CATÓLICA-LISBON
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# Equity Valuation: COFINA

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**ABSTRACT**

The present dissertation aims to value an equity-investment, a listed company Cofina, SGPS, one of the main players in the Media sector in Portugal. The valuation procedures result from the extensive literature review on the subject – Equity Valuation.

In the end, the results will be compared to the Caixa Investment Bank Research Report.

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## 2. Preface

I choose to do this dissertation because of the challenge involved. It was the first that I analyzed a real company and apply the concepts of Equity Valuation learned during my Master in Finance.

It was also reward learn how the financial statements are linked to each other and also learn how to make projections with the best assumptions possible. For this to be possible, I counted with the help of an Investment Bank, with whom I could always validated my assumptions and analysis. Even more interesting was to gain knowledge on media sector through some readings and through a few contacts with the company chosen, albeit with some difficulty.

## 3. Acknowledgements

I would like to appreciate the support given by Caixa BI equity analyst Guido Varatojo dos Santos, who give me guidelines in the beginning and always support me, clarified my doubts and gave me all the information needed to develop this thesis. I would like to be grateful to Millennium BCP equity analyst João Flores for all the given information and data. I am also very thankful for the support of the Cofina' Investor Relations, Mr. Ricardo Ferreira.

I would like to express my gratitude for the support of my thesis' advisor and Professor José Carlos Tudela Martins, for the constant availability and also by clarifying all my doubts.

Last but not the least I am very thankful for all the support during these months to my family, friends, and Pedro and also from the team of VSadvisory, the company where I work as a consultant during the dissertation' period.

## 4. Introduction

The presented master thesis is the final assignment of the International MSc in Business Administration in Católica Lisbon, School of Business & Economics.

The subject presented in the present dissertation is about Equity Valuation. I start by a literature review reviewing some theoretical concepts about Equity Valuation, describing the main models used to value a company.

Soon after, is the practical case where I will present and performed the valuation of a Portuguese Company, Cofina, operating in the press segment in Portugal, considered one of the market leader of its sector. I choose Cofina because I was interesting in the media sector and in the subject of the impact of new technology information on the sector and how the company that publishes newspapers and magazines are surviving to this new era and what are the opportunities that they have to overcome and to continuing act in this sector.

I decided to embrace this dissertation because I consider valuation an important subject for strategic decisions in a company (as Mergers & Acquisitions, Privatizations, Joint Ventures) and also crucial to provide an accurate advisory for clients that make Equity Investments.

## 5. Literature Review

### 5.1 Overview of Valuation

"Valuation can be considered the heart of finance" Damodaran (2006). However, in spite of all relevant concepts are well described and deep covered in basic corporate finance books, not all the people understand them and in the end all we need is practice on valuation. In addition, people tend to underestimate the importance of a valuation and as a consequence leading to inappropriate decisions that could jeopardize the future of the company.

Thus, according to Thomas E. Copeland, valuation is the best metric and why? Because " to understand value creation, you have to adopt a long-term perspective, manage all cash flows across both the income statement and balance sheet, and understand how to compare cash flows from different periods on a risk-adjusted basis." Basically, he states that you should have an overview of the all picture.

According to Damodaran (2002) there are three types of valuation: i) Discounted Cash Flow (DCF) approach; ii) Relative Valuation; iii) Contingent Claim Valuation. Fernández (2007) also used a similar division of the different types of valuation models. We can summarized both in the following picture:

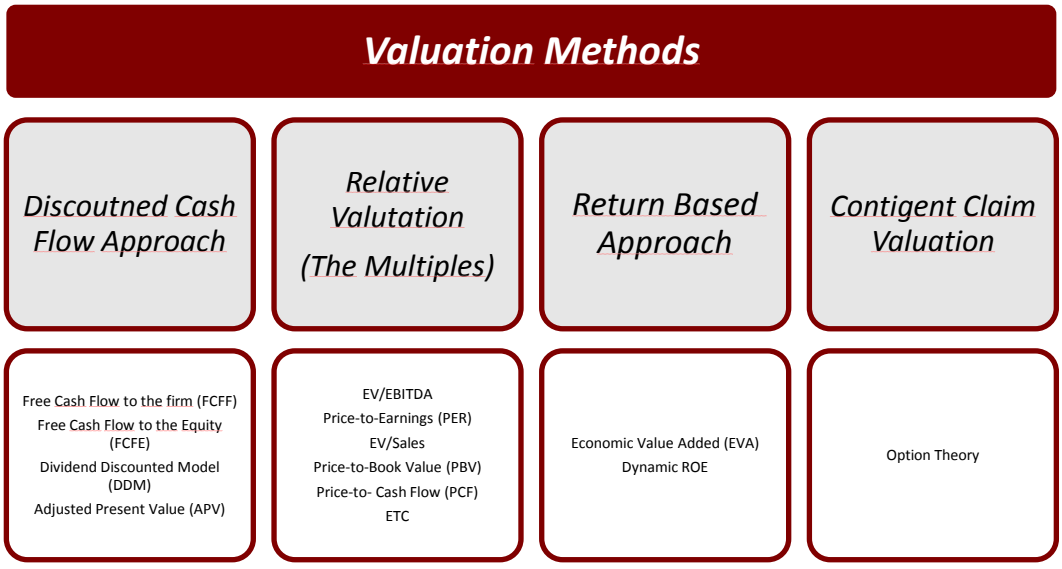



Figure 1. Valuation Methods

Source: Damodaran (2002) & Fernández (2007)

As we can see, those are the methods that have been used to value companies through years. For those who lead to corporate finance everyday or are somehow related to this area, is important to have in mind all these methods and what are behind them. Valuation is not also essential for M&A opportunities but also to understand where the company is creating or destroying value. (Fernández, 2007)

## 5.2 Valuation Models

### 5.2.1 The Discounted Cash-Flow Methodology (DCF)

According to Luerhman (1997) the discounted cash-flow analysis emerged in 1970's has the best practice for valuing companies, although nowadays is obsolete due to a theoretical development in other types of valuation and also due to technology that becomes those methods reliable and even better than DCF. In the near future, companies will use more than one valuation methodology, to get more opinion and make trustworthy decisions.

The DCF method says basically that the value of a certain company is equal to expected future Free Cash Flows discounted at a certain rate that reflects their riskiness, the so called opportunity cost or the return of the best alternative investment.

To obtain the same result, what the company worth, we have two ways to achieve, one is from an enterprise view – or the assets -, or from the equity perspective – the shareholders side.

The first approach – enterprise perspective-, value the company through the free cash flow to the firm (FCFF) using the WACC as a discount rate; the second approach – shareholder perspective use the $K_e$ (Cost of equity) as the discount rate.

But we had also a third approach regarding DCF, it is called the Adjusted Present Value that is emerging as a better tool to value business operations. The aim of this method is to apply a DCF approach to various types of Cash flows and then in the end add up their present values. Comparing to other methods of valuation we can admit that "APV is exceptionally transparent: you get to see all the components of values in the analysis. None are buried" said Luehrman (1997).

In the appendix 15.1.1 are identified some of the limitations of Discounted Cash Flows Valuation.

#### 5.2.1.1 Free Cash Flow to the Firm (FCFF)

This is the first approach – enterprise perspective – that simply consists on value the entire company, discounting their CF at a discount rate called the Weighted Average Cost of Capital (WACC).

And how we arrive at the FCFF? According to Damodaran (2002) we arrive at FCFF through the following way:

This approach show us how much cash the company is creating after investing the required capital to keep the company's operation. This formula of the FCFF to the firm does not take into account the tax benefits of pursuing debt (contrary to the Free Cash Flow to the Equity) because according to the author this is already implicit when we use an after tax cost of debt in the WACC, we were doing double counting.

Damodaran (2002) also suggest another formula to calculate the FCFF:

The Free Cash Flow to the Firm is the money left after fulfill the working capital requirements and all the investments in fixed assets have been done.

- *WACC: Main Components*

Although we have a batch of literature on WACC, the misinterpretation and the lack of understanding of its derivation still exists inside of the companies.

WACC can best be defined as an aggregate risk of the company. However, the WACC only works for static capital structures, thus assuming a constant leverage in the company which means an optimal capital structure.

_____ _____

= Represents the Shareholders cost of capital and is calculated through CAPM

= Is the cost of debt, is calculated by dividing the annual paid interests by the level of the interest paying debt.

—— = Leverage of the company

Thus, looking at the formula, WACC take into account not also the risk of the company (in the ) but also the effect of tax shields when the company decide to recur to debt to finance is activity.

- *Cost of Equity: Ke*

The Discounted Cash Flow and as a consequence the use of WACC rely on the foundation of Capital Asset Pricing Model (CAPM).

The theory born with Harry Markowitz (1952), give us the relationship between the risk of a market porfolio with its expected return, under the assumption that all the investors are mean-variance optimizers, which imply that they will choose the Markowitz portfolio selection, give by his model. As Rosenberg and Rudd (2007) stated, these investors are well-diversified investors, meaning that is not the risk on an individual asset that counts but rather the contribution of that same risky asset for the overall diversified portfolio.

Thus, to calculate the cost of equity of a certain company is of general consensus the use of CAPM, since the formula described well the relationship that exists between the expected rate of return and the related risk. The formula can be described as following:

Thus, to estimate the Cost of Equty ($K_e$) we use the formula above with beta being the share's beta.

- *Risk-free rate*

"Risk in finance is viewed in terms of variance in actual returns around the expected return".
Damodaran, 2008

Having this notion in mind, should be easily deducted that an investment to be risk-free the actual returns is equal to the expected return. According to Damodaran (2008) for an investment to be consider risk free should fulfill the following requirements:

- ✓ **No default risk.** The only assets that should be consider as a risk free is the Government Bonds, because Government has the possibility to print money which in theory does not go bankrupt.
- ✓ **No reinvestment risk.** This requirement say that we should chose a Government Bond with zero coupon bonds to not bear the risk over the rates, which cannot be predicted, in the coupon on a 5-year Treasury-Bond.

After these requirements have been met, the question that rises regarding the risk-free rate relies on whether to use a short-term rate or a long-term one. The criteria to choose the risk free rate is the duration of the Cash flows of the company, normally the duration of the companies on the S&P 500 is about 8/9 years, leading us to conclude that the suitable rate should be a 10-year treasury bond. In our valuation, we will use the risk-free rate on German 10Y Treasury bond, since it is considered the rate that best reflect a market of default free, due to their solid economy.

In contrast to this findings, in a previous article Damodaran (2008) told us that some other practitioners and some academics instead of Treasury Bonds use Treasury Bills, which are short-term rates, because from their perspective, there is no price risk in using T-Bills, while if we the long-term we had the effect of the interest rates' change. But, according to the author this only makes sense if we are considered a single or a few periods.

- *Beta*

This risk is measured by the company's beta. According to Damodaran (2002) Beta is the sensitivity of the stock returns to the market returns. The beta is the covariance of the returns of a certain asset with the movements in the economy. In the appendix 15.1.2, Damodaran (2002) present us a review of the variables that influenced the beta of equity.

The Beta of a certain asset i can be computed in the following way:

Covariance between two rates of return: Rate of return of the company's stock and Rate of return of the market index

Variance of the rate of return of the market index

Beta it only reflects the systematic risk since the "residual risk" (the risk of a common stock) is already eliminated by hold on a diversified portfolio. The beta of the market is equal to 1, which means that a Beta greater than 1, says that a certain asset is riskier than the market and contrary, a Beta less than 1 means a less risky asset comparing to the average of systematic risk. Or in the other way around, the higher the beta the higher excess return of the stock over excess return on the market.

Regarding market index, according to Rosenberg and Rudd (1982) "the application of CAPM using betas calculating against a broad stock market index should provide a good working approximation of the risks of corporate investments".

Moreover, a distinction should be made between the unlevered beta ( ) and the levered beta ( ). Indeed, this distinction make sense, because a companies with different finance structures should have different levels of risk, for instance, a company too leveraged might be more riskier than other with low leverage. The formula of levered beta is the following: (Damodaran, 1994)

- *Small cap Premium*

When we are using CAPM, we are assuming that the beta already reflect the individual risk of a certain company or a specific asset. But some studies over the last decades have been questionable if this assumption is realistically or not. And for that reason some practioners add an additional premium over this return for small capitalization companies, the so called "small cap" that we see in some Equity Research' Reports.

In Damodaran (2011) a reference is made to a study made by Banz (1981) and the study reveals that between 1936-1977 those that invested in smaller firms generated 6% more (after making the right adjustment on the measure of the risk – beta) return than the large ones. This

happened in the United States but also happened outside U.S., with small cap premium ranging from 5,1% in Japan to 7% in U.K. The graph in appendix 15.1.3 shows the average return on small companies between 1927 and 2010.

According to Banz (1981), there could other causes of these excess returns rather than market size, as for instance, other type of risk inherent to these small companies, illiquidity or poor information. Thus saying that a small cap premium exist, is assuming that somehow exist market inefficiency and the betas are poor measures of risk and that this additional "premium" should reflect that lack of risk.

Finally, at the end Damodaran (2011) says that we should be cautious when using a small cap discount, because if we are adding a premium, let's say on the cost of equity, and any adjustment on any specific risk item, we could be making a double counting on risk. In my valuation, I prefer not to use this small-cap premium, assuming that the CAPM works perfectly.

- *Country Risk Premium (CRP)*

The country risk premium is also an issue discussed across papers. The answer to the question whether is reasonable to add a country risk premium when investing in riskier countries is quite obvious, countries that are expose to more political and economic environment should be add a risk premium to the cost of equity. However, there are some arguments against, as described in Damodaran (2011):

- "Country risk is diversifiable": The additional risk that we incur when invest in more riskier market should be diversified at least with other global equity investments
- "A Global Capital Asset Pricing Model": This argument says that CAPM works very well and is adaptable to a global market and so, no addition of a country risk premium
- "Country Risk is better reflected in the cash flows": This argument basically state that if country are facing problems, either political or economic, this negative environment should already be reflected on Cash-flows projections and there is no need to adjust the discount rate

I will use a CRP in my valuation since we considered that nowadays investing in Portugal is no longer considered as an anchor, considering the economic recession that the country will pass through the next years. For that purpose, I will used the table on Damodaran site that looks at each country' rating based on Moody's agency rating and give a certain country risk premium that should be add up to the cost of equity. The cost of equity will look like:

- *Cost of debt*

According to Damodaran (2006) "the cost of debt is the market interest rate that the firm has to pay on its borrowing". This cost of debt have also to do with three main components: the level of interest rates, default premium and the tax rate of the firm.

Generaly speaking, when a firm is rated we should use the specific rating and a default spread. This is only possible, if the debt outstanding is traded on the market.

In our valuation, since the Adjusted Present Value will be used, was computed an average cost of debt for each year, based on the interest rate paid on each debt.

#### 5.2.1.2 Free Cash Flow to the Equity (FCFE)

The aim of the FCFE is to arrive at the value of equity of the firm.

According to this model the only cash flow that is received by the stockholders is dividends. The difference between FCFE and FCFE rely on cash outflow from debt, as payments of interest and capital. Thus, the cash flow to equity start with Net income and arrive to a cash flow after covering the working capital needs and after fulfilling all financial obligations. The cost of equity is calculated by CAPM as already explained before.

Damodaran (2002) present the formula of FCFE in the following way:

#### 5.2.1.3 Dividend Discounted Model (DDM)

*"Investment Value is the present worth of future dividends in case of a stock, or the future coupons and principal in case of a bond." John Burr Williams, 1938*

The Dividend Discounted Model (DDM) developed by Williams works under the assumption that the only cash flow that an investor receive when buy a stock that is public traded is the dividends generated by that stock, under the conditions of certainty. Thus, the value of the stock is the present value of future dividends through an indeterminate period.

DPS = Dividend Per share (Expected)

= Cost of Equity (Calculated by CAPM)

According to Damodaran (2002) because it is difficult to predict the future dividends of a stock some versions of DDM were developed regarding the assumption of future growth of dividends. The two versions are:

- Gordon Growth Model
- Two Stage Dividend Discounted Model

***Gordon Growth Model***

The Gordon Model says that for a company that is in a "steady state" we can assume a constant growing rate of dividends. Thus, according to Gordon, the value of the stock can be computed in the following way:

_____

But if we considered a constant growth rate to the dividends we have also to be assuming the same growth to the earnings of the company. Although, this assumption is very difficult to meet, because of the volatility of the earnings. Thus, according to the Gordon Model only work under the following conditions (Damodaran, 2002)

- For firms that have a growing rate that are equal or lower than the nominal growth rate of the Economy
- Companies that have defined well the dividend payout policies that they want to pay into the future and should be consistent with stability

***Two Stage Dividend Discounted Model***

As the name suggests the model have two phases:

*"Phase 1: Where the growth rate of dividends is not stable"*

*"Phase 2: The model follows a "steady state" as the Gordon Model"*

Thus, the value of the stock is equal to the present value of dividends during the phase one – unstable situation -, plus the present value of dividends during phase two – steady state.

According to Damodaran (2002) this model is more flexible because is adaptable also to companies that are expected to have a low earnings during a few years and after recovery and reestablish the steady state' growth rate. It can be computed in the following way:

_____ _____ Where _____

DPS = Dividend Per Share on year t

$K_e$ = Cost of equity; $K_{e,hg}$ = Cost of equity during unstable period; $K_{e,st}$ = Cost of equity in steady state

### 5.2.1.4 Adjusted Present Value (APV)

*"APV is value additivity, you can use it to break a problem into pieces that make managerial sense." (Luehrman, 1997)*

The Adjusted Present Value (APV) is also based on discounted cash flows approach, but with this method we begin with a value of a company without debt and afterwards we start to add up all the financial side effects, valuing the debt benefits and costs separately from the assets-in place of the company (Damodaran, 2006). Thus, the value of the company should be:

**Enterprise Value of the firm** = Value of the business 100% equity financing + PV of Excepted Tax shields – Expected bankruptcy costs

Source: Damodaran (2006)

The APV method arises due to several problems with DCF with WACC as a discount rate. The problem arises when we apply the DCF with WACC in highly leveraged companies, highly leveraged restructurings and projects financings because the capital structure change over time and as a consequence the discount rate should change also.

The method was first described my Modigliani and Miller (1963) by separating the tax benefits that comes from borrowing, using the cost of debt as a discount rate. The current APV method as we know was later presented by Myers (1974).

The APV method is also very suggested by Luehrman (1997) because the method allows us to know not only the value of a certain asset but also identified where the value comes from. Furthermore, the author defend also that the WACC although very easy to compute is becoming obsolete.

- Unlevered Value of the Firm

The Adjusted Present Value starts with the calculation of the unlevered value of the firm, meaning, like the firm was 100% equity financing :

The value of the unlevered firm is achieved by discounting the cash flow using the rate of return of the equity, in this case $K_u$ , or the unlevered return that is also equal to the required return on assets, since there is no debt till this point. So, at this stage the $K_e = K_u$. When debt appears the relationship become slightly different - $K_e < K_u$ – because now the shareholders are taking more risk for the simple fact of existence of debt and thus would require a higher risk premium. (Fernández, 2007)

The unlevered cost of equity should be computed with the unlevered beta, as described below:

, with

- Value of the Tax Shields

Before Myers present us the APV method as we know nowadays, others authors discuss the issue of Tax Shields (TS). First, we had Modigliani & Miller (1958) that studied the effect of debt on the firm's value and they concluded that in a world of no taxes, the firm's value is independent of the level of debt: $E+ D = V_u$ .

Later on, Modigliani & Miller (1963) propose a different scenario: world with taxes & zero bankruptcy costs. The present value of tax shields was calculated with risk-free rate,

but this assumption was proved by Fernández (2004) to be incorrect, since it does not work for all the companies, special the growing companies, in which the risk-free rate does not reflect their riskiness and also the fact of the non-realistic assumption of zero probability of default.

Later, Harris & Pringle (1980) proposed to discount the PV of TS at the unlevered cost of capital, arguing that the benefits should have the same risk as the unlevered assets. But the same authors argued that depend of the D/E ratio that the company wants to have. If the company wants to maintain a constant D/E ratio, the TS should be discount at $K_D$ in the first year and with $K_E$ in the following years.

Myers (1974) states that the present value of the tax shields should be discounted $K_D$, the reasoning behind it is because the author consider the risk of having debt equal to the tax saving's risk. The discounted rate to be used has raised some controversial issues, as already described, but is generally accepted the cost of debt, because had been prove the best estimate for their risk.

Till now, we have:

- Value of Expected Bankruptcy Costs

The final part of the equation is to compute the negative part that arises from having debt. According to Damodaran (2006) "this component of the adjusted present value approach poses the most significant estimation problems, since neither the probability of bankruptcy nor the bankruptcy costs can be estimated directly".

To compute this value we should have a probability of default that arise from the fact of having debt and try to achieve at bankruptcy costs: direct and indirect. The direct costs are related to the bankruptcy itself, the legal and liquidation costs of dissolving, resulting in the sale of the assets at a discount. On the other hand, the indirect costs are related to the inability of the company to conduct their operations as usual. The company start to lose the right of make some choices without legal approval and also included the decreasing on demand, the increasing in the productions costs and also the time lost by the management team in solving the financial distress.

To compute the probability of default, since they cannot be directly estimated, we have two ways:

- The bond rating estimation;
  In this method we used the tables presented in appendix 15.1.4 For each level of debt it is calculated an interest coverage ratio, and this give a rating for the company. After, it is just look at the probability of default that correspond to that rating that we have come.

- Probability of default by statistical approach;
  Using this method, we can calculate a probability of default based on firm' specific characteristics for each level of debt.

In my valuation I will go by Bond rating method, since it is more directly and is straightforward to use it.

Regarding, the value of the costs we can estimated them from the studies that have been done. This value is usually computed as a percentage of the value of the firm, the unlevered value of the firm. Based on the empirical study of Kortweg (2007), between 1994-2004 ex-ante Costs of Financial Distress (COFD) are 4% of firm value and do not exceeded 11% for any industry. When a firm fills for bankruptcy, the COFD can go up to 31% of firm value. Other authors go more deeply, as Warner (1977) and Weiss (1990) and find that the direct costs of bankruptcy can go up to 5% and the indirect costs would be between 5%-15%.

### 5.2.2 The Relative Valuation (Multiples)

*"If you think I'm crazy, you should see the guy who lives across the hall"*

*(Jerry Seinfeld)*

The aim of relative valuation is to value a certain asset according to similar assets that are priced in the market.

The main difference from the a DCF approach for relative valuation is that in the first one we are looking at the company and its capacity to generate future positive cash flows and also value the management capabilities and in the second approach we simply look at comparable companies and see what the market paid for them and afterwards judge for our company. Normally, the company is value at a multiple of the earnings.

Goedhart, Koller and Wessels (2005) state that the companies focus too much toward DCF and they defend the use of Multiples if carefully treat. From their point of view multiples, align with a DCF approach, had the following objectives:

- Help company to stress-tests its CF's forecasts
- Understand mismatches between its performance and of its competitors
- Help the company defining which strategy to adopt regarding the industry players
- Identify the key factors of the industry and compare them to the company, observe if they are creating value or not.

To use the Relative Valuation approach, four principles should be in mind: (Goedhart, Koller and Wessels, 2005)

I. Find the right companies: similar prospects for growth and ROIC
II. Use forward-looking multiples, based on future earning and not on historical ones
III. Use enterprise-value multiples
IV. Adjust the enterprise-value-to-EBITDA multiple for nonoperating items

Damodaran (2002) states that 90% of the equity research valuations and 50% of acquisition valuations use a combination of multiples and comparable companies with other types of valuations. In the figure below there are some of the most well-known multiples:

| *Relative Valuation* | *Multiple* |
|---|---|
| **Enterprise Value Multiples** | EV/EBITDA |
| | EV/EBIT |
| | EV/SALES |
| **Equity Value Multiples** | Price-to-earnings (PER) |
| | Price-to-Cash Flow ratio (PCF) |
| | Price-to-Book Value (PBV) |

Figure 2. Relative Valuation – Main multiples

Source: Damodaran (2006)

To compute the multiple of the company it is just pick up a driver such sales, revenues, cash flows, EBITDA, etc and multiply by the corresponding multiple.

