

Equity Research  
Europe

Portugal

Media &amp; Internet

## Impresa

Reuters: IPR.LS Bloomberg: IPR PL

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## Analysis of Sales/Earnings

November 30, 2005

*Reassuring Investor Day*

STOCK RATING	OVERWEIGHT
Price (November 30, 2005)	€4.77
Price Target	€5.60
52-Week Range	€6.10-4.50

Stock ratings are relative to the analyst's industry (or industry team's) coverage universe.

GICS SECTOR	CONSUMER DISCRETIONARY
Strategists' Recommended Weight	10.8%
MSCI Europe Weight	9.6%

WHAT'S CHANGED	
2006e Revs	From €279m to €271m
2007e Revs	From €298m to €287m
2006e EBITDA	From €60.4m to €60.3m
2007e EBITDA	From €68.3m to €70.1m
2006e Modelware EPS	From €0.34 to €0.37
2007e Modelware EPS	From €0.40 to €0.46

- Impresa's investors' day was re-assuring about the change in SIC ...**  
 The main focus of the day was on the new strategy at SIC, the cornerstones of which are: more Portuguese content, getting closer to the public, and football
- ... the challenge is to do it without increasing programming costs**  
 Audience share is expected to improve from day one, although the no 1 spot in audience will not be reached in 2006. Profitability will also increase in 2006. With higher expenditures on hiring "stars", more Portuguese production and bids for soccer, the challenge to meet the €72.5 million programming budget is clear
- Publishing business progresses without surprises, except for the new printer**  
 Impresa is selling its old Expresso printer and hiring capacity on a new one, bringing full colour, reducing costs and improving distribution. We think this comes as a positive surprise, although the full impact will only come late 2006.
- We think the risk is on the upside and remain Over-Weight on the shares**  
 With a new focus on SIC (after a poor 2005) we think the company could surprise on the upside and raise earnings by 10% for 2006. The shares are not expensive at 8.5% FCF yield, 12.8x P/E in 2006, with almost 20% upside to our €5.6 price target.
- Our view on the European media industry is In-Line**  
 We expect relative performance to be focused on companies with accelerating rates of organic revenue growth and/or those with balance sheet restructuring opportunities

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Fiscal Year Ends (Dec 31)	2004	2005e	2006e	2007e
ModelWare* EPS (€)	33.0	0.28	0.37	0.46
Revenue (€mn)	262	263	271	287
EBITDA (€mn)	61.7	51.7	60.3	70.1
Net income (€mn)	25.3	23.7	31.2	38.7
P/E	14.6	16.9	12.8	10.4
EV/EBITDA	9.9	11.8	10.1	8.7
Dividend Yield (%)	0.0	0.0	0.0	0.0
Market Cap (€mn)	400	Shares Outstanding (mn)		84.0
Enterprise Value (€mn)	608			-

e = Morgan Stanley Research estimates \*Please see an explanation of Morgan Stanley's ModelWare initiative later in this note.

## Reassuring Investor Day

### Company Description

*Impresa is a leading FTA and cable broadcaster (33.3% market share for SIC, its FTA channel), publishes the influential weekly newspaper Expresso and has a portfolio of more than 30 magazine titles.*

### Summary and Investment Conclusion

Impresa had its annual investor day yesterday. The main focus, as expected, was the restructuring taking place at SIC, the FTA channel. It also presented its guidance for 2006.

- Group revenues are expected at €270 million, slightly below our previous €278 million forecast, mainly on newspapers and magazines. Our new forecast for Impresa's revenues is €271 million.
- Group EBITDA is guided for at €62 million (slightly above our previous €60.4 million forecast, which we are leaving basically unchanged at €60.3 million), so costs will absorb all the revenue weakness, mainly on TV and also on the new printer arrangements for Expresso. Our new forecast is mildly below management's guidance as we are slightly more cautious on TV programming costs.
- Most interestingly, lower capex and so depreciation, plus higher debt repayments (the sale of the old printer might bring some € million of unexpected cash, and are not considering any cash inflow from the sale of real estate) will push 2006 Net income to €31-32 million, according to management. This is significantly better than the €28.4 million we were previously forecasting, and are now increasing our earnings expectation by 10% to €31.2 million.

