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Equity Valuation - IMPRESA



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Abstract:

The purpose of this dissertation is to perform an equity valuation about a listed company in Euronext Lisbon Stock Exchange namely Impresa SGPS, which is one of the main players of the media industry in Portugal.

The valuation is based on a research about the media sector, the company and current challenges in the industry and the dissertation concludes with the price per share of Impresa.

These results will be compared with the Millenniumbpc Investment Bank Report.

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3. Preface

In order to complete my Master degree in Business Administration in Católica Lisbon, I decided to do an equity valuation as it is a framework that gives us enormous knowledge about different components of a company. It is used by analysts to make recommendations about equity investments and it is also important when we analyze possible M&As or Joint Ventures.

I chose for that purpose to evaluate Impresa, a Portuguese company that is the leader in the media industry. It is very challenging because Impresa has three segments (Television, Publishing and Digital) which are facing different challenges and trends.

In order to get all the information for my valuation, I had access to several reports and papers, talked with the Investor Relations of Impresa that clarified all my doubts and with Investment Banking analysts that supported me with important guidelines.

I started by describing in the Literature Review the main valuation models and in which circumstances they should be applied, highlighting advantages/ disadvantages. Then, I pointed out the media trends around the world by segments and countries. After that I described the media industry referring to the external factors and challenges that it is facing, concluding by enumerating some solutions. After describing the sector, I started to portray the company, focusing on the most important sources of revenues, costs and events and comparing with their competitors' performances. Finally, I based my forecasts on assumptions which I gathered from different sources, and compared my end results with an analyst of Millenniumbcp.

4. Executive Summary

The Portuguese group Impresa SGPS is one of the main players in the media industry which manages different companies in that industry. It operates in three segments: television, publishing and digital.

The group is facing several challenges. On the one hand the economic crisis and the austerity measures directly influence the available income of costumers/ companies. Apart from that, companies have difficulties in accessing credits and the advertising revenues are decreasing. On the other hand the possible privatization of RTP1 leads to an increase of the competition among FTA Channels. Finally, the significance of the publishing sector is negatively impacted by the digital migration.

APV is the model used to value the Impresa group since it is a cyclical company and its capital structure will change in the future. This is due to the fact that currently the group is highly leveraged but a gradual reduction is expected in the coming years.

Following from my analysis I concluded a price per share of 0.31€, which means a potential loss of around 26% when compared to their current price per share.

The major reasons for this price are the cut of the Portuguese long-term government bond which increases the Country Risk Premium used in R_a and the weak forecasts for Media companies. Lastly, the negative EBIT in 2011 led Impresa to a Rating of D which is definitely the main cause since its bankruptcy costs are huge.

5. Literature Review

5.1. Valuation Overview

“Valuation can be considered the heart of finance.” (Damodaran, 2006)

“The first step is to recognize that virtually every popular valuation approach is simply a different way of expressing the same underlying model.” (All roads lead to Rome, 1999)

The main goal of performing a valuation is to estimate the potential value of a stock through its Intrinsic Value, even when the priced stock shows a different value. It means evaluating the stocks separately from the market. Therefore, it represents an important tool to look for M&A opportunities, but also to show if a company is creating or destroying value.¹

When a company is being valued, we should use just a single model (DCF or DDM or APV, for example) because the more models are used, the weaker the message becomes.

There are four concepts that analysts must take into consideration when valuing a firm²:

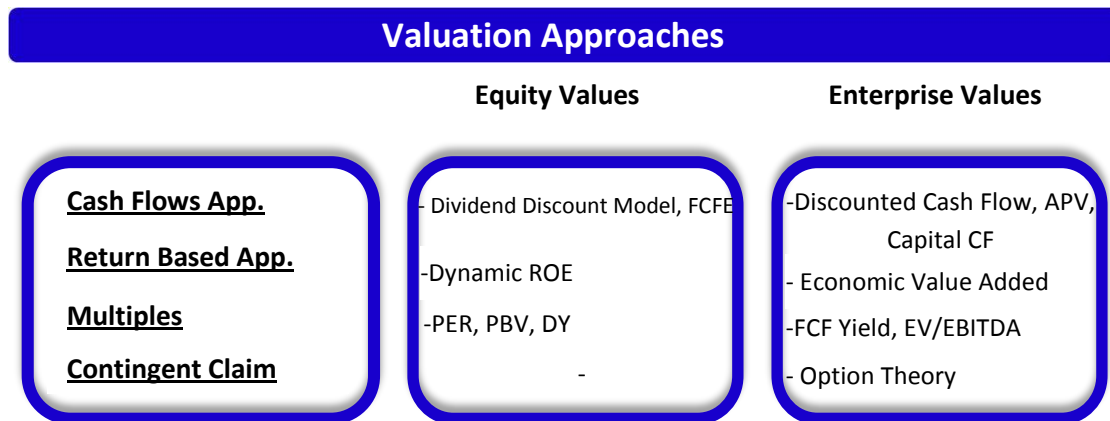
- Consistency- The assumptions used for determining one valuation model must be valid for other models. Thus, at the end the goal is to achieve the same valuation result.
- Comparison- It is possible to make comparisons between different valuations models about a firm. Thus, it is crucial to understand which assumptions cause that difference.
- Uniqueness- It should exist just one fair value for the price of the company.
- Consistency without uniformity- Different analysts can adopt different methods to evaluate a particular company.

As we can see in the following figure, there are four types of valuations which differ from valuing in the equity perspective (when the value of the company shows the money for the equity holders) or in the enterprise value perspective (for the company as a whole).

Note: There are more types of valuation approaches, but I described the ones that are more commonly used nowadays.

¹ (Fernández, 2007)

² All roads lead to Rome (Goldman Sachs, September 1999)



Source: Goldman Sachs- "All roads lead to Rome"

5.2. Valuation Approaches

5.2.1. Discounted Cash Flow Approach (DCF)

One of the most used valuation approaches, which is since then called Discounted CF, appeared in 1970. It allows the calculation of the intrinsic value of an asset through the present value of the expected CF of that asset discounted by the WACC (Weighted-Average Cost of Capital) that reflects the risk of those CF. Nevertheless, this method is becoming obsolete and there are other methods appearing, which are even better models, such as the APV. Some experts predict that in the upcoming years analysts will use more valuation models to compare their results, in order to get more accurate results, improving efficiency in their decisions.³

There are two ways of computing the DCF, both leading to the same result: the first one aims at valuing the whole business (enterprise value or assets) and discounts the Free Cash Flow of the Firm by the opportunity cost (WACC). The second one values the part that belongs to the shareholders (equity), discounting the Free Cash Flow to Equity by K_e (cost of equity).

Figure 1: Differences between APV model and DCF using WACC

	Enterprise DCF Model	APV Model
Cash Flow	FCFF	FCFF
Discount Rate	WACC	Ku or Kd
Cost of Equity	Levered	Unlevered
Cost of debt	Credit rating based	Credit Rating Based
Capital structure	Constant leverage ratio	Constant leverage ratio or variable debt
Probability of default	Not explicitly taken into account	Separate term in the valuation
Cost of financial distress	Not explicitly taken into account	Separate term in the valuation

Source: Sebastian Ootjers BSC, 26 September 2007

³ Luerhman (1997) – What's it Worth?

5.2.2. Free Cash Flow to Firm (FCFF)

Free Cash Flow to Firm is the cash that is available for investors and is generated through company's operations minus all the reinvestment in the business, not taking into account the financial debt.⁴

Damodaran (2002) states that "The value of the firm is the value of all investors who have claims on the firm... it includes the lenders and bond holders who have fixed claims and equity investors who have residual claims". It can be calculated by the following formulas:

$$FCFF = FCFE + \text{Interest expense} (1 - \text{Tax rate}) + \text{principal repayments} \\ - \text{new debt issues} + \text{preferred dividends}$$

↔

$$FCFF = EBIT(1 - \text{Tax rate}) + \text{Depreciation} - \text{Capital expenditure} - \Delta \text{Working Capital}$$

In order to transform FCFF into FCFE we must add the non-operating assets (e. g. cash and marketable securities, minorities) and subtract non-equity claims (e.g. Debt, capitalized leases, unfunded pension plans and health care obligations).

The value of the firm is computed by the present value of CF_t adding the steady state, as we can see in the following formula:

$$\text{Value of the firm} = \sum_{n=1}^{t=n} \frac{FCFF_t}{(1 + WACC)^t} + \frac{[FCFF_{n+1}/WACC - g_n]}{(1 + WACC)^n}$$

Damodaran (2006) explains the different ways to estimate the Terminal Value and the best option - "Using multiples to estimate terminal value, when those multiples are estimated for comparable firms, results in a dangerous mix of relative and discounted cash flow valuation. The only consistent way of estimating the Terminal Value in a Discounted Cash Flow Model is to use either the liquidation value or to use a Stable Growth Model."

In my valuation I will consider the last model since it reflects the changes in company characteristics, from high growth rates in the Explicit Period to the Terminal Value which shows stable rates. Stable growth rates characterize companies by having higher debt ratios, null/ lower excess returns, lower reinvestment rates, less exposure to market risks (lower betas- closer to 1 which is the average of the market). Thus, a stable growth rate must be lower or equal to the economic growth rate.

⁴ Sebastian Ootjers BSC, 26 September 2007

$$\text{Reinvestment rate in stable growth} = \frac{\text{Stable growth rate}}{ROC_n}$$

- **WACC**

The WACC is the opportunity cost that an investor has when he invests in a project because he could have invested in another one with similar risk. Riskier projects have higher opportunity cost due to the implicit risk. The three main components of WACC are: the K_e (cost of equity calculated through CAPM or APT); the K_d (cost of debt before tax) and the company's capital structure (Debt/V - leverage of the firm) as we can see in the next formula: Damodaran (2006)

$$WACC = \frac{D}{D+E} K_d(1 - T_c) + \frac{E}{D+E} k_e$$

E= Market value of equity; D= Market value of debt

D/ (E+D)= Debt structure; E/ V= Equity capital structure

K_d = Cost of debt; K_e = Cost of equity

T_c = Tax rate;

This method takes into account the Tax shield effect looking at the debt structure of a company, as well as at the cost of financing and the risk of the company.

- **Cost of Equity**

When an investor does an investment in a company he requires a rate of return, called cost of equity.

Fernández (2007) explains that there are two ways for computing the K_e :

- I. Gordon Constant Growth Valuation Model:

$$K_e = \frac{Div_1}{P_0} + g$$

G=dividend growth rate ; P_0 = current share price

- II. The Capital Asset Pricing Model (CAPM)

$$K_e = R_f + \beta(R_m - R_f)$$

R_f = Risk free rate for investments (treasury bonds)

R_m = Expected market return

$R_m - R_f$ = Market risk premium or equity premium

β = Systematic risk/Market risk of an asset; The higher the beta, the greater the return of a security because it measures the incremental risk for an investor.

According to Rosenberg and Rudd (1982), if we assume that investors are well diversified it means they would be mean-variance optimizers: "it is not the isolated equity risk of the individual corporation that counts, but rather its contribution to the risk of a diversified equity portfolio."

- **CAPM**

The CAPM is an explanatory model about the exposition of a stock to the capital market, where the return will be proportional to the risk involved. This risk is called non-diversified risk, which comes from the exposure of a stock to the market.

Several tests were done to test CAPM and experts found out that there are other variables besides beta that help to explain the expected returns, such as:⁵

- The effect of a small firm (Kleim, 1981)
- The effect of book-to-market (Stattman, 1980; Rosenberg, 1985)
- The momentum effect: Past winners are a good strategy to create money in the future (Jegadeesh & Titman, 1993)

Fama & French (1992) developed an explanatory model which is composed by 3 factors: SMB (Small minus Big) gives the "return on small capitalization firms in excess of large cap firms"; HML (High minus Low: Book-to-Market = Book Value of Equity / Market Value of Equity) that measures the growth of a stock; and finally the MKT ("aggregate market index"). In order to test beta's accuracy, F&F performed tests with new variables: Size and market beta. They found out that those variables explain the stock returns (cross-sectional variation) as opposed to beta, where they said: "Beta is dead".

Chambell & Vuolteenaho (2004) studied CAPM with the existence of two betas: the good one ("with market discount-rate news") and the bad one ("with the market cash flow shocks").

The main arguments against CAPM are due to its unrealistic assumptions, such as: no taxes or transaction costs, investors' financing and borrowing money at a risk-free rate, all investors

⁵ Empirical Finance: Católica Lisbon University- Prof. José Faias

hold a diversified portfolio and are risk averse, there is no information asymmetry, all securities are well priced, etc.

Despite these arguments, it is a simple model that has been used for more than 40 years and it is recognized as having been the best estimator for K_e , comparing to other models. Chan & Mendelson learnt that between the periods of 1926-1991 the only year that beta had a negative relation with the expected return was in 1982. Therefore, I will use this model in my valuation for R_a because I believe beta is a good risk measure.

- **Cost of Debt**

It is the cost paid by a company that is funded through debt. This value is a measure of how risky this is and it depends on three factors:

- The default premium
- The tax rate of the firm
- Interest rates

$$K_d = \text{Interest Rate on Debt} (1 - \text{Tax Rate})$$

- **Risk Free rate**

The risk free rate of an asset represents the rate of return of an investment without risk. There are two conditions that must be fulfilled in order to achieve a risk free rate: no probability of default and no uncertainty about reinvestment rates, which means "it is a zero coupon security with the same maturity as the cash flow being analyzed." (Damodaran, 2006)

The duration of an investment will influence the duration of the T-Bill chosen.

- **Beta**

Beta measures the market's sensitivity and the risk added to a diversified portfolio. Thus, when $\beta > 1$ it indicates that an asset has more risk than the average investments.

In order to choose the right model to calculate beta we must understand which characteristics define the firm, as we can see in Exhibit 14.1.2.

The next formulas show the most common ways to estimate beta, one way is through a regression where R_j is the stock return; R_m the market return; "a" is the interception and "b" is the slope (beta). In the second formula, beta is estimated through the covariance between the company's rate of return and the market return divided by the variance of the market return.

$$R_j = a + b R_m \quad \text{Or} \quad \beta_i = \text{COV}(R_i, R_m) / (\sigma_{RM}^2)$$

The following factors influence β :⁶

- Type of business: Varies with the sensitivity of the demand for certain products/services and the macroeconomic environment. Cyclical companies have higher betas than non cyclical companies, because beta is influenced by macroeconomic factors that affect the whole economy.

- Companies with higher operating/financial leverage have superior betas because the greater the exposure to fixed costs (interest payments), the higher will be the exposure to market risk. The companies that are Smaller/ Younger / Growth firms should also have higher betas due to earnings volatility.

Regarding the following costs, the higher they are, the greater will be the operational costs.

Fixed cost measure = *Fixed cost/Variable cost* ; relates to the proportion on fixed and variable costs.

EBIT variability measure = *% change in EBITDA/% change in Revenues* ; relates to the change of EBIT when the other variables change.

Where the β leverage will be : $\beta_l = \beta_u \times [1 + (1 - t) \times D/E]$

- **Country Risk Premium**

When investing in a riskier country we should include this Country's Risk Premium in the cost of equity if it is not included yet in the estimated CF, since the political and economical environment that a country is facing will influence the company's performance in the future. However there are some experts that criticize this idea because they defend "The Country risk is diversifiable"; "A Global Capital Asset Pricing Model" or "Country Risk is better reflected in the cash flows".⁷

Despite this, I will include the country risk in R_a since Portugal is exposed to a harsh environment and to austerity measures, factors that will influence the performance of

⁶ (Damodaran, 2011)

⁷ (Damodaran, 2011)

Impresa. For this reason, I will use a spreadsheet of Damodaran which gives us the Portugal rating (through Moody's Site) and then the corresponding CRP.

$$K_e = R_f + CRP + \beta \times US \text{ Market Premium}$$

5.2.3. Free Cash Flow to Equity (FCFE)

The Free Cash Flow to Equity is the CF after-taxes that is available to equity holders of a firm, as we can see in the next formula: (Damodaran, 2006)

$$\text{Value of the Firm} = \sum_{n=1}^{t=n} \frac{FCFE_{n+1}}{(K_e - g_n)^t}$$

This method is used as an alternative to the Dividend Discount Model but some experts recommend the use of FCFF (although the FCFF and FCFE must achieve the same result if consistently used). Comparing to the DDM, one of the following conditions must be fulfilled in order to come to the same result: the value of dividends must be equal to or lower than the FCFE. This difference, namely excess cash, must be invested in "fairly priced assets".⁸

Although this model is much more intuitive than FCFF since the only CF that shareholders receive is dividends, I will use APV as FCFE is recommended for firms with stable leverage.

5.2.4. Dividend Discount Model (DDM)

The Dividend Discount Model is a special scenario of equity valuation. Any investor that buys a certain stock expects to receive cash flows from the dividend distribution during the holding period, as well as the expected price in the end of this period. Thus, the value of any stock is computed by the present value of the expected dividends until infinity. This simple model assumes a stable company.

It has to be highlighted that the dividend growth rate must be equal to or lower than the economic growth rate (where that company is inserted) and the dividend growth rate influences directly the growth performance indicators in the same proportion.⁹

$$\text{Value per share of stock} = \sum_{t=1}^{t=\infty} \frac{E(DPS_t)}{(1 + K_e)^t}$$

⁸ (Damodaran, 2006)

⁹ (Damodaran, 2006)

$E(DPS_t)$ = Expected dividends per share; K_e = Cost of equity

Expected Nominal Growth in Economy = Expected Inflation + Expected Real Growth

This model allows us to understand about the stock's growth stagnation and why this occurs. The companies which have a higher dividend payout ratio evoke growth stagnation in stock prices since they abdicate to reinvest in new projects.

There are several variations of the DDM which assume different growth rates to meet the limitation of the "steady state", but I will only focus on the most popular ones namely the Gordon Growth Model and the H-Model (Two-stage model for growth).

- **Two-Stage Growth Model**

The Two-Stage Growth model is characterized by one period of growth, where for instance the dividend growth rate could be higher than the earnings rate. Then, the equity value is computed through the present value of the steady state dividends plus the expected value of the dividends in the non-stable phase.

$$P_n = \frac{E(DPS_{n+1})}{(K_e - g)}$$

g = is the stable growth rate

- **H-Model**

The H-Model model has two phases, the first one is characterized by a non-stable growth where the "earnings growth rate starts at a high initial rate (g_a)" and the second one "declines linearly over time to reach the stable growth rate in the steady state."

$$P_o = \frac{DPS_0 \times (1 + g_n)}{(r - g_n)} + \frac{DPS_0 \times H \times (g_a \times g_n)}{(r - g_n)}$$

DPS = Dividend per share; g_n = Stable growth rate

This model is very useful for companies that are growing quickly in current years but are expected to smoothly decrease growth rates over the upcoming ones as they become more mature.

Despite all the advantages about the DDM, it can be used only in three situations:¹⁰

- I. "Firms that have Cash Flow to Equity that exceed dividends"
- II. "In sectors where Cash Flow estimation is difficult or impossible, dividends are the only cash flows that can be estimated with any degree of precision."
- III. "It yields realistic estimates of value per share for firms that do pay out their Free Cash Flow to Equity as dividends, at least on average over time."

5.2.5. Adjusted Present Value (APV)

The APV estimates the enterprise value based on three components: analyzing the value of the firm without debt (unlevered firm); then include the debt and all inherent costs taking into account the tax shields effects ("interest expenses are tax deductible"); and then the bankruptcy costs.¹¹

$$\begin{aligned} \text{Value EV} &= \text{Value of business 100\% Equity financing} \\ &+ \text{PV of Expected Tax benefits of Debt} - \text{Expected Bankruptcy costs} \end{aligned}$$

This approach was developed by Miller&Modigliani (1963). They focused on the importance of the present value of tax shield savings in perpetuity using for that K_d (cost of debt) as a discount rate. The version of the APV that is used nowadays was improved by Myers (1974) and adds the relation between the investments and the financial decisions.

The APV method is known for its transparency, because we can easily identify the components that destroy/create value and the corresponding reasons. It starts to replace the WACC more and more often due to its fewer limitations. Some WACC limitations: it comprises a reduced number of assumptions which could imply that a lower WACC increases the value of the cash flow.

It also only works well when applied to companies that have stable capital structures, otherwise it must be adjusted year after year in the following rubrics: Tax shields; issue costs; subsidies; hedges; exotic debt securities and adjusting to a dynamic capital structure in order to reduce the errors.

The main advantages of the APV are the flexibility, versatility, reliability. It always can be applied and is very informative about its components.

