TKO Group Holdings

Jumping in the ring; Initiate on TKO as a Buy with $100 PO

Initiating Coverage: BUY | PO: 100.00 USD | Price: 79.70 USD

15 March 2024

Equity

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A *striking* financial profile with growth potential

We initiate TKO Group Holdings, Inc. (TKO) with a Buy rating and a $100 Price Objective (PO), implying ~25% upside. TKO, formed in Sept. 2023, represents a combination of two iconic brands, wrestling juggernaut WWE and mixed martial arts league UFC, with significant synergies and growth potential. In '25-'26E, we project a 13% revenue CAGR, a 20% EBITDA CAGR and a 34% FCF CAGR, which we believe offers an attractive combination of top line growth, margin expansion and free cash flow generation.

Playing offense and defense with media rights

We view the remaining US media rights deals for the UFC as the most important catalyst for TKO over the intermediate term (2 of WWE's rights have recently been announced). Media rights buyers have become more selective in the last 12-18 months evidenced by the lower increase than expected for *SmackDown* rights. However, the recently announced Netflix deal for *Raw* introduces a new buyer of sports rights with global reach which should have longer term benefits for WWE's global popularity. We believe UFC's US rights remain the crown jewel within the TKO's media rights portfolio and will command significant increases upon renewal in '26. Assuming the UFC commands a 1.7x AAV increase, it will drive an incremental ~$143mn in revenue in '26.

Worldwide Earnings (WWE) Opportunity from synergies

We view the revenue and cost synergy potential from this combination to be sizeable. We would not be surprised if there are substantial revenue synergies in addition to the $50-100mn in cost savings initially targeted at the deal announcement (which we view to be reasonable, if not conservative). We anticipate ~$90mn in expense synergies are recognized in 2024 (consistent with guidance). Areas of revenue opportunity include: 1) sponsorship, 2) international media rights/expansion (especially for WWE which is already being capitalized on with the NFLX deal), 3) ticketing/dynamic pricing 4) site fees and 5) better monetization of WWE's social media engagement.

Scarcity value in an industry in transition

With the media industry increasingly fragmenting, we believe there is scarcity value for premium IP companies. Our valuation reflects a unique opportunity to own a quasi-sports league with attractive year-round programming and substantial growth. Our PO is based on a 14x multiple, a discount to TKO's most similar comp (FWONK, Not Covered), to TKO's discounted '26E EBITDA (1st year post upcoming media rights renewals). Risks include: 1) lower than expected media rights and 2) challenges in realizing synergies opportunities.

Estimates (Dec) (US$)	**2022A**	**2023A**	**2024E**	**2025E**	**2026E**
EPS	0	0	2.45	3.97	5.37
EPS Change (YoY)	NA	NA	NA	62.0%	35.3%
Consensus EPS (Bloomberg)			2.43	3.62	4.85
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NA	NA	32.5x	20.1x	14.8x
EV / EBITDA*	16.1x	14.9x	14.0x	11.7x	9.8x
Free Cash Flow Yield*	0%	0.6%	5.0%	7.2%	8.8%

* For full definitions of *iQmethod*SM measures, see page 29.

Stock Data

Price	79.70 USD
Price Objective	100.00 USD
Date Established	15-Mar-2024
Investment Opinion	C-1-9
52-Week Range	72.34 USD - 113.69 USD
Mrkt Val (mn) / Shares Out (mn)	13,708 USD / 172.0
Free Float	81.4%
Average Daily Value (mn)	95.83 USD
BofA Ticker / Exchange	TKO / NYS
Bloomberg / Reuters	TKO US / TKO.N
ROE (2024E)	2.3%
Net Dbt to Eqty (Dec-2023A)	28.3%

FWONK: Liberty Formula One

Refer to important disclosures on page 30 to 32. Analyst Certification on page 28. Price Objective Basis/Risk on page 28. **12670937**

Timestamp: 15 March 2024 06:00AM EDT

*iQprofile*SM TKO Group Holdings

iQ*method SM – Bus Performance

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	NA	12.6%	5.6%	7.4%	8.9%
Return on Equity	0%	0%	2.3%	3.5%	4.5%
Operating Margin	49.1%	49.2%	52.1%	54.3%	55.8%
Free Cash Flow	0	80	692	983	1,209

iQ*method SM – Quality of Earnings

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NA	NA	3.9x	3.2x	2.8x
Asset Replacement Ratio	NA	NA	0.3x	0.3x	0.3x
Tax Rate	NA	NA	12.3%	12.3%	12.3%
Net Debt-to-Equity Ratio	445.5%	28.3%	20.8%	11.3%	1.4%
Interest Cover	NA	NA	3.3x	4.5x	5.7x

Income Statement Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,432	2,619	2,645	2,958	3,386
% Change	NA	7.7%	1.0%	11.8%	14.5%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	1,013	1,092	1,165	1,392	1,665
% Change	NA	7.8%	6.7%	19.5%	19.6%
Net Interest & Other Income	0	0	(236)	(236)	(236)
Net Income (Adjusted)	**0**	**0**	**204**	**334**	**456**
% Change	**NA**	**NA**	**NA**	**63.7%**	**36.6%**

Free Cash Flow Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	0	0	417	681	930
Depreciation & Amortization	0	0	375	300	290
Change in Working Capital	0	28	(70)	2	(1)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	100	80	80	80
Capital Expenditure	0	(49)	(110)	(80)	(90)
Free Cash Flow	**0**	**80**	**692**	**983**	**1,209**
% Change	**NA**	**NM**	**770.5%**	**42.1%**	**23.0%**
Share / Issue Repurchase	0	(100)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	(33)	0	0	0

Balance Sheet Data (Dec)

(US$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	181	236	819	1,624	2,590
Trade Receivables	45	135	154	165	193
Other Current Assets	42	121	132	135	196
Property, Plant & Equipment	175	608	641	664	698
Other Non-Current Assets	3,137	11,590	11,293	11,049	10,816
Total Assets	**3,581**	**12,691**	**13,039**	**13,637**	**14,492**
Short-Term Debt	23	22	22	22	22
Other Current Liabilities	207	450	410	425	513
Long-Term Debt	2,736	2,714	2,714	2,714	2,714
Other Non-Current Liabilities	35	654	654	654	654
Total Liabilities	**3,002**	**3,840**	**3,801**	**3,815**	**3,904**
Total Equity	**579**	**8,851**	**9,238**	**9,821**	**10,588**
Total Equity & Liabilities	**3,581**	**12,691**	**13,039**	**13,637**	**14,492**

* For full definitions of *iQmethod*SM measures, see page 29.

Company Sector

Entertainment

Company Description

TKO Group Holdings Inc. (TKO) is a premium sports and entertainment company that comprises UFC, the world's premier mixed martial arts organization and WWE, an integrated media organization and the recognized global leader in sports entertainment. Both UFC and WWE primarily generate revenue through a variety of media rights which represent approximately 70% of revenues. Aside from media rights, the WWE and UFC also derive revenue from Sponsorship, Live Events, and Consumer Products.

Investment Rationale

With the media industry increasingly fragmenting, we believe there is scarcity value for premium IP companies. TKO represents the opportunity to own a quasi-sports league with attractive year-round programming with that offers sizable revenue / cost savings. We believe the company offers an attractive combination of top line growth, margin expansion and free cash flow generation.

Stock Data

Average Daily Volume	1,209,925

Quarterly Earnings Estimates

	2023	2024
Q1	0A	0.41E
Q2	0A	1.02E
Q3	0.19A	0.84E
Q4	-0.16A	0.17E

A Knockout combination

We initiate coverage of TKO with a Buy rating and $100 PO. TKO is the product of the merger between WWE and UFC, which closed on September 12th 2023. Since the deal was announced in late March 2023 investor sentiment has whipsawed. In early April 2023, there was an overwhelmingly positive investor reaction to the potential of creating a premium IP juggernaut with exposure to the fastest growing sub-sectors within the Media and Entertainment landscape—premium IP, live events and sports rights. Subsequently during the summer and into the fall of 2023, shares came under pressure largely due to: 1) increased perceived competitive threats following the Saudi investment in PFL (and subsequent merger with Bellator) and the longer term implications to margins (via increasing fighters comp) and 2) less robust media rights renewals than originally expected with the NBC/*Smackdown* deal announcement alongside no simultaneous announcement for a new *Raw* media deal—leading to uncertainty surrounding *Raw's* future. This all radically changed following the announcement that Netflix was acquiring the rights to *Raw* in their first foray into live sports programming. All said, at current levels we believe the risk/reward remains favorable, valuation is undemanding and TKO retains an enviable position within the broader M&E ecosystem. Moreover, with CY24 guidance provided on the 4Q earnings call that excludes any revenue from *Raw* in 4Q, we view TKO's outlook to be highly achievable, if not conservative, depending on the outcome of the stub *Raw* period in 4Q24. Our bullish thesis is driven by four key factors:

1. **Risk/Reward is favorable with shares trading at a discount to its closest comp.** Trading at ~11.2x our CY25E EBITDA (vs. FWONK at ~18.5x) valuation appears undemanding. While our PO does not imply TKO reaches FWONK's multiple, we believe there is ample headroom for multiple expansion from current levels. TKO shares can narrow the valuation gap to Formula 1 with positive updates on upcoming media rights, realization of synergy opportunities, capital returns and overall execution.

2. **Recently signed media rights de-risks the model with upcoming ones driving higher earnings power optionality.** Media rights remains the most critical driver of investor sentiment and TKO's fundamentals longer term. When the initial WWE/UFC merger was announced there were 3 critical media rights renewals upcoming in the US (*Raw, Smackdown,* and *UFC*) that were viewed as key catalysts in the first 18-24 months post-merger. Within the last several months, two have been announced (*Raw* and *Smackdown)*—both of which drove significant stock reactions (*Raw* positively, *Smackdown* negatively). Now in the rearview, we argue clarity on a few of these media rights adds defensiveness and predictability to the model and stock (thereby reducing the volatility of the last several months) while still providing investors near term catalysts with the UFC renewal that can drive a step function increase in the earnings power of TKO. For perspective, if we assume a 70% increase in AAV for the UFC renewal that would drive an incremental $143mn revenue step up in '26. Notably, there are negligible costs associated with media rights revenue increases and we project incremental revenue could flow through at >75% incremental margin.

3. **There is a significant revenue and cost synergy opportunity.** The revenue synergy opportunity from the merger of WWE and UFC appears sizable, driven by: 1) Sponsorship, 2) international media rights/expansion (with progress being shown on this with the recently announced NFLX deal), 3) Ticketing/dynamic pricing, 4) site fees, 5) better monetization of WWE's social media, 6) improved event operations at WWE including premium hospitality and ticketing capabilities and 7) cross-promotional opportunities (including use of UFC athletes for WWE events). Many of the revenue synergy opportunities would be following the UFC playbook over the past several years. This existing

institutional knowledge gives us increased confidence in management's ability to execute over time (EDR achieved $70mn in synergies in two years when it acquired UFC). And this would be in addition to expenses synergies, which were initially targeted to be $50-100mn at deal announcement. TKO management has already indicated they will be at the high end of that range with their 2024 guidance.

