

## News Corporation (NWSA) – Hold (was Buy)

### NWSA: Witch Hunt. Downgrading to Hold.

We are downgrading NWSA to HOLD (from BUY) and suspending our target price based on NWSA's rising risk profile. Weakening markets, new government investigations, growing litigation expenses, and a witch hunt for the Murdoch's add risk to owning NWSA.

#### Downgrade

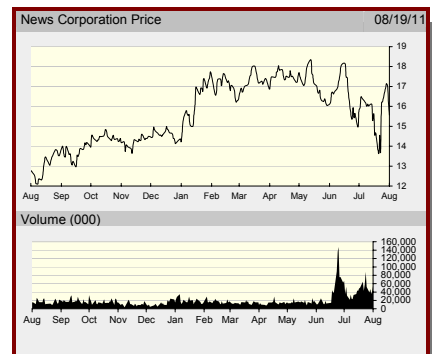
Market Data	
Price (08/19/11)	\$15.56
12-Month Price Target	N/A
52-Week range	\$18.34-12.10
Shares Out (MM)	2,620.0
Market cap (MM)	\$40,767.5
Avg. daily volume (000)	29,170.0
Financial Data	
Total Debt/Cap.	37.7%
Price/LTM Rev.	1.3x
Tangible BVPS	\$0.56
Net Cash Per Share	(\$3.05)

- Historical Underperformance.** Recent market volatility suggests that markets may trend downward over the next 12 months. Over the past 15 years, in 100% of instances, NWSA's share price underperformed downward corrections in the S&P 500, typically by 15% over 6-12 months.
- Investigations, Litigation, and Headline Risk.** In the UK, there have been 35 lawsuits filed. In the US, a class-action lawsuit was filed against NWSA, Rupert, and James over phone-hacking and the FBI and DOJ are investigating whether the phones of 9/11 families were hacked. We expect litigation costs to be a meaningful cost center for NWSA for the foreseeable future and we think this expense is not adequately reflected in Wall Street models.
- Witch Hunt.** We believe Wall Street underestimates the resolve of powerful personal enemies of the Murdoch's and political enemies of NWSA's conservative media outlets. We expect the powerful enemies of conservative-leaning Fox News and WSJ to exhibit sharper elbows in an election year like 2012. Near term headline risk for NWSA is acute, even if accusations prove erroneous after elections are over.

**Bottom line:** Since public shareholders have the benefit of liquidity, we prefer CBS and Viacom to NWSA because they share the risk of market weakness but don't share other NWSA-specific risks.

	FY	FY		FY	
	06/30/11 A	Old	New	Old	New
Rev. (MM)	\$33,405.0		\$34,219.4		
Growth	1.9%	0.0%	2.4%	0.0%	0.0%
Op. Mar.	13.6%		16.1%		
EPS: 1Q	0.30				
EPS: 2Q	0.29				
EPS: 3Q	0.26				
EPS: 4Q	0.35				
EPS: Year	1.14		1.29		
Growth	8.2%	0.0%	12.8%	0.0%	0.0%
P/E Ratio	13.3x	nm	12.1x	nm	0.0x

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



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

## NWSA's Track Record of Underperformance During Market Disruptions

The debt crisis in Europe and brinkmanship over the debt ceiling in Washington DC, coupled with S&P's US-debt downgrade, are generating volatility in markets and threatening to undermine consumer spending. What can we learn about NWSA's relative share price performance during periods of market disruption?

In this section, we analyze the actual trading history of NWSA versus the S&P 500 over the past 15 years, during periods of market disruption. Specifically, we look at four case studies as follows (in reverse chronological order):

1. NWSA's relative performance following the Lehman Brothers bankruptcy in 2008;
2. NWSA's relative performance following the Internet Bubble Bursting in 2002;
3. NWSA's relative performance following the tragic events of 9/11/01; and,
4. NWSA's relative performance surrounding the Long-Term Capital Management crisis in 1998.

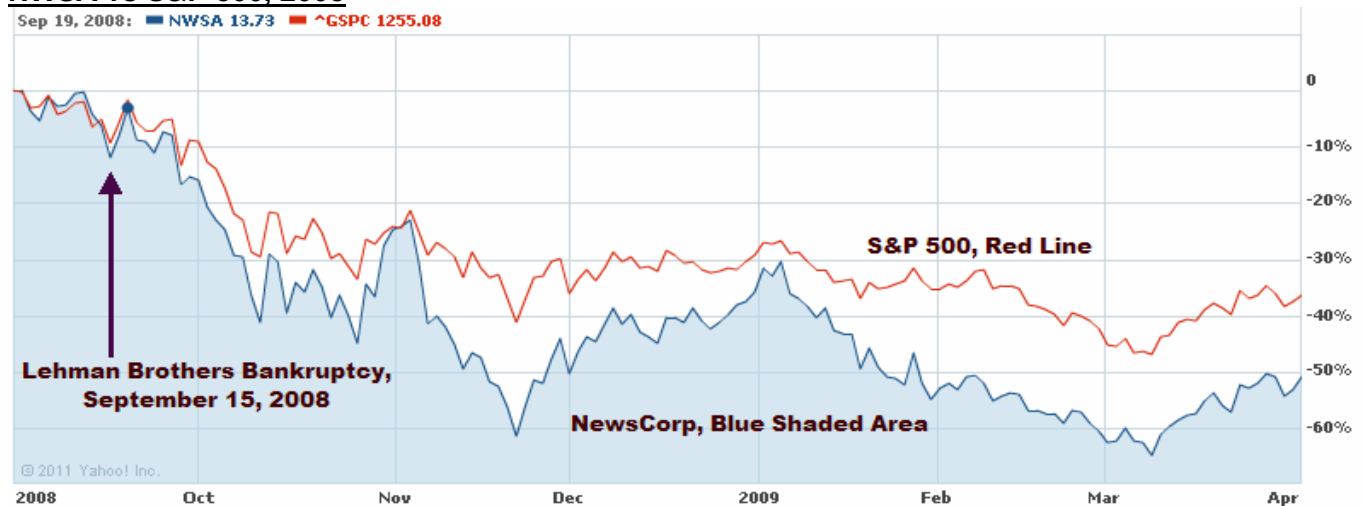
The bottom line is that NWSA is not a good place to hide during downward market cycles. In fact, in every instance, NWSA underperformed the S&P 500 index, typically by 15% within a 12 month period. Detailed charts and descriptions follow on the next several pages.

