



## Four Reasons to Like CBS

A Thought Exercise, for Active Managers

# Introduction

**Thesis:** If Netflix is the first International APTV Network, CBS -with sports, some of the most popular programming ever on TV, live content, game shows, and reality TV- can build a powerful global APTV network. Assuming CBS does not face a significant Ad revenue decline, CBS completes its divestiture of CBS Radio, buys CNN but does not acquire Viacom (and its debt) a rational long-term investor could view upside in CBS shares to \$90 over the next 24 months and to \$128 over the next decade from \$64 today. In addition to organic opportunities, CBS's broadcast licenses control bandwidth and could be worth over \$10 billion in the FCC auction markets. As the telco's roll out 5G mobile over the next 7 years, the demand for bandwidth may further escalate and CBS may have the opportunity to sell off TV Broadcast airwaves in redundant markets.

## The Negative 1H17 Earnings Backdrop:

As CBS is about to report 2Q17 results; anticipate Advertising weakness as Linear TV is still facing tough viewership declines owing to:

- The end of the Golden Age of Original Scripted Serial Content
- Social Media Competition
- Measurement Dislocation
- The 2016 Election Cycle
- Cord Cutting

The risk in the short term for investors is the First Call Consensus estimate is a little high at \$0.95 per share in 2Q17E. If CBS misses top line revenue by about 5% or less and EPS by a couple of pennies, investors may have cause to think CBS is a good value on earnings related weakness.

Key Estimates	Dec '16	Dec '17E	Dec '18E	Mar '17	Jun '17E	Sep '17E	Dec '17E
Earnings							
EPS - GAAP	2.81	2.86	5.13	-0.61	0.98	1.17	1.25
Growth (%)	-2.8	1.8	79.3	-159.8	5.5	9.3	-
EPS - Non GAAP	4.11	4.41	5.12	1.06	0.97	1.16	1.24
Growth (%)	24.2	7.3	16.1	3.9	4.6	10.4	11.3
Income Statement (M)	Dec '16	Dec '17E	Dec '18E	Mar '17	Jun '17E	Sep '17E	Dec '17E
Sales	13,166	13,482	14,113	3,343	3,101	3,307	3,742
Growth (%)	-5.2	2.4	4.7	-13.1	-5.6	-2.6	6.4
EBITDA	3,106	3,197	3,493	759	727	841	866
Growth (%)	0.0	2.9	9.3	-13.4	-8.7	-2.1	9.6
Operating Income	2,861	2,961	3,254	704	667	781	805
Growth (%)	0.6	3.5	9.9	-13.3	-9.0	-2.1	9.8
Net Income	1,261	1,808	1,919	441	388	457	476
Growth (%)	-10.8	43.4	6.1	-6.8	-8.2	-4.4	-
Per Share	Dec '16	Dec '17E	Dec '18E	Mar '17	Jun '17E	Sep '17E	Dec '17E
Dividends per Share	0.66	0.73	0.79	0.18	0.18	0.18	0.18
Cash Flow per Share	4.52	7.06	7.37	1.21	1.11	1.31	1.39
Free Cash Flow per Share	2.81	4.24	4.90	1.56	0.80	0.72	1.19
Book Value per Share	8.84	7.69	9.23	7.01	6.11	6.15	5.95

