
2018 Duff & Phelps
YOUiversity Deal Challenge

October 2017



Table of Contents

| Section | Topic | Page |
|------------|------------------------|------|
| I. | Executive Summary | 3 |
| II. | Background | 5 |
| III. | Industry Information | 14 |
| IV. | Management Plan | 21 |
| Appendix A | Deliverables | 23 |
| Appendix B | Additional Assumptions | 27 |

Section 1

Executive Summary

Executive Summary

- ❖ TCO Co. (“TCO” or the “Company”) is a newspaper publisher, distributing content generated by its newsroom through print, web, and mobile platforms. The Company’s operations include its flagship newspaper The Los Angeles Tribune (“The LA Tribune”) and the Internet site, LATribune.com¹.
- ❖ Originally founded in 1880s, The LA Tribune has developed a reputation for premium content and journalistic excellence. The LA Tribune ranks fourth in circulation among the nationally distributed Newspapers in the United States.
- ❖ The Company’s business model has been facing challenges in growing its subscription revenue as consumers transition from traditional home delivery circulation to online consumption of news.
- ❖ The recent stronger news cycle following the election has benefited The LA Tribune’s circulation—specifically, digital subscription saw a substantial increase—but advertising headwinds remain a challenge for the Company, and the newspaper publishing industry as a whole.
- ❖ Revenue in Fiscal Year (“FY”) 2016 was approximately \$817.0 million, and is projected to be \$835.0 million in FY 2017. EBITDA in FY 2016 was \$48.6 million and is projected to be \$50.0 million in FY 2017.
- ❖ Miguel Jorgensen¹, the billionaire founder of WeShop.com¹ has approached the board of TCO with a proposal to acquire the Company.
- ❖ Your Valuation Advisory firm has been hired to provide a range of values for TCO to help the Board make a decision about the offer they’ve received.



(1) TCO Co., The LA Tribune, Miguel Jorgensen, and WeShop.com are fictional; All information in the case was constructed solely for the purpose of this case.

Section 2

Background



Business Description

- ❖ TCO newspaper publishing operations include results for The LA Tribune and LATribune.com.
- ❖ The LA Tribune is a morning daily and Sunday newspaper primarily distributed by home delivery in the Los Angeles metropolitan area.
- ❖ The LA Tribune's two primary sources of revenue are advertising and subscription fees, which accounted for 56% and 44% of the revenue in FY 2016.
- ❖ For the FY ending December 31, 2016, the average paid weekday and weekend circulation subscribers of the LA Tribune was 610,000 and 640,000, respectively (as reported by Alliance for Audited Media, an independent agency that audits circulation of most U.S. newspaper and magazines).
- ❖ For the FY ending December 31, 2016, the average paid daily digital subscriber of the LA Tribune was 750,000.



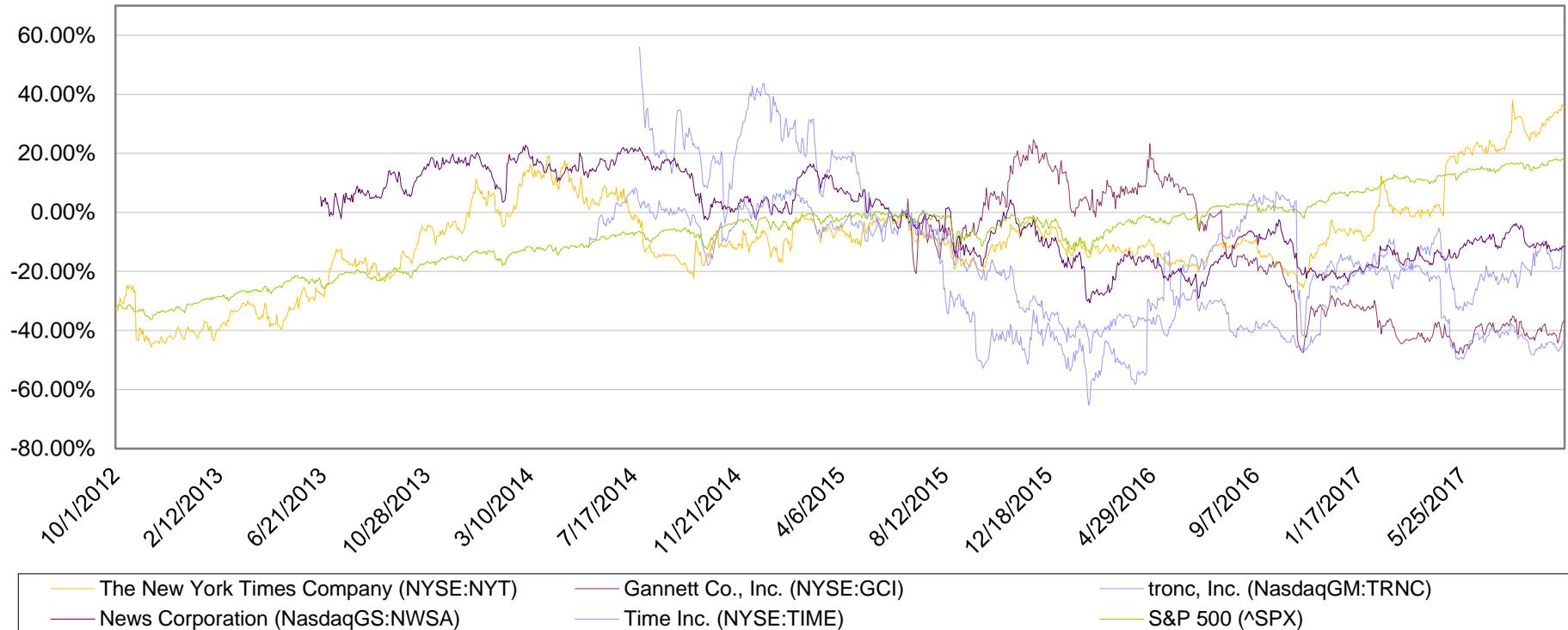
- ❖ The LA Tribune is mainly distributed in the greater Southern California, with 90% of daily and Sunday circulation within a 50-mile radius of Los Angeles.
- ❖ The newsstand price is \$1.50 for the daily newspaper and \$2.00 for the Sunday edition.
- ❖ Subscription prices range from \$1.00 to \$3.00 per week for digital only subscription, \$5.00 to \$7.50 per week for weekday print subscription, and \$1.50 to \$2.00 for weekend print subscription. Average subscription fee per week varies depending on various packages offered and marketing/promotional deals.
- ❖ The newspaper's website, LATribune.com, was launched in 1997. It features much of the full editorial text of The LA Tribune, as well as original text and video content, blogs written by reporters and others, interactive discussions hosted by reporters and outside experts, user generated comments and content from other sources.
- ❖ The Company launched a paid digital subscription service in 2011.

