Protect, Restore and Maximize Value

2019 Duff & Phelps YOUniversity Deal Challenge

October 2018

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Section 1

Executive Summary

Executive Summary

- Ben Mendelsohn, was sitting on his yacht, Sea Battle, thinking about the future of his company, CMA. An entertainment and media conglomerate, CMA's businesses included TV Networks, TV broadcast stations, movie studio, newspapers, and cable networks.

- The entertainment and media industry is changing, rapidly. Technology giants including Amazon, Apple, Google, and Facebook are increasingly competing against traditional media companies. Furthermore, disruption in the media industry led by streaming companies such as Netflix and Hulu has raised concerns regarding the long-term outlook of the traditional media companies.

- Another issue facing Mendelsohn's company is size. CMA is trading around $60 billion in market cap. It had taken Mendelsohn a half-century of acquisitions and corporate battles to assemble CMA. Amazon alone is worth more than 15 times, and it had gotten there in less than 20 years. Increasingly, operating as a relatively small player in the changing entertainment and media industry was becoming a disadvantage. Scale matters in the entertainment and media industry, creating a competitive advantage in attracting talent and acquiring content. And Mendelsohn felt his company was losing the advantage of scale to deeper-pocketed competitors.

- Furthermore, a new wave of consolidation among entertainment and media companies had already begun. AT&T recently acquired Time Warner. The daughter of his former rival Sumner Redstone, Sheri Redstone, had expressed interest in rejoining Redstone's family crown jewel, CBS, with the struggling but valuable Viacom. And, Comcast had proven successful in combining distribution and content, following its acquisition of NBCUniversal almost a decade ago. Mendelsohn was feeling the pressure to act, so he decided to sell his company. However, on the heels of AT&T's acquisition of Time Warner and the possibility of an anti-trust investigation from the regulatory authorities, Mendelsohn feared that a transaction involving CMA would be scrutinized and delayed. So, he decided to carve his business into pieces and sell its assets separately.

- The crown jewel of CMA's holding is a regional sports network in Los Angeles, and Mendelsohn decided to sell the regional sports network first.

(1) All names are fictional; All information in the case was constructed solely for the purpose of this case.

Executive Summary

- CMA operates one of the largest regional sports networks ("RSN") in the U.S. called SportsFAN Network LA ("SFN LA" or the "Subject RSN"). SFN LA operates in the Los Angeles market.
- RSNs are local television channels that focus on live professional and major collegiate home sports team events and benefit from long-term contracts with sports franchises.
- Mendelsohn reached out to FGA's CEO, Sidney Banks, to see if he is interested in acquiring SFN LA.
- Together with its subsidiaries, FGA engages in live sports and entertainment businesses in the U.S. FGA owns professional two sports franchises and three RSNs in major cities (New York, Dallas, and Chicago). Sidney Banks has shown an interest in acquiring SFN LA.
- Sidney Banks believes in the long-term value of sports content and ownership of an RSN in the second largest Designated Market Area ("DMA") in the U.S. makes the acquisition of SFN LA appealing.
- As part of the diligence, Mendelsohn would like to determine the value of the Subject RSN before making any decisions. He would also like to make sure he is selecting the right buyer for the SFN LA in order to maximize the value he receives in a potential sale.
- Mendelsohn has reached out to a few different advisors to engage them for the work. He has structured the engagement in two phases:
  - **Phase 1**: Mendelsohn is submitting a questionnaire to be filled out by prospective advisory teams. He plans to use the responses to the questionnaire to select the top three advisory teams for this project. The top three advisory firms in Phase 1 will advance to Phase 2.
  - **Phase 2**: The top three teams are expected to prepare and present a valuation analysis to Mendelsohn and his team, at the world headquarters of CMA in New York City. Based on the quality of the work, Mendelsohn will select his advisor.
- Your team is one of the prospective advisors. For Phase 1 of the analysis, CMA has put together an overview of the Subject RSN and its industry for you to consider. Refer to the appendix for the additional information.

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Section 2

Deliverables

Phase 1 Deliverables

1. Perform a Porter's Five Forces Analysis to assess the competitive landscape of the Subject RSN.

2. Identify and briefly describe the opportunities and risk factors facing the Subject RSN.

3. Discuss the application of the Discounted Cash Flow ("DCF") Method and the Market Approach to value the Subject RSN. What are the advantages and disadvantages of using each method as they relate to valuing the Subject RSN?

4. Research and select at least three guideline publicly-traded companies and three market transactions that can be used to value the Subject RSN. Briefly explain the rationale for your selection.

5. In addition to selecting a strategic buyer (FGA), Mendelson could consider selling to a financial buyer. Please compare and contrast the benefits of selling the Subject RSN to a strategic and a financial buyer.

6. Calculate the Weighted Average Cost of Capital ("WACC") for the Subject RSN. Provide your calculation of the WACC and a brief description / rationale for the following inputs: the cost of debt, capital structure, selected beta, and the equity risk premium.

7. CMA provided FGA a one-year budget. Develop a detailed 5-year forecast for the Subject RSN and project the net cash flows of the business (before debt interest expense). Briefly describe the drivers of the revenue and expenses. Discuss how the opportunities and risk factors identified in question 2 were reflected in your forecast.

8. Estimate the Business Enterprise Value of the Subject RSN, based on your work in items 1 through 7. Sharing your work papers and support documents is not a requirement. Only a range of value is required for Phase 1.

Deliverable Format

1. Your responses to questions must be in written format.
   - The written responses should not exceed 7 pages in total. However, individual questions may be more or less than one page.
   - The written responses must use Times New Roman 12-point font and must be single-spaced.
   - The written responses must be delivered in Microsoft Word and/or PDF format.
   - The teams must not note the name of their college/university in their deliverables.
2. Provide your calculation of the WACC (question 6) and your forecast (question 7) in a Microsoft Excel file.