Source: Factset

## Four Reasons

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- I) **New Industry Trends:** While Digital is the future and long-term advertisers will continue to fuel secular growth, investors should expect waves of consolidation along the way: Complexity, A duopoly facing big brands as Google (Not Rated, NR) and Facebook (NR) dominate digital budgets, Transparency owing to a fragmented digital ad buying environment, Viewability and various dust ups in digital advertising have ad buyers more cautious in 2017 on digital according to comments by P&G and reports in Ad Age and Ad Week.
- II) **Focus and Management:** Investors will like narrow focus at CBS especially as it gets ready to divest of CBS Radio in a reverse Morris Trust to Entercom (ENT). CBS owing to its focus on CBS TV, Smithsonian, CBS Sports and SVOD is highly concentrated as compared to peers which operate 12 to 24 channels in the Cable TV ecosystem. Focus has advantages in an A La Carte and near A La Carte APTV ecosystem. TenXresearch.com defines APTV as TV distributed non-linearly or the combination of OTT TV, Skinny MVDP, VMVPD, and Platform Ad Ons.
- III) **M&A Surprises:** While Viacom is for sale and controlled by the Redstone family; investors should not view a merger with a high degree of confidence. The probability of a CBS VIAB merger may be lower and is counter to CBS's focused Strategy. VIAB has many brands needing a rebuild, CBS CEO Les Moonves can do it but maybe at the expense of CBS which is why investors may not see a merger. "Rebuilding a network is a slow, brick-by-brick process. It's not just creating a hit show - it's building shows to back up that hit show; it's creating an identity of success so that people want their shows on your network."
- IV) **This is CNN:** A more attractive deal in our view is the CBS acquiring CNN, CNN.COM, The Bleacher Report and TMZ from AT&T Time Warner. At a prior firm, we suggested selling CNN would optimize AT&T. The divestiture also removes inherent conflicts of cross-ownership interest created by AT&T's control. News is typically low margin business, except over the last year, and for CBS news is a loss leader according to CEO Les Moonves. However, CBS owning CNN does create ample synergies as the news rooms can be consolidated and as CNN is an International platform. CNN content can be bundled with CBS's ample content catalog creating a viable International APTV Platform.



News is in CBS's DNA.

## CBS 2016-17 Season Ratings (updated 8/6/17)

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Published: August 6, 2017



Last season, [CBS](#) introduced only seven new shows during the regular season. They cancelled three, renewed three, and one (Supergirl) moved to The CW. How will their new programming do in the ratings this time around? Stay tuned.

**CBS shows this season (so far):** 2 Broke Girls, 48 Hours, 48 Hours: NCIS, 60 Minutes, The Amazing Race, The Big Bang Theory, Blue Bloods, Bull, Candy Crush, The Case Of, CBSN: On Assignment, Code Black, Criminal Minds, Criminal Minds: Beyond Borders, Doubt, Elementary, The Great Indoors, Hawaii Five-0, Hunted, Kevin Can Wait, Life in Pieces, MacGyver, Madam Secretary, Man with a Plan, Mom, NCIS, NCIS: Los Angeles, NCIS: New Orleans, The Odd Couple, Pure Genius, Ransom, Salvation, Scorpion, Superior Donuts, Survivor, Training Day, Undercover Boss and Zoo.

There's lots of data that [CBS](#) execs look at when deciding whether to renew or cancel a TV series but ratings are typically the biggest piece. Here's how the network's shows are doing so far. (Source: *TV By the Numbers*)

