New idea – special situation (and one quick positioning update)

OCTOBER 18, 2022 / PUPPYEH / EDIT

Amidst much hand-wringing and general angst at the state of the market, I am still finding plenty to do in specific pockets. Corporate debt is rapidly becoming an interesting investment arena again (and is a topic I hope to return to with some active recommendations in the near-future, provided I can find some tradeable opportunities for retail/IB-trading clients, which represent basically all my subs); but special situations remains the gift that keeps on offering up actionable, short-duration, asymmetric opportunities. It is to this arena we return today – this time in Europe, to a particularly beaten-down, misunderstood name in Spain.

Mediaset Espana (Madrid: TL5) – last price 2.55 – 780mm EUR market cap, $500-750k ADV

Thesis summary: Mediaset Espana (hereafter 'ME') trades at <1x EV/FCF and will likely be taken out by its majority 83% owner, MediaForEurope, within the next three or four months. An imminent rule change on European cross-border mergers/absorptions, slated to go into effect at the end of January, would likely make any subsequent absorption much more expensive for MFE, informing the near-term opportunity to acquire minorities as soon as possible (I believe from as early as January 1st next year. MFE recently bid in a voluntary tender for the shares at a price implying 4.15 EUR at

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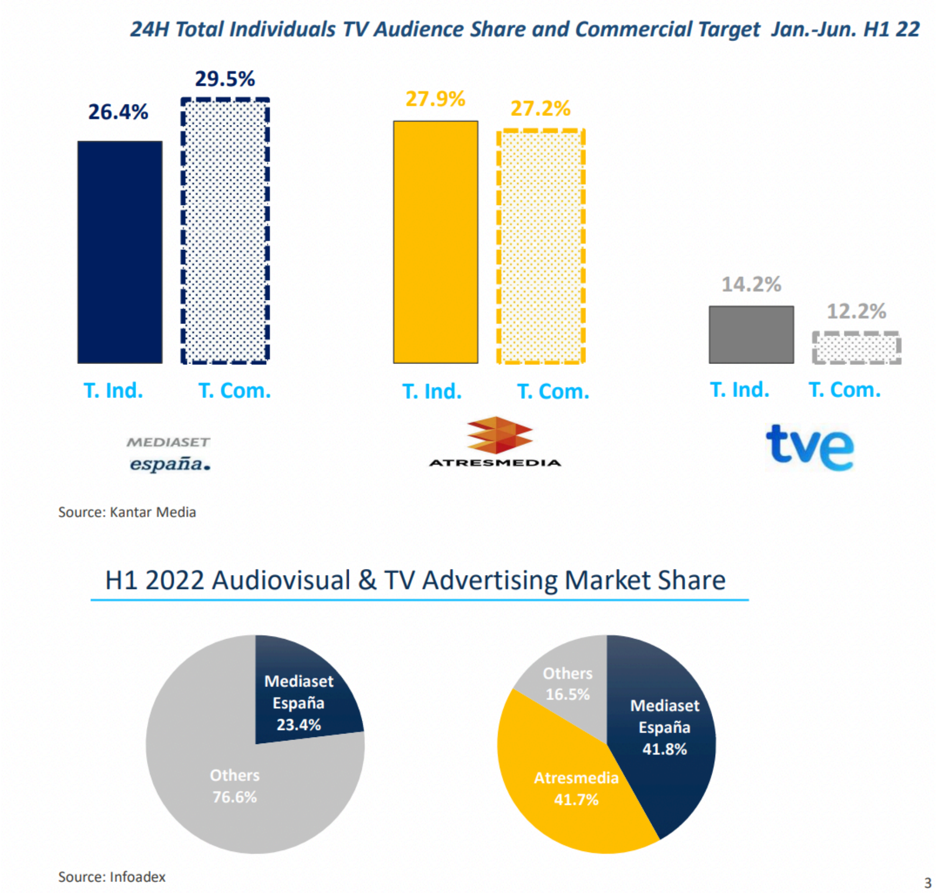
close; previously (in 2019) they had been willing to offer as much as 6.54 EUR in cash, for the same shares in ME. Today, ME shares trade at 2.5, and a miserly earnings multiple, as the market remains unconvinced a second offer will come and/or that MFE will treat minorities even close to fairly. Despite the inadequate protections for minorities in Spain, my view is different, and I think the incentives for MFE to get this done are strong, given the massive net cash at ME versus net debt at MFE's Italian operations; and the imminent rule change just mentioned. All in all I see the ***opportunity to earn 40-60% upside, base case, with a near-term, idiosyncratic delisting catalyst probably only more likely if current market conditions remain tough*** or get tougher in the next couple of months.

Business background

Mediaset Espana is a Spanish media company, known for its free-to-air broadcast channels Telecinco ('TV 5') and Cuatro ('Four'), as well as an in-house production company. Whilst beset by all the typical challenges of other linear/traditional media companies (competition with unbundled streaming services, etc), the Spanish TV market is basically a duopoly between ME and Atresmedia, with both companies commanding around a 40% share of the TV ad market and the rest being split by smaller players:



This concentrated market structure has supported pricing and resulted in much better recent profitability than other structurally-challenged TV markets. Witness the remarkable consistency of ME's financial performance despite the ongoing secular challenges over the last five years:

BRL.AX BWMX CLMT CNE.LN CVN.AX DXLG E2N eml.ax EVO.AX FAR.AX GAN hdg.na HRBR IDA.AX INTL KAR.AX LMN MBR MET.NZ MFD.AX NIO NLOP PAC.AX PBIT.TO PTEC.LN RE4.SI SAVE SF3.DE SHVA.TA SMR.AX SNEX SQZ.LN tnk.ax TRQ TWTR UNTC URF.AX WOW WRKS.LN WTE

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March 2024 (12)

February 2024 (11)

January 2024 (11)

December 2023 (9)

INCOME STATEMENT BALANCE SHEET CASH FLOW STATEMENT RATIOS SEGMENTS

Income Statement | TIKR.com	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	LTM
Revenues	985.04	985.65	974.48	939.00	825.96	865.92	858.11
Total Revenues	**985.04**	**985.65**	**974.48**	**939.00**	**825.96**	**865.92**	**858.11**
% Change YoY	*2.8%*	*0.1%*	*(1.1%)*	*(3.6%)*	*(12.0%)*	*4.8%*	
Cost of Goods Sold	(552.08)	(522.85)	(507.73)	(462.77)	(409.01)	(454.78)	(449.76)
Gross Profit	**432.96**	**462.80**	**466.75**	**476.23**	**416.96**	**411.14**	**408.35**
% Change YoY	*4.0%*	*6.9%*	*0.9%*	*2.0%*	*(12.4%)*	*(1.4%)*	
% Gross Margins	*44.0%*	*47.0%*	*47.9%*	*50.7%*	*50.5%*	*47.5%*	*47.6%*
Depreciation & Amortization	(17.92)	(18.66)	(19.92)	(20.28)	(21.33)	(19.90)	(20.23)
Amortization of Goodwill and Intangible Assets							
Other Operating Expenses	(193.19)	(205.29)	(189.94)	(191.06)	(165.11)	(165.95)	(170.77)
Other Operating Expenses	**(211.11)**	**(223.95)**	**(209.86)**	**(211.34)**	**(186.43)**	**(185.85)**	**(191.01)**
Operating Income	**221.85**	**238.85**	**256.89**	**264.89**	**230.53**	**225.29**	**217.35**
% Change YoY	*9.7%*	*7.7%*	*7.6%*	*3.1%*	*(13.0%)*	*(2.3%)*	
% Operating Margins	*22.5%*	*24.2%*	*26.4%*	*28.2%*	*27.9%*	*26.0%*	*25.3%*

Importantly, despite the ever-increasing need to grow content spend in a streaming world, cash flow has been pretty consistent over this period as well, basically mirroring EBIT, give or take:

INCOME STATEMENT BALANCE SHEET CASH FLOW STATEMENT RATIOS SEGMENTS

Cash Flow Statement | TIKR.com	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	LTM
Total Depreciation & Amortization	**16.10**	**16.64**	**17.63**	**17.66**	**18.59**	**17.17**	**17.50**
Amortization of Deferred Charges	207.28	188.87	155.38	138.47	129.44	99.91	117.90
Minority Interest in Earnings							
(Gain) Loss From Sale Of Asset							
(Gain) Loss on Sale of Investments	1.63	(0.56)	(4.05)	(3.61)	0.40	(0.05)	
Asset Writedown & Restructuring Costs	0.92	0.30	0.03	0.21	1.34	0.33	0.34
Provision for Credit Losses				(1.18)	0.82	(2.21)	(2.21)
(Income) Loss On Equity Investments	(3.12)	(2.74)	(6.25)	(2.31)	(3.03)	(3.00)	(2.97)
Other Operating Activities	14.02	20.52	26.88	19.88	15.66	3.56	(9.43)
Change In Accounts Receivable	16.72	(20.44)	14.96	(6.78)	(21.99)	16.66	22.33
Change In Inventories	(0.16)	0.91	(3.93)	(3.10)	(0.13)	8.20	(2.69)
Change In Accounts Payable	17.66	27.72	(46.83)	11.76	(22.21)	(6.96)	(8.79)
Change in Other Net Operating Assets	5.52	(2.88)	10.58	(23.25)	20.78	30.73	(6.54)
Cash from Operations	**447.56**	**425.84**	**364.72**	**359.48**	**318.38**	**345.35**	**316.05**
Memo: Change in Net Working Capital	*39.74*	*5.31*	*(25.23)*	*(21.37)*	*(23.56)*	*48.62*	*4.31*
Capital Expenditure	(14.00)	(12.42)	(7.69)	(7.63)	(7.90)	(5.13)	(4.20)
Cash Acquisitions				(8.52)	(4.93)	(4.00)	(0.28)
Sale (Purchase) of Intangible assets	(189.02)	(185.66)	(141.87)	(174.21)	(100.32)	(109.44)	(104.62)
Investment in Marketable and Equity Securities	(6.25)	6.52	14.32	(167.60)	(61.98)	(109.42)	(41.39)
Other Investing Activities	3.05	2.37	2.39	1.83	4.06	7.81	22.01
Cash from Investing	**(206.22)**	**(189.19)**	**(132.84)**	**(356.12)**	**(171.06)**	**(220.18)**	**(128.47)**

200-220mm avg FCF each year

No doubt there is economic sensitivity in this business, and I am not arguing that heading into 4Q and 2023 the numbers will not deteriorate. But even looking at prior recessionary periods in Spain, this business performed pretty admirably: in 2008-2010, the business still put up 85mm in EBIT in its trough year (2009), generating a similar amount of FCF:

November 2023 (14)
October 2023 (11)
September 2023 (9)
August 2023 (10)
July 2023 (12)
June 2023 (11)
May 2023 (12)
April 2023 (9)
March 2023 (14)
February 2023 (13)
January 2023 (11)
December 2022 (6)
November 2022 (9)
October 2022 (7)
September 2022 (7)
August 2022 (10)
July 2022 (8)
June 2022 (8)
May 2022 (10)
April 2022 (7)
March 2022 (7)
February 2022 (7)
January 2022 (7)
December 2021 (5)
November 2021 (8)
October 2021 (7)
September 2021 (6)

INCOME STATEMENT BALANCE SHEET CASH FLOW STATEMENT RATIOS

Income Statement | TIKR.com	12/31/08	12/31/09	12/31/10	12/31/11
Revenues	938.79	633.56	837.80	984.90
Total Revenues	**938.79**	**633.56**	**837.80**	**984.90**
% Change YoY	***(11.1%)***	***(32.5%)***	***32.2%***	***17.6%***
Cost of Goods Sold	(432.13)	(419.81)	(473.29)	(601.17)
Gross Profit	**506.66**	**213.74**	**364.51**	**383.73**
% Change YoY	***(21.1%)***	***(57.8%)***	***70.5%***	***5.3%***
% Gross Margins	***54.0%***	***33.7%***	***43.5%***	***39.0%***
Depreciation & Amortization	(6.05)	(7.20)	(7.97)	
Amortization of Goodwill and Intangible Assets				(14.86)
Other Operating Expenses	(138.64)	(120.66)	(137.11)	(204.34)
Other Operating Expenses	**(144.69)**	**(127.87)**	**(145.07)**	**(219.20)**
Operating Income	**361.97**	**85.88**	**219.44**	**164.53**

Still, like most all Raper Capital special situation ideas, this is not at all a call on the business – for I believe it is highly unlikely ME is still listed by the time we get a true look at how it performs through the coming European/Spanish recession. Instead I think the setup here is perfect for a near-term takeout by the majority shareholder, MediaforEurope (MFE), the Italian holding company controlled by Silvio Berlusconi.

A little history: the first cross-border merger attempt fails

In order to get up to speed we need to take a quick spin through the history of ME and its relationship with MFE, formerly known as Mediaset Italia. Berlusconi has been a dominant investor in ME since its founding in 1989 as a different corporate entity (Gestevision Telecinco), at which time he owned 25%. After merging with Cuatro in 2009 and going through a number of other restructurings, Berlusconi's listed Italian entity, Mediaset Italia, owned ~52% in 2019, *when he tried to do a 'Cross-border Merger' of the Spanish entity (see here).*

Cross-border mergers or absorptions are a small and under-covered area of the merger arena that until recently I was not at all familiar with. They are an option available only to entities where the parent/holding company already has a controlling stake and board control, and are designed to allow international corporations the benefits of restructuring and reorganizing their subsidiaries across different borders (in this case, an Italian parent entity to consolidate and restructure its Spanish assets). By 2019, Mediaset Italia had decided to pursue a pan-European consolidation project, in the name of operational and purchasing synergies, in an effort to compete with the likes of Netflix in the streaming and content markets. As they described in the offering circular from 2019:

B.1 **What are the principal reasons and expected benefits of the Transaction?**

From a strategic, operational and industrial perspective, the Transaction is aimed at creating a pan-European media and entertainment group, with a leading position in its local markets and greater scale to compete and potential to expand further in specific countries across Europe. Combined sustainable capital structure and strong cash flow generation profile provide MFE with the required firepower to play a pivotal role in the context of a possible future consolidation scenario in the European video media industry.

The creation of a new holding company in the Netherlands represents the perfect and neutral ground for such an ambitious project (as proven by other companies that have adopted the same structure) and constitutes an important step in the development of a fully integrated media powerhouse, which would become a leader in linear and non-linear entertainment, leveraging tech and data to compete on an equal footing in the evolving media space.

On 29 May 2019, Mediaset announced the acquisition of a 9.6% stake in the German broadcaster ProSiebenSat.1 Media, corresponding to up to 9.9% of the voting rights, excluding treasury shares. Mediaset and Mediaset España have been developing a strong relationship with ProSiebenSat.1 in the European Media Alliance (EMA) in the last five years. The goal of this alliance is to develop economies of scale which are crucial for the future of European TV.

In the context of the current constantly developing competitive landscape, internationalization, economies of scale and ability to offer tech enabled products and quality content are becoming the key critical factors in the profitable execution of modern media company strategies.

In particular, Mediaset and Mediaset España boards of directors believe that this first step enables the following strategic and operational benefits, which can only be unlocked efficiently through a combined entity that is run by a single management team with a clear definition of its strategic priorities and value levers:

(i) Scale to compete. Integrated and diversified media company with access to a combined audience of 107 million viewers to better compete with global players. Economies of scale will be generated in key crucial areas such as: (i) audience/reach, (ii) content creation and distribution, (iii) audience data, (iv) AdTech platforms, (v) OTT (AVOD) platforms, and (vi) talent acquisition and attraction.
(ii) New business opportunities. Scale and international footprint will create opportunities that cannot be seized today due to the local focus and dimension, and will ample resources to invest in core business areas, such as creation of a production content house, data collection, addressable TV, digital audio, DOOH, mobile proximity.
(iii) Stronger proprietary channel and content portfolio. MFE will have the best content and viewing experience across all platforms (linear and non-linear). It will offer engaging content for viewers thanks to stronger in-house production resources and increased ability to supply content to 3rd parties.
(iv) Leaner and more efficient organization. Pan-European consolidation requires a re-engineering of the operational and organization model that will allow cost efficiencies and savings, mainly driven by technological developments. Agile decision making with a leaner organization to adapt to a changing business environment and capture combined growth opportunities.
(v) "Driving the change". Scale coupled with a pan-European footprint will benefit all stakeholders by increasing bargaining power with suppliers and establishing a first-mover advantage in a consolidating media landscape.

