European Media

If You Want a Job Done Properly…

- **What's Changing in this Report?** — We make 3 changes to recommendations. We are upgrading Pearson to Buy (from Hold). We are downgrading both Antena3 and Mediaset Espana to Sell (again from Hold). In addition we adjust forecasts and target prices for a further 15 companies. Finally we revisit our key calls to focus on earnings quality/visibility. Our top picks now include Pearson, BSkyB, Informa, GfK and P7S1. See Figure 1 on the next page for all estimate and target price changes.
- **Navigating Uncertainty** — We believe macro uncertainty is such that fundamental analysis is very difficult. Confidence in 2H forecasts is low; confidence in 2012E forecasts even lower. In this context, analysts tend to fall back on the old argument that investors should focus on 'quality'. But what does this mean?
- **Defining Quality** — In this report we try to move beyond subjective measures of 'quality' – anodyne commentary about structural/competitive positioning, pricing power etc. This is not to say this is not important – it absolutely is. But we look for a more quantitative measure. We do this by focusing on through the cycle earnings growth.
- **Dissecting Media EPS Growth** — We break out the various components of Media EPS growth across the cycle. The point here is that, while total EPS growth for the media sector (ex consumer publishers) has been ok, a big chunk of growth has been delivered by non-organic factors (FX/capital allocations). Sustained and sustainable organic EPS growth is our first gauge of quality. Pearson, P7S1, GfK all screen well.
- **Quantifying the Optionality of Cash Usage** — Whereas organic growth profiles may sustain, the historic effect of capital allocation may not. Looking forward, we still see cash usage as a potential boost to growth. But for those companies where leverage is looking stretched, the outlook is more uncertain. We are particularly wary of companies that have relied heavily on non-organic growth in the past (Wolters Kluwer, UBM).
- **Focus on DIY** — What we are looking for in this environment are essentially DIYers. Companies that have a strong track record of organic EPS growth (or a clear reason why it should improve) and the ability to supplement this with accretive cash usage. In an ideal world, we also want to take advantage of situations where the market is potentially mispricing this growth. The positive aspect of recent market weakness is that opportunities like this exist. We use this as the basis for our Key Buys.
- **Key Buys/Key Sells** — Our Key Buys are **Pearson**, **Informa**, **BSkyB**, **GfK** and **P7S1**. This balances what we call 'total quality' – companies with both a strong organic track record and upside from cash usage – with low growth expectations. Our Key Sells are **Antena3**, **Mediaset Espana**, **Wolters Kluwer**, **Trinity Mirror** and **Eniro**. These companies either have poor track records of organic growth, limited optionality from cash usage or asymmetric growth expectations (and in some cases all three).

- Industry Overview

European Media Team

Thomas A Singlehurst, CFA
+44-20-7986-4051
thomas.singlehurst@citi.com

Ruchi Malaiya, CFA
+44-20-7986-4819
ruchi.malaiya@citi.com

Catherine T O'Neill
+44-20-7986-8053
catherine.oneill@citi.com

Pierre-Francois De Bernardi
+44-20-7986-4263
pierrefrancois.debernardi@citi.com

Italian Country Analyst

Mauro Baragiola
+39-02-8906-8703
mauro.baragiola@citi.com

European Telecoms

Tania Valiente
+44-20-7986-4140
tania.valiente@citi.com

Laurie Fitzjohn-Sykes, CFA
+44-20-7986-4114
laurie.fitzjohnsykes@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

Contents

Changes in this Report

In this report we make 3 recommendation changes, all of which are to active recommendations (Buys/Sells from Hold). We also make changes to forecasts and/or target prices for a further 15 companies. We summarise the key changes in the table below. Please see detailed company-by-company commentary in the '*Summary of Key Changes*' chapter.

Figure 1. European Media – Summary of Key Changes

		Citi Rating		Current	Old	New		Div	Total	Old EPS		New EPS		% Chg	% Chg
Company name	**FX**	**Old**	**New**	**Price**	**TP**	**TP**	**ETR**	**Yield**	**ETR**	**2011E**	**2012E**	**2011E**	**2012E**	**2011E**	**2012E**
Marketing Services															
Aegis Group	GBP	1M	1M	123.5p	140.0p	140.0p	13.4%	16.3%	29.7%	9.44	10.67	9.44	10.67	0.0%	0.0%
GfK	EUR	1M	1M	E 29.37	E 38.00	E 38.00	29.4%	1.9%	31.3%	2.79	3.13	2.79	3.13	0.0%	0.0%
Havas	EUR	2H	2H	E 2.63	E 3.00	E 3.00	14.1%	4.1%	18.1%	0.31	0.33	0.31	0.33	0.0%	0.0%
Publicis	EUR	1M	1M	E 30.73	E 42.00	E 42.00	36.7%	2.5%	39.1%	2.66	2.84	2.66	2.84	0.0%	0.0%
WPP Group	GBP	1M	1M	592.0p	860.0p	860.0p	45.3%	3.8%	49.0%	63.80	68.64	63.80	68.64	0.0%	0.0%
Free to Air Television															
ITV Plc	GBP	1H	1H	53.8p	115.0p	100.0p	86.0%	2.8%	88.8%	7.00	8.17	7.00	7.35	0.0%	-10.1%
Mediaset	EUR	3M	3M	E 2.52	E 2.70	E 2.20	-12.8%	7.9%	-4.8%	0.28	0.31	0.26	0.25	-5.3%	-20.2%
M6	EUR	2M	2M	E 13.70	E 15.70	E 14.50	5.8%	7.7%	13.6%	1.25	1.30	1.25	1.26	0.0%	-3.1%
ProSieben	EUR	1H	1H	E 12.40	E 25.00	E 20.00	61.3%	11.9%	73.2%	2.06	2.13	2.06	1.96	0.0%	-7.6%
Mediaset Espana	EUR	2M	3M	E 4.41	E 6.10	E 3.90	-11.5%	8.0%	-3.4%	0.45	0.52	0.42	0.38	-6.7%	-26.9%
Antena3	EUR	2M	3M	E 4.51	E 5.90	E 4.10	-9.1%	8.5%	-0.5%	0.52	0.59	0.46	0.43	-11.5%	-27.1%
TF1	EUR	2M	2M	E 9.90	E 13.80	E 10.40	5.1%	7.9%	12.9%	1.06	1.21	0.98	1.04	-7.6%	-14.6%
Outdoor															
JCDecaux	EUR	2M	2M	E 15.27	E 23.50	E 16.50	8.1%	2.6%	10.6%	0.96	1.16	0.94	1.06	-2.0%	-9.1%
Stroer	EUR	1M	1M	E 12.49	E 27.80	E 16.00	28.2%	0.0%	28.2%	1.10	1.38	0.89	0.99	-19.0%	-28.1%
Consumer Publishers															
Daily Mail	GBP	1M	1M	372.0p	620.0p	495.0p	33.1%	4.6%	37.7%	48.01	53.38	47.91	51.78	-0.2%	-3.0%
Independent News & Media	EUR	2H	2H	E 0.29	E 0.64	E 0.30	5.3%	0.0%	5.3%	0.13	0.14	0.10	0.10	-20.1%	-25.8%
Johnston Press	GBP	3H	3H	5.0p	8.5p	4.0p	-20.0%	0.0%	-20.0%	3.40	4.08	3.29	3.46	-3.0%	-15.1%
Lagardère	EUR	2H	2H	E 19.31	E 25.00	E 20.50	6.2%	6.7%	12.9%	2.27	2.93	2.27	2.93	0.0%	0.0%
Prisa	EUR	2M	2M	E 0.93	E 1.15	E 1.05	12.9%	0.0%	12.9%	0.15	0.14	0.15	0.14	0.0%	0.0%
Schibsted	NOK	1M	1M	128.30	190.00	190.00	48.1%	3.7%	51.7%	9.38	11.65	9.38	11.65	0.0%	0.0%
Trinity Mirror	GBP	3M	3M	41.5p	35.0p	35.0p	-15.7%	0.0%	-15.7%	22.79	19.20	22.79	19.20	0.0%	0.0%
Directories															
Eniro	SEK	3M	3M	14.35	16.20	10.00	-30.3%	0.0%	-30.3%	2.03	2.61	2.03	2.61	0.0%	0.0%
Yell	GBP	3S	3S	4.3p	4.0p	4.0p	-7.0%	0.0%	-7.0%	5.74	6.97	5.74	6.97	0.0%	0.0%
B2B / Professional Publishers															
Informa	GBP	1M	1M	334.5p	505.0p	505.0p	51.0%	4.5%	55.5%	37.8	42.2	37.82	42.19	0.0%	0.0%
Pearson	GBP	2M	1M	1064.0p	1240.0p	1240.0p	16.5%	3.7%	20.3%	79.8	89.1	79.82	89.05	0.0%	0.0%
Reed Elsevier plc	GBP	1M	1M	482.6p	650.0p	650.0p	34.7%	4.7%	39.4%	45.7	50.8	45.67	50.80	0.0%	0.0%
United Business Media	GBP	2M	2M	431.9p	500.0p	450.0p	4.2%	6.1%	10.3%	53.0	58.3	53.03	58.26	0.0%	0.0%
Wolters Kluwer	EUR	3M	3M	E 12.11	E 14.00	E 11.10	-8.3%	5.4%	-2.9%	1.45	1.56	1.45	1.56	0.0%	0.0%
PayTV / Teleco / Entertainment															
BSkyB	GBP	1M	1M	645.5p	999.0p	999.0p	54.8%	3.8%	58.6%	41.6	49.0	41.6	49.0	0.0%	0.0%
Vivendi	EUR	1M	1M	E 15.59	E 20.00	E 20.00	28.3%	9.6%	37.9%	2.45	2.66	2.44	2.43	-0.5%	-8.5%
Internet															
Blinkx	GBP	1H	1H	114.5p	180.0p	180.0p	57.2%	0.0%	57.2%	0.03	0.05	0.03	0.05	0.0%	0.0%
Satellites															
SES	EUR	2M	2M	E17.89	E19.00	E19.00	6.2%	4.9%	11.1%	1.41	1.24	1.4	1.2	0.0%	0.0%
Eutelsat	EUR	1M	1M	E29.60	E35.00	E35.00	18.2%	0.3%	18.5%	1.54	1.59	1.5	1.6	0.0%	0.0%

Priced at open 7 September 2011 (except Mediaset as at open 8 September 2011)

Source: Citi Investment Research and Analysis

If You Want a Job Done Properly…

Uncertain times

One of the frustrating aspects of the current heightened level of uncertainty is that there is very little for fundamental analysts to fall back on.

We have a view on medium-term prospects – indeed a comparably upbeat one – and on this basis the stocks we cover appear to be reasonable value.

If in doubt, go for 'Quality'

Likewise when we look at bull and bear case earnings analyses and trough-on-trough valuation – as we have done in previous research and revisit in the appendix to this report – we can tentatively argue that much appears to be already discounted. But we can't be sure.

In these cases, the standard advice is to take refuge in 'Quality'. To invest in companies that should be able to eke out growth even in an uncertain economic environment.

So what counts as 'Quality' in this market?

How Would Consensus Define Quality?

Quality [kwol-i-tee]; *noun, adjective*:

1. an essential or distinctive characteristic, property, or attribute
2. character or nature, as belonging to or distinguishing a thing
3. character with respect to fineness, or grade of excellence
4. high grade; superiority; excellence: wood grain of quality.
5. a personality or character trait

Source: www.dictionary.com

Quality, as defined by consensus, typically comprises of three or four generic factors:

- Market leadership (speaks to scope for market share gains, pricing power)
- Structural security (stable or growing audiences/usage/volumes)
- Size (economies of scale; cost efficiency)
- Strong management (capital allocation)

In keeping with the times, contemporary observers may add (up to) another three criteria for assessment:

- Emerging markets exposure (exposure to faster economic growth)
- Digital exposure (digital = good; analogue = bad)
- Sound balance sheet (liquidity = good; leverage = bad)

Looking For a More Quantitative Approach

In search of a more quantitative benchmark of quality

While it is hard to disagree with these criteria on a conceptual basis, the problem with most of them is that they are inherently subjective. OK, market shares can be analysed, emerging market exposures compared and contrasted, but for the most part these are intangible criteria.

In this regard, a company can be perceived as 'Quality' right up until the point that it is not. The experience of **Reed Elsevier** in the last downturn is perhaps testament to this problem.

In this report, therefore, we look for a more quantitative basis for judging 'Quality' and we do this in two ways.

- First we examine the EPS growth capability of the companies under our coverage across the cycle. In doing so, we isolate what we think is the first hallmark of a 'Quality' business: namely sustained and sustainable *organic* EPS growth.

We deconstruct historical EPS growth into its constituent parts:

- Organic

- DIY (Acquisition plus releverage plus reequitisation)

- Other (principally changes in tax/minorities)

- Second, we look the scope for companies to enhance this growth via accretive cash usage. This speaks not only to the quality of a company's capital structure – a *sine qua non* in the current environment – but also to the quality of management.

Putting this together, what we are looking for are companies which can be loosely described as 'DIY Specialists': business that can be relied upon to deliver EPS growth whatever the weather.

Isolating the Organic Component of EPS Growth

After a lot of forensic work, deconstructing EPS growth from the past cycle, we can isolate the contribution from organic growth on EPS. The results are surprising. Yes, some of what are considered 'Quality' names screen well – the **Eutelsat**'s, the **Pearson**'s of this world – but so do some of the less fated names.

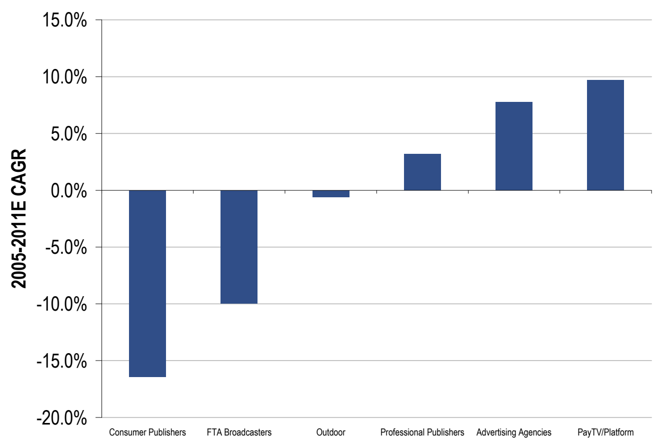
ProSiebenSat.1, Havas, **GfK** for all their idiosyncrasies, actually have amongst the best underlying growth profiles of any of the companies we cover. At a sub-sector level it is interesting to see the ad agencies deliver better underlying growth, in aggregate, than the professional publishers.

Historic organic growth a good guide to future performance in our view

At the other end of the spectrum, **JCDecaux**, the proto-typical Quality name, actually screens pretty poorly (mainly down to the level of organic investment – it screens much, much better on revenue growth). Likewise **WPP** and **Reed Elsevier** (both names we happen to like) screen less well than one might have expected.

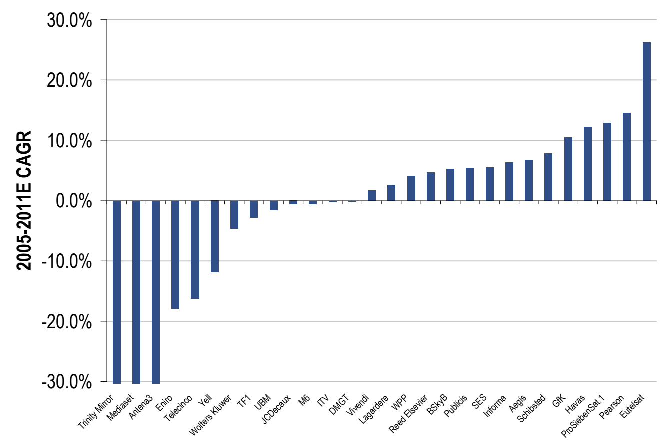
The point with this analysis is that we think the organic growth contribution, with a few exceptions, gives a strong indication of the quality of a business. In this context, we view past performance as a useful guide to future potential returns and include this in our road map for growth.

Figure 2. Organic Contribution to EPS CAGR by Sub-Sector



Source: Citi Investment Research and Analysis

Figure 3. Organic Contribution to EPS CAGR by Company



Source: Citi Investment Research and Analysis

Quantifying the Optionality from Cash Usage

As part of our analysis of historic EPS growth, we also isolated the contribution from capital allocation – what we call the DIY component of growth.

The DIY component of growth is less enduring, especially if it has been reliant on access to capital

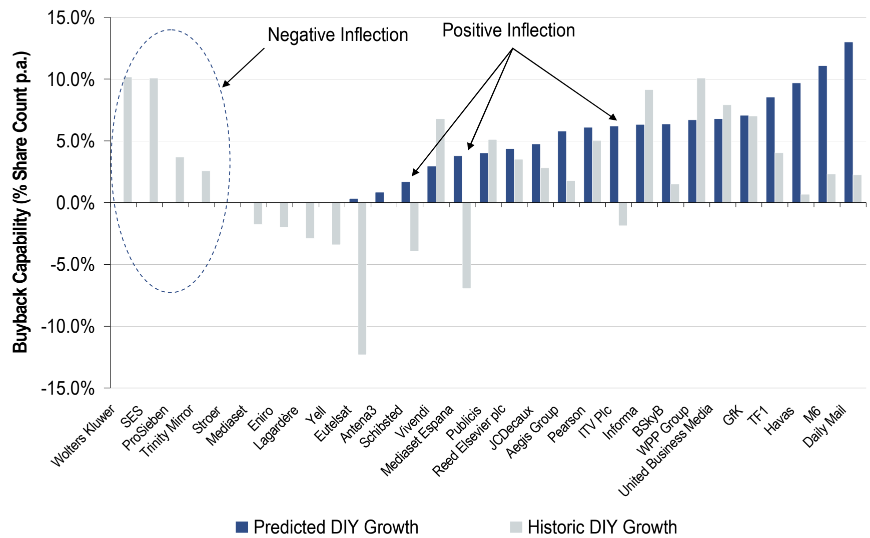
Unlike the organic component, however, the DIY component is not immutable and enduring. The success or otherwise of the DIY component is intimately linked to the quality of management and the decisions they make on capital allocation. It is also dependent on the availability of capital, both from debt and equity capital markets.

Looking forward we try to gauge the potential contribution to EPS growth from 'cash usage' by looking at current financial leverage vs. target levels. It is important to note that, for the majority of companies under our coverage, we still see cash usage as a potential boost to growth.

For those that don't have this to fall back on, however, the outlook is more uncertain. We note that the adjustment could be especially hard for those who have historically been more reliant on 'DIY-style' contributions – **Wolters Kluwer**, **ProSiebenSat.1**, even **SES** all screen poorly on this basis.

We map out future estimated 'DIY' growth for our coverage

Figure 4. European Media – Predicted 'DIY' EPS Growth vs. Historic 'DIY' Growth



Source: Citi Investment Research and Analysis

Building a Road Map to Potential Growth

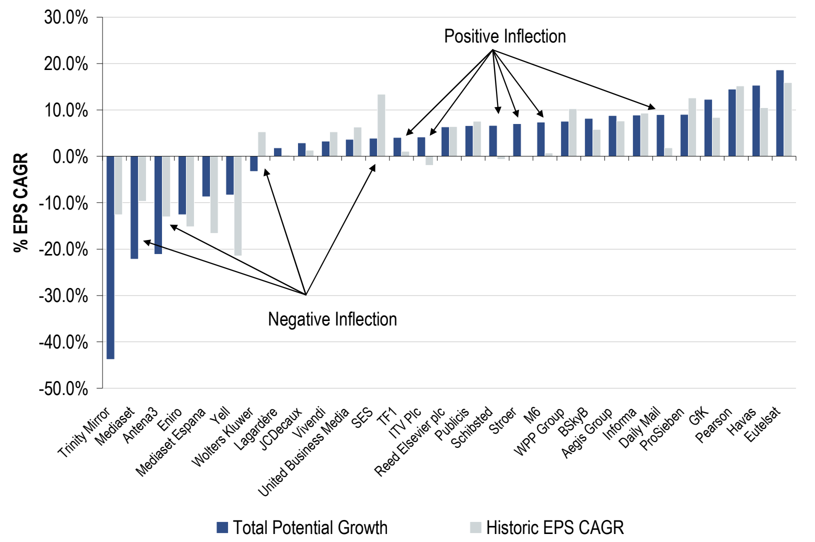
Comparing future growth with historic trend – watch out for inflection

Using historic organic growth and our prediction of the 'DIY' component of EPS growth we build a 'road map' for future growth. It is important to say at this stage that we do not simply take this number and plug it into our models – this is just a guide. That said it throws out some interesting takeaways.

The most interesting of these are the names where our analysis signals a sharp disconnect with historic trend. This is potentially where there is the most scope for positive or negative surprise.

- Names that screen as potential positive surprises include **TF1**, **ITV**, **Schibsted**, **Stroer**, **M6** and **Daily Mail & General Trust**.
- Names that screen poorly on this include **Mediaset**, **Antena3**, **Wolters Kluwer** and **SES**.

Figure 5. European Media – Implied Potential EPS Growth vs. Historic EPS Growth



Source: Citi Investment Research and Analysis

Benchmarking This With Market Expectations

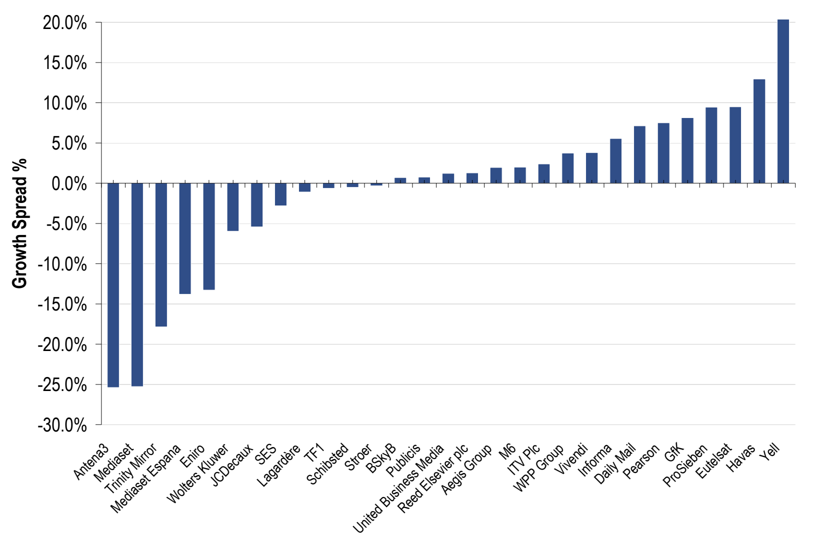
Finally, we benchmark predicted growth with market expectations

The final part of the analysis is to compare the 'potential growth profile' of our coverage with market expectations. We gauge the latter via a simple but effective reverse DCF.

We then use this to create a spread between potential growth and implied growth, with a positive spread indicative of potential upside and a negative spread indicative of potential downside. Encouragingly, and without any manipulation, our Buys tend to be clustered around the right hand side of the chart, while our Sells tend to be on the left hand side.

Our bias is toward names with a positive spread between potential and implied growth.

Figure 6. Spread Between Our Estimate of Potential Growth and Implied Growth



Source: Citi Investment Research and Analysis

Implications for Coverage and Sector View

We focus on companies that can 'do it themselves'

Going back to our opening thoughts, we do not demur from the view that in the current market investors should focus on 'Quality'.

Without wanting to sound too folksy, however, we think 'Quality' in this context should be defined as the ability of companies to 'Do it Themselves'.

- To grow earnings independent of the macro outlook via organic EPS growth.
- To supplement EPS growth by accretive cash usage, whether it be buybacks as per our analysis, or value-creating M&A.
- And we want to take advantage of situations where the market is potentially mispricing this growth.

Stock Views:

- Upgrading Pearson;
- Downgrading Mediaset Espana and Antena3

At a stock level, this supports a number of changes to recommendations.

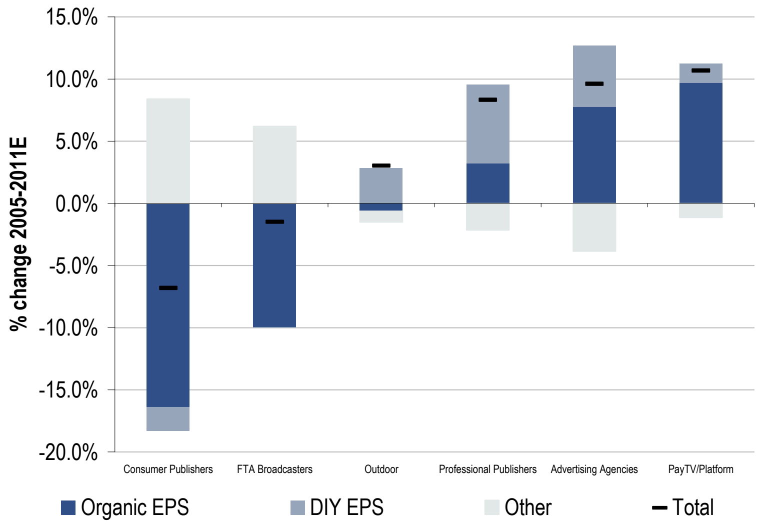
- **The principal one is our upgrade of Pearson to Buy.** This reflects a high level of comfort in current forecasts and belief in the medium-term growth story. We also think the market potentially underestimates the positive contribution from cash usage on EPS growth into the medium-term.
- **Against this we are downgrading the Spanish broadcasters to Sell.** The stocks have already declined by 40%+ YTD, however this downgrade speaks to our view that there continues to be material EPS risk. This offsets, in our view, any optionality from the balance sheet for these names.

Sub-sector Views:

- Positive on PayTV/Platform businesses;
- Cautious on traditional media owners
- Positive bias toward agencies

At a sub-sector level, confidence in EPS growth is higher in the **payTV/platforms**, **professional publishing** and **marketing services** sub-sectors. One of the more surprising conclusions, though, is that the **ad agencies** actually screen better than the **prof pubs** on historical organic growth/optionality from cash usage, something we reflect in our recommendations profile (4 buys, no sells in the agencies; 3 buys, 1 hold, 1 sell in prof pubs).

Figure 7. European Media – Organic EPS vs. DIY EPS Across the Sub-Sectors



Source: Citi Investment Research and Analysis

Key Buys

Pearson, Informa, BSkyB, GfK, P7S1

Key Sells

Mediaset, Antena3, Mediaset Espana, Wolters Kluwer, Eniro

Key Recommendations

Positive Views

- **Total Quality (companies with a track record of strong organic growth with positive optionality from cash usage)**
  - Pearson, GfK, Publicis, BSkyB, Reed Elsevier, Informa, Aegis
- **Organic Growth (companies where we think organic growth will be strong but there is less support from cash usage)**
  - Stroer, Schibsted, Blinkx, Eutelsat
- **Asymmetric Risk/Reward (companies with less compelling growth prospects but where market-implied growth looks too cautious)**
  - DMGT, ITV, ProSiebenSat.1, Vivendi, WPP

Cautious Views

- **'Falling Knives' (companies with a track record of poor organic growth with limited optionality from cash usage)**
  - Johnston Press, Trinity Mirror, Mondadori, Trinity Mirror, Eniro, Seat PG, Yell
- **Potential 'Emperors With No Clothes' (Companies where DIY contribution to growth may fade revealing poor underlying trends)**
  - Wolters Kluwer, maybe even UBM (currently Hold)
- **Asymmetric Risk/Reward (companies with some support to growth – typically from cash usage – but where market-implied growth looks too optimistic)**
  - Antena3, Mediaset, Mediaset Espana

Figure 8. Citi European Media – Recommendation Profile

Buy	Hold	Sell
Aegis	Havas	Antena3 (↓)
Blinkx	M6	Mediaset**
GfK	TF1	Mediaset Espana (↓)
Publicis	JCDecaux	Johnston Press
WPP	Espresso**	Mondadori**
ITV	INM	Trinity Mirror
ProSiebenSat.1	Lagardère	Eniro
Stroer	Prisa	Seat PG**
DMGT	Thomson Reuters	Yell
Schibsted	UBM	Wolters Kluwer
Informa	Kabel Deutschland*	
Pearson (↑)	SES*	
Reed Elsevier		
BSkyB		
Eutelsat*		
Vivendi		

Notes:
* Eutelsat, SES and Kabel Deutschland are covered out of our telecoms team; ** the Italian media companies are covered by our Italian country analyst, Mauro Baragiola
Source: Citi Investment Research and Analysis

Deconstructing Media Earnings Growth

We deconstruct media EPS growth since 2005…

In this section we try to dissect European Media earnings growth. This is a notoriously difficult exercise as it requires us to go back and isolate the drivers of growth (organic vs. acquisition vs. FX) both at the revenue level, which is typically pretty easy, but also at the operating profit and PBT levels.

While this process is extremely detailed the result is a comprehensive view of what has driven EPS growth over the past cycle.

We detail the conclusions below, but if there is one thing that surprised us in this analysis is the level of asymmetry across the sector. Of course a lot of this asymmetry is observed across the different sub-sectors, but equally intriguingly there is a higher level of divergence intra-sector than one might have first thought.

…and isolate true organic growth

Some of this is just statistical noise – the impact of small divergences on small base numbers or a quirk of the time frame we use for our analysis. But in some cases, we think these asymmetries are more meaningful and speak to more fundamental factors including not only the structural security of a particular company, but also more intangible factors like the quality of management.

The key point here is that organic earnings growth – ultimately what we are analysing here – we think is an extremely important variable in looking at future growth. One area where historical performance may be a guide to future potential returns.

Methodology: A Detailed Approach

We base our analysis on the 2005-2011E time frame

The first step is to choose a time frame for the analysis. For better or for worse, we have chosen 2005-2011E as the basis for our examination. There are two reasons why we argue this makes sense:

- **Timing the cycle:** There was a time when advertising cycles (if not economic cycles more broadly) could be relied on to last the best part of a decade. Alas, they appear to have become more frequent. In framing our analysis we wanted to make sure figures weren't unduly distorted by recovery or recession. If 2003 was the trough of the last cycle and 2004 a recovery year, then 2005 marked the first year of true mid-cycle growth. Likewise, more recently, we would characterize 2009 as the trough year and 2010 as the year of recovery. Regardless of what may happen in 2012E, we therefore see 2011 and 2005 as innately comparable.

- **Comparing Apples with Apples:** While we would have liked to look at the drivers of growth over two cycles – pushing us back in to the mid-1990s – there is a danger that over that kind of timeframe the analysis may become less meaningful. Management changes. More importantly so do companies – Pearson, Vivendi, UBM, DMGT have all seen major structural shifts since the turn of the century. We believe all of the companies we look at in this analysis at least bear a passing resemblance to how they looked in 2005, which is important for the veracity of the conclusions, in our view.

Having chosen the time frame, we have gone back through the annual reports and presentation materials of each of the companies under our coverage to identify the contributions made by organic growth as well as acquisition and FX. Using Pearson as an example, we can then deconstruct the key elements of reported revenue and operating growth.

We split revenue/EBITDA growth into its constituent parts:

- organic
- acquisition
- FX/other

Figure 9. Pearson – Components of Revenue, Operating Growth, 2006-2011E (Y/E December)

	2006	2007	2008	2009	2010	2011E
% organic growth						
Revenues	*4.0%*	*6.0%*	*3.0%*	*2.0%*	*5.0%*	*2.6%*
Operating Profit	*15.0%*	*14.0%*	*5.0%*	*2.0%*	*14.0%*	*5.0%*
% acquisition growth						
Revenues	*0.0%*	*0.0%*	*5.0%*	*2.0%*	*3.0%*	*-1.8%*
Operating Profit	*0.0%*	*0.0%*	*6.0%*	*2.0%*	*1.0%*	*-3.1%*
% CER growth						
Revenues	4.0%	6.0%	8.0%	4.0%	8.0%	0.8%
Operating Profit	15.0%	14.0%	11.0%	4.0%	15.0%	1.9%
% FX impact						
Revenues	*-5.1%*	*-3.3%*	*7.6%*	*12.9%*	*-2.0%*	*-2.8%*
Operating Profit	*2.0%*	*-6.9%*	*9.2%*	*8.6%*	*-5.7%*	*-2.8%*
% reported growth						
Revenues	-1.1%	2.7%	15.6%	16.9%	6.0%	-2.0%
Operating Profit	17.0%	7.1%	20.2%	12.6%	9.3%	-0.9%

Source: Company Reports and CIRA Estimates

We then use this to construct three separate P&Ls for each of the groups:

- The first looks at Pearson purely in **organic terms** and, based on organic growth, plots what would have happened to revenue/operating profit absent acquisitions/FX.
- The second looks at Pearson on a **constant currency basis**, which allows us to isolate the impact of acquisition.
- The third is essentially the reported P&L (including forecasts for 2011E). This allows us to **isolate the impact of FX changes**.

Based on this analysis we can deconstruct revenue and EBITA growth across the period. Once again, using Pearson as an example:

Figure 10. Pearson – Components of Revenue Growth, 2005-2011E (£m)

Contribution	Absolute Change £m	% of 2005 Base	Compound
Organic	1,015	24.8%	3.8%
Acquisition	412	10.1%	1.6%
FX	319	7.8%	1.3%
Reported	**1,745**	**42.6%**	**6.1%**

Source: Company Reports and CIRA Estimates

Figure 11. Pearson – Components of EBITA Growth, 2005-2011E (£m)

Contribution	Absolute Change £m	% of 2005 Base	Compound
Organic	344	68.1%	9.0%
Acquisition	47	9.3%	1.5%
FX	32	6.4%	1.0%
Reported	**423**	**83.7%**	**10.7%**

Source: Company Reports and CIRA Estimates

Moving down the P&L we look at the impact of:

- releverage/deleverage
- reequitisation/deequitisation
- other (largely changes in tax/minorities)

Having deconstructed EBITA growth, the final stage of our analysis is to move down the P&L and isolate the different factors that impact Adjusted Net Income and, ultimately, FD EPS. There are three factors that are important to consider:

- **The first is releverage.** A factor that we think should be considered in conjunction with the acquisition element of EBITA growth. This can be measured by looking at the movement in the interest expense over the 2005-2011E timeframe. It is important to note, that for companies that have not engaged in acquisitions and have rather focused on debt repayment this has often been an incremental boost to FD EPS growth (Publicis is a good example of this). [1]

[1] Obviously caught up within the interest charge is the impact of FX changes to debt balances, but as this is often impossible to isolate, we have not tried to break this down further. We think, however, the distortion from this across the sector should be minimal.

- **The second is re-equitisation.** Once again, this should be considered in conjunction with acquisition spend as equity is often a key component of consideration especially for larger transactions. We isolate this by looking at the impact the change in the numbers of shares has had on EPS growth over the 2005-2011E timeframe. Once again it is important to note that companies that have concentrated on buying in shares rather than issuing them will have seen a positive contribution to EPS.

- **The third is changes to tax/minorities.** In our aggregations we have loosely called this 'other', but it is an important counterpoint to some of the operational changes – both underlying and acquisition/FX related. The principal effect here is tax, which tends to go up and down in line with profit. The point here is that it is very often a balancing item, showing a strongly negative contribution for successful companies that have grown PBT and a strongly positive contribution for those companies that have seen significant PBT declines.

This builds a picture of the drivers of EPS growth

Putting this together, and once again using Pearson as a guinea pig, we can isolate the different components of EPS growth.

Figure 12. Pearson – Components of Net Income/EPS Growth, 2005-2011E (Y/E December, £m)

Contribution	Absolute Change 2005-2011E	% of 2005 Base	Compound
Operating Profit - Organic	344	126.2%	14.6%
Operating Profit - Other	79	29.0%	4.3%
Interest Expense	16	5.9%	1.0%
Tax	-97	-35.5%	-7.1%
Minorites	23	8.4%	1.4%
Adjusted Net Income	**366**	**133.9%**	**15.2%**
NOSH (Millions of Shares)	2		0.0%
EPS (p)	**45.6**	**133.3%**	**15.2%**

Source: Company Reports and CIRA Estimates

Is This a Fair Way To Look At It?

There are issues with this analysis, but none of them critical in our view

While we don't think it undermines the veracity of the analysis, it is worth briefly considering the potential problems with this approach.

- **Transparency of data.** The principal problem is that not all companies are as transparent as Pearson. For most companies we can get organic revenue growth – although this is not a given – but organic operating profit growth is not always available. In these cases we have had to make educated assumptions on underlying margin progression across the period. For the most part this is easy as there tends not to be any significant transactional impact from FX. Larger acquisitions, however, can impact profitability and we try to reflect this where we do not have explicit breakdowns of the growth.

- **Acquisition/Organic Transition.** One factor that is important to note is that the contribution from acquisitions typically get counted as organic from year two onward. The charge laid here is that companies can 'enhance organic growth' via acquisition. This is, of course, totally true. However we believe this is ultimately captured in our analysis – if not at the EBITA level, certainly at the adjusted net income/EPS level where we factor in the impact of releverage and re-equitisation.

- **Early Cyclical vs. Late Cyclical vs. Acyclical.** We discussed above the basis for choosing 2005 to 2011E as a timeframe for our analysis. One thing we fail to take into account is whether the companies themselves are late cycle, early cycle, counter-cyclical or, as in some cases, a-cyclical. One could argue that, say, an Informa or UBM, which are typically seen as late cyclical businesses are perhaps disadvantaged by our approach. Alternatively that a Pearson, which could be defined as a-cyclical or counter-cyclical, benefits. Ultimately, there is no particular way round this, although we note that for the main part, those that look good on our framework look good whichever time frame you look at and, importantly, vice versa.

What Does This Analysis Tell Us, Company-by-Company?

Looking at revenue trends

In the charts below we review the results on a stock-by-stock basis. One of the beauties of this approach is that we can start with a picture of broad trends and then drill down into the individual components and individual companies.

Best Revenue Growers in Absolute Terms:

- WPP
- Informa
- BSkyB
- Eutelsat
- UBM

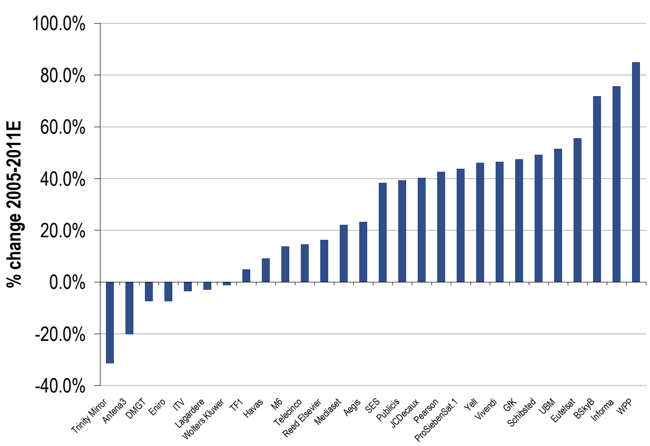
Revenue Trends: Distinguishing Between Organic and Acquisition

In the tables below we show simple revenue growth, both point to point (i.e. 2005 to 2011E) but also on a compound basis. There are two things that stand out pretty much straight away:

- **Asymmetry across the sector.** The first thing that stands out is the significant asymmetry. While the average revenue growth across the period is around 27.3% (around 4.1% CAGR), this masks a wide range of growth profiles. The best is up more than 80%, the worst down more than 30%.

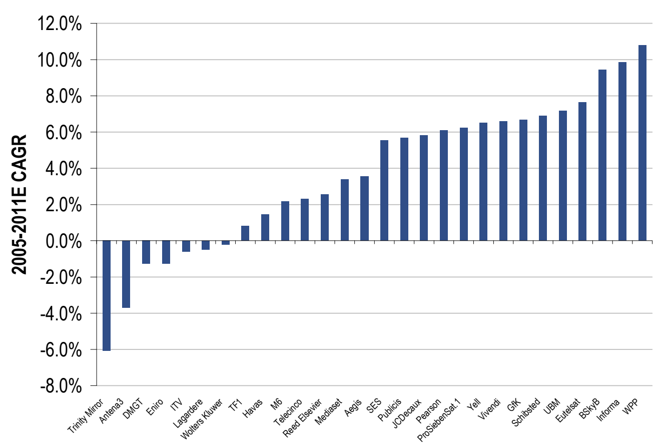
- **Surprise Performers.** While the names that have seen aggregate revenue declines may not surprise – the list is dominated by traditional media owners where structural concerns are well known – investors may be surprised by the best performer – WPP. It certainly surprised us. As we show in the next charts, however, there are a couple of factors at play here.

