



The streaming giant's next step - The proposed acquisition of Lions Gate by Netflix

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ABSTRACT

Since the beginning of the century to the present day, the way consumers experience entertainment has shifted dramatically. From renting movies on-demand, to going to the movie theatres, the Entertainment industry keeps on dynamically changing over time.

Home entertainment services is the latest frontier of that change, in which streaming platforms have gained immense popularity worldwide, such that one of them is instantly associated when such topic is brought up: Netflix.

This dissertation studies a possible acquisition within this industry, with Lions Gate as the target and Netflix as the acquirer. Lions Gate, a content production and distribution company, is present both in the traditional channels and the streaming space and so represents a great opportunity for Netflix to acquire valuable content for its library including the rights to well-known franchises.

Netflix and Lions Gate have a calculated Enterprise Value of \$260.311,57 millions and \$5994,21 millions, respectively. The transaction would be expected by the end of 2021, with Netflix following a friendly approach and paying \$4043,20 millions (a premium of 30% over market value) in a 100% cash-financed deal, generating \$2.107,96 millions in Synergy value.

Keywords: Mergers & Acquisitions, Entertainment, Streaming

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ABSTRATO

Desde o início do século, até ao dia de hoje, a maneira como os consumidores experienciam o seu entretenimento mudou dramaticamente. Desde o aluguer de filmes, à ida às salas de cinema, a indústria do entretenimento continua a mudar de forma dinâmica ao longo do tempo.

Os serviços de entretenimento caseiro são a última fronteira dessa mudança, nos quais as plataformas de streaming ganharam imensa popularidade de forma mundial, tal que uma delas é instantaneamente associada quando este tópico é discutido: a Netflix

Esta dissertação estuda a possível aquisição dentro desta indústria, com a Lions Gate como alvo e a Netflix como investidora. A Lions Gate, uma produtora e distribuidora de conteúdos, está presente tanto nos canais tradicionais como no espaço de streaming e por isso representa uma grande oportunidade para a Netflix adquirir conteúdo valioso para a sua biblioteca incluindo os direitos de franquias bem conhecidas.

A Netflix e a Lions Gate têm um Valor Empresarial de \$260.311,57 milhões e \$5994,21 milhões, respetivamente. A transação é esperada de ocorrer no final de 2021, com a Netflix a seguir uma abordagem amigável e pagar \$4043,20 milhões (um prémio de 30% acima do valor de mercado) num negócio 100% financiado por capital próprio, gerando um valor de Sinergia de \$2.107,96 milhões.

Palavras-chave: Fusões e Aquisições, Entretenimento, Streaming

Título: O próximo passo da gigante do streaming – A proposta de aquisição da Lions Gate pela Netflix

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GLOSSARY

APAC	Asia-Pacific
APV	Adjusted Present Value
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditures
CAPM	Capital Asset Pricing Model
COGS	Cost of Goods Sold
DCF	Discounted Cash Flow
D&A	Depreciations and Amortizations
D/E	Debt to Equity
EBIT	Earnings before Interest and Taxes
EBITDA	Earnings before Interest, Taxes, Depreciations and Amortizations
EMEA	Europe, Middle East, and Africa
EPS	Earnings per Share
EV	Enterprise Value
FCFF	Free Cash Flow to the Firm
FY	Fiscal Year
GDP	Gross Domestic Product
GICS	Global Industry Classification Standard
IMF	International Monetary Fund
M&A	Mergers and Acquisitions
MPA	Motion Pictures Association
NWC	Net Working Capital
OPEX	Operational Expenditures
P/CF	Price to Cash Flow
P/E	Price to Earnings
ROE	Return on Equity
ROIC	Return on Invested Capital
SVOD	Subscription of Video On-Demand
UCAN	United States and Canada
YoY	Year on year
WACC	Weighted Average Cost of Capital

1 - LITERATURE REVIEW

1.1- M&A Overview

Mergers and acquisitions (M&A) are inserted in the restructuring strategies available to companies that can be divided into operational restructurings and financial restructurings (DePamphilis 2019). Within operational restructurings, which aim to change the firm's asset structure by acquiring or divesting businesses or product lines (DePamphilis 2019), mergers and acquisitions are one of the tools used to achieve that outcome.

Mergers combine two or more firms with only one of the firms involved in the process continuing to exist, which can be classified as horizontal mergers (if the companies operate in the same industry), conglomerates (if they operate in different industries) and vertical mergers (if they operate in the same value chain, but in different positions) (DePamphilis 2019).

Acquisitions involve an acquiring firm (or bidder) taking control of either some of the assets of another company, a subsidiary, or even the entire company (labelled as the acquired firm, seller, or target), also referred as a takeover (DePamphilis 2019).

Takeovers are often friendly, that is, the target firm's board and management recommend that the shareholders approve the selling of the firm's stock at the bidding price made by the acquiring company, normally above current market value at that time to also reflect part of the future value expected to be created by the integration of the target (DePamphilis 2019 and Eccles, Lanes, & Wilson, 1999). However, they can also be hostile, when the acquiring company's bid is uncalled for and opposed by the management of the target firm, which, if successful can lead to both a higher final price paid (Damodaran, 2005) and a more troublesome integration process.

1.2 - M&A motivation

Several authors have provided different classifications on motivations that explain and drive mergers and acquisitions by firms. Brouthers, van Hastenburg, & van den Ven, (1998) state that most mergers are driven by more than one motive, that can be generally categorized into Economic, Personal or Strategic, while Berkovitch & Narayanan (1993) delved into what they consider the biggest three motives for takeovers: Synergy, Agency problems and Hubris.

Trautwein (1990) systemized seven different theories, in accordance with different drivers that motivate mergers to occur due to different value sources:

- Efficiency theory – claims mergers are mainly driven by the pursuit of financial, operational, and managerial synergies;
- Monopoly theory – states that mergers are mainly motivated by the pursuit of market power;
- Valuation theory – defends that mergers occur by having better information of the target firm's value than the market;
- Empire-building theory – argues that mergers are a way of maximizing management's value, not shareholder's;
- Process theory – suggests that mergers are the outcome of imperfect processes that are influenced by limited information processing, organizational routines, and internal political power;
- Raider theory – contends that mergers are motivated by the pursuit of transferring wealth from shareholders to the target firms;
- Disturbance theory – argues that mergers are caused by economic disturbances.

Of the seven, only the first three are deemed reasonable, and with some ideas prevalent in Damodaran (2005), even though managerial synergies (the ability to increase performance by better monitoring and planning skills) are not given as much relevance.

Although Trautwein (1990) states that the empire-building theory and process theory are less plausible, some of their basis can explain the mismatches in value projected and value achieved in most negative yielding mergers, in alignment with Berkovitch & Narayanan (1993) who conclude that agency problems are a key motive for value destroying acquisitions.

According to Damodaran (2005), synergies are valued in different manners, are sensible to different factors and assumptions made, but can generally be categorized as operating or financial. Operating synergies let companies improve operating income, growth, or both. Some of the examples given by the author include:

- Economies of scale, leading to increased cost-efficiency and profitability, commonly seen in horizontal mergers;
- Increased pricing power, due to reducing competition and boosting market share, which benefits margins and operating income (again more prevalent in businesses that share the same market);
- Combination of unique strengths that complement each other well within the new merged company;

- More growth potential in different markets or current ones.

Financial synergies on the other hand, can decrease cost of capital or provide larger cash-flows, and can include:

- Tax benefits, that can occur in the form of a write up of the acquired firm's assets, or from the use of the target's losses to compensate the acquirer's profits;
- Diversification (more relevant for private companies, since for most public firms, investors can achieve this goal more easily and cheaply);
- More capacity to take on debt since earnings and cash flow of the merged entity are more certain and easier to predict. This can be translated into lower cost of capital due to the tax benefits of the increased debt in the capital structure;
- Increased investment opportunities for companies with spare cash, which can happen when companies with large cash reserves acquire firms with very profitable projects but are limited due to being short on capital.

These merger drivers are in line with the CFOs survey results presented by Mukherjee, Hiymaz & Baker (2004), where participants claimed synergies (37,3%), diversification (29,3%), use of excess cash (5.3%) and tax benefits (2.7%) as their top reasons for pursuing M&A activity (where diversification was seen as a driver especially relevant in times of economic downturn in order to cut losses), and when asked for the sources of those synergies, almost 90% of participants indicated operating economies (namely economies of scale to improve productivity or decrease costs) as their top source of value, while 5.8% and 4.3% claimed financial economies and increased market power, respectively.

This view is shared by DePamphilis (2019) that claims mergers with most potential synergies are between competitors, even though these are also the deals more scrutinized by regulators since they often reduce competition in the industry and can increase prices to the final consumer.

This is also reinforced by Eccles, Lanes, & Wilson (1999) that reveal in their survey that when assessing synergies, bidders usually ground their estimates on five major types of synergies: cost savings, revenue enhancements, process improvements, financial engineering, and tax benefits.

1.3 - M&A Outlook

Historically, idealized synergies take longer than expected to be achieved (Damodaran 2005), require greater costs than initially estimated and, often fail to reach the figure estimated which puts extra pressure on the acquirer to gain the returns necessary to shareholders (DePamphilis 2019).

In fact, the deals that end up not creating positive value for the acquirer happen mostly due to unreasonable expectations being set about the target's strategic importance that is built up in the negotiation phase, bad integration by the acquirer, but mainly due to overpricing the synergy value that can be created, and in that sense, smaller acquisitions can bring more benefits in terms of realizing their potential, since they are easier to integrate (Ingham, Kran and Lovestam, 2007). Evidence also shows that some synergy projections, such as cost cuts, are much more reliable than others such as revenue improvements or higher growth due to how easy or costly they can be to integrate (Sirower & Sahni, 2006).

Taking that into consideration Sirower & Sahni (2006) suggest a method for verifying how reasonable are the projected synergies and how likely an acquirer is to overpay for the target.

Damodaran (2005) claims that the larger the expected value from synergies, the bigger the bid above market value the acquirer is willing to pay (premium), and management is already inclined to set up a bid price high enough to prevent competition for their target (Trautwein, 1990). However, Eccles, Lanes, & Wilson (1999) demonstrate that size of the premium may not linearly correspond to an unsuccessful deal, but rather if too much is being paid in regards of what the acquiring firm can afford and what the target firm can offer its specific bidder, and because of this, bidders' share price usually drops in response to declared deals that are seen by the overall market as overvalued or too risky if the acquirer is relying on leverage too much, thus impairing future growth possibilities (DePamphilis 2019).

Brouthers, van Hastenburg, & van den Ven (1998) however, claim that since mergers can improve more than one aspect of the firm, more than one measure of performance should also be used to deem a deal successful or not and that these should be aligned with the objectives determined by management (such as market share, sales, cost reduction, creation of shareholder value and others), which can explain the difference of opinion of whether a merger fails or not.

This does not mean however that pursuing M&A activity is not a successful proposition, although there can be doubts of whether M&A creates value most of the time, both

DePamphilis (2019) and Bruner (2004) agree that this is not the case. Bruner (2004) reveals that it has been widely studied that: shareholders of the selling firm earn big from M&A, combined shareholders of both the buy and sell-side earn substantially, and acquirers' shareholders earn what they considered the required rate of investment return.

He further states that, not only the positive or negative outcomes of the consolidation can be wildly different, but also lists several factors that tilt the scale towards each of the results (Bruner 2004).

1.4 - Valuation

According to Kaplan & Ruback (1996) in the investment banking industry, acquisitions are normally priced relative to multiples of current earnings or cash flow and compared to similar companies or similar acquisitions, whereas in academia it is taught that to perform a valuation one must discount the value of expected future cash-flows at market-based rates to obtain the present value of the object of that valuation.

The authors' recommendation is that for more reliable estimates the discounted cash-flow (DCF) and comparable methods should be used in conjunction, and therefore it is useful to be aware of their advantages, their limitations and how they can complement each other.

1.4.1 - Discounted Cash Flow method

The DCF method, recognised as the best means for providing an accurate valuation (Kaplan & Ruback, 1996), relies on the idea that to calculate the value of an asset, the expected future free cash-flows (cash-flows available to shareholders, creditors, and other investors) must be discounted at a rate that accurately reflects their risk to obtain their sum present value.

The two distinct approaches of this method are the DCF using the Weighted Average Cost of Capital (WACC) and the Adjusted Present Value (APV). Although the WACC based approach is the most used, their main distinction mostly lies in the discount rate considered appropriate to obtain the present value of the asset.

DCF – WACC

To calculate free cash flows (FCFF), the following formula is used:

$$FCFF = EBIT(1 - Tm) + D\&A - CAPEX - \Delta NWC$$

The WACC based approach relies on discounting the company's expected future free cash-flows to present value at the following rate:

$$WACC = \frac{Equity}{Equity + Debt} \times k_e + \frac{D}{E + D} \times k_d \times (1 - T_m)$$

What this formula translates into is that the Weighted Average Cost of Capital simply corresponds to the firms' cost of equity (k_e) in proportion to its percentage of equity in its capital structure in addition to its cost of debt (k_d) in proportion to its percentage of debt in its capital structure after considering the value of interest tax shields which that debt provides (where T_m corresponds to the company's marginal corporate tax rate).

Some of the methods to obtain the company's cost of equity include the CAPM model (Sharpe, 1964 and Lintner, 1965) and the Fama-French 3-factor model (Fama & French, 1992), whereas the cost of debt can be obtained from either the default spread of the company's credit rating plus a risk-free rate or simply using a geometric mean of the yields-to-maturity of the firm's total debt (Koller, Goedhart, & Wessels, 2015).

Although simple in application, the assumption behind this approach is that the capital structure remains stable when projecting future free cash flows for the future years since the discount rate (WACC) is always the same, which may not always be the case. So, for more accurate results, WACC should be calculated for each year of the projection which may be difficult and time wasting (Kaplan & Ruback, 1996), otherwise, if a company has a complex and changing capital structure throughout the period of projections, Luehrman (1997) argues that the APV approach leads to better results.

APV

According to Luehrman (1997) the Adjusted Present Value approach calculates the company's value as the sum of its future cash flows discounted to the present as if they were fully financed by equity capital (they are discounted at an unlevered cost of equity instead of WACC), with the present value of its interest tax shields (discounted at the appropriate market cost of debt) but taking into account the present value of the expected costs of financial distress (which are larger, the more debt percentage in the capital structure).

The advantage in this approach is the flexibility that events that change the company's capital structure can be easily incorporated in the projections by simply recalculating the interest tax shields and the corresponding financial distress costs. Because of this Luehrman (1997) claims that APV can be successful in circumstances that WACC is good and where it fails.

1.4.2 - Relative valuation method

The relative valuation method presupposes that assets with comparable characteristics should be priced on the same basis, and therefore, consists of valuing a firm relative to similar firms, firms in similar sectors or valuing relative to similar transactions, based on the comparison of a specific multiple calculated using certain performance measures with its comparable peers (some of the more common ones include EBITDA, EBIT, net income, or revenue) (Kaplan & Ruback, 1996).

The key for an accurate relative valuation is developing a peer group that is as similar as possible to the asset being valued and to which the comparison is being made, thus serving as a good benchmark to have a good valuation range.

However, used by itself it is easy to realize the flaws of this method. No matter how similar the companies in the peer group can be, every company is unique in its cost structure, revenue drivers and other metrics, and so, it is unrealistic to assume that the asset being valued will have its cash flows grow in the exact same proportion and bear the exact same risk as its peers. Also, the calculation of multiple only provides a snapshot of its value in relation to the key metric chosen on that specific time, which does not mean that in the future that asset's value will continue to grow in the exact same proportion as that metric.

To help apply multiples properly Goedhart, Koller and Wessels (2005) call for the use of companies with similar ROIC and future growth rates in the peer group, the preferential use of forward-looking and of enterprise value multiples and finally adjusting enterprise value multiples for nonoperating items (such as nonoperating assets and excess cash, employee stock options, operating leases, and pensions).

2 - INDUSTRY OVERVIEW

2.1 - The Communication services sector

In accordance with the Global Industry Classification Standard (GICS), both Netflix and Lion Gate integrate the Communication Services sector. In general, this sector encompasses a broad range of companies that provide phone and internet services as well as the major creators and producers of entertainment content. Some of the biggest and most recognisable companies within this sector include AT&T, Verizon, Facebook, The Walt Disney Company, Alphabet Inc., and Netflix.

This sector, with a market capitalization of approximately \$6.37 Trillion, is divided into five industries: Diversified Telecommunication Services, Entertainment, Interactive Media & Services, Media, and Wireless Communication Services. Figure 1 showcases the share each industry represents of that market capitalization in the sector.

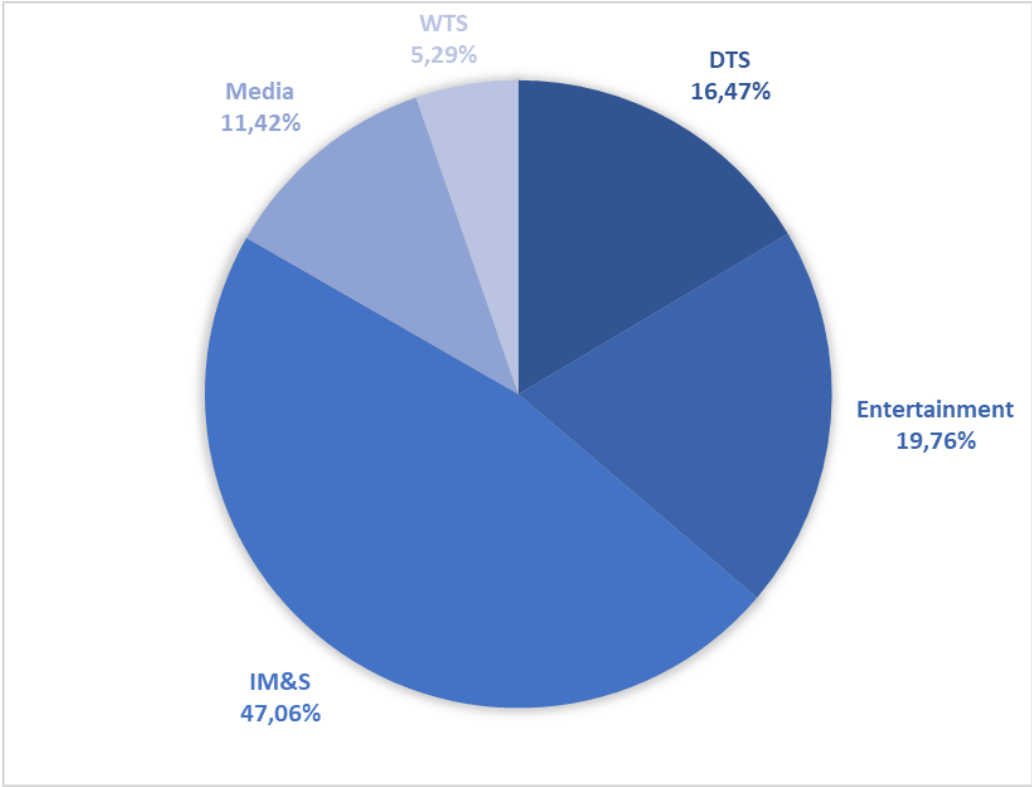


Figure 1 – Communication Services sector Market Capitalization as of April 5th, 2021; Based on Eresearch Fidelity figures

Both the target and acquirer companies are inserted in the Entertainment industry and more specifically in the Movies & Entertainment sub-industry.

