

Viacom, Inc.
NASDAQ:VIAB

Analyst: Christian Henderson
Sector: Entertainment

BUY

Price Target: \$46

Key Statistics as of 11/26/2016

Market Price:	\$37.64
Industry:	Media
Market Cap:	\$15,15M
52-Week Range:	\$30.11 - 51.36
Beta:	0.96
Dividend Yield	4.3%
Average Volume	4,012,367
Short Interest	3.0613

Catalysts:

- Potential merger with CBS
- Realized gains from the purchase of Argentine broadcaster Telefonica
- Upcoming Blockbuster movie hits
- New chief executive

Company Description:

Viacom is home to premier global media brands that create compelling television programs, motion pictures, short-form content, applications ("apps"), games, consumer products, social media experiences, and other entertainment content for audiences in more than 180 countries. Viacom's media networks, including Nickelodeon, Comedy Central, MTV, VH1, Spike, BET, CMT, TV Land, Nick at Nite, Nick Jr., Channel 5 (UK), Logo, Nicktoons, TeenNick and Paramount Channel, reach over 3.8 billion cumulative television subscribers worldwide. Paramount Pictures is a major global producer and distributor of filmed entertainment. The Company's cash balances were \$379 million at September 30, 2016, a decrease from \$506 million at September 30, 2015.



Thesis

Viacom is a media conglomerate company that began in 1971 under parent company CBS. It is currently the world's sixth largest broadcasting and cable company. In December of 2005 the company split from CBS and since has been operating as the company it is today. Viacom primarily focuses on distributing television shows and is a subsidiary of Paramount Pictures move company. The company reaches 700 million subscribers in 160 countries of 170 networks. CBS and Viacom are both looking into a possible merger again for the first time in 11 years. This merge will reinvigorate Viacom's value and cause Viacom to currently be a profitable long term purchase. In 2005 when the two companies split, they both saw an immediate increase of more than 10% in opening stock price.

Also, the potential long-term realized gains from the purchased of Argentina's largest media distribution network for \$345 million can prove to be a long term growth investment. The emerging markets in Asia and South America are one of the greatest new competitive edges for the media industry. By stepping into Argentina, Viacom can become a leading cable network distribution in the country.

Macro Environment

The macro environment for the media industry is strong. Social, Technological and Legal forces effect Viacom. The social perspectives of certain movies and shows will affect how viewers are attracted to the show, such as the controversial attraction level of reality television. Technological forces are the biggest impact to Viacom and its networks because individuals have created websites and pirated DVDs that consumers can use to watch shows and movies on third part websites for free. This takes away from profit because advertisement contracts are a primary source of income for the cable segment. International currency exchange

has also dug into profit margins due to weak foreign currency for movie releases.

Industry Outlook

The industry outlook is positive as entertainment is expanding to independent forms of broadcastings, YouTube, Netflix and Amazon and examples. This can pose a problem to Viacom because Netflix and Amazon, for example, do not rely heavily on during show commercials for income. They get their money through subscriptions and can independently develop their own content. Thus far this has not taken too much business away from Viacom and they are expanding into the Argentine cable network so they are still gaining competitive advantage.

Business Model

Viacom is an industry leader in developing new strategies and tools to better serve both our audience and advertisers. At a time when having the latest technology and effectively using data science is critical to success in the industry, nobody has shown greater commitment or greater leadership than Viacom. Viacom operates two principal levels in their business. The cable segment which focuses on at home entertainment cable networks and the theatre segment which includes the blockbuster movie theatre hits. The revenue and financial statements of the media segment is more regular because of the consistency involved. The theatre segment can prove to be more erratic because big hits such as Mission Impossible Rogue Nation that premiered in 2015 can make following years profit margins falsely seem as if they are performing poorly. Viacom in the last year has adopted a strategy to market and target audiences better than ever before. The system is called Viacom Vantage and it is scheduled to use their advertising recourses more effectively to retain viewers to their cable shows. This past April, they introduced Viacom Vantage, an industry-leading ad effectiveness tool with

powerful targeting and predictive capabilities that goes far beyond traditional demographic targeting. Vantage gives the company the power to reach the millennial audiences that dominate viewership and that are largely unmeasured by traditional ratings. By integrating proprietary and third-party data, they provide advertisers with a much clearer picture of who they are reaching, so they can customize their message to reach that precise audience. There are several other offerings as well that leverage the 650 million social media fans who follow Viacom properties. These technologies are unique to Viacom and give advertising partners the opportunity to reach customers in a way that no one else can

Porters Five Forces

Intensity of competition

The intensity of competition is high with the companies such as 21st Century Fox, Time Warner, CBS Corporation, Walt Disney Company, Lions Gate Entertainment as all these companies are responsible for the grand majority of televised cable and movies. Viacom has to continue to be innovative to maintain competitive advantage and growth high.