Operating Environment

- ❖ The Company has experienced a drop in print subscription over the past few years, and it has tried to offset the revenue loss from the traditional print circulation by focusing on digital subscription.
- ❖ Despite stable subscription numbers and a gradual increase (including digital subscribers) in the number of subscribers, Management expects a decrease in total net advertising revenues in 2017.
- ❖ Recent trends in technology have increased advertising inventory. Advertisers have more options to target the consumers.
- ❖ As a result, traditional media and entertainment companies have experienced a significant challenge from the new forms of technology for their advertising dollars.
- ❖ Due to the recent changes, Management of traditional media and entertainment companies have been forced to create additional sources of revenue to compensate the loss of advertising dollars.

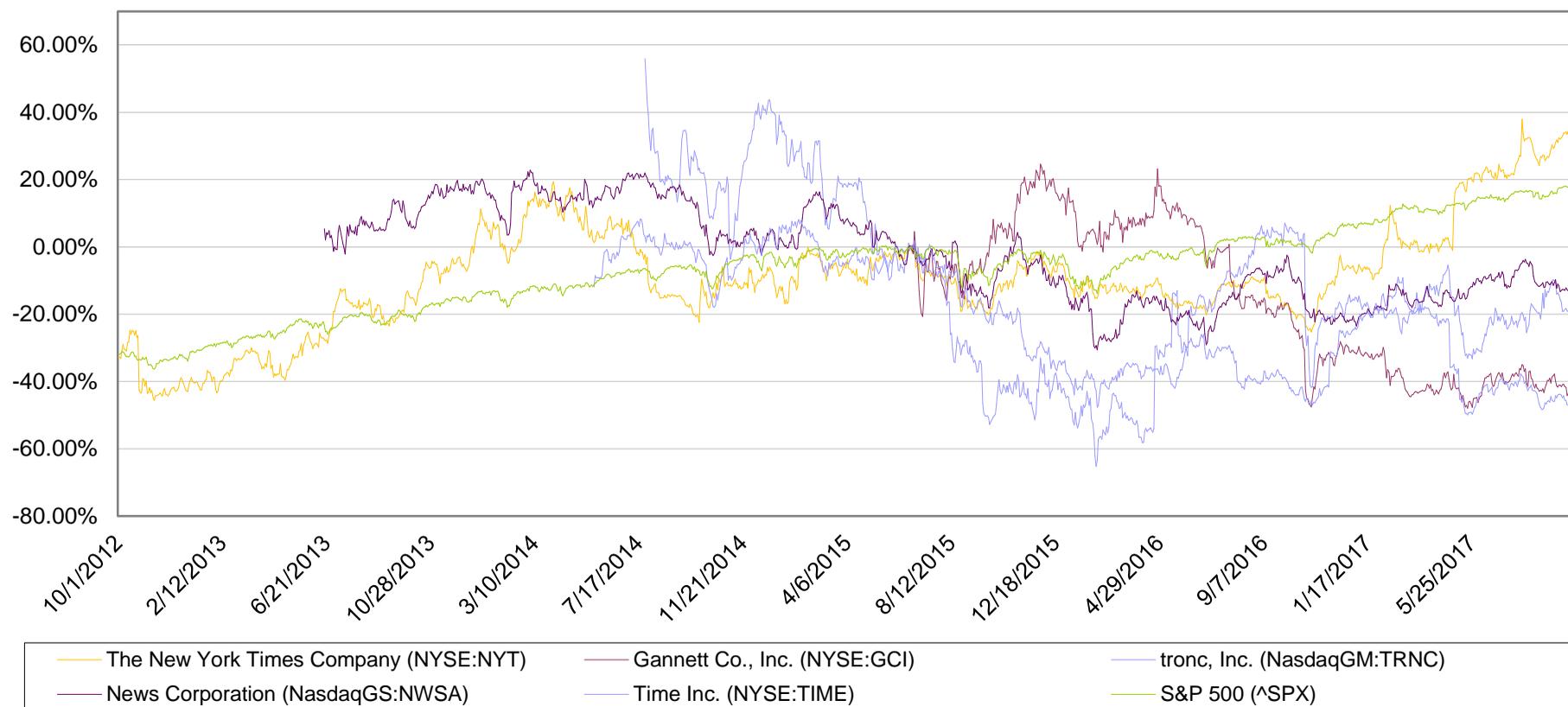
A Changing Landscape

- ❖ Over the past few years, media companies and conglomerates have spun off their publishing businesses, such as Twenty-First Century Fox's split from News Corp. in June 2013 and Time Warner's spin off of Time Inc. in June 2014.
- ❖ Pressure by certain activist investors in the past few years have also precipitated change in the publishing industry. For example, in June 2015, Gannett Inc. separated into two companies—TEGNA Inc., a broadcasting and digital company, and Gannett Co. Inc., a publishing company—after pressure by activist investor Carl Icahn.
- ❖ These strategic moves benefited EBITDA margins of the parent companies because amid persisting secular pressures, those spun-off businesses—mainly newspapers and magazines—had constrained overall profitability for both parent companies.



Underperforming Stocks

- ❖ Recently, share prices of the publicly traded traditional newspaper and periodical companies have done poorly relative to the performance of the S&P 500 Index. Technological changes in conjunction with the changes in consumer behavior and uncertainty surrounding the ability of traditional newspaper and periodical players to adapt to new changes are factors that have put the share prices of these companies under pressure.
- ❖ NY Times is the only exception. The NY Times coverage of U.S. national politics has attracted new subscribers to its print and digital platforms.



Historical Financial Information¹

Historical Financial Information: Income Statement

(USD in Thousands, except Subscription fee)

| | 2014A | 2015A | 2016A | LTM June 2017A |
|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| # of subscribers - weekday | 700 | 600 | 610 | 600 |
| Avg. subscription fee / week | \$ 6.00 | \$ 6.50 | \$ 6.50 | \$ 6.50 |
| # of subscribers - weekend | 800 | 650 | 640 | 615 |
| Avg. subscription fee / week | \$ 2.00 | \$ 1.75 | \$ 1.60 | \$ 1.60 |