Section III

Appendix

Appendix A

The Subject RSN Overview

Business Description

- SportsFAN Network LA is one of the largest RSNs in the United States. SFN LA distributes its programming through cable, satellite and telecom operators in the Los Angeles market. As of June 30, 2018 (the "**Valuation Date**"), SFN LA programming is devoted to two Los Angeles based sports franchises: the Los Angeles Claws ("LAC") baseball team and the Los Angeles Mambas ("LAM") basketball team (collectively, the "Teams"). The programming includes:
  - The coverage of all LAC and LAM games not being televised on MLB and MLB's national television partners;
  - Other sports programming including interviews with the players and the team's manager and coaches, coverage of spring training or preseason, replay of sporting events, etc.
  - Select coverage of other local sporting events (e.g., bowling, surfing, etc.)
- SFN LA's main assets are the telecast rights agreements with LAC and LAM. The current LAC contract is due to expire on December 31, 2020. SFN LA recently entered into a 20-year telecast rights agreement with LAM (starting in 2016).
- Currently, SFN telecasts 145-150 regular season LAC games and 75-80 LAM games per year.
- SFN LA's two primary sources of revenue are advertising and affiliated revenue, which accounted for 18% and 81% of revenue in fiscal year ("FY") ending December 31, 2017.
- For FY 2017, SFN LA had 3.59 million average subscribers and generated approximately $5.28 per subscriber per month.
- The RSN business model drives substantial cash flows. Long-term affiliate fee revenue contracts and premium local advertising, offset by media rights fees paid to the Team and modest operating expenses, drive substantial and consistent annual cash flow to SFN LA.
- Los Angeles is an attractive media market, ranked as the second largest DMA in the U.S. It is the #1 Hispanic DMA in the U.S., and the high growth Hispanic community is now 50% of the Los Angeles population. Both LAM and LAC have a strong fan base among the Hispanic community.
- In an increasingly fragmented media environment where consumers have multiple viewing alternatives across a multitude of devices, live sports uniquely deliver significant value for distributors and aggregate large local audiences for advertisers relative to other forms of media. As a result, the value of live sports has exploded in recent history. The "must carry" and "DVR-proof" nature of live sports has increased the value of media rights for their owners. However, the Network is facing challenges in growing subscription and advertising revenues as consumers transition from traditional multiple-system operators (MSOs) to Over-the-Top (OTT) offerings.
  - Many OTT offerings exclude the expensive RSNs in their channel lineups. Skinny bundles that exclude sports programming are becoming more prevalent. As such, many cord-cutters and cord-nevers do not subscribe to the Subject RSN.

Operating Environment[1]

Programming Cost:

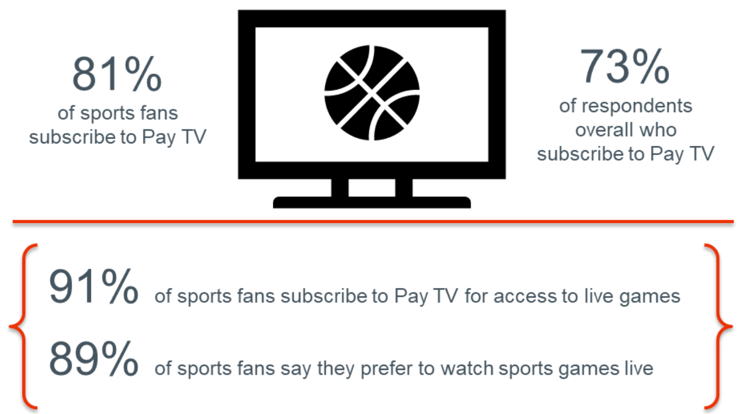
- The cost of sports programming is a concern for the Subject RSN. The popularity of sporting competition has sent broadcasting rights soaring in recent years. With linear TV viewing in decline, content that will gain the largest live audiences is becoming increasingly expensive for broadcasters, pay-TV operators and advertisers. Premium sporting events have the most live appeal, alongside political events and news.

Advertising and Sponsorship:

- Marketers continue to favor TV ads to spend large amounts on ad campaigns. Marketers use TV as the main medium to reach mass audience and launch new products. However, TV advertising is expected to decrease in coming years due to the vast number of people becoming accustomed to ad-free options as they view content online and across Subscription Video On Demand ("SVOD") platforms such as Netflix.
    - In August 2017, Fox Sports became the first broadcaster to roll out six-second ad spots during sports programming, as investment in digital advertising innovations increased at the expense of traditional TV advertising.

Viewership:

- The number of traditional pay-TV subscribers continue to drop as more people are trimming or cutting the cord completely.
- Live audience is in decline, as well. Nielsen reported that Americans age 18 and up were watching an average of three hours and 55 minutes of live TV a day in the second quarter of 2017. This was down from four hours and nine minutes in the second quarter of 2016.
- Regardless, live sports is one of the primary motivators keeping people connected to the cord; however, industry surveys have indicated that with consumers eager for premium streaming services from sports leagues and teams, the evolution of live streaming in sports might mean a faster decline in pay-TV subscriptions.



1. Source: PwC Global E&M Outlook TV Advertising and Consumer Intelligence Series.

Los Angeles Market Competitive Landscape

- The Los Angeles market has the scale to support several major professional athletic teams.
- There are three RSNs operating in the Los Angeles market and competing against SFN LA[1], creating competition for SFN LA securing sports rights and viewers.
- These RSNs cover MLB, NBA, NHL, MLS, College Sports, and other Sporting events.
  - The Los Angeles market has two NFL teams, as well. However, NFL games are nationally televised, and the media rights are not sold to locally distributed networks (i.e., RSNs).
  - Unlike networks licensing national sports rights, RSNs must conform to the rules of the leagues regarding designated market area (i.e., an RSN can only be distributed within its local market).
- The Subject RSN's management has performed market research and concluded that the ratings for the three RSNs are similar.
- SFN LA benefits from having the rights to a baseball and a basketball team. The MLB season is played primarily during the summer when there are limited sporting events competing for viewers. During fall and winter, SFN LA broadcasts basketball games.
- The size of a local market, represented by DMA, is critical in determining the scale and value of an RSN: DMA size is critical because it determines an RSN's potential subscriber universe – the number of RSN subscribers serves as key driver of affiliate fee revenue, which generally comprises 80%+ of total RSN revenue.
- With nearly 5.9 million households, 4.7 million TV households, and approximately 3.8 million pay-TV households, Los Angeles is the second largest market in the United States (nearly twice the size of the #3 DMA Chicago).[2]

RSN	MLB	NBA	NHL	MLS	College Sports	Other Sports
SFN LA	LAC	LAM	-	-	-	x
RSN B	-	x	x	x	x	x
RSN C	x	-	x	x	x	x

1. The competitive landscape of the market. including RSN B and RSN C, is fictitious and was created for the purpose of the case.
2. Los Angeles market statistics are from SNL Kagan. The case assumes the Subject RSN is distributed only to Pay-TV households in Los Angeles.

