

From: Neal Dermer

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Subject: DHC - Deutsche Bank report

fyi

Attachment: abd89221.d01[1].pdf

Discovery

Reuters: DISCA.OQ Bloomberg: DISCA UW Exchange: NAS Ticker: DISCA

DISCA: What Is Discovery Worth?

Worth?

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Maintain Hold

We believe Discovery has strong franchisees and great growth potential for 2007 and beyond, but at 14.6x 07E EBITDA we believe this growth has already been fully priced in and maintain our Hold rating. While we appreciated the rationale behind the revaluation of Discovery, we believe the run is done (at least for now).

What Is Discovery Worth?

Given the dramatic revaluation of the Company, we explore in this report our analysis for the potential ultimate value of Discovery. We conclude that shares would be worth only \$26 today even assuming the full bull case scenario regarding the core business (sell money-losing business, restructurings drive massive margin step-ups, roll up A/N to public level to eliminate trading discount). Given this scenario could take years to unfold and the entertainment group is trading at a 20% discount to our targets, we believe its valuation has run too far. We maintain our \$20 target.

1Q07 Results Preview

We are forecasting DCI 1Q07 revenue of \$760m (up 15% y/y) and EBITDA of \$179m (up 28% y/y). We expect domestic advertising revenue of \$249m, up 13.2% y/y on continued strong ratings at Discovery Channel and TLC and double-digit scatter price increases. We also expect the benefit of the weaker dollar and cost restructurings. We are projecting 1Q07 Ascent Media revenue of \$158m (+3% y/y) and EBITDA of \$14m (+3% y/y). Taking DCI 2007E EBITDA up \$24m to \$850m despite Travel Channel sale on FX gains and better margins, 07E DISCA EPS +\$0.08 to \$0.26.

Target Price/Risks

Our target of \$20 is based on a DCF of DCI (10% WACC from 12% cost of equity on 71% of capital and 4% cost of debt on rest, with 4% terminal growth) plus \$541m for Ascent Media value and cash, less a 20% control discount. Upside risk would include continued spikes in ratings or A/N consolidating up to DHC and downside includes ad softness, dilutive deals or lack of margin execution.

Year End Dec 31	2005A	2007E	2008E
1Q EPS	0.04	0.05	-
2Q EPS	0.05	0.06	-
3Q EPS	0.06	0.07	-
4Q EPS	0.02	0.08	-
FY EPS (USD)	0.17	0.26	0.42

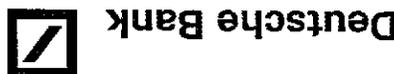
Source: Deutsche Bank estimates, company data

* Includes the impact of FAS123h requiring the expensing of stock options.

Deutsche Bank Securities Inc.

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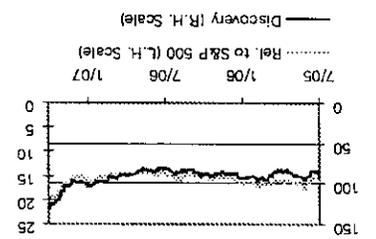
DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1



Deutsche Bank

Results Preview

Hold	
Price at 27 Apr 2007 (USD)	21.74
Price target	20.00
52-week range	22.00 - 13.25
Price target	19.74 to 20.00 ↓ 1.3%



Performance (%)	1m	3m	12m
Absolute	16.8	32.3	46.4
S&P 500	4.6	5.1	14.1

Market Cap (USDm)	6,091.5
Shares outstanding (m)	280.2
Free float (%)	100
Volume (27 Apr 2007)	932,873
Option volume (und. shrs. 1M avg)	16,741



What is Discovery Worth?

Discovery's stock has seen terrific performance recently due to dramatic improvements in domestic viewership at Discovery Communication's ("DCI") cable networks and the hiring of a new CEO at DCI, David Zaslav, formerly a senior executive at NBC, who investors hope will address poor operating margins and a complex corporate structure.

We have reviewed Discovery's asset base and growth prospects, compared its operating metrics with peers, and updated our forecast and valuation work to account for a more aggressive ramp in margins at DCI. In addition, we have modeled out what we consider to be the bull case for operating margins at DCI and laid out implications for its valuation.

Peer Comparison and New Forecast

Domestic Affiliate Rates

DCI's networks generated \$865m in domestic affiliate fees in 2006, about \$1.56/day per the 1.517m average daily households that watch its cable networks in aggregate. This compares to Turner at \$2.00, Newscorp's Fox Cable Networks at \$2.57, Viacom's cable networks at \$0.97 and Disney's cable networks at \$4.80. Perhaps the best comparison is with Turner, since Newscorp and Disney both enjoy the leverage of retrans consent and sports channels, while Viacom has always been a chronic underperformer in affiliate fees despite being partnered with CBS for a good part of this decade. Even Turner enjoys some leverage from the limited sports programming it airs, and also from TBS and TNT often showing up as the leaders in key demos in various time periods. To the extent that DCI's networks deserve an affiliate rate more comparable to Turner's, we believe it would take a number of years and a lot of difficult negotiations to achieve, and thus our forecast assumes normalized domestic affiliate rate increases. We estimate a 7.6% domestic revenue CAGR from 2007 to 2011 with digital channel distribution expansion averaging up the more mature fully distributed core networks.

Domestic Advertising Revenue

DCI fares better in advertising sales performance with domestic advertising revenue of \$975m in 2006 at about \$1.76 per the 1.517m daily households that watch its cable networks in aggregate. This compares to Turner at \$1.87, Newscorp at \$1.22, Viacom at \$2.14 and Disney at \$4.09. DCI's performance appears in line with Turner's and an understandable 18% discount to Viacom given Viacom's attractive and narrow demographic of the viewers that Viacom's networks draw. Thus, beyond monetizing ratings gains from the past five quarters, we do not expect DCI to garner premium CPM increases above sector levels in 2008 and beyond. After 15% domestic advertising growth in 2007, we expect a CAGR from 2007 to 2011 of 5.5%, reflective of about 2-2.5% viewership growth and CPI-type rate increases. This dovetails with sector concerns regarding increases in PVR penetration, especially given the lack of urgency in Discovery's programming that would drive live viewing (like sports, news or water-cooler events), and the eventual shift to commercial ratings.

Domestic Margins

DCI's 2006 domestic EBITDA margins were 38%, right in the middle of the pack with Turner's 32%, Newscorp's 32%, Viacom's 49% and Disney's 36%. We believe DCI's margins should most closely compare with Viacom's given both companies own or control a majority of their content and monetization of viewership is about equal, and given Turner, Newscorp and Disney's cable margins are depressed by the cost of sports programming (and movies and syndicated sitcoms in Turner's case). Thus, it appears that DCI's domestic EBITDA margin has 1100bp of so of upside as the new CEO streamlines its cost structure. We expect this margin upside will take several years to work through, and our forecast now has domestic margins improving from 38% in 2006 to 40% in 2007 and 46% by 2011, leading to EBITDA growth of 22% in 2007 (proforma the sale of the Travel Channel) and a 2007-2011 EBITDA CAGR of 11% (against a 7% revenue CAGR).

International

We think it is difficult to ascertain either the revenue or margin opportunity for any company's international cable network operations given limited disclosures from all of the companies we cover. Viacom's management team recently indicated that they see 1000bp of margin upside at Viacom's international cable network group over the next two years, which would bring margins from about 15% to 25%. We believe Disney and Turner's international cable networks garner an about 17-25% margin. The margin opportunity for Viacom's international markets, as its management articulated it, was in good part by exiting programming full 24/7 channels in a number of money-losing markets and instead just licensing their content to a third party distributor. This would immediately take such a market from losing money to a high margin profit center, though at a significantly reduced revenue level. While Discovery's management might take a different strategic approach, it seems likely given their similar size (Discovery's international revenue totaled \$879m in 2006 vs. Viacom's \$981m), that Discovery also has such a similar margin opportunity. Interestingly, Discovery has been generating very strong revenue growth internationally, 43% in 2004, 25% in 2005 and 19% in 2006, and yet EBITDA margins have slipped during that run from 20% in 2003 to only 13% in 2006. This also argues that substantial launch costs, overexpansion, or poor cost management are hampering results. In any case, it appears likely that Discovery has at least 1500bp of margin upside internationally and we forecast margins improving from 13% in 2006 to 32% by 2010. One important note, to the extent a number of markets are transitioned to a licensing model, one should expect a significantly lower revenue base vs. programming a full channel 24/7. Thus, the substantial margin upside should be accompanied by more restrained revenue growth prospects. Our forecast for international networks is a revenue CAGR from 2007-2011 of 10% and an EBITDA CAGR of 27%.

Other

Other contains the 104 Discovery Stores, education businesses and corporate. Losses in 2006 totaled \$121m in this category before considering options expense, and using corporate as a % of revenue for Discovery's peers as a proxy for Discovery's likely corporate expense level, it appears that about \$90m of the losses relate to the stores and education businesses. Fairly simply, given these business are non-core, in our view, we would expect the new CEO to move fairly quickly to eliminate the losses and potentially monetize the assets. Our forecast assumes these money losing operations are eliminated over the next few years. Along with stock compensation expense of about \$50m per year, we estimate Discovery's total corporate expense at about 2% of revenue. Of note, we find few analysts include stock compensation expense as a reduction of Discovery's EBITDA, though it is included as a reduction of EBITDA for all of the peer entertainment companies.