Goedhart and Koller (2005) state that the enterprise value (Equity + Debt at market values) multiples provides better conclusion as for instance PER multiple since it can be easily manipulate.

For instance, EV/EBITDA is considered by the authors as a trustful ratio because is less prompt to manipulations, as the change in capital structure, that does not directly affect the ratio. Of course, the scenario might change if the capital structure lowers the cost of capital and as a consequence the multiple becomes higher.

Still, the authors suggests some adjustments regarding excess cash, nonoperating assets, operating leases, employee stock options and pensions, because this might be extraordinary events and to not lead to inconsistent results, the adjustments should be made. Above all, because EBITDA is so close to the Cash flows, using this driver will lead our value closer to the value of trading prices.

According to Koller et. Al (2005), the model presents a barrier that is when we cannot find comparable companies and in this case the use of relative valuation as a valuation method must be balanced.

### 5.2.3 Return Based Approaches

In the return valuation approach what matters is the excess return, meaning the difference between the cost of capital or equity and the return over that same capital. Thus, an excess return could be either positive or negative. The basic formula to think about Return Based Approaches is: (Damodaran, 2006):

*Value of the business = Capital Invested in the firm today + Present Value of excess return cash flows from both existing and future projects*

#### 5.2.3.1 Economic Value Added (EVA)

"EVA is the measure that correctly takes into account value creation or destruction in a company". (Stewart, 1991)

"EVA is a measure of the true financial performance of a company". (Stewart, 1991)

The method was developed by Stern Stewart & Co. during the 90's and has the aim to find out the real economic profit of a firm. "The economic value added (EVA) is a measure of the surplus value created by an investment or a portfolio of investments." (Damodaran, 2006)

The formula can be computed in the following way:

EVA = (ROIC – WACC) * Capital Invested = Net Operating Profit After Taxes (NOPAT) – (Capital Invested*WACC)

The NPV method is also valid for the present value of EVA:

And, as a consequence the Enterprise value of the company is the sum of the expected future growth either of the assets in place and also of future projects (Damodaran, 2006)

If NPV is positive, the investment will add value to the firm. For this to happen, the return on invested capital (ROIC) should be higher than the cost of capital (WACC) in the formula of EVA, otherwise company is destroying value.

The EVA creates a relationship between the decision making and the shareholder value creation, because EVA take into account not also the return but also the capital charge, which oblige the manager, in a certain way, to care about management of the assets and income in order to improve EVA and keep at least a constant positive growth of EVA.

#### 5.2.3.2 Dynamic ROE

The ROE follow the same reasoning of the EVA, since is also an excess return. But instead of looking at the value of the firm as a whole looks at the value of the equity.

The Return on Equity stand for the return of Net Income as a percentage of Shareholder's equity:

ROE = Net Income / Shareholder's Equity

The Dynamic ROE uses the same characteristics of ROE to value the company, but dynamic ROE directly computed the value of the equity capital:

If ROE is greater than the management is creating value for their shareholders.

### 5.2.4 Contingent Claim Valuation

#### 5.2.4.1 Option Theory

The contingent claim valuation is the use of option theory on corporate issues and is basically to find the value of an asset, in this case the value of the firm that follow option characteristics.

The option theory is used to value opportunities for instance, companies with new technologies, and defensible positions in fast-growing markets or with easy access to potential markets and for some companies it is indeed the most valuable thing they own. (Luehrman, 1997)

Although, the real life of the business is much more complicate than a simple put or call, the method has become widely known and used since the 70's.

According to Luerhman (1997), to value the company through option theory' method, one should look at cash from the entire business and the cash require to enter in that business and time, meaning, timing the potential cash flows and how long the decision to invest should be or not delayed. And because risk is also an important variable when we talk about valuation, the risk also have two important components in the option theory approach: the risk of the business itself and the risk of the circumstances change later on up to the moment that you have to do the investment decision.

To value these types of investment opportunities we have to sources: the binomial model and Black-Scholes model.

Given the complexity of this model and since I will not use it in my company valuation model, this topic will not be further developed.

## 5.3 Cross-Border Valuation: An overview

Cross-Border Valuation is important for multinational companies. Since the companies of the group gain a major importance (as well as the home made operations) the valuation should be done also with accuracy.

To value this type of companies the same methods are applied, however some implications arise to the assumptions like, currency, foreign or domestic tax rates, the cost of capital, issues regarding the cash flows to be discounted, etc.

Kester and Morley (1997) suggest two models to value multinational companies:

- Discounted Cash Flows with WACC as a discount rate
- APV approach

Regarding the Discounted Cash flows with WACC the authors discussed two methods of valuing the cash flows, discounting foreign-currency cash flows or discount foreign currency cash flows converted to home currency. In both methods the issues of taxes, currency and terminal value exists. For taxes, the authors propose the use of "worldwide tax credit system", apply the same tax to all worldwide income or use a "territorial tax exemption system", meaning exempt taxes in foreign source of income at headquarters if they were paid to foreign countries. The advice with Terminal Value is that the cash-flows projections should be express in the foreign countries' currencies where companies had its operations in order to make sensitivity analyses with the terminal value.

Last but not the least, the APV method is once more the recommended method, special for companies with different capital structures, because take into consideration the "sum-of-the-parts" approach allowing to assess where the company is creating or destroying value.

The company that I propose to value in this dissertation is a national company, operating just in Portugal, for that reason I will not go further on this topic.

## 5.4 Conclusion

According to Young and Sullivan (1999) all the valuation models described should lead to the same or at least similar fair value of the company, if not, it is because the models do not rely on the same data. They also stated that the assumptions behind these models are under certain implications, as consistency, meaning that if we are using certain assumptions for one model should be also valid for the others and thus leading to the same conclusions in the end, as they said "all the roads lead to Rome".

## 6. Industry Analysis

### 6.1 Defining the Media Industry and Publishing sector

Media sector is simply the production and distribution of the information for an audience, through a variety of means.

One of the main characteristics of this sector is that fact that the information is non-rivalry, because once the information is created it can be produce to an additional costumer with a zero marginal cost, meaning that the consumer do not have to "fight" to have that content, because there is a variety of choices. However, a great issue in this industry is the aim to cover a large market share, because as more consumers experience the information, the average cost of production will decrease.

It is also important to say that a company that operates in the media sector also runs in other related-market, like the advertising, like Cofina, the company that I will present and value further on. Thus, in the specific case of Cofina, that sells newspapers and magazines, since both products serve the readers and the advertisers, Cofina should have means to attract readers, otherwise their advertising' revenues might be at risk.

The Media industry as we stated before is too broad and come in different sources. Cofina is not so diversified in the media industry, Cofina is more narrowed to the publishing sector and for that reason a brief description will be made about this sector.

*Publishing Sector:*

"Managing a publishing business ten years ago was like steering an oil tanker. Today it is more like steering a skateboard"

(SkillSet, 2009)

The sector had a wide variety of businesses and for that reason is difficult to compare companies across the world. The companies in this sector can either publish books (for children, academic books, fiction, etc), magazines, newspapers (which could be local, regional and national), and other type of publishing (as maps, printing money, etc).

Nowadays is very common to distinguish between the "traditional media" and the "new media". This "news media" have change the way we look at the information and mostly the impact that they had on the traditional media acts in their value chain and the changing in business models. Moreover, with the *boom* of internet in 2000, allow connecting the world trough new means and also let any person with access to a computer being connect to the digital content.

## 6.2 Analysis of the media sector

The media sector around the world has been facing some challenges and difficulties due to the migration to digital age and economic crises. This fact obliges companies to rethink on their business model.

Media sector is defined by two main categories where the companies obtain their results. The first category is the sale of content and the second category is advertising and is extremely related to the first one. Although, the advertising is passing through tough times, this type of revenues is still the main revenue of the media.

There are also other types of revenues in the sector (although not so representative) as: endorsement, sponsorship, telesales and sales of associated products and services (for instance, those products that you can acquire when you buy a magazine).

As already said before the internet *boom* had change the concept of the traditional media. The emerging of digital age means that the media contents are no more dependent on the physically support, for instance, the press sector is gradually leaving the paper since the information is now quickly and easy available on computers, mobile phones or more recently in the *tablets* (ipad). This environment might lead to some change in the sector as:[1]

- Increase **competition** since barriers to enter decrease in the digital world, because it is easy and economically to put the contents online
- Increase of **distribution channels**
- **Redefine the value chain**: The media companies try to keep the value of their contents through a strict control over the distribution channels. But with the digital age this control is becoming more difficult to maintain. Thus, the companies should rethink on their strategy and try to offer more diversified products in order to increase the choice to the costumer, let's say increase the information through different channels

But the digital era also lead to a decrease on advertising revenues, with the increase of the advertising space through internet the supply increases and the bargaining power of media decreases leading to lower prices. However, the main issue comes from the free contents on the internet and how complex is to monetize them. Nowadays, the business model of advertising is based on a free content, where people have access to the content without paying for it. Companies are now trying to change to a model where they can sell the contents. Although this does not seem so easy, because is not straightforward search for a payment system easy and accessible to the public. Moreover, customers are already familiarized with the free contents on the internet being complex to reshape their minds.

**Economic crisis**

The economic world recession that we have been assisting in the last years affect the consumption and all the industries in general, and the press industry was no exception. This fact is present, for instance, in advertising investment. Uncertainty regarding the economic

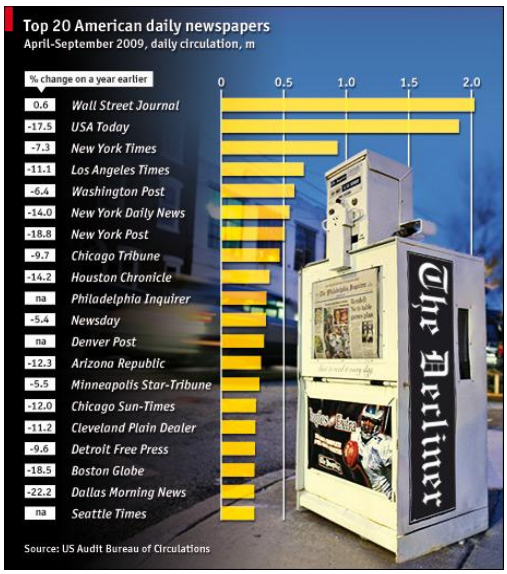
[1] Deloitte Report on ERC (Regulatory Authority for the Media)

situation restricted the investments in marketing, in particular in advertising. The shortfall in revenues by most of the brands around the world and the urgent need to cost containment has forced those companies to reduce their investments in marketing to maintain profitability.

In this project will focus on **press industry** – newspapers and magazines – since the company that I will be focusing on only operates in the press segment in Portugal. The press sector has been facing some challenges with the decrease of circulation of newspapers and magazines. Is the end of the newspapers? Is the main question that urge nowadays in the media sector.

Thus, is important to understand the current landscape of the newspaper industry and the reading of newspapers. And to understand it is important to look at the progress of the online distribution of news and how this changed the way user's access to news.

All over the world we see the impact of the digital era and the crisis in part also. In America, the majority of newspapers decrease their physical sales in paper. Data from the year 2009, tell us the in USA the daily circulation decrease by 10.1% in the first nine months of the year.



Source: US Audit Bureau of Circulation

The issue of paying for information on the internet is also rising around the world, in America, 48% of cybernauts were willing to pay a tax to have news on their personal computers or mobiles, according to a study done by Boston Consulting Group.

"The good news is that contrary to conventional wisdom, consumers are willing to pay for meaningful content. The bad news is that they are not willing to pay so much. But cumulatively these payments could help offset one to three years of anticipated decline in advertising revenues." said a senior partner of Boston Consulting Group[2].

The problem in paying for content on the internet is that is not so easy to find the value of each type of information, because different customers value them in a different way. Moreover, the same study say that consumers value the information that have quality and are important, as unique news – locals news that are currently update -. And because customer is too demanding, the study also reveals that the contents should be available at all platforms, mobile phones, portable computers, tablets, etc.

Nowadays, the challenge for the press industry is to understand that the times are changing and the customer had the freedom to decide when, what and where to consume. The companies in this sector should be prepared to give an answer to the decline of circulation of

[2] In the report: "Tendências e Perspectivas os "novos" jornais" , (Obercom, 2010)

newspapers and magazines and of advertising revenues, not also because of the digital era but because of the decline of global investment in advertising.

## 6.3 The media sector in Portugal

In Portugal was no exception and is also being affected by the factors that were mention in the previous chapter – digital era and the economic crisis.

According to a study[3] by a consultant the revenues of the media sector decrease in 2009 by 7% and the total revenues between 2007 and 2009 were approximately one billion euros. Moreover, as we can see by the graph 1 below, the television subsector it has gain more weight on total revenues contrary to the subsector of press.

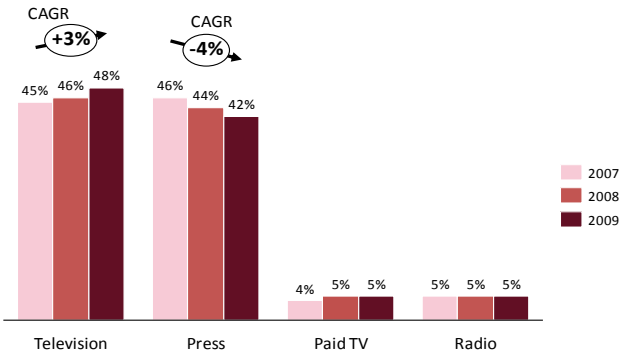



Fig. 3. Weight of the sub-sectors of media on total *r*evenues

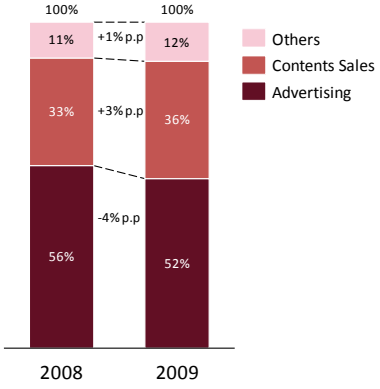



Fig.4 Turnover by type of revenues

Source: Deloitte' Report

The type of revenues that had the largest decrease was advertising, decreasing by 4% p.p the weight on total revenues. This decrease can be explain by the crisis and the budgeting cuts on advertising by advertisers but companies can also be channeled the investment to other types of communication (as events, sponsorships, etc).

The difficulties in accessing credit, the increased financing costs and the low revenues projections of brands/advertisers justify the ongoing contraction in the advertising market. Thus, it is urgent to act at the level of operating costs to maintain margins.

[3] Deloitte Report on ERC (Regulatory Authority for the Media)

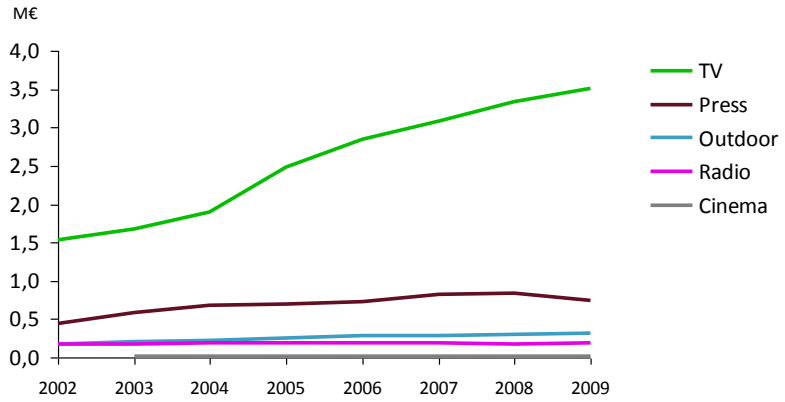



Figure 5. Advertising Investment by subsector 2002 – 2009,

Source: Deloitte' Report, data from Marktest

According to a study made by a consultancy where various players in media market were approach, they are unanimous in the way that it is important to reduce costs. Other measures were mention as the optimization of working capital and financial costs.

In the press segment the measures seems more severe than the traditional cutting of editorial page. Measures as centralization of services and functions comprising the various brands in each Media group are on the top of the list.

As we can conclude, the advertising revenues are strongly linked to the economic cycle and GDP, as can be seen in the appendix 15.2.1.

Still, the evolution and the impact of information technology in the industry could be an opportunity for the sector ready to be exploited. The *boom* of new technologies allows adjustments in the business models, particularly in production and distribution of content for multiplatforms.

### 6.3.1 Press Segment in Portugal

In the subsector of Press the revenues in 2009 also decrease about 12% to approximately 350 million euros, comparing to 400 million euros in the year before.

This fall is mainly because of the economic crises that affected the investment confidence of advertisers (the weight of the advertising revenues in total revenues decrease – Graph 4) and also due to changes in consumer habits (decrease in circulation –Graph 5).

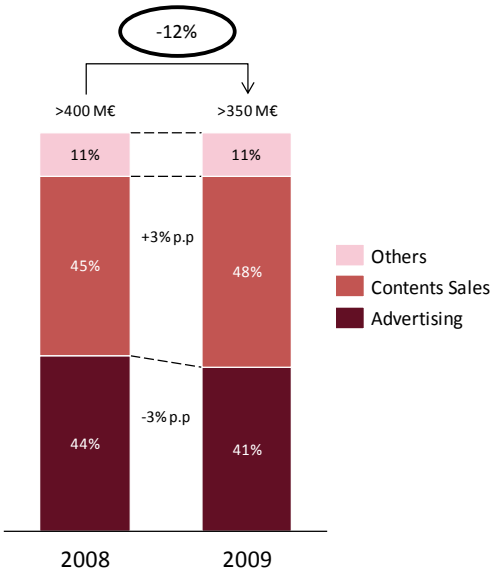



Figure 6. Press Subsector Revenues and weight by type of revenues 2008 and 2009

Source: Deloitte' Report

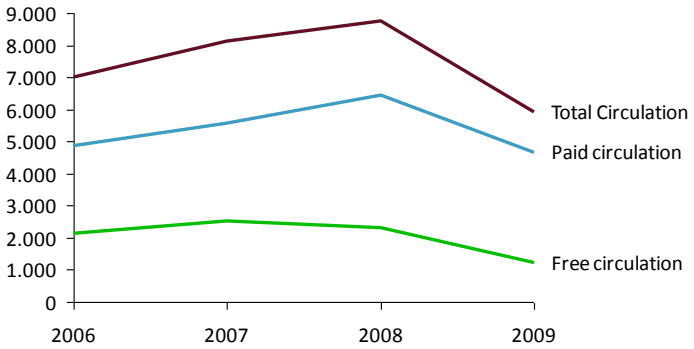



Figure 7. Circulation of newspapers and magazines 2006 to 2009: Thousands of publications
Source: Deloitte' Report, data from APCT

Note: Circulation of newspapers and magazines of general information

Regarding the investment in advertisement on press segment since 2002 have been increasing, but in 2009 we assisted at decrease of 11% in investment, reflecting the economic environment.

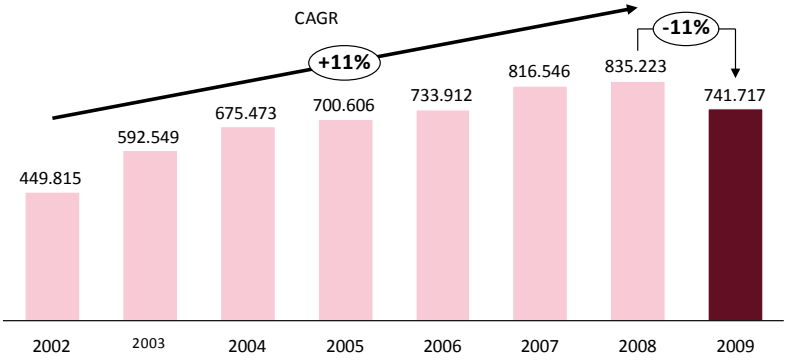



Figure 8. Investment in Advertisement, thousands of euros,

Source: Deloitte' Report, data from Marktest.

The press will be the subsector of media that will recover more slowly from the economic crises. Press segment was also the most affected by the digital era which enhances the reduction of circulation and as a consequence the advertising revenue.

***Free newspapers***

Another phenomenon that we have been assisting is the emergence of the free daily newspapers. There is a lot of potential in this kind of newspapers. A brief discussion is provided in appendix 15.2.2.

## 6.4 Challenges for the future

The newspapers and magazines are now facing new challenges with the emergence of information provided in the internet, through websites, social networks, blogs, etc. For this reason the publishing companies should be aware to take risks and be continued to operate but adapted their business models. The times changes, the audience changes and so companies should follow. A constant innovation in terms of format and contents is required for publishing companies survive in this new environment.

The institution Obercom provide several studies regarding media sector, one of the studies provide some insights about examples of strategies for publishing sector, mainly for the newspapers to overcome the recent negative momentum. One of the main strategies is know the audience, understand their habits and their needs of information.

Second, as more close you get to this new digital era, the margins becomes quite low but at the same time the companies become more diversified and less dependent on one product for instance for advertising revenues.

The majority of companies in this sector had as their first goal cost reductions, however, this will only solve the problem for a short-term period. For the long-term, a strategic thought should be done towards the sustainability and one of the solution pass through the (re)utilization of the content to take some advantages and add value for the company.

These are some examples of strategy that could be adopted by media companies. But for these strategies to happen there is an urgent need to rethink on the business models. In the

last year the "pay walls", meaning, paid for content, has been discussed. I will not go throughout this discussion since there is variety of opinions on the subject and is not the aim of this dissertation to discuss these types of strategies. Nevertheless, it is important to highlight some opinions of those who operated in the field, as show below:

"The payment of content has nothing to do with quality. It has to do with the character unique and relevant".

"We have to be present at all times of consumption, with all the appropriate devices"

By Pedro Araújo e Sá, CIO – Cofina Media

## 7. Company Analysis

### 7.1 Describing the Company

Cofina is one of the principal players in the Portuguese media sector. The company was formed in 1995 as a group holding with stakes in pulp and forest, steel and media.

The industrial assets of the company were demerge from Cofina in 2005 and were set in a new company – Altri. Thus, nowadays Cofina is only focus on media sector. Cofina is listed in Euronext Lisboa (General PSI Stock Index) with a market capitalization of around 54.36 M€[4].

Cofina have now 5 newspapers and 9 magazines, listed below:

| Newspapers | | | |
|---|---|---|---|
| **Newspaper** | Segment | Year of Launched | Periodicity |
| **Correio da Manhã** | Generalist | 2000 (acquired) | Daily |
| **Jornal Destak** | Generalist | 2006 (acquired) | Daily |
| **Metro Portugal** | Generalist | 2009 (acquired) | Daily |
| **Record** | Sport | 1999 (acquired) | Daily |
| **Jornal Negócios** | Economy &Business | n.a | Daily |

Figure 9. Cofina' newspapers

Source: Company Site

[4] April 26th 2011

| Magazines | | | |
|---|---|---|---|
| **Magazine** | Segment | Year of Launched | Periodicity |
| **Sábado** | Generalist | 2004 | Weekly |
| **TV Guia** | Television | 2001 | Weekly |
| **Flash** | Society | 2003 | Weekly |
| **Máxima** | Fashion & Trends | 1988 | Montly |
| **Vogue** | Fashin | 2002 (responsible for edition) | |
| **GQ** | Male Magazine | 2002 (responsible for edition) | Montly |
| **Rotas & Destinos** | Travel activities | n.a | Montly |
| **Automotor** | For drivers | n.a | Montly |
| **Semana informática** | For professional IT market | n.a | Weekly |

Figure 10. Cofina' magazines

Source: Company Site

Besides the newspapers and magazines, in which they had consistent base of readers, Cofina is also present in the web segment to be able to answer to the new challenges – newspapers and magazines "on-line" with the following web sites:

| WebSites | |
|---|---|
| Newspapers | www.correiodamanha.pt<br>www.negocios.pt<br>www.record.pt<br>www.destak.pt<br>www.readmetro.com |
| Magazines | www.sabado.pt<br>www.maxima.pt<br>www.rotas.xl.pt<br>www.automotor.xl.pt |
| Classifields | www.empregosonline.pt |
| Portals | www.xl.pt |

Figure 11. Cofina' websites

Source: Company Site

In addition, the fact that the company have know-how and presence in areas that may benefit them allow the company to easily replace the circulation revenues, which may eventually be lost, by advertising'revenue.

