The Company

Jason Kaplan, Quinn Chatham, Raphael Ortiz

Agenda

I. Executive Summary

Executive Summary

Industry Overview

The Company operates in the newspaper publishing and distributing segment, which focuses on the distribution and publishing of regional and national newspapers.

Company Profile

The Company is a newspaper publishing and distributing company that operates the LA Tribune, a Southern California regional newspaper.

Valuation

Discounted Cash Flows, Precedent Transactions and Comparable Company Analysis models lead to a valuation range of $364.11 to $538.93mm.

Potential Buyers

We recommend a strategic buyer for TCO because of the potential synergy opportunities from this sale, and the premium price. Facebook and Comcast are our potential strategic buyers, because of their current foothold in the entertainment, media, news and social media industry.

Damages

Total lost operating profit from 2014 to 2016 from advertising and subscriptions was $267.727mm due to the “First Click Free” policies of Facebook and Google.

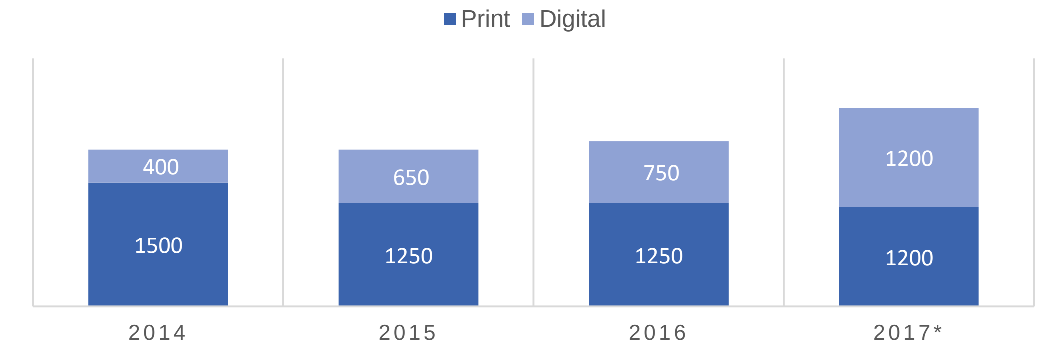
II. Company Profile

Company Profile

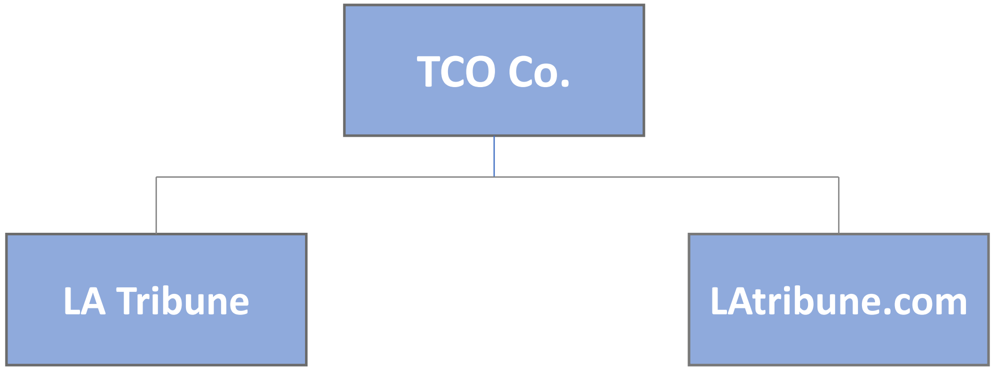
Business Description

The Company (TCO) is a newspaper publishing company which provides a daily and Sunday newspaper under the LA tribune and operates the LAtribune.com, which features full editorial text from the LA Tribune as well as original text, video content and other interactive features.