Threat of Substitution

The threat of substitutions is high because piracy is an issue covered in the quarterly reports from Viacom. Piracy is not something that can be fought easily, however Viacom has to provide experience for consumers to prefer to watch entertainment live or in person to make full profits.

Barriers to New Entry

Barriers to New Entry is low to enter the market. Companies such as Netflix, YouTube and Amazon can enter the digital market which is an upcoming sector that has great success. Other websites and apps make it possible for television shows and movies to be available to all types of consumers

Bargaining power of suppliers

Bargaining power of suppliers is quite moderate because cable networks and movies have contracts that can last quite a long time. There also commitment to distribution companies that take a long time to sign and even longer to change.

Bargaining power of consumers

The bargaining power of consumers is high because due to the fact that the media industry is becoming more convenient, Viacom have to make sure the product they are receiving remains competitive so they can maintain their fees and prices.

Product Differentiation

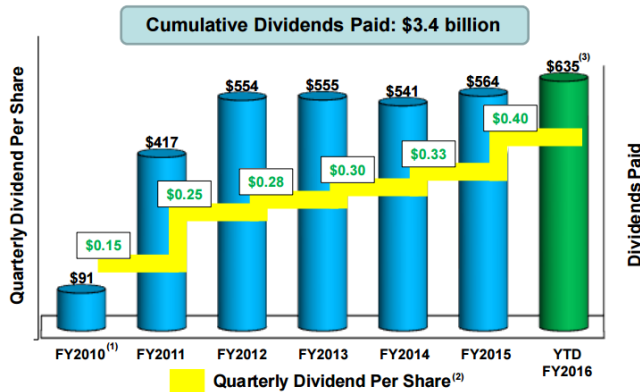
Their products are widely respected and has strong and consistent margins and audience members. However, differentiation is slowly decreasing due to internet and piracy.

However, the distribution of media is still a business that will be able to last a long time due to long exiting contracts. In the long-term of this pitch 1-3 years, Viacom will still remain one of the top media companies in the world.

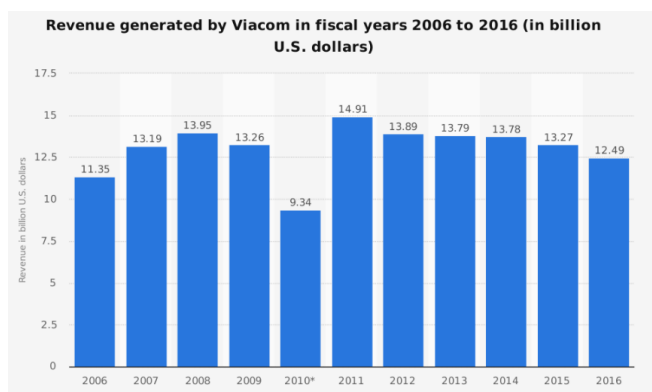
Financials

The financials of a media firm such as this are somewhat normal to be inconsistent because big movies in certain years will be stock drivers and catalysts. In years without such a big hit movie the comparisons between years can be misinterpreted and skewed. The debt versus the cash available to pay off debt does not look promising for the internal operations of the business, however their history shows that have continued to push through and pay dividends

more than before.



To be fair and honest, the net income has been decreasing 10-25% for the past 5 years, 2015 has been one of the lowest performing years in the company's history. However, due to the historical success of the company it is an opportunity to invest in this company's stock because it is priced low by the market. However, with a merger and projected Blockbuster hit in 2017 they can make a turn around and become a profitable investment. The company's profit for Q2 were down 71%, and they have established a new interim chief executive in November a 20 year Viacom employee called Robert Baker. Given this new leadership and a range of new opportunities for the upcoming years the company can soon drop to the lowest price drop we will see in years to come.



Valuation

There was difficulty valuating this firm within the proforma statement. This could be due to many reasons such as underperforming revenues in comparison to the revenues

accumulated from hit blockbuster movies like Mission Impossible Rogue Nation. Also, the company on a technical analysis can be seen to have stagnant performance and this is why the market is pricing the stock so low. They have high levels of debt due in the next few years and insufficient cash flows thus far.

