

Viacom Inc. CL B (VIAB) – Buy

VIAB: FY3Q10 EARNINGS PREVIEW

VIAB will release FY 3Q10 results before the market opens on Thursday, August 5th, and will host a conference call at 8:30 am ET to discuss results. The call in number for the call is (888) 204-4485.

We are maintaining our estimates for FY3Q10. We forecast that VIAB will report revenue of \$3.487B, up 5% y/y, Operating Income of \$817M, up 39% y/y and EPS of \$0.69, up 41% y/y. We are fine-tuning our profitability estimates to reflect higher margins in advertising sales which is driving our Operating Income estimates for Media Networks higher by 3% to \$780M. The increase in Media Networks operating income is offset by lower than previously expected earnings in Entertainment reflecting a smaller film slate and a lower than expected box office performance of *Shrek 4*. As a result, we are lowering our Operating Income estimate for the Entertainment division by 18% to \$102M - this is up dramatically y/y which reported a loss of \$8M in 3Q09.

We reiterate our BUY rating and \$43 target price.

Earnings Preview

Market Data	
Price (07/16/10)	\$31.79
12-Month Price Target	\$43.00
52-Week range	\$36.60-22.54
Shares Out. (MM)	607.0
Market cap (MM)	\$19,296.6
Avg. daily volume (000)	5,281.0
Financial Data	
Total Debt/Cap.	43.8%
Price/LTM Rev.	1.4x
Tangible BVPS	(\$5.36)
Net Cash Per Share	(\$10.63)

Viacom, consists of BET Networks, MTV Networks and Paramount Pictures, and is one of the world's leading entertainment content company. Viacom's global reach includes approximately 170 channels and 400 online properties in more than 160 countries and territories.

	FY	FY		FY	
	09/30/09 A	09/30/10 E		09/30/11 E	
		Old	New	Old	New
Rev. (MM)	\$13,764.0	\$13,787.7	\$13,787.7	\$14,601.2	\$14,601.2
Growth	(5.9%)	0.2%	0.2%	5.9%	5.9%
Op. Mar.	16.6%		23.2%		25.1%
EPS: 1Q	0.76	1.08	1.08A		
EPS: 2Q	0.29	0.40	0.40		
EPS: 3Q	0.49	0.69	0.69		
EPS: 4Q	0.69	0.63	0.63		
EPS: Year	2.23	2.81	2.81	3.05	3.05
Growth	(12.7%)	26.4%	26.4%	8.3%	8.3%
P/E Ratio	8.9x	11.3x	11.3x	10.4x	10.4x

Note: Pro forma earnings estimates displayed above do not include one-time items or any stock compensation expenses.



Disclosures applicable to this security: B.
 Disclosure explanation on the inside back cover of this report.

WHAT'S NEW?

FY3Q10 EARNINGS ESTIMATES OVERVIEW

Viacom has recently changed its fiscal year to September, and therefore the June quarter recently ended is now its fiscal third quarter. Figure A includes our estimates, current and prior, and compares these to consensus estimates. Our EPS estimates are higher than the consensus view for both FY3Q10 and FY10, and no change from our prior estimates.

Figure A

FYE Sept. 31:	3Q10E	4Q10E	2010E	2011E
Rev Current (\$mm)	\$3,467	\$3,437	\$13,788	\$14,601
Previous (\$mm)	\$3,467	\$3,437	\$13,788	\$14,601
Consensus (\$mm)	\$3,440	\$3,440	\$13,780	\$14,440
EPS	\$0.69	\$0.63	\$2.87	\$3.05
Previous	\$0.69	\$0.63	\$2.87	\$3.05
Consensus	\$0.66	\$0.68	\$2.84	\$3.08
P/E			11.7	11.1
NB: VIAB changed its FYE to 9/30/10 from 12/31/10 beginning in 2010.				
Sources: Needham & Company estimates, Yahoo Finance				

FY 3Q10 ESTIMATES

VIAB is expected to report FY 3Q10 revenue of \$3.467B (up 5% y/y and no change from our estimates) and Operating EPS of \$0.69 (up 41% y/y and no change from our prior estimates) as follows:

- **Media Networks** is expected to report revenue of \$2.049B, up 5% y/y and no change from our previous estimates, and Operating Income of \$780M, up 13% y/y and 3% above our previous estimates. Within this division, we forecast Advertising Sales to report FY 3Q10 revenues of \$1.111B, up 3% y/y and no change from our previous estimates, Affiliate Fee revenue of \$762M, up 7% y/y, and Ancillary revenue of \$176M, down 2% y/y. We are expecting solid advertising gains and affiliate fee growth in the quarter.
- **Entertainment** is expected to report revenue of \$1.463B, up 6% y/y and no change from our prior estimates, and Operating Income of \$102M, up versus an Operating Income Loss of \$8M but 18% below our previous estimate of \$124M.

