CATÓLICA LISBON
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Equity Valuation

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AGENDA

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Executive Summary

MEDIASET – THE INDUSTRY LEADER

Mediaset is the largest free-to-air television operator in Spain, achieving together with A3Media nearly 90% of the TV advertising market. Mediaset stands out from its competitors by presenting a diversified channel portfolio, as well as participations and indirect operations in another advertising sectors such as publishing and pay-TV. After a wave of consolidation in the television operation market which from resulted the merge with Cuatro, Mediaset sees its path of growth with optimism for the near future.

SPANISH ECONOMY REVIVAL AFTER THE DOWNFALL

The Spanish economy suffered one of the biggest blows in the Eurozone after the financial crisis stroke the sovereign debt of Southern European countries. The Spanish GDP fell nearly 4% in 2009, accumulating a series of contraction until 2013, however many specialized entities like the IMF, European Commission and Banco de España already predict a growth of 0.9% for 2014, making this year, the year of the revival of the Spanish economy. For the future 10 years, it is expected that Spanish GDP will grow between 1.5% and 2.2% yearly, opening the doors for the highly GDP correlated industries like advertising to record strong revenue growth and increasing profitability.

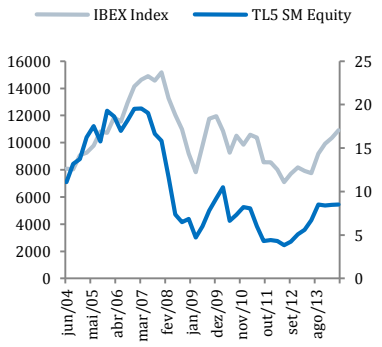
CASH PILE, RESIDUAL INVESTMENT, PROFITABILITY ON THE RISE

Mediaset presents the healthier financial structure of its European peers, recording negative 94 million euros in 2013 of net debt with estimations for further cash pile growth of 134% in 2014 and 24% in 2015. With a small fixed asset base and a performance-linked variable costs structure, it is expected that the merge with Cuatro in 2010 will stabilize its cost structure for the near future, opening the door for EPS growth estimated at 1866% in 2014 and 31% in 2015.

KEY REPORTED DATA 2013

Valuation Metrics	2012	2013	2014E	2015E	2016E	KPI	2012	2013	2014E	2015E	2016E
Reported P/E	72,5x	893,1x	45,4x	34,6x	28,2x	Organic revenue growth	-12,1%	-6,8%	2,5%	9,0%	8,5%
EV / Sales	2,6x	4,7x	4,4x	4,0x	3,7x	EBIT margin	7,3%	10,5%	10,8%	13,5%	15,7%
EV / EBITDA	35,8x	44,5x	41,1x	29,7x	23,4x	Capex / Revenue	-1,0%	-1,1%	-1,1%	-1,0%	-0,9%
EV/EBIT	47,6x	55,3x	50,7x	34,6x	26,4x	Net Debt / EBITDA	-1,1x	-1,1x	-2,4x	-2,2x	-1,8x
FCF Yield	0,6%	1,0%	4,0%	3,3%	2,7%	EBITDA / Net Interest	-1,1x	-1,1x	-2,4x	-2,2x	-1,8x
Dividend yield	2,7%	0,9%	2,2%	2,9%	3,5%	Dividend pay out ratio	0%	75%	100%	100%	100%

Recommendation
Hold
Target Price
9.00 €
Espírito Santo IB Target Price
9.40 €
Price as 9/1/2014
8,93 €
Espírito Santo IB Potential
5%
Potential vs Actual Price
1%
EV Reported 2013
3.312 Billion €
Shares Outstanding
406.861.400
Market Cap Reported 2013
3.413 Billion €
Share Price Performance



Abstract

The world of firm valuation is vast and complex, even more nowadays where new businesses strive for success and old businesses shift and adapt to the constant dynamic market. This dissertation aims to bring a new contribution for this field, by using both significant literature in this field and the financials of the company with a perspective on the operational cycle of the company. Mediaset España is an industry leader in the Spanish broadcasting sector, and this dissertation gives a recommendation of "Hold" regarding a target price per share of 9 euros. For purposes of comparison, the analysis made by Espírito Santo Investment Bank is used, both for comparison of assumptions, methodology and results.

Preface

The goal of this dissertation is to make an estimation of the fair value of the price per share of Mediaset España, a subsidiary company of Mediaset Italy listed in The Madrid Stock Exchange as TL5.SM (Bloomberg ticker), referred to as Mediaset España, Mediaset Spain or just Mediaset.

The company operates only In Spain, and for this reason all the values were used as published.

I would like to express my gratitude to my Advisor – José Carlos Tudela Martins for its guidance and advices, to Espírito Santo Investment Bank for their availability and support and to my family and girlfriend for their constant and unconditional support.

Introduction

It is my objective with this dissertation to value Mediaset España, a leading operator in the Spanish television sector, which is currently listed in the Madrid Stock Exchange (Bolsa de Valores de Madrid). Using a WACC-based DCF, I will provide a year end 2014 recommendation on the price, based on my personal assumptions in conjunction with valuation literature and specialized market research. The motivation for choosing this dissertation option surged from my willingness for understanding the valuation industry and more specifically the advertising sector, in which I did not have much exposure in the past. In a following state, the results will be compared to a an investment bank's published research, in this case Espírito Santo Investment Bank, in order to understand the differences in both methodologies and assumptions.

As a first step for completing this objective, I conducted a generalist research on valuation techniques registered on academic literature and also used by most researchers in the industry. A cross-matching between the availability of solutions, the content covered during my studies and Mediaset España's intrinsic characteristics such as the business model, cost structure, drivers and industry-specific factors was performed, in order to achieve the most robust and solid valuation possible. Following a sequential scheme of ideas, the outcome of this dissertation shall be based in a set of input-chapters that are presented as:

Chapter 1: The literature review, written with the objective of providing academic justification and support for the technical decisions taken for this valuation.

Chapter 2: The company presentation, included to provide the necessary insights on the company's inception, portfolio, structure and market-specific data.

Chapter 3: Industry and drivers, that will provide insights on how the advertising industry behaves, and which factors might influence the share price of Mediaset.

Chapter 4: Valuation overview, with the detailed steps of how the valuation was calculated, which assumptions were taken and which information was selected to give the most accurate recommendation possible.

Chapter 5: Comparison of results with Espírito Santo Invest Bank, which will give the detailed description in which are the differences between the valuations performed in this dissertation, and the common practices/assumptions taken by a major investment powerhouse such as ESIB

Chapter 6: The investment case, elaborated to resume why the recommendation was set as Hold, together with the strong points/weaknesses for the present and near future.

Chapter 7: Conclusion of the dissertation, giving and overview in all subjects approach, input/output dynamics and the knowledge obtained from performing a document like this.

Appendix: Includes all the financial data used, as well as auxiliary data for each chapter in this dissertation.

Literature Review

OVERVIEW

The literature around valuation methodologies is incredibly diverse and rich both in content and size. Copeland et al (2000) defend that "managers maximize the share value of their companies through valuation analysis, which shows in a clear perspective how to company creates value across the time".

Fernandez (2004) is also a supporter of the intrinsic relationship of valuation with the financial world, resuming that "valuation is not only a management tool for everyday operation, but is also highly important tool to have according to a set of activities like commercial activities, valuation of listed companies (more related to investment opportunity spotting), agency cost reduction in compensation schemes based on value creation and the identification of value drivers that are the key component for a well taken strategic plan".

Starting from a market perspective, the Multiples Valuation of Relatives Valuation is a good tool for evaluating a company according to what the peers of the valuation subject are worth in the market consensus. This method is based on a set of drivers which are cross-related with the price in which the companies more close to the intrinsic components of the subject under valuation are trading in the market. These drivers differ according to each industry or even the across subjects in the same industry, and they are usually related to the company's capacity of generating cash flows through its operation and/or parallel activates (Earnings, Book Value, MW, Oil Reserves, among others).

Damodaran(2006), for example, has broken down this vast world into four major methodologies: the most famous *Discounted Cash Flow model (DCF)*, *multiples valuation*, *Book Value approach* – which does not apply in this equity valuation paper, and the *contingent claim theory* also known as *option theory*.

Option theory or Contingent Claim Theory is not the most commonly theory used in valuation due to its intrinsic properties. The Black and Scholes (1973) pricing model argues for example that "the same method used to price options can be adapted into companies that show option-like components like non-renewable energies, and therefore it is more commonly used in industries where its source its known and finite, therefore showing a behavior similar to an option instrument".

The DCF method is probably the most used across the valuation industry due to its simplicity and the fact that it is a model based on cash flows, however even this model has been having new versions across time, like the most common DCF based on WACC (which can be adapted to a DCF based on the equity cost for equity valuation methodologies), which the purpose is to discount future expected cash flows at a risk reflecting discount rate that truly converts their value to the present. Another deviation from the original model is the Adjusted Present Value (APV) valuation, in which the most sounding names in its development include Myers (1974) and the pioneers in the method Modigliani and Miller (1963). Modigliani and Miller are indeed the founders of the capital structure

theory (1958-1963), which therefore is no surprise that the APV model gives a separated perspective on both the operational unlevered nature of the firm and the financial environment surrounding it (financial side effects).

Another DCF adaptation is the Economic Value Added model (EVA), that doesn't not focus on cash flows exclusively, but instead authors including Stewart (1991) and more recently Young and O'Bryne (2000) argue that "the core of value creation of a company comes from its capacity to provide excess returns over a certain limit – usually the cost of capital or the cost of equity, depending on each company's nature."

In fact, the fact that the DCF is so widely accepted in the valuation industry, can be supported by the research of Koller Goedhart and Wessels (2010), which suggest that "the source of a company's value creation capacity is directly correlated with its cost of capital influence on cash flow creation, cash flow that is also directly correlated with its revenue growth capability and its capacity to compensate the invested capital (ROIC)". This theory puts in a clear perspective that a company is not solely dependent on its capacity to generate cash flows, but it is also incredibly exposed to its capital costs, when for example, one can have relatively good cash flow generation but it is still destroying value by not being able to reward the invested capital due to the high cost of capital that has priority over the shareholder contingent claim. A good reference to this importance in the battle between the return on invested capital and the cost of capital was the one took by Gordon (1959), in which the dividend discount model was introduced and will be discussed more ahead in this chapter.

Indeed, each valuation methodology is applied under certain assumptions, and that is why there is not a single methodology to be used. Digging further into this matter, when evaluating a company, independently of which methodology to use, the terminal value and growth assumption have a relatively important weight in the overall valuation which accounts usually more than 80% of the overall Enterprise Value (EV). This means that, one when evaluating a company must understand that each model produces a fair estimate of what the company's value is today, but the values for components of the valuation like dividends, cash flows and earnings are produced differently across each method, which leaves the so called "ambiguity" in the world of valuation, in which each analyst is responsible for their long-term assumptions on these components (dividends, cost of capital, cash flows) and it is still in their scope of activities to analyze in this assumptions are somehow realistic according to different factors and/or complementary analysis like industry-specifics, ownership-specifics or even through the market consensus by using the Multiples Valuation.

A brief resume of the main valuation methods:

Asset Based Valuation

- Book Value, Adjusted Book Value, Liquidation Value and Substantial Value

Discounted Cash Flow Valuation

- Gordon's Model, Free Cash Flow to the Firm, Free Cash Flow to the Equity, Adjusted Present Value, Economic Value Added, Cash Value Added

Contingent Claim Valuation

- Black and Scholes, Investment Options, Binomial Models,

Multiples Valuation

- Price-Earnings Ratio, Enterprise Value-EBITDA, Enterprise Value/EBIT, Price-Book Value, Price to Cash Flow and others.

OPTION OR CONTINGENT CLAIM THEORY

A known fact: companies operating under a limited lifecycle resource portfolio should be analyzed differently from one that has an infinite set of resources. This is why the option theory is so important, it gives an alternative for example to Petrol Companies that are usually limited by the amount of oil they can extract and turn to economic profit. The Case of Mediaset is quite different, since the company's business model is based on an infinite stream of revenues, in which its product under transaction is advertising time/platforms/other services. This factor therefore limits the range of the Option Theory only to a certain set of usage, since Damodaran (2002) for example states that "sometimes the value of an asset is not certain until some point in the future", or for example Vernimmen (2005) that suggests "the flexibility shown by the behavior of an option-like asset is not accounted in traditional valuation techniques, and for this reason the Option Theory is a valid tool."

Among the models most widely used are the Black and Scholes model and the binomial models. The Black and Scholes Model (1973) is one of the oldest models still in use, and it is based on a set of assumptions that have been questioned along time. Among these assumptions one can find the no arbitrage assumption in the option market. Black and Scholes argue that "by adjusting the delta of a portfolio by holding the underlying instrument, one can always find the one true price for an option through the dissipation of risk."

The Binomial Model was first introduced by Cox, Ross and Rubinstein (1979) and it gives an adaptation to the so discussed Black and Scholes Model. This method might be also known as the Binomial Tree, since its technique is based on "discounting of all the possible future outputs which are then weighted by their own probability of occurrence". It is known by the Binomial Tree, since all these possible outputs are therefore discounted back to the present one period at a time until reaching the root of the tree and expressively its value to the option price today. A counter argument for this technique is the fact that the size and complexity of this structure might limit the range of applications, giving in fact a reason for the Black and Scholes Model, even if argued along time, to earn a place in modern valuation applications.

Another approach to this type of contingent valuations is the one presented by Luerhman (1997), which suggests "the aggregation of future possible operational assets to the ones already in operation". Luerhman supports this view, by defending that "these types of Investment Opportunities can be valued at a point where the investment decision can no longer be reversed". This approach also cannot be applied to Mediaset due to the dynamic profile

of its project pipeline, which is subjective to a set of variables that in a lot of cases might just take one variable to make a project undoable. This model could be argued that it applies to companies in rapid growth with a lot of investment opportunities, however Mediaset even if it would be in rapid expansion, is subjected to a set of legal, operational and internal processes specially from the market regulator, being in a total different lifecycle then the usual examples in which the valuation is done through this process. Mediaset is a mature company in a consolidated industry, in which a "duopoly" market structure takes place.

THE DISCOUNTED CASH FLOW APPROACH

Firm Perspective

The discounted cash flow approach, centers the valuation into discounting at a risk adjusted factor the physical cash flow into the present. By physical cash flow, one means that any non-cash transaction accountable must be misplaced from this valuation, like depreciations, amortizations and commercial future transactions (known as accounts receivables/payables). Other non-cash transactions at present such as working capital and future investments in operating assets must also be registered in this valuation, since they represent a future cash outflow and therefore cannot be accounted as free cash flow at the present.

The structure of the FCFF is the following:

Operating Income (EBIT)

\- Normalized Tax on EBIT

= **NOPAT**

\+ Depreciation and Amortization

= **Cash Flow from Operations**

+/- Variation in Working Capital

\- Investments in Operative Assets (CAPEX)

= Free Cash Flow to the Firm (FCFF)

This structure indicates the goal of this type of technique to isolate the NOPLAT, which contains the operational information of the company and must be subtracted of future cash movements like the depreciations, variations in working capital and future investments. The Free Cash Flow to the Firm is therefore recognized as the available cash flow arising to the firm in the end of an operative cycle.

Equity Perspective

Being the first approach targeted at the firm, it is not surprising that across time, punctual cases where that approach lacked consistence started to occur. Industries like banking and private equity have specificities that incur much more on a financial perspective, calling for the need for a model that can capture its true value according to not its operation, but according to the cash flow that these companies can generate to their shareholders. One of the first researches to suggest "the link between the dividend flow and the share price of a company" under the described conditions was Durand (1957). That was the basis to the Dividend Discount Model that is so common in usage by several types of professionals. However this link has been question later on by Shiller (1981) and after by Fama and French (1996), which present "empirical evidence in which the stock price presents a much higher variation on average than the dividends themselves".

The Dividend Discount Model as in other adaptations of the Free Cash Flow to the Equity perspective, take the cost of equity as the reference factor to adjust the risk of possessing a stake in the company in question, as opposed to the firm perspective that uses the cost of capital as a reference factor.

One of the facts that make the Free Cash Flow to the Equity model still commonly accepted today is the set of assumptions that one must take in order to use the DDM, despite the stock price variation level already mentioned by Fama and French (1996). In this case, "the growth rate of dividends must be estimated from the growth rate of earnings and the ratio of which will be distributed as dividends" (payout ratio). The dispute in the DDM relevance starts here, where Damodaran (1994) adopts a dynamic payout ratio approach (in opposition to the static version introduced by Gordon in 1962), "showing empirical data on the variation of the payout ratio according to the different lifecycle in which the firm is, suggesting the need for younger firms to sustain capital for reinvestment while mature firms with less needs bet on a stronger payout".

That is why still today, the Free Cash Flow to the Equity model has still a place of relevance in the valuation industry, being especially useful in companies that tend to accumulate cash pile and not distribute dividends (like Apple did until a recent past), which the DDM tended to undervalue when compared with the Free Cash Flow to the Equity model. The FCFE model focus not on the dividends paid by the company, but on the capacity that the firm evidences in the generation of capital for Equity owners, by subtracting its debt from its cash flows and variations on CAPEX and working capital to arrive in a clear estimate of which amount will be available to the equity owners.

The FCFE can be calculated by:

Net Income

\+ Depreciation and Amortization

\- Investments in Operative Assets (CAPEX)

+/- Variation in Working Capital

- New Debt Issued subtracted by Debt Service

= **Free Cash Flow to the Equity**

The Value of the firm can be calculated by:

$$EV = \frac{FCFF_1}{(1+WACC)^1} + \frac{FCFF_2}{(1+WACC)^2} + \frac{FCFF_3}{(1+WACC)^3} + \cdots + \frac{FCFF_n + TV_n}{(1+WACC)^n} \quad TV_n = \frac{FCFF_n \times (1+g)}{(WACC - g)}$$

Where:

EV = Enterprise Value

FCFF = Free Cash Flow

WACC = Weighted Average Cost of Capital

g = Terminal Growth Rate

Note: The Calculation for the value of equity is analogous by replacing FCFF by FCFE and WACC by the cost of equity.

When looking ahead to the specific factors of Mediaset, we can see that both the DDM or the FCFE do not apply for a standard valuation, due to the lack of strong dividends paid in this industry and also the strong asset base that is a characteristic of this sector as well, which makes it possible to address this valuation under a FCFF perspective. The FCFF perspective would therefore account for the low long-term debt factor (and its market value as well since the Mediaset group is one of the largest broadcasting groups in Europe and assures cheap financing), by arriving in a clear Enterprise Value, that is, the true value of the firm after debt and cash subtractions.

COST OF CAPITAL

The cost of capital is not an unknown item in this valuation and has been previously mentioned in discounting models. The cost of capital includes both the cost of equity and cost of debt, and we will address both of them together with its intrinsic properties. The cost of debt can be obtained in a rather standard procedure and can be extracted from the market; however the cost of equity can itself be subdivided into building blocks which are explained in the following equation:

$$Ke = Rf + \beta\,(ERP)$$

Where:

Ke = cost of equity

β = measure of correlation between the asset and the reference market

Rf = risk free rate

ERP = Equity risk premium, also can be written as Expected market return – Risk Free rate.

The cost of equity is therefore according to the equation depending on both the Risk free rate, which is the rate of the reference asset with no risk associated (ex. U.S. Government bond or German Bond), the market expected return which is the rate of which an investor can alternatively invest in the reference market and the Beta which in the CAPM or Capital Asset Pricing Model suggested by Lintner (1965) and Sharpe (1964), is a "measure of the correlation between the asset and its reference market" (systematic risk), therefore one can identify it as a "market Beta".

The Beta – β

The beta is most commonly used in the CAPM as a measure of the correlation between the asset under analysis and the reference market where it is present. This measure has surged in the mindset of the need to assess a portfolio's systematic risk, which under the CAPM's assumptions, can be excluded through portfolio diversification. The idea of portfolio diversification and the usage of CAPM are indeed correlated since the beta itself is used as a measure of correlation between a certain portfolio and a market portfolio made of all assets available in the market. This implies the principle of Markowitz's perfect diversification (which suggests "a relationship between market risk and stock returns" in his paper of 1952), in which "when an investor holds a weighted investment in a portfolio replication of the market, the intrinsic risk of each asset is hold is diversified, giving therefore the only risk that cannot be excluded from diversification which is the risk of the market" (i.e. what is the response of the asset if the market where it is present rises or falls), and for this reason the beta has been widely accepted as the measure of this risk which cannot be diversified away. In practical terms, if one investor could hold the best possible replication of the market (perfectly diversified), its beta should be 1, since both instruments would move together in the same direction as suggested by the following formula:

$$\beta = \frac{\mathrm{cov}\,(R_i\ , R_m)}{\delta^2\,(R_{m)}}$$

Where

Ri = return on asset i

Rm = return on market portfolio

δ2 = variance of the market portfolio

A wide set of computations for the beta are available, being the most commonly accepted by professionals – the peer group Beta, in which the Beta of a certain asset can be determined by a weighted average of the same market Betas of the most similar companies in operation in terms of sector and intrinsic factors like geographies, capital structures and lifecycle of the company. However, this technique has also suffered some criticism, due to its

limitation for finding a relative similar peer group (there is an inverse relationship between similarity and peers available) and its rather relative weak diversification significance, in which for example Roll (1977) argues that "it is impossible to observe a perfect diversification since one should benchmark the perfect portfolio against a portfolio containing all the available assets in the world to test the possibility of mean-variance efficiency", which is considered undoable and that is why the most commonly benchmarks used include the S&P 500, the STOXX Europe 600 for Europe, the MSCI world index or any major index of relevance for the asset under analysis.

Other widely known criticism of the CAPM model's simplicity is the Fama and French (1977) suggestion of a multi-factor model, which complements the sole Beta of CAPM as the only explanatory variable of risk regarding stock returns and market returns. Fama and French purposed a "multi-factor model that would correct the CAPM for factors like the size (or market cap) and value (book-to-market value)", however this model together with other multi-factor models like the Carhart model introduced in 1997 (complemented by a momentum factor) are not always easily applicable due to the specificity of data required, and therefore they will not be considered in this valuation.

The Risk Free Rate

The risk free rate choosing process is usually a standard procedure, since there is a consensus, however implicit that usually the ten year bonds of reference should be used. Theoretically, "the maturity of the bond should be aligned with the one from the investment", however the issue of long-term liquidity does not beneficiate the companies with cash flows in a larger timescale, and for this reason the average maturity accepted for the reference bond is usually ten years. However not all government bonds are risk-free, and even not all investments in the world can be linked to local reference bond that reflects the best alternative investment, as for example in third world or just undeveloped financial markets. For this matters, Damodaran (2008) advocates "the usage of the sovereign bond ratings available in the big houses in this sector" (Moody's, Fitch or Standard and Poor's) "in order to extract the most realistic risk free rate, after the deduction of the default spreads available in the previously mentioned rating companies from the long-term sovereign bond".

The Equity Risk Premium

The last building block of the cost of equity is the equity risk premium, which also has a wide set of computations available. However, the most common method used is the one suggested by Ibbotson and Sinquefield (1977), in which this rate is "extracted from past stock returns when compared to riskless alternative investments". Indeed, the equity risk premium is not a universal tool due to the different environments in which stock assessments might be done, and for this reason it might be necessary to adjust for country risk premium, however even if this can be considered "normal" by many analysts, Damodaran (2008) gives a different perspective on country risk premium irrelevance for a geographically diversified investor, under the assumption that "risk is not contaminable across markets".

Other authors like James and Koller (2000), argue that "the discount rate should not be adjusted for country risk, but instead a correction on cash flow predictions should be applied, due to the possible less relevant relation between the equity's risk of a certain company and the country's where it is present, in which this case would be exemplified as an equity investment being less riskier than a government bond instrument". For this reason, these authors do not support the country risk correction, and instead suggest the correction in cash flow prediction, by adjusting macroeconomic factors such as future inflation or GDP. Despite this perspective highlight this important point, Damodaran (2008) still insists that "multiplying different possible outcomes for cash flows wouldn't dissipate the total risk out of the bottom-end cash flow", and for this reason we would still discount this expected cash flow generated from different scenarios at a different discount rate in order to generate plausible results in accordance with the scenarios in question, making somehow irrelevant the cash flow adjustments.

USING WACC OR APV

The WACC

The most commonly used variation of the DCF used is the one that uses "the WACC as a risk-reflecting factor for discounting future cash flows", as suggested by Koller, Goedhart and Wessels (2010). The roots of WACC can be found in the work of Modigliani and Miller (1958 and 1963), in which these authors introduce the idea of "capital structure irrelevance for a company's valuation in a financial environment without distress costs and taxes". This assumption later was updated, adding the possibility of existence of taxes, and therefore the irrelevance proposition lost influence, giving space to a theory which contemplates the existence of tax shields and its importance to a company's cost of capital.

The formula used to compute WACC is the following:

$$\mathrm{WACC} = \mathrm{Ke} \times \frac{\mathrm{E}}{\mathrm{D}+\mathrm{E}} + \mathrm{Kd} \times \frac{\mathrm{D}}{\mathrm{D}+\mathrm{E}} \times (1 - \mathrm{Tc})$$

In Which:

Ke = Cost of Equity

E = Market Value of Equity

D = Market Value of Debt

Kd = Cost of Debt

Tc = Corporate Tax Rate

The Adjusted Present Value (APV)

The APV was developed by Myers (1974) aside from the WACC (criticized by its simplicity – which was argued by Myers as "the only reason why it is still used") with the intent of showing a better resulting output by treating both the value of the unlevered firm and the financial side effects with less assumptions when compared to the WACC, which can be seen under the following equation:

$$\text{APV} = \text{Value of Unlevered Firm} +/- \text{Net Present Value of Financial Side Effects}$$

It has been considered a valid technique by the general literature, due to its opposite nature to the WACC of concentrating all financial side effects under the interest rate and acknowledges changes in the capital structure – the big advantage against the WACC. The APV gives instead "a clear perspective of where the value creation comes from by treating separately each component", according to Luerhman (1997). This theory is the base for the sum-of-the-parts methodology, which seeks to demonstrate value creation by separating the company's operation by geographies in this case.

The APV process can be described through the perspective of Damodaran (2002), in a three-stage process:

- Stage 1: "Calculate the unlevered value of the firm by using an unlevered beta in a CAPM equation in order to discount future cash flows, this means if hypothetically it would be 100% financed through equity. In order to achieve this task, one can follow the approach by Fernandez (2004), which acknowledges the relationship between the unlevered Beta and levered Beta":

$$\beta_U = \beta_L \times \frac{E}{D \times (1 - T_C) + E}$$

  Where:
  βu = Beta Unlevered
  βL = Beta Levered
  D = Debt
  E = Equity
  TC = Corporate Tax Rate

- Stage 2: "Calculate the side positive effects of debt carriage, which according to Modigliani and Miller (1963), the tax shield should arise as a benefit from carry debt, by lowering the tax amount paid. The tax shield has been defined by the multiplication of the tax rate by the interest paid, however there seems to be no consensus on which discount rate to apply to the tax shield, leaving room for both arguments in favor of a cost of debt rate and a cost of equity rate".

  Researchers like Myers (1974) and Luerhman (1997), defend the usage of the "cost of debt as discount rate, due to the close nature of risk between tax shields and debt itself". However, Harris and Pringle

(1985) argue that "the company's capability of debt servicing might not be at stake even if the company is in a dangerous financial situation, which leaves no benefit from having a tax shield, leaving therefore the tax shield under a direct influence from the unlevered engine of the company and therefore arising the need to discount it at a cost of equity rate".

- Stage 3: "Calculate the negative effects of debt carriage, by weighting the possible costs arising from debt servicing default against the probability of incurring in this scenario", as suggested by Damodaran (2002). The determination of both these variables might not be an easy task since the amount of bankruptcy costs to pay is never certain unless it occurs , and it is due to the analyst to base himself from credit rating studies that can provide a set of default probabilities according to credit scores. Several Researches have already provided their input to this issue, by publishing what can be identified as somehow "a relationship between the level of leverage and registered historical bankruptcy costs", like the one suggested by Korteweg (2007), and "a relationship between bankruptcy costs and size", as suggested by Alterman (2006).

