Equity Research
Europe

Industry

Media & Internet

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GICS SECTOR	CONSUMER DISCRETIONARY
Strategists' Recommended Weight	8.1%
MSCI Europe Benchmark Weight	9.9%

COMPANIES FEATURED	
Impresa (IPR.LS, €5.20)	Overweight
Media Capital (MCP.LS, €6.9)	Equal-weight

Industry Overview

September 1, 2005

A Good Impres[a]sion from Portuguese Media

- **Initiating on Portuguese Media stocks — we prefer Impresa over Media Capital**
  We rate Impresa Overweight (price target €6.2) and Media Capital Equal-weight (price target €6.7). The two companies operate Portugal's two leading FTA TV channels, but have various other media assets that, owing to their political lobbying power, justify a slight conglomerate premium, in our view.
- **Impresa looks more attractive on our DCF, SOTP and peer group multiples and ...**
  Our Impresa price target, even after a 10% discount for the presence of a large controlling shareholder and the small free float of 30%, implies upside potential of 18% and is well supported by our SOTP and peer group multiples.
- **... is protected from risks of the TV ad market by more diversified assets**
  Impresa and Media Capital operate Portugal's two leading FTA TV channels, but although TV accounts for a similar proportion of both companies' revenues, Impresa only generates 68% of its EBITDA from TV, compared with nearly 100% for Media Capital, on our 2005 estimates.
- **Potential synergies and price paid by Prisa justify Equal-weight on Media Capital**
  Current levels already assume a high degree of synergies from the Prisa deal, we believe. However, we believe the potential synergies and the price paid by Prisa should support the shares at current levels.
- **We have moderate growth expectations for Portuguese Media after strong 2004**
  We expect the market to grow by 4.5% in 2005 after an impressive 13.6% in 2004 (owing to the general elections and Portugal's hosting of Euro 2004). We expect growth to slow down slightly to 4.2% in 2006 and pick up again in 2007.
- **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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A Good Impres[a]sion from Portuguese Media

We prefer Impresa over Media Capital

We are initiating coverage of Portugal's two main media conglomerates, Impresa and Media Capital. Impresa (Overweight, price target €6.2) 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. Media Capital's (Equal-weight, price target €6.7) main asset is its FTA channel TVI (33.5% audience share). The company also has five radio licences, Portugal's second largest outdoor advertising business and several magazine titles.

Impresa — better value and diversified media assets

We prefer Impresa over Media Capital, for the following reasons:

- **We believe Media Capital shares are fully priced,** having outperformed following the agreement between the company's controlling shareholders and Prisa for the purchase of up to 46% of the former's shares see section entitled *Media Capital Shareholders' Agreement with Prisa* on page 17).

- **Impresa is more diversified — TV accounts for 62% of revenues and 68% of EBITDA**, compared with Media Capital, which generates 69% of revenues, but almost 100% of EBITDA from TV.

- **Our fundamental DCF-based valuation implies 18% upside potential for Impresa shares** (even after applying a 10% discount for the presence of a large controlling shareholder and the consequent small free float of 30%), but 8% downside potential for Media Capital. Additionally, we conducted a multiples-based sum-of-the-parts valuation as a sanity check, which implies upside potential of 11% for Impresa, but downside potential of 18% for Media Capital.

- **Impresa is also trading at more attractive multiples**, on our estimates, (9.2 times 2006 EBITDA, P/E of 13.9 and FCF of 14.8) than Media Capital (12.3, 17.9, and 15.6, respectively).

Media Capital not an Underweight …

We are not ready to give Media Capital an Underweight rating at this stage as:

- **We know very little about the synergies** that the company could extract from a potential co-operation with Prisa.

- **TVI (Media Capital's FTA channel) has a very strong position** and had an excellent 1H05 performance.

- **We have no visibility on the final implications of the Prisa deal** and whether the agreement to buy into Media Capital will end up in the launch of a take-over bid.

… but our analysis suggests potential synergies are already in the price

In this report, we have conducted a brief sensitivity analysis of the impact of potential synergies resulting from the deal with Prisa. We consequently believe that a material part of any potential synergies (which we estimate could result in as much as 200bp of higher growth — that is, from 4% to 6% (average to 2010) — and a 180bp increase in EBITDA margin to 28% in 2010) could already be fully reflected in the share price. Under our with-synergies DCF, our valuation rises to €7.1, which is already in line with the current share price.

Although we see limited scope for upside potential, we do not expect the shares to trade significantly lower either. First, although Media Capital management lowered its guidance at the time of the 2Q05 results, we believe that investors have now had enough time to factor this in. Second, Prisa's agreement implies a valuation for Media Capital of €8.3 per share (although the net price to Prisa is just €6.9 per share). We therefore expect the shares to find some support at this level, and to perform in line with the industry, thus justifying our Equal-weight rating.

Media conglomerates should trade at a premium, we think

We think that, in common with other Southern European countries (mainly Spain), the trading multiples of conglomerate media groups should reflect their political lobbying power. Impresa has a presence in TV, newspapers and magazines, while Media Capital has interests in TV, radio, outdoor and magazines. As in other Southern European countries, we believe that conglomerate media groups are better positioned when it comes to

Exhibit 1

Impresa and Media Capital: Estimated 2005 Breakdown

	Impresa (Million €)	% of Total	Media Capital	(Million €)	% of Total
Television	172.1	62	Television	156.5	69
Newspapers	61.1	22	Radio	16.3	7
Magazines	44.0	16	Outdoor	19.0	8
Cons. Adj.	0.3	0	Other	33.7	15
Revenues	**277.6**	**100**	**Revenues**	**225.5**	**100**
Television	44.9	68	Television	48.5	99
Newspapers	14.5	22	Radio	2.8	6
Magazines	5.9	9	Outdoor	1.1	2
Cons. Adj.	0.3	0	Other	-3.4	-7
Group EBITDA	**65.6**	**100**	**Group EBITDA**	**49.0**	**100**
Television	26.1		Television	31.0	
Newspapers	23.7		Radio	17.0	
Magazines	13.5		Outdoor	6.0	
Cons. Adj.	93.3		Other	-10.0	
EBITDA Margin	**23.6**		**EBITDA**	**21.8**	

Source: Morgan Stanley Research estimates

Exhibit 2

Impresa and Media Capital: Summary of Valuations

	Impresa	Media Capital
DCF	6.2[1]	6.3
DCF with Prisa Synergies	NA	7.1
SOTP	5.5	5.6
Prisa Deal (Cost to Prisa)		6.9
At Media Capital TV Multiple	6.7	
Price Target	**6.2**	**6.7**
Current Share Price	5.2	6.9
Implied Upside Potential (%)	18	-3

1 = After a 10% discount *NA = Not applicable*

Source: Morgan Stanley Research estimates

bidding for new licences or driving legislation changes. Thus, we think that our 2006 P/E of 17.9 for Media Capital might be considered fair, in light of its varied interests and the potential synergies from the Prisa deal, compared with the average for European broadcasters (followed by our colleagues Sarah Simon and Anna Poulter) of 16.5. However, in the case of Impresa, we think that the 13.9 times implied by our 2006 estimates is not demanding, especially given the group's conglomerate nature, and its leading presence in influential media.

We expect mid to high teens short-term EPS growth

We forecast 2004–07 EPS growth of 14% for Impresa, and 17% for Media Capital (using 2005 as the base given the company's poor performance in 2004). We are not assuming any major changes in market share for the three FTA broadcasters, which reported very similar audience shares in the first half of the year (although Media Capital performs better at prime time than SIC and RTP).

We expect Impresa to grow revenues by 5.2% in 2005 to €277.6 million, with an EBITDA margin of 23.6% and EPS growth of almost 30% to €0.39. Our forecasts are in line with the high end of management's guidance. Longer term, we forecast the company will grow revenues by 5.1% to 2010, with EBITDA margin improving to 26.6% (+300bp) and EPS growth of 13%.

We forecast 2005 revenues of €225 million (+6.2% versus 2004) for Media Capital with EBITDA of €49 million (a 21.8% margin), reaching net income of €21.9 million. Our forecasts are in line with the mid point of the recently lowered guidance, where management increased its expectations for TVI after strong first-half earnings, but significantly reduced its outdoor estimates.

Impresa looks better supported on valuation

We have performed a DCF valuation for the two stocks using the same valuation parameters, namely pre-tax cost of debt of 6%, beta of 1.2, a risk free rate of 5%, equity risk premium of 3% and perpetual growth rate of 1.5% from 2010 onwards. This gives us DCF values of €6.8 per share for Impresa, to which we apply a 10% discount (given the presence of a large controlling shareholder and the consequent small free float of 30%) and the Prisa/Media Capital deal) to arrive at a fair value of €6.2 per share, which we use as our price target (Exhibit 2). For Media Capital our fair value and price target is €6.7, which is the average of two DCFs, one of which assumes no synergies from the Prisa deal and another that does include synergies.

We have also performed a sum-of-the-parts valuation of the companies using the average trading multiples of their European peers, resulting in a value of €5.8 per share for Impresa and €5.6 for Media Capital.

We have used two measures to crosscheck our DCF based valuations. First, the implicit net price at which Prisa has entered into the call and put agreements with the controlling shareholders of Media Capital implies a €6.9 per share valuation, on our estimates. Second, if we were to apply the current implicit trading multiples of Media Capital's TVI to Impresa's television business, we estimate that Impresa would be worth €6.9 a share. It is also worth noting that Impresa is trading in line with Prisa's multiples (taking out Prisa's stake in Sogecable), which we rate as Overweight and see as the best peer for Impresa. Media Capital, on our estimates, trades in line with the average for European FTA broadcasters, where we have five Equal-weight ratings, one Underweight, and just one Overweight (coincidently, the Southern European player Mediaset). We therefore think that our ratings and valuations are in line with where we stand on the peer group.

Media Capital is more sensitive to the TV ad market

We are concerned with the current uncertainty about the advertising market in Portugal — advertising accounts for 65% and 80% of Impresa and Media Capital's revenues, respectively, on our 2005 estimates. This year will be tough for comps given that 2004 saw Portugal host the European Football Championships and general election, resulting in an excellent year for advertising. However, the economic measures taken by the new government (such as the reduction in the corporate tax rate), which has absolute majority, have been very well received by the market, and therefore we expect no further deterioration of conditions in the advertising market in the short term.

Finally, we have performed a sensitivity analysis of the two companies' exposure to a potential worsening (or improvement) in the TV ad cycle beyond our expectations (Exhibit 3 for a summary of the key drivers in our base case).

Unsurprisingly (see Exhibit 3), Media Capital is more exposed to the TV ad market (which makes sense given that almost all of group EBITDA comes from the TV division). This exercise reinforces our preference for Impresa as it highlights the limited impact that a potential deterioration in trading conditions or a significant increase in TVI's market share as a result of Media Capital's cooperation with Prisa would have on our DCF valuation for the stock.

