

Corporate Finance

Insights

Media Sector

2006

Analysis & opinions on M&A activity across Europe from our network of local advisers*



*connectedthinking

PRICEWATERHOUSECOOPERS 

Welcome



Welcome to the fourth edition of Media Insights from the Corporate Finance team at PricewaterhouseCoopers.

As in previous years, we analyse the trends driving M&A activity in the European media sector. We also take time to review predictions from the last edition, and set out our thoughts for 2006 and beyond.

Media M&A proved busier in 2005 than we expected, with significant activity in continental Europe, a high level of Private Equity involvement and a long tail of smaller corporate 'in-fills' driving the total number of completions to 156. Other key themes in 2005 included significant growth in demand for online marketing services and the rapid acceleration of deal activity in the online sector generally.

During 2005 the Corporate Finance team at PricewaterhouseCoopers had a very busy year, most recently advising DMGT on its recommended offer for primelocation.com (€68m) and Mecom plc on its acquisition of Berliner Verlag. We also advised Leinster Leader on its sale to Johnston Press (€139m) and DeHavilland Information Services on its sale to Emap (€26m).

In addition we advised the shareholders of Mondiale Publishing on its sale of the "Bar Show" exhibition and "Theme" magazine to UBM and the shareholders of Radio Kiss Kiss in Italy on their sale of a 25% stake to Radio e Reti for €14m.

As we further grow our practice, one of our continuing objectives is to maintain a dialogue, and build on our relationships, with companies throughout the media sector. We hope that this publication will help to facilitate this and we look forward to hearing your feedback.

If you would like any further information or would like to comment on any aspect of this report, please do not hesitate to contact us.

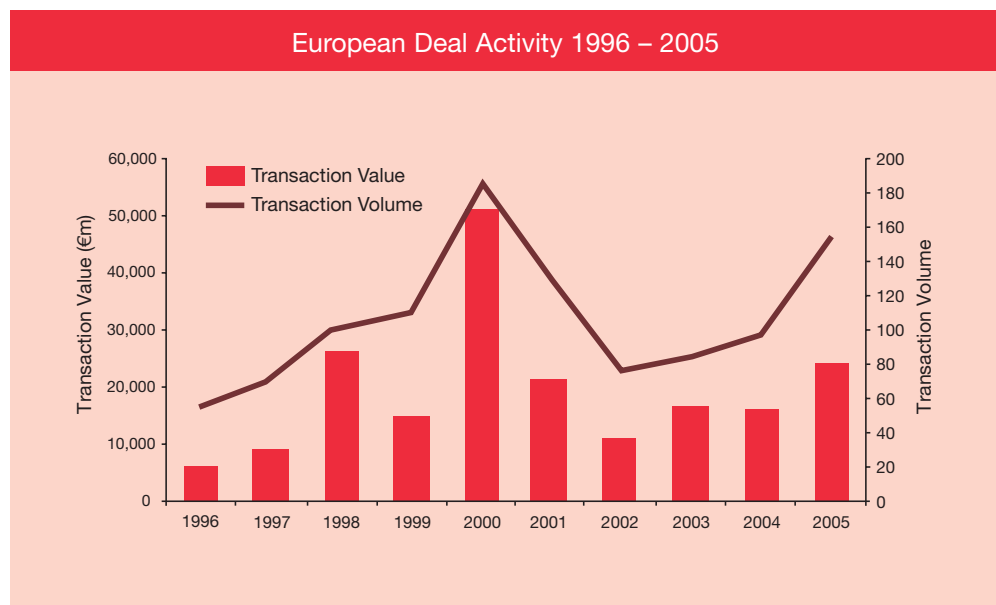
A handwritten signature in black ink that reads "Olivier Wolf". The signature is stylized and includes a large, sweeping flourish underneath the name.

Olivier Wolf
Media Sector Leader
Corporate Finance
PricewaterhouseCoopers LLP

Media M&A experiences strong growth

M&A activity in the European media sector displayed strong growth in 2005. Transaction volumes increased by 61% to 156 deals compared to 97 in 2004.

The total value of these deals rose by 52% to €24.7bn, against €16.3bn in 2004. Deal flow was spread evenly over the year, with first and second-half activity broadly equal.