### 2008 Lehman Brothers Bankruptcy

The Lehman Brothers bankruptcy on September 15, 2008 effectively closed the debt window for about 3 months and disrupted financial markets. What happened to NWSA during this period of turmoil in the financial markets?

As illustrated in Figure 1, following the Lehman Brothers bankruptcy, the S&P 500 fell about 35% while NewsCorp fell about 50%, implying 15% underperformance for NWSA over this 6-month period.

Figure 1  
**NWSA vs S&P 500, 2008**



Source: Yahoo! Finance, Needham & Co. LLC research.

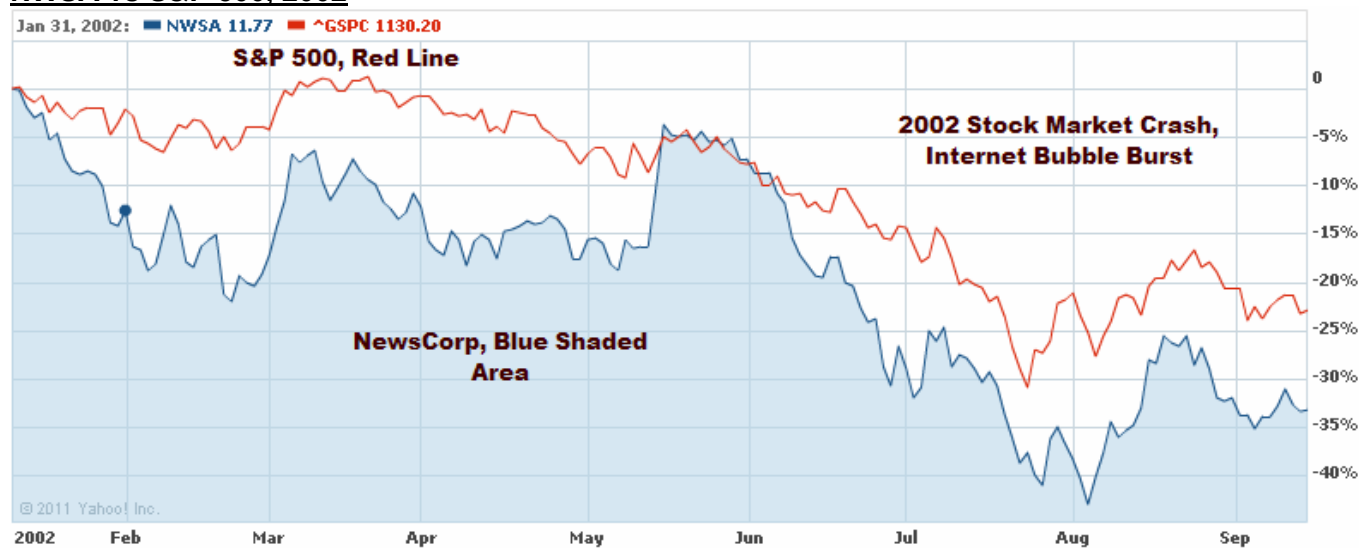
## 2002 Market Correction- Internet Bubble Bursts

Beginning in March of 2002, the market crashed and the Internet bubble burst. What happened to NWSA during this period of turmoil in the financial markets?

As illustrated in Figure 2, during the stock market crash of 2002, the S&P 500 fell about 23% while NewsCorp fell about 33%, implying 10% underperformance for NWSa over this 9-month period.

Figure 2

### NWSA vs S&P 500, 2002



Source: Yahoo! Finance, Needham & Co. LLC research.

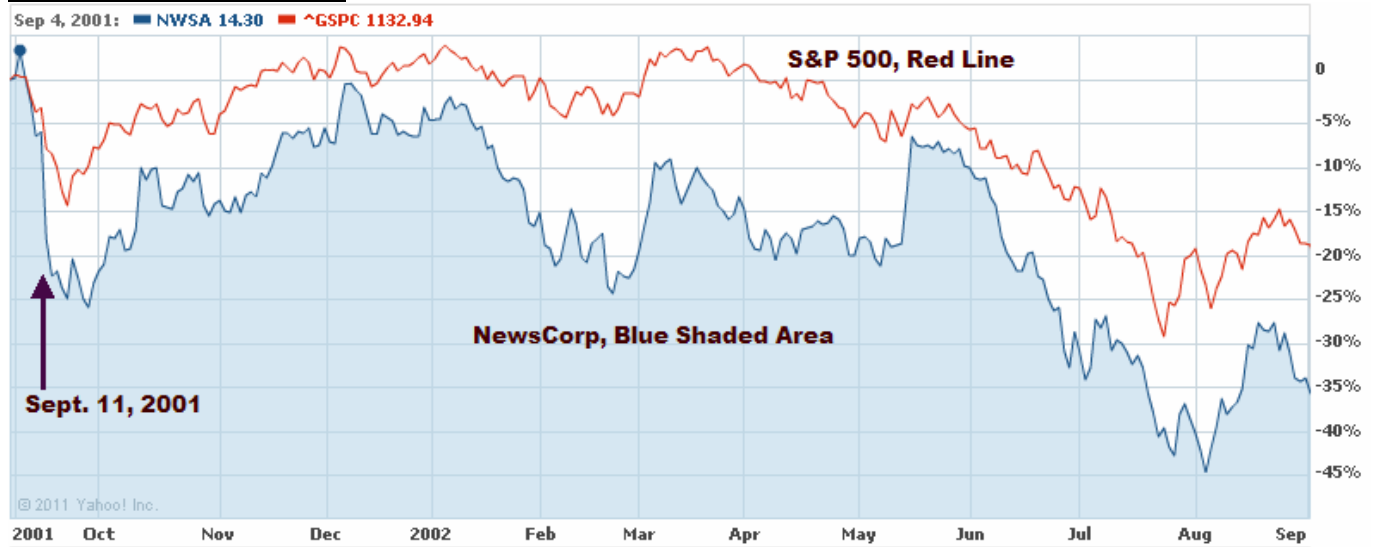
## 9/11/01

The catastrophic events of 9/11/01 drove consumer sentiment through the floor. Consumer spending plummeted, fear skyrocketed, flights were grounded, and business results slowed. What happened to NWSA during the 12 months following 9/11/01?

As illustrated in Figure 3, following the tragic events of Sept 11, 2001, the S&P 500 fell about 20% while NewsCorp fell about 35%, implying 15% underperformance for NWSa over this 12-month period.