DETAILED QUARTERLY EARNINGS ANALYSIS

Table 1 shows our estimates for VIAB's fiscal 3Q10, current and prior, vs 3Q09 results.

Table 1					
Viacom: June Quarter, 2009A vs. New 2010E vs. Prior 2010E					
\$ and shares in millions, except per share data					
	<u>3Q09A</u>	<u>New 3Q10E</u>	<u>Yr/Yr</u>	<u>Prior 3Q10E</u>	<u>New/Old</u>
Revenue					
Advertising Sales	\$1,074	\$1,111	3%	\$1,111	0%
Affiliate Fees	\$712	\$762	7%	\$762	0%
Ancillary	<u>\$180</u>	<u>\$176</u>	-2%	<u>\$176</u>	0%
Total Media Networks	\$1,966	\$2,049	4%	\$2,049	0%
Entertainment	\$1,380	\$1,463	6%	\$1,463	0%
Eliminations	(\$47)	(\$45)	-4%	(\$45)	0%
Total Revenue	\$3,299	\$3,467	5%	\$3,467	0%
Operating Income					
Media Networks	\$687	\$780	13%	\$758	3%
Entertainment	<u>(\$8)</u>	<u>\$102</u>	NM	<u>\$124</u>	-18%
Segment Op Income	\$679	\$882	30%	\$882	0%
Corp, Interseg. Elim.	(\$60)	(\$65)	8%	(\$65)	0%
Restructuring Charge	(\$33)	\$0		\$0	
Operating Income	\$586	\$817	39%	\$817	0%
Net Interest Expense	(\$109)	(\$110)	1%	(\$110)	0%
Equity in Inc of Affiliates	(\$23)	(\$25)	-9%	(\$25)	0%
Other Income (Expenses)	<u>(\$15)</u>	<u>(\$10)</u>	-33%	<u>(\$10)</u>	0%
Income Before Tax	\$439	\$672	53%	\$672	0%
Provision for Taxes	(\$158)	(\$245)	55%	(\$245)	0%
Minority Interest	(\$4)	(\$5)	25%	(\$5)	0%
Net Income-Reported	\$277	\$422	52%	\$423	0%
Net Income-Operations	\$298	\$422	42%	\$423	0%
EPS -Reported	\$0.46	\$0.69	52%	\$0.69	0%
EPS, Operating	\$0.49	\$0.69	41%	\$0.69	0%
Avg. Diluted Shares Out.	609	610	0%	610	0%
NB: VIAB changed its FYE to 9/30 from 12/31 beginning in 2010.					
Sources: Company Reports, Needham & Company estimates.					

TARGET PRICE

Our target price of \$43 is based on a DCF valuation. We use a WACC of 10.4% and a long-term nominal GDP growth rate of 2%. The standard DCF is widely used on Wall Street because it is a rigorous bottom-up valuation of the enterprise based on discounting its long-term cash flows and removing the impact of non-cash accounting conventions. Positives and negatives of this valuation methodology are highlighted beside the calculation in Table 5.

Our \$43 target price embeds a 10-year OIBDA growth rate of about 6% annually beginning in 2011 and represents a 7x multiple of forward year (2012E) OIBDA.

VALUATION

Our BUY rating is based on several forms of valuation, summarized in Table 2:

Table 2: VIAB: Valuation Summary & Conclusions		
2011E Valuation Multiples		Embedded Expectations Metrics
1	EV/Sales	1.7
2	EV/OIBDA	6.1
3	P/E	11.1
4	FCF/Share	\$2.03
5	EV/FCF	20.0
6	FCF Yield	6%
7	Breakeven DCF (Calculated as the 10-Yr EBITDA CAGR required to justify current share price) 3.3%	

Source: Needham & Company estimates.

1. The “**Breakeven DCF**” valuation methodology uses the current share price to calculate the market’s growth expectations for the enterprise, including capital efficiency trends. This valuation methodology concludes that VIAB must achieve a 10-year OIBDA compound annual growth rate of approximately 3.3% to justify its current share price. (Please see Table 6.)
2. In Table 7, we summarize several **valuation multiples** for Sales, OIBDA and P/E. VIAB’s EV/OIBDA trading multiple is approximately 6.1x 2011E.
3. In Table 8, we present **Free Cash Flow** valuation metrics. Our Free Cash Flow analysis shows that VIAB is currently valued at about 20x 2011E Free Cash flow and has a 6% free cash flow yield.
4. In Table 9, we present our **Comparative Industry** valuation metrics which illustrates that VIAB is attractively priced.