Indeed the WACC is the most common used method for computing the discount factor due mostly to its simple usage, however several critiques have been made for example by Luerhman (1997) that argues "the lack of fit of the WACC in complex capital structures, since it only acknowledges the interest rate as an input of financial side effect, which would rise the need to adjust the WACC for exotic debt instruments, costs of distress, bankruptcy costs, hedging costs and issue costs, in conjunction with any change in the capital structure" – which can be said as not easy. Fernandez (2004) also presents his idea, by suggesting that "any DCF method can deliver the same output, as long as the set of assumptions be consistent". He presents also another problem regarding WACC and the use of market values for its computation, since it creates a circular reference between the WACC and the market values. This circular reference arises from the need of knowing the company's Debt-to-Equity ratio in order to calculate its market value, at the same time that the Debt-to-Equity ratios should be revised regularly in order to join the changing in real capital structure of the company. This means that according to Fama and French (2002), "a company might adjust its leverage level across its lifecycle, which creates a need for constant WACC adjustment and therefore surging as a time consuming and complex task". As an alternative, book values can be used for computations. In fact, for companies that usually target a Debt-to-Equity ratio (usually the industry average) or with easy access to financing like Mediaset (however there are still industries that tend to show some resistance in capital structure changing, instead showing the tendency for an optimal point and therefore a stabilization that supports the usage of the WACC), a WACC-like valuation may be used, or in an extreme case where the capital structure is not dynamic, a static WACC may be used as well.

Growth Estimation

When valuating businesses or projects with a known finite life, the DCF procedure is straightforward and involves the discounting along the time of operation of the business under analysis. However, it is expected to find most businesses to be operating under a continuous nature, and therefore the issue of the growth rate estimation becomes

important to highlight. The assumption arising is how the business will perform in a perpetuity-like situation, which obviously raises a set of challenges for the analysts due to the limited information to predict such a long-term performance. The terminal value weight on the total valuation becomes more sensitive as the valuation explicit period is shorter, giving the idea of the importance of choosing the right growth rate. The standard procedure includes the calculation of the growth rate, which therefore impacts directly the terminal cash flow value as seen in the following formula used in WACC based situations:

$$TV_n = \frac{FCFF_n \times (1 + g)}{(WACC - g)}$$

The same situation is analogous for valuations under a different capital cost measure as the cost of equity or cost of debt instead of the WACC.

The importance in this issue is relative to the choosing of a benchmark rate which is assumed to be the value which the business growth will tend in perpetuity. Usually rates like the country's GDP or inflation rate are used, that represent the growth rate of a mature company in cruse speed. It is usually assumed that the business will at least growth at a macroeconomic rate in which represents the environment of operation, since if it does not happen, the company would be exposed to side effects in its value due to the effects of rates like the GDP or the inflation in the commercial environment.

ECONOMIC VALUE ADEDD VALUATION (EVA)

This model valuation is important to mention, since it treats cash flows according to a benchmark which usually is the cost of capital. The classification between normal cash flow and excess cash flow is done by Damodaran (2006) when this author explains that "earning the cost of debt is considered normal, but any deviation shall be considered an excess return".

The EVA model traces its roots back to the NPV valuation, and bases its analysis in two different building blocks: the sum of invested capital and the present value of excess cash flows as suggested by the formulas:

$$EVA = (ROIC - WACC) \times \text{Capital Invested}$$

$$EV = \text{Capital Invested} + \sum_{t=1}^{\infty} \frac{EVA_t}{(1 + WACC)^t}$$

The EVA model presents therefore a clear connection between the excess cash flows and the capital invested, giving according to Damodaran (1999) "a powerful management tool since it presents a clear structure of what is creating value and what is not". Even so, Weaver (2001) signals the importance of "adjusting the book value for one-time transactions before the computations".

Resuming, the EVA model shares the same mindset as the Free Cash Flow techniques, and due to its mathematical and conceptual nature, it is expected to get both outcomes with results rather similar.

This model however falls out of the scope of this valuation due to the lifecycle in which Mediaset presents itself, being of much more utility a model which compromises the present value of cash flows without the weight of a separate analysis on the capital invested.

MULTIPLES VALUATION

The Multiples or Relatives Valuation, is a valuation technique that is not based in complex, discounted valuations, but a rather straightforward process of comparing common drivers of the company with which price the market is valuing them. Even though this process might sound straightforward, the difficult in using this technique is the rather small group of peers that can be selected in order to give a plausible estimation of value regarding the company in analysis. By this one can say that there is an inverse relationship between similarity and the number of peers available, which translates itself into a dilemma of adding another peer, but loosing explanation power due to fewer similarities. Goedhart et al (2005) highlight the important task of "finding peers that share similarities in capital structure, ROIC and long term growth", which can become an even harder task if we had important variables like the lifecycle of the company; counties in which operates and which type of business are in operation. The outcome of this valuation according to Damodaran (2006) is that at "the value of an asset is extracted from what it is been paid by the market in similar ones".

The process of multiple valuation is therefore dependent on one's ability to select both the comparable peer group and also the variables (that will relate to multiples) in which the value of the company shall be extracted. Damodaran (2006), splits the world of multiples into two categories: "the enterprise value multiples (mostly operational) and the equity value multiples (mostly financial/operational)".

A list of the most commonly used multiples follows below:

Nature of Valuation	Multiple
Enterprise Value Multiples	EV/EBITDA
	EV/EBIT
	EV/Sales
Equity Value Multiples	Price to Earnings (PER)
	Price to Cash Flow (PCF)
	Price to Book Value (PBV)

Table 1 - Enterprise and Equity Multiples (Damodaran 2006)

Goedhart et al (2005) advocate the "importance of the usage of forward multiples to isolate the analysis from historical influence". These authors also stress the importance of usage of multiples such as EV/EBITDA and

Price-to-Cash Flows, since these variables represent a perspective of value without having to deal with accounting or debt adjustments that might alter the outcome of the analysis. On the other hand, valuations based on earnings multiples include these factors and therefore Goeadhart et al advocate that "the valuation outcome using this same multiples might not give the most correct observation of how the company performance should be valued", and these authors also stress the importance of "cleaning" the EV multiples from non-operating transactions like excess cash but it should contain any operating transaction that might affect the EBITDA.

However these Authors advocate the fundamental multiples theory, this same theory has been challenged by Liu et al (2007), that suggests "for a wide set of financial markets, the earnings multiple show more accuracy than any other method like for example the Price-to-earnings ratio".

Another type of multiples that are useful when evaluating, are the transaction multiples that "can serve as a proxy to assess the price of certain assets according to previous transactions occurring with similar assets in the market", according to Vernimmen (2005). Like the other type of multiples, these account for the market willingness to pay for the similar assets and therefore extract implicit information, and for this reason the multiples shall be extracted before the transaction in order to obtain a much precise estimation before the transaction itself.

Multiples do sound as valid tool in valuation, however Damodaran (2002) highlights the fact that "this type of analysis lack to acknowledge the total effect of risk and growth factors", however "its simplicity and quickness of application without too many assumptions make this method a very useful complement to a standard APV or FCF valuation", according to Goedhart et al (2005).

In the case of Mediaset, which operates in a very specific sector – local media, the peer group of companies available for this kind of analysis is not vast, and tends to be quite heterogeneous in terms of operational performance factors like size and geographies. In such cases, industry-specific multiples can arise as the best solution, as they replicate in a more precise manner the true commercial nature of the business. In this case, multiples like the EV/Audience can be used.

CYCLICAL COMPANIES VALUATION

According to Damodaran (2009), cyclical companies like Mediaset have to be seen with special attention, regarding its "propensity to underestimate or overestimate the valuation". The fact that Mediaset operates in the advertising sector which is highly dependent on macro variables like GDP growth and private consumption, justify the adding of Mediaset to this group and this theme. Damodaran (2009) identifies two types of cyclical companies: sector wise and macro wise.

Sector Wise

These companies are defined as cyclical due to its "tendency to follow industry-specific cycles that affect all companies in the sector, independently of its intrinsic value". In this group are included for example housing and vehicle sectors.

Macro Wise

These companies are identified by "looking at its historical accounts and cross-matching it with macroeconomic factors, reaching by definition to an overall high correlation". Mediaset falls into this category by its revenue direct dependence of private consumption levels in Spain, according to the analysis done in the industry chapter. The definition is as it follows:

"Thus, a company that has historically reported lower earnings/revenues during economic downturns and higher earnings/revenues during economic boom times would be viewed as cyclical. This approach allows for more nuance than the first one bit it works only when the companies being analyzed have long operating histories. Furthermore, factors specific to the firm can cause volatility in earnings that can make this analysis misleading."

For this reason, historical accounts from 1996-onwards will be used in this valuation, with the intent of providing enough cycles along the period 1996-2013 to build a more solid valuation. Characteristics of these firms include volatile revenues, cash flows and debt rations, in which Mediaset falls again into this group. For example, its revenues in the period 2007-2009 have jumped between 607 in 2009 million Euros and 1,037 million Euros in 2007, while its net debt has changed between -94 million Euros (cash pile) in 2013 and 182 million Euros in 2009.

According to the same author, cyclical companies are usually valued in general according to the financial statements of the present year and projecting the following years based on the present year as well:

"When valuing companies, we tend to put a great deal of weight on current financial statements. In fact, we would not be exaggerating if we said that most corporate valuations are built with the current year as the base year, with little heed paid to the firm's own history or the performance of the overall sector. While this fixation of the current year's numbers is always dangerous, it is doubly so with cyclical and commodity firms for a simple reason. The most recent year's numbers for a steel company or an oil company will be for the most part, determined by where we are in the cycle."

As a solution for this problem, Damodaran (2009) presents what he defines as "Normalized Valuations", which are shown in the possibility of 3 techniques that use historical values according different cycles to smooth future projections:

1. **Absolute average**

"Normalizing the data over a complete cycle, in order to obtain a smooth projection based on different macro situations, with the objective of giving an estimation of the intrinsic value that will stay in between both extremes of the cycle. This period if rather static and can change according to the cycles in which each company operates, from 2/3 years in highly dynamic industries up to 10 years in mature economies like the United States". Mediaset will be valued using this technique, in conjunction with the period of 2009-2013 as base for the moving average that will result in the projections 2014-2025.

2. **Relative average**

In the relative average technique, "one can apply the same preposition as in the absolute average technique, but having the flexibility to adapt each average to how a certain ration has behaved during the cycle, instead of averaging absolute values. By scaling the average to a customized approach to each variable, this technique has fewer possibilities to overestimate or underestimate the valuation, however bring a lot more entropy to the valuation by sacrificing both simplicity and time to execute".

3. **Sector Averages**

This technique is the solution for companies with "rather short time reporting accounts". If in the previous two techniques we are dependent on the longevity of a company's accounts, for companies that are new in operation, "sector averages provide the same insight on data, based on a large set of information of companies under the same set of influential variables. The challenge by using this technique, is finding the correct set of peer groups, or in another way, respecting the heterogeneity of a sector in what respects to operational performance, since the bigger the numbers outputting data to the average, the less similar they can be to the company under evaluation".

Multiples Valuation of Cyclical Companies

Multiples valuation of cyclical companies must be addressed from a different perspective as non-cyclical companies. According to Damodaran (2009), "using EBITDA and revenue multiples can provide enough solidity to the valuation, that market multiples couldn't, since they are not just more stable over time, but some market multiples can be also completely deceiving or even impossible to calculate" (PE cannot be calculated with negative earnings). The fact that this valuation per se does not properly address the bottom-end dynamic of the cash flows and earnings, makes it easy to provide poor judgment on a company's intrinsic value, being therefore useful as a complement to a standard DCF valuation, for example.

Company Presentation – Mediaset Comunicación España

Mediaset España (Bloomberg: TL5.SM) is a Spanish broadcaster, currently the biggest in its domestic geography. Formerly known as Gestevisión Telecinco, it was founded in 1989 after the local auction for broadcasting licenses established by the government after the "Law of Commercial Television".

It was established as a FTA or Free-to-Air broadcaster together with Antena3 Televisión and PRISA TV, starting its broadcast as Telecinco with a 10-year license. It has been controlled since its inception by the Mediaset group, which is controlled by Fininvest, owned by former Italian prime-minister Silvio Berlusconi. By its foundation, the company featured Germán Sanchéz Ruipérez as its first president, and was established with a capital structure of 250 million pesetas divided as:

- Fininvest, presided by Silvio Berlusconi (25%);
- Divercisa, belonging to the Organización Nacional de Ciegos de España (ONCE), presided by Miguel Durán (25%);
- Sociedad Europea de Comunicación e Información (CECISA), belonging to Ediciones Anaya, presided by Germán Sánchez Ruipérez (25%);
- Juan Fernández Montreal, owner of Chocolates Trapa (15%);
- Promociones Calle Mayor, of the property developer Ángel Medrano Cuesta (10%)

Mediaset España is essentially specialized in the production and broadcasting of television content. The company owns currently businesses not only in the broadcasting sector, but also the news agency Atlas, the advertising consulting company Publiespaña and the audiovisual producer Telecinco Cinema. The full list can be seen below:

- Atlas: agencia de noticias.
- Publiespaña: gestora de publicidad.
- SALTA: productora de programas de televisión.
- Producciones Mandarina: productora de programas y series de televisión.
- Publimedia Gestión: comercialización de soportes multimedia.
- Europortal Jumpy España: actualmente telecinco.es.
- Sogecable Media, S.L.: publicidad de Canal+
- Alba Adriática (15%)
- CaribeVisión (28,3%)
- Canal+ (22%)
- Endemol (75%)

Among its portfolio of television channels, the following ones can be found:

Telecinco

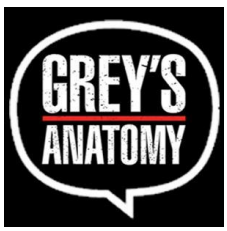
The Telecinco channel presents itself as a generic content broadcaster, launched in 1990 as the first channel of the Mediaset portfolio and the fifth in a national level as a terrestrial channel. Among its contents are series, popular films and sports content. The channel is also known for betting on popular reality shows such as The Big Brother (El Gran Hermano), Supervivientes and Salvame.

Popular Contents (also in the HD channel):

Cuatro

Initiated in 2005, Cuatro positions itself as a generic content broadcaster targeting a young and male audience. It shows mostly foreign series, self-produced series, sports and informational shows. It has been integrated in the Mediaset group in 2011, and it was the third private channel in Spain, after the conversion of the license allocated in PRISA TV's Digital+ platform. In the end of 2009, Mediaset, PRISA TV and Sogecable presented the regulator with a merge deal worth 1,050 million Euros, with the intent to reconvert the channel into a free-to-air broadcaster. After the merge, Mediaset finnaly emerged as Spain's largest operator.

Popular Contents (also in the HD channel):

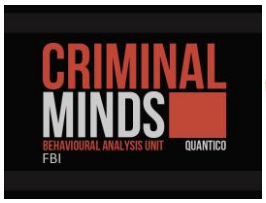


Factoría de Ficción

Factoría de Ficción is a channel targeted to a young urban audience. It started to broadcast for free in the TDT network (terrestrial line) in 2008 as FDF Telecinco, replacing Telecinco Estrellas, but it was sold as a pay-per-view channel until June 2007.

It was one of the most popular channels during its pay-per-view lifetime, known for its fiction positioning and fine selection of series and movies. In 2012, it won the title of TDT leader with 3% of market share, overcoming its biggest competitor Neox from Atresmedia. During the broadcast of comedy shows as "The very best of Montepinar" and "El breaking of", FDF helped Mediaset to set records on the prime time in the respective season, generating an audience share between 4,5% and 5,5%, between 670 thousand and 720 thousand viewers respectively.

Popular Contents:



Boing

Boing is a channel positioned in a young audience, transmitting mostly cartoons and shows directed to children. It is a sister company of Boing Italia and Boing France, being supply in its majority by Time Warner. In 2008, Telecinco and Turner Broadcasting System (Subsidiary of Time Warner) settled an agreement to establish a children's pack of cartoons to be transmitted both in the free-to-air and the TDT with 42 hours of weekly programming, giving birth to Boing set broadcasted in both Telecinco and Telecinco 2. Its debut as a single channel occurred in 2010, becoming a 24 hour per day broadcaster of children's programming, mostly Turner's productions.

Popular Contents:


Divinity

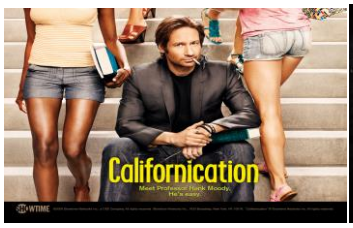
Divinity is the Mediaset group's channel especially targeted for women, being the first project created on-line and later turned into a television channel. By April 2011, Divinity was officially on the air, after 2.1 million visits on the Mediaset's women's website since the summer of 2010. By June 2012, Divinity reached its maximum audience share in TDT of 1.5%, surpassing Nova – its biggest competitor.

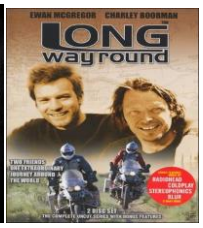
Popular Contents:

Energy

Energy is the Mediaset's channel especially directed to the male general audience. The channel started its emission on January 2012, after the deal between Gestevisión Telecinco and Grupo PRISA in the end of 2010 regarding the purchasing of new broadcasting licenses. The Channel was founded from the same formula as Divinity – the parent channel targeted to women, after being design within the Cuatro framework. The project was initially put on hold with the name Xtra, starting to broadcast only in January 2012 to compete with Nitro, from the rival Antena 3. By the end of July 2012, Energy had achieved an audience share of 0.9%, being still behind its competitors.

Popular Contents:





Direct ownership through Mediaset Espanã Comunicación, S.A.

Company	2013	2012	Line of Business
Pegaso Televisión Inc. 1401 Brickell Avenue – Ste 500 Miami, Florida	43,70%	43,70%	Channelling of the investm ent in Caribevisión Network, a TV broadcast er on the east coast of the US and in Puerto Rico
Bigbang Media, S.L. C/ Almagro,3 28010 Madrid	30%	30%	Production and distribution of all classes of audiovisual programs and products in any support format
DTS, Distribuidora de Televisión Digital, S.A. Avda de los Artesanos, 6	22%	22%	Company engaging in the development and commercialization of a digital platform, delivering digital pay-TV broadcasting via Satellite.
Producciones Mandarina, S.L. C/ María Tubau, 3	30%	30%	Creation, development, production and commercial exploitation of audiovisual content
La Fábrica de la Tele, S.L. C/ Angel Gavinet, 18	30%	30%	Creation, development, production and commercial exploitation of audiovisual content
Editora Digital de Medios,S.L. C/Condesa de Venadito,1 28027 Madrid	50%	50%	Editing, writing, publishing and digital circulation of information about social media communication on the web and/or digital editions
60 dB Entertainment. S.L. Avenida Diagonal, 558 08021 Barcelona	30%	30%	Creation, development, production and commercial exploitation of audiovisual content and event planning
Supersport Televisión, S.L. C/ María Tubau,5-4ªPlanta	30,00%	-	Creation,development,productionandcommercialexploitationof audiovisual media content.

Direct ownership through Mediacinco Cartera, S.L.

Company	2013	2012	Line of Business
Edam Acquisition Holding I Coöperatief U.A. Flevolaan 41 a 1411 KC Naarden, Ámsterdam	-	33%	Holding company which holds investments in the Endemol Group, a group dedicated to the production and exploitation of content for television and other audiovisual platforms

Direct ownership through Conecta 5 Telecinco, S.A.U.

Company	2013	2012	Line of Business
Megamedia Televisión, S.L. C/María Tubau, 5-4ªPlanta 28050 Madrid	30%	-	Creation , development , production and commercial exploitation of audiovisual media content.

Direct ownership through Publiespaña, S.A.U.

Company	2013	2012	Line of Business
Netsonic, S.L. Gran Vía de las Corts Catalanes, 630, 4ª Planta 08007 Barcelona	38,04%	-	Creation of an on line video advertising network. Which will unify the Latin American audiences mediagroups , both international (with a Latin American audiences) as well as the Latin Americans themselves.

Wholly owned companies through Gestevisión Telecinco, S.A.

Publiespaña

Mediaset is also diversified into other sectors besides television. The company also owns Publiespaña, created in 1999 with the intent of managing the advertising business from the Telecinco, as well as for third parties under the name Publimedia Gestión. Later in 2004, Publiespaña was fully integrated into the Mediaset group. In 2008, Publiespaña incorporates a new line of business under the name Advance Media, with the purpose of maximizing the advertising online from Telecinco and third parties, as well as in mobile platforms.

Grupo Editorial Tele 5, S.A.U.

Incorporated in July 1991, this subsidiary was founded with the intent of supplying complementary services related to television operations, including artist rights management, audiovisual recording rights management, artistic representation, production of graphic materials and promotion of events.

Telecinco Cinema, S.A.U.

Founded as Digital 5, S.A.U. in 1996, this subsidiary was founded with the purpose of developing and provisioning television broadcasting services through digital technologies as well as adjacent services in the event promotion sector.

Conecta 5 Telecinco, S.A.U.

Founded as Europortal, S.A. in September 1999, this subsidiary was created in order to manage online content of the Mediaset group.

Mediacinco Cartera, S.L. (75% Owned)

Incorporated in April 2007, this subsidiary deals with the investment policies of the Mediaset group, more precisely in the subscription, acquisition, contribution and charging of Marketable Securities. Other services in charge of this subsidiary include the provision of financial, legal, accounting and administrative services to third parties.

Sogecable Media, S.A.U.

Sogecable was established in 2005 with the objective of managing the advertising business of Cuatro audiovisual media, Digital + (later Canal+) and REVISTA DIGITAL+.

Sogecable Editorial, S.A.U.

This subsidiary operates in the same fields as Grupo Editorial Tele 5, therefore can be considered as a sister company of the later.

Primiere Megaplex

The objective of this subsidiary is mostly involved in managing, organizing, promoting, betting and promoting contests and any other activity that might involve money transactions between participants and the legal entities present in the Mediaset group.

Wholly owned companies through Publiespaña, S.A.

Publimedia Gestión, S.A.U.

Incorporated in 1999, this subsidiary was founded with the objective of creating, acquiring, production, co-production, editing, recording, reproduction, broadcasting, marketing and distribution of audiovisual, electronic recordings and respective rights.

The company is also responsible for the acquisition, direct and indirect development and exploitation of brands, patents, and any other type of intellectual property including rights.

The performance of commercial activities, together with complementary marketing activities.

The organization and production of sports, musical and cultural events, as well as complementary services including rights management.

This subsidiary also offers advisory and analysis services to third parties in the activities previously mentined.

Integracción Transmedia S.A.U.

This subsidiary was created with the objective of implementing and executing advertising projects and complementary services, related to recruitment and also to communication. Included in this scope are the conduction of telesales, direct and indirect marketing, merchandising together with other commercial activities.

The organization and exploitation of cultural, sports and musical events. Other services offered include advisory, analysis and consulting services to third parties in the activities previously mentioned.

SHAREHOLDER BREAKDOWN

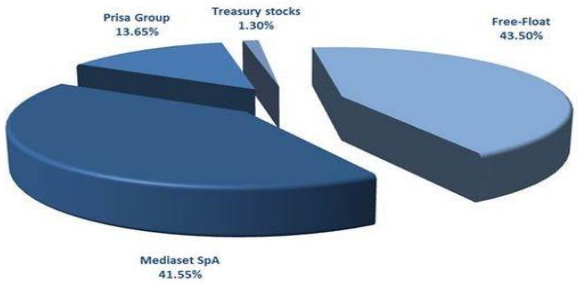


Figure 1 - Mediaset Spain Shareholder Breakdown (Company data 2014)

SHARE PRICE PAST PERFORMANCE

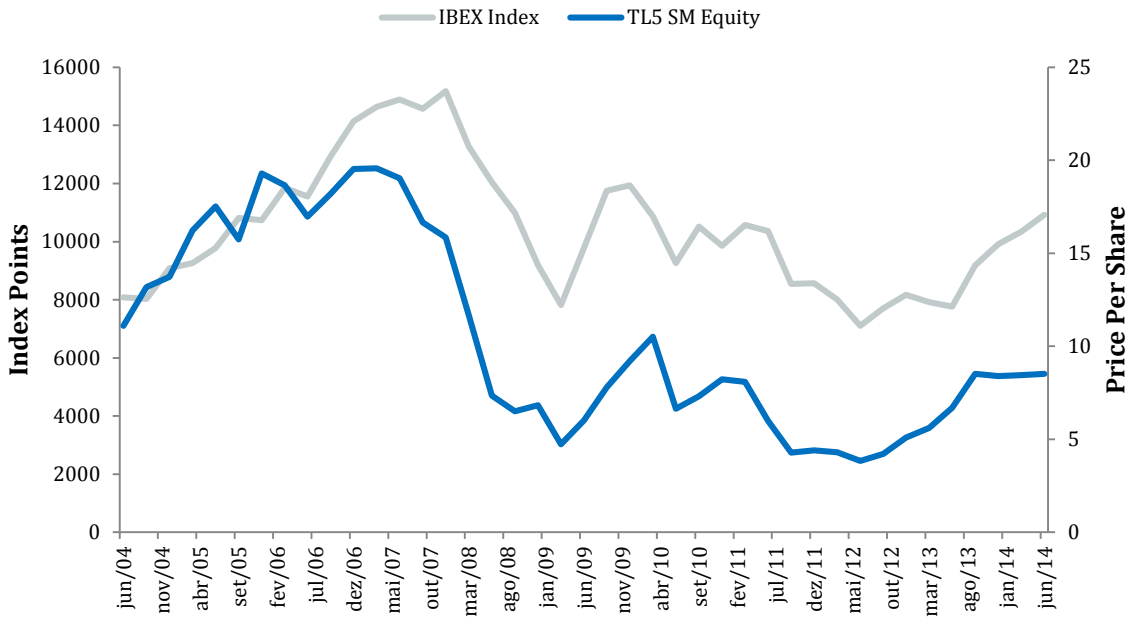


Chart 1- Share Price of Mediaset Spain and IBEX35 (Bloomberg 2014)

As seen in the previous chart, Mediaset España has performed most of the time under the IBEX35, especially after the beginning of 2007, where it crossed down the IBEX35 line and remained under ever since. After a few years replicating reasonably well the performance of the IBEX35, in the last six months the trends have gone opposite, with Mediaset not following the gains of the IBEX. This can introduce the discussion of why did not Mediaset follow the IBEX35 gains in the last six months.

Industry and Drivers

The Spanish TV advertising market has suffered numerous changes recently. Acting in a duopoly-like market in which Mediaset battles Atresmedia in a market-share distribution of nearly 50% for each. As of 2007, Mediaset held 31% of market share while Atresmedia (previously known as Antena 3) held 25%. As of 2014 and due to the large wave of M&A in the recent years, Mediaset has now 45,3% of market share while Atresmedia hold 41,5% after the acquisition of Cuatro by Mediaset and La Sexta by Atresmedia.

As any TV industry, the majority of the revenue source comes from the ability of the TV operator to capture advertising revenue, which depends directly of its audience levels and logically, depends of how much air-time and viewers the operator has to offer. However when investigating what are the drivers for this market, or, what stimulates any company to allocate more funds to advertising, the answer couldn't be more direct: private consumption. Quoting a market study for the TV broadcasting industry in the UK done by PwC, the famous consulting company describes the drivers for this industry as:

"The key drivers of TV advertising revenues include the economic environment, trends within TV broadcasting and dynamics between supply and demand."

In fact when analyzing the correlation between private consumption and the advertising market done by Santander Global Banking Markets, this amounted to 91% for the period 1996-2013. In consequence, the private consumption level is directly dependent on the GDP as shown in the next chart:

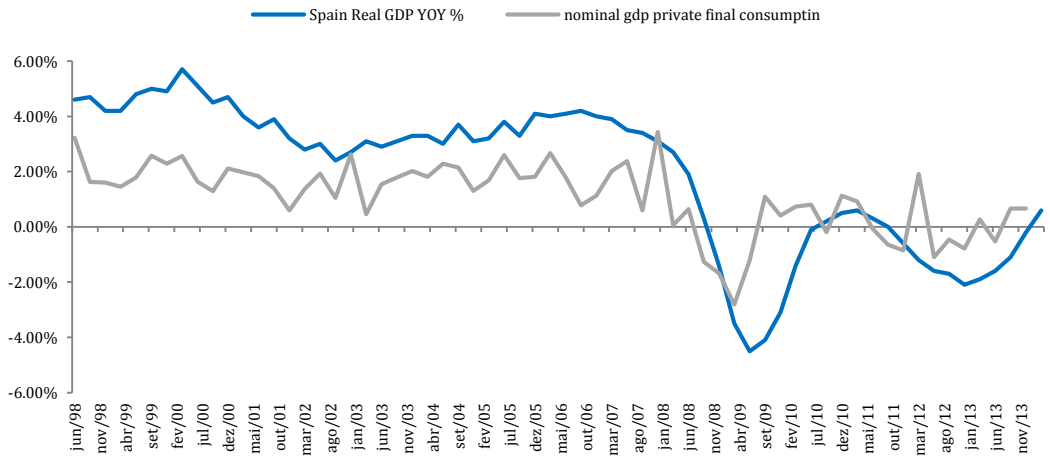


Chart 2 - Spain Real GDP and Nominal Private Consumption (Bloomberg 2014)

The chart points out the fact that the correlation between the GDP growth and the levels of final consumption amounts to 74%, in a universe with many other macroeconomic drivers. Given the complexity of the interaction between the macroeconomic drivers in order to explain how private consumption might evolve, one must analyze the macroeconomic landscape.

