



ProSiebenSat.1 Media AG

The power of television

Mergers and Acquisitions

Financial Statement Analysis & Valuation

Dr. Ralf Schremper – Member of the Executive Board ProSiebenSat.1 Media SE

LMU | May 31, 2016



Agenda

1	ProSiebenSat.1 Media SE at a Glance
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2	Global M&A Trends
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3	M&A Objectives & Process
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4	Enterprise Value, Equity Value, Purchase Price
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5	Transaction Documents (SPA & SHA)
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ProSiebenSat.1 business segments

1

Broadcasting German-speaking



Free-to-Air Television

Basic Pay TV

Distribution

2

Digital & Adjacent



Digital Entertainment

Digital Commerce

Ventures

Adjacent

3

Content Production & Global Sales



Format Development

TV Content Production

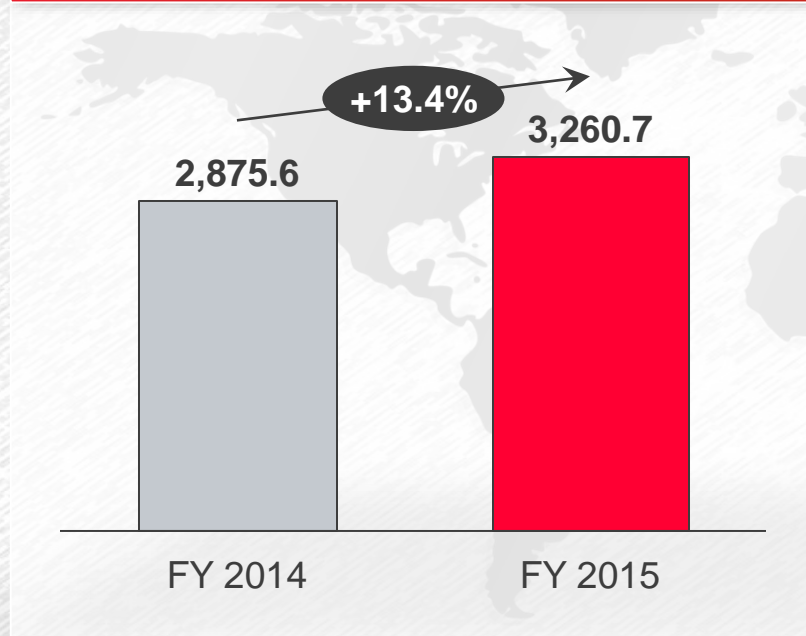
Digital Production

Global Sales

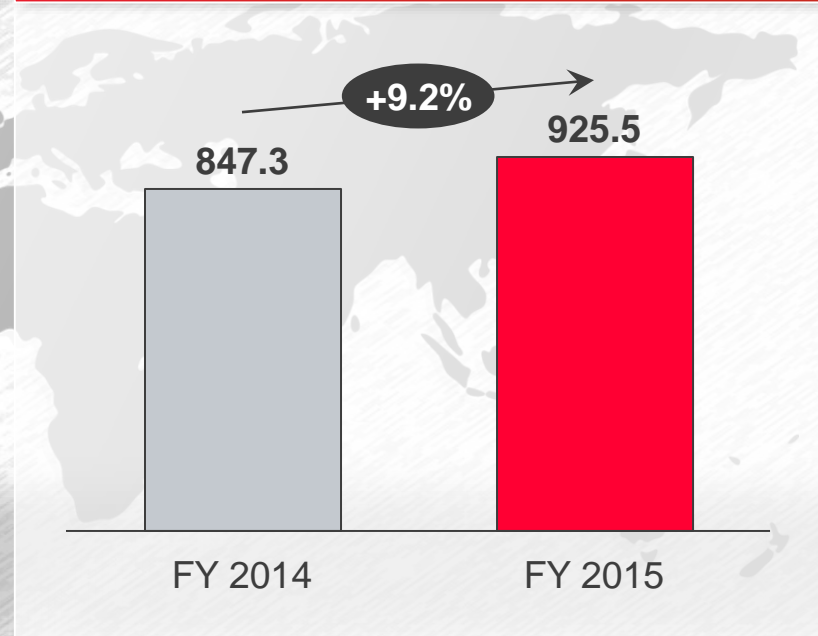
Key financials P7S1 Group in FY 2015 – Strong revenue and EBITDA growth



Consolidated revenues (in EUR m)



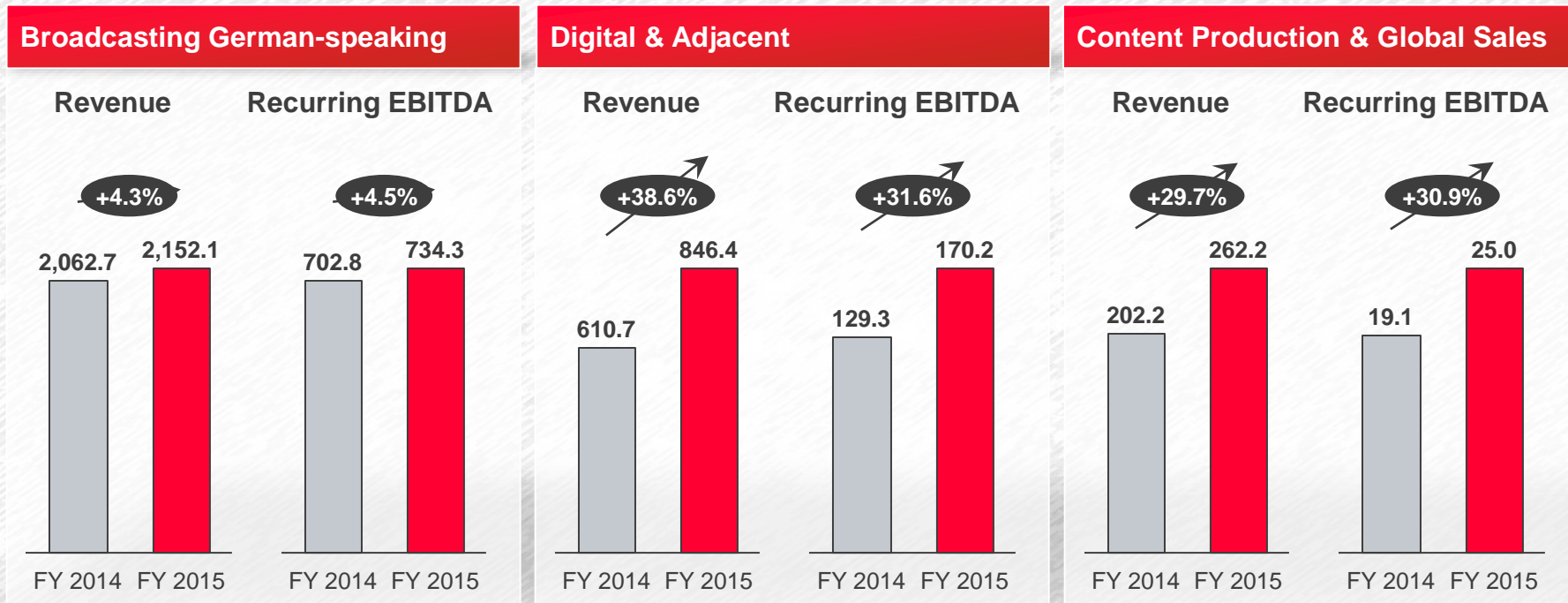
Recurring EBITDA (in EUR m)



Key financials P7S1 segments in FY 2015 – Strong revenue and EBITDA growth across all segments