Figure 3

**NWSA vs S&P 500, 2001**



Source: Yahoo! Finance, Needham & Co. LLC research.

**1998 Long-Term Capital Bankruptcy- Financial Market Disruption**

The global capital markets were rocked by an Asian financial crisis in 1997, followed by a Russian financial crisis in August-September of 1998. Within 4 months, Long-Term Capital Management lost \$4.6B, and capital markets were in disarray. In the end, Long-Term Capital was “too big to fail” and was bailed out. What happened to NWSA during this period of financial instability?

As illustrated in Figure 4, following the Russian Financial Crisis and subsequent \$4.6B losses of Long-Term Capital Management in late 1998, the S&P 500 rose about 10% while NewsCorp fell about 5%, implying 15% underperformance for NWSA over this period.

Figure 4

**NWSA vs S&P 500, 1998**



Source: Yahoo! Finance, Needham & Co. LLC research.

**Investment Conclusion:** There has been no period of market disruption during the past 15 years when NWSA was a safe place to hide. In fact, typically NWSA underperforms the broader index by 15% over a 6-12 month period following a market disruption.

### **Investigations, Litigation, and Headline Risk**

**In the UK,** according to the Wall St Journal (owned by NewsCorp so presumably accurate reporting) on 8/4/11, 35 invasion-of-privacy lawsuits have been filed against the News of the World, the shuttered UK tabloid, and NWSA has created a \$24.4 million- \$32.6 million reserve to cover the cost of the civil litigation, including litigation settlements. We believe this number will ultimately be many times higher. New documents appear daily and arrests in the UK now number 13 as the police investigation continues. We expect this to get worse before it gets better, although it is primarily a PR nightmare for NWSA rather than a meaningful economic negative.

**In the US,** in July 2011, a class-action lawsuit in the US was filed against NWSA, Rupert, and James over phone-hacking. A growing number of US government agencies are investigating NWSA, according to press reports. The FBI and DOJ are investigating whether the phones of 9/11 families were hacked. The outcome is unclear, but the government and lawyers paid on a contingency basis with subpoena powers implies that their review of thousands of emails raises the risk that they find something that is actionable and/or expensive for NWSA shareholders. It is important to note that conservative-leaning Fox News and WSJ have enemies who would love to undermine their credibility and financial health, especially in an election year like 2012. We believe that litigation costs will be a new meaningful cost center for NWSA for the foreseeable future- in no one's models today.

### **Witch Hunt**

According to the dictionary- "A witch-hunt is a search for witches, often involving moral panic, mass hysteria and lynching". We believe Wall Street is underestimating the long list of powerful personal Murdoch enemies. They smell weakness. In addition, NWSA's most valuable assets sit in the US. We expect the powerful enemies of conservative-leaning Fox News and WSJ to exhibit sharper elbows in an election year like 2012. Near term headline risk is acute, even if accusations prove erroneous after elections are over.

### **Bottom line -Investment Recommendation**

The risk of owning NWSA is rising vis-à-vis its peers. Litigation/Investigation will be a new expensive cost center for the next several years, even if NWSA is ultimately proved to have done nothing wrong (the best case scenario). We don't think the extra expenses of litigation or the non-zero probability of poor economic outcomes is adequately reflected in NWSA's share price today. We also think that Wall Street underestimates the vigor of personal and political enemies aligned against the Murdoch's and certain NWSA assets in an election year like 2012.

## Target Price and Risks

We downgrade our rating to HOLD and suspend our target price. Where may we be wrong? A robust economy would aid NWSA owing to its exposure to the economic cycle. Raising the current share repurchase program from \$5B to \$12B (all the money earmarked for the abandoned B SkyB acquisition) would be a positive for the share price. If NWSA begins to sell its newspaper assets, that should be a positive for the valuation multiple applied to NWSA.

## FY2012-Change to Estimates

We are lowering our FY2012 estimates to reflect the 4Q11 actual results and updated management guidance, along with an additional \$100-150mm of legal fees. As a result we are lowering our revenue by 1.5% to \$34.219B, and our EPS from Operations by 3% to \$1.29, well below consensus estimates of \$1.35.

Fiscal Year June 30:	FY11A	FY12E
<b>Revenue Current (\$mm)</b>	<b>\$33,405</b>	<b>\$34,219</b>
Previous (\$mm)	\$38,822	\$34,738
Consensus (\$mm)	\$32,870	\$34,220
<b>EPS Operating</b>	<b>\$1.14</b>	<b>\$1.29</b>
Previous	\$1.14	\$1.33
Consensus	\$1.12	<b>\$1.35</b>
P/E	14.9	12.6

Sources: Yahoo Finance, Needham & Company estimates.

## VALUATION

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

Table 2: NWS: Valuation Summary & Conclusions		
2012E Valuation Multiples		Embedded Expectations Metrics
1	EV/Sales 1.3	7 Breakeven DCF (Calculated as the 10-Yr EBITDA CAGR required to justify current share price) 0.9%
2	EV/EBITDA 6.5	
3	P/E 12.6	
4	FCF/Share \$1.29	
5	EV/FCF 13.8	
6	FCF Yield 8%	

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 NWS must achieve a 10-year OIBDA compound annual growth rate of approximately 0.9% to justify its current share price. (Please see Table 6.)
2. In Tables 6 and 7 we summarize several **valuation multiples** for Sales, OIBDA, P/E and Free Cash flow. NWS’s EV/EBITDA trading multiple is approximately 6.5x 2012E EBITDA and has an 8% free cash flow yield.
3. In Table 8, we include a detailed itemization of NWS’s non-consolidated balance sheet assets totaling \$8.35B, or \$3.18 per share.
4. In Table 9, we present our **Comparative Industry** valuation metrics.

## **COMPANY DESCRIPTION**

---

News Corporation is a diversified global media company with operations in eight industry segments: filmed entertainment; television; cable network programming; direct broadcast satellite television; integrated marketing services; newspapers and information services; book publishing; and other. The activities of News Corporation are conducted principally in the United States, Continental Europe, the United Kingdom, Australia, Asia and Latin America.

