

APRIL 2011 DEFAULT CASE STUDY

Moody's Analytics Quantitative Research Group

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Public Firm Default Report: Sport Media Group PLC (SPMG)

Default Event

On April 11, 2011, **Sport Media Group PLC**, a Manchester, UK-based publisher, appointed joint administrators of BDO LLP over itself and two of its wholly-owned subsidiaries.

Company Profile

Sport Media Group Plc (SMG), formerly Interactive World Plc, is the holding company of an integrated multi-media company, which publishes *The Sunday Sport* and *The Daily Sport* newspapers and digital content for Internet and mobile phone channels. The Company operates in two business segments: digital content delivery and newspaper and magazine publishing. In August 2009, the Company completed selling Flip Media Limited to Kane Limited. The Company's subsidiaries include Netcollex Limited, Strictly Broadband Limited, Go Content Limited, Telecom 2 Limited, Watchme.com Limited, Sport Newspapers Limited, Moresport Limited, and Melton Enterprises Limited.

EDF Credit Measure and EDF Drivers

EDF value as of April 11, 2011: 35.00%

Traditional ratings, such as those used by major rating agencies, are currently more commonplace than default probabilities. Therefore, to help facilitate user's understanding, we translate the EDF credit measure into an equivalent Credit Category. Sport Media Group PLC's Credit Category (not an agency rating) at default was C.

Figure 1. One-year Sport Media Group PLC's EDF Values

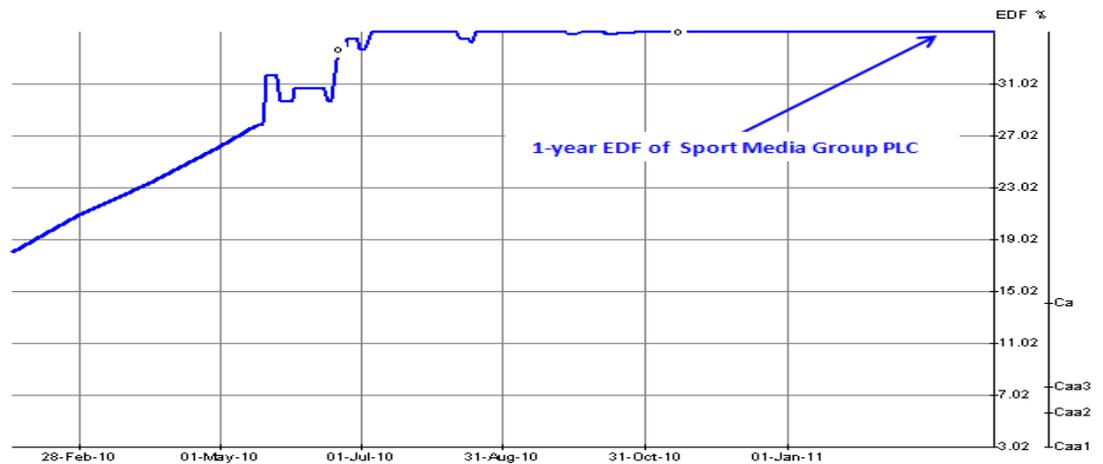


Figure 1 shows that Sport Media Group PLC's EDF credit measure began rising in February 2010 and reached 35% in July 2010, nine months prior to default.

Figure 2. Drivers of Sport Media Group PLC's EDF Values

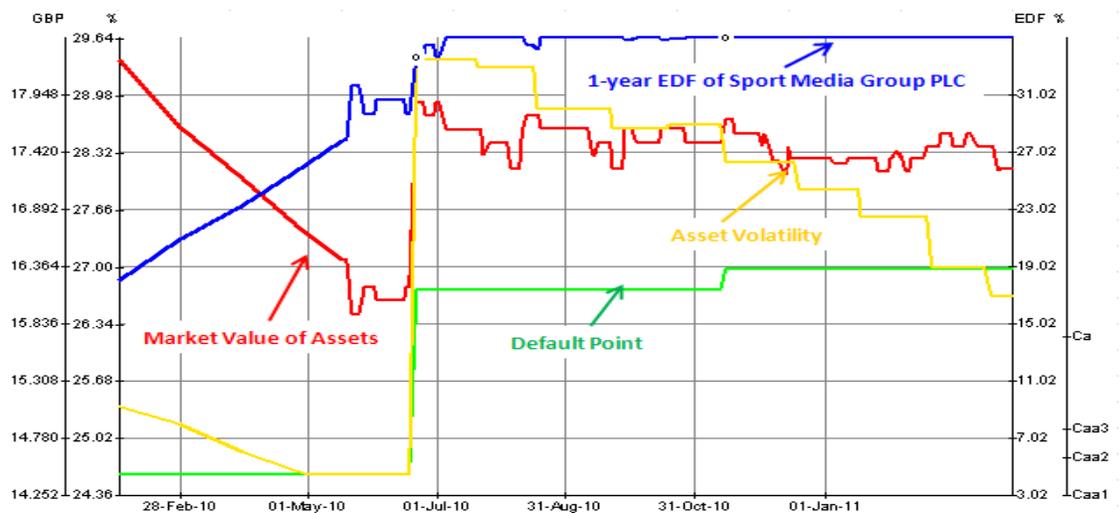


Figure 2 shows the time series of EDF values and EDF drivers, which include market value of assets, asset volatility, default point, and market leverage. Table 1 summarizes the definitions of EDF drivers.