Total Discovery

After only 3% EBITDA growth from 2004 to 2006, it appears that Discovery is headed for a strong rebound in 2007 as it monetizes the 20% aggregate improvement in total day viewers garnered in 2006 and as the new CEO addresses the company's cost structure – we estimate 37% EBITDA growth to \$850m proforma the sale of the Travel Channel to Cox. Predominately due to the margin upside discussed above, our 2007-2011 EBITDA CAGR estimate is 18%.

Other Considerations

Some variables remain difficult to ascertain. First, there remains a tendency for investors to believe that a company that is generating ratings growth at its network will continue to generate ratings growth in the future. We would note that, except for the cases where the ratings gains were being driven by growth in channel distribution, we have not seen any consistency in this regard. Some like ESPN and Turner have over time acquired more sports, including playoff games, driving ratings, while others like Discovery's own TLC quickly saw its hot hand fade as other networks copied its highly successful home improvement series. We tend to find that investors overpay for networks that are having a strong ratings run and underpay for those that are struggling (like Viacom). Second, it is difficult to value Discovery's ultimate online opportunity, an area they have been lagging. At first, it is likely that efforts will be dilutive as Discovery spends to catch up, but eventually Discovery might carve out a strong niche online or at least gain value through broad syndication of its content to online distributors. To date, it does not appear that online is meaningfully driving the profits of any of the major entertainment companies (excluding for the purposes of this discussion Newscorp's MySpace acquisition and Time Warner's AOL division), and it does not appear that investors are allocating any digital content value to the entertainment group's valuations. Thus, for the purposes of this Discovery analysis, we are not giving incremental value for the potential digital opportunity.

Valuation Analysis

Clearly, a number of structural issues remain for Discovery. First, Advance Newhouse owns one-third of the Discovery Communications ("DCI") operating company, and has certain control rights that do not allow the public Discovery Holdings ("DHC") to consolidate its two-thirds owned subsidiary's results or be sold to a third party without approval. Nor does the public entity have direct control over the cash generated by DCI. Further, Chairman/CEO Dr. Malone has supervoting shares at DHC that give him about 31% of the shareholder votes at the public level, a level that has historically essentially given Dr. Malone full control of the companies that he has run. DCI also carries a number of cash liabilities beyond its net debt position that increases complexity of analysis. Lastly, there has been significant management turnover, and while that might prove a major positive for the company, it is too early to gauge management's success at driving new growth initiatives.

Current Target Price of \$20

We continue to use a DCF-based analysis to value DHC. The public entity (DHC) has 285.2m shares outstanding including in-the-money options, carries \$155m in cash, would receive \$87m in cash upon the exercise of stock options, and we assign \$300m of value for the Ascent operations (5x EBITDA for a business that has not generated FCF in two years). In addition, DHC owns two-thirds of the operating company, which our DCF values at \$10b in total. Our DCF valuation is based on: (1) \$913m of FCF generation in 2011, our terminal year, up 145% from our 2007 estimate of \$381m, (2) an 18x terminal FCF multiple based on our 10% WACC and 4% terminal growth estimates; and (3) \$4b of year-end 2007 net debt based on current proforma net debt of \$4.35b — \$3.864b of y/e net debt proforma the Cox deal, \$95m of minority put rights, \$214m of existing launch incentive liability, and \$177m of long-term incentive plan liability — less 2007 FCF. Of note, we have not included an estimate for further launch incentive payments, which could total in the \$100's of millions. We then apply a 20% discount for the above listed structural issues to yield our \$20/share target price (\$10b net equity value of DCI x 67% + \$300m + \$155m + \$87 = \$7.2b, less 20% divided by 285.2m total shares outstanding).

Bull Case Valuation

If we assume that Advance Newhouse rolls up to the public entity, completely eliminating any control discount, and that management were to fully execute on all margin opportunities in 2007, we estimate the bull case EBITDA for Discovery is \$1.200b (76% above 2006's level). This includes domestic margins at 49%, international margins at 28%, the elimination of \$91m of losses at commerce and education operations, and modest corporate overhead reduction. This yields an overall EBITDA margin of 40.6%, below Viacom's 2006 margin of 44% as Discovery has 29% of revenue from international operations, versus Viacom at only 13.5%. We then apply a 12x multiple to Discovery's EBITDA. This represents the 2007E EV/EBITDA multiple at which both Disney and Viacom would be trading at our target prices, which we believe are the appropriate corollaries to Discovery once its margins have been corrected — all are global branded content companies with significant ownership of their content and dominating unique, defensible niches. This yields \$14.4b of target value for Discovery's operations. After \$4.5b of liabilities, \$340m of asset sales, accounting for Advance/Newhouse's ownership position, and \$541m of assets at DHC, we estimate \$7.4b of net equity value in our bull case scenario, or \$25.85/DHC share. Of note, the entertainment group, ex-Discovery, is trading at about 18% below our target prices, implying that even were the market to give a 100% probability to the bull case scenario, the stock would still only trade at \$22.

Figure 1: Cable, Entertainment & Satellite Company Comparisons (US\$m, except per share data)

