Time Warner Inc.

TMT consultants recommends initiating a 4.0% position

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Company Overview

Turner, HBO and Warner Bros.

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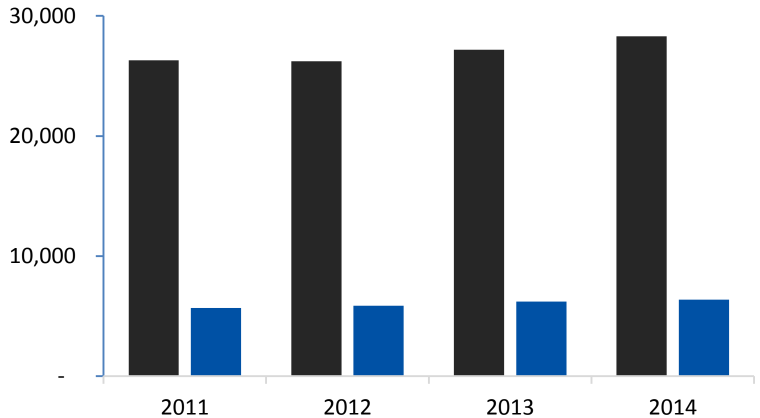
Company Overview

Time Warner Inc.

Company Description

- Time Warner operates media and entertainment assets through 3 main segments
- Turner operates cable network channels, including CNN, TNT, TBS & Adult Swim
- HBO is a premium cable network with over 127 million subscribers around the world
- Warner Bros. is one of the world's most successful TV and film studios
- Time Inc. spun off in 2012 and Time Warner Cable spun out in 2009

Time Warner Revenue and EBITDA ($millions)



Financial Overview

Public Market Overview	
(values in $mm, as of Dec. 31, 2014, except for Share Price)	
Share Price	$83.62
Shares Outstanding (mm)	856.0
Market Cap.	**$69,570**
+ Total Debt	22,557
+ Minority Interest	-
+ Preferred Equity	-
- Cash	3,210
Enterprise Value	**$88,917**
Beta	1.19
Dividend Yield	1.6%
ROIC	16.0%
52-Week High	$88.13
52-Week Low	$59.87

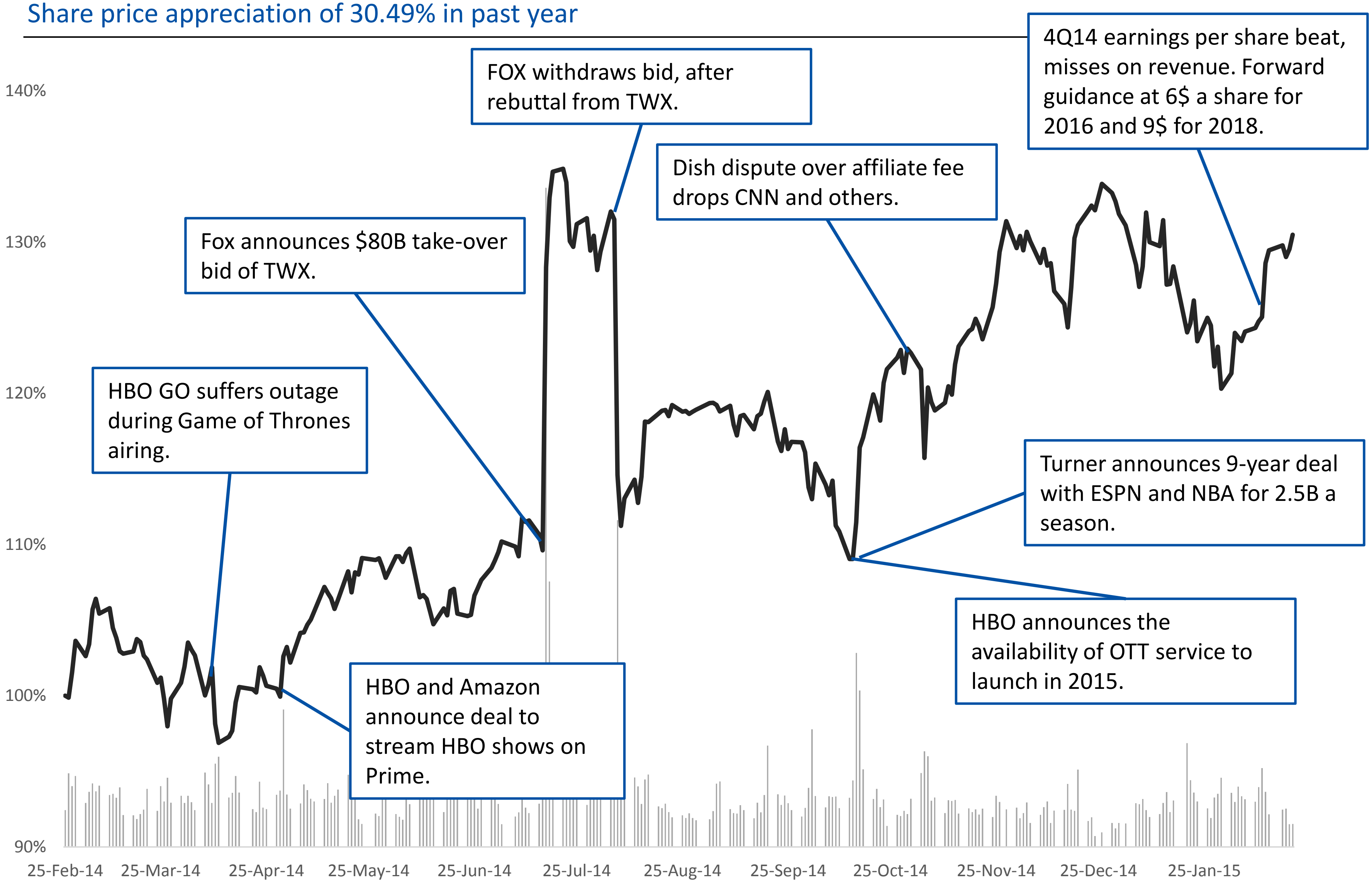
Financials & Multiples

Financials & Multiples	LTM	FY2015E	FY2016E
(values in $mm)			
Revenue	$28,320	$29,145	$30,947
% Growth		*2.9%*	*6.2%*
EPS	$4.15	$4.70	$6.00
% Growth		*13.3%*	*27.7%*
P/E	18.9x	14.6x	13.9x
EV/EBITDA	13.8x	10.0x	9.0x

Source: CapIQ

Annotated Stock Chart

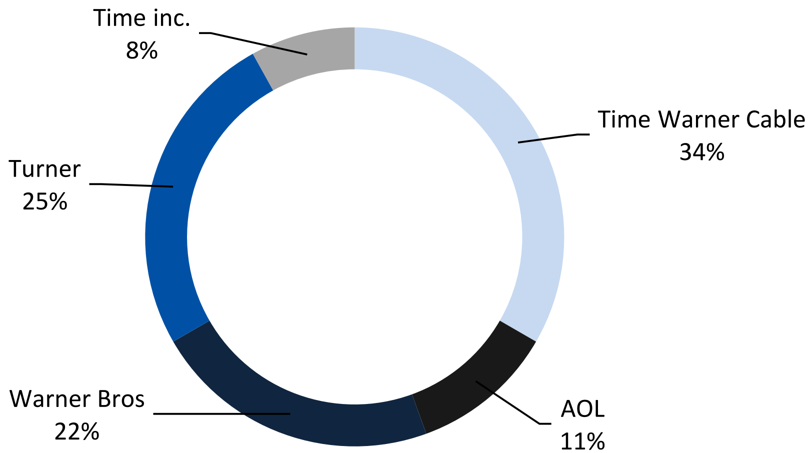
Share price appreciation of 30.49% in past year



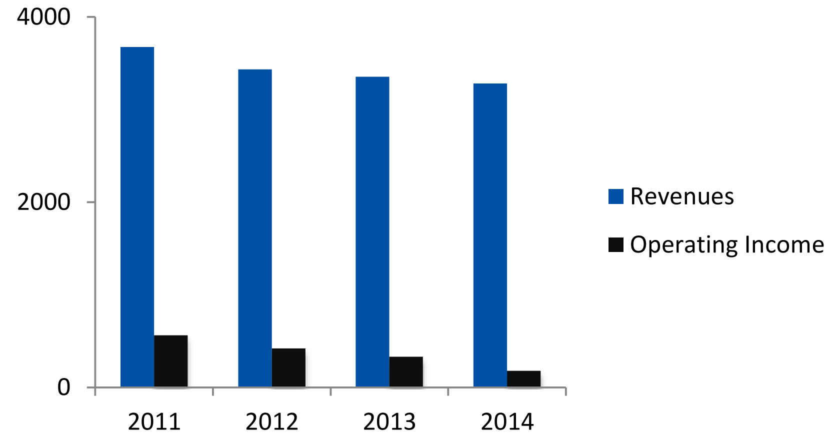
Time Warner Spin-Offs

From media conglomerate to pure-play video content player

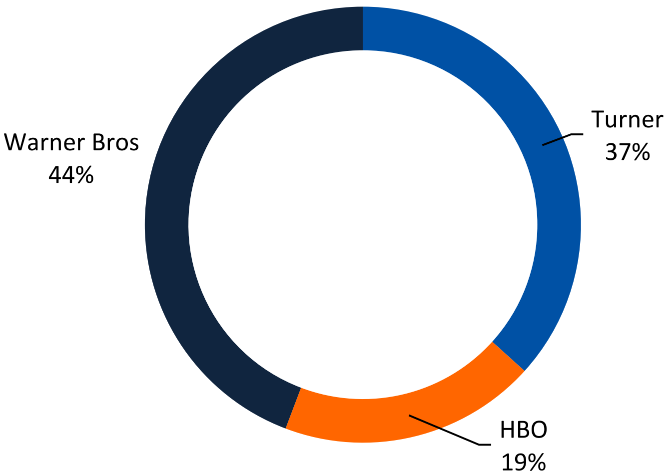
2008 revenue segments



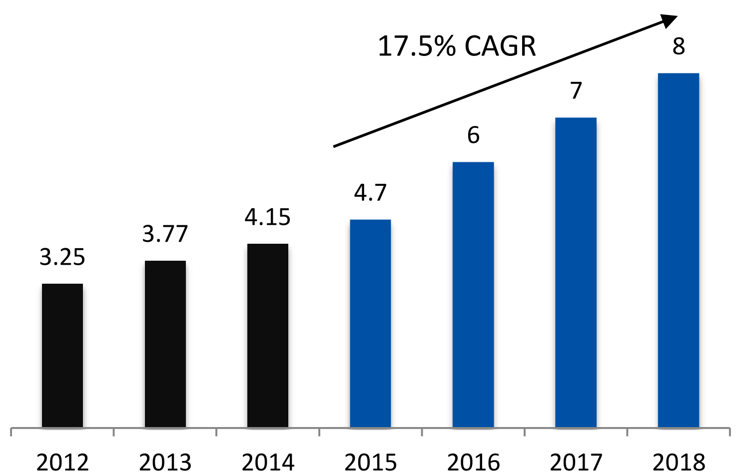
Time Inc. and print business decline ($millions)



