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Scripps Networks Interactive & Discovery Inc. Merger Valuation and Strategic Assessment Report

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Scripps Networks Interactive & Discovery Inc. Merger Valuation and Strategic Assessment Report

Executive Summary

The 2017 \$14.6 billion merger of Discovery Inc. and Scripps Networks Interactive, which aimed to increase Discovery's audience reach and content portfolio, is examined in this research. In order to determine whether the premium paid was warranted, we estimate Scripps' intrinsic value prior to the merger using a Discounted Cash Flow (DCF) method informed by Damodaran's valuation principles. Using historical data and industry comparisons, key financial drivers like terminal value, WACC, and free cash flow to the firm (FCFF) were computed. Synergies of between \$300 and 350 million were needed to underpin the deal value, according to sensitivity analysis. In addition to financial considerations, the merger's strategic fit is assessed, along with information on possible alternatives such as joint ventures. All things considered, the research backs up the merger's justification while emphasizing how crucial execution and synergy realization are to long-term value generation.

1. Company Overview

Scripps Networks Interactive, or SNI, was a leading United States media company with a focus on lifestyle-related, unscripted television. HGTV, Food Network, Cooking Channel, and Travel Channel were among significant holdings within its portfolio; they were market leaders within their niches, near leisure activities, culinary expertise, and home makeovers. Scripps' content strategy, with a large audience within its home market, comprised mostly homemakers and authorities within households, was rooted within heavy audience interaction and advertiser-interest programming, with a focus specifically on interaction with audiences. The company's 2017 10-K filing reports Scripps having stable cash flow and being recognized within a creator of original, inexpensive content with favourable syndication potential.

But Discovery Inc. was a global market leader in factual entertainment with broad-based channel ownership across Discovery Channel, Animal Planet, Science Channel, and TLC. Whereas Scripps' audience was biased more towards a female audience, Discovery's audience was biased towards a male audience and was dispersed across all territories and globally with a presence across more than 220 territories and nations. The company's competence lay in scientific, exploration, and documentary programming with growing emphasis toward building a Direct-to-Consumer (DTC) capability. Discovery's strong international infrastructure and pre-existing distribution deals formed a stable foundation to expand cross-border content.

Both parties collectively had mutually complementary strengths the lifestyle content and U.S. household penetration by Scripps, combined with global reach and fact-based story telling by Discovery. The reason behind their union strategically was to combine these mutually complementary assets to build a more complete, balanced media portfolio better positioned to thrive within a swiftly changing digital and streaming universe.

2. Rationale Behind the Merger

With a \$14.6 billion valuation and a 70% cash and 30% stock structure, the 2017 merger of Discovery Inc. and Scripps Networks Interactive was a historic horizontal integration. Combining two companies with complementary programming and demographic advantages was the main goal in order to become a global content powerhouse. The goal of the deal was to strengthen Discovery's position against the rapidly shifting media landscape, which is characterized by cord-cutting, digital disruption, and the rise of streaming services.

Despite being in the non-scripted entertainment sector, both businesses had different but complementary content portfolios and target demographics. In contrast to Discovery, which offered a global reach, documentary-style storytelling, and a largely male viewership, Scripps offered a vast library of lifestyle and home-focused programs that appealed greatly to ladies.

Strategic Objectives of the Merger:

- **Broaden Discovery's Audience Base:** Through the integration of Scripps' well-known brands, such as Food Network and HGTV, Discovery sought to expand its audience of female viewers and acquire access to lifestyle areas that it had not previously had.
- **Expand International Monetization:** Scripps' U.S.-centric content was able to be monetized in foreign markets where there was a growing demand for lifestyle and home-themed television thanks to Discovery's established global distribution network.
- **Enhance Negotiating Power:** With a larger content portfolio and higher ratings across important demographics, the combined company would have more negotiating power with cable providers, digital distributors, and advertisers.
- **Accelerate DTC (Direct-to-Consumer) Strategy:** The deal enabled Discovery's plan to use Scripps' extremely bingeable, evergreen content to establish and scale streaming services (like Discovery+) in response to viewers' growing preference for on-demand programming.