The main investment conclusion we take from the meeting is that the change in the programming style of SIC is more than just superficial, and that top management is fully committed to make it work. Given the surprising bad luck of SIC with almost all its major soap operas sourced from Globo in 2005 (all last three went wrong), and the company's intentions to change towards more Portuguese fiction already in 2006, we cannot see how 2006 will be a worse year than 2005 in audience share. With the company expecting its power ratio to stay at almost 1.4, and internal audience targets for SIC flat at 27.5%, the risk is on the

upside for SIC revenues. However, the difficult task will be to get costs also under control (given that SIC is hiring stars, producing Portuguese content, buying soccer rights, reformatting programs, etc) so that the target of increasing profitability of SC in 2006 (strongly maintained by management throughout all the meeting) is met without resorting to the easy trick of not having the more than €4 million of restructuring costs accounted for in 2005.

Overall, we think the shares have suffered materially in the recent months from the weak audiences of the last half of 2005, and with the risk on the upside (not only on TV, but also in newspapers with the new printing arrangement), we will remain Overweight on the shares. The shares at not expensive, not only to our price target of €5.6 (which we are retaining despite the increase in the DCF valuation resulting from the increase in earnings), but also on relative multiples, with a 8.5% FCF yield, and just 12.8 times earnings in our 2006 estimates.

On TV, the main take-aways are:

- The worst seems to be over for SIC. In other words, when all 3 major soaps operas from Globo (all shown on SIC) manage to go wrong in a given year (and that was 2005), it is not difficult to see that only one of them doing fine in 2006 would imply a material improvement in the audience situation.
- There is a clear trend towards integrating all the different parts of SIC, which used to work independently, as well as to get into soccer. SIC has bid for the 2006 World Cup (11 games) and will know the result today. SIC seemed extremely confident that it will get it. It is also bidding for the Portuguese League (next two seasons), but the result will not be known until 2Q06. It is also interested in the Champions League, so the move to soccer is obvious. No cost of soccer (and neither revenues), are in their guidance neither on our forecast.
- SIC will add local series and soaps to its until now exclusively Brazilian content. This is a revolution for SIC, apparently does not conflict with the output deal with Globo as long as they still show 3 or 4 of its products, and is based on the idea of

hiring Portuguese stars, which has already started (5 have been already signed and 3 more are to come soon. Impresa will also take a stake in Portuguese production companies within the next months.

- Although the new head of programming (remember, Impresa fired the whole department two months ago) will not compromise for increasing audiences for 2006 — the budget and the guidance is for audience flat at 27.5% — he did stress the fact that the profitability of SIC is set to grow significantly in 2006. In fact, the company is guiding for SIC revenues of €169 million (in line with our forecast of €168 million), but with an EBITDA contribution of €44 million (while we currently have only €40 million), so there is a 10% upside potential to our SIC numbers.
- This is based on a flat programming cost, which seems too aggressive except for the trick of around € million of library amortization per year going through the EBITDA in the last 5 years, which now will be used for new programming. Thus, although the cash is still going out, the impact on EBITDA will be limited. Interestingly, although the company will not use as much of its library as before, management indicated that there are no plans to take any charge against equity for any part of its program inventory.
- We are adjusting our financial forecasts for SIC, and we are, in line with management's guidance, lowering advertising revenue expectations to 3%, SIC channels growth to 4%, and leaving other revenues growth at 20% for 2006. The result is an increase in revenues for SIC to €169.4 million (€168 million before). On the margin front, we are taking on board management's guidance for personnel costs (-2%), but are leaving intact our previous estimates on programming costs and other costs. We thus have a forecast of €74.5 million programming budget, versus the €72.5 million of the company (excluding soccer), to allow for some error margin in the launching of Portuguese fiction. Our new EBITDA forecast for SIC is €42.5 million, versus Impresa's own €44.7 million.
- The company expects 2006 revenues to reach €61.5 million. We have aligned ourselves with management, with advertising growth expectations of 3.2% (Impresa is guiding for 3.5%), circulation growth of 1% (in line with company), and other revenues decreasing at 8%.
- Our new EBITDA forecast is now €15 million for 2006, versus €14.2 million for 2005, with flat cost performance. Although newsprint costs are expected to grow by 8% in 2006, the company will have material saving in its printing costs by the new printing arrangements.
- Impresa has announced that it will sell its printing machine to Mirandela in the third quarter of next year, and by then Mirandela will have in operation a new printer which will serve (under a 10 year contract) Impresa's needs for Espresso, resulting in materially lower print costs, full color (the new printer will have 48 broadsheet pages full color capacity), and lower capex (as printing of Espresso will be now fully outsourced). The new printer will also have better finishing and handling capabilities (operational beginning of 2007), resulting in expected lower left-overs and better distribution of the newspaper.
- The change in the printer will also coincide with a change in the format, layout and content of Espresso (targeted for the beginning of 2007). While we expect it to be positive for both advertising revenues and costs (we expect around 10% paper savings with the new format) the company has mentioned that it is tough to see revenues from adds-on improving in the future.