Key Assumptions

Impresa	**2005**	**2006**	**CAGR 2005-08**
Advertising rev growth	1.9%	3.0%	4.7%
Total revs	5.2%	5.7%	6.2%
EBITDA growth	3.2%	9.4%	8.9%
EBITDA margin	23.6%	24.5%	
EPS	17.3%	6.3%	12.9%
Media Capital	**2005**	**2006**	**CAGR 2005-08**
Advertising rev growth	7.7%	5.5%	5.3%
Total revs	6.2%	4.0%	4.3%
EBITDA growth	9.0%	15.8%	10.0%
EBITDA margin	21.8%	24.2%	
EPS	NA	46%	17.3%

Source: Morgan Stanley Research estimates

Exhibit 3

Impresa, Media Capital: DCF Sensitivity to TV Ad Growth

(Bps Variation)	Impresa	Media Capital
+300	9.2	9.3
+200	8.4	8.2
+100	7.6	7.3
Base Case	**6.8**	**6.3**
-100	6.1	5.5
-200	5.4	4.7
-300	4.7	2.6

Source: Morgan Stanley Research estimates

Exhibit 4

Impresa and Media Capital: Trading Multiples

	2005	2006	2007	2008	2009	2010
Impresa						
EV/EBITDA	10.0	9.2	8.4	7.8	7.2	6.9
EV/EBIT	12.6	11.8	10.6	9.8	9.0	8.7
PE	14.8	13.9	11.7	10.3	8.9	8.2
P/FCF	-6.8	14.8	12.4	10.8	9.3	8.6
Media Capital						
EV/EBITDA	14.2	12.3	11.3	10.7	10.1	9.6
EV/EBIT	21.0	16.5	14.7	13.4	12.4	11.5
PE	26.1	17.9	18.7	16.2	14.3	12.8
P/FCF	20.7	15.6	13.5	12.0	10.8	9.9

Source: Morgan Stanley Research estimates

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Valuation

Impresa: €6.2 per share

Our fair value for Impresa of €6.2 per share is based on a DCF valuation less a 10% discount. We apply a 10% discount to account for the presence of a large controlling shareholder and the consequent small free float of 30%. Our DCF valuation for Impresa is supported by:

- A sum-of-the-parts value of €5.8 per share.
- A valuation of €6.7 per share if we value Impresa's TV assets at the same multiples as Media Capital's.

On our estimates, the current market value of Impresa implies either:

- the TV assets of Impresa trading at a 30% discount to Media Capital's; or
- Impresa's newspapers and magazines trading at just 3.6 times 2005 EBITDA.

Media Capital: €6.7 per share

Our €6.7 per share valuation for Media Capital is based on the average of two DCF analyses, one without synergies as a result of the Prisa deal (€6.3 per share) and another with synergies (€7.1). This compares with:

- The price of the deal with Prisa of €8.3 per share, or €6.9 per share including the tax benefits for Prisa. If we assume 2% TV ad revenue growth ahead of our ex-synergies case and a 2% increase in margins by 2010, as a result of the deal, to arrive at a DCF value of €7.1 per share, more in line with the net cost of the deal to Prisa.
- Our SOTP valuation of €5.6 per share.

We believe that Media Capital's current market value implies a 2005 EBITDA trading multiple for the TV assets of 13 — in line with Antena3 and Tele5.

DCF Valuation Drives Fair Values

We have based our price targets for both Impresa and Media Capital on our DCF analysis. The end result is a valuation of €6.8 per share for Impresa, 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 €6.2 per share.

Our DCF for Media Capital results in €6.3 per share if we apply no synergies from the potential cooperation with Prisa and €7.1 per share assuming some synergies. We use an average of these two valuations to arrive at a price target of €6.7.

The main valuation parameters that we apply to both companies' models 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 and of 7.3% for Media Capital.

Media Capital synergies analysis

In the case of Media Capital, we have decided to take into consideration the fact that the potential emergence of Spain's biggest media group Prisa as a leading shareholder might have a positive impact on the development of the company.

We think that the impact of Prisa could be felt not only at the TV business, but also in radio — both Media Capital and Prisa have stated that they could see the potential offering of new licences by the Portuguese government as a good opportunity to further develop the business. However, for modelling simplicity, we have assigned all synergies from Prisa's involvement in Media Capital to the TV business.

The difference between our ex-synergies and with-synergies DCF values are:

- Our ex-synergies case implies average growth in TV ad revenues of 3.6% from 2006 to 2010, while our with-synergies case increases this growth rate to 5.6%. At the group level, the growth rates for the two scenarios are 4% and 6%, respectively.

- Ex-synergies, we assume margin expansion of 440bp from 2005 to 2010, while our with-synergies case expands margin growth to 640bp, for a 2010 margin of 36% (versus 34% in our ex-synergies case). At a group level, such improvement in the TV margin implies a 2010 margin of 28% (versus 26.2% for the ex-synergies case).

The synergies increase our DCF for Media Capital from €6.3 to €7.1 per share. We have set our price target at the mid point between the two valuations at €6.7 per share.

Our with-synergies case, while simplistic, gives us a valuation that is very close to the €6.9 per share cost (net of subsidies from international investments) of the potential acquisition of 46.3% of Media Capital by Prisa.

Sum-of-the-Parts Valuation

We have performed a SOTP valuation of both Impresa and Media Capital, resulting in a valuation of €5.5 per share for Impresa and of €5.6 per share for Media Capital (Exhibit 7 and Exhibit 8). The main criteria for our SOTP valuations are:

- The TV businesses are valued at the average for the European TV peers on 2005e P/E multiples, with a 15% premium to account for the large market share that the two companies have in Portugal, and the lack of competition from other private broadcasters.

- We value Impresa's newspaper business at the same 2005e EBITDA multiple as the UK newspaper peers, plus a 10% premium to reflect their better competitive positioning.

- We value Impresa's magazine business at the 2005e Emap EBITDA multiple, without any further adjustment, except for accounting of the minorities.

- We value Media Capital's radio business at 10 times 2005e EBITDA, which represents a slight discount to the average for European radio stocks.

- We value Media Capital's outdoor assets at the JC Decaux 2005e EBITDA multiple less 10% to account for its lower critical mass.

- We assign no value for Media Capital's magazines and other businesses as they are still loss making.

Cross-Valuations

While we reckon that cross-valuations are not the best way of assessing the fundamental value of stocks, we think it is useful in highlighting the relative under-valuation of Impresa versus Media Capital, and supports our ratings on the two stocks.

There are several ways to approach the cross-valuation exercise, but given the material weight of the TV business for both companies we have focused on this business.

- If we value Media Capital's non-TV assets at €38 million as per our SOTP valuation, the implicit trading multiple of the assets is 13.4 times 2005e EBITDA, which is in line with the trading multiples of its closest peers Antena3 and Tele5.

- If we were to value Impresa's TV business at the same EBITDA multiple, the residual value of the rest of the company's businesses would be just €67 million, or a mere 3.3 times 2005e EBITDA, which we consider too low for a leading print media group in Portugal.

- If, on the other hand, we were to value Impresa's non-TV assets at our SOTP valuation of almost €200 million, and the TV assets at the same multiple as Media Capital (13.4 times EBITDA), we would arrive at a per share valuation of €6.8, which is in line with our €6.8 DCF value (pre discount), and implies almost 30% upside potential from current levels.

Risks to Price Target

Risks to our price target for Impresa include a downturn in the advertising environment in Portugal; or greater than expected decline in the circulation of newspapers or magazines.

Risks to our price target for Media Capital include a downturn in the advertising environment in Portugal or loss of audience share by Media Capital in TV and/or Radio.

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Exhibit 5

Media Capital: DCF Valuation (Ex Synergies)

(€ million)	2005	2006	2007	2008	2009	2010
EBITDA	49.0	56.8	61.4	65.3	68.9	72.3
Taxes on EBIT	-2.5	-2.8	-15.4	-16.3	-17.2	-18.1
Net Working Capital Requirements	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capex	-11.3	-11.7	-12.3	-12.8	-13.3	-13.8
Unleveraged Free Cash Flow	**35.2**	**42.1**	**33.7**	**36.1**	**38.3**	**40.3**
YoY Growth (%)	NA	19.7	-20.1	7.1	6.1	5.4
PV of FCF	35.2	39.3	29.2	29.2	28.9	28.3
Perpetual Value	704					
PV of Perpetual	494					
Sum of PV of CF	155					
DCF Value	649					
Cash/(Net Debt)	-125					
Equity Value	**524**					
Shares Outstanding (mn)	82.8					
DCF/Fair Value per Share (€)	**6.3**					

Source: Morgan Stanley Research estimates

Exhibit 6

Impresa: DCF Valuation

(€ million)	2005	2006	2007	2008	2009	2010
EBITDA	65.6	71.8	78.7	84.8	91.3	94.7
Taxes on EBIT	-16.4	-18.0	-19.7	-21.2	-22.8	-23.7
Net Working Capital Requirements	20.8	-0.1	-0.1	-0.1	-0.1	-0.1
Capex	-128.2	-17.6	-18.7	-19.9	-20.6	-21.4
Unleveraged Free Cash Flow	**-58.1**	**36.1**	**40.2**	**43.5**	**47.8**	**49.6**
YoY Growth (%)	NA	-162.2	11.2	8.2	9.8	3.7
PV of FCF	-60.6	35.1	36.3	36.5	37.4	36.0
Perpetual Value	844					
PV of Perpetual	614					
Sum of PV of CF	181					
DCF Value	795					
Cash/(Net Debt)	-221					
Equity Value	**574**					
Shares Outstanding (mn)	84.0					
DCF per Share (€)	**6.8**					
Discount	10%					
Fair Value (€)	**6.2**					

Source: Morgan Stanley Research estimates

Exhibit 7

Impresa: SOTP Valuation

(€ million)	2005 EBITDA	Industry Multiple	Premium/(Discount) (%)	Multiple	Value of Business
TV	44.9	9.9	15	11.4	511.7
Newspapers	14.5	8.3	10	9.1	132.2
Magazines (Adjusted for Minorities)	4.2	10.3	0	10.3	42.8
Group value of Business					**686.8**
Cash/(Net Debt)					-221.0
Equity Value					**465.8**
Value per Share (€)					**5.5**

Source: Morgan Stanley Research estimates

Exhibit 8

Media Capital: SOTP Valuation

(€ million)	2005 EBITDA	Industry Multiple	Premium/(Discount) (%)	Multiple	Value of Business
TV	48.5	9.9	15	11.4	552.3
Radio	2.8	10.0	0	10.0	27.6
Outdoor	1.1	10.3	-10	9.3	10.6
Other	-3.4				0.0
Group value of Business					**590.5**
Cash/(Net Debt)					-125.0
Equity Value					**465.5**
Value per Share (€)					**5.6**

Source: Morgan Stanley Research estimates

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Dynamics of Portuguese Media

Key takeaways on Portuguese Media

Portugal's media industry is highly concentrated, with control in the hands of four main players (Impresa, Media Capital, Cofina and Controlinveste). We expect the market to grow by 4.5% in 2005 after an impressive 13.6% in 2004 (as a result of the general elections and European Football Championships). We expect growth to slow down slightly to 4.2% in 2006 and pick up again in 2007.

