

Fall 2015  
FINC-UB.0068



## Corporate Financial Analysis in Entertainment, Media & Technology

THE EMT  
PROGRAM

**Schedule:** Tuesdays 6:30 pm ~ 7:45 pm (12 sessions)  
**Location:** Tisch Hall UC19  
**Instructors:** Tom Aust & Tom Cha  
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### Course description:

This course is designed to reinforce and develop the concepts learned in introductory corporate finance by applying them to entertainment, media and technology (EMT) companies. Students will explore the distinctive characteristics of EMT companies/sectors while practicing and building on fundamental analytical skills. These skills have real world applications which are critical to investment banking, equity and fixed income valuation, and corporate development. Students will analyze recent and ongoing transactions to make the material more topical and relevant. Students will use SEC filings found on Edgar for primary research on many of the companies studied.

Companies discussed/analyzed include:

- Time Warner: Empire at Risk -- Equity Analysis in Diversified Entertainment
- Charter Communications: Battle for Industry Leadership -- M&A in Cable TV
- Verizon: Taking Out A Minority -- Debt Analysis and Capital Markets in Telecom
- Netflix: Splitting for High Growth -- Equity Analysis in Internet Media
- Dell: Going Private -- LBO in Technology

### Learning objective:

The objective of the course is to learn the financial tools, skills and vocabulary necessary to understand and work in the EMT field.

### Prerequisites:

Corporate Finance

### Course Material (required):

Lecture notes (will be posted one week in advance on NYU Classes)  
Related news articles  
SEC filings for studied companies

### Grading:

M&A Group Project	35%
Class participation	30%
Time Warner/HBO Case	35%
<b>Total</b>	<b>100%</b>

## Group Project & Presentation (due on December 15)

### Final Group Project Presentation:

- Identify an M&A target for a legacy EMT company of your choosing, which will enable that company to better adapt and compete in the evolving EMT ecosystem.
- Explore the merits of the acquisition, including the opportunities and threats being addressed, financial returns, balance sheet implications and other relevant considerations.
- Present a compelling argument that the acquisition has a strong business rationale and satisfies financial hurdles.
- Team members will be assigned based on background to incorporate a diversity of skillsets and areas of interest.

### Learning Objectives:

- Understand and integrate various topics discussed during the course, including past and future industry dynamics, M&A valuation, financial modeling and capital deployment.
- Gain insight and experience in the critical analysis undertaken by industry executives which balances business needs with shareholder considerations and capital constraints.

## Module 1: Introduction – Understanding the distinctive characteristics of EMT sectors

### Learning Objectives:

- Examine the interaction of business and financial models up and down the value chain.
- Apply critical components of analysis to reach investment decisions. Focus areas include financial modeling, trends & ratios, capital structure, industry characteristics, company strengths & weaknesses, competitive dynamics, regulatory environment, and management egos.
- Understand the unique financial and operating metrics used to analyze EMT companies.
- Explore the regulatory climate and the key players that shape the landscape.

### Discussion Points:

- Revenues/Costs
- Book value vs. market value of intellectual property
- Competition & pressures for capital transactions
- Regulatory considerations
- Structural choices affecting cost & availability of capital
- Technology influences
- Role of egos and reputation

### Exercises:

- Identification of revenue flows in the value chain
- Valuation, financial and operating metrics (performance measurement) in EMT
- Notions of performance in the context of opportunity and risk taking
- Intangible accounting
- Valuation differences between voting and non-voting shares

### Required Readings:

- Lecture Notes

## Module 2 : Time Warner: Empire at Risk - Equity Analysis in Diversified Entertainment

### Learning Objectives:

- Understand the factors that drive equity valuations and changes in earnings.
- Understand key valuation metrics such as CF multiples and revenue per subscriber.
- Explore the relationship between public and private market valuations.
- Understand the factors that drive decision making in seeking or avoiding a transaction.

### Discussion Points:

- Value of horizontal and vertical integration and premiums and discounts for conglomerates
- Valuation methodologies and drivers
- Shareholder activism
- Identifying hidden value to unlock shareholder value

### Exercises:

- Discounted cash flow
- Comparable analysis and relative value
- Sum-of-the-parts
- Spin-off analysis (a scenario analysis involving an HBO spin-off in the today's environment)

### Required Readings:

- The Lazard Report (February 2006)  
[http://i.cnn.net/money/2006/02/07/news/companies/timewarner\\_icahn/lazard\\_twx.pdf](http://i.cnn.net/money/2006/02/07/news/companies/timewarner_icahn/lazard_twx.pdf)
- Time Warner Inc. Form-10K (February 27, 2006)  
<http://www.sec.gov/Archives/edgar/data/1105705/000095014406001556/g99294e10vk.htm>
- Time Warner Inc. Investor Day 2014 Presentation Slides  
<http://ir.timewarner.com/phoenix.zhtml?c=70972&p=irol-EventDetails&EventId=5170773>
- [Optional chapters from reference texts??]

## Group Project (due in 1 month)

- In the context of an evolving EMT ecosystem, develop a hypothetical scenario for Time Warner to restructure itself with the aim of creating greater long-term shareholder value. Include a disposition of HBO and provide expected financial outcomes with supporting data and persuasive rationale.
- Explore the merits of the restructuring, including the opportunities and threats being addressed, financial returns, balance sheet implications and other relevant considerations.
- Team members will be assigned based on background to incorporate a diversity of skillsets and areas of interest.