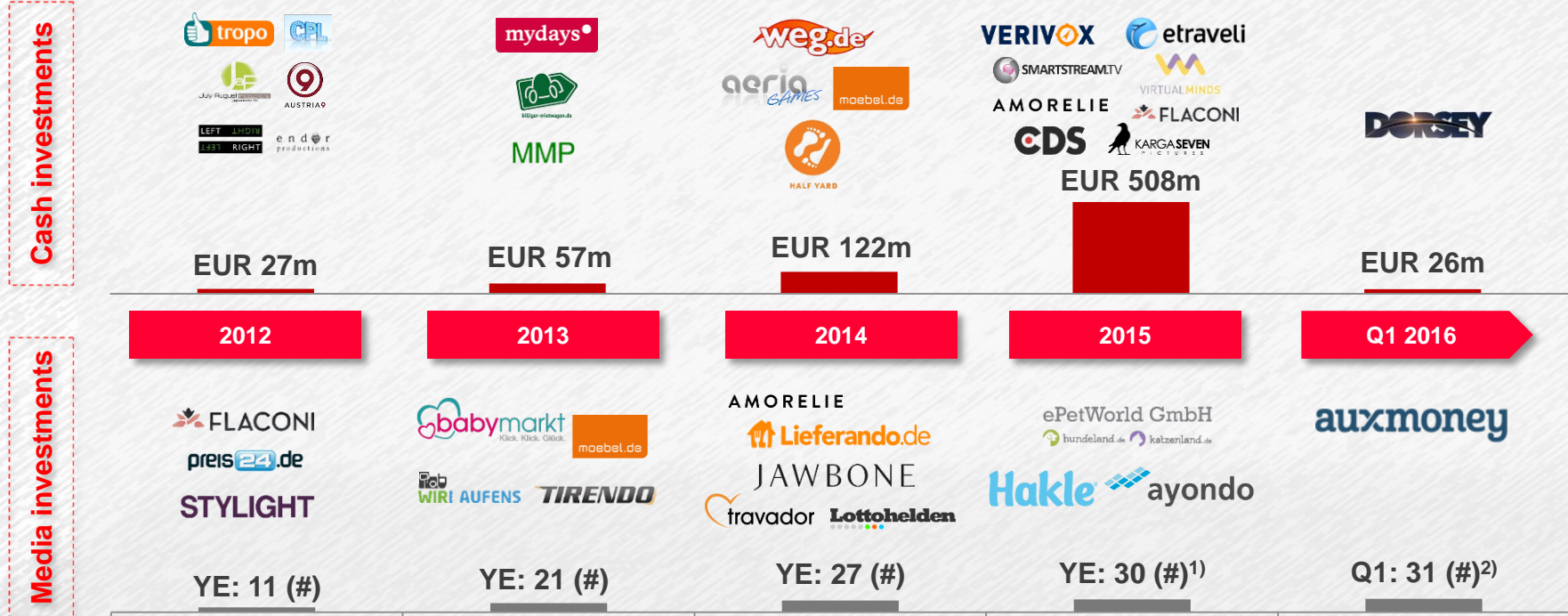
In EUR m





P7S1 benefits from a successful twofold M&A strategy

M&A activity 2012 - Q1 16

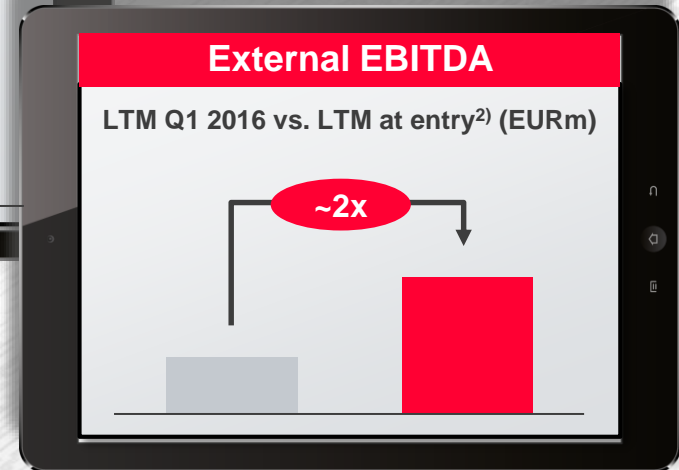
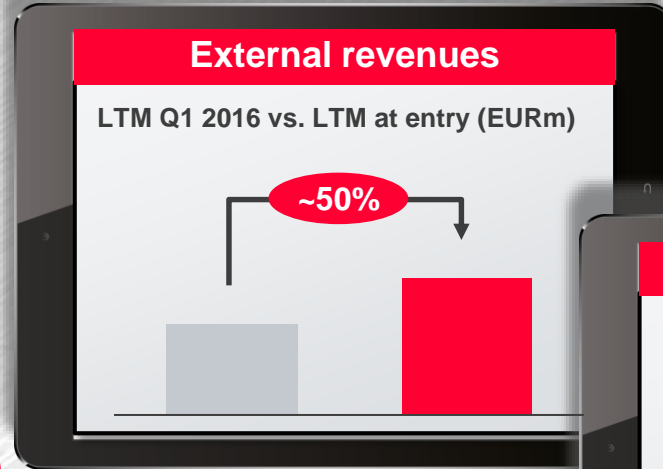




M&A activities with a strong financial track record

M&A spend
~**EUR 980m**
until end of
March 2016

Weighted average
age of our
portfolio¹⁾
<2 years





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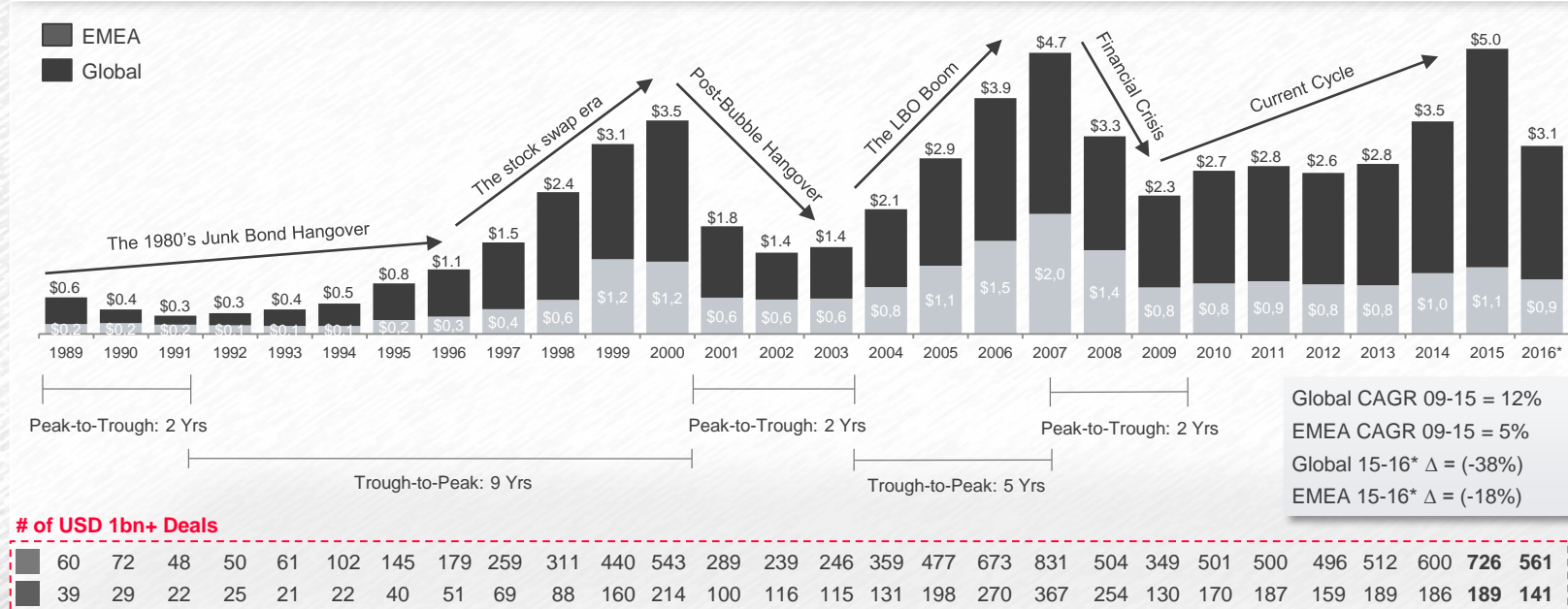
5 Transaction Documents (SPA & SHA)