INVESTMENT POSITIVES

Our BUY rating and \$43 target price is based on the following analytical building blocks:

1. **Strategic Position.** More than 90% of Viacom’s OIBDA is from its cable networks. In the US, Viacom owns and operates one of the preeminent ad-supported cable network groups with MTV, VH1, CMT, Comedy Central, Spike TV, Nickelodeon, Nick-at-Night, BET and many digital channels. We estimate that VIAB’s cable networks represent about 20% of total viewing (rating points) of ad-supported cable channels in the US compared with about 10% of the fees paid by pay-TV companies for content. MTV reaches 90mm subscribers in the US and 600mm people worldwide. Nickelodeon has been the top ad-supported children’s cable network for the past decade. BET is the leader in Afro-American programming.
2. **Strong Brands.** MTV, VH1, and Nickelodeon are global brands that rise above the clutter in a fragmenting audience environment. A recognized brand enables faster international adoption and represents a valuable programming asset to new distribution platforms. Strong brands also lower the cost of line extensions for add-on channels and enable higher fees from distribution partners (cable and

satellite). Comedy Central has begun to expand offshore and is now available in 6 countries

3. **Return of Capital.** With approximately \$6.4 billion of net debt, we view Viacom as under-levered. VIAb has a target debt ratio of 2.0-2.5x debt/OIBDA. At 3/31/10 VIAb hit 2.2 (including contingent liabilities of \$1.1B). Viacom has stated that it will return capital to shareholders primarily via share repurchases after it reaches its target debt/OIBDA ratio. We would expect VIAb to begin repurchasing shares by 2H10.
4. **International Upside.** We estimate that international margins were 1% in 2007. Today, we estimate that international margins are 13%, and would be higher if not for the difficult advertising recession environment. We believe this trajectory will continue to drive EPS upside.
5. **Digital Platforms Upside.** Viacom is the most aggressive company of cable channels at exploiting digital platforms. VIAb has 400 websites reaching 50mm unique visitors in the US and 100mm unique visitors worldwide per month. Viacom generally puts its content on its internet sites after 3 days so it doesn't cannibalize its C+3 ratings on TV, thereby making economics additive. We estimate that VIAb's digital revenue is already more than \$100mm/quarter. Going forward, line extensions of its TV channels repurposed for the Internet, wireless phones, and video-on-demand (VOD) all represent new revenue streams with minimal incremental costs.
6. **Casual Gaming Upside.** Viacom is the largest casual gaming company in the US. VIAb has 1 billion casual games played/month on its sites. Although ad revenue has been the business model to date, subscription revenue potential suggests upside.
7. **Target?** Sumner Redstone controls VIAb absolutely. If he ever decided to sell, there would be many parties interested in buying VIAb owing to its strong brands and globally relevant cable networks. Because Redstone controls Viacom, any takeover would have to be friendly, and therefore presumably expensive to the acquirer.
8. **National Advertising Exposure.** Virtually all of VIAb's advertising revenue is national advertising. National advertising has been stronger in this recession than local advertising. At its worst, we believe that national advertising pricing was flat. Now, as the economy strengthens, we believe advertising pricing is up 20-25% over the Upfront-market pricing of last May.
9. **Paramount Upside.** We estimate that Paramount will have 1% margins in 2010E. Paramount has been working its way through a turnaround, cutting overhead. We estimate that Spielberg's Dreamworks leaving Paramount saved \$40-50mm of costs. In addition Paramount has cut their film slate from 24 films/year 2 years ago to 13 films in 2009, all big budget, suggesting a higher risk profile.
10. **Library Values.** The Paramount film library has hidden value in its film and TV libraries. Content libraries have historically been long-lived assets that generate FCF over many years and increase in value because they drive new distribution technology adoption rates.
11. **Revenue Visibility.** About 45% of VIAb's cable network's revenue comes from 5 year affiliate fee contracts with cable multiple system operators (MSOs) and

satellite companies. These contracts imply that Viacom has predictable 5-7% revenue growth visible from this source over the near term.

RISKS TO OUR TARGET PRICE

1. **Advertising Exposure.** With about 30% of its total revenue linked to advertising, Viacom has meaningful advertising exposure (mostly national not local). Advertising revenue is closely tied to US economic health. If the economy falters, this could negatively impact this source of Viacom's revenue. Owing to the strong operating leverage of Viacom's business, OIBDA typically falls faster than revenue.
2. **Acquisition Risk.** Viacom has stated that it may make acquisitions. We expect this to be primarily of IP such as Viacom's recent purchase of Teenage Mutant Ninja Turtles rights. Acquisitions can undermine returns on capital as value is often transferred to the seller.
3. **Maturing Industry.** The largest of Viacom's cable channels are fully distributed, implying future ratings growth must come from better programming, not broader distribution. International expansion (riskier) will also have to bear more of the growth burden for Viacom.
4. **Piracy.** Digital technology, with its ease of use and low cost of duplication, represents the dark side of technology and a significant challenge to content owners in the form of intellectual Property Rights (IPR) management. The mass adoption of broadband takes the IPR challenge from music into the TV and film environments.
5. **Ownership.** Sumner Redstone is VIAb's controlling shareholder through an A/B voting structure. If other parts of his business empire become overleveraged or troubled, he may be required to sell VIAb shares. Regulatory Limits. Because Sumner Redstone controls both VIAb and CBS Corp (CBS, Buy), the FCC and DOJ treat them as if they are the same company from the point of view of granting broadcast licenses and cross media ownership restrictions. These limits could preclude execution of strategic imperatives.