¹⁰ (Damodaran, 2006)

¹¹ (Damodaran, 2006)

- **Unlevered Firm**

The first step is to calculate the value of the company without debt financing. Where V_u = Equity when Debt=0: The FCF is the CF that is available *after taxes* to all investors (equity or debt holders). Thus, CF is the difference between the cash inflows (from operational investment and financing activities) and the cash outflows (investment and expenses).

$$V_u = \frac{FCFF_n + TV_n}{(1+R_u)^n} ; \quad TV_u = \frac{FCFF_n \times (1+g)}{R_u - g}$$

R_u = Unlevered cost of equity from firms' point of view = K_a (is the minimum required rate of return on the operating activity of a company), when $D=0$

TV = Terminal value assuming an expected growth of "g"

FCFF n = Free Cash Flow to Firm in time n

$$K_e = K_u + (K_u - K_d) \times \frac{D}{E} ; \text{ the } K_e \text{ can derive from CAPM}$$

- **Value of Tax Shields**

The second step is to calculate the present value of the interest tax shields regarding a certain debt level, where the VL (Value of the firm with leverage) = $V_u + PV_{TS}$:

$$PV_{TS} = \sum_{t=1}^{t=\infty} \frac{TS_t}{(1+K_d)^t} ;$$

Where $TS_t = D \times K_d \times T_c$ (when debt is in equilibrium) - M&M

Where $TS_t = [(D \times K_d \times T_c) \times (1 + g)] / (k_u - g)$ - M&E

There are different points of view in regards to the choice of the PV TS' discount rate. Brealey & Myers 2003 and Cooper & Nyborg 2006 are four of many authors that defend the calculation of VL as the sum of the PV TS discounted by K_a agreeing with the founders M&M and M&E. The difference between M&M and M&E is the assumption of a constant D/V of the first one as opposed to the last one. However, Koller 2005 deepens this thought creating two scenarios: if we are convinced that a firm has a stable capital structure during the following years, the tax shields and the operating assets will tend to have the same risk where $k_u = k_a$. Nevertheless, if the ratio D/V will vary, the risk of interest tax shields will be more similar to the "value of forecasted debt" instead of the operating assets.

Although there is no consensus among the authors, the best course of action is to be consistent using the right assumptions according to the model chosen. I will use R_d as a

discount rate, since I believe that Impresa is likely to incorporate growth opportunities and has different capital structures over time.

- **Value of Bankruptcy Costs**

At the end, we must subtract all the disadvantages of the leveraging. Indeed, according to Damodaran (2002) it is one limitation of the APV model given that it is very complicated to quantify the PV of expected bankruptcy cost: "This component of the Adjusted Present Value approach poses the most significant estimation problems, since neither the probability of bankruptcy nor the bankruptcy cost can be estimated directly".

$$PV \text{ of Expected Bankruptcy costs} = \text{Probability of Bankruptcy} \times PV \text{ of Bankruptcy Cost}$$

When companies default, it means that they cannot pay easily and on time the debt payments and hence they have two options: liquidation or reorganization of their activities. This situation depends on the company's capability to generate CFs from operations and to face financial obligations. Damodaran (2002) explains this relation: - "Companies which generate high Cash Flows relatively to their financial obligation have lower default risk than firms which generate low Cash Flows relative to their obligations." – "the more stability there is in Cash Flows, the lower is the default risk in the company. Companies which operate in predictable and stable businesses will have lower default risk than similar companies which operate in cyclical and/or volatile businesses."

The bankruptcy costs can be direct or indirect. The direct costs are the ones inherent to the bankruptcy process namely administrative, legal and the liquidation process to sell some assets at a lower price. The indirect costs affect the operational activity of the company, for example the decrease in demand, the suppliers starting to refuse selling products without an immediate payment, the increase in production costs due to the reduction/elimination of economies of scale and the management team that has to solve all those difficulties resulting in high opportunity cost. Regarding Warner (1977) and Weiss (1990), the indirect bankruptcy costs vary between 5%- 15% and the direct bankruptcy costs can go up to 5%. Both of them are calculated as a percentage of Value unlevered of the firm (V_u).

There are several models that help to measure the probability of default but I only will explain the one used in my equity valuation:

- Altman's Z-score
- Ohlson's O-score
- Contingent- claims models
- Bond Ratings: I chose this model because it is a simple framework and is commonly used by Standard & Poor's, Moody's and Damodaran. There are several ratios that measure the default risk (Operating Income/Sales; Long Term Debt/ Capital; Interest Coverage Ratio etc). In this case, I calculated the Interest Coverage ratio based on the debt level of Impresa, figured out the corresponding credit rating, and finally determined the probability of default matching that rating.

5.3. Relative Valuation- Multiples

"A properly executed multiples analysis can make financial forecasts more accurate."

(Marc Goedhart, Timothy Koller and David Wessels)

The Relative Valuation estimates the value of an asset that derives from the price of similar company's assets through the market judgment of that asset value.

Figure 2: Valuation Approach by Multiples

Multiples	
Equity Values	Enterprise Values (Equity + Debt)
Dividend Yield	Free Cash Flow Yield
Price to Earnings Ratio (PER)	EV/Sales
Price to Book Value (PBV)	EV/ Capital
Price to Cash Flow (PCF)	EV/EBIT
Price to Sales (P/S)	EV/EBITDA

Source: Goldman Sachs- "All roads lead to Rome"

In general, authors prefer using EV/EBITDA since it is less likely to be manipulated as changes in capital structure will not affect directly this ratio (only if the capital structure influences the decrease of cost of capital, increasing the value of the multiple and vice-versa).

The Multiples analysis between similar companies can be a useful tool. If Multiples are carefully aligned with the DCF, they will help companies in:¹²

- Stress- Test its CF's forecasts.
- Understanding the mismatches between its performance and its competitors.

¹² The Right Role for Multiples in Valuation- Mckinsey &Company

- To be strategically positioned in order to create more value than its competitors.
- Understanding the key factors that are creating/destroying value in a company.

In order to achieve the right Multiples there are four principles that must be followed (Goedhart, Koller and Wessels):

- I. Use firms that have similar ROIC and growth perspectives.
- II. Use forward Multiples, always based in future values instead of historical ones, because forward Multiples are more accurate to predict the value of an asset.
- III. Use enterprise value Multiples.
- IV. Adjust the EV/ EBITDA for non-operating items in order to avoid misleading results.

The most frequent adjustments are the following: exclude the excess cash non-operating assets from EV; add to EBITDA the implied interest expense and the value of leased assets of the equity and debt market value; add to EBITDA the present value of all employees grants and subtract the new employee option grant and pension adjustments.

Regarding Damodaran,¹³ the advantages of using Multiples comparing to DCF valuation are: the use of few assumptions; its simplicity in understanding the results/ calculations and the quick estimation of asset values when there are many similar firms being traded in financial markets. Finally, he defends that in relative valuation the probability to catch the current mood of the market is higher since it does not measure the intrinsic value but the relative one, hence, in general the yield value will be even closer to market prices.

On the other hand, there are some weaknesses regarding the use of Relative Valuation because it is too simplistic about assumptions and captures a snapshot of a specific point in time despite of the dynamic evolution of its competitors and the business.

Often, there are firms that are not easily comparable and the peer group increases noise because the companies are much bigger/smaller comparing to the company concerned. In the case of media companies, the cyclicity increases the dispersion within companies which implies that the multiples will not explain correctly the price of a company. Another disadvantage occurs when the market prices an asset too low or too high as the multiple will then be undervalued/overvalued respectively, directly influencing the firm's comparison. Additionally, there are multiples that are easily manipulated due to their composition (example: depreciations, provisions). Therefore, the use of Multiples might increase the errors.

¹³ Relative Multiples - (Damodaran, 2008)

Thereby, the main point is to get a peer group with similar characteristics, such as: risk; potential growth rate; expected CF; size; D/E and profitability. After choosing the driver, it must be multiplied by the corresponding Multiple. Damodaran adds that there are multiples that cannot be computed for all types of firms, thus, it is essential to answer the following questions in order to avoid biases: “What are the fundamentals that determine at what multiple a firm should trade? How do changes in the fundamentals affect the multiple?”

Finding comparable firms is hard, especially when there are few companies in a sector. However there is a trade-off, when the number of comparable firms increases by too much the peer group gets too dispersed.

According to Damodaran¹⁴ there are three techniques to smooth the dispersion within firms:

- I. The analysts do subjective adjustments (analyzing the companies that compose the peer group and the multiples that must be chosen).
- II. Modified multiples. These tools are difficult to implement.
- III. Statistical techniques: The point is to perform a market regression which has several advantages, such as: it includes the risk and growth within companies, analyses all firms in the market and identifies the undervalued/overvalued firms in an industry (but is not necessarily true that the highest R^2 Multiple explains better the asset price).

This topic will be further developed since I will consider it in my analysis due to all inherent advantages.

5.4. Return Based Approaches

The main purpose of the model of Return Based Approaches is to measure the excess return of the valuation, which either could be a negative or a positive value. The excess return is reached by calculating the difference of the normal return CF (cost of capital or equity) minus the return of that capital.¹⁵

$$\text{Value of business} = \text{Capital Invested in firm today}$$

¹⁴ Valuation Approaches and Metrics: A Survey of the Theory and Evidence (Damodaran, November 2006)

¹⁵ (Damodaran, 2006)

+ Present value of excess return CF from both existing and future projects

An investment in a company only creates value if the ROIC is higher than the WACC, thus it has a positive NPV and there is value creation.

5.4.1. Economic Value Added

The Economic Value Added approach was created by Stern Stewart & Co. in the 90s with the purpose of measuring the “true financial performance of a company” and this method “correctly takes into account value creation or destruction in a company”. (Stewart, 1991)

“EVA is a measure of the surplus value created by an investment or a portfolio of investments.” (Damodaran 2006)

$$EVA = [ROIC - WACC] \times \text{Capital Invested} \leftrightarrow \text{After tax operating income} - [WACC \times \text{Capital Invested}]$$

The EVA derives from the NPV approach, thus is also related to the value of a firm and can be calculated as the following formula shows:

$$NPV = \sum_{t=1}^{t=n} \frac{EVA_T}{(1 + K_C)^T}$$

$$\begin{aligned} \text{Firm Value} = & \text{Capital Invested}_{\text{Assets in Place}} + \sum_{t=1}^{t=\infty} \frac{EVA_{T, \text{Assets in Place}}}{(1 + kc)} \\ & + \sum_{t=1}^{t=\infty} \frac{EVA_{t, \text{Future Projects}}}{(1 + Kc)} \end{aligned}$$

There are variants of the EVA approach that are measures of excess returns but are computed in a different way.¹⁶

- Economic Profit: It is based on net income rather than on after-tax operating income.

$$\text{Economic Profit} = \text{Net Income} - (\text{Cost of Equity} \times \text{Book Value of Equity})$$

- CF Return on Investment (CFROI): It has two differences compared to EVA, “The first is that the return earned on investments is computed not based on accounting earnings but on

¹⁶ (Damodaran, 2006)

after-tax cash flow. The second is that both returns and the cost of capital are computed in real terms rather than nominal terms.”

Concluding, this method allows the alignment between the shareholder value creation and the financial decision, maximizing the shareholder management and debt holder’s interests. A project must be accepted when having a positive EVA. If the assumptions (reinvestment and growth) are reliable, the EVA must coincide with the DCF valuation, nevertheless Penman and Sourgiannis (1998) found out that the EVA for a ten-year period shows better performance (lower errors) than the DCF because earnings explain better the model than CFs. Francis, Olson and Oswald (1999) found the same result comparing to DDM for Terminal Value calculations.

5.4.2. Dynamic ROE

This method allows measuring the excess return, giving information about whether a company is creating or destroying value on the equity side, as opposed to EVA (Enterprise Values). A company creates value if the ROE is higher than K_e (cost of equity).

ROE = Net Income/Equity

$$\text{Dynamic ROE} = \text{Equity Book Value} + \frac{(\text{ROE} - K_e) \times \text{Equity Book Value}}{(K_e - g)}$$

One of the main advantages of the dynamic ROE occurs when calculating the TV because this result is lower compared to the one using the DCF model. However, in order to surpass some difficulties (as well in the EVA) the use of Comprehensive Income rather than Net Income (“all changes in Equity less those related with owners”) is recommended in the calculations.¹⁷

However, I will not use any of these approaches in my valuation since I will use the APV.

5.5. Option Theory

“Recognizing real options can help decision makers assess the profitability of new projects and understand whether and when to proceed with the later phases of projects that have already been initiated, particularly when they are close.” (Thomas E. Copeland and Philip T. Keenan, 1998)

¹⁷ (José Tudela Martins, 2011)-Católica Lisbon University

The purpose of the Option Model is to evaluate future projects that involve higher levels of uncertainty and opportunities. Investors should therefore not ignore it otherwise they could be under-valuing good opportunities. Thus, the higher the uncertainty around an asset/investment, the higher the CF probabilities will be and hence the real option will value more. The Exhibit 14.1.3. shows examples of Real Options by sectors.

The basic meaning beyond the Option Theory is that an investor has the right to buy or sell an asset at a determined date and price. If exercised it generates a CF and another option for another possible investment, resulting in many stages of investments (compounded option). When an investor analyzes the option tree, he observes which tree has the highest CF which then is the one that must be chosen. Thus, it is very helpful to look at different stages of the projects' lifecycles and draw conclusions from that, because projects that are undervalued can sometimes show investment growth opportunities.

There are two approaches to compute options which are the binomial model and the Black-Scholes model. According to Luehrman ¹⁸ there are three factors that must be considered regarding future opportunities: CF, risk and time.

Despite being considered a promising valuation method since the 1970s, there are some factors such as: "... active competitors, uncertainties that do not fit near probability distributions, and the sheer number of relevant variables" that make the use of the Option Theory not generally applicable. "Option pricing has not yet been widely used as a tool for valuing opportunities...this tool is costlier." (Luehrman, 1997)

For this reason I will not consider it in my valuation.

5.6. Cross Border Valuation Overview

This method allows the valuation of a company that invests outside a country, namely of multinational firms. However, there are some aspects that the analyst must pay attention to when evaluating this type of companies: (Koler, Goedhart, Wessels, 2005)

- I. International *accounting* differences
- II. International *taxation*
- III. Translation of *foreign-currency* financial statements

¹⁸ What it worth? (Luehrman, May- June 1997)

- IV. Forecasting *cash flows* in foreign and domestic currency
- V. Estimating the *cost of capital* in foreign currency
- VI. Incorporating *foreign-currency risk* in valuations

Thus, the risks that an investor faces when investing in a foreign market are the following:¹⁹

Type of Risk	Description
I. Currency risk	Happens when investors make investments in a foreign currency but there is a risk of a potential loss when convert it to their home currency. Among all the risks, this is the easiest to minimize, since the financial markets can do the hedging of the currency.
II. Expropriation risk	Occurs when the local government owns the “foreign owned asset” forcibly without the proper adjustments. However, there is a lower probability for this to occur because the local government does not have the right knowledge and expertise to manage efficiently the project.
III. Repatriation risk	Some local governments lower the appeal of having capital abroad and impose for that purpose measures that would makes it impracticable. Example: Heavy taxes on Cash Flows.
IV. Regulatory risk	The local government can take several measures which directly impact the foreign business, such as: limiting the ownership of the company to a certain stake, avoiding monopoly power; giving incentives/subsidies that affect the competitiveness of foreign firm; and the state takes the control of that company and chooses the right moment to leave the project. Thus, the state can takes several measures to protect the local economy.

These risks led investors to include them in their valuations since there is a possibility of loss. Therefore, it is very complicated to quantify it and understand the impact that it will have in their business.

Nick Patel suggests evaluating multinational companies using Discounted Cash Flow with an appropriate discount rate that incorporates the potential risk. Kester and Morley (1997) on the other hand, recommend the APV. Regarding the first method, risk is incorporated through the constructions of macroeconomic scenarios (inflation rate, growth of the products, interest rates and foreign-exchange rates) as well as by the use of global CAPM instead of local CAPM when assuming a well diversified investor:

$$*K_a = R_f \text{ of T-Bond} + (\text{Asset Beta relative to MSCI Index} \times \text{Global Market Risk Premium})$$

Some authors defend that we never should add the risk premium to the cost of capital. Considering long term periods, the WACC should not incorporate the country risk premium

¹⁹ (Nick Patel, 2005)

*(Nick Patel, 2005)

because “it is more likely to experience some economic distress and the risk will already be reflected in the data for the local assets undervalued and in the historical business results.”²⁰

Impresa does not operate outside Portugal and I will therefore not further develop this method.

6. Macro Economic Analysis

6.1. Macro-Economic Analysis in the World

According to Caixa Investment Banking, the majority of companies in the media sector presented in the first quarter of 2011 very positive results, when analyzing the advertising growth. Nevertheless, the last months have shown a negative discrepancy of that growth between companies, countries and sub-segments.

This tendency did not occur in the same way among Europe. TV Advertising in the Netherlands and in France showed organic revenue growth rates when comparing to the benchmark while Germany, Scandinavia and Southern Europe performed below the forecasts. The negative expectations are explained by a decrease of market consumption, pricing pressure and the transition of advertising from publishing to internet.

The companies that maintain or increase their advertising budgets (examples: FMCG-Fast Moving Consumer Goods and retail companies) will transfer a part of those investments from Europe to the US and Latin America.

In general, Caixa BI expects an increase in a low single digit of the European advertising market. Finally, Caixa BI maintains a neutral rating for the media sector favoring companies that are related to emerging markets and digital media because those companies have more growth opportunities and benefits from the internet.

Goldman Sachs²¹ states “While the scale of the changes varies depending on the cyclical or defensive nature of the companies and stocks, more important is the fact that structural

²⁰ (Mimi James and Timothy M. Koller, 2000)

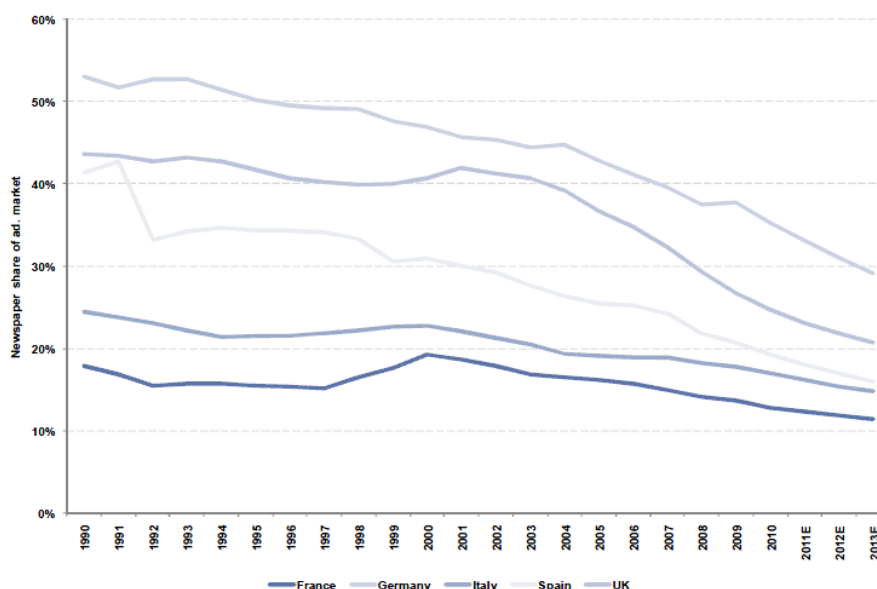
²¹ Goldman Sachs Global Investment Research- “Europe-Media”

change accelerates during difficult times; poorly positioned companies are affected more severely than well-positioned ones”.

This means that dispersion increases with higher uncertainty environment, geographically we observe that Southern Europe has the weaker outlook; Northern Europe and the USA have greater dispersion as opposed to emerging markets that have higher growth rates. The key of industry positioning is the geographic exposure, where the weaker positions are hit hardly by the economic conjuncture (example of Spain, Italy and other Western companies).

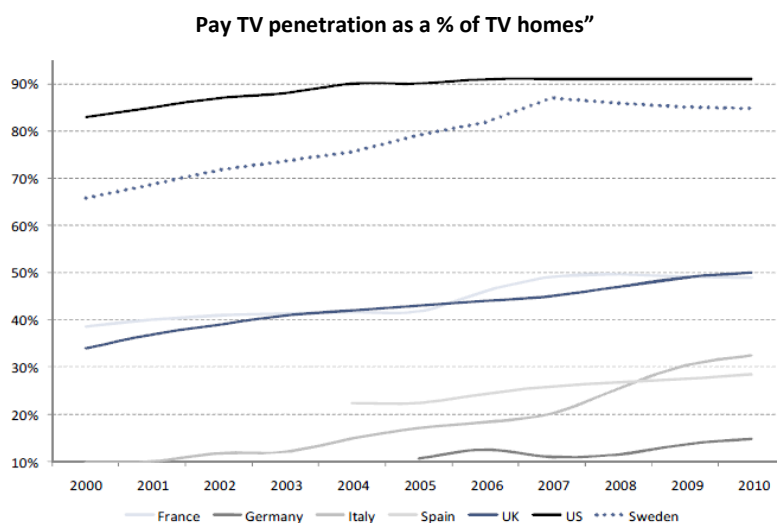
Regarding the media segments Goldman Sachs found out that an uncertain outlook accelerates the decline of newspapers/magazines as opposed to Pay-TV that shows the strongest position, despite of few future growth opportunities caused by a tough environment. Internet has shown a great advertising growth. While in Spain it ranks 2nd place after TV, experts believe that it is an irreversible trend that will negatively impact the publishing segment and they expect that this trend gets to Portugal in 2013. Therefore, the most secure areas are Pay TV, outdoor and internet.

