

World Wrestling Entertainment, Inc. (NYSE: WWE)

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WWE - UFC Deal - Apr 6, 2023

WWE and UFC (Endeavour) are merging to form a new company (temporarily named NewCo).

https://s29.q4cdn.com/745718849/files/doc_presentations/Endeavor-Investor-Deck_FINAL.pdf

Transaction Rationale

NewCo is a **pure-play IP ownership company** operating in some of the most attractive parts of the **fast-growing** global sports and entertainment ecosystem

UFC and WWE are **two complementary, iconic companies** with leading brands in their respective categories

Opportunity to own two global sports and entertainment leaders in a single company

Endeavor flywheel creates **multiple additional avenues for future growth**

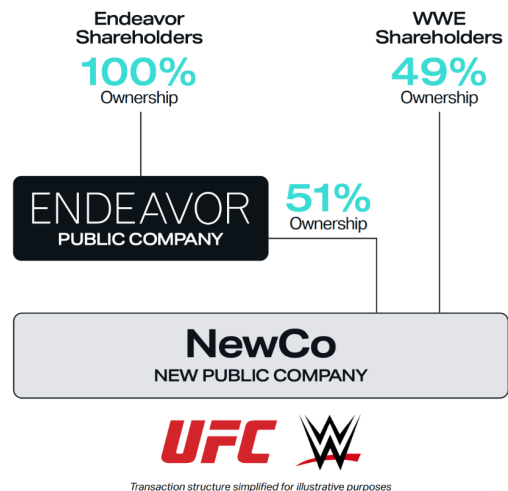
Endeavor has shown a track record of **value creation across UFC and other strategic acquisitions** and built a **deep history and trusted partnership with WWE** over the past two decades

Highly attractive financial profile including expected double-digit revenue growth opportunity, high Adjusted EBITDA margins and free cash flow generation at scale

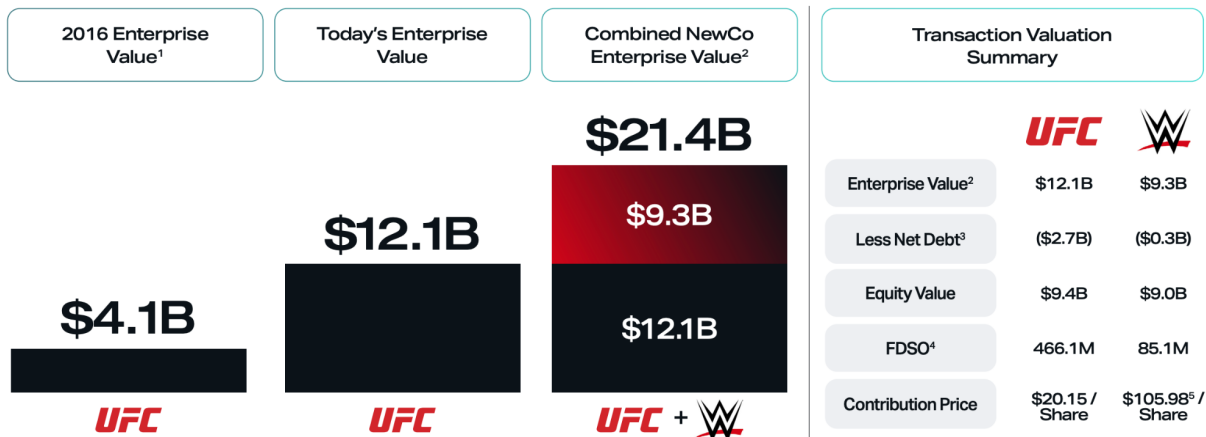
Note: Revenue growth figures based on FY2019 – FY2022 CAGR. Adj. EBITDA margin based on FY2022