MACROECONOMIC LANDSCAPE

GDP Growth

The following analysis will be compromising Spain as a macroeconomic environment when compared to its European peers, in order to be able to locate and support the estimates that will act as business drivers for the valuation.

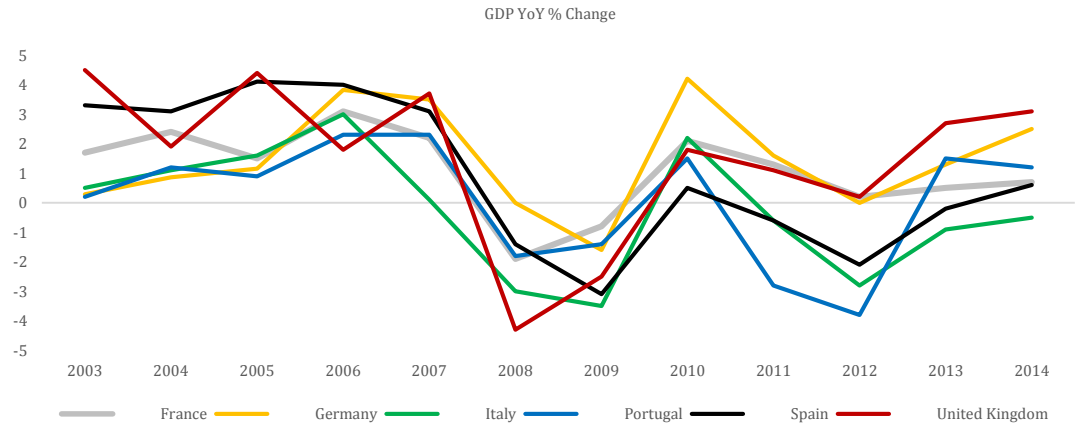


Chart 3 - GDP Real YoY Change % (Bloomberg 2014)

Spain was amongst the nations that suffered the most with the financial crisis that imploded in 2008, suffering and impact only smaller that Italy and UK, this last one in the previous year. In matters of recovery, Spain as lagged behind its peers, being only able more recently to approach France and only performing better than Italy.

Industrial Production

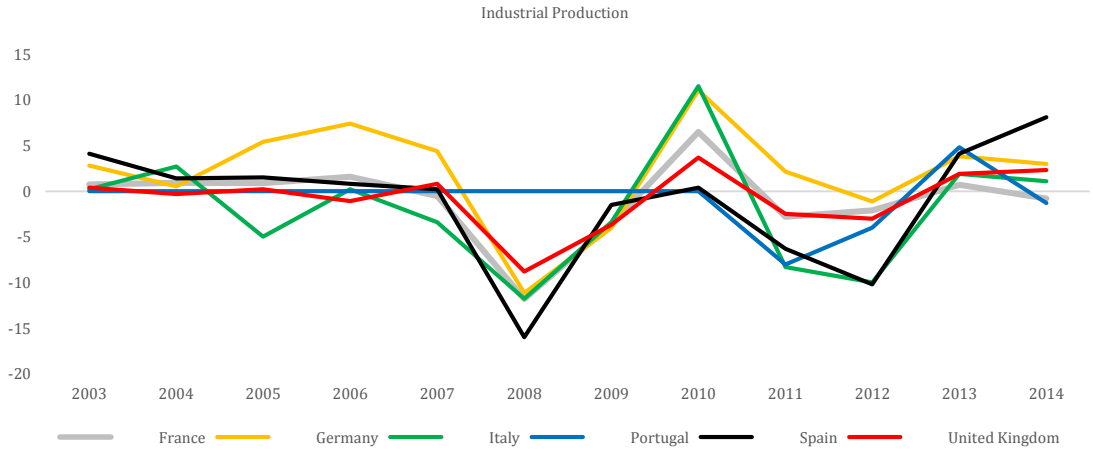


Chart 4 - Industrial Production YoY % of Volume (Bloomberg 2014)

Spain was indeed the biggest loser in the macro driver, recording a record low for the explicit time analyzed of -15. However Spain even though recovering at a much slower rate than its peers (only comparable to Italy), it has reached 2014 as in the top, surpassing by far the UK and Germany.

Unemployment Rate

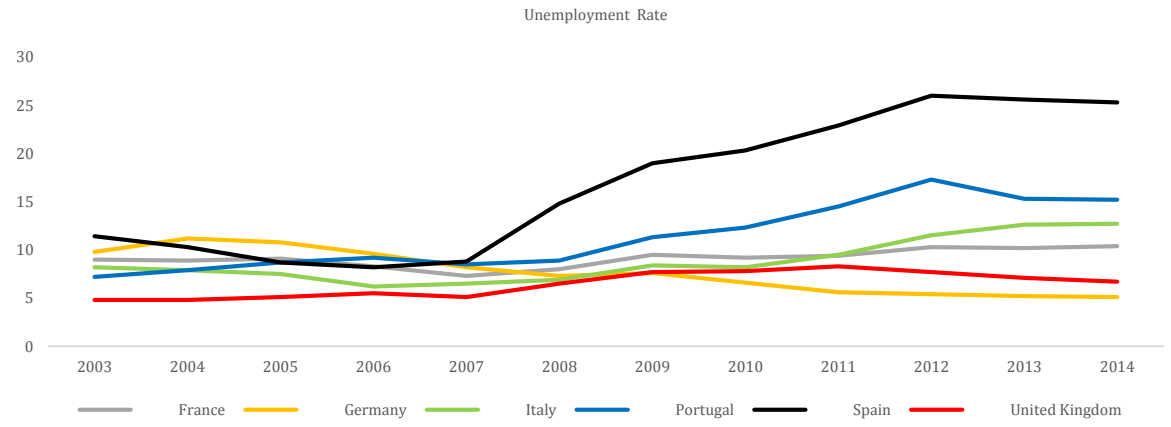


Chart 5 - Unemployment Rate over Total Labor Force % (Bloomberg 2014)

Known by many as the biggest macroeconomic problem of the periphery, and especially Spain, this is a rather important driver, since it affects directly private consumption. Spain in this matter has been seen as the worst case right behind Greece (not in the chart), registering close to 25%, when Portugal, the second worst in this group registers around 15%.

Consumer Confidence

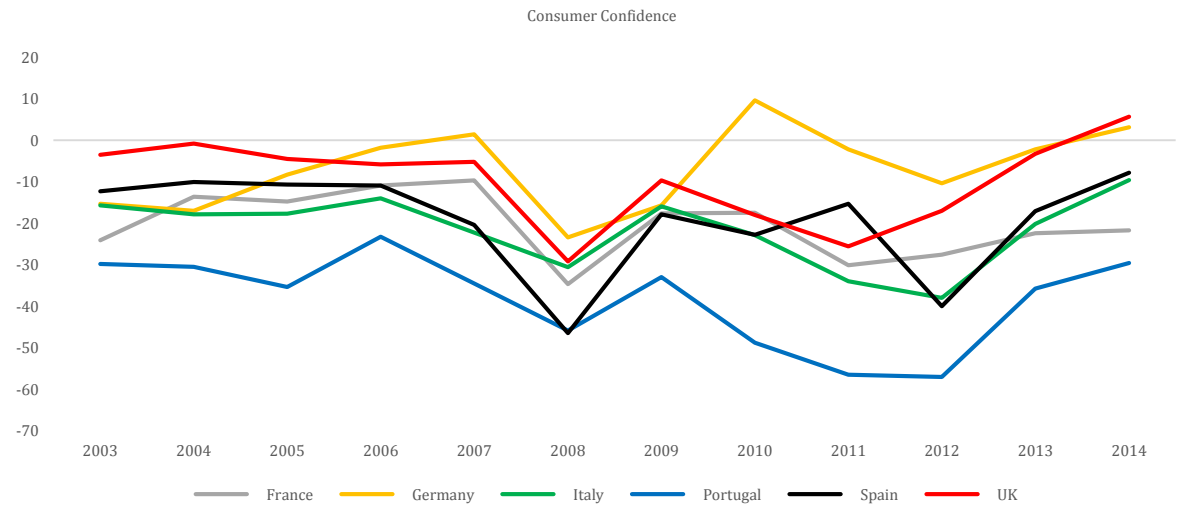


Chart 6 - Consumer Confidence in Bloomberg Points (Bloomberg 2014)

Again in the macroeconomic driver, Spain suffered the biggest impact alongside with Portugal, however after falling again in 2011; it has shown strength to reach 2014 only behind the UK and Germany, the usual strongest economies in this group.

Residential Permits

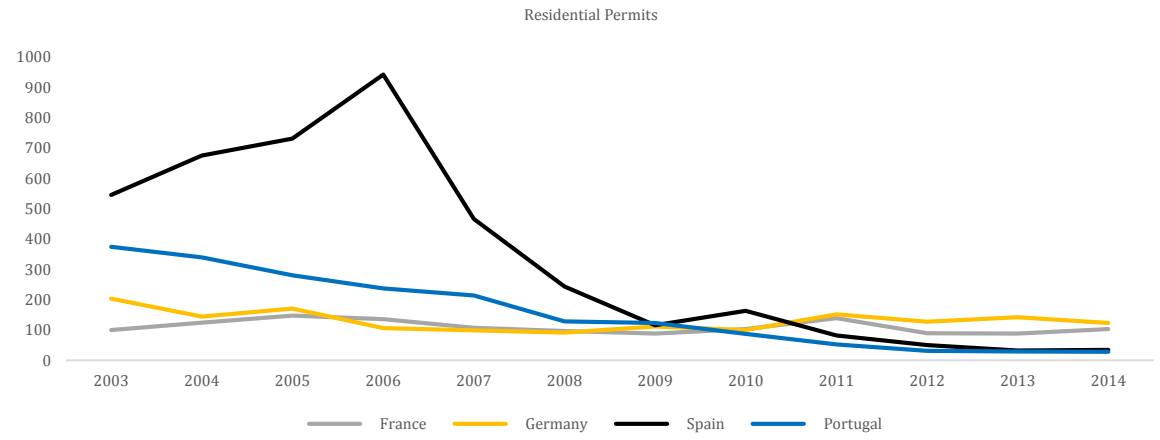


Chart 7 - Residential permits in thousands (Bloomberg 2014)

This macro driver can explain one of the problems that directly evolved from the financial crisis known as the Spanish real-estate bubble. The chart shows a maximum peak around 1000 in 2006, nearly 3 times more that Portugal with 300 for the same year. Since the financial crisis attacked in the periphery, Spain and Portugal have seen its level of new residential permits fall to nearly zero.

Inflation

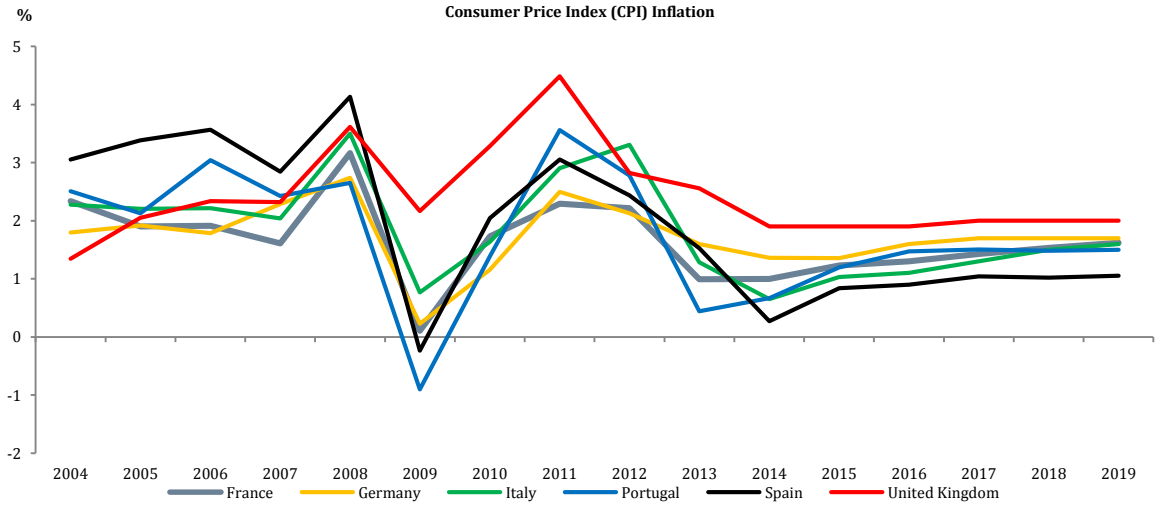


Chart 8 - Consumer Price Index YoY Variation % (International Monetary Fund 2014)

Inflation levels play a role of major importance in the macroeconomic landscape of each country. Being also a reflection of how healthy each economy is, among the six countries analyzed, Spain suffered the second greatest drop in inflation levels right after Portugal in 2009, being one of the factors that mostly influenced the drop in private consumption and consequently the revenues in the advertising industry. By 2014, Spain shows the lowest levels of inflation (0.3%) of the group, and it is expected to keep its place for the next five years. More precisely, Spain will be the only Eurozone country of the group that shows resistance in converging to the objective inflation level of 2%. IMF estimates that the stabilization of inflation levels will stabilize around 1%, which translates into a private consumption obstacle if incorrectly managed – negative inflation works as a psychological barrier for consumption at the moment, due to the fact that the consumer will wait until prices are cut lower, forming a snowball that in extreme events can lead to major companies bankruptcy and economy shutdown.

Advertising Intensity

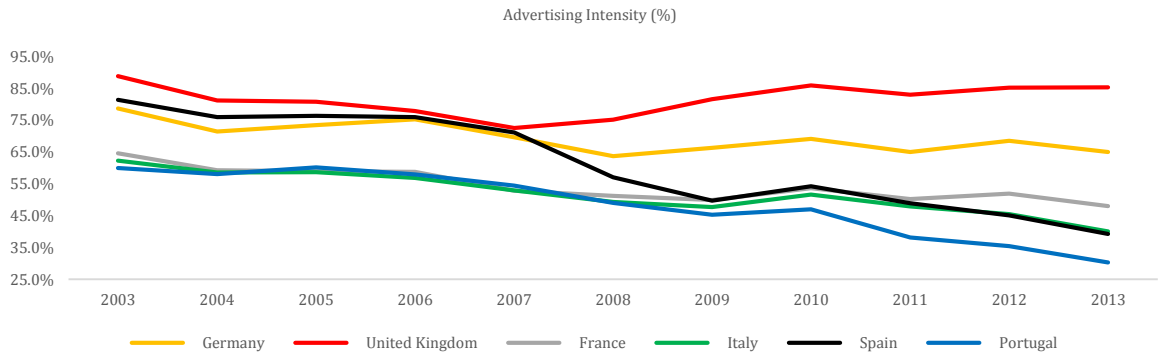


Chart 9 - Advertising Intensity or Advertising Annual Spending as % of GDP (Blomberg 2014)

Also known as percentage of Advertising Spend over GDP levels, it shows the dynamics of how much the advertising market is surpassing the GDP amount, also known as the major wealth indicator. The trend follows what the other macroeconomic drivers suggest, as the periphery countries still lag behind the UK and Germany, especially Spain that before crisis was among the Top3 markets in intensity and has lost nearly half of its value in the period 2007-2014.

Conclusion

The Spanish macroeconomic landscape is amongst the ones that suffered the biggest impacts of the financial crisis, resulting in a record level of unemployment and an all-time low level of residential permits. However its industrial production levels, as well as consumer confidence gives Spain a better perspective than Portugal and Italy, positioning Spain as the peripheral country with the largest set of tools to recover to pre-crisis levels faster. Its rising GDP growth supported by industrial output, gives room for the advertising intensity indicator to revert its tendency and approach its pre-crisis levels of 80%, being only dependent of the capacity of Spain in channeling its GDP gains over to private consumption.

THE ADVERTISING MARKET

Global Environment

In order to support the valuation and its assumptions, in this chapter we will see from a top down perspective how the advertising market has performed in the latest years using metrics and indicators for guidance.

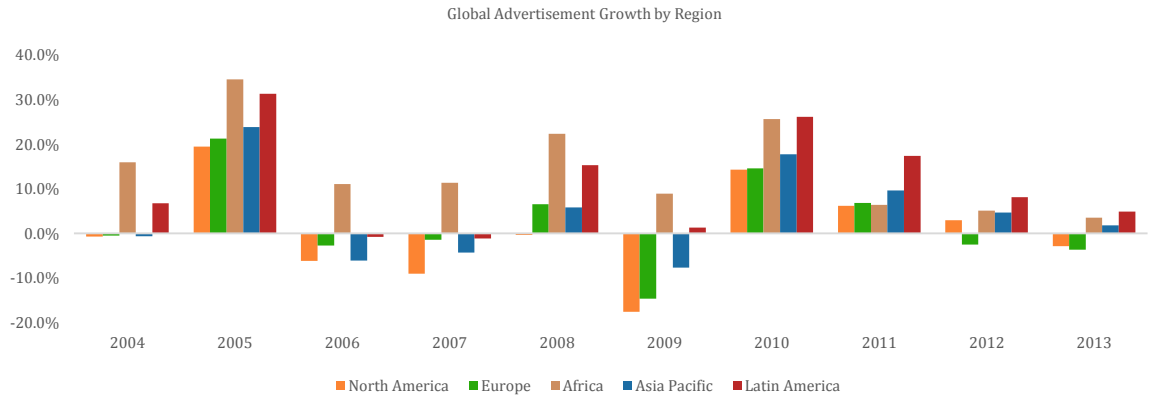


Chart 10 - Global Advertisement Spending Growth by Region (Bloomberg 2014)

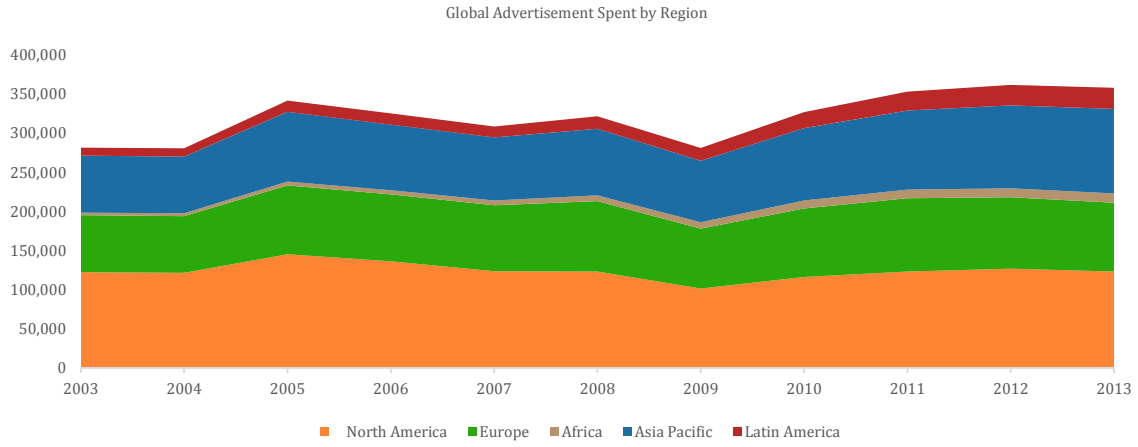


Chart 11 - Global Advertising Spending in Millions USD (Bloomberg 2014)

In the last 10 years, we can see from the chart above that by the end of 2013 the advertising spend levels are as near as the 2003 levels, due mostly to the spend increase in Latin America and Asia Pacific. The impact of the global financial crisis is clear when looking to the 2008-2009 period, in which Europe and North America suffered the highest impacts, giving Europe a nearly insignificant slice of the world's spending from 2009-onwards. From the relative year on year growth we can find that growth in the advertising spend has been rather volatile, especially penalizing North America and Europe which suffered the biggest impacts n 2009, but already in 2006 and 207

registered negative growth. Also, these two markets were never among the biggest growth markets for this period, indicating a mature and stabilized market structure, which even in the last 2 years haven't recorded a positive growth.

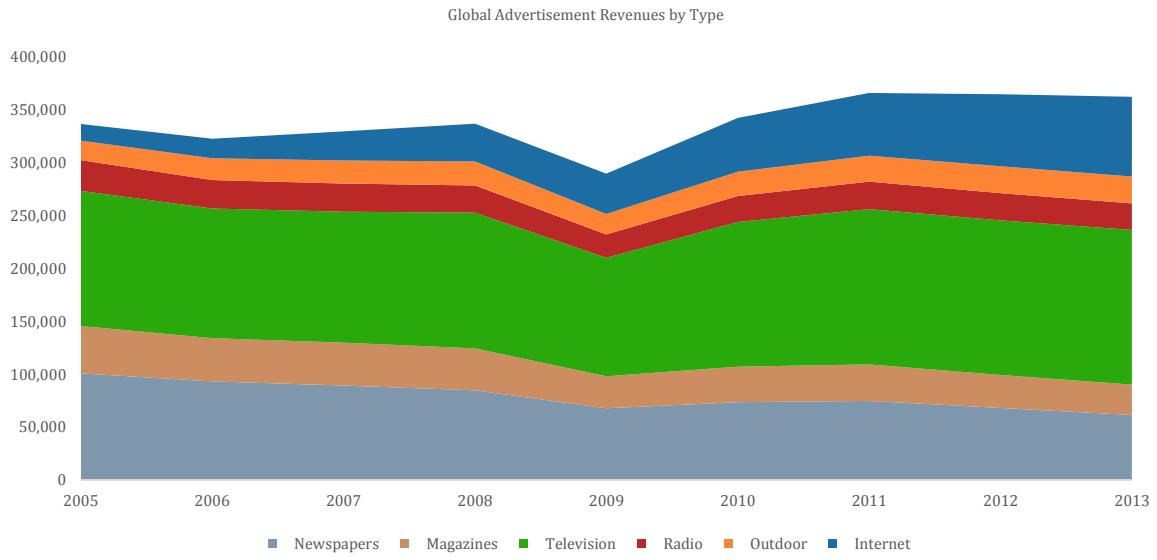


Chart 12 - Global Advertising by Type of Platform in Millions of USD (Bloomberg 2014)

In order to better see how the dynamics of these market have affected the way adverting spend has been channeled across the different platforms, one can observe by the charts above that since 2005 internet has conquered its space, gaining its share from radio, magazines and newspapers, this last one representing an almost insignificant slice of the total. Television advertising, the main business of Mediaset España, has however been somewhat resilient to this rotational effect, losing some space for internet, but remaining one of the top two platforms for advertising alongside internet, of whom it shares by the end of 2013 nearly half of the world's advertising, spend.

European Environment

As shown in the previous section, both North America and Europe have been the markets in which the financial crisis affected advertising spend with the highest impact, keeping its effect by the end of 2013 where both of these markets couldn't register positive growth. In order to better understand the dynamics of these changes, we will see closer how the European market has performed in the latest years. By analyzing both advertising spend in absolute and relative terms by country, as well as by platform, we shall get a clear image of how the latest changes in the European environment can affect the share price of Mediaset España.

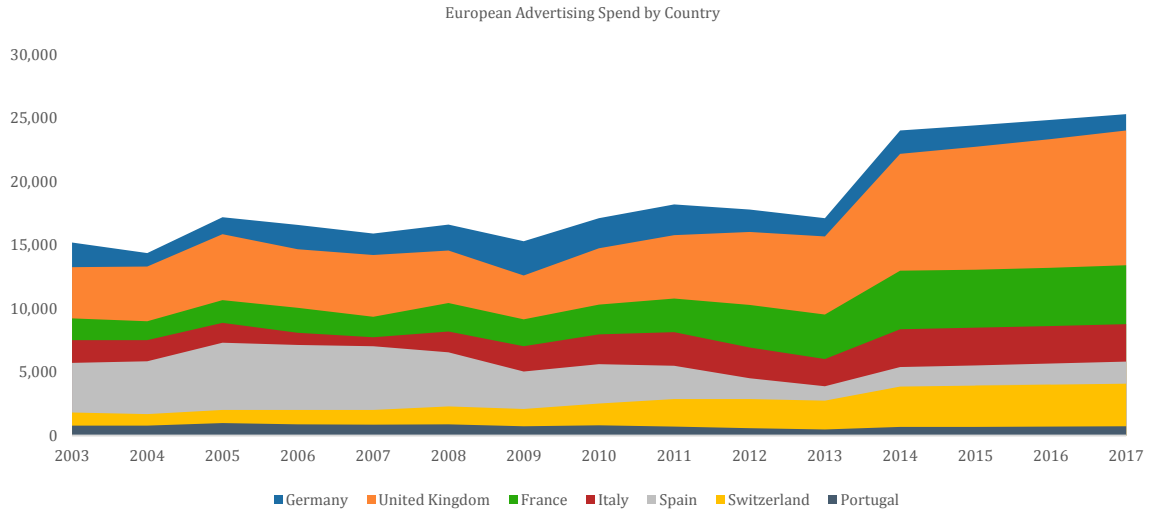


Chart 13 - Advertising Spending in Millions of Euros by Country (Bloomberg 2014)

Different trends can be spotted when comparing the advertising spend by European country. Starting with the highest performers, we can see a solid recovery in the advertising market by both the UK and Italy from the financial crisis up to higher levels than pre-crisis levels. In peripheral Europe, and giving the rather residual slice of the Portuguese market, one can see that Spain has not followed Italy and has lagged behind instead. In this chart we also incorporated the estimates for the 2014-2017 period by Magna Global, in which we can see that the recovery for Spain seems distant and nowhere near to its recent 2003-2010 period. These forecasts also project that most of the European growth will be driven by the UK and Italy, the two biggest markets by 2017.

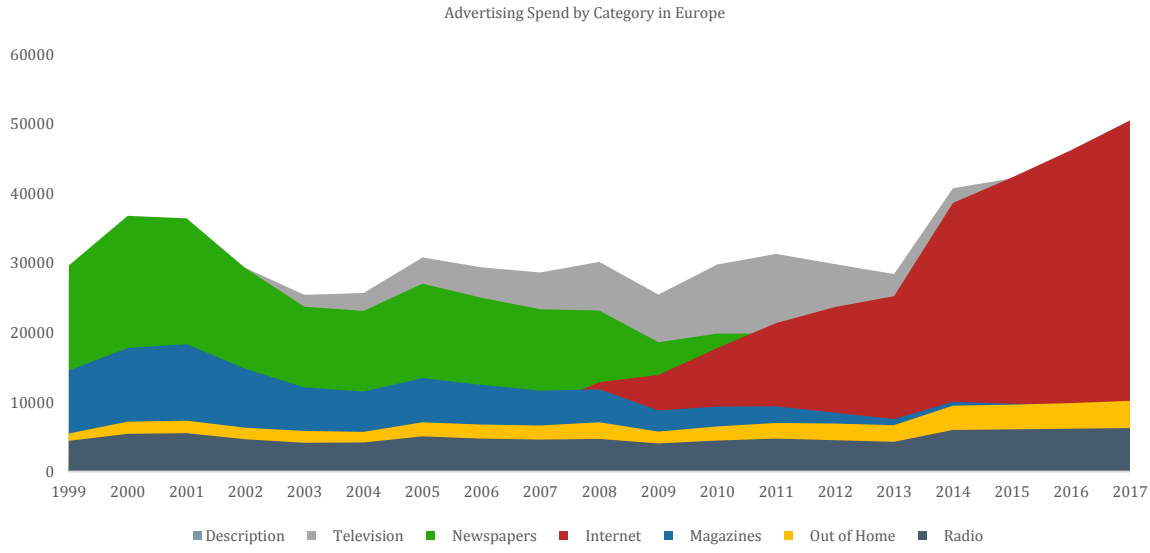


Chart 14 - Advertising Spending in Europe by Type of Platform in Millions of Euros (Bloomberg 2014)

When looking into an analysis by platform in Europe, we can spot the same trend as in the global section. Internet has conquered its space among the actual platforms and has set historical means of communication like newspapers and magazines to nearly insignificant levels. In fact, after incorporating the forecasts for the 2014-2017 period, one can clearly see the internet as the dominant platform, leaving only a residual place for radio (the dominant source of communication in mobile vehicles) and out of home. Television advertising is forecasted by Magna to become nearly insignificant in Europe after 2015.