Table 3

**News Corporation: Annual Income Statement Projections, 2008A-2012E**

\$ and shares in millions, except per share data

FYE 6/30:	Annual					'08-'12 CAGR
	2008PF	2009PF	2010PF	2011A	2012E	
<b>Revenue</b>						
Filmed Entertainment	\$6,699	\$5,936	\$7,631	\$6,899	\$6,554	-0.5%
Television	\$5,807	\$4,051	\$4,228	\$4,778	\$4,945	-3.9%
Cable Network Programming	\$4,993	\$6,131	\$7,038	\$8,037	\$9,212	16.5%
DBS Television	\$3,749	\$3,760	\$3,802	\$3,761	\$4,005	1.7%
Publishing	\$8,760	\$8,167	\$8,548	\$8,826	\$8,473	-0.8%
Other	\$2,988	\$2,378	\$1,531	\$1,104	\$1,030	-23.4%
<b>Total Revenue</b>	<b>\$32,996</b>	<b>\$30,423</b>	<b>\$32,778</b>	<b>\$33,405</b>	<b>\$34,219</b>	<b>0.9%</b>
<b>Segment EBIT</b>						
Filmed Entertainment	\$1,246	\$848	\$1,349	\$927	\$1,174	-1.5%
Television	\$1,126	\$193	\$220	\$681	\$728	-10.3%
Cable Network Programming	\$1,269	\$1,653	\$2,250	\$2,760	\$3,078	24.8%
DBS Television	\$419	\$393	\$230	\$232	\$306	-7.6%
Publishing	\$1,298	\$909	\$967	\$989	\$1,002	-6.3%
Other	(\$84)	(\$362)	(\$577)	(\$614)	(\$625)	
<b>Segment EBIT</b>	<b>\$5,274</b>	<b>\$3,634</b>	<b>\$4,439</b>	<b>\$4,975</b>	<b>\$5,663</b>	<b>1.8%</b>
Other (Incl Legal Fees)	\$0	(\$9,283)	(\$723)	(\$435)	(\$160)	
<b>Operating Income</b>	<b>\$5,274</b>	<b>(\$5,649)</b>	<b>\$3,716</b>	<b>\$4,540</b>	<b>\$5,503</b>	
Plus: Depn & Amort.	\$1,207	\$1,097	\$1,185	\$1,212	\$1,400	3.8%
<b>EBITDA</b>	<b>\$6,481</b>	<b>\$4,731</b>	<b>\$5,624</b>	<b>\$6,187</b>	<b>\$7,063</b>	<b>2.2%</b>
Net Interest Expense	(\$711)	(\$888)	(\$920)	(\$866)	(\$880)	5.5%
Equity Earnings Assoc. Ent.	\$327	(\$293)	\$448	\$462	\$540	13.4%
Other, net	\$2,324	\$1,186	\$79	\$41	\$0	-100.0%
Income Before Tax	\$7,321	(\$5,559)	\$3,323	\$4,177	\$5,163	-8.4%
Income Taxes	(\$1,803)	\$2,229	(\$679)	(\$1,029)	(\$1,704)	-1.4%
Minority Interest	(\$131)	(\$68)	(\$105)	(\$155)	(\$125)	-1.2%
<b>Net Income-Reported</b>	<b>\$5,387</b>	<b>(\$3,398)</b>	<b>\$2,644</b>	<b>\$3,148</b>	<b>\$3,334</b>	<b>-11.3%</b>
<b>EPS- Reported</b>	<b>\$1.81</b>	<b>(\$1.29)</b>	<b>\$0.97</b>	<b>\$1.04</b>	<b>\$1.29</b>	<b>-8.2%</b>
Gains, Accting Changes, Other	\$0	\$0	\$0	\$0	\$0	
Net Income-Operating	\$3,569	\$2,996	\$2,644	\$2,894	\$3,334	-1.7%
EPS-Less Extraordinary	\$1.22	\$1.14	\$0.97	\$1.14	\$1.29	1.3%
<b>EPS Operating</b>	<b>\$1.22</b>	<b>\$0.69</b>	<b>\$1.05</b>	<b>\$1.14</b>	<b>\$1.29</b>	<b>1.3%</b>
Avg Diluted Shares Out	2,971	2,615	2,624	2,630	2,593	-3.3%

Sources: Company Reports, Needham &amp; Company estimates.

Valuation Conclusions		% of Total	
Sum of PV of Free Cash Flow <sup>1</sup>	\$29,714	43%	
PV of Terminal Value Discounted at WACC <sup>1</sup>	\$20,700	30%	
<b>Value of Operations (WACC Method)</b>	<b>\$50,414</b>	<b>74%</b>	
Plus: Excess Cash at 6/30/12E	\$11,500		
Plus: Non-Consolidated Assets (From PMV)	\$8,353		
Less: Minority Interest	(\$429)		
Less: Unfunded Retirement Liabilities	(\$1,300)		
<b>Enterprise Value</b>	<b>\$68,538</b>	<b>100%</b>	
Less: Debt at 6/30/12E	(\$13,500)		
Less: Lease Obligations	(\$9,000)		
Less: Preferred Stock Outstanding	\$0		
Less: Value of Options & Restricted Sk, After-tax	(\$4,000)		
<b>Common Equity Value</b>	<b>\$42,038</b>	<b>61%</b>	
Fully Diluted Shares Out, 2012E	2,593		
<b>DCF Value/Share</b>	<b>\$16.22</b>		
Current Share Price @ 8/18/11	\$16.19		
<b>Upside Potential (DCF-Current Price/Current Price)</b>	<b>0%</b>		

**Traditional 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)
- 4 Uses a levered beta (widely available)
- 5 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