2.2 - The Movies & Entertainment sub-industry

The Movies & Entertainment sub-industry consists of companies in the market of the production and the distribution of music and movies as entertainment. It can traditionally be divided into the box office segment, which is valued by the revenues generated by ticket admissions, and the music & video segment which is valued by the sales of music singles, optical media and downloadable music and video.

This market is characterised by having a small number of large players that operate in several markets and are of multinational dimension, being responsible for the biggest portion of the revenue generated.

In terms of geographical distribution, North America and Asia-Pacific are the most relevant regions and accounted for almost 70% of the revenue generated in the market in 2019.

Figure 2 showcases the geographical distribution of market value in 2019.

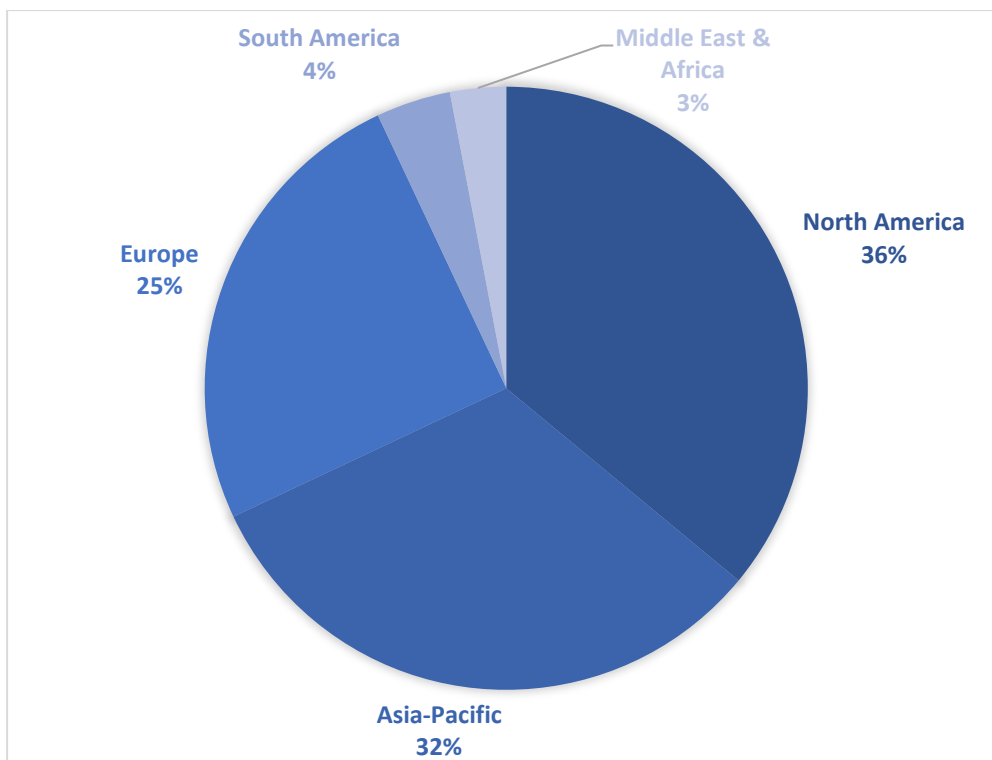


Figure 2- Geographical distribution of Movies & Entertainment market value share in 2019; based on Marketline 2020 figures.

2.2.1 - Growth projections

This market had total revenues of almost \$80bn by 2019 for a compound annual growth rate (CAGR) of 1.1% in 5 years, but due to COVID-19 which closed movie theatres and put a halt

on this expansion, the forecast is that by 2024 the combined revenues of both segments reach \$ 71.6bn, which would represent a decline at a CAGR of -1.9%. This is driven mainly by the decline in revenues in the prominent Asia-Pacific and U.S. markets, projected to fall at a CAGR of -0.9% and -3.5% respectively.

Figure 3 showcases how this market’s global value has been evolving over recent years by segment, as well as the forecast of the evolution until 2024.

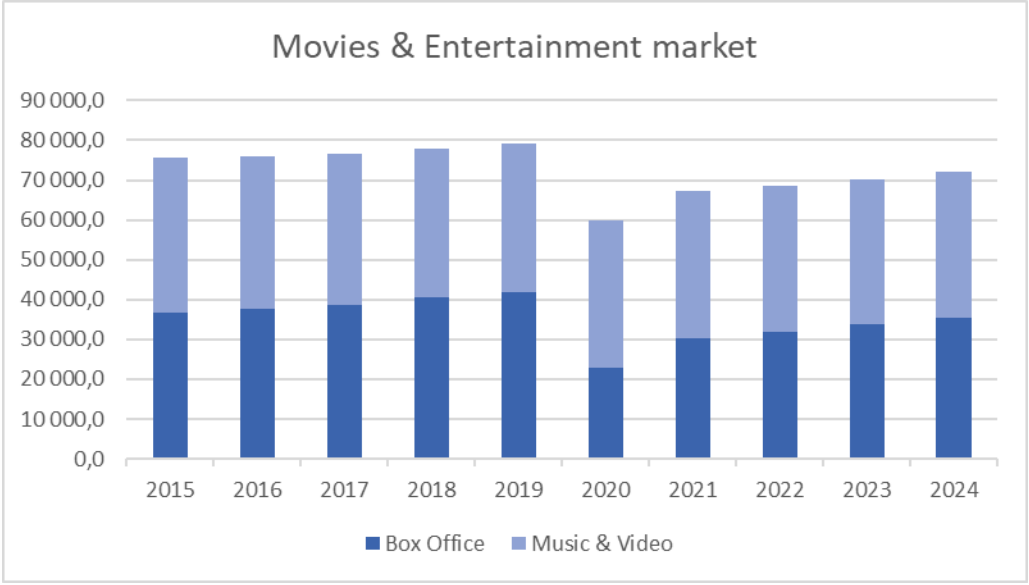


Figure 3- Movies & Entertainment value by segment; based on MarketLine 2020 figures; figures in \$ million.

2.2.2 - Market trends and factors of influence

A widespread trait amongst the major companies in the market is the vertical integration from the production of content to distribution. A result of this was that in 2019, The Walt Disney Company produced 7 out of the top 10 movies with most box office revenue in the US, with the other two by Warner Media, and the remaining by Sony. The Walt Disney Company also topped 7 movies in the UK box office, 6 in the German box office and 5 in the French).

A factor that has had a serious impact on this market at a global scale is piracy. As the physical demand for entertainment in the form of DVDs fades, the demand for digital media is offsetting this decline, and with it, the relevance of this factor.

Since this substitution can sometimes be made illegally, thus hurting the revenues of the companies involved in the creation of content, this is sparking government response to address it, shutting down major piracy sites every year. In the United States there were approximately 17 billion visits to piracy sites throughout the year of 2018, making it the country with most piracy site visits in the world.

The COVID-19 pandemic has also had a negative effect on the market, previously showcased by the drop in revenues for 2020, due to the closing of movie theatres worldwide in combination with lockdowns and travel bans. Some of the leading companies also suspended the release of box office data (a tool used to gauge the popularity of movies and used as promotion) and delayed the release of movies, as well as the production of new movies.

The trade war between China and the U.S. can also have a future effect on this market. China's box office is the second largest in the world and predicted to surpass the US in future years, with an importance so great that some of the leading production companies already take into consideration the popularity a film would have among Chinese viewers when in the process of making their films.

Therefore, if in the future China limits U.S. films as a response to tariffs it would have a big negative impact in the largest companies.

Finally, one of the key trends, and for most of the major players the key challenge that has been shaping the market, is the increasingly strong competition of platforms of subscription of videos on-demand (SVOD) in the filmed entertainment sector (such as Netflix and Amazon Prime Video) and of music streaming services (such as Spotify), which stunt the growth of movie and music sales respectively, both physically and through digital download for the established companies.

This is especially more relevant since SVOD companies are starting to produce their own original content, further strengthening their position and their independence from the main players, a fact clearly exacerbated by the COVID-19 pandemic which saw people turning to streamed entertainment at home.

Facing this challenge, key players in the market have already issued their response by launching or beginning to launch their own streaming services (Walt Disney's Disney+ and its purchase of a stake in Hulu, and AT&T's Warner Media with HBO MAX, for example).

2.3 - Digital Media market

Since this last-mentioned factor is undoubtedly the most relevant in the present and in the future of the industry, and the proposed acquiring company is one of the most recognized leaders in this new form of entertainment distribution, it becomes relevant to reference the Digital Media market.

The Digital Media market is defined by revenues generated by the downloads or streams of media content recognized in the country it occurred, and is comprised of the video, book, and music segments.

Geographically, the biggest market is undoubtedly the U.S., accounting for almost 60% of the global digital media market revenues.

Figure 4 showcases the geographical distribution of the revenues generated in the Digital Media market in 2019.

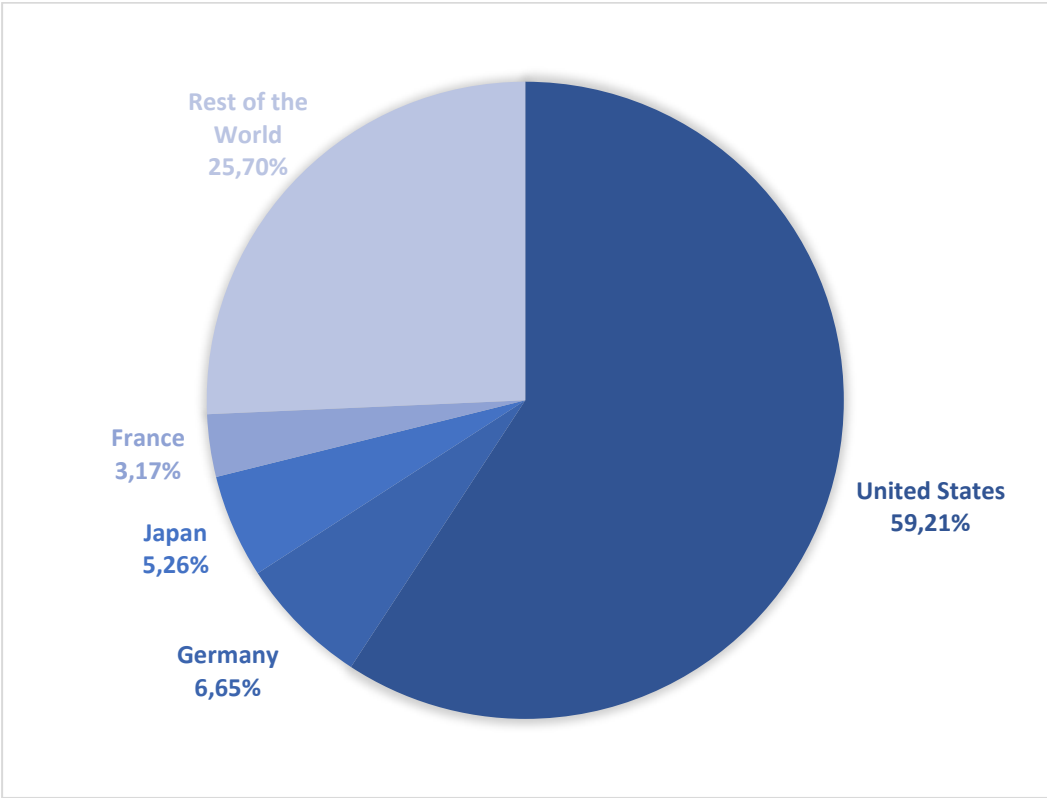


Figure 4 - Geographical distribution of the Digital Media market revenues in 2019; based on MarketLine 2020 figures.

2.3.1 - Growth projections

With revenues slightly surpassing \$50bn globally in 2019, the Digital Media market's trend over the past 5 years was of very rapid growth, where revenues in regions such as Germany and France grew at a CAGR of 27.5% and 20.9%, respectively. However, the most contributing factor for this growth at a global scale was the fact that this trend was also present in the United States, a region that was already predominant as the source of revenues, with a CAGR of 23.6% between 2015 and 2019, fueled primarily by streaming services in the video and music segments.

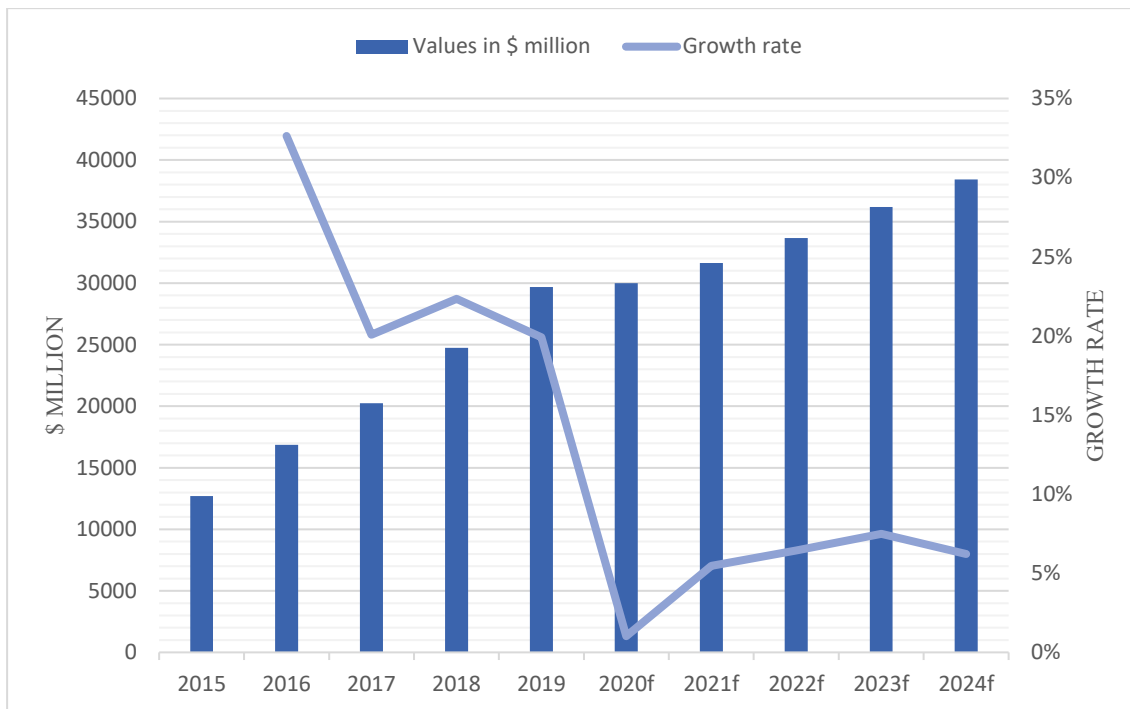


Figure 5- Digital Media market value evolution in the United States; based on MarketLine 2020 figures.

Although the pandemic slowed this growth, it is expected to return to a moderate pace, reaching almost \$40bn by 2024 at a CAGR of 5,3%, with other key regions such as the United Kingdom and Japan following this trend expected to grow at a CAGR 3,7% and 1,3% respectively, in the same period.

Regarding the video segment, which is the highest value segment, representing 62.3% of the U.S. market in 2019, in the period of 2015 to 2019, revenues grew at a CAGR of 23,2% both due to the growth of SVOD subscription numbers which increased by 60% in the same time period reaching 237 million subscribers (according to MPA), a trend driven by the low cost compared to pay-per-view TV, (although this is showing signs of slowing down as the market reaches its maturity), and by the increase in original content produced by SVOD providers.

2.3.2 - Market trends and factors of influence

Companies operating in the Digital Media market mostly benefitted from the COVID-19 pandemic. SVOD providers represented 64% of the revenue generated by the video segment in 2019, and due to the increased time people are spending indoors there was an increase in user engagement reinforcing the shift in consumer behavior from traditional media to streaming services.

This shift was already being emphasized by the growing popularity of smartphones, smart TVs and high-speed internet being easier to access, and is expected to continue over the next

years as demand remains strong and there is an increased variety of platforms that consumers can choose from. However, due to the fast pace these services entered and progressed in the market, there will come a point when the market will be saturated, and growth will start to slow down.

One of the factors behind this growth lies in the millennial generation being very tech savvy and keen on using services that facilitate access to any type of media, although this also means that they have less brand loyalty in case of a price increase and are also prone to the usage of illegal downloads.

Just like in the Movies & Entertainment sub-industry, in the digital media market an increasing trend towards vertical integration is starting to be present between production and distribution, whether it is content producers adding VoD services in their models or even developing their own streaming platforms to target consumers directly (as were the beforementioned cases of Disney+, HBO Max and Hulu), or large distribution companies of the digital media market via SVOD starting to offer original contents in their digital libraries.

