

Note: A substantially similar version of this disclosure was provided to eligible holders of 6.625% Senior Notes of Diamond Sports Group, LLC and Diamond Sports Finance Company (the “Issuers”) in connection with an exchange offer launched by the Issuers on May 12, 2020.

## Supplement Financial Disclosures – May 12, 2020 Exchange Offer

The following discussion and analysis provides qualitative and quantitative information about our financial performance, condition and results of operations beginning on August 23, 2019, and the financial performance, condition and results of operations of the Fox RSN Business (as defined below) prior to August 23, 2019, the date we completed the acquisition (the “RSN Acquisition”) of 21 brands representing 14 regional sports networks (the “Fox RSNs”) and Fox College Sports (collectively, the “Fox RSN Business”). Prior to the RSN Acquisition, the operations, assets and liabilities of Diamond Sports Intermediate Holdings LLC (“Holdings”) were immaterial.

The Fox RSN Business had a fiscal year ending June 30, and we have a fiscal year ending at calendar year end. Following the RSN Acquisition, we aligned all of our subsidiaries’ fiscal year ends to the calendar year end.

This discussion and analysis is principally focused on our business following August 22, 2019, although we have supplemented this discussion with information related to the Fox RSN Business to the extent that we believe such information provides meaningful and relevant information about the historical performance of the Fox RSN Business. This change in control results in a lack of comparability between the pre and post combination periods.

This discussion and analysis consists of the following sections:

*Executive Overview*—a brief description of our business (including, prior to August 23, 2019, the Fox RSN Business), a summary of significant events and financial highlights from 2019 and the three months ended March 31, 2020, information about industry and business trends, and the impact of the novel strain of coronavirus (“COVID-19”) on us and our related mitigation efforts;

*Results of Operations*—a summary of the components of the revenues of our business (including, prior to August 23, 2019, the Fox RSN Business) by category, a summary of other operating data and an analysis of our revenues and expenses (including, prior to August 23, 2019, the Fox RSN Business) for the three months ended March 31, 2020, from our inception (April 29, 2019) through December 31, 2019 and for fiscal years ended June 30, 2019, 2018 and 2017 for the Fox RSN Business, including comparisons between certain periods;

*Liquidity and Capital Resources*—a discussion of the primary sources of liquidity for our business, an analysis of the cash flows from or used in operating activities, investing activities and financing activities, and a summary of our contractual cash obligations and off-balance sheet arrangements; and

*Qualitative and Quantitative Disclosures about Market Risk* – a discussion of our primary market risk exposures and how those exposures are managed.

## ***Executive Overview***

We own equity interests in the largest collection of regional sports networks (RSNs) in the United States, broadcasting approximately 4,600 professional sports games and producing approximately 24,000 hours of new content each year (subject to the impacts of COVID-19 discussed below). Our RSNs are located in attractive, highly populated geographic areas of the United States with significant local viewership and 44 of the most exciting professional sports teams. We are a premier destination for local sports viewership, with our premium live sports content reaching more than 61 million subscribers in 2019 (excluding YES Network subscribers).

Prior to August 23, 2019, the Fox RSN Business was made up of 21 brands (which represented 14 Fox RSNs), which were owned and operated by Twenty-First Century Fox, Inc., before its acquisition by The Walt Disney Company. Of the 21 brands, seven were sub-regional feeds that were activated for live local games and other specific local programming in certain markets within the broader footprint of an individual Fox RSN, but which otherwise showed the same content and were subject to the same distribution agreements.

### ***How our agreements with teams are structured***

Our RSNs sign team rights agreements with MLB, NBA and NHL teams that give our RSNs the exclusive right to telecast all local games within the permitted territory in exchange for an annual rights fee payment to the team. Each MLB, NBA and NHL team has the right to monetize its live local games in its respective local viewing territory. Each league has a minimum number of regular season games that are not selected for exclusive national telecasters and are available exclusively for local distribution: 142 local games in the MLB, 57 local games in the NBA (70 games including games that are available for side-by-side distribution with national telecasters), and 70 local games in the NHL. Each league generally sets a defined territory in which each team has an exclusive right to monetize its live games.

Our RSNs have exclusive agreements with 44 professional sports teams, made up of 15 MLB teams, 17 NBA teams and 12 NHL teams. As of March 31, 2020, we had long term rights agreements in place with a 10 year weighted average remaining life of sports media right contracts (excluding Yankees Sports and Entertainment Network (“YES Network”) and Marquee Sports Network (“Marquee”)).

Our RSNs’ rights agreements typically provide the RSN with certain contractual advantages in retaining a team’s rights upon renewal (*e.g.*, rights of first refusal and rights to match) and typically provide the RSN with exclusive live telecast rights for all forms of traditional television and Internet, and digital streaming rights, subject to the rules of the respective league. Each RSN typically produces live games along with pre-game and post-game shows as well as highlights, shoulder programming and backdrop programming aired when there are no games.

We wholly own some of our RSNs, and others are joint ventures with the teams, where we have granted a minority interest in the RSN in connection with our rights agreements, other than Marquee where we own a 50% interest and the YES Network where we own a 20% interest.