Los Angeles Market Pay-TV in 2017[1]

Los Angeles, CA (DMA: #2)	Households (actual)	TV Households (actual)	Over-the-air Households (actual)	Multichannel Video Subscribers (actual)	Digital Subscribers (actual)	Digital Subscribers/ Basic Subscribers (%)	Multichannel Platform Share (%)	Video Market Share (%)	Household Penetration (%)
Cable									
Charter Communications Inc.				1,495,220	1,449,053	96.9%	87.7%	39.0%	25.5%
Cox Communications Inc.				195,439	195,439	100.0%	11.5%	5.1%	3.3%
Mediacom Communications Corp.				4,598	4,598	100.0%	0.3%	0.1%	0.1%
Suddenlink Communications				3,657	3,266	89.3%	0.2%	0.1%	0.1%
All Other				6,697	6,477	96.7%	0.4%	0.2%	0.1%
Total Cable				**1,705,611**	**1,658,833**	**97.3%**		**44.5%**	**29.0%**
DBS									
DIRECTV Group Holdings LLC				1,136,077	1,136,077		66.5%	29.7%	19.3%
DISH Network Corp.				572,995	572,995		33.5%	15.0%	9.8%
Total DBS				**1,709,072**	**1,709,072**			**44.6%**	**29.1%**
Telco									
AT&T Inc.				178,155	178,155		42.9%	4.7%	3.0%
Other Telcos				237,135	237,135		57.1%	6.2%	4.0%
Total Telco TV				**415,290**	**415,290**			10.8%	7.1%
Total Market	**5,874,297**	**4,730,895**	**900,923**	**3,829,972**	**3,783,195**				**65.2%**

- The share of households with pay-TV has decreased over the years.
- In the United States, Cable, DBS, and Telecoms penetration among households has dropped from approximately 90% in 2008 to 77% in 2018. Los Angeles has experienced the same downward trend.

1. Source: SNL Kagan

Other Information

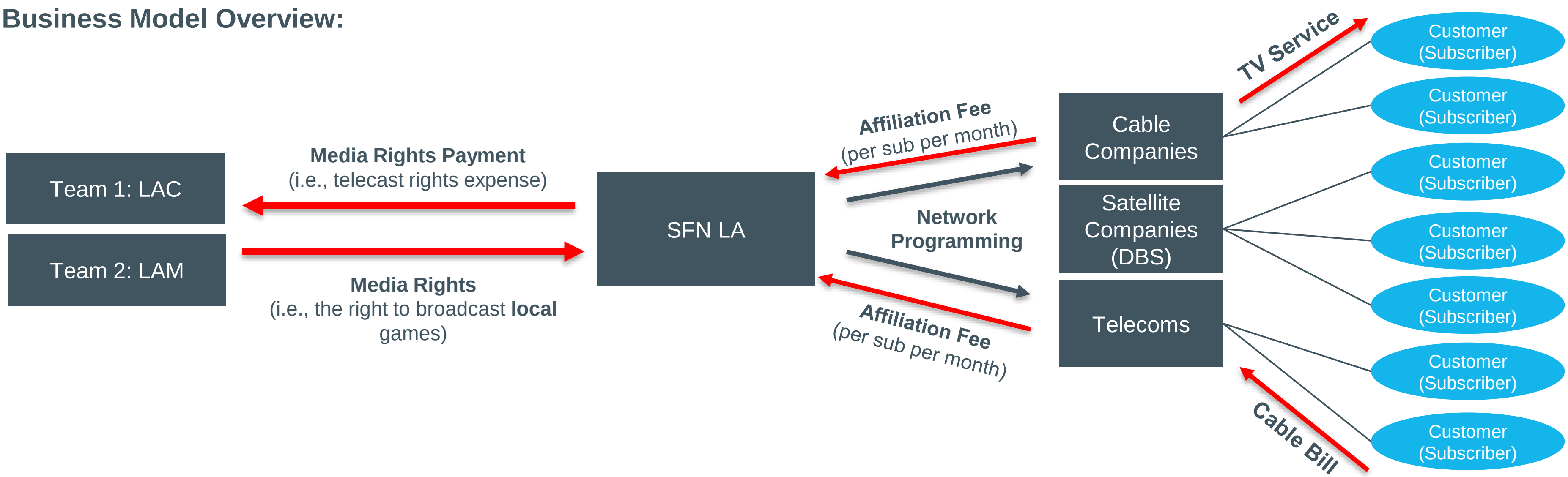
Valuation Date: June 30, 2018

Tax Rate: 26% based on blended federal and state tax

Company's Credit Rating:

- Standard & Poor's Issuer Credit Rating = AA | Moody's Issuer Credit Rating = Aa2
- Total senior secured note with par value of $50.0 million, coupon rate of 4.5%, and 10-year maturity. The debt matures in 2022. Management believes the company generates sufficient cash to pay down the debt.

