TO: McIntire Investment Institute Management Team  
FROM: Mark H McDonald  
SUBJECT: Short Proposal- World Wrestling Entertainment, Inc.  
DATE: April 19, 2008

Introduction

The objective of this memo is to introduce World Wrestling Entertainment, Inc. as a possible short sell investment for the McIntire Investment Institute to further diversify the institute’s portfolio. This memo should also serve to help evaluate my candidacy for Short Fund Manager.

Stock Overview

<table>
<thead>
<tr>
<th>Ticker</th>
<th>NYSE: WWE</th>
</tr>
</thead>
<tbody>
<tr>
<td>52 week range</td>
<td>8.76-19.20</td>
</tr>
<tr>
<td>Market Cap</td>
<td>812.30 M</td>
</tr>
<tr>
<td>P/E ratio</td>
<td>18.04</td>
</tr>
<tr>
<td>Shares Outstanding</td>
<td>25.15 M</td>
</tr>
<tr>
<td>Short Float %</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

Business Overview

World Wrestling Entertainment is an integrated media and entertainment company involved in the promotion and production of professional wrestling which it delivers to a loyal customer
WWE audience members are largely male, and consist primarily of people between the ages of 12-24 and over 35. WWE previously known as Titan Sports and World Wrestling Federation Entertainment, Inc. (WWF) generates cash flows from four segments:

1) Live and Televised Entertainment:

WWE promotes its wrestling operations under three brands: Raw, SmackDown, and ECW. Each of these brands airs on a different night, and is weakly differentiated by characters, story plots, and themes. The largest revenue generating segment of the business results from those cash flows are generated by ticket sales to live events, sales of merchandise at live events, television rights fees, sales of sponsorship, and fees from viewing its pay-per-view and video on-demand programming. The Company produces four television shows a week, which accounts for six hours of domestic programming. Some of these shows are available on basic cable, while others are only accessible through pay-per-view partners. A major determinant of the success of WWE productions is the storylines and character development of the wrestlers in these shows.

2) Consumer Products:

WWE retails consumer goods such as toys, video games, apparel, and books. The Company has publishing licensing agreements with Simon & Schuster and Dorling Kindersley, who have in the past published biographical, autobiographical, and historical wrestling books. In 2009, the Company entered into a relationship with Mattel to produce a new line of action figures, using the WWE mark and logo.

3) Digital Media

While WWE no longer sells advertising during its U.S. television programming, it does generate cash flows from its website’s advertising sales. Likewise, WWEShop generates e-commerce revenue.

4) WWE Studios

The Company generates revenue from both the production of feature films financed and produced by the WWE studio as well as the distribution of filmed entertainment featuring its superstars. To date, WWE Studio has released 3 theatrical films, and a number of direct-to-DVD movies.

**Historical Performance**

WWE went public in October 1999 issuing 11,500,000 shares for $17.00 a share. In 2008, the Company generated $526.5 million in total revenue; 63% of this was accounted for by Live and Televised Entertainment, 26% generated by consumer products, 7% by the digital media, and 5% was from the WWE Studios productions. The company experienced decreased revenue from the year prior in 2003, 2004, and 2008. While sales of consumer products have soared since
2001, advertising sales plummeted from $77.8 million in 2002 to $7.4 million in 2006. The company paid out an annual dividend of $1.44 in 2008.

**Short-Sell Thesis Points:**

1) Highly susceptible to economic downturn:

   A quick look at the year to date performance of WWE stock indicates the company’s susceptibility to the economic downturn. Professional wrestling, falling under the discretionary entertainment umbrella, can be quickly eliminated from the average American consumer’s budget. In 2008, the average ticket price of a live show was $40.98, while the cheapest ticket to anyone of WWE’s live shows hovered around $20. The average ticket price of an international show in 2008 was $78.96.

   The Company’s poor recent performance has resulted in significant operational and managerial changes for WWE. Following a very poor 2008 third quarter, COO Mike Sileck was replaced. A dismal fourth quarter, with revenue sliding 37%, led to the reduction of 10% of WWE staff. The Company reports that these “headcount reductions” are across the board, and viewers should see no visible reduction in product quality. This lackluster performance has also led to the postponing of the building of its media center; however, the Company states that building of the media center will need to be done in the near future.

2) Little room for diversification

   Although the Company maintains an enviable balance sheet for operating in the entertainment industry with little debt and virtually no chance of financial default in the near future, WWE in recent years has experienced declining annual growth. WWE generates revenue from four different segments; however, the vast majority of these revenues come from the cash flows generated by the shows and their television broadcasts. WWE has had much difficulty differentiating its operations into other ventures. In 2001, WWE introduced the XFL which was a fruitless attempt to try and diversify into professional football. The XFL did not even last through its first season, and resulted in a $46.9 million loss for the Company. Similarly, WWE took a $36 million bath when they failed in their attempt to open a wrestling themed restaurant in Times Square, New York.