For some of our RSNs that are joint ventures, the team holding the minority equity interest has a put right to require us to purchase their interest at a price determined pursuant to the joint venture agreement. Certain of these put rights have been recently exercised and others have been triggered and may be exercised in the future.

### *How we generate revenues*

We generate revenues by distributing our RSNs, which are generally available 24 hours a day, seven days a week, to MVPDs, such as DirecTV, Charter, and Comcast, and vMVPDs, such as DirecTV Now, Hulu with Live TV, YouTubeTV, PlayStation Vue, and fuboTV. We derive our revenues primarily from two key sources: distribution revenue and advertising revenue.

*Distribution revenue.* On a pro forma basis after giving effect to the RSN Acquisition and related financing transactions as if they had occurred on April 1, 2019, for the twelve months ended March 31, 2020, we generated distribution revenue of \$3,099 million, representing 90% of total revenues for the period. For the three months ended March 31, 2020, we generated distribution revenue of \$752 million, representing 93% of total revenues for the period. Distribution revenue consists of fees paid by MVPDs and vMVPDs to our RSNs on multi-year distribution agreements at agreed-upon monthly rates per subscriber. Unlike national cable networks, which are typically paid the same rate per subscriber by the MVPD regardless of geography, we generally receive different rates per subscriber for different geographic zones, with agreements typically providing for higher monthly rates for subscribers in zones closer to the team's stadium or arena and lower monthly rates closer to the edge of the team's footprint. In addition, MVPDs value the content generated by the RSNs because they typically receive premium advertising rates for live sports content. Given the premium nature of live sports rights, RSNs usually command among the highest distribution revenue rates in the cable network industry, causing the revenue composition of our business to be less weighted towards advertising than a typical cable network provider. In addition, distribution agreements typically have three- to four-year terms, and longer-term contracts generally provide stability and visibility of distribution revenue stream during potential economic downturns.

*Advertising revenue.* On a pro forma basis after giving effect to the RSN Acquisition and related financing transactions as if they had occurred on April 1, 2019, for the twelve months ended March 31, 2020, we generated advertising revenue of \$352 million, representing 9% of total revenues for the period. For the three months ended March 31, 2020, we generated advertising revenue of \$55 million, representing 7% of total revenues for the period. As part of the rights agreement with a team, our RSNs typically also secure the right to monetize advertising revenue. The diversification of teams and leagues within the RSN portfolio minimizes the impact of individual team performance or other region-specific factors on our ability to generate advertising revenue. Generally, advertisers are attracted to both the local relevance and national reach of our RSN portfolio, allowing us to sell both national and local advertisements on our RSNs, which we do in approximately equal proportion. Additionally, we typically sell both linear and digital advertisements, allowing us to monetize advertising on our RSNs regardless of whether they are distributed by MVPDs or vMVPDs.

## ***Our expenses***

*Media programming and production expenses.* Our media programming and production expenses relate primarily to the amortization of payments we are required to make to MLB, NBA and NHL teams under our rights agreements with them. In addition, our media programming and production expenses include the costs of producing and distributing content at our RSNs, including the live games themselves as well as pre-game and post-game shows, and backdrop programming aired when there are no games. These costs include salaries of our employees involved in the production of content at our RSNs, mobile truck rentals, transmission costs, production crews costs and talent costs.

*Media selling, general and administrative expenses.* Our media selling, general and administrative expenses includes employee compensation cost and advertising expenses, and after August 22, 2019, management and incentive fees paid to Sinclair Television Group, Inc. pursuant to the terms of a management agreement.

*Depreciation and amortization expenses.* Our depreciation and amortization expenses relate to the depreciation of definite-lived intangible assets and other assets, such as leasehold improvements and technical equipment at our production facilities.

*Corporate general and administrative expense.* Our corporate general and administrative expense represents overhead and transaction, legal, litigation and regulatory costs.

*Impairment of goodwill, intangibles, and other long-lived assets.* We evaluate our goodwill and indefinite-lived intangible assets for impairment annually, or more frequently if events or changes in circumstances indicate an impairment may exist.

*Other costs, net.* The Fox RSN Business' other costs included technical operations costs, direct marketing costs and profit participation payments that the Fox RSN Business was required to make under certain agreements.

*Interest expense and amortization of debt discount and deferred financing costs.* Our interest expense and amortization of debt discount and deferred financing costs primarily relate to costs and expenses related to our credit agreement and secured and senior notes.

## ***Summary of significant events and financial highlights from 2019 and 2020***

*Acquisitions and investments.* On August 23, 2019, we completed the RSN Acquisition for an aggregate purchase price of \$9,817 million including certain adjustments. The transaction was funded through, among other things, the proceeds of our term loan facility, the issuance of our secured and unsecured notes, and the issuance of preferred equity.

In August 2019, as part of a consortium led by Yankee Global Enterprises, we acquired a 20% equity interest in the YES Network for \$346 million. Our investment in YES Network is recorded as an equity investment in our audited and unaudited consolidated financial statements.

*Distribution agreements.* In July 2019, Sinclair entered into an agreement with Charter Communications, Inc. ("Charter") to extend the terms of the existing distribution agreement with

Charter, pursuant to which Charter will carry the Fox RSNs, Marquee and YES Network on the terms and subject to the conditions set forth therein, which extension became effective upon August 23, 2019.