Increasing Global M&A Deal Momentum

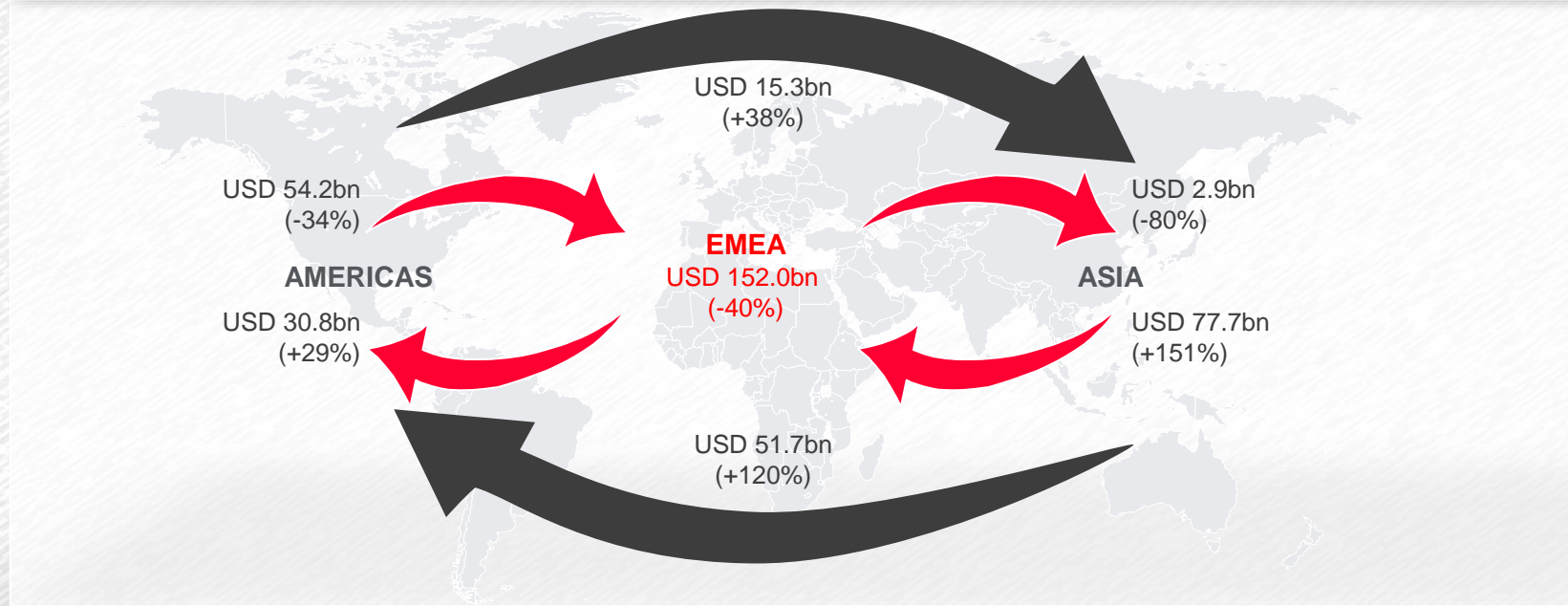
Global and EMEA Announced M&A Volume, USD Tn





Asia Outbound M&A is Surging

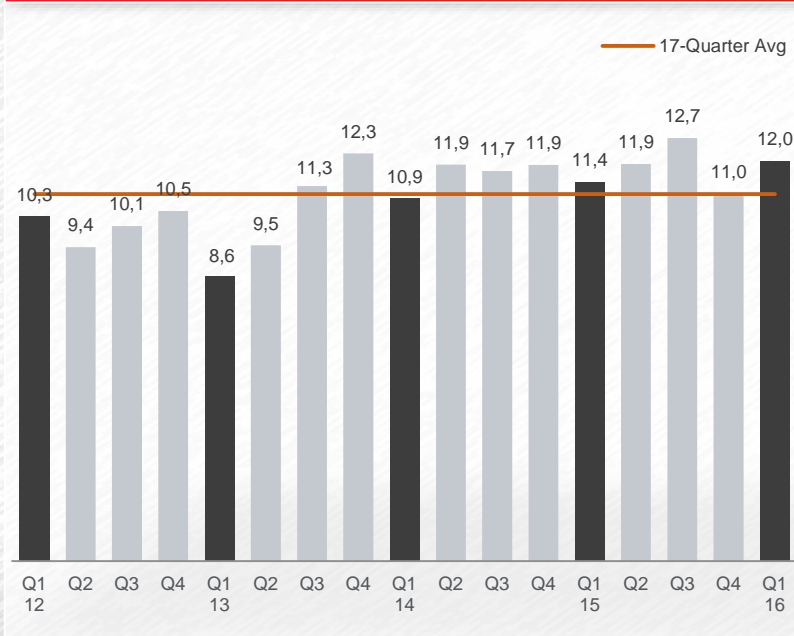
M&A Activity by Regional Flow (2016 YTD), Volume (USD bn), % Change versus 2015 YTD



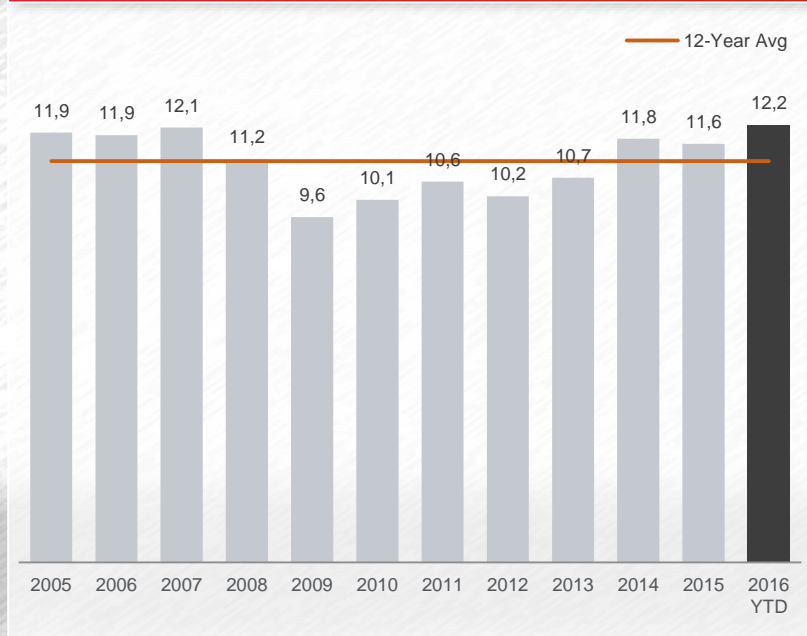
Stock consideration becomes more popular when valuations rise; current multiples are above long-term averages



Firm Value/EBITDA (Quarterly)
Median



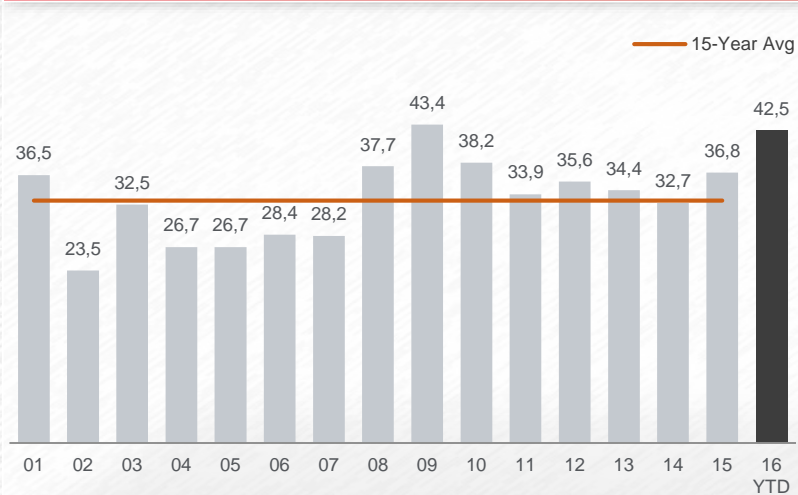
Firm Value/EBITDA (Annually)
Median



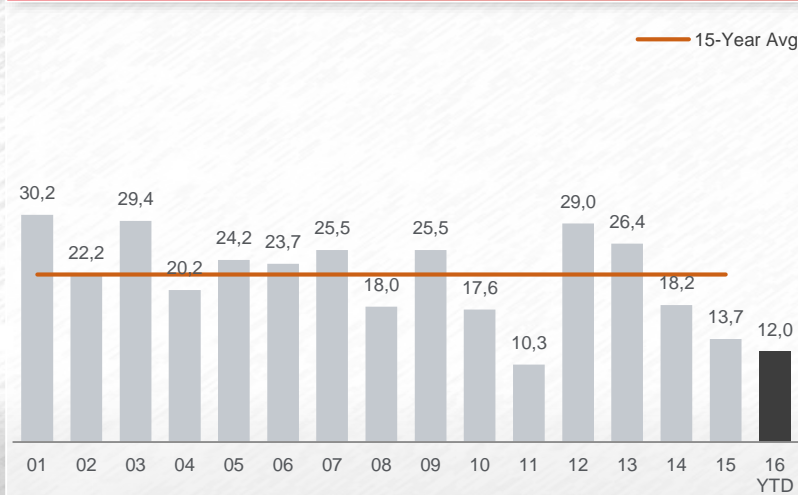


Cash deals have higher premiums than stock deals

All-Cash Deals
4-Week % Premium – Median



All-Stock Deals
4-Week % Premium – Median



Cash deals with higher premiums because sellers do not participate from long term value creation due to synergies as in stock deals