| News print subscription | 301,600 | 261,950 | 259,428 | 253,716 |
| # of subscribers | 400 | 650 | 750 | 1,000 |
| Avg. subscription fee / week | \$ 3.50 | \$ 3.30 | \$ 2.50 | \$ 2.25 |
| Digital only subscription | 72,800 | 111,540 | 97,500 | 117,184 |
| Circulation | \$ 374,400 | \$ 373,490 | \$ 356,928 | \$ 370,901 |
| Print Advertising | 360,000 | 297,500 | 275,000 | 265,000 |
| Digital Advertising | 120,000 | 127,500 | 165,000 | 170,000 |
| Display | 480,000 | 425,000 | 440,000 | 435,000 |
| Classified | 30,000 | 25,000 | 20,000 | 17,000 |
| Advertising | \$ 510,000 | \$ 450,000 | \$ 460,000 | \$ 452,000 |
| Total revenues | 884,400 | 823,490 | 816,928 | 822,901 |
| Production costs: | | | | |
| Wages and benefits | 243,210 | 228,518 | 228,518 | 231,369 |
| Raw materials | 48,256 | 41,912 | 41,508 | 40,595 |
| Other | 108,339 | 102,936 | 102,116 | 102,863 |
| Total production costs | 399,805 | 373,367 | 372,143 | 374,826 |
| Selling, general and administrative | 424,512 | 395,275 | 396,210 | 397,914 |
| Total costs | 824,317 | 768,642 | 768,353 | 772,740 |
| EBITDA | 60,083 | 54,848 | 48,575 | 50,161 |
| Depreciation & Amortization | 17,688 | 16,470 | 16,339 | 16,458 |
| EBIT | 42,395 | 38,378 | 32,236 | 33,703 |
| Interest Expense | 10,000 | 10,000 | 8,750 | 8,750 |
| Income Taxes Expense | 12,958 | 11,351 | 9,395 | 9,981 |
| Net Income | 19,437 | 17,027 | 14,092 | 14,972 |
| Capital Expenditures | 17,688 | 16,470 | 16,339 | 16,458 |

Notes:

1. Newsstand revenues are included in News print subscription.
2. Production costs include items such as labor costs, raw materials and machinery and equipment expenses related to news-gathering and production activity, as well as costs related to producing branded content.
3. Other expenses include outside services (\$19.3 million in FY16), travel and entertainment (\$5.0 million in FY16), outside printing expenses (\$77.8 million in FY16). Outside printing expense has declined in 2016 compared with 2015 due to lower consumption and flat pricing. On average, outside printing expense has been approximately 30% of the news print subscription revenues. Outside services has increased due to professional fees related to improving and maintaining LATribune.com. Travel and entertainment has been flat over the past 3 years.
4. Selling, general and administrative costs increased in 2016 compared with 2015 primarily due to an increase in compensation cost related to coverage of the election and new digital initiatives, partially offset by a decrease and distribution costs. Compensation costs increased primarily as a result of increased hiring to support growth initiatives and business acquisitions. Distribution costs decreased primarily as a result of fewer print copies produced and lower transportation costs. On average, distribution cost has been approximately 12% of news print subscription revenues.