Our distribution agreement with Dish Network Corporation (“Dish”) expired on July 26, 2019. For the twelve months ended June 30, 2019, revenue from Dish and its OTT service, Sling TV, accounted for 12% of the distribution revenues of the Fox RSN Business. Upon the expiration of the Dish distribution agreement, Dish stopped broadcasting our RSNs, and such blackout continues. While we continue to negotiate with Dish, we cannot predict whether we will reach an agreement or whether such agreement will be on terms as favorable to us as the terms of our prior agreement with Dish. Thus, we cannot predict how long the Dish blackout might last and what revenues we will earn from a Dish contract if we agree to terms with Dish.

In October 2019, Sinclair announced a multi-year agreement with AT&T for the carriage of Marquee and the extension of the existing carriage agreement for the other RSNs through the same multi-year term.

In October 2019, we entered into a multi-year agreement with Mediacom for the carriage of Marquee and the extension of the existing carriage agreements for the other RSNs through the same multi-year term.

In December 2019, Comcast extended its distribution agreement with Fox Sports Detroit to be co-terminus with our remaining distribution agreements with Comcast.

In February 2020, Marquee announced a carriage agreement with Hulu.

In March 2020, we reached an agreement with YouTube TV for the carriage of 19 RSNs across the country.

In the near term, we are seeking renewal of certain of our other distribution agreements. Our largest near-term distribution agreement expires in October 2020. We are currently in negotiations with the MVPD regarding this renewal. For the twelve months ended March 31, 2020, on a pro forma basis after giving effect to the RSN Acquisition and related financing transactions as if they had occurred on April 1, 2019, distribution revenue from the MVPD under this agreement accounted for 14% of our distribution revenues.

*Television and digital content.* In February 2019, we and the Chicago Cubs (“Cubs”) announced the formation of the Marquee joint venture. Marquee debuted February 22, 2020 with the airing of the Cubs’ first Spring Training game and is the Chicago-region’s exclusive network for fans to view live Cubs games, exclusive Cubs content, and other local sports programming. In addition to the execution of the joint venture agreement, the Cubs simultaneously entered into a long-term rights agreement with Marquee.

*Team put option exercises.* In March 2019, a minority partner in one of the Fox RSNs exercised its right to sell a portion of its non-controlling interest to the Fox RSN Business for \$359.8 million, which was purchased by the Fox RSN Business in July 2019. In connection with the put right, we will be required to redeem the remainder of the minority partner’s interest in the

joint venture following the 2030 MLB season. As compensation for the redemption, we will assign the team's rights agreement to the team.

In May 2019, the Fox RSN Business entered into an agreement with a minority partner in one of the Fox RSNs pursuant to which the Fox RSN Business acquired the entirety of the minority partner's membership interest for \$168.0 million.

In May 2019, the Fox RSN Business entered into an agreement with a minority partner in one of the Fox RSNs pursuant to which the Fox RSN Business acquired a portion of its non-controlling interest for \$75.8 million. Payments to the minority partner will be made in four annual equal installments between July 2019 and July 2022.

In January 2020, a minority partner in one of our RSNs exercised its option to cause us to purchase all of its membership interest for \$376 million. We made a lump sum payment to close the option in January 2020.

*Sports Rights Agreements.* Our sports rights agreement with the Kansas City Royals ("Royals") expired following the conclusion of the 2018-19 MLB season. While we continue to negotiate with the Royals, we cannot predict whether we will reach an agreement or whether such agreement will be on terms as favorable to us as the terms of our prior agreement with the Royals.

### ***Industry trends***

*MVPD consolidation.* The MVPD industry has continued to undergo significant consolidation. The top four distributors now account for approximately three out of every four customers. This concentration gives these top distributors purchasing power, and only programmers who have a breadth of compelling, high-engagement content can level the playing field.

*Increasing importance of vMVPDs.* The vMVPDs now serve over seven million subscribers and have quickly become a critical segment of the market. These vMVPDs offer a limited number of networks at a significantly lower price point as compared to the traditional cable offering. Because they are limited in the number of networks they carry, only the most compelling programming is carried on the equivalent of the "basic" and "expanded basic" level of service. The RSNs are carried by leading vMVPD platforms and are carried at those preferred levels of service.

*Subscribers.* Our industry continues to experience a decline in subscribers of the MVPDs that distribute the programming of our RSNs. This decline has been partially offset by strong growth in subscribers of vMVPDs.

### ***Impact of COVID-19 and mitigation efforts***

In December 2019, COVID-19 surfaced in Wuhan, China, and has since spread globally, including to every state in the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic and, by the end of the following day, each of the MLB, NBA, and NHL had suspended their seasons. On March 13, 2020, the United States declared a national

state of emergency. Since that time, global efforts to contain the spread of COVID-19 have intensified. Several countries, including the United States, have taken steps to restrict travel, temporarily close businesses and issue quarantine orders, and it remains unclear how long such measures will remain in place regionally within the United States.