**Figure 3: “Newspapers will lose share of advertising spend going forward;
Newspapers advertising as % of total”**



Source: Zenith Optimedia, Goldman Sachs Research estimates

Figure 4 : “Pay TV penetration has increased in most markets and is around 50% in the UK and 15% in Germany;



Source: Screen Digest, Informa Telecoms & Media, Goldman Sachs

For 2012, it is considered important to incorporate, the slowdown of forecasts in companies' valuations. Examples of these forecasts are the organic revenue growth that will be between 4% a 5% for digital and emerging markets and an advertising growth of 1% to 2% for developed markets and the USA and Europe and of 3% to 4% for Spain and Italy.

6.2. Macro-Economic Analysis in Portugal

6.2.1. Television

Regarding a study conducted by the University of Porto²², the regulation mechanisms of the media sector were subject to reformulation in 2006, where the Media High Authority for the Social Communication gave place to the Communication Regulatory Authority (financed by the companies in that sector) and new legal restrictions were created.

According to a report by the Millenniumbcp bank²³ and Anacom (the media watchdog), the analog television will be substituted by digital television and the switch-off will take place between the 12th of January 2012 and the 26th of April 2012.

Portugal Telecom which won the bid to operate the DTT (Digital Terrestrial TV) in Portugal offered the service already in April 2011, but only for testing purposes. The operator expects to reach 80% of the Portuguese population by the end of the year. Although the European Commission set 2012 as the upper limit migration, several experts warned against the technological, economic, legislative and social difficulties that exist. They speculate how

²² Paulo Faustino- “Gestão, Tendências e Estratégias no Mercado dos Media em Portugal”.

²³ Millennium Investment Banking “Media Update”

difficult it is for Portugal to implement this new system 100%, while the United Kingdom that began in 1998 still did not implement it completely.

However, Millenniumbcp believes PT withdrew its Pay-DTT license due to several reasons, such as: the huge competition from Triple Paid operators has reduced the attractiveness of Pay-DTT; unsuccessful implementation of this project in Europe which started before it started Portugal; finally, it is becoming more complicated to attract clients from FTA channels.

The project for the new FTA channel (5th channel) was defended by PS- José Socrates but was postponed due the rejection of two bids licenses to operate in Portugal. The ERC (Portuguese media watchdog) rejected the first bid done by Zon Multimédia because the project was based on outsourcing and cost reductions, which would expect to capture less than 10% of the market share (and would therefore not even become a competitor for the existing channels). The second offer failed due the lack of financial viability: despite the project target of 22-25% of audience in just 3 years, it was an “in-house production” involving about 300 people.

In a report done by a consultant²⁴ they analyze the impact of the economic crisis in companies' revenues and segments. Advertising is in the following way positively correlated to the fluctuations of the economy: When the GDP decreases, the investment in advertising decreases even more and vice versa. Hence, the trends in advertising investments can be seen as an indicator of the confidence level of advertising companies. In fact, the difficult financial situation of the companies and the austerity measures to reduce the Portuguese debt will have a negative impact on the national economic growth, implying a reduction on advertising budget of companies.²⁵

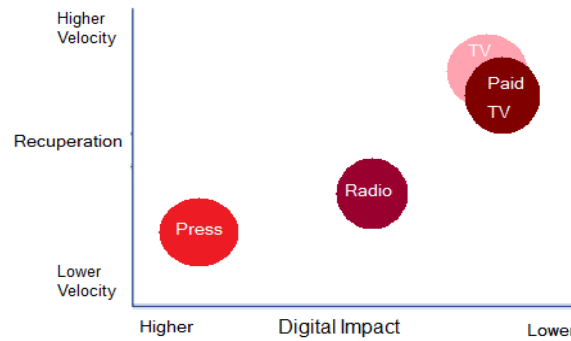
6.2.2. Press

The most affected segment is the press because it is the one that suffered most from the digital migration and the change of the reading habits, thus, it will have a slower recovery. As opposed to that, television is the one that will have the faster recuperation because it had suffered less from the digital migration and it also is a stable segment. Therefore, it will be the first segment to take advantage of the recovery in advertising investments after the crisis scenario. The following figure shows the recovery per segment after this crisis.

²⁴ Deloitte – Report on ERC “Estudo das receitas dos media em Portugal”.

²⁵ Millennium Investment Banking “Media Update”

Figure 5: Digital Impact and Speed of traditional Media recovery after the Crisis



Source: Deloitte- "Modelos de Negócio, Sector Media, Análise Deloitte"

6.2.3. Digital

Returning to the Deloitte study, it was found that the economic crisis accelerates the digital migration, expanding those effects into the Portuguese environment. In other words, in the last years we have seen media prices/time for advertising decreasing, due to the competitive environment in the media industry. Recently the advertisers realized that they could have the same advertising space for a lower price, which led to a migration from traditional to new media.

7. Defining the Media Sector in Portugal

7.1. Definition

"Media are the storage and transmission channels or tools used to store and deliver information or data. Content is information and experiences that may provide value for an end-user in specific contexts".²⁶

There are three separate segments for the traditional media: the publishing sector, newspapers and entertainment (television, radio, etc). The new media segment is called- internet.

According to Kelly's principals –"free or fee" there is a law of generosity that says that for anything that can be replicated, the price will tend to be around zero or it will be free. Thus, the main point is that in the past years the content had low-quality and customers therefore

²⁶ Internet Marketing; Católica Lisbon University- Prof Fernando Machado

expected free content. Now, the contents have high quality and it is therefore possible to charge successfully (fee business models). Examples are iTunes and some newspapers that charge for premium content.

7.2. External Factors

There are many aspects that are forcing managers to re-orient their business models (Exhibit 14.2.1- SWOT Analysis). During the last years we observed the pressure on companies to proceed in many and successive restructurations, with the aim of reducing the weight of advertising dependence as well as of readjusting business structures towards greater flexibility.

Overall, this sector is characterized by external factors that influence directly the revenues and the costs structure, limit the growth of those companies, decrease their profitability and enhance the dependence on technology. Examples are: the cyclicity of the media sector; the economic crisis of 2008 that brought other issues (for example: difficulty of companies in accessing credit, increasing financial costs, a zero/ low growth rate in the Portuguese market, decreasing of advertising revenues and austerity measures that reduce the available income of costumers/companies).

Another factor is the increase of competition with the emergence of new internet TV (Google TV and Apple TV)- with low impact on the advertising market but directly influencing Triple-Play (Zon and Meo). Appearing new technologies (HD and 3D) benefits cable channels (Pay TV).

Finally, we have observed in the last years an increase of the bargaining power of customers and new customers' habits (stagnation of reading habits, pay for high quality content) that brought a new problem: "How to charge online content". Costumers have low WTP for paid contents knowing that they are available for free anywhere. The new media generation enables users to have access to different information in real time depending on their own preferences and WTP.

On the other hand, those threats if aligned with the internet could be transformed into opportunities, for which the companies in the media sector must have the right business model, understanding the costumers' shopping habits and their WTP, investing in new

technologies in order to offer innovative products and, finally, having a contingency plan to face the downturn cycles.

7.3. Consequences

Deloitte²⁷ found out that the main sources of revenues of media companies are from advertising and content sales. Those were directly influenced by the economic crisis and the digital migration which influences the competitive context of media companies, hence, the main changes in media are:

- I. Increased number of competitors.
- II. Increased offer of contents to costumers which potentiated the redefinition of the value chain for Media companies.
- III. Decreased value of the publicity in the market.

Advertising was the most affected source of revenues especially for press and television and it will continue to be in the future, as opposed to pay television and internet that resisted the economic crisis, growing in 2009/10. Therefore, the recuperation will be different within these segments and the internet will be the key to connect two different value chains: media and telecommunications. The press is emerging in digital formats (iPad, Tablets, Smartphones) and is no longer associated with support (the place where it is possible to buy it - store) but it starts getting associated with the content because in this new “era” the costumers value more the content and its richness looking for their preferences on the internet.

According to Millenniumbcp²⁸ the second and third players in press (newspapers and magazines), are facing a tough environment, examples of that are the “Grupo Lena” that had held the daily newspaper “i” (sales of 6500 copies daily) and was forced to sell its sub-holding due cost reductions measures. According to banks and press, “Grupo Lena” was forced to reorient its strategy adjusting its business model to the current environment. Controlinvest is another case which is facing a decrease of audience/ sales in “Diário de Notícias” and “24 Horas”, which shows that this situation is even worse for non-leaders.

²⁷ Deloitte – Report on ERC “Estudo das receitas dos media em Portugal”.

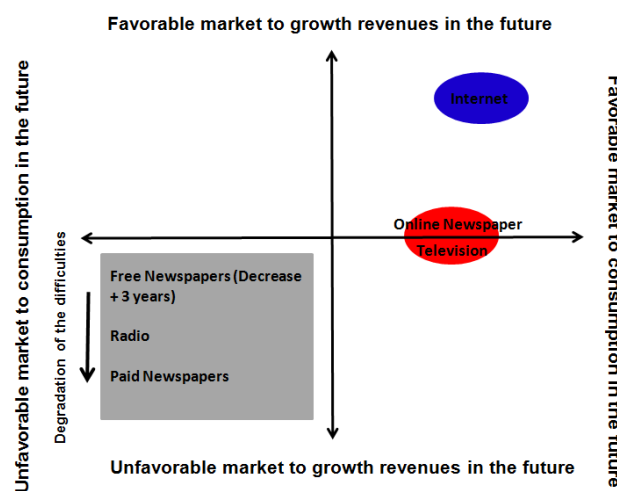
²⁸ Millennium Investment Banking “Media Update”

8. Future trends for Media

Following Millenniumbcp,²⁹ the media companies are going through a difficult phase, where the stagnation of the economic growth directly limits the advertising budget for several companies. They state "... the best option in the near future to Media players will be keeping capital spending at low levels while focused on costs control, since increasing risk premium on Portuguese Bonds led to credit restrictions".

In the next figure we can see the trend for each media segment:

Figure 6: Trends for Revenues/ Costs regarding the Media sector



Source: Obercom – "Barometro 2009/2010"

In order to face the challenges, media companies should re-define their business models in order to exploit the internet advantages and updating constantly the new technologies as a way to increase their revenues and maintain/increase market share.

- iPad and tablets: Could they be another Source of Revenue?

The goal for media companies is to reduce their interdependence to the cyclical movements that has been affecting their revenues model and advertising investments. One way to do this is to sell paid media content on the internet, expanding their revenues model as it was done by two English newspapers: "Sunday Times" and "The Times" lost two thirds of their site readers, when they started to charge the on-line access to sites news".³⁰

In Portugal the way media contents are being charged on the internet does not work out, hence experts think that the new trend (iPad) could bring success to this new business model.

²⁹ Millennium Investment Banking "Media Update"

³⁰ Millenniumbcp

A prove of this is the result of a poll done by “El País” where they state “34% of the readers are available to read “El País” newspapers on an iPad out of which 64% could pay contents”.

Impresa launched in the first trimester of 2011 several editions on iPad formats such as “Caras, Expresso and Exame” which had a good acceptance from readers and advertisers. However, the availability of those contents on iPad potentiates the decrease of print circulation.³¹

- Will Free-to-Air TV coexist with Internet?

Internet has been growing exponentially day by day so it is an important tool to target the right consumers, through click stream data (a tool that allows to understand the purchase behavior and the navigation history for which transaction logs and cookies& bugs are used) and panel data (which is helpful to understand the attitudes towards the online shopping and customer satisfaction surveys).³²

As we observe that the major internet revenues stem from advertising, Internet and TV should complement each other in the way that TV is a good tool to target a mass audience and internet a “niche” that at the end captures a lower quantity than FTA TV. Example:” A popular show may capture a million viewers when it first airs on TV, yet fetch only thousands viewers when it runs online the next day”.³³

- Addressable advertising

This strategy aims at targeting the right households, at the right place and time. The responsible entity identifies the gender, the items that were purchased and the income of the subscriber data, in order to understand the right target. Then, the information is kept on the household’s Direct TV box. Thus, when an ad is aired on TV the commercial that best fits in that household will be chosen.

Regarding Millenniumbcp the effects of Direct TV when subscribed to addressable ads “will allow advertisers to reach almost 10 million homes with targeted commercials”. The results of a test done by Comcast and Startcom in 2009 showed that “60.000 households revealed that those who receive targeted ads switched channels 32% less often than homes receiving regular commercials”.

³¹ Annual Report 2011 of Impresa- “Informação trimestral”

³² Internet Marketing- Católica University

³³ Millennium Investment Banking “Media Update”

This service soon should arrive in Portugal and could re-launch TV Advertising increasing revenues of advertisers since it has particular characteristics of the internet. Although this service will target a limit household and there are similar ways that are already being used to advertise in TV (example: Panda channel runs advertises related to children). Another problem of this service is the fact that the scale could not be large enough to achieve mass potential customers and the data for these addressable ads must come from authorized/well known third-parties.

Media Industry Challenges

Challenges	Impacts
5 FTA Channel	The creation of a New FTA Channel was supported by PS (in the last term) but the two bids were rejected by ERC. In the coming years is less likely this scenario since the government will be focus on RTP1 privatizations. Therefore, is very difficult to implement this business model in the future since will be hard to increase market share.
Increase competition of Pay TV (ZON&MEO) and Internet TV	1- This competitors (Pay-Tv) should increase their market share over the years, result of the hard marketing campaigns done. Thus, the digital television will face in the next years a negative trend comparing to Pay- Tv because are going to "losing space progressively to special list channels".
Digital migration	<p>One of the most important challenges for media companies because it implies:</p> <p>1- The increase of competitiveness due the reduction of entry barriers: everyone can have a site/page on the internet, the initial investment is so low that the incumbent does not benefit from cost advantages. Thus, it cannot avoid the entrance of other companies.</p> <p>2- <u>Increase of the distribution channels</u>: it means more places selling content, increasing new sources of revenues (example: we can buy a newspaper on a store but also online).</p> <p>3- <u>How to charge online content?</u> In the past years, the content was given for free, but actually this business model has begun to reveal weaknesses.</p> <p>The fragmentation of the audience (long tail phenomenon) is a consequence of the time spend by consumers in different media segments, decreasing the bargaining power of the media players.</p> <p>4- The media companies must <u>invest in innovative technologies</u> in order to face the new challenges from the market evolution. However, nowadays it is hard to get funding, so those companies are obliged to implement a cost reduction policy.</p>
Free newspapers	<p>Some authors defend: " Free newspapers reduce the number of buyers of the paid newspapers."</p> <p>Nevertheless, free newspapers helped to increase the number of readers in the past years creating reading habits and there is the possibility that content will be charged in the future. Somewhat it can reduce the number of advertising of the paid newspapers.</p> <p>There is no consensus, but if the paid newspapers continue to differentiate from the non-paid ones, they are able to reduce those negative impacts.</p>

Redefinition of value chain	The media companies control all the players in the distribution channel, retaining the value of their content. Even though content digitalization interferes with this control, now it is possible for a company to advertise their products directly to costumers (without intermediaries) through the internet and social networks. In this way, they are resorting the traditional media, enhancing the sales and increasing their revenues models.
Privatization of RTP 1	The privatization of RTP is defended by Pedro Passos Coelho (PSD). RTP has 6 minutes of advertising per hour, increasing this number to 12 minutes (the same as other players) with the privatization, which has a negative impact in other competitors: 1- The price per minute will decrease for TV advertising, as well as in the media sector. 2- Increase the contingent plans for other competitors (mainly cost reduction). However, Paulo Portas does not agree with this privatization because the cheaper advertising will affect the other Media players. So, we do not know when it will be but Passos Coelho states it "will be done in accordance with opportunity and market conditions". 3- RTP1 will have 6 minutes/hour more for advertising. This implies an increase of 40% in the advertising space, that implies an advertising reduction of 60%- Francisco Balsemão.
RTP2	Since the business model of RTP 2 until now is free for advertising, there are speculations that it could change for paid advertising. However, Passos Coelho said that it will remain unchanged.

Source: Millenniumbcp investment Bank- "Media Update" – 8 July 2011

Solutions for Media Industry

- I. To reinforce Contingency plans (Cost savings)
- II. Deleveraging
- III. Bet on international markets with different exposure: Brazil & Angola
- IV. Merger Cofina & Impresa- Reasons:
 - 1- Cyclical companies are "increasing downside risks".
 - 2- Will benefit from synergies and scale economies.
 - 3- "Excellent opportunity for Impresa to adopt a more efficient cost policy".
 - 4- "Advertising Market in FTA TV is back to levels reached 10 years ago".

Main Assumption:

 - 1- Cofina must sell all magazines in order to guarantee the merger approval from the Portuguese Anti-Trust Authority.

Main Problems:

 - 1- Conflicts between CEO's
 - 2- Cofina is mainly in press segment, since it is one of the most affected areas might not be a good investment.

Source: Millenniumbcp investment Bank- "Media Update" – 27 July 2011

9. Company Analysis

9.1. Describing Impresa

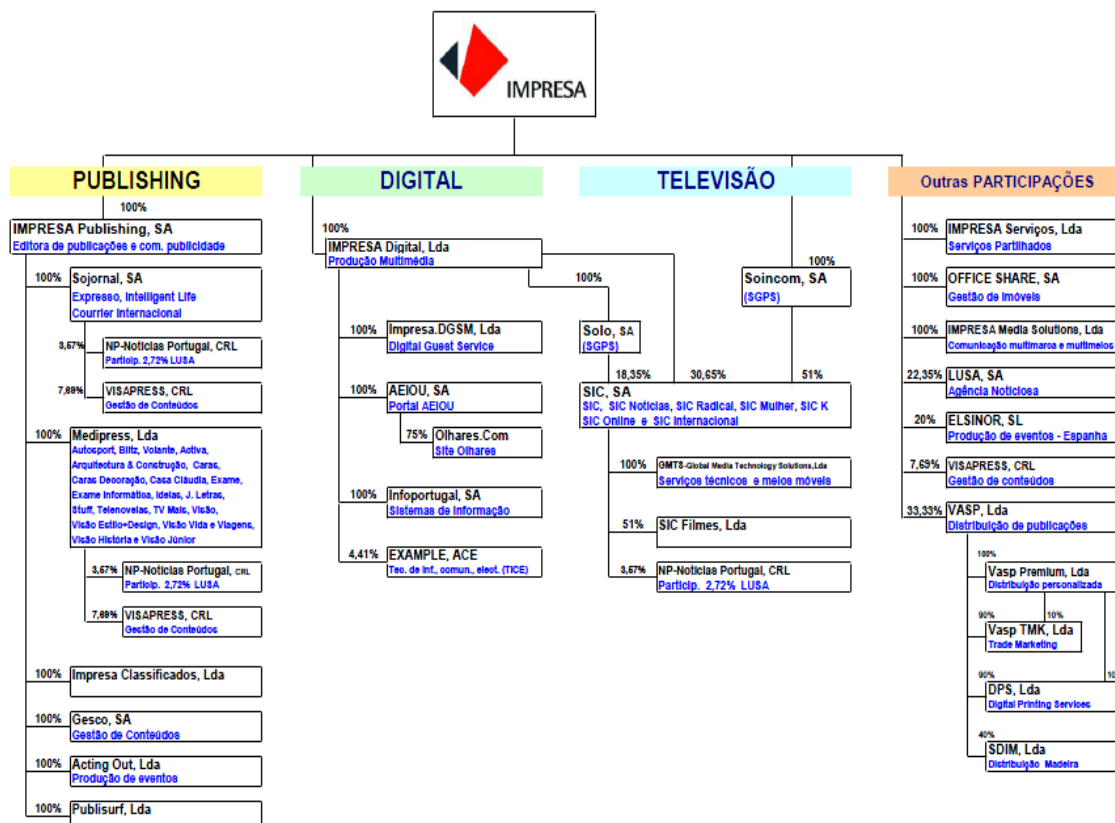
Impresa SGPS (“Sociedade Gestora de Participações Sociais”) was founded on the 18th of October 1990. Impresa SGPS is one of the main players in the media industry that aims at managing its participations in other companies of that sector. It invests in three segments: Television, Publishing and Digital. Others & Inter Segments includes participations in associated companies.

This diversified portfolio allows for synergy effects. Impresa also has different sources of revenues investing out of Portugal (Example of “Olhares”- internalization to France, Spain and Brazil).

The Exhibit 14.3.1 shows a summary of the main events that characterize Impresa.