4. **TKO will be a free cash flow machine with a healthy balance sheet that provides optionality.** In CY24, TKO is expected to convert ~50%+ of EBITDA to FCF and has previously targeted that conversion increases up to 60% over time. TKO also announced they are comfortable with leverage of up to 3x (vs. 2.3x exiting CY23), which coupled with existing FCF and no obvious acquisition targets of scale, provides TKO optionality to return cash to shareholders. Notably, given TKO's complicated ownership structure (and association with its controlling shareholder), there are quarterly distributions that are required to EDR for taxes (after company defined FCF conversion target of EBITDA of 50%). *Therefore, the true cash available for capital returns would need to be made after contemplating these cash tax distributions.* Furthermore, a return of capital could also potentially drive an accrual to Endeavor Group (and/or Silver Lake) either as 52% of a potential dividend payment or if they chose to participate in a buyback. We elaborate more on the various considerations regarding FCF and capital allocation below.

Valuation

TKO currently trades at ~11.2x our CY25E EV/EBITDA and ~15x P/FCF which represents a 39% premium to traditional media companies in our coverage universe (on EV/EBITDA) and a 40% discount and 35% discount to FWONK, respectively. We estimate that TKO will grow EBITDA at a 3-year CAGR of 15% (through '26). TKO will also generate significant FCF as the company generates a large portion of their revenue from high margin, predictable media rights fees and has minimal capex.

Exhibit 1: Investment Scenarios—Key Assumptions
Media rights, synergies and execution are key drivers our outlook

Bull Case: Re-rating of TKO on media rights, capital returns and synergy upside

-->EBITDA increases to $1.9bn in 2026E, driven by: (1) strong UFC media rights renewal, (2) a 12% CAGR revenue growth, (3) $300mn of cumulative synergies by CY26, (4) 75% incremental margins on incremental revenues (pre-synergies). This outperformance narrows the valuation gap with Formula 1

Base Case: Premium IP and Exposure to Live Sports Drives Fundamentals

--> Management signs favorable new media rights deals and can recognize substantial synergies from the recent merger. Revenue grows at an 8.9% CAGR (3-year through '26) and adj. EBITDA increases to $1.7bn by 2026E.

Bear Case: Disappointment in media rights renewals, poor execution

-->Upcoming media rights renewals disappoint relative to expectations and management is unable to recognize as significant of a synergy opportunity; Revenue grows at a 5% CAGR (through '26) and adj. EBITDA increases to $1.4bn by 2026E. This drives a greater relative discount to Formula 1

Source: BofA Global Research

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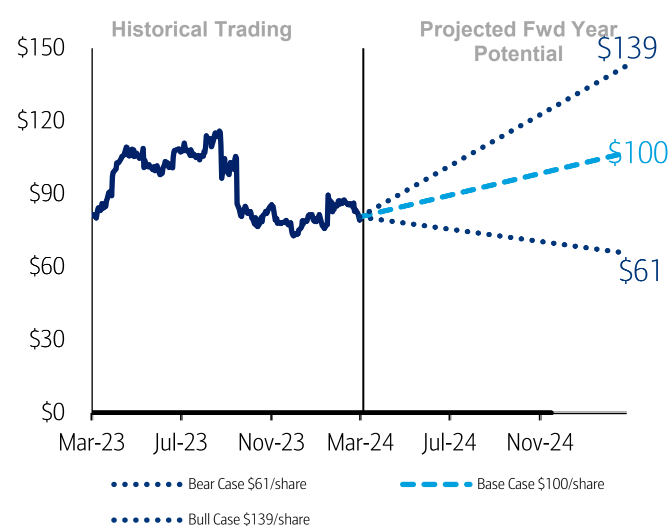
Exhibit 2: Equity Risk/Reward Profile
We see a Bull case of $139/share vs. our bear case of $61/share



Source: BofA Global Research

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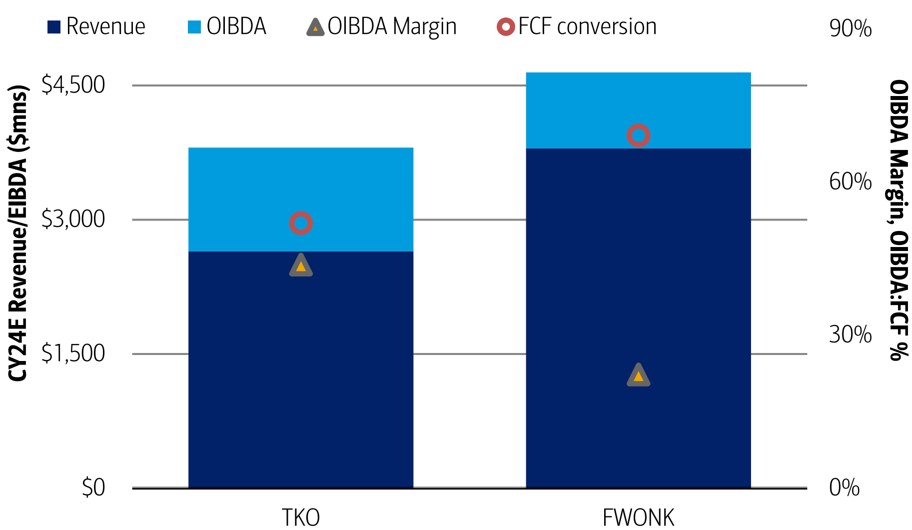
Scarcity value for sports IP warrants premium valuation

In our view, the current valuation reflects TKO's positioning as a beneficiary of scarcity value for premium IP, particularly IP that can aggregate large and engaged live audiences through events and programming that *are offered year-round*. Further, the attractive financial profile coupled with the potential for capital returns also support a valuation premium vs. the broader M&E group. As shown in Exhibit 3 below, TKO has scale in the form of absolute revenue/EBITDA dollars along with high EBITDA margins and EBITDA/FCF conversion. We believe this should continue to support a premium valuation going forward.

Exhibit 3: Comparative financial metrics (TKO vs FWONK)
TKO retains a healthy EBITDA margin and FCF conversion



Source: BofA Global Research, Visible Alpha for FWONK
Note:
TKO's FCF conversion does not contemplate tax distributions to members

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Our valuation reflects a unique opportunity to own a quasi-sports league that offers sizable revenue / cost synergies. TKO is well-positioned for its upcoming UFC media rights deal (expires in 2025) in what remains a healthy market, albeit less strong than in recent years, for *premium sports* rights. Additionally, both WWE and UFC have a strong presence on OTT platforms which should support both brands as the media industry undergoes the transition from linear toward streaming.

Exhibit 4: TKO Valuation
Our $100 PO is based on ~14x our CY26E EBITDA discounted back

TKO Base Case Build-up	
	CY26E
TKO Adj. EBITDA	**$1,665**
+/(1+Discounte Rate) ^2	10%
TKO Adj. EBITDA (Discounted) to '24	**$1,374**
x EV/EBITDA	13.9x
= TKO Enterprise Value	**$19,056**
-Net Debt (CY24E)	$1,917
+Equity Investments	$17
= TKO Equity Value	**$17,155**
÷ Shares Outstanding	172
= TKO Equity Value per share	**$100**
FWONK EV/EBITDA Multiple (FY24)	21.5x
x (1 - Discount %)	35%
= Target Multiple	***13.9x***

Source: BofA Global Research, Visible Alpha for FWONK

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PO derivation

Our $100 price objective (PO) for TKO implies ~25% potential upside. Our PO is based on a 35% discount to closest competitor, FWONK's ~22x EV/EBITDA multiple in CY24. Our valuation also implies ~19x our '26 FCF estimate discounted back to '24 (vs. Formula 1's current 25x CY24E FCF). Notably, after adjusting for TKO's cash distributions to members, our PO would imply a P/FCF of ~25x—closer to parity vs. FWONK on a comparable basis.

We believe a discount to FWONK on EV/EBITDA is warranted as FWONK has: 1) a longer track record of execution in public markets, 2) a greater propensity to grow their sport in the US in comparison to UFC/WWE which are both more established on a relative basis, 3) Formula 1 is perceived to be a "trophy asset" particularly in light of speculation of a bid of $20bn by Saudi Arabia's sovereign wealth fund in 2023 (reported in the press) and 4) FWONK has a higher FCF conversion especially after contemplating the tax distributions associated with TKO's up-C structure. Furthermore, given our valuation is based on our CY26 TKO estimate which considers management execution across multiple levels (e.g. successfully integrating both the TKO & WWE organizations, recognizing potential synergies and consummating successful rights agreements in the future), we believe this also justifies a discount relative to Formula 1. Our 14x target multiple represents a premium to traditional media comps given the scarcity value of live sports rights in the public markets and faster overall growth profile. More positively, further evidence of management execution against their longer-term strategic goals has the potential to narrow this valuation gap with Formula 1 over time which would drive upside to our price objective.

The *NXT* level: UFC/WWE media renewals to power growth

As the media industry continues to fragment, the value of premium content, and sports rights in particular, has commanded significant premiums due to its capacity to drive real-time/live viewership and increased engagement (Exhibit 5). This is most evident in the wave of recent domestic sports rights deals underscoring programmers desire to secure long term sports rights. On average, recent sports rights renewals have commanded significant increases in AAV and league owners are the primary beneficiary of these increases. When considering TKO's portfolio of top domestic rights they are in order of perceived value: 1) UFC media rights, 2) WWE *Raw*, 3) WWE *Smackdown* and 4) WWE's *Premium Live Events.* With TKO having locked up two of their top 4 rights packages for an extended period of time, we believe the longer-term fundamentals have been "de-risked" to an extent, especially as one of the remaining media rights renewal outstanding (domestic UFC rights) is perceived to be the most valuable within TKO's portfolio.

Exhibit 5: Recent sports rights renewals
Sports rights continued to see healthy premiums upon renewals

Sports League	Networks	Contract Years	Total Contract (mn)	Average Annual Value (mns)	AAV Step-up
College Football Playoff	ESPN	2026-2031	7,800	1,300	177%
	ESPN	2014-2025	5,640	470	N/A
WWE Raw/International	Netflix	2025-2034	5,200	520	>40%[1]
NASCAR	NBC/FOX/Amazon/TNT/CW	2025-2031	7,700	1,100	34%
	NBC/FOX	2015-2024	8,215	822	47%
NCAA Basketball	CBS/Turner	2025-2032	8,787	1,098	37%
	CBS/Turner	2011-2024	11,225	802	65%
Summer Olympics	NBC	2024-2032	4,548	1,516	15%
	NBC	2016-2020	2,638	1,319	48%
WWE SmackDown	USA Network	2024-2029	1,435	287	40%
	Fox	2019-2024	1,025	205	N/A
MLS	Apple (Digital-only)	2023-2033	2,500	250	187%
	ESPN/FOX/Univision	2015-2022	692	87	336%
Formula One	ABC/ESPN/ESPN+	2023-2025	270	90	1700%
	ABC/ESPN	2020-2022	15	5	N/A
NFL	CBS/FOX/NBC/ESPN/Amazon	2023-2033	107,000	9,727	77%
	CBS/FOX/NBC/ESPN	2014-2022	47,545	5,505	76%
MLB	FOX/ESPN/Turner/Apple	2022-2028	12,883	1,840	18%
	FOX/ESPN/Turner	2014-2021	12,499	1,562	120%
PGA Tour	CBS/NBC/Golf Channel/ESPN+	2022-2030	6,133	681	80%
	CBS/NBC/Golf Channel	2007-2021	5,667	379	78%
Premier League	NBC/Telemundo Deportes	2022-2028	2,700	450	146%
	NBC/Telemundo Deportes	2019-2022	1,100	183	120%
Winter Olympics	NBC	2022-2030	3,098	1,033	19%
	NBC	2014-2018	1,738	869	32%
NHL	ESPN/ABC/ESPN+/Turner	2021-2027	4,407	630	211%
	NBC/NBC Sports (Versus)	2011-2020	2,022	202	189%
Serie A	CBS	2021-2024	227	76	N/A
La Liga	ESPN	2021-2029	1,400	175	N/A
UEFA	CBS/Univision	2021-2024	450	150	N/A
Bundesliga	ESPN+	2020-2026	180	30	N/A
World Cup	Telemundo/FOX	2018-2026	1,912	637	200%
	Univision/ESPN/ABC	2010-2014	425	213	143%
NBA	ABC/ESPN/TNT/TBS	2016-2024	23,513	2,613	181%
	ABC/ESPN/TNT/TBS	2008-2015	7,440	930	21%

Source: SNL Kagan, BofA Global Research
[1]Management has indicated a >1.4x AAV step up for WWE Raw and all International deals

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More recently, there has been increased concern that we are approaching "peak sports rights". This is driven, in part, by the underlying secular challenges within the traditional ecosystem, which is impairing the financial capacity of several would be buyers to continue supporting ever increasing rights. However, the emergence of new, well-capitalized, bidders outside of the traditional media ecosystem for sports rights, such as Netflix with *Raw,* should cushion this blow and drive continued growth. On balance, we believe these dynamics will lead to a bifurcation of sports rights going forward where premium sports continue to command healthy increases and rights holders become more selective with second tier rights. The net impact of this overall is mitigating downside risks for sports rights with the emergence of new buyers along with a moderation of growth rates for future rights agreements—with exception for top tier upcoming sports rights such as the NBA.

