

Project Claret

Preliminary Indicative Valuation Considerations

May 25, 2014



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Summary Preliminary Valuation Approach

- Focused on trailing revenue multiples from precedent transactions
 - EV / EBITDA ex-player compensation (due to the variable nature of player contracts) as a cross reference
- Extrapolated YE Jun-14 figures from the audited YE Jun-13 figures, by applying growth rates, with flat margin
 - Additionally, we have adjusted local TV revenues for the contract renewal post the 15/16 season (or sooner if the parties agree), which we have estimated to be approximately **\$125mm** per year (versus \$25mm in 2013)
 - Furthermore, the NBA is in discussions to renew national TV rights (post 15/16 season, or sooner if the parties agree) – expected to increase by **200%**, which would generate an additional **~\$60mm** of revenue at Claret
- For comparables we have focused on:
 - 1 Most recent transactions as publicly reported (Bucks: 5.0x revenue and Kings: 4.6x revenue); require adjustments to reflect:
 - ◆ Claret demographics and premium brand
 - ◆ Shorter window before local media contract renewal date (2 years for Claret versus 4 for the Bucks)
 - ◆ The expected 2x increase in NBA National TV rights revenues post 15/16 season should already be reflected in these multiples, but a 3x increase would warrant an adjustment
 - 2 Most recent major city transaction (Nets sale in 2010: 4.7x revenue); requires adjustment to reflect increasing multiples as we approach the national TV contract renewal and the new collective bargaining agreement struck in 2012
 - Given the multiples above, we view 5x as a floor for valuation, with 1 – 2x Revenue as upside to reflect the “trophy” nature of the Claret asset, compelling LA demographics, the expected short-term renewal of TV rights, the national renewal above expectations, other core revenue upside potential and current NBA dynamics

		Enterprise Value			Implied EV / EBITDA (ex-payroll)		
		YE June 2014 Revenue Multiple			YE June 2014 Revenue Multiple		
		5.0x	6.0x	7.0x	5.0x	6.0x	7.0x
YE June '14E Revenue	165	\$824	\$989	\$1,154	8.2x	9.9x	11.5x
Adj. YE June '14E Revenue - local ⁽¹⁾	264	1,131	1,395	1,659	5.7	7.0	8.3
Adj. YE June '14E Revenue - all ⁽²⁾	324	1,317	1,641	1,965	5.1	6.3	7.6

(1) Adjusted for new local TV contract of \$125 million per year (vs. \$25 million in 2013). Present value of 2 years under the current agreement until the new agreement starts is subtracted from the Enterprise Value. Discount rate of 5% used to estimate present value.

(2) Adjusted for new local TV contract per footnote 1, plus expected revenue increase to \$90 million from the national TV contract (vs. \$30m in 2013). Present value of 2 years under the current agreement subtracted from the Enterprise Value at a discount rate of 5%.

Valuation Considerations

Positives

NBA:

- Sports content continues to increase in value: live TV viewing / ratings, and NBA in particular, trending up and highly monetizable (DVR proof programming)
- New collective bargaining agreement struck in 2012
- International growth opportunities (e.g. NBA China investment)
- Profits and equity value creation from NBA investments in for-profit businesses
- Highly efficient financing and expectation that league debt ceiling will increase in the near term

Claret:

- Upside from new local TV rights (Lakers recently signed \$3bn deal over 20 years) – estimated at **\$100mm** increase per year
- Upside from new NBA national TV rights – estimated at **\$60mm** increase per year
- Strong brand in 2nd largest LMA – world class trophy property in the entertainment capital of the world
- Strong recent team performance and Lakers going through recycling period
- Rich history with current strength of roster / coaching staff – strengthening fan base and fan avidity
- Option value from changing LA sports and RSN landscape (Dodgers / TWC RSN / NFL team etc,).
- New ownership expected to reinvigorate the ancillary revenue platform (e.g. sponsorship, merchandising, etc.)
- World-class practice facility available to new owner

Considerations

- June 2013 may have “non-recurring” revenues?
- Team is tenant in arena, however, under long-term lease and represents highly valuable content to the arena
- Potential risk to teams in larger cities from future changes in the revenue sharing mechanism to favor smaller markets