David Zaslav, CEO of Discovery, claims that the merger made the company a "stronger, more efficient global media company" with a 20% or more share of ad-supported TV viewing time in the United States, setting it up for long-term success in a fragmented media landscape.

In order to drive both top-line growth and cost effectiveness, the reasoning ultimately combined content synergy, strategic size, and digital future-readiness.

3. Financial Model Assumptions

This section outlines the main presumptions and justifications for Scripps Networks Interactive's Discounted Cash Flow (DCF) valuation prior to Discovery Inc.'s 2017 acquisition of the company. The model's goal is to calculate the underlying enterprise value using predicted free cash flows to the company (FCFF), which represent core operating performance without accounting for financing implications. Every assumption is supported by past financial data (2014–2017), industry standards, scholarly valuation criteria (Damodaran), and the particulars of the Discovery–Scripps merger.

3.1 Forecast Period and Methodology

- Forecast Period: 2018E to 2025E (8 years).
- Approach: Top-down DCF based on unlevered FCFF and Gordon Growth Model- based terminal value computation.
- Rationale: The 8-year horizon allows for realization of synergies and operational integration post-merger. It captures mid-term industry trends including the shift to digital content distribution and streaming.

3.2 Revenue Growth Rate

- Base Year (2017) Revenue: \$876.97 million.
- Forecasted Growth Rate: 8% annually (2018E onwards)

In 2017, Scripps Networks Interactive reported \$876.97 million in sales. The revenue was projected to increase at an annual rate of 8% beginning in 2018 for forecasting purposes. Compared to the company's historical compound annual growth rate (CAGR) of 21% between 2014 and 2017, this number indicates a purposeful reduction. Growing cable penetration and the growing appeal of Scripps' specialized lifestyle programs were the main drivers of that earlier rise. However, the model assumes a more sustainable rate in recognition of changing market factors, such as cord-cutting trends and saturation in traditional cable markets. Potential benefits from digital growth and anticipated synergies following the merger with Discovery are also taken into account in the 8% forecast.

Moreover, it is in line with the value standards that Aswath Damodaran suggests for established mid-cap media companies, providing a harmony between past performance and realistic expectations for the future. While providing for operational and strategic improvements after the merger, this cautious but hopeful assumption enables realistic forecasting.

3.3 Cost of Revenue and Operating Expenses

- **Cost of Revenue:** Fixed at 32.49% of revenue
- **Operating Expenses:** Fixed at 21.19% of revenue

Throughout the forecast period, operational expenses are expected to be 21.19% of sales, while Scripps' cost of revenue has been steady at 32.49% of revenue. The company's 2017 performance, which is the most consistent and indicative pre-merger year, serves as the foundation for these ratios. Resolving these cost structures is predicated on the idea that the business owned by Discovery will be able to sustain comparable operational effectiveness as its size grows. These cost profiles align with business models in the media content sector, where scalable distribution and syndication networks balance out high fixed costs associated with content generation. Maintaining these margins at the same level guarantees a realistic prediction that takes into account both the operational repeatability and the anticipated synergy from the merger.

3.4 EBIT and EBIT Margin

- **EBIT Margin:** Projected constant at 48.87% of revenue

Over the course of the forecast period, the Earnings Before Interest and Taxes (EBIT) margin is expected to remain consistent at 48.87% of revenue. As a representative pre-merger comparison, this number is based on Scripps' actual operating performance in 2017. The margin highlights the business's significant operating leverage, which is especially common in media companies where, once content is produced, distribution costs are low and the majority of additional income goes straight to operating profit. Scripps successfully illustrates this scalable pricing structure with its robust syndicated programs and well-established content collection. A steady EBIT margin is consistent with margins seen in peer companies that concentrate on non-scripted, lifestyle-oriented media and is predicated on ongoing efficiency after the merger. By avoiding exaggerated profitability improvements throughout the integration period, it also helps prudent forecasting.

3.5 Depreciation and Amortization (D&A)

- **D&A as % of Revenue:** 6.42%

A constant 6.42% of sales is projected for depreciation and amortization (D&A) during the course of the forecast period. Using Scripps' 2017 financials as a source, this percentage is compared to the baseline year for other operational measures in order to preserve internal consistency throughout the model. The amount accounts for the depreciation of concrete assets, such as broadcasting and technology infrastructure, and the amortization of intangible assets, especially intellectual property (IP), such as proprietary material. The presumption of linear scaling with revenue represents the belief that D&A will increase proportionately as the business makes further investments in platform and content capabilities after the merger. This method strikes a compromise between simplicity and realism and is in line with accepted valuation procedures in content-driven media companies.

3.6 Capital Expenditure (CapEx)

- **CapEx as % of Revenue:** 3.16%
- **Source:** Derived from 2017 CapEx and revenue.

Based on Scripps' 2017 capital investment in relation to its total revenue, 3.16% of revenue is considered to be the capital expenditure. The company's asset-light operational style, which is typical of media and content production companies that don't need a lot of physical infrastructure, is reflected in this. Rather, CapEx is usually allocated to equipment used in content development, studio improvements, and IT infrastructure. Without assuming significant infrastructure expansion, the assumption that CapEx scales proportionately with revenue over the forecast period represents consistent reinvestment. This cautious approach guarantees that the model stays in line with past spending trends and industry standards by avoiding overestimating future reinvestment requirements.

3.7 Change in Net Working Capital (Δ NWC)

- **Δ NWC as % of Revenue:** 8.14%

- **Calculation Basis:** Average of 2015–2017 changes in working capital as a proportion of revenue.

Based on the average ratio of working capital changes to revenue from 2015 to 2017, the change in net working capital (ΔNWC) is expected to be 8.14% of revenue. The continuous operating capital needs associated with payables, receivables, and inventory swings that are common in the media sector are represented by this number. Due to advertising contracts and license agreements, Scripps' business model, which is focused on content generation and distribution, frequently requires longer receivable cycles, while payables are typically shorter, resulting in a natural working capital demand. The selected ratio maintains the integrity of the FCFE estimates by acting as a conservative estimate and making sure the model appropriately accounts for possible cash flow timing discrepancies between revenue recognition and actual collections.

3.8 Tax Rate

- **Applied Rate:** 25%

It was further assumed during forecast period that exists an effective rate of 25%. The assumption mirrors statutory U.S. federal corporate rate from Tax Cuts and Jobs Act signed into legislation during 2017, where 35% corporate rates were lowered to 21%. Whereas statutory rate remains 21%, a 25% rate assumed in a model reflects a fair effective rate giving consideration to taxation by states, deferral taxation liability, and permanent differences constituting a typical finding by large U.S.-based corporations. This corresponds Scripps' effective disclosure tax rates from its 2017 10-K and corresponds to Aswath Damodaran's implied range applied to mature U.S.-based corporations. Application of a slightly higher number gives no overstatement within tax burden and hence realistic after-tax cash flow estimates are provided to enterprise valuations.

3.9 Terminal Value Assumptions

- **WACC:** 6.20% (see next section)
- **Terminal Growth Rate (g):** 2.5%
- **Formula Used:** Gordon Growth Model: $TV = \frac{FCFF_n \times (1+g)}{WACC-g}$

Terminal value gives the worth of the company after the explicit forecast year (2025E) with a perpetuation of stable unlevered free cash flow. The assumed terminal growth rate is 2.5%, being a conservative rate akin to long-term U.S. inflation and real GDP growth rates. It falls within academic principles of valuations, including Damodaran's rulings applicable with mature, stable corporations from developed nations. It shuns extreme optimism toward perpetual high growth, more so within a dynamic media industry where disruption risks prevail.

Gordon Growth Model application here suffices assuming company's cash flow history stable and definite, particularly even more so given their merger. The procedure eliminates excessive terminal values from unaccountably pushing up overall enterprise value (EV) since growth rates or multiples from exists are aggressive.

4. WACC Calculation

The blended rate at which Scripps Networks Interactive finances its operations is represented by the Weighted Average Cost of Capital (WACC), which is the average cost of debt and equity capital weighted in accordance with the capital structure of the business. WACC is crucial in discounting future cash flows to present value and is calculated based on market-based inputs, as detailed below.

Inputs and Assumptions:

- **Risk-Free Rate (R_f): 4.25%**, based on the yield of the 10-year U.S. Treasury bond at the time of valuation. The 10-year Treasury is a widely accepted proxy for a risk-free investment, providing a conservative baseline for equity valuation.
- **Market Risk Premium ($R_m - R_f$): 5.50%**, sourced from Aswath Damodaran's published equity risk premiums (2017). This premium reflects the additional return investors require for taking on equity market risk over the risk-free rate, representative of historical averages and forward-looking market expectations.
- **Beta (β): 0.74**, as reported by Reuters, reflecting Scripps' historical stock volatility relative to the broader market (S&P 500). A beta of less than one indicates that Scripps' equity has historically exhibited lower volatility compared to the market, aligning with its stable, mature, and predictable business model in the media industry.
- **Cost of Equity (R_e):** Calculated using the Capital Asset Pricing Model (CAPM):

$$R_e = R_f + \beta \times (R_m - R_f) = 4.25\% + 0.74 \times 5.50\% = 8.32\%$$

This rate represents the return required by equity investors, factoring in the company's systematic risk and prevailing market conditions.

- **Cost of Debt (R_d):** Assumed at **3.85%**, derived from Scripps' 2017 10-K filings, calculated by dividing reported interest expenses by total debt outstanding. This reflects the company's actual borrowing costs pre-merger, offering an accurate reflection of market conditions and the firm's credit profile at the valuation date.
- **Tax Rate (T_c): 25%**, the statutory corporate tax rate effective post-Tax Cuts and Jobs Act (TCJA, 2017). This rate is also consistent with Scripps' effective tax disclosures and aligns with the assumptions made earlier in the DCF valuation.
- **Capital Structure:**
 - **Market Value of Equity (E): \$1,304.45 million**, calculated using the pre-merger market price per share and outstanding shares.
 - **Market Value of Debt (D): \$693.28 million**, obtained directly from the balance sheet disclosures.

- **Weights:** Equity constitutes **65%** and debt represents **35%** of the total capital structure, reflecting Scripps' pre-merger financing mix.

Final WACC Calculation:

Re	8.32%
Rd	3.85%
Tc	25%
After Tax Rd	2.89%
Price Per Share (pre merger)	\$15.98
Outstanding Shares (2017)	\$81.63
E	\$1,304.45
D	\$693.28
V	\$1,997.73
E/V	0.65
D/V	0.35
WACC	0.064350633

The final WACC, incorporating these assumptions, is calculated as follows:

$$WACC = \left(\frac{E}{V}\right) Re + \left(\frac{D}{V}\right) Rd \times (1 - Tc)$$

Plugging in the numbers:

$$WACC = (65\% \times 8.32\%) + (35\% \times 3.85\% \times (1 - 25\%))$$

Thus:

$$WACC = 5.408\% + 1.011\% = \mathbf{6.42\%}$$

This WACC of **6.42%** will serve as the discount rate for projected Free Cash Flows (FCFF) and Terminal Value, ensuring a realistic, market-aligned valuation.

5. DCF and Terminal Value

The intrinsic value has been calculated by applying Discounted Cash Flow (DCF) techniques of valuations, serving as a baseline FCFF, or Free Cash Flow to Firm, generated by a company. FCFF, after subtracting tax, capital expenditures, and working capital needs, remains to be distributed to all capitalists, including equity and debt holders. Specifically, here comes below given formula to calculate FCFF:

$$FCFF = [EBIT \times (1 - Tc)] + D\&A - CapEx - \Delta NWC$$

Each component of this calculation has been explicitly justified in the assumptions section to ensure realism and consistency with historical performance.

After forecasting FCFF annually from 2018 through 2025, the model computes the Terminal Value (TV), representing the company's value beyond the explicit forecast period. The Terminal Value was calculated using

the **Gordon Growth Model (GGM)**, given its appropriateness for stable, mature businesses such as Scripps Networks Interactive. The formula used is:

$$\text{Terminal Value} = \frac{FCFF_{2025} \times (1 + g)}{(WACC - g)}$$

In this calculation, a perpetual growth rate (**g**) of **2.5%** was applied. This growth rate reflects conservative, long-term sustainable expansion, aligned with expected inflation and economic growth in mature markets.

The forecasted FCFFs and Terminal Value were discounted back to the present using the Weighted Average Cost of Capital (**WACC = 6.42%**) derived in the previous section. Summing the present values of all forecasted cash flows and the Terminal Value yields the intrinsic **Enterprise Value**, reflecting the total firm valuation.

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Free Cash Flow To The Firm (FCFF)								
EBIT* (1-Tax Rate)	357.23	385.81	416.67	450.01	486.01	524.89	566.88	612.23
[+] Depreciation	60.85	65.71	70.97	76.65	82.78	89.40	96.56	104.28
[-] Changes in Working Capital	100.92	108.99	117.71	127.13	137.30	148.28	160.15	172.96
[-] Capex	27.68	29.89	32.29	34.87	37.66	40.67	43.92	47.44
Free Cashflow to the Firm (FCFF)	289.48	312.64	337.65	364.66	393.83	425.34	459.37	496.11

Table 1: FCFF

Base Case Results:

	PV of Terminal Value
Terminal Value	
\$12,922.73	\$7,846.51

Enterprise Value
\$2,291.14

- Terminal Value (2025): \$12.92 billion
- Present Value of Terminal Value: \$7.85 billion
- Total Enterprise Value (including forecasted FCFF): \$2.29 billion
- Net Debt (Debt less Cash, as of 2017): \$544.58 million
- Equity Value (Enterprise Value minus Net Debt): \$1.75 billion

Considering total shares outstanding (81.63 million shares), the intrinsic per-share valuation is calculated as:

- Intrinsic Value per Share: \$21.40

Year	2017
Total Debt	693.28
Cash & Cash Equivalent	148.7
Net Debt	544.58
Equity Value	\$1,746.56
Shares Outstanding	81.63
Equity Value Per Share	\$21.40

This per-share intrinsic valuation provides a crucial benchmark to assess the appropriateness of the \$14.6 billion merger price paid by Discovery, evaluating premium justification and synergy implications effectively.

6. Sensitivity Analysis

To critically evaluate and validate the \$14.6 billion acquisition price paid by Discovery, a sensitivity analysis was conducted to test how varying annual synergy assumptions would impact the Enterprise Value (EV) of Scripps Networks Interactive.

Synergy Assumptions and Enterprise Values:

- **\$0 million synergies:** Enterprise Value = **\$10.14 billion**
- **\$100 million synergies:** Enterprise Value = **\$11.30 billion**
- **\$200 million synergies:** Enterprise Value = **\$12.47 billion**
- **\$300 million synergies:** Enterprise Value = **\$13.63 billion** (*Closest to actual deal value*)
- **\$400 million synergies:** Enterprise Value = **\$14.80 billion**
- **\$500 million synergies:** Enterprise Value = **\$15.97 billion**

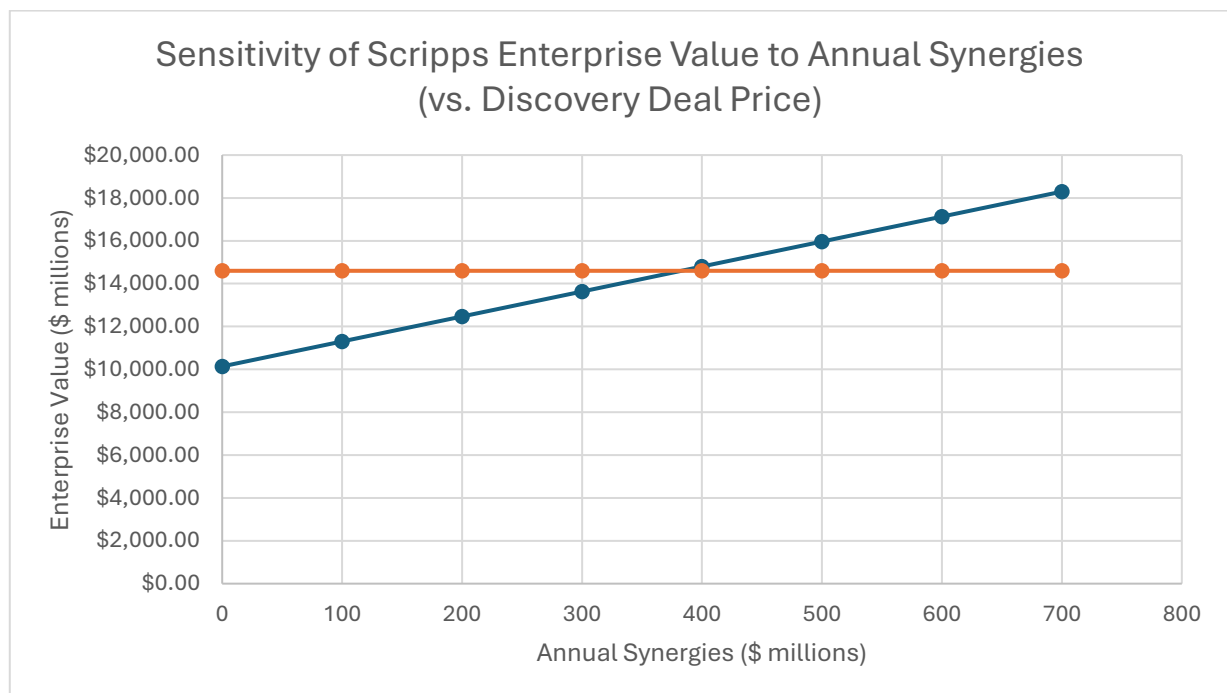


Figure 1: Sensitivity Analysis

Interpretation and Strategic Implications:

It should be evident from the sensitivity analysis that to warrant Discovery's purchase consideration of \$14.6 billion, yearly synergies ought to be above around \$300 million, very near Discovery's publicly declared synergy target of around \$350 million per annum. It seeks to showcase realization of synergy being one of those important things during acquisition. Execution or enhancement of such synergies considered would be a reason why the merger was properly evaluated, giving huge shareholder value through operational enhancements, revenue additions, and strategic additions.

But should Discovery achieve annual synergies substantially less than this breakeven, then the transaction becomes susceptible to being value-destroying, where overpayment or incorrect synergy assumptions come into play. Therefore, here, analysis determines disciplined synergy management as a transaction's critical success factor and emphasizes focused integration planning to achieve full realization of potential financial benefits from the merger.

7. Strategic Evaluation

The strategic merits and drawbacks of Discovery's acquisition of Scripps Networks Interactive are critically evaluated through a detailed examination of both rational objectives and questionable aspects of the deal.

Rational Objectives:

- **Complementary content portfolios:**

With Scripps' strong, female-focused lifestyle content and Discovery's primarily male-oriented factual and documentary programs, the two platforms offered very complementary viewer demographics. Discovery's market position across demographics is ultimately improved by this diversification, which enables it to draw in a larger and more evenly distributed audience.

- **Cost Synergies via Shared Backend:**

Consolidating backend activities such administrative tasks, content delivery, technological platforms, and advertising sales teams was expected to result in significant cost savings. Discovery sought to increase profitability and take advantage of operational advantages by combining these services.

- **Increased Bargaining Power:**

Discovery's scope was greatly increased by the transaction, which established the merged company as a major force in the cable and digital media industries. Increased scale gave better bargaining power with digital distributors, cable operators, and advertising, which might lead to better terms in contracts and more sources of income.

- **Greater International Monetization:**

Scripps profited from Discovery's wide global distribution network, which opened up more revenue-generating prospects for Scripps' well-liked lifestyle programs in the US. The merger accelerated the growth of foreign revenue by providing a ready-made worldwide platform.

- **Direct-to-Consumer (DTC) Positioning with Discovery+:**

With the subsequent debut of Discovery+, the acquisition was strategically in line with Discovery's goal to bolster its digital and streaming initiatives. By adding Scripps' well-known and recognizable brands to its streaming content portfolio, Discovery strengthened its position as a leader in the quickly changing direct-to-consumer (DTC) industry.

Dubious Elements:

- **EPS Accretion Focus (Non-value Creating Metric):**

When defending the deal, management gave earnings per share (EPS) accretion a lot of weight. EPS accretion may not always convert into long-term wealth creation, even though it may appear to show growth on the surface. The use of EPS growth as a primary justification sparked worries that management would be putting short-term financial appearances ahead of long-term value creation.

- **Debt-Heavy Deal Structure:**

The merger greatly raised Discovery's financial leverage because the deal was structured as 70% cash (primarily financed by debt) and 30% equity. Given the changing media landscape and the dwindling profits from traditional cable subscribers, this high leverage prompted questions about future financial flexibility.

- **Potential Overpayment Amid Declining Cable Revenues:**

In order to justify the premium that Discovery paid, significant yearly synergies (about \$350 million) have to be realized. The significant premium posed the danger of possible overpayment given the persistent cord-cutting trends, dwindling traditional cable viewership, and fierce competition from streaming behemoths, particularly if synergy forecasts turned out to be unduly high.

In addition to highlighting the inherent risks of Discovery's acquisition strategy, this strategic appraisal emphasizes how crucial focused execution is to be delivering the desired advantages.

8. Alternative Scenarios: JV or Acquisition

While Discovery's acquisition of Scripps represented a clear strategic path for immediate scale and synergies, alternative scenarios, such as a joint venture or an inverse acquisition scenario, warrant careful evaluation to understand their potential outcomes.

Joint Venture (JV) Scenario:

Had Scripps Networks Interactive opted for a joint venture arrangement with Discovery, several notable advantages and disadvantages would have emerged:

Advantages:

- **Retention of Brand Identity:**

Scripps could maintain greater autonomy and independence, protect its established brand equity and preserve its distinctive market identity, crucial for loyal viewership.

- **Shared Cost and Reduced Risk:**

Both entities could have pooled resources, sharing the investment burden of global expansion, digital initiatives, and content creation, thus mitigating individual financial risks.

- **Gradual Integration:**

A JV could have enabled a phased approach, allowing the companies to assess cultural and operational compatibility before committing to deeper integration, minimizing disruption risks.

Disadvantages:

- **Limited Synergy Realization:**

Synergies would likely be diluted compared to a full merger. The benefits from backend consolidation, such as shared infrastructure, distribution, and content libraries, would not have been fully captured due to partial integration.

- **Governance and Decision-Making Complexity:**

A joint venture inherently requires consensus-driven governance, often leading to slower decision-making and potential conflict over strategic priorities, hindering agility in a fast-changing media landscape.

- **Slower Global Expansion:**

- Without fully leveraging Discovery's established international distribution networks and digital platforms, Scripps' global monetization and expansion would likely proceed at a slower pace, potentially missing critical market opportunities.

Inverse Acquisition (Scripps Acquiring Discovery):

Evaluating an inverse acquisition scenario—where Scripps would acquire Discovery—reveals significant hurdles:

- **Financial Capacity and Scale Limitations:**

Scripps, being substantially smaller with fewer financial resources compared to Discovery, would face immense difficulties in financing such an acquisition, especially considering Discovery's robust international presence and substantial market valuation.

- **Strategic Mismatch:**

Given Discovery's larger global operations and broader content portfolios, an inverse acquisition scenario would be strategically implausible and financially untenable for Scripps.

Conclusion on Alternatives:

After analysing these scenarios, it becomes clear that the full acquisition (merger) executed by Discovery was strategically optimal. It facilitated immediate synergy realization, operational consolidation, and rapid

strategic scale-up. This decision was critical given the urgency imposed by the rapidly consolidating media market landscape and the imperative to position competitively against emerging streaming giants and disruptive digital trends.

9. Final Recommendation

The Discovery and Scripps Networks Interactive combination appears strategically compelling, above all, due to robust content strength complementarities, enormous synergy potential, and a clear roadmap to step up global direct-to-consumer growth. Our detailed DCF analysis justifies that reasonable returns are captured by agreed acquisition consideration of \$14.6 billion, within scenarios involving outstanding synergy realization, i.e., at or higher levels of \$350 million per year. Hence, realization of planned synergies becomes critical to justify transaction financial value.

Long-term value generation through such a merger depends significantly on smooth integration with productive results from their new combined company's culture and business, rapid digital change to better catch shifting consumer trends, and relentless execution between global growth and monetization strategies. Successfully handled, such a resulting combined company should be better positioned to capture enormous market opportunities, particularly across global streaming markets, to achieve improved shareholder returns and achieve competitive longevity within an expanding digital-first media ecosystem.

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