Historical Financial Information¹

Historical Financial Information: Common Size

(% of Total Revenues)

| | 2014A | 2015A | 2016A | LTM June 2017A |
|---|---------------|---------------|---------------|-------------------|
| News print subscription | 34.1% | 31.8% | 31.8% | 30.8% |
| Digital only subscription | 8.2% | 13.5% | 11.9% | 14.2% |
| Circulation | 42.3% | 45.4% | 43.7% | 45.1% |
| Print Advertising | 40.7% | 36.1% | 33.7% | 32.2% |
| Digital Advertising | 13.6% | 15.5% | 20.2% | 20.7% |
| Display | 54.3% | 51.6% | 53.9% | 52.9% |
| Classified | 3.4% | 3.0% | 2.4% | 2.1% |
| Advertising | 57.7% | 54.6% | 56.3% | 54.9% |
| Total revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Production costs: | | | | |
| Wages and benefits | 27.5% | 27.8% | 28.0% | 28.1% |
| Raw materials | 5.5% | 5.1% | 5.1% | 4.9% |
| Other | 12.3% | 12.5% | 12.5% | 12.5% |
| Total production costs | 45.2% | 45.3% | 45.6% | 45.5% |
| Selling, general and administrative costs | 48.0% | 48.0% | 48.5% | 48.4% |
| Total costs | 93.2% | 93.3% | 94.1% | 93.9% |
| EBITDA | 6.8% | 6.7% | 5.9% | 6.1% |
| Depreciation & Amortization | 2.0% | 2.0% | 2.0% | 2.0% |
| EBIT | 4.8% | 4.7% | 3.9% | 4.1% |
| Interest Expense | 1.1% | 1.2% | 1.1% | 1.1% |
| Income Taxes Expense | 1.5% | 1.4% | 1.1% | 1.2% |
| Net Income | 2.2% | 2.1% | 1.7% | 1.8% |
| Capital Expenditures | 2.0% | 2.0% | 2.0% | 2.0% |

Notes:

1. The Company has a relatively fixed cost structure. The Company has been able to implement some cost saving measures by cutting SG&A. However, most of the labor cost is fixed.

Historical Financial Information

Historical Financial Information: Balance Sheet

(USD in Thousands)

| | 2014A | 2015A | 2016A | LTM June 2017A |
|---|----------------|----------------|----------------|-------------------|
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | 2,441 | 12,294 | 2,216 | 9,498 |
| Accounts receivable, net | 119,394 | 115,289 | 110,285 | 111,092 |
| Prepaid expenses | 13,266 | 12,352 | 12,254 | 12,344 |
| Other current assets | 17,688 | 16,470 | 16,339 | 16,458 |
| Total current assets | 152,789 | 156,405 | 141,094 | 149,391 |
| Property, plant and equipment | 840,180 | 856,650 | 872,988 | 882,532 |
| Less: accumulated Dep. & Amort. | (592,548) | (609,018) | (625,356) | (634,900) |
| Property, plant and equipment, net | 247,632 | 247,632 | 247,632 | 247,632 |
| Goodwill | 50,000 | 50,000 | 50,000 | 50,000 |
| Total assets | 450,421 | 454,037 | 438,726 | 447,023 |
| Liabilities and stockholders' equity | | | | |
| Current liabilities: | | | | |
| Accounts payable | 44,220 | 41,175 | 40,846 | 41,145 |
| Accrued payroll and other related liabilities | 53,064 | 49,409 | 49,016 | 49,374 |
| Unexpired subscriptions | 29,952 | 29,879 | 28,554 | 28,763 |
| Current portion of long-term debt | 25,000 | 25,000 | 25,000 | 25,000 |
| Accrued expenses and other | 70,752 | 65,879 | 65,354 | 65,832 |
| Total current liabilities | 222,988 | 211,342 | 208,771 | 210,114 |
| Other liabilities | | | | |
| Long-term debt | 175,000.0 | 175,000.0 | 150,000 | 150,000 |
| Other | 61,908 | 49,409 | 40,846 | 41,145 |
| Total other liabilities | 236,908 | 224,409 | 190,846 | 191,145 |
| Stockholders' equity | | | | |
| Total stockholders' equity | (9,475) | 18,285 | 39,109 | 45,764 |
| Total liabilities and stockholders' equity | 450,421 | 454,037 | 438,726 | 447,023 |

Notes:

1. The Company uses its cash periodically to paydown debt to manage its leverage.
2. Other liabilities include deferred compensation primarily related to deferred executive compensation plan, uncertain tax positions, and various other liabilities.

Historical Financial Information

Historical Financial Information: Statement of Cash Flows

(USD in Thousands)

| | 2014A | 2015A | 2016A |
|---|-----------------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| Net income | \$ 19,437 | \$ 17,027 | \$ 14,092 |
| Operating activities adjustments: | | | |
| Depreciation and amortization | 17,688 | 16,470 | 16,339 |
| Stock-based compensation expense | 8,844 | 8,235 | 8,169 |
| <i>Changes in operating assets and liabilities:</i> | | | |
| Accounts receivable, net | 2,106 | 4,105 | 5,003 |
| Prepaid Expenses | 234 | 914 | 98 |
| Other current assets | 312 | 1,218 | 131 |
| Accounts payable | (780) | (3,046) | (328) |
| Accrued payroll and other liabilities | (936) | (3,655) | (394) |
| Unexpired subscriptions | (528) | (73) | (1,325) |
| Accrued expenses and other | (1,248) | (4,873) | (525) |
| Cash from operations | 25,692 | 19,296 | 27,169 |
| Cash flows from investing activities | | | |
| Capital expenditures | (17,688) | (16,470) | (16,339) |
| Cash from investing | (17,688) | (16,470) | (16,339) |
| Cash flows from financing activities | | | |
| Repayment of debt | (25,000) | - | (25,000) |
| Dividends paid | (10,000) | (10,000) | (10,000) |
| Cash from financing | (35,000) | (10,000) | (35,000) |
| Net decrease in cash and cash equivalents | (7,559) | 9,853 | (10,078) |