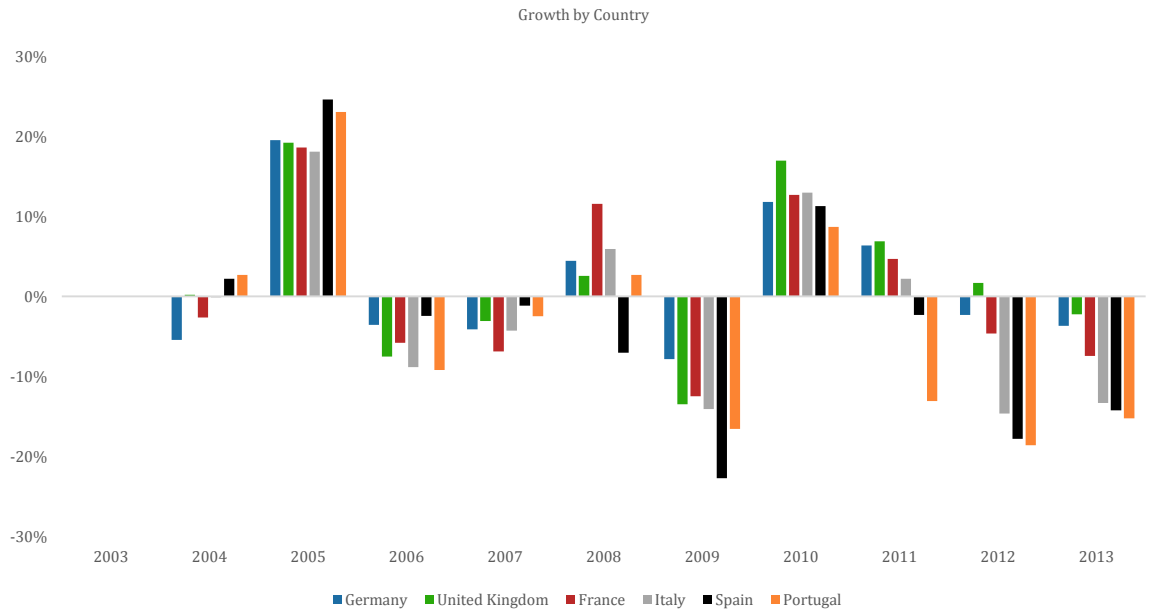


Chart 15 - Advertising YoY Growth by European Country (Bloomberg 2014)

After analyzing how did each of Spain's peers performed in the last 10 years, we can identify Spain as once the biggest growing market (by 2005) as now become alongside with the other peripheral countries of Portugal and Italy the markets registering the biggest contraction. Since 2011, the Spanish market hasn't accounted for a single positive growth, being 7 out of 10 years a market in contraction. This calls for the fact that even though Spain was one of the biggest advertising markets before 2009, it has not seen its improvements on consumer confidence and industrial output translated into the advertising market.

Spanish Environment

Coming logically from the previous sequence of the analysis regarding the global and European environment, we arrive at the Spanish market, which we can already conclude that compared with other similar markets as the Italian, German and British has seen better days. We will analyze a set of macro-economic variables in order to better understand how the Mediaset can be affect by its domestic market.

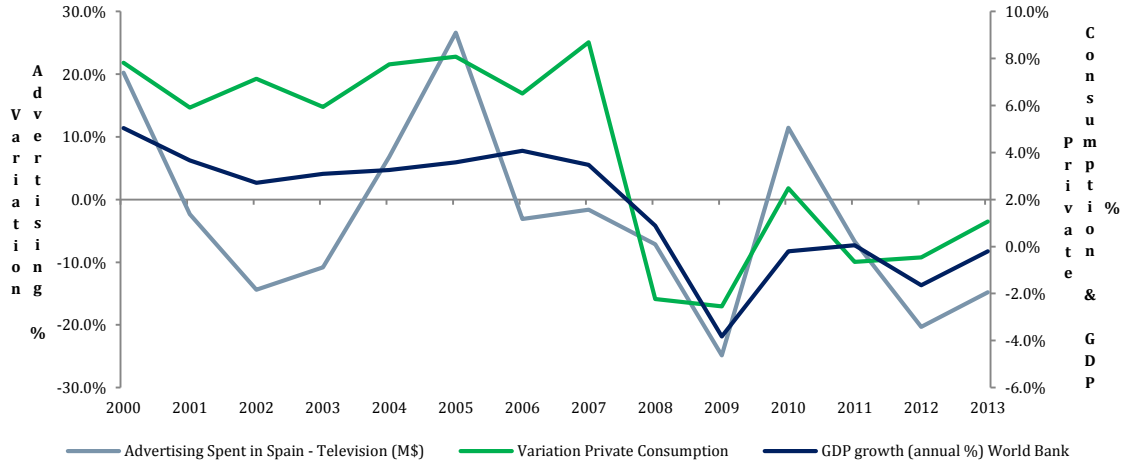


Chart 16 - Advertising Spent in Spain vs Variation in Private Consumption vs GDP YoY Growth (Bloomberg and World Bank 2014)

As previously mentioned before in this dissertation, the advertising market is directly linked to private consumption, which is consequently linked to the levels of domestic GDP. Following the idea, we can see that in the past 2 years, the Spanish macro-economic scenario has been improving, giving also space for the advertising spend levels to increase. It is therefore worth to highlight that even though in most recent years there is a tendency for improvement of the macro-economic conditions, the last 13 years have been quite volatile resulting from the global financial crisis in late 2007-2008, in which Spain as part of the peripheral Europe suffered the highest impact not only from its sovereign debt levels but also due to a real estate bubble. Proof of how difficult it is to predict to Spanish macro evolution, is the strong recovery in late 2009 followed by another deep contraction in 2010.

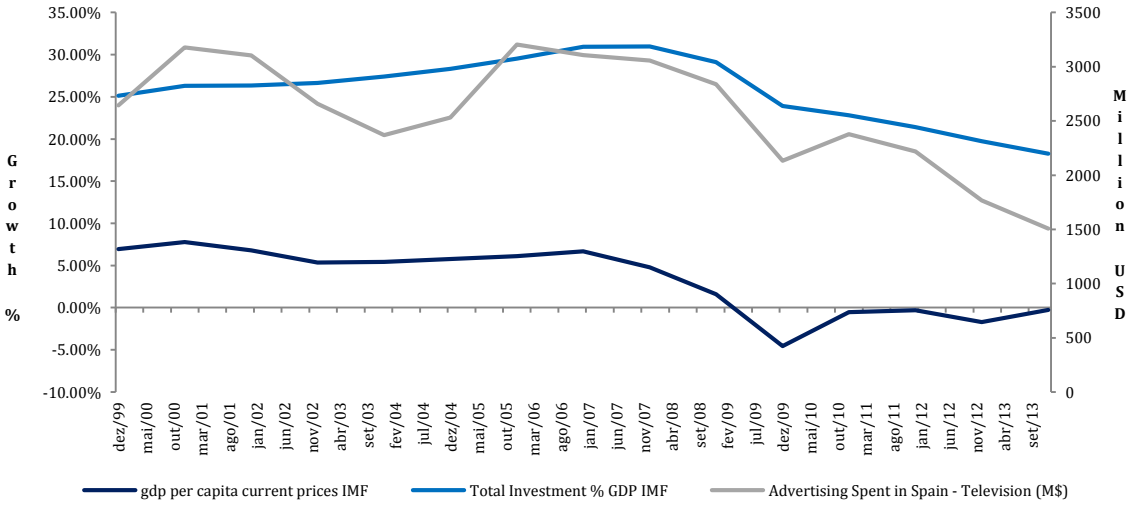


Chart 17 - GDP per Capita vs Total Investment as % of GDP vs Advertising Spending in Spain (Bloomberg and IMF 2014)

When comparing 3 major macroeconomic indicators like the total investment as percentage of GDP and the GDP per capita we can find both information about how much investment is being translated into wealth regarding the consumers' pocket. As the TV advertising market is directly correlated with the private consumption levels, we can confirm that even though the GDP per capita had a small increase in 2013, the advertising amount spent reached its low by the end of the same year for the period analyzed. Confirming the tendency that the advertising market is performing the worst since 1999, is the fact that even though GDP shows a slight tendency to finally grow in positive figures, the investment as percentage of the GDP has never been so low, and consequently there is no stimulus for advertising investment.

How to answer the question of even though the impact suffered by the financial crisis has affected the advertising market in general, how can this affect Mediaset España in particular, since it is dependent in its majority (an average of 97% of all Spanish revenue operations of Mediaset come from the advertising market) from the TV broadcasting advertising segment.

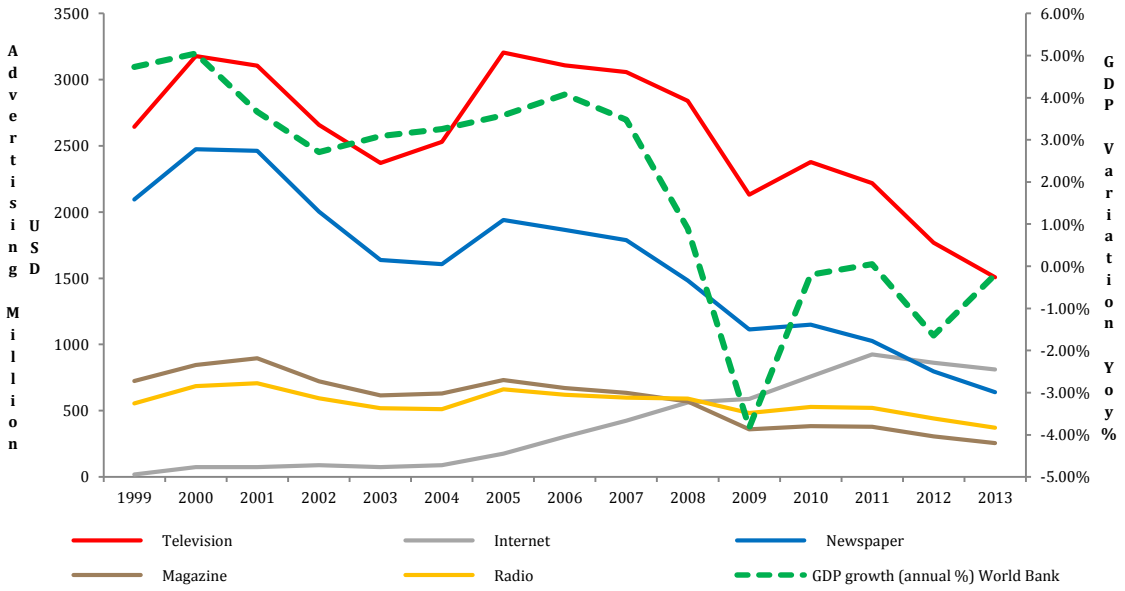


Chart 18 - Advertising Spending in Spain by Platform vs GDP Variation (Bloomberg and World Bank 2014)

According to the information gathered on this matter, TV advertisement is still the preferred platform as in the past, however once again it is clear the tendency for the internet to gain space as the second most preferred platform, gaining terrain even during the crisis period of 2007-2009 (grew 38% in this period). TV advertising on the other hand suffered one of the biggest contractions (-30% only surpassed by magazine -43% and newspapers -38%) and hasn't respond to the strong recovery of the Spanish GDP since 2012. It is finally conclusive that Mediaset España suffered the contraction of the Spanish advertising market, in particular the TV advertising market, continuing to be exposed and dependent in a large amount on the Spanish macro-economic framework and private consumption more specifically.

Audiences

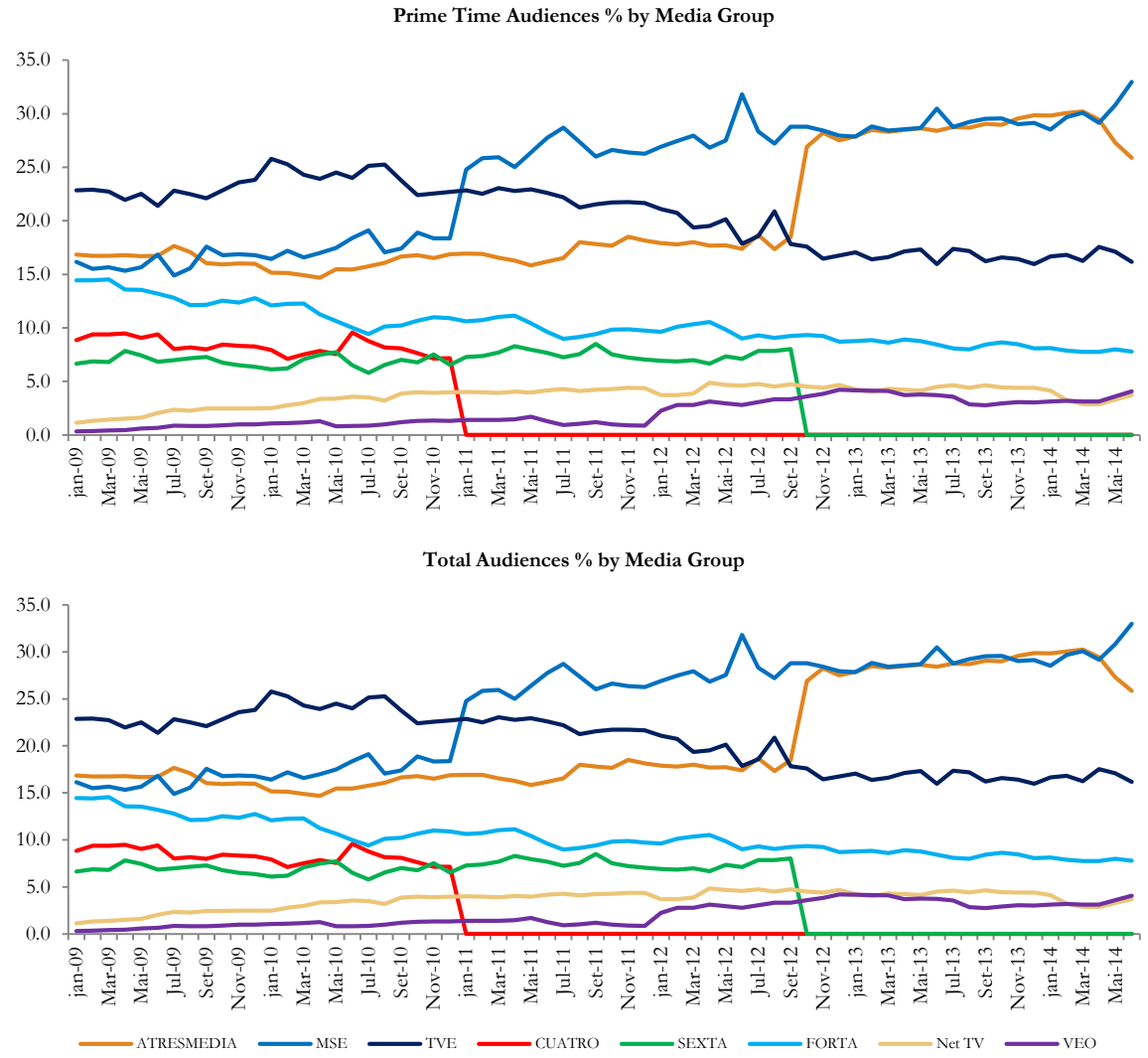


Chart 19 - Prime-Time and Total Audiences % by Media Group (A3Media 2014)

The audience split in Spain remains close to the advertising market share structure. Both Mediaset and A3media dominate the market, at nearly the double of the audience of the closest competitor –TVE. The correlation between both prime-time (defined as 20:30 – 00:00) and total audiences is nearly 1, giving the conclusion that most of the TV is watched during the night, in which Mediaset took the lead in May of this year. Another strong point from the TV industry in Spain, is how the consolidation wave in the 2011-2012 period affected the competition, resulting in both A3Media and Mediaset as TV advertising leaders with nearly 90% of market share after merging with La Sexta and Cuatro, respectively. Giving the actual positioning of Mediaset as audience leader, it is to expect that not only its operational efficiency is high, but also as a result, Mediaset might also benefit from a strong negotiation position, in which the prices can be raised, in order to capture a bigger slice of an estimated market growth for 2014-2025.

REGULATORY ISSUES

The Spanish Supreme Court has played a strong role in shaping the Spanish TV industry in the last years by executing specifically 2 veredicts which have lately affected the market share structure of both A3 and Mediaset (vertele.com):

1. **"The DTT Scandal** resulted in the order by the Supreme Court for the closure of 9 DTT channels, 3 from A3Media, 2 from Mediaset, 2 from Net TV and 2 from Veo TV. On the basis of this scandal were the illegalities in the allocation process of the DTT licenses. The decision was initially ruled in November 2012; however UTECA (the entity representing the interests of commercial broadcasters) filed an appeal to overrule the definition of 9 illegal DTT licenses, attributed to the broadcasters without public tender process, which goes against the principles of the Spanish audiovisual law. The channels with order to leave the platform are La Siete and Nueve from Mediaset; Nitro, Xplora and La Sexta 3 from A3Media, AXN, Veo TV, Net TV and Marca TV. The full list of the DTT roster is presented in the appendix. The source of the dispute was related to the digital dividend system, (790-862 MHz spectrum), which was supposed to be allocated through an auction, one year after the direct allocation of the DTT licenses by the Spanish Government in 2010. Another sensitive subject, was the cost of removing the DTT networks already broadcasting in the frequency range before the allocation process, which was translated also in a confusing scheme, in which regional governments were expected to take the 8000 million euros bill. However due to the economic crisis and budget restrictions the rose in consequence, the Spanish government refused to take the expense of the broadcasting migration to DTT, setting as alternative the cost absorption to be executed by the broadcasters. The broadcasting spectrum auction was then executed in July 2011, before the new elected government took the power in November 2011 and cancelling the process due to the budget restrictions. The Supreme Court decision will not only force 9 channels to be closed, but also the design of a new DTT map, where the spectrum shall be enlarged to players such as Telefonica, Orange and Vodafone, that will be given the opportunity to expand its 4G network within the DTT platform. The effects of this decision are a controversial issue. According to public data, DTT is the leading platform in Spain, accounting for 75% of the market, which will suffer structural changes not only to its competitive dynamics, but also to its content which comes out weakened. Besides the 9 channels with order for stop broadcasting on DTT, other 9 channels have been either extinct or migrated to other platforms, since the DTT migration in April 2010".

2. **"In July of 2013, The Spanish Supreme Court ruled out Mediaset's appeal for the restriction of the 12 minute publicity time per hour of clock**, instead of the "moving hour" system proposed by Mediaset. This mean that by every hour (21:00 to 22:00 for example), every channel is limited up to 12 minutes of advertising time, instead of the "moving hour" scheme, due to monitoring and control efficiency, which in Mediaset's appeal, means "less flexibility" for the broadcasters to scale up its advertising schemes".

Both this measures can set up barriers to future investment in the Spanish TV industry, by not only reducing the content available for DTT viewers, but also causing a new DTT monetary investment in 2015, which would be allocated to the viewer, without any improvement in the service. Mediaset shall have a reduced impact from this measure, since both the channels closed had the lowest audience rates of the portfolio and also the DTT network.

OPERATIONAL HIGHLIGHTS AND PEER COMPARISON

In order to understand how Mediaset has performed recently against its closest peers, the following indictors will be analyzed. The objective of this section is to provide insights on how Mediaset numbers will be converging to the valuation results.

Values in millions of Euros	2007	2008	2009	2010	2011	2012	2013
Sales							
Atresmedia	937.6	767.5	650.7	773.3	778.7	712.8	795.8
Mediaset España	**1066**	**947**	**630**	**848**	**963**	**819**	**819**
Societe Television Francaise 1	2738.9	2594.7	2364.7	2622.4	2619.7	2215.2	2085.1
Telecom Italia Media SpA	263.1	214.8	227.3	258.5	238.189	222.7	72.2
Operating Expenses							
Atresmedia	699.8	686.0	639.9	666.7	696.6	718.3	766.9
Mediaset España	**616.0**	**594.2**	**540.3**	**658.7**	**820.4**	**824.0**	**756.6**
Societe Television Francaise 1	2433.7	2418.2	2263.4	2392	2336.8	2014.9	1938.6
Telecom Italia Media SpA	393.5	316.6	297.8	308.9	294.8	335.6	73.9
Personnel Expenses							
Atresmedia	137.7	135.4	134.9	128.8	123.2	120.3	110.9
Mediaset España	**84.9**	**89.2**	**79.5**	**89.9**	**116.6**	**109.3**	**104.9**
Societe Television Francaise 1	449	450.5	449.6	443.1	419.9	352.9	353.2
Telecom Italia Media SpA	78.7	73.4	63.6	60.9	60.7	67.4	65.2
Number of Employees							
Atresmedia	2316	2299	1873	1895	1816	1705	1777
Mediaset España	**1194**	**1163**	**1009**	**1200**	**1390**	**1360**	**1285**
Modern Times Group AB	2381	2644	2936	2651	3031	3191	3361
Telecom Italia Media SpA	944	889	719	733	728	699	753.6
Sales per Employee							
Atresmedia	404.8	333.8	347.4	408.1	428.8	417.9	447.9
Mediaset España	**892.7**	**814.6**	**624.5**	**707.0**	**693.0**	**602.3**	**637.2**
Societe Television Francaise 1	1741.2	1689.3	650	690.5	635.5	555.2	1274.5
Telecom Italia Media SpA	278.7	241.6	316.1	352.6	327.2	318.6	311.2
Operating Margin (%)							
Atresmedia	33.7	19.2	9.8	18.2	13.9	3.2	7.9
Mediaset España	**45.5**	**40.8**	**19.5**	**25.9**	**17.1**	**6.0**	**8.6**
Societe Television Francaise 1	11.1	6.8	4.3	8.8	10.8	9.0	7.0
Telecom Italia Media SpA	-44.5	-45.1	-29.7	-17.9	-12.7	-48.4	2.6
EBITDA Margin (%)							
Atresmedia	35.6	21.4	12.5	20.3	16.0	5.5	10.1
Mediaset España	**63.6**	**60.6**	**46.3**	**43.9**	**42.3**	**33.6**	**32.0**
Societe Television Francaise 1	14.4	10.5	9.1	12.2	14.0	12.2	10.1
Telecom Italia Media SpA	-21.0	-16.6	-3.2	5.1	11.8	-19.9	41.9

Table 2 - Operational Data of Mediaset and its Peers (Bloomberg 2014)

Multiples (Set 1) Peer Group Analysis

Name	Currency	Price / Earnings		Earnings	Price /
		2014e	2015e	Growth 15e (%)	Book
MEDIASET ESPAÑA	**EUR**	**37,5**	**19,5**	**92,5**	**2,4**
PEARSON PLC	GBp	17,6	15,1	16,5	1,7
RTL GROUP	EUR	16,9	16,0	5,3	4,0
PROSIEBEN SAT.1 MEDIA AG-REG	EUR	15,5	14,0	10,4	15,9
WOLTERS KLUWER	EUR	13,2	12,5	6,2	3,8
JC DECAUX SA	EUR	24,3	20,8	17,1	2,3
AXEL SPRINGER SE	EUR	20,3	18,4	10,6	1,8
DAILY MAIL&GENERAL TST-A NV	GBp	15,9	14,8	7,9	12,9
INFORMA PLC	GBp	12,8	12,6	1,8	2,6
ATRESMEDIA CORP DE MEDIOS DE	EUR	29,7	19,5	52,4	5,6
TELEVISION FRANCAISE (T.F.1)	EUR	24,9	16,0	56,1	1,3
MODERN TIMES GROUP-B SHS	SEK	13,9	11,9	16,7	3,7
UBM PLC	GBp	13,6	12,4	10,3	7,2
TVN SA	PLN	16,7	13,8	20,7	5,0
CTC MEDIA INC	EUR	11,4	11,1	2,5	-
Average Ex. Mediaset		*17,6*	*14,9*	*16,7*	*5,2*

Name	Price /	Total Debt	Net Debt	EV	Dividend
	Sales	/Assets	/EBITDA	/EBITDA	Yield (%)
MEDIASET ESPAÑA	**4,1**	**0,0**	**-0,5**	**23,8**	**2,0**
PEARSON PLC	1,9	27,1	3,3	13,7	4,4
RTL GROUP	2,1	7,5	0,0	9,7	6,8
PROSIEBEN SAT.1 MEDIA AG-REG	2,5	60,6	2,7	10,7	5,2
WOLTERS KLUWER	1,7	39,7	2,4	9,6	3,5
JC DECAUX SA	2,3	16,3	0,1	9,7	1,9
AXEL SPRINGER SE	1,5	15,2	-	9,6	4,1
DAILY MAIL&GENERAL TST-A NV	1,8	32,0	2,2	10,9	2,4
INFORMA PLC	2,7	30,0	0,8	9,7	3,8
ATRESMEDIA CORP DE MEDIOS DE	3,1	19,2	1,2	20,7	2,6
TELEVISION FRANCAISE (T.F.1)	1,3	2,7	-2,8	11,2	4,4
MODERN TIMES GROUP-B SHS	1,2	13,3	1,0	11,6	4,2
UBM PLC	2,0	41,9	2,6	11,2	4,4
TVN SA	3,2	64,7	3,4	12,6	1,4
CTC MEDIA INC	-	0,3	-0,7	5,9	7,2
Average Ex. Mediaset	*2,1*	*26,5*	*1,2*	*11,2*	*4,0*

Table 3 - Mediaset's Peer Group Multiples 1 (Bloomberg 2014)

Mediaset differentiates itself from its peers by, presenting not only the biggest earnings growth estimated for 2015 (92.5%), but also for its lower than average price-to-book, third biggest cash pile over EBITDA and by being the only company with total debt over assets as zero.. The operational highlights, together with the next year multiples, suggest that Mediaset positions itself as probably the best company in the sector to extract value from its increasing domestic macroeconomic conditions.

Multiples (Set 2) Peer Group Comparison (Sorted by Descending Market Share)

Name	Current PE	Est P/E Next Yr	EV/EBITDA Current Yr	EV/EBITDA Next Yr	Market Cap	P/FCF	FCF Yield	Dividend Yield
RTL Group SA	16,83	15,99	9,7	9,26	12.460.398.097,00 €	11,98	8,35	--
Pearson PLC	17,79	15,27	13,89	12,14	11.665.414.349,54 €	25,69	3,89	4,29
ITV PLC	16,06	14,52	11,78	10,66	10.634.088.576,05 €	18,86	5,3	1,79
ProSiebenSat.1 Media AG	15,51	14,05	10,71	10,13	6.792.559.082,03 €	5,08	19,69	--
Wolters Kluwer NV	13,24	12,46	9,59	9,16	6.246.243.529,91 €	12,74	7,85	3,38
JCDecaux SA	23,93	20,43	9,53	8,55	5.730.728.499,20 €	30,44	3,29	--
Axel Springer SE	20,36	18,41	9,61	8,81	4.446.858.300,00 €	14,72	6,79	--
Daily Mail & General Trust PLC	16,05	14,87	10,98	10,39	4.010.982.334,82 €	12,22	8,18	2,25
Informa PLC	12,91	12,69	9,74	9,6	3.868.229.121,19 €	13,28	7,53	3,68
Mediaset España	**37,03**	**19,374**	**23,74**	**14,44**	**3.413.170.739,48 €**	**13,1**	**5,92**	**2,046**
Atresmedia Corp de Medios de C	29,37	19,27	20,47	13,84	2.505.994.784,64 €	32,08	3,12	--
Societe Television Francaise 1	24,86	15,92	11,2	7,85	2.396.304.975,98 €	87,43	1,14	--
Modern Times Group AB	13,92	12,02	11,37	9,81	1.965.187.818,46 €	--	--	--
UBM PLC	13,76	12,47	11,25	10,43	1.963.864.259,60 €	16,39	6,1	4,26
TVN SA	16,75	13,69	12,48	11,07	1.186.932.273,50 €	27,67	3,61	--
CTC Media Inc	11,17	10,9	5,73	5,69	1.113.253.718,16 €	8,2	12,19	7,08
Average Ex. Mediaset	***17,50***	***14,86***	***11,20***	***9,83***	***5.132.469.314,67 €***	***22,63***	***6,93***	***3,82***

Table 4 - Mediaset's Peer Group Multiples 2 (Bloomberg 2014)

Conclusions

Mediaset stands out from its peers by showing strong numbers, especially in the average sales per employee, EBTIDA margin and operating margin. Being more focus on the comparison with A3Media, who is Mediaset's direct opponent in the domestic market, the differentiation is clear and supports the thesis that Mediaset is the better company of the two, operationally speaking. Mediaset in 2013 presents higher sales, lower operational expenses, lower personnel expenses and a higher ratio of sales per employee. Relatively to the other two companies, TF1 is a much bigger company, and plays the role of establishing a roof in this comparison, by showing that the biggest company of the 4 does not present the best margins. Telecom Italia plays the role of establishing a bottom in this analysis, by showing that operating a different sub-sector in advertising (more telecom-oriented), also has its differences, especially by registering the biggest EBITDA margin, while being the smallest company of the 4. Relative to its total peer group, both Spanish companies Mediaset and A3media stand out from the basket with the highest multiples, more specifically in the current year. This can be explained by the completely different cycle, in which the Spanish advertising market currently is. When we compare the variation estimated for the next year, the drop in these multiples can be explained by the massive recovery expected for the Spanish advertising market, while other European markets show signs of mature life cycles, and hence, lower multiples. In this bigger group, Mediaset stands out by showing rather interesting FCF multiples, which fundamentals support as being the biggest weapon of its business model, creating therefore an investment opportunity by aligning these low multiples together with the performance estimated growth for the next year..