Nowadays, the Cofina strucuture can be showed in the picture below, with the key company being the Cofina Media SGPS.

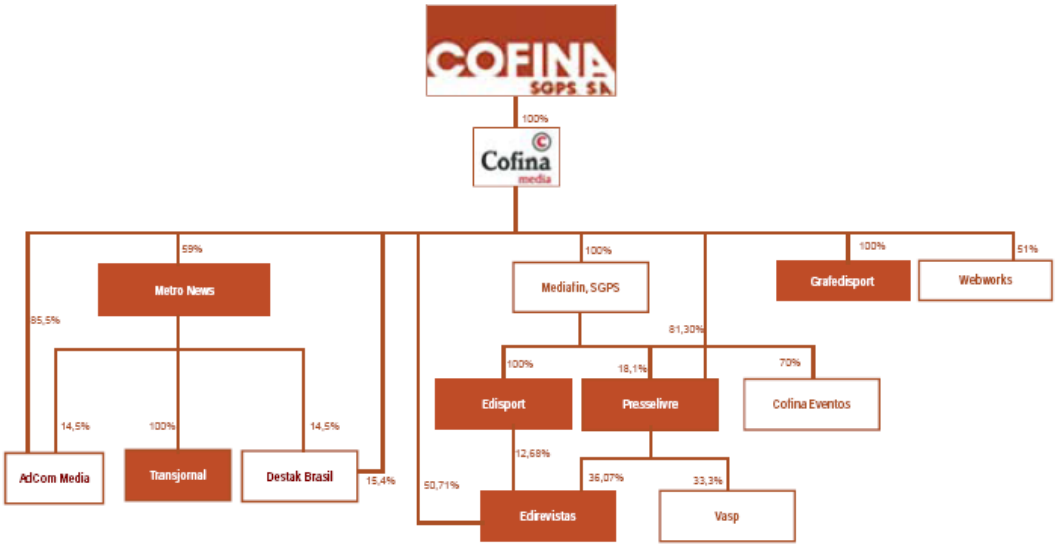



Figure 12. Cofina' Group Structure

Source: Company Site, Consolidated Financial Report – Dec 2010

## ***Shareholder structure***

In 31 of December 2010, Cofina had a total of 102.565.836 shares with the following distribution between the various shareholders.

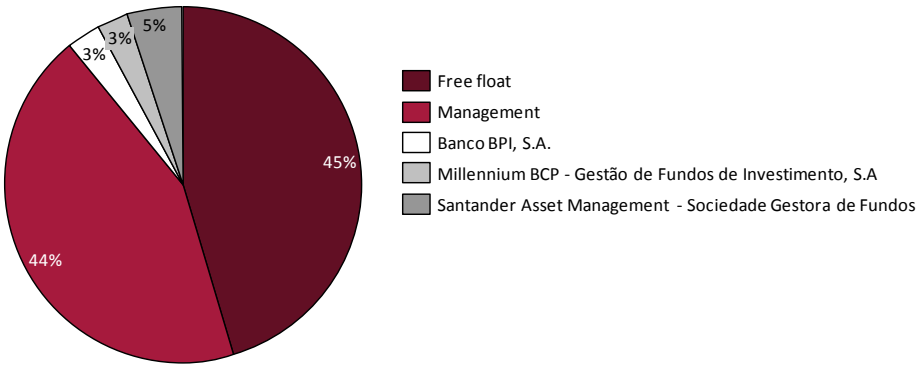



Figure 13. Cofina' Shareholder Structure

Source: Company Site, Consolidated Financial Report – Dec 2010

In the appendix 15.2.3 is a brief story of the entrance of Cofina in the media market.

## 7.2 Company' Strategy

The main growth strategy of Cofina during these past year have been achieving by acquisitions or new launches. The company had two main commitments:

- Top Line growth
- Operating efficiency

Concerning the top line growth, the results are clear, according to the company data in 2003 the EBITDA margin was 8% and in 2010, the company achieves 17% of EBITDA margin.

Cofina divide their strategy in two main categories: Organic and Non-Organic Growth.[5] Regarding the **organic growth** the main goal of the company is to boost the profitability of their portfolio either through EBITDA growth and EBITDA margin increase. On the revenues side the strategy is to strike the investments on newspapers and magazines. On the cost side, the main objective is increase the efficiency making rationalization of costs to improve and optimize their structure.

On the other side, on **non-organic growth** their strategic objective is to achieve dimension, since dimension is important to achieve the goals previous defined in organic growth. So, Cofina is now focused on business consolidation, studying the hypothesis of other media sectors and reinforce their presence in the international markets.

The company had also a shareholding stake on Zon Multimédia of 3%[6]. In my opinion and also the same opinion of some equity analysts of the company, this participation was once considered strategic, when Zon was running for the fifth channel. However, for the company it is still a strategic participation and for that reason we do not have the sufficient knowledge to say when the "deadline" of this participation is. This participation is very important, because is having a huge impact on company' results but do not have any effect at an operational level of the company neither on their Cash-flows. Without denying the value of this stake in the company, in this project we will not evaluate the value of the company Zon Multmédia and for that reason any impairments will not also be taking into account on Cofina'valuation, since the purpose of this project is to value Cofina and not the Zon Multimédia.

[5] Company Website, www.cofina.pt
[6] Incorporating the recent new of the reduction of stake (April, 2011)

## 7.3 The results and Share Price' Performance

As we said in the chapter before, the company has been working in increasing the turnover and also EBITDA Margins.

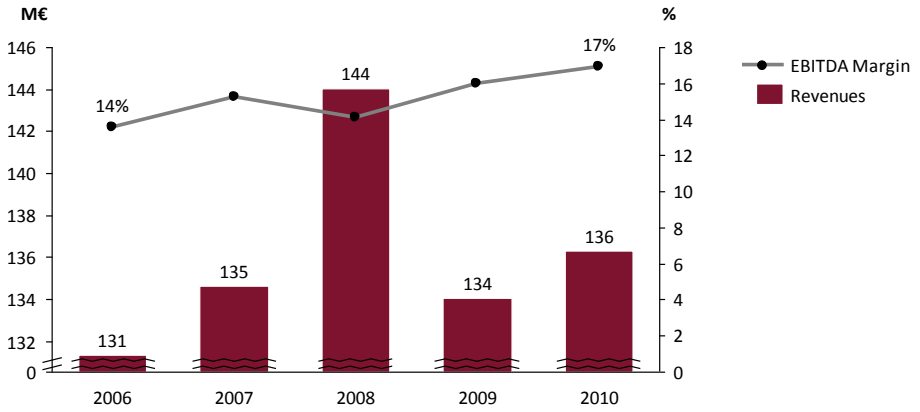



Figure 14. Cofina' Revenues and EBITDA margins

Source: Company Information, Financial reports

As we can see in the graph the company had in the past a good operational performance, boosting on the EBITDA margins, reflecting a good turnover and also tight control of their costs. Of course, the year 2009 the media sector and Cofina cannot escape from the crisis and for that reason this year is consider a *one-off* year.

The company revenues can be divided in three types:

- **Sales**: that correspond mainly to the sale of newspapers and magazines and a little part corresponding to commercialization of paper for printing;
- **Services**: corresponds to the sale of advertising space on their publications;
- **Other Operating Income**: correspond to the alternative marketing products, that are commercialized along with the publications;

However, the company when presents the results by segment tends to separate their revenues on another way: Circulation, Advertising and Alternative Marketing Products & Others. Since, this is the information that one has by segment, this will be the basis to make the projections. The next chapter will be an overview of the historical results of Cofina on each segment.

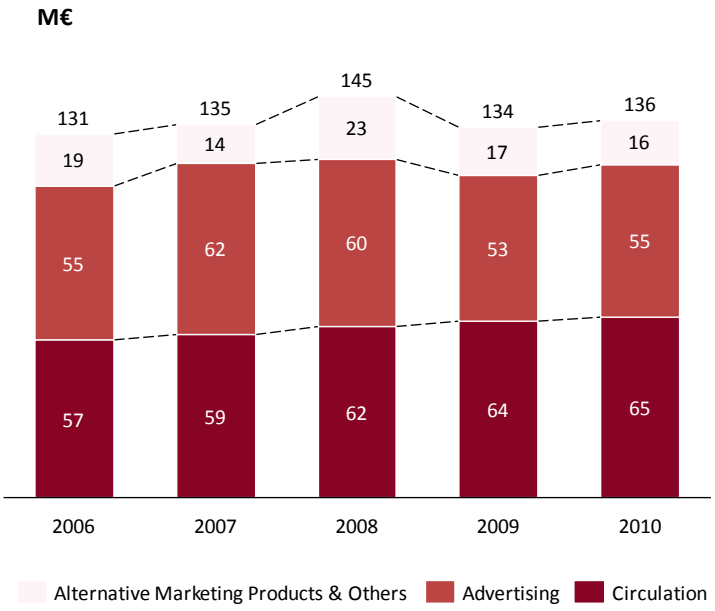



Figure 15. Cofina' Revenues decomposition

Source: Company Information, Financial Reports

As we can see the circulation represents almost 50% of revenues, which reflects somehow the success of their publications, mainly the newspaper *Correio da Manhã* and the magazine *Sábado*.

Since, the projections and valuation will be a Sum-of-the-parts approach I will analyze briefly the revenues and margins by segment.

- *Newspapers' segment*

In the newspaper segment let's take a look on the revenues growth for each segment described before.

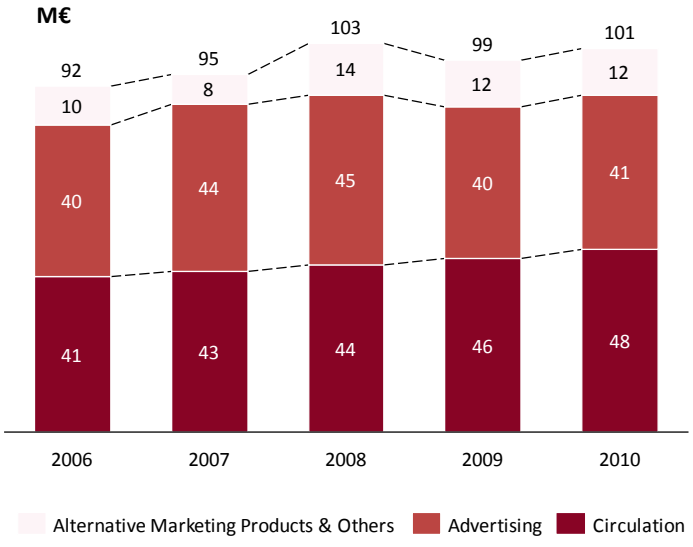



Figure 16. Cofina' Newspaper Revenues

Source: Company Information, Financial Reports

Analyzing the graph we can see that the circulation revenue on newspaper'segment is increasing. This might indicate that although the media sector is passing through difficult times, Cofina could be gaining a bigger market share. Moreover, we attribute this performance mainly to the following newspapers: *Correio da Manhã* and *Jornal de Negócios*, comparing to their main competitors on their segment. In the chart below, we show the market share evolution of *Correio da manhã* and their main competitors.

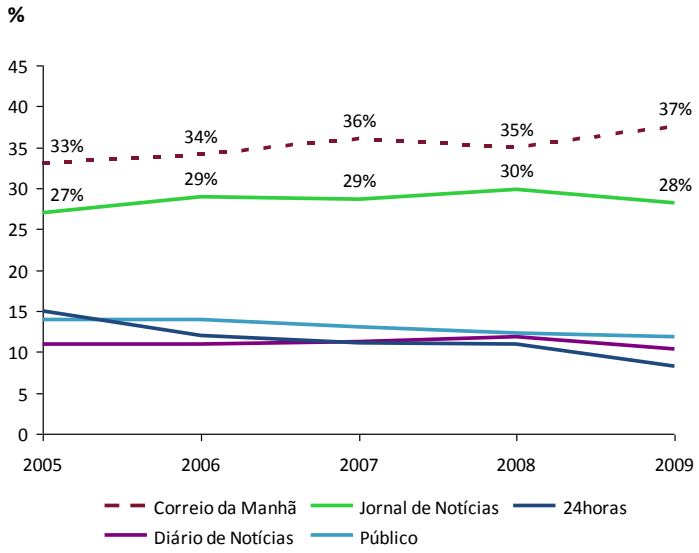



Figure 17. Market Shares of Correio da Manhã and their main competitors

Source: Company Information, Financial Reports

In 2010, the market share of *Correio da Manhã* increased to 42%, for competitors it was not possible to have than information because it was not on company report of 2010, but we can assume with some level of certainty that they stayed behind, making *Correio da Manhã* leader on its segment of daily generalists newspapers.

In terms of EBITDA margin, the evolution was the following:

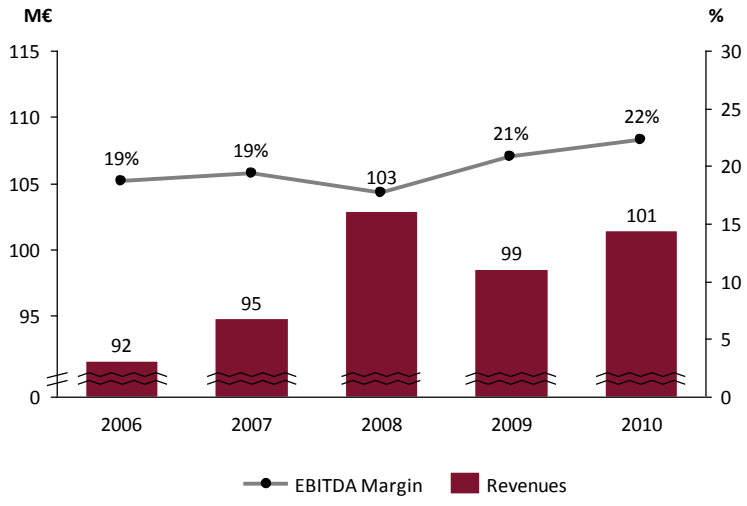



Figure 18. EBITDA margin and Revenues of Newspaper' segment

Source: Company Information, Financial Reports

As we can see, the company has been achieving their strategic goals, the top line growth and the operating efficiency in this segment. For instance, in 2010, the company increases their revenues on the newspapers'segment and also achieves a good operating efficiency by lowering their operating costs. However, we should kept in mind that even if this cost reduction is achievable, it is only possible for a certain growth prospects, because at a certain level, the level at which company is continuing increasing, probably the company reach the point where is not possible an *ad eternum* cost reduction, since is no longer sustainable.

The three types of revenues had the following evolution on newspapers' segment:

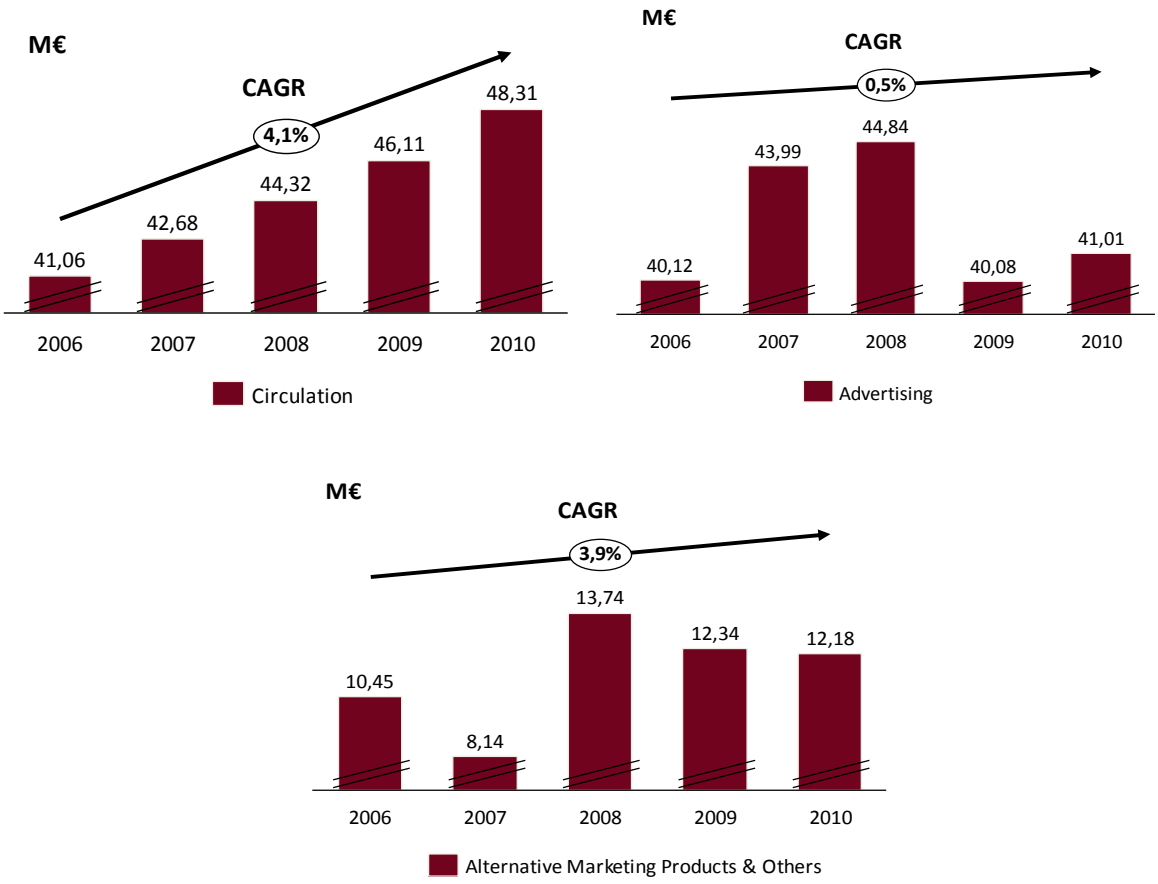



Figure 19. Newspapers'segment Revenues by type

Source: Company Information, Financial Reports

As we can see, circulation revenues have a tendency of growing in the last five years reflecting the company performance on their publications. As already said before *Correio da Manhã,* is in part connecting to this success on circulation due to the specific target that achieves, which is a significantly part of the population in Portugal.

Advertising and alternative marketing products revenues tend to be more volatile with the economy, and the moment of a downturn, this type of revenues tend to drop much more than the economy.

- *Magazines' segment*

In the magazines'segment the revenues had the following growth path in the past:

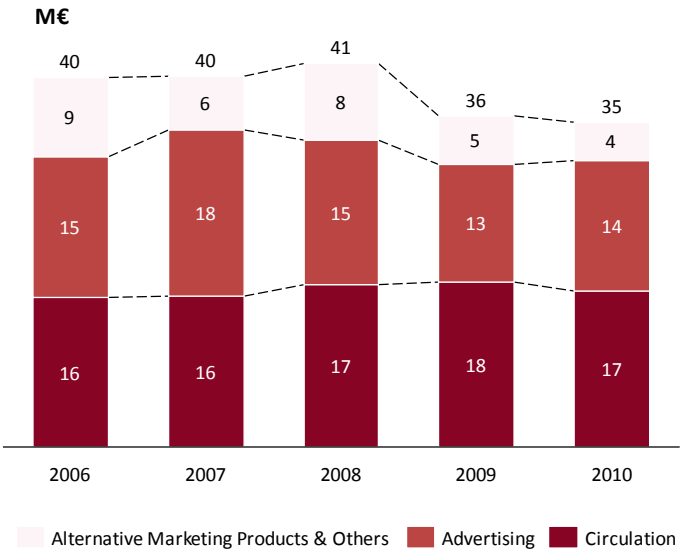



Figure 20. Magazines'segment Revenues by type

Source: Company Information, Financial Reports

Analyzing the graph we can see that the circulation revenues on magazines'segment were quite stable over these years, with a small decrease in 2010.

The performance on magazines' circulation is mainly due to their main magazine *Sábado.* Although this magazine is not the leader on their segment (in opposition with *Correio da Manhã*) the market share has been increasing, like I will show in the graph below.

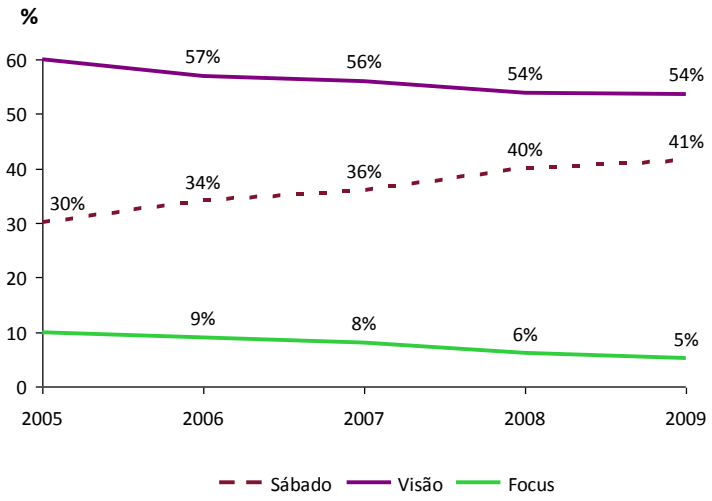



Figure 21. Market Shares of Sábado and their main competitors

Source: Company Information, Financial Reports

In terms of EBITDA margin on magazines, the evolution has been the following:

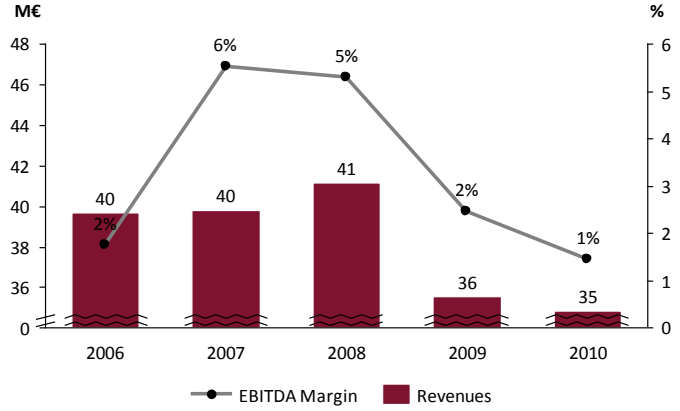



Figure 22. Revenues and EBITDA margins of Magazines Segment

Source: Company Information, Financial Reports

In the magazines' segment the scenario changes a little bit, because margins have been decreasing. Still, the company has been achieving one of their main strategic goals, the operating efficiency. But the turnover has not been the desirable for the company in the last two years, which put their margins on a lower level. The reason for this performance is related to the macroeconomic environment we had lived, leading to a cut by the population of these type of goods that are not essential.