Mediaset and Mediaset España have gone through a very detailed exercise aimed at identifying specific levers out of six buckets (content, broadcasting & digital, IT/tech, procurement, G&A expenses, sales house), where a different size and operational model can generate significant cost efficiencies, savings and opportunities. In this respect, the boards of directors of both Absorbed Companies believe that the Transaction would create cost efficiencies and savings of about Euro 100-110 million (before taxes) in the next 4 years (from 2020 to 2023), representing approximately Euro 800 million on a net present value basis.

I have highlighted a couple of points I feel are important, and that we shall discuss subsequently; it is important to note that Mediaset Espana holds a huge stake in Prosieben (a German media company) with significant strategic value, and also that MFE thought they would get 100-110mm in synergies from the merger, ultimately, over the next four years (a huge number in the context of combined profitability).

But more than the transaction benefits, we need to understand exactly what happened in 2019. Back then, Vivendi was a significant minority shareholder in the Italian entity, at 25%, and had been having a back-and-forth war of sorts with Berlusconi over a number of issues (see here, and here, for example). Since the 2019 merger involved the creation of a new Dutch-domiciled entity and the cancellation of the Italian-domiciled Mediaset Italia (in addition to the absorption of the Spanish subsidiary), it gave any Mediaset Italia shareholders the right to dissent, and, if they so desired, withdraw at a determined 'withdrawal right price'. See this section of the proxy:

E. WITHDRAWAL RIGHT

E.1 **Are Mediaset España and Mediaset shareholders entitled to exercise dissenters', appraisal, withdrawal or similar rights?**

Withdrawal right of Mediaset España shareholders

Mediaset España shareholders who vote against the Merger in the Mediaset España General Meeting will be entitled to exercise their withdrawal right in accordance with Spanish applicable law given that MFE, as resulting entity of the Merger, will be incorporated in accordance with the laws of a country other than Spain (i.e., Netherlands) and domiciled in such country.

A Mediaset España shareholder that properly exercises the right of withdrawal will be entitled to receive an amount of cash which is equal to Euro 6.5444 per Mediaset España share calculated as indicated under E.4 below.

Given the exceptional character of the withdrawal rights, the Mediaset España shares of the withdrawing Mediaset España shareholders will be immobilized by the depositaries with which the relevant withdrawn shares are deposited, from the date of exercise of the withdrawal right until the payment of the redemption price and settlement of the Transaction (or until it has been verified that the conditions precedent to the Merger have not been satisfied or waived).

Withdrawal right of Mediaset shareholders

Mediaset shareholders who do not participate in the adoption of the resolution on the Merger will be entitled to exercise their withdrawal rights in accordance with Italian law given that, following the Merger, MFE, as resulting company from the Merger, will be organized and managed under the laws of a country other than Italy (the Netherlands).

The redemption price payable to Mediaset withdrawing shareholders will be equal to Euro 2.770 per each Mediaset share in relation to which the withdrawal right is exercised.

The shares with respect to which withdrawal rights have been exercised will be offered by Mediaset to its existing shareholders and subsequently, if any such shares remain unsold, they may be offered to third parties; potential outstanding and unsold shares will be acquired by MFE at the redemption price. The above offer and sale procedure, as well as any payment of the redemption price to withdrawing shareholders, will be conditional upon completion of the Merger.

Vivendi did NOT exercise their withdrawal rights at the time, but nevertheless effectively BLOCKED the merger/absorption transaction by alleging corporate governance irregularities and suing Mediaset Italia in court – since the vote would have required 75% approval of all Mediaset Italia shareholders, this was enough to effectively kill the transaction and ***so it did not proceed***.

Nevertheless, it is worth considering what would have happened to ME shareholders back in 2019, had the merger gone ahead. As the proxy states, ME shareholders would either have gotten 2.33 shares of NewCo (the Dutch Entity) per ME share; or **6.544 EUR in cash** (being the 3mo VWAP price of ME shares leading up to the offer):

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A Mediaset España shareholder that properly exercises the right of withdrawal will be entitled to receive an amount of cash which is equal to Euro 6.5444 per Mediaset España share calculated as indicated under E.4 below.

Given the exceptional character of the withdrawal rights, the Mediaset España shares of the withdrawing Mediaset España shareholders will be immobilized by the depositaries with which the relevant withdrawn shares are deposited, from the date of exercise of the withdrawal right until the payment of the redemption price and settlement of the Transaction (or until it has been verified that the conditions precedent to the Merger have not been satisfied or waived).

Still, the deal failed, due to Vivendi's machinations, and the situation lay dormant for a few years, until…

Round 2: MFE tenders for ME in mid-2022

July 2016 (1)
March 2016 (1)
February 2016 (2)
December 2015 (1)
October 2015 (1)
September 2015 (2)
August 2015 (3)
July 2015 (1)
June 2015 (1)
May 2015 (2)
April 2015 (4)
March 2015 (6)

MFE – now incorporated in Holland but with an Italian listing – came back to try to take out all the minorities in mid-2022, lobbing a tender offer (that is, NOT a cross-border merger absorption), offering 4.5 newly issued A shares, along with 2.16 EUR per share in cash, for each ME share. The offer was accepted by 61% of minority holders in early July, ***taking MFE's ownership to 83%*** – enough to pass any special resolution (requiring 75% of votes), but NOT enough to squeeze out minorities (need 90% in Spain), which is the status quo where we sit today.

