



# HILCO

## Enterprise Valuation Services

# Perspective

June 2007

## ■ Media Industry<sup>1</sup>

### Industry Overview

Book, newspaper, magazine, and other periodical publishers provide their products and services in print, audio, and/or electronic form. Firms generally compete to maximize circulation and readership to generate income from publication sales and to attract advertisers. Television and radio broadcasters (“broadcasters”) operate broadcasting studios and facilities for the transmission of programming to the public, affiliates, and/or to subscribers. The programs might include entertainment, news, talk shows, business data, and/or religious services. Music publishers might own the copyright or act as administrators of the music copyrights on behalf of copyright owners. Music publishers represent the interests of the songwriter or other owners of musical compositions to produce revenue from the use of such works, generally through licensing agreements. Establishments in this industry carry out design, editing, and marketing activities necessary for producing and distributing their products and services.

### Sources of Revenue

Advertising is the number one source of revenue for broadcasters, newspaper publishers, and periodical publishers, accounting for approximately 93.0%, 66.9%, and 31.8% of total industry revenue, respectively. Music publishers acquire copyrights (or shares of copyrights) in musical compositions, or enter into agreements to administer copyrights (or shares of copyrights), and exploit the compositions by licensing them for inclusion on records, film, television and other media, seeking new uses for the compositions, and administering and collecting the proceeds generated. In return for providing these services, firms are entitled to a percentage of the royalty income, which varies from contract to contract.

### Key Factors Affecting the U.S. Media Market

The media industry is a volatile industry that is sensitive to the overall U.S. economy. Key factors affecting the U.S. media market include household spending, overall economic conditions that can affect advertising expenditures, fads and trends that can affect magazine circulation, costs of raw material prices, and changes in technology. Music publishers are dependent on the protection of intellectual property. Most participants derive their revenue from licensing fees. Every time a song is used or performed the copyright owner must grant permission and issue a license to collect a payment. The more airplay or usage the song receives the greater the income generated from the song. Key success factors in this industry include a recognizable and respected brand name, access to niche markets, a highly skilled workforce, competitive pricing and cost control, a quality product from material to delivery, and the ability to quickly respond to and/or adapt to new technology.

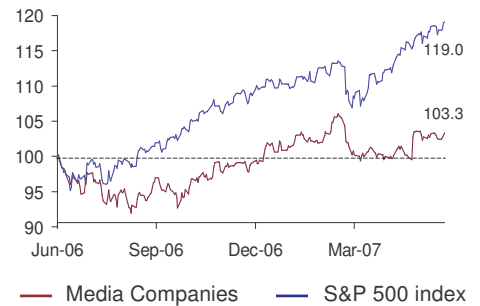
### Media Risk Factors

- The ability to protect copyrights and other intellectual property
- Competition from substitute products
- Changes in consumer spending
- Adverse changes in governmental regulations on content and distribution

## At a Glance

This industry is comprised of establishments primarily engaged in the broadcasting, production, and publishing of books, newspapers, periodicals, television and radio, and movies.

### Relative Stock Performance



### Media Companies – Comparison Data

(\$ in millions)

Number of Comparable Companies	26
Median Equity Market Value:	\$ 3,491.4
Median Enterprise Value:	\$ 4,894.8
Median Total Assets:	\$ 3,423.1
Median LTM Revenue:	\$ 1,954.1
Median LTM EBITDA:	\$ 382.4

**Hilco Enterprise Valuation Services, LLC** is a leading provider of reliable opinions for lenders, investment firms and corporations on the realizable value of going concerns, intangible assets and other specialized business assets.

