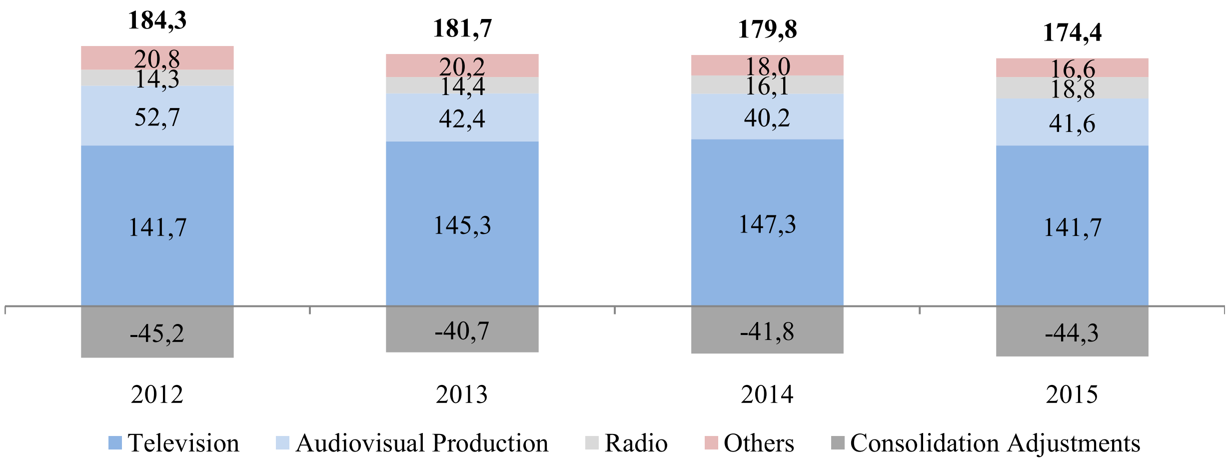


Figure 5. Grupo Media Capital Revenues Breakdown (in € Mn)

The Revenues are composed by the same two groups in each different segment: Advertising and "Others Revenues" (retransmission fees and multimedia services).

On the Television segment, in 2015, the advertising portion was 68.9% and "Other Revenues", represented the remaining 31.1%. The most significant difference from 2014 to 2015 was on the "Other Revenues" segment, which decreased 14%, mainly due to lower revenues in TV shows whose main revenues stream comes from calls.

The Audiovisual Production segment slightly increased 4% in 2015 comparing with 2014. In Portugal Operating Revenues were up due to the performance of television productions and construction/sale of sceneries, as well as the rendering of technical services. In Spain, the operating revenues decreased in 2015, as a result of a more targeted approach to make projects with more visibility and less risk.

The Radio segment had the best evolution in terms of revenues, increasing 17% from 2014 to 2015. Advertising revenues improved 9% and the "Other Revenues", improved 106%, (€1.4 million in absolute value). The combined Radio stations owned by Grupo Media Capital, registered in 2015 an average audience share of 34.7%, which compares with 33.3% in 2014.

The segment "Others", that includes the Digital and Music and Entertainment, was marked by the launch of the TVI Player, a free app for all type of smartphones and tablets that allows the viewers to assist TVI´s channels in live stream. The Revenues in these areas dropped 8% comparing with 2014.

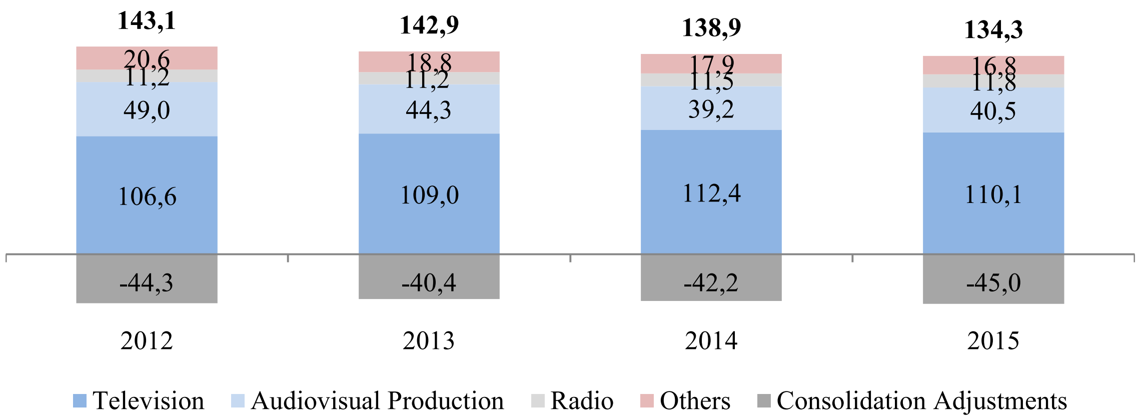


Figure 6. Grupo Media Capital Operating Costs Breakdown (in € Mn)

Regarding the Operating Costs, Grupo Media Capital divides it into three main groups: 1) Cost of programs broadcasted and goods sold; 2) subcontracts and third party suppliers; 3) payroll expenses. The Operating Costs has been decreasing since 2012. On the graph we are able to observe that Grupo Media Capital reduced the Opex on the Television segment in 2015, which goes in line with the reduction on the revenues. On the remaining three segments, the difference was the reduction on the Digital, included in “Others”, of 6%. This reduction, in general, was due to the decrease on the cost of programs broadcasted and goods sold and on the payroll expenses.

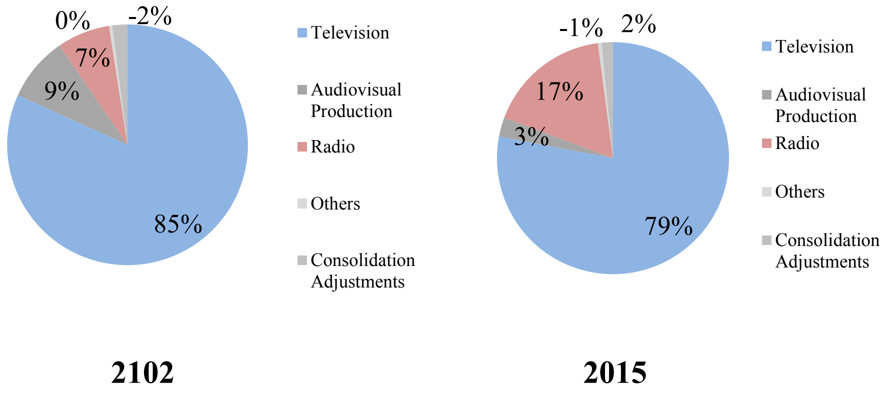


Figure 7. Grupo Media Capital EBITDA contribution per segment (in € Mn)

Since 2012 the EBITDA contribution of each segment has been changing. In 2012 the Television and Audiovisual Production together were representing around 94% of the total EBITDA. However, in 2015 the sum of these segments reduced to 82%. The Radio segment increased from 7% to 17%, while “Others”, which include the Digital and Music/Entertainment, is gaining space, increasing from a negative EBITDA to 2% of the Total EBITDA.

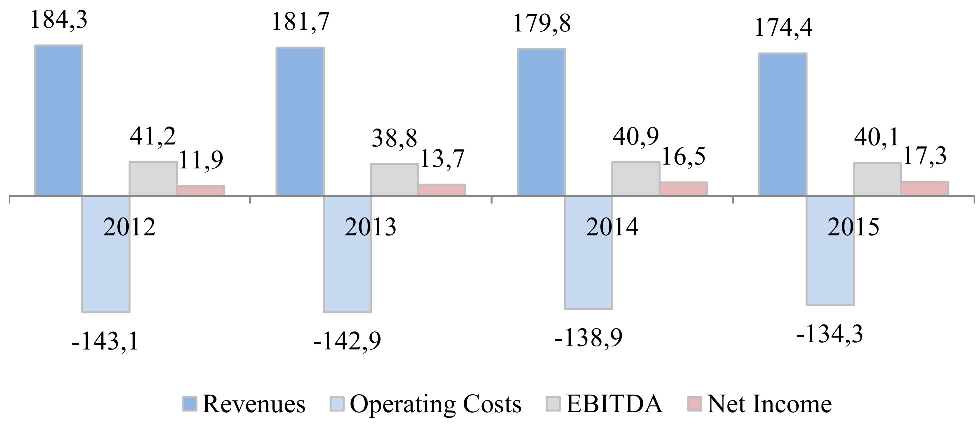


Figure 8. Grupo Media Capital Key Financial Indicators (in € Mn)

In 2015 the company was able to continue with positive results, increasing once again the Net income by 5% to €17.3 million. It’s also clear to observe that since 2012 the company has been increasing their Net Income, totalizing an increase of 45% during the last four years. Since the EBITDA had not change significantly, the Net Income growth is explained by the reduction of 20% on Depreciation and Amortization since 2012 until 2015 and by the reduction on the financial expenses.

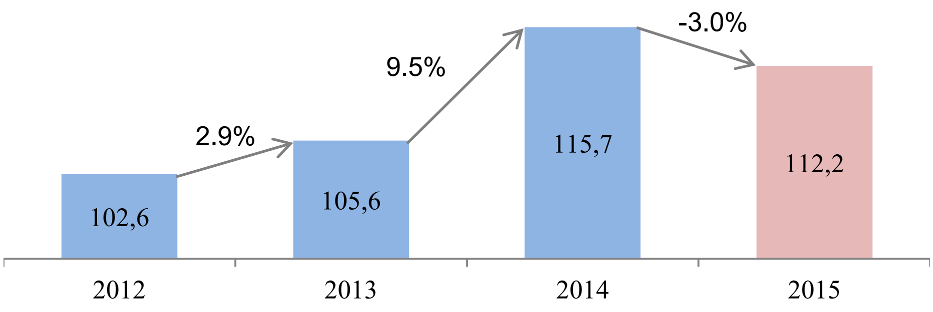


Figure 9. Grupo Media Capital Net Debt (in € Mn)

Grupo Media Capital, despite the investment on the digital area, has managed to reduce the Net Debt by 3%, after an increase of 9.5% in 2014.

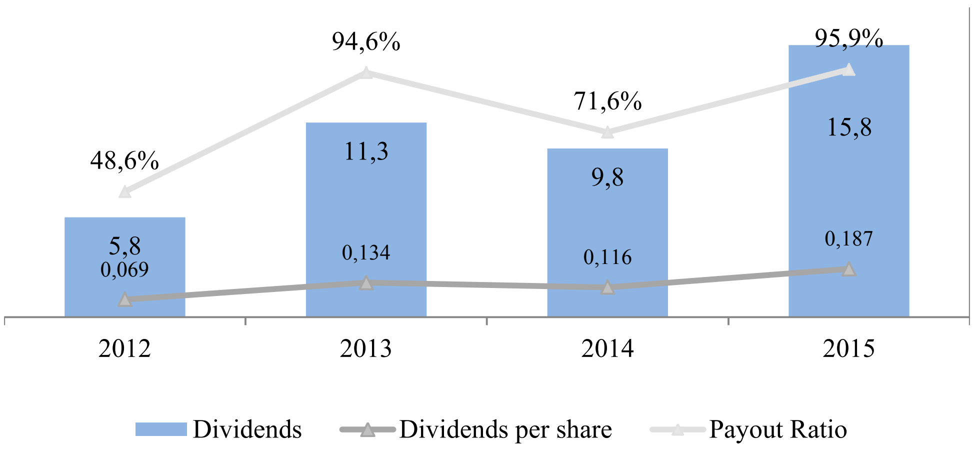


Figure 10. Grupo Media Capital Dividends in (€ Mn)

During the last four years, the dividend per share has been changing a lot, increasing 172% comparing with 2012. The number of shares didn't change in the last years, the company maintain 84 513 180 shares. In 2016, Grupo Media Capital will increase the dividend per share to €0.19 per share. This decision was announced on March 18, 2016, to CMVM. This dividend will represent a payout ratio of 92.8%, corresponding to a total amount €16 million. This payout is close with the previous year, 95.9%.

3.2.2 Grupo Prisa

Being Grupo Prisa the major shareholder of Grupo Media Capital with 94.69%, it is also important to clarify some key information of this company.