Transaction Overview

- Endeavor to form a \$21B+ global pure-play live sports and entertainment company comprised of **UFC** and **WWE**
- UFC, which is owned by Endeavor, and WWE will form **NewCo**, a new publicly-listed company that is expected to trade on the NYSE
- NewCo to be **51%** owned by Endeavor and **49%** owned by WWE shareholders
- NewCo to be capitalized with \$150M cash at closing, Endeavor (from UFC) and WWE are permitted to retain certain excess cash as part of the closing and, public shareholders of NewCo are expected to receive a post-closing dividend
- Board of Directors composed of 11 seats total: 6 seats nominated by Endeavor, 5 seats nominated by WWE, each of which will include 3 independent directors
- NewCo financials to be consolidated by Endeavor
- Transaction anticipated to close by the end of 2023



NewCo Transaction Crystallizes Value Creation at UFC Since Acquisition



Notes: Financial information used derived from public filings.
 1. Enterprise value based on EDR total purchase price for UFC, including contingent consideration of \$224M.
 2. Enterprise value defined as equity value plus net debt (including cash, debt, finance leases, investments, minority interests). Equity value determined by the relative contribution values of WWE and UFC to NewCo.
 3. Net debt figures represent 12/31/2022 balance sheet figures, adjusted for combined cash contributions by each of UFC / EDR and WWE.
 4. UFC FDSO based on Endeavor's basic shares as of 01/31/2023 and dilutive securities as of 12/31/2022, as reported in the 10-K for the year ended December 31, 2022 (representing a hypothetical FDSO if UFC was spun out of Endeavor with identical capital structure as Endeavor) based on a EDR reference share price as of 03/31/2023. WWE FDSO based on WWE's basic shares as of 01/31/2023, as reported in the 10-K for the year ended December 31, 2022, and dilutive securities as of 03/31/2023, including dilution for market value of WWE convertible note.
 5. Before any post-closing dividend.

The deal is not that simple.

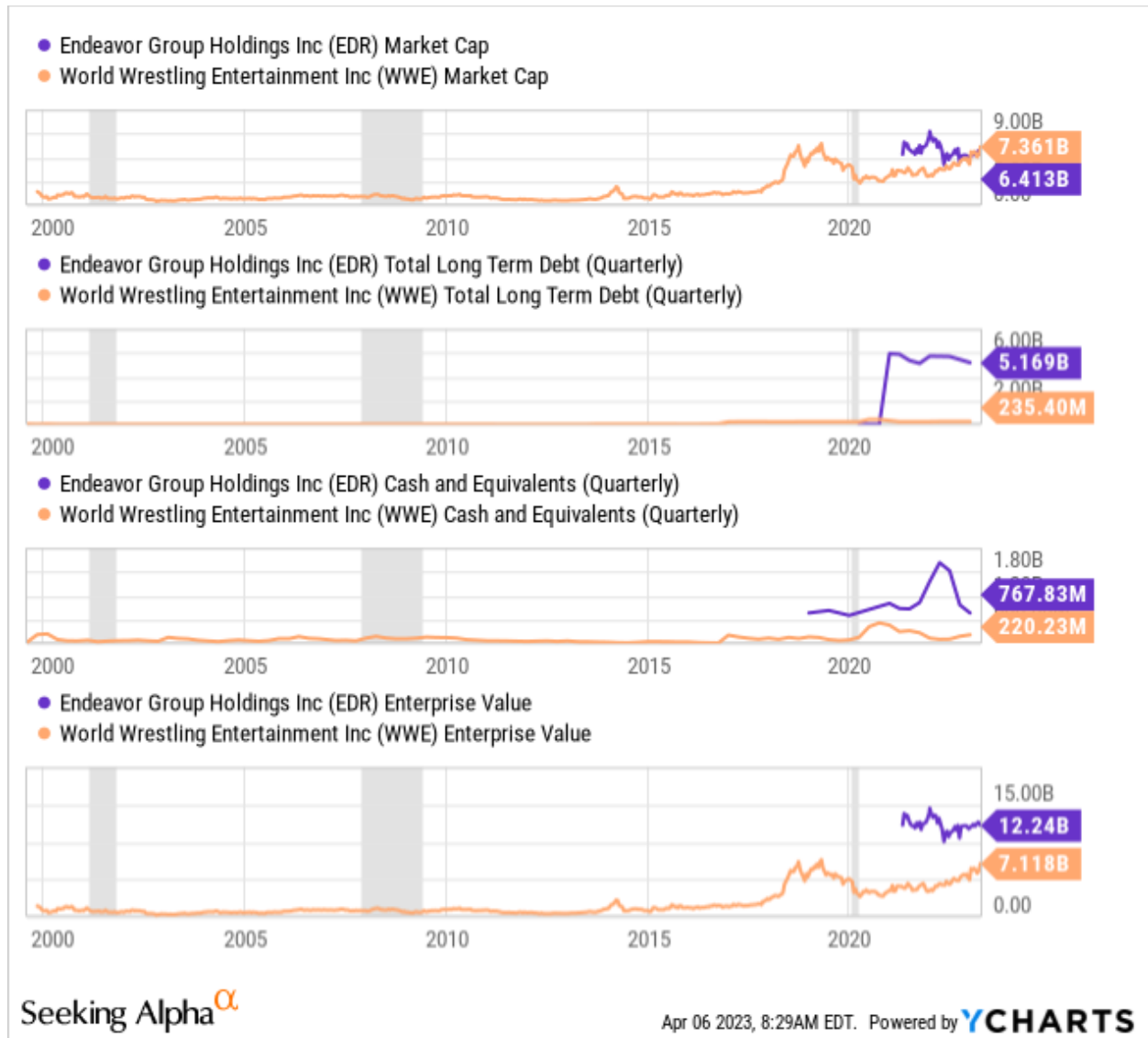
- EDR will form a new company, TKO, where it will give away its ownership of UFC
- TKO will acquire WWE, giving the shareholders of the latter 49% ownership
- EDR shareholders maintain the other 51% ownership
- The "contribution prices" are no closing prices but rather the price used to calculate the new ownership structure.
- There is no arbitrage or special situation opportunity