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<sup>1</sup> Sources: CapitalIQ and IBISWorld Industry Reports



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Selected Market Statistics						
(\$ in millions, except stock prices)						
Company Name	Stock Price (6/8/2007)	Stock Price 52 Wk Low	Stock Price 52 Wk High	% of 52 Wk High	Equity Market Value	Enterprise Value <sup>1</sup>
<b>Broadcasting</b>						
Citadel Broadcasting Corporation (NYSE:CDL)	\$8.39	\$5.97	\$11.01	76.2%	\$940.8	\$1,677.6
Clear Channel Communications Inc. (NYSE:CCU)	36.33	27.17	38.57	99.4%	19,026.0	26,706.0
Sirius Satellite Radio Inc. (NasdaqNM:SIRI)	2.74	2.66	4.84	56.6%	4,006.4	4,804.0
XM Satellite Radio Holdings Inc. (NasdaqNM:XMSR)	10.61	9.63	17.70	59.9%	3,247.5	4,480.9
<b>Production</b>						
DreamWorks Animation SKG Inc. (NYSE:DWA)	\$28.85	\$20.05	\$31.58	91.3%	\$3,023.3	\$2,587.5
Marvel Entertainment Inc. (NYSE:MYL)	26.30	17.20	30.95	85.0%	2,243.2	2,262.5
Time Warner Inc. (NYSE:TWX)	20.74	15.70	23.15	89.6%	78,510.6	116,966.6
Walt Disney Co. (NYSE:DIS)	34.20	27.95	36.79	93.0%	67,771.7	79,406.7
<b>Publishing</b>						
Belo Corp. (NYSE:BLC)	\$21.99	\$14.93	\$22.94	95.9%	\$2,248.5	\$3,479.4
Courier Corp. (NasdaqNM:CRRC)	40.59	33.00	42.30	96.0%	508.6	531.6
Dow Jones & Co. Inc. (NYSE:DJ)	60.42	32.16	61.76	97.8%	5,062.6	5,551.0
EW Scripps Co. (NYSE:SSP)	45.63	40.86	53.39	85.5%	7,458.0	8,281.4
Gannett Co., Inc. (NYSE:GCI)	58.02	51.65	63.50	91.4%	13,815.5	18,476.3
Journal Communications Inc. (NYSE:JRN)	13.77	10.05	14.00	98.4%	938.9	1,038.4
Lee Enterprises Inc. (NYSE:LEE)	24.72	22.98	35.65	69.3%	1,138.4	2,608.0
McClatchy Co. (NYSE:MNI)	27.30	27.17	44.97	60.7%	2,239.3	4,985.5
Media General Inc. (NYSE:MEG)	35.78	33.80	44.16	81.0%	809.6	1,723.8
Meredith Corp. (NYSE:MDP)	62.65	45.04	63.41	98.8%	3,013.1	3,462.3
New York Times Co. (NYSE:NYT)	26.55	21.54	26.90	98.7%	3,820.9	5,164.5
News Corp. (NYSE:NWS.A)	22.00	18.18	25.40	86.7%	69,246.7	74,887.7
RH Donnelley Corp. (NYSE:RHD)	76.52	48.03	84.49	90.6%	5,433.0	15,557.7
Scholastic Corp. (NasdaqNM:SCHL)	36.26	24.99	37.30	97.2%	1,554.2	1,936.9
Sun-Times Media Group Inc. (NYSE:SVN)	5.49	3.82	8.35	65.7%	440.6	179.5
The McGraw-Hill Companies, Inc. (NYSE:MHP)	69.45	47.80	72.50	95.8%	23,835.2	24,013.1
Tribune Co. (NYSE:TRB)	31.58	28.59	34.28	92.1%	3,735.3	8,509.5
Washington Post Co. (NYSE:WPO)	765.00	690.00	796.00	96.1%	7,291.2	7,383.4

<sup>1</sup> Enterprise value = equity market value + net debt + preferred stock + minority interest

