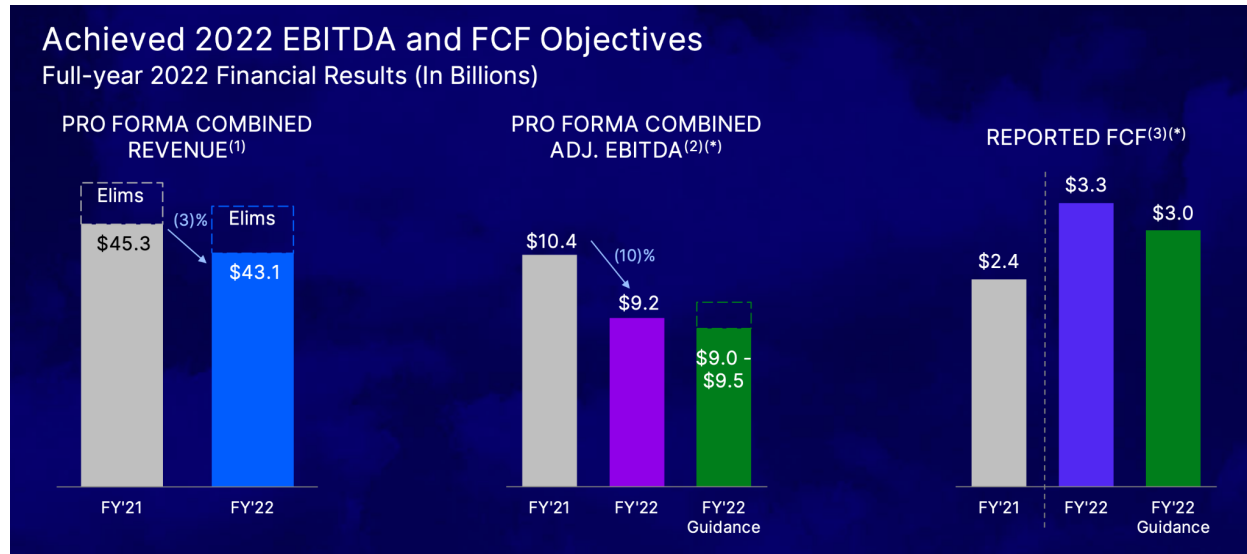


Warner Bros. Discovery, Inc. (NASDAQ: WBD)

Warner Bros. Discovery, Inc. (NASDAQ: WBD)	1
4Q22 Earnings Analysis	1
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4Q22 Earnings Analysis

https://s201.q4cdn.com/336605034/files/doc_financials/2022/q4/WBD-4Q22-Earnings-Presentation-Final-02.23.23.pdf



Continued Transformation Initiatives Largely Offsetting Macro Headwinds

4th Quarter 2022 Financial Results (In Billions)

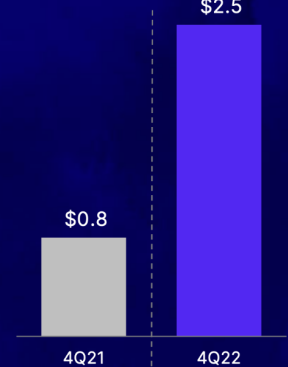
PRO FORMA COMBINED
REVENUE



PRO FORMA COMBINED
ADJ. EBITDA^(*)



REPORTED FCF^(*)



Reduced Net Debt by \$2.3B to \$45.6B in Q4

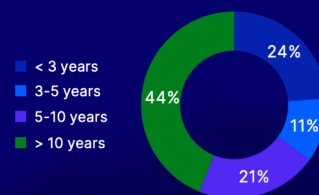
(As of December 31, 2022; In Billions)

DEBT STRUCTURE



Average cost
of debt
4.3%

DEBT MATURITIES BY YEAR



Average
maturity of
14+ years

Deleveraging Plans

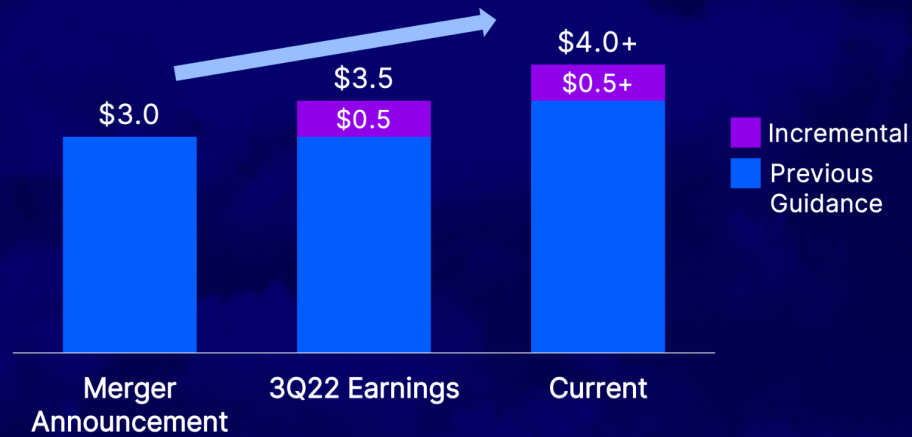
- Net debt was \$45.6B^{(7)(*)} at the end of Q4 with total cash balance of \$3.9B
- Paid Down \$7B of Debt Through December
- Expect full-year 2023 net leverage^{(8)(*)} comfortably below 4.0x
- Anticipate being within investment grade leverage range by mid-2024

Expect to achieve long-term gross leverage target of 2.5 – 3.0x^{(9)(*)} by the end of 2024

Deleveraging is going well. With the long maturity of the debt, we should not be too worried about the company's balance sheet. Besides, rising interest rates are not going to affect them that much with mostly fixed debts.

Raising Total Synergy Estimate to \$4B+

Projected Synergy Realization Through 2024+ (In Billions, figures approximate)



Let's look at the 10-K

https://s201.q4cdn.com/336605034/files/doc_financials/2022/q4/90eea2f5-2a70-4b6d-8149-b26ee7a25f34.pdf

Risks Related to Our Acquisition of the WarnerMedia Business

We have incurred and expect to continue to incur significant costs following the Merger.

On April 8, 2022, we completed the Merger in which we acquired the business, operations and activities that constitute the WarnerMedia Business from AT&T. We incurred significant costs in connection with the signing and closing of the Merger, and expect to continue to incur approximately \$1.0 - \$1.5 billion of cash costs relating to organization restructuring, facility consolidation activities and other contract termination costs, which costs we believe will be necessary to realize the anticipated cost synergies from the Merger. Additional unanticipated costs may also be incurred in connection with the integration of the legacy business, operations and activities of Discovery prior to the Merger (the "Discovery Business") and the WarnerMedia Business. No assurances of the timing or amount of synergies able to be captured, or the timing or amount of costs necessary to achieve those synergies, can be provided. Some of the factors affecting the costs associated with the integration phase of the Merger include the resources required in integrating the WarnerMedia Business with the Discovery Business and the length of time during which transition services are provided to us by AT&T. The amount and timing of any such charges could materially adversely affect our business, financial condition and results of operations.

Consolidated Results of Operations – 2022 vs. 2021

Our consolidated results of operations for 2022 and 2021 were as follows (in millions).

	Year Ended December 31,						% Change		
	2022			2021			Actual	Pro Forma Combined (Actual)	Combined (ex-FX)
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual ^(a)	Pro Forma Adjustments	Pro Forma Combined			
Revenues:									
Advertising	\$ 8,524	\$ 1,412	\$ 9,936	\$ 6,194	\$ 4,395	\$ 10,589	38 %	(6)%	(4)%
Distribution	16,142	4,339	20,481	5,202	15,579	20,781	NM	(1)%	— %
Content	8,360	3,297	11,657	737	12,455	13,192	NM	(12)%	(9)%
Other	791	230	1,021	58	706	764	NM	34 %	36 %
Total revenues	33,817	9,278	43,095	12,191	33,135	45,326	NM	(5)%	(3)%
Costs of revenues, excluding depreciation and amortization	20,442	5,125	25,567	4,620	21,353	25,973	NM	(2)%	1 %
Selling, general and administrative	9,678	1,745	11,423	4,016	8,987	13,003	NM	(12)%	(10)%
Depreciation and amortization	7,193	34	7,227	1,582	6,774	8,356	NM	(14)%	(13)%
Restructuring	3,757	(90)	3,667	32	90	122	NM	NM	NM
Impairment and loss (gain) on disposition and disposal groups	117	—	117	(71)	223	152	NM	(23)%	(23)%
Total costs and expenses	41,187	6,814	48,001	10,179	37,427	47,606	NM	1 %	3 %
Operating (loss) income	(7,370)	2,464	(4,906)	2,012	(4,292)	(2,280)	NM	NM	NM
Interest expense, net	(1,777)	(515)	(2,292)	(633)	(2,026)	(2,659)			
Loss from equity investees, net	(160)	(20)	(180)	(18)	14	(4)			
Other income, net	347	139	486	72	100	172			
(Loss) income before income taxes	(8,960)	2,068	(6,892)	1,433	(6,204)	(4,771)			
Income tax benefit (expense)	1,663	(56)	1,607	(236)	1,448	1,212			
Net (loss) income	(7,297)	2,012	(5,285)	1,197	(4,756)	(3,559)			
Net income attributable to noncontrolling interests	(68)	—	(68)	(138)	—	(138)			
Net income attributable to redeemable noncontrolling interests	(6)	—	(6)	(53)	—	(53)			
Net (loss) income available to Warner Bros. Discovery, Inc.	\$ (7,371)	\$ 2,012	\$ (5,359)	\$ 1,006	\$ (4,756)	\$ (3,750)			

^(a) Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

Studios Segment

The following table presents, for our Studios segment, revenues by type, certain operating expenses, Adjusted EBITDA and a reconciliation of Adjusted EBITDA to operating (loss) income (in millions).

	Year Ended December 31,						% Change		
	2022			2021			Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual ^(a)	Pro Forma Adjustments	Pro Forma Combined			
Revenues:									
Advertising	\$ 15	\$ 9	\$ 24	\$ —	\$ 123	\$ 123	NM	(80)%	(80)%
Distribution	12	6	18	—	14	14	NM	29 %	29 %
Content	9,156	3,898	13,054	20	14,336	14,356	NM	(9)%	(7)%
Other	548	154	702	—	516	516	NM	36 %	36 %
Total revenues	9,731	4,067	13,798	20	14,989	15,009	NM	(8)%	(6)%
Costs of revenues, excluding depreciation and amortization	6,310	2,392	8,702	3	9,589	9,592	NM	(9)%	(7)%
Selling, general and administrative	1,649	698	2,347	3	2,769	2,772	NM	(15)%	(13)%
Adjusted EBITDA	1,772	977	2,749	14	2,631	2,645	NM	4 %	8 %
Depreciation and amortization	501	39	540	—	691	691			
Employee share-based compensation	1	26	27	—	85	85			
Restructuring	1,050	(38)	1,012	—	38	38			
Transaction and integration costs	9	—	9	—	—	—			
Inter-segment eliminations	5	—	5	—	—	—			
Impairment and loss on disposition and disposal groups	30	—	30	—	—	—			
Amortization of fair value step-up for content	1,370	(785)	585	—	1,588	1,588			
Operating (loss) income	\$ (1,194)	\$ 1,735	\$ 541	\$ 14	\$ 229	\$ 243			

^(a) Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

Networks Segment

The table below presents, for our Networks segment, revenues by type, certain operating expenses, Adjusted EBITDA and a reconciliation of Adjusted EBITDA to operating income (in millions).