COMPANY DESCRIPTION

Viacom is one of the world's leading entertainment content companies. Viacom creates television, films and digital content for distribution globally. Viacom owns many of the best known entertainment brands including Paramount Pictures, MTV, VH1, CMT, Comedy Central, Nickelodeon, Nick-at-Nite, Nick Jr, Spike TV, TV Land, BET, Rock Band, AddictingGames.com, NeoPets, Logo, etc. Viacom's global reach includes about 170 channels and 400 online properties in more than 160 countries worldwide.

Table 3										
Viacom: Quarterly Income Statement Projections, 2010E										
\$ and shares in millions, except per share data						Year/Year Change				
	12/31/09	3/31/10A	6/30/10E	9/30/10E	2010E	Q1	Q2	Q3	Q4	2010E
Revenue										
Advertising Sales	\$1,302	\$960	\$1,111	\$1,130	\$4,503	-3%	3%	3%	3%	1%
Affiliate Fees	\$741	\$783	\$762	\$779	\$3,065	11%	9%	7%	7%	8%
Ancillary	<u>\$290</u>	<u>\$195</u>	<u>\$176</u>	<u>\$288</u>	\$949	-37%	-7%	-2%	-5%	-18%
Total Media Networks	\$2,333	\$1,938	\$2,049	\$2,197	\$8,517	-6%	4%	4%	3%	1%
Entertainment	\$1,791	\$886	\$1,463	\$1,285	\$5,425	-1%	-18%	6%	5%	-1%
Eliminations	(\$26)	(\$38)	(\$45)	(\$45)	(\$154)	-33%	-19%	-4%	45%	-6%
Total Revenue	\$4,098	\$2,786	\$3,467	\$3,437	\$13,788	-3%	-4%	5%	4%	0%
Operating Income										
Media Networks	\$921	\$684	\$780	\$813	\$3,197	3%	9%	13%	5%	7%
Entertainment	<u>\$298</u>	<u>(\$86)</u>	<u>\$102</u>	<u>\$13</u>	<u>\$327</u>	255%	NMF	NMF	-81%	1387%
Segment Op Income	\$1,219	\$598	\$882	\$826	\$3,525	24%	18%	NMF	-2%	17%
Corp., Interseg. Elim.	(\$67)	(\$64)	(\$65)	(\$60)	(\$256)	26%	0%	8%	3%	9%
Op Inc (bef charges)	\$1,152	\$534	\$817	\$766	\$3,259	24%	21%	32%	-2%	18%
Restructuring Charge	(\$60)	\$0	\$0	\$0	(\$60)					
Op Inc (after charges)	\$1,092	\$534	\$817	\$766	\$3,199	130%	21%	39%	-2%	40%
Net Interest Expense	(\$105)	(\$113)	(\$110)	(\$110)	(\$438)	-12%	4%	1%	3%	-1%
Other Income (Expenses)	\$10	(\$10)	(\$10)	(\$10)	(\$20)			-33%	-90%	-90%
Equity in Inc of Affiliates	<u>(\$20)</u>	<u>(\$28)</u>	<u>(\$25)</u>	<u>(\$35)</u>	<u>(\$108)</u>			9%	NMF	30%
Income Before Tax	\$977	\$383	\$672	\$611	\$2,643	282%	36%	53%		70%
Provision for Taxes	(\$316)	(\$138)	(\$245)	(\$219)	(\$918)	300%	37%	55%	64%	95%
Minority Interest	<u>\$33</u>	<u>\$0</u>	<u>(\$5)</u>	<u>(\$5)</u>	<u>\$23</u>					
Net Income-Operating	\$661	\$245	\$422	\$387	\$1,715	42%	38%	42%	-8%	26%
Disc. Ops, Net of Tax	\$0	\$2	\$0	\$0	\$2	NMF	NMF	NMF	NMF	NMF
Net Income-Reported	\$694	\$247	\$422	\$387	\$1,750	302%	39%	52%	-16%	61%
Net Income-Operating	\$661	\$245	\$422	\$387	\$1,715					
EPS Operating	\$1.08	\$0.40	\$0.69	\$0.63	\$2.81	42%	38%	41%	-8%	26%
EPS-Reported	\$1.14	\$0.40	\$0.69	\$0.63	\$2.87	NMF	39%	52%	-17%	60%
Avg. Diluted Shares Out.	609	610	610	610	610					

NB: Viacom changed its Fiscal Year End to September 30 from December 31st beginning in 2010.