2.4 - Key Merger & Acquisition history in the Entertainment industry

Regarding M&A activity in the Entertainment industry, there is evidence of integration and deal making in the recent past, with a high likelihood of it occurring again moving forward. The trend so far has been of acquiring smaller incumbents or the merger of large companies in the industry.

In 2016, the proposed target Lions Gate Entertainment acquired Starz Entertainment, LLC (media & entertainment company) for \$ 4,4bn.

Two of the most striking mergers in the industry's history occurred relatively recently. In 2018, one of the largest acquisitions occurred when AT&T acquired Time Warner for \$85bn, largely in response to the rise in popularity that the streaming platforms posed as a threat, with WarnerMedia SVOD services to be developed and later deployed, such as HBO MAX, which was further released in the U.S. in May 2020. Consequently, not only a new streaming platform was now competing with the incumbents in the Digital Media space with exclusive rights to exceedingly popular contents, but this also meant that other platforms such as Netflix ceased to be able to provide that content on their platform.

The other significant acquisition is that of The Walt Disney Company's acquisition of 21st Century Fox for \$71bn, in March 2019, in a bid to also provide streaming services via

Disney+ with exclusive rights to the company's content. Walt Disney also agreed to acquire approximately one third of Comcast's share of Hulu for full control of their streaming service, which puts them in a unique position to offer their viewers a bundle package for both services and ESPN+ as well.

In 2020 there was a significant decline in new deals mainly due to the COVID-19 pandemic, but there are future deal prospects in place, such as AT&T's intention to sell part of its assets (Crunchyroll which provides anime streaming, digital advertisement unit Xandr and its DirectTV satellite business) for more financial stability.

3 - COMPANY PROFILES

3.1 - Netflix Inc.

3.1.1 - Overview

Netflix Inc. is an international online streaming platform of television shows and movies, headquartered in Los Gatos, California, United States, where it primarily operates.

The company operates via subscription, providing in return unlimited access to its library of content in the user's digital devices (whether mobile or computers) which subscribers can stream over the internet (or as an alternative, have DVDs with specific content delivered to their home address).

Currently the company employs a total of 9400 people and achieved a turnover of almost \$25 billion in FY2020.

The company categorizes the origin of its streaming revenues obtained into either EMEA (Europe, Middle East, and Africa), Latin America, APAC (Asia-Pacific) or UCAN (United States and Canada), this last one being the predominant source of streaming revenue over the last 4 years and representing over 46% of streaming revenues in FY2020.

Officially, Netflix details their operating business segments as either Streaming revenues (which provides over 99% of Netflix revenue), derived from subscription fees of content streaming services, or DVD revenues, derived from subscription fees of DVD mailing services.

In accordance with its latest annual report, the company has over 200 million paid memberships in over 190 countries.

3.1.2 - Strategy

As one of the dominant players in the streaming space, Netflix has consolidated its position over the years with effective marketing done by digital and TV advertising, as well as by providing free-trial periods both to attract new customers as well as re-joining ones. This resulted in more people being interested in the service and recommending it, which had a compounding effect. The company also benefitted from the competitive advantages of being an online platform, which lead to lower costs of stocking old content or releasing new content, consumers being able to sort through shows with ease, and more importantly the ability to establish consumer patterns and recommend shows that suit the tastes of each

specific user increasing retention rates and consumer satisfaction, all for the fixed membership fee that allows for unlimited content streaming (unlike pay-per-view models).

Netflix’s strategy for the future revolves around continuing to grow their subscriber numbers across the world both by attracting new members and retaining their current ones.

For this to be possible, their focus is on expanding their reach of internet-connected devices, but more importantly improving both the quality of content provided in their digital library and the number of different titles offered in the movie and series format.

3.1.3 - Ownership

Entity name	Percentage of Outstanding shares owned
The Vanguard Group, Inc.	7,50%
Capital Research Global Investors	6,83%
T. Rowe Price Associates, Inc.	4,39%
Fidelity Management & Research Company LLC	4,39%
BlackRock Institutional Trust Company, N.A.	4,31%
State Street Global Advisors (US)	3,62%
Capital International Investors	3,59%
Capital World Investors	3,09%
Jennison Associates LLC	1,84%
Baillie Gifford & Co.	1,83%
Total	41,38%

Table 1- Netflix Inc. top 10 owners ranked by percentage of outstanding shares owned; based on Refinitiv figures.

Netflix is listed in the NASDAQ Global Select Market, and their top 10 owners represent over 40% of the company’s outstanding shares.

3.1.4 - Financial Analysis

Revenues

In FY2020 the company had Revenues of almost \$25 billion which represents a YoY growth of approximately 24% and meant a 29,71% CAGR since 2016. In FY2020 Streaming revenues represented over 99% of total revenues, growing at a pace of 31,46% CAGR since 2016, while DVD revenues fell at a compound rate of 18,5 % since 2016.

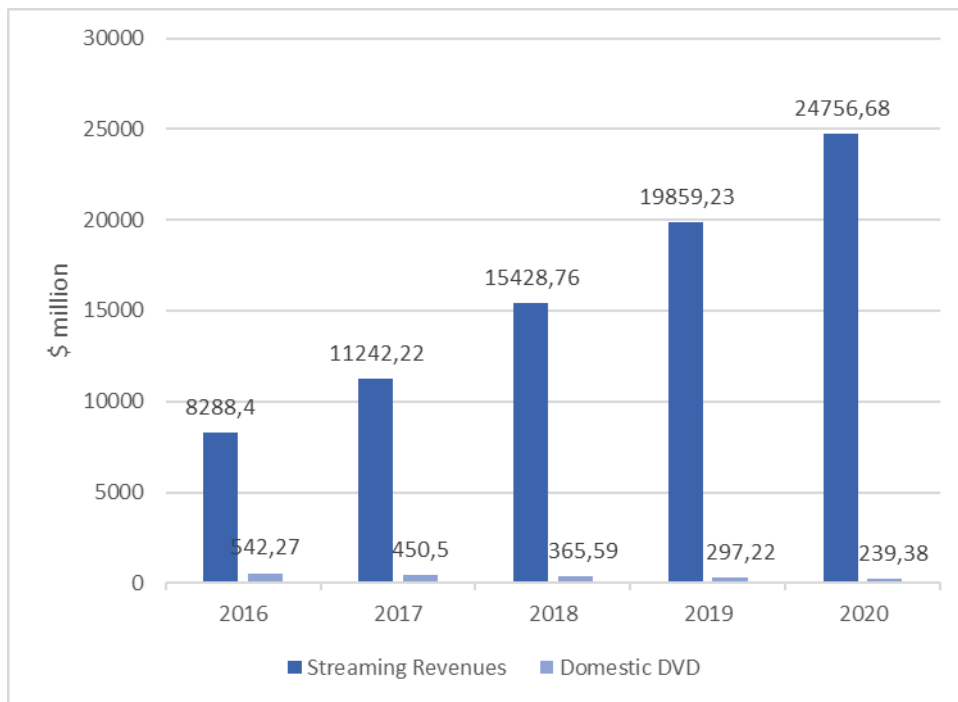


Figure 6 - Netflix Inc. historical revenue by segment; based on Netflix Inc. annual reports' figures.

As for geographic origin of streaming revenue, in FY2020 the UCAN region represented approximately 46,27% of streaming revenues, followed by EMEA (31,39%), Latin America (12,75%) and APAC (9,58%). However, since 2017, streaming revenues in each region have been growing at different paces, with the biggest growing region being APAC at a 60,3% CAGR, followed by EMEA at a 48,72% CAGR, Latin America at a 24,33% CAGR and UCAN at a 19,81% CAGR.

This tendency is expected to accentuate as bigger market regions begin to become saturated.

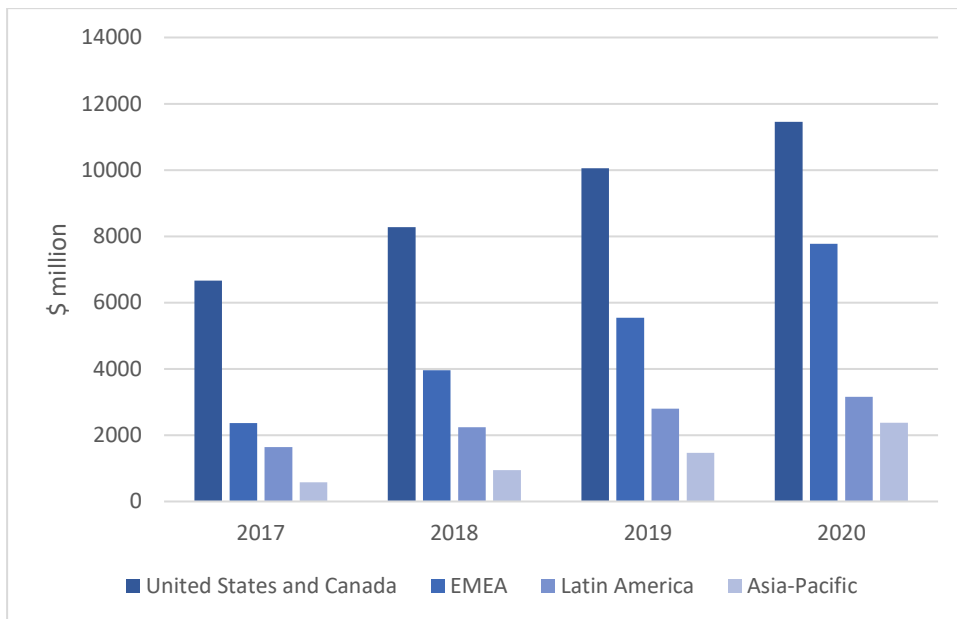


Figure 7 - Netflix Inc. historical streaming revenue by geography; based on Netflix Inc. annual reports' figures.

Costs

Historically, the company's operating expenses have been of the same type in the last 5 years, with Cost of Revenues making up the largest portion of costs in the years displayed, rising at a CAGR of 26,16% and representing almost 75% of total operating costs in FY2020.

In accordance with annual reports, this item mostly encompasses amortization of content assets, with most of the remainder being expenses regarding acquisition, licensing, and production of content as well as streaming delivery costs.

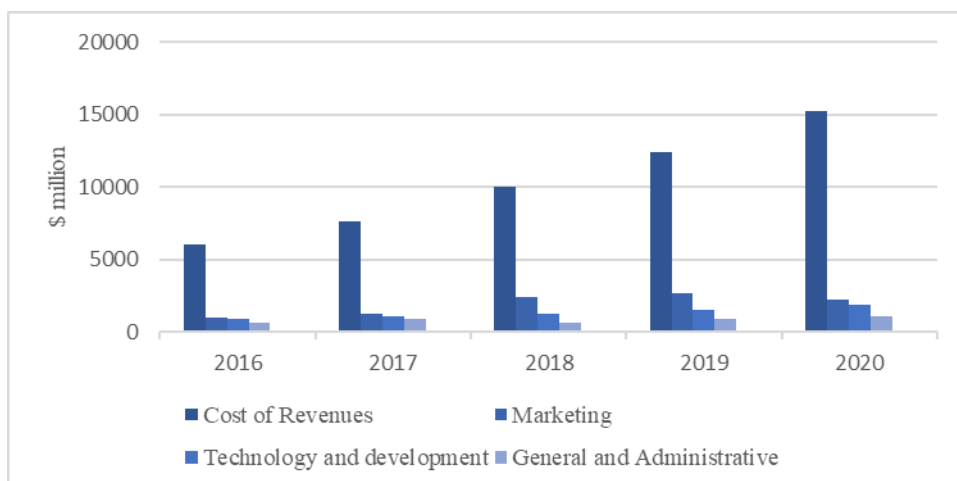


Figure 8 - Netflix Inc. historical operating costs by type; based on Netflix annual reports' figures.

Key Indicators

Key Indicator	2016	2017	2018	2019	2020	Industry Median
Profitability						
Gross Margin	31,7%	34,5%	36,9%	38,3%	43,3%	54,5%
EBITDA Margin	60,1%	61,3%	58,6%	59,2%	66,4%	0,8%
Operating Margin	4,3%	7,2%	10,2%	12,9%	18,3%	(2,8%)
Net Margin	2,1%	5,5%	7,5%	8,6%	10,7%	(4,6%)
Earning Power						
ROE	7,6%	20,4%	26,8%	27,1%	28,7%	(4,7%)
Liquidity						
Current Ratio	1,25	1,40	1,49	0,90	1,25	1,59
Leverage						
Assets/Equity	5,07	5,31	4,96	4,48	3,55	1,89
Debt/Equity	1,27	1,82	1,98	1,95	1,47	0,15
% LT Debt to Total Capital	55,9%	64,6%	66,4%	66,1%	57,8%	19,2%
(Total Debt - Cash) / EBITDA	0,16	0,37	0,55	0,68	0,54	(0,61)
Operating						
ROIC	2,4%	5,7%	7,2%	7,5%	9,1%	-

Table 2 - Netflix Inc. key performance indicators and comparison with Industry median values; based on Refinitiv figures.

As figure 10 indicates, Netflix presented Gross margins below most companies in the industry across all years displayed, although it significantly outperformed in terms of EBITDA margins. The company's Operating Margin, Net Margin and ROE are also significantly above most companies in the industry. It is notable that all Profitability and Earning Power metrics have steadily grown throughout the period in analysis.

In terms of Liquidity, the company's Current Ratio has remained slightly below most companies in the industry, falling in 2019 but quickly recovering the following year.

Regarding Leverage metrics, this is a company that mostly prefers the use of debt to finance its operations, which is patent in a % Long Term Debt of over 50% in the 5 years in analysis (significantly above what is the norm for most companies in the industry) and a positive Net debt to EBITDA metric (where the norm for most companies in the industry is to have more cash than Total Debt, reflected by a negative industry median value). It is also worth mentioning that although this last indicator grew along the period in question, it always remained below 1, showing that Netflix would be able to meet all its Debt obligations in the short term if necessary. The Debt-to-Equity metric is also in line with the analysis (worth mentioning that it is also significantly above what is normal for most companies in the industry).

Finally, a positive and growing ROIC is a very good sign reflective of Netflix’s growing ability to generate a positive return from where it decides to invest its resources for the future of the company.

Historical Price performance

As figure 11 shows, historically, Netflix stock has significantly outperformed the market. By the end of the period in analysis, an investment in Netflix in April 2016 would have multiplied its value by over 5 times, whereas an investment in the overall Movies & Entertainment sub-industry would have returned approximately 80% cumulatively, in comparison.

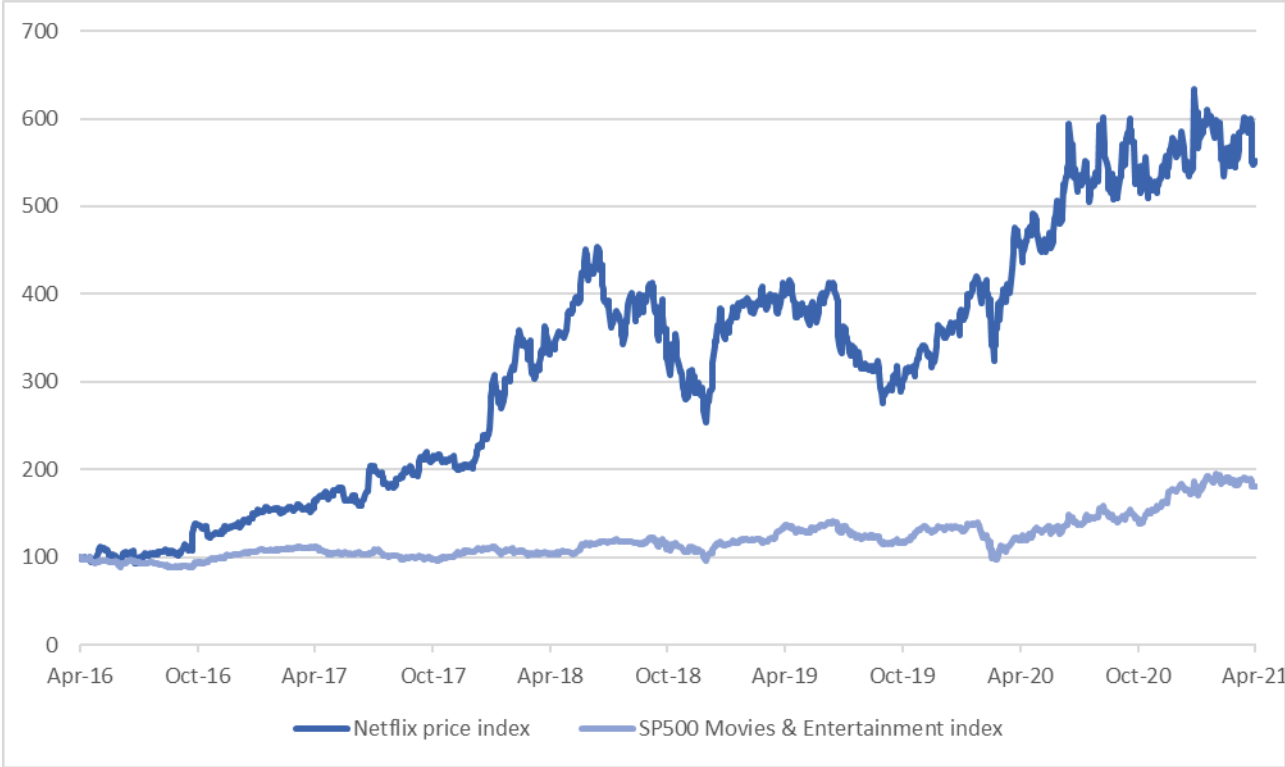


Figure 9 - Netflix price performance comparison with Movies & Entertainment sub-industry; based on Refinitiv figures.

3.2 - Lions Gate Entertainment Corp.

3.2.1 - Overview

Lions Gate Entertainment Corp. is a global content provider, headquartered in Santa Monica, California, United States and operating in other locations such as the United Kingdom and Canada.

The company is mainly involved in film production and distribution, television series production and has digital products, reaching consumers at a global scale.

Currently, the company employs a total of 1443 people and achieved a turnover of \$3.89 billion in FY2020.