Before discussing the implications of this prior offer and where we go from here, it is worth considering how and why MFE went for this move as opposed to another cross-border merger attempt. MFE brokered a peace deal with Vivendi in mid-2021, resolving all outstanding legal issues and paving the way for Vivendi to sell down its shares in a staggered fashion, which would have cleared the way for another cross-border merger attempt; but perhaps the emergence of some upset minorities in the register persuaded them to go for a typical voluntary tender instead.

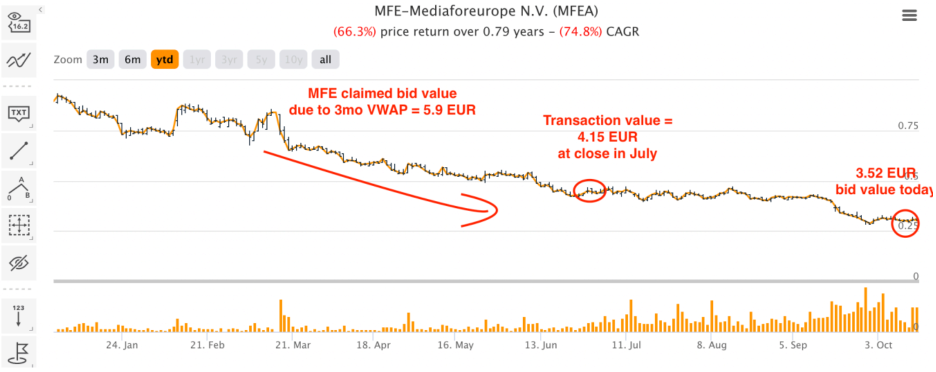
There were a few peculiarities about the tender just conducted. For example, the original consideration was just 1.85 EUR per share cash and 4.5 new A shares; ***this was later bumped to the final consideration*** (2.16 EUR cash plus the 4.5 new A shares) to secure ME management's approval of the transaction (perhaps the give the transaction an appearance of good governance or due process). Note, however, that because the tender was 'voluntary' under Spanish law, ***no fairness opinion was required or provided*** (!):

> Given that the Offer is a voluntary offer, the price does not need to have the consideration of "equitable price" (precio equitativo) as defined in Article 9 of Royal Decree 1066/2007. The Bidder does not submit valuation reports on the MES shares nor with respect to MFE shares in order for the shareholders of MES to which the Offer is addressed to evaluate the Offer Consideration. The information provided above does not constitute a justification for considering the Offer consideration per share as an equitable price for the purposes of Article 130 of the Securities Market Act and Article 9 of Royal Decree 1066/2007.

MFE portrayed the final consideration as an implied 5.91 EUR per share, based on the average price in the quarter preceding the announced transaction, and thus a 'generous' 37% premium:

> Although the cash equivalence will vary depending on the existing market price of the MFE Shares A, by applying to the Exchange Ratio the effective volume-weighted average price (VWAP) of the MFE Shares A of the quarter immediately preceding the initial announcement of the Offer (dated 15 March 2022), the effective equivalent price of the Exchange Ratio as of the date of the announcement of the Offer was €5.61 per MES share. However, taking into account the increase in the cash portion of the Offer consideration, the new effective equivalent consideration of the Share Exchange Ratio, by applying to the Share Exchange Ratio the effective volume-weighted average price of the MFE Shares A for the quarter prior to the initial announcement (dated 15 March 2022), amounts to €5.91 per MES share.
>
> Although it may change as a result of variations in the trading price of either MFE or MES shares, the above mentioned effective equivalent price (€5.91 per MES share) represented a premium of almost 37.0% over the effective VWAP of MES shares during the quarter prior to 11 March 2022 (€4.136 per share)[1].

However due to the ongoing meltdown in European stocks (and perhaps disgust at the terms of this non-arm's-length transaction), by the time the deal closed on July 1, MFE A shares had declined to 44c, ***implying a transaction value per ME share of 4.15 EUR***. Keep in mind that ***today's implied transaction value, on identical terms, is 3.52 EUR***:



Putting aside the disparity between realized price, offered price, and intrinsic value of the ME share (which we shall discuss), the bid made clear two things 1) MFE REALLY wanted to fully own ME; and 2) they were being quite strategic regarding how they acquired the shares. The second point is self-evident (witness the mostly stock consideration along with the lack of fairness opinion dictated by the voluntary nature of the tender, exploiting a loophole in Spanish law). But the first point is pretty clear too: within the deal docs, MFE made no secret about their desire to move for a squeeze out if they got to 90%, to wit:

4.11. INTENTIONS REGARDING THE SQUEEZE-OUT

The Bidder will exercise the squeeze-out if the minimum thresholds established for these purposes are reached, which shall entail the delisting of the Target Company's shares and as indicated in the previous Section, in such case, MFE will request the admission to listing and trading of all issued MFE Shares A on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges as soon as possible within a maximum period of three months from the date of the squeeze-out.

Thus at this juncture I think it is safe to conclude that MFE remains as interested in ever in fully consolidating 100% of ME – and perhaps now more than ever.