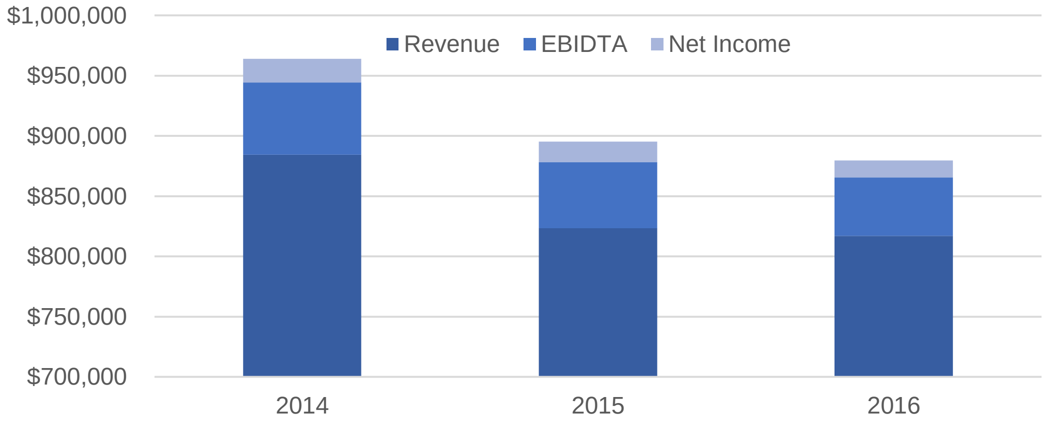
Print & Digital Subscriptions



Organizational Structure

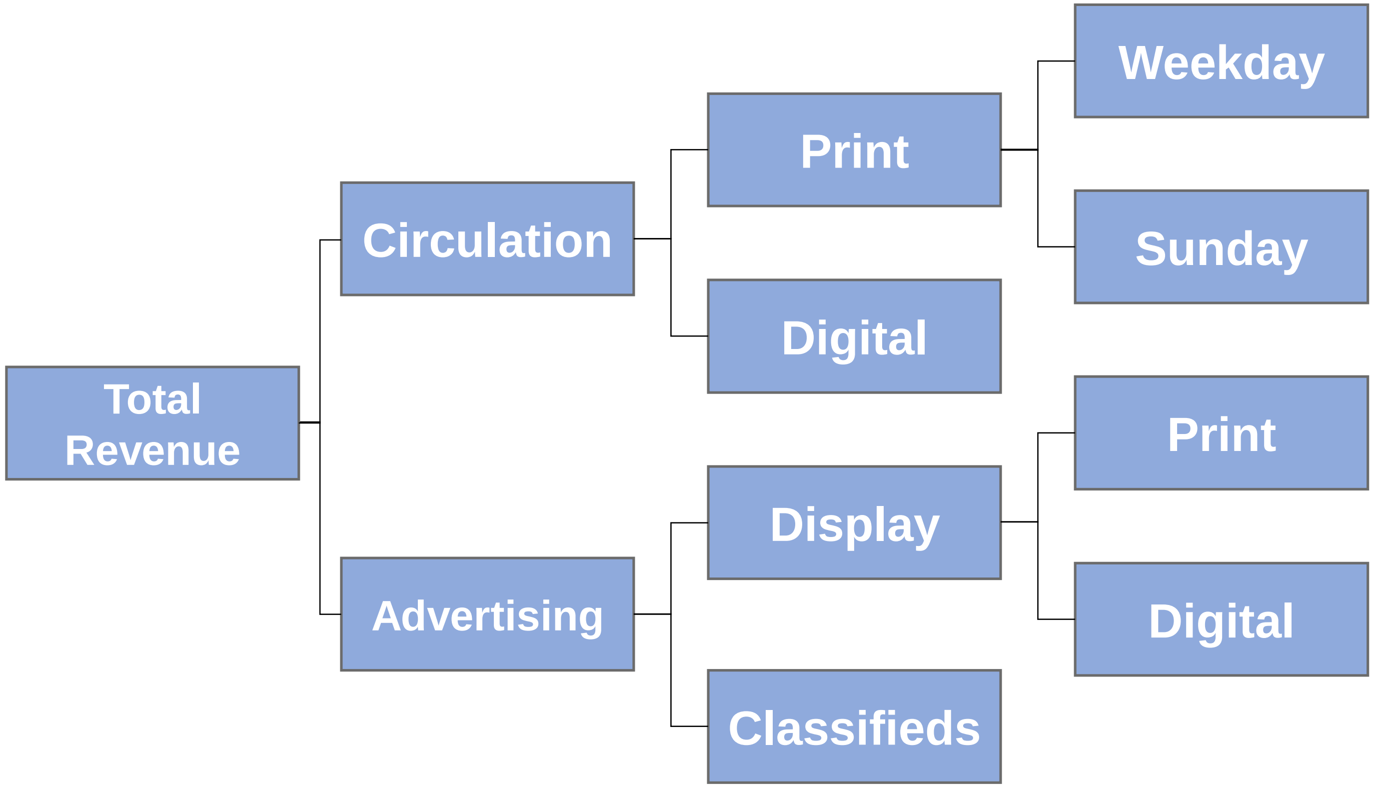


Financial Performance

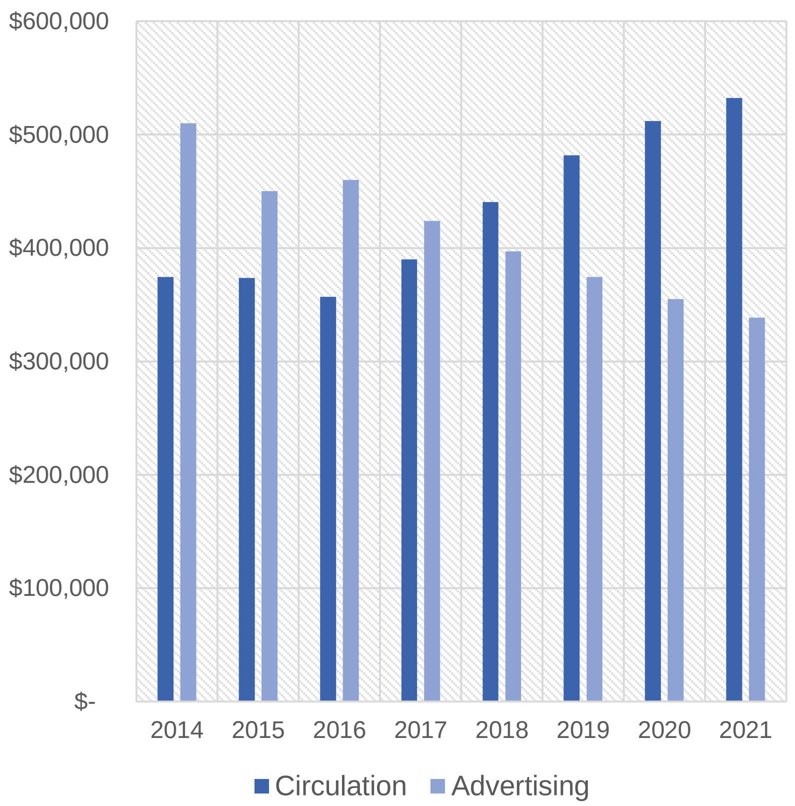


Revenue Breakdown

TCO Co. Revenue Streams



Circulation & Advertising



SWOT Analysis

Strengths

- Growing digital subscriptions
- Strong reputation for journalistic excellence
- Dominant regional presence in greater Los Angeles area, but also is the 4^{th} most circulated newspaper nationwide

Weaknesses

- Print subscriptions are declining
- Decreasing print advertising revenue
- Print production overhead
- Younger generation’s adversity to old forms of media

Opportunities

- Monetizing new digital consumer profiles
- Smart phone user adoption of new digital media
- Tailwinds from recent election cycle
- Pivoting to a digitally focused business model

Threats

- Growing number of competitors in the media industry
- Social media damages from free article distribution
- Top talent going to digital only publishing firms

III. Industry Trends

Industry Overview

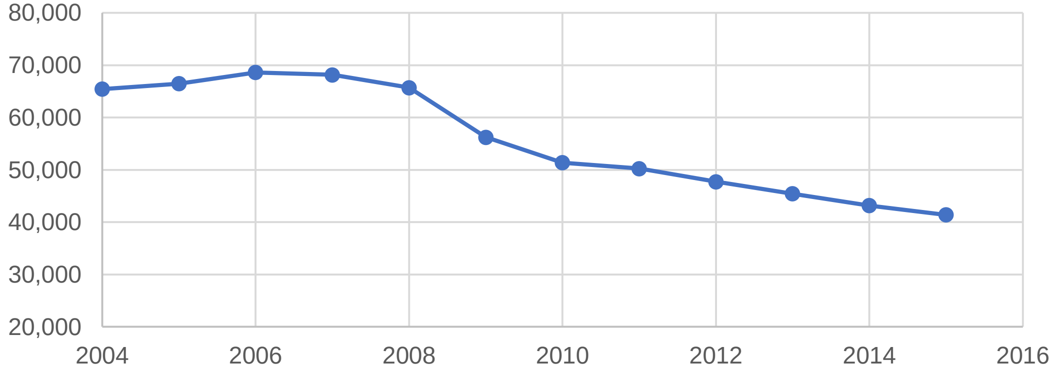
Industry Summary

- The newspaper publishing industry delivers various publications to a global audience.
- The industry has suffered declining ad and circulation revenue due to increased competition for readership from digital content