Figure 13. European Media – 2005-2011E Cumulative Revenue Growth



Source: Company Reports and CIRA Estimates

Figure 14. European Media – 2005-2011E Revenue CAGR

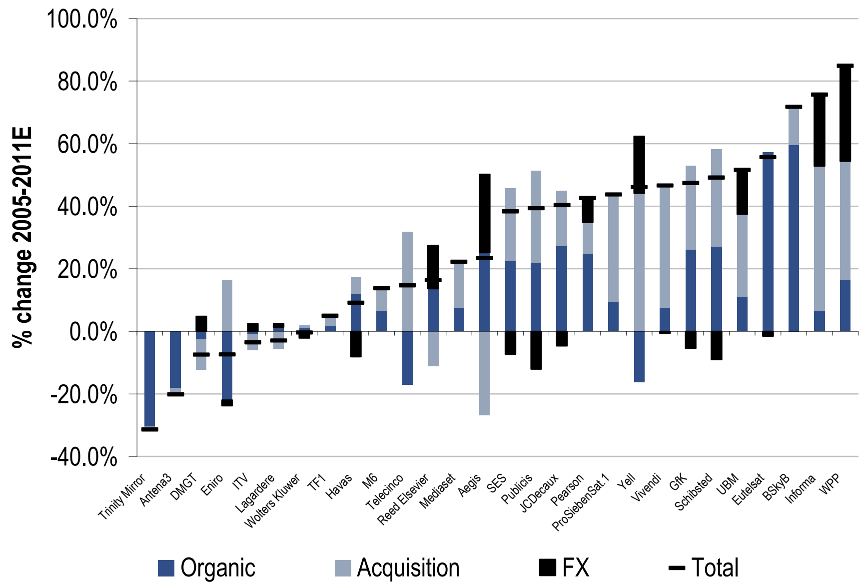


Source: Company Reports and CIRA Estimates

But absolute growth distorted by acquisition and FX

In the chart below, we break out the components of revenue growth more fully. As we can see, there are multiple distortions from both acquisition and FX.

Figure 15. European Media – Components of 2005-2011E Cumulative Revenue Growth



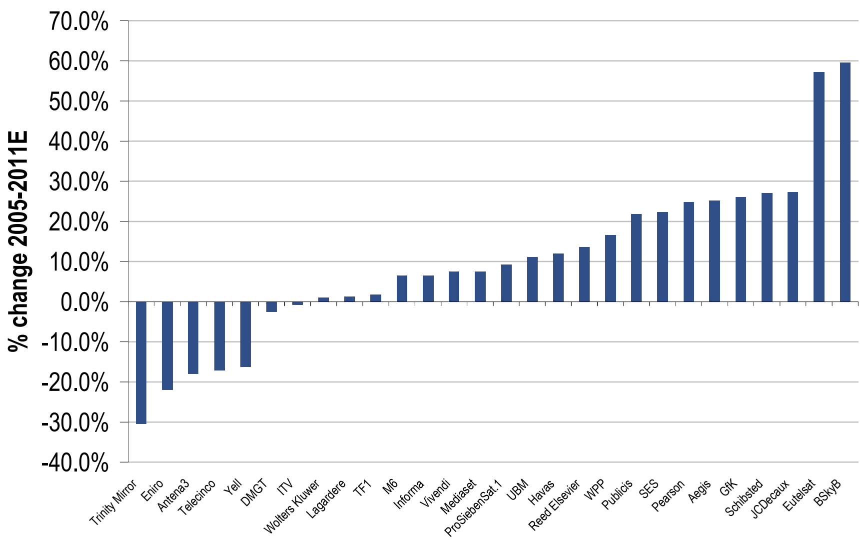
Source: Company Reports and CIRA Estimates

Best Revenue Growers in <u>Organic</u> Terms:

- BSkyB
- Eutelsat
- JCDecaux
- Schibsted
- GfK

The important point here is that we get a very different order if we isolate organic growth. We show this below.

Figure 16. European Media – Organic Component of 2005-2011E Cumulative Revenue Growth



Source: Company Reports and CIRA Estimates

What, at this stage, can we conclude from this? The most important point is that revenue growth in isolation is not the best indicator of quality.

- **Acquisition is obviously a major distorting factor** something that artificially constrains some companies that we would have otherwise screened better on this analysis – cf. Reed Elsevier – and boosts others. It is notable that adjusted for acquisition (& FX), WPP moves down to second quartile of names, while organic growth plaudits go to those names with whom we more readily associate growth status: BSkyB, Eutelsat in the platform space, JCDecaux and Schibsted as media owners, Aegis and GfK as marketing services companies.

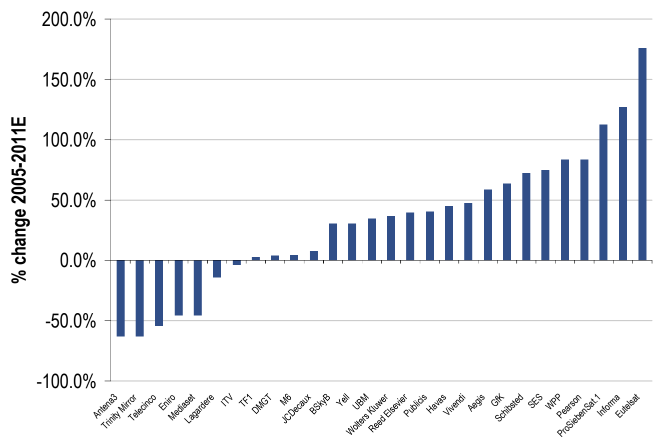
- **FX, over the time period we have looked at, also distorts.** In particular we draw a contrast between those companies that report in € and those that report in £. The latter have nominally benefited from currency devaluation, especially relative to the US$; the former however, have not benefited, indeed for those names – e.g. Publicis, GfK, SES, Havas, Wolters Kluwer.

EBITA Trends: A Pattern Emerges

We repeat this analysis at the EBITA level

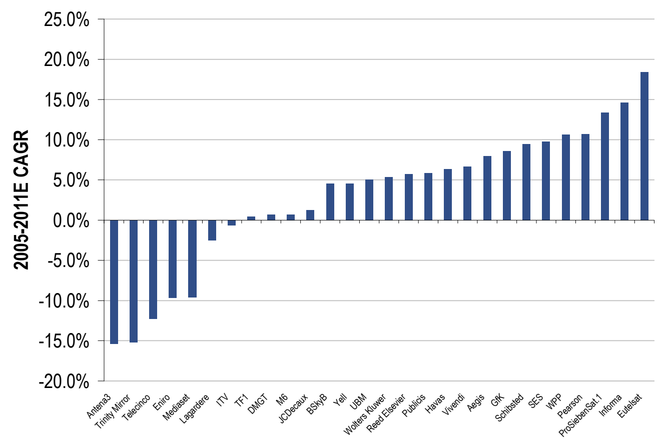
When we look at EBITA, we see a similar pattern. Once again there is a significant asymmetry in terms of aggregate/compound EBITA growth vs. the sector average: 31.6% cumulative growth, 4.7% compound.

Figure 17. European Media – 2005-2011E Cumulative EBITA Growth



Source: Company Reports and CIRA Estimates

Figure 18. European Media – 2005-2011E EBITA CAGR



Source: Company Reports and CIRA Estimates

Best EBITA performers:

Absolute	Underlying
Eutelsat	Eutelsat
Informa	Pearson
P7S1	P7S1
Pearson	Havas
WPP	GfK

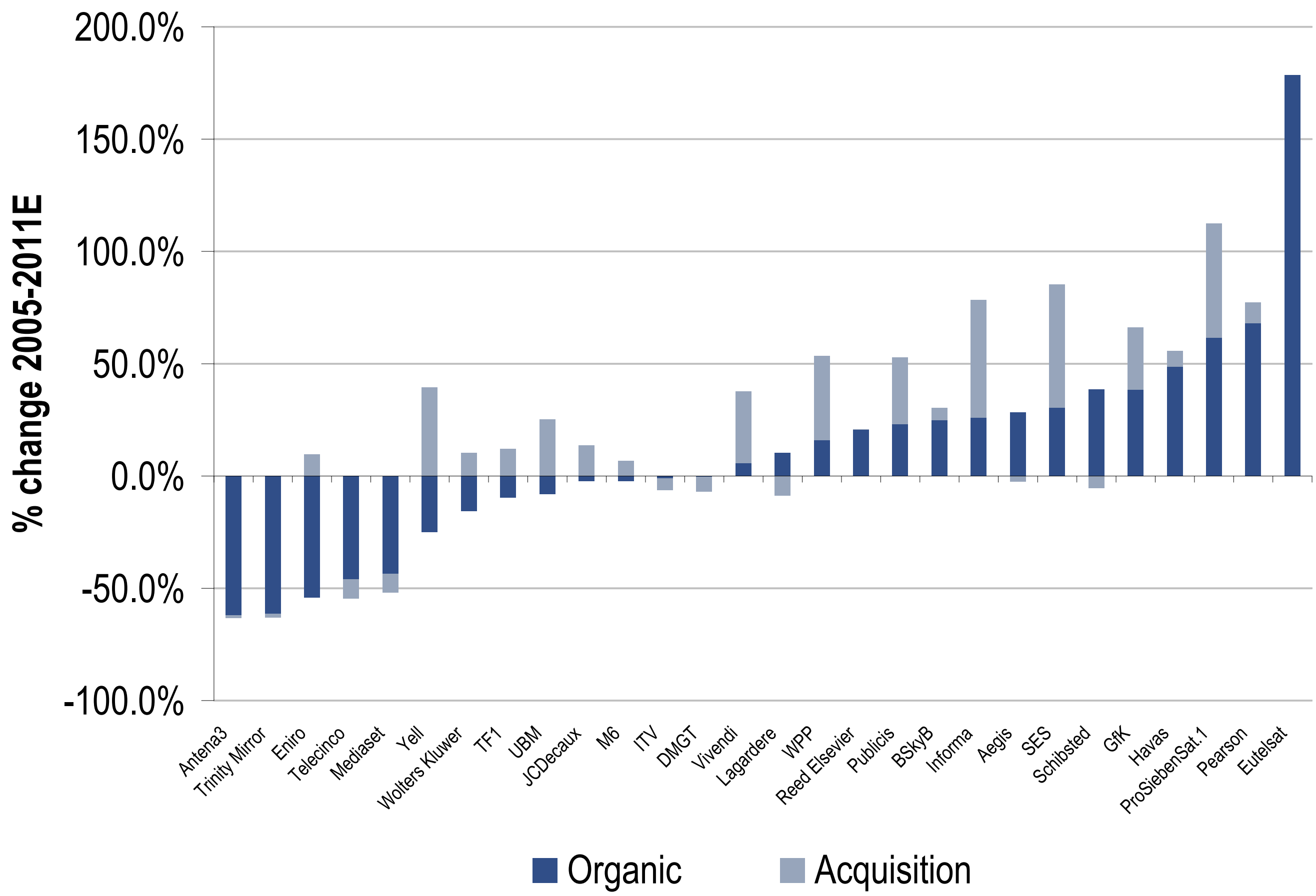
Again the reported picture is distorted by acquisition and FX. In the chart below we isolate just the impact of organic and acquisition.

What is interesting here is that, by once again focusing on organic, we begin to get a sense of which companies have been genuinely improving their own fortunes.

- At the **top end** of the spectrum we obviously see an extremely strong contribution from Eutelsat, but beyond this we see names like Pearson, ProSiebenSat.1, Schibsted and Havas all of which have undergone multi-year core restructuring programmes.

- At the **bottom end,** we once again see the ‘usual suspects’ in the form of the consumer publishers. More intriguingly we see names like Wolters Kluwer or even UBM where the reported numbers look ok, but it looks like the organic contribution is disappointing. Of course, we have to reserve full judgment until we see the picture at the earnings level (below), but it is not an encouraging sign.

Figure 19. European Media – Components of 2005-2011E Cumulative EBITA Growth



Source: Company Reports and CIRA Estimates

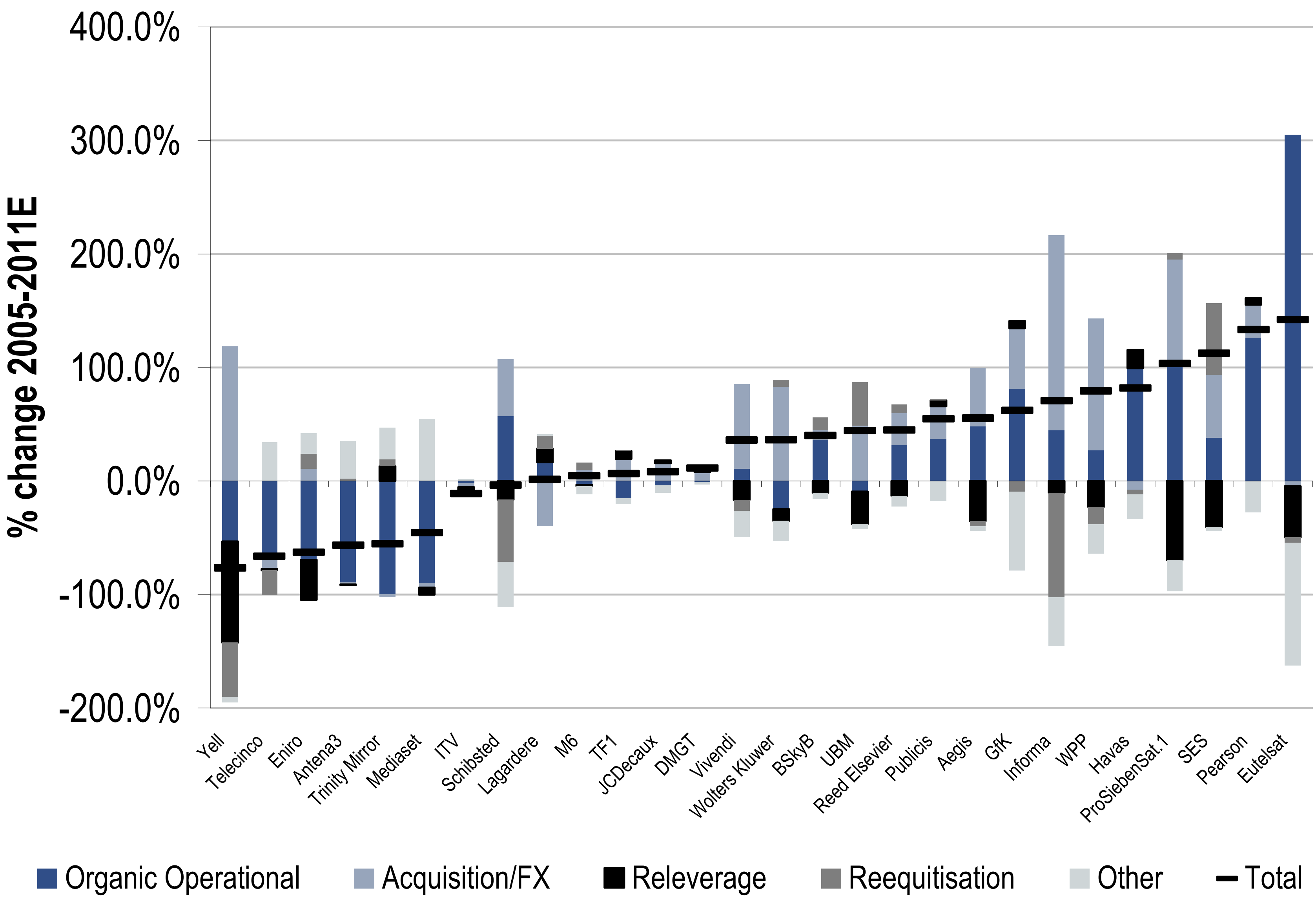
EPS Growth Dissected

Deconstructing EPS growth is more complicated

At the risk of diving in at the deep end, in figure 20 (alongside) we show the full breakdown of the cumulative EPS growth for the companies in our sector. It is worth, however, reiterating a couple of points from above.

- First, it is important to remember that releverage and re-equitisation contributions tend to be linked to operational, i.e. EBITA, growth. Most frequently this is via acquisition but it is not unheard of for this to be organic (i.e. gearing up to invest in capex)
- Second, it is worth noting that the 'Other' category includes tax/minorities which are typically inversely correlated with operational growth, i.e. the more PBT a company makes the more tax it pays. This explains why 'Other' tends to be a drag on EPS growth on the right hand side of the chart, and a support on the left hand side.

Figure 20. European Media – Components of EPS 2005-2011E EPS Growth



Source: Company Reports and CIRA Estimates

Best EPS performers:

Absolute	Underlying
Eutelsat	Eutelsat
Pearson	Pearson
SES	P7S1
P7S1	Havas
Havas	GfK

Worst EPS performers (ex consumer publishers) on cumulative growth:

Absolute	Underlying
Mediaset Esp.	Mediaset
Antena3	Antena3
Mediaset	Mediaset Esp.
ITV	Wolters Kluwer
Schibsted	TF1

What does this tell us?

- Well firstly, unfortunately, it tells us that **aggregate EPS growth for the sector has been uninspiring at best**. 26.8% cumulative EPS growth between 2005 and 2011E translates into just 4.0% compound.
- Secondly, it allows us to isolate not only the organic contribution to growth – which most likely speaks to the quality of the underlying asset – but it allows us to bundle the impact of acquisition moves in with the 'releverage' and 're-equitisation' effects that we describe above. This **gives us a measure of management quality,** at least using one measure – namely their ability to deploy capital on a basis that is accretive to shareholders.

We show this in figure 21 (below).

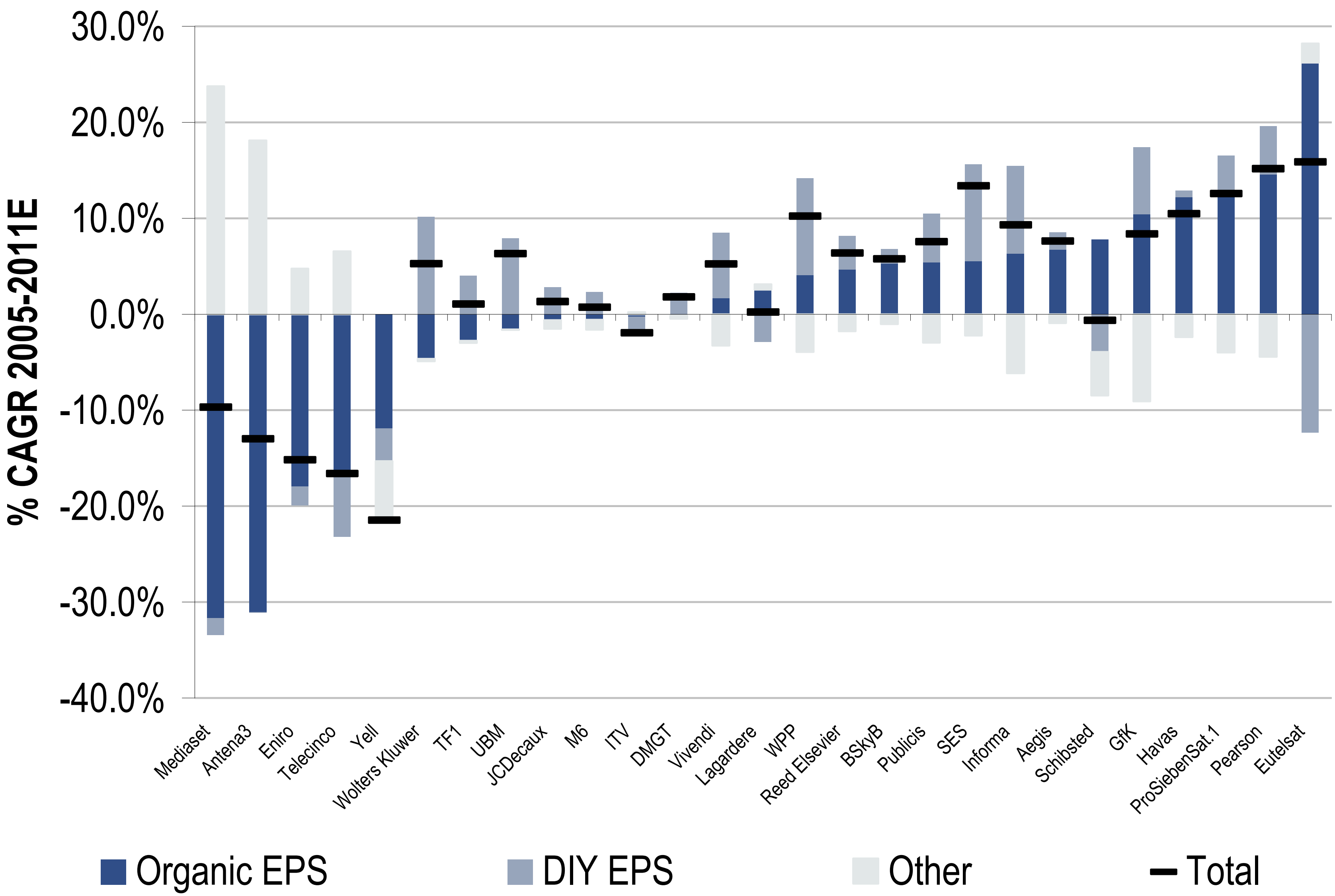
- '**Organic EPS'** shows the proportion of EPS CAGR that can be allocated to organic growth (derived from the EBITA contribution).
- '**DIY EPS'** shows the proportion of EPS CAGR that can be directly attributed to acquisition net of re-equitisation/releverage. The interesting aside here is that a company can have a positive 'DIY' contribution just easily from doing no deals and allocating spare cash to buybacks as it can from doing deals.
- '**Other**' again principally captures moves in the tax/minorities charges, which themselves are inversely correlated with the move in organic/DIY EPS.

What Conclusions Can We Make At A Stock Level?

We think this analysis is so interesting because we believe it gives a real sense of the 'quality' of underlying EPS growth. We see four broad categories of company:

- **Total Quality:** There are 8 companies within our coverage where organic growth contributes the majority of growth and where the DIY contribution is also a positive factor. These names are Pearson, ProSiebenSat.1, Havas, GfK, Aegis, Publicis, BSkyB and Reed Elsevier. If past performance is a guide to future returns, investors should have a high degree of confidence in future growth.
- **DIY Specialists:** There are at least 6 companies where the majority of EPS growth comes from 'DIY' action. In some cases this is enhancing a small level of organic EPS growth. In some cases this is offsetting natural organic EPS contraction. Examples of the former include Informa, SES, WPP and Vivendi. Examples of the latter include UBM and Wolters Kluwer. The point here is that investors should be able to trust growth, but only for as long as there is enough access to capital to sustain acquisitions/other accretive cash usage.
- **Poor Capital Allocators:** Here we look at companies with ok (or in some cases good) organic EPS but a negative contribution from 'DIY'. Now in fairness this is not always because of poor decision making – for example at Eutelsat it looks like the poor showing on the 'DIY' side of the ledger reflects releverage to fund organic growth. Often, however, it does reflect poor decision making, in particular with regard to M&A, Lagardere screens badly on this count, as does ITV. Management change (or some other evidence of better controls) is a key screen.
- **Worst of Both Worlds:** The final group incorporates names that have compounded tough u/l trends with less successful capital allocation. This list includes Mediaset, Antena3, Telecinco, Eniro and Yell. Once again, if past performance is a guide, this makes them hard to invest in.

Figure 21. European Media – Organic EPS vs. DIY EPS (Contribution to 2005-2011E EPS CAGR)

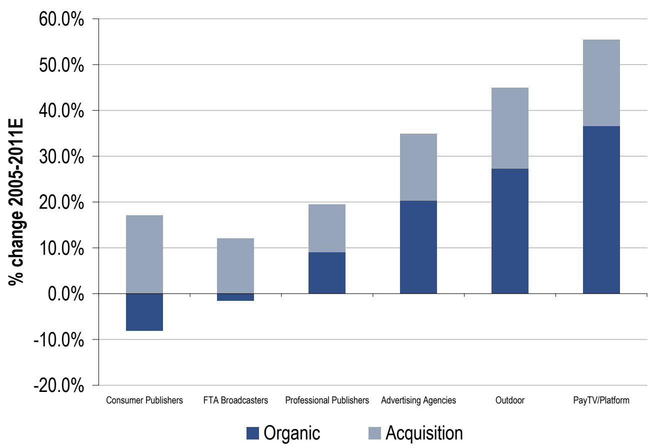


Source: Company Reports and CIRA Estimates

Screening The Results, Sub-Sector by Sub-Sector

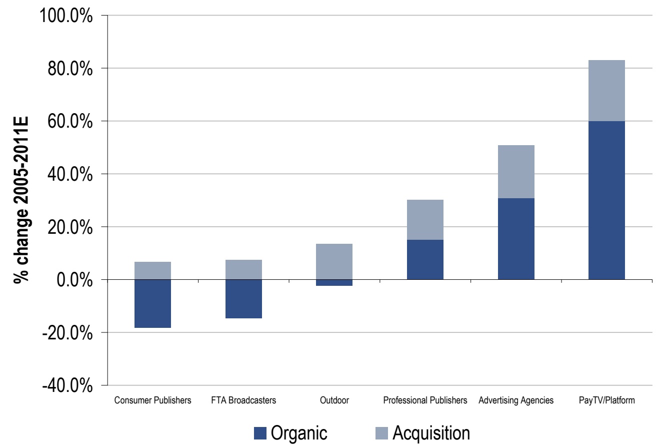
For completeness, we also tally the results at a sub-sector level. We show the break down of both revenue and EBITA in the charts below.

Figure 22. European Media – 2005-2011E Revenue Growth ex FX



Source: Company Reports and CIRA Estimates

Figure 23. European Media – 2005-2011E EBITA Growth ex FX



Source: Company Reports and CIRA Estimates

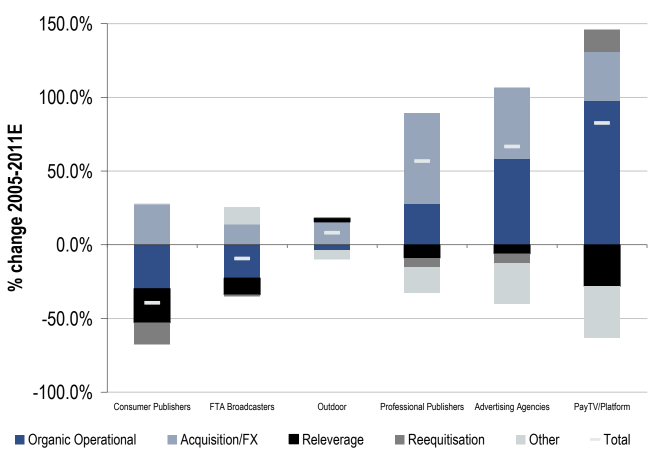
At a sub-sector level the big surprise is that agencies screen better than the professional publishers

As with the company-by-company results above, the analysis comes alive when we look at the breakdown of EPS growth – we detail the full splits in the tables below.

The interesting thing here is not so much the fact that consumer publishers and FTA broadcasters are the worst performers, nor that the payTV/platform businesses are the best.

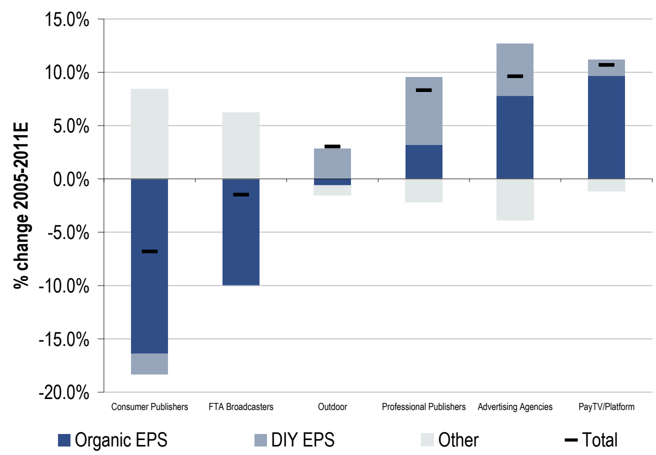
No, for us the big surprise is that the ad agencies screen better than the professional publishers in terms of overall EPS growth (compound or cumulative) and in terms of organic growth. In fairness this is somewhat distorted by strong organic rebounds amongst the smaller groups, but this for many investors we think will be a surprise.

Figure 24. European Media – Components of 2005-2011E EPS Growth



Source: Company Reports and CIRA Estimates

Figure 25. European Media – Organic EPS vs. DIY EPS



Source: Company Reports and CIRA Estimates

Conclusion: We Believe Past Performance Can Be a Useful Guide to Future Potential Returns

We think the results of this analysis are quite compelling.

Organic EPS growth = enduring and immutable

The most important aspect of it, of course, is the focus on organic growth. A strong organic component to EPS growth across the cycle gives us confidence in the business model. This may be vulnerable to the short-term vagaries of the cycle, but we think should provide a solid foundation for medium-term growth.

- **Names that screen particularly well** on this count are Eutelsat, Pearson, ProSiebenSat.1, Havas, Aegis, Publicis, BSkyB, Reed Elsevier, Schibsted and GfK. What is notable about this group is that they come from a broad range of sub-sectors, not just the more defensive categories.

- **Names that screen poorly** on this count are Mediaset, Antena3, Telecinco/ Mediaset Espana, Eniro and Yell. More surprisingly Wolters Kluwer and UBM within the professional publishers also screen poorly.

DIY EPS growth = a decent support to historical growth but potentially not sustainable

Just as the organic component of historical EPS growth speaks to the quality of the business model, a strong DIY component speaks to quality of management. Or at least a management team's ability to deploy capital successfully.

- Among the leading group of strong underlying performers, **names that screen well** on this count include Pearson, GfK, Informa, SES, and Publicis. This reinforces comfort levels in future growth.

- WPP and Vivendi count as names that have **weaker (but still positive) underlying trends but have done well in terms of capital allocation**.

- UBM and Wolters Kluwer are names where **more than 100% of compound EPS growth has come from DIY type activities**.

The only concern here is that access to capital is key to the sustainability of this as a driver of EPS. It is this we turn to in the next section.

Examining Optionality From Cash Usage

Whereas organic growth profiles should sustain, the DIY component may not

In the last chapter we broke down EPS growth into its constituent parts. As we showed, there are two key components to EPS growth.

- The first is the pure organic component, i.e. the contribution from the existing business.
- The second is what we call the 'DIY' component, i.e. the component of growth that is derived from management's (hopefully) skillful and successful deployment of capital.

We dealt with the former in the previous chapter. In broad terms we are comfortable that in terms of 'organic' trend, past performance should be a guide to future performance', unless there is an obvious reason for dislocation.

This, however, is essentially a subjective view.

DIY growth a function of:

- quality of capital allocation decisions (management quality)
- access to capital

When it comes to the 'DIY' component, we can be more quantitative. This is the focus of this chapter and if there is one conclusion that immediately stands out it is again the asymmetry of opportunity across the sector.

For every company where the balance sheet is actively underlevered and optionality from cash usage is high, there is another where the balance sheet is already stretched and scope for accretive cash usage is now either low or non-existent.

The most interesting groups of companies, however, are those that are making the transition from one state to the other. A factor that raises the prospect of an inflection in the 'DIY' component of EPS growth, whether this is for better or for worse.

How Has Cash Usage Affected EPS in the Past

Historical contribution has been positive

In the previous section we discussed what we call the 'DIY' component of growth – essentially the net effect of acquisitions, re-leverage and re-equitisation.

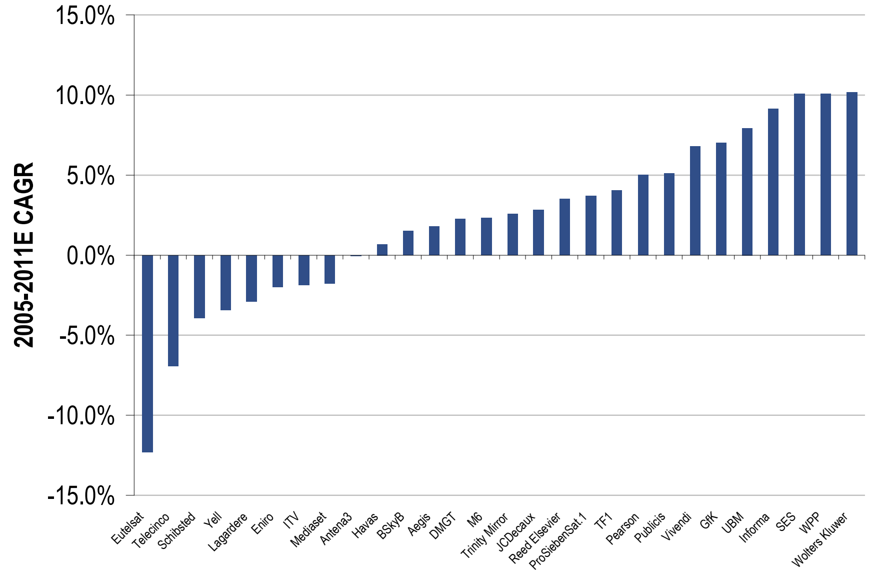
In fairness, this is something of a brute measure. In particular, we note that it doesn't distinguish between companies that have made poor acquisitions and those that have re-geared the business to invest organically (**Eutelsat** being a case in point).

This is why we think it is best to look at this in conjunction with organic EPS development. Nevertheless, if we do look at it standalone, we think it highlights some interesting points.

But some companies have relied on it more than others

- As we highlighted above, it shows that some companies have relied more on DIY-style growth. **Wolters Kluwer**, **WPP**, **Informa** and **UBM** have all seen high-single-digit gross (i.e. pre-tax) contributions to EPS growth from DIY-related activities.
- At the other end of the spectrum, there have been less successful stories. **Eutelsat**, **Mediaset Espana**, **Yell** and **Eniro** are all examples of companies that re-geared their balance sheets either to fuel growth or fund shareholder returns, with varying degrees of success.

Figure 26. European Media – 'DIY' Contribution to 2005-2011E EPS CAGR



Source: Company Reports and CIRA Estimates

Wolters Kluwer, Informa, SES, WPP among those most reliant on DIY component of growth

Financial Leverage Is a Key Factor

Access to capital a key driver of historical performance

The key point here, though, is that this was only possible because of access to capital, whether it be debt or equity. As individual companies have re-levered, or share prices have fallen, this is a path that looks potentially less accessible than it once did.

In Figure 27 we show Net Debt/EBITDA for the sector. At a sector level, overall leverage is down from its peak in 2008/2009 as companies have rebuilt balance sheets in the aftermath of the credit crunch in 2008/2009.

As a general rule, those that have seen the highest contribution from 'DIY' are also the most levered

It is no coincidence, however, that those companies that have seen the most positive contribution from 'DIY' – namely **Wolters Kluwer**, **WPP**, **SES**, **UBM**, **Vivendi** even – are those that are still at or near their historical highs in terms of net debt/EBITDA.

What is really interesting are the situations where individual companies have a strong contribution from 'DIY', yet have managed to reduce leverage at the same time.

- **Informa** doesn't look too bad on this count – all this is as much a function of the generosity of equity shareholders who funded the equity raise as it is about the quality of deal-making.
- **Pearson** looks good, mainly because it has used disposals to fund acquisition.
- **ProSiebenSat.1** and **TF1** also screen surprisingly well, with value-accretive disposals playing a part in both cases (the BeNe assets for P7S1; the C+ stake for TF1).

Figure 27. European Media – Financial Leverage as Measured by Year-End Net Debt/EBITDA (Calendarised)

Company	2004	2005	2006	2007	2008	2009	2010	2011E
Antena3	-0.7	-0.6	0.3	0.2	0.4	1.4	0.2	0.8
ITV	2.7	2.1	2.5	2.3	3.7	4.4	1.1	0.1
M6	-0.8	-0.9	-0.9	-0.3	-0.1	-0.3	-1.3	-1.1
Mediaset	-0.8	-0.6	-0.5	-0.4	1.1	1.4	1.3	1.9
Mediaset Espana	-1.0	-1.0	-0.5	0.6	0.7	1.3	0.1	0.0
ProSiebenSat.1 Media	1.3	0.8	0.5	5.0	5.1	4.7	3.3	2.2
TF1	0.9	1.3	1.0	1.3	2.0	-0.3	0.0	-0.3
Average	**0.2**	**0.2**	**0.4**	**1.2**	**1.8**	**1.8**	**0.7**	**0.5**
JCDecaux	1.1	1.4	1.4	1.4	1.4	1.9	0.8	0.1
Stroer			6.8	4.1	5.3	5.1	2.7	2.3
Average	**1.1**	**1.4**	**4.1**	**2.7**	**3.4**	**3.5**	**1.7**	**1.2**
Aegis	0.8	1.8	1.8	1.7	1.5	1.7	1.7	0.2
GfK		3.0	2.9	2.2	2.1	2.9	1.9	1.4
Havas	2.2	2.6	2.9	1.9	1.3	0.7	0.3	0.2
Publicis	3.3	2.5	2.4	2.9	2.8	2.7	1.7	0.7
WPP	1.2	1.3	1.1	1.3	1.6	2.6	2.0	1.8
Average	**1.9**	**2.3**	**2.2**	**2.0**	**1.9**	**2.1**	**1.5**	**0.8**
DMGT	2.2	2.2	2.0	2.5	2.7	3.1	2.5	2.1
Eniro	2.2	8.6	4.0	4.5	4.9	3.6	3.1	3.3
Lagardere	0.4	1.4	3.0	3.2	3.1	3.0	2.9	2.0
Schibsted		0.7	2.6	2.3	3.7	1.7	0.8	0.7
Trinity Mirror	1.5	1.7	1.8	1.0	2.1	2.3	1.7	1.9
Yell	3.2	2.6	3.9	5.4	5.1	5.1	4.9	5.4
Average	**1.9**	**2.9**	**2.9**	**3.2**	**3.6**	**3.1**	**2.6**	**2.6**
Informa	2.9	4.7	3.2	4.5	4.2	2.6	2.3	2.0
Pearson	2.3	1.6	1.5	1.3	1.7	1.1	0.4	0.5
Reed Elsevier	2.1	2.1	1.9	0.4	3.8	2.2	2.0	1.7
UBM	0.5	-1.8	-0.8	0.9	1.4	1.2	2.6	2.3
Wolters Kluwer	2.4	2.6	3.2	2.4	3.0	2.6	2.4	2.4
Average	**2.1**	**1.9**	**1.8**	**1.9**	**2.8**	**2.0**	**1.9**	**1.8**
BSkyB	0.6	0.4	0.7	1.9	1.9	1.6	0.9	0.7
Eutelsat		3.6	3.5	3.5	3.1	2.9	2.4	2.3
SES Global		2.4	2.7	3.0	3.2	3.0	2.9	3.0
Vivendi	1.0	0.7	0.8	0.8	1.2	1.2	1.0	2.0
Average	**0.8**	**1.8**	**1.9**	**2.3**	**2.3**	**2.2**	**1.8**	**2.0**
European Media Average	**1.3**	**1.7**	**1.9**	**2.1**	**2.5**	**2.3**	**1.7**	**1.5**

Source: Company Reports and CIRA Estimates

Quantifying the Future 'DIY' Benefit: First Attempts

We try to quantify future potential 'DIY' growth by looking at scope for buybacks

Quantifying the optionality of cash usage is inherently quite difficult, mainly because there are so many routes a company can take.

- Some companies will choose to maintain a high dividend and supplement this with direct cash returns.
- Others will buy back shares either on a systematic or ad hoc basis.
- Others still will direct net cash flow (free cash flow post divided) toward acquisition.

For the purposes of our analysis, we look at buybacks.

This has its own complications – namely the appropriate cost of financing, the share price at which buybacks are executed – but at least these are consistent across companies. Most importantly, it allows us to quantify the potential benefit in terms of share count and therefore contribution to EPS growth.

We look at this in two ways:

- Firstly, we look at what a company could afford to buyback in one lump sum by moving to a target level of financial gearing (1.0x for the media owners; 1.5x for the agencies; 2.0x for the professional publishers/platform businesses).