Catalysts and Conclusion

As previously stated the potential with CBS corporation will give the Viacom stock the ability to rise in prices as show in the past. Upcoming movie theatre hits such as World War Z 2, and Transformers sequels if successful as predecessors will be major income statement success factors.

Realized gains from acquisition of Telefonica, will be a catalyst for an increase in stock price. If this proves to be a profitable buy, other emerging market contracts could be in the works, further pushing for Viacom's future success.

For the reasons stated above this is why I believe the stock should be purchased at \$35.50 and sold at \$42 yielding an 18.31% profit.

Viacom, Inc. (VIAB)

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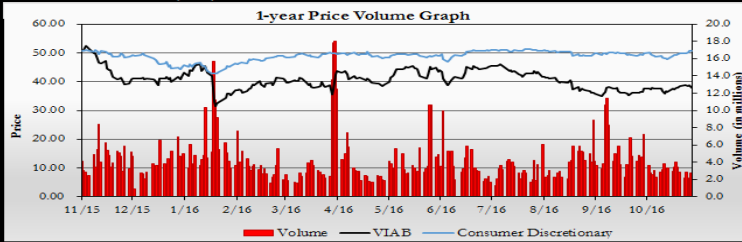
NEUTRAL

Analysis by P.C. Principal
11/22/2016

Current Price: **\$37.23**
Divident Yield: **4.3%**

Intrinsic Value **\$46.00**
Target Price **\$28.74**

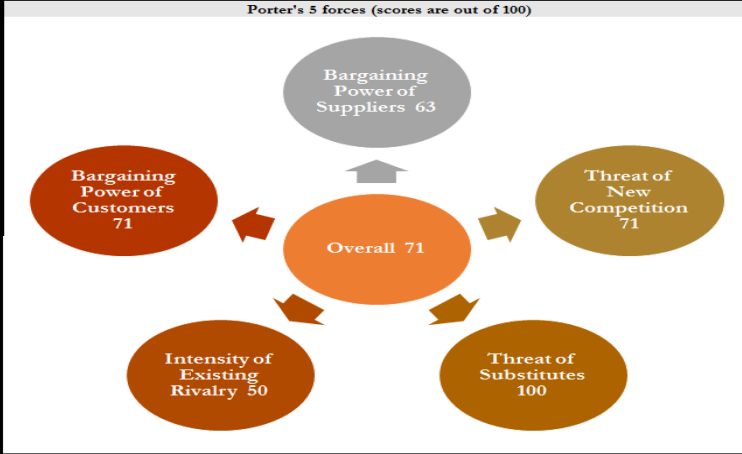
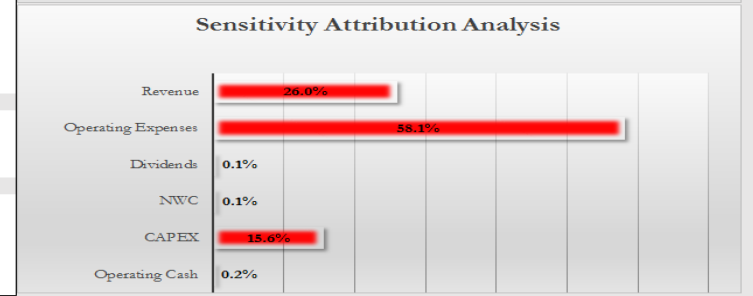
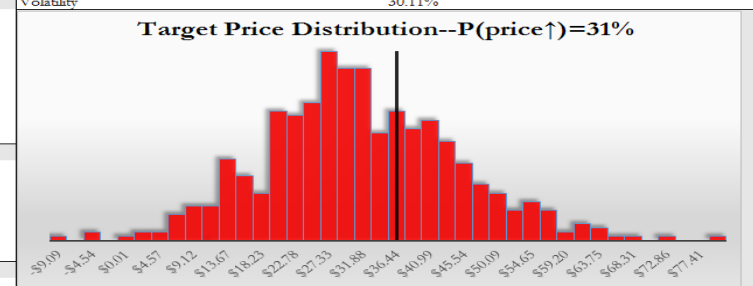
Target 1 year Return: **-18.56%**
Probability of Price Increase: **31%**