3) Too reliant on Vince McMahon, President and Chairman of the Board of Directors

   The Company is overly reliant on the managerial talents and showmanship of Vince McMahon for the success of its operations, and the Company even acknowledges this problem in the company 10-K report. From the business perspective, though he failed in his attempts at diversification, McMahon was integral in the company’s acquisition of the ECW and WCW, two of the company’s biggest competitors. Likewise, he has been a driving force behind the creative storylines and the business success of the WWE. He
regularly appears on the Raw brand and makes occasional appearances on SmackDown and ECW brands. Mr. McMahon is currently 64 years of age, and it has begun to show through the reduction of his on-air role on the Raw brand. In June of 2008, McMahon’s stage character was “injured,” and McMahon did not return until March of 2009. Any real injury or the death of Mr. McMahon would devastate the company’s operations. Similarly, McMahon is a majority shareholder in WWE and the sale of any of his shares would reflect negatively on the Company, further depreciating share price.

4) Available Substitutes Growing in Popularity

The emergence of the Ultimate Fighting Championship series, which employs a style of fighting known as mixed martial arts, has become hugely popular since 2005, and has diminished WWE’s market share. Unlike WWE, UFC is not staged and is far more violent in nature. In the late 1990’s and early 2000’s UFC was the subject of much controversy for its brutal, inhumane, no rules nature. After being purchased by Zuffa, LLC, the sport cleaned up by implementing a few more rules. In 2005, UFC broke into the mainstream after getting a nighttime spot on Spike TV immediately following WWE. Its popularity exploded in late 2005 and early 2006 as its pay-per-view sales doubled every season aired. In 2006, the UFC set the pay-per-view industry’s all-time records for a single year of business, by generating nearly $223 million in revenue. This number surpassed WWE and professional boxing’s sales figures. Even the UFC brand video game UFC 2009: Undisputed available from PS3 and X-Box 360 has surpassed WWE’s Legends of WrestleMania in terms of sales.

5) Dangerous Business- Legal Risks

A significant number of wrestlers in the WWE, whom perform as independent contractors, have displayed a history of recreational drug use, including anabolic steroids. This reflects very poorly on the organization and the sport as a whole. WWE is currently under investigation by the United States House Committee on Oversight and Government Reform regarding their drug use policies, after the sudden death of wrestler Chris Benoit. Benoit committed suicide in 2007 after killing his wife and son; authorities believe his actions were in some way tied to anabolic steroid use.

Similarly, in April 2009 WWE became the source of controversy after a 9 year old boy jumped off a Brooklyn apartment building while attempting to use a homemade parachute. The boy’s friend claims they were trying to imitate their favorite video game, WWE SmackDown vs. Raw. It is not known whether the company will face any legal action, however it does present WWE in a negative light and could create parental backlash against the Company.

Short Sell Risks

Although the majority of these thesis points rely on the company’s undifferentiated business plan, and decreasing growth in revenues and popularity, there are a few scenarios were the stock could see share price appreciation.
1) The Wrestler

Darren Aronofsky’s 2009 film, *The Wrestler*, starring Mickey Rourke, tells the story of a washed-up professional wrestler, who looks to relive his glory days of the 1980s. This low-budget film did very well appearing on many critics top movies of 2009. Mickey Rourke was nominated for the Academy Award for Best Actor, while his co-star Marisa Tomei was nominated for the Academy Award for Best Supporting Actress. The success of this movie could potentially rekindle the elder audience’s interest in professional wrestling.

2) Economic Upswing

The entertainment industry has been seriously negatively affected by the current economic landscape. If there were a significant economic upswing, and viewers witness an increase in their disposable income, the demand for pay-per-view and ticket sales would increase WWE’s revenues and financial performance.

3) 25th anniversary, Sell-out Crowds

On April 5th 2009, WWE saw a record crowd at its 25th Anniversary of WrestleMania show. This single show generated $52 million dollars in revenue, the highest grossing one-day entertainment event in 2009. These figures will be reflected in the Company’s second quarter figures which will be released later this summer, and will most likely show better than expected performance in the Company.

4) International Growth

WWE has begun expansion into foreign markets. The European market has responded well to the Company’s live shows and televised productions, generating $83 million in 2007. Emerging markets such as China and Latin America have recently been entered, but the Company’s expectations are not nearly as high as the European market. An unexpected growth in popularity in a market like China could give WWE the diversified business structure that they need.

Value Added Research

Liz Flynn, Director of Marketing, John Paul Jones Arena

Joe DiGenni, Communications Officer, Zuffa, LLC

Chris Calmenty, Store Manager GameStop Herndon, VA

Hassan Kaber, Marketing Division of WWE

Ideas for MII
At every MII meeting I attend, it seems like one of the managers or the presenters discusses a book on investing in either arguing a point or in relaying an investor’s credo. Likewise, on the MII website, every manager has his favorite books listed, most of which are investing related. I believe this is a great way to learn from other’s mistakes and successes in an effort to become a great investor. Perhaps, we could incorporate a sort of book club into MII. Every month we would have a different book to read and either during a meeting or over lunch we could get together and discuss the author’s views. Each month a different manager could be responsible for leading the luncheon discussion.

Secondly, I think we need more guest speakers. The McIntire School provides us with unlimited intellectual resources. I am certain it would be quite easy for us to arrange meetings with people who work in sales and trading or private equity. Perhaps we could even integrate my first book club luncheon idea with the guest speaker. In doing so, we would make the speaker aware of the book well in advance of the meeting and have him join us in our discussion.

Lastly, although I am in the Commerce School I feel as though I know very little about John Griffin. He has given so much to MII and McIntire in general, that I would like to see a stronger connection between our club and him. Perhaps at the end of each semester or year we could set up the teleconferencing equipment and we could speak with him, ask him questions, and have him review our current portfolio.