Notes:

1. The Company intends to maintain its dividend going forward.

Section 3

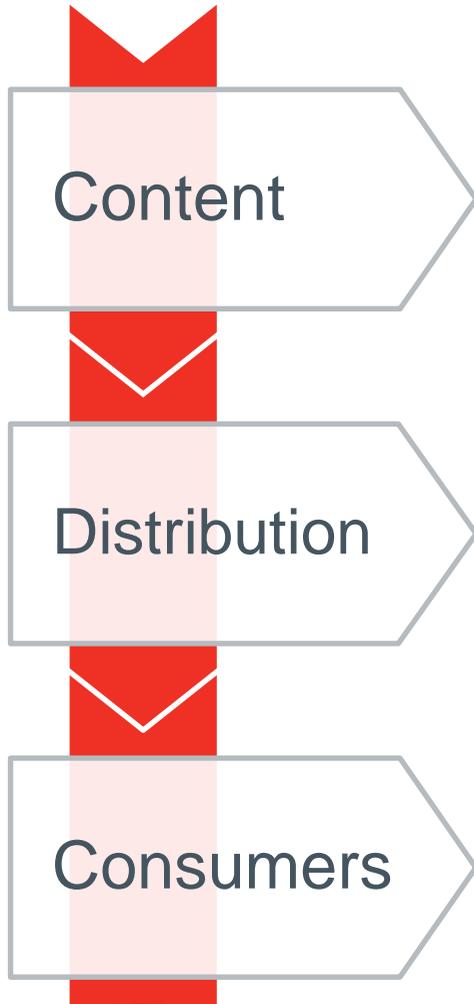
Industry Information



Entertainment & Media Platforms

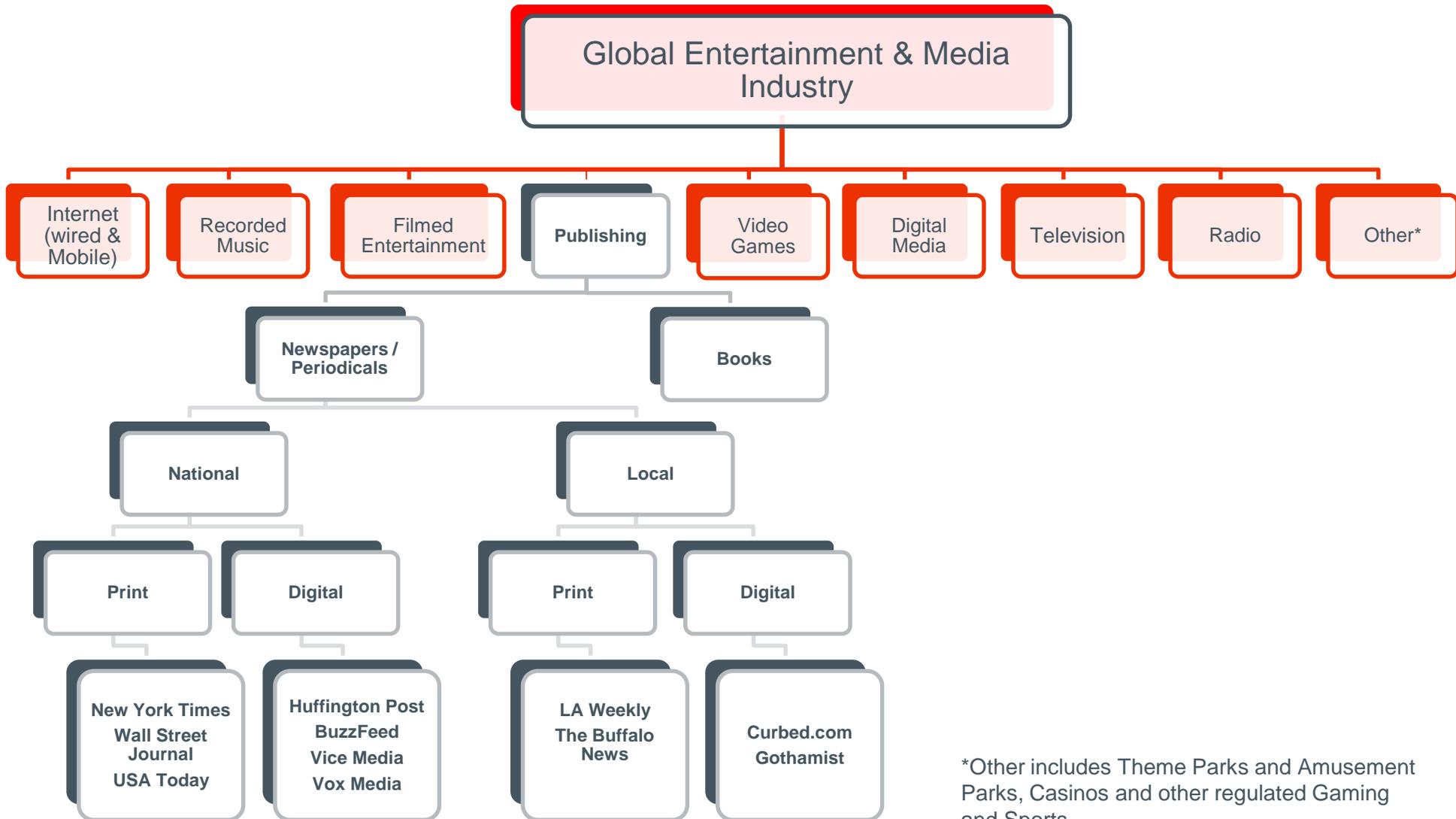
- Entertainment businesses are basically characterized by one of two activities:
 - Content creation
 - Distribution
- Content creation requires substantial upfront investment
 - Deficit financing model
- Distributors generate revenues from various kinds of distribution arrangements:
 - Sale or rental of their content to consumers (e.g. Home Video, iTunes, etc.)
 - Advertising sales; and
 - Subscription service sales.
- The recent convergence of media platforms is providing both challenges and opportunities to market participants.
 - For example, the shift in content creation control from businesses into the hands of consumers. (User generated content is making up an increasing portion of the content provided on the Internet)
 - » Example: BuzzFeed, Vox, and online publishers
 - New forms of distribution, mobile, digital download, etc. has resulted in opportunities (i.e. Snapchat, Facebook, Instagram) and threats (publishing industry, music labels, etc.)