2014 revenue segments



Aggressive forecasted EPS growth ahead



Media Industry Primer

Content owners capture the most value by benefiting from all distribution channels

Advertisers

Forecasted advertising revenue flat but represents only 15% of **TWX** revenues

Content Owners

Distribution Channels

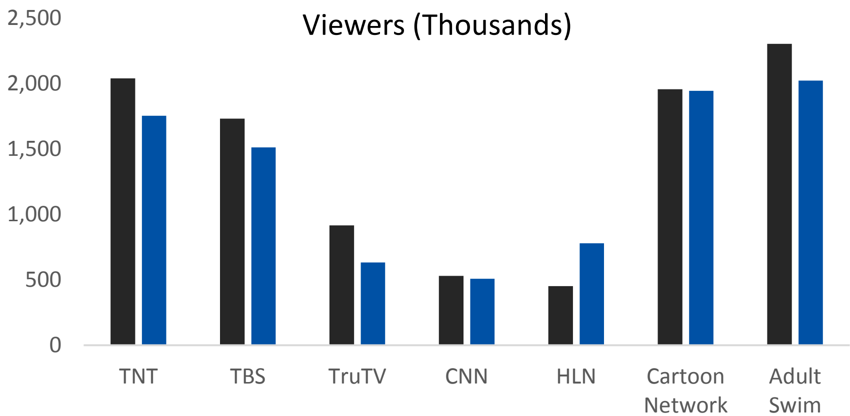
Subscribers

As subscribers shift from traditional cable to digital cable, content access points increase

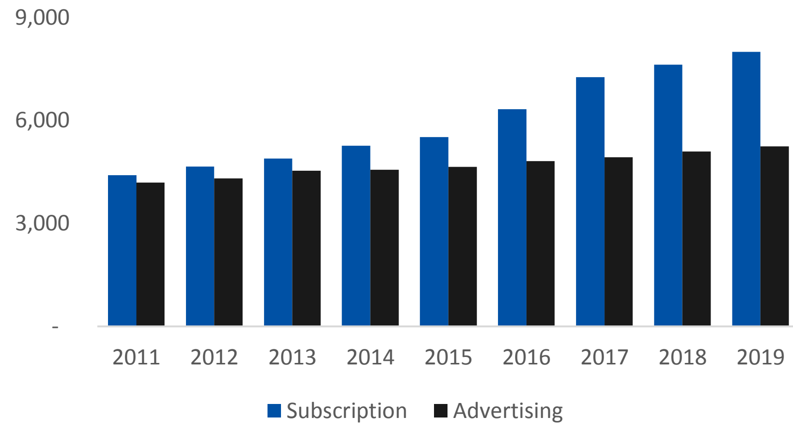
Turner

Television Networks, driven by sports and original programming

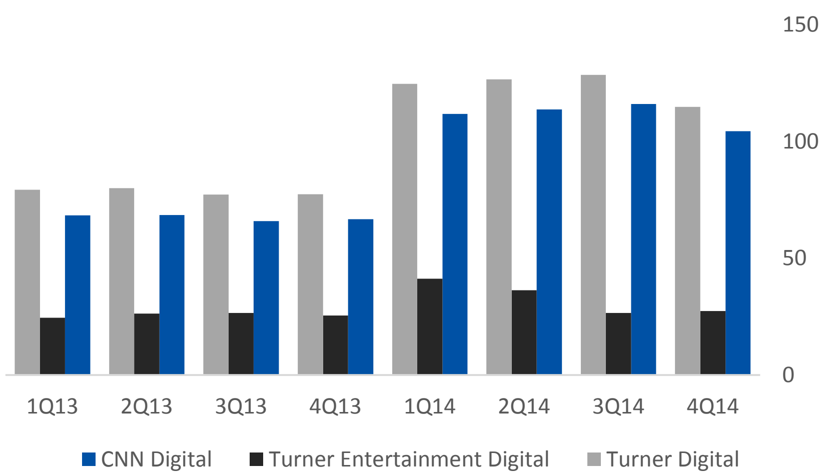
TV Ratings are dropping…



Affiliate vs Advertising Revenues ($millions)



…But digital viewership on the rise ($millions)



Will Turner suffer from dropping viewership?

- TV ratings are dropping across the board for cable channels, only sport related content remains strong
- Falling ratings means flat TV advertising revenue, however affiliate fees are increasing for the most popular channels that people still want to watch
- Turner is well positioned with its content library (sports and original shows) to benefit from affiliate fee increases and capture advertising revenue from digital viewership

Home Box Office

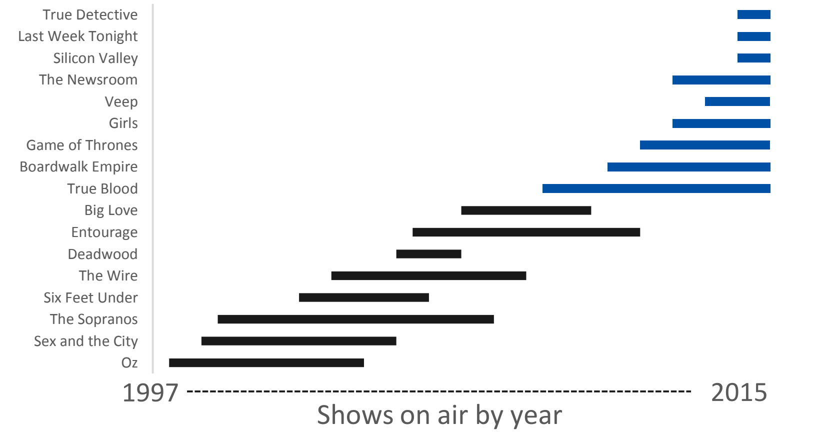
A Time Warner cash cow with incredible content and prestige

HBO

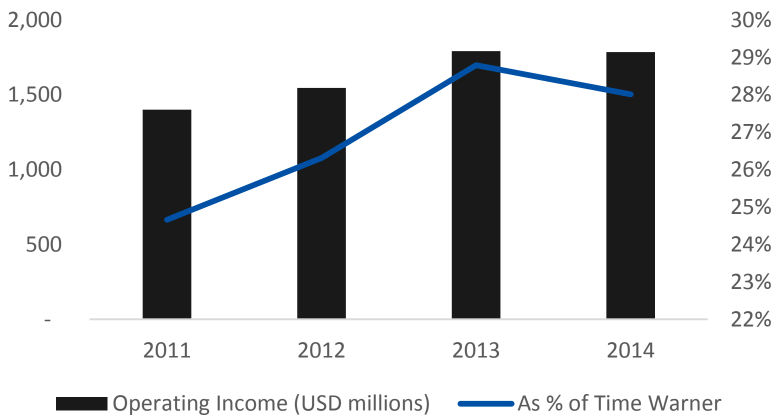
Segment overview

- Oldest and longest running pay TV service (est. 1972)
- Broadcast in 150 countries (114M worldwide subscribers)
- $15-$20 add-on fee for end consumers
- ARPU/month $7.60
- Wide disparity in distribution penetration (14%-42%)
- 2014 user growth highest in 30 years
- 70M households do not have HBO, management states 15M are “very persuadable”

Largest portfolio of new shows airing to date

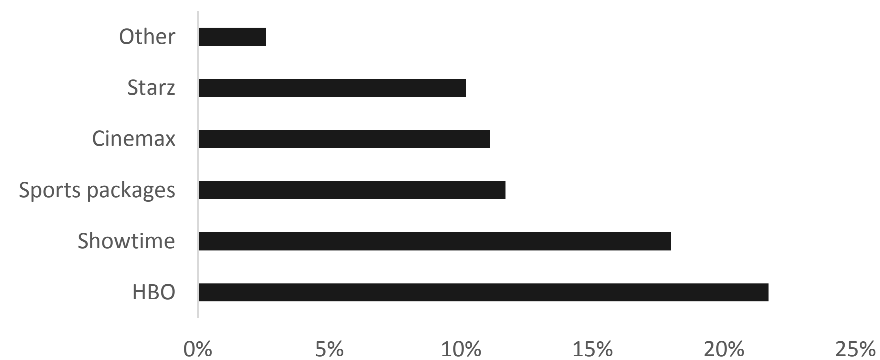


HBO contributes significant operating income



HBO has the highest pay TV penetration[1]

% of North American Pay TV subscribers on each channel



[1]eMarketer 2013

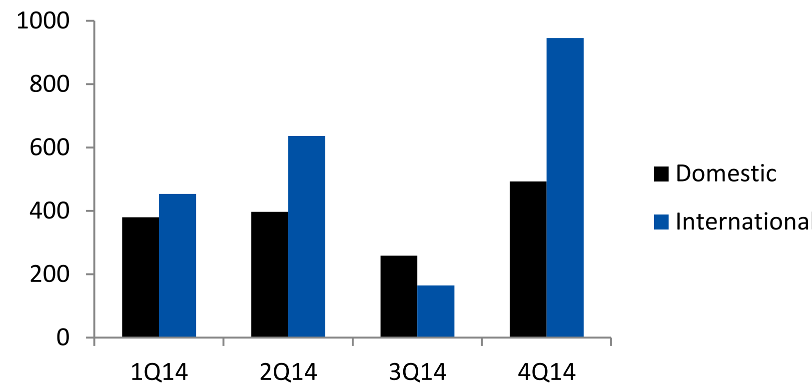
Warner Bros.