- Secondly, we look at the level of buyback the companies could do by keeping absolute leverage stable at the current level – i.e. by diverting all available net cash toward buybacks

We ground our analysis on the assumption of target leverage (ND/EBITDA):

- Media owners 1.0x
- Advertising Agencies 1.5x
- Professional Publishers 2.0x
- PayTV/Platform Businesses 2.0x

We summarise these analyses in Figure 28 and on the back of this make a number of observations:

- **When we look at the first analysis** – a one-off buyback to move to target leverage – the outcome is by definition binary. Either companies have the flexibility to do something or they don't. From a sub-sectoral perspective, all but the consumer publishers look like they may be in a position to enhance returns. For the broadcasters and the agencies, the potential for incremental cash returns appears to be substantial

  There are, however, potential pitfalls with this approach. First, it assumes the company has access to liquidity, which is not a given in the current environment. Second, implicitly it assumes there is no incremental deterioration in EBITDA, which, given we stand today, may be an optimistic assumption.

  In conclusion, while we see scope for the odd sizeable buyback plan – BSkyB's announced £750m programme is an example – we don't think it will become the norm, at least while macro uncertainty persists.

- **The second analysis is less dramatic, but even here there are some anomalies**. Specifically the analysis is distorted by two factors – firstly the level of dividend payout (the higher the proportion of FCF paid out as dividend, the lower the excess available for buybacks) and secondly the share price (richly valued companies get less bang for their buck from a buyback).

  Reflecting this, the companies that tend to screen well are those that have high leverage as they have tend to have no dividend and cheap shares – the Yellow Pages companies and the UK newspaper names are particularly affected by this.

  Meanwhile, those companies with good balance sheets and a high payout ratio – like TF1 or M6 – screen poorly.

Figure 28. European Media – Quantifying Optionality from Cash Usage (Based on 2011E Forecasts; Local Currency Million)

Company	Leverage Current	Leverage Target	Implied Liquidity	One-off buyback (% of Share Capital)	Implied Buyback Maintaining Stable Leverage (% of Share Capital p.a.)
Antena3	0.8	1.0	22	2.4%	0.8%
ITV	0.1	1.0	459	18.6%	4.3%
M6	-1.1	1.0	611	33.3%	0.5%
Mediaset	1.9	1.0	NA	NA	4.4%
Mediaset Espana	0.0	1.0	211	11.4%	0.7%
ProSiebenSat.1 Media	2.2	1.0	NA	NA	3.7%
TF1	-0.3	1.0	556	25.6%	-0.8%
Average	**0.5**	**1.0**		**18.3%**	**2.0%**
JCDecaux	0.1	1.0	490	14.2%	3.6%
Stroer	2.3	1.0	NA	NA	5.4%
Average	**1.2**	**1.0**		**14.2%**	**4.5%**
Aegis	0.2	1.5	275	17.4%	4.8%
GfK	1.4	1.5	21	1.9%	7.1%
Havas	0.2	1.5	332	29.1%	6.8%
Publicis	0.7	1.5	868	12.1%	6.2%
WPP	1.8	1.5	NA	NA	6.7%
Average	**0.8**	**1.5**		**15.1%**	**6.3%**
DMGT	2.1	2.0	NA	NA	13.0%
Eniro	3.3	1.0	NA	NA	48.1%
Lagardere	2.0	1.0	NA	NA	-3.4%
Schibsted	0.7	1.0	717	5.1%	4.9%
Trinity Mirror	1.9	1.0	NA	NA	15.1%
Yell	5.4	1.0	NA	NA	16.2%
Average	**2.6**	**1.2**		**5.1%**	**15.7%**
Informa	2.0	2.0	10	0.5%	6.3%
Pearson	0.5	2.0	1,561	18.3%	3.4%
Reed Elsevier	1.7	2.0	551	5.0%	4.4%
UBM	2.3	2.0	NA	NA	6.8%
Wolters Kluwer	2.4	2.0	NA	NA	9.4%
Average	**1.8**	**2.0**		**7.9%**	**6.1%**
BSkyB	0.7	2.0	2,039	19.1%	4.2%
Eutelsat	2.3	2.0	NA	NA	0.3%
SES Global	3.0	2.0	NA	NA	2.6%
Vivendi	2.0	2.0	227	1.1%	3.0%
Average	**2.0**	**2.0**		**10.1%**	**2.5%**
European Media Average	**1.5**	**1.4**		**13.4%**	**6.5%**

Source: Citi Investment Research and Analysis

Moving Towards A Third Way

We estimate optionality from cash usage could add c.4% p.a. to Media sector EPS growth

While there are problems with both of these approaches, they are not totally defunct in our view. We think elements of both can be used to create a 'third way'.

How do we do this?

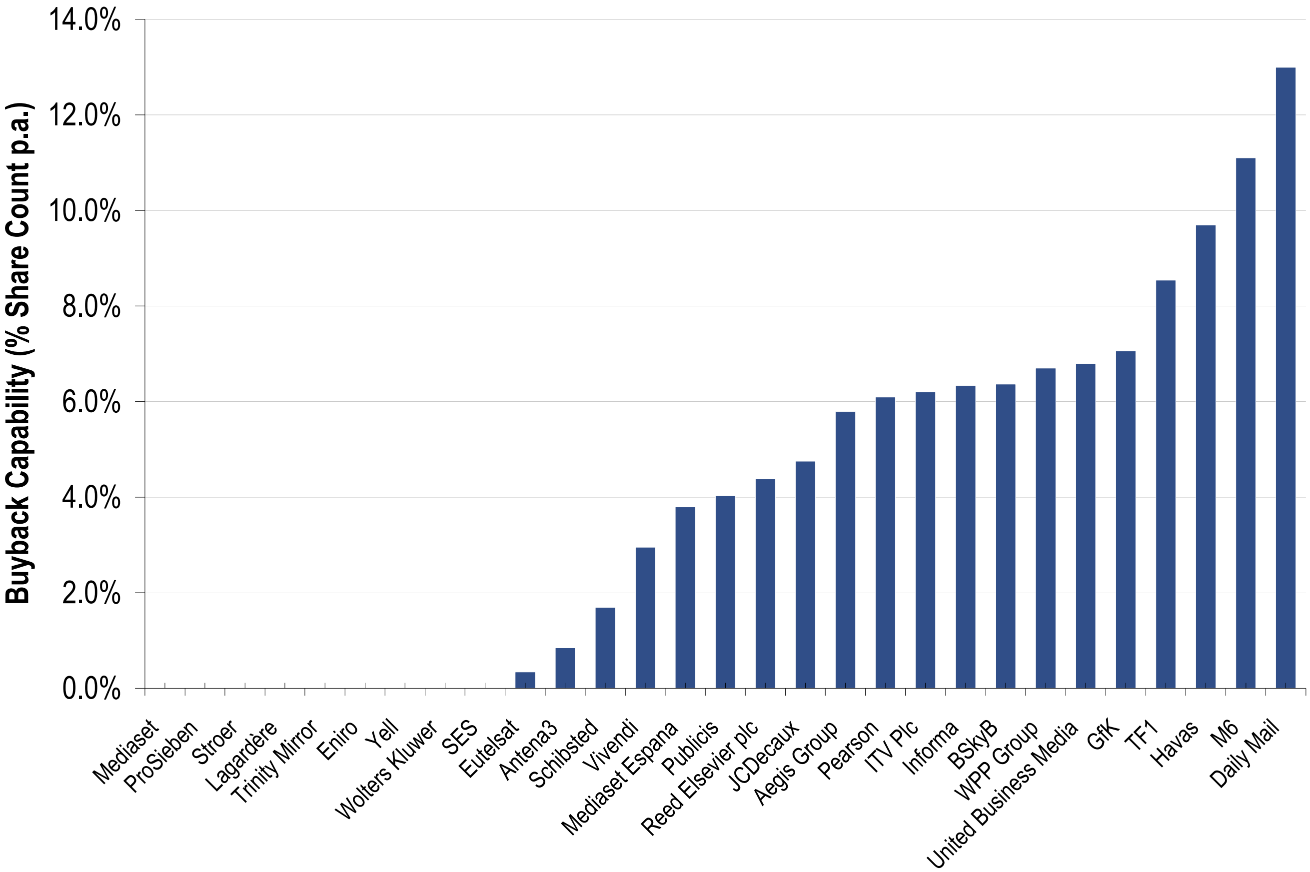
Our primary methodology is the second approach, where incremental cash flow is directed to buybacks. However, we insert two conditional elements.

- First, if leverage is more than 20% above what we define as target leverage, then we assume that buyback capability is zero as net cash flow is redirected toward deleverage.

- Second, if leverage is less than 80% of target, we assume the company moves up to target leverage over the course of three years.

We show the conclusions of this in the table below.

Figure 29. European Media – Estimated Contribution to Future EPS Growth From Cash Usage (Potential Uplift to Growth Per Annum)



Source: Citi Investment Research and Analysis

Conclusion: Watch Out for Inflection

'DIY' should still make a positive contribution to EPS growth but historical performance isn't necessarily a guide to future trends

The DIY component on growth is not only dependent on management quality – a question of whether a particular allocation of capital is sensible or not – but also, *prima facie*, on whether the company in question has the capacity to enhance returns via cash usage.

The point here is that, in contrast to the organic component of EPS growth, we cannot simply take historical performance and roll this forward. Here we believe past performance should *not* be relied upon as a potential guide to future performance.

Companies like **Wolters Kluwer** and **UBM** have done a good job of supporting EPS growth principally through acquisition. This has, however, been largely funded by additional leverage and in both cases it is unclear if this will continue to be a source of EPS growth.

As such, we think the most interesting aspect of this analysis is where it suggests there will be a sharp change in fortunes for a particular company. Inflection, if you want to call it that.

Watch out for inflection

As we show in Figure 30 – essentially a combination of both the historical and our predicted DIY contribution analyses – there are several companies where we expect a strong positive contribution to dissipate and several companies where we expect a limited, or negative contribution to move more positive. Going through them in turn:

Potential Negative Inflection

Companies that screen poorly (vs. history):

- Wolters Kluwer
- SES
- ProSiebenSat.1

- **Wolters Kluwer** looks most at risk, as the group is now over 20% above what we would see as target leverage (2x – although the company may disagree). As this has been the primary driver of growth over the past cycle, we think this could be a concern.
- **SES**, on this analysis, will also see a fade in 'DIY' driven growth. Here, though, the underlying story still looks relatively robust driving a less negative overall conclusion.
- **ProSiebenSat.1** is also expected to see less contribution from cash usage. The group geared up significantly in 2007 when it bought SBS. While this has been partially unwound, leverage is still significantly above what we see as a sustainable level (1.0x-1.5x). Even if leverage was lower, we note the scope for accretive cash usage would be minimal anyway given the group's high dividend payout ratio.

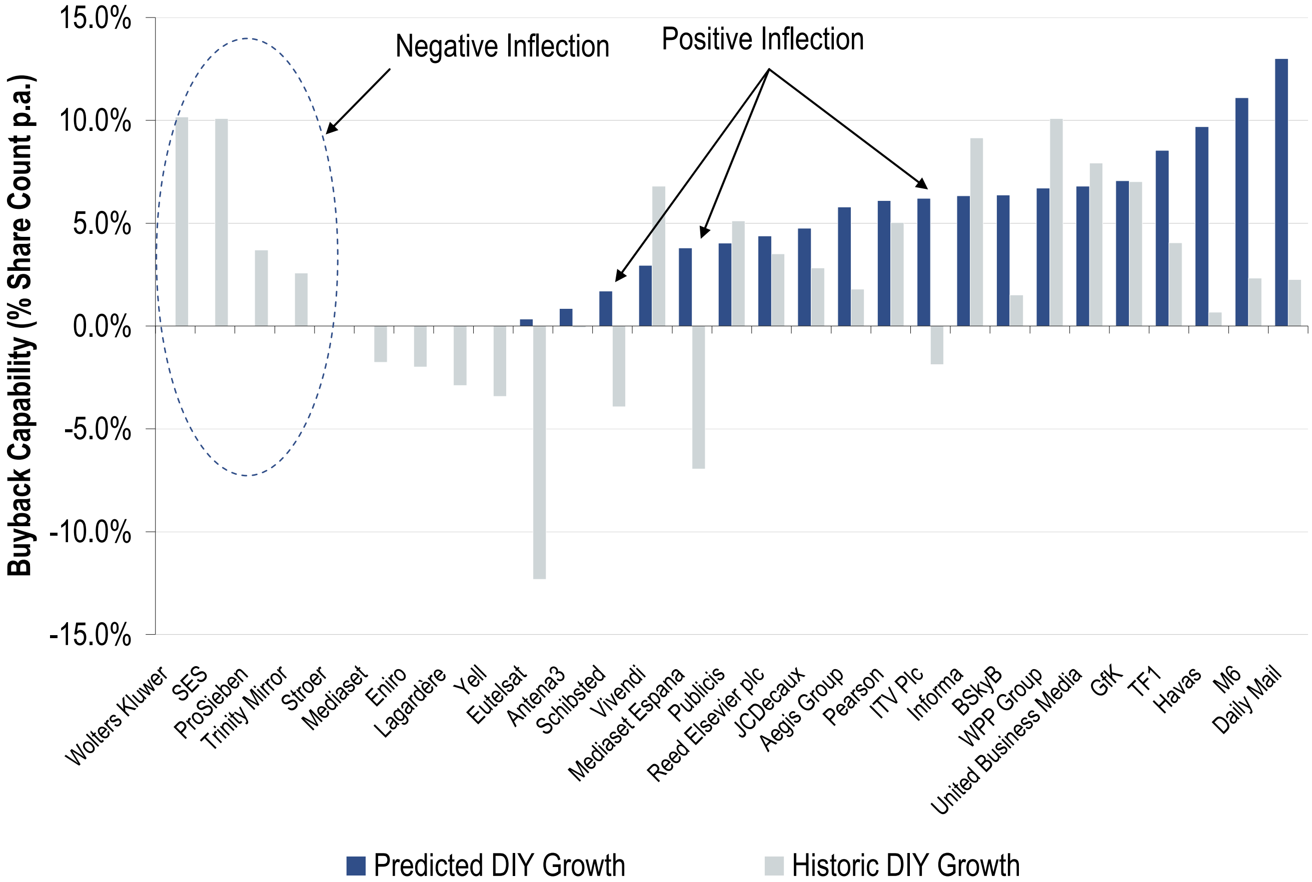
Potential Positive Inflection

Companies that screen well (vs. history):

- ITV
- Mediaset Espana
- Schibsted

- As we have discussed extensively in the past (perhaps too extensively), **ITV** has now got to the point where it is actively underlevered. Cash usage, in our view, is a strong potential support to EPS, especially in light of a weaker macro environment.
- **Mediaset Espana** has historically not had the best track record in terms of capital allocation, but with limited debt and a cheap share price, buybacks/cash returns represent a risk to our more bearish fundamental view.
- **Schibsted** has now got to a point where leverage is actively under control and cash could be deployed to enhance shareholder returns. The issue with Schibsted – as it was historically – is that the group may use spare cash to drive organic investment.

Figure 30. European Media – Predicted 'DIY' EPS Growth vs. Historical 'DIY' Growth



Source: Citi Investment Research and Analysis

Benchmarking Growth – Mind the Gap

Comparing potential growth with implied growth

The final stage of our analysis is to compare what we think could be bottom-up EPS growth through the cycle with what is being implied by the market.

Once again we are entering an area fraught with assumption risk. Our approach, as always, is to look at it as simply as possible.

We therefore isolate implied growth by looking at the most simple of reverse DCFs. We then compare this to 'forecast' growth taking the organic component of growth over the last cycle and adding it to our estimate of 'DIY' growth.

The resulting screen is, we think, an important complement to our fundamental bottom-up analyses, showing companies where we have high conviction in EPS growth, but where the market is potentially too conservative.

Using Historical Organic & Cash Usage Optionality to Predict 'Potential Growth'

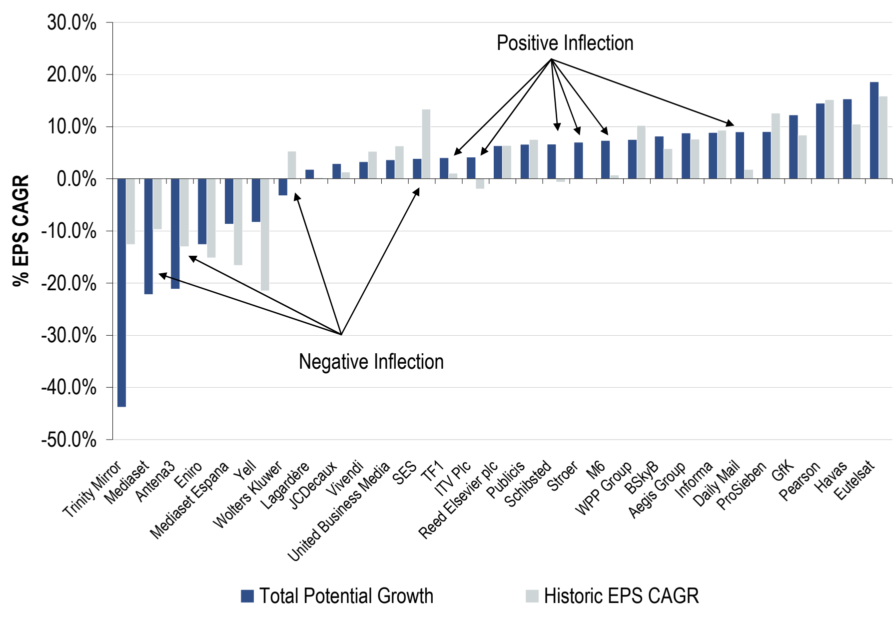
'Potential Growth' is based on Historical Organic plus optionality from cash usage adjusted for tax

Using historical organic growth and our prediction of the 'DIY' component of EPS growth we can build a 'road map' for potential future growth. It is important to say at this stage that we do not simply take this number and plug it into our models – this is just a guide. That said, it throws out some interesting takeaways.

The most interesting of these are the names where our analysis signals a sharp disconnect with historical trends. This is potentially where there is the most scope for positive or negative surprise.

- Names that screen as potential positive surprises include **TF1**, **ITV**, **Schibsted**, **Stroer**, **M6** and **Daily Mail & General Trust**.
- Names that screen poorly on this include **Mediaset**, **Antena3**, **Wolters Kluwer** and **SES**.

Figure 31. European Media – Implied Potential EPS Growth vs. Historical EPS Growth



Source: Citi Investment Research and Analysis

What Level of Growth is Implied By The Market?

We use a simple reverse DCF to gauge market expectations

In order to gauge this we look at a reverse DCF. Again, the analysis is fraught with assumption risk. Terminal growth is always highly dependent on the discount rate assumption and then there is significant potential forecast error across the forecast period.

We therefore follow James Montier's lead and boil it down to real basics. We take our 2011E EPS forecast and we look at the required level of growth in EPS to justify the current share price using a standard discount rate across the sector. The only assumptions are:

- **Our 2011E EPS forecasts.** The point here is that while there is always a degree of forecast risk (as an aside we show forecasts vs. consensus in the appendix to this report) hopefully forecast error should be minimized by keeping the time horizon short. Certainly any reverse DCF incorporating multiple forecast years, would be unreliable at this stage.
- **The discount rate, which we assume at 15%.** The discount rate in this context is the cost of equity. We use 15% for no other reason that it is the benchmark used by CIRA for a Buy-rated stock with a medium-risk profile. The key point for this analysis is that we use a standardised discount rate across the sector – even if the discount rate is inappropriate, at least it is consistently inappropriate across our coverage.

We look at what EPS has to grow by ad aeternam to justify current prices

The output is a single growth figure: namely the required compound growth *ad aeternam* in EPS to justify the current share price. To reiterate: this is the level of EPS growth required *for eternity*, based on the 15% discount rate, to make the company fair value based on today's share price.

We show the results of this analysis in the table below. In terms of key observations, however, two at least stand out:

- While obviously a function of the discount rate (the higher the discount rate, the higher the implied growth), **implied growth for most of the companies is positive** – and comfortably so. This partially puts to rest the assertion that the sector is blanket oversold.
- Once again, **one of the interesting factors is the asymmetry of implied growth**. At a sub-sector level, implied growth conforms with consensus preconceptions. Outdoor is anticipated to show the best LT growth, then platform businesses, then agencies/professional publishers, then media owners.
- Equally interesting though, is the variety within sub-sectors. It is notable that implied growth for **Havas** is lower than the other agencies. Likewise that **ProSiebenSat.1** and **ITV** are lower than the other broadcasters. Perhaps less controversially, we note that implied growth for Vivendi is lower than for its payTV/platform business peers.

Figure 32. European Media – Implied Growth Based on 2011E EPS at a 15% Discount Rate (Prices as of 7 September 2011)

	Price	2011E EPS	Discount Rate	Implied Growth
Aegis Group	124	9.4	15%	6.8%
GfK	29.4	3.07	15%	4.1%
Havas	2.54	0.31	15%	2.4%
Publicis	30.7	2.66	15%	5.9%
WPP Group	592	63.8	15%	3.8%
Average				**4.6%**
Antena3	4.51	0.5	15%	4.3%
ITV Plc	54	7.0	15%	1.8%
M6	13.7	1.25	15%	5.4%
Mediaset	2.40	0.28	15%	3.1%
Mediaset Espana	4.41	0.42	15%	5.1%
ProSieben	12.4	1.92	15%	-0.4%
TF1	9.9	0.98	15%	4.7%
Average				**3.4%**
JCDecaux	15.3	0.94	15%	8.3%
Stroer	12.5	0.89	15%	7.3%
Average				**7.8%**
Daily Mail	372	47.9	15%	1.9%
Lagardère	19.3	2.27	15%	2.9%
Schibsted	128.3	9.4	15%	7.2%
Trinity Mirror	41	22.8	15%	-25.9%
Average				**-3.5%**
Eniro	14.35	2.03	15%	0.7%
Yell	4.6	5.7	15%	-48.8%
Average				**-24.1%**
Informa	335	37.8	15%	3.3%
Pearson	1,064	79.8	15%	7.0%
Reed Elsevier plc	483	45.7	15%	5.1%
United Business Media	432	53.0	15%	2.4%
Wolters Kluwer	12.1	1.45	15%	2.7%
Average				**4.1%**
BSkyB	646	45.3	15%	7.5%
Eutelsat	29.6	1.59	15%	9.1%
SES	17.9	1.40	15%	6.7%
Vivendi	15.6	2.44	15%	-0.5%
Average				**5.7%**
European Media Average				**1.5%**

Source: dataCentral, CIRA

How Does This Compare With Our Analysis?

We can now compare implied EPS growth with our analysis of growth using historical organic EPS growth and our estimate of 'optionality from cash usage'. We show the results of this analysis in Figure 33.

Figure 33. European Media – Potential Growth vs. Market-Implied Growth

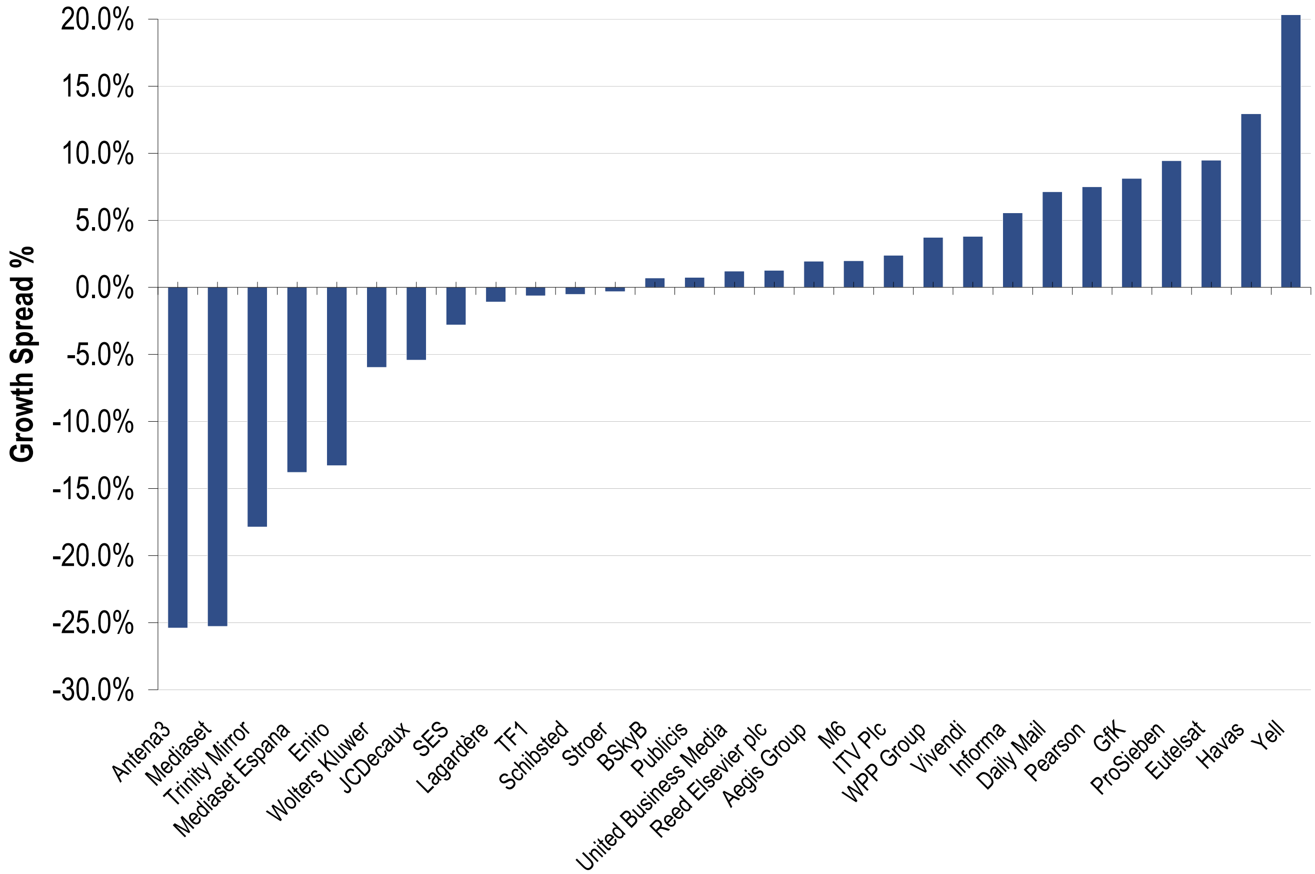
	Price*	2011E EPS	Discount Rate	Implied Growth	Historical Organic EPS Growth	Optionality from Cash Usage	'Other' Impacts	Total Potential Growth
Aegis Group	124	9.4	15%	6.8%	6.7%	5.8%	-3.8%	8.8%
GfK	29.4	3.07	15%	4.1%	10.4%	7.1%	-5.2%	12.2%
Havas	2.54	0.31	15%	2.4%	12.2%	9.7%	-6.6%	15.3%
Publicis	30.7	2.66	15%	5.9%	5.4%	4.0%	-2.8%	6.6%
WPP Group	592	63.8	15%	3.8%	4.1%	6.7%	-3.2%	7.5%
Average				**4.6%**	**7.8%**	**6.7%**	**-4.3%**	**10.1%**
Antena3	4.51	0.5	15%	4.3%	-31.0%	0.8%	9.1%	-21.1%
ITV Plc	54	7.0	15%	1.8%	-0.3%	6.2%	-1.8%	4.1%
M6	13.7	1.25	15%	5.4%	-0.6%	11.1%	-3.2%	7.4%
Mediaset	2.40	0.28	15%	3.1%	-31.7%	0.0%	9.5%	-22.2%
Mediaset Espana	4.41	0.42	15%	5.1%	-16.2%	3.8%	3.7%	-8.7%
ProSieben	12.4	1.92	15%	-0.4%	12.9%	0.0%	-3.9%	9.0%
TF1	9.9	0.98	15%	4.7%	-2.8%	8.5%	-1.7%	4.0%
Average				**3.4%**	**-10.0%**	**4.4%**	**1.7%**	**-3.9%**
JCDecaux	15.3	0.94	15%	8.3%	-0.6%	4.7%	-1.2%	2.9%
Stroer	12.5	0.89	15%	7.3%	10.0%	0.0%	-3.0%	7.0%
Average				**7.8%**	**4.7%**	**2.4%**	**-2.1%**	**4.9%**
Daily Mail	372	47.9	15%	1.9%	-0.1%	13.0%	-3.9%	9.0%
Lagardère	19.3	2.27	15%	2.9%	2.6%	0.0%	-0.8%	1.8%
Schibsted	128.3	9.4	15%	7.2%	7.8%	1.7%	-2.9%	6.7%
Trinity Mirror	41	22.8	15%	-25.9%	-62.6%	0.0%	18.8%	-43.8%
Average				**-3.5%**	**-13.1%**	**3.7%**	**2.8%**	**-6.6%**
Eniro	14.35	2.03	15%	0.7%	-17.9%	0.0%	5.4%	-12.6%
Yell	4.6	5.7	15%	-48.8%	-11.9%	0.0%	3.6%	-8.3%
Average				**-24.1%**	**-14.9%**	**0.0%**	**4.5%**	**-10.4%**
Informa	335	37.8	15%	3.3%	6.3%	6.3%	-3.8%	8.9%
Pearson	1,064	79.8	15%	7.0%	14.6%	6.1%	-6.2%	14.5%
Reed Elsevier plc	483	45.7	15%	5.1%	4.7%	4.4%	-2.7%	6.3%
United Business Media	432	53.0	15%	2.4%	-1.6%	6.8%	-1.6%	3.6%
Wolters Kluwer	12.1	1.45	15%	2.7%	-4.7%	0.0%	1.4%	-3.3%
Average				**4.1%**	**3.9%**	**4.7%**	**-2.6%**	**6.0%**
BSkyB	646	45.3	15%	7.5%	5.3%	6.4%	-3.5%	8.2%
Eutelsat	29.6	1.59	15%	9.1%	26.2%	0.3%	-8.0%	18.6%
SES	17.9	1.40	15%	6.7%	5.5%	0.0%	-1.7%	3.9%
Vivendi	15.6	2.44	15%	-0.5%	1.7%	3.0%	-1.4%	3.3%
Average				**5.7%**	**9.7%**	**2.4%**	**-3.6%**	**8.5%**
European Media Average				**1.5%**				**1.6%**

* Prices set at open on 7 September 2011

Note: 'Other' impact – as with our analysis in an earlier chapter – principally incorporates tax and is therefore a negative contributor for strong 'organic' growers and a positive for those seeing organic contraction.
Source: Company Reports and CIRA Estimates

We can also show this graphically by looking at the spread between potential and implied growth. We show this in Figure 34.

Figure 34. European Media – Spread Between Our Estimate of Potential Growth and Implied Growth



Source: Citi Investment Research and Analysis

What Should Investors Do?

We focus on companies that can 'do it themselves'

This screen does two things:

- It highlights companies that have the potential to grow earnings independent of the macro outlook through a combination of organic EPS growth and accretive cash usage, whether it be buybacks, as per our analysis, or value-creating M&A.
- It highlights situations where the market appears to be mispricing this potential growth.

Stock level Views focused on 'Mispriced Growth':

- Focus on 'Quality': Pearson, GfK, Informa, BSkyB, Aegis
- Focus on asymmetric risk/reward: ITV, ProSieben, DMGT

At a stock level, we are inclined to names where there is a positive spread.

- This primarily highlights 'quality' names – companies like **Pearson**, **GfK**, **Informa** – where we think the market is underestimating the raw potential for medium-term growth.
- It also highlights names where the market appears to be taking an especially dim view of the outlook. **DMGT**, **ITV**, **Vivendi** and **ProSiebenSat.1** are cases in point.

Sub-sector Views:

- Positive on PayTV/Platform businesses;
- Cautious on traditional media owners
- Positive bias toward agencies

At a sub-sector level:

- Confidence in EPS growth appears to be higher in the **payTV/platforms**, **professional publishing** and **marketing services** sub-sectors.
- One of the more surprising findings, though, is that the **ad agencies** screen better than the **prof pubs** on historical organic growth/optionality from cash usage.
- This is reflected in our recommendation profile: 4 Buys, no Sells in the agencies; 3 Buys, 1 Hold, 1 Sell in prof pubs.

Summary of Key Changes

Pearson – Upgrade to Buy

Figure 35. Pearson – ETR

Current Price (p)	1064
Target Price (p)	**1240**
Expected Share Price Return	16.5%
Dividend Yield	3.7%
Expected Total Return	**20.3%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **What's Changing?** — We upgrade our recommendation on Pearson to Buy/Medium Risk (from Hold/Medium Risk). We leave our estimates and price target of 1240p unchanged.
- **Our View** — Pearson is attractive for three reasons, in our view. First, the group has a strong track record of organic EPS growth driven by a compelling structural story – the shift into software/services within developed markets and the growth in international education. Second, we see significant scope for EPS growth to be enhanced by self-help – this includes the potential for positive margin surprise and accretive cash usage, in particular value-enhancing M&A. Third, we think valuation is now more compelling. Pearson trades at barely 12x 2012E P/E. This is still rich vs. the peer group but much more reasonable vs. history. In absolute terms we see upside to 1240p, implying an ETR of over 20%.
- **Where Do We Stand vs. Consensus?** — Consensus on Pearson is surprisingly polarized. There are 8 Buys on the name, 9 Holds and 8 Sells. The debate tends to focus on three factors: 1. the risk associated with the high level of government funding, particularly within US education; 2. the impact of structural changes – especially the growth of e-books – could have on the group's consumer and educational publishing businesses; 3. the group's valuation premium vs. the European Media peer group.

  - On government funding, this is indeed a challenge for the US Schools/Testing & Assessment activities, but these are a relatively small component of the overall group (24% of revenues) and, at any rate, we think Pearson may be in a position to benefit if austerity measures drive greater take-up of digital curriculum and learning support.
  - On the impact of e-books, while there is potential for dislocation from retail network shrinkage, we think the ultimate end game could be positive (higher volumes offsetting lower prices; better FCF generation).
  - We have some sympathy with the point on valuation, but we believe the issue is that the peers look cheap rather than Pearson looking overly expensive. As we show in the implied growth analysis, even assuming a 15% discount rate, we think Pearson should comfortably outperform market-implied growth.
- **Valuation** — Pearson trades at 11.9x 2012E P/E, a premium to the professional publisher peer group (9.3x). This valuation, though, is distorted by the group's leverage. On leverage neutral metrics the group trades much nearer the peer group (8.0x 2012E EV/EBITDA vs. 7.3x). In absolute terms, we see fair value at 1240p driven by our DCF set at 9.0% WACC, 2.5% LT growth.

Figure 36. Pearson – Summary P&L (Year End December, £m except where stated)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Revenues	**4,162**	**4,811**	**5,624**	**5,959**	**5,841**	**6,030**	**6,254**	**6,491**	**6,740**
Operating Profit	**634**	**762**	**858**	**938**	**929**	**992**	**1,050**	**1,105**	**1,161**
Margin	*15.2%*	*15.8%*	*15.3%*	*15.7%*	*15.9%*	*16.4%*	*16.8%*	*17.0%*	*17.2%*
Adjusted PBT	**549**	**674**	**761**	**853**	**861**	**961**	**1,038**	**1,112**	**1,162**
Adjusted Net Income	**372**	**460**	**523**	**621**	**639**	**712**	**769**	**824**	**861**
Adjusted EPS (p)	**46.7**	**57.7**	**65.4**	**77.5**	**79.8**	**89.1**	**96.2**	**103.0**	**107.6**
% growth	8.3%	23.6%	13.4%	18.5%	3.0%	11.6%	8.0%	7.1%	4.5%
DPS (p)	31.6	33.8	35.5	38.7	39.9	44.5	48.0	51.4	53.7

Source: Citi Investment Research and Analysis, Company Reports

Figure 37. Mediaset Espana - ETR

Current Price (€)	4.41
Target Price (€)	**3.90**
Expected Share Price Return	-11.5%
Dividend Yield	8.0%
Expected Total Return	**-3.4%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

Figure 38. Mediaset Espana – EPS Change (%)

	New	Old	% chg
2011E	0.42	0.45	-6.7%
2012E	0.38	0.52	-26.9%
2013E	0.48	0.61	-21.3%

Source: Citi Investment Research and Analysis

Mediaset Espana – Downgrade to Sell

- **What's Changing?** – We downgrade our recommendation on Mediaset Espana to Sell/Medium Risk (from Hold/Medium Risk) and reduce our target price to €3.90 from €6.10 reflecting operational downgrades and a more pessimistic view on medium-term growth.

- **Our View –** Our economists' recent downgrade of Spanish 2012 GDP implies recession, our industry checks suggest that negative ad trends have continued into 3Q and we believe things will remain tough into 4Q (elections tend to be a negative for advertising) and 2012. We are cautious on the group's capacity to reduce 2012 costs in light of a declining topline (with sports rights kicking in), the stock overhang from the Prisa stake of 17.3% and uncertainty on the Endemol restructuring. Although the share price has been weak and we forecast trough EPS levels in 2012E (and therefore a mild valuation premium may be acceptable), the group trades at a 30% premium to peers on 2012E P/E at 11.7x and a 46% premium to peers on EV/EBITDA at 7.3x.

- **Where Do We Stand vs. Consensus** – Consensus still assumes positive growth in 2012 and a bounce in 4Q11. We believe this is increasingly unlikely. We are now 25% below consensus 2012E EPS.

- **Forecast Changes** — We now assume the TV ad market declines 6% in 2011E and 1.5% in 2012E (from -5% and +3%). We forecast -8.5% net ad growth for Mediaset Espana in 2011E (this assumes market underperformance is tempered in 2H) and -0.4% in 2012E (easier comps and should benefit from improving audience share/Euro Cup rights). We forecast operating costs of €859m 2011E (down from €865m; guidance of €870m). We assume the group will reduce underlying costs by 3.2% in 2012E, but the group has the Euro Cup rights and the MotoGP contract starts and therefore overall operating costs are forecast to increase by 5%. These changes drive a 7% reduction in 2011E EPS and a 21%-27% reduction to 2012E/13E.

- **Valuation** — Reflecting our forecast downgrades we reduce our target price to €3.90 from €6.10. This is based on a DCF using 11.2% WACC (from 10.9%) and 0.5% LT growth (reduced from 1.5% given weaker outlook). Our target price implies a 2012E P/E of 10.4x and 6x EV/EBITDA.

Figure 39. Mediaset Espana – Summary P&L (Year End December, €m except where stated)

	2008	2009	2010	2011E	2012E	2013E
Revenues	**981.9**	**656.3**	**855.1**	**1068.0**	**1065.6**	**1101.3**
EBIT	**386.9**	**122.8**	**219.5**	**188.3**	**154.1**	**210.8**
EBIT margin (%)	*39.4%*	*18.7%*	*25.7%*	*17.6%*	*14.5%*	*19.1%*
Adjusted PBT	**278.6**	**67.1**	**130.4**	**210.6**	**182.3**	**244.6**
Adjusted Net Income	**353.1**	**282.3**	**112.6**	**169.0**	**152.8**	**196.4**
Adjusted Fully diluted EPS (€)	**1.14**	**0.46**	**0.67**	**0.42**	**0.38**	**0.48**

Source: Citi Investment Research and Analysis, Company Reports

Antena3 – Downgrade to Sell

- **What's Changing?** – We downgrade our recommendation on Antena 3 to Sell/Medium Risk from Hold/Medium Risk. We reduce our price target to €4.10 from €5.90 reflecting operational downgrades and a more pessimistic medium-term growth outlook.

- **Our View** - Our economists' recent downgrade of Spanish 2012 GDP implies recession, our industry checks suggest that negative ad trends have continued into 3Q and we believe things will remain tough into 4Q (elections tend to be a negative for advertising) and 2012. We acknowledge there is the possibility of M&A (La Sexta merger looking more likely) which would help consolidate the market, but as we saw with the Telecinco/Cuatro merger this is unlikely to be enough to overcome the weak macro backdrop. While the group has generally outperformed the ad market and has seen a recovery in audience share, we believe there will be limited scope to reduce costs significantly, as it is critical it protects its share as number 2 in the market. Although the share price has been weak, the group now trades at a premium to broadcast peers at 10.6x 2012E P/E and 8.2x 2012E EV/EBITDA (peers on c.9x and c. 5x), which we find difficult to justify given lack of EPS momentum (Note: it trades on same EV/EBITDA as Pearson).