4/27/2007 DBSI Rating Ticker	Entertainment Companies								Total/ Avg	Cable & Satellite Companies					Total/ Avg
	CBS	Discovery Hldgs (1) Hold	Liberty Capital Buy	News Corp.	Time Warner Buy	TW Other	Viacom Buy	Walt Disney Buy		Comcast Buy	TW Cable Buy	Cable- vision Buy	DirecTV Buy	EchoStar Buy	
	CBS	DISCA/B	LCAPA/B	NWS	TWX	-	VIA/b	DIS		CMCSA	TWC	CVC	DTV	DISH	
PRO FORMA ENTERPRISE VALUE (EV)															
Stock Price	\$32.04	\$21.74	\$113.20	\$22.84	\$20.61	NM	\$41.83	\$34.98	-	\$26.93	\$36.52	\$32.65	\$23.89	\$46.29	-
Diluted Shs	720	285	131	2725	4081	NM	695	2254	-	3180	1002	302	1251	450	-
Eq Mkt Cap % of group	23,071 7.7%	6,199 2.1%	14,802 4.9%	63,438 21.2%	84,100 28.1%	47,507 -	29,052 9.7%	78,845 26.3%	299,509	86,289 46.6%	36,592 19.7%	9,851 5.3%	29,875 16.1%	20,826 11.2%	185,388
PF Net Debt	4,713	4,195	1,721	5,997	32,289	17,608	7,112	5,647	61,674	27,736	14,681	11,013	1,908	3,762	81,889
Subtotal	27,784	10,395	16,523	69,436	116,389	65,115	36,165	84,492	361,182	114,025	51,273	20,864	31,782	24,587	267,278
Hidden Value	-1,434	-2,441	17,671	10,941	-3,951	5,263	394	4,818	25,999	10,072	-3,423	5,511	2,698	507	15,369
PF EV 12/31/06	29,217	12,836	-1,149	58,494	120,340	59,852	35,771	79,674	335,183	103,953	54,697	15,352	29,084	24,081	251,909
CY07E FCF	1,501	381	105	2,554	4,728	3,828	1,623	3,940	14,832	2,741	900	448	624	883	5,213
CY/E '07 EV	27,716	12,455	-1,253	55,940	115,611	56,024	34,148	75,734	320,351	101,212	53,796	14,905	26,460	23,197	246,696
CY08E FCF	1,609	488	177	3,161	4,507	2,795	1,971	4,378	18,292	3,639	1,713	707	1,514	1,315	8,541
CY/E '08 EV	26,107	11,967	-1,431	52,779	111,104	59,020	32,177	71,356	304,059	97,573	52,084	14,198	26,946	21,882	238,155
All Operating Estimates except group totals are presented on a Fiscal Year basis															
Fiscal Year	Dec	Dec	Dec	Jun	Dec	Dec	Dec	Sep	-	Dec	Dec	Dec	Dec	Dec	-
Total Company Net Revenues															
2008E	\$14,642	\$3,478	\$1,633	\$28,572	\$48,470	\$30,850	\$12,955	\$36,517	\$148,709	\$34,807	\$17,620	\$7,195	\$18,371	\$11,922	\$97,247
2007E	14,177	3,308	1,464	27,418	46,537	30,433	12,212	35,504	141,713	31,158	16,104	6,608	16,716	10,966	88,603
2006A	14,320	3,013	1,287	25,327	44,224	29,464	11,467	34,285	138,332	25,592	14,760	5,927	14,756	9,818	77,622
08/07 % Chg	3.3%	5.1%	11.5%	4.2%	4.2%	1.4%	6.1%	2.9%	4.9%	11.7%	9.4%	8.9%	5.9%	8.5%	8.8%
07/06 % Chg	-1.0%	9.8%	13.8%	8.3%	5.2%	3.3%	6.5%	3.6%	2.4%	21.7%	9.1%	11.5%	13.3%	11.9%	14.1%
Opex (Revenue less EBITDA)															
08/07 % Chg	1.9%	-2.7%	5.0%	3.4%	2.4%	0.2%	5.4%	1.3%	3.2%	9.9%	7.3%	6.0%	5.4%	6.2%	7.4%
07/06 % Chg	-1.4%	5.5%	3.8%	6.1%	1.1%	-1.4%	6.7%	0.7%	1.1%	20.9%	7.2%	8.4%	11.5%	9.1%	12.1%
Total Company EBITDA															
2008E	\$3,376	\$1,087	\$343	\$6,005	\$14,123	\$7,561	\$3,688	\$8,605	\$38,411	\$13,637	\$6,562	\$2,387	\$5,014	\$3,357	\$33,599
2007E	3,122	850	236	5,590	13,000	7,199	3,421	7,952	34,809	11,901	5,800	2,072	4,045	2,921	29,330
2006A	3,111	683	104	4,746	11,064	5,912	3,225	6,914	32,581	9,664	5,152	1,743	3,391	2,426	24,756
08/07 % Chg	8.1%	27.9%	45.4%	7.4%	8.6%	5.0%	7.8%	8.2%	10.3%	14.6%	13.1%	15.2%	24.0%	14.9%	16.6%
07/06 % Chg	0.4%	24.4%	127.0%	17.8%	17.5%	21.8%	6.1%	15.0%	6.8%	23.2%	12.6%	18.9%	19.3%	20.4%	18.5%
EBITDA Margin															
2008E	23.1%	31.3%	21.0%	21.0%	28.1%	24.5%	28.5%	23.6%	25.8%	39.2%	37.2%	33.2%	27.3%	28.2%	34.5%
2007E	22.0%	25.7%	16.1%	20.4%	27.9%	23.7%	28.0%	22.4%	24.6%	38.2%	36.0%	31.4%	24.2%	26.6%	33.1%
2006A	21.7%	22.7%	8.1%	18.7%	25.0%	20.1%	28.1%	20.2%	23.6%	37.8%	34.9%	29.4%	23.0%	24.7%	31.8%
Earnings Per Share (net income ex. unusual items / fully diluted shs out)															
2008E	\$ 2.10	\$ 0.42	\$ 1.16	\$ 1.25	\$ 1.89	NM	\$ 2.59	\$ 2.07	-	\$ 0.97	\$ 1.52	\$ 1.19	\$ 1.25	\$ 2.41	-
2007E	1.84	0.26	0.63	1.04	0.98	NM	2.27	1.80	-	0.77	1.10	0.28	0.96	1.86	-
2006A	1.78	(0.17)	0.26	0.84	0.82	NM	2.07	1.64	-	0.80	0.87	(0.46)	1.12	1.37	-
08/07 % Chg	14.1%	62.8%	NM	20.2%	11.7%	NM	14.1%	15.0%	23.0%	25.6%	38.2%	NM	30.3%	28.7%	33.3%
07/06 % Chg	3.4%	-257.0%	NM	24.2%	19.1%	NM	8.7%	9.8%	-31.8%	-3.1%	26.3%	NM	-14.0%	35.9%	11.3%
06/05 % Chg	14.8%	NM	NM	21.1%	11.8%	NM	21.1%	37.8%	21.3%	184.2%	-10.2%	NM	NM	-57.4%	38.9%
Cash Free Cash Flow (CFO - capex + affiliates)															
2008E	\$1,609	\$488	\$ 177	\$2,667	\$4,507	2,795	\$1,971	\$4,117	\$15,557	\$3,639	\$1,713	\$707	\$1,514	\$1,315	\$8,541
2007E	1,501	381	105	2,271	4,728	3,828	1,623	3,344	13,953	2,741	900	448	624	883	5,213
2006A	1,694	390	433	2,281	4,760	4,155	1,560	4,759	15,877	2,623	605	75	1,195	842	4,810
08/07 % Chg	7.2%	26.3%	69.4%	18.3%	-4.7%	-27.0%	21.4%	23.1%	11.5%	32.7%	90.2%	58.0%	142.8%	48.9%	63.8%
07/06 % Chg	-11.4%	-2.3%	-75.8%	-0.5%	-0.7%	-7.9%	4.1%	-29.7%	-12.1%	4.5%	48.8%	NM	-47.8%	4.9%	8.4%
06/05 % Chg	9.6%	NM	67.4%	-7.7%	13.1%	NM	7.3%	94.6%	28.5%	102.9%	NM	-51.9%	NM	99.3%	298.4%
Cash Free Cash Flow Per Share (CFO - capex + affiliates / fully diluted shs out)															
2008E	\$ 2.23	NM	\$ 1.36	\$ 1.06	\$ 1.23	NM	\$ 2.97	\$ 2.08	-	\$ 1.18	\$ 1.70	\$ 2.33	\$ 1.28	\$ 3.04	-
2007E	2.06	NM	0.78	0.72	1.24	NM	2.38	1.60	-	0.87	0.90	1.48	0.53	1.96	-
2006A	2.20	NM	3.08	0.71	1.13	NM	2.18	2.29	-	0.82	0.61	0.26	0.96	1.80	-
08/07 % Chg	8.1%	NM	73.9%	47.4%	-1.4%	NM	24.6%	30.3%	30.5%	35.0%	89.3%	57.2%	142.8%	55.0%	85.4%
07/06 % Chg	-6.2%	NM	-74.5%	1.5%	10.4%	NM	8.3%	-30.4%	-15.0%	5.7%	48.1%	NM	-44.8%	9.1%	4.5%
06/05 % Chg	12.8%	NM	68.7%	-11.8%	26.1%	NM	12.8%	95.8%	33.7%	111.3%	NM	-52.3%	NM	106.8%	55.3%

(1) Discovery Holdings valuation is presented as the valuation for 100% of Discovery Communications as if Ascent was sold for \$300m and the remaining 33.10% of Discovery were purchased at the current implied public valuation, with the exception of EPS and P/E, which are DHC data.
Source: Deutsche Bank Securities Inc. estimates; Company Reports.
Source: Deutsche Bank Securities, Company Documents