Business Model Overview:



Historical Financial Information

Historical Financial Information
(USD in Thousands)

	2015A	2016A	2017A	LTM June 2018A
Gross Advertising Revenue	$ 54,259	$ 55,827	$ 58,484	$ 59,813
Less: Advertising Commission	(8,139)	(8,374)	(8,773)	(8,973)
Net Advertising Revenue	**46,120**	**47,453**	**49,711**	**50,840**
Affiliate Revenue	208,066	217,136	227,347	232,453
Other Operating Revenue	5,015	5,040	5,170	5,235
Operating Revenue, Net	**259,201**	**269,629**	**282,228**	**288,528**
Telecast Rights Expense - LAC	(40,945)	(42,583)	(44,286)	(45,138)
Telecast Rights Expense - LAM	(30,000)	(50,000)	(52,000)	(53,000)
Production Cost	(10,368)	(10,785)	(11,289)	(11,541)
Other Programming Expense	(2,317)	(2,387)	(2,458)	(2,494)
Programming and Production Expenses	**(83,630)**	**(105,755)**	**(110,034)**	**(112,173)**
Gross Profit	**175,570**	**163,874**	**172,194**	**176,355**
Networks Operating SG&A Expense	(12,875)	(13,261)	(13,659)	(13,858)
Corporate Overhead	(5,184)	(5,393)	(5,645)	(5,771)
Operating Expenses	**(18,059)**	**(18,654)**	**(19,304)**	**(19,629)**
EBITDA	**157,511**	**145,220**	**152,891**	**156,726**
Depreciation	(1,296)	(1,328)	(1,361)	(1,378)
EBIT	**156,216**	**143,892**	**151,530**	**155,348**
Interest Expense	(2,250)	(2,250)	(2,250)	(2,250)
Income before Tax Expense	**153,966**	**141,642**	**149,280**	**153,098**
Income Taxes Expense	(40,031)	(36,827)	(38,813)	(39,806)
Net Income	**113,935**	**104,815**	**110,467**	**113,293**
Capital Expenditures	(1,296)	(1,328)	(1,361)	(1,378)

Notes:

1. For a detailed buildup of the affiliate revenue, refer to page 21 and 22 of the case.
2. The Subject RSN's telecast rights agreement with LAC is up for renewal in 2020. Negotiations have begun between the Subject RSN's management and LAC owners to extend the deal. The LAC owners believe the current contract is under market compared to other baseball teams' media rights in large DMAs. The Subject RSN signed the current LAC deal in 2011. The rights fees started at $35.0 million per annum, with annual escalators of 4%.
3. In 2016, SFN LA signed a new 20-year telecast rights agreement with LAM. The rights fee starts at $50.0 million, with contractual escalation of 4% per annum.
4. The other programming expense represents the cost associated with shoulder programming.
5. Other operating revenue represents incremental advertising revenue from digital sources.
6. In addition to Network level operating selling, general, and admirative cost, the Subject RSN pays a fee to its parent company, CMA for the Subject RSN's share of corporate overhead expense. The corporate overhead expense is allocated to the Subject RSN based on its profitability relative to the other networks in CMA's portfolio.
7. The Subject RSN has minimal fixed asset requirements.

Historical Financial Information

Historical Financial Information: Balance Sheet
(USD in Thousands)

	2015A	2016A	2017A	LTM June 2018A
Assets				
Current assets:				
Cash and cash equivalents	75,024	78,695	87,197	91,782
Accounts receivable, net	61,072	62,790	64,951	65,610
Prepaid expenses	1,770	1,865	1,872	1,963
Other current assets	1,296	1,348	1,411	1,443
Total current assets	**139,162**	**144,698**	**155,431**	**160,798**
Property, plant and equipment, net	4,268	4,268	4,268	4,268
Total assets	**143,430**	**148,966**	**159,699**	**165,066**
Liabilities and stockholders' equity				
Current liabilities:				
Accounts payable	916	1,449	1,507	1,537
Accrued liabilities	5,418	5,596	5,791	5,889
Deferred revenue	259	270	282	289
Total current liabilities	**6,593**	**7,314**	**7,581**	**7,714**
Other liabilities				
Long-term debt	50,000	50,000	50,000	50,000
Other liabilities	1,500	1,500	1,500	1,500
Total other liabilities	**51,500**	**51,500**	**51,500**	**51,500**
Total stockholders' equity	**85,336**	**90,152**	**100,618**	**105,852**
Total liabilities and stockholders' equity	**143,430**	**148,966**	**159,699**	**165,066**

Notes:

1. The Company's debt matures in 2022. It has an average coupon of 4.5%.
2. The RSN has been maintaining cash on its balance sheet in anticipation of the contract negotiations with LAC.

Historical Financial Information

Historical Financial Information: Statement of Cash Flows
(USD in Thousands)

	2015A	2016A	2017A
Cash flows from operating activities			
Net income	113,935	104,815	110,467
Operating activities adjustments:			
Depreciation	1,296	1,328	1,361
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,205)	(1,718)	(2,161)
Prepaid Expenses	(102)	(96)	(7)
Other current assets	(32)	(52)	(63)
Accounts payable	(187)	532	59
Accrued liabilities	151	178	195
Deferred revenue	6	10	13
Cash from operations	**112,862**	**104,998**	**109,863**
Cash flows from investing activities			
Capital expenditures	(1,296)	(1,328)	(1,361)
Cash from investing	**(1,296)**	**(1,328)**	**(1,361)**
Cash flows from financing activities			
Long-term obligations:			
Repayment of debt	-	-	-
Dividends paid	(100,000)	(100,000)	(100,000)
Cash from financing	**(100,000)**	**(100,000)**	**(100,000)**
Net decrease in cash and cash equivalents	11,566	3,670	8,502

Notes:

1. The RSN has paid $100.0 million in dividends to CMA annually.
2. Management has decided to maintain cash on the balance sheet in anticipation for the deal negotiations with LAC.