Besides Spain and Portugal, Grupo Prisa also operates in Latin American countries.

Grupo Prisa is listed on the Madrid Stock Exchange. The company business activities are organized into the following segments: Education, Radio, Press and Audiovisual. Its Digital activity operates across all of these areas and supports this structure.

The total revenues of the Group come from the different segments where the firm is operating.

- Education, which includes primarily the sale of educational books and education materials
- The Radio main source of revenue is the broadcasting of advertising.
- Press, encompasses the activities relating to the sale of newspapers and magazines, advertising, promotions and printing.
- Audiovisual, obtains revenue mainly from the broadcasting of advertising and audiovisual production

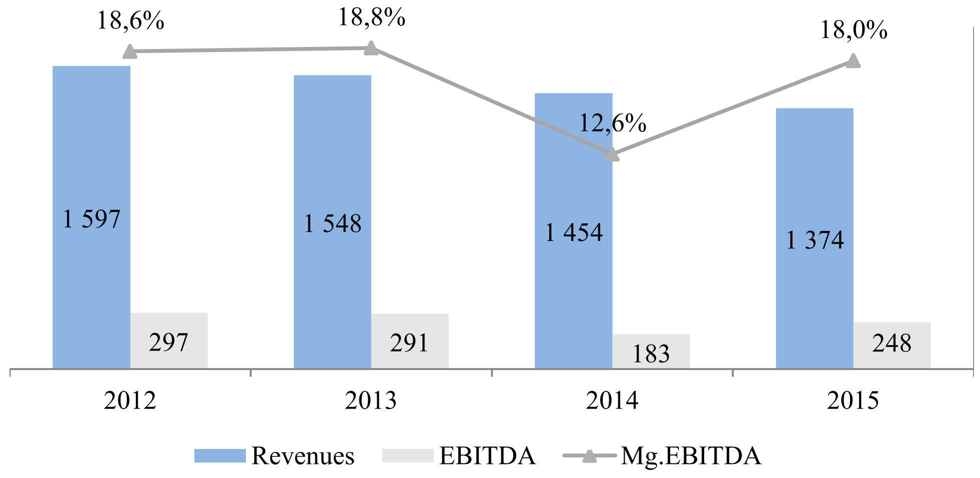


Figure 11. Grupo Prisa Revenues, EBITDA and Mg. EBITDA (in € Mn)

There are some topics to highlight regarding Group Prisa's Revenues. On the Education segment, the revenues decreased slightly (1.4%) and at the same time the operating expenses were reduced 4.8%. Santillana, Prisa's education business, maintains a leading position in practically all countries where it operates. On the Radio business, the revenues increased 2.4%, while the operating expenses were more less the same. The press business suffered a reduction of 5.4% comparing with 2014 and the Opex decreased 9.2%. The digital transformation revenues increased by 20.7% and reached €193.5 million.

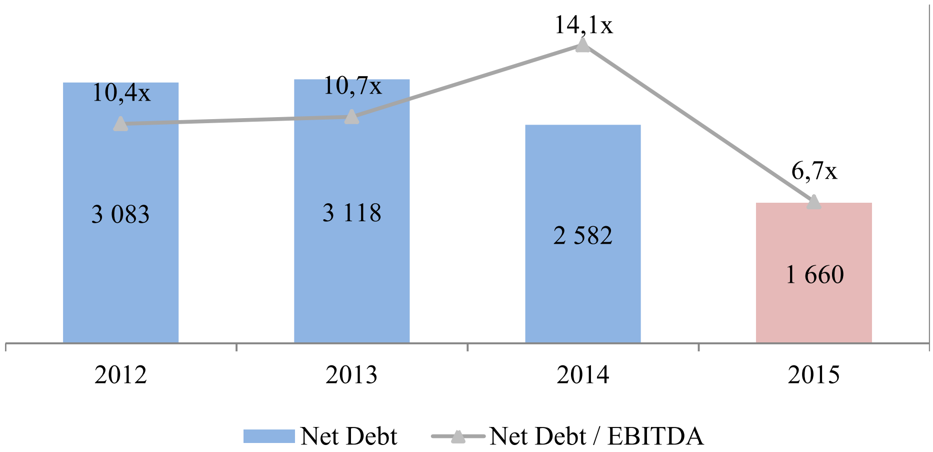


Figure 12. Grupo Prisa Net Debt (in € Mn) and Net Debt to EBITDA

As it can be seen, Grupo Prisa has been facing high leverage, with their Net Financial Debt reaching a maximum of 14.1x the EBITDA in 2014. The company is trying to reduce this leverage level selling a few assets, like DTS (Distribuidora de Televisión Digital, S.A.) or a minority stake of Mediaset España. The company also signed an agreement to refinance the debt with an extension of the maturity and reduction of debt (fully detailed in annexes).

Grupo Prisa finished last year (2015) with 1 660 million euros of Net Debt, which represents 6.7x EBITDA. This value characterizes a big decrease comparing with 2014, with 2 582 million euros of Net Debt, but is still too high comparing with their peer group. Which has an average Net Debt/EBITDA of 2.68x (available in annexes), which means that the company will probably need to sell more assets.

3.2.3 Altice Group

Altice Group is a multinational company with presence in more than one sector. Nowadays Altice operates in four different segments, which are cable, fiber, telecommunications and contents/media. As a multinational, the company has presence in four major regions – Western Europe (comprising France, Belgium, Luxembourg, Portugal and Switzerland), the United States, Israel and the Overseas Territories (currently comprising the French Caribbean and the Indian Ocean regions and the Dominican Republic).

On January 31, 2014, Altice Group celebrated the Initial Public Offering (IPO) on Euronext Amsterdam. The company issued new shares and existing shares shareholders also sold shares, representing altogether a listing of about 25% of the company.

During the last two years Altice Group was involved in several acquisitions deals. The company entered into United States in May 2015, buying St. Louis-based cable group called Suddenlink for $9.1 billion. On September, the company made a major move into the U.S. market buying Cablevision Systems for $17.7 billion, including debt. Together both operators represent the 4th largest cable operation in the US market. In Portugal, at the beginning of December 2014, the company acquired in a €7.4 billion deal the Portuguese assets of Portugal Telecom from Brazil's Oi.

Regarding the Media industry, Group Altice signed an agreement with NextRadioTV, a multimedia company, on July 2015, by €607 million. The company has acquired know-how and expertise in managing innovative audiovisual projects. Altice also owns some assets on the media sector such as France's L' Express magazine and Liberation newspaper, and Israeli news channel i24 News.

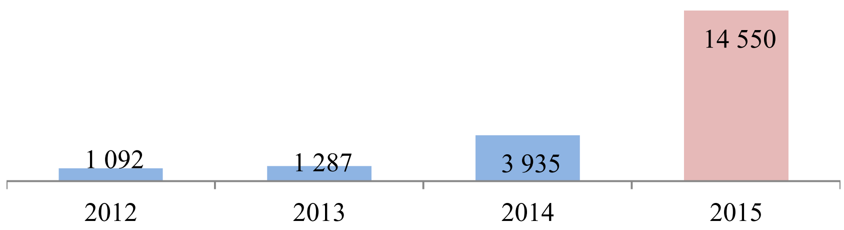


Figure 13. Altice Group Revenues (in € Mn)

The big difference recognized from 2014 to 2015 is due to the acquisitions that Altice Group did at the end of 2014 and during 2015.

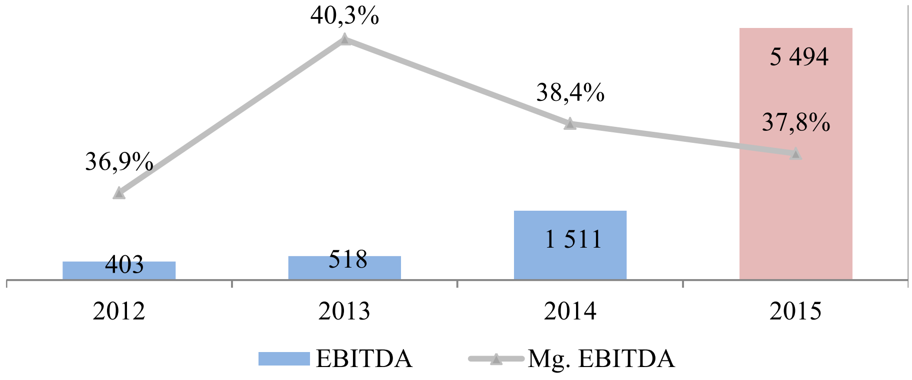


Figure 14. Altice Group EBITDA and Mg. EBITDA (in € Mn)

The margin EBITDA has been decreasing since 2013 and the reason is that the companies that Altice Group bought during the latter years, had margins lower than the margin EBITDA that were being practiced by Altice until 2013.

3.2.4 PT Portugal

PT Portugal Shareholding Management Company PLC ("PT Portugal") is a global telecommunications and multimedia operator based in Portugal. The company's activities extend across all telecommunications segments: Television, where offers content transmission through different platforms; Telephone, Mobile and Internet. In the Portuguese market, PT Portugal is a client oriented company, focused on innovation and execution to meet the needs of the digital consumer. Its history is in Figure 15. On figure 16 the main competitors is depicted.

PT Portugal is divided into 3 major brands:

- MEO: Voice service provider also offering television and internet services, using a disruptive technological infrastructure: fiber optics;
- PT Empresas: Technological and Telco solutions especially designed to Small and Medium Enterprises, large corporations and public institutions;
- SAPO: Online portal which gathers news, shopping services, job opportunities, blogs, weather reports, etc.

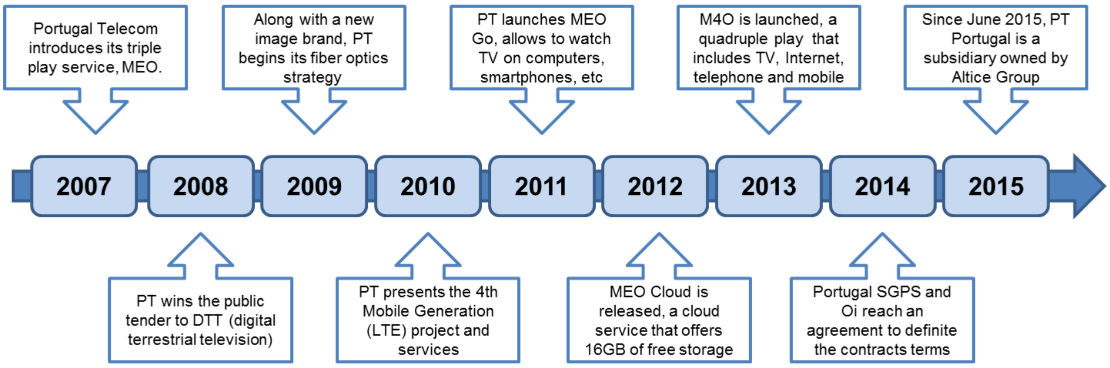


Figure 15. PT Portugal Recent History

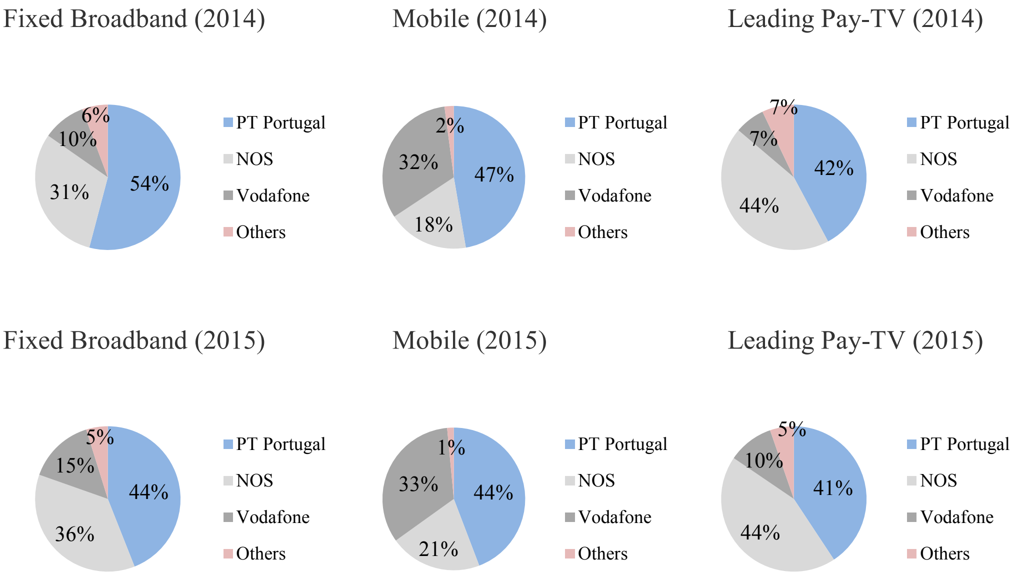


Figure 16. PT Portugal Competition

PT Portugal major competitors are NOS, which results from the merger between the telecommunications company, Optimus, and the internet and cable television provider, Zon.