This chart covers M&A transactions completed in 2005, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.
Source: Dealogic, M&A Global

Although M&A volumes climbed in 2005, major deals were almost on a level year-on-year. PwC recorded ten €500 million-plus deals during 2005 compared with eight in 2004. Volume growth last year was generated primarily by corporate in-fills and add-ons as companies fine-tuned existing strategies rather than pursuing large deals to effect radical change.

The aggregate transaction value for the year was boosted by the spending of an additional €1.8bn by private equity (PE) in the media market and from eBay's €3.3bn acquisition of Skype.

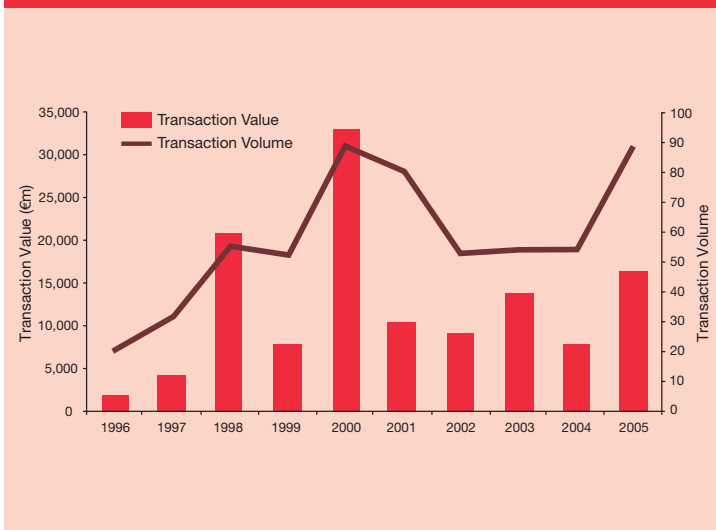
Table 1: 2005 Deals Where the Deal Value was Greater than €500m

Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Oct 05	3,304	Skype Technologies SA	Luxembourg	eBay Inc	US
Oct 05	1,864	SBS Broadcasting SA	Luxembourg	PKS Media Sarl (Permira/KKR)	UK
Jul 05	1,825	Yellow Brick Road	Netherlands	Macquarie Capital Alliance Group	Australia
Jul 05	1,130	IIR Holdings Ltd	UK	T&F Informa plc	UK
Apr 05	922	Recoletos Grupo de Comunicacion SA	Spain	Retos Cartera SA	Spain
Dec 05	842	Findexa AS	Norway	Eniro AB	Sweden
May 05	706	HIT Entertainment plc	UK	Sunshine Acquisition Ltd (Apax)	UK
Nov 05	650	TDC Forlag AS	Denmark	Macquarie Capital Alliance Group	Australia
May 05	584	GWR Group plc	UK	Capital Radio plc	UK
Jun 05	550	NOP World Ltd	UK	GfK AG	Germany

Source: Dealogic, M&A Global

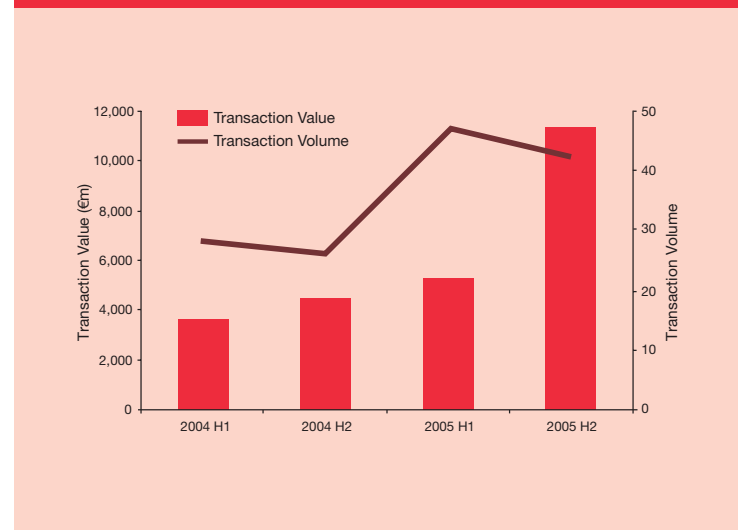
As predicted in Media Insights 2004, deal activity in continental Europe showed a marked increase in 2005. Deal completions surged to 89 compared with 54 in 2004. This was mirrored by a sizeable leap in aggregate deal values – up to €16.5bn versus €8bn in 2004.