The NBA and NHL are considering options to resume their regular seasons and/or start a truncated playoff season. MLB is also considering options to start its regular season. No MLB, NBA or NHL games are expected to be played prior to the end of June 2020 at the earliest and may not be played at all. In the event that the leagues are unable to play their scheduled season due to the impact of COVID-19, our agreements are structured in a way such that rights payments paid by the RSNs to the teams and/or distribution fees paid by the MVPDs to the RSNs may be proportionally reduced and/or rebated.

The rights agreements entered into between our RSNs and MLB, NBA and NHL professional sports teams typically include a minimum game delivery obligation on behalf of the applicable teams. If in any given season during the term of the relevant agreement, the applicable team is unable to provide the minimum number of games to the RSN for production and telecast, then the RSN may be entitled to a rebate and/or refund on a portion of its annual rights fees paid. Rebates, if any, are typically due within a certain amount of time following the conclusion of the then applicable season and generally take the form of either a payment from the team to the applicable RSN or a credit against rights fees otherwise due.

The distribution agreements entered into between our RSN(s) and the distributors generally require the RSNs to meet certain content criteria, which may include minimum thresholds for professional event telecasts throughout the year on our networks. If we are unable to meet these criteria, distributors may be entitled to exercise certain remedies against us, which may include fee reductions, rebates or refunds and/or termination of these agreements. Rebates, if any, are typically either due in the calendar year immediately following the calendar year in which the dislocation occurred or, in the event the RSNs have the right to cure a dislocation, following the expiration of the applicable cure period. Such rebates generally take the form of a payment from the RSN to the applicable distributor or in certain circumstances may take the form of a credit against fees otherwise due.

We have experienced a decrease in advertising revenue since live sports game telecasts were suspended, and this decrease in advertising revenue is expected to continue for so long as live sports games are not aired on our RSNs. The loss of advertising revenue has been, and we believe will continue to be, partially offset by a decrease in costs associated with sports programming and production due to professional sports leagues suspending their seasons and postponing events.

As of May 12, 2020, given the uncertainty regarding the timing for the resumption of NBA, NHL and MLB games, we are unable to predict the extent of the impact that the COVID-19 pandemic will have on our financial condition and results of operations.

Within the United States, our business has been designated an essential business, which allows us to continue to serve our customers, however, the COVID-19 pandemic has disrupted our operations. Certain of our facilities have experienced temporary disruptions as a result of the

COVID-19 pandemic, and we cannot predict whether our facilities will experience more significant disruptions in the future and how long these disruptions will last. The COVID-19 pandemic has heightened the risk that a significant portion of our workforce will suffer illness or otherwise be unable to work. Furthermore, reductions in our workforce may become necessary as a result of declines in our business caused by the COVID-19 pandemic. If we take such actions, we cannot assure that we will be able to rehire our workforce once our business has recovered. Our RSNs typically retain the services of freelancers to produce content, and we have not retained the services of certain freelancers during the suspension of the MLB, NBA and NHL seasons. In an effort to assist such freelancers during this difficult time, we have established a multimillion-dollar emergency fund to offer eligible freelancers a \$2,500 interest-free advance.

## **Results of Operations**

### *Holdings*

#### *Consolidated operating data*

Unless otherwise indicated, references in these results of operations for Holdings to 2019 are to the period from April 29, 2019 (the date of Holdings' formation) to December 31, 2019. In addition, although the 2019 period commences on April 29, 2019 (the date of Holdings' formation), prior to August 23, 2019, the operations, assets and liabilities of Holdings and the Issuers were immaterial. Thus, the 2019 period only reflects 130 days of post-RSN Acquisition operations.

For comparison purposes, we have provided (i) certain unaudited (and unreviewed) historical condensed combined financial information for Fox RSN Business for the three months ended March 31, 2019, (ii) certain unaudited (and unreviewed) historical condensed combined financial information for the twelve months ended December 31, 2019 (which we calculated by combining financial information for the Fox RSN Business from January 1, 2019 through August 22, 2019 and financial information for Holdings from April 29, 2019 through December 31, 2019), and (iii) certain unaudited (and unreviewed) historical condensed combined financial information for the Fox RSN Business for the twelve months ended December 31, 2018. The financial information prior to August 23, 2019 was derived from the financial records of the Fox RSNs. This financial information includes certain corporate allocations of expense related to support functions that were historically provided on a centralized basis and not recorded at the business unit level. These corporate allocations were allocated to the Fox RSNs on the basis of direct usage when identifiable, with the remainder allocated on a pro rata basis of our combined revenues, headcount or other relevant measures.