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# Ratings CBS

Latest ratings data, sorted by total viewership					
<b>CBS Summer 2017 shows</b>		<b>18-49</b>	<b>Yr-to-yr</b>	<b>Viewers</b>	
		<b>demo</b>	<b>change</b>	<b>(millions)</b>	
1	<u>Big Brother (Vetoes)</u>	1.83	-1.43%	6.265	3.26%
2	<u>Big Brother (Evictions)</u>	1.83	5.36%	6.044	7.32%
3	<u>Big Brother (Sun)</u>	1.74	2.96%	5.961	9.36%
4	<u>Salvation</u>	0.6		4.054	
5	<u>Candy Crush</u>	0.73		2.901	
6	<u>Zoo</u>	0.52	-30.18%	2.813	-36.82%
7	<u>CBSN: On Assignment</u>	0.4		2.73	
<b>CBS scripted shows 2016-17</b>		<b>18-49</b>	<b>Yr-to-yr</b>	<b>Viewers</b>	
		<b>demo</b>	<b>change</b>	<b>(millions)</b>	
1	<u>NCIS (renewed)</u>	1.72	-22.23%	14.619	-11.99%
2	<u>The Big Bang Theory (renewed)</u>	3.1	-16.91%	14.028	-7.79%
3	<u>Bull (renewed)</u>	1.43		11.385	
4	<u>NCIS: Los Angeles (renewed)</u>	1.31	-0.66%	10.124	17.28%
5	<u>Blue Bloods (renewed)</u>	1.14	-8.25%	9.944	-5.33%
6	<u>NCIS: New Orleans (renewed)</u>	1.18	-32.60%	9.574	-26.22%
7	<u>Hawaii Five-0 (renewed)</u>	1.15	0.49%	9.247	6.14%
8	<u>Madam Secretary (renewed)</u>	0.88	-26.56%	8.286	-17.94%
9	<u>MacGyver (renewed)</u>	1.08		7.728	
10	<u>Kevin Can Wait (renewed)</u>	1.61		7.627	
11	<u>Mom (renewed)</u>	1.43	-15.14%	7.526	-4.87%
12	<u>Criminal Minds (renewed)</u>	1.39	-22.45%	7.466	-17.15%
13	<u>Scorpion (renewed)</u>	1.2	-32.41%	7.227	-25.02%
14	<u>The Great Indoors (cancelled)</u>	1.41		6.903	
15	<u>Man with a Plan (renewed)</u>	1.24		6.326	
16	<u>Superior Donuts (renewed)</u>	1.17		6.244	
17	<u>Life in Pieces (renewed)</u>	1.26	-37.14%	6.124	-29.50%
18	<u>Code Black (renewed)</u>	0.97	-23.47%	5.984	-15.89%
19	<u>2 Broke Girls (cancelled)</u>	1.31	-18.38%	5.621	-12.50%
20	<u>Pure Genius (cancelled)</u>	0.86		5.342	
21	<u>The Odd Couple (cancelled)</u>	1.02	-27.33%	4.994	-25.87%
22	<u>Criminal Minds: BB (cancelled)</u>	0.82	-33.93%	4.917	-28.90%
23	<u>Elementary (renewed)</u>	0.64	-33.16%	4.827	-15.89%
24	<u>Ransom (cancelled)</u>	0.43		3.457	
25	<u>Training Day (cancelled)</u>	0.52		3.404	
26	<u>Doubt (cancelled)</u>	*	0.27	2.29	
<b>CBS non-scripted shows 2016-17</b>		<b>18-49</b>	<b>Yr-to-yr</b>	<b>Viewers</b>	
		<b>demo</b>	<b>change</b>	<b>(millions)</b>	
1	<u>60 Minutes (renewed)</u>	1.56	-5.42%	11.231	17.28%
2	<u>The Case Of: J Ramsey</u>	1.95		9.332	
3	<u>Survivor (Fall, renewed)</u>	1.81	-13.59%	8.38	-5.64%
4	<u>Survivor (Spring)</u>	1.71	-14.93%	7.98	-10.81%
5	<u>Hunted</u>	1.59		6.085	
6	<u>Undercover Boss (renewed)</u>	0.98	-15.52%	5.669	-12.03%
7	<u>48 Hours: NCIS</u>	0.55		4.665	
8	<u>48 Hours (renewed)</u>	0.66	-17.88%	4.246	-10.12%
9	<u>The Amazing Race (renewed)</u>	0.83	-21.27%	4.025	-28.59%

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\*Includes fast affiliate ratings so the numbers may adjust once the finals are available.

