
B40.3126.10 Financial Analysis
in Media and Entertainment

P

FALL 2011

Fall 2011

Thursday, 6:00 – 9:00 pm KMCS 140

Professor: Christopher Dixon

Office: K9 150 Carrel 1

Hours: Thursday 3:30 – 5:30

Phone: 917-345-1861

Email: cdixon@stern.nyu.edu

Pre-requisite - B01.2311 - Foundations of Finance *Recommended*: Corporate Finance

COURSE BACKGROUND

This course is a combination of case analysis and discussion of the critical financial and strategic issues facing media management teams. The course examines the structures, business relationships and impact of regulation and technology along the media value chain. The course is designed to prepare students for a role in financial analysis, business development, or media consultancy. **A basic understanding of accounting and corporate finance is recommended as the course is designed to take core business concepts and demonstrate how they can be applied specifically to the entertainment and media industry.** Students will be expected to prepare financial models and demonstrate strong presentation skills.

COURSE OBJECTIVES

- To learn to analyze the media and entertainment industry, to identify the revenue drivers, structural limitations and competitive factors that drive industry profitability and individual company dynamics.
- To access primary sources and use publicly reported financial data to develop analytical models.
- To develop spread sheets and models that can provide analytic tools to assist in investing and in strategic entertainment and media management decision making
- To become familiar with key strategic issues and financial return characteristics across all the sectors of the media sector.
- To appreciate the challenges and complexity in analyzing and building tools for analyzing the entertainment firm.

COURSE REQUIREMENTS***Grading***

Grades will be determined on the following basis:

Cases	50%
Participation	20%
Final Project	<u>30%</u>
Total	100%

INSTRUCTOR POLICIES**Attendance/Lateness:**

- Students are expected to attend each class and actively participate in discussion of key issues. Absences/Tardiness will lower your class participation grade. Missing class or being late will adversely affect your grade. Class will start promptly at 6:00pm and late students disrupt the learning environment for those who arrive on time.
- Late assignments will not be accepted.
- The school has recently formulated a policy on lateness as follows:
 1. It is understood that under rare and unusual circumstances a student unavoidably may be late.
 2. Students do not have the right to be late.
 3. Professors are not obligated to admit late students.
 4. Students, with the professor's acquiescence, may enter late only if they can do so without disrupting their class.
 5. Professors should implement policies and procedures for managing late students that are appropriate for the manner in which they teach. For example, a professor may opt to allow late students to enter only at a specific time.
 6. Professors may enforce penalties for lateness including, in severe cases, the reduction of a student's final grade.

Cheating/Plagiarism:

- The Stern School of Business Honor Code governs conduct in the course.

Class Participation:

- It is essential that everyone contributes to class discussion. You are expected to have read all the assignments for the day's class.
- Learning will come from each student trying to understand the key issues, the cases, and accessing the primary sources. The Imperial Studios case requires group analysis and a presentation.
- Class participation will be graded on the quality of the interaction and will be measured against these criteria:
 - Preparedness
 - Extent of knowledge
 - Ability to get to the heart of the matter
 - Hint: Not everything you read is relevant!
 - New insights
 - Building on statements of others

READING

Primary Sources: Primary sources are available on the Internet from the SEC's web site, www.sec.gov and individual company web sites.

AOL <http://ir.aol.com/phoenix.zhtml?c=147895&p=quarterlyearnings>

YAHOO! <http://investor.yahoo.net/sec.cfm>

DreamWorks Animation www.dreamworks.com

<http://www.sec.gov/Archives/edgar/data/1297401/000095012304008590/y98977sv1.htm>

Time Warner Cable <http://ir.timewarnercable.com/phoenix.zhtml?c=207717&p=irol-news&nyo=0>

Walt Disney http://corporate.disney.go.com/investors/annual_reports.html

http://corporate.disney.go.com/news/corporate/2009/2009_0831_DISNEY_AND_MARVEL_ENTERTAINMENT.html

Marvel

<http://www.sec.gov/Archives/edgar/data/1001039/000119312509245473/d424b3.htm>

Cases: The following cases will be handed out

Central Broadcasting Goes Digital

Imperial Studios

Required Readings: (to be handed out)

GOOG - Initiating Coverage with a SELL, Laura Martin, Soleil Securities

Valuing Media Stocks - A Look behind the Curtain, Christopher Dixon

Free! Why \$0.00 is the Future of Business, Chris Andersen, Wired Magazine 16.03

www.wired.com/print/techbiz/it/magazine/16-03/ff_free

Recommended Source materials (not required):

Damodaran on Valuation: Security Analysis for Investment and Corporate Finance, John Wiley and Sons, Copyright 2006

Creating Shareholder Value: A Guide for Managers and Investors, Chapter 3, Alfred Rappaport, The Free Press, Copyright 1986, 1998 by Alfred Rappaport.

The Movie Business, Book 5 “Producing the Movie” pages 213 to 261 Kelly Charles Crabb, Simon & Schuster, Copyright 2005 by Crabbapple Music Corporation,

GUIDELINES FOR WRITTEN CASES

1. All cases will include an executive summary of the key issues presented and responses to the questions presented in the case. Separate spread sheets will be attached. The executive summary is to be typed, double-spaced and presented in hard copy. **Please remember to make sure your name is in the heading of each spreadsheet and executive summary.**
2. All spread sheets shall be prepared in Excel.
3. Imperial Studio will be a group case, with each group preparing a power point. Individual groups will be called on to present their case to the class.
4. For the final case, students will prepare an analysis of the Walt Disney Marvel acquisition based on primary sources available on the SEC web sites, as well as class discussions and readings.
5. Students are responsible for readings and submitting assignments on a timely basis.