Figure 2: Cable, Entertainment & Satellite Company Valuations (US\$, sub data in 000s except per sub data)															
Entertainment Companies										Cable & Satellite Companies					
4/27/2007	Discovery	Liberty	News	Time	TW	Walt	Total/	Cable & Satellite Companies					Total/		
Rating	CBS	Hldgs (1)	Cap	Corp.	Wamer	Other	Viacom	Disney	Comcast	Cable	vision	DirecTV	EchoStar	Avg	
Ticker	CBS	DISCA/B	LCAPA/B	NWS	TWX		VIA/B	DIS	CMCSA	TWC	CVC	DTV	DISH		
Stk Price	\$32.04	\$21.74	\$113.20	\$22.84	\$20.61	NM	\$41.83	\$34.98	\$26.93	\$36.52	\$32.65	\$23.89	\$46.29		
All Valuation Comparisons are based on Calendar Year periods															
Enterprise Value/EBITDA (pro forma and based on period end EV)										EV/Total Company EBITDA					
2008E	7.7	11.0	-4.2	8.3	7.9	7.8	8.7	8.4	7.9	7.4	7.9	8.2	5.8	6.5	7.1
2007E	8.9	14.7	-5.3	9.9	8.9	7.8	10.0	10.0	9.2	8.7	9.3	9.8	7.6	7.9	8.4
2006E	9.4	18.8	-11.0	11.8	10.9	10.1	11.1	10.6	10.3	11.0	10.6	11.7	9.2	9.9	10.2
FY07-FY10E CAGR	6.0%	20.1%	25.7%	10.1%	11.6%	—	7.4%	8.8%	13.0%	12.1%	12.7%	10.1%	19.3%	12.8%	10.2%
2007 EV/EBITDA-G	1.48	0.73	NM	0.98	0.94	—	1.35	1.01	1.08	0.72	0.83	0.97	0.39	0.62	1.00
'07 multi-equity value	7.4x	7.3x	62.7x	11.3x	6.5x	6.6x	8.5x	9.9x	8.6x	7.3x	6.3x	4.8x	7.4x	7.1x	6.3x
'07 multi-debt value	1.5x	4.9x	7.3x	1.1x	2.5x	2.4x	2.1x	0.7x	1.8x	2.3x	2.5x	5.3x	0.5x	1.3x	3.3x
'07 multi-FCF value	-0.5x	-0.4x	-0.4x	-0.5x	-0.4x	-0.6x	-0.5x	-0.5x	-0.4x	-0.2x	-0.2x	-0.2x	-0.2x	-0.3x	-0.2x
'07 multi-hidden value	0.5x	2.9x	-74.8x	-2.0x	0.3x	-0.9x	-0.1x	-0.6x	-0.7x	-0.8x	0.6x	-2.7x	-0.7x	-0.2x	-0.5x
Pro Forma Pay TV EBITDA (i.e., ex-content/other ops, but including an allocation of corp. exp.)										EV/U.S. Pay TV Operations-Only EBITDA					
2008E	—	—	—	—	—	—	—	—	—	13,326	6,562	1,975	4,676	3,357	32,538
2007E	—	—	—	—	—	—	—	—	—	11,640	5,800	1,762	3,795	2,921	28,508
2006E	—	—	—	—	—	—	—	—	—	10,122	5,152	1,527	3,221	2,426	24,825
08/07 % Chg	—	—	—	—	—	—	—	—	—	14.5%	13.1%	12.1%	23.2%	14.9%	14.1%
07/06 % Chg	—	—	—	—	—	—	—	—	—	15.0%	12.6%	15.4%	17.8%	20.4%	14.8%
Enterprise Value/ U.S. Pay TV EBITDA (PF, uses hidden value for content & other and based on period end EV)										EV/U.S. Pay TV Operations-Only EBITDA					
2008E	—	—	—	—	—	—	—	—	—	7.3	7.9	7.2	5.8	6.5	7.3
2007E	—	—	—	—	—	—	—	—	—	8.7	9.3	8.5	7.5	7.9	8.7
2006E	—	—	—	—	—	—	—	—	—	10.3	10.6	10.1	9.0	9.9	10.1
Owned & Operated Basic Video Subscribers										EV/U.S. Pay TV Operations-Only EBITDA					
2008E	—	—	—	—	13,428	—	—	—	—	23,622	13,428	3,169	17,493	14,227	78,678
2007E	—	—	—	—	13,455	—	—	—	—	23,982	13,455	3,177	16,777	13,803	77,987
2006E	—	—	—	—	13,405	—	—	—	—	24,224	13,405	3,127	15,953	13,105	76,628
Enterprise Value Per Basic Video Subscriber										EV/U.S. Pay TV Operations-Only EBITDA					
2008E	—	—	—	—	NA	—	—	—	—	\$4,131	\$3,879	\$4,480	\$1,540	\$1,538	\$3,027
2007E	—	—	—	—	NA	—	—	—	—	4,220	3,998	4,692	1,696	1,681	3,163
2006E	—	—	—	—	NA	—	—	—	—	4,291	4,080	4,910	1,823	1,836	3,267
P/E										EV/U.S. Pay TV Operations-Only EBITDA					
2008E	15.3	51.3	NM	17.3	18.9	NM	18.2	16.6	22.6	27.8	24.0	27.6	12.7	19.2	20.5
2007E	17.4	83.4	180.5	20.5	21.1	NM	18.4	19.2	51.5	34.9	33.2	118.3	24.8	25.0	42.1
2006E	18.0	NM	NM	26.0	25.1	NM	20.2	19.9	21.8	33.8	41.9	NM	21.3	33.9	32.7
'07-'10 CAGR	8.2%	NM	NM	23.0%	17.3%	NM	14.1%	17.0%	15.9%	31.2%	25.2%	166.4%	31.8%	24.7%	55.9%
2007 PEG	212.7%	NM	NM	89.1%	122.3%	NM	130.9%	113.3%	—	111.8%	131.5%	71.1%	78.1%	101.1%	NM
P/Cash FCF Per Share										EV/U.S. Pay TV Operations-Only EBITDA					
2008E	14.4	38.0	83.0	17.8	16.8	17.0	14.1	15.6	28.5	22.9	21.5	14.0	12.5	15.2	16.2
2007E	15.6	45.7	144.4	25.6	16.6	12.4	17.8	18.3	40.5	30.9	40.6	22.0	45.3	23.6	31.8
2006E	14.6	33.1	36.8	31.3	18.3	11.4	19.2	16.0	24.2	32.8	60.2	124.8	25.0	25.7	53.7
'07-'10 CAGR	2.4%	NM	NM	32.5%	7.8%	NM	16.7%	14.4%	14.8%	28.6%	88.3%	48.1%	17.3%	26.7%	38.0%
Capex/FY07E EBITDA										EV/U.S. Pay TV Operations-Only EBITDA					
14.6%	11.8%	18.3%	16.7%	35.9%	NM	6.5%	19.0%	17.5%	—	50.2%	60.3%	34.1%	54.1%	60.0%	49.5%
FCF margin FY07E										EV/U.S. Pay TV Operations-Only EBITDA					
10.6%	11.5%	7.1%	8.3%	10.2%	14.1%	13.3%	9.4%	11.5%	—	8.8%	5.6%	6.8%	3.7%	8.0%	4.0%
FCF % EBITDA FY07E										EV/U.S. Pay TV Operations-Only EBITDA					
48.1%	44.8%	44.3%	40.6%	36.4%	70.3%	47.5%	42.1%	48.7%	—	27.1%	11.7%	4.3%	35.2%	34.7%	17.8%
Net Debt/TTM EBITDA										EV/U.S. Pay TV Operations-Only EBITDA					
1.3x	5.7x	5.0x	1.2x	3.0x	NM	2.2x	0.8x	2.7x	—	2.8x	2.8x	6.2x	0.7x	1.6x	4.5x
Dividend Yield										EV/U.S. Pay TV Operations-Only EBITDA					
2.7%	0.0%	0.0%	0.6%	1.0%	—	0.0%	0.7%	—	—	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TARGET PRICE															
DCF	34	—	—	27	26	—	51	42	—	32	—	36	29	50	—
Sum of the Parts	43	20.13	154	26	27	—	55	41	—	—	—	—	—	—	—
Price/SolP	75%	108%	74%	87%	76%	—	76%	85%	—	—	—	—	—	—	—
Target Price	34	20.13	135	27	26	na	51	42	—	34	46	37	30	50	—
% Change to Target	6%	-7%	19%	16%	26%	—	22%	20%	15%	26%	26%	13%	26%	8%	18%
CY08E EBITDA Target	9.3x	10.6x	4.1x	9.8x	9.4x	—	10.5x	10.3x	8.2x	8.8x	9.4x	5.5x	6.8x	7.0x	7.3x
CY08E P/E Target	16.2x	47.5x	NM	20.5x	23.8x	—	19.7x	18.9x	24.6x	35.1x	30.2x	31.2x	23.9x	20.8x	27.8x
CY08E P/FCF Target	15.3x	—	NM	21.2x	21.2x	—	17.2x	18.8x	18.7x	28.9x	27.0x	15.9x	23.4x	16.4x	21.2x

(1) Discovery Holdings valuation is presented as the valuation for 100% of Discovery Communications as if Ascend was sold for \$300m and the remaining 33.15% of Discovery were purchased at the current implied public valuation, with the exception of EPS and P/E, which are DHC data.
Source: Deutsche Bank Securities Inc. estimates; Company Reports.
Source: Deutsche Bank Securities, Company Documents

Figure 3: Cable Network Group Operating Comparisons

	2006 Cable Network Group Reported Results (1)					Total
	Discovery	Viacom	Disney	Turner	NewsCorp	
DOMESTIC						
Aggregate avg. daily HH viewing (000s)	1,517	4,852	2,828	3,813	2,452	15,461
Total affiliate fees (mm)	\$ 865	\$ 1,718	\$ 4,951	\$ 2,777	\$ 2,297	\$ 12,608
Affiliate fees per HH viewing per day	\$ 1.56	\$ 0.97	\$ 4.80	\$ 2.00	\$ 2.57	\$ 2.23
Total domestic subs (mm)	744.8	873.5	647.7	610.2	299.1	3,175
Affiliate fees per average sub/mo	\$ 0.10	\$ 0.16	\$ 0.64	\$ 0.38	\$ 0.64	\$ 1.92
Advertising revenue (mm)	\$ 975	\$ 3,790	\$ 2,726	\$ 2,605	\$ 1,088	\$ 11,185
Ad revenue per HH viewing per day (2)	\$ 1.76	\$ 2.14	\$ 4.09	\$ 1.87	\$ 1.22	\$ 1.98
Domestic Revenue (mm)	\$ 1,926	\$ 6,168	\$ 7,839	\$ 5,491	\$ 3,764	\$ 25,188
Domestic EBITDA (mm)	727	3,042	2,839	1,775	1,206	9,589
Domestic margin	37.8%	49.3%	36.2%	32.3%	32.0%	38.1%
INTERNATIONAL						
Revenue (mm)	\$ 879	\$ 981	\$ 1,109	\$ 308	NE	\$ 3,277
International EBITDA (mm)	116	147	187	77	NE	528
International margin	13.2%	15.0%	16.9%	25.0%	NE	16.1%
OTHER						
Commerce (mm)	\$ 118					
Education (mm)	91					
Total Other Revenue (mm)	\$ 208					
Other EBITDA (mm)	(91)					
Other EBITDA margin	-44.0%					
Corporate Expense (mm)	\$ (69)					
TOTAL						
Total Revenue (mm)	\$ 3,013	\$ 7,241	\$ 8,849	\$ 6,006	\$ 3,764	\$ 28,872
Total EBITDA (mm)	683	3,189	3,027	1,852	1,206	9,957
Total EBITDA margin	22.7%	44.0%	34.2%	30.8%	32.0%	34.5%

(1) Disney and News Corp. data are FY07.