The other competitor is the UK telecommunication company Vodafone, which entered on the Television segment in July 2009 with Vodafone Casa TV.

PT Portugal through MEO, was the market leader on the fixed broadband segment with 44% in 2015 comparing with 54% in 2014, and in the Mobile sector with 44% in 2015 (less 3% than 2014). Regarding the Pay-TV segment the market leader at the end of 2015 was NOS with 44%, followed by PT Portugal with 41%. Source: Anacom (Autoridade Nacional das Comunicações)

One of the strategies that Altice applies right after making the acquisitions is involving these companies into a strong "cost optimization cost", and PT Portugal was not an exception.

Since Altice Group bought PT Portugal, the following categories of costs were reduced by the amounts showed on the following table.

Figure 17. Cost reductions in PT Portugal

3.3 Deal Rationale

Grupo Media Capital and PT Portugal operate in different segments. Grupo Media Capital is the Portuguese market leader in the segment of television (through TVI) for the 11th consecutive year. This is a result of the very strong position on the content production, with very successful programs.

PT Portugal is a content distribution company and through MEO supplies TV programs contents. With this deal, PT Portugal, would not have to pay to TVI (and other content production companies) in order to distribute their programs. Furthermore, it would be able to allocate most of their TV advertising on TVI, reducing drastically their adverting expenses. It would also be able to advertise on Grupo Media Capital Radio stations.

For the Grupo Media Capital major shareholder, Group Prisa, this deal would make sense, regarding the current disinvestments to reduce their high leverage level. Grupo Media Capital sale would improve their financial position and would satisfy the company shareholders (Amber Capital and Armada Capital) that are making some pressure for company to find a sustainable level of debt.

Furthermore, in 2015, Grupo Media Capital proposed to pay a dividend per share of €0.0975, correspondent to 50% of the net income (2014) but Group Prisa didn't agree. The value was changed to a dividend per share of €0.1872, corresponding to 95.9% of the net income relative to 2014. The same situation happened again in 2016, relative to 2015 results. Grupo Media Capital first offer was €0.11 per share, but this value was not accepted, so the company will pay a dividend of €0.19 per share, correspondent to 92.8% the net income.

Taking into account the previous paragraph, it could be interpreted that Group Prisa is not worried about the investment in Grupo Media Capital for the next years. At this moment, Group Prisa shareholders are giving more importance to receive a higher amount of cash than to invest in the company for the future years. This goes in line the idea to sell the company.

Recently one of Group Prisa shareholders said: "*Media Capital should be sold in the near future. A sale would leave the company with reasonably sustainable debt.*"

Grupo Media Capital only represents 17% of the Group Prisa EBITDA, and will represent even lower in the next years due to the consolidation of their business in Spain.

On the Altice side, everything is clear. After buying the Portuguese company PT Portugal, the Group has been interested to enter in the media sector in Portugal. After the acquisition of NextRadioTV, Patrick Drahi, Altice Chairman said:

"The development and expansion into media and content in the countries where we are present brings an additional growth driver to Altice and offers attractive synergies with our telecom activities. This will allow us to offer the best content to our customers who already benefit from the best fiber-based fixed networks and 4G+ mobile networks."

Moreover, on January 20, 2016, the Chairman, while was visiting Altice's new innovation center in Aveiro, said that the chief of his television business was visiting Portugal as well and the plan was to invest in contents and media in Portugal.

Altice Group is committed to get good results in Portugal and believes that Portugal is the perfect place to invest. We are able to verify this situation with the recent investments that PT Portugal did in the first quarter of 2016, where 35% of this investment was made in Television contents and Television channels. PT Portugal invested in the exclusive distribution of channels like Porto Canal, TVI Ficção, MCS LifeStyle and Abola TV. These investments go in line with Grupo Media Capital acquisition.

4. STANDALONE VALUATION

On this chapter, the standalone valuation of both companies, Grupo Media Capital and PT Portugal, will be determined.

4.1 Grupo Media Capital Valuation

Grupo Media Capital valuation was made using three different approaches. In the first one, I discounted the future cash flows by the weighted cost of capital and in the two others, I applied the Multiples Valuation (Market and Transaction Multiples).

In order to calculate the projections for the next 5 years, since the company doesn't make any estimates for the future, I took into considerations the last four years of operation (2012, 2013, 2014, and 2015), trying to get a clearer view of the company evolution.

Table 2. Grupo Media Capital. P&L Statement main lines

Summary (€ Mn.)	**2012**	**2013**	**2014**	**2015**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**
Revenues	184	182	180	174	178	181	184	188	191
Operating Costs	(143)	(143)	(143)	(143)	(143)	(143)	(143)	(143)	(143)
EBITDA	41,2	38,8	40,9	40,1	39,2	39,9	40,1	40,3	41,1
Mg. EBITDA	*22%*	*21%*	*23%*	*23%*	*22%*	*22%*	*22%*	*22%*	*22%*
D&A	(11,5)	(11,5)	(11,5)	(11,5)	(11,5)	(11,5)	(11,5)	(11,5)	(11,5)
EBIT	29,7	29,7	29,7	29,7	29,7	29,7	29,7	29,7	29,7
Mg. EBIT	*16%*	*16%*	*18%*	*18%*	*17%*	*17%*	*17%*	*17%*	*17%*

4.1.1 Projections

The Revenues estimates were divided by the two types of revenues, Advertising and Other Revenues. Advertising estimates were also divided into the 4 different segments (Television, Audiovisual Production, Radio, Others), while "Other Revenues", although they are also divided in the same 4 segments, I will treat them all together, without any separation. These two segments (Advertising and Other Revenues) had different evolutions in last years and that's why I'm doing this distinction.

Regarding the Advertising Revenues, the television segment results increased in the last 2 years and are expected to continue increasing slowly, as I said before on the Industry Overview.

Radio is the segment with best results recently, the company expects to outperform the market and gain market share. Therefore I will assume that the revenues will continue increasing in the next years.

On the “Others” segment, which includes the important Digital area, the company is making an effort to improve the quality and audience of its network of sites and I considered that this segment will become stable, with small growth in the next years.

Looking to the “Other Revenues”, the two most important issues are the Audiovisual Production segment and the revenues from the television calls (television segment). The Audiovisual Production segment, after some years with negative evolution, got a positive growth in 2015. I will assume that it will continue to increase slightly in the next years.

The revenues from the calls have been going down in the last years and are expected to decrease even more in the next years. In the first quarter of 2016, the revenues from calls decreased comparing with the same period of the previous year.

Regarding the Operational Costs, such as, costs of programs and goods sold, FSE and personnel expenses were treated all together and not by segment. The company does not allocate the costs per segment. The future costs were calculated as a % of the total revenues of each year. For example, the last four years average of cost of goods sold average was around 12%, I considered that the company will meet this % in the next years. The same approach was applied for the other types of costs, doing an average and then meeting this average in the futures years.

Table 3. Grupo Media Capital P&L Projections (in € Mn.)

P&L - Key elements (€ Mn.)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Advertising Revenues	111	103	114	117	121	124	127	129	132
Television	95	86	96	98	100	103	106	108	110
Audiovisual Production	0	0	0	0	0	0	0	0	0
Radio	13	13	15	16	17	18	18	18	19
Others	3,2	3,2	3,4	3,1	3,2	3,3	3,3	3,4	3,5
Other operating revenue	118	119	107	102	102	102	103	105	107
Consolidation Adjustments	(45)	(41)	(42)	(44)	(45)	(45)	(46)	(47)	(48)
Total operating revenue	184	182	180	174	178	181	184	188	191
Cost of programms broadcasted and goods sold	(22)	(26)	(24)	(18)	(19)	(20)	(21)	(23)	(23)
Subcontrats and third party supplies (FSE)	(68)	(67)	(66)	(70)	(70)	(71)	(71)	(71)	(73)
Personel expenses	(53)	(50)	(46)	(43)	(46)	(47)	(48)	(50)	(51)
Provisions and impariment losses	1	1	(1)	(1)	(2)	(2)	(2)	(2)	(2)
Other operating expenses	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
Total Operating Expenses	(143)	(143)	(139)	(134)	(139)	(142)	(144)	(147)	(150)
EBITDA	41,2	38,8	40,9	40,1	39,2	39,9	40,1	40,3	41,1
D&A	(11,5)	(9,4)	(8,5)	(9,2)	(8,9)	(9,1)	(9,2)	(9,4)	(9,6)
EBIT	29,7	29,4	32,4	31,0	30,3	30,8	30,9	30,9	31,5

In the table 4 below we are able to see the main drivers for the projections:

Table 4. Main drivers for the P&L projections

P&L - Assumptions	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Advertising Revenues (Annual Growth Rate)	n.a.	-7%	11%	2%	3,2%	3,3%	2%	2%	2%
Television	n.a.	-9%	11%	1%	3%	3%	2%	2%	2%
Audiovisual Production	n.a.	n.a.	n.a.	n.a.	0%	0%	0%	0%	0%
Radio	n.a.	0%	9%	9%	5%	5%	2%	2%	2%
Others	n.a.	-1%	8%	-8%	2%	2%	2%	2%	2%
Other operating revenue (Annual Growth Rate)	n.a.	1%	-10%	-5%	0%	0%	1%	2%	2%
Consolidation Adjustments (% of Total Revenues)	-20%	-18%	-19%	-20%	-20%	-20%	-20%	-20%	-20%
Total operating revenue (Annual Growth Rate)	n.a.	-1%	-1%	-3%	2%	2%	1%	2%	2%
Cost of programms broadcasted and goods sold	-12%	-14%	-13%	-10%	-11%	-11%	-12%	-12%	-12%
Subcontrats and third party supplies (FSE)	-37%	-37%	-37%	-40%	-40%	-39%	-39%	-38%	-38%
Personel expenses	-29%	-28%	-26%	-25%	-26%	-26%	-26%	-27%	-27%
Provisions and impariment losses	0%	0%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Other operating expenses	0%	0%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Total Operating Expenses (% of Total Revenues)	-78%	-79%	-77%	-77%	-78%	-78%	-78%	-79%	-79%
Margin EBITDA (% of Total Revenues)	22%	21%	23%	23%	22%	22%	22%	22%	22%
D&A (% of Total Revenues)	-6%	-5%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Margin EBIT (% of Total Revenues)	16%	16%	18%	18%	17%	17%	17%	17%	17%
Effective Tax Rate	-40%	-34%	-34%	-31%	-33%	-33%	-33%	-33%	-33%

Capital Expenditures

In order to make the projections I found what the percentage of Capex on the total sales was for each year and then I did an average of the last 3 years and used it for the first year of projections. The % of sales of the first year of projections will be the same for the remaining years.

Table 5. Grupo Media Capital Capex

Capex (€ Mn.)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Capital Expenditures	4,2	4,3	5,2	5,5	5,2	5,3	5,3	5,4	5,5
% of Total Revenues	2,3%	2,4%	2,9%	3,2%	2,9%	2,9%	2,9%	2,9%	2,9%

Working Capital

To calculate the previous years Working Capital I subtracted the current assets by the current liabilities. The projections were achieved calculating the average collection period (nº of days) and the average payment period (nº of days) for the previous years. When the number of days was fluctuating too much in the last years, I did an average of the last 4 years and when the number of days was stable in the last years, I assumed the number of days of the last year would be maintained for the projections period.