Strongest combined IP of film and TV in the industry

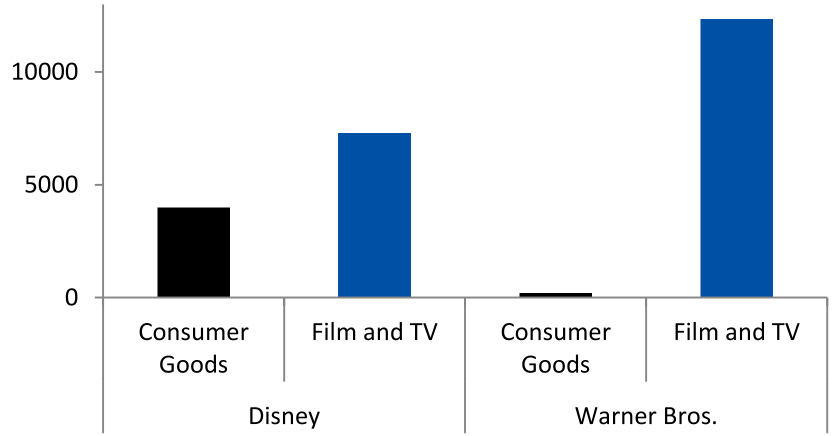
Management is optimistic on earnings growth

- Management has higher expectations on Warner Bros. then street
- Partnerships with HBO and Turner for content. Ramp up international growth with their 60 TV networks around the world
- Margin Expansion of 200M of Opex reductions from restructuring, higher margin digital distribution and higher TV revenue mix

Warner Bros. Box Office Revenues ($millions)



Disney versus Warner Bros., ($millions)



Bigger Budget Games for Warner Bros.

- The Montreal WB Games team is looking at bigger budget game, with an aggressive recruitment strategy of hiring 150 more people by 2017 to get to 450.

Media Industry

Is the industry overvalued?

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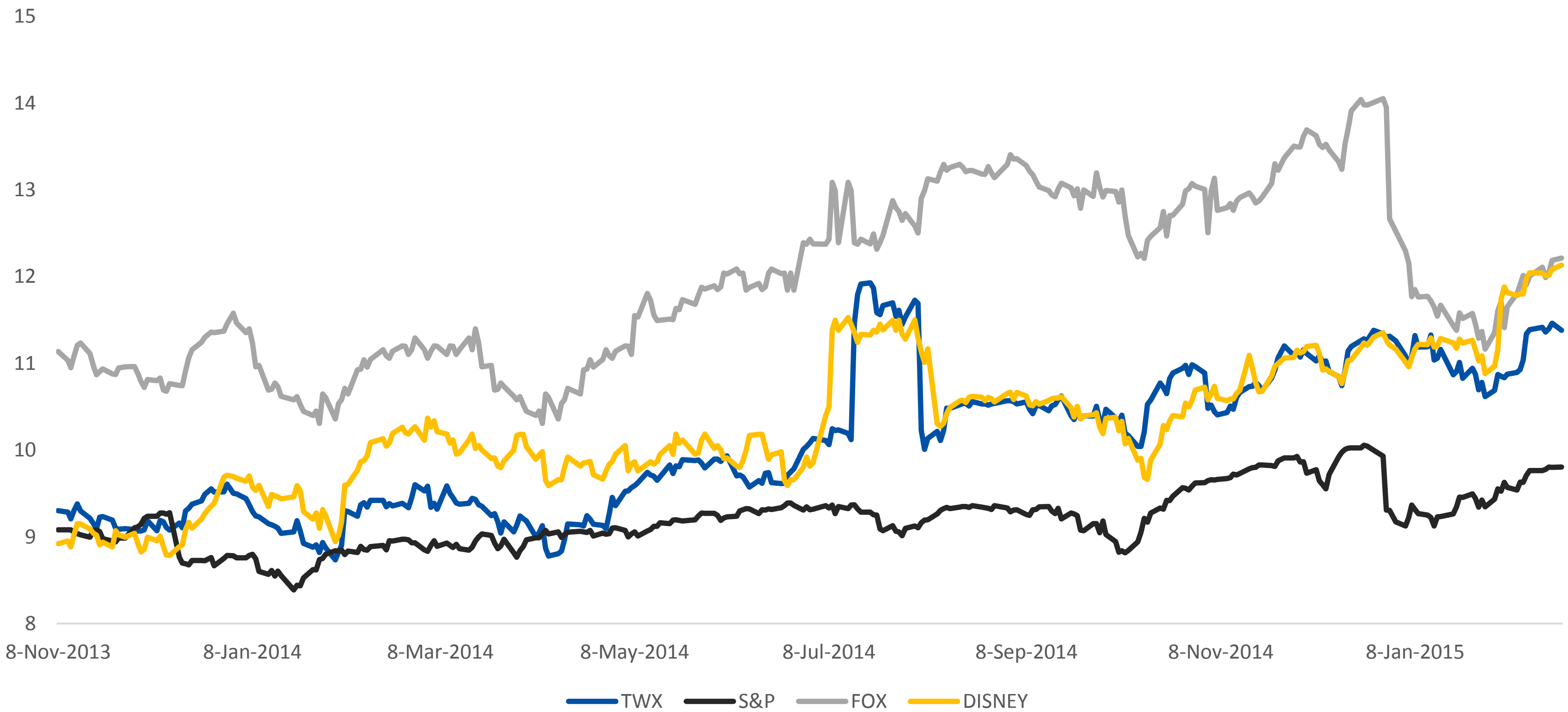
Media Valuations

Forward EV/EVITDA multiple between S&P, TWX and Core peers



Overall, big media content players trade at a premium over the S&P, with **TWX** trading at a lower multiple. In 2014, **TWX** EV/EBITDA caught up slightly to **FOX** and **DIS** after **Time Inc.** spin-off, but still discounted.

Investment Thesis

Attractive valuation upside & further growth opportunities

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Investment thesis

An investment in Time Warner is an investment in content monetization and HBO growth potential

Larger media players to benefit from industry headwinds	• Content pricing increase are driven by **consumer demand for premium content** as distributors compete over content rights • Smaller channels are getting squeezed out of the picture by distributors as the industry shifts increasingly towards an "a la carte" model, where cable distributors need to pay more for the most popular channels. Turner operates **3 out of the top 10 cable networks** • Time Warner has the option to either sell its content at high margin or go direct to consumer with new digital distribution channels
Strategic Content and HBO OTT	• The one-two punch of having **the largest content portfolio** in the industry and a new innovative means to distribute this content positions Time Warner in the forefront of media creation and distribution • New HBO subscription service will capture value from increasing **digital viewership** but represents little threat to existing business model
Attractive valuation	• Time Warner trades at a discount on a forward EV/EBITDA and PE basis, whereas it has a superior revenue mix, with the smallest exposure to slowing TV advertisement • Core DCF based on Time Warner's existing business model yields a **28% upside** • HBO OTT option generates additional **$3-$10** to core price target **(3-10%)**

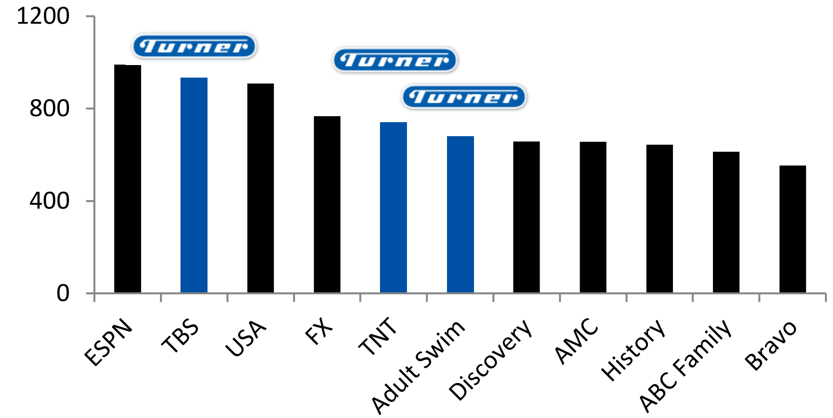
Cable Favors Large Players

The biggest brands are getting more expensive for distributors

Case Study: Sling TV and must have channels

- Dish TV just launched a $20 package with 14 channels
- 3 of those channels are from Turner (TBS, TNT, CN)
- Cable and Satellite providers are realizing that viewers only want “must-have” content, favoring the large networks that own this content

Most popular primetime networks (18-49)



Dish takes on the networks

- As affiliate fees rise for the “must have” channels, Dish has decided to take on certain networks by blacking them out from their service, including Turner channels for a short period.

FOX NEWS

Comcast SPORTSNET

CNN

Smaller networks getting dropped: Viacom

- On September 30 2014, Suddenlink announced that it will drop Viacom as part of their channel offerings
- Inflating affiliate fees and deflating subscriber bases are forcing cable and satellite providers to stick with a smaller number of channels that are available
- Viacom who owns channels such as MTV and Nickelodeon had been seeing decreasing ratings for their channels

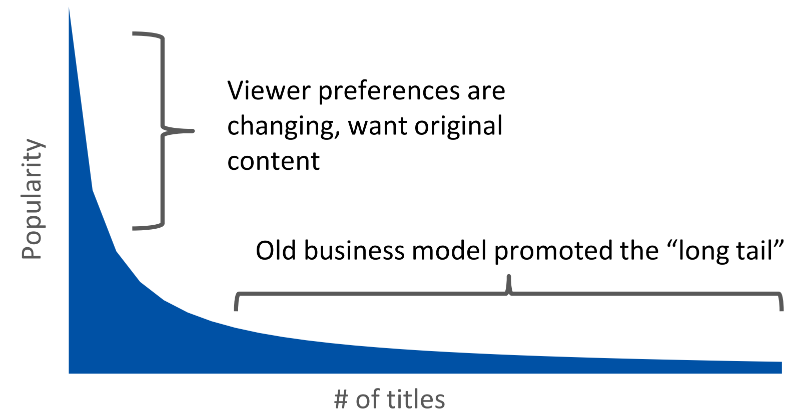
Content and the opportunity of OTT distribution

Time Warner owns the strongest library of content in the industry

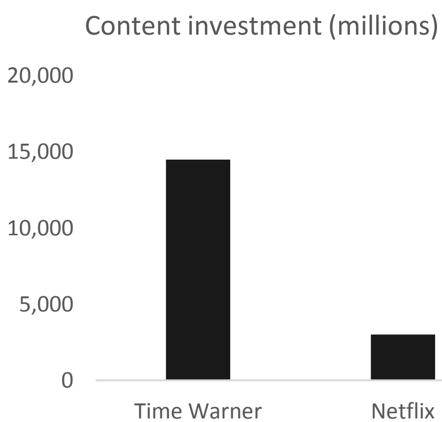
Content monetization requires good content

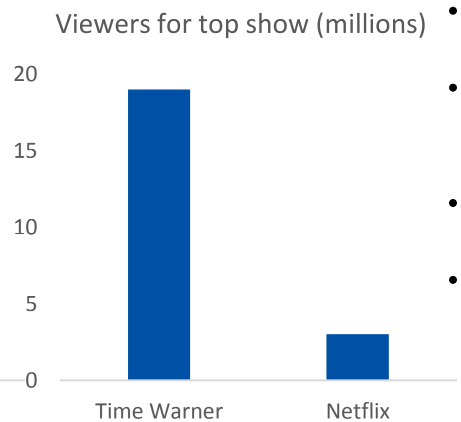
- HBO maintains exclusive first-run licensing agreements with Warner Brothers, Fox, Universal, and Dreamworks
- Of the top 25 box office hits, HBO had the first-run rights to over half while Netflix had 3
- Warner Brothers has 2 of the top 4 movie franchises in history, sets ambitious 2016 pipeline
- TNT the largest ad-supported basic cable network

"Can Netflix become HBO before HBO becomes Netflix?"