Sources: Company Reports, Needham & Company estimates.

Table 4						
Viacom: Annual Income Statement Data, 2007A-2011E						
\$ and shares in millions, except per share data						
FYE 9/31:	2007A	2008A	2009A	2010E	2011E	'07-'11 CAGR
Revenue						
Advertising Sales	\$4,690	\$4,722	\$4,449	\$4,503	\$4,773	0.4%
Affiliate Fees	\$2,324	\$2,610	\$2,827	\$3,065	\$3,287	9.1%
Andillary	<u>\$1,088</u>	<u>\$1,426</u>	<u>\$1,154</u>	<u>\$949</u>	<u>\$987</u>	-2.4%
Total Media Networks	\$8,101	\$8,757	\$8,430	\$8,517	\$9,047	2.8%
Entertainment	\$5,476	\$6,033	\$5,498	\$5,425	\$5,734	1.2%
Eliminations	(\$154)	(\$164)	(\$164)	(\$154)	(\$180)	3.9%
Total Revenue	\$13,422	\$14,625	\$13,764	\$13,788	\$14,601	2.1%
Operating Income						
Media Networks	\$3,049	\$3,118	\$2,987	\$3,197	\$3,498	3.5%
Entertainment	<u>\$104</u>	<u>\$88</u>	<u>\$22</u>	<u>\$327</u>	<u>\$412</u>	41.1%
Segment Op Income	\$3,153	\$3,206	\$3,009	\$3,525	\$3,910	5.5%
Corp, Interseg. Elim.	(\$216)	(\$229)	(\$235)	(\$256)	(\$240)	2.7%
Total Operating Income	\$2,916	\$2,977	\$2,763	\$3,259	\$3,660	5.8%
Net Interest Expense	(\$465)	(\$482)	(\$444)	(\$438)	(\$440)	-1.4%
Other Income (Expenses)	\$117	(\$112)	(\$205)	(\$20)	(\$60)	
Equity in Inc of Affiliates	<u>\$13</u>	<u>(\$74)</u>	<u>(\$83)</u>	<u>(\$108)</u>	<u>(\$95)</u>	
Income Before Tax	\$2,576	\$1,855	\$1,554	\$2,643	\$3,075	4.5%
Provision for Taxes	(\$927)	(\$605)	(\$471)	(\$918)	(\$1,200)	6.7%
Minority Interest	(\$20)	(\$17)	(\$15)	\$23	(\$20)	-0.4%
Net Income-Cont. Ops	\$1,642	\$1,233	\$1,360	\$1,715	\$1,855	3.1%
Extraordinary/Disc. Ops., net	\$143	\$30	\$0	\$2	\$0	-100.0%
Net Income-Reported	\$1,784	\$1,263	\$1,089	\$1,750	\$1,855	1.0%
EPS -Reported	\$2.72	\$2.00	\$1.79	\$2.87	\$3.05	2.9%
EPS-Adjusted	\$2.36	\$2.38	\$2.23	\$2.81	\$3.05	6.6%
Avg. Diluted Shares Out.	676	625	608	610	609	-2.6%
NB: Viacom changed its Fiscal Year End to September 30 from December 31st beginning in 2010. FY 2007 and 2008 results not restated.						
Sources: Company Reports, Needham & Company estimates.						

Table 5

Viacom: Traditional DCF Calculation, 2012E-2021E

\$ and shares in millions, except per share data

Valuation Conclusions	% of Total	
Sum of PV of Free Cash Flow ¹	\$15,621	46%
PV of Terminal Value Discounted at WACC ¹	\$15,535	46%
Value of Operations (WACC Method)	\$31,156	91%
Plus: Excess Cash at 12/31/11E	\$3,000	
Plus: Non-Consolidated Assets (From PMV)	\$0	
Less: Minority Interest	(\$18)	
Enterprise Value	\$34,138	100%
Less: Debt at 12/31/11E	(\$7,000)	
Less: Lease Obligations	(\$260)	
Less: Preferred Stock Outstanding	\$0	
Less: Value of Options & Restricted Sk, After-tax	(\$650)	
Common Equity Value	\$26,228	77%
Fully Diluted Shares Out, 2011E	609	
DCF Value/Share	\$43.07	
Current Share Price @ 7/14/10	\$33.67	
Upside Potential (DCF-Current Price/Current Price)	28%	

Standard Discounted Cash Flow (DCF) Valuation

Why We Calculate: DCF is a rigorous bottoms-up valuation of the enterprise focusing on cash flows (not accounting)