The three types of revenues had the following evolution on magazines' segment:

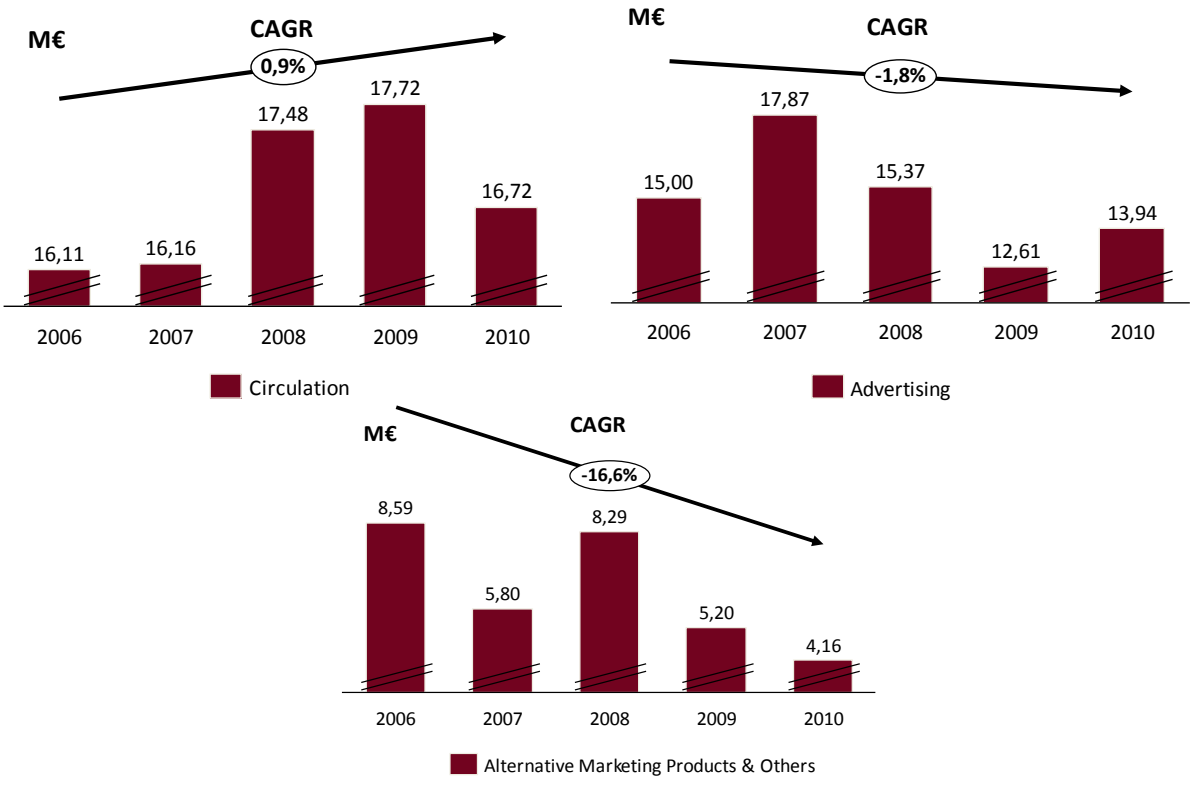



Figure 23. Magazines' segment Revenues by type

Source: Company Information, Financial Reports

As we can see, circulation revenues have an average positive growth on the last years, however contrary to newspaper, this segment suffer much more in periods of poor economic conditions.

Advertising and alternative marketing products revenues had an average negative growth in the last years. In terms of advertising, this poor evolution could be related to an interesting fact: the *boom* of free newspapers. The free newspapers were very succeeded in the terms of converting non-readers in readers, something that was not explored before by the traditional newspapers/magazines. So, from a marketing perspective the free newspapers could be promising, in the sense that this type of newspapers had more advertising (almost 45% of the newspaper is devoted to advertising) than a paid newspapers/magazines on their edition, since these last ones had to justify better than the first the price they charged for information, because if the information is identical the paid newspaper could lose readers. This argument might explain the evolution of the advertising in magazines' segment.

***Share Price Performance***

Regarding the Cofina'stock performance we can see in the graph below that the impact of the crisis on the media segment was huge. In addition to the economic crisis and the negative momentum of Portuguese Media, Cofina had also participation on Zon Multimédia that are having a great impact on their annual results and as a consequence, a poor performance of this stake had also a bad performance on Cofina' stock price.

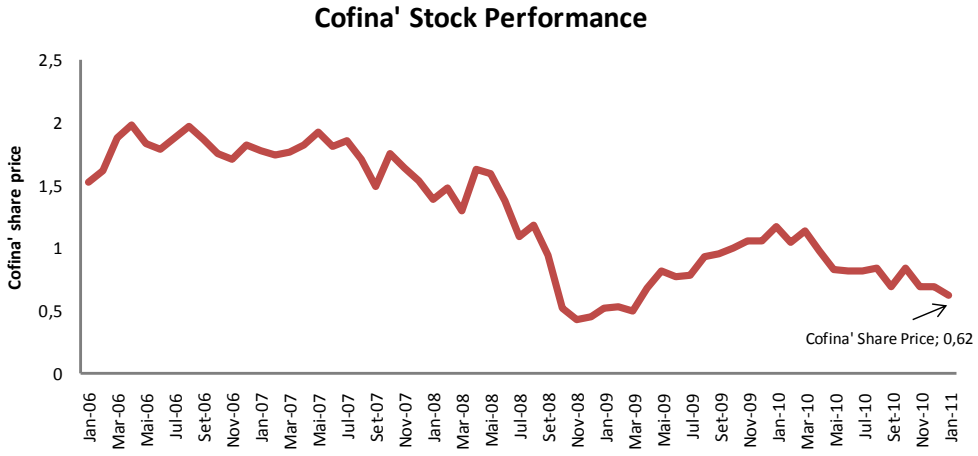



Figure 24. Cofina' Stock Price Performance

Source: Yahoo Finance – Historical Prices

Although the company in 2008 was able to increase the turnover by 7%, the negative results take place due to the performance of Zon Multimédia. Later on, some positive news had an impact on share price as the increase of Millennium BCP' stake on Cofina. In 2010, the results were not the best, due to a decrease in the results of the company. Actually these poor results had an impact also in a lot of companies in the PSI 20 Index reflecting the pressures of financial markets on our market and a consequent increase on interest rate that penalized all the Portuguese Index.

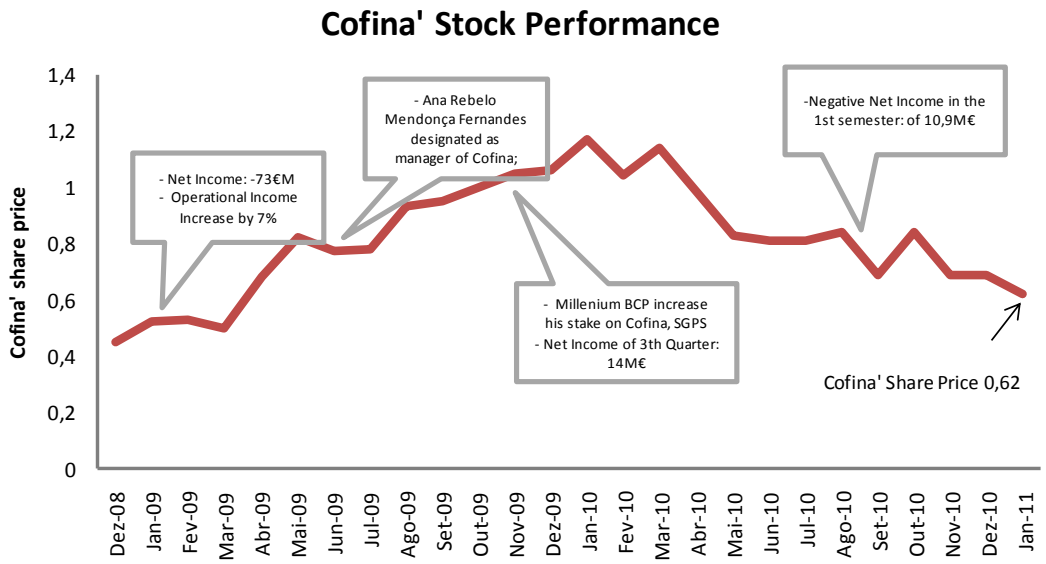



Figure 25. Cofina' Stock Price Performance and Main Events

Source: Yahoo Finance – Historical Prices; Company Information, Financial Reports

### 7.4 Main Competitors

In Portugal, there is other companies operating in the media sector and specifically in the publishing sector, in the appendix 15.2.4 is presented a brief description of these companies. Some of them had almost 50% of publishing' revenues and others the major source of revenues are TV or mobile.

Besides Cofina, only three of the companies are traded on the Stock market: IMPRESA, MEDIA CAPITAL, Sonae.com. The others are important as well because are considered more similar to Cofina' main business. But since they are not traded, there is no public information to make a comparison with these companies, as for instance in relative valuation.

## 8. Valuation Methodology: APV Approach

Cofina will be valued through two different models: APV approach and relative valuation. As already described in the company analysis, Cofina has two segments: newspapers and magazines and the company's reports give the revenues, operating costs, EBITDA detailed by segment which make it possible to divide all the relevant information by segment for APV analysis with a Sum of the parts, to get a value for each segment.

I decided to go for an APV method, because the company's financial structure is expected to change significantly overtime, like it was observable in the past. Moreover, the company does not have a specific target capital structure, meaning that the structure will vary according to the company needs.

Since the valuation would be separate regarding the existence of the two segments, the first thing to do was to start by an Income Statement for each segment, by doing this, we can see in detail the growth of revenues and the costs associated to each segment.

Regarding the valuation inputs it is important to highlight that we assumed the same inputs since there is no information on the market divided by newspapers and magazines, mainly on betas, the measure of the risk that would be the main input differently. So, both segments will be discounted at the same appropriate rate.

## 9. Valuation Assumptions

### 9.1 Revenues Forecast

The first step was the estimation of revenues and here different estimations had been made regarding the newspapers' segment and the magazines' segment and also the different evolution of the diverse sources of revenues: circulation, advertising and alternative marketing products and others.

For that purpose, a deep analysis have been made by reading papers about the industry, consider macroeconomic conditions and compare the position of the company with the others in the same segment in Portugal.

Overall the Cofina revenues have been quite stable with a CAGR around 1%. In 2009, was observable a decrease of 7% in total revenues due to crisis.

After a recover in 2010, unfortunately the news are not good for Portugal and media sector cannot escape from it. Portugal succumbed to the inevitable and request for help, after the rejection of the government's stability program. The debt ratio is now crossing 100% of GDP next year from a 92,4% in 2010. The new measures imposed by IMF will be severe and the country certainly will go through difficult years of recession. This fact, will cause an increase in unemployment rate (being a lagging indicator, will take some years to recover), decreasing in consumption and low productivity.

The media sector in specially is also affected by another factor, the technology innovation, special the introduction of digital technology that are showing some impacts at the value chain of the traditional media – newspapers and magazines.

The forecast assumptions will be explained in detail by segment and by type of revenues: circulation, advertising and alternative marketing products. But it is important to highlighted that all type of revenues were predicted based on their total value, since information regarding price or volume were not available in the market. Thus, to help provide these items, we taking into account data projections regarding GDP and Inflation in Portugal, the recent economic conditions and the latest report of the company' results (1$^{st}$ Quarter 2011), presented in the appendix 15.2. 5.

| *Portugal* | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| *GDP, constant prices (% change)* | -1,51% | -0,48% | 0,90% | 1,20% | 1,20% | 1,20% | 1,20% | 1,20% |
| *Inflation, average consumer prices* | 2,35% | 1,42% | 1,42% | 1,44% | 1,64% | 1,79% | 1,79% | 1,79% |

Figure 26. Data on GDP and Inflation

Source: IMF Site

The revenues were considered to be tied to GDP, since the sector is closely linked with the purchasing parity. However, we take also into account some other factors, as for instance the position of Cofina in the market relatively to their main competitors. The revenues are not directly tied to inflation rate, taking into account the pace of price adjustments in this sector, which is not quite often. Moreover the company does not have any special policy regarding prices. But in the terminal period, let's say the last two years I considered that the revenues were more in line with what is expected to be the inflation rate for those years, meaning that at this point the company is already in a steady state only growing with the inflation and no organic growth.

- *Newspapers' segment*

As described in company' analysis, the newspapers segment has been increasing, with the exception of year 2009 (considered the year one-off). This positive evolution is mainly due to circulation and advertising revenues with *Correio da manhã* the leader newspaper in generalist segment of newspapers in Portugal, being the driver. In contrast, the alternative marketing products have been dropping in the last two year, due to a less prompt by the public to buy the product that come with publications of Cofina. The growth rates are described on the following table and then a briefly explanation on each type of revenue.

| Growth rates on Newspapers | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| Circulation | 1,00% | 0,50% | 2,00% | 3,00% | 3,25% | 1,60% | 1,79% | 1,79% |
| Advertising | -5,00% | -2,50% | 0,90% | 1,20% | 1,50% | 1,60% | 1,79% | 1,79% |
| Alternative Marketing Products | -15,50% | -3,00% | 3,00% | 2,00% | 1,30% | 1,60% | 1,79% | 1,79% |

Figure 27. Growth rate on Newspapers' segment

Source: Thesis analysis

On circulation revenues we adjust our estimation to more than the percentage of GDP in the first years, because although the media sector as whole is not having a good time, Cofina is might increasing their market share due to the performance of the newspaper *Correio da manhã*, because of its target audience and also after the close of a competing newspaper – *24horas*. So, it is expected that Cofina is able to consolidate its market position with the publication that holds. The projections on circulation revenues are shown in the chart below:

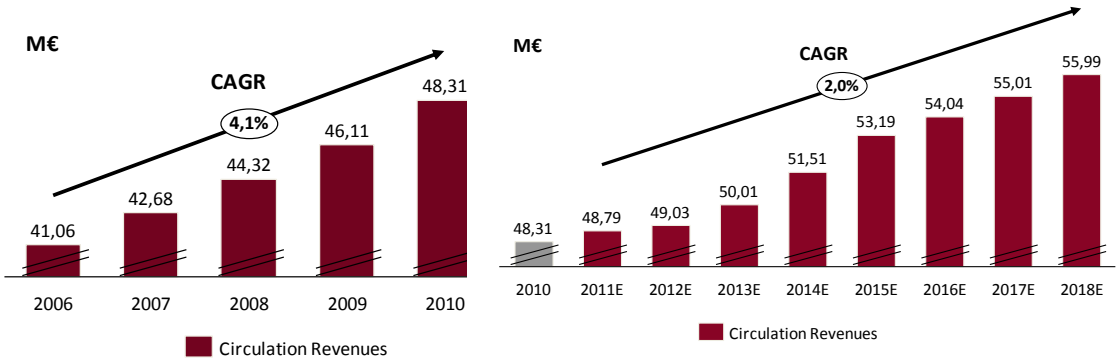



Figure 28. Revenues Historic & Forecast on Circulation (M€)

Source: Thesis analysis

Regarding the advertising, we were more aggressive due to the recent results of the 1st quarter, a decrease of more than 3% and also due to the retraction of the Portuguese advertising market. Because of the current macroeconomic conditions is difficult to predict when the advertising market will be able to recover, forcing to adopt a more careful approach.

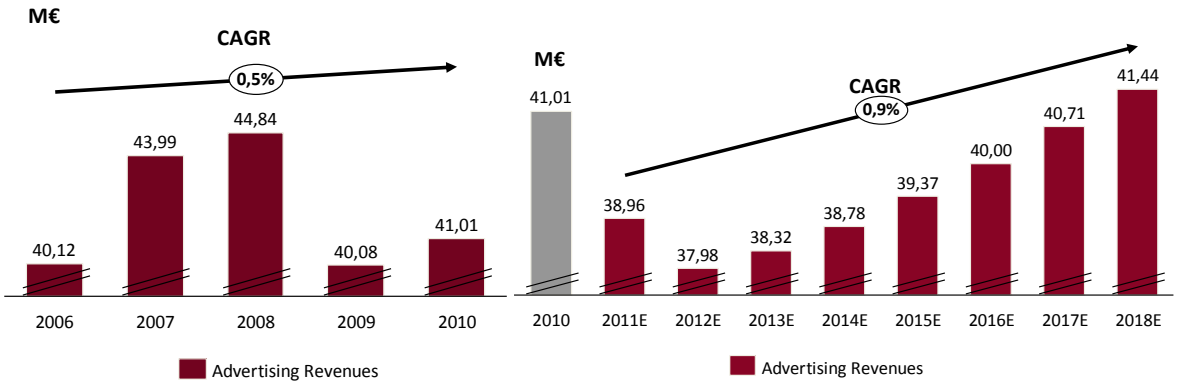



Figure 29. Revenues Historic & Forecast on Advertising (M€)

Source: Thesis analysis

The alternative marketing products decrease more than 45% on the 1st quarter of 2011 comparing to the same quarter last year. So, we incorporate the information on our estimations and coming back to growth on 2013E.

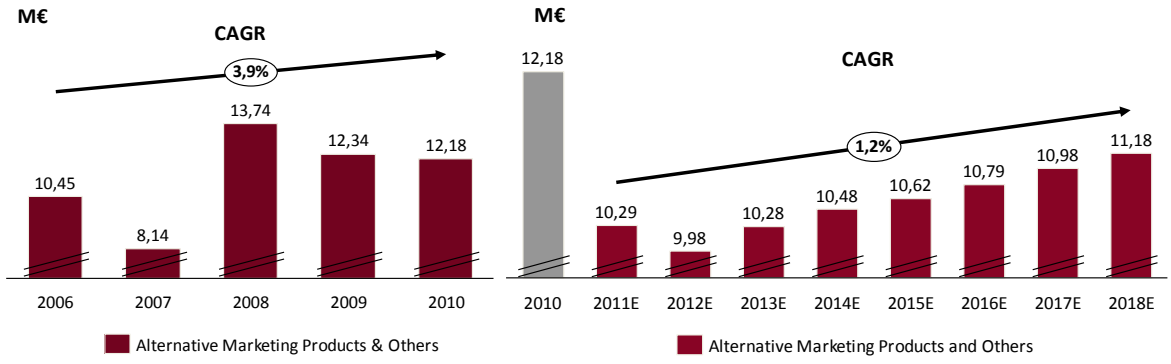



Figure 30. Revenues Historic & Forecast on Alternative Marketing Products and Others (M€)

Source: Thesis analysis

The development of our projections for revenues looks like the graph below:

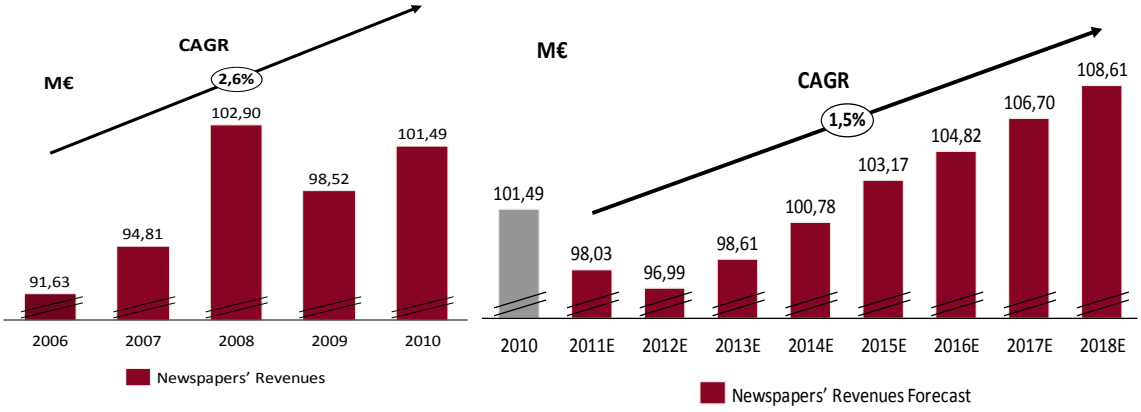



Figure 31. Revenues: Historical & Forecast (M€)

Source: Thesis analysis

- *Magazines' segment*

The magazines' segment tend to suffer more than the newspapers' segment in years of tough crisis, because is a general though that magazines are not an essential good and are more expensive than a newspaper, which means that in an atmosphere of crisis people take these issues into consideration. This was observable in the year 2009, that magazines decrease considerably more (> 10%) than newspapers.

Taking these arguments into account, the projections were more severe for this segment on the years of negative projections for GDP, coming back to recovery in 2013.

| Growth rates on Magazines | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| Circulation | -2,50% | -1,50% | 2,50% | 1,20% | 1,30% | 1,50% | 1,79% | 1,79% |
| Advertising | -10,00% | -4,00% | 2,00% | 1,00% | 1,20% | 1,50% | 1,79% | 1,79% |
| Alternative Marketing Products | -20,00% | -3,00% | 2,50% | 1,00% | 1,00% | 1,50% | 1,79% | 1,79% |

Figure 32. Growth rates on Magazines'segment

Source: Thesis analysis

The circulation revenues in 1st quarter of 2011 had a slight increase of 0,4% relatively to the same period one year before. However we consider that due to the reasons explained before Cofina might expected years of contraction on circulation revenues.

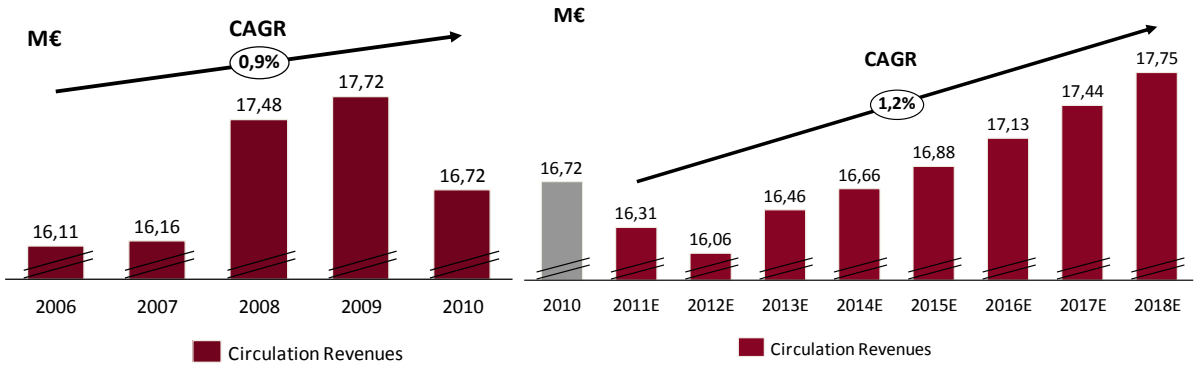



Figure 33. Revenues Historic & Forecast on Circulation (M€)

Source: Thesis analysis

Regarding the advertising projections, the projections were more aggressive as a result of the retraction in the Portuguese advertising market. The companies being concerned about the current situation of the country, tend to lower their costs, so they can maintain their margins, which will be also reflect on reduction of advertising budgets. It was hard to predict these growth rate since it is difficult to understand when the advertising market will be able to recover, for that reason, we put this growth rate increasing in a smoothly way.