The media players, especially the TV broadcasters, tend to have varied media interests, strengthening their lobbying power. Prisa's agreement to buy a controlling stake in Media Capital follows PT's sale of Lusomundo Media to Controlinveste. Both deals were at high multiples (30 times 2005 EBITDA for Lusomundo and 14 times for Media Capital), which highlights the scarcity premium that can be commanded for media assets in Portugal.

TV accounts for 46% of the total advertising market, and while TV viewership is high, CPTs tend to be lower than in neighbour countries. Impresa's SIC and Media Capital's TVI control almost 70% of the TV audience, with state-owned RTP1 and RTP2 the rest, the competitive environment is stable now that RTP's ad minutes have been reduced to 6 min/hour.

Press (including magazines) accounts for 30% of the ad market, and Lusomundo Media leading the market for newspaper and Impresa the leading magazine publisher.

Radio accounts for 7% of the market and we expect 15% growth in 2005 followed by high single-digit growth in the next two years. The radio market is controlled by four players: the church-owned RR (with around 40% audience share, on our estimates), Media Capital Radio (MCR, 23% audience share), state-owned station RDP (11% share), and TSF (Lusomundo Media, with 6% share). Local and regional licences account for the rest.

Outdoor (12% of the market) is controlled by JC Decaux, with Media Capital in second place with 22% of the market.

General media market controlled by four groups

The Portuguese media market is characterised by a concentration of the main players (four groups: Impresa, Media Capital, Cofina and Controlinveste control most of the market), each of which has diversified interests. We believe that the fact that the main TV broadcasters (Impresa and Media Capital) also own other media assets increases their political lobbying power (which is not the case for Antena3 and Tele5 in Spain, for instance, as they are pure broadcasters).

Ad spend as a percentage of GDP in Portugal is even lower than in Spain, (0.6% compared with 0.8%), and its sensitivity to the economic cycle is more pronounced, with negative near-double digit performance during the trough of the cycle in 2002 (Exhibit 9).

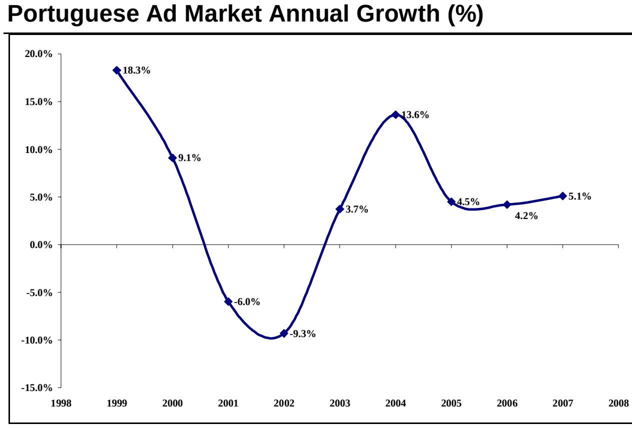
The distribution of media is, as in other Southern European markets, dominated by TV, which represents 46% of the total ad market (Exhibit 10) the same as in Spain, for instance. Press (including magazines) is slightly less relevant in Portugal than in other countries, with a 30% share (compared with almost 40% in Spain). Radio represents 7% of the total ad market, with outdoor taking a significant 12% of the market, offsetting the lower penetration of press.

TV — FTA dominant despite high pay-TV penetration

Although the penetration of cable and satellite in Portugal is significantly higher than in Spain (we estimate around 44% pay-TV penetration in Portugal versus slightly above 20% in Spain), we estimate that FTA channels still control

Exhibit 9

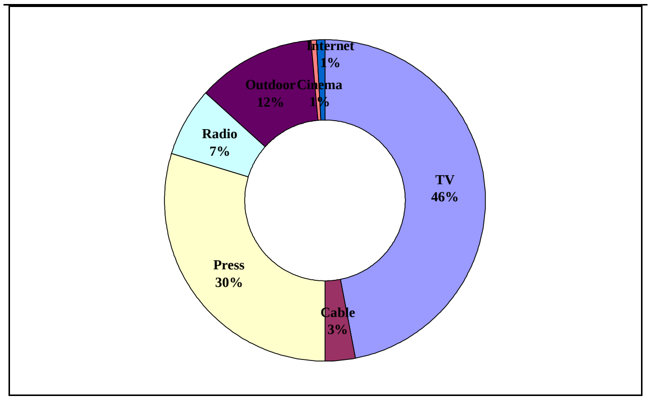
Portuguese Ad Market Annual Growth (%)



Source: Company data, Zenith, Morgan Stanley Research

Exhibit 10

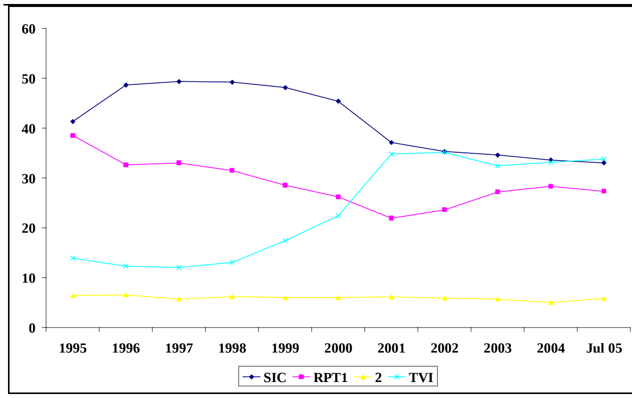
Portuguese Market: Split by Media



Source: Media Capital

Exhibit 11

Daily Audience Share, 1999-2005



Source: Company Data

a significant share of viewing, with almost 90% of total TV audience share and slightly more than 70% of audience share in homes with cable/satellite. The number of minutes of TV viewing is also high in Portugal, at more than 200 per day, but CPTs in TV are not only materially lower than the average for Europe, but also lower than in other Southern European markets. According to Media Capital, CPTs in Portugal average €3-5, while in Spain the average is around €5-7.

The FTA market consists of four channels, RTP1 and 2, which are state-owned, and SIC (Impresa) and TVI (Media Capital), with the two commercial broadcasters controlling almost 70% of the all-day audience share. The remaining share mainly goes to RTP1, with 25.5% of the all-day share (based on July 2005 figures as provided by Marktest).

The competitive landscape seem to be very stable in Portugal, as there are no further FTA licences available, and the likelihood of the existing licences being renewed in 2007 (15-year licences were awarded in 1992) is high. Now that RTP's financial situation seems to have stabilised, it is difficult to see why it would change the way it operates. There have been no talks about a possible privatisation of RTP2.

Additionally, we see the TV advertising market as stable. In September 2003, the government reduced the number of minutes of advertising allowed by RTP from 7.5 to 6 (a reduction to 4.5 was considered, but rejected). In exchange, the commercial broadcasters agreed to make some concessions in terms of cultural programming (for instance, SIC and TVI each show one weekly cultural programme, one hour a day of programming for hearing impaired viewers and 90 minutes a week for minorities).

Furthermore, RTP2 no longer carries advertising. Commercial broadcasters are allowed to show 12 minutes of advertising per hour.

As has been the case in most other European markets, discounts to agencies have been reduced by both SIC and TVI over the past two years, and are now almost nil.

There is very little sport on the commercial channels, with the exception of a weekly league football match and highlights shown by TVI (which recently won the rights previously held by RTP). Most of the sports content is broadcast on the pay-TV platforms (cable and satellite, rather than DTT).

Finally, the government has not reached a firm decision regarding the development of DTT or a switch-off date for the analogue signal. We think the situation in Portugal could be similar to that in Spain, where we expect DTT rollout to take place later than the government plans (switch-off is planned by early 2010).

Radio — state and church stations lead the market

Portugal's radio advertising market represents around 7% of the total advertising pie in Portugal, and Zenith estimates that it might grow at mid-single digits in the next two years after a flattish performance expected for 2005. Media Capital, however, expects radio ad revenues to grow at 10–15% in 2005 (we have aligned ourselves with Media Capital figures).

The Portuguese radio market is controlled by four players, namely the church-owned RR (with around 40% audience share, on our estimates), Media Capital Radio (MCR), with some 23% audience share, RDP the state-owned station with some 11% share, and TSF, controlled by Lusomundo

Media, with 6% share. A number of local and regional stations share the remaining 20% of the audience.

We estimate MCR obtains a very reasonable 1.22 power ratio on its audience share (for some 28% radio ad revenue share), which although below the 3 times reached by TSF (albeit on a much smaller audience share of almost one fourth of MCR's) compares well with the 1.1 we estimate for the leading player RR, and the less than 0.5 we think the local stations get.

In terms of market demographics, we estimate that audience is concentrated in the 25-44 age group (as should be expected) with some 42% share, while the 15-24 age group probably accounts for 20% share and the 45 to 54 age group another 15%. We think the main metropolitan areas of Lisbon and Porto could account for almost one third of audience share, with the rest split between the coast (some 37% share) and the regions of the interior.

Newspapers and magazines market

Lusomundo Media, recently sold by PT to Controlinveste, is Portugal's leading newspaper publisher. It publishes the second largest daily newspaper *Jornal de Notícias*, which sells around 110,000 copies per day, mainly in the north of the country, where it is the main daily in the Porto area. Lusomundo also publishes *Diário de Notícias*, one of the country's oldest newspaper (but barely profitable, although it is currently being restructured), with around 40,000 copies sold a day.

The company also publishes the tabloid *24 Horas* (50,000 circulation) and a weekly celebrity gossip magazine. Lusomundo is to be integrated with the rest of the Controlinveste's media assets, which include the daily sports newspaper *O Jogo* (with some 50,000 daily issues) and a number of regional newspapers. In terms of magazine titles, the enlarged group's output will include Portugal's leading travel magazine, *National Geographic*, the *PlayStation* magazine, *Volta ao Mundo*, *Evasões* and *Grande Reportagem*. The group will also control the leading radio news station TSF.

Lusomundo also publishes various regional newspapers such as *Diário de Notícias de Madeira*, *Jornal do Fundão*, *Tal Qual* and *Açoriano Oriental* and regional radio stations such as Radio Canal Aberto (on the Azores), and Radio Comercial dos Açores.