Historical Financial Information

Common Size

	2015A	2016A	2017A	LTM June 2018A
Gross Advertising Revenue	20.9%	20.7%	20.7%	20.7%
Less: Advertising Commission	(3.1%)	(3.1%)	(3.1%)	(3.1%)
Net Advertising Revenue	**17.8%**	**17.6%**	**17.6%**	**17.6%**
Affiliate Revenue	80.3%	80.5%	80.6%	80.6%
Other Operating Revenue	1.9%	1.9%	1.8%	1.8%
Operating Revenue, Net	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Telecast Rights Expense - LAC	(15.8%)	(15.8%)	(15.7%)	(15.6%)
Telecast Rights Expense - LAM	(11.6%)	(18.5%)	(18.4%)	(18.4%)
Production Cost	(4.0%)	(4.0%)	(4.0%)	(4.0%)
Other Programming	(0.9%)	(0.9%)	(0.9%)	(0.9%)
Programming Expenses	**(32.3%)**	**(39.2%)**	**(39.0%)**	**(38.9%)**
Gross Profit	**67.7%**	**60.8%**	**61.0%**	**61.1%**
Networks Operating SG&A Expense	(5.0%)	(4.9%)	(4.8%)	(4.8%)
Corporate Overhead	(2.0%)	(2.0%)	(2.0%)	(2.0%)
Operating Expenses	**(7.0%)**	**(6.9%)**	**(6.8%)**	**(6.8%)**
EBITDA	**60.8%**	**53.9%**	**54.2%**	**54.3%**
Depreciation	(0.5%)	(0.5%)	(0.5%)	(0.5%)
EBIT	**60.3%**	**53.4%**	**53.7%**	**53.8%**
Capital Expenditures	(0.5%)	(0.5%)	(0.5%)	(0.5%)

Trend Analysis

	2015A	2016A	2017A
Gross Advertising Revenue	2.1%	2.9%	4.8%
Less: Advertising Commission	2.1%	2.9%	4.8%
Net Advertising Revenue	**2.1%**	**2.9%**	**4.8%**
Affiliate Revenue	2.7%	4.4%	4.7%
Other Operating Revenue	(0.0%)	0.5%	2.6%
Operating Revenue, Net	**2.5%**	**4.0%**	**4.7%**
Telecast Rights Expense - LAC	4.0%	4.0%	4.0%
Telecast Rights Expense - LAM	4.0%	66.7%	4.0%
Production Cost	2.5%	4.0%	4.7%
Other Programming	3.0%	3.0%	3.0%
Programming Expenses	**3.8%**	**26.5%**	**4.0%**
Gross Profit	**2.0%**	**(6.7%)**	**5.1%**
Networks Operating SG&A Expense	3.0%	3.0%	3.0%
Corporate Overhead	2.5%	4.0%	4.7%
Operating Expenses	**2.9%**	**3.3%**	**3.5%**
EBITDA	**1.8%**	**(7.8%)**	**5.3%**
Depreciation	2.5%	2.5%	2.5%
EBIT	**1.8%**	**(7.9%)**	**5.3%**
Capital Expenditures	2.5%	2.5%	2.5%

2018 Budget

Projected Financial Information
(USD in Thousands)

	2018B
Gross Advertising Revenue	$ 61,461
Less: Advertising Commission	(9,219)
Net Advertising Revenue	**52,242**
Affiliate Revenue	238,791
Other Operating Revenue	5,322
Operating Revenue, Net	**296,355**
Telecast Rights Expense - LAC	(46,058)
Telecast Rights Expense - LAM	(54,080)
Production Cost	(11,854)
Other Programming Expense	(2,532)
Programming and Production Expenses	**(114,524)**
Gross Profit	**181,831**
Networks Operating SG&A Expense	(14,069)
Corporate Overhead	(5,927)
Operating Expenses	**(19,996)**
EBITDA	**161,835**
Depreciation	(1,395)
EBIT	**160,440**
Interest Expense	(2,250)
Income before Tax Expense	**158,190**
Income Taxes Expense	(41,129)
Net Income	**117,061**
Capital Expenditures	(1,395)

Budget:

- The programming expenses are expected to increase contractually by 4% based on the telecast rights agreement.
- There are no affiliation agreements up for renewal with the MSOs. The first renewal is slated for FY 2019.
- Pay-TV subscription trends in Los Angeles is expected to follow the industry wide trends.
- Advertising revenues are expected to increase in 2018.
- Production cost is expected to remain flat as a percentage of total revenues.
- SG&A is projected to increase at 3.0%.
- Capital expenditures and depreciation 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 negotiation with LAC over the telecast rights agreement.
- Management is unsure about the prospect of advertising.
- Affiliation fees have increased rapidly over the past few years in response to the rise in the cost of sports programming. However, with new offerings such as skinny bundles, the Subject RSN may not be included in all of the MSO’s channel lineups.
- The capital expenditures are maintenance spending. No new initiative capital expenditures are expected in the near future.

SportsFAN LA Network

SportsFAN LA Network Economics

Financial Information	2015A	2016A	2017A	2018E
Average Subscribers (M)	3.655	3.614	3.586	3.575
Affiliate Revenue Per Avg Sub/ Month ($)	4.744	5.007	5.283	5.567
Affiliate Revenue ($000)	**208,066**	**217,136**	**227,347**	**238,791**
Gross Advertising Revenue ($000)	54,259	55,827	58,484	61,461
Net Advertising Revenue ($000)	**46,120**	**47,453**	**49,711**	**52,242**
Other Operating Revenue ($000)	**5,015**	**5,040**	**5,170**	**5,322**
Operating Revenue, Net ($000)	**259,201**	**269,629**	**282,228**	**296,355**

SportsFAN LA Network Economics

Financial Information	2015A	2016A	2017A	2018E
Average Subscribers (% Growth)	-2.5%	-1.1%	-0.8%	-0.3%
Affiliate Revenue Per Avg Sub/ Month (% Growth)	5.3%	5.5%	5.5%	5.4%
Gross Advertising Revenue (% Growth)	2.1%	2.9%	4.8%	5.1%
Net Advertising Revenue (% Growth)	2.1%	2.9%	4.8%	5.1%
Affiliate Revenue (% Growth)	2.7%	4.4%	4.7%	5.0%
Other Operating Revenue (% Growth)	0.0%	0.5%	2.6%	2.9%
Operating Revenue, Net (% Growth)	2.5%	4.0%	4.7%	5.0%