ME is as cheap as it has ever been, under 1x EV/FCF!

Beyond the purported strategic rationale re cost synergies, greater purchasing power/scale, and the like, the underlying financial logic of the transaction is overwhelming: MFE is extremely levered, whilst ME is massively net cash. ME has 350mm of net cash on balance sheet (as of June'22), along with a Prosieben stake worth close enough to 300mm – implying the heretofore very consistent 200mm+ of FCF from the operating ME business is being valued by the market at under 150mm!!

Balance Sheet | TIKR.com	12/31/19	6/30/20	12/31/20	6/30/21	12/31/21	6/30/22
Cash And Equivalents	128.99	205.10	321.18	357.86	266.30	388.20
Short Term Investments	1.63	2.12	4.79	3.50	26.80	5.04
Total Cash And Short Term Investments	**130.62**	**207.22**	**325.97**	**361.36**	**293.10**	**393.24**
Accounts Receivable	229.28	158.70	251.27	213.79	267.00	191.59
Other Receivables	18.71	9.85	11.78	5.98	20.79	27.22
Notes Receivable						
Total Receivables	**247.98**	**168.56**	**263.05**	**219.77**	**267.00**	**218.81**
Inventory	12.86	12.03	12.99	4.35	4.79	7.05
Prepaid Expenses	32.67		27.38	20.02	6.20	
Other Current Assets	0.27	39.87	(0.49)	0.09	(0.10)	11.23
Total Current Assets	**424.39**	**427.68**	**628.90**	**605.60**	**560.00**	**630.32**
Gross Property Plant And Equipment	189.44		189.45		189.57	
Accumulated Depreciation	(134.07)		(139.57)		(145.48)	
Net Property Plant And Equipment	**55.37**	**51.42**	**49.88**	**46.08**	**210.70**	**40.64**
Long-term Investments	196.12	311.34	331.01	549.52	745.60	288.99
Goodwill	290.81	290.81	294.51	294.51	294.51	294.51
Other Intangibles	331.27	346.97	298.31	298.49	142.30	280.57
Loans Receivable Long-Term	1.98	1.00	0.69	1.80		
Deferred Tax Assets Long-Term	69.95	74.91	79.20	55.62	49.63	48.59
Deferred Charges Long-Term	0.00	0.00	0.00	0.00	0.00	0.00
Other Long-Term Assets	53.25	21.24	42.22	30.42	49.60	24.17
Total Assets	**1,423.15**	**1,525.36**	**1,724.71**	**1,882.04**	**1,708.20**	**1,607.78**

Prosieben stake sits here

Balance Sheet | TIKR.com	12/31/19	6/30/20	12/31/20	6/30/21	12/31/21	6/30/22
Accounts Payable	136.15	111.51	113.93	114.94	106.97	106.14
Accrued Expenses	31.36	22.73	37.37	33.52	46.09	36.30
Short-term Borrowings						
Current Portion of Long-Term Debt	0.91	0.46	1.08	0.32	1.34	0.93
Current Income Taxes Payable						
Unearned Revenue Current						
Other Current Liabilities	102.88	85.58	87.02	78.50	287.50	110.50
Total Current Liabilities	**271.30**	**220.27**	**239.40**	**227.29**	**287.50**	**253.88**
Long-Term Debt	180.33	254.63	296.76	340.39	25.40	38.49
Unearned Revenue Non Current						
Deferred Tax Liability Non Current	38.45	51.59	49.55	55.25	58.89	62.66
Other Non Current Liabilities	17.31	14.39	27.09	26.90	119.80	19.21
Total Liabilities	**507.39**	**540.89**	**612.80**	**649.82**	**432.70**	**374.24**
Common Stock	163.72	163.72	163.72	156.58	1,275.50	156.58
Additional Paid In Capital	313.23	313.23	313.23	226.57	226.57	226.57
Retained Earnings	244.46	102.74	211.48	118.12	212.35	126.27
Treasury Stock	(94.55)	(94.04)	(94.04)			
Comprehensive Income and Other	285.43	495.52	515.25	729.43	677.64	721.86
Total Common Equity	**912.29**	**981.17**	**1,109.64**	**1,230.69**	**1,275.50**	**1,231.29**
Minority Interest	3.47	3.30	2.27	1.52	2.33	2.26
Total Equity	**915.75**	**984.48**	**1,111.91**	**1,232.22**	**1,275.50**	**1,233.54**
Total Liabilities And Equity	**1,423.15**	**1,525.36**	**1,724.71**	**1,882.04**	**1,708.20**	**1,607.78**

Meanwhile the consolidated MFE accounts show a net debt position of 631mm, implying ***a net debt position at the Italian entity of close to 1bn EUR…***

Reconciliation of Net Financial Position (EUR million)	30/6/2022	31/12/2021
Current financial assets	25.0	18.4
Cash and cash equivalents	468.7	315.6
Financial liabilities and payables	(739.2)	(831.7)
Due to banks	(329.6)	(363.1)
Other financial liabilities	(64.5)	(83.4)
Difference on derivatives [1]	1.1	63.8
Difference on receivables and loans [2]	7.6	11.2
Net Financial Position	**(630.7)**	**(869.2)**

[1] Differences on derivatives consists of: (i) the fair value of exchange rate derivatives, except for the ineffective part of the cash flow hedge and (ii) the fair value of derivatives to