<sup>1</sup> Calculation of the Value of Operations (WACC Method)												CAGR
FYE 6/30:	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	'13-22E
<b>EBITDA (after option expense &amp; corp):</b>	<b>\$7,063</b>	<b>\$7,126</b>	<b>\$7,190</b>	<b>\$7,255</b>	<b>\$7,320</b>	<b>\$7,386</b>	<b>\$7,453</b>	<b>\$7,520</b>	<b>\$7,587</b>	<b>\$7,656</b>	<b>\$7,725</b>	<b>0.9%</b>
- Depreciation	(\$1,400)	(\$1,056)	(\$971)	(\$975)	(\$984)	(\$922)	(\$894)	(\$902)	(\$910)	(\$919)	(\$927)	
+ Option Exercise Proceec	\$150	\$150	\$150	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125	
+ Int & Inv Income only	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	
EBIT	\$5,913	\$6,320	\$6,470	\$6,505	\$6,562	\$6,689	\$6,783	\$6,842	\$6,902	\$6,962	\$7,023	
Cash Taxes (at 35%)	(\$1,774)	(\$1,896)	(\$1,941)	(\$1,951)	(\$1,968)	(\$2,007)	(\$2,035)	(\$2,053)	(\$2,071)	(\$2,089)	(\$2,107)	
Plus: Depreciation	\$1,400	\$1,056	\$971	\$975	\$984	\$922	\$894	\$902	\$910	\$919	\$927	
Plus: Sk Based Comp Exp	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	
Working Capital Change	(\$300)	(\$275)	(\$270)	(\$203)	(\$154)	(\$144)	(\$140)	(\$141)	(\$142)	(\$144)	(\$145)	
Less: Capital Spending	(\$1,050)	(\$1,100)	(\$1,079)	(\$1,016)	(\$1,025)	(\$960)	(\$932)	(\$940)	(\$948)	(\$957)	(\$966)	
<b>FCF from Operations</b>	<b>\$4,239</b>	<b>\$4,155</b>	<b>\$4,201</b>	<b>\$4,360</b>	<b>\$4,448</b>	<b>\$4,550</b>	<b>\$4,621</b>	<b>\$4,661</b>	<b>\$4,701</b>	<b>\$4,742</b>	<b>\$4,782</b>	<b>1.6%</b>
PV Discounted at WACC <sup>2</sup>		\$4,155	\$3,804	\$3,574	\$3,302	\$3,058	\$2,812	\$2,568	\$2,345	\$2,141	\$1,956	
Sum of PV of Free Cash Flow											\$29,714	
Terminal Value of 2022E FCF <sup>3</sup>											\$50,624	
PV of Terminal Value at WACC <sup>2</sup>											\$20,700	
Discount Period		0	1	2	3	4	5	6	7	8	9	

<sup>2</sup> Calculation of WACC: (Updated 8/20/11)	
10-Year Risk Free Rate ("RFR")	2.0%
Equity Risk Premium (Ibbotson-Arithmetic)	6.0%
Beta (Yahoo Finance)	1.64
Target Equity/(Debt + Equity)	80%
Debt Rating	BBB+
Debt Spread	5.5%
Marginal Tax Rate ("T")	35.0%
<b>WACC</b>	<b>10.4%</b>
((RFR+(Equity Risk Premium x Beta)) x % Equity/Total Capital + ((RFR + Debt Spread) x (1-T) x % Debt/Total Capital).	

<sup>3</sup> Calculation of Terminal Multiple (WACC Method)	
WACC	10.4%
Long-term Nominal GDP Growth	1.0%
WACC-GDP Growth	9.4%
<b>Terminal Multiple [1/(WACC-Growth Rate)]</b>	<b>10.6</b>
<b>EBITDA Terminal Multiple</b>	<b>6.6</b>

Sources: Company Reports, Needham & Company estimates.

Table 5  
**News Corp: Breakeven Discounted Cash Flow (DCF) Valuation Calculation, 2013E- 2022E**

\$ and shares in millions, except per share data

Valuation Conclusions		Breakeven Discounted Cash Flow (DCF) Valuation	
Sum of PV of Free Cash Flow <sup>1</sup>	\$29,714	<b>Why We Calculate:</b> BE DCF uses the current share price to calculate the market's growth expectations for the enterprise. <b>Strengths</b> 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)  <b>Weaknesses</b> 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	
PV of Terminal Value Discounted at WACC <sup>1</sup>	\$20,700		
<b>Value of Operations (WACC Method)</b>	<b>\$50,414</b>		
Plus: Excess Cash at 6/30/12E	\$11,500		
Plus: Non-Consolidated Assets (From PMV)	\$8,353		
Less: Minority Interest	(\$429)		
Less: Unfunded Retirement Liabilities	(\$1,300)		
<b>Enterprise Value</b>	<b>\$68,538</b>		
Less: Debt at 6/30/12E	(\$13,500)		
Less: Lease Obligations	(\$9,000)		
Less: Preferred Stock Outstanding	\$0		
Less: Value of Options & Restricted Sk, After-tax	(\$4,000)		
<b>Common Equity Value</b>	<b>\$42,038</b>		
Fully Diluted Shares Out, 2012E	2,593		
<b>Breakeven DCF Value/Share</b>	<b>\$16.22</b>		
Current Share Price @ 8/18/11	\$16.19		
Discount to DCF Value (DCF-Current Price/DCF)	0%		

<sup>1</sup> Calculation of the Value of Operations (WACC Method)												Required LT Growth Rate
FYE 6/30:	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	2022E	
EBITDA (after option expense & corp):	\$7,063	\$7,126	\$7,190	\$7,255	\$7,320	\$7,386	\$7,453	\$7,520	\$7,587	\$7,656	\$7,725	0.9%
- Depreciation	(\$1,400)	(\$1,056)	(\$971)	(\$975)	(\$984)	(\$922)	(\$894)	(\$902)	(\$910)	(\$919)	(\$927)	
+ Option Exercise Proceec	\$150	\$150	\$150	\$125	\$125	\$125	\$125	\$125	\$125	\$125	\$125	
+ Int & Inv Income only	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	
EBIT	\$5,913	\$6,320	\$6,470	\$6,505	\$6,562	\$6,689	\$6,783	\$6,842	\$6,902	\$6,962	\$7,023	
Cash Taxes (at 35%)	(\$1,774)	(\$1,896)	(\$1,941)	(\$1,951)	(\$1,968)	(\$2,007)	(\$2,035)	(\$2,053)	(\$2,071)	(\$2,089)	(\$2,107)	
Plus: Depreciation	\$1,400	\$1,056	\$971	\$975	\$984	\$922	\$894	\$902	\$910	\$919	\$927	
Plus: Sk Based Comp Exp	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$50	
Working Capital Change	(\$300)	(\$275)	(\$270)	(\$203)	(\$154)	(\$144)	(\$140)	(\$141)	(\$142)	(\$144)	(\$145)	
Less: Capital Spending	(\$1,050)	(\$1,100)	(\$1,079)	(\$1,016)	(\$1,025)	(\$960)	(\$932)	(\$940)	(\$948)	(\$957)	(\$966)	
<b>FCF from Operations</b>	<b>\$4,239</b>	<b>\$4,155</b>	<b>\$4,201</b>	<b>\$4,360</b>	<b>\$4,448</b>	<b>\$4,550</b>	<b>\$4,621</b>	<b>\$4,661</b>	<b>\$4,701</b>	<b>\$4,742</b>	<b>\$4,782</b>	
PV Discounted at WACC <sup>2</sup>		\$4,155	\$3,804	\$3,574	\$3,302	\$3,058	\$2,812	\$2,568	\$2,345	\$2,141	\$1,956	
Sum of PV of Free Cash Flow											\$29,714	
Terminal Value of 2022E FCF <sup>3</sup>											\$50,624	
PV of Terminal Value at WACC <sup>2</sup>											\$20,700	
Discount Period		0	1	2	3	4	5	6	7	8	9	