Lions Gate has historically obtained revenue predominantly from the U.S., which in FY2020 represented over 85% of total revenues.

Officially, Lions Gate details their operating business segments as:

- Motion Pictures, which includes revenues from the development, production and distribution of feature films, distribution of films whose rights have been acquired, and licensing of distribution rights for produced films.
- Television Production, which includes revenues from the development, production, and distribution of television content, from distribution of Starz original content, as well as from its licencing and sales of licensed products.
- Media Networks, which includes revenues from licensing premium subscription video content domestically and from distribution of STARZ branded premium subscription video content internationally via streaming.

As is the case with many of the big players in the industry, Lions Gate is a vertically integrated company. The company is one of the leading content production and distribution companies that is present both in the traditional channels as well as in the streaming segment, as per their purchase of Starz Entertainment in 2016.

In 2019, in motion pictures they were ranked 5th in studios with most domestic box office share, mainly due to their franchise successes in Knives Out (multiple award nominations, over \$300 million box office revenues worldwide), The Hunger Games, John Wick and Now You See Me.

As for media networks, Lions Gate operates on approximately 70 TV shows on over 25 networks (which have earned over 200 Emmy nominations and several Golden Globe nominations), and in the streaming segment, their movie and series content library ascends to approximately 17 thousand different shows.

3.2.2 - Strategy

Lions Gate’s strategy for the future of the company revolves around creating long-term value to stakeholders by taking advantage of growth opportunities. In generic terms, their approach is centred around attracting and maintaining good relations with content creators, producing original content that appeals to their core audience and taking advantage of the market trends, the biggest being the development of their premium streaming platform of global scale reach.

In practice, this is being done by a multitude of partnership deals with talent, for the development and production of original content, as well as with distributors to increase the reach of the content produced.

At the same time, they continue to ramp up their operations in the streaming space both by acquisition of content and by creation of Starz original content, to grow the Lions Gate’s digital library.

3.2.3 - Ownership

Entity name	Percentage of Outstanding shares owned
MHR Fund Management LLC	23,19%
Invesco Advisers, Inc.	10,45%
The Vanguard Group, Inc.	6,69%
Liberty Global PLC	4,88%
Dimensional Fund Advisors, L.P.	4,56%
Jefferies Financial Group Inc	4,49%
Discovery Communications, Inc.	3,01%
Artisan Partners Limited Partnership	2,63%
BlackRock Institutional Trust Company, N.A.	2,58%
Renaissance Technologies LLC	2,57%
Total	65,04%

Table 3 - Lions Gate Entertainment Corp. top 10 owners ranked by percentage of outstanding shares owned; based on Refinitiv figures.

Lions Gate is listed in the New York Stock exchange, and their top 10 owners represent 65% of the company’s outstanding shares.

3.2.4 - Financial Analysis

Revenues

In FY2020 the company had Revenues of \$3.89 billion which represents a YoY growth of approximately 5,7% and meant a 15,37% CAGR since 2016.

Like mentioned before, over 85% of last fiscal year's revenue has come from the U.S. and this region has had the most influence on revenue for the last 5 years, as shown in the following graph.

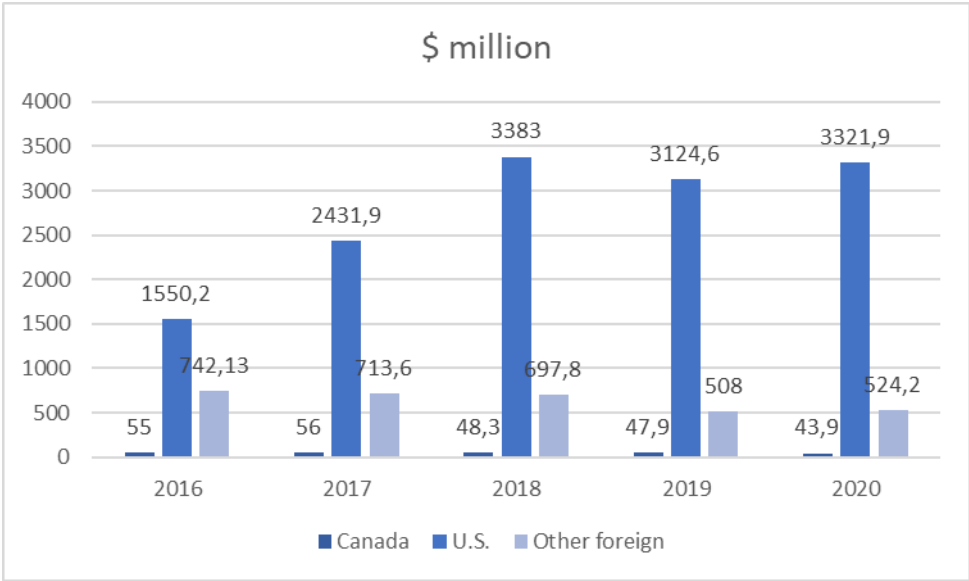


Figure 10 - Lions Gate Entertainment Corp. historical revenue by geography; based on Lions Gate annual reports' figures.

As for segmentation of revenues, historically Motion Pictures has always been the most important component of the overall revenue figures, but this importance has been reduced over time both due to the stagnation of revenues in the segment, and by a tendency of increasing revenues from Media Networks and TV Production.

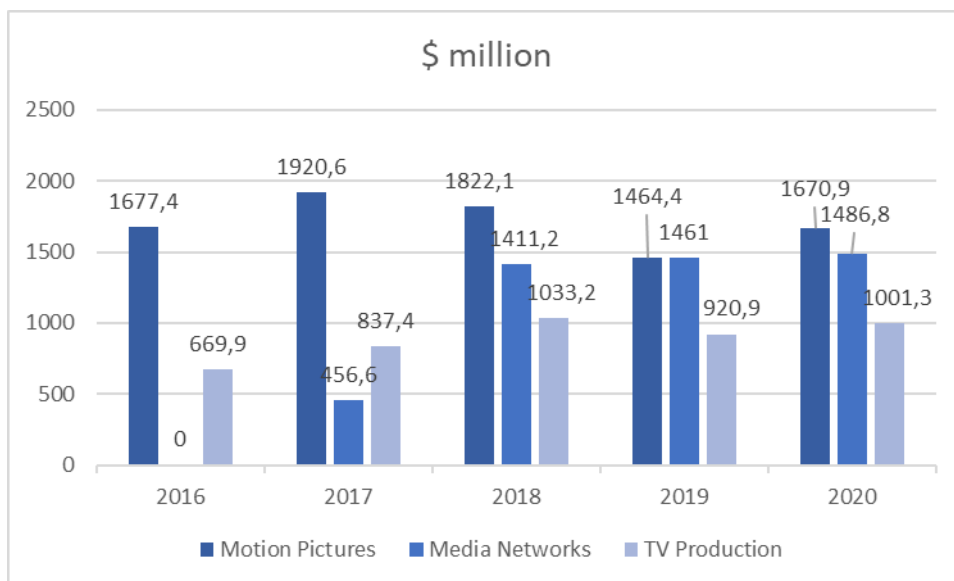


Figure 11 - Lions Gate Entertainment Corp. historical revenue by segment; based on Lions Gate annual reports' figures.

Costs

Historically, the company's biggest operating expenses have largely remained of the same type since 2016, with Direct Operating costs, Distribution and marketing expenses, and General and Administration expenses making up around 95% of total operating costs, which have steadily risen at a CAGR of 13,1% (except in 2019 where there was a fall in operating costs).

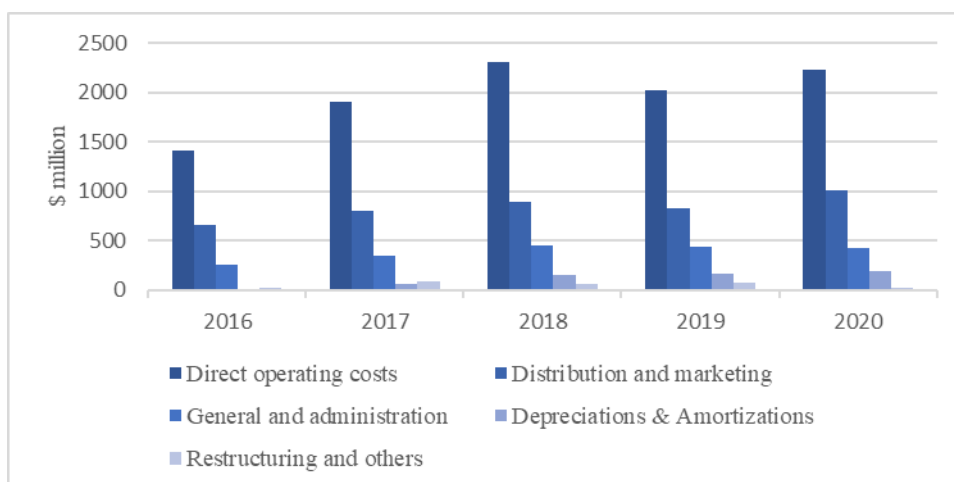


Figure 12 - Lions Gate Entertainment Corp. historical operating costs by type; based on Lions Gate annual reports' figures.

According to Lions Gate annual reports, both the Depreciations & Amortizations expenses as well as the Restructuring and others are mostly associated with acquisition costs.

The Restructuring and others expenses are associated with severance costs due to acquisitions and other cost-saving initiatives, transaction, integration, and legal costs as well as write-downs from restructurings.

The increase of Depreciations & Amortizations expenses is mostly associated with the property, equipment and intangible assets acquired in the Starz merger.

Key indicators

Key Indicator	2016	2017	2018	2019	2020	Industry Median
Profitability						
Gross Margin	39,7%	40,5%	44,1%	45,5%	45,0%	53.0%
EBITDA Margin	44,2%	48,4%	51,1%	51,9%	52,0%	(0,9%)
Operating Margin	(1,1%)	(1,1%)	4,5%	(0,6%)	0,2%	(2,0%)
Net Margin	1,8%	0,5%	7,3%	(8,1%)	(5,3%)	(4,3%)
Earning Power						
ROE	5,9%	0,9%	10,9%	(9,4%)	(6,8%)	(3,3%)
Liquidity						
Quick Ratio	0,49	0,83	0,62	0,65	0,65	1.36
Current Ratio	0,50	1,00	0,73	0,84	0,87	1.71
Leverage						
Assets/Equity	4,51	3,66	2,84	2,88	2,99	1.82
Debt/Equity	1,86	1,76	1,24	1,22	1,20	0.10
% LT Debt to Total Capital	34,8%	56,6%	36,9%	45,3%	45,9%	20.8%
(Total Debt - Cash) / EBITDA	1,32	1,81	1,81	1,81	1,54	-1.14
Operating						
ROIC	1,7%	0,3%	4,4%	(4,6%)	(3,2%)	-

Table 4 - Lions Gate key performance indicators and comparison with Industry median values; based on Refinitiv figures.

As figure 16 indicates, Lions Gate presented Gross margins below most companies in the industry across all years displayed, although it significantly outperformed in terms of EBITDA margins. Their Operating margin, although negative in some of the years in analysis, is still above the relative values presented by most companies in the industry.

It is also made clear that the COVID-19 pandemic severely affected the company's Net Margin more than most companies in the industry, which in turn also reflected on its ROE and ROIC metric, since the company was performing very well in these indicators, before their abrupt fall from 2019 onwards.

In terms of Liquidity, this is a company that presented values below what most companies in the industry have in terms of ratios for the period in analysis, and with values below 1, which would mean that it would not be able to meet all its financial obligations in the short term if necessary.

In terms of Leverage metrics, across all periods, the Assets-to-Equity ratio was above what most companies present in their balance sheets, and the Debt-to-Equity ratio significantly so as well. This is also a company that financed its operations with Long term debt in a ratio to its Total Capital that is double what the Industry Median was in the past 5 years. Finally, it had, more Net Debt than the EBITDA it generated, across the 5-year period in discussion.

This, in conjunction with the Liquidity indicators, makes it possible to conclude that Lions Gate is a company that predominantly finances its operations on Debt rather than Equity, and that, relative to its size, it is in a weaker financial position than most of its peers.

Historical Price performance

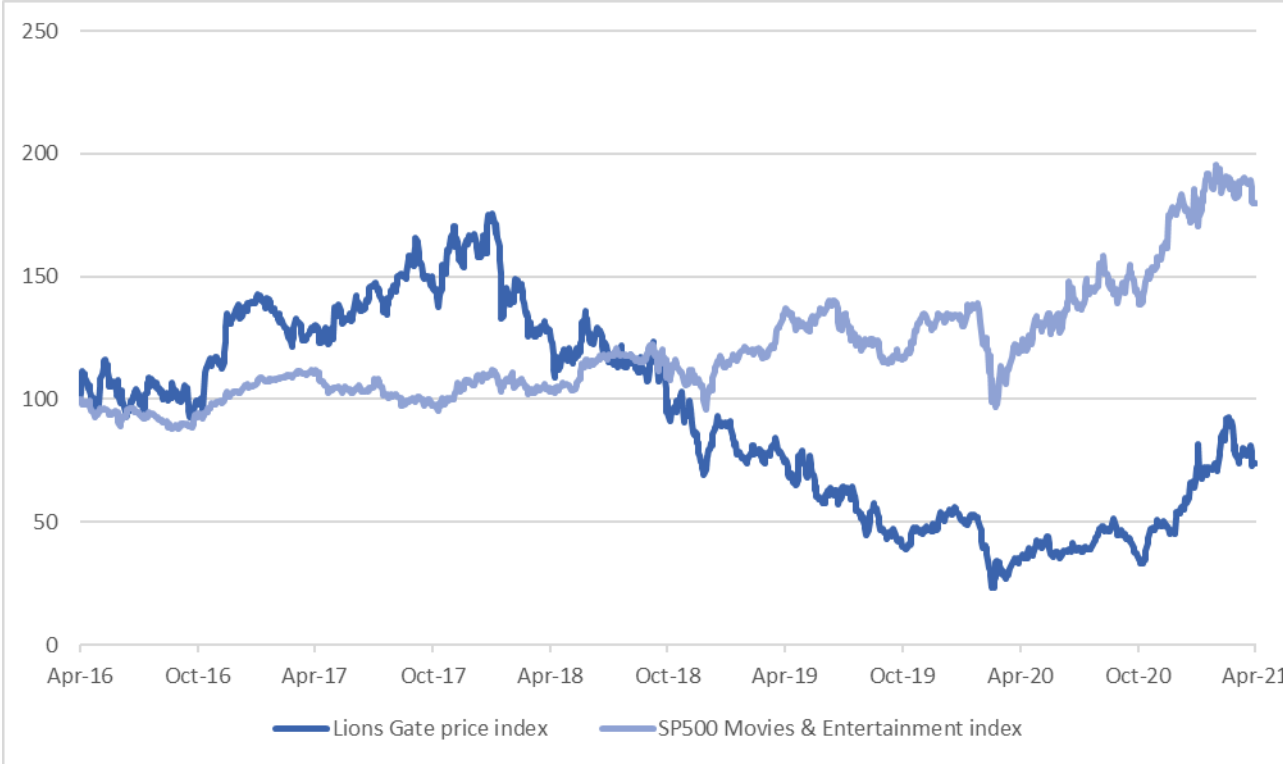


Figure 13 - Lions Gate price performance comparison with Movies & Entertainment sub-industry; based on Refinitiv figures.

As figure 17 shows, historically, Lions Gate stock has not been performing strongly. Although by the end of 2017 an investment in Lions Gate would have had cumulative returns of over 50%, the fall in the stock’s value initiated before the pandemic began, summarizing what would be a bad performance both in absolute terms (an investment in Lions Gate 5 years ago would have lost about 20% of its value in the present day) as well as when compared to the Movies & Entertainment sub-industry.

4 - VALUATION

The valuation part of this thesis aims to determine the Enterprise Value of the acquirer, the acquiring target, and the synergies created by the acquisition of the merged entity. For that the discounted cash-flow method and the relative valuation method will be used as described in the literature review.

4.1 - Netflix

4.1.1 - Revenue

The main revenue driver for Netflix is the number of subscribers it has on its platform, the more it can attract and retain the larger the growth.

Netflix has been experiencing very rapid growth, as analysed before, but after a worldwide pandemic, increased competition in the SVOD market and the market itself making its way towards saturation, it is increasingly difficult to predict how future revenues will grow.

Based on the mean analyst consensus forecasts, revenues are expected to grow to \$29.729m, \$34.247m and \$39.200m by the end of FY2021, FY2022 and FY2023, respectfully, which would in turn result in a growth rate of 18,93%, 15,20% and 14,46%.

This captures the progression described, that revenues eventually will slow down as the company reaches its maturity. In the forecasts made, a more conservative approach was taken, with growth rates of 17,5%, 14,5% and 12% by FY2023. Revenues were then forecasted to grow at a slower pace down to 8% YoY growth by FY2025, the last year forecasted.

4.1.2 - Costs

Cost of revenues

Cost of revenues can overwhelmingly be connected to both the amount of content available on the platform due to amortization of existing content, as well as all expenses related to new content, and stream delivery costs which are driven by subscriber numbers. For this last component Netflix developed its own delivery network branded “Open Connect”, for a more efficient way of streaming for users.

In summary, with a more cost-effective way of streaming the content to users, and an increasingly stronger bet on original content, which is overall less costly than acquiring or licencing 3rd party content, the model built assumes that cost of revenues will have progressively less importance as a percentage of revenues, continuing a trend that was present in the last 5 years.

Therefore, cost of revenues was calculated to progress to 59,5% of revenues generated in 2021 and 58% of revenues generated from 2022 onwards.

Other operational expenses

Other operational expenses are represented by Marketing, Technology and Development and General and Administrative expenses.

Regarding Marketing expenses, as the company becomes a more recognisable household name, more marketing expenses become less necessary. Also, as the company grows bigger and achieves higher turnover figures, the less percentage of revenues is necessary to allocate for the intended exposure. In line with this trend, in the last 3 years there was indeed a reduction of this type of expenses as a percentage of revenues from 2018 to 2020, with a decrease from 15% of total revenues to roughly 9%. The model takes this into account by gradually reducing this expense type to a target 5% of revenues by 2022, remaining constant for the remaining of the forecast.