Strengths

- 1 Focuses on operations. Removes financing
- 2 Focuses on FCF. Removes non-cash accounting
- 3 Explicitly forecasts capital needs (WC & CapX)
- 3 Uses a levered beta (widely available)
- 4 Ent value focus captures entire business model

Weaknesses

- 1 Many assumptions. Valuation can be manipulated
- 2 Terminal value big & based on low visibility projections
- 3 Model assumes constant debt/equity ratio
- 4 Complex to calculate
- 5 Calculates the enterprise value first, then equity value

¹ Calculation of the Value of Operations (WACC Method)

FYE 9/30:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	CAGR '12-21E
OIBDA (after sk comp exp & corp):	\$4,040	\$4,282	\$4,539	\$4,811	\$5,100	\$5,401	\$5,719	\$6,057	\$6,414	\$6,793	\$7,193	5.9%
- Depreciation	(\$380)	(\$376)	(\$377)	(\$390)	(\$402)	(\$416)	(\$429)	(\$444)	(\$458)	(\$473)	(\$489)	
+ Option Exercise Proceed	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	
+ Int & Inv Income only	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	
EBIT	\$3,695	\$3,941	\$4,197	\$4,457	\$4,732	\$5,020	\$5,325	\$5,648	\$5,991	\$6,354	\$6,739	
Cash Taxes (at 38%)	(\$1,404)	(\$1,908)	(\$2,031)	(\$2,157)	(\$2,290)	(\$2,430)	(\$2,577)	(\$2,734)	(\$2,900)	(\$3,075)	(\$3,262)	
Plus: Depreciation	\$380	\$376	\$377	\$390	\$402	\$416	\$429	\$444	\$458	\$473	\$489	
Plus: Sk Based Comp Exp	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	
Working Capital Change	(\$250)	(\$260)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	
Less: Capital Spending	(\$202)	(\$209)	(\$216)	(\$223)	(\$230)	(\$238)	(\$245)	(\$254)	(\$262)	(\$271)	(\$279)	
FCF from Operations	\$2,319	\$2,041	\$2,157	\$2,297	\$2,444	\$2,599	\$2,762	\$2,935	\$3,118	\$3,312	\$3,517	6.2%
PV Discounted at WACC ²		\$1,848	\$1,770	\$1,706	\$1,645	\$1,584	\$1,525	\$1,467	\$1,412	\$1,358	\$1,306	
Sum of PV of Free Cash Flow											\$15,621	
Terminal Value of 2020E FCF ³											\$41,821	
PV of Terminal Value at WACC ²											\$15,535	
Discount Period		1	2	3	4	5	6	7	8	9	10	

² Calculation of WACC:

10-Year Risk Free Rate ("RFR")	3.0%
Equity Risk Premium (Ibbotson-Arithmetic)	7.0%
Levered Beta (Bloomberg)	1.20
Target Equity/(Debt + Equity)	85%
Debt Rating	BBB
Debt Spread	5.0%
Marginal Tax Rate ("T")	40.0%
WACC	10.4%
$(RFR + (Equity Risk Premium \times Beta)) \times Equity/Total Capital + ((RFR + Debt Spread) \times (1-T) \times Debt/Total Capital)$	

³ Calculation of Terminal Multiple (WACC Method)

WACC	10.4%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.4%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	11.9
EBITDA Terminal Multiple	5.8

Sources: Company Reports, Needham & Company estimates.

Table 6

Viacom: Breakeven Discounted Cash Flow Valuation Calculation, 2012E - 2021E

\$ and shares in millions, except per share data

Valuation Conclusions		2011E	Breakeven Discounted Cash Flow Valuation	
Sum of PV of Free Cash Flow ¹		\$13,598	Why We Calculate: BE DCF uses the current share price to calculate the market's growth expectations for the enterprise.	
PV of Terminal Value Discounted at WACC ¹		\$11,878	Strengths	
Value of Operations (WACC Method)		\$25,476	<ol style="list-style-type: none"> 1 Makes no assumption about growth for first 10 years 2 Prevents over-optimism by working backwards 3 Data widely available and model well understood 4 Explicitly forecasts capital needs (WC & CapX) 5 Uses a levered beta (widely available) 	
Plus: Excess Cash at 12/31/11E		\$3,000	Weaknesses	
Plus: Non-Consolidated Assets (From PMV)		\$0	<ol style="list-style-type: none"> 1 Terminal value big & based on low visibility projections 2 Model assumes constant debt/equity ratio 3 Complex to calculate 4 Calculates the enterprise value first, then equity value 	
Less: Minority Interest		(\$18)		
Enterprise Value		\$28,459		
Less: Debt at 12/31/11E		(\$7,000)		
Less: Lease Obligations		(\$260)		
Less: Preferred Stock Outstanding		\$0		
Less: Value of Options & Restricted Sk, After-tax		(\$650)		
Common Equity Value		\$20,549		
Fully Diluted Shares Out, 2011E		609		
Breakeven DCF Value/Share		\$33.74		
Current Share Price @ 7/14/10		\$33.67		
Discount to DCF Value (DCF-Current Price/DCF)		0%		