The Subject RSN's Contractual Subscriber Chart

Fiscal Year 2018 MSO Contractual Subscribers Chart
(USD in Thousands)

	Platform	Contract Expiration Date	FY 2015A		FY 2016A		FY 2017A		FY 2018E	
			Avg. Subs	Fee per Sub per Month	Avg. Subs	Fee per Sub per Month	Avg. Subs	Fee per Sub per Month	Avg. Subs	Fee per Sub per Month
DirecTV	DBS	12/31/2020	1,157.86	4.682	1,144.86	4.942	1,136.08	5.214	1,132.39	5.495
DISH	DBS	12/30/2021	583.98	4.839	577.42	5.107	573.00	5.389	571.14	5.678
Charter Communications Inc.	Cable	12/30/2019	1,523.89	4.791	1,506.78	5.057	1,495.22	5.336	1,490.37	5.623
Cox Communications Inc.	Cable	12/30/2021	199.19	4.507	196.95	4.757	195.44	5.019	194.80	5.289
Mediacom Communications Corp.	Cable	12/30/2019	4.69	4.981	4.63	5.257	4.60	5.547	4.58	5.845
Suddenlink Communications	Cable	12/30/2020	3.73	4.981	3.69	5.257	3.66	5.547	3.65	5.845
All Other Cables	Cable	n/a	-	-	-	-	-	-	-	-
AT&T Inc.	Telecom	12/30/2020	181.57	4.682	179.53	4.942	178.16	5.214	177.58	5.495
All Other Telecoms	Telecom	n/a	-	-	-	-	-	-	-	-
Average Subscribers (000):			**3,655**		**3,614**		**3,586**		**3,575**	
Subscriber Fee per Month ($):			**4.744**		**5.007**		**5.283**		**5.567**	
Total Affliate Revenue ($000):			**208,066**		**217,136**		**227,347**		**238,791**	

- SFN LA's management expect the affiliation agreements to be renewed. However, the future growth rate of affiliation fee is uncertain.
- OTT and streaming services do not carry SFN LA and they are not included above.

Comparable RSNs P&L Benchmarking

- The following represents the operating financials of some of the largest RSNs in the United States and the RSN Network Industry as a whole.

FINANCIAL INFORMATION FY 2017	RSN Network Industry	YES Network	Comcast SportsNET Chicago	Comcast SportsNET Philadelphia	Fox Sports Southeast	Fox Sports Southwest	MSG Network	Root Sports Northwest
Average Subscribers (M)[1]	183.7	8.1	4.4	2.8	8.5	8.9	7.2	3.6
Affiliate Revenue per Avg Sub/ Month ($)	2.65	6.05	4.01	4.11	1.76	3.00	4.10	4.03
Gross Advertising Revenue ($000)	1,186,189	86,920	49,723	22,432	28,323	61,713	84,640	23,716
Net Advertising Revenue ($000)	1,008,261	73,882	42,264	19,067	24,075	52,456	71,944	20,159
Affiliate Revenue ($000)	5,840,857	585,950	213,621	136,854	179,629	320,376	352,067	176,653
Other Operating Revenue ($000)	127,115	12,600	3,249	2,531	1,679	7,747	1,535	1,814
Operating Revenue, Net ($000)	6,976,233	672,432	259,134	158,452	205,383	380,580	425,547	198,625
Operating SG&A Expense ($000)	434,699	23,649	20,107	8,247	4,522	18,431	40,465	15,158
Programming Expenses ($000)	4,150,738	319,192	172,261	111,270	89,328	224,804	188,140	118,489
Total Operating Expenses ($000)	4,585,437	342,841	192,368	119,516	93,850	243,235	228,605	133,646
EBITDA ($000)	2,390,796	329,591	66,766	38,936	111,534	137,345	196,942	64,979
EBITDA Margin (%)	34.27	49.01	25.76	24.57	54.31	36.09	46.28	32.71

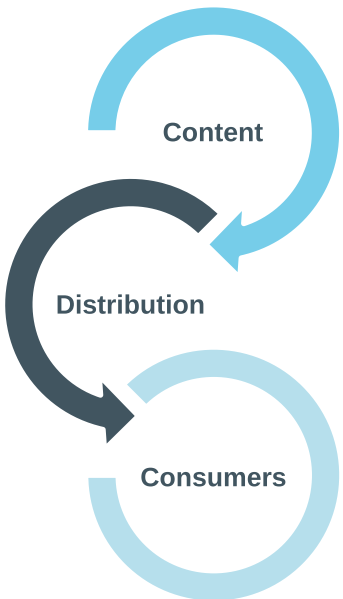
(1) Aveerage subscribers includes outer market subs.

(1) SNL Kagan.