With great content comes great responsibility





HBO over-the-top presents opportunity

- Management has sight on the "low hanging fruit" of the 10M broadband only households
- HBO OTT will either be distributed with existing broadband partners or DTC, management forecasts partnership
- A subscription that includes same day HBO TV and the films under HBO licensing agreements? *Sign me up*.
- HBO GO is currently only available to existing HBO subscribers, HBO on Amazon is aimed at syndicating past content and advertising HBO to non-viewers

Valuation

TMT intrinsic valuation reveals considerable upside

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Relative Valuation

Premium content is a battleground of few players

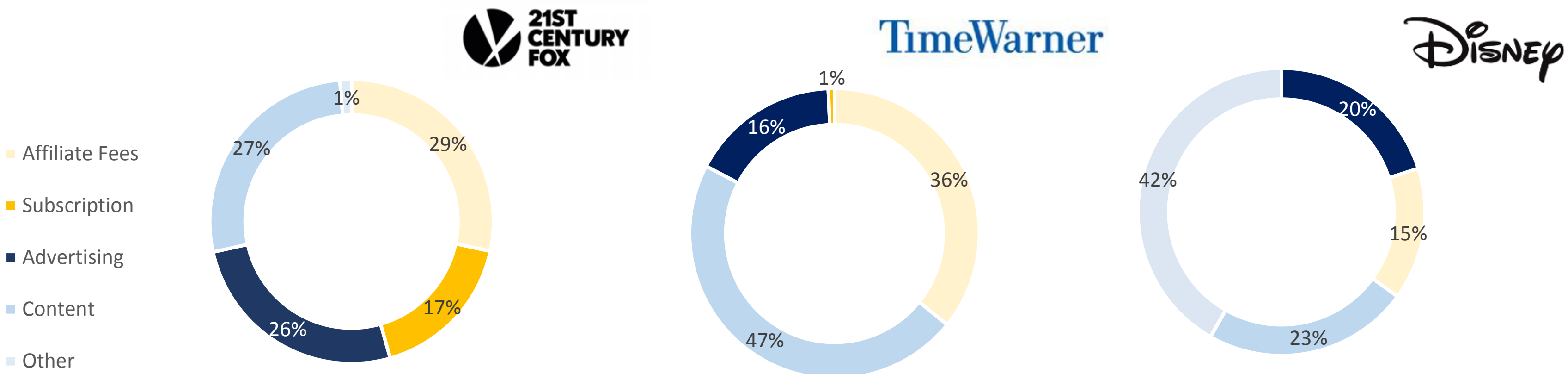
Ticker	Name	Market Cap. ($billions)	Enterprise Value ($billions)	EV / EBITDA LTM	EV / EBITDA FY2015E	Debt/Equity	P / E LTM	P / E FY2015E	GM:Y
Core Peers									
DIS US Equity	WALT DISNEY CO/THE	177.7	192.8	12.4x	11.4x	31	23.0x	18.9x	46
FOXA US Equity	TWENTY-FIRST CENTURY FOX-A	74.2	84.8	13.1x	11.2x	89	13.4x	17.1x	N/A
Average		**126.0**	**138.8**	**12.8x**	**11.3x**	**60**	**18.2x**	**18.0x**	**46**
Smaller Studios									
AMC US Equity	AMC ENTERTAINMENT HLDS-CL A	3.2	4.9	11.1x	8.5x	145	53.0x	21.4x	61
LGF US Equity	LIONS GATE ENTERTAINMENT COR	4.5	5.2	20.0x	12.3x	116	20.3x	17.0x	48
CBS US Equity	CBS CORP-CLASS B NON VOTING	29.6	36.4	10.9x	9.8x	103	19.8x	13.7x	41
VIAB US Equity	VIACOM INC-CLASS B	28.3	41.1	10.2x	8.9x	322	12.5x	10.7x	53
Average		**16.4**	**21.9**	**13.0x**	**9.9x**	**172**	**26.4x**	**15.7x**	**51**
Digital Distribution									
NFLX US Equity	NETFLIX INC	28.9	28.2	43.6x	35.7x	48	110.7x	69.4x	32
Average		**52.2**	**60.5**	**16.9x**	**13.5x**	**118**	**33.9x**	**22.8x**	**46**
TWX US Equity	**TIME WARNER INC**	**70.9**	**90.8**	**13.8x**	**10.0x**	**92**	**18.9x**	**14.6x**	**42**

TWX trading at a discount to core peers on a forward **EV/EBITDA** and **P/E** basis.

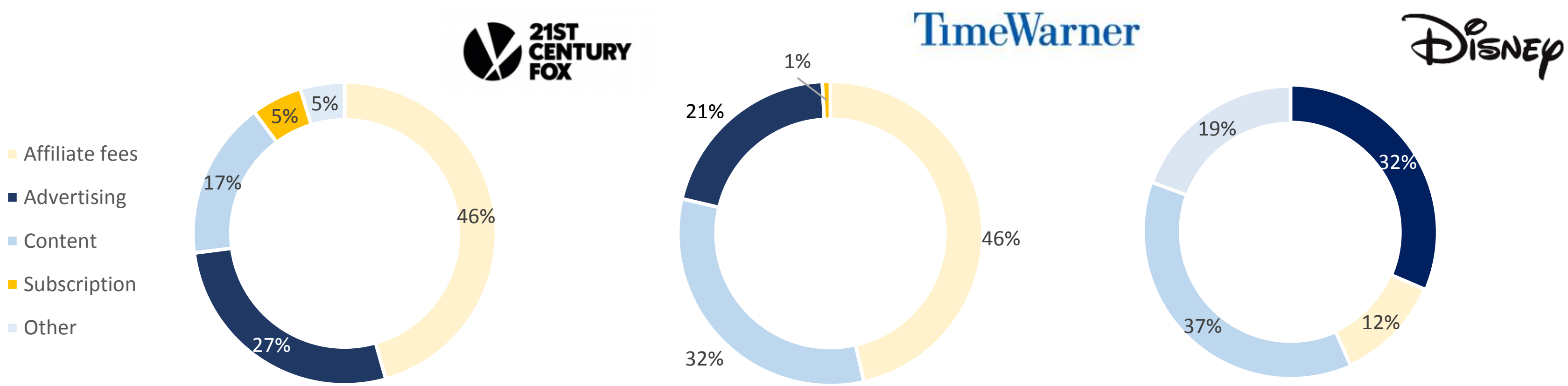
Core Peer Valuation

TWX should trade higher due to lower exposure to TV advertisement

Revenue Breakdown



EBITDA Breakdown



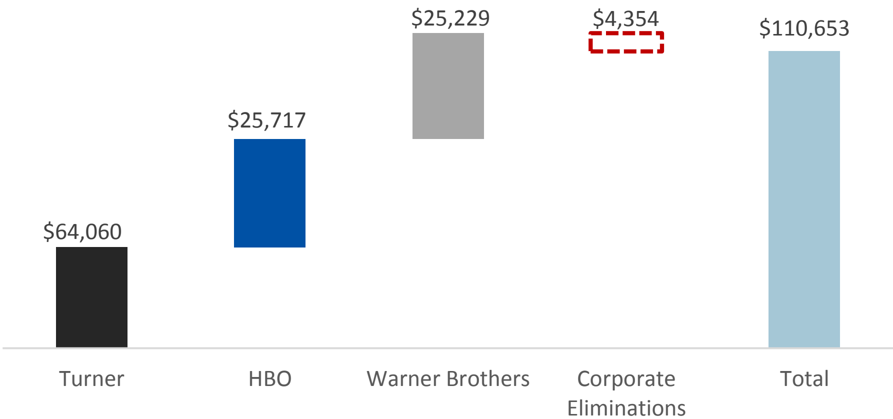
Time Warner Valuation Primer

Revenue projections generated from specific TMT research

Step 1: Project operating income by segment

- Turner: Driven by affiliate fee revenue growth, flat advertising growth and cost increases due to increased programming.
- HBO: Driven by subscription growth, average revenue per user, and share of subscribers that pay revenue
- Warner Bros: Driven by international box office growth, declining home entertainment segment,

Step 2: Calculate sum of parts DCF ($millions)



Step 3: Calculate consolidated DCF

Operating Income:					
Turner	4,085	4,346	5,121	5,582	6,033
HBO	1,959	2,127	2,206	2,288	2,374
WB	1,455	1,576	1,736	1,943	2,205
(Corporate and Eliminations)	(412)	(425)	(439)	(439)	(453)
NOPLAT	**4,516**	**4,868**	**5,522**	**6,011**	**6,523**
Less: Change in NWC	51	47	33	35	35
Less: Capital Expenditure	667	708	746	773	802
Add: Depreciation	559	593	623	640	658
Less: Investments in Goodwill and intangibles	169	179	189	196	203
Free Cash Flow	**4,189**	**4,527**	**5,176**	**5,647**	**6,140**
PV(FCF)	*4,037*	*4,052*	*4,303*	*4,359*	*4,402*

