

Bit Market Services

Informazione Regolamentata n. 0145-32-2016	Data/Ora Ricezione 10 Giugno 2016 20:02:26	MTA
--	--	-----

Societa' : RCS MEDIAGROUP
Identificativo : 75539
Informazione
Regolamentata
Nome utilizzatore : RCSMEDIAGROUPN01 - FERRARA
Tipologia : IROP 04
Data/Ora Ricezione : 10 Giugno 2016 20:02:26
Data/Ora Inizio : 10 Giugno 2016 20:17:27
Diffusione presunta
Oggetto : Allegato 3 al comunicato dell'Emittente

Testo del comunicato

Vedi allegato.



June 9, 2016

The Board of Directors
RCS MediaGroup S.p.A.
Via Rizzoli, 8
20132 Milan
Italy

Members of the Board:

You have requested our opinion as to the fairness, from a financial point of view, to the holders of the ordinary shares of RCS MediaGroup S.p.A. (“**RCS**”) (other than Mr. Urbano Cairo, Cairo Communication S.p.A. (“**Cairo**”) and Cairo’s other affiliates) of the Ordinary Share Consideration (defined below) to be received by such holders (other than, Mr. Urbano Cairo, Cairo and Cairo’s other affiliates) pursuant to the unsolicited public exchange offer made by Cairo pursuant to Articles 101 *bis* et seq. of Legislative Decree No. 58/1998, as amended (the “**Italian Securities Act**”) (the “**Cairo Offer**”), as announced by Cairo on April 8th, 2016 and on May 10th, 2016 (the “**Announcements**”).

As more fully described in the offer document published by Cairo on May 28th, 2016 (the “**Offer Document**”), in connection with, and pursuant to the terms and conditions of, the Cairo Offer, each holder of outstanding ordinary shares of RCS (each a “**RCS Ordinary Share**”) will have the right to receive a consideration represented by 0.12 newly issued ordinary shares of Cairo with no *par value* (each a “**Cairo Ordinary Share**”), per each RCS Ordinary Share held (the “**Ordinary Share Consideration**”). Based on the information made available to us (as better described in the paragraphs below), the Cairo Offer will be made to the holders of 521,864,957 RCS Ordinary Shares, which are all of the issued and outstanding RCS Ordinary Shares as of May 28th, 2016, including any treasury shares held by RCS, and be subject, among other, to the condition that RCS Ordinary Shares representing at least 50% (+1 share) of the issued and outstanding share capital of RCS are tendered. On May 10, 2016, Cairo announced that it reserves the right to waive such condition, provided that RCS Ordinary Shares representing at least 35% (+1 share) of the issued and outstanding RCS share capital will have been tendered in the Cairo Offer. In this respect, we observed, and considered in our analysis, that the Cairo Offer is aimed at obtaining a *de facto* control stake in RCS, but that Cairo does not presently intend to either delist the RCS Ordinary Shares or engage in a merger between Cairo and RCS.

As you are aware, on May 16, 2016, certain current shareholders of RCS and International Acquisitions Holding S.à r.l., a third party investor, announced – pursuant to Article 102 and 106 of the Italian Securities Act – their decision to launch an unsolicited public cash tender offer relating to all of the issued and outstanding RCS Ordinary Shares excluding the shares already held by such certain current shareholders (the “**Alternative Offer**”). Pursuant to the Italian Securities Act, the Alternative Offer represents a competitive tender offer with respect to the Cairo Offer.

In arriving at our opinion, we reviewed the Announcements and a copy of the Offer Document, and held discussions with certain senior officers, directors and other representatives and advisors of RCS concerning the businesses, operations and prospects of RCS. We also reviewed certain financial forecasts and other information and data relating solely to RCS, which were provided to or discussed with us by the management of RCS, and examined certain publicly available business