#### On the magazine front:

- Revenues are now expected to reach €42.7 million in 2006, flat versus 2005, with advertising revenues up 3% (Impresa guiding for 3.6%), circulation up 4% (in line with company's estimates) and other revenues down 20% (also in line with company).
- We are encouraged by the success of FHM this year, but it is also true that the launching campaign was massive. In fact, the budget for the two magazines to be launched in 2006, combined, is

For the newspapers division:

even lower than the almost €1.5 million one of FHM.

- We are expecting EBITDA to reach €5.3 million for 2006 (in line with guidance)

Below the EBITDA line, the most significant change is the drop in depreciation coming from the sale of the printer, and the lower capex that we are forecasting going forward on the same basis (from our previous 4.5% of revenues now to 3%). Our net debt forecast for the end of 2005 is now €207 million, going down to €172 million for end of 2007 (which are in line with management's guidance of €260 million and €170 million respectively).

The net impact at net income level for 2006, is a €31.2 million forecast for 2006 (in the low end of the company's guidance range of €31-32 million), which implies a 10% upgrade to our previous forecast of €28.4 million, and a growth of more than 30% to 2005 expected earnings of 23.7

million (versus our previous €28.4 million forecast for 2005).

#### Valuation and Price Target Risks

We value Impresa on a DCF basis, to which we apply a 10% discount to reflect the presence of a large controlling shareholder and the consequent small free float of 30%. This gives us a price target of €5.6 per share. The main valuation parameters that we apply are: pre-tax cost of debt of 6%, beta of 1.2, risk free rate of 5%, equity risk premium of 3%, Leverage according to each company's position, perpetual growth rate of 1.5% from 2010 onwards. This results in a WACC of 7.4% for Impresa.

The main risks to our price target are a deterioration of the economic conditions in Portugal that leads to a reduction in advertising, an increase in the competitive pressure from Media Capital, or an increase in programming costs from Brazil.

Exhibit 1

#### Impresa: what's changed in our model, 2005-08e

(Million €)	2005			2006			2007			2008		
	OLD	NEW	Change	OLD	NEW	Change	OLD	NEW	Change	OLD	NEW	Change
Revenues	266	263	-1.0%	279	271	-2.7%	298	287	-3.7%	318	305	-4.3%
EBITDA	53.2	51.7	-2.8%	60.4	60.3	-0.2%	68.3	70.1	2.6%	74.7	76.5	2.4%
EBITDA Margin	20.0%	19.7%	-0.4%	21.7%	22.2%	0.6%	22.9%	24.4%	1.5%	23.5%	25.1%	1.6%
EBIT	44.2	42.7	-3.4%	49.8	53.4	7.3%	56.9	62.7	10.3%	62.5	68.7	9.9%
EBT	35.0	33.5	-4.3%	39.9	43.7	9.5%	47.1	53.6	13.7%	54.1	61.3	13.3%
Net Income	24.8	23.7	-4.6%	28.4	31.2	10.0%	33.8	38.7	14.3%	39.1	44.5	13.8%
EPS	0.30	0.28	-4.6%	0.34	0.37	10.0%	0.40	0.46	14.3%	0.47	0.53	13.8%
Modelware EPS	0.30	0.28	-4.6%	0.34	0.37	10.0%	0.40	0.46	14.3%	0.47	0.53	13.8%

Source: Company data, Morgan Stanley Research

e = Morgan Stanley Research estimates

#### Impresa Trading Multiples

	2006E	2007E	2008E	2009E	2010E
MC					
EV					
FCF	34.0	34.3	39.6	47.5	51.3
EV/EBITDA	10.1	8.7	8.0	7.3	7.0
EV/EBIT	11.4	9.7	8.9	8.1	7.7
PE	12.8	10.4	9.0	7.9	7.2
P/FCF	11.8	11.7	10.1	8.4	7.8
FCF Yield	8.5%	8.6%	9.9%	11.8%	12.8%

Impresa – November 30, 2005

Please see analyst certification and other important disclosures starting on page 7.