Publishing Industry Overview



- Newspaper publishing business is a sub set of the publishing industry, which comprises newspapers, magazines, and book publishing companies, as distinct from advertising agencies.
- Companies in the newspaper industry generate revenues through circulation (subscription and single-copy sales) advertising (digital and print), and related marketing, advertising services.
- Local news is typically gathered through local reporters and correspondents. For regional, national, and international news, newspapers acquire news through their correspondents (if large) and through subscriptions to news services such as Associated Press (AP), Reuter, etc. Editors are responsible for selection of news stories.
- Physical distribution of newspapers has two components: transportation to agents and distribution by agents. Companies usually work with independent transportation and distribution companies for delivery of physical editions.
- The advent of digital economy has revolutionized the distribution of news. Search engines such as Google.com, social media networks, such as Facebook and Twitter, and the websites of the newspapers have become additional distribution channels in which consumers are able to access the content generated by the companies in this industry.

Publishing Industry Structure Overview



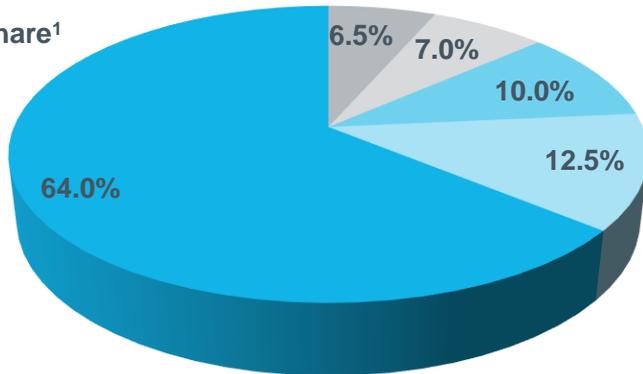
*Other includes Theme Parks and Amusement Parks, Casinos and other regulated Gaming and Sports.

Competitive Landscape – Newspaper / Publishing

Internal Competition

- ❖ The industry is relatively fragmented:
 - The industry’s top four players make up 36.0% of industry revenue.
 - The companies generally compete from the standpoint of content and pricing.
 - Advertisers are generally after a targeted audience rather than a large addressable market.

Market Share¹



■ Tronc, Inc. ■ The New York Times Company ■ News Corp. ■ Gannett Co., Inc. ■ Other

1. Source: SNL Kagan; Estimated industry revenue of approximately \$24.0 billion.

External Competition

- ❖ The publishing industry faces increased competition from other forms of entertainment that consumers can choose to fill their leisure time.
- ❖ It can be difficult for publishers to attract attention when the audience is fragmented and tastes and preferences are ever-changing.
- ❖ Compete on the basis of:
 - Content
 - Distribution Channel / Access
- ❖ Faces competition from:
 - Social Media
 - TV
 - Video Games
 - Movie Theaters
 - Theme parks
 - Sports

Newspaper Publishers Trends¹

- ❖ The industry's print base has been on a declining trend for quite some time. The decline in circulation has negatively impacted the advertising source of newspapers, directly.
- ❖ To make up for the loss, the publishers have sharpened their focus on increasing digital subscribers and monetizing their online properties, including their websites and social media pages.
- ❖ Despite cutbacks at traditional news organizations, digital-only publishers have managed to invest in reporters and expanding their video production capabilities.