The only way to make money in this deal is if you believe buying the two companies at the current price makes sense and that the merger will create a company that is worth more than the two combined.



The market values the two companies at less than \$14 billion.

Let's look at EV since we are talking about mergers.



The additional value of the deal is from the debt on the balance sheet of EDR

Let's have a look at the news release before we continue with the presentation.

<https://corporate.wwe.com/tools/viewpdf.aspx?page={E75C3FD1-7101-4F67-B1A2-487718198818}>

New, Publicly Listed Company to be 51% Owned by Endeavor and 49% by Existing WWE Shareholders

Endeavor to Contribute UFC into Company at Enterprise Value of \$12.1 Billion

BEVERLY HILLS, Calif. & STAMFORD, Conn. --(BUSINESS WIRE)-- Endeavor Group Holdings, Inc. (NYSE: EDR) ("Endeavor") and World Wrestling Entertainment, Inc. (NYSE: WWE) ("WWE") today announced that they have signed a definitive agreement to form a new, publicly listed company consisting of two iconic, complementary, global sports and entertainment brands: UFC and WWE. Upon close, Endeavor will hold a 51% controlling interest in the new company and existing WWE shareholders will hold a 49% interest in the new company.

Transaction Details and Approvals

The transaction values UFC at an enterprise value of \$12.1 billion and WWE at an enterprise value of \$9.3 billion. The transaction represents a contribution price of WWE of approximately \$106 per share (before any post-closing dividend). Additionally, UFC and WWE will each contribute cash to the new company so that it holds approximately \$150 million. At closing, Endeavor intends to sweep all excess cash at UFC, and shareholders of the new company (other than Endeavor) are expected to receive a post-closing dividend.

Under the terms of the transaction, existing WWE shareholders will roll all existing equity into the new entity that will be the parent company of UFC and WWE ("NewCo" until it is named at a later date) and intends to list on the New York Stock Exchange under the ticker symbol "TKO". The listing of NewCo will expand the collective investor base to allow for broad market participation across Endeavor and NewCo.

The transaction has been unanimously approved by the Executive Committee of the Board of Directors of Endeavor and by the Board of Directors of WWE. The transaction is subject to the satisfaction of customary closing conditions, including receipt of required regulatory approvals. The transaction is expected to close in the second half of 2023.




