

# Impresa

## Acquisition of SIC minorities

### Deal in line with estimates

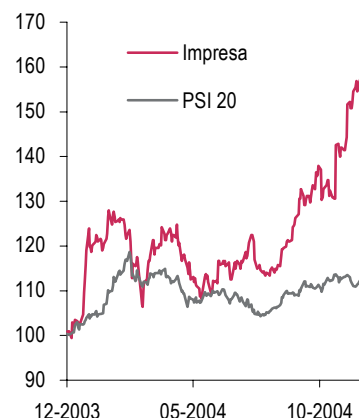
SNAPSHOT

**Buy (High Risk) Target<sub>YE05</sub> (€): 6.60**

	2002	2003	2004E	2005E
<b>Financials</b>				
Turnover (€ mn)	250.7	265.7	257.7	276.3
EBITDA (€ mn)	1.8	34.2	53.3	64.2
Net Income (€ mn)	-28.0	-10.2	7.2	14.1
EPS (€)	-0.26	0.00	0.19	0.37
CEPS (€)	-0.12	0.15	0.31	0.57
<b>Ratios</b>				
RoIC (%)	-10.0	-16.2	20.3	24.8
RoE (%)	-27.4	-11.1	7.2	12.8
Net Debt / EBITDA	90.8	6.2	2.7	3.3
Net Debt / Equity	1.9	1.8	1.0	1.8
<b>Valuation</b>				
P / E	nm	nm	30.4	15.4
EV / Revenues	1.7	2.6	3.2	2.5
EV / EBITDA	nm	21.5	16.8	10.7
Dividend Yield (%)	0.0	0.0	0.0	0.0

Price (€):	5.65
Upside:	17%
No. Shares (mn):	84.0
Market Cap (€ mn):	474.6
Avg Daily Vol 3m (k):	181.8
Reuters:	IPRN.IN
Bloomberg:	IPR PL

Prices as at 22-12-2004



Source: Millennium bcp investimento

- Impresa announced today, after the market close, the acquisition of SIC minorities.
- Impresa will buy the remaining 49% of SIC for €152.5mn, in line with our estimates (€151.2mn).
- We were already attributing a 100% probability to this deal in our price target, which therefore is maintained at €6.60, as we believe the deal is value accretive by €1.80 per share.
- We expect a positive market reaction, as any uncertainties regarding the details of the deal are dissipated and the deal is clearly value enhancing.

#### Valuation impact of the deal

€ million		Comment
(1)	Acquisition of BPI's stake (41.366%)	128.7
(2)	Acquisition of remaining minorities (7.634%)	23.8
(3) = (1) + (2)	Acquisition value of 49% of SIC (€mn)	152.5 We were expecting €151.2mn
(4) = (3) / 49%	Reference 100% Equity value (€mn)	311.2
(5)	Our valuation of 49% of SIC (€mn)	302.5
(6) = (5) - (3)	<b>Value creation (€mn)</b>	<b>150.0</b> We were expecting €150.6mn
	<b>Value creation per share (€)</b>	<b>1.79</b> We were expecting €1.79

Source: Company data and Millennium bcp investimento

Pedro Mendes  
+351 21 003 7821

pedro.sousamendes@millenniumbcp.pt

**The deal**

Impresa announced yesterday the acquisition of SIC's minorities it did not own (49%). This deal was widely expected, as in mid November Impresa and BPI informed the market that the negotiations were taking place and near completion. Impresa acquired the 41.366% held by BPI, as well as the remaining 7.6%. Both deals were made at the same price, with Impresa paying €128.7mn to BPI and €23.8mn to the other shareholders, thus totalling €152.5mn. This implies a 100% of SIC's equity valuation of €311.2mn, which is in line with the value we were expecting. Recall that we were assuming that given the weaker bargaining position of BPI (non-controlling stake, non-core asset, low liquidity stake and regulatory capital issues), it would be only normal that the stake would be acquired at discount, which we assumed to be 15% to the median EV/EBITDA04 multiple of European broadcasters, meaning a multiple of 8.5x. We were estimating the deal to be value accretive by €1.80 per Impresa share, which we reiterate under the effective deal data. (for further details please refer to our report "Media Sector Update", out on 7 December)

**SIC shareholder structure**

	New		Previous		Change	
	Stake	# Shares	Stake	# Shares	Stake	# Shares
IMPRESA/Soincom	100.000%	6,005,000	51.000%	3,062,550	49.00pp	2,942,450
BPI	0.000%	0	41.366%	2,484,030	-41.37pp	-2,484,030
Other	0.000%	0	7.634%	458,420	-7.63pp	-458,420
<b>Total</b>	<b>100.000%</b>	<b>6,005,000</b>	<b>100.000%</b>	<b>6,005,000</b>	<b>0.00pp</b>	<b>0</b>

Source: Company data

**The rational for both companies**

As mentioned in previous notes, the acquisition of SIC minorities by Impresa represents an excellent move to the company. By becoming the full owner of the company, Impresa certainly gains room in terms of strategic flexibility, while truly becoming a TV operator. Furthermore, it allows the full ownership of SIC and therefore a full discretion over cash flow generated by the company. On this matter, recall that SIC should end the year with some €19.5mn of net debt while we estimate it to be generating something around €40mn of cash flow per year. Under this framework, and given the recovery of the advertising market, as well as the restructuring effort made in the recent years, SIC is now a true cash cow.