## While CBS Ratings were down they compare well to peers

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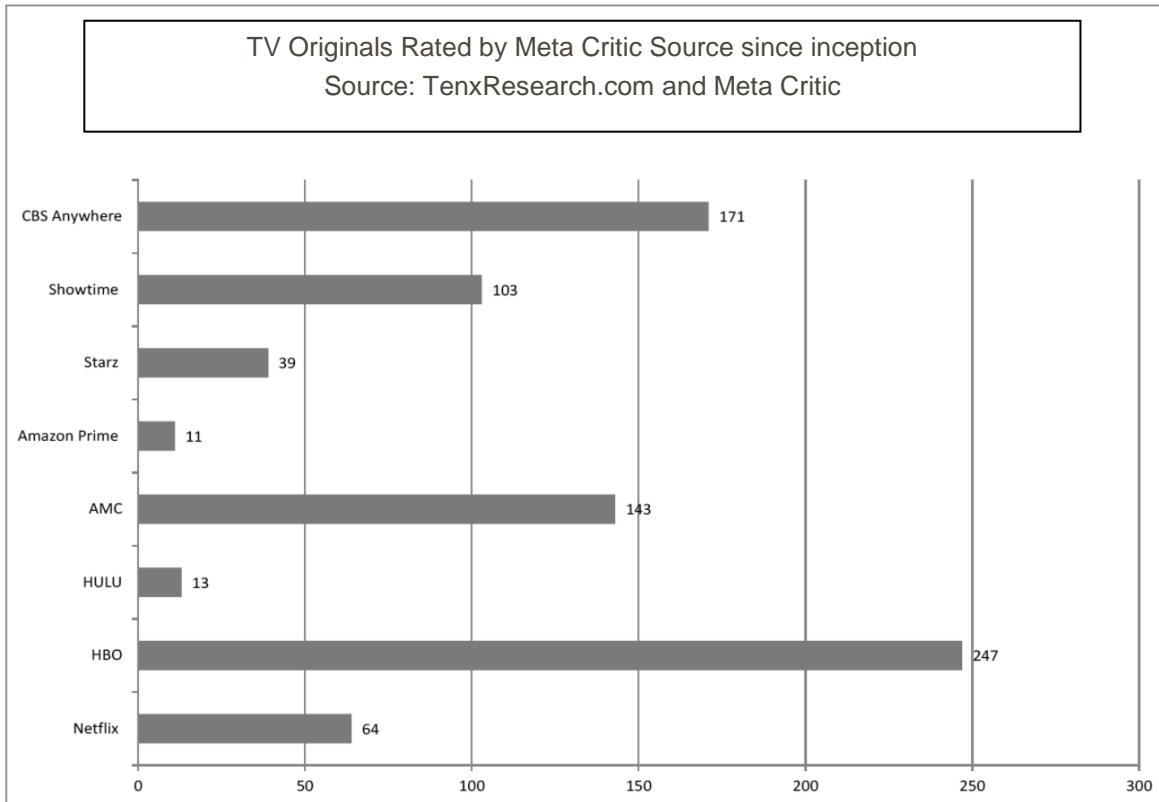
During the important Fall TV ratings Season CBS outperformed the competition. CBS ratings declined 7% as compared to 9% for NBC, 14% for ABC, and 9% for Fox. Moreover, some of the most watched cable nets such as AMC and TNT posted Fall TV ratings decline of 26% on average. While some of the decline is due to measurement and OTT viewership; investors should not discount the market share gains made by Facebook and social media. Reed Hastings once said he competes with sleep well maybe he should be competing with Social Medal because it's now the first screen and not the second.

Programmer	Fall 2016 Nielsen Audience Y/Y Change for Selected Originals			
	Statistics		Expected Range	
	Average	STDEV	High	Low
TNT	-25.19%	28.3%	3.10%	-53.47%
HBO*	-7.95%	23.0%	15.00%	-30.90%
Fox	-9.58%	18.8%	9.24%	-28.39%
FX	-9.58%	20.8%	11.19%	-30.34%
AMC*	-27.92%	4.6%	-23.33%	-32.51%
NBC	-8.93%	13.8%	4.87%	-22.73%
ABC	-14.34%	19.1%	4.76%	-33.43%
CBS	-6.99%	18.6%	11.59%	-25.58%
Showtime	-16.25%	9.7%	-6.56%	-25.95%
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Average	-14.08%	17.4%		
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Not adjusted to reflect Y/Y improvement from replacement programming				
In 2016 HBO replace a poor performing Vinyl with WestWorld and in 2016 AMC replaced poor performing programing essentially with Into the Badlands and Fear the Walking Dead				

Source: Tenxresearch.com and Nielsen Ratings Data

## CBS Content

CBS and its SVOD channel, Show Time, license or own roughly 270 Original shows. If content is a driver of APTV subscriptions investors may conclude CBS is well positioned.