To clarify the process, I will give an example. On the transmission rights and TV programs, I calculated the number of days, dividing the value on the current assets by the Television revenues and then multiplying by 365 days. For the estimated years I did on the other way around, I divided the Television revenues by 365 and then multiply by the number of days projected for that year.

Table 6. Grupo Media Capital Working Capital

Working Capital (Number of Days)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Transmission rights and TV programs	76	83	83	75	79	79	79	79	79
Days of Accounts Receivable	81	85	85	83	83	83	83	83	83
Days of Other Accounts Receivable	29	22	25	17	23	23	23	23	23
Days of Accounts Payables	214	179	173	161	182	182	182	182	182
Days of Other Accounts Payables	98	84	56	57	57	57	57	57	57

Working Capital (€ Mn.)	2012	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Current Assets									
Transmission rights and TV programs	30	33	34	29	31	32	32	33	34
Trade and other accounts receivable	41	42	42	40	41	42	42	43	44
Other receivable accounts	15	11	12	8	11	12	12	12	12
% of Total Revenues	46%	47%	49%	44%	47%	47%	47%	47%	47%
Current Liabilities									
Trade and other payables	53	45	42	39	44	45	46	47	48
Other payable accounts	49	42	28	27	28	28	29	29	30
% of Total Revenues	56%	48%	39%	38%	41%	41%	41%	41%	41%
Working Capital	(17,3)	(1,1)	17,8	11,3	11,3	11,5	11,7	11,9	12,2
Change in WC		(16,1)	(19,0)	6,5	(0,0)	(0,2)	(0,2)	(0,2)	(0,3)

4.1.2 Free Cash Flows to the Firm

It was also necessary to estimate the terminal value cash flow, therefore the following assumptions were considered:

- The growth rate will be 1.8%. I will apply it for the revenues and operational costs;
- The depreciation and amortization will consider the same % of revenues of the previous year;
- Capex will represent the same % of revenues of the previous year;
- The Working Capital will maintain the same % of revenues of the previous year

The perpetuity growth rate will be 1.8%, the same as the Portuguese GDP for the next years.

Below in Table 7 the Free Cash Flows to the Firm estimation is presented.

Table 7. Grupo Media Capital Free Cash Flows to the Firm estimation

Cash Flows (€ Mn.)	2016E	2017E	2018E	2019E	2020E	Terminal Value
EBIT	30,3	30,8	30,9	30,9	31,5	32,1
(-) Tax on EBIT	(7,3)	(7,6)	(7,7)	(7,7)	(7,7)	(7,8)
(+) D&A	8,9	9,1	9,2	9,4	9,6	9,7
(-) Capex	(5,2)	(5,3)	(5,3)	(5,4)	(5,5)	(5,6)
(+) change in WC	(0,0)	(0,2)	(0,2)	(0,2)	(0,3)	(0,2)
Free Cash Flow to Firm (FCFF)	26,6	26,9	26,9	27,0	27,6	28,1

4.1.3 Weighted Average Cost of Capital

The Cost of Equity was calculated using the CAPM formula.

- Rf – Average of the last three month (March, April and May) Portuguese 10 year government bonds yield
- Market Risk Premium – 7.93%, the Equity risk premium for the Western countries according with Professor Aswath Damodaran
- Beta – I extracted the equity beta (leverage) for each company of the peer group and then I transformed them in the asset beta (unleveraged). I calculated the average asset beta and transformed it again in the Grupo Media Capital leveraged beta, using the Group's capital structure. Calculations in annexes.

The cost of debt was calculated dividing the interests of 2015 by the average total debt of 2014 and 2015. The effective tax rate for the first year of projections is the average effective tax rate of the last three years. It will be the same for the next projected years. The Capital Structure assumed is 70% of equity and 30% of debt, which results from the average of the peer group capital structure (available in annexes).

Table 8. Grupo Media Capital WACC

WACC	**8,2%**
Risk Free	3%
Market Risk Premium	7,93%
Beta	0,90
Cost of Equity	10%
Cost of Debt	5%
Tax Rate	33%
Cost of Debt (net of taxes)	3,46%

Capital Structure	
Equity	70%
Debt	30%

4.1.4 DCF Valuation

Taking into account the previous assumptions and applying them to the calculations, the company Enterprise Value is €405.6 million and the Equity Valuation is around €293 million, or €3.47 per share.

Table 9. Group Media Capital DCF Valuation

Discounted Cash Flows (€ Mn.)	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**Terminal Value**
Cash flows to discount	26,6	26,9	26,9	27,0	27,6	441,8
Years to discount	1	2	3	4	5	5
Discount factor	92%	85%	79%	73%	68%	68%
Discounted Cash Flows	24,6	23,0	21,3	19,7	18,6	298,4

Enterprise Value (€ Mn.)	**405,6**
Net Debt	112
Equity Value	293
Number of shares (Mn.)	84,51
Value per share (€)	3,47

4.1.5 Sensitivity analysis

In order to find some possible scenarios that may occur and trying to get Grupo Media Capital price range, I built two potential scenarios. In the first one, the growth rate was changed from 0.8% to 2.8% (0.5% intervals) and the WACC, from 7.2% to 9.2% (0.5% intervals). It is clear to observe that the Enterprise Value suffered significant changes, from a minimum value of €321 million to a maximum value of €566 million. The sensitivity analysis regarding the price per share indicates that the price would range from €2.5 to €5.4 per share. In the second scenario, the Mg. EBITDA was changed from 20% to 24% (1% intervals) and the Tax rate, from 31% to 35% (1% intervals). The Enterprise value would change from €394 million to €415 million.

Table 10. Grupo Media Capital Sensitivity Analysis

		G				
		0,8%	**1,3%**	**1,8%**	**2,3%**	**2,8%**
WACC	**7,2%**	423	449	481	519	566
	7,7%	392	414	440	471	508
	8,2%	365	384	**405,6**	431	461
	8,7%	342	358	376	397	422
	9,2%	321	335	351	369	389

		G				
		0,8%	**1,3%**	**1,8%**	**2,3%**	**2,8%**
WACC	**7,2%**	3,7	4,0	4,4	4,8	5,4
	7,7%	3,3	3,6	3,9	4,2	4,7
	8,2%	3,0	3,2	**3,47**	3,8	4,1
	8,7%	2,7	2,9	3,1	3,4	3,7
	9,2%	2,5	2,6	2,8	3,0	3,3

		Margin EBITDA				
		20%	**21%**	**22%**	**23%**	**24%**
Tax Rate	**31%**	408	410	412	413	415
	32%	405	406	408	410	411
	33%	402	404	**405,6**	407	409
	34%	398	400	401	403	404
	35%	394	396	398	399	401

4.1.6 Relative Valuation

Besides the Discounted Cash Flow valuation, I was able to calculate the Company value using the Market and Transaction Multiples.

4.1.6.1 Market Multiples Valuation

Regarding the Market Multiples Valuation, I worked with Grupo Media Capital peer group, available in annexes, constituted by companies operating in the same market and with more or less the same size and dimension. The peer group includes six companies from different countries but all from Europe (United Kingdom, Italy, France and Portugal). I considered the following multiples: EV/Revenues and EV/EBITDA.

Table 11. Grupo Media Capital Market Multiples Valuation

Market Multiples (2015)	**EV/Revenues**	**EV/EBITDA**
Average	2,5	11,3
Median	1,8	11,8
Average of median and average	2,2	11,5

Grupo Media Capital (2015)	**Revenues**	**EBITDA**
(€ Mn.)	174,4	40,1
EV based on average multiple (€ Mn.)	380	463
Net Debt (€ Mn.)	112	112
Equity Value (€ Mn.)	268	351
Nº of Shares (Mn.)	85	85
Value per Share (€)	3,2	4,2

Applying the Market Multiples approach, Grupo Media Capital value per share will range from 3.2€ (EV/Revenues Multiple) to 4.2€ (EV/EBITDA Multiple).

4.1.6.2 Transaction Multiples Valuation

Considering the Transaction Multiples Valuation, I analyzed mergers and acquisitions transactions between companies similar to Grupo Media Capital. I took a list of 20 transactions from the last 10 years (available able in annexes). First I will consider the full data for the calculation, and further I will consider only transactions where the bidder took control of the target company (more than 50%), which is the case that will happen with PT Portugal acquisition. I considered the following multiples: EV/Revenues and EV/EBITDA.

Table 12. Grupo Media Capital Transaction Multiples Valuation

Transaction Multiples	**EV/Revenues**	**EV/EBITDA**
Average	2,8	11,7
Median	2,7	11,8
Average of median and average	2,8	11,8
Grupo Media Capital (2015)	**Revenues**	**EBITDA**
(€ Mn.)	174,4	40,1
EV based on average multiple (€ Mn.)	483	472
Net Debt (€ Mn.)	112	112
Equity Value (€ Mn.)	370	360
Nº of Shares (Mn.)	85	85
Value per Share (€)	4,4	4,3

Applying the Transaction Multiples approach with full data, Grupo Media Capital value per share will range from 4.3€ (EV/EBITDA Multiple) to 4.4€ (EV/Revenues Multiple).

Taking into account only the control acquisitions, I found the results shown in table 12.

Table 13. Grupo Media Capital Transaction Multiples (Control) Valuation

Transaction Multiples (Target Control)	**EV/Revenues**	**EV/EBITDA**
Average	3,1	12,7
Median	3,1	13,0
Average of median and average	3,1	12,9
Grupo Media Capital (2015)	**Revenues**	**EBITDA**
(€ Mn.)	174,4	40,1
EV based on average multiple (€ Mn.)	544	517
Net Debt (€ Mn.)	112	112
Equity Value (€ Mn.)	432	404
Nº of Shares (Mn.)	85	85
Value per Share (€)	5,1	4,8

As it was expected, the Multiples are higher if we consider only the transactions that take into account situations of control, because companies are willing to pay more due to the possible synergies that may arise (explained in the Literature Review). Grupo Media Capital value per share will range from 4.8€ (EV/EBITDA Multiple) to 5.1€ (EV/Revenues Multiple).

4.1.7 Grupo Media Capital Valuation Summary

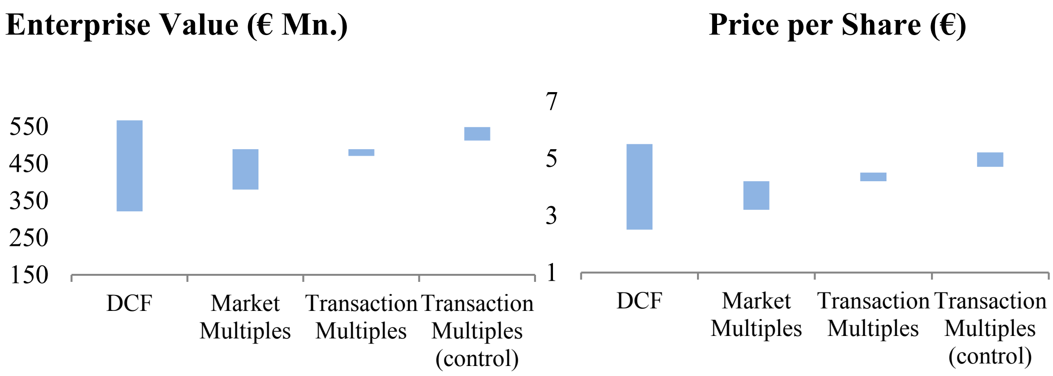


Figure 18. Summary of Group Media Capital Valuation

In the graphs above we are able to observe a summary of the three valuation methods applied to the calculation of Grupo Media Capital.

4.2 PT Portugal Valuation

Since PT Portugal is a non-listed company, it was not easy to access their information. All the information used in PT Portugal valuation was taken from Altice Group annual report 2015. It was not possible to find much financial information before 2015.

In order to calculate PT Portugal value, I applied the DCF valuation and the Market Multiples valuation.