	Year Ended December 31,						% Change		
	2022			2021			Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual ^(a)	Pro Forma Adjustments	Pro Forma Combined			
Revenues:									
Advertising	\$ 8,224	\$ 1,380	\$ 9,604	\$ 6,063	\$ 4,330	\$ 10,393	36 %	(8)%	(5)%
Distribution	9,759	2,183	11,942	4,486	7,843	12,329	NM	(3)%	(1)%
Content	1,120	220	1,340	706	568	1,274	59 %	5 %	7 %
Other	245	55	300	56	178	234	NM	28 %	35 %
Total revenues	19,348	3,838	23,186	11,311	12,919	24,230	71 %	(4)%	(2)%
Costs of revenues, excluding depreciation and amortization	8,006	2,148	10,154	3,926	6,098	10,024	NM	1 %	4 %
Selling, general and administrative	2,617	364	2,981	1,852	1,367	3,219	41 %	(7)%	(5)%
Adjusted EBITDA	8,725	1,326	10,051	5,533	5,454	10,987	58 %	(9)%	(7)%
Depreciation and amortization	4,687	4	4,691	1,212	4,151	5,363			
Employee share-based compensation	—	9	9	—	41	41			
Restructuring	1,003	(5)	998	30	5	35			
Transaction and integration costs	2	—	2	4	—	4			
Amortization of fair value step-up for content	73	425	498	—	476	476			
Inter-segment eliminations	17	—	17	—	—	—			
Impairment and loss (gain) on disposition and disposal groups	24	—	24	(72)	(1)	(73)			
Operating income	\$ 2,919	\$ 893	\$ 3,812	\$ 4,359	\$ 782	\$ 5,141			

^(a) Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

DTC Segment

The following table presents, for our DTC segment, revenues by type, certain operating expenses, Adjusted EBITDA and a reconciliation of Adjusted EBITDA to operating loss (in millions).

	Year Ended December 31,						% Change		
	2022			2021			Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual ^(a)	Pro Forma Adjustments	Pro Forma Combined			
Revenues:									
Advertising	\$ 371	\$ 36	\$ 407	\$ 131	\$ 49	\$ 180	NM	NM	NM
Distribution	6,371	2,150	8,521	716	7,722	8,438	NM	1 %	3 %
Content	522	230	752	11	622	633	NM	19 %	19 %
Other	10	3	13	2	12	14	NM	(7)%	— %
Total revenues	7,274	2,419	9,693	860	8,405	9,265	NM	5 %	6 %
Costs of revenues, excluding depreciation and amortization	6,211	1,977	8,188	691	6,166	6,857	NM	19 %	21 %
Selling, general and administrative	2,659	909	3,568	1,514	2,759	4,273	76 %	(16)%	(16)%
Adjusted EBITDA	(1,596)	(467)	(2,063)	(1,345)	(520)	(1,865)	(19)%	(11)%	(11)%
Depreciation and amortization	1,733	31	1,764	275	1,757	2,032			
Employee share-based compensation	(1)	—	(1)	—	16	16			
Restructuring	1,551	(3)	1,548	2	3	5			
Transaction and integration costs	2	—	2	1	—	1			
Amortization of fair value step-up for content	390	(52)	338	—	293	293			
Inter-segment eliminations	9	—	9	—	—	—			
Impairment and loss on disposition and disposal groups	13	—	13	1	—	1			
Operating loss	\$ (5,293)	\$ (443)	\$ (5,736)	\$ (1,624)	\$ (2,589)	\$ (4,213)			

^(a) Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

Let's have a look at my predictions

	2021 TTM (2Q22)		2022	2023	2024	2025	2026
Studios Revenues	\$ 15,009	\$ 15,370	\$ 15,000	\$ 15,000	\$ 15,600	\$ 16,224	\$ 16,873
Studios EBITDA	\$ 2,645	\$ 2,995	\$ 2,700	\$ 3,000	\$ 3,120	\$ 3,245	\$ 3,375
EBITDA Margin	17.6%	19.5%	18.0%	20.0%	20.0%	20.0%	20.0%
Networks Revenues	\$ 24,230	\$ 24,358	\$ 24,000	\$ 24,000	\$ 24,960	\$ 25,958	\$ 26,997
Networks EBITDA	\$ 10,938	\$ 10,382	\$ 10,000	\$ 10,500	\$ 11,232	\$ 11,681	\$ 12,149
EBITDA Margin	45.1%	42.6%	41.7%	43.8%	45.0%	45.0%	45.0%
DTC Revenues	\$ 9,265	\$ 9,782	\$ 10,000	\$ 10,800	\$ 11,664	\$ 12,597	\$ 13,605
DTC EBITDA	\$ (1,544)	\$ (1,981)	\$ (2,000)	\$ (1,500)	\$ (500)	\$ 800	\$ 1,200
EBITDA Margin	-16.7%	-20.3%	-20.0%	-13.9%	-4.3%	6.4%	8.8%
Corporate Revenues	\$ (3,178)	\$ (3,853)	\$ (4,000)	\$ (2,500)	\$ (3,000)		
Corporate EBITDA	\$ (1,341)	\$ (1,563)	\$ (1,600)				
EBITDA Margin	42.2%	40.6%	40.0%				
Total Revenues	\$ 48,504	\$ 49,510	\$ 45,000	\$ 47,300	\$ 49,224	\$ 54,780	\$ 57,475
Total EBITDA	\$ 10,698	\$ 10,698	\$ 9,100	\$ 12,000	\$ 13,852	\$ 15,726	\$ 16,723
EBITDA Margin	22.1%	21.6%	20.2%	25.4%	28.1%	28.7%	29.1%
FCF	\$ 2,425	\$ 2,516	\$ 3,000	\$ 4,320	\$ 5,541	\$ 7,077	\$ 8,362
FCF Margin	5.0%	5.1%	6.7%	9.1%	11.3%	12.9%	14.5%

My predictions were closer to the pro-forma numbers compared to actual numbers.

This is not something we should be worried about since when the companies merged in April 2022, the actual numbers are only for DISCA prior to that.

Besides, many assets were sold and cash was raised. Also, underperforming segments were closed, saving cash for the future.

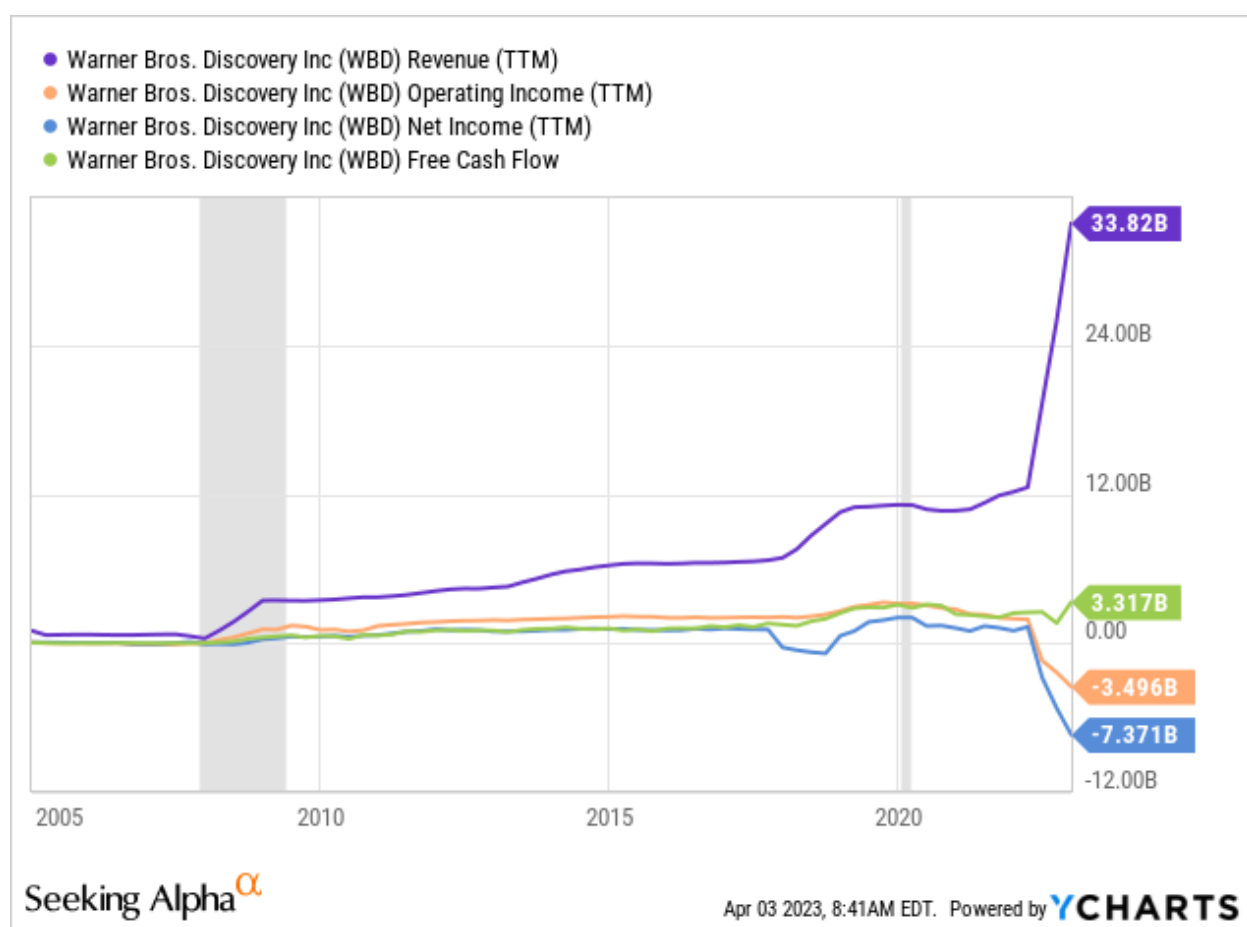
Overall, whenever there is a merger, an additional margin of safety has to be taken for these unexpected changes.

MATERIAL CASH REQUIREMENTS FROM KNOWN CONTRACTUAL AND OTHER OBLIGATIONS

As of December 31, 2022, our significant contractual and other obligations were as follows (in millions).