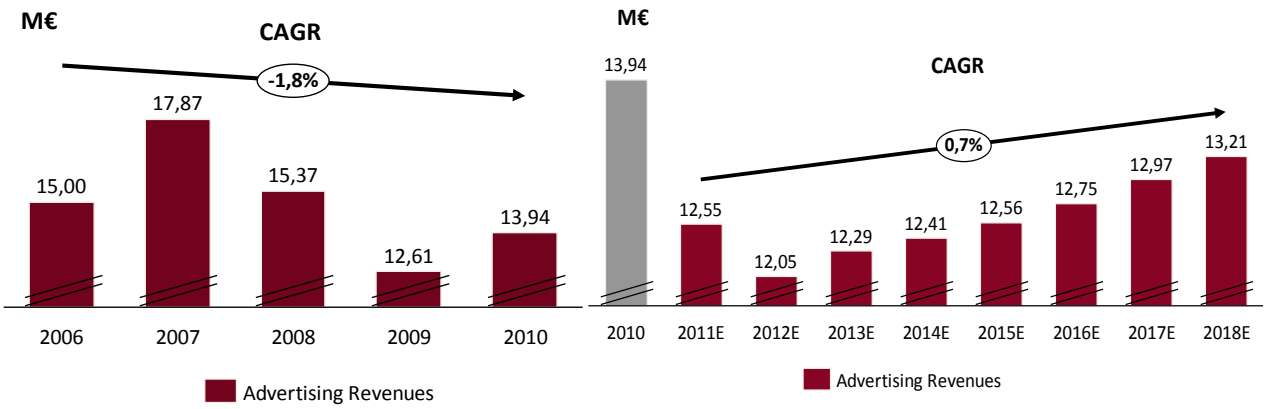



Figure 34. Revenues Historic & Forecast on Advertising (M€)

Source: Thesis analysis

Concerning the alternative marketing products, this item has declined 52% yoy in the first quarter of 2011. Thus, we incorporate this negative trend along with a decreasing tendency of the last two years. When the GDP starts to recover this type of revenues begins to follow, with EBITDA margins growing in a slow path.

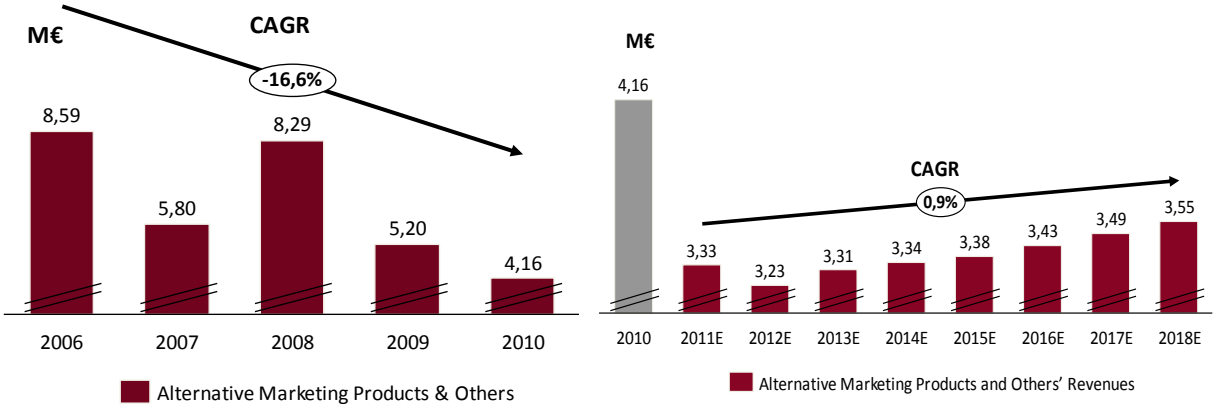



Figure 35. Revenues Historic & Forecast on Alternative Marketing Products and Others(M€)

Source: Thesis analysis

It is undeniable how new information technologies have a great impact on press industry. Initially could present as a threat to the industry because the information was placed in an accessible and free way through the internet, blogs, etc. But currently, the scenario might change, and this fact allows the press companies to fill one of the main disadvantages compared to other media: the gap between the news and the real-time in which occur a certain event. So, in this context of the digital era, the press industry will only benefit with the potential synergies.

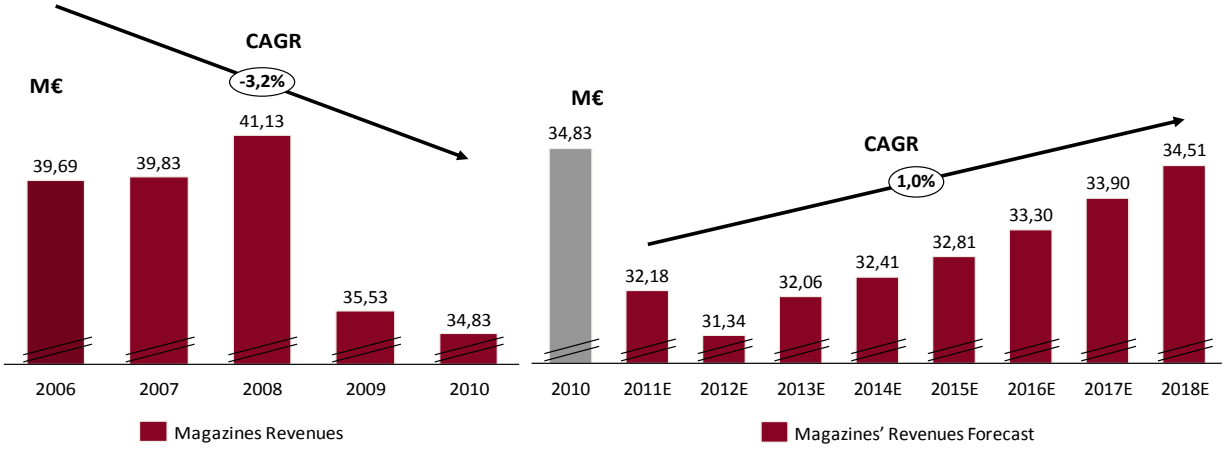



Figure 36. Revenues Historic & Forecast (M€)

Source: Thesis analysis

## 9.2 Operational Costs & EBITDA Margins

Since the valuation was split into the two segments of the company – Newspapers and Magazines – it was considered important also too forecast in detail all the operating costs. However, the company only provides the total operating costs for each segment and not by item of operating expenses. Thus, the primarily thing to do was design an Income Statement for each segment.

The next step was to estimate each item. Some of the items were estimate by a percentage of revenues because a consistent relationship has been observed. This was the case of cost of sales, external supplies and services and other operating expenses.

The company has been working on rationalization and reduction in the cost of sales without neglecting the quality of their publication, starting with 16% of sales in 2006 and got down to 14% of sales in 2010. For future purpose, we decrease slowly this percentage but maintaining the same level after 2 years with the reasoning that is not sustainable an *ad eternum* decrease on cost of sales, otherwise the company can put in risk the quality of their publications and consequently their image on the market.

Fixed costs such as personnel costs were computed differently, not linked with revenues. We had the historical evolution of the number of employees and the total costs and then we computed an average salary. This salary had an increase accordingly to the expectation of the inflation for the next couple of years.

After this step, the issue was to have the total number of employees by segment. We look at the historical information and according to the cost and average salary, the newspapers had approximately 70% of total employees and the remaining 30% for magazines. The average number of employees working for the companies included in the consolidation decreases from 2009 to 2010, from 947 to 900. In terms of projections, the level of employees was maintained in the segment of newspapers at the level of 2010 but a gradually decrease on magazines segment due to a possible close of two magazines: "PC Guia" and "Máxima Interiores". This new is recent and a company source also said that the adjustments on the teams should be

done. This is also consistent with the early argument on rationalization and costs control as an important goal for Cofina.

"We are studying the possible close of these two publications", the decision was made due to the breakdown of circulation in these segments, as well as the reduction in advertising revenues. Was also asked if this decision will lead to a personnel reduction, the same source of the company said that "if there are no publications, teams have to be adjusted"."

in Diário Económico, 31/01/2011

## *EBITDA MARGINS*

As expected due to a decrease on revenues in the next years in our forecasts, the margins will also decrease but coming back to growth on 2013E for newspapers and 2012E for magazines.

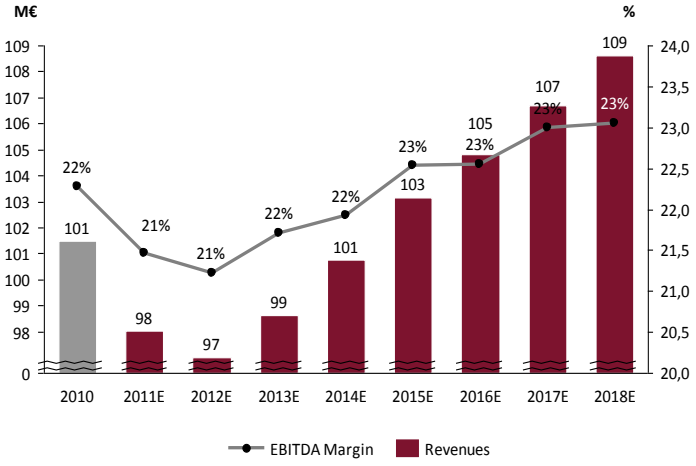



Figure 37. EBITDA Margins and Revenues of Newspapers'segment

Source: Thesis analysis

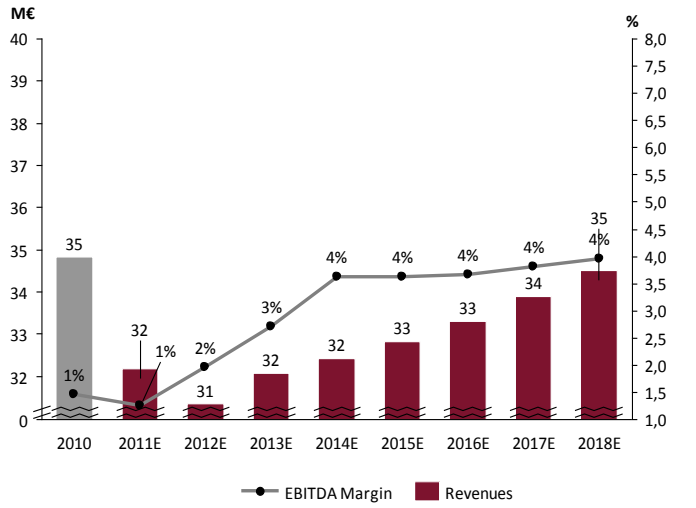



Figure 38. EBITDA Margins and Revenues of Newspapers'segment

Source: Thesis analysis

This prediction reflects the company' main goals of TOP line growth and operating efficiency. According to our forecast the company will be able to decrease their operational expenses in the next years, however, we kept a conservative approach in the steady state period, where the company will maintain constant margins, because as already said before a cost reduction might not be sustainable *ad eternum* because of the continuing increase in revenues. Thus, to maintain the same level of quality and presence in the market, we opt to maintain a certain level of EBITDA margin.

### 9.3 Investment

First of all, it is important to highlight that the Capex item was not easy to achieve, since no investment plan was given by the company. Thus, in accordance with the knowledge that it was possible to obtain about the company and the market itself, it was assumed a certain level of investment each year to maintain or even increase the quality of company's business, according to the assumption that the company is assume to growth. Regarding the depreciation it was not also easy to project because of poor information on company's report. Thus, for these two items, the computation is described in the following paragraphs.

The capital expenditures were around 4.3M€, at tangible and intangible assets. The year 2009 was considered as a one-off year due to the economic crisis. If we linked the Capex to revenues we observe a stable percentage (because Capex has been smooth) that is approximately 3%, excluding the one-off year of 2009.

To get a number of CAPEX of the year by segment, we set as a percentage of sales adding a small adjustment, to be fair that newspapers hold a higher percentage of investment associated due to their nature and a major need of assets. Regarding depreciations & amortizations the same reasoning has been used.

In the terminal period, the last two years, the CAPEX was set equal to the level of depreciation meaning that at this point the company achieves a steady state level and no new investment will be made, only substitution investment to maintain the productivity level set for growth defined for the terminal value.

### 9.4 Net Working Capital

The working capital represent the short-term financial' health of the company. To compute this item we look at historical performance of the company in terms of working capital management and what is the aim for the future. To calculate the net working capital, we follow the basic formula of current liabilities minus current assets, but only those related to the operational activity.

The main items that have been forecast were the Inventories, Accounts receivable and Accounts payables, base on the ratios, Days Sales Inventories (DSI), Day Sales Outstanding (DSO) and Days Payables Outstanding (DPO), respectively.

$$DSI = \frac{I_t}{Cogs_t} \times 365$$

$$DSO = \frac{AR_t}{Rev_t} \times 365$$

$$DPO = \frac{AP_t}{Cogs_t} \times 365$$

The historical information was the following:

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| DSO | 41 | 39 | 29 | 31 | 34 |
| DSI | 51 | 47 | 33 | 58 | 78 |
| DPO | 78 | 58 | 52 | 65 | 59 |
| CCC | 14 | 28 | 10 | 24 | 52 |

Figure 39. DSO, DSI, DPO and CCC for Net Working Capital (Historic)

Source: Thesis analysis

As we can see, in 2010 the Cash Conversion Cycle increased, which means that take more time for the company to convert their inputs in cash flow. Or, on the other way, since CCC = DSO + DSI – DPO, this means the time that the company have to collect money from their clients, the time that is needed to sell inventory and the amount of time that company have to manage to pay for its bills increase considerably.

One of the company's policies is to reduce this CCC and slowly coming back to the levels of 2007 before the crisis. And this were reflected in the projections, although in the last periods we maintain the same level, since it is not clear whether this reduction is sustainable forever.

| | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| DSO | 33 | 32 | 31 | 30 | 29 | 29 | 29 | 29 |
| DSI | 74 | 70 | 67 | 63 | 60 | 60 | 60 | 60 |
| DPO | 60 | 61 | 61 | 62 | 62 | 62 | 62 | 62 |
| CCC | 47 | 41 | 36 | 31 | 27 | 27 | 27 | 27 |

Figure 40. DSO, DSI, DPO and CCC for Net Working Capital (Projections)

Source: Thesis analysis

## 9.5 Debt

Concerning the debt of the company, it is important to highlight that was the most difficult item to project since the company does not have a specific debt-to-value target ratio.

On the liability side, we have to distinguish between the current and non-current debt. Regarding, non-current debt, since 2006 the company has a bank loan (that finished on that year, so we assumed that the company will not contract any more bank loan of this type), bond loans in the value of 50M€ and also some commercial paper (that is also finishing in 2011, so from 2011 further we did not consider anymore commercial paper as a long-term debt).

On the current side, the company had mainly overdraft, commercial paper and a bond loan that was consider current debt because according to the initial contract, the holders of the obligation may request, in its sole initiative the early repayment without any penalties on the bonds that they hold. Thus, according to the accounting standards and since the ability to request such reimbursement is in the exclusive possession of the bond holders and not in the issuer, the company had to consider this loan has short-term debt.

The only bond loan that the company had in 2010 matures in 2015, where the capital and the last interest will be pay, till 2015, the company will be paying only the interest on that nominal value of the debt, which is 50M€. After that period, was considered a new issuance of a bond loan, assuming that the company renews its debt (like it was observable in the past) to meet the proposed growth on revenues and on planned investments.

The plug in the in the balance sheet was defined in the short-term debt through overdraft, which have higher values in the first year of projections, since only one bond loan still remain.

For the purpose of the valuation, we consider the debt at book values on balance sheet of 31$^{th}$ of December 2010, which are very similar to market values, since the majority is current debt and deducting the cash and equivalents to have the net debt for the same date.

## 10. Valuation Results

After having all the crucial components to the value the company, it is possible to apply the method selected – APV method. As already mention in the literature, the APV allow us to see all the components of the value, adding to the value of unlevered firm all the financial side effects. These financial side effects are the positive side of having debt, the present value of tax shields and the negative side of it, the expected bankruptcy costs.

### 10.1 Unlevered Firm value

To compute the value of the firm as if it were financed with equity, we start by compute the FCFF like described in literature review at the appropriate rate, cost of equity. The cost of equity was calculated through CAPM using an unlevered beta.

The beta was probably the main concerning, because if we calculated the beta through a regression with the stock's excess returns index probably will lead to a biased beta, since the Cofina'shares have low liquidity. So, we preferred not to use the information of the company.

Instead, we try to look for industry betas in Damodaran update information regarding unlevered betas by market segment and then by our specific sector – publishing & newspapers, which give a beta of 0,56 for Publishing & Newspaper sector in Europe. The group has compose by 98 companies, and the majority of them does not really match the Cofina' operational activity. Some of the companies really publish newspapers and magazines, but others develop for instance web-interfaces, marketing solutions, others organize events, exhibitions, conferences, others are just print, other work in the field of broadcasting and TV, so, as you might see does not really match the core business of Cofina.

In the end, we decided to compute beta by the peer group that was chosen for the relative valuation because we consider that was the best proxy we can get for Cofina, which give us a beta of 0,74.

Regarding equity risk premium, this is an important issue since it reflects the risk that we observed in a certain market. The market risk premium was considered 5% which was mention in literature review the historical average during many years in U.S market and also for German market. The risk-free rate used in this model was 3,50% on 10-year yield of German Government Bonds, since is consider the close default free in the Euro area as of January 2011. At the end we add also a country risk-premium for Portugal because it is now considered a riskier country. Thus, according to Damodaran (2011) make sense to add a country risk premium for countries that are too expose to economic and political risk. According to the table on Damodaran site, we look at the rating of Portugal which was an A1 (According to Moody's table) at final year 2010/January 2011, the time of our recommendation price and then add-up country risk premium of 1,28%.

The tax rate assumed for the future was 29% already applicable in 2010, comparing to the previous 26, 5% due to a change in the fiscal law.

### 10.2 Present Value of Tax shields

The next step was the calculation of one of the financial side effect, the positive side, the value of tax shields. These tax benefits were computed using the total debt in each period multiplied by its cost of debt and then multiplied by tax rate. To have the present value of tax shields we discounted them at an appropriate rate, which we considered the cost of debt, because as discuss in the literature review the tax saving arrive from debt so they should have the same level of risk.

### 10.3 Present Value of bankruptcy costs

Lastly, was the computation of bankruptcy costs. As described in literature review neither the probability nor bankruptcy costs can be directly estimated. Thus, in order to calculate them we used the framework provided by Damodaran, based on interest coverage ratio we can extract a rating for the debt. After was the computation of bankruptcy costs, based on historical percentages across industries, we set 20% of unlevered value of the firm for each year, to be more conservative. Finally, we discounted the bankruptcy costs at the cost of debt.

### 10.4 Terminal Value

The terminal value was computed as described in the Literature review with the following formula:

$$\frac{}{}$$

For terminal value was assumed the stable growth model, meaning, that the cost of capital and the long-term rate assumed are sustainable forever. A growth rate of 1% was assumed,

meaning that the company is expected to growth but not exceeding the growth rate of the economy.

## 10.5 Value per Share

Finally, after having all the components to value the company through an APV method, some adjustments were made to arrive at an Equity Value. The valuation inputs and the final result of the valuation is described below:

| APV METHOD | *Newspapers* | *Magazines* |
|---|---|---|
| Risk free rate | 3,50% | 3,50% |
| Market Premium | 5,00% | 5,00% |
| Unlevered Beta | 0,74 | 0,74 |
| Country risk premium for Portugal | 1,28% | 1,28% |
| Ru = Ra | 8,50% | 8,50% |
| Tax rate | 29,00% | 29,00% |
| Terminal growth rate | 1,0% | 1,0% |

Figure 41. Valuation Inputs

Source: Thesis analysis

**Cofina Valuation**

| | | |
|---|---|---|
| Cofina' EV ($V_u$) | 191,55 | |
| PV of Tax Shields | 27,83 | |
| PV of Bankruptcy Costs | 20,26 | |
| Total Enterprise Value | 199,12 | |
| Net debt (as of 31/12/2010) | 140,11 | |
| Minorities (as of 31/12/2010) | 0,74 | |
| Stake in Zon Multimedia (as of 31/12/2010) | 51,49 | MV @ 3,39 per share |
| Financial Investments (as of 31/12/2010) | 3,40 | BV |
| Equity Value | 113,16 | |
| Shares Outstanding | 102,57 | |
| Share price | 1,10 | |

Figure 42. Sum-of-the-parts, Cofina' Valuation

Source: Thesis analysis

As we can see by the figure above, to the total enterprise value, was subtracted the net debt, that was computed by deducting the excess cash to the total debt in 31th December 2010 and also the minorities. Then, we sum other important claims as the stake in Zon Multimedia in 31th December 2010, valuated at market values, which give us a price per share of 3,39€ times 15.190.000 shares and the financial investments at the same period, extract from the balance sheet at book values. The final fair price at 31th December 2010 of Cofina is 1,10€ according to my valuation.

The next step will be a sensitivity analysis on the inputs valuation that might be affecting the total Enterprise Value of the company.

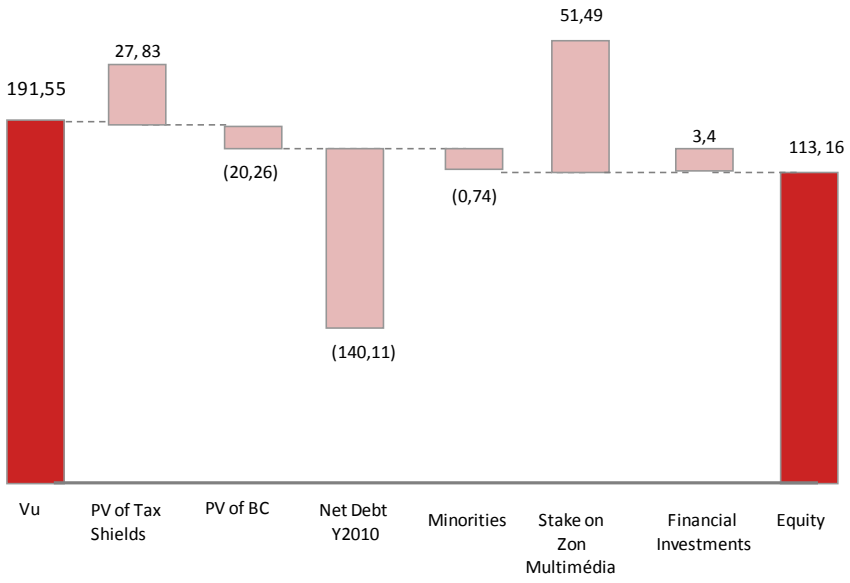



Figure 43. Decomposition of Cofina' Value

Source: Thesis analysis

## 10.6 Performance Indicators

| *Key financials* | 2006 | 2007 | 2008 | 2009 | 2010 | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Sales* | 131 | 135 | 144 | 134 | 136 | 130 | 128 | 131 | 133 | 136 | 138 | 141 | 143 |
| *EBITDA* | 21 | 24 | 24 | 24 | 27 | 25 | 24 | 25 | 26 | 28 | 28 | 29 | 30 |
| *EBITDA margin* | 15,9% | 17,9% | 16,6% | 18,2% | 19,6% | 18,9% | 18,9% | 19,4% | 19,9% | 20,4% | 20,4% | 20,8% | 20,8% |
| *EBIT* | 18 | 21 | 20 | 21 | 23 | 21 | 21 | 22 | 23 | 24 | 25 | 26 | 26 |
| *EBIT margin* | 13,5% | 15,3% | 14,1% | 16,0% | 17,0% | 16,5% | 16,5% | 17,0% | 17,5% | 18,0% | 18,0% | 18,4% | 18,4% |
| *Net Income* | 10 | 10 | - 73 | 17 | 5 | 10 | 7 | 10 | 11 | 10 | 12 | 13 | 14 |
| *DEBT-CASH* | 22 | 127 | 163 | 149 | 140 | 130 | 124 | 114 | 103 | 94 | 83 | 70 | 56 |
| *NET DEBT/EBITDA* | 1,1 | 5,3 | 6,8 | 6,1 | 5,2 | 5,3 | 5,1 | 4,5 | 3,9 | 3,4 | 2,9 | 2,4 | 1,9 |
| *Book Debt ratio* | 47,2% | 63,2% | 86,7% | 79,0% | 75,2% | 69,8% | 67,2% | 62,9% | 57,7% | 53,0% | 47,6% | 41,5% | 35,0% |
| *Interest coverage* | 3,3 | 3,4 | 2,1 | 3,5 | 4,9 | 4,5 | 2,7 | 3,9 | 4,2 | 3,4 | 4,6 | 5,4 | 6,4 |
| *ROIC* | 17,0% | 6,7% | 9,7% | 9,8% | 10,9% | 9,8% | 9,7% | 10,3% | 10,9% | 11,4% | 11,5% | 12,0% | 9,6% |
| *ROE* | *16,2%* | *15,7%* | *587,0%* | *406,7%* | *66,3%* | *59,4%* | *31,8%* | *30,8%* | *25,6%* | *19,8%* | *19,2%* | *17,6%* | *16,1%* |
| *Operating Margin* | *7,4%* | *7,5%* | *-50,9%* | *12,9%* | *3,9%* | *7,8%* | *5,8%* | *7,6%* | *8,1%* | *7,5%* | *8,6%* | *9,3%* | *9,8%* |
| *Asset Turnover* | *60,7%* | *36,1%* | *59,1%* | *54,2%* | *62,0%* | *61,8%* | *61,4%* | *62,6%* | *63,9%* | *64,7%* | *65,2%* | *66,1%* | *67,1%* |
| *Leverage effect* | *362,3%* | *578,7%* | *-1951,2%* | *5828,8%* | *2773,8%* | *1240,1%* | *893,2%* | *645,6%* | *496,1%* | *410,6%* | *341,6%* | *287,2%* | *245,3%* |
| Payout ratio | 0,4% | 0,3% | 0,0% | 0,1% | 0,2% | 0,1% | 0,1% | 0,4% | 0,3% | 0,3% | 0,3% | 0,3% | 0,3% |

Figure 44. Financial Indicators of Cofina

Source: Thesis analysis

In the table are presented some of relevant key financials. As already mention, the company have been working on their TOP line growth and on EBITDA margin, as state in the chapter about the strategy of the company. This is observable on the table with the evolution on their margin. However, due to the economic downturn that we are facing and the recent results of the company (1st Quarter 2011) forced us to incorporate this negative trend on the next years, still, the recover come back in 2013E.