(2) Disney's advertising power ratio excludes the 1m HH viewers for the non-ad supported Disney Channel.

Source: Deutsche Bank Securities, Nielsen Media Research, Company Documents

Figure 4: Cable Net Ratings - Total Day Households by Company

Company	Period												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
FOX	544	530	530	572	532	516	518	541	551	488	507	484	487
FX	644	630	630	672	632	616	618	641	651	588	607	584	587
National Geographic	180	180	180	180	180	180	180	180	180	180	180	180	180
Speed Channel	124	124	124	124	124	124	124	124	124	124	124	124	124
Fox News	725	725	725	725	725	725	725	725	725	725	725	725	725
Fox Sports	1573	1558	1558	1612	1474	1418	1524	1443	1514	1510	1484	1737	1724
DISNEY	1626	1608	1585	1687	1828	2108	1780	1704	1704	1652	1906	1515	1630
ABC Family	489	508	511	471	484	524	495	523	524	524	545	508	520
ESPN	565	557	526	616	754	990	712	672	672	655	868	548	620
ESPN2	254	233	233	283	239	269	256	255	255	236	258	219	236
Soap Net	151	138	158	158	126	142	139	101	101	92	87	88	90
Toon Disney	157	157	157	159	145	145	159	153	153	155	158	154	141
Disney Unconsolidated	2401	2232	2430	2577	2754	2281	2036	2136	2205	2205	2184	2154	2265
A&E	738	675	740	814	549	667	564	487	487	464	480	483	543
Biography Channel	94	96	96	108	75	80	81	74	64	46	53	53	37
History Channel	540	522	542	562	495	483	489	529	529	507	495	504	563
Lifetime	798	744	815	848	800	805	816	823	823	894	845	868	968
Lifetime Movie Net	229	210	237	244	235	216	238	233	233	256	245	257	254
VISCOM	322	321	317	330	355	329	365	358	372	325	344	349	297
BET	489	488	487	508	494	482	470	494	532	532	506	544	431
SPK	500	508	516	526	550	481	503	581	581	580	590	566	525
MTV	88	98	105	114	82	85	90	89	79	80	74	84	80
MUZ	367	329	331	452	327	328	330	307	346	305	302	307	261
VH1	1699	1654	1769	1682	1657	1608	1637	1685	1720	1634	1636	1568	1574
Nickelodeon	80	78	84	78	76	77	81	77	66	67	67	66	36
Nick Toons	78	78	84	78	76	77	81	77	66	67	67	66	36
Noggin	164	163	167	162	141	135	139	134	127	127	131	136	93
TV Land	488	499	498	535	505	466	473	485	456	456	418	413	403
Comedy Central	508	500	517	505	471	467	473	485	456	424	418	413	403
GMT	177	177	177	177	177	177	177	177	177	170	175	170	157
TVX	780	742	799	811	757	726	729	745	831	788	812	759	831
TBS	947	1023	1002	1061	1007	1101	1088	1052	1081	1081	1081	1131	783
TNT	441	447	456	457	424	446	487	385	452	452	422	407	418
CNN	894	909	920	849	958	902	1025	973	937	1031	934	1036	991
Cable News Network	589	581	577	512	422	473	395	390	424	420	379	433	420
Headline News	224	229	238	204	194	196	175	175	201	187	187	193	173
DISCOVERY	189	169	174	185	149	150	162	130	155	136	140	133	121
COXIAN	178	169	174	185	149	150	162	130	155	136	140	133	121
The Learning Ch.	964	964	964	964	964	964	964	964	964	964	964	964	964
COXIAN	964	964	964	964	964	964	964	964	964	964	964	964	964
Animal Planet	264	249	278	278	264	265	265	265	266	266	266	266	266
NEBU	235	218	243	244	224	235	243	203	214	189	189	180	209
Bravo	286	286	286	286	286	286	286	286	286	286	286	286	286
MSNBC	286	286	286	286	286	286	286	286	286	286	286	286	286
CNBC	286	286	286	286	286	286	286	286	286	286	286	286	286
USA	1008	1008	1008	1008	1008	1008	1008	1008	1008	1008	1008	1008	1008
Sci Fi	420	394	418	449	415	423	417	383	428	436	420	446	459
NBCU	218	215	215	220	208	207	199	193	203	189	189	180	209
1773	1745	1739	1739	1773	1773	1773	1773	1773	1773	1773	1773	1773	1773
Cablevision (Rainbow Media)	108	98	116	111	107	97	116	108	109	86	90	91	79
WE	108	98	116	111	107	97	116	108	109	86	90	91	79
A&E	491	471	488	487	454	448	464	440	450	431	434	458	404
FUSE	19	19	17	17	15	16	14	14	16	15	14	14	16
Total Cablevision	616	585	620	650	573	561	594	562	575	554	561	570	506
Comcast	66	65	66	66	64	64	67	68	62	63	59	64	53
Verizon	66	65	66	66	64	64	67	68	62	63	59	64	53
Golf Channel	80	80	81	81	79	79	80	80	80	79	79	79	79
ESPN	80	80	81	81	79	79	80	80	80	79	79	79	79
ESPN2	80	80	81	81	79	79	80	80	80	79	79	79	79
GolT Channel	80	80	81	81	79	79	80	80	80	79	79	79	79
Other	42	42	42	42	42	42	42	42	42	42	42	42	42
Total Comcast	505	517	517	517	454	472	474	456	454	381	380	367	328
Other	46	46	46	46	46	46	46	46	46	46	46	46	46
BBC America	42	42	42	42	39	39	39	39	39	35	33	37	31
WGN	183	182	200	201	200	200	201	217	217	203	199	189	222
Home & Garden	495	495	500	544	498	490	484	496	490	490	448	448	442
SPS	471	471	483	474	480	480	484	487	487	428	428	428	374
Game Show Net	191	191	192	203	189	180	196	195	187	145	150	138	139
Hallmark Channel	556	556	545	585	555	580	582	524	530	486	498	450	476
Oxygen	156	155	154	154	147	146	154	136	132	132	134	124	113
TV Guide	128	124	134	128	125	120	127	121	132	131	130	127	119
GMSME	128	124	134	128	125	120	127	121	132	131	130	127	119
Great American Ch.	51	51	55	51	0	0	0	0	0	0	0	0	0
The Weather Ch.	278	240	212	291	238	229	237	242	243	282	280	245	287
Total Other	2575	2460	2619	2668	2471	2439	2530	2418	2468	2312	2378	2350	2333
TOTAL	21832	20940	21951	22796	20947	21054	21274	20414	21046	20312	20354	20660	19488
20040	20660	20660	20660	20660	20660	20660	20660	20660	20660	20660	20660	20660	20660
19193	19193	19193	19193	19193	19193	19193	19193	19193	19193	19193	19193	19193	19193