**Impresa Share Price Performance Relative to Media Capital 2004-2005**



Source: Datastream

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Morgan Stanley

**ModelWare**<sup>SM</sup>

**ModelWare is a proprietary framework for financial analysis created by Morgan Stanley Research.** This new framework rests on the principles of comparability, transparency, and flexibility, and aims to provide investors with better tools to view the anticipated performance of an enterprise. The result of an 18-month global effort, ModelWare harmonizes the underlying data and calculations in Morgan Stanley models with a broad set of consistently defined financial metrics. Our analysts have populated the database with over 2.5 million data points, based on an extensive taxonomy of more than 3,500 unique metrics and more than 400 Morgan Stanley calculations. The ModelWare framework will also have the flexibility to allow analysts and investors to quickly customize their own analytical approach.

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**ModelWare EPS** illustrates the approach taken. It represents ModelWare net income divided by average fully diluted shares outstanding. ModelWare net income sums net operating profit after tax (NOPAT), net financial income or expense (NFE), and other income or expense. ModelWare adjusts reported net income to improve comparability across companies, sectors, and regions. These adjustments include the following: We exclude goodwill amortization and items deemed by analysts to be "one-time" events; we capitalize operating leases where their use is significant (e.g., in transportation and retail); and we convert inventory to FIFO accounting when LIFO costing is used. For more information on these adjustments and others, as well as additional background, please see "Morgan Stanley ModelWare (ver. 1.0): A Road Map for Investors," by Trevor Harris and team, August 2, 2004.

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(as of October 31, 2005)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
<b>Overweight/Buy</b>	729	36%	275	40%	38%
<b>Equal-weight/Hold</b>	927	45%	319	46%	34%
<b>Underweight/Sell</b>	389	19%	102	15%	26%
<b>Total</b>	2,045		696		

Data include common stock and ADRs currently assigned ratings. For disclosure purposes (in accordance with NASD and NYSE requirements), we note that Overweight, our most positive stock rating, most closely corresponds to a buy recommendation; Equal-weight and Underweight most closely correspond to neutral and sell recommendations, respectively. However, Overweight, Equal-weight, and Underweight are not the equivalent of buy, neutral, and sell but represent recommended relative weightings (see definitions below). An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley or an affiliate received investment banking compensation in the last 12 months.

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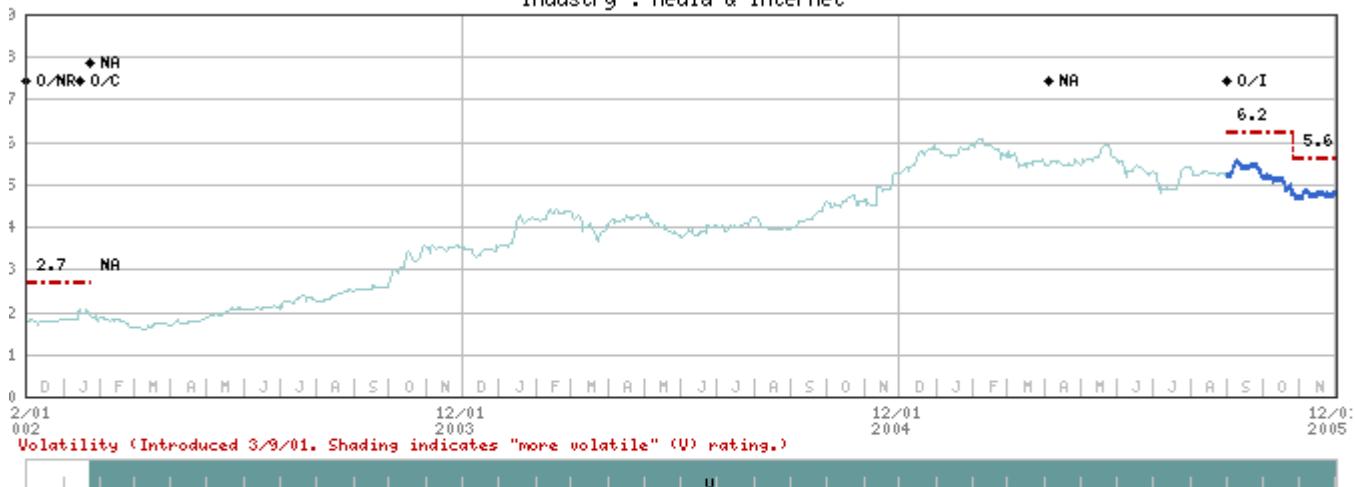
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**Stock Price, Price Target and Rating History (See Rating Definitions)**