## Direct to consumer

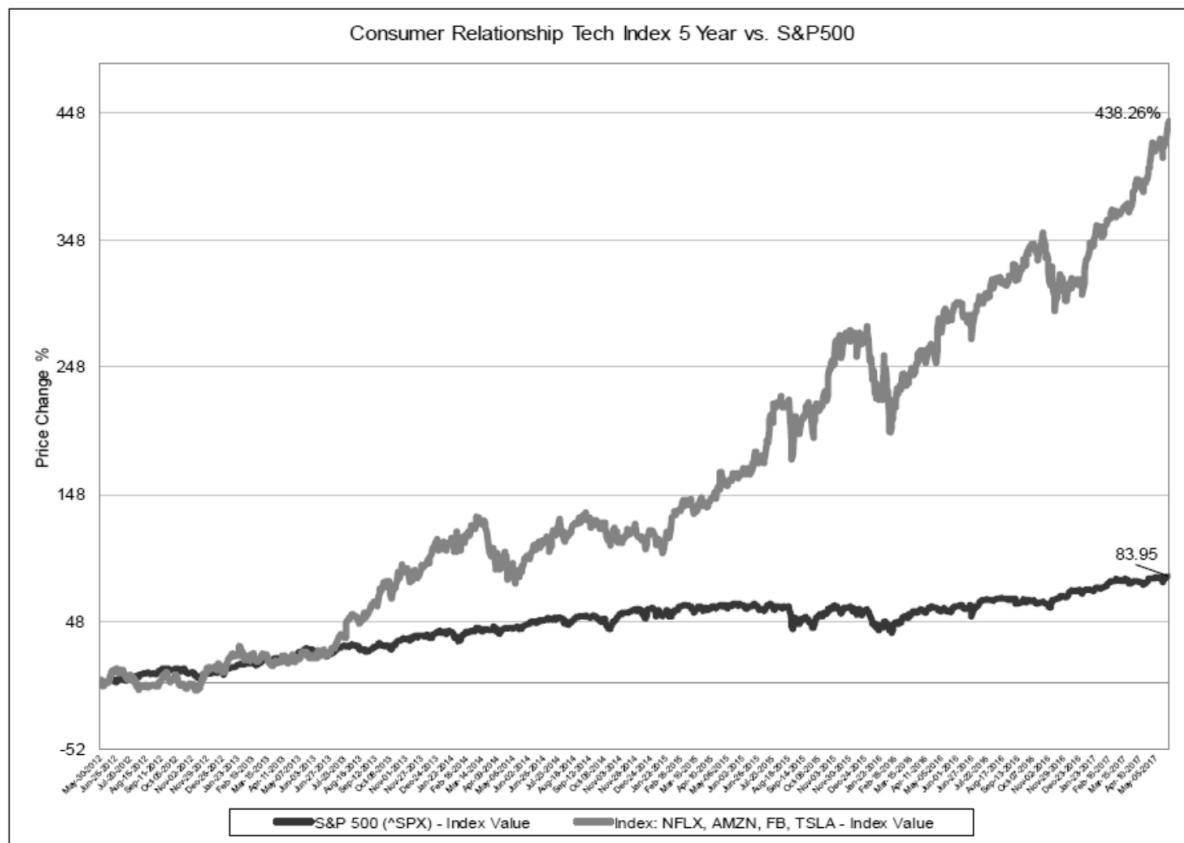
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Recently Tenxresearch.com analyzed technology enabled direct to consumer enterprises. We found our direct to consumer tech enabled leaders outperformed the S&P 500 significantly since 2013. We also noticed an S curve as adoption is accelerating, beginning in 2015, in several cases.

The TenXResearch CRI index is not comprised of FAANG stocks and in fact the index includes “formerly traditional bricks and mortar businesses” but all the enterprises employ technology to build direct consumer experiences. If CBS drives hard into the APTV market, then we would consider CBS a CRI company.

### The CRI or Consumer Relationship Index

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Source TenXResearch.com

## A Two-Pronged CRI Opportunity

If CBS does not follow a pure CRI strategy, CBS may still benefit from the Consumer Direct Secular Trend. In the tables below while CRI Companies have great top line growth and solid gross margins but most show margins declining the further investors look down the income statement. CRI companies spend a lot on improving the customer experience and or marketing. We think CBS benefits from these trends as Netflix Amazon and others provide an market for CBS's content and other CRI companies such as Dominos need to advertise to keep the brand and its capabilities in front of existing and new customers.