Claret Summary Financials

	Audited Financials		Comments	BofAML Extrapolation			Comments
	YE June '12	YE June '13		YE June '14	YE June '14 Local Adj. ⁽¹⁾	YE June '14 Local + National Adj. ⁽¹⁾	
Game Admissions	\$38.9m	\$56.6m	■ 10% growth	\$62.3m	\$62.3m	62.3m	
Local Cable	20.6m	24.6m	■ 5% growth	25.8m	125.0m	125.0m	■ New local cable contract assumed to be \$1,250m over 10 years
Other Team Revenue	15.4m	21.9m	■ 10% growth	24.1m	24.1m	24.1m	
Total Team Revenue	\$74.9m	\$103.1m		\$112.2m	\$211.4m	\$211.4m	
NBA Revenue	38.4m	50.2m	■ 5% growth	52.7m	52.7m	112.7m	■ NBA National TV/Cable revenues of approx. \$30m currently. Assumes it triples
Total Operating Revenue	\$113.3m	\$153.3m		\$164.9m	\$264.1m	\$324.1m	
EBITDA	13.8m	18.4m		19.3m	118.5m	178.5m	
Margin	12.2%	12.0%		12.0%	44.9%	55.1%	■ Assumes new TV contracts create no additional cost
Plus: Payroll	55.0m	74.6m					
EBITDA (ex-Player Payroll)	\$68.8m	\$93.0m		\$100.0m	\$199.2m	\$259.2	
Impl. Margin	60.7%	60.7%		60.7%	75.4%	80.0%	

Note: Dollars in millions.

(1) Assumes 2014 cable contract revenues (both local and national) incur no additional costs versus current contracts.

Valuation at Various Prices

(Dollars in Millions)

<u>Values to Estimate</u>	<u>Metric</u>	<u>Transaction Values</u>							
		<u>\$800</u>	<u>\$1,000</u>	<u>\$1,200</u>	<u>\$1,400</u>	<u>\$1,600</u>	<u>\$1,800</u>	<u>\$2,000</u>	<u>\$2,200</u>
'14 Revenue	\$164.9	4.9x	6.1x	7.3x	8.5x	9.7x	10.9x	12.1x	13.3x
Adj. '14 Est. Revs - Local. ⁽¹⁾	264.1	3.7	4.5	5.3	6.0	6.8	7.5	8.3	9.0
Adj. '14 Revenue - Nat / Local ⁽²⁾	324.1	3.4	4.0	4.6	5.3	5.9	6.5	7.1	7.7
EBITDA (ex-Player-Payroll)	100.0	8.0	10.0	12.0	14.0	16.0	18.0	20.0	22.0
EBITDA	19.3	41.4	51.8	62.1	72.5	82.8	93.2	103.5	113.9

Note: Dollars in millions.

- (1) Est. revenues adjusted for additional \$100mm in revenue from new local cable contract. Multiple adjusted for present value of running existing contract for the next two seasons (assumes 5% discount rate and mid-year convention applied over two-year period).
- (2) Est. revenues adjusted for additional \$100mm in revenue from new local cable contract and additional \$60mm in revenue from new national contract. Multiple adjusted for present value of running existing contract for the next two seasons (assumes 5% discount rate and mid-year convention applied over two-year period).

