Siena Market Line
2nd week of November 2015

MSG Networks, Inc.

MSGN: NYSE

Analyst: Matthew Schilling
Sector: Consumer Discretionary

BUY

Price Target: $30.70

Key Statistics as of 11/05/2015

Market Price:	$20.29
Industry:	Media
Market Cap:	$1.2B
52-Week Range:	$16.90 - $87.27
Beta:	0.86

Thesis Points:

- Increasing revenue from more television viewership due to coverage of relevant sports teams
- Future growth opportunity from coverage of teams in emerging sports markets
- Diversity from coverage of multiple teams in numerous leagues
- Highest operating income of any segment of MSG before spin-off

Company Description:

MSG Networks, Inc. is a media company that has two sports and entertainment networks, MSG and MSG+. The company is now the operating media section of the former conglomerate MSG and is considered the parent company regardless of the ticker change. They provide live coverage of nine local sports teams, the New York Knicks; New York Rangers; New York Liberty; New York Islanders; New Jersey Devils; Buffalo Sabres; Major League Soccer's Red Bulls and the Westchester Knicks, and exclusive non-game coverage of the New York Giants. In addition the company airs original shows, various NCCA sporting events, UEFA soccer matches and other miscellaneous sports.

Thesis

MSG Networks, Inc. provides live coverage of increasingly relevant sports teams. These teams are climbing to the pinnacle of their respective sports and as a result television viewership is climbing on MSG Networks. This growth is poised to increase commercial prices, ultimately increasing revenues for MSGN. They also cover teams in emerging sports markets which will lead to long term growth opportunities. Due to the variation in teams that they cover, a drop in one team's success will not cause overall viewership to plummet. Lastly, MSGN was formerly the media segment of MSG. The segment had the highest operating income and largest margins in comparison to any other segment within MSG. The combination of high margins and projected growth in revenues will lead to a stock price of $30.70 in one year.

Increasing Television Viewership

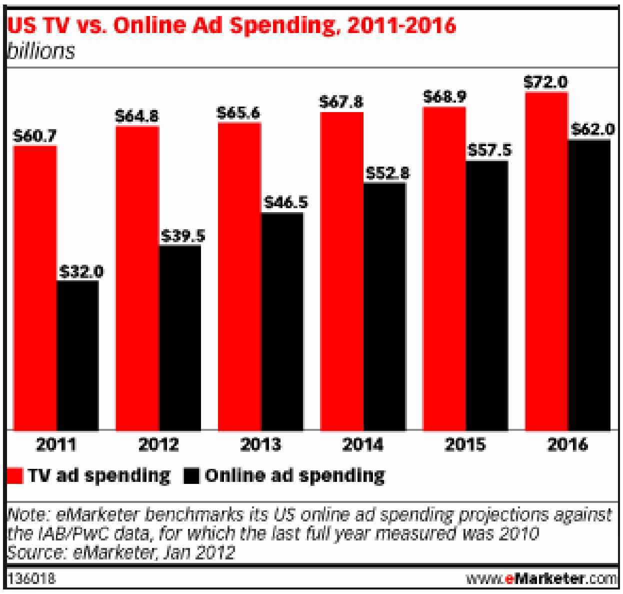
The New York Rangers, a professional ice hockey team, have made the playoffs in each of their last five seasons. The team's core and coaching has changed throughout the past five seasons but their success has not wavered, winning their division twice, making the conference final twice and making the Stanley cup final once. All this success only to fall short of bringing the Stanley cup trophy back to New York. The late success has triggered a large growth in fans as the Rangers have sold out 100% of their games since the 2010-2011 season where they sold out 99.5% of their games. In 2011, on MSG Network, the Rangers averaged a Nielsen score of 0.85 HH during the regular season. This score represents the percentage of total households that tuned in to watch the game. That means on average, when the Rangers are on MSG Network, .85% of all households tuned in to watch the game. The increased relevance of the Rangers has sparked their ratings to increase further achieving ratings such as a 4.45 HH for playoff game one of the 2015 divisional series, the highest rating they have ever had for a game one. In addition, the series averaged a rating of 4.74 HH which was up 74% from last year's ratings. Every year the Rangers keep up their impressive play, the viewership increases. As of today (11/04/2015) the Rangers lead the Metropolitan division by one point over the New York Islanders (another team that has become increasingly relevant that MSG broadcasts). As the push towards the playoffs continue both teams will increase the viewership of MSG Networks.