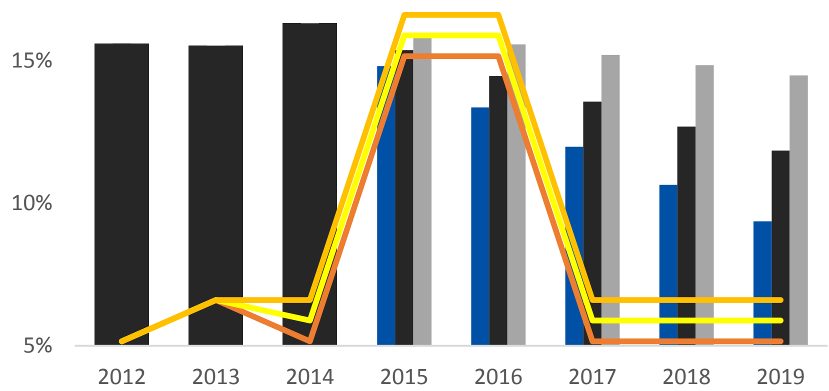
EV/EBITDA Multiple	11
WACC	7.67%
PV(FCF) including Terminal	*108,268*
Add: Investments	2,326
Enterprise Value	**110,594**

WACC Assumptions	
Cost of Equity	9%
Given Value	5%
Equity Value	76%
Debt Value	24%
Enterprise Value	100%
Effective Tax Rate	35%
WACC	7.675%

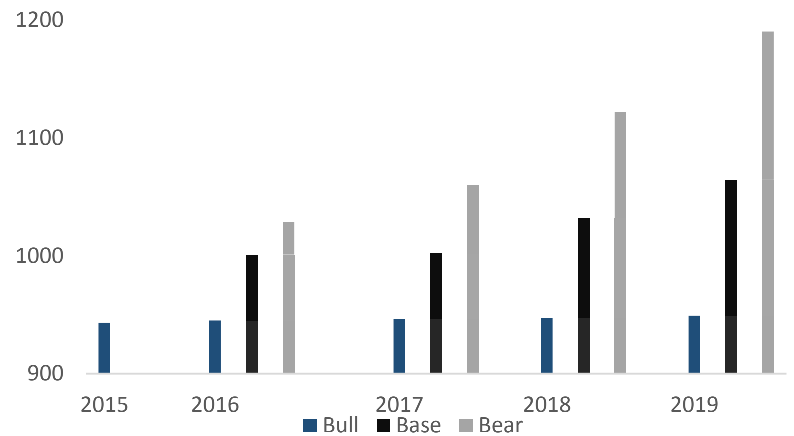
Turner

Main Driver: Affiliate Revenue Growth

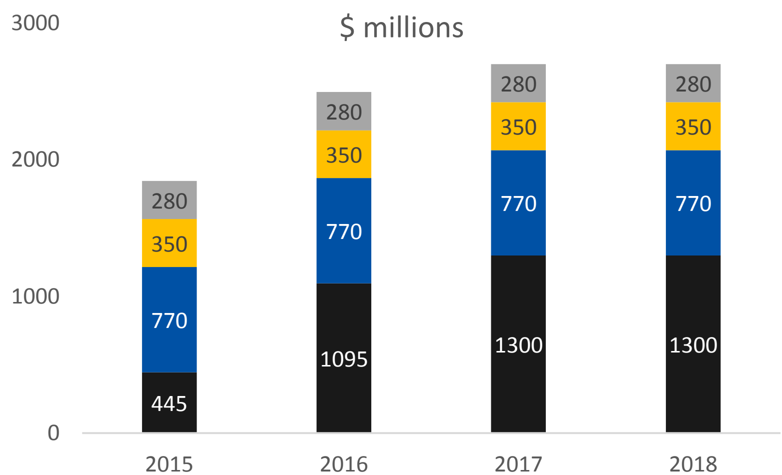
Cable Industry Slowing, Affiliate Fees Increasing



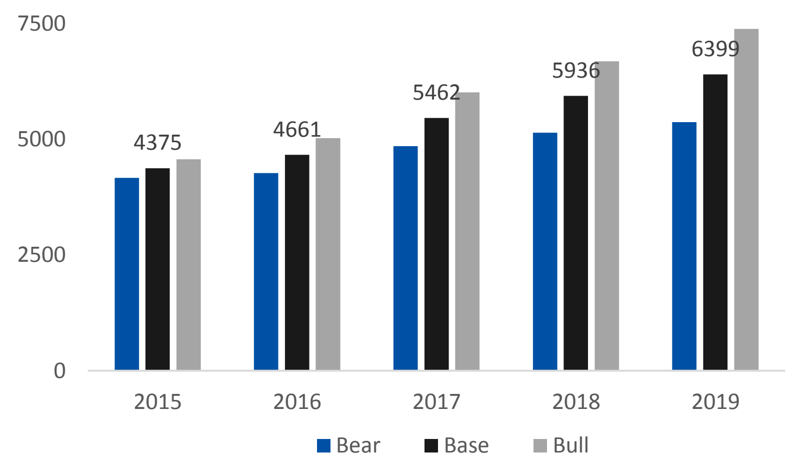
Increasing TV Programming Costs ($millions)



NBA Contract increasing Sports Programming Costs



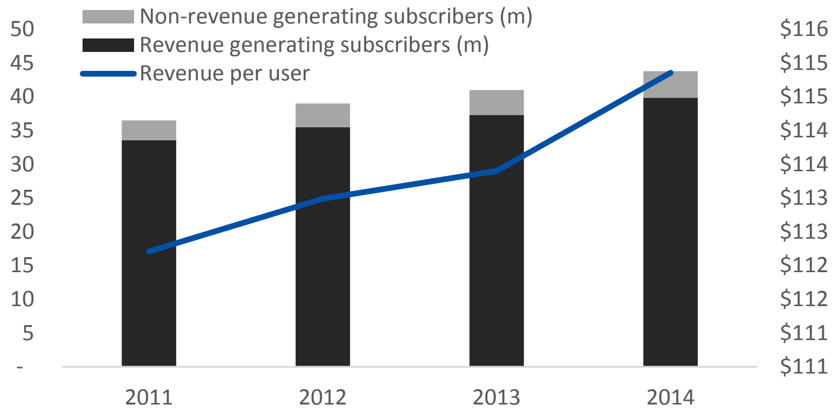
EBITDA Sensitivity ($millions)



Home Box Office Valuation

Core HBO cable is the largest contributor to Time Warner Enterprise Value

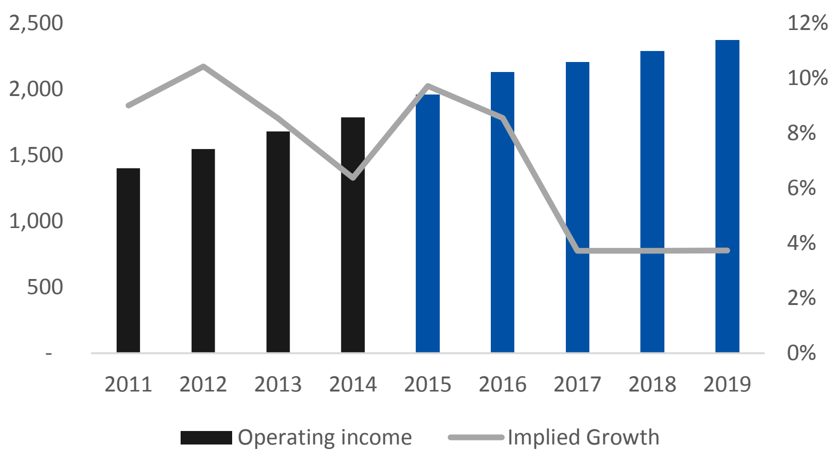
Historical subscriber growth around 6%



Key driver assumptions

	Subscriber growth (%)	Mix (%)	ARP change (%)
Bull	5%	3%	2%
Base	4%	4%	0%
Bear	3%	5%	-1%

Base case forecast ($millions)



Proprietary HBO discounted cash flow

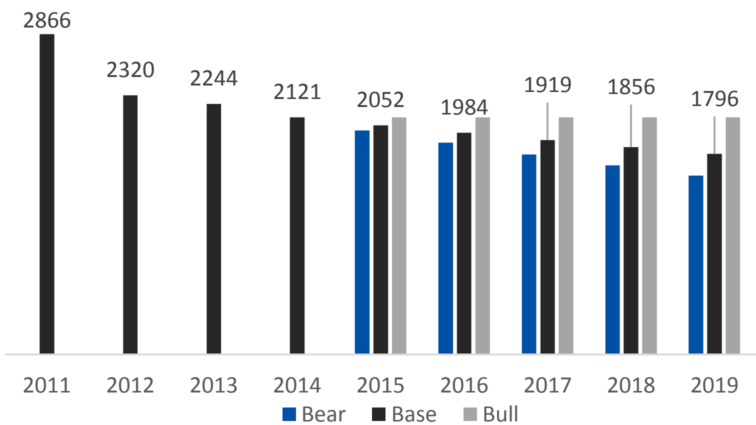
NOPLAT	1,279	1,388	1,440	1,493	1,549
Add: Depreciation	95	104	109	113	118
Less: CAPEX	82	90	93	96	100
Free Cash Flow	**1,292**	**1,403**	**1,456**	**1,510**	**1,566**
PV(FCF)	*1,245*	*1,256*	*1,210*	*1,166*	*1,123*

WACC	7.67%
Terminal EV/EBITDA	11
Enterprise Value	25,717

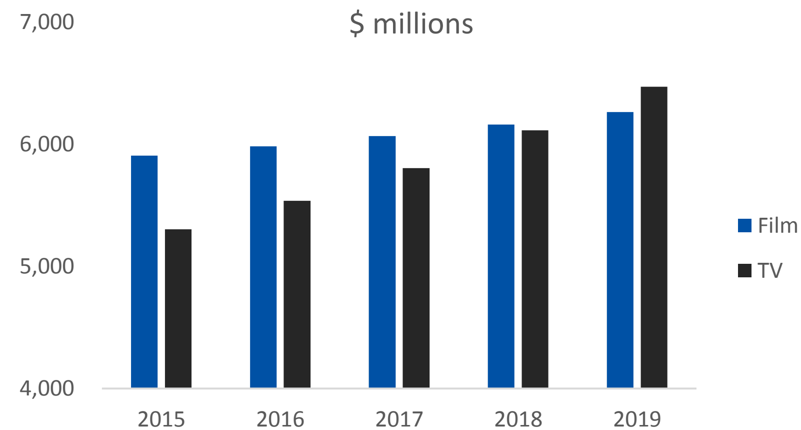
Warner Bros.