- **Where Do We Stand vs. Consensus** - Consensus still assumes positive growth in 2012 and a bounce in 4Q11. We believe this is increasingly unlikely. We are now 22% below consensus 2012E EPS.

- **Forecast Changes** — We now assume the TV ad market declines 6% in 2011E and 1.5% in 2012E (from -5% and +3%). We believe Antena 3 will continue to outperform the market this year, but assume an in line performance in 2012. We have also pulled back cost growth assumptions (+2.4% in 2011E from +2.9% and -0.4% in 2012E from +1.6%), but high operating leverage means EPS downgrades of 11%/28% 2011E/12E.

- **Valuation** — Reflecting our forecast downgrades we reduce our target price to €4.10 from €5.90. This is based on a DCF using 11.2% WACC (down from 10.9%) and 0% LT growth (reduced from 1% given weaker outlook). Our target price implies a 2012E P/E of 9.5x and 7.5x EV/EBITDA.

Figure 40. Antena 3 - ETR

Current Price (€)	€4.51
Target Price (€)	**€4.10**
Expected Share Price Return	-9.1%
Dividend Yield	8.5%
Expected Total Return	**-0.5%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

Figure 41. A3 – EPS Change (%)

	New	Old	% chg
2011E	0.46	0.52	-11.5%
2012E	0.43	0.59	-27.1%
2013E	0.48	0.62	-22.6%

Source: Citi Investment Research and Analysis

Figure 42. Antena 3 – Summary P&L, €m, 2008 – 2013E

	2008	2009	2010	2011E	2012E	2013E
Revenues	833.5	703.9	807.7	802.2	788.0	816.5
EBIT	147.5	64.1	141.0	119.6	107.0	125.5
EBIT margin (%)	*17.7%*	*9.1%*	*17.5%*	*14.9%*	*13.6%*	*15.4%*
PBT	103.1	51.4	131.6	115.3	102.0	120.2
Adjusted Net Income	91.1	60.7	109.1	93.3	85.8	96.7
Adjusted Fully diluted EPS (€)	0.43	0.30	0.54	0.46	0.43	0.48

Source: Citi Investment Research and Analysis, Company Reports

Other Changes

DMGT

- **Forecast Changes** — Our 2011E EPS is slightly reduced to reflect the acquisition of Ned Davis Research within Euromoney (completed 1 Aug 2011). We have also reflected the announced sale of GLM Events, which the company said it expects to complete by September. The combined effect of the sale of GLM events and acquisition of Ned Davis is broadly EPS neutral for 2012, with advertising downgrades driving the overall c.3% group EPS downgrades in 2012/2013. In light of a weaker economic outlook we lower our advertising forecasts for 2012E to 1% at Nationals (print -1% from +2% previously, online classifieds +7% from +10% previously) and -5% at Regionals (-2% previously).

- **Target Price Change** — Reflecting a reduction in peer-traded multiples, we reduce our SOTP-based target price to 495p (from 620p). In particular, we now value the B2B businesses (65% of group FY11E EBIT) at 9x 2011E EBIT (vs 10.5x vs previously) more in line with valuations for INF/UBM. We value national print newspaper at 0.75x 2011E sales (vs 1x previously) and regional newspapers at 0.5x 2011E sales (vs 0.7x previously) still a premium to Trinity Mirror on 0.5x 2011E sales, given our view of DMGT's stronger market position. We continue to apply higher revenue multiples to DMGT's digital assets in line with our view of sustainable medium-term margins.

- **Our View: Buy/Medium Risk** — We acknowledge that the appetite for UK newspaper stocks is low, given not only their cyclicality, but also the potential risks around phone-hacking allegations. That said, we believe that valuation of DMGT more than reflects these potential risks. No one has come forward with any allegations against the *Mail*, as has been the case with Trinity Mirror's *Daily Mirror* where we have greater concerns (former journalists / celebrities have publicly made allegations). We continue to see the *Mail* as well placed to take share in a shrinking print market at the same time as developing its digital assets, a source of under-recognised value, in our view. Furthermore, we note that about two-thirds of group profits come from B2B, where we continue to believe DMGT's information services are in a strong competitive position to deliver steady and reliable late-cycle growth. At only 7.0x PE, 6.9x adjusted EV/EBITDA in calendar 2012E, we see risk reward as positively tilted at DMGT and rate it Buy.

Figure 43. DMGT - ETR

Current Price (p)	372
Target Price (p)	**495**
Expected Share Price Return	33.1%
Dividend Yield	4.6%
Expected Total Return	**37.7%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

Figure 44. DMGT – EPS Change (%)

	New	Old	% chg
2011E	47.9	48.0	-0.2%
2012E	51.8	53.4	-3.0%
2013E	61.5	63.1	-2.6%

Source: Citi Investment Research and Analysis

Figure 45. DMGT– Summary P&L (Year End September, £m except where stated)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Total Revenues	**2,311.7**	**2,117.5**	**1,983.9**	**1,977.2**	**1,992.4**	**2,051.7**	**2,082.4**	**2,128.8**	**2,152.3**
Operating Profit	**316.9**	**277.6**	**303.4**	**295.2**	**316.2**	**358.4**	**383.4**	**416.8**	**441.2**
Margin	*13.7%*	*13.1%*	*15.3%*	*14.9%*	*15.9%*	*17.5%*	*18.4%*	*19.6%*	*20.5%*
Adjusted PBT	**261.8**	**200.7**	**231.8**	**244.5**	**271.2**	**327.1**	**369.0**	**422.8**	**470.1**
Adjusted Net Income	**180.8**	**140.7**	**177.8**	**184.0**	**198.8**	**236.2**	**267.6**	**300.7**	**317.6**
EPS adjusted fully diluted (p)	**47.9**	**37.2**	**46.3**	**47.9**	**51.8**	**61.5**	**69.7**	**78.3**	**82.7**
Net Div (p)	14.7	14.7	16.0	17.1	18.3	20.5	23.2	26.1	27.6
Dividend cover	3.3	2.5	2.9	2.8	2.8	3.0	3.0	3.0	3.0

Source: Citi Investment Research and Analysis, Company Reports

Independent News & Media

- **Forecast Changes** — Our 20%-26% EPS cuts across 2011–13E are primarily driven by a reduction in our top-line forecasts at the Island of Ireland division. We now forecast FY11E/12E advertising -9%/0% vs -7%/+1% previously. With limited additional flexibility in the cost base, this drives a c.13%-16% EBIT decline for Ireland 2011E/12E and an 8%-9% EBIT decline for the group 2011E/12E. We make no major changes to our forecasts for net debt, interest rate or tax and therefore the amplified EPS declines are merely a function of the group's high financial leverage. Net debt/adjusted EBIT is 3.9x on our FY11E forecasts, falling to 3.4x 2012E, 2.7x 2013E.

- **Target Price Change** — We reduce our target price to €0.31 from €0.64 reflecting our forecast downgrades and pull back in peer multiples. We set our target price at €0.31 based on 5.5x 2012E EV/EBITDA, in line with its pan-European consumer publishing peers. While higher leverage and Irish exposure may indicate a discount is necessary, we balance this against its broader geographic exposure vs many peers (half of EBIT from South Africa and a significant associate income from APN is Australasia).

- **Our View: Hold/High Risk** — We take a more cautious view than consensus (6 analysts, 5 Buys according to Reuters). At 2x consensus 2012 PE, we believe the market needs to see: 1) stabilisation at the top line (particularly in Ireland – "Island of Ireland" now represents c.65% of group revenue, c.50% of operating profit) and 2) further progress on deleverage (3.9x net debt/EBITDA incl APN dividends at FY11E) before re-rating the stock.

Figure 46. INM - ETR

Current Price (€c)	0.285
Target Price (€c)	**0.31**
Expected Share Price Return	8.8%
Dividend Yield	0%
Expected Total Return	**8.8%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

Figure 47. INM – EPS Change (%)

	New (€cent)	Old (€cent)	% chg
2011E	10.32	12.92	-20.1%
2012E	10.49	14.10	-25.8%
2013E	12.49	15.30	-18.5%

Source: Citi Investment Research and Analysis

Figure 48. Independent News & Media– Summary P&L (Year End September, €m except where stated)

	FY 2009A	FY 2010A	FY 2011E	FY 2012E	FY 2013E
Total Revenues	1,255.9	626.4	582.9	592.3	610.6
Adj Operating Profit (pre-JV/assocs)	**177.2**	**82.6**	**80.0**	**80.3**	**86.5**
Margin	*14.1%*	*13.2%*	*13.7%*	*13.6%*	*14.2%*
JV and Associate Profits	9.5	2.9	18.5	17.7	20.4
Adjusted PBT	**114.4**	**37.3**	**66.2**	**68.1**	**81.2**
Adjusted Net Income	**45.8**	**51.7**	**56.8**	**57.7**	**68.7**
FD EPS - pre-exceptional (€c)	**20.78**	**10.19**	**10.32**	**10.49**	**12.49**

Source: Citi Investment Research and Analysis

ITV

Figure 49. ITV - ETR

Current Price (p)	53.8
Target Price (p)	**100.0**
Expected Share Price Return	85.9%
Dividend Yield	2.8%
Expected Total Return	**88.7%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **Forecast Changes** — We adjust our 2012E and 2013E estimates to reflect our economists' recent cuts to UK GDP growth. On the back of this we now forecast just 2% ITV Family NAR growth in 2012E followed by 2.7% in 2013E. This compares with our previous forecast of 4.8% and 4%, respectively. Reflecting the high level of operational gearing inherent in the model, this change – equivalent to a c.2% group revenue downgrade – drives 8%-10% reduction in EBITA and a 10.1% to 14.7% reduction in EPS for those years.

- **Target Price Change** — We base our absolute valuation on a DCF analysis (WACC of 9.5% and a LT growth assumption of 2%). Reflecting the reduction in our forecasts, we see our fair value for the group fall to 100p from 115p per share. We use this as the basis of our price target.

Figure 50. ITV – EPS Change (%)

	New	Old	% chg
2011E	7.0	7.0	0.0%
2012E	7.3	8.2	-10.1%
2013E	7.4	8.7	-14.7%

Source: Citi Investment Research and Analysis

- **Our View: Buy/High Risk** — Our core thesis on ITV is that the group's structural position is improving. That ITV is, slowly but surely, becoming a better company. In this context, a more muted macro is an unhelpful development, but for as long as the UK avoids recession we remain relatively upbeat on its prospects. The reasons for this are threefold: 1). We think the UK TV ecosystem is becoming more accommodative for commercial broadcasters, as the BBC retrenches and previously onerous regulatory requirements are unwound; 2) we see significant untapped potential from the group's content business, in particular in a non-linear or OTT world; and 3) We think the group has the potential to significantly enhance EPS via sensible cash use. Net debt/EBITDA stands at 0.1x and it remains the case that even using available cash to pay down gross debt, could add 5% to group EPS. Potential buybacks or M&A could be even more accretive.

- **Valuation** — ITV trades at 7.3x 2012E P/E, below the peer group average (8.3x). On leverage-adjusted metrics, the discount looks more extreme with ITV trading at 4.9x 2012E EV/EBITDA (vs. peers 5.5x). On an absolute basis we see fair value at 100p. At this price ITV would trade at 8.6x EV/EBITDA and 2x EV/Sales, still below historical averages and the level implied by recent transactions.

Figure 51. ITV– Summary P&L (Year-end December, £m except where stated)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Total Revenues	**2,029**	**1,879**	**2,064**	**2,118**	**2,173**	**2,242**	**2,322**	**2,417**	**2,504**
Operating Profit	**211**	**202**	**408**	**442**	**453**	**451**	**484**	**529**	**560**
Margin	*10.4%*	*10.8%*	*19.8%*	*20.9%*	*20.8%*	*20.1%*	*20.8%*	*21.9%*	*22.4%*
Adjusted PBT	**112**	**108**	**321**	**366**	**385**	**389**	**431**	**486**	**525**
Adjusted Net Income	**71**	**70**	**247**	**282**	**296**	**299**	**328**	**370**	**399**
FD Adjusted EPS (p)	**1.8**	**1.7**	**6.0**	**7.0**	**7.3**	**7.4**	**8.1**	**9.1**	**9.8**
DPS (p)	0.7	0.0	0.0	1.5	2.5	3.0	3.2	3.7	3.9
Payout Ratio	36.9%	0.0%	0.0%	21.4%	34.0%	40.0%	40.0%	40.0%	40.0%

Source: Citi Investment Research and Analysis, Company Reports

JCDecaux

Figure 52. JCDecaux - ETR

Current Price (€)	15.3
Target Price (€)	**16.5**
Expected Share Price Return	8.1%
Dividend Yield	2.6%
Expected Total Return	**10.7%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

Figure 53. JCDecaux – EPS Change (%)

	New	Old	% chg
2011E	0.94	0.96	-2.0%
2012E	1.06	1.16	-9.1%
2013E	1.22	1.36	-10.3%

Source: Citi Investment Research and Analysis

- **Forecast Changes** — Reflecting a softening of the macro outlook we adjust our organic growth assumptions for JCDecaux and forecast 5.1% organic growth 2011E (from 5.5%) and 3.6% organic growth in 2012E (from 5.5%). We assume a decline in billboard revenue this year (driven by rationalization) and limited growth in 2012E. Within Street Furniture we assume only 1.5% organic growth this year and next. We forecast 15.3% organic growth in transport this year in transport, driven by new contracts, but we assume this slows to 7.7% in 2012E. We assume a c.30% drop-through reflecting the fact the transport division (lowest operating leverage) will be the key growth driver and the remaining divisions will barely grow above inflation. These changes drive 2%-10% EPS downgrades for 2011E-13E and leaves us 5%/10% below consensus in 2011E/12E.

- **Target Price Change** — We reduce our target price to €16.50 from €23.50. This reflects our forecast reductions as well as an increase in the WACC and reduction in the LT growth rate used to derive the DCF-driven target price. We apply a WACC of 10% (up from 8.9% and LT growth rate of 3% (down from 4%) reflecting increased risk in light of the softer macro outlook.

- **Our View: Hold/Medium Risk** — While we remain positive on the structural growth potential of outdoor longer term, and JCDecaux is one of the few European media owners offering emerging market exposure (c.23% of revenue), we believe significant exposure to France, UK and S. Europe (c.45% of revenue) will drag on growth near term. With a premium valuation (14.7x 2012E P/E vs. sector 8x), revenue momentum is a key driver of share price performance for JCDecaux. We also believe that the shares will struggle to outperform while regulatory risk in France remains (awaiting a draft decree that could see a reduction in outdoor sites in France; earliest we will hear is September/October). We rate JCDecaux Hold.

Figure 54. JCDecaux– Summary P&L (Year End December, €m except where stated)

	2008	2009	2010	2011E	2012E	2013E
Revenues	**2168.4**	**1918.8**	**2350.0**	**2449.9**	**2534.1**	**2634.3**
Adjusted EBIT	**307.3**	**143.4**	**279.5**	**322.2**	**347.4**	**388.5**
EBIT margin (%)	*14.2%*	*7.5%*	*11.9%*	*13.2%*	*13.7%*	*14.7%*
Adjusted PBT	**256.8**	**127.2**	**252.5**	**299.4**	**332.0**	**382.7**
Adjusted Net Income	**184.2**	**58.9**	**173.8**	**208.7**	**234.1**	**269.8**
Adjusted Fully diluted EPS (€)	**0.83**	**0.27**	**0.78**	**0.94**	**1.06**	**1.22**

Source: Citi Investment Research and Analysis, Company Reports

Johnston Press

Figure 55. Johnston Press - ETR

Current Price (p)	5.0
Target Price (p)	**4.0**
Expected Share Price Return	-20%
Dividend Yield	0%
Expected Total Return	**-20%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **Forecast Changes** — Reflecting our lowered advertising forecasts (-9% 2011E, -3% 2012/13E), we lower our 2011E/12E EBITA forecasts by c.10%-11%. In 2011E, the EPS change is more muted (-3%) helped by lower absolute debt levels, although we assume the average effective interest rate remains high (9.5%). In 2012E, the EPS change is amplified (-15%) as we assume interest costs will not come down as rapidly as we previously assumed (we now model 9% in 2012E, vs 8% previously).

- **Target Price Change** — We believe Johnston Press should trade at discount to its UK consumer publishing peers, to reflect its pure exposure to structurally challenged regional newspaper, plus risks associated with high financial leverage and management change. We now set our discount at c.10% (vs 15% previously given the severe pullback in peer multiples) and set our target price at c.5.3x 2011 adjusted EV/EBITDA which equates to 4p (down from 8.5p).

Figure 56. JPR – EPS Change (%)

	New	Old	% chg
2011E	3.29	3.40	-3.0%
2012E	3.46	4.08	-15.1%
2013E	3.59	NA	NA

Source: Citi Investment Research and Analysis

- **Our View: Sell/High Risk** — While Johnston Press delivered stronger operating margins and better debt reduction at the 1H than we had expected, a lot of challenges remain. Sustainable top-line growth, rather than more cost efficiencies will be needed to drive a re-rating in the stock, in our view, and we do not see this as forthcoming. Furthermore, the group faces the difficulties of refinancing its large debt pile (c.4.5x net debt/EBITDA at 1H11) by 1Q12 (ahead of Sep 2012 maturities), at the same time as new management take charge (new CFO joined in May 2011, new CEO to join in November 2011). Execution risk remains high in our view, and we continue to rate the group Sell.

Figure 57. Johnston Press – Summary P&L (Year End December, £m except where stated)

	2008	2009	2010	2011E	2012E	2013E
Revenues	**531.9**	**428.0**	**398.1**	**370.6**	**360.2**	**350.3**
EBITA	**128.4**	**71.8**	**72.0**	**63.7**	**63.1**	**62.2**
EBIT margin (%)	*24.1%*	*16.8%*	*18.1%*	*17.2%*	*17.5%*	*17.7%*
Adjusted PBT	**98.8**	**43.3**	**30.5**	**27.4**	**28.8**	**29.9**
Adjusted Net Income	**72.2**	**35.5**	**23.6**	**21.2**	**22.3**	**23.1**
Adjusted Fully diluted EPS (p)	**13.37**	**5.48**	**3.58**	**3.29**	**3.46**	**3.59**

Source: Citi Investment Research and Analysis, Company Reports

M6

- **Forecast Changes** — Our 2011E forecasts are unchanged. We assume +1% net ad growth at the core channel in 2012E, down from +2.5%. We also reduce our revenue growth assumption for the Digital TV business to +6%, from +8%. We assume there is some scope to reduce programming cost growth from our previous forecast of +5.3% in 2012E; we now assume +3.5%. These changes drive 2%-3% EPS downgrades 2012E/13E and leave us 2% below consensus 2012E.

- **Target Price Change** — We reduce our DCF driven target price to €14.50 from €15.70 reflecting forecast changes and increased caution on the macro outlook. We forecast limited growth at M6 and believe longer-term investment risk remains, and therefore reduce our LT growth 0.5% (from 1%). We increase WACC to 10.5% (from 10%) reflecting an increase in the risk premium.

- **Our View: Hold/Medium Risk** — Management has a solid track record of cost control, the audience share of the core channel remains stable (which should provide some support for ad trends) and the balance sheet is strong (net cash). In the last recession its more diversified exposure helped limit the EPS declines relative to broadcast peers. However, we would argue that the diversification business is not in such rude health (football club underperforming and distance selling facing increasing competition), and we can't see a clear strategy outside of the broadcast business, investment risk remains longer term and the macro outlook appears to be weakening. On capital structure adjusted metrics M6 trades broadly in line with peers at 5x 2012E EV/EBITDA. We rate M6 Hold.

Figure 58. M6 - ETR

Current Price (€)	13.7
Target Price (€)	**14.5**
Expected Share Price Return	5.8%
Dividend Yield	7.7%
Expected Total Return	**13.6%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

Figure 59. M6 – EPS Change (%)

	New	Old	% chg
2011E	1.25	1.25	0.0%
2012E	1.26	1.30	-3.1%
2013E	1.33	1.37	-2.9%

Source: Citi Investment Research and Analysis

Figure 60. M6 – Summary P&L (Year End December, €m except where stated)

	2008	2009	2010	2011E	2012E	2013E
Revenues	**1354.8**	**1376.2**	**1461.6**	**1456.9**	**1477.8**	**1522.2**
EBIT	**194.0**	**190.3**	**242.2**	**248.6**	**250.8**	**264.5**
EBIT margin (%)	*14.3%*	*13.8%*	*16.6%*	*17.1%*	*17.0%*	*17.4%*
PBT	**193.9**	**191.3**	**245.0**	**251.9**	**255.1**	**269.6**
Net Income	**138.4**	**139.2**	**157.1**	**160.6**	**162.6**	**171.8**
Adjusted Fully diluted EPS (€)	**1.20**	**1.11**	**1.22**	**1.25**	**1.26**	**1.33**

Source: Citi Investment Research and Analysis, Company Reports

Mediaset

Figure 61. Mediaset - ETR

Current Price (€)	2.52
Target Price (€)	**2.20**
Expected Share Price Return	-12.8%
Dividend Yield	7.9%
Expected Total Return	**-4.8%**

Price as at open on 8 September 2011

Source: Citi Investment Research and Analysis

Figure 62. Mediaset – EPS Change (%)

	New	Old	% chg
2011E	0.26	0.28	-5.3%
2012E	0.25	0.31	-20.2%
2013E	0.27	0.34	-19.4%

Source: Citi Investment Research and Analysis

- **Forecast Changes** — We are fine-tuning our 2011-2013E figures –cutting EPS by 5.3%, 20.2% and 19.4% for 2011-13E to reflect weaker operations in Italy and Spain. We model advertising down 2.7% in 2011E-12E for FTA .Due to the rigid cost structure, even a small decline in sales has a big impact on the bottom line. We forecast programming costs increase 2.7% and 1.1% 2011E/12E. On PPV, despite a likely spike in Q311E subscribers' base (on a very aggressive commercial offer), we maintain our estimates pointing to an operating loss of c€30m in 2011E while we don't expect PPV to become profitable anytime soon. We are now are 12% below consensus on 2011E and 22% for 2012E. We also cut the dividend to €0.20 – although we would suggest Mediaset would benefit from focusing on de-gearing.

- **Target Price Change** — We cut our DCF based target price to €2.20 to reflect our new estimates.

- **Our View: Sell/Medium Risk** — Despite recent underperformance, we maintain our Sell, as we believe the "perfect storm" is still in place. On FTA, the group is facing declining audiences, flattish revenues (at best) and an increase in the cost of programming due to both increased competition for core channels and the launch of new DTT channels. We increasingly see Mediaset's PPV stuck in the middle: too expensive for a price leader and too low quality to attract premium viewers, in our view. The subscriber base is nearly unchanged YOY and an escalation in the cost of programming looks likely (once the football's bill is re-negotiated). While we see little correlation between Mediaset's medium-term economic returns and Berlusconi's political fate (and we are agnostic about his role), we believe that the decline is unstoppable and headlines involving Berlusconi could be negative for sentiment on the stock near term. We believe Mediaset needs to cut 2012E costs while preserving quality in a stiffer competitive environment. Although a challenging task, we think this should be seen as a mandatory strategy for Mediaset while facing secular decline in its core business. At 10.3x 2011E PE vs. peers on c.9x we believe the risk remains to the downside. The dividend yield looks attractive but should not distract investors from the issues facing Mediaset, in our view.

Figure 63. Mediaset – Summary P&L (Year End December, €m except where stated)

	2008	2009	2010	2011E	2012E	2013E
Revenues	4251.8	3882.9	4292.5	4431.7	4465.7	4602.6
EBIT	948.6	601.5	815.5	654.5	574.4	630.8
EBIT margin (%)	*23.2%*	*15.5%*	*19.0%*	*14.8%*	*12.9%*	*13.7%*
PBT	693.0	448.4	599.6	615.7	554.9	595.3
Net Income	459.0	272.4	352.2	309.8	290.4	319.4
Adjusted Fully diluted EPS (€)	0.39	0.23	0.30	0.26	0.25	0.27

Source: Citi Investment Research and Analysis, Company Reports

ProSiebenSat.1 Media

Figure 64. P7S1 - ETR

Current Price (€)	12.4
Target Price (€)	**20.0**
Expected Share Price Return	61.3%
Dividend Yield	11.9%
Expected Total Return	**73.2%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

Figure 65. P7S1 – EPS Change (%)

	New	Old	% chg
2011E	2.06	2.06	0.0%
2012E	1.96	2.13	-7.6%
2013E	2.07	2.24	-7.5%

Source: Citi Investment Research and Analysis

- **Forecast Changes** — We adjust our 2012E and 2013E estimates to reflect a more muted outlook for the top line. We now forecast just 1% growth for the German and International TV businesses in 2012E followed by 3.7% in 2013E. This compares with our previous forecast of 4% and 4.8%, respectively. Reflecting the high level of operational gearing inherent in the model, this change – equivalent to a 1.8% group revenue downgrade – drives a 5% reduction in recurring EBITDA and a c.-7.5% reduction in EPS.

- **Target Price Change** — We base our absolute valuation on a DCF analysis (WACC of 9% and a LT growth assumption of 1%). We also factor in a discount to reflect the fact that Preference shareholders do not have full voting rights – this is set at a 25% discount to the Ords, in line with previous transaction multiples. Reflecting the reduction in our forecasts, we see our fair value for the group fall to €20 from €25 per share. We use this as the basis of our new price target.

- **Our View: Buy/High Risk** — We think P7S1 represents the best risk/reward among the continental European broadcasters. The structural position is secure, the macro outlook should be supportive at least in relative terms, expectations are low (for example consensus looking for just 1% German-speaking free TV growth for the FY2011E) and the risk profile is improving as the group delevers. At the same time, even after our downgrades valuation appears attractive: P7S1 trades at 6.3x 2012E P/E and 5.4x EV/EBITDA vs. peers on c.8.3x and c.5.5x. We see significant upside and rate the group Buy/High Risk.

- **Valuation** — P7S1 trades at 6.3x 2012E P/E, below the peer group average (8.3x). On leverage-adjusted metrics, the discount looks slightly less extreme but is still there with P7S1 trading at 5.4x 2012E EV/EBITDA (vs. peers 5.5x). On an absolute basis we see fair value at €20. At this price P7S1 would trade at 7.3x EV/EBITDA and 2.3x EV/Sales, below historical averages and the level implied by recent transactions (cf. P7S1 sold its BeNe assets earlier in the year for 10.6x EV/EBITDA).

Figure 66. ProSiebenSat.1 Media– Summary P&L (Year End December, €m except where stated)

	2007	2008	2009	2010	2011E	2012E	2013E	2014E	2015E
Total Revenues	**2,702.5**	**3,054.2**	**2,760.8**	**3,000.0**	**2,860.4**	**2,694.5**	**2,793.7**	**2,896.6**	**3,003.6**
Recurring EBITDA	**661.9**	**674.5**	**696.5**	**905.9**	**896.6**	**841.1**	**872.1**	**904.2**	**937.6**
Margin	24.5%	22.1%	25.2%	30.2%	31.3%	31.2%	31.2%	31.2%	31.2%
Adjusted PBT	**465.6**	**238.2**	**366.6**	**582.3**	**625.2**	**598.3**	**629.7**	**672.4**	**706.3**
Adjusted Net Income	**272.8**	**164.3**	**250.9**	**407.8**	**438.0**	**418.6**	**440.6**	**470.6**	**494.3**
Adjusted EPS (€)	**1.25**	**0.75**	**1.17**	**1.91**	**2.06**	**1.96**	**2.07**	**2.21**	**2.32**
% growth	13.4%	-39.5%	55.2%	63.5%	7.4%	-4.4%	5.2%	6.8%	5.0%
DPS (€)	1.25	0.02	0.02	1.14	1.47	1.50	1.61	1.73	1.82

Source: Citi Investment Research and Analysis, Company Reports

TF1

Figure 67. TF1 - ETR

Current Price (€)	9.9
Target Price (€)	**10.4**
Expected Share Price Return	5.1%
Dividend Yield	7.9%
Expected Total Return	**12.9%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

Figure 68. TF1 – EPS Change (%)

	New	Old	% chg
2011E	0.98	1.06	-7.6%
2012E	1.04	1.21	-14.6%
2013E	1.12	1.34	-16.4%

Source: Citi Investment Research and Analysis

- **Forecast Changes** — We now forecast -0.5% net ad growth at the core channel in 2011E (down from1.3%). Gross ad data for August was weak (-15%) and if this run rate continues, gross ad growth for 3Q could be c.-10% (although net will probably slightly better). For 2012E we assume +0.5% net ad growth, down from +2%. We also temper our growth expectations for diversification. We leave our programming cost forecast of €909m this year ad €934m in 2012E (this includes the Euro Cup) unchanged. Our 2011-13 EPS forecasts move down by 8%-16% 2011E-13E and leaves us 5% below consensus in 2012E.

- **Target Price Change** — We reduce our target price to €10.40 from €13.80 reflecting forecast changes and increased caution on the macro outlook. We use a combination of a DCF (we increase WACC to 10.5% from 10% reflecting an increase in the risk premium) and multiple analysis (based on peer 2012E P/E of 9.1x) to derive our target price.

- **Our View** — We believe that TF1 will continue to underperform the ad market (gross ad data for August/July would suggest underperformance has continued) until it stems the audience share declines on the core channel. While we think that the margin story is attractive (and TF1 has been delivering on improving efficiency), the group's naturally high operating leverage could make sustainability of EPS momentum more difficult in a softer revenue environment. The group trades at 9.8x 2012E P/E, a mild premium to peers. We continue to rate it Hold/Medium Risk.

Figure 69. TF1 – Summary P&L (Year End December, €m except where stated)

	2008	2009	2010	2011E	2012E	2013E
Revenues	**2595.0**	**2365.2**	**2622.4**	**2633.6**	**2649.5**	**2725.1**
EBIT	**176.5**	**101.4**	**230.4**	**322.5**	**339.8**	**369.0**
EBIT margin (%)	*6.8%*	*4.3%*	*8.8%*	*12.2%*	*12.8%*	*13.5%*
Adjusted PBT	**154.5**	**79.1**	**209.7**	**324.4**	**342.3**	**370.6**
Adjusted Net Income	**163.8**	**114.4**	**145.5**	**208.4**	**220.9**	**239.4**
Adjusted Fully diluted EPS (€)	**0.77**	**0.54**	**0.68**	**0.98**	**1.04**	**1.12**

Source: Citi Investment Research and Analysis, Company Reports

Stroer Out-of-Home Media

Figure 70. Stroer - ETR

Current Price (€)	124.9
Target Price (€)	**16.0**
Expected Share Price Return	28.2%
Dividend Yield	0.0%
Expected Total Return	**28.2%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **Forecast Changes** — Our revenue growth trends reflect our economists' softer GDP forecasts as well as the group's caution, due to lack of visibility. The group is guiding to the low end of the mid to high single digit organic growth range and state that it will be difficult to achieve a flat margin. For 2011E we forecast 5% organic growth (down from 7%) and a 23.1% margin, which assumes a 90bps YoY decline (down from 23.9%). We now assume only 2.9% organic growth for 2012E (down from 7.5%), as we have pulled our expectation for Germany back to +2.5%. We also update for the Turkish lira rate, which has moved negatively against Stroer. These changes drive a 19% EPS downgrade in 2011E and c.28% in 2012E/13E. This leaves us 6%/11% below consensus in 2011E/12E.

- **Target Price Change** — We reduce our target price to €16 from €27.80. This reflects our forecast reductions as well as an increase in the WACC and reduction in the LT growth rate used to derive the DCF driven target price. We apply a WACC of 10% (up from 9.4%) and LT growth rate of 2.5% (down from 3.5%) reflecting increased risk in light of the softer macro outlook.

Figure 71. Stroer – EPS Change (%)

	New	Old	% chg
2011E	0.89	1.10	-19.0%
2012E	0.99	1.38	-28.1%
2013E	1.14	1.58	-27.8%

Source: Citi Investment Research and Analysis

- **Our View: Buy/Medium Risk** — We rate Stroer Buy as we view outdoor as a structural growth area, particularly in Germany (c.74% of Stroer revenue from Germany) where outdoor spend remains low relative to global levels, and inventory upgrades should drive growth. An increase in bookings from larger clients is an early sign that investment in the higher margin premium boards/ screens by Stroer is paying off. Despite EPS downgrades Stroer is still forecast to deliver superior EPS CAGR at 16.6% 2011E-14E and is trading at a discount to JCDecaux at 13x 2012E P/E.

Figure 72. Stroer – Summary P&L (Year End December, €m except where stated)

	2009	2010	2011E	2012E	2013E
Revenues	**469.8**	**531.4**	**581.9**	**593.6**	**619.6**
Adjusted EBIT	**71.1**	**97.5**	**98.0**	**100.2**	**109.5**
EBIT margin (%)	*15.1%*	*18.3%*	*16.8%*	*16.9%*	*17.7%*
Adjusted PBT	**27.8**	**51.4**	**59.6**	**65.7**	**75.1**
Adjusted Net Income	**17.4**	**33.3**	**37.6**	**41.7**	**47.9**
Adjusted Fully diluted EPS (€)		**0.79**	**0.89**	**0.99**	**1.14**

Source: Citi Investment Research and Analysis, Company Reports

Vivendi

Figure 73. Vivendi - ETR

Current Price (€)	15.6
Target Price (€)	**20.0**
Expected Share Price Return	28.3%
Dividend Yield	9.6%
Expected Total Return	**37.9%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **Forecast Changes** — We reduce our 2011-13E forecasts by 0.5% to 8.5%. This is principally a function of assumed changes to tax. Based on initial schedules announced at the time of the SFR transaction, Vivendi was expected to see a c.€750m benefit from tax losses per annum through to 2014E. Based on proposals being discussed in the French Parliament, the speed at which tax assets can be used may be negatively affected. Ultimately this is a question of phasing more than anything else – note that 2014-15E should see a commensurate rise – however the impact on near-term forecasts is significant. In underlying terms, our forecasts are broadly unchanged with small upward pressure from GVT offsetting more conservative assumptions for medium-term growth within UMG.

- **Target Price Unaffected** — While there is a small reduction in our estimate of the tax asset (the change in phasing reduces the NPV by c.€100m or €0.1 per share) and underlying downgrades at UMG, this is more than offset by a recovery in the quoted values of Activision Blizzard and, to a lesser extent, Maroc Telecom. Reflecting this, our €20 target price is unchanged.

Figure 74. Vivendi – EPS Change (%)

	New	Old	% chg
2011E	2.44	2.45	-0.5%
2012E	2.43	2.66	-8.5%
2013E	2.52	2.75	-8.5%

Source: Citi Investment Research and Analysis

- **Our View: Buy/Medium Risk** — It may take time, but for those able to take a 12-month view we think VIV represents good aggregate risk/reward. While there is undoubtedly risk associated with the entry of Free into the French mobile market, we think the ground has been at least partially prepared and we think the implicit valuation of SFR appears to discount much (our analysis suggests that SFR may be valued at less than 2x 2012E EV/EBITDA). Even on consolidated numbers valuation at 5.0x 2012E EV/EBITDA, 6.4x P/E looks too cheap and the dividend yield at 9.6% supportive.

- **Valuation** — On a consolidated basis Vivendi trades in line with its Telecom peer group at 5.0x 2012E EV/EBITDA. We think, however, that the consolidated numbers are distorted by Vivendi's quoted stakes which both trade at a significant premium to the telecom peer group (ATVI at 7.9x 2012E EV/EBITDA and Maroc at 8.0x). Excluding these, the core owned/operated assets trade at just 3.4x EV/EBITDA, too cheap in our view.

Figure 75. Vivendi – Summary P&L (Year-end December, €m except where stated)

	2008	2009	2010	2011E	2012E	2013E	2014E	2015E	2016E
Total Revenues	**25,392**	**27,132**	**28,878**	**28,564**	**28,403**	**29,132**	**29,857**	**30,483**	**31,140**
EBITA	**4,953**	**5,390**	**5,726**	**5,518**	**5,469**	**5,673**	**5,863**	**6,013**	**6,148**
Margin	*19.5%*	*19.9%*	*19.8%*	*19.3%*	*19.3%*	*19.5%*	*19.6%*	*19.7%*	*19.7%*
Adjusted PBT	**4,864**	**5,110**	**5,436**	**5,010**	**4,758**	**4,954**	**5,154**	**5,313**	**5,457**
Adjusted Net Income	**2735**	**2585**	**2698**	**3022**	**3013**	**3122**	**3234**	**3221**	**2895**
Adjusted EPS - diluted (€)	**2.34**	**2.15**	**2.19**	**2.44**	**2.43**	**2.52**	**2.61**	**2.60**	**2.34**
% growth	-3.7%	-8.1%	1.9%	11.5%	-0.3%	3.6%	3.6%	-0.4%	-10.1%
DPS (€)	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.50	1.50

Source: Citi Investment Research and Analysis, Company Reports

Eniro

Figure 76. Eniro - ETR

Current Price (SEK)	14.35
Target Price (SEK)	**10.00**
Expected Share Price Return	-30.3%
Dividend Yield	0.0%
Expected Total Return	**-30.3%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **Target Price Change** — We revisit our LT growth assumptions on the back of our analysis of historical EPS growth. As a result of this, we move our LT growth assumption to -4% from 0%. This, combined with our assumption of an 11.5% WACC (down from 12.3%), drives down our DCF-based fair value for Eniro to SEK10 from SEK16.2. We use this as the basis of our new price target. Our estimates are unchanged. At our PT, Eniro would trade at barely 4.3x 2012E P/E and 4.8x EV/EBITDA. While this looks harsh, given the lack of certainty in forecasts we believe investors would need a deep discount vs. media peers valuation before considering a more positive view. We rate Eniro Sell/Medium Risk.

Lagardere

Figure 77. Lagardere - ETR

Current Price (€)	19.3
Target Price (€)	**20.5**
Expected Share Price Return	6.2%
Dividend Yield	6.7%
Expected Total Return	**12.8%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **Target Price Change** — We lower the 2012E EBITDA multiples we apply to each business, largely reflecting a further cyclical pull back in traded peers since our recent report. Our SOTP is driven by EBITDA multiples back-checked against revenues multiples, which are rationalised based on perceived sustainable margin levels. We generally apply 5-6x EBITDA multiples to the non-cyclical divisions. At Active Press, we apply a higher multiple to reflect some element of medium-term recovery. With renewed worries about the potential for Sports to create volatility in group forecasts (despite it being the smallest business) and reduced likelihood of a near-term exit of Canal+ or the other Media associate stakes, we feel it appropriate to apply a significant conglomerate discount to the group (we set this at 40%). We set our new target price, based on our sum of the parts, at €20.50 (reduced from €25). Our estimates are unchanged. We rate Lagardere Hold/High Risk.

Prisa

Figure 78. Prisa - ETR

Current Price (€)	0.93
Target Price (€)	**1.05**
Expected Share Price Return	12.9%
Dividend Yield	0%
Expected Total Return	**12.9%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **Target Price Change** — We lower the 2011E EBITDA multiples we apply to the more cyclical businesses (press, radio, Media capital) to reflect a pull back in peer multiples. This brings our sum of the parts to €1.05, where we set our new target price (down from €1.15). Given limited potential upside to the current share price and greater risk factors associated with Prisa's high financial leverage (+ pending refinancing) and geographic mix (76% of revenue from Spain and Portugal), we struggle to get too excited about the risk-reward on offer. Our estimates are unchanged. We keep our Hold/Medium Risk rating.

UBM

Figure 79. UBM - ETR

Current Price (p)	432
Target Price (p)	**450**
Expected Share Price Return	4.2%
Dividend Yield	6.1%
Expected Total Return	**10.3%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **Target Price Change** — We lower the 2011E EBITDA multiples we apply to Events and Data Services to reflect a pullback in peer multiples. This brings our sum of the parts to £4.50, where we set our new target price (down from £5). Valuation at 7.4x 2012E EV/EBITDA does not look challenging, but we find it hard to get excited about the asset mix ex-Events. We continue to see certain execution risks and leverage at 2.4x net debt/EBITDA at 1H11 as limiting the scope for further acquisition-driven upgrades. Our estimates are unchanged. We rate UBM Hold/Medium Risk.