The New York Islanders are the next team that is up and coming in the hockey world. This is currently their inaugural season in the Barclays Center, the recently built stadium in the epicenter of Brooklyn, creating a lot of hype around the team. The team made the playoffs last year, under the captainship of locally born star John Tavares, for the second time in the last 8 years. The progression of the team led to playoff ratings of 4.47 HH, on MSG Networks, which was up 65% from their last playoff series. As the battle continues between the Rangers and Islanders for first place in the Metropolitan division ratings will climb for both teams.

Switching over to their coverage of a team in a different league the New York Knicks, there is even more potential for viewership growth. The Knicks have not made the playoffs in two years and have only made it three times in the last eleven years. The team finished next to last in the eastern conference last year due to a fire sale of semi-important players. This sale freed up enough cap space to sign starting caliber players such as, Aaron Afflalo, Robin Lopez, and Derrick Williams. In addition, the Knicks drafted future cornerstones in Kristaps Porzingis and Jerian Grant. These new pieces combined with a healthy star in Carmelo Anthony the Knicks are projected to be in the mix for the 7th and 8th playoff spots in the weaker eastern conference as three .500 winning percentage or below teams made the playoffs last year. MSG Networks had peak ratings up to 7.34 HH on MSG for certain regular season games in 2012 when the team made the playoffs last. This year's team is poised for the playoffs which will expectedly increase the overall viewership of the team.

Benefits of Increasing Viewership

Television broadcasting companies make the majority of their revenues through commercials and advertisements. MSG Networks sells commercial time to numerous companies, local and worldwide, that operate in many different business segments. The cost of this commercial time is variable based on the time of day and the show or event that is being televised. Shows and events that play at prime times and have higher viewership ratings cost more to run commercials during. An example would be primetime drama television. The widely known drama "The Blacklist" costs about $198,667 per 30 second spot in 2014 and had received an average Nielsen HH rating of 6.6. A similar but more popular show "The Big Bang Theory" has an HH of around 9 and a 30 second spot costs $326,260. There is a clear correlation between ratings and commercial price. These shows air on major television networks that broadcast to the entire country so their cost per commercial spot is going to be higher. Nevertheless, the correlation between viewership and commercial price is directly proportional. There is also a trend for continual growth in spending on television advertisement as it is expected to increase from $68.9B in 2015 to $72.0B in 2016.



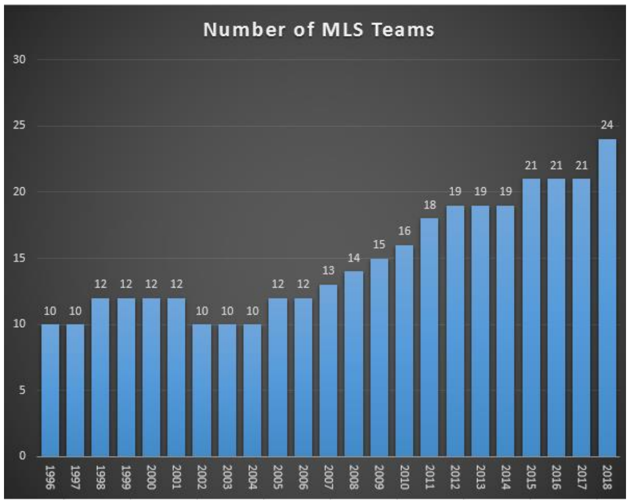
They currently operates in a local media market (New York) where they are the leader of providing sports coverage. The market is niche but has the highest amount of households with televisions. New York is the biggest of the local media markets by a significant margin.

Rank	Designated Market Area (DMA)	TV Homes	% of US
1	New York	7,368,320	6.503
2	Los Angeles	5,489,810	4.845
3	Chicago	3,475,220	3.067

The increasing relevance and viewership of the teams being covered by the network combined with the growth in ad spending will ultimately lead to increased revenues for MSGN.