Regarding Technology and Development, and General and Administrative expenses, both were assumed to remain constant as 7% and 4% of Revenues generated over the forecasted period.

Other income and expenses

Interest expenses consist of any expense regarding debt instruments including issuance costs. On average, since 2016, interest expenses were 4,26% of Long-term debt, therefore in the forecast made, we assumed a value of 4,5%.

Interest and other income consist of foreign exchange gains and losses on foreign currency. In FY2020 there was a one-time expense regarding remeasurement of debt and other in other currencies, therefore it was forecasted as a constant (that constant being the average percentage of revenues expended in the 4 years prior).

CAPEX, Depreciation & Amortization and Net Working Capital

Capital expenditures and Net Working Capital were assumed to evolve at the same rate as the average of the last 5 years as a percentage of Revenues, and Depreciation and Amortization at the historical depreciation rate average of the last 5 years (0,5% of the sum of Property and Equipment and Content Assets)

4.1.3 - WACC

For the estimation of WACC, Cost of Debt was obtained by using Refinitiv's Issuer Curve for the highest maturity available (10 years), obtaining 3,43%. For the calculation of After-tax Cost of Debt, the tax rate used was the company's reported statutory tax rate of 21%. The after-tax cost of debt obtained was therefore 2,71%.

For Cost of Equity, the risk-free rate used was the U.S. treasury 10-year yield as of December 31st, 2020 (0,93%), the Beta associated is the 5-year monthly retrieved on Refinitiv (0,76). Finally, the Equity Risk Premium used was the average implied premium for U.S. equities in the last 10 years retrieved of Damodaran's website (5,53%). The cost of equity obtained was 5,13%.

Following the formula for WACC described in the literature review, WACC was calculated as 5,05%.

Observations	Category	Value (\$ Millions, thousand, %)
(Balance Sheet 2020)	Cash & Cash equivalents	8 206
(Netflix 10-K filling)	Long-term Debt	16 416
-	Net Debt	8 210
-		
(Balance Sheet 2020)	# Shares outstanding	443
(Refinitiv)	Share price @ 31/12/2020	540,73
-	Equity	239 487
Refinitiv Issuer Curve for the highest maturity available (10y)	Cost of Debt	3,43%
(Indicated as Netflix tax rate in Netflix 10-K filling)	Tax Rate	21%
	Debt	8 210
	Debt %	3,31%
	After-tax Cost of Debt	2,71%
U.S. treasury 10 year yield as of 31/12/2020	Risk-free rate	0,93%
5 year montly beta retrieved from Refinitiv	Beta	0,76
10 year average of Damodaran Implied premium for U.S. equities	Equity Risk Premium	5,53%
	Equity %	96,69%
	Cost of Equity	5,13%
	WACC	5,05%

Table 5 - Netflix WACC calculation summary table; own calculations and other sources

FCFF

After estimating the FCFF and basing the discounting on the previously calculated WACC of 5,05%, the firm is assumed to grow in perpetuity at a terminal growth rate of 1,6% as of 2025 onwards (in accordance with IMF (2021) projections of real GDP growth forecasted for 2025 in the United States).

According to the model, Netflix's forecasted Enterprise Value at the end of 2021 is of \$260,311.57m. After subtracting the company's net debt and dividing by the current shares outstanding, the fair price calculated was \$569,21 per share, a value within the share's 52-week high-low price.

	2020	2021f	2022f	2023f	2024f	2025f
Revenues	24996,06	29370,37	33629,07	37664,56	41054,37	44338,72
Property and Equipment	960,18	1128,22	1291,81	1446,82	1577,04	1703,20
Content assets	25383,95	29826,14	34150,93	38249,04	41691,46	45026,77
Other current assets	1556,03	1828,34	2093,44	2344,66	2555,68	2760,13
Current content liabilities	4429,54	5204,70	5959,39	6674,51	7275,22	7857,24
Accounts payable	656,18	771,02	882,81	988,75	1077,74	1163,96
Accrued expenses and other liabilities	1102,20	1295,08	1482,87	1660,81	1810,28	1955,11
NWC	-4631,89	-5442,46	-6231,62	-6979,42	-7607,56	-8216,17
D&A	115,71	154,77	177,21	198,48	216,34	233,65
Operating Income	4585,29	6461,48	8743,56	9792,79	10674,14	11528,07
(Taxes)	-437,95	-1208,13	-1696,79	-1944,65	-2171,99	-2402,86
= NOPAT	4147,34	5253,35	7046,76	7848,14	8502,15	9125,20
CAPEX	497,92	440,56	504,44	564,97	615,82	665,08
(Change in NWC)	139,00	-810,58	-789,16	-747,79	-628,15	-608,61
D&A	115,71	154,77	177,21	198,48	216,34	233,65
= FCFE	3626,12	5778,15	7508,70	8229,44	8730,82	9302,38
Terminal Value						273745,21
WACC		5,05%				
Terminal growth rate		1,60%				
Discount period	-	0	1	2	3	4
Discount factor	-	1,000	0,952	0,906	0,863	0,821
Discounted Cashflows	-	5778,15	7147,56	7456,88	7530,70	232398,28
Enterprise Value	260311,57					
Net Debt	8 210,45					
Equity	252101,12					
Shares Outstanding	442,90					
Share price	569,21					

Table 6 - Netflix FCFE calculation summary table; own calculations; \$ millions; millions; share price in \$

A sensitivity analysis was also performed by varying the perpetuity growth rate between 1,4% and 1,8% in increments of 0,1% and the WACC between 4,05% and 6,05% in increments of 0,5%. From the table below it is possible to conclude that the share's fair price can reasonably be within the interval of \$485,04 and \$689,85 per share (and under broader assumptions, between \$422,26 and \$874,14).

Growth rate\WACC	4,05%	4,55%	5,05%	5,55%	6,05%
1,40%	749,06	628,43	540,48	474,41	422,26
1,50%	776,65	647,56	554,44	485,04	430,58
1,60%	806,49	667,99	569,21	496,2	439,28
1,70%	838,88	689,85	584,86	507,95	448,37
1,80%	874,14	713,3	601,48	520,32	457,9

Table 7 - Netflix share price sensitivity analysis; own calculations; \$

4.1.4 - Relative Valuation

The peers selected to perform the relative valuation are companies that are direct competitors of Netflix in the entertainment industry and preference was given to companies which are already present in the SVOD segment, which will likely mean that these companies will grow similar as time passes. The multiples used were EV/EBITDA since it is relevant even when comparing companies with different debt ratios, EV/Sales and P/CF (which is more credible than a multiple like P/E because of depreciations and other items).

According to the relative valuation calculated, Netflix should be valued within \$181,7 and \$254,71 per share by the end of 2020. The explanation for the fact that the range calculated was so far off the price the company trades at may lie in the fact that there are no companies that can draw an accurate comparison with Netflix, i.e., none of the closest competitors is either a pure content streaming company or a company with the same dimensions or cost structure.

Identifier (RIC)	Company Name	Enterprise Value to EBITDA	Enterprise Value to Sales	P/CF per share (Trailing 12 M)
FOXA.OQ	Fox Corp	7,71	1,91	9
AMCX.OQ	AMC Networks Inc	7,38	1,56	8,3
T	AT&T Inc	7,74	2,41	8,4
VIAC.O	ViacomCBS Inc	6,97	1,48	8,3
DIS	Walt Disney Co	54,78	6,49	262,6
AMZN.O	Amazon.com Inc	24,03	3,82	29,3
GOOGL.O	Alphabet Inc	23,44	7,51	23,2
	Mean	18,86	3,60	49,86
	Median	7,74	2,41	9,00
	Min	6,97	1,48	8,28
	Max	54,78	7,51	262,60

	Enterprise Value to EBITDA	Enterprise Value to Sales	P/CF per share (Trailing 12 M)
Multiple for calculation	18,86	3,60	49,86
EBITDA	4701,00	-	-
Sales	-	24996,06	-
Cash Flow from Operating Activities	-	-	2427,08
EV Calculation	88683,51	89910,13	121019,18
Debt	16 416	16 416	16 416
Cash	8 206	8 206	8 206
Shares Outstanding	443	443	443
Equity	181,70	184,47	254,71

Table 8 - Netflix's share price relative valuation model; based on Refinitiv figures and own calculations.

4.1.5 - Valuation Summary

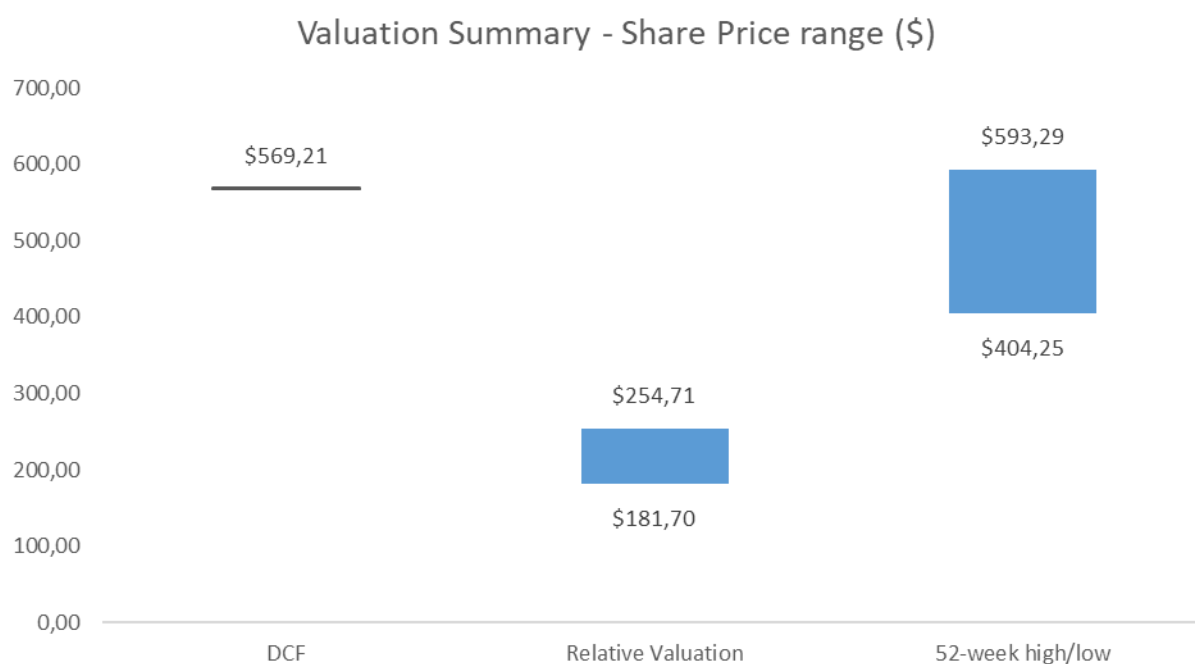


Figure 14 - Netflix share price valuation summary in comparison with 52-week high/low; based on Refinitiv figures and own calculations

4.2 - Lions Gate

4.2.1 - Revenue

The main revenue drivers for Lions Gate are the number of subscribers on its platform and revenue from traditional box office numbers.

After COVID-19, analyst forecasts reveal that revenues in both the Motion Pictures and TV Production segments are expected to drop, and then resume to 2019 levels by 2023 and 2022, respectively. Meanwhile, Media Networks is expected to continue its growth albeit at a decelerating pace.

With this in mind, for Motion Pictures, the model forecasts a 40% drop in revenue in 2021, followed by an 18% recovery in 2022 and 20% in 2023, with revenues decelerating to 15% and 11% growth rates in the last 2 years of the forecasted period, respectively.

For Media Networks, revenues are forecasted to grow 10% and 8% in the first 2 years respectively, stabilizing at a 6% growth rate for the remainder of the forecasted period.

Finally, for TV Production, revenues are forecasted to drop 11% in 2021, growing at a 12% rate in 2022 and decelerating to a growth rate of 8% in 2023 and 4% for the remainder of the forecasted period.

Intersegment revenues are expected to be 4% of total segment revenues throughout the whole forecasted period.

4.2.2 - Costs

Direct Operating costs

Direct operating costs are related to the amortization, acquisition, and programming costs on all segments of operation.

These costs were forecasted as the 5-year historical average of total revenue percentage (approximately 57,6% of total revenues).

Other operational expenses

Other operational expenses are represented by Distribution and marketing, General and administration and restructuring and other costs.

Distribution and marketing, with an allocation of approximately 25% of total revenues of the average 5 years prior, was forecasted as 23% of revenues in 2021, 21% in 2022 and stabilize at a target 19% of revenues from 2023 onwards for the same reasons stated for the Netflix valuation.

Regarding other operational expenses, they were forecasted as the 5-year historical average of total revenue percentage (11,3% and 1,5% of total revenues, respectively).

Other income and expenses

Interest expenses consist of any expense regarding debt instruments including issuance costs. As a percentage of Long-term debt, interest expenses were forecasted as the average of the last 4 historical years (7,28%, rounded up to 7,5% in the model).

All other income and expenses were forecasted as the historical average percentage of revenues in the prior years (other income in the 5 years prior and other expenses in the 2 years prior since there were none before that).

CAPEX, Depreciation & Amortization and Net Working Capital

Capital expenditures and Net Working Capital were assumed to evolve at the same rate as the average of the last 5 years, and Depreciation and Amortization at the historical depreciation rate average of the last 5 years (7,5% of the sum of Property and Equipment and Intangible Assets)

4.2.3 - WACC

For the estimation of WACC, Cost of Debt was obtained by using the average effective interest paid as a percentage of Long-term Debt (7,5%). For the calculation of After-tax Cost of Debt, the tax rate used was the company's reported statutory tax rate of 21%. The after-tax cost of debt obtained was therefore 5,93%.

For Cost of Equity, the risk-free rate used was the U.S. treasury 10-year yield as of December 31st, 2020 (0,93%), the Beta associated is the 5-year monthly retrieved on Refinitiv (1,85). Finally, the Equity Risk Premium used was the average implied premium for U.S. equities in the last 10 years retrieved of Damodaran's website (5,53%). The cost of equity obtained was 11,16%.

Following the formula for WACC described in the literature review, WACC was calculated as 8,33%.

Observations	Category	Value (\$ millions, millions, %)
(Balance Sheet 2020)	Cash & Cash equivalents	318
(Lions Gate 10-K filling)	Long-term Debt	3 226
-	Net Debt	2 908
-		
(Balance Sheet 2020)	Shares outstanding	218
(Refinitiv)	Share price @ 31/12/2020	11,37
-	Equity	2 478
Average effective interest paid as a percentage of Long term Debt	Cost of Debt	7,50%
Statutory U.S. tax rate	Tax Rate	21%
	Debt	2 908
	Debt %	53,99%
	After-tax Cost of Debt	5,93%
U.S. treasury 10 year yield as of 31/12/2020	Risk-free rate	0,93%
5 year montly beta retrieved from Refinitiv	Beta	1,85
10 year average of Damodaran Implied premium for U.S. equities	Equity Risk Premium	5,53%
	Equity %	46,01%
	Cost of Equity	11,16%
	WACC	8,33%

Table 9 - Lions Gate WACC calculation summary table; own calculations

FCFF

After estimating the FCFF and basing the discounting on the previously calculated WACC of 8,33%, the firm is assumed to grow in perpetuity at a terminal growth rate of 1,6% as of 2025 onwards.

According to the model, Lions Gate's forecasted Enterprise Value at the end of 2021 is of \$5994.21m. After subtracting the company's net debt and dividing by the current shares outstanding, the fair price calculated was \$14,16 per share, a value within the within the share's 52-week high-low price.

FCFF Calculations

	2020	2021f	2022f	2023f	2024f	2025f
Revenues	3890,00	3388,01	3789,51	4195,04	4548,70	4878,46
Property and Equipment	140,90	122,72	137,26	151,95	164,76	176,70
Intangible assets	1719,60	1497,69	1675,18	1854,45	2010,78	2156,56
Accounts receivable	522,00	454,64	508,52	562,93	610,39	654,64
Other current assets	157,40	137,09	153,33	169,74	184,05	197,40
Accounts payable and accrued liabilities	526,90	458,91	513,29	568,22	616,12	660,79
NWC	152,50	132,82	148,56	164,46	178,32	191,25
D&A	197,70	121,53	135,93	150,48	163,17	174,99
Operating Income	2,80	102,08	189,97	294,19	319,00	342,12
(Taxes)	-3,30	10,80	1,52	-11,88	-9,65	-7,48
= NOPAT	-0,50	112,88	191,49	282,31	309,34	334,64
CAPEX	31,10	50,82	56,84	62,93	68,23	73,18
(Change in NWC)	-230,70	-19,68	15,74	15,90	13,86	12,93
D&A	197,70	121,53	135,93	150,48	163,17	174,99
= FCFF	396,80	203,27	254,84	353,97	390,41	423,53
Terminal Value						6390,40
WACC	8,33%					
Terminal growth rate	1,60%					
Discount period	-	0	1	2	3	4
Discount factor	-	1,000	0,923	0,852	0,787	0,726
Discounted Cashflows	-	203,27	235,24	301,60	307,07	4947,04

Enterprise Value	5994,21
Net Debt	2 907,80
Equity	3086,41
Shares Outstanding	217,90
Share price	14,16

Table 10 - Lions Gate FCFF calculation summary table; own calculations; \$ millions; millions; share price in \$

A sensitivity analysis was also performed by varying the perpetuity growth rate between 1,4% and 1,8% in increments of 0,1% and the WACC between 7,33% and 9,33% in increments of 0,5%. From the table below it is possible to conclude that the share's fair price can reasonably be within the interval of \$12 and \$16,79 per share (and under broader assumptions, between \$10,14 and 19,96).