Wolters Kluwer

Figure 80. Wolters Kluwer - ETR

Current Price (€)	12.1
Target Price (€)	**11.1**
Expected Share Price Return	-8.3%
Dividend Yield	5.4%
Expected Total Return	**-2.9%**

Price as at open on 7 September 2011

Source: Citi Investment Research and Analysis

- **Target Price Change** — We reduce our DCF-based target price to €11.10 (from €14) and now use a higher WACC (12% vs 11%) to reflect renewed concerns on leverage in the current market environment (3x net debt/EBITDA at 1H11 was above the target of 2.5x and we would argue even this is too high for a publisher), and a lower LT growth rate (-1% vs 0%) after we reassessed our concerns over the business mix. WK does not look overly expensive at under 8x 2012 PE, under 7x 2012E EV/EBITDA, but we see a lack of revenue momentum and fear that our medium-term forecasts of 3%-4% organic growth could yet prove optimistic. In addition, high financial leverage increases the risk around lower operational growth. Our estimates are unchanged. We rate Wolters Kluwer Sell/Medium Risk.

Our View in Context

Economists' View — Not Forecasting Global Recession

Figure 81. Real GDP Growth

	2010	2011E	2012E
UK	1.4%	1.1%	1.3%
France	1.4%	1.6%	0.9%
Germany	3.6%	3.0%	1.9%
Spain	-0.1%	0.6%	-0.3%
Italy	1.2%	0.6%	-0.3%
Euro Area	1.7%	1.7%	0.6%
US	3.0%	1.6%	2.1%
Emerging Markets	7.2%	6.0%	5.8%
Global	4.1%	3.1%	3.2%

Source: Citi Investment Research and Analysis

Figure 82. CPI

	2010	2011E	2012E
UK	3.3%	4.4%	3.2%
France	1.7%	2.1%	1.8%
Germany	1.1%	2.3%	2.0%
Spain	2.0%	3.0%	1.0%
Italy	1.6%	2.8%	2.5%
Euro Area	1.6%	2.6%	2.0%
US	1.6%	3.0%	1.6%
Emerging Markets	5.3%	6.4%	5.7%
Global	2.7%	3.9%	3.2%

Source: Citi Investment Research and Analysis

Figure 83. Fiscal Balance (% of GDP)

	2010	2011E	2012E
UK	-9.7%	-8.2%	-6.9%
France	-7.1%	-6.0%	-4.5%
Germany	-3.3%	-1.9%	-1.0%
Spain	-9.2%	-6.8%	-6.2%
Italy	-4.6%	-4.1%	-2.5%
Euro Area	-6.0%	-4.1%	-3.1%
US	-9.0%	-8.5%	-6.8%
Emerging Markets	-2.5%	-2.3%	-2.2%
Global	-5.7%	-5.0%	-4.0%

Source: Citi Investment Research and Analysis

Despite four consecutive months of GDP forecast downgrades, our economists still do not expect recessions in the major economies as a base case. That said, we do expect advanced economy growth will remain sluggish to end-2012 at least, with rising unemployment. Our Global GDP forecasts now stand at 3.1% 2011E / 3.2% 2012E, which is down from 3.4%/3.8% at the start of the year and below 3.9% global growth achieved in 2010, but still a touch above the long-run average (2.9% CAGR 1980-2010). Growth expectations remain uneven with our economists noting that the growth gap between advanced economies and emerging markets is possibly widening. Going through the major regions:

- **US:** Our growth forecasts are below trend and would be lower still if not for assumed policy supports ahead. Inflation has remained elevated, with core measures of 2/2½%. This has narrowed policy options but also undercut growth. Easing bottlenecks in autos should hasten some moderation and business pricing intentions have started to roll over. With labour market improvement stalled, wage growth remains anaemic and consumer resistance to higher prices is widely evident. Easing in price pressures should help stabilise recovery.
- **Euro Area:** Near-term, we expect repeated cycles of strains in financial markets and periphery economies, accompanied by general disappointment over the policy response from European policymakers. For 2012, we expect that Italy and Spain will join the bailout countries (Greece, Ireland and Portugal) in recession. In contrast, Germany and most other core countries are likely to show continued growth. Germany is one of only a handful of economies (incl Sweden, Norway, New Zealand) that we expect growth to exceed their 1980-2010 growth average in 2011E/12E. We expect the ECB will leave rates unchanged at 1.5% up to early 2013.
- **UK:** Our UK GDP forecasts are now below consensus for 2011E-2013E. Our base case is not a recession, but an extended period of sluggish growth and rising unemployment. The biggest cuts in our latest forecasts were for investment/jobs. UK firms have abundant liquidity and a high financial surplus, but we expect that the recent slide in financial markets, severe EMU crisis and rising global uncertainties will cause firms to postpone expansion and return to cost-cutting mode. Our base case is for the MPC to keep rates on hold until 2013, but they would be ready to loosen again if we get a few more weeks of severe financial market strains and a sharp deterioration in business surveys.
- **China:** We forecast 9% GDP growth 2011E/2012E, relying on some expected improvement in growth momentum in the US into 2012E. The Chinese economy has not decoupled with the developed world, and no decoupling policy is visible amid the external slowdown. The current monetary policy stance, without further tightening, is supportive of growth at around 9%. In case of weaker-than-expected external demand, the government can first turn to a more positive fiscal policy to boost domestic demand. We expect no rate hike this year.
- **Emerging Markets (ex-China):** EMs are likely to account for about 70% of global growth in 2011 and 2012. Among EM countries, greater forecast cuts have come from Europe and Africa vs LatAm and Asia. In Asia and Latam, the lowering of global growth expectations will likely impact growth in the region primarily via trade (and via capital flows, asset prices and volatility in the case of Latam). In both regions we expect a long pause in rates.

Strategists' View — Upbeat On European Equities But Neutral on Media

- **Market View:** Our strategists look for a recovery in European equity markets and noted in their 1 September European Portfolio Strategist piece: *"Risk assets look cheap versus risk-free assets. In risk assets, equities look cheap. In equities, Europe looks cheap. Cheap, cheap, cheap."* Our global strategist further note that extended bear market declines occur almost exclusively around a corporate profits recession (periods when EPS falls by 10% or more), which is not our base case. We now forecast 9% global EPS growth for 2012. Bottom-up consensus expectations suggest +15% and look too high. But global equities imply -10% and look too low.

- **Themes:** Our strategists have backed defensive growth over the past couple of years and back this strategy over the coming 12 months. We continue to back growth in general (EMs, earnings momentum, dividend growth), quality (so-called "World Champions" and "Stress Busters" – companies which have seen consistent EPS growth each year over 2005-2010), de-equitisation and size (Mega-caps ex-Financial).

- **Sector View:** Unfortunately, the Media sector does not screen well on our Strategists' Sector Attribution Model (SAM). In particular, Emerging Markets exposure is low – a function of the large number of domestic media owners as well as the US-dominated professional publisher/agency sub-sectors. The momentum and valuation score has improved, but not enough to drive a more positive view from our Strategists who rate Media Neutral. That said, we find reasons to be selectively positive within the sector.

Figure 84. European Sector Attribution Model (SAM)

	Exp (EM)	Exp (US)	Earn Mo	Earn Vol	P/B	B/S	DY*G	Final Rank
Factor Weight	**25%**	**5%**	**15%**	**15%**	**10%**	**20%**	**10%**	**100%**
Food & Beverage	1	4	3	6	16	11	16	**7.20**
Oil & Gas	9	3	7	5	13	2	13	**7.20**
Telecommunications	7	18	10	1	7	14	3	**8.10**
Industrial Goods & Services	6	8	11	10	17	4	6	**8.15**
Technology	2	9	19	12	9	1	18	**8.50**
Personal & Household Goods	4	5	9	9	19	9	9	**8.55**
Automobiles & Parts	8	11	1	19	14	6	4	**8.55**
Health Care	10	1	4	8	12	8	15	**8.65**
Insurance	15	12	2	14	3	-	2	**8.91**
Basic Resources	3	10	14	18	15	2	11	**9.05**
Retail	13	16	13	4	11	5	8	**9.50**
Media	**16**	**6**	**6**	**2**	**5**	**12**	**12**	**9.60**
Chemicals	5	7	8	16	18	6	14	**9.60**
Financial Services	14	14	15	7	10	-	5	**10.66**
Construction & Materials	12	13	12	13	8	13	7	**11.50**
Banks	11	15	17	17	1	15	1	**11.80**
Real Estate	19	19	5	11	4	-	17	**11.86**
Travel & Leisure	18	2	18	15	2	10	10	**12.75**
Utilities	17	17	16	3	6	15	19	**13.45**

Source: Citi Investment Research and Analysis

This page is intentionally left blank

Things You Need to Know

Bull-Bear EPS Analysis Revisited

In a report entitled **European Media – Navigating Difficult Waters: Focus on EPS Risk/Trough Valuations** we conducted a detailed analysis of the Bull-Bear EPS scenarios for the European Media sector.

In this report we update this analysis based on our new forecasts and revised Bull-Bear assumptions.

For a full discussion of the methodology we use, please look at the original note (you can click on the link above). As a summary, however, we include the main results in the tables below.

Key Assumptions

Figure 85. Bull-Bear EPS Scenario Analysis – Key Assumptions by Sub-Sector

	Base Case	Bull Case	Double-Dip	Comment
Advertising				
Southern Europe	-1.5%	8.0%	-8.0%	GroupM currently at c.0.8%
Northern Europe	0-3%	8.0%	-5.0%	GroupM currently at c.3% (main geographies)
US/North America	2-3%	8.0%	-5.0%	GroupM currently at 4%
Developing Markets	8+%	15.0%	0.0%	GroupM currently at c.14%
Market Research/Marketing Services				
Developed Markets	2%-4%	8.0%	-5.0%	GroupM currently at 3% for Europe; 6% for US
Emerging Markets	8%+	15.0%	0.0%	GroupM currently at 14% for LatAm; 10% for AsiaPac; 7% for ME&A
Online Advertising				
Search/Classified	15+%	15.0%	0.0%	GroupM at 13.3%
Display	10%+	15.0%	-5.0%	GroupM currently at 12.4%
Consumer Discretionary				
Consumer Books	0.0%	4.0%	-2.0%	
Magazines Subscriptions	1-2%	4.0%	-10.0%	
Newspaper Circulations	-2% to -8%	4.0%	-10.0%	Base case assumes price increases offset circulation declines
Recorded Music	1.0%	2.0%	-6.0%	Physical still declining; digital struggling against ringtone headwind
Video Games	7.0%	9.0%	-3.0%	
Consumer Subscription				
Pay TV	2%-6%	4%-8%	-3.0%	Hard to generalise across markets (e.g. France vs. UK) but demand relatively inelastic
Mobile	-7%	5.0%	-8.0%	New competition and regulatory pressure means low growth in developed markets
Fixed Line/Broadband	0-3%	5.0%	-5.0%	Decent penetration story and, like TV, potentially more inelastic demand
Professional Information				
US School Education	-3%	2.0%	-10.0%	2012E will be another tough-ish year for adoptions
US Higher Education	3.0%	-5.0%	8.0%	Base case assumes moderate growth; bull and bear scenarios reflect counter-cyclicality
International Education	7.0%	12.0%	0.0%	Expect continued strong growth in EMs
Financial Information Publishing	2.0%	8.0%	-3.0%	Base case reflects weaker transactional revenues offsetting mid-single digit subscription revenues
Legal Information Publishing	2%-5%	8.0%	-5.0%	Expect continued late cyclical recovery
Other Professional/Commercial Information	3%-6%	6.0%	-5.0%	Base case assumption is for robust growth
Developed Market Events	6.0%	8.0%	0.0%	Expect continued late cyclical recovery; but u/l growth also boosted by biennials
Emerging Market Events	8.0%	11.0%	0.0%	Base case is for another strong year
Print B2B	3%-5%	8.0%	-10.0%	Our bear sensitivity could be extreme given limited rebound since previous trough

Source: Citi Investment Research and Analysis

Key Takeaways

Bull- and Bear- Earnings Scenarios vs. Base Case

Figure 86. European Media – 2012E Sales, EBITA, Operating Margin and EPS on Base-, Bull- and Bear-Case/Double Dip Macro Scenarios

	Base				Bull				Bear			
	Sales	EBITA	Margin	EPS	Sales	EBITA	Margin	EPS	Sales	EBITA	Margin	EPS
Marketing Services												
Aegis Group (£m/p)	1,107	190.7	17.0%	10.7	1,174	207.5	17.7%	10.8	1,030	171.4	16.6%	8.6
GfK (€m/€)	1,450	219.1	15.1%	3.13	1,513	234.8	15.5%	3.44	1,328	188.4	14.2%	2.55
Havas (€m/€)	1,630	223.7	13.7%	0.31	1,729	248.4	14.4%	0.36	1,530	198.6	13.0%	0.27
Publicis (€m/€)	5,989	964.8	16.1%	2.84	6,340	1,052.6	16.6%	3.11	5,535	851.2	15.4%	2.48
WPP Group (£m/p)	10,336	1,468.9	14.2%	68.6	10,947	1,621.6	14.8%	77.4	9,552	1,272.9	13.3%	57.4
Free-to-air Television												
Antena 3 (€m/€)	788	107.0	14.9%	0.43	867	170.0	19.6%	0.69	738	67.2	9.1%	0.26
ITV Plc (£m/p)	2,173	452.7	20.8%	7.35	2,288	547.1	23.9%	9.1	2,042	334.1	16.4%	5.1
Mediaset (€m/€)	4,466	574.4	12.9%	0.25	4,771	781.2	16.4%	0.37	4,141	370.1	8.9%	0.13
M6 (€m/€)	1,478	250.8	17.0%	1.26	1,525	293.0	19.2%	1.46	1,384	171.0	12.4%	0.86
ProSieben (€m/€)	2,695	761.4	28.3%	1.96	2,814	880.9	31.3%	2.36	2,522	588.9	23.4%	1.39
Mediaset Espana (€m/€)	1,066	154.1	14.5%	0.38	1,153	224.3	19.5%	0.50	983	87.7	8.9%	0.24
TF1 (€m/€)	2,649	339.8	12.8%	1.04	2,765	432.3	15.6%	1.33	2,502	240.8	9.6%	0.72
Outdoor												
JCDecaux (€m/€)	2,534	347.4	13.7%	1.06	2,681	435.6	16.2%	1.33	2335	227.8	9.8%	0.69
Stroer (€m/€)	594	100.6	16.9%	0.99	629	128.2	20.4%	1.44	552	82.2	14.9%	0.70
Consumer Publishers												
Daily Mail (£m/p)	1,992	316.2	15.9%	51.8	2,094	378.5	18.1%	65.4	1,815	218.7	12.0%	30.5
Johnston Press (£m/p)	360	63.1	17.5%	3.46	384	78.6	20.5%	5.36	336	47.6	11.6%	1.37
Lagardère (€m/€)*	7,478	476.0	6.4%	2.23	7,674	568.1	7.4%	2.74	7,022	296.5	4.2%	1.25
Schibsted (NOK)	15,327	2,043.2	13.3%	11.6	16,137	2,541.4	15.7%	14.8	13,912	1,178.3	8.5%	6.2
Trinity Mirror (£m/p)	724	76.2	10.5%	19.2	772	107.2	13.9%	27.7	675	45.6	6.8%	10.5
Prisa (€m/€)	2,894	657.0	22.7%	0.14	3,008	719.1	23.9%	0.16	2,714	564.6	6.1%	0.06
Directories												
Yell (£m/p)	1,724	404.5	23.5%	6.97	1,858	485.3	26.1%	9.30	1,620	342.2	21.1%	5.03
Professional Publishers												
Informa (£m/p)	1,323	364.8	27.6%	42.2	1,357	377.4	27.8%	43.8	1,230	330.2	26.9%	37.7
Pearson (£m/p)	6,030	991.6	16.4%	89.1	5,994	993.7	16.6%	89.2	5,818	925.2	15.9%	82.9
Reed Elsevier plc (£m/p)	6,356	1,717.0	27.0%	50.8	6,502	1,773.6	27.3%	52.7	5,774	1,493.5	25.9%	43.2
United Business Media (£m/p)	1,011	203.1	20.1%	58.3	1,039	216.2	20.8%	62.7	931	161.2	17.3%	43.9
Wolters Kluwer (€m/€)	3,429	761.9	22.2%	1.56	3,585	816.3	22.8%	1.70	3,170	671.2	21.2%	1.34
Entertainment												
BSkyB (£m/p)	6,929	1,207.4	17.4%	49.0	7,389	1,437.0	19.4%	59.1	6,597	1,041.2	15.8%	41.8
Vivendi (€m/€)	28,403	5,468.6	19.3%	2.43	29,618	5,985.7	20.2%	2.70	26,822	4,844.1	18.1%	2.15
Blinkx ($m/$)	125	21.9	17.5%	4.68	141	34.1	24.1%	7.27	112	11.8	10.6%	2.54

*For Lagardere we show EPS ex EADS. This is different from reported EPS but captures the sensitivity associated with changes in the core operations.

**For Blinkx the share price is in pence but the financial forecasts are in $m/$

Source: Citi Investment Research and Analysis

Implied Upside/Downside to Forecasts

Figure 87. European Media – Bull-/Bear-Case and Trough EPS vs. 2011E Base Case Forecasts

	Base	Bull	Double-Dip	Trough	Bull	Double-Dip	Trough
Marketing Services							
Aegis Group	10.7	10.8	8.6	9.5	1.1%	-19.1%	-11.0%
GfK	3.1	3.4	2.5	1.4	9.7%	-18.7%	-54.7%
Havas	0.3	0.4	0.3	0.26	14.3%	-12.7%	-16.9%
Publicis	2.8	3.1	2.5	2.0	9.7%	-12.5%	-30.6%
WPP Group	68.6	77.4	57.4	44.4	12.7%	-16.4%	-35.3%
Average					**9.5%**	**-15.9%**	**-29.7%**
Free-to-air Television							
Antena 3	0.43	0.69	0.26	0.30	61.8%	-39.1%	-29.1%
ITV Plc	7.35	9.1	5.12	1.7	24.1%	-30.3%	-76.4%
Mediaset	0.25	0.37	0.13	0.23	48.8%	-48.2%	-6.2%
M6	1.26	1.46	0.86	1.11	15.9%	-31.7%	-11.9%
ProSieben	1.96	2.36	1.39	1.17	20.3%	-29.3%	-40.4%
Mediaset Espana	0.38	0.50	0.24	0.46	34.1%	-36.4%	21.5%
TF1	1.04	1.33	0.72	0.54	28.1%	-30.0%	-48.2%
Average*					**33.3%**	**-35.0%**	**-27.3%**
Outdoor							
JCDecaux	1.06	1.33	0.69	0.27	25.9%	-35.1%	-74.8%
Stroer	0.99	1.44	0.70		45.4%	-29.1%	
Average					**35.6%**	**-32.1%**	
Consumer Publishers							
Daily Mail	51.8	65.4	30.5	37.2	26.3%	-41.2%	-28.2%
Johnston Press	3.5	5.36	1.4	3.67	54.8%	-60.4%	5.8%
Lagardère*	2.2	2.74	1.3	1.30	22.6%	-44.0%	-41.8%
Schibsted	11.6	14.8	6.2	4.4	26.9%	-46.7%	-61.9%
Trinity Mirror	19.2	27.7	10.5	19.8	44.1%	-45.6%	3.2%
Prisa	0.14	0.16	0.06	0.3	12.2%	-57.5%	103.5%
Average					**31.2%**	**-49.2%**	**-3.2%**
Directories							
Yell	6.97	9.30	5.03	5.74	33.3%	-27.9%	-17.7%
Professional Publishers							
Informa	42.2	43.8	37.7	34.3	3.9%	-10.6%	-18.8%
Pearson	89.1	89.2	82.9	57.7	0.2%	-6.9%	-35.2%
Reed Elsevier plc	50.8	52.7	43.2	43.4	3.8%	-14.9%	-14.6%
United Business Media	58.3	62.7	43.9	50.2	7.7%	-24.6%	-13.9%
Wolters Kluwer	1.6	1.70	1.3	1.45	8.5%	-14.2%	-7.0%
Average					**4.8%**	**-14.2%**	**-17.9%**
Entertainment							
BSkyB	49.0	59.1	41.8	25.1	20.5%	-14.8%	-48.8%
Vivendi	2.4	2.70	2.15	2.15	11.0%	-11.6%	-11.7%
Blinkx	4.7	7.27	2.54	-3.19	55.2%	-45.7%	-168.1%
Average					**28.9%**	**-24.0%**	**-76.2%**
European Media Average					**23.5%**	**-29.5%**	**-27.5%**

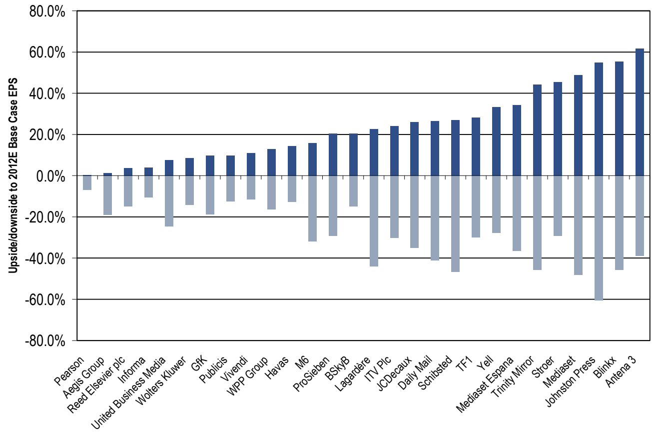
*For Lagardere we show EPS ex EADS. This is different from reported EPS but captures the sensitivity associated with changes in the core operations.

Source: Citi Investment Research and Analysis

Summary Charts

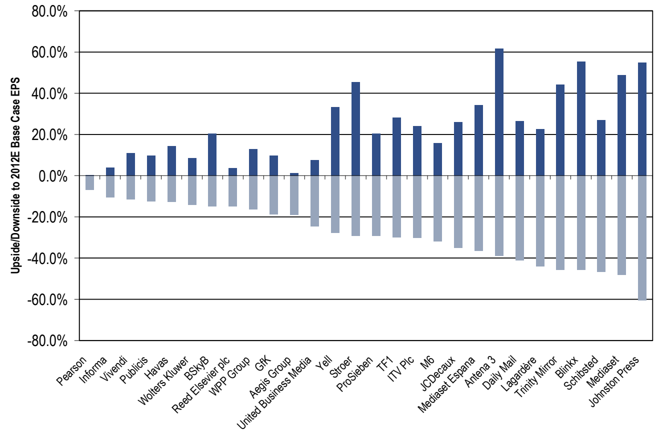
Absolute Earnings Risk

Figure 88. European Media – Upside vs. Downside Risk (Ordered by Upside)



Source: Citi Investment Research and Analysis

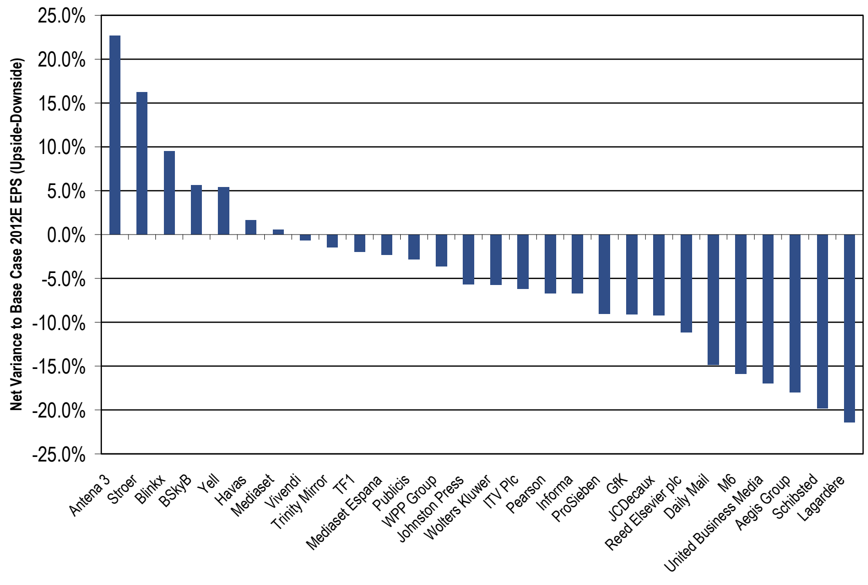
Figure 89. European Media – Upside vs. Downside Risk (Ordered by Downside)



Source: Citi Investment Research and Analysis

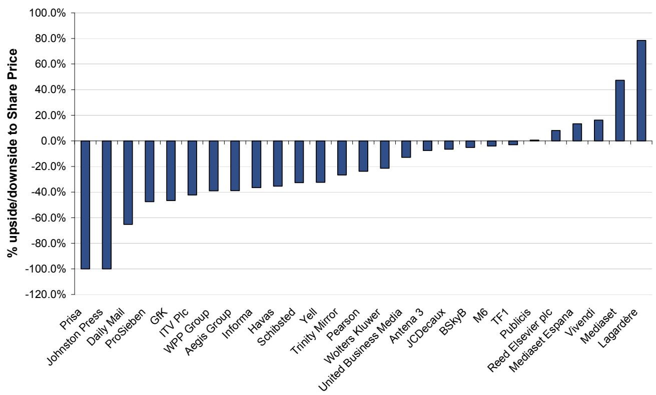
Overall Risk-Reward

Figure 90. European Media – Earnings Risk/Reward (Upside Less Downside)



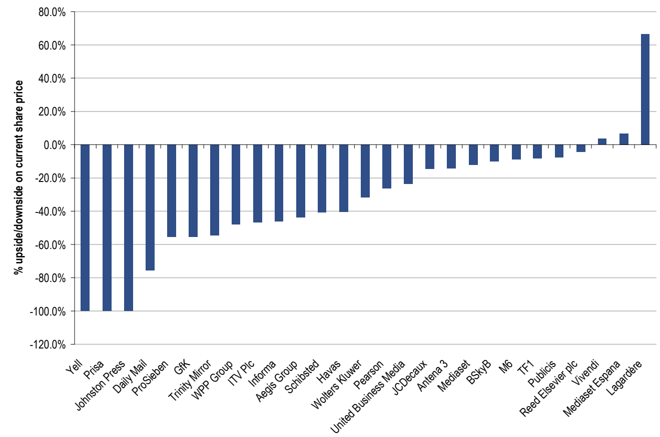
Source: Citi Investment Research and Analysis

Figure 91. Upside/Downside on Trough EV/Sales and Base Case Ests.



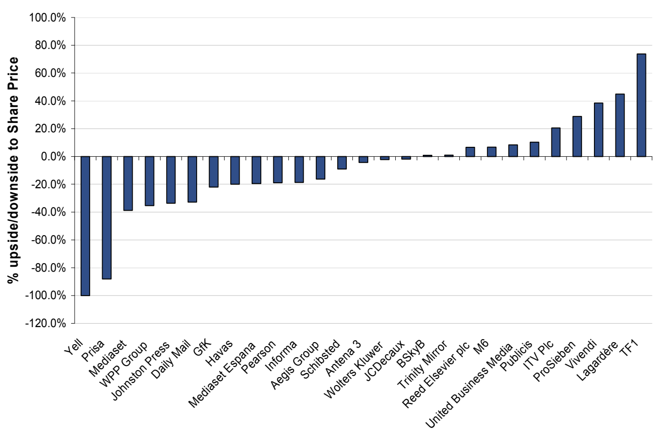
Source: Citi Investment Research and Analysis

Figure 92. Upside/Downside on Trough EV/Sales and Bear Case Ests.



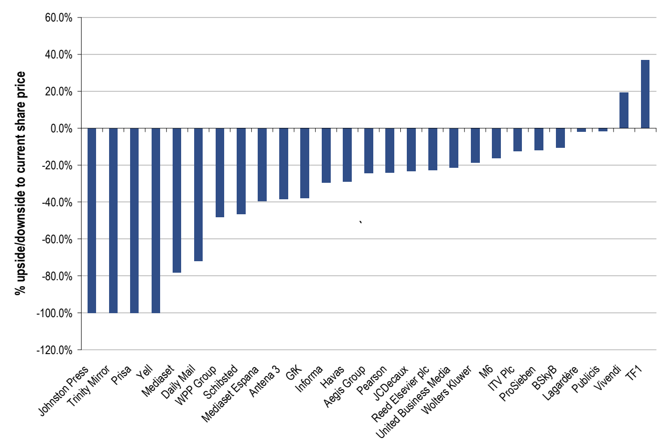
Source: Citi Investment Research and Analysis

Figure 93. Upside/Downside on Trough EV/EBITDA and Base Case Ests.



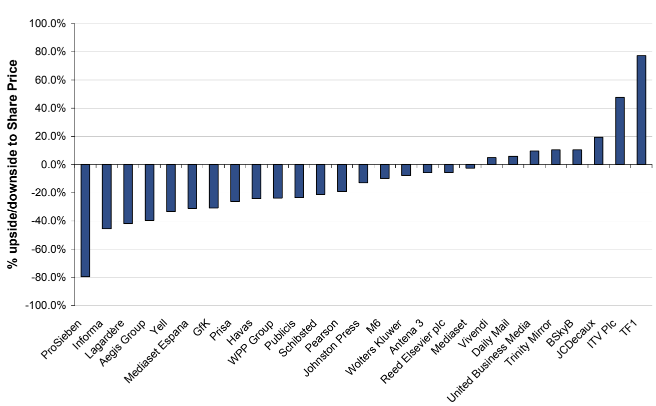
Source: Citi Investment Research and Analysis

Figure 94. Upside/Downside on Trough EV/EBITDA and Bear Case Ests



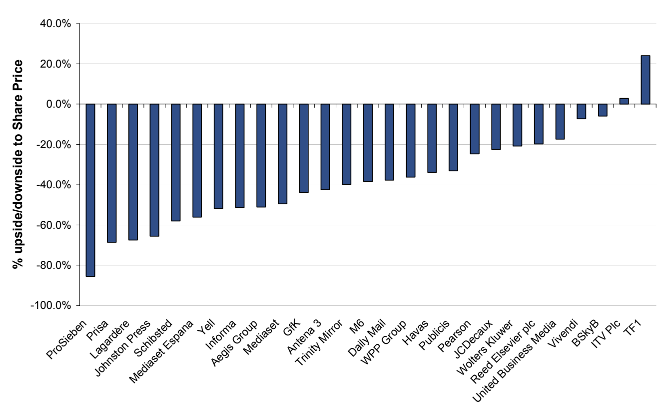
Source: Citi Investment Research and Analysis

Figure 95. Upside/Downside on Trough P/E and Base Case Ests



Source: Citi Investment Research and Analysis

Figure 96. Upside/Downside on Trough P/E and Bear Case Ests



Source: Citi Investment Research and Analysis

In a separate report entitled **Navigating Difficult Waters#2: Focus on Asymmetry/Trade Ideas** we looked at trough on trough valuation and what is implied vs. current prices. Once again see the note for the detail of the methodology.

Ad Trends in Context

Figure 97. European Media – Ad Trends by Media/Geography

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	FY10	FY11 E	FY12 E
Agencies									
Havas	1.5%	1.6%	5.0%	5.1%	6.6%	4.7%	3.4%	4.3%	2.8%
- Europe	*-3.0%*	*-2.2%*	*0.7%*	*1.6%*	*3.8%*	*-1.0%*	*-0.6%*	0.7%	1.2%
- North America	*5.2%*	*4.6%*	*5.5%*	*6.3%*	*7.2%*	*8.8%*	*5.4%*	7.1%	2.5%
- Latin America	*24.4%*	*25.8%*	*38.0%*	*22.9%*	*24.6%*	*24.6%*	*27.3%*	22.2%	9.5%
- Asia Pacific	*4.4%*	*-2.1%*	*7.8%*	*9.6%*	*10.3%*	*8.1%*	*5.1%*	5.0%	8.0%
Publicis	3.1%	7.1%	9.2%	12.5%	6.5%	7.6%	8.2%	6.5%	3.4%
- US	*4.8%*	*8.1%*	*12.0%*	*14.0%*	*8.1%*	*5.3%*	*9.7%*	*5.9%*	*3.0%*
- Total Europe	*-1.5%*	*7.3%*	*5.0%*	*11.2%*	*6.2%*	*-11.5%*	*6.0%*	*7.8%*	*1.2%*
- RoW	*7.0%*	*4.5%*	*9.8%*	*12.2%*	*3.0%*	*7.0%*	*8.5%*	*6.7%*	*8.0%*
WPP	0.0%	4.7%	7.5%	8.8%	6.7%	5.6%	5.3%	5.9%	3.8%
- US	*3.4%*	*8.1%*	*9.3%*	*9.6%*	*7.0%*	*3.8%*	*7.6%*		
- UK	*-1.1%*	*6.7%*	*7.6%*	*10.4%*	*5.4%*	*4.8%*	*5.9%*		
- Europe	*-2.0%*	*1.4%*	*4.7%*	*3.5%*	*1.9%*	*3.9%*	*1.9%*		
- ROW	*-2.0%*	*3.0%*	*7.6%*	*13.8%*	*11.5%*	*9.5%*	*5.6%*		
Aegis *(Aegis Media)*	*3.0%*	*3.6%*	*8.5%*	*7.4%*	10.1%	5.8%	5.7%	5.7%	3.2%
GfK	5.2%	8.1%	9.2%	6.4%	8.0%	7.9%	7.2%	6.4%	5.0%
- Germany	*13.5%*	*9.2%*	*17.1%*	*12.8%*	*8.2%*	*11.7%*	*13.1%*	*8.0%*	*4.0%*
- Western Europe/ Middle East & Africa	*-1.2%*	*5.8%*	*5.7%*	*2.7%*	*10.8%*	*7.7%*	*3.3%*	*5.5%*	*3.5%*
- Central & Eastern Europe	*15.2%*	*16.3%*	*11.4%*	*37.3%*	*11.2%*	*32.2%*	*20.7%*	*17.5%*	*5.0%*
- Latam	*20.9%*	*27.0%*	*14.3%*	*26.2%*	*18.9%*	*17.1%*	*22.1%*	*15.0%*	*15.0%*
- AsiaPac	*7.7%*	*10.8%*	*18.7%*	*0.8%*	*15.1%*	*5.2%*	*9.1%*	*10.0%*	*12.4%*
- US	*1.4%*	*4.4%*	*-0.6%*	*-8.0%*	*-4.6%*	*-6.8%*	*-0.8%*	*-3.0%*	*3.0%*
Ad-funded Media									
JCDecaux - *65% Europe; 15% Asia*	5.3%	11.3%	11.1%	8.4%	7.8%	4.3%	9.1%	5.1%	3.6%
Stroer - *Germany*					9.4%	8.3%	4.2%	6.0%	2.5%
ITV - *UK*	8.0%	29.0%	16.0%	11.2%	12.0%	-6.0%	15.9%	1.0%	2.0%
Mediaset - *Italy*	5.4%	5.2%	3.5%	2.0%	-1.6%	-3.9%	4.8%	-1.8%	2.1%
M6 - *France*	2.1%	12.0%	19.3%	11.1%	8.0%	3.2%	10.7%	2.5%	1.0%
TF1 - *France*	12.9%	10.0%	9.5%	3.5%	-2.6%	0.7%	8.5%	-0.5%	0.5%
ProSieben - *Germany*	7.9%	8.6%	16.2%	10.2%	-0.8%	3.7%	10.4%	1.3%	1.0%
Mediaset Espana - *Spain*	31.7%	54.2%	52.2%	13.1%	-3.8%	-21.0%	34.7%	-8.5%	-0.4%
Antena 3 - *Spain*	18.9%	23.9%	18.5%	13.4%	5.6%	0.5%	18.5%	-0.4%	-1.5%
Prisa - *Spanish press, radio, TV*	4.6%	15.0%	6.2%	-13.0%	-3.0%	-11.5%	3.2%	-4.0%	0%
Lagardere - France & Intl. magazines & radio	0.0%	6.0%	10.0%	10.4%	6.0%	-3.1%	6.6%	2.0%	3.0%
Schibsted - *>80% Sweden/Norway newspapers & online*	6.0%	15.0%	15.0%	13.0%	14.0%	9.0%	14.0%	6.5%	4.5%
Daily Mail - *National Newspapers UK (calendarised)*	10.0%	13.0%	14.0%	6.0%	-1.0%	-7.0%	6.5%	-1.4%	0.6%
- Regional Newspapers UK (calendarised)	-5.0%	-4.0%	-15.0%	-6.0%	-12.0%	-10.0%	-6.5%	-9.0%	-5.0%
Trinity Mirror - *National Newspapers UK*	0.9%	2.9%	-2.0%	-8.1%	-10.0%	-14.4%	-1.4%	-11.0%	-1.0%
- Regional Newspapers UK	-7.1%	-8.7%	-7.5%	-8.1%	-11.0%	-9.8%	-8.4%	-10.0%	-5.4%
Johnston Press - *Regional newspapers UK*	-6.8%	-3.8%	-3.0%	-11.9%	-10.4%	-9.6%	-6.4%	-9.0%	-2.7%

Note: Mediaset Espana 2011E growth is proforma (including Cuatro). Schibsted 2011E/12E growth is total revenue growth. Source: Citi Investment Research and Analysis

Company Outlook in Pictures

Figure 98. European Media Sector – 2H Outlook Statement Wordle

Source: Company Reports and www.wordle.net

- In the picture above we show a 'Wordle' based on the outlook statements from the 1H results of the European Media companies under our coverage. The way a 'Wordle' works is by showing all the words within a given piece of text as a cloud, with greater prominence given to those words that appear more frequently.
- Ultimately, this is designed to be a bit of fun, but if there is a serious point to be made on the back of this, it is that while companies acknowledge macro uncertainty the core message is still relatively upbeat. This is evidenced in the prominence of 'growth', but also 'continue'. It is worth noting as well that words like 'tough', 'decline' and 'lower' appear more infrequently than 'good', 'continue/continues' and 'increase'. It will be interesting to see whether this changes in the 3Q.

Best/Worst Performers in Previous Cycles

Best Performers

Figure 99. Best Performers From Within Our Coverage Over the Last 10 Years (Share Price Performance Only, Local Currency)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1st	ProSieben	Johnston Press	Johnston Press	ProSieben	JCDecaux	SES	ProSieben	Eutelsat	Pearson	Virgin Media	Blinkx
2nd	Reed Elsevier	Trinity Mirror	ProSieben	Informa	Antena 3	Antena 3	Informa	SES	Eutelsat	ProSieben	ProSieben
3rd	Lagardere	Wolters	Trinity	GfK	GfK	Eniro	Wolters	JCDecaux	GfK	Trinity	Virgin Media
4th	BSkyB	Vivendi	Reed Elsevier	UBM	Schibsted	Telecinco	TF1	Reed Elsevier	UBM	Schibsted	GfK
5th	TF1	WPP	Espresso	Espresso	INM	Virgin Media	Thomson Reuters	BSkyB	BSkyB	Espresso	UBM
6th	UBM	Publicis	JCDecaux	Schibsted	Vivendi	UBM	Eutelsat	Vivendi	M6	Eniro	Havas
7th	Informa	Reed Elsevier	Daily Mail	ITV	Mondadori	Informa	INM	Schibsted	SES	Havas	Daily Mail
8th	Publicis	M6	TF1	Thomson Reuters	Wolters	Publicis	GfK	Wolters	Reed Elsevier	Johnston	Publicis
9th	Johnston Press	Schibsted	Mediaset	INM	Informa	Lagardere	M6	Thomson Reuters	Vivendi	Antena 3	JCDecaux
10th	INM	Eniro	BSkyB	Trinity Mirror	Johnston Press	ProSieben	Havas	Pearson	Thomson Reuters	Aegis	ITV

Source: DataStream

Worst Performers

Figure 100. Worst Performers From Within Our Coverage Over the Last 10 Years (Share Price Performance Only, Local Currency)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1st	Aegis	ProSieben	Vivendi	Wolters Kluwer	BSkyB	Johnston	Trinity	Antena 3	Johnston Press	INM	Eniro
2nd	Mondadori	Espresso	Havas	Reed Elsevier	M6	Havas	Johnston	Eniro	ProSieben	Mondadori	Trinity
3rd	Trinity	Informa	ITV	Pearson	TF1	BSkyB	Antena 3	TF1	Trinity	Vivendi	Johnston
4th	Havas	TF1	UBM	TF1	ITV	Trinity	Eniro	ProSieben	INM	UBM	INM
5th	Schibsted	Pearson	WPP	BSkyB	Espresso	JCDecaux	Daily Mail	M6	Eniro	Lagardere	Espresso
6th	GfK	Havas	Informa	JCDecaux	Publicis	Mondadori	SES	Virgin Media	Virgin Media	Reed Elsevier	Mediaset
7th	Vivendi	UBM	GfK	Daily Mail	Thomson Reuters	Mediaset	Espresso	Daily Mail	Schibsted	GfK	Mondadori
8th	Daily Mail	Agora	Wolters Kluwer	WPP	UBM	TF1	Lagardere	Johnston	Espresso	Thomson Reuters	Antena 3
9th	M6	Mediaset	M6	Lagardere	Eniro	Thomson Reuters	ITV	Mondadori	Antena 3	Wolters Kluwer	Telecinco
10th	Espresso	ITV	Publicis	Mondadori	Havas	GfK	Mediaset	Espresso	Telecinco	SES	Vivendi

Source: DataStream

What Would Benjamin Graham Buy in European Media?