Actually, the group structure of this holding is shown in the following picture:

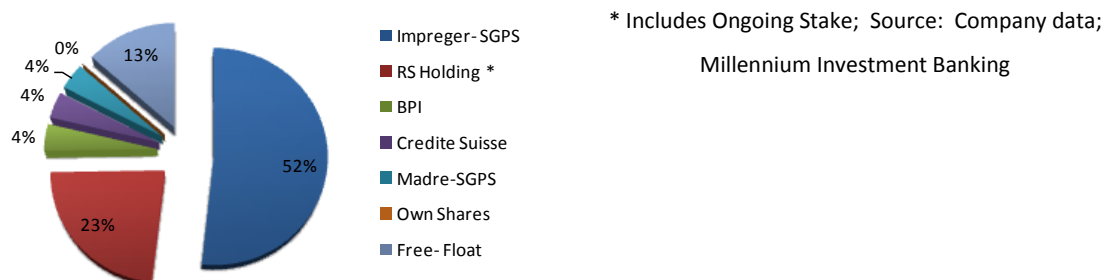
Figure 7: Impresa’ Group Structure



Source: Impresa Site (25 October 2011)

9.2. Shareholder Structure

On the 14th of January 2011, Impresa had the following shareholder structure with a total amount of 168 million shares.



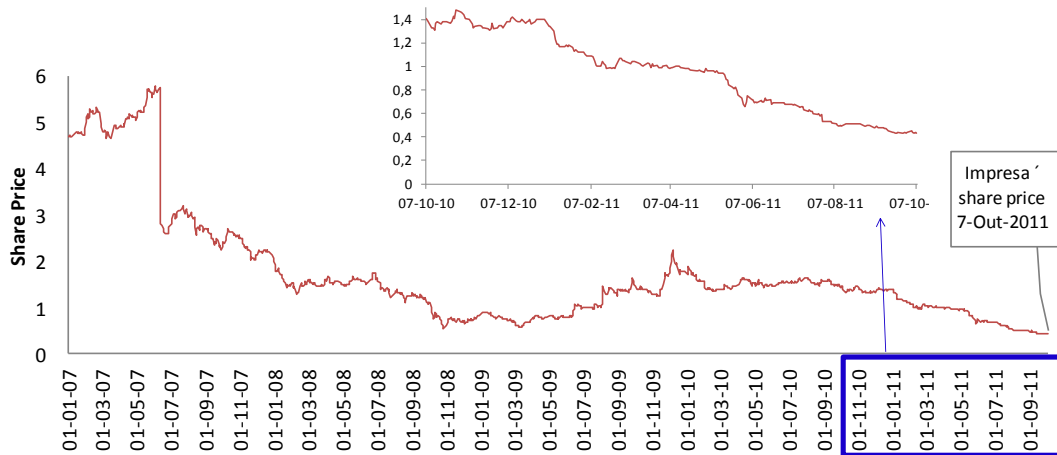
9.3. Impresa Performance

9.3.1. Stock Performance

Impresa entered the Lisbon Stock Exchange in June 2000, and the following years were characterized by a huge expansion period that facilitated the stabilization of its strategy and consolidation of investments. In 2009, Impresa left Psi-20 and started being traded in Psi-Geral due to a decrease of the free-float that creates a reduction of shares liquidity.

As we can see below, the financial crisis which started in 2007 had the highest impact on Impresa shares ever, with a decrease of almost 51% of the stock price in June of 2007. Since that moment Impresa never was able to retake those values and the worst impact was seen in 2011, reaching its lowest record (0.43€ per share).

This negative trend in 2011 was influenced by the external factors already mentioned where the worldwide financial crisis showed the highest impact. Thus, the market is penalizing all the Portuguese companies in general but these factors affect even more Impresa due to all the challenges faced by the sector, the exposure to cycle periods, the austerity measures and a large drop of advertising investments (the main source of revenue).



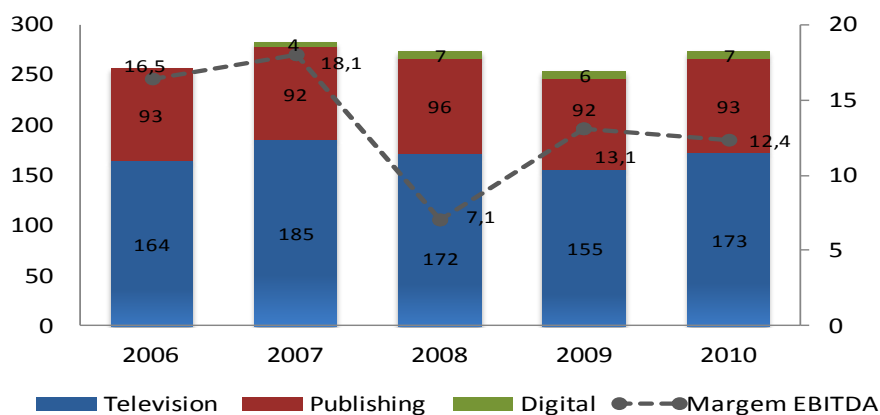
9.3.2. Company Performance

The main source of revenues comes from Television following Publishing segment. Despite this, internet is gaining weight.

In 2008, Impresa faced a huge decrease in the EBITDA margin because of the following several investments to face 2009 challenges: In the SIC reorganization (exclusive contracts with TV Globo until 2012), investments in MEO, in the portal AEIOU, in the platform Mobile TV and finally in a new management team.

The year of 2009 was characterized by the largest decrease of the advertising market, where television revenues decreased 15% and publishing revenues dropped 19%, Impresa nevertheless managed to increase its margin.

Figure 8: Impresa- Revenues per Segment and Margin EBITDA (%)

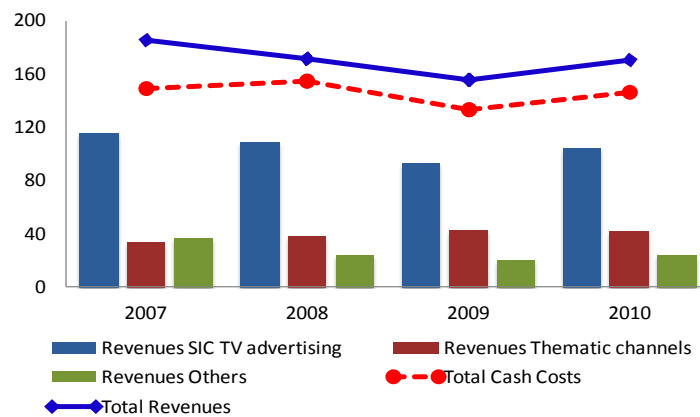


Source: Impresa Annual Reports

9.3.2.1. Television

This segment includes SIC TV and thematic channels (SIC Notícias, SIC Mulher, SIC Radical, SIC Internacional and SIC K). The figure below shows the sources of revenue comparing to cost, where it is visible that advertising is the main source of revenues and the rubric “Others” that includes revenues from multimedia (Call TV programs) has the lowest weight.

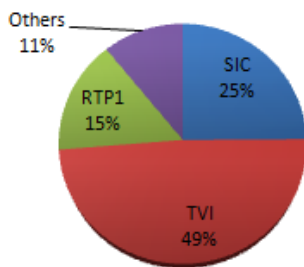
Figure 9: Television- Revenues comparing to total Cost (Values 000)



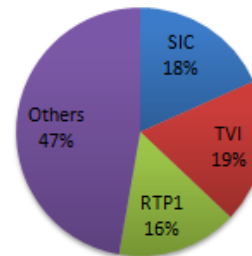
Source: Impresa Annual Reports

The next figures show SIC competitors and their positioning regarding audience share and advertising investments.

Advertising Investment per channel (%)



Advertising duration per channel (%)

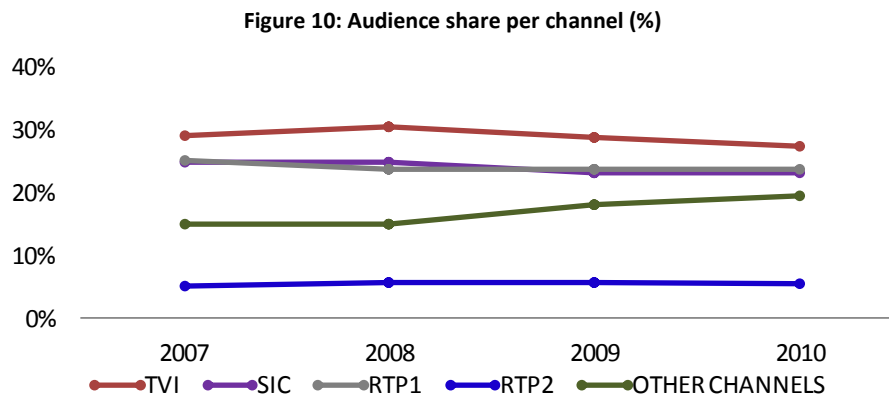


Source: Markttest

In 2010, SIC was the channel that had the second highest advertising investments. ZON/MEO channels were the leaders relatively to advertising duration which is quite obvious since it includes countless channels.

The advertising revenues are influenced by the duration (more advertising minutes, more revenues) and the amount of investments (the higher the investments in advertising the higher will be the revenues). What happens is that the advertising investments in the last five years

(2007-11) dropped by 30%, thus, if “Others” continue to gain power Impresa will face an even worse situation in the future.³⁴



Source: Marktest: "Anuário de Media & Publicidade de 2010"

In the past years TVI has been the leader in the share of audience, whereas the second place keeps changing between SIC and RTP1. Indeed, Cable/Others is the channel that showed a higher improvement in the last years, increasing 41% in the share of audience, while SIC dropped 11%.

9.3.2.2. Publishing

This segment is characterized by one weekly newspaper (Expresso) and 17 magazines that vary between weekly and monthly, plus one magazine (Rumo) launched in 2011 in Angola.

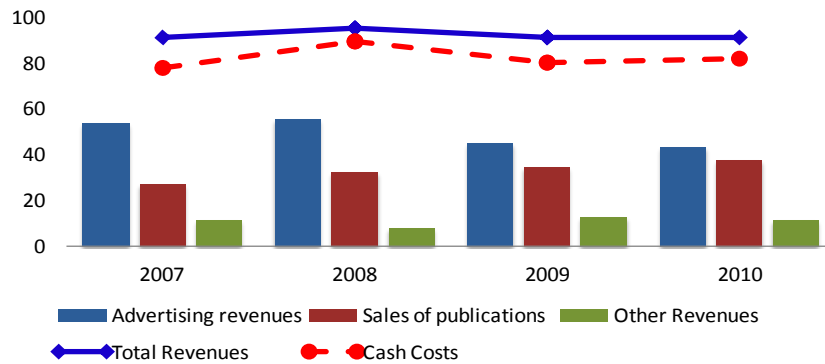
The main source of revenues is from advertising, but as years passed, this result tends to become closer to sales of publications due to the advertising migration to the internet.

There are several events which are considered strategic for the growth of this segment, such as the Conference for a Sustainable Future, The Portugal in Review Conference, and the Primus Inter Pares Award.

The figure below shows the annual evolution of revenues and cost regarding the press segment.

³⁴ Francisco Balsemão Conferência: "Futuro dos Media"

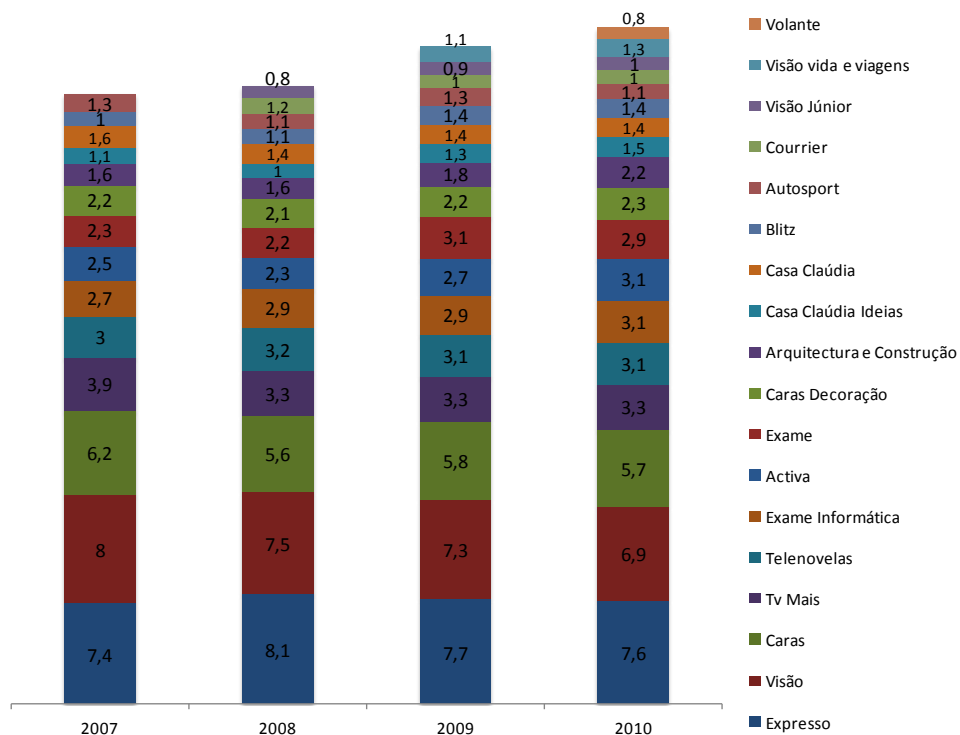
Figure 11: Publishing- Revenues comparing to total Costs (values 000)



Source: Markttest

The next figure summarizes the publishing portfolio of Impresa in the last years, where the main publications since 2007 are Expresso, Visão and Caras. The growth of Visão Júnior is explained through the contract assigned in 2009 where this magazine is integrated in “Plano Nacional de Leitura”.³⁵

Figure 12: Average of Audiences for Type of Publications; Annual Evolution (%)






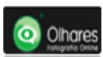
Source: Markttest, Millenniumbcp Investment Bank and Impresa site

³⁵ Example of Average Audience: If a weekly newspaper has a 15% average audience in a given period means that, on average, each number was contacted by 15% of the universe or target. "- Obercom

9.3.2.3. Digital

In 2007 the digital segment which offers content and technology, formed by different activities and projects, such as: Digital Guest Services, My Games, AEIOU, Info Portugal and ITL, appeared.

Nowadays this segment integrates other companies:

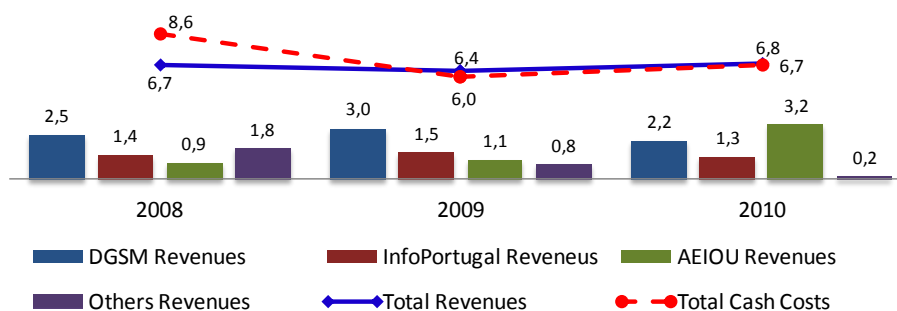
Company	Business areas	Countries	Impresa Own
 Digital Guest Services	Service directed to luxury hotels for Portugal. The aim is to provide to every user with the chance to see/acquire content at any time and it is completely customized. Strategically they are investing in other areas: Hospitals.	Exists in Brazil, London, Angola.	100%
 Info Portugal	Provides digital content; construction of databases; development of solutions on combined georeferencing, database mapping/interest point and digital aerial photography.	n.a	100%
 AEIOU	The main two areas are the publicity and software development. This portal includes all Impresa sites, being also responsible for the marketing of Impresa Publishing and Digital.	n.a	100%
 Olhares	Photography site. "The largest number of visits in Portugal, after news sites".	France, Spain, Brazil.	75% (reinforced in 1st trimester of 2011)

Source: Impresa Annual Reports

The first year of activity for this segment was in 2008, thus only from 2009 the revenues were higher than costs due to all the investments that were needed to start this project.

The main source of revenue has been changing, at the beginning it came from DGSM but now AEIOU has more impact (increase in revenues 237% since 2008), as a result of the new strategy that was implemented in 2009 which allows for sustainable growth in the following years. On the other hand, even though DGSM has been affected by the decrease of occupancy rates in hotels and the suspension of new hotel constructions, the investor relation defends that it will reach the expected return from 2013.

Figure 13: Digital- Revenues comparing to total Costs (Values 000)



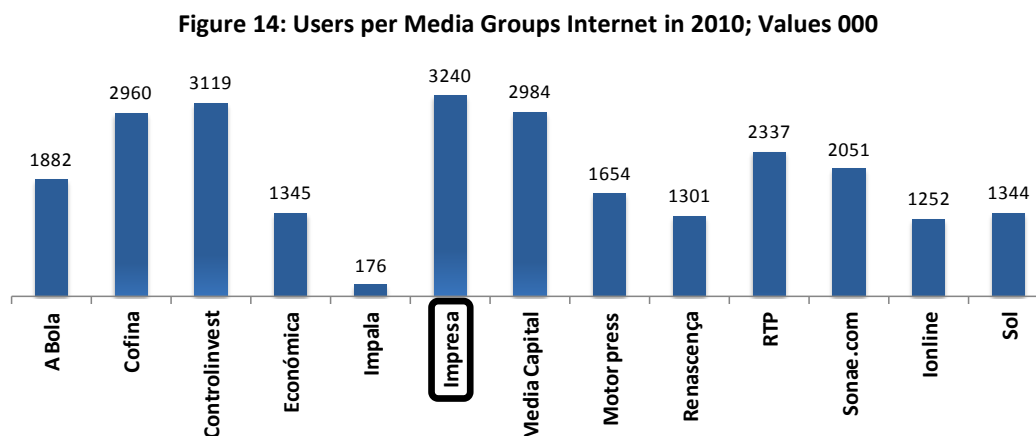
Source: Impresa Annual Reports

In order to take advantage of new challenges, Impresa provided online content for Expresso and the main magazines which already have a considerable number of readers and growth prospects. The next figure matches online websites with their target.

Website / Segment			
Activa	Female	Exame Informática	Tech
AEIOU	Portal	Expresso L&S	Leisure
Auto Guia	Auto	Guia do estudante	News
Autosport	Auto	Jornal de Letras	-
Bla	Chat	kitchenet	Culinary
Blitz	Music	My games	Entertainment
bpi expresso imobiliário	Buy/Rent Houses	Olhares	Photography
Caras	Female	Priberam	Services
Email Marketing	-	Relvado	Football
Escape	Leisure	Tube AEIOU	Video
Expresso	News	Visão	News
Expresso Emprego	Employment	Visão júnior	News
Exame Expresso	News	Visão Viagens	Leisure

Source: Impresa Site

The next figure shows the positioning of Impresa regarding online press comparing to its competitors. Impresa is the leader with 3240 thousands of users.

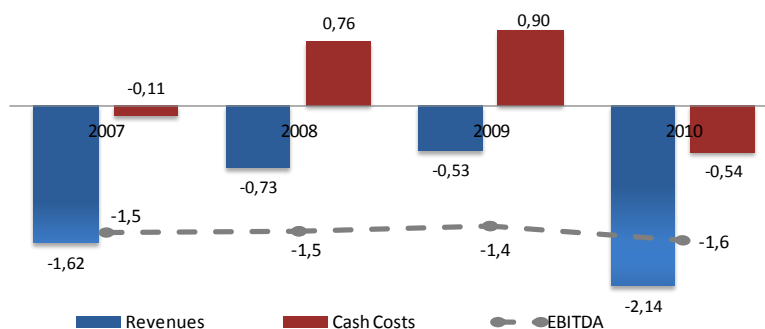


Source: Marktest

9.3.2.4. Other & Inter-Segment

This segment includes the holdings (Impresa, Mediazoom, Solo, etc), operations from Impresa Services, revenues from external costumers and a correction of the transactions between Inter-Segments, which turn the EBITDA negative.

Figure 15: Revenues, Costs and EBITDA Analysis (M €)



Source: Impresa Annual Reports

9.4. Main Competitors

Television Segment	
Company	Description of the business
TVI	"Televisão Independente" (TVI) is the second private channel that appeared in 1993. Owned by Media Capital which belongs to the PRISA group; Has three channels (TVI, TVI 24, TVI Internacional and TVI Direct-only in Meo); 12 minutes of paid advertising per hour.
RTP	"Rádio e Televisão de Portugal" (RTP) is a public channel. Since 2004 this group integrated radio and television but the last one appeared in 1957; This group has several channels (RTP1, RTP2, RTP Memória, RTP Notícias, RTP Internacional etc); The main channel is RTP1 that has 6 minutes of paid advertising per hour. RTP 2 has free advertising.
Other Channels	A pack that includes 3 paid services- phone, internet and television. It includes several channels from TVI, SIC, RTP and others.