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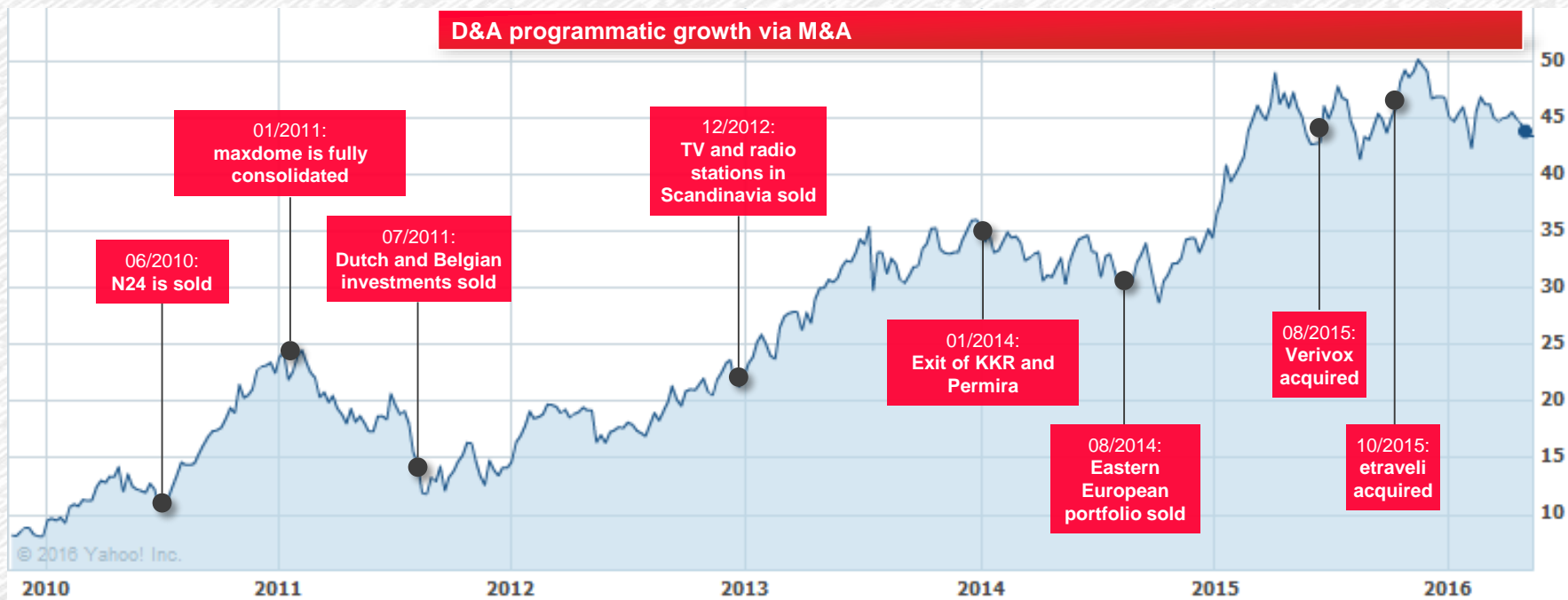
M&A activities address various objectives

Strengthen long-term competitiveness and generate sustainable shareholder value

P7S1	Strengthen growth and profitability E.g. Target with higher growth and margins	Drive value through active portfolio management E.g. Unlock hidden asset value	Build or strengthen key capabilities and enablers E.g. Create full offer clusters, access IP	Enhance scale through internationalization E.g. Lower regional dependence	Fill up own ad space E.g. Lower opportunity cost, monetization
	Create value through synergies E.g. 1 + 1 = 3	Beat adverse government policy E.g. Requirement for local content	Exploit market imperfection E.g. Cheaper labor or cost of raw materials	Access capable teams E.g. Tap into scarce talent and technical skill	Use excess cash E.g. Achieve higher returns than saving or reinvestment

 Relevant areas for case study

Historical financial performance since 2009 fueled by M&A-driven transformation



Case Study – FashionME is a typical later stage growth investment



FashionMe

Maximilianstrasse 123456

Munich, DE

Management

Mr. Ben Smith

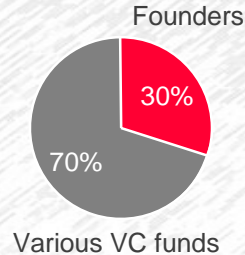
- Founder and MD

Mrs. Lara Smith

- Founder and head of administration, finance and HR

Mr. and Mrs. Smith played a vital role in building up the business and will be key to achieve the growth targets

Shareholders



Product portfolio

Luxury fashion



Normal fashion



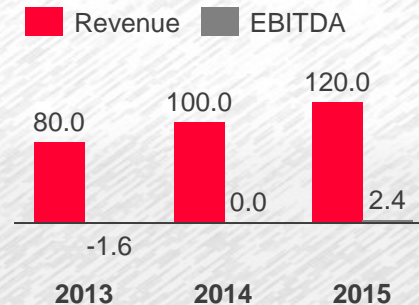
Shoes



Business description

- Founded in 2005, FashionMe has experienced strong growth, with EUR 120m revenues in 2015A
- The Company sales the products through an online shop on its web page
- In the past FashionMe has only invested marginally into brand building and TV advertising
- Mr. Smith has developed unique ties to the fashion production industry and is able to procure products at highly attractive prices
- In future, FashionMe plans to develop an own product line and further expand internationally

Key financials (in EUR m)



Customer Segmentation (as % of 2015 revenues)

By customer group



By region





Case study – strategic rationale



Strengthen growth and diversify P7S1's revenues stream – Grow P7S1's e-commerce business within P7S1's Digital & Adjacent segment; become less dependent on TV market (i.e. advertising revenues)



Enhance scale through internationalization – leverage FashionME as nucleus investment to build international fashion cluster



TV advertising can significantly **increase FashionMe's revenues** due its B2C business model



P7S1 can **offer significant brand building capabilities**, mainly through TV power in DACH region



Create value through synergies – Integration of FashionMe products into Amorelie and Flaconi and vice versa to **realize cross selling synergies**

An M&A process encompasses several phases, characterized by distinct activities





Case study – Relevant due diligence topics



Relevant **market size** and **market growth**; **online vs. offline share**; major trends



Competitive landscape



Customer acquisition process & costs; Analysis of **unit economics** and profitability



Marketing spend and split (i.e. TV, online, print etc.)



Return rate; cash conversion rate; working capital management



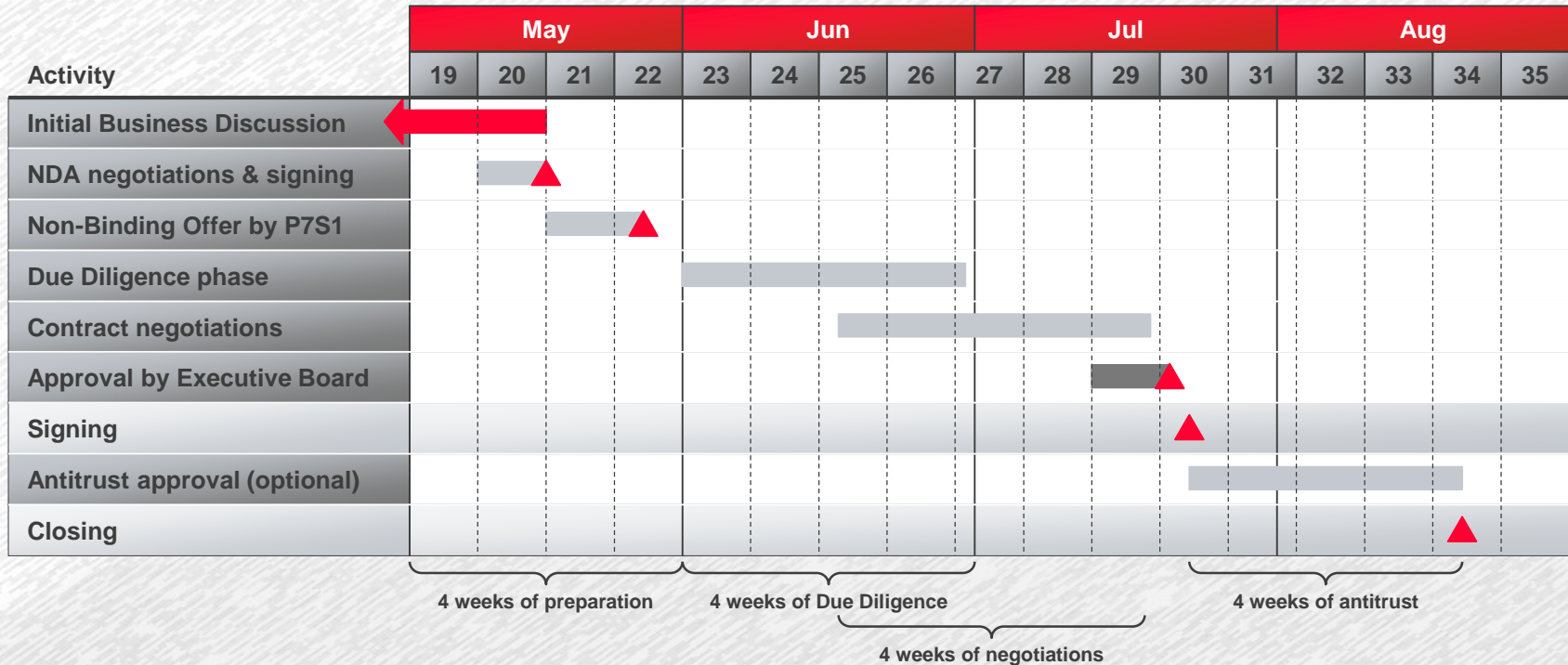
Customary **Financial** and **Tax Due Diligence**