	Total	Short-term	Long-term
Long-term debt:			
Principal payments	\$ 49,276	\$ 363	\$ 48,913
Interest payments	35,537	2,267	33,270
Purchase obligations:			
Content	29,732	7,969	21,763
Other	3,047	1,597	1,450
Finance lease obligations	282	82	200
Operating lease obligations	4,304	465	3,839
Pension and other employee obligations	1,378	501	877
Total	\$ 123,556	\$ 13,244	\$ 110,312

	Year Ended December 31,		
	2022	2021	2020
Revenues:			
Advertising	\$ 8,524	\$ 6,194	\$ 5,572
Distribution	16,142	5,202	4,686
Content	8,360	737	355
Other	791	58	58
Total revenues	33,817	12,191	10,671
Costs and expenses:			
Costs of revenues, excluding depreciation and amortization	20,442	4,620	3,860
Selling, general and administrative	9,678	4,016	2,722
Depreciation and amortization	7,193	1,582	1,359
Restructuring	3,757	32	91
Impairment and loss (gain) on disposition and disposal groups	117	(71)	124
Total costs and expenses	41,187	10,179	8,156
Operating (loss) income	(7,370)	2,012	2,515
Interest expense, net	(1,777)	(633)	(648)
Loss from equity investees, net	(160)	(18)	(105)
Other income (expense), net	347	72	(34)
(Loss) income before income taxes	(8,960)	1,433	1,728
Income tax benefit (expense)	1,663	(236)	(373)
Net (loss) income	(7,297)	1,197	1,355
Net income attributable to noncontrolling interests	(68)	(138)	(124)
Net income attributable to redeemable noncontrolling interests	(6)	(53)	(12)
Net (loss) income available to Warner Bros. Discovery, Inc.	\$ (7,371)	\$ 1,006	\$ 1,219
Net (loss) income per share available to Warner Bros. Discovery, Inc. Series A common stockholders:			
Basic	\$ (3.82)	\$ 1.55	\$ 1.82
Diluted	\$ (3.82)	\$ 1.54	\$ 1.81
Weighted average shares outstanding:			
Basic	1,940	588	599
Diluted	1,940	664	672



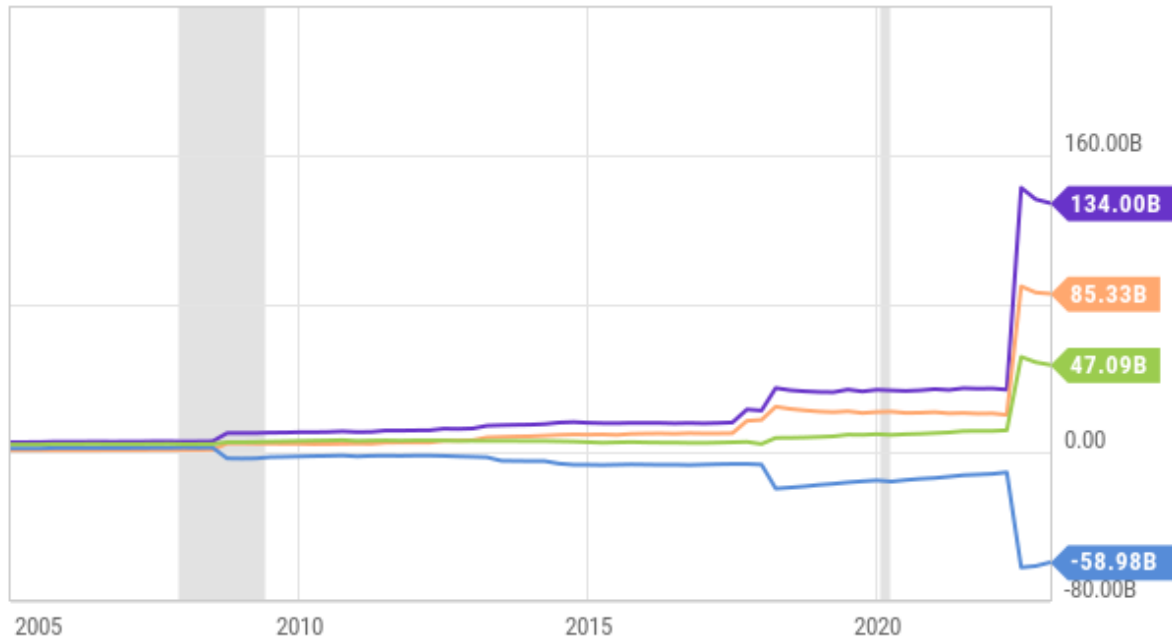
A positive FCF shows that much of the expenses were non-cash

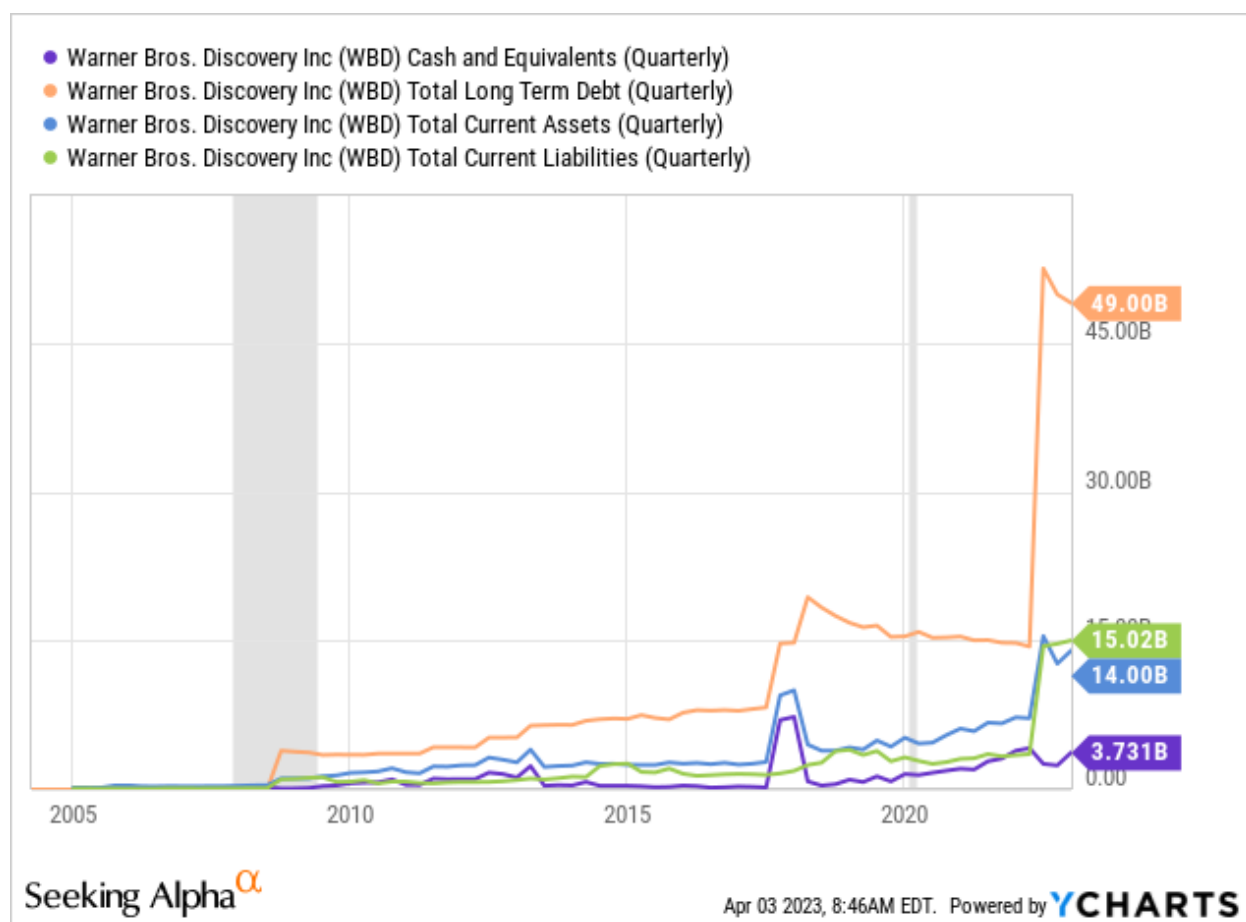
	Year Ended December 31,		
	2022	2021	2020
Operating Activities			
Net (loss) income	\$ (7,297)	\$ 1,197	\$ 1,355
Adjustments to reconcile net income to cash provided by operating activities:			
Content rights amortization and impairment	14,161	3,501	2,956
Content restructuring impairments and write-offs	2,808	—	—
Depreciation and amortization	7,193	1,582	1,359
Deferred income taxes	(2,842)	(511)	(186)
Preferred stock conversion premium	789	—	—
Equity in losses of equity method investee companies and cash distributions	211	63	167
Loss on extinguishment of debt	—	10	76
Share-based compensation expense	412	178	110
Impairment and loss (gain) on disposition and disposal groups	116	(71)	126
(Gain) loss from derivative instruments, net	(501)	49	(36)
Gain on sale of investments	(199)	(19)	(103)
Other, net	435	56	14
Changes in operating assets and liabilities, net of acquisitions and dispositions:			
Receivables, net	181	47	105
Film and television content rights, games and payables, net	(12,562)	(3,381)	(3,053)
Accounts payable, accrued liabilities, deferred revenues and other noncurrent liabilities	1,529	185	(131)
Foreign currency, prepaid expenses and other assets, net	(130)	(88)	(20)
Cash provided by operating activities	4,304	2,798	2,739
Investing Activities			
Purchases of property and equipment	(987)	(373)	(402)
Cash acquired from business acquisition and working capital settlement	3,612	(2)	(39)
Purchases of investments	—	(103)	(250)
Investments in and advances to equity investments	(168)	(184)	(181)
Proceeds from sales and maturities of investments	306	599	69
Proceeds from (payments for) derivative instruments, net	752	(86)	85
Other investing activities, net	9	93	15
Cash provided by (used in) investing activities	3,524	(56)	(703)
Financing Activities			
Principal repayments of debt, including premiums to par value and discount payment	(1,315)	(574)	(2,193)
Borrowings from debt, net of discount and issuance costs	—	—	1,979
Repurchases of stock	—	—	(969)
Repayments under revolving credit facility	(125)	—	(500)
Borrowings under revolving credit facility	125	—	500
Distributions to noncontrolling interests and redeemable noncontrolling interests	(300)	(251)	(254)
Borrowings under commercial paper program	2,268	—	—
Principal repayments of term loans	(6,000)	—	—
Repayments under commercial paper program	(2,270)	—	—
Other financing activities, net	(125)	(28)	(112)
Cash used in financing activities	(7,742)	(853)	(1,549)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(61)	(106)	83
Net change in cash, cash equivalents, and restricted cash	25	1,783	570
Cash, cash equivalents, and restricted cash, beginning of period	3,905	2,122	1,552
Cash, cash equivalents, and restricted cash, end of period	\$ 3,930	\$ 3,905	\$ 2,122

The accompanying notes are an integral part of these consolidated financial statements.

	December 31,	
	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,731	\$ 3,905
Receivables, net	6,380	2,446
Prepaid expenses and other current assets	3,888	913
Total current assets	13,999	7,264
Film and television content rights and games	26,652	3,832
Property and equipment, net	5,301	1,336
Goodwill	34,438	12,912
Intangible assets, net	44,982	6,317
Other noncurrent assets	8,629	2,766
Total assets	\$ 134,001	\$ 34,427
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 1,454	\$ 412
Accrued liabilities	11,504	2,230
Deferred revenues	1,694	478
Current portion of debt	365	339
Total current liabilities	15,017	3,459
Noncurrent portion of debt	48,634	14,420
Deferred income taxes	11,014	1,225
Other noncurrent liabilities	10,669	1,927
Total liabilities	85,334	21,031
Commitments and contingencies (See Note 22)		
Redeemable noncontrolling interests	318	363
Equity:		
Warner Bros. Discovery, Inc. stockholders' equity:		
Series A common stock: \$0.01 par value; 10,800 and 0 shares authorized; 2,660 and 0 shares issued; and 2,430 and 0 shares outstanding	27	—
Preferred stock: \$0.01 par value; 1,200 and 0 shares authorized, 0 shares issued and outstanding	—	—
Discovery Series A-1 convertible preferred stock: \$0.01 par value; 0 and 8 shares authorized, issued and outstanding	—	—
Discovery Series C-1 convertible preferred stock: \$0.01 par value; 0 and 6 shares authorized; 0 and 4 shares issued and outstanding	—	—
Discovery Series A common stock: \$0.01 par value; 0 and 1,700 shares authorized; 0 and 170 shares issued; and 0 and 169 shares outstanding	—	2
Discovery Series B convertible common stock: \$0.01 par value; 0 and 100 shares authorized; 0 and 7 shares issued and outstanding	—	—
Discovery Series C common stock: \$0.01 par value; 0 and 2,000 shares authorized; 0 and 559 shares issued; and 0 and 330 shares outstanding	—	5
Additional paid-in capital	54,630	11,086
Treasury stock, at cost: 230 and 230 shares	(8,244)	(8,244)
Retained earnings	2,205	9,580
Accumulated other comprehensive loss	(1,523)	(830)
Total Warner Bros. Discovery, Inc. stockholders' equity	47,095	11,599
Noncontrolling interests	1,254	1,434
Total equity	48,349	13,033
Total liabilities and equity	\$ 134,001	\$ 34,427

- Warner Bros. Discovery Inc (WBD) Total Assets (Quarterly)
- Warner Bros. Discovery Inc (WBD) Total Liabilities (Quarterly)
- Warner Bros. Discovery Inc (WBD) Tangible Book Value (Quarterly)
- Warner Bros. Discovery Inc (WBD) Book Value (Quarterly)





NOTE 11. DEBT

The table below presents the components of outstanding debt (in millions).