## Module 3: Charter Communications: Battle for Industry Leadership - M&A in Cable TV

### Learning Objectives:

- Develop analytical tools to assess feasibility of M&A proposals
- Understand the historical perspective of past M&A to give perspective on future M&A trends and lateral implications

- Identify defensive strategies against hostile takeovers
- Evaluate the implications of the merger and the lateral impact on the existing EMT ecosystem

**Discussion Points:**

- History of the cable industry and the mid-term outlook
- Hostile takeover and defense strategies
- Drivers for consolidation
- Scale & scope in the cable business model
- Valuation of potential merger synergies
- Regulatory environment & constraints on consolidation
- Shareholder and bondholder interests and investment preferences

**Exercises:**

- M&A scenario analysis (construct pro forma deal structures based on price and funding mix)
- Quantification of synergies – facts or fiction
- Structuring asset disposals to meet regulatory objectives.

**Required Readings:**

- Charter Communications Form 8-K (January 13, 2014): Merger Proposal with Time Warner Cable  
<http://www.secinfo.com/d11a2s.nn.a.htm>
- Comcast Time Warner Cable Merger Announcement  
<http://corporate.comcast.com/news-information/news-feed/time-warner-cable-to-merge-with-comcast-corporation>

**Module 4: Verizon: Taking Out a Minority - Debt Analysis & Capital Markets in Telecom**

**Learning Objectives:**

- Explore valuation of minority interests and the value of control.
- Refine methods of comparing financial future states in periods of change.
- Understand the perspectives of CEO and CFO in assessing the pros and cons of capital raising options and evaluate the impacts on financials and valuation of company.
- Understand current trends in the debt capital markets such as market liquidity, global syndication and execution risk.
- Understand the perspective of credit rating agencies and debt investors.
- Examine the methods used by rating agencies to assess financial risks.
- Learn how debt investors assess investment opportunities including concepts of relative value in debt.

**Discussion Points:**

- Review of joint ventures including characteristics of control
- Financial and strategic rationales for creating and dissolving partnerships
- Valuation of a controlling stake
- Debt capital market syndication
- Credit ratings
- Investor relations and market communications

**Exercises:**

- Credit ratings analysis (ratio analysis and comparable analysis)
- Relative value analysis of debt securities
- Pro-forma forecasting
- Managing debt maturities considering cost of debt and redemptions
- Cost of capital analysis

**Required Readings:**

- Verizon Communications Inc. Form S-4 (November 12, 2013) <http://www.secinfo.com/d14D5a.xDc2r.htm>
- Verizon Communications 2Q 2013 Financial and Operating Information <http://www.verizon.com/about/investors/quarterly-reports>

**Module 5: Netflix: Splitting for High Growth - Equity Analysis in Internet Media****Learning Objectives:**

- Explore suitability of different corporate structures for different goals and environments.
- Understand the factors that drive decision making in how to position & structure a company in the context of a changing operating environment.
- Understand the factors that drive equity valuations and how different financial & operating characteristics influence valuation multiples.

**Discussion Points:**

- Assessing potential market opportunities and the innovation cycle
- Valuation methodologies and drivers
- Secular headwinds and tail winds in the home entertainment industry
- How to evaluate future states and scenario analysis under conditions of uncertainty

**Exercises:**

- Price sensitivity and decision tree analysis to assess strategic and financial alternatives
- Projection analysis
- Sum-of-the-parts valuation analysis

**Required Readings:**

Netflix Blog <http://blog.netflix.com/2011/07/netflix-introduces-new-plans-and.html> <http://blog.netflix.com/2011/09/explanation-and-some-reflections.html>  
Netflix 2Q 2011 Operating Results <http://ir.netflix.com/index.cfm>

**Module 6: Dell: Taken Private - LBOs in Technology****Learning Objectives:**

- Explore the factors that make EMT companies attractive to private equity investors.
- Consider the distinct circumstances that precipitated the Dell LBO.
- Weigh potential cyclical and secular headwinds against an increased debt load.
- Assess the relationship between controlling shareholder and public shareholders.
- Understand the evolution of debt capital markets for highly leveraged transactions.

**Discussion Points:**

- Bidding war with Carl Icahn
- Cyclical in technology spending
- Secular headwinds (iPad, Cloud Computing, Software-Defined Networks)
- LBO frenzy (club deals, stub equity)
- Enterprise valuation and debt leverage
- Managing debt obligations
- Covenant lite loans
- Conflicts of interest

**Exercises:**

- LBO modeling analysis (construct “what-if” scenario tables)
- Cost of capital analysis
- Assess strategic and financial alternatives

**Required Readings:**

- Dell Form 8-K: Plan of Merger (May 31, 2013)  
<http://www.sec.gov/Archives/edgar/data/826083/000119312513227999/d505470dprer14a.htm>

**Project Presentation on M&A****Final Group Project Presentation:**

- Identify an M&A target for a legacy EMT company of your choosing which will enable that company to better adapt and compete in the evolving EMT ecosystem.
- Explore the merits of the acquisition, including the opportunities and threats being addressed, financial returns, balance sheet implications and other relevant considerations.
- Present a compelling argument that the acquisition has a strong business rationale and satisfies financial hurdles.

**Learning Objectives:**

- Understand and integrate various topics discussed during the course of the class, including past and future industry dynamics, M&A valuation, financial modeling and debt deployment.
- Gain insight and experience in critical analysis undertaken by industry executives, which balance business needs with shareholder considerations and capital constraints.

**Instructor Policies****Attendance/Lateness:**

- Students are expected to attend each class and actively participate in the discussion of key issues.
- Missing class or being late will adversely affect your class participation grade.
- Class will start promptly at 6:30 pm. Late students do a disservice to themselves and their classmates.

**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 and to contribute your perspective or question to class.
- Learning comes from each student trying to understand the key issues, the cases, and accessing the primary sources. The final project requires group analysis and a presentation within a team environment. Project participation and more broadly class participation will be graded on the quality of each student's interaction, preparedness, extent of knowledge, ability to get to the heart of the matter, and building on the statements/contributions of others.