Customary **Legal Due Diligence**



Typical M&A process takes 4-6 months

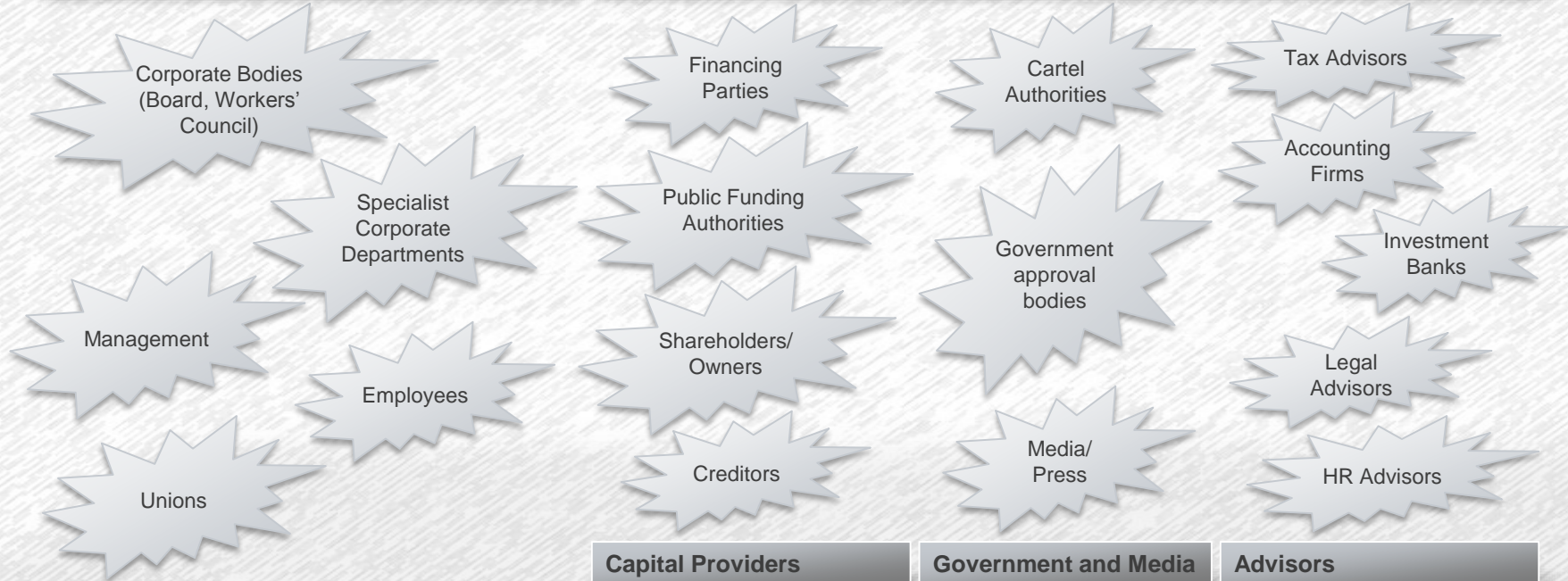




... and involves numerous internal and external parties ...

Internal

External



... who require strong project management and organization to work as a team with clearly defined roles



Task-Organized Cross-Functional Teams/Tracks								
Deal Team + PMO	Structuring Team	Financing Team	DD Team	Bus. Plan/ Valuation	Regulatory Filings	PMI Team	Compensation	Comms Team
M&A	Legal/Tax	Treasury	M&A	M&A/Division	Legal	Integr. Mngr.	HR	Comm
<ul style="list-style-type: none"> Negotiation Coordination with all tracks Escalation Process leadership 	<ul style="list-style-type: none"> Tax optimize Legally incorporate Operationally manageable 	<ul style="list-style-type: none"> Ensure funding Align financing timeline with deal timeline 	OWN PROJECT <ul style="list-style-type: none"> Commercial diligence Legal diligence Financial diligence 	<ul style="list-style-type: none"> Business plan Synergies Effects on P7 Valuation 	<ul style="list-style-type: none"> Collect, prepare and submit all required filings 	OWN PROJECT <ul style="list-style-type: none"> Organize PMI project Guarantee Day 1 Ensure proper integration 	<ul style="list-style-type: none"> Incentives Severance Grading alignment Income and benefit alignment 	OWN PROJECT <ul style="list-style-type: none"> Internal/ External communication planning Reactive and proactive statements

SUPPORTING → CENTRAL FUNCTIONS AND REGIONS



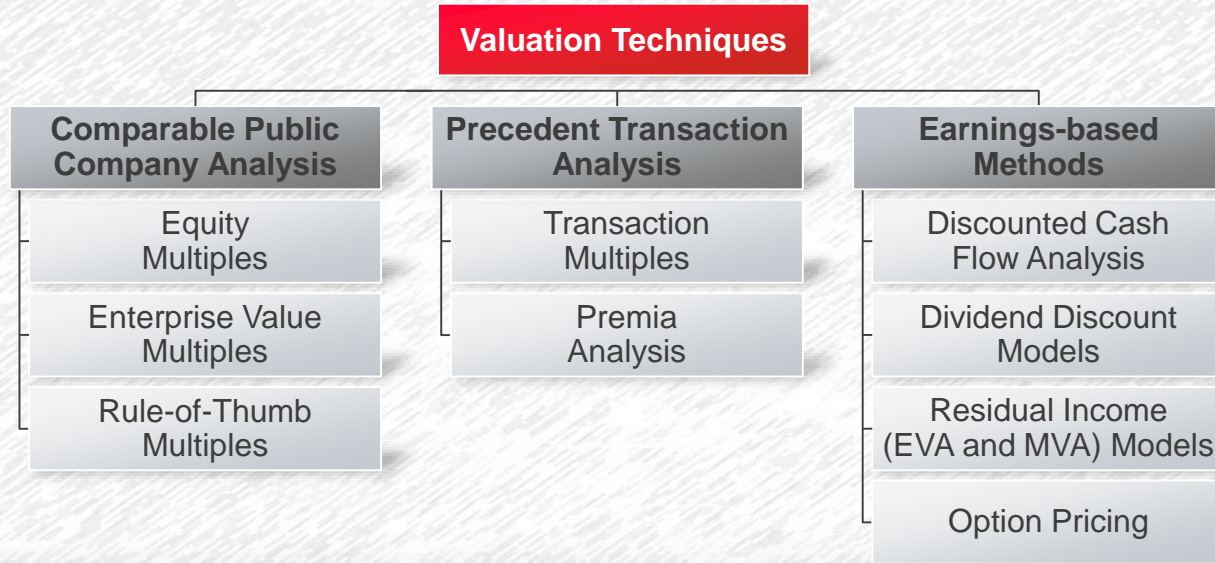
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Valuation is more art than science ...



In an ideal world, all techniques should result in the same valuation. However, given accounting peculiarities and different levels of uncertainty with which we can predict the inputs to these models, they often provide widely varying ranges



Multiples Based Valuation

Definition

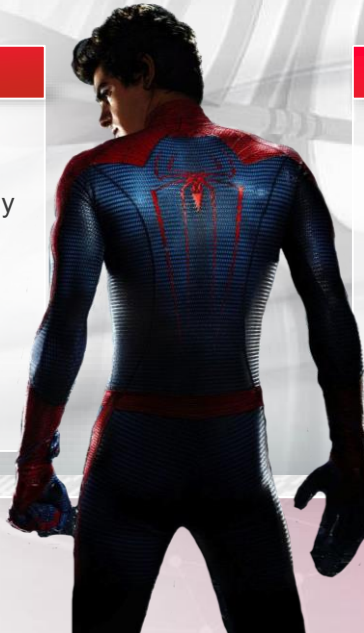
Comparable public peers or comparable prior transactions. Method to evaluate an investment by comparing market-linked ratios (P/E, EV/EBITDA, EV/EBIT, etc.) to those of peers. Comparable public peers indicate fundamental value while prior transactions include the premiums/synergies paid.

Potential Downsides

- Quality/Availability of Input Data (sources of information available)
- Difficulty in finding a good “comparable” company
- Effects of company scale are ignored
- Foreign comparables (different accounting, FX rates)
- Accounting manipulation

Key Issues

- Which ratios are most meaningful for my industry/company
- Public companies are usually larger, more liquid and more transparent
- Financials need to be made comparable (exclude one-time items, include dilutive effect of options/convertibles, adding pro-forma adjustments)
- Multiples imply “going-concern” assumption and margin/growth expectations





Earnings Based Valuation

Definition

Methods which rely on the present value of future cash flows, adjusted earnings, dividends or residual income discounted at the appropriate cost of capital. Earnings based methods are widely accepted as they involve identification of key business drivers, thus facilitating that the right measures will be set in place to run the business successfully.