Although Lusomundo Media is the leading newspaper publisher, the leading daily newspaper, *Correio da Manhã* with a circulation of around 120,000, is published by Cofina. Cofina also publishes *Record*, the tight second sports newspaper with around 90,000 issues per day (after the privately owned *A Bola*), as well as the financial daily (five days a week) *Jornal de Negócios*. Cofina is the second largest magazine publisher (in circulation terms) after Impresa, with a very similar portfolio of titles, and a leading position in the area of IT, for instance.

While there are other newspaper publishers in Portugal, (such as Recoletos, which publishes two economic newspapers, or the weekly *O Independente*), the only other notable publisher is *Sonae.com*, which sells around 55,000 copies of its daily newspaper *Publico*.

The leading magazine publisher is Impresa, with around 30 regular titles, and 35% of the market in terms of circulation (even higher if measured by advertising revenue), on our estimates. Although the second publisher of magazines by circulation is Impala (with around 20% circulation share), According to Impresa, its share of advertising revenue is just 15%, while Cofina, with 15% circulation share probably takes up to 20% of the ad market. Impala has focused on popular, gossip, TV and lifestyle magazines. Cofina's portfolio is similar to Impresa's — it publishes the very successful Portuguese version of *Hello!* magazine.

Lusomundo Media: a 30 times historical EBITDA deal

Aside from the exchange of call and put options between Prisa and the controlling shareholders of Media Capital (see the section entitled *Media Capital's Shareholders' Agreement with Prisa*), the other large transaction recently completed was PT's sale of 80.9% of Lusomundo Media to Controlinveste in late February 2005 for a 100% valuation of €300 million (the remaining 19.1% is owned by the Portuguese media group Cofina).

Controlinveste is owned by Joaquim Oliveira, and controls Sportinveste (50% owner — with PT owning the other 50% — of the cable sports channel Sport TV, which also owns most of the broadcasting rights for the national football league) and Jornalinveste (which publishes the third largest sports paper).

Lusomundo generated revenues of €154 million in 2004, with a margin of 6.5% (3pp higher than in 2003), which implied a deal multiple of around 30 times historical EBITDA. While we take this multiple as not being realistically applicable to Impresa's press business, we think it is relevant to mention the high valuation that strategic media businesses might command given the scarcity of quality assets.

Impresa — A Three-Way Media Group

Impresa: main takeaways

Impresa is one of Portugal's leading media groups, and we expect it to have revenues of to €278 million, with an EBITDA margin of 23.6% for 2005.

The company's origins date back to 1972, when Mr. Francisco Pinto Balsemão (who later became Portugal's prime minister) created *Sojornal/Expresso*, a weekly newspaper. Mr Balsemão still controls the group with 51% of the shares outstanding.

The company is structured into three divisions: TV (SIC) accounts for around 62% of revenues and 68% of EBITDA (Exhibit 12), while newspapers account for 22% of both revenues and EBITDA. The remaining 16% of revenues and 9% of EBITDA come from the magazines division.

In late 2004, Impresa gained control of 49% of SIC for an implied EBITDA multiple of 6 times. SIC is the second largest commercial TV broadcaster in Portugal with an audience share of 33.5% in 1H05. SIC also broadcasts four cable channels with a 25% audience in pay-TV homes.

The main publication in the newspapers division is the weekly *Expresso*. Impresa also publishes *AutoSport*, *Blitz*, and *SurfPortugal*, and has recently launched *Courier Internacional*, and a real estate classifieds paper.

Impresa now publishes more than 30 magazine titles in Portugal, (achieving a 35% ad market share), the most important of which are *Visão*, *Caras*, *Exame*, *Cosmopolitan* and *Active* and has recently launched the Portuguese version of men's monthly *FHM*, as well as the travel magazine *Rotas do Mundo*, and the Children's title *Brinca e Aprende*.

Exhibit 12

Impresa: Divisional Breakdown (2005)

	(€ million)	% of Total
Revenues		
Television	172.1	62
Newspapers	61.1	22
Magazines	44.0	16
Cons. Adj.	0.3	0
Group Revenues	**277.6**	**100**
EBITDA		
Television	44.9	68
Newspapers	14.5	22
Magazines	5.9	9
Cons. Adj.	0.3	0
Group EBITDA	**65.6**	**100**
EBITDA Margin (%)		
Television	26.1	
Newspapers	23.7	
Magazines	13.5	
Cons. Adj.	93.3	
Group EBITDA Margin	**23.6**	

Source: Morgan Stanley Research estimates

Brief history of the group

Impresa dates back to 1972, when Mr. Francisco Pinto Balsemão (who later became prime minister) created the weekly newspaper *Sojornal/Expresso*. In 1975, the distribution company VASP was created to distribute the *Expresso* title, and in 1981 part of its share capital was acquired by Sojornal. Today, VASP distributes all the Impresa group publications.

In 1989, a joint-venture was set-up with the Brazilian group Abril Morumbi, to launch the first business magazine in Portugal — *Exame*. After more than 25 years in operation, the group now controls the largest portfolio of titles in Portugal with almost 30 different publications including the leading titles *Visão*, *Caras* and *TVMais*.

In 1991, Impresa formally created a holding company, the Balsemão group, and launched a bid for a new private TV licence. In October 1992, SIC, the first private TV channel in Portugal, started to broadcast.

In the second half of 1999, Impresa gained control of 51% of SIC, and the remaining 49% in late 2004 for a total of €152.5 million (implying a 100% valuation of €311 million, or just 6 times prospective EBITDA).

Shareholding structure

Impresa is controlled by its founder Mr. Balsemão, who owns, directly and indirectly, 51% of the group. Other significant shareholders include Fidelity and Banco

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Português de Investimento (BPI), with the remaining 30% as free float.

Divisional breakdown

Impresa is structured in three divisions (Exhibit 12): TV, newspapers and magazines. The TV division represents around 62% of revenues and 68% of EBITDA (Exhibit 12), while newspapers account for 22% of both revenues and EBITDA. The remaining 16% of revenues and 9% of EBITDA comes from the magazines division.

Impresa controls 100% of the newspapers division through Controljornal, and recently gained 100% control of the SIC TV channels. The magazines division is 70%-controlled by the group, with the rest owned by the Swiss publisher Edipresse and the Brazilian Abril Morumbi group.

TV division

Impresa controls six TV channels: one FTA channel, four SIC cable channels and one satellite channel. Its FTA channel had an audience share of 33.3% in January-June, second only to TVI's (Media Capital) 33.5% for all-day. For prime time, SIC reached 33.2% audience share, compared with TVI's 35.8%. The two state-owned channels (RTP1 and 2) achieved a combined share of 31% for prime time (with 26% accounted for by RTP1) and 33.2% for all-day.

Impresa's TV revenues come from three sources: (i) advertising, which accounts for the majority (75% of the TV division's total revenues, on our 2005 estimates); (ii) the production of the SIC channels, accounting for some 20% of total divisional revenues; and (iii) multimedia sales, or the sale of content to third parties.

We expect the TV division to reach an EBITDA margin of 26% in 2005, after a material comeback from the breakeven reached in 2002, which led to the company reducing its programming costs by 8% in 2003. We expect the EBITDA margin to reach 28% by 2010 (see more in the financial forecast section of this report).

The SIC cable channels have an aggregate 25% audience share in homes with cable. Cable economics is based on a dual stream: one on a fee per subscriber, and another, 50/50 shared with TV Cabo for advertising on the channel, which is limited to 6 minutes per hour (a self-imposed limit).

SIC has an output deal with TV Cabo, which will expire at the end of 2009. The new contract is being renegotiated and is likely to be more closely linked to actual audiences figures (the current agreement is not very closely linked to audience figures). This will increase the volatility of the revenue stream, and probably result in some additional production costs.

Newspapers

Expresso is the only weekly newspaper published on a Saturday. The company has a recently launched *Courrier International* as well as real estate classifieds newspaper, *Expresso Imobiliario Clasificados*, which feeds from the information of Okapa.com, Portugal's largest professional real estate portal.

Add-ons continue to be a material revenue driver (as is the case in other Southern European markets such as Italy and Spain), with revenue increases of 81% in 1H05 and 183% in 2Q05, although still from a relatively small base.

Newspapers are also experiencing a significant improvement in profitability from the 12% EBITDA margin reached in 2002 to the 24% we expect for 2005. We are modelling the division to keep increasing its margin gradually rising to 28.7% by 2010 (which is still below some close peers such as *El País*).

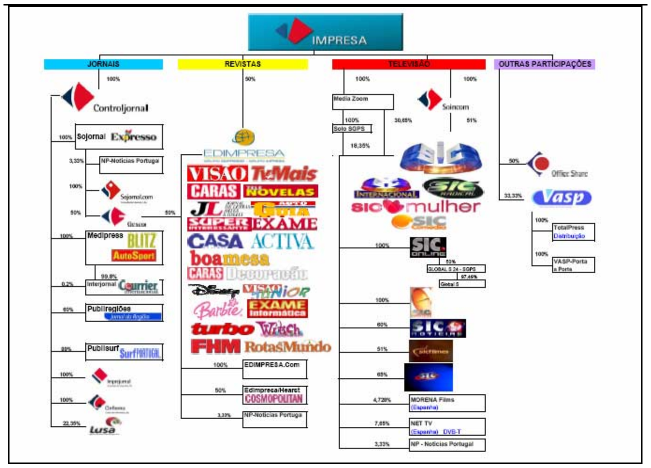
Magazines

Impresa now publishes more than 30 titles in Portugal, the most important of which are *Visão*, *Caras*, *Exame*, *Cosmopolitan* and *Active*. The company has recently launched the Portuguese version of FHM, travel magazine *Rotas do Mundo* and children's title *Brinca e Aprende*.

Impresa's main competitors (the company has 35% market share, on our estimates) in the magazine business are: (i) Impala (privately owned), which we estimate controls around 20% of the market, (ii) Cofina, which according to Impresa has another 20% share, (iii) Media Capital, with around 10% of the market, and (iv) Lusomundo (which was recently acquired by OliveSports) with slightly less than 10%.

Exhibit 13

Impresa: Summary of Main Divisional Activities



Source: Impresa

Impresa's magazine division, which since 2004 has been consolidated on a proportional basis (prior to that it was fully consolidated) has seen its margin performance suffer from the almost 20% reached in 2002 to the 13.5% we expect for 2005, mainly on the launch of new titles. However, we expect the division to return to margins of closer to 20% by 2010 as the newer titles mature.

Media Capital — Greater Exposure to TV

Media Capital: main takeaways

Media Capital (MC) was established in 1992 as an independent newspaper publisher. In 1997, the company expended into radio and then into TV in 1998 with a 30% stake in TVI, which it now fully controls following a re-launched in 2000 to become Portugal's leading TV channel. TVI accounts for 70% of the group's revenues and almost 100% of the EBITDA.