<sup>2</sup> Calculation of WACC: (Updated 8/20/11)	
10-Year Risk Free Rate ("RFR")	2.0%
Equity Risk Premium (Ibbotson-Arithmetic)	6.0%
Beta (Yahoo Finance)	1.64
Target Equity/(Debt + Equity)	80%
Debt Rating	BBB+
Debt Spread	5.5%
Marginal Tax Rate ("T")	35.0%
<b>WACC</b>	<b>10.4%</b>
(RFR+(Equity Risk Premium x Beta)) x % Equity/Total Capital + (RFR + Debt Spread) x (1-T) x % Debt/Total Capital.	

<sup>3</sup> Calculation of Terminal Multiple (WACC Method)	
WACC	10.4%
Long-term Nominal GDP Growth	1.0%
WACC-GDP Growth	9.4%
<b>Terminal Multiple [1/(WACC-Growth Rate)]</b>	<b>10.6</b>
<b>EBITDA Terminal Multiple</b>	<b>6.6</b>

Sources: Company Reports, Needham & Company estimates.

Table 6 News Corp: Valuation Multiples (Sales, EBITDA, P/E) \$ and shares in millions, except per share data		
<b>Valuation Conclusions</b>		
		<b>2012E</b>
Market-Based Enterprise Value <sup>1</sup>		\$45,920
2012E Sales (From Annual Projections)		\$34,219
<b>EV/Sales</b>		<b>1.3</b>
Market-Based Enterprise Value <sup>1</sup>		\$45,920
2012E EBITDA (From Annual Projections)		\$7,063
<b>EV/EBITDA</b>		<b>6.5</b>
Target Price		NA
<b>Target Price EV/2013 EBITDA</b>		<b>NA</b>
Current Price	8/18/11	\$16.19
2012E EPS (From Annual Projections)		\$1.29
<b>P/E Ratio</b>		<b>12.6</b>
<b><sup>1</sup> Calculation of Market-Based Enterprise Value</b>		
Year End 6/30:		<u>2012E</u>
Current Share Price	08/18/11	\$16.19
Fully Diluted Shares Out		<u>2,593</u>
<b>Market Capitalization</b>		<b>\$41,973</b>
Less: Excess Cash		(\$11,500)
Less: Non-Consolidated Assets		(\$8,353)
Plus: Unfunded Retirement Liabilities		\$1,300
Plus: Debt at 6/30/12		\$13,500
Plus: Lease Obligations		\$9,000
Plus: Preferred Stock Outstanding		\$0
Plus: Options & Restricted Sk Outstanding		\$4,000
<b>Market-Based Enterprise Value</b>		<b>\$45,920</b>
Sources: Company Reports, Needham & Company estimates.		

Table 7 News Corp: Free Cash Flow Valuation Metrics \$ and shares in millions, except per share data		
<b>Valuation Conclusions</b>		
		<b>2012E</b>
FCF/Share <sup>2</sup>		\$1.29
Current Price	8/18/11	\$16.19
<b>FCF Yield</b>		<b>8%</b>
FCF <sup>2</sup>		\$3,334
2012E EBITDA (From Annual Projections)		\$7,063
<b>FCF Conversion Rate (FCF/EBITDA)</b>		<b>47%</b>
Market-Based Enterprise Value <sup>1</sup>		\$45,920
FCF <sup>2</sup>		\$3,334
<b>EV/FCF</b>		<b>13.8</b>
Net Debt/EBITDA		0.5
Net Debt		\$3,300
<b>Net Debt/Market Cap</b>		<b>7.9%</b>
<b><sup>2</sup> Calculation of Free Cash Flow</b>		
Year End 6/30:		<u>2012E</u>
EBITDA		\$7,063
Plus: Option Exercise Proceeds		\$150
Less: Cash Interest Expense		(\$880)
Minority Interest		\$125
Less: Preferred Dividends		\$0
Less: Operating Cash Taxes		(\$1,774)
Less: Change in Working Capital		(\$300)
Less: Capital Spending		(\$1,050)
<b>Free Cash Flow</b>		<b>\$3,334</b>
Less: Dividends		(\$500)
Free Cash Flow After Dividends		\$2,834
Shares Outstanding		2,593
<b>FCF/Share</b>		<b>\$1.29</b>
FCF/Share After Dividends		\$1.09
Sources: Company Reports, Needham & Company estimates.		