	Weighted-Average Interest Rate as of December 31, 2022	December 31,	
		2022	2021
Term loans with maturities of 3 years or less	5.42 %	\$ 4,000	\$ —
Floating rate senior notes with maturities of 5 years or less	5.08 %	500	—
Senior notes with maturities of 5 years or less	3.65 %	12,759	4,314
Senior notes with maturities between 5 and 10 years	4.25 %	10,373	4,128
Senior notes with maturities greater than 10 years	5.11 %	21,644	6,745
Total debt		49,276	15,187
Unamortized discount, premium, debt issuance costs, and fair value adjustments for acquisition accounting, net		(277)	(428)
Debt, net of unamortized discount, premium, debt issuance costs, and fair value adjustments for acquisition accounting		48,999	14,759
Current portion of debt		(365)	(339)
Noncurrent portion of debt		\$ 48,634	\$ 14,420

Long-term Debt Repayment Schedule

The following table presents a summary of scheduled debt and estimated interest payments, excluding the revolving credit facility and commercial paper borrowings, for the next five years based on the amount of the Company's debt outstanding as of December 31, 2022 (in millions).

	2023	2024	2025	2026	2027	Thereafter
Long-term debt repayments	\$ 363	\$ 4,267	\$ 7,147	\$ 789	\$ 4,693	\$ 32,017
Interest payments	\$ 2,267	\$ 2,183	\$ 1,870	\$ 1,730	\$ 1,634	\$ 25,853

Valuations

We will look at pro-forma numbers to have a better understanding of the company.

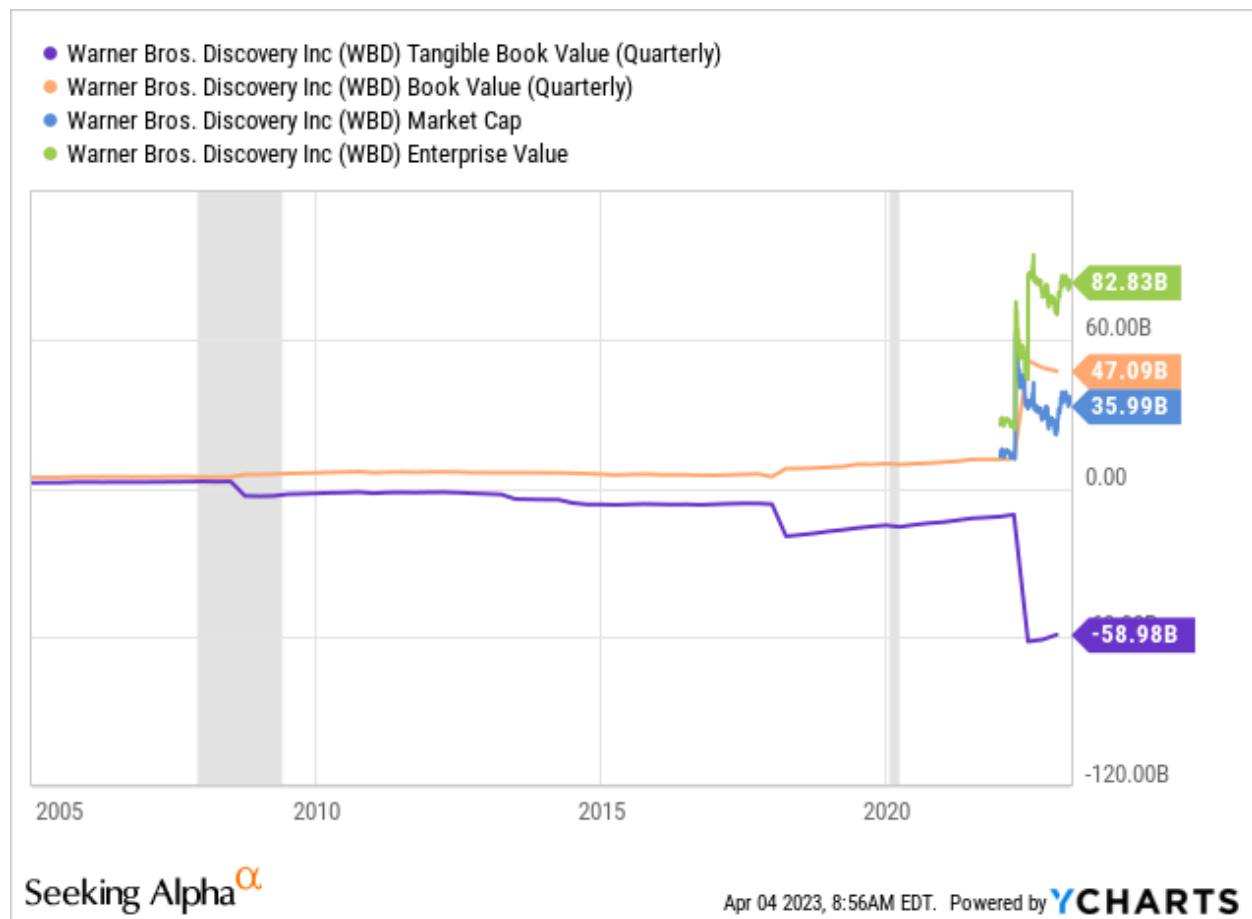
We are going to be more conservative than the forecast of the company. For example, they project EBITDA of \$11 billion for 2023. We are taking only \$10.5 billion.

	2021	2022	2023	2024	2025	2026	2027
Studios Revenues	\$ 15,009	\$ 13,798	\$ 14,000	\$ 14,500	\$ 15,080	\$ 15,683	\$ 16,311
Studios EBITDA	\$ 2,645	\$ 2,749	\$ 2,800	\$ 2,900	\$ 3,016	\$ 3,137	\$ 3,262
EBITDA Margin	17.6%	19.9%	20.0%	20.0%	20.0%	20.0%	20.0%
Networks Revenues	\$ 24,230	\$ 23,186	\$ 23,500	\$ 24,000	\$ 24,960	\$ 25,958	\$ 26,997
Networks EBITDA	\$ 10,938	\$ 10,051	\$ 10,500	\$ 11,000	\$ 11,232	\$ 11,681	\$ 12,149
EBITDA Margin	45.1%	43.3%	44.7%	45.8%	45.0%	45.0%	45.0%
DTC Revenues	\$ 9,265	\$ 9,693	\$ 10,000	\$ 10,800	\$ 11,664	\$ 12,597	\$ 13,605
DTC EBITDA	\$ (1,544)	\$ (2,063)	\$ (1,800)	\$ (1,500)	\$ (500)	\$ -	\$ 500
EBITDA Margin	-16.7%	-21.3%	-18.0%	-13.9%	-4.3%	0.0%	3.7%
Corporate Revenues	\$ (3,178)	\$ (3,631)	\$ (4,000)	\$ (4,000)	\$ (4,000)	\$ (4,000)	\$ (4,000)
Corporate EBITDA	\$ (1,341)	\$ (1,553)	\$ (1,000)	\$ (1,000)	\$ (1,000)	\$ (1,000)	\$ (1,000)
EBITDA Margin	42.2%	42.8%	25.0%	25.0%	25.0%	25.0%	25.0%
Total Revenues	\$ 48,504	\$ 43,046	\$ 43,500	\$ 45,300	\$ 47,704	\$ 50,239	\$ 52,912
Total EBITDA	\$ 10,698	\$ 9,184	\$ 10,500	\$ 11,400	\$ 12,748	\$ 13,818	\$ 14,911
EBITDA Margin	22.1%	21.3%	24.1%	25.2%	26.7%	27.5%	28.2%
FCF	\$ 2,425	\$ 3,317	\$ 3,465	\$ 4,104	\$ 5,099	\$ 6,218	\$ 7,455
FCF Margin	5.0%	7.7%	8.0%	9.1%	10.7%	12.4%	14.1%

We use a discount rate of 15% with a terminal growth rate of 3%.

Year	FCF	Disounted FCF
TTM	\$3,317	
2023	\$3,465	\$3,013
2024	\$4,104	\$3,103
2025	\$5,099	\$3,353
2026	\$6,218	\$3,555
2027	\$7,455	\$3,706
Terminal Value		\$30,883
Intrinsic Value		\$47,614
Per Share		\$20

We have been more conservative and the company is still undervalued even if we take a margin of safety.



Exit Multiples

We look at P/FCF

Warner Bros. Discovery Inc (WBD) Price to Free Cash Flow



Seeking Alpha ^α

Apr 04 2023, 8:57AM EDT. Powered by **YCHARTS**

		2027 Price/FCF Ratio				
2027 FCF/share		6	9	12	15	18
Bull	\$ 3.68	\$ 22.10	\$ 33.16	\$ 44.21	\$ 55.26	\$ 66.31
Base	\$ 3.07	\$ 18.42	\$ 27.63	\$ 36.84	\$ 46.05	\$ 55.26
Bear	\$ 2.46	\$ 14.74	\$ 22.10	\$ 29.47	\$ 36.84	\$ 44.21
Returns @	\$ 14.80	0%	87%	149%	211%	348%
CAGR		0%	13%	20%	25%	35%
Probability		10%	20%	40%	20%	10%
Expectation	19%	0%	3%	8%	5%	3%

Conclusion

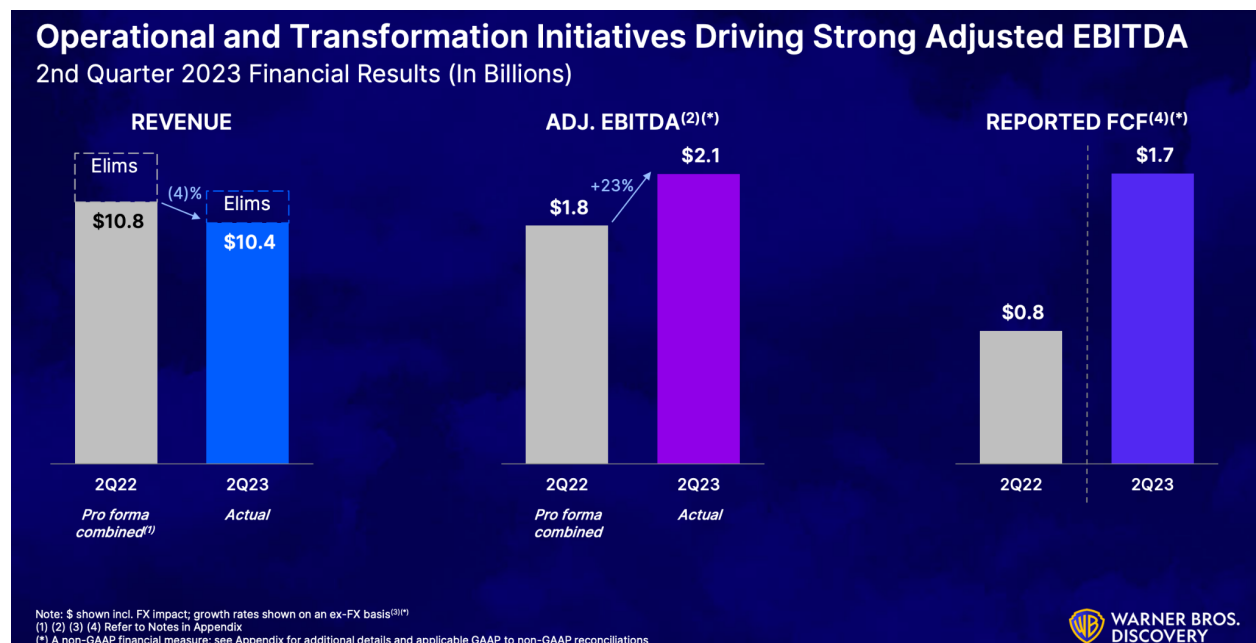
WBD is still undervalued, and potential returns are great in the long-term. Short-term headwinds are still present with slower economic activities and the costs related to the merger. It is still a BUY for me long-term.