Selected Financial Statistics									
(\$ in millions)									
Company Name	LTM <sup>1</sup> Date	Total Assets	Cash & Equiv.	Book Value	Net Debt <sup>2</sup>	Revenue	EBITDA	EBIT	Net Inc. <sup>3</sup>
<b>Broadcasting</b>									
Citadel Broadcasting Corporation (NYSE:CDL)	Mar-31-2007	\$2,160.0	\$3.3	\$1,096.6	\$736.8	\$431.9	\$173.4	\$159.4	(\$50.8)
Clear Channel Communications Inc. (NYSE:CCU)	Mar-31-2007	18,686.3	107.6	8,128.7	7,317.1	7,185.7	2,365.5	1,734.3	696.9
Sirius Satellite Radio Inc. (NasdaqNM:SIRI)	Mar-31-2007	1,506.1	259.2	(421.9)	797.7	714.6	(460.5)	(568.1)	(791.1)
XM Satellite Radio Holdings Inc. (NasdaqNM:XMSR)	Mar-31-2007	1,943.2	319.4	(504.4)	1,173.9	989.6	(159.2)	(335.1)	(692.1)
<b>Production</b>									
DreamWorks Animation SKG Inc. (NYSE:DWA)	Mar-31-2007	\$1,302.9	\$558.9	\$1,022.0	(\$438.8)	\$428.5	\$143.8	\$136.4	\$18.2
Marvel Entertainment Inc. (NYSE:MYL)	Mar-31-2007	574.2	11.3	258.8	19.3	413.1	206.5	192.6	88.0
Time Warner Inc. (NYSE:TWX)	Mar-31-2007	130,210.0	1,041.0	60,048.0	34,000.0	45,170.0	12,078.0	8,199.0	6,292.0
Walt Disney Co. (NYSE:DIS)	Mar-31-2007	59,605.0	2,182.0	31,743.0	10,507.0	35,202.0	8,743.0	7,301.0	4,539.0
<b>Publishing</b>									
Belo Corp. (NYSE:BLC)	Mar-31-2007	\$3,587.4	\$52.5	\$1,530.3	\$1,230.9	\$1,570.6	\$405.3	\$308.6	\$128.7
Courier Corp. (NasdaqNM:CRRC)	Mar-31-2007	256.3	1.4	189.5	23.0	294.5	59.6	42.7	29.1
Dow Jones & Co. Inc. (NYSE:DJ)	Mar-31-2007	1,960.3	19.6	505.1	488.4	1,860.9	290.7	191.7	347.7
EW Scripps Co. (NYSE:SSP)	Mar-31-2007	4,294.3	22.3	2,602.9	722.6	2,509.8	848.4	724.2	346.6
Gannett Co., Inc. (NYSE:GCI)	Apr-1-2007	16,658.7	119.4	8,512.6	4,838.2	8,022.0	2,305.4	2,025.2	1,136.1
Journal Communications Inc. (NYSE:JRN)	Apr-1-2007	858.5	5.8	520.8	99.4	668.3	137.4	106.7	125.4
Lee Enterprises Inc. (NYSE:LEE)	Mar-31-2007	3,258.7	10.8	1,014.8	1,469.6	1,132.4	312.3	212.9	72.2
McClatchy Co. (NYSE:MNI)	Apr-1-2007	7,423.5	10.1	3,146.7	2,746.2	2,047.3	527.9	401.1	(174.3)
Media General Inc. (NYSE:MEG)	Apr-1-2007	2,498.7	14.9	921.8	914.1	996.1	218.0	143.5	65.9
Meredith Corp. (NYSE:MDP)	Mar-31-2007	2,107.5	50.8	776.9	449.2	1,638.0	359.4	286.2	159.4
New York Times Co. (NYSE:NYT)	Apr-1-2007	3,799.6	54.0	798.2	1,337.6	3,276.7	532.5	370.0	(652.0)
News Corp. (NYSE:NWS.A)	Mar-31-2007	61,614.0	7,246.0	32,238.0	5,228.0	28,070.0	6,243.0	5,311.0	3,388.0
RH Donnelley Corp. (NYSE:RHD)	Mar-31-2007	15,978.3	74.7	1,859.5	10,124.7	2,238.2	1,069.7	705.8	(150.0)
Scholastic Corp. (NasdaqNM:SCHL)	Feb-28-2007	1,952.4	29.4	1,089.2	382.7	2,168.4	190.3	125.1	58.9
Sun-Times Media Group Inc. (NYSE:SVN)	Mar-31-2007	929.3	268.0	(369.0)	(261.1)	407.6	(22.4)	(56.9)	(53.7)
The McGraw-Hill Companies, Inc. (NYSE:MHP)	Mar-31-2007	5,877.8	429.6	1,975.6	177.8	6,410.9	1,825.1	1,662.5	951.8
Tribune Co. (NYSE:TRB)	Apr-1-2007	13,183.9	182.1	4,304.4	4,774.1	5,462.8	1,409.4	1,178.4	467.9
Washington Post Co. (NYSE:WPO)	Apr-1-2007	5,459.2	292.3	3,172.9	80.4	3,942.3	652.1	434.0	312.0