European Deal Activity – (Excluding UK) 1996 – 2005



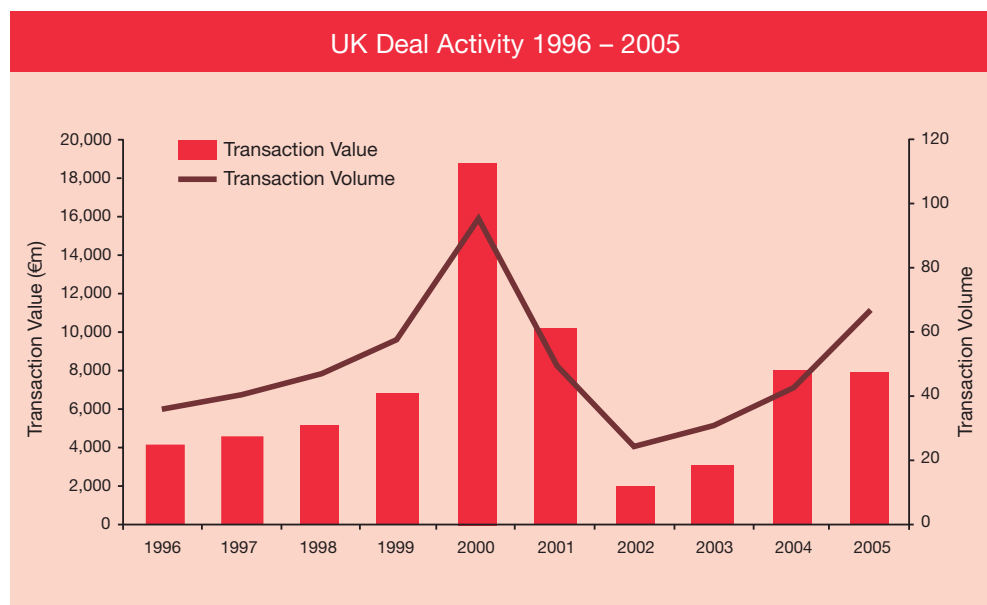
This chart covers M&A transactions completed in 2005, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.
Source: Dealogic, M&A Global

European Deal Activity – (Excluding UK) Half Year 2004 – 2005



This chart covers M&A transactions completed in 2005, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.
Source: Dealogic, M&A Global

The middle market provided the focal point for deal activity in the UK media sector during 2005. 67 media deals with a UK-based target were returned last year compared with 43 in 2004. However, the combined value of these deals remained flat at €8.2bn.



This chart covers M&A transactions completed in 2005, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.
Source: Dealogic, M&A Global

The largest media transaction involving a UK target in 2005 was the €1.1bn purchase of the privately-owned training and events organiser IIR Holdings Ltd by business and academic publisher T&F Informa.

US buyers remain subdued

The market continues to wait on the much anticipated European spending spree by US media groups. Last year saw just 15 transatlantic forays worth a combined €4.3bn by US buyers into Europe.

Alongside eBay's purchase of Skype, only four other US deals in Europe weighed in at more than €100m in 2005. These included Providence Equity Partners' €127m purchase of Turkey based Digiturk Digital and the €120m acquisition of the German online market research company Ciao! by Greenfield Online.

It was left to Australia – in the shape of Macquarie Capital Alliance Group (MCAG) – to lead the march of external bidding nations into Europe. MCAG snapped up Yellow Brick Road for €1.8bn, the Nordic directories business TDC Forlag for €650m and BBC Broadcast for €250m.

Online is back in vogue

With European broadband penetration now topping 48m⁺ subscribers, the internet is an increasingly important 'eye-ball' area for viewing media content.

† Source: TelecomPaper

Additionally, as bandwidth improves, the internet will increasingly become a viable distribution channel for television and voice.

The overriding theme for 2005 was the resurgence of interest by 'old-format' media concerns in internet properties and digital agencies. The need to fulfil clients' online marketing requirements spawned a host of internet-related deals such as Aegis' acquisition of the UK digital creative agency Glue London.

The online 'land grab' really picked up steam during the latter part of 2005. ITV's €178m acquisition of FriendsReunited in December was followed, the next day, by Daily Mail and General Trust's (DMGT) €68m recommended offer for primelocation.com.

The difference between many of the 2005 deals and those of the late 1990s 'bubble' is that recent transactions have been of proven business models and not the 'blue-sky' enterprises of the internet's infancy.