S&P Capital IQ					
Company Comparable Analysis > CRI (#NFLX) > Trading Multiples					
Details					
Template:	Capital IQ Default Comps				
Currency:	US Dollar				
As-Of Date:	May-30-2017				
Company Comp Set					
Company Name	TEV/Total Revenues LTM -	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM -	P/TangBV LTM - Latest
Amazon.com, Inc. (NasdaqGS:AMZN)	3.3x	39.1x	116.4x	187.7x	26.7x
Netflix, Inc. (NasdaqGS:NFLX)	7.6x	112.2x	123.2x	211.1x	NM
Live Nation Entertainment, Inc. (NYSE:LYV)	0.9x	12.8x	40.4x	NM	NM
Domino's Pizza, Inc. (NYSE:DPZ)	4.8x	24.3x	25.8x	44.6x	NM
Facebook, Inc. (NasdaqGS:FB)	13.5x	25.0x	29.5x	38.7x	10.6x
Tesla, Inc. (NasdaqGS:TSLA)	7.2x	116.6x	NM	NM	12.1x
Criteo S.A. (NasdaqGS:CRTO)	1.8x	18.7x	28.4x	47.1x	11.1x
Summary Statistics	TEV/Total Revenues LTM -	TEV/EBITDA LTM - Latest	TEV/EBIT LTM - Latest	P/Diluted EPS Before Extra LTM -	P/TangBV LTM - Latest
High	13.5x	116.6x	123.2x	211.1x	26.7x
Low	0.9x	12.8x	25.8x	38.7x	10.6x
Mean	5.6x	49.8x	60.6x	105.8x	15.1x
Median	4.8x	25.0x	34.9x	47.1x	11.6x
S&P 500 (^SPX)	2.4x	12.2x	17.8x	24.2x	8.6x
Displaying 7 Companies.					
Excel Comp Set ID: IQ432581714					
Values converted at today's spot rate.					

# S&P Capital IQ

## Company Comparable Analysis > CRI (#NFLX) > Operating Statistics

### Details

Template:	Capital IQ Default Comps
Currency:	US Dollar
As-Of Date:	#####

### Company Comp Set

Company Name	LTM Gross Margin %	LTM EBITDA Margin %	LTM Revenues, 1 Yr Growth %	LTM EBITDA, 1 Yr Growth %	LTM Income, 1 Yr Growth %	LTM Net Debt/EBITDA	LTM Total Debt/EBITDA	5 Year Beta
Amazon.com, Inc. (NasdaqGS:AMZN)	35.6%	8.6%	25.71%	34.49%	121.44%	1.8x	1.48	
Netflix, Inc. (NasdaqGS:NFLX)	33.6%	6.8%	32.74%	101.75%	166.38%	5.2x	1.25	
Live Nation Entertainment, Inc. (NYSE:LYV)	27.3%	7.2%	16.74%	15.92%	-	3.8x	0.84	
Domino's Pizza, Inc. (NYSE:DPZ)	31.1%	19.5%	13.49%	13.68%	20.71%	4.4x	0.63	
Facebook, Inc. (NasdaqGS:FB)	86.4%	54.0%	53.23%	75.07%	134.90%	-	-	0.68
Tesla, Inc. (NasdaqGS:TSLA)	23.6%	6.2%	101.01%	-	-	18.2x	1.18	
Criteo S.A. (NasdaqGS:CRTO)	35.7%	9.3%	33.86%	37.73%	21.79%	0.5x	2.71	

### Summary Statistics

	LTM Gross	LTM EBITDA	LTM Revenues, 1	LTM EBITDA, 1	LTM Income, 1 Yr	LTM Net Debt/EBITDA	LTM Total Debt/EBITDA	5 Year Beta
High	86.4%	54.0%	101.01%	101.75%	166.38%	18.2x	2.71	
Low	23.6%	6.2%	13.49%	13.68%	20.71%	0.5x	0.63	
Mean	39.0%	15.9%	39.54%	46.44%	93.04%	5.6x	1.25	
Median	33.6%	8.6%	32.74%	36.11%	121.44%	4.1x	1.18	
S&P 500 (^SPX)	32.6%	19.3%	3.70%	3.83%	15.67%	4.1x	-	

Displaying 7 Companies.

Excel Comp Set ID: IQ432581714

Values converted at today's spot rate.

## CBS is inexpensive on some metrics

Relative to the S&P 500 and its peers CBS is cheap on some metrics. Therefore, if CBS shares decline some investors may appreciate the value given great management, historically strong ROE at 17%, potential opportunities in APTV and the potential to engineer value using the M&A market and CBS's strong balance sheet after the Radio Divestiture. Some investors are aware that CBS may benefit from US Federal Tax Cuts and the cuts may add a \$1 or more to CBS's EPS annually.