Is there the possibility of obtaining a good special dividends payout?

NewCo will hold \$150 million. The excess after-fees will probably be distributed.

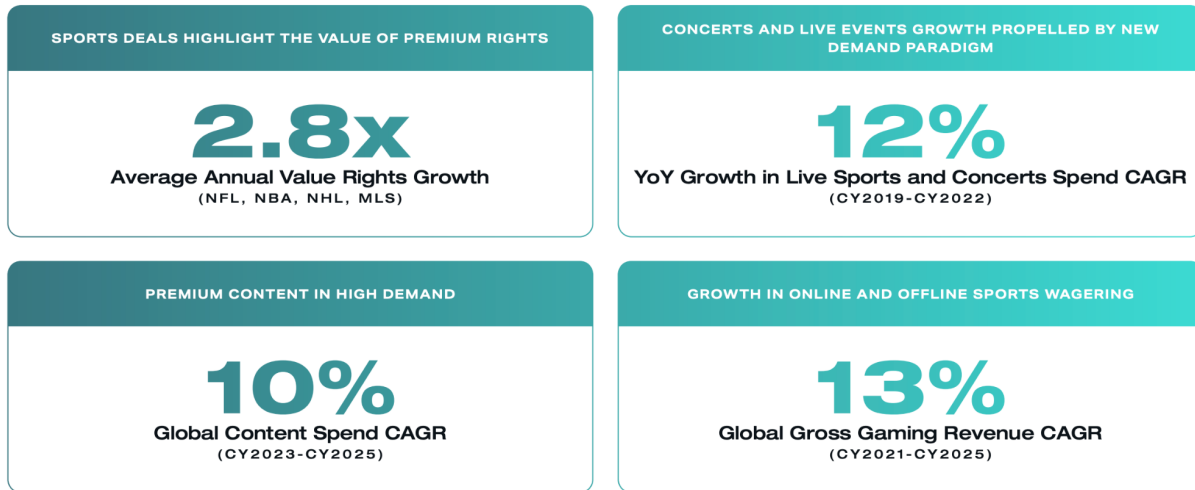
It will constitute a minute amount of the overall company. Not worth investing in because of that.

Global Portfolio of Premium Owned Assets and Integrated Set of Capabilities

Powered by **11,000+** employees across more than **30 countries**¹

Owned IP	Represented IP ²	Complementary Capabilities
		

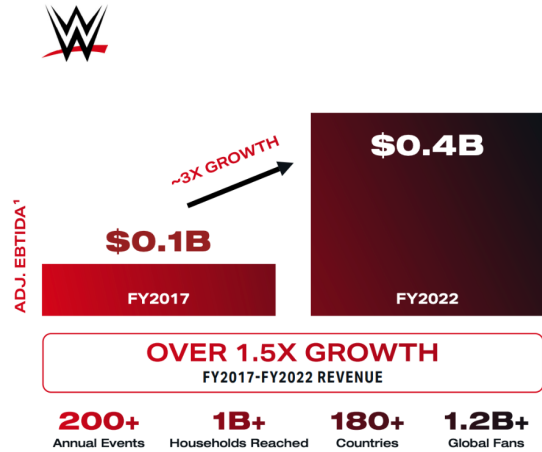
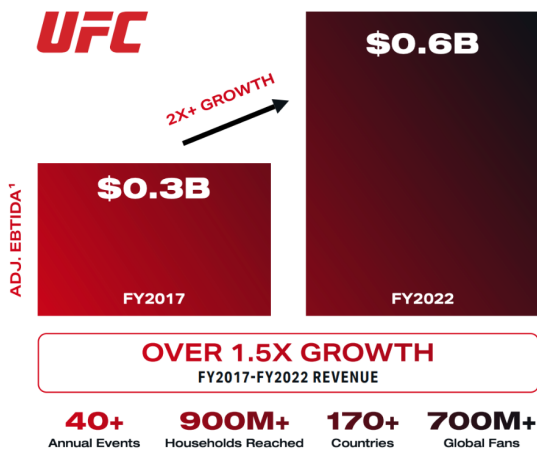
Well Positioned Across Fast-Growing End Markets