4.2.1 Projections

Starting with the Revenues, they were divided in three different segments, Fixed-based services, Mobile-based Services and Others. From 2014 to 2015, PT Portugal/MEO market share decreased in all segments, as I show in the Company Overview. This reduction was either due to the strong marketing program applied by NOS and due to Vodafone market penetration, practicing very competitive prices. Regarding this situation I assumed that the revenues will decrease in the three segments in the next two years and after that period will become stable. The trend of revenue slight decreases was confirmed in the first quarter of 2016. This scenario is explained by Altice Group, who said in the 2015 Annual Report*: "We also believe that the implementation of a cost savings project will reduce the price units for our customers".* So, after these initial years trying to reduce the costs, the company will be able to offer better prices and consequently an increase in the revenues will happen.

The Operational Costs follow a strategy designed by Altice. Their goal is to reduce it to €800 million, with a particular cost structure constituted by 50% of Personnel and G&A, 20% of Network Operations, 10% of Customer Service, 15% of Sales & Marketing and 5% of Taxes. For the next years projections I will assume a reduction in the Operational Costs to around €800 million and after the company achieve this goal, the operational costs will stabilize. This is the target Opex that Altice Group presented at the moment of PT Portugal acquisition.

Table 14. PT Portugal P&L Projections

P&L - Key elements (€ Mn.)	2015	2016E	2017E	2018E	2019E	2020E
Fixed-based Services	955	936	926	926	936	945
Mobile-based Services	469	459	455	455	459	464
Other	73	71	70	70	71	72
Total Revenues	1496	1466	1452	1452	1466	1481
Operating Expenses	(858)	(832)	(807)	(807)	(815)	(823)
EBITDA	639	635	645	645	651	658
Mg. EBITDA	*43%*	*43%*	*44%*	*44%*	*44%*	*44%*
D&A	(462)	(453)	(448)	(448)	(453)	(457)
Other Adjustments	(53)	(52)	(51)	(51)	(52)	(52)
EBIT	124	130	145	145	147	148
Mg. EBIT	*8%*	*9%*	*10%*	*10%*	*10%*	*10%*

Table 15. PT Portugal P&L Projections Main Drivers

P&L - Key elements	2015	2016E	2017E	2018E	2019E	2020E
Fixed-based Services	n.a.	-2%	-1%	0%	1%	1%
Mobile-based Services	n.a.	-2%	-1%	0%	1%	1%
Other	n.a.	-2%	-1%	0%	1%	1%
Total Revenues (% growth)	n.a.	-2%	-1%	0%	1%	1%
Operating Expenses	n.a.	-3%	-3%	0%	1%	1%
Margin EBITDA (% of Total Revenues)	43%	43%	44%	44%	44%	44%
D&A (% of Total Revenues)	31%	31%	31%	31%	31%	31%
Other Adjustments (% of Total Revenues)	4%	4%	4%	4%	4%	4%
Margin EBIT (% of Total Revenues)	8%	9%	10%	10%	10%	10%

Regarding the Capex, Altice Group provides what was the capital expenditure in the last year (2015), by country (for Portugal the figure presented was €209 million). For the forecasted period it was considered the same % of revenues as in 2015, in order to calculate the Capex in each year.

Table 16. PT Portugal Capex.

Capex (€ Mn.)	2015	2016E	2017E	2018E	2019E	2020E
Capital Expenditures	209	205	203	203	205	207
% of Total Revenues	14%	14%	14%	14%	14%	14%

To calculate the company’s Working Capital, I subtracted Altice Current Assets by the Current Liabilities and checked what the % in the total revenues was, in 2015. After that, in order to calculate PT Portugal’s working capital, I considered that its working capital would represent the same % in total revenues as the one observed in Altice. The % of revenues will always be the same across the years. I didn´t do an average of the previous years because from 2014 to 2015 the company increased their dimension substantially (due to the acquisitions) and the results would not make sense.

Table 17. Altice and PT Portugal Working Capital

Altice Working Capital	2015
Current Assets (€ Mn.)	4 539
Inventories	369
Trade and other receivables	3864
Current tax assets	305
Financial assets	2
Current Liabilities (€ Mn.)	9643
Other Financial Liabilities	1484
Trade and Other Payables	6437
Current Tax Liabilities	289
Current Provisions	378
Other Current Liabilities	1054
Working Capital (€ Mn.)	(5 104)
% of Total Altice Revenues	-35%

PT Portugal Working Capital (€ Mn.)	2015	2016E	2017E	2018E	2019E	2020E
% of Total PT Portugal Revenues	-35%	-35%	-35%	-35%	-35%	-35%
Working Capital	(525)	(514)	(509)	(509)	(514)	(519)
Investment in WC	n.a.	-10	-5	0	5	5

4.2.2 Free Cash Flows to the Firm

It was also necessary to estimate the terminal value cash flow (figure 18), where I applied the following assumptions:

- The growth rate it will be 1.8%. I will apply it for the revenues and operational costs;
- The depreciation and amortization are considered to maintain the same % of Revenues of the previous year;
- Capex maintains the same % of Revenues of the previous year;
- The Working Capital maintains the same % of Revenues of the previous year.

The perpetuity growth rate will be 1.8%, the same as the Portuguese GDP for the next years.

Table 18. PT Portugal Free Cash Flows to the Firm

Cash Flows (€ Mn.)	2016E	2017E	2018E	2019E	2020E	Terminal Value
EBIT	130	145	145	147	148	158
(-) Tax on EBIT	(36)	(41)	(41)	(41)	(42)	(44)
(+) D&A	453	448	448	453	457	466
(-) Capex	(205)	(203)	(203)	(205)	(207)	(211)
(+) change in WC	(10)	(5)	-	5	5	14
Free Cash Flow to Firm (FCFF)	331	345	350	358	362	382

4.2.3 WACC

The Cost of Equity was calculated through the CAPM formula.

- Rf – Average of the last three month (March, April and May) Portuguese 10 year government bonds yield
- Market Risk Premium – 7.93%, the Equity risk premium for the Western countries according with Professor Aswath Damodaran
- Beta – is the average of the peer group equity beta (available in the annexes)

The cost of debt was assumed to be the same as the Altice's cost of Debt, since PT Portugal is part of the Altice Group, which is 5.9%. PT Portugal's effective tax rate is not made available by Altice. Thus, the effective tax rate used was the same as the competitor NOS (28%), because it is the most similar company with PT Portugal, operates in Portugal and in exactly the same sector. The Capital Structure assumed is 61% of equity and 39% of debt, which results from the average of the peer group capital structure.

Table 19. PT Portugal WACC

WACC	**6,6%**
Risk Free	3%
Market Risk Premium	7,93%
Beta	0,64
Cost of Equity	8%
Cost of Debt	6%
Tax Rate	28%
Cost of Debt (net of taxes)	4,28%

Capital Structure	
Equity	61%
Debt	39%

4.2.4 DCF Valuation

Taking into account the previous assumptions and applying them to the calculations, the company Enterprise Value is €7174.4 million. It is not possible to calculate the Equity Valuation because the company (Altice Group) doesn't provide information regarding net debt of each business. Nevertheless, this valuation allows us to understand the huge dimension difference between the two companies (PT Portugal and Grupo Media Capital).

Table 20. PT Portugal DCF Valuation

Discounted Cash Flows (€ Mn.)	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**Terminal Value**
Cash flows to discount	331	345	350	358	362	7906
Years to discount	1	2	3	4	5	5
Discount factor	94%	88%	82%	77%	73%	73%
Discounted Cash Flows	310	303	288	277	262	5733

Enterprise Value (€ Mn.)	**7174,4**

4.2.5 Sensitivity analysis

In order to find some possible scenarios and assessing their impact in PT Portugal valuation, I changed the growth rate, from 0.8% to 2.8% (0.5% intervals) and the WACC, from 5.3% to 7.3% (0.5% intervals). It is clear to observe that the Enterprise Value suffered significant changes, from a minimum value €5 274 million of to a maximum value of €11 726 million.

Table 21. PT Portugal Sensitivity Analysis

		G				
		0,8%	1,3%	1,8%	2,3%	2,8%
WACC	5,6%	7 491	8 184	9 057	10 192	11 726
	6,1%	6 781	7 331	8 007	8 860	9 968
	6,6%	6 192	6 637	7 174	7 835	8 668
	7,1%	5 697	6 063	6 498	7 022	7 668
	7,6%	5 274	5 579	5 937	6 362	6 874

4.2.6 Multiples Valuation

In addition to the Discounted Cash Flow valuation, I was able to calculate the value using the Market multiples approach. To do it, I used PT Portugal peer group, constituted by companies operating in the same market and with similar dimension. The peer group includes seven companies from different countries but all from Europe (United Kingdom, Italy, France, Spain, Belgium and Portugal). I considered the following multiples: EV/Revenues and EV/EBITDA.

Table 22. PT Portugal Market Multiples Valuation

Market Multiples (2015)	EV/Revenues	EV/EBITDA
Average	2,7	7,2
Median	2,6	7,2
Average of median and average	2,7	7,2
PT Portugal (2015)	**Revenues**	**EBITDA**
(€ Mn.)	1496	639
EV based on average multiple (€ Mn.)	**3978**	**4576**

Regarding de Multiples approach Valuation, presented above, PT Portugal value would be €3978 million with the EV/Revenues multiple and €4576 million with the EV/EBITDA multiple.

4.2.7 PT Portugal Valuation Summary

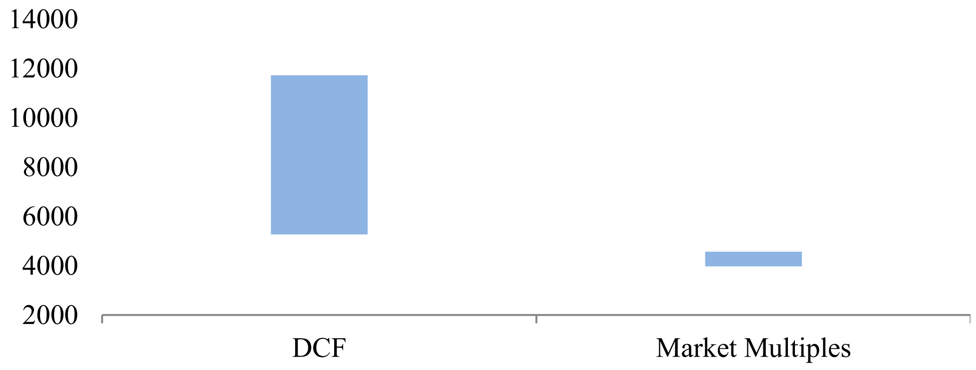


Figure 19. PT Portugal Valuation Summary (€ Mn.)

In the Graph above we are able to observe a summary of the two valuation methods applied to the calculation of PT Portugal.

4.3 Synergies

In this part, I will calculate the potential synergies that may arise from the acquisition of Grupo Media Capital by PT Portugal. As I said in my Literature Review, there are two types of synergies, operational and financial.

There are two synergies that I considered will bring value for the combined companies. The first one is the reduction in the Grupo Media Capital operational costs. Altice Group strategy when buying a company is to reduce the operational costs as much as possible; they call it “the cost saving programs”. The Group used the same approach in PT Portugal and reduced circa 13% of the operational costs in the first year.

In 2015, Grupo Media Capital operational costs represented 77% of the Revenues. On the other hand, PT Portugal operational costs represented 57% of the total Revenues, 20% less. With this, I calculated the value that this synergy could add-up to Grupo Media Capital stand-alone value. Without this deal the % of Revenues of the operational costs was changing from 78% in 2016 to 80% in 2020. With this synergy, the % of Revenues of the operational costs would be reduced in 5% in total, from 2016 to 2020. In my opinion, Altice Group will not be able to reduce the operational costs as much as it did in PT Portugal, because Grupo Media Capital is well managed at the moment and

PT Portugal had more potential to reduce drastically the operational costs. Below I present the discounted cash flows of this synergy. The WACC is the same as used in the Grupo Media Capital DCF valuation and the perpetuity growth is also the same, 1.8%.