<sup>1</sup> LTM = latest twelve months  
<sup>2</sup> Net debt = total debt less cash and cash equivalents  
<sup>3</sup> Net income excludes extraordinary items

## Demand Drivers

- Cover prices of periodicals and magazines affect circulation, which also affects demand for advertising. The price of advertising space, relative to other advertising media (e.g., newspapers and TV) also affects demand for advertising.
- The availability of low cost distribution channels (such as news stands) can increase exposure and demand.
- Advertisers tend to focus on age groups that are higher spenders and/or significantly influenced by fashion trends in their spending patterns. As a result, trends in size and age distribution of the population affect advertising demand.
- The accessibility of substitute products (e.g., household use of the Internet might reduce leisure time and can provide e-books).
- The level of promotion by both publishers and retailers increases consumer and advertiser awareness.
- The demand for music-based products depends on consumer preferences and tastes.
- Demographic trends including household disposable income, household activities and interests, age and gender composition of the population, overall population growth, the nature of commuter travel, and growth in school and higher education student numbers.



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Selected Operating Statistics									
	LTM						Total Debt /		
	Gross Margin	EBITDA Margin	EBIT Margin	Net Income Margin	Current Ratio <sup>1</sup>	Return on Assets <sup>2</sup>	Return on Equity <sup>3</sup>	LTM EBITDA	Total Cap
<b>Broadcasting</b>									
Mean	54.0%	-1.9%	-13.1%	-45.7%	1.3x	-5.3%	2.1%	3.7x	1.0x
Median	53.9%	8.4%	-4.9%	-40.8%	1.0x	-3.1%	2.1%	3.7x	0.9x
<b>Production</b>									
Mean	46.0%	33.8%	29.3%	13.1%	2.7x	9.8%	15.0%	1.4x	0.2x
Median	43.8%	30.2%	26.3%	13.4%	0.9x	7.3%	12.0%	1.1x	0.2x
<b>Publishing</b>									
Mean	52.8%	22.4%	16.5%	5.9%	1.5x	6.3%	9.6%	2.7x	0.4x
Median	52.7%	22.1%	18.1%	8.4%	1.3x	5.5%	10.6%	2.2x	0.4x

<sup>1</sup> Current ratio = current assets divided by current liabilities  
<sup>2</sup> Return on assets = EBIT (excluding extraordinary items) \* (1-taxes) divided by average total assets  
<sup>3</sup> Return on equity = net income (excluding extraordinary items) divided by average shareholder's equity

Selected Valuation Multiples						
	Enterprise Value / LTM			Equity Value / Book Value	Price / Earnings <sup>1</sup>	
	Revenue	EBITDA	EBIT		CY	CY +1
<b>Broadcasting</b>						
Mean	4.7x	10.5x	13.0x	-3.2x	27.5x	21.0x
Median	4.2x	10.5x	13.0x	-2.8x	27.5x	21.0x
<b>Production</b>						
Mean	4.1x	11.9x	14.0x	3.8x	55.6x	20.1x
Median	4.0x	10.3x	13.0x	2.5x	21.0x	20.6x
<b>Publishing</b>						
Mean	2.4x	10.2x	13.9x	2.9x	20.2x	21.3x
Median	2.2x	9.6x	12.4x	2.0x	17.8x	19.6x

<sup>1</sup>Price/ earnings = price per share divided by diluted EPS excluding extraordinary items  
 CY = calendar year

### Basis of Competition

- The majority of publishing industry participants rely on advertising revenue as a major source of revenue. As a result, companies compete against one another to attract and retain advertisers.
- Newspaper and periodical cover price and content is important to advertisers as it helps to identify the target market, understand the needs of readers, and provide appropriately tailored content.
- Subscription and single sales prices are important to advertisers as they indicate the potential market reach. In addition, advertisers might pay higher advertising rates to reach a selected audience.
- Magazines compete for advertising principally on the basis of price, target markets, circulation, readership, and flexibility.
- Periodicals might have Internet sites that complement the printed franchise, which might offer additional advertising opportunities.
- For broadcasters, the basis of competition depends on the broadcasting format (i.e., AM or FM, cable and/or satellite), market position, and target audience.