<b>Table 8</b>	
<b>Calculation of Non-Consolidated Asset Value</b>	
<b>Public Assets</b>	<b>PMV</b>
BSkyB (BSY)	\$7,043
Phoenix Satellite (17.6%)	\$314
RealEstate.com.au	\$1,000
Sky Network Television (25% Owned)	\$650
Sky Deutschland (45% Owned)	\$994
Public Asset Total	\$10,001
<b>Private Assets</b>	
NDS (49% Owned)	\$950
Fox Sports Australia	\$800
FoxTel (Australia DBS) (25% Owned)	\$400
Regency TV	\$200
Other, Incl. ESPN Star Sports	\$500
Non-Consolidated Asset Value	\$12,851
Taxes @ 35%	(\$4,498)
<b>After-Tax Value of Non-Consol. Assets</b>	<b>\$8,353</b>
Shares Outstanding	2,630
<b>Value Per Share</b>	<b>\$3.18</b>
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				2012E Multiples					8/18/11			Conflicts Disclosure
Ticker	Market Cap(\$B)	Rating	EV/EBITDA	P/E	EV/FCF	FCF Yield	Break-even DCF	Target Price	Current Price	Target/Current		
1 ACL, Inc.	ACL	\$1	BUY	2.3	26.6	3.0	19.8%	-25.0%	\$35.00	\$11.97	192%	B
2 CBS	CBS	\$15	BUY	6.6	10.0	10.0	15.1%	0.9%	\$30.00	\$22.46	34%	B
3 Discovery Communications	DISCA	\$15	HOLD	8.8	15.5	17.9	6.1%	0.6%	NA	\$36.47		B, G
4 Disney	DIS	\$80	HOLD	6.4	11.6	18.8	6.2%	3.1%	NA	\$32.55		B
<b>5 NewsCorp</b>	<b>NWS</b>	<b>\$42</b>	<b>BUY</b>	<b>6.5</b>	<b>12.6</b>	<b>13.8</b>	<b>7.9%</b>	<b>0.9%</b>	<b>NA</b>	<b>\$16.19</b>		<b>B, G</b>
6 Nelsen Company/BV	NLSN	\$10	BUY	10.3	25.3	38.8	4.3%	5.7%	\$38.00	\$27.41	39%	B
7 Scripps Networks Interactive	SN	\$7	BUY	5.8	12.8	12.6	7.4%	1.4%	\$62.00	\$39.84	56%	B
8 Time Warner Inc	TWX	\$30	HOLD	6.9	9.1	21.6	6.9%	0.6%	NA	\$28.58		B
9 Time Warner Cable	TWC	\$20	BUY	5.1	11.0	21.7	9.0%	0.2%	\$65.00	\$62.32	52%	B
10 Viacom	VIA	\$24	BUY	6.6	9.9	13.0	9.8%	0.0%	\$63.00	\$42.11	50%	B
11 Yahoo!	YHOO	\$17	BUY	2.1	12.5	3.9	5.8%	-23.0%	\$20.00	\$12.96	54%	B, G
<b>Total/Average</b>		<b>\$241</b>		<b>6.1</b>	<b>14.3</b>	<b>15.9</b>	<b>8.9%</b>	<b>-3.1%</b>			<b>NM</b>	
Financial Metrics												
	WACC	Revenue 2012E	EBITDA 2012E	EPS 2012E	EV	Net Debt	Debt/EBITDA	Debt Rating	FCF	FCF/Share	Dividend/Share	Div. Yield
\$ in millions, except per share data												
1 ACL, Inc.	12.5%	\$2,188	\$338	\$17.00	\$784	(\$1,000)	(3.0)	BBB-	\$263	\$2.37	\$0.00	NA
2 CBS	10.6%	\$14,666	\$3,453	\$1.88	\$22,802	\$6,860	2.0	BBB	\$2,280	\$3.40	\$0.20	0.9%
3 Discovery Communications	9.9%	\$4,081	\$1,894	\$2.35	\$16,742	\$1,950	1.0	BBB	\$336	\$2.23	\$0.00	NA
4 Disney	9.0%	\$40,851	\$10,960	\$2.51	\$69,868	\$9,500	0.9	A	\$3,715	\$2.01	\$0.40	1.2%
<b>5 NewsCorp</b>	<b>10.4%</b>	<b>\$33,405</b>	<b>\$7,063</b>	<b>\$1.14</b>	<b>\$45,920</b>	<b>\$3,300</b>	<b>0.5</b>	<b>BBB+</b>	<b>\$3,334</b>	<b>\$1.29</b>	<b>\$0.15</b>	<b>0.9%</b>
6 Nelsen Company/BV	10.5%	\$5,490	\$1,674	\$0.93	\$17,201	\$5,650	3.4	Ba2	\$443	\$1.18	\$0.00	NA
7 Scripps Networks Interactive	8.7%	\$2,093	\$1,001	\$2.75	\$6,317	(\$315)	(0.3)	BBB+	\$500	\$2.95	\$0.30	0.6%
8 Time Warner Inc	9.0%	\$29,088	\$6,435	\$2.75	\$44,223	\$11,900	1.8	BBB	\$2,043	\$1.96	\$0.85	3.0%
9 Time Warner Cable	6.6%	\$19,655	\$7,628	\$4.57	\$39,178	\$19,800	2.6	BBB	\$1,803	\$5.63	\$1.92	3.1%
10 Viacom	9.1%	\$14,417	\$4,584	\$3.59	\$30,092	\$5,200	1.1	BBB	\$2,323	\$4.11	\$0.60	1.4%
11 Yahoo!	9.0%	\$4,497	\$1,737	\$0.85	\$3,832	(\$3,400)	(0.2)	A-	\$990	\$0.76	\$0.00	NA

Sources: Needham & Co. LLC estimates, Company documents, First Call, Yahoo Finance

Analyst: Laura Martin, CFA (917) 373-3066, L.Martin@needham.com

## ANALYST CERTIFICATION

I, Laura Martin, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

I, Dan Medina, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company (ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.



Price, Rating, and Price Target History: CBS Corp. (CBS/NYSE) as of 8-19-11



Source: Factset (Prices) / Needham (ratings and target price)

**Disclosures applicable to this security: B.**

Price, Rating, and Price Target History: Viacom Inc. CL B (VIAB/NYSE) as of 8-19-11



Source: Factset (Prices) / Needham (ratings and target price)

**Disclosures applicable to this security: B.**

	% of companies under coverage with this rating	% for which investment banking services have been provided for in the past 12 months
Strong Buy	8	14
Buy	58	17
Hold	27	7
Under Perform	1	0
Rating Suspended	5	12
Restricted	<1	50
Under Review	<1	0

Needham & Company, LLC. (the Firm) employs a rating system based on the following (Effective July 1, 2003):

**Strong Buy:** A security, which at the time the rating is instituted, indicates an expectation of a total return of at least 25% over the next 12 months.

**Buy:** A security, which at the time the rating is instituted, indicates an expectation of a total return between 10% and 25% over the next 12 months.

**Hold:** A security, which at the time the rating is instituted, indicates an expectation of a total return of +/-10% over the next 12 months.

**Underperform:** A security, which at the time the rating is instituted, indicates an expectation that the price will depreciate by more than 10% over the next 12 months.

**Under Review:** Stocks may be placed UR by the analyst, indicating that the stock rating and/or price target are subject to possible change in the near term, usually in response to an event that may effect the investment case or valuation.

**Rating Suspended:** Needham & Company, LLC has suspended the rating and/or price target, if any, for this stock, because there is not a sufficient fundamental basis for determining a rating or price target. The previous rating and price target, if any, are no longer in effect and should not be relied upon.

**Restricted:** Needham & Company, LLC policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Needham & Company, LLC's engagement in an investment banking transaction and in certain other circumstances.

For disclosure purposes (in accordance with FINRA requirements), we note that our Strong Buy and Buy ratings most closely correspond to a "Buy" recommendation. When combined, 66% of companies under coverage would have a "Buy" rating and 11% have had investment banking services provided within the past 12 months; Hold mostly correspond to a "Hold/Neutral" recommendation; while our Underperform rating closely corresponds to the Sell recommendation required by the FINRA.