Forecasts

So far in this dissertation we have observed how the external environment and more specifically the advertising market in the media have evolved in the last years. In order to achieve a complete and concrete valuation, one must look into the future and analyze possible forecasts that might influence any change in the value of Mediaset España.

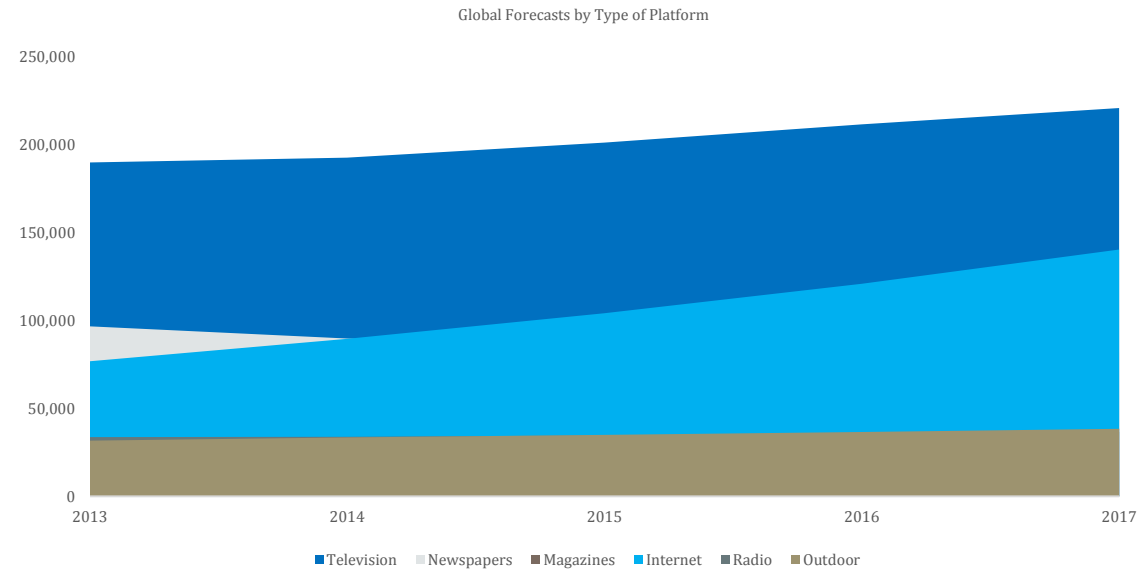


Chart 20- Global Forecasts by Type of Platform in Millions of USD (Bloomberg 2014)

Globally, the average forecasts gathered by Bloomberg Intelligence indicate that the trend identified in this dissertation from late 2007 about internet gaining its space among "traditional platforms" as the preferred platform for advertising investment is indeed expected. Above one can observe that television will not suffer a major impact from this internet conquest, instead magazines and newspaper advertising will be near extinction. By 2017 the picture couldn't be clearer: internet will dominate the industry as the preferred platform for advertising, while TV will somehow maintain its share.

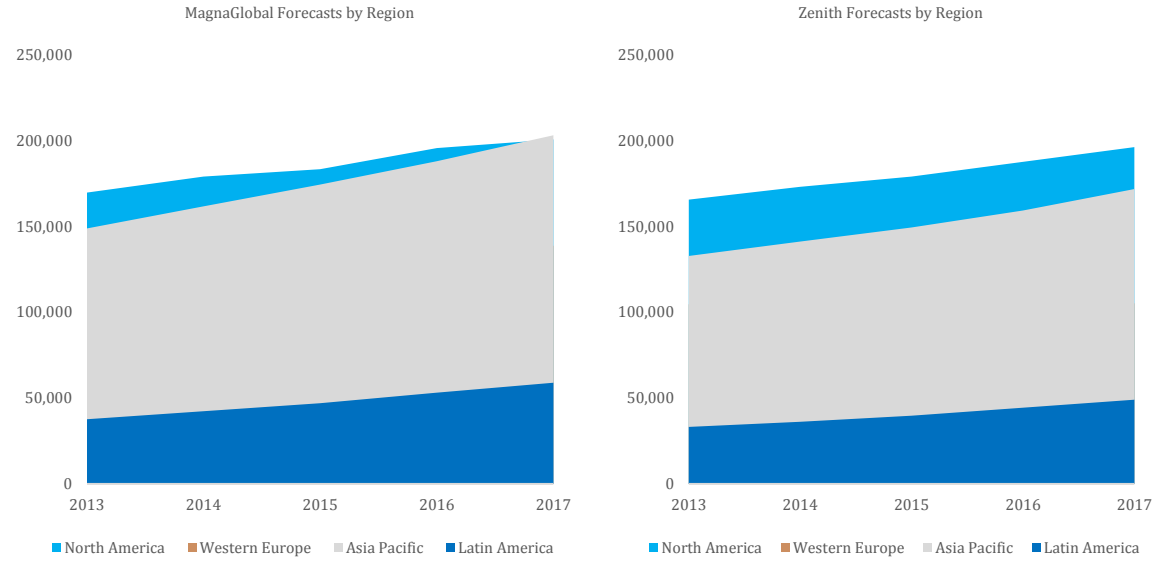


Chart 21 - Global Forecasts by Type of Platform and Data Analyst in Millions of USD (Bloomberg 2014)

Continuing into a perspective by region of the globe, we can find that Western Europe keeps its residual slice of the global market (it will be analyzed in detail ahead in this section), and moreover, both sources of estimates provide different perspectives on how the market will evolve in the next 4 years.

While Magna Global bets on the sudden growth of the Asia Pacific region, Zenith predicts a more stable outcome, keeping North America with a small contraction on its market, opposite to the residual contribution of the same market by 2017 for Magna Global. The disagreements also include Latin America, in which Magna sees as also one of the biggest growth globally at the expense of North America, while Zenith predicts a steady and less exponential increase. Resuming, even though both companies present a different outcome for this estimates, the picture is quite clear in what North America and Western Europe will be expected to face: a contraction of its advertising market while emerging markets like Asia Pacific (excluding Japan) and Latin America keep on getting the confidence of the advertisement investors.

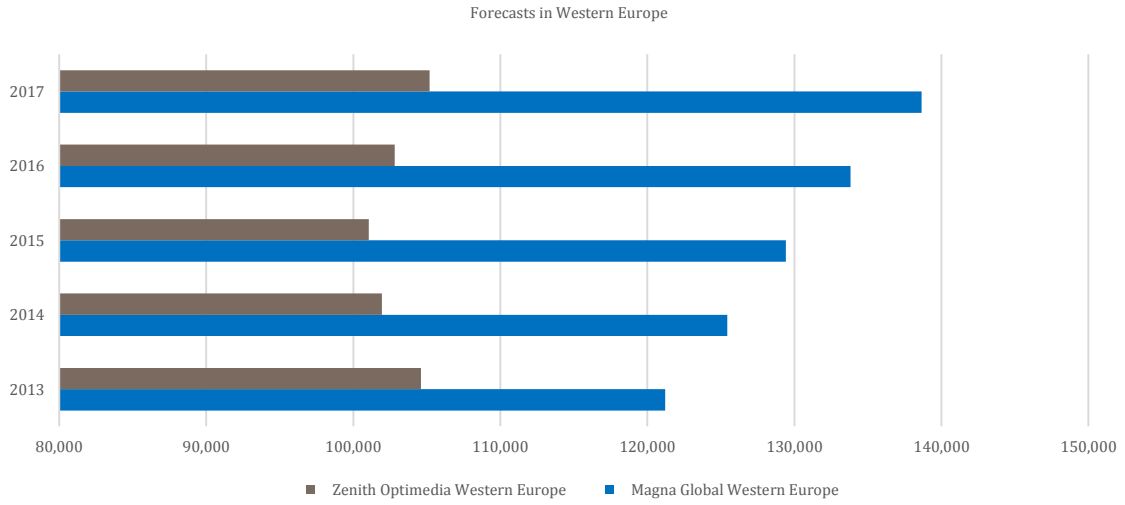


Chart 22 - Forecasts in Western Europe by Data Analyst in Millions of Euros (Bloomberg 2014)

Starting with the forecasts for Western Europe by the two major information consulting companies in advertising globally, we can see that Magna Global bets on an exponential growth for Western Europe in the 2013-2017 timeline. Moreover we can find that even though both companies have significantly different views on this market, we can still find more differences when one observe its year on year estimated growth.

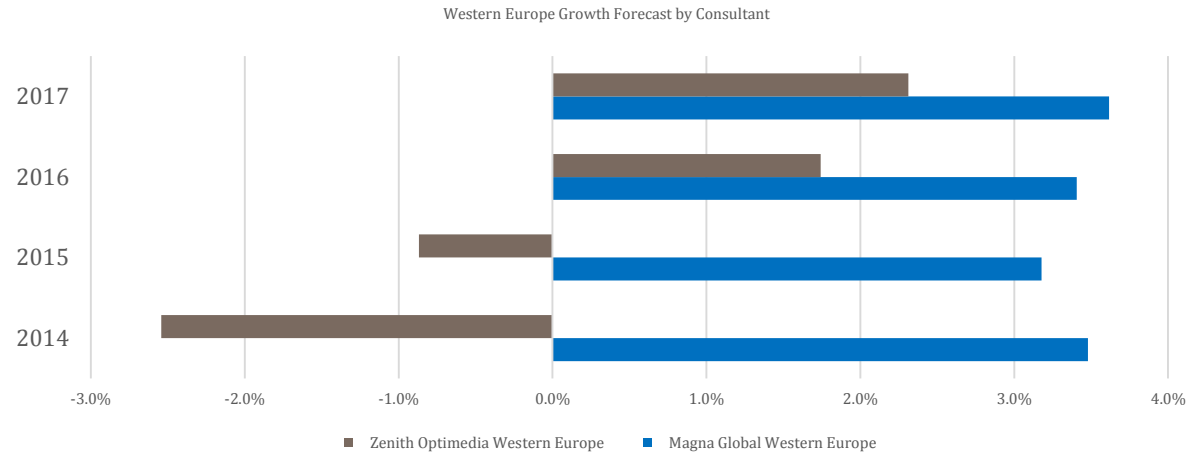


Chart 23 Annual Growth Forecasts % in Western Europe by Data Analyst (Bloomberg 2014)

In fact, Magna Global only predicts that Western Europe will grow by 2016, predicting a contraction of 2,5% for 2014 and 0,9% for 2015. These estimates contrast massively with Zenith's, which estimates a growth for the same period 2013-2017 never under 3%. Being Spain one of the most important markets in Western Europe alongside Italy, the UK and France, the estimates shown above will be used as guidance for the assumptions needed for the valuation of Mediaset España, with more details in the chapter "Valuation Overview".

Valuation Overview

BACKGROUND

Mediaset España is a Spanish TV Operator, where most of its revenues are gathered through advertising. The Spanish TV advertising market is centered nowadays in Mediaset and in A3Media, having each of these companies a market share around 45%. Being a TV advertising business, its dynamics are around its capability of generate TV advertising revenues (more than 90% of its net revenues), and keep control of its costs, mostly linked to the broadcasting of events and both staffing and TV tights amortization. For this reason, the three drivers identified to serve as basis for this valuation are: TV advertising revenues, Staff costs, TV rights amortization and in-house production costs. Mediaset also operates a set of participations in other media players, usually accounting for 5% of total revenue. Since these participations are in the same sector as Mediaset, and also due to the low impact on total revenue, these participations will be evaluated all in conjunction under the same set of assumptions as Mediaset. Being a TV advertising company, most of its performance is linked to the GDP growth rate, which is the standard indicator of wealth locally. This will serve as prime assumption for revenue projections. At the moment, 2013 marks the end of GDP negative growth, being projected by several sources a positive GDP Growth for 2014. Even though, due to the cyclicality of this business and also to the latest macroeconomic changes, most of the lifecycle used for assumptions will be based on the last 4-5 years.

VALUATION METHOD

Being a cyclical company, dependent most of the times on the performance of the local GDP, Mediaset was evaluated in this model according to the section "Valuating Cyclical Companies" which was based on the 2009 paper "Ups and Downs: Valuating Cyclical and Commodity Companies" by Aswath Damodaran. The inputs to this methodology are based on Mediaset's organic development and a global financial occurrence in 2008-2013.

Acquisition of Cuatro and the Financial Crisis

The acquisition of the Cuatro Channel was approved by the Spanish Regulator in October 2010, however its inclusion into Mediaset's portfolio started in late 2009. For this reason, we acknowledged two effects as outcomes of this operation: less operational costs and a higher market share resulting from the absorption of Cuatro's market share. This operation was made through an exchange of shares (18% of Mediaset's capital), being therefore of a residual impact in any cash flow related to it. Already mentioned in the industry chapter, the financial crisis was a major macroeconomic event affecting capital markets all around the world. The TV advertising was one of the sectors most affected as concluded in the industry chapter, and for this reason the Cycle from 2008-Onwards will be defined as the "financial crisis" period and will serve as a milestone in the definition of the cyclicality of Mediaset. Following the literature in this case, a standard DCF using free cash flows to the firm discounted at a weighted average cost of capital was used to calculate the fair value of Mediaset's price per share, based on estimation for the implicit period of 2014-2025.

REVENUE PROJECTIONS AND DRIVERS

REVENUES	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
TV	767	787	866	947	991	1.071	1.168	1.242	1.300	1.343	1.372	1.397	1.425
other	35,0	35,9	39,5	43,2	45,2	48,9	53,3	56,7	59,3	61,3	62,6	63,8	70,8
Gross Adv. Revenues	802	822	905	990	1.036	1.120	1.221	1.299	1.359	1.405	1.435	1.461	1.623
Discounts	(36)	(37)	(41)	(44)	(46)	(50)	(55)	(58)	(61)	(63)	(64)	(66)	(73)
Net revenues	**766**	**786**	**865**	**946**	**989**	**1.070**	**1.166**	**1.240**	**1.298**	**1.342**	**1.370**	**1.396**	**1.551**
Other revenues	60	61	62	63	64	65	66	67	69	71	72	74	75
Cost of sales	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Group revenues	**826**	**846**	**926**	**1.008**	**1.053**	**1.135**	**1.232**	**1.308**	**1.367**	**1.412**	**1.442**	**1.469**	**1.628**
% Change													
Spain GDP	*-1,2%*	*1,0%*	*1,5%*	*1,6%*	*1,7%*	*2,0%*	*1,9%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*
Net TV GDP +/- (bps)	*(382,73)*	*150,35*	*856,09*	*778,12*	*289,27*	*619,03*	*715,50*	*416,08*	*245,17*	*114,61*	*(6,19)*	*(35,80)*	*179,40*
TV	-6,1%	2,5%	10,1%	9,4%	4,6%	8,1%	9,0%	6,4%	4,7%	3,3%	2,1%	1,8%	4,1%
other	-13,7%	2,5%	10,1%	9,4%	4,6%	8,1%	9,0%	6,4%	4,7%	3,3%	2,1%	1,8%	4,1%
Gross Adv. Revenues	-6,5%	2,5%	10,1%	9,4%	4,6%	8,1%	9,0%	6,4%	4,7%	3,3%	2,1%	1,8%	4,1%
Discounts	-4,7%	-4,7%	-4,7%	-4,7%	-4,7%	-4,7%	-4,7%	-4,7%	-4,7%	-4,7%	-4,7%	-4,7%	-4,7%
Net revenues	**-5,0%**	**2,5%**	**10,1%**	**9,4%**	**4,6%**	**8,1%**	**9,0%**	**6,4%**	**4,7%**	**3,3%**	**2,1%**	**1,8%**	**4,1%**
Other revenues	-25,0%	1,0%	1,5%	1,6%	1,7%	2,0%	1,9%	2,2%	2,2%	2,2%	2,2%	2,2%	2,3%
Group revenues	**-6,8%**	**2,4%**	**9,5%**	**8,9%**	**4,4%**	**7,8%**	**8,6%**	**6,1%**	**4,5%**	**3,3%**	**2,1%**	**1,9%**	**4,0%**

Table 5 - Revenue Projections in Millions of Euros

The strongest input to Mediaset's profitability is, like in many other cases its capacity to generate revenues. In this case, it is predicted by this model that after a period of contractions since 2008 (inception of the financial crisis), Mediaset's TV revenue will grow at the same pace as the Spanish GDP – its main driver. Items like "other revenues" and "other TV revenues" were set to grow at the same rate as "TV revenues" and "Real GDP Growth – Spain". The item "discounts" was set fixed relative to 2013.

Industry data	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
GDP in Euros	1.015	1.025	1.041	1.058	1.076	1.097	1.117	1.142	1.167	1.192	1.219	1.245	1.273
Real Growth of GDP - Spain	*-1,2%*	*1,0%*	*1,5%*	*1,6%*	*1,7%*	*2,0%*	*1,9%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*
TL5 EBIT margins	8,5%	8,7%	11,6%	13,9%	15,7%	19,5%	22,8%	24,1%	24,6%	24,5%	23,3%	21,8%	20,4%
TL5 ad revs as % GDP	0,05%	0,05%	0,06%	0,06%	0,06%	0,07%	0,07%	0,08%	0,08%	0,08%	0,08%	0,08%	0,08%
TV advertising as % of GDP	0,17%	0,17%	0,19%	0,20%	0,20%	0,22%	0,23%	0,24%	0,25%	0,25%	0,25%	0,25%	0,25%
TV advertising	1.703	1.760	1.931	2.098	2.195	2.383	2.594	2.756	2.886	2.984	3.047	3.103	3.165
YoY Evolution		**3,4%**	**9,7%**	**8,6%**	**4,7%**	**8,6%**	**8,8%**	**6,3%**	**4,7%**	**3,4%**	**2,1%**	**1,8%**	**2,0%**
T5 share of TV ad market	**45,8%**	**44,7%**	**44,8%**	**45,2%**	**45,1%**	**44,9%**	**45,0%**	**45,1%**	**45,0%**	**45,0%**	**45,0%**	**45,0%**	**45,0%**
IMF Estimates GDP Growth		*0,87%*	*0,96%*	*1,13%*	*1,17%*	*1,21%*	*1,27%*						
OECD		*1,0%*	*1,5%*	*1,5%*	*1,5%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*
European Commission Guidance		*1%*	*2,10%*	*2,10%*	*2,10%*	*2,10%*	*2,10%*						
PWC Projections		*1,00%*	*1,30%*	*1,50%*									
EY Projections		*1,10%*	*1,60%*	*1,80%*	*2,00%*	*2,30%*							
Banco Espana		*1,20%*	*1,70%*										

Table 6- Revenue Drivers in Millions of Euros

As previously mentioned, the main driver for the calculation of the future revenues was the Spanish GDP real growth. For the purpose of building a solid estimation of the main driver of Mediaset's revenue capacity, several sources were used in order to obtain the most consensual estimation possible. These sources highlighted in the box represent the estimations from institutions like IMF, OECD, European Comission, PriceWaterhouseCoopers, EY and Banco de España. A simple average of each year's estimation was used to compute the most "robust" estimate or a "consensus" GDP growth rate. After 2019, only the economic outlook by OECD gives estimations, in this case of 2.2% for the period 208-2030.

Another important driver for revenue estimation is the TV advertising revenue as % of GDP. This is a very important driver, since it translates how related is the TV revenue of Spain to its GDP growth. Being 2014 defined as the first year of GDP growth since 2011 and the "turn of the negative cycle" that surged from the financial crisis, an expanding simple average was used backwards, being 2013 its year based. The purpose of this method is to obtain an acceptable estimation of the evolution of the following years by regressing the negative cycle of the period 2008-2013. This means that the objective of the output is to obtain a smooth growing percentage of TV revenue as percentage of GDP, or in other words, obtain a growth cycle as steep as the contraction cycle of the period 208-2013. The detailed process of the estimation of TV revenues as percentage of GDP for the period 2014-2025 will be shown in the table below:

Industry data	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
TV advertising as % of GDP	0.172%	0.185%	0.198%	0.204%	0.217%	0.232%	0.241%	0.247%	0.250%	0.250%	0.249%	0.249%
Average Between Years	2013/12	2013/11	2013/10	2013/09	2013/08	2013/07	2013/06	2013/05	2013/04	2013/03	2013/02	2013/01

Table 7 - TV Advertising in Spain as % of GDP Forecasts

As a result of this technique, we obtain what can be identified as a recovering cycle for the contraction period of 2008-2013, smoothed out by implying the same contraction rates of the period now as growth rates.

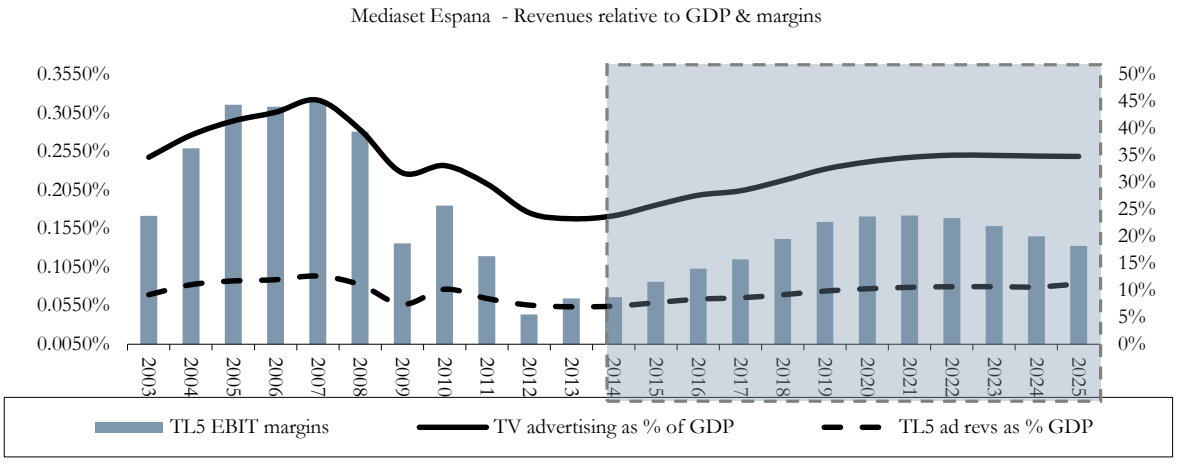


Chart 24- Mediaset EBIT Margins, TV Advertising as % of GDP and Mediaset Advertising Revenues as 5 of GDP (Company Data)

As a result, it is expected that Mediaset will see its EBIT margins grow to values near 25%, however after 2023 and the stabilization of the estimated growth of the GDP rate at 1,7% (below the period 2017-2021), I estimate that the same EBIT will drop to values around 20%.

I also estimate that by using the moving average technique explained previously in this chapter, that the percentage of TV advertising relative to GDP will stabilize around 0,25%, somewhere in between the high growth rates of the pre-crises period and the high contraction rates of the after-crises period.

COSTS PROJECTIONS

Being a Media company, with emphasis on TV operations, its main cost base arises from its personnel costs, fixed assets and TV rights amortizations. Further highlight for the in-house production costs that arise from the coverage of certain events like MotoGP, FIFA World Cup or UEFA European Cup while using in-house resources.

Operational Costs and Assumptions

Operating costs	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Personnel cost	(105)	(113)	(120)	(124)	(128)	(135)	(141)	(147)	(153)	(160)	(167)	(175)	(182)
% change	*-3,9%*	*7,5%*	*6,1%*	*3,7%*	*3,3%*	*5,1%*	*4,6%*	*4,2%*	*4,3%*	*4,6%*	*4,4%*	*4,4%*	*4,4%*
Amortisation of TV Rights	(174)	(184)	(194)	(205)	(219)	(239)	(254)	(270)	(286)	(299)	(308)	(314)	(319)
% change	*-17,3%*	*5,5%*	*5,7%*	*5,6%*	*6,7%*	*9,4%*	*6,2%*	*6,4%*	*5,7%*	*4,6%*	*2,8%*	*2,1%*	*1,7%*
In-house production costs	(404)	(434)	(460)	(477)	(493)	(518)	(542)	(565)	(589)	(616)	(643)	(671)	(701)
% change	*-4,0%*	*7,5%*	*6,1%*	*3,7%*	*3,3%*	*5,1%*	*4,6%*	*4,2%*	*4,3%*	*4,6%*	*4,4%*	*4,4%*	*4,4%*
Cuatro synergies													
% change													
Other costs (aprox 3% of NR)	(25)	(34)	(37)	(40)	(42)	(45)	(49)	(51)	(54)	(55)	(56)	(57)	(59)
% change	*-6,8%*	*36,6%*	*9,0%*	*8,5%*	*4,4%*	*7,4%*	*8,3%*	*5,9%*	*4,3%*	*3,1%*	*2,0%*	*1,7%*	*1,9%*
Other D&A	(9)	(9)	(10)	(10)	(10)	(11)	(11)	(12)	(12)	(13)	(14)	(14)	(15)
% change	*10,6%*	*3,0%*	*4,4%*	*2,6%*	*5,4%*	*5,2%*	*4,1%*	*4,3%*	*4,3%*	*4,7%*	*4,5%*	*4,4%*	*4,4%*
Total operating costs	**(716)**	**(773)**	**(821)**	**(856)**	**(892)**	**(948)**	**(997)**	**(1.046)**	**(1.096)**	**(1.147)**	**(1.192)**	**(1.237)**	**(1.283)**
% change	*-13,7%*	*7,9%*	*6,1%*	*4,4%*	*4,2%*	*6,3%*	*5,2%*	*4,9%*	*4,8%*	*4,6%*	*4,0%*	*3,7%*	*3,7%*
Underlying cost base	(691,64)	(739,49)	(783,64)	(816,21)	(850,40)	(903,45)	(948,75)	(994,71)	(1.042,43)	(1.091,26)	(1.135,71)	(1.179,38)	(1.224,22)
Underlying cost inflation	*-17,5%*	*6,9%*	*6,0%*	*4,2%*	*4,2%*	*6,2%*	*5,0%*	*4,8%*	*4,8%*	*4,7%*	*4,1%*	*3,8%*	*3,8%*

Table 8 - Operational Costs Projections in Millions of Euros

Personnel Costs: The value for this item was calculated based on the moving average technique, in which the implied annual growth rate as estimated according to the average of the last 4 years (in which Cuatro merged with Mediaset), giving the best possible estimation of how the merge with Cuatro affected the personnel costs.

Amortization of TV rights: TV rights are one of the biggest cost bases for Mediaset. TV rights are paid before the broadcast of big events where names, patents or just broadcasting rights are emitted and therefore have to be paid by the TV channel with the intention of re-transmitting them. Along the years, more and more events have been transmitted by Mediaset, especially sports events, which have contributed seasonally for the stabilization of TV revenues like FIFA World Cup and Moto GP. For the same reason explained in the personnel cost estimation, the estimates for the next 11 years of amortization rights were based in the moving average of the last 4 years of the percentage of amortization relative to its asset base. This dissertation estimates that amortization of TV rights will be stabilized in the explicit period around the percentage of 56% relative to its asset base.

In-house production costs: These costs occur by the execution of any production using resources gathered by Mediaset, excluding personnel. These costs have been growing in the last years, and are directly related to both personnel costs and amortization of TV rights. Since they have not the same accounting nature as TV rights, they have been estimated using the same growth rate of personnel costs, which is the moving average of the last 4 years, due to the same event: the merger of Cuatro and the different dynamic implied to this item after it.