Spin-Offs

- June 29th, 2015, TEGNA Inc. spins off publishing business as Gannett Co.
- June 6, 2014, Time Warner Inc. completed the spin-off of Time Inc. major publishing division
- June 28th, 2013 21st Century Fox spins off New Corporation

Newsroom Employment



Major Players

GANNETT

News Corporation

The New York Times Company

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Source: IBISWorld, Capital IQ, Deal Book, Pew Research

Industry Drivers

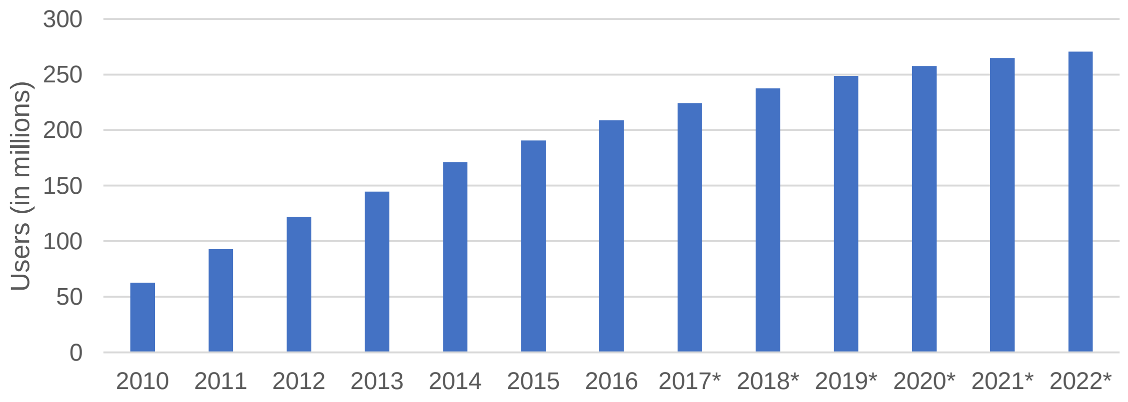
Ad Revenues

- Industry wide Digital advertising expected to increase annually at 2.1%
- Industry wide Print advertising expected to decline annually at a rate of 12.64%

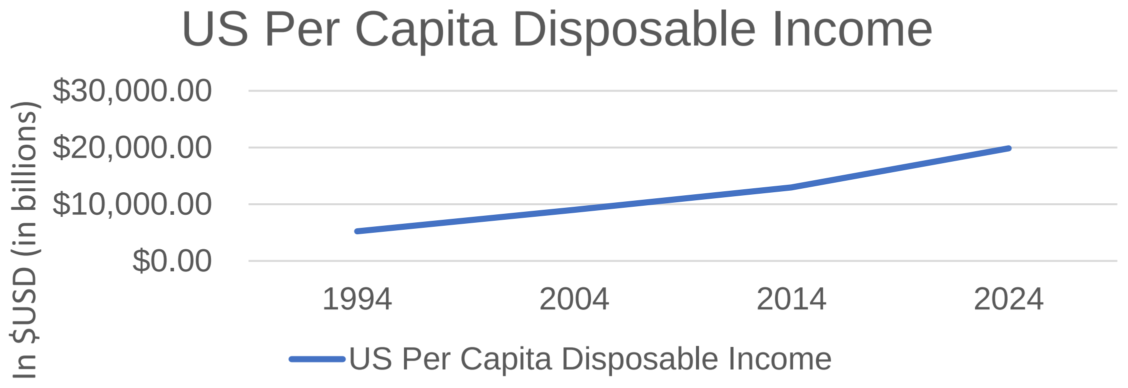
Disposable Income

- Disposable income increases boost consumer newspaper subscriptions
- Growth in disposable income typically increases spending
- Decrease in disposable income will cut discretionary spending