…all whilst Italian earnings power appears to be collapsing…

ITALY Reclassified Income Statement (EUR million)	1H 2022	1H 2021	Change (EUR million)	Change (%)
Consolidated Net Revenues	**974.6**	**963.7**	**10.9**	**1.1%**
Personnel expenses	(171.9)	(177.1)	5.2	-3.0%
Purchases, services, other costs	(614.4)	(510.9)	(103.5)	20.3%
Operating costs	(786.2)	(688.0)	(98.2)	14.3%
Gross Operating Result (EBITDA)	**188.3**	**275.7**	**(87.4)**	**-31.7%**
TV Rights amortisation	(141.2)	(144.9)	3.7	-2.5%
Other amortisation, depreciation and impairments	(30.0)	(36.2)	6.2	-17.0%
Amortisation, depreciation and impairment	(171.3)	(181.1)	9.8	-5.4%
Operating Result (EBIT)	**17.1**	**94.6**	**(77.5)**	**-81.9%**

…and even as the Spanish business has remained quite resilient:

SPAIN Reclassified Income Statement (EUR million)	1H 2022	1H 2021	Change (EUR million)	Change (%)
Consolidated Net Revenues	**415.2**	**423.6**	**(8.4)**	**-2.0%**
Personnel expenses	(63.2)	(61.1)	(2.1)	3.4%
Purchases, services, other costs	(187.5)	(209.1)	21.6	-10.3%
Operating costs	(250.7)	(270.3)	19.5	-7.2%
Gross Operating Result (EBITDA)	**164.4**	**153.3**	**11.2**	**7.3%**
TV Rights amortisation	(58.4)	(40.4)	(18.0)	44.5%
Other amortisation, depreciation and impairments	(10.2)	(9.1)	(1.1)	12.4%
Amortisation, depreciation and impairment	(68.6)	(49.5)	(19.1)	38.6%
Operating Result (EBIT)	**95.8**	**103.8**	**(8.0)**	**-7.7%**

Compounding this problem is the fact that MFE continues to buy back its own stock, and is paying a dividend; whereas the Spanish entity is simply hoarding its cash (no doubt to be subsumed by the Italian entity once it is fully gobbled up). If we were to believe that a European recession will only further hurt the profitability of both businesses but particularly the Italian entity – recalling that Italy is much more short energy than Spain; is in a much more precarious political situation; and has much wider risk spreads in its sovereign market – then the urgency for MFE to get full access to ME's cash, as soon as possible, becomes only more paramount.

Summarizing the setup and what could happen next

As it stands, then, ME stock is trading at 2.55 despite multiple offers, of various stripes, valuing those same shares at anywhere from 3.5-4.15 EUR a couple of months ago, to as high at 6.5 EUR a couple of years ago. The standalone valuation of ME today is borderline criminal at under 1x EV/FCF, with ***75% of the market cap in cash and readily realizable listed investments.*** Moreover we have a highly motivated parent acquiror who has, as recently as July, tried to acquire the whole thing and in recent earnings calls basically reiterated its desire to fully delist and control 100% of the entity as soon as they are able:

Stefano Gamberini

First of all, regarding your strategy, what could we expect about Mediaset Espana integration, the next steps that you have in front of you on this for the integration with this company? And if the integration could help for some savings in -- during 2023 or not?

The second, you said you are all -- on all the dossier in the sector. But considering that you can't use your paper, what is the firepower that you have? And also on this topic, if you can spend a few words about your other commitment, the first, you are moving in a buyback, but the second most importantly, your payout policy. So you said you will distribute at least 50% of the consolidated adjusted result, but also taking in account the level of leverage. So what is a level of leverage that is reasonable in your view? And so as a consequence, what is this firepower that you have?

The second question regarding the Slide #18 underlining that the cash generation was relevant, but there is the change in net working capital, which accounts for around EUR 144 million. Is this a one-off? This figure will be reabsorbed during the second part of the year or not? And what is the main driver of this positive result? And lastly, as usual, as regard to EI Towers. Now there is a new majority, probably something could happen also on this dossier. What is -- you already said in the past year that this is not a strategic stake. So what is in your view the best way to extract maximum value from the stake in EI Towers?

Marco Giordani

So we should need another hour to answer, in any case, Stefano.

Stefano Gamberini

No, very briefly.

Marco Giordani

No, no, no. Clearly, I'll try to answer everything. If I forgot something, please remind. I mean, as far as Mediaset Espana is concerned, I mean, I believe that everything is written in the info memo. As is actually written in the info memo, we are in a cooling down period, if you want, we cannot do anything because we committed ourselves to do it. So we are in a business which we cannot do almost anything on shares. We are very happy with our 83% controlling shares that is, in any case, already pretty advanced. So we have not decided. We will see once the full account period will end. So in January, we will decide depending on everything that is happening around us.

The 'cooling off period' refers toa Spanish regulation whereby MFE cannot further increase their stake, by any means, for six months after the last bid concluded. Since this occurred on July 1, 2022, this would imply early January would open up the window for a further initiative to take the remaining 17% of the company.

The question is, of course, **what form the next bid could take and how can we extract something closer to fair value?** I believe MFE is much more likely to go for another cross-border merger absorption, simply because a) since they now control >75%, there is no legal mechanism for minority shareholders to block this form of transaction; and 2) there is an already-mandated change in EU Directives regarding such cross-border mergers, *giving minorities the right to arbitration on valuation fairness*, that is slated to go live on January 31, 2023 – meaning MFE would be highly incentivized to act before then to achieve as cheap a price as possible on the consolidation. Here is the relevant EU Directive on the matter; the important section referring to price arbitration for minorities is the below:

within a specific time limit, whether they intend to dispute the cash compensation offered and claim additional cash compensation.