Table 2: 2005 Deals in the Online / Digital Sector

Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country
Oct 05	3,304	Skype Technologies SA	Luxembourg	eBay Inc	US
Oct 05	204	Worth Global Style Network Ltd	UK	Emap plc	UK
Dec 05	178	FriendsReunited Holdings Ltd	UK	ITV plc	UK
Apr 05	120	Ciao!	Germany	Greenfield Online Inc	US
Oct 05	75	The Hotgroup plc	UK	Trinity Mirror plc	UK
Dec 05	68	Fastcrop plc† (primelocation.com)	UK	Daily Mail and General Trust plc	UK
Nov 05	60	Poliris (SeLogger.com)	France	3i Group plc	UK
Apr 05	30	Affilinet GmbH, Sedo GmbH	Germany	AdLINK Internet Media AG	Germany
Jul 05	26	DeHavilland Information Services plc	UK	EMAP plc	UK
Jul 05	24	Smart Media Services Ltd (smartnewhomes.com)	UK	Trinity Mirror plc	UK
Aug 05	21	Glue London Ltd	UK	Aegis Group plc	UK
Nov 05	21	Propertyfinder.com	UK	News Corporation	US
May 05	18	Oyster Partners Ltd	UK	Framfab AB	France
Aug 05	15	Financial Jobs Online Ltd (GAAPweb)	UK	Trinity Mirror plc	UK
Dec 05	15	Scoot.com	UK	Enable Media Ltd	UK
Jan 05	14	Wheel Communications Ltd	UK	LB Icon AB	Netherlands
Oct 05	10	Kirowski Rt	Hungary	Aegis Group plc	UK
May 05	nd	Gumtree.com	UK	Kijiji (eBay)	US
May 05	nd	LoQuo	Spain	Kijiji (eBay)	US
Jul 05	nd	opusforum	Germany	Kijiji (eBay)	US

†Pending as at 31st December 2005
Source: Dealogic, M&A Global

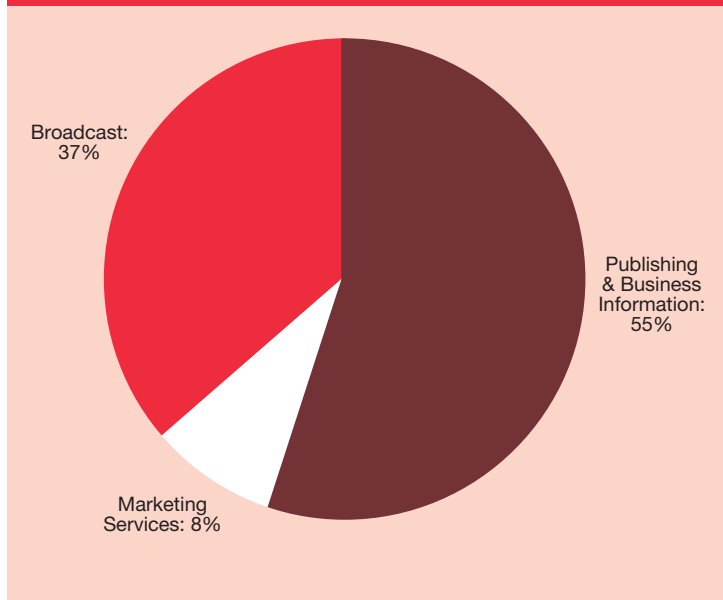
Convergence is back on the agenda

We see three distinct types of ‘convergence’. The first, between ‘old’ and ‘new’ media, has been covered above. The second is taking place within the telecom/delivery industry with deals such as the proposed NTL/Virgin Mobile and Sky/Easynet takeovers. However, we regard these as essentially telecoms deals which only impact the media sector indirectly.

The third group of combinations, between ‘delivery’ and ‘content’ companies, is arguably the most contentious. While there are moves by delivery companies to secure content – Belgacom buying Belgian football rights – it is a two-way street with the planned spin-off of Endemol by Telefonica, the possible separation of Time WarnerAOL and the aborted sale of Flextech by Telewest.