Growth of Major League Soccer to Increase Future Revenue Generation

The league is currently in its 20th season and is currently growing faster than any other United States major professional sport. The league added two new franchises this year, New York City FC and Orlando City SC, to meet the growing demand for domestic soccer. Social media conversation about the MLS is up 34% from 2014 which was up 64% from 2013 (the pre world cup era of MLS). International names such as, Pirlo, Drogba, Villa, and Lampard, are coming to play in the U.S. as a result of the league's new designated player policy. The trend of acquiring bigger names will continue as players such as Cristiano Ronaldo have expressed their interest of playing in the MLS.



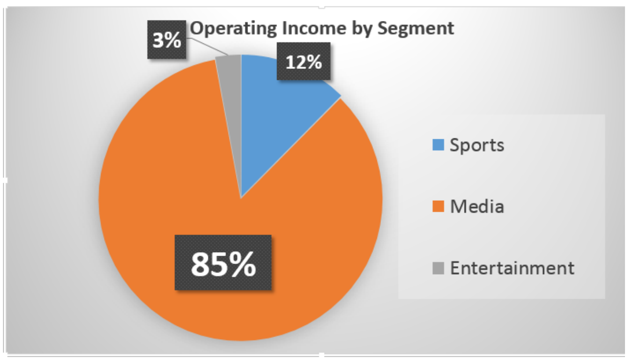
The increased league interest is leading to further team expansion as there are plans in place to unveil new teams in Atlanta, Minnesota, and possibly Miami. Television viewers per game in 2015 on Sunday games is up 18% from 2014. MSG Networks will profit on this rise in the MLS through the coverage of the New York Red Bulls. The Red Bulls and MSG Network have been partners for 18 years as MSGN has held telecast rights and recently the two parties reached a multi-year extension. The deal consists of broadcasting 22 of their 34 regular season games including pregame and postgame coverage. As the MLS grows and continues to captivate national attention, the television viewership will increase leading to long term revenue growth for MSG Networks.

Diversity in Coverage

MSG Networks currently provides live game coverage of nine teams: Knicks, Rangers, Liberty, Islanders, Devils, Sabres, Red Bulls and Knicks (D-League, Westchester Knicks). The company also has rights to provide live coverage of several UEFA champions league matches, NCAA basketball games (Including the tournament, Men's and Women's), NCAA football, horse racing, concerts and various original shows. The vast coverage allows the company to generate viewership from teams that are performing well and make up for the teams that are not generating viewership. In 2012-2013, the Knicks finished 2nd in the eastern conference and made it to the conference final. Along with the Knicks success, the Rangers and Islanders made the post season. Revenues grew from $614.2 in 2012 to $677.7M in 2013 as the team success grew. However in the 2013-2014, the Knicks collapsed, the Devils continued to struggle, the Islanders missed the post season but revenues managed to grow to $714.5M in 2014 due to the success of other covered teams. The Rangers had their first Stanley Cup Final appearance since 1994, the Red Bulls won the Supporters' Shield (most points in the MLS) and MSG Networks was able to sustain a growth in revenue. The diversified coverage stabilizes revenue generation, currently the outlook for the majority of their teams is positive and will lead to continual revenue growth. In addition to the variety of sports covered, regardless of how bad a team is there will still be some viewership due to the loyalty of sport fan bases. The Knicks finished next to last in the east last year, their one star Carmelo Anthony played in under 20 games, and yet the team had a 100% attendance report at home games. This shows that down years for their sports teams do not affect revenue generation as much as up years do, making MSG Networks a company with huge upside potential and limited risk.

Highest Operating Income before Spin-off

MSG's media segment accounted for just 38.9% of the total revenues generated in 2015 before the spin-off.



However, the segment accounted for 85% of the total operating income, bringing in $514.3M in operating income in the 2015 fiscal year. The spin-off itself separates the media segment from the other two segments and is currently traded as MSGN on the NYSE. The segment has experienced growth in revenues in every year except from 2014-2015, this drop was due to the awful season in which the Knicks killed their television ratings. However even with the dip in revenue the company was able to decrease capital expenditures and increase their overall operating income. The new company, as a result of the spin-off, currently has no debt and beat the estimates of analysts according to their earnings report today. With the current margins the company operates within, the projected increases in revenue will lead to an increasing stock price.