Operational Costs Auxiliary Calculations

	2013A	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Beginning Balance	231	236	237	252	275	301	315	339	361	380	393	402	410
Investments	215	184	209	228	244	254	277	293	305	312	317	321	326
Amortization	174	184	194	205	219	239	254	270	286	299	308	314	319
% change	*-17.3%*	*5.5%*	*5.7%*	*5.6%*	*6.7%*	*9.4%*	*6.2%*	*6.4%*	*5.7%*	*4.6%*	*2.8%*	*2.1%*	*1.7%*
Ending balance	**236**	**237**	**252**	**275**	**301**	**315**	**339**	**361**	**380**	**393**	**402**	**410**	**416**
Investments as a % of sales	*26.0%*	*21.8%*	*22.7%*	*22.8%*	*23.3%*	*22.7%*	*22.9%*	*22.9%*	*22.9%*	*22.8%*	*22.9%*	*22.9%*	*22.9%*
Amortization as a % of base	*51.4%*	*55.9%*	*56.8%*	*56.0%*	*55.1%*	*56.0%*	*56.0%*	*55.7%*	*55.7%*	*55.8%*	*55.8%*	*55.8%*	*55.8%*
Ending balance	***2.2%***	***0.4%***	***6.5%***	***9.2%***	***9.2%***	***5.0%***	***7.4%***	***6.6%***	***5.2%***	***3.3%***	***2.5%***	***1.9%***	***1.6%***
Fixed assets - Spain	**2013A**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Beginning Balance	288	276	276	275	275	274	273	271	269	266	264	260	257
Capex	9	9	9	9	10	10	10	10	10	10	10	11	11
Other D&A	9	9	10	10	10	11	11	12	12	13	14	14	15
Ending balance	**276**	**276**	**275**	**275**	**274**	**273**	**271**	**269**	**266**	**264**	**260**	**257**	**253**
Capex as % of sales	*1.1%*	*1.2%*	*1.3%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*
Other D&A as a % of base	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*	*3.1%*
Ending balance	***-4.1%***	***-0.1%***	***-0.2%***	***-0.2%***	***-0.3%***	***-0.5%***	***-0.6%***	***-0.7%***	***-0.9%***	***-1.1%***	***-1.2%***	***-1.4%***	***-1.6%***

Table 9 - Operational Costs Projections Auxiliary Calculations in Millions of Euros

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

Market Risk Free Rate

This item is of extreme importance for a company with no long-term borrowing like Mediaset, due to its weight on the final WACC. According to the literature, a financial instrument of similar implicit maturity as the implicit period should be used to serve as "best alternative investment opportunity without the risk of default". For this reason, the 10 year sovereign Spanish bond yield was used. However, this instrument has presented itself with high volatility levels in the last two years, which makes it difficult to predict in which yield this valuation should be based. As an example, the 10 year Spanish yield has climbed up to 7% in July of 2012, and since May this year it has been recorded above the threshold of 3%. However, due to comparison purposes, the risk-free rate used dates to 9th of January 2014, date of the release of ESIB's note on Mediaset.

Beta

The Beta used for this valuation was calculated through 3 steps: By using the unleveraged Beta for the advertising sector published by Damodaran, it was after leverage with the cash/EV ration, giving a final sector/Mediaset Beta of 0.71. In the final step, a simple average between its 9st of January-2009 to 9th January 2014 raw adjusted beta was performed. The intent of this computation is to balance out the beta factor between Mediaset's intrinsic factors, and advertising industry intrinsic factors. The period chosen for the historical beta was chose to be in convergence with the 4-year lifecycle period in which this valuation is based, and which in my opinion translates the reality of Mediaset in the future.

Beta Assumptions	
Cash/EV Mediaset 2013	2,95%
Damodaran Advertising Sector	0,69
Damodaran Sector Corrected for MS Cash	0,710
Bloomberg Raw Historical 1Jan09-01Jan14	1,091
Final Beta	0,901

Table 10 - Beta Calculation

Equity Risk Premium (ERP)

The equity risk premium is used as a reference of how much of a premium an investor would require in order to invest in the market where the selected company operates. For this valuation, the dissertation followed the proposed value of 5.5%, since Damodaran estimates this item between 5% and 6%. This item if open for discussion, however, Damodaran presents if justification based on a large set of data, which translates in a solid estimation for an equity risk premium.

Effective Tax Rate

The effective tax rate is an implied measure of how much of the companies operational revenues are left as taxable objects for the regulator. For this item, this dissertation used the purposed value by Damodaran for the industry of Advertisement of **27.1%,** extracted from his on-line database.

Terminal Growth Rate

Terminal Growth rate is set as the 2025 GDP growth rate of 2.2%, also used as a long-term GDP growth rate for revenue projections.

Cost of Equity

Using the formula purposed as CAPM, or capital asset pricing model, this valuation was executed using a cost of equity or Ke of **8.8%**, as shown:

Ke = Rf + β x ERP or Ke = 3.81% + 0.901 * 5.5% = 8.8%

VALUATION RESULTS

The Valuation method used to compute the following price per share was the enterprise DCF model. The APV model was also analyzed as a possible alternative, however due to the fact that the company has not presented interest bearing debt since 2012 and will not according to the estimates, makes it senseless to use. Mediaset's calculated fair market value is, according to this model, 3.340 billion Euros, which is translated after the adjustment for tax assets and equity constant assets into a total equity value of 3.**668 bilion Euro**s or **9.0 Euros** per share.

Mediaset España												**Terminal**
	2014E		**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
EBITDA before rights inv.	269		311	359	381	434	497	536	561	572	566	555	545
EBIT	74		107	140	164	219	277	310	330	339	329	313	299
Total investments (inc. rights)	-187		-196	-211	-207	-206	-211	-216	-220	-222	-225	-229	-233
NWC	72		20	-25	-19	-7	5	-2	-5	2	12	14	11
Taxes on EBIT	*-20.01*		*-28.94*	*-37.89*	*-44.39*	*-59.42*	*-75.04*	*-84.26*	*-89.65*	*-91.94*	*-89.42*	*-85.06*	*-81.14*
Tax benefit *25%*	5.00		7.23	9.47	11.10	14.86	18.76	21.07	22.41	22.99	22.35	21.26	20.29
Unlevered FCF			**114**	**95**	**120**	**177**	**235**	**255**	**269**	**283**	**286**	**276**	**261**
Disc. Fact			**1.00**	**1.09**	**1.18**	**1.29**	**1.40**	**1.52**	**1.65**	**1.80**	**1.96**	**2.13**	**2.31**
Discounted CF			**113.8**	**87.5**	**101.4**	**137.5**	**168.2**	**167.7**	**162.7**	**157.5**	**146.0**	**129.5**	**112.9**
% growth													
PV of FCF	1,485												
PV of Residual Value (FCF)	1,761												
Theoretical EV	**3,246**												

DCF calculations	**Fair value**	**per share***	**DCF assumptions summary**	
Enterprise value	**3,246**	**8.0**	**Explicit period**	
Net (debt)/cash (2013 ye)	94	0.2	Capex as % of sales (avg 2014E-23E)	1.2%
CORE BUSINESS EQUTIY VALUE	**3,340**	**8.2**	Effective Tax Rate	*27%*
Tax asset / (liability)	93	0.2	**Terminal value assumptions**	
Equity cons. Assets (D+)	235	0.6	Terminal growth	2.2%
Total adjustments	328	0.8	Terminal EBITA margin	20.4%
TOTAL EQUITY VALUE	**3,668**	**9.0**	Terminal capex as % of sales	1.1%
Current Share Price (EU)		8.91		
Upside (downside)		**1%**	**WACC**	**8.%**

Table 11 - Valuation Results in Millions of Euros

As a result of this valuation, it is expected that by 2025, Mediaset has reached an EBTIDA value of 545 Million Euros, which is based on the assumption that after 2019, Spain will see its GDP growth stabilize around 2.2%. The ratios resulting from this valuation will be presented in the appendix.

SENSITIVITY ANALYSIS

With the objective of measuring the exposure of Mediaset's price per share to factors like the WACC variations (the risk-free rate shows some volatility, especially since the beginning of the financial crisis in 2008) and the perpetuity growth rate, a sensitivity analysis was performed.

Being Mediaset's business model a straight-forward revenue-linked model, discounted mostly by its cost of equity (due to the inexistence of debt), the WACC and terminal growth rate shall represent both sides of influence: by one side the WACC shall represent the influence arising from the financial market (through Beta and risk-free variations), while the terminal growth rate is linked to the overall revenue generation capacity, both in perpetuity.

Core Enterprise Value (Millions of Euros)

	Growth Rate				
WACC	1,20%	1,70%	2,2%	2,70%	3,20%
7,8%	3.246 €	3.391 €	3.563 €	3.768 €	4.019 €
8,3%	3.121 €	3.246 €	3.391 €	3.563 €	3.768 €
8,8%	3.012 €	3.121 €	3.246 €	3.391 €	3.563 €
9,3%	2.918 €	3.012 €	3.121 €	3.246 €	3.391 €
9,8%	2.834 €	2.918 €	3.012 €	3.121 €	3.246 €

Per Share Valuation

	Growth Rate				
WACC	1,20%	1,70%	2,2%	2,70%	3,20%
7,8%	9,0 €	9,4 €	9,8 €	10,3 €	10,9 €
8,3%	8,7 €	9,0 €	9,4 €	9,8 €	10,3 €
8,8%	8,4 €	8,7 €	9,0 €	9,4 €	9,8 €
9,3%	8,2 €	8,4 €	8,7 €	9,0 €	9,4 €
9,8%	8,0 €	8,2 €	8,4 €	8,7 €	9,0 €

Table 12 - Sensitivity Analysis on Core Enterprise Value and Per Share Price in Million of €

Giving the wide range of price per share possibilities, from 8€ up to 10.9€, the conclusion taken from this exercise is that both this factors have major influence on Mediaset's price per share. This output also supports the perspective registered in the market consensus chapter which follows next, in which the division between the recommendations is nearly one third each and the price target recommendations can range from 5€ of Natixis up to 13€ from Credit Suisse. This can be explained by the heavy weight of both this factors as previously mentioned, and how the smallest difference in the assumptions used for the valuation (marginal variances of 0,5% in this case) can alter significantly the price target recommended. Another important remark goes to the weight of the explicit period in the company's valuation, giving that only 54% of the company's core equity value comes from the terminal value (a percentage that usually for companies a mature lifecycle with steady cashflows can be much higher, up to 80%). This conclusion also supports the importance of the estimated incoming recovery lifecycle.

Inputs	
Sensitivity level	0,5%
Cash Flow in Perpetuity	267,13 M€
Shares Outstanding	406,8614.26
Adjustments to EV (D+)	328 M€
Net Debt/Cash	-93,72 M€
Weight of TV	54%

Terminal Value

	Growth Rate				
WACC	1,20%	1,70%	2,2%	2,70%	3,20%
7,8%	1.761 €	1.906 €	2.078 €	2.284 €	2.534 €
8,3%	1.636 €	1.761 €	1.906 €	2.078 €	2.284 €
8,8%	1.528 €	1.636 €	1.761 €	1.906 €	2.078 €
9,3%	1.433 €	1.528 €	1.636 €	1.761 €	1.906 €
9,8%	1.349 €	1.433 €	1.528 €	1.636 €	1.761 €

Table 13 - Inputs and Terminal Value of Sensitivity Analysis in Millions of euros

MARKET CONSENSOUS (BLOOMBERG JULY 2014)

With the objective of complementing this analysis, the target price obtained from this valuation will be compared to the target prices of several investment houses around the world.

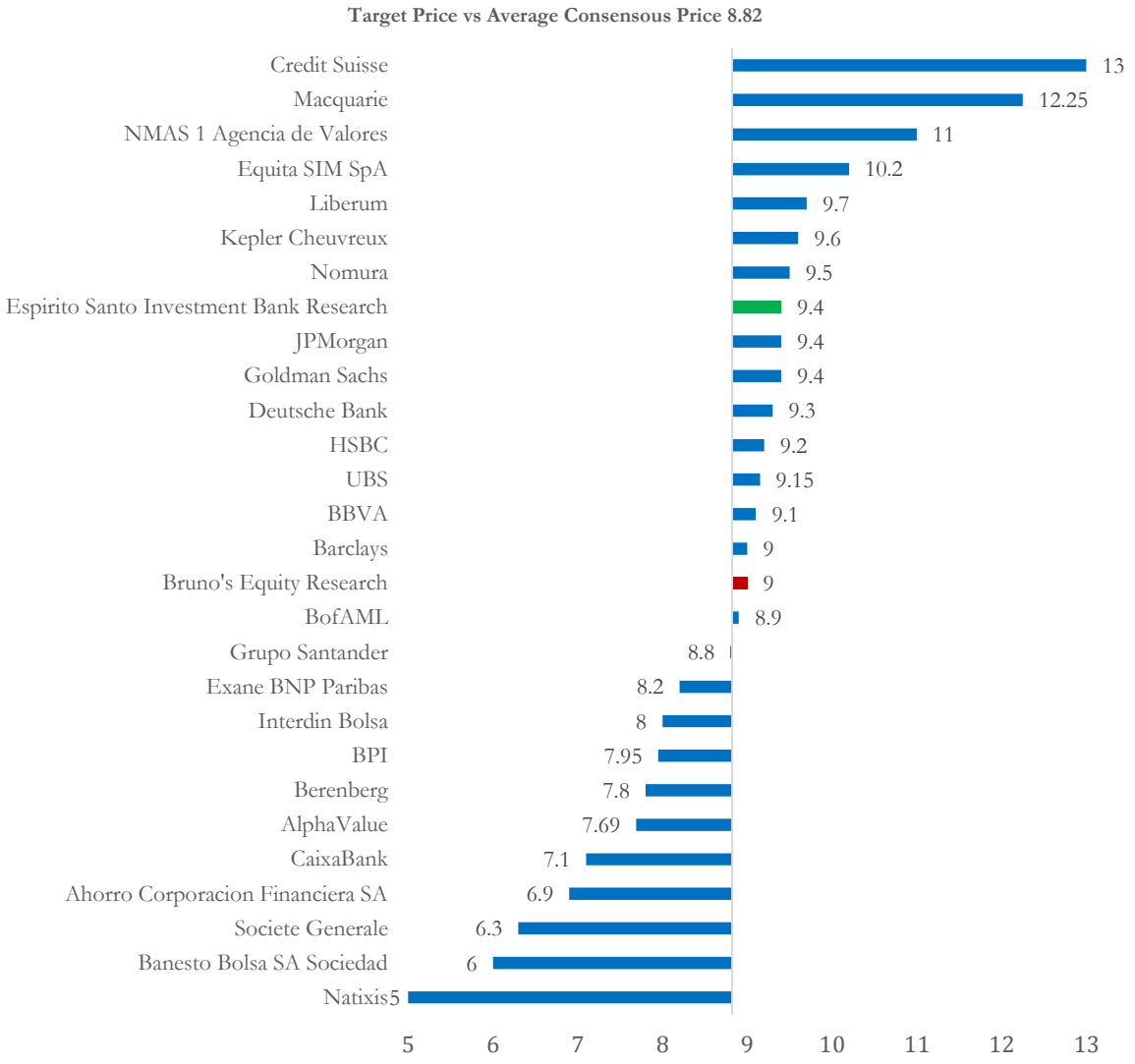


Chart 25 - Market Consensus on Mediaset in € per Share (Bloomberg 2014)

The target price obtained from this valuation (in red) is positioned around the middle of the consensus of 8.82. However, it is still under the target price of BESI, the benchmark for this valuation. The differences in both assumption and valuation methodology will be reviewed in the next chapter: Comparison with Espírito Santo Investment Bank. More detail is presented in the appendix. This dissertation is in line with investment houses such as Bank of America Merril Lynch, Barclays, BBVA, Santander and UBS.

MULTIPLES VALUATION

In order to obtain a complementing factor in this valuation, a multiples valuation was conducted. The output of this valuation must be interpreted under the assumption that Mediaset will turn to its peer group average multiples for the long-term. In other words, the value extracted from this approach can be interpreted as "how the market evaluates Mediaset, according to the most similar companies operating under the same conditions".

Company	Enterprise Value	Market Cap	EV/EBITDA Next Yr	EV/T12M EBITDA
Societe Television Francaise 1	2.005.504.975,98 €	2.396.304.975,98 €	7,85	13,84
Atresmedia Corp de Medios de C	2.624.648.784,64 €	2.505.994.784,64 €	13,84	35,98
Informa PLC	3.471.258.019,86 €	3.868.229.121,19 €	9,60	7,04
Daily Mail & General Trust PLC	4.123.714.287,10 €	4.010.982.334,82 €	10,39	11,20
JCDecaux SA	5.798.728.499,20 €	5.730.728.499,20 €	8,55	9,01
Average	**3.604.770.913,36 €**	**3.702.447.943,17 €**	**10,05**	**15,41**
Mediaset Spain DCF EV/Share	*9,0 €*			
Mediaset Spain Reported EV	*3.312.546.500,00 €*	*3.413.170.739,48 €*	2.702.990.055,74 €	4.147.311.240,21 €
Mediaset Spain Estimated EV/Share			**6,64 €**	**10,19 €**

Company	Est P/E Next Yr	EV/EBITDA Current Yr	P/FCF	2014 financial info in respective order
Societe Television Francaise 1	37,77	11,20	87,43	
Atresmedia Corp de Medios de C	45,76	20,47	32,08	EBITDA
Informa PLC	25,45	9,74	13,28	Earnings
Daily Mail & General Trust PLC	20,73	10,98	12,22	FCF
JCDecaux SA	73,14	9,53	30,44	Shares
Average	**40,57**	**12,38**	**35,09**	269.061.323,49 €
Mediaset Spain Estimated EV	*9,0 €*			95.278.036,48 €
Mediaset Spain Reported EV	3.865.429.940,04 €	3.332.055.430,05 €	5.583.810.814,41 €	159.128.264,87 €
Mediaset Spain Estimated EV/Share	**9,50 €**	**8,19 €**	**13,72 €**	406,8614.26

Table 14 - Multiples Valuation

The biggest challenge in this methodology is to keep the peer group as similar as possible, without sacrificing the numbers of companies under observation. The criteria used to choose the peer group was: advertising and media sector, market capitalization and enterprise value. The heterogeneity in this sector is noticeable, by obtaining an estimated enterprise value per share within the range of 6,64 Euros up to 13,72 Euros. However, the operational multiples like the next year EV/EBTIDA give an approximated number to the enterprise value estimated through DCF. Mediaset differentiates itself together with A3 media by being in a completely different cycle from its peers, being therefore expected that next year multiples will be lower than the current year, since most of peers are non-Spanish companies, and all of the peers are not even part of the PIIGS group (Portugal, Italy, Ireland, Greece), the most similar economies as the Spanish. However, the FCF valuation shows the cash-generating capacity of Mediaset, which is its biggest intrinsic attribute. Concluding, the multiples valuation in this case might give an opposite idea of what Mediaset's value per share is. Most of its peers are in completely different lifecycles, being even estimated that next year will be a weaker year than 2014, whereas in Mediaset's case, the next 5-6 year will refer to one of the strongest growth cycles since the financial crisis.

Comparison with Espírito Santo Investment Bank

In order to fulfill the purpose of this dissertation, the results obtained from this valuation will be compared to the ones supplied by Espírito Santo Investment Bank.

	Bruno's Equity Research (Ago 2014)			Espírito Santo Investment Bank (Jan 2014)		
DCF calculations Mln €	**Fair value**	**per share***		**DCF calculations Mln €**	**Fair value**	**per share***
Enterprise value	**3.246**	**8,0**		**Enterprise value**	**3.359**	**8,3**
Net (debt)/cash (2013 ye)	94	0,2		Net (debt)/cash (2013 ye)	131	0,3
CORE BUSINESS EQUTIY VALUE	**3.340**	**8,2**		**CORE BUSINESS EQUTIY VALUE**	**3.491**	**8,6**
Tax asset / (liability)	93	0,2		Tax asset / (liability)	88	0,2
Equity cons. Assets (D+)	235	0,6		Equity cons. Assets (D+)	235	0,6
Total adjustments	328	0,8		Total adjustments	323	0,8
TOTAL EQUITY VALUE	**3.668**	**9,00**		**TOTAL EQUITY VALUE**	**3.814**	**9,40**
Current Share Price (EU)		8,9		Current Share Price (EU)		8,5
Upside (downside)		**1%**		**Upside (downside)**		**10%**
DCF assumptions summary				**DCF assumptions summary**		
Explicit period				**Explicit period**		
Capex as % of sales (avg 2014E-23E)		1,2%		**Capex as % of sales (avg 2014E-23E)**		1,5%
Effective Tax Rate		*27%*		Tax rate (avg 2014E-23E)		*30%*
Terminal value assumptions				Terminal value assumptions		
Terminal growth		2,2%		**Terminal growth**		2,0%
Terminal EBITA margin		20,4%		Terminal EBITA margin		27,8%
Terminal capex as % of sales		1,1%		Terminal capex as % of sales		1,5%
WACC		**8,8%**		WACC		**9,5%**

Table 15 - Valuation Comparison with ESIB

Both estimates give the recommendation for neutral (or hold) recommendation, however, Espírito Santo Investment Bank (ESIB) positions his valuation on a much more bullish standout compared to the one calculated in this dissertation. The difference in fair value amounts to 146 million Euros, or 40 cents per share. Most of the differences are in the assumptions used to compute the fair value of Mediaset and these will be reviewed in detail in the following sections. The items that will be analyzed are as follows:

- Spain GDP growth and Macroeconomic analysis
- TV advertising market growth and Competition
- Revenue and Operational costs projections
- WACC assumptions (detailed to its components: Risk-free rate, ERP and Beta)
- DCF Assumptions

METHOD COMPARISON

In terms of method comparison, small differences are noticed. Both entities used a WACC-based DCF, with both same historical data and implicit period. The difference in methodology arises in the fact that by the time ESIB published the research used for the comparison, 2013 accounts were not published yet, while this dissertation already used announced data for 2013, making it the base year against the base year of ESIB (2012). This difference however will produce marginal effect in the valuation, since the differences are rather small between the estimated accounts by ESIB for 2013 and the announced by Mediaset.

ASSUMPTION COMPARISON

This is the subject with the highest grade of influence in the 40 cent difference in the two valuations. As mentioned before in the valuation overview chapter, this dissertation was based on the "Valuing Cyclical Companies" by Damodaran, which already gives a totally different approach when compared with ESIB.

The set of assumptions used in the computation of the fair value by this dissertation are detailed in the "Valuation Overview" chapter, giving this chapter the perspective for the ESIB valuation's set of assumptions.

Revenues

ESIB estimates the revenues of Mediaset by locking a 45% market share for the explicit period, while using proprietary data for the same period regarding the amount spend in TV advertising for Spain. The same base calculation as this dissertation is used, by using the ratio of TV Advertising revenues as percentage of GDP. Even though the calculation is similar to the one used in this dissertation, the GDP growth rate estimates differ from the ones used in this dissertation.

Industry Data ESIB	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Spain GDP (IMF)	1.072	1.100	1.131	1.163	1.198	1.234	1.270	1.308	1.347	1.387	1.428	1.471
Nominal growth	1,9%	2,7%	2,8%	2,9%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%	3,0%
CPI growth (IMF)	1,2%	1,3%	1,3%	1,4%	1,4%	1,4%	1,4%	1,4%	1,4%	1,4%	1,4%	1,4%
Real growth	0,7%	1,4%	1,5%	1,5%	1,6%	1,6%	1,6%	1,6%	1,6%	1,6%	1,6%	1,6%

Table 16 – Spanish GDP growth estimations by ESIB in Millions of Euros

By using the values purposed by IMF which are among the lowest in the sources consulted by dissertation, most of the differences arise in the calculation of the evolution of the industry, since the market share used by ESIB, even if fixed from the base year, does not differ in a large scale from the progressive moving average used by this dissertation. ESIB also argues that the value of the TV advertising market will tend to its long-term trend (since 1980), because that was registered in the US.

ESIB's Market Share and Advertising Market Evolution in Millions of Euros

	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
TV advertising	1839	2001	2229	2354	2486	2622	2778	2941	3112	3237	3366	3501
YoY evolution	8,2%	8,8%	11,4%	6%	6%	5%	6%	6%	6%	4%	4%	4%
TL5 market share	45,5%	45,0%	45,0%	45,0%	45,0%	45,0%	45,0%	45,0%	45,0%	45,0%	45,0%	45,0%

Bruno's Equity Research Market Share and Advertising market evolution in Millions of Euros

	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
TV advertising	1.760	1.931	2.098	2.195	2.383	2.594	2.756	2.886	2.984	3.047	3.103	3.165
YoY Evolution	**3,4%**	**9,7%**	**8,6%**	**4,7%**	**8,6%**	**8,8%**	**6,3%**	**4,7%**	**3,4%**	**2,1%**	**1,8%**	**2,0%**
T5 share of TV ad market	**44,7%**	**44,8%**	**45,2%**	**45,1%**	**44,9%**	**45,0%**	**45,1%**	**45,0%**	**45,0%**	**45,0%**	**45,0%**	**45,0%**

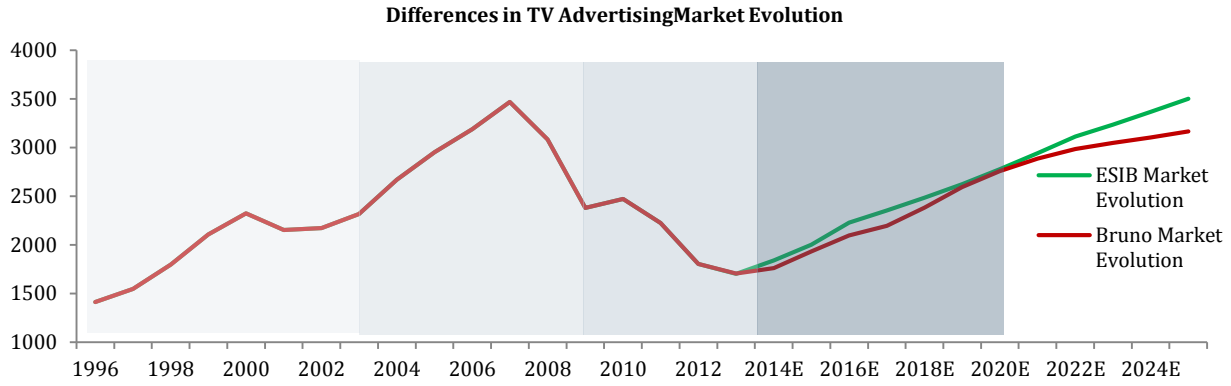


Chart 26 - Differences in TV Advertising Market Forecasts in Millions of Euros

ESIB's justifications for such optimistic estimates are based in the assumption that "the financial crisis interrupted a solid growth for the period 2003-2007". However, I believe that the cyclicality of the industry will be a major factor of influence. The historical lifecycle pattern of 5-6 years is noticeable on the advertising industry. For this reason, this dissertation bases its assumptions on a strong growth period for the period 2014-2020 (as ESIB), however, in line with its past, I predict a slowdown from 2020-onwards. This is justified by different lifecycle in which we will be entering. In the "Industry" chapter, it was referred that during the financial crisis period of 2008-2013, internet advertising was the only platform which grew exponentially, at the expense of other outdated platforms. For the explicit period, internet advertising as established itself as a major platform in the industry, unlike the pre-crisis period, which makes it hard to believe that the TV advertising industry will outpace its pre-crisis growth cycle. The slowdown is also a discordance point when compared with ESIB, since this entity argues that "the time spent by each Spanish citizen watching TV is solid and even growing", which in my opinion is no guarantee of a linear growth, especially with the growth of portable devices (tablet, smartphones) that allow internet access anywhere and anytime to selected content. The different cycles are presented by different colors in chart 26.

Costs

Giving the same perspective used in this dissertation, the drivers for the costs of Mediaset are centered in 3 items: Staffing Costs, Amortization of TV rights and In-house Production Costs. Both staffing costs and in-house production costs are calculated by this dissertation in accordance with the moving average of the last 4 years (after the merge with Cuatro) as purposed by Damodaran. Amortizations are cataloged in a different nature than operational costs, being more of a fixed-asset like item. On the other hand, ESIB calculates both staffing costs and in-house production costs by giving the same value for the explicit period. Personnel costs are fixed for the value reported in 2013, while in-house production costs are set to contract 2.5% and then have no further alterations. The amortizations of TV rights are calculated in both valuations by recurring to a ratio of Amortizations as percentage of asset base (average of the beginning balance and investments of the respective year). In the case of ESIB, this ratio is also set for 56% for the explicit period, while in the dissertation this ratio is also computed by using the moving average of the last 4 years. The bottom line differences regarding this subject are centered once again in the cyclicality of Mediaset. While this dissertation focus on the recent history and tries to replicate it, ESIB's estimates are being based on a stabilization of costs, while its revenue stream is set to grow exponentially, giving therefore room for a terminal EBITDA margin of 27,8%, against the estimated by this dissertation of 20%. What concerns other costs, these were set to be 4% fixed by this dissertation (based on historical average from 2006), while ESIB calculates these as 3% of net revenues. This item only accounts for 5% of total operational costs. CAPEX differences are also residual and shall be around 1.5% of sales.