Source: Nielsen and Deutsche Bank Research

Figure 5: Cable Nets Total Day Household Trend - By Company

Partner	1Q07	Mar	Feb	Jan	CY06	4Q06	3Q06	2Q06	1Q06	CY05	4Q05	3Q05	2Q05	1Q05	2004	
Fox																
FX	-1%	-3%	-2%	2%	7%	2%	5%	9%	12%	8%	12%	-2%	5%	8%	14%	
National Geographic	34%	38%	32%	30%	15%	20%	12%	22%	11%	48%	30%	47%	53%	64%	57%	
Speed Channel	4%	-4%	4%	14%	15%	12%	19%	10%	23%	11%	12%	10%	8%	13%	24%	
Fox News	2%	3%	8%	-1%	-13%	-14%	-26%	-4%	-1%	6%	-11%	31%	0%	5%	-11%	
Fox Sports	NA	NA	NA	NA	NA	NA	NA	NA	NA							
Total Fox	4%	3%	6%	4%	-2%	-4%	-12%	4%	6%	9%	0%	20%	5%	10%	1%	
Disney																
Disney Consolidated	-8%	-6%	3%	-8%	10%	11%	12%	12%	5%	2%	1%	-1%	0%	7%	18%	
ABC Family	-5%	-6%	0%	-9%	0%	3%	-2%	-2%	1%	5%	-2%	1%	12%	11%	65%	
ESPN	-16%	-13%	-7%	-22%	17%	14%	23%	22%	8%	-3%	2%	-9%	-8%	5%	3%	
ESPN2	12%	7%	14%	18%	-2%	7%	-1%	-5%	-10%	2%	-4%	2%	5%	7%	4%	
Soap Net	50%	33%	49%	65%	37%	46%	49%	36%	12%	-1%	3%	-2%	-6%	-1%	28%	
Toon Disney	3%	-2%	2%	8%	0%	5%	-5%	6%	-4%	10%	-1%	24%	11%	7%	6%	
Disney Unconsolidated	12%	7%	14%	18%	-2%	7%	-1%	-5%	-10%	2%	-4%	2%	5%	7%	1%	
A&E	52%	42%	50%	68%	9%	39%	13%	-3%	-10%	-4%	-7%	-4%	-4%	-1%	-1%	
Biography Channel	47%	25%	52%	70%	63%	51%	53%	76%	73%	NA	77%	104%	163%	NA	NA	
History Channel	2%	-2%	6%	3%	-2%	0%	1%	-3%	-6%	1%	1%	1%	0%	3%	15%	
Lifetime	-3%	-4%	-3%	0%	-11%	-5%	-9%	-13%	-15%	2%	-9%	0%	11%	10%	-11%	
Lifetime Movie Net	-2%	-13%	8%	3%	-8%	-12%	-11%	-2%	-8%	9%	6%	16%	8%	5%	22%	
Total Disney	5%	1%	10%	6%	3%	9%	5%	2%	-4%	2%	-1%	1%	3%	7%	8%	
Viacom																
BET	-13%	-8%	-13%	-17%	9%	-4%	5%	14%	25%	17%	23%	24%	15%	8%	-7%	
SPK	-6%	-6%	-6%	-7%	-7%	-5%	-14%	-4%	-6%	23%	0%	20%	50%	35%	13%	
MTV	-12%	-13%	-11%	-12%	-1%	-6%	1%	-1%	3%	8%	4%	13%	8%	9%	11%	
MTV2	18%	24%	18%	18%	18%	20%	20%	22%	5%	32%	32%	NA	NA	NA	NA	
VH1	6%	1%	-2%	24%	7%	9%	5%	4%	12%	17%	19%	18%	13%	18%	15%	
Nickelodeon	-1%	-5%	1%	1%	1%	-2%	0%	6%	1%	4%	0%	0%	-3%	15%	20%	
Nick Toons	21%	8%	31%	28%	25%	15%	28%	33%	32%	61%	76%	NA	NA	NA	NA	
Noggin	22%	20%	26%	22%	11%	21%	2%	10%	9%	37%	19%	39%	43%	48%	22%	
TV Land	-10%	-24%	-6%	1%	3%	-10%	3%	9%	11%	21%	17%	25%	15%	28%	6%	
Comedy Central	11%	4%	17%	11%	11%	12%	16%	17%	-2%	5%	1%	1%	1%	19%	27%	
CMT	-4%	-11%	4%	-3%	2%	1%	8%	-4%	7%	8%	8%	6%	8%	10%	5%	
Total Viacom	-2%	-6%	0%	1%	3%	-1%	2%	6%	4%	12%	7%	14%	12%	22%	17%	
TWX																
TBS	-6%	-11%	-1%	-4%	-4%	-10%	-4%	-1%	0%	3%	3%	6%	4%	0%	-1%	
TNT	-6%	-6%	-8%	-5%	-2%	4%	1%	-4%	-8%	3%	-4%	6%	4%	7%	7%	
CNN	15%	12%	21%	13%	-6%	6%	-20%	1%	-5%	8%	-3%	39%	-9%	3%	-26%	
Cartoon Network	-5%	-7%	-2%	-8%	-7%	-3%	-1%	-8%	-13%	4%	-7%	-5%	10%	20%	4%	
Court TV	32%	40%	37%	18%	0%	23%	4%	-14%	-9%	0%	-19%	-17%	19%	27%	17%	
Headline News	15%	22%	23%	1%	-5%	5%	-14%	-8%	0%	16%	-3%	31%	17%	21%	-2%	
Total Time Warner	2%	1%	4%	0%	-4%	1%	-4%	-7%	4%	4%	-5%	5%	6%	11%	0%	
Discovery																
Travel Channel	COXIAN	14%	12%	18%	13%	10%	7%	22%	-2%	10%	12%	21%	13%	9%	8%	3%
Discovery	COXIAN	8%	10%	3%	8%	21%	17%	24%	23%	20%	-2%	4%	8%	-4%	-13%	1%
The Learning Ch.	COXIAN	11%	4%	13%	16%	12%	16%	16%	17%	1%	-24%	-10%	-18%	-30%	-19%	
Animal Planet	COXIAN	0%	-1%	2%	0%	2%	2%	5%	4%	-4%	1%	6%	6%	-8%	-2%	0%
Total Discovery	8%	6%	7%	9%	13%	12%	17%	14%	8%	-7%	2%	-1%	-12%	-16%	-7%	
NBCU																
Bravo	10%	3%	8%	18%	19%	18%	35%	19%	2%	-6%	3%	-11%	-16%	0%	25%	
MSNBC	32%	34%	24%	39%	9%	22%	-10%	13%	14%	0%	-3%	13%	-5%	-5%	-22%	
CNBC	44%	64%	13%	55%	21%	15%	15%	38%	19%	-3%	21%	7%	-9%	-25%	-21%	
USA	-2%	2%	5%	-8%	13%	0%	22%	18%	14%	6%	18%	-6%	6%	6%	15%	
Sol Fl	-2%	-3%	-1%	0%	-5%	3%	-7%	-10%	-7%	7%	4%	10%	9%	2%	10%	
Total NBCU	6%	8%	7%	4%	9%	8%	11%	12%	6%	4%	11%	1%	2%	1%	6%	
Cablevision (Rainbow Media)																
WE	-1%	-3%	15%	-8%	24%	8%	27%	26%	38%	0%	6%	1%	6%	-8%	12%	
AMC	9%	14%	13%	5%	0%	-1%	1%	2%	-2%	12%	0%	23%	20%	7%	8%	
FUSE	6%	48%	31%	-25%	-12%	-5%	-26%	0%	-16%	6%	13%	27%	-18%	6%	45%	
Total Cablevision	7%	12%	14%	2%	3%	0%	4%	6%	3%	9%	2%	19%	16%	4%	9%	
Comcast																
Venus	6%	2%	8%	13%	3%	0%	-20%	31%	13%	17%	9%	31%	21%	8%	33%	
Gulf Channel	90%	63%	90%	125%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	
G4techTV	50%	32%	49%	73%	33%	41%	NA	NA	NA	NA	NA	NA	NA	NA	NA	
E! Entertainment	3%	-6%	21%	-2%	6%	10%	7%	3%	5%	1%	9%	10%	-1%	-9%	-9%	
Style Channel	34%	16%	37%	51%	19%	28%	11%	15%	23%	NA	NA	NA	NA	NA	NA	
Total Comcast	20%	8%	32%	22%	10%	14%	1%	9%	9%	8%	12%	34%	20%	7%	9%	
Other																
BBC America	DISCA	20%	31%	20%	6%	11%	18%	22%	5%	3%	13%	22%	20%	16%	-6%	-11%
WGN	TRB	-11%	-15%	-10%	-7%	-1%	-10%	6%	1%	-2%	-7%	-4%	-8%	-8%	-6%	7%
Home & Garden	SSP	0%	-5%	1%	6%	6%	2%	15%	9%	7%	4%	9%	5%	2%	0%	10%
Food Channel	SSP	-3%	-10%	2%	-1%	12%	9%	17%	12%	11%	14%	15%	17%	10%	16%	13%
Game Show Net	LUSNE	2%	-4%	4%	7%	30%	13%	33%	41%	38%	4%	26%	10%	3%	-14%	-3%
Hallmark Channel	CRWN	5%	-1%	9%	8%	14%	12%	17%	16%	11%	39%	27%	42%	34%	51%	49%
Oxygen		4%	19%	2%	-6%	11%	7%	18%	10%	9%	17%	14%	23%	12%	21%	38%
TV Guide	GMSTE	-3%	-4%	6%	-8%	-5%	-10%	-2%	-5%	1%	10%	4%	15%	18%	4%	-13%
Great American	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA						
The Weather Ch.	Landmark	14%	-2%	20%	27%	-18%	-18%	-34%	-1%	-14%	2%	20%	-10%	-3%	5%	17%
Total Other	3%	-2%	7%	8%	7%	3%	8%	10%	7%	12%	15%	11%	8%	11%	14%	
TOTAL	3%	1%	6%	4%	3%	3%	3%	5%	2%	6%	3%	8%	6%	4%	2%	

Source: Deutsche Bank Nielsen Media Research

Figure 8: Discovery Communications Bull Case Scenario

(\$MMs)	DCI		DCI '07E Bull Case	Rationale
	2006A	2007E		
Domestic				
Domestic Revenue	\$ 1,926	\$ 2,044	\$ 2,044	
PF YY growth		12.8%	12.8%	
Domestic EBITDA	\$ 727	\$ 813	\$ 1,008	
PF YY growth		21.7%	55.0%	
Domestic margin	37.8%	39.8%	49.3%	(match VIA's domestic margins)
International				
Revenue	\$ 879	\$ 1,037	\$ 900	(adjusted for restructurings)
YY growth		18.0%	2.4%	
International EBITDA	\$ 116	\$ 187	\$ 252	
YY growth		60.3%	116.4%	
International margin	13.2%	18.0%	28.0%	(VIA indicated 1000bp int'l upside)
Other				
Commerce Revenue	\$ 118	\$ 130	\$ -	
YY growth		10.0%		
Education Revenue	\$ 91	\$ 97	\$ -	
YY growth		6.6%		
Total Other Revenue	\$ 208	\$ 227	\$ -	
YY growth		9.4%		
Other EBITDA	\$ (91)	\$ (77)	\$ -	
Other EBITDA margin	-44.0%	-33.8%		
Corporate Expense	\$ (69)	\$ (73)	\$ (60)	(about 2% of revenue)
Total Company				
Total Revenue	\$3,013	\$ 3,308	\$ 2,944	
Total EBITDA	\$ 683	\$ 850	\$ 1,200	
Total EBITDA margin	22.7%	24.9%	40.6%	