Other Notable Items

Last year MSG Networks released a mobile application called MSG Go that enables a person to watch live games on their phone, tablet, and computer. This is one of the innovative trends that MSG Networks is acting upon. Such a product allows them to run more ads by having multiple platforms for users to watch games. In addition, it allows viewership to increase because people that cannot watch the game on a television can still tune in via these mobile applications.

Conclusion

MSG Networks is a buy. The company has shown its profitability within the conglomerate company for several years. They are poised for future revenue growth due to increasing television viewership. There is low risk in investing in the company due to the diversity of its operations. All of which will lead to an increase in future stock price.

CENTER FOR GLOBAL FINANCIAL STUDIES

MSG Networks Inc.	msgn	Analyst	Current Price	Target Value	Divident Yield	1-y Return: 47.01%	BULLISH
		Matthew Schilling	$20.88	$30.70	0%		

General Info

Sector	Consumer Discretionary
Industry	Media
Last Guidance	(Invalid Identifier)
Next earnings date	November 5, 2015

Market Data

Enterprise value	$1,364.40
Market Capitalization	$1,583.08
Daily volume	1.74
Shares outstanding	75.82
Diluted shares outstanding	77.09
% shares held by institutions	72.25%
% shares held by insiders	19.43%
Short interest	5.82%
Days to cover short interest	0.00
52 week high	$175.59
52-week low	$16.95
5y Beta	0.18
6-month volatility	189.16%

Peers

Peers	Market Cap.
AMC Networks Inc.	$5,345.41
Starz	$3,480.70
Scripps Networks Interactive, Inc.	$7,487.50
Lions Gate Entertainment Corp.	$5,771.97
Discovery Communications, Inc.	$17,380.82
Viacom, Inc.	$19,114.77
Twenty-First Century Fox, Inc.	$58,984.48
The Walt Disney Company	$190,727.95
Cablevision Systems Corporation	$8,951.19
Dish Network Corp.	$29,342.80

Current Capital Structure

Total debt/Common Equity (LTM)	0.36
Cost of Borrowing (LTM)	0.00%
Estimated Cost of new Borrowing	4.31%
Altman's Z	3.16
Estimated Debt Rating	A
Current levered Beta	0.86
LTM WACC	7.77%

Management

Professional	Title	Comp. FY2013	Comp. FY2014	Comp. FY2015
Dolan, James	Executive Chairman	$4,000,310	$4,028,957	$4,046,855
Burian, Lawrence	Executive Vice President, General Counsel an	$2,081,487	$2,118,399	$3,266,861
Greenberg, Andrea	Chief Executive Officer and President	$0	$0	$0
Richter, Bret	Chief Financial Officer and Executive Vice Pre	$0	$0	$0
Darino-Gorski, Dawn	Principal Accounting Officer, Senior Vice Pres	$0	$0	$0
Seibert, Gregg	Vice Chairman and Vice Chairman of The Ma	$0	$0	$0

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS	Standard Error of "Surprise"
Last Quarter	0.71%	-36.02%	5.88%	13.19%
Last Quarter-1	8.85%	29.97%	62.16%	15.50%
Last Quarter -2	1.15%	14.05%	18.60%	5.23%
Last Quarter -3	4.00%	9.16%	-12.68%	6.59%
Last Quarter -4	8.52%	-1.79%	-30.30%	11.61%
Standard error	1.7%	11.0%	15.7%	5.98%
Standard Error of Revenues prediction	1.7%			
Imputed Standard Error of Op. Cost prediction	10.9%			
Imputed Standard Error of Non Op. Cost predictio	11.2%			

Industry Outlook (Porter's Five Forces)

Bargaining Power of Suppliers (100th Percentile), Bargaining Power of Customers (43th Percentile), Intensity of Existing Rivalry (50th Percentile), Threat of Substitutes (67th Percentile), Threat of New Competition (58th Percentile), and Overall (82th Percentile).