Valuation Details

NBA Acquisition Comparables

Franchise Acquired	Acquiror	Year of Transaction	Estimated Transaction Value	Transaction Value/			Full Arena Control
				Total Revenue	EBITDA w/o Payroll	EBITDA	
Milwaukee Bucks	Wesley Edens, Marc Lasry, et. al.	2014	\$550	5.0x	6.9x	47.8x	✓
Sacramento Kings	Vivek Ranadive, et. al.	2013	\$534	4.6x	7.3x	42.7x	✓
Memphis Grizzlies	Robert Pera, et. al.	2012	\$350	3.5x	7.0x	Neg	✓
New Orleans Hornets	Tom Benson	2012	338	3.1x	4.8x	Neg	
Philadelphia 76ers	Josh Harris, David Blitzer, Adam Aron, 11 others	2011	261	3.4x	6.1x	Neg	
Detroit Pistons (1)	Tom Gores	2011	217	1.5x	6.8x	2.3x	✓
Golden State Warriors	Joe Lacob & Peter Guber	2010	450	4.1x	6.2x	65.2x	
New Orleans Hornets (2)	NBA	2010	310	2.8x	4.7x	Neg	
Washington Wizards (3)	Ted Leonsis / Lincoln Holdings	2010	296	1.6x	2.9x	9.0x	✓
New Jersey Nets	Mikhail Prokhorov	2010	428	4.7x	8.1x	Neg	✓
Charlotte Bobcats	Michael Jordan	2010	275	2.9x	5.1x	Neg	✓
Seattle Supersonics (4)	Clayton Bennett, et. al.	2006	350	4.3x	8.1x	Neg	
Cleveland Cavaliers	Dan Gilbert	2005	374	3.3x	5.6x	28.3x	✓
New Jersey Nets	Bruce Ratner, et. al.	2004	300	3.4x	6.0x	Neg	
Phoenix Suns	Robert Sarver, et. al.	2004	401	3.9x	7.4x	50.8x	✓
Atlanta Hawks (5)	Steve Belkin, et. al.	2004	202	1.3x	5.0x	Neg	✓
Boston Celtics	Wycliffe Grousbeck, et. al.	2003	360	3.6x	4.5x	20.0x	
Charlotte Bobcats (6)	Robert Johnson	2002	300	2.8x	4.5x	9.0x	✓
Seattle Supersonics (4)	Howard Schultz	2001	216	2.6x	6.1x	Neg	
Memphis Grizzlies (7)	J.R. Hyde, III	2001	210	NA	NA	NA	✓
Denver Nuggets (8)	Stan Kroenke	2000	175	1.1x	1.7x	7.9x	✓
Dallas Mavericks (9)	Mark Cuban	2000	280	3.3x	12.2x	Neg	✓
Vancouver Grizzlies (7) (10)	Michael Heisley, Sr.	2000	160	NA	NA	NA	✓
Charlotte Hornets (11)	Ray Wooldridge	1999	160	2.2x	8.9x	Neg	
Sacramento Kings	Gavin and Joe Maloof	1999	185	3.0x	4.5x	15.0x	✓
New Jersey Nets	YankeeNets	1999	150	2.3x	5.1x	Neg	
Los Angeles Lakers (12)	Anschutz & Roski	1998	300	3.2x	4.8x	23.3x	✓
			Mean	\$301	3.1x	6.0x	26.8x
			Median	\$300	3.2x	6.0x	21.6x
			Recent 5-year Mean	\$364	3.4x	6.0x	33.4x

