

Eye on the Final Frontier

Entertainment Margins Higher than Expected, CBS Ad Revenue Healthy

While the narrative for CBS shares this year has been one of multiple compression driven by downward EPS revisions, we think revision trends may begin to stabilize into 2016E. CBS beat 3Q Entertainment operating income estimates, driven by underlying network ad strength and margin expansion in part associated with the absence of US Open Tennis. Overall, we modestly increase our 2016E EPS estimate to \$4.00 from \$3.96, and modestly raise our Target Price to \$60. CBS continues to trade at a material discount to Media.

- **CBS All Access an Emphasis; New Originals Ahead.** Yesterday CBS announced the production of *Star Trek* for premiere in January 2017. *Star Trek* is the first of many originals on CBS All Access; investing in originals on CBS All Access can potentially drive subscriber growth and also provide leverage in retransmission negotiations. Given *Star Trek*'s international appeal, we believe syndication sales likely offset the cost of the show.
- **Network benefiting from advertising strength.** Underlying ad growth was +8% YoY in 3Q (reported was +1% despite NFL games shifting to 4Q); strong growth in primetime ads was key. We were not surprised to hear that 4Q scatter TV marketplace sounds strong. CBS is pleased with initial success of new shows *Supergirl*, *Limitless*, and *Life in Pieces*. Ratings for TNF are +5% and Sunday +9%, implying underlying NFL trends are intact.
- **Licensing comps impact 3Q; 2016E licensing may be down.** In the quarter, content licensing was down 3%, mainly given the tough comparisons to *Dexter*, *Californication*, *Blue Bloods*, *Hawaii Five-O* and a library deal in the year-ago period. Looking ahead, management pointed to more than 500 episodes of content as dry powder, but a lack of first cycle syndication in 2016E may hamper CBS licensing growth next year.
- **Showtime results were modestly below in 3Q given licensing comps; positioned well going forward.** Just as it did with the Bell Media deal, management talked about just beginning to license the entire Showtime brand internationally rather than show by show.
- **Buyback steady; continue to model \$500mn/Q.** When we asked about whether CBS would consider raising its target leverage ratio, management communicated a very consistent message around ongoing buybacks.
- **Raising TP to \$60.** We lower our 4Q15 EPS to \$0.92 to account for ongoing OTT costs at Showtime and costs associated with a higher number of NFL games. However, given favorable ad trends and retrans growth, we increase our '16 EPS estimate to \$4.00. Our \$60 TP implies a 15x 2016E P/E, reasonably below the peer average of 18x despite faster growth.

Year end: December	2013A	2014A	2015E		2016E	
Currency USD	Actual	Actual	Old	New	Old	New
Revenue (\$mn)	\$14,005	\$13,806	\$13,820	\$13,772	\$14,640	\$14,647
Operating Income (\$mn)	3,025	2,896	2,796	2,810	3,205	3,225
Operating Margin	21.6%	21.0%	20.2%	20.4%	21.9%	22.0%
Non-GAAP EPS	\$2.79	\$3.00	\$3.27	\$3.32	\$3.96	\$4.00

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

Global Markets Research

4 November 2015

Rating	Buy
Remains	
Target Price	USD 60.00
Increased from 55.00	
Closing price	USD 48.24
3 November 2015	
Potential upside	+24.4%

Research analysts

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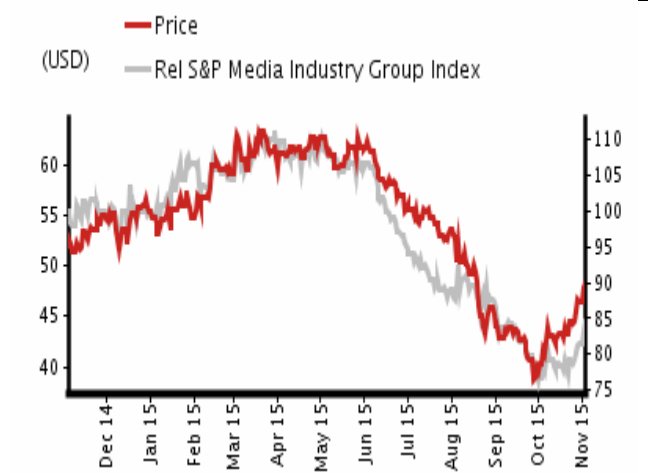
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Key data on CBS Corporation

Rating

Stock	Buy
Sector	Not rated

Relative performance chart



Source: Thomson Reuters, Nomura research

Performance

(%)	1M	3M	12M
Absolute	19.7	-9.0	-11.4
Relative to S&P Media Industry Group Index	9.8	-4.8	-19.9

Stock price data

Current stock price (\$)	48.24
Market cap (\$ - mn)	21,438.2
52-week low (\$)	38.52
52-week high (\$)	63.90
Shares outstanding (mn)	444.41

Source: Thomson Reuters, Nomura research

Year end (Dec), mn except per share data	2015E	2016E
Revenues:		
Entertainment	8,390	8,958
Cable Networks	2,208	2,265
Publishing	765	767
Local Broadcasting	2,612	2,866
Less: Eliminations	-204	-209
Total revenues	13,772	14,647
% change year-on-year	(0.2%)	6.3%
Operating Income	2,810	3,225
% change year-on-year	(3.0%)	14.8%
Operating Margin	20.4%	22.0%
Net Income	1,620	1,806
% change year-on-year	(45.2%)	11.5%
Pro Forma EPS	\$3.32	\$4.00
Shares O/S (Diluted)	489.2	452.2

Selected Balance Sheet Items

Year end (Dec), mn except per share data	2015E	2016E
Cash, Equivalents, & ST Investments	371	1040
Total Debt	9,299	10,699
Net Cash	(8,928)	(9,659)

Selected Cash Flow Items

Year end (Dec), mn except per share data	2015E	2016E
Operating Cash Flow	1106.9	2085.0
less: Capital Expenditures	192.0	200.0
Free Cash Flow	\$915	\$1,885

Fig. 1: CBS Actual vs. Estimated Results

\$mn except per share data

prim except per share data

(in \$US millions)	Reported	Reported	% Growth	Nomura Estimates		△
	09/14A	09/15A		09/15E	% Growth	
Revenue						
Entertainment	\$1,911.0	\$1,932.0	1.1%	\$1,865.5	(2.4)%	\$66.5
Cable Networks	624.0	526.0	(15.7)%	612.8	(1.8)%	(\$86.8)
Publishing	199.0	203.0	2.0%	202.0	1.5%	\$1.0
Content Group	\$2,734.0	\$2,661.0	(2.7)%	\$2,680.3	(2.0)%	\$53.7
Local Group	\$680.0	\$638.0	(6.2)%	\$647.3	(4.8)%	\$32.7
Less: Intercompany Eliminations	(47.0)	(42.0)	NM	(45.8)	NM	\$3.8
Total Revenue	\$3,367.0	\$3,257.0	(3.3)%	\$3,281.8	(2.5)%	\$85.2
Operating Income						
Entertainment	\$302.0	\$339.0	12.3%	\$271.0	(10.3)%	\$68.0
Cable Networks	266.0	246.0	(7.5)%	255.5	(4.0)%	(\$9.5)
Publishing	42.0	43.0	2.4%	40.6	(3.3)%	\$2.4
Content Group	\$610.0	\$628.0	3.0%	\$567.0	(7.0)%	\$41.0
Local Group	\$192.0	\$174.0	(9.4)%	\$174.6	(9.1)%	\$17.4
Segment Operating Income	\$802.0	\$802.0	---	\$741.6	(7.5)%	\$60.4
Less: Corporate/ Intercompany/ Other	(56.0)	(49.0)	NM	(58.5)	NM	\$7.5
Adjusted Operating Income	\$746.0	\$753.0	0.9%	\$683.1	(8.4)%	\$69.9
Operating Income Margins:						
Entertainment	15.8%	17.5%	174	15.2%	+62 bps	+237 bps
Cable Networks	42.6%	46.8%	414	41.5%	+109 bps	+523 bps
Publishing	21.1%	21.2%	8	20.4%	+69 bps	+77 bps
Content Group	22.3%	23.6%	129	21.8%	(49 bps)	+178 bps
Local Group	28.2%	27.3%	(96)	26.7%	(154 bps)	+58 bps
Total Segment Operating Income Margins	23.8%	24.6%	80	23.0%	+78 bps	+159 bps
Total CBS Operating Income Margins	22.2%	23.1%	96	21.2%	(94 bps)	+190 bps
Fully Diluted Recurring EPS	\$0.74	\$0.88	19.0%	\$0.75	1.3%	\$0.13

Source: Company data, Nomura estimates

Fig. 2: Summary of Model Changes

\$mn except per share data

12/15E				2015E				2016E			
	Current	Prior	Δ		Current	Prior	Δ		Current	Prior	Δ
Revenue											
Entertainment	\$2,412	\$2,412	\$1		\$8,390	\$8,323	\$67		\$8,958	\$8,867	\$92
Cable Networks	528	541	(13)		2,208	2,308	(100)		2,265	2,364	(99)
Publishing	218	218	0		765	764	1		767	766	1
Local Broadcasting	724	735	(11)		2,612	2,633	(21)		2,866	2,857	9
Intercompany Elim.	(79)	(79)	0		(204)	(208)	4		(209)	(213)	4
Total Revenue	\$3,804	\$3,827	(\$23)		\$13,772	\$13,820	(\$48)		\$14,647	\$14,640	\$7
% Growth	3.4%	4.0%	(63 bps)		(0.2)%	0.1%	(35 bps)		6.3%	5.9%	+42 bps
Segment Operating Income											
Entertainment	\$325	\$378	(\$52)		\$1,272	\$1,256	\$16		\$1,467	\$1,469	(\$2)
Cable Networks	\$256	\$265	(9)		\$973	\$992	(19)		\$1,066	\$1,073	(7)
Publishing	\$28	\$28	0		\$108	\$105	2		\$109	\$107	2
Local Broadcasting	\$258	\$263	(5)		\$791	\$797	(6)		\$875	\$869	6
Total Segment Operating Income	\$868	\$934	(\$66)		\$3,145	\$3,151	(\$6)		\$3,518	\$3,518	(\$1)
% Growth	7.0%	15.2%	NM		(1.5)%	(1.4)%	(18 bps)		11.9%	11.7%	+19 bps
% Margin	22.8%	24.4%	(159 bps)		22.8%	22.8%	+04 bps		24.0%	24.0%	(02 bps)
Adjusted EPS											
	\$0.92	\$1.00	(\$0.08)		\$3.32	\$3.27	\$0.05		\$4.00	\$3.96	\$0.04

Source: Company data, Nomura estimates

Fig. 3: CBS Income Statement

\$mn except per share data

(\$US Millions)	2012A	2013A	3/14A	6/14A	9/14A	12/14A	2014A	3/15A	6/15A	9/15A	12/15E	2015E	3/16E	6/16E	9/16E	12/16E	2016E	2017E
CBS Revenue																		
Entertainment	\$7,694.0	\$8,645.0	\$2,303.0	\$1,835.0	\$1,911.0	\$2,260.0	\$8,309.0	\$2,261.0	\$1,785.0	\$1,932.0	\$2,412.5	\$8,390.5	\$2,636.9	\$1,825.4	\$1,979.5	\$2,516.4	\$8,958.3	\$9,009.4
Cable Networks	1,772.0	2,069.0	537.0	516.0	624.0	499.0	2,176.0	539.0	615.0	526.0	528.0	2,208.0	570.3	582.6	556.8	554.9	2,264.7	2,299.9
Publishing	790.0	809.0	153.0	211.0	199.0	215.0	778.0	145.0	199.0	203.0	218.2	765.2	145.3	199.4	203.4	218.7	766.8	768.1
Local Broadcasting	2,774.0	2,696.0	626.0	665.0	680.0	785.0	2,756.0	596.0	654.0	638.0	724.2	2,612.2	614.7	696.4	726.0	829.4	2,866.5	2,798.3
Less: Eliminations	(210.0)	(214.0)	(49.0)	(39.0)	(47.0)	(78.0)	(213.0)	(49.0)	(203.0)	(34.0)	(42.0)	(203.6)	(49.3)	(34.5)	(44.1)	(81.4)	(209.4)	(209.6)
Total CBS Revenue	\$12,820.0	\$14,005.0	\$3,570.0	\$3,188.0	\$3,367.0	\$3,681.0	\$13,806.0	\$3,492.0	\$3,219.0	\$3,257.0	\$3,804.3	\$13,772.3	\$3,917.9	\$3,269.3	\$3,421.6	\$4,038.0	\$14,646.8	\$14,666.1
% Growth	3.5%	9.2%	(5.1)%	(5.4)%	2.0%	3.1%	(1.4)%	(2.2)%	1.0%	(3.3)%	3.4%	(0.2)%	12.2%	1.6%	5.1%	6.1%	6.3%	0.1%
Total CBS OIBDA	\$3,104.0	\$3,335.0	\$862.0	\$801.0	\$736.0	\$778.0	\$3,177.0	\$770.0	\$652.0	\$818.0	\$839.6	\$3,079.6	\$834.2	\$837.5	\$872.8	\$950.6	\$3,495.0	\$3,597.4
% Growth	13.5%	7.4%	2.0%	(5.5)%	(11.8)%	(3.7)%	(4.7)%	(10.7)%	(18.6)%	11.1%	7.9%	(3.1)%	8.3%	28.4%	6.7%	13.2%	13.5%	2.9%
% Margin	24.2%	23.8%	24.1%	25.1%	21.9%	21.1%	23.0%	22.1%	20.3%	25.1%	22.1%	22.4%	21.3%	25.6%	25.5%	23.5%	23.9%	24.5%
Depreciation and Amortization	\$306.0	\$290.0	\$71.0	\$71.0	\$68.0	\$71.0	\$281.0	\$68.0	\$66.0	\$65.0	\$71.0	\$270.0	\$68.0	\$66.0	\$65.0	\$71.0	\$270.0	\$215.6
CBS Operating Income																		
Entertainment	\$1,381.0	\$1,593.0	\$420.0	\$341.0	\$294.0	\$253.0	\$1,308.0	\$346.0	\$262.0	\$339.0	\$325.4	\$1,272.4	\$400.3	\$327.5	\$353.5	\$386.0	\$1,467.3	\$1,514.7
Cable Networks	785.0	876.0	254.0	213.0	266.0	241.0	974.0	251.0	220.0	246.0	256.4	973.4	258.7	271.6	268.4	267.6	1,066.3	1,118.5
Publishing	80.0	106.0	11.0	23.0	41.0	25.0	100.0	12.0	25.0	43.0	27.8	107.8	12.3	25.5	43.3	28.1	109.1	110.6
Local Broadcasting	848.0	807.0	179.0	215.0	126.0	292.0	812.0	161.0	198.0	174.0	258.2	791.2	165.8	213.8	193.6	301.7	874.9	872.0
Less: Eliminations	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Segment OI	\$3,094.0	\$3,382.0	\$864.0	\$792.0	\$727.0	\$811.0	\$3,194.0	\$770.0	\$705.0	\$802.0	\$867.8	\$3,144.8	\$837.2	\$838.3	\$858.8	\$983.3	\$3,517.7	\$3,615.8
% Growth	12.6%	9.3%	1.3%	(6.5)%	(14.6)%	(2.4)%	(5.6)%	(10.9)%	(11.0)%	10.3%	7.0%	(1.5)%	8.7%	18.9%	7.1%	13.3%	11.9%	2.8%
% Margin	24.1%	24.1%	24.2%	24.8%	21.6%	22.0%	23.1%	22.1%	21.9%	24.6%	22.8%	22.8%	21.4%	25.6%	25.1%	24.4%	24.0%	24.7%
Less: Corporate Expenses	(280.0)	(357.0)	(73.0)	(62.0)	(56.0)	(104.0)	(295.0)	(68.0)	(64.0)	(49.0)	(99.2)	(280.2)	(71.0)	(66.9)	(51.1)	(103.8)	(292.7)	(301.6)
Less: Residual Costs	(36.0)	---	---	---	(3.0)	---	(3.0)	---	(55.0)	---	---	(55.0)	---	---	---	---	---	---
Less: Eliminations	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Total CBS Operating Income	\$2,778.0	\$3,025.0	\$791.0	\$730.0	\$668.0	\$707.0	\$2,896.0	\$702.0	\$586.0	\$753.0	\$768.6	\$2,809.6	\$766.2	\$771.5	\$807.8	\$879.6	\$3,225.0	\$3,314.2
% Growth	14.7%	8.9%	2.6%	(5.8)%	(12.6)%	(1.1)%	(4.3)%	(11.3)%	(19.7)%	12.7%	8.7%	(3.0)%	9.1%	31.7%	7.3%	14.4%	14.8%	2.8%
% Margin	21.7%	21.6%	22.2%	22.9%	19.8%	19.2%	21.0%	20.1%	18.2%	23.1%	20.2%	20.4%	19.6%	23.6%	23.6%	21.8%	22.0%	22.6%
Interest Expense	(401.0)	(375.0)	\$(93.0)	\$(94.0)	\$(89.0)	\$(87.0)	(363.0)	\$(93.0)	\$(94.0)	\$(102.0)	\$(103.5)	(392.5)	\$(113.4)	\$(116.4)	\$(115.1)	\$(110.0)	(454.9)	(514.6)
Interest Income	5.0	8.0	3.0	3.0	4.0	3.0	13.0	5.0	7.0	6.0	6.3	24.3	4.7	8.5	9.7	8.4	31.4	32.3
Net Interest Expense	\$(396.0)	\$(367.0)	\$(90.0)	\$(91.0)	\$(85.0)	\$(84.0)	\$(350.0)	\$(88.0)	\$(87.0)	\$(96.0)	\$(97.2)	\$(368.2)	\$(108.7)	\$(107.9)	\$(105.4)	\$(101.5)	\$(423.6)	\$(482.3)
Other items, net	(25.0)	7.0	5.0	6.0	(373.0)	(20.0)	(382.0)	(4.0)	4.0	(4.0)	0.0	(4.0)	0.0	0.0	0.0	0.0	0.0	0.0
Earnings before Tax	\$2,357.0	\$2,665.0	\$706.0	\$645.0	\$210.0	\$603.0	\$2,164.0	\$610.0	\$503.0	\$653.0	\$671.4	\$2,437.4	\$657.5	\$663.6	\$702.3	\$778.0	\$2,801.4	\$2,831.8
Provision for Income Taxes	\$(812.0)	\$(878.0)	\$(234.0)	\$(217.0)	\$(110.0)	\$(201.0)	\$(762.0)	\$(203.0)	\$(165.0)	\$(211.0)	\$(228.3)	\$(807.3)	\$(223.5)	\$(225.6)	\$(238.8)	\$(264.5)	\$(952.5)	\$(962.8)
Effective tax rate	34.5%	32.9%	33.1%	33.6%	52.4%	33.3%	35.2%	33.3%	32.8%	32.3%	34.0%	33.1%	34.0%	34.0%	34.0%	34.0%	34.0%	34.0%
Equity in Earnings (Loss) of Affiliated Cos, net of tax	(37.0)	(49.0)	(10.0)	(10.0)	(28.0)	---	(48.0)	(13.0)	(6.0)	(16.0)	(8.0)	(43.0)	(13.0)	(6.0)	(16.0)	(8.0)	(43.0)	(44.7)
Minority Interest	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Pro Forma Net Earnings (Loss)	\$1,508.0	\$1,738.0	\$462.0	\$418.0	\$72.0	\$402.0	\$1,354.0	\$394.0	\$332.0	\$426.0	\$435.14	\$1,587.1	\$420.9	\$432.0	\$447.5	\$505.51	\$1,805.9	\$1,824.3
Discontinued operations, net of tax	(10.0)	141.0	6.0	21.0	1,567.0	11.0	1,605.0	---	---	---	---	---	---	---	---	---	---	---
Extraordinary, non-recurring items	---	---	---	---	328.0	---	328.0	---	---	---	---	---	---	---	---	---	---	---
Reported Earnings	\$1,498.0	\$1,879.0	\$468.0	\$439.0	\$1,639.0	\$413.0	\$2,959.0	\$394.0	\$365.0	\$426.0	\$435.1	\$1,620.1	\$420.9	\$432.0	\$447.5	\$505.5	\$1,805.9	\$1,824.3
Net Earnings from Discontinued Operations	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Fully Diluted Shares Outstanding	658.5	623.8	600.0	581.0	541.0	523.0	561.3	503.0	495.0	484.0	474.9	489.2	465.8	456.7	447.6	438.5	452.2	418.8
Reported EPS, Fully Diluted	\$2.27	\$3.01	\$0.78	\$0.76	\$3.03	\$0.79	\$5.35	\$0.78	\$0.67	\$0.88	\$0.92	\$3.25	\$0.90	\$0.95	\$1.00	\$1.15	\$4.00	\$4.36
Fully-Diluted Recurring Pro Forma EPS	\$2.29	\$2.79	\$0.77	\$0.72	\$0.74	\$0.77	\$3.00	\$0.78	\$0.74	\$0.88	\$0.92	\$3.32	\$0.90	\$0.95	\$1.00	\$1.15	\$4.00	\$4.36

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

I, Anthony DiClemente, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

The term "Nomura Group" used herein refers to Nomura Holdings, Inc. or any of its affiliates or subsidiaries, and may refer to one or more Nomura Group companies.

Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
CBS Corporation	CBS US	USD 48.24	03-Nov-2015	Buy	Not rated	A4,A13

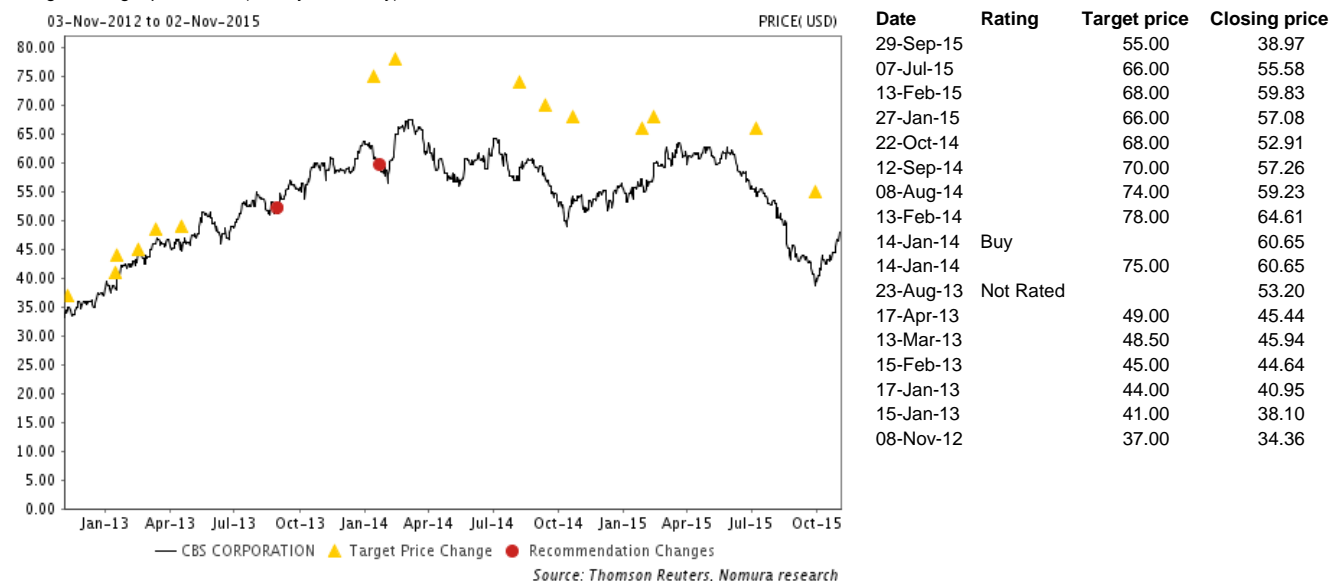
A4 The Nomura Group had an investment banking services client relationship with the issuer during the past 12 months.

A13 The Nomura Group has a significant financial interest (non-equity) in the issuer.

CBS Corporation (CBS US)

USD 48.24 (03-Nov-2015) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value CBS Corporation (CBS) using a P/E multiple of 15x our 2016E EPS estimate of \$4.00. We believe the multiple is warranted given the return of capital potential, the shift to a recurring revenue mix, and the growth in retransmission consent fees that should drive significant earnings growth. This yields a target price of \$60. The benchmark for this stock is the S&P Media Industry Group Index

Risks that may impede the achievement of the target price Downside risks include: Higher programming costs. As the environment for original programming becomes more competitive, CBS could realize higher costs of programming. Shift of ad money into digital from TV. We think that although shift in ad budgets is occurring from print/ radio/ other traditional media, that large audiences remain scarce, driving higher CPMs. But should CPM's suffer from the "unwinding of the reach premium," this could affect investor sentiment on CBS.

Important Disclosures

Online availability of research and conflict-of-interest disclosures

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STOCKS

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STOCKS

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