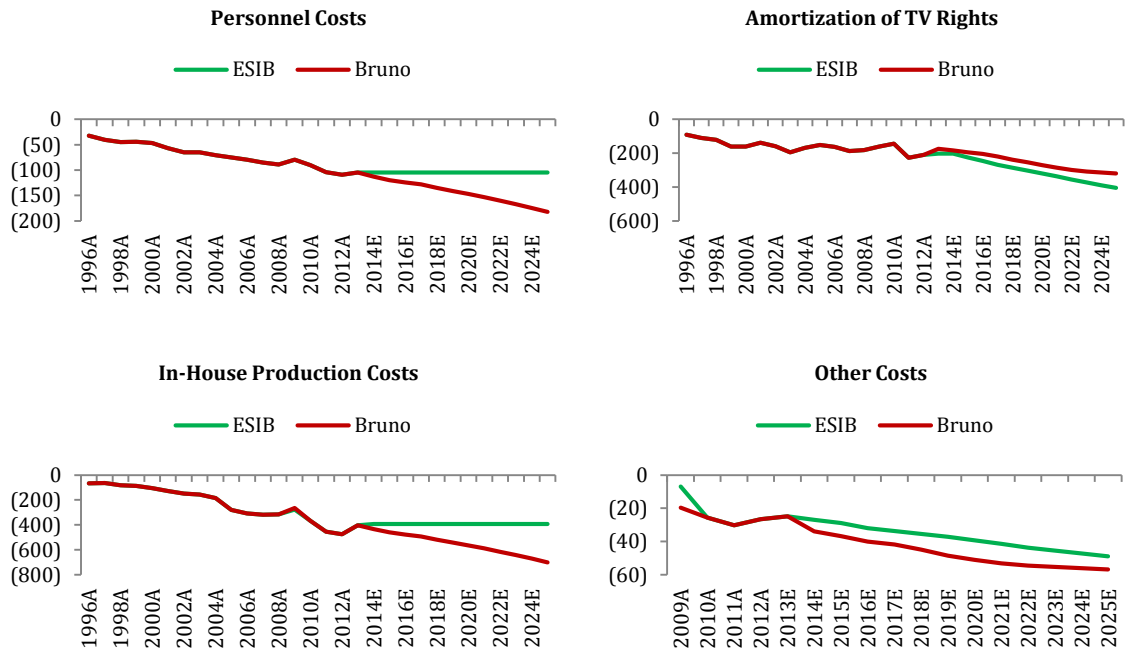


Chart 27 - Operational Costs Comparison with ESIB in Millions of Euros

WACC

When balancing the WACC calculated, the difference amounts to 0.7%, being the WACC estimated by this dissertation 8.8%, while ESIB estimates the WACC as 9.5%.

WACC calculation		WACC calculation	
Market Risk-free Rate (Rf)	3,8%	**Market Risk-free Rate (Rf)**	4,5%
Equity Risk Premium (Rm-Rf)	5,5%	**Equity Risk Premium (Rm-Rf)**	5,0%
Forward looking beta	0,90	**Forward looking beta**	1,00
Cost of equity (Ke)	**8,8%**	**Cost of equity (Ke)**	**9,5%**
Effective tax rate	27,1%	**Effective tax rate**	--
Marginal tax rate	25%	**Marginal tax rate**	25%
Net debt / EBITDA (10E ye)	0,0x	**Net debt / EBITDA (10E ye)**	0,0x
Basis points over Rf (debt spread)	3,0%	**Basis points over Rf (debt spread)**	3,0%
Pre-tax cost of debt	6,8%	**Pre-tax cost of debt**	7,5%
After-tax cost of debt (Kd)	**5,0%**	**After-tax cost of debt (Kd)**	**5,6%**
WACC	**8,8%**	**WACC**	**9,5%**

Table 17 - WACC Comparison with ESIB

Risk-Free Rate

The risk-free rate used by ESIB was 4.5%, as of the 10 year yield of the Spanish sovereign bond during the beginning of January. Since this dissertation was elaborated after the research was published and during the drop in 10 year yields across Southern Europe, the risk free rate used by this dissertation was the registered by Jan 9th 2014, due to no information on which trading day ESIB's estimation was based. The value of 3.81% is therefore the estimation for a long-term correction of the 10 year yield of the Spanish Bond purposed by this dissertation.

Since Mediaset does not present long-term debt since 2011, the weight of the risk-free rate in WACC is of major importance, since it is an active item in the cost of equity. For this reason, the risk-free rate sensibility will also be analyzed in the "Sensitivity Analysis" chapter.

Net Debt

Both this dissertation and ESIB bet on a 100% payout ratio of 2014, due to its increasing profitability and growing cash pile. The cash pile by 2011 was already 40 million, and shall grow up to 497 million according to my estimates and 474 million according to ESIB's estimates, by 2025.

Equity Risk Premium

The equity risk premium used by this dissertation as described in the "WACC" section of the "Valuation Overview" chapter was the middle point of the range purposed by Damodaran of 5%-6%. With no further information by ESIB, the rate of 5% used by this institution falls in the range purposed by Damodaran, and implies that for a risk-free rate of 3%-4%; the implied return of the market equals 8.5%-9.5%, which for this dissertation is an acceptable range.

Beta

The differences registered in this item are only due to the different dates in which these documents were elaborated. The adjusted beta of ESIBS relates to the value at the beginning of January (registered as 1), while the beta used in this dissertation relates to the value calculated through the Market-Company adjustment explained in the "Valuation Overview" chapter, that amounts to 0,91.

Cost of Debt

The cost of debt is of marginal importance in the WACC due to the inexistence of long-term-debt; however most of the assumptions are the same except for the tax rate used for the calculation, which was the effective in the case of this dissertation, while ESIB used the marginal tax rate. The difference pending on this item in the case of long term debt is solely on tax terms, being this dissertation closer to the industry while ESIB positions it's tax assumptions closer to a guidance number.

DCF Assumptions

DCF assumptions summary Bruno		**DCF assumptions summary ESIB**	
Explicit period		**Explicit period**	
Capex as % of sales (avg 2014E-23E)	1,2%	**Capex as % of sales (avg 2014E-23E)**	1,5%
Effective Tax Rate	*27%*	Tax rate (avg 2014E-23E)	*30%*
Terminal value assumptions		Terminal value assumptions	
Terminal growth	2,2%	**Terminal growth**	2,0%
Terminal EBITA margin	20,4%	Terminal EBITA margin	27,8%
Terminal capex as % of sales	1,1%	Terminal capex as % of sales	1,5%
WACC	**8,8%**	WACC	**9,5%**

Table 18 - DCF Assumptions comparison with ESIB

The biggest difference in this item is registered in the terminal growth rate. ESIB uses an estimated growth rate of 2%, still much more optimistic than the Spanish GDP estimated used in ESIB's model of 1.6%. This dissertation used a terminal growth rate of 1.7%, which was calculated through a simple average of the estimates of the IMF and European Commission for 2019. Since there are no estimates for the afterwards period of 2019, the growth rate of 1.7% is also used for long-term calculations.

INVESTMENT CASE

In my opinion, Mediaset Spain presents itself as a strong investment case, profiling itself as a strong contender for investors looking for a solid mature business, in a recovering economy with a duopoly-like market ready to enter in cruse speed after surviving the dawn of the financial crisis. However, due to its current proximity to its fair price per share, this dissertation gives the recommendation of Hold.

- Mediaset is the largest TV FTA (free-to-air) operator in Spain, with a market share of 45%. Together with A3Media, they account for nearly 90% of the TV advertising market in Spain, which translates into a less competitive environment than other industries and provides a stable and leading position in this sector. It will also be expected that TV advertising prices might go up in-line with a duopoly structure.
- The competitive landscape just came out of a consolidation wave, giving less turbulence and more barriers for future entrants in the sector. Mediaset and A3Media lead in terms of audience, with nearly 30% each. Mediaset also presents the biggest estimated earnings growth for 2015 of its peers (92.5%).
- Mediaset Spain, unlike A3Media presents no long-term debt since 2011, being also estimated that the actual cash-pile will grow steady for the next 10 years, supported by strong revenues.
- Being a mature company and established for a long time in the Spanish market, Mediaset presents a residual fixed asset based. Through this perspective, its cost base is directly linked to its performance, making it a rather flexible company relative to its cost base.
- Even though the TV advertising market has seen the internet gaining momentum since the inception of the financial crisis, Mediaset's cash pile gives a strong weapon to either fight or enter the internet advertising sector and to keep its leading position.
- Mediaset's business is directly correlated with personal consumption and GDP growth, which will strongly benefit from the recovery of the Spanish economy for the next years.
- Mediaset's revenues are set to almost double in the period 2014-2025.
- The recent merge with Cuatro opened a door to a small operational cost re-structuring and further stabilization. Mediaset has in 2013 an EBITDA and operating margin of 32% and 10%.
- The Spanish advertising market is expected to perform on of the strongest European recoveries in the media sector, after falling dramatically during the financial crisis, being therefore expected that both Mediaset and A3 media will enter in a different cycle than its European competitors.
- With the recovery of the macroeconomic landscape, it is expected that most of the companies will try to capture the increase in available cash in the consumer, by investing more in advertising.
- The 22% stake that Mediaset owns in Digital Plus (Pay-TV operator) will also be a contributing item for the increasing levels of profitability, and plays a strategic role in the diversification of its portfolio. This item was evaluated together with all the other participations as one single item.
- The 17,3% stake that Prisa owns in Mediaset Spain, in my opinion, does not represent a real danger, since with the drop in Spanish sovereign yields and with the ECB pack of stimulus measures for the economy will affect positively the debt that were pointed as the cause for Prisa's sellout. Therefore, the impact of a possible sell of the position was not considered.

CONCLUSION

In this dissertation, I attempted to use the best practices in equity valuation, by merging both literature insights and common practices in the market, in order to achieve a solid output.

With that objective in mind, a detailed review of the literature available was executed. The focus was mostly around the fundamentals as basis for valuation, and also the comparison between different techniques and valuation methodologies. The WACC-based DCF was concluded as the best method to evaluate a company like Mediaset, being therefore in line with the practices used by most of the market analysts executing similar functions as the ones explicated in this dissertation. Mediaset Spain was valuated through a WACC-based DCF, with strong emphasis not only on its operational dynamics, but also with major focus on the dynamics of its industry. The industry chapter was, in fact, reviewed in detail due to its importance in the profitability of Mediaset, but also due to its complex nature and cyclicality, which in conjunction with the latest events like the financial crisis and the merge with Cuatro, play role of major importance in the estimation of future cash flows.

The estimation of Mediaset's fair price per share at 9€, results in the convergence of all the valuation techniques consulted, industry data researched and personal assumptions. In order to understand how different this process was when compared to a major investment house, a comparison with Espírito Santo Investment Bank was conducted. Both I and ESIB give the recommendation of neutral (or hold), only slightly disagreeing in the set of assumptions, being ESIB on the optimistic side of the Spanish TV advertising market recovery. Being a simple and direct business, it is expected that the heterogeneity found in the market consensus (nearly 1/3 for each Buy, Sell and Hold recommendations) is based on the sensitivity of Mediaset's fundamentals to a set of items like the risk-free rate (consequently the WACC) and the terminal growth rate. It is also important to highlight that entities like ESIB have access to detailed data through commercial agreements with consulting companies, which was not my case, giving room for some information asymmetry. For these reasons, a sensitivity analysis was also imperative to perform, to give a perspective of how big the range of Mediaset's "fair value" market cap is. As the final output of this dissertation, I recommend a neutral approach to Mediaset as an investment case, beings its fair price per share estimated to be 9€., based on the discounted cash flows of the estimated period 2014-2025 and perpetuity.

For the future, the capacity of Mediaset to generate cash in a mature business will present the challenge, that in my opinion will re-define the Spanish industry more specifically, but also the majority of Europe's advertising markets. The exponential rise of internet as a major advertising platform during the financial crisis (at expense of platforms like newspapers, outdoors and magazines), became a 2 way street for Mediaset: both a menace for its flexibility and advantages on price, consumer segmentation and accessibility, but also an opportunity that Mediaset might take advantage, by applying its growing cash pile and simultaneously increase its revenues while slowing down a possible strong platform competitor. It will be this future event that will define Mediaset as a money-making machine, being the future optimistic not only for the Spanish economy, but also for TV advertising and even more for internet advertising.

Appendix

Mediaset Spain	
Recommendation:	**Neutral**
Estimated Fair Value:	**9,00**
Share Price Last 9th Jan 2014	8,93
Upside / Downside	0,8%
Bloomberg:	TL5 SM
Company data	
Shares Issued	406,9
Market Cap (Eur m)	**3.634**
Net Debt (Eur m)	-93,7
Adj. For Assoc. & Minorities (Eur m)	328,0
Enterprise Value (Eur m)	**3.868**

Table 19 - Valuation Short Summary

Valuation Metrics	2012	2013	2014E	2015E	2016E
Adjusted P/E	31,7x	74,4x	38,2x	30,2x	25,2x
Reported P/E	72,5x	893,1x	45,4x	34,6x	28,2x
EV / Sales	2,6x	4,7x	4,4x	4,0x	3,7x
EV / EBITDA	35,8x	44,5x	41,1x	29,7x	23,4x
EV/EBIT	47,6x	55,3x	50,7x	34,6x	26,4x
FCF Yield	0,6%	1,0%	4,0%	3,3%	2,7%
Dividend yield	2,7%	0,9%	2,2%	2,9%	3,5%

KPI	2012	2013	2014E	2015E	2016E
Organic revenue growth	-12,1%	-6,8%	2,5%	9,0%	8,5%
EBIT margin	7,3%	10,5%	10,8%	13,5%	15,7%
Capex / Revenue	-1,0%	-1,1%	-1,1%	-1,0%	-0,9%
Net Debt / EBITDA	-1,1x	-1,1x	-2,4x	-2,2x	-1,8x
EBITDA / Net Interest	-1,1x	-1,1x	-2,4x	-2,2x	-1,8x
Dividend pay out ratio	0%	75%	100%	100%	100%

P&L Summary (Eu m)	2012	2013	2014E	2015E	2016E
Revenue	**886,7**	**826,0**	**846,3**	**922,1**	**1000,9**
% change	-12,1%	-6,8%	2,5%	9,0%	8,5%
EBITDA	**64,9**	**87,0**	**91,0**	**124,3**	**157,5**
% change	-66,3%	34,0%	4,6%	36,6%	26,7%
% margin	7,3%	10,5%	10,8%	13,5%	15,7%
Depreciation & Amortisation	-8,1	-9,0	-9,3	-9,7	-9,9
Extraordinary items	-8,0	-8,0	-8,0	-8,0	-8,0
EBIT	**48,8**	**70,0**	**73,7**	**106,6**	**139,6**
% change	-70,3%	43,4%	5,3%	44,6%	30,9%
% margin	5,5%	8,5%	8,7%	11,6%	13,9%
Associates	7,5	-69,0	13,0	13,3	13,5
Operating Profit	**56,3**	**1,0**	**86,7**	**119,9**	**153,1**
Net Financials	-4,0	-3,0	1,9	4,4	5,5
Pre Tax Profit	**52,3**	**-2,0**	**88,6**	**124,3**	**158,6**
Income Tax Expense	-2,8	6,0	-8,6	-19,3	-29,6
Minority Interests	0,6	0,0	0,0	0,0	0,0
Net Income	**50,1**	**4,0**	**80,0**	**105,0**	**129,0**
Adjusted Net Income	**65,3**	**49,0**	**95,2**	**120,2**	**144,2**
Reported EPS (Eu)	0,12	0,01	0,20	0,26	0,32
Adjusted EPS (fully diluted, Eu)	**0,16**	**0,12**	**0,23**	**0,30**	**0,35**
DPS (Eu)	**0,14**	**0,08**	**0,20**	**0,26**	**0,32**
Avg. Number of shares	406,86	406,90	406,90	406,90	406,90
FD. Avg. Number of shares	406,9	406,9	406,9	406,9	406,9

Cash Flow Summary (Eu m)	2012	2013	2014E	2015E	2016E
EBITDA	**64,9**	**87,0**	**91,0**	**124,3**	**157,5**
Capex	-8,9	-9,0	-9,1	-9,2	-9,3
NWC change	-40,6	-50,0	71,9	20,4	-24,6
Other Financing Cash Flow	4,1	4,0	0,0	0,0	0,0

Operating cash flow	**19,6**	**32,0**	**153,8**	**135,5**	**123,6**
Net financials	-4,0	-3,0	1,9	4,4	5,5
Income Taxes	-2,8	6,0	-8,6	-19,3	-29,6
Other	0,0	3,0	0,0	0,0	0,0
Free Cash Flow	**12,8**	**38,0**	**147,1**	**120,6**	**99,5**
Acquisitions & Disposals	0,0	0,0	0,0	0,0	0,0
Dividends Paid To Shareholders	-56,1	0,0	-33,0	-80,0	-105,0
Equity Raised / Bought Back	1,2	0,0	0,0	0,0	0,0
Other Financing Cash Flow	39,0	0,0	0,0	0,0	0,0
Net Cash Flow	**46,4**	**20,0**	**126,1**	**52,9**	**7,1**

Balance Sheet Summary (Eu m)	**2012**	**2013**	**2014E**	**2015E**	**2016E**
Cash & Equivalents	92,8	114,0	219,8	272,7	279,8
Tangible Fixed Assets	287,8	276,0	275,8	275,4	274,8
Goodwill & Intangibles	230,9	236,0	236,0	236,0	236,0
Associates & Financial Investments	759,8	687,0	688,0	689,0	689,9
Other Assets	708,2	780,3	894,9	978,4	997,0
Total Assets	**2.079,4**	**2.093,3**	**2.314,6**	**2.451,4**	**2.477,4**
Interest Bearing Debt	19,0	0,0	0,0	0,0	0,0
Other Liabilities	327,2	293,0	368,2	407,9	393,0
Total Liabilities	**346,3**	**293,0**	**368,2**	**407,9**	**393,0**
Shareholders' Equity	1408,4	1419,0	1466,0	1491,0	1515,0
Minority Interests	12,5	12,0	12,0	12,0	12,0
Total Equity	**1.733,2**	**1.800,3**	**1.946,4**	**2.043,6**	**2.084,4**
Net Debt	**-73,7**	**-93,7**	**-219,8**	**-272,7**	**-279,8**

Table 20 - Mediaset 2012-2016 Financial Information

Chart 28 - EPS Evolution

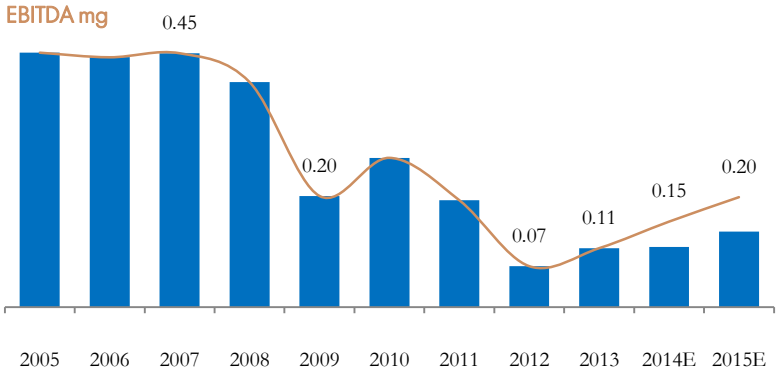


Chart 29- EBITDA % and EBITDA Evolution

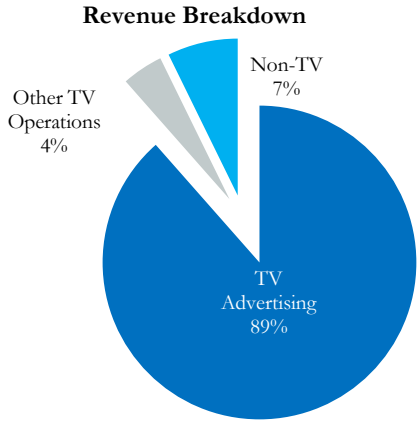


Chart 30 - Revenue Breakdown

Mediaset Spain	Atresmedia	Unidad Editorial	Net TV
Telecinco	Antena 3	Discovery Max	Disney Channel
Cuatro	La Sexta	13TV	Intereconomía
FDF	Neox	AXN	Marca TV
La Siete	Nova	Teletienda	Paramount Channel
Divinity	Nitro	Veo TV	Net TV
Energy	Xplora		
Boing	La Sexta 3		
Nueve	GolT		

Table 21 - DTT Scheme 2014, Blue Channels Were Extint in 2014 (Vertele.com)

Per share data (Eur)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EPS	0,2	0,3	0,3	0,4	0,5	0,6	0,6	0,7	0,7	0,7	0,6	0,6
CFPS	0,4	0,3	0,2	0,3	0,4	0,6	0,6	0,6	0,7	0,7	0,6	0,6
BVPS	3,6	3,7	3,7	3,8	3,9	4,0	4,0	4,1	4,1	4,1	4,0	4,0
DPS	0,2	0,3	0,3	0,4	0,5	0,6	0,6	0,7	0,7	0,7	0,6	0,6
Payout	80,0	105,0	129,0	146,1	185,1	226,2	250,9	265,5	271,9	265,8	255,0	245,4

Performance ratios (%)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Sales growth	2,45%	8,96%	8,54%	4,39%	7,37%	8,28%	5,89%	4,35%	3,14%	1,99%	1,72%	1,88%
EBITDA growth	4,61%	36,59 %	26,72 %	15,55 %	30,73 %	24,37 %	11,65 %	6,16%	2,57%	-2,42%	-4,40%	-4,11%
EBIT growth	5,34%	44,60 %	30,92 %	17,17 %	33,87 %	26,28 %	12,29 %	6,39%	2,56%	-2,75%	-4,87%	-4,60%
Net profit growth	1900,74 %	31,20 %	22,86 %	13,23 %	26,74 %	22,17 %	10,95 %	5,79%	2,41%	-2,22%	-4,06%	-3,79%
Cash flow growth	774%	-18%	-18%	23%	42%	31%	8%	5%	5%	1%	-3%	-5%

Profitability ratios (%)	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
EBITDA margin	11%	13%	16%	17%	21%	24%	26%	26%	26%	25%	23%	22%
EBIT margin	9%	12%	14%	16%	20%	23%	24%	25%	24%	23%	22%	20%
Effective income tax rate	10%	16%	19%	20%	22%	24%	25%	25%	25%	25%	25%	24%
ROE	5%	7%	9%	10%	12%	14%	15%	16%	16%	16%	16%	15%
Capital employed	1478	1503	1527	1544	1583	1624	1649	1663	1670	1664	1653	1643
ROCE	0,050	0,071	0,091	0,106	0,138	0,170	0,188	0,199	0,203	0,198	0,190	0,182
CAPEX/depreciation	0,982	0,952	0,939	0,901	0,866	0,841	0,816	0,791	0,764	0,740	0,717	0,694

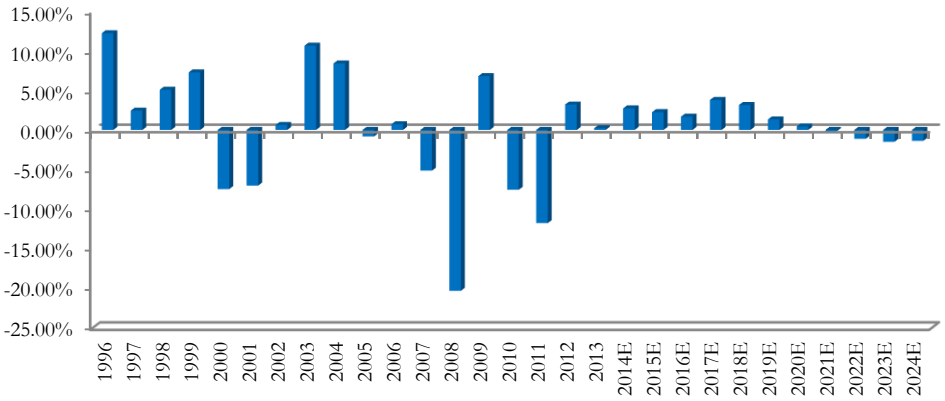
Leverage indicators	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net debt / Capital employed	-0,149	-0,181	-0,183	-0,185	-0,206	-0,235	-0,251	-0,261	-0,271	-0,282	-0,293	-0,303
Net debt / EV	-0,064	-0,081	-0,083	-0,085	-0,098	-0,117	-0,128	-0,135	-0,142	-0,148	-0,153	-0,158
Gearing	-0,119	-0,143	-0,146	-0,148	-0,164	-0,185	-0,196	-0,203	-0,210	-0,217	-0,222	-0,228
Net debt / Market cap												
Net debt / EBITDA	-2,415	-2,194	-1,776	-1,569	-1,371	-1,289	-1,251	-1,236	-1,258	-1,337	-1,443	-1,546
Interest coverage	-0,025	-0,041	-0,039	-0,034	-0,026	-0,024	-0,025	-0,025	-0,026	-0,027	-0,030	-0,032

Valuation	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
P/E	45,41	34,61	28,17	24,88	19,63	16,07	14,48	13,69	13,37	13,67	14,25	14,81
P/E @ FV	0	0	0	0	0	0	0	0	0	0	0	0

P/CF	24,80	30,30	36,79	29,98	21,04	16,08	14,95	14,22	13,51	13,34	13,76	14,46
P/BV	2,48	2,44	2,40	2,37	2,31	2,25	2,22	2,20	2,19	2,20	2,21	2,23
Dividend yield												
Dividend yield @ FV												
FCF yield (DCF FCF/Market cap)												
FCF yield (DCF FCF/EV)	0,04	0,04	0,03	0,04	0,05	0,07	0,08	0,08	0,08	0,09	0,08	0,08
EV/Sales	4,05	3,66	3,36	3,22	2,96	2,69	2,51	2,39	2,31	2,25	2,20	2,15
EV/EBITDA	37,65	27,14	21,37	18,46	13,95	11,03	9,78	9,16	8,87	9,05	9,42	9,78
EV/EBITDA @ FV	-2,28	-2,10	-1,70	-1,50	-1,32	-1,25	-1,22	-1,20	-1,22	-1,30	-1,41	-1,51
EV/EBIT	46,46	31,64	24,11	20,55	15,16	11,81	10,41	9,73	9,43	9,64	10,09	10,53
EV/Capital employed	2,32	2,24	2,20	2,18	2,10	2,01	1,96	1,93	1,91	1,91	1,91	1,92