Company Comparable Analysis > AMCX (#AMCX) > Trading Multiples					
Details					
Template:	Capital IQ Default Comps				
Currency:	US Dollar				
As-Of Date:	Aug-06-2017				
Company Comp Set					
Company Name	TEV/Total Revenues	TEV/EBITDA	TEV/EBIT	P/Diluted EPS	P/TangBV
Amazon.com, Inc. (NasdaqGS:AMZN)	3.2x	38.8x	138.3x	251.2x	25.0x
Time Warner Inc. (NYSE:TWX)	3.4x	11.9x	12.9x	18.9x	NM
Lions Gate Entertainment Corp. (NYSE:LGF.A)	2.8x	55.5x	90.4x	NM	NM
Netflix, Inc. (NasdaqGS:NFLX)	7.9x	113.9x	124.9x	219.3x	NM
Twenty-First Century Fox, Inc. (NasdaqGS:FOXA)	2.4x	10.0x	10.8x	17.4x	NM
The Walt Disney Company (NYSE:DIS)	3.4x	10.8x	12.7x	18.8x	18.9x
DreamWorks Animation SKG Inc.	-	-	-	-	-
Discovery Communications, Inc. (NasdaqGS:DISC.A)	3.2x	8.9x	10.3x	12.6x	NM
Viacom, Inc. (NasdaqGS:VIAB)	1.8x	7.8x	8.4x	8.3x	NM
Starz	-	-	-	-	-
AMC Networks Inc. (NasdaqGS:AMCX)	2.4x	7.9x	8.8x	13.6x	NM
CBS Corporation (NYSE:CBS)	2.7x	11.6x	12.5x	17.8x	NM
Summary Statistics					
	TEV/Total Revenues	TEV/EBITDA	TEV/EBIT	P/Diluted EPS	P/TangBV
High	7.9x	113.9x	138.3x	251.2x	25.0x
Low	1.8x	7.8x	8.4x	8.3x	18.9x
Mean	3.4x	29.5x	46.4x	70.0x	22.0x
Median	3.2x	10.8x	12.7x	18.1x	22.0x
S&P 500 (^SPX)	2.5x	13.7x	20.9x	24.2x	8.4x
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Excel Comp Set ID: IQ267666825					
Values converted at today's spot rate.					