Film Profits Down, Cautiously Optimistic About TV

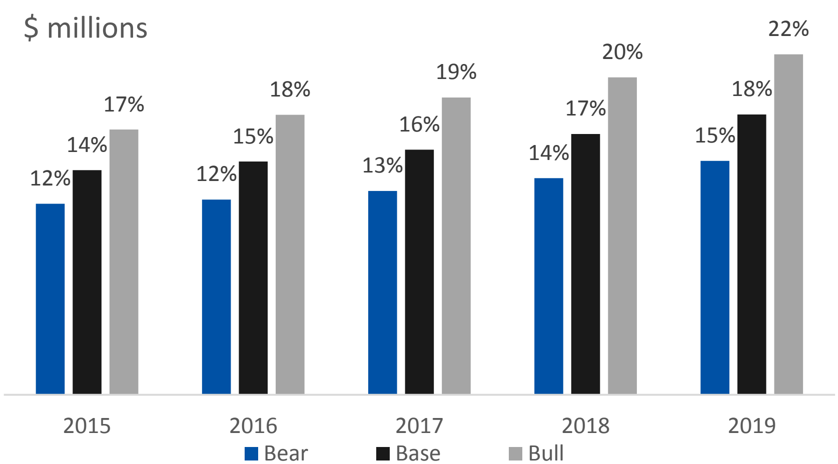
Home entertainment revenue to fall ($millions)



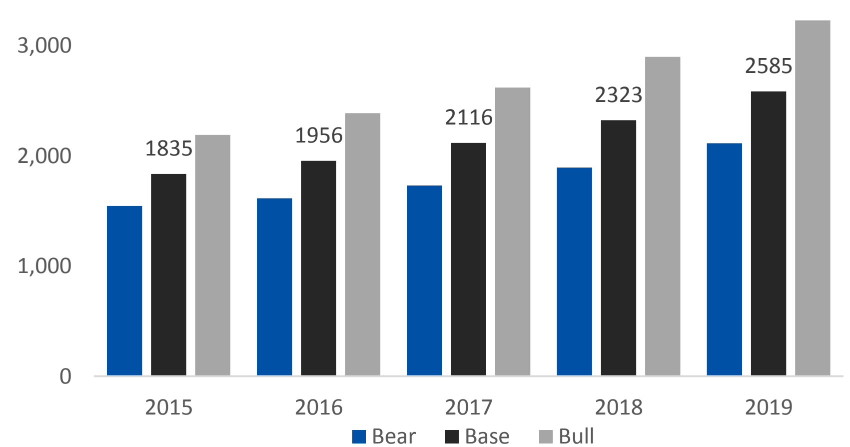
TV revenues to overtake Film in next 5 years



EBITDA margin improvements as revenue mix changes



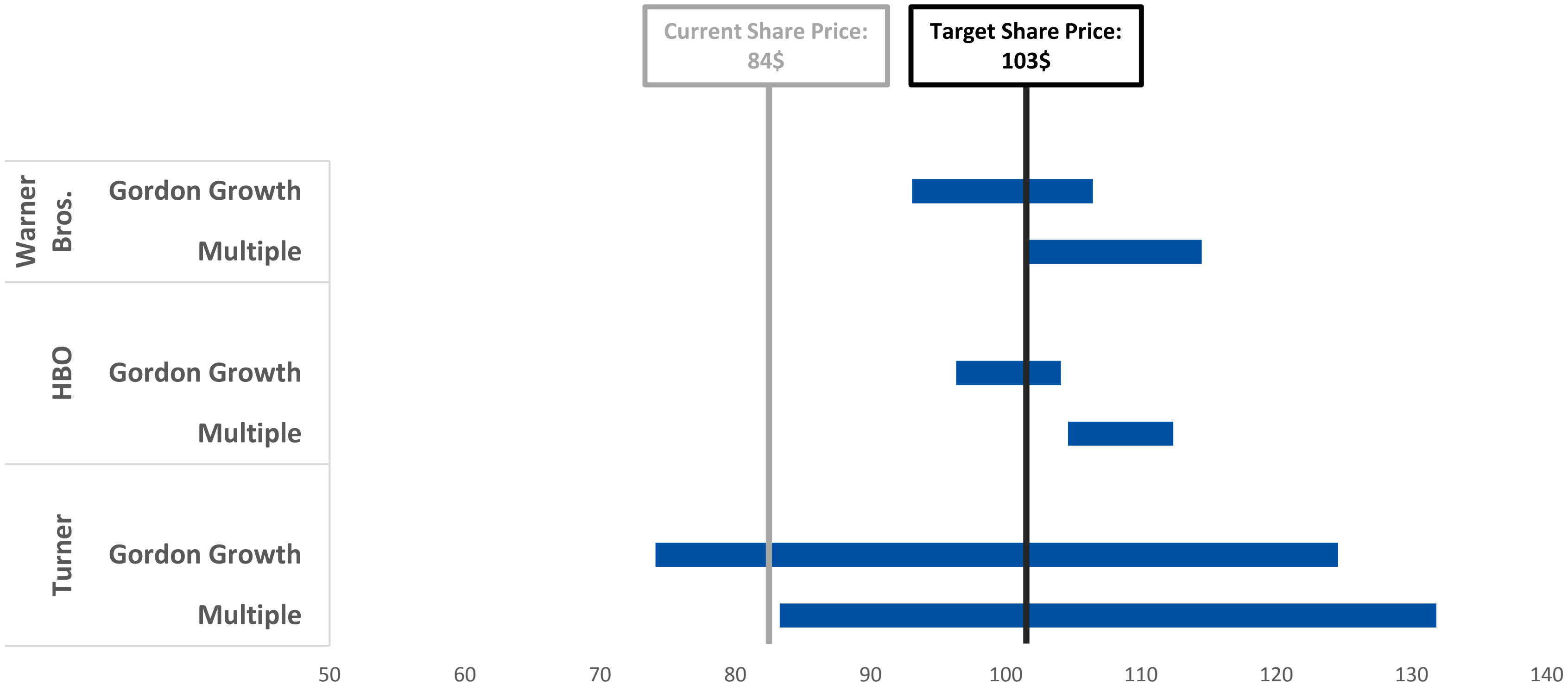
EBITDA sensitivity ($millions)



Taken from TMT model

DCF Valuation Football Field

2.0% Gordon Growth and 11x EV/EBITDA multiples



Our target price of **$103** represents a **28%** upside to the current share price
Base case 2018 EPS of **$7.02** in 2018 versus management guidance of **$8.00**

DCF Sensitivity

Assuming base case model

Estimated share price sensitivity

Terminal EV/EBITDA Multiple

WACC	9x	10x	11x	12x	13x
5%	100	110	120	131	141
6%	95	105	115	125	135
7%	91	100	110	119	129
8%	87	96	105	114	123
9%	83	92	100	109	118
10%	79	88	96	104	113

Implied EV/EBITDA terminal multiple

Terminal growth

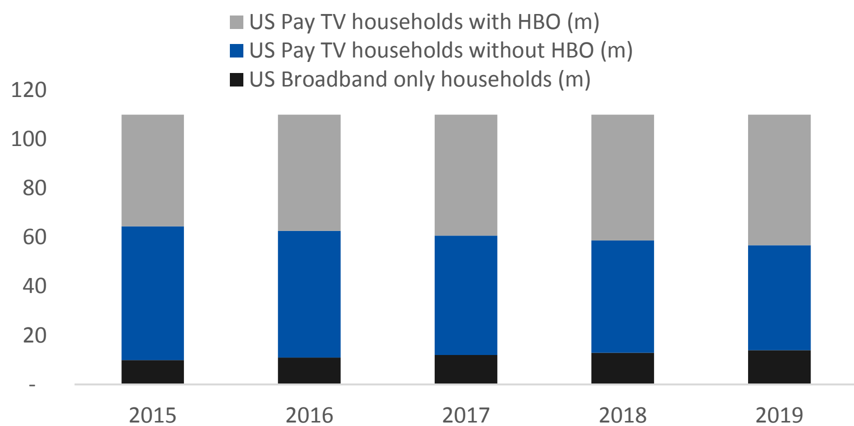
WACC	1.25%	1.50%	2.00%
5%	12.0	12.9	15.2
6%	9.1	9.6	10.9
7%	7.2	7.6	8.4
8%	5.9	6.1	6.7
9%	4.9	5.1	5.5
10%	4.2	4.3	4.6

Home Box Office OTT Valuation

Domestic product launch could add $3 - $10 to core price target (3-10%)

HBO

Core thesis assumptions



Incremental project-based assumptions

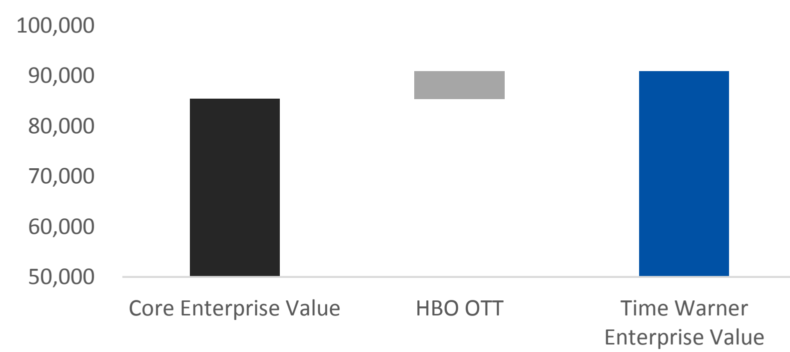
	Bear	Base	Bull
Revenue per user/year	$ 76	$ 120	$ 130
Share of broadband only by 2019	30%	50%	50%
Share of non-HBO cable viewers by 2019	5%	10%	15%
Share of HBO cable viewers by 2019	10%	20%	30%