Smartphone and Tablet user growth



US Per Capita Disposable Income



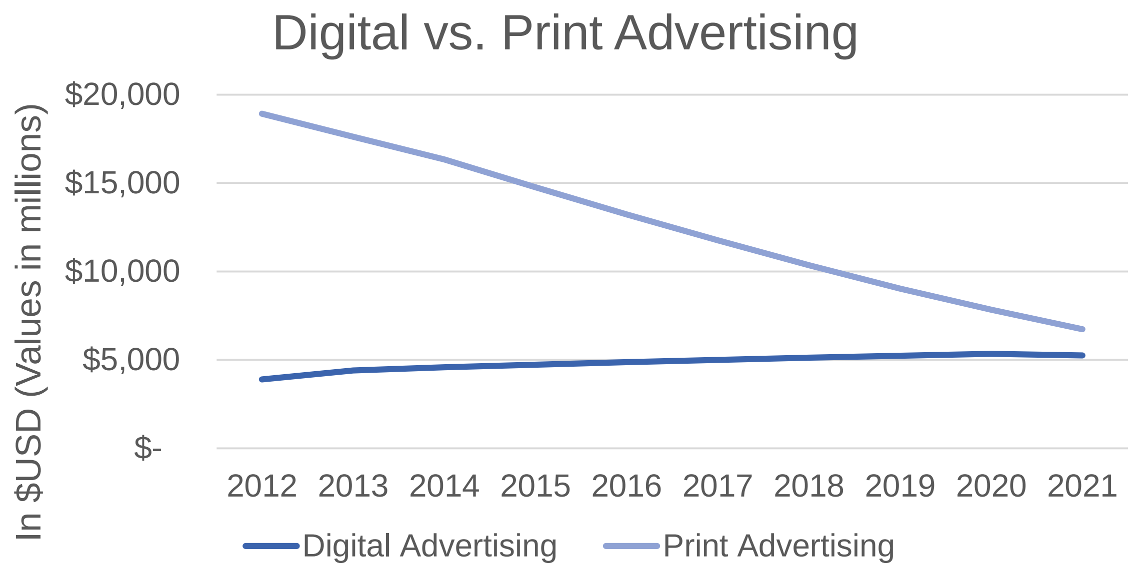
Digital vs Print Performance

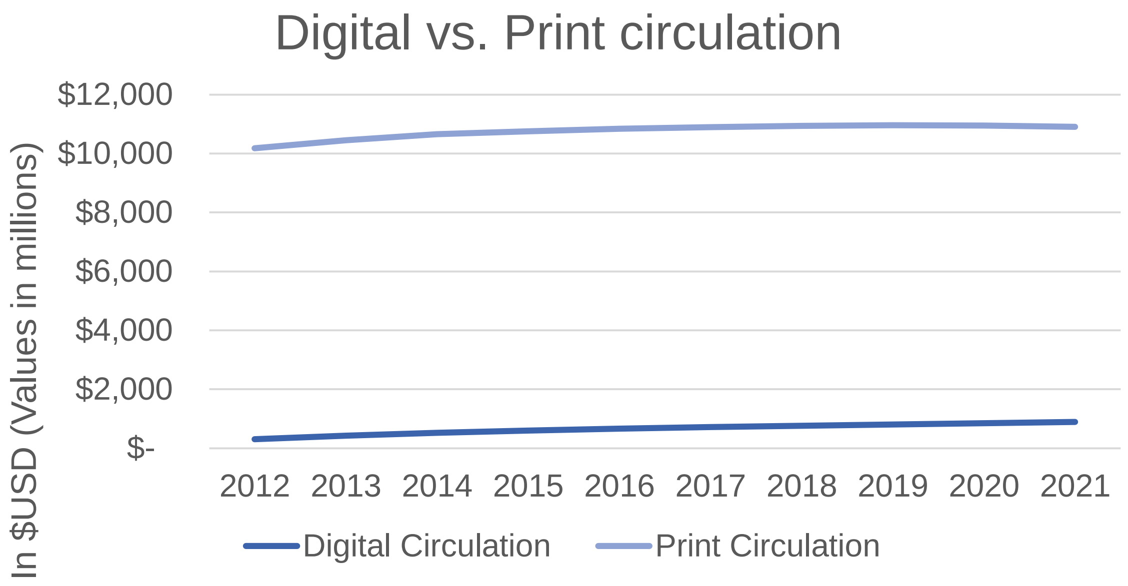
Digital vs Print Performance

- Print advertising expenditure is expected to heavily decline over the coming years
- Digital advertising expenditure is expected to increase at a steady pace over the coming years

Digital vs Print Circulation

- Both digital and print circulation are expected to stagnate over the next five years





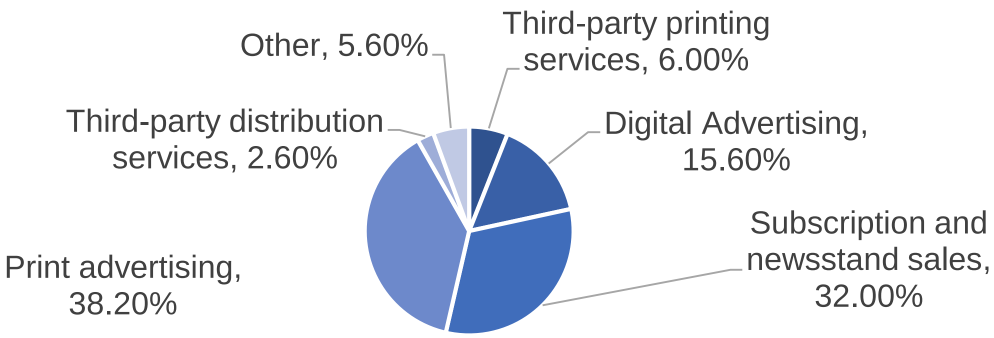
Industry Outlook

Industry Economic Value Added

- Industry value added annual decline of 5.3%
- Economy expected to grow 2.1% annually during same period

New Forms of Media

Products and services segmentation



Total $23.6bn

IV. Deliverable I

Income Statement

USD in thousands	2014	2015	2016	2017P	2018P	2019P	2020P	2021P
News print subscription	301,600	261,950	259,428	238,027	229,498	223,990	219,951	216,774
Digital only subscription	72,800	111,540	97,500	140,400	177,594	207,715	233,613	256,638
Circulation	**374,400**	**373,490**	**356,928**	**378,427**	**407,091**	**431,705**	**453,564**	**473,412**
Growth		*-0.2%*	*-4.4%*	*6.0%*	*7.6%*	*6.0%*	*5.1%*	*4.4%*
Print Advertising	360,000	297,500	275,000	240,240	209,874	183,346	160,171	139,925
Digital Advertising	120,000	127,500	165,000	168,597	172,272	176,028	179,865	183,786
Advertising	**510,000**	**450,000**	**460,000**	**423,837**	**397,146**	**374,374**	**355,036**	**338,712**
Growth		*-11.8%*	*2.2%*	*-7.9%*	*-6.3%*	*-5.7%*	*-5.2%*	*-4.6%*
Total revenues	**884,400**	**823,490**	**816,928**	**802,264**	**804,237**	**806,078**	**808,600**	**812,124**
Production Costs	399,805	373,367	372,143	364,900	365,853	366,902	368,197	369,816
Selling, general and administrative	424,512	395,275	396,210	394,884	395,106	395,696	396,466	397,343
Total Costs	**824,317**	**768,642**	**768,353**	**759,783**	**760,960**	**762,597**	**764,663**	**767,159**
Growth		*-6.8%*	*0.0%*	*-1.1%*	*0.2%*	*0.2%*	*0.3%*	*0.3%*
EBITDA Margin	*6.79%*	*6.66%*	*5.95%*	*5.30%*	*5.38%*	*5.39%*	*5.43%*	*5.54%*
EBIT Margin	*4.79%*	*4.66%*	*3.95%*	*3.30%*	*3.38%*	*3.39%*	*3.43%*	*3.54%*
Net Income Margain	*2.20%*	*2.07%*	*1.72%*	*1.32%*	*1.47%*	*1.48%*	*1.50%*	*1.57%*

Digital subscriber growth outpaces print subscriber decline, with flat pricing

Small digital advertising growth is unable to keep up with print advertising decline, counteracting the growth in circulation revenue to keep total revenues flat

With a relatively fixed cost structure and limited SG&A growth, TCO is able to keep costs flat

WACC Calculation

WACC

Equity	
Weight of Equity	8.9%
Risk-Free Rate	3.5%
Equity Risk Premium	5.5%
Beta	3.393
Cost of Equity	**22.2%**
Debt	
Weight of Debt	91.1%
Pre-Tax Cost of Debt	8.4%
Tax Rate	40.0%
Post-Tax Cost of Debt	**5.0%**
Weighted Average Cost of Capital	**6.6%**

Beta Calculation

Company	**Beta Levered**	**Debt/Equity (2016)**	**Beta Unlevered**	**S&P Rating**
The New York Times Company	1.261	1.589	0.646	NR
Gannett Co., Inc.	1.077	2.320	0.450	NR
Tronc, Inc.	1.602	7.237	0.300	B
The McClatchy Company	1.967	15.126	0.195	B-
News Corporation	1.376	0.309	1.161	NR
Time Inc	1.248	1.990	0.569	B
TCO Co.	**3.393**	**10.218**	**0.553**	**BB**

Key Considerations – Cost of Equity

- To calculate the cost of equity for TCO, we used Hamada's equation to un-lever the betas of comparable companies to arrive at an unlevered beta for TCO. This unlevered beta is then re-levered according to TCO's capital structure. This beta is then used in the capital asset pricing model to arrive at a cost of equity.
- The risk-free rate of 3.5% and equity risk premium of 5.5% were sourced from Duff and Phelps' recommendations for base U.S. cost of equity capital as of June 30, 2017.