Source: Companies' Site

Publishing Segment	
Company	Business Area
Controlinveste	It is present in 7 newspapers ("Jornal de Notícias, Diário de Notícias" etc), 2 magazines, 1 radio station and 6 TV channels (Sport TV). Also bets on new media.
Euro Impala	Operates in hotels, books and magazines ("Focus, VIP, Gente, Ana"). It is not traded in the stock exchange but it also is a competitor. Also bets on new media.
Cofina	It is the 3rd largest company operating in the media sector, being the leader in the press sector with six newspapers (" Correio da Manhã", and 11 magazines (" Sábado, Record, Destak"). It has one portal (XL) Also bets on new media.
Sonae.com	This subholding of PT operates in different areas: Telecommunications (Optimus), Software and systems information and Media (Newspaper: "Público"). Also bets on new media.

Digital Segment
Group
Controlinveste
Media Capital
Cofina
Sonae.com
RTP

Source: Companies' sites

10. Valuation

10.1. Valuation Approaches

The main valuation model used in my valuation is the APV, although I used the Multiples approach as well to complete my analysis.

I chose the APV to evaluate Impresa because of all the advantages already mentioned that surpasses other valuation models, but mainly because Impresa is a cyclical company and the capital structure will change along time as it happened in the past. Exhibit 14.1.1 shows the limitations of the use of DCF.

10.2. Assumptions

In order to achieve the most accurate forecast possible, many factors were considered in this analysis, such as: historical data because in the majority of the cases the past is a good predictor of future forecasts; understanding through several reports what will be the future trends for each segment and why; analyzing the external factors that may condition this industry and understand how Impresa is facing those challenges; positioning Impresa in the market comparing its performance with their competitors; considering the last report of Impresa (3rd trimester) as well as information given by the Investor Relation and finally data projections about GDP and inflation in Portugal.

In general revenues are directly tied to the GDP due to purchasing power parity and cyclicality, although this does not happen as often with inflation, so I only will consider it in my valuation when using the terminal value because Impresa does not have a defined price policy (where the prices are constantly adjusted to changes in inflation).

Figure 16: GDP and Inflation in Portugal (%)

	2011 E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Gross Domestic Product (GDP), Constant Prices	-2,16%	-1,84%	1,19%	2,45%	2,22%	2,00%	2,00%	2,00%	2,00%
Inflation, Average Consumer Prices (% change)	3,44%	2,11%	1,46%	1,53%	1,55%	1,63%	1,63%	1,63%	1,63%

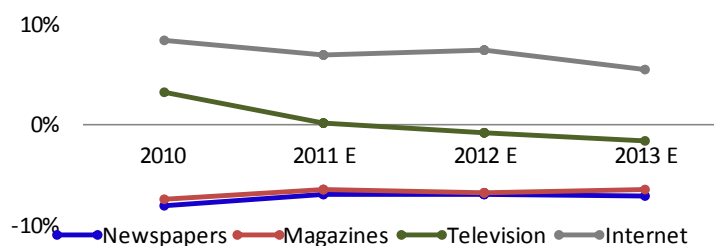
Source: IMF Site in 2 November 2011.

My explicit period is from 2011 to 2019 and the Terminal Value from 2020 onwards. This period was chosen considering that it is a cyclical company, so I have to capture all the economic cycle.

The growth rates estimated for 2011 regarding the four segments were based on the 3rd trimester Report of Impresa and the remainder of the quarter adjusted to the last homolog quarter's evolution.

The next figure shows the advertising expenditure forecasts for Western Europe by segment, which will be used as an indicator for my forecasts.

Figure 19: Advertising Expenditure by Segment for Western Europe (%)



Source: Zenith Optimedia

10.2.1. Television Segment

10.2.1.1. Revenues

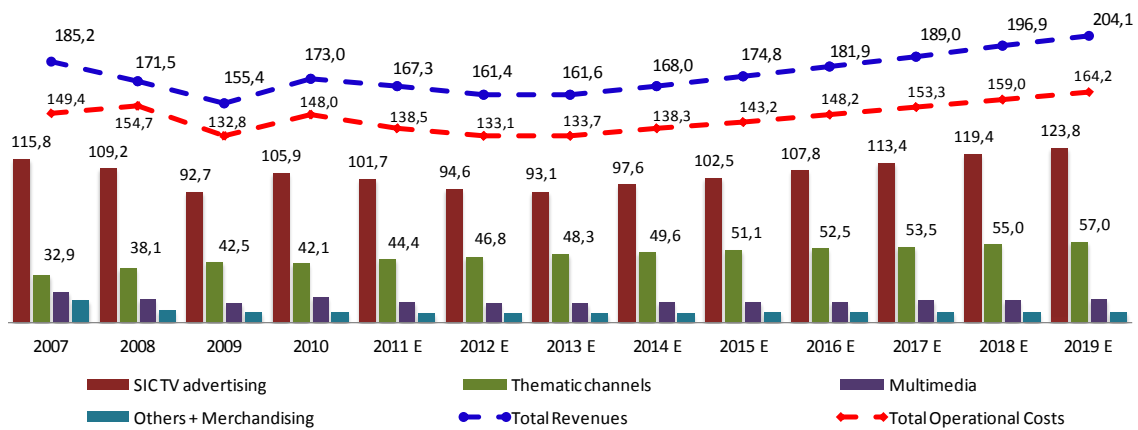
The next two figures are a summary of television revenues forecasts, the first in a percentage and the other in absolute values.

Figure 16: Growth Rates of Television Revenues (%)

Growth Rates of Revenues	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	CAGR 2010-2013	CAGR 2014-2019
SIC TV advertising	-4,00%	-7,00%	-1,60%	4,91%	5,01%	5,12%	5,22%	5,32%	3,63%	-4,23%	4,86%
Thematic channels	5,60%	5,33%	3,11%	2,75%	2,99%	2,75%	1,97%	2,75%	3,63%	4,67%	2,82%
Multimedia	-19,60%	-7,00%	1,19%	2,45%	2,22%	2,00%	2,00%	2,00%	3,63%	-8,88%	2,37%
Others + Merchandising	-3,60%	-1,84%	1,19%	2,45%	2,22%	2,00%	2,00%	2,00%	3,63%	-1,44%	2,37%
Total Television Revenues	-3,28%	-3,52%	0,11%	3,95%	4,07%	4,05%	3,90%	4,21%	3,63%	-2,24%	3,97%

Source: Thesis Excel

Figure 17: Historic Revenues and Forecast for Television (M €)

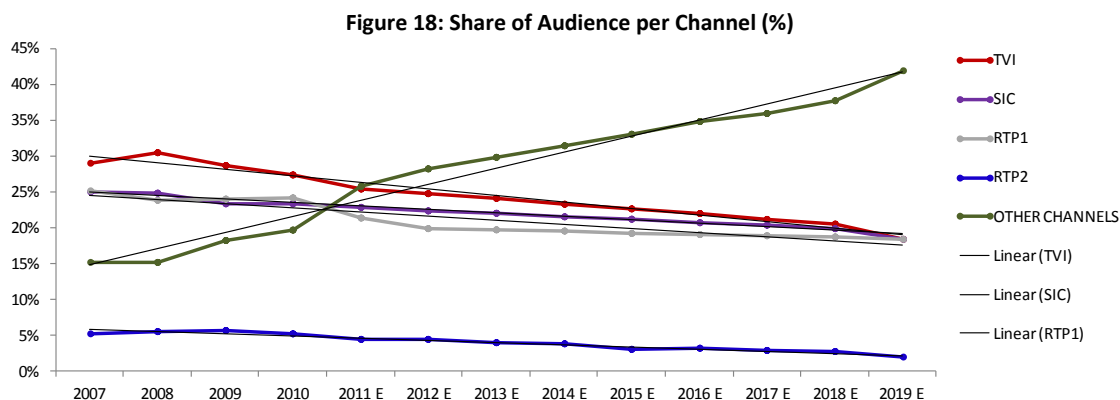


Source: Thesis Excel

As we can see, advertising is the main source of revenue following thematic channels. The last one can be seen as the amount that ZON and Meo pay to SIC due the incorporation of SIC thematic channels in their service, varying with the number of subscriptions. Thus, this rubric shows a positive and solid growth because Pay-TV is going to be the leader in the future, therefore an increase of customers in the following years is expected. Hence, if SIC channels are seen by more people there is an increasing trend to raise their advertising revenues. Despite the positive development of this source of revenues, it cannot compensate the losses in SIC advertising.

Hence, thematic channels will follow the growth of “Other Channels” adding the fact that SIC has three channels in the top eleven shares of audience among all channels, which supports my assumption. Additionally, if we sum all shares of audience for SIC channels in the “Other Channels” universe they have about 25.7%, which represents a higher value when comparing to some competitors.

The following figure shows the forecasts done through a linear function for the share of audience per channel, where the three main Pay TV channels are converging to the same audience share and “Other Channels” are getting an enormous advantage.



Source: Millenniumbcp and Thesis Excel

These forecasts will favor the advertising growth for “Other Channels”, increasing the competition among FTA channels.

With respect to TV advertising, Pinto Balsemão said in a conference that between the years 2007-2011 this sector will face a decrease of 30% and in 2012 it will decrease by 5%-10%. In my analysis I integrate these thoughts, as well as the forecast for 2013 by Zenith and from 2014 onwards this rubric will be affected by the GDP multiplier effect.

In order to measure the performance of revenues regarding its market share, analysts use the power ratio, which is calculated by market share in total advertising divided by market share in cable audiences. Until 2013 TVI and SIC have the highest power ratio, although in the next years there will be a convergence of the three main players, which will affect their competitiveness. It means that these two FTA channels are losing efficiency with the years passing, capturing at the end the same % of advertising of RTP1.

The remaining rubrics represent a small dimension among all television revenues, which consists of non-current revenues that vary with the acceptance of the programs and the purchasing parity power of customers, so in my analysis this rubric will be tied to the GDP.

10.2.1.2. Operational Costs

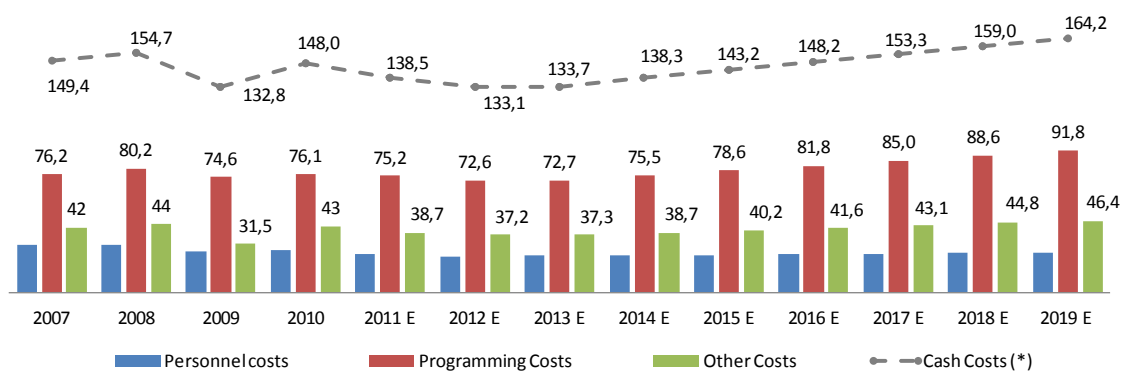
The forecasts for operational costs are the following, the first one in (%) and the second one in absolute values.

Figure 17: Growth Rates of Operational Costs for Television (%)

Growth Rates of Operational Costs	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	CAGR 2010-2013	CAGR 2014-2019
Personnel costs	-10,00%	-5,04%	1,46%	1,53%	1,55%	1,63%	1,63%	1,63%	1,63%	-4,64%	1,61%
Programming Costs	-1,13%	-3,52%	0,11%	3,95%	4,07%	4,05%	3,90%	4,21%	3,63%	-1,52%	3,97%
Other Costs	-9,97%	-3,86%	0,30%	3,69%	3,75%	3,69%	3,57%	3,84%	3,63%	-4,60%	3,70%
ESS	-13,54%	-3,52%	0,11%	3,95%	4,07%	4,05%	3,90%	4,21%	3,63%		
Other Operating Cost	11,1%	-5,4%	1,2%	2,5%	2,2%	2,0%	2,0%	2,0%	3,6%		
Total Operational Costs	-6,40%	-3,88%	0,40%	3,45%	3,54%	3,53%	3,43%	3,68%	3,31%	-3,34%	3,50%

Source: Thesis Excel

Figure 18: Historical Cost and Forecast for Television (M €)



Source: Thesis Excel

As can be seen Impresa pursues a cost reduction program focusing on personnel costs and programming costs.

The main sources of costs are from programming costs followed by other costs. Programming costs have represented an average of around 45% of the revenues, a percentage that I assumed to be constant in the future, because my research about Impresa allowed me to understand that this cost will be related to the television revenues.

Other costs include mainly external supplies and services and other operating costs, both associated with television revenues. Both show a constant percentage. However, the first one is with 19% a percentage of total television revenues whereas the latter is with 33% a percentage of multimedia and other revenue.

Regarding personnel costs Impresa expressed the intention to reduce the salary of the board of directors by 10% (2011). However this is very difficult to quantify. They also plan to reduce 10% in the number of employees at least until 2012 and the average salaries in the company will follow the inflation.

With the economic recovery around 2015, an investment in human resources is expected since they might need more labor force to face their increase in revenues.

Concluding, this segment is the main source of revenues for Impresa and will as such continue in the future, however there is a deceleration in growth rates in the first years that tend to be recovered in the future.

10.2.2. Publishing Segment

10.2.2.1. Revenues

I must highlight the fact that Espresso has been very well positioned and is reinforcing its market share. Nevertheless, Impresa holds more magazines which are facing even a worse environment since they are not an essential good and are more expensive than newspapers.

Therefore, regarding advertising revenues I try to manage the forecasts done for Western European companies adjusting some values so that this rubric reflects a more negative impact relatively to television. From 2014 onwards this rubric as well as the remaining sources of publishing revenues will follow the GDP. The reason that sustains this thought is due to the weak trend for this segment to grow, so it is not very probable that it will have a higher growth than the GDP.

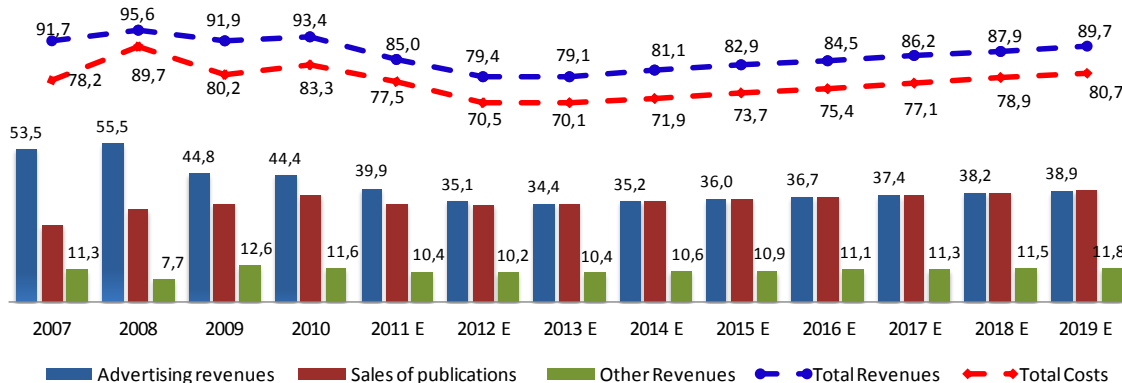
Figure 19: Growth Rates of Publishing Revenues (%)

Growth Rate of Revenues	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	CAGR 2010- 2013	CAGR 2014- 2019
Advertising revenues	-10,00%	-12,00%	-2,26%	2,45%	2,22%	2,00%	2,00%	2,00%	2,00%	-8,18%	2,04%
Sales of publications	-7,50%	-1,84%	1,19%	2,45%	2,22%	2,00%	2,00%	2,00%	2,00%	-2,79%	2,04%
Other Revenues	-10,0%	-1,8%	1,2%	2,5%	2,2%	2,0%	2,0%	2,0%	2,0%	-3,67%	2,04%
Total Revenues	-9,00%	-6,62%	-0,34%	2,45%	2,22%	2,00%	2,00%	2,00%	2,00%	-5,39%	2,04%

Source: Thesis Excel

Publishing Advertising Revenues are reducing their weight in total revenues due to the challenges of the internet. In the next years, this rubric and the sales of publications tend to converge.

Figure 20: Historic and Forecast for Publishing (M €)



Source: Thesis Excel

This segment will lose some margin because revenues are increasing in a lower rate than costs.

10.2.2.2. Costs

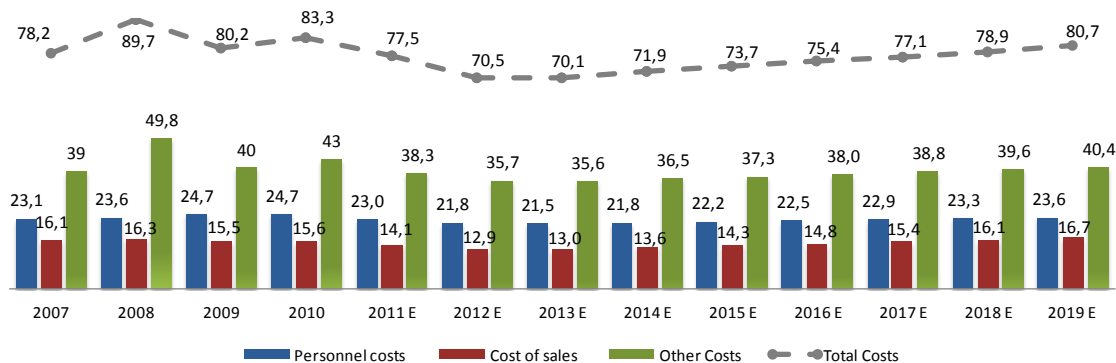
The cost reduction policy is well illustrated in the following table, where the main reductions concern cost of sales and other costs.

Figure 21: Growth Rates of Publishing Costs (%)

Growth Rates of Operational Costs	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	CAGR 2010-2013	CAGR 2014-2019
Personnel costs	-6,9%	-5,0%	-1,6%	1,5%	1,6%	1,6%	1,6%	1,6%	1,6%	-4,54%	2,02%
Cost of sales	-9,9%	-8,3%	0,8%	5,0%	4,5%	4,0%	4,0%	4,0%	4,0%	-5,90%	4,13%
Other Costs	-11,0%	-6,6%	-0,3%	2,5%	2,2%	2,0%	2,0%	2,0%	2,0%	-6,10%	2,04%
Total Costs	-7,00%	-9,08%	-0,51%	2,64%	2,45%	2,28%	2,29%	2,30%	2,31%	-5,60%	2,32%

Source: Thesis Excel

Figure 22: Historical and Forecast Publishing Costs (M €)



Source: Thesis Excel

According to Impresa this segment shows more capacity to reduce personnel costs which will lead to a cut of 100 employees in three years.

	2007	2008	2009	2010	2011 E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E
Personnel Costs For Publishing	23,1	23,6	24,7	24,7	23,00	21,84	21,49	21,82	22,16	22,52	22,88	23,26	23,64
Number of employees	620	682	608	526	473	440	427	427	427	427	427	427	427
Average Salary	0,04	0,03	0,04	0,05	0,05	0,05	0,05	0,05	0,05	0,05	0,05	0,05	0,06
Δ number of employees					-10%	-7%	-3%						

Source: Thesis Excel

Regarding the composition of the remaining costs, cost of sales represent 19% of publishing revenues and other costs are mainly formed by external suppliers and services. Their calculations are directly related with revenues.

This segment shows the highest decline in Impresa' portfolio, since it is the one that is most affected by the economic turmoil and the challenges from internet. There is a decline in the EBITDA from 2015 on since the revenues are growing in a lower rate comparing to the costs.

10.2.3. Digital Segment

10.2.3.1. Revenues

The following figures represent the expected revenue growth rates and their evolution.