Source: Deutsche Bank Securities, Company Documents

Figure 9: Discovery – Bull Case Valuation

(\$mm, except per share data)		2007E
Total Discovery Bull Case EBITDA		\$ 1,200
Target EV/EBITDA		12.0x
DCI Target Enterprise Value		\$ 14,402
Pro Forma Net Debt	\$ 3,864	
Minority Ownership Put Right Liability	95	
Launch Incentive Liability	29	
Distr. Renewal Fees – Europe	185	
Potential Renewal Liability	150	
Long-term Incentive Plan Liability	173	
Total Net Liabilities		\$ (4,496)
Asset value of Antenna Audio Ltd	\$ 65	
Asset value of Education businesses	200	
Asset value of Discovery Stores, merchandise	75	
Total Likely Monetizations		\$ 340
Bull Case Net Equity Value of DCI		\$ 10,246
DHC Ownership Share		66.7%
Equity value attributable to DHC		\$ 6,831
DHC Cash	\$ 155	
DHC / Ascent Valuation	300	
DHC Option Proceeds	87	
Value of DHC-Level Assets		\$ 541
Total DHC Value		\$ 7,372
Total Shares Outstanding, Including Options		285.2
Bull Case Target Price for DHC		\$ 25.85

Source: Deutsche Bank Securities, Company Documents

Figure 10: Discovery Holdings – Implied Discovery Communications Valuation

Discovery Comm Pro Forma Debt	
Long-Term Net Debt Outstanding	\$ 3,864
Minority Ownership Put Right Liability	95
Launch Incentive Liability	29
Potential Renewal Fees – Europe	185
Long-term Incentive Plan Liability	177
Total Pro Forma Debt, 12/31/06	\$ 4,350

Discovery Comm Implied Enterprise Value	
DHC Equity Market Capitalization	\$ 6,197
DHC Net Debt (Cash)	(155)
DHC Option Proceeds	(87)
DHC Enterprise Valuation	\$ 5,956
Value of Ascent	\$ (300)
Implied Valuation For 67% Discovery Comm Stake	\$ 5,656
Gross Value to 100% of Discovery Comm (x1.5)	\$ 8,484
Plus: Discovery Comm Pro Forma Debt	\$ 4,350
Enterprise Value For 100% Discovery Comm Stake	\$ 12,834

Discovery Comm Valuation	2007	2008	2009	2010	2011
Current Discovery Comm Enterprise Valuation	\$ 12,834				
FCF generated, remainder of period	(381)	(488)	(656)	(810)	(932)
End of period Enterprise Valuation	\$ 12,453	\$ 11,964	\$ 11,308	\$ 10,498	\$ 9,566
Discovery Comm EBITDA	\$ 850	\$ 1,087	\$ 1,304	\$ 1,471	\$ 1,602
y/y growth	24.4%	27.9%	20.0%	12.8%	8.9%
margin	25.7%	31.3%	35.2%	37.0%	38.0%
EV/EBITDA	14.6x	11.0x	8.7x	7.1x	6.0x
Discovery Comm Implied Public Equity Value	\$ 8,484	\$ 8,484	\$ 8,484	\$ 8,484	\$ 8,484
Discovery Com FCF	\$ 381	\$ 488	\$ 656	\$ 810	\$ 932
P/FCF	22.3x	17.4x	12.9x	10.5x	9.1x

DHC Sum-of-the-Parts		2007
Ascent Media Valuation		\$ 300
Discovery Communications DCF Valuation	9,959	
DHC Share	66.7%	
Net DHC Value	\$ 6,640	
Private Market Discount	0%	
Net Public Discovery Comm Value	\$ 6,640	
Cash		\$ 155
Option Proceeds		\$ 87
Total DHC Value	\$ 7,181	
Control Discount	20%	
Net Public Equity Value of DHC	\$ 5,741	
Shares Outstanding		285.2
Target Sum-of-the-Parts for DHC	\$ 20.13	

Source: Deutsche Bank Securities estimates; Company reports

Source: Deutsche Bank Securities, Company Documents

Figure 11: Discovery Nets - Changes to Annual Estimates

(\$MM, except per share data)

REVENUE	FY06A				FY07 Estimates And Changes				FY08 Estimates And Changes			
	Old Est	Chg	New Est	Old Est	Chg	New Est	Old Est	Chg	New Est	Old Est	Chg	New Est
Advertising	\$1,244	74	\$1,380	\$1,306	11.0%	5.0%	\$1,489	-78	\$1,413	7.9%	8.2%	
Subscriber	1,435	-32	1,626	1,594	13.3%	11.1%	1,809	-62	1,747	NM	9.6%	
Other	335	+ 37	371	408	11.0%	22.0%	413	-96	318	NM	-22.2%	
U.S. Networks	1,926	-167	2,150	2,044	11.6%	6.1%	2,344	-138	2,206	9.0%	7.9%	
International	879	+ 30	1,007	1,037	14.6%	18.0%	1,126	+ 33	1,159	11.8%	11.7%	
Commercial/Educ.	208	+ 7	220	227	6.0%	9.4%	242	-129	114	10.0%	-50.0%	
Cons. Revenue	3,013	-70	3,378	3,308	12.1%	9.8%	3,712	-234	3,478	9.9%	5.1%	
OPFXP	\$1,199	-70	\$1,301	\$1,231	8.5%	2.7%	\$1,398	-119	\$1,280	7.5%	4.0%	
U.S. Networks	763	-27	877	850	15.0%	11.5%	950	-49	900	8.3%	5.9%	
Commercial/Educ.	247	+ 22	245	267	-0.7%	8.2%	277	-121	157	13.1%	-41.4%	
Cons. Opeexp	2,208	-75	2,423	2,348	9.7%	6.3%	2,625	-289	2,336	8.3%	-0.5%	
EBITDA	\$727	-37	\$850	\$813	16.8%	11.8%	\$946	-19	\$926	11.3%	13.9%	
U.S. Networks	116	+ 57	130	187	11.6%	60.3%	176	+ 82	258	35.7%	38.4%	
International	(121)	+ 19	(129)	(110)	6.0%	-9.7%	(124)	+ 69	(55)	-3.5%	-50.0%	
Commercial/Educ.	(39)	-15	(25)	(40)	NM	NM	(35)	-8	(43)	40.0%	7.5%	
LT Options	683	+ 24	826	850	20.9%	24.4%	963	+ 124	1,087	16.6%	27.9%	
Cons. EBITDA	3,013	-70	3,378	3,308	12.1%	9.8%	3,712	-234	3,478	9.9%	5.1%	
Revenue	683	+ 24	826	850	20.9%	24.4%	963	+ 124	1,087	16.6%	27.9%	
EBITDA	560	+ 27	672	699	22.2%	27.2%	808	+ 133	942	20.4%	34.8%	
EBIT	3,013	+ 24	3,378	3,308	12.1%	9.8%	3,712	-234	3,478	9.9%	5.1%	
As Reported	\$ 0.17	\$ 0.18	\$ 0.18	\$ 0.26	6.1%	55.7%	\$ 0.23	\$ +0.20	\$ 0.42	28.4%	62.8%	

Source: Company reports; Deutsche Bank Securities

Source: Deutsche Bank Securities, Company Documents

(in thousands)