The following table sets forth the consolidated statement of operations of Holdings for the period from April 29, 2019 (the date of Holdings' formation) to December 31, 2019 and the three months ended March 31, 2020.



| <b>(in millions)</b>   | <b>Period from<br/>April 29,<br/>2019 through<br/>December 31,<br/>2019</b> | <b>Three<br/>Months<br/>Ended<br/>March 31,<br/>2020</b> |
|--|---|--|
|  | <b>(audited)</b>  | <b>(unaudited)</b>                                       |
| <b>Revenue:</b>  |   |  |
| Distribution revenue .....   | \$1,029   | \$752  |
| Advertising revenue.....   | 103   | 55   |
| Other media revenue.....   | 7   | 5  |
| Total revenue .....  | <u>1,139</u>  | <u>812</u>   |
| <b>Operating Expenses:</b>   |   |  |
| Media programming and production expenses.....   | (769)   | (478)  |
| Media selling, general and administrative expenses .....                                 | (90)  | (57)   |
| Depreciation of property and equipment.....  | (4)   | (3)  |
| Corporate general and administrative expenses .....                                      | (93)  | (2)  |
| Amortization of definite-lived intangible and other assets.....                          | (153)   | (107)  |
| Total operating expenses.....  | <u>(1,109)</u>  | <u>(647)</u>   |
| Operating income.....  | 30  | 165  |
| <b>Other Income (Expense):</b>   |   |  |
| Interest expense and amortization of debt discount and<br>deferred financing costs ..... | (200)   | (123)  |
| Gain from extinguishment of debt.....  | —   | 2  |
| Income from equity method investments .....  | 18  | 6  |
| Other income, net .....  | 9   | 2  |
| Total other expense, net .....   | <u>(173)</u>  | <u>(113)</u>   |
| Net income (loss) .....  | (143)   | 52   |
| Less: Net income attributable to the redeemable<br>noncontrolling interests.....         | (3)   | —  |
| Less: Net income attributable to noncontrolling interests.....                           | (5)   | (8)  |
| Net income (loss) attributable to Holdings .....   | <u>\$(151)</u>  | <u>\$44</u>  |

The following table sets forth unaudited (and unreviewed) revenues and media expenses for the twelve months ended December 31, 2019 (Fox RSN Business from January 1, 2019 through August 22, 2019 and Holdings from April 29, 2019 through December 31, 2019), as compared to the unaudited (and unreviewed) revenues and media expenses for the Fox RSN Business for the twelve months ended December 31, 2018.

| <b>(in millions)</b>          | <b>Twelve Months Ended<br/>December 31,</b> |                    | <b>Percent<br/>Change<br/>Increase /<br/>(Decrease)</b> |
|-------------------------------|---|--------------------|---|
|                               | <b>2019</b>                                 | <b>2018</b>        |   |
|                               | <b>(unaudited)</b>                          | <b>(unaudited)</b> |   |
| Revenues                      | \$ 3,586                                    | \$ 3,819           | (6)%  |
| Media expenses <sup>(a)</sup> | \$ 2,435                                    | \$ 2,249           | 8%  |

(a) Media expenses combine media programming and production and media selling, general, and administrative expenses.

The following table sets forth our unaudited (and unreviewed) revenues and media expenses for the three months ended March 31, 2020 as compared to the unaudited (and unreviewed) revenues and media expenses of the Fox RSN Business for the three months ended March 31, 2019.

| (in million)                  | Three Months Ended<br>March 31, |             | Percent<br>Change<br>Increase /<br>(Decrease) |
|-------------------------------|---------------------------------|-------------|---|
|                               | 2020                            | 2019        |   |
|                               | (unaudited)                     | (unaudited) |   |
| Revenues                      | \$ 812                          | \$ 949      | (14)%   |
| Media expenses <sup>(b)</sup> | \$ 535                          | \$ 588      | (9)%  |

(b) Media expenses combine media programming and production and media selling, general, and administrative expenses.

### Revenues

Revenue was \$1,139 million for the period between April 29, 2019 (the date of Holdings' formation) and December 31, 2019. Revenue was \$3,586 million for the twelve months ended December 31, 2019, a decrease of \$233 million, or 6%, when compared to the same period in 2018. The decrease is primarily as a result of an \$181 million decrease in revenue from Dish and Sling TV mostly as a result of Dish dropping carriage of the RSNs in July 2019 and a \$190 million decrease in revenue from a key MVPD partially related to a contract renewal in late 2018 that we assumed at closing of the RSN Acquisition, as well as additional subscriber churn by that MVPD. These decreases in revenue were partially offset by \$135 million in increases in revenue from other MVPDs.

Revenue was \$812 million for the three months ended March 31, 2020, a decrease of \$137 million, or 14%, when compared to the same period in 2019. The decrease is primarily related to a \$107 million decrease on revenue from Dish and Sling TV as a result of Dish dropping carriage of the RSNs in July 2019, a \$19 million decrease in distribution revenue from other MVPDs, and a \$12 million decrease in advertising revenue primarily due to professional sports leagues suspending their seasons in mid-March 2020 and postponing events as a result of COVID-19. We expect advertising revenue for the three months ended June 30, 2020 to decrease as compared to the three months ended March 31, 2020 as a result of COVID-19. The extent of this decrease will depend on the duration and degree of impact associated with the pandemic.

### Expenses

Media expenses. Media expenses are media programming and production expenses and media selling and administrative expenses. Media expenses were \$859 million for the period between April 29, 2019 (the date of Holdings' formation) and December 31, 2019, consisting of \$769 million of media programming and production expenses and \$90 million of media selling and administrative expenses. The \$769 million of media programming and production expenses for the period between April 29, 2019 (the date of Holdings' formation) and December 31, 2019

primarily related to \$673 million of amortization of our sports programming rights, and the costs of producing and distributing content for our brands including live games, pre-game and post-game shows, and backdrop programming. Media expenses were \$2,435 million for the twelve months ended December 31, 2019, an increase of \$186 million, or 8%, when compared to the same period in 2018. The increase is primarily related to an increase in our sports rights amortization due to renewals, contractual increases, and higher carrying value due to fair value adjustments made in accordance with accounting for business combinations.