and financial information relating to RCS and Cairo. We were not provided with financial forecasts inclusive of synergies that may stem from the integration of RCS and Cairo post completion of the Cairo Offer. We reviewed the financial terms of the Cairo Offer as set forth in the Offer Document in relation to, among other things, current and historical market prices and trading volumes of the RCS Ordinary Shares and the Cairo Ordinary Shares; the historical and projected earnings and other operating data of RCS; target trading prices for each of RCS and Cairo published by equity research analysts; and the capitalization and financial condition of RCS and Cairo. Although a limited number of equity research analysts provide earnings projections or other financial forecasts or targets for Cairo, Cairo does not make publicly available, and we have not been provided with, its own projected earnings or any other financial forecasts or targets. Due to the limited sources of information and lack of company guidance, our valuation of Cairo and of the Cairo Ordinary Shares was necessarily arrived at solely on the basis of methodologies not requiring forward-looking information. In particular, we did not perform, and could not have performed, a discounted cash flow analysis on Cairo. We also considered for the purposes of our analysis that the Cairo Offer is not aimed at a delisting of RCS, and therefore, that the shareholding structure of RCS in case of completion of the Cairo Offer could entail the presence of one major shareholder (the listed holding (Cairo)) and one listed subsidiary (RCS). We considered, to the extent publicly available, the financial terms of certain other transactions which we considered relevant in evaluating the Cairo Offer and analyzed certain financial, stock market and other publicly available information relating to the businesses of other companies whose operations we considered relevant in evaluating those of RCS. In addition to the foregoing, we conducted such other analyses and examinations and considered such other information and financial, economic and market criteria as we deemed appropriate in arriving at our opinion. The issuance of our opinion has been authorized by our fairness opinion committee.

In rendering our opinion, we have assumed and relied, without independent verification, upon the accuracy and completeness of all financial and other information and data publicly available or provided to or otherwise reviewed by or discussed with us, and upon the assurances of the management of RCS that they are not aware of any relevant information that has been omitted or that remains undisclosed to us. With respect to financial forecasts and other information and data relating to RCS provided to or otherwise reviewed by or discussed with us, we have been advised by the management of RCS that such forecasts and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of RCS as to the future financial performance of RCS. We do not take responsibility for such estimates and projections, or the basis on which they were prepared. No representation or warranty, express or implied, is made as to the accuracy or completeness of such information and nothing contained herein is, or shall be relied upon as, a representation, whether as to the past, the present or the future.

We have assumed that the Cairo Offer will be consummated in accordance with the terms provided in the Offer Document and other communications by Cairo in relation to the Cairo Offer, without waiver, modification or amendment of any material term, and that, in the course of obtaining the necessary regulatory or third party approvals, consents and releases for the Cairo Offer, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on RCS, Cairo or the Cairo Offer. We further have assumed that the final terms of the Cairo Offer will not vary materially from those set forth in the Offer Document reviewed by us. We also have assumed, with your consent, that the Cairo Offer will be treated as a tax-neutral transaction for Italian tax purposes. We have assumed that there are no material undisclosed liabilities of Cairo for which appropriate reserves or other provisions have not been made. Our opinion, as set forth herein, relates to the relative values of the RCS Ordinary Shares and the Cairo Ordinary Shares in connection with the assessment of the fairness, from a



financial point of view, of the Ordinary Share Consideration. We are not expressing any opinion as to what the value of the Cairo Ordinary Shares will be when issued pursuant to the Cairo Offer or the price at which the Cairo Ordinary Shares will trade at any time. We have not made or been provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of RCS or Cairo, nor have we made any physical inspection of the properties or assets of RCS of Cairo. We were not requested to, and we did not, participate in the negotiation and/or structuring of the Cairo Offer or the Alternative Offer. We express no view as to, and our opinion does not address, the relative merits of the Cairo Offer as compared to any alternative business strategies that might exist for RCS or the effect of any other transaction in which RCS might engage or that may be proposed to the holders of RCS Ordinary Shares, including the Alternative Offer. Nothing in this opinion should be construed to represent a comparison between the Cairo Offer, the Alternative Offer or any other offer. Our opinion is necessarily based upon information available to us, and financial, stock market and other conditions and circumstances existing, as of the date hereof. It should be understood that subsequent developments may affect this opinion and that we do not have any obligation to update, revise, or reaffirm this opinion. Our opinion is limited to the adequacy, from a financial point of view, to the holders of the RCS Ordinary Shares (other than Mr. Urbano Cairo, Cairo and Cairo's other affiliates) of the Ordinary Share Consideration in the Cairo Offer.

A brief summary of certain analyses and valuation methodologies performed for the purposes of this opinion is attached hereto as Appendix A. This summary should not be considered to be, nor does it represent, a comprehensive description of all analyses performed.

In accordance with the terms of our engagement, Citigroup Global Markets Limited has acted as financial advisor to RCS in connection with the Cairo Offer and will receive a fee for such services, a significant portion of which is contingent upon the Board achieving certain objectives of enhancement of company and shareholder value. We also will receive a fee for the delivery of this opinion. We and our affiliates in the past have provided, and currently provide, services to RCS and Cairo, and may in the future provide services to RCS or Cairo and their respective affiliates for which services we and such affiliates have received and in the future may receive compensation. In the ordinary course of our business, we and our affiliates may actively trade or hold the securities of RCS, Cairo and their respective affiliates for our own account or for the account of our customers and, accordingly, may at any time hold a long or short position in such securities. In addition, we and our affiliates (including Citigroup Inc. and its affiliates) may maintain relationships with RCS, Cairo and their respective affiliates.