Table 22 - 2014-2025 Mediaset Financial Ratios

EBTIDA margin growth



EBITDA margin

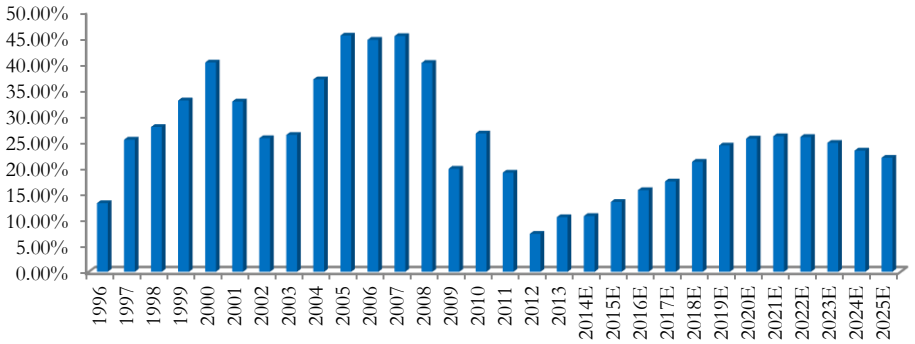


Chart 31 - EBTIDA Margin Growth and EBITDA % Growth

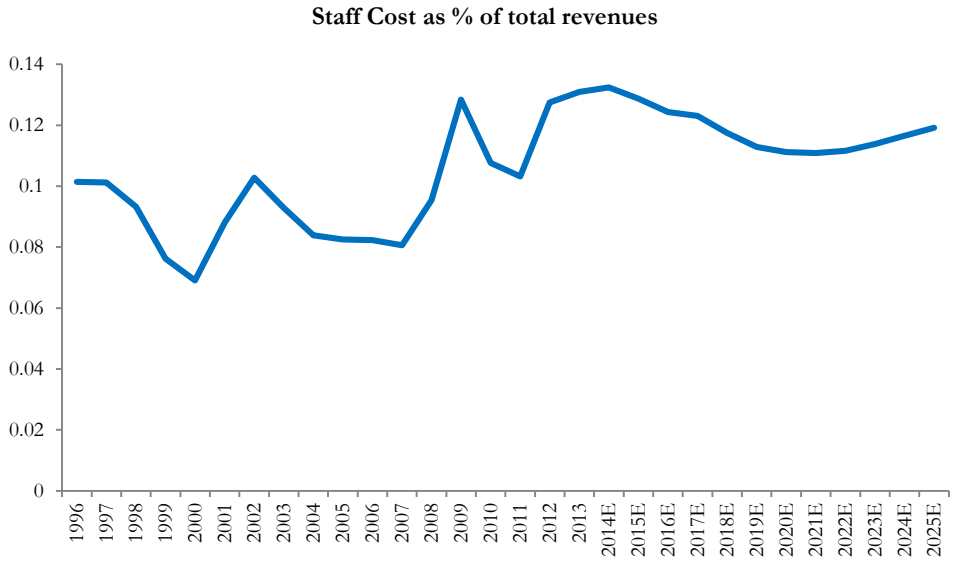


Chart 32 - Staff Costs % of Total Revenues

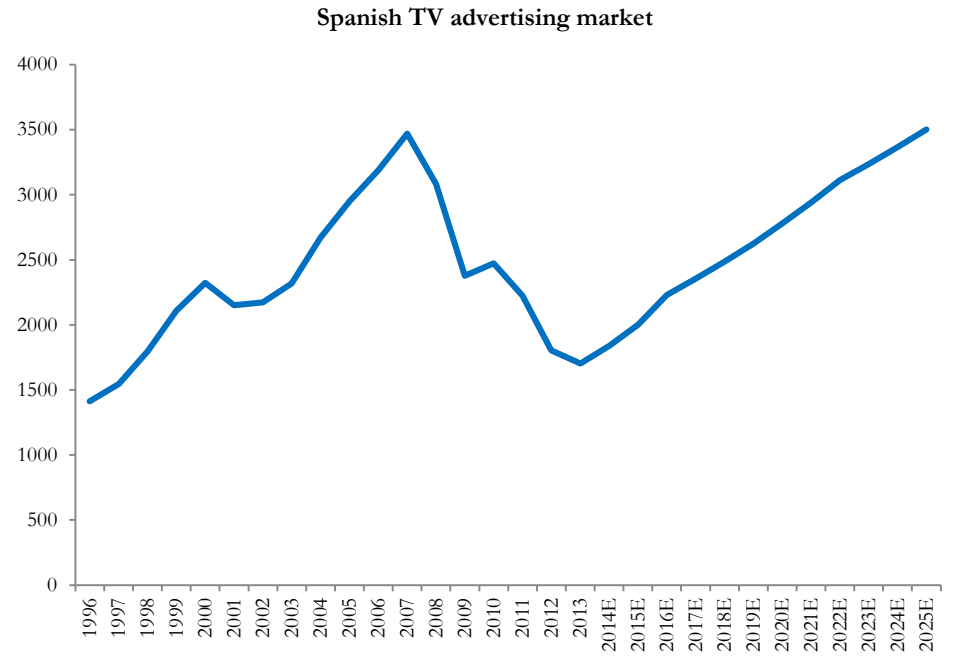


Chart 33 - Spanish TV advertising Market 1996-2025 according to ESIB

P&L (Eur m)	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Mediaset Espana's medias	767	787	866	947	991	1.071	1.168	1.242	1.300	1.343	1.372	1.397	1.425
Third party medias	35,0	36	38	40	40	42	44	45	47	47	48	48	49
TV Right Selling	0,00	0	0	0	0	0	0	0	0	0	0	0	0
less: Commission to Agencies	(36)	(42)	(47)	(52)	(54)	(57)	(63)	(67)	(71)	(73)	(74)	(76)	(77)
Other non TV revenues	60	66	66	67	68	65	66	66	66	66	66	66	66
Net Revenues	**826**	**846**	**922**	**1.001**	**1.045**	**1.122**	**1.215**	**1.286**	**1.342**	**1.384**	**1.412**	**1.436**	**1.463**
Other operating costs	(461)	(468)	(495)	(519)	(538)	(557)	(581)	(607)	(632)	(657)	(684)	(713)	(743)
Personnel cost	(105)	(109)	(116)	(123)	(127)	(131)	(137)	(143)	(149)	(155)	(162)	(169)	(176)
Amortisation of TV Rights	(174)	(178)	(187)	(202)	(198)	(196)	(201)	(206)	(210)	(212)	(215)	(219)	(223)
EBITDA	**87**	**91**	**124**	**158**	**182**	**238**	**296**	**330**	**351**	**360**	**351**	**336**	**322**
Other D&A	(9)	(9)	(10)	(10)	(10)	(11)	(11)	(12)	(12)	(13)	(14)	(14)	(15)
Extraordinary items	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
EBIT	**70**	**74**	**107**	**140**	**164**	**219**	**277**	**310**	**330**	**339**	**329**	**313**	**299**
Net Interest Income/(Expenses)	(3)	2	4	5	6	6	7	8	8	9	9	9	10
Earnings in Subsidiary	(69)	13	13	14	14	14	14	15	15	15	16	16	16
PRE-TAX PROFIT	**(2,3)**	**88,6**	**124,3**	**158,6**	**182,9**	**238,7**	**297,4**	**332,8**	**353,5**	**362,7**	**354,1**	**338,6**	**324,8**
Income Taxes	6,0	(9)	(19)	(30)	(37)	(54)	(71)	(82)	(88)	(91)	(88)	(84)	(79)
NET INCOME (pre-minorities)	**4,0**	**80**	**105**	**129**	**146**	**185**	**226**	**251**	**265**	**272**	**266**	**255**	**245**
Minorities	0	0	0	0	0	0	0	0	0	0	0	0	0
NET INCOME (post-minorities)	**4**	**80**	**105**	**129**	**146**	**185**	**226**	**251**	**265**	**272**	**266**	**255**	**245**
Adjustments	45	15	15	15	15	15	15	15	15	15	15	15	15
Adj. Net Income	**49**	**95**	**120**	**144**	**161**	**200**	**241**	**266**	**281**	**287**	**281**	**270**	**261**
Effective Tax Rate	-260,9%	-9,7%	-15,5%	-18,6%	-20,2%	-22,5%	-23,9%	-24,6%	-24,9%	-25,0%	-24,9%	-24,7%	-24,5%

Table 23 - P&L (Income Statement)

Revenue drivers	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
TV advertising	1703	1760	1931	2098	2195	2383	2594	2756	2886	2984	3047	3103	3165
YoY evolution	-6%	3,4%	9,7%	8,6%	5%	9%	9%	6%	5%	3%	2%	2%	2%
TL5 share of TV ad market	*45,8%*	*44,7%*	*44,8%*	*45,2%*	*45,1%*	*44,9%*	*45,0%*	*45,1%*	*45,0%*	*45,0%*	*45,0%*	*45,0%*	*45,0%*
Other TV Gross Ad Revenues	*16,3%*	*3,4%*	*4,8%*	*4,3%*	*2,3%*	*4,3%*	*4,4%*	*3,1%*	*2,4%*	*1,7%*	*1,1%*	*0,9%*	*1,0%*
	-7,3%	*2,5%*	*10,1%*	*9,4%*	*4,6%*	*8,1%*	*9,0%*	*6,4%*	*4,7%*	*3,3%*	*2,1%*	*1,8%*	*2,0%*
Discounts	*-4,7%*	*-5,4%*	*-5,5%*	*-5,5%*	*-5,4%*	*-5,3%*	*-5,4%*	*-5,4%*	*-5,4%*	*-5,4%*	*-5,4%*	*-5,4%*	*-5,4%*
Other revenues	*-25,0%*	*9,6%*	*-0,2%*	*1,6%*	*1,4%*	*-3,7%*	*1,6%*	*0,1%*	*0,2%*	*-0,1%*	*-0,4%*	*0,3%*	*0,0%*
Spain GDP nominal growth	*-1,2%*	*1,0%*	*1,5%*	*1,6%*	*1,7%*	*2,0%*	*1,9%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*	*2,2%*
Organic change %	*-6,85%*	*2,45%*	*8,96%*	*8,54%*	*4,39%*	*7,37%*	*8,28%*	*5,89%*	*4,35%*	*3,14%*	*1,99%*	*1,72%*	*1,88%*

Table 24 - Revenue Drivers in Millions of Euros

Cost Drivers	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Revenue growth	-6,8%	2,5%	9,0%	8,5%	4,4%	7,4%	8,3%	5,9%	4,3%	3,1%	2,0%	1,7%	1,9%
EBITDA margin	***11%***	***11%***	***13%***	***16%***	***17,4%***	***21,2%***	***24,4%***	***25,7%***	***26,1%***	***26,0%***	***24,9%***	***23,4%***	***22,0%***
Amortization of rights	174,0	178,0	186,7	201,6	197,6	196,0	200,9	205,9	210,1	211,9	214,9	218,9	222,7
Programming costs	281	281	300	316	327	337	353	369	385	400	417	435	453
Personnel costs	105	109	116	123	127	131	137	143	149	155	162	168,54	175,72
Other costs (non programming)	180	187	195	203	211	220	228	238	247	257	268	279	290
Total Opex	740	755	798	843	863	884	919	956	991	1025	1061	1100,5	1141,3
Amortization of rights	21%	21%	20%	20%	19%	17%	17%	16%	16%	15%	15%	15%	15%
Programming costs	34%	33%	33%	32%	31%	30%	29%	29%	29%	29%	30%	30%	31%
Personnel costs	13%	13%	13%	12%	12%	12%	11%	11%	11%	11%	11%	12%	12%
Other costs	22%	22%	21%	20%	20%	20%	19%	18%	18%	19%	19%	19%	20%
Other Costs (historical average)	21,8%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%	4,1%
Growth in Staff costs	-4%	4%	7%	5%	3%	3%	5%	5%	4%	4%	4%	4%	4%
Growth in Amortization rights	-17%	2%	5%	8%	-2%	-1%	2%	3%	2%	1%	1%	2%	2%

Fixed Assets	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Beginning Balance	288	288	288	287	287	286	284	282	280	278	275	271	267
Capex	9	9	9	9	9	10	10	10	10	10	10	10	10
Other D&A	9	9	10	10	10	11	11	12	12	13	14	14	15
Ending balance	288	288	287	287	286	284	282	280	278	275	271	267	262
Capex as % of sales	1,09%	1,12%	1,19%	1,19%	1,12%	1,14%	1,15%	1,16%	1,15%	1,14%	1,15%	1,15%	1,15%
Growth of other D&A	10,57%	2,97%	4,42%	2,60%	5,36%	5,18%	4,11%	4,34%	4,32%	4,66%	4,52%	4,39%	4,45%

TV rights & Cinema													
Beginning Balance	231	220	160	155	157	165	177	193	205	213	221	226	230
Investments	182	182	191	215	222	240	259	273	286	295	301	306	312
Amortization	193	243	196	213	215	228	243	262	278	287	296	302	308
Ending balance	**220**	**160**	**155**	**157**	**165**	**177**	**193**	**205**	**213**	**221**	**226**	**230**	**234**
Investments as % Sales	22,03%	*21,6%*	*20,7%*	*21,5%*	*21,3%*	*21,4%*	*21,3%*	*21,2%*	*21,3%*	*21,3%*	*21,3%*	*21,3%*	*21,3%*
Amortization as % Sales of beginning b	*83,60%*	*78,0%*	*76,7%*	*81,2%*	*80,0%*	*79,9%*	*79,2%*	*79,4%*	*79,9%*	*79,7%*	*79,6%*	*79,6%*	*79,6%*

Table 25 - Operational Costs Estimation in Millions of Euros

Cash flow	**2013**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
EBITDA (before investment in TV)	**261**	**269**	**311**	**359**	**380**	**434**	**497**	**536**	**561**	**572**	**566**	**555**	**545**
less: Investments in TV rights	(182)	(178)	(187)	(202)	(198)	(196)	(201)	(206)	(210)	(212)	(215)	(219)	(223)
less: CAPEX	(9)	(9)	(9)	(9)	(9)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
NWC change	-50	72	20	(25)	(19)	(7)	5	(2)	(5)	2	12	14	11
Other	4												
Operating Cash Flow	**32**	**154**	**135**	**124**	**153**	**221**	**292**	**318**	**336**	**352**	**353**	**339**	**322**
Net Interest Income/(Expenses)	-3	2	4	5	6	6	7	8	8	9	9	9	10
Income Taxes	6	-9	-19	-30	-37	-54	-71	-82	-88	-91	-88	-84	-79
Other	3	0	0	0	0	0	0	0	0	0	0	0	0
Free Cash Flow	**17**	**147**	**121**	**99**	**122**	**173**	**227**	**244**	**257**	**270**	**274**	**265**	**252**
Acquisitions and disposals													

Dividend Received from associates	3	12	12	13	13	13	14	14	14	15	15	15	16
Other													
Cash Flow	**20**	**159**	**133**	**112**	**135**	**187**	**240**	**258**	**271**	**285**	**289**	**281**	**268**
Equity movements													
M&A													
Other													
FCF after M&A and financing	**20**	**159**	**133**	**112**	**135**	**187**	**240**	**258**	**271**	**285**	**289**	**281**	**268**
Dividend paid to s/h	0	(33)	(80)	(105)	(129)	(146)	(185)	(226)	(251)	(265)	(272)	(266)	(255)
Dividend paid to minorities													
Exchange difference													
Cash in/(out) flow	**20,0**	**126,1**	**52,9**	**7,1**	**5,8**	**40,7**	**55,3**	**31,9**	**20,0**	**19,3**	**16,8**	**14,8**	**13,2**
NET DEBT/(CASH)	**(271)**	**(398)**	**(450)**	**(457)**	**(463)**	**(504)**	**(559)**	**(591)**	**(611)**	**(630)**	**(647)**	**(662)**	**(675)**

Table 26 - Cash Flow Statement in Millions of Euros

Balance Sheet	**2013**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Tangible Fixed Assets	276	276	275	275	274	272	270	268	266	263	259	255	250
Audiovisual rights	236	236	236	236	236	236	236	236	236	236	236	236	236
Financial Assets	687	688	689	690	691	692	692	693	694	694	695	695	696
Deferred taxes	186	178	170	162	154	146	138	130	122	114	106	98	90
Total non current Assets	**1.385**	**1.378**	**1.370**	**1.363**	**1.354**	**1.346**	**1.337**	**1.327**	**1.317**	**1.307**	**1.296**	**1.284**	**1.272**
Inventories	6	8	8	7	7	7	7	7	7	7	7	7	7
Debtors	219	222	241	251	269	296	321	339	354	367	376	382	389
Other	19	19	19	19	19	19	19	19	19	19	19	19	19
Cash and Equivalents	114	220	273	280	286	326	382	413	433	453	470	484	497
Total Current Assets	**350**	**468**	**541**	**557**	**580**	**649**	**729**	**779**	**814**	**846**	**872**	**893**	**913**

Total assets	**1735**	**1846**	**1911**	**1920**	**1935**	**1995**	**2066**	**2106**	**2131**	**2153**	**2168**	**2177**	**2186**
Equity Shareholder's fund	1.419	1.466	1.491	1.515	1.532	1.571	1.612	1.637	1.651	1.658	1.652	1.641	1.631
Minorities	12	12	12	12	12	12	12	12	12	12	12	12	12
Long term debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions	10	10	10	10	10	10	10	10	10	10	10	10	10
Other	10	10	10	10	10	10	10	10	10	10	10	10	10
Non-current liabilities	20	20	20	20	20	20	20	20	20	20	20	20	20
Short Term Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Creditors	263	338	378	363	361	381	411	428	437	454	474	494	512
Other	10	10	10	10	10	10	10	10	10	10	10	10	10
Current liabilities	283	348	388	373	371	391	421	438	447	464	484	504	522
Total liabilities and equity	**1735**	**1846**	**1911**	**1920**	**1935**	**1994**	**2066**	**2106**	**2131**	**2153**	**2168**	**2177**	**2185**

Table 27 - Balance Sheet in Millions of Euros

Working Capital	**2013**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Sales	767	787	866	947	991	1.071	1.168	1.242	1.300	1.343	1.372	1.397	1.425
Incremental Sales	-60	20	79	81	43	81	97	74	58	43	29	25	28
Inventories	6	8	8	7	7	7	7	7	7	7	7	7	7
Debtors	219	222	241	251	269	296	321	339	354	367	376	382	389
Creditors	263	338	378	363	361	381	411	428	437	454	474	494	512
Net Working capital	-37	-109	-129	-105	-85	-78	-84	-81	-77	-79	-91	-105	-116
Adjustment from rights													
Net Working Capital (need)/surplus	-50	72	20	-25	-19	-7	5	-2	-5	2	12	14	11
% of sales	*-6,5%*	*9,1%*	*2,4%*	*-2,6%*	*-2,0%*	*-0,7%*	*0,4%*	*-0,2%*	*-0,3%*	*0,2%*	*0,9%*	*1,0%*	*0,8%*
% of incremental sales	*83,0%*	*367,9%*	*25,7%*	*-30,3%*	*-44,7%*	*-8,7%*	*5,4%*	*-3,2%*	*-7,8%*	*5,6%*	*41,0%*	*55,5%*	*0,0%*
% of debtors	29%	28%	28%	27%	27%	28%	27%	27%	27%	27%	27%	27%	27%
% of creditors from Opex	39%	49%	51%	46%	45%	46%	47%	47%	46%	46%	46%	47%	46%

Net debt calculations	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Net Interest Income/(Expenses)	-3	2	4	5	6	6	7	8	8	9	9	9	10
interest rate	*-3,6%*	*1,2%*	*1,8%*	*2,0%*	*2,0%*	*1,9%*	*1,8%*	*1,9%*	*2,0%*	*2,0%*	*2,0%*	*2,0%*	*2,0%*
EBITDA / net int. charge													
Net Interest Income/(Expenses)	-3	2	4	5	6	6	7	8	8	9	9	9	10
Cash interest rate	*-3,6%*	*1,2%*	*1,8%*	*2,0%*	*2,0%*	*1,9%*	*1,8%*	*1,9%*	*2,0%*	*2,0%*	*2,0%*	*2,0%*	*2,0%*
Cash balance	94	220	273	280	286	326	382	413	433	453	470	484	497
Short Term Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Long Term Debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Net debt (cash)	**-94**	**-220**	**-273**	**-280**	**-286**	**-326**	**-382**	**-413**	**-433**	**-453**	**-470**	**-484**	**-497**
Net debt / (equity + net debt)	*-7,1%*	*-17,6%*	*-22,4%*	*-22,6%*	*-22,9%*	*-26,2%*	*-31,0%*	*-33,8%*	*-35,6%*	*-37,6%*	*-39,7%*	*-41,9%*	*-43,9%*
Avg Net debt / EBITDA	*-1,0x*	*-1,7x*	*-2,0x*	*-1,8x*	*-1,6x*	*-1,3x*	*-1,2x*	*-1,2x*	*-1,2x*	*-1,2x*	*-1,3x*	*-1,4x*	*-1,5x*

Table 28 – Working Capital and Net Debt in Millions of Euros

PER SHARE DATA	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Number of shares	406,9	406,9	406,9	406,9	406,9	406,9	406,9	406,9	406,9	406,9	406,9	406,9	406,9
Average number of shares	**406,9**	**406,9**	**406,9**	**406,9**	**406,9**	**406,9**	**406,9**	**406,9**	**406,9**	**406,9**	**406,9**	**406,9**	**406,9**
NET INCOME (post-minorities)	4,2	80,0	105,0	129,0	146,1	185,1	226,2	250,9	265,5	271,9	265,8	255,0	245,4
EPS	**0,01**	**0,20**	**0,26**	**0,32**	**0,36**	**0,45**	**0,56**	**0,62**	**0,65**	**0,67**	**0,65**	**0,63**	**0,60**
% change	*-91,60%*	*1866,8%*	*31,2%*	*22,9%*	*13,2%*	*26,7%*	*22,2%*	*10,9%*	*5,8%*	*2,4%*	*-2,2%*	*-4,1%*	*-3,8%*
Adj. Net Income	49,3	95,2	120,2	144,2	161,3	200,3	241,4	266,1	280,7	287,1	281,0	270,2	260,6
Adj. EPS	**0,12**	**0,23**	**0,30**	**0,35**	**0,40**	**0,49**	**0,59**	**0,65**	**0,69**	**0,71**	**0,69**	**0,66**	**0,64**
% change	*-24,50%*	*95,0%*	*26,2%*	*20,0%*	*11,8%*	*24,2%*	*20,5%*	*10,3%*	*5,5%*	*2,3%*	*-2,1%*	*-3,8%*	*-3,6%*
Dividends Paid	33	80	105	129	146	185	226	251	265	272	266	255	245
DPS	**0,08**	**0,20**	**0,26**	**0,32**	**0,36**	**0,45**	**0,56**	**0,62**	**0,65**	**0,67**	**0,65**	**0,63**	**0,60**
Pay-out Ratio	*75%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*

Free Cash Flow	17	147	121	99	122	173	227	244	257	270	274	265	252
FCF ps	**0,04**	**0,36**	**0,30**	**0,24**	**0,30**	**0,43**	**0,56**	**0,60**	**0,63**	**0,66**	**0,67**	**0,65**	**0,62**
% change	*-57,30%*	*803,8%*	*-18,0%*	*-17,5%*	*22,6%*	*42,3%*	*30,8%*	*7,6%*	*5,1%*	*5,3%*	*1,3%*	*-3,1%*	*-4,8%*
EBIT Margin	8,5%	8,7%	11,6%	13,9%	15,7%	19,5%	22,8%	24,1%	24,6%	24,5%	23,3%	21,8%	20,4%

Table 29 - Per Share Data in Millions of Euros

EBITDA mg Growth	43,82%	2,10%	25,35%	16,75%	10,69%	21,76%	14,86%	5,44%	1,74%	-0,55%	-4,32%	-6,02%	-5,88%
Gross TV Advertising Growth	-7,28%	2,55%	10,09%	9,39%	4,59%	8,14%	9,01%	6,36%	4,65%	3,35%	2,14%	1,84%	2,00%
Personnel Costs % T Revenues	12,32%	12,71%	12,88%	12,62%	12,26%	12,15%	11,67%	11,26%	11,13%	11,12%	11,21%	11,44%	11,74%
EBITDA Mg	10,53%	10,75%	13,48%	15,74%	17,42%	21,21%	24,36%	25,69%	26,13%	25,99%	24,87%	23,37%	22,00%
EBTIDA mg growth	3,21%	0,22%	2,73%	2,26%	1,68%	3,79%	3,15%	1,32%	0,45%	-0,14%	-1,12%	-1,50%	-1,37%
Personnel Costs % T Revenues	13%	13%	13%	12%	12%	12%	11%	11%	11%	11%	11%	12%	12%

Table 30 - EBITDA Margin Growth

Beta Assumptions	
Cash/EV Mediaset 2013	2,95%
Damodaran Advertisign Sector	0,69
Damodaran Sector Corrected for Cash	0,710
Bloomberg Raw Historical 1Jan09-01Jan14	1,091
Final Beta	0,901

Table 31 - Beta Assumptions

July 24h 2014		
Consensus		EUR
Consensus Rating		2,71
Buys	22.6%	7
Holds	38.7%	12
Sells	38.7%	12
Bruno Target Price		**9,0**
Consensus Price Target		8,8
Last Price		8,9
Return Potential		0,77%
Consensus Potential		-1,24%

Table 32 - Summary Market Consensus

Mediaset España		2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E T
EBITDA before rights inv.		269	311	359	380	434	497	536	561	572	566	555	545
EBIT		74	107	140	164	219	277	310	330	339	329	313	299
Total investments (inc. rights)		-187	-196	-211	-207	-206	-211	-216	-220	-222	-225	-229	-233
NWC		72	20	-25	-19	-7	5	-2	-5	2	12	14	11
Taxes on EBIT		*-20,01*	*-28,94*	*-37,89*	*-44,39*	*-59,42*	*-75,04*	*-84,26*	*-89,65*	*-91,94*	*-89,42*	*-85,06*	*-81,14*
Tax benefit	*25%*	5,00	7,23	9,47	11,10	14,86	18,76	21,07	22,41	22,99	22,35	21,26	20,29
Unlevered FCF			**114**	**95**	**120**	**177**	**235**	**255**	**269**	**283**	**286**	**276**	**261**
Discount Factor			**1,00**	**1,09**	**1,18**	**1,29**	**1,40**	**1,52**	**1,65**	**1,80**	**1,96**	**2,13**	**2,31**
Discounted CF			**113,8**	**87,5**	**101,4**	**137,5**	**168,2**	**167,7**	**162,7**	**157,5**	**146,0**	**129,5**	**112,9**
% growth													
PV of FCF		1.485											
PV of Residual Value (FCF)		1.761											
Theoretical EV		**3.246**											

DCF calculations	Fair value	per share*
Enterprise value	**3.246**	**8,0**
Net (debt)/cash (2013 ye)	94	0,2
CORE BUSINESS EQUTIY VALUE	**3.340**	**8,2**
Tax asset / (liability)	93	0,2
Equity cons. Assets	235	0,6
Total adjustments	328	0,8
TOTAL EQUITY VALUE	**3.668**	**9,00**
Current Share Price (EU)		8,91
Upside (downside)		**1,0%**

DCF assumptions summary	
Explicit period	
Capex as % of sales (avg 2014E-23E)	1,2%
Effective Tax Rate	*27%*
Terminal value assumptions	
Terminal growth	2,2%
Terminal EBITA margin	20,4%
Terminal capex as % of sales	1,1%
WACC	**8,8%**

Table 33 - DCF Valuation in Millions of Euros

Firm	Analyst	Recommendation	Tgt Px	Date
Natixis	Jerome Bodin	reduce	5	07/24/14
Banesto Bolsa SA Sociedad	Maria Munoz-Rojas	neutral	6	04/03/13
Societe Generale	Laurent Picard	sell	6,3	07/24/14
Ahorro Corporacion Financiera SA	German Garcia Bou	sell	6,9	07/24/14
CaixaBank	Santiago Marin	underweight	7,1	06/26/14
AlphaValue	Veronique Cabioc'H	sell	7,69	07/24/14
Berenberg	Sarah Simon	sell	7,8	07/24/14
BPI	Pedro Oliveira	sell	7,95	03/06/14
Interdin Bolsa	Borja Mijangos Blanco	sell	8	07/24/14
Exane BNP Paribas	Adrien De Saint Hilaire	underperform	8,2	07/24/14
Grupo Santander	Fernando Cordero Barreira	hold	8,8	07/24/14
BofAML	Daniel Kerven	neutral	8,9	07/24/14
Bruno's Equity Research	**Bruno Carvalho**	**hold**	**9**	**07/25/14**
Barclays	Julien Roch	equalweight	9	07/24/14
BBVA	Ivon Leal	market perform	9,1	07/25/14
UBS	Tamsin Garrity	neutral	9,15	02/21/14
HSBC	Christopher Johnen	neutral	9,2	07/24/14
Deutsche Bank	Laurie Davison	hold	9,3	07/07/14
Goldman Sachs	Lisa Yang	neutral/neutral	9,4	06/11/14
JPMorgan	Filippo Pietro Lo Franco	neutral	9,4	03/31/14
Espirito Santo Investment Bank Research	Nuno Estacio	neutral	9,4	01/20/14
Nomura	William Mairs	neutral	9,5	07/25/14
Kepler Cheuvreux	Inigo Egusquiza Castellanos	buy	9,6	07/25/14
Liberum	Lisa Hau	buy	9,7	07/16/14
Equita SIM SpA	Stefano Gamberini	buy	10,2	07/14/14
NMAS 1 Agencia de Valores	Jose Ramon Ocina	strong buy	11	07/25/14
Macquarie	Angus Tweedie	outperform	12,25	07/18/14
Credit Suisse	Omar Sheikh	outperform	13	07/24/14

Table 34 - Market Consensus Details (Bloomberg 24th July 2014)

Ratings Definition	Upside
Buy	+10%
Neutral	0% -10%
Sell	-10% - 0

Table 35 - Ratings Definition used by ESIB

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