Media expenses were \$535 million for the three months ended March 31, 2020, a decrease of \$53 million, or 9%, when compared to the same period in 2019. The decrease is primarily related to certain costs associated with sports programming and production which were not incurred due to professional sports leagues suspending their seasons and postponing events as a result of COVID-19. We expect media programming and production expenses for the three months ended June 30, 2020 to decrease as compared to the three months ended March 31, 2020 due to lower production costs and amortization of sports rights as a result of postponed events as a result of COVID-19. The extent of this decrease will depend on the duration and degree of the impact associated with the pandemic. Media expenses for the three months ended March 31, 2020 consisted of \$478 million of media programming and production expenses and \$57 million of media selling and administrative expenses. The \$478 million of media programming and production expenses for the three months ended March 31, 2020 primarily related to \$391 million of amortization of our sports programming rights, and the costs of producing and distributing content for our brands including live games, pre-game and post-game shows, and backdrop programming.

Corporate general and administrative expenses. Corporate general and administrative expenses were \$2 million for the three months ended March 31, 2020. Corporate general and administrative expenses for 2019 were \$93 million which primarily related to consulting fees and transactions costs related to the acquisition of the RSNs.

Amortization of definite-lived intangible and other assets. Amortization of definite-lived intangible and other assets was \$153 million for 2019 and \$107 million for the three months ended March 31, 2020 and are primarily related to the amortization of customer relationships.

Interest expense and amortization of debt discount and deferred financing costs. Interest expense and amortization of debt discount and deferred financing costs were \$200 million for 2019 and \$123 million for the three months ended March 31, 2020 and are primarily related to interest on our term loan and senior notes.

Income from equity method investments. Income from equity investments for the three months ended March 31, 2020 was \$6 million and is primarily related our investment in the YES Network, which was acquired in August 2019.

## *Fox RSN Business*

### *Combined operating data*

Unless otherwise indicated, references to 2019, 2018 and 2017 in this Results of Operations for the Fox RSN Business are to the fiscal years of the Fox RSN Business ended June 30, 2019, 2018 and 2017, respectively.

The following table sets forth certain combined operating data of the Fox RSN Business for the years ended June 30, 2019, 2018 and 2017.

| <b>(in millions)</b>   | <b>Fiscal years ended June 30,</b> |                  |                  | <b>Percent change</b>        |                        |
|--|------------------------------------|------------------|------------------|------------------------------|------------------------|
|  | <b>2019</b>                        | <b>2018</b>      | <b>2017</b>      | <b>increase / (decrease)</b> | <b>vs. '18 vs. '17</b> |
|  | <b>(audited)</b>                   |                  |                  |                              |                        |
| <b>Revenue:</b>  |                                    |                  |                  |                              |                        |
| Distribution revenue, net .....                                | \$3,465                            | \$3,343          | \$3,143          | 3.65%                        | 6.36%                  |
| Advertising fee revenue, net.....                              | 336                                | 338              | 354              | (0.59)%                      | (4.52)%                |
| Content and other.....   | 28                                 | 22               | 23               | 27.27%                       | (4.35)%                |
| Total revenue .....  | <u>\$3,829</u>                     | <u>\$3,703</u>   | <u>\$3,520</u>   | <u>3.40%</u>                 | <u>5.20%</u>           |
| <b>Expenses:</b>   |                                    |                  |                  |                              |                        |
| Programming and production .....                               | \$(2,137)                          | \$(1,975)        | \$(1,822)        | 8.20%                        | 8.40%                  |
| Selling, general and administrative.....                       | (200)                              | (188)            | (177)            | 6.38%                        | 6.21%                  |
| Depreciation and amortization.....                             | (28)                               | (28)             | (30)             | —                            | (6.67)%                |
| Goodwill and intangible impairment loss .....                  | (79)                               | —                | —                | ∞%                           | —                      |
| Other costs, net .....   | (24)                               | (25)             | (26)             | (4.00)%                      | (3.85)%                |
| Total expenses .....   | <u>\$(2,469)</u>                   | <u>\$(2,216)</u> | <u>\$(2,055)</u> | <u>11.42%</u>                | <u>7.83%</u>           |
| Income before income tax expense.....                          | 1,360                              | 1,487            | 1,465            | (8.54)%                      | 1.50%                  |
| Income tax expense .....                                       | (180)                              | (330)            | (488)            | (45.45)%                     | (32.38)%               |
| Net income.....  | <u>1,180</u>                       | <u>1,157</u>     | <u>977</u>       | <u>1.99%</u>                 | <u>18.42%</u>          |
| Less: Net income attributable to noncontrolling interests..... | (114)                              | (107)            | (100)            | 6.54%                        | 7.00%                  |
| Net income attributable to Fox RSN Business .....              | <u>\$1,065</u>                     | <u>\$1,050</u>   | <u>\$877</u>     | <u>1.43%</u>                 | <u>19.73%</u>          |

### *Revenues*

**Distribution revenue, net.** Distribution revenue increased \$122 million in 2019 when compared to 2018 primarily due to higher subscriber rates offset by lower subscribers. Distribution revenue increased \$200 million in 2018 when compared to 2017.