Specifically for TKO, their recently announced media rights deal with NBCU for *SmackDown* came at a lower increase than expected (40% increase vs. expected 50% increase in AAV) along with the appearance of NBCU trading down from *Raw* (3 hours of programming) to *Smackdown* (2 hours). Further, it was anticipated that the *SmackDown* and *Raw* renewals would be announced at the same time, and the lack of an announcement on *Raw* led to questions about demand in the market for the program. However, *Raw* was always viewed as the premium WWE property and given that rights did not expire until October 2024, coupled with several considerations within the media landscape (e.g. capital constraints, timing of NBA deal etc.), TKO was prudent to retain optionality to maximize the potential value for their rights deal.

Netflix jumps into the ring

This ultimately led to attracting Netflix for a ten-year deal worth in excess of $5bn. As part of the deal, Netflix will broadcast *Raw* domestically along with several international markets (e.g. Canada, UK and Latin America) starting in 2025 (international media rights had also been viewed as a longer term opportunity within WWE). It appears there is latitude for this agreement to expand into other international markets as opportunities present themselves. We estimate on a like for like basis (including duration in years) the domestic *Raw* step up was in the 1.2-1.4x range vs. the prior deal, which in and of itself, may have been lower than anticipated, however, when coupled with Netflix's international component and the potential to grow the relationship over time, was viewed more favorably in aggregate. Management has indicated their cumulative renewals were >1.4x AAV step up in totality, which we believe is partially attributed to the extended term of the deal at 10 years vs. 5 years previously. For illustrative purposes, if we hypothetically assumed the domestic portion of this deal was $4bn over 10 years ($400mn AAV) this would imply a 1.5x step up vs. the prior deal and would drive $16mn in incremental revenue in CY25E.

Netflix has an option to exit the deal after 5 years alongside an option to extend for another 10 years at the end of the relationship—creating the potential for a 20-year relationship between WWE and Netflix. An additional positive for the partnership with Netflix is their history of creating sports entertainment adjacent programming, which has had the effect of growing popularity of several sports (e.g. Formula One with *Drive to Survive* series). To the extent Netflix also does this with WWE programming—which appears to be a clear opportunity—it could have longer term benefits of growing popularity/viewership of WWE, which would only enhance the value of the media rights themselves (as was the case with the subsequent media rights renewal for Formula One) along with driving secondary benefits such as live events revenue (via ticket sales), sponsorship/advertising opportunities and merchandising revenue. When considering these new deal renewals, we estimate the *Smackdown* renewal will drive a ~$29mn annual revenue step up exiting CY24, while *Raw* is less clear given the international components of the deal—though we expect there will be a clear step up in '25 WWE media rights revenue vs. '24.

Notably, WWE's existing deals conclude in October 2024 and the new Netflix deal does not start until January 2025. While TKO has not announced any plans to "bridge" this gap in timing and current CY24 guidance implies no revenue contribution to end the year (estimated to be a ~$75mn impact), we view any potential earnings impact from this period to be isolated to 4Q24.

Exhibit 6: WWE Media Rights Math
SmackDown renewed at a 1.4x AAV

SmackDown Media Rights Math

Fox Expires '24	Year 1	Year 2	Year 3	Year 4	Year 5
Rights Payment	$184	$194	$205	$216	$228
% Chg. (YOY)	--	5%	5%	5%	5%
Average Annual Value	$205				
New Deal (Announced at 1.4x AAV)	Year 1	Year 2	Year 3	Year 4	Year 5
Rights Payment	$257	$271	$286	$302	$318
% Chg. (YOY)	--	5%	5%	5%	5%
Average Annual Value	$287				
Year 1 Step Up To Prior FOX Deal	**$29**				

Source: BofA Global Research

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Going another round with ESPN

Given the sequence of events described above, we believe expectations for UFC's media rights have oscillated over the last 12 months. Initial expectations likely implied a 100% AAV step up however following the *Smackdown* renewal disappointment and the broader concerns around sports rights, expectations were subsequently lowered. Based on precedent media rights renewals and recent trends, we forecast a 70% AAV increase for UFC as the most likely base case of the new media rights agreement for ESPN. We project this will drive a $143mn revenue step up in 2026. We anticipate this revenue to have high incremental margins and should largely accrue to the bottom line. At a 75% incremental margin that would drive over $100mn in EBITDA.

The current domestic UFC deal with ESPN is expiring at the end of 2025. In January 2024, UFC CEO Dana White indicated "talks" will begin with ESPN over the next three to four months—though the official window to begin discussions starts in January 2025. We remain positive on UFC and its value to ESPN (as exemplified in our analysis below) and potentially other programmers and continue to expect a sizable increase in its next renewal as UFC attracts complimentary demographics (especially when compared to ESPN's traditional sports portfolio of football, basketball and baseball), an engaged fan base and year-round content. Furthermore, ESPN has publicly stated UFC has been a significant driver of their ESPN+ business. For perspective, we estimate the cost of the current media deal, inclusive of Pay-Per-View, is ~$525mn. Notably, the current ~$525mn AAV was originally constructed in two parts. Initially the deal was for UFC's broadcast rights (for both linear and digital and was estimated at ~$300mn) which was subsequently expanded and extended to include PPV rights (estimated at ~$225mn).

Under Walt Disney's (DIS) old reporting structure, their DTC segment reported TV/SVOD distribution and other, which was where UFC PPV revenue was recorded (among other businesses such as *Premiere Access* on DIS+). In CY22, DIS reported nearly ~$600mn in this sub-segment and under DIS's new reporting (which excludes ESPN+/sports), this segment in CY22 generated only ~$250mn in revenues. If we assume that delta can be exclusively attributed to UFC PPV revenue, that equates to $342mn (reconciliation to PPV revenue shown in Exhibit 7).

Exhibit 7: Reconciliation to ESPN PPV revenues
We estimate CY22 UFC PPV revenue of $342mn

	2022				
DIS DTC reporting	**1Q**	**2Q**	**3Q**	**4Q**	**CY**
DTC Revenue (old reporting)	$4,903	$5,058	$4,907	$5,307	$20,175
-DTC Revenue (new reporting)	$4,509	$4,649	$4,494	$4,822	$18,474
=ESPN+ Revenue	**$394**	**$409**	**$413**	**$485**	**$1,701**
DTC Advertising					
DTC Advertising (old reporting)	$891	$1,018	$844	$897	$3,650
-DTC Advertising (new reporting)	$858	$991	$818	$866	$3,533
=ESPN+ Advertising Revenue	**$33**	**$27**	**$26**	**$31**	**$117**
DTC Subscription fees					
DTC Subscription fees (old reporting)	$3,887	$3,889	$3,917	$4,240	$15,933
-DTC Subscription fees (new reporting)	$3,614	$3,608	$3,608	$3,861	$14,691
=ESPN+ Subscription Revenue	**$273**	**$281**	**$309**	**$379**	**$1,242**
ESPN+ Revenue	$394	$409	$413	$485	$1,701
-ESPN+ Subscription/Advertising Revenue	$306	$308	$335	$410	$1,359
=Other (UFC Pay Per View)	**$88**	**$101**	**$78**	**$75**	**$342**

Source: BofA Global Research, company filings

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If we then assumed growth in CY23, that would imply PPV revenues in the mid-high $300mn range. Relative to the current AAV of the PPV contract of $225mn, it appears there is some room for UFC to better monetize the current PPV contract especially if we assume continued growth in these PPV revenues through the end of 2025. As shown in Exhibit 8, In a hypothetical scenario where we assumed PPV revenues grow mid-single digits through 2025 and then subsequently over the next 7 years of a prospective new deal (which we believe to be reasonable given growth in the sport, future price increases for PPV, more events etc.) and a ~20% margin for DIS (assuming PPV revenues-media rights fees) that would drive a 1.75 AAV step up to $394mn (our 20% margin estimate is implied by the 1.75x AAV increase in media rights and PPV revenue increase but appears to be reasonable in our view). If we then assumed, the $300mn existing simulcast deal saw only a typical 5% annual escalator from the last year of the existing deal to Year 1 of the new deal (implies a ~1.4x AAV overall), this would cumulatively drive a ~1.6x AAV for both the PPV rights and Broadcast rights (Exhibit 8) in the upcoming media rights renewal.