We expect MC to generate revenues of €225 million in 2005, with EBITDA of €49 million (margin of 22%). Our net profit forecast for 2005 is €22 million.

On July 22, 2005, Prisa entered into a series of call and put agreements with the controlling shareholders of MC for the potential acquisition of up to 46% of the shares of the company (see following section for full details) at a valuation of €8.3 per share (although at a net cost to Prisa of €6.9 per share).

TVI has achieved an audience share of 35.4%, and is a truly integrated broadcaster, controlling Portugal's leading producer NBP. TVI obtains higher margins than Impresa as it owns part of the distribution system, buys no Brazilian soap operas, and has no cable channels.

MC's radio division controls four FM licences and one AM licence, and is the second largest radio broadcaster in Portugal. Radio accounts for 7% of group revenues and EBITDA.

Media Capital Outdoor is the second largest outdoor advertising company in Portugal, but a lacklustre performance in 1H05 (mainly on tough comps) and a below-expectation launch of MCO TV (TV in subway stations) recently forced the company to lower guidance for the division to flat revenue growth in 2005.

The remaining divisions (magazines and Internet) accounting for a sizable 15% of revenues, are still in loss making. The company's leading titles are *Lux* (and *LuxWoman*) *Vinhos* and *Maxmen*. Iol is Portugal's second largest Internet portal.

Brief history of the group

Media Capital (MC) was established as a publisher of print media in 1992, publishing the weekly newspaper *O Independente*, the monthly finance magazine *Fortuna*, and the daily *Diário Económico*. In 1997, MC acquired Radio Comercial and the now called RCP. This was followed in 1998 by the acquisition of a 30% stake in FTA broadcaster TVI, taking full control of the broadcaster one year later. In 2000, TVI was re-launched, and in 2001 all printed media operations were sold with the exception of *Maxmen*, *LuxWoman* and *Lux*. We expect Media Capital to generate revenues of €225 million in 2005, with EBITDA of €49 million (margin of 22%). We forecast net profit for 2005 of €22 million.

TV division: TVI

MC's current operations revolve mainly around TVI, which represents 70% of group revenues, but almost 100% of EBITDA, according to our 2005 full-year forecasts (Exhibit 14). We expect revenues of €156.5 million for 2005, with EBITDA of €48.5 million for the TV division.

TVI is a truly integrated broadcaster, as it controls NBP, which now produces content exclusively for Media Capital (it previously used to sell some content to SIC). TVI's audience share of 35.4% makes it Portugal's leading channel, and NBP is, according to the company, the largest Portuguese production company.

TVI structures its programming around four different blocks, namely (i) news, where, according to the company, it is the leading broadcaster; (ii) Portuguese fiction, with soap operas regularly contributing to prime time content, and mostly produced by NBP, this enables the company to programme lower-cost repeats during lower revenue slots; (iii) entertainment, with reality shows such as *Big Brother* and *A Quinta* [the Farm]; and (iv) football, after gaining access to the Superliga rights (previously held by RTP) for the next two seasons (allowing it to broadcast one live game per week plus highlights).

Except for the newly acquired football rights, this structure has been in place since TVI's programming was restructured in 2000. Additionally, TVI now broadcasts films on Saturdays and Sunday afternoons, with competitors not following for the time being.

Radio: MCR

Radio accounts for 7% of total group revenues, and generates a similar proportion of EBITDA, with a margin of 17%. MC operates a portfolio of four radio stations:

- **Radio Comercial**, a national FM station, with a music format and target listeners aged between 25 and 44, competing with RFM (controlled by the Portuguese Church), and re-launched in early 2003. Radio Comercial accounts for 60% of the radio division's revenues.

- **Radio Clube Português (RCP),** a regional FM licence targeting 42 to 54 years olds and competing with RR (Church) and Antena 1 (state owned) with a pop/rock format. The station was re-launched in early 2003 and accounts for 13% of MCR's revenues. RCP's main priority for 2005 is to expand outside its main areas of coverage of Lisbon and Porto.

- **Cidade FM**, a local FM station, targeting the 15 to 24 age group (the first station in Portugal to target this group), programming contemporary hits and re-launched in late 2003. Cidade represents around 14% of the division's revenues.

- **Best Rock**, the third local FM station, targeting the 18–26 age group, with a mainstream rock format and competing mainly with Antena3 (state owned). Best Rock represents 9% of MCR's revenues, and management plans to launch it outside Lisbon in other university cities throughout the country.

Outdoor activities: MCO

We expect MCO, Media Capital's outdoor division, to generate revenues of €19 million in 2005 (8% of group revenues), with a 6% EBITDA margin (or just 2% of the group's EBITDA). Weaker-than-expected performance by MCO TV (a project to install TV screens in subway stations), plus a tough environment in 2005 after a very strong 2004 (as a result of Portugal staging the European Football Championships and the general elections) has forced management to lower guidance for the division to flat performance in 2005, with a margin of 6–10% (we forecast 6.0%).

Magazines and Internet

The remaining divisions (magazines and Internet) represent a sizable 15% of the group's revenues, but are still loss making (we forecast €3.4 million losses for 2005, in line with management's guidance). Media Capital's leading magazine titles are *Lux* (and *LuxWoman*), *Vinhos* and *Maxmen*.

Exhibit 14

Media Capital: Divisional Breakdown (2005)

	(€ million)	% of Total
Revenues		
Television	156.5	69
Radio	16.3	7
Outdoor	19.0	8
Other	33.7	15
Group Revenues	**225.5**	**100**
EBITDA		
Television	48.5	99
Radio	2.8	6
Outdoor	1.1	2
Other	-3.4	-7
Group EBITDA	**49.0**	**100**
Television	31%	
Radio	17%	
Outdoor	6%	
Other	-10%	
Group EBITDA Margin	**22%**	

Source: Morgan Stanley Research estimates

Media Capital Shareholders' Agreement with Prisa

The Terms of the Deal

On July 22, 2005, Prisa announced the terms of an agreement with controlling shareholders of Media Capital, to buy up to 46% of the company's shares. The terms of the agreement are structured in three blocks (Exhibit 15):

First block:

- The controlling shareholders have given Prisa a right of first refusal on both (i) 100% of the shares of Vertix SGPS, SA, which owns 28.48% of Media Capital, and (ii) shares of Media Capital that the controlling shareholders have or might have in the future up to a maximum of 13.32%. The first part of the right expires 24 months from the time of the deal, and the second can be exercised 24 to 39 months from the time of the agreement.

Second Block:

In exchange for the option of first refusal, Prisa has granted to the controlling shareholders two different puts:

- **One for 100% of the shares of Vertix**, to be exercised between three and six months from the date of the agreement, as long as Vertix owns 33% of the shares (and not more than 33%, to avoid Prisa having to launch a tender offer for the remaining shares) and voting rights of Media Capital.

  If this put option is exercised, Prisa will pay €189.6 million (subject to adjustments for interest expenses on Media Capital's debt) and will give the controlling shareholders 24% of Prisa Division Internacional (which comprises Prisa's international media activities).

- **The second put option is on between 12% and 13.32% of Media Capital**, to be exercised 24 to 27 months after the exercise of the previous put. The exercise price to be paid by Prisa (or by a third party designed by Prisa) would be between €71.3 million and €79.1 million.

Third Block:

- Prisa has granted the controlling shareholders a third put option on the 24% of Prisa Division Internacional with a €45 million exercise price. This put can be exercised 12 to 14 months after the exercise of the first put. After this time, Prisa will have the option of buying the 24% stake at the same exercise price, for the next 12 months.

Implications for Media Capital

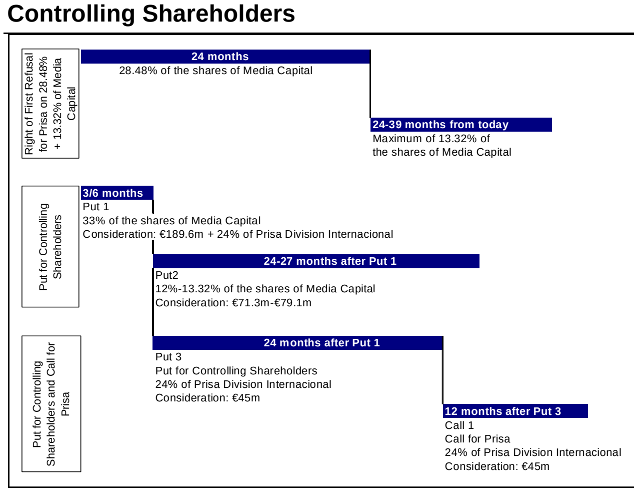
We see the deal as having two implications for Media Capital. First, it sets a price level for the shares, and second, it opens the potential for improving the performance of the company's various businesses through future cooperation between both companies.

Prisa is paying a total of €8.3 per Media Capital share (Exhibit 16). However, we think it is important to put such a price in the context of the material subsidy Prisa will get from the Spanish government as a tax deduction for international investments. If that subsidy is netted off the gross price, the cost of the deal for Prisa comes down to €6.9 per share.

Although such a level would not necessarily be considered as a reference if Prisa ended up launching a tender offer on the rest of the company's shares, we think that it has set a psychological level, and we expect the share price to revolve around the €7 level for some time. However, given our fundamental valuation of the shares, we see no reason for the shares to trade ahead of that level in the short term.

Exhibit 15

Structure of Deal Between Prisa and Media Capital's Controlling Shareholders



Source: Company data, Morgan Stanley Research

The second set of implications are of an industrial nature. While neither Media Capital nor Prisa have been explicit regarding the size of the potential synergies of a closer co-operation between the two companies, we think that such co-operation, if it were to materialise, could be positive for Media Capital. We estimate it could increase our fundamental valuation of the business by almost 13% to €7.1 per share, versus our valuation of €6.3 without synergies.

Exhibit 16

Media Capital: Summary of the Pricing of the Deal with Controlling Shareholders and Net Cost to Prisa

(€ Million)	Stake (%)	Price for Shares	Prisa International	Debt Assumed	Total Consideration	Cost to Prisa
First Tranche	33.0	189.6	45.0	7.4	242.0	186.0
Per Share		6.9	1.6	0.3	8.9	6.8
Second Tranche	13.3	75.2			75.2	
Per Share (€)		6.8			6.8	
Total	46.3	264.8	45.0	7.4	317.2	264.0
Per Share (€)		6.9	1.2	0.2	8.3	6.9

Source: Company data, Morgan Stanley Research

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Impresa — Financial Forecasts

Consolidating in 2005

We expect Impresa to grow revenues by 5.2% in 2005 to €278 million, with an EBITDA margin of 23.6% and EPS growth of almost 30% to €0.39. Our forecasts are in line with the high end of management's guidance.

