

**NEW YORK UNIVERSITY
Stern School of Business**

**Spring Term 2005
Investment Banking and Private Equity in Entertainment and Media**

Instructors:
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Course Description:

The past decade has been a period of dynamic transformation for the media and entertainment industry. Due to the advent of new technologies and content distribution platforms, broad governmental deregulation, volatile and active capital markets, and ever-changing strategic direction, the media and entertainment industry has continued to evolve. New players have emerged and consolidation has changed the face of the industry.

This course focuses on the role of investment banking and private equity in impacting the media and entertainment industry. The course will analyze the fundamental tools of investment banking and private equity, including forms of private and public capital raising, capital structure analysis, company and sector valuation techniques, and merger and acquisition analysis, with a specific focus on how these tools are applied to the media and entertainment industry. Based upon an understanding of these fundamental tools, the course will examine the major sectors of media and entertainment, including radio and TV broadcasting, publishing and advertising, cable and satellite distribution, cable networks, movie production and distribution, music and general entertainment. Each class will discuss how the financial markets have impacted the sector and involve a discussion of business and operating strategy, valuation relative to the sector, industry players, recent and prospective consolidation, competition and regulation. Through the use of case studies on significant companies and transactions, students will be provided with an in-depth view of the role of investment banking and private equity in transforming the media and entertainment industry.

Professors Finkel and Grovit specialize in the areas of media and entertainment investment banking and private equity for Credit Suisse First Boston and Goldman Sachs, respectively. They have provided strategic advisory services to, and participated in significant capital raising for, many of the leading media companies in the U.S. and abroad during the past decade. They have extensive experience with mergers and acquisitions, venture capital, private equity and public financing for a broad range of companies in the media and entertainment sector.

Suggested Reading:

Entertainment Industry Economics, Harold L. Vogel, Fifth Edition, Cambridge University Press.

Spring 2005 Course Outline

Overview of Class Sessions:

- 1 **Fundamentals of Media and Entertainment Financial Valuation**
The class will provide a framework for understanding how media and entertainment companies are valued by public and private investors. Techniques that will be covered include common stock comparisons, deal comparables, discounted cash flow, leveraged buyout, free cash flow and sum of the parts analyses. The above techniques will be applied across different sectors to demonstrate how investors value media and entertainment businesses.
- 2 **Capital Structures and Public Capital Raising:**
The class will provide an overview of how media and entertainment companies raise capital in the public markets, including a discussion of the various layers of the capital structure. A case study of Radio One (the leading public media company focusing on the African-American market) will be used to analyze how this company has raised public capital to finance its evolution from a small private company into a leading publicly-held broadcasting company. Specific discussion will include an analysis of Radio One's Initial Public Offering, issuances of common stock, convertible debt, bank debt and high yield securities.
3. **Private Capital Raising**
The class will provide an overview of how media and entertainment companies raise capital in the private markets. Case studies will be used to demonstrate the methods used by private equity and venture capital investors in making investment decisions. Different forms of capital will be analyzed, including mezzanine, merchant banking and venture capital. Case studies will include the creation of the Yankees Entertainment Sports (YES) cable network by Goldman Sachs, the New York Yankees and Providence Equity, and the acquisition of Deutsche Telekom's cable assets by Goldman Sachs and Providence Equity.
4. **Mergers and Acquisitions**
The class will focus on the evolution of the media and entertainment landscape through mergers and acquisitions. Case studies will be used to analyze transactions that have meaningfully transformed the media and entertainment industry, including through horizontal and vertical integration in content and distribution. Transactions that will be discussed include the AOL-Time Warner merger and the bid by Comcast to acquire Disney.