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Key Considerations – Cost of Debt

- The S&P credit rating was used to determine a cost of debt for TCO Co. The corporate bond yield for a BB rated company was approximately 8.4%.
- Debt financing has tax advantages on the interest that it bears, so the cost of debt should only be considered after accounting for taxes.

Discounted Cash Flow – Perpetuity Growth

(USD In thousands)	2017P	2018P	2019P	2020P	2021P
Operating Income	**26,435**	**27,193**	**27,359**	**27,765**	**28,722**
Less: Taxes	(10,574)	(10,877)	(10,944)	(11,106)	(11,489)
Plus: Depreciation & Amortization	16,045	16,085	16,122	16,172	16,243
Plus: Stock-based compensation	7,855	7,553	7,263	6,984	6,715
Less: Increase in Working Capital	(8,467)	(9,369)	15,822	(9,142)	(9,448)
Less: Capital Expenditures	16,045	16,085	16,122	16,172	16,243
Free Cash Flow	47,340	46,670	71,744	46,844	46,985
Weighted Average Cost of Capital	**6.6%**				
Discounted Cash Flows	44,429	41,106	59,305	36,342	34,210
Discounted Near-Term Value $215,392					

Perpetuity Growth Model

2021 Free Cash Flow	46,985
Terminal Growth Rate	0.00%
WACC	6.55%
Terminal Value	717,074
Discounted Terminal Value	522,094
Enterprise Value	**737,486**

Perpetuity Growth Sensitivity

Terminal Growth Rate \ WACC	6.05%	6.30%	6.55%	6.80%	7.05%
-2.00%	641,813	624,129	607,544	591,965	577,307
-1.00%	707,267	684,862	664,016	644,579	626,417
0.00%	794,358	764,876	737,732	712,667	689,459
1.00%	915,941	875,084	838,012	804,235	773,341
2.00%	1,097,565	1,036,551	982,371	933,955	890,444

Discounted Cash Flow – Exit Multiple

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Exit Multiple Method

2021 Free Cash Flow	46,985
EV/EBITDA Exit Multiple	6.07
WACC	6.55%
Terminal Value	285,201
Discounted Terminal Value	207,652
Enterprise Value	**423,043**

Exit Multiple Sensitivity

EV/EBITDA Exit Multiple \ WACC	6.05%	6.30%	6.55%	6.80%	7.05%
4.07	357,954	356,285	354,640	353,018	351,418
5.07	392,981	390,903	388,853	386,832	384,840
6.07	428,009	425,520	423,066	420,647	418,262
7.07	463,036	460,138	457,280	454,462	451,683
8.07	498,063	494,755	491,493	488,277	485,105

Comparable Universe Selection Rationale

Industry

- The Comparable Companies Universe was screened on the basis of industry positioning, service offerings, and collection of regional and national newspapers.

Financial Profile

- The Comparable Universe was selected based on financial data and ratios to ensure that companies had similar sizes and valuation multiples, however this proved to be difficult as due to consolidation and spin-offs, several companies were significantly larger than other more regional focused papers.

Geography

- The Comparable Set consists of companies that have both regional, and national business operations to ensure that their regional impacts reflects on the circulation and regional impact that TCO brings to the greater Los Angeles area.

Comparable Company Analysis

Company	Enterprise Value	Revenue	EBITDA	EBITDA Margin	EV/ Revenue	EV/ EBITDA
The New York Times Company	2523.10	*1609.10*	243.20	15.11%	1.57x	10.37x
Gannett Co., Inc.	1342.70	*3187.30*	352.40	11.06%	.42x	3.81x
Tronc, Inc.	693.00	*1539.60*	153.30	6.89%	.45x	4.52x
The McClatchy Company	894.10	*921.10*	150.30	-13.60%	.97x	5.95x
News Corporation	6639.20	*8139.00*	1007.00	2.01%	.82x	6.59x
Time Inc.	2177.40	*2947.00*	393.00	4.52%	.74x	5.54x
Average	2378.25	3057.18	383.20	4.33%	.8x	6.1x
Median	1760.05	2278.05	297.80	5.71%	.8x	5.7x
High	6639.20	8139.00	1007.00	15.11%	1.6x	10.4x
Low	693.00	921.10	150.30	-13.60%	.4x	3.8x

Expected Multiple Range	EV/ EBIDTA
High	10.4x
Low	3.8x

Expected Valuation Range	Implied EV
High	$503.72
Low	$185.07

Precedent Transactions Selection Rationale

Industry

- Transactions were screened to find companies in the publishing industry with an emphasis on subscription and advertisement based revenue streams
- Magazine publishers were screened as well for their similarity in business models

Financial Profile

- Companies were selected based on financial statistics with an emphasis on financial ratios to ensure business operations were similar to TCO Co.
- Company growth rates were also evaluated to bench mark companies to the industry life cycle

Geography

- Transactions were screened domestically with a primary focus on both national and regional business operations

Time

- The majority of our transactions took place after 2013 to account for different market conditions over time, however due to the limited amount of large M&A activity in the industry, we included a transaction from 2009 that we felt had relevance

Precedent Transaction Analysis

Announced Date	Target	*Buyer*	Seller	Percent Sought	Target EV(mm)	Size(mm)	EV/Revenue	EV/ EBITDA
Aug-15-2016	Time Inc.	*JANA Partners LLC*	-	4.90%	*2,165.90*	62.00	*.70x*	6.20x
Feb-04-2015	News Corporation	-	Kingdom Holdings Company	1.39%	*6,734.90*	187.90	*.90x*	9.70x
★ ***Aug-05-2013***	Six Publishing Subsidiaries of The Washington Post Company	*Nash Holdings LLC*	Graham Holdings Company	100.00%	*241.50*	250.00	*.39x*	-
Sep-17-2009	The New York Times Company	-	Harbinger Capital Partners LLC, Harbinger Capital Partners Master Fund I, Ltd.	3.46%	*2,808.60*	41.30	*.80x*	5.90x