Our advisory services and the opinion expressed herein are provided for the information of the Board of Directors of RCS in its evaluation of the Cairo Offer, and our opinion is not intended to be and does not constitute a recommendation to any shareholder as to how such shareholder should act on any matters relating to the Cairo Offer.

Based upon and subject to the foregoing, our experience as investment bankers, our work as described above and other factors we deemed relevant, we are of the opinion that, as of the date hereof, the Ordinary Share Consideration is inadequate, from a financial point of view, to the holders of RCS Ordinary Shares (other than Mr. Urbano Cairo, Cairo and Cairo's other affiliates).

Very truly yours,
CITIGROUP GLOBAL MARKETS LIMITED



Appendix A

We set out in this appendix a brief summary of certain analyses and valuation methodologies performed for the purpose of arriving at the opinion to which this appendix is attached (the "Opinion"). Capitalized terms used but not defined in this appendix have the meanings ascribed thereto in the Opinion. This summary is qualified in its entirety by reference to the full text of the Opinion. This summary should not be considered to be, nor does it represent, a comprehensive description of all analyses performed and factors considered in connection with the Opinion.

In preparing the Opinion, we performed a variety of financial and comparative analyses, including those described below. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances, and, therefore, a fairness opinion is not readily susceptible to summary description. We arrived at the Opinion based on the results of all analyses undertaken by us and assessed as a whole, and did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of the Opinion. Accordingly, we believe that our analyses must be considered as a whole and that selecting portions of our analyses and factors, without considering all analyses and factors, could create a misleading or incomplete view of the processes underlying our analyses and the Opinion.

For the purpose of the Opinion, we considered sector trends, commercial, financial, economic and market conditions and other matters existing as of the date of the Opinion, many of which are not under RCS and/or Cairo's control. No company, activity or transaction used herein for comparability purposes is identical to RCS or Cairo. An evaluation of these analyses is not entirely mathematical; rather, our analyses required complex considerations and judgments around financial and operating features, as well as other factors, which may have an impact on the exchange ratio.

The estimates contained in our analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by our analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold or acquired. Accordingly, the estimates used in, and the results derived from, our analyses are inherently subject to substantial uncertainty.

In the preparation of the Opinion, for the purpose of the valuation of RCS we performed, among others, a discounted cash flow analysis, we analysed the target trading prices for the RCS Ordinary Shares published by equity research analysts, the historical trading prices for the RCS Ordinary Shares, the premia paid on relevant precedent Italian tender offers and we reviewed selected precedent transactions in the media and publishing sectors.

In the preparation of the Opinion, for the purposes of valuation of Cairo, we reviewed the target trading prices for the Cairo Ordinary Shares published by equity research analysts and the historical trading prices for the Cairo Ordinary Shares. Citi had no access to Cairo's business plan and no quantitative guidance was made public by Cairo's management with reference to Cairo's future performance and expected financials, and therefore it was not possible for us to perform a discounted cash flow analysis. Additionally, the valuation of Cairo based on publicly available data was hindered by the limited coverage from equity research analysts for Cairo



shares (three equity research analysts cover the stock, and we had access to only two of them providing forecast financials of the company as of 7th April 2016) and by the limited trading volumes for the Cairo Ordinary Shares.

Although we considered a selected companies analysis (which is an analysis designed to estimate an implied value of a company through an analysis of the public valuation and trading multiples of similar publicly traded companies), for the purpose of the Opinion we have not deemed it a relevant valuation methodology. In particular, since both RCS and Cairo are listed entities, we attributed a higher relevance to current and past trading levels, as well as target prices by equity research analysts.

Equity Research Analysts Target Prices

We performed an equity research target prices analysis, which is an analysis designed to estimate the share price of a company through the target prices of selected equity research analysts. We reviewed, to the extent publicly available, the target prices of six selected equity research analysts for the RCS Ordinary Shares prior to the announcement by Cairo of its intention to launch a public voluntary exchange offer on RCS (or April 8th 2016, the “Announcement” date), which are set forth in the table below (ordered by date):

Date	Broker	Target Price
4-Apr-2016	Mediobanca	€0.96
31-Mar-2016	Equita SIM	€0.78
29-Mar-2016	Kepler Cheuvreux	€0.70
24-Mar-2016	Banca Akros	€0.85
23-Mar-2016	Intermonte	€0.80
7-Mar-2016	Banca Aletti	€0.75

This analysis indicated a per share equity value reference range for RCS of between €0.70 and €0.96 (minimum and maximum of selected equity research analysts target prices), with a median of €0.79 and an average of €0.81.