5. Radio and Television Broadcasting
The class will involve a broad review of the broadcasting industry, including: evolution of the industry during the past decade, deregulation and prospective ownership rule changes, analysis of major radio and TV players, valuation particular to the industry, major financing events, recent and prospective consolidation, current trends and new technologies. Case studies will focus on the emergence of industry mega players (Clear Channel and Infinity Broadcasting), targeted demographic companies (Hispanic Broadcasting, Univision and Radio One) and the impact of financial markets (Citadel Broadcasting's evolution from IPO to going private acquisition by Forstmann Little back to IPO).
6. Publishing and Advertising
The class will focus on the various segments of the publishing and advertising industries, including magazines, newspapers, marketing services, creative advertising and education. These industries have become increasingly global in nature and the class will use cases studies to analyze the creation of the global advertising agencies (Interpublic, WPP and Omnicom) and the transfer of the major U.S. education companies (Harcourt, Simon & Schuster and Houghton Mifflin) to European players (Pearson, Reed Elsevier and Vivendi). Global magazine and newspaper companies such as Hearst and Gannet will also be discussed.
7. Cable and Satellite Distribution
The class will involve an overview of the cable and satellite distribution industry, including deregulation, technological development, evolution of the industry during the past decade, analysis of major players, valuation particular to the industry, major financing events, recent and prospective consolidation, current trends and new technologies. Case studies will focus on the emergence of cable and satellite mega players: Comcast's growth into an industry powerhouse, acquisition of AT&T's cable systems, and bid to acquire Disney; and Echostar's bid to acquire DirecTV and ultimate sale of DirecTV to News Corp.
8. Cable Networks
This class will focus on existing cable channels and the process for launching and financing a new cable television network. All aspects of the start-up process will be considered, including: developing the concept; business plan analysis; structuring agreements with strategic partners; negotiating distribution and content arrangements; and raising financing. In addition to a review of established channels, the class will include case study analyses of two networks recently sold or launched: Black Entertainment Television, sold to Viacom; and TV One, launched by a joint venture between Comcast and Radio One.
9. Music
The class will focus on developments within the music industry, including economic performance of major players, globalization of the sector, impact of the Internet and technological developments on the industry, anti-piracy campaigns and significant recent consolidation. Case studies will focus on the major impact of private equity in reshaping the industry, including the sale of Warner Music to an investor group led by Edgar Bronfman and Tom Lee.

10. General Entertainment
The class will focus on media and entertainment conglomerates and their role in transforming the industry. The class will discuss the evolution of these companies as well as their current strategies. It will address the influence of regulation, technology, different business models and access to capital, as well as the different visions of high profile media moguls. Case studies will be used to discuss the major companies and their CEOs, including Viacom (Sumner Redstone), Time Warner (Dick Parsons), NBC/Universal (Bob Wright), Newscorp (Rupert Murdoch) and Disney (Michael Eisner).
11. Movies, Movie Exhibitors and Video
The class will focus on the various business models employed throughout the movie industry, including movie studios, movie exhibitors and video rental. The multiple revenue streams earned by companies that participate across the various segments will be discussed. Case studies for Blockbuster, Cinemark, Loews Cineplex and Regal Cinemas will provide context to how technology innovations and cyclical capital markets have influenced these businesses. In particular, the consolidation of the movie exhibitor industry will be discussed including the role of private equity and hedge funds throughout different parts of the economic cycle.
12. Wrap Up Class
The class will provide a discussion of major trends affecting the industry, including the importance of content vs. distribution, the need for scale and vertical integration to effectively compete with industry leaders, the current state of the capital markets, and resulting impact on company strategies, and prospective consolidation. Class time will be devoted to discussion of student presentations to be provided the following week.
13. Student Presentations
14. Student Presentations

Course Grading

Mid-term paper:	35%
Final presentation:	50%
Class participation:	15%

Students will perform two valuation projects over the course of the semester. For the first project, students will be required to analyze a case study of a media combination and resulting financing. Students will be asked to undertake a valuation of the transaction and discuss strategic implications.

The first valuation project will be due by the date of midterm examinations and will be handed in as written project. Feedback on the project will help students prepare their final project, which will be submitted both in written form and presented before the class over the final two class sessions.

For the final presentation, students will be asked to create their own concept for a cable network and simulate a presentation to private equity investors. Student presentations will focus on the following elements: creation of a niche content format, analysis of competition for the new network, formation of a business plan for the network, development of potential content and distribution strategies, proposed strategic partnerships for the network, capital raising alternatives and valuation analysis.