Potential Downsides

- Time consuming
- Availability of information
- Quality of information (assumptions upon assumptions)
- Primary value in “black box” Terminal Value

Key Issues

- Junk In = Junk Out
- Still need to run sensitivities and compare against market benchmarks (multiples)
- Rarely manage to capture all or most critical drivers (e.g. market disruption, economic crisis)





Case study – Peer group CCA valuation

[in EUR m]

Company Name	Headquarters - Country	MktCap	EV	Revenues	Revenues	Revenues	EBITDA	EBITDA	EBITDA	EV/sales (2016)	Sales CAGR 14-16	EBITDA margin 2016
				2014	2015	2016	2014	2015	2016			
1-800-Flowers.com Inc. (NasdaqGS:FLWS)	United States	459.5	691.7	844.3	1,077.2	1,122.2	84.9	74.1	91.2	0.6x	15%	8%
AO World Plc (LSE:AO.)	United Kingdom	919.7	879.1	580.3	774.5	1,002.5	8.6	4.7	12.9	0.9x	31%	1%
ASOS Plc (AIM:ASC)	United Kingdom	3,660.5	3,497.0	1,270.3	1,726.7	2,007.2	57.4	99.1	127.1	1.7x	26%	6%
Banzai S.p.A. (BIT:BANZ)	Italy	186.8	159.5	185.0	231.8	296.7	-1.4	-2.9	1.0	0.5x	27%	0%
Blue Nile Inc. (NasdaqGS:NILE)	United States	372.8	342.8	393.8	447.6	473.3	13.2	20.5	22.5	0.7x	10%	5%
Cnova N.V. (NasdaqGS:CNV)	Netherlands	1,171.4	1,257.0	3,473.8	3,579.5	3,800.4	65.0	-37.0	31.0	0.3x	5%	1%
Cogobuy Group (SEHK:400)	China	1,562.0	1,701.6	912.3	1,326.2	1,702.0	35.8	64.1	91.3	1.0x	37%	5%
Delticom AG (XTRA:DEX)	Germany	244.7	248.4	501.7	540.3	570.8	14.1	16.8	22.4	0.4x	7%	4%
E-Commerce China Dangdang Inc. (NYSE:DANG)	China	516.2	275.8	1,059.9	1,460.5	1,827.5	15.2	-9.3	40.4	0.2x	31%	2%
JD.com, Inc. (NasdaqGS:JD)	China	38,221.8	35,644.1	15,319.1	25,042.3	35,014.3	-553.1	151.5	430.1	1.0x	51%	1%
Jumei International Holding Limited (NYSE:JMEI)	China	1,220.7	860.8	522.9	1,057.4	1,428.5	51.6	25.1	60.5	0.6x	65%	4%
LightInTheBox Holding Co., Ltd. (NYSE:LITB)	China	158.2	108.2	315.9	287.6	370.2	-22.6	11.0	6.1	0.3x	8%	2%
Ocado Group plc (LSE:OCDO)	United Kingdom	2,641.1	2,785.1	1,193.7	1,579.8	1,755.9	71.1	116.6	135.6	1.6x	21%	8%
Oponeo.pl Spolka Akcyjna (WSE:OPN)	Poland	69.3	66.2	75.5	-	-	2.5	-	-	-	-	-
Overstock.com Inc. (NasdaqGM:OSTK)	United States	275.2	201.3	1,236.8	-	-	20.5	-	-	-	-	-
PetMed Express, Inc. (NasdaqGS:PETS)	United States	301.1	248.8	188.4	207.3	207.9	24.3	29.6	30.7	1.2x	5%	15%
Qliro Group AB (publ.) (OM:QLRO)	Sweden	181.2	173.2	529.5	557.3	590.4	1.4	-4.2	10.2	0.3x	6%	2%
Rocket Internet SE (XTRA:RKET)	Germany	4,690.8	3,380.3	104.0	126.4	161.5	-91.4	-69.1	-77.4	20.9x	25%	-48%
Start Today Co., Ltd. (TSE:3092)	Japan	3,233.0	3,038.8	276.2	368.4	420.8	106.7	140.5	170.2	7.2x	23%	40%
U.S. Auto Parts Network, Inc. (NasdaqGS:PRTS)	United States	72.7	86.8	235.8	267.9	276.0	4.5	7.5	10.2	0.3x	8%	4%
United Online, Inc. (NasdaqGS:UNTD)	United States	152.0	61.7	179.5	137.1	135.5	19.3	19.5	19.1	0.5x	-13%	14%
Vipshop Holdings Limited (NYSE:VIPS)	China	8,736.6	8,444.0	3,117.6	5,521.3	7,774.5	157.2	338.9	480.4	1.1x	58%	6%
Wayfair Inc. (NYSE:W)	United States	3,524.9	3,230.2	1,089.7	1,978.2	2,788.8	-111.4	-18.9	7.0	1.2x	60%	0%
windeln.de AG (DB:WDL)	Germany	257.5	145.1	101.3	179.6	276.1	-11.5	-11.6	-9.0	0.5x	65%	-3%
YOOX Net-A-Porter Group S.p.A. (BIT:YNAP)	Italy	4,339.1	4,372.1	524.3	1,639.9	1,959.1	35.6	130.6	168.4	2.2x	93%	9%
Zalando SE (XTRA:ZAL)	Germany	8,614.8	7,523.5	2,214.0	2,970.6	3,724.5	78.8	131.6	204.8	2.0x	30%	5%
zooplus AG (DB:ZO1)	Germany	919.0	875.6	570.3	714.8	908.7	9.8	13.5	20.1	1.0x	26%	2%
Peer group (highlighted in blue)												
Mean		4,766.6	4,466.1	1,968.6	3,417.2	4,608.5	-3.3	80.8	131.9	1.1	33%	5%
Median		1,220.7	879.1	912.3	1,326.2	1,702.0	24.3	64.1	91.2	1.0	30%	5%

