DIAMOND SPORTS INTERMEDIATE HOLDINGS LLC
UNAUDITED SUPPLEMENTAL FINANCIAL DISCUSSION

Overview

Diamond Sports Intermediate Holdings LLC (the Company, or sometimes referred to as "we" or "our"), a Delaware limited liability company and an indirect subsidiary of Sinclair Broadcast Group, Inc. (SBG), was formed on April 29, 2019. Diamond Sports Group, LLC (DSG) is a wholly-owned subsidiary of the Company and was formed for the purpose of completing the acquisition of 21 Regional Sports Network brands and Fox College Sports (collectively, the Acquired RSNs) from The Walt Disney Company (Disney), completed on August 23, 2019. Additionally, DSG has an ownership interest in Sports Network, LLC which consolidates Marquee Sports Network, LLC (Marquee). On August 29, 2019, an indirect wholly-owned subsidiary of DSG acquired a 20% equity interest in the Yankee Entertainment and Sports Network (the YES Network). We refer to the Acquired RSNs and Marquee collectively as the RSNs. On March 31, 2021, the 21 Acquired RSNs were rebranded as 19 Bally Sports network brands (the Bally RSNs). We refer to the Bally RSNs and Marquee collectively as the "RSNs." The RSNs and YES Network, own the exclusive rights to air, among other sporting events, the games of professional sports teams in designated local viewing areas.

Results of Operations

The following table sets forth our revenue and expenses for the years ended December 31, 2021 and 2020 (in millions). A discussion regarding our financial results and operations for the year ended December 31, 2021 compared to the year ended December 31, 2020 is presented below. A discussion of the year ended December 31, 2020 compared to the year ended December 31, 2019 can be found within the Unaudited Supplemental Financial Discussion of Diamond Sports Intermediate Holdings LLC for the year ended December 31, 2020 and the period April 29, 2019 to December 31, 2019, furnished with the SEC in a Form 8-K/A filing on March 17, 2021, which is available free of charge on the SEC's website at www.sec.gov and our Investor Relations website at www.sbgi.net/investor-relations.

	2021	2020	Percent Change Increase / (Decrease) '21 vs.'20
Revenue:			(a)
Distribution revenue	$ 2,620	$ 2,472	6%
Advertising revenue	409	196	109%
Other media revenue	27	18	50%
Media revenue	$ 3,056	$ 2,686	14%
Operating Expenses:			
Media programming and production expenses	$ 2,793	$ 1,361	105%
Media selling, general and administrative expenses	297	243	22%
Depreciation and amortization expenses	316	410	(23)%
Corporate general and administrative	10	10	—%
Gain on assets acquired	(43)	—	n/m
Impairment of goodwill and definite-lived intangible assets	—	4,264	n/m
Operating (loss) income	$ (317)	$ (3,602)	(91)%
Income from equity method investments	$ 49	$ 6	717%
Other income, net	$ 15	$ 160	(91)%

n/m — not meaningful

(a) Marquee was launched in late February 2020, therefore although not called out in each section below, is a driver of the changes between the periods due to a full year of activity being included in the current period, versus only 10 months of activity in the prior period.

Distribution revenue. Distribution revenue, which is generated through fees received from traditional multi-channel video programming distributors (MVPDs), such as cable and satellite providers, and virtual MVPDs (vMVPDs, and together with MVPDs, Distributors) for the right to distribute our RSNs, increased $148 million for the year ended December 31, 2021, when compared to the same period in 2020. During the year ended 2020, distribution revenue was reduced by $420 million, related to the accrual of rebates to our Distributors resulting from the cancellation of professional sports games due to the COVID-19 pandemic. Distribution revenue was increased during the year ended December 31, 2021 by $8 million, primarily related to a reduction of accrued rebates due to an increase in estimated games related to the National Basketball Association (NBA). See discussion under *Revenue Recognition* within *Note 1. Nature of Operations and Summary of Significant Accounting Policies* within the *Consolidated Financial Statements* for further discussion. Excluding the effect of these accrued rebates and related adjustments, distribution revenue declined by $280 million in 2021, when compared to the same period in 2020, and was primarily driven by the loss of three Distributors in 2020 and subscriber churn with remaining Distributors, partially offset by increases in rates. We expect distribution revenue to decrease for the year ending December 31, 2022 when compared to 2021 due to continued subscriber churn.

Advertising revenue. Advertising revenue is primarily generated from sales of commercial time within the RSN's programming. Advertising revenue increased $213 million for the year ended December 31, 2021, when compared to the same period in 2020, primarily due to a higher number of games being played in 2021, when compared to 2020, due to the suspension of the league seasons in March 2020 and the resulting reduction of the number of games played in 2020. We expect advertising revenue for the year ending December 31, 2022 to increase when compared to 2021.

Media programming and production expenses. Media programming and production expenses are primarily related to amortization of our sports programming rights with Major League Baseball (MLB), NBA, and National Hockey League (NHL) teams, and the costs of producing and distributing content for our brands including live games, pre-game and post-game shows, and backdrop programming.

Media programming and production expenses increased $1,432 million for the year ended December 31, 2021, when compared to the same period in 2020, primarily driven by a $1,272 million increase in sports rights amortization expense, a $91 million increase in employee compensation cost related to freelance talent, and a $67 million increase in production expenses, all of which increased as a result of an increase in the number of games played compared to the same period in the prior year.