Exhibit 8: ESPN—UFC build up

We believe a 1.6x AAV represents a floor for the next step up

UFC Media Rights Math

Current UFC Media Rights Deal - PPV	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Rights Payment	$194	$203	$213	$224	$235	$247	$259
% Chg. (YOY)	--	5%	5%	5%	5%	5%	5%
Average Annual Value	$225						
New PPV Deal '25 (1.75x AAV)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Rights Payment	$339	$355	$373	$392	$411	$432	$454
% Chg. (YOY)	--	5%	5%	5%	5%	5%	5%
Average Annual Value	$394						
Year 1 Step Up	**$79**						
DIS PPV Revenue Build	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
PPV Revenue	$420	$442	$465	$489	$515	$542	$570
% Chg. (YOY)	--	5%	5%	5%	5%	5%	5%
Average Annual Value	$492						
DIS PPV Margin	**20%**						
Current UFC Media Rights Deal - Broadcast	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Rights Payment	$258	$271	$284	$299	$314	$329	$346
% Chg. (YOY)	--	5%	5%	5%	5%	5%	5%
Average Annual Value	$300						
New Media Rights Deal Broadcast (Base Case 1.4x AAV)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Rights Payment	$387	$406	$427	$448	$470	$494	$519
% Chg. (YOY)	--	5%	5%	5%	5%	5%	5%
Average Annual Value	$450						
Year 1 Step Up In New Deal	**$41**						
Combined New Average Annual Value	$844						
Existing Average Annual Value	**$525**						
Implied Step up	**1.61x**						

Source: BofA Global Research

Note our PPV revenue assumes mid-single digit growth from 2022-2026

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We acknowledge a few caveats to our analysis including: 1) TKO currently views the ESPN partnership as one relationship vs. two distinct media rights deals and 2) there are limited public disclosures into other potential revenue drivers for DIS (e.g. linear affiliate revenue allocation, linear advertising, ESPN+ subscriber attribution) and our current PPV estimate is only one part of several other monetization drivers for DIS that drive value in this relationship. Nonetheless, given the market uncertainty surrounding the trajectory of sports rights, we believe this framework should provide at least a reasonable baseline floor for expectations in the upcoming rights renewal for UFC. We believe our aforementioned assumptions could prove conservative as: 1) We are only contemplating mid-single digit growth in PPV revenues over the course of the contract—which if higher would support even higher rights fees, 2) it appears highly conservative that the broadcast deal for a rapidly growing sport would only receive a typical annual escalator from the last year of the current deal to the first year of the new deal (even *Smackdown* which was viewed as a disappointment relative to expectations saw a more pronounced step up in their new deal), 3) the introduction of outside bidders could add upward competitive pressure to the bidding process (especially in light of TKO's President, Mark Shapiro, indicating 3 distributors independently inquired about the upcoming UFC rights) and 4) UFC has the ability to split up rights across multiple partners to extract maximum value (though we'd argue there are synergies to having the broadcast and PPV rights under one provider). For perspective, in a more bullish scenario if we assumed DIS PPV revenues grew at a 10% CAGR from CY22 through the new deal, the margin were to be 15% and the broadcast component of the deal saw a 1.5x AAV increase, the cumulative rights step up would be nearly 2.0x. Ultimately, our base case expectation of ~1.7x represents a middle ground between these various combinations.

On the other hand, it is also worth noting ESPN itself is undergoing a transition as the secular challenges in the linear ecosystem persist. DIS recently re-segmented their financial reporting to include a standalone "Sports" segment (largely comprised of ESPN), has announced plans to launch a flagship OTT service in 2025 and most recently announced a joint venture with Fox and Warner Bros. (WBD) to offer a new "sports tier" bundle. As discussed above, this new market paradigm and an increased focus on profits will force traditional media companies to be more selective with rights they keep. Looking ahead, the most critical upcoming renewal for ESPN is the NBA contract, which is expected to garner a significant premium. The magnitude of the increase and whether ESPN takes a reduced package to cushion the financial impact of this anticipated step up, are all potential considerations that could impact ESPN's willingness to retain exclusive rights for UFC at a significant premium.

Digital rights with Peacock

WWE's digital rights for WWE's premium live events on Peacock is set expire in 2026. We estimate the AAV for this deal is just under $200mn. As part of Netflix's new deal, they have the rights to distribute this content in the markets they serve outside the US and we therefore believe the ability to be the global exclusive distributor of premium live events makes them logical bidders in upcoming negotiations. Further, with NBCU still broadcasting WWE's content (moving to *Smackdown* vs. *Raw* currently) there is still an existing relationship and potential synergy for Peacock to retain these rights. If we assume the digital rights command a 1.5x AAV this will drive a $48mn revenue step up in 2026.

Exhibit 9: WWE PLE Rights
We project a 1.5x AAV will drive a $48mn revenue step up

WWE Digital rights					
NBCU Deal Expires '26	Year 1	Year 2	Year 3	Year 4	Year 5
Rights Payment	$172	$181	$191	$202	$213
% Chg. (YOY)	--	5%	5%	5%	5%
Average Annual Value	$192				
New Media Rights Deal (Base Case 1.5x AAV)	Year 1	Year 2	Year 3	Year 4	Year 5
Rights Payment	$261	$274	$287	$302	$317
% Chg. (YOY)	--	5%	5%	5%	5%
Average Annual Value	$288				
Year 1 Step Up In New Deal	**$48**				

Source: BofA Global Research

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Thinking through options of TKO's free cash flow machine

A key crux of the TKO bull thesis is predicated on the free cash flow conversion of the business (>60% of adj. EBITDA longer term). TKO will generate an overwhelming portion of their revenues (nearly 70%) from predictable media rights fees which flow through at high incremental margins (likely >75%). In addition, legacy WWE and UFC have not been capitally intensive businesses, which we expect to remain the case as a new company, with capex only representing a low single digit percentage of revenue. This financial profile, coupled with the manageable capital structure all point to a tremendous amount of optionality for the company. On TKO's 4Q earnings call, management indicated the target leverage ratio for the business is 3x EBITDA.

Longer term we believe there are several options for TKO to utilize their cash although TKO's uniquely complex corporate structure, coupled with the of potential consideration of EDR being taken private adds intrigue to this exercise. As part of TKO's up-C structure (corporate org chart below on Exhibit 19) and affiliation with EDR, TKO cash flows may be subject to cash tax distributions to their controlling shareholder (EDR) beyond what is considered in the company definition of FCF. Therefore, the cash available for capital returns would theoretically need to be adjusted accordingly. As shown in Exhibit 10 below, we estimate cash distributions to members for tax to be $530mn cumulatively from 2024-2026 (Exhibit 10) and if accounted for in the FCF would reduce the conversion ratio relative to EBITDA.

Exhibit 10: TKO – FCF Build

Cumulative distribution to members for tax are over $500mn from 2024-2026

	2024						
Fiscal Year Ends 12/31	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2024E**	**2025E**	**2026E**
TKO: FCF & Debt Summary							
Summary Cash Flow Statement							
Adj. EBITDA	$252	$371	$336	$206	$1,165	$1,392	$1,665
- Cash Taxes	$24	$61	$50	$10	$145	$181	$247
- Net Interest	$59	$59	$59	$59	$236	$236	$236
- NWC	$17	$17	$17	$19	$70	($2)	$1
- Other	$0	$0	$0	$0	$0	$0	$0
Operating Cash Flow	$152	$234	$210	$118	$715	$978	$1,183
- Capex	($55)	($22)	($20)	($13)	($110)	($80)	($90)
FCF	**$97**	**$212**	**$190**	**$105**	**$605**	**$898**	**$1,093**
- Distributions to members for tax	$18	$45	$38	$8	$109	$178	$243
FCF (Post-member distribution)	**$79**	**$167**	**$153**	**$97**	**$496**	**$720**	**$849**
FCF Conversion	38.6%	57.3%	56.5%	50.9%	51.9%	64.5%	65.6%
FCF (Post-member distribution) Conversion	31.4%	45.0%	45.4%	47.1%	42.5%	51.7%	51.0%

Source: BofA Global Research

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In our view there are 5 likely options for capital allocation: 1) buying back TKO shares, 2) cash dividend, 3) some combination of 1 & 2, (with the potential to add on debt up to the leverage target ratio of 3x in all these options) 4) M&A and 5) adding leverage to the balance sheet and subsequently announcing a special dividend (assuming Silver Lake takes EDR private and can subsequently exert that degree of control). Between options 1 and 2, non-EDR TKO shareholders would likely prefer option 1, in our view. Assuming EDR/Silver Lake are unlikely to sell and Vince McMahon does not participate, approximately ~40% of shares outstanding would be in the float, which would clearly increase the impact a buyback would have on the resulting share price. A buyback would also provide TKO the flexibility to be nimble. As a growth company there may be opportunistic investment/acquisition opportunities (though the company has recently indicated the bar for M&A remains very high) and an existing dividend commitment could make those more challenging to execute against.

However, irrespective of whether EDR stays public or not, it could be enticing for EDR to utilize that extra cash flow (via a dividend which it would receive 52% of) to repurchase EDR shares at a significant relative discount (if it remains public) or as a cash return to boost the IRR of Silver Lake's private investment. In the extreme scenario of this outcome—option 5—which would be subject to several considerations (e.g. intended holding period, independence/ability to influence the current TKO board, strategic vision for assets, etc.), TKO takes on additional leverage and announces a one-time special dividend upfront utilizing the proceeds from the debt raise and subsequently uses future year free cash flow to de-lever the TKO balance sheet over time or maintain current leverage ratios and use ongoing FCF to fund a recurring dividend (we note in this scenario dividend distributions would occur on a pro-rata basis to each share class).

From a purely financial engineering perspective, option 5 is likely the most attractive option for Silver Lake due to the time value of money and existing capacity to add more debt onto TKO's balance sheet. However, it remains unclear whether Silver Lake has the ability/intent to significantly influence the capital structure of TKO (even with their 52% ownership stake above and beyond TKO's publicly stated leverage target of 3x) which makes handicapping the probability of this outcome more challenging. Essentially, the challenge with contemplating all these scenarios is recognizing that preferences between EDR and TKO shareholders may differ (even if the Up-C structure provides alignment of majority shareholders and public shareholders). Ultimately, we believe the use of excess FCF will be a key driver of the share price over time. We currently assume TKO let's cash build on the balance sheet.

The *Brahma Bull*—Thinking through the numbers

In Exhibit 11, we summarize our base, bull and bear case scenarios for proforma TKO. In Exhibits 11-15 we walk through those cases and underlying assumptions in more detail.

Exhibit 11: Base/Bull/Bear Case Summary Table
We estimate proforma TKO CY26 revenue of $3.39bn and adj. EBITDA of $1.67bn in our base case

Summary Table

	Base Case	Bull Case	Bear Case
Proforma CY26E Revenues ($mn)	$3,386	$3,648	$3,017
Proforma CY26E Adj. EBITDA (Post Synergies) ($mn)	$1,665	$1,909	$1,376
UFC Underlying Rev CAGR	8%	9%	6%
WWE Underlying Rev CAGR	4%	6%	3%
UFC CY26 Renewal step up ($mn)	$143	$277	$55
WWE CY26 Renewal step up ($mn)	$48	$87	$2
Synergies ($mn)	$250	$300	$150

Source: BofA Global Research

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Notably, the biggest driver of variance between our scenarios is largely driven by assumptions around the upcoming media rights deals and synergies. We, therefore, view the upcoming UFC media rights agreements along with execution surrounding synergy potential as the most critical driver of underlying share performance and earnings power of the business going forward.

Exhibit 12: Base case build up
Our base case scenario assumes proforma CY26E adj. EBITDA (post synergies) of $1.67bn

Base Case Valuation

Base Case Scenario Build up	CY22A	CY23A	CY24E	CY25E	CY26E
+WWE	$1,292	$1,326	$1,302	$1,513	$1,680
+UFC	$1,140	$1,292	$1,343	$1,445	$1,706
= Proforma TKO Revenues	**$2,432**	**$2,619**	**$2,645**	**$2,958**	**$3,386**
= Proforma Adj. EBITDA (Pre Synergies)	**$1,013**	**$1,092**	**$1,100**	**$1,302**	**$1,620**
Management Fees (Cumulative)			-25	-60	-105
Operating Expense Synergies (Cumulative)			90	150	150
= Proforma Adj. EBITDA	**$1,013**	**$1,092**	**$1,165**	**$1,392**	**$1,665**
Assumptions:					
UFC Underlying Rev CAGR	8%				
UFC CY26 Renewal at 1.7x AAV step up ($mn)	$143				
WWE Underlying Rev CAGR	4%				
WWE CY26 Renewal at 1.5x AAV step up ($mn)	$48				
Incremental Margin	69%				
Synergies ($mn)	$250				
Cumulative Management Fees ($mn)	($105)				

Source: BofA Global Research

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Base Case

Base case scenario: Our base case scenario assumes a 1.7x step-up in AAV for UFC rights, and a 1.5x step up in AAV for WWE CY26 renewal for premium live events. In this scenario, we assume cumulative operating synergies from the merger reach $250mn in CY26E.