Proforma Assumptions

Convergence Assumptions

All base year ratios linearly converge towards the Industry Group ratios over an explicit period of 10 years

General Assumptions

Money market rate (as of today)	0.40%
Risk-Free rate (long term estimate)	3.00%
Annual increase (decrease) in interest rates	0.0%
Marginal Tax Rate	37.5%
Country Risk Premium	6.0%

Forecast Year	Revenue Growth Forecast	Revenue ($) Forecast
LTM		$631.00
FY2016	5.0%	$662.55
FY2017	4.5%	$692.36
FY2018	4.5%	$723.52
FY2019	4.3%	$754.63
FY2020	4.2%	$786.33
FY2021	3.7%	$815.42
FY2022	3.5%	$843.96
FY2023	3.2%	$870.97
FY2024	3.1%	$897.97
FY2025	3.0%	$924.91
Continuing Period	3.0%	$952.65

Items' Forecast Assumptions

	Base year (LTM)	Convergence period (Industry Group)	Adjustment per year
Operating Cash/Rev.	10.24%	2.32%	-0.8%
NWV/Rev.	0.00%	6.62%	0.7%
NPPE/Rev.	2.83%	28.60%	2.6%
Dpr/NPPE	20.00%	17.67%	-0.2%
NOPAT MARGIN	34.22%	12.19%	-2.2%
Op. Exp./Rev.	32.70%	77.38%	4.5%
SBC/Rev.	2.38%	1.05%	-0.1%
Rent Exp./Rev.	6.60%	1.88%	-0.5%
R&D/Rev.	0.00%	2.36%	0.2%
E&D/Rev.	0.00%	0.00%	0.0%
SG&A/Rev.	54.13%	26.43%	-2.8%
ROIC	26%	46.82%	2.11%
EV/Rev.	8.32x	1.86x	-0.65x
EV/EBITA	15.90x	9.53x	-0.64x
Debt/Equity	36%	165%	13.0%
Unlevered beta	0.71	0.70	0.00
Dividends/REV	0%	2%	0.2%

Other Assumptions

Tobin's Q	80%
Excess cash reinvestment	Money market rate
Other claims on the firm's assets	$0.00

Capitalization

100% of all rent expenses are capitalized and amortized 'straightline' over 10 years
100% of all R&D expenses are capitalized and amortized 'straightline' over 10 years
E&P expenses are not capitalized
SG&A expenses are not capitalized

Valuation Focus

DCF Valuation	100%
Relative valuation	0%
Distress Valuation	0%

Monte Carlo Simulation Assumptions

Revenue Growth deviation	Normal (0%, 1%)
Operating expense deviation	Normal (0%, 1%)
Continuing Period growth	Triangular (5.82%, 6%, 6.18%)
Country risk premium	Triangular (2.91%, 3%, 3.09%)
Intrinsic value σ(ε)	$0.09
1-year target price σ(ε)	$0.10

Valuation

Forecast Year	ROIC	WACC	Invested Capital	Implied Enterprise Value	Net Claims on Assets and Dilution Costs	Shares Outstanding	Price per Share
LTM	25.7%	7.8%	$82.94	$2,020.00	$1,819.28	75.82	$2.77
FY2016	27.2%	7.7%	$65.25	$2,129.15	-$194.98	75.82	$30.77
FY2017	413.5%	-0.3%	$66.69	$1,858.56	-$406.42	75.82	$29.99
FY2018	387.3%	-15.9%	$79.14	$1,323.18	-$608.53	75.82	$25.59
FY2019	309.4%	29.6%	$96.88	$1,495.68	-$797.17	75.82	$30.35
FY2020	237.0%	15.0%	$117.82	$1,520.71	-$969.69	75.82	$32.95
FY2021	179.7%	12.0%	$138.85	$1,524.35	-$1,124.15	75.82	$35.03
FY2022	138.2%	10.7%	$160.52	$1,529.72	-$1,258.94	75.82	$36.87
FY2023	105.9%	10.1%	$181.94	$1,546.63	-$1,372.53	75.82	$38.59
FY2024	80.5%	9.6%	$203.85	$1,581.33	-$1,463.42	75.82	$40.24
FY2025	59.4%	9.3%	$226.13	$1,638.94	-$1,530.11	75.82	$41.87
Continuing Period	46.8%	9.1%	$247.94				

Monte Carlo Simulation Results

The 3σ(ε)-adjusted intrinsic value is $5.61; the 3σ(ε)-adjusted target price is $30.7; and the analysts' median target price is $31.89

Sensitivity Analysis

Revenue growth variations account for 95.9% of total variance
Risk premium's variations account for 2.5% of total variance
Operating expenses' variations account for 1.4% of total variance
Continuing period growth variations account for 0.2% of total variance