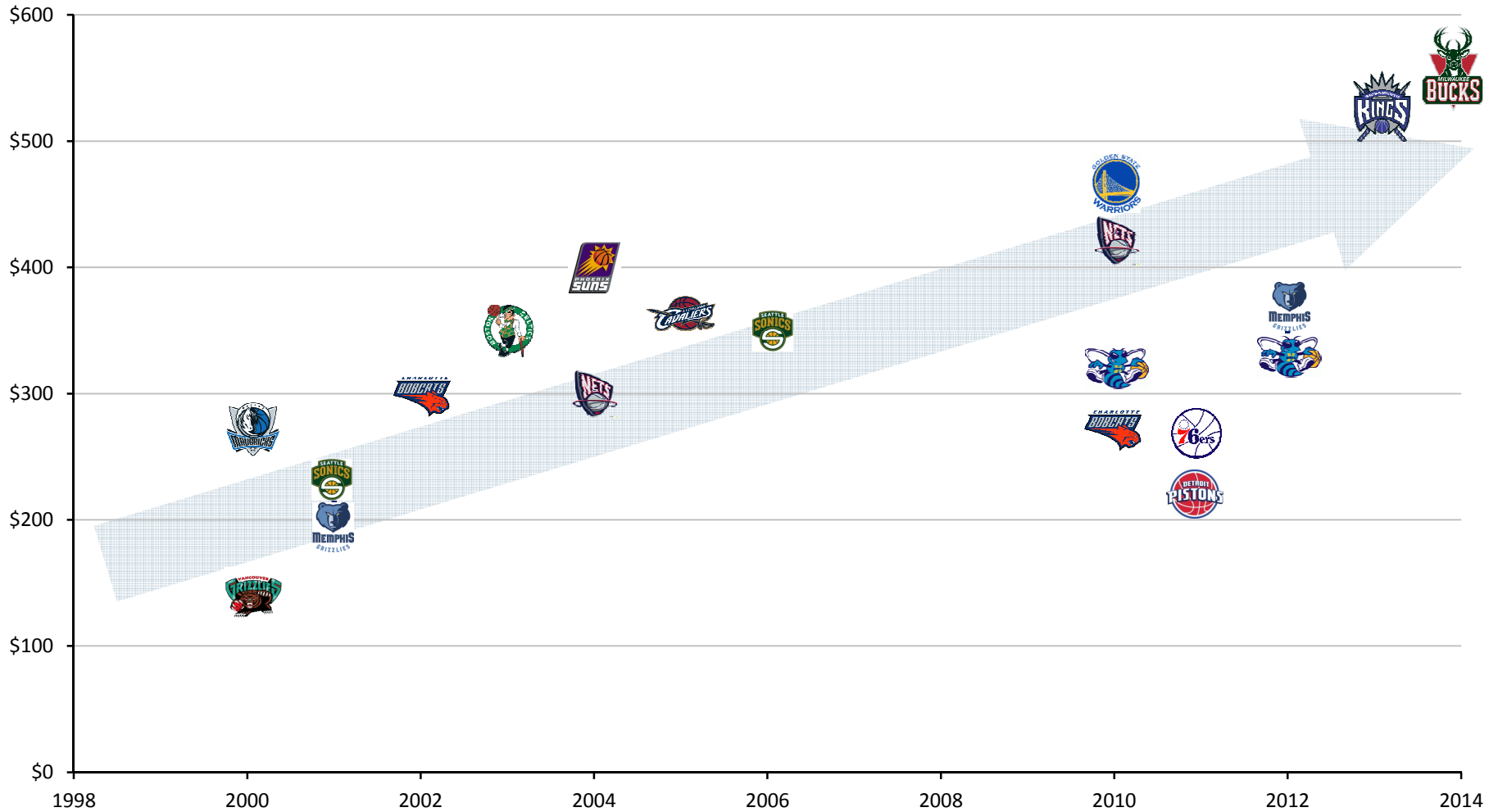
Note: Dollars in millions.

Sources: Published reports, Forbes data, and BofAML estimates

- (a) Tom Gores purchased a 90% share of the Pistons, the Palace at Auburn Hills, and other assets of Palace Sports & Entertainment (including DTE Energy Theater); Gores reportedly paid \$325MM for all assets after backing out minority ownership interest, debt and other liabilities; Karen Davidson maintained a 10% interest. \$360 million value according to Forbes with \$80MM attributed to arena; \$217 million reflected above for team only.
- (b) The NBA purchased the Hornets from George Shinn for more than \$300MM after minority investor, Gary Chouest could not agree on a deal to purchase the franchise.
- (c) Ted Leonsis purchased Abe Pollin's 56% share of the Wizards, Verizon Center and other assets. \$313 million value according to Forbes with \$73 million attributed to arena; \$296 million reflected above for team only.
- (d) Seattle Supersonics are now Oklahoma City Thunder.
- (e) Transaction includes NHL's Thrashers and Phillips Arena lease (\$270 million total consideration). At transaction date, the Team was valued at approximately \$202 million according to Forbes and reflected above.
- (f) Operating statistics are based on projected results in 2005-2006, the first year in the new downtown arena.
- (g) Mr. Hyde purchased a 30% stake at a \$210 million value when the team received approval to move to Memphis.
- (h) Transaction included NHL's Avalanche and Pepsi Center for total consideration of \$453 million. At transaction date, the Team was valued at approximately \$175 million according to Forbes and reflected above.
- (i) Revenue includes 50% of estimated gross revenue of the American Airlines Center.
- (j) Vancouver Grizzlies are now Memphis Grizzlies.
- (k) Transaction included option to purchase up to 50% of the franchise.
- (l) Transaction represented 25% minority interest.