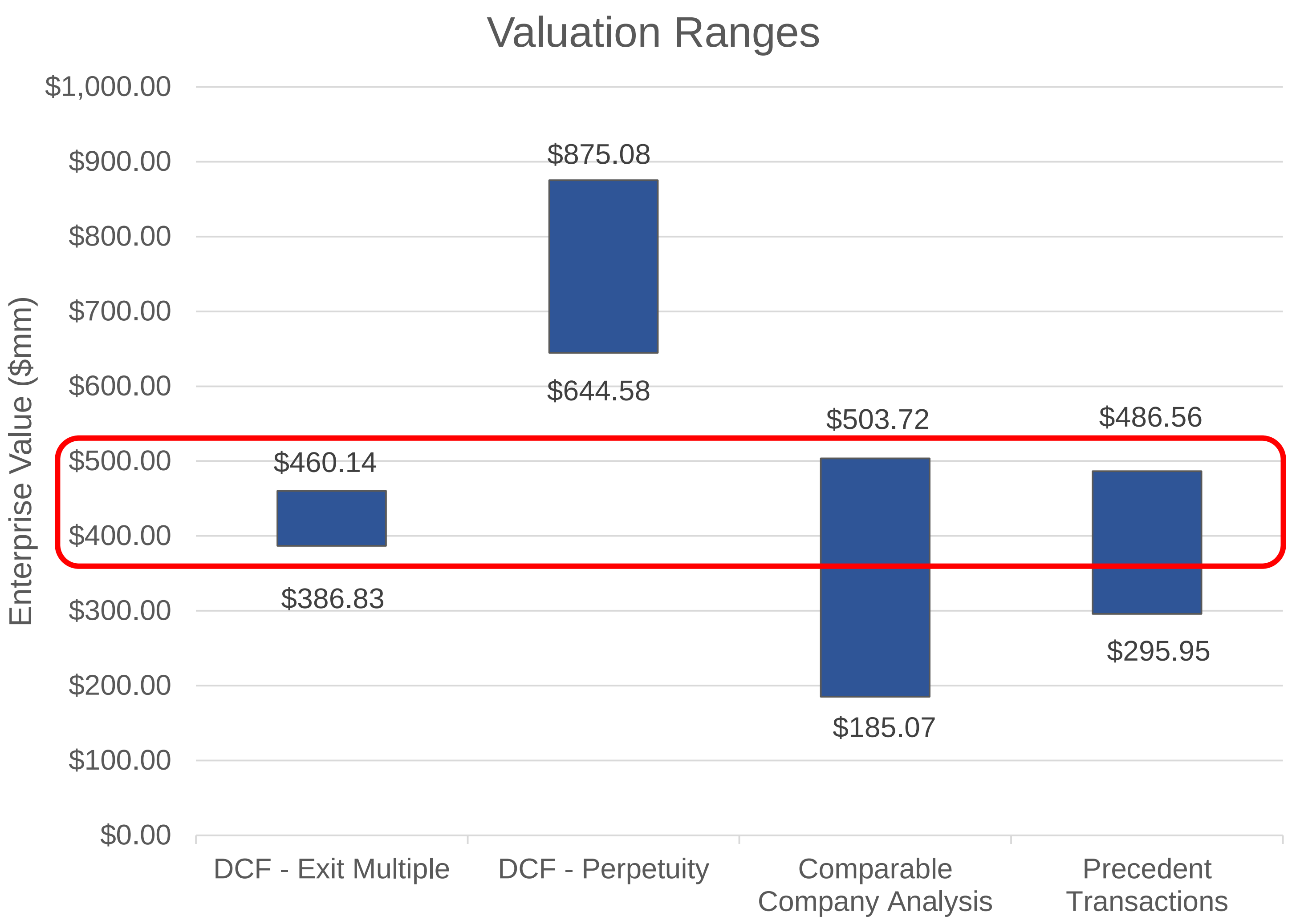
Expected Multiple Range	EV/EBITDA
High	9.7
Low	5.9

Expected Valuation Range	Implied EV
High	$486.56
Low	$295.95

Valuation Range:
$295.95M - $486.562M

★ Subsidiaries were the newspaper division of then Washington Post Company included, WP Company LLC and Express Publications Company, LLC and El Tiempo Latino, LLC and Robinson Terminal Warehouse, LLC and Greater Washington Publishing, LLC and Post-Newsweek Media, LLC in their sale to Nash Holdings LLC. Sale was included for division’s similarity in revenue and circulation figures

Valuation Football Range



Suggested Valuation Range: $364.11 to $538.93mm

Note on Perpetuity Growth Valuation: The difference in valuation ranges between methods can be attributed to the flat 0% perpetuity growth rate, which may be unlikely for a company in this industry.

V. Deliverable II

Types of Synergies

Operating Synergies

Definition: Synergies that allow firms to increase their operating income from existing assets

Sources of Operating Synergies	TCO Application
Economies of Scale • Combined firms achieve cost efficiency's and profit increases	• Merger with larger newspaper printer and distributor, or media conglomerate
Expansion Into New or Existing Markets • Occurs when acquired company resides in different market than firm	• Expansion into digital marketplace or different regions
Combination of Different Functional Strengths • Digital presence, high circulation, journalistic excellence	• A well renowned media conglomerate or newspaper publisher has a more digital presence, or higher circulation
Greater Pricing Power • Reduced competition and higher market share	• TCO merges with a media company reducing competition and increasing market share

Types of Synergies

Financial Synergies

Definition: Synergies with the underlying basis of increasing cash flows, or lowering the cost of capital

Sources of Operating Synergies	TCO Application
Financial Effects • Synergies can reduce costs, increase sales and profit margins, and future growth.	• A company with large balance sheet and large source of funds can develop TCO better for the technological age
Increase in Debt Capacity • Combination of two firms can make earnings, and cash flows more stable and predictable	• Merger of equal or similar company creates a higher debt capacity for both companies, and stabilizes cash flows and earnings
Tax Benefits • Taking advantage of tax laws to write up a target company's assets or net operating losses to shelter income	• TCO is acquired by a foreign company with a lower income tax than TCO currently faces