**Advertising fee revenue, net.** Advertising fee revenue decreased \$2 million in 2019, when compared to 2018 primarily due to lower advertising rates due to team performance. Advertising fee revenue decreased \$16 million in 2018 when compared to 2017.

## *Expenses*

Programming and production expenses. Programming and production expenses increased \$162 million in 2019 when compared to 2018 primarily due to contractual team rights increases. Programming and production expenses increased \$153 million in 2018 when compared to 2017.

Selling, general and administrative expenses. Selling, general and administrative expenses increased \$12 million in 2019 when compared to 2018 primarily due to increased overhead and bad debt expenses. Selling, general and administrative expenses increased \$11 million in 2018 when compared to 2017.

Depreciation and amortization expenses. Depreciation of property and equipment and amortization of definite-lived intangibles and other assets remained flat in 2019 when compared to 2018 primarily due to assets becoming fully depreciated. Depreciation of property and equipment and amortization of definite-lived intangibles and other assets decreased \$2 million in 2018, when compared to 2017.

Goodwill and intangible impairment loss. In 2019, the Fox RSN Business recorded goodwill and intangible impairment losses of \$79 million. The Fox RSN Business did not record any impairment losses in 2018 or 2017. The goodwill and impairment losses recorded in 2019 included (1) goodwill impairment charges of \$63.2 million, \$3.4 million and \$12.7 million related to the goodwill of the SportsTime Ohio RSN, the Ohio RSN, and the Prime Ticket RSN, respectively, because the purchase price for the RSN Acquisition was lower than the estimated fair value of the Fox RSN Business used in its most recent annual impairment reviews.

Other costs, net. Other costs, net decreased \$1 million during 2019 when compared to 2018. Other costs, net decreased \$1 million during 2018 when compared to 2017.

## **Liquidity and Capital Resources**

As of March 31, 2020, we had net working capital of approximately \$1,059 million, including \$483 million in cash and cash equivalent balances. As of March 31, 2020, there were \$225 million of outstanding borrowings, and \$425 million available, under our revolving credit facility.

We anticipate that existing cash and cash equivalents, cash flow from operations, and borrowing capacity under our revolving credit facility will be sufficient to satisfy debt service obligations, capital expenditure requirements, and working capital needs for the following twelve months. The indentures that govern our existing secured and unsecured notes permit us to transfer cash to Sinclair Broadcast Group, Inc. and its subsidiaries in connection with cash management and treasury activities in the ordinary course of business or consistent with industry or past practice if we elect to do so.

For long-term liquidity needs, in addition to the sources described above, we may rely upon the issuance of long-term secured or unsecured debt, the issuance of equity or other instruments convertible into or exchangeable for equity, debt exchange transactions, receivables financings and/or other financings or similar transactions involving designating subsidiaries as unrestricted subsidiaries, debt refinancing transactions (including extensions of maturity dates),

asset sales, joint ventures, recapitalizations, or securitizations. However, there can be no assurance that additional financing or capital or buyers of assets will be available, or that the terms of any transactions will be acceptable or advantageous to us.

In December 2019 and January 2020, we redeemed an aggregate of 500,000 units of preferred equity of Diamond Sports Holdings, LLC (“DSH”), an indirect parent of Holdings, for an aggregate redemption price equal to \$500 million plus accrued and unpaid interest.

In January 2020, a minority partner in one of our RSNs exercised its right to sell the entirety of its non-controlling interest to us, which we purchased, for \$376 million.

In March 2020, we drew down \$225 million under our revolving credit facility. The draw was a precautionary measure to preserve the Company’s financial flexibility in light of the current uncertainty in the global economy resulting from COVID-19. If needed, the proceeds will be available to be used for working capital and general corporate purposes.

For the quarter ended March 31, 2020, we were in compliance with all of the covenants related to our credit agreement and secured and senior notes.

### ***Cash flows***

The following table sets forth our cash flows for the period from April 29, 2019 (the date of Holdings’ formation) to December 31, 2019 and the three months ended March 31, 2020:

| <b>(in millions)</b>   | <b>Period from<br/>April 29,<br/>2019 through<br/>December 31,<br/>2019</b> | <b>Three Months<br/>Ended<br/>March 31,<br/>2020</b> |
|--|---|--|
|  | <b>(audited)</b>  | <b>(unaudited)</b>                                   |
| <b><i>Net cash (used in) from operating activities</i></b> ..... | \$323   | \$(94)   |
| <b><i>Cash flows (used in) from investing activities:</i></b>    |   |  |
| Acquisition of property and equipment .....                      | (9)   | (4)  |
| Acquisition of businesses, net of cash required.....             | (8,993)   | —  |
| Purchases of investments .....                                   | (346)   | —  |
| Distributions from investments                                   | —   | 4  |
| Net cash flows (used in) from investing activities.....          | (9,348)   | —  |
| <b><i>Cash flows (used in) from financing activities:</i></b>    |   |  |
| Debt borrowings, net of original discount .....                  | 8,159   | 225  |
| Repayments of debt borrowings .....                              | (8)   | (11)   |
| Contributions from parent .....                                  | 2,385   | —  |
| Distributions to parent .....                                    | (330)   | (198)  |
| Debt issuance costs  | (174)   | —  |
| Distributions to noncontrolling interests .....                  | (22)  | (3)  |
| Distributions to redeemable noncontrolling interests.....        | —   | (378)  |
| Other, net .....   | (36)  | (7)  |
| Net cash flows (used in) from financing activities .....         | 9,974   | (372)  |

|                                       |       |         |
|---------------------------------------|-------|---------|
| Net increase (decrease) in cash ..... | \$949 | \$(466) |
|---------------------------------------|-------|---------|

