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Liberty Media Group

NYSE: L SELL

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S&P Sector – Consumer Discretionary

Industry - Broadcasting

MARKET DATA

Price	52-Wk Range	Shares Out.	Market Cap.	Beta	EPS	EPS	P/B	P/S	P/E
2/24/02 close	low on 9/21/01	(billion)	(billion)	Yahoo Finance	2001E	2002E	(mrq)	(ttm)	(ttm)
\$12.20	\$9.75-\$18.04	2.59	\$31.6	1.52	-\$0.44	-\$0.24	1.01	14.68	N/A

ONE-YEAR PRICE CHART OF LIBERTY MEDIA CORP.



COMPANY OVERVIEW (FROM YAHOO! FINANCE)

Liberty Media Corporation owns interests in a broad range of video programming, communications and Internet businesses in the United States, Europe, South America and Asia. Liberty Media's principal assets include interests in Starz Encore Group LLC, Discovery Communications, Inc., AOL Time Warner Inc., QVC Inc., USA Networks Inc., Telewest Communications plc, Gemstar-TV Guide International Inc., Motorola Inc., Sprint PCS Group, The News Corporation Limited and Liberty Digital Inc. Liberty Media is engaged principally in three fundamental areas of business: Programming, Communications and Internet services and technology. Liberty Media had been a wholly owned subsidiary of AT&T Corp. since March 9, 1999, when AT&T acquired by merger the Company's parent company. In August 2001, AT&T split off Liberty Media Group, making Liberty Media an independent public company. AT&T has no continuing stock ownership in the Company.

SELL RECOMMENDATION RATIONALE

- ❑ From the tables below, there are several points of interest which propel this recommendation:
1. Liberty's major exposure to diverse media assets
 2. Significant losses realized from these assets in 2000 & 2001
 3. Unpredictability of net income
- ❑ The effect of the realization of such significant other-than-temporary declines in asset values has wreaked havoc on Liberty's financial results. While revenues have been relatively consistent over the relevant years, the impact of the Other, Net component of the income statement has more than overpowered Liberty's standard operating performance. The upshot is that net income is highly dependent on the changing values of these assets and, is thus, highly unpredictable.
- ❑ Liberty generally classifies these assets as "available for sale" securities, and is somewhat active in the acquisition and sale of certain holdings. As we can see in 2000, the sale of a major asset worked in Liberty's favor and covered the major losses incurred from other holdings to generate a positive net effect. However, as mentioned above, this is not a predictable course of events and is very difficult to model to determine a core intrinsic value.
- ❑ Earnings are expected to remain negative through FY 2002 in lieu of an expected upturn in advertising and media expenditures which should accompany an improving economy towards the back half of 2002. Therefore, any price appreciation in the stock might be unjustified and momentum driven.

PRIMARY AFFILIATES

(amounts in millions)	September 30, 2001	
<u>Affiliate</u>	<u>Percentage Ownership</u>	<u>Carrying Amount</u>
USA Networks (USAI)	18.6%	\$2,542
Vivendi (12/17/01)	3.6%	\$1,600
Telewest Communications	25.0%	\$525
Discovery Communications	49.0%	\$2,945
QVC, Inc	43.0%	\$2,504
AOL Time Warner	4.0%	\$5,600

The following table reflects Liberty's share of earnings (losses) of affiliates including excess basis amortization and other-than-temporary declines in value:

(amounts in millions)	Share of Earnings/Losses	
	Nine months ended September 30	
<u>Affiliate</u>	<u>2001</u>	<u>2000</u>
USA Networks (USAI)	\$48	(\$18)
Telewest Communications	(\$2,126)	(\$262)
Discovery Communications	(\$246)	(\$219)
UnitedGlobalCom, Inc. ("UGC")	-267	-132
Teligent, Inc.	(\$85)	(\$1,106)
Other	(\$417)	(\$786)

RECENT FINANCIAL RESULTS

(amounts in millions)	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Revenues	\$1,225	\$1,359	\$964	\$1,526
Other, Net*	(\$345)	\$1,618	(\$247)	\$4,721
Net Income	(\$470)	\$622	(\$2,045)	\$2,569

VALUATION

Using a discounted cash flow valuation model, I arrived at an intrinsic price per share of approximately \$9 versus its current market price of approximately \$12.20. This suggests that Liberty may be significantly overpriced on a DCF basis. Again, however, the element of uncertainty regarding the future value of Liberty's affiliates makes any valuation rather complex and highly variable. The assumptions built into my analysis were as follows:

- ☐ Abnormal sales growth of 15% for years 1-5
- ☐ Transitional sales growth of 10% for years 6-10
- ☐ Steady state sales growth of 5%
- ☐ WACC = 10%
- ☐ Equity risk premium of 5.5%

PORTFOLIO CONSIDERATIONS

Liberty represents a 1% holding in the Wright Fund. The Fund's overall commitment to the consumer discretionary sector is approximately 10% versus the S&P 500 weighting at approximately 13.5%. The sale of Liberty will leave the sector underweighted by approximately 4.5%. We do not wish to maintain a significant underweight in this area and are currently in the process of identifying several candidates for purchase to bring the sector to a market neutral or possibly an overweight position.

INVESTMENT CONCLUSION

For all intents and purposes, Liberty Media Corp. is a holding company for advertising, media and internet businesses. Liberty has very substantial holdings in a broad array of companies both domestically and internationally and is continually looking to make further strategic acquisitions. Liberty's management team is also regarded as first rate and extremely skilled at handling such intricate transactions. However, this is not a recommendation based on poor management or a deteriorating balance sheet. Liberty's complex asset structure and subsequent past performance creates a notable degree of uncertainty in attempting to understand and forecast its future cash flow stream and earning potential. Furthermore, given consensus forecasts that Liberty may not reach profitability until FY 2003, price appreciation may not be warranted in the near term. Therefore, we feel that this company should underperform the market in 2002 and is hard to justify holding vis-à-vis other names in the sector.