2Q23 Earnings Analysis - Aug 5, 2023



I have been lowering the intrinsic value of WBD as the stock price falls, claiming that I was being more and more conservative. Was that the right approach or am I missing something?

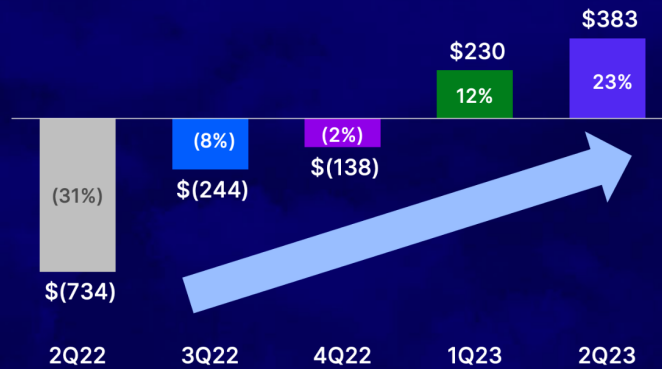
https://s201.q4cdn.com/336605034/files/doc_earnings/2023/q2/presentation/WBD-2Q23-Earnings-Presentation.pdf



The company has more than doubled its FCF even with lower revenues.

Continued Improvement in Y/Y Adjusted EBITDA Trends

(In Millions; Y/Y Ex-FX^(*) Growth Rates)



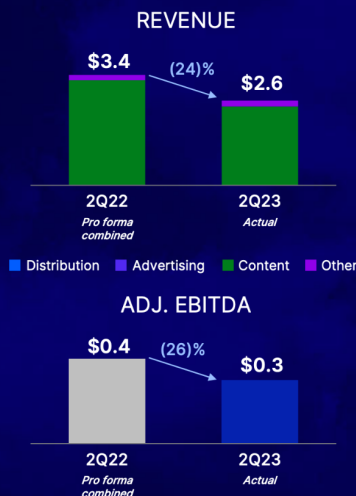
Note: \$ shown incl. FX impact; growth rates shown on an ex-FX basis^(*)
^(*) A non-GAAP financial measure; see Appendix for additional details and applicable GAAP to non-GAAP reconciliations



Let's have a look at the different segments

Studios: Inconsistent Performance

2nd Quarter 2023 Financial Results (In Billions)



Revenues: (24)% vs. prior year quarter

- ⊖ TV – timing of production (partly strike-driven) and fewer series sold externally and inter-company
- ⊖ Games – comp vs. *LEGO Star Wars: The Skywalker Saga*
- ⊖ Home Entertainment & Theatrical – slate performance year-over-year
- + Tours – U.K & Hollywood remain strong, opened Tokyo location in June

Operating Expenses: (23)% vs. prior year quarter

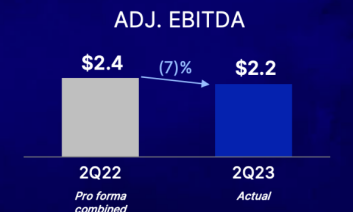
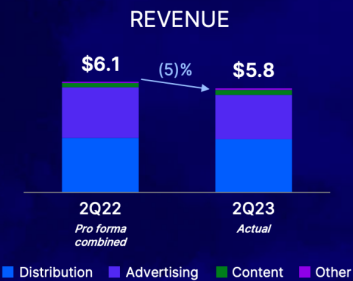
- + Cost of revenue: (30)% due to lower revenues
- ⊖ SG&A: +1% due to higher theatrical marketing costs

Note: \$ shown incl. FX impact; growth rates shown on an ex-FX basis^(*)
^(*) A non-GAAP financial measure; see Appendix for additional details and applicable GAAP to non-GAAP reconciliations



Networks: Impacted by Macro Headwinds and Sports Timing

2nd Quarter 2023 Financial Results (In Billions)



Note: \$ shown incl. FX impact; growth rates shown on an ex-FX basis^(*)
 (*) A non-GAAP financial measure; see Appendix for additional details and applicable GAAP to non-GAAP reconciliations



Revenues: (5)% vs. prior year quarter

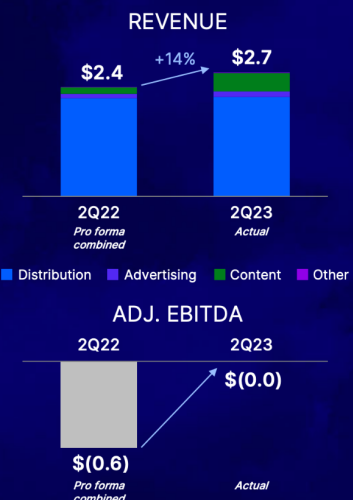
- [-] Distribution: (1)%
 - + Rate increases in the U.S.
 - [-] Lower U.S. pay-TV subscribers
- [-] Advertising: (13)%
 - [-] General entertainment & news audience declines in the U.S.
 - [-] Macro conditions in the U.S. & Int'l markets
 - [-] Comp vs. 2022 *NCAA Final Four* and Championship, net of 2023 *Stanley Cup Finals*

Operating Expenses: (4)% vs. prior year quarter

- + Cost of Revenue: (5)% due to NCAA in prior year and lower U.S. entertainment content expense, offset by U.S. sports-related expenses
- + SG&A: flat

DTC: U.S. Launch of Max and Growth Across All Revenue Streams

2nd Quarter 2023 Financial Results (In Billions)



Note: \$ shown incl. FX impact; growth rates shown on an ex-FX basis^(*)
 (5) (6) Refer to Notes in Appendix
 (*) A non-GAAP financial measure; see Appendix for additional details and applicable GAAP to non-GAAP reconciliations



Total DTC subscribers⁽⁵⁾: 95.8M (-1.8M net adds vs. Q1 2023)

Global ARPU⁽⁶⁾: \$7.71, 2% growth

Revenues: +14% vs. prior year quarter

- + Distribution: +2%
 - + Global Max/HBO Max retail and Amazon PVC subscriber growth
 - [-] Wholesale subscriber declines
- + Advertising: +25% due to ad-tier subscriber growth
- + Content: significant growth due to timing of licensing deals

Operating Expenses: (8)% vs. prior year quarter

- + Cost of Revenue: (5)% due to lower content amortization and the shutdown of CNN+
- + SG&A: (13)% due to marketing efficiencies despite U.S. Max launch

DTC is the only segment where revenues have growth and they managed to have positive EBITDA

Repaid \$1.6B of Debt in Q2 & Continuing to De-lever in Q3

(As of June 30, 2023; In Billions)



Deleveraging Plans

- Net debt was \$44.7B^{(7)(*)} at the end of Q2 with total cash balance of \$3.1B
- Launched tender today for up to \$2.7B
- Expect full-year 2023 net leverage^{(8)(*)} ratio to be comfortably below 4.0x
- Anticipate being within investment grade leverage range by mid-2024

Expect to achieve long-term gross leverage target of 2.5 – 3.0x^{(9)(*)} by the end of 2024

Something I have certainly missed in my earlier valuations is the net debt of \$44.7 billion. It was even bigger in the past.

I have calculated the intrinsic value only based on FCF.

But the debt is also an issue. Not all the FCF is going to owners as creditors are paid first.

Key Guidance & Financial Objectives

Adjusted EBITDA ^(*)	Free Cash Flow ^(*)	Synergy Capture	Leverage
Low end of \$11 - \$11.5B range	Q3: ~\$1.7B	Total synergy estimate of \$5B+	Comfortably below 4.0x net leverage ^(*) by end of 2023
&	&	&	&
2023: U.S. DTC profitable and segment losses of a couple hundred million	2023: \$4.5 – \$5.0B	Cost to achieve at higher end of \$1.0 - 1.5B range	2.5 – 3.0x gross leverage ^(*) by the end of 2024
&	&		
2025: \$1B+ DTC profitability globally	60% conversion rate longer term		

The company is trading at X7 estimated FCF for the year but using EV over MC makes more sense when the difference is so huge.

WARNER BROS. DISCOVERY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited; in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues:				
Distribution	\$ 5,135	\$ 4,838	\$ 10,298	\$ 6,190
Advertising	2,519	2,721	4,817	4,197
Content	2,446	2,064	5,400	2,387
Other	258	204	543	212
Total revenues	10,358	9,827	21,058	12,986
Costs and expenses:				
Costs of revenues, excluding depreciation and amortization	6,636	6,625	13,321	7,861
Selling, general and administrative	2,562	3,538	4,950	4,578
Depreciation and amortization	1,914	2,266	3,972	2,791
Restructuring	146	1,033	241	1,038
Impairments and loss on dispositions	6	4	37	4
Total costs and expenses	11,264	13,466	22,521	16,272
Operating loss	(906)	(3,639)	(1,463)	(3,286)
Interest expense, net	(574)	(511)	(1,145)	(664)
Loss on extinguishment of debt	(5)	—	(5)	—
Loss from equity investees, net	(22)	(43)	(59)	(57)
Other income (expense), net	27	(51)	(46)	439
Loss before income taxes	(1,480)	(4,244)	(2,718)	(3,568)
Income tax benefit	260	836	438	635
Net loss	(1,220)	(3,408)	(2,280)	(2,933)
Net income attributable to noncontrolling interests	(16)	(7)	(24)	(23)
Net income attributable to redeemable noncontrolling interests	(4)	(3)	(5)	(6)
Net loss available to Warner Bros. Discovery, Inc.	<u>\$ (1,240)</u>	<u>\$ (3,418)</u>	<u>\$ (2,309)</u>	<u>\$ (2,962)</u>
Net loss per share allocated to Warner Bros. Discovery, Inc. Series A common stockholders:				
Basic	\$ (0.51)	\$ (1.50)	\$ (0.95)	\$ (2.09)
Diluted	\$ (0.51)	\$ (1.50)	\$ (0.95)	\$ (2.09)
Weighted average shares outstanding:				
Basic	2,437	2,286	2,434	1,443
Diluted	2,437	2,286	2,434	1,443