*Operating activities*

Net cash flows used in operating activities for the three months ended March 31, 2020 are primarily related to payments for sports rights, production and overhead costs, and interest on our term loan, offset by cash collections from MVPDs. Net cash flows from operating activities for the period from April 29, 2019 (the date of Holdings' formation) to December 31, 2019 are primarily related to cash collections from MVPDs, offset by payments for sports rights, production and overhead costs, and interest on our term loan.

*Investing activities*

Net cash flows used in investing activities for the period from April 29, 2019 (the date of Holdings' formation) to December 31, 2019 reflect the purchase price paid in the RSN Acquisition and our investment in the YES Network.

*Financing activities*

Net cash flows used in financing activities in the three months ended March 30, 2020 principally reflect the payment associated with the exercise of a put right by a minority investor in one of our RSNs for \$378 million and a \$198 million distribution to DSH for the purposes of the redemption of DSH's preferred equity, partially offset by a \$225 million draw under our revolving credit agreement. Net cash flows from financing activities for the period from April 29, 2019 (the date of Holdings' formation) to December 31, 2019 principally reflects the borrowings under our term loan facility, the proceeds of the issuances of our secured and senior notes, the proceeds from the issuance of preferred equity contributed to us and the proceeds of a Sinclair Television Group, Inc. term loan contributed to us, which was primarily used to pay the purchase price for the RSN Acquisition. These amounts were partially offset by a distribution to DSH for the purposes of the redemption of \$300 million of DSH's preferred equity.

***Contractual obligations***

We have various contractual obligations which are recorded as liabilities in our audited and unaudited consolidated financial statements. Other items, such as certain purchase commitments and other executory contracts are not recognized as liabilities in our combined financial statements but are required to be disclosed. For example, we are contractually committed to acquire future programming and make certain minimum lease payments for the use of property under operating lease agreements.

The following table reflects a summary of obligations and commitments outstanding as of March 31, 2020:

| <b>(in millions)</b>   | <b>Total (remaining)</b> | <b>2020</b> | <b>2021 - 2022</b> | <b>2023 - 2024</b> | <b>2025 and thereafter</b> |
|--|--------------------------|-------------|--------------------|--------------------|----------------------------|
| Notes payable, capital leases and commercial bank financing <sup>(a)</sup> ..... | \$11,116                 | \$364       | \$966              | \$957              | \$8,829                    |

|   |               |              |              |              |               |
|---|---------------|--------------|--------------|--------------|---------------|
| Operating leases.....                               | 50            | 15           | 18           | 6            | 11            |
| Programming rights and content <sup>(b)</sup> ..... | 15,639        | 1,223        | 3,313        | 2,888        | 8,215         |
| Other <sup>(c)</sup> .....                          | 285           | 63           | 108          | 40           | 74            |
| <b>Total contractual cash obligations .....</b>     | <b>27,090</b> | <b>1,665</b> | <b>4,405</b> | <b>3,891</b> | <b>17,129</b> |

(a) Includes interest on debt. Estimated interest on our variable rate debt has been calculated at a weighted average effective interest rate of 4.8% as of March 31, 2020. Variable rate debt represents \$3.5 billion of our \$8.4 billion total face value of debt as of March 31, 2020.

(b) Our programming rights and content include contractual amounts owed through the expiration date of the underlying agreement for sports programming rights.

(c) Other primarily relates to guaranteed payments under a deferred purchase price liability and other long-term liabilities.

### ***Off balance sheet arrangements***

Off balance sheet arrangements mean any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which the registrant has: obligations under certain guarantees or contracts; retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangements; obligations under certain derivative arrangements; and obligations arising out of a material variable interest in an unconsolidated entity. As of March 31, 2020, we did not have any material off balance sheet arrangements.

### **Qualitative and quantitative disclosures about market risk**

We are exposed to market risk relating to changes in interest rates applicable to our term loan facility and our revolving credit facility. We consider entering into derivative instruments primarily for the purpose of reducing the impact of changing interest rates on our floating rate debt and to reduce the impact of changing fair market values on our fixed rate debt. We did not have any outstanding derivative instruments during the period from April 29, 2019 (the date of Holdings' formation) to December 31, 2019 or the three months ended March 31, 2020.

As of March 31, 2020, our total variable rate debt under the term loan facility and our revolving credit facility was \$3,509 million. We estimate that adding 1% to respective interest rates would result in an increase in our annual interest expense of \$35 million.