Description		Market Data	
Viacom, Inc. operates as media brand worldwide.		Market Capitalization	\$14,989.30
General Information		Daily volume (mil)	4.25
Sector	Consumer Discretionary	Shares outstanding (mil)	396.81
Industry	Media	Diluted shares outstanding (mil)	398.00
Last Guidance	November 3, 2015	% shares held by institutions	81%
Next earnings date		% shares held by investments Managers	71%
Estimated Country	NM	% shares held by hedge funds	4%
Risk Premium	5.65%	% shares held by insiders	0.35%
Effective Tax rate	32%	Short interest	2.87%
Effective Operating Tax rate	25%	Days to cover short interest	2.82
		52 week high	\$52.42
		52-week low	\$30.11
		Levered Beta	1.34
		Volatility	30.11%

Past Earning Surprises		Peers	
Quarter ending	Revenue	EBITDA	Time Warner Inc.
9/30/2015	-7.25%	-13.05%	Twenty-First Century Fox, Inc.
12/31/2015	-6.45%	-18.21%	CBS Corporation
3/31/2016	-4.37%	-9.27%	The Walt Disney Company
6/30/2016	-6.86%	-21.75%	Discovery Communications, Inc.
9/30/2016	-10.75%	-19.37%	Lions Gate Entertainment Corp.
Mean	-7.14%	-16.33%	Live Nation Entertainment, Inc.
Standard error	1.0%	2.3%	Scipps Networks Interactive, Inc.

Management	Position	Total compensations growth	Total return to shareholders
Redstone, Sumner	Founder and Chairman Emeritus	-33.13% per annum over 5y	3.93% per annum over 5y
Davis, Wade	Chief Financial Officer and	16.81% per annum over 2y	-26.2% per annum over 2y
Mills, Scott	Chief Administrative Officer	17.62% per annum over 2y	-26.2% per annum over 2y
Friedlas, Michael	Executive Vice President, Ge	0.1% per annum over 5y	3.93% per annum over 5y
Bakish, Robert	Acting Chief Executive Officer	N/M	N/M
Gill-Charest, Katherine	Chief Accounting Officer, Se	N/M	N/M
Profitability	VIAB (LTM)	VIAB (5 years historical average)	Industry (LTM)
ROIC	12.6%	14.75%	10.89%
NOPAT Margin	20%	21.79%	15.6%
Revenue/Invested Capital	0.62	0.68	0.70
ROE	31.8%	28.19%	13.91%
Adjusted net margin	17%	19.03%	13.0%
Revenue/Adjusted Book Value	1.90	1.48	1.07
Invested Funds	VIAB (LTM)	VIAB (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	2.3%	5.6%	8%
Estimated Operating Cash/Total Capital	1.8%	3.8%	N/A
Non-cash working Capital/Total Capital	1.8%	1.3%	0%
Invested Capital/Total Capital	100.7%	99.3%	89%
Capital Structure	VIAB (LTM)	VIAB (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.87	0.47	0.40
Cost of Existing Debt	5.10%	5.40%	4.89%
Estimated Cost of new Borrowing	4.44%	3.84%	4.89%
CGFS Risk Rating	CCC	BB	B
Unlevered Beta (LTM)	0.87	0.96	1.10
WACC	8.01%	8.90%	9.43%



Period	Revenue growth	Invested Capital	Net Claims	ROIC/WACC	Price per share
Base Year	-5.9%	\$18,775.15	\$13,507.63	20.5%	\$81.18
9/30/2017	-0.8%	\$18,574.56	\$12,557.73	10.5%	\$88.38
9/30/2018	1.0%	\$19,990.53	\$10,880.00	10.2%	\$96.28
9/30/2019	1.0%	\$20,204.96	\$9,309.69	9.8%	\$104.56
9/30/2020	2.1%	\$20,237.16	\$7,569.34	11.4%	\$113.29
9/30/2021	1.5%	\$21,286.59	\$5,296.76	13.3%	\$122.42
9/30/2022	22.5%	\$20,813.86	\$3,739.22	14.8%	\$132.19
9/30/2023	18.8%	\$19,666.58	\$2,102.02	15.0%	\$142.22
9/30/2024	15.1%	\$18,579.08	\$105.13	15.0%	\$152.47
9/30/2025	11.4%	\$17,542.57	-\$2,349.80	14.8%	\$162.85
9/30/2026	7.7%	\$16,477.58	-\$5,082.12	14.4%	\$173.33
Continuing Period	4.0%			13.9%	