Appendix B

Industry Information

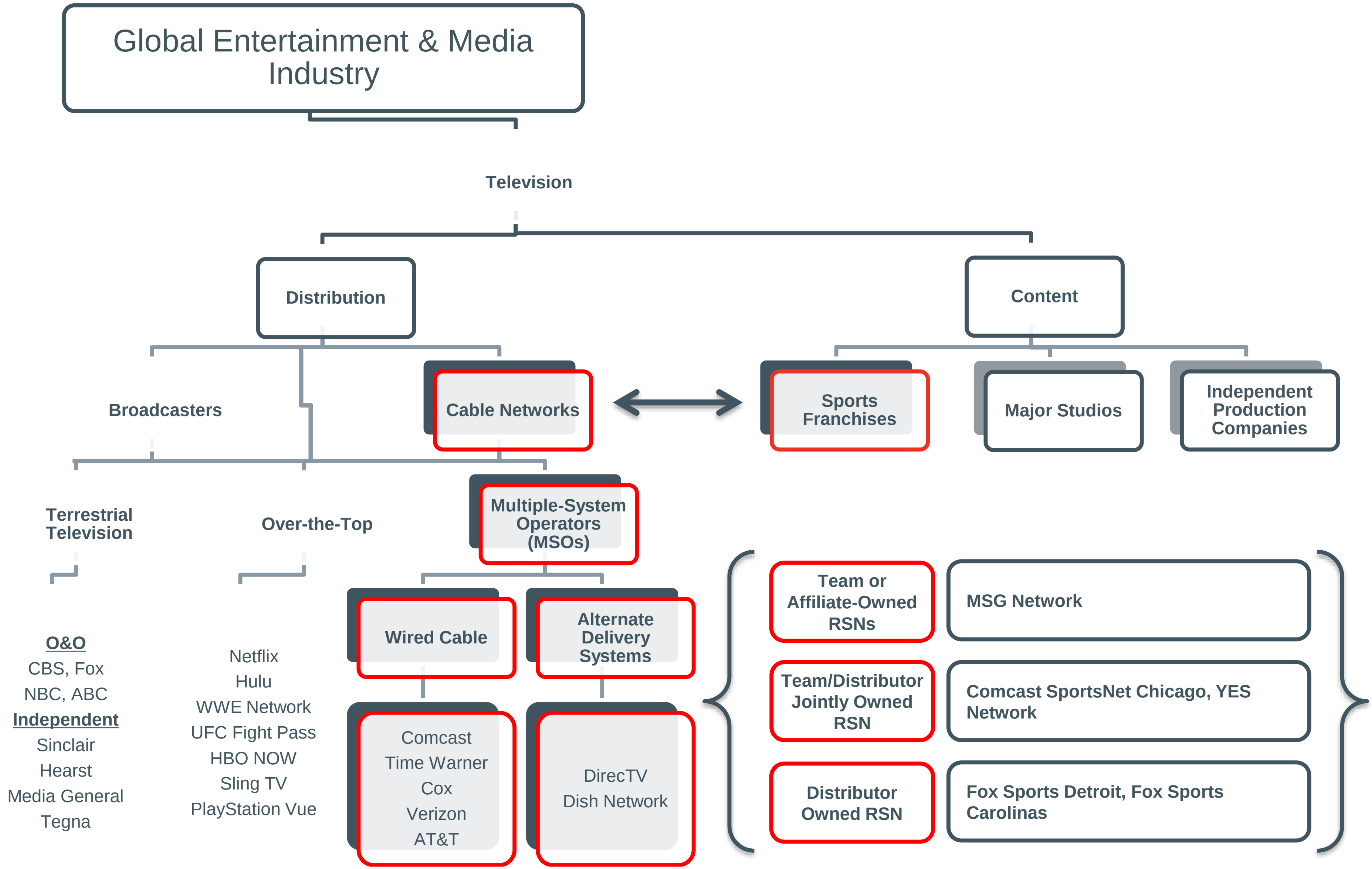
Television Industry Overview



- The television industry comprises of companies that produce and distribute entertainment content.
- Companies in this industry broadcast television programs free to the public (TV Broadcast) and through multi-channel distributors (Cable, Satellite, and Telecoms).
- Traditionally, Broadcasters have relied on local TV stations that transmit TV signals over the air through their FCC licenses.
- On the other hand, Cable Networks rely on the MSOs (e.g., Spectrum and Comcast). telco companies (e.g., AT&T), and satellite companies (e.g., Dish) for distribution to America households.
  - Recently, a third method of distribution called OTT has emerged. OTT refers to distribution of content via streaming as a standalone product and directly to viewers using the Internet. This method of deliver bypasses Telecoms, Cable and Satellite content providers.
- Consumers ultimately pay for the networks through cable, satellite, and/or OTT subscription and advertising (based on viewership/ratings).

- Technological changes in conjunction with the changes in consumer behavior and uncertainty surrounding the ability of traditional entertainment and media players to adapt to new changes are factors that have put considerable pressure on the traditional players in this industry.

Television Industry Structure Overview



Sports Media Market[1]

- In 2005, sports accounted for 14% of the top 100 shows; last year that number was 86%.[1]
- Over 44% of all programming costs paid by distributors (Cable, Telco and Satellite) to media networks last year were related to sports programming.
- The highest affiliate fee charged and earned by any network in 2017 was ESPN's flagship brand at $7.54 per sub per month (in other words, the fee associated with ESPN represents $7.54 of an average monthly cable bill). On the other hand, the most expensive non-sports related cable network (TNT) was #32 on the list, which also airs events including NBA and NCAA March Madness).
- Even the most popular non-sports cable networks are ranked below almost all RSNs. Among the top 50 most expensive cable networks (including RSNs) in 2017, 44 were sports-related.
- Sports content is ~8% of U.S. TV in terms of hours but ~40% of media industry revenues.
- Therefore, sports is arguably one of the last remaining anchors for the traditional media ecosystem.
- Despite the challenges in the Pay-TV ecosystem (i.e., chord cutting), RSNs continue to be among the more protected business models in this ecosystem. The RSNs drive stable ratings because their viewership is driven by local fans. Also, the vast majority of baseball and basketball games cannot be televised nationally (MLB and NBA have 2,460 and 2,430 regular season games, respectively. NFL on the other hand has 256 regular season games, with the majority broadcasted nationally.