Figure 14: Discovery Communications - Cash Flow Statement

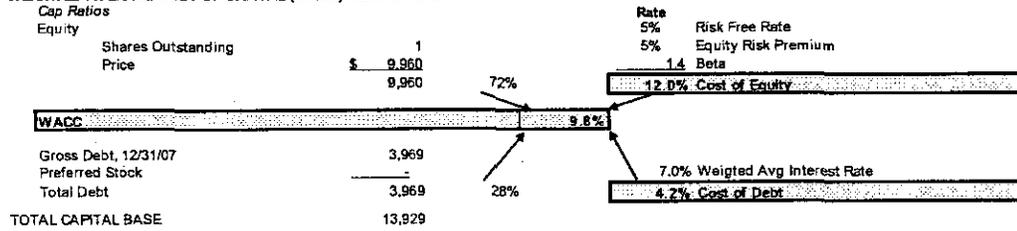
	2004	2005	2006	2007	2008	2009	2010	2011	2012			
OPERATING ACTIVITIES	165,022	159,420	207,776	56,950	76,683	69,613	76,464	275,111	420,982	588,034	734,064	837,096
Depreciation and amortization	125,013	125,200	133,634	38,543	38,583	37,000	37,900	151,166	145,040	142,138	139,296	136,510
Amortization of deferred license amortization and representation rights	107,573	83,413	77,778	15,000	15,000	15,000	15,000	60,000	30,000	30,000	30,000	30,000
Provision for losses on accounts receivable and representation rights	935	12,217	12,217	10,358	9,644	10,000	96,952	42,932	45,932	48,932	51,932	51,932
Expenses relating to long-term contracts	11,113	66,663	39,233	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000	17,000
Change in (contract) losses on derivative financial instruments, net	105,522	106,283	106,283	-	-	-	-	-	-	-	-	-
Unrealized (gains) losses on derivative financial instruments, net	(45,400)	(22,499)	(22,458)	-	-	-	-	-	-	-	-	-
Gain on sale of investments	54,948	43,606	2,451	(1,878)	1,610	(2,809)	5,328	2,451	1,000	-	-	-
Gain on sale of investments	(27,007)	9,675	106,514	-	-	-	-	-	-	-	-	-
Other non-cash charges	5,300	(37,207)	(84,588)	6,662	6,662	6,662	6,662	6,662	6,662	6,662	6,662	
Changes in asset and liabilities, net of business combinations	(60,841)	1,833	(4,860)	(13,063)	(13,692)	(13,822)	(13,822)	(13,822)	(13,822)	(13,822)	(13,822)	(13,822)
Investments	4,555	1,788	(4,860)	-	-	-	-	-	-	-	-	-
Other assets	(14,706)	(7,344)	(7,344)	-	-	-	-	-	-	-	-	-
Prepayment rights, net of payables	(122,833)	(108,153)	(84,777)	(6,440)	5,699	6,440	6,440	6,440	6,440	6,440	6,440	
Accounts payable and accrued liabilities	30,734	47,213	23,665	5,890	5,890	5,890	5,890	5,890	5,890	5,890	5,890	
Deferred market securities	(4,679)	(6,000)	9,233	5,890	5,890	5,890	5,890	5,890	5,890	5,890	5,890	
Deferred market securities	(24,696)	(35,731)	(49,386)	5,890	5,890	5,890	5,890	5,890	5,890	5,890	5,890	
Long-term investments	(246,753)	(325,756)	(481,831)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)	(1,250)	
Total Working Cap Changes	(45,613)	(481,831)	(647,917)	(5,690)	(5,690)	(5,690)	(5,690)	(5,690)	(5,690)	(5,690)	(5,690)	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Acquisition of property and equipment	(82,390)	(96,644)	(90,338)	(13,796)	(13,796)	(13,796)	(13,796)	(13,796)	(13,796)	(13,796)	(13,796)	
Investment in property and equipment	25,007	14,664	1,667	(44,500)	(44,500)	(44,500)	(44,500)	(44,500)	(44,500)	(44,500)	(44,500)	
Investment in and advances to non-related affiliates	(14,884)	(363)	-	-	-	-	-	-	-	-	-	
Investment in and advances to related affiliates	(383)	(363)	-	-	-	-	-	-	-	-	-	
Investment in and advances to non-related affiliates	(1,212)	(400)	(34,905)	-	-	-	-	-	-	-	-	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
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Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799	380,317	336,281	488,657	488,657	488,657	488,657	
Free Cash Flow	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Operating cash provided by operations	124,690	68,893	479,917	89,260	125,977	125,977	125,977	125,977	125,977	125,977	125,977	
Change in cash and cash equivalents	36,598	(28,793)	389,773	64,260	184,799							

Figure 15: Discovery Communications – DCF Valuation

(\$MM, except per share data)

	2007e	2008e	2009e	2010e	2011e
Company FCF					
Segment EBITDA	\$ 850	\$ 1,087	\$ 1,304	\$ 1,471	\$ 1,602
growth		27.9%	20.0%	12.8%	8.9%
EBITDA margin	24.8%	28.0%	30.9%	32.2%	33.5%
Cap Ex	100	100	90	80	80
Taxes	206	305	409	489	609
TOTAL FREE CASH FLOW	544	682	806	902	913
growth		25.4%	18.1%	12.0%	1.3%
FCF margin	25.8%	30.9%	34.5%	36.7%	35.2%

WEIGHTED AVERAGE COST OF CAPITAL (WACC) COMPUTATION



VALUATION MATRICES

2007E

		Terminal g				
		3.0%	3.5%	4.0%	4.5%	5.0%
W	7.8%	11,986	13,635	15,721	18,444	22,146
A	8.8%	9,751	10,876	12,238	13,918	16,043
C	9.8%	8,175	8,996	9,959	11,106	12,493
C	10.8%	7,004	7,632	8,353	9,189	10,170
C	11.8%	6,100	6,597	7,159	7,798	8,532

Terminal Value % of Total

		Terminal g				
		3.0%	3.5%	4.0%	4.5%	5.0%
W	7.8%	81%	83%	85%	86%	88%
A	8.8%	77%	79%	81%	83%	85%
C	9.8%	74%	76%	77%	79%	81%
C	10.8%	71%	72%	74%	76%	77%
C	11.8%	68%	69%	71%	72%	74%

Terminal Value EBITDA Multiple

		Terminal g				
		3.0%	3.5%	4.0%	4.5%	5.0%
W	7.8%	12.3x	13.8x	15.7x	18.1x	21.5x
A	8.8%	10.2x	11.2x	12.4x	13.9x	15.8x
C	9.8%	8.7x	9.4x	10.3x	11.3x	12.5x
C	10.8%	7.5x	8.1x	8.7x	9.5x	10.4x
C	11.8%	6.7x	7.1x	7.6x	8.2x	8.8x

2008E

		Terminal g				
		3.0%	3.5%	4.0%	4.5%	5.0%
W	7.8%	12,683	14,461	16,710	19,644	23,634
A	8.8%	10,275	11,488	12,955	14,766	17,057
C	9.8%	8,576	9,461	10,499	11,735	13,230
C	10.8%	7,314	7,991	8,768	9,669	10,726
C	11.8%	6,339	6,875	7,481	8,170	8,961

Terminal Value % of Total

		Terminal g				
		3.0%	3.5%	4.0%	4.5%	5.0%
W	7.8%	84%	85%	87%	88%	90%
A	8.8%	81%	82%	84%	85%	87%
C	9.8%	78%	79%	80%	82%	84%
C	10.8%	75%	76%	77%	79%	80%
C	11.8%	72%	73%	75%	76%	77%

Terminal Value EBITDA Multiple

		Terminal g				
		3.0%	3.5%	4.0%	4.5%	5.0%
W	7.8%	12.3x	13.8x	15.7x	18.1x	21.5x
A	8.8%	10.2x	11.2x	12.4x	13.9x	15.8x
C	9.8%	8.7x	9.4x	10.3x	11.3x	12.5x
C	10.8%	7.5x	8.1x	8.7x	9.5x	10.4x
C	11.8%	6.7x	7.1x	7.6x	8.2x	8.8x

Source: Deutsche Bank; Company Reports.
Source: Deutsche Bank Securities, Company Documents

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Discovery	DISCA.OQ	21.74 (USD) 27 Apr 07	NA
Walt Disney Company	DIS.N	34.98 (USD) 27 Apr 07	1,2,6,7,8,14,15,17
News Corporation	NWSa.N	22.84 (USD) 27 Apr 07	2,6,8,14,17
Time Warner	TW.N	20.61 (USD) 27 Apr 07	1,2,6,7,8,14,15
Viacom Inc.	VIAb.N	41.83 (USD) 27 Apr 07	1,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See "Important Disclosures Required by Non-US Regulators" and Explanatory Notes.

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.

2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.

6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.

7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.

8. Deutsche Bank and/or its affiliate(s) expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.

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1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.

2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.

6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.

7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.

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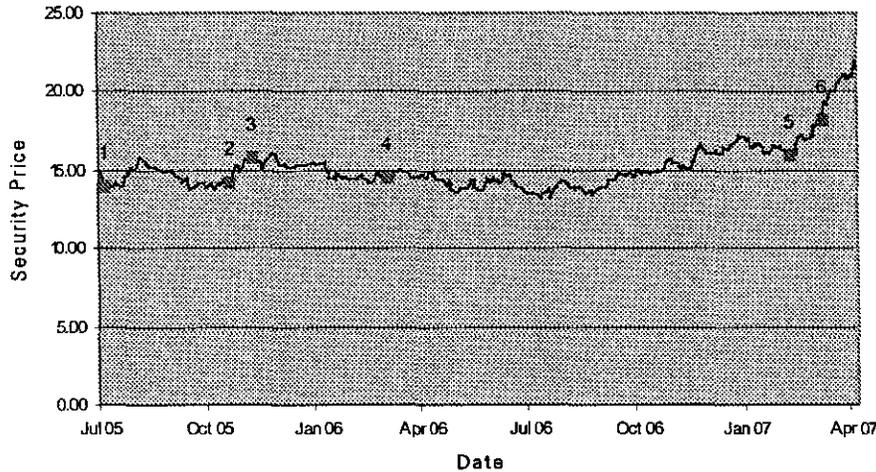
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The views expressed in this report accurately reflect the personal views of the undersigned lead analyst(s) about the subject issuer and the securities of the issuer. In addition, the undersigned lead analyst(s) has not and will not receive any compensation for providing a specific recommendation or view in this report. Doug Mitchelson

Historical recommendations and target price: Discovery (DISCA.OO)

(as of 4/27/2007)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002