Table 23. Cost Reduction Synergy

Cost Reduction Synergy (€ Mn.)	2016E	2017E	2018E	2019E	2020E	Terminal Value
Groupo Media Capital Operational Costs	139	142	144	147	150	153
% of sales	78,0%	78,0%	78,2%	78,5%	78,5%	78,5%
PT Portugal Operational Costs	858	832	807	807	815	831
% of sales	57,3%	56,7%	55,6%	55,6%	55,6%	55,1%
Cost Reduction Assumption (%)	3%	1,5%	0,5%	0%	0%	0%
New Grupo Media Capital Operational Costs % of sales	75%	74%	73%	73%	73%	73%
New Operational Costs	134	133	134	137	139	142
Reduction in Operational Costs	5,3	8,2	9,6	10,3	10,5	10,7
Impact on annual EBIT	5,3	8,2	9,6	10,3	10,5	10,7
Increase in Tax	-1,7	-2,7	-3,1	-3,4	-3,4	-3,5
Impact on Free cash flow	3,6	5,5	6,4	6,9	7,1	7,2
Cash flows to discount	3,6	5,5	6,4	6,9	7,1	113,1

Discounted Cash Flows (€ Mn.)	2016E	2017E	2018E	2019E	2020E	Terminal Value
Years to discount	1	2	3	4	5	5
Discount factor	92%	85%	79%	73%	68%	68%
Discounted Cash Flows	3,3	4,7	5,1	5,1	4,8	76,4

Enterprise Value (€ Mn.)	99
Net Debt	0
Equity Value	99
Number of shares (Mn.)	85
Value per share (€)	1,18

The second Operational synergy that will arise with this deal is the increase of advertising revenues associated to entertainment and information contents produced by Grupo Media Capital, through TVI and other TV channels. This increase is anticipated because these channels can now be distributed and accessed by viewers through new mobile platforms that PT Portugal offers. For potential advertisers, the fact that the new merged company is now able to distribute its entertainment and information contents not only through traditional (home TV) but also by new instruments (mobiles), represents a much more appealing way to reach customers. As I said before, in the industry analysis, the Global digital revenues will reach 31% market share globally in 2016, where mobile advertising accounts for 30% of total digital advertising. Moreover, is expected to reach 55% in 2019.

For this reason companies will increase their advertising investment in Grupo Media Capital TV channels. I assumed that the Advertising Revenues would increase, 1.5% in 2016, 2.5% in 2017, 2.5% in 2018, 5% in 2019 and 5% in 2020. I also assumed that the growth in revenues does not imply any increase on the operational costs. Below I present the discounted cash flows of this synergy. The WACC is the same as used in the Grupo Media Capital DCF valuation, because the registered revenues growth will occur in the advertising segment and not on MEO subscribers. The perpetuity growth is also the same, 1.8%.

Table 24. Advertising Revenues Synergy

Advertisng Revenues Synergy (€ Mn.)	2016E	2017E	2018E	2019E	2020E	Terminal Value
Groupo Media Capital Advertising Revenues	121	124	127	129	132	134
Advertising Revenues Growth Assumption	1,5%	2,5%	2,5%	5,0%	5,0%	n.a.
New Revenues	122,3	127,6	130,1	136,0	138,7	138,7
Impact on in Advertinsing Revenues	2	3	3	6	7	4
Impact on annual EBIT	1,8	3,1	3,2	6,5	6,6	4,2
Increase in Tax	-0,6	-1,0	-1,0	-2,1	-2,2	-1,4
Impact on Free cash flow	1,2	2,1	2,1	4,4	4,4	2,8
Cash flows to discount	1,2	2,1	2,1	4,4	4,4	44,7

Discounted Cash Flows (€ Mn.)	2016E	2017E	2018E	2019E	2020E	Terminal Value
Years to discount	1	2	3	4	5	5
Discount factor	92%	85%	79%	73%	68%	68%
Discounted Cash Flows	1,1	1,8	1,7	3,2	3,0	30,2

Enterprise Value (€ Mn.)	41
Net Debt	0
Equity Value	41
Number of shares (Mn.)	85
Value per share (€)	0,48

Another synergy that would result from this deal is the reduction of PT Portugal advertising costs. MEO focuses the advertising especially in two channels, TVI and SIC, so with this acquisition the advertising cost would stay “internally” since MEO would prioritize making Television advertising on TVI. This acquisition would allow PT Portugal not only to advertise on the TV but also on Radio, in Grupo Media Capital Radio stations. Unfortunately it is not possible to calculate this synergy because there is no access to the value of advertising expenses that PT Portugal incurs per year.

The sum of the two calculated synergies presented would result in €140 million in total, which represents 34% of Grupo Media Capital DCF valuation.

4.4 Bid Offer

Altice Group is one of the biggest telecommunication companies in the world and during the last 2 years the company was involved in several important acquisitions in different countries. As the company's CEO said, when the company entries in a country in the telecommunication segment, they think is it very important to obtain some position in the Media sector, because it brings many important synergies to the business. Altice group after these acquisitions was thinking to consolidate the Group, but before that I think they should consider entering in the Media segment in Portugal, in order to build their position in this country. Actually, PT Portugal has a great opportunity at this moment. Group Media Capital major shareholder (Group Prisa) is making some disinvestments in the last years and one selling option is Grupo Media Capital. The actual scenario is perfect to go further with this acquisition process and as I mentioned before there are some synergies that may arise from this deal.

Acquisition process

Grupo Media Capital actual share price was €2.99, on May 23, which corresponds to a market capitalization of €252.69 million.

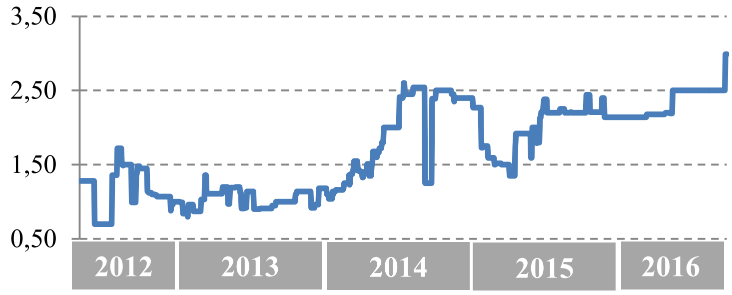


Figure 20. Grupo Media Capital Market Share Price (€)

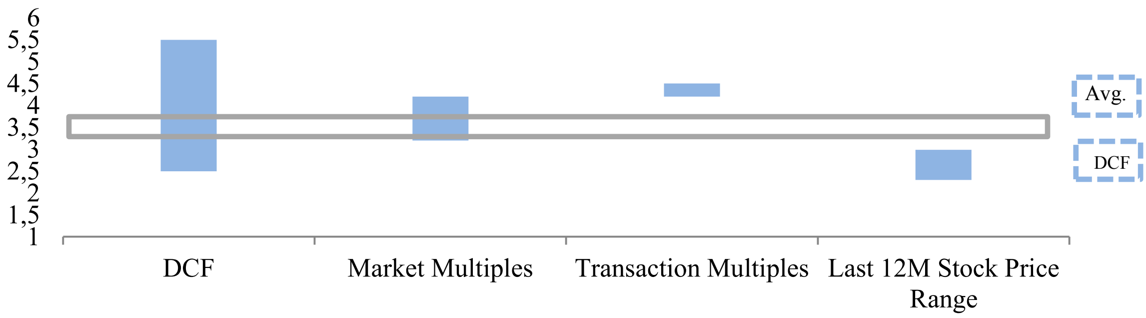


Figure 21. Grupo Media Capital Valuation Price per share (€).

The three methods average valuation is circa €3.84 per share. The group equity value would increase €140 million (€1.66 per share) due to the operational synergies that may occur, which means a maximum price per share of €5.5.

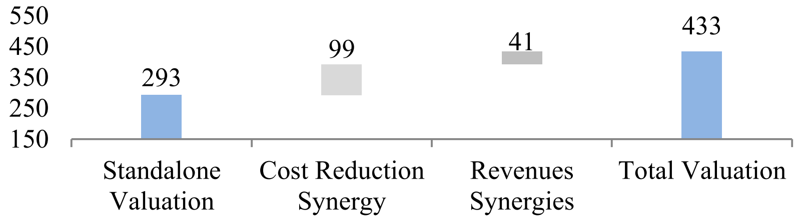


Figure 22. Grupo Media Capital Valuation with Synergies

Table 25. Grupo Media Capital Price per Share with Synergies

Price per Share with Synergies	
Avg. Standalone Value per Share (€)	3,84
Synergies (€ Mn.)	140,3
Synergies Value per share (€)	1,66
Value per share (€)	5,5

The difference between the value with the synergies included and the standalone valuation is the premium that PT Portugal would be able to pay. This means a maximum premium value of €140.3 Mn.

According with some analysts and with Prisa's shareholders declarations, the Spanish company has been willing to sell Grupo Media Capital for a long time now, for all the reasons explained before. The sale was never consummated, and PT Portugal should take this into account, when making an offer, since Prisa's shareholders are probably not willing to sell it for any price. For this reason I would suggest that PT Portugal should offer a premium in this acquisition, with a maximum price per share of €5.5. On the other hand, PT Portugal should study carefully the premium amount in order to avoid paying a price too high. In order to calculate this amount, I consider that the cost reduction synergy will occur in the first years after the deal, therefore the company should offer a 75% premium based in this synergy. The second synergy will make impact in a few years and will depend on the company strategy. Therefore, I will consider a premium of 25% based on the advertising revenues synergy. With this, PT Portugal should offer a premium of €0.88 per share due to the first synergy and €0.12 related with the second synergy, which means a total premium of €1 per share and a total price per share of €4.84. This premium goes in line the with my reference in the Literature Review, which states that companies with initial positive results have paid a premium around 30%. In the actual situation, one euro of premium represents 26% of the initial price, €3.84 per share.

Regarding the payment method, I would suggest a payment in cash. PT Portugal has no stock and Grupo Media Capital equity value is relatively small when comparing with the transactions that Altice group did in recent years and also comparing with PT Portugal dimension. Furthermore, thinking about Altice Group historic acquisitions, they are not used make the acquisitions through stock, only cash and debt. For example when Altice acquired PT Portugal, the payment was done through cash and debt-free basis. Also, when Altice acquired a 70% stake in Suddenlink Communications from BC Partners Limited, the deal was financed by new and existing debt, a loan note and Altice's cash reserves.

4.5 Legal and Regulatory Concerns

Media sector, in Portugal faced some activity in terms of acquisitions and Grupo Media Capital was involved. In 2009, Ongoing Media, SGPS, S.A. tried to buy 35% of Grupo Media Capital to Vertix, SGPS (Prisa's subsidiary). The deal was not successful because the Portuguese Competition Authority and ERC (as I mentioned in the Literature Review), understood that this deal was not in line with the decree law number 9 (which makes reference to all kind of companies agreements restrictive practices), because in that time Ongoing Media had a qualified participation in another Media company operating in Portugal (Impresa). In order to proceed with this deal, Ongoing Media was requested to decrease their participation in Impresa to less than 1%.

Although PT Portugal doesn't have any company participation in the media sector, they should be careful when making the offer. PT Portugal should study and plan all the procedures needed to obtain the approvals from the regulatory authorities.

5. CONCLUSION

In this thesis my goal was to learn and deepen my knowledge in M&A. Trying to do the best job possible, I started by studying the theory and presented it in my Literature Review, where we are able to find different valuation techniques and the synergies that may occur in an M&A process.

To consolidate the theory, I thought in a potential deal that I believe it will occur in a near future and applied all the techniques studied.

During my thesis I explained all the reasons that make the deal between PT Portugal and Grupo Media Capital reasonable and probable to happen. PT Portugal is looking for a partner in the Media Industry, and according the Altice CEO, this combination between the telecommunication company and Grupo Media Capital (market leader in the Portuguese television and very strong company in the content producing programs), will bring important synergies to PT Portugal. On the other hand, and due to all the reasons explained during the thesis, Grupo Prisa, owner of 94.69% of Grupo Media Capital could be available to sell. For these reasons, this is a good opportunity to make an offer in near future.