Growth rate\WACC	7,33%	7,83%	8,33%	8,83%	9,33%
1,40%	18,05	15,61	13,51	11,72	10,14
1,50%	18,50	15,99	13,83	12,00	10,38
1,60%	18,97	16,38	14,16	12,28	10,63
1,70%	19,46	16,79	14,51	12,57	10,88
1,80%	19,96	17,21	14,86	12,87	11,14

Table 11 - Lions Gate share price sensitivity analysis; own calculations; \$

4.2.4 - Relative Valuation

The peers selected to perform the relative valuation are companies that are direct competitors of Lions Gate. The same multiples were used as in Netflix's relative valuation except for EV/EBITDA due to the exceptionally low Operating income (and consequently EBITDA) in 2020.

According to the relative valuation calculated, Lions Gate should be valued within \$12,65 and \$40,92 per share by the end of 2020.

Identifier (RIC)	Company Name	Enterprise Value to Sales	P/CF per share (Trailing 12 M)
UVV	Universal Corp	0,93	10,4
PGRE	Paramount Group Inc	9,32	10,1
FOXA.OQ	Fox Corp	1,91	9
VIAC.O	ViacomCBS Inc	1,48	8,3
AMCX.OQ	AMC Networks Inc	1,56	8,3
	Mean	3,04	9,22
	Median	1,56	9,00
	Min	0,93	8,28
	Max	9,32	10,40

	Enterprise Value to Sales	P/CF per share (Trailing 12 M)
Multiple for calculation	3,04	9,22
EBITDA	-	-
Sales	3890,00	-
Cash Flow from Operating Activities	-	614,60
EV Calculation	11825,10	5664,44
Debt	3 226	3 226
Cash	318	318
Shares Outstanding	218	218
Equity	40,92	12,65

Table 12 - Lions Gate's share price relative valuation model; based on Refinitiv figures and own calculations

4.2.5 - Valuation Summary

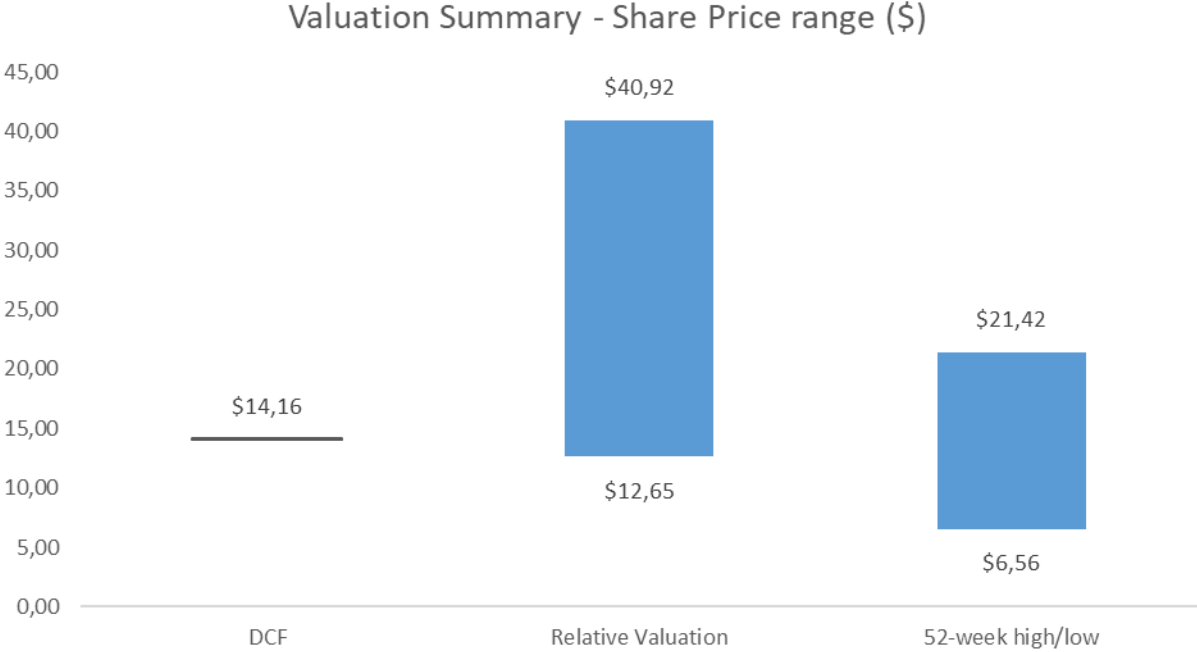


Figure 15 – Lions Gate share price valuation summary in comparison with 52-week high/low; based on Refinitiv figures and own calculations

4.3 - Valuation of combined entity

Having concluded the valuation of each standalone company, the potential acquisition would take place by the end of 2021 provided there would be enough value created by this transaction.

4.3.1 - Deal rationale

Given Netflix’s strategic desire of producing its own content to journey towards independence from key players in the market, acquiring a content producer such as Lions Gate would be natural and would serve their strategic purpose and objectives.

This would an additional benefit of owning rights of previously successful franchises and thus stream them in the platform.

Also, looking forward, any movie Netflix would want to run through traditional box office channels (perhaps even offering rewards or incentives for current subscribers in the theatres) would have the know-how of a well-established, traditional movie studio to make it more likely of it being a blockbuster success.

4.3.2 – Valuation of the combined entity (no synergies)

By performing a DCF analysis as performed on the standalone companies, the combined entity, before any synergy consideration, has an EV of \$266.305,78 million, which is derived from using a WACC that guarantees that this would correspond to the sum of Enterprise Values of both companies.

FCFF Calculations						
	2020	2021f	2022f	2023f	2024f	2025f
Revenues	28886,06	32758,38	37418,59	41859,61	45603,08	49217,19
Property and Equipment	1101,08	1250,93	1429,07	1598,77	1741,80	1879,90
Intangible assets	27103,55	31323,83	35826,11	40103,49	43702,24	47183,33
Accounts receivable	522,00	454,64	508,52	562,93	610,39	654,64
Other current assets	1713,43	1965,42	2246,78	2514,40	2739,73	2957,53
Current content liabilities	4429,54	5204,70	5959,39	6674,51	7275,22	7857,24
Accounts payable, accrued expenses and other liabilities	2285,28	2525,00	2878,97	3217,78	3504,14	3779,85
NWC	-4479,39	-5309,64	-6083,06	-6814,96	-7429,24	-8024,92
D&A	313,41	276,30	313,15	348,96	379,51	408,64
Operating Income	4588,09	6583,35	8955,66	10111,48	11019,70	11898,68
(Taxes)	-441,25	-1197,33	-1695,27	-1956,53	-2181,64	-2410,35
NOPAT	4146,84	5386,01	7260,39	8154,95	8838,06	9488,33
(CAPEX)	529,02	491,38	561,28	627,89	684,05	738,26
(Change in NWC)	-91,70	-830,26	-773,42	-731,90	-614,28	-595,68
D&A	313,41	276,30	313,15	348,96	379,51	408,64
= FCFF	4022,92	6001,20	7785,67	8607,91	9147,80	9754,40
Terminal Value						280130,38
WACC	5,14% (target WACC to equate to the exact sum of EV of both					
Terminal growth rate	1,60%					
Discount period	-	0	1	2	3	4
Discount factor	-	1,000	0,951	0,905	0,860	0,818
Discounted Cashflows	-	6001,20	7405,21	7787,18	7871,18	237241,02
Enterprise Value	266305,78					

Table 13 – Combined Entity without synergies FCFF calculation summary table; own calculations; \$ millions

4.3.3 - Potential synergies

Potential synergies can be derived from revenue addition or cost cutting efforts.

Although in theory these synergies can be expected to happen, their realization is often what makes or breaks the viability of the acquisition itself.

Having said that, even though there is no reason to believe that there would be difficulty in achieving the full value potential of the acquisition, it is unwise to believe that its effects would be felt immediately. This is factored into the model by delaying any potential synergy until the end of 2022.

In the model built, cost cutting efforts is where the bulk of synergy value resides, cost of revenues is therefore reduced, from combining the efficient way Netflix provides its stream

delivery to the new subscribers coming from Lions Gate's SVOD platform, as well as more original content produced in comparison to licensing agreements or acquisitions for streaming. However, since Lions Gate's cost of revenues represent a small part of the combined entity's total, this is equated in a total reduction of 0,1% in 2022 onwards.

Further cost cutting efforts are directed to OPEX and include a 0,5% overall reduction in General and Administrative costs from 2022 onwards and 1% in Distribution and Marketing in the same period.

On revenue addition, potential revenue benefit can be driven by the potential increase in box-office revenues due to the association of high-quality films with the Netflix brand, which is equated in a 0,5% increase in Motion Pictures revenues, from 2022 onwards.

4.3.4 – Valuation of the combined entity (with synergies)

By performing a DCF analysis as performed on the standalone companies, the combined entity was valued at an EV of \$268,413.74 million considering the same WACC of 5,14% and assuming the same perpetuity rate and tax rate as Netflix and Lions Gate.

FCFF Calculations

	2020	2021f	2022f	2023f	2024f	2025f
Motion Pictures	1670,90	1002,54	1188,91	1426,69	1640,70	1821,18
% change due to synergies	0,0%	0,0%	0,50%	0,50%	0,50%	0,50%
Media Networks	1486,80	1635,48	1766,32	1872,30	1984,64	2103,71
% change due to synergies	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
TV Production	1001,30	891,16	998,10	1077,94	1121,06	1165,90
% change due to synergies	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Streaming and DVD revenues	24996,06	29370,37	33629,07	37664,56	41054,37	44338,72
% change due to synergies	0,0%	0,0%	0,00%	0,00%	0,00%	0,00%
Intersegment elimination & estimation error adjustments	-269,00	-141,17	-158,13	-175,08	-189,86	-203,63
Revenues	28886,06	32758,38	37424,27	41866,42	45610,91	49225,88
Cost of revenues	17502,42	19426,86	21665,94	24237,53	26405,16	28497,93
% change due to synergies	0,0%	0,0%	-0,10%	-0,10%	-0,10%	-0,10%
Distribution and marketing	3237,06	2982,02	2452,48	2653,48	2887,80	3112,41
% change due to synergies	0,0%	0,0%	-1,0%	-1,0%	-1,0%	-1,0%
Technology, development and other costs	2051,60	2208,49	2524,68	2825,43	3078,64	3323,39
% change due to synergies	0,0%	0,0%	0,0%	0,0%	0,0%	0,0%
General and administrative costs (including merger costs)	1506,886	1557,66	1764,51	1970,72	2145,40	2313,19
% change due to synergies	0,0%	0,0%	-0,5%	-0,5%	-0,5%	-0,5%
Merger costs and fees	0,00	0,00	10,29	10,29	10,29	0,00
OPEX	24297,97	26175,04	28417,89	31697,45	34527,28	37246,92
Operating Income	4588,09	6583,35	9006,37	10168,97	11083,63	11978,97
(Taxes)	-441,25	-1197,33	-1695,27	-1956,53	-2181,64	-2410,35
NOPAT	4146,84	5386,01	7311,10	8212,44	8901,99	9568,62
(CAPEX)	529,02	491,38	561,28	627,89	684,05	738,26
(Change in NWC)	-91,70	-830,26	-773,42	-731,90	-614,28	-595,68
D&A	313,41	276,30	313,15	348,96	379,51	408,64
= FCFF	4022,92	6001,20	7836,39	8665,40	9211,73	9834,68
Terminal Value						282436,10
WACC	5,14%					
Terminal growth rate	1,60%					
Discount period	-	0	1	2	3	4
Discount factor	-	1,000	0,951	0,905	0,860	0,818
Discounted Cashflows	-	6001,20	7453,44	7839,19	7926,19	239193,72

Enterprise Value 268413,74

Table 14 - Combined Entity with synergies FCFF calculation summary table; own calculations; \$ millions;

With these inputs, present value of synergies was calculated to reach \$2.107,96 million.

Synergy Breakdown	2021f	2022f	2023f	2024f	2025f	Perpetuity
Motion Pictures	0,00	5,68	6,81	7,84	8,70	249,80
Cost of Revenues	0,00	21,69	24,26	26,43	28,53	819,23
Distribution and marketing	0,00	24,77	26,80	29,17	31,44	902,86
General and administrative costs	0,00	8,87	9,90	10,78	11,62	333,82
Merger costs and fees	0,00	-10,29	-10,29	-10,29	0,00	0,00
PV of Motion Picture revenues synergy	229,86					
PV of Cost of Revenues reduction	759,12					
PV of Distribution and marketing costs reduction	837,54					
PV of General and administrative costs reduction	309,38					
PV of Merger costs and fees	-27,94					
Total Synergy value	2107,96					

Table 15 - Combined Entity synergy value breakdown to be created throughout the integration process; own calculations; \$ millions;

4.3.5 - Premium over market price

Regarding the premium to pay for the target company's shares, the decision lies completely in the acquiring company. The goal is to offer a high enough premium that the target's board is willing to accept and that can rival potential competitors that may also enter a bid for the target (such as Amazon, Walt Disney, or Warner Media), but at the same time not overpaying for the company and securing a profitable deal as a combined entity.

This last goal is often overlooked but can make or break the viability of the acquisition, since if a company offers too high of a premium, thus securing the target, it becomes irrelevant or even damaging for its long-term growth if it paid more than the value of the synergies it can hope to create, destroying value in the process since it could have spent the funds on other net positive investments.

Synergy value assessed is therefore a good goalpost of how much a firm can pay as maximum premium for its target. In this specific case, synergy value calculated represents around 68,5% of Lions Gate equity value calculated (which in turn represents a maximum price of about \$23,86 per share). From Deloitte (2020) report, between 2017 and 2019, the biggest companies in the telecommunications and media & entertainment industries offered on average a 55% premium over equity market value in their takeover deals in the U.S. region to secure their targets.

Since the deal in question would be of a friendly approach, a more sensible negotiation strategy would be to offer a 30% premium (\$18,41 per share) and negotiate from there, which would leave Netflix with a very large margin both to offer a premium worth considering by the target's board and at the same time not compromising all future value to be created by potential synergies.

4.3.6 - Transaction and Integration Fees estimation

As with any merger or acquisition there are transaction fees to be paid to deal advisory, legal teams and for due diligence procedures to carry the deal forward as smoothly as possible, as well as integration fees to implement the necessary adjustments of integrating the target into the acquirer's structure. In this model these fees were set at 1% of the target's calculated equity value (\$30,86 million) to be evenly distributed over the 3 years starting 2022 (approximately \$10,29 million per year).

4.3.7 - Deal financing and risks

Although some form of share payment is seen in several transactions, due to the sheer amount of cash Netflix currently possesses (\$8205,55 million by the end of 2020), it is suggested that the deal is fully financed by existing cash, without the need for the issuance of new debt.

By doing this Netflix's shareholders assume all the possible future risk (which is bearable due to the company's size compared to the target) and some of the rewards in the form of future synergy value to be created that was not integrated in the premium to be paid.

One possible deal risk is the availability and willingness of Lions Gate shareholders to accept such a proposition. As shown in the company overview, however, Lions Gate stock has not been performing strongly over the recent past both in absolute terms and when compared to its peers, and although this may only be seen as temporary market fluctuations, the company itself has a large amount of Debt and is in a weak financial position.

By accepting the offer Lions Gate's shareholders guarantee an instant 30% premium from shares of a company that has relatively high debt levels and thus bears undeniable future risk as a standalone company and sheds the burden of the risks of the post-merger period which is especially valuable in today's uncertain times.

Another possible risk is the timing of integration of assets from Lions Gate to Netflix due to its volume, different operating systems in need for integration and other time constraints that might occur.

Finally, problems of customer retention are not expected to occur.

All in all, the deal will require approximately \$4043,20 million (\$3086,41 million for the value of Lions Gate equity, \$925,93 million for the premium to be paid to the existing shareholders and \$30,86 million in fees).

4.3.8 – Accretive/Dilutive Analysis

Finally, this table presents the acquisition's impact on Netflix's free cashflow to the firm per share and its evolution in throughout the forecasts, which present successful due to the positive impact outlined below.

EPS analysis	2021f	2022f	2023f	2024f	2025f
Acquirer NOPAT	4147,34	5253,35	7046,76	7848,14	8502,15
Shares outstanding	442,90	442,90	442,90	442,90	442,90
EPS	\$9,36	\$11,86	\$15,91	\$17,72	\$19,20
Combined NOPAT	5386,01	7311,10	8212,44	8901,99	9568,62
Combined Entity EPS	\$12,16	\$16,51	\$18,54	\$20,10	\$21,60
% change	29,87%	39,17%	16,54%	13,43%	12,54%

Table 16 - Acquisition impact on EPS analysis; own calculations; \$ millions;

CONCLUSION

In this dissertation an analysis of the Movies & Entertainment sub-industry was conducted, with a deeper look into the Digital media market. Market trends were researched as well as the geographical distribution of revenues, growth projections, the most relevant factors of influence both in the recent past and for the industry's future, as well as the key players' merger and acquisition recent history.

Netflix Inc. was established as the proposed acquirer and Lions Gate Entertainment Corp. as the potential target for acquisition due to the strategic reasoning that has driven Netflix's recent success in the SVOD segment and how it could reinforce the ambition of producing their in-house original content, thus becoming more independent from the other key players in the market who are becoming more direct competitors thanks to their shift to digital media channels.

Netflix and Lions Gate were both valued through the DCF-WACC and Relative valuation methods (although Netflix's Relative Valuation proved less meaningful due to the uniqueness of the company in terms of being a pure streaming company with a large size). In the DCF valuation, Netflix was valued at an Enterprise Value of \$260,311.57 million and Lions Gate at an Enterprise Value of \$5,994.21 million. As a Combined Entity without taking into consideration potential synergy value, their Enterprise Value was therefore of \$266.305,78 million.

As a combined entity, following the same valuation method, their value after transaction fees and considering potential synergy value realization, was of \$268,413.74 million, resulting in a total synergy value of 2,107.96 million, which is equivalent to roughly 68,5% of Lions Gate's calculated equity value.

A price of \$4,012.34 million was suggested (not including fees), or roughly \$18,41 per share, which represents a 30% premium over the calculated equity value and roughly a 29,86% premium over Lions Gate's market value of equity as of August 6th, 2021.