Incremental contribution to core valuation

Assuming EV/EBITDA multiple of 11

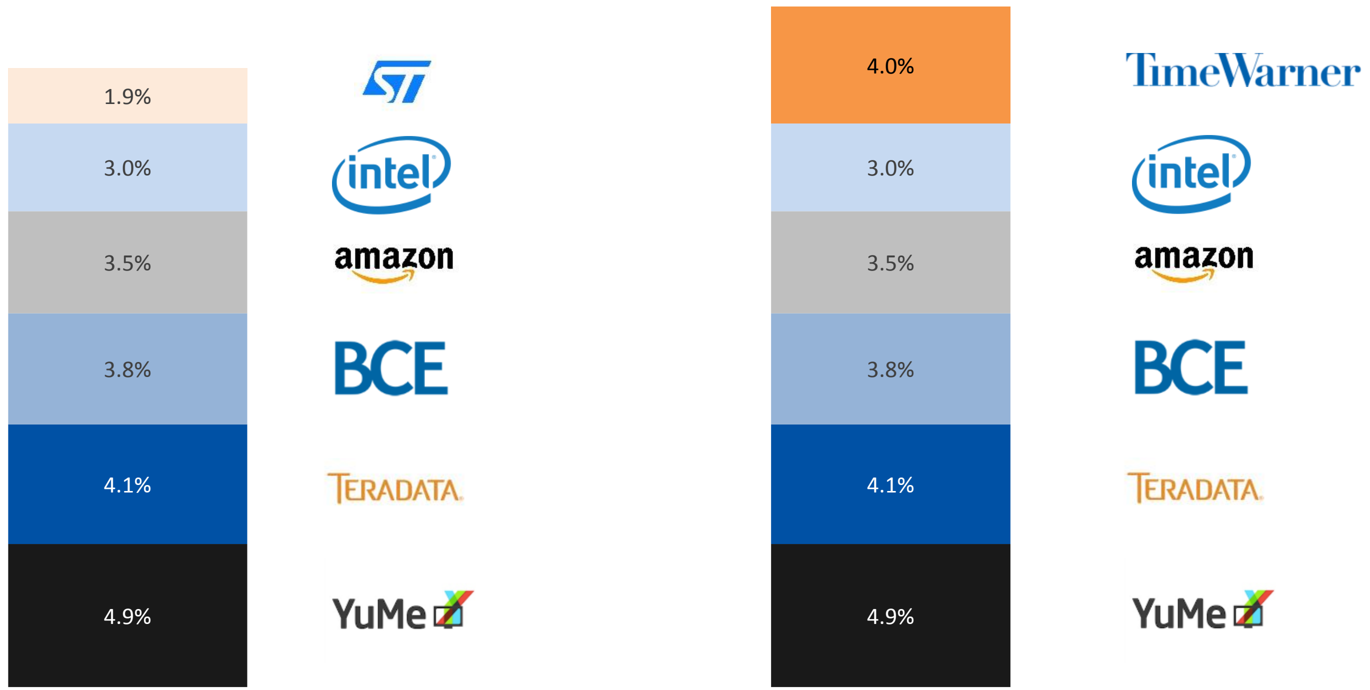
	Enterprise Value	Share price
Bear	$2,639	$3.08
Base	$5,428	$6.34
Bull	$8,348	$9.76

Implied EV/EBITDA multiple 7x-15x



TMT Sector Allocation

Replace STM with TWX



TMT recommends DCM to Sell **STM**, and initiate a **4%** position in **TWX**.

Questions?

Appendix

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Turner Model

Turner	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues:									
Subscription	4,398	4,660	4,896	5,263	5,518	6,332	7,267	7,622	7,996
Advertising	4,196	4,315	4,534	4,568	4,646	4,814	4,933	5,101	5,243
Content	417	369	363	375	369	369	369	371	369
Other	155	183	190	190	188	188	189	189	188
Total Revenues	**9,166**	**9,527**	**9,983**	**10,396**	**10,720**	**11,703**	**12,758**	**13,282**	**13,797**
Cost of Revenues:									
Programing: originals and sports	2,392	2,498	2,647	3,009	2,788	3,467	3,702	3,733	3,764
Programing: acquired films and syndicated series	906	890	946	914	932	951	970	989	1,009
Other direct operating costs	784	780	789	784	784	784	784	784	784
Total Cost of Revenues	**4,082**	**4,168**	**4,382**	**4,708**	**4,505**	**5,203**	**5,456**	**5,506**	**5,558**
Selling, general, and admin costs	1,741	1,730	1,725	1,732	1,732	1,732	1,732	1,732	1,732
Gain on operating assets	(2)	34	2	11					
Asset impairments	6	176	47	76					
Restructuring and severance costs	37	52	93	249	108	108	108	108	108
Depreciation	251	238	231	240	264	288	314	327	340
% of sales	0	0	0	0	0	0	0	0	0
Amortization	33	25	21	26	26	26	26	26	26
Total Costs	6,148	6,423	6,501	7,043	6,635	7,357	7,637	7,700	7,764
Operating Income	**3,018**	**3,104**	**3,482**	**3,087**	**4,085**	**4,346**	**5,121**	**5,582**	**6,033**
EBITDA	**3,298**	**3,435**	**3,738**	**3,353**	**4,375**	**4,661**	**5,462**	**5,936**	**6,399**
NOPLAT	**1,981**	**2,078**	**2,280**	**2,024**	**2,672**	**2,842**	**3,346**	**3,646**	**3,938**

HBO Model

Home Box Office, in millions	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues:									
Subscription	3768	4010	4231	4578	4,761	5,224	5,433	5,650	5,876
Content	730	676	658	820	836	853	870	888	905
Other	0	0	1	0	0	0	0	0	0
Total Revenues	4498	4686	4890	5,398	5,598	6,077	6,303	6,537	6,781
Implied Growth		4%	4%	10%	4%	9%	4%	4%	4%
Cost of Revenues:									
Acquired films and syndicated series	930	885	894	1,001	1,038	1,127	1,169	1,213	1,258
Originals and sports	776	856	856	959	994	1,079	1,119	1,161	1,204
Other costs	618	659	618	692	718	779	808	838	870
Button growth				12%	4%	9%	4%	4%	4%
Total Cost of Revenues	2324	2400	2368	2,652	2,750	2,986	3,097	3,212	3,332
Gross Margin	*52%*	*51%*	*48%*	*49%*	*49%*	*49%*	*49%*	*49%*	*49%*
Selling, general, and admin costs	675	632	705		784	851	882	915	949
SG&A as % of Sales	15%	13%	14%		14%	14%	14%	14%	14%
Gain on operating assets	0	0	113		0	0	0	0	0
Restructuring and severance costs	15	15	39		0	0	0	0	0
Depreciation	75	85	91	95	95.22	104	109	113	118
Amortization	8	7	9		9	9	9	9	9
Depreciation as % of Sales	*2%*	*2%*	*2%*		*2%*	*2%*	*2%*	*2%*	*2%*
Operating income	**1401**	**1547**	**1791**	**1786**	**1,959**	**2,127**	**2,206**	**2,288**	**2,374**
Implied Growth		10%	16%	0%	10%	9%	4%	4%	4%
EBITA	**1,409**	**1,554**	**1,800**	**1,786**	**1,968**	**2,136**	**2,215**	**2,297**	**2,383**
Cash Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%
NOPLAT	**916**	**1,010**	**1,170**	**1,161**	**1,279**	**1,388**	**1,440**	**1,493**	**1,549**
EBITDA					**2,064**	**2,240**	**2,324**	**2,410**	**2,500**

Warner Bros. Model

Warner Brothers	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues:									
Subscription	86	117	130						
Content:									
Film box office	2,101	1,894	2,158	1,950	2,055	2,166	2,283	2,407	2,537
Home movies and electronic delivery	2,866	2,320	2,244	2,121	2,052	1,984	1,919	1,856	1,796
TV licensing of movies	1,578	1,601	1,525	1,568	1,599	1,631	1,664	1,697	1,731
Consumer products and other	164	208	190	200	200	200	200	200	200
Total theatrical product	6,709	6,023	6,117	5,839	5,906	5,982	6,067	6,160	6,263
Television licensing	3,371	3,433	3,364						
Home video and electronic delivery	877	1,006	984						
Consumer products and other	246	299	263						
Total television product	4,494	4,738	4,611	5,099	5,303	5,536	5,804	6,113	6,471
Other	1,071	761	1,036						
Advertising	85	81	81	80	80	80	80	80	80
Other	193	298	337	1,508	1,538	1,569	1,600	1,632	1,665
Total Revenues	**12,638**	**12,018**	**12,312**	**12,526**	**12,827**	**13,167**	**13,551**	**13,986**	**14,480**
Cost of Revenues:									
Film and TV production	5,488	5,598	5,620						
Print and advertising	2,317	1,854	1,935						
Other costs, including merchandising	1,276	1,051	1,119						
Total Cost of Revenues	9,081	8,503	8,674						
Selling, general, and admin costs	1,857	1,879	1,885						
Gain on operating assets	9	1	6						
Asset impairments	21	4	7	41					
Restructuring and severance costs	41	23	49	169					
Depreciation	198	202	200	200	200	200	200	200	200
Amortization	186	180	179	180	180	180	180	180	180
Total Costs	11,393	10,792	11,000	11,367					
Adjusted Costs				11,157	**11,372**	**11,591**	**11,815**	**12,042**	**12,274**
Operating income	1,263	1,228	1,324	1,159	1,455	1,576	1,736	1,943	2,205
EBITDA	1,647	1,610	1,703	1,539	1,835	1,956	2,116	2,323	2,585
NOPLAT	**942**	**915**	**977**	**870**	**1,063**	**1,141**	**1,246**	**1,380**	**1,550**