Financial Buyer Universe

Potential Financial Buyers with Relevant Media Exposure

Financial Buyers Selection Rationale

The following variables were considered when screening for potential financial buyers:

1. **Size of buyers:** All TCO valuations implied a relatively low enterprise value, because of this the Private Equity firms we chose will need to have a moderate amount of assets under management for leverage
2. **Relevant Interest:** The buyers selected all have at least one, if not several companies with media or telecom exposure
3. **Track Record:** All of the private equity firms selected have a strong track record, and an exceptional management team

LBO Candidate Characteristics

Characteristic	Analysis	TCO
Strong Cash Flow Generation • Companies ability to pay down debt and make interest payments	• Extremely weak cash flow generation, cash flows to enterprise value are approximately 2% annually	
Leading and Defensible Market position • Predicts strong cash flow generation	• 4th most circulate newspaper in greater Los Angeles area	✓
Growth Opportunities • Increases EBITDA multiple and Enterprise Value	• Extremely saturated mature market, leading to consolidation	
Low Cap-Ex Requirements • Enhances cash flow generation	• Capital expenditures is approximately 2% of revenue	✓
Strong Asset Base • Benefits lenders by increasing likelihood of principal recovery and dictates bank debt available for LBO	• Assets are financed 91% through debt	
Efficiency Enhancement Opportunities • Cost savings and reductions that can be achieved to increase revenues	• Low bargaining power of suppliers	

Source: *Investment Banking by Rosenbaum and Pearl*

Strategic Buyer Universe

Relevant Strategic Buyers

Strategic Buyers Selection Rationale

The following variables were considered when screening for potential strategic buyers:

1. **Potential Synergies –** The strategic buyer should be in a position where both TCO and the acquiring company will mutually benefit. This company should have a large exposure within the media industry and have multiple media channels and outlets
2. **Financial Capacity –** Based on the valuations for TCO, the acquiring company should have significant amounts of cash on hand
3. **Pre-Disposition to Acquiring Companies –** The ideal strategic buyer should have a strong pre-disposition to acquiring other media companies or the desire to further expand into this industry

Strategic Buyer Characteristics

History of Acquisitions

- Desire for company to continue consolidation of competition and rivals
    - Expansion into untapped markets
    - Horizontal diversification from companies not in the industry

Strategy Compatibility

- Interest in journalistic excellence
- Desired access to greater Los Angeles market
- Newspaper print and publishing experience

Acquisition Capabilities

- Large cash balance and low debt preferred
    - Can raise cash through debt or equity issuance if necessary
- Cash sales preferred to stock sales due to liquidity

Synergies

- Synergies equate to higher premiums
- Acquirers characteristics to achieve maximum synergies with TCO
    - Desire to tap into greater Los Angeles market
    - Cash to invest in TCO
    - Competency in newspaper publishing, printing and social media

Considerations for Seller

Strategic Buyers

- A strategic buyer is a buyer that has a specific methodology behind acquiring TCO Co. These buyers are most likely in the same industry, or a related industry. Their main purpose for these mergers and acquisitions are for vertical and horizontal expansion, to eliminate competition or to enhance their own weaknesses.
- A strategic buyer will finance the transaction mainly with cash or cash and equity, but will likely not buy 100% of TCO Co. Because of this, TCO Co. executive should be aware that management will still mainly be in control of the business
- Strategic buyers are focused on the synergies and potential cost savings on this merger or acquisition. They are willing to pay higher premiums, because of the realized synergies and cost savings which can cause greater value for the buyer.

Financial Buyers

- A financial buyer is most likely a Private Equity Company. These firms generally focus on the return of equity that can be achieved from the acquired company. They are extremely focused on the target companies ability to generate positive recurring cash flows, profits, and earnings growth.
- Financial buyers will usually leverage their transactions with debt, and may leverage it up to 80%.
- However, financial buyers are usually not willing to pay for the potential earnings growth from a company, and usually do not pay a premium. They will also purchase the entire company. Because of this, TCO Co. management should be aware that they may have to relinquish control of the company.

Source: *Investment Banking by Rosenbaum and Pearl;* Mercer Capital

Considerations for Potential Buyers

Strategic Buyers

- The strategic buyer should reflect on if the target company satisfies the positioning of the buyer. Following are a few key areas to rationalize a strategic purchase:

1. The Strategic buyer's evaluation of a target company will heavily rely on the synergies and integration capabilities. Key questions that strategic buyers usually ask are:
    - Does TCO Co. have a similar regional or national impact as my current paper?
    - Are there possibilities of penetration into new markets?
    - Is there a possibility for economies of scale?
    - Does TCO Co. have the competitive advantage, intellectual property or journalistic excellence that benefits the company's strategic plan?
2. The ideal strategic buyer has a long-term time horizon, and they are looking to realize synergies through revenue and cost savings, which leads to an increased valuation for TCO Co.

Financial Buyers

- Due to the nature of private equity investing, a financial buyer must focus on the IRR that the transaction will provide. With investors takin on high risks and often leveraging with large amounts of debt, the private equity firm seeks high returns.
- When financial buyers are analyzing potential investment opportunities, they deem a buyout candidate to have:
    - Strong cash flow generation
    - Strong earnings growth
    - Leading and defensible market positions
    - Growth opportunities
    - A strong asset base
    - A strong management and executive team
- Financial buyers should also take into consideration potential exit strategies for their target company after their holding period. The main potential exit opportunities are IPO's

Recommendation: Sale to Strategic Buyer

Operating Synergies

- TCO Co's. high level of circulation and journalistic excellence is attractive to many potential strategic buyers
  - Synergy opportunities exist with both newspaper publishers and distributors, as well as media companies

Financial Synergies

- News coverage sourcing costs can be reduced if acquiring company has media exposure

Good Strategic Candidate

- Strong journalistic excellence
- 4^{th} most circulated newspaper in Los Angeles
- Excellent news sourcing coverage of Los Angeles region
- Strong local presence in Los Angeles

Poor LBO Candidate

- Extremely weak cash flow generation and lack of growth opportunities
  - Unlikelihood of expansion or increase of cash flows
- Small and weak asset base
  - Limited ability to add leverage due to current high level of leverage

Facebook Company Profile

The following reasons illustrate why Facebook is a strong Strategic Buyer:

1. **Strong digital media presence –** As of Q3 2017 Facebook has approximately 1.36 billion daily active users worldwide, with 185 million coming from the United States and Canada.
2. **Significant cash on hand –** Facebook has over $11 billion dollars in cash and cash equivalents, allowing for them to complete this purchase strictly with cash if they so desire.
3. **Strong management –** Facebooks management team has expertly navigated the changing digital media landscape to stay at the forefront of social media, and claim the market leader position.
4. **Strong content promotion –** Facebook has an excellent ability to push content to its users, allowing for Facebook to easily circulate their own original content and news stories .