Benjamin Graham, arguably the most influential investor of all time, and author of the classic bestseller 'The Intelligent Investor' once argued that there were seven key criteria he used for investing in stocks.

Famously, his original criteria came to be seen as so stringent that very few companies satisfied all of them. However, using this as the basis for a screen of our European Media coverage, we test our universe against the following criteria:

1. Market cap of greater than $500m
2. Net Debt/EBITDA of less than 2.5x
3. Continuous distribution of dividend over the last 10 years
4. No net loss over the past 7 years (on an adjusted basis)
5. Adjusted EPS growth of at least 33% cumulative over the last 10 years
6. Price to Book Value of more than 1.5x
7. Share price trading at less than 15x average past 3 year adjusted EPS (2008-2010 in our analysis)

We show the full results in the table below. We make a couple of observations on this analysis:

- Firstly, clearly very few companies meet all seven criteria. Indeed, only one appears to meet all of them, namely **WPP**. The criteria that tends to catch most of the companies out – excluding those trading at extremely depressed (or should that be distressed?) valuations – is the Price to Book criteria. WPP only passes this because we include goodwill and WPP has a lot of this courtesy of its historic proclivity for acquisition.
- 9 companies meet 6 out of 7 criteria and the names here are skewed toward stable/defensive companies. Where they are not defensive companies – **Aegis**, **Publicis**, **M6** stand out – it tends to be the case that balance sheets are a key support.
- Needless to say 'growth' companies like **BSkyB** and **Schibsted** do not screen well. As we have argued elsewhere, investors have to take a view that growth expectations are achievable

Figure 101. European Media – Would Benjamin Graham Buy Your Shares?

Company	Criteria 1	2	3	4	5	6	7	Criteria met
WPP	YES	YES	YES	YES	YES	YES	YES	7
AEGIS	YES	YES	YES	YES	YES	NO	YES	6
PUBLICIS	YES	YES	YES	YES	YES	NO	YES	6
REED ELSEVIER	YES	YES	YES	YES	YES	NO	YES	6
M6	YES	YES	YES	YES	YES	NO	YES	6
PROSIEBEN	YES	YES	YES	YES	YES	NO	YES	6
DAILY MAIL	YES	YES	YES	YES	YES	NO	YES	6
INFORMA	YES	YES	YES	YES	YES	NO	YES	6
MEDIASET	YES	YES	YES	YES	NO	YES	YES	6
UBM	YES	YES	YES	YES	YES	NO	YES	6
VIVENDI	YES	YES	NO	NO	YES	YES	YES	5
TF1	YES	YES	YES	YES	NO	YES	NO	5
JCDECAUX	YES	YES	NO	YES	YES	YES	NO	5
PEARSON	YES	YES	YES	YES	YES	NO	NO	5
WOLTERS	YES	YES	YES	YES	NO	NO	YES	5
HAVAS	YES	YES	YES	NO	NO	YES	YES	5
TELECINCO	YES	YES	YES	YES	NO	NO	YES	5
GFK	YES	YES	YES	NO	YES	NO	NO	4
ANTENA 3	NO	YES	NO	YES	YES	NO	YES	4
LAGARDERE	YES	YES	YES	NO	NO	YES	NO	4
TRINITY	NO	YES	NO	YES	NO	YES	YES	4
ITV	YES	YES	NO	NO	YES	NO	NO	3
SCHIBSTED	YES	YES	NO	NO	YES	NO	NO	3
BSkyB	YES	YES	NO	NO	YES	NO	NO	3
JOHNSTON	NO	NO	NO	YES	NO	YES	YES	3
PRISA	YES	NO	NO	NO	NO	YES	YES	3
ENIRO	NO	NO	NO	NO	NO	YES	YES	2
YELL GROUP	NO	NO	NO	NO	NO	YES	YES	2
INM	NO	NO	NO	NO	NO	NO	YES	1

Source: Citi Investment Research and Analysis

Upcoming Newsflow Stock-by-Stock

Figure 102. European Media – Upcoming Newsflow

	Next Official Newsflow	Other Potential Newsflow
Aegis Group	3Q IMS - Expected Mid-November	Completion of Synovate disposal (end of Sept); M&A
GfK	3Q Results - 14 November	M&A (potential acquiror)
Havas	3Q Revenue - Expected Mid-October	M&A (potential acquiror); Buybacks
Publicis	3Q Revenue - Expected Mid-October	M&A (potential acquiror)
WPP Group	3Q Trading Update - Expected End October	M&A (potential acquiror); Buybacks
ITV Plc	3Q IMS - Expected Mid-October	Ofcom review of UK TV ad trading mechanism (Autumn); PSB Review; M&A
Mediaset	3Q Results - 8 November	Endemol debt restructuring (Sept/Oct)
M6	3Q Revenue - 8 November	Cash usage; Outcome of Euro Cup 2012/16 rights bid
ProSieben	Capital Markets Day (Munich) - 5 October	3Q Results - 3 November
Mediaset Espana	3Q Results - Expected End October	Endemol debt restructuring (Sept/Oct); Spanish election 20 November; Prisa exit of stake (1H12)
Antena3	3Q Results - 27 October	Spanish election 20 November; M&A (acquiror)
TF1	3Q Results - 10 November	Pay channel carriage fee negotiations (autumn); Decision on LCI converting to a free channel; Outcome of Euro Cup 2012/16 bid; FY11 Results - 16 February 2012
JCDecaux	3Q Revenues - 7 November	Draft decree on outdoor advertising regulation in France (Sept/Oct)
Stroer	Capital Markets Day - 10 October	3Q Results - 15 November
Daily Mail	Pre-Close Trading Update - 27 September	FY11 Results - 23 November; Investigation into UK newspaper industry
Independent News & Media	3Q IMS - Expected Beginning November	
Johnston Press	3Q IMS - Expected Mid-November	Refinancing expected by 1Q12
Lagardère	3Q Revenue - Expected Mid November	Completion of sale of Chinese magazines (4Q); Canal+ exit; Cash return
Prisa	3Q Results - Expected Mid-November	Refinancing (3Q); Exit of Mediaset Espana stake (1H12)
Schibsted	3Q Results - 11 November	FY11 Results - 16 February 2012; Buybacks; M&A (potential acquiror)
Trinity Mirror	3Q IMS - 10 November	Investigation into UK newspaper industry
Eniro	3Q Results - 27 October	
SEAT	3Q Results - 9 November	
Yell	Investor Day (London) - 15 September	1H12 results - 8 November
Informa	3Q IMS - Expected Mid-November	M&A
Pearson	3Q Trading Update - Expected End October	M&A (potential acquiror)
Reed Elsevier plc	3Q IMS - 17 November	FY11 Results - 16 February 2012
Thomson Reuters Corp	3Q Results - 1 November	Disposal of Healthcare business (completion year end)
United Business Media	3Q IMS - Expected Mid-October	Data Services Investor Day (London) - October
Wolters Kluwer	Trading Update - 9 November	Disposal of Pharma Solutions business (4Q)
BSkyB	1Q12 Results - 19 October	ECJ ruling on country by country sale of sports rights (October); CAT appeal on Ofcom's ruling on Sky Sports. Regulatory newsflow (CC review of movies - 4Q)
Vivendi	3Q Results - 15 November	Changes to French tax regime; Entrance of Free to French mobile market (4Q11); 4G licence auction; M&A
Blinkx	AGM - 20 September	Content partnerships

Source: Company Reports and CIRA Estimates

CIRA Estimates vs. Consensus

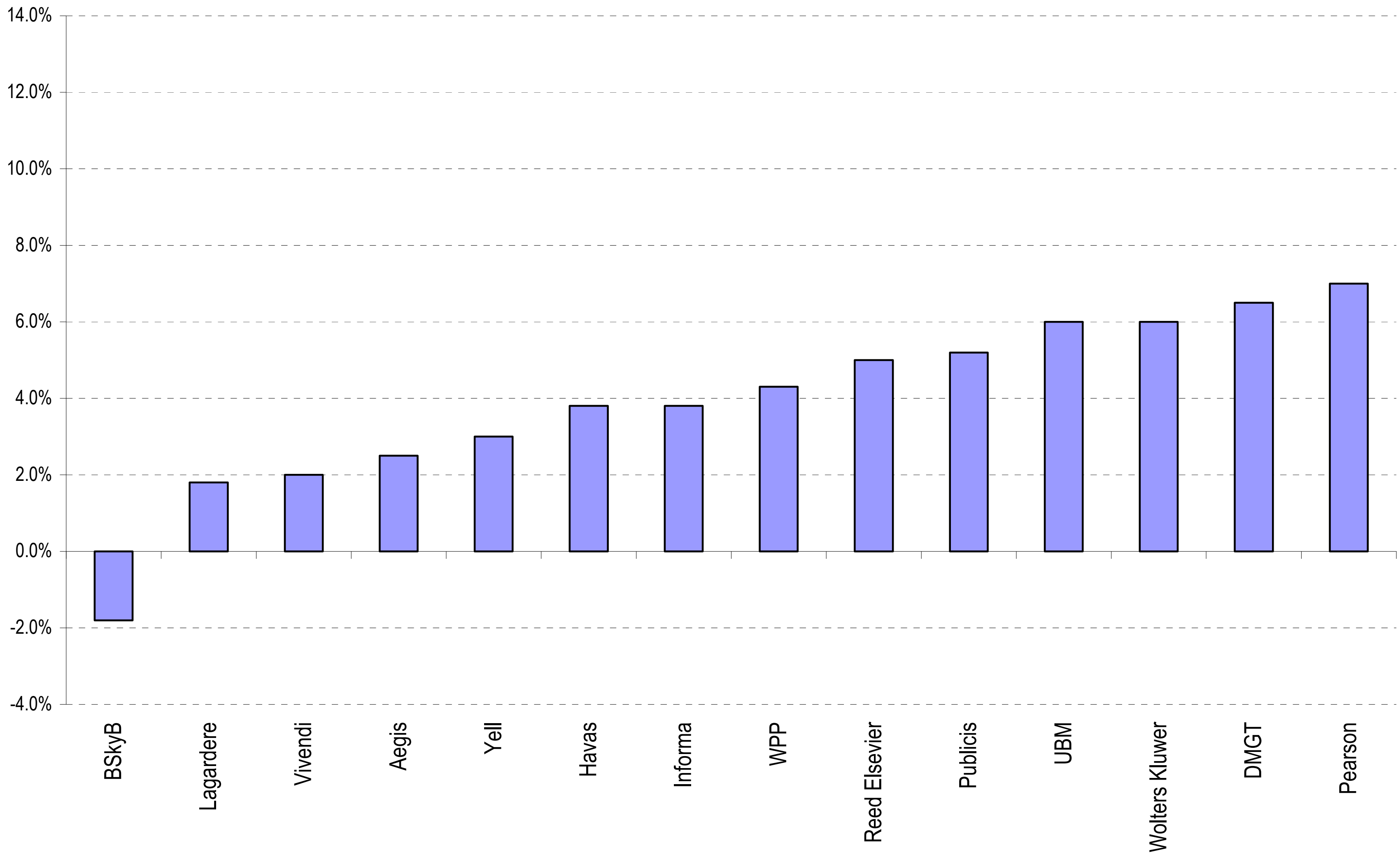
Figure 103. European Media – CIRA EPS Estimates vs. Consensus

	Currency	Citi EPS Forecasts 2011E	Citi EPS Forecasts 2012E	IBES consensus 2011E	IBES consensus 2012E	% difference vs. Consensus 2011E	% difference vs. Consensus 2012E
Aegis Group	p	9.6	10.9	9.8	10.6	-2.4%	2.9%
Havas	€	0.31	0.33	0.31	0.34	0.7%	-2.5%
Publicis	€	2.66	2.84	2.67	2.93	-0.5%	-3.0%
WPP Group	p	63.8	68.6	63.6	69.1	0.4%	-0.6%
GfK	€	2.79	3.13	2.90	3.28	-3.9%	-4.3%
Average						**-1.2%**	**-1.5%**
Antena 3	€	0.46	0.43	0.51	0.54	-9.1%	-21.4%
ITV Plc	p	7.3	7.6	6.9	7.6	6.0%	-0.1%
Mediaset	€	0.26	0.25	0.30	0.32	-11.9%	-21.9%
M6	€	1.25	1.26	1.26	1.29	-0.6%	-2.1%
ProSieben	€	2.06	1.96	1.92	2.01	7.1%	-2.4%
Telecinco	€	0.42	0.38	0.44	0.50	-6.2%	-25.0%
TF1	€	0.98	1.04	1.02	1.09	-3.8%	-5.1%
Average						**-2.5%**	**-10.9%**
JCDecaux	€	0.94	1.06	0.99	1.18	-5.0%	-10.3%
Stroer	€	0.89	0.99	0.95	1.11	-5.7%	-11.1%
Average						**-5.3%**	**-10.7%**
Daily Mail	p	47.9	51.8	48.1	51.6	-0.3%	0.4%
Independent News & Media	€c	10.3	10.5	12.0	13.1	-14.0%	-19.9%
Johnston Press	p	3.3	3.5	3.1	3.2	7.5%	9.8%
Lagardere	€	2.3	2.9	2.14	2.46	6.0%	19.2%
Prisa	€	0.15	0.14	0.14	0.20	7.7%	-27.6%
Schibsted	NOK	9.4	11.6	9.90	12.28	-5.2%	-5.2%
Trinity Mirror	p	22.8	19.2	24.3	23.7	-6.2%	-18.8%
Average						**-0.7%**	**-6.0%**
Informa	p	37.8	42.2	37.6	41.3	0.5%	2.2%
Pearson	p	79.8	89.1	79.9	85.3	-0.1%	4.4%
Reed Elsevier plc	p	45.7	50.8	46.0	49.9	-0.7%	1.9%
Thomson Reuters Corp	US$	2.08	2.60	1.99	2.44	4.5%	6.5%
United Business Media	p	53.0	58.3	54.6	58.5	-2.8%	-0.3%
Wolters Kluwer	€	1.45	1.56	1.45	1.56	0.2%	0.1%
Average						**0.3%**	**2.5%**
BSkyB	p	41.6	49.0	41.1	48.0	1.2%	2.3%
Vivendi	€	2.44	2.43	2.42	2.58	0.8%	-5.9%
Average						**1.0%**	**-1.8%**
Eniro	SEK	1.21	2.30	1.7	2.9	-28.7%	-20.0%
Yell	p	5.7	7.0	5.7	6.5	0.7%	7.3%
Average						**-14.0%**	**-6.4%**
Sector Simple Average						**-2.0%**	**-4.8%**

Source: Citi Investment Research and Analysis, IBES

Currency Sensitivities

Figure 104. % Change in 2011E EPS given 10% strengthening in $ (vs. £ and €)



Source: Citi Investment Research and Analysis

European Media Valuation

Figure 105. European Media Valuation Metrics

	Price	FX	Mar Cap	Net Debt	Adj EV	EV/Sales (x)			EV/EBITDA (x)			P/E (x)			Dividend Yield (%)		
						2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E	2010	2011E	2012E
Aegis Group	124p	GBP	1,406	100	1,506	1.0	1.4	1.4	6.7	7.1	6.8	12.2	13.1	11.6	2.2%	16.3%	2.4%
GfK	€29.4	EUR	1,056	374	1,431	1.1	1.0	1.0	7.3	6.2	5.9	14.7	10.5	9.4	1.6%	1.9%	2.1%
Havas	€2.5	EUR	1,093	-93	1,198	0.8	0.8	0.7	5.1	4.7	4.4	8.7	8.1	7.7	3.9%	4.2%	4.4%
Publicis	€30.7	EUR	7,140	10	7,733	1.4	1.3	1.3	7.8	7.3	6.8	12.8	11.6	10.8	2.3%	2.5%	2.7%
WPP Group	592p	GBP	7,956	1,888	11,012	1.2	1.1	1.1	7.2	6.4	6.1	10.4	9.3	8.6	3.0%	3.8%	4.2%
Marketing Services Average						**1.1**	**1.1**	**1.1**	**6.8**	**6.4**	**6.0**	**11.8**	**10.5**	**9.6**	**2.6%**	**5.7%**	**3.2%**
ITV Plc	54p	GBP	2,088	188	2,588	1.3	1.2	1.2	5.9	5.3	5.2	8.9	7.7	7.3	0.0%	2.8%	4.7%
Mediaset	€2.4	EUR	2,835	1,590	4,425	1.0	1.0	0.9	4.5	5.3	5.4	8.0	9.6	10.3	12.5%	13.9%	7.9%
M6	€13.7	EUR	1,766	-377	1,389	1.0	1.0	0.9	4.7	4.8	4.7	11.2	11.0	10.9	7.3%	7.7%	7.8%
ProSieben	€12.4	EUR	2,643	1,866	4,509	1.5	1.6	1.7	5.0	5.0	5.4	6.5	6.0	6.3	9.2%	11.9%	12.1%
Mediaset Espana	€4.4	EUR	1,792	-545	1,249	1.5	1.2	1.2	5.5	5.8	7.3	6.6	10.6	11.7	7.8%	8.0%	7.2%
Antena3	€4.5	EUR	952	100	1,052	1.3	1.3	1.3	6.5	7.5	8.2	8.3	9.7	10.6	10.0%	8.5%	7.9%
TF1	€9.9	EUR	2,114	-17	2,097	0.8	0.8	0.8	5.2	4.6	4.5	14.5	10.1	9.6	5.6%	7.9%	8.4%
Free-to-air Television Average						**1.2**	**1.1**	**1.1**	**5.3**	**5.5**	**5.8**	**9.2**	**9.1**	**9.5**	**7.5%**	**8.7%**	**8.0%**
JCDecaux	€15.27	EUR	3,380	351	3,725	1.6	1.5	1.5	6.7	6.4	6.2	19.5	16.2	14.5	0.0%	2.6%	2.8%
Stroer	€12.49	EUR	526	313	886	1.7	1.5	1.5	6.5	6.2	6.0	15.8	14.0	12.6	0.0%	0.0%	0.0%
Outdoor Average						**1.6**	**1.5**	**1.5**	**6.6**	**6.3**	**6.1**	**17.6**	**15.1**	**13.5**	**0.0%**	**1.3%**	**1.4%**
Daily Mail	372p	GBP	1,428	862	2,571	1.3	1.3	1.3	7.3	7.3	6.8	8.0	7.6	6.9	4.4%	4.7%	5.1%
Espresso	€1.3	EUR	521	135	656	0.7	0.7	0.7	4.5	3.7	3.6	8.7	7.2	7.4	0.0%	5.8%	7.9%
Independent News & Media	€0.3	EUR	157	474	494	0.8	0.8	0.8	5.2	5.4	5.4	2.8	2.8	2.7	0.0%	0.0%	0.0%
Johnston Press	5p	GBP	32	387	419	1.1	1.1	1.2	4.5	5.1	5.3	1.4	1.5	1.4	0.0%	0.0%	0.0%
Lagardère	€19.3	EUR	2,451	1,772	2,871	0.4	0.4	0.4	4.6	4.9	4.6	11.3	8.5	6.6	6.7%	6.7%	6.7%
Mondadori	€1.9	EUR	494	342	837	0.5	0.5	0.6	6.0	5.5	5.2	11.7	8.7	7.7	0.0%	8.9%	8.9%
Prisa	€0.9	EUR	414	3,267	4,248	1.5	1.5	1.5	7.4	7.0	6.1	1.6	6.2	6.5	0.0%	0.0%	0.0%
Schibsted	NOK128.3	NOK	13,663	1,827	16,820	1.2	1.1	1.1	7.6	7.6	6.5	13.2	13.7	11.0	2.3%	3.7%	4.5%
Trinity Mirror	41p	GBP	106	266	470	0.6	0.6	0.6	3.0	3.9	4.6	1.4	1.8	2.1	0.0%	0.0%	0.0%
Consumer Publishers Average						**0.9**	**0.9**	**0.9**	**5.6**	**5.6**	**5.3**	**6.7**	**6.4**	**5.8**	**1.5%**	**3.3%**	**3.7%**
Eniro	SK14.4	SEK	1,438	3,739	5,511	1.0	1.2	1.3	4.4	5.2	5.4	4.7	7.1	5.5	0.0%	0.0%	0.0%
SEAT	€0.0	EUR	85	2,731	2,816	2.5	2.6	2.6	5.8	6.0	6.2	1.5	1.0	1.1	0.0%	0.0%	0.0%
Yell	5p	GBP	106	3,095	3,201	1.7	1.8	1.9	6.0	6.7	7.0	0.7	0.7	0.6	0.0%	0.0%	0.0%
Directories Average						**1.7**	**1.9**	**1.9**	**5.4**	**6.0**	**6.2**	**2.3**	**2.9**	**2.4**	**0.0%**	**0.0%**	**0.0%**
Informa	335p	GBP	2,008	779	2,788	2.3	2.2	2.1	8.3	7.9	7.3	9.6	8.8	7.9	4.2%	4.5%	5.0%
Pearson	1064p	GBP	8,525	430	8,955	1.5	1.5	1.5	8.5	8.5	8.0	13.7	13.3	11.9	3.6%	3.7%	4.2%
Reed Elsevier plc	483p	GBP	5,787	1,828	7,615	2.4	2.4	2.3	8.2	8.0	7.5	11.1	10.6	9.5	4.2%	4.7%	4.7%
United Business Media	432p	GBP	1,050	485	1,535	1.7	1.6	1.5	8.3	7.5	7.0	8.6	8.1	7.4	5.8%	6.1%	6.7%
Wolters Kluwer	€12.1	EUR	3,619	2,035	5,654	1.6	1.7	1.6	6.8	6.8	6.6	8.2	8.4	7.7	5.5%	5.4%	5.8%
Professional Publishers Average						**2.0**	**1.9**	**1.9**	**8.1**	**7.7**	**7.3**	**11.3**	**10.5**	**9.3**	**5%**	**5%**	**5%**
BSkyB	646p	GBP	11,322	1,076	12,201	2.0	1.8	1.7	9.5	8.3	7.4	18.2	14.3	12.0	3.3%	3.7%	4.2%
Vivendi	€15.6	EUR	19,289	8,073	35,461	1.2	1.2	1.2	4.3	4.3	4.4	7.1	6.4	6.4	9.0%	9.6%	9.6%
Entertainment Average						**1.6**	**1.5**	**1.5**	**6.9**	**6.3**	**5.9**	**12.7**	**10.4**	**9.2**	**6.1%**	**6.7%**	**6.9%**
Sector Average						**1.3**	**1.3**	**1.3**	**6.3**	**6.2**	**6.0**	**9.4**	**8.8**	**8.1**	**3.5%**	**4.8%**	**4.5%**

Note: Prices as at open 7 September Source: Citi Investment Research and Analysis

This page is intentionally left blank

Valuation & Risks

Antena 3

Investment strategy

Given our bearish stance on the Spanish economy we believe that consensus' expectations of growth in 2012 could prove optimistic and see downside risk. While the group has generally outperformed the ad market and has seen a recovery in audience share, we believe there will be limited scope to reduce costs significantly as it is critical it protects its share as number 2 in the market. We acknowledge there is the M&A possibility (La Sexta merger looking more likely) which should help consolidate the market, but as we saw with the Telecinco/Cuatro merger this is unlikely to be enough to overcome the weak macro backdrop. The group trades at a premium to peers, which we find difficult to justify given lack of revenue and EPS momentum. We rate the group Sell.

Valuation

Our target price of €4.10 is based on a DCF (11.2% WACC and 0% LT growth).

Risks

We rate Antena 3 as Medium Risk. Although competitive threats remain, likely deregulation benefits have subsided. We would highlight in particular the following risks that could cause the share price to fall below our target price:

1. Advertising behaviour. Antena 3 derives most of its revenues from advertising expenditure, which is ultimately correlated with the GDP evolution.

2. Loss of audience share. As a result of: (i) unsuccessful programming decisions, (ii) competitors' success, or (iii) regulatory changes that affect the competitive landscape. Additional airtime or additional FTA channels (supply increases) may intensify competition and cap Antena 3's audience and advertising shares, as well as its current pricing power. If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Arnoldo Mondadori Editore

(MOED.MI; €1.93; 3M)

Valuation

We derive a fundamental valuation for Mondadori of €2.45, using DCF and FCF (incorporating the cancellation of 5% of outstanding shares). We value Mondadori mainly on cash flows, while trading multiples provide a necessary sanity check. We give equal weight to our DCF model (9% WACC and no long-term growth), which tends to capture future trends, and to a FCF yield approach based on sustainable free-cash flow.

Risks

We rate Mondadori Medium Risk in consideration of the following risk factors, which could also cause the shares to deviate from our price target. Mondadori is highly dependent on add-on sales which sell: (1) directly to consumers and (2) indirectly to competitors in the form of rights. Margins from add-on sales are in the range of €60m. However, add-on sales might have achieved a peak, resulting in lower future margins. Mondadori is little exposed to advertising compared to other media companies. However, it tends to focus on magazines, which are late cycle with limited upside. The same trend could be envisaged for magazine circulation, which can more easily fall from current levels than grow. Traditional media are highly exposed to the internet and Mondadori lacks exposure to new media. Mondadori has invested €551m to buy EMAP France and diversify into a competitive market. Given the results achieved by the French business in the recent past, we see little scope for Mondadori to reverse these trends in the short term.

If the impact on the company from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Daily Mail & General Trust PLC

Valuation

Our target price of 495p is based on a 2011E sum of the parts backed up by an analysis of multiples. In our SOTP, we apply a 0.5x revenue multiple to the regional newspapers, 0.75x revenues to the print national newspaper businesses, 5x revenues to the faster growing, higher-margin online classified assets, 10x to the MailOnline (based on recently observed transaction multiples). At the B2B businesses, we apply 9x EBIT. We do not apply a holding company discount but reflect the risk on the pension by reflecting the net pension deficit as debt.

At 620p, DMGT would trade at 11x calendarised 2012E P/E, which is between where consumer publishers and professional publishers would trade based on our 12-month target prices. This is appropriate, in our view, as c.1/3 of its business by EBIT is newspapers and c.2/3 is more attractive long-term growth B2B businesses.

Risks

We rate DMGT Medium Risk to reflect our assessment of industry and company-specific risk factors. Key risks include: (i) the outlook for advertising expenditure is subject to macroeconomic conditions, and visibility remains low; (ii) property within DMGi is dependent on a pick-up in US/UK property market transactions where trends remain uncertain; (iii) the B2B businesses are late cycle - the visibility on the return to growth is low. If the subscription products / B2B events are slower to pick up than we anticipate, this could imply downward pressure to our forecasts; and (iv) DMGT has denied illegal practices such as phone-hacking have been used in its newspapers to gain stories, but the outcome of the industry wide investigation (and potential consequences) is unknown. If the impact of these risk factors is more negative than we currently anticipate, then the share price likely won't reach our target price.

Eniro AB

Valuation

Our target price of SEK10 is based on a DCF assuming a 11.5% WACC and -4% LT Growth.

Risks

We rate Eniro Medium Risk. The risk rating on the stock is derived after consideration of a number of factors. These include an assessment of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility, based upon the input of the Citi Investment Research quantitative research team, as a possible indicator of future stock-specific risk.

With regard to Eniro, we believe the main risk is the lack of visibility on earnings estimates. We are also concerned about

- Client concentration;

- Decreases in usage of the print product;

- Increased competition online, in particular from rival online directory companies like hitta.se (owned by Schibsted).

If the impact on the company from any of these factors proves to be greater than we anticipate, the stock will likely have difficulty achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Grupo Prisa

Valuation

In valuing Prisa, we use a marked-to-market SOTP (sum-of-the-parts) analysis and set our target price at €1.05.

Risks

We rate Grupo Prisa as Medium Risk based on our assessment of industry and company-specific risk factors. The following risks could cause the share price to deviate significantly from our target price: 1) Debt still remains significant post the restructuring in 2010 and we are awaiting news on a further restructuring/refinancing; 2) Low visibility on the advertising outlook 3) the value of Digital+ is still difficult to determine as one of its key shareholders, Telefonica, also owns a competitor and is the leading broadband provider in Spain.

Gruppo Editoriale l'Espresso SpA

(ESPI.MI; €1.30; 2M)

Valuation

We value Espresso using a five-year DCF reaching a valuation of €1.90 (8.0% WACC and -0.5% long-term growth), which we set as our target price. We believe Espresso is set for a bumpy road ahead due to the worsening economic environment and company reshape. While valuation is not a catalyst per se, we pragmatically believe that momentum wins over fundamentals and accordingly we acknowledge that in the short term Espresso could benefit from the impact of the major cost-cutting taking place.

Although we recognise that Espresso could have a much higher break-up value - especially considering the influential position of *Repubblica* on Italian politics and the economic environment - we acknowledge that CIR controls a majority stake in Espresso and we don't expect any corporate action in the short or medium term. Accordingly, we don't give any importance to break-up value when setting Espresso's target price.

Risks

We rate Espresso as Medium Risk based on our assessment of industry- and company-specific risk factors. Espresso is highly dependent on advertising, where trends are particularly volatile and erratic; this is balanced somewhat by its strong positioning and strategy. However, should advertising fall, Espresso's bottom line could suffer due to its semi-rigid cost structure. Traditional media are highly exposed to the internet. Although Espresso has one of the best positions in the internet in Italy, a big switch from print to the web would be a major issue for Espresso given the different magnitude of the two forms of media.

If the impact on the company from any of these factors proves to be less negative than we anticipate, the stock could materially outperform our target.

Independent News & Media PLC

Valuation

We set our target price at €0.31 based on 5.5x 2012E EV/EBITDA, in line with its pan-European consumer publishing peers. While higher leverage and Irish exposure may indicate a discount is necessary, we balance this against its broader geographic exposure vs. many peers (just under half of EBIT from South Africa and a significant associate income from APN is Australasia).

Risks

We rate INM as High Risk following an assessment of industry and company-specific risk factors. Upside pressures on our target price could come from the following: (1) A stronger than expected economic recovery in INM's key geographies (N. Ireland, Republic of Ireland, South Africa, Australia, New Zealand); (2) Stronger-than-expected cost savings driving group earnings. Downside pressures on our target price could come from: (1) a slower-than-expected global economic recovery; (2) loss of share if the group does not invest appropriately in brands and online to remain competitive; (3) Newsprint price inflation puts pressure on group earnings.

ITV PLC

Valuation

We base our absolute valuation on a DCF analysis (WACC of 9.5% and a LT growth assumption of 2%) which gives a fair value of 99p. We also use a SOTP-based analysis as a sanity check (fair value of 106p). Both methodologies support our new 100p target price.

At our 100p TP, near-term valuation for ITV would be relatively extreme at c.13.6x 2012E P/E. We note, however, that EV/Sales, at 2.0x, would be more in line with medium-term margin expectations (20%+ from 2012E). We also note the potential for material upgrades from both a better macro environment, as well as greater operational/capital structure efficiency. We note that on our 'bull case' EPS scenario (9.1p by 2012E), ITV would trade at just over 11x at 100p.

Risks

We have a High Risk rating on ITV based on our assessment of industry and company-specific risk factors. The major downside risks to ITV, which may prevent achievement of our target price are: investment-driven downgrades; audience attrition; loss of share for TV to the internet; technology shifts; the UK economy; and concerns around the pension deficit. The major upside risks are: continued improvement in advertising; relaxation of regulation, material improvement to the schedule over time; M&A activity.

JCDecaux

Valuation

We base our target price of €16.50 on a DCF using 10% WACC and 3% long-term growth.

Risks

Our risk code is Medium. This is based on the industry being relatively structurally sound and the group having a reasonable capital structure with no near-term financing concerns.

We see the major areas of risk for JCDecaux as:

Outlook for advertising markets deteriorating further or proving better than we expect (subject to macroeconomic conditions with low visibility)

Large contract losses/poor success rate in new business

Longer-term capex requirements exceeding or falling below expectations

Consolidation in the industry leading to value-destructive deals

Regulation on billboards tightening internationally (following the US)

Additional impairments of goodwill

Closed nature of contract awards

Potential lag in recovery of the transport division

If any of these factors prove to have more/less of an effect than we forecast, then the share price could fail to reach/exceed our target price.

Johnston Press PLC

Valuation

We value JPR on comparative multiples. We believe Johnston Press should trade at 5.3x 2012E EV/EBITDA, a c.10% discount to its consumer publishing peers given its pure exposure to structurally challenged regionals, plus risks associated with high leverage and management change. This leaves it on 4p, where we set our new target price. At this price JPR would trade at 1x 2012E revenues. For reference, this equates to setting our DCF at 11% WACC (reflective of high risks) and -5% LT growth.

Risks

We rate Johnston Press as High Risk. Our risk rating on the stock is derived after consideration of a number of factors. These factors include an assessment of industry-specific risks, financial risk and management risk. The following risks could cause the share price to deviate significantly from our target price: (i) The outlook for advertising expenditure is subject to macroeconomic conditions and visibility remains very low ; (ii) On the new debt facility, interest costs ratchet down and the PIK charge is waived if certain targets to delever are met. If the company manages to reduce debt faster than we expect, this will drive a lower interest charge and higher earnings. On the other hand, the risk is that debt reduction comes at the expense of a longer term need for investment in areas like digital which could damage the company's competitive positioning; (iii) the company is undergoing refinancing negotiations which it expects to complete by 1Q12 - the outcome of these negotiations is unknown; (iv) newsprint is a significant operating expense and paper prices have been extremely volatile. Further price rises could depress profits and cash flow generation further; price deflation could lead to a better outcome than we expect.

Kabel Deutschland

(KD8Gn.DE; €39.14; 2M)

Valuation

We have a €40 DCF-based target price on KDG. We use a DCF methodology due to the cash generative nature of the business. We assume a 8.0% WACC and a 1.0% perpetuity growth rate. Our WACC assumptions include a 8.3% cost of debt reflecting our long-term effective interest rate assumption. We assume an asset beta of 1.1 at the high end of our assumptions for cable operators to reflect the transitional phase the customer base is in.

Risks

We rate Kabel Deutschland Medium Risk. The main risks to the investment case and our target price are: 1) rising competition in the triple play market, primarily from

Deutsche Telekom which made a point of targeting cable at its recent investor day. 2) KDG has high leverage; we forecast KDG has 4.4x 2010E net debt/EBITDA and a 1% increase in interest rates increases the interest expense by c.€24m. Offsetting this is stable cash flows from the core basic TV business with growth potential from broadband. 3) There is the risk that DT's FTTH roll-out could remove KDG's broadband speed advantage and lead to an increase in capex in response. 4) Overhang and minority risk from Providence Equity Partners retaining a 54% stake in KDG. On the positive side 1) level 3 consolidation rules may be changed, 2) If Kabel BW is sold for a high valuation this would provide a positive read across.

Lagardere Groupe

Valuation

Our SOTP is driven by EBITDA multiples back-checked against revenues multiples, which are rationalised based on perceived sustainable margin levels. We generally apply 5-6x EBITDA multiples to the non-cyclical divisions. At Active Press, we apply a higher multiple to reflect some element of medium-term recovery. We apply a 40% conglomerate discount to reflect reduced probability of a near-term exit from C+, renewed uncertainty due to volatility at Sports, and also to reflect investor concerns regarding noise over the CEO's personal life. We set our target price at €20.50.

Risks

We view Lagardere as High Risk. The major areas of risk for Lagardere (which may cause the shares to deviate from our target price) are:

The core business may struggle given its cyclical exposure;

The share price is highly correlated with EADS, which is volatile;

The Lagardere family controls the group through voting rights, so shareholders are effectively minorities.

There is significant execution risk involved in portfolio restructuring and reallocation of capital.

M6 Metropole Television

Valuation

We derive our €14.50 target price using a straightforward DCF at 10.5% WACC, and 0.5% LT growth.

Risks

We view M6 as Medium Risk. The risk rating on the stock is derived after consideration of a number of factors. These factors include an assessment of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility, based on the input of the Citi Investment Research quantitative research team, as a possible indicator of future stock-specific risk. We believe the major areas of risk for M6 are: (1) the outlook for advertising markets; (2) long-term secular pressures from pay-TV penetration and development of broadband. If the impact of these risk factors is more/less negative than we currently anticipate, then the share price could fail to reach/exceed our target price.

Mediaset SpA

Valuation

We have a target price of €2.20. Our DCF model (which assumes an 8% WACC and -1% LT growth) values Mediaset at €2.50/share. In setting our target price, we apply a discount to DCF to reflect risks to both risks of further deterioration of Mediaset's core businesses in the medium term (pushing LT below 0%) and the sentiment that we think is likely to constrain share price performance over the next 12 months. Specifically, the latest headlines relating to Mr Berlusconi (Mediaset's largest shareholder and the Italian prime minister) may negatively impact sentiment towards Mediaset stock. All in all, we don't believe that the company's results and newsflow (e.g. on PPV) are likely to be strong enough offsetting factors to convince investors to focus instead on fundamentals and ignore the noise.

Risks

We view Mediaset as Medium Risk. Our risk rating on the stock is derived after consideration of a number of factors. These factors include an assessment of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility, based upon the input of the Citi quantitative research team, as a possible indicator of future stock-specific risk.

The major areas of risk for Mediaset that could impede the share price from achieving our target price are as follows. 1) The outlook for advertising markets in Italy and Spain. 2) Programme investment may be higher than historically, as the group attempts to retain audience share. Investment in pay TV may also prove value-destructive. 3) The digital terrestrial television (DTT) framework is still relatively immature, leading to uncertainty over potential future costs and competition. 4) The regulatory environment may change, given the recent change in government while there is the threat of the internet cannibalising ad share.

If the impact from any of these factors proves to be more negative than we anticipate, the stock will likely have difficulty achieving our financial and price targets. However, if any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Mediaset España SA

Investment strategy

Our economists are forecasting a recession in Spain in 2012. Given the correlation between GDP and advertising, we believe that negative trends are increasingly likely. Consensus assumes positive growth in 2012 and we see significant downside risk to expectations. We are cautious on the group's capacity to reduce 2012 costs in light of a declining topline (with sports rights kicking in), the stock overhang from the Prisa stake of 17.3% and uncertainty on the Endemol restructuring. We forecast trough EPS levels in 2012E (and therefore a mild valuation premium may be acceptable), but the group trades at a significant premium to peers of c.30% premium on 2012E P/E and c. 45% on EV/EBITDA. We rate Mediaset Espana Sell.

Valuation

We set our target price at €3.90, based on DCF (11.2% WACC and 0.5% LT growth).

Risks

We rate Mediaset Espana as Medium Risk. Although competitive threats remain, likely deregulation benefits have subsided. The following are relevant risks to our target price:

1. Advertising behaviour. Mediaset Espana derives c.100% of its revenues from advertising expenditure. Advertising is highly correlated with GDP evolution, and therefore our estimates are prone to error. A higher interest rate scenario may cap consumer expenditure, business profit growth and, ultimately, the general evolution of the economy.

2. Loss of audience share as a result of: (i) unsuccessful programming decisions; (ii) competitors' success; or (iii) regulatory changes that affect the competitive landscape. Additional airtime or additional FTA channels (supply increases) may intensify competition and cap Mediaset Espana 's audience and advertising shares, as well as its current pricing power.