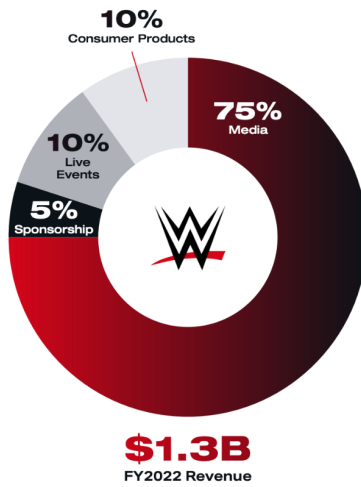
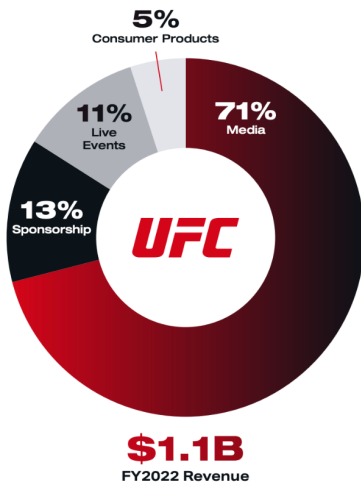
Connected Segments Drive Powerful Growth Across The Endeavor Flywheel

<p>Owned Sport Properties Delivering Engaging Live Sports Entertainment to the Masses</p>	<ul style="list-style-type: none"> - UFC posted record revenues, 21 consecutive sell-outs and its best sponsorship year ever in 2022 - Announced new UFC Performance Institute in Mexico, building on success in Las Vegas and China 	
<p>Events, Experiences and Rights Bringing Sports and Lifestyle Events to Fans</p>	<ul style="list-style-type: none"> - Super Bowl LVI results in On Location's largest ever hospitality event - Madrid Open hosts a record 300,000 attendees - Record deals for Big 10, EuroLeague, Cricket South Africa and Wimbledon 	
<p>Representation Connecting the Most Influential Talent, Brands and Platforms</p>	<ul style="list-style-type: none"> - WME Sports up 10 spots in Forbes' most valuable agency list - Talent deals for more than 310 scripted series, clients in 5 of 10 top films - Booked more than 40,000 live music engagements in 2022 	
<p>Sports Data and Technology Deepening Penetration in the High Growth Sports Betting Market</p>	<ul style="list-style-type: none"> - Closed OpenBet acquisition, creating a true, end-to-end betting solution - Plan to report new reporting segment in Q1 2023 to increase financial disclosure and transparency 	

Forming an Iconic Sports and Entertainment Company with a Large Global Fan Base



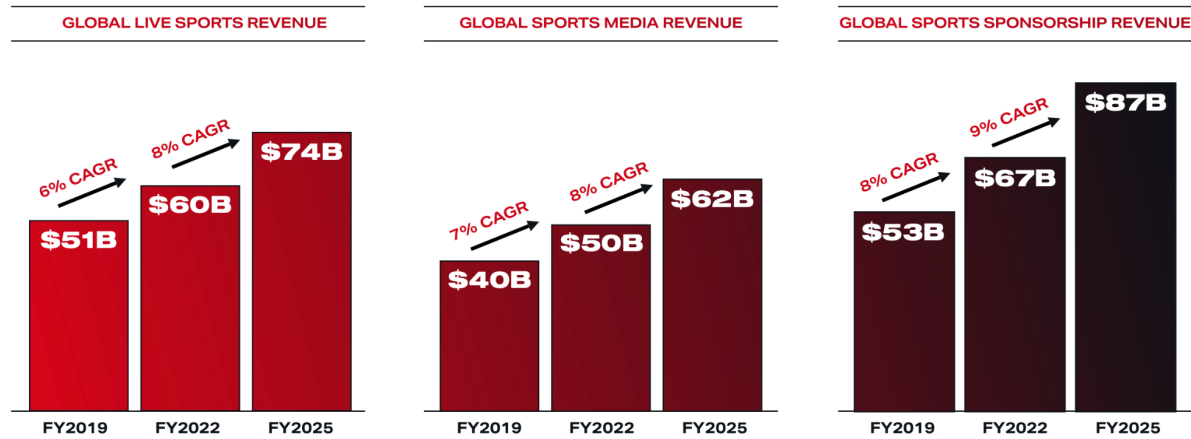
Opportunity to Own Two Global Sports and Entertainment Leaders in a Single Company