¹ Calculation of the Value of Operations (WACC Method)

FYE 9/30:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	Required LT Growth Rate
OIBDA (after sk comp exp & corp):	\$4,040	\$4,173	\$4,311	\$4,453	\$4,600	\$4,752	\$4,908	\$5,070	\$5,238	\$5,411	\$5,589	3.3%
- Depreciation	(\$380)	(\$376)	(\$377)	(\$390)	(\$402)	(\$416)	(\$429)	(\$444)	(\$458)	(\$473)	(\$489)	
+ Option Exercise Proceed	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	\$25	
+ Int & Inv Income only	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	
EBIT	\$3,695	\$3,832	\$3,968	\$4,098	\$4,232	\$4,371	\$4,514	\$4,662	\$4,814	\$4,972	\$5,135	
Cash Taxes (at 38%)	(\$1,404)	(\$1,855)	(\$1,921)	(\$1,984)	(\$2,048)	(\$2,115)	(\$2,185)	(\$2,256)	(\$2,330)	(\$2,407)	(\$2,485)	
Plus: Depreciation	\$380	\$376	\$377	\$390	\$402	\$416	\$429	\$444	\$458	\$473	\$489	
Plus: Sk Based Comp Exp	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	
Working Capital Change	(\$250)	(\$260)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	(\$270)	
Less: Capital Spending	(\$202)	(\$209)	(\$216)	(\$223)	(\$230)	(\$238)	(\$245)	(\$254)	(\$262)	(\$271)	(\$279)	
FCF from Operations	\$2,319	\$1,984	\$2,039	\$2,112	\$2,186	\$2,264	\$2,343	\$2,426	\$2,511	\$2,599	\$2,689	
PV Discounted at WACC ²		\$1,797	\$1,673	\$1,569	\$1,471	\$1,380	\$1,294	\$1,213	\$1,137	\$1,066	\$999	
Sum of PV of Free Cash Flow											\$13,598	
Terminal Value of 2021E FCF ³												\$31,977
PV of Terminal Value at WACC ²												\$11,878
Discount Period		1	2	3	4	5	6	7	8	9	10	

² Calculation of WACC:

10-Year Risk Free Rate ("RFR")	3.0%
Equity Risk Premium (Ibbotson-Arithmetic)	7.0%
Levered Beta (Bloomberg)	1.20
Target Equity/(Debt + Equity)	85%
Debt Rating	BBB
Debt Spread	5.0%
Marginal Tax Rate ("T")	40.0%
WACC	10.4%
$(RFR + (Equity Risk Premium \times Beta)) \times Equity/Total Capital + (RFR + Debt Spread) \times (1 - T) \times Debt/Total Capital$	

³ Calculation of Terminal Multiple (WACC Method)

WACC	10.4%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	8.4%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	11.9
EBITDA Terminal Multiple	5.7

Sources: Company Reports, Needham & Company estimates.

Table 7	
Viacom: Valuation Multiples (Sales, OIBDA, P/E)	
\$ and shares in millions, except per share data	
Valuation Conclusions	2011E
Market-Based Enterprise Value ¹	\$24,765
2011E Sales (From Annual Projections)	\$14,601
EV/Sales	1.7
Market-Based Enterprise Value ¹	\$24,765
2011E OIBDA (From Annual Projections)	\$4,040
EV/OIBDA	6.1
Target Price	\$43.00
Target Price EV/2012 OIBDA	7.0
Current Price	7/14/10 \$33.67
2011E EPS (From Annual Projections)	\$3.05
P/E Ratio	11.1
¹ Calculation of Market-Based Enterprise Value	
Year End 12/31:	2011E
Current Share Price	07/14/10 \$33.67
Fully Diluted Shares Out	609
Market Capitalization	\$20,505
Less: Excess Cash	(\$3,000)
Less: Non-Consolidated Assets	\$0
Plus: Unfunded Retirement Liabilities	\$0
Plus: Debt at 12/31/11	\$7,000
Plus: Lease Obligations	\$260
Plus: Preferred Stock Outstanding	\$0
Plus: Value of Options & Restricted Sk	\$650
Market-Based Enterprise Value	\$24,765
Sources: Company Reports, Needham & Company estimates.	