3. Attractive potential dividend remuneration in the company.

If the impact of these risk factors is more/less negative than we anticipate, then the share price might fail to reach/rise above our target price.

Pearson PLC

Investment strategy

We rate Pearson Buy. We are bullish on the prospects for the education business as the group diversifies into testing, software and solutions within existing markets and expands internationally. We like the FT and Professional businesses and are sanguine on the impact the move to e-books will have on FCF at Penguin. A historical concern has been valuation, but while the group screens as expensive on P/E, on leverage neutral metrics the divergence is much less pronounced. In absolute terms we see fair value at 1240p.

Valuation

Our target price of 1240p is based on a DCF assuming 9.0% WACC, 2.5% growth. 1240p would imply 13.9x P/E, 9.5x adjusted EV/EBITDA and 1.7x EV/sales in 2012E. Given the prospect of 17% margins over time, this seems reasonable.

Risks

We rate Pearson as Medium Risk based on our assessment of industry and company-specific risk factors. We highlight in particular the following risks: (i) the outlook for advertising markets (for the Financial Times), which remain subject to macroeconomic conditions and where visibility is low; (ii) the reliance of education budgets on state finances and political will, which are often difficult to forecast and could lead to order slippage; (iii) uncertainty over the shift to e-readers on volumes and pricing of consumer and educational books. If the impact of these factors is greater than we anticipate, then the stock would likely have difficulty in reaching our target price.

ProSiebenSat.1 Media

Valuation

In absolute terms we see FV at €20. This target price is based on a DCF assuming 9% discount rate and 1% LT growth, but with a 25% discount for the Prefs vs. the Ords to reflect the fact that the Preference shares do not have full voting rights.

Risks

We view P7S1 High Risk based on our assessment of industry- and company-specific risk factors. With regards to P7S1, we particularly highlight the historical volatility of the shares as well as the number of revisions we have had to make to forecasts in the past. The major areas of risk for P7S1 are:

The outlook for advertising markets, given P7S1's heavy reliance on advertising revenues.

Advertising expenditure is subject to general macroeconomic conditions and visibility remains low.

The German television market is highly fragmented and discounts to rate card have historically been very high.

The quoted preference shares carry no voting rights and there is therefore uncertainty as to their value relative to the ordinary shares.

Having originally geared up the business with the acquisition of SBS in 2007, a number of disposals - most recently the disposal of the Belgian/Netherlands TV/Print assets - has brought leverage under control (now 2.3x net debt/EBITDA).

Should these risks have more/less of a negative impact than we anticipate, the shares might not reach/rise above our target price.

Seat Pagine Gialle SpA

(PGIT.MI; €0.05; 3S)

Valuation

Our DCF assumes a discount rate of 13% (based on a beta of 1.4x) and negative long-term growth in 2015 of -1.5%, reflecting the long-term threats that we believe the business will have to face in the future. We calculate an enterprise value of about €2.9bn, implying c.5.9x 2010E EBITDA but €2.7bn is to be ascribed to debt. Our DCF model suggests a fair value of €0.05 per share, and we accordingly set a target price of €0.05.

Risks

We rate Seat as Speculative Risk. With regard to Seat, we would highlight in particular the visibility of earnings estimates and the complexity and transparency of financials as key drivers of our rating. Although operating risk would suggest high risk, we stress that SPG is now a penny stock (i.e. trades for under €1) with all of the risks associated. Risk factors include: i) stock price could be affected by the usual speculation surrounding companies facing financial constraints (eg. takeover, disposals etc); ii) SPG could receive cash up to €65m from litigation in Germany.

Net cash for SPG shareholders would be approximately €50m or 6.5% of our equity value; and iii) a half of a euro cent change in the stock price would imply a 6% change. If the impact on the company from any of these factors proves to be more positive than we anticipate, the stock could materially outperform our target price.

Stroer Out-of-Home Media AG

Valuation

We base our target price of €16 on a DCF model, assuming 2.5% long-term growth and 10% WACC.

Risks

We rate Stroer Medium Risk. The following risks could impede the share price from reaching our target price:

With advertising correlated to GDP, there is risk of the macro outlook deteriorating.

Benefits of new screens and scroller sites overestimated.

Capex requirements exceeding expectations for new initiatives.

Contract losses and increasing competition in Germany.

Regulation on billboards tightening.

Consolidation leading to value-destructive deals/integration risk of recent acquisitions.

Reliance on Udo Muller (founder and CEO).

Sale of shares by management post 12-month lock-up.

Loss of lawsuit to JCDecaux.

Television Francaise 1 SA

Valuation

Our €10.40 target is based on a combination of DCF (10.5% WACC and 0.5% LT growth) and multiple analysis (assuming group should trade in line with peers on 2012E P/E).

Risks

We have a Medium Risk rating on TF1, which is derived after consideration of a number of factors including an assessment of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility, based on the input of the Citi Investment Research quantitative research team, as a possible indicator of future stock-specific risk. With regards to TF1, we particularly highlight its strong balance sheet and cash generation, as well as its leading market position. At the same time, the shares have proved volatile.

The major areas of risk for TF1 are: (1) the outlook for advertising markets; (2) lack of visibility over the impact of deregulation; and (3) the precipitous fall in audience share and the potential impact on advertising in future years.

If the impact on the company from any of these factors proves to be greater than we expect, the stock will likely have difficulty in achieving our financial and price targets. Likewise, if any of these factors proves to have less of an effect than we expect, the stock could materially outperform our target.

Thomson Reuters Corp

(TRI.N; US$29.71; 2H)

Valuation

We use both a SOTP model and DCF-based analysis to derive our target price. For our DCF, we assume a long-term growth rate of 3% and a discount rate of 9% (CAPM WACC calculation using a 1.0x beta and 4% equity risk premium). This drives a fair value of c. $45 per share. Our SOTP valuation - based on traded comparables where possible - is less generous, but still supports a fair value of c. $35 per share. We base our $40 target price on a blended average of these two methodologies.

Risks

We rate Thomson Reuters High Risk, based on an assessment of industry and company-specific risk factors. While the company has >90% recurring revenue and dominant market share in most of the businesses in which it competes, the exposure to the financial services industry makes the company High rather than Medium risk. TRI may have difficulty reaching our target price due to several company-specific and industry cyclical issues, including: The Markets business is vulnerable to the slowdown and headcount reductions in the financial services industry, and the Professional business is vulnerable to headcount reductions within legal and accounting firms, government agencies and academia. Thomson Reuters' markets business is increasingly reliant on electronic trading volumes across a number of markets, including FX, derivatives, fixed income and commodities. A sharp and sustained reduction in trading volume could be negative for the group's transaction-driven revenues. Thomson Reuters is currently integrating the acquisition of Reuters. The process should yield significant savings over a three-year timeframe, but is also coming at a significant cost near-term. If the integration is not as successful as the company hopes, it could lead to revenue dis-synergies, or even increases in the cost of achieving the targeted savings. Longer-term there is a risk that integration costs may not fall away as the group hopes.On the other hand, our view may prove too conservative if the group's Professional and/or Markets businesses prove much more stable in the downturn due to long-term subscription and recurring revenue streams. Additionally, we may be underestimating the cost savings and revenue synergy potential in the acquisition of Reuters. If we have been too conservative in our estimates, TRI could exceed our expectations and our target price over time.

UBM plc

Valuation

We value the shares 495p on a 2011E sum-of-the-parts analysis. We apply revenue multiples to each of the divisions, reflecting the relative margins and cross-check these against EBITDA multiples.

We attribute the highest multiple to Events, which makes up around half of group profit and where we see margins as sustainable at >30%. At PRN, we apply a 1.9x revenue multiple and view sustainable margins in the high teens/low 20s. We feel that over time, the high-margin per-word pricing model will come under pressure as it competes against more subscription-based newswire services. We are already seeing signs of margin pressure from investment in new products and a mix shift to lower margin non-wire products. We apply lower multiples to Data, Services & Online and Print Magazines reflecting their lower margins. This is also backed up by our DCF based on 10% WACC and 4% long-term growth.

Risks

Our Medium Risk rating on the stock is derived after consideration of several factors. These include an assessment of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility, based on the input of the Citi quantitative research team, as a possible indicator of future stock-specific risk. With regard to UBM, we would highlight: (i) highly volatile end markets, in particular revenues from technology end-markets; (ii) pharmaceutical end-markets are competitive, pharmaceutical companies are using procurement departments more aggressively, and regulation is having an impact on marketing investment; (iii) uncertain returns from potential acquisitions; (iv) competitive pressures in the newswire market which could pressure margins over time. If any of these factors proves to have less of an effect than we anticipate, the stock could materially outperform our target.

Vivendi

Valuation

Our target price of €20 per share reflects our sum-of-the-parts valuation. We value the quoted stakes at market and capitalise group holding and corporate costs at 9x 2012E. After deducting net debt, we apply a 15% holding company discount, which drives our target price of €20. We note that, at this level, adjusted for the quoted stakes (SFR, Canal+, UMG and NBC), Vivendi would still trade at a discount to its mobile peers on 2012E EBITDA.

Risks

We view Vivendi as Medium Risk due to a number of factors that may prevent the stock from achieving our target price. The major divisional risks we see are at SFR, where the impact of a fourth mobile operator may be more pronounced than we model, and the business is exposed to a worsening regulatory environment and tougher times both for enterprise and broadband. For UMG, the music industry remains troubled. There is also a risk that the group uses its cash poorly. There is also cyclical risk to some degree across its businesses.

Wolters Kluwer NV

Valuation

Our target price of €11.10 is based on DCF-based valuation analysis using a discount rate of 12% (incorporating a beta of 1.0x) and a long-term growth rate of -1%. We note that at this price Wolters Kluwer would be trading at c.8x 2011E P/E, still at a discount to the professional publisher peer group.

Risks

We rate Wolters Kluwer Medium Risk. Our risk rating on the stock is derived after consideration of a number of factors. These factors include an assessment of industry-specific risks, financial risk and management risk. In addition, we consider historical share price volatility, based upon the input of the Citi Investment Research quantitative research team, as a possible indicator of future stock-specific risk.

We think the biggest upside risk is the possibility of corporate activity, with other professional publishers often cited as potential acquirers. Short-term, given current market conditions, we are not anticipating any activity from private equity and integration is more the focus among the professional publishers.

On the negative side, we particularly highlight leverage and uncertainty over FX hedging as risks to investor sentiment. At c.2.5x net debt/EBITDA leverage is high, but the maturity profile manageable, in our view. If, however, the group sees material cash outflows associated with aggressive FX hedging this would be negative.

We also highlight FX fluctuations as a potential negative for earnings.

Notes

Notes

Appendix A-1

Analyst Certification

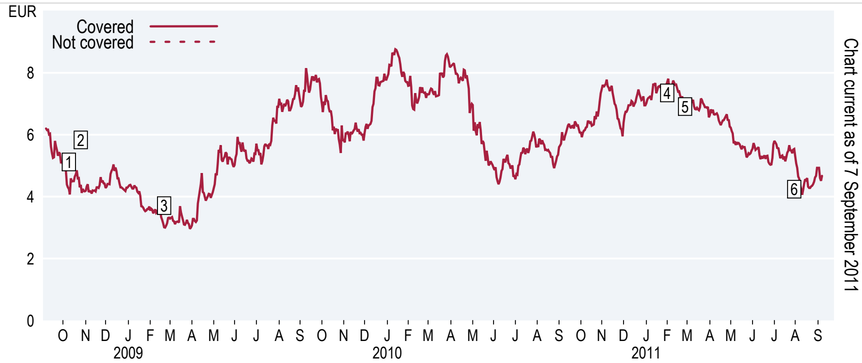
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

Antena 3 (A3TV.MC)

Ratings and Target Price History
Fundamental Research

Analyst: Catherine T O'Neill
Covered since February 1 2011



	Date	Rating	Target Price	Closing Price
1	9-Oct-08	*2M	*4.20	4.25
2	27-Oct-08	2M	*4.00	4.38
3	20-Feb-09	*3M	*2.50	3.01
4	1-Feb-11	*2M	*7.60	7.70
5	25-Feb-11	2M	*7.20	7.17
6	29-Jul-11	2M	*5.90	5.54

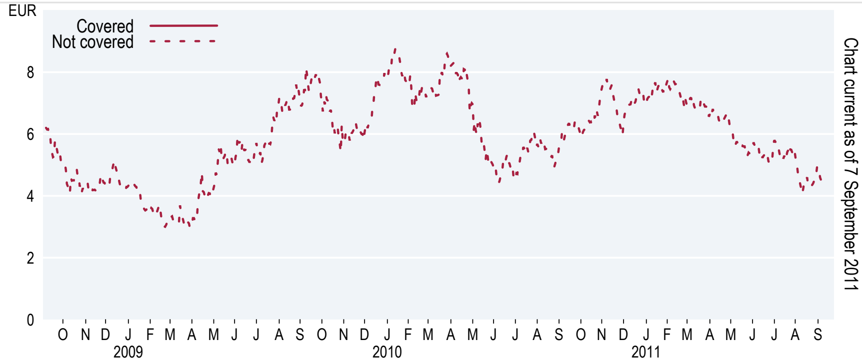
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Antena 3 (A3TV.MC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Catherine T O'Neill
Covered since February 1 2011



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Daily Mail & General Trust PLC (DMGOa.L)

Ratings and Target Price History
Fundamental Research

Analyst: Ruchi Malaiya, CFA
Covered since March 30 2009

	Date	Rating	Target Price	Closing Price
1	27-Oct-08	1M	*3.50	2.81
2	27-Oct-08	*2M	*3.00	2.81
3	15-Jan-09	2M	*2.85	2.64
4	27-Mar-09	2M	*2.50	2.28
5	29-May-09	*3M	2.50	3.25
6	8-Sep-09	3M	*3.40	4.22
7	17-Dec-09	3M	*3.80	4.05
8	4-May-10	*1M	*6.20	5.12
9	1-Nov-10	1M	*6.60	5.45
10	27-May-11	1M	*6.20	4.52

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Daily Mail & General Trust PLC (DMGOa.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ruchi Malaiya, CFA
Covered since March 30 2009

	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	5.68
2	15-Aug-11	*REM MP	-	3.88

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Eniro AB (ENRO.ST)

Ratings and Target Price History
Fundamental Research

Analyst: Thomas A Singlehurst, CFA

	Date	Rating	Target Price	Closing Price
1	27-Oct-08	2M	*309.40	290.49
2	15-Jan-09	2M	*249.24	199.39
3	18-Feb-09	2M	*171.89	169.31
4	4-Mar-11	2M	*24.50	24.30
5	20-May-11	*3M	*21.90	26.20
6	24-Aug-11	3M	*16.20	17.00

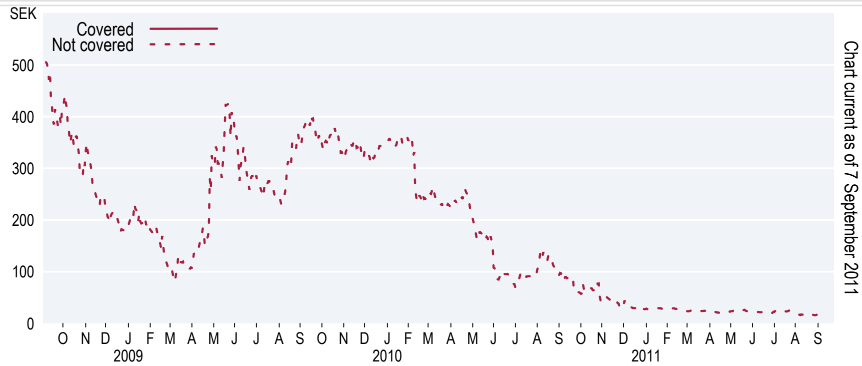
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Eniro AB (ENRO.ST)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Thomas A Singlehurst, CFA



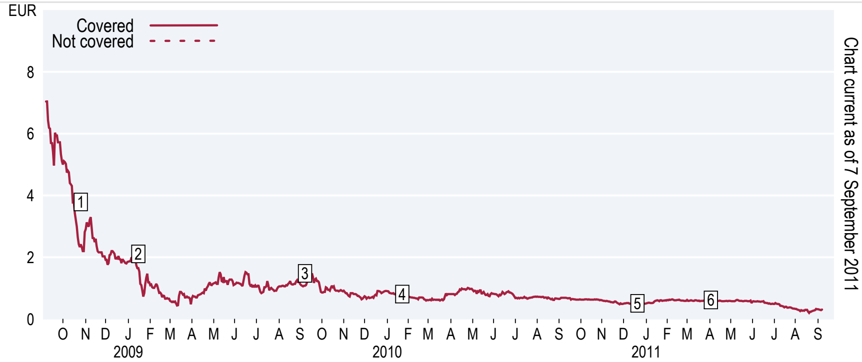
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Independent News & Media PLC (INME.I)

Ratings and Target Price History
Fundamental Research

Analyst: Ruchi Malaiya, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-08	2M	*2.64	2.42
2	15-Jan-09	*2H	*1.98	1.65
3	8-Sep-09	*2S	*1.32	1.08
4	22-Jan-10	*2H	*0.91	0.74
5	21-Dec-10	2H	*0.52	0.50
6	4-Apr-11	2H	*0.64	0.61

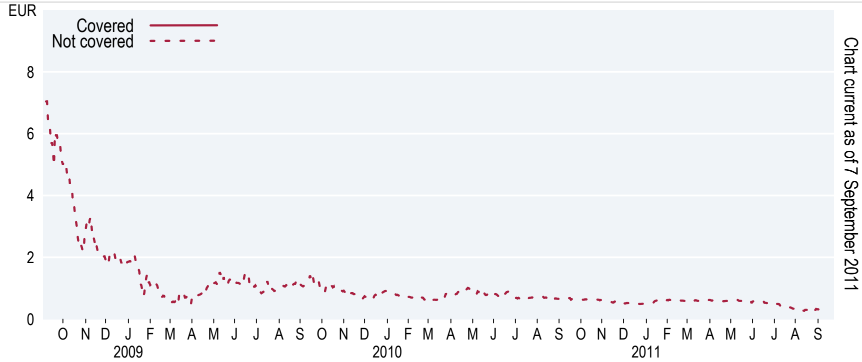
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Independent News & Media PLC (INME.I)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ruchi Malaiya, CFA



* Indicates change

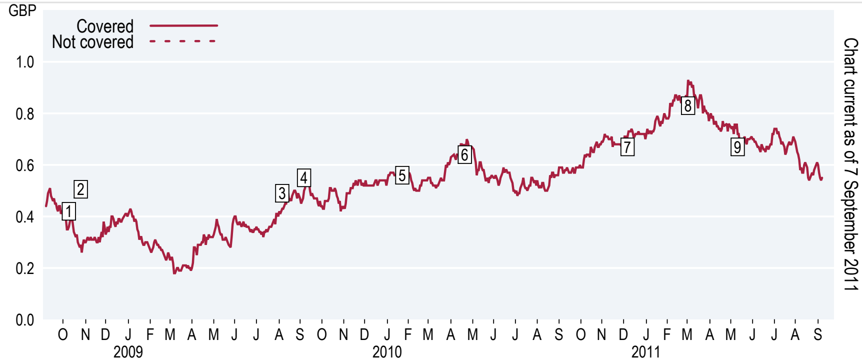
Rating/target price changes above reflect Eastern Standard Time

ITV PLC (ITV.L)

Ratings and Target Price History
Fundamental Research

Analyst: Thomas A Singlehurst, CFA

Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	9-Oct-08	1H	*0.53	0.36
2	27-Oct-08	1H	*0.47	0.29
3	6-Aug-09	1H	*0.55	0.43
4	7-Sep-09	1H	*0.60	0.50
5	22-Jan-10	1H	*0.70	0.58
6	21-Apr-10	1H	*0.80	0.67
7	7-Dec-10	1H	*1.00	0.71
8	2-Mar-11	1H	*1.25	0.93
9	11-May-11	1H	*1.15	0.72

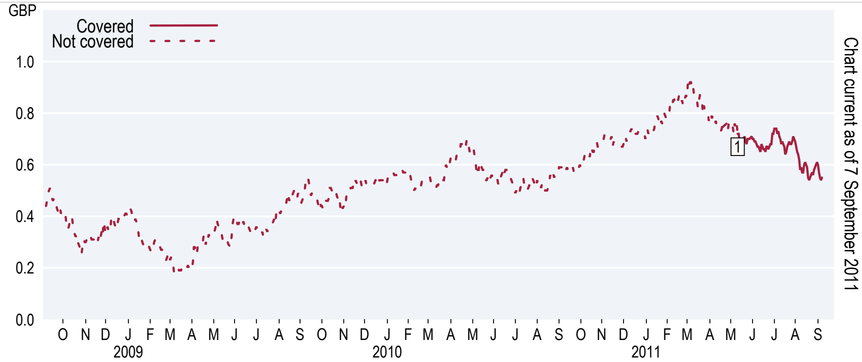
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ITV PLC (ITV.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Thomas A Singlehurst, CFA
Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD MP	-	0.72

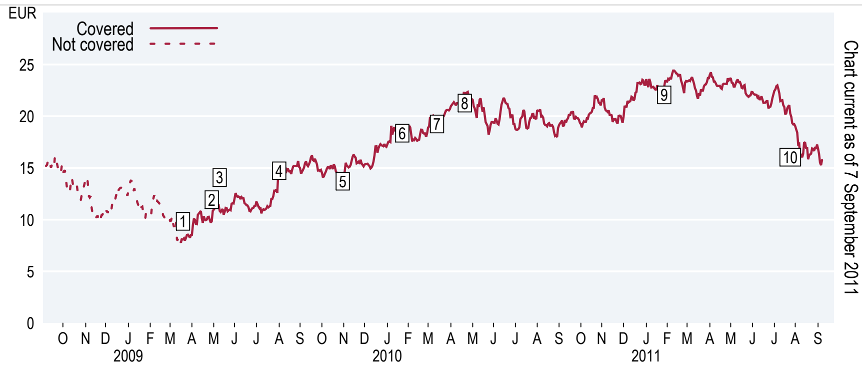
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

JCDecaux (JCDX.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Catherine T O'Neill
Covered since April 6 2009



	Date	Rating	Target Price	Closing Price
1	19-Mar-09	*2M	*8.00	8.08
2	29-Apr-09	2M	*10.00	9.85
3	11-May-09	2M	*11.00	10.85
4	2-Aug-09	2M	*14.50	14.40

	Date	Rating	Target Price	Closing Price
5	30-Oct-09	*1M	*16.00	13.77
6	22-Jan-10	1M	*21.50	18.36
7	12-Mar-10	1M	*22.00	19.42
8	21-Apr-10	1M	*25.00	22.25

	Date	Rating	Target Price	Closing Price
9	27-Jan-11	1M	*27.00	22.89
10	25-Jul-11	*2M	*23.50	20.25

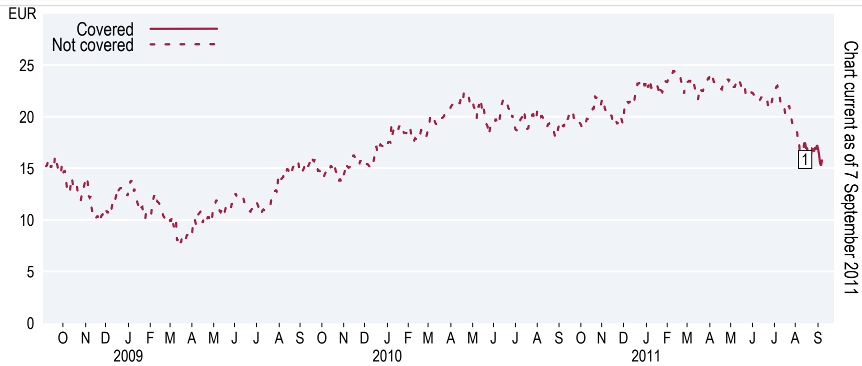
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

JCDecaux (JCDX.PA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Catherine T O'Neill
Covered since April 6 2009



	Date	Rating	Target Price	Closing Price
1	15-Aug-11	*ADD LP	-	17.42

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Johnston Press PLC (JPR.L)

Ratings and Target Price History
Fundamental Research

Analyst: Ruchi Malaiya, CFA
Covered since March 30 2009

	Date	Rating	Target Price	Closing Price
1	27-Oct-08	3M	*0.20	0.20
2	15-Jan-09	*2H	*0.18	0.14
3	27-Mar-09	*2S	*0.08	0.07
4	8-Sep-09	*2H	*0.45	0.44
5	22-Jan-10	2H	*0.32	0.28
6	27-May-10	2H	*0.24	0.20
7	19-Jan-11	*3H	*0.09	0.11

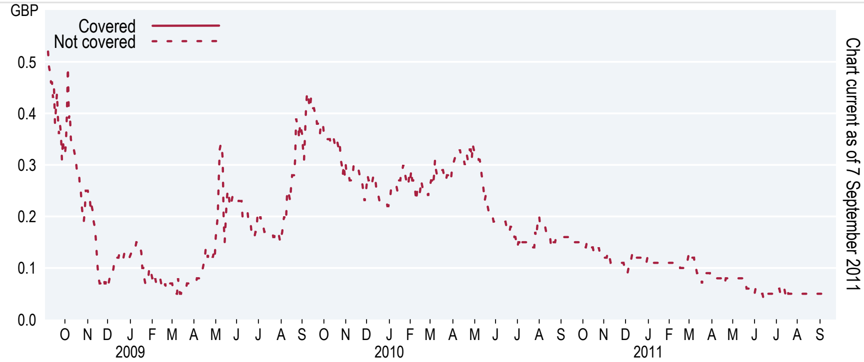
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Johnston Press PLC (JPR.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ruchi Malaiya, CFA
Covered since March 30 2009



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Lagardere Groupe (LAGA.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Ruchi Malaiya, CFA
Covered since April 30 2010

	Date	Rating	Target Price	Closing Price
1	27-Oct-08	1M	*46.00	26.06
2	12-Dec-08	*2H	*34.00	28.49
3	12-Mar-09	*3M	*21.60	20.61
4	28-Aug-09	*2M	*30.70	30.45
5	5-Nov-09	2M	*29.70	30.96
6	27-Aug-10	2M	*31.80	28.92
7	19-Jan-11	*1H	*41.30	35.17
8	15-Mar-11	1H	*40.90	30.37
9	1-Sep-11	*2H	*25.00	21.16

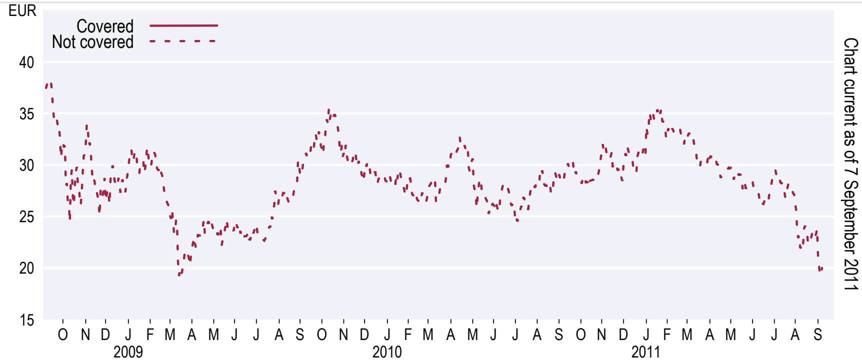
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Lagardere Groupe (LAGA.PA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ruchi Malaiya, CFA
Covered since April 30 2010



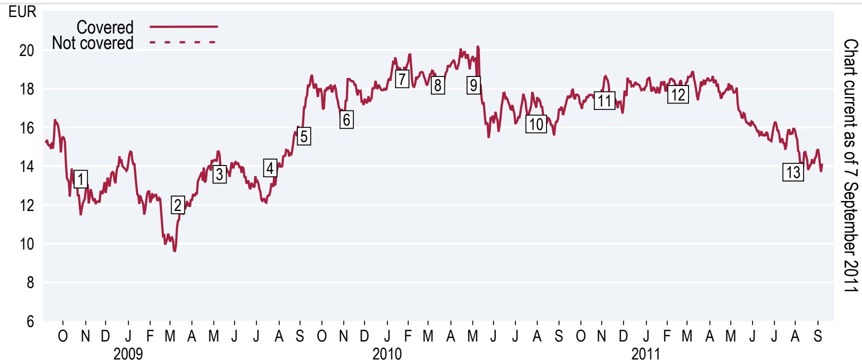
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

M6 Metropole Television (MMTP.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Catherine T O'Neill
Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	27-Oct-08	2H	*12.33	11.47
2	12-Mar-09	*1H	12.33	11.18
3	11-May-09	*2H	*14.50	14.55
4	21-Jul-09	*1H	14.50	12.69
5	7-Sep-09	*1M	*18.00	17.04
6	5-Nov-09	1M	*19.30	17.36
7	22-Jan-10	1M	*21.00	18.51
8	15-Mar-10	*2M	*18.50	18.33
9	4-May-10	2M	*19.00	19.45
10	30-Jul-10	*3M	*15.50	17.02
11	4-Nov-10	3M	*16.00	18.61
12	16-Feb-11	3M	*16.80	18.04
13	28-Jul-11	*2M	*15.70	15.93

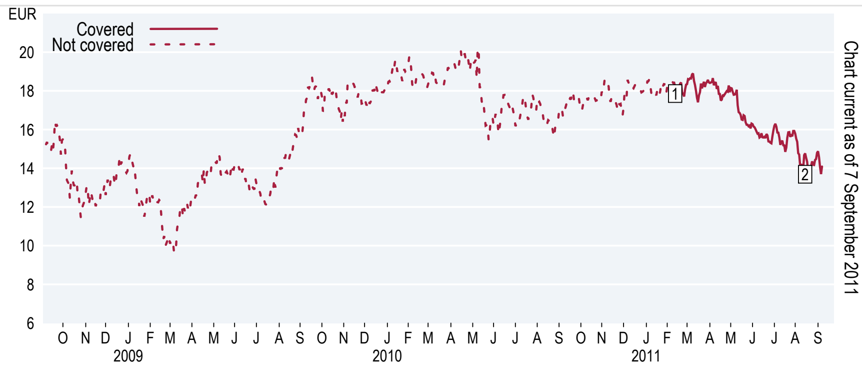
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

M6 Metropole Television (MMTP.PA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Catherine T O'Neill
Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	18.20
2	15-Aug-11	*REM LP	-	14.77

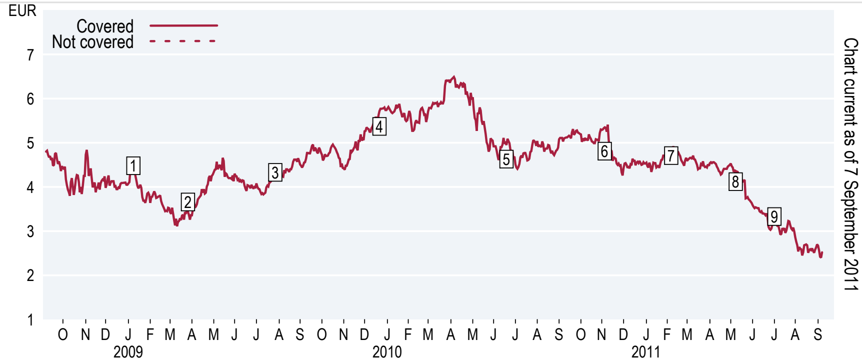
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Mediaset SpA (MS.MI)

Ratings and Target Price History
Fundamental Research

Analyst: Mauro Baragiola



	Date	Rating	Target Price	Closing Price
1	8-Jan-09	3M	*3.75	4.42
2	26-Mar-09	3M	*3.00	3.44
3	28-Jul-09	3M	*3.50	4.23
4	22-Dec-09	*2M	*6.00	5.72
5	18-Jun-10	*1M	6.00	4.95
6	4-Nov-10	*2M	*5.50	5.35
7	7-Feb-11	2M	*4.90	4.81
8	8-May-11	*3M	*3.80	4.39
9	1-Jul-11	3M	*2.70	3.26

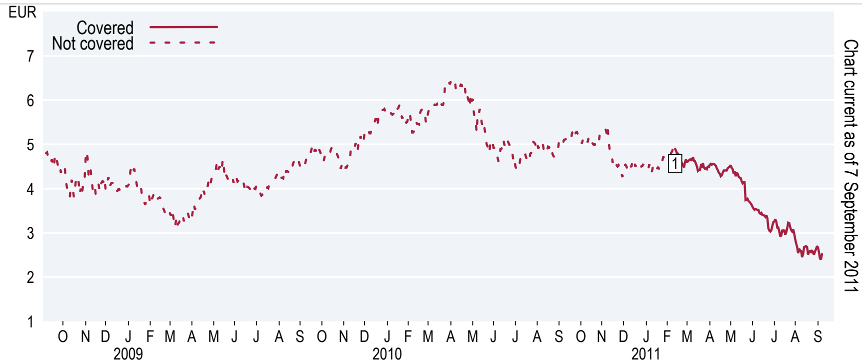
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Mediaset SpA (MS.MI)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Mauro Baragiola



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	4.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Grupo Prisa (PRS.MC)

Ratings and Target Price History
Fundamental Research

Analyst: Ruchi Malaiya, CFA
Covered since April 30 2010

	Date	Rating	Target Price	Closing Price
1	27-Oct-08	2M	*2.70	2.64
2	8-Mar-10	2M	*3.30	3.07
3	9-Aug-10	2M	*2.30	2.02
4	24-Feb-11	2M	*2.23	1.99
5	24-Aug-11	2M	*1.15	1.09

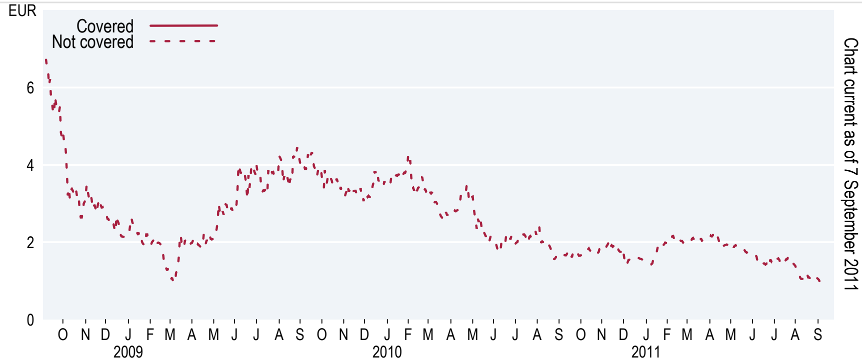
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Grupo Prisa (PRS.MC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ruchi Malaiya, CFA
Covered since April 30 2010



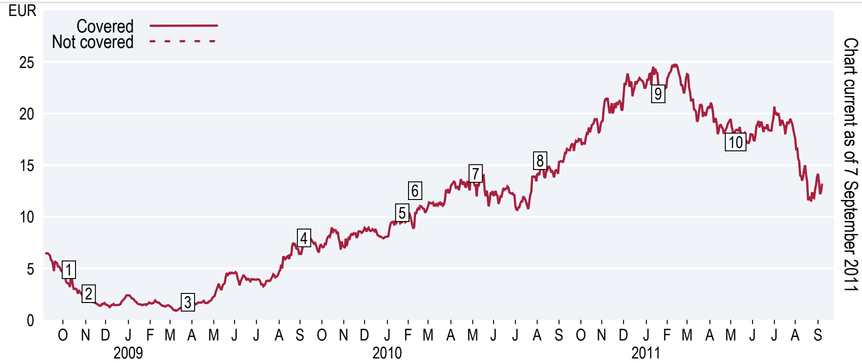
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ProSiebenSat.1 Media (PSMG_p.DE)

Ratings and Target Price History
Fundamental Research

Analyst: Thomas A Singlehurst, CFA



	Date	Rating	Target Price	Closing Price
1	9-Oct-08	2H	*2.80	3.53
2	6-Nov-08	2H	*1.50	2.35
3	26-Mar-09	2H	*1.30	1.34
4	7-Sep-09	*1H	*10.00	7.56
5	22-Jan-10	1H	*12.50	9.50
6	10-Feb-10	1H	*15.00	10.46
7	6-May-10	1H	*16.00	13.06
8	5-Aug-10	1H	*17.50	14.55
9	19-Jan-11	*2H	*25.00	22.90
10	8-May-11	*1H	25.00	18.17

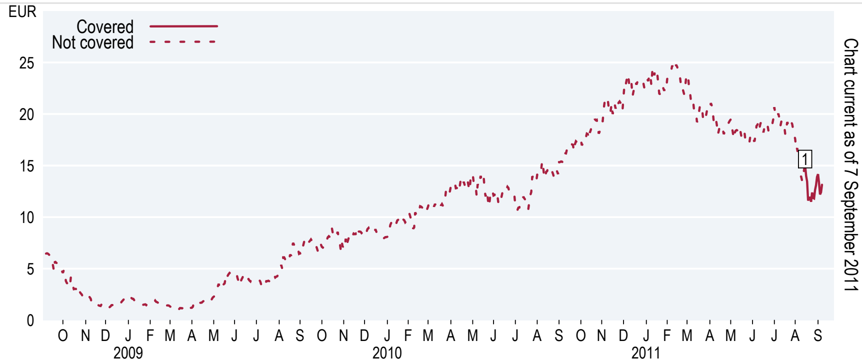
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ProSiebenSat.1 Media (PSMG_p.DE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Thomas A Singlehurst, CFA



	Date	Rating	Target Price	Closing Price
1	15-Aug-11	*ADD MP	-	15.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Pearson PLC (PSON.L)

Ratings and Target Price History
Fundamental Research

Analyst: Thomas A Singlehurst, CFA
Covered since April 30 2010

	Date	Rating	Target Price	Closing Price
1	27-Oct-08	1M	*8.00	5.76
2	1-Dec-09	1M	*9.60	8.50
3	22-Jan-10	1M	*9.99	8.86
4	2-Mar-10	1M	*10.70	9.51
5	21-Jul-10	1M	*11.00	9.34
6	19-Jan-11	*2M	*11.35	10.51
7	1-Aug-11	2M	*12.40	11.80

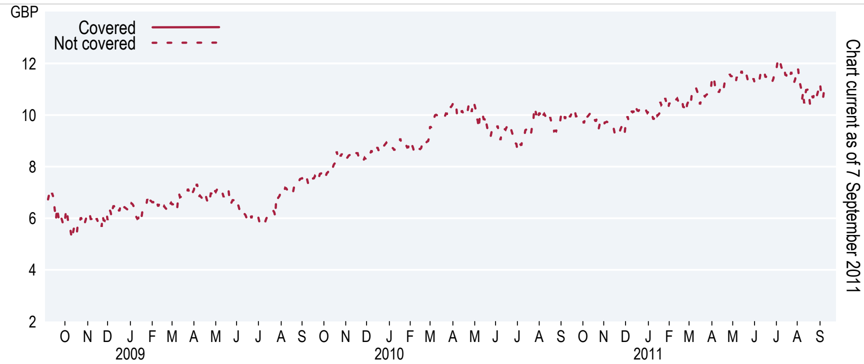
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Pearson PLC (PSON.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Thomas A Singlehurst, CFA
Covered since April 30 2010



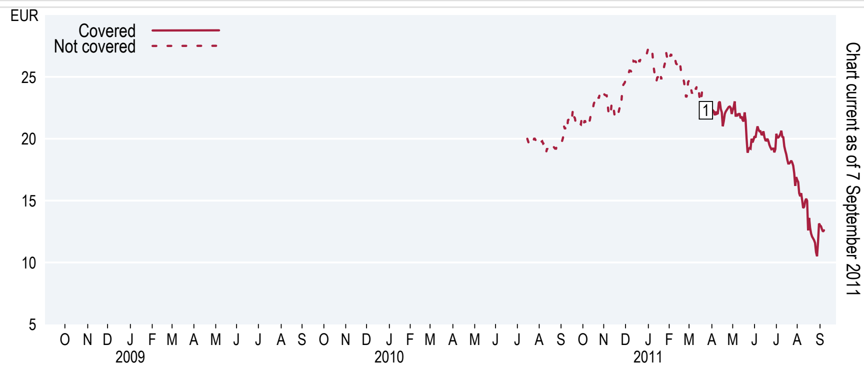
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Stroer Out-of-Home Media AG (SAXG.DE)