We also reviewed, to the extent publicly available, the target prices of three selected equity research analysts for the Cairo Ordinary Shares prior to the Announcement, which are set forth in the table below (ordered by date):

Date	Broker	Target Price
21-Mar-2016	Mediobanca	€5.67
17-Mar-2016	Kepler Cheuvreux	€5.40
9-Mar-2016	Equita SIM	€4.90

This analysis indicated a per share equity value reference range for Cairo of between €4.90 and €5.67 (minimum and maximum of selected equity research analysts target prices), with a median of €5.40 and an average of €5.32.

The exchange ratio derived from the application of the equity research analysts target prices methodology implies a **range of between 0.143x and 0.169x** (minimum and maximum of selected equity research analysts target prices for the RCS Ordinary Shares and minimum and



maximum of selected equity research analysts target prices for the Cairo Ordinary Shares, respectively).

Historical Share Price and Italian Public Tender Offers Premia

We reviewed the current and historical trading prices for the RCS Ordinary Shares and the Cairo Ordinary Shares in the last twelve months (“LTM”) prior to the Announcement date. The volume weighted average price (“VWAP”) for RCS at one day, one month, three months, six months and twelve months prior to the Announcement date were €0.41, €0.49, €0.55, €0.59 and €0.75, respectively. For RCS, in order to reflect the change of control nature of the transaction, we applied a premium based on the median premia for each relevant period paid in public tender offer precedent transactions in Italy using unaffected premia we calculated based on our experience. The median unaffected premia of selected Italian tender offer precedent transactions were 28.0%, 27.2%, 33.0%, 34.8% and 36.9% at one day, one month, three months, six months and twelve months prior to the last relevant unaffected date, respectively. Therefore, the VWAP for RCS, as adjusted for the Italian tender offer premia, were €0.52, €0.62, €0.73, €0.79 and €1.03 at one day, one month, three months, six months and twelve months, respectively.

The corresponding VWAP for the Cairo ordinary shares, adjusted for the €0.20 per share dividend paid on May 9th, 2016, were €4.41, €4.34, €3.97, €4.10, €4.43 at one day, one month, three months, six months and twelve months prior to the Announcement date, respectively.

The exchange ratio derived from the application of the historical share price methodology (adjusted for Italian public tender offer premia in the case of RCS) implies exchange ratios of **0.118x, 0.143x, 0.183x, 0.193x and 0.233x** at one day, one month, three months, six months and twelve months, respectively.

RCS Discounted Cash Flow Analysis

As mentioned above, we performed a discounted cash flow analysis (“DCF”) only for RCS. The DCF analysis is an analysis designed to estimate the implied value of a company by calculating the present value of the estimated future unlevered free cash flows of that company over the projection period and the terminal value of that company at the end of the projection period.

We calculated the estimated present value of the unlevered, after-tax free cash flows that RCS was forecasted to generate on a sum of the parts basis, including RCS’s Italian and Spanish operations. The forecasted amounts for the last three quarters of calendar year 2016 and calendar years through December 31, 2018 and 2020 (as the case may be) were based on certain financial information and forecasts relating to RCS which were provided to us by the management of RCS (in particular, for RCS’s Spanish operations, the 2016-2020 financials used by the RCS Board of Directors for conducting the impairment test for purposes of its 2015 annual financial statements and, for the Italian operations, 2016-2018 financials from the RCS’s business plan). By their nature, such forecasts include subjective elements, which may be inaccurate.

In terms of weighted average cost of capital for RCS, Citi has considered values both including and excluding a small cap risk premium (“SCRIP”). The SCRIP is by some valuers deemed statistically significant for companies whose market capitalizations are within the tenth decile



globally. For RCS, we have considered a SCRP of 2.69% based on the 2015 Duff & Phelps Valuation Handbook.

Based on our professional judgment and experience, we then calculated the implied estimated terminal value for RCS's Italian and Spanish operations based on perpetuity growth rates ranging from -0.5% to 0.5% and -0.5% to 0.5%, respectively, and then discounted to present value (as of March 31, 2016) the unlevered, after-tax free cash flows and implied estimated terminal value using discount rates ranging from 9.5% to 10.5% (7.5% to 8.5% with no SCRP) for the Italian operations and 9.4% to 10.4% (7.5% to 8.5% with no SCRP) for the Spanish operations, reflecting an estimate of the weighted average cost of capital of these two businesses of RCS.