## Earnings and Price Target

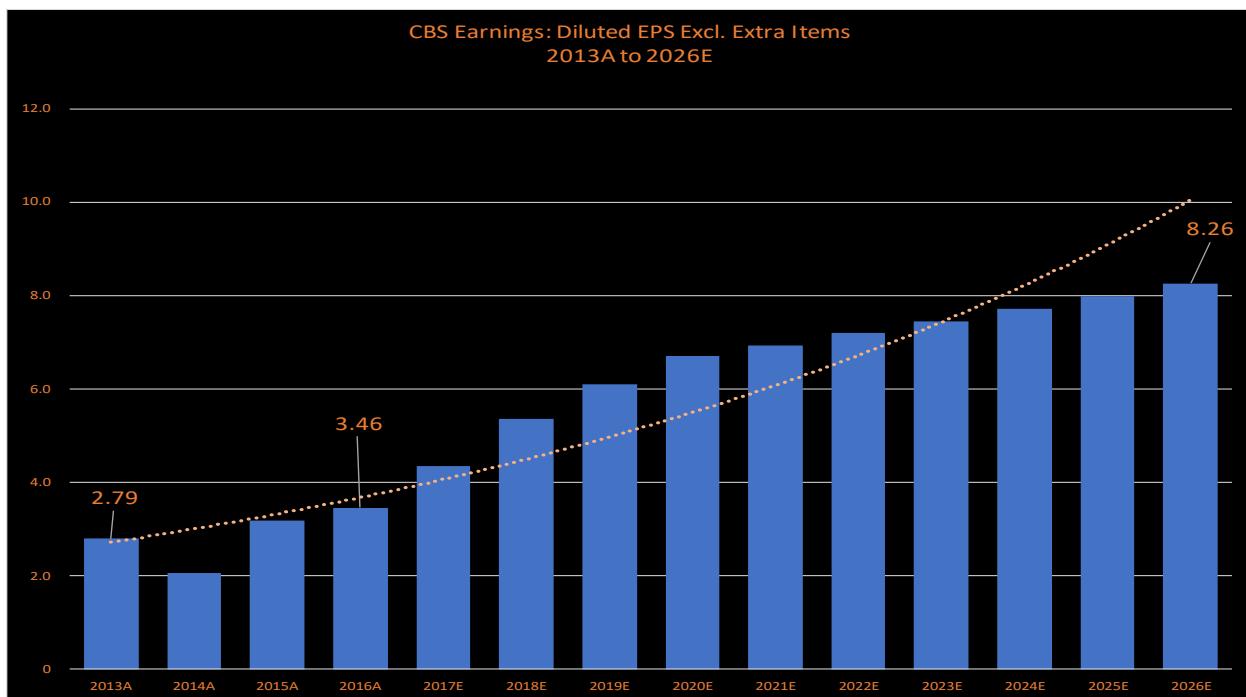
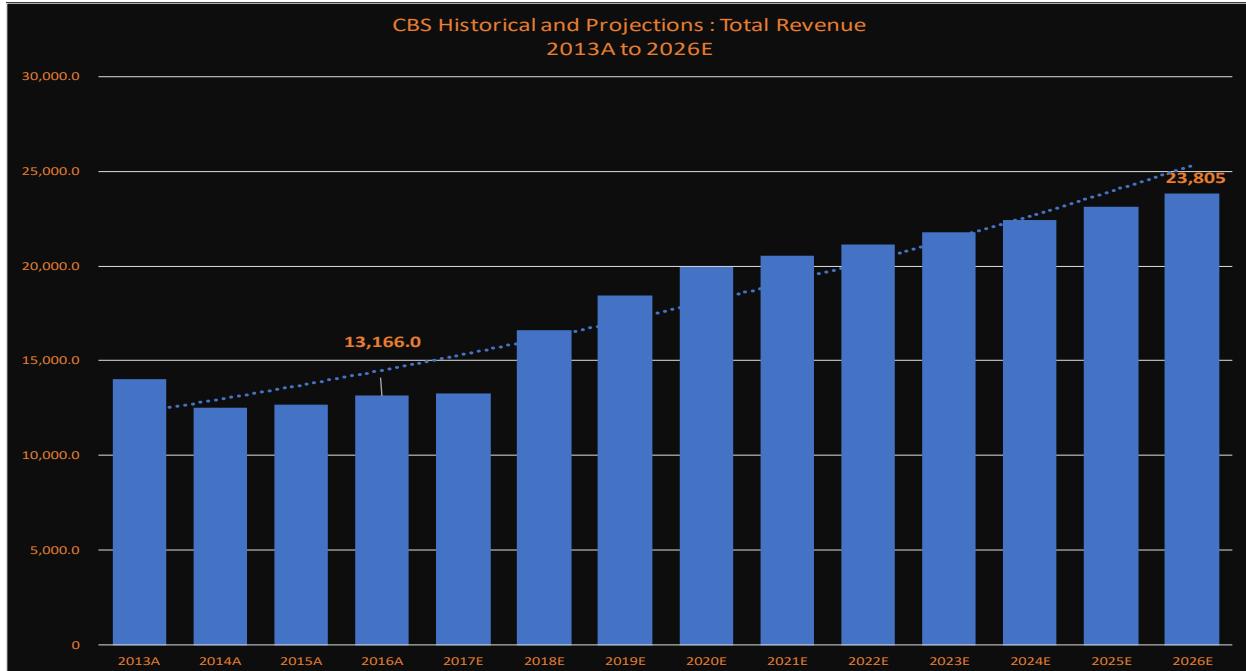
Assuming CBS acquires CNN, investors have reason to think CBS trades to \$90 in the next 24 months provided CBS can take costs out CBS News and CNN. In the model below EPS and EBITDA expands to \$5.9 Billion and \$8 per share respectively by 2027E from \$3.46 and \$3.1 billion in 2016A.

Based on the forecasted expansion the model generates about \$51 per share in Cash Flow (Discounted at 5%) over the next decade. When combined with a modest exit value of \$71 per share (DISCOUNTED using the same 5% rate) CBS is worth about \$126 on a 10 year DCF basis.

In the short term (24 months and less) there is an opportunity. In the short term where revenue and earnings by the model expand following the CNN acquisition, CBS's intrinsic value is about \$90 in the model below.

# Conclusion

While CBS shares could move lower given earnings and optics around media disruption, some investors may view any price below \$85 as inexpensive. CBS is well positioned and has the assets and balance sheet to leverage assets in a Global Addressable market of roughly 1 billion households for US English content, international news, and sports content.



## **Full Disclosure**

Investors should assume the author has a trading interest in any of the enterprises noted in this report and investors should not use the findings in this report as the sole basis for an investment decision. Readers should not view any of the views in this report as a buy sell recommendation.

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