	DUE DATES
Central Broadcasting Part 1	10/6
Central Broadcasting Part 2	10/13
Imperial Studios Presentation (group)	10/27
Time Warner Cable spread sheet (individual)	
Disney/Marvel Final	11/3

Financial Analysis in Media and Entertainment

SESSION

1		Setting the Stage 9/22
----------	--	-------------------------------

Framework for the course, review syllabus, provide assignments, explain content of course and the delivery.

What is media: a framework: -- The industry structure, key drivers, business models

- A Strategic Framework
- The Media Value Chain
- The Industry Drivers
- Sources of Revenues – “show me the money”
- Variable versus fixed costs
- The power of scale
- Roles of technology, regulation and finance
- The capital budget model

Assignment for Session 2: Dixon, “Valuing Media Stocks”; Martin, “GOOG Initiating coverage with a SELL” *Case: Should Central Broadcasting go Digital: Part 1.*

Prepare basic income statement and budget for Central Broadcasting.

Recommended Reading: *Creating Shareholder Value: A Guide for Managers and Investors*, Chapter 3, Alfred Rappaport, The Free Press, Copyright 1986, 1998 by Alfred Rappaport.

Alternative reference: Damodaran on Valuation: Security Analysis for Investment and Corporate Finance, John Wiley and Sons Copyright 2006.

2

Valuation Approaches and techniques 10/6

Valuation techniques. Discounted cash flow, comparative valuations, “sum of the parts”, asset based analysis. The basic cash flow model. The optimum capital structure.

For your consideration:

1. How is value seen from the point of view of management, the investor, the issuer, the seller?
2. How does leverage impact valuation?
3. Is an optimum capital structure possible?
4. What is Central Broadcasting’s business model? What are the key drivers?
5. What is Central Broadcasting worth if they don’t go digital?

Assignment for session 3 *Free! Why \$0.00 is the Future of Business*, Chris Andersen, Wired Magazine 16.03 www.wired.com/print/techbiz/it/magazine/16-03/ff_free

Review Yahoo and AOL investor relations web site. Calculate Equity Value, Total Enterprise Value, trailing twelve month EBITDA, shares outstanding and current multiples for each company

Case: Should Central Broadcasting go Digital: Part 2 Complete case

3

The Internet 10/13

Applying traditional media analysis to the internet – The power of digital
 Internet business models, dis intermediation, peer to peer, advertising models on the net, the law of network economics, scale. The Three way model
 Should Yahoo merge with AOL? Why? How would you value the transaction?.

Valuation issues

For your consideration:

1. What are the business models for the internet?
2. Is new media the same as old media?
3. Where’s the opportunity?
4. What are the traps?
5. What is the strength of Free, the Long Tail. What are the weaknesses.?

Assignment for session 4: *Reading:* DreamWorks Animation prospectus, “The Motion Picture Industry”, MD&A section

The Movie Business, Kelly Charles Crabb, Simon & Schuster, Copyright 2005
 “Producing the Movie” pages 213 to 261;

Case: Imperial Studios

4 The Film Studio - Content is King 10/20

Individual film economics. Distribution windows. The studio Model. Minimizing risk. Controlling costs. Optimizing returns.

Discussion Questions

1. How does a film make money?
 2. What are the key questions Susan must address in *Imperial Studios*?
 3. What can studio management do to optimize returns across a portfolio?
 4. What drives returns at DreamWorks?
 5. How would you value DreamWorks?
-

Assignment for Session 5 *Reading:* Time Warner Cable web site trending schedules
Prepare 2011 operating budget for Time Warner Cable using template provided and answer questions presented.

5 Television – Subscription, Aggregation and Distribution 10/27

Imperial case Presentations

The strengths and weakness of subsidized revenues versus subscription. Competitive threats. The revenue model. Cable versus broadcasting. Distribution systems. Strategic alternatives. Critical Issues.

For your consideration:

1. Where does television fit in the media value chain?
2. How many revenue streams can a television station develop? How?
3. How many revenue streams can a cable MSO develop? At what cost?
4. Do the regulators help or hinder?
5. What is the value of programming?
6. How does the television model compare to the magazine model, to radio?
7. Is Music the canary in the coal mine?

Assignment for session 6: *Reading:* Disney Marvel web sites

http://corporate.disney.go.com/investors/annual_reports.html

http://corporate.disney.go.com/news/corporate/2009/2009_0831_DISNEY_AND_MARVEL_ENTERTAINMENT.html

Marvel <http://www.sec.gov/Archives/edgar/data/1001039/000119312509245473/d4424b3.htm>

.IFPI 2011 Digital Music report <http://www.ifpi.org/content/library/DMR2011.pdf>

Music, historical perspective. The shift to digital

The integrated media company – The Walt Disney Company

Manufacturing, Aggregation, Distribution. The Businesses of Disney. The rationale for the acquisition of Marvel,. The primary drivers for growth, Regulatory issues. Structural problems. Optimizing the Capital structure. Minority interests. The impact of unintended consequences. Valuation.

For your consideration:

1. What are the key drivers in each of Disney's divisions
2. Are the businesses better together or apart.
3. Which division will be valued at a premium, why?
4. What is the Walt Disney Company's optimal capital structure
5. Why Marvel?
6. How do you value the acquisition?
7. What can management do to optimize returns?