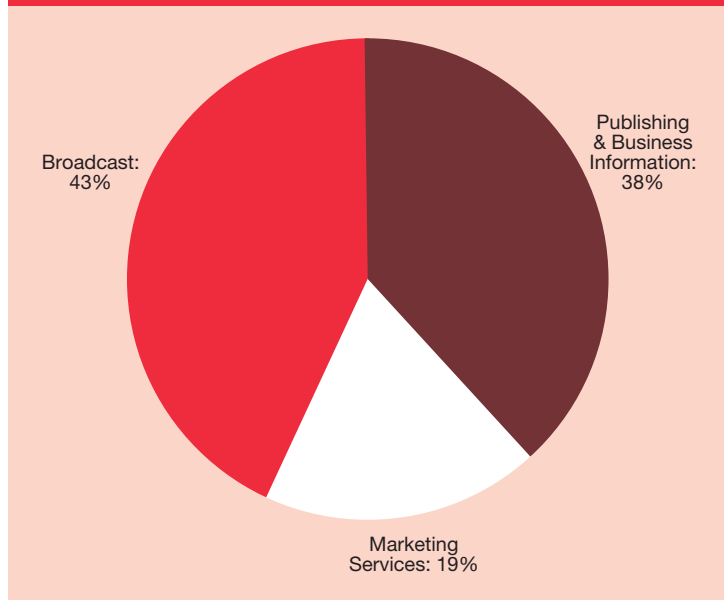
Sector Analysis

2005 European Deal Value per Sub-Sector



This chart covers M&A transactions completed in 2005, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million. Source: Dealogic, M&A Global

2005 European Deal Volume per Sub-Sector



This chart covers M&A transactions completed in 2005, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million. Source: Dealogic, M&A Global

Publishing faces the online threat

With the continuing migration of readers and advertisers to online mediums, traditional publishers have been busily buying online sites in a bid to preserve core advertising (particularly classified) revenues.

Key deals in 2005 included DMGT's pending acquisition of primelocation.com alongside Trinity Mirror's acquisitions of The Hotgroup, Smartnewhomes.com and GAAPweb (see table on page 5). Last year also saw NewsCorp's acquisition of Propertyfinder.com alongside acquisitions by Kijiji – eBay's international classifieds group – of the online classified advertising businesses Gumtree.com in the UK, LoQou.com in Spain and opusforum in Germany.

Local newspaper groups that have not specifically made online classified acquisitions have been looking to drive cost synergies in their core businesses through consolidation. Last year Johnston Press acquired the Irish Leinster Leader group for €139m, Local Press in Ireland from 3i for €96m, Score Press from Emap for €233m and The Scotsman Publications for €236m from the Barclay Brothers.

Business to business (B2B) publishers are also increasingly moving their products online as illustrated by Emap's acquisitions of DeHavilland Information Services and the online fashion and retail information company Worth Global Style Network for €26m and €204m, respectively.

Another trend in the publishing sector is the continuing pan-European consolidation among directories businesses. Last year not only saw the sale of YBR and TDC Forlag to MCAG but also the €285m disposal of Belgacom Directory Services to Apax and Cinven-backed World Directories Group; and Aftonbladet's €22m acquisition of TA Teleadress Information Holding from Industri Kapital.

Broadcasting - split vision

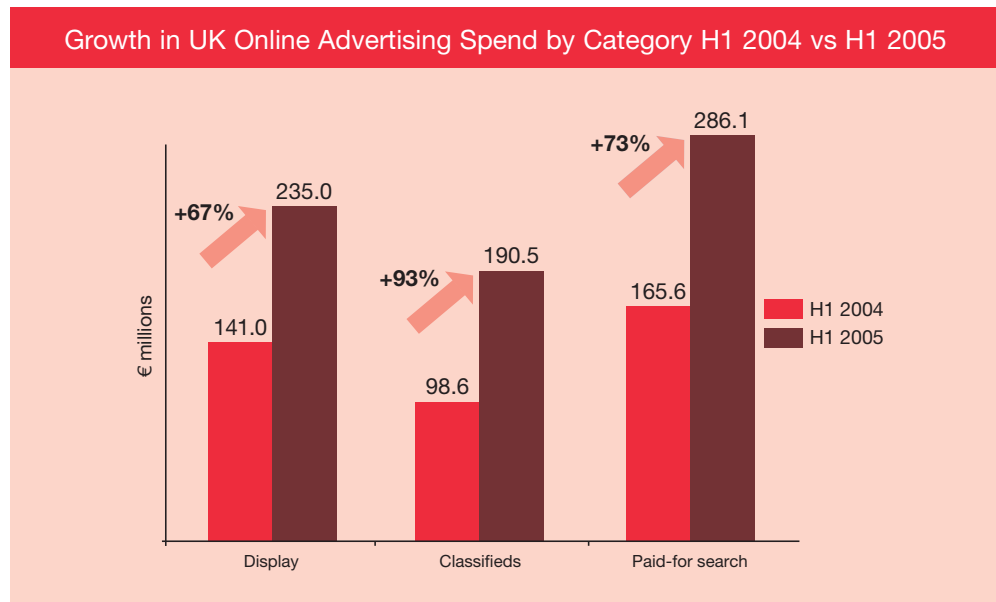
With new broadcast mediums – notably digital TV and radio as well as 3G mobile telephony – further fragmenting traditional television and radio audiences, broadcasters are increasingly acquiring in 'alternative media' segments to preserve their mass-market coverage and protect against declining advertising rates.