The model assumed fees of \$30,86 million to be allocated between 3 years of the projections (starting in 2022), and the deal would be of a friendly nature comprised of a payment of 100% existing cash by Netflix.

With a successful acquisition of this nature, Netflix would reinforce its dominant position in the SVOD market, offering more reasons for subscribing its services, and exploring potential

box office channels by offering new blockbusters under the Netflix brand and Lions Gate know-how.

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APPENDIX

Netflix Inc. - Balance Sheet

Consolidated Balance Sheets - USD (\$) \$ in Millions	2016	2017	2018	2019	2020
Current assets					
Cash and cash equivalents	1 467,58	2 822,80	3 794,48	5 018,44	8 205,55
Short-term investments	266,21	0,00	0,00	0,00	0,00
Current content assets, net	3 726,31	4 310,93	5 151,19	0,00	0,00
Other current assets	260,20	536,25	748,47	1 160,07	1 556,03
Total current assets	5 720,29	7 669,97	9 694,14	6 178,50	9 761,58
Non current assets					
Content assets, net	7 274,50	10 371,06	14 951,14	24 504,57	25 383,95
Property and equipment, net	250,40	319,40	418,28	565,22	960,18
Other non-current assets	341,42	652,31	910,84	2 727,42	3 174,65
Total non current assets	7 866,32	11 342,77	16 280,27	27 797,21	29 518,78
Total assets	13 586,61	19 012,74	25 974,40	33 975,71	39 280,36
Current liabilities					
Current content liabilities	3 632,71	4 173,04	4 681,56	4 413,56	4 429,54
Accounts payable	312,84	359,56	562,99	674,35	656,18
Accrued expenses and other liabilities	197,63	315,09	481,87	843,04	1 102,20
Deferred revenue	443,47	618,62	760,90	924,75	1 117,99
Short-term debt	0,00	0,00	0,00	0,00	499,88
Total current liabilities	4 586,66	5 466,31	6 487,32	6 855,70	7 805,79
Non current liabilities					
Non-current content liabilities	2 894,65	3 329,80	3 759,03	3 334,32	2 618,08
Long-term debt	3 364,31	6 499,43	10 360,06	14 759,26	15 809,10
Other non-current liabilities	61,19	135,25	129,23	1 444,28	1 982,16
Total non current liabilities	6 320,15	9 964,47	14 248,32	19 537,86	20 409,33
Total liabilities	10 906,81	15 430,79	20 735,64	26 393,56	28 215,12
Stockholders' equity					
Common stock	1 599,76	1 871,40	2 315,99	2 793,93	3 447,70
Accumulated other comprehensive income (loss)	-48,57	-20,56	-19,58	-23,52	44,40
Retained earnings	1 128,60	1 731,12	2 942,36	4 811,75	7 573,14
Total stockholders' equity	2 679,80	3 581,96	5 238,77	7 582,16	11 065,24
Total liabilities and stockholders' equity	13 586,61	19 012,74	25 974,40	33 975,71	39 280,36

Exhibit 1 - Netflix historical consolidated Balance Sheets

Netflix Inc. - Balance Sheet forecast

Consolidated Balance Sheets - USD (\$) \$ in Millions	2020	2021f	2022f	2023f	2024f	2025f
Current assets						
Cash and cash equivalents	8 205,55	9 641,52	11 039,54	12 364,29	13 477,07	14 555,24
Other current assets	1 556,03	1 828,34	2 093,44	2 344,66	2 555,68	2 760,13
Total current assets	9 761,58	11 469,86	13 132,99	14 708,94	16 032,75	17 315,37
Non current assets						
Content assets, net	25 383,95	29 826,14	34 150,93	38 249,04	41 691,46	45 026,77
Property and equipment, net	960,18	1 128,22	1 291,81	1 446,82	1 577,04	1 703,20
Other non-current assets	3 174,65	3 730,21	4 271,09	4 783,62	5 214,15	5 631,28
Total non current assets	29 518,78	34 684,57	39 713,83	44 479,49	48 482,64	52 361,25
Total assets	39 280,36	46 154,42	52 846,81	59 188,43	64 515,39	69 676,62
Current liabilities						
Current content liabilities	4 429,54	5 204,70	5 959,39	6 674,51	7 275,22	7 857,24
Accounts payable	656,18	771,02	882,81	988,75	1 077,74	1 163,96
Accrued expenses and other liabilities	1 102,20	1 295,08	1 482,87	1 660,81	1 810,28	1 955,11
Deferred revenue	1 117,99	1 313,64	1 504,12	1 684,61	1 836,23	1 983,13
Short-term debt	499,88	738,30	0,00	0,00	0,00	0,00
Total current liabilities	7 805,79	9 322,74	9 829,18	11 008,69	11 999,47	12 959,43
Non current liabilities						
Non-current content liabilities	2 618,08	3 076,25	3 522,30	3 944,98	4 300,03	4 644,03
Long-term debt	15 809,10	15 809,10	14 821,09	11 918,32	7 454,37	2 006,57
Other non-current liabilities	1 982,16	2 329,03	2 666,74	2 986,75	3 255,56	3 516,00
Total non current liabilities	20 409,33	21 214,38	21 010,14	18 850,06	15 009,96	10 166,61
Total liabilities	28 215,12	30 537,12	30 839,32	29 858,74	27 009,42	23 126,03
Stockholders' equity						
Common stock	3 447,70	3 447,70	3 447,70	3 447,70	3 447,70	3 447,70
Accumulated other comprehensive income (loss)	44,40	52,17	59,73	66,90	72,92	78,75
Retained earnings	7 573,14	12 118,02	18 501,20	25 816,78	33 987,59	43 026,93
Total stockholders' equity	11 065,24	15 617,89	22 008,63	29 331,38	37 508,21	46 553,38
Total liabilities and stockholders' equity	39 280,36	46 155,01	52 847,95	59 190,12	64 517,63	69 679,42

Exhibit 2 - Netflix consolidated Balance Sheet forecasts

Netflix Inc. - Income Statement

Consolidated Income Statements USD (\$) shares in Thousands, \$ in Millions	2016	2017	2018	2019	2020
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Revenues

Streaming revenues	8288,4	11 242,22	15428,75	19859,23	24756,68
DVD revenues	542,27	450,50	365,59	297,22	239,38

Total Revenues	\$ 8 830,67	\$ 11 692,71	\$ 15 794,34	\$ 20 156,45	\$ 24 996,06
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Operating Expenses

Cost of revenues	6029,90	7659,67	9967,54	12440,21	15276,32
<i>% of revenues</i>	68,28%	65,51%	63,11%	61,72%	61,11%
Marketing	991,08	1278,02	2369,47	2652,46	2228,36
<i>% of revenues</i>	11,22%	10,93%	15,00%	13,16%	8,91%
Technology and development	852,10	1052,78	1221,81	1545,15	1829,60
<i>% of revenues</i>	9,65%	9,00%	7,74%	7,67%	7,32%
General and administrative	577,80	863,57	630,29	914,37	1076,49
<i>% of revenues</i>	6,54%	7,39%	3,99%	4,54%	4,31%
Total Operating Expenses	8450,88	10854,03	14189,12	17552,19	20410,77
	95,70%	92,83%	89,84%	87,08%	81,66%

Operating income	379,79	838,68	1605,23	2604,25	4585,29
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Other income (expense)

Interest expense	-150,11	-238,20	-420,49	-626,02	-767,50
<i>% of revenues</i>	-1,70%	-2,04%	-2,66%	-3,11%	-3,07%
Interest and other income (expense)	30,83	-115,15	41,73	84,00	-618,44
<i>% of revenues</i>	0,35%	-0,98%	0,26%	0,42%	-2,47%
Total other income (expense)	-119,29	-353,36	-378,77	-542,02	-1385,94

Income before income taxes	260,51	485,32	1226,46	2062,23	3199,35
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Benefit from (provision for) income taxes	-73,83	73,61	-15,22	-195,32	-437,95
<i>% of revenues</i>	-28,34%	15,17%	-1,24%	-9,47%	-13,69%
Net income	186,68	558,93	1211,24	1866,92	2761,40

Earnings per share

Basic (in USD per share)	\$ 0,44	\$ 1,29	\$ 2,78	\$ 4,26	\$ 6,26
Diluted (in USD per share)	\$ 0,43	\$ 1,25	\$ 2,68	\$ 4,13	\$ 6,08

Weighted-average common shares outstanding

Basic (in shares)	428 822	431 885	435 374	437 799	440 922
Diluted (in shares)	438 652	446 814	451 244	451 765	454 208

Exhibit 3 - Netflix historical consolidated Income Statements

Netflix Inc. - Income Statement forecast

Consolidated Income Statements USD (\$) shares in Thousands, \$ in Millions	2020	2021f	2022f	2023f	2024f	2025f
Revenues						
Streaming and DVD revenues	24996,06	29370,37	33629,07	37664,56	41054,37	44338,72
% YoY growth		17,50%	14,50%	12,00%	9,00%	8,00%
Total Revenues	\$ 24 996,06	\$ 29 370,37	\$ 33 629,07	\$ 37 664,56	\$ 41 054,37	\$ 44 338,72
Operating Expenses						
Cost of revenues	15276,32	17475,37	19504,86	21845,45	23811,54	25716,46
% of revenues	61,11%	59,50%	58,00%	58,00%	58,00%	58,00%
Marketing	2228,36	2202,78	1681,45	1883,23	2052,72	2216,94
% of revenues	8,91%	7,50%	5,00%	5,00%	5,00%	5,00%
Technology and development	1829,60	2055,93	2354,04	2636,52	2873,81	3103,71
% of revenues	7,32%	7,00%	7,00%	7,00%	7,00%	7,00%
General and administrative	1076,49	1174,81	1345,16	1506,58	1642,17	1773,55
% of revenues	4,31%	4,00%	4,00%	4,00%	4,00%	4,00%
Total Operating Expenses	20410,77	22908,89	24885,51	27871,78	30380,24	32810,66
% of revenues	81,66%	78,00%	74,00%	74,00%	74,00%	74,00%
Operating income	4585,29	6461,48	8743,56	9792,79	10674,14	11528,07
Other income (expense)						
Interest expense	-767,50	-711,41	-666,95	-536,32	-335,45	-90,30
Interest and other income (expense)	-618,44	2,94	3,36	3,77	4,11	4,43
Total other income (expense)	-1385,94	-708,47	-663,59	-532,56	-331,34	-85,86
Income before income taxes	3199,35	5753,01	8079,97	9260,23	10342,80	11442,21
Benefit from (provision for) income taxes	-437,95	-1208,13	-1696,79	-1944,65	-2171,99	-2402,86
Net income	2761,40	4544,88	6383,18	7315,58	8170,81	9039,34

Exhibit 4 – Netflix consolidated Income Statement forecasts

Cash flows from operating activities

Consolidated Statements of Cash Flows - USD (\$) \$ in Millions	2016	2017	2018	2019	2020
Net income	186,68	558,93	1211,24	1866,92	2761,40
Adjustments to reconcile net income to net cash provided by (used in) operating					
Additions to streaming content assets	-8653,29	-9805,76	-13043,44	-13916,68	-11779,28
Change in streaming content liabilities	1772,65	900,01	999,88	-694,01	-757,43
Amortization of streaming content assets	4788,50	6197,82	7532,09	9216,25	10806,91
Amortization of DVD content assets	78,95	60,66	41,21	0,00	0,00
Depreciation and amortization of property, equipment and intangibles	57,53	71,91	83,16	103,58	115,71
Stock-based compensation expense	173,68	182,21	320,66	405,38	415,18
Excess tax benefits from stock-based compensation	-65,12	0,00	0,00	0,00	0,00
Other non-cash items	40,91	57,21	40,43	228,23	293,13
Foreign currency remeasurement loss (gain) on long-term debt	0,00	140,79	-73,95	-45,58	533,28
Deferred taxes	-46,85	-208,69	-85,52	-94,44	70,07
Changes in operating assets and liabilities					
Other current assets	46,97	-234,09	-200,19	-252,11	-187,62
Accounts payable	32,25	74,56	199,20	96,06	-41,61
Accrued expenses and other liabilities	68,71	114,34	150,42	157,78	198,18
Deferred revenue	96,75	177,97	142,28	163,85	193,25
Other non-current assets and liabilities	-52,29	-73,80	2,06	-122,53	-194,08
Net cash provided by (used in) operating activities	-1473,98	-1785,95	-2680,48	-2887,32	2427,08

Cash flows from investing activities

Acquisitions of DVD content assets	-77,18	-53,72	-38,59	0,00	0,00
Purchases of property and equipment	-107,65	-173,30	-173,95	-253,04	-497,92
Changes in other assets	-0,94	-6,69	-126,59	-134,03	-7,43
Purchases of short-term investments	-187,19	-74,82	0,00	0,00	0,00
Proceeds from sale of short-term investments	282,48	320,15	0,00	0,00	0,00
Proceeds from maturities of short-term investments	140,25	22,71	0,00	0,00	0,00
Net cash provided by (used in) investing activities	49,77	34,33	-339,12	-387,06	-505,35

Cash flows from financing activities

Proceeds from issuance of debt	1000,00	3020,51	3961,85	4469,31	1009,46
Debt issuance costs	-10,70	-32,15	-35,87	-36,13	-7,56
Proceeds from issuance of common stock	36,98	88,38	124,50	72,49	235,41
Excess tax benefits from stock-based compensation	65,12	0,00	0,00	0,00	0,00
Other financing activities	0,23	0,26	-1,96	0,00	0,00
Net cash provided by financing activities	1091,63	3076,99	4048,53	4505,66	1237,31

Effect of exchange rate changes on cash, cash equivalents and restricted cash	-9,17	29,85	-39,68	0,47	36,05
Net increase (decrease) in cash, cash equivalents and restricted cash	-341,75	1355,22	989,25	1231,75	3195,08

Cash and cash equivalents, beginning of year	1809,33	1467,58	2822,80	3812,04	5043,79
Cash and cash equivalents, end of year	1467,58	2822,80	3812,04	5043,79	8238,87

Supplemental disclosure

Income taxes paid	26,81	113,59	131,07	400,66	291,58
Interest paid	138,57	213,31	375,83	599,13	762,90
Increase (decrease) in investing activities included in liabilities	27,50	-32,64	2,56	0,00	0,00

Exhibit 5 – Netflix historical consolidated Statements of Cash Flow

Lions Gate - Balance Sheet

Consolidated Balance Sheets - USD (\$) \$ in Millions	2016	2017	2018	2019	2020
Current assets					
Cash and cash equivalents	57,70	321,90	378,10	184,30	318,20
Restricted cash	2,90	2,80	0,00	0,00	0,00
Accounts receivable, net	570,10	908,10	946,00	647,20	522,00
Program rights	0,00	261,70	253,20	295,70	310,50
Other current assets	236,90	195,90	195,80	267,20	157,40
Total current assets	867,60	1 690,40	1 773,10	1 394,40	1 308,10
Non current assets					
Investment in films and television programs and program rights, net	1 457,60	1 729,50	1 692,00	1 672,00	1 517,30
Property and equipment, net	43,40	165,50	161,70	155,30	140,90
Investments	464,30	371,50	164,90	26,20	40,30
Intangible assets	11,40	2 046,70	1 937,70	1 871,60	1 719,60
Goodwill	534,80	2 700,50	2 740,80	2 833,50	2 833,50
Other assets	320,70	472,80	458,60	436,10	391,50
Deferred tax assets	134,40	20,00	38,80	19,80	0,00
Total non current assets	2 966,60	7 506,50	7 194,50	7 014,50	6 643,10
Total assets	3 834,20	9 196,90	8 967,60	8 408,90	7 951,20
Current liabilities					
Accounts payable and accrued liabilities	354,90	573,00	447,70	531,20	526,90
Participations and residuals	437,30	514,90	504,50	408,50	441,90
Film obligations and production loans	663,20	367,20	327,90	512,60	353,70
Debt - short term portion	40,10	77,90	79,10	53,60	68,60
Dissenting shareholders' liability	0,00	0,00	869,30	0,00	0,00
Deferred revenue	246,40	156,90	183,90	146,50	116,60
Total current liabilities	1 741,90	1 689,90	2 412,40	1 652,40	1 507,70
Non current liabilities					
Debt	825,10	3 047,00	2 478,30	2 850,80	2 664,40
Participations and residuals	170,10	359,70	438,30	479,80	421,60
Film obligations and production loans	51,80	116,00	171,30	143,10	96,90
Other liabilities	22,70	50,30	46,40	114,00	334,90
Dissenting shareholders' liability	0,00	812,90	0,00	0,00	0,00
Deferred revenue	81,80	72,70	70,30	62,80	61,30
Deferred tax liabilities	0,00	440,20	91,90	56,50	36,60
Redeemable noncontrolling interest	90,50	93,80	101,80	127,60	167,80
Total non current liabilities	1 242,00	4 992,60	3 398,30	3 834,60	3 783,50
Total liabilities	2 983,90	6 682,50	5 810,70	5 487,00	5 291,20
Equity					
Common shares	885,80	0,00	0,00	0,00	
Class A Voting Common shares	0,00	605,70	628,70	649,70	659,20
Class B Non-Voting Common Shares	0,00	1 914,10	2 020,30	2 140,60	2 221,70
Retained earnings (accumulated deficit)	7,60	10,60	516,60	208,70	(16,90)
Accumulated other comprehensive loss	(43,10)	(16,00)	(9,70)	(80,30)	(206,00)
Total Lions Gate Entertainment Corp. shareholders' equity	850,30	2 514,40	3 155,90	2 918,70	2 658,00
Noncontrolling interests	0,00	0,00	1,00	3,20	2,00
Total equity	850,30	2 514,40	3 156,90	2 921,90	2 660,00
Total liabilities and equity	3 834,20	9 196,90	8 967,60	8 408,90	7 951,20