| Newspaper Market in USA (US dollar millions) | | | | | | | | | | | 2016-21 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|
| | 2012A | 2013A | 2014A | 2015A | 2016p | 2017E | 2018E | 2019E | 2020E | 2021E | CAGR (%) |
| Advertising | | | | | | | | | | | |
| Digital advertising | 3,895 | 4,402 | 4,588 | 4,731 | 4,871 | 5,001 | 5,122 | 5,233 | 5,336 | 5,425 | 2.18% |
| Print advertising | | | | | | | | | | | |
| Classified | 4,692 | 4,350 | 4,019 | 3,613 | 3,235 | 2,863 | 2,506 | 2,176 | 1,866 | 1,583 | -13.33% |
| National | 3,122 | 2,906 | 2,712 | 2,469 | 2,228 | 1,983 | 1,758 | 1,559 | 1,373 | 1,201 | -11.63% |
| Retail | 11,106 | 10,356 | 9,606 | 8,681 | 7,755 | 6,916 | 6,084 | 5,302 | 4,596 | 3,944 | -12.65% |
| Total Print Adv. | 18,920 | 17,612 | 16,337 | 14,763 | 13,218 | 11,762 | 10,348 | 9,037 | 7,835 | 6,728 | -12.64% |
| Total | 22,815 | 22,014 | 20,925 | 19,494 | 18,089 | 16,763 | 15,470 | 14,270 | 13,171 | 12,153 | -7.65% |
| Circulation: | | | | | | | | | | | |
| Digital | 304 | 424 | 523 | 596 | 664 | 721 | 764 | 807 | 849 | 890 | 6.01% |
| Print | 10,178 | 10,446 | 10,657 | 10,760 | 10,840 | 10,901 | 10,940 | 10,958 | 10,950 | 10,904 | 0.12% |
| Total | 10,482 | 10,870 | 11,180 | 11,356 | 11,504 | 11,622 | 11,704 | 11,765 | 11,799 | 11,794 | 0.50% |
| Total | 33,297 | 32,884 | 32,105 | 30,850 | 29,593 | 28,385 | 27,174 | 26,035 | 24,970 | 23,947 | -4.15% |

1. Source: PwC Annual Industry Outlook..

State of the Newspaper Industry



Despite subscription surges for largest U.S. newspapers, circulation and revenue fall for industry overall

BY MICHAEL BARTHEL

Following last year's presidential election, some major U.S. newspapers reported a sharp jump in digital subscriptions, giving a boost to their overall circulation totals. The newspaper industry as a whole, however, faced ongoing challenges in 2016, according to new Pew Research Center analysis.

But these gains did not translate into circulation growth for the industry overall. A Pew Research Center analysis of data from AAM shows that total weekday circulation for U.S. daily newspapers – both print and digital – fell 8% in 2016, marking the 28th consecutive year of declines. (Sunday circulation also fell 8%.) The overall decline includes a 10% decrease in weekday print circulation (9% for Sundays) and a 1% decline in weekday digital circulation (1% rise for Sundays). Total weekday circulation for U.S. daily newspapers fell to 35 million, while total Sunday circulation declined to 38 million – the lowest levels since 1945. (For more information on how these totals were calculated, see our fact sheet.)

FORTUNE | Tech

Warren Buffett Says Most Newspapers, Including His Own, Are Doomed

Mathew Ingram
Feb 28, 2017



In an interview with CNBC, Buffett said he believes the only papers that are "assured" of a long life are probably the *New York Times*, the *Wall Street Journal*, and possibly the *Washington Post*.

"If you look, there are 1,300 daily newspapers left," Buffett said. "There were 1,700 or 1,800 not too long ago. Now, you've got the internet. Aside from the ones I mentioned, [most of them] haven't figured out a way to make the digital model complement the print model."

Buffett acquired most of his newspapers (he currently owns about 31 of them) by buying a company called Media General in 2012 for \$142 million, and made bullish comments about local papers and the role they play in small towns.

"Newspapers continue to reign supreme in the delivery of local news," he said at the time, in comments that many newspaper owners and editors celebrated. "If you want to know what's going on in your town—whether the news is about the mayor or taxes or high school football—there is no substitute for a local newspaper that is doing its job."

Section 4

Management Plan



2017 Budget

Projected Financial Information: Income Statement

(USD in Thousands, except Subscription fee)

| | <u>2017B</u> |
|-------------------------------------|-------------------|
| # of subscribers - weekday | 600 |
| Avg. subscription fee / week | \$ 6.50 |
| # of subscribers - weekend | 600 |
| Avg. subscription fee / week | \$ 1.50 |
| News print subscription | 249,600 |
| # of subscribers | 1,200 |
| Avg. subscription fee / week | \$ 2.25 |
| Digital only subscription | 140,400 |
| Circulation | \$ 390,000 |
| Print Advertising | 245,000 |
| Digital Advertising | 185,000 |
| Display | 430,000 |
| Classified | 15,000 |
| Advertising | \$ 445,000 |
| Total revenues | 835,000 |
| Production costs: | |
| Wages and benefits | 235,000 |
| Raw materials | 40,000 |
| Other | 105,000 |
| Total production costs | 380,000 |
| Selling, general and administrative | 405,000 |
| Total costs | 785,000 |
| EBITDA | 50,000 |
| Depreciation & Amortization | 16,700 |
| EBIT | 33,300 |
| Interest Expense | 8,750 |
| Income Taxes Expense | 9,820 |
| Net Income | 14,730 |
| Capital Expenditures | 16,700 |

Budget:

- ❖ Management expects the print subscribers decline to continue.
- ❖ Management expects 60.0% growth in the number of digital subscribers.
- ❖ Advertising revenues are expected to drop. Growth from digital advertising is expected to offset the drop in print advertising.
- ❖ Production cost is expected to remain flat as a percentage of total revenues.
- ❖ SG&A is projected to grow at 2% as the Company institutes cost control measures.
- ❖ Capital expenditures, depreciation and amortization are projected to remain constant as a percentage of the revenues.
- ❖ The Company does not expect any change in its capitalization.