Exhibit 13: TKO—Summary Financials
Our base case assumes an 8.6% revenue CAGR through 2026E

TKO Financials

	CY22A	CY23A	CY24E	CY25E	CY26E	CAGR
Revenues						
Media Rights and Content	$1,667	$1,754	$1,739	$1,944	$2,246	7.7%
Live Events	$349	$430	$446	$495	$545	11.8%
Sponsorships	$229	$266	$289	$337	$398	14.8%
Consumer Products Licensing	$188	$169	$171	$182	$198	1.3%
TOTAL	**$2,432**	**$2,619**	**$2,645**	**$2,958**	**$3,386**	**8.6%**
% Chg. (YOY)	--	7.7%	1.0%	11.8%	14.5%	
Adj. OIBDA	**$1,013**	**$1,092**	**$1,165**	**$1,392**	**$1,665**	**13.2%**
% Chg. (YOY)	--	7.8%	6.7%	19.5%	19.6%	
Margin %	41.7%	41.7%	44.0%	47.1%	49.2%	4.2%
Free Cash Flow		**$387**	**$605**	**$898**	**$1,093**	**34.4%**
FCF % of OIBDA			51.9%	64.5%	65.6%	

Source: BofA Global Research
Note FCF CAGR only '25-'26E

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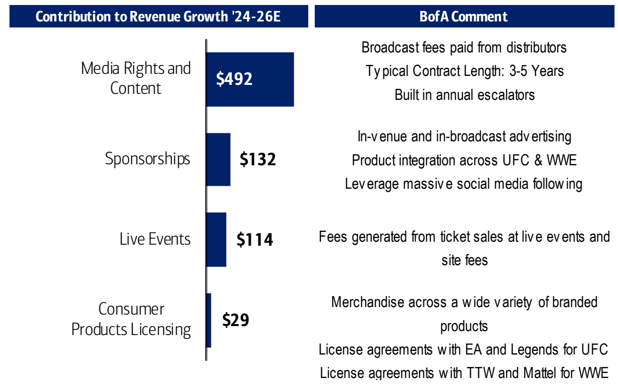
Exhibit 14: TKO Revenue Build up Contribution
The majority of revenue growth will come from media rights



Source: BofA Global Research

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- We estimate WWE and UFC grow at a 4% and 8% underlying revenue CAGR (4 years through '26), respectively, before considering the impact of upcoming media rights renewals and revenue synergies (impacting WWE in Live Events and Sponsorship).
- Our base case estimates assume adjusted EBITDA margins expand to 49% in CY26E driven by contribution of high incremental margin revenue and synergy capture.
- The base case scenario assumes cumulative operating synergies reach $250mn (for both revenue and expenses) by CY26E.

Exhibit 15: Bull-case build up
Our bull case scenario assumes proforma CY26E adj. EBITDA (post synergies) of $1.9bn

Bull Case Valuation					
Bull Case Scenario Build up	**CY22A**	**CY23A**	**CY24E**	**CY25E**	**CY26E**
+WWE	$1,292	$1,326	$1,406	$1,490	$1,717
+UFC	$1,140	$1,292	$1,382	$1,525	$1,931
= Proforma TKO Revenues	**$2,432**	**$2,619**	**$2,788**	**$3,015**	**$3,648**
= Proforma Adj. EBITDA (Pre Synergies)	**$1,013**	**$1,092**	**$1,219**	**$1,389**	**$1,864**
Management Fees (Cumulative)			-25	-60	-105
Operating Expense Synergies (Cumulative)			100	150	150
= Proforma Adj. EBITDA	**$1,013**	**$1,092**	**$1,294**	**$1,479**	**$1,909**
Assumptions:					
UFC Underlying Rev CAGR	9%				
UFC CY26 Renewal at 2.0x AAV step up ($mn)	$277				
WWE Underlying Rev CAGR	6%				
WWE CY26 Renewal at 1.75x AAV step up ($mn)	$87				
Incremental Margin	75%				
Synergies ($mn)	$300				
Cumulative Management Fees ($mn)	($105)				

Source: BofA Global Research

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Bull Case

Bull case scenario: Our bull case scenario assumes a 2.0x step-up in AAV for UFC rights, and a 1.75x step-up in AAV for WWE CY26 renewal for premium live events. In this scenario, we assume cumulative operating synergies from the merger reach $300mn in CY26E. The combination of these factors drives estimated TKO revenue of $3.65bn and adj. EBITDA (post synergies) of $1.9bn in CY26E.

- Our bull case estimates assume competitive interest for WWE and the UFC with robust AAV step-ups vs the current deals. This scenario also forecasts that TKO will retain the favorable margin profile and economics of the media rights.

- We estimate WWE and UFC grow at a 6% and 9% underlying revenue CAGR (4-year through '26), respectively, prior to the impact of media right renewals and $150mn in revenue synergies.
- The bull case scenario assumes TKO delivers on projected synergy targets and cumulative operating synergies reach $300mn in CY26E.

Exhibit 16: Bear case build up
Our bear case scenario assumes proforma CY26E adj. EBITDA (post synergies) of $1.38bn

Bear Case Valuation					
Bear Case Scenario Build up					
	CY22A	**CY23A**	**CY24E**	**CY25E**	**CY26E**
+WWE	$1,292	$1,326	$1,297	$1,417	$1,468
+UFC	$1,140	$1,292	$1,343	$1,417	$1,550
= Proforma TKO Revenues	**$2,432**	**$2,619**	**$2,640**	**$2,834**	**$3,017**
= Proforma Adj. EBITDA (Pre Synergies)	**$1,013**	**$1,092**	**$1,105**	**$1,221**	**$1,331**
Management Fees (Cumulative)			-25	-60	-105
Operating Expense Synergies (Cumulative)			50	100	150
= Proforma Adj. EBITDA	**$1,013**	**$1,092**	**$1,130**	**$1,261**	**$1,376**
Assumptions:					
UFC Underlying Rev CAGR	6%				
UFC CY26 Renewal at 1.5x AAV step up ($mn)	$55				
WWE Underlying Rev CAGR	3%				
WWE CY26 Renewal at 1.25x AAV step up ($mn)	$2				
Incremental Margin	60%				
Synergies ($mn)	$150				
Cumulative Management Fees ($mn)	($105)				

Source: BofA Global Research

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Bear Case

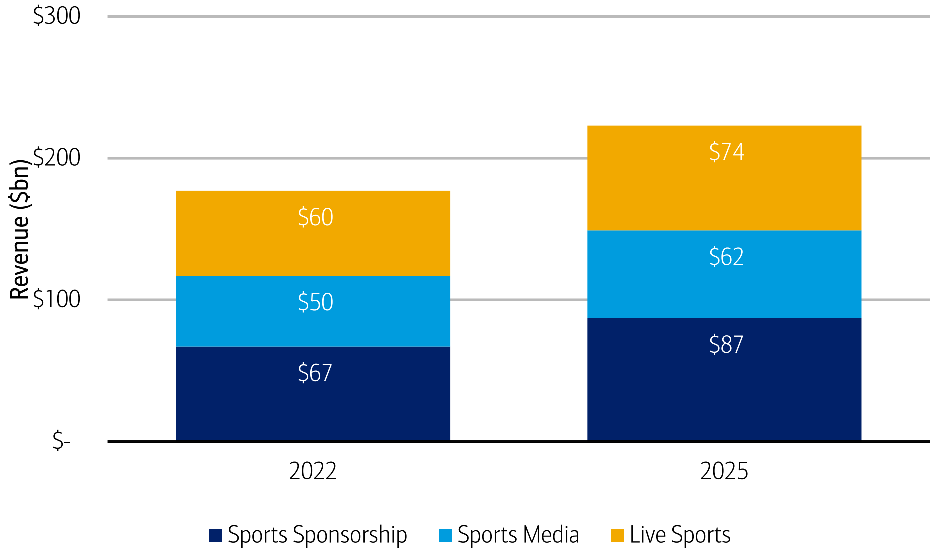
Bear case scenario: Our bear case scenario assumes a 1.5x step-up in AAV for UFC rights, and a 1.25x step-up in AAV for WWE CY26 renewal for premium live events. In this scenario, we assume cumulative operating synergies from the merger of $150mn in CY26E. These factors drive proforma TKO revenue and adj. EBITDA (post synergies) of $3.02bn and $1.38bn in CY26E, respectively.

- Our bear case estimates assume tepid demand for negotiated sports rights renewals with AAV step-ups lagging recent renewals. Additionally, this scenario also forecasts worse incremental margin on step-ups for TKO (vs. our bull case), with the assumption that economics shift toward the fighters and performers over time.
- We estimate WWE and UFC grow at a 3% and 6% underlying revenue CAGR, respectively (4-year through '26).
- The bear case scenario assumes TKO is unable to deliver on any revenue synergies and cumulatively reaches just $150mn by CY26E.

Synergies a driver of upside in coming years

We project there are substantial revenue synergies that will be driven from several areas including: 1) Sponsorship, 2) International media rights/expansion (especially for WWE which is already being capitalized on with the NFLX deal), 3) Ticketing/dynamic pricing 4) site fees, 5) better monetization of WWE's social media engagement. This revenue opportunity is in addition to management's $50-100mn expense synergy target (which we believe could prove to be conservative) and $250-400mn in overlapping costs between the two companies. As shown in Exhibit 17 below, several of these revenue synergies will also be derived from end markets that are expected to grow over the next several years.

Exhibit 17: TKO operates in several global end markets that are growing
Cumulatively sports sponsorship, media and live sports market will grow at an 8% CAGR over the next 3 years



Source: Bofa Global Research, Infiniti Research

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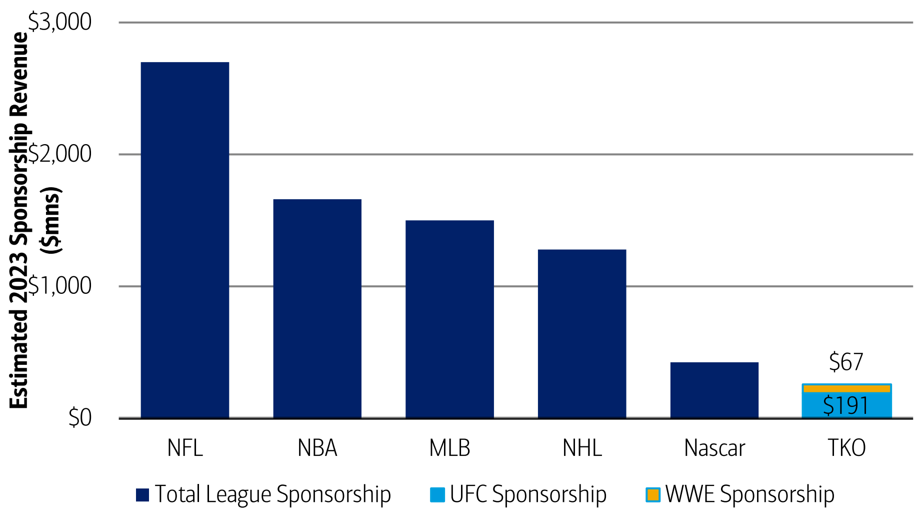
Sponsorship offers relatively immediate upside potential

We view sponsorship as one area where the combination of UFC and WWE will drive substantial monetization improvement. WWE's sponsorship revenue is less than half of UFC's despite WWE's notably strong social media engagement and dedicated fan base that should be primed for increased monetization. We believe this is where UFC's existing sales team and industry know-how can be applied to further tap this opportunity. Along these lines, in October 2023, UFC announced their largest ever sponsorship agreement with Bud light (expected to be over $100mn+) where Bud Light will have "prominent branding" both in the ring and across other media engagement (e.g. social media, Contender series etc.). Comparatively, WWE is historically well known for not allowing sponsors on the ring mat and it would appear this type of in venue sponsorship deal could be significant revenue opportunity over time (as evidenced by the recently announced deal with Prime Hydration). In early January 2024, TKO announced it was merging the global partnership teams into one unit as a means to offer marketers expanded inventory, brand visibility, international reach and unique integration across UFC and WWE. For perspective, if WWE's sponsorship revenue were to double it would still only represent just over 60% of UFC's sponsorship business, underscoring the ample runway for this opportunity in the next several years. Cumulatively, TKO's sponsorship is well below several other leagues (Exhibit 18) which also highlights the longer-term opportunity especially as fan interest in the various TKO properties grow (though we recognize several of these major sports also have major teams to source sponsorship opportunities from in addition to the league themselves and have much larger fan bases).