(20) The calculation of the offer of cash compensation should be based on generally accepted valuation methods. Members should have a right to dispute the calculation and question the adequacy of the cash compensation before a competent administrative or judicial authority or a body mandated under national law, including arbitral tribunals. Member States should be able to provide that members who have declared their decision to exercise the right to dispose of their shares are entitled to join such proceedings. Member States should also be able to establish time limits in national law for joining those proceedings.

If we assume MFE looks to wrap this up as soon as possible in early January, they would then come up with some kind of exchange ratio for the share swap, and be legally mandated to only offer 3month VWAP as the 'withdrawal price' for shareholders who wanted cash instead of MFE shares as compensation for the bid (this is the current minimum price as dictated by Spanish law as it stands today). That is to say, if MFE proceeds with the transaction under these terms, BEFORE the new EU rules go into effect, we are potentially looking at getting only 3mo VWAP as our 'cash out' price in January next year. On the face of it, that's the bad news.

And yet, this situation still really appeals to me, and I think we are in a very asymmetric setup as it stands, for a few reasons. Obviously, even if we were to receive simply 3mo VWAP today (which is around 3 EUR), we would still earn a solid positive return. But there are other considerations at play too. ME may be a controlled company and legally Spain may be a sub-optimal jurisdiction for minorities (given the state of play as I see it) – but the fact remains, MFE made a bid at 4.15 (effectively) in July, that they marketed at 5.9 EUR at the time – and even that bid on identical share swap terms is worth 3.52 EUR today (disregarding the 100mm of FCF that ME has generated in the last two quarters). But even the lower of these numbers is so considerably above current trading prices that I believe ME directors would have a very hard time signing off on something so much lower than this, in the space of a few months.

Indeed, in the context of minority takeouts, it would HIGHLY UNUSUAL for a theoretically independent board to endorse a transaction at this price – especially in the context of underlying business performance (better in Spain, worse in Italy); and intrinsic valuation (under 1x FCF). Moreover Spain enacted a number of rules to prevent minority abuse during the pandemic, see here for example – and whilst this transaction would NOT fall under the same rubric of a voluntary tender, nevertheless it taps directly into the same issue (majority owners stealing value from minorities) and thus would be fertile grounds for public debate.

These are not idle issues – and particularly not for MFE, which would seek to maintain a Spanish listing on the Borsa (as they suggested they would in the recent Offer Document as well as the 2019 merger attempt), and presumably good relations with the CMMV (Spanish regulator) and local capital markets. Moreover, we should remember that *the cost to MFE of paying some acceptable consideration* – call it 4-4.5 EUR cash – *on the tiny minority slice remaining is basically de minimis* against the pro-forma cash they would gain access to. For example, and considering the Prosieben stake as cash-like, for the moment, if they were to move to 100% ownership, ***MFE would gain unfettered access to ~650mm EUR of cash and investments, versus a potential incremental cash out to minorities, assuming a 4 EUR final price versus a 3 EUR theoretical minimum required price, of only 53mm EUR (because there are 53mm minority shares***

outstanding today). This strikes me as a fairly small amount of leakage, and to be clear, I would still vigorously protest a transaction at 4 EUR given the underlying valuation. But it demonstrates, I believe, how small the incremental amount of cash being granted to minorities could still generate huge upside excess returns to us (as minorities) in this scenario.

The activist angle is open to us

It goes without saying that this dialogue on valuation and fair compensation will not happen behind closed doors or absent some form of public examination. I of course have a substantial position here, and given the obvious similarities to the Hunter Douglas case, I am fully able and willing to agitate for the best possible outcome for minorities should a transaction be presented that is grossly inadequate. But I would also highlight that a number of other activists, or pseudo-activist voices appear to be on the register too. For example, Polygon – no stranger to activism in Europe in these kinds of minority take-out situations – owns 1% of the company and is one of the largest minorities left involved. I would assume a takeout at prices akin to 0.6x FCF would engender a huge amount of opprobrium, in the public domain, from Polygon, as well as other hedge funds still on the register.

Again – this is not to say this is the world's best business, nor is it one I wish to underwrite for the medium-term. But the incentives regarding a full takeover in the very near-term seem quite clear, and despite the potential for some minority abuse, I still think it is fiendishly, fiendishly hard to lose money from here. Instead I see a base case return of something like 40-60% over the next 3-5 months as quite likely, especially once portions of the float have rotated into like-minded hands, and thus am quite excited about the upside/downside skew from current levels. So, I am **adding it to the events book here.**

Quick positioning note on Twitter

No change to my over-arching view that this deal is highly likely to close by Oct 28, but for full disclosure I did close my Oct/Nov $40/48 risk reversal, by selling the Nov $48 calls at $5.1 yesterday (note that the Oct puts had already expired worthless). Nothing has changed in my view, I am simply slightly uncomfortable with risking so much premium in the event I am wrong and we have to go back to trial as these November calls would likely lose a big chunk of value in that scenario even if Twitter ultimately prevailed in court (it would simply not get decided in time for me to cash in the November expiry). Still, this trade generated a huge excess return (basically a 10-bagger) and I maintain a gargantuan position in the common stock and some longer-dated calls. Fingers crossed for the next week or so!

Disclosure: long TL5.MC, TWTR, and TWTR calls of various strikes (Dec and Jan expiry)