We forecast the company will grow revenues by a CAGR of 5.1% to 2010, with EBITDA margin improving to 26.6% (+300bp) and EPS growth of 13%.

We think the TV division will grow revenues 3.9% in 2005, with a stable margin, after the strong 2004. We are cautious on the prospects for ad revenue developments given the weakness of the Portuguese market (we expect mid-single digit ad revenue growth over the cycle), but expect margins to improve by almost 200bp by 2010.

We expect the newspaper group to grow revenues by 7.5% in 2005, with margins also stable at 23.7%. Add-ons (free giveaways such as CDs) continue to be a solid revenue driver, but we expect little news regarding cover prices. We estimate 5.7% revenue CAGR from 2005 to 2010, and expect margins to gain 500bp to 28.7% by then, with cost of sales remaining stable in relative terms at around 16% of revenues while other costs grow only in line with inflation.

Finally, we think the magazines division will grow at a slightly slower rate than newspapers, (5.2% revenues CAGR 05-10), but will perform slightly better on margins (CAGR of 11.6%). For 2005, we expect 10.7% revenue growth with margins of 13.5% for the year.

We see a slight increase in capex driving up depreciation charges, but expect the company to be cash positive by the end of 2007, with financial revenues helping EPS to grow by 13% CAGR from 2005 to 2010 after almost 30% growth in 2005, on our numbers.

TV

We forecast the TV division to post revenues of more than €170 million in 2005, with a stable margin (26.1%). Advertising revenues have a tough 2004 to compare with (largely owing to the European Football Championships in Portugal), while the cable channels and the other revenues might partially offset this to give 3.9% total divisional revenue growth. We expect revenues to recover in the coming years, peaking in 2008 before comps get tougher again.

We are not assuming any material change in the *status quo* of the Portuguese TV market. Short-term trends might indicate a deterioration of the position of RTP, in favour of the two private players, but longer-term analysis suggests the opposite. We think that unless there is either a reduction in RTP's budget (which we do not expect, given the stronger finances of the state-owned TV company in recent years), or a reduction in its ad minutes (which we do not expect either in the short term, given that it is already down to 6 minutes per hour), audience shares are unlikely to materially move as to significantly affect either SIC or TVI.

We are expecting programming costs to remain relatively stable at around 43% of revenues, although the strong US dollar could present some downside risk to our forecasts, especially for 2006.

Globo Media is one of SIC's largest providers of content. The contract expires at the end of 2009, and SIC is currently negotiating its extension. Globo Media provides five daily soaps to SIC, and the latter is the Brazilian company's largest client (even though it sells content in more than 50 countries). The contract is structured so that the cost to SIC is linked to US inflation, with soap operas (accounting for around 40% of the total content purchased) being paid for directly in US dollars. This means that Impresa's dollar exposure is almost twice that of Media Capital's. We therefore expect it to suffer more from the recent strength of the dollar.

There are three fundamental differences between Impresa and Media Capital's business models, which affect both companies' TV margins:

- Impresa does not own its distribution platform, as does Media Capital, which adds around €3 million to SIC's cost base.

- The SIC cable channels carry slightly lower margins than the FTA channel, at around 20–25%, which dilutes the overall margin of SIC's TV business.

- Brazilian soap operas are more expensive than Portuguese ones, and while SIC shows mainly Brazilian soaps from the output deal with Globo Media, Media Capital shows mainly domestic productions.

Programming costs at SIC are spread between (i) the Globo Media contract, which accounts for around 25% of the total; (ii) other foreign series, accounting for another 15% of the total; (iii) news for 20% (including the cable news channels); and (iv) the rest of the local programming (excluding soap operas), for the remaining 40% of total production.

We forecast non-programming costs will grow in line with inflation, with personnel costs growing at just 3% during our forecast period and other costs at a slightly higher rate during the early years, but trending to 3% by 2009.

Newspapers

We expect the newspaper division to continue outperforming as the positive contribution of the add-ons will, in our view, continue for some time. If the experience of other newspaper publishers such as Prisa is of any help, add-ons could evolve into a business itself, and we expect 'other revenues' to double from €7.4 million in 2005 to almost €14 million in 2010.

Add-ons in 2004 were based on book sales, but during the first part of 2005 were based on CDs. The company plans to go back to book sales in the last quarter of 2005 and to keep pushing these for the rest of the year.

We do not expect any material news regarding cover prices, given that the weekly *Expresso* has already gone up by 24% in the past three years to the current €3.0 (versus the €1.1-1.2 cover price of the competitors' dailies and €1.5 for their weekend issues).

On the circulation front, we think the launch of *Courrier Internacional*, as well as the specialised classifieds, might provide some upside to our 5% publication sales revenues forecast, although we think it is too early to expect a significant divergence from our estimates.

Given the low capex requirements at the newspapers division (less than €1 million per year), we expect EBITDA for the group to fully convert into cash flow (post taxes). Furthermore, Impresa has reached an agreement to sell its printing facilities to Mirandela, which will enable it to print *Expresso* in full colour.

Magazines

Following a year of no launches in 2004, Impresa this year launched FHM (with launch costs of around €1 million equal to the cost of all its other launches for the rest of the year), the children's magazine, *Brinca e Aprende* and travel magazine *Rotas do Mundo*. The company expects to sell some 50,000 issues of *FHM* (compared with the 150k the title sells in Spain), and could be the fourth largest title in the Portuguese market.

We forecast magazine revenues to grow by almost 11% in 2005 (with sales of add-ons associated to the magazines also acting as a main revenue driver, and not only for 2005). We expect the company to feel the impact of new launches in 2005, with margins slightly down versus 2004 (-50bp), but recovering in 2006 (15% versus 13.5% in 2005).

Longer term, we think that the contribution from add-ons will diminish (down to 5% revenue growth in 2010), while the operating leverage of the business should drive margins up to 18% by 2010.

Group issues

We expect the acquisition of the 49% stake in SIC completed in 1Q05, together with the implementation of IFRS accounting, to be the main issues regarding the company's performance below the EBITDA line in 2005. The overall cost of the acquisition was €153 million (all debt financed), which implied a prospective EBITDA multiple of slightly less than 6 times, well below the 13 times at which the European industry peers trade.

We are not assuming any change in the cost of debt for the group, which we put at 6%, and keep the nominal tax rate of 25% constant through our modelling period.

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Media Capital — Financial Forecasting

Strong TV, weak Outdoor

We expect 2005 revenues of €225 million (+6.2% versus 2004) with EBITDA of €49 million (a 28.1% margin) and net income of €21.9 million.

Our forecasts are in line with the mid-point of the recently lowered guidance range, in which management increased its expectations for TVI after strong first-half earnings, but significantly reduced its outdoor estimates.

We expect TVI to increase revenues by 8.3% to €156.5 million, after 6.8% revenue growth last year, with pricing and reduced agency commissions as the main drivers. We do not foresee a material change in the audience shares of the main players.

We model TVI's EBITDA margin at 31% in 2005 for €48.5 million. We expect the company to increase its TV EBITDA margin to 34% by 2010, and to sustain its margin differential versus SIC.

We forecast MCR (radio division) will generate ad revenues of €15.5 million, an increase of 15.5% compared with 2004 revenues, which sits at the higher end of the guidance range given by management. On the margin front, we assume an increase from 17% to 19.5% by 2010.

We would see upside risks to our radio forecast if the government were to issue new licences, from further utilisation of the company's AM licence, or from a potential co-operation with Prisa.

We expect a lacklustre 2005 for the outdoor division given the updated company guidance owing to very tough comps. We are also taking a conservative stance regarding the potential margin development of the division in 2005, and expect it to report a 6% EBITDA margin (rising to 8.5% by 2010).

We do not expect the rest of the group's activities to reach breakeven before 2007.

Media Capital old and new guidance versus our forecast

At the publication of the 2Q05 earnings Media Capital updated its 2005 guidance (see Exhibit 17 for a comparative between the old and the new guidance as well as our own estimates). The main changes to the previous guidance (provided at an analysts' day in January) were:

- An increase in the total group revenue guidance range from 4–6% to 5–7%, mainly owing to stronger than expected performance by the TV division. We are expecting a 6.2% increase in group revenue for the year.
- Ad revenue growth for the group of 6–9%, versus the previous 8–10%, owing to a weaker than expected outdoor market (flat now versus more than 25% growth before), not completely compensated by the better performance of the TV division, with mid-point guidance now of 8% compared with 5% before. Radio expectations are also reduced to 10–15% compared with 17–19% before.
- We have aligned ourselves in the mid point of TV growth (7.8%), but are more positive on radio (9.7%) and other (almost 10%). However, we do not expect any positive surprise from the outdoor activities (0.7% forecast).
- Management has basically kept guidance for margins in 2005 constant (21-23% compared with 22-24%), as TVI is also expected to reach a margin of 30–33%, unchanged from the previous guidance. We have a 31% forecast for the TV division, while our margin expectations are at the low end of the guidance range for the rest of the divisions (17% for radio compared with 17–21% guidance, and 6% for outdoor compared with 6–10% guidance).
- Our forecasts for the remaining operating variables are in line with company guidance.

TV

As was the case with our SIC forecasts, we do not assume any material change in the *status quo* of the Portuguese TV market. We expect TVI to increase ad revenues by almost 8% in 2005 (in the middle of the company's guidance of 7–9%), and other revenues by 13%, resulting in TV revenues increasing 8.3% to €156.5 million, after 6.8% revenue growth last year.

Exhibit 17

Media Capital: 2005 Guidance vs Morgan Stanley Estimates

Guidance Given on….	January 05	July 05	Morgan Stanley
Total Revenue Growth (%)	**4-6**	**5-7**	**6.2**
TV	4-6	7-9	7.8
Radio	17-19	10-15	15.5
Outdoor	25-28	0	0.7
Other	8-10	8-10	9.7
Ad Revenue Growth (%)	**8-10**	**6-9**	**7.6**
TV	30-33	30-33	31.0
Radio	21-24	17-21	17.0
Outdoor	19-22	6-10	6.0
Other	Breakeven	-3.0	-10.0
EBITDA Margin (%)	**22-24**	**21-23**	**21.8**
Total Debt (x EBITDA)	2.5-3.0	2.5-3.0	3.3
Maintenance Capex (x Revs)	3.5-4.0	3.5-4.0	
Growth Capex (x Revs)	0.5-1.0		
Cost of Debt (%)	5-6	5-6	5.5

Source: Company data, Morgan Stanley Research

The key drivers of TVI's revenue performance in 2005 will be not so much an increase in occupancy, which we estimate will be stable in the short term, but the potential to increase prices and to further reduce agency commissions and rebates (which dropped from 5% in 2004 to 2% in 2005).