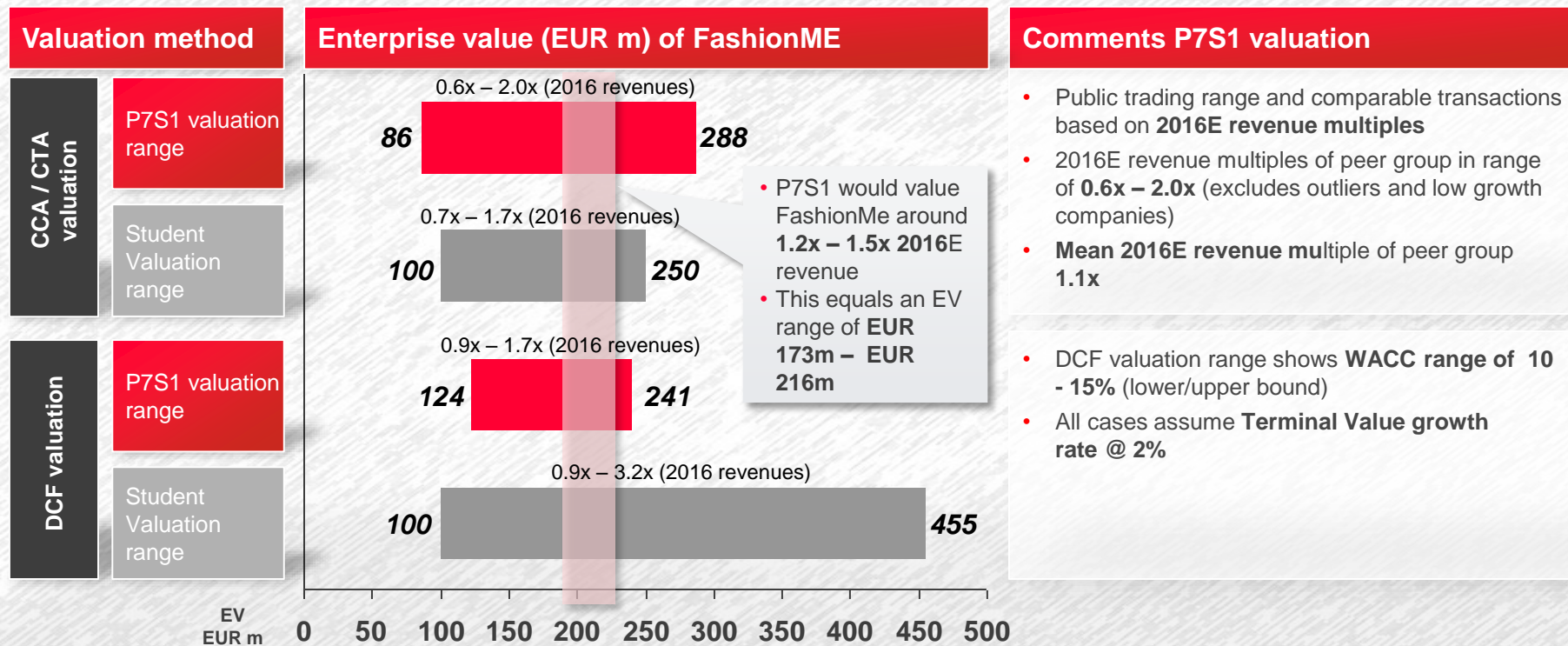


Case study – Peer group CTA valuation

[in EUR m]			EV	Revenue	EBITDA	EBIT	EV/sales
Announcement d	Target Company	Bidder Company					
27/11/2015	AO Stockmann	Reviva Holdings Limited	5.0	240.0	0.0	-26.0	0.0x
27/07/2015	EMP Merchandising Handelsgesellschaft mbH	Sycamore Partners	n.a.	115.2	0.0	0.0	n.a.
25/11/2015	Tool Sport	Groupe Go Sport SA	n.a.	12.7	0.0	0.0	n.a.
23/11/2015	Tuniu Corporation (24.1% Stake)	HNA Tourism Group Co Ltd	1,518.6	477.4	-62.1	-63.5	3.2x
23/10/2015	Avto Holding AB (50.5% Stake)	Naspers Limited	2,318.2	63.2	32.0	0.0	36.7x
22/10/2015	Geostar (100% Stake)	Springwater Travel Group	n.a.	154.0	0.0	0.0	n.a.
22/07/2015	Carolinas Matkasse AB (30% Stake)	Herkules Capital AS	96.2	106.3	0.0	0.0	0.9x
21/10/2015	Ocean Media Group Limited	Lonsdale Capital Partners LLP	n.a.	8.6	1.5	0.6	n.a.
21/10/2015	El-Salg A / S (45% Stake)	Electra Gruppen AB	n.a.	65.5	1.5	0.6	n.a.
21/09/2015	Spondoolies Tech Ltd. (93.4% Stake)	BTCIS Inc.	n.a.	23.1	0.0	0.0	n.a.
21/08/2015	Red 5 Retail Ltd	Menkind Stores Ltd	n.a.	24.7	0.0	0.0	n.a.
20/10/2015	Nine Entertainment Co. (13.11% Stake)	WIN Corporation Pty Ltd	1,274.4	951.3	-473.5	-494.1	1.3x
19/08/2015	Stylepit A/S (75.1% Stake)	Bestseller A/S	29.9	48.8	-4.0	-6.1	0.6x
18/11/2015	Roman & Stern Holding B.V.	NV Dico International	16.0	110.0	0.0	0.0	0.1x
17/08/2015	zulily, inc.	Liberty Interactive Corporation	1,813.0	985.0	24.0	12.9	1.8x
17/08/2015	W/R Group, Inc.	DS Laboratories Inc.	27.0	41.3	8.3	0.0	0.7x
17/07/2015	Maxibay SAS	MBO Partenaires	18.0	15.0	0.0	0.0	1.2x
17/07/2015	OTTO Office GmbH & Co KG	Printus Fachvertrieb fuer Buerobedarf GmbH	n.a.	200.0	17.0	0.0	n.a.
16/11/2015	Reifencom GmbH	Apollo Tyres Ltd	45.6	147.0	0.0	0.0	0.3x
16/10/2015	Builor AB	BYGGmax AB	14.0	5.3	0.0	0.0	2.6x
16/09/2015	Matvaran.se	MatHem i Sverige AB	5.4	21.2	0.0	0.0	0.3x
16/09/2015	YepMe	Ramunia Investments (Mauritius) Limited	n.a.	47.0	0.0	0.0	n.a.
15/09/2015	The Works Stores Limited	Dean Hoyle (Private investor); Tony Barraclough (Private Investor)	n.a.	216.7	12.8	0.0	n.a.
15/07/2015	eBay Enterprise	Permira Advisers LLP; Sterling Partners; Longview Asset Management Ltd.	840.2	1,024.8	0.0	0.0	0.8x
12/10/2015	Multiposting	SAP SE	n.a.	9.1	0.0	0.0	n.a.
11/11/2015	Extreme Digital Zrt (50.8% Stake)	Steinhoff International Holdings Ltd	n.a.	76.0	0.0	0.0	n.a.
11/08/2015	CZC.cz s.r.o. (35% Stake)	E-commerce Holding, a.s.	n.a.	87.2	0.0	1.2	n.a.
10/11/2015	fashion4home GmbH	Home24 GmbH	n.a.	18.7	0.0	0.0	n.a.
10/08/2015	NTELOS Holdings Corp.	Shenandoah Telecommunications Company	582.9	403.2	20.8	-42.4	1.4x
10/08/2015	Bebitus Retail SL	windeln.de AG	5.0	7.0	0.0	0.0	0.7x
09/12/2015	AB Skruvat Resendelar	Mobivia Groupe S.A.	n.a.	21.6	0.0	0.0	n.a.
08/12/2015	Instra Corporation	CentralNic Group Plc	22.2	10.2	1.5	1.6	2.2x
07/09/2015	Vente-Exclusive.com (50.1% Stake)	Vente-Privee.com SA	n.a.	90.0	0.0	0.0	n.a.
05/10/2015	ktzteile24 GmbH	EQT Mid Market GP BV	n.a.	114.0	0.0	0.0	n.a.
04/11/2015	HomeAway, Inc	Expedia, Inc.	3,575.0	369.2	58.6	33.1	9.7x
04/11/2015	Frontier AS	itslearning AS	n.a.	11.7	-3.6	-3.8	n.a.
03/12/2015	CE Info Systems Pvt. Ltd. (34% Stake)	Flipkart Online Services Pvt. Ltd.	227.1	9.1	0.0	0.0	24.8x
03/11/2015	Cadeaux.com	MyGift	5.4	5.9	0.0	0.0	0.9x
03/07/2015	RFS Holland Holding B.V.	Apax Partners LLP	450.0	711.3	46.0	0.0	0.6x
02/07/2015	BiGDUG Limited	TAKKT AG	26.8	24.5	0.0	0.0	1.1x
01/10/2015	Dakota Editions SAS	Smartbox Experience Ltd	15.0	30.0	0.0	0.0	0.5x
Peer group (highlighted in blue)							
Mean			545.5	180.6	-9.5	-15.1	1.0x
Median			29.9	48.8	0.0	0.0	0.7x

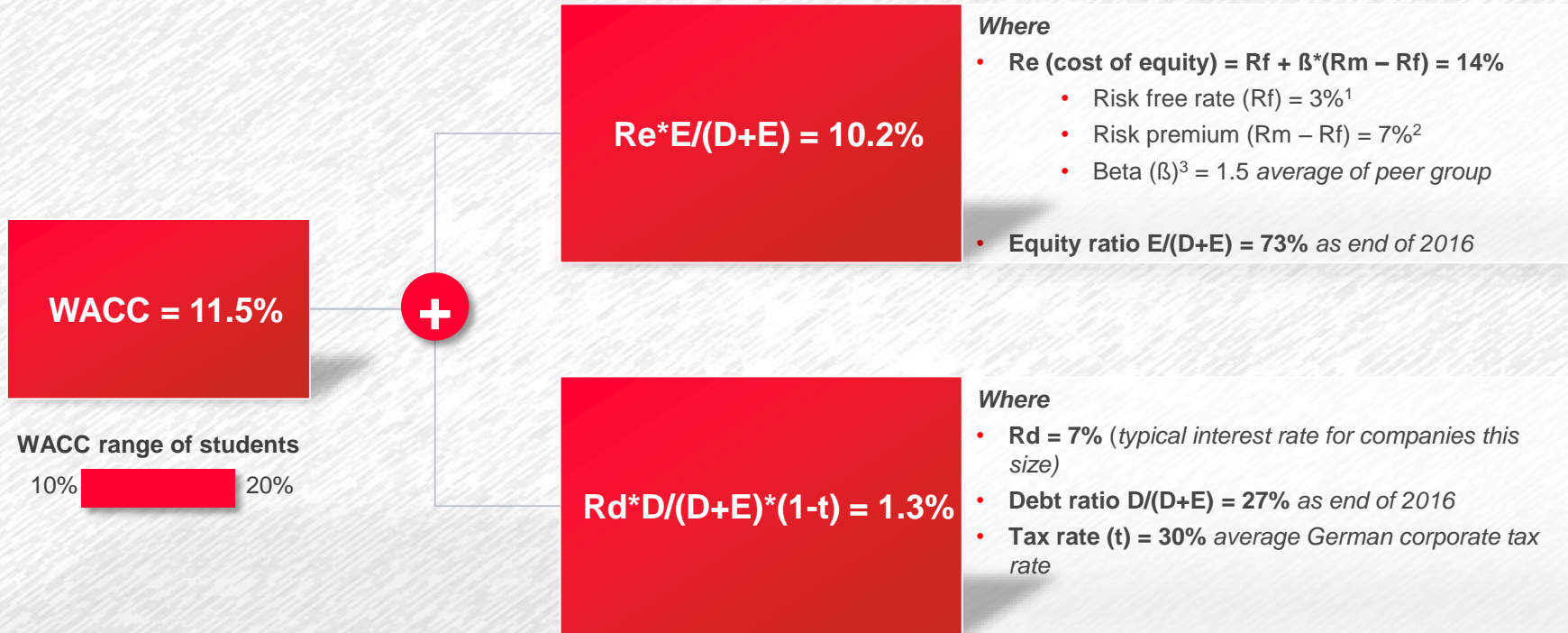


Case study – Valuation methods are indicative and several need to be used to establish a sanity check for any single method