Exhibit 18: Sponsorship revenues for select sports leagues, 2023
There is ample runway for TKO to grow sponsorship revenue in the coming years



Source: BofA Global Research, press reports, Sports Pro Media, Forbes

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International media rights can also yield upside

WWE's recent deal with Netflix will augment international media rights growth for WWE in the coming years. The UFC has had tremendous success building their brand and fan interest around the globe. This has led to recent media rights renewals in these markets of over 100% on average. We believe the WWE product is easily portable across the globe and the UFC has a well-established playbook to build, promote, and monetize the WWE on a global basis. Along these lines, WWE's new media rights deal with Netflix is a great opportunity to leverage their reach and scale in several new markets and we believe there is an opportunity to grow this relationship to additional markets over time. Additionally, WWE Network still remains as a standalone service in some markets and with the Netflix deal internationally, coupled with the transition to domestic services in several markets WWE is broadcast in (e.g. Peacock in US), TKO will be able to sunset this platform and drive considerable savings in 2025 and beyond (we estimate in low tens of millions of savings).

Other $ upside drivers: site fees and greater efficiency with events

Live events, site fees and greater efficiency represent significant opportunities over the next several years. There are already signs of these synergies bearing fruit as WWE leveraged their existing relationship with Saudi Arabia (WWE hosts events there every year) and announced in January that UFC will be hosting a fight night there later in 2024 and will receive a $20mn site fee. Notably, UFC has been more renowned for their global presence and there appears to be opportunities to bring more WWE events to new geographies. For example, in September 2023, WWE announced it will be returning to Australia to host its first event there since 2018 (which we believe WWE is also receiving a site fee for). Moreover, a potentially underappreciated synergy of the recent Netflix deal is the impact that partnership will have in the respective international countries. *As one of the largest streaming services globally, Netflix can more effectively distribute the WWE product thereby growing interest and fandom.* This in turn, could create demand for future live events in these markets.

Recent live events have also boosted economic activity in local municipalities including: 1) WrestleMania in April 2023 generated $215mn in economic impact for the LA region, 2) UFC 290's International Fight Week 2023 in Las Vegas generated over $99mn in economic activity and 3) UFC 284 in Perth Australia generated over $29mn in February 2023. We view this economic activity brought to local economies as a key driver of continued growth in site fees going forward.

On the efficiency side, WWE hosts 300 events every year with only 170 being televised. While there are branding and audience building benefits from hosting events in several of these smaller markets, in aggregate they can be margin dilutive. We believe there is an optimal balance that can be struck where the total number of events can be reduced while still being strategic in the locations the remaining events take place. This could better optimize the monetization and profit generation per event while maintaining the promotional/brand building impact these live events have on the business longer term.

Key Investment Risks

Saudi investment in PFL a potential competitive risk

In late August 2023, a company formed by Saudi Arabia's sovereign wealth fund acquired a minority stake in the Professional Fighters League (PFL), a competitor to UFC. This introduces the potential for an incredibly well-capitalized competitor that creates longer-term business model risks. In a purely hypothetical worst-case scenario, this could create a new bidding war for fighter talent, impact recent inroads made into Saudi Arabia with live events (particularly at WWE) and disrupt the fighter ranks enough that it impacts upcoming media rights renewals. Even in a best case where Saudi's involvement in PFL has no discernable impact on longer-term fundamentals, the emergence of a new potential competitor represents an overhang that will be challenging to disprove in the near term. Subsequently, it was announced the PFL will merge with Bellator (another MMA competitor league) which potentially amplifies these competitive concerns. We estimate fighter compensation is ~20% of UFC costs and increasing fighter compensation costs could have a significant impact on EBITDA generation for TKO.

Notably, it is our understanding that the current Saudi Arabia's investment in PFL is not intended to serve as a direct competitor to UFC and be more of a vehicle to increase the local presence of MMA. However, this in combination with the expected increase in media rights and pending lawsuit will likely drive an increase in fighter comp—likely at a growth rate faster than revenue.

Demand for UFC media rights not as robust

A significant portion of TKO revenues will be generated from media rights both in the US and internationally. A key tenet of the bull thesis on TKO is the ability to garner significant increases in AAV in their upcoming US media deals. Should current rights holders fail to see the value in WWE/UFC media rights or TKO struggles to attract additional buyers to drive the rights values higher, it could significantly impact the earnings power of the combined business and have an adverse impact investor sentiment. With *Raw* and *Smackdown* rights renewed in the US, the next big upcoming rights deal is with UFC/ESPN which expires at the end of 2025.

Key talent risk/increase in talent compensation

WWE is reliant on talented athletic performers who have the physical presence, acting ability and charisma to portray characters in WWE's live events and programming content. Similarly, demand for UFC fights is significantly higher when its stars are involved. It is necessary for both WWE and UFC to recruit, train, and retain key performers/fighters to maintain the appeal of storylines and the popularity of each sport's brand of entertainment. Additionally, as popularity of each sport increases and media rights increase, top talent could potentially demand a greater share of the media rights revenue going forward. This would have an adverse impact to the longer-term margin trajectory of TKO's business.

Potential overhang from ousted founder

On 1/25, the WSJ reported Vince McMahon was being sued by a former employee. This comes on the heels of other alleged improprieties which led to Vince McMahon's initial retirement from WWE in 2022, a subsequent 2022 board probe and his ultimate return to WWE prior to the merger with UFC. Notably, Vince McMahon resigned as TKO executive chairman on 1/26. At a minimum, the re-emergence of these news stories presents a headline risk. However, whether they result in potential legal damages to the company or result in any business risks are all speculative at this point. Mr. McMahon still also retains a sizeable ownership position in TKO (~8% of shares outstanding following his most recent sale in March) and his disassociation from the company could lead to future share sales.

Pending Anti-Trust Lawsuits another overhang

Dating back to 2014, several fighters jointly sued the UFC claiming monopolistic practices were artificially keeping fighter compensation below market rates. In 2023, this lawsuit was granted a class certification (and UFC subsequently lost an appeal to revoke this class action status) seeking damages of $800mn to $1.6bn. The trial is expected to start in April. There is also a second lawsuit underway although a potential trial does not appear imminent.

While handicapping the timing of a resolution or the magnitude of potential damages remains challenging, however, the presence of these lawsuits represents a headline risk (especially with a trial upcoming soon). In addition, these lawsuits amplify longer term concerns on the trajectory of fighter compensation.

Linear subscriber declines accelerate

WWE and UFC air a significant number of their marquee events and fights on linear TV. To the extent linear subscriber declines accelerate materially, that could impair the ability of TKO's traditional cable partners to bid for sports rights, thus putting downward pressure on the AAV of upcoming rights renewal deals. That said, we also recognize the popularity and importance of live sports in the cable bundle. Both WWE and UFC have also been proactive in securing OTT distribution and have existing deals to broadcast their events through OTT channels.

TKO/Endeavor management overlap

TKO management, most notably Ari Emanuel (CEO) and Mark Shapiro (President/COO), have responsibility for running multiple companies (TKO & Endeavor). Given the time demands on key C-suite leaders of a public company, there is a risk TKO management could be overextended.

EDR maintains 52% ownership stake in TKO

EDR maintains a 52% controlling stake of TKO. This creates a potential risk if TKO shareholder interests do not align with EDR shareholder interests. This could create a scenario where management decisions at TKO could potentially benefit EDR at the expense of TKO shareholders. Additionally, Silver Lake is looking to take Endeavor private, that could also create a scenario where TKO's controlling shareholder (Silver Lake via EDR's) preferences for capital allocation vs. TKO shareholders may differ.

Macro concerns impact sponsorship and live events

Several of the ancillary growth opportunities along with revenue synergies are contingent on the continued strength of live events, advertising/sponsorships, and increasing merchandise sales. Should macro trends deteriorate it could potentially inhibit consumers' willingness to spend for premium live events. Further, if the advertising market remains soft, it may impact demand for sponsorship opportunities.

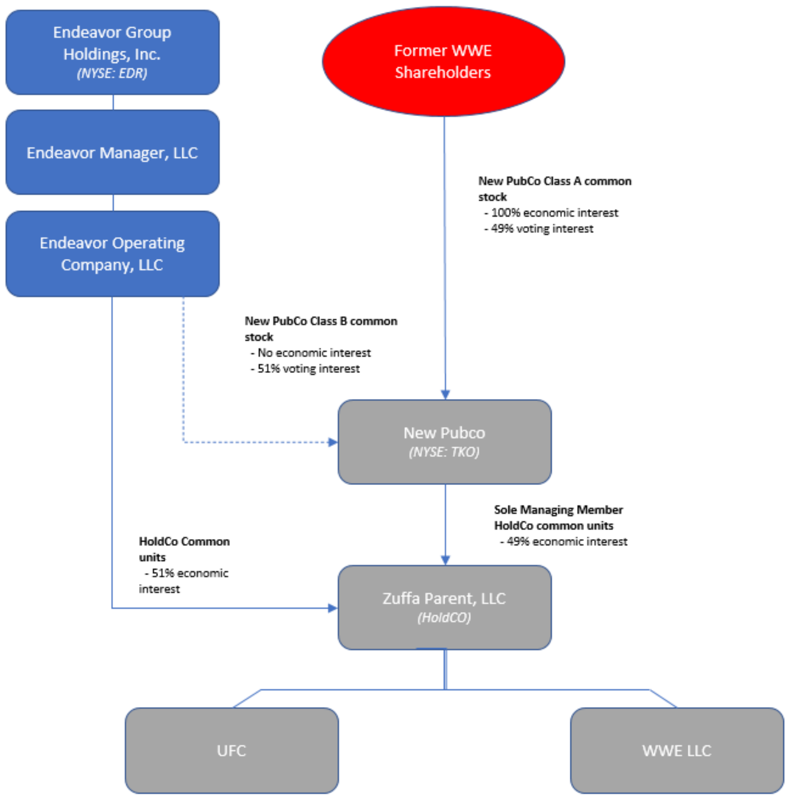
TKO merger Details

Transaction Background

In early 2023, Vince McMahon returned as Executive Chairman of WWE, and the company announced a review of strategic alternatives. On April 2, 2023, WWE entered into an agreement with Endeavor to combine the businesses of WWE and UFC. At deal closing, EDR held a 51% controlling interest, while WWE shareholders received a 49% interest of the new entity. The transaction valued WWE and UFC at enterprise values of $9.3bn and $12.1bn, respectively. TKO is led by Ari Emanuel as CEO, Mark Shapiro as President and COO and Andrew Schleimer as CFO.

