NEW YORK UNIVERSITY
NYU STERN
LEONARD N. STERN
SCHOOL OF BUSINESS

# EMT PROGRAM

## FINC-GB.3126.10. FA16

## Financial Analysis in Media and Entertainment

**FALL 2016**

## Monday, 6:00 – 9:00 pm

Professor: Christopher Dixon
Office: K9 150 Carrel 1
Hours: Monday 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 provides a framework to analyze the media industry and uses classic financial modeling exercises to examine the modern media company. There is a focus on the core "drivers" one needs to examine to develop successful business plans in the media sector, as well as a discussion of valuation and corporate structure as it relates to different companies 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:

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| Cases; assignments | 65% |
| Participation | 5% |
| Final exam | 30% |
| 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 contribute 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 Wreck 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**

*Final readings and assignments may vary based on events in the market place. The current plan for Fall 2016 is as follows:*

*Primary Sources:* Primary sources are available on the Internet from the SEC's web site; www.sec.gov/edgar.shtml and individual company web sites.

*AOL* http://ir.aol.com/phoenix.zhtml?c=147895&p=quarterlyearnings
*YAHOO!* http://investor.yahoo.net/sec.cfm
*FACEBOOK* http://investor.fb.com

*DreamWorks Animation* www.dreamworks.com
http://www.sec.gov/Archives/edgar/data/1297401/000095012304008590/y98977sv1.htm

*NetFlix* http://ir.netflix.com/releases.cfm

*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 Cable Goes Over the Top*

*The Wreck*

*Required Readings:*

*GOOG - Initiating Coverage with a SELL,* Laura Martin, Soleil Securities
*Valuing Media Stocks - A Look behind the Curtain,* Christopher Dixon

Online

http://www.ifpi.org/downloads/Digital-Music-Report-2014.pdf
http://riaa.com/media/D1F4E3E8-D3E0-FCEE-BB55-FD8B35BC8785.pdf
http://www.kpcb.com/internet-trends

*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 spreadsheets will be attached. The executive summary is to be typed, double-spaced and **uploaded on NYU Classes**. **<u>Please remember to make sure your name is in the heading of each spreadsheet and executive summary.</u>**
2. All spreadsheets shall be prepared in Excel.
3. The Wreck 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.
6. Each week students should prepare a valuation exercise showing the Market Value, the Total Enterprise Value, PE and TEV/EBITDA multiples for leading media companies. The valuation spread sheet shall be handed in on 12/10. Hint: doing this weekly is easy and shouldn't take more than about fifteen minutes. Think of it as a valuation "finger exercise". Putting it off to the end can be painful.
7. Missing assignments can have a significant impact on your grade. It is better to submit what you have done and completed than to submit nothing at all.

| | DUE DATES |
|---|---|
| Central Cable Part 1 | 11/14 |
| Central Cable Part 2 | 11/21 |
| The Wreck Presentation (group) | 11/28 |
| NetFlix Spread sheet | 12/5 |
| Disney/Marvel Final, Valuation | 12/12 |

# *Financial Analysis in Media and Entertainment*

**SESSION**

| **1** | | **Setting the Stage 11/7** |
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Framework for the course, review syllabus, provide assignments, explain content of course and the delivery.

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**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
- Basic math – What is Market Value, TEV, multiples?

**Assignment for Session 2:** Dixon, "Valuing Media Stocks"; Martin, "GOOG Initiating coverage with a SELL"

Valuation Exercise: DISNEY, TIME WARNER, 21st Century Fox

*Case: Central Cable goes over the top: Part 1.*
Prepare basic income statement and budget for Central Cable.

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 11/14 |
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Valuation techniques. Discounted cash flow, comparative valuations, "sum of the parts", asset based analysis. The basic cash flow model. The optimum capital structure.

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**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 the point of developing a scenario analysis for Central Cable using Excel?
5. Is an "over the top" programming service a good idea for a cable or satellite operator?

**Assignment for session 3:** *Reading*: DreamWorks Animation prospectus, "The Motion Picture Industry", MD&A section
Valuation Exercise: Viacom, Dreamworks Animation
*The Movie Business*, Kelly Charles Crabb, Simon & Schuster, Copyright 2005
"Producing the Movie" pages 213 to 261;

*Case:* Read *The Wreck*
*Case:* Complete *Central cable goes over the top: Part 2*

| 3 | | The Film Studio - Content is King 11/21 |
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Individual film economics. Distribution windows. The studio Model. Minimizing risk. Controlling costs. Optimizing returns.

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

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**Assignment for Session 4**
Prepare presentations for *The Wreck*

*Reading:* Review Netflix Investor Relations web site
Valuation Exercise: Comcast, Time Warner, Cablevision, Direct TV

## 4. Television 11/28

What is television?
The strengths and weakness of subsidized revenues (advertising) versus subscription.
Competitive threats.
The revenue model. Cable, broadcasting, over the top. Distribution systems. Strategic alternatives.
Critical Issues.

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**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. Does the delivery mechanism matter?
5. Do the regulators help or hinder?
6. What is the value of programming?
7. How does the television model compare to the magazine model, to radio?

**Assignment for session 5** Prepare 2017 Projections for NetFlix using template provided, Develop a target stock price for year-end 2016 justify your conclusion.

Review Mary Meeker presentation: http://www.kpcb.com/internet-trends
Review CBS, Viacom investor relations sites. Calculate Equity Value, Total Enterprise Value, trailing twelve month EBITDA, shares outstanding and current multiples for each company

## 5 The Internet, Emerging Digital Models 12/05

Applying traditional media analysis to the internet – The power of digital
Internet business models – Responding to changing consumer behavior – multiplicity of devices, channels; dis intermediation, advertising models on the net, the law of network economics, scale. Online publishing. How do you value Netflix? Is Facebook a Media Company?

Valuation issues

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**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 monetization model for Google, Facebook, Twitter, Netflix
6. How are they valued
7. How does Netflix compare to traditional studios

**Assignment for session 6**: Music, historical perspective, the new business model
Read*: http://www.ifpi.org/content/library/dmr2013.pdf*
Final Exam; Disney & Marvel

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| **6** | | **A: Music B: The Integrated Media Company 12/12** |

**For your consideration:**

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

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.

Other issues:
Managing Creatives,
Facebook as a media company – combining a directory with content.