To go further with this acquisition, PT Portugal should make an offer of €4.84 per share, which represents a premium of €1 per share. The maximum premium that PT Portugal should pay is €1.66 per share, which would lead a final price per share of €5.5.

ANNEXES

Annex 1: Income Statements

Grupo Media Capital

Income Statement (€ Mn.)	2012	2013	2014	2015	2016	2017	2018	2019	2020
Advertising	**111,2**	**103,0**	**114,3**	**116,7**	**120,5**	**124,5**	**126,9**	**129,5**	**132,1**
Television	94,5	86,4	96,2	97,6	100,5	103,5	105,6	107,7	109,8
Audiovisual Production	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Radio	13,5	13,5	14,7	16,0	16,8	17,7	18,0	18,4	18,8
Others	3,2	3,2	3,4	3,1	3,2	3,3	3,3	3,4	3,5
Other operating revenue	**118,4**	**119,4**	**107,2**	**102,0**	**102,1**	**102,3**	**103,0**	**104,9**	**106,8**
Television	47,2	59,0	51,1	44,1	43,7	43,2	43,2	44,1	45,0
Audiovisual Production	52,7	42,4	40,2	41,6	42,5	43,3	44,2	45,1	46,0
Radio	0,8	0,9	1,4	2,8	3,2	3,7	4,0	4,2	4,3
Others	17,7	17,1	14,6	13,4	12,8	12,1	11,5	11,5	11,5
Consolidation Adjustments	-45,2	-40,7	-41,8	-44,3	-44,5	-45,4	-46,0	-46,9	-47,8
Total operating revenue	**184,3**	**181,7**	**179,8**	**174,4**	**178,1**	**181,4**	**183,9**	**187,5**	**191,1**
Growth	n.a.	-1,41%	-1,07%	-3,00%	2,13%	1,88%	1,37%	1,95%	1,90%
Cost of programms broadcasted and goods sold	-22,4	-25,7	-23,7	-17,5	-18,7	-20,0	-21,2	-22,5	-22,9
Subcontrats and third party supplies (FSE)	-68,2	-66,8	-66,1	-70,1	-70,3	-70,8	-70,8	-71,3	-72,6
Personel expenses	-52,8	-50,5	-45,9	-43,4	-46,3	-47,2	-48,2	-49,7	-50,6
Provisions and impariment losses	0,8	0,7	-1,4	-1,1	-1,8	-1,8	-1,8	-1,9	-1,9
Other operating expenses	-0,5	-0,6	-1,8	-2,1	-1,8	-1,8	-1,8	-1,9	-1,9
Total Operating Expenses	**-143,1**	**-142,9**	**-138,9**	**-134,3**	**-138,9**	**-141,5**	**-143,8**	**-147,2**	**-150,0**
Growth		-0,15%	-2,84%	-3,32%	3,47%	1,88%	1,63%	2,34%	1,90%
EBITDA	**41,2**	**38,8**	**40,9**	**40,1**	**39,2**	**39,9**	**40,1**	**40,3**	**41,1**
Mg. EBITDA	22%	21%	23%	23%	22%	22%	22%	22%	22%
Depreciation and amortization	-11,5	-9,4	-8,5	-9,2	-8,9	-9,1	-9,2	-9,4	-9,6
EBIT	**29,7**	**29,4**	**32,4**	**31,0**	**30,3**	**30,8**	**30,9**	**30,9**	**31,5**
Mg. EBIT	16%	16%	18%	18%	17%	17%	17%	17%	17%
Financial Expense	-9,8	-9,5	-8,2	-6,1	-8,3	-8,1	-7,9	-7,9	-8,4
Financial income	0,2	0,6	0,5	0,4	0,4	0,5	0,5	0,4	0,4
Net Financial costs	**-9,6**	**-8,9**	**-7,7**	**-5,7**	**-7,9**	**-7,7**	**-7,5**	**-7,5**	**-8,0**
Net Gains (losses) on associated companies	-0,1	0,1	0,1	-0,2	0,0	0,0	0,0	0,0	0,0
	-9,7	-8,8	-7,6	-5,9	-7,9	-7,7	-7,5	-7,5	-8,0
EBT	**20,0**	**20,6**	**24,9**	**25,1**	**22,4**	**23,2**	**23,4**	**23,4**	**23,5**
Income tax expense	-8,1	-6,9	-8,4	-7,8	-7,3	-7,6	-7,7	-7,7	-7,7
Tax rate	-40%	-34%	-34%	-31%	-33%	-33%	-33%	-33%	-33%
Net income	**11,939**	**13,684**	**16,475**	**17,301**	**15,1**	**15,6**	**15,8**	**15,8**	**15,8**
Net Margin	6,5%	7,5%	9,2%	9,9%	8,5%	8,6%	8,6%	8,4%	8,3%

Altice Group

Income Statement (€ Mn.)	2014	2015
Revenues	3934,5	14550,3
Purchasing and subcontracting costs	-1118,2	-4653,6
Other operating expenses	-960	-3233,7
Staff costs and employee benefit expenses	-364,5	-1241,1
Depreciation and amortization	-1112,7	-3752,8
Impairment losses	-13,7	-20,9
Other expenses and income	-239,6	-426
Operating profit (EBITDA)	125,7	1221,3
Interest relative to gross financial debt	-788,3	-2013,5
Other financial expenses	-360,4	-262
Finance income	13,5	417
Gain recognized on extinguishment of a financial liability	0	643,5
Finance costs, net	-1135,2	-1215
Net result on disposal of businesses	0	27,5
Gain recognized on step acquisition	256,3	0
Share of profit of associates	4,8	8,1
Profit before income tax	-748,4	41,8
Income tax (expenses)/income	168,9	-261,7
Profit/(loss) for the period	-579,5	-219,9

Annex 2: Balance Sheets

Grupo Media Capital

Balance Sheet (€ Mn.)	2012	2013	2014	2015	2016	2017	2018	2019	2020
Goodwill	153,6	153,6	153,6	153,2	153,5	153,5	153,5	153,5	153,5
Intangible assets	18,5	16,0	13,8	15,2	15,2	15,2	15,2	15,2	15,2
Tangible fixes assets	21,6	17,4	16,3	15,5	15,0	14,0	13,5	13,0	12,5
Investments in associates	1,6	1,6	1,7	1,6	1,6	1,6	1,6	1,6	1,6
Assets held for sale	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Transmission rights and TV programms	50,4	46,5	48,5	53,9	49,8	49,8	49,8	49,8	49,8
Other non-current assets	4,8	4,0	3,7	3,2	3,9	3,9	3,9	3,9	3,9
Deferred income tax assets	4,7	4,3	3,5	2,8	3,8	3,8	3,8	3,8	3,8
Non-Current Assets	**255,1**	**243,2**	**241,1**	**245,4**	**242,8**	**241,8**	**241,3**	**240,8**	**240,3**
Transmission rights and TV programs	29,5	33,1	33,6	29,1	31,3	31,9	32,3	33,0	33,6
Inventories	0,2	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Trade and other account receivable	40,9	42,1	41,9	39,8	40,7	41,5	42,1	42,9	43,7
Current tax assets	0,1	0,1	0,2	0,1	0,1	0,1	0,1	0,1	0,1
Other current assets	14,7	10,7	12,2	8,0	11,4	11,6	11,8	12,0	12,2
Cash and cash equivalents	10,8	5,2	3,0	5,5	5,5	5,5	5,5	5,5	5,5
Current Assets	**96,2**	**91,4**	**91,0**	**82,6**	**89,2**	**90,7**	**91,9**	**93,6**	**95,3**
Total Assets	**351,3**	**334,6**	**332,0**	**328,0**	**332,0**	**332,5**	**333,2**	**334,4**	**335,6**
Share capital	89,6	89,6	89,6	89,6	89,6	89,6	89,6	89,6	89,6
Reserves	24,6	25,3	28,8	29,2	29,2	30,5	31,5	32,5	33,5
profit for the period	11,9	13,7	16,5	17,3	15,1	15,6	15,8	15,8	15,8
Total Equity	**129,1**	**128,5**	**134,9**	**136,0**	**133,8**	**135,6**	**136,8**	**137,8**	**138,9**
Borrowings	86,3	77,6	103,7	112,2	112,2	112,2	112,2	112,2	112,2
Provisions	7,7	6,6	6,9	7,1	7,1	7,1	7,1	7,0	5,7
Deferred income tax liabilities	1,6	1,5	1,4	1,3	1,4	1,4	1,4	1,4	1,4
Non-Current Liabilities	**95,6**	**85,6**	**112,0**	**120,6**	**120,7**	**120,7**	**120,7**	**120,6**	**119,3**
Borrowings	27,1	33,2	15,1	5,6	5,3	2,7	1,2	0,0	0,0
Trade and other payables	53,1	45,4	42,5	38,7	44,4	45,2	45,8	46,7	47,6
Current tax liabilities	6,4	1,2	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Other current liabilities	43,0	40,6	27,6	27,0	27,8	28,3	28,7	29,3	29,8
Current Liabilities	**129,5**	**120,4**	**85,2**	**71,4**	**77,5**	**76,2**	**75,7**	**76,0**	**77,4**
Total Liabilities	**225,2**	**206,1**	**197,2**	**192,0**	**198,2**	**196,9**	**196,5**	**196,6**	**196,8**
Total Equity and Liabilities	**351,3**	**334,6**	**332,0**	**328,0**	**332,0**	**332,6**	**333,3**	**334,4**	**335,6**

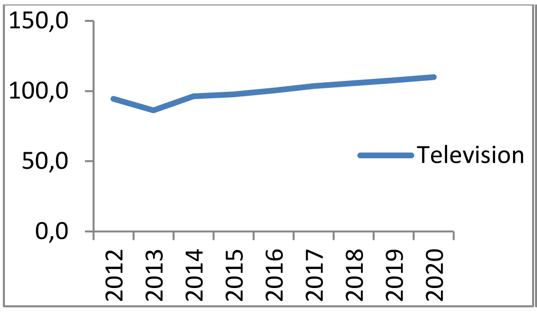
Altice Group

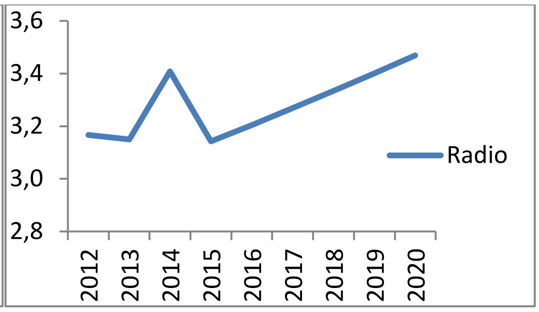
Balance Sheet (€ Mn.)	2014	2015
ASSETS		
Non-current assets		
Goodwill	13422,1	17319,8
Intangible assets	9508,2	16519
Property, plant & equipment	7348,8	12262,6
Investment associates	126	417,7
Fianancial assets	1343,6	2822,8
Deferred tax assets	875,9	444,3
Other non-current assets	78,7	977
Total non-current assets	32703,3	49883,9
Current assets		
Inventories	277,2	368,7
Trade and other receivables	3084,4	3864,2
Current tax assets	268,7	304,5
Financial assets	135,4	1,9
Cash and cash equivalents	1563,6	2515
Restricted cash	0	7737
Total current assets	5329,4	14791,3
Assets classified as held for sale	77,3	122,1
Total assets	38110	64797,3