We expect TVI to continue focusing its programming efforts in the stronger advertising second and fourth quarters of the year (as it has done in the past two years), which might add some volatility to quarterly forecasts. Additionally, we think the cost control policy, plus the natural operating leverage of the TV business, will more than offset the higher programming cost of the Superliga rights (which we expect will translate into more than one programme, as is currently the case), and weekend movies.

The end result, on our estimates, should be an increase in the EBITDA margin from the 29.8% reported last year to 31% in 2005 for €48.5 million. We expect the company to increase its EBITDA margin to 34% by 2010. This compares with the 28% we expect SIC to achieve by the same date. The difference is based not so much on a better audience trend, but rather on the key business differences already mentioned in previous sections of this report, mainly: (i) the fact that TVI owns part of the distribution system; (ii) the absence of cable channels for TVI; and (iii) the fact that TVI sources almost no series/soaps from Brazil.

Radio

We forecast MCR will generate ad revenues of €15.5 million, an increase of 15.5% from 2004, which is at the higher end of management's guidance range. We feel comfortable with our forecast, although the mere 10% increase in the first half of the year (although we should bear in mind the toughest comps for the period) might put some downward pressure on our estimates. On a longer term basis, although we think the positive trend of 2005 will continue in 2006 with almost double-digit revenue growth, we think the division might revert to mid-single digit growth for the rest of our forecast period.

On the margin front, although the company used to generate almost 40% margin in its radio businesses, we are taking a more conservative stance and assuming a 17% margin for 2005 (in the lower end of management's guidance of 17–21%) rising to 19.5% by 2010. This compares with the company's more aggressive target of mid 20s, which is more in line with other pure radio players such as GCap.

We see three sources of upside risk to our estimates. One comes from the potential increase in the number of licences available to the company (currently limited to the existing five). The second is synergies (mainly transfer of know-how and potentially some rights negotiations) deriving from a possible co-operation between MCR and Prisa's Spanish radio business SER. The third comes from the restructuring of the AM licence MCR already owns, and which, according to the company's management, is currently under-exploited.

Outdoor and other

We expect the division, in full agreement with the updated guidance, to have a lacklustre 2005, given the very tough comps, but forecast a recovery in the revenue line in 2006, with a material 20% increase, once the MCO TV project is up to speed.

We take a conservative stance on the potential margin development of the division in 2005, and expect a 6% EBITDA margin (at the lower end of management's guidance), rising to 8.5% by 2010.

Regarding the rest of the group's activities, we do not expect them to break-even before 2007, and are modelling just a 5% margin by the end of our forecast period, with most of the revenue contribution coming from the new projects (mainly subscriptions and newsstand sales) launched in the earlier part of 2005.

2Q05/1H05 Highlights

Impresa

Impresa's 1H05 revenues were up 6.9% to €137 million, with advertising revenues up 1.7%, publication sales up 3.4% and other revenues increasing by 23% (albeit from a low base). The EBITDA margin increased at group level from 20.4% last year to 21.7% in 2005, while net profits increased to €15.2 million at the end of the first half. Net debt at the end of June reached €221 million, after the completion of the acquisition of SIC minorities.

- **TV revenues were up 3.3% in the quarter**, with ad revenues only marginally up 1.0% and the SIC cable channels up almost 8%. As could be expected given the tough comps of 2Q04 (as a result of last year's European Football Championships in Portugal), 2Q05 ad revenues were down almost 6%, taking the TV division's revenues down 3.6% compared with last year.

- **According to Marketest, SIC's all day FTA audience in 1H05 was slightly weaker than during the same period last year**, with an average audience of 33.3% (33.5% in 2004), with the largest hit in the second quarter (audiences down to 32.3% versus 33.6% in 1Q04). SIC's prime time audience, which had gone up in 1Q05, receded from 32.4% in 1Q04 to 31.7% in 1Q05, but not enough to affect the 1Q05 performance, with the 1H05 audience growing from 31.4% to 33.2%.

- **Cost control seems to be the driving force of the EBITDA expansion** in the division, with programming costs down 2.6% in the year and 5.6% in 2Q05 (in line with the ad revenue drop) pushing margins up from 23.9% last year to 26.5% in 1H05, although on a 2Q05 basis, the bad performance of adverting revenues implied flat EBITDA performance.

- **Newspaper revenues were up 9.2% in the first half of the year**, a very positive performance considering that there was one issue less of *Expresso* than in 2004. Classifieds revenues were up 15.4% by the end of the first half driving advertising up 3.1%. Circulation was flat on flat *Expresso* numbers, although the rest of the titles performed well (except perhaps *Blitz*). Margins in the division were flat on a 1H05 basis as the very positive 2Q05 performance (margins up from 24.8% in 2004 to 27.3% in 2005) compensated for weaker 1Q05 margins.

- **The magazines division posted revenues of €21 million, up 14% compared with 1H04**, with advertising revenues up 4% and circulation 4.8% higher. Three new magazines were launched during the first half (*FHM*, *Brinca e Aprende*, and *Rotas do Mundo*). Margin performance was affected by launch costs, dropping 50bp in the half to 8.6% (11.6% for 2Q05).

EPS during the first half increased by 78% YoY to €0.18, while the increase on a 2Q basis only was 65%.

Media Capital

Media Capital reported an increase of 7% in consolidated revenues to €109 million for 1H05 (with advertising revenues up 6% in 1H05 basis, but only 1% in 2Q05), with EBITDA margins up 70bp to 20.5% (with EBITDA of €22.7 million) and net profits more than doubling to €8.7 million.

- In terms of audience share for TVI, the performance was the opposite to SIC. While SIC had a much better 1Q05 than 2Q05, that of TVI outperformed in the second quarter. Thus, while all day audience in the first quarter dropped from 33.3% last year to 31.8% in 1Q05, 2Q05 saw audience rise from 31.6% to 35.2%. The same occurred with prime time audience share, which dropped 400bp in the first quarter, but increased 330bp in the second quarter. On a first-half basis all day audience share rose 100bp to 33.5%, while prime time dropped 50bp to 35.8%.

- **TV revenues were up 12% in the first half of the year (with the second quarter slightly weaker than the first),** with advertising revenues up 9% (on the back of an enhanced commercial strategy, increase in occupancy rates and lower agency commissions), and EBITDA margin improved by 180bp to 30.4% (despite the increased cost related to the Superliga).

- **Radio revenues were up 9% in 1H05 with flattish performance in 2Q05**, and audience share unchanged at 23.2% (23.4% in 1Q05). Advertising revenues were up 10% in the first half (with stable occupancy rates and slightly better pricing conditions, but tough comps in 2Q05 which drove revenues down 2% in the quarter) while the margin dropped from 13.8% last year to 13% in 1H05.

- **Outdoor revenues were down almost 20% in 1H05**, clearly the worst divisional performance, mainly on the very tough comps following Euro 2004 and the electoral campaigns. We think the comps will be tough for the rest of the year, and the company has warned of tougher than expected conditions in the market in general, with MCO TV (TV in subway stations) performance below expectations. Margins in the division dropped materially from almost 20% last year (on 1H basis) to slightly less than 7% in 1H05.

Financial Statements for Impresa and Media Capital

Exhibit 18

Impresa: P&L Forecasts

(Million €)	2004	2005e	2006e	2007e	2008e	2009e	2010e
Television	165.7	172.1	180.7	191.5	204.7	210.7	218.6
Newspapers	56.9	61.1	65.3	69.7	74.5	77.4	80.5
Magazines	39.8	44.0	47.3	50.3	52.8	54.8	56.6
Cons. Adj.	1.5	0.3	0.3	0.3	0.3	0.4	0.4
Revenues	263.9	277.6	293.6	311.8	332.4	343.3	356.2
Growth							
Television	14.5%	3.9%	5.0%	6.0%	6.9%	2.9%	3.7%
Newspapers	12.2%	7.5%	6.8%	6.6%	7.0%	3.8%	4.1%
Magazines	-46.7%	10.7%	7.3%	6.3%	5.1%	3.7%	3.4%
Cons. Adj.	-134.9%	-80.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Revenues	-0.7%	5.2%	5.7%	6.2%	6.6%	3.3%	3.8%
Operating Expenses	200.3	198.8	221.7	233.0	247.6	252.0	261.5
Television	43.2	44.9	48.0	52.2	54.7	59.4	60.9
Newspapers	13.4	14.5	16.5	18.0	20.6	21.8	23.1
Magazines	5.6	5.9	7.1	8.3	9.2	9.8	10.3
Cons. Adj.	1.4	0.3	0.3	0.3	0.3	0.3	0.4
EBITDA	63.6	65.6	71.8	78.7	84.8	91.3	94.7
EBITDA Margin							
Television	26.1%	26.1%	26.6%	27.2%	26.7%	28.2%	27.9%
Newspapers	23.6%	23.7%	25.2%	25.8%	27.7%	28.1%	28.7%
Magazines	14.0%	13.5%	15.0%	16.5%	17.4%	17.9%	18.2%
Cons. Adj.	93.3%	93.3%	93.3%	93.3%	93.3%	93.3%	93.3%
EBITDA Margin	24.1%	23.6%	24.5%	25.2%	25.5%	26.6%	26.6%
Growth							
Television	67.5%	4.0%	6.8%	8.7%	4.8%	8.6%	2.6%
Newspapers	60.0%	7.8%	13.8%	9.1%	14.7%	5.6%	6.2%
Magazines	-46.5%	6.7%	19.0%	17.2%	11.3%	6.5%	4.8%
Cons. Adj.	-137.8%	-80.0%	5.0%	5.0%	5.0%	5.0%	5.0%
EBITDA Growth	55.5%	3.2%	9.4%	9.6%	7.7%	7.6%	3.7%
Depreciation	12.5	13.5	15.9	16.8	18.0	18.5	19.2
Provisions	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	51.1	52.1	56.0	61.9	66.9	72.7	75.5
Financial Results	-7.1	-10.7	-12.7	-10.9	-8.7	-6.3	-3.5
Extraodinaries	1.3	0.0	0.0	0.0	0.0	0.0	0.0
Goodwill	5.2	0.0	0.0	0.0	0.0	0.0	0.0
EBT	40.1	41.4	43.2	51.0	58.1	66.5	72.0
Income Tax	6.9	10.4	10.8	12.7	14.5	16.6	18.0
Minority Interests	8.0	1.5	1.0	1.0	1.0	1.0	1.0
Net Income	25.2	29.6	31.4	37.2	42.6	48.9	53.0
Growth	-344.8%	17.3%	6.3%	18.5%	14.3%	14.7%	8.4%
Modelware EPS	0.35	0.35	0.37	0.44	0.51	0.58	0.63

e = Morgan Stanley Research estimates *Source: Company data, Morgan Stanley Research*