For BPI the deal also has an appealing rational. The bank has a minority stake in an asset it does not control and that is not core for its activity. Furthermore, the stake lacks liquidity not only because it is not listed but mostly because it is a minority stake in a company with a clear controlling shareholder. These two reasons lower its value for any possible acquirer other than the main shareholder.

We recall that BPI increased its stake at the end of 2003 from 26.6% to 41.4% in order to capture a potentially significant capital gain in the future, as that deal at that time was a clearly a bargain (valuing the 100% at €133mn, implying a EV/EVITDA04 of 4.8x), as noted on a snapshot out on 18 Nov 2003 (entitled "Almost a free lunch"). That deal also allowed BPI to lower its average price, as its previous stake had been bought to Cofina at a very high price. For capital purposes, BPI has already provisioned a significant part of the regulatory capital loss (which according to the bank of Portugal for non-listed companies is equal to the book value of the company bought multiplied by 1.5 less the investment cost). At the end of 1H04, the book value of SIC at BPI was €138mn, and thus at that time it had to deduct the resulting goodwill (€126.5mn) against reserves, while for regulatory capital purposes, this amount is

being deducted to core capital until the end of the current year (1/3 in 1H04, 3Q and 4Q each). This €126mn represents 71bp of its RWA at the end of 9M04. Given the value of the sale (€128.7mn), BPI will reverse that negative impact. This should put any capital constraints aside in the foreseeable period, while reducing BPI's exposure to the capital markets.

**Update of the impacts of SIC deal in cash-flow, earnings and leverage**

Using the actual cost of acquisition, we recalculated the impacts on cash flow, earnings and debt ratios that we have made in aforementioned report, assuming a 100% debt financed deal (as already confirmed by Impresa). We reiterate all the main conclusions:

- The cash flow generated by SIC in next years would be more than sufficient to cover the interest cost (leverage buyout);
- Also important to notice is that the EBITDA generated by SIC will still clearly exceed its interest cost after the acquisition (again assuming a leverage buyout);
- Impresa's EPS should jump by 39%.

**Estimated Impacts - Using 100% debt**

€ million	
Cost of the 49% stake	152.5
Acquisition of BPI's stake (41.366%)	128.7
Acquisition of remaining minorities (7.634%)	23.8
Interest cost @4.40% (Libor 6m +2%)	-6.4
Tax benefit	1.8
Net interest cost	-4.6
<b>Cash Flow Impact</b>	
SIC 2005 cash flow to equity (ex-leverage buyout)	39.5
49%	19.3
Additional net cash flow for Impresa 2005	14.7
<b>Earnings Impact</b>	
Impresa 2005 net income	12.1
SIC 2005 net income	26.9
49%	13.4
Goodwill generated	134.1
Additional goodwill amortisation (assuming 20 years amortisation)	6.7
Increase in Impresa's 2005 net income	2.1
New 2005 net income for Impresa	14.1
% increase	17%
Previous Impresa EPS 2005 (€)	0.27
New Impresa EPS 2005 (€)	0.37
% increase	39%
<b>Indebtness Impact</b>	
<i>SIC's previous situation (2004)</i>	
SIC Net Debt 2004	19.5
EBITDA 2004	39.9
Equity 2004	37.5
Interest Cost	4.1
Net Debt / EBITDA	0.5
Net Debt / Equity	52%
EBITDA / Interest Costs	9.8
<i>SIC's new situation (2004)</i>	
SIC Net Debt 2004	172.0
EBITDA 2004	39.9
Equity 2004	37.5
Interest Cost	8.7
Net Debt / EBITDA	4.3
Net Debt / Equity	459%
EBITDA / Interest Costs	4.6

Source: Millennium bcp investimento

**Impresa: Sum of the Parts**

€ million	EV	Equity	Stake	Value to Impresa	Method	Weight	Implied Multiple
Television	648.3	617.3	100.0%	617.3	DCF	80%	EV/EBITDA 05 13.3x
Magazines	99.6	77.3	50.0%	38.7	DCF	5%	EV/EBITDA 05 9.8x
Newspapers	152.3	144.1	100.0%	144.1	DCF	19%	EV/EBITDA 05 11.2x
Holding&Adjustments	-38.7	-38.7	100.0%	-38.7	DCF	-5%	
Non-Operating Assets		9.6		9.6	BV	1%	
<b>Sum-of-the-Parts</b>				<b>770.9</b>		<b>100%</b>	
Adjusted Net Debt YE04				216.3			
Cost of the 49% Stake				152.5			EV/EBITDA 04 8.5x
Holding Net Debt				63.8			
Consolidated Net Debt				102.2			
Television				19.5			
Magazines				10.7			
Newspapers				8.2			
<b>Equity Value</b>				<b>554.6</b>			
Number of shares (mn)				84.0			
<b>Price Target - YE 2005 (€)</b>				<b>6.60</b>			
Current Market Price (€)				5.33			
Upside/Downside Potencial				23.8%			

Source: Millennium bcp investimento

Note 1: Financial debt figures include debt to fixed assets suppliers

Note 2: TV Equity includes €13.8mn of deferred tax assets

Note 3: Holding&Adjustments includes holding costs, consolidation adjustments and financial discounts

Note 4: Non-operating Assets includes financial stakes at BV (ex-the ones already accounted at SIC) and the Bela Vista site

Our SotP was only fine-tuned to reflect the actual values of the deal, with the price target being maintained at €6.60 per share.