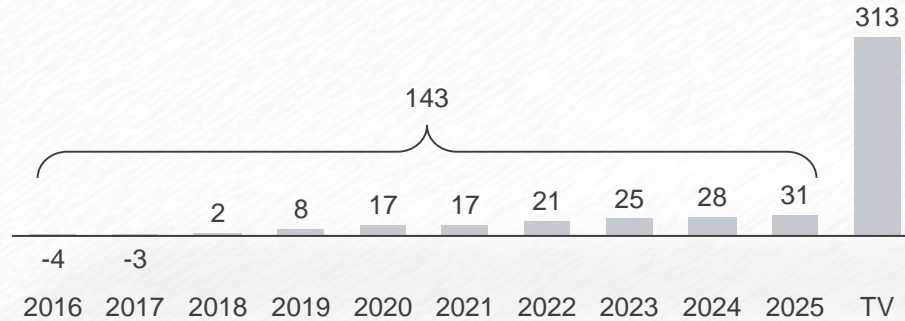
Case study – WACC influenced by many variables



Case study – Multiples are consistent with DCF analysis; DCF is better at identifying short-term business model drivers

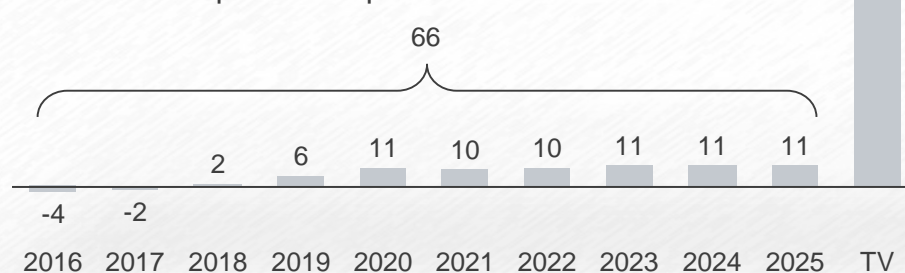


FCF of FashionME, EUR m



Discounted Free Cash Flows of FashionME, EUR m

Sum of DCF equals Enterprise Value = EUR 179m



- **FashionME: Growing e-commerce business in changing environment (long term assumptions often guess work)**
 - **WACC = 12%; g = 2%**
 - First 10 years of planned free cash flows generate EUR 143m of undiscounted value
 - **Terminal Value (black box)** → $31.3 / (12-2\%) = 313$; responsible for majority portion of value of the firm (69% of undiscounted FCF)!
 - DCF valuation results in an **Enterprise Value of EUR 179m**
 - **The Terminal Value (discounted)** is responsible for **63% of the value**
 - The EV of EUR 179m translates into an **implied 2016E revenue multiple of 1.2x**



From Enterprise Value to Purchase Price – Major steps

1

Valuation (i.e. Enterprise Value) of the Company on debt and cash free basis – most common methodologies used are Discounted Cash Flow and Multiples valuation

2

Determine the Equity Value of the Company since this is the value associated with 100% of the shares

3

In order to determine the Equity Value **Cash needs to be added** and **debt and debt like items need to be subtracted** from the Enterprise Value

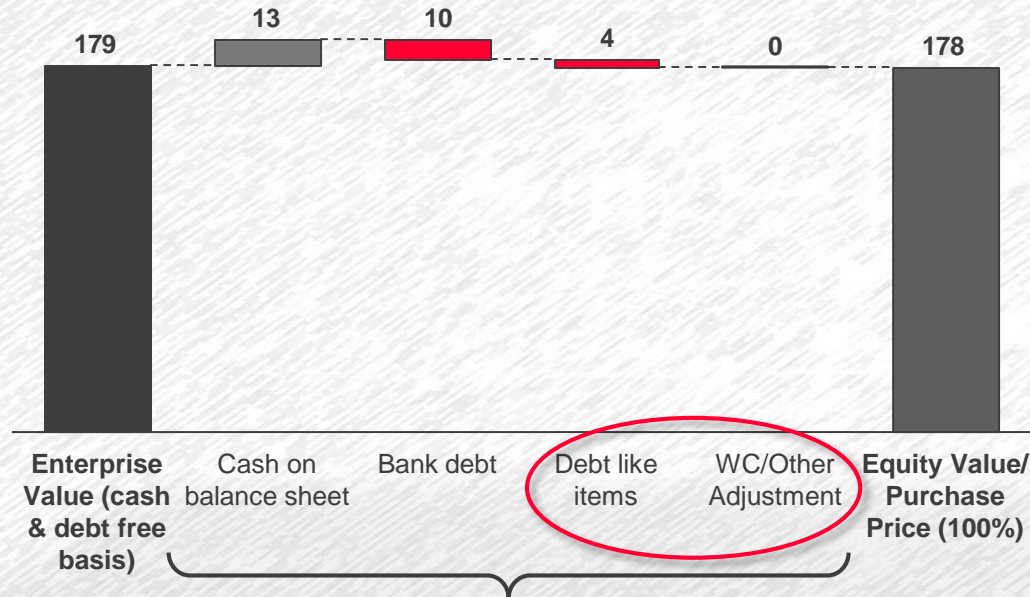
4

The **Purchase Price** you pay for the shares is then simply % of shares to be acquired times the Equity Value

Case study – Bridge from Enterprise Value to Equity Value is hotly negotiated; large opportunity for value grab



Equity bridge FashionME, EUR m



Example for Debt Like Items

- Provisions (e.g. litigation)
- Shareholder loans
- Accrued interest
- Pension accruals

Example for further adjustments

- Deviation from normalized values (e.g. Working Capital)
- New findings
- GAAP differences



Agenda

- 1 ProSiebenSat.1 Media SE at a Glance
- 2 Global M&A Trends
- 3 M&A Objectives & Process
- 4 Enterprise Value, Equity Value, Purchase Price
- 5 Transaction Documents (SPA & SHA)**





Two major agreements in M&A transactions

Key Frame Agreement	Share Purchase Agreement (SPA)	Shareholders' Agreement (SHA)
Purpose	<ul style="list-style-type: none">• The purpose of a share purchase agreement (the SPA) is to record the detailed terms on which the shares in a company are sold and purchased	<ul style="list-style-type: none">• The shareholders' agreement (the SHA) describes how the company should be operated and defines the shareholders' rights and obligations
Key Negotiated Items	<ul style="list-style-type: none">• Purchase price, fix versus contingent, consideration type, adjustments• Reps and Warranties• Covenants• Closing Conditions• Indemnification• Exclusivity/break-up	<ul style="list-style-type: none">• Control and management of the Company• Tag along and drag along rights• Pre-emption and right of first refusal• Minority protection• Language to protect the competitive interest of the Company

In SHA rights of each party will be defined – To consolidate you need to have majority control of the target



Substantive rights – it's about majority control

Approval of budget and annual plan

Hiring, remuneration, dismissal of management

Strategic direction of business, acquisition/
sale of subsidiaries

Payment of ordinary dividends

Decisions under management contracts that have the
power to determine the relevant activities

Protective rights – it's about minority protection

Strategic Investing/divesting decisions (beyond the
ordinary course of business)

Disposal of assets when the entity is not meeting its
payment obligations

Decisions about capital increases/capital decreases

Veto on “related party transactions”

Payment of extraordinary dividends



Failure to consolidate has potentially undesirable financial and strategic consequences



Income statement

No recognition revenues and expense items

Presentation of investor's share in investee results **below EBITDA**

Balance sheet

No recognition of assets/liabilities of investee in the consolidated accounts

Presentation of investment as a financial asset (single line item)

Strategy

Limited influence in critical decisions; difficult to become dependent

Potentially **no ability to realize synergies**



Case study winner

Congratulations to

Max Friedrich and Patrik Tiede

Prize

1. 4 Tickets for the Voice of Germany Blind Auditions in Berlin on July 9th at 18:30
2. Interview for a M&A internship at ProSiebenSat1