The increases in the number of games played in 2021, when compared to the same period in 2020, are primarily driven by the suspension of the 2019-2020 NBA and NHL seasons and the 2020 MLB season in early March 2020. The changes to the seasons were in response to the COVID-19 pandemic and resulted in a higher number of games during 2021, as compared to the prior year. We expect media programming and production expenses for the year ending December 31, 2022 to decrease when compared to 2021.

Media selling, general, and administrative expenses. Media selling, general, and administrative expenses increased $54 million for the year ended December 31, 2021, when compared to the same period in 2020, primarily related to a $22 million increase in information technology expenses, a $13 million increase in national sales commissions, an $11 million increase of management services agreement fees, and a $5 million increase in third-party fulfillment costs from our digital business.

Depreciation and amortization. Depreciation and amortization expense decreased $94 million for the year ended December 31, 2021, when compared to the same period in 2020, primarily due to a decrease in amortization expense due to lower intangible asset values as a result of an impairment in 2020.

Gain on assets acquired. For the year ended December 31, 2021, we recognized a gain of $43 million related to the fair value of equipment that we received as part of an agreement with a communications provider in connection with the C-Band repack process in which we received equipment with a fair value of $58 million, at maximum cost to us of $15 million.

Income from equity method investments. For the year ended December 31, 2021 we recognized income from equity method investments of $49 million, which is primarily related to our minority ownership interest in the YES Network. The increase in the amount of income recognized when compared to the year ended December 31, 2020 was primarily due to an increase in the number of games played compared to the same period in the prior year.

Other income, net. Other income, net decreased during 2021 when compared to the same period in 2020, primarily due to a measurement adjustment gain related to certain variable payment obligations of $159 million recorded in 2020.

Sources and Uses of Cash

As of December 31, 2021, we had net working capital of approximately $542 million, including $479 million in cash and cash equivalent balances. Cash on hand, cash generated by our operations, and borrowing capacity under the Bank Credit Agreement are used as our primary sources of liquidity.

The following table sets forth our cash flows for the years ended December 31, 2021 and December 31, 2020 (in millions):

	For the years ended December 31,			
	2021		2020	
Net cash flows (used in) from operating activities	$	(162)	$	834
Net cash flows used in investing activities	$	(13)	$	(5)
Net cash flows used in financing activities	$	(129)	$	(992)

Operating Activities. Net cash flows from operating activities decreased for the year ended December 31, 2021, when compared to the same period in 2020. The decrease is primarily related to higher payments for sports programming rights, production and overhead costs, and distributor rebate payments, partially offset by an increase in cash collections from distributors.

Investing and Financing Activities. Net cash used in investing and financing activities decreased for the year ended December 31, 2021, when compared to the same period in 2020. The decrease is primarily related to a decrease in the amount of distributions to Diamond Sports Holdings, LLC (DSH), an indirect parent of the Company, as the year ended December 31, 2020 included $547 million in distributions to DSH for the partial redemption of DSH's preferred equity and the settlement of the exercise of a noncontrolling equity holder's right to sell its interest in one of our subsidiaries to the Company, partially offset by lower proceeds from notes payable and commercial bank financing borrowings during the year ending December 31, 2021, as compared to 2020.

Liquidity. Our ability to make scheduled payments on our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, competitive, legislative, regulatory and other factors beyond its control. The impact of the outbreak of COVID-19 continues to create significant uncertainty and disruption in the global economy and financial markets. Further, our success is dependent upon, among other things, the terms of our agreements with Distributors, over-the-top (OTT) and other streaming providers and the successful execution of our direct-to-consumer (DTC) strategy.

Primarily as a result of losses of Distributors, increased subscriber churn and the COVID-19 pandemic, we have experienced operating losses since the second quarter of 2020 and we expect we will continue to incur operating losses in future periods. We have taken steps to mitigate the impacts of this uncertainty, including managing our controllable costs, amending our accounts receivable securitization facility and obtaining a new $635 million first-priority lien term loan credit facility which matures in May 2026 and ranks first in lien priority on shared collateral ahead of our loans and/or commitments under the Bank Credit Agreement and Existing Secured Notes. See *Note 12. Subsequent Events* within the *Consolidated Financial Statements*.

At December 31, 2021, we were in compliance with all of our debt covenants. If we do not continue to remain in compliance with these covenants, we would have to seek additional amendments to these covenants; however, no assurances can be made that such amendments would be approved by our lenders. Generally, if an event of default under our debt agreements occurs, then pursuant to default acceleration clauses, substantially all of our outstanding debt could become due, which would have a material adverse impact to our operations and liquidity.

Non-guarantor and Unrestricted Subsidiary Information - Bank Credit Agreement and Senior Notes

For the trailing four quarters ended December 31, 2021, EBITDA of non-guarantor restricted subsidiaries was 37% of Consolidated EBITDA, as defined in DSG's bank credit agreement and indentures, and one unrestricted subsidiary had an immaterial EBITDA. As of December 31, 2021, 35% of total assets and 2% of total liabilities were attributable to non-guarantor restricted subsidiaries and 5% of total assets and 2% of total liabilities were attributable to one unrestricted subsidiary.