In February 2010, the market value of assets was \$32 million. Although in 2009 the company was saved from going out of business by significant restructuring and refinancing, the company had been under the pressure to ease its working capital position since 2010. The company's market value of assets dropped to \$28 million in July 2010, close to the default point of \$27 million. The company's asset volatility rose above 29% in July 2010 and remained at elevated levels until default. Deteriorating business value combined with high financial risk led the company to default.

Table 1. Drivers for EDF Values

EDF DRIVERS	DEFINITION
Market Value of Assets	The market's view of the enterprise value of the firm as determined by the firm's equity value, equity volatility, and liability structure
Default Point	The liabilities that matter in case of default. If the market value of assets falls below this value, it is assumed that the firm will be unable to sell assets or raise additional capital to pay its debt. A firm's default point is a value close to its short-term liabilities plus half of its long-term liabilities
Market Leverage	Ratio indicating how much of the market value of assets is financed by debt. It is calculated as the default point/market value of assets
Asset Volatility	Standard deviation of the annual change in the market value of the assets

The two main EDF value drivers are asset volatility and market leverage. **Figure 3** depicts a meter showing the level of risk on each of the two measures. The levels are relative values computed on the Western Europe Small and Mid-Size Corporates Group.

Figure 3. Western Europe Small & Mid-Size Corporates Group



- » **Asset Volatility.** EDF credit measures for Western Europe Small and Mid-Size Corporate issuers such as Sport Media Group PLC reflect an average of asset volatility levels over the past five years. As of the default date, Sport Media Group PLC's asset volatility was 26.66%, within the median relative to the Western Europe Small and Mid-Size Corporates Group.
- » **Market Leverage.** Sport Media Group PLC's market leverage is 94.61%, which falls within the 99th percentile of the entire Western Europe Small and Mid-Size Corporates Group.

Relative Analysis

The relative analysis feature allows users to chart EDF, fundamental data, and bond values for a selected company or group relative to other companies and/or groups. Users may manually select their own list of peer companies or groups for comparison, or view a Moody's Analytics predefined peer list, based on an automated algorithm. To determine peers for each company, Moody's Analytics finds all the companies that share the company's Bloomberg Subgroup. Users can also customize and save their own peer company and peer group choices for future use.

Figure 4. One-year Sport Media Group PLC vs. UK Publishing Group

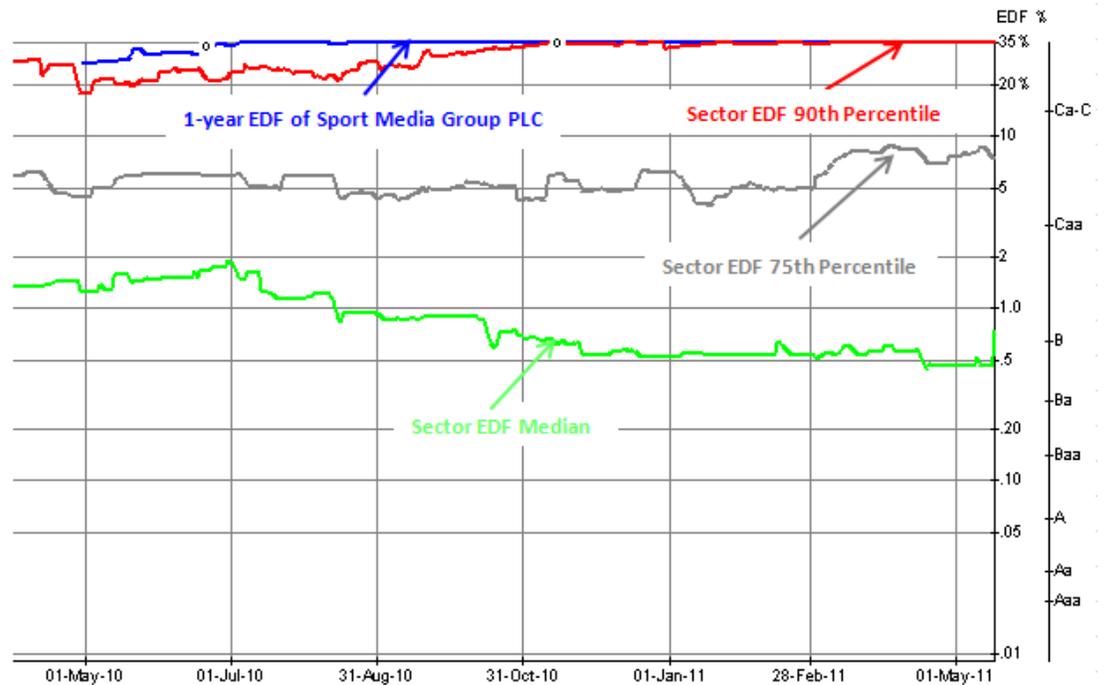


Figure 4 shows Sport Media Group PLC's EDF value surpassed the 90th percentiles of the UK Publishing Group beginning in November 2010. The company bankrupted in April 2011.

Conclusion

Sport Media Group PLC's EDF Credit Measure indicated high default risk before default occurred. Firm EDF values remained above the 90th percentile relative to the peer group of UK Publishing Group beginning in November 2010. High financial risk combined with deteriorating business value led the company to default.

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