In terms of ROE, the number for 2008 and 2009 are not a surprise and were due to the Zon' share price performance that had impact in Net Income and on Equity shareholders item on the Balance Sheet. As we can see, this number comes mostly from leverage effect. This indicator comes back to normal levels as the results of the company start to be positive.

Lastly, the financial structure of Cofina will improve overtime with the debt repayment, as can be observed by the ratios book value Debt/EV and Net debt/EBITDA.

## 10.7 Sensitivity Analysis

Having completed my valuation it is important make some sensitivity analysis in variables where we observed a greater impact in our price.

- Discount rate in the value unlevered of the firm;
- Terminal growth rate;

Regarding the discount rate, the return on equity, the rate at which we discount our cash-flows we notice that a slightly variation in the variables that make up this rate had a great impact on the value of both segments. So, the main variable that we notice a clear variation on discount rate was the country risk-premium. For this variable, we opt by use a data of Damodaran site of January 2011, which is consistent with the time of our recommendation. But actually since January 2011, Moody's already cut our rating by three levels. The first cut was in March 2011 cutting the long-term debt rating by two levels, from an A1 to an A3. According to Moody's "The government faces significant challenges, not least a less supportive economic environment", this cut also takes into account the measures announced by prime minister and the "ambitious fiscal goals and subdued growth projects"[7]

The second cut was on April 2011 to a Baa1 from an A3, due to the fact that maybe the country would had a need of assistance of the other European countries before the fundraising of the European Financial Stability Facility (EFSF). This fact, make the discounted rate to increase leading to a decrease on the target price. This fact makes our estimations very close to the CaixaBI' report as of May 2011 which somehow reflect the poor expectation for the next couple of years for the Portuguese market in general and the media sector in particular.

The variations on fair price are expressed in the table below.

| Rating for Portugal (Moody's Table) | CRP for Portugal | Discount Rate | Final Fair Price |
|---|---|---|---|
| A1 (as of January 2011) | 1,28% | 8,50% | 1,10 € |
| A3 (as of March 2011) | 1,73% | 9,95% | 1,00 € |
| Baa1 (as of April 2011) | 2,25% | 9,47% | 0,90 € |

Figure 45. Sensitivity analysis on CRP

Source: Damodaran site Thesis analysis

Another impact on the valuation is the terminal growth rate. We opt by a defensive approach and assumed a terminal growth rate of 1%. However, some sensitivity analysis was made for

[7] Reuters, Bloomberg News

this terminal growth rate and also crossing with a change in discount rate. Our price is between the values marked in the circle.

| Ra \ Growth Rate | 1,0% | 1,5% | 2,0% | 2,5% | 3,0% |
|---|---|---|---|---|---|
| 7,0% | 1,51 | 1,65 | 1,83 | 2,04 | 2,30 |
| 8,0% | 1,18 | 1,28 | 1,39 | 1,52 | 1,68 |
| 9,0% | 0,93 | 1,00 | 1,08 | 1,17 | 1,27 |
| 10,0% | 0,74 | 0,79 | 0,84 | 0,91 | 0,98 |
| 11,0% | 0,58 | 0,62 | 0,66 | 0,71 | 0,76 |

Figure 46. Sensitivity analysis on Growth Rate and Ra

Source: Thesis analysis

## 11. Relative Valuation

### 11.1 Peer Group

As described in the Literature review one way to find the companies that are truly comparable are expectations for growth and ROIC. However, it was not possible to find in the market this type of information, so first one look at the operational activity, then by market capitalization and also by P/E.

First of all, it is important to highlight that we decided not to compare with the Portuguese companies. In the Portuguese market, we had only three media companies traded on the market, IMPRESA, MEDIA CAPITAL and Sonae.Com. But, MEDIA CAPITAL has their operations only on TV and Sonae.Com has major revenues on OPTIMUS (a mobile network) and only one newspaper thus only left us the IMPRESA for a relative valuation, which is not reasonable to try to get a fair price for Cofina.

After having a huge list of possible comparable companies (given by Bloomberg), not Portuguese companies, we start by looking at their operational segment to see if it really match Cofina' main activity. The entire companies that we get act in the media sector, but the media sector is too broad, so we get companies operating in the field of television, radio, cinema, broadcasting and television programs, theater, digital marketing solutions, offering communication services (offering to clients an integrated approach to communication strategy), other are focus on design and creation of events, publishing & newspapers, etc. Thus, one try to find the companies that match Cofina' business, that were more focused on press segment, for that purpose a short list were made and a short presentation of those companies are in the appendix 15.2.6.

After making this selection, we try to get some information on Bloomberg and are expressed below:

| Companies | Country | P/E | P/B | P/S | Curr EV/T12M EBITDA | EBITDA to Tot Int Exp | EBIT/Tot Int Exp | EBITDA |
|---|---|---|---|---|---|---|---|---|
| COFINA SGPS SA | PORTUGAL | 11,04 | n.a | 0,43 | 6,90 | 3,40 | 2,93 | 21,40 |
| MONRIF SPA | ITALY | n.a | 0,93 | 0,26 | 10,40 | 5,52 | 2,41 | 30,94 |
| JOHNSTON PRESS PLC | U.K | 1,37 | 0,12 | 0,12 | 4,65 | 2,25 | 1,72 | 109,89 |
| COMPUTEC MEDIA AG | GERMAN | 17,83 | 25,58 | 1,79 | 8,82 | 18,95 | 13,17 | 3,81 |
| FUTURE PLC | ENGLAND | 11,61 | 0,74 | 0,42 | 6,16 | 6,44 | 4,06 | 13,36 |
| SPOREVER | FRANCE | 38,06 | 1,92 | 1,69 | 11,18 | 125,60 | 40,55 | 1,51 |
| GOING PUBLIC MEDIA AG | GERMAN | 13,27 | 2,79 | 1,79 | 8,41 | 3290,19 | 2317,30 | 0,40 |

Figure 47. Peer Group and Indicators

Source: Bloomberg, March 2011

As we can see, some data are quite similar to Cofina, as P/E and other do not, which will undoubtedly represent the limitation of the analysis through relative valuation.

## 11.2 Core Valuation

Through some calculations we can arrive at a certain values:

| | EV(current) (M) | Market Cap (M) | # shares (M) | Price | P/E | EV/EBITDA | P/Sales | P/EBITDA |
|---|---|---|---|---|---|---|---|---|
| COFINA SGPS SA | 147,66 | 51,59 | 102,57 | 0,50 | 11,04 | 6,90 | 0,43 | 2,41 |
| MONRIF SPA | 321,93 | 61,50 | 150,00 | 0,41 | n.a | 10,40 | 0,26 | 1,99 |
| JOHNSTON PRESS PLC | 511,20 | 57,61 | 6,40 | 9,00 | 1,37 | 4,65 | 0,12 | 0,52 |
| COMPUTEC MEDIA AG | 33,59 | 49,45 | 5,42 | 9,12 | 17,83 | 8,82 | 1,79 | 12,99 |
| FUTURE PLC | 82,36 | 73,84 | 3,29 | 22,44 | 11,61 | 6,16 | 0,42 | 5,53 |
| SPOREVER | 16,90 | 26,84 | 2,44 | 11,00 | 38,06 | 11,18 | 1,69 | 17,75 |
| GOING PUBLIC MEDIA AG | 3,34 | 4,14 | 0,90 | 4,61 | 13,27 | 8,41 | 1,79 | 10,43 |
| Weighted Average by Mark. Cap [1)] | | | | | 13,7 | 7,8 | 0,7 | 6,3 |

Figure 48. Peer Group: Main indicators

Source: Bloomberg and Thesis analysis

Notes: 1) P/E ratio: excluding Monrif SPA because there is no information on P/E

The P/E as we described in the literature review have some limitations, since it can be easy manipulated, because is affected by capital structure.

On the other hand, the ratio EV/EBITDA, can give a more accurate results, because a change in capital structure does not change directly the ratio. This enterprise multiple look at firm like a possible investor will look also, because take debt into account and had the also the advantage of using earnings before taxes, ignoring the effect of different taxes in different countries, which become the EBITDA multiple compare to other companies in other countries.

For different multiples that were possible to computed, a weighted-average by market capitalization were calculated and multiplied by the correspondent driver to get the price per share of Cofina.

| Cofina' Price by Multiples | EV | Equity | Price per share |
|---|---|---|---|
| PER | | | 0,70 |
| P/Sales | | | 0,95 |
| P/EBITDA | | | 1,42 |
| EV/EBITDA | 180,39 | 94,44 | 0,92 |

Figure 49. Cofina' Price per share by Multiples Valuation

Source: Thesis analysis

As we can see the price per share that we get by multiples are lower (except P/EBITDA) than our valuation that can somehow indicate some disadvantages of using multiples. First, the multiples are static figure, meaning that represent a snapshot of the company at a certain point in time and thus fail to capture some other effects that might be valuing the company, as the dynamic of the business in a future time and the competition. As already mention, despite the media sector in general be suffering throughout the world, Cofina in Portugal might be gaining some advantage over their competitors due to their specific segment of customers and their boost on publications that specifically match the target. By using companies from other parts of Europe that might not have the same strategy, neither able to achieve the same

market as Cofina achieve in Portugal and the fact that they might being affected in a different way by the current crisis on media sector, could lead to prices undervalued.

Moreover, there are some qualitative issues on the business, such as the quality of management, branding, strategy, etc and this might affect some valuation drivers and are pushing down the value of Cofina.

It is also important to highlighted that we are using current multiples on the market and not forward multiples and according to UBS Warburg (2001) since the companies in a mature phase tend to be more comparable, the differences in multiples will be smaller and reflecting more the truth in values – appendix 15.2.7.

Finally it is important to bear in mind that finds companies that had a similar core business with Cofina it was not an easy task. The publishing & newspaper sector is very wide and for that reason there is no company just like the other. For that reason, one should not base the analysis just on a relative valuation, because of the reluctance with which this peer group was built. So, it is more reasonable to say that this relative valuation, solely, is not the appropriate method to value Cofina.

## 12. Valuation comparison with Investment Bank

### 12.1 Main differences

After having finished my analysis about Cofina, I will now make the comparison of my results against the CaixaBI's Report. Unfortunately, it was not possible to have a report that dates back to January 2011, the moment of our recommendation, because since the company is not traded on PSI-20 Index, the bank does not make so frequently the review on valuation. Thus, it is important to highlight that the results will be somehow different. The differences can arise from the operational assumptions or from the valuation assumptions.

Below, we can see the assumptions regarding valuation inputs and then the tables with both valuations.

- Valuation Inputs:

**Thesis analysis**

| APV METHOD | *Newspapers* | *Magazines* |
|---|---|---|
| Risk free rate | 3,50% | 3,50% |
| Market Premium | 5,00% | 5,00% |
| Unlevered Beta | 0,74 | 0,74 |
| Country risk premium for Portugal | 1,28% | 1,28% |
| Ru = Ra | 8,50% | 8,50% |
| Tax rate | 29,00% | 29,00% |
| Terminal growth rate | 1,0% | 1,0% |

**CaixaBI' report**

| Newspapers | |
|---|---|
| Rf | 4.5% |
| Market Risk Premium | 4.0% |
| Beta | 1.30 |
| Re | 9.7% |
| Rd (gross) | 7.0% |
| Rd (net of taxes) | 5.0% |
| Tax Rate | 29.0% |
| **Capital structure (target)** | |
| Equity | 80.0% |
| Debt | 20.0% |
| **WACC** | 8.8% |
| G (long term growth rate) | 1.0% |

| Magazines | |
|---|---|
| Rf | 4.5% |
| Market Risk Premium | 4.0% |
| Beta | 1.30 |
| Re | 9.7% |
| Rd (gross) | 7.0% |
| Rd (net of taxes) | 5.0% |
| Tax Rate | 29.0% |
| **Capital structure (target)** | |
| Equity | 80.0% |
| Debt | 20.0% |
| **WACC** | 8.8% |
| G (long term growth rate) | 1.0% |

*Source: Company data and CaixaBI Equity Research*

Figure 50. Valuation Inputs: Thesis Analysis VS CaixaBI' Report

Source: Thesis analysis and CaixaBI' Equity report

- Sum of the Parts:

**Thesis analysis: APV method**

Cofina Valuation

| | | |
|---|---|---|
| Cofina' EV ($V_u$) | 191,55 | |
| PV of Tax Shields | 27,83 | |
| PV of Bankruptcy Costs | 20,26 | |
| Total Enterprise Value | 199,12 | |
| Net debt (as of 31/12/2010) | 140,11 | |
| Minorities (as of 31/12/2010) | 0,74 | |
| Stake in Zon Multimedia (as of 31/12/2010) | 51,49 | MV @ 3,39 per share |
| Financial Investments (as of 31/12/2010) | 3,40 | BV |
| Equity Value | 113,16 | |
| Shares Outstanding | 102,57 | |
| Share price | 1,10 | |

**CaixaBI' Report: APV method**

| | | Method |
|---|---|---|
| **Newspapers** | **182.8** | **DCF** |
| **Magazines** | **6.2** | **DCF** |
| **Cofina's EV** | **189.0** | |
| Net Debt adjusted (FY'11e) | -129.0 | |
| Minorities | -0.9 | |
| Stake in Zon Multimédia | 34.5 | MV |
| Financial Investments | 3.4 | BV |
| Equity market value | 97.1 | |
| Adjusted number of shares (m) | 102.6 | |
| Equity value per share | 0.95 | |
| Small cap discount | 10% | |
| **Fair value** | **0.85** | |

*Source: Company data and CaixaBI Equity Research*

Figure 51. Core Valuation: Thesis Analysis VS CaixaBI' Report

Source: Thesis analysis and CaixaBI' Equity report

By observing the tables above we can find some differences. First, we opt by value the company through an APV method since by historical observations we saw that the company does not have a constant capital structures neither any information of whether the company wants to achieve or not a specific target capital structure. For that reason, it was more comfortable to use an APV method, where we can see all the components of the value of the firm rather than estimating a different WACC for each year, which might lead to wrong assumptions on the valuation and as described in the literature review the APV method is less prompt to errors.

Let's now make a review on valuation inputs and on valuation itself between the method use on this thesis and the method used by CaixaBI.

- Valuation Inputs

Regarding risk-free rate actually both valuations used a risk-free rate based on 10Y German Treasury Bonds plus an implicit country risk premium, but CaixaBI decided to present this additional premium aggregated already in risk-free rate. Thus, at this point the two rates do not differ that much, because in my valuation I used a 3,50% of 10Y yield on German Bonds plus an additional country risk premium at the time of recommendation price of 1,28% which give us a rate of 4,78%.

On market risk-premium, I decided to use the market risk-premium for U.S market which is also the same for the German market (to be consistent with the risk-free rate). CaixaBI used an average of the long-term average of market risk-premium in Europe of 4%.

The betas is understandable why is so different, because we are using an unlevered beta (in this case the Beta achieved by the Peer Group chosen for relative valuation, because of the low liquidity of the company' shares) to arrived at a cost of equity to achieve a value for the firm as it was entirely financed with equity and CaixaBI used a levered beta to arrived at a cost of equity that is later used in the WACC.

The capital structure that CaixaBI used is a target capital structure. According to the analyst of Cofina in CaixaBI, this capital structure is an average of the companies in this sector because the analysist argument was that when an investor look at Cofina look also at the peers on its sector, like asking "What is my opportunity cost?" and for this reason the bank choose a D/E ratio of 25%, which is questionable.

The cost of debt used by CaixaBI is 5% (net of taxes) and our average cost of debt (of the different cost of debt on each year for tax shields computation) was around 5,7%.

The terminal growth rate that I used is also in line what CaixaBI also used and both are accordingly what the expectation for the company cash flows growth is.

- Sum of the Parts

Enterprise value do not differ that much. So, we can conclude the both projections are not so different. Later on, I will cross the valuation inputs of CaixaBI on my valuation to see what happens to the final price.

Regarding the Net debt, since the recommendation dates back to December 2010/Januray 2011, I used the debt on balance sheet at 31th of December of 2010 minus the excess cash on the same date. CaixaBI already had already the net debt forward one year, based on their projections of the debt for 2011. The same with the minorities.

Another item that is also different is the value of the stake in Zon Multimédia. CaixaBI already incorporate the recent new on sale of the shares of Zon in April. Cofina sold 5.900.000 shares, reducing its stake from 5% to 3%, with 9.290.000 shares. Thus, since our recommendation is on 31th of December of 2010, I didn't incorporate this event on my valuation analysis which justified part of the difference in our price in contrast with CaixaBI. *Coeteris paribus* (everything else constant) the difference in price would be:

| | Value of Stake (MV) | Cofina' Fair Value |
|---|---|---|
| Stake in Zon multimédia (Before Stake reduction) 1) | 51,49 | 1,10 € |
| Stake in Zon multimédia (After Stake reduction) 2) | 34,50 | 0,94 € |

Figure 52. Variation on Cofina' Zon stake

Source: Thesis analysis
Notes: 1) 15.190.000 Shares value at 3,39 (31/12/2010); 2) 9.290.000 shares value at 3,71 (31/03/2010)

CaixaBI used also an additional small cap discount like described in the literature review, that say that the small capitalization stocks tend to have higher returns than those predict by CAPM. It was decided not to assume this on our valuation, assuming that the CAPM already give us the fair level of riskiness, but of course this might be questionable, as were described in the literature review. With the Zon stake adjustment our valuation becomes quite next to CaixaBI without the small cap discount of 0, 95€ per share.

## 12.2 Crossing the Results

- ### Using the Valuation Inputs of CaixaBI on my APV method

At this stage I am going to make a cross analysis, meaning, I will put the valuation inputs of CaixaBI in my valuation and see what happened to the fair price, if arrive close to CaixaBI or not.

| APV METHOD (with CaixaBI assumptions) | Newspapers | Magazines |
|---|---|---|
| Risk free rate | 4,50% | 4,50% |
| Market Premium | 4,00% | 4,00% |
| Unlevered Beta | 1,10 | 1,10 |
| Beta levered | 1,30 | 1,30 |
| Debt | 20% | 20% |
| Equity | 80% | 80% |
| Rd (Gross) | 7% | 7% |
| Ru = Ra = Re | 8,92% | 8,92% |
| Tax rate | 29,00% | 29,00% |
| Terminal growth rate | 1,0% | 1,0% |

Cofina Valuation

| | | |
|---|---|---|
| Cofina' EV ($V_u$) | 180,98 | |
| PV of Tax Shields | 29,15 | |
| PV of Bankruptcy Costs | 17,54 | |
| Total Enterprise Value | 192,58 | |
| Net debt (as of 31/12/2010) | 140,11 | |
| Minorities (as of 31/12/2010) | 0,74 | |
| Stake in Zon Multimedia (as of 31/12/2010) | 51,49 | MV @ 3,39 per share |
| Financial Investments (as of 31/12/2010) | 3,40 | BV |
| Equity Value | 106,62 | |
| Shares Outstanding | 102,57 | |
| Share price | 1,04 | |

Figure 53. APV method with CaixaBI' Valuation Inputs

Source: Thesis analysis

As we can see by the tables above, kept everything else constant and changing the valuation inputs on my APV valuation we achieve a fair value of 1,04€ which is quite next to the 0,95€ of the Bank, without the small cap discount.

It is also important to highlighted that when we used the cost of debt of the bank of 7% (Gross cost of debt) to compute the value of tax shields, these value increased for the same debt that we had before, in the base case scenario. But, however, our bankruptcy costs decrease considerably due to high discount rate.

- Using the WACC on my Valuation

Now, let's try using the WACC on my Valuation, meaning, keeping the cash-flows projections and using the WACC of CaixaBI.

| WACC Approach | *Newspapers* | *Magazines* |
|---|---|---|
| Risk free rate | 4,50% | 4,50% |
| Market Premium | 4,00% | 4,00% |
| Beta levered | 1,30 | 1,30 |
| Rd | 7,00% | 7,00% |
| Rd (net of taxes) | 4,97% | 4,97% |
| Re | 9,70% | 9,70% |
| **WACC:** | | |
| Debt | 20% | 20% |
| Equity | 80% | 80% |
| WACC | 8,75% | 8,75% |
| Tax rate | 29,00% | 29,00% |
| Terminal growth rate | 1,0% | 1,0% |

**Cofina Valuation**

| | | |
|---|---|---|
| Cofina' EV ($V_L$) | 184,94 | |
| PV of Tax Shields | 0,00 | |
| PV of Bankruptcy Costs | 0,00 | |
| Total Enterprise Value | 184,94 | |
| Net debt (as of 31/12/2010) | 140,11 | |
| Minorities (as of 31/12/2010) | 0,74 | |
| Stake in Zon Multimedia (as of 31/12/2010) | 51,49 | MV @ 3,39 per share |
| Financial Investments (as of 31/12/2010) | 3,40 | BV |
| Equity Value | 98,99 | |
| Shares Outstanding | 102,57 | |
| Share price | 0,97 | |

Figure 54. Using CaixaBI' Model (WACC) on Thesis' projections

Source: Thesis analysis

As expected, the fair value gives us also a similar value to CaixaBI as in the analysis before, because I am using now the discount rate of the Bank but with my cash-flow projections.

In terms of operational projections the differences are not very large. As so, my valuation and that of the Bank are in reasonable interval, which shows that the differences are in other items, as already showed before.

## 13. Conclusion

The main objective of this dissertation was to value Cofina using the most suitable methods that we had study and review in Literature review. Using the APV method, give a price target of 1,10€, which is buy recommendation.

The growth potential for the actual price is considerable, yet not an irrational number, since one year ago the company was above 1€, which quite show us the impact of the recent financial crisis on the Portuguese market.

Moreover, is expected that Cofina will continued to be a well managed company and prepared to overcome the current environment. Additionally, is expected to take advantages from it, by consolidating some publications or other exiting from the market and to take advantage from the advertising market recovery, as soon as the market show some positive signs.