Last year saw ITV's continuing push into multi-channel, multi-media capability. Deals included the acquisition of FriendsReunited and SDN and the launch of ITV4 and ITV Local.

PE investors are also becoming increasingly comfortable in the broadcast and entertainment space as illustrated by the €1.9bn acquisition of SBS by Permira and KKR and 3i's acquisition of Hallmark's International Channels.

Marketing services' digital challenge

Although global advertising growth was subdued at 2-3% in 2005, there has been an explosion in online advertising spend. UK growth was running at about 62% for the first half of 2005. Online now represents 5.8% of the UK's total advertising market overtaking both the outdoor and radio segments.



Source: PricewaterhouseCoopers / Interactive Advertising Bureau / WARC.
IAB estimates for actual advertising spend by format are based on samples of categorised revenue from key IAB members provided by PwC.
Note: Original figures in £ converted to € at £1 = €1.45

That advertisers would follow consumers online was almost inevitable given the recent exponential growth in broadband uptake and usage in Europe. This has thrown the marketing services industry into the midst of a challenging transition from serving clients operating in traditional advertising mediums to helping them best exploit emerging online channels.

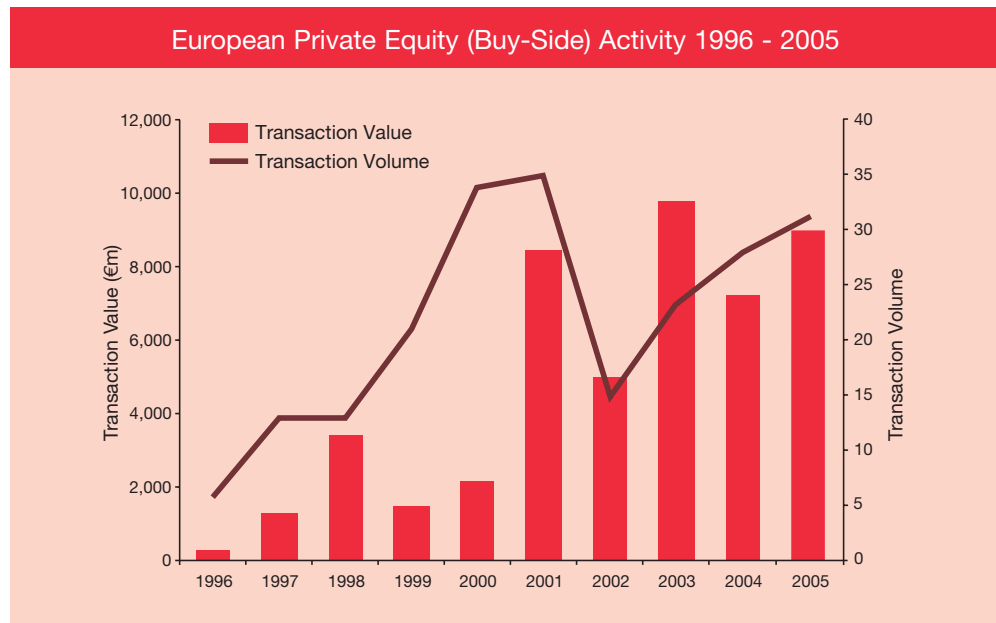
The ambition of the largest players to provide a complete global service has, as predicted, led to a string of in-fill acquisitions. Aegis, having recently acquired Hungary's leading digital agency, Kirowski, as well as Glue London in the UK, is integrating these businesses under the 'Isobar' banner to build a worldwide digital marketing services network.