- Must-watch, live and original content
- Large, young and diverse fan bases
- Best-in-class monetization across media, live events, sponsorships and consumer products
- Upcoming media rights renewals at both companies

Note: Figures for UFC and WWE are for FY2022. WWE Media and Live Events excluding Sponsorship and Advertising revenue.

Value of Sports and Live Entertainment Continues to Accelerate



Leveraging Endeavor's Capabilities to Drive Value of Both Assets

Endeavor and WWE have **built a deep history and trusted partnership**

Attractive rights portfolio with highly contracted revenue base and visible growth further supported by **upcoming domestic and international media rights renewals**

More content, live events, sponsorship and licensing opportunities

Distribution agnostic with unique direct-to-consumer go-to-market opportunities

Cross-promotion to drive brand awareness and deepen penetration across global fan base

Operating Synergy Opportunity

\$1B combined cost base (excluding COGS), of which ~50% appears highly addressable

Expected **\$50-100M long-term annualized run-rate** net operating synergies

Majority of expected net operating synergies supported by anticipated significant operational efficiencies

Successful track record of realizing operating synergies from prior transactions

Key Financials

Attractive combined financial profile and healthy balance sheet, prior to expected net operating synergies and revenue opportunities

\$2.4B

Revenue
(FY2022)

10%

Revenue Growth
(FY2019 – FY2022 CAGR)

\$1.0B

Adj. EBITDA¹
(FY2022)

61%

FCF³ Conversion⁴
(FY2022)

70%+

Contracted Revenue²
(FY2022)

20%

Adj. EBITDA¹ Growth
(FY2019 – FY2022 CAGR)

42%

Adj. EBITDA Margin¹
(FY2022)

2.5x

Net Leverage⁵
(FY2022)

It seems to be a good deal for both companies but not a good one for shareholders.

UFC and WWE: Adjusted EBITDA and Free Cash Flow

GAAP to Non-GAAP Reconciliations | \$ Millions

	UFC			WWE			COMBINED		
	Years Ended December 31,			Years Ended December 31,			Years Ended December 31,		
	2017	2019	2022	2017	2019	2022	2017	2019	2022
Net (loss) income	\$ (160.6)	\$ 64.0	\$ 389.0	\$ 32.6	\$ 77.1	\$ 195.6	\$ (128.0)	\$ 141.1	\$ 584.6
Provision for income taxes	23.9	13.1	14.3	31.4	17.6	68.8	55.3	30.7	83.1
Interest expense, net	110.2	127.8	139.6	14.7	26.1	21.2	124.9	153.9	160.8
Depreciation and amortization	240.4	142.1	60.0	26.0	34.1	37.3	266.4	176.2	97.3
Equity-based compensation expense	13.3	38.9	23.7	24.2	29.4	34.9	37.5	68.3	58.6
Merger, acquisition and earn-out costs	7.2	0.4	—	—	—	—	7.2	0.4	—
Certain legal costs	13.7	8.4	0.8	5.6	—	—	19.3	8.4	0.8
Restructuring, severance and impairment	2.0	—	—	4.7	—	—	6.7	—	—
Other	7.1	7.4	1.3	(3.1)	(4.3)	26.8	4.0	3.1	28.1
Adjusted EBITDA	\$ 257.2	\$ 402.1	\$ 628.7	\$ 136.1	\$ 180.0	\$ 384.6	\$ 393.3	\$ 582.1	\$ 1,013.3
Net income margin			34.1%			15.1%			24.0%
Adjusted EBITDA margin			55.1%			29.8%			41.7%
Net cash provided by operating activities	\$ 143.9	\$ 321.9	\$ 501.7	\$ 96.6	\$ 121.7	\$ 325.6	\$ 240.5	\$ 443.6	\$ 827.3
Cash used for capital expenditures	(32.3)	(39.5)	(12.4)	(24.7)	(69.1)	(199.9)	¹ (57.0)	(108.6)	(212.3)
Free Cash Flow	\$ 111.6	\$ 282.4	\$ 489.3	\$ 71.9	\$ 52.6	\$ 125.7	\$ 183.5	\$ 335.0	\$ 615.0
Free Cash Flow Conversion									60.7%