Figure 23: Growth Rates of Digital Revenues (%)

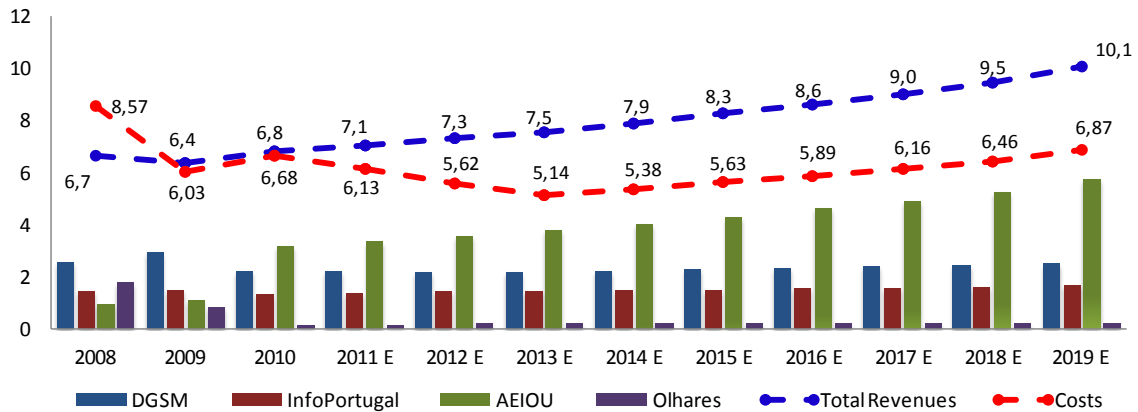
Growth Rates of Revenues	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	CAGR 2010-2013	CAGR 2014-2019
	DGSM	-0,70%	-1,84%	1,19%	2,45%	2,22%	2,00%	2,00%	2,00%	3,63%	-0,46%
InfoPortugal	6,25%	2,00%	1,19%	2,45%	2,22%	2,00%	2,00%	2,00%	3,63%	3,12%	2,37%
AEIOU	3,19%	7,47%	5,60%	6,75%	6,81%	6,88%	6,95%	7,02%	8,65%	6,22%	7,26%
Olhares	1,59%	3,73%	2,80%	3,37%	3,41%	3,44%	3,48%	3,51%	4,32%	2,71%	3,63%
Total Revenues	3,59%	3,43%	3,39%	4,62%	4,59%	4,58%	4,67%	4,77%	6,44%	3,47%	5,01%

Source: Thesis Excel

DGSM is a business that provides software for hotels, which is directly related to the economical environment since in an expansion period there are more new hotels that could adopt this software and therefore the forecasts will be tied to the GDP. Regardless, in this type of business higher growth rates could be expected in an expansion period when comparing to the GDP, but there is not sufficient information in the market to determine those values with precision. Impresa considers that this company has not reached the expected return yet, but it is expected to occur in 2013.

Info Portugal is characterized by Impresa as a very profitable company. There is little available information about this company, so for the same reason as DGSM this rubric will be linked to GDP.

Figure 24: Historical Revenues and Forecast for Digital (M €)



Source: Thesis Excel

As we can see the main source of revenues comes from AEIOU because we have seen that the digital subscriptions shows higher growth rates when compared to traditional publishing, where the newspaper “Expresso” is the Portuguese edition leader in online sales.

The trend for this rubric keeps increasing their variety in subscription products and also their advertising revenues since Impresa gains new subscribers on a daily basis. This rubric will follow the growth forecast for the internet in Western Europe until 2013 and will then increase each year with a multiplier effect.

The rubric “Olhares” (a photograph site) follows the same behavior given that it has been very successful in the last years but this site does not have the same dimension of online newspapers and magazines, accordingly I assume that it will capture half of the growth rate of AEIOU.

10.2.3.2. Costs

The digital costs will be a percentage of sales in each year, which is shown in the following figure.

Figure 25: Growth Rates of Operational Costs for Digital (%)

Growth Rates of Operational Costs	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	CAGR 2010-2013	CAGR 2014-2019
	% of Costs in Revenues	87%	77%	68%	68%	68%	68%	68%	68%	68%	
Average last 2 years	-11%	-11%	-11%								
Costs	6,13	5,62	5,14	5,38	5,63	5,89	6,16	6,46	6,87	-8,35%	5,01%

Source: Thesis Excel

Firstly I calculated a percentage of costs in total revenues, then the variation in growth followed by an average of these values. Taking into consideration that this segment had started its activities in 2008, I expect a gradual decrease in weight of the total costs in total revenues because it is a sector that reveals high growth propensity and economies of scale. Therefore, I assume that this segment will achieve a reasonable weight until 2013 and will stabilize afterwards.

This segment reveals high levels of profitability for Impresa with an EBITDA margin of around 30%, being definitely a segment to bet on.

10.2.4. Others & Inter Segment

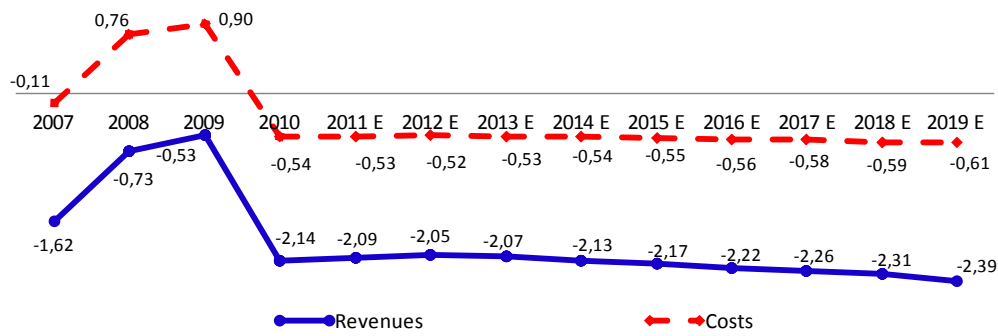
Impresa does not provide enough information about this rubric which mainly consists of adjustments between segments, so both forecasts will be tied to the GDP because it is the best way to capture the economic environment.

Figure 26: Growth Rates of Others & Inter Segment (%)

Growth Rate Revenues	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E	CAGR 2010-2013	CAGR 2014-2019
	Revenues	-2,16%	-1,84%	1,19%	2,45%	2,22%	2,00%	2,00%	2,00%	3,63%	-0,95%
Costs	-2,16%	-1,84%	1,19%	2,45%	2,22%	2,00%	2,00%	2,00%	3,63%	-0,95%	2,37%

Source: Thesis Excel

Figure 27: Historical and Forecasted Others & Inter Segments M (€)



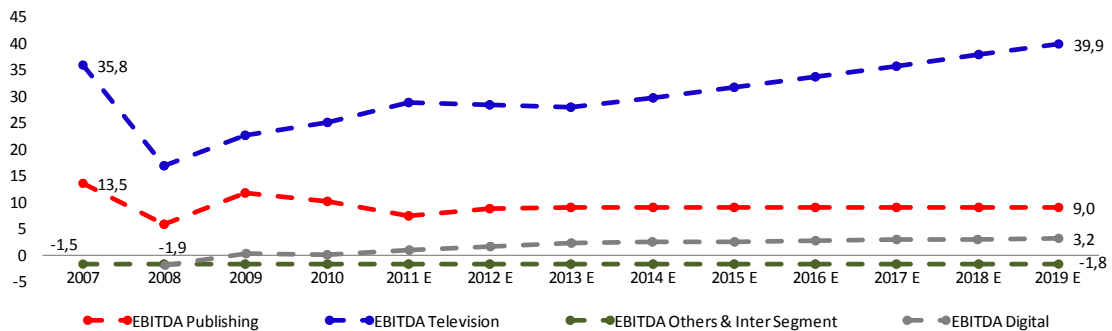
Source: Thesis Excel

It is distinctive that revenues could take a negative value, nonetheless it is mainly due to adjustments between segments and the reduction of revenues from external clients.

10.2.5. EBITDA

As we could expect, the television segment is the one with the highest earnings before adjustments followed by the publishing segment. However the last one is losing impact and digital is improving its performance.

Figure 28: EBITDA per Segment (M €)



Source: Thesis Excel

10.2.6. NWC

The net working capital is a measure that allows us to understand the operational efficiency and financial health of a certain company in the short-term. NWC is used to invest in the growth and development of a business. Thus, when it increases, the FCFF of that period will decrease, which means we are investing. When there is a positive change in NWC it means that the assets increase comparing to liabilities and vice-versa.

In order to compute the NWC, first we need to understand its historical performance as well as the goals of the company for the future. The following rubrics will influence the operational liquidity of Impresa: Inventories, Trade & Other Receivables, Trade & Other Payables and State. In the following, there are some formulas for those computations:

$$\text{Days Sales Inventories (DSI)} = \frac{\text{Inventory}_t}{\text{Cogs}_t} \times 365;$$

$$\text{Days Sales Outstanding (DSO)} = \frac{\text{Accounts Receivable}_t}{\text{Revenues}_t} \times 365;$$

$$\text{Days Payable Outstanding (DPO)} = \frac{\text{Accounts Payable}_t}{\text{Cogs}_t} \times 365$$

The cash conversion cycle (DSI+DSO-DPO) is the length of time that a company has to sell its inventories, to receive money from its clients and to manage paying its expenses to suppliers. There is a reduction in the CCC in coming years, which means that Impresa can turn its “inputs” into cash in fewer days.

Days	2007	2008	2009	2010	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E
DSI	80	81	51	59	57	55	53	52	51	51	51	51	51
DSO	64	60	57	43	42	41	41	40	39	39	39	39	39
DPO	80	59	81	55	56	56	57	58	60	60	60	60	60
CCC	64	82	27	48	44	40	37	34	30	30	30	30	30

Source: Thesis Excel

According to Impresa this trend will continue in the future, however it is not clear when this trend will stabilize and at the same time it is also not sustainable forever, so I assume a stabilization of the CCC in 2015.

10.2.7. Investments

Capital Expenditure is the investment made by a company when acquiring/ upgrading their assets (tangible or intangible) in order to maintain or increase the company’s performance.

The forecasts for the Capex were computed for tangible and intangible assets separately, as a percentage of the historical values of the Capex in the total revenues for each year. The average of that percentages in the last four years was used as an assumption for the coming years, with exception of the terminal value where I assumed that the amount of Capex will be equal to the amortizations, since in a steady state period the investments made focus on

substitution investments to maintain the productivity level of the company. Regarding the Caixa Investment Bank the Capex of this industry is on average 3%-4% of revenues which is quite the same as my analysis.

Amortizations for each year are computed in the same way as Capex, which we can see in the following figure.

Capex & Amortization of the year	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E
Amortizations of the year	8,21	7,96	7,96	8,24	8,53	8,82	9,12	9,44	9,74
Capex of the year	9,85	9,55	9,55	9,89	10,23	10,59	10,94	11,33	9,74
% Capex in Revenues	3,84%	3,84%	3,84%	3,84%	3,84%	3,84%	3,84%	3,84%	3,20%

Source: Thesis Excel

The investments made for Capex and Amortization regarding each segment, were calculated by the weight of the revenues of each segment in the total revenues.

The amount of net assets was computed separately for tangibles and intangibles. It was calculated for each year as the value of the year before plus Capex less amortizations. The tangible assets have a higher weight to Impresa due the acquisition of "Machinery & Equipment" and "Buildings & Others constructions".

10.2.8. Debt

Regarding Impresa "The target Net Debt is 150 M, however with the actual economic conjecture this amount only is possible to set at least three years from now."- José Freire.

Regarding the existing Debt, Impresa has a D/V of 75% in market values and the types of debt are mainly bank loans and commercial papers (a reduced %). The amortization plan of the existing debt will end in 2018.

In order to compute the total debt for Impresa, I first computed the amortization plan and interests for the existing debt, and then because the target level of Impresa could not be achieved in 2011 I did the cash flow statement. The main point is to understand the money that is available for equity holders and if there is debt needs. So, using the expected cash flows for each year (FCFF) to pay current expenses, will always lead to a negative value, which means that Impresa will need to contract more debt in order to face its responsibilities.

The debt being paid in the next year will be considered as current debt and the type of debt contracted is in the form of bank loans as it was observed in the past. The K_d for new debt was estimated through a spreadsheet available in Damodaran Site, where first of all I calculated the interest coverage ratio assuming just the old debt which then gives us the correspondent K_d for the company rating. This approach was the most reliable for me since this type of information is not available in Bloomberg.

The following figure discriminates the value of the net debt for each year, where it is observable that Impresa can achieve their target debt in 2014.

Net Debt	2007	2008	2009	2010	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E
Short Term Debt (+)	32,0	58,2	49,3	61,6	58,8	63,9	76,2	76,6	70,9	60,1	47,8	33,8	61,3
Long Term Debt (+)	182,3	192,4	187,1	158,7	153,5	138,3	112,7	96,7	84,6	75,1	65,6	56,1	0,0
Cash & Equivalents (-)	32,2	9,5	5,1	6,9	12,5	19,7	20,4	21,5	23,3	21,9	20,8	19,9	19,5
Total (=)	182,1	241,1	231,3	213,3	199,8	182,5	168,5	151,7	132,3	113,3	92,6	69,9	41,8

Source: Thesis Excel

11. Valuation

11.1. Unlevered Value of Firm

The value of the firm unlevered was computed as indicated in the literature review and the main components will be explained in the following paragraphs.

In order to calculate beta, firstly I performed a regression of monthly data for the last 4 years, where beta was achieved through the slope of the Impresa return with the PSI Geral return where the R^2 was of 65%, a reasonable explanatory model for beta. The Index PSI Geral was chosen after the bad performance from the regression of beta with PSI 20 (Exhibit 14.4.3). Thus, the main problems of the regression model are that “the market index can be dominated by a few stocks, the beta estimate can be noisy and the firm itself might have changed during the course of the regression.”³⁶ Therefore, there are fewer companies for which regression betas are a good measure.

Then, when looking for a more reliable framework, I decided not to use the beta of the peer group since there are no similar companies for the digital segment so it would not be accurate selecting the beta from different authors. Therefore, I chose the beta for each segment from

³⁶ Damodaran- Estimating Risk Parameters

the Damodaran Site for European countries, due to their similarities. The beta of Other & Inter Segment is an average of beta for the reminiscent segments.

The risk-free rate is computed for a 10-Years German Government Bond of 2.25%, assuming a diversified investor.³⁷ The tax rate used for future computations was 29% since it is commonly used in this industry.

Since Portugal is exposed to political and economical risks, the country risk premium must be included in R_a . It was computed through Moody's rating for Portugal of Ba2 (last change was on the 5th of July in 2011) and the corresponding risk premium is 4.13% as suggested by Damodaran.

The last component to be computed is the equity premium that is the excess return of an asset over a risk-free rate due to the extra risk incurred. The historical values for the US/German market of 5% were used.

11.2. Present Value of Tax Shields

The second step is to estimate the tax benefits that debt brings along. This positive effect is computed multiplying the total debt of Impresa by the tax rate and the cost of debt (average cost of the total debt), then discounting by R_d in order to get the PV of tax shields.

11.3. Present Value of Bankruptcy Costs

The last step was to compute the negative effect of the debt. Using a framework given by Damodaran, the interest coverage ratio (EBIT / interest expenses) was first computed, then this rating was matched with the default probability for small cap firms. After that, we must multiply it with the bankruptcy costs (20% of V_u for each year) and discount it by the cost of debt. Exhibit 14.4.1.

The high probability of default in 2011 led to a company rating of D, which is one of the main causes of the reduced price per share.

11.4. Value of Impresa per Share

After explaining each step, it is time to incorporate the following inputs in my model in order to arrive to the price per share of Impresa.

³⁷ Bloomberg 14-Nov-2011

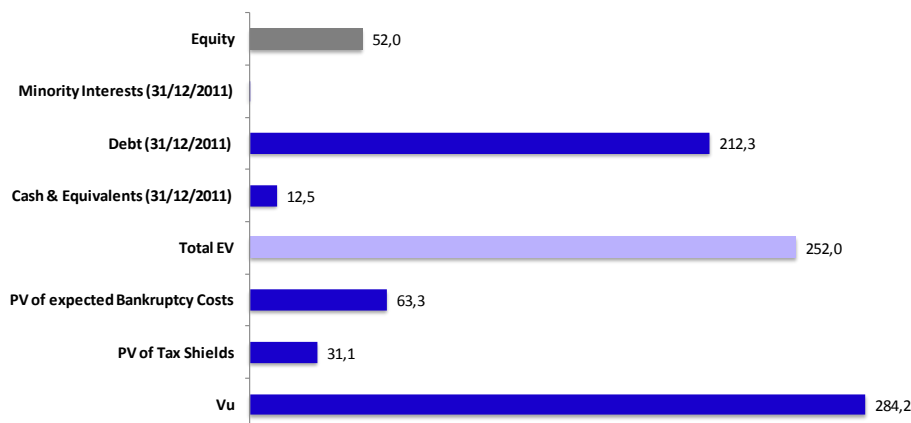
APV Inputs	Television	Publishing	Digital	Others & Inter Segment
Risk Free Rate	2,25%	2,25%	2,25%	2,25%
Country Risk Premium	4,13%	4,13%	4,13%	4,13%
Market Premium	5%	5%	5%	5%
Unleverage Beta	0,65	0,77	0,84	0,75
Ra	9,63%	10,23%	10,58%	10,15%
Terminal Growth	2%	1,50%	2,50%	2%
Tax Rate	29%	29%	29%	29%

Source: Thesis Excel

The following table explains how the value of equity was achieved: From the total enterprise value the net debt was deducted and then the minority interests were added arriving at the end at a price per share of 0.31€, which means a potential loss of around 26%. values in (M €)

Impresa- APV Valuation	
Vu	284,2
PV of Tax Shields	31,1
PV of expected Bankruptcy Costs	63,3
Total EV	252,0
Cash & Equivalents (31/12/2011)	12,5
Debt (31/12/2011)	212,3
Minority Interests (31/12/2011)	-0,25
Equity	52,0
# Shares outstanding	168
Equity value per share= P0	0,31
Current P0 (8-11-2011)	0,42 €
Potential Gain /Loss	-26%

Source: Thesis Excel



Source: Thesis Excel

11.5. Financial Indicators

Financial Indicators	2007	2008	2009	2010	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E
EBITDA	46	19	33	31	36	37	38	40	42	44	46	48	50
EBITDA Margin (%)	18,1%	7,1%	13,1%	12,4%	13,9%	15,2%	15,4%	15,6%	15,9%	16,1%	16,3%	16,5%	16,7%
Television	19,3%	9,8%	14,6%	14,5%	17,2%	17,5%	17,3%	17,7%	18,1%	18,5%	18,9%	19,3%	19,5%
Publishing	14,7%	6,2%	12,8%	10,8%	8,9%	11,3%	11,4%	11,3%	11,1%	10,8%	10,6%	10,3%	10,0%
Digital	-37,9%	-28,9%	5,7%	2,0%	13,2%	23,1%	31,9%	31,9%	31,9%	31,9%	31,9%	31,9%	31,9%
EBIT	38,75	-4,95	23,87	23,36	-2,05	29,50	29,94	31,61	33,38	35,16	36,94	38,98	40,64
EBIT Margin (%)	13,8%	-1,8%	9,4%	8,6%	-0,8%	12,0%	12,2%	12,4%	12,7%	12,9%	13,1%	13,3%	13,5%
Net Income	18,1	-26,9	7,8	7,9	-7,6	16,8	17,2	18,8	20,5	22,4	24,2	26,2	27,9
Book Debt Ratio	43%	48%	47%	45%	46%	44%	41%	37%	33%	29%	24%	19%	13%
NET Debt	182	241	231	213	200	183	169	152	132	113	93	70	42
Net Debt/Equity (x)	1,1	1,7	1,6	1,3	1,3	1,1	0,9	0,7	0,6	0,5	0,3	0,2	0,1
Net Debt/EBITDA (x)	3,9	12,5	6,9	6,8	5,6	4,9	4,5	3,8	3,2	2,6	2,0	1,4	0,8
Rating of Impresa	B+	D	B	B	D	A-	A-	A-	A	A+	AA	AAA	AAA
EBITDA-Capex	33	1	29	25	26	28	28	30	32	33	35	37	41
ROC	5,5%	-0,7%	3,4%	3,4%	-0,3%	4,5%	4,6%	4,8%	5,0%	5,3%	5,5%	5,8%	6,0%
ROE	11%	-19%	5%	5%	-5%	10%	9%	9%	9%	9%	9%	9%	9%
Operating Margin (%)	6%	-10%	3%	3%	-3%	7%	7%	7%	8%	8%	9%	9%	9%
Asset Turnover (%)	56%	53%	50%	56%	56%	53%	53%	54%	56%	58%	59%	61%	63%
Leverage Effect (%)	292%	358%	338%	305%	307%	277%	252%	231%	211%	193%	176%	161%	148%
Payout Ratio	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

Source: Thesis Excel

These financial indicators of Impresa show us different perspectives: To begin with, the segment that corresponds to the highest EBITDA margins in the forecast period is digital, followed by television.

The harsh times that we are living had a huge impact on the net income, which reaches a negative value in 2011. However, it reveals a good recovery until the steady state.

Finally, the financial structure of Impresa in the first forecasted years reveals high debt levels, although this trend will be reverted in the next years where the group reaches a Rating of AAA. Regarding the dividend policy, it is quite obvious that Impresa will not distribute any earnings since it does not generate enough CFs.

