

Vedomosti, Oct-23: Usmanov and Tavrinn can acquire CTC Media at a discount

If the Company does not hit revenue target, the buyers will pay \$150-185mm instead of \$200mm

Media holding UTH Russia owned by Alisher Usmanov and Ivan Tavrinn and CTC Media have come to the agreement on a discount if the Company fails to hit its revenue targets this year. It is stated in the materials for CTC Media special shareholders' meeting scheduled for November that were published yesterday on SEC website. The parties initially agreed that the deal value will account for \$200mm, but now it has turned out that the holding can pay \$15-50mm less.

The announcement on CTC Media's acquisition by Usmanov and Tavrinn was made in July, 2015, and in September CTC Media announced that it had reached a final agreement with the buyers. The deal now has to be approved by the minority shareholders and by the regulators.

Currently, 37.9% of CTC Media shares are owned by Swedish MTG, 36% is in the free float on NASDAQ, and 25% is owned by a Cyprus company Telcrest, which is owned by the co-owner of the bank "Russia" Yury Kovalchuk, his partners and VTB. After the deal with UTH is closed, CTC Media will be owned only by Russian beneficial owners. The ownership structure will then satisfy the Russian Law "On Mass Media" which limits direct or indirect foreign ownership in Russian mass media companies to 20% after December 31, 2015. CTC Media, which manages television channels CTC, Domashny, Peretz, and CTC Love, is the largest Russian company that has to satisfy these requirements. UTH Russia, which is equally owned by Usmanov and Tavrinn, manages channels U, Muz TV, and Disney.

The deal will be held in two stages due to the legal and tax limitations, and EU and US sanctions imposed on Kovalchuk. Firstly, US CTC Media will sell 75% of its Russian and Kazakhstani business to UTH, and also may issue 5% of registered capital in the form of additional equity. This deal has to be closed by the end of 2015. CTC Media will then buy back its shares from MTG and minority shareholders (in case if they approve the terms) and pay them with the money received from UTH and with own cash holdings. The stake of Telcrest will not be bought out because of the imposed sanctions. The representatives of MTG in the Board of Directors have already approved the deal, and now it has to be approved by the minority shareholders.

CTC Media announced that it could pay \$255mm to MTG and minority shareholders. It represents \$2.18 per share, according to BCS. The final amount depends on the amount of money that the Company will get by the end of the year, CTC Media said. According to the materials published on Thursday, UTH had insisted on an opportunity to decrease the agreed price if CTC Media does not hit the free cash flow target in the second half of 2015.

UTH has examined the situation and concluded that CTC channel cannot increase the audience share by the end of the year, thus the revenues will be lower than expected (RUB8.4bn instead of RUB10.7bn), and vice versa the content cost will be higher (RUB8.1bn instead of RUB6.8bn),

according to the materials. UTH expects negative free cash flow (minus RUB1.1bn) instead of positive free cash flow forecasted by CTC Media (RUB4.5bn). Dependent on how much CTC Media falls behind its own targets, the deal value can decrease by \$15-50mm.

Revenue targets in Russia are likely to be achieved, but the Kazakhstani revenue seems to fall behind the target due to the local currency depreciation, according to the letter provided by the deal advisor Xenon Capital Partners to the Board of Directors of CTC Media (attached to the materials submitted to SEC). If the conservative scenario provided by CTC Media is achieved, UTH will save \$15mm, and the shareholders of CTC Media will get \$2.17 per share, according to the letter. If the deal value decreases by \$50mm, the shareholders will get \$1.78 per share.

Yesterday's price of CTC Media on NASDAQ was \$1.79 (as of 9.00 p.m. Moscow time). While the potential acquisition price is a little bit higher than the market price, the minority shareholders of CTC media will approve the deal, according to Alexander Verganovich, analyst in Otkritie Capital: "If the deal fails, the licenses of CTC Media channels will be revoked, and the shareholders will get nothing".