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,027	\$ 3,731
Receivables, net	6,770	6,380
Prepaid expenses and other current assets	3,976	3,888
Total current assets	13,773	13,999
Film and television content rights and games	24,393	26,652
Property and equipment, net	5,473	5,301
Goodwill	34,911	34,438
Intangible assets, net	41,584	44,982
Other noncurrent assets	8,484	8,629
Total assets	<u>\$ 128,618</u>	<u>\$ 134,001</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 1,689	\$ 1,454
Accrued liabilities	10,668	11,504
Deferred revenues	1,548	1,694
Current portion of debt	3,001	365
Total current liabilities	16,906	15,017
Noncurrent portion of debt	44,276	48,634
Deferred income taxes	9,718	11,014
Other noncurrent liabilities	10,933	10,669
Total liabilities	81,833	85,334
Commitments and contingencies (See Note 16)		
Redeemable noncontrolling interests	306	318
Warner Bros. Discovery, Inc. stockholders' equity:		
Series A common stock: \$0.01 par value; 10,800 and 10,800 shares authorized; 2,667 and 2,660 shares issued; and 2,437 and 2,430 shares outstanding	27	27
Preferred stock: \$0 par value; 1,200 and 1,200 shares authorized, 0 shares issued and outstanding	—	—
Additional paid-in capital	54,816	54,630
Treasury stock, at cost: 230 and 230 shares	(8,244)	(8,244)
(Accumulated deficit) retained earnings	(105)	2,205
Accumulated other comprehensive loss	(1,042)	(1,523)
Total Warner Bros. Discovery, Inc. stockholders' equity	45,452	47,095
Noncontrolling interests	1,027	1,254
Total equity	46,479	48,349
Total liabilities and equity	<u>\$ 128,618</u>	<u>\$ 134,001</u>

Interesting to note that we have non-controlling interest

WARNER BROS. DISCOVERY, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(unaudited; in millions)

	Six Months Ended June 30,	
	2023	2022
Operating Activities		
Net loss	\$ (2,280)	\$ (2,933)
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Content rights amortization and impairment	9,361	6,591
Depreciation and amortization	3,972	2,791
Deferred income taxes	(1,426)	(915)
Preferred stock conversion premium	—	789
Share-based compensation expense	248	210
Equity in losses of equity method investee companies and cash distributions	112	91
Gain on sale of investments	—	(132)
Gain from derivative instruments, net	(111)	(496)
Other, net	171	64
Changes in operating assets and liabilities, net of acquisitions and dispositions:		
Receivables, net	(433)	(444)
Film and television content rights, games and payables, net	(7,656)	(4,653)
Accounts payable, accrued liabilities, deferred revenues and other noncurrent liabilities	(859)	8
Foreign currency, prepaid expenses and other assets, net	284	363
Cash provided by operating activities	1,383	1,334
Investing Activities		
Purchases of property and equipment	(591)	(307)
Cash acquired from business acquisition	—	2,419
Proceeds from sales and maturities of investments	—	139
Investments in and advances to equity investments	(45)	(109)
Proceeds from derivative instruments, net	23	720
Other investing activities, net	46	18
Cash (used in) provided by investing activities	(567)	2,880
Financing Activities		
Principal repayments of term loans	(2,600)	(3,500)
Principal repayments of debt, including premiums to par value	(660)	(327)
Borrowings from debt, net of discount and issuance costs	1,500	—
Distributions to noncontrolling interests and redeemable noncontrolling interests	(269)	(264)
Securitization receivables collected but not remitted	405	—
Borrowings under commercial paper program and revolving credit facility	2,599	90
Repayments under commercial paper program and revolving credit facility	(2,602)	(90)
Other financing activities, net	(56)	(66)
Cash used in financing activities	(1,683)	(4,157)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	14	(66)
Net change in cash, cash equivalents, and restricted cash	(853)	(9)
Cash, cash equivalents, and restricted cash, beginning of period	3,930	3,905
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 3,077</u>	<u>\$ 3,896</u>

NOTE 9. DEBT

The table below presents the components of outstanding debt (in millions).

	Weighted-Average Interest Rate as of June 30, 2023	June 30, 2023	December 31, 2022
Term loans with maturities of 3 years or less	6.52 %	\$ 1,400	\$ 4,000
Floating rate senior notes with maturities of 5 years or less	6.70 %	40	500
Senior notes with maturities of 5 years or less	3.91 %	15,873	12,759
Senior notes with maturities between 5 and 10 years	4.28 %	8,607	10,373
Senior notes with maturities greater than 10 years	5.11 %	21,644	21,644
Total debt		47,564	49,276
Unamortized discount, premium, debt issuance costs, and fair value adjustments for acquisition accounting, net		(287)	(277)
Debt, net of unamortized discount, premium, debt issuance costs, and fair value adjustments for acquisition accounting		47,277	48,999
Current portion of debt		(3,001)	(365)
Noncurrent portion of debt		<u>\$ 44,276</u>	<u>\$ 48,634</u>

Revenues

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Studios	\$ 2,581	\$ 2,796	\$ 5,793	\$ 2,801
Networks	5,758	5,742	11,339	8,615
DTC	2,732	2,225	5,187	2,506
Corporate	(1)	13	(1)	13
Inter-segment eliminations	(712)	(949)	(1,260)	(949)
Total revenues	<u>\$ 10,358</u>	<u>\$ 9,827</u>	<u>\$ 21,058</u>	<u>\$ 12,986</u>

Adjusted EBITDA

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Studios	\$ 306	\$ 239	\$ 913	\$ 242
Networks	2,166	2,262	4,459	3,617
DTC	(3)	(518)	47	(745)
Corporate	(245)	(305)	(600)	(409)
Inter-segment eliminations	(75)	(14)	(59)	(14)
Adjusted EBITDA	<u>\$ 2,149</u>	<u>\$ 1,664</u>	<u>\$ 4,760</u>	<u>\$ 2,691</u>

Reconciliation of Net Loss available to Warner Bros. Discovery, Inc. to Adjusted EBITDA

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss available to Warner Bros. Discovery, Inc.	\$ (1,240)	\$ (3,418)	\$ (2,309)	\$ (2,962)
Net income attributable to redeemable noncontrolling interests	4	3	5	6
Net income attributable to noncontrolling interests	16	7	24	23
Income tax benefit	(260)	(836)	(438)	(635)
Loss before income taxes	(1,480)	(4,244)	(2,718)	(3,568)
Other (income) expense, net	(27)	51	46	(439)
Loss from equity investees, net	22	43	59	57
Loss on extinguishment of debt	5	—	5	—
Interest expense, net	574	511	1,145	664
Operating loss	(906)	(3,639)	(1,463)	(3,286)
Depreciation and amortization	1,914	2,266	3,972	2,791
Employee share-based compensation	135	147	241	204
Restructuring	146	1,033	241	1,038
Transaction and integration costs	47	983	94	1,070
Facility consolidation costs	23	—	23	—
Amortization of fair value step-up for content	762	870	1,593	870
Amortization of capitalized interest for content	22	—	22	—
Impairments and loss on dispositions	6	4	37	4
Adjusted EBITDA	<u>\$ 2,149</u>	<u>\$ 1,664</u>	<u>\$ 4,760</u>	<u>\$ 2,691</u>

It will be a little complicated to calculate the owner's earnings of the company because of the merger.

Consolidated Results of Operations

The tables below present our consolidated results of operations (in millions).

	Three Months Ended June 30,				% Change		
	2023	2022					
	Actual	Actual	Pro Forma Adjustments	Pro Forma Combined	Actual	Pro Forma Combined (Actual)	Combined (ex-FX)
Revenues:							
Distribution	\$ 5,135	\$ 4,838	\$ 343	\$ 5,181	6 %	(1)%	— %
Advertising	2,519	2,721	178	2,899	(7)%	(13)%	(13)%
Content	2,446	2,064	446	2,510	19 %	(3)%	(3)%
Other	258	204	29	233	26 %	11 %	9 %
Total revenues	10,358	9,827	996	10,823	5 %	(4)%	(4)%
Costs of revenues, excluding depreciation and amortization	6,636	6,625	520	7,145	— %	(7)%	(7)%
Selling, general and administrative	2,562	3,538	(553)	2,985	(28)%	(14)%	(14)%
Depreciation and amortization	1,914	2,266	(420)	1,846	(16)%	4 %	4 %
Restructuring	146	1,033	(89)	944	(86)%	(85)%	(85)%
Impairments and loss on dispositions	6	4	—	4	50 %	50 %	(25)%
Total costs and expenses	11,264	13,466	(542)	12,924	(16)%	(13)%	(13)%
Operating loss	(906)	(3,639)	1,538	(2,101)	75 %	57 %	57 %
Interest expense, net	(574)	(511)	(54)	(565)			
Loss on extinguishment of debt	(5)	—	—	—			
Loss from equity investees, net	(22)	(43)	(7)	(50)			
Other income (expense), net	27	(51)	25	(26)			
Loss before income taxes	(1,480)	(4,244)	1,502	(2,742)			
Income tax benefit	260	836	60	896			
Net loss	(1,220)	(3,408)	1,562	(1,846)			
Net income attributable to noncontrolling interests	(16)	(7)	(1)	(8)			
Net income attributable to redeemable noncontrolling interests	(4)	(3)	—	(3)			
Net loss available to Warner Bros. Discovery, Inc.	<u>\$ (1,240)</u>	<u>\$ (3,418)</u>	<u>\$ 1,561</u>	<u>\$ (1,857)</u>			

We used pro-forma numbers in our initial estimates, many of these are not accurate when the merger took place.

We will have to use a bigger margin of safety to account for all of this.

	Six Months Ended June 30,				% Change		
	2023	2022			Actual	Pro Forma Combined (Actual)	Pro Forma Combined (ex-FX)
	Actual	Actual ^(a)	Pro Forma Adjustments	Pro Forma Combined			
Revenues:							
Distribution	\$ 10,298	\$ 6,190	\$ 4,339	\$ 10,529	66 %	(2)%	(1)%
Advertising	4,817	4,197	1,412	5,609	15 %	(14)%	(14)%
Content	5,400	2,387	3,297	5,684	NM	(5)%	(4)%
Other	543	212	230	442	NM	23 %	22 %
Total revenues	21,058	12,986	9,278	22,264	62 %	(5)%	(4)%
Costs of revenues, excluding depreciation and amortization	13,321	7,861	5,781	13,642	69 %	(2)%	(2)%
Selling, general and administrative	4,950	4,578	1,745	6,323	8 %	(22)%	(21)%
Depreciation and amortization	3,972	2,791	997	3,788	42 %	5 %	5 %
Restructuring	241	1,038	(90)	948	(77)%	(75)%	(75)%
Impairments and loss on dispositions	37	4	—	4	NM	NM	NM
Total costs and expenses	22,521	16,272	8,433	24,705	38 %	(9)%	(8)%
Operating loss	(1,463)	(3,286)	845	(2,441)	55 %	40 %	42 %
Interest expense, net	(1,145)	(664)	(499)	(1,163)			
Loss on extinguishment of debt	(5)	—	—	—			
Loss from equity investees, net	(59)	(57)	(20)	(77)			
Other (expense) income, net	(46)	439	139	578			
Loss before income taxes	(2,718)	(3,568)	465	(3,103)			
Income tax benefit	438	635	342	977			
Net loss	(2,280)	(2,933)	807	(2,126)			
Net income attributable to noncontrolling interests	(24)	(23)	(1)	(24)			
Net income attributable to redeemable noncontrolling interests	(5)	(6)	—	(6)			
Net loss available to Warner Bros. Discovery, Inc.	\$ (2,309)	\$ (2,962)	\$ 806	\$ (2,156)			

^(a) Prior year actual results have been recast to conform to the current period presentation as a result of the Merger and segment recast.