Source: Facebook.com; Nasdaq.com; Facebook investor relations

Facebook Synergies with TCO

Operating Synergies

- **Economics of Scale**
  - Facebooks expansion into original news sources will be significantly cheaper and less expensive, allowing for more profitability
- **Expansion Into New Markets**
  - Facebook has a large user base, and has excellent circulation of content within their platform, however they distinctly lack in original content with TCO can source
- **Combination of Functional Strengths**
  - Facebook and TCO will both complement each other, as TCO severely lacks in an online presence, which Facebook excels in. Facebook lacks original news content, which TCO can source and provide to Facebook, allowing for Facebook to push original content to users

Financial Synergies

- **Increase in Debt Capacity**
  - Facebook purchasing TCO may help to stabilize the Company's net cash flows and earnings predictability, as circulation and revenues will be less unpredictable
- **Financial Effects**
  - Facebook will be able to source original content at a low price due to the acquiring of TCO, synergies will also reduce costs, leading to increase profits

Comcast Company Profile

The following reasons illustrate why Comcast is a strong Strategic Buyer:

1. **Strong news background and distribution outlets –** Comcast has multiple distribution channels and outlets with their Xfinity cable services and their NBC and Telemundo news companies. Telemundo would be critical in helping the LA Tribune expand further into Los Angeles and California amongst Spanish speakers.
2. **Significant cash on hand –** Comcast has over $3 billion in cash and cash equivalents allowing for them to finance this deal strictly with cash if they so desire.
3. **Strong management –** Comcast has recently been acquiring companies since 2009 to expand their entertainment and news presence by acquiring companies such as NBCUniversal, and Time Warner. Comcast's Management team has done an excellent job navigate the ever-changing entertainment industry to remain as a market leader for providing content in all forms.

Source: Nasdaq.com; Comcast investor relations

Comcast Synergies with TCO

Operating Synergies

- **Greater Pricing Power**
  - Acquiring TCO will reduce the competition NBC and Comcast currently face in the Los Angeles region
- **Expansion Into New Markets**
  - TCO can expand into Hispanic markets with Telemundo, as well as expand further across the United States with NBC
- **Economics of Scale**
  - Strong cost savings and profitability can be achieve from this vertical merger as both Telemundo and NBCUniversal can benefit from the TCO as they will have direct access to news coverage sourcing in the Los Angeles region

Financial Synergies

- **Increase in Debt Capacity**
  - Comcast purchasing TCO will stabilize their net cash flows and earnings predictability, as circulation and revenues will be less unpredictable as all of their content will be sold directly through Comcast
- **Financial Effects**
  - TCO will be able to further expand in the predominately Spanish speaking regions of California through Telemundo allowing for increased exposure for the LA Tribune and increasing sales and circulation, leading to increased revenues

VI. Deliverable III

Background and Situation

Background

- 62% of adults in the United States get their news from social media and the internet
- Google and Facebook have made profit by providing free access to content from news media, while avoiding the expense of sourcing their own original content
- Google has a “first click free” policy, which requires news publishers to offer at least three free articles a day before readers come across a pay wall

Situation

- U.S. Courts have recently ruled that Google and Facebook are infringing on the intellectual property rights of the news publishers by not fairly compensating them for their content
- TCO is contemplating a lawsuit against Google and Facebook for damages related to the loss of subscription revenue due to the republication of their content

Source: Deal Book

Analyzing Situation

General Methodology

1. Estimate Lost Revenues
   1. Advertising
   2. Potential Subscriptions
2. Calculate cost estimates for realizing lost revenue (marginal cost of revenue)

Internal Site Traffic			
Year	Monthly Avg. Page Views	Monthly Avg. Unique Viewers	Avg. Page Views Per Viewer
2014	100.2mm	40.2mm	2.49
2015	150.3mm	41.2mm	3.65
2016	175.0mm	45.0mm	3.89

Lost Advertising Revenue Background

Lost Subscription Revenue Background

- “First Click Free” allows three free articles per user before hitting a paywall.
- In 2015, the first year that average page views per viewer exceeded the free article cap, digital subscriptions exploded 63%

Calculating Damages

Lost Advertising Revenue Methodology

- Assume TCO captures the other 40% of total digital advertising market for TCO not claimed by Google/Facebook
- Assume 50% of digital revenue lost to Google/Facebook (60% of total dig. ad rev.) would have been capturable by TCO
- Assume cost of digital advertising is the cost of web maintenance as a proportion of digital advertising (web maintenance attributed here, not in sub. rev.)

Lost Advertising Revenue Calculation (‘000s)			
	2014	2015	2016
TCO Dig. Ad Rev.	120,000	127,500	165,000
Total Dig. Ad Rev.	300,000	318,750	412,500
Lost Dig. Ad Rev.	90,000	95,625	123,750
Cost of Lost Rev.	15,897	16,590	24,496
Lost EBITDA	**74,103**	**79,035**	**99,254**

Lost Subscription Revenue Methodology

- In 2015, when average page views per viewer (3.65) exceeded the “First Click Free” article cap (3), digital subscriptions expanded 250,000 subscribers
- Assume that these subscribers would have subscribed earlier had they not benefitted from “First Click Free”. These subscribers would have paid the digital subscription fee of $3.50/week in 2014. For the year, this totals **lost subscription revenue at $45.5 million**
- Assume that cost of these subscribers is the percentage of circulation-related costs attributable to digital circulation multiplied by the lost subscription revenue, putting the **cost at $30.2 million.**
- This results in a **net lost subscription operating profit of $15.3 million.**

Total Estimated Lost Operating Profit from 2014-2016, from advertising and subscriptions:

$267.727 million

Source: Deal Book

Summary

Deliverable I

TCO Co. should be sold at an Enterprise Value in the range of $364.11 to $538.93mm.

Deliverable II

TCO Co. would be a poor candidate for a leveraged buyout by a financial buyer, so we recommend a strategic buyer such as Facebook or Comcast.

Deliverable III

TCO Co. suffered estimated damages of $267.727 million in lost revenue from 2014 to 2016 due to the “First Click Free” policies of Google and Facebook.

Q & A