Exhibit 6 – Lions Gate historical consolidated Balance Sheets

Lions Gate Balance Sheet forecasts

Consolidated Balance Sheets - USD (\$) \$ in Millions	2020	2021f	2022f	2023f	2024f	2025f
Current assets						
Cash and cash equivalents	318,20	277,14	309,98	343,15	372,08	399,06
Accounts receivable, net	522,00	454,64	508,52	562,93	610,39	654,64
Program rights	310,50	270,43	302,48	334,85	363,08	389,40
Other current assets	157,40	137,09	153,33	169,74	184,05	197,40
Total current assets	1 308,10	1 139,3	1 274,3	1 410,7	1 529,6	1 640,5
Non current assets						
Investment in films and television programs and program rights, net	1517,30	1321,50	1478,11	1636,28	1774,23	1902,85
Property and equipment, net	140,90	122,72	137,26	151,95	164,76	176,70
Investments	40,30	35,10	39,26	43,46	47,12	50,54
Intangible assets	1 719,60	1497,69	1675,18	1854,45	2010,78	2156,56
Goodwill	2 833,50	2467,85	2760,31	3055,70	3313,30	3553,50
Other assets	391,50	340,98	381,39	422,20	457,79	490,98
Total non current assets	6 643,10	5 785,8	6 471,5	7 164,0	7 768,0	8 331,1
Total assets	7 951,20	6 925,1	7 745,8	8 574,7	9 297,6	9 971,6
Current liabilities						
Accounts payable and accrued liabilities	526,90	458,91	513,29	568,22	616,12	660,79
Participations and residuals	441,90	384,87	430,49	476,55	516,73	554,19
Film obligations and production loans	353,70	308,06	344,56	381,44	413,59	443,58
Debt - short term portion	68,60	0,00	0,00	0,00	0,00	0,00
Deferred revenue	116,60	101,55	113,59	125,74	136,34	146,23
Total current liabilities	1 507,70	1 253,4	1 401,9	1 552,0	1 682,8	1 804,8
Non current liabilities						
Debt	2 664,40	2051,09	2634,72	3173,71	3646,43	4092,90
Participations and residuals	421,60	367,19	410,71	454,66	492,99	528,73
Film obligations and production loans	96,90	84,40	94,40	104,50	113,31	121,52
Other liabilities	334,90	291,68	326,25	361,16	391,61	420,00
Deferred revenue	61,30	53,39	59,72	66,11	71,68	76,88
Deferred tax liabilities	36,60	31,88	35,65	39,47	42,80	45,90
Redeemable noncontrolling interest	167,80	146,15	163,47	180,96	196,21	210,44
Total non current liabilities	3 783,50	3 025,8	3 724,9	4 380,6	4 955,0	5 496,4
Total liabilities	5 291,20	4 279,2	5 126,8	5 932,5	6 637,8	7 301,1
Equity						
Common shares						
Class A Voting Common shares	659,20	659,20	659,20	659,20	659,20	659,20
Class B Non-Voting Common Shares	2 221,70	2 221,70	2 221,70	2 221,70	2 221,70	2 221,70
Retained earnings (accumulated deficit)	(16,90)	(57,52)	(63,25)	(18,55)	17,77	45,92
Accumulated other comprehensive loss	(206,00)	(179,42)	(200,68)	(222,15)	(240,88)	(258,35)
Total Lions Gate Entertainment Corp. shareholders' equity	2 658,00	2 644,0	2 617,0	2 640,2	2 657,8	2 668,5
Noncontrolling interests	2,00	2,00	2,00	2,00	2,00	2,00
Total equity	2 660,00	2 646,0	2 619,0	2 642,2	2 659,8	2 670,5
Total liabilities and equity	7 951,20	6 925,1	7 745,8	8 574,7	9 297,6	9 971,6

Exhibit 7 – Lions Gate Balance Sheet forecasts

Lions Gate - Income Statements

Consolidated Statements of Income - USD (\$) shares in Millions, \$ in Millions	2016	2017	2018	2019	2020
Revenues					
Motion Pictures	1677,40	1920,60	1822,10	1464,40	1670,90
Media Networks	0,00	456,60	1411,20	1461,00	1486,80
TV Production	669,90	837,40	1033,20	920,90	1001,30
Intersegment elimination & estimation error adjustments	0,10	-13,10	-137,40	-165,80	-269,00
Total Revenues	2347,40	3201,50	4129,10	3680,50	3890,00
Expenses					
Direct operating	1415,30	1903,80	2309,60	2028,20	2226,10
<i>% of revenues</i>	<i>60,29%</i>	<i>59,47%</i>	<i>55,93%</i>	<i>55,11%</i>	<i>57,23%</i>
Distribution and marketing	661,80	806,80	897,60	835,50	1008,70
<i>% of revenues</i>	<i>28,19%</i>	<i>25,20%</i>	<i>21,74%</i>	<i>22,70%</i>	<i>25,93%</i>
General and administration	262,40	355,40	454,40	445,40	430,40
<i>% of revenues</i>	<i>11,18%</i>	<i>11,10%</i>	<i>11,00%</i>	<i>12,10%</i>	<i>11,06%</i>
Depreciation and amortization	13,10	63,10	159,00	163,40	197,70
<i>% of PPE/Intangibles</i>	<i>23,91%</i>	<i>2,85%</i>	<i>7,57%</i>	<i>8,06%</i>	<i>10,63%</i>
Restructuring and other	19,80	88,70	59,80	78,00	24,30
<i>% of revenues</i>	<i>0,84%</i>	<i>2,77%</i>	<i>1,45%</i>	<i>2,12%</i>	<i>0,62%</i>
Total expenses	2372,40	3217,80	3880,40	3550,50	3887,20
Operating income (loss)	-25,00	-16,30	248,70	130,00	2,80
Interest expense					
Cash interest & discount and financing costs amortization	-54,90	-99,70	-137,20	-163,60	-191,30
<i>% of LT Debt</i>	<i>-6,65%</i>	<i>-3,27%</i>	<i>-5,54%</i>	<i>-5,74%</i>	<i>-7,18%</i>
Interest on dissenters' liability	0,00	-15,50	-56,50	-35,30	0,00
Total interest expense	-54,90	-115,20	-193,70	-198,90	-191,30
Gain on Starz investment	0,00	20,40	0,00	0,00	0,00
Gain on sale of equity interest in EPIX	0,00	0,00	201,00	0,00	0,00
Impairment of long-term investments and other assets	0,00	0,00	-29,20	-87,60	-0,50
Gain (loss) on investments	0,00	20,40	171,80	-87,60	-0,50
Shareholder litigation settlements	0,00	0,00	0,00	-114,10	0,00
Interest and other income	1,90	6,40	10,40	12,00	8,80
Gain (loss) on extinguishment of debt	0,00	-40,40	-35,70	-1,90	5,40
Other expense	0,00	0,00	0,00	-4,70	-11,10
Total other expenses, net	-53,00	-128,80	-47,20	-395,20	-188,70
Income (loss) before equity interests and income taxes	-78,00	-145,10	201,50	-265,20	-185,90
Equity interests income (loss)	44,20	10,70	-52,80	-42,90	-17,20
Income (loss) before income taxes	-33,80	-134,40	148,70	-308,10	-203,10
Income tax (provision) benefit	76,50	148,90	319,40	8,50	-3,30
Net income	42,70	14,50	468,10	-299,60	-206,40
Less: Net loss attributable to noncontrolling interest	7,50	0,30	5,50	15,40	18,00
Net income attributable to Lions Gate Entertainment Corp. shareholders	50,20	14,80	473,60	-284,20	-188,40
Per share information attributable to Lions Gate Entertainment Corp. shareholders					
Basic net income per common share (in usd per share)	\$ 0,34	\$ 0,09	\$ 2,27	\$ (1,33)	\$ (0,86)
Diluted net income per common share (in usd per share)	\$ 0,33	\$ 0,09	\$ 2,15	\$ (1,33)	\$ (0,86)
Weighted average number of common shares outstanding					
Basic (in shares)	148,5	165	208,4	213,7	217,9
Diluted (in shares)	154,1	172,2	220,4	213,7	217,9
Dividends declared per common share (in usd per share)	\$ 0,34	\$ 0,09	\$ 0,09	\$ 0,18	\$ 0

Exhibit 8 – Lions Gate historical consolidated Income Statements

Lions Gate - Income Statement forecasts

Consolidated Statements of Income - USD (\$) shares in Millions, \$ in Millions	2020	2021f	2022f	2023f	2024f	2025f
Revenues						
Motion Pictures	1670,90	1002,54	1183,00	1419,60	1632,54	1812,12
% YoY growth	-	-40,00%	18,00%	20,00%	15,00%	11,00%
Media Networks	1486,80	1635,48	1766,32	1872,30	1984,64	2103,71
% YoY growth	-	10,00%	8,00%	6,00%	6,00%	6,00%
TV Production	1001,30	891,16	998,10	1077,94	1121,06	1165,90
% YoY growth	-	-11,00%	12,00%	8,00%	4,00%	4,00%
Intersegment elimination & estimation error adjustments	-269,00	-141,17	-157,90	-174,79	-189,53	-203,27
Total Revenues	3890,00	3388,01	3789,51	4195,04	4548,70	4878,46
% YoY growth	-	-12,90%	11,85%	10,70%	8,43%	7,25%
Expenses						
Direct operating	2226,10	1951,49	2182,76	2416,35	2620,05	2809,99
% of revenues	57,23%	57,60%	57,60%	57,60%	57,60%	57,60%
Distribution and marketing	1008,70	779,24	795,80	797,06	864,25	926,91
% of revenues	25,93%	23,00%	21,00%	19,00%	19,00%	19,00%
General and administration	430,40	382,85	428,22	474,04	514,00	551,27
% of revenues	11,06%	11,30%	11,30%	11,30%	11,30%	11,30%
Depreciation and amortization	197,70	121,53	135,93	150,48	163,17	174,99
% of PPE/Intangibles	10,63%	7,50%	7,50%	7,50%	7,50%	7,50%
Restructuring and other	24,30	50,82	56,84	62,93	68,23	73,18
% of revenues	0,62%	1,50%	1,50%	1,50%	1,50%	1,50%
Total expenses	3887,20	3285,93	3599,55	3900,85	4229,71	4536,34
Operating income (loss)	2,80	102,08	189,97	294,19	319,00	342,12
Interest expense						
Cash interest & discount and financing costs amortization	-191,30	-153,83	-197,60	-238,03	-273,48	-306,97
% of LT Debt	-7,18%	-7,50%	-7,50%	-7,50%	-7,50%	-7,50%
Total interest expense	-191,30	-153,83	-197,60	-238,03	-273,48	-306,97
Gain on Starz investment	0,00	0,00	0,00	0,00	0,00	0,00
Gain on sale of equity interest in EPIX	0,00	0,00	0,00	0,00	0,00	0,00
Impairment of long-term investments and other assets	-0,50	0,00	0,00	0,00	0,00	0,00
Gain (loss) on investments	-0,50	0,00	0,00	0,00	0,00	0,00
Interest and other income	8,80	7,45	8,34	9,23	10,01	10,73
Gain (loss) on extinguishment of debt	5,40	0,00	0,00	0,00	0,00	0,00
Other expense	-11,10	-7,11	-7,96	-8,81	-9,55	-10,24
Total other expenses, net	-188,70	-153,49	-197,23	-237,61	-273,03	-306,48
Income (loss) before equity interests and income taxes	-185,90	-51,41	-7,26	56,59	45,97	35,64
Equity interests income (loss)	-17,20	0,00	0,00	0,00	0,00	0,00
Income (loss) before income taxes	-203,10	-51,41	-7,26	56,59	45,97	35,64
Income tax (provision) benefit	-3,30	10,80	1,52	-11,88	-9,65	-7,48
Net income	-206,40	-40,62	-5,74	44,70	36,32	28,16

Exhibit 9 – Lions Gate Income Statement forecasts

Consolidated Statements of Cash Flows - USD (\$) \$ in Millions	2016	2017	2018	2019	2020
Cash flows from operating activities					
Net income (loss)	\$ 42,70	\$ 14,50	\$ 468,10	\$ (299,60)	\$ (206,40)
Adjustments to reconcile net income to net cash provided by (used in) operating					
Depreciation and amortization	\$ 13,10	\$ 63,10	\$ 159,00	\$ 163,40	\$ 197,70
Amortization of films and television programs and program rights	\$ 1 029,10	\$ 1 414,00	\$ 1 641,70	\$ 1 516,50	\$ 1 706,70
Interest on dissenters' liability	\$ 0,00	\$ 15,50	\$ 56,50	\$ (72,00)	\$ 0,00
Amortization of debt discount and financing costs	\$ 9,20	\$ 12,90	\$ 14,30	\$ 11,60	\$ 14,90
Non-cash share-based compensation	\$ 77,90	\$ 76,90	\$ 88,40	\$ 68,10	\$ 50,50
Other non-cash items	\$ 2,00	\$ 4,30	\$ 20,10	\$ 29,00	\$ 68,50
Distribution from equity method investee	\$ 0,00	\$ 14,00	\$ 0,00	\$ 1,80	\$ 0,00
Gain on Starz investment	\$ 0,00	\$ (20,40)	\$ 0,00	\$ 0,00	\$ 0,00
Loss on extinguishment of debt	\$ 0,00	\$ 40,40	\$ 35,70	\$ 1,90	\$ (5,40)
Equity interests loss (income)	\$ (44,20)	\$ (10,70)	\$ 52,80	\$ 42,90	\$ 17,20
Deferred income taxes (benefit)	\$ (85,10)	\$ (163,40)	\$ (299,50)	\$ (23,60)	\$ (0,90)
Gain on sale of equity interest in EPIX	\$ 0,00	\$ 0,00	\$ (201,00)	\$ 0,00	\$ 0,00
Impairment of long-term investments and other assets	\$ 0,00	\$ 0,00	\$ 29,20	\$ 87,60	\$ 0,50
Changes in operating assets and liabilities					
Restricted cash	\$ (0,40)	\$ 0,10	\$ 2,80	\$ 0,00	\$ 0,00
Accounts receivable, net and other assets	\$ (158,30)	\$ (87,80)	\$ (8,60)	\$ 470,80	\$ 397,50
Investment in films and television programs and program rights, net	\$ (1 066,40)	\$ (1 092,00)	\$ (1 526,40)	\$ (1 469,90)	\$ (1 545,30)
Accounts payable and accrued liabilities	\$ 28,90	\$ 152,90	\$ (181,70)	\$ 41,00	\$ (31,80)
Participations and residuals	\$ 134,90	\$ 205,30	\$ 62,60	\$ (85,80)	\$ (24,50)
Film obligations	\$ (30,70)	\$ 17,10	\$ 5,10	\$ (11,80)	\$ 6,80
Deferred revenue	\$ 28,30	\$ (98,10)	\$ (29,90)	\$ (44,40)	\$ (31,40)
Net cash provided by (used in) operating activities	\$ (19,00)	\$ 558,60	\$ 389,20	\$ 427,50	\$ 614,60
Cash flows from investing activities					
Proceeds from the sale of equity method investees, net of transaction costs	\$ 0,00	\$ 0,00	\$ 393,70	\$ 48,00	\$ 0,00
Investment in equity method investees and other	\$ (16,80)	\$ (20,60)	\$ (53,40)	\$ (48,60)	\$ (20,60)
Distributions from equity method investees	\$ 0,00	\$ 3,10	\$ 0,00	\$ 0,00	\$ 0,00
Business acquisitions, net of cash acquired of \$5.5, \$18.7, \$73.5, and \$15.8 in 2019, 2018, 2017 and 2016, respectively. (Pilgrim Media Group in 2016, Starz in 2017)	\$ (126,90)	\$ (1 102,60)	\$ (1,80)	\$ (77,30)	\$ 0,00
Capital expenditures	\$ (18,40)	\$ (25,20)	\$ (45,90)	\$ (43,80)	\$ (31,10)
Net cash provided by (used in) investing activities	\$ (162,10)	\$ (1 145,30)	\$ 292,60	\$ (121,70)	\$ (51,70)
Cash flows from financing activities					
Debt - borrowings	\$ 629,50	\$ 4 002,80	\$ 3 712,60	\$ 3 541,20	\$ 852,10
Debt - repayments	\$ (444,50)	\$ (2 766,90)	\$ (4 335,70)	\$ (3 212,70)	\$ (1 033,40)
Production loans - borrowings	\$ 572,60	\$ 296,00	\$ 319,70	\$ 338,10	\$ 59,00
Production loans - repayments	\$ (483,10)	\$ (632,60)	\$ (332,80)	\$ (305,40)	\$ (293,80)
Repurchase of common shares	\$ (73,20)	\$ 0,00	\$ 0,00	\$ 0,00	\$ (2,60)
Payment of dissenter liability accrued at acquisition	\$ 0,00	\$ 0,00	\$ 0,00	\$ (797,30)	\$ 0,00
Dividends paid	\$ (47,50)	\$ (26,80)	\$ 0,00	\$ (57,40)	\$ 0,00
Distributions to noncontrolling interest	\$ 0,00	\$ (6,90)	\$ (8,20)	\$ (3,70)	\$ (5,70)
Exercise of stock options	\$ 6,10	\$ 25,40	\$ 44,90	\$ 8,00	\$ 1,70
Tax withholding required on equity awards	\$ (24,20)	\$ (40,90)	\$ (22,90)	\$ (10,10)	\$ (3,40)
Net cash provided (used) by financing activities	\$ 135,70	\$ 850,10	\$ (622,40)	\$ (499,30)	\$ (426,10)
Net Change In Cash And Cash Equivalents	\$ (45,40)	\$ 263,40	\$ 59,40	\$ (193,50)	\$ 136,80
Foreign Exchange Effects on Cash	\$ 0,40	\$ 0,80	\$ (3,20)	\$ (0,30)	\$ (2,90)
Cash and Cash Equivalents - Beginning Of Period	\$ 102,70	\$ 57,70	\$ 321,90	\$ 378,10	\$ 184,30
Cash and Cash Equivalents - End Of Period	\$ 57,70	\$ 321,90	\$ 378,10	\$ 184,30	\$ 318,20

Exhibit 10 – Lions Gate historical consolidated Statements of Cash Flow