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# 15. Appendix

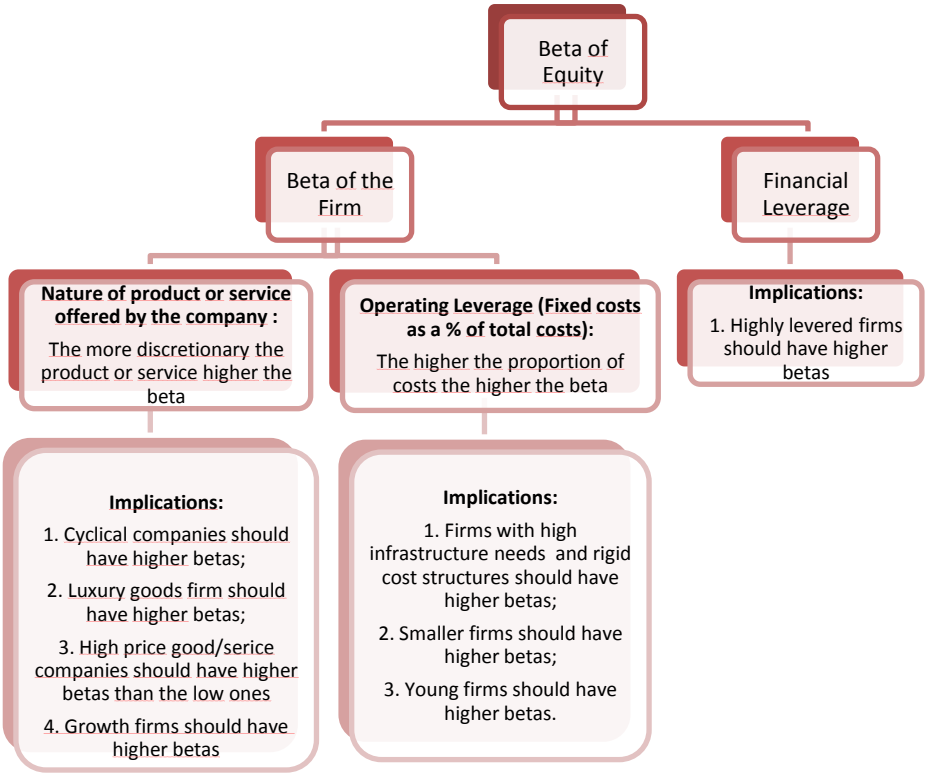
## 15.1 Appendix on Literature Review

### Appendix 15.1.1 Components of the Beta of Equity

| *Limitations of Discounted Cash Fows* | |
|---|---|
| *I. Cyclical Firms* | A firm whose cash flows vary accordingly to cycles in the economy, in economic upward, the cash flow is generally positive and in recession we observe negative earnings and cash flows. Under this context, by using the DCF method the variation of the expected future cash flows can be reduced. |
| *II. Distressed Firms* | Firms that are facing by a crisis generally present negative CF's. Under this situation, DCF method might not work because will bring us a negative value for the company although it is expected that it can survive. |
| *III. Firms with unutilized assets* | If we have asset that are unutilized, they will not count to the final value of the company since they are not producing any cash flows. |
| *IV. Firms with patents or product options* | Patents and other products as unutilized assets, that do not produced cash flows are still valuable. So, even if the DCF do not reflect their value, they can be value with other methods or in the open market. |
| *V. Firms in Acquisitions* | In a merger we should have in mind the following issues when using DCF method to value the company:<br><br>i) There is a synergy? The value can be estimated?<br><br>ii) What effect can have on CF a change of managing? If a change occurs, this should be incorporate. |
| *VI. Firms in restructuring' processes* | A company in the process of restructuring is suffering a lot changes in the company, as the sale of some assets, change of capital structure and so on. These changes should be carefully analyzed when calculating the cash flows, more than the historical data. |
| *VII. Private Firms* | Since the shares of these companies are not traded on the market become difficult to estimate the risk measures, essential data to estimate the value of the company. But some solutions had come up to overcome this problem:<br><br>i) Look at similar companies that are traded;<br><br>ii) Look for the measures of risk in the accounting, |

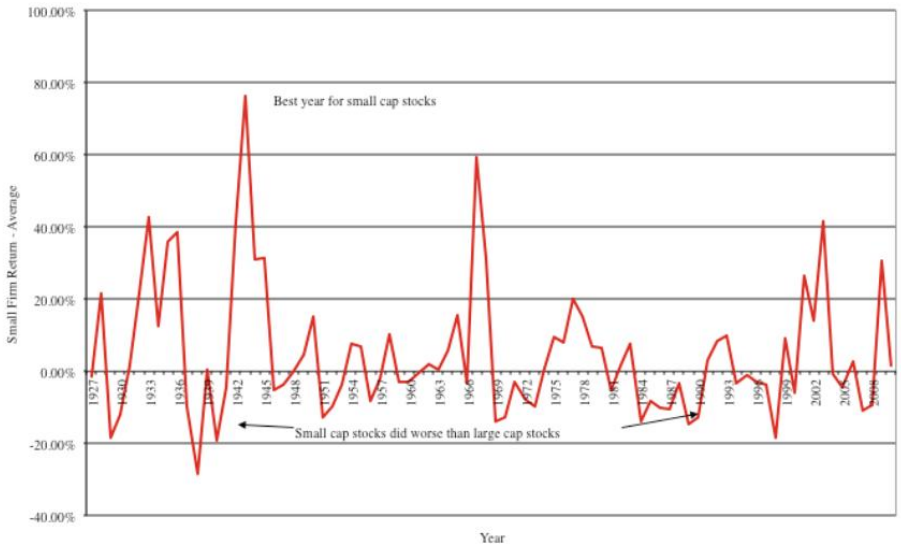
Source: Damodaran (2006)

**Appendix 15.1.2 Components of the Beta of Equity**




Source: Damodaran (2006)

**Appendix 15.1.3 Small Cap Premiums over time 1927 - 2010**




Source: Damodaran (2011)

**Appendix 15.1.4 Computing the Probability of Bankrupcty costs**

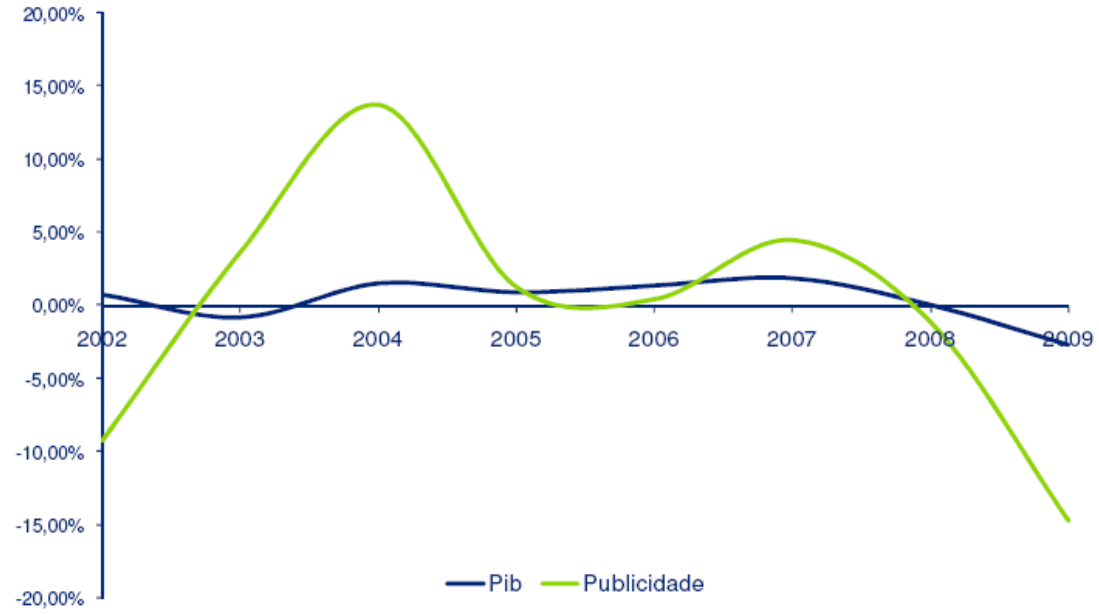
| Interest Coverage Ratio | Rating |
|---|---|
| > 8.5 | AAA |
| 6.5 - 8.5 | AA |
| 5.5 - 6.5 | A+ |
| 4.25 - 5.5 | A |
| 3 - 4.25 | A- |
| 2.5 - 3 | BBB |
| 2 - 2.5 | BB |
| 1.75 - 2 | B+ |
| 1.5 - 1.75 | B |
| 1.25 - 1.5 | B- |
| 0.8 - 1.25 | CCC |
| 0.65 - 0.8 | CC |
| 0.2 - 0.65 | C |
| < 0.65 | D |

| Bond Rating | Default rate |
|---|---|
| D | 100,00% |
| C | 80,00% |
| CC | 65,00% |
| CCC | 46,61% |
| B- | 32,50% |
| B | 26,36% |
| B+ | 19,28% |
| BB | 12,20% |
| BBB | 2,30% |
| A- | 1,41% |
| A | 0,53% |
| A+ | 0,40% |
| AA | 0,28% |
| AAA | 0,01% |

Source: Damodaran Website

## 15.2 Appendix on Industry and Company Analysis

**Appendix 15.2.1 GDP and Advertising Evolution in Portugal**




Fonte: INE- Instituto Nacional de Estatísticas e *estimativa Omnicom Media Group/Opera*

Source: Deloitte' Report (2010)

**Appendix 15.2.2 Free newspapers**

The free newspapers had increase the number of readers, especially those who had never read a newspaper till the coming out of this type of newspapers. Among the press environment, there is the misunderstanding idea that free newspapers remove readers (buyers) of paid newspapers, but it does not yet proved. Indeed, what might happening is a drop in advertising' investment on paid newspapers. The director of a famous free newspaper in Portugal – "Destak", said that the principal role of the free newspapers is to create reading habits that can potentially contribute to greater penetration of paid press.

Furthermore, since the free newspaper attract a great number of audience is very good for advertisement' investors, because will increase the advertising' investment, because the message achieve a greater number of people. There is no doubt that the advertising is one of the main sources of revenue, special in the free newspapers. The intense advertisers' demand for the publications with more circulation is an advantage for both parties.

According to Bakker (2002) "in the most optimistic scenario, the introduction of free papers will only improve the quality of the news (more competition, more diversity) and will increase the amount of people reading it".

To conclude, it is important to bear in mind, that the paid newspaper will still survive for the next years and have their place in the market, because have a special audience that is faithful to the type of journalism, type of articles, special opinions that appear every day or every week.

**Appendix 15.2.3 Cofina' History**

The entry of Cofina in the media industry was a big surprised for the market and was encouraged by the announcement by Joe Berardo, an entrepreneur, in 1999 that it would sell Investec. The group, whose original purpose was the industry, decided to enter in the media sector, noting that had the possibility to take control of the SIC – a generalist channel TV. After, was made a partnership with the Portuguese Bank BPI and launched a take-over bid for the entire share capital of Investec, after the purchasing 39,95% of the holding.

Lusomundo was also interested in TV channel SIC and was the first to announce the purchase of a considerable part of the shares of Investec and later followed by the proposal of COFINA/BPI. But the Sir. Pinto Balsemão, Chief Executice Officer of Impresa and Chairman of SIC, was able to negotiate with other shareholders and IMPRESA bought most of the SIC' shares, which means, that he maintains the control over this TV Channel.

Therefore, when Cofina tried to enter into the television sector was not succeeded and ended in the press segment with the publications that were in Investec, as the *Record'newspaper* and *Máxima' magazine*. Later, in 1999, took the control over the company that had the *Jornal de Negócios*.

In 2000, the partnership with BPI has been scrapped, but Cofina kept their investments in media and in the same year acquired the current newspaper'leader on the generalist segment – *Correio da manhã*. The last investment was in 2006 with the launch of Destak.

Still, Cofina not give up entering in the television industry. It was verified interest in buying RTP2, when PSD – Social Democratic Party – had set the goal in its electoral program and emerged winning the elections but unfortunately the promise was not fulfilled and the channel was not privatized.

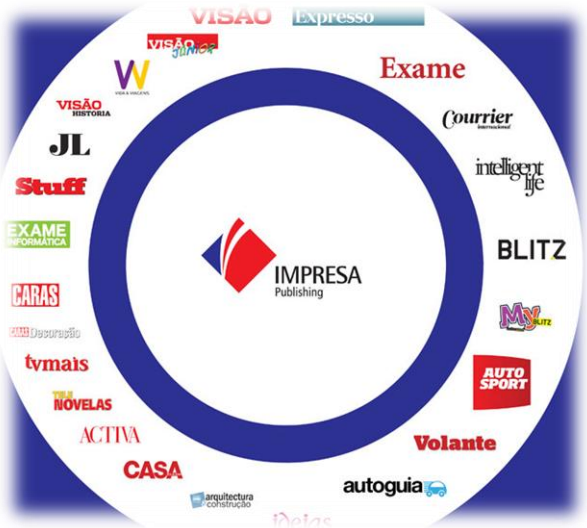
With the TDT – Digital Terrestrial Television, Cofina back again interest in obtaining a grant for a general channel along also with one of its competitor Controlinveste. Zon multimedia had been analyzing with these principal shareholders, which could have been their potential partners in the competition in the fifth channel.

Unfortunately, in 2009 the ERC – Communication Regulatory Authority – announced that exclude the two proposals for the licensing to operate the fifth general channel on Portuguese television – Zon Multimédia and Telecinco -, for a period of 15 years. Moreover, ERC also mention that none of these companies meet the legal and regulatory requirements for admission in this competition.

**Appendix 15.2.4 Cofina' main competitors**

| Portuguese Media Companies | Business |
|---|---|
| IMPRESA | Impresa is traded on PSI Geral. Impresa is one of the big companies in social communications in Portugal. The company have three major areas: SIC (TV channel), IMPRESA Publishing (a variety of newspapers and magazines) and IMPRESA Digital. |
| Media Capital | Media Capital is also trated. The company have as major business: holds TVI, the TV channel leader in audience in Portugal, MC is also present in radio and producing content to the TV – for soap operas. |
| SONAECOM | Sonae.com is a sub-holding of Sonae Group for telecommunications and media. Sonae.com have OPTIMUS, a mobile network and also a well know newspaper in Portugal - Público |
| Euro Impala.pt | Impala is not traded on the stock market. Still, holds a considered number of magazines in Portugal: as "VIP", "FOCUS", "Nova Gente", etc. |
| controlinveste | Controlinveste is also very known by the publications that holds, as "Jornal de Notícias", "Diário de Notícias", "O Jogo", etc. However, is also present in TV (with SPORT TV), radio and internet. |

Source: Companies' websites




Source: Company' Website

**Appendix 15.2.5 Company' results on 1st Quarter 2011**

| | 1Q'10 | 1Q'11 | yoy (%) |
|---|---|---|---|
| **Consolidated operating income** | **32.16** | **29.50** | **-8.2%** |
| Newspapers | 24.08 | 22.61 | -6.1% |
| Magazines | 8.07 | 6.89 | -14.7% |
| **Circulation** | **15.66** | **15.92** | **1.7%** |
| Newspapers | 11.61 | 11.86 | 2.1% |
| Magazines | 4.04 | 4.06 | 0.4% |
| **Advertising** | **12.05** | **11.45** | **-4.9%** |
| Newspapers | 9.43 | 9.12 | -3.2% |
| Magazines | 2.62 | 2.33 | -11.0% |
| **Alternative marketing** | **4.45** | **2.13** | **-52.2%** |
| Newspapers | 3.04 | 1.63 | -46.3% |
| Magazines | 1.41 | 0.50 | -64.8% |
| **EBITDA** | **4.65** | **4.28** | **-7.9%** |
| *margin* | **14.4%** | **14.5%** | **0.1 p.p.** |
| Newspapers | 4.79 | 4.76 | -0.6% |
| *margin* | *19.9%* | *21.0%* | *1.2 p.p.* |
| Magazines | -0.14 | -0.48 | 236.4% |
| *margin* | *-1.8%* | *-7.0%* | *-5.2 p.p.* |
| D&A | 0.96 | 0.94 | -2.2% |
| **EBIT** | **3.69** | **3.34** | **-9.4%** |
| Net Financial Income | -9.32 | 3.33 | |
| **EBT** | **-5.64** | **6.67** | **-218.3%** |
| Income Taxes | 1.13 | 1.91 | 68.8% |
| Minority Interests | -0.06 | -0.07 | 3.2% |
| **Net Income** | **-6.71** | **4.82** | **-171.9%** |

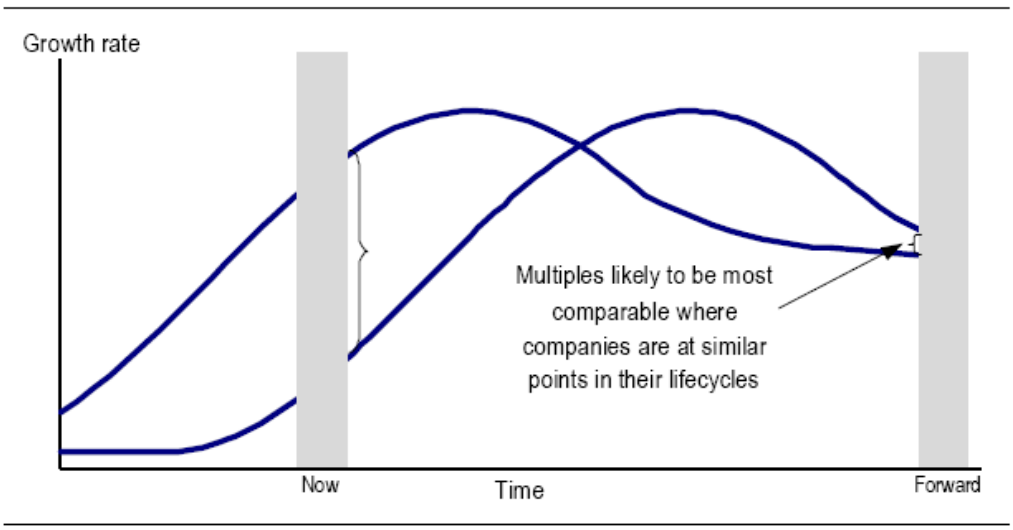
Source: Company data and CaixaBI

**Appendix 15.2.6 Peer Group**

| Companies | Country | Activity |
|---|---|---|
| MONRIF SPA | Italy | Monrif SpA is an Italian company acting in the publishing and media sector. Monrif publishes four newspapers (mainly daily newspapers) and also magazines. The company had also advertising agency that has national distribution coverage. |
| JOHNSTON PRESS PLC | U.K & Republic of Ireland | Johnston Press has operations in United Kingdom and the Republic of Ireland. Johnston operates also in publishing of local and regional newspapers, paid and free newspapers and also have websites for those newspapers. |
| COMPUTEC MEDIA AG | Germany | Computed Media is a German company and also create and publish media content. Their main products are mainly magazines and websites, in the following fields: Video games, digital lifestyle, films, etc. |
| FUTURE PLC | England | Future PLC is a British company publishing magazines and websites in the following fields: games, music & movies, technology & active. |
| SPOREVER | France | Sporever is a French company specialized in the publishing of sport news, mainly through web-sites but also newspapers. |
| GOING PUBLIC MEDIA AG | Germany | Going publish is a German company operating in publishing and distribution of newspapers and books. The company publishes a lot of monthly magazines and other research. |

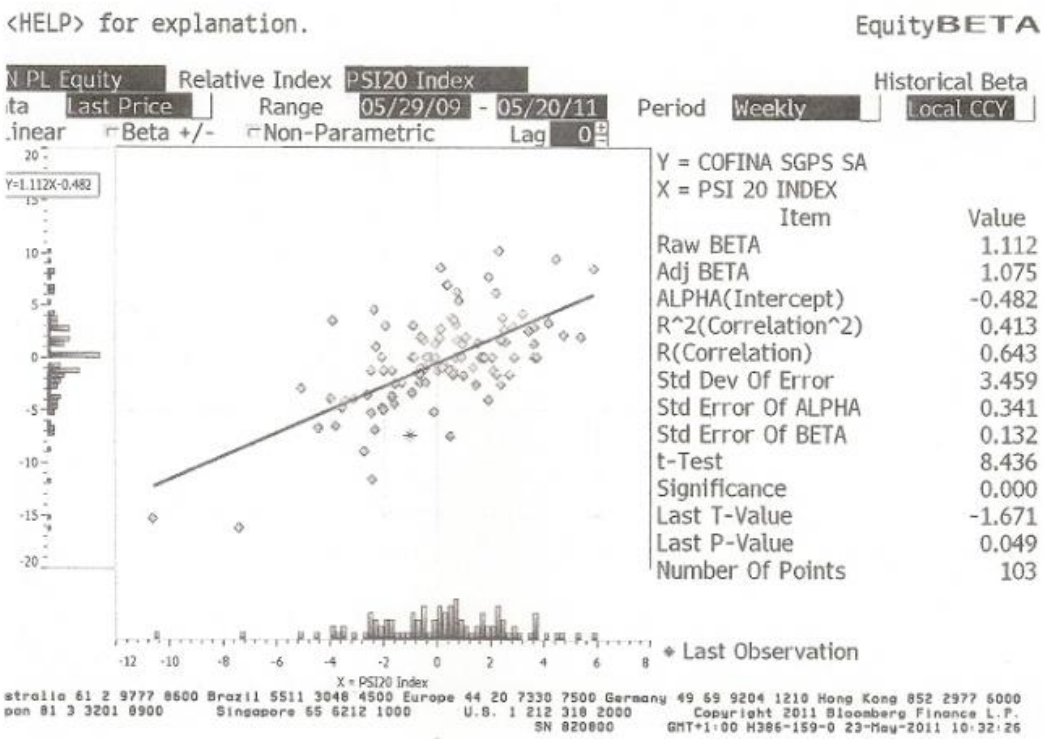
Source: Reuters' Website

**Appendix 15.2.7 Multiple Comparisons and Lifecycles**




Source: UBS Warburg

**Appendix 15.2.8 Beta of the Company (Regression with PSI 20 INDEX)**




Source: Bloomberg Data

**Appendix 15.2.9 SWOT Analysis**

| STRENGTHS | WEAKNESSES |
|---|---|
| ▪ Solid market position<br>▪ Diversified portfolio<br>▪ Solid financial structure<br>▪ Management track record | ▪ Dependence on the economic and advertising cycles<br>▪ Small dimension<br>▪ Absence of presence in the TV segment<br>▪ Lack of short-term triggers |
| **OPPORTUNITIES** | **THREATS** |
| ▪ Possibilities of growth through acquisitions<br>▪ Taking advertising and readers from publications exiting the market<br>▪ Zon price recovery<br>▪ Expansion in Brazil | ▪ Strong competition<br>▪ Zon stock price volatility, pressuring the bottom line<br>▪ Economic environment |