Perspective on NBA Franchise Value

Recent NBA Transactions (\$ in millions)






Appendix

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Demographic Information

Local Market Considerations

NBA Team	Revenue		U.S MSA		Forbes Team			Arena Control	2013 TV	2013 Median	Fortune 500	Population Per
	Multiple	MSA / DMA	Rank	Population	Value				Homes ⁽¹⁾	Household Income ⁽²⁾	Companies ⁽³⁾	Franchise (PPF) (in MM) ⁽⁴⁾
					<u>2014</u>	<u>2013</u>	<u>2012</u>					
		LA	2	17.2	\$575	\$430	\$324	X	5.6	\$64,800	20	2.9
	5.0x	Milwaukee	39	1.6	405	312	268	✓	0.9	\$73,200	6	0.8
	4.6x	Sacramento	27	2.2	550	525	300	✓	1.3	\$76,100	0	2.2

- While the two most recent NBA sales were valued at 5.0x and 4.6x revenue, the demographic attributes of those home markets are strikingly different to Claret's
- The L.A. market is the second largest in the U.S., with a population of 17.2m and 5.6m TV homes
- Note however that Claret does not control its arena, which may be perceived as a disadvantage and could dampen the premium payable for Claret versus recent sales
 - While Claret is important, critical programming to the Arena and we expect the Arena owner to support a reasonable negotiating posture on future renewals, nevertheless inability to fully control the arena (non-basketball revenue streams, ability to reconfigure seating and other premium offerings to specifically meet Claret fan needs) is a consideration for any bidder

Note: Figures in millions.

Source: US Census Bureau and Canadian Census Records (based upon 2011 Census).

(1) Nielsen 2012-13 and 2013-14 "Local Television Market Universe Estimates (<http://www.nielsen.com/content/dam/corporate/us/en/docs/solutions/measurement/television/2013-2014-DMA-Ranks.pdf>).

(2) Per FFIEC CENSUS AND FFIEC ESTIMATED MSA/MD MEDIAN FAMILY INCOME FOR 2013 CRA/HMDA REPORTS.

(3) Per Forbes (<http://www.forbes.com/nba-valuations/list/>).

(4) Assumes two franchises for Milwaukee (Bucks), and 2 franchises for Los Angeles (Lakers and Clippers) (<http://factfinder2.census.gov/bkmk/table/1.0/en/PEP/2013/PEPANNGH.US24PR>).

Demographic Information

Population Per Franchise Ranking

U.S. MSA Rank	MSA	Population (in MM)	NFL	MLB	NBA	NHL	Total Teams	Population Per Franchise (PPF) (in MM)	PPF Rank
2	Los Angeles (1)	17.2		●●	●●	●●	6	2.9	1
23	Portland	2.3			●		1	2.3	2
24	San Antonio	2.2			●		1	2.2	3
25	Sacramento	2.2			●		1	2.2	4
26	Orlando	2.2			●		1	2.2	5
1	New York	19.0	●●	●●	●●	●●●	9	2.1	6
7	Houston	6.1	●	●	●		3	2.0	7
3	Chicago	9.5	●	●●	●	●	5	1.9	8
32	Columbus	1.9				●	1	1.9	9
10	Atlanta	5.4	●	●	●		3	1.8	10
15	Seattle	3.5	●	●			2	1.8	11
5	Dallas-Fort Worth	6.5	●	●	●	●	4	1.6	12
17	San Diego	3.1	●	●			2	1.6	13
8	Philadelphia	6.0	●	●	●	●	4	1.5	14
9	Miami	5.7	●	●	●	●	4	1.4	15

- In addition to positive demographics, LA has the highest population per major sport team, leading to relatively less competition for local fans

Source: US Census Bureau.

(1) Includes Greater Los Angeles and Riverside Metro Areas.