11.6. Sensibility Analysis

After concluding my valuation, I tried to understand which variables influence mostly the price per share and why. Thus, I found out that the country risk premium is the one that causes a higher impact in the R_a calculation. When the CRP increases, the R_a will increase as well and thus the price per share will be lower. As can be seen in the following table, the highest drop in the Portugal Rating took place in 2011.

Figure 29: R_a Estimation for Sensitivity Analysis- Portugal

Data	Rating	Country Risk Premium	Television Ra	Publishing Ra	Digital Ra	Others Ra	Average Ra
13 July 2010	A1	1,28%	6,8%	7,4%	7,7%	7,3%	7,3%
15 March 2011	A3	1,73%	7,2%	7,8%	8,2%	7,7%	7,7%
5 April 2011	Baa1	2,25%	7,8%	8,4%	8,7%	8,3%	8,3%
5 July 2011	Ba2	4,13%	9,6%	10,2%	10,6%	10,1%	10,1%

Source: Thesis Excel

* Country Risk Premium- Exhibit 14.4.2.

On the other hand, the Terminal Value growth rate has also a great impact on the final price as it is shown in the next figure.

Figure 30: Sensibility Analysis to R_a and TV Growth Rate

		TV Growth Rate				
		1,0%	1,5%	2,0%	2,5%	3,6%
Average Ra	7,3%	0,98	1,12	1,29	1,49	2,15
	7,7%	0,82	0,93	1,07	1,23	1,76
	8,3%	0,65	0,74	0,86	0,99	1,40
	10,1%	0,20	0,25	0,31	0,38	0,58
	11,0%	0,05	0,10	0,14	0,20	0,35
	11,5%	-0,02	0,02	0,06	0,10	0,23

Source: Thesis Excel

The stock price is maximized at the highest TV growth rate with the lowest R_a .

Another variable that negatively influences the price is the bankruptcy cost in 2011, thus a rating of B is enough to turn the PV of tax shields higher than the PV bankruptcy costs which led to a stock price of 0.53€.

Lastly, regarding the television segment, there is the possibility of a state-owned channel privatization in the near future. There is no defined date yet for this event to occur, however Pedro Passos Coelho ensures that this operation will take place only when it reaches a stable economy.

This occurrence increases the advertising space by 6 minutes/hour which penalizes SIC and TVI in the coming years.

Francisco Pinto Balsemão who contested this privatization said in an interview that this occurrence goes against some agreements done with the government, since everyone knows that the impact in the other media players will be catastrophic for their margins.

Therefore, I analyzed this possible occurrence, estimating for that purpose the impact on SIC advertising revenues and on its share price.

Figure 31: RTP1 Privatization- Increase # Advertising Minutes

	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E
Amount of Money Spent in Television Adv. (M€)	292,8	272,3	267,9	281,1	295,2	310,3	326,5	343,9	356,3
Advertising Growth Rate	-4,0%	-7,0%	-1,6%	4,9%	5,0%	5,1%	5,2%	5,3%	3,6%
% Captured by SIC	34,7%	27,8%	27,8%	27,8%	27,8%	27,8%	27,8%	27,8%	27,8%
Audience Share of SIC (%)	23,0%	22,5%	22,1%	21,7%	21,3%	20,9%	20,5%	20,1%	18,5%
Power Ratio	1,51	1,24	1,26	1,28	1,31	1,33	1,36	1,38	1,50
Advertising Revenues SIC (M €)	101,6	75,7	74,5	78,1	82,1	86,3	90,8	95,6	99,1

Source: Caixa BI and Thesis Excel

In 2010, the total amount spent in television advertising was around 305 M/€ in Portugal and upon this value SIC captured 34.7%. The RTP1 privatization is estimated for 2012, therefore this year will reflect an increase of advertising minutes/hour about 20%, which makes SIC capturing only 80% out of 34.7% ending up with a final result of 27%.

I assumed that the amount spent in television advertising is tied to the advertising growth rate which was already explained.

Concluding, incorporating those forecasts in my valuation, the resulting price per share is 0.07€.

11.7. Relative Valuation

11.7.1. Peer Group Selection

As enumerated in the literature review the goal is to find similar firms with Impresa. Since it is a group that invests in three different segments, I decided to analyze separately the peer group for each one. The reason is mainly the existence of few firms that operate at the same time in these segments, which would give me a wrong peer group increasing the bias of my analysis.

Understanding the importance of arriving to a comparable peer group, I started looking for similar television companies. Initially, I knew that Impresa would have a much lower market capitalization, sales and EBITDA comparing to their competitors. Nevertheless, there were other aspects that I needed to consider, such as growth opportunities and EV/EBITDA since the last one is the main comparable indicator for the Media companies. Thus, after taking these aspects into consideration, I focused on countries from Western Europe since they are generally exposed to an identical environment. The next step was to focus on the core

business of each company, from a list provided by Morgan Stanley about European companies for the television sector. After excluding in this analysis companies that mainly include sports channels, music, series and radio stations, I ended up with the following information about the peer group:

Figure 32: Peer Group Description of each Company- Television

	Country	Description of the Company	Weighted Average *
Mediaset	Italy	"Lukewarm growth perspective, solid multichannel strategy, attractive yield" - Morgan Stanley Core Business: FTA Channels and television production	36%
ITV	United kingdom	" Good cost control, low valuation, slowing advertising momentum; uncertainty over new CEO strategy and a merger among competitors."- Morgan Stanley Main Public Television Channel	28%
Telecinco	Spain	"High recovery potential, weak momentum."- Morgan Stanley It is owned by Mediaset Spain; Generalist Channel.	24%
Antena 3	Spain	"High cyclical and operational gearing. Cheapest broadcasters" - Morgan Stanley	11%
Media Capital	Portugal	FTA channel	1%

Source: Morgan Stanley, Millenniumbcp and Thesis Excel
*By Market Capitalization

Figure 33: Peer Group Main Indicators- Television

Companies	2010 Indicators				2011
	Sales	EBITDA	PBT	EPS	Market Cap.
Impresa	173	25	26	0,06	72
Mediaset	4292	985	600	0,38	3698
ITV	2065	436	321	6,35	2859
Telecinco	855	228	37	0,50	2524
Antena 3	808	157	132	0,54	1165
Media Capital	159	40	22	0,05	106

Source: Morgan Stanley, Millenniumbcp and Thesis Excel

As can be observed, the data from Impresa is more different when compared to its peer group as we could expect, however it shows a huge similarity with media capital. Therefore, this aspect could represent a limitation for the use of Multiples.

I used the same reasoning for publishing achieving the following results:

Publishing	Country	Weighted Average Market Cap.
Editoriale L'Espresso	Italy	21%
Grupo Prisa	Spain	42%
Telegraaf	Netherlands	17%
Mondadori	Italy	18%
Cofina	Portugal	1%

Source: Millenniumbcp and Thesis Excel

According to Fernández (2007) the multiples that are more used to evaluate internet companies are: Price/Sales, Price/Subscriber, Price/Pages Visited and Price/Inhabitant. I did not use multiples to value the digital segment because I did not have enough information to be accurate, since Impresa recently started investing in digital platforms.

11.7.2. Valuation

The next figure reveals close results of Impresa with the weighted-average Multiples of the peer group. As indicated in the literature review, we should use forward multiples in order to get more accurate results because the differences among multiples will be lower and the firms are more comparable, being reflected in the final price. Thus, I will base my final results on those values.

Figure 34: Peer Group Multiples- Television

Television	2010				2011				2012			
	EV/EBITDA (x)	EV/Sales (x)	P/E (x)	FCF Yield (%)	EV/EBITDA (x)	EV/Sales (x)	P/E (x)	FCF Yield (%)	EV/EBITDA (x)	EV/Sales (x)	P/E (x)	FCF Yield (%)
Mediaset	7,4	1,6	8,6	15%	8,2	1,5	11,2	14%	7,4	1,4	10,1	17%
ITV	8,0	1,7	11,6	13%	7,8	1,7	11,0	6%	7,6	1,7	10,5	8%
Telecinco	9,0	2,4	12,3	8%	10,2	1,9	14,1	5%	8,9	1,8	13,1	6%
Antena 3	8,1	1,6	10,7	16%	8,3	1,6	10,6	7%	7,3	1,5	9,3	7%
Media Capital	11,5	1,8	10,4	13%	4,9	1,7	8,3	6%	4,1	0,9	9,4	0%
Impresa	10,1	1,5	9,7	9%	8,8	1,6	7,4	5%	8,9	1,6	8,3	8%
Weighted average	8,1	1,8	10,6	13%	8,6	1,7	11,8	9%	7,8	1,6	10,8	11%

Source: Morgan Stanley, Millenniumbcp and Thesis Excel

In order to arrive at the price per share of Impresa, each Multiple was multiplied by the corresponding driver, achieving the following results:

Figure 35: Multiples Valuation- Television

Impresa' Share Price by Multiples- Television	2010	2011 E	2012 E
EV/ EBITDA	1,38	1,47	1,31
EV/ Sales	1,82	1,66	1,52
PER	-0,48	-0,53	1,08

Source: Thesis Excel

The P/E shows some limitations because it can be easily manipulated and it is affected by a change of the capital structure.

The Enterprise Value Multiples are more commonly used for media companies, which is why I chose them to compare them with my valuation. Both valuations are very similar, which could indicate that it might be considered a good peer group.

Figure 36: Comparison- Multiples with APV

EV/ Sales			EV/ EBITDA		
	2011	2012		2011	2012
Methods	Television		Methods	Television	
Valuation	246,1	251,1	Valuation	246,1	251,1
Multiples	278,8	256,1	Multiples	246,3	219,9

Source: Thesis Excel

For the Publishing segment the same reasoning was applied:

Figure 37: Peer Group Multiples- Publishing

Publishing	2011	2010			2011			
	Market Cap (M €)	EV/EBITDA (x)	EV/Sales	P/E	EV/EBITDA (x)	EV/Sales	P/CF	P/E
Editoriale L'Espresso	677	4,8	0,9	10,8	4,3	0,9	6,1	9,2
Grupo Prisa	1383	7,9	1,7	11,1	6,7	1,6	2,7	6,8
Telegraaf	571	7	0,9	9,9	6,5	0,9	5,7	8,4
Mondadori	602	6,1	0,6	9,3	5,7	0,6	5,7	8,2
Cofina	46	10,3	1,4	14,1	8,4	1,4	2,4	3,5
Weighted average		6,81	1,19	10,54	6,01	1,15	4,47	7,8

Source: Morgan Stanley, Millenniumbcp and Thesis Excel

Figure 38: Multiples Valuation- Publishing

EV Publishing by Multiples	2010	2011
EV/ EBITDA	51,23	45,24
EV/ SALES	101,12	97,53
Vu- Valuation		44,73

Source: Thesis Excel

The EV/EBITDA is the one that shows a similar value in 2011. This multiple allows making comparisons with other countries since it uses earnings before taxes, not including the different existing taxes.

Although having some similarities in the final result, I think that the Multiples valuation should not be used alone to value Impresa, since it only captures a snapshot in a determined time which may lead to a bias because it fails to capture other aspects that can create value for Impresa.

12. Comparison of the valuation with Millenniumbcp

Given that the valuation model already was explained, I will compare my model with the model done by Millenniumbcp Investment Bank on the 18th of October 2011, in order to understand the main differences that cause a different price per share.

First of all, Millenniumbcp used an explicit period of 2011-2021 and a Terminal Value in 2022, whereas I assumed that Impresa will reach a steady state in 2020. Also the valuation model selected was different, they used the DCF discounted to WACC and I used the APV. If I had used the same assumptions with the same model I should have achieved the same result, but I will show that there are more differences which explain such a difference in stock price.

Millenniumbcp also adopted the new segment structure of Impresa done in the 3rd trimester of 2011, where the Television Segment remained intact but the rubrics “AEIOU” and “Olhares” were added to the publishing segment. The sub-holdings of Impresa started to be computed in digital segment. Again, it is a question of organization, thus the value of the model should be the same if other assumptions are equal. I did not choose to do this update since there is just one report with consolidated accounts, which easily could commit errors since I did not feel so comfortable with it. João Flores told me that he knew with the years going by those errors would be corrected, which confirms my expectations that some errors will arise.

Regarding the Television segment they consider the impact of RTP1 in their analysis starting in 2012, but I will only consider it in my sensibility analysis since it is not decided yet.

€ million	EV	Stake	Value to Impresa	Method	Weight	Implied Multiple
Television	208.2	100.0%	208.2	DCF	73%	EV/EBITDA 12 10.1x
Publishing	69.1	100.0%	69.1	DCF	24%	EV/EBITDA 11 129.9x
Impresa Digital	12.7	na	12.7	2xInv	4%	EV/SALES 11 1.7x
Holding&Adjustments	-8.3	100.0%	-8.3	DCF	-3%	
Non-Operating Assets			5.2	BV	2%	
Sum-of-the-Parts			287.0		100%	
Adjusted Net Debt YE11			223.5			
Net Debt YE11			218.7			
Provisions			4.8			
Minorities			-0.3			P/BV 11 2x
Equity Value			63.7			
Number of shares (mn)			168.0			
Price Target - YE12 (€/ share)			0.38			
Last price (€/ share) October 18th			0.47			
Upside / Downside Potencial			-19%			

Source: Millennium Investment Bank (18 October 2011)

In order to evaluate the Digital segment, Milleniumbcp does not use DCFs but uses $2 \times$ *Investment*. They computed all the investments in associated companies in real values, using then a multiple they multiplied by 2 assuming an appreciation.

They assume that Impresa is maximizing their WACC using an optimal D/V of 20% in their assumptions from 2011 onwards. In my point of view, it does not make any sense to assume that the company is incorporating their optimal target debt since this would not generate enough CFs to pay their expenses in the end of the year, which means that they will need to be financed with more debt to face their financial obligations. This difference will affect also the PV of bankruptcy costs and the PV of tax shields, because when incorporating the real value of debt in the valuation it starts with a company rating of D and finishes in the steady state with a Rating of AAA.

The growth rates in certain rubrics are different, so it depends on the expected evolution for each segment. I based my forecasts on some Reports that were mentioned several times, which gave me resources to analyze diverse trends and information about the evolution for each segment.

Regarding the assumptions done, Millenniumbcp assumed a German 10-year bond risk-free rate of 3% explaining why: “its current value is 2%, however we prefer not to change our valuation since we believe it could be a temporary overreaction: flight-to-quality move to German Bonds”.

	New Assumptions		
	2012-2015	2016-2021	Terminal value
Risk-Free Rate	3.00%	3.00%	3.00%
Country risk premium	9.50%	6.00%	0.50%
Market Premium	5.00%	5.00%	5.00%
Unlevered Beta	1.00	1.00	1.00
Leverage (D/E)	25.00%	25.00%	25.00%
Levered Beta	1.18	1.18	1.18
Cost of Equity*	20.07%	15.95%	9.48%
Cost of Debt **	9.50%	8.00%	6.50%
Corporate Tax Rate	29.0%	29.0%	29.0%
After-tax Cost of Debt	6.75%	5.68%	4.62%
Leverage	20%	20%	20%
WACC	17.41%	13.90%	8.50%
Perpetuity Growth Rate			3.02%
Real perpetuity growth rate			1.00%
LT Inflation			2.00%
WACC-g			5.48%

Source: Millennium Investment Bank (18 October 2011)

Another different result comes from the CRP where Millenniumbcp calculates through the “difference between the Local Sovereign Yield and the German 10-year Government Bond Yield multiplied by a volatility factor (ratio that relates equity with bonds volatility).” The main difference is in TV since they assume that the German bond will converge “to respective last 10- year averages”.

Finally, the last two differences come from the Terminal Value growth rate where they assume 3% and I assume a different growth rate for each Segment: Television 2%, Publishing 1.5% and Digital 2.5%. The other difference concerns beta because they compute the Bottom-up beta which includes the debt effects, calculated through a matrix where they include several factors that affect the company, such as: the quality of the management team, the financial risk, the capital structure, the size of the company etc. Therefore, it is obvious that their beta will be higher since they want to include a higher risk, due to their initial assumption of a D/V of 20% that is too low.

Thereby, I am sure that all those differences contribute to different valuations.

13. Conclusion

After understanding all the challenges that Impresa is facing, I end up with a price per share of 0.31€.

This price reflects the financial situation of Impresa characterized by high values of leverage, where in the year 2011 the group shows a rating of D incorporating huge bankruptcy costs. However, over the years the group’s rating is forecasted to increase gradually reaching AAA in 2018.

The weak estimate for media growth rates caused by this harsh environment decreases the expected CFs. The most affected segments are publishing and television, but the last one will have a great recovery in an expansion cycle. The digital is the most profitable segment showing higher EBITDA margins which help Impresa diversifying its sources of revenues. At the same time, Impresa is betting on a cost reduction policy as a way to face those challenges.

Taking into consideration all those aspects, it is not the best time to invest in this company, maybe it would be reasonable to bet on it when it starts to show some recovery (2014/2015). Nevertheless one must be aware of the possible privatization of RTP1, which lowers the value of Impresa even more.

14. Exhibits

14.1. Literature Review

14.1.1. Exhibit: Limitations of Discounted Cash Flow

Limitations of DCF	
<ul style="list-style-type: none"> • Financially distressed firms 	<p>Generally this type of firms are characterized by negative CFs and earnings, with a high probability to go bankrupt. Therefore, the estimations for DCF might show a negative value for the firm. However, the price of each stock cannot be negative, so DCF does not work in this situation.</p>
<ul style="list-style-type: none"> • Cyclical companies 	<p>Firms whose CFs and earnings follow the economic cycle, meaning that in an economic boom the cash flows will rise and will fall in a recession period. Using DCF in this type of companies, means a lower expected CF. Although the analysts try to predict the economic cycles adjusting certain rubrics, which will certainly incur forecasting errors. Therefore, it is not a good valuation model in this case.</p>
<ul style="list-style-type: none"> • Firms with unutilized assets 	<p>The DCF only includes the assets that produce cash flows, so if a firm has unutilized assets, they will not be incorporated in the company valuation. However, they can be added separately if traded in secondary markets.</p>
<ul style="list-style-type: none"> • Firms with patents or product options 	<p>Again, patents are an asset that do not produce any type of CF. They are very useful to protect the brand, but DCF does not incorporate those assets in the company valuation, undervaluing the company. But as unutilized assets they can be estimated through option models.</p>
<ul style="list-style-type: none"> • Private firms 	<p>These companies are not traded in the stock market and for DCF purposes the use of risk parameters is necessary. Without access to that information it is impossible to estimate the value of that company. However, there are two possible solutions:</p> <ul style="list-style-type: none"> - Look at comparable firms that are traded; - Use the measure of risk regarding accounting variables for that private company.
<ul style="list-style-type: none"> • Firms involved in acquisitions 	<p>For merger purposes there are two issues that we must pay attention to when we use DCF:</p> <ul style="list-style-type: none"> - Will there be any synergies? If yes, how can we compute the effect on future CFs - If the management team changes, this must be incorporated in future CFs and WACC. <p>However, they are very hard to estimate.</p>
<ul style="list-style-type: none"> • Firms in restructuring processes 	<p>In this type of firms there are many aspects changing: capital structure, assets, WACC, future revenues, dividend structure and maybe the ownership structure. Since those factors will affect the expected cash flows, they must reflect all those changes.</p>

Source: Damodaran

14.1.2. Exhibit: Alternative Beta estimates

Approach	Description
Regression	Company has changed significantly
Modified Regression	Used MSCI as market Index
Enhanced Beta	Fundamental regression has low R ²
Accounting Beta	Few observations
Proxy Variable	Uses Market cap. And book/market
Bottom-up Beta	Reflects current business and financial mix

Source: Damodaran

14.1.3. Exhibit: Real options by sector

Aerospace and defense	Consumer/ packaged goods	Pharmaceuticals and medical products
Valuing options in customer contracts	Learning options for new product R&D and test marketing	Esablishing priorities among prospective R&D projects
Assembly and machinery	Electronics	Pulp and paper
Timing of investment in new factories	Entry or exist options in the PC assembly busines	Timing of forest harvesting
Automotive	Energy	Retail
Valuing decisions to modify new car designs well into product development cycles	Learning options in timing the development of oil and gas field	Timing of expansion into foreign markets
Banking and securities	Insurance	Telecommunications
Valuing real estate leases	Valuing such contingency features as loans against value of policies	M&A programs for geographic expansion
Chemicals	Media and Entertainment	Transportation
Timing of investment in new factories	Planning new product launches	The option to extend or contract routing structures

Source: The Mckinsey Quarterly 1998 Number 3

14.2. Industry

14.2.1. Exhibit: SWOT Analyzes

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> · Diversified investments in three main areas. · Contingency plan to react to the economic crisis (mainly in costs savings). Ex: Impresa ceased the publication of several Magazines. · Anti-Takeover policies (A family company). · Diversification of their activities on internet. · At the end of 2011, Impresa wants to have all their publications available on IPAD. · Impresa strategy is not focused on being the leader in share of audience, but on increasing operational numbers and reducing the debt. 	<ul style="list-style-type: none"> · Decrease of advertising revenues. · Stagnation of the business models. · Strong dependency on new technologies. · Low investments in technologies. · Downward trend for press segments (magazines and newspapers).
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> · Digital TV. · Bid Takeover from Cofina (Growth through M&A). · Exploiting all potentials of the internet and smartphones, since they are the most powerful motors of growth. Ex: IPAD Those multiple platforms decrease the dependence on the advertising on economic cycles · The reduction of the number of consumers in the media market forced those companies to look for opportunities in international markets. Ex: Africa and Brasil, due to their similarities in culture and geography. · Addressable ads will arrive soon in Portugal. · Customers as the producers of their own products: It is helpful to decrease costs. · new technologies to measure the share of audience (the end of Marketst). More accurate results. 	<ul style="list-style-type: none"> · Internet. · The possible emergence of a 5th FTA TV Channel would increase the competition. However, ERC rejected the two bids. · Increased competition between the operators from Triple- Paid (ZON, MEO). The development of new technologies (HD, 3D) will benefit the cable channels . · New habits of consumers (stagnation of reading habits; new generation of media) and the lower WTP of consumers for paid contents when they know that they are available elsewhere. · Consumers value differently the contents, which severely influences the creation of a new business model due to the problem of "How to charge the content ?". · Emergence of new channels on the internet. · Economic crisis and the austerity measures (estimated low organic growth rates). · The new governmental regulation has a negative impact on media revenues because this legislation may condionate future strategies. · Football rights assigned by competitors (RTP1, TVI). · Media industry is a cyclical sector. · Increase of the bargaining power of consumers.