Long-term Prospects:

- ❖ Management is concerned about the rising power of Google and Facebook and their control over the Company's content over search engines and social networks.
- ❖ Management is unsure about the prospect of advertising.
- ❖ Number of digital subscribers is expected to surpass print subscribers for the first time in the Company's history, in 2018. Activist investors have suggested discontinuing print circulation and focus on digital subscribers as the next major strategic move. No plan has been put together yet.
- ❖ Management would like to continue driving down its costs by using technology.
- ❖ Data analytics and monetizing subscribers data has been considered but not included in the budget.
- ❖ The capital expenditures are maintenance spending. No new initiative capital expenditures are expected in the near future.

Appendix A

Deliverables



Deliverable 1

- ❖ You are tasked to perform an analysis of the stand-alone fair market value (“FMV”) of TCO.
 - *We define Fair Market Value as the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell, and both having reasonable knowledge of relevant facts. In estimating Fair Market Value, we will assume the Company’s existing business to be ongoing.*
- ❖ Estimate the FMV of TCO based on a Discounted Cash Flow Analysis, a Comparable Company Analysis, and a Precedent Transaction Approach. Summarize your concluded value.
- ❖ Review the financial information provided for TCO and conduct your own market research. Prepare an analysis of the Company in relation to its strategic position, industry environment (from your research) and financial condition.
- ❖ Develop a detailed forecast for your discounted cash flow analysis:
 - ❖ Project revenues and costs and explain your rationale for each assumption.
 - ❖ Assess whether the increase in digital subscription can offset the drop in print subscription. Does it make sense for the Company to stop print and go fully digital subscription model?
 - ❖ Comment on the regional nature of LA Tribune. Do you think the Newspaper industry can survive in the long run on the regional versus national level (i.e. New York Times, Washington Post, WSJ); and
 - ❖ Consider sensitivity and scenario analysis of key drivers of value.

Deliverable 2

- A. TCO's board (the "Board") is exploring various strategic options for the company. The Board is split over the decision to sell the company to Miguel Jorgensen. The growth in revenues after years of declines has made the Board's decision much harder. Miguel Jorgensen also does not fit the description of a traditional buyer. One Board member suggests he is strategic buyer because he can leverage WeShop.com's platform and network of members to promote The LA Tribune. Another suggest Miguel Jorgensen is a financial buyer since his family office is investing in TCO.
- B. Compare and contrast the strategic and financial buyers. In answering this question, comment on synergies, leverage, and premium each buyer would be willing to pay. Also comment on the investment horizon and potential exit strategies for each buyer. In addition, comment on operational differences for LA Tribune under each type of buyer. Finally, discuss any other differences that you can identify that are not mentioned above.
- C. After receiving your explanation of the differences between a financial and a strategic buyer, the Board members asked their investment banking advisors to recommend which type of buyer is better suited for LA Tribune.
- ❖ Choose one of the options below, defend your choice and justify your answer by providing specific reasoning as it relates to LA Tribune.
 1. TCO is a better target to be acquired by a financial buyer.
 2. TCO is a better target to be acquired by a strategic buyer.

In addition, develop a list of the top **2 buyers** that would qualify under your selection with rationale. Please explain why the Board should choose your buyers instead of Miguel Jorgensen.

- ❖ No calculation is required for this deliverable.

Deliverable 3¹

- ❖ According to Pew Research Center, approximately 62% of adults in the United States get their news from social media and the internet (such as Facebook and Google). Additionally, total weekday circulation for U.S. daily newspapers – both print and digital – fell 8% in 2016, marking the 28th consecutive year of declines.
- ❖ Although Google and Facebook have made profits, in part, by providing free access to content generated by the news media industry, they have managed to avoid incurring the expense of sourcing original content, such as hiring reporters and sending correspondents to war zones. Publishers allege that this has allowed Google and Facebook to claim 60% of the U.S. digital advertising market by relying on content produced by news publishers, all without paying anything for it.
- ❖ Assume that currently, Google has a “first click free” policy, which requires news publishers to offer at least three free articles a day before readers come across a pay wall. Publishers that opt-out of this policy virtually disappear from Google’s search engine. Because Google is so dominant, news publishers are essentially forced to surrender their content and play by Google’s rules on how news and information are displayed, prioritized and monetized.
- ❖ Assume also that U.S. Courts have recently ruled that Google and Facebook are infringing on the intellectual property rights of the news publishers by not fairly compensating them for their content. TCO is contemplating a lawsuit against Google and Facebook for damages related to the loss of subscription revenue due to the republication of their content.
- ❖ Present a methodology that describes how TCO would calculate damages related to this matter (*i.e.*, how would one determine damages based on the allegations?). An ultimate damages figure is not required.

(1) Hypothetical situation and constructed solely for the purpose of the case.

Appendix B

Additional Assumptions



Other Information

Valuation Date: June 30, 2017

Tax Rate: 40% based on blended federal and state tax

Company's Credit Rating:

- Standard & Poor's Issuer Credit Rating = BB
- Total Senior Bonds and Notes (Senior Unsecured) with par value of \$175.0 million and coupon rate of 5.0%.
- The Company does not have any pension obligations.
- LATribune.com historical website traffic:

| (in millions) | Internal Site Traffic | |
|---------------|-----------------------------|--------------------------------|
| | Monthly Avg. Pages Views | Monthly Avg. Unique Viewers |
| 2014 | 100.2 | 40.2 |
| 2015 | 150.3 | 41.2 |
| 2016 | 175.0 | 45.0 |

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