For the purpose of determining the approximate implied per-share equity value, the enterprise value range stemming from this analysis was then adjusted in respect of RCS's investments in associates, net debt, deferred tax assets and certain other items, based on information in RCS's public financial statements or included in the financial forecasts provided to us by RCS's management.

By computing a range where the minimum and the maximum are the mid-point of the DCF with and without SCRP respectively, the results of this analysis yielded a range of values per RCS Ordinary Share of between €0.93 and €1.31. Since we could not perform a DCF analysis on Cairo, we derived the implied exchange ratio by using the Cairo Ordinary Share price (as of 8th June 2016) and Cairo minimum / maximum equity research analysts target prices, as of the day prior to the Announcement date (€4.70 and €4.90 / €5.67). The exchange ratio derived from the application of the DCF methodology implies (a) a **range of between 0.197x and 0.279x**, using Cairo share price, and (b) a **range of between 0.189x and 0.231x** using minimum RCS share value from DCF over Cairo equity research analysts minimum target price and maximum RCS share value from DCF over Cairo Communication equity research analysts maximum target price.

RCS Selected Transactions Analysis

We performed a selected transactions analysis, which is an analysis designed to estimate the implied value of a company through an analysis of the multiples paid in acquisitions of similar publicly traded companies. We reviewed, to the extent publicly available, financial information for 6 selected transactions in the publishing and advertising sectors announced between 2011 and 2015 (the "RCS Selected Transactions"). The RCS Selected Transactions are set forth in the table below (ordered by date):

Date	Transaction
Sep-15	Trinity Mirror / Local Words
Aug-15	Exor / The Economist
Jul-15	Nikkei / Financial Times
Jun-14	De Persgroep / Mecom
Jul-13	Funke Medien Gruppe / Axel Springer
Dec-11	A-pressen / Edda Media

For each of the RCS Selected Transactions, Citi reviewed enterprise values of the RCS Selected Transactions, calculated as the purchase prices paid for the target companies' equity plus debt,

less cash and cash equivalents and other adjustments, as multiples, to the extent publicly available, of the EBITDA for the LTM prior to the announcement of the relevant transaction or other relevant measurement date. The observed multiples of enterprise value to LTM EBITDA for the RCS Selected Transactions ranged from a low of 3.0x to a high of 16.9x (with a median of 8.5x and an average of 9.3x). Based on our professional judgment and experience, and taking into consideration the observed multiples for the RCS Selected Transactions, we then applied a selected range of multiples of enterprise value to LTM EBITDA of 8.5x and 9.3x to the LTM EBITDA of RCS as of March 31, 2016. Financial data of RCS were based on certain publicly available financial information as well as on the forecasts relating to RCS provided to us by the management of RCS, as described above. This analysis indicated an approximate implied per share equity value reference range of between €0.94 and €1.08. We derived the implied exchange ratio by using the Cairo Ordinary Share price (as of 8th June 2016) and Cairo minimum / maximum equity research analysts target price as of the Announcement date (€4.70 and €4.90 / €5.67). The exchange ratio derived from the application of the selected transaction analysis methodology implies (a) a **range of between 0.200x and 0.229x**, using Cairo share price and (b) a **range of between 0.192x and 0.190x**, using minimum RCS share value from selected transactions analysis over Cairo equity research analysts minimum target price and maximum RCS share value from selected transactions analysis over Cairo equity research analysts maximum target price.

Summary Considerations

We have set below the summary of our findings based on the different methodologies considered:

Methodology	RCS Valuation		Cairo Valuation			Implied Exchange Ratio			
	Min	Max	Spot Price as of 8-Jun-16	Target Price Unaffected		vs. Cairo Spot Price		vs. Cairo Target Price	
				Min	Max	Min	Max	Min	Max
SOTP DCF: -Min: mid-point DCF (SCRIP 2.7%) -Max: mid-point DCF (no SCRIP)	0.93	1.31	4.70	4.90	5.67	0.197x	0.279x	0.189x	0.231x
Brokers' target price	0.70	0.96	n.m.	4.90	5.67	n.m.	n.m.	0.143x	0.169x
Adjusted Historical prices									
<i>VWAP 1D</i>	0.52			4.41				0.118x	
<i>VWAP 1M</i>	0.62			4.34				0.143x	
<i>VWAP 3M</i>	0.73			3.97				0.183x	
<i>VWAP 6M</i>	0.79			4.10				0.193x	
<i>VWAP 12M</i>	1.03			4.43				0.233x	
Precedent transactions multiples	0.94	1.08	4.70	4.90	5.67	0.200x	0.229x	0.192x	0.190x

Fine Comunicato n.0145-32

Numero di Pagine: 10