



# US Spinoff Report<sup>TM</sup>

Valuations of Corporate Divestitures

**Parent: LMC (Entertainment)**

Sector: Broadcasting

**Splitoff: Liberty Entertainment Inc.**

Sector: Broadcasting

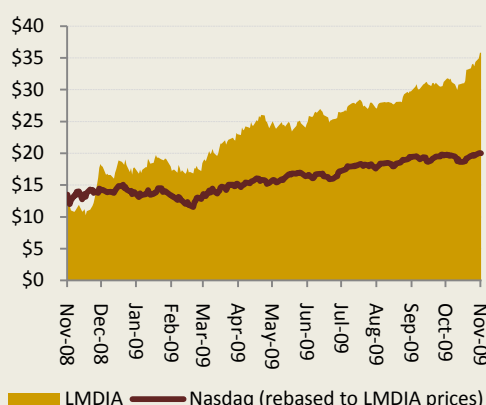
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## Share Price

Share price	\$35.79
Post Split Target Price LSTZA	\$62
Post Split Target Price LEI/DTV	\$39
5 Day return	6.3%
YTD Day return	104.7%
1 yrs return	164.9%

## Share Price Performance-1yr



## Performance

52 Week High (\$)	36.06
52 Week Low 1Y (\$)	9.47
Avg d turn 30d (\$ m)	268
Avg d turn 90d (\$ m)	175
Market Cap (\$ m)	18,679
Net IB Debt (\$ m)	1,360
Enterprise value (\$ m)	20,039

## Miscellaneous

Next key date	Nov 19, 2009
Listing Exchange	Nasdaq
Ticker/Bloomberg	LMDIA US equity
O/S shares m	498
Div Yield FY08 in %	NA
Free float in %	99.3%

## LMC (Entertainment) Split-Off: Games People Play

**Value discovery is a favorite play of management and this Split-Off primarily allows the market to value the entertainment assets more fairly. But the real benefit of the transaction would accrue to Mr. Malone, who will enjoy more voting power over DIRECTV, once the merger goes through. The transaction benefits him in two ways: More voting rights in DTV and value enhancement of his stake. Still, the transaction is beneficial to all stakeholders and we recommend a BUY.**

### The Transaction

On Dec 12, 2008, Liberty Media's board of directors authorized a plan to Split-Off majority of Liberty Entertainment's tracking stock into a formal asset backed security. The main purpose of the split-off was to prepare the grounds for a merger with DTV. The process, which was delayed due to turmoil in financial markets and negotiations on the voting rights of Malone, is approaching its final stages with the shareholder's vote set to occur on Nov 19, 2009. The newly formed entity will be named Liberty Entertainment Inc (LEI) and will consist of Liberty Media's 57% interest in DIRECTV, 100% interest in Liberty Sports, 65% interest in GSN, approximately \$80m cash & cash equivalents, and \$2bn in debt. The rest of the assets, primarily consisting of a 100% interest in Starz Entertainment, WildBlue (which has since been acquired by ViaSat) and cash and cash equivalents, will be retained under Liberty Media's Entertainment Group. Post Split, LMDIA, and LMDIB will be re-designated as LSTZA and LSTZB (Liberty Starz).

### LMDIA / LSTZA – Split-Off eliminates NAV discount

We recommend a BUY rating and arrive at a target price of \$30.88 per share of LMDIA pre Split and \$62.05 per share of LSTZA post Split, based on our DCF target price of \$34.85 per share for DTV. Our Post Split-Off (LSTZA) target price of \$62.05 suggests an upside of 30% when issued on a current trading price of \$47.48 per share. LMC (Entertainment) (LMDIA) has around 57% interest in DIRECTV but has historically traded at a value lower than the NAV of its interest.

### Liberty Entertainment Inc/DIRECTV(LEI) factors the negative outlook

We like the idea of Liberty Media management to merge the two entities (Split-Off entity, LEI and DIRECTV) with essentially similar operating businesses. It makes sense as it saves on cost of running two companies with similar assets and improves management focus. Our investment thesis largely revolves around DIRECTV as it will remain a substantial part of LEI, even in case the merger is called off. We recommend a BUY rating on LEI due to expected strong performance of DTV and other private assets. We also expect that DTV will return money to shareholders in the form of share buyback as its target leverage ratio of 2.5x leads to an incremental debt capacity of more than \$3bn.

Key figures and ratios (\$ m)	LMDIA ( Parent Company)			LEI ( SplitOff Company)		
	2007	2008	2009e	2007	2008	2009e
<b>Pro Forma</b>						
Operating revenues	1,136	1,391	1,192	45	267	280
Revenue growth (%)	-12%	22%	-14%	109%	497%	5%
EBITDA	255	324	318	(4)	34	44
EBITDA (%)	22%	23%	27%	-9%	13%	16%
Adj. EBIT	131	(1,002)	294	(20)	11	28
Net income	136	4,852	220	27	5,796	246
EPS (\$)	0.26	9.38	4.22	NA	NA	0.52
Return on Assets (%)	2%	2%	2%	0.0%	0.2%	0.3%
Return on Equity (%)	1%	45%	3%	0.3%	63.7%	2.3%
EV/EBITDA	NA	33.3x	7.7x	NA	NA	401.9x
P/E	NA	3.7x	14.6x	NA	NA	74.9x