There has also been corporate activity in the online market research sector over the last year with the AIM IPOs of YouGov, Research Now and ToLuna alongside Greenfield's acquisition of Ciao! Other market research deals in 2005 included the €128m sale by ISIS Equity of Mori to IPSOS and the €550m acquisition of NOP World from UBM by Germany's GfK.

Private Equity

Private equity players raise the stakes

PE houses were among the biggest spenders in the European media sector last year. While the volume of PE-backed deals that closed in 2005 was 31 compared with 28 in 2004, the combined value of these transactions reached €9bn in 2005 – up 25% on 2004.



This chart covers M&A transactions completed in 2005, involving stakes greater than 10%, where the target was from Europe and the deal value was disclosed and greater than €10 million.
Source: Dealogic, M&A Global

Drivers for this activity included high levels of liquidity within PE funds; strong availability of debt and a vigorous appetite for deals. PE appetite was also boosted in 2005 by the recruitment of several key media industry figures including Greg Dyke, Sir Peter Burt, Lord Hollick, Sir John Birt and Thomas Middlehoff.

Portfolio sales boost the market

PE houses were also busy executing profitable exits last year as the wealth of investments, made around 2001, could now be sold or floated due to a healthy valuation environment.

Table 3: Major Private Equity Exits 2005

Date	Value (€m)	Target	Target Country	Acquiror	Acquiror Country	Private Equity Sellers
Oct 05	3,304	Skype Technologies SA	Luxembourg	eBay Inc	US	Bessemer / Draper / Mangrove Capital
Jul 05	1,825	Yellow Brick Road	Netherlands	Macquarie Capital Alliance Group	Australia	3i Group / VSS
Mar 05	1,025	Premiere AG	Germany	IPO	Germany	Permira
Dec 05	842	Findexa AS	Norway	Eniro AB	Sweden	Texas Pacific Group
Mar 05	270	C More Group AB	Sweden	SBS Broadcasting SA	Luxembourg	Nordic Capital / Baker Capital
Mar 05	146	19 Entertainment Ltd	UK	Sports Entertainment Enterprises Inc	US	Ingenious Media
Oct 05	128	MORI Group Ltd	UK	Ipsos	France	Isis Equity / Caledonia Investments plc
Dec 05	126	Puzzler Media Ltd	UK	Existing Management	UK	ABN AMRO Capital
Apr 05	120	Ciao!	Germany	Greenfield Online Inc	US	Hubert Burda / Wellington / Apax / Index Ventures
Nov 05	96	Local Press Ltd	Ireland	Johnston Press plc	UK	3i Group
Jun 05	60	Mersey Television Co Ltd	UK	All3Media Ltd	UK	Lloyds Development Capital
Feb 05	31	Quantum Business Media Ltd	UK	United Business Media plc	UK	ABN AMRO Capital
Mar 05	22	TA Teleadress Information AB	Sweden	Schibsted ASA	Norway	Industri Kapital
Feb 05	16	Butler Research Group Ltd	UK	Datamonitor plc	UK	3i Group