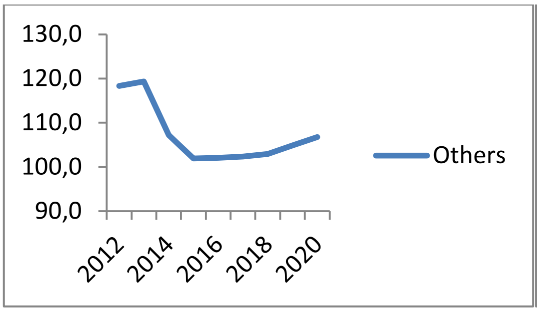
Balance Sheet (€ Mn.)	2014	2015
EQUITY AND LIABILITIES		
Equity		
Issued capital	2,5	76,5
Additional paid in capital	29711	2398,8
Other reserves	-93,3	-216
Accumulated losses	-934,4	-1207,3
Equity attributable to owners of the Company	1945,9	1052
Non-controlling interests	3278,2	926
Total equity	5224,1	1977,9
Non-current liabilities		
Long term borrowings, financial liabilities and hedging Instruments	20483,2	45711
Other non-current financial liabilities and hedging Instruments	907,3	1566,1
Non-current provisions	693,1	1733,4
Deferred tax liabilities	2056,9	1914,5
Other non-current liabilities	598,9	814,7
Total non-current liabilities	24739,4	52739,6
Current liabilities		
Short-term borrowings, financial liabilities	166,5	352,4
Other financial liabilities	1073,9	1484,4
Trade and other payables	5111,4	6437
Current tax liabilities	267,5	289
Current provisions	313,5	378,1
Other current liabilities	1190,6	1054,4
Total current liabilities	8123,4	9995,1
Liabilities associated with assets classified as held for sale	22,5	84,6
Total Liabilities	32885,2	62819,4
Total equity and liabilities	38110	64797,3

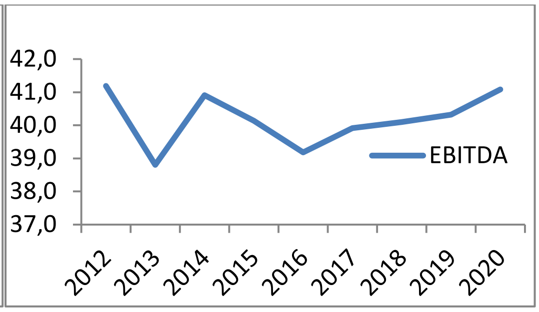
Annex 3: Grupo Media Capital Op. Revenues and Op. Costs

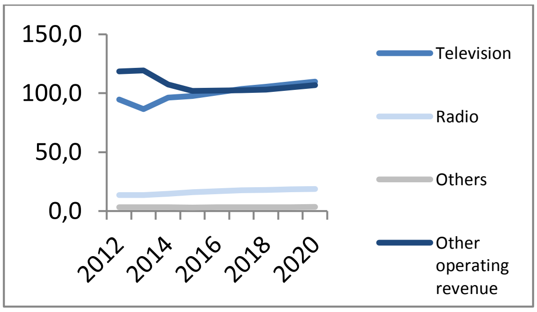
Revenues



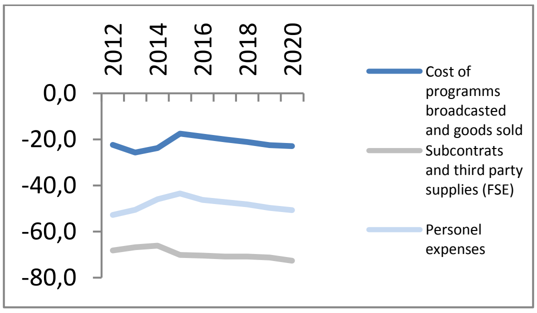








Costs



Annex 4: Market Multiples

Grupo Media Capital

Market Multiples (2015)	Ticker	Revenues	EBITDA	EV	EV/Revenues	EV/EBITDA	EV/EBIT
Wireless Group PLC (UK)	WLG-LN	101,9	21,1	291,0	2,9x	13,8x	17,4
STV Group PLC (UK)	STVG-LN	158,1	30,9	322,2	2,0x	10,4x	16,4
Rai Way (Italy)	RWAY-MI	212,3	107,2	1 366,0	6,4x	12,7x	21,8
Cofina (Portugal)	CFN-LB	100,7	15,0	108,7	1,1x	7,2x	8,3
Impresa (Portugal)	IPR-LB	230,9	23,3	274,7	1,2x	11,8x	18,3
NRJ Group (France)	NRG-FR	382,1	52,3	617,1	1,6x	11,8x	34,0
Average		197,7	41,7	496,6	2,5x	11,3x	19,4
Median		185,2	27,1	306,6	1,8x	11,8x	17,9
Average of median and average		191,4	34,4	401,6	2,2x	11,5x	18,6

PT Portugal

Market Multiples (2015)	Ticker	EV/Revenues	EV/EBITDA
NOS (Portugal)	NOS-LB	2,9x	7,5x
Vodafone (UK)	VOD-LN	2,1x	7,1x
Telefonica SA (Spain)	TEF.MC	2,4x	7,6x
Telecom Italia SpA (Italy)	TIT.MI	2,6x	6,3x
Orange SA (France)	ORA.EN	1,7x	5,5x
Telenet Group Holding NV (Belgium)	TNET.BR	3,4x	7,4x
Iliad Sa (France)	ILD.fr	2,6x	7,1x
Numericable Sfr SA (France)	NUME.PA	2,7x	7,2x
Average		2,6x	7,0x
Median		2,6x	7,1x
Average of Median and average		2,6x	7,0x

Annex 5: Transaction Multiples (Full Data) – Grupo Media Capital

Date Announced	Target	Acquirer	% Acq.	Price (€ Mn.)	EV implicit (€ Mn.)	EV / Sales	EV / EBITDA
08/04/2016	Mediaset SpA	Vivendi SA	3.5%	137	4 832	1,4x	3,5x
27/07/2015	NextRadioTV SA	Alain Weill / Altice	100%	631	631	3,2x	18,7x
12/05/2015	Societe d'Edition de Canal Plus	Vivendi SA	51.5%	411	903	0,5x	6,1x
24/02/2015	Rai Way	EI Towers SpA	100%	1 291	1 291	6,2x	12,3x
01/05/2014	Channel 5	Viacom	100%	585	585	n.a.	13,7x
14/12/2012	SBS Nordic Business	Discovery Comm.	100%	1 325	1 325	n.a.	9,9x
19/12/2011	TVN	Vivendi	20%	230	1 714	2,9x	11,8x
14/12/2011	La Sexta	Antena 3	100%	147	270	1,0x	n.a.
20/04/2011	SBS Belgium & Netherlands	Sanoma Oyj & Partners	100%	1 225	1 225	3,0x	10,7x
15/02/2011	Media Capital	Portquay West	10%	35	442	1,8x	8,4x
15/11/2010	Telewizja Polsat	Cyfrowy Polsat	100%	922	922	3,3x	11,8x
23/07/2010	Channel 5	Northern & Shell	100%	125	125	0,5x	n.a.
20/12/2009	Cuatro	Telecinco Gestevision	100%	550	550	1,7x	n.a.
07/12/2009	CEME	Time Warner Inc	31%	177	1 307	1,8x	8,8x
28/09/2009	Media Capital SGPS	Ongoing Strat. Investments	35%	122	492	1,7x	9,3x
01/08/2008	Prosieben Sat. 1 Media AG	Telegraaf Media Groep	12%	377	6 556	2,4x	12,6x
16/04/2008	DTV Group	CTC Media	100%	258	257,6	9,0x	n.a.
27/06/2007	SBS Broadcasting BV	Prosieben Sat. 1 Media AG	100%	3 300	3 300	3,2x	14,8x
06/02/2007	Media Capital	Prisa	26%	184	774	3,6x	17,2x
14/12/2006	Proseiben Sat. Media AG	Lavena Holding 4 GmbH	51%	3 394	7032	3,3x	14,5x

Transaction Multiples (Situations of control)

Date Announced	Target	Acquirer	% Acq.	Price (€ Mn.)	EV implicit (€ Mn.)	EV / Sales	EV / EBITDA
27/07/2015	NextRadioTV SA	Alain Weill / Altice	100%	631	631	3,2x	18,7x
12/05/2015	Societe d'Edition de Canal Plus	Vivendi SA	51.5%	411	903	0,5x	6,1x
24/02/2015	Rai Way	EI Towers SpA	100%	1 291	1 291	6,2x	12,3x
01/05/2014	Channel 5	Viacom	100%	585	585	n.a.	13,7x
14/12/2012	SBS Nordic Business	Discovery Comm.	100%	1 325	1 325	n.a.	9,9x
14/12/2011	La Sexta	Antena 3	100%	147	270	1,0x	n.a.
20/04/2011	SBS Belgium & Netherlands	Sanoma Oyj & Partners	100%	1 225	1 225	3,0x	10,7x
15/11/2010	Telewizja Polsat	Cyfrowy Polsat	100%	922	922	3,3x	11,8x
23/07/2010	Channel 5	Northern & Shell	100%	125	125	0,5x	n.a.
20/12/2009	Cuatro	Telecinco Gestevision	100%	550	550	1,7x	n.a.
16/04/2008	DTV Group	CTC Media	100%	258	257,6	9,0x	n.a.
27/06/2007	SBS Broadcasting BV	Prosieben Sat. 1 Media AG	100%	3 300	3 300	3,2x	14,8x

Annex 6: Beta Calculation

Grupo Media Capital

Market Multiples (2015)	Ticker	Equity Beta (Lev)	Corporate Tax Rate	Net Debt/EV	Debt/Equity*(1-T)	Asset Beta (Unlev)
Wireless Group PLC (UK)	WLG-LN	1,09	21%	26%	28%	0,8547
STV Group PLC (UK)	STVG-LN	1,00	21%	15%	14%	0,8788
Rai Way (Italy)	RWAY-MI	0,42	31%	3%	2%	0,4124
Cofina (Portugal)	CFN-LB	0,91	33%	61%	104%	0,4485
Impresa (Portugal)	IPR-LB	1,84	33%	74%	193%	0,6290
NRJ Group (France)	NRG-FR	0,36	33%	15%	12%	0,3263
Average						0,64
Grupo Media Capital		0,9	33%	34,7%	36%	

PT Portugal

Market Multiples (2015)	Ticker	Equity Beta (Lev)
NOS (Portugal)	NOS-LB	0,70
Vodafone (UK)	VOD-LN	0,75
Telefonica SA (Spain)	TEF.MC	1,08
Telecom Italia SpA (Italy)	TIT.MI	1,08
Orange SA (France)	ORA.EN	0,72
Telenet Group Holding NV (Belgium)	TNET.BR	0,50
Iliad Sa (France)	ILD.fr	0,33
Numericable Sfr SA (France)	NUME.PA	0,84
PT Portugal		0,64

Annex 7: Peer Group of Prisa (Net Debt/EBITDA)

Company Name	Ticker	Net Debt/EBITDA
Atresmedia Corporacion de Medios de Comunicacion SA	A3M.MC	0,7x
Vocento SA	VOC.MC	2,1x
Telefonica SA	TEF.MC	3,5x
Nos SGPS SA	NOS.LS	2,0x
Cellnex Telecom SA	CLNX.MC	3,1x
Euskaltel SA	EKTL.MC	4,8x
Average		**2,7x**

Annex 8: Grupo Prisa Debt

In December 2013, the Group signed an agreement to refinance the debt with an extension of the maturity and reduction of debt.

Group Prisa in December 2013 had 3 Tranches of Debt. In May 2015, Prisa paid off Tranche 1 fully in the amount of 385.5 thousand euros with part of the proceeds from the sale of 56% of DTS (Distribuidora de Televisión Digital, S.A.).

As part of the refinancing of its financial debt, Group Prisa agreed to renewal of its syndicated loan, bridge loan and bilateral loans in an amount of 2 925 million euros. The debt renewal was structured into two tranches:

Tranche 2: 647 million euros, maturing at long-term (5 years) at an interest rate referenced to the Euribor plus a margin negotiated with the lenders

Tranche 3: 2278 million euros, maturing at long-term (6 years) at an interest rate referenced to the Euribor plus a margin negotiated with the lenders (Payment-in-Kind), which is a financial instrument often used when companies prefer to pay in different way besides cash, like interest or dividends to bonds investors.

Regarding Tranche 2, in 2015, the company reimbursed Tranche 2 debt in the amount of 143 million euros with some proceeds, being the most important the 3.63% sale of Mediaset España, repurchasing debt at a discount in an amount of 106 million euros. The refinancing agreement included a series of commitments to reduce Tranche 3 debt by 900 million euros in 2015, and by an additional 600 million euros in 2016.

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Financial Terminals

Thomson One Terminal

Reuters Terminal