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TVA GROUP

TSX:TVA.B

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Note: All dollar figures are $CAD unless stated otherwise.

Introduction

TVA Group Inc. (TVA) is the largest French-Canadian broadcasting and magazine company in Canada by market share. The company was founded in 1960 and operates as a publicly traded subsidiary of Quebecor Media Inc (QMI). TVA has four primary segments: broadcasting, film production and audiovisual services (FPAS), magazines, and production and distribution. The company is headquartered in Montreal, Quebec and its stock trades on the Toronto Stock Exchange (TSX: TVA.B).

TVA currently earns a double-digit ROIC and is trading at 2.7x LTM P/E and a 38% free cash flow yield. The company has almost no debt. With a market capitalization of $124 million and a public float of only $39 million, TVA attracts little analyst coverage and is not well-known by the investment community. The combination of these factors leads to the potential for significant mispricing.

	2017	2018	2019	2020	LTM
Owner EPS	$0.86	$0.61	$0.87	$1.13	$1.06
FCF / Share	$0.88	$0.71	$0.88	$1.14	$1.07
P/E	3.3x	4.6x	3.3x	2.5x	2.7x
FCF Yield	30.9%	24.8%	30.9%	40.0%	37.6%

Source: Company Filings, GreensKeeper Analysis
P/E and FCF Yield based on current trading price of $2.85 per TVA.B share

Operating Segments

Broadcasting (80% of FY20 Revenue, 15% Adj. EBITDA Margin)

The broadcasting segment includes television broadcaster TVA Network, specialty channels (aka cable networks) including sports, and content production through TVA Productions and TVA Films. The company owns and operates six of the ten stations that make up TVA Network and has varying ownership interests in four affiliated regional stations.

The TVA Network signal reaches nearly the entire French-speaking audience in the Province of Quebec, as well as almost the entire French-speaking audiences in Ontario and New Brunswick, and a significant portion of the francophone viewers in the rest of Canada. TVA Network is the dominant broadcaster serving French-speaking audiences. Revenue in this segment is primarily driven by the sale of advertising and subscription fees paid by cable and satellite distributors (known as broadcasting distribution undertakings or BDUs in Canada).

Disclosure: Certain funds and accounts managed by GreensKeeper Asset Management Inc. may own shares of TVA and other securities mentioned in this report. This report should not be viewed as a solicitation or recommendation to transact in a security or financial product and should not be relied upon as investment advice. Please conduct your own research before making any investment decisions.

Film Production & Audiovisual Services (12% of FY20 Revenue, 24% Adj. EBITDA Margin)

This division provides services to the film and television industries including soundstage and equipment leasing, mobile and post-production services, visual effects and dubbing. TVA owns and rents out 18 purpose-built soundstages of approximately 212,000 sq. ft. in Montreal and St-Hubert Quebec. Revenue is driven by shooting stage, mobile and equipment rental services (47% of segment revenue), dubbing, subtitling and described video services (21% of segment revenue) with the balance coming from post-production and visual effects services.

Customers primarily consist of a few major motion picture studios and third-party filmmakers. TVA's customer base is relatively concentrated with no long-term or exclusive service agreements. However, the company has been able to consistently attract customers. Canada attracts many US film and TV productions due to generous government tax incentives, lower labour costs and a cheaper dollar.

The video post-production services industry in Canada is highly fragmented, with the largest player (Technicolor SA) controlling less than 5% of the market.[1] TVA faces competition in soundstage and equipment rentals from a few sizable companies located in major metropolitan areas in Canada such as Toronto and Vancouver. Notably, Bell Media acquired a majority interest in Toronto's Pinewood Studios in 2018.

The FPAS segment is a small portion of overall revenue but generates relatively high margins and represented 17% of total company EBITDA in 2020.

Magazines (9% of FY20 Revenue, 19% Adj. EBITDA Margin)

The magazine segment publishes more than 50 French-language titles and operates websites broadcasting its content on various digital platforms. Revenue is driven by advertising sales, newsstand sales, and subscription revenue. This business is in secular decline and has shrunk by 60% since 2016 but management has done a good job of controlling costs and the segment remains profitable.

Production & Distribution (2% of FY20 Revenue, 10% Adj. EBITDA Margin)

This division produces and distributes TV shows and movies worldwide through the Incendo Group, a Quebec-based firm that TVA acquired in 2019 for $19.5 million. Incendo Group's revenues are driven by the distribution of films internationally.

Niche Industry

The French-Canadian TV industry is highly concentrated with five companies collectively controlling 85% of the market. TVA Group holds a dominant 40% market share that has grown from 35% since 2016. The second largest player with a 20% market share is the Société Radio-Canada, the French speaking subsidiary of the Canadian Broadcasting Corporation, a federal Crown corporation (quasi governmental organization). Bell Media is the next-largest player with a 12% market share with the balance of the market taken up by smaller competitors.

[1] IBISWorld, Video Post Production Services in Canada.

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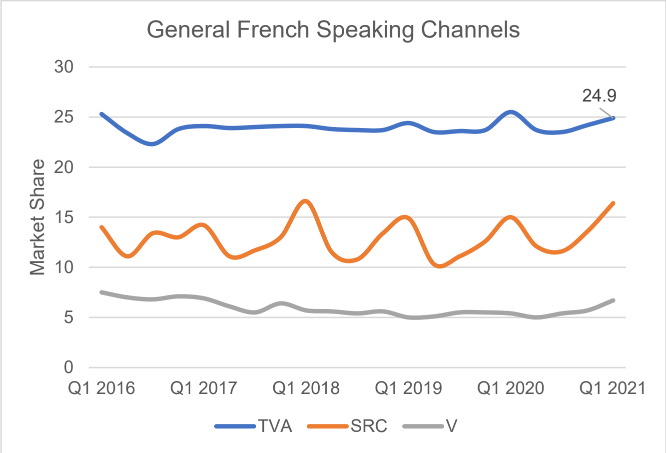
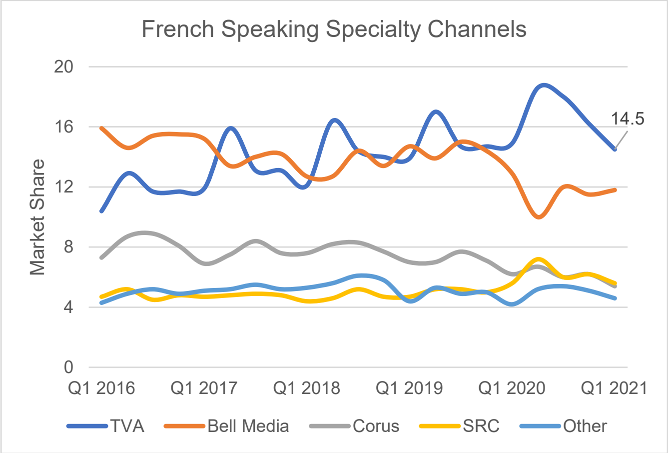
The charts below provide market share breakdowns for the broadcasting and specialty channels. It is worth noting that TVA is the leading company in both areas.





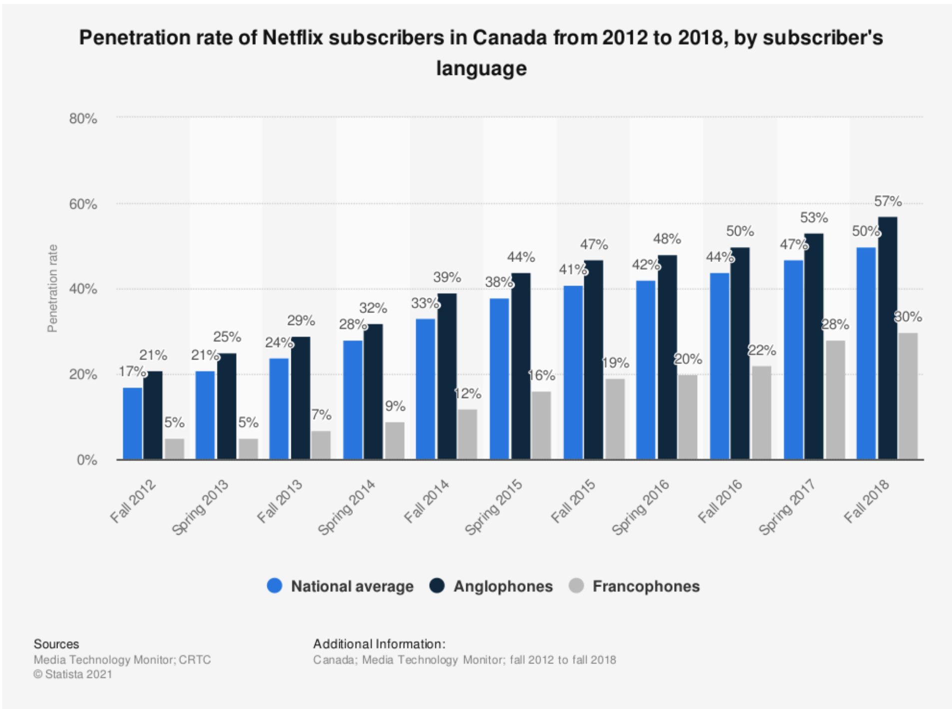
Source: Company Filings

The Canadian media industry is highly regulated and Canadian media companies protected through various laws and regulations. The Canadian Radio-Television and Telecommunications Commission (CRTC) controls the issuance and renewal of licenses required to operate in the industry and their terms. For example, domestic broadcast regulations require that at least 50% of evening broadcasting time be allocated to Canadian programs.[2] Barriers to entry are created through these and similar regulations and TVA also benefits from sticky subscriber bases who habitually consume local news and sports content.

The larger threat to the industry is from online streaming services such as Netflix, Disney+, and Amazon Prime. As a result of this pressure, the traditional TV and home video sector in Canada is expected to decline at an annual rate of 0.5% through 2023.[3]

However, we believe that TVA is likely to fare better than English-language Canadian broadcasters and specialty channels. The chart that follows illustrates that Netflix's penetration rate is significantly lower for French speaking Canadians. This is likely because most of Netflix's content is in English, and there are considerable informal differences in the dialect of French spoken in Québec (Québécois) and other parts of the world (Metropolitan French).

[2] TVA Group Annual Information Form (2020)
[3] https://www.pwc.com/ca/en/industries/entertainment-media/outlook-2019-2023.html



The French-Canadian market is a niche market with total revenues of approximately $1 billion.[4] Consequently, we believe that it is unlikely that Netflix and/or other large internet streaming companies will deploy significant resources developing content specifically tailored to French-Canadians.

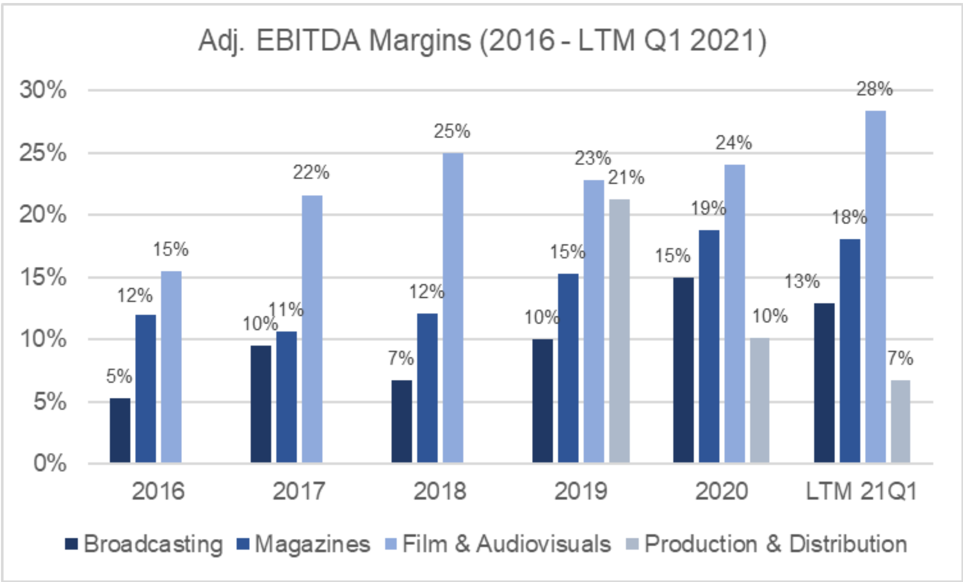
In addition, the Canadian government is in the process of implementing legislation (Bill C-10) that will, for the first time, bring streaming services such as Netflix under the jurisdiction of the CRTC and impose obligations to make financial contributions to Canadian content. Shielding the Canadian media industry from competition from Canada's large neighbor to the south and preserving the culture of French-speaking Canadians are both highly sensitive political issues in Canada. We believe that TVA Group will continue to benefit from additional CRTC and other government regulations that further protect domestic French-language media companies from foreign competition.

Investment Thesis and Analysis

Our investment thesis for TVA is straightforward. TVA is a decent company (low double-digit ROIC) that generates consistent free cash flow, possesses a narrow moat (brand, scale, IP – regulatory licenses) and is trading at distressed prices. The market is valuing TVA as if the company is in rapid secular decline, which for reasons mentioned above, we do not believe to be the case.

[4] GreensKeeper estimates.

In response to a slowly declining industry, management has been able to improve margins through cost restructurings and the closure of unprofitable specialty channels such as Argent in 2016. We assume these restructuring costs are recurring and have not added them back to EBITDA or our calculation of free cash flow.



The core broadcasting business (TVA Network and specialty) has performed well, delivering stable revenues and decent margins. However, this doesn't tell the full story. The division's profits are being materially dragged down by one specialty channel in particular—TVA Sports —which has lost money in each of the past 8 years.

TVA Sports is a specialty channel that broadcasts every aspect of professional sports. TVA Sports was launched by the company in 2011. In 2014, in an aggressive effort to grow its subscriber base, TVA negotiated a 12-year deal to acquire the exclusive rights to most of the French-language broadcast of NHL games in Canada. Hockey is Canada's national sport and in Quebec, the Montreal Canadians are a quasi religion. Acquiring the rights has been a costly bet. We estimate that TVA Sports is paying approximately $70 million per year for the NHL rights. Subscriber growth ensued since the contract began, but not at expected levels. An ongoing contract dispute with a distributor (Bell Media – the owner of RDS, a direct specialty channel competitor to TVA Sports) and the high costs of the license rights have resulted in TVA Sports losing money every year.

Although the company does not break out TVA Sports, we combed through regulatory filings in order to disaggregate the revenues and earnings of TVA's broadcasting segment. One caveat: as regulatory filings are slightly different than reported results (e.g., August reporting period vs. calendar quarters for TVA), the figures in the table below are inexact, but likely directionally correct. We were able to isolate the specialty channels from the broadcasting segment (TVA Network) and to also further segregate TVA Sports from the other specialty channels. The table below shows our estimated revenues, Adj. EBITDA and other metrics for the periods noted.

Estimated Broadcasting Breakdown	2016	2017	2018	2019
Broadcasting Segment				
Revenue	418,893,000.0	450,327,000.0	421,354,000.0	432,238,000.0
Adj. EBITDA	19,104,000.0	43,080,000.0	27,430,000.0	39,658,000.0
Implied for TVA Network + TVA Films/Productions				
Revenue	240,125,859.0	247,742,329.0	227,210,109.0	233,952,122.0
Growth		3%	-8%	3%
Adj. EBITDA	28,454,877.4	38,196,338.1	24,545,136.7	26,201,763.0
Margin	*12%*	*15%*	*11%*	*11%*
Specialty ex-TVA Sports				
Revenue	97,136,344.0	98,239,817.0	99,257,519.0	103,110,659.0
Growth		*1%*	*1%*	*4%*
Adj. EBITDA	21,440,900.6	23,413,989.9	21,704,371.3	27,489,524.0
Margin	*22%*	*24%*	*22%*	*27%*
TVA Sports				
Revenue	81,630,797.0	104,344,854.0	94,886,372.0	95,175,219.0
Adj. EBITDA	(30,791,778.0)	(18,530,328.0)	(18,819,508.0)	(14,033,287.0)
Broadcasting ex-TVA Sports				
Revenue	337,262,203.0	345,982,146.0	326,467,628.0	337,062,781.0
Growth		*3%*	*-6%*	*3%*
Adj. EBITDA	49,895,778.0	61,610,328.0	46,249,508.0	53,691,287.0
Margin	*15%*	*18%*	*14%*	*16%*

Source: CRTC data, GreensKeeper analysis

Based on our analysis, we believe that TVA Network generates stable revenues and earns a low double-digit EBITDA margin. The specialty channels (ex-TVA Sports) exhibit slow revenue growth and Adj. EBITDA margins that are in the 22%-27% range. TVA Sports loses approximately $15-20 million per year (down from $31 million).

Management has recently restructured the TVA Sports offering in order to lower costs and reduce the specialty channel's annual losses. But we assume that this situation is unlikely to materially improve until the contract comes up for renewal at the end of the 2025/2026 NHL season. At that point, management could renegotiate the NHL deal at a lower cost, forego renewal, sell the channel, or close the specialty channel altogether. All these scenarios would lead to a significant lift in earnings. We do not factor this scenario into our valuation and assume the sports business continues to lose money at current levels.

Overall, the broadcasting segment is a decent business earning attractive margins but saddled with a money-losing sports channel that is unlikely to materially improve for another five years. It is worth mentioning that the launch of TVA Sports and its expensive NHL gambit led to a significant deterioration in the profitability of competitor RDS (owned by Bell Media). We believe there is the potential for rational competition to eventually emerge, but we do not factor it into our valuation.

TVA's Magazine business has declined rapidly but has managed to remain profitable. We believe the Magazine segment will eventually lose money as sales continue to decline and additional cost cutting will likely not be sufficient to compensate (operating deleverage). The FPAS segment has exhibited strong growth largely due to the increasing investment in new content by producers. We expect growth is the FPAS segment will continue as the industry is currently capacity constrained and additional supply takes time to construct. Provided that rentals continue to be secured, this is a high margin business, consistently generating EBITDA margins above 20%. Lastly, the Production & Distribution segment is still in its early days for TVA. It is unclear how it will perform going forward, given TVA has only had one year of results that are not distorted by COVID-19. Based on the 2019 figures, this business looks promising, but remains a very small portion of revenue (~2%).

Historical Performance	2017	2018	2019	2020	LTM
Revenues					
Broadcasting	439,149	417,597	443,754	408,741	415,512
Magazines	94,583	77,708	56,598	46,318	54,042
Film & Audiovisual Services	67,073	68,447	71,259	58,664	51,189
Production and distribution (Incendo)	0	0	13,371	11,432	8,974
Cross-sectoral elements	(11,098)	(11,842)	(15,072)	(17,011)	(17,899)
Total Revenue	**589,707**	**551,910**	**569,910**	**508,144**	**511,818**
Revenue Growth					
Broadcasting	2.7%	(4.9%)	6.3%	(7.9%)	1.7%
Magazines	(18.3%)	(17.8%)	(27.2%)	(18.2%)	16.7%
Film & Audiovisual Services	13.1%	2.0%	4.1%	(17.7%)	(12.7%)
Production and distribution (Incendo)				(14.5%)	(21.5%)
Total Revenue Growth	**(0.2%)**	**(6.4%)**	**3.3%**	**(10.8%)**	**0.7%**
Adjusted EBITDA					
Broadcasting	41,867	28,085	44,496	60,976	53,726
Magazines	10,020	9,347	8,639	8,675	9,774
Film & Audiovisual Services	14,494	17,085	16,253	14,079	14,535
Production and distribution (Incendo)	0	0	2,838	1,153	599
Cross-sectoral elements	0	0	214	423	301
Total Adjusted EBITDA	**66,381**	**54,517**	**72,440**	**85,306**	**78,935**
Adjusted EBITDA Margin					
Broadcasting	9.5%	6.7%	10.0%	14.9%	12.9%
Magazines	10.6%	12.0%	15.3%	18.7%	18.1%
Film & Audiovisual Services	21.6%	25.0%	22.8%	24.0%	28.4%
Production and distribution (Incendo)	na	na	21.2%	10.1%	6.7%
Total Adjusted EBITDA Margin	**11.3%**	**9.9%**	**12.7%**	**16.8%**	**15.4%**
Net Income	**(15,951)**	**8,893**	**16,452**	**32,317**	**28,578**
Margin (%)	*(2.7%)*	*1.6%*	*2.9%*	*6.4%*	*5.6%*
Free Cash Flow (ex. WC)	**37,778**	**29,912**	**37,681**	**48,560**	**45,494**
Margin (%)	*6.4%*	*5.4%*	*6.6%*	*9.6%*	*8.9%*
Free Cash Flow	**10,884**	**22,884**	**15,964**	**31,726**	**26,776**
Margin (%)	*1.8%*	*4.1%*	*2.8%*	*6.2%*	*5.2%*

Source: Company Filings, GreensKeeper Analysis

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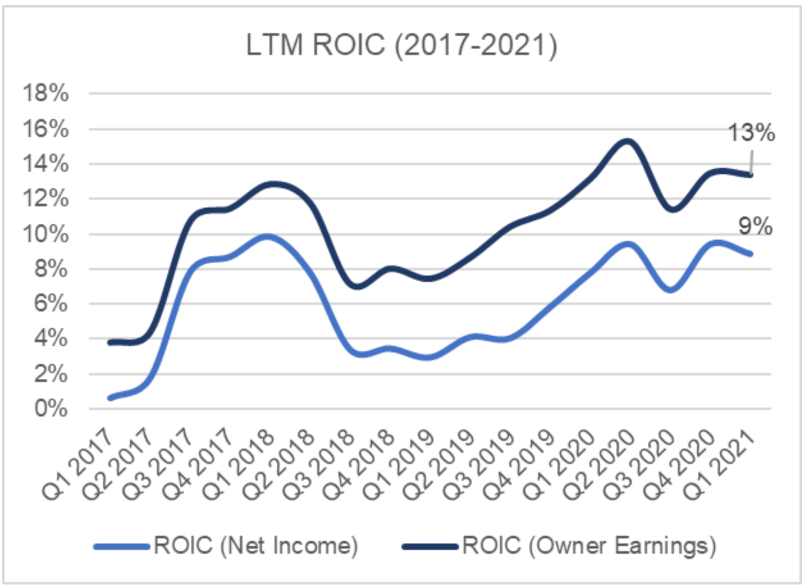
At the current share price of $2.85, the company's stock offers a free cash flow yield of 31% based on pre-COVID (2019) results (or 38% LTM). We believe that 2020 and LTM EBITDA results may be somewhat overstated due to deferred amortization of NHL broadcasting rights owing to the delayed NHL season. This effect will reverse over Q2 2021.

Over the past four years, TVA has been able to consistently generate a ROIC of between 8-15%. We show ROIC calculated using NOPAT and our calculation of the company's Owner Earnings.[5]



Given TVA's narrow moats (brand, scale, IP – regulatory licenses) we believe that the company will be able to continue to earn a ROIC of 10%. For a firm with a double-digit ROIC, low debt, stable-to-growing market share over the past 5 years, and declining revenue of 1.0% per year, we posit that a conservative P/E multiple would be at least 6.0x and potentially as high as 8.0x if TVA can deliver growth. With the company's stock currently trading at 2.7x LTM Owner Earnings and offering a 38% free cash flow yield, we believe that investors at current prices are being offered an attractive price and a significant margin of safety.

Ownership Structure

TVA has two classes of common shares outstanding. Class A (voting) and Class B (non-voting). The Class A shares are owned by TVA's parent company, QMI. QMI also indirectly owns approximately 65% of the Class B shares outstanding. Consequently, TVA is controlled by QMI and ultimately by Pierre Karl Péladeau, the CEO of Quebecor Inc. (TSX:QBR.B). The remaining 35% of Class B shares outstanding are publicly traded. The public float is approximately $39 million which, as mentioned previously, is likely one of the reasons why we believe that the stock is mispriced.

[5] GreensKeeper analysis. We calculate Owner Earnings as Net Income + D&A + Loss on Asset Sales + Asset Write downs - Capex - Additions to Intangibles.

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Balance Sheet

TVA has a solid balance sheet. As of Q1 2021, the company had only $21.6 million of net debt and gross debt equal to 0.3x LTM EBITDA. Working Capital has recently been built up in 2020 through increasing current Audiovisual Content (think of this as Inventory). This was a result of the postponement of the NHL 2020-2021 and is likely to unwind in the coming quarter.

COVID-19

TVA was negatively impacted by the COVID-19 pandemic in 2020 due to declining advertising spend (down 14% y/y) and lockdown restrictions making soundstage production unfeasible (17% revenue decline y/y). As the pandemic abates, we believe that these impacts will reverse and there are some recent signs of improvement. For example, advertising revenue rebounded in Q1 2021 to Q1 2020 pre-COVID levels.

The negative impacts from COVID-19 were mitigated by various government pandemic-related benefit programs. The largest of these programs was a $29 million reduction in employee costs due to the Canada Emergency Wage Subsidy (CEWS). Roughly 27% of the Magazine segment's revenue in 2020 (17% in 2019) was attributable to funding from the Canada Periodical Fund,[7] which increased funding levels in response to COVID-19 ($12.5 million in 2020 vs. $9.6 million in 2019). As these government programs are curtailed, they should be largely offset by improving revenues.

Valuation

The table below summarizes TVA's financial results for the past four years and our base case which is built upon what we believe are conservative assumptions. Our base case derives an intrinsic value of $6.47 per TVA shares or more than double the current share price.

	2017A	2018A	2019A	2020A	2021E	2022E	2023E	2024E	2025E
Growth - Base									
Broadcasting	2.7%	(4.9%)	6.3%	(7.9%)	3.0%	(1.0%)	(1.0%)	(1.0%)	(1.0%)
Magazines	(18.3%)	(17.8%)	(27.2%)	(18.2%)	(18.0%)	(18.0%)	(18.0%)	(18.0%)	(18.0%)
Film & Audiovisuals	13.1%	2.0%	4.1%	(17.7%)	5.0%	5.0%	5.0%	3.0%	3.0%
Production and distribution	na	na	na	(14.5%)	2.0%	2.0%	2.0%	2.0%	2.0%
Revenue									
Broadcasting	439,149	417,597	443,754	408,741	421,003	416,793	412,625	408,499	404,414
Magazines	94,583	77,708	56,598	46,318	37,981	31,144	25,538	20,941	17,172
Film & Audiovisuals	67,073	68,447	71,259	58,664	61,597	64,677	67,911	69,948	72,047
Production and distribution	0	0	13,371	11,432	11,661	11,894	12,132	12,374	12,622
Cross-sectoral elements	(11,098)	(11,842)	(15,072)	(17,011)	(15,967)	(15,735)	(15,546)	(15,353)	(15,188)
Total Revenue	**589,707**	**551,910**	**569,910**	**508,144**	**516,275**	**508,773**	**502,660**	**496,410**	**491,067**
Growth (%)	*(0.2%)*	*(6.4%)*	*3.3%*	*(10.8%)*	*1.6%*	*(1.5%)*	*(1.2%)*	*(1.2%)*	*(1.1%)*
EBITDA	**66,381**	**54,517**	**72,440**	**85,306**	**62,832**	**60,684**	**59,053**	**57,256**	**55,778**
Margin (%)	*11.3%*	*9.9%*	*12.7%*	*16.8%*	*12.2%*	*11.9%*	*11.7%*	*11.5%*	*11.4%*
Less: Capex	23,395	16,916	18,827	16,169	17,037	16,790	16,588	16,382	16,205
Less: Financial Expenses	2,449	3,285	3,892	2,535	2,581	2,544	2,513	2,482	2,455
Less: Rationalization Cost of Operations and Others	6,390	1,669	5,890	6,197	5,163	5,088	5,027	4,964	4,911
Less: Income Taxes	(3,631)	2,735	6,150	11,845	4,737	4,359	4,082	3,765	3,509
Less: Share of Profit in Associated Companies	(445)	(684)	(485)	(942)	(516)	(509)	(503)	(496)	(491)
Less: Lease Principal Payments	0	0	(4,040)	(3,394)	(3,001)	(2,175)	(1,672)	(1,124)	(1,118)
Less: Non-Controlling Interest	290	0	230	24	0.00	0.00	0.00	0.00	0.00
Levered Free Cash Flow	**37,933**	**30,596**	**41,976**	**52,872**	**36,831**	**34,587**	**33,018**	**31,284**	**30,306**
Margin (%)	*6.4%*	*5.5%*	*7.4%*	*10.4%*	*7.1%*	*6.8%*	*6.6%*	*6.3%*	*6.2%*

[7] The Canada Periodic Fund was established in 2010 by the Government of Canada and provides financial assistance to the Canadian magazine and non-daily newspaper industries so they can continue to produce Canadian content.

In our base case, we assume the Broadcasting segment fails to rebound to pre-COVID levels and slowly declines at a rate of 1% from 2022-2025. We assume that the Magazine business continues to decline at historical rates of 18% per annum. Driven by supply scarcity and excess demand, the FPAS segment exhibits strong growth in-line with historical rates pre-COVID and levels off in 2024 and 2025. The Production & Distribution segment grows at inflation. Overall, total revenue in 2021 rebounds modestly from COVID bottoms and declines at ~1% into perpetuity.

On the cost front, we adjusted employee costs for the $29 million CEWS subsidy that will soon disappear. We otherwise assume that employee costs remain flat going forward. Content costs remain variable and at a constant percent of sales inline with historical results. Printing and Distribution costs decline slower than revenue declines in the Magazine segment result in negative operating leverage. All other costs are held at historical levels.

Consolidated EBITDA margins fall below pre-COVID highs and level-off at historical levels (low double-digits). Capex remains a constant percentage of sales and is less than depreciation given the declining long-term nature of the business. We use a discount rate of 10% and assume that free cash flow declines at -1% per year into perpetuity. Based on these assumptions in our Base Case, we derive an intrinsic value of $6.47 per share (+127% upside).

In our Bear Case, we assume the broadcasting segment never sees growth again and revenue declines at a rate of 2% per year from 2021-2025. The decline rate of the Magazine segment accelerates. The FPAS and Production & Distribution segments do not grow. The assumptions regarding fixed and variable costs remain largely the same as our base case. As a result, margins quickly deteriorate, and the company loses money into perpetuity after 2024. Under these circumstances, we derive an intrinsic value of $3.07 per share, or slightly above where the stock is currently trading.

It is unnecessary to lay out our bull case. Even under our base case scenario, we believe that the investment opportunity in TVA.B is attractive.

Risks

One material risk to the business is poor capital allocation by management, which could take the form of an overpriced and/or ill-advised acquisition. We believe that this scenario is unlikely given management's track record. For example, TVA acquired the Évasion and Zeste specialty channels from Serdy Média in 2019. The purchase price of approximately $24 million represented less than 5.0x EBIT. As another example, the company's Production and Distribution segment was established via the acquisition of the Incendo Group in 2019. We estimate that the purchase price represented a 5-6x EBITDA multiple. Finally, the company's FPAS segment was established in 2015 through the acquisition of MELS for $116.1 million representing approximately 8x NTM EBITDA. The FPAS segment continues to perform well, and we believe the price paid reasonable. If we applied this same multiple to the FPAS segment today, it would approximately equal the company's entire market cap (and the remaining three divisions being offered for free). Overall, we believe that management has remained disciplined in its acquisitions.

In addition to the risks cited in this report, TVA and its related industries are subject to a wide variety of risks including loss of government support, faster than expected cord-cutting, increased competition from other mediums for advertising dollars, the inability to continue to attract large customers in the FPAS segment, etc.. The company's cost structure is highly fixed which could pose a risk in periods of economic contraction.

Please review the company's latest Annual Information Form and other public filings for additional risk factors. Conduct your own research before making any investment decisions.

Summary

TVA Group Inc. (TVA) is the largest French-Canadian broadcasting and magazine company in Canada by market share. TVA currently earns a double-digit ROIC and is trading at 2.7x LTM P/E and a 38% free cash flow yield. The company has almost no debt. With a market capitalization of $124 million and a public float of only $39 million, TVA attracts little analyst coverage and is not well-known by the investment community. The combination of these factors leads to the potential for significant mispricing.

Given TVA's narrow moats (brand, scale, IP – regulatory licenses) we believe that the company will be able to continue to earn a ROIC of 10%. For a firm with decent returns on capital, low debt, stable-to-growing market share and modestly declining revenue (1.0% per year), we believe that investors at current prices are being offered an attractive price and a significant margin of safety. Under our base case we derive an intrinsic value of $6.47 per TVA share or more than double the current share price.

The opportunity to purchase shares in a leading company with a track record of delivering consistent free cash flow at such a wide discount to intrinsic value comes along infrequently. We believe that TVA's business is unlikely to materially deteriorate over the medium term. Consequently, we believe that an investment in TVA at current market prices should deliver attractive financial returns.

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