Free Cash Flow Reconciliation

Final Operating Model	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenues									
Turner	9,166	9,527	9,983	10,396	10,720	11,703	12,758	13,282	13,797
HBO	4,498	4,686	4,890	5,398	5,598	6,077	6,303	6,537	6,781
WB	12,638	12,018	12,312	12,526	12,827	13,167	13,551	13,986	14,480
Total Revenues	**26,302**	**26,231**	**27,185**	**28,320**	**29,145**	**30,947**	**32,612**	**33,805**	**35,057**
Operating Income:									
Turner	3,018	3,104	3,482	3,833	4,085	4,346	5,121	5,582	6,033
HBO	1,401	1,547	1,791	1,786	1,959	2,127	2,206	2,288	2,374
WB	1,263	1,228	1,324	1,159	1,455	1,576	1,736	1,943	2,205
(Corporate and Eliminations)			(377)	(402)	(412)	(425)	(439)	(439)	(453)
Total Operating Income	5,682	5,879	6,220	6,376	**7,087**	**7,624**	**8,625**	**9,375**	**10,158**
Add: Amortization (Estimated by guidance)	269	248	251	274	**259**	**249**	**241**	**236**	**230**
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%
Taxes	2,083	2,144	2,265	2,328	**2,571**	**2,755**	**3,103**	**3,364**	**3,636**
NOPLAT	**3,599**	**3,735**	**3,955**	**4,049**	**4,516**	**4,868**	**5,522**	**6,011**	**6,523**
Accounts Receivable	6,922	7,385	7,868	7,005	7,880	8,367	8,817	9,140	9,479
% of sales	26%	28%	29%	25%	27%	27%	27%	27%	27%
Inventories	1,890	2,036	2,028	1,776	2,090	2,219	2,338	2,424	2,514
% of sales	7%	8%	7%	6%	7%	7%	7%	7%	7%
Other current assets									
Total Current Assets	**8,812**	**9,421**	**9,896**	**8,781**	9,970	10,586	11,156	11,564	11,992
Accounts payable	7,815	8,039	7,322	7,052	8,175	8,680	9,147	9,482	9,833
% of sales	30%	31%	27%	25%	28%	28%	28%	28%	28%
Deferred revenue	1,084	1,011	995	504	977	1,038	1,094	1,134	1,176
% of sales	4%	4%	4%	2%	3%	3%	3%	3%	3%
Total Current Liabilities	**8,899**	**9,050**	**8,317**	**7,556**	9,152	9,718	10,241	10,616	11,009
Net Working Capital	**(87)**	**371**	**1,579**	**1,225**	817	868	915	948	983
Less: Change in Operating Working Capital	**(458)**	**(1,208)**	**354**	**408**	**(51)**	**(47)**	**(33)**	**(35)**	**(35)**
Less: Capital expenditures	**772**	**643**	**568**	**474**	**666.66**	**708**	**746**	**773**	**802**
% of sales	**3%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**	**2%**
Less: investments in goodwill and acquired intangibles					169	179	189	196	203
					0.58%	1%	1%	1%	1%
Add: Depreciation	524	525	522	535	**559**	**593**	**623**	**640**	**658**
Free Cash Flow	**3,809**	**4,825**	**3,555**	**3,702**	**4,189**	**4,527**	**5,176**	**5,647**	**6,140**

DCF Output

	Fiscal Year Forecast					
	2015	**2016**	**2017**	**2018**	**2019**	**Terminal**
EBITDA	7,906	8,466	9,489	10,251	11,046	
UFCF	**4,189**	**4,527**	**5,176**	**5,647**	**6,140**	**121,507**
Discount Time	0.50	1.50	2.50	3.50	4.50	4.50
Discount Factor	0.96	0.90	0.83	0.77	0.72	0.72
PV of UFCF	**4,037**	**4,052**	**4,303**	**4,359**	**4,402**	**87,114**

Bridge to Enterprise and Equity Value	
Sum of PV UFCF	21,153
PV of Terminal Value	87,114
Excess Cash and Marketable Securities	
Excess Real Estate	
Non-consolidated Subsidiaries	2,326
Enterprise Value	**110,594**
Add HBO OTT	0
Less Debt	22,557
Add Cash	3,210
Add Short Term Investments	
Equity Value	**91,247**
Diluted Shares Outsatanding	856
Share Price	**$106.63**

Sum of Parts DCF

Turner							
Sales	10,720	11,703	12,758	13,282	13,797		
NOPLAT	2,672	2,842	3,346	3,646	3,938		
Less: change in NWC	0	0	0	0	0		
Add: Depreciation	264	288	314	327	340		
Capital expenditure as % of sales	2.36%	2.36%	2.36%	2.36%	2.36%		
Less: Capital Expenditure	253	276	301	313	325		
Free Cash Flow	**2,684**	**2,855**	**3,360**	**3,660**	**3,953**	**71,060**	**70,391**
EBITDA	*4,375*	*4,661*	*5,462*	*5,936*	*6,399*		
PV(FCF)	*2,586*	*2,555*	*2,793*	*2,825*	*2,834*	*50,947*	*50,467*
SUM (GG)	64,540						
SUM (MULTIPLE)	64,060						

	0.50	1.50	2.50	3.50	4.50	4.50	4.50
Warner Brothers							
Sales	12,827	13,167	13,551	13,986	14,480		
NOPLAT	1,063	1,141	1,246	1,380	1,550		
Less: change in NWC	0	0	0	0	0		
Add: Depreciation	200	200	200	200	200		
Capital expenditure as % of sales	2.21%	2.21%	2.21%	2.21%	2.21%		
Less: Capital Expenditure	284	291	300	310	320		
Free Cash Flow	**979**	**1,050**	**1,146**	**1,271**	**1,430**	**25,702**	**28,437**
EBITDA	*1,835*	*1,956*	*2,116*	*2,323*	*2,585*		
PV(FCF)	*943*	*940*	*952*	*981*	*1,025*	*18,427*	*20,388*
SUM (GG)	23,268						
SUM (MULTIPLE)	25,229						

	0.50	1.50	2.50	3.50	4.50	4.50	4.50
HBO							
Sales	5,598	6,077	6,303	6,537	6,781		
NOPLAT	1,279	1,388	1,440	1,493	1,549		
Less: change in NWC	0	0	0	0	0		
Add: Depreciation	95	104	109	113	118		
Capital expenditure as % of sales	1.47%	1.47%	1.47%	1.47%	1.47%		
Less: Capital Expenditure	82	90	93	96	100		
Free Cash Flow	**1,292**	**1,403**	**1,456**	**1,510**	**1,566**	**28,154**	**27,501**
EBITDA	*2,064*	*2,240*	*2,324*	*2,410*	*2,500*		
PV(FCF)	*1,245*	*1,256*	*1,210*	*1,166*	*1,123*	*20,185*	*19,717*
SUM (GG)	26,185						
SUM (MULTIPLE)	25,717						

	0.50	1.50	2.50	3.50	4.50	4.50	4.50
Other (Corporate and Eliminations)							
Sales	(824)	(850)	(878)	(878)	(906)		
NOPLAT	(268)	(276)	(285)	(285)	(294)		
Add: Depreciation	26	27	28	28	29		
Capital expenditure as % of sales	7.74%	7.74%	7.74%	7.74%	7.74%		
Less: Capital Expenditure	63.74	65.75	67.92	67.92	70.08		
Free Cash Flow	**231**	**238**	**246**	**246**	**253**	**4,556**	**4,663**
EBITDA	*(386)*	*(398)*	*(411)*	*(411)*	*(424)*		
PV(FCF)	*222*	*213*	*204*	*190*	*182*	*3,266*	*3,343*
SUM (GG)	4,277						
SUM (MULTIPLE)	4,354						

Summary — Enterprise Value

	GG	Multiple
Turner	64,540	64,060
HBO	26,185	25,717
Warner Brothers	23,268	25,229
Corporate Eliminations	(4,277)	(4,354)
Total	**109,716**	**110,653**

Full Sensitivity Outputs

TV Multiple		HBO		
		Bear	Base	Bull
Turner	Bear	75.32	77.75	84.53
		80.87	83.3	90.08
		88.43	90.86	97.64
	Base	99.09	101.52	108.29
		104.6	107.03	113.81
		112.07	114.5	121.27
	Bull	123.98	126.41	128.62
		129.41	131.84	138.62
		136.74	139.17	145.94
			WB	
		Bear	Base	Bull

Gordon Growth		HBO		
		Bear	Base	Bull
Turner	Bear	65.97	68.38	75.14
		71.68	74.1	80.85
		79.47	81.88	88.63
	Base	90.67	93.08	99.84
		96.34	98.75	105.5
		104.02	106.44	113.19
	Bull	116.59	119	125.76
		122.17	124.58	131.33
		129.7	132.12	138.87
			WB	
		Bear	Base	Bull

HBO OTT

HBO OTT				2015	2016	2017	2018	2019	Terminal
HBO ARPU	76								
HBO OTT ARPU	120								
Broadband only with HBO				1	1.3	2	3.2	6.97	8.94
(implied growth)					*30%*	*54%*	*60%*	*118%*	*28%*
Additional Revenue				**120**	**156**	**240**	**384**	**836**	**1,073**
Households without HBO				54	52	49	46	43	41
Households with HBO				46	47	49	51	53	54
(% implied market share of pay TV)				*46%*	*48%*	*50%*	*53%*	*55%*	
Broadband only households				10.00	11.00	11.99	12.97	13.94	14.90
(% growth)					10%	9%	8%	7%	7%
Pay TV Households (millions)				100.00	99.00	98.01	97.03	96.06	95.10
(% growth)				-1%	-1%	-1%	-1%	-1%	-1%
Total addressable market (households)				64.45	62.63	60.73	58.76	56.71	
Additional Pay TV Converts				0.61	0.80	1.23	1.96	4.28	4.28
					30%	54%	60%	118%	
Additional Pay TV Revenue				**74**	**96**	**147**	**236**	**513**	**514**
Current HBO Converts				1.53	1.99	3.06	4.89	10.66	11
					30%	54%	60%	118%	
Incremental Revenue from Converts				**67**	**87**	**135**	**215**	**469**	**484**

									GG
			Present	0.500	1.500	2.500	3.500	4.500	4.500
Total Revenue			**0**	**214**	**205**	**513**	**855**	**1,069**	
Margin				49%	49%	49%	49%	49%	
Incremental Profit				105	101	252	420	525	
SG&A as % of revenue				20%	20%	20%	20%	20%	
EBITDA				84	81	202	336	420	
EBITA				80	77	191	319	399	
NOPLAT				52	50	124	207	259	
CAPEX		Netflix	1,335.61	6	6	15	26	32	
DEPRECIATION				4	4	10	17	21	
FCF			**(1,335.61)**	**50**	**48**	**119**	**199**	**248**	**4,466**
PV (FCF)			**(1,335.61)**	***48***	***48***	***119***	***199***	***248***	***3,202***
SUM (GG)				**2,528**					
SUM (MULTIPLE)				**2,639**					