Intrinsic Value














Let's have a look at the pro-forma numbers we had from our past analyses

	2015	2016	2017	2018	2019	2020	CAGR	Average
US Advertising	\$ 1,650	\$ 1,690	\$ 4,001	\$ 4,105	\$ 4,245	\$ 4,012	19%	
US Distribution	\$ 1,431	\$ 1,532	\$ 2,586	\$ 2,612	\$ 2,739	\$ 2,852	15%	
US Revenues	\$ 3,131	\$ 3,285	\$ 6,742	\$ 6,869	\$ 7,092	\$ 6,949	17%	
US Operating Income	\$ 1,704	\$ 1,915	\$ 2,320	\$ 2,532	\$ 3,145	\$ 3,031	12%	
US Margin	54%	58%	34%	37%	44%	44%		45%
Int. Avertising	\$ 1,353	\$ 1,279	\$ 1,748	\$ 1,834	\$ 1,799	\$ 1,571	3%	
Int. Distribution	\$ 1,637	\$ 1,681	\$ 1,978	\$ 2,104	\$ 2,096	\$ 2,014	4%	
Int. Revenues	\$ 3,092	\$ 3,040	\$ 3,890	\$ 4,253	\$ 4,041	\$ 3,713	4%	
Int. Operating Income	\$ 676	\$ 597	\$ 127	\$ 434	\$ 563	\$ 191	-22%	
Int. Margin	22%	20%	3%	10%	14%	5%		12%
Warner Media Revenues	\$ 28,118	\$ 29,318	\$ 31,271	\$ 20,585	\$ 35,259	\$ 30,442	2%	
Warner Media Op. Incom	\$ 5,446	\$ 5,195	\$ 5,945	\$ 7,020	\$ 10,659	\$ 8,210	9%	
Margin	19%	18%	19%	34%	30%	27%		25%
Total Revenues	\$ 34,341	\$ 35,643	\$ 41,903	\$ 31,707	\$ 46,392	\$ 41,104	4%	
Total Operating Income	\$ 7,498	\$ 7,248	\$ 8,064	\$ 9,306	\$ 13,849	\$ 10,940	8%	
Operating Margin	22%	20%	19%	29%	30%	27%		25%
Total Net income	\$ 4,829	\$ 5,119	\$ 4,907	\$ 5,578	\$ 9,636	\$ 8,986	13%	
Profit Margin	14%	14%	12%	18%	21%	22%		17%
FCF	\$ 4,611	\$ 5,526	\$ 5,614	\$ 9,036	\$ 12,900	\$ 10,076	17%	
FCF Margin	13%	16%	13%	28%	28%	25%		21%

	2021	2022
Studios Revenues	\$ 15,009	\$ 13,798
Studios EBITDA	\$ 2,645	\$ 2,749
EBITDA Margin	17.6%	19.9%
Networks Revenues	\$ 24,230	\$ 23,186
Networks EBITDA	\$ 10,938	\$ 10,051
EBITDA Margin	45.1%	43.3%
DTC Revenues	\$ 9,265	\$ 9,693
DTC EBITDA	\$ (1,544)	\$ (2,063)
EBITDA Margin	-16.7%	-21.3%
Corporate Revenues	\$ (3,178)	\$ (3,631)
Corporate EBITDA	\$ (1,341)	\$ (1,553)
EBITDA Margin	42.2%	42.8%
Total Revenues	\$ 48,504	\$ 43,046
Total EBITDA	\$ 10,698	\$ 9,184
EBITDA Margin	22.1%	21.3%
FCF	\$ 2,425	\$ 3,317
FCF Margin	5.0%	7.7%

All these numbers are pro-forma

Let's look at the actual numbers for recent quarters

		12 Months Dec 2020	12 Months Mar 2021	12 Months Jun 2021	12 Months Sep 2021	12 Months Dec 2021	12 Months Mar 2022	12 Months Jun 2022	12 Months Sep 2022	12 Months Dec 2022	12 Months Mar 2023	12 Months Jun 2023
Net Income		1,219.0	982.0	1,383.0	1,239.0	1,006.0	1,322.0	(2,768.0)	(5,232.0)	(7,371.0)	(8,896.0)	(6,718.0)
Cash Flow From Operating Activities												
Depreciation & Amortization		259.0	294.0	301.0	1,401.0	282.0	446.0	2,371.0	701.0	993.0	2,526.0	2,174.0
Amort. of Goodwill and Intangibles		1,100.0	1,100.0	1,100.0	-	1,300.0	1,300.0	1,300.0	4,862.0	6,200.0	6,200.0	6,200.0
Depreciation & Amortization, Total		1,359.0	1,394.0	1,401.0	1,401.0	1,582.0	1,746.0	3,671.0	5,563.0	7,193.0	8,726.0	8,374.0
(Gain) Loss From Sale Of Asset		126.0	2.0	(70.0)	(70.0)	(71.0)	(71.0)	1.0	46.0	116.0	116.0	116.0
(Gain) Loss on Sale of Investments		(103.0)	(124.0)	(123.0)	(123.0)	(19.0)	2.0	(131.0)	(143.0)	(199.0)	(199.0)	(67.0)
Asset Writedown & Restruc. Costs		48.0	171.0	128.0	129.0	5.0	9.0	510.0	1,417.0	2,859.0	2,951.0	2,477.0
Stock-Based Compensation		110.0	178.0	175.0	182.0	178.0	174.0	293.0	361.0	412.0	463.0	450.0
Other Operating Activities		4.0	(47.0)	(225.0)	(498.0)	(205.0)	(724.0)	(489.0)	(1,305.0)	(2,045.0)	(2,051.0)	(2,853.0)
Change In Accounts Receivable		105.0	110.0	(158.0)	(7.0)	47.0	1.0	(256.0)	(136.0)	181.0	(300.0)	192.0
Change In Accounts Payable		(131.0)	(39.0)	84.0	159.0	185.0	171.0	152.0	(121.0)	1,529.0	1.0	662.0
Change In Income Taxes		-	-	-	-	-	-	-	-	-	-	-
Change in Other Net Operating Assets		(3,073.0)	(3,050.0)	(3,288.0)	(3,603.0)	(3,469.0)	(3,572.0)	(6,136.0)	(9,082.0)	(12,692.0)	(15,481.0)	(15,774.0)
Cash from Operations		2,739.0	2,673.0	2,516.0	2,467.0	2,798.0	2,852.0	3,029.0	2,342.0	4,304.0	3,350.0	4,353.0









		12 Months Dec 2020	12 Months Mar 2021	12 Months Jun 2021	12 Months Sep 2021	12 Months Dec 2021	12 Months Mar 2022	12 Months Jun 2022	12 Months Sep 2022	12 Months Dec 2022	12 Months Mar 2023	12 Months Jun 2023
Net Income		1,219.0	982.0	1,383.0	1,239.0	1,006.0	1,322.0	(2,768.0)	(5,232.0)	(7,371.0)	(8,896.0)	(6,718.0)
Cash Flow From Operating Activities												
Depreciation & Amortization		259.0	294.0	301.0	1,401.0	282.0	446.0	2,371.0	701.0	993.0	2,526.0	2,174.0
Amort. of Goodwill and Intangibles		1,100.0	1,100.0	1,100.0	-	1,300.0	1,300.0	1,300.0	4,862.0	6,200.0	6,200.0	6,200.0
Depreciation & Amortization, Total		1,359.0	1,394.0	1,401.0	1,401.0	1,582.0	1,746.0	3,671.0	5,563.0	7,193.0	8,726.0	8,374.0
(Gain) Loss From Sale Of Asset		126.0	2.0	(70.0)	(70.0)	(71.0)	(71.0)	1.0	46.0	116.0	116.0	116.0
(Gain) Loss on Sale of Investments		(103.0)	(124.0)	(123.0)	(123.0)	(19.0)	2.0	(131.0)	(143.0)	(199.0)	(199.0)	(67.0)
Asset Writedown & Restruc. Costs		48.0	171.0	128.0	129.0	5.0	9.0	510.0	1,417.0	2,859.0	2,951.0	2,477.0
Stock-Based Compensation		110.0	178.0	175.0	182.0	178.0	174.0	293.0	361.0	412.0	463.0	450.0
Other Operating Activities		4.0	(47.0)	(225.0)	(498.0)	(205.0)	(724.0)	(489.0)	(1,305.0)	(2,045.0)	(2,051.0)	(2,853.0)
Change In Accounts Receivable		105.0	110.0	(158.0)	(7.0)	47.0	1.0	(256.0)	(136.0)	181.0	(300.0)	192.0
Change In Accounts Payable		(131.0)	(39.0)	84.0	159.0	185.0	171.0	152.0	(121.0)	1,529.0	1.0	662.0
Change In Income Taxes		-	-	-	-	-	-	-	-	-	-	-
Change in Other Net Operating Assets		(3,073.0)	(3,050.0)	(3,288.0)	(3,603.0)	(3,469.0)	(3,572.0)	(6,136.0)	(9,082.0)	(12,692.0)	(15,481.0)	(15,774.0)
Cash from Operations		2,739.0	2,673.0	2,516.0	2,467.0	2,798.0	2,852.0	3,029.0	2,342.0	4,304.0	3,350.0	4,353.0









From the CFO, let's remove the stock-based compensations.

We will have the owner's CFO.

For TTM, it's \$3.903 billion.

We will make an assumption that all capex is maintenance capex. For a media company, there are additional costs that have to be made to maintain operations but necessitate growth. For example, producing new movies. With the current portfolio of movies, they cannot grow. They have to keep producing to compete.