Impresa (IPR.LS) - As of 11/30/05 in EUR  
 Industry : Media & Internet



Stock Rating History: 7/16/02 : 0/NR; 1/15/03 : 0/C; 1/23/03 : NA; 4/5/05 : NA; 9/1/05 : 0/I

Price Target History: 10/1/02 : 2.7; 1/23/03 : NA; 9/1/05 : 6.2; 10/26/05 : 5.6

Source: Morgan Stanley Research      Date Format : MM/DD/YY      Price Target - -      No Price Target Assigned (NA)  
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —  
 Stock Ratings abbreviated as below (Effective 3/18/02, ratings appear as Stock Ratings/Industry View) ♦  
 Stock Ratings as of 3/18/02: Overweight (O) Equal-weight (E) Underweight (U) More Volatile (V) No Rating Available (NAV)  
 Stock Ratings prior to 3/18/02: Strong Buy (SB) Outperform (OP) Neutral (N) Underperform (UP) No Rating Available (NAV)  
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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## INDUSTRY COVERAGE: MEDIA & INTERNET

Company	Ticker	Rating as of	Price at 11/30/05	Company	Ticker	Rating as of	Price at 11/30/05
Antena 3	A3TV.MC	E	05/23/05	€18.63	Pro Sieben	PSMG_p.D	
BSkyB	BSY.L	U	06/01/05	494p	Publicis Groupe	PUBP.PA	E 02/03/04 €15.10
DMGT	DMGOa.L	E	05/23/05	751p	Reed Elsevier NV	ELSN.AS	E 10/23/03 €28.74
EMAP	EMA.L	O	07/01/05	860p	Reed Elsevier PLC	RELL	E 08/03/04 €11.30
EMI	EMI.L	U	10/19/04	234p	Reuters	RTR.L	NR 08/03/04 515p
Eniro	ENRO.ST	NR	09/26/05	SKr88.00	Seat Pagine Gialle	PG.MI	O 02/03/05 401p
Findexa	FIND.OL	NR	09/26/05	NKr32.50	SES Global	SESFd.PA	O 11/25/04 €0.40
GCap Media	GCAP.L	O	09/30/05	282p	Sogecable	SGC.MC	NR 06/21/04 €13.25
Gestevisión Telecinco	TL5.MC	E	07/14/05	€20.36	Taylor Nelson Sofres	TNN.L	E 11/02/05 €34.00
Grupo Media Capital	MCP.LS	E	09/01/05	€7.34	TF1	TFFP.PA	U 02/18/05 226p
Grupo Prisa	PRS.MC	NR	11/02/05	€14.62	Tiscali	TIS.MI	E 02/03/04 €21.32
Havas	EURC.PA	E	09/20/04	€3.82	TPI	TPI.MC	E-V 10/13/04 €2.95
Impresa	IPR.LS	O	11/30/05	€4.77	Trinity Mirror	TNI.L	E 03/04/04 €6.81
Informa	INF.L	O	09/19/05	401p	United Business Media	UBM.L	E 11/28/05 609p
ITV	ITV.L	E	02/04/04	109p	Vivendi Universal	EAUG.PA	E 05/13/05 604p
JCDecaux	JCDX.PA	E	11/03/04	€18.45	VNU	VNUN.AS	E 07/03/03 €24.65
Johnston Press	JPR.L	U	11/28/05	479p	Wolters Kluwer	WLSNc.AS	E 11/23/05 €26.50
M6	MMTP.PA	E	04/25/05	€21.78	WPP Group Plc	WPP.L	O 01/06/05 €16.96
Mediaset	MS.MI	O	07/14/05	€8.94	Yell	YELL.L	E 09/12/05 570p
PagesJaunes	PAJ.PA	E	05/24/05	€20.66			
Pearson	PSON.L	E	09/18/03	673p			
Premiere	PREGn.DE	O-V	05/13/05	€24.02			

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