Source: Dealogic, M&A Global

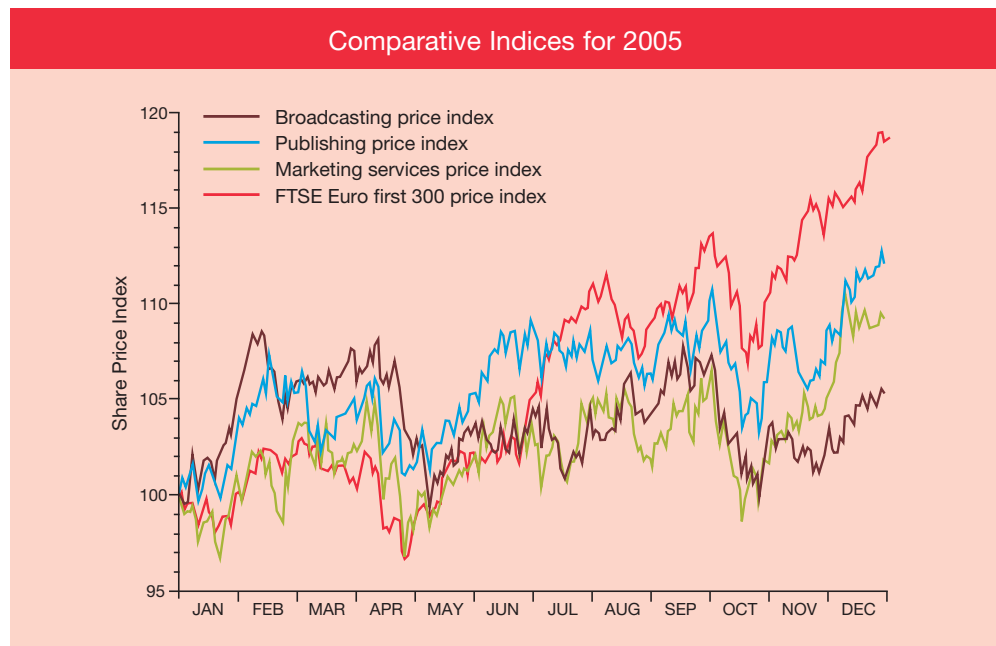


Public Markets

Media stocks lose momentum

European media stocks collectively traded below the FTSE Euro First 300 index during 2005. Shares in the sector were depressed by a general softening of advertising spend coupled with the fact that few European media companies are perceived to be online advertising-driven enough, as yet, to benefit from the online boom.

This is in contrast to the US where pure-play online advertisers, such as Google, saw their shares rise by 105% in 2005 and were among the best stock market performers.



Source: Thomson Datastream

Investor interest may have been dampened further by a general lack of new investment opportunities in the sector with relatively few media IPOs last year. AIM, however, was popular with independent TV production companies and this was demonstrated by the market debuts of Shed Productions and RDF Media. In addition, the online dating services business Meetic listed on Euronext Paris, capitalised at some €89m.

Review

Review of last year's predictions

In terms of deal volumes, we forecast that 2005 would return 110 European media deal completions. As it turned out, last year was even busier than expected with significant activity in continental Europe, a high level of PE involvement and a long tail of smaller corporate 'in-fills' driving the total to 156.

We were spot-on with regard to the significant growth in demand for online marketing services and the rapid acceleration of deal activity in the online sector generally as illustrated in the table on page 5.

The PE community was active on both the exit and entry fronts. However, as predicted, when it comes to putting out new money, firms are operating in an increasingly competitive market. Trade buyers are back in town and so while Classic Media of the US walked away from the race against Apax to buy HIT Entertainment, GfK comfortably outbid competing PE for NOP World.

Outlook – forecasts for 2006

Continuing convergence

We anticipate continued corporate activity to marry 'old' and 'new' media formats. There was a flurry of activity in this area in the last six months of 2005 setting the scene for more deals.

In addition to deals involving content businesses, we see marketing services agencies – in their pursuit of a global digital offering – making further acquisitions of pure play digital agencies.

We are more cautious with regard to the convergence of 'delivery' and 'content' companies. Although some telecom and delivery companies might experiment with acquisitions of content companies, we expect relatively few deals on this front. Those that do take place, however, are likely to be strategically very significant.

Traditional media groups remain on the defensive

We expect to see mainstream newspaper groups to continue to make acquisitions and to look to protect margins through extracting production, distribution and technology synergies.

Broadcasters, meanwhile, will need to adapt to fast-changing and increasingly fragmented niche European audiences. Traditional media consolidation has occurred on a domestic level in 2005 and we expect this to extend on a pan-European basis for 2006.

Private equity ventures beyond publishing

As in 2004, PE firms clinched some of the largest media deals in 2005.

We see no reason for the industry not to have an even greater role in the 2006 media market, financing not only the traditional PE hunting ground of publishing but also broadcast, digital media and creative business models.

Conclusion

This has undoubtedly been a good year for media M&A, but in context, deal levels in 2005 were 19% below the 186 deals recorded at the peak of the market in 2000 and total deal value stood at roughly half the €52bn recorded in that year.

So what about 2006? Key factors that will determine aggregate deal volumes in the coming year will include, on the down-side, uncertainty over the sustainability of the digital transition and the slow down in advertising growth. But on the plus side is the likely continuation of the market's three consecutive years of growth plus the 'convergence' trend. With these dynamics at play, we forecast growth to 170 deals with a combined value of around €30 billion.

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