**Market Multiples**

	Last Price (€)	Mkt Cap (€mn)	EV / EBITDA		EV / Revenues		P / CF		P / E	
			2004E	2005E	2004E	2005E	2004E	2005E	2004E	2005E
<b>Broadcasters</b>		<b>42,714</b>	<b>10.1</b>	<b>9.0</b>	<b>2.1</b>	<b>2.0</b>	<b>13.6</b>	<b>12.0</b>	<b>20.1</b>	<b>16.8</b>
Mediaset	9.36	11,060	6.5	6.1	3.8	3.5	7.8	7.4	19.4	17.7
RTL Group	54.25	8,397	9.9	8.7	1.7	1.6	12.9	11.1	21.5	18.8
ITV	103.75	6,047	14.2	9.7	2.3	2.2	27.0	16.4	21.6	14.3
TF 1	23.66	5,081	10.4	9.4	1.9	1.8	14.3	12.8	20.8	18.5
Telecinco	14.72	3,631	10.9	9.3	4.4	4.0	10.1	9.1	17.6	16.0
Prosieben SAT 1	13.00	2,847	9.9	8.7	1.8	1.6	14.7	13.2	18.8	15.4
M6	20.59	2,716	7.7	6.9	2.0	1.8	10.6	10.1	19.3	16.7
Antena 3	52.85	2,936	12.7	10.5	3.7	3.4	16.9	14.2	21.1	17.0
Impresa	5.65	475	16.8	10.7	3.2	2.5	18.4	9.9	30.4	15.4
Media Capital	5.25	435	12.9	10.4	2.7	2.6	16.1	12.6	50.8	24.4
<b>Premium (discount) to Sector</b>										
Impresa			66%	19%	51%	25%	35%	-17%	51%	-9%
Media Capital			27%	16%	28%	29%	19%	6%	152%	45%

Source: Millennium bcp investimento for Impresa (using proportional data) and MC; JCF consensus for the remaining

The following financial statements were revised to take into consideration the impacts of the deal:

**Income Statement**

€ million	2002	2003	2004E	2005E	2006E
Operating Revenues	250.7	265.7	257.7	276.3	294.9
EBITDAP	12.4	40.9	58.7	70.0	76.0
EBITDA	1.8	34.2	53.3	64.2	69.9
EBIT	-19.8	18.6	40.2	51.2	58.1
Net Financials	-11.1	-10.0	-8.7	-12.0	-10.2
Extraordinaries	0.3	0.7	1.8	0.0	0.0
Taxes	2.3	-5.5	-6.6	-8.3	-11.5
Minority Interests	10.1	-3.1	-9.2	0.0	0.0
Net Income	-28.0	-10.2	7.2	14.1	19.6
<b>Margins (%)</b>					
EBITDAP	4.9	15.4	22.8	25.3	25.8
EBITDA	0.7	12.9	20.7	23.2	23.7
EBIT	-7.9	7.0	15.6	18.5	19.7
Effective Tax Rate	-5.8	339.2	-28.9	-36.9	-37.0
Net Income	-11.2	-3.8	2.8	5.1	6.6

Source: Company data and Millennium bcp investimento

**Financial BS**

€ million	2002	2003	2004E	2005E	2006E
Fixed Assets	270.7	243.2	204.5	319.7	301.6
Working Capital	0.5	37.0	25.4	15.7	11.1
<b>Invested Capital</b>	<b>271.1</b>	<b>280.3</b>	<b>229.9</b>	<b>335.4</b>	<b>312.7</b>
Net Debt	170.5	168.9	102.2	212.0	169.7
Minority Interests	12.8	15.7	24.9	6.5	6.5
Equity	87.8	95.7	102.8	116.9	136.5
<b>Capital Employed</b>	<b>271.1</b>	<b>280.3</b>	<b>229.9</b>	<b>335.4</b>	<b>312.7</b>

Source: Company data and Millennium bcp investimento

**Cash-Flow Statement**

€ million	2002	2003	2004E	2005E	2006E
Cash Flow from Operations	-6.9	6.5	51.5	52.8	51.6
Cash Flow from Investing	-23.7	-4.3	15.1	-144.1	-9.3
Cash Flow from Financing	34.1	17.2	-71.3	92.6	-40.9
Free Cash Flow to Equity	-20.9	-4.5	47.6	-92.6	40.9
EBITDA - Capex	-21.8	29.9	68.4	-79.9	60.5

Source: Millennium bcp investimento