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Exhibit 19

Impresa: Balance Sheet Forecast

(Million €)	2004	2005e	2006e	2007e	2008e	2009e	2010e
Intangible Assets	67.8	300.0	300.9	301.8	302.8	303.8	304.9
Tangible Fixed Assets	164.5	35.0	35.9	36.8	37.8	38.8	39.9
Financial Investments	3.0	15.0	15.0	15.0	15.0	15.0	15.0
Total Net Fixed Assets	235.3	350.0	351.8	353.6	355.6	357.7	359.8
Current Assets	136.1	107.0	113.1	120.2	128.1	132.3	137.3
Current Liabilities	113.2	105.0	111.0	117.9	125.7	129.8	134.7
Net Working Capital	22.8	2.0	2.1	2.2	2.4	2.5	2.6
Other Net Assets	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0
Capital Employed	253.1	347.0	348.9	350.9	353.0	355.2	357.4
Share Capital	0.0	84.0	84.0	84.0	84.0	84.0	84.0
Retained Earnings	96.0	27.0	56.6	88.0	125.2	167.8	216.7
Earnings of the Period	25.2	29.6	31.4	37.2	42.6	48.9	53.0
Shareholders Equity	121.2	140.6	172.0	209.2	251.8	300.7	353.7
Minority Interest	24.0	5.0	6.0	7.0	8.0	9.0	10.0
LT Debt	131.0	197.4	169.4	135.9	97.5	53.1	5.0
ST Debt	0.0	29.0	29.0	29.0	29.0	29.0	29.0
Gross Debt	131.0	226.4	198.4	164.9	126.5	82.1	34.0
Cash	23.1	25.0	27.5	30.3	33.3	36.6	40.3
Net Debt	107.9	201.4	170.9	134.6	93.2	45.5	-6.3
Total Capitalization	253.1	347.0	348.9	350.9	353.0	355.2	357.4

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 20

Impresa: Cash Flow Forecast

(Million €)	2004	2005	2006	2007	2008	2009	2010
Net Income	25.2	29.6	31.4	37.2	42.6	48.9	53.0
Minorities	8.0	1.5	1.0	1.0	1.0	1.0	1.0
Depreciation	12.5	13.5	15.9	16.8	18.0	18.5	19.2
Amortization	5.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in Net Working Capital	0.2	20.8	-0.1	-0.1	-0.1	-0.1	-0.1
Change in Other LT Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow From Operations	51.1	65.4	48.2	54.9	61.4	68.3	73.1
Maintenance Capex		-15.0					
Growth Capex		-113.2					
Total Capex	-10.0	-128.2	-17.6	-18.7	-19.9	-20.6	-21.4
Equity Financing		-10.2					
Dividends							
Debt Financing	-39.0	95.4	-28.1	-33.5	-38.4	-44.4	-48.1
Minorities	0.0	-20.5	0.0	0.0	0.0	0.0	0.0
Cash Flow from Financing	-39.0	64.7	-28.1	-33.5	-38.4	-44.4	-48.1
Change in Cash	2.1	1.9	2.5	2.8	3.0	3.3	3.7

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Please see analyst certification and other important disclosures starting on page 30.

Exhibit 21

Media Capital: P&L Forecasts

(Million €)	2004	2005e	2006e	2007e	2008e	2009e	2010e
Advertising	166.0	178.7	188.5	199.0	208.7	218.0	227.2
Subscriptions and Newsstand	8.0	9.0	9.9	10.7	11.3	11.8	12.3
Other	38.2	37.8	36.1	35.6	36.0	36.4	36.8
Revenues	212.2	225.5	234.5	245.3	256.0	266.2	276.3
Advertising	10.0%	7.6%	5.5%	5.6%	4.9%	4.5%	4.2%
Subscriptions and Newsstand	47.7%	12.8%	10.0%	8.0%	6.0%	4.0%	4.0%
Other	-12.1%	-1.3%	-4.3%	-1.4%	1.1%	1.1%	1.1%
Revenues Growth	6.2%	6.2%	4.0%	4.6%	4.4%	4.0%	3.8%
Television	144.5	156.5	161.0	167.1	173.5	180.0	186.9
Radio	13.7	16.3	17.8	19.1	20.0	21.0	22.1
Outdoor	18.9	19.0	22.8	26.2	28.8	30.9	32.4
Other	35.1	33.7	32.8	32.9	33.7	34.3	35.0
Revenues	212.2	225.5	234.5	245.3	256.0	266.2	276.3
Growth							
Television	6.8%	8.3%	2.9%	3.8%	3.8%	3.8%	3.8%
Radio	10.0%	18.2%	9.8%	6.9%	5.0%	5.0%	5.0%
Outdoor	21.8%	0.6%	20.0%	15.0%	10.0%	7.0%	5.0%
Other	-3.8%	-4.1%	-2.6%	0.3%	2.4%	1.8%	1.8%
Revenues	6.2%	6.2%	4.0%	4.6%	4.4%	4.0%	3.8%
Television	43.0	48.5	51.5	55.1	58.1	60.8	63.5
Radio	2.0	2.8	3.1	3.4	3.7	4.0	4.3
Outdoor	3.0	1.1	1.5	1.8	2.2	2.5	2.8
Other	-3.0	-3.4	0.7	1.0	1.3	1.7	1.7
EBITDA	45.0	49.0	56.8	61.4	65.3	68.9	72.3
EBITDA Margin							
Television	29.8%	31.0%	32.0%	33.0%	33.5%	33.8%	34.0%
Radio	14.5%	17.0%	17.5%	18.0%	18.5%	19.0%	19.5%
Outdoor	15.9%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%
Other	-8.5%	-10.0%	2.0%	3.0%	4.0%	5.0%	5.0%
EBITDA Margin	21.2%	21.8%	24.2%	25.0%	25.5%	25.9%	26.2%
Growth							
Television	12.9%	12.8%	6.2%	7.0%	5.4%	4.6%	4.6%
Radio	81.8%	38.1%	13.0%	10.0%	7.9%	7.8%	7.8%
Outdoor	100.0%	-62.0%	30.0%	23.8%	17.9%	14.1%	11.6%
Other	-36.2%	12.3%	-119.5%	50.4%	36.6%	27.3%	1.8%
EBITDA Growth	25.0%	9.0%	15.8%	8.1%	6.4%	5.5%	4.9%
Depreciation	15.2	15.9	14.7	14.1	13.5	12.8	12.0
Amortization of Goodwill	6.1	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	23.7	33.1	42.1	47.3	51.8	56.1	60.4
Financial Results	-10.7	-10.1	-8.5	-6.7	-4.9	-2.9	-0.7
Extraodinaries	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBT	13.1	23.0	33.7	40.7	46.9	53.2	59.6
Income Tax	4.2	1.2	1.7	10.2	11.7	13.3	14.9
Minority Interests	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Net Income	8.3	21.9	32.0	30.5	35.2	39.9	44.7
Growth	-119.0%	164.9%	46.1%	-4.7%	15.5%	13.4%	12.0%
Modelware EPS	0.17	0.26	0.39	0.37	0.43	0.48	0.54

e = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

Exhibit 22

Media Capital: Balance Sheet

(Million €)	2004	2005e	2006e	2007e	2008e	2009e	2010e
Goodwill	129.0	129.0	129.0	129.0	129.0	129.0	129.0
Intangible Assets	9.5	9.5	9.5	9.5	9.5	9.5	9.5
Tangible Fixed Assets	35.1	30.5	27.5	25.7	25.0	25.6	27.4
Financial Investments	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Total Net Fixed Assets	176.3	171.7	168.8	167.0	166.3	166.8	168.6
Current Assets	93.9	99.7	103.8	108.5	113.3	117.8	122.3
Current Liabilities	109.6	116.4	121.1	126.7	132.2	137.5	142.7
Net Working Capital	-15.7	-16.7	-17.4	-18.2	-19.0	-19.7	-20.5
Other Long Term Assets -Net-	17.8	19.0	19.7	20.6	21.5	22.4	23.2
Capital Employed	178.5	174.0	171.1	169.4	168.8	169.4	171.4
Share Capital	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Retained Earnings	-24.4	-16.1	5.8	37.8	68.2	103.5	143.4
Earnings of the Period	8.3	21.9	32.0	30.5	35.2	39.9	44.7
Shareholders Equity	-11.5	10.4	42.4	72.8	108.1	148.0	192.7
Minority Interest	3.9	3.9	3.9	3.9	3.9	3.9	3.9
LT Debt	156.2	130.8	97.0	66.0	31.6	-6.3	-47.5
ST Debt	39.9	39.9	39.9	39.9	39.9	39.9	39.9
Gross Debt	196.1	170.7	136.9	105.9	71.5	33.6	-7.6
Cash	10.0	11.0	12.1	13.3	14.6	16.1	17.7
Net Debt	186.1	159.7	124.8	92.6	56.8	17.5	-25.3
Total Capitalization	178.5	174.0	171.1	169.4	168.8	169.4	171.4

e = Morgan Stanley Research estimates *Source: Company data, Morgan Stanley Research*

Exhibit 23

Media Capital: Cash Flow Forecast

(Million €)	2004	2005e	2006e	2007e	2008e	2009e	2010e
Net Income	8.3	21.9	32.0	30.5	35.2	39.9	44.7
Minorities	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation	15.2	15.9	14.7	14.1	13.5	12.8	12.0
Amortization	6.1	0.0	0.0	0.0	0.0	0.0	0.0
Change in Net Working Capital	0.9	1.0	0.7	0.8	0.8	0.8	0.7
Change in Other LT Assets	-1.0	-1.1	-0.8	-0.9	-0.9	-0.9	-0.8
Cash Flow From Operations	**30.1**	**37.7**	**46.6**	**44.5**	**48.6**	**52.6**	**56.6**
Maintenance Capex	-8.5	-9.0	-9.4	-9.8	-10.2	-10.6	-11.1
Growth Capex	-2.1	-2.3	-2.3	-2.5	-2.6	-2.7	-2.8
Total Capex	**-10.6**	**-11.3**	**-11.7**	**-12.3**	**-12.8**	**-13.3**	**-13.8**
Equity Financing							
Dividends							
Debt Financing		-25.4	-33.7	-31.0	-34.5	-37.9	-41.2
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cash Flow from Financing	**0.0**	**-25.4**	**-33.7**	**-31.0**	**-34.5**	**-37.9**	**-41.2**
Change in Cash	**19.4**	**1.0**	**1.1**	**1.2**	**1.3**	**1.5**	**1.6**

e = Morgan Stanley Research estimates *Source: Company data, Morgan Stanley Research*

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Morgan Stanley
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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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