Our rating system attempts to incorporate industry, company and/or overall market risk and volatility. Consequently, at any given point in time, our investment rating on a stock and its implied price appreciation may not correspond to the stated 12-month price target. For valuation methods used to determine our price targets and risks related to our price targets, please contact your Needham & Company, LLC salesperson for a copy of the most recent research report on the company you are interested in.

**To review our rating system prior to July 1, 2003 please refer to the following link [http://www.needhamco.com/Research\\_Disclosure.asp](http://www.needhamco.com/Research_Disclosure.asp).**

Stock price charts and rating histories for companies under coverage and discussed in this report are available at <http://www.needhamco.com/>. You may also request this information by writing to: Needham & Co., LLC, 445 Park Ave., 3rd Floor (Attn: Compliance/Research), NY, NY 10022.

#### ANALYST CERTIFICATION

By issuing this research report, each Needham & Company, LLC analyst and associate whose name appears within this report hereby certifies that (i) the recommendations and opinions expressed in the research report accurately reflect the research analyst's and associate's personal views about any and all of the subject securities or issuers discussed herein and (ii) no part of the research analyst's or associate's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst or associate in the research report.

The following disclosures (as listed by letter on the cover page) apply to the securities discussed in this research report:

- "A" The research analyst and/or research associate (or household member) has a financial interest in the securities of the covered company (i.e., a long position consisting of common stock).
- "B" The research analyst and research associate have received compensation based upon various factors, including quality of research, investor client feedback, and the Firm's overall revenues, which includes investment banking revenues.
- "C" The Firm has managed or co-managed a public offering of securities for the subject company in the past 12 months.
- "D" The Firm and/or its affiliate have received compensation for investment banking services from the subject company in the past 12 months.
- "E" The Firm and/or its affiliate expect to receive or intend to seek compensation for investment banking services from the subject company in the next three months.
- "F" The analyst or a member of the analyst's household serves as officer, director or advisory board member of the covered company.
- "G" The Firm, at the time of publication, makes a market in the subject company.
- "H" The Firm and/or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company.
- "I" The analyst has received compensation from the subject company in the last 12 months.
- "J" The subject company currently is or during the 12-month period preceding the date of distribution of this research report was a client of the Firm and received investment banking services.
- "J1" The subject company currently is or during the 12-month period preceding the date of distribution of this research report was a client of the Firm and received non-investment banking securities related services.
- "J2" The subject company currently is or during the 12-month period preceding the date of distribution of this research report was a client of the Firm and received non-securities related services.
- "K" Our affiliate has received compensation for products and services other than investment banking services from the subject company in the past 12 months.

This report is for informational purposes only and does not constitute a solicitation or an offer to buy or sell any securities mentioned herein. Information contained in this report has been obtained from sources believed to be reliable, but Needham & Company, LLC makes no representation as to its accuracy or completeness, except with respect to the Disclosure Section of the report. Any opinions expressed herein reflect our judgment as of the date of the materials and are subject to change without notice. The securities discussed in this report may not be suitable for all investors and are not intended as recommendations of particular securities, financial instruments or strategies to particular clients. Investors must make their own investment decisions based on their financial situations and investment objectives. The value of income from your investment may vary because of changes in interest rates, changes in the financial and operational conditions of the companies and other factors. Investors should be aware that the market price of securities discussed in this report may be volatile. Due to industry, company and overall market risk and volatility, at the securities current price, our investment rating may not correspond to the stated price target. Additional information regarding the securities mentioned in this report is available upon request. © Copyright 2011, Needham & Company, LLC, Member FINRA, SIPC.

## **Equity Options Disclosure**

Any Equity Options Opinions (“Opinions”) contained within this report was prepared by the Equity Options Sales and Trading Desk of Needham & Company, LLC (“Needham” or the “Firm”) for distribution to Needham’s clients. This Opinion consists of market information and general market commentary only. It is not intended to be an analysis of any security or to provide any information sufficient upon which to base an investment decision.

THIS EQUITY OPTIONS OPINION IS NOT A PRODUCT OF NEEDHAM’S RESEARCH DEPARTMENT AND IS NOT A RESEARCH REPORT. Unless otherwise specifically stated, the information and commentary expressed herein are solely those of the author and may differ from the information, views and analysis expressed by Needham’s Research Department or other departments of the Firm or its affiliates.

Needham and its affiliates may have positions (long or short), effect transactions or make a market in the securities or financial instruments referenced in this Opinion. Needham or its affiliates may engage in securities transactions that are not consistent with the information and commentary expressed in this Opinion. Needham may have provided investment banking or other services to the issuers mentioned herein and may solicit such services in the future.

If this Opinion includes extracts or summary material derived from research reports produced by Needham’s Research Department, you are directed to the most recent research report for further details, including analyst certifications and other important disclosures. Copies of such reports may be obtained from your Needham sales representative or at [www.needhamco.com](http://www.needhamco.com)

This material is provided for informational purposes only and is not intended as a recommendation or an offer or solicitation for the purchase or sale of any security or financial instrument. Any investment decision by you should be based on your specific investment objectives and financial situation. Please contact your Needham sales representative for specific guidance.

The information contained in this Opinion has been obtained from or is based upon sources believed to be reliable, but neither Needham nor the author makes any representation or warranty as to its accuracy or completeness. The information contained in this Opinion is as of the date specified herein. Needham does not undertake any obligation to monitor or update the information. Past performance is not indicative of future results and no representation or warranty, express or implied, is made with respect to future performance. Needham disclaims all liability for any loss that may arise (whether direct or consequential) from any use of the information contained in this Opinion.

Structured securities, options, futures and other derivatives are complex instruments, may involve a high degree of risk, and may be appropriate investments only for sophisticated investors who are capable of understanding and assuming the risks involved. Because of the importance of tax considerations to many options transactions, any investor considering the purchase or sale of any options contract should consult with his or her tax advisor as to how taxes affect the outcome of contemplated transactions. Needham and its affiliates do not provide tax advice.

OPTIONS ARE NOT SUITABLE FOR ALL INVESTORS. For further information on the risks associated therewith, please consult the Options Clearing Corporation’s options risk disclosure document available at the following web address: <http://www.optionsclearing.com/about/publications/character-risks.jsp>

Clients should call the Equity Options Sales and Trading Desk (212-705-0369) for additional information.

© Copyright 2011, Needham & Company, LLC, Member FINRA, SIPC.