Table 8	
Viacom: Free Cash Flow Valuation Metrics	
\$ and shares in millions, except per share data	
Valuation Conclusions	2011E
FCF/Share ²	\$2.03
Current Price	7/14/10 \$33.67
FCF Yield	6%
FCF ²	\$1,238
2011E OIBDA (From Annual Projections)	\$4,040
FCF Conversion Rate (FCF/OIBDA)	31%
Market-Based Enterprise Value ¹	\$24,765
FCF ²	\$1,238
EV/FCF	20.0
Net Debt/OIBDA	1.0
Net Debt	\$4,000
Net Debt/Market Cap	19.5%
² Calculation of Free Cash Flow	
Year End 12/31:	2011E
OIBDA	\$4,040
Plus: Option Exercise Proceeds	\$25
Less: Cash Interest Expense	(\$440)
Minority Interest	\$20
Less: Preferred Dividends	\$0
Less: Operating Cash Taxes	(\$1,921)
Less: Change in Working Capital	(\$270)
Less: Capital Spending	(\$216)
Free Cash Flow	\$1,238
Shares Outstanding	609
FCF/Share	\$2.03
Sources: Company Reports, Needham & Company estimates.	

Table 9													
Summary Comparative Financial & Valuation Information													
§ and shares in millions, except per share data													
Laura Martin's Coverage				2011E Multiples					7/14/10			Conflicts Disclosure	
Sorted by Industry	Ticker	Market Cap (\$B)	Rating	EV/ EBITDA	P/E	EV/ FCF	FCF Yield	Break-even DCF	Target Price	Current Price	Target/ Current		
Content Companies													
1	CBS	\$10	BUY	7.3	12.1	16.1	10.7%	3.0%	\$19.00	\$14.32	33%	B	
2	Disney	\$64	HOLD	7.9	14.7	47.5	2.4%	8.6%	NA	\$34.24		B	
3	NewsCorp	\$38	BUY	6.9	13.8	17.6	6.1%	1.6%	\$20.00	\$14.83	35%	B, G	
4	Time Warner Inc	\$35	HOLD	7.4	12.5	18.2	7.7%	1.2%	NA	\$30.44		B	
5	Viacom	\$21	BUY	6.1	11.1	20.0	6.0%	3.3%	\$43.00	\$33.67	28%	B	
6	Warner Music	\$0.7	BUY	6.1	(5.8)	13.5	23.7%	-6.3%	\$8.50	\$4.60	85%	B	
Industry Total/Average		\$168		6.9	9.7	22.1	9.4%	1.9%	NA	\$22.02	NA		
Cable Companies													
7	Mediacom	MCCC	\$0.5	HOLD	7.4	NMF	NMF	NMF	2.6%	NA	\$7.00		B, G
8	Time Warner Cable	TWC	\$20	BUY	5.4	13.4	20.8	9.3%	0.9%	\$65.00	\$56.19	16%	B
Industry Total/Average		\$21		6.4	13.4	20.8	9.3%	1.7%	\$65.00	\$31.60	15.7%		
Total/Average from Above		\$189		6.7	11.6	21.5	9.4%	1.8%			NM		
Sorted by Industry	Ticker	Revenue 2011E	OIBDA 2011E	EPS 2011E	EV	Net Debt	Debt/ OIBDA	Debt Rating	FCF	FCF/ Share	Dividend/ Share	Div. Yield	
\$ in millions, except per share data													
Content Companies													
1	CBS	\$13,936	\$2,348	\$1.18	\$17,126	\$6,400	2.7	BBB-	\$1,061	\$1.53	\$0.20	1.4%	
2	Disney	\$40,252	\$9,407	\$2.33	\$74,600	\$10,250	1.1	A	\$1,572	\$0.84	\$0.35	1.0%	
3	NewsCorp	\$32,627	\$5,977	\$1.07	\$41,088	\$2,800	0.5	BBB+	\$2,341	\$0.91	\$0.15	1.0%	
4	Time Warner Inc	\$27,237	\$6,551	\$2.43	\$48,349	\$10,500	1.6	BBB	\$2,654	\$2.34	\$0.85	2.8%	
5	Viacom	\$14,601	\$4,040	\$3.05	\$24,765	\$4,000	1.0	BBB	\$1,238	\$2.03	\$0.60	1.8%	
6	Warner Music	\$2,852	\$365	(\$0.80)	\$2,215	\$1,420	3.9	BB-	\$165	\$1.09	\$0.00	NA	
Cable Companies													
7	Mediacom	\$1,515	\$570	\$0.63	\$4,202	\$3,580	6.3	B+	\$120	\$1.69	\$0.00	NA	
8	Time Warner Cable	\$19,444	\$7,243	\$4.21	\$38,957	\$19,500	2.7	BBB	\$1,869	\$5.20	\$1.60	2.8%	
Sources: Needham & Co, LLC estimates, Company documents, FirstCall, Yahoo Finance.													
Analyst: Laura Martin, CFA (917) 373-3066. LMartin@Needhamco.com													

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Buy	61	14
Hold	29	7
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Restricted	<1	0
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