Rank	Network Name	2017 Subs (mm)	2017 Affiliate Fee/ Sub/ Mo	Rank	Network Name	2017 Subs (mm)	2017 Affiliate Fee /Sub /Mo
1	ESPN	87.7	$7.54	26	FOX Sports Tennessee	1.2	$2.42
2	YES Network	8.1	$6.05	27	FOX Sports Indiana	1.0	$2.40
3	SportsNet LA	1.8	$4.64	28	FOX Sports Sun	6.1	$2.26
4	FOX Sports Arizona	2.2	$4.63	29	SportsTime Ohio	3.0	$2.11
5	FOX Sports Detroit	3.1	$4.51	30	AT&T SportsNet Southwest	4.3	$2.08
6	Spectrum SportsNet/Deportes	4.9	$4.28	31	Prime Ticket	5.2	$2.06
7	NBC Sports Philadelphia	2.8	$4.11	32	TNT	90.7	$2.02
8	MSG Network	7.2	$4.10	33	Altitude Sports & Entertainment	3.3	$1.92
9	New England Sports Network	4.1	$4.07	34	FOX Sports Florida	6.2	$1.80
10	ROOT SPORTS Northwest	3.6	$4.03	35	FOX Sports Southeast	8.5	$1.76
11	NBC Sports Chicago	4.4	$4.01	36	NBC Sports Northwest	1.8	$1.75
12	AT&T SportsNet Pittsburgh	2.8	$3.95	37	NBC Sports Washington	4.2	$1.66
13	FOX Sports Ohio	3.1	$3.80	38	FOX Sports Kansas City	2.0	$1.59
14	FOX Sports Wisconsin	1.8	$3.07	39	FOX Sports South	7.2	$1.56
15	FOX Sports Southwest	8.9	$3.00	40	AT&T SportsNet Rocky Mountain	2.8	$1.51
16	SportsNet New York	7.6	$2.96	41	Disney Channel	91.4	$1.51
17	MSG+	7.1	$2.93	42	FOX News Channel	89.6	$1.49
18	FOX Sports Midwest	3.2	$2.82	43	NFL Network	70.9	$1.48
19	Mid-Atlantic Sports Network	5.2	$2.81	44	FOX Sports New Orleans	0.5	$1.41
20	FOX Sports North	2.8	$2.74	45	USA	91.8	$1.19
21	NBC Sports Bay Area	4.1	$2.69	46	NBC Sports Boston	3.5	$1.09
22	FOX Sports West	6.0	$2.69	47	TBS	92.0	$0.98
23	NBC Sports California	3.3	$2.65	48	ESPN2	87.5	$0.94
24	FOX Sports San Diego	2.1	$2.59	49	FOX Sports Carolinas	3.0	$0.81
25	FOX Sports Oklahoma	0.6	$2.54	50	CNN	91.9	$0.79

(1) Source: Barclays, SNL Kagan, and Nielsen.

Sample RSN Contracts[1]

- Video streaming services, TV networks, telecoms and social media platforms are all competing over lives sports rights.
- However, RSNs remain the main platform for local sports programming.

Team	Local TV Broadcaster	Initial Rights Fee	Deal Term	Notes
Brooklyn Nets	YES Network	$ 49.2	5-year contract	Based on data from SNL Kagan, the Brooklyn Nets entered into a new deal with the YES Network. The new deal begins in 2017 and extends for 16 years. The average total deal value is approximately $786.9 million, with an annual payout of $49.2 million. The deal represents an increase of approximately 163% per year.
Washington Wizards	Comcast Sportsnet Mid-Atlantic	35.0	15-year contract	In October of 2016, it was announced that the Washington Wizards had agreed to a new deal to keep the team's rights with Comcast Sportsnet Mid-Atlantic. According to SNL Kagan, the deal begins in 2017 and lasts for 15 years. The total deal size is estimated to be $525.0 million, with an annual payout of $35.0 million.
Los Angeles Clippers	Fox Sports Prime Ticket	54.2	6-year contract	On September 21, 2016 the Los Angeles Clippers announced a new deal with Fox Sports Prime Ticket for 6 years beginning in the 2017 season. The total deal is worth approximately $325.0 million, or $54.2 million annually. The Clipper's previous deal paid approximately $25.0 million annually. The Clippers retained digital streaming rights.
Dallas Mavericks	Fox Sports Southwest	50.0	10-year contract	According to the Sports Business Journal, in 2015, the Fox Sports Group signed a long-term deal that keeps the Dallas Mavericks on Fox Sports Southwest for approximately 10 years. According to sources, the deal averages approximately $50 million per year.
Cleveland Cavaliers	Fox Sports Ohio	35.0 - 38.0	5-year contract	According to the Sports Business Journal, the Fox Sports Group exercised a multi-year option to keep the Cleveland Cavaliers on Fox Sports Ohio through the 2020-2021 NBA season. The annual rights fee related to this deal was estimated to be between $35 and $38 million per year.
Los Angeles Lakers	Time Warner Cable SportsNet; Time Warner Cable Deportes	122.0	20-year contract	The Lakers inked a 20-year deal with Time Warner Cable for the creation of two new RSNs -- one in English and one in Spanish -- worth $200 million annually beginning with the 2012-13 season.
New York Yankees	YES Network	85.0	30-year contract	According to Bloomberg, the Yankees are signed with the YES Network through 2042. The club got $85 million in fees from YES, starting in 2012 and the contract includes a 5 percent increase annually in that rate for 30 years.
Houston Rockets	CSN Houston	45.0	20-year contract	With the Houston Astros, the Rockets signed a 20-year deal with Comcast Sportsnet for a newly launched channel that began operations in Fall 2012. In addition to an annual rights fee, the team got a 31% equity stake in CSN Houston. CSN Houston has since gone bankrupt and has been restructured as part of AT&T SportsNet.
New York Knicks	MSG Network	37.0	n/a	MSG, the team owned RSN, was second in total number of homes in terms of local ratings last year.
Sacramento Kings	CSN Bay Area	35.0	20-year contract	The Sacramento kings signed a 20-year media rights extension in July of 2014 with NBC Sports Group worth an average of $35.0 million a year.
Boston Celtics	CSN New England	36.0	20-year contract	In 2011 the Celtics signed a 20-year extension to extend its TV contract to 2038 with CSN. The team received a $20 million bump in its right fee and took a 20% equity stake in the network.
Miami Heat	Sun Sports	35.0	n/a	According to Multichannel news, The Miami Heat reached a multiyear media rights extension with Sun Sports worth approximately $35.0 million per year.
Detroit Pistons	Fox Sports Detroit	35.0	10-year contract	As part of a $1 billion deal negotiated with the MLB's Detroit Tigers, the Pistons agreed to a 10-year deal worth $350 million that expires at the end of the 2017-18 season.

(1) Source: various publicly available articles.

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