<sup>1</sup> Sources: CapitalIQ and IBISWorld Industry Reports



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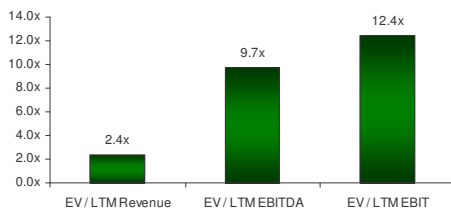
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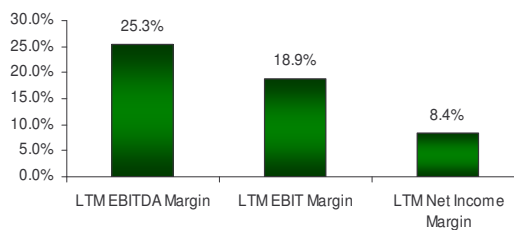
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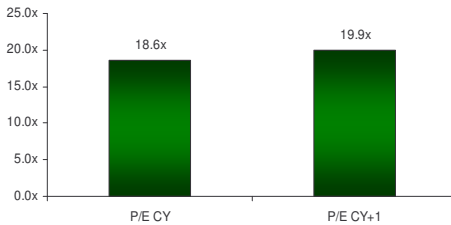
Enterprise Valuation Multiples



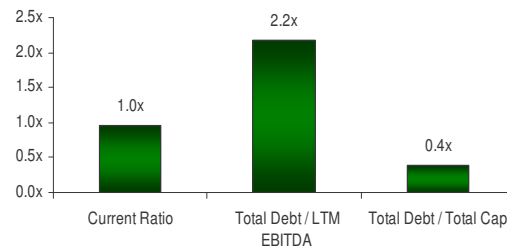
Financial Margins



Price to Earnings Multiples



Balance Sheet Statistics



#### Current Results

Newspaper publishers, periodical publishers, and broadcasters experienced a decline in industry revenue of approximately 2% to 3% per annum for the five years ending in 2006. This decline was primarily a result of competition from other digital media (e.g., the Internet), pressure on profit margins, and consolidation of major advertisers (the main source of newspaper and broadcasting revenue). Industry revenue for music publishers increased by approximately 2.25% per annum for the five years ended in 2006. Revenue growth was influenced by the performance of numerous economic variables, including real GDP, population, per capita disposable income, and final consumption expenditure.

#### Outlook

Industry analysts forecast industry revenue growth of approximately 1.6% to 1.8% through 2012 for newspaper publishers, periodical publishers, and broadcasters. This relatively low growth is expected to impact advertising expenditures as consumer spending decreases in a slower economic environment. Music publishing revenue is forecasted to increase by approximately 2.5% per annum through 2012. Industry growth is expected to be influenced by increases in the levels of intellectual property protection, in addition to downstream demand for legal digital downloads.

#### Barriers to Entry

- A copyright is important as it might lead to higher margins than what would otherwise be realized. Industry participants are dependent on the protection of intellectual property through copyright protection laws.
- There can be high costs in attracting high profile journalists, writers, distributors, and marketers, as well as in acquiring efficient printing and other equipment.
- Large companies often benefit from economies of scale, a factor that can inhibit the ability of smaller firms to grow.
- For broadcasters, obtaining licenses and abiding by government regulations on content might affect a company's ability to grow.
- For music producers, talented artists tend to prefer well-established and reputable companies.
- Having the resources, size, reputation, and potential to acquire suppliers and/or buyers helps firms to achieve greater margins and dominance among players. Firms able to record, produce, distribute, and publish music will more likely succeed in winning artists as they can perform all the steps needed in the recording industry.

## Hilco Enterprise Valuation Services, LLC

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<sup>1</sup> Sources: CapitalIQ and IBISWorld Industry Reports