Source: Impresa Annual Report and Investment Banks Equity Research

14.3. Company

14.3.1. Exhibit: Resume of IMPRESA main events:

- 1972: Francisco Pinto Balsemão creates Sojornal, a group that has the weekly newspaper Expresso. He believes that despite the censorship and all the constraints of that time, it would be possible to create a higher quality journal that could serve as a reference.
- 1988: Formation of Controljornal, the holding company of the media group, which is managed by Francisco Pinto Balsemão who consolidates all the participations in the group.
- 1989: Through a joint-Venture with a Brazilian group the first magazine called Exame appeared.

- 1991: A press holding is created when the social capital of Controljournal is open to foreign investors. This group was one of the founders of SIC (“Sociedade Independente de Comunicação”).
- 1992: Creation of the first private TV channel in Portugal namely SIC, which becomes the leader in 1995.
- 1999: Impresa increases its participations in SIC.
- 2000: Impresa goes public on the Lisbon stock exchange.
- 2001: Expansion cycle of Impresa where it has diversified its activities. SIC owns 3 thematic channels (where SIC Notícias shows more relevancy).
- 2005: Impresa acquires 100% of SIC.
- 2007: Creation of Impresa Digital, a new business area, that has several participations in different companies related to internet and technologies, which becomes a strength. It produces/ distributes digital content for multiple platforms.
- 2008: Merger of newspapers and magazines in the segment- Impresa Publishing, being one of the main players in this sector with more than 30 publications. The three main segments of Impresa are: SIC, Publishing and Digital.
This year was characterized by a contract with MEO until 2012 and with ZON until 2013.
Alienation of diverse participations and reinforcement in other participations: AEIOU and Lisboa TV (owner of SIC Notícias).
- 2010: Television segment reaches an internationalization of thematic channels in 10 countries: France, Switzerland, USA, Canada, Brazil, Cape Verde, Angola, Mozambique, South Africa and Australia.
Launches a new Channel in MEO namely SIC K.
Discontinuity of the magazines: Cosmopolitan and Surf Portugal that were sold, and other digital activities.
- 2011: Creates a new magazine in Angola- Rumo and re-launches Expresso (increasing the number of newspapers sold) and the site Escape.
The restructuring of Television and Digital segments implied an increase of costs.

Source: Impresa Site

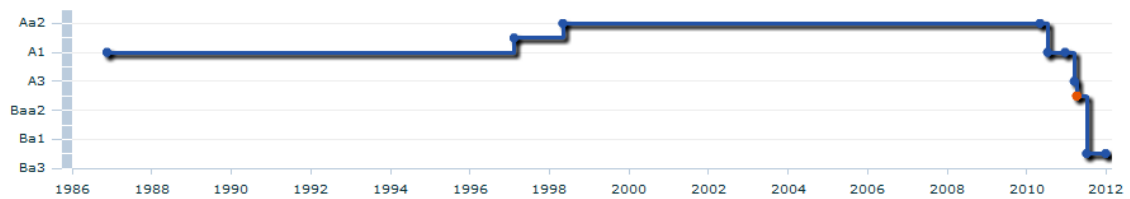
14.4. Valuation

14.4.1. Exhibit: Bankruptcy Costs Calculations

Small-cap firms (\$100 million–\$1 billion market cap)				
>	≤ to	Rating is	Spread is	Default Probability
12.5	100000	AAA	0,50%	0,07%
9.5	12,499999	AA	0,65%	0,51%
7.5	9,499999	A+	0,85%	0,60%
6	7,499999	A	1,00%	0,66%
4.5	5,999999	A-	1,10%	2,50%
4	4,499999	BBB	1,60%	7,54%
3.5	3,999999	BB+	3,00%	10,00%
3	3,499999	BB	3,35%	16,63%
2.5	2,999999	B+	3,75%	25,00%
2	2,499999	B	5,00%	36,80%
1.5	1,999999	B-	5,25%	45,00%
1.25	1,499999	CCC	8,00%	59,01%
0.8	1,249999	CC	10,00%	70,00%
0.5	0,799999	C	12,00%	85,00%
-100000	0,499999	D	15,00%	100,00%

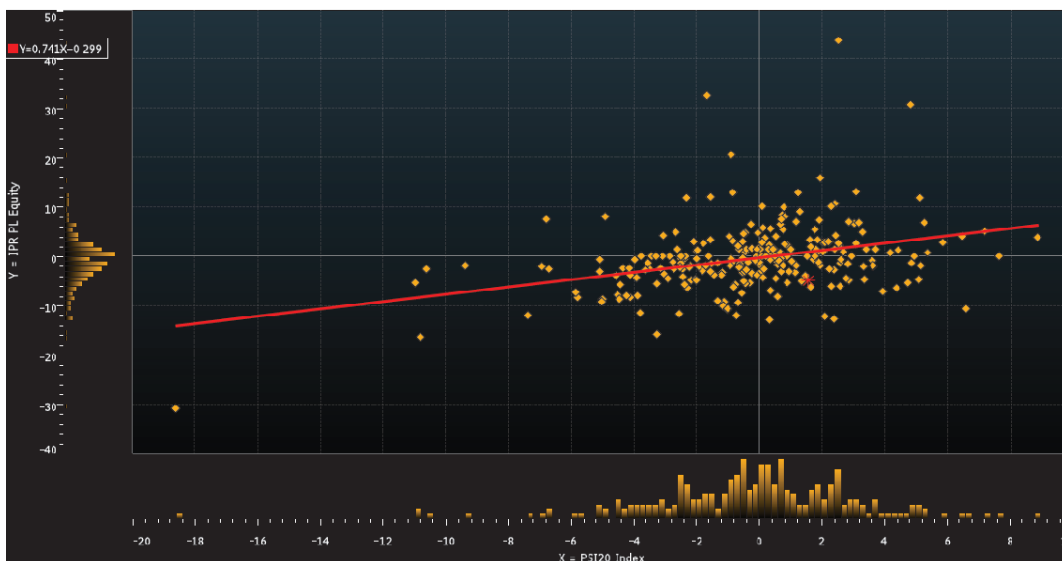
Source: Damodaran Site

14.4.2. Exhibit: Portugal Rating History



Source: Moody's Site

14.4.3. Exhibit: Impresa Regression with PSI20



Source: Bloomberg

14.4.4. Exhibit: Historical Consolidated Balance Sheet (M €)

	2007	2008	2009	2010
<u>Non- Current Assets</u>				
Goodwill	293,91	320,80	337,58	337,58
Intangible assets	2,76	2,16	2,20	1,80
Tangible fixed assets	34,17	43,35	37,81	36,96
Investments (associated companies)	4,09	5,48	5,60	5,22
Available-for-sale-assets	8,93	8,93	1,56	0,78
Investments properties	6,16	6,10	6,15	6,11
Program broadcasting rights	35,04	29,40	25,87	19,07
Inventories	0,77	0,80	0,41	0,00
Other Non-Current assets	3,97	3,68	4,29	3,67
Deferred taxes assets	1,86	7,88	4,45	2,06
Total non-current assets	391,65	428,59	425,94	413,25
<u>Current Assets</u>				
Program broadcasting rights	16,79	21,86	25,50	23,48
Inventories	2,77	3,25	1,92	2,78
Trade and other receivables	48,96	44,55	39,25	32,03
State and other public entities	3,33	2,23	2,41	2,15
Other Current Assets	5,96	3,11	3,85	3,78
Cash& cash equivalents	32,24	9,47	5,12	6,93
Total current assets	110,05	84,47	78,04	71,15
Assets for Sale	0,08	6,02	0	0
Total Assets	501,78	519,07	503,98	484,40
<u>Equity</u>				
Share Capital	84	84	84	84
Share premium	97,90	97,90	97,90	97,90
Legal Reserve	0,76	0,76	0,76	0,76
Accumulated losses and other reserves	-32,52	-14,44	-41,33	-33,63
Consolidated net profit for the year	18,09	-26,90	7,78	10,06
<i>Equity attributable to the shareholders of the parent company</i>	<i>168,23</i>	<i>141,33</i>	<i>149,11</i>	<i>159,09</i>
Equity attributable to minority interest	3,53	3,68	0,09	-0,25
Total Equity	171,75	145,01	149,20	158,84
<u>Non- Current Liabilities</u>				
Loans obtained	182,30	192,44	187,06	158,66
Finance leases	11,03	17,53	14,50	14,24
Other non-current liabilities	6,02	4,69	6,46	0,00
Provisions	3,18	6,52	5,89	4,79
Total non-current liabilities	202,53	221,18	213,90	177,70
<u>Current Liabilities</u>				
Loans obtained	32,04	58,16	49,35	61,56
Trade and other payables	n.a	41,17	48,51	35,80
Finance leases	49,97	2,42	2,46	3,24
State and other public entities	9,73	9,21	8,07	9,11
Other Current Liabilities	35,50	33,97	32,49	38,16
Total current liabilities	127,24	144,93	140,87	147,86
Liabilities for Sale	0,26	7,95	0,00	0,00
Total liabilities	330,03	374,06	354,78	325,56
Equity and Liabilities	501,78	519,07	503,98	484,40

Source: Thesis Excel

14.4.5. Exhibit: Forecast Consolidated Balance Sheet (M €)

	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E
Non- Current Assets									
Goodwill	308,08	308,08	308,08	308,08	308,08	308,08	308,08	308,08	308,08
Intangible assets	2,05	2,29	2,53	2,77	3,03	3,29	3,57	3,85	3,85
Tangible fixed assets	37,68	39,02	40,35	41,74	43,17	44,65	46,18	47,77	47,77
Investments (associated companies)	5,22	5,22	5,22	5,22	5,22	5,22	5,22	5,22	5,22
Available-for-sale-assets	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Investments properties	6,11	6,11	6,11	6,11	6,11	6,11	6,11	6,11	6,11
Program broadcasting rights	19,07	19,07	19,07	19,07	19,07	19,07	19,07	19,07	19,07
Inventories	0,29	0,26	0,25	0,26	0,27	0,28	0,30	0,31	0,33
Other Non-Current assets	3,67	3,67	3,67	3,67	3,67	3,67	3,67	3,67	3,67
Deferred taxes assets	2,06	0,18	0,18	0,18	0,18	0,18	0,18	0,18	0,18
Total non-current assets	384,23	383,89	385,46	387,10	388,80	390,56	392,38	394,27	394,28
Current Assets									
Program broadcasting rights	23,48	23,48	23,48	23,48	23,48	23,48	23,48	23,48	23,48
Inventories	2,22	1,97	1,91	1,98	2,07	2,17	2,28	2,40	2,52
Trade and other receivables	29,79	27,92	27,37	27,77	28,17	29,14	30,11	31,19	32,19
State and other public entities	5,67	2,18	2,18	2,25	2,33	2,41	2,49	2,58	2,67
Other Current Assets	3,78	3,78	3,78	3,78	3,78	3,78	3,78	3,78	3,78
Cash& cash equivalents	12,49	19,75	20,42	21,49	23,30	21,92	20,81	19,94	19,49
Total current assets	77,42	79,07	79,14	80,75	83,13	82,90	82,96	83,37	84,13
Assets for Sale	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Total Assets	461,65	462,97	464,60	467,86	471,93	473,47	475,34	477,63	478,42
Equity									
Share Capital	84	84	84	84	84	84	84	84	84
Share premium	97,90	97,90	97,90	97,90	97,90	97,90	97,90	97,90	97,90
Legal Reserve	0,76	0,76	0,76	0,76	0,76	0,76	0,76	0,76	0,76
Accumulated losses and other reserves	-24,67	-32,30	-15,53	1,69	20,51	41,05	63,43	87,61	113,83
Consolidated net profit for the year	-7,63	16,77	17,22	18,82	20,54	22,39	24,18	26,21	27,87
<i>Equity attributable to the shareholders of the parent company</i>	<i>150,36</i>	<i>167,13</i>	<i>184,35</i>	<i>203,17</i>	<i>223,71</i>	<i>246,10</i>	<i>270,28</i>	<i>296,49</i>	<i>324,35</i>
Equity attributable to minority interest	-0,28	-0,28	-0,28	-0,28	-0,28	-0,28	-0,28	-0,28	-0,28
Total Equity	150,08	166,85	184,07	202,89	223,43	245,82	270,00	296,21	324,08
Non- Current Liabilities									
Loans obtained	153,50	138,34	112,73	96,66	84,62	75,11	65,61	56,10	0,00
Finance leases	11,06	8,57	6,62	5,23	4,33	2,88	1,44	0,00	0,00
Other non-current liabilities	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Provisions	4,79	4,79	4,79	4,79	4,79	4,79	4,79	4,79	4,79
Total non-current liabilities	169,35	151,70	124,14	106,69	93,74	82,79	71,84	60,89	4,79
Current Liabilities									
Loans obtained	58,80	63,91	76,17	76,55	70,94	60,11	47,81	33,77	61,33
Trade and other payables	33,74	32,09	32,37	34,07	36,22	37,36	38,51	39,77	40,99
Finance leases	3,19	2,47	1,91	1,51	1,25	0,83	0,42	0,00	0,00
State and other public entities	8,33	7,79	7,78	7,98	8,19	8,40	8,61	8,84	9,07
Other Current Liabilities	38,16	38,16	38,16	38,16	38,16	38,16	38,16	38,16	38,16
Total current liabilities	142,22	144,42	156,38	158,28	154,76	144,86	133,51	120,53	149,54
Liabilities for Sale	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Total liabilities	311,57	296,12	280,53	264,96	248,50	227,65	205,35	181,42	154,34
Equity and Liabilities	461,65	462,97	464,60	467,86	471,93	473,47	475,34	477,63	478,42

14.4.6. Exhibit: Historical- Consolidated Income Statement (M €)

	2007	2008	2009	2010
Television Revenues	185,18	171,55	155,45	173,00
Publishing Revenues	92,40	95,62	91,91	93,47
Digital Revenues	4,16	6,65	6,39	6,82
Other & Inter Segments	-1,62	-0,73	-0,53	-2,14
(+) Consolidated Revenues	280,12	273,08	253,22	271,15
Television Costs	149,40	154,70	132,79	148,00
Publishing Costs	78,20	89,70	80,20	83,32
Digital Costs	5,74	8,57	6,03	6,68
Other & Inter Segments	-0,11	0,76	0,90	-0,54
(-) Total Operational Costs	233,89	253,73	219,92	237,46
(-) Operational Costs (With Reestruturation)	2,244673	-	-	2,2
Validation (=) EBITDA	48,47	19,36	33,30	31,49
(=) EBITDA	46,22	19,355	33,30	31,49
EBITDA Margem	18,09%	7,10%	13,10%	12,40%
EBITDA Television	35,77	16,86	22,65	25,00
EBITDA Publishing	13,54	5,91	11,66	10,15
EBITDA Digital	-1,58	-1,92	0,41	0,13
EBITDA Other & Inter Segments	-1,51	-1,49	-1,43	-1,59
(-) Depreciations	7,47	10,16	9,37	8,13
Impairments	-	0,142	0,423	
(=) EBIT	38,75	-4,95	23,87	23,36
EBIT Margem	13,83%	-1,81%	9,43%	8,62%
(-) Total Financial Expenses	-14,21	-17,00	-13,0	-11,6
(+) Financial Income	1,29	0,50	0,6	-0,3
(=) Financial Results (Net financials)	12,31	16,50	12,39	11,85
(=) Res. bef. Taxes & Minorities (EBT)	26,44	-21,45	11,48	11,51
(-) Taxes (IRC)	7,61	-3,61	3,83	3,77
(=) EBM	18,83	-17,84	7,65	7,74
(-) Discontinued Activities	0,26	7,59	0,00	0,00
(-) Minority Interests	0,72	1,48	-0,13	-0,12
(=) Consolidated Net Income	18,09	-26,90	7,78	7,86

Source: Thesis Excel and Impresa Annual Report

14.4.7. Exhibit: Forecast- Consolidated Income Statement (M €)

	2011 E	2012 E	2013 E	2014 E	2015 E	2016 E	2017 E	2018 E	2019 E
Television Revenues	167,32	161,42	161,61	168,00	174,83	181,91	189,00	196,95	204,09
Publishing Revenues	85,02	79,39	79,13	81,07	82,87	84,52	86,21	87,94	89,70
Digital Revenues	7,06	7,30	7,55	7,90	8,26	8,64	9,04	9,47	10,08
Other & Inter Segments	-2,09	-2,05	-2,07	-2,13	-2,17	-2,22	-2,26	-2,31	-2,39
(+) Consolidated Revenues	257,30	246,07	246,21	254,83	263,79	272,85	281,99	292,05	301,48
Television Costs	138,52	133,14	133,68	138,29	143,19	148,25	153,33	158,97	164,22
Publishing Costs	77,49	70,45	70,09	71,94	73,70	75,38	77,11	78,88	80,70
Digital Costs	6,13	5,62	5,14	5,38	5,63	5,89	6,16	6,46	6,87
Other & Inter Segments	-0,53	-0,52	-0,53	-0,54	-0,55	-0,56	-0,58	-0,59	-0,61
(-) Total Operational Costs	221,61	208,69	208,38	215,07	221,96	228,96	236,03	243,72	251,19
(=) EBITDA	35,69	37,38	37,82	39,77	41,82	43,90	45,97	48,33	50,30
<i>Margem EBITDA</i>	13,87%	15,19%	15,36%	15,60%	15,85%	16,09%	16,30%	16,55%	16,68%
EBITDA Television	28,79	28,28	27,93	29,71	31,65	33,66	35,67	37,98	39,87
EBITDA Publishing	7,53	8,94	9,03	9,13	9,16	9,14	9,10	9,05	9,00
EBITDA Digital	0,93	1,69	2,41	2,52	2,63	2,75	2,88	3,02	3,21
EBITDA Other & Inter Segments	-1,56	-1,53	-1,55	-1,58	-1,62	-1,65	-1,68	-1,72	-1,78
(-) Depreciations	8,24	7,88	7,88	8,16	8,45	8,74	9,03	9,35	9,65
Impairments	-29,5								
(=) EBIT	-2,05	29,50	29,94	31,61	33,38	35,16	36,94	38,98	40,64
<i>EBIT Margin</i>	-0,80%	11,99%	12,16%	12,40%	12,65%	12,89%	13,10%	13,35%	13,48%
(-) Total Financial Expenses	8,92	6,84	6,63	6,05	5,40	4,58	3,83	3,01	2,35
(+) Financial Income	0,95	0,95	0,95	0,95	0,95	0,95	0,95	0,95	0,95
(=) Financial Results (Net financials)	8,74	5,89	5,68	5,10	4,45	3,63	2,88	2,06	1,39
(=) Res. bef. Taxes & Minorities (EBT)	-10,79	23,61	24,26	26,51	28,93	31,53	34,06	36,92	39,25
(-) Taxes (IRC)	3,13	-6,85	-7,03	-7,69	-8,39	-9,14	-9,88	-10,71	-11,38
(=) EBM	-7,66	16,77	17,22	18,82	20,54	22,39	24,18	26,21	27,87
(-) Discontinued Activities	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
(-) Minority Interests	-0,03	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
(=) Consolidated Net Income	-7,63	16,77	17,22	18,82	20,54	22,39	24,18	26,21	27,87

Source: Theis Excel

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