WWE shareholders are getting the best deal since they contribute less to the financials with about half the ownership.

It can be understandable since they are absorbing the debt of EDR.

Endeavor: Adjusted EBITDA and Free Cash Flow

\$ Millions

	Endeavor		
	Years Ended December 31,		
	2019	2021	2022
Net (loss) income	\$(530.7)	\$ (467.5)	\$ 321.7
Loss from discontinued operations, net of tax	5.0	—	—
Provision for (benefit from) income taxes	3.4	(22.3)	(648.5)
Interest expense, net	270.9	268.7	282.3
Depreciation and amortization	280.7	282.9	266.8
Equity-based compensation expense	101.2	532.5	210.2
Merger, acquisition and earn-out costs	49.9	60.9	68.7
Certain legal costs	29.7	5.5	16.0
Restructuring, severance and impairment	42.4	8.5	13.2
Fair value adjustment - Droga5	3.7	—	—
Fair value adjustment - equity investments	11.8	(21.6)	(12.0)
Equity method losses - Learfield IMG College and Endeavor Content	366.8	76.1	218.5
Gain on sale of the restricted Endeavor Content business	—	—	(463.6)
Tax receivable agreement liability adjustment	—	101.7	873.3
Other	98.7	54.9	16.9
Adjusted EBITDA	\$ 733.5	\$ 880.3	\$ 1,163.5
Net (loss) income margin			6.1%
Adjusted EBITDA margin			22.1%
Net cash provided by operating activities		\$ 333.6	\$ 502.9
Less: Capital Expenditures		99.8	148.0
Free Cash Flow		\$ 233.8	\$ 355.0

Endeavor: Net Leverage

\$ Millions

	ENDEAVOR		WWE	COMBINED
	As of December 31,		As of December 31,	As of December 31,
	2021	2022	2022	2022
Long-term debt	\$ 5,631.7	\$ 5,080.2	\$ 20.9	\$ 5,101.1
Current portion	82.0	88.3	0.4	88.7
Total debt	5,713.7	5,168.5	21.3	5,189.8
Unamortized discount	26.1	17.5	—	17.5
Unamortized issuance costs	46.0	33.1	—	33.1
Long-term - finance lease liabilities	—	—	364.9	364.9
Current - finance lease liabilities	—	—	11.7	11.7
Total principal	\$ 5,785.8	\$ 5,219.1	\$ 397.9	\$ 5,617.0
Total principal	\$ 5,785.8	\$ 5,219.1	\$ 397.9	\$ 5,617.0
Less: cash and cash equivalents	(1,561.0)	(767.8)	(220.2)	(988.0)
Less: short-term investments, net	—	—	(258.5)	(258.5)
Net debt	\$ 4,224.8	\$ 4,451.3	\$ (80.8)	\$ 4,370.5
Adjusted EBITDA	\$ 880.3	\$ 1,163.5	\$ 384.6	\$ 1,548.1
Net leverage	4.8x	3.8x	(0.2x)	2.8x

We won't calculate the intrinsic value of the companies as they are both overvalued.

Conclusion

Good deal for the companies but not good for the shareholders (especially those looking for a special situation) at the current price.

Sources

1. https://s29.g4cdn.com/745718849/files/doc_presentations/Endeavor-Investor-Deck_FIN_AL.pdf
2. <https://corporate.wwe.com/tools/viewpdf.aspx?page={E75C3FD1-7101-4F67-B1A2-487718198818}>
- 3.