Source: CaixaBI, Company Report

## 15.3 Financial Information

### Appendix 15.3.1 Consolidated Balance Sheet - Historical

| Assets | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Non current Assets | | | | | |
| Tangible Assets | 9,90 | 11,01 | 11,54 | 9,93 | 10,76 |
| Goodwill | 87,15 | 89,05 | 89,05 | 92,00 | 94,99 |
| Intagible Assets | 0,81 | 0,42 | 0,44 | 0,53 | 0,51 |
| Investments in associated companies | 2,86 | 7,15 | 6,38 | 4,73 | 3,39 |
| Available for sale financial investments | - | - | - | - | 0,01 |
| Deffered tax assets | 1,96 | 8,57 | 8,68 | 3,72 | 8,78 |
| ***Total Non Current Assets*** | 102,69 | 116,21 | 116,10 | 110,91 | 118,44 |
| Current Assets | | | | | |
| Inventories | 2,85 | 2,71 | 1,94 | 3,13 | 3,98 |
| Clients (Trade debtors) | 14,77 | 14,54 | 11,57 | 11,38 | 12,60 |
| State and other Public Entities | 2,49 | 2,89 | 1,32 | 0,52 | 0,28 |
| Other debtors | 2,41 | 4,38 | 0,81 | 0,71 | 1,57 |
| Other current assets | 9,17 | 8,34 | 7,69 | 8,62 | 6,18 |
| Investments at fair value through profit | 2,46 | 115,08 | 56,49 | 65,90 | 51,50 |
| Excess cash (Cash & Equivalents) | 79,68 | 109,00 | 47,79 | 46,32 | 25,18 |
| ***Total Current Assets*** | 113,82 | 256,93 | 127,62 | 136,59 | 101,30 |
| **TOTAL ASSETS** | **216,52** | **373,14** | **243,72** | **247,49** | **219,74** |
| **Shareholder's equity and liabilities** | | | | | |
| Shareholder's equity | | | | | |
| Share Capital | 25,64 | 25,64 | 25,64 | 25,64 | 25,64 |
| Share Premium | 15,87 | 15,87 | 15,87 | 15,87 | 15,87 |
| Legal reserve | 5,13 | 5,41 | 5,41 | 5,41 | 5,41 |
| Other reserves | 0,72 | 6,56 | 13,09 | - 60,36 | - 44,76 |
| Net Income | 9,69 | 10,12 | - 73,27 | 17,09 | 5,02 |
| Equity attributable to equity holders of the Parent Company | 57,06 | 63,60 | - 13,26 | 3,65 | 7,19 |
| Non-Controlling Interests | 2,71 | 0,87 | 0,77 | 0,59 | 0,74 |
| ***Total Shareholder's equity*** | 59,76 | 64,47 | - 12,49 | 4,25 | 7,92 |
| Liabilities | | | | | |
| Non current Liabilities | | | | | |
| Borrowings | | | | | |
| *Bank loans* | 9,06 | - | - | - | - |
| *Other loans* | 48,73 | 98,43 | 99,43 | 49,72 | 19,99 |
| Retirement Liability | 4,40 | 4,40 | 0,71 | 0,69 | 0,70 |
| Other non current creditors | 4,27 | 4,73 | 5,67 | 3,47 | 2,46 |
| Deffered tax liabilities | - | 0,25 | - | - | - |
| Provisions | 1,95 | 1,47 | 1,01 | 1,08 | 2,55 |
| ***Total non current liabilities*** | 68,41 | 109,28 | 106,82 | 54,96 | 25,69 |
| Current Liabilities | | | | | |
| Borrowings | | | | | |
| *Bank loans & Overdraft* | 40,66 | 24,01 | 12,45 | 2,42 | 21,31 |
| *Other loans* | 3,71 | 113,46 | 99,33 | 143,30 | 124,00 |
| Derivate financial instruments | 5,11 | 0,95 | - | 0,25 | 0,93 |
| Trade creditors | 15,79 | 11,85 | 11,70 | 12,80 | 11,52 |
| State and other Public Entities | 5,49 | 3,40 | 3,09 | 4,89 | 3,68 |
| Other current creditors | 5,43 | 30,38 | 7,81 | 8,46 | 9,75 |
| Other current liabilities | 12,14 | 15,33 | 15,00 | 16,17 | 14,94 |
| ***Total current liabilities*** | 88,34 | 199,39 | 149,38 | 188,29 | 186,13 |
| **TOTAL LIABILITIES** | 156,75 | 308,67 | 256,21 | 243,25 | 211,82 |
| **TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES** | **216,52** | **373,14** | **243,72** | **247,49** | **219,74** |

## Appendix 15.3.2 Consolidated Balance Sheet - Projections

| Assets | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| Non current Assets | | | | | | | | |
| Tangible Assets | 11,59 | 12,42 | 13,26 | 14,12 | 15,00 | 15,89 | 15,89 | 15,89 |
| Goodwill | 94,99 | 94,99 | 94,99 | 94,99 | 94,99 | 94,99 | 94,99 | 94,99 |
| Intagible Assets | 0,78 | 1,04 | 1,31 | 1,59 | 1,87 | 2,15 | 2,15 | 2,15 |
| Investments in associated companies | 3,39 | 3,39 | 3,39 | 3,39 | 3,39 | 3,39 | 3,39 | 3,39 |
| Available for sale financial investments | 0,01 | 0,01 | 0,01 | 0,01 | 0,01 | 0,01 | 0,01 | 0,01 |
| Deffered tax assets | 7,24 | 5,70 | 4,03 | 2,47 | 2,44 | 2,44 | 2,44 | 2,44 |
| ***Total Non Current Assets*** | 118,01 | 117,55 | 116,99 | 116,57 | 117,69 | 118,87 | 118,87 | 118,87 |
| Current Assets | | | | | | | | |
| Inventories | 3,56 | 3,29 | 3,18 | 3,08 | 2,99 | 3,03 | 3,09 | 3,14 |
| Clients (Trade debtors) | 11,67 | 11,16 | 11,02 | 10,90 | 10,79 | 10,96 | 11,16 | 11,36 |
| State and other Public Entities | 1,11 | 1,10 | 1,12 | 1,14 | 1,16 | 1,18 | 1,20 | 1,22 |
| Other debtors | 1,55 | 1,51 | 1,53 | 1,56 | 1,60 | 1,62 | 1,65 | 1,68 |
| Other current assets | 6,45 | 6,35 | 6,46 | 6,58 | 6,72 | 6,82 | 6,94 | 7,07 |
| Investments at fair value through profit | 51,50 | 51,50 | 51,50 | 51,50 | 51,50 | 51,50 | 51,50 | 51,50 |
| Excess cash (Cash & Equivalents) | 16,84 | 16,62 | 16,92 | 17,25 | 17,61 | 17,88 | 18,21 | 18,53 |
| ***Total Current Assets*** | 92,68 | 91,52 | 91,74 | 92,01 | 92,36 | 93,01 | 93,75 | 94,50 |
| **TOTAL ASSETS** | **210,69** | **209,07** | **208,73** | **208,58** | **210,05** | **211,87** | **212,61** | **213,37** |
| **Shareholder's equity and liabilities** | | | | | | | | |
| Shareholder's equity | | | | | | | | |
| Share Capital | 25,64 | 25,64 | 25,64 | 25,64 | 25,64 | 25,64 | 25,64 | 25,64 |
| Share Premium | 15,87 | 15,87 | 15,87 | 15,87 | 15,87 | 15,87 | 15,87 | 15,87 |
| Legal reserve | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 | 5,41 |
| Other reserves | - 40,76 | - 31,80 | - 25,46 | - 16,64 | - 7,04 | 1,97 | 12,72 | 24,59 |
| Net Income | 9,99 | 7,37 | 9,84 | 10,63 | 10,03 | 11,77 | 12,90 | 13,82 |
| Equity attributable to equity holders of the Parent Company | 16,15 | 22,49 | 31,31 | 40,92 | 49,93 | 60,67 | 72,54 | 85,34 |
| Non-Controlling Interests | 0,84 | 0,92 | 1,02 | 1,13 | 1,24 | 1,36 | 1,50 | 1,64 |
| ***Total Shareholder's equity*** | 16,99 | 23,41 | 32,33 | 42,05 | 51,16 | 62,03 | 74,04 | 86,98 |
| Liabilities | | | | | | | | |
| Non current Liabilities | | | | | | | | |
| Borrowings | | | | | | | | |
| *Bank loans* | - | - | - | - | - | - | - | - |
| *Other loans* | - | - | - | - | 50,00 | 50,00 | 50,00 | 50,00 |
| Retirement Liability | 0,72 | 0,73 | 0,74 | 0,75 | 0,76 | 0,77 | 0,79 | 0,80 |
| Other non current creditors | 2,46 | 1,34 | 0,59 | 0,14 | 0,10 | 0,10 | 0,10 | 0,10 |
| Deffered tax liabilities | - | - | - | - | - | - | - | - |
| Provisions | 3,30 | 4,04 | 4,80 | 5,57 | 6,35 | 7,15 | 7,96 | 8,79 |
| ***Total non current liabilities*** | 6,47 | 6,11 | 6,13 | 6,45 | 57,21 | 58,02 | 58,85 | 59,69 |
| Current Liabilities | | | | | | | | |
| Borrowings | | | | | | | | |
| *Bank loans & Overdraft* | 27,02 | 90,49 | 81,20 | 70,36 | 61,27 | 50,87 | 38,27 | 24,69 |
| *Other loans* | 120,00 | 50,00 | 50,00 | 50,00 | - | - | - | - |
| Derivate financial instruments | 0,93 | 0,93 | 0,93 | 0,93 | 0,93 | 0,93 | 0,93 | 0,93 |
| Trade creditors | 10,95 | 10,78 | 11,08 | 11,41 | 11,76 | 11,94 | 12,15 | 12,37 |
| State and other Public Entities | 3,63 | 3,54 | 3,61 | 3,67 | 3,75 | 3,81 | 3,88 | 3,94 |
| Other current creditors | 9,75 | 9,75 | 9,75 | 9,75 | 9,75 | 9,75 | 9,75 | 9,75 |
| Other current liabilities | 14,94 | 14,07 | 13,71 | 13,97 | 14,23 | 14,52 | 14,75 | 15,01 |
| ***Total current liabilities*** | 187,22 | 179,55 | 170,27 | 160,08 | 101,68 | 91,81 | 79,72 | 66,69 |
| **TOTAL LIABILITIES** | 193,70 | 185,66 | 176,40 | 166,53 | 158,89 | 149,84 | 138,57 | 126,39 |
| **TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES** | **210,69** | **209,07** | **208,73** | **208,58** | **210,05** | **211,87** | **212,61** | **213,37** |

## Appendix 15.3.3 Income Statement - Historical

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Operating Income | 57,17 | 58,84 | 61,80 | 63,83 | 65,03 |
| Revenues | 58,34 | 59,39 | 61,56 | 63,61 | 65,15 |
| Service | 56,10 | 61,97 | 61,02 | 54,51 | 54,86 |
| Other operating income | 16,89 | 13,28 | 21,46 | 15,93 | 16,30 |
| *Total Operating Income* | 131,325 | 134,64 | 144,03 | 134,05 | 136,31 |
| | | | | | |
| Operating Expenses | | | | | |
| Cost of Sales | 20,36 | 21,08 | 21,13 | 19,54 | 18,70 |
| External Supplies and Services | 53,60 | 53,49 | 60,44 | 51,85 | 52,06 |
| Personnel Costs | 37,92 | 37,81 | 40,74 | 39,44 | 40,05 |
| Provisions and impairment losses | 0,60 | 0,81 | 0,52 | 1,21 | 0,67 |
| Other operating expenses | 1,07 | 0,89 | 0,87 | 0,62 | 1,72 |
| *Total Operating Expenses* | 113,546 | 114,09 | 123,70 | 112,66 | 113,21 |
| | | | | | |
| *EBITDA* | 17,78 | 20,55 | 20,34 | 21,40 | 23,11 |
| | | | | | |
| Depreciation and amortization | 3,12 | 3,61 | 3,58 | 2,97 | 3,62 |
| | | | | | |
| *EBIT* | 14,66 | 16,93 | 16,76 | 18,42 | 19,49 |
| | | | | | |
| Income (losses) from derivatives | - 3,36 | 4,16 | 0,95 | - | - 0,39 |
| Income (losses) from associated companies | - 1,55 | 0,15 | - 1,58 | 0,19 | 0,06 |
| Income (losses) from other investments | 7,03 | - 12,25 | - 78,91 | 11,87 | - 11,97 |
| | | | | | |
| Financial expenses | - 6,39 | - 7,21 | - 11,64 | - 7,02 | - 5,43 |
| Financial income | 2,51 | 2,09 | 1,67 | 1,36 | 1,35 |
| | | | | | |
| **Pre-Tax Profit** | 12,90 | 3,88 | - 72,76 | 24,82 | 3,11 |
| | | | | | |
| ***Income taxes*** | 3,19 | - 6,25 | 0,56 | 7,54 | - 2,14 |
| | | | | | |
| **Profit after tax income** | 9,70 | 10,13 | - 73,32 | 17,27 | 5,25 |
| | | | | | |
| *Equity Holders* | 9,69 | 10,12 | - 73,27 | 17,09 | 5,02 |
| | | | | | |
| *Minority Interests* | 0,01 | 0,01 | - 0,04 | 0,18 | 0,23 |
| | | | | | |
| **Consolidated Net income** | **9,70** | **10,13** | **- 73,32** | **17,27** | **5,25** |
| | | | | | |
| *Number of shares* | | | | | |
| *EPS - BASIC* | 102,57 | 102,57 | 102,57 | 102,57 | 102,57 |
| *Warrants dilution* | 24,51 | 24,51 | 24,51 | 21,57 | 0,00 |
| *EPS - DILUTED* | 127,08 | 127,08 | 127,08 | 124,13 | 102,57 |
| | | | | | |
| **Earnings per share:** | | | | | |
| *Basic* | 0,09 | 0,10 | - 0,71 | 0,17 | 0,05 |
| *Diluted* | 0,08 | 0,08 | - 0,58 | 0,14 | 0,05 |

## Appendix 15.3.4 Income Statement - Projections

| | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| Operating Income | | | | | | | | |
| Circulation | 65,09 | 65,09 | 66,48 | 68,17 | 70,06 | 71,17 | 72,44 | 73,74 |
| Advertising | 51,50 | 50,03 | 50,61 | 51,19 | 51,92 | 52,74 | 53,69 | 54,65 |
| Alternative Marketing Products & Others | 13,62 | 13,21 | 13,59 | 13,83 | 14,00 | 14,22 | 14,47 | 14,73 |
| *Total Operating Income* | 130,21 | 128,33 | 130,67 | 133,19 | 135,99 | 138,13 | 140,60 | 143,12 |
| Operating Expenses | | | | | | | | |
| Cost of Sales | 17,59 | 17,10 | 17,42 | 17,75 | 18,11 | 18,39 | 18,72 | 19,06 |
| External Supplies and Services | 48,99 | 47,76 | 48,65 | 49,56 | 50,58 | 51,37 | 52,29 | 53,23 |
| Personnel Costs | 40,41 | 40,52 | 40,55 | 40,80 | 41,00 | 41,62 | 41,84 | 42,48 |
| Provisions and impairment losses | 0,75 | 0,74 | 0,76 | 0,77 | 0,79 | 0,80 | 0,81 | 0,83 |
| Other operating expenses | 1,03 | 1,01 | 1,03 | 1,05 | 1,07 | 1,09 | 1,11 | 1,13 |
| *Total Operating Expenses* | 108,77 | 107,14 | 108,40 | 109,93 | 111,54 | 113,27 | 114,78 | 116,72 |
| *EBITDA* | 21,44 | 21,19 | 22,27 | 23,27 | 24,44 | 24,85 | 25,82 | 26,40 |
| Depreciation and amortization | 3,13 | 3,08 | 3,14 | 3,20 | 3,27 | 3,32 | 3,38 | 3,44 |
| *EBIT* | 18,31 | 18,11 | 19,13 | 20,07 | 21,18 | 21,54 | 22,45 | 22,96 |
| Income (losses) from derivatives | - | - | - | - | - | - | - | - |
| Income (losses) from associated companies | - | - | - | - | - | - | - | - |
| Income (losses) from other investments | - | - | - | - | - | - | - | - |
| Financial expenses | - 5,45 | - 8,97 | - 6,47 | - 6,28 | - 8,24 | - 6,13 | - 5,44 | - 4,64 |
| Financial income | 1,35 | 1,35 | 1,35 | 1,35 | 1,35 | 1,35 | 1,35 | 1,35 |
| **Pre-Tax Profit** | 14,21 | 10,49 | 14,01 | 15,13 | 14,28 | 16,75 | 18,35 | 19,67 |
| ***Income taxes*** | 4,12 | 3,04 | 4,06 | 4,39 | 4,14 | 4,86 | 5,32 | 5,71 |
| **Profit after tax income** | 10,09 | 7,44 | 9,95 | 10,74 | 10,14 | 11,90 | 13,03 | 13,97 |
| *Equity Holders* | 9,99 | 7,37 | 9,84 | 10,63 | 10,03 | 11,77 | 12,90 | 13,82 |
| *Minority Interests* | 0,10 | 0,08 | 0,10 | 0,11 | 0,11 | 0,12 | 0,14 | 0,14 |
| **Consolidated Net income** | **10,09** | **7,44** | **9,95** | **10,74** | **10,14** | **11,90** | **13,03** | **13,97** |
| *Number of shares* | | | | | | | | |
| *EPS - BASIC* | 102,57 | 102,57 | 102,57 | 102,57 | 102,57 | 102,57 | 102,57 | 102,57 |
| *Warrants dilution* | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| *EPS - DILUTED* | 102,57 | 102,57 | 102,57 | 102,57 | 102,57 | 102,57 | 102,57 | 102,57 |
| **Earnings per share:** | | | | | | | | |
| *Basic* | 0,10 | 0,07 | 0,10 | 0,10 | 0,10 | 0,12 | 0,13 | 0,14 |
| *Diluted* | 0,10 | 0,07 | 0,10 | 0,10 | 0,10 | 0,12 | 0,13 | 0,14 |

**Appendix 15.3.5 Income Statement by Segment – Historical**

| | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **Operating Income** | | | | | |
| ***Circulation*** | | | | | |
| *Newspapers* | 41,06 | 42,68 | 44,32 | 46,11 | 48,31 |
| *Magazines* | 16,11 | 16,16 | 17,48 | 17,72 | 16,72 |
| *TOTAL Circulation* | 57,17 | 58,84 | 61,80 | 63,83 | 65,03 |
| ***Advertising*** | | | | | |
| *Newspapers* | 40,12 | 43,99 | 44,84 | 40,08 | 41,01 |
| *Magazines* | 15,00 | 17,87 | 15,37 | 12,61 | 13,94 |
| *TOTAL Advertising* | 55,12 | 61,86 | 60,20 | 52,69 | 54,95 |
| ***Alternative marketing products and others*** | | | | | |
| *Newspapers* | 10,45 | 8,14 | 13,74 | 12,34 | 12,175 |
| *Magazines* | 8,59 | 5,80 | 8,29 | 5,20 | 4,163 |
| *TOTAL Alt. Mkt products* | 19,04 | 13,93 | 22,03 | 17,54 | 16,34 |
| *TOTAL Operating Income* | 131,33 | 134,64 | 144,03 | 134,05 | 136,31 |
| *Newspapers* | 91,63 | 94,81 | 102,90 | 98,52 | 101,49 |
| Magazines | 39,69 | 39,83 | 41,13 | 35,53 | 34,83 |
| **Operating Costs** | | | | | |
| *Newspapers* | 74,55 | 76,45 | 84,74 | 78,00 | 78,88 |
| Magazines | 39,00 | 37,63 | 38,95 | 34,66 | 34,32 |
| *Total Operating Costs* | 113,55 | 114,09 | 123,70 | 112,66 | 113,21 |
| EBITDA | | | | | |
| *Newspapers* | 17,09 | 18,35 | 18,16 | 20,52 | 22,60 |
| EBITDA Margin Journals | *18,6%* | *19,4%* | *17,6%* | *20,8%* | *22,3%* |
| Magazines | 0,69 | 2,19 | 2,18 | 0,88 | 0,50 |
| EBITDA Margin Magazines | *1,7%* | *5,5%* | *5,3%* | *2,5%* | *1,4%* |
| Total EBITDA | 17,78 | 20,55 | 20,34 | 21,40 | 23,11 |
| *EBITDA Margin* | *13,54%* | *15,26%* | *14,12%* | *15,96%* | *16,95%* |
| *Total Depreciation and Amortization* | 3,118 | 3,614 | 3,579 | 2,974 | 3,619 |
| Total EBIT | 14,66 | 16,93 | 16,76 | 18,42 | 19,49 |
| *EBIT Margin* | *11,2%* | *12,6%* | *11,6%* | *13,7%* | *14,3%* |

**Appendix 15.3.6 Income Statement by Segment – Projections**

| | 2011E | 2012E | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E |
|---|---|---|---|---|---|---|---|---|
| **Operating Income** | | | | | | | | |
| ***Circulation*** | | | | | | | | |
| *Newspapers* | 48,79 | 49,03 | 50,01 | 51,51 | 53,19 | 54,04 | 55,01 | 55,99 |
| *Magazines* | 16,31 | 16,06 | 16,46 | 16,66 | 16,88 | 17,13 | 17,44 | 17,75 |
| *TOTAL Circulation* | 65,09 | 65,09 | 66,48 | 68,17 | 70,06 | 71,17 | 72,44 | 73,74 |
| ***Advertising*** | | | | | | | | |
| *Newspapers* | 38,96 | 37,98 | 38,32 | 38,78 | 39,37 | 40,00 | 40,71 | 41,44 |
| *Magazines* | 12,55 | 12,05 | 12,29 | 12,41 | 12,56 | 12,75 | 12,97 | 13,21 |
| *TOTAL Advertising* | 51,50 | 50,03 | 50,61 | 51,19 | 51,92 | 52,74 | 53,69 | 54,65 |
| ***Alternative marketing products and others*** | | | | | | | | |
| *Newspapers* | 10,29 | 9,98 | 10,28 | 10,48 | 10,62 | 10,79 | 10,98 | 11,18 |
| *Magazines* | 3,33 | 3,23 | 3,31 | 3,34 | 3,38 | 3,43 | 3,49 | 3,55 |
| *TOTAL Alt. Mkt products* | 13,62 | 13,21 | 13,59 | 13,83 | 14,00 | 14,22 | 14,47 | 14,73 |
| *TOTAL Operating Income* | 130,21 | 128,33 | 130,67 | 133,19 | 135,99 | 138,13 | 140,60 | 143,12 |
| *Newspapers* | 98,03 | 96,99 | 98,61 | 100,78 | 103,17 | 104,82 | 106,70 | 108,61 |
| Magazines | 32,18 | 31,34 | 32,06 | 32,41 | 32,81 | 33,30 | 33,90 | 34,51 |
| **Operating Costs** | | | | | | | | |
| *Newspapers* | 76,99 | 76,42 | 77,21 | 78,69 | 79,92 | 81,19 | 82,17 | 83,58 |
| Magazines | 31,78 | 30,73 | 31,19 | 31,24 | 31,63 | 32,08 | 32,61 | 33,14 |
| *Total Operating Costs* | 108,77 | 107,14 | 108,40 | 109,93 | 111,54 | 113,27 | 114,78 | 116,72 |
| EBITDA | | | | | | | | |
| *Newspapers* | 21,04 | 20,58 | 21,40 | 22,10 | 23,26 | 23,63 | 24,53 | 25,03 |
| *EBITDA Margin Journals* | *21,5%* | *21,2%* | *21,7%* | *21,9%* | *22,5%* | *22,5%* | *23,0%* | *23,0%* |
| Magazines | 0,40 | 0,61 | 0,87 | 1,17 | 1,19 | 1,22 | 1,29 | 1,37 |
| *EBITDA Margin Magazines* | *1,2%* | *2,0%* | *2,7%* | *3,6%* | *3,6%* | *3,7%* | *3,8%* | *4,0%* |
| Total EBITDA | 21,44 | 21,19 | 22,27 | 23,27 | 24,44 | 24,85 | 25,82 | 26,40 |
| *EBITDA Margin* | *16,47%* | *16,51%* | *17,04%* | *17,47%* | *17,98%* | *17,99%* | *18,37%* | *18,45%* |
| *Total Depreciation and Amortization* | 3,128 | 3,083 | 3,139 | 3,200 | 3,267 | 3,318 | 3,378 | 3,438 |
| Total EBIT | 18,31 | 18,11 | 19,13 | 20,07 | 21,18 | 21,54 | 22,45 | 22,96 |
| *EBIT Margin* | *14,1%* | *14,1%* | *14,6%* | *15,1%* | *15,6%* | *15,6%* | *16,0%* | *16,0%* |