Ratings and Target Price History
Fundamental Research

Analyst: Catherine T O'Neill
Covered since March 24 2011



	Date	Rating	Target Price	Closing Price
1	24-Mar-11	*1M	*27.80	22.70

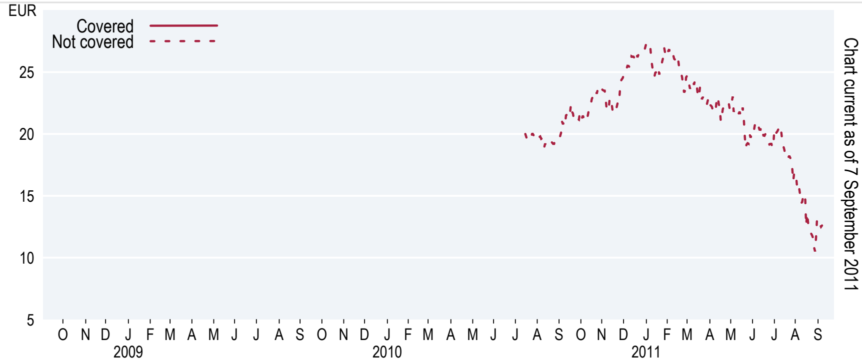
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Stroer Out-of-Home Media AG (SAXG.DE)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Catherine T O'Neill
Covered since March 24 2011



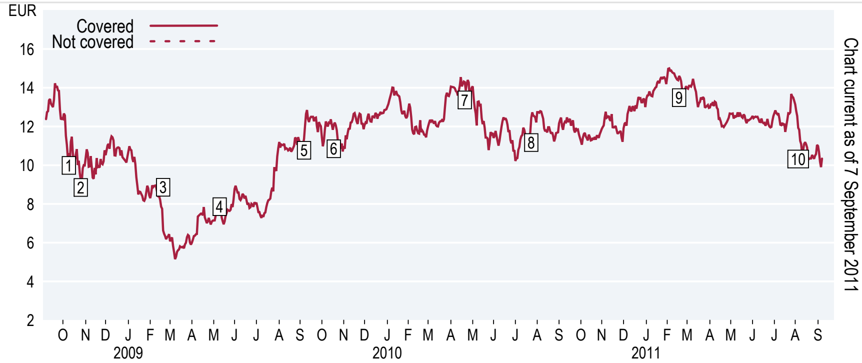
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Television Francaise 1 SA (TFFP.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Catherine T O'Neill
Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	9-Oct-08	2H	*10.90	10.62
2	27-Oct-08	2H	*10.00	9.23
3	19-Feb-09	2H	*6.30	6.63
4	11-May-09	*1H	*9.40	7.76

	Date	Rating	Target Price	Closing Price
5	7-Sep-09	*1M	*13.50	11.36
6	19-Oct-09	1M	*15.00	12.09
7	21-Apr-10	*2M	15.00	14.29
8	23-Jul-10	2M	*14.00	12.45

	Date	Rating	Target Price	Closing Price
9	17-Feb-11	2M	*16.00	14.61
10	4-Aug-11	2M	*13.80	11.93

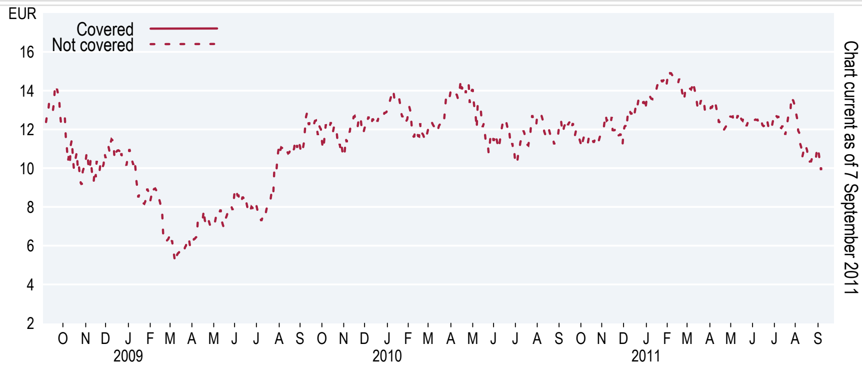
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Television Francaise 1 SA (TFFP.PA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Catherine T O'Neill
Covered since April 30 2010



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Mediaset Espana SA (TL5.MC)

Ratings and Target Price History
Fundamental Research

Analyst: Catherine T O'Neill
Covered since April 30 2010

	Date	Rating	Target Price	Closing Price
1	9-Oct-08	*3M	*4.98	5.59
2	27-Oct-08	3M	*4.85	5.51
3	27-Feb-09	3M	*4.07	5.13
4	21-Jul-09	3M	*3.62	5.47
5	22-Jan-10	3M	*6.51	9.39
6	2-Mar-10	3M	*7.15	8.85
7	27-May-10	3M	*7.06	7.59
8	19-Jan-11	3M	*8.00	8.77
9	6-May-11	3M	*6.20	6.72
10	1-Jul-11	3M	*5.10	6.20
11	29-Jul-11	*2M	*6.10	6.54

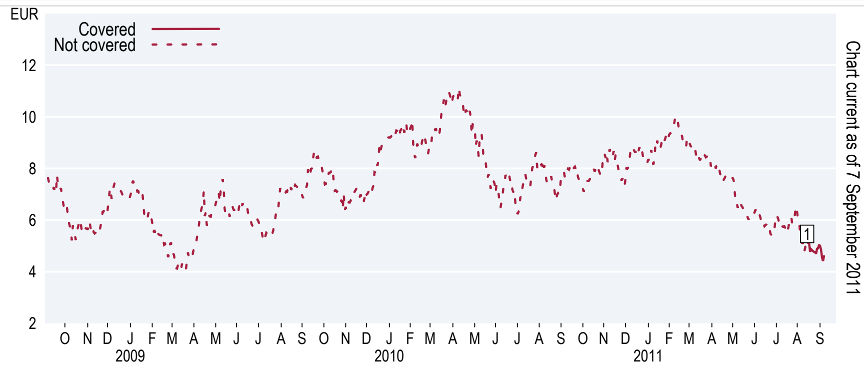
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Mediaset Espana SA (TL5.MC)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Catherine T O'Neill
Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	15-Aug-11	*ADD LP	-	5.28

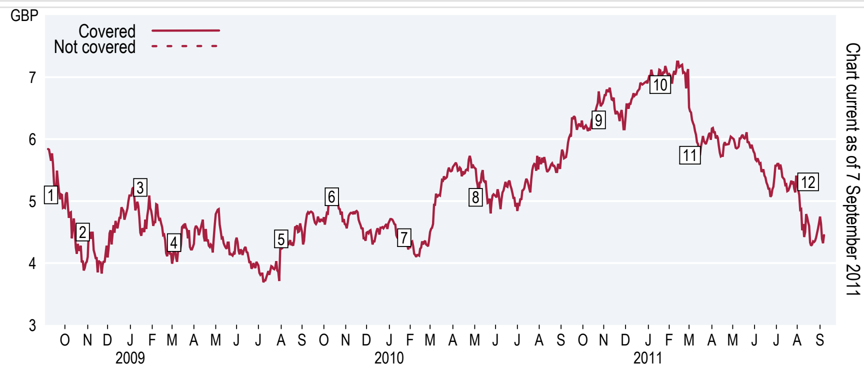
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UBM plc (UBM.L)

Ratings and Target Price History
Fundamental Research

Analyst: Ruchi Malaiya, CFA
Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	11-Sep-08	*2M	*6.00	5.65
2	27-Oct-08	*2H	*4.50	4.04
3	15-Jan-09	*3M	*4.25	4.49
4	4-Mar-09	3M	*3.50	4.33
5	3-Aug-09	*2M	*4.25	4.23
6	13-Oct-09	*3M	4.25	5.03
7	22-Jan-10	3M	*4.00	4.32
8	4-May-10	3M	*4.80	5.52
9	24-Oct-10	3M	*5.60	6.58
10	19-Jan-11	*2M	*6.95	7.11
11	2-Mar-11	2M	*6.40	6.45
12	16-Aug-11	2M	*5.00	4.66

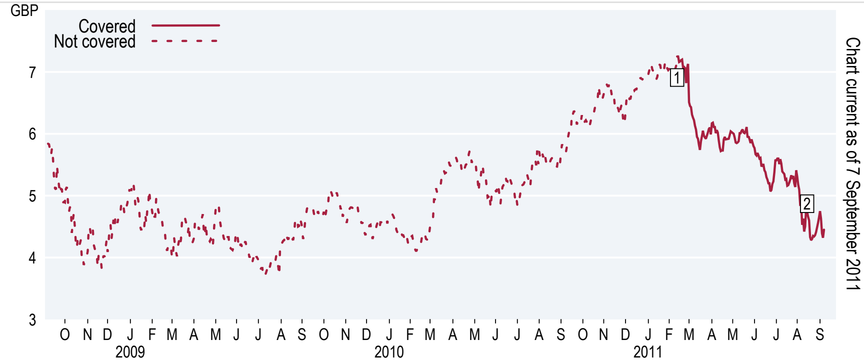
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

UBM plc (UBM.L)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Ruchi Malaiya, CFA
Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	7.25
2	15-Aug-11	*REM LP	-	4.74

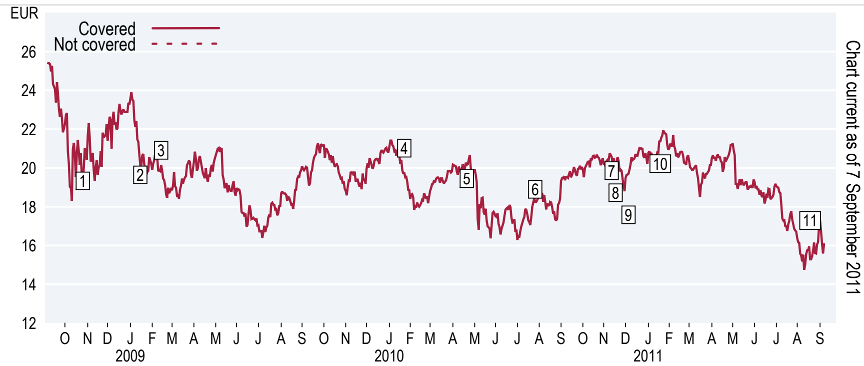
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vivendi (VIV.PA)

Ratings and Target Price History
Fundamental Research

Analyst: Thomas A Singlehurst, CFA
Covered since April 30 2010



	Date	Rating	Target Price	Closing Price
1	27-Oct-08	1M	*27.00	19.33
2	15-Jan-09	1M	*24.50	20.14
3	13-Feb-09	1M	*23.50	20.14
4	22-Jan-10	*2M	*20.50	19.76
5	21-Apr-10	*1M	*23.00	20.16
6	27-Jul-10	1M	*21.00	18.24
7	11-Nov-10	1M	*23.00	20.57
8	17-Nov-10	1M	*23.50	20.02
9	6-Dec-10	1M	*24.00	19.70
10	19-Jan-11	1M	*24.50	21.35
11	18-Aug-11	1M	*20.00	15.29

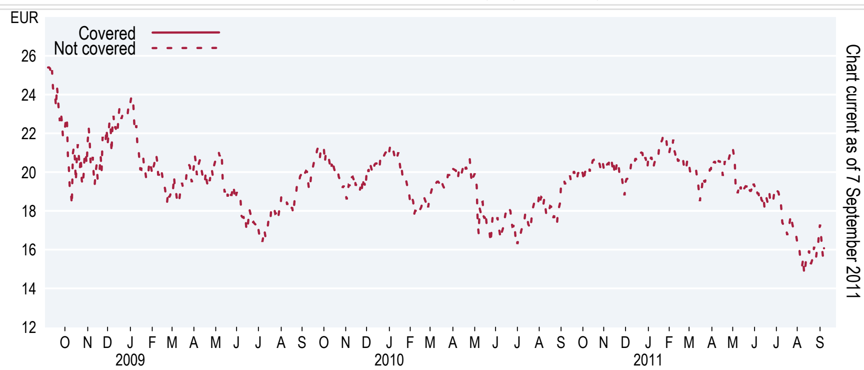
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Vivendi (VIV.PA)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Thomas A Singlehurst, CFA
Covered since April 30 2010



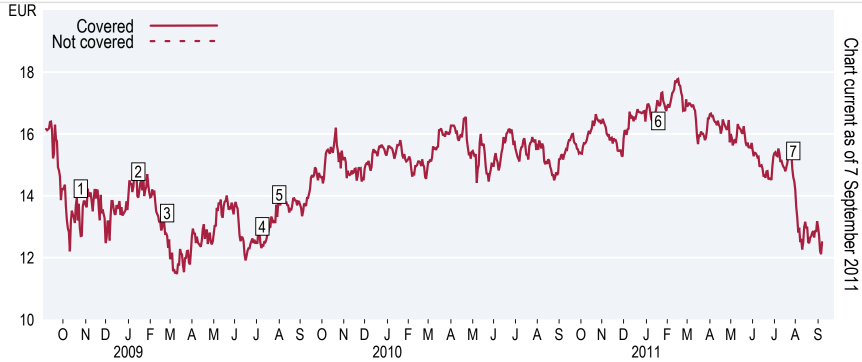
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Wolters Kluwer NV (WLSNc.AS)

Ratings and Target Price History
Fundamental Research

Analyst: Thomas A Singlehurst, CFA



	Date	Rating	Target Price	Closing Price
1	27-Oct-08	2M	*13.50	12.70
2	15-Jan-09	*1H	*18.00	13.94
3	25-Feb-09	1H	*15.00	12.71
4	9-Jul-09	*1M	15.00	12.40
5	3-Aug-09	*2M	15.00	13.81
6	19-Jan-11	*3M	15.00	17.00
7	28-Jul-11	3M	*14.00	14.60

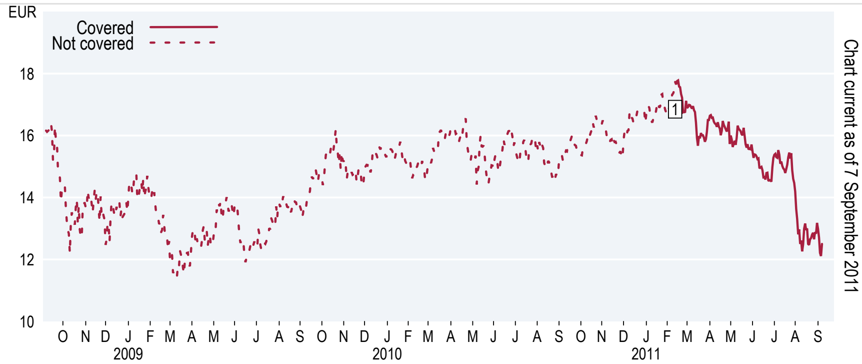
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Wolters Kluwer NV (WLSNc.AS)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Thomas A Singlehurst, CFA



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	17.73

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

A director of Citi serves on the board of Grupo Prisa.

An employee of Citi serves on the board of WPP Group PLC.

Citigroup Global Markets Inc. or its affiliates beneficially owns 1% or more of any class of common equity securities of Grupo Prisa. This position reflects information available as of the prior business day.

Within the past 12 months, Citigroup Global Markets Inc. or its affiliates has acted as manager or co-manager of an offering of securities of Blinkx Plc, Kabel Deutschland, ProSiebenSat.1 Media, Thomson Reuters Corp, Vivendi.

Citigroup Global Markets Inc. or its affiliates has received compensation for investment banking services provided within the past 12 months from Blinkx Plc, Eniro AB, Arnoldo Mondadori Editore, Pearson PLC, Publicis Groupe SA, Thomson Reuters Corp, Vivendi.

Citigroup Global Markets Inc. or its affiliates expects to receive or intends to seek, within the next three months, compensation for investment banking services from Blinkx Plc, Arnoldo Mondadori Editore, WPP Group PLC.

Citigroup Global Markets Inc. or an affiliate received compensation for products and services other than investment banking services from Aegis Group PLC, Blinkx Plc, British Sky Broadcasting Group PLC, Daily Mail & General Trust PLC, Eniro AB, Gruppo Editoriale l'Espresso SpA, Havas SA, GfK Holding AG, Independent News & Media PLC, ITV PLC, JCDecaux, Kabel Deutschland, Lagardere Groupe, Seat Pagine Gialle SpA, Grupo Prisa, ProSiebenSat.1 Media, Pearson PLC, Publicis Groupe SA, Reed Elsevier PLC, Thomson Reuters Corp, Vivendi, Wolters Kluwer NV, WPP Group PLC, Yell Group PLC in the past 12 months.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as investment banking client(s): Blinkx Plc, Publicis Groupe SA, Antena 3, Grupo Prisa, Pearson PLC, Johnston Press PLC, Eniro AB, Arnoldo Mondadori Editore, Thomson Reuters Corp, Vivendi, WPP Group PLC.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, securities-related: Pearson PLC, Blinkx Plc, ITV PLC, Publicis Groupe SA, Thomson Reuters Corp, Aegis Group PLC, British Sky Broadcasting Group PLC, Daily Mail & General Trust PLC, Eniro AB, Gruppo Editoriale l'Espresso SpA, Havas SA, GfK Holding AG, JCDecaux, Kabel Deutschland, Lagardere Groupe, Seat Pagine Gialle SpA, Grupo Prisa, ProSiebenSat.1 Media, Reed Elsevier PLC, SES S.A., Vivendi, Wolters Kluwer NV, WPP Group PLC, Yell Group PLC.

Citigroup Global Markets Inc. currently has, or had within the past 12 months, the following as clients, and the services provided were non-investment-banking, non-securities-related: Blinkx Plc, Pearson PLC, Antena 3, Vivendi, Wolters Kluwer NV, Schibsted, Thomson Reuters Corp, Lagardere Groupe,

Aegis Group PLC, Daily Mail & General Trust PLC, Eniro AB, Gruppo Editoriale l'Espresso SpA, Havas SA, GfK Holding AG, Independent News & Media PLC, ITV PLC, JCDecaux, Kabel Deutschland, Seat Pagine Gialle SpA, Grupo Prisa, Publicis Groupe SA, Reed Elsevier PLC, WPP Group PLC, Yell Group PLC.

Citigroup Global Markets Inc. or an affiliate received compensation in the past 12 months from Pearson PLC, Blinkx Plc, ITV PLC, Publicis Groupe SA, Thomson Reuters Corp, Vivendi, Schibsted, Wolters Kluwer NV, Antena 3, Grupo Prisa, Lagardere Groupe, Johnston Press PLC.

Analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Citigroup Global Markets Inc. and its affiliates ("the Firm"). Like all Firm employees, analysts receive compensation that is impacted by overall firm profitability which includes investment banking revenues.

The Firm is a market maker in the publicly traded equity securities of Blinkx Plc, Publicis Groupe SA, Wolters Kluwer NV, WPP Group PLC.

For important disclosures (including copies of historical disclosures) regarding the companies that are the subject of this Citi Investment Research & Analysis product ("the Product"), please contact Citi Investment Research & Analysis, 388 Greenwich Street, 28th Floor, New York, NY, 10013, Attention: Legal/Compliance. In addition, the same important disclosures, with the exception of the Valuation and Risk assessments and historical disclosures, are contained on the Firm's disclosure website at www.citigroupgeo.com. Valuation and Risk assessments can be found in the text of the most recent research note/report regarding the subject company. Historical disclosures (for up to the past three years) will be provided upon request.

Citi Investment Research & Analysis Ratings Distribution

	12 Month Rating			***Relative Rating***		
Data current as of 30 Jun 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	54%	36%	11%	10%	81%	10%
% of companies in each rating category that are investment banking clients	45%	41%	42%	50%	42%	44%

Guide to Citi Investment Research & Analysis (CIRA) Fundamental Research Investment Ratings:
CIRA's stock recommendations include a risk rating and an investment rating.
Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).
Investment ratings are a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.
Analysts may place covered stocks “Under Review” in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed “Under Review” will be monitored daily by management. As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis.
To satisfy regulatory requirements, we correspond Under Review to Hold in our ratings distribution table for our 12-month fundamental rating system. However, we reiterate that we do not consider Under Review to be a recommendation.
Relative three-month ratings: CIRA may also assign a three-month relative call (or rating) to a stock to highlight expected out-performance (most preferred) or under-performance (least preferred) versus the geographic and industry sector over a 3 month period. The relative call may highlight a specific near-term catalyst or event impacting the company or the market that is anticipated to have a short-term price impact on the equity securities of the company. Absent any specific catalyst the analyst(s) will indicate the most and least preferred stocks in the universe of stocks under consideration, explaining the basis for this short-term view. This three-month view may be different from and does not affect a stock's fundamental equity rating, which reflects a longer-term total absolute return expectation. For purposes of NASD/NYSE ratings-distribution-disclosure rules, most preferred calls correspond to a buy recommendation and least preferred calls correspond to a sell recommendation. Any stock not assigned to a most preferred or least preferred call is considered non-relative-rated (NRR). For purposes of NASD/NYSE ratings-distribution-disclosure rules we correspond NRR to Hold in our ratings distribution table for our 3-month relative rating system. However, we reiterate that we do not consider NRR to be a recommendation.

For securities in developed markets (US, UK, Europe, Japan, and Australia/New Zealand), investment ratings are:Buy (1) (expected total return of 10% or more for Low-Risk stocks, 15% or more for Medium-Risk stocks, 20% or more for High-Risk stocks, and 35% or more for Speculative stocks); Hold (2) (0%-10% for Low-Risk stocks, 0%-15% for Medium-Risk stocks, 0%-20% for High-Risk stocks, and 0%-35% for Speculative stocks); and Sell (3) (negative total return).

Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

NON-US RESEARCH ANALYST DISCLOSURES
Non-US research analysts who have prepared this report (i.e., all research analysts listed below other than those identified as employed by Citigroup Global Markets Inc.) are not registered/qualified as research analysts with FINRA. Such research analysts may not be associated persons of the member organization and therefore may not be subject to the NYSE Rule 472 and NASD Rule 2711 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account. The legal entities employing the authors of this report are listed below:

Citigroup Global Markets Ltd	Thomas A Singlehurst, CFA; Ruchi Malaiya, CFA; Catherine T O'Neill; Pierre-Francois De Bernardi; Mauro Baragiola; Tania Valiente; Laurie Fitzjohn-Sykes, CFA

OTHER DISCLOSURES

Citigroup Global Markets Inc. and/or its affiliates has a significant financial interest in relation to Aegis Group PLC, British Sky Broadcasting Group PLC, Havas SA, Lagardere Groupe, Grupo Prisa, Pearson PLC, Publicis Groupe SA, Thomson Reuters Corp, Vivendi, Yell Group PLC. (For an explanation of the determination of significant financial interest, please refer to the policy for managing conflicts of interest which can be found at www.citigroupgeo.com.)

Citigroup Global Markets Inc. or its affiliates beneficially owns 2% or more of any class of common equity securities of Grupo Prisa.

This Product has been modified by the author following a discussion with one or more of the named issuers/issuers of the named securities.

For securities recommended in the Product in which the Firm is not a market maker, the Firm is a liquidity provider in the issuers' financial instruments and may act as principal in connection with such transactions. The Firm is a regular issuer of traded financial instruments linked to securities that may have been recommended in the Product. The Firm regularly trades in the securities of the issuer(s) discussed in the Product. The Firm may engage in securities transactions in a manner inconsistent with the Product and, with respect to securities covered by the Product, will buy or sell from customers on a principal basis.

Citigroup Global Markets Inc. or its affiliates acts as a corporate broker to Blinkx Plc, Pearson PLC.

Securities recommended, offered, or sold by the Firm: (i) are not insured by the Federal Deposit Insurance Corporation; (ii) are not deposits or other obligations of any insured depository institution (including Citibank); and (iii) are subject to investment risks, including the possible loss of the principal amount invested. Although information has been obtained from and is based upon sources that the Firm believes to be reliable, we do not guarantee its accuracy and it may be incomplete and condensed. Note, however, that the Firm has taken all reasonable steps to determine the accuracy and completeness of the disclosures made in the Important Disclosures section of the Product. The Firm's research department has received assistance from the subject company(ies) referred to in this Product including, but not limited to, discussions with management of the subject company(ies). Firm policy prohibits research analysts from sending draft research to subject companies. However, it should be presumed that the author of the Product has had discussions with the subject company to ensure factual accuracy prior to publication. All opinions, projections and estimates constitute the judgment of the author as of the date of the Product and these, plus any other information contained in the Product, are subject to change without notice. Prices and availability of financial instruments also are subject to change without notice. Notwithstanding other departments within the Firm advising the companies discussed in this Product, information obtained in such role is not used in the preparation of the Product. Although Citi Investment Research & Analysis (CIRA) does not set a predetermined frequency for publication, if the Product is a fundamental research report, it is the intention of CIRA to provide research coverage of the/those issuer(s) mentioned therein, including in response to news affecting this issuer, subject to applicable quiet periods and capacity constraints. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in the Product must take into account existing public information on such security or any registered prospectus.

Investing in non-U.S. securities, including ADRs, may entail certain risks. The securities of non-U.S. issuers may not be registered with, nor be subject to the reporting requirements of the U.S. Securities and Exchange Commission. There may be limited information available on foreign securities. Foreign companies are generally not subject to uniform audit and reporting standards, practices and requirements comparable to those in the U.S. Securities of some foreign companies may be less liquid and their prices more volatile than securities of comparable U.S. companies. In addition, exchange rate movements may have an adverse effect on the value of an investment in a foreign stock and its corresponding dividend payment for U.S. investors. Net dividends to ADR investors are estimated, using withholding tax rates conventions, deemed accurate, but investors are urged to consult their tax advisor for exact dividend computations. Investors who have received the Product from the Firm may be prohibited in certain states or other jurisdictions from purchasing securities mentioned in the Product from the Firm. Please ask your Financial Consultant for additional details. Citigroup Global Markets Inc. takes responsibility for the Product in the United States. Any orders by US investors resulting from the information contained in the Product may be placed only through Citigroup Global Markets Inc.

Important Disclosures for Morgan Stanley Smith Barney LLC Customers: Morgan Stanley & Co. Incorporated (Morgan Stanley) research reports may be available about the companies that are the subject of this Citi Investment Research & Analysis (CIRA) research report. Ask your Financial Advisor or use smithbarney.com to view any available Morgan Stanley research reports in addition to CIRA research reports.
Important disclosure regarding the relationship between the companies that are the subject of this CIRA research report and Morgan Stanley Smith Barney LLC and its affiliates are available at the Morgan Stanley Smith Barney disclosure website at www.morganstanleysmithbarney.com/researchdisclosures.
The required disclosures provided by Morgan Stanley and Citigroup Global Markets, Inc. on Morgan Stanley and CIRA research relate in part to the separate businesses of Citigroup Global Markets, Inc. and Morgan Stanley that now form Morgan Stanley Smith Barney LLC, rather than to Morgan Stanley Smith Barney LLC in its entirety. For Morgan Stanley and Citigroup Global Markets, Inc. specific disclosures, you may refer to www.morganstanley.com/researchdisclosures and https://www.citigroupgeo.com/geopublic/Disclosures/index_a.html.
This CIRA research report has been reviewed and approved on behalf of Morgan Stanley Smith Barney LLC. This review and approval was conducted by the same person who reviewed this research report on behalf of CIRA. This could create a conflict of interest.

The Citigroup legal entity that takes responsibility for the production of the Product is the legal entity which the first named author is employed by. The Product is made available in **Australia** through Citigroup Global Markets Australia Pty Ltd. (ABN 64 003 114 832 and AFSL No. 240992), participant of the ASX Group and regulated by the Australian Securities & Investments Commission. Citigroup Centre, 2 Park Street, Sydney, NSW 2000. The Product is made available in Australia to Private Banking wholesale clients through Citigroup Pty Limited (ABN 88 004 325 080 and AFSL 238098). Citigroup Pty Limited provides all financial product advice to Australian Private Banking wholesale clients through bankers and relationship managers. If there is any doubt about the suitability of investments held in Citigroup Private Bank accounts, investors should contact the Citigroup Private Bank in Australia. Citigroup companies may compensate affiliates and their representatives for providing products and services to clients. The Product is made available in **Brazil** by Citigroup Global Markets Brasil - CCTVM SA, which is regulated by CVM - Comissão de Valores Mobiliários, BACEN - Brazilian Central Bank, APIMEC - Associação dos Analistas e Profissionais de Investimento do Mercado de Capitais and ANBID - Associação Nacional dos Bancos de Investimento. Av. Paulista, 1111 - 11º andar - CEP. 01311920 - São Paulo - SP. If the Product is being made available in certain provinces of **Canada** by Citigroup Global Markets (Canada) Inc. ("CGM Canada"), CGM Canada has approved the Product. Citigroup Place, 123 Front Street West, Suite 1100, Toronto, Ontario M5J 2M3. This product is available in **Chile** through Banchile Corredores de Bolsa S.A., an indirect subsidiary of Citigroup Inc., which is regulated by the Superintendencia de Valores y Seguros. Agustinas 975, piso 2, Santiago, Chile. The Product is made available in **France** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 1-5 Rue Paul Cézanne, 8ème, Paris, France. The Product is distributed in **Germany** by Citigroup Global Markets Deutschland AG ("CGMD"), which is regulated by Bundesanstalt fuer Finanzdienstleistungsaufsicht (BaFin). CGMD, Reuterweg 16, 60323 Frankfurt am Main. Research which relates to "securities" (as defined in the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)) is issued in **Hong Kong** by, or on behalf of, Citigroup Global Markets Asia Limited which takes full responsibility for its content. Citigroup Global Markets Asia Ltd. is regulated by Hong Kong Securities and Futures Commission. If the Research is made available through Citibank, N.A., Hong Kong Branch, for its clients in Citi Private Bank, it is made available by Citibank N.A., Citibank Tower, Citibank Plaza, 3 Garden Road, Hong Kong. Citibank

N.A. is regulated by the Hong Kong Monetary Authority. Please contact your Private Banker in Citibank N.A., Hong Kong, Branch if you have any queries on or any matters arising from or in connection with this document. The Product is made available in **India** by Citigroup Global Markets India Private Limited, which is regulated by Securities and Exchange Board of India. Bakhtawar, Nariman Point, Mumbai 400-021. The Product is made available in **Indonesia** through PT Citigroup Securities Indonesia. 5/F, Citibank Tower, Bapindo Plaza, Jl. Jend. Sudirman Kav. 54-55, Jakarta 12190. Neither this Product nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable capital market laws and regulations. This Product is not an offer of securities in Indonesia. The securities referred to in this Product have not been registered with the Capital Market and Financial Institutions Supervisory Agency (BAPEPAM-LK) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market laws and regulations. The Product is made available in **Israel** through Citibank NA, regulated by the Bank of Israel and the Israeli Securities Authority. Citibank, N.A, Platinum Building, 21 Ha'arba'ah St, Tel Aviv, Israel. The Product is made available in **Italy** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. Foro Buonaparte 16, Milan, 20121, Italy. The Product is made available in **Japan** by Citigroup Global Markets Japan Inc. ("CGMJ"), which is regulated by Financial Services Agency, Securities and Exchange Surveillance Commission, Japan Securities Dealers Association, Tokyo Stock Exchange and Osaka Securities Exchange. Shin-Marunouchi Building, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo 100-6520 Japan. If the Product was distributed by SMBC Nikko Securities Inc. it is being so distributed under license. In the event that an error is found in an CGMJ research report, a revised version will be posted on the Firm's Global Equities Online (GEO) website. If you have questions regarding GEO, please call (81 3) 6270-3019 for help. The Product is made available in **Korea** by Citigroup Global Markets Korea Securities Ltd., which is regulated by the Financial Services Commission, the Financial Supervisory Service and the Korea Financial Investment Association (KOFIA). Citibank Building, 39 Da-dong, Jung-gu, Seoul 110-180, Korea. KOFIA makes available registration information of research analysts on its website. Please visit the following website if you wish to find KOFIA registration information on research analysts of Citigroup Global Markets Korea Securities Ltd. http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03030&pageDiv=02. The Product is made available in **Malaysia** by Citigroup Global Markets Malaysia Sdn Bhd, which is regulated by Malaysia Securities Commission. Menara Citibank, 165 Jalan Ampang, Kuala Lumpur, 50450. The Product is made available in **Mexico** by Acciones y Valores Banamex, S.A. De C. V., Casa de Bolsa, Integrante del Grupo Financiero Banamex ("Accival") which is a wholly owned subsidiary of Citigroup Inc. and is regulated by Comision Nacional Bancaria y de Valores. Reforma 398, Col. Juarez, 06600 Mexico, D.F. In **New Zealand** the Product is made available through Citigroup Global Markets New Zealand Ltd. (Company Number 604457), a Participant of the New Zealand Exchange Limited and regulated by the New Zealand Securities Commission. Level 19, Mobile on the Park, 157 Lambton Quay, Wellington. The Product is made available in **Pakistan** by Citibank N.A. Pakistan branch, which is regulated by the State Bank of Pakistan and Securities Exchange Commission, Pakistan. AWT Plaza, 1.1. Chundrigar Road, P.O. Box 4889, Karachi-74200. The Product is made available in the **Philippines** through Citicorp Financial Services and Insurance Brokerage Philippines, Inc., which is regulated by the Philippines Securities and Exchange Commission. 20th Floor Citibank Square Bldg. The Product is made available in **Poland** by Dom Maklerski Banku Handlowego SA an indirect subsidiary of Citigroup Inc., which is regulated by Komisja Nadzoru Finansowego. Dom Maklerski Banku Handlowego S.A. ul.Senatorska 16, 00-923 Warszawa. The Product is made available in the **Russian Federation** through ZAO Citibank, which is licensed to carry out banking activities in the Russian Federation in accordance with the general banking license issued by the Central Bank of the Russian Federation and brokerage activities in accordance with the license issued by the Federal Service for Financial Markets. Neither the Product nor any information contained in the Product shall be considered as advertising the securities mentioned in this report within the territory of the Russian Federation or outside the Russian Federation. The Product does not constitute an appraisal within the meaning of the Federal Law of the Russian Federation of 29 July 1998 No. 135-FZ (as amended) On Appraisal Activities in the Russian Federation. 8-10 Gasheka Street, 125047 Moscow. The Product is made available in **Singapore** through Citigroup Global Markets Singapore Pte. Ltd. (“CGMSPL”), a capital markets services license holder, and regulated by Monetary Authority of Singapore. Please contact CGMSPL at 1 Temasek Avenue, #39-02 Millenia Tower, Singapore 039192, in respect of any matters arising from, or in connection with, the analysis of this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). The Product is made available by The Citigroup Private Bank in Singapore through Citibank, N.A., Singapore Branch, a licensed bank in Singapore that is regulated by Monetary Authority of Singapore. Please contact your Private Banker in Citibank N.A., Singapore Branch if you have any queries on or any matters arising from or in connection with this document. This report is intended for recipients who are accredited, expert and institutional investors as defined under the Securities and Futures Act (Cap. 289). This report is distributed in Singapore by Citibank Singapore Ltd ("CSL") to selected Citigold/Citigold Private Clients. CSL provides no independent research or analysis of the substance or in preparation of this report. Please contact your Citigold//Citigold Private Client Relationship Manager in CSL if you have any queries on or any matters arising from or in connection with this report. This report is intended for recipients who are accredited investors as defined under the Securities and Futures Act (Cap. 289). Citigroup Global Markets (Pty) Ltd. is incorporated in the **Republic of South Africa** (company registration number 2000/025866/07) and its registered office is at 145 West Street, Sandton, 2196, Saxonwold. Citigroup Global Markets (Pty) Ltd. is regulated by JSE Securities Exchange South Africa, South African Reserve Bank and the Financial Services Board. The investments and services contained herein are not available to private customers in South Africa. The Product is made available in **Spain** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. 29 Jose Ortega Y Gassef, 4th Floor, Madrid, 28006, Spain. The Product is made available in the **Republic of China** through Citigroup Global Markets Taiwan Securities Company Ltd. ("CGMTS"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan and/or through Citibank Securities (Taiwan) Company Limited ("CSTL"), 14 and 15F, No. 1, Songzhi Road, Taipei 110, Taiwan, subject to the respective license scope of each entity and the applicable laws and regulations in the Republic of China. CGMTS and CSTL are both regulated by the Securities and Futures Bureau of the Financial Supervisory Commission of Taiwan, the Republic of China. No portion of the Product may be reproduced or quoted in the Republic of China by the press or any third parties [without the written authorization of CGMTS and CSTL]. If the Product covers securities which are not allowed to be offered or traded in the Republic of China, neither the Product nor any information contained in the Product shall be considered as advertising the securities or making recommendation of the securities in the Republic of China. The Product is for informational purposes only and is not intended as an offer or solicitation for the purchase or sale of a security or financial products. Any decision to purchase securities or financial products mentioned in the Product must take into account existing public information on such security or the financial products or any registered prospectus. The Product is made available in **Thailand** through Citicorp Securities (Thailand) Ltd., which is regulated by the Securities and Exchange Commission of Thailand. 18/F, 22/F and 29/F, 82 North Sathorn Road, Silom, Bangrak, Bangkok 10500, Thailand. The Product is made available in **Turkey** through Citibank AS which is regulated by Capital Markets Board. Tekfen Tower, Eski Buyukdere Caddesi # 209 Kat 2B, 23294 Levent, Istanbul, Turkey. In the **U.A.E**, these materials (the "Materials") are communicated by Citigroup Global Markets Limited, DIFC branch ("CGML"), an entity registered in the Dubai International Financial Center ("DIFC") and licensed and regulated by the Dubai Financial Services Authority ("DFSA") to Professional Clients and Market

Counterparties only and should not be relied upon or distributed to Retail Clients. A distribution of the different CIRA ratings distribution, in percentage terms for Investments in each sector covered is made available on request. Financial products and/or services to which the Materials relate will only be made available to Professional Clients and Market Counterparties. The Product is made available in **United Kingdom** by Citigroup Global Markets Limited, which is authorised and regulated by Financial Services Authority. This material may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA and further details as to where this may be the case are available upon request in respect of this material. Citigroup Centre, Canada Square, Canary Wharf, London, E14 5LB. The Product is made available in **United States** by Citigroup Global Markets Inc, which is a member of FINRA and registered with the US Securities and Exchange Commission. 388 Greenwich Street, New York, NY 10013. Unless specified to the contrary, within EU Member States, the Product is made available by Citigroup Global Markets Limited, which is regulated by Financial Services Authority.

Pursuant to Comissão de Valores Mobiliários Rule 483, Citi is required to disclose whether a Citi related company or business has a commercial relationship with the subject company. Considering that Citi operates multiple businesses in more than 100 countries around the world, it is likely that Citi has a commercial relationship with the subject company.

Many European regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of investment research. The policy applicable to CIRA's Products can be found at www.citigroupgeo.com.

Compensation of equity research analysts is determined by equity research management and Citigroup's senior management and is not linked to specific transactions or recommendations.

The Product may have been distributed simultaneously, in multiple formats, to the Firm's worldwide institutional and retail customers. The Product is not to be construed as providing investment services in any jurisdiction where the provision of such services would not be permitted.

Subject to the nature and contents of the Product, the investments described therein are subject to fluctuations in price and/or value and investors may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Certain investments contained in the Product may have tax implications for private customers whereby levels and basis of taxation may be subject to change. If in doubt, investors should seek advice from a tax adviser. The Product does not purport to identify the nature of the specific market or other risks associated with a particular transaction. Advice in the Product is general and should not be construed as personal advice given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. Prior to acquiring any financial product, it is the client's responsibility to obtain the relevant offer document for the product and consider it before making a decision as to whether to purchase the product.

CIRA concurrently disseminates its research via proprietary and non-proprietary electronic distribution platforms. Periodically, individual analysts may also opt to circulate research to one or more clients by email. Such email distribution is discretionary and is done only after the research has been disseminated via the aforementioned distribution channels.

The level and types of services provided by CIRA analysts to clients may vary depending on various factors such as the client's individual preferences as to the frequency and manner of receiving communications from analysts, the client's risk profile and investment focus and perspective (e.g. market-wide, sector specific, long term, short-term etc.), the size and scope of the overall client relationship with Citi and legal and regulatory constraints.

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST