

Paramount Skydance (Nasdaq: PSKY)

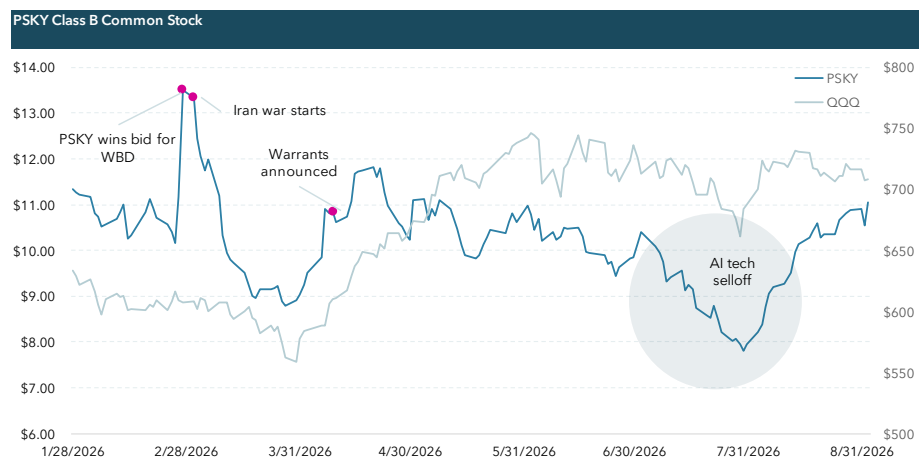
PSKY to issue 10-year warrants to shareholders at close of WBD acquisition that we estimate could be worth \$3.00 - \$7.00+ per share vs. the current \$10.86 share price. We do not think these warrants are priced into the stock. The warrants will be listed on the Nasdaq and traded separately from PSKY Class B Common Stock. Reasonable assumptions about pro forma EBITDA and fair multiple + value of warrants suggests 50%+ upside to PSKY stock as a result of this overlooked value.

SITUATION OVERVIEW

Please see our note on the PARA Hybrids for additional detail.

On February 27, 2026, Paramount Skydance Corp. ("PSKY" or the "Company") won the bid to acquire Warner Bros Discovery ("WBD") with a prevailing \$31.00 all-cash offer + \$0.25/shr. quarterly ticking fee after September 30, 2026. Part of clinching the deal was a full backstop to the \$47bn equity financing component by the Ellison Family and RedBird Capital ("Equity Investors"). The original plan was for a \$47bn PIPE at \$16.02/shr. but with PSKY stock trading with a \$10-handle after the deal announcement, in April 2026, the Equity Investors renegotiated with the PSKY board Special Committee (for reference, the Ellison family controls 100% of the PSKY voting stock) to restrike the equity purchase price to a 20-day VWAP before the deal close with a floor of \$12.00 and a ceiling of \$16.02 ("Syndication Purchase Price"). The Equity Investors also secured the right to syndicate their equity subscription to third parties, but retained their backstop commitment. To incentivize third parties to participate, a sweetener was added in the form of 10-year warrants that will be struck at the Syndication Purchase Price. One warrant per share. Record date TBD. The Ellison Family and RedBird will not be eligible for the warrants but other existing holders and the new syndication holders will be. We estimate this will result in roughly 2.4bn warrants being issued out of 5.15bn pro forma PSKY shares.

Based on PSKY stock price movement and our review of coverage analyst reports, we see little evidence suggesting the warrants are being factored into the current PSKY share price and we believe this creates a compelling opportunity.



Focus

PSKY US Equity

Report Type

► Trade Idea

Info Piece

Update

KEY METRICS - PSKY

Current Price	\$10.86
52-wk Range	\$7.62 - \$20.86
Market Cap	\$12.2bn
Gross Debt	\$16.4bn
Net Debt	\$14.8bn
TEV	\$27.0bn
Sec. Lev. Ratio	0.0x
Total Lev. Ratio	4.4x
Gross LTV	61%
TTM Adj. EBITDA	\$3.7bn

KEY METRICS - PSKY + WBD PF

52-wk Range	
Market Cap	\$56.0bn
Gross Debt	\$88.6bn
Net Debt	\$83.6bn
TEV	\$139.8bn
Sec. Lev. Ratio	3.1x
Total Lev. Ratio	4.9x
Gross LTV	63%
TTM Adj. EBITDA	\$18.1bn

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Paramount Skydance Capitalization (\$ in millions)	Borrower / Issuer	Previous 12/31/2025	3/31/2026	Current 6/30/2026	Pro Forma	PF Ex. Warrant	Composite Rating	Rate/ Coupon	Price	Maturity	Yield	Annual Interest
Cash		\$3,274	\$1,941	\$1,627	\$5,000	\$5,000						
Revolver		3,500	1,350	3,200	7,200	7,200						
Liquidity		\$6,774	\$3,291	\$4,827	\$12,200	\$12,200						
PSKY revolver (\$5bn)		--	--	--	\$1,800	\$1,800		S + 2.500%		Jan 2028		\$128
WBD revolver (\$4.0bn)		--	--	--	--	--						--
Miramax bank facility (\$50m)		--	--	--	--	--				Nov 2027		--
New TL A-1		--	--	--	2,500	2,500	BBB-	S + 2.500%	100.00	Apr 2029	6.8%	156
New TL A-2		--	--	--	2,500	2,500	BBB-	S + 2.500%	100.00	Apr 2031	6.8%	156
Facility to takeout WBD bridge financing		--	--	--	14,708	14,708	BBB-	S + 2.500%	100.00	Apr 2031	6.8%	918
Other secured financing		--	--	--	37,192	37,192	BBB-	S + 2.500%	100.00	Apr 2031	6.8%	2,322
Total 1L debt		--	--	--	\$58,700	\$58,700		6.270%			6.8%	\$3,680
WBD jr. lien exchange notes		--	--	--	\$12,801	\$12,801	TBD	4.528%		Various	6.5%	\$580
Total secured debt		--	--	--	\$71,501	\$71,501		5.958%			6.7%	\$4,260
WBD assumed notes		--	--	--	\$2,449	\$2,449		4.657%			6.5%	\$114
PSKY unsecured revolver (\$5bn)		--	2,150	1,800	--	--		S + 2.500%		Jan 2028		--
4,000% sr. notes due 2026		350	--	--	--	--		4.000%				--
3,700% sr. notes due 2026	PARAMOUNT GLOBAL	86	86	86	86	86	BB+	3.700%	99.81	Oct 2026	6.2%	3
2,900% sr. notes due 2027	PARAMOUNT GLOBAL	584	584	584	584	584	BB+	2.900%	99.22	Jan 2027	5.1%	17
3,375% sr. notes due 2028	PARAMOUNT GLOBAL	500	500	500	500	500	BB+	3.375%	97.56	Feb 2028	5.2%	17
3,700% sr. notes due 2028	PARAMOUNT GLOBAL	500	500	500	500	500	BB+	3.700%	97.23	Jun 2028	5.4%	19
4,200% sr. notes due 2029	PARAMOUNT GLOBAL	500	500	500	500	500	BB+	4.200%	95.77	Jun 2029	5.9%	21
7.875% sr. debentures due 2030	PARAMOUNT GLOBAL	827	827	827	827	827	BB+	7.875%	104.97	Jul 2030	6.4%	65
4.950% sr. notes due 2031	PARAMOUNT GLOBAL	1,250	1,250	1,250	1,250	1,250	BB+	4.950%	92.72	Jan 2031	6.9%	62
4,200% sr. notes due 2032	PARAMOUNT GLOBAL	1,000	1,000	1,000	1,000	1,000	BB+	4.200%	86.62	May 2032	7.1%	42
5,500% sr. debentures due 2033	PARAMOUNT GLOBAL	431	431	431	431	431	BB+	5.500%	88.83	May 2033	7.7%	24
4,850% sr. debentures due 2034	PARAMOUNT GLOBAL	87	87	87	87	87	BB+	4.850%	75.77	Dec 2034	9.1%	4
6,875% sr. debentures due 2036	PARAMOUNT GLOBAL	1,080	1,080	1,080	1,080	1,080	BB+	6.875%	92.51	Apr 2036	8.0%	74
6,750% sr. notes due 2037	PARAMOUNT GLOBAL	76	76	76	76	76	BB+	6.750%	84.71	Oct 2037	9.0%	5
5,900% sr. notes due 2040	PARAMOUNT GLOBAL	300	300	300	300	300	BB+	5.900%	74.64	Oct 2040	9.1%	18
4,500% sr. debentures due 2042	PARAMOUNT GLOBAL	46	46	46	46	46	BB+	4.500%	60.41	Feb 2042	9.4%	2
4,850% sr. notes due 2042	PARAMOUNT GLOBAL	500	500	500	500	500	BB+	4.850%	66.06	Jul 2042	8.9%	24
4,375% sr. debentures due 2043	PARAMOUNT GLOBAL	1,446	1,446	1,446	1,446	1,446	BB+	4.375%	63.12	Mar 2043	8.6%	63
4,875% sr. debentures due 2043	PARAMOUNT GLOBAL	18	18	18	18	18	BB+	4.875%	61.62	Jun 2043	9.5%	1
5,850% sr. debentures due 2043	PARAMOUNT GLOBAL	1,250	1,250	1,250	1,250	1,250	BB+	5.850%	72.72	Sep 2043	9.0%	73
5,250% sr. notes due 2044	PARAMOUNT GLOBAL	348	348	348	348	348	BB+	5.250%	66.07	Apr 2044	9.2%	18
4,900% sr. notes due 2044	PARAMOUNT GLOBAL	550	550	550	550	550	BB+	4.900%	63.67	Aug 2044	9.0%	27
4,600% sr. notes due 2045	PARAMOUNT GLOBAL	600	600	600	600	600	BB+	4.600%	62.01	Jan 2045	8.8%	28
4,950% sr. notes due 2050	PARAMOUNT GLOBAL	1,000	1,000	1,000	1,000	1,000	BB+	4.950%	62.21	May 2050	8.8%	50
Total senior debt		\$13,329	\$15,129	\$14,779	\$86,929	\$86,929		5.787%			6.9%	\$5,030
6.250% jr. subordinated debentures due 2057	PARAMOUNT GLOBAL	\$650	\$650	\$650	\$650	\$650	BB-	6.250%	77.16	Feb 2057	11.1%	\$41
6.375% jr. subordinated debentures due 2062	PARAMOUNT GLOBAL	1,000	1,000	1,000	1,000	1,000	BB-	6.375%	82.50	Mar 2062	11.3%	\$44
Other debt		3	2	2	2	2						--
Total debt		\$14,982	\$16,781	\$16,431	\$88,581	\$88,581		5.797%			6.9%	\$5,135
Net debt		11,708	14,840	14,804	83,581	83,581						
Class B shares		1,080	1,088	1,090	5,146	5,146						
Class A shares		32	32	32	32	32						
Total common shares		1,112	1,119	1,122	5,178	5,178						
Shares price	PSKY US Equity	\$11.36	\$10.11	\$10.86	\$10.86	\$7.35						
Equity value		\$12,629	\$11,315	\$12,184	\$56,232	\$38,048						
Enterprise value		24,337	26,155	26,988	139,813	121,629						
TTM adj. EBITDA		\$3,076	\$3,505	\$3,741	\$18,100	\$18,100						
Gross secured leverage ratio		--	--	--	3.2x	3.2x				Quarterly dividend per share		\$0.05
Gross senior leverage ratio		4.3x	4.3x	4.0x	4.8x	4.8x				Annual dividend cash outflow (\$m)		\$1,029
Gross total leverage ratio		4.9x	4.8x	4.4x	4.9x	4.9x				Interest coverage ratio		3.53x
Gross total LTV		62%	64%	61%	63%	73%				(EBITDA - capex) / interest		3.21x
EV / EBITDA		7.9x	7.5x	7.2x	7.7x	6.7x				PSKY capex		\$300
										WBD capex		\$1,300
										1M SOFR		3.74%
										5yr SOFR Swap		4.27%

WARRANT DETAIL

Straight from the source:

Each holder of PSKY Class B Common Stock, excluding any Equity Investor or affiliate of an Equity Investor, as of a record date to be determined, will be issued one warrant ("Warrant") for each share of PSKY Class B Common Stock that it holds.

Each Warrant initially will entitle the holder to purchase one share of PSKY Class B Common Stock at an initial exercise price per share equal to the Syndication Purchase Price, with the warrant entitlement and exercise price subject to customary anti-dilution adjustments and fundamental change make-whole adjustments. The Warrants will have an expiration date of ten (10) years from the date of issuance, and may be exercised at any time prior to the expiration of the Warrants. The Warrants will be distributed to the holders without payment of any consideration. PSKY intends to apply to list the Warrants for trading on Nasdaq, subject to applicable approvals, and the Warrants will trade separately from the PSKY Class B Common Stock.

In addition, beginning on the third anniversary of issuance, PSKY may call the Warrants if the closing price of PSKY Class B Common Stock equals or exceeds \$30.00 for at least 20 trading days during any 30

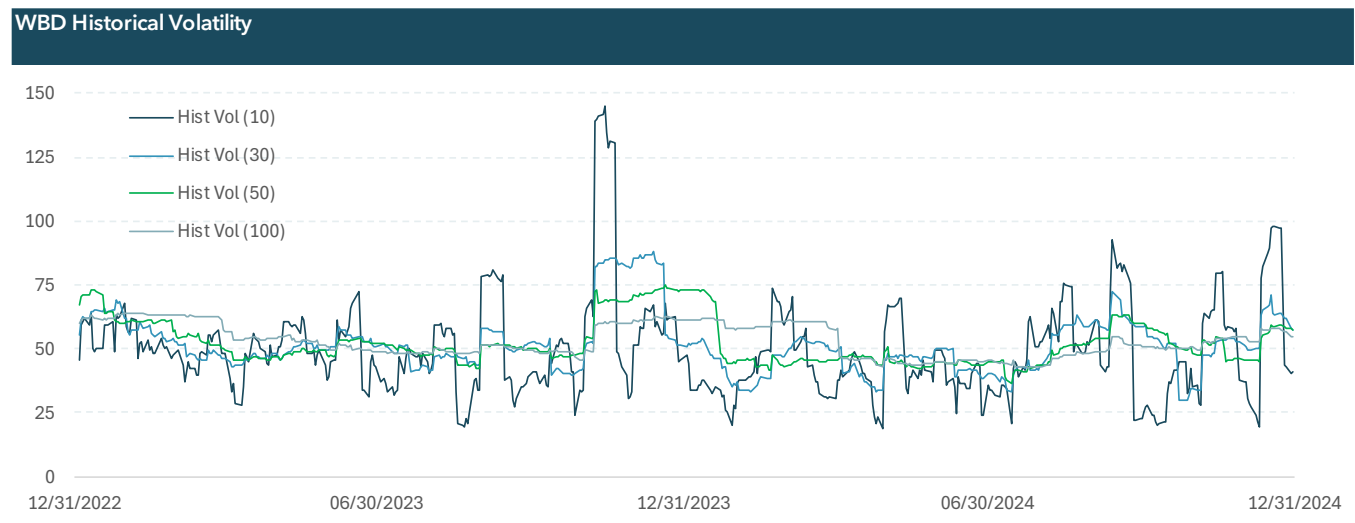
consecutive trading day period, in each case subject to the terms and conditions to be set forth in the definitive documentation.

For shareholders, PSKY believes that the warrant dividend offers greater and more tangible value to shareholders than the previous plan of a rights offering. PSKY also believes the Warrants support its longer-term objective of a wider and deeper public float.

That seems pretty straightforward, and while the forced exercise above \$30.00 is slightly different than a plain vanilla American call option (you lose all the Greeks after intrinsic value hits \$18.00/shr, a high-class problem), we think using a traditional Black-Scholes model to value the warrants like an American call option still works (please let us know if you disagree):

Warrant Valuation							
Spot	\$10.86	\$10.86	\$10.86	\$10.86	\$10.86	\$10.86	\$10.86
Strike	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00
Years	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Risk-free rate	4.78%	4.78%	4.78%	4.78%	4.78%	4.78%	4.78%
Annual vol	35%	40%	45%	50%	55%	60%	65%
Dividend yield	1.84%	1.84%	1.84%	1.84%	1.84%	1.84%	1.84%
Call	\$5.71	\$6.16	\$6.60	\$7.02	\$7.42	\$7.79	\$8.13
Put	\$2.28	\$2.74	\$3.18	\$3.60	\$4.00	\$4.37	\$4.71
Put-Call parity	\$2.28	\$2.74	\$3.18	\$3.60	\$4.00	\$4.37	\$4.71
HC for deal break	15%	15%	15%	15%	15%	15%	15%
HC for change of plans	10%	10%	10%	10%	10%	10%	10%
HC for liquidity	25%	25%	25%	25%	25%	25%	25%
HC for taxes	--	--	--	--	--	--	--
Total HC	50%	50%	50%	50%	50%	50%	50%
FV of warrant	\$2.85	\$3.08	\$3.30	\$3.51	\$3.71	\$3.89	\$4.07

Pick whatever implied vol you like, WBD's historical vol for 2023 - 2024 (before M&A), which we think is the best proxy for the go-forward business given WBD will represent about 70% of the enterprise, was 50% - 60%. Note, the go-forward entity will have more leverage, so the equity vol should theoretically be higher.



What else should be factored in? Well, there's the obvious risk the deal breaks, so adding an expected value weighting could make sense. We're not merger arb experts, but finger in the air, \$11.00/shr. for WBD if the deal breaks sounds reasonable, in-line with pre-deal levels. If we assume you get \$31.68 if the deal goes through (\$31.00 offer price + \$0.68 ticking fee

through May 31, 2027) and \$11.00 if it doesn't, the current trading price (\$28.25) implies ~85% chance the deal goes through and ~15% chance it breaks.

What if they change the equity construct? If they did it once, they can do it again. We'll factor in a 10% haircut for that.

How about monetization/liquidity discount? That's probably more meaningful. Assuming many holders will want/have to sell to harvest the value (we're thinking of passive funds that can't hold the derivative), we'd expect the liquidity bid comes at a steep discount to fair value, so let's say a 25% haircut entices new buyers.

The last thing we can think of is taxes. This will certainly vary by holder and while IRS Section 305(a) generally allows tax-free distributions of stock or rights to acquire stock, the wrinkle here is that not all PSKY shareholders will receive the warrant, bringing IRS Section 305(b) in to play, in which case the warrant dividend could be a taxable event, lessening its net of tax value. We don't factor this into our FV calculation, but it's something to be aware of depending on your LP base.

Putting this all together, we see \$3.00 - \$5.00 of immediately achievable and accretive value attributable to these warrants. If you have a longer-term hold view after the dust settles, this could certainly be more.

Lastly, here are our thoughts on the size of the potential warrant issuance, informed in part by the Company's April 27 petition filing under Section 310(b)(4) of the Communications Act of 1934 outlining pro forma foreign ownership:

Potential Warrant Issuance (\$ in millions, except per share amounts)	Class B Shares	% of Class		
Equity Investors				
Ellison Parties	601	55.1%	\$11.05	\$6,635
RedBird	150	13.7%	\$11.05	1,655
Total Equity Investors	751	68.8%	\$11.05	
Other shareholders [a]	340	31.2%	\$11.05	\$3,754
Total Class B outstanding	1,090	100.0%		\$12,044
Equity Syndication Parties				
Ellison Parties	1,929	47.6%	\$12.00	\$23,147
RedBird (\$15bn AUM)	101	2.5%	\$12.00	1,217
Public Investment Fund (Saudi Arabia)	779	19.2%	\$12.00	9,343
L'Imad (UAE) [c]	660	16.3%	\$12.00	7,920
QIA TMT (Qatar) [d]	547	13.5%	\$12.00	6,558
LionTree (\$1.7bn AUM?) [e]	41	1.0%	\$12.00	487
Dilutive shares	4,056	100.0%		\$48,672
Pro forma total shares	5,146			\$48,672
Shares eligible for warrants (a + b + c + d + e)	2,366			

PRO FORMA PSKY VALUE

We also want to consider perspectives on valuing PSKY pro forma for the WBD acquisition. While the industry is a mess (as we note in the PARA Hybrid report), it's not without value. Combining Paramount (Paramount Pictures, CBS, Paramount+, Nickelodeon, MTV) and Warners Bros. Discovery (Warner Bros. Motion Picture Group, DC Studios, HBO, HBO Max, CNN) is creating the second largest U.S. content/media firm after The Walt Disney Co. That's meaningful. And the industrial logic is compelling.

The combined company will own a deep catalog of extremely valuable content including Harry Potter (\$9.6bn = top grossing franchise of all time), DC Comics films (\$7bn - \$8bn), Batman (\$6bn - \$7bn), The Lord of the Rings (\$6bn), and Transformers (\$5bn), as well as formative distribution/streaming platforms where Paramount+ has over 80m subs and HBO Max has over 140m subs (220m total vs. NFLX at 325m, Amazon Prime Video at 315m, Disney + Hulu at 190m and steep dropoff thereafter).

Paramount Skydance is targeting \$6bn of synergies within three years of closing. They announced \$2bn of synergies when Skydance acquired Paramount (announced July 2024, closed August 2025), which jumped to \$3bn shortly after the deal closed and recently reported being on-track to achieve \$2.7bn by the end of this year. So there is some credibility to this

management team's ability to achieve these synergies. That said, the July 2024 slide deck showed \$4.1bn of EBITDA for 2026 and PSKY is currently looking at \$3.8bn - \$3.9bn. Business underperformance is the likeliest culprit, and that should also be weighed for the PSKY/WBD combo.

Even so, assuming they achieve \$6bn of synergies and base EBITDA falls by \$500m, some multiple expansion should be in store for this business, with their margins getting to parity with DIS and the much larger combined business deserving a lower risk premium. Going from 7x - 7.5x to 8x - 9x seems very reasonable to us, and 10x is not out of the question depending on execution.

Comparable Companies (\$ in millions)	Ticker	Share Px 9/4/26	Equity Value	Enterprise Value	LTV	Net Leverage	Revenue			EBITDA			EBITDA Margin			EV / EBITDA	
							2025a	2026e	2027e	2025a	2026e	2027e	2025a	2026e	2027e	2026e	2027e
PARAMOUNT SKYDANCE CL B	PSKY	\$10.86	\$12,184	\$26,752	54.5%	3.8x	\$28,891	\$29,898	\$30,414	\$3,076	\$3,847	\$3,850	10.6%	12.9%	12.7%	7.0x	6.9x
WALT DISNEY CO/THE	DIS	105.31	181,837	229,503	20.8%	2.1x	94,425	101,420	106,270	19,655	22,466	24,316	20.8%	22.2%	22.9%	10.2x	9.4x
NETFLIX INC	NFLX	78.25	325,828	331,010	1.6%	0.3x	45,183	51,216	56,973	14,028	16,980	19,995	31.0%	33.2%	35.1%	19.5x	16.6x
WARNER BROS DISCOVERY INC	WBD	28.25	70,927	100,738	29.6%	3.6x	37,296	36,234	37,311	8,744	8,181	8,335	23.4%	22.6%	22.3%	12.3x	12.1x
FOX CORP - CLASS A	FOXA	65.42	25,938	28,525	9.1%	0.6x	16,300	17,600	17,518	3,624	4,115	3,904	22.2%	23.4%	22.3%	6.9x	7.3x
Memo:																	
PSKY +WBD			56,232	139,813	59.8%	6.9x	66,187	66,131	67,725	11,820	12,028	18,185	17.9%	18.2%	26.9%	11.6x	7.7x
WBD, pre-M&A premium			30,211	59,648	49.4%	3.6x	37,296	36,234	37,311	8,744	8,181	8,335	23.4%	22.6%	22.3%	7.3x	7.2x

Source: Bloomberg; data pulled in local currencies

REGULATORY REVIEW / ANTI-TRUST LITIGATION

We'd be remiss not to add some detail about the legal and regulatory considerations of this situation. In short, the deal has cleared all the usual regulatory hurdles including HSR (non-issue), DOJ (June 2026), EU (July 2026), and the UK. But there are two outstanding obstacles.

First, the funds that are party to the equity syndication deal are Saudi Arabia, UAE and Qatar - and pro form for the equity offering, they will collectively own greater than the FCC's 25% limit imposed on the foreign ownership of a broadcast licensee. PSKY is petitioning for an exception. It may not get it. That doesn't necessarily break the deal, but it will mean the need to cut back their participation, find new equity syndication parties, or the Ellison Family taking down the whole piece, which might then cancel the warrant concept.

Second, states attorneys general from California and 11 other states sued to block the deal, and they convinced a judge to issue a TRO (temporary restraining order) which successfully paused the deal from its originally intended July 2026 close until a trial can be held that is scheduled for March 2027. From what we understand, CA et. al. are not open to behavioral remedies (e.g. editorial independence), so negotiating an outcome that works for both parties before the trial could be less likely, creating a binary, deal/no-deal setup.

INVESTMENT THESIS

The market is overlooking the value of the PSKY warrants creating a compelling near-term opportunity. The catalyst is dissemination of (and market agreement with) the thesis. It's unclear how long this window of opportunity will remain open, but we view this as a fairly near-term event. Even with taking conservative haircuts to the warrant value, the upside potential is meaningful. It's almost too good to be true, so please tell us what we're missing. Even the LLMs with 130 IQ couldn't tell us mere humans where we are wrong.

PSKY Pro Forma Equity Valuation + Warrants (\$ in millions)	Left Tail	Downside	Base Case	Upside	Right Tail	Base Case Multiple	\$3,000	\$4,000	Synergies \$5,000	\$6,000	\$7,000
PSKY stand alone EBITDA	\$3,850	\$3,850	\$3,850	\$3,850	\$3,850	6.0x	\$0.20	\$1.50	\$2.93	\$4.43	\$5.97
WBD stand alone EBITDA	8,250	8,250	8,250	8,250	8,250	7.0x	\$3.45	\$5.22	\$7.05	\$8.91	\$10.79
Pre-synergy EBITDA	\$12,100	\$12,100	\$12,100	\$12,100	\$12,100	8.0x	\$7.07	\$9.20	\$11.36	\$13.54	\$15.75
Synergies	4,000	5,000	6,000	6,000	6,000	9.0x	\$10.85	\$13.30	\$15.77	\$17.58	\$19.40
Business decline	(1,000)	(1,000)	(1,000)	(500)	--	10.0x	\$14.70	\$17.01	\$19.01	\$21.07	\$23.18
Pro forma EBITDA	\$15,100	\$16,100	\$17,100	\$17,600	\$18,100						
Multiple	7.0x	7.5x	8.0x	8.5x	9.0x						
TEV	\$105,700	\$120,750	\$136,800	\$149,600	\$162,900						
Plus: pro forma cash	5,000	5,000	5,000	5,000	5,000	6.0x	(98%)	(86%)	(73%)	(59%)	(45%)
Less: pro forma debt	(88,581)	(88,581)	(88,581)	(88,581)	(88,581)	7.0x	(68%)	(52%)	(35%)	(18%)	(1%)
Equity value	\$22,119	\$37,169	\$53,219	\$66,019	\$79,319	8.0x	(35%)	(15%)	5%	25%	45%
Pro forma shares, pre-warrant dilution	5,178	5,178	5,178	5,178	5,178	9.0x	(0%)	22%	45%	62%	79%
Value per share, pre-warrant dilution	\$4.27	\$7.18	\$10.28	\$12.75	\$15.32	10.0x	35%	57%	75%	94%	113%
Pro forma shares, post-warrant dilution	5,178	5,178	5,178	5,317	5,690						
Value per share, post-warrant dilution	\$4.27	\$7.18	\$10.28	\$12.42	\$13.94						
Plus: value from warrant	\$0.95	\$2.01	\$3.27	\$4.32	\$5.46						
Total value per existing share	\$5.22	\$9.19	\$13.54	\$16.74	\$19.40						
Current price	\$10.86	\$10.86	\$10.86	\$10.86	\$10.86						
% upside (downside)	(52%)	(15%)	25%	54%	79%						
Warrants	2,366	2,366	2,366	2,366	2,366						
Strike	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00						
Net share settle dilution	--	--	--	139	512						
Spot	\$4.27	\$7.18	\$10.28	\$12.75	\$15.32						
Strike	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00						
Years	10.00	10.00	10.00	10.00	10.00						
Risk-free rate	4.78%	4.78%	4.78%	4.78%	4.78%						
Annual vol	50%	50%	50%	50%	50%						
Dividend yield	1.84%	1.84%	1.84%	1.84%	1.84%						
Call	\$1.90	\$4.02	\$6.53	\$8.65	\$10.91						
HC for deal break	15%	15%	15%	15%	15%						
HC for change of plans	10%	10%	10%	10%	10%						
HC for liquidity	25%	25%	25%	25%	25%						
HC for taxes	--	--	--	--	--						
Total HC	50%	50%	50%	50%	50%						
FV of warrant	\$0.95	\$2.01	\$3.27	\$4.32	\$5.46						

Assuming this is directionally correct, then there are a few different trades that could line up nicely including:

- A simple outright long of PSKY stock
- A L/S of PSKY/WBD – if deal breaks, WBD could tank while PSKY gets relief rally from reduced leverage risk; if deal goes through you lose 12% on WBD but have upshot of warrant valuation
- If you like Texas hedges, we like long PSKY stock + long PARA Hybrids – we think there is a nuanced relationship here where if the deal breaks and you don't get the warrants, you can still win on the hybrids and if the deal goes through, you can win on both (see the PARA Hybrid report)

IDIOSYNCRATIC RISKS

DIVIDEND SUSPENSION. With a 5bn pro forma share count and \$0.05 quarterly/\$0.20 annual dividend, PSKY's pro forma annual dividend commitment will be \$1bn. We don't think that stays in place given the increased leverage and implied goal of getting back to IG credit metrics within three years of closing. If the dividend is suspended, we'd expect a challenging technical as income funds exit.

STRIKE PRICE. PSKY spot price is currently near the Syndication Purchase Price floor of \$12.00, which is a meaningful factor for the warrant value. If PSKY stock plummets before the strike is set such that the warrants are farther out of the money, they'll obviously be worth less.

RECUTTING THE DEAL. As we noted in the warrant analysis, the PSKY Special Committee has already changed the equity deal once, and there's nothing stopping them from doing so again. Any change that is less favorable than the current plan or removes the warrants would void our thesis.

DISCLOSURES

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