		12 Months Dec 2020	12 Months Mar 2021	12 Months Jun 2021	12 Months Sep 2021	12 Months Dec 2021	12 Months Mar 2022	12 Months Jun 2022	12 Months Sep 2022	12 Months Dec 2022	12 Months Mar 2023	12 Months Jun 2023
Supplemental Items												
Cash Interest Paid		673.0	673.0	673.0	673.0	664.0	664.0	664.0	664.0	1,539.0	1,539.0	1,539.0
Cash Income Tax Paid		641.0	633.0	707.0	843.0	643.0	640.0	836.0	947.0	1,027.0	1,242.0	1,415.0
Net Capital Expenditure		(402.0)	(387.0)	(352.0)	(385.0)	(373.0)	(368.0)	(513.0)	(723.0)	(987.0)	(1,201.0)	(1,271.0)
Levered Free Cash Flow		5,059.1	5,197.9	5,449.1	6,494.3	6,994.5	7,166.8	11,797.0	17,526.5	22,626.5	24,457.4	25,200.6
Unlevered Free Cash Flow		5,491.0	5,628.5	5,877.3	6,816.1	7,417.6	7,267.4	12,115.8	18,160.9	23,434.6	25,840.5	26,583.8
Change In Net Working Capital		224.0	7.0	(87.0)	(745.0)	(1,239.0)	(679.0)	(765.0)	(2,908.0)	(4,116.0)	(2,012.0)	(3,165.0)
Free Cash Flow / Share		\$3.90	\$3.84	\$3.67	\$3.54	\$4.12	\$4.21	\$2.48	\$1.10	\$1.71	\$0.90	\$1.27
Net Debt Issued / Repaid		(214.0)	(1,053.0)	(368.0)	(574.0)	(574.0)	(562.0)	(4,062.0)	(6,327.0)	(7,317.0)	(7,097.0)	(5,253.0)

		Dec 2020	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023	Jun 2023
Supplemental Items												
Cash Interest Paid		673.0	-	-	-	664.0	-	-	-	1,539.0	-	-
Cash Income Tax Paid		288.0	100.0	149.0	306.0	88.0	97.0	345.0	417.0	168.0	312.0	518.0
Net Capital Expenditure		(112.0)	(90.0)	(77.0)	(106.0)	(100.0)	(85.0)	(222.0)	(316.0)	(364.0)	(299.0)	(292.0)
Levered Free Cash Flow		895.4	1,717.3	1,631.8	2,224.3	1,395.6	1,890.1	6,111.4	7,951.9	6,495.6	3,721.0	6,867.6
Unlevered Free Cash Flow		1,003.5	1,825.4	1,736.8	2,251.1	1,605.0	1,675.1	6,435.1	8,295.6	6,878.8	4,081.0	7,191.4
Change In Net Working Capital		486.0	(488.0)	(201.0)	(542.0)	(8.0)	72.0	(287.0)	(2,685.0)	(1,216.0)	2,176.0	(1,440.0)
Free Cash Flow / Share		\$0.75	\$0.31	\$1.29	\$1.20	\$1.33	\$0.40	\$0.35	(\$0.08)	\$1.02	(\$0.38)	\$0.71
Net Debt Issued / Repaid		0.0	(339.0)	0.0	(235.0)	0.0	(327.0)	(3,500.0)	(2,500.0)	(990.0)	(107.0)	(1,656.0)

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Property and equipment

Property and equipment consisted of the following (in millions).

	Useful Lives	December 31,	
		2022	2021
Equipment, furniture, fixtures and other ^(a)	3 - 5 years	\$ 1,682	\$ 1,139
Capitalized software costs	2 - 5 years	1,855	904
Land, buildings and leasehold improvements ^(b)	15- 39 years	3,251	481
Property and equipment, at cost		6,788	2,524
Accumulated depreciation		(2,055)	(1,329)
		4,733	1,195
Assets under construction		568	141
Property and equipment, net		\$ 5,301	\$ 1,336

^(a) Property and equipment includes assets acquired under finance lease arrangements. Assets acquired under finance lease arrangements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets or the terms of the related leases. (See Note 12.)

^(b) Land has an indefinite life and is not depreciated. Leasehold improvements generally have an estimated useful life equal to the lease term.

Capitalized software costs are for internal use. The net book value of capitalized software costs was \$949 million and \$371 million as of December 31, 2022 and 2021, respectively.

Depreciation expense for property and equipment totaled \$957 million, \$311 million and \$267 million for the years ended December 31, 2022, 2021 and 2020, respectively.

Over the TTM, the maintenance capex was \$1.271 billion.

If we assume that maintenance capex will be \$1.2 billion a year, the total for the next 5 years is \$6 billion.

Long-term Debt Repayment Schedule

The following table presents a summary of scheduled debt and estimated interest payments, excluding the revolving credit facility and commercial paper borrowings, for the next five years based on the amount of the Company's debt outstanding as of December 31, 2022 (in millions).

	2023	2024	2025	2026	2027	Thereafter
Long-term debt repayments	\$ 363	\$ 4,267	\$ 7,147	\$ 789	\$ 4,693	\$ 32,017
Interest payments	\$ 2,267	\$ 2,183	\$ 1,870	\$ 1,730	\$ 1,634	\$ 25,853

Since the company has substantial debt, we also need to count the interest payments as additional expenses.

The debt will also need to be refinanced.

There's about \$9 billion in interest expense to be paid over the next 5 years.

The next step is to estimate future owner's CFO.

We had the following estimates from our previous analyses.

	2021	2022	2023	2024	2025	2026	2027
Studios Revenues	\$ 15,009	\$ 13,798	\$ 14,000	\$ 14,500	\$ 15,080	\$ 15,683	\$ 16,311
Studios EBITDA	\$ 2,645	\$ 2,749	\$ 2,800	\$ 2,900	\$ 3,016	\$ 3,137	\$ 3,262
EBITDA Margin	17.6%	19.9%	20.0%	20.0%	20.0%	20.0%	20.0%
Networks Revenues	\$ 24,230	\$ 23,186	\$ 23,500	\$ 24,000	\$ 24,960	\$ 25,958	\$ 26,997
Networks EBITDA	\$ 10,938	\$ 10,051	\$ 10,500	\$ 11,000	\$ 11,232	\$ 11,681	\$ 12,149
EBITDA Margin	45.1%	43.3%	44.7%	45.8%	45.0%	45.0%	45.0%
DTC Revenues	\$ 9,265	\$ 9,693	\$ 10,000	\$ 10,800	\$ 11,664	\$ 12,597	\$ 13,605
DTC EBITDA	\$ (1,544)	\$ (2,063)	\$ (1,800)	\$ (1,500)	\$ (500)	\$ -	\$ 500
EBITDA Margin	-16.7%	-21.3%	-18.0%	-13.9%	-4.3%	0.0%	3.7%
Corporate Revenues	\$ (3,178)	\$ (3,631)	\$ (4,000)	\$ (4,000)	\$ (4,000)	\$ (4,000)	\$ (4,000)
Corporate EBITDA	\$ (1,341)	\$ (1,553)	\$ (1,000)	\$ (1,000)	\$ (1,000)	\$ (1,000)	\$ (1,000)
EBITDA Margin	42.2%	42.8%	25.0%	25.0%	25.0%	25.0%	25.0%
Total Revenues	\$ 48,504	\$ 43,046	\$ 43,500	\$ 45,300	\$ 47,704	\$ 50,239	\$ 52,912
Total EBITDA	\$ 10,698	\$ 9,184	\$ 10,500	\$ 11,400	\$ 12,748	\$ 13,818	\$ 14,911
EBITDA Margin	22.1%	21.3%	24.1%	25.2%	26.7%	27.5%	28.2%
FCF	\$ 2,425	\$ 3,317	\$ 3,465	\$ 4,104	\$ 5,099	\$ 6,218	\$ 7,455
FCF Margin	5.0%	7.7%	8.0%	9.1%	10.7%	12.4%	14.1%

Estimated FCF for 2023 is \$4.75 billion, so we have been very conservative.

The growth in FCF from our estimates was based mostly on improving margins.

We expect this to continue for the next 5 years.

Using the 2023 estimates for FCF, let's assume an annual growth of 15% in FCF.

\$5.46 billion in 2024, \$6.28 B in 2025, \$7.22 B in 2026, \$8.30 B in 2027, and \$9.55 B in 2028.

Let's remove \$450 million per year for stock-based compensations, and add the interest expenses.

Long-term Debt Repayment Schedule

The following table presents a summary of scheduled debt and estimated interest payments, excluding the revolving credit facility and commercial paper borrowings, for the next five years based on the amount of the Company's debt outstanding as of December 31, 2022 (in millions).

	2023	2024	2025	2026	2027	Thereafter
Long-term debt repayments	\$ 363	\$ 4,267	\$ 7,147	\$ 789	\$ 4,693	\$ 32,017
Interest payments	\$ 2,267	\$ 2,183	\$ 1,870	\$ 1,730	\$ 1,634	\$ 25,853

\$2.82 billion in 2024, \$3.96 B in 2025, \$5.04 B in 2026, \$6.21 B in 2027, \$7.60 B in 2028.

Let's discount these OE at 5%

Year	OE	Disounted OE
TTM	\$419	
2024	\$2,820	\$2,686
2025	\$3,960	\$3,592
2026	\$5,040	\$4,354
2027	\$6,210	\$5,109
2028	\$7,600	\$5,955
Terminal Value		\$119,000
Intrinsic Value		\$140,695
Per Share		\$57.73

Let's not forget to remove the \$45 billion in net debt.

To be on the safe side, assuming that much of the debt will need to be refinanced at higher interest rates, let's use \$55 billion for net debt.

The intrinsic value is, therefore, \$85.7 Billion or \$35.16/share.

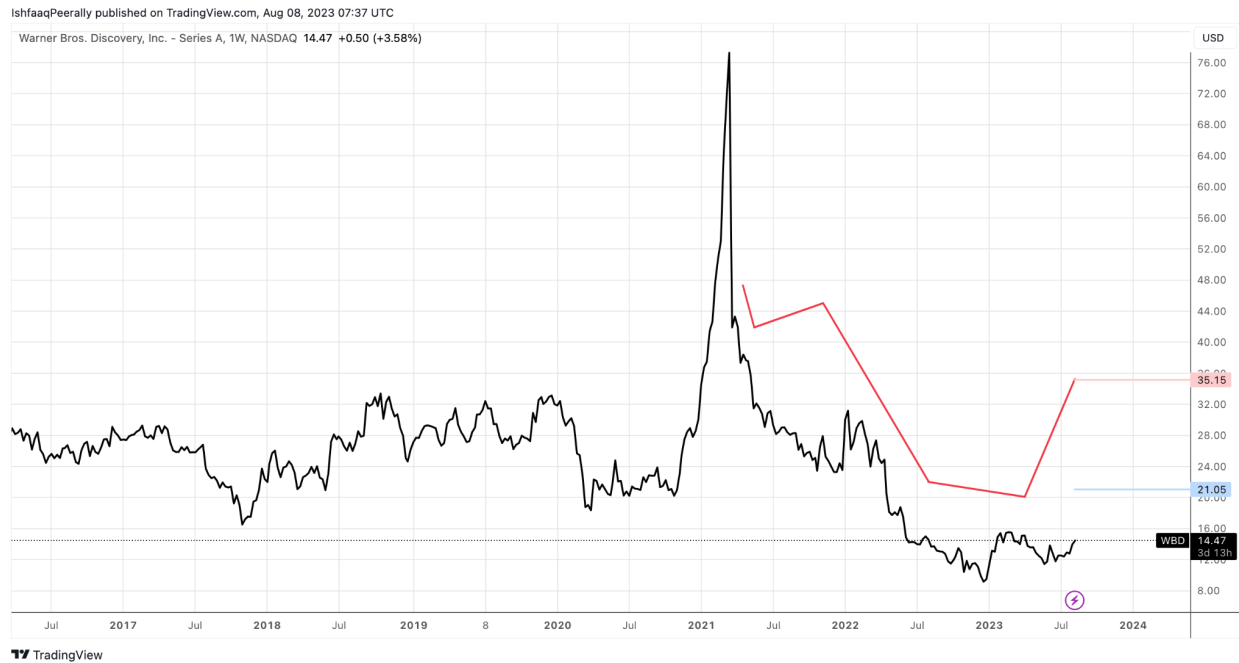
We need a big margin of safety, given how uncertain our future estimates of OE are.

Let's say 40%.

The Buy price will be \$21/share.

I will maintain a BUY rating on WBD but I will not buy more.

Conclusion



WBD is a turnaround and is undervalued and a BUY but there's a lot of uncertainty in the way that the intrinsic value was calculated with an additional balance sheet risk. Therefore, we had to take a big margin of safety.