Exhibit 19: TKO ownership structure

At deal closing, EDR held a 51% controlling interest, while WWE shareholders received a 49% interest in TKO



Source: Company filings

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TKO controlled by EDR—but what will happen to EDR?

As previously noted, EDR owns a majority stake in TKO. Following the completion of the merger, TKO management, most notably Ari Emanuel (CEO) and Mark Shapiro (President/COO), will mostly overlap with current EDR management. EDR will also control the majority of the board seats. EDR can continue to increase their stake in TKO up to an aggregate of 75.0% of economic or voting interest without the approval of a majority of the independent directors.

On 10/25, EDR management announced the initiation of a formal review to evaluate strategic alternatives for the company. Shortly after, private equity firm Silver Lake, which also retains 71% of the voting rights for EDR announced they are considering a proposal to acquire all of EDR. Should that transaction go through, TKO would then effectively be controlled by Silver Lake via their now privatized investment in EDR. While in both instances, Silver Lake was effectively the majority voting shareholder in TKO, there are different incentives when considering maximizing the value of EDR shares as a public company vs. generating the highest IRR as a private investment. Furthermore, this also adds additional uncertainty around Silver Lake's longer-term commitment to TKO especially if they commence with asset sales of EDR. We expect a resolution to this in the 1H24 though we acknowledge this adds additional uncertainty in terms of TKO's capital allocation.

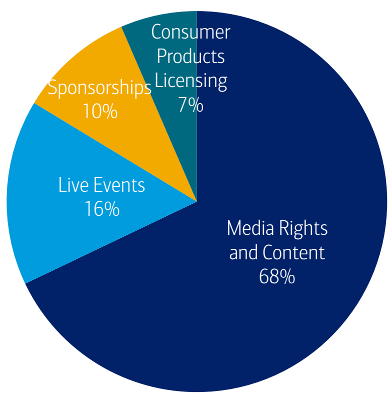
Company Description

TKO Group Holdings Inc. (TKO) is a premium sports and entertainment company that comprises UFC, the world's premier mixed martial arts organization and WWE, an integrated media organization and the recognized global leader in sports entertainment. TKO plans to capitalize on the rapidly expanding, global appetite for live sports events and premium entertainment content through premium live event programming, flagship television broadcasting, OTT offerings, live events and merchandising.

Both the UFC and WWE primarily generate revenue through a variety of media rights, accounting for nearly 70% of the combined pro forma revenue for TKO. The most significant portion of the media rights are for linear TV and digital media rights, while Pay-Per-View (PPV) events account for a portion of revenue for UFC. Notably, the WWE no longer offers PPV as those events are now sold as part of the Peacock streaming rights.

Aside from media rights, the WWE and the UFC also derive revenue from Sponsorship (~10% of TKO revenues) and Consumer Products (primarily WWE).

Exhibit 20: Composition of TKO Revenue
The majority of TKO revenue is driven by Media Rights



Source: Company filings

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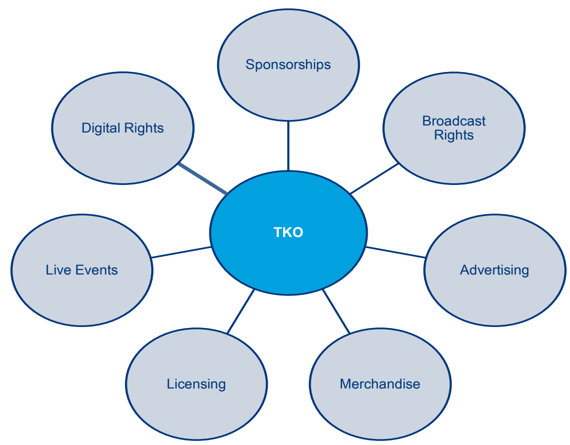
Exhibit 21: TKO's monetization ecosystem
TKO has several avenues to monetize their IP



Source: BofA Global Research

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Management team of TKO

Management team of TKO

The management team of TKO represents a mix of EDR/UFC and WWE. Ari Emanuel assumes the CEO role of TKO while also maintaining his role as CEO at Endeavor. Mark Shapiro serves as EDR and TKO's President and COO while Andrew Schleimer serves as the CFO of TKO.

Ari Emanuel, Chief Executive Officer:
Mr. Emanual is Chief Executive Officer of TKO in addition to his role as CEO at EDR. He previously served as Co-CEO of EDR since July 2014 and as Co-CEO of William Morris Endeavor Entertainment LLC since 2009.

Mark Shapiro, President and Chief Operating Officer:
Mr. Shapiro currently serves as President and Chief Operating Officer of Endeavor, a role he has held since December 2018 and has held several other roles at Endeavor since he joined in 2014. Prior to this role at Endeavor, Mr. Shapiro served as Executive Producer for Dick Clark Productions from September 2012 to September 2014 and served as their Chief Executive Officer from May 2010 through September 2012. Prior to that role, Mr. Shapiro served as CEO of Six Flags Entertainment and before that, Executive Vice President for Programming and Production at ESPN.

Andrew Schleimer, Chief Financial Officer:
Mr. Schleimer currently serves as Chief Financial Officer of TKO. Prior to this role he was EVP and Chief Financial Officer at Digital Turbine. Mr. Schleimer also served as EVP, Strategic Development & In-Park Services for Six Flags. Mr. Schleimer began his career as an investment banker with UBS where he advised on over $150bn of M&A transactions.

Seth Krauss, Chief Legal Officer:
Mr. Krauss currently serves as the Chief Legal Officer of TKO. He has also served as Chief Legal Officer of Endeavor since June 2014. Prior to his role at Endeavor, Mr. Krauss served as the Executive Vice President and General Counsel of Take Two Interactive Software Inc.

Nick Khan, President, WWE:
Mr. Khan currently serves as President of WWE. He joined WWE in 2020 as President and Chief Revenue Officer. Prior to this role, Mr. Khan worked at CAA where he worked as Co-Head of the Television Department. Prior to his role at CAA Mr. Khan worked at International Creative Management where he launched their Sports Media department.

Exhibit 22: TKO—Income Statement
We project CY26 Adj. EBITDA of $1.67

		2023					2024						
Fiscal Year Ends 12/31	**2022A**	**Q1A**	**Q2A**	**Q3A**	**Q4A**	**2023A**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2024E**	**2025E**	**2026E**
TKO Income Statement	2022	2023.1	2023.2	2023.3	2023.4	2023	2024.1	2024.2	2024.3	2024.4	2024		
Revenue													
UFC	$1,140	$307	$305	$398	$283	$1,292	$288	$333	$419	$303	$1,343	$1,445	$1,706
WWE	$1,292	$298	$410	$287	$331	$1,326	$302	$424	$299	$277	$1,302	$1,513	$1,680
TOTAL Revenue	**$2,432**	**$604**	**$716**	**$685**	**$614**	**$2,619**	**$590**	**$758**	**$718**	**$580**	**$2,645**	**$2,958**	**$3,386**
% Chg. (YOY)	*14%*	*2%*	*20%*	*6%*	*3%*	*8%*	*-2%*	*6%*	*5%*	*-6%*	*1%*	*12%*	*14%*
Segment Operating Expenses													
UFC	$460	$120	$117	$160	$140	$537	$120	$119	$164	$141	$544	$574	$655
WWE	$779	$181	$237	$185	$190	$793	$166	$216	$171	$170	$722	$777	$841
TOTAL Segment Operating Expenses	**$1,239**	**$301**	**$354**	**$345**	**$330**	**$1,330**	**$286**	**$335**	**$334**	**$311**	**$1,266**	**$1,351**	**$1,496**
% Chg. (YOY)		*4%*	*12%*	*8%*	*4%*	*7%*	*-5%*	*-5%*	*-3%*	*-6%*	*-5%*	*7%*	*11%*
Adj. EBITDA													
UFC	$681	$186	$188	$238	$143	$755	$168	$214	$255	$162	$799	$871	$1,051
WWE	$513	$117	$173	$102	$141	$533	$136	$209	$128	$107	$580	$736	$839
Corporate	($180)	($47)	($47)	($42)	($61)	($196)	($52)	($52)	($47)	($63)	($213)	($215)	($225)
TOTAL Adj. EBITDA	**$1,013**	**$257**	**$314**	**$298**	**$223**	**$1,092**	**$252**	**$371**	**$336**	**$206**	**$1,165**	**$1,392**	**$1,665**
Margin %	*42%*	*42%*	*44%*	*43%*	*36%*	*42%*	*43%*	*49%*	*47%*	*36%*	*44.1%*	*47.1%*	*49.2%*
Reconciliation to Operating Income													
Adj. EBITDA		$257	$314	$298	$223		$252	$371	$336	$206	$1,165	$1,392	$1,665
Depreciation and amortization				$32	$103		$94	$94	$94	$94	$375	$300	$290
Equity-based compensation				$25	$21		$20	$20	$20	$20	$80	$80	$80
M&A costs				$68	$1		$0	$0	$0	$0	$0	$0	$0
Certain legal costs				$6	$27		$0	$0	$0	$0	$0	$0	$0
Restructuring, severance and impairment				$15	$6		$0	$0	$0	$0	$0	$0	$0
Other adjustments				$1	$2		$0	$0	$0	$0	$0	$0	$0
Operating Income				**$152**	**$63**		**$138**	**$257**	**$223**	**$93**	**$710**	**$1,012**	**$1,295**
Interest expense, net				($61)	($67)		($60)	($60)	($60)	($60)	($241)	($241)	($241)
Other (expense) income, net				($1)	$1		$1	$1	$1	$1	$6	$6	$6
Income before taxes & equity (earnings) losses of affiliates				**$91**	**($2.3)**		**$80**	**$198**	**$164**	**$34**	**$475**	**$777**	**$1,060**
Provision for income taxes				($31)	($14)		($10)	($24)	($20)	($4)	($58)	($95)	($130)
Effective Tax Rate (%)				34%	-600%		25%	25%	25%	25%	24%	24%	24%
Income before equity (earnings) losses of affiliates				**$59**	**($16)**		**$70**	**$174**	**$144**	**$30**	**$417**	**$681**	**$930**
Equity (earnings) losses of affiliates, net of tax				($1)	$0		$0	$0	$0	$0	$0	$0	$0
Net Income (loss)				**$60**	**($16)**		**$70**	**$174**	**$144**	**$30**	**$417**	**$681**	**$930**
Net Income (loss) Attributable to non-controlling Interest				($23)	($11)		$36	$89	$73	$15	$212	$348	$474
Net income attributable to TKO OpCo prior to the Transactions				$66	$8		$0	$0	$0	$0	$0	$0	$0
Net Income (loss) attributable to TKO				**$16**	**($13)**		**$34**	**$85**	**$70**	**$14**	**$204**	**$334**	**$456**
Diluted EPS				$0.19	($0.16)		$0.41	$1.02	$0.84	$0.17	$2.45	$3.97	$5.37
Diluted Weighted Average Shares Outstanding				83	83		83	83	83	84	83	84	85

Source: BofA Global Research

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Exhibit 23: UFC—Revenue Build up
We project UFC revenue of $1.7bn in '26

		2023					2024						
Fiscal Year Ends 12/31	**2022A**	**Q1A**	**Q2A**	**Q3A**	**Q4A**	**2023A**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2024E**	**2025E**	**2026E**
UFC Model	2022	2023.1	2023.2	2023.3	2023.4	2023	2024.1	2024.2	2024.3	2024.4	2024		
Revenue													
Media Rights and Content	$794	$224	$212	$267	$168	$871	$210	$227	$277	$179	$892	$955	$1,169
Live Events	$125	$31	$32	$52	$52	$168	$28	$40	$55	$55	$178	$195	$209
Sponsorships	$167	$38	$46	$64	$48	$196	$37	$51	$70	$53	$211	$228	$251
Consumer Products Licensing	$54	$13	$15	$15	$14	$57	$14	$16	$16	$15	$61	$67	$77
TOTAL Revenue	**$1,140**	**$307**	**$305**	**$398**	**$283**	**$1,292**	**$288**	**$333**	**$419**	**$303**	**$1,343**	**$1,445**	**$1,706**
% Chg. (YOY)	*10%*	*18%*	*14%*	*17%*	*4%*	*13%*	*-6%*	*9%*	*5%*	*7%*	*4%*	*8%*	*18%*
Expenses													
Direct Operating Costs	$326	$86	$81	$118	$99	$384	$86	$83	$121	$100	$390	$411	$472
SG&A	$134	$35	$36	$42	$41	$153	$34	$36	$43	$41	$154	$163	$183
TOTAL Expenses	**$460**	**$120**	**$117**	**$160**	**$140**	**$537**	**$120**	**$119**	**$164**	**$141**	**$544**	**$574**	**$655**
% Chg. (YOY)		*23%*	*9%*	*17%*	*19%*	*17%*	*0%*	*2%*	*2%*	*1%*	*1%*	*6%*	*14%*
Adjusted EBITDA	**$681**	**$186**	**$188**	**$238**	**$143**	**$755**	**$168**	**$214**	**$255**	**$162**	**$799**	**$871**	**$1,051**
% Chg. (YOY)		*15%*	*17%*	*16%*	*-7%*	*11%*	*-10%*	*14%*	*7%*	*13%*	*6%*	*9%*	*21%*
Margin %	*60%*	*61%*	*62%*	*60%*	*51%*	*58%*	*58%*	*64%*	*61%*	*54%*	*59.5%*	*60.3%*	*61.6%*
Year-Over-Year Revenue Growth													
Media Rights and Content	3%	20%	6%	13%	-3%	10%	-6%	7%	4%	6%	3%	7%	22%
Live Event	18%	35%	86%	32%	15%	34%	-12%	24%	6%	6%	6%	9%	7%
Sponsorships	26%	5%	18%	24%	21%	18%	-3%	10%	10%	10%	8%	8%	10%
Consumer Products Licensing	110%	-1%	20%	5%	5%	7%	6%	6%	6%	6%	6%	10%	15%

Source: BofA Global Research

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Exhibit 24: WWE—Revenue Build up
We project $1.68bn in WWE revenue in '26

		2023					2024						
Fiscal Year Ends 12/31	**2022A**	**Q1A**	**Q2A**	**Q3A**	**Q4A**	**2023A**	**Q1E**	**Q2E**	**Q3E**	**Q4E**	**2024E**	**2025E**	**2026E**
WWE Model	2022	2023.1	2023.2	2023.3	2023.4	2023	2024.1	2024.2	2024.3	2024.4	2024		
Revenue													
Media Rights and Content	$872	$210	$250	$211	$212	$883	$217	$259	$218	$153	$847	$989	$1,077
Live Events	$224	$32	$109	$39	$82	$262	$33	$109	$41	$86	$268	$300	$336
Sponsorships	$62	$16	$23	$14	$15	$69	$18	$26	$16	$17	$78	$109	$147
Consumer Products Licensing	$134	$39	$28	$23	$21	$112	$33	$30	$25	$22	$110	$115	$121
TOTAL Revenue	**$1,292**	**$298**	**$410**	**$287**	**$331**	**$1,326**	**$302**	**$424**	**$299**	**$277**	**$1,302**	**$1,513**	**$1,680**
% Chg. (YOY)	*18%*	*-11%*	*25%*	*-6%*	*2%*	*3%*	*1%*	*3%*	*4%*	*-16%*	*-2%*	*16%*	*11%*
Expenses													
Direct Operating Costs	$472	$109	$144	$112	$115	$480	$101	$132	$104	$103	$439	$470	$511
SG&A	$307	$71	$94	$73	$75	$313	$65	$84	$67	$67	$283	$306	$330
TOTAL Expenses	**$779**	**$181**	**$237**	**$185**	**$190**	**$793**	**$166**	**$216**	**$171**	**$170**	**$722**	**$777**	**$841**
% Chg. (YOY)		*-5%*	*14%*	*2%*	*-5%*	*2%*	*-8%*	*-9%*	*-8%*	*-11%*	*-9%*	*8%*	*8%*
Adjusted EBITDA	**$513**	**$117**	**$173**	**$102**	**$141**	**$533**	**$136**	**$209**	**$128**	**$107**	**$580**	**$736**	**$839**
% Chg. (YOY)		*-18%*	*43%*	*-17%*	*12%*	*4%*	*16%*	*21%*	*26%*	*-24%*	*9%*	*27%*	*14%*
Margin %	*40%*	*39%*	*42%*	*36%*	*43%*	*40%*	*45%*	*49%*	*43%*	*39%*	*45%*	*49%*	*50%*
Year-Over-Year Revenue Growth													
Media Rights and Content		1%	11%	-4%	-3%	1%	3%	3%	3%	-28%	-4%	17%	9%
Live Event		-59%	176%	14%	14%	17%	2%	0%	4%	4%	2%	12%	12%
Sponsorships		3%	21%	-1%	25%	12%	11%	13%	13%	12%	12%	40%	35%
Consumer Products Licensing		23%	-37%	-36%	-1%	-17%	-15%	8%	5%	1%	-2%	5%	5%

Source: BofA Global Research

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Exhibit 25: TKO—FCF Statement
We project over 50% conversion in CY24

Fiscal Year Ends 12/31	2023A	Q1E	Q2E	Q3E	Q4E	2024E	2025E	2026E
		2024						
TKO: FCF & Debt Summary	2023	2024.1	2024.2	2024.3	2024.4	2024		2026
Summary Cash Flow Statement								
Adj. EBITDA	$521	$252	$371	$336	$206	$1,165	$1,392	$1,665
- Cash Taxes	$45	$24	$61	$50	$10	$145	$181	$247
- Net Interest	$126	$59	$59	$59	$59	$236	$236	$236
- NWC	($128)	$17	$17	$17	$19	$70	($2)	$1
- Other	$52	$0	$0	$0	$0	$0	$0	$0
Operating Cash Flow	$426	$152	$234	$210	$118	$715	$978	$1,183
- Capex	($39)	($55)	($22)	($20)	($13)	($110)	($80)	($90)
FCF	**$387**	**$97**	**$212**	**$190**	**$105**	**$605**	**$898**	**$1,093**
- Distributions to members for tax		$18	$45	$38	$8	$109	$178	$243
FCF (Post-member distribution)		**$79**	**$167**	**$153**	**$97**	**$496**	**$720**	**$849**
FCF Conversion	74.23%	38.63%	57.28%	56.52%	50.88%	51.89%	64.48%	65.60%
FCF (Post-member distribution) Conversion		31.39%	45.02%	45.36%	47.14%	42.54%	51.67%	51.00%
Summary Balance Sheet Data								
Gross debt	2,736	2,736	2,736	2,736	2,736	2,736	2,736	2,736
Cash	$236	$330	$533	$715	$819	$819	$1,624	$2,590
Net debt	2,501	2,407	2,203	2,021	1,917	1,917	1,112	146
TTM EBITDA	$1,092	$1,087	$1,144	$1,182	$1,165	$1,165	$1,392	$1,665
Gross debt / EBITDA	2.5x	2.5x	2.4x	2.3x	2.3x	2.3x	2.0x	1.6x
Net debt / EBITDA	**2.3x**	**2.2x**	**1.9x**	**1.7x**	**1.6x**	**1.6x**	**.8x**	**.1x**

Source: BofA Global Research
Note: 2023 represents only a partial year

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Price objective basis & risk

TKO Group Holdings (TKO)

Our $100 PO is based on a 14x our discounted CY26 EBITDA back to CY24. Our 14x multiple represents a 35% discount to closest competitor FWONK. We believe a discount is warranted as FWONK has: 1) a longer track record in the public markets, 2) a greater propensity to grow in the US (whereas UFC/WWE are more established on a relative basis) and 3) FWONK has a higher FCF conversion especially after contemplating TKO's tax distributions to members. TKO can narrow this valuation gap with positive updates on media rights, realization of synergy opportunities, capital returns and overall executions.

Downside risks to our price objective are 1) lower-than-expected demand for UFC rights in the upcoming renewal, 2) increased fighter compensation costs which negatively impact company margins, 3) execution risks related to merger integration, 4) negative rulings in pending anti-trust lawsuits, 5) potential stock sales by large holders, 6) general macro concerns impacting sponsorship and live events

Analyst Certification

I, Brent Navon, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Cable, Entertainment and Satellite Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Comcast Corp	CMCSA	CMCSA US	Jessica Reif Ehrlich
	Endeavor Group Holdings, Inc.	EDR	EDR US	Jessica Reif Ehrlich
	Madison Square Garden Entertainment	MSGE	MSGE US	Peter Henderson
	Netflix, Inc.	NFLX	NFLX US	Jessica Reif Ehrlich
	Spotify Technology	SPOT	SPOT US	Jessica Reif Ehrlich
	TKO Group Holdings	TKO	TKO US	Brent Navon, CFA
	Walt Disney Co.	DIS	DIS US	Jessica Reif Ehrlich
	Warner Bros. Discovery	WBD	WBD US	Jessica Reif Ehrlich
NEUTRAL				
	Charter Communications	CHTR	CHTR US	Jessica Reif Ehrlich
	Fox Corporation	FOXA	FOXA US	Jessica Reif Ehrlich
	Fox Corporation	FOX	FOX US	Jessica Reif Ehrlich
	Sphere Entertainment Co.	SPHR	SPHR US	Peter Henderson
	Warner Music Group Corporation	WMG	WMG US	Jessica Reif Ehrlich
UNDERPERFORM				
	iHeartMedia, Inc.	IHRT	IHRT US	Jessica Reif Ehrlich
	Paramount Global	PARA	PARA US	Jessica Reif Ehrlich
RSTR				
	Liberty SiriusXM Group	LSXMA	LSXMA US	Jessica Reif Ehrlich
	Liberty SiriusXM Group	LSXMK	LSXMK US	Jessica Reif Ehrlich
	Sirius XM Holdings Inc	SIRI	SIRI US	Jessica Reif Ehrlich

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) × (1 − Tax Rate) + Goodwill Amortization	Total Assets − Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5 Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations − Total Capex	N/A
Quality of Earnings	**Numerator**	**Denominator**
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt − Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit	**Numerator**	**Denominator**
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations − Total Capex	Market Cap = Current Share Price